

SUSTAINING GROWTH AND PROFITABILITY

MACROECONOMY

THE government through the National Economic and Development Authority (NEDA) approved 12 infrastructure projects costing about Php 184.4 billion. This will significantly contribute to the investment needed to sustain the country's economic growth and make it inclusive. These projects include the Flood Risk Management Project for Cagayan De Oro River; Sen. Gil Puyat Avenue/Makati Avenue-Paseo de Roxas Vehicles Underpass Project; Metro Manila Interchange Construction Project, Phase VI; Restoration of Damaged Bridges along the Bohol Circumferential Road; Iloilo Airport Operations, Maintenance and Development Project; Bacolod Airport Operations, Maintenance and Development Project; Davao Airport Operations, Maintenance and Development Project; Puerto Princesa Airport Operations, Maintenance and Development Project; Davao Sasa Port Modernization Project; Fisheries, Coastal Resources and Livelihood Project; and Project Convergence on Value Chain Enhancement for Growth and Empowerment (Project ConVERGE).

These projects are very timely since the Philippine gross domestic product (GDP) for the third quarter of the year grew by a lower-than-expected 5.3%. Government spending would support the rise in consumption and investment, and counteract the potential shrinking of agriculture due to the typhoons.

Based on Bangko Sentral ng Pilipinas (BSP) statistics, the average bank interest rate slightly increased to 4.11% as of November as compared to 3.85% as of September. The Philippine Peso to US Dollar exchange shows a stable conversion, Php 44.596 in September to Php 44.582 in December. Dollar remittances from overseas Filipinos continue to grow year in, year out. Remittances reached US\$17.645 billion from January to September of this year as compared to US\$16.637 billion for the same period last year, or an increase of 6.06% according to BSP.

BSP reported that cumulative foreign direct investment (FDI) from January to July of this year reached US\$ 6,198 million, excluding reinvested earnings and debt instruments. FDI for the same period in 2013, excluding reinvested earnings and debt instruments reached US\$ 4,039 million.

The total Visitor Arrivals for the first nine months reached 3.597 million, which is 2.49% higher than the same period last year (Department of Tourism). Visitors from South Korea, United States and Japan are the top three countries of origin.

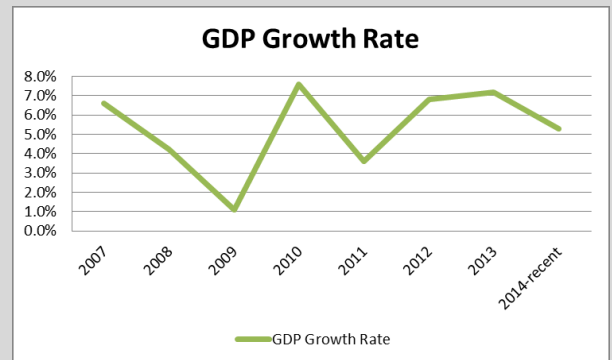
The latest unemployment rate data is pegged at to 6.7% as of July 2014, which is slightly lower than the 7.1% rate by end of 2013.

While the third quarter GDP growth of the Philippines slightly slowed down, this is still higher than the World Bank growth forecast for East Asia (excluding China) of 5%. Overall, Philippine macroeconomic indicators present the sustained economic growth that can support continued positive investment environment for the Philippines.

Early this year, Pinnacle reported the programmed capital expenditures (CAPEX) of the top developers for 2014 to fast track their projects. This is the perfect time to measure the profitability of the top developers and see if these developers are sustaining their growth as well.

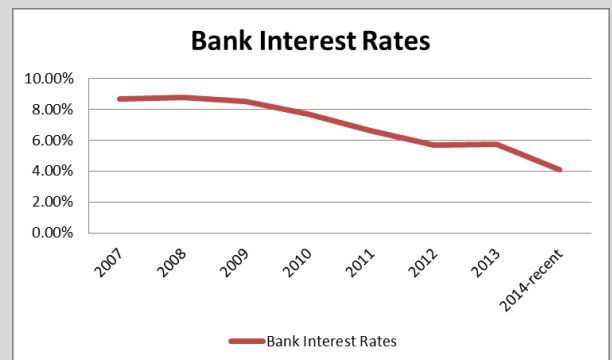
PROFITABILITY OF TOP DEVELOPERS

The top developers released their net income reports in recent weeks. In terms of absolute amount and growth, the Megaworld Group claimed the top spot for the first nine months of 2014. Megaworld reported a total net income of Php 19.03 billion for the first three quarters of 2014 from Php 6.52 billion for the same period last year, or a phenomenal 192% growth.



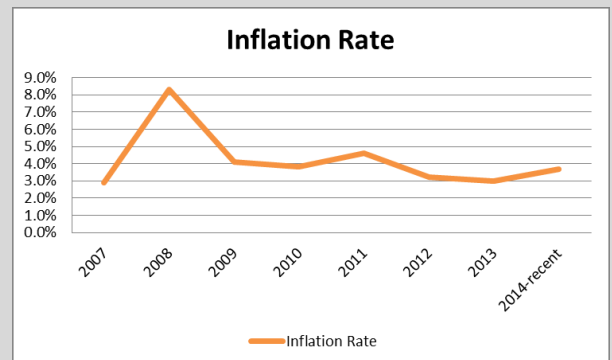
GDP Growth Rate

Source: Philippine Statistics Authority (PSA) as of 2014Q3



Average Annual Bank Interest Rates

Source: Bangko Sentral ng Pilipinas (BSP)
as of November 2014



Inflation Rate

Source: Philippine Statistics Authority (PSA)
as of November 2014

SM Group's consolidated income for the first nine months reached Php 13.5 billion for a growth of 12%. Ayala Land Group's income grew by 35% for the first three quarters of the year to Php 10.8 billion.

Filinvest Group reported a net income of Php 9.16 billion for the first nine months of this year as compared to Php 6.97 billion last year, or an increase of 31%. Vista Land Group posted an income of Php 4.24 billion for the first three quarters of the year, an increase of 13% from Php 3.79 billion last year.

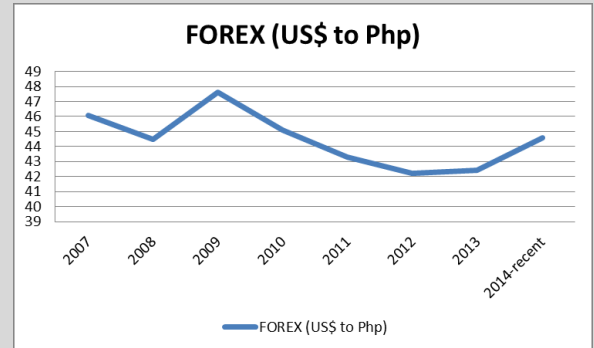
Robinsons Land Group gained an income of Php 3.88 billion this year from Php 3.65 billion last year. The income growth is a decent 6.4% mainly due to losses from fires and typhoons. Federal Land, on the other hand, posted an income growth of 26% from a lower base of Php 900 million for the first three quarters last year to Php 1.1 billion for the same period this year.

OFFICE MARKET

The end of the Business Process Outsourcing (BPO) industry growth is nowhere in sight, driving vacancy of Grade A office spaces to record lows. Grade A office buildings in Makati, Alabang and Quezon City business districts are practically fully leased out. Bonifacio Global City (BGC) Grade A buildings have weighted vacancy of 3%, due mainly to the new buildings that came online in the past quarters. Ortigas Center Grade A buildings have a weighted vacancy of 5%. Bay Area Grade A buildings recorded a vacancy of 2%.

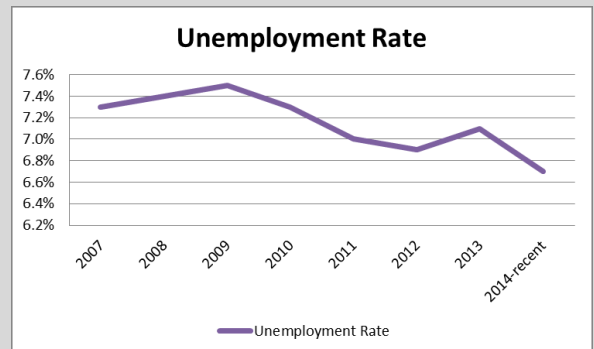
Rents of Premium Grade A in Makati CBD breached the Php 1,200 per sqm per month-mark. Makati Grade A buildings have a weighted average of Php 800, comparable to the Grade A rents in BGC. Ortigas Center and Quezon City Grade A buildings command rents at Php 625 per sqm per month-level. Grade A rents in Alabang business districts are at Php 600 per sqm-level. The budding Bay Area Grade A buildings have an attractive average rent of Php 500 per sqm per month.

With these tight vacancies combined with the brisk residential developments that will be discussed below, land prices in major business districts have been soaring. The Government Service Insurance System (GSIS) sold their two BGC lots at Php 500,000 and Php 458,000 per square meter, or for a total of Php 800 million and Php 733-million. The Ayala Land Group recently acquired the unfinished JAKA Tower along Ayala Avenue for an undisclosed amount. Asking prices in Makati CBD are reportedly north of Php 500,000 per square meter.



Foreign Exchange

Source: Bangko Sentral ng Pilipinas (BSP)
as of December 10, 2014



Unemployment Rate

Source: Philippine Statistics Authority (PSA) as of July 2014

RESIDENTIAL MARKET

Based on recent Housing and Land Use Regulatory Board (HLURB) figures, total license to sell (LS) issued for 2014 reached over 130,000 residential lots/units, including condominium units. In an earlier Pinnacle report, the Subdivision and Housing Developers Association (SHDA) is also targeting to build one million housing units by 2016 to address the housing backlog. Even with this total potential supply of housing, the estimated five million backlog is far from being addressed.

It is noteworthy that more than 60,000 units of the approved LS are targeted for socialized and economic housing. Residential condominium units account for over 50,000 units of the approved licenses to sell.

Leasing activity is very strong in the residential condominium market. In the past, high-end and upper-mid market condominium units have dominated the rental market with leasing rates from Php 50,000 to Php 100,000 per month for upper-mid condominium units, and over Php 100,000 per month for high-end, depending on the sizes. Luxury condominium units can command rents at Php 300,000 per month-level, even breaching the Php 400,000 per month-rent.

Leasing of studio and one-bedroom units is gaining popularity, especially with the turnover of thousands of condominium units. Rents of these units are typically 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 unit.

RETAIL MARKET

The commercial retail market has been traditionally dominated by the SM, Robinsons and Ayala Groups. In recent years, emerging contenders include the Puregold/Cosco Group, the resurgent Starmall and Rustans Groups, and the southern-entrenched Metro Gaisano Group. These big players have been introducing and experimenting with various retail platforms, not to mention consolidating and acquiring independent retail chains.

SNAPSHOTS

SECTOR	TREND	COMMENT
OFFICE	▲	Robust demand from BPOs, record-low vacancy, and increasing rents
RESIDENTIAL	▲	Continuous new supply due to successful sales, strong rental market
RETAIL	▲	Further expansion and market penetration of big players to take advantage of the prolific expenditure and consumption pattern of the market
HOTEL & GAMING	▲	International and local brands are taking advantage of the record-high tourist arrivals
INDUSTRIAL	▲	Renewed demand for industrial spaces and slight rental increases are attracting international investors

These major retailers shall continue to command high lease rates and occupancy levels for the foreseeable future. This is the main reason why they are penetrating farther and smaller markets, and even partnering with foreign players to operate various platforms and attract new brands.

HOTEL AND GAMING MARKET

The Visitor Arrivals for the first three quarters eclipsed again the record-breaking volume of tourists for the same period last year. Hotels have been enjoying healthy level of occupancy and increasing room rates.

Five star hotels command rates above US\$ 300 per night, especially for the big suite rooms. Four star hotels are still enjoying rates above US\$ 200 per room on the average. This is the reason why the big real estate developers like the Ayala, SM, Filinvest, and Robinsons Groups have been partnering with international brands. In addition, most of the big players have been introducing their own local brands as well.

INDUSTRIAL MARKET

Much has been said about the growth of the industrial and manufacturing sector in recent months. Vacancy of industrial spaces has been decreasing and rents have been slightly increasing. The biggest stamp of approval is probably the World Bank's interest in supporting the development of the 177-hectare Sabah Al-Ahmad Global Gateway Logistics City (GGLC) in Clark Special Economic Zone. This Kuwaiti-led investment is projected to cost a total of US\$3 billion, will create over 300,000 jobs and will generate annual payroll of US\$600 million.

SUSTAINABLE GROWTH

While the Philippine government is pitching in to sustain the economic growth through infrastructure investments, the top real estate developers are relentless in pursuing growth. Buoyed by their increasing net income and profitability, the top developers are crisscrossing the country and the various real estate sectors to generate growth and capture bigger market

PROPERTIES FOR SALE



COMMERCIAL BUILDING IN ARNAIZ AVENUE, MAKATI CITY (P3114986)

Location: Along A. Arnaiz Avenue, Makati City

Lot Area: 197 sqm

- beside San Ildefonso Church and near 7-Eleven

Asking Price: PHP15 Million



3 STOREY COMMERCIAL BUILDING IN TAMBO, PARANAQUE CITY (P3114997)

Location: Mayuga Street, Tambo, Paranaque City

Lot Area: 802 sqm

Total Floor Area: 1,931.12 sqm

- 3 Storey office building

- Ground floor 459.05 sqm; 2nd floor 444.23 sqms;

3rd floor 444.23 sqm; roof deck 201.10 sqm;

Parking area 364.52 sqms; Genset/Security area

17.99 sqms

Asking Price: PHP78 Million plus VAT

share. Most of the big players have outgrown their original shells and explored various sectors such as Vista Land's commitment to develop commercial malls and even launching its office tower in BGC, and the aggressive positioning of Ayala, Filinvest, Megaworld, Robinson and SM Groups in the hotel market.

More importantly, township development is probably the biggest generator of growth as proven by Megaworld's and Ayala's tens of billions of net income. Megaworld is developing Bayshore City in Pasay City, Uptown Bonifacio and McKinley West in the BGC area, Woodside City in Pasig City; Alabang West in Muntinlupa City, Mactan Newtown in Lapu-Lapu City, Cebu; Iloilo Business Park in Iloilo City; and Davao Park District in Davao City. Under the banner of Suntrust Ecotown, the group is also developing Southwoods City in the boundaries of Cavite and Laguna; Boracay Newcoast in Boracay Island; and Twin Lakes in Tagaytay City.

Ayala Land Group is offering City Gate in Makati City, Arca South in Taguig City, Vertis North in Quezon City, and Capitol Central in Bacolod City. The Ortigas & Company is developing Capitol Commons in Pasig City

Not to be left behind, the SM group unveiled its plan to merge the reclamation projects of Pasay and Paranaque Cities into one major investment totaling to Php 100 billion. Robinsons Land is also ramping up its Php 30 billion mixed-use complex in Quezon City and is building the Tera Tower in it to cater to the BPOs.

Building townships as compared to one-off projects generates the opportunity of offering various sectors and segments in the real estate market. More importantly, the top developers can showcase their ability to create synergies across sectors and build communities in new locations.

Ultimately, all of the top developers would pursue growth whether by leveraging the economy of scale of a township project or through focused sectoral targets to take advantage of selected demand drivers to create value for their shareholders. This private sector-driven growth would in turn provide quality developments at competitive prices and rents to the public in general.



INDUSTRIAL FACILITY IN BARANGAY DALIPUGA, ILIGAN CITY (P3114963)

Location: Sitio Mapalad, Bgy. Dalipuga, Iligan City
Lot Area: 80,208 sqm + 1,300 sqm
Floor Area: Approx. 19,668 sqm

BEST OFFER



INDUSTRIAL BUILDING / FACILITY IN FPIP TANAUAN CITY, BATANGAS (P3114956)

Location: First Philippine Industrial Park in Tanauan City, Batangas
Lot Area: 36,898 sqm Floor Area: 7,435.31 sqm
- Ready-Built Facility in the Country's Premiere Industrial Park

Asking Price: PHP390 Million



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.

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