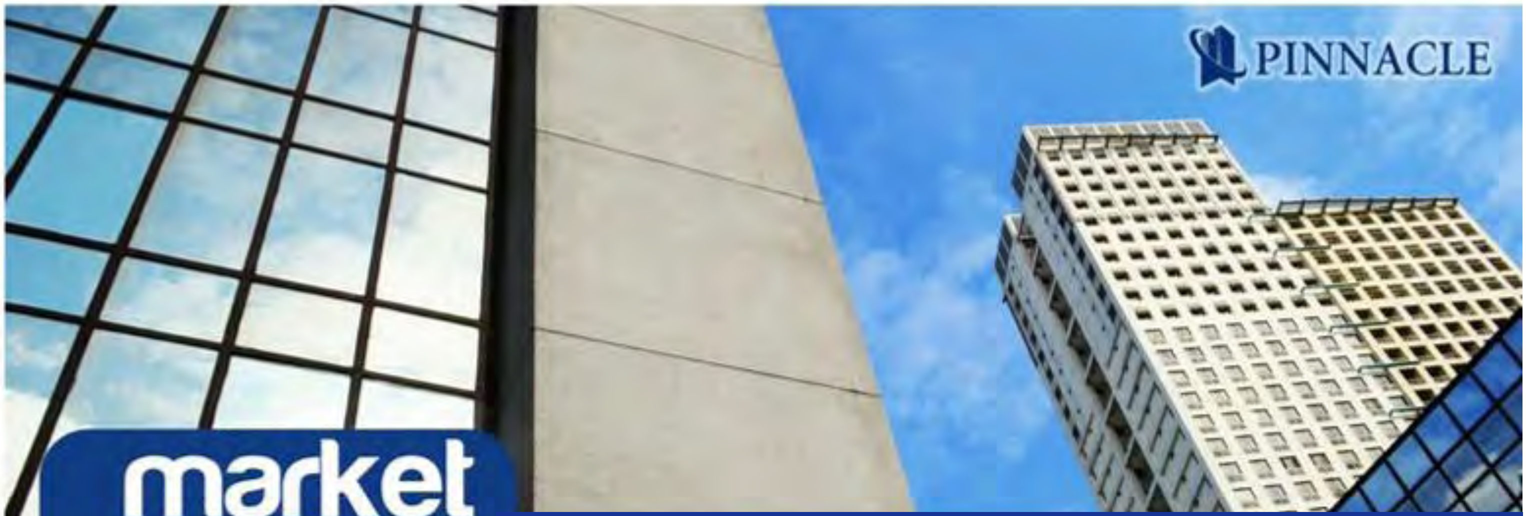

market insight

DECEMBER 2012

WHY BUY FORECLOSED PROPERTIES?

SNAPSHOTS		
SECTOR	TREND	COMMENT
OFFICE	▲	Strong demand persists with recent completions readily taken up
RESIDENTIAL	▲	Rents for luxury accommodations remains high yet stable even as demand increases
RETAIL	▲	Expansions steadily being completed and expected to be operational in time for the holidays
INDUSTRIAL	◀▶	Activity expected to pick up with new investments reported coming in

ECONOMIC INDICATORS	
GDP (Q3 2012)	7.1%
GNI (Q3 2012)	6.6%
Inflation (October 2012)	3.1%
91-Day T-Bill (October 2012)	0.59%
US$: PhP (November 2012)	PhP 41.12
Euro € : PhP (November 2012)	PhP 52.70
Phisix (November 29, 2012)	5,640.45
OFW Remittances (Jan-Sep 2012)	US$15.57B

Looking for the best value for money is one of the foremost considerations in acquiring property. There has not been a more opportune time in a very long while to make these acquisitions than at the present. Low interest rates, affordable payment schemes and a growing economy are some of the main contributing factors to this.

Several years back when the property sector and the economy were in the doldrums, the Special Purpose Vehicle (SPV) Act was passed to enable banks to sell their portfolio of nonperforming assets (i.e. foreclosed properties, et. al.) to stabilize their liquidity or money supply. Under the said law payments for the documentary stamp tax, capital gains tax and value-added tax were waived and registration/transfer fees usually collected in the sale or transfer of assets were reduced by 50%. On top of the incentives offered most of these properties were priced at a discount to further facilitate the sale. The underlying condition was that nonperforming assets were to be sold in bulk and consisted of both choice and not so choice assets.

A considerable number of these nonperforming assets were eventually disposed during the effectivity of the SPV Law until it completely lapsed in 2008. To date, even without the incentives provided by the SPV Law, there are still some potential good buys from the remaining assets.

The question we wish to address is "Why buy foreclosed properties?". There are several good reasons to buying foreclosed properties. In our opinion, those presented below are some of the common and more obvious advantages.

First off, foreclosed properties are normally sold at a discount. The lower price would be the main motivation of potential buyers to acquire the property. Given this, banks and other asset management companies would ideally dispose of these properties at the soonest possible time to maximize profitability from its sale. The longer they hold on to these properties the more losses they incur through holding costs (i.e. security, maintenance, taxes,…) and possible depreciation .

Secondly, there are some great finds in these foreclosed properties. If properly scrutinized plus factors can be realized in terms of location, condition or state of the

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OFFICE MARKET

The office market continues its strong push across the different districts posting increases in rent and occupancy levels. BPO companies continue to comprise the bulk of office space occupiers. The high demand among these companies has led to the resurgence of the “pre-leasing” market which took a hiatus a few years back.

Not to be outdone are the traditional office space occupiers. A few multinational companies were known to have taken up space in newly constructed buildings in both the CBD and the Fort Bonifacio District. Despite the transfer, inquiries on the vacated have been posted and will more than likely be taken up in a short period of time.

MAKATI BUSINESS DISTRICT

The Makati Business District posted an average asking rent of PhP845/sqm/month during the third quarter of 2012 for Prime/Grade A office space up from the PhP840/sqm/month reported from the previous quarter. Rents were pulled by the higher rates posted by the Zuellig Building, the first “Green Building” in the CBD.

Vacancy climbed to about 6.0% from 3.4%, likewise due to the Zuellig Building which added about 55,000 sqm of gross leasable area into the district. Even with the large addition of leasable area in the district, vacancy remained at single digit levels due to the relatively high take up of the newly completed space. Vacancy is expected to decrease in the coming months as interest in the Zuellig Building remains high even with its higher rents.

The soon to be completed office space in Glorietta 2 has been committed to a BPO company and is reported to start operations by next year. The scarcity of space within the CBD has made it cost effective to integrate office space within a retail space as these will complement each other. Occupants of the office space will at the same time be patrons of the shopping mall.

FORT BONIFACIO DISTRICT

The Fort Bonifacio District posted a similar result in terms of rent as the CBD. The average asking rent for the period was reported at PhP765/sqm/month which is up from the previous period of around PhP760/sqm/month. Vacancy, on the other hand, dropped to 2.0% from about 3.0% from the previous quarter.

The growing popularity of the Fort Bonifacio District as an office building location is exhibited by the continuous increase in rents and with the matching decline in vacancy. The

(continued on the next page)

BUSINESS DISTRICTS

Makati Business District		
Asking Rent*	PhP845	↑
Vacancy	6.0%	↑
Fort Bonifacio District		
Asking Rent*	PhP765	↑
Vacancy	2.0%	↓
Ortigas Business District		
Asking Rent*	PhP565	↑
Vacancy	7.6%	↑
Alabang Business District		
Asking Rent*	PhP600	↑
Vacancy	1.0%	↓
Quezon City Business District		
Asking Rent*	PhP 575	↑
Vacancy	1.0%	↓

** 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.

OFFICE MARKET *(continued from page 1)*

newly constructed space are readily taken up as well as any recently vacated space. Even some space still under construction are already covered by lease agreements as companies compete to secure space within the district.

The district is slowly approaching CBD levels in terms of leasable area and may eventually surpass the CBD given the large space in the district which remains undeveloped. In terms of prestige, the district may still be a way off from the CBD but a number of multinational and large corporations have transferred into the district with some setting up their corporate headquarters.

ORTIGAS BUSINESS DISTRICT

Average asking rent in the Ortigas Business District rose to PhP565/sqm/month from the PhP560/sqm/month reported from the previous quarter despite an increase in the vacancy. Vacancy climbed to 7.5% from the previous quarter's figure of 3.7% due to a major pullout in one of the bigger buildings in the district.

The continued increase in rent is an indication of a strong demand in the district. Considering this, the recently vacated space will more than likely be taken up in the immediate future.

ALABANG BUSINESS DISTRICT

The Alabang Business District is at near full capacity with vacancy less than 1%. The average asking rent in the district has increased to about PhP600/sqm/month up from the previous period of PhP550/sqm/month.

BPO companies continue to be the main office space occupiers in the district and is expected to be so given its configuration which makes it highly suitable for these types of company.

QUEZON CITY DISTRICT

Rents in the Quezon City District have remained relatively stable during the period. The average asking rent for the period remained at around PhP570/sqm/month as in the previous period.

Vacancy, likewise, remained at less than 1%. The same as in the previous period. The strong demand is continued to be fueled by the BPO sector and the lack of new supply is expected push rents even higher as no new office completions are expected within the immediate future.

OUTLOOK

The office market will remain bullish mainly due to the strong demand coming from the BPO sector. Those involved in the BPO industry belie the claim of reelected US President Barrack Obama of bringing offshored jobs back to the USA. Companies will still continue to offshore and outsource jobs as a means to stay afloat and that the recovery of the US Economy and the rest of Europe is not seen to happen anytime soon. This strengthens the likelihood that the buildings under construction across the different business districts across the metropolis will readily be taken up.

The strength of the office market has likewise had a positive effect on the other sectors of the real estate market, in particular the residential and retail markets. It can be seen in the different business districts that office building developments are complemented by the construction of new residential condominiums and hotels. Future occupants of these office buildings are expected to increase the demand for accommodation facilities hence the construction of new residential condominiums and hotels.

Similarly, retail and shopping facilities, in these areas are expected or have recently undergone some form of expansion or renovation. The additional traffic to be generated by the occupants of these office buildings is expected to add to the target clientele of the establishments within these facilities. As mentioned earlier, some developers have gone as far as integrating BPO space within their retail facilities such as in the case of Ayala with Glorietta, SM with Mall of Asia and Robinsons with Robinsons Otis just to name a few.

RESIDENTIAL MARKET

The residential market continues its strong push as new product launches continue in the different areas of the metropolis. A notable project launch during the period was the first of two towers of the Garden Towers by Ayala Land Premiere. Valued at around PhP3 billion to construct, the residential condominium project saw 33% of its 340 units being sold in just several days after its official launch last November 18, 2012. Total sales was valued at PhP2.1 billion as mentioned by Ayala Land officials during a press briefing.

Contrary to what some believe as a glut in the high end market, the recent launching of the Garden Tower would dispel this notion. Its sister project, the three tower Park Terraces which was launched in 2010, has 84% of its total units sold, with the first two towers almost completely sold. Likewise, The Suites at One Bonifacio High Street, also by Ayala Land, was launched in July of this year with its 298 units almost completely sold.

The high end market behaves differently from the rest of the residential segments as buyers in this segment traditionally have the funds on hand or have easy access to it. The acquisition of units is fairly straightforward in most cases and funding is much less of an issue as compared to those in the lower segments because of this.

It would be safe to surmise that buyers in this segment acquire their units for investment purposes given the relatively small size of the market. Ayala Land officials have also claimed that majority of their buyers acquire their units for investment purposes. This would seem like a worthwhile investment given the high demand and tight supply in the leasing market for these types of units especially with the growing expatriate population.

For the rest of the segments, the prevailing low interest rates and high liquidity in the financial market allows both developers and buyers access to financing for the construction and purchase of these residential units. From the developers standpoint, the availability of financing from the banks assures them easy access to funds needed to complete their undertaken residential projects as well as begin construction on new projects moving forward. This scenario likewise gives their projects a better likelihood of being sold as this would open their units for sale to a large market.

The continuous revenue stream will allow them to settle their obligations to their creditors as well as put them in a better position to undertake new projects. Sustaining the continuity of this build and sell cycle will allow the developers to control their costs and improve their profit margins without putting much of the burden on their buyers.

(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 continued to be a strong performer in the industry. This strong demand has pushed developers to build new shopping centers and retail outlets in different locations across the metropolis. In addition, several renovation and expansion projects in the different sites of the metropolis are being undertaken with some having been completed and expected to be operational in time for the Christmas shopping season. Even as the additional space becomes available, rents are not seen to go down anytime soon as these readily taken up.

In the Ayala Center Makati, portions of the Ayala Center Redevelopment project have been completed and are now open to the public. Opening this November was Glorietta 1, complete with its new facade and activity center. To follow by December will be the opening of Glorietta 2 which was severely damaged by an explosion several years back.

Some of the tenants from the old Glorietta have taken up space in their new home together with some new tenants as well. Most of the remaining spaces to be completed by December have been taken up and will be fully operational when they formally open to the public.

In the Alabang area, the 33,000 square meter mall expansion of the Alabang Town Center has been completed with the opening of the Metro Department Store and Supermarket. Most, if not all, of the newly completed space has been taken up with its tenants already operating their establishments.

In Quezon City, Robinsons Magnolia opened its doors to the public some time in August of this year. The mall is located in Aurora Boulevard and stands on the site of the old Magnolia Ice Cream House. It has a gross floor area of 108,000 square meters of which 42,000 square meters was offered up for lease to various tenants.

Traditional shopping centers such as the Binondo-Divisoria area is undergoing some major facelift. Development in the area is being spearheaded by developer Megaworld with the City Place and Lucky Chinatown Mall in Binondo and Prime Orion with the Tutuban Mall Redevelopment. Both developers want to recreate the area to be a total shopping destination wherein great bargains and luxury items can be acquired and restore some of its lost glory as the premiere shopping destination.

INDUSTRIAL MARKET

The industrial market is showing some bright spots with the continuous improvement in the economy. The new jobs being offered has led to the growth of the consumer population which in turn has led to an increase in the demand of manufactured products.

To capitalize on this some manufacturers have constructed new and larger manufacturing plants with upgraded facilities. One such locator is Suzuki Philippines as it transferred its motorcycle manufacturing operations from its old plant in Pasig to its new PhP1 billion plant in Carmelray Industrial Park in Canlubang, Laguna.

The same company announced plans of opening a car manufacturing facility beside the motorcycle plant. However no actual details regarding this have yet been disclosed.

Three new manufacturing plants were recently opened in the First Philippines Industrial Plant (FPIP) in Sto. Tomas, Batangas. On the FPIP website, the companies that opened their manufacturing plants in FPIP were B/E Aerospace, Nestle Philippines and Murata Manufacturing Co.

The manufacturing plant of B/E Aerospace, a leading manufacturer of aircraft passenger interior products, is its first outside of US and Europe. At an estimated cost of PhP2 billion, the plant has 25,000 sqm of floor area situated on a 63,000 sqm lot.

Nestle Philippines, one of the country's leading food and beverage companies, manufacturing plant in FPIP is its fifth in the country. The PhP5 billion plant has a floor area of 44,000 sqm situated on a 270,000 sqm lot. The facility will produce the popular Coffee Mate creamer and later on Bear Brand milk.

Murata Manufacturing Co., a manufacturer of components for smart gadgets and appliances, opened its biggest manufacturing plant in Asia in FPIP. At an estimated cost of PhP3 billion, the plant has an area of 37,600 sqm situated on a 228,000 sqm lot. Plans of doubling the plant's size by 2013 was disclosed by company officials during its inauguration.

Three other companies are also constructing their manufacturing plants in FPIP. These are Canon Inc., Brother Industries Ltd. and Sonion, a hearing aid manufacturer.

Reports of rising labor costs and other incentive related issues in China are leading some Korean manufacturers to seriously consider relocating their manufacturing plants in the country. These companies are expected to have very little difficulty in this transition as they already have extensive experiences with working in the Philippines and have established communities across

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

different parts of the country. In fact, one of the biggest plants in the country is the shipbuilding facility of Korea's Hanjin Heavy Industries with an estimated cost of about US$2 billion.

The Philippine Export Zone Authority (PEZA) has recently stepped up its activities to attract more foreign investors to set up their industrial and manufacturing facilities within the country. They foresee more foreign investments coming into the country because of the ease in doing business in the country brought about by the governments efforts in cracking down graft and corruption. At the same time, industrial park operators are doing their part in this by increasing the area of their industrial estates to accommodate this expected influx of investments.

Several major industrial estates south of the metropolis have been reported increasing their total land area. This is in anticipation of the reported expansion plans of their existing locators as well as to accommodate new locators into these facilities.

Why buy foreclosed properties? (from page 1)

property and its potential for development among others. These factors may vary according to the buyer's needs and perception. Some buyers may see these factors outright while some may need further convincing from the seller or additional advice from a third party such as a real estate services company.

In some instances, some of these properties may even be considered brand new especially if the construction of the foreclosed property was just recently completed. The foreclosed property may also look and feel like it is brand new if the previous owner was very meticulous in its care. This may be unfortunate for the previous owner but for the benefit of the current buyer. As the saying goes, "Another man's loss is another man's gain."

Lastly, buying foreclosed properties reduces the nonperforming loans (NPL) portfolio of the bank thereby increasing its liquidity. This additional liquidity can be tapped to finance other projects such as property developments, businesses or the acquisition of a new house, a new car as well as other goods and services.

All told, buying foreclosed properties is beneficial to both buyers and sellers. It can provide the best value option for the buyer and at the same time contribute to the strengthening the banking system and the economy.

As a disclaimer, we would like to point out that we are not saying that foreclosed properties are better than non foreclosed properties or even the other way around. In the same way that we are not saying that previously owned properties are better than brand new properties. We are merely stating that there are advantages to buying foreclosed properties.

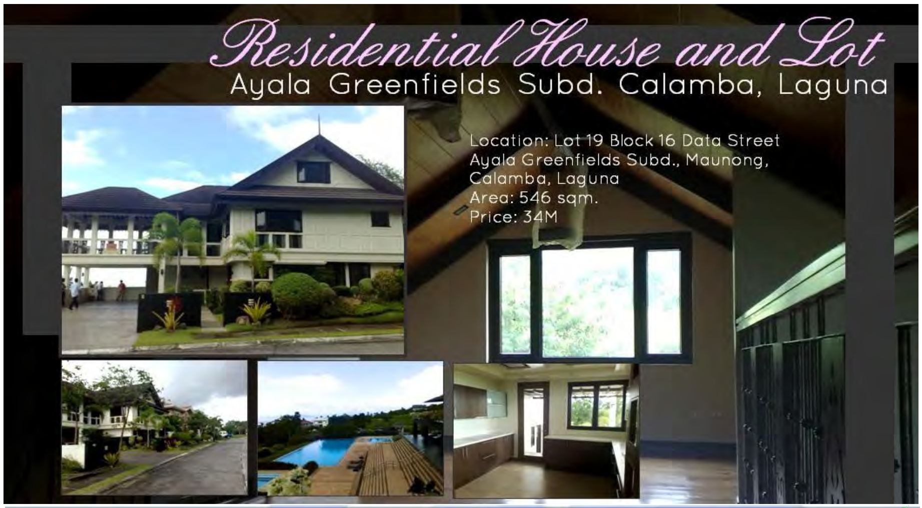
In the end, it is the buyer who will decide on what to buy from the different options presented him, whether it be a foreclosed or brand new property. What is important is that the buyer should be properly informed regarding these options. It is hoped that his decision will lead him to buy what he knows and feels would be most beneficial to him whether it be measured in terms of monetary or other preferential values.

RESIDENTIAL MARKET *(continued from page 4)*

On the side of the buyer, access to financing will allow them a better chance of acquiring a residential unit. This would be most advantageous to buyers coming from the lower income segment who have less flexibility in their expenses.

Banking officials, some economists and real estate practitioners don't see a property bubble coming anytime soon even with the continued residential project launchings. According to them, most of the project launches are in the underserved affordable housing segment which has a large market base. Add to the fact that government housing officials and developers have maintained that there is still a substantial housing backlog that needs to be served and that this still exceeds the current project launches in the market. With this in mind, most major property developers have announced major project launches can be expected in the coming year.

The Bangko Sentral ng Pilipinas (BSP) in August expanded the definition of real estate exposure to include not just direct loans to property firms but also investments in their securities and direct loans to socialized and low-cost developments. This expanded definition further tightened the restrictions of the BSP regulation setting the cap on the banks real estate exposure to 20% of its total loan portfolio. Banks were given until before the end of the year to submit their reports on this to the BSP. Once fully complied with, the BSP expects to draw a good picture of the total exposure of the banking system on the real estate industry. This is envisioned to be an early warning mechanism against the potential occurrence of a property bubble and an aid for the BSP in taking the proper course of action to prevent this.



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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