RESEARCH


# METRO MANILA

## MARKET UPDATE Q4 2017

METRO MANILA REAL ESTATE SECTOR REVIEW

# REMARKABLE PERFORMANCE OF THE BPO INDUSTRY DRIVES PHILIPPINE PROPERTY SECTOR GROWTH

BPO firms opt to locate and operate in the Philippines, which benefits other real estate sectors in the process. The outlook of the Philippine BPO sector remains promising and spins-off to the residential, retail, industrial and hospitality sectors. Investment and business activities gravitate towards Metro Manila as it remains to be the financial capital of the country.

## SNAPSHOTS

### Economic Indicators

**6.6%**
GDP
Q4 2017

**3.3%**
Inflation Rate
December 2017

**4.0%**
OFW Remittances
12 Months of 2017

**5.7%**
Avg. Bank Lending
December 2017

**2.03%**
91-Day T-Bill
Q4 2017

**50.39**
Avg. PHP-USD
December 2017

The conduciveness of the Philippines to doing business continues to encourage foreign investors to seek out valuable investment opportunities in the country. Foreign firms set-up regional offices, obtain local housing for employees, create consumer markets for retail, and require additional warehousing and manufacturing sites for goods production. These activities, which cut across different property sectors, fuel the fire in the local real estate industry.

The Business Process Outsourcing (BPO) industry, in particular, pulls in a significant number of property investments from foreign capitalists. The Department of Labor and Employment recently reported that the BPO sector remained to be the Philippine's biggest job generator in 2017. From January to December, more than 130,000 job openings were posted by various BPO companies.

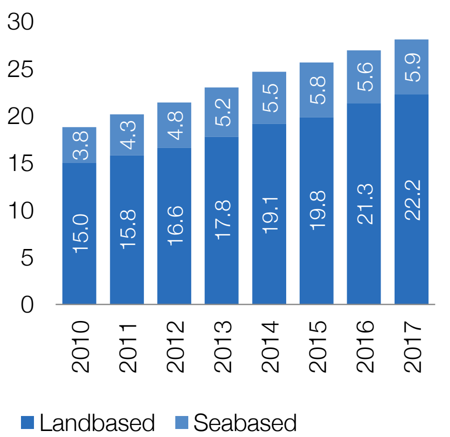
The BPO industry is the biggest private sector employer today with over 1.15 million direct employees in the workforce. In addition, the sector was also forecasted to contribute 8% of GDP with export revenues of US$24.5 billion and employ approximately 1.25 million direct workers by end of 2017.

In addition, the 2017 BPO revenues estimated by the Information Technology and Business Process Association of the Philippines (IBPAP) at $24.5 Billion is closely catching up with the full year 2017 Overseas Filipino Workers (OFW) remittance forecasted number of $28.1 Billion.

Furthermore, despite concerns regarding the possibility of IT-BPM sector slow down, BPO firms assure no significant changes in operations as they will continue to vigilantly watch for changes in law that would negatively impact their business, just as they have done in every past administration. The Philippine BPO sector will continue to thrive in the coming years as the country provides a conducive environment for foreign investors—an excellent pool of low cost-skilled labor, outstanding customer service, one of the cheapest rental rates and highest yields in Asia.

Continued on Page 8…

FIGURE 1
OFW Remittances
(in USD millions)




**Source:** Bangko Sentral ng Pilipinas

# OFFICE SECTOR ENDS 2017 WITH POSITIVENESS, RISING ABOVE MARKET UNCERTAINTIES

**Office** | Stronger numbers in Q4 2017, positive outlook for 2018

The local office market sustains momentum with the support of the country's solid economic growth. Office market performance in the fourth quarter further picked up at a net absorption of 333,413 square meters, coming from the previous quarter's 165,537 square meters. Remarkably, the fourth quarter net absorption value almost perfectly offsets the 333,080 square meter of Gross Leasable Area (GLA) added into Metro Manila's total office stock, strongly indicating a continuing robust demand. Furthermore, Metro Manila's vacancy slightly thinned out to 4.3% from 4.6% in the previous quarter. Throughout 2017, quarterly net absorption has steadily increased bringing the total take-up for the year to 675,000 square meters, a 25% increase from the 2016 number. For 2018, a fresh supply of about 1.4 million square meters of leasable area, including some 500,000 square meters in construction delays from 2017, is expected to cater to the demand predominantly coming from Business Process Outsourcing (BPO) firms and emergent Philippine Offshore Gaming Operations (POGO).

Rental rates, on the other hand, have been on an aggressive upward run for the past seven years. In the last quarter of 2017 alone, all business districts consistently displayed a quarter-on-quarter increase in lease rates. Strong demand and tighter vacancies, combined with construction delays, advanced Metro Manila's weighted average lease rate by 2.53%, the highest quarterly growth since the first quarter of 2015. In the coming months, rents are expected to continue increasing albeit at a slower pace with the addition of new supply.

Makati's weighted average lease rate continues to lead the office market at PHP1,286 per square meter, the highest headline rate among Manila's Central Business Districts (CBD). The rental growth was recorded at 1% quarter-on-quarter (q-o-q) and 4% year-on-year (y-o-y). Makati currently has about 920,000 square meters of GLA with a 2.9% vacancy rate. This year, 216,000 square meters are expected to add into Makati's total workspace area, within the CBD as well as in the city's emerging submarkets.

Fort Bonifacio follows Makati in terms of rental rates, even with its weighted average lease rate growth remaining relatively stable. For the past five years, an average of 182,685 square meters in office supply has been added to the district's stock annually. Fort Bonifacio now holds the largest office stock in Manila, 65% more than that of Makati, the country's premier business district. As of end of 2017, the total office stock for Fort Bonifacio reached above 1.5 Million square meters. About 300,000 square meters of this number are classified as Prime and more than 1 Million as Grade A.

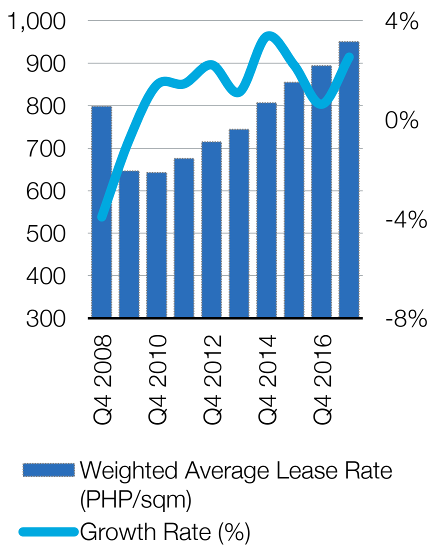
Matched with numerous corporate occupancies, Fort Bonifacio has positioned itself among Manila's top business districts, alongside Makati and Ortigas. Newly-completed buildings in the fourth quarter provided an additional 110,000 square meters of leasable area to the business district. Fresh inventories were provided by Cyber Sigma and The Curve, both PEZA-certified and with 20 and 30 floors, respectively. Vacancies, on the

TABLE 1
### Office Market Data Q4 2017

| | Weighted Avg. Lease Rate (PHP/sqm/mo.) | Vacancy Rate |
|---|---|---|
| Makati CBD | 1,286 | 2.9% |
| Fort Bonifacio | 1,030 | 4.5% |
| Alabang | 769 | 2.1% |
| Quezon City | 824 | 6.7% |
| Ortigas | 691 | 3.5% |
| Bay Area | 755 | 5.3% |

**Source:** Santos Knight Frank Research

FIGURE 2
### Weighted Avg. Lease Rates vs. Rental Growth Rate




**Source:** Santos Knight Frank Research

other hand, marginally went down to 4.5% q-o-q despite the addition of new supply. Looking forward, a lot of market movement is further expected within the district as more Grade A office developments are scheduled to be completed this year, targeting more multinational companies.

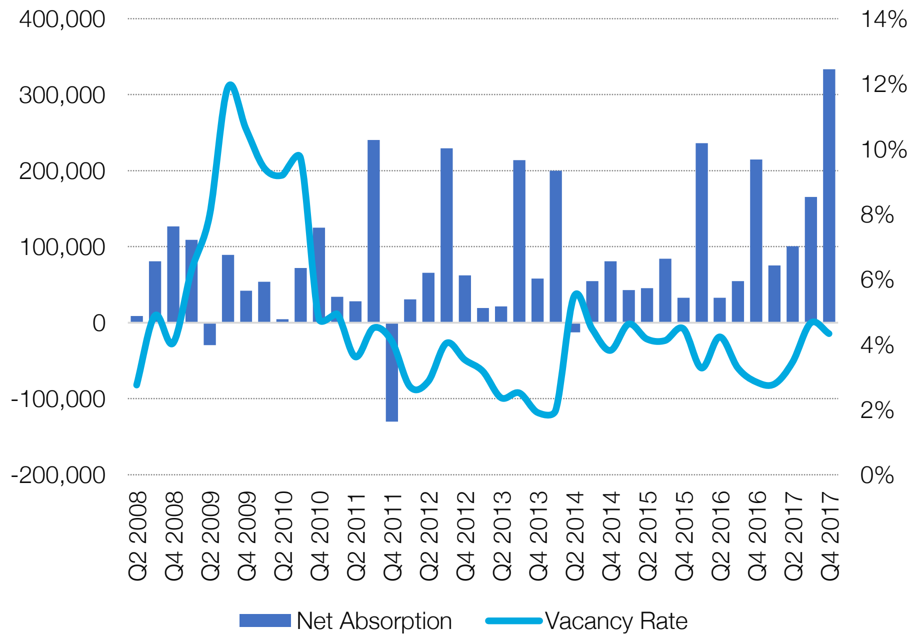
In Bay City, newly-turned over buildings Eastfield Center and DoubleDragon Plaza Buildings 1, 2, and 3 added 119,222 square meters in the area's total office stock, pushing the vacancy rating up to 5.3%. However, more than 80% of this additional stock is already leased out to tenants, with DoubleDragon Plaza Building 2 at full occupancy level. Rents, on the other hand, grew at 4.1% q-o-q. In addition, Bay City recorded the most number of office buildings completed in the fourth quarter of 2017. Moreover, at least 155,183 square meters of additional leasable office area are for completion in 2018. Together with several other developments in entertainment and hospitality, Bay City further gains traction on becoming Manila's next major activity hub.

Alabang, meanwhile, exhibited the largest change in vacancy from 7.1% to 2.1% q-o-q, one of the lowest ratings among CBDs. After a prolonged period of slim increases in rates, the fast-emerging area ended 2017 with an asking rate of PHP769 per square meter from the previous quarter's PHP669 per square meter. At only about 340,000 square meters in total leasable office area, short supply partnered with demand buildup has placed an upward pressure on rent. Alabang stands out from the other CBDs for having substantial developable land, less traffic congestion, and equally high-quality office buildings and included amenities. With additional 157,238 square meters of GLA in 2018 alone, the district continues to pose a high potential for becoming the next big commercial center south of Metro Manila.

Up north, Quezon City ended its six-quarter streak of having double-digit vacancy ratings by recording a 6.6% vacancy rate in the fourth quarter of 2017. Additionally, Ortigas Center exhibited one of the highest rental growth rates among the Metro Manila CBDs at 4.6% q-o-q. For 2018, Quezon City and Ortigas will see additional supply of at least 181,881 square meters and 173,972 square meters, respectively.

The office sector successfully rose above market uncertainties in 2017. As the BPO industry continues to drive the performance of the local office sector, the outlook of the office sector remains positive. Industry initiatives aiming to upskill the already competitive workforce and to adapt to advancements in technology should keep the country ahead of the heightened competition with its Southeast Asian neighbors. Moreover, the country continues to strengthen international economic ties following its successful hosting of the ASEAN Summit in 2017. In line with the goal of attracting foreign investments, policies to liberalize trade and ease foreign ownership restrictions are in progress. Aggressive economy-boosting endeavors such as the "Build, build, build" infrastructure program, as well as efforts to improve the country's competitiveness at a global level in terms of ease of doing business, are also on current sprint. With the gears ready and heated up, the office sector is on its way for an even stronger 2018.

FIGURE 3
## Net Absorption (sqm) vs. Vacancy Rate (%)




**Source:** Santos Knight Frank Research

# RESIDENTIAL CONDOMINIUM DEMAND UNHAMPERED BY DEVELOPER SENSITIVITY

**Residential** | Investor-driven demand underpin expansion of residential market

Metro Manila's residential market sustained its momentum in the fourth quarter of 2017 at the back of robust buying activities from both local and foreign investors. Strong investor confidence has never been more evident as it continues to be the sector's major demand-driver. Moreover, market players maintained bullish sentiments about the residential sector anticipating the completion of infrastructure projects that will directly or indirectly benefit the sector. As a result, average monthly take-up across the Metro remained in double-digits. Ortigas and Quezon City recorded the highest gains among the major business districts in Metro Manila, rising quarter-on-quarter to 40 units from 12 units and 15 units from 13 units, respectively. Moreover, the worsening traffic situation in the said areas and the limited supply of more affordable alternative condominiums pushed the demand to areas outside the core and into the fringes.

In addition, the fourth quarter monthly take-up in Alabang increased a tad higher from the previous quarter due to the outstanding performance of its office market. Firms continue to seek out proximate living spaces to serve as employee housing. As in other areas, however, the tight supply within the business district is forcing the market to consider fringe locations, such as Las Piñas and other areas in Muntinlupa.

For the Bay Area, monthly take-up has tapered off in the fourth quarter to 62 units from 86 units a quarter ago. Majority of the residential developments are already sold-out, which can be credited to the aggressive bulk-buying activities of

TABLE 2

Q4 2017 Residential Condominium Sales Demand Statistics

| | Units Sold (%) | Avg. Monthly Take-up (Units) |
|---|---|---|
| Makati City | 93% | 16 |
| Taguig City | 92% | 16 |
| Quezon City | 83% | 15 |
| Ortigas* | 86% | 40 |
| Alabang | 72% | 11 |
| Bay Area | 98% | 62 |
| METRO MANILA | 89% | 22 |

* Includes parts of Mandaluyong, Pasig, and San Juan

**Source:** Santos Knight Frank Research

Chinese and Korean investors. Property developers are presently prescribing a maximum limit for bulk-buying in order to accommodate other unserved demand. Additionally, the shortage of available inventory in the Bay Area, which is 2% of total stock, continued to push condominium prices upwards. Average selling prices increased by 27% quarter-on-quarter (q-o-q) and approximately 42% year-on-year (y-o-y). Consequently, prices now range from PHP119,000 up to PHP225,00 per square meter.

Despite the strong finish of the market, developer sensitivity to the supply situation has been more evident during the fourth quarter of 2017. Around 2,579 units were launched and unveiled within the period. This brought the full year number to a total of 15,104 unit launches, which is 12% lower than full year 2016. Property developers seem to carry a cautious stance relative to introducing excessive new supply that could flood the market with too much inventory. Oversupply will require price cutting and discounting in order for demand to pick up again.

Newly launched projects in Q4 2017 include the North Tower of Park Central Towers by Ayala Land Premier in Makati CBD, Coron Tower of Palm Beach West by Horizons Land in Bay Area, Celeste Tower of Prisma Residences by DMCI Homes in Pasig, and Alveo Land's Orean Place at Vertis North in Quezon City and Viento Tower of Cerca in Alabang.

A significant number of construction completions were recorded in the fourth quarter. Projects ready for turnover to buyers increased by 9% q-o-q, equivalent to a total of 6,749 units. For the whole year, around 20,607 units were constructed, which is 19% higher than the previous year.

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# RETAIL SECTOR GROWTH CONTINUES WITH NEW CONCEPTS AND INNOVATIONS

**Retail** | Expansions and upgrades carried out to introduce a whole new experience

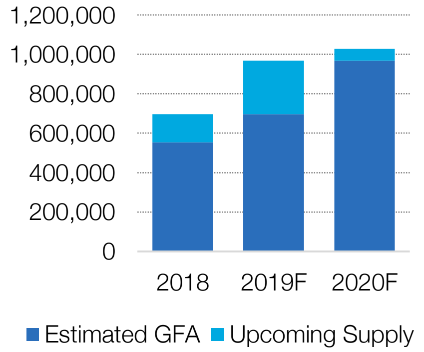
Retail and shopping mall developers rushed to complete construction works in order to hold soft opening in time for the 2017 Christmas holidays. Notable project completions during the fourth quarter were mostly by Ayala Malls. Ayala Malls Marikina Heights, Ayala Malls Feliz along Marcos Highway (Pasig) and Ayala Malls Cloverleaf in Balintawak (QC) were soft launched during the said quarter. These newly opened malls added approximately 130,000 square meters of retail space to the market.

The new Podium in Ortigas Center was opened in the last quarter of 2017, with more shops and new stores. It now features a supermarket for everyday needs, and locally-growing and consumer favorite brand, Uniqlo. The mall is a component of another mixed-use complex by SM Supermalls. Moreover, the green architectural design of the building's façade is a highlight that makes the new Podium most impressive and noteworthy.

The new area of the massive Festival Mall in Alabang, Muntinlupa was one of the highly anticipated openings in the fourth quarter, with its unique water feature and relaxation area. By the end of 2017, the expansion was already in full operation, establishing the mall as the largest regional shopping mall in the country, with more than 320,000 square meters of Gross Leasable Area (GLA). The Landmark Department Store and Supermarket located in the expansion area are the latest popular shopping destinations catering to the Alabang mall goers and large consumer market.

Upcoming retail supply in Metro Manila is forecasted to stretch to approximately 475,000 square meters until 2020. Majority of the future stock will be coming from the Bay area, with few increments in Taguig and Makati. Most of the anticipated spaces are already pre-committed and expected to be taken up immediately, as occupiers exhibit rising interests, realizing the potential of the market.

FIGURE 5
### Upcoming Retail Supply




* Cumulative value of upcoming retail supply since 1Q 2017
**Source:** Santos Knight Frank Research

Vacancy rate is projected to remain within 6%. Food & Beverages and Clothing Apparel will continue to be the top retail categories and mall occupiers.

Retail rents in Metro Manila remain competitive at an estimated PHP1,546 per square meter and expected to gradually increase in the coming years, with the foreseen further expansion of the retail sector. The retail sector outlook displays a constant influx of foreign brands, backed by the country's sound macroeconomic fundamentals and increasing consumer purchasing power. Korean brand, Starfinder Optical, recently unveiled a branch in Ayala Malls The 30th in Pasig. Owndays Optical Shop from Japan is another growing foreign eyewear brand that already made a name in the local market. Starfinder Optical is the first Korean concept optical shop in the Philippines. It wishes to

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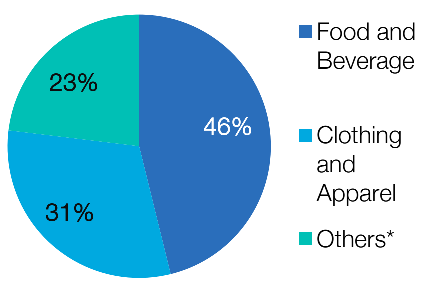
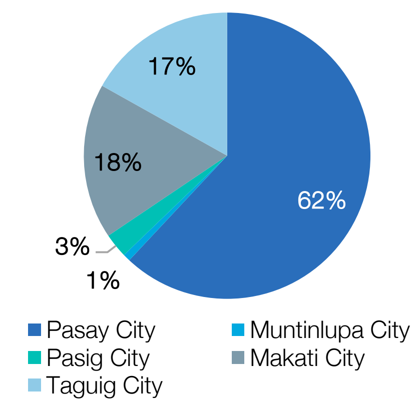
FIGURE 3
### Q4 2017 Retail Openings by Sector




* Others include Consumer Electronics, Homeware and Department Store, Supermarket and Gift stores
**Source:** Santos Knight Frank Research

FIGURE 4
### Upcoming Retail Openings by Location




**Source:** Santos Knight Frank Research

# PHILIPPINE INDUSTRIAL MARKET RESILIENCY PREVAILS

Industrial | Retail trade to bolster demand

The Philippine macroeconomic fundamentals have been undoubtingly stable in the past years, mainly attributed to the growth of the industrial sector. In the fourth quarter of 2017, Gross Domestic Product (GDP) annual growth was recorded at 6.6% backed by increased activities in manufacturing, trade, and real estate, renting and business activities. Industrial sector grew by 8.8% at the last quarter of 2017 making the sector the highest contributor in GDP growth.

After the decline in number, which is common at the start of every year, the amount of Foreign Direct Investments (FDI) started to improve in the second half of the year. Approved foreign investments amounted to PHP43.02 billion, which is significantly higher compared to the same period last year. Almost half of the total investments came from Japan and about 21% originated from Taiwan. Majority of the investments were directed towards Region IV-A due to its proximity to Metro Manila, considerable amount of available spaces and lined-up infrastructure developments. Moreover, foreign investment pledges are expected to further increase by the end of 2018, surpassing documented figures in the previous year.

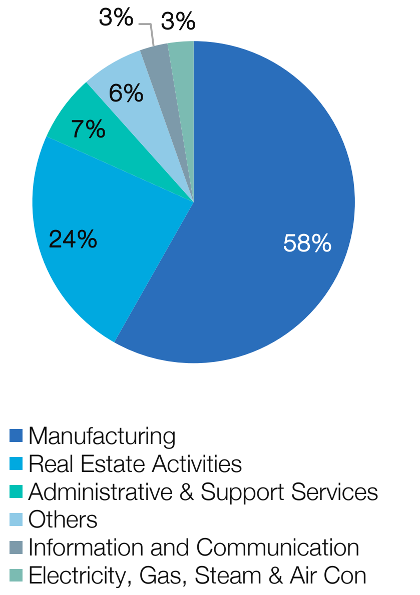
In addition, increasing requirements caused by considerable retail expansions spur demand for industrial spaces and is expected to cause further tightening of industrial supply. Nevertheless, a number of ecozones are presently in the pipeline. 145 Economic Zones are being developed under the Philippine Economic Zone Authority (PEZA). These are classified under Manufacturing Economic Zone, Information Technology Park/Center, Agro-Industrial Economic Zone and Tourism Economic Zone.

Despite the large demand, rental rates of industrial lots continue to range from PHP25 per square meter per month to PHP42 per square meter per month, while rental rates of factory buildings range from PHP130 per square meter per month to PHP350 per square meter per month. Moreover, industrial lots carry on selling from PHP3,300 per square meter to PHP7,000 per square meter.

Retail trade is currently one of the major drivers of the Philippine economy, with locators aggressively searching for vacant industrial spaces. As retail demand rises, requirements for logistics, manufacturing, and warehousing correspondingly increase. The upsurge in fuel prices, however, is driving various firms to seek warehousing locations closer to their distribution areas to save on operating costs. The robust demand is posing a great challenge and presenting a huge opportunity to be factored in by logistics firms and industrial property developers in their strategy planning and formulation.

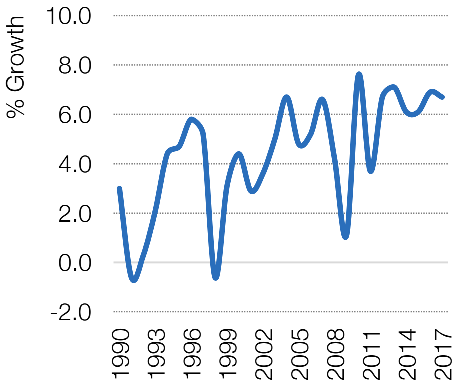
The country today is viewed to be at the edge of economic transformation. Increased infrastructure spending and anticipated structural reforms is expected to support investment growth that will lead to the further expansion of the industrial sector. The lifting of certain foreign investment restrictions is currently under negotiation. If approved, this will enable more foreign investors to enter the country. With the ever-increasing foreign investor interests, the country is one of the most inclusive emerging and developing economies in Asia to watch out for.

FIGURE 6
**Total Approved Foreign Direct Investments by Industry**




**Source:** Philippine Statistics Authority

FIGURE 7
**Historical Performance: Philippine Gross Domestic Product (GDP)**




**Source:** Philippine Statistics Authority

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With the strengthening of the BPO sector in the country, residential demand for products specifically targeting BPO workers and employees entices property developers to conceptualize and unveil products and projects that tap into the huge unserved demand.

Condormitels and dormitory buildings are continuously being launched to service the increasing rental housing market in Metro Manila. Developers are seeking out investors who wish to capitalize on dormitory-type of residential projects, recognizing the huge potential market for co-living spaces.

Walkable Urban Centers are created, where there is an interplay of Live, Work, Shop and Play. Mixed-use communities that are pedestrian-friendly and supports car free-commuting form the masterplans of developers targeting Millennials. Walkability and transit accessibility are demanded by Millennials and young professionals, comprising majority of the present population and BPO employee pool, making them a most attractive target market.

Megaworld Corporation and Robinsons Land Corporation are recognized pioneers in terms of mixed-use projects. Ayala Land, Vista Land and SMDC have added office components to their newer offerings, completing the mix of real estate products (residential, retail and office).

The Industrial and Hospitality sector likewise stand to gain from the influx of foreign investments. Growth in retail results to a rising need for logistics and product distribution channels that furthers the industrial sector. The Hospitality sector, on the other hand, directly profits by providing lodging and accommodation to visiting bodies from foreign and global offices.

Continued from Page 5 Residential

Three Central and Paseo Heights by Megaworld in Makati City, Buildings A and B of Shore Residences by SMDC in the Bay Area, Botanika Nature Residences by Filigree in Alabang, and the South Tower of Zinnia Residences by DMCI Homes in Quezon City were some of the projects that were completed during the period.

**Source:** Santos Knight Frank Research

Continued from Page 6 Retail

bring real changes to the eyewear market and deliver the best experience to Filipinos.

In addition, the rise of e-commerce is pushing for innovation in the retail market. The above-mentioned shopping mall expansions and upgrades are widely carried out in order to relight the fire and reattract consumers lost to online shopping. Traditional retail is adapting to the rise of online shopping by refocusing on human interaction and experience, recognizing that humans still prefer to transact and interact with fellow humans.

While e-commerce already infiltrated the Philippine retail scene, Filipinos still go for the actual dining and shopping experience - feeling, touching and trying first before purchasing. Furthermore, not many Filipinos are comfortable in providing and releasing credit card information online. E-commerce, therefore, is unable to replace what physical shops have to offer, at least not in the near future.

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