RESEARCH

# METRO MANILA

## MARKET UPDATE

## Q3 2019

METRO MANILA REAL ESTATE SECTOR REVIEW

# UPSWING IN GOVERNMENT AND CONSUMER SPENDING TO SPUR PHILIPPINE ECONOMIC PERFORMANCE

## SNAPSHOTS

Economic Indicators

| | | | |
|---|---|---|---|
| 5.5% | ▼ | GDP | Q2 2019 |
| 0.9% | ▼ | Inflation Rate | September 2019 |
| 3.9% | ▲ | OFW Remittances | January-August 2019 |
| 7.1% | ▼ | Avg. Bank Lending | August 2019 |
| 3.1% | ▼ | 91-Day T-Bill | September 2019 |
| PhP52.1 | ▲ | Avg. PhP-USD | September 2019 |

## Recovery of the Philippine economy apparent following subdued growth in the first half of 2019

The Gross Domestic Product (GDP) growth of the Philippines slowed down to 5.5% in the second quarter of 2019, primarily due to the delayed approval of the national budget and mid-term election spending ban. Despite the country's weakened second quarter performance, the government and international credit watchers, S&P Global Ratings and Moody's, remained optimistic about the country's recuperating GDP growth in the third quarter of the year. The anticipated increase in public spending, especially on infrastructure projects, was foreseen to boost economic growth in the remaining quarters of 2019. Latest data from the Bureau of the Treasury showed that total expenditures for the month of August grew 8.78% year-on-year to PhP 282.2 billion, while year-to-date spending increased 0.94%, rising from the 0.11% year-to-date growth reported from January to July.

The downtrend in inflation was another factor creating optimism in the country's future GDP growth. In September, the inflation rate further decreased to 0.9%. Low inflation, combined with declining interest rates, encouraged additional consumer expenditures and increase in private investments. Household spending is expected to pick up as a consequence of improving consumer confidence and increasing Overseas Filipinos' (OF) Remittances. Consumer sentiments displayed regained optimism in the third quarter, revealing a confidence index of 4.6% from -1.3% last quarter. The index was the highest figure recorded in the past 7 quarters. On the other hand, OF Cash Remittances for the cumulative months of January to July 2019 grew 3.9% year-on-year, indicating higher disposable income for households, and fueling consumer spending, which was vital to GDP growth.

Optimistic sentiments on the Metro Manila property sector were likewise sustained, supported by reports of strong BPO office take-up, resumption of infrastructure projects, and ongoing amendments to Real Estate Investment Trust (REIT) Law.

Despite the implementation of Administrative Order (AO) No. 18, BPO demand for PEZA-accredited office spaces is predicted to remain steady until 2020. The outsourcing industry take-up leading to year 2020 is estimated to be around 400,000 square meters per year, supplied by existing ecozones and upcoming office buildings that have already filed PEZA zone applications prior to the implementation of AO 18.

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OFFICE RESEARCH

# METRO MANILA OFFICE SECTOR DISPLAYED BULLISH GROWTH AND HIGH RESILIENCY IN Q3 2019

## Low vacancy sustained amid growing office supply and restrictive policies

The Metro Manila office sector's strong performance in the third quarter of 2019 was bolstered by low vacancy, high net absorption, and rising rents. The market remained strong despite a large volume of new office spaces and restrictive regulating policies being imposed.

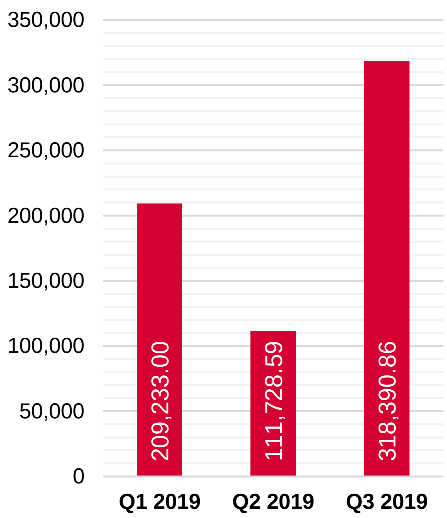
Newly-completed prime and grade A office buildings in Metro Manila's key business districts recently commenced operations, adding more than 315,000 square meters of leasable office space for the quarter. Those additions brought the total prime and grade A office supply in Metro Manila beyond the six million-square meter mark, reaching 6.2 million square meters to date. Furthermore, the consistently expanding Metro Manila office market is anticipating 685,000 square meters of new leasable office space to be operational within the fourth quarter of 2019.

The Metro Manila office sector recorded a 5.78% vacancy rate in the third quarter of 2019, which signifies a healthy occupier demand. Approximately 300,000 square meters of GLA were taken up in Q3 2019 via a mix of BPO, Philippine Offshore Gaming Operators (POGO), and traditional office occupiers.

An uptick in PEZA leasing is foreseen following the signing of the Administrative Order No. 18, which is a moratorium on new PEZA building approvals in Metro Manila. Landlords of PEZA-accredited buildings are expected to take advantage of the limited amount of PEZA space available to the market by commanding higher prices for space within their buildings.

The Weighted Average Asking Lease Rate across Metro Manila has been pegged at PhP 1,096 per square meter per month for Q3 2019, rising 1.56% quarter-on-quarter (Q-o-Q) and 8.52% year-on-year (Y-o-Y). Yet despite the constant growth in Weighted Average Asking Lease Rates, office rents in Metro Manila remained some of the least expensive in the Asia-Pacific region.

FIGURE 1
**2019 Office Supply Influx**




Source: Santos Knight Frank Research

TABLE 1
**Q3 2019 Office Data**

| Area | Rental Rates (PhP/SQM) | Vacancy Rate |
|---|---|---|
| Makati | 1,487 | 1.99% |
| Fort Bonifacio | 1,240 | 5.84% |
| Alabang | 797 | 2.15% |
| Quezon City | 933 | 15.33% |
| Ortigas | 774 | 4.88% |
| Bay City | 977 | 0.49% |

Source: Santos Knight Frank Research

### MAKATI

Makati's vacancy rate was at 2% in Q3 2019, which is the lowest in the past 2 years. Net absorption was estimated at 20,000 square meters, of which 60% was prime office space. New and expanding multinational and local players continued to prefer locating in Makati, recognizing Makati as one of the country's premier business districts.

Makati led all of Metro Manila's business districts in terms of the highest Weighted Average Asking Lease Rate. The Weighted Average Asking Lease Rate of Makati was recorded at PhP 1,487 per square meter per month, growing 1.7% Q-o-Q and 8.0% Y-o-Y in Q3 2019. Asking rents for prime office buildings in Makati averaged PhP 1,747 per square meter per month, while Grade A

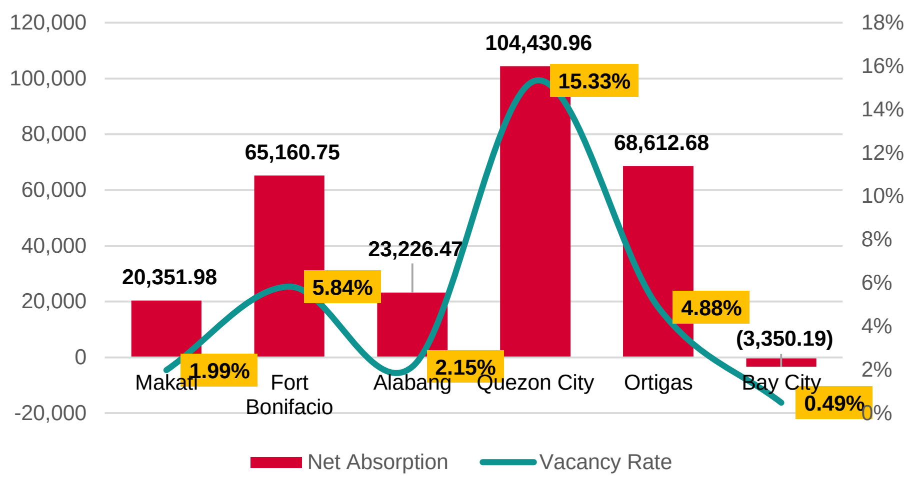
# OFFICE RESEARCH

office buildings asked PhP 1,306 per square meter per month on average.

Makati continues to be a stronghold for office developments as around 340,000 square meters of prime and grade A office buildings are slated to begin operations within the next 3 years. Ayala Triangle Garden Tower 2 and the two towers of the new One Ayala complex are some of the highly-anticipated developments lined-up in Makati.

FIGURE 2

**Q3 2019 Net Absorption (SQM) & Vacancy Rate**




Source: Santos Knight Frank Research

<u>FORT BONIFACIO</u>

Fort Bonifacio is one of the hottest office markets in Metro Manila, with a net absorption of above 65,000 square meters of GLA in Q3 2019. The vacancy rate of Fort Bonifacio was remarkable at 5.8% relative to the nearly 2 million square meters of total office stock in the area. Fort Bonifacio boasts newer and more modern buildings, including the Philippine Stock Exchange's move to BGC which has solidified the area as the best alternative financial hub to Makati.

The PEZA-certified buildings "Ecoprime" and "Milestone @ Fifth Avenue" started to light up the skyline of the Bonifacio Global City (BGC), introducing 62,800 square meters of GLA in Taguig's bustling central business district.

Fort Bonifacio's Weighted Average Asking Lease Rates in Q3 2019 rose to PhP 1,240 per square meter per month, representing an increase of 1.8% Q-o-Q and 11.7% Y-o-Y. Upcoming developments are predicted to drive office rents further up by the end of the year and onwards.

About 250,000 square meters of new offices are in Fort Bonifacio's supply pipeline over the next 3 years. World Commerce Place, International Finance Center, and JP Morgan Tower will increase Uptown Bonifacio's current office supply by another 230,000 square meters. Moreover, Ayala-FBDC's BGC Corporate Center 2 and Park Triangle Corporate Center are in the present BGC pipeline, adding 65,500 square meters of GLA to Ayala Land's expansive office inventory by the year 2021.

Office developments in Taguig extend all the way to the Arca South development in the city's boundary. Ayala Land has 6 office towers in the masterplan. Arca South Corporate Center will have an aggregate GLA of 95,000 square meters.

<u>BAY AREA</u>

The Bay Area's vacancy rate remained close to zero in the third quarter of 2019, with take-up still being driven by the large POGO market in the area. With a 0.5% vacancy rate, the Bay Area posted the lowest vacancy in all of Metro Manila.

The limited supply of office space and the high demand from POGO companies escalated the Weighted Average Asking Lease Rates in the Bay Area to PhP 977 per square meter per month in Q3 2019, up from PhP 935 per square meter per month in the previous quarter. Office rents in the Bay Area increased at a rate of 4.6% Q-o-Q and 26.3% Y-o-Y, inching closer to PhP 1,000 per square meter per month.

<u>ORTIGAS</u>

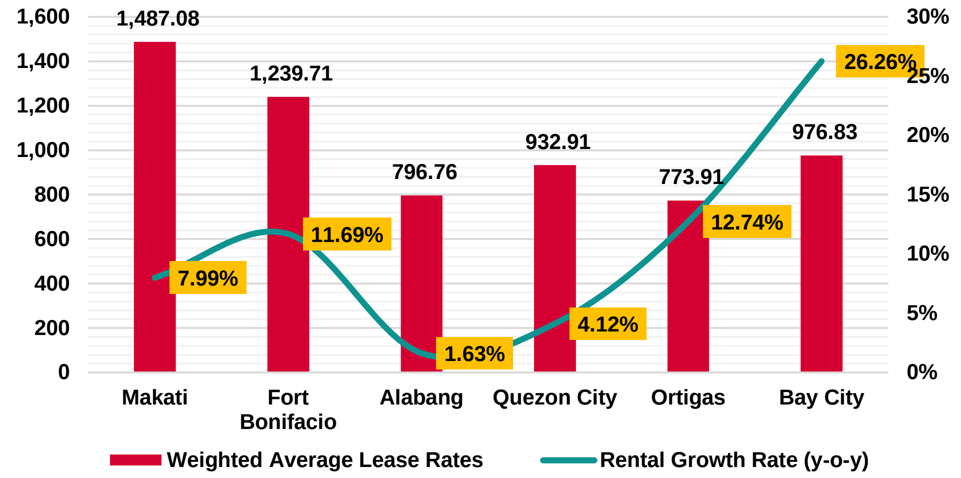
Joint venture partners SM Prime Holdings and Keppel Land started the operations of "The Podium West Tower" in the third quarter of 2019. Dubbed as one of the tallest building in Ortigas Center, The Podium West Tower increased the office supply of one of the country's oldest business districts by another 98,000 square meters of GLA.

Closely following QC, Ortigas recorded a net absorption of more or less 60,000 square meters and vacancy rate of below 5% in the third quarter

Ortigas exhibited the largest Q-o-Q rental growth among the Metro Manila business districts in the third quarter of 2019, increasing 4.9% Q-o-Q to PhP 774 per square meter per month from PhP 738 per square meter per month in the second quarter. The Weighted Average Asking Lease Rate in Ortigas was further heightened by the formal unveiling of The Podium West Tower in Q3.

FIGURE 3

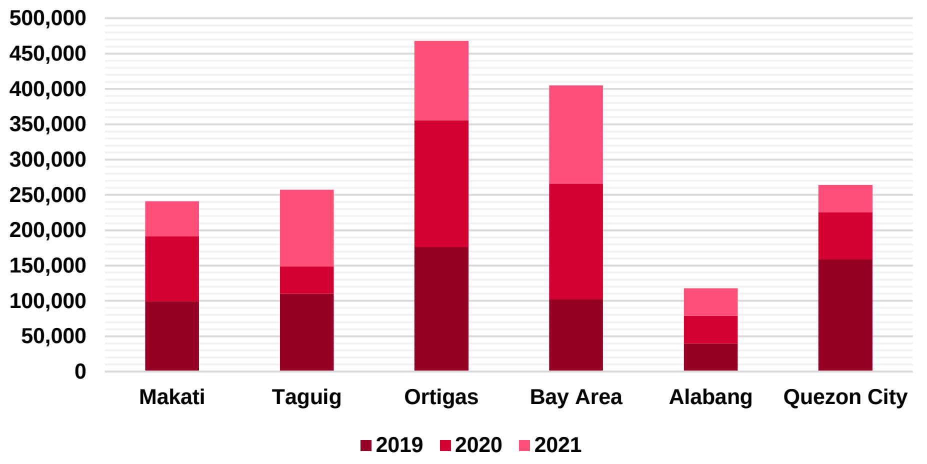
**Weighted Average Lease Rate (PhP) & Y-o-Y Growth Rate**




Source: Santos Knight Frank Research

FIGURE 4

**Metro Manila Upcoming Office Supply (SQM)**




Source: Santos Knight Frank Research

Ortigas is set to welcome roughly 470,000 square meters of leasable office space within the next 3 years. One Filinvest by Filinvest Land and SM Mega Tower by SM Prime Holdings are some of the notable upcoming developments in the area.

## QUEZON CITY

Up north, Quezon City (QC)'s take-up in Q3 2019 was the most impressive of all districts at over 100,000 square meters of net absorption.

Renowned property developers in the country boosted their office space footprints in their respective mixed-use projects in QC. A total of 134,300 square meters of gross leasable area (GLA) was added to the QC office supply, mostly coming from Eton Properties Inc.'s "Five Cyberpod" in Eton Centris and Robinsons Land Corporation's "Giga Tower" in Bridgetowne.

QC is fast approaching PhP 1,000 per square meter per month in Weighted Average Asking Lease Rates, with Q3 2019 office rents noted at PhP 933 per square meter per month. The Weighted Average Asking Lease Rate in QC grew 1.2% Q-o-Q and 4.1% Y-o-Y.

QC is expecting almost 265,000 square meters of additional GLA in the next 3 years. The Araneta Group recently renamed their flagship project Araneta Center in Cubao to Araneta City. The masterplan of Araneta City includes the 5-tower Araneta Cyberpark. Two of the five cyberpark towers are already operational, with the remaining 3 towers to add 240,000 square meters of GLA by 2023.

## OFFICE FOR SALE

Buildings with office space for sale, which have historically been rare in the market, are becoming more prevalent. In Q3 2019, Ortigas & Company launched a premiere mixed-use development along ADB Avenue in Pasig called "The Galleon.". The Galleon's office development, named "Offices at The Galleon," will introduce 66,300 square meters of office space for sale to the market. In QC meanwhile, Ayala Land Premier (ALP) started marketing its first ever office-for-sale project, One Vertis Plaza. Developers of offices for sale likewise held groundbreaking activities and commenced construction activities in Arca South. Arthaland Properties and Daiichi Properties will add 104,000 square meters of GLA from Savya Financial Center and Fifty-Six Central, respectively. In addition, the 3-tower Tryne Enterprise Plaza will consist of 194,000 square meters of GLA and is scheduled to be completed within the next 5 to 6 years.

# ROBUST DEMAND FOR RESIDENTIAL CONDOMINIUMS ENERGIZED THE SECTOR IN Q3 2019

## Fast absorption of units encouraged property developers to create new market supply

The Metro Manila residential condominium market continued to perform impressively in the third quarter of 2019. Overall absorption rate remained healthy at 94.73%. Despite the abundant additional supply from new project and tower launches, developers were able to quickly sell inventories to the targeted markets. Units in newly-launched projects were immediately taken-up due to the availability of longer payment terms and more affordable installment options. A good mix of end-users and investors brought the Metro Manila residential take-up rate to 36 units per month in the third quarter from 29 units per month in the previous quarter.

Selling at an average of 52 units per month, the Bay Area continued to exhibit the highest take-up rate among the major business districts in Metro Manila. Residential buyers in the Bay Area mainly purchased in bulk for employee housing purposes. The influx of Chinese nationals working for Chinese companies remained to be one of the major drivers of residential sale in Metro Manila, especially in the Bay Area.

In addition, the Bay Area continued to dominate Metro Manila in terms of selling prices. Residential selling prices in the Bay Area averaged PhP273,006 per square meter across the different price segments.

The presence of POGO companies drastically escalated the prices of residential condominium units in the area. Middle-income projects in the Bay Area, which made up majority of the supply, went as high as PhP348,366.13 per square meter in the third quarter of 2019.

Following the Bay Area, QC's take-up was around 41 units per month. The launch of new projects serving a broader market fueled QC's monthly take-up rate, which almost doubled in Q3 from Q2.

Ortigas and Makati likewise displayed remarkable take-up rates of 37 units and 32 units, respectively. The further booming office market in these areas formed a sizeable demand for conveniently-accessible homes and residential properties. Majority of the residential projects catering to the office market were under the middle-income category, where most of the property developers opt to compete.

The underserved luxury segment regained momentum in the third quarter of 2019, backed by a notable project launch. The take-up of luxury projects nearly tripled, increasing to 14.19 units per month from 5.91 units per month in the second quarter, boosted by the newly-launched Aurelia Residences in BGC by Shang Properties and Robinsons Land.


Aurelia Residences
© Shang Properties

TABLE 2
**Residential Condominium Sales Market Statistics Q3 2019**

| City/ Area | Units Sold | Average Monthly Take-up |
|---|---|---|
| Makati | 98% | ▲ 32 |
| Taguig | 97% | ▲ 14 |
| QC | 94% | ▲ 41 |
| Ortigas | 96% | ▲ 37 |
| Alabang | 99% | ▼ 11 |
| Bay Area | 94% | ▼ 52 |
| Metro Manila | 96% | ▲ 36 |

Source: Santos Knight Frank Research

The initial tower of the project sold more than 50% of the floated inventory within a month from launch date. The average price per square in the project was recorded at PhP373,708.70 per square meter.

Taguig together with Makati remained top performers in the residential sector, boasting the highest selling prices of condominiums from various prime residential offerings. Average prices in Taguig and Makati were pegged at PHP251,059 and PHP 237,108 respectively.

Alabang in the southern Metro Manila area realized the highest year-on-year growth in selling prices, growing at an average of 34.9% in Q3. Alabang was followed by Ortigas with residential prices rising by 24.3% year-on-year. Quezon City placed third in terms of growth in selling prices with an increase of 20.5% year-on-year.

## NEW & UPCOMING PROJECTS

Sustained consumer demand heightened the confidence of property developers in launching new residential condominium projects. Robinsons Land Corporation introduced two new developments in Pasig City that added a combined total of 1,969 units to Pasig's existing supply.

Cirrus Residences in Bridgetowne East and SYNC Tower along C5 road is being marketed as middle-income developments. Middle-income was the fastest moving segment with an average take up of 54 units per month.

Following the success of Light Residences 1 in Mandaluyong, SM Development Corporation (SMDC) launched Light Residences 2. The two developments are practically adjacent to each other, with Madison Street separating one from the other. The first tower of Light Residences 2 added 2,142 units to the total residential supply in the area.

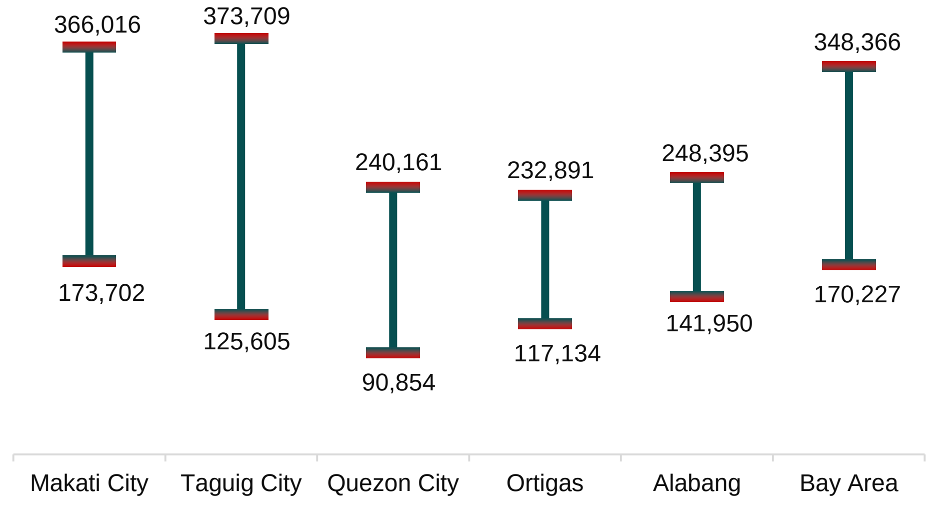
Servicing the large student populace in the Katipunan area, Torre Lorenzo Development Corp. started pre-selling Torre Lorenzo Loyola in QC. The project offers 654 units comprised of studios and 1-bedrooms.

Ayala Land Premier unveiled the first residential project in the highly-anticipated and massive Parklinks development along the C-5 Corridor. Parklinks North Tower went online with 280 units and is already 80% sold.

The residential market outlook is expected to stay upbeat with several projects in the pipeline from reputable property developers. Alveo has scheduled the launching of Mergent Residences in Makati, Viento Tower 3 in Alabang, and Sentrove in QC within the remaining months of 2019. Moreover, Ortigas and Company has announced the unveiling of the 56-storey Empress project in Capitol Commons in Pasig. Robinsons Land Corporation is also excited to commence selling The Velaris Residences within the Bridgetowne development in Pasig. Furthermore, The ultra-luxury Estate in Makati of SM and Federal Land has started accepting letters of intent (LOI) to buy from interested affluent parties.

FIGURE 5

**Residential Condominium Selling Price Per Square (PhP/SQM)**




Source: Santos Knight Frank Research

# SHOPPING MALL OPENINGS AND EXPANSIONS UNCOVERED NEARING THE LAST MONTHS OF 2019

## Metro Manila Shopping mall GLA grew by another 145,000 SQM in Q3 2019

The further growth in size of the retail sector was a clear indicator of a booming local property sector. The Ayala group recently unveiled Ayala Malls Manila Bay within the Aseana Business Park in Parañaque. Ayala Malls Manila Bay is the largest shopping mall development by Ayala Malls to date. Ayala Malls Manila Bay spans approximately 16 hectares, rises 5 levels from the ground and boasts abundant green open spaces with benches, walkways and a fully-equipped children's playground. It is the retail component of a mixed-use development that will also include a corporate office and Seda hotel. The newly-opened phase of the shopping mall offers nearly 135,000 square meters of leasable retail space.

Up North in QC, Robinsons Magnolia recently completed and opened to the public an expansion of the mall development. About 10,000 square meters of leasable retail space was added to the total retail stock in QC, upon opening of the mall expansion. The top three floors of the expansion include an upcoming Food Hall, new movie theaters and a small chapel.

The trend of developing mixed-use projects were noted in the recent years with the Ayala Malls Manila Bay and Robinsons Magnolia as recent examples. The integration of various real estate components promotes sustainability of the projects.


Ayala Malls: Metro Manila Bay

The design and conceptualization of mixed-use developments is expected to remain a trend upheld by developers, especially with the scarcity of developable and reasonably-priced land within Metro Manila.

Due to the notable increase in mall space, the number of upcoming stores in Metro Manila shopping malls nearly doubled in the third quarter of 2019. Upcoming stores reached more than 500, increasing in number compared to the previous quarter's 260 stores.

Food and Beverage (F&B) continued to contribute the largest share in the upcoming pie, with more than 44% of stores in the pipeline. Most of these F&B stores were Milk tea shops, Cafés, Grilled Meat and Ramen restaurants. As the Korean Wave continues in the country, Filipinos unceasingly patronized grilled meat-serving restaurants, more commonly known as Samgyupsal. These restaurants can be found almost everywhere - from the larger shopping malls down to the small and obscured streets of Metro Manila.

Clothing & Apparel and Health & Wellness represented more than 19% and 10% of the upcoming stores, respectively. All other categories constituted the remaining 27% of the anticipated store openings.

<u>NOTABLE TRENDS</u>

Experiential retail remained the essential feature of retail

The Corner Market
The Podium


The Grid
Power Plant Mall


Hole in the Wall
Century City Mall

Food Choices
Ayala Malls: Circuit

developments in Metro Manila, driven by amplifying competition between shopping malls and rising threat posed by online shopping platforms. Retail developers were forced to become more creative in terms of concepts and marketing campaigns. The main goal was to make mall goers see shopping malls as not just airconditioned commercial centers but as a wholistic experience.

Visiting malls was the answer for Filipinos wanting to escape the downside of residing in a tropical country – scorching heat and frequent rains. Moreover, it was an alternative leisure and family bonding destination to parks and playgrounds, which are very uncommon in Metro Manila due to land area limitations.

Aside from renovating, mall developers employed innovative strategies to make a shopping mall feel like a lifestyle and entertainment center. Some of these schemes included art galleries, themed food halls and other forms of collaborative retailing.

Art Galleries were no longer confined to posh edifices in affluent neighborhoods or business districts. Shopping malls have become an ideal location for artists to display their art works and easily tap their targeted markets. Shopping mall operators created events and exhibits that are expected to draw crowds. In the late part of the third quarter, Powerplant Mall in Makati's Rockwell Center hosted Velasco's Unvanquished while the Evia Lifestyle Center in Muntinlupa's Vista City put on show paintings from various artists. Lydia Velasco was the last of the artists who participated in The Artologist Gallery that ran in Powerplant Mall from July to September 2019. The Artologist Gallery featured a different artist every week. It was also spotted during the opening days of Ayala Malls Manila Bay.

Improved and in-concept food halls continued to back the pleasant mall experience that developers and operators desire to deliver to mall goers. Artistry and interior design played vital roles in creating an experience which is different from the usual fast food and gourmet restaurants. The Grid at Power Plant Mall, The Corner Market at The Podium, Hole in the Wall at Century City Mall, Food Choices at the Ayala Malls Circuit and Food Junction at CityWalk in Eastwood Mall were some of the noted food halls under this growing concept.

Replicating what was planned in Ayala Malls Vertis North in QC, Ayala Malls Manila Bay introduced country-specific areas that showcase a variety of food, fashion and home products originating or associated with the countries represented. Ayala Malls Vertis North and Ayala Malls Manila Bay feature Korean and Japanese Towns, but Ayala Malls Manila Bay added two new areas - China Town and Filipino Village.

What started out in Ayala Malls Vertis North made its way to other Ayala malls including Glorietta in Makati. Another Japan Town can be found in the Top of the Glo, the commercial roof deck of Glorietta. It has its own pedestrian lanes and is filled with posters that depict downtown Tokyo. Japanese restaurants mark the open-air town and the view of Makati's skyscrapers complements the overall city atmosphere.

In addition, local brands started a trend of their own in an effort to boost their consumer base. Bench and Penshoppe further developed existing cosmetics product offerings with the launch of dedicated stalls named Bench Beauty and Beauty Pop, respectively. Bench and Penshoppe are two renowned local clothing and apparel brands in malls and retail centers in the country, thus expanding the business and product lines are key to maintaining their present positions as leading trend setter brands in the clothing industry.

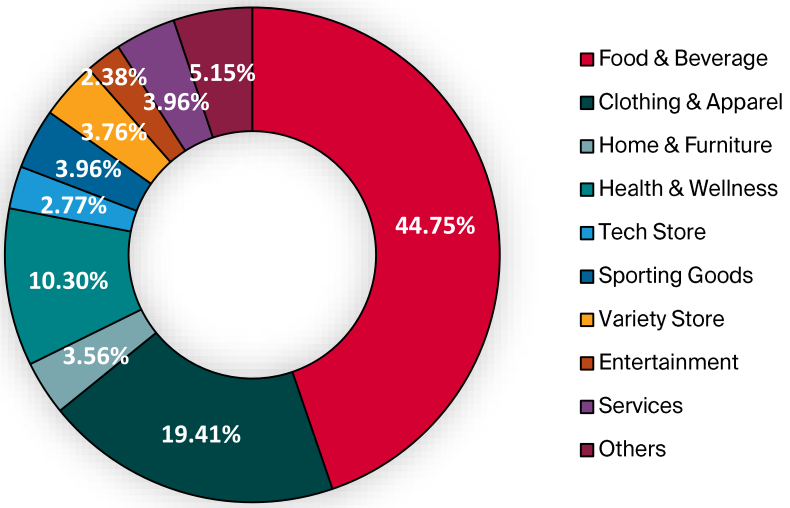
## RETAIL OUTLOOK

The outlook of the sector likewise remains upbeat as more upcoming retail developments are identified in the pipeline. The National Economic Development Authority (NEDA) supported this claim and conveyed a positive outlook pertaining to the retail industry in the country. NEDA revealed that the retail industry has been a major growth driver for the services sector, recording about PhP 1.22 Trillion of Gross Value Added in real terms last year. This represents a more than 50% jump from the PhP 686.3 Billion reported a decade ago. Moreover, NEDA and the Department of Finance (DoF) showed confidence in the retail industry's vigor for the rest of the year.

Two of the country's largest conglomerates are presently expanding the aggregate areas of their existing malls in Bay Area. At the end of renovations, the size of SM Mall of Asia will increase by another 250,000 square meters of GLA by 2022, while the phase 2 of the recently opened Ayala Malls Manila Bay will add 175,000 square meters of leasable space upon construction completion in 2023.

Mall expansions were also noted in the areas of Ortigas, QC and Alabang-Muntinlupa. Ortigas and Company is scheduled to unveil the expansion area of Estancia Mall in Capitol Commons within the fourth quarter of 2019. Moreover, the Cubao market in QC is anticipating the completion of Araneta Group's Gateway 2 in the recently renamed Araneta City. The target opening is in 2021. Furthermore, the third phase of Vista Land's Evia Lifestyle Mall is set to open doors within 2021, adding 40,000


FIGURE 6
**Upcoming Retail Stores as of Q3 2019**




Source: Santos Knight Frank Research

square meters of leasable space to the total retail stock in the market.

Several other shopping malls form the upcoming Metro Manila retail supply, including Robinsons Land's Bridgtowne Mall in QC and Ayala Malls Arca South in Taguig, which are currently under construction. Filinvest's Activa Mall in QC and Mitsukoshi Malls in BGC are in the project pipeline and are scheduled to be completed by 2023.

The entry of Isetann Mitsukoshi Holdings, Ltd. (IMHL), Japan's largest Department Store Group, in to the local retail scene sparked further positivity towards the sector. Through a partnership with Federal Land, IMHL will develop and operate the 4-storey Mitsukoshi shopping center in Grand Central Park BGC. The Metro Retail Stores Group, Inc. (MRSGI), which is a well-known shopping mall operator in Visayas and Mindanao, is another retail player that wishes to establish presence in Metro Manila. MRSGI management is extremely confident in the MRSGI's ability to compete against major existing brands in Metro Manila due to MRSGI's world-class infrastructure and investment.

# THE PHILIPPINE MANUFACTURING SECTOR CONTINUED TO OUTPERFORM NEIGHBORING COUNTRIES

## Developers participated in the growing logistics and warehousing market outside Metro Manila

The Manufacturing Sector has been consistently one of the key drivers of Philippine GDP growth. The Manufacturing Sector remained the main contributor to the Industrial Sector's second quarter performance. The Industrial Sector experienced a 3.7% expansion, contributing 1.3 percentage points to the 5.5% GDP growth during the quarter.

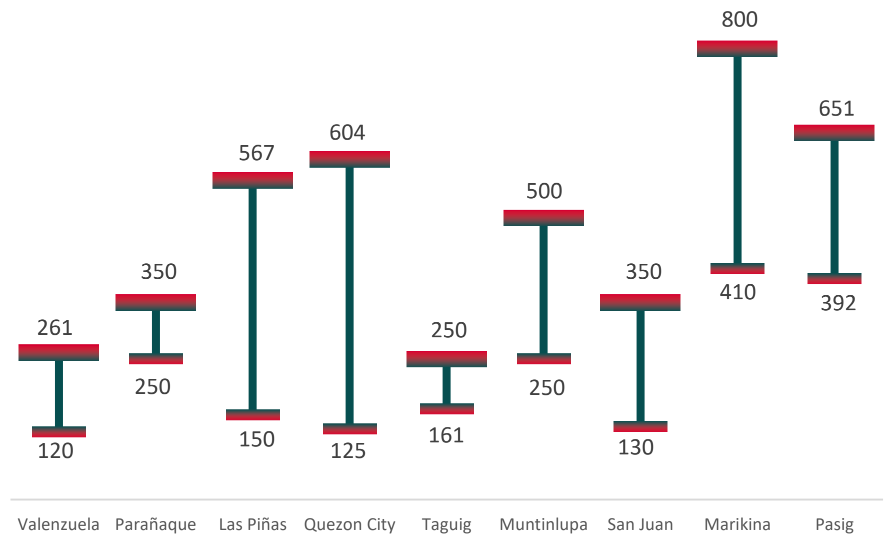
A report from International think tank IHS Markit revealed that the Philippine Manufacturing Sector emerged as the second-best performing market in Southeast Asia in September 2019. The country registered a Purchasing Managers' Index (PMI) of 51.9, trailing behind Myanmar's 52. PMI is used to gauge the health of a country's manufacturing sector, with readings above 50 showing growth while readings below 50 indicating weakening of the sector. The growth of the Philippine Manufacturing Sector was mostly attributed to the expansion of Food Manufacturers.

In the latest data released by the Philippine Statistics Authority (PSA), the Manufacturing Sector grew albeit at a slower rate of 4.0% in the second quarter of 2019, coming from 5.7% in the same period last year. The slowdown in the growth of the Manufacturing and Construction Sectors was mainly due to the decrease in construction activities in the first half of 2019. However, performance of the Manufacturing Sector is expected to recover and the entire Industrial Sector to further improve following the resumption of infrastructure spending by the government in the months leading to 2020.

Another challenge to the Manufacturing Sector is the high shipping cost in the country. A study conducted by the Department of Trade and Industry (DTI) and World Bank last year showed that the Philippines had the highest logistics cost in Southeast Asia at 27%. This prompted DTI to propose the lowering of logistics cost to 20% or below as a percentage of sales of firms.

FIGURE 7

**Industrial Space Lease Rates (PhP/SQM/Mo)**




Source: Santos Knight Frank Research

**LOGISTICS & WAREHOUSING INDUSTRY**

Mandaluyong and Makati continued to post the highest lease rates in Metro Manila, averaging PhP 717 and PhP 522 per square meter per month, respectively. Both are situated in the center of Metro Manila, boasting accessibility, thus enabling the cities to command higher rents. Overall average lease rates in Metro Manila was pegged at PhP 264 per square meter per month, ranging from PhP 120 per square meter per month to PhP 800 per square meter per month.

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# HOSPITALITY SECTOR BUOYANT AS NEW ENTRANTS PENETRATED THE MARKET

## Hotel occupancy remained high albeit addition of new rooms

The Philippine hospitality sector continued to display strength backed by the growing number of business and tourism activities in the country. Tourist arrivals grew 12% Y-o-Y in the beginning of the third quarter. A total of 719,057 visitors was documented in July compared to 643,780 tourists in the previous month. Asia held the largest share in regional arrivals at 68.41%, followed by Americas and Europe at 15.71% and 8.93%, respectively. China and Korea topped the tourism market with more than 700,000 visitor arrivals, while USA ranked third with more than 400,000 visitor arrivals.

The Metro Manila hospitality sector serviced the soaring demand for hotel rooms by providing an aggregate supply of 30,640 hotel rooms. Of the main business districts in Metro Manila, Makati and Bay Area recorded the most number of hotel rooms with more than 9,000 rooms each.

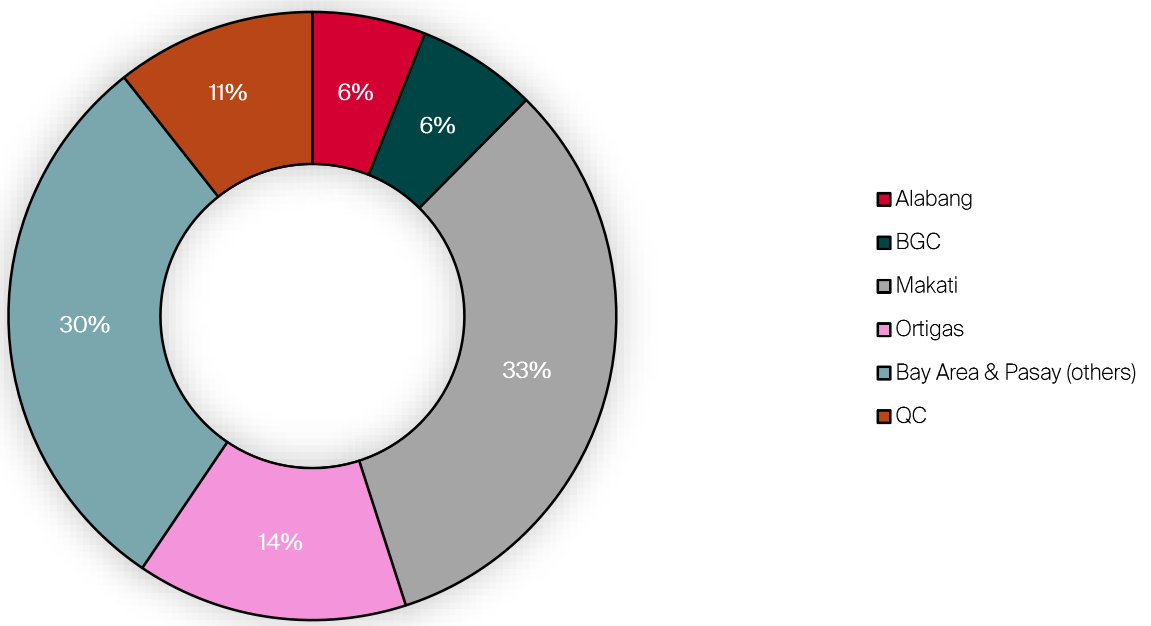
Deluxe Rooms claimed the greatest share in hotel supply, taking almost 60% of the entire pie. Deluxe Rooms was the most preferred accommodation type for business and personal use.

The number of 5-star hotel rooms totaled to around 11,500 rooms, which was the highest among all room types, signifying a strong market demand for premium accommodation.

The sustained demand from foreign guests propelled demand for new hotel rooms leading to a number of project launches and expansions. Four new hotel developments were unveiled and started operating in various locations within Metro Manila, adding another 689 hotel rooms to the total supply. The new hotels were a combination of 4-star and 3-star hotels.

FIGURE 8

**MM Q3 2019 HOTEL ROOM SUPPLY DISTRIBUTION**



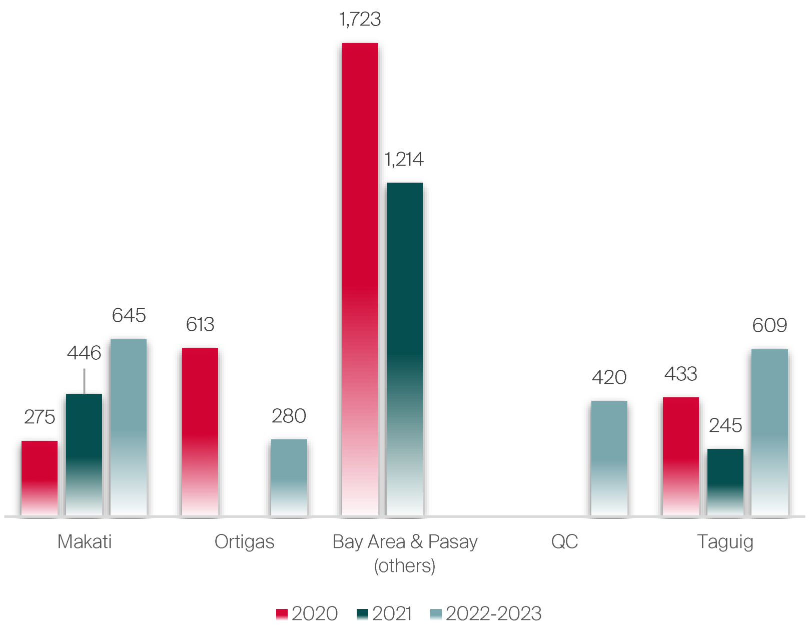

Source: Santos Knight Frank Research

International brand Park Inn by Radisson launched the very first Park Inn hotel in Metro Manila, increasing the total room supply by 238 hotel rooms. The hotel was integrated to the SM North EDSA shopping mall for the convenience of hotel guests. Park Inn North EDSA is the fourth hotel in the Philippines of the Radisson Group. In addition, local brand Axiaa Hotel, located within the proximity of SM North EDSA, started operations, adding 111 new hotel rooms to the hotel options in the Northern part of Metro Manila.

Ayala Land's Seda Hotel added another tower to the first Seda hotel building in BGC. The second tower initially offered 190 deluxe rooms, which will increase to a total of 342 rooms upon completion of all construction works. Seda Hotel BGC will then have a combined total of 521 hotel rooms. The second tower was intended to cater to the apparent huge demand for prime accommodation within the CBD.

Robinsons Land Corporation introduced a new Summit Hotel branch within Greenhills in San Juan. The hotel boasts 102 hotel rooms that can be classified into 3 categories - Deluxe King, Deluxe Twin and Junior Suite.

FIGURE 9
**Upcoming Hotel Room Supply**




Source: Santos Knight Frank Research

Summit Hotel Greenhills offers self-service check-in kiosks for a hassle-free check-in experience.

The Metro Manila hospitality market is anticipating more than 3,000 hotel rooms in the next 2 to 3 years, as capitalists and investors sense the continuing demand for hotel accommodations. Most of the upcoming hotels will be situated in the Bay Area.

International hotel brands in the pipeline include Hotel Okura, Red Planet, Ritz Carlton, and Ascott. Moreover, Ayala Land will also be opening a Seda hotel in the Bay Area, which will be an integral part of the Ayala Manila Bay development.

International hospitality group Accor SA is building the world's first Pullman Living and Novotel


Park Inn North EDSA
© Business World


Summit Hotel Greenhills
© Radisson Hotels

Living standalone serviced apartments in Makati. The project will cater to both long term and short term-staying guests. Pullman Living and Novotel Living Metro Manila is set to add 500 premium hotel rooms to the overall Metro Manila hotel supply. The Accor Group presently operates other hotel brands in the Philippines such as Raffles, Fairmont, Sofitel, Movenpick, Novotel and Mercure.


Pullman Living and Novotel Living
© Accor Group

Confidence in the hospitality sector was supported by sound Q3 occupancy and rate indicators. The overall occupancy rate of Metro Manila hotels remained within healthy levels of above 70%, despite the upsurge in hotel rates triggered by the further strengthening of demand for accommodation. Alabang's hotel occupancy rate rose to 73% in the third quarter coming from 68% in the second quarter. The Bay Area continued to be a top performing CBD, consistently performing in all major property sectors, including hospitality. The third quarter hotel occupancy rate in the Bay Area was about 80%, rising from the nearly 75% occupancy in the second quarter.

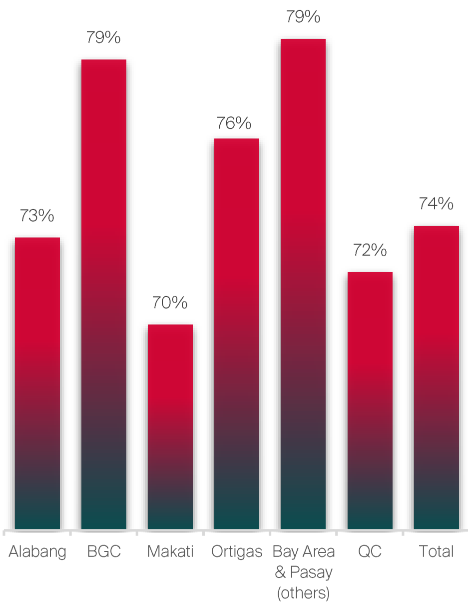
5-star hotels had a good occupancy rate of 77%, which was above the Metro Manila average. Several non-working holidays and long weekends fell within the third quarter, which drove hotel demand up. A number of guests opted to spend their free time on a staycation bonding with loved ones.

The average daily rate (ADR) of hotels in Metro Manila was recorded at PhP 7,453.17 in the third quarter of 2019. Alabang, BGC, and the Bay Area displayed the largest rise in daily rates. Alabang's ADR increased approximately 40% to PhP8,226.78 from Php 5,046.99 in the previous quarter. The highest ADR growth amongst hotels was likewise noted in Alabang. The ADR of Parque España and The Bellevue doubled in the third quarter, as Alabang was the closest out-of-town holiday destination for vacationing Metro Manila-based guests.

BGC's ADR growth was estimated at 16%, mainly due to the upsurge in Seda BGC hotel rates. The third quarter ADR of Seda BGC escalated to PhP 12,479.74 from PhP 6,751.42, which was an 85% growth Q-o-Q.

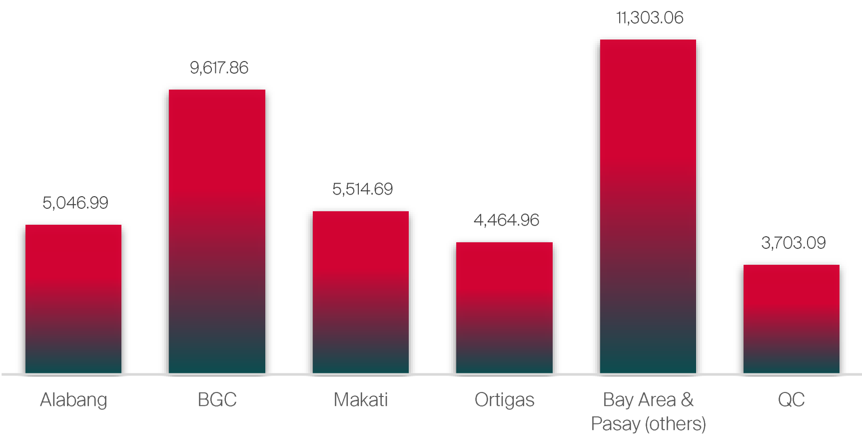
The ADR of Bay Area in the third quarter was pegged at PhP10,453.35. The various integrated hotels and casino supply commanded high room rates pushing up the average in the area.

FIGURE 10
**Hotel Occupancy**




Source: Santos Knight Frank Research

FIGURE 11
**Average Daily Rate (PhP)**




Source: Santos Knight Frank Research

# CONTINUATION OF RESEARCH ARTICLES

## COVER STORY

Capital values are getting substantial boost from both ongoing and anticipated infrastructure projects under the current administration's Build Build Build Program. Tunnel digging for the Metro Manila Subway, one of the flagship projects of the infrastructure program, is set to begin begin in the fourth quarter of 2019. The 36-kilometer subway will traverse 7 cities and 15 stations from Quezon City to Pasay. The project is scheduled to be fully operational by 2025.

Several property developers expressed interest to enlist their income-generating assets into REIT companies, a decade after the REIT Act of 2009 was passed. In April, Ayala Land Inc. (ALI) committed to introduce the country's first REIT offering, even within the existing rules of 40% minimum public ownership on the first year of listing then raised to 67% on the second year. However, since the Securities and Exchange Commission is still in the process of fine-tuning amendments to the implementing rules and regulations (IRR) of REITs, ALI intends to postpone offering REIT until the revised guidelines are already in place. Before deciding to participate in the Philippine REIT market, DoubleDragon Properties, Megaworld Corporation, and Robinsons Land Corporation are keenly awaiting the issuance of the final IRR, which is targeted to be released within the year.

## INDUSTRIAL

The logistics industry is seen to further flourish outside the city centers, especially with the recent implementation of AO 18 that prohibits development of ecozones within Metro Manila and encourages comprehensive rural development. Even before the moratorium, the warehousing facilities in Metro Manila, which are solely used for storage, have already been facing challenges such as limited developable land and declining profits. As a result, property developers are investing in industrial properties located in the countryside with prospects of higher returns.

The Wongchuking family, owners of the Mighty cigarette brands, recently ventured into industrial leasing through the newly-launched T12 Polo Land Inc in Bulacan. The industrial leasing property will be catering to companies dealing with the distribution of consumer goods and furniture, and production of selected construction materials, as well as logistic firms requiring cold storage.

AyalaLand Logistics Holdings Corp. (ALLHC) acquired 100% of shares in Unity Realty and Development Corp. (URDC), in a bid to further expand as a logistics and industrial estate developer. URDC owns a property in Mabalacat, Pampanga, which ALLHC plans to develop into an industrial park.

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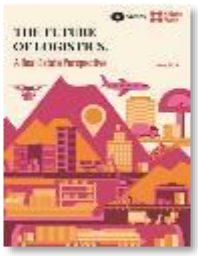

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