SUSTAINING THE GROWTH

SNAPSHOTS		
SECTOR	TREND	COMMENT
OFFICE	▲	Strong demand and tight supply continue to push rents up across the different districts of the metropolis
RESIDENTIAL	▲	Rents for luxury accommodations remains high yet stable even as demand increases
RETAIL	▲	Space remains tight amid expansions in some of the major shopping malls across the metropolis
INDUSTRIAL	▼	Activity continues to be concentrated in the Freeport Zones of Clark and Subic Bay

ECONOMIC INDICATORS	
GDP (Q1 2012)	6.4%
GNI (Q1 2012)	5.8%
Inflation (May 2012)	2.9%
91-Day T-Bill (Apr 2012)	2.49%
US$: PhP (May 2012)	PhP 42.85
Euro € : PhP (May 2012)	PhP 54.88
Phisix (May 31, 2012)	5,091.23
OFW Remittances (Jan-Mar 2012)	US$4.84B

The growth of the real estate industry in the country over the past few years is likely the fastest pace the country has ever experienced. This has raised concerns for both optimists and skeptics as to where this growth is eventually headed.

For the optimists, the economic situation has never been this good and that it stands to get better. With sound economic fundamentals and fiscal policies in place, this period presents an opportune time for both end-users and investors to acquire real property, hence, the need to build more. As a result, most of the major developers have increased their budget for capital expenditures for 2012.

For the skeptics, the over optimism could lead into a potential oversupply and result into a serious economic backlash. The lower income households, which is identified as the underserved segment and the primary target of these developers, may find difficulty in keeping up with the amortization. Even with competitive paying job opportunities abound, such as in the BPO sector, the number of qualified individuals are not sufficient to fill up the vacancy as reflected by a hiring rate of less than 10% as reported in some government sponsored job fairs.

Regardless of how these two parties view the situation the sustainability of the real estate sector necessitates corresponding developments in infrastructure for both utilities (i.e. energy, water and telecommunications) and transportation.

The main districts will constantly evolve as activity in these areas will continue to increase. These areas will experience a reshaping of its landscape with new and better structures and facilities. The excess activity will trickle down to the areas along its fringes causing these areas to emerge as new districts.

Not to be overlooked is the development of the country's tourist destinations which is one of the priority programs of the government. Promoting the country as one of the top tourist destinations in the world will generate much needed revenues not to mention the possibility of attracting investments from both foreign and local entities. Development of the facilities and accessibility to these areas are of prime importance for this to succeed.

(continued on page 7)

OFFICE MARKET

The office market continues to be on the rise with the different districts posting increases in rent and occupancy levels. BPO companies, or more properly referred to as O&O companies, continue to comprise the bulk of the space being leased out as the prevailing economic crisis in the western hemisphere has led into continuous increase in outsourcing and offshoring operations. This in turn has translated into the expansion of established O&O companies and the entry of new players in the market. Districts such as Fort Bonifacio, Quezon City and Alabang, where high concentrations of O&O activities are located, are benefiting from this.

Demand from traditional office space occupiers is also on the rise. Favorable economic conditions has prompted both multinational and local companies to expand their operations either by consolidating their spaces in the newly constructed buildings or taking up additional spaces in the older Grade A buildings.

MAKATI BUSINESS DISTRICT

The Makati Business District posted an average asking rent of PhP855/sqm/month for the first quarter of 2012 for Prime/Grade A office space. This is up from the PhP840/sqm/month reported from the previous quarter. Vacancy was at around 3.4% which is down from the previous quarter's figure of 4.5%.

The district is experiencing a high demand and low supply situation which is seen to continue even with the completion of the Zuellig building in the second half of 2012. The pressure exerted by newer and more affordable spaces in the different districts will do very little to dampen the Makati office market. Office space within the area will still be much in demand as it will still remain the central business district (CBD) of the country. Some members of the business community believe that the impending transfer of the Philippine Stock Exchange to Bonifacio Global City will have no effect on the current status of the CBD.

FORT BONIFACIO DISTRICT

A similar situation was noted in the Fort Bonifacio District. The average asking rent for the period was reported at PhP750/sqm/month which is up from the previous period of PhP700/sqm/month. Vacancy dropped to 2.84% from 4.16% even with around 40,000 square meters of newly opened space in the district.

The district remains a sought after location for both traditional and O&O office space occupiers. This is reflected by the dramatic increase in rents and the drop in vacancy during the period. Lower office rents along with facilities and amenities nearly comparable to that of the CBD has made the district an ideal location for some companies to set up their offices. A number of multinational and local companies have already consolidated their space within the district.

(continued on the next page)

BUSINESS DISTRICTS

Makati Business District		
Asking Rent*	PhP855	↑
Vacancy	3.4%	↓
Fort Bonifacio District		
Asking Rent*	PhP780	↑
Vacancy	2.8%	↓
Ortigas Business District		
Asking Rent*	PhP560	↑
Vacancy	3.7%	↓
Alabang Business District		
Asking Rent*	PhP550	↑
Vacancy	0.4%	↓
Quezon City Business District		
Asking Rent*	PhP 570	↑
Vacancy	2.7%	↑

** measured at PhP/sqm/month*

NOTES

Asking Rents
Rents posted by the landlords upon inquiry. Normally higher than the transacted rent or rent actually paid by the tenant.

Vacancy
The available office space for rent measured as a percentage of the total supply of rentable office space across a particular grade or classification.

Coverage
Selected buildings in the different districts. These buildings are normally classified as Prime or Grade A, however, this classification varies across the different districts and is highly subjective. The standards were formed with the office buildings within the Makati Business District as the basis. Aside from the difference in building configuration the distinction of the Makati business District as the central business district (CBD) was also considered in formulating these standards.

The Fort Bonifacio district will continue to be a popular location for companies to set up office. The proximity to the CBD with matching amenities and improvements offered at lower rates in the district will be the main factor in drawing office locators. Other factors to consider are the impending transfer of the Philippine Stock Exchange as well as the new upscale accommodations (i.e. residential and hotel) being constructed.

ORTIGAS BUSINESS DISTRICT

The Ortigas Business district is also riding on the strength of the office market. Though unseated as the next alternative to the CBD, it has retained its popularity with O&O and traditional office space occupiers. Having established its position in the market, the district continues to draw companies into its fold due to the lower rents being offered with minimal compromises on quality and amenities.

Average asking rent in the Ortigas Business District rose to PhP560/sqm/month from the PhP540/sqm/month reported from the previous quarter. Vacancy dropped to 3.7% from the previous quarter's figure of 5.7%. These give an indication of a strong demand for office space in the district.

ALABANG BUSINESS DISTRICT

The Alabang Business District is steadily on the move as well. The average asking rent for the period was reported at PhP550/sqm/month which is up from the previous period of PhP540/sqm/month. Vacancy dropped further to 0.5% from the 3.9% of the previous quarter notwithstanding the 17,000 square meters of newly opened space in the district.

The continuous growth of the O&O industry over the past few periods has spilled over into the district. The newly opened spaces were quickly taken up by O&O companies which is expected given that most of the buildings in the district are designed and fitted for their operations.

QUEZON CITY DISTRICT

A rental growth was noted in the Quezon City District during the period. The average asking rent for the period was reported at PhP570/sqm/month which is up from the previous period of PhP520/sqm/month. Unlike the rest of the districts, vacancy climbed slightly to 2.7% from the 2.3% vacancy reported during the previous period. This is most likely due to the consolidation of spaces by some of the O&O companies.

The office market in the district remains strong as rents continue to climb even as more space becomes available. The situation is somewhat similar to its neighbor business district in the south, Alabang, where O&O companies are inclined to set up office in the district given that most of the buildings in the district are designed and fitted for their operations.

OUTLOOK

The office market is seen to continue its steady growth during the coming periods. The demand for office space is expected to remain high given the foreseen growth in the O&O industry. Countries in the western hemisphere continue to suffer from the global economic backlash and is not seen to recover from it within the immediate future. Major companies in this area will continue to outsource some of their functions to cut down on costs and remain afloat. Some of these functions will eventually be offshored into O&O companies operating within the country.

With the improving economy, the consumption of goods and services is seen to increase. Expansionary movements may be taken by certain companies to capture and profit from this growth. This may trigger an increase in space requirements across the different districts for both O&O and traditional office space occupiers in the coming periods.

If the government proves successful in attracting more investors in the country we can expect greater demand for office space in the different districts as these investors are bound to take up space for their base of operations. So far the government seems on track towards achieving this through the reforms being implemented and the curbing of graft and corruption. This provides potential investors a sense of security for their investments as well as providing ease in doing business in the country.

If this keeps up the new supply expected to be available in the market within the year is seen to be quickly taken up. Office building developers will be hard pressed to keep up with the growing demand. In the interim we may see lower grade buildings to be retro-fitted to accommodate the unserviced demand.

RESIDENTIAL MARKET

There has been no let up in the residential market, which has the largest share of developments in the real estate market. Performance across the different segments, from luxury to affordable residential developments, remains strong riding on the country's economic performance and sound financial situation. Most of the major real estate developers have declared increased capital expenditures for 2012 which will be mainly allotted for the construction of residential projects.

The luxury market segment is benefitting from the continued influx of expatriates. Large multinational companies continue to bring in their people from their regional offices as they expand their operations in the country. This has been causing a strain in the already tight supply situation of luxury residential accommodations be it houses or condominiums. Rents for luxury condominiums have been pushed up to as high as PhP250,000 per month while some houses, in particular Forbes Park, are being rented for as high as PhP500,000 per month. Landlords though are not as aggressive in increasing rents despite the high demand and tight supply. Rents are considered high relative to the age of the units which are at least 10 years old. Add to this the pressure coming from the high end developments which are newly built, with comparable amenities lower rents.

New supply for the luxury condominium market will come by the second half of 2012 with the completion of the Raffles Residences in the CBD which will offer 220 units. Other projects currently under construction are Discovery Primea also in the CBD and Shangri-La at the Fort.

The high end condominium market is also in the upswing. Newly launched and ongoing projects have reported high take up rates with units priced at PhP160,000 to PhP200,000 per square meter. A large share of the total number of units floated were acquired for investment purposes mostly by repeat clients according to anecdotal information. The leasing market is proving to be a lucrative business given the demand from the growing expatriate community especially for units within the CBD and Fort Bonifacio District.

The lack of space in the metropolis has limited the residential developments to condominium projects. The strong preference to stay close to the place of work and study in the metropolis for the middle to lower income earning households has been addressed by these developers through these condominium projects.

The middle to lower income earning households comprise the largest segment of the market and is perceived to be underserved. Most of the capital expenditures for the year by developers will be allocated for the development of mid to affordable cost condominium

(continued on page 7)

LUXURY RESIDENTIAL CONDOMINIUM RENTS*

Makati Business District	PhP240,000 - PhP250,000	⬌
Fort Bonifacio District	PhP230,000 - PhP250,000	⬌
Rockwell Center	PhP210,000 - PhP230,000	⬌

** per month*

LUXURY RESIDENTIAL HOUSES RENTS*

Forbes Park	PhP350,000 - PhP500,000	⬌
Dasmariñas Village	PhP300,000 - PhP400,000	⬌
Urdaneta Village	PhP250,000 - PhP300,000	⬌
Bel-Air Village	PhP150,000 - PhP250,000	⬌

** per month*

HIGH END RESIDENTIAL CONDOMINIUM RENTS*

Legaspi Village		
1 Bedroom	PhP80,000	⬌
2 Bedroom	PhP120,000	⬌
3 Bedroom	PhP190,000	⬌
Salcedo Village		
1 Bedroom	PhP80,000	⬌
2 Bedroom	PhP120,000	⬌
3 Bedroom	PhP180,000	⬌
Apartment Ridge		
1 Bedroom	PhP50,000	⬌
2 Bedroom	PhP70,000	⬌
3 Bedroom	PhP120,000	⬌
Rockwell Center		
1 Bedroom	PhP80,000	⬌
2 Bedroom	PhP120,000	⬌
3 Bedroom	PhP190,000	⬌
Bonifacio Global City		
1 Bedroom	PhP80,000	⬌
2 Bedroom	PhP140,000	⬌
3 Bedroom	PhP190,000	⬌

** average rent per month*

RETAIL MARKET

The retail property market has also been one of the major movers of the industry over the past few years. The strong domestic consumption brought in part by increased remittances from overseas, the growing O&O industry and overall growth in employment have contributed positively to the sector.

The major shopping malls continue to post single digit vacancy rates as demand for space in these facilities remain strong. International brands in both the clothing and food industry have seen the potential of the Philippine market and have set up shop. Major shopping malls are usually used as an entry point for these international brands due to the high visibility and foot traffic that it generates. Not to be outdone are the emerging local brands which are also strongly competing for this space. These retail establishments are bent on grabbing a share of the increased spending that is going on in the market.

Rents have not significantly increased despite the high demand. Some of the mall operators report a nominal increase in rent which is due to the normal escalation in place.

Retail space continues to increase as this has become one of the features of newly constructed buildings in the metropolis. Many of the newly built buildings, be it office or residential, have allotted space for retail establishments which are usually placed in the ground floor. Some of these include convenience stores, food establishments and health and wellness facilities. Establishments found within these buildings are capitalizing on a captive market from the tenants or residents of the building.

The aggressiveness in the retail sector can also be seen in the opening of new supermarkets across the city especially within close proximity to residential areas. These supermarkets are either stand alone structures or an anchor tenant of a community center.

The growing population has created a market for these stand alone supermarkets and community centers. Developers have seen the need to provide a convenient way of bringing the goods and services closer to the residents. This spares the residence the inconvenience of travelling a long distance to just to secure a simple item. Retailers are also benefiting from this given the lower rents and the relatively high foot traffic generated.

The preference for the major shopping malls as a destination has not waned. As mentioned earlier, the increased spending in the market has more than likely increased patronage.

Some of the main shopping malls and centers are undergoing expansion to improve the facilities, provide better service and increase patronage. Such is the case with the Ayala Center Makati which is still in the middle of its redevelopment process.

More recently, the Alabang Town Center has opened its newly constructed wings which form part of the 33,000 square meter expansion. The Metro Department Store is still under construction but is likewise soon to open.

Other expansions underway is the Festival Supermall in Alabang. It is the first expansion undergone by the mall since its construction back in 1998. Once completed the mall will have an additional 80,000 square meters.

The most prominent mall under construction is the SM Aura which will be part of the mixed use Bonifacio Civic Center in the BGC. Once completed the mall will have close to 160,000 square meters of gross floor area.

INDUSTRIAL MARKET

The industrial market continues to be the underperforming segment of the real estate market. The continued slowdown of economies in the western hemisphere has caused a drop in the demand for processed goods such as electronic products and semi-conductors. This has caused some scaling down in the operations of some of the manufacturing / processing companies.

Power issues continue to hound the industrial market as well. High power costs (the 2nd highest in Asia next to Japan) and the lack of reliable supply have been the main deterrents towards the increase of investments in the market.

Even with the different deterrents present in the market, locators continue to come in the country as they see the potential upside in setting up operations in the country. However, the number of locators coming in is not enough to warrant an increase in rents given the amount of space available in the market.

The flooding in Thailand which lasted until early this year presented an opportunity to attract additional industrial locators in the country. The prolonged flooding caused disruptions in operations in some of the industrial parks. These disruptions resulted in production shortfalls which in turn resulted in global supply shortages as Thailand was one of the main suppliers.

Convincing the locators in Thailand who were affected by the floods to set up shop in the country should have been given more time and attention. Presenting them with alternative locations in the country that are less prone to disruptions due to natural calamities should have been aggressively pursued. The inability to capitalize on this opportunity shows an apparent lack of preparedness and development of the industrial property market.

As mentioned in the recent ADB Summit early this year, for the Philippines to sustain its economic growth it must continue to develop its agricultural and industrial capabilities to increase its exports. Reliance on domestic consumption will not be enough. This should provide enough motivation for both the government and private sector to find ways of growing the aforementioned capabilities.

The Freeport zones of Clark and Subic continue to be the main attraction for industrial locators. Aside from the prime industrial facilities present in both Freeport zones, the airport and seaport facilities provide a means of efficiently transporting both raw materials and processed goods to and from the industrial locators.

The ancillary facilities such as hotel, residential and retail present in both Freeport zones provide a complete array of services that will cater to the needs of both expatriates and local personnel. Having a sense that their needs will be provided for serves as added motivation for these locators to come in.

Both Freeport zones can expect great improvements once the upgrade in their airport facilities get completed. For the Diosdado Macapagal International Airport (DMIA) in Clark, talks have been ongoing for the construction of a new passenger terminal. As for the Subic airport, proposals have been sent to upgrade its facilities in order to attract more flights.

The industrial property market is not seen to improve significantly in the near future. Demand for exported goods is seen to remain down because of economic crisis in the US and the Eurozone. Export related industries is expected to decline which may cause a scaling down of operations or even complete shutdown of operations leading to more vacancies.

A bright spot, however, is the growing domestic consumption. Increased consumption of both locally produced and imported goods will require additional space for storage and handling. We can expect growth in the warehousing and logistics sector should this trend keeps up.

INDUSTRIAL PROPERTY

CLARK FREEPORT ZONE

Rental Rate
US$0.30/sqm/month (Main Zone Lot)
PhP5,500 - PhP25,000 /ha/month (Sub Zone Lot)
US$1.50 - US$5.00 /sqm/month (SFB)

SUBIC BAY FREEPORT ZONE

Rental Rate
US$0.40 - US$1.50 /sqm/month (Main Zone Lot)
PhP5,500 - PhP25,000 /ha/month (Sub Zone Lot)
US$2.00 - US$20.00 /sqm/month (SFB)

CALABARZON INDUSTRIAL PARKS

Selling Rate
PhP2,500 - PhP4,500 /sqm (Lot)

Rental Rate
PhP46 - PhP76 /sqm/month (Lot)
US$2.00 - US$6.00 /sqm/month (SFB)

SFB - standard factory buildings

Sustaining The Growth (from page 1)

All of this will necessitate additional requirements for utilities for it to operate properly. To complete the synergy of growth and expansion, these areas need to be linked through an efficient road network, transport and telecommunications system.

As a testament to sustain this growth, major conglomerates have diversified their portfolio by including investments in these sectors. To cite an example, two of the biggest conglomerates in the country, Metro Pacific Investments and San Miguel, have acquired substantial shareholdings in one of the country's largest power distribution companies, Meralco.

In the recent ADB summit, it was cited that the Philippines should invest more in development of infrastructure (e.g. roads, power, transportation,…) as this will improve services, promote more investments in the other sectors and eventually the overall growth of the country. Together with the reforms being instituted to eliminate graft and corruption, this will make the country more attractive to potential investors be they foreign or local.

Providing ease and security in doing business will be a strong motivation for investors to put their resources in the country. The Philippines has been cited as one of the emerging markets by some foreign market analysts. It is only appropriate that country lives up to this expectation.

The government's flagship program, the Public-Private Partnership (PPP) will do well in achieving these developments. In theory, giving both the government and the private sector a stake in these developments will put in place a form of check and balance system. This will ensure that both parties will keep up their end of the bargain and that these programs will be executed properly with no corners being cut.

The first project to be awarded under the PPP program is the SLEx-Daang Hari toll road which was awarded to Ayala Corporation. Other projects lined up under the PPP program are the NLEx-SLEx connector road, LRT 1 Extension from Baclaran to Bacoor, Cavite and the NAIA Expressway Project.

For all this to succeed, there must be the political will and perseverance to see things through. It will not be easy but the benefits later on will be well worth the time, effort and resources invested.

Residential Market (from page 4)

projects where the price ranges from PhP40,000 to PhP100,000 per square meter.

Favorable financing options are continuously being offered by developers which can be availed through the banks, Pag-IBIG or in-house financing. The prevailing low interest rates for housing loans coupled with creative housing packages has made it possible for a number of households to acquire these residential units.

Product unit launches for 2012 are expected to exceed the nearly 60,000 units launched in 2011. A large number of these units will be in the affordable cost segment in which one of the known major high end developers has recently entered into and is now aggressively taking part in.

Properties which have been on the selling block for a number of years have been acquired to be developed as condominium projects in this segment. Such properties, which were formerly for industrial use, can be seen in the southern area of the metropolis and are now being developed. Other reasonably priced properties which have strategic value have also been acquired by developers to be developed in the future.

Though this segment may be the largest in terms of potential clients, the capability of some of these clients to pay the amortization may pose some issues of concern. Developers should exercise some level of caution in handling this especially those operating in a smaller scale.

FEATURED PROPERTIES

ABOUT PINNACLE

Pinnacle Real Estate Consulting Services, Inc. (Formerly Capital Servicing Advisors Phils., Inc.) provides a full range of services to local and foreign investors, buyers, and real estate lenders.

A team of experienced professionals is dedicated to enhancing the value of client investments throughout the Philippines.

Pinnacle's primary business lines are real estate asset management and brokerage, real estate closing and advisory services, and non-performing loan asset management.

In the field of real estate management, Pinnacle is involved throughout the entire lifecycle of a property from acquisition to disposition.

To support the management of clients' NPL assets, Pinnacle employs seasoned loan asset managers that provide our clients with maximum flexibility, and this is backed up by our cutting-edge loan servicing platform.

Pinnacle also offers an array of pre and post closing services including due diligence, title consolidation, payment of property taxes, desktop appraisals, property inspections and custodianship, financing arrangement and referrals, and sales documentation.

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