MORE OF THE SAME

Perhaps the top priority of President Rodrigo Duterte may be different from his predecessor, that is anti-illegal drugs vis-a-vis anti-corruption, but the fervor of both presidents are almost similar. Former President Benigno Aquino III chased former President Gloria Macapagal-Arroyo and her allies vigorously. President Duterte has raised his anti-illegal drugs campaign at a historic height, where hundreds have died in gunfights and what-not, and thousands have surrendered to be rehabilitated. This is becoming alarming to some, but it still pales in comparison to the anti-illegal drugs campaigns in Mexico, Colombo and other countries.

What is amazing is how Filipinos quickly adjust to new political realities, and how the economy and real estate market continue to chug along. President Duterte's economic policies are more business friendly, and his social policies are more populist when compared to the policies of the previous administration. The government has been aggressive in continuing infrastructure developments and is promoting public-private partnership projects. President Duterte has been espousing dispersed development, and has been keeping an eye in solving problems in the Metropolis as well.

Based on published reports, the Department of Public Works and Highways (DPWH) is set to award the contract to build an elevated toll connector road project that would connect the North Luzon Expressway (NLEX) with the South Luzon Expressway (SLEX). This Php 23.2-billion project will be awarded to the Pangilinan-owned Metro Pacific Tollways Development Corp. (MPTDC) after it survived a Swiss challenge without any other takers for the unsolicited proposal.

In addition, the Department of Transportation (DOTr) plans to build a Php 374-billion rail network system in Metro Manila, including the first subway system that will connect BGC, Makati and SM MOA as a long-term solution to solve the worsening traffic congestion. The government will build the network over the next six years through public-private partnership (PPP).

Likewise, other railway projects are in the offing. Among the projects in the pipeline are the Philippine National Railway (PNR) line from Clark all the way to Los Baños, Laguna; LRT line 4 extensions to the east and; LRT line 6 from Bacoor to Dasmariñas Cavite. Rail projects for construction are the MRT 7 and the LRT 1 extension to Bacoor. These infrastructure projects would have very positive impacts to the economy and the real estate market

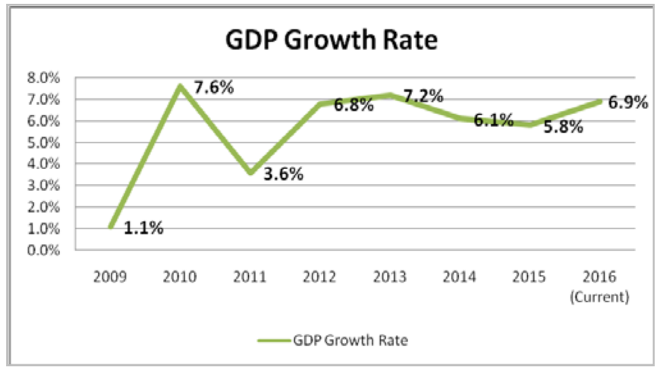
MACROECONOMY

The Philippine gross domestic product (GDP) grew by 7.0% during the second quarter, and the economy grew by 6.9% for the first half year. This is an expected upward tick from the annualized GDP growth of 5.8% in 2015 due to election-related spending during the period.

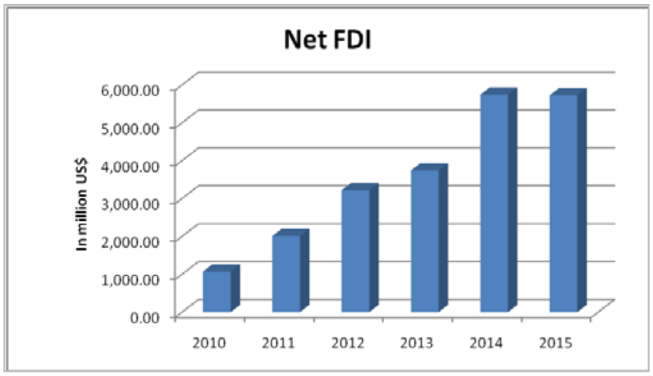
The Bangko Sentral ng Pilipinas (BSP) latest figures show that the net foreign direct investment (FDI) has been steadily growing in the past five years. The net FDI reached close to US$ 6 billion in 2014 and 2015. For 2016, January to May net FDI already reached US$ 3.86 billion. It is fair to assume that the US$ 6 billion-mark will be breached for this year.

Based on latest BSP statistics, the bank lending rate for August 2016 dipped to 3.427% as compared to 3.8% by the end of 2015. The average Philippine Peso to US Dollar exchange from January to August 2016 is at Php 46.8952, as compared to the average of Php 45.5082 as of last year. Bank interest rates and foreign exchange are still very stable.

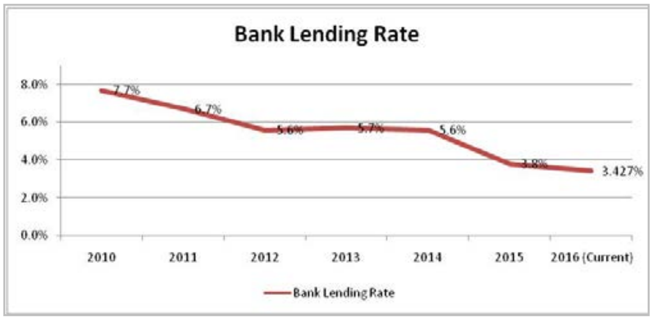
Overseas Filipino remittances have been steady as well. Total remittances from January to June 2016 reached US$13.192 billion as compared to US$12.782 billion for the same period in 2015, or an increase of 3.2%. Remittances are at a pace that may breach the US$ 25 billion-mark again. Inflation rate for the months of January to May 2016 is a slightly lower 1.3% compared to 1.4% in 2015, albeit the



GDP GROWTH RATE
Source: Philippine Statistics Authority (PSA)



NET FDI
Source: Bangko Sentral ng Pilipinas (BSP)



BANK LENDING RATE
Source: Bangko Sentral ng Pilipinas (BSP)

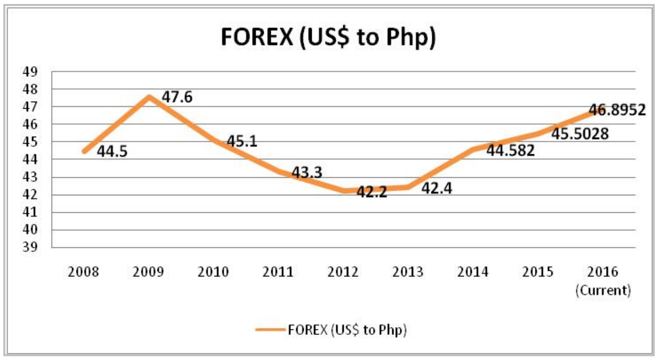
inflation rate for the month of June is seen at 1.9%. While low inflation is generally correlated to weak economic activity, the labor market is generally stable. The latest unemployment rate is pegged at 5.4% as of July of this year as compared to 6.6% by end of 2015. Again, these indicators are very positive to consumers as well as to real estate developers.

According to the Department of Tourism, the total Visitor Arrivals from January to June 2016 reached 2.98 million, registering an increase of 13.7% for the same period last year. Growth of tourist arrivals is consistently double digit increase month-to-month basis when compared to last year's figures. The 6-million mark seems to be attainable this year. Tourist arrivals for the first half to the year generated a total revenue of Php 127.37 billion, which is 14.7% increase for the same period last year. This is the reason why hotel and leisure development across the country has been brisk.

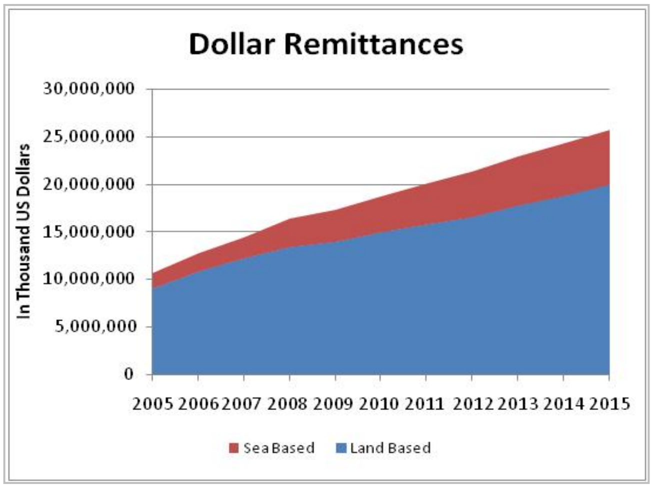
These macroeconomic indicators solidify the strong economic footing of the Philippines. These statistics basically exhibit more growth and development. Is it the same for the different sectors of the real estate market?

OFFICE MARKET

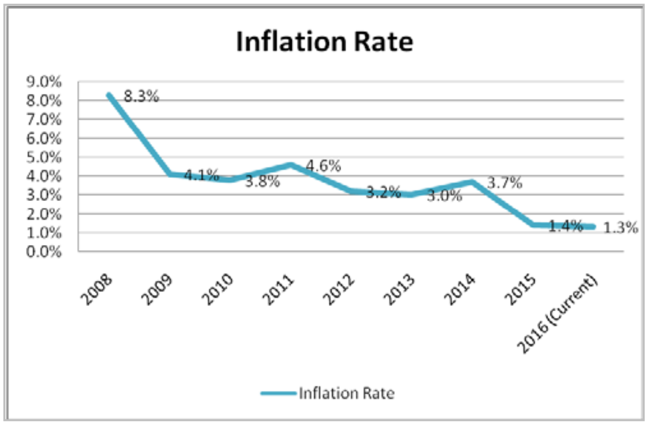
Business process outsourcing (BPO) industry experts are confident to reach the target of 1.3 million employees and annual revenue generation of US$ 25 billion in the next couple of years. The new IT-BPM Roadmap 2017 to 2022 is scheduled to be made public by October of this year. While the growth of the industry in the past decade has been phenomenal, industry experts are saying that the growth in the next five years would range between 12% to 18%, or two to three times the world's average of 6% annual growth. Buoyed by this continuous growth, real estate developers are relentless in building and delivering office spaces. Over one million square meters of office are projected to open in the next two years in major business



FOREIGN EXCHANGE
Source: Bangko Sentral ng Pilipinas (BSP)

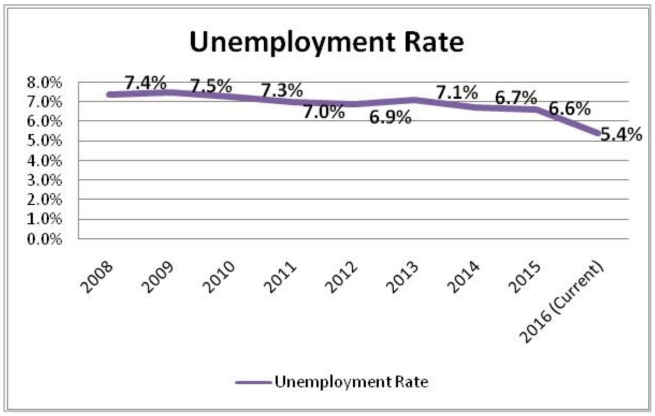


DOLLAR REMITTANCES
Source: Bangko Sentral ng Pilipinas (BSP)



INFLATION RATE
Source: Bangko Sentral ng Pilipinas (BSP)

districts in Metro Manila, breaching the seven million square meter-mark. While the planned 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 now below 4%. It is also important to note also that office building developers are now experiencing some delay in delivery due to tight skilled labor market.



UNEMPLOYMENT RATE
Source: Philippine Statistics Authority (PSA)

The office market is still a landlord's market, and given the low vacancy, rents have been increasing and albeit plateuing in recent months. The initial fear of softening rents may still be averted due to brisk demand for office space. Rents in Makati Central Business District (CBD) generally held up, where Premium Grade A buildings have a weighted average of Php 1,300 per sqm per month, Grade A buildings have a weighted average is Php 905 per sqm per month, and for Grade B&C Buildings, the weighted average is Php 695 per sqm per month.

Since developers are trying to serve the pent up demand with new stock, overall rents are generally unchanged in the last quarter. The weighted average rent in BGC is Php 895 per sqm per month. The average rent of Grade A office buildings in Ortigas is still at Php 650 per sqm per month since older buildings are weighing down the rents of newer stock. Alabang and Bay Area business districts have a slightly higher weighted average rent of Php 660 per sqm per month, pulled up by newer stock. Quezon City office rents have higher weighted average of Php 680 per sqm per month, also due to newer buildings.

Selling of office spaces is now a growing trend. The floor area for sale accounts for less than 10% of the total stock of approximately seven million square meters. This is seen to steadily grow in the coming quarters. Selling prices in Makati and BCG business districts are north of Php 200,000 per square meter.

RESIDENTIAL MARKET

The affordable and socialized housing segments are still underserved. The projected housing backlog will be more than 5.5 million by end of 2016, according to the National Economic and Development Authority (NEDA)-attached agency Statistical Research and Training Center (SRTC), now Philippine Statistical Research and Training Institute (PSRTI). The projections were originally based from the 2010 Census of Population and Housing. Since there was a new census in 2015, and the results are steadily released in more details, NEDA would probably update its projections of housing needs. It is worth

noting that Philippine population as of August 1, 2015 is pegged at 100,981,437, based on the 2015 Census of Population as published by PSA.

Likewise, there is still a sustained demand for luxury high-end condominium units mainly coming from local executives and expats. While there were delays in turning over of new residential condominium projects due to lack of skilled laborers, the Alphaland Makati Tower completed its 480 units. As reported earlier, The Residences at Alphaland Makati Place has raised the bar of amenities and services by incorporating The City Club in this high-end development. It is not only offering quality amenities and services, but the full complement of clubbing is available.

Makati and BGC business districts dominate the high-end residential products due to the concentration of expatriates and local executives. Nowadays, even San Juan City which is one of the most sparsely populated in Metro Manila that used to shun vertical developments, is now seeing high-end condominium products. An excellent example is One86 at Wilson which is a 32-unit, 10-storey residential project along Wilson St. Keeping the ambiance of low density, it is bragging to be an extension of Greenhills. It is offering only four units per floor, elaborate security features, and will provide services like valet and concierge to assist owners and tenants alike.

SNAPSHOTS

SECTOR	TREND	COMMENT
OFFICE	↑	Continued demand from BPOs, low vacancy, stable rents, delays in opening new stock due to tight labor market. Pre-selling is very active.
RESIDENTIAL	↔	Wide-range of choices and Metro Manila fringe areas are explored; delays in turning over of new buildings also due to shortage in skilled laborers; competitive prices though still slightly increasing. Investment-buyers are now testing the rental market.
RETAIL	↑	Further expansion of the big players; proliferation of different retail platforms
HOTEL & GAMING	↔	Diversifying supply and attraction; increasing tourist arrivals; slightly lower tourist spending
INDUSTRIAL	↑	Increasing demand for industrial spaces; expansion of manufacturers

There is a perceived oversupply of mid-market residential condominium buildings in Metro Manila. While top players like Ayala, DMCI, Filinvest, Lopez/Rockwell, Megaworld, Federal Land, Robinsons, SM, and Vista Land Groups will continue to build due to their vast distribution channels, competing against these players for the same market segment is not advisable. It is important to monitor the leasing market in the coming quarters.

Leasing of studio and one-bedroom units is stable and still ranges between Php 15,000 to Php 30,000, and may reach the Php 50,000 per month-level, depending on the location, furnishing, and amenities of the condominium building.

Luxury condominium units command the highest rents that plateaued 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.

One successful player that is maximizing the rental market catering to the mid-market is the JNJ Summithill Group. It created a market niche by building "dormitels" near major universities. Its "Upad" in the vicinity of De La Salle University-College of St. Benilde and St. Scholastica's College offering rooms that can be shared by two, three, four or even six students. Professionals are most welcome and can opt to lease one room for himself/herself alone. Apart from very plush room amenities, Upad has a gym and a pool supporting the healthy lifestyle of the young students and professionals or "millennials". The building is practically 100% occupied. It is now finishing its second project is along P. Campa St. in Manila City, and starting to build its third project, which are both very close to the University of Sto. Tomas. "UHome" the third project is now offering units for investment sales, but the developer shall continue to operate rental units. Apart from the students, call center and BPO rank-and-file employees are also driving the bed space demand.

RETAIL MARKET

The retail market is relatively quiet in the past quarter. As earlier reported, some players are seriously considering the REIT Law, given the positive pronouncements of the government, in listing their income-generating retail properties as REIT companies in the stock exchange. Based on the last count of Pinnacle Research, the SM Group has 58 malls, Robinsons Group has 40 malls, and Cosco/Puregold Group has 36 stores. The Ayala Group intends to reach the 3-million square meter mark in shopping mall footprint by 2020 while Megaword Group will launch an average of 60,000 to 70,000 square meters of retail space every year until 2019. The Vista Land Group intends to open six to seven “AllHome” annually over the next five years that would be integrated with their residential developments. Apart from the malls, retailers have been expanding the various retail platforms especially the convenience stores.

HOTEL AND GAMING MARKET

Increasing tourist arrivals in recent years have buoyed the expectations of hotel players. For 2016, more than 900 keys came online, breaching the 20,000-hotel room mark in Metro Manila. These hotels are benefiting from the 2.98 million tourists spending a total of Php 127.37 billion, which do not yet include the spending of the local tourists. Developers are steadily constructing hotel rooms "with star" and an additional of approximately 7,000 rooms are scheduled to be completed in the next four years.

Apart from the private sector, the government through the Department of Tourism (DOT) and its attached agency Tourism Infrastructure and Enterprise Zone Authority (TIEZA) has been busy promoting Philippine tourism and ancillary infrastructures. The focused development of tourism infrastructure would positively impact on the development of hotel, gaming and leisure industry. This would be good to both the local and foreign tourists since there will be more choices of tourist spots, events and accommodations; and in turn, generate more revenues.

INDUSTRIAL MARKET

The Philippine Economic Zone Authority (PEZA) accreditation has been crucial in motivating developers to build more industrial cum commercial spaces, and even Information Technology (IT) Parks/Centers, Medical Tourism Economic Zones, Retirement Economic Zones, Agro-Industrial Economic Zone, Facilities Economic Zones, and Utilities Enterprise Economic Zone. At present, there are 71 Manufacturing Economic Zones, 232 Information Technology Parks/Centers, 21 Agro-Industrial Economic Zones, 19 Tourism Economic Zones, and two Medical Tourism Parks/Centers or a total of 345 economic zones, based on latest figures of PEZA. There also 135 proclaimed zones and another 349 developments in progress. While these figures are seemingly high, average vacancy of operating economic zones are estimated at only 10%. In recent quarters, Pinnacle has been reporting the pent up demand for industrial spaces. Since industrial spaces are typically sprawling, average lease on land of selected zones is only Php 50 per sqm per month, while average lease of selected factory spaces is Php 190 per sqm per month.

SAME O' SAME O'

It is fair to assume that President Duterte shall continue the general macroeconomic policies of the previous administration. While there are refinements, the proposed changes are business-friendly such as the acceleration of infrastructure spending through PPP. As earlier reported, one of the eight economic agenda of President Duterte is to set aside five percent of the country’s GDP to infrastructure spending. Ensuring attractiveness to investors is another key policy of the present administration. Businessmen are already anticipating positive news on the REIT Law's revenue regulations, as well as on the incentives provided by PEZA, TIEZA, Bureau of Investments and even Philippine Retirement

Authority. On the real estate side, the government is looking to address the bottlenecks in the land administration and management system.

Duterte's policies are not only pro-business, but also pro-people. Pronouncements have been made to improve the income tax system to enable those who earn little to have more money in their pockets. The Conditional Cash Transfer (CCT) program is intended to be improved. Likewise, there is a commitment to strengthen the basic education system and provide scholarship for tertiary education which are relevant to the needs of private sector employees. Another key policy is to pursue agricultural development strategy that will provide support services to small farmers to increase their productivity, improve their market access, and develop the agricultural value chain by forging partnership with agribusiness firms.

We have seen the continuous growth of the Philippine economy and real estate market. President Duterte is committed to disperse spending and development in the provinces. While he is still in his early days of his presidency, it is important to see selected provincial markets, which are typically positioned as counter-balance to decongest mono-centric development.

CEBU MARKET

Metro Cebu, led by Cebu City, is the undisputed secondary center of the Philippines. In terms of cost of living and prices, the Cebu market is comparative to Metro Manila. In terms of education and culture, Cebu highly influences the Visayas and Mindanao islands.

The BPO industry heavily drives the office market in Cebu. There is a total of approximately 700,000 square meters of Grade A office spaces. Average rents are slightly higher than Php 500 per sqm per month, which is substantially lower than Makati and BGC business districts. Vacancy of office space is likewise a low 5%, keeping the rents stable.

On the residential front, the Metro Cebu Market has the highest number of condominium units outside of Metro Manila, totaling to over 20,000 units, and an average of 5,000 units will be delivered in the next couple of years. Average selling prices are north of Php 90,000 per square meter. The rental market is also well developed given the healthy population of local executives and expatriates.

The retail market is likewise robust led by the home-grown leaders, Gaisano Groups, and national players. Total commercial-retail spaces recently breached the one million-square meter mark with steady completion of the sprawling SM Seaside Cebu. Like the pattern in Metro Manila, retailers are developing various platforms of retail stores and shops.

Hotel developments are likewise prolific in Metro Cebu, whether local or international brands. The industrial sector is very healthy as well; in fact, the industrial zones in Metro Cebu were filled up well ahead of their counterparts in Luzon.

The Cebu Market is practically developed, and some would even say bursting to the seams. If a new real estate player would come in, proper due diligence is instructive as the competition would be very stiff.

NEXT 10 MARKETS

The robust demand for office space from the BPO industry is changing the landscape of a number of cities. Pinnacle Research cited industry sources who are now gearing up for the “Next 10 Cities.” These cities are: Baguio City, Davao City, Dumaguete City, Iloilo City, Lipa City, Metro Bulacan (Baliuag, Calumpit, Malolos City, Marilao and Meycauayan City), Metro Cavite (Bacoor City, Dasmariñas City and Imus City), Metro Laguna (Calamba City, Los Baños and Sta. Rosa City), Metro Naga (Naga City and Pili), and Metro Rizal (Antipolo City, Cainta and Taytay).

BPO companies are choosing these for various reasons; healthy demographics and relatively developed infrastructures are the key criteria. Apart from office spaces, these markets would probably experience developments of the residential and commercial-retails spaces, and perhaps, hotel rooms as well. With the push of President Duterte to disperse spending and growth, development of these "Next 10 Markets" is likely to happen sooner.

ABOUT PINNACLE

Pinnacle Real Estate Consulting Services, Inc. provides a full range of services to buyers, real estate lenders and investors. A team of experienced professionals is dedicated to enhancing the value of clients' investments throughout the Philippines.

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
- Investments 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

CONTACT US

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