Savills World Research
Philippines

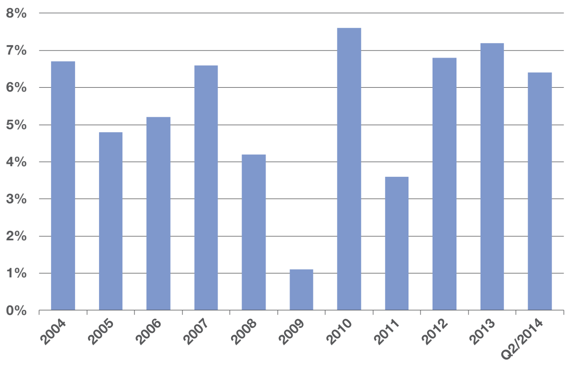
Asian Cities Report
Manila Office

2H 2014

savills.com.hk/research

GRAPH 1

GDP growth, 2004–Q2/2014



Source: National Statistics Coordination Board (NSCB)

TABLE 1

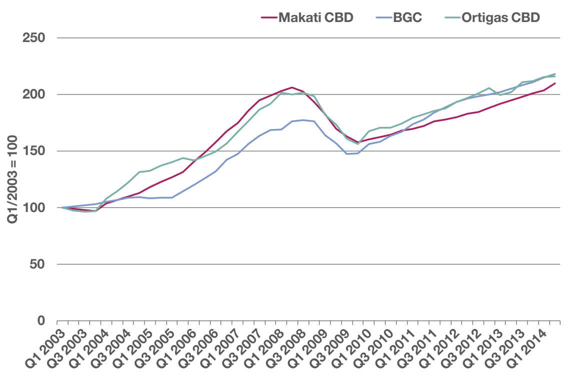
Global Competitiveness Index, 2014–2015

Country/ Economy	GCI 2014-2015		GCI 2013-2014	Improvement
	Rank (out of 144)	Score	Rank (out of 148)	
Singapore	2	5.65	2	0
Japan	6	5.47	9	3
Hong Kong SAR	7	5.46	7	0
Taiwan, China	14	5.25	12	-2
Malaysia	20	5.16	24	4
Australia	22	5.08	21	-1
Korea, Rep.	26	4.96	25	-1
China	28	4.89	29	1
Thailand	31	4.66	37	6
Indonesia	34	4.57	38	4
Philippines	**52**	**4.40**	**59**	**7**
Vietnam	68	4.23	70	2
Lao PDR	93	3.91	81	-12
Cambodia	95	3.89	88	-7
Myanmar	134	3.24	139	5

Source: World Economic Forum

GRAPH 2

Premium and Grade A office rental indices, Q1/2003–Q2/2014



Source: KMC MAG Group Research & Consultancy

Economic overview

The Philippines' economic performance has remained robust as it posted a 6.4% GDP growth for the second quarter of the year. Its growth decelerated from 7.2% in 2013, a result of the super typhoon last November which decreased agricultural production and damaged critical infrastructure. However, the economy is expected to benefit from the massive reconstruction plans by the end of the year.

The country's move towards a more business-friendly climate also remains on track and it has advanced by seven places from last year to 52nd in the WEF Global Competitiveness Index, climbing 33 spots since 2010. Much of the current progress is due to the Good Governance and Anti-Corruption efforts as well as Public Private Partnership (PPP) reforms. These reforms are laying the foundation for execution of much needed investment in the country, ensuring competitiveness in the future. Moreover, this progress together with political and economic stability has been emphasised by the recent credit rating upgrades from international agencies such as Standard and Poor's (now BBB with Stable outlook), which is expected to positively impact the property market.

Despite the slight fall in GDP growth, the Philippines remains one of the fastest-growing economies in the region. The forecasts are generally positive, at around 6.4% for the year (IMF: 6.3%, World Bank: 6.6%), mainly driven by its favourable demographics, continuously growing outsourcing industry, strong private consumption and high government spending. These fundamentals protect the country from external shocks and have cushioned the economic influence of the super typhoon. These are also expected to mitigate the effects of the Fed's monetary policy decisions, making the Philippines less vulnerable to capital outflows.

Office market overview

The economic environment has provided a strong foundation for the property market. The attention remains mainly on the office sector where the business process outsourcing industry (IT-BPO) drives property demand. The IT-BPO industry is not showing any signs of slowing down as the current outsourcing trend has made Manila one of the top IT-BPO destinations in the world due to labour and property arbitrage. According to IBPAP, the industry recently reached one-million office workers, and is on track to hit US$18 billion in revenues for the year. The roadmap also includes 1.3 million workers in 2016 which translates to a need for roughly 1.8 million sq m of new office space.

The increasing number of occupiers' requirements together with a shortage of office space have escalated the rental rates by 7.9% year-on-year (YoY), resulting in a landlord's market. Rents have already bounced back to pre-financial crisis levels and the average currently stands at US$18.6 per sq m per month.

New supply will temporarily ease the chronic lack of space as 160,000 sq m was introduced within the major CBDs in the first half of the year, with 140,000 sq m to follow in the second. The majority of this year's pipeline will arise in Bonifacio Global City (BGC) and Ortigas as there is a lack of developable land in Makati. At the end of the year, the current stock of Premium and Grade A office space is estimated to be at 2.5 million sq m.

On the demand side, low vacancy levels remain a positive problem for landlords as there is no space to facilitate all the requirements. However, the new supply drove the rate to temporarily rise to 6.9% but it is expected to fall slightly towards the year's end. The net take-up was recorded at 100,000 sq m in the first half and it is expected that the new supply will be absorbed, pushing take-up for the year to 270,000 sq m. Around 80% of the new space was taken up by The IT-BPO industry, but given the favourable economic environment, it is expected that traditional business sectors (e.g. financial services, Information provided by KMC MAG Group

telecommunications, mining) will generate additional demand.

As for asset markets, strong leasing demand has continued to push up capital values as well. Capital values for Premium and Grade A office space registered an 11.1% YoY growth in Q2/2014, continuing the positive trend for investors over the past four years. Nevertheless, strong growth momentum has not had a direct impact on final transaction volume yet. On the whole, investment volumes in the Philippines are relatively low, which is partly because the transactions are concentrated mainly on development sites.

For the past 12 months the transaction volume of offices is estimated to be at US$500 million excluding strata sales. The majority of the volume came from the Net Group portfolio acquisition, where SM Group bought a 90% stake from Apollo Global Real Estate. The transaction involved five office buildings worth US$430 million. The most recent move was from Ascendas, which sold a Grade A office building in BGC to Baring Private Equity.

Furthermore, there are currently a couple of interesting assets for sale where transactions will most likely push through. Local property owners may find potential buyers in overseas investors as the fierce competition in regional gateway markets could cause a trickle down of excess capital into secondary markets such as Manila. The large amount of capital in the financial system has caused some primary markets to become expensive, whereas Manila's high rental yield could provide a good alternative.

Nonetheless, the asset market remains rather challenging for purely investment-minded players as there are only a few assets currently available. This may force large-scale investors to employ more opportunistic strategies such as investing in project developments. However, for smaller-scale investors, the strata-titled sales may be a great opportunity to enjoy Manila's rental yields, which now average around 8.8%.

Forecast

The outlook remains very positive for the Philippines. The current economic boom and stable political atmosphere have increased the country's creditability and attracted foreign and local investors. Local developers have poured in a significant amount of liquidity and overseas interest in the country remains very high, laying a solid groundwork for the country's real estate markets.

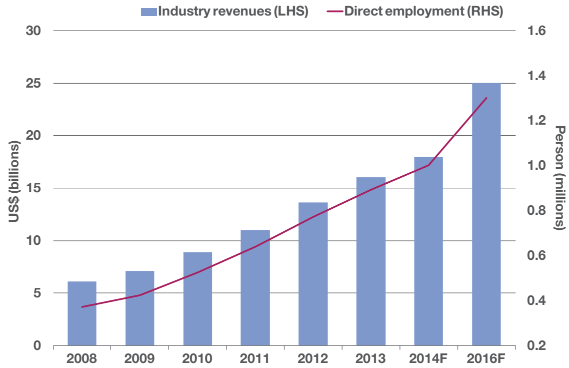
The economy is expected to grow by 6.0% to 7.0% this year, outperforming most of Asia. The buoyant investment activity and strong domestic demand are major factors behind the positive sentiment for the country amid uncertainties in the global economy. Furthermore, investment activity is expected to stay robust, especially in the real estate sector, demand for which will be driven by attractive yields posted across all property types, though the focus of investors will continue to be on properties within the CBD.

Looking ahead, the strong leasing demand from the BPO sector will drive the market for the coming years. This is expected to result in higher rental and capital values across all real estate segments. KMC MAG Group expects the Premium and Grade A office markets to sustain their current pace with rental rates and capital values both expected to increase by 7.0% YoY in the next 12 months.

In spite of the strong property market growth, Manila still serves as one of the lowest cost destinations in the Asia-Pacific region. Together with the economic boom, the real estate community should further improve transparency and emphasise the current state of the investment environment to ensure positive sentiment in the future.

GRAPH 3

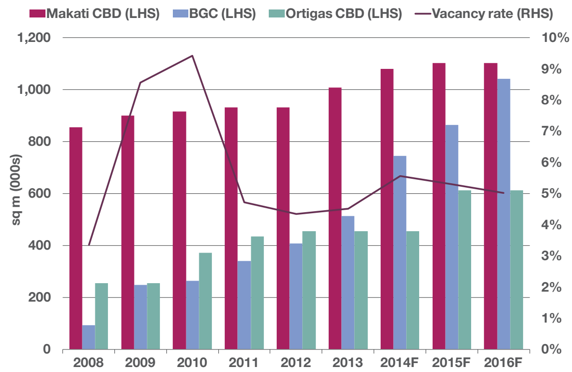
IT-BPO industry revenues and employment, 2008–2016F



Source: The Information Technology-Business Processing Association of the Philippines (IBPAP), KMC MAG Group Research & Consultancy

GRAPH 4

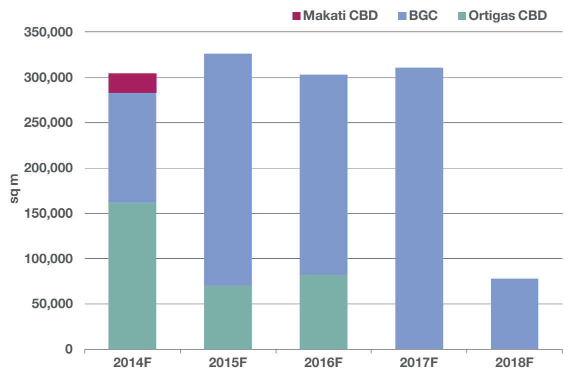
Premium and Grade A office stock by district and vacancy rate, 2008–2016F



Source: KMC MAG Group Research & Consultancy

GRAPH 5

Future Premium and Grade A office supply, 2014F–2018F



Source: KMC MAG Group Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Christian Mancini - CEO, North East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China

savills

savills.com

HONG KONG SAR

Savills (Hong Kong) Limited
23/F Two Exchange Square , Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited
28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited
8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited
7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau
Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai
20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing
2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

Savills - Guangzhou
Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

Savills - Shenzhen
Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Indonesia
PT Savills Consultants Indonesia
Panin Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong Email: jeffrey.hong@propertyconnection.co.id

Savills - Japan
Savills Japan Co., Ltd
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,
Tokyo 106-0041, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea
Savills Korea
11/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia
Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Myanmar
Savills Myanmar Limited
192 Kaba Aye Pagoda Road, Bahan Township, Yangon
Tel: (95) 9 250 515 035
Contact: Richard Emerson Email: remerson@savills.com.mm

Savills - Philippines
KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore
Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan
Savills (Taiwan) Limited
17F-1, Exchange Square, 89 Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand
Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Mark Price E-mail: mprice@savills.co.th

Savills - Vietnam
Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia
Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand
Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5910 / (64) 9 951 5911
Contact: Doug Osborne E-mail: dosborne@savills.co.nz
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York
Savills Studley
399 Park Avenue, 11th Floor, New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe
33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.

Savills, the international real estate advisor established in the UK since 1855 with a network of over 600 offices and associates globally.