

## INVESTING IN THE PHILIPPINE REAL ESTATE MARKET

### MACROECONOMY

The World Bank Group President, Dr. Jim Yong Kim, declared in July that Philippines is the “next Asian miracle” due to its very strong macroeconomic fundamentals and government management. Thus, the World Bank is extending to the country over US\$4 billion worth of funding for various infrastructure and livelihood projects in the next four years to sustain the economic growth. There is a special emphasis in Mindanao, especially after the comprehensive peace agreement with the Moro Islamic Liberation Front (MILF).

Even the Malaysian firm ALLOYMTD Group, through its local unit MTD Philippines, Inc. casted its lot in the Philippines and expects to complete about Php 10 billion worth of regional government centers (RGCs) before June 2016. MTD partnered with local government units, initially with the Php 2.5-billion Region IV-A Calabarzon regional government center, modeled on Putrajaya, the Malaysian federal government center south of Kuala Lumpur. MTD is also targeting “Bangsamoro”, Eastern Visayas, Bataan, Ilocos Norte and Nueva Ecija to build infrastructure for regional offices.

Why all these buoyant expectations? The Philippine economy is very vibrant. While the first quarter growth rate is a lower-than-expected 5.7%, the gross domestic product grew by 6.4% during the second quarter of the year. Based on Bangko Sentral ng Pilipinas (BSP) statistics, the average bank interest rate slightly ticked up to 3.85% as of September compared to 3.78% as of June of this year, primarily due to the intervention of the BSP of increasing bank rates to avoid overheating of the economy. Inflation rate in August inched up to 4.9% compared to 4.5% in June. The Philippine Peso to US Dollar exchange shows a slightly stronger dollar from Php 43.64 in July to Php 44.596 in September. Dollar remittances from overseas Filipinos continue to increase. Remittances reached US\$13.485 billion from January to July compared to US\$12.746 billion for the same period last year, or an increase of 5.8% according to BSP.



Foreign direct investment (FDI) from January to June of this year reached US\$ 761.75 million, excluding reinvested earnings and debt instruments. FDI for the same period in 2013, excluding reinvested earnings and debt instruments reached US\$ 582.95 million.

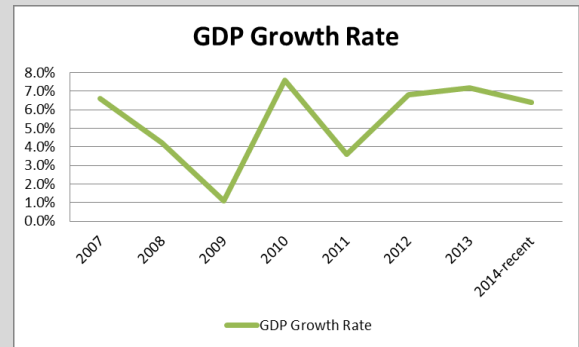
The total Visitor Arrivals from January to July reached 2.862 million, which is 2.24% higher than the same period last year (Department of Tourism). Visitors from South Korea and United States continue to top the country of origin.

It is no wonder why the unemployment rate has been tamed. The unemployment rate inched up to 7.1% by end of 2013. Based on the second data of PSA, the unemployment rate dipped to 6.7% by July 2014 even with the increasing labor base.

These indicators present the sustained economic growth and sound investment environment for the Philippines. The top real estate developers have also been taking advantage of this great opportunity. Based on the programmed capital expenditures (CAPEX) for 2014 (as reported in the second quarter Market Insight), the top 15 developers have a total CAPEX of approximately Php 300 billion for 2014 to fast track their projects. Apart from the strong demand from the local and overseas market, most if not all of the top developers are already preparing for the ASEAN Economic Community (AEC) integration.

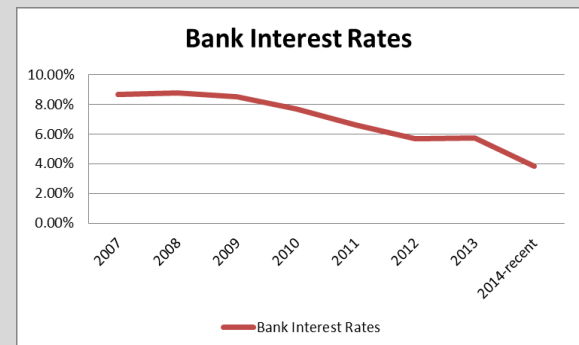
### OFFICE MARKET

The Business Process Outsourcing (BPO) industry drives the demand for office spaces in the entire Philippines, accounting for approximately 80% of the demand for the Grade A office spaces. Key industry players projected an additional of 120,000 employees this year, and probably breaching the one-million employee mark. The BPO industry is seen to generate a total of US\$ 18 billion revenue for 2014.



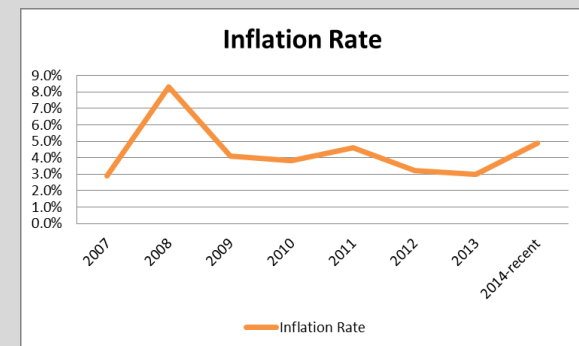
**GDP Growth Rate**

Source: Philippine Statistics Authority (PSA) as of 2014Q2



**Average Annual Bank Interest Rates**

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



**Inflation Rate**

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



Even with the new office buildings this year with a total leasable area of close to 500,000 sqm, rents are expected to be stable and may even increase slightly. Many of these buildings are pre-committed and have signed up lease contracts even prior to completion. Vacancy of Premium Grade A and Grade A buildings is projected to stay below 5% across the major business districts by end of the year. Rents in Premium Grade A shall continue to command rates hovering around Php 1,100 per sqm per month or about US\$ 25 per sqm month, which is one-fifth of rents in Hong Kong. The lowest rent in India is about US\$ 31 per sqm month according to recent reports. Rents in Makati CBD Grade A buildings have an average of Php 765 per sqm per month.

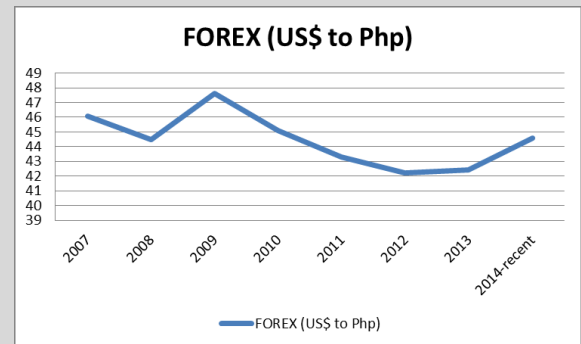
Small and old buildings in Makati are offering rents at an average of Php 550 per sqm per month. This is the rent offering in the Mall of Asia Complex, while rents Ortigas Business District are at slightly higher level of Php 575 per square meter. Bonifacio Global City rents have breached the Php 800 per sqm per month, while Quezon City rents are still at Php 625 per square meter-level.

### RESIDENTIAL MARKET

Recent estimates peg the housing backlog to five million. While majority of this demand may come from the socialized and economic segments, the open market, especially the mid-market and affordable residential units are typically for “end-use”. The upper mid-market and high-end market segments are typically marketed for “investment opportunity” or rental income.

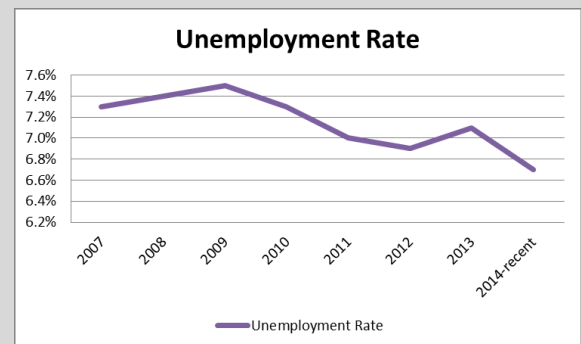
The high-end and upper-mid market condominium units usually have strong leasing activities. Rents are from Php 50,000 to Php 100,000 per month for upper-mid condominium units, while rents of above Php 100,000 per month for high-end, depending on the sizes. Luxury condominium units have breached the Php 300,000 per month-rent.

More attention is now given to the affordable and socialized segments. Big players have been active in building in this segment, instead of partnering with smaller players to comply with the 20%-socialized housing component as required by the Urban Development and Housing Act. The Subdivision and Housing Developers Association (SHDA) is also targeting to build one million housing units by 2016 to address the housing backlog.



#### Foreign Exchange

Source: *Bangko Sentral ng Pilipinas (BSP)* as of September 26, 2014



#### Unemployment Rate

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



### RETAIL MARKET

Continuous market integration is observed in the retail sector. Not to be outdone by the Puregold-Lawson Inc. (Japanese brand) partnership, the SM Group is mulling a partnership with one of the leading Indonesian convenience store operators, Alfamart that runs over 7,000 stores.

Major retailers continue to enjoy high lease rates and occupancy levels. This is the main reason why the players in this segment are introducing various retail platforms.

### HOTEL AND GAMING MARKET

Another record-breaking Visitor Arrivals for the first seven months is expected to push the occupancy and room-rates of hotels up. Apart from the investment grade of the Philippines as a whole, the gaming industry has been very active in attracting visitors to fill up their casinos. The hotel and gaming industry, as well as the public in general, has been waiting for the opening of City of Dreams, which would add 920 rooms in the market.

Kazuo Okada's Tiger Resort Leisure & Entertainment Inc. will be offering the most number of hotel rooms in PAGCOR Entertainment City once it opens the first phase of its US\$2-billion Manila Bay Resorts by the end of 2015. The first two phases of the 44-hectare integrated casino and resort project will introduce a total of 2,000 hotel rooms in the market. The company is very bullish about the prospects of their multi-billion dollar project due to its location, which is about two-to-three-hour flight from billions of people.

In terms of room rates, five star hotels enjoy rates above US\$ 300 per night rate, especially for the bigger suites. Four star hotels are still enjoying rates above US\$ 200 per room on the average even with the appreciation of the green buck. Existing hotels have seen increasing rates due to record-breaking tourist arrivals the past years.

### SNAPSHOTS

SECTOR	TREND	COMMENT
OFFICE	▲	Strong demand, sustained low vacancy, and slight rental increase
RESIDENTIAL	▲	Rents and prices for luxury residential remains high; mid-market is competitive, budding rental market; more attention to socialized and affordable segment
RETAIL	▲	Big players are expanding into various retail platforms and acquiring smaller players; rents and yields are stable
HOTEL & GAMING	▲	The gaming industry is fuelling the influx of international brands; local players have been operating their own brands in secondary locations
INDUSTRIAL	▲	Increasing occupancy levels due to renewed demand for industrial spaces, slight rental increases.



### INDUSTRIAL MARKET

The growth of the industrial and manufacturing sector has been filling up even the massive Clark Special Economic Zone (Clark) and Subic Bay Freeport Zone (Subic). Between these two special economic zones, the combined available industrial space is less than 150 hectares.

Clark Development Corporation (CDC) recently signed 193 contracts in the first seven months of 2014, with a total aggregate investment of Php 4.1 billion. At least 178 of the total signed contracts are subleases, with three of these either revived or recovered; while 12 are direct leases. The new investments translate to 81,500 additional jobs within five years.

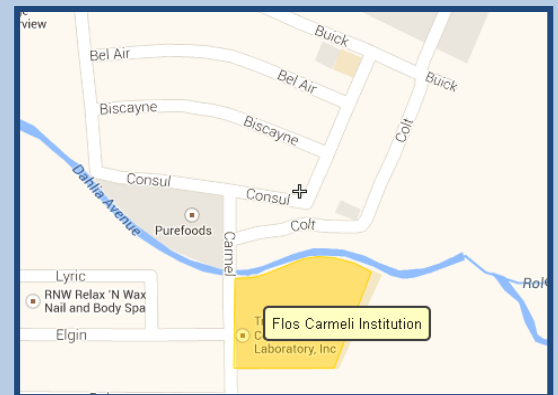
### INVESTING IN THE PHILIPPINES

The Philippines investment rating upgrade has effectively generated new and expanded demand not only for real estate, but also for other goods and services. The forthcoming ASEAN economic integration is also fuelling investments from Malaysia, Singapore and Thailand apart from the usual trading partners of the Philippines like the US and Japan.

As earlier reported, the top real estate players are aggressively positioning their products and platforms to take advantage of the bullish market. Most of the players are exploring various market segments and asset classes to generate growth. They are also partnering with international and ASEAN companies to create synergies and opportunities.

According to reports, major multinational companies, some of which belong to the Fortune 500 list, are actively looking to invest big time in the Philippines. One good indicator is the demand for flexible office spaces such as Regus. Its Philippine country manager reported that their business tripled in two years, and that they are receiving 800 to 1,000 inquiries every month. Regus now has 12 centers in Metro Manila and one in Cebu.

### PROPERTIES FOR SALE



**LOT WITH IMPROVEMENT** Fairview, Quezon City (FORMER FLOS CARMELI INSTITUTION)  
Carmel St., Regalado ave., West Fairview, Quezon City (Near FEU Hospital)  
Lot Area: 14,066 sqm  
Classified as medium density residential zone, previously used as school  
**Asking Price: PHP175,825,000**



**VACANT LOT** Porac, Pampanga  
Barangay Planas, Porac, Pampanga  
Lot Area: 1,445,156 sqm  
Located on the west side of Subic-Clark-Tarlac Expressway (SCTEx) about 900 meters north east from Floridablanca Interchange, currently undergoing construction, approximately 10 kilometers southeast from Porac town proper, about 20 kilometers southwest from Diosdado Macapagal International Airport.  
**Asking Price: PHP500 per sqm**

## WHY THE PHILIPPINES?

Apart from the robust economic fundamentals and brisk real estate developments, the Philippines has great advantages as well. Geographically, it occupies an enviable location between China and Australia, between Japan and Malaysia, and between Hong Kong and Singapore. With more than 7,000 islands, it is endowed with abundant natural resources, extensive beaches, nice mountains, and rich flora and fauna.

The Philippine population is approaching 100 million, which is twelfth in the world. Due to the young population, with a median age of 23.4 years old, there is a large pool of labor, most of which are educated, skilled, and English-proficient. This is the main reason why the BPO industry has been expanding in the past 10 years. The combination of BPO expansion and overseas employment has strengthened and expanded the Filipino middle class.

Politically, the 1987 Philippine Constitution declares that the Philippines is a democratic republican state with a presidential form of government. The three co-equal branches of government are the executive, the bi-cameral legislative, and the judiciary. While the Philippines had its share of political instability especially after the extended authoritarian regime, democratic institutions have been reestablished and political parties are practicing their typical democratic politicking. The political bickering and natural disasters in recent years have tested the resiliency of the Philippine democracy.

The legal system of the Philippines mainly follows the American model, mixed with some Spanish laws and local customs. The judiciary branch of government provides the judges and justices, administered by the Supreme Court. As one of the checks and balances, the executive branch supervises the Department of Justice and local prosecutors.

The Philippine accounting system is likewise patterned after the US model. The Philippine Financial Reporting Standards were adopted in 2005, which were patterned after the International



### **BUILDING EDSA, Quezon City**

Along EDSA near GMA and Kamias

Lot Area: 1,442 sqm.

Floor Area: Approx. 16,000 sqm.

10-storey building with 2 basement parking

**Asking Price: PHP420 Million**

**For Lease: PHP4.5 Million per month**



### **BUILDING Dagupan City**

Along Bolosan Old Rd., Dagupan City

Lot Area: 1,100 sqm

2 Storey, Commercial/Office spaces on the ground floor, Ballroom/Big Function Hall on the 2nd floor

**Asking Price: PHP50 Million (Negotiable)**

Financial Reporting Standards issued by the International Accounting Standards Board.

The Philippines has been actively seeking foreign investment to promote economic development. There are local laws and specialized government bodies to promote foreign investments. The Philippine Foreign Investment Act (FIA) of 1991 requires the publishing of the Foreign Investment Negative List (FINL), which outlines industries/sectors in which foreign investment is restricted or limited. The FINL is usually updated every two years. The ninth FINL was published in October 2012.

In real estate, there are special economic zones (such as Clark Special Economic Zone and Subic Bay Freeport Zone), and Philippine Economic Zone Authority (PEZA) sites, and the establishment of regional headquarters, which extend a number of fiscal and non-fiscal incentives. Recently, the Real Estate Investment Trust Act and Tourism Act were enacted to expand the investments in the real estate market.

While there are incentives, there are also some restrictions in real estate ownership and investment. Foreigners cannot own land, but they can lease land for 75 years. Foreigners can only own up to 40% of a company. Thus, foreigners CAN own up to 40% of a condominium project since a condominium corporation is the typical owner of a condominium building.

One of the most important issues in investing is the repatriation of funds. Capital and profits may be freely repatriated through the banking system, with prior registration with the Bangko Sentral ng Pilipinas (BSP), especially when foreign currency is needed for the repatriation.

These are just some quick references when investing in the Philippines. Obviously, there are more details for every topic. Investors should not cut corners in doing due diligence and should get professional advice for the major topics. One thing though is very clear - since the top real estate developers are expanding, the World Bank is extending financial assistance especially in Mindanao, and foreign companies are positioning for the ASEAN integration, the time to invest in the Philippine is now.



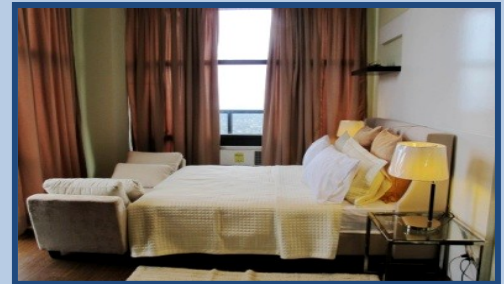
### CONDO Raffles Residences Makati

4 Units Makati Avenue, Makati City  
Unit 1405: 81sqm Unit 1603: 81sqm  
Unit 1604: 81sqm

**Asking price: PHP21,000,000 per Unit**

Unit 1509: 82sqm (corner unit)

**Asking price: PHP21,500,000**



### CONDO Gramercy Residences

2 Units Kalayaan Ave. cor. Salamanca St.,  
Brgy. Poblacion, Makati City  
(CCG-6604) 104.55 sqm  
(CCG-6601) 104.43 sqm

**Asking price: PHP22,000,000 each**



### HOUSE Magallanes Village

Magallanes Village, Makati City

Lot Area: 336 sqm

- 2 storeys with a 2-car garage and a pocket garden in front. 4 bedrooms & 4 bathrooms.

**ASKING PRICE: PHP33 Million**



## ABOUT PINNACLE

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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

**Real Estate Asset Management:**

ROPA Asset Management and Sales  
Asset Administration  
Brokerage - Sales & Leasing  
Appraisal Services  
Pre and Post Transactional Services  
-Sales Documentation  
-Inspection  
-Title Deed Transfer  
-Caretaker/Security  
-RPT Payments  
-Insurance Tracking

**Property Management:**

Administration and Finance  
Tenant Relations  
Engineering and Technical Services  
Lease Management  
Government relations and Compliance  
Security, Janitorial and Housekeeping

**Loan Servicing:**

NPL/ NPA Loan Management and Workout  
Performing Loan Collections  
Structured Loan Management and Analytics

**Investments and Capital Markets:**

Investment Sales, Acquisition & Leasing  
Project Sales Advisory & Management  
Capital Markets Advisory Services  
Corporate Finance

**Corporate Real Estate Asset Services:**

Site Selection and Leasing Services  
Lease Renewal and Renegotiation  
Property Acquisition and disposition  
Market Research

**Due Diligence & Underwriting:**

Dedicated due diligence & underwriting teams  
Portfolio Modeling, Legal and Credit Reviews  
Market Research & Consulting  
Valuation  
Investor Legal entity set up/ Accounting/ Cash management

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