

# Metro Manila Office Briefing

3Q 2017

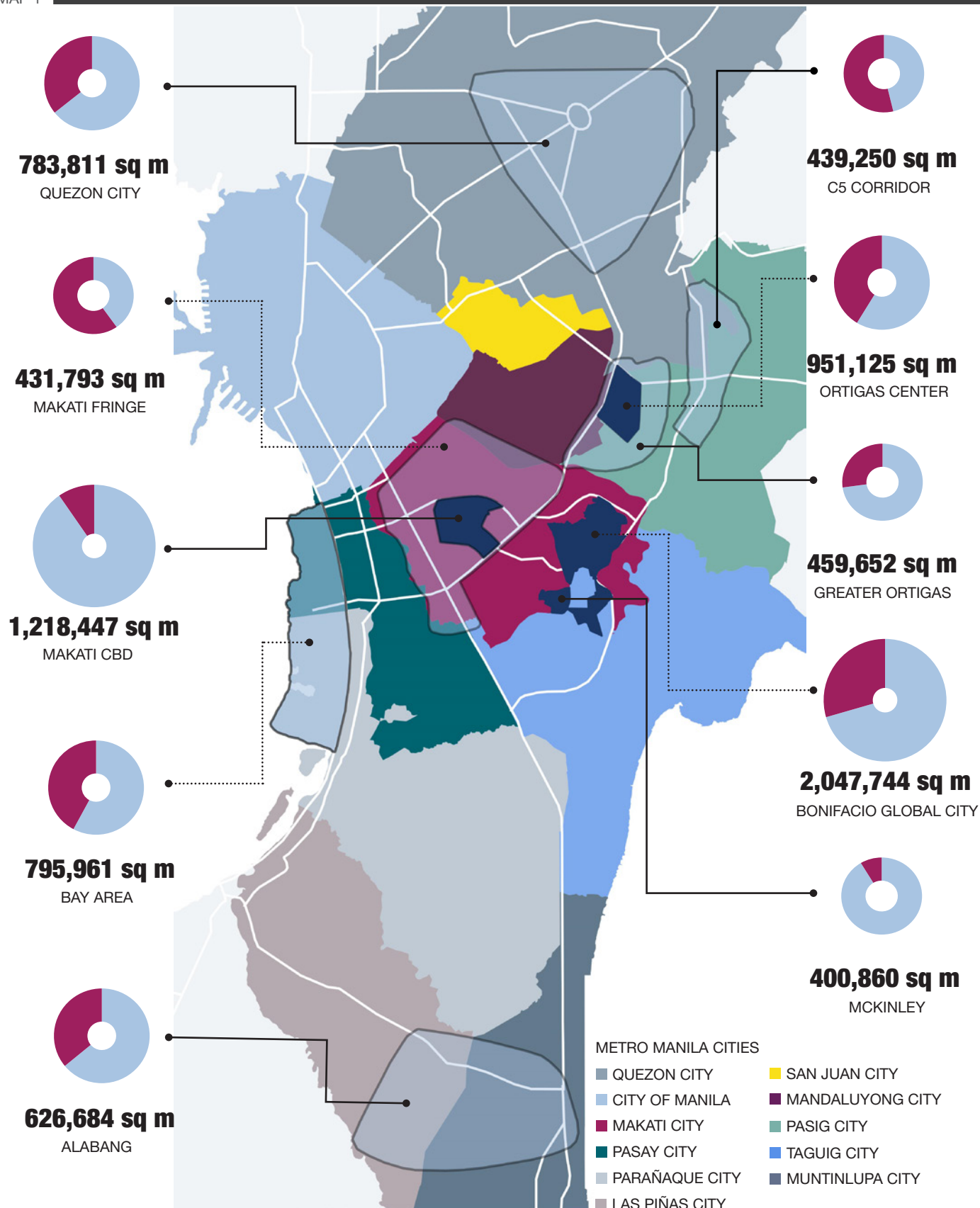


# Metro Manila Office Submarkets

## Future Stock (2020)

DEVELOPMENT PIPELINE (2017-2020) CURRENT STOCK

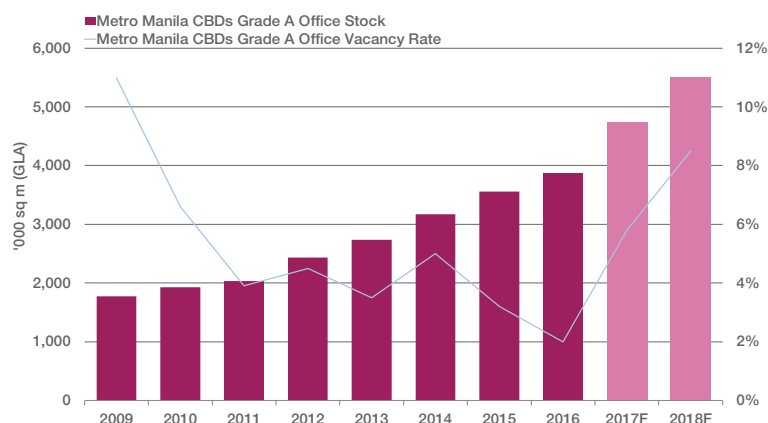
MAP 1





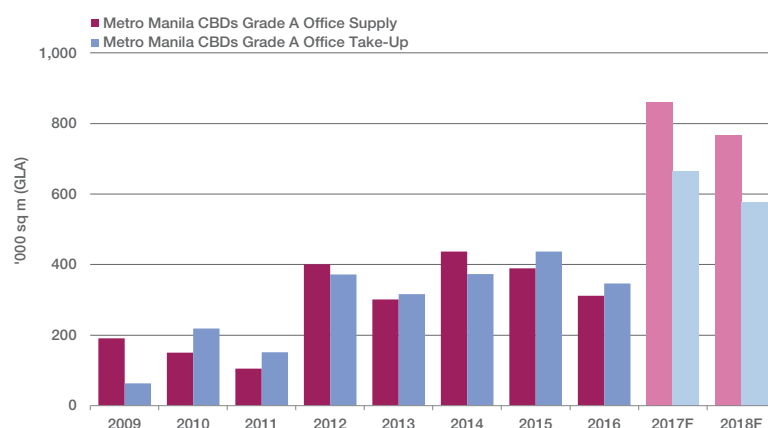
# Metro Manila

GRAPH 1  
**Stock & Vacancy**



Source: KMC Savills Research

GRAPH 2  
**Supply & Take-Up**



Source: KMC Savills Research

- New supply declined to 170,400 sq m in 3Q/2017, but net absorption kept its pace with 147,600 sq m. The overall vacancy rate marginally rose to 4.5% during the quarter from 4.2% in 2Q/2017. Market conditions remained tight in most submarkets with the exception of Quezon City.
- The Bay Area accounted for more than a third of the new supply followed by BGC and Quezon City. However, leasing activity during the quarter has mostly concentrated in the Bay Area with net absorption closely tracking new stock. This is mainly due to a more diversified collection of occupiers, such as the emerging offshore gaming segment and certain sectors of government.
- Rents have regained footing in 3Q/2017 as vacancies remained tight amid minimal additions to stock. To date, market performance is still ahead of our forecast, and we expect the office market to end the year with manageable vacancies. However, we are still of the view that landlords should become more accommodative in the coming months with the massive influx of supply until 2020.
- Lastly, the delays in granting PEZA certification for certain office buildings have become concerning. We have observed slower leasing activity in buildings without PEZA certification, and we expect the delays to affect future market performance. Again, we may expect landlords to be more flexible in accommodating the sensitive needs of expanding occupiers, but this may only slow the rise of vacancies if the delays persist.

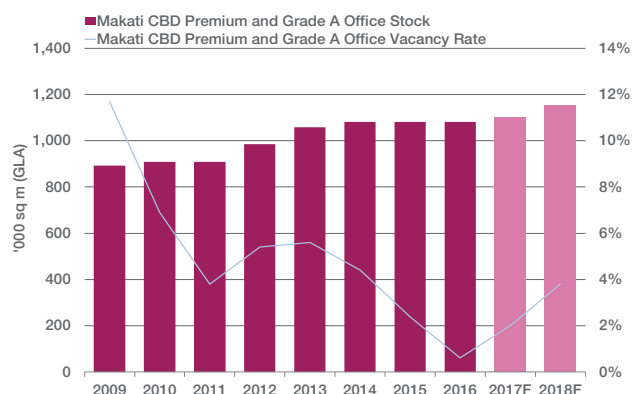
TABLE 1  
**Key Figures - Grade A Office**

3Q 2017	Makati CBD	BGC	Ortigas Center	Alabang	Quezon City	Bay Area
Average net rental rate (PhP/sq m/month)	1,044.2	919.4	665.5	634.5	721.9	722.3
Upper net rental rate (PhP/sq m/month)	1,500.0	1,200.0	825.0	700.0	800.0	800.0
Vacancy rate (%)	2.2%	4.3%	4.2%	4.1%	11.6%	4.0%
Current stock (sq m)	1,101,074	1,444,195	558,513	401,296	503,877	460,407
Development pipeline 2017-2020 (sq m)	117,373	603,549	392,612	225,388	279,934	335,554

\* Makati CBD includes Premium Offices

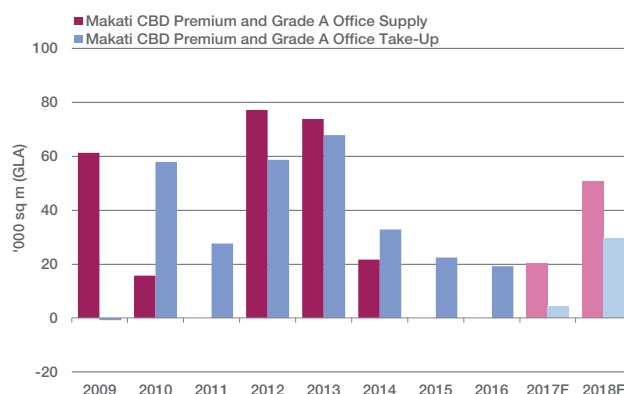
# Makati CBD

GRAPH 3  
**Stock & Vacancy**



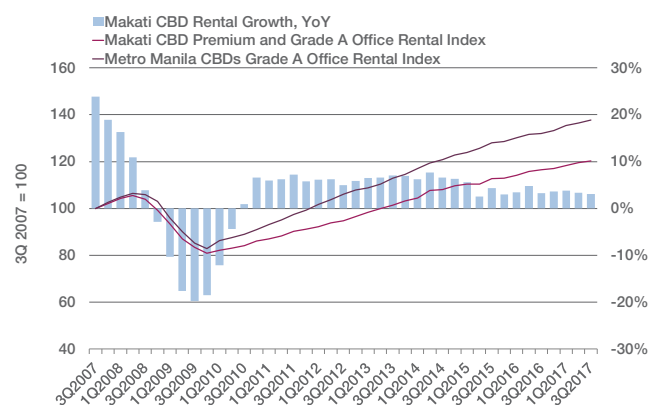
Source: KMC Savills Research

GRAPH 4  
**Supply & Take-Up**



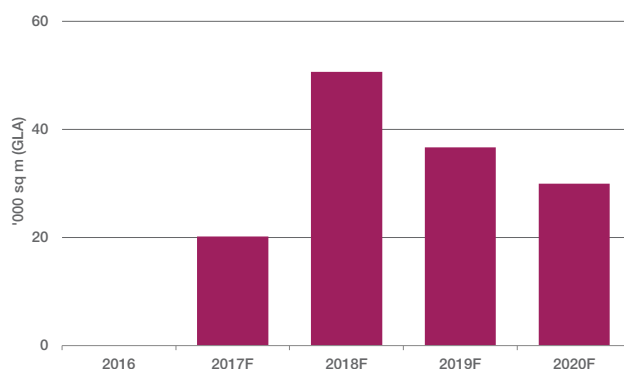
Source: KMC Savills Research

GRAPH 5  
**Rental Performance**



Source: KMC Savills Research

GRAPH 6  
**Development Pipeline**



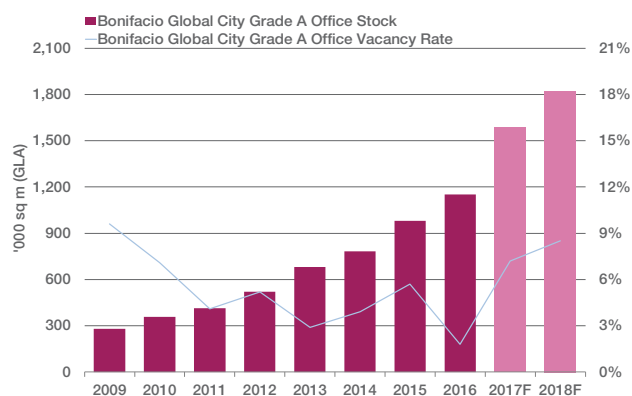
Source: KMC Savills Research

## MARKET IN MINUTES

- Occupier demand in the Makati CBD remained stable in 3Q/2017 after registering a net absorption of 9,900 sq m. The vacancy rate declined to 2.2% given that no new buildings were introduced during the quarter.
- Despite the tight market conditions, rentals escalated just by 3.0% YoY to an average rate of PhP 1,044.2 per sq m / month.
- We still expect very low vacancies in the coming quarters despite an additional 50,700 sq m of GLA in 2018. However, rental growth is seen to remain in low single digits despite the tightness in the market.

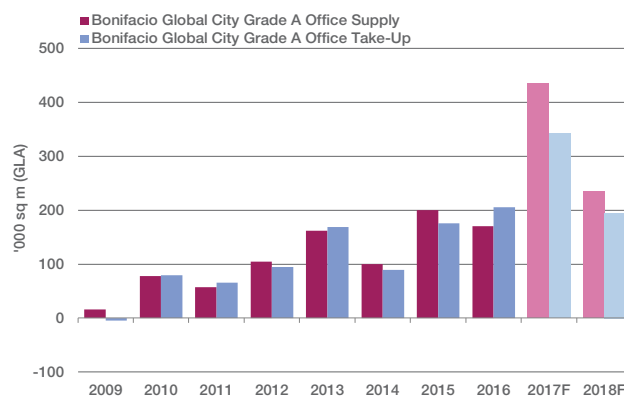
# Bonifacio Global City

GRAPH 7  
**Stock & Vacancy**



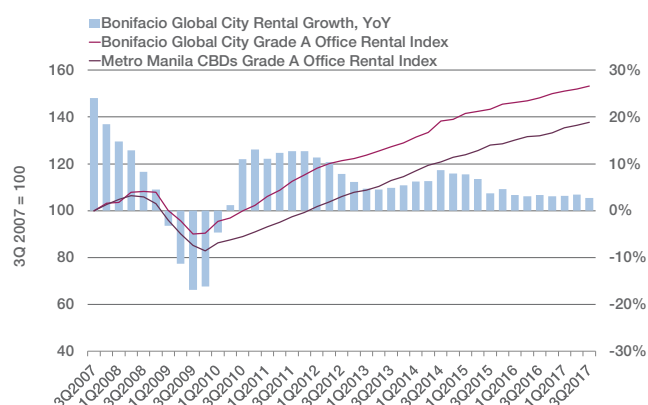
Source: KMC Savills Research

GRAPH 8  
**Supply & Take-Up**



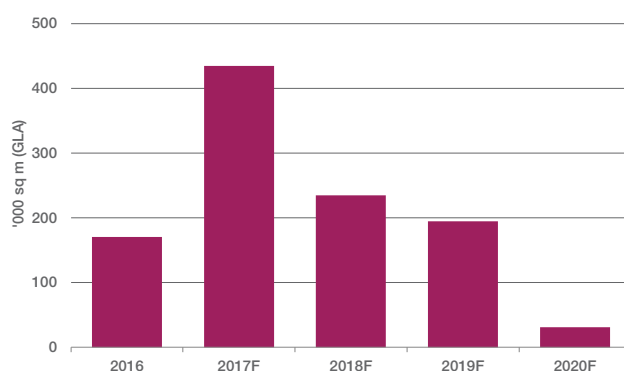
Source: KMC Savills Research

GRAPH 9  
**Rental Performance**



Source: KMC Savills Research

GRAPH 10  
**Development Pipeline**



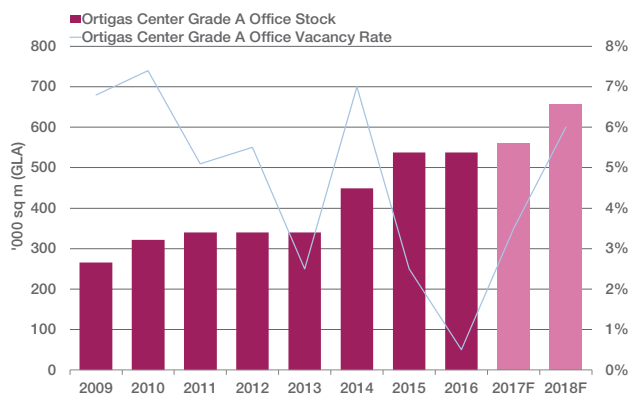
Source: KMC Savills Research

## MARKET IN MINUTES

- The BGC office market was relatively quiet compared to previous quarters with just 43,500 sq m of new Grade A office space going online in 3Q/2017. The completion of Vista Hub and Menarco Tower bolstered office stock, but vacancies rose to 4.3% of total stock.
- Rental performance was still relatively stable after posting 3.4% YoY growth. There were still no observed signs of rental growth tapering off as the submarket maintains its appeal whilst the minimal new supply.
- Although another 143,000 sq m of new supply is expected to be completed in 4Q/2017, we still expect BGC to end the year with a vacancy rate at single digits. However, a cause of concern is the delay in granting PEZA certification to the several office buildings slated next year. It is likely that take-up velocity will decelerate if this trend persists in the coming quarters.

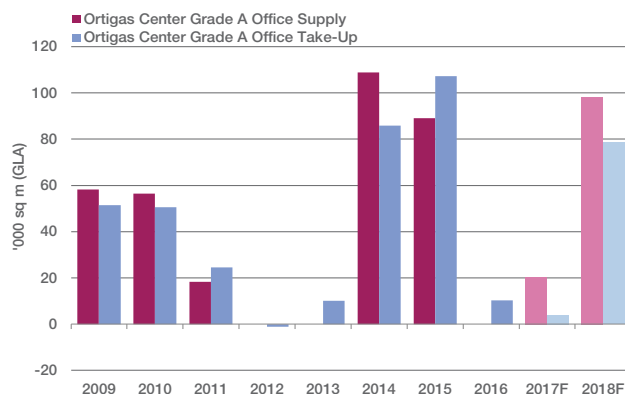
# Ortigas Center

GRAPH 11  
**Stock & Vacancy**



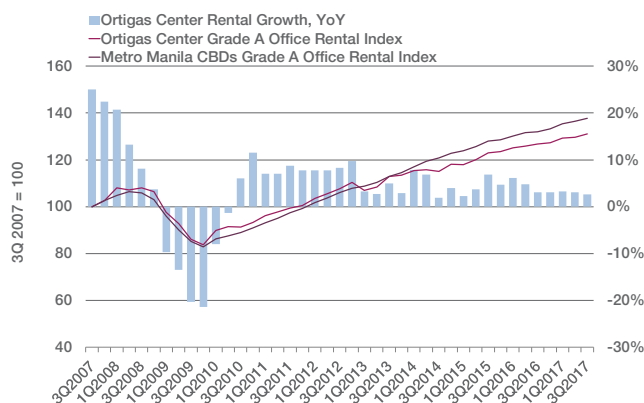
Source: KMC Savills Research

GRAPH 12  
**Supply & Take-Up**



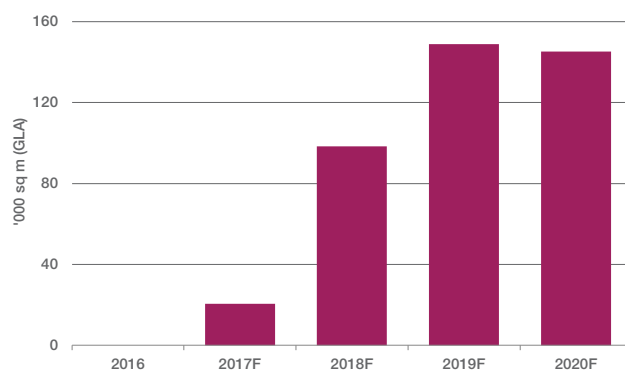
Source: KMC Savills Research

GRAPH 13  
**Rental Performance**



Source: KMC Savills Research

GRAPH 14  
**Development Pipeline**



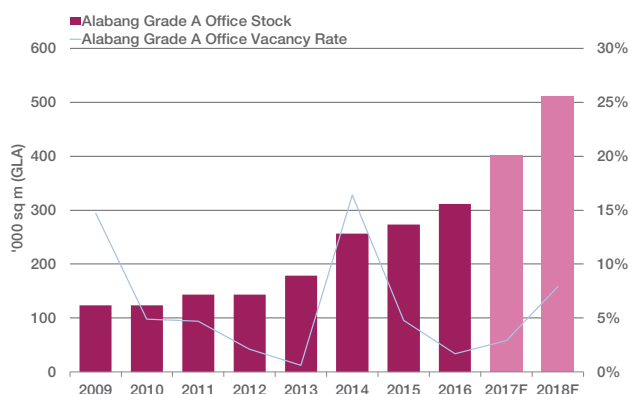
Source: KMC Savills Research

## MARKET IN MINUTES

- Vacancies jumped to 4.2% of total stock with the introduction of the IBP Tower this quarter. Net take-up was just 3,400 sq m compared to the new supply of 20,400 sq m.
- Despite the spike in vacancies, rental growth was quicker than average at 1.1% QoQ and increased the mean rental rate to PhP 665.5 per sq m / month.
- Ortigas Center is expected to add another 392,600 sq m by 2020 and is forecasted to put pressure on rents as vacancies increase. We anticipate that the additions of Cybergate Gamma and Jollibee Tower next year should further increase vacancies.

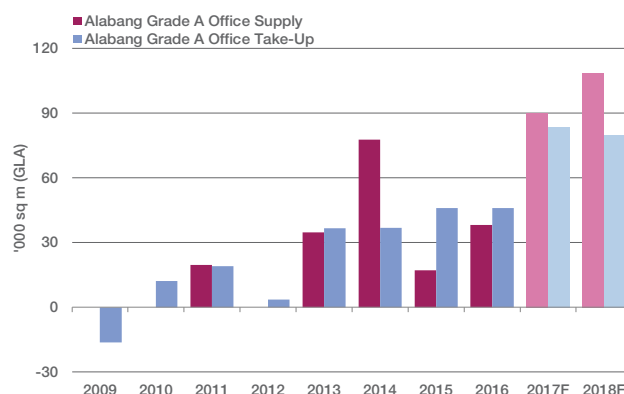
# Alabang

GRAPH 15  
**Stock & Vacancy**



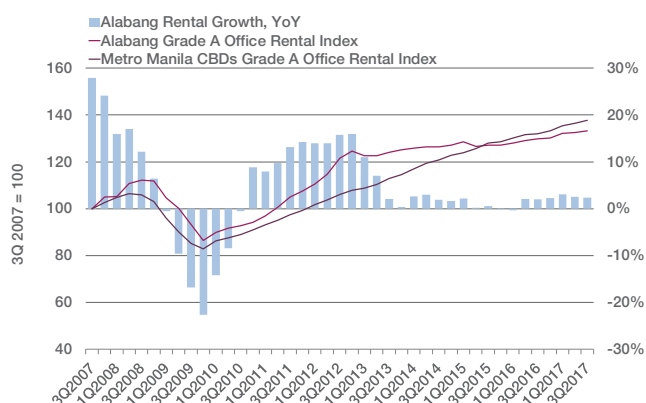
Source: KMC Savills Research

GRAPH 16  
**Supply & Take-Up**



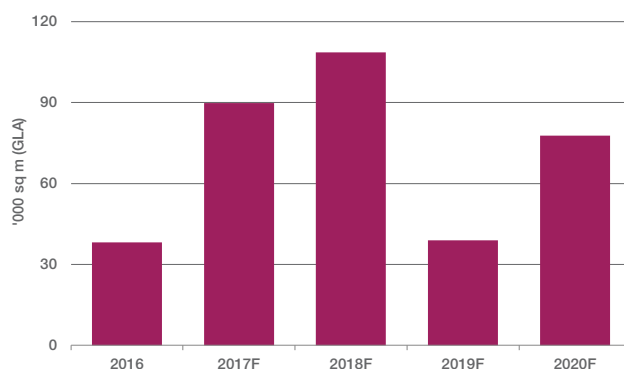
Source: KMC Savills Research

GRAPH 17  
**Rental Performance**



Source: KMC Savills Research

GRAPH 18  
**Development Pipeline**



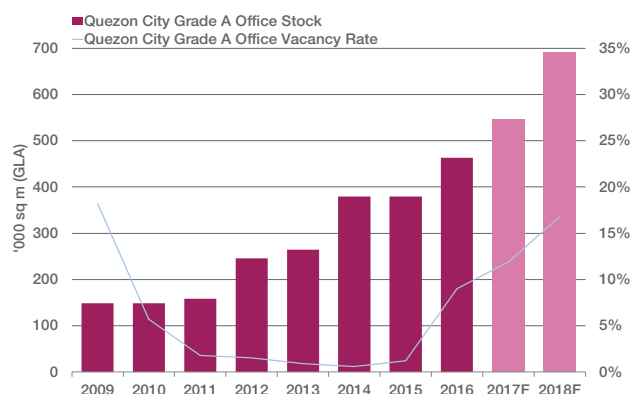
Source: KMC Savills Research

## MARKET IN MINUTES

- No new Grade A office buildings were supplied in 3Q/2017, but the submarket experienced a further decline in vacancies after recording a net absorption of 4,900 sq m.
- Rents remained affordable with an average rate of PhP 634.5 per sq m / month after growing just 2.8% YoY.
- Alabang is still on track to end the year with a vacancy rate below 5%. We still foresee sustained leasing demand in the coming months because of its very affordable rental rates – the lowest among the submarkets we cover.

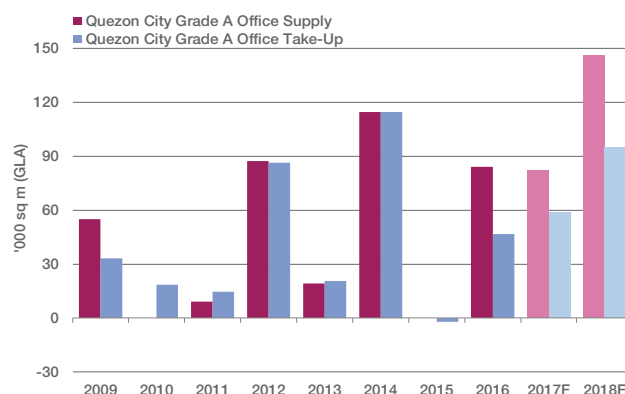
## Quezon City

GRAPH 19  
**Stock & Vacancy**



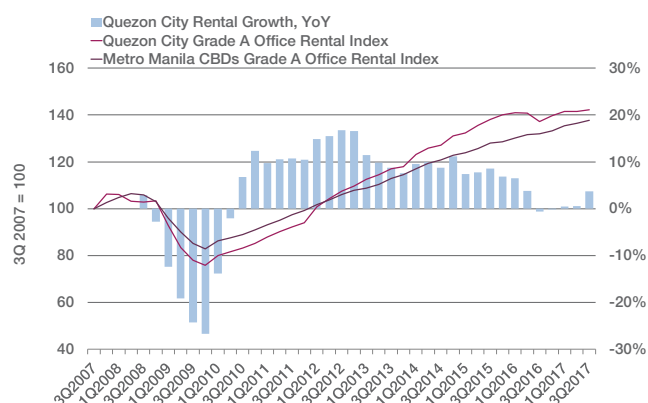
Source: KMC Savills Research

GRAPH 20  
**Supply & Take-Up**



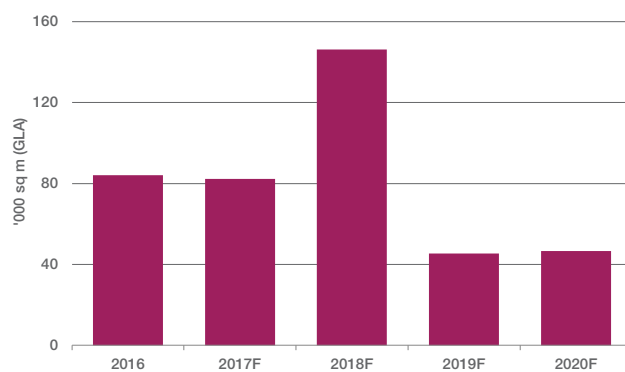
Source: KMC Savills Research

GRAPH 21  
**Rental Performance**



Source: KMC Savills Research

GRAPH 22  
**Development Pipeline**



Source: KMC Savills Research

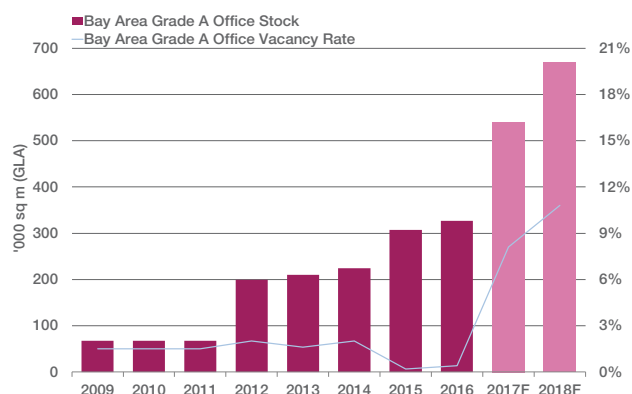
## MARKET IN MINUTES

- Despite the additional stock from Vertis North's first office building, net absorption in the submarket rallied in 3Q/2017 to 31,800 sq m. Although the vacancy rate has remained elevated at 11.6%, the rebound in net take up signals a cautious recovery in demand.
- After consecutive quarters of subpar performance, rental growth improved correspondingly with the turnaround in market absorption. Rents grew by 3.7% YoY this quarter – a stark contrast from the negative growth posted last 3Q/2016.
- Certain areas in Quezon City have continued to lag due to landlords' aversion to house tenants at more affordable rents. Although net absorption has recuperated this quarter, we still forecast an elevated vacancy rate until 2020.



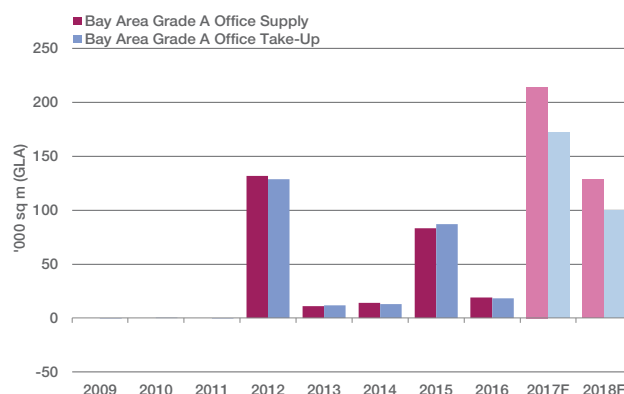
# Bay Area

GRAPH 23  
**Stock & Vacancy**



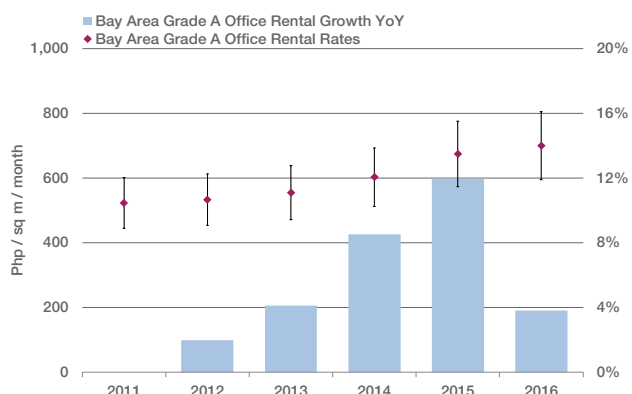
Source: KMC Savills Research

GRAPH 24  
**Supply & Take-Up**



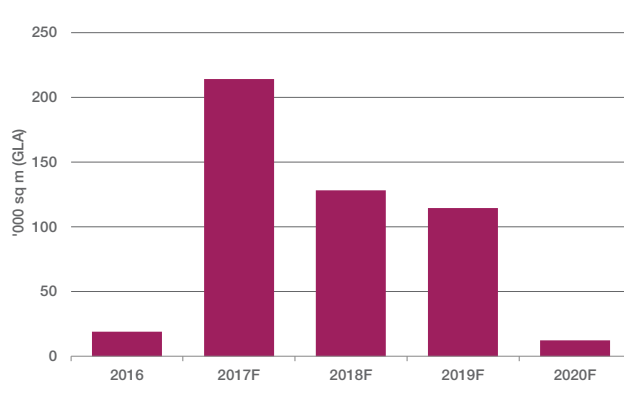
Source: KMC Savills Research

GRAPH 25  
**Rental Performance**



Source: KMC Savills Research

GRAPH 26  
**Development Pipeline**



Source: KMC Savills Research

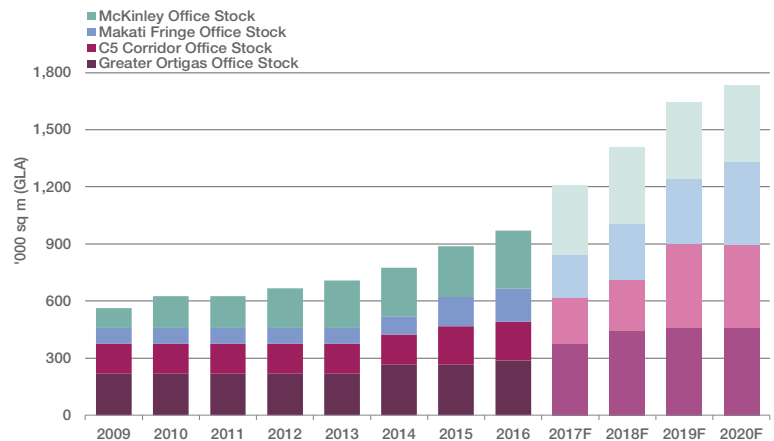
## MARKET IN MINUTES

- In 3Q/2017, the net absorption in the submarket was 62,200 sq m. The impressive leasing demand in the Bay Area was sustained despite the completion of 65,800 sq m from DoubleDragon Plaza Tower 2, iMet and the Biopolis.
- With the swift take-up of new office supply, rental performance rallied in 3Q/2017 with growth at 3.3% YoY.
- The Bay Area has sustained its performance from the first half despite the record new additions. Leasing demand in recent quarters has been driven by tenants from offshore gaming and some sectors of government. As such, rental growth has regained traction this past quarter and is likely to be sustained from further tightening in vacancies.

## Other Submarkets

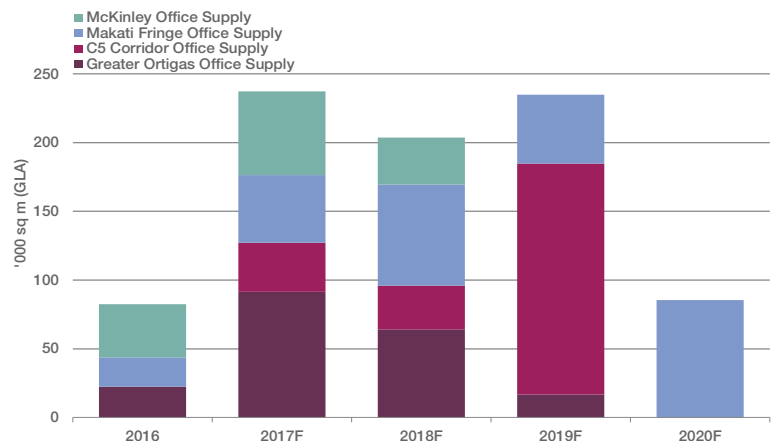
- Greater Ortigas welcomed the completion of the 30th Corporate Center by Ayala Land this quarter. The submarket is expected to complete another five buildings by 2019 and add as much as 125,000 sq m of GLA.
- There were no supply additions in the other three submarkets, but vacancies have slowly decreased during the quarter. Market conditions have become relatively tight in the Makati Fringe, McKinley and the C5 Corridor; although net absorption in these submarkets was just 15,100 sq m.
- Another 653,600 sq m of new supply is forecasted to come online until 2020. The influx of new office space should challenge market demand in the coming years. However, occupier demand is likely to be sustained in these four submarkets as potential tenants search for more affordable rates outside the main districts.

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 Arco Via.

### 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

# INSULAR LIFE MAKATI BUILDING

**LOCATION**

MAKATI CBD

**GRADE**

Grade A

**TURNOVER DATE**

Q2 2017

**GROSS LEASABLE AREA**

20,210 sq m

**NO. OF FLOORS**

14

**FLOOR PLATE (GLA)**

1,623 sq m

**HANDOVER CONDITION**

Bare Shell

**PEZA**

Yes

**24 / 7 CAPABILITY**

Yes

**BACKUP POWER**

100%

The Insular Life Makati Building was one of the first high-rise buildings in the Philippines when it was built on Ayala Avenue in the Sixties. Today, more than fifty years later, Insular Life is providing modern office space with all new equipment and facilities in an iconic building at the heart of Makati.

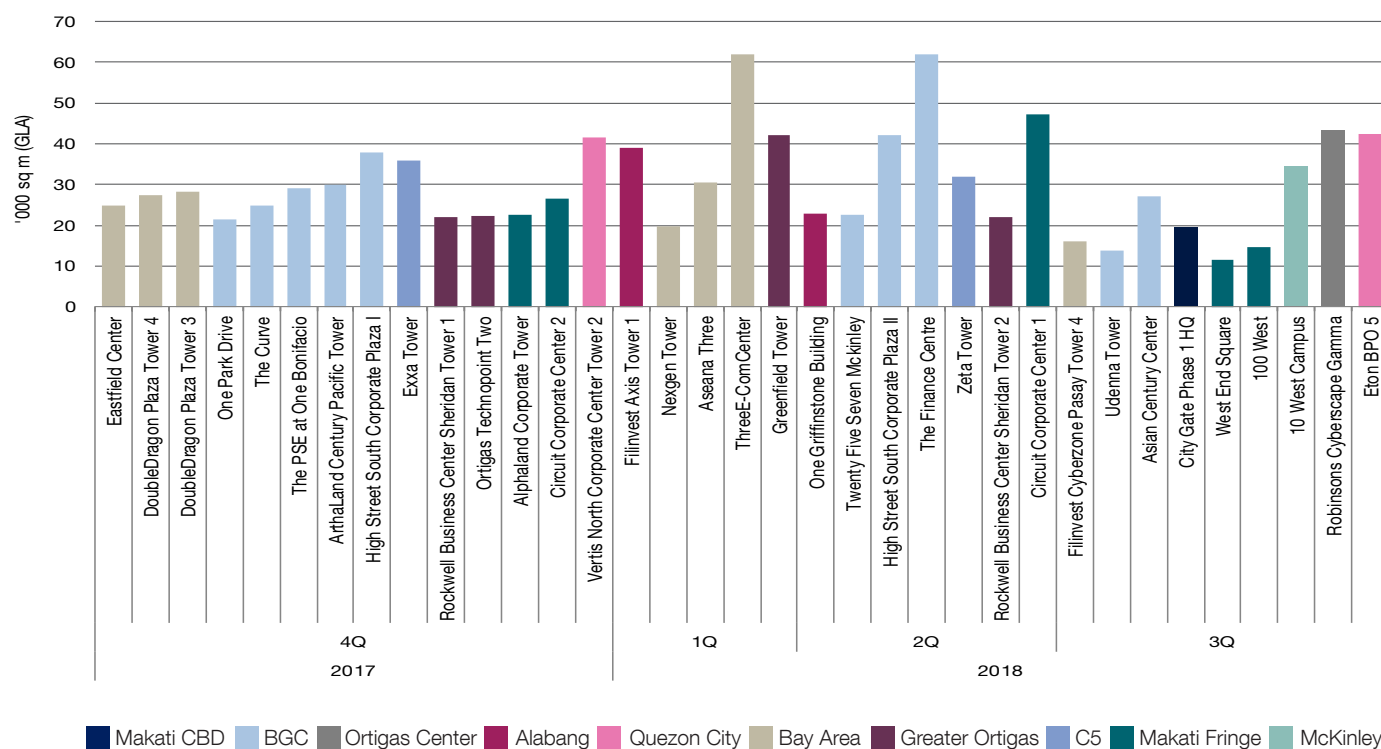
The building has recently finished renovations early 2017.

**New Building Features:**

- All new building systems and equipment
  - High-speed ThyssenKrupp elevators
  - Daikin VRF A/C Systems
  - Caterpillar N+1 Gensets
- New five-storey parking building
- 300-seater multi-purpose function hall

GRAPH 29

### 12-month Supply Forecast by Building



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