GO, GROW AND GLOW

The Philippine economy has been going from strength to strength, and will continue to grow. Likewise, there is no stopping with the growth of the real estate industry. The demand for office space by the Business Process Outsourcing (BPO) industry shall continue to glow even with the anxiety over the protectionist policy of President Donald Trump. Ultimately, business decision to outsource service may be more efficient as compared to outsourcing manufacturing that may face additional tax backlash from the US Federal Government. The consensus is that when US companies outsource the service component, Philippines remains to be on top of their list. Demand for housing and residential products has not been adequately served due to the ever-increasing population. Demand for commercial-retail and hotel has been underserved as well. Local and foreign manufacturers have been looking for suitable industrial spaces as well. With this kind of growth, a lot of companies will continue to glow to serve these various real estate demands.

MACROECONOMY

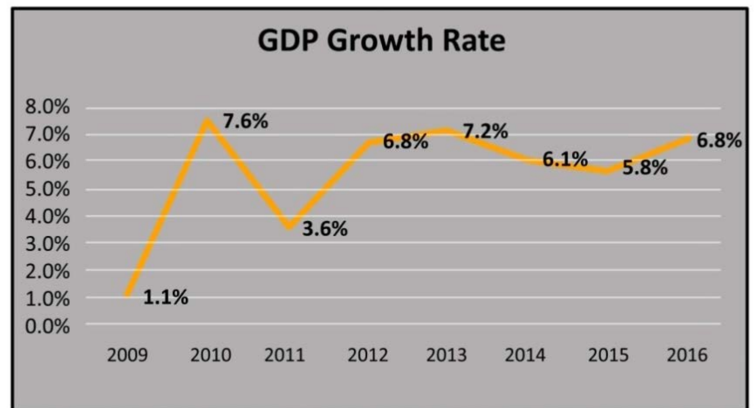
The Philippine gross domestic product (GDP) grew by 6.8% for the entire 2016. This is an expected increase due to election-related spending during the year as compared to only 5.8% growth in 2015, which was a year prior to the national elections and most people were on wait-and-see mode. While the GDP for the first quarter of 2017 is yet to be released, the National Economic and Development Authority (NEDA) are projecting 7% growth, and the annual target is pegged between 6.5-7.5%.

The Bangko Sentral ng Pilipinas (BSP) figures show that the net foreign direct investment (FDI) has been steadily growing in the past five years. The net FDI reached over US$ 5 billion in 2014 and 2015, with a slight decrease in 2015 due probably to the wait-and-see attitude of foreign investors prior to the national elections. By 2016 when the election-related uncertainty has been resolved, total net FDI reached US$ 7.933 billion, which is 38.6% higher compared to

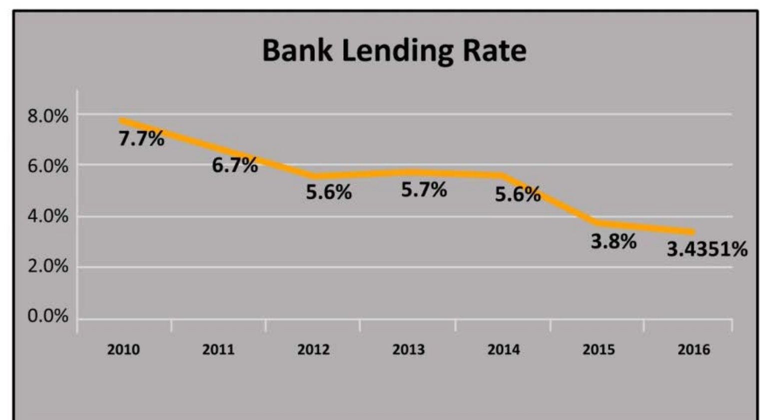
the total net investments in 2015. These figures do not include investments to business process outsourcing (BPO) industry.

Based on latest BSP statistics, the average bank lending rate from April 17 to 21, 2016 is still a low 3.4947% as compared to 3.4351% towards the end of 2016, even with the slight uptick. The average Philippine Peso to US Dollar exchange for the entire 2016 is at Php 47.4925, as compared to the average of Php 45.5028 for 2015. Everyone knows that the US Dollar has been appreciating in recent months, breaching the Php 50-barrier, and has been trading at a monthly average of Php 49.8625 in April of this year. This is not necessarily a bad thing, since Filipino products would be more attractive when Philippine Peso depreciates. The most vital import that would pose a concern for a strengthening dollar is the price of gasoline, which is still far from the peak of Php 60-to-a-liter of premium gasoline at the height of the Middle East wars. Thus, bank interest rates and foreign exchange are still very stable.

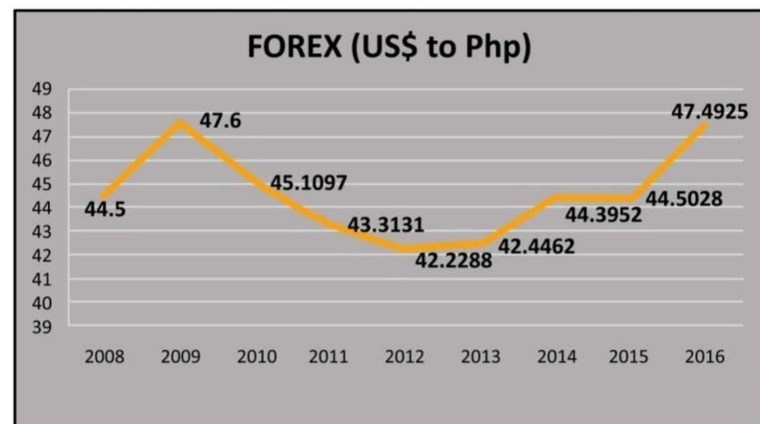
Overseas Filipino remittances have been increasing steadily as well. Total remittances for 2016 breached the US$ 26 billion-mark at US$26.9 billion as compared to US$25.8 billion in 2015, or an increase of 4.4%. This steady overseas Filipino remittances comprise approximately 10% of the economy. Latest figures show that as of February 2017, remittances are at US$ 4.34 billion, which is on track to breach the US$ 26 billion-mark again.



Source: Philippine Statistics Authority (PSA)

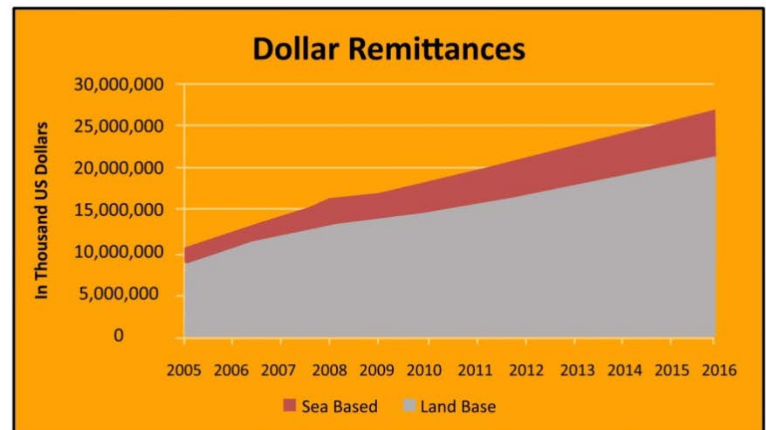


Source: Bangko Sentral ng Pilipinas (BSP)



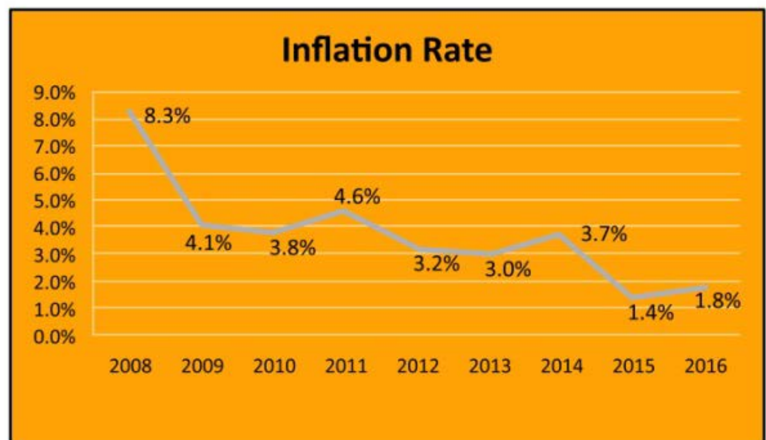
Source: Bangko Sentral ng Pilipinas (BSP)

Inflation rate for the entire 2016 inched up to 1.8% compared to 1.4% in 2015. This low-inflation regime has been criticized as low-level spending from the government, businesses and even consumers; again related to the wait-and-see attitude prior to the national elections. As of April 2017, the monthly average is at 3.4%, which is hovering around the target range of 2-3% of Bangko Sentral ng Pilipinas. This substantial increase in inflation is a clear sign that the government, businesses and consumers are now spending more that would in turn lead to economic growth.

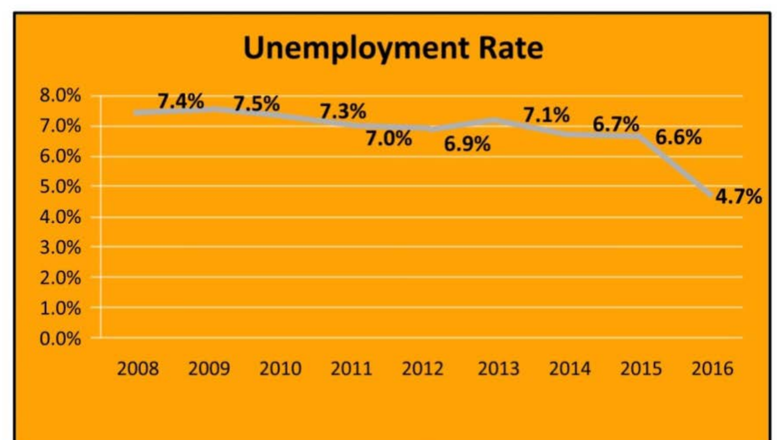


Source: Bangko Sentral ng Pilipinas (BSP)

Based on Department of Tourism statistics, the total visitor arrivals for 2016 reached 5.97 million, slightly missing the target of 6 million tourists. Nonetheless, this total arrival is higher by 11.31% from the 2015 total tourist arrivals. In terms of revenue based on visitor receipts, tourism activities for 2016 generated earnings amounting to Php 230.13 billon, which is 1.11% growth from Php 227.62 billion in 2015. The six-million mark is still targeted this year. For the first two months of 2017, a total of 1,210,817 visitors arrived in the Philippines. This total of visitor arrivals is 10.88% higher than the accumulated 1,091,983 arrivals for the same period last year, and is on track to reach six million visitor arrivals for 2017. In terms of revenue, January to February visitors generated an amount of Php 40.08 billion this year, as compared to Php 49.43 billion for the same period last year, or a decline of 18.92%. This means that while there is an increase of almost 11% in arrivals, they are spending less, at least during the first two months of the year.



Source: Bangko Sentral ng Pilipinas (BSP)



Source: Philippine Statistics Authority (PSA)

The unemployment rate is a lower 4.7% towards the end of 2016, based on the labor survey in October 2016 as compared

to 6.6% by end of 2015. By January 2017, however, the latest labor survey pegs the unemployment rate to 6.6%. While there is a seasonal fluctuation, it is clear that the business activities has been absorbing the ever-increasing number of graduates per year. Even in construction, some developers have experienced lack of skilled laborers in the past three quarters to fast track construction and delivery of real estate projects.

All of these macroeconomic indicators generally point to a strong Philippine economy. Even with the usual politicking and even harsh criticism against the straight-talking President Rodrigo Duterte, it is clear where the economy is going--- it shall continue to grow. It is equally important to see where the top real estate developers are going with these economic fundamentals.

GROW AND GLOW

The Ayala Land Group's consolidated revenues reached Php 124.6 billion, 16% higher year-on-year due to the stable growth of its property development business, as well as the steady performance of its leasing portfolio. The Group posted a net income of Php 20.9 billion in 2016, 19% higher than the previous year. For 2017, the Ayala Land Group intends to introduce to the market approximately Php 100 billion worth of fresh property inventory, or an increase of 64% from 2016. With the sale of over 19,000 units last year, the Group feels its inventory is "a bit on the low side." In addition, the Group is expecting the highest contribution this year would come from the Alveo brand, which would effectively dislodge the Ayala Land Premier brand as the "Group's crown jewel." This is mainly due to aggressive launches in recent years. For 2017, the Alveo brand will launch Php 40 billion worth of inventory consisting of 16 new projects with over 5,000 residential and office units.

The SM group grew its operating income by 12% to Php 35.3 billion in 2016, and its consolidated revenues by 12% to Php 79.8 billion. As expected, the recurring income of Php 23.8 billion last year continues to shine, which is the largest contributor to SM Group's success. The Group ended last year with 60 shopping malls in the Philippines. For 2017, the SM Group intends to open at least four new malls in the Philippines with an estimated combined 300,000 sqms of additional shopping space. In terms of ready for occupancy (RFO) inventory, the Group's available units went down by 34% to 2,374 units in 2016 from 3,617 units in 2015. For 2017, SM Group plans to launch 15,000 to 18,000 residential units, consisting of high-rise, mid-rise and horizontal house and lot developments.

The Megaworld Group has been touted as the biggest lessor of office spaces and urban township developer. The Group grew its net income by 12% in 2016 to Php 11.63-billion (net of P82-million non-recurring gain) as compared to Php 10.39-billion (net of P181-million non-recurring gain) in 2015. The Group's sustained double-digit growth has been attributed to stronger rental revenues that soared by 15% in 2016 to Php 10.01-billion from Php 8.73-billion in 2015, as well as to the Megaworld Group's efficient cost management in operations.

Vista Land Group posted an 11% net income growth for the nine months of 2016 to Php 6.4 billion from Php 5.8 billion in the same

period in 2015. Consolidated revenues for the same period are also up by 8% at Php 24.0 billion in 2016 from Php 22.3 billion for the same period in 2015. The Group now has 17 commercial assets in its portfolio and is present in 97 cities and municipalities around the Philippines. Vista Land is looking to open at least 3 more new areas to grow its glowing presence to a hundred localities across the country. Its Camella Brand is typically the first national brand to open up in tertiary localities. Vista Land Group has launched Php 17 billion worth of projects in the past quarters and will also build its first condominium project in Boracay Island.

Robinsons Land Group grew its net income for fiscal year 2016 by 7.9% to Php 6.15 billion from the same period a year ago, due to higher revenues from malls and offices as well as residential sales. Its total gross revenues amounted to Php 22.51 billion for the fiscal year 2016, an increase of 14.2% from Php 19.71 billion total gross revenues for fiscal year 2015. The fastest growing business is the rental from office buildings division that grew by 30% to Php 2.91 billion from Php 2.24 billion over the same period last year, mainly due to contribution from new office developments completed in over the past three years. In terms of weight, Robinsons Land's commercial center unit accounted for Php 9.96 billion of the real estate revenues for the fiscal year 2016, an increase of 9.4% from Php 9.10 billion the previous year due to opening of new malls in Cebu City, Tagum in Davao, General Trias in Cavite, and Jaro in Iloilo. Like the SM Group, Robinsons malls are

SNAPSHOT

SECTOR	TREND	COMMENT
OFFICE	↑	BPOs demand for office results continues to be strong resulting to high occupancy levels and stable rents. Pre-selling of office spaces is likewise active.
RESIDENTIAL	↔	Demand for residential products has been steady. Metro Manila fringe areas are now explored to serve this demand; delays in turning over of new buildings also due to shortage in skilled laborers; competitive prices although still slightly increasing. Investment-buyers are now testing the rental market.
RETAIL	↑	Stable demand from consumers who love "malling" and shopping; further expansion of the big players; proliferation of different retail platforms
HOTEL & GAMING	↔	Diversifying supply and attraction; increasing tourist arrivals and tourist spending.
INDUSTRIAL	↑	Increasing demand for industrial spaces; steady accreditation of economic zones.

generating enviable recurring income every year. Its hotel business has been growing as well, and has been jointly marketed with the other companies of JG Summit conglomerate, such as the Cebu Pacific Airlines. Its hotels division generated gross revenues of Php 1.81 billion in 2016, as compared to Php 1.75 billion in 2015 for a growth of 3.5%.

Filinvest Land Group reported a net income for the full-year 2016 of Php 5.35 billion, up by 5% as compared to its 2015 performance. In terms of revenue, the consolidated performance reached Php 19.5 billion, likewise up by 7% to the same period in 2015. The Group's biggest revenue growth came from its leasing business that reached Php 3.38 billion, or an increase of 15%. The Group now operates 21 office buildings totaling 312,000 sqm of gross leasable area, a 50% percent growth in the last two years. Apart from the leasing business, it will continue to build up its residential business, and intends to invest another Php 5 billion in the next three years in Mindanao as it expands its Futura Homes economic housing and Spatial Medium-Rise Building (MRB) affordable condominium portfolios. It recently launched residential projects in Metro Manila, Cavite, Rizal, Bulacan, Bacolod, Iloilo and other key locations last year. At present, thhe Group has developed more than 2,500 hectares of land and sold more than 160,000 housing units. To increase its landbank, the Group together with its parent company Filinvest Development Corp. (FDC) have signed a lease agreement with Clark Development Corp. (CDC) to develop, manage and operate the 200-hectare Clark Mimosa estate for a term of 50 years, renewable for another 25 years.

There is no doubt that the top developers have been growing and are committed to expand their market coverage, whether in terms of market segment depth or in terms of geographical breadth. It can be gleaned from their performances that they are glowing with different competitive advantages. To name a few, the size of Ayala Land Group is still massive and the depth of the segments it serves is unparalleled; the recurring income of SM Group has been an open secret but cannot be duplicated overnight; and Megaworld is enjoying as the biggest BPO-office space landlord. While all of the top developers have been raking profits from sales, especially residential products, they have been transitioning to ramping up their recurring income from rentals as well.

OFFICE MARKET

All of the major business districts in Metro Manila comprise approximately eight million square meters of Grade A office building or better (handful of Prime Grade A buildings in Makati CBD). While the office stock of Grade A and Prime Grade A office stock seems high, it is important to note that overall vacancy across these business districts is estimated at 2%, even with the operation of new buildings. Most of the buildings "coming online" are pre-leased, with limited office space available for lease.

The office market is still a landlord's market, and given the very high occupancy, rents have been increasing and albeit slightly in recent months. While the general preference are the BGC and Makati CBDs, rent-conscious companies, especially for their secondary offices and expansions, BPO companies would not mind going to other

CBDs for the lower rent, but more importatnly, to tap the labor market in a different area. Rents in Makati Central Business District (CBD) generally held up, where Premium Grade A buildings have a weighted average of Php 1,400 per sqm per month, Grade A buildings have a weighted average rent of Php 930 per sqm per month, and for Grade B&C Buildings, the weighted average is Php 720 per sqm per month.

New stock of office buildings were opened these past months to serve the pent up demand. While the take-up is strong, overall rents in other CBDs are generally unchanged in the last quarter. The weighted average rent in BGC is Php 930 per sqm per month, again at par with the Grade A buildings in Makati CBD. The average rent of Grade A office buildings in Ortigas is still holding at Php 660 per sqm per month, while in Alabang CBD it is also unchanged at Php 670 per sqm per month. In the Bay Area business district, there is a slight uptick in the weighted average rent to Php 680 per sqm per month. Likewise, Quezon City office rents slightly increased to a weighted average of Php 700 per sqm per month, due to newer buildings.

Selling of office spaces is steadily growing. The selling prices of new buildings in Makati and BGC business districts are over Php 200,000 per square meter. Makati CBD has a sizeable number of not so new buildings that are attractive to buyers. Premium Grade A buildings are generating capital values of Php 180,000 per square meter. The estimated capital values of Makati Grade A buildings is at an average of Php 120,000 per square meters.

RESIDENTIAL MARKET

Pinnacle Research estimates that there are a total of 210,000 units in Metro Manila as of the first quarter of 2017. Approximately 44% of the condominium developments are high-end (priced over Php 7 million per unit), 37% are middle mid-market; and 19% are lower mid-market (priced less than Php 3 million per unit). With the approval of vertical socialized housing and increase of economic housing price ceiling to Php 1.7 million, the lower mid-market and economic segments are expected to grow in the coming quarters.

Makati and BGC business districts dominate the high-end residential products, especially those units for leasing due to the concentration of expatriates and local executives. Luxury condominium units command the highest rents that hover at around at Php 1,000 per square meter per month, or Php 300,000 per month-level for big units of 300 sqm-cut. A handful of units in Rockwell, Makati and BGC even reached the Php 1,100 per sqm-rent. The typical rental range for luxury two-bedroom and three-bedroom units is between Php 120,000 to Php 250,000 depending on the size, location and furnishing. For the luxury and high-end segment, there are limited choices for rent.

RETAIL MARKET

Top commercial-retail developers are ever-increasing their retail platforms and products. Pinnacle Research monitored that the SM Group is operating 60 shopping malls in the Philippines (for a total of 7.7 million sqm) and seven in China (1.3 million sqm gross floor area), while the Robinsons

Group has 42 malls. The Cosco/Puregold Group is operating a total of 329 stores nationwide comprising of 277 Puregold stores (mixed sizes), 12 S&R membership shopping warehouse, 23 S&R New York Style QSR, nine NE Bodega Supermarkets and eight Budgetlane Supermarkets. The smaller platforms like SM Hypermarket, Savemore, Robinsons Superstores, convenience stores, and many more are mushrooming all over the place. Still, commercial mall rents have been very stable, and this property segment is still a landlord's market. The blended average rent for commercial-mall space is estimated at Php 1,200 per square meter per month.

HOTEL AND GAMING MARKET

Pinnacle Research estimates that there are more than 20,000 deluxe hotel rooms in Metro Manila. More importantly, Metro Manila landscape has been seeing more foreign brands like the recent opening of Conrad Hotel in the SM Mall of Asia complex as operated by the Hilton Group and The Okada Manila of the Tiger Resort, Leisure and Entertainment Inc.

In addition, top developers are beefing up their local brands, whether they have foreign brand partners or not. The Robinsons Land Group has been expanding its Go Hotel operations. Ayala Land Group is rolling out its Seda brand. The Vista Land Group intends to open six hotels under the Mella Brand. Even the second tier Eurotower Group has been ramping up its operations of the Eurotel and Sogo branches; and even blend residential condominium project in the hotel mix like the Vivaldi Cubao in Araneta Center.

The government has been focused in generating arrivals by hosting international events like the Asia-Pacific Economic Cooperation (APEC) and Association of South East Asian Nations (ASEAN) official meetings. In addition, the Department of Tourism (DOT) and its attached agency the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) have been busy promoting Philippine tourism and ancillary infrastructures. With the BIR Revenue Regulations No. 7-2016 spelling out the fiscal incentives that can be given to firms operating inside tourism enterprise zones (TEZs) under the Tourism Act of 2009, this is expected that more hotel, gaming and leisure products will be offered around the Philippines.

INDUSTRIAL MARKET

Pinnacle Research monitored an increased in the number of operating economic zones as reported Philippine Economic Zone Authority (PEZA) website. The operating economic zones are: 73 Manufacturing Economic Zones, 243 Information Technology Parks/Centers, 21 Agro-Industrial Economic Zones, 19 Tourism Economic Zones, and two Medical Tourism Parks/Centers, or a total of 358 economic zones. There are no changes in the number of economic zones being developed: 29 Manufacturing Economic Zones, 104 Information Technology Parks/Centers, 6 Agro-Industrial Economic Zones, and 6 Tourism Economic Zones, or a total of 145 economic zones being developed. Since industrial spaces are typically sprawling, average lease on land of selected zones ranges between Php 55-70 per sqm per month, while average lease of selected factory spaces is Php 190 per sqm per month.

GLOWING

The big players will always maximize their competitive advantage to continue to shine in this high growth real estate industry. With increasing demand for office, residential, commercial-retail, hotel, and industrial products, real estate developers are forecasting growth and there are various ways of achieving that. Some markets are very competitive like the Metro Manila and Metro Cebu residential market, and there is a strong drive for efficiency of office, mall and hotel operations. What is interesting to note is that even the top developers are not satisfied in just doing "more of the same" but are bold enough to offer new products and product mix in the market. More importantly, small and medium size real estate developers have prospects of filling up clear gaps in the market, provided they do their due diligence and avoid competing directly with the big players. In short, there is an opportunity for everyone to shine under the sun.

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Contact Us

Makati Office:
Unit E-1 Garden Level, Corinthian Plaza Building, Paseo De Roxas cor Legaspi St., Makati City
Telephone: (02) 859-1000 Fax: (02) 859-1088 Email: sales@pinnacle.ph

Cebu Regional Office:
2F VCFI Bldg., Archbishop Reyes Ave. corner Molave St. Brgy. Camputhaw, Cebu City
Telephone: (032) 416-4010 Email: cebu@pinnacle.ph