

Metro Manila Office Briefing

2Q 2018

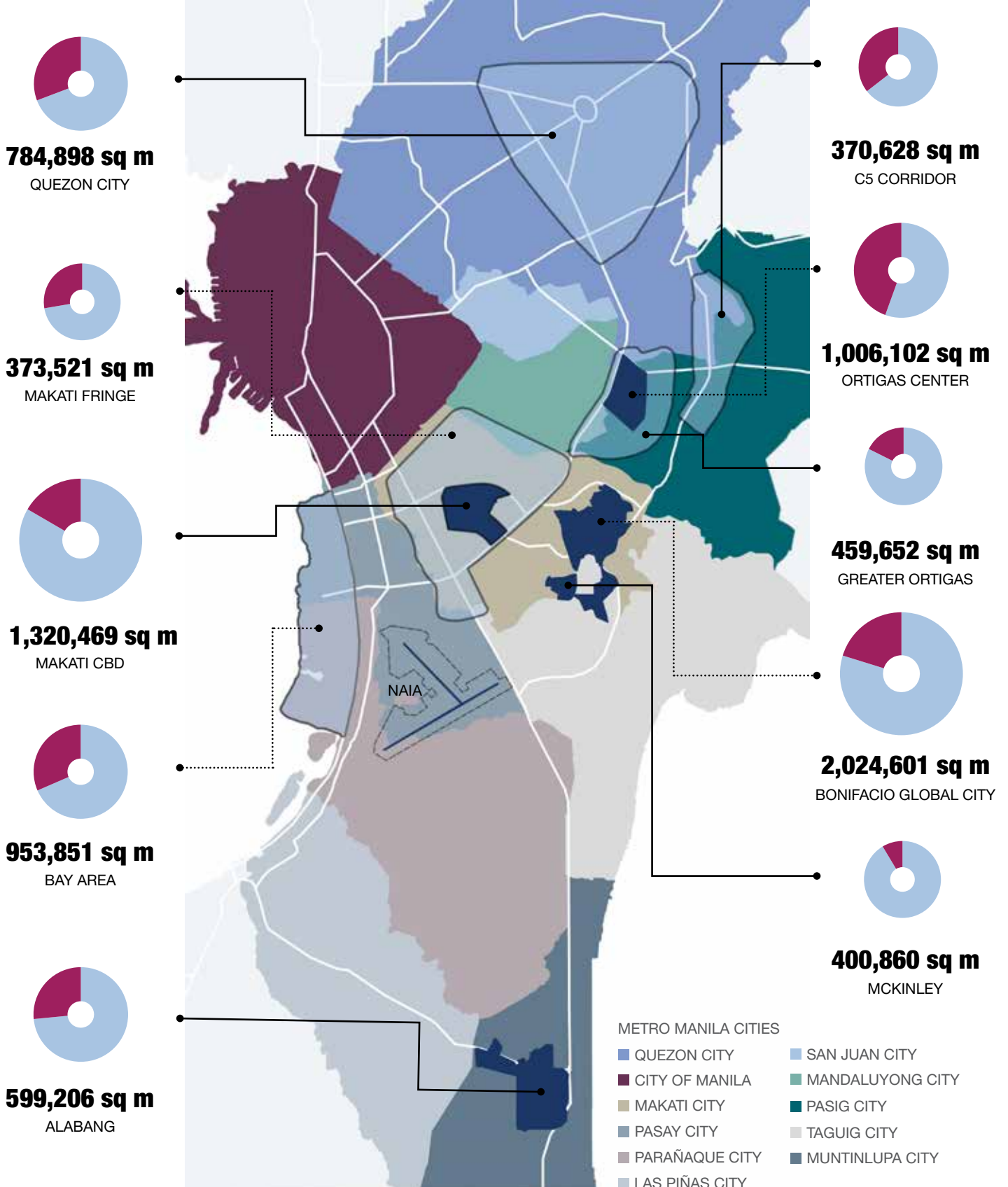


Metro Manila Office Submarkets

Future Stock (2021)

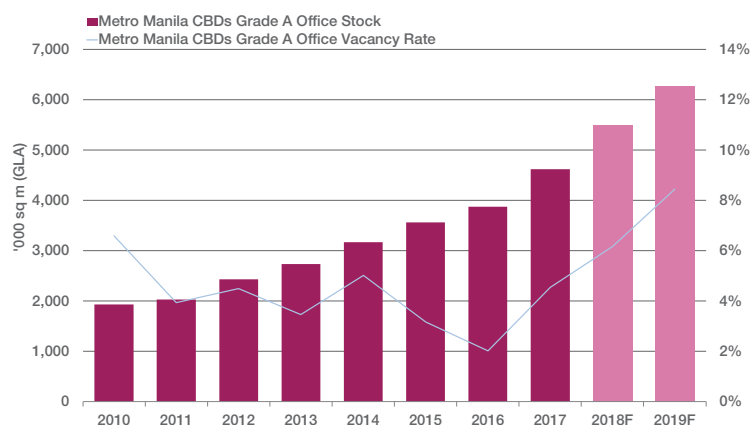
● DEVELOPMENT PIPELINE (2018-2021) ● CURRENT STOCK

MAP 1



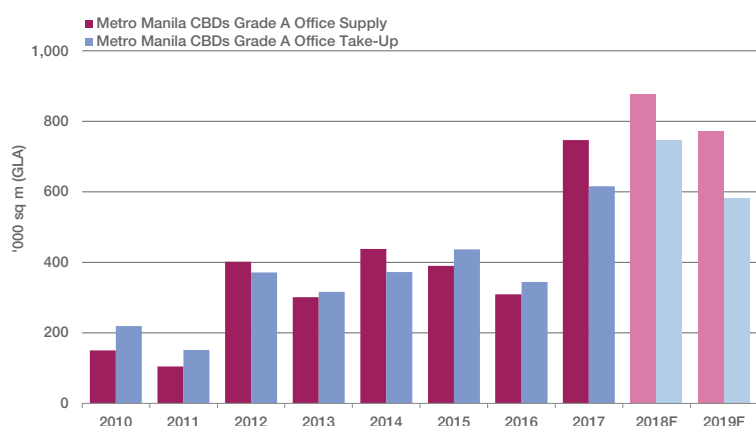
Metro Manila

GRAPH 1
Stock & Vacancy



Source: KMC Savills Research

GRAPH 2
Supply & Take-Up



Source: KMC Savills Research

TABLE 1
Key Figures - Grade A Office

2Q 2018	Makati CBD	BGC	Ortigas Center	Alabang	Quezon City	Bay Area
Average net rental rate (Php/sq m/month)	1,084.4	952.1	679.6	662.3	753.2	795.0
Upper net rental rate (Php/sq m/month)	1,550.0	1,250.0	850.0	725.0	825.0	850.0
Vacancy rate (%)	2.3%	3.3%	2.5%	0.8%	8.0%	0.9%
Current stock (sq m)	1,101,074	1,615,250	558,513	440,195	543,427	653,310
Development pipeline 2018-2021 (sq m)	219,395	409,351	447,589	159,010	241,471	300,541

* Makati CBD includes Premium Offices

- The overall vacancy rate in Metro Manila dropped to 3.0% in 2Q/2018 from the previous quarter's 3.8%. Net absorption of around 198,200 sq m outpaced the 164,300 sq m of new office completions during the same quarter. Quezon City was able to significantly reduce its vacancies to 8.0% of its current stock due to the recovery of certain outliers in the submarket.

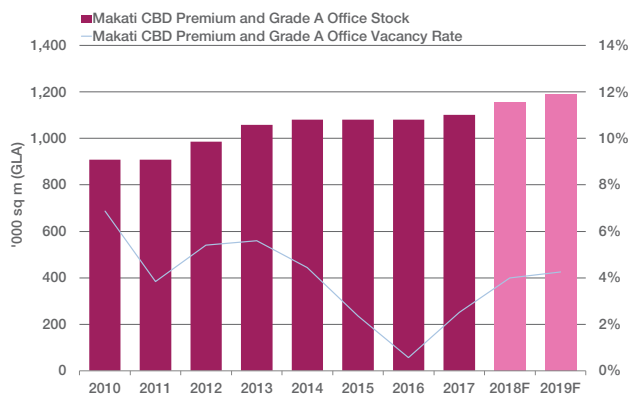
- As such, the tight market conditions have caused rental growth to accelerate by 4.4% YoY during the quarter. Much of the acceleration was observed in the Bay Area where it experienced rental growth of 11.5% YoY during 2Q/2018. Alabang also had above average growth of 5.0% YoY as Philippine Offshore Gaming Operator (POGO) tenants settle into the fledgling CBD.

- In the first half of 2018, as much as 294,300 sq m of GLA was introduced in the market. So far, robust occupier demand has been sustained and has kept vacancy rates low in most submarkets. However, the second half of the year is expected to bring 581,900 sq m of new Grade A office space into the Metro Manila market. Based on the historical trend of office completions, the incoming new supply is still significantly challenging.

- The POGO sector has taken a foothold in certain submarkets, such as Alabang and the Makati Fringe. However, the offshore and outsourcing (O&O) market has been resilient in the Bay Area despite the dominance of the POGO sector. With the impressive performance of both sectors in 2Q/2018, we have revised our 2018 year-end vacancy rate forecast downwards to 6.7%.

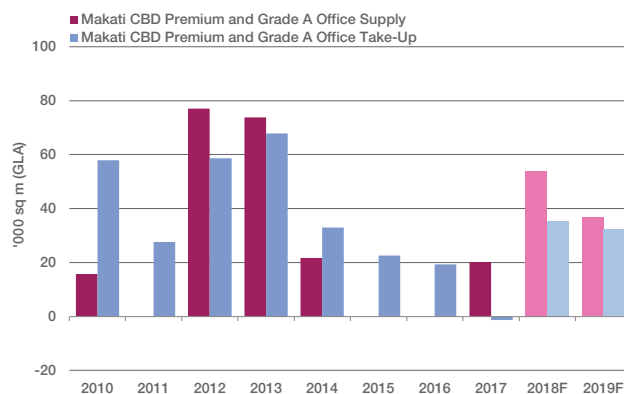
Makati CBD

GRAPH 3
Stock & Vacancy



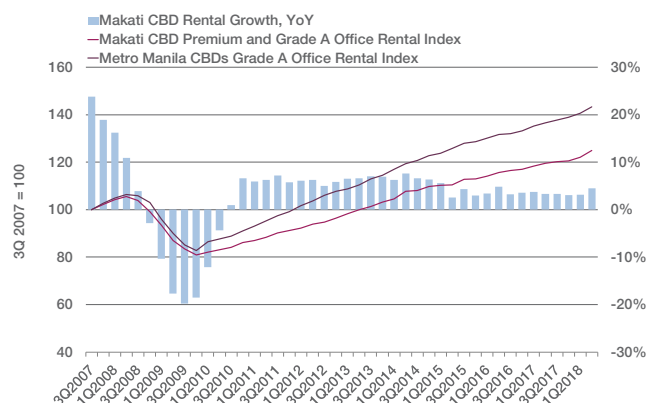
Source: KMC Savills Research

GRAPH 4
Supply & Take-Up



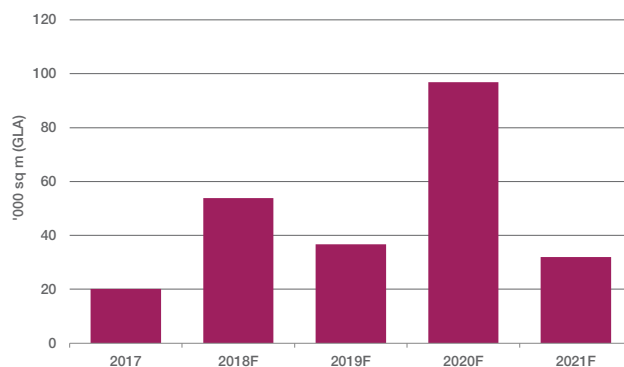
Source: KMC Savills Research

GRAPH 5
Rental Performance



Source: KMC Savills Research

GRAPH 6
Development Pipeline



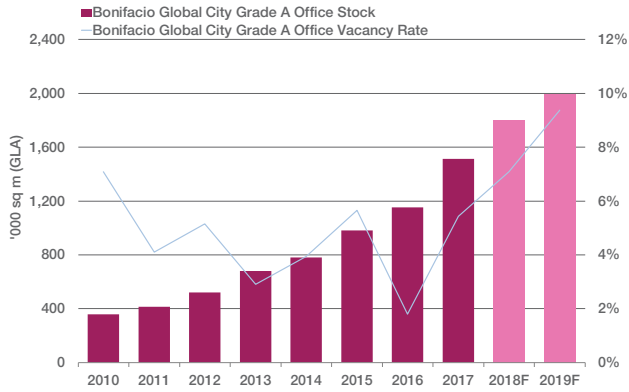
Source: KMC Savills Research

MARKET IN MINUTES

- In the last few months, market absorption has been relatively slow for certain key buildings in the premium business district. Coupled with the increasing number of contract expirations, the vacancy rate increased to 2.3% in 2Q/2018 from 2.1% in the previous quarter.
- Despite the increase in vacancies, rents in Makati CBD rose by an impressive 4.5% YoY, closing the quarter at Php 1,084.4 per sq m / month.
- In the second half of 2018, the premier CBD is expected to welcome around 53,000 sq m of new office space from the first tower of the Ayala North Exchange and NEX Tower. Vacancies are expected to rise during the next quarters and may hamper rental growth in 2019.

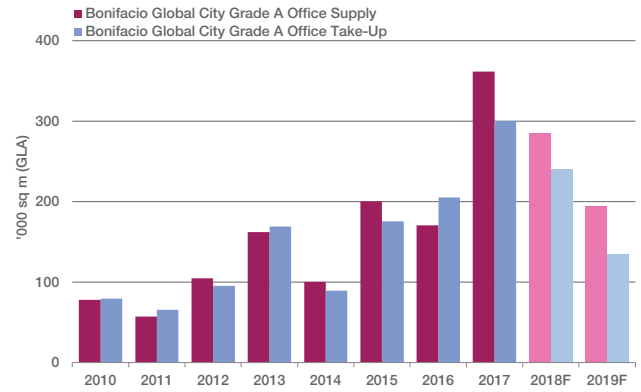
Bonifacio Global City

GRAPH 7 **Stock & Vacancy**



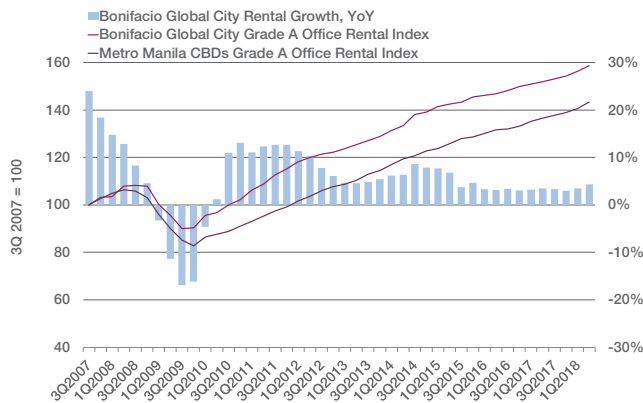
Source: KMC Savills Research

GRAPH 8 **Supply & Take-Up**



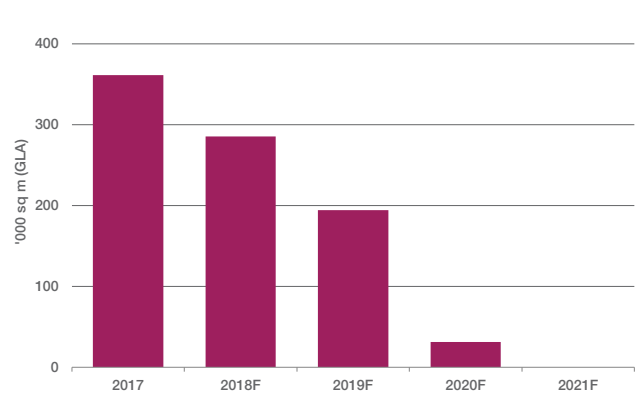
Source: KMC Savills Research

GRAPH 9 **Rental Performance**



Source: KMC Savills Research

GRAPH 10 **Development Pipeline**



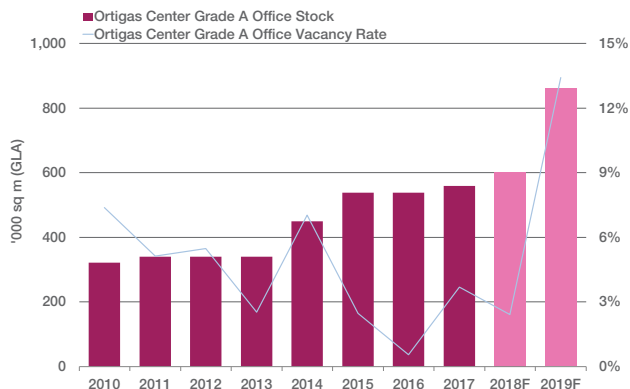
Source: KMC Savills Research

MARKET IN MINUTES

- Despite the additional 60,000 sq m increase to BGC's Grade A office stock, the vacancy rate declined to 3.3% in 2Q/2018.
- With the tightening market conditions, the average rental rate grew by a quicker pace at 4.4% YoY to Php 952.1 per sq m / month.
- We are expecting vacancies to rise in the next 12 months due to the 272,000 sq m of new supply. We still estimate market absorption to continue during this period as demand for BGC offices is sustained. Rental growth may further accelerate as the vacancy rate is estimated to remain low in single digits.

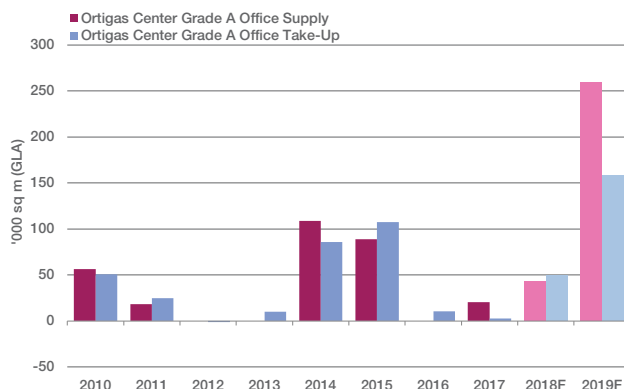
Ortigas Center

GRAPH 11 **Stock & Vacancy**



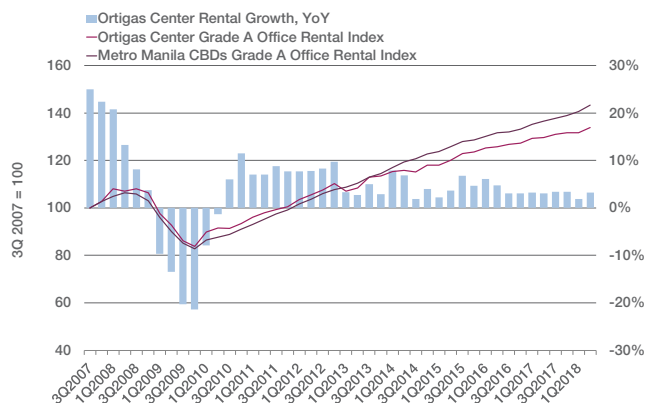
Source: KMC Savills Research

GRAPH 12 **Supply & Take-Up**



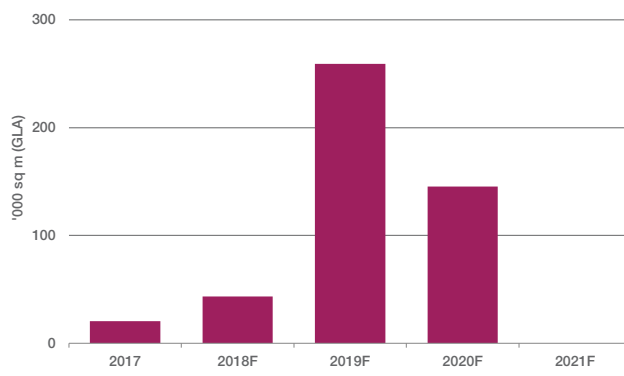
Source: KMC Savills Research

GRAPH 13 **Rental Performance**



Source: KMC Savills Research

GRAPH 14 **Development Pipeline**



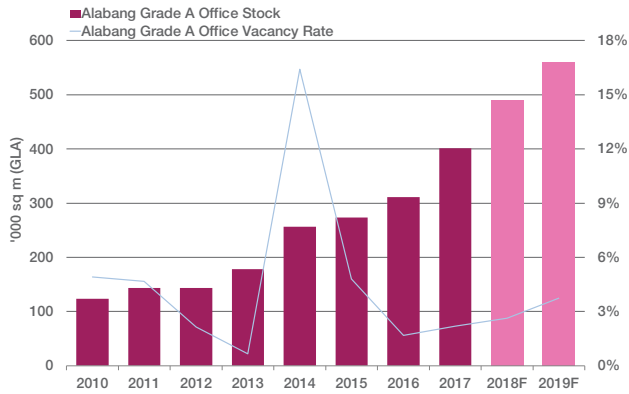
Source: KMC Savills Research

MARKET IN MINUTES

- Vacancies continued to decrease to 2.5% of office stock in 2Q/2018 from 3.4% last quarter as there were no new completions during the quarter. On the other hand, Robinsons Cyberscape Gamma is anticipated to be completed by the next quarter and will add around 43,300 sq m of new office supply.
- Rental growth recovered to 3.2% YoY in 2Q/2018 from 1.9% YoY the previous quarter. However, the recovery was still below expectations given the very tight conditions in the submarket.
- The vacancy rate is forecasted to remain low in 2018 as pre-leasing for Cyberscape Gamma was reportedly to be brisk earlier this year. We may see some improvement in rental growth as well with the growing number of new Grade A offices. In the coming 12 months, The Podium West Tower, Jollibee Tower, and GLAS Tower are expected to improve the overall quality of office stock in the submarket and push up rentals that have been trailing behind the premier submarkets of Makati CBD and BGC.

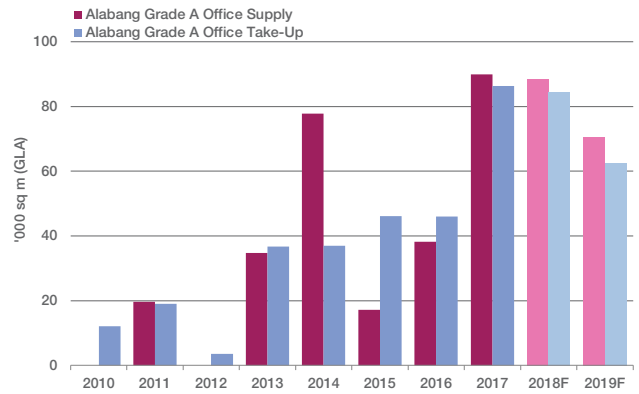
Alabang

GRAPH 15 **Stock & Vacancy**



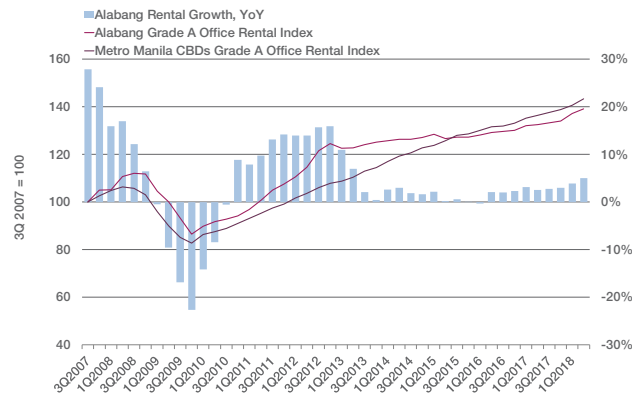
Source: KMC Savills Research

GRAPH 16 **Supply & Take-Up**



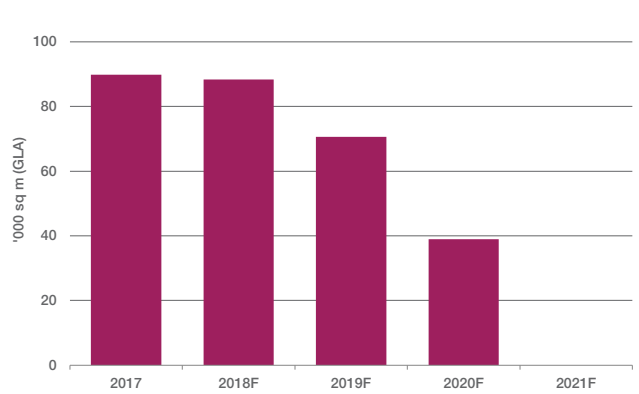
Source: KMC Savills Research

GRAPH 17 **Rental Performance**



Source: KMC Savills Research

GRAPH 18 **Development Pipeline**



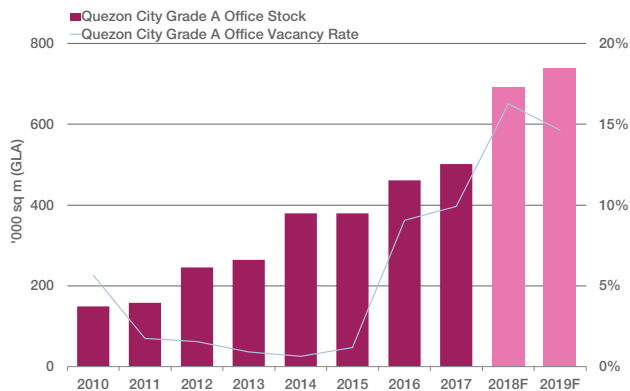
Source: KMC Savills Research

MARKET IN MINUTES

- The additional 38,900 sq m from Filinvest Axis Tower 1 barely made a dent in Alabang as the vacancy rate remained low at a very tight 0.8% of total stock. Prior to its completion, pre-leasing of the office building was robust as the demand from the POGO sector expanded into the submarket.
- With the tight market conditions in Alabang, the average rent grew by 5.0% YoY during the quarter, pegged at Php 662.3 per sq m / month
- We have revised our vacancy rate forecast downwards for Alabang given the entry of POGO players in the submarket. We further expect an acceleration of rental growth in the coming quarters, similar to our experience in the Bay Area.

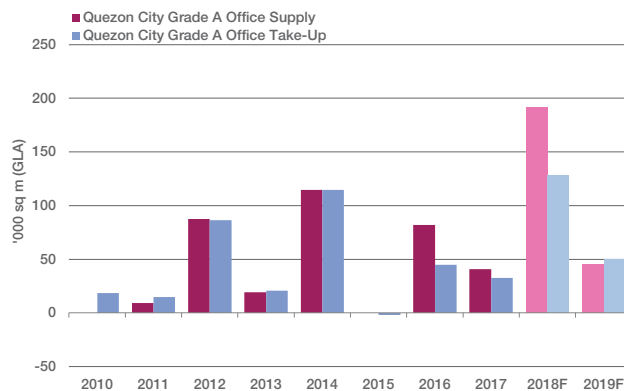
Quezon City

GRAPH 19 **Stock & Vacancy**



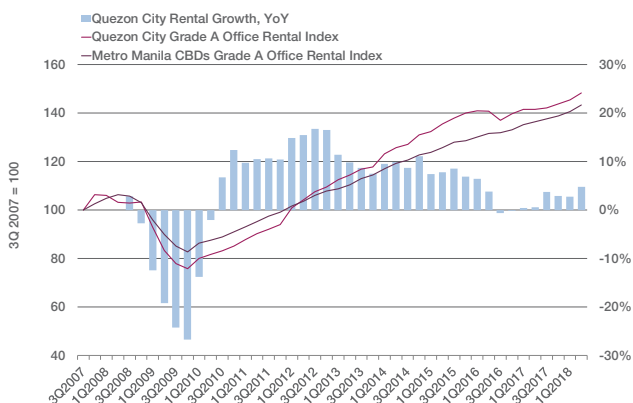
Source: KMC Savills Research

GRAPH 20 **Supply & Take-Up**



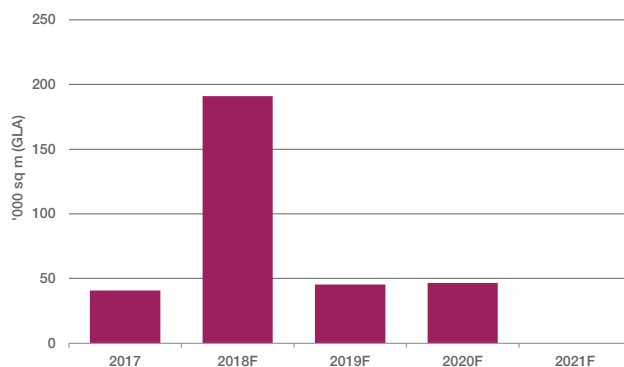
Source: KMC Savills Research

GRAPH 21 **Rental Performance**



Source: KMC Savills Research

GRAPH 22 **Development Pipeline**



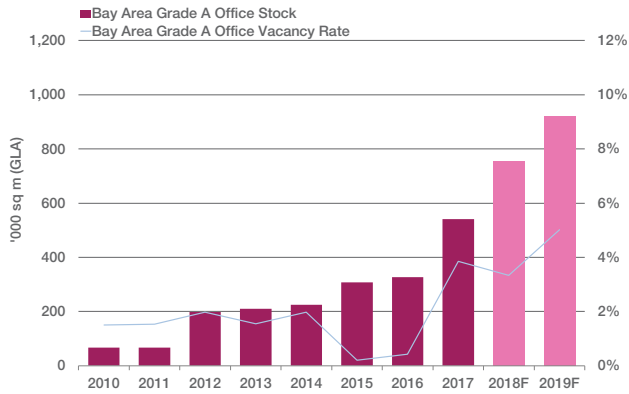
Source: KMC Savills Research

MARKET IN MINUTES

- Market conditions in Quezon City have improved as the vacancy rate dropped to 8.0% in 2Q/2018 – its lowest level in the past two years. Without new completions, net absorption registered at an above-average 13,500 sq m.
- With the dropping vacancies, rents improved during the quarter to Php 753.2 per sq m / month with rentals increasing by 4.8% YoY.
- The rebound in Quezon City’s performance was mostly due to the recovering performance of certain outliers in the submarket. However, we forecast that the submarket may regress to its previous conditions due to the weakness in pre-leasing activity. Furthermore, established townships have also experienced rising vacancies which may hinder recovery.

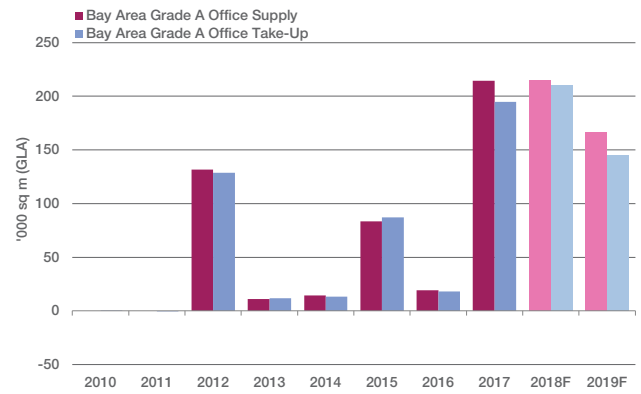
Bay Area

GRAPH 23 **Stock & Vacancy**



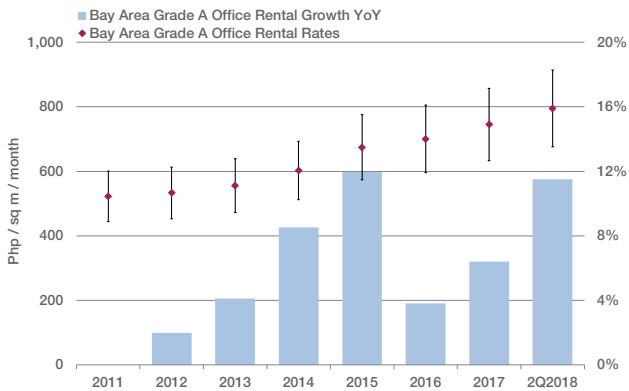
Source: KMC Savills Research

GRAPH 24 **Supply & Take-Up**



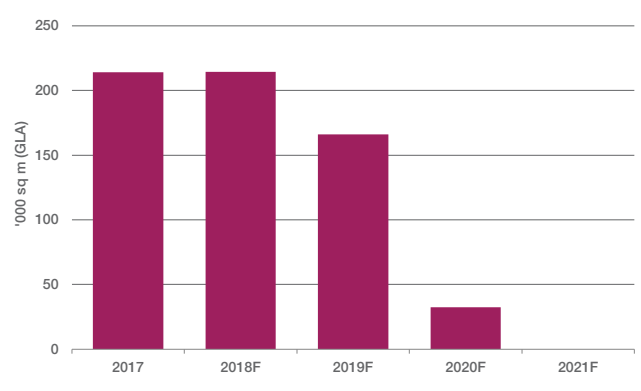
Source: KMC Savills Research

GRAPH 25 **Rental Performance**



Source: KMC Savills Research

GRAPH 26 **Development Pipeline**



Source: KMC Savills Research

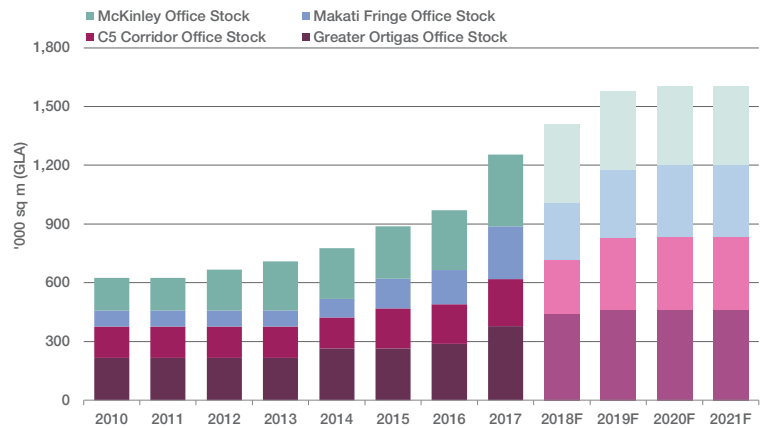
MARKET IN MINUTES

- Conditions in the Bay Area have remained very tight despite the introduction of Three E-Com, which added 62,000 sq m of leasable space. The vacancy rate was kept low at 0.9% of the total stock.
- Rents have begun to further accelerate in the thriving submarket which grew by 11.5% YoY and 6.5% QoQ in 2Q/2018. Given the current market conditions, we still foresee rental growth to be above Metro Manila's average in the coming quarters.
- Market demand has been able to keep vacancies at a very low level due to the dominance of the POGO sector. The submarket's 12-month pipeline is very substantial at 186,100 sq m of GLA, but we anticipate the low vacancy rate to hold until next year. In addition, the Bay Area saw the re-emergence of the O&O sector in 2Q/2018 which was on the sidelines since 2017.

Other Submarkets

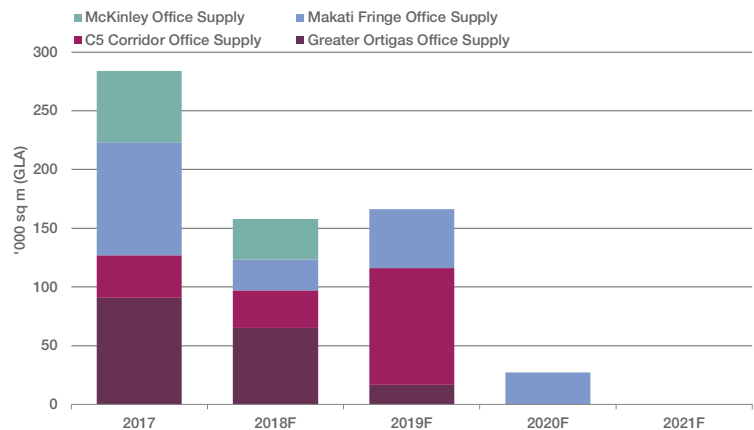
- Conditions in the Makati Fringe have become tight as net absorption remained strong during the quarter despite not having new completions. However, the vacancy rate may return to its previous levels in the second half of 2018 with the introduction of around 11,600 sq m of new office space.
- As for the other submarkets, vacancies rose because of the completion pegged at 89,700 sq m of GLA. In Greater Ortigas, the elevated vacancy rate has been maintained even with a net absorption of 16,200 sq m in 2Q/2018.
- In the coming quarters, the high vacancy levels in Greater Ortigas and the C5 Corridor are expected to persist. On the other hand, we do not foresee occupier demand to weaken despite the influx of available office space.

GRAPH 27
Stock by District



Source: KMC Savills Research

GRAPH 28
Development Pipeline by District



Source: KMC Savills Research

Definition of other submarkets

These submarkets are not included in the aggregate Metro Manila figures

MCKINLEY

The McKinley submarket is located south of Bonifacio Global City, covering McKinley West and McKinley Hill.

MAKATI FRINGE

Rockwell Center, Century City and Circuit Makati, as well as areas outside the Makati Central Business District, comprise the Makati Fringe submarket.

C5 CORRIDOR

C5 Corridor covers a stretch of the C5 Road from Quezon City to Pasig City. Located north are Eastwood City, Nuvo City, Circulo Verde, Bridgetowne Business Park, and the upcoming Ayala-Eton joint-venture project; farther south are Frontera Verde and ArcoVia.

GREATER ORTIGAS

The Greater Ortigas submarket predominantly covers the cities of Pasig and Mandaluyong—which include Capitol Commons, Portico, Robinsons Cybergate Center and Greenfield District—and the areas of Quezon City that surround the Ortigas Center.

PROJECT FOCUS

PARANAQUE INTEGRATED TERMINAL EXCHANGE (PITX)



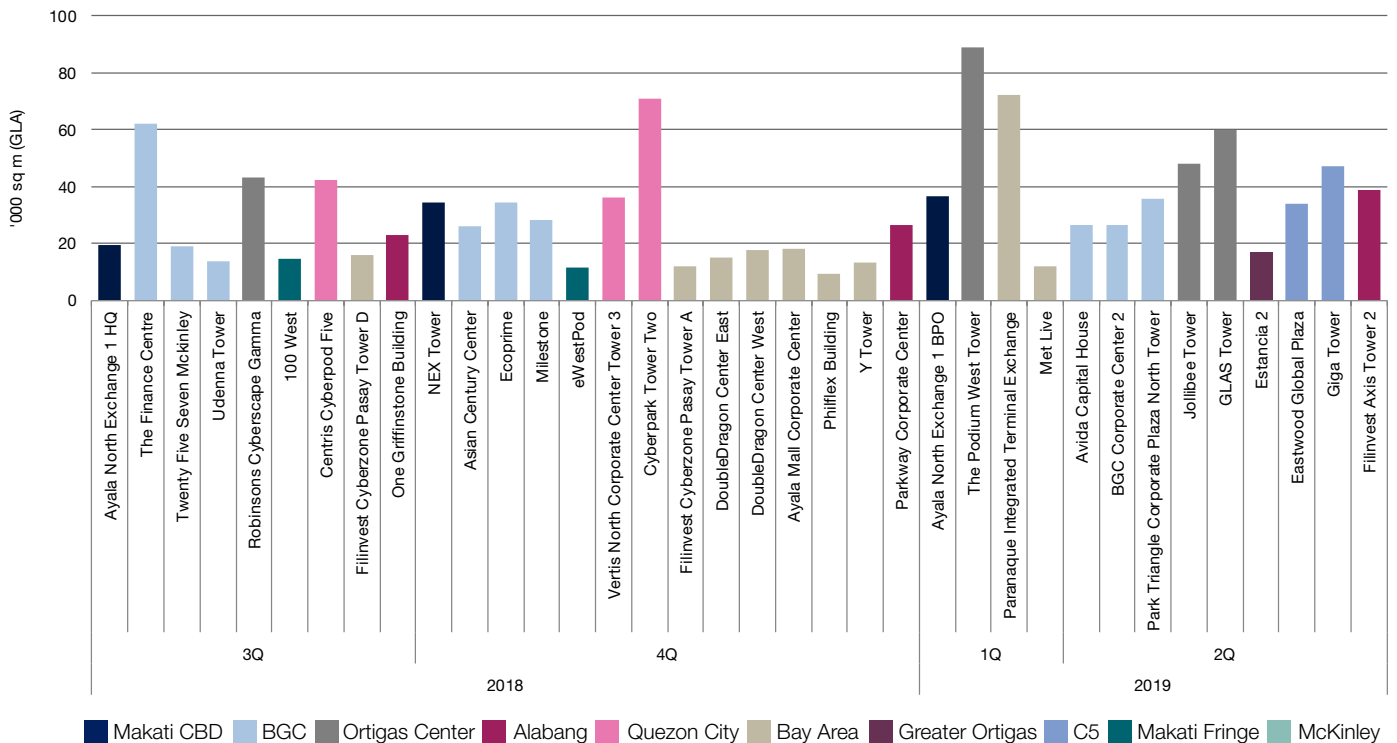
LOCATION	PARANAQUE CITY
GRADE	GRADE A
TURNOVER DATE	Q3 2018
GROSS LEASABLE AREA	17,800 SQ M
NO. OF FLOORS	5
FLOOR PLATE (GLA)	3,000 SQ M
HANDOVER CONDITION	BARE SHELL
24 / 7 CAPABILITY	YES
BACKUP POWER	100%

PITX is an all-in-one terminal, retail, and office structure strategically located between Diosdado Macapagal Boulevard and CAVITEX. Developed by MWM Terminal Inc, this is one of the newest three intermodal terminals launched by the Department of Transportation. PITX will serve as the ideal transfer point for a wide selection of provincial and in-city transportations, traversing the busy thoroughfares such as EDSA, Baclaran, and Taft.

The structure also carries 5 floors of premier office spaces with a typical floor plate of 3,200 square meters, accommodating multiple tenants or businesses to ensure maximum occupancy.

GRAPH 29

12-month Supply Forecast by Building



KMC Savills, Inc.

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