RESEARCH

METRO MANILA

MARKET UPDATE Q1 2018

METRO MANILA REAL ESTATE SECTOR REVIEW

RISE OF THE ULTRA-WEALTHY FORTIFIES ROBUST METRO MANILA PROPERTY SECTOR

Metro Manila was identified as one of the world's hottest cities in The Wealth Report 2018. The Philippine's significant economic momentum and positive property dynamics were recognized as factors creating sizeable investor interest around the world. With various infrastructure projects planned, Metro Manila is growing into an impressive regional hub and a destination for global real estate investment.

SNAPSHOTS

Economic Indicators

6.8% ▲
GDP
Q1 2018

4.3% ▲
Inflation Rate
March 2018

0.8% ▼
OFW Remittances
Q1 2018

5.8% ▲
Avg. Bank Lending
March 2018

3.01% ▼
91-Day T-Bill
March 2018

51.45 ▲
Avg. PHP-USD
Q1 2018

The Metro Manila property sector further advances as an effect of the rise in the number of ultra-wealthy in the country. The ultra-wealthy aims to further diversify their existing portfolios by investing in the local office, residential, retail, hospitality and logistic sectors.

The number of wealthy and ultra-wealthy individuals in the Philippines continues to increase according to the wealth report. The report is based on a study carried out by Wealth-X, a leading global wealth and insight business that partners with prestige brands across financial services, luxury, not-for-profit and higher education industries. It estimates total private wealth and population size by level of wealth and investable assets. The potential market for luxury products is to a great degree represented by the numbers stated in the report.

According to the same report, the number of ultra-wealthy Filipinos (worth US$50M+) passed the 300 mark as of the year 2017. This 2017 number is a 3% increase from the previous year and 20% from 5 years ago. By 2022, the number is projected to reach 570, which is 84% higher than the latest recorded figure.

An attitude survey was likewise conducted using responses from private bankers and wealth advisers who represent wealthy individuals. The survey identified that Filipino Ultra High Net Worth Individuals (UHNWI) actively collect investments of passion such as art, wine, jewelry, watches and luxury cars. UHNWIs are defined as USD30 million or more (excluding primary residence). Capital appreciation and joy of ownership are the top two factors Filipino UHNWIs consider in buying such investments of passion.

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TABLE 1
Population Size of UHNWI in the Philippines

NETWORTH	POPULATION SIZE 2012	2016	2017	2022	% INCREASE 2012 to 2016	2016 to 2017	2017 to 2022
US$5M+	4,500	5,420	5,680	10,390	20%	5%	83%
US$50M+	250	300	310	570	20%	3%	84%
US$500M+	20	20	20	50	0%	0%	150%

Source: The Wealth Report 2018

OFFICE MARKET IN DEVELOPMENT BOOM

OFFICE | Sustained Upsurge in Rents

Following a record-high net absorption in the last quarter of 2017, the office sector remains vigorous in the first quarter of 2018, supported by rising rents and a continuing boom in construction activities all over Metro Manila. An estimated 1.3 million square meters (sq.m.) of new office supply is expected to add into the total office stock within the next three quarters of the year. Furthermore, a big portion of the upcoming office supply is already pre-committed, signifying that the market is ready to pounce on the additional spaces for hand over.

<u>Existing Supply and Building Completions</u>

A total of 92,273 sq.m. of fresh office gross leasable area went online in Metro Manila's central business districts in the first quarter of 2018. Fort Bonifacio welcomed two notable prime-grade building openings: Arthaland Century Pacific Tower (31,045 sq.m. in GLA) and The Philippine Stock Exchange Tower (30,000 sq.m. in GLA).

Source: Santos Knight Frank Research

Source: Keppel Land

Designed by SOM New York and a LEED gold and BERDE-awardee, The Arthaland Century Pacific Tower has attracted multinational and traditional companies. The Philippine Stock Exchange, Inc., meanwhile, has moved from its previous separate trading floors in Tower One and Exchange Plaza in Makati and PSE Tektite Ortigas, merging in Fort Bonifacio and occupying about 23,000 sq.m. of the newly-opened The Philippine Stock Exchange Tower. Bulk of the supply from these newly-completed prime buildings have been pre-committed prior to or at completion, both presently at less than 5% vacancy.

Alveo Land's strata-titled High Street South Corporate Plaza Tower 1 in Fort Bonifacio (38,192 sq.m. in GLA) also opened this quarter. In addition, Ri Rance Corporate Center 1 in Bay Area is now operational, bringing Bay Area's total office inventory closer to 550,000 sq.m. The new building is performing exceptionally well at a low vacancy of 2%.

Notable building completions in the fringe areas include Circuit Corporate Center 1 (47,104 sq.m. in GLA) and Circuit Corporate Center 2 (25,604 sq.m. in GLA) in Circuit Makati and the Greenfield Tower (43,697.57 sq,m. in GLA) in Greenfield District Mandaluyong.

<u>Upcoming Supply And Development Pipeline</u>

Bay Area accounts for more than a fourth of the total Metro Manila upcoming supply, with Three E-Com Center Bayshore Tower (79,000 sq.m. in GLA) as the biggest contributor. Other noteworthy upcoming office developments for the year include prime-grade Nex Tower in Makati, Jollibee Tower in Ortigas, Araneta Cyberpark Tower Two in Quezon City, and Asian Century Center, Ecoprime, and The Finance Centre in Fort Bonifacio.

TABLE 2

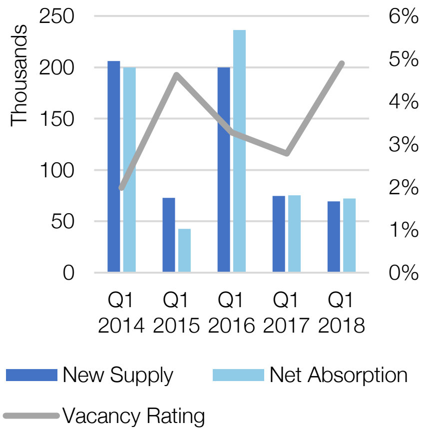
Q1 2018 Office Data

Dsitrict	Weighted Avg. Lease Rate (PHP/sqm/mo.)	Vacancy Rate
Makati	1,308.44	3.48%
Fort Bonifacio	1,082.15	3.97%
Alabang	741.08	2.13%
Quezon City	843.90	9.90%
Ortigas	675.11	6.70%
Bay Area	761.73	2.21%

Source: Santos Knight Frank Research

FIGURE 1

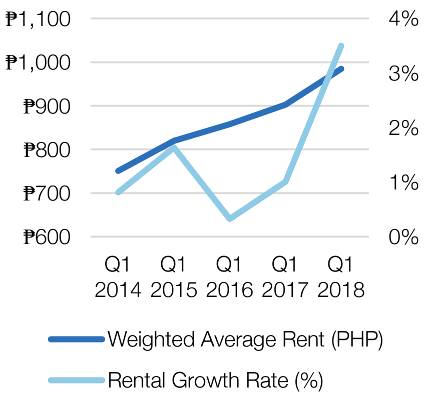
YoY New Supply (sq.m.), Net Absorption (sq.m.), and Vacancy Rating



Source: Santos Knight Frank Research

FIGURE 2

Weighted Average Lease Rate (PHP/sq.m.) vs Growth Rate



Source: Santos Knight Frank Research

A number of strata-titled office buildings are also earmarked for completion this year, including High Street South Corporate Plaza - Tower 2, Capital House, and Park Triangle Corporate Plaza North Tower in Fort Bonifacio and Parkway Corporate Center in Alabang.

In the next two years, much of the upcoming office supply will come from Ortigas with the completion of SM-KL Tower (89,000 sq.m. in GLA) and SM Mega Tower (96,000 sq.m. in GLA) in 2019 and Corporate Finance Plaza, a 61-storey skyscraper slated to supply an estimated 120,000 sq.m. of office space in 2020.

Net Absorption and Vacancy Rates

The Metro Manila office market jumpstarts 2018 with a net absorption of 72,220 sq.m. of office space following the six-digit record-breaking take-up in the last quarter.

Among the central business districts (CBD), Fort Bonifacio and Bay Area exhibited the most leasing activity in the first quarter of the year, with a net absorption of 66,801.94 sq.m. and 24,859.15 sq.m., respectively. Both CBDs had significant increases in their net take-up numbers compared to the same period last year.

Overall Metro Manila vacancy increased to 4.89% in the first quarter, with occupied space now standing at over 4.67 million sq.m. coming from 4.60 million in the last quarter of 2017. By building grade, vacancy for Prime buildings is at 5.38% and 4.47% for Grade A buildings.

Alabang registered the lowest vacancy in the first quarter at 2.13%, largely attributed to a rise in gaming locators. With the dwindling supply of workspace in the usual districts of choice, gaming firms have been looking into more non-traditional areas such as Alabang and Quezon City to meet their office space requirements.

Makati and Fort Bonifacio both registered vacancies below 4%. Grade A buildings predominantly led market activity in both districts. The Curve in Fort Bonifacio recorded an absorption of about 13,500 sq.m. in office space since its opening last quarter. Current vacancies in Fort Bonifacio's prime and Grade A buildings were at 5.55% and 3.13%, respectively. Makati's prime and grade A buildings, on the other hand, stood at 5.24% and 2.11%, respectively.

Further north, Ortigas and Quezon City started 2018 with vacancies of 6.70% and 9.90%, respectively.

Average Monthly Rents

Metro Manila's weighted average lease rate got a boost of 9.11% year-on-year (YoY) rising to PHP984.93 per sq.m. in the first quarter of the year.

Makati CBD still commanded the highest lease rate among the Metro Manila CBDs at PHP1,308.44 per sq.m., up 3.85% from the same period in the previous year.

Fort Bonifacio stood out in the first quarter for registering the highest YoY rental growth of 13.86%. The addition of two prime-grade buildings has significantly pulled up the weighted average rent in the district to PHP1,082 per sq.m., following Makati in the lease rate rankings.

A minimal movement in average rents was noted in the Ortigas CBD. Rents for Grade A space remained between PHP500 to PHP900 per sq.m.

Rising rents were likewise evident in the other Metro Manila business Average rents in the business districts of Quezon City increased by an aggregate of 11.39% YoY to PHP843.90 per sq.m. while

Source: Ortigas & Company

the Bay Area's average asking lease rate was at PHP761.73 per sqm, up by 5.71% YoY.

YoY rental growth rates in Alabang have consistently increased since Q1 2017. Average lease rate in the district increased by 10.66% YoY to PHP741.08 in the first quarter of 2018.

Offices for Sale

The continuous rise in rents has caused more and more developers to consider selling office spaces in various stages (pre-selling, construction and post-development). Demand further strengthens as buying instead of renting office spaces tends to lower down overall cost implications to the occupiers.

The capital values of existing offices in the Makati CBD are estimated from PHP120,000 to PHP200,000 per sq.m. In addition, the resale price of the pre-selling prime office building Alveo Financial Tower range from PHP245,000 to PHP265,000 per sq.m.

In the Ortigas CBD, the selling price of office units in older buildings go as low as PHP80,000 per sq.m. However, newer buildings are commanding higher prices, as units are quickly taken up. One of the newest developments in the area, The Glaston Tower of Ortigas and Co., presently sells at PHP177,000 per sq.m.

Selling prices of office space in Fort Bonifacio range from PHP150,000 to PHP280,000 per sq.m.. Most of the preselling buildings are already sold out. Units for resale in High Street South Corporate Plaza are priced around PHP 275,000 per sq.m.

Outlook

Looking ahead, lease rates are also forecasted to continue rising driven by the strong optimism in the Philippine property market. Districts targeting and accommodating gaming locators are expected to increase their asking rents for office space with the perceived high demand.

Banking on the country's young and skilled population which continues to attract investors, outlook on the Metro Manila office market remains bullish. With much supply coming in, areas with weaker demand may experience softening in rents, although not foreseen to continue in the long run. Rents are still not as negotiable and this position is expected to be sustained all throughout the year. A large portion of the upcoming office supply is already pre-committed, signifying that the market is ready to pounce on the additional spaces for hand over in the coming periods.

DEMAND AND SUPPLY PRESSURES CONTINUE TO PUSH RESIDENTIAL PRICES UPWARDS

RESIDENTIAL | Chinese market further boosts investment demand

The sustained momentum of the Philippine economy has largely influenced the performance of the local condominium sales market in the first quarter of 2018. Residential demand is consistently expanding, justifying regular price increases across residential classifications in the Metro.

Investor demand became more evident as a major demand driver of the residential condominium sector, with the massive investment activities pushing the demand for residential properties at a significantly faster pace. Overall monthly take-up in Metro Manila during the quarter averaged 27 units coming from 22 and 18 units in the previous quarter and year, respectively. In terms of unit absorption, approximately 91% of the total supply has already been absorbed by the market in the first quarter. This is a notable improvement from the previous quarter's record of 89% and last year's figure of 76%.

The robust demand is attributed to the rising interests on residential properties coming from Chinese nationals, which is a product of the rekindled ties between the Philippines and China. Developers credited strong sales take-up to the said foreign market, stemming from the expansion of Chinese business process outsourcing (BPO) firms and offshore gaming operators, and underpinned by the booming gaming and entertainment industry in the country.

Aside from business expansions, Chinese nationals are likewise attracted to the huge projected returns of condominium investment in the country. The Chinese have a large buying and investment capacity. Moreover, residential properties in the Philippines are relatively cheaper than properties abroad. USD1 Million can buy 170 sq.m. of residential condominium space in the Philippines compared to just 66 sq.m. in Beijing.

In addition, prices of residential properties across the Metro continue to soar in the first quarter backed by strong demand. However, the supply environment places an upward pressure on the price of condominiums in Metro Manila, which includes the limited available inventory, fast progress of development, and the presence of notable residential brands in the area where a project is located.

Among the central business districts (CBDs), Taguig City and Bay Area recorded the highest year-on-year (y-o-y) increase in property prices with 47% and 30%

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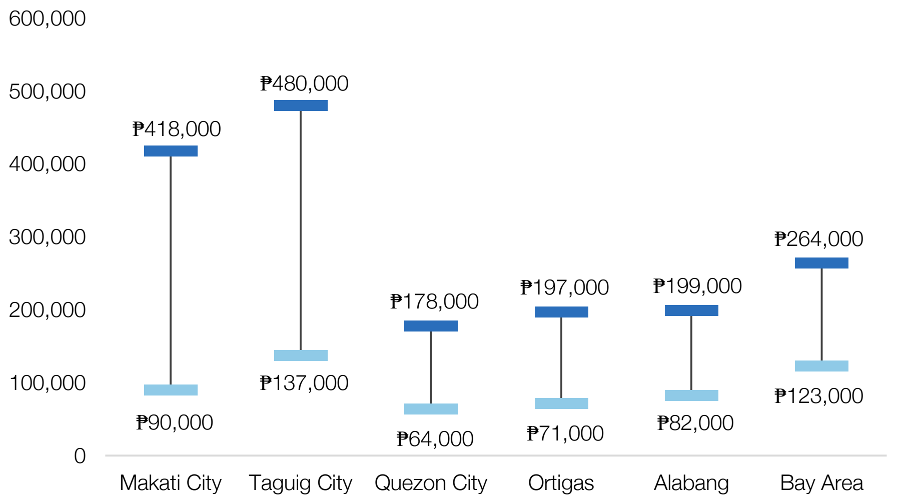
TABLE 3
Q1 2018 Residential Condominium Sales Market Statistics

Area	Units Sold (%)	Avg. Monthly Take-up
Makati City	94.1%	15.8
Taguig City	94.7%	10.4
Quezon City	87.8%	32.2
Ortigas*	85.8%	43.3
Alabang	73.7%	10.5
Bay Area	98.6%	50.0
METRO MANILA	**90.7%**	**26.7**

*Includes parts of Mandaluyong, Pasig, and San Juan

Source: Santos Knight Frank Research

FIGURE 3
Indicative Average Selling Prices per Area (PHP/sq.m.)



Source: Santos Knight Frank Research

RETAIL DEVELOPERS FURTHER PROMOTE RETAIL AS AN EXPERIENCE

RETAIL | Mall renovations display retail market strength and potential

TABLE 4
Q1 2018 Retail Data

Area	Total GLA (sq.m.)	Available Space (sq.m.)	Lease Rate (PHP/sq.m.)	Vacancy Rate
Quezon City	934,451	5,011	1,533	0.54%
Ortigas	674,073	12,590	1,325	1.87%
Makati	373,071	6,853	1,600	1.84%
Fort Bonifacio	376,483	3,232	1,508	0.86%
Bay Area	508,600	3,350	1,300	0.66%
Alabang	354,527	10,743	1,100	3.03%
Total/Average	3,221,205	41,779	1,349	1.30%

Source: Santos Knight Frank Research

Source: Santos Knight Frank Research

Metro Manila shopping mall developers are quick in responding to the increasing demand of mall goers for a different and brand-new shopping and retail experience. This is partly due to the imminent threat of e-commerce and online shopping but mostly because of the evolving lifestyles of the consumer market.

Robinsons Galleria in Ortigas Center recently unveiled the renovated and expanded wings, and food court area of its more than 20-year-old shopping mall. Both the mall façade and interiors were likewise upgraded to give the guests a totally different feel. At present, the scenic elevators are being improved to complete the overall mall experience. Moreover, Samgyupsalamat and Cabalen are upcoming restaurants highly anticipated by the dining market.

The Shangri-La movie houses (Shang Cineplex) are presently being renovated to boost the fun and entertainment aspect of the mall experience. New restaurants have already been added to increase the dining options available within the mall.

Overall retail space vacancy in the major Metro Manila malls is at an astounding 1.30% as of the first quarter of 2018. Average indicative lease rates range from a low of PHP700 per sq.m. per month to a high of PHP2,000 per sq.m. per month. Makati posted the highest retail rents at an average of PHP1,600 per sq.m. per month. Conversely, Alabang's average rents were recorded at PHP1,100 per sq.m. per month, the lowest average amongst the Metro Manila CBDs.

INDUSTRY SECTOR LARGELY CONTRIBUTING TO OVERALL ECONOMIC GROWTH

INDUSTRIAL | Continuous Rise in Industrial Property Demand

As in the previous periods, the industry sector recorded the highest growth rate among the major economic sectors in the first quarter of 2018. Industry growth was faster at 7.9% compared to the 6.5% growth in the same period of last year. The growth of the sector was mainly driven by manufacturing.

The country's sound macroeconomic fundamentals and favorable demographics continue to attract local and foreign investments resulting to a robust industrial sector. Moreover, as the retail market further expands, logistics, warehousing and manufacturing requirements correspondingly increase. In addition, the emergence of e-commerce has been recognized as a stimulus for higher logistics property demand. E-shopping has increased demand for warehousing and storage units, as online retailers require more distribution space than traditional retailers since they need to individually pack items per client.

The dwindling supply of warehouses and industrial properties within Metro Manila still presents a dilemma to retailers and an opportunity to industrial space developers at the same time. Cavite, Laguna and Batangas (South Luzon), and Pampanga, Tarlac and Bataan (Central Luzon) already enjoy increased interests from investors due to their proximity to the capital.

Source: Santos Knight Frank Research

In South Luzon, industrial lots are selling from PHP3,300 to 7,000 per sq.m.. On the other hand, land selling prices in North Luzon range from PHP3,600 to PHP4,500 per sq.m. while land lease prices go from PHP20 to PHP45 sq.m. per month. Rental rates of factory buildings vary from PHP120 to 280 per sq.m. per month in Cavite, PHP170 to 270 per sq.m. per month in Laguna and PHP170 to 300 per sq.m. per month in Batangas. In the Pampanga Economic Zone, 6 factory buildings are available for lease at a rate of PHP125 per sq.m. per month.

Proximity and availability of transport infrastructures are factors increasing the attractiveness of an area as an industrial site, especially with the continuous upsurge in fuel prices. Upcoming road networks, such as CALAX and Metro Manila Skyway 3, are expected to further boost desirability and operations of industrial zones outside Metro Manila.

Continued from Page 2 Cover

42% of the Filipino attitude survey respondents cited that their ultra-high net worth clients' exposure to property had increased in 2017. Moreover, 52% disclosed that their UHNWI clients have property investments, excluding primary residence and secondary homes, in the Philippines and 20% outside the country. Furthermore, 45% revealed that their Filipino UHNWI clients are thinking of investing in a property, other than their primary residence or second home, in the Philippines and 21% outside the country, over the next few years.

On the average, Filipino UHNWIs own 2 to 3 homes. In addition, 28% of the relationship managers surveyed shared that their Filipino UHNWI clients are planning to buy an additional home within the country and 15% outside the country in the next 12 months.

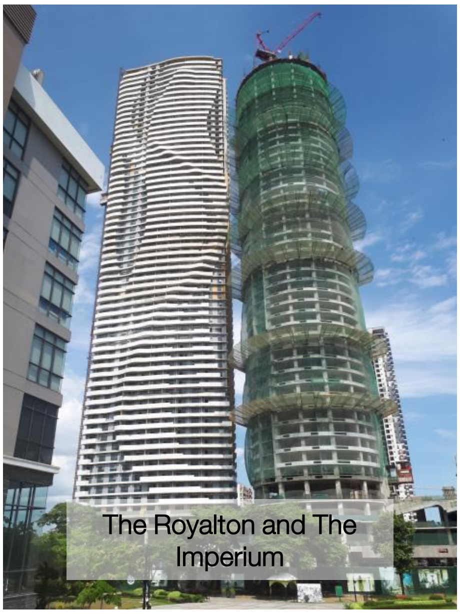
The market for luxury Philippine properties also includes UHNWI from foreign countries. The Wealth Report 2018 reveals that UHNWI from Malaysia, Singapore and South Korea presently own property investments in the Philippines, as the Philippines ranked 13 out of 176 countries where Asians own property investments. Moreover, affluent individuals from Hong Kong signified intentions of further investing in the Philippines. Furthermore, South Korean UHNWI expressed the high possibility of buying an additional home in the Philippines over the next 12 months.

Data from The Wealth Report 2018 uncovered various opportunities that investors and property developers can capitalize on. The residential sector presents numerous golden prospects. However, the retail, office, logistics & warehousing, infrastructure and healthcare sectors are particularly becoming of more interest to the present and future real estate market players.

Continued from Page 5 Residential

growth rates, respectively. The strong demand and supply pressures in these areas led to further price increases in order to be at par with the prices of other developments in the area. In the Bay Area, for instance, projects that were launched at a middle-income price of PHP120,000 per sq.m. for a 24 sq.m. unit now sells at a luxury price of approximately PHP190,000 to PHP200,000 per sq.m.. Taguig City and Bay Area prices now range from PHP137,000 to PHP480,000 per sq.m. and PHP123,000 to PHP264,000 per sq.m.in the said areas, respectively.

Property prices in Makati City increased by 18% y-o-y, with present prices ranging from PHP90,000 to PHP418,000 per sq.m.. The growth was mainly due to the escalating prices of luxury condominiums in the area. Makati's luxury segment experienced a 36% growth in prices. In Quezon City, however, it was the affordable condominium segment that contributed largely to the city's price growth. Prices under the affordable segment faced a y-o-y growth of 23%, which is higher than



The Royalton and The Imperium

Source: Santos Knight Frank Research

the city's average price growth of 15%. The worsening traffic situation in Metro Manila compelled commuters to seek living spaces proximate to their workplaces.

Strong demand for middle-income condominiums in the nearby fringes of Alabang and Ortigas pushed property prices in these business districts to grow by 15% and 8% y-o-y, respectively. People continue to move away for the city cores as the number of affordable options within the city keep on diminishing.

Manila Office
10th Floor, Ayala Tower One & Exchange Plaza
Ayala Avenue, Makati City, 1226
t: (632) 752-2580 / 848-7388
f: (632) 752-2571
w: www.santos.knightfrank.ph

Cebu Office
Suite No. 30, Regus Business Center
11th Floor, AppleOne Equicom Tower
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City 6000
t: (6332) 318-0070 / 236-0462

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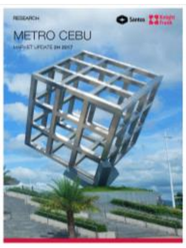

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MANAGEMENT

Rick Santos
Chairman and CEO
+63 917 528 3687
Rick.Santos@santos.knightfrank.ph

OCCUPIER SERVICES AND COMMERCIAL AGENCY

Joey Radovan
Vice Chairman
+63 920 906 7517
Joey.Radovan@santos.knightfrank.ph

INVESTMENTS AND CAPITAL MARKETS

Calvin Javiniar
Senior Director
+63 917 574 3058
Calvin.Javiniar@santos.knightfrank.ph

VALUATIONS

Mabel Luna
Director
+63 917 865 3712
Mabel.Luna@santos.knightfrank.ph

RESIDENTIAL SERVICES

Kim Sanchez
Associate Director
+63 917 537 9650
Kim.Sanchez@santos.knightfrank.ph

Toby Miranda
Assistant Manager
+63 917 8077 495
Toby.Miranda@santos.knightfrank.ph

ASSET SERVICES GROUP

Nelson Del Mundo
Vice President
+63 917 574 3046
Nelson.Delmundo@santos.knightfrank.ph

PROJECT MANAGEMENT

Allan Napoles
Executive Director
+63 917 5277638
Allan.Napoles@santos.knightfrank.ph

RESEARCH & CONSULTANCY

Jan Custodio
Senior Director
+63 917 574 3572
Jan.Custodio@santos.knightfrank.ph

Emlin Javillonar
Research Manager
+63 917 888 7905
Emlin.Javillonar@santos.knightfrank.ph

Jasmine Almazar
Research Analyst
Jasmine.Almazar@santos.knighfrank.ph