

RESEARCH



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METRO MANILA

MARKET UPDATE Q2 2017

REAL ESTATE BOOM STRENGTHENS AMIDST GLOBAL CONCERNS AND ISSUES

Going through the newspapers every day, you will come across various articles that speak of fears of financial market destabilization brought about by new administrations and their corresponding planned policy changes, continuing warfare and conflict in the Middle East and Mindanao, and rising reports of crime and terrorism. Nevertheless, the negative effect on perception is deemed short term and reactions fade over time. Moreover, the constant increase in local real estate property prices, comparing second quarter numbers from previous periods, and several other continuously improving indicators clearly demonstrate that investor confidence in Metro Manila and the rest of the country remains solid and unwavering.

The Office Market

The upward momentum of the office market is still credited to the country's bullish economy, young demographics and consumption-driven market. Despite the various happenings in the international and local environment, investors appear to keep the "business as usual" mindset. The financial gains, income potential and the attractiveness of doing business in the Philippines remain pervasive and unparalleled. The Philippine labor force's proficiency in English, flexibility in work schedules and cheap labor cost are consistently sought after by employers and company owners.

Take up of office spaces in Metro Manila remained fast as overall vacancy rate continued to decline to 3.51% in the second quarter of 2017 from 4.60% in the same period last year.

The Residential Market

The Philippine real estate market stays mainly driven by the vigorous office sector. Residential demand comes from office workers looking to rent space near their respective places of work, especially due to the worsening traffic situation in Metro Manila.

Residential prices continue to escalate across all market segments as residential demand similarly rises. Selling prices average PHP74,000 per square meter, PHP115,000 per square meter, PHP171,000 per square meter, and PHP225,000 per square meter for Affordable, Middle, High-end and Luxury projects, respectively.

The Retail Market

The Retail Market grows together with the Office and Residential Sectors. Convenience remains to be a major factor considered by property developers in the conceptualization and planning of various real estate projects. Ayala Land Inc. (ALI) has about 150,000 square meters of Gross Leasable Area in its 2017 Metro Manila construction pipeline.

Retail openings continue with major mall developers announcing various provincial expansions. Vista Land targets to construct commercial centers in 200 cities and municipalities as an integral component of its mixed-use projects. In addition, Robinsons Land Corporation (RLC) is set to open two new shopping malls in Leyte, one in Naga and another one in Iligan this year. At the end of 2016, RLC shopping malls had a Gross Leasable Area of 1.3 Million square meters. With the scheduled opening of new RLC shopping malls this year, the total GLA will increase by 9% to 1.39 Million square meters.

Further to this, SM Investments Corp. wishes to widen its market penetration across all retail formats, not limited to shopping malls and supermarkets, in 2017. SM aspires to cater to the evolving needs and preferences of its customers through diverse and quality produces and enhanced customer experience.

The Industrial Market

Further to the growth of the Retail Sector, the need for warehouses, storage areas and better distribution channels fortifies. Around 160 operating enterprises were registered with the Philippine Economic Zone Authority (PEZA) as of April 30, 2017. These are businesses engaged in activities such as Business Process Outsourcing, Food Products & Beverages, IT Research & Development, and Real Estate Services and Development.

The Hospitality Market

The Hospitality Market experiences progress as the number of visitor arrivals in the country continues to increase. Latest reports show a year-to-date year-on-year visitor arrivals growth of almost 15%. This bullishness draws investments in office, residential and retail developments nationwide that target the growing tourist population.

SNAPSHOTS | Economic Indicators

▲ 6.4% y-o-y
Q1 2017 GDP

▼ 2.8% (Jun 2017)
Inflation Rate

▲ 4.5% (Jan-May 2017)
OFW Remittances

▲ 5.6% (Jun 2017)
Avg. Bank Lending

▼ 2.09% (Jun 2017)
91-day T-Bill

▲ 49.86 (Q2 2017)
Avg. PHP-USD

OFFICE MARKET DISPLAYS CONTINUOUS GROWTH, NO SIGNS OF SLOWING DOWN

Office | Makati office market outperforming the other Central Business Districts

The office sector continues to expand with new buildings recently delivered and several others for turnover this year. Over 1.2 million square meters of office Gross Leasable Area (GLA) are presently in the supply pipeline. In addition, office space take-up remains positive as the Philippines maintains its position of being an attractive inbound investment destination. Moreover, the office rental rates have been constantly growing annually at a rate of 5-6%, as investors capitalize on the country's favorable demographics, strong dollar, competitive labor cost and continuous infrastructure development.

The office market is mainly driven by the robust IT-BPO industry. As reported by the Information Technology and Business Process Association of the Philippines (IBPAP), the number of Full Time Employees (FTE) in the IT-BPO sector almost doubled from 777,000 employees in 2013 to 1,146,000 employees in 2016 (5 years) and by 2022, the number of FTEs would have gone up to 1,800,000 employees.

The Offshore Gaming Industry is an emerging industry that is likewise boosting office market growth. In 2016, the Philippine Amusement and Gaming Corporation (PAGCOR) issued 35 offshore gaming licenses. PAGCOR's reported that a total of 75 applications are presently being evaluated.

The office sector rises above the various issues and concerns within the market. In the second quarter of 2017, a slight increase in quarter-on-quarter vacancy was registered. Metro Manila's vacancy

rose to 3.51% from the first quarter's 2.85% vacancy rate. The number of vacant spaces in most business districts grew, with special note on Bonifacio Global City (BGC) and Bay area, due to the new supply from recently completed office buildings.

Vacancy in BGC was pegged at 2.23%, lower than last year's 2.60%. Newly turned over buildings include Ore Central, Inoza Tower, and World Plaza. These new office projects added a total of 74,158 square meters of GLA. The largest vacancy can be attributed to Ore Central, with an availability of about 52.11% since its opening in May of this year.

Bay Area's vacancy rose to above 1% in the second quarter of 2017, with vacancy recorded at 1.67%. Bay Area had an additional 58,758 square meters of office GLA coming from 3 newly constructed buildings. These projects include iMet by Federal Land Inc., and Filinvest Cyberzone Buildings B and C by Filinvest Land Inc.

Filinvest Land Inc. recently turned over Buildings B and C, which are both fully leased out. Buildings A and D are scheduled to be completed by Q2 2018. Filinvest Cyberzone in Pasay features four office towers, having seven floors each. The first two office buildings have a combined GLA of 36,438.30 square meters while the remaining two towers have 28,220.90 square meters of GLA.

No buildings were turned over and no new supply was added to the Makati, Alabang, Ortigas, and Quezon City office markets. While the vacancy of the other CBD marginally grew in the second

quarter, Makati and Alabang's vacancy rates declined to 0.92% quarter-on-quarter and 4.82% quarter-on-quarter, respectively.

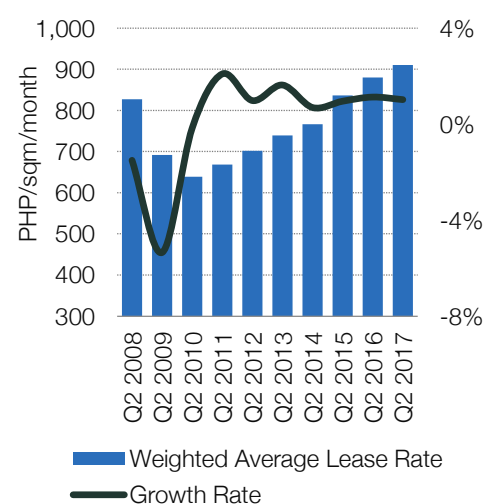
Makati is still the preferred location of local and foreign investors. In the second quarter of 2016,

TABLE 1
Q2 2017 Office Data

	Weighted Avg. Lease Rate (PHP/sqm/mo.)	Vacancy Rate
Makati CBD	1,259.79	0.92%
Fort Bonifacio	975.61	2.23%
Alabang	669.70	4.82%
Quezon City	757.62	11.89%
Ortigas	637.27	1.85%
Bay Area	721.07	1.67%

Source: Santos Knight Frank Research

FIGURE 1
Weighted Avg. Lease Rates vs. Rental Growth Rate



Source: Santos Knight Frank Research

Makati's vacancy was recorded at 2.35%. At present, this number has significantly decreased to below 1%. Additionally, the Q2 2017 rental growth rate of the Makati Central Business District (CBD) was measured at 9.68% year-on-year, which is higher compared to last year's 4.66%. Weighted average lease rate was documented at PHP1,259.79, still the highest amongst the Metro Manila CBD. The average lease rate of prime offices in Makati was pegged at PHP1,492.64 per square meter per month, while the rental rates of Grade A buildings were at an average of PHP1,078.05 per square meter per month.

Rental rates in Bonifacio Global City, Ortigas, and Bay area were noted at PHP975.61, PHP637.27, and PHP721.07 per square meter per month, respectively. The asking lease rates are continuously rising, with Bay Area leading all the other Metro Manila CBD. The lease rates in Bay City grew by 11.25% year-on-year, coming from a prolonged period of zero price increase. Bay Area was distantly followed by Bonifacio Global City with a 6.76% year-on-year rental growth rate. Furthermore, no movement was noted in the weighted average lease rates of Alabang and Quezon City, which are at PHP669.70 and PHP757.62 per square meter per month, respectively.

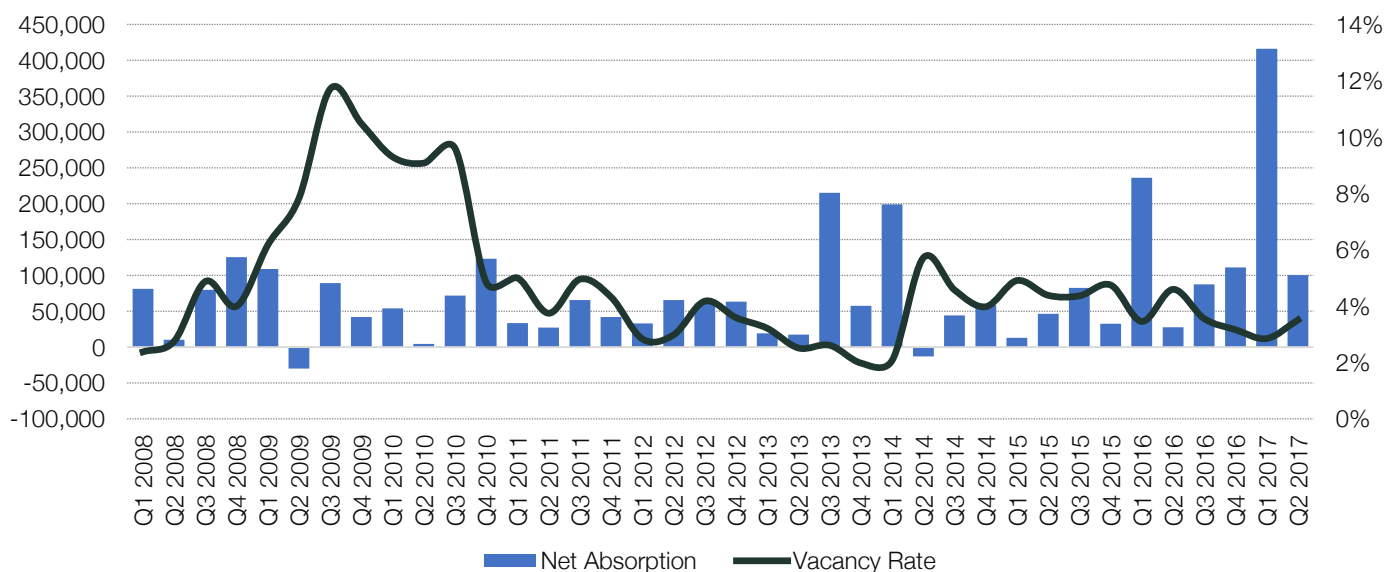


West Campus Towers

Source: Santos Knight Frank Research

FIGURE 2
Net Absorption (sqm) vs. Vacancy Rate (%)

Disclaimer: Highest net absorption in Q1 2017 is due to the inclusion of the data for Bay Area this year



Source: Santos Knight Frank Research

MARKET PLAYERS BANK ON EMERGING BUSINESS CENTERS

Residential | Central Business Districts enjoy double-digit demand



Source: Santos Knight Frank Research

TABLE 2
Q2 2017 Residential Demand Statistics

	Units Sold (%)	Avg. Monthly Take-up
Makati City	90%	16
Taguig City	86%	14
Quezon City	78%	14
Ortigas*	75%	13
Alabang	69%	10

*Includes parts of Mandaluyong, Pasig, and San Juan

Source: Santos Knight Frank Research

Investor-driven demand continued to bolster the local condominium sales market in the second quarter of 2017. Residential sales demand across major central business districts (CBD) in Metro Manila remained vigorous despite the slower-than-expected growth of the Philippines Gross Domestic Product (GDP) in the previous quarter. Foreign and local investors took into account not only the country's broadest measure of economic performance but also other relatively significant factors, which prove that the Philippines is a worthy choice for residential investment.

Among the factors include the country's positive and stable investment grade ratings, the 'build, build, build' infrastructure program of the current administration, modest employment rate underpinned by the growing millennial workforce, and also the sustained performance of other real estate segments. These drove property investors to maintain a positive outlook on the residential market and, most importantly, to delve into the huge investment potential of emerging business centers in Metro Manila.

In Pasay City, the immense market activity in Bay Area continued to push average monthly take-up rates on an upward course. After registering an average monthly sale of 51 units as of October last year, units sold per month now stands at an average of 70 units. About 91% were already absorbed, mostly by investors in which some were reported to have purchased units in bulk or on a per floor basis. S Residences, the three-tower development of SMDC, was already sold out after it was launched a year ago.

Residential developments in Arca South, on the other hand, also enjoy brisk take-up. Envisioned to be the country's next Bonifacio Global City (BGC) in Taguig, the future developments, particularly office buildings that will cater to the Business Process Outsourcing (BPO) industry, captured a lot of property investors and buyers. The upcoming middle income project of Avida Land, Avida Towers One Union Place, already fully exhausted its inventory introduced in 2014. The second building, Avida Towers Vireo, will be launched this year further catering to the still huge unserved demand. Approximately 55% of the Vireo inventory has already received interests, through Letter of Intent (LOI), mostly from investment buyers.

On the high-end segment, about 95% of Alveo Land's The Veranda is presently taken-up by the market. AyalaLand Premier, meanwhile, recently launched the third block of its Arbor Lanes project in which 61% of the units were sold during the first month alone. Other than investors, demand for such projects mostly came from Overseas Filipino Workers (OFW),

and expatriates who wanted to own units instead of rent.

Supported by the robust demand, selling prices of residential condominiums in the Bay Area and Arca South are continuously becoming competitive. Dominated by middle and high-end projects, prices range from approximately PHP117,000 to PHP175,200 and PHP132,400 up to PHP190,400 per square meter (sq.m.) in the said emerging business centers, respectively.

On the development side, property developers continue their search for available developable lands in the Metro. While properties situated within CBDs remain a top priority, venturing into emerging business centers that follow township-like concepts proves to be a viable option for desired expansion and diversification activities. Although the locations might be considered as fringe areas, emerging business centers are still in close proximity to CBDs and commercial areas, and transportation is readily available and easily accessible.

In the middle of the second quarter, Megaworld Corporation was able to tap the upscale market through the launching of its luxury residential development in McKinley West. The Kingsley at The Albany is a mid-rise luxury condominium offering only 64 units, with sizes ranging from 123 to 349 square meters. Selling prices start at approximately PHP243,600 per sq.m. and are expected to reach around PHP300,000 per sq.m. in the coming quarters.

In addition, Arthaland recently acquired a 4,000-sq.m. landbank in Arca South as part of its portfolio expansion and diversification strategy. The land is intended for development of a commercial or a mixed-use project. The Company's acquisition of the land was reported to cost about PHP1.05 Billion or around PHP262,500 per sq.m., suggesting that land values

in Arca South grew by a compounded annual growth rate of 15% from approximately PHP150,000 per sq.m. in 2013. This latest transaction reflects capital appreciation in the real estate market and is also one of the reasons that market players continue to post an optimistic viewpoint of Philippine Real Estate.

TABLE 3
Q2 2017 Property Turnovers

Residential Condominium	Developer	Location	Inventory
CDC Millennium Ortigas	CDC Holdings Inc.	Pasig City	112
Grand Hyatt Residences	Federal Land	Taguig City	225
Trump Tower	Century Properties	Makati City	251
The Viridian at Greenhills	Ortigas & Co.	San Juan City	566
Shine Residences	SMDC	Pasig City	892
The Beacon - Tower 3	Geo Estate Dev. Corp.	Makati City	988
Grace Residences - Tower 3	SMDC	Taguig City	1,134
Breeze Residences	SMDC	Pasay City	2,080

Source: Santos Knight Frank Research



Source: Santos Knight Frank Research

BULLISH RETAIL ACTIVITIES RAMP UP EXPANSION

Retail | Young demographics to bolster active consumption

Business activities in the Philippine retail market was buoyant in the second quarter of the year, as consumer spending increased backed by the rising tourist arrivals and foreign remittances during the summer season. Higher level of salaries and flourishing businesses created and supported the growing consumer demand.

Expenditures for food and non-alcoholic beverages dominated the total household expenditure followed by housing utilities and transport costs. Spending on other non-essential goods is projected to increase in the short run, particularly spending on clothing and footwear, and personal health care.

Several retail malls in the Metro were opened targeting the huge demand generated from mixed-use developments. Moreover, the country's young demographics is expected to further push retail demand. Majority of the luxury consumption spending were by the millennials and they make up most of today's workforce.

Entry of luxury brands is very evident especially in the clothing and footwear industry. Nevertheless, openings in the food and beverages industry have been widely noticeable and constitute most of the demand coming from households.

Portfolio diversifications and expansions are still recurring trends in the retail industry. Some of the newer trends are the inclusion of more green areas, parks and recreational activity centers, public art museum or arts and crafts section, and al-fresco restaurants and other culinary concepts. Opening of homeware brands is a very popular emerging trend as homeware products are marketed as "must haves" to jump start your personal home space or office space.

Galleon Museum in SM Mall of Asia is an example of an innovative concept that is becoming a noticeable trend. The museum is expected to be finished and unveiled within the year. It will feature the rich history of global trade in the country and will occupy a gross floor area of more than 200,000 sqm, making SM Mall of Asia regain its title of being the largest mall in the Philippines.

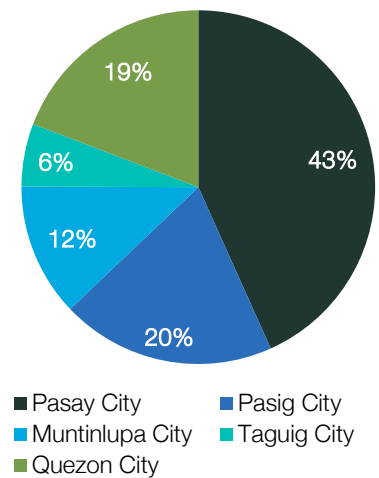
Robinsons Magnolia, the retail segment of the mixed-use project Magnolia Residences, will also be expanding its area, encouraging more family-oriented activities through an open-air green plaza, al-fresco dining and more food choices, additional cinemas, family amusement center, and an air-conditioned chapel. The expansion will also include a five-storey office segment and is expected to be completed by 2018.

Furthermore, the retail segment of the mixed-use development Vertis North in Quezon City has recently opened its doors last June 2017, adding additional retail spaces in the North Triangle area. The mall is regarded as the first millennial shopping complex and has a gross

leasable area of approximately 40,000 square meters. The mall features a brand-new retail concept known as Japan Town, Korean Town and Urban Turf that provide a mix of modern fashion, unique dining experience and innovative retail interactions. Retail brands such as H&M, Coffee Bean and Tea Leaf, Fossil, Philip Stein,

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FIGURE 3
Upcoming Retail Openings per Location



Source: Santos Knight Frank Research

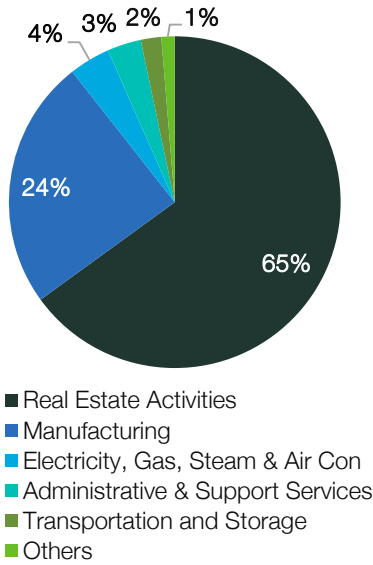


Source: Santos Knight Frank Research

INVESTMENT PLEDGES TO RAMP UP ECOZONE DEVELOPMENT

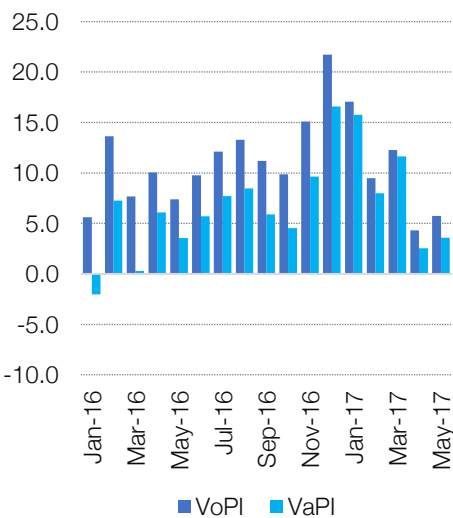
Industrial | Sector growth and positive outlook sustained

FIGURE 4
Total Approved Foreign Direct Investments by Industry



Source: Philippine Statistics Authority

FIGURE 5
Industrial Production Growth Rate (year-on-year)



Source: Philippine Statistics Authority

The Philippines continues to be one of the most attractive foreign investment destination among South East Asian countries. With the government's thrust of ramping up infrastructure projects, investor optimism is sustained, backed by strong macroeconomic fundamentals. Economic forecasts for the industrial market remain positive, attributed by the bullish behavior of foreign investors and the notable high influx of foreign investment pledges. With the current state of the economy and planned reforms, the business environment in the country becomes more conducive for investments.

At the start of the year 2017, total approved investments, amounting to more than PHP121.46 billion, increased by 21.82% compared to the first few months of the previous year. Investments in Real Estate Activities, amounting to PHP78.89 billion, continued to be one of the main drivers of growth in the industry, accounting for about 65% of the total approved investments. Moreover, pledges in the manufacturing industry amounted to about PHP29.67 billion. Both Real Estate and Manufacturing Investments doubled from the same period last year. Furthermore, Netherlands continued to be one of the top investing countries with about 27.2% of total foreign investment pledges. Netherlands was followed by Singapore and United Kingdom (UK), sharing 18.8% and 15.9% of the investments, respectively.

Value of Production Index (VaPI) in the manufacturing industry remained stable, posting exact growth of 3.6% as the same period of last year. Footwear and apparel, basic

metals and printing were still the major contributors to the positive increase in Value of Production. Moreover, growth in the Volume of Production Index (VoPI) was also evident, although at a slower pace, registering a 7.4% growth rate year-on-year. Majority of the production volume came from fabricated metal products, leather products, footwear and clothing apparels.

Further to this, investment inflows are projected towards Region 4 (CALABARZON) and National Capital Region (NCR) accounting for about 69.9% of the total approved investments. Other prospective locations for investment are Region 7 (Central Visayas) and Region 11 (Davao), due to the scarcity of industrial lots, factory buildings and warehouses available in the market. In general, the Economic Zones owned by the Philippine Economic Zone Authority (PEZA) have rental rates ranging from PHP19 per square meter per month to PHP27 per square meter per month.

In South Luzon, available industrial lots for sale, mostly measuring more than 8,000 square meters, range from PHP5,500 per square meter to PHP10,000 per square meter. Rental rates of industrial lots, on the other hand, range from PHP50 per square meter per month to PHP70 square meter per month. Moreover, rental rates of factory buildings range from PHP125 per square meter per month to PHP200 per square meter per month, varying depending on the economic zones' proximity to infrastructures.

A total of 366 economic zones are operating across the country. All of which are privately-owned.

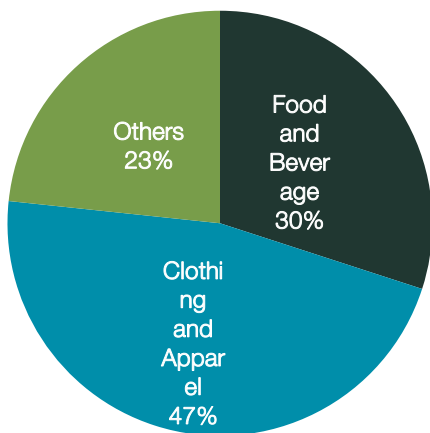
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Continued from Page 7 Retail

Mumuso and Base London are already open for business while other upcoming brands such as Uniqlo, Mango, Sunnies Café, Mama Lou's, Pandora, Own Days and Paper Moon are still anticipated.

Brisk take-up in retail spaces is observed as new entrants expand in different locations inside and outside of Metro Manila and is expected to reach at least 97% occupancy rate, considering that all other newly opened malls are already at full-operation. Majority of the retail space take-up was brought about by brands in the industries of food and beverages, clothing apparel and other consumer goods. About half of the recorded retail openings in malls were clothing apparel retailers while 30% of the total openings were under food and beverages including restaurants and coffee shops. The remaining percentages were openings from cosmetic brands, homeware and consumer electronics.

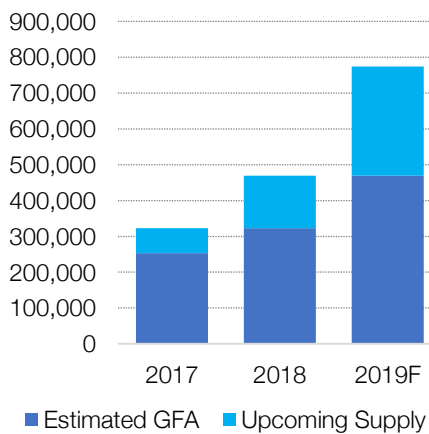
FIGURE 6
Upcoming Retail Openings per Location



Source: Santos Knight Frank Research

Metro Manila retail rents have been stable at an average of PHP1,527.11 per square meter per month, with minimal increases in the Bay area, Pasig City and Quezon City. An estimated Gross Floor Area (GFA) of more than 40,000 square meters from remaining retail mall turnover is still anticipated in the upcoming quarters. Moreover, a total upcoming supply of more than 500,000 square meters of GFA is expected to be delivered in the following years. The bullish behavior of consumers and developers is perceived to continue, backed by optimistic views relative to consumer demographics and macroeconomic fundamentals.

FIGURE 7
Upcoming Retail Supply*



*Cumulative value of upcoming retail supply since Q1 2017

Source: Santos Knight Frank Research

Continued from Page 8 Industrial

Typically, in one region, at least 2 public economic zones operate. Of the existing economic zones, only 4 economic zones are government-owned. These are located in Baguio, Cavite, Cebu and Pampanga. With the pressure coming from the influx of foreign investments and increasing business sentiments coming from partner countries, the government is ramping up the development and completion of economic zones through joint venture projects with local developers.

In addition, a national economic zone map is currently being prepared by the PEZA for easy reference of investors. The map will show available areas in the country conducive for economic zone development. This initiative aims to further entice investors to expand and put up businesses in the country. Furthermore, the government is intensifying efforts to complete key infrastructure projects inside and outside of Metro Manila that will improve accessibility to transportation and trade.

Investors continue to be confident and optimistic about the country's position, which is driven by the sustained economic growth momentum that shows no sign of slowing down anytime soon. Gross domestic Product (GDP) and other macroeconomic indicators remain within target and consistent with the current rosy business environment and anticipated improvements that will benefit the country's industrial sector.

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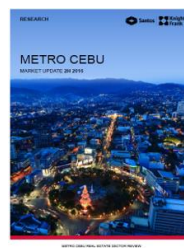
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