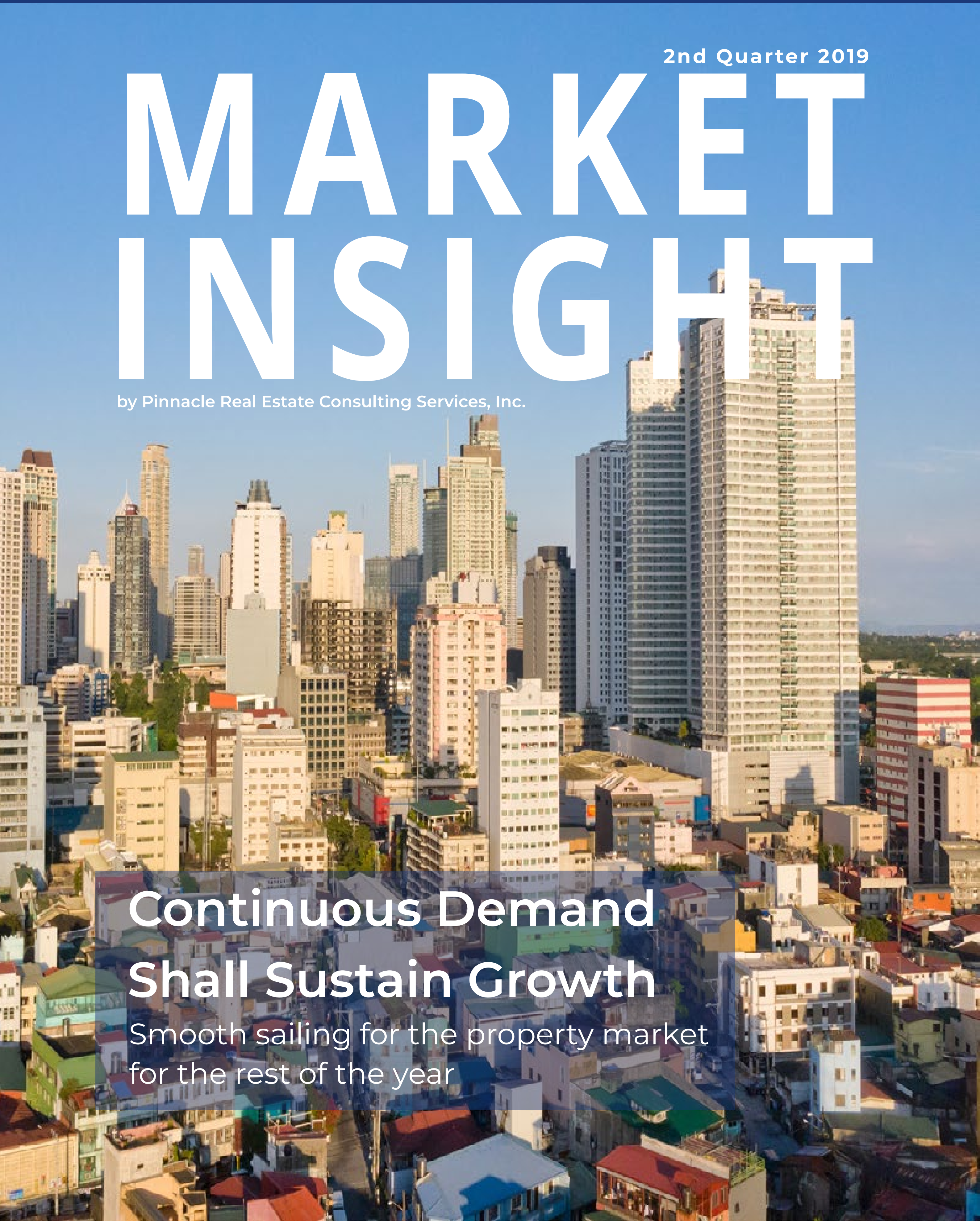
2nd Quarter 2019

MARKET INSIGHT

by Pinnacle Real Estate Consulting Services, Inc.

Continuous Demand Shall Sustain Growth

Smooth sailing for the property market for the rest of the year



PINNACLE

The May 2019 mid-term elections was generally peaceful and the transition of power has been smooth, albeit there are the usual protests and filing of complaints. This political maturity is testament to the continuous transfer of power even among fiercest rivals (i.e., from Gloria Macapagal-Arroyo to Benigno C. Aquino III, and then from Aquino to Rodrigo R. Duterte). This time around, President Duterte scored a resounding affirmation even when there are a number of pointed criticisms against him.

This positive political climate is reinforced by an upgrade from Standard & Poor's, giving the Philippines a rating of "BBB+," which is two notches higher than the minimum investment grade rating. While there have been hiccups along the way, like the runaway inflation in 2018 and delayed infrastructure projects during the first half of 2019, Pinnacle Real Estate Consulting Services predicts a sustained growth based on real demand. Some macroeconomic indicators and real estate market parameters shall be presented to evaluate this demand.

Macroeconomy

The country's gross domestic product (GDP) reached Php17.3 trillion for the entire 2018, which was 6.2% higher than 2017. The economy expanded 5.6% in Q1 2019 compared to the same period in 2018, which is slightly below the government's projected annual growth of at least 6.0%. This GDP growth is still high compared to selected Asian countries, where China leads with 6.4% growth; followed by India with 5.8%; and Philippines ranked third based on Bangko Sentral ng Pilipinas (BSP) data as of June 30, 2019. GDP growth of other countries are as follows: Indonesia, 5.1%; Malaysia, 4.5%; Taiwan, 1.7%; and Singapore, 1.2%.No data yet were cited for South Korea, Thailand, and Vietnam.

One key reason for this lower-than-expected growth is the aggressive increase in interest rates, where the BSP raised the rates five times last year for a total of 175 basis points to address the high inflation rate last year. Thus, average lending rates by May 2019 reached 6.9780% compared to 6.1184% in December 2018. This draconian management of bank rates reduced the inflation rate to 3.2% by May 2019, compared to the average inflation of 5.1% in 2018. The delay in the implementation of some "Build, Build, Build" projects is another reason being cited for the slower growth and reduced inflation rate.

On a positive note, overseas Filipino remittances continue to grow. Total remittances from January to April 2019 reached US$9.739 billion as compared to US$9.353 billion for the same period in 2018, or an increase of 4.1%. Dollar remittances last year reached US$28.943 billion, and now on track to reach the US$30 billion mark this year.

Latest BSP figures show that net foreign direct investment (FDI) from January to March of this year reached US$1.941 billion, which is 15.14% lower for the same period in 2018. This may be attributed to the ramp-up period prior to the May 2019 elections. Nonetheless, news of renewed business process outsourcing (BPOs) and Philippine Offshore Gaming Operators (POGOs) expansion may spike foreign investments after the relatively successful elections.

This may be felt in the currency exchange. The average Philippine peso to US dollar exchange appreciated to Php51.803 as of June 2019 as compared to Php52.631 in 2018. While the peso slightly strengthened, it is still relatively low compared to the US dollar in the past five years, making Filipino products, especially real properties, still attractive to dollar-earners and most foreign-currency earners.

Tourism data is also heralding optimism. Based on latest Department of Tourism (DOT) statistics, the total international arrivals for January to March 2019 reached 2.205 million from 2.049 million for the same period last year. There is an increase of 7.59% between the two periods, and the trajectory will breach 7 million arrivals again and may approach the 8-million mark. It is noteworthy that the Philippines is hosting the Southeast Asian (SEA) Games this year and according to reports, the completion of the New Clark City sports complex is right on track as announced by the president of MTD Philippines, the contracted infrastructure developer.

Another acid test of favorable economy is the level of employment. The latest unemployment rate released by PSA is at 5.1% as of April 2019, which remains unchanged from the 2018 figure. Again, this is a strong testament that the hundreds of thousands of graduates are being absorbed by the labor market.

The Philippine economy has sustained its growth despite some frictions. The high inflation last year and the delayed infrastructure projects early this year may have tempered the GDP growth, but it is still very competitive compared to other Asian countries. The positive outcome of the elections, favorable employment, remittances, and tourist arrivals, combined with the rating upgrade, the Philippines is positioned to sustain its economic growth. Pronouncements from key departments are reiterating the "Build Build Build" program to put the GDP growth back at the 6% level. These macroeconomic indicators shall positively impact the real estate market.

MACROECONOMIC INDICATORS		
GDP Growth	5.6%	Q1 2019
Interest Rates	6.978%	May 2019
Inflation Rate	3.2%	May 2019
Remittances	US$9.739 billion	Jan - Apr 2019
FDI	US$1.941	Jan - Mar 2019
Currency Exchange	P51.803 = $1	Jun 2019
Foreign Tourist Arrivals	2.205 million	Jan - Mar 2019
Unemployment Rate	5.1%	Apr 2018

Supplying the Real Estate Market

The recently held elections removed a certain level of uncertainty in the market. Now, most if not all real estate developers are positioning themselves to take advantage of the continuous economic growth. To cite some reported 2019 capital expenditures (CAPEX) of the top developers, Ayala Land Inc. is targeting Php130 billion; the SM group at Php80 billion; Megaworld Corp. at Php65 billion; Vista Land at Php60 billion; DMCI Homes at Php31 billion; Filinvest Land at Php30 billion; and Robinsons Land at Php27 billion.

If these top developers are building, they may have identified demand from the various sectors of the real estate market. The succeeding section shall scrutinize the sectors of the market and how these top developers can optimize their core compentencies to continue to thrive in this competitive market.

OfficeMarket

Even with the protectionist Donald Trump government, US-based business process outsourcing (BPO) companies continue to outsource. The advantage of the Philippines is that it is always a top, if not the first, choice, especially for voice BPO. Another blooming industry is the POGO, where a number of companies are partnering with mainland Chinese entities to operate here in the Philippines. POGO's demand for office space is staggering at first, looking for 3,000 sqm of office and even as high as 10,000 sqm. In the early 2000s, BPOs were likewise viewed with suspicion, but were eventually accepted. In fact, new buildings were purposely built to cater to the needs and demand of the BPOs.

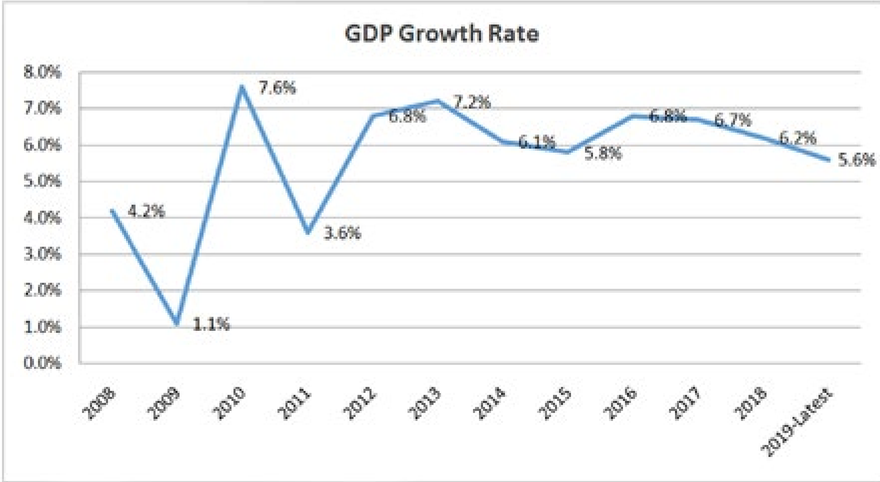
Pinnacle monitored that Metro Manila's total stock of Grade A office building or better have reached over 10 million square meters by the end of 2018. Overall vacancy across the various business districts in Metro Manila improved to 6% by first half of 2019 from 7% by end of 2018. Pinnacle projects that Grade A stock in NCR shall reach 11.7 million square meters by end of 2019. Rents will range from Php700 to Php2,500 per sqm, with an overall average of Php850 per sqm per month.

It is important to note that Ayala Land is contemplating with "Ayala Land REIT" that would be the pioneer to be listed at the Philippine Stock Exchange (PSE) when it happens. Ayala Land is considering mainly commercial-office developments for their first REIT company.

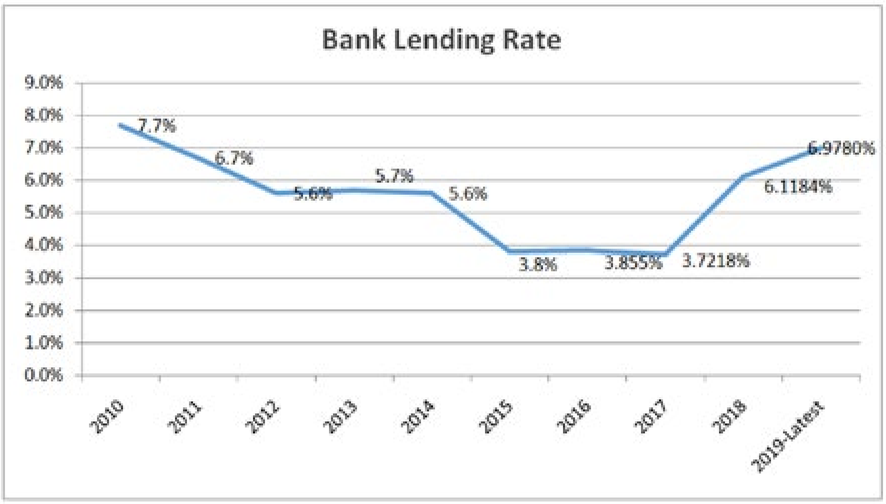
Residential Market

According to the BSP, Philippine residential property values has been increasing in the past three years. The Residential Real Estate Price Index (RREPI) increased to 117 from its base of 100 in 2015. While the overall average growth is a decent 5.67%, condominium prices grew by 38.6% in the past three years, or an average growth rate of 12.87% per year.

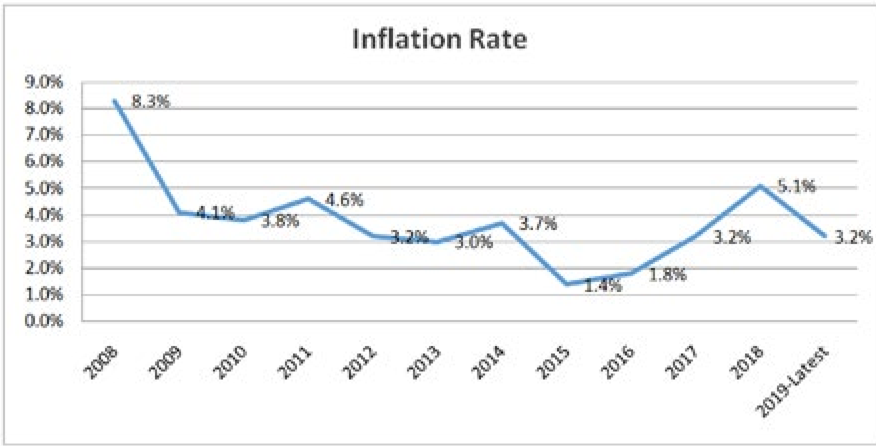
The top players are still building due to the huge housing backlog. Cumulative condominium units in the past 10 years reached over 360,000 units with an overall absorption of 90%. Pinnacle is forecasting that total condominium stock for the entire NCR shall reach approximately 395,000 units by end of 2019. Due to the strong demand from foreigners, especially mainland Chinese, absorption is seen to inch up to 94% this year.



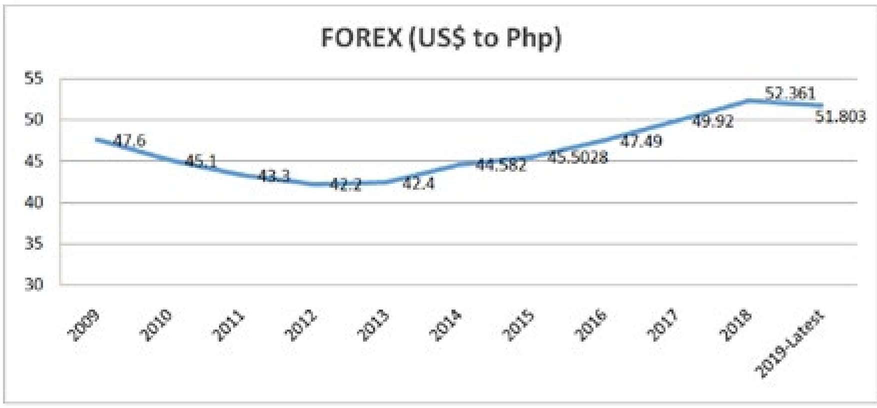
Source: Philippine Statistics Authority (PSA)



Source: Bangko Sentral ng Pilipinas (BSP)



Source: Philippine Statistics Authority (PSA)



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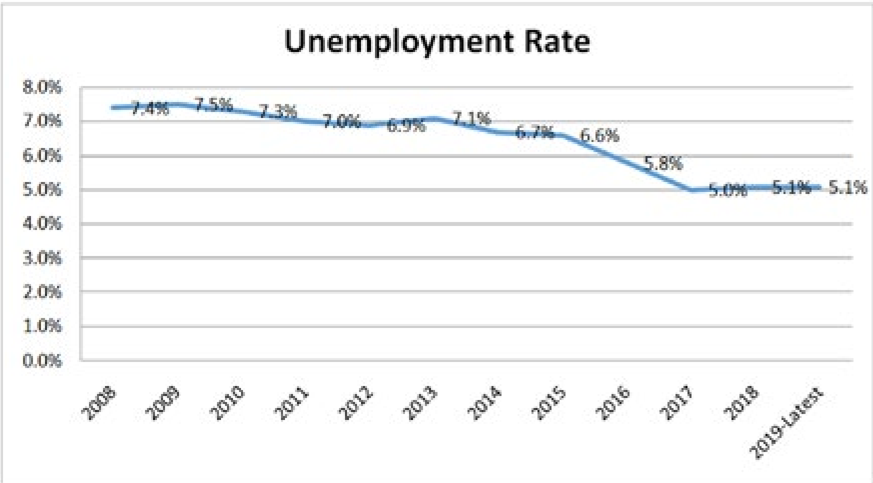

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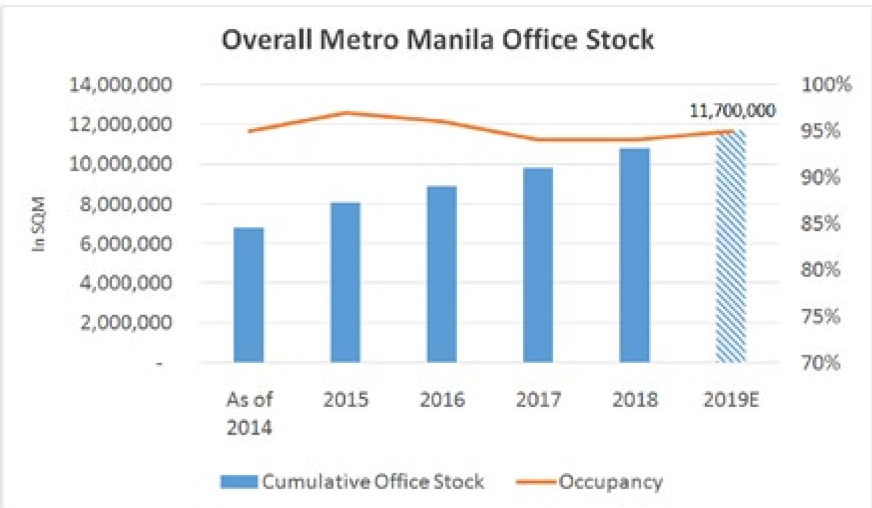


Source: Pinnacle Research

In addition, Pag-IBIG Fund is reported to have slated a total of Php11 billion for housing loans this year.

Pinnacle is in the view that residential development shall continue, albeit at competitive specifications and pricing. It is very important to conduct market research and segmentation to avoid margin compression given the stiff competition for the market share.

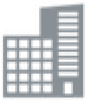
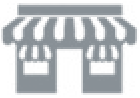
Other Sectors

For the retail market, the SM group is reported to increase its mall space by 200,000 sqm this year alone. This will translate between five and seven malls.

In terms of hotels, it is reported that 120 hotels with approximately 28,000 hotel rooms shall be constructed all over the Philippines in the next two years. This will bring the total hotel rooms to the 100,000-room mark. The expansion is seen to grow at pace with the ever-increasing tourist arrivals.

For the industrial market, Ayala and Megaworld have been offering industrial spaces to serve the pent-up demand for industrial space from mainland Chinese, Taiwanese, Korean, and Japanese clients. Their recent offerings—namely, Cavite Technopark (118 hectares) and Alviera Industrial Park (62 hectares) by Ayala and Suntrust Ecotown Tanza (111 hectares) by Megaworld—have been practically fully absorbed by the market. It will not be surprising for both groups to launch new industrial projects soon.

SNAPSHOTS

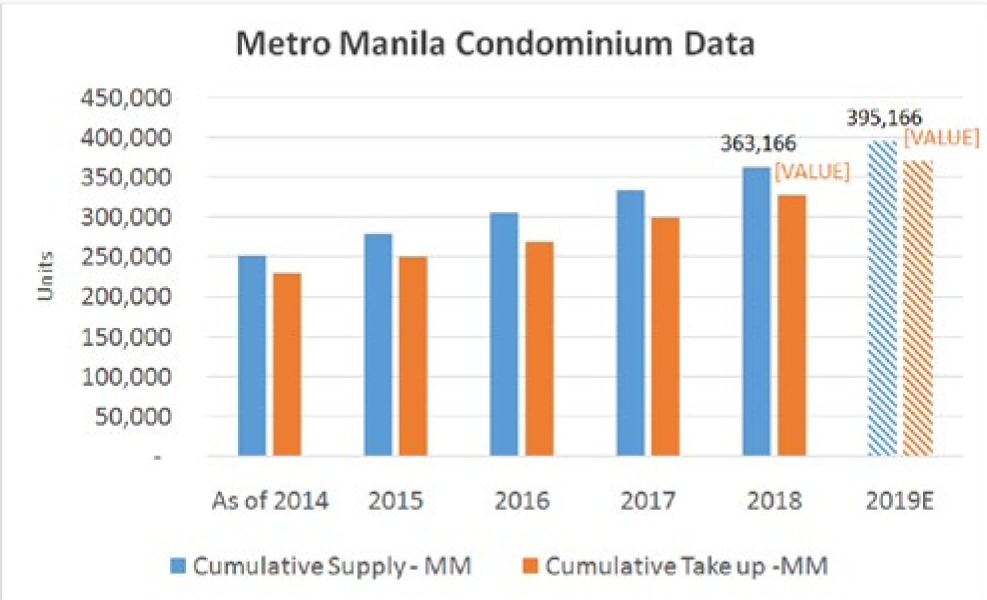
SECTOR	TREND	COMMENT
	↑	Office take-up is strong due to the demand from BPOs and recently from POGOs. Very high occupancy levels and stable rents.
	↔	Housing backlog is now pegged at over 6 million. Demand for residential products has been steady. Middle-market condominium is very competitive. Metro Manila fringe areas are now explored to serve the demand not only for the affordable and socialized segments, but for mid-market and high-end products as well.
	↑	Small retailers are still queuing to enter in choice retail malls to get a share of the demand from consumers and shoppers especially with the "Ber" months. Further expansion by the big players; various retail platforms are tested, especially the convenience store setup.
	↔	Record-breaking tourist arrivals continue to attract international and local hotel brands. Approximately 28,000 hotel rooms shall be constructed in the next two years.
	↑	Sustained demand for industrial spaces coming from Chinese, and Taiwanese, apart from the usual Koreans and Japanese; limited quality stock; stable rents.

Demand-Based Growth

Pinnacle projects that the real estate market shall continue to grow due to real demand: from BPOs and POGOs for office; strong demand from overseas Filipinos and expatriates, coupled with huge housing backlog for residential; record tourist arrivals for hotels; increasing local and tourist population combined with increasing spending for malls; and pent-up demand for industrial spaces from foreign and local manufacturers.

Political maturity coupled with investment-ready business climate will further fuel the demand for real estate. While it is tempting to mirror the government to just build build build, savvy developers will conduct their due diligence to incisively plan their developments up to the last square meter.

Source: Bangko Sentral ng Pilipinas (BSP)



Source: Pinnacle Research

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About Pinnacle

Pinnacle Real Estate Consulting Services, Inc. provides a full range of services to local and foreign investors, buyers, and real estate lenders. It is composed of a team of experienced professionals 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 among others.

Our Services

Asset Management (REAM)
Asset Sales, Workout, and Repositioning
Portfolio Management
Legal Administration
Investor Accounting and Reporting
Project Management (Community Mortgage, Redevelopment)

Sales, Leasing, and Marketing
Investment and Corporate Sales
Corporate Leasing
Residential Sales and Leasing
Leisure and Hospitality

Property Management
Building Management
Parking Management
Facilities Management
Caretaker Services
Technical Services

Research and Consulting
Market and Industry Research
Highest and Best Use and Feasibility Studies
Investment Due Diligence/Development and Site Planning

Property Appraisal
Full and Desktop Valuation
Property Inspections
Portfolio Valuation
BIR NAV Valuations
Plant, Machinery and Intangibles Valuation

Property Services
Title Services – Transfer, Document Retrieval, Annotation, COS, E-Filing
Payment Services – Real Property Tax, Association Dues
Special Property Services – Land-use Conversion, Title Replacement, Ejectment, DAR (VOS)

Loan Servicing
Non-performing Loan Servicing (Special Servicing)
Performing Loan Servicing (Primary Servicing)
Securitization and Loan Pool Servicing (Master Servicing)
Performing and Non-performing CTS Servicing

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