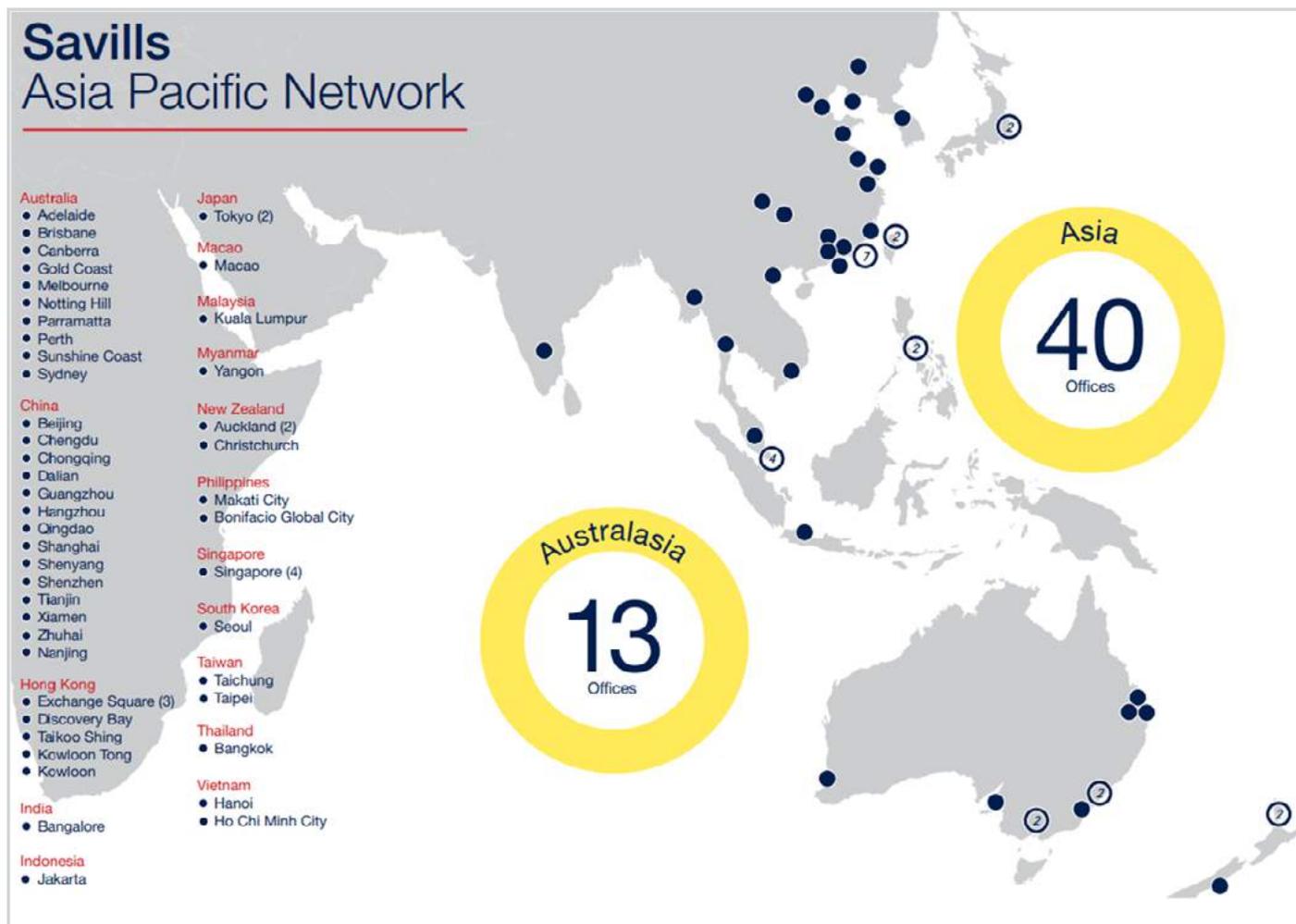


Metro Manila Property Outlook

2015



An introduction to KMC MAG Group



KMC MAG Group, Inc. is an award-winning real estate services firm headquartered in Bonifacio Global City, the fastest growing business district in Metro Manila. It is an international associate of Savills, one of the leading real estate firms in the world.

With over 100 employees involved directly in transactions for office, investments, retail, industrial & hotel locaters, as well as residential properties, KMC is a full service real estate firm and is widely recognized as the Best in Class Real Estate Agency in the Philippines by the International Property Awards. With services ranging from tenant representation, investments to property management, KMC MAG Group has successfully become the leading local

firm in the Philippine real estate services industry. The firm provides clients with consistent high quality service backed with strong market expertise.

Recently, KMC MAG Group was awarded as the Best Real Estate Agency Philippines by the International Property Awards.

With offices both in Makati and Bonifacio Global City, Philippines, KMC MAG Group's strengths are due to its in-depth market knowledge, high client satisfaction, and nationwide coverage. The company utilizes a process-driven team approach to deliver superior results and value for its clients.

The company's vision is to be the most preferred and leading provider of professional real estate services in the

Philippines. Our mission is that we aim to be the only real estate services firm in the Philippines operating with the needs of foreign and local clients in mind, providing high quality services: timely, responsive, and informative – merged with local expertise and passion. ■

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Greetings from the Managing Director

ANOTHER RECORD-BREAKING YEAR AHEAD

The Philippines' growth engine keeps purring, showing remarkable macroeconomic indicators and consistent GDP growth, which reached at 6.1% in 2014. It remains as one of the fastest-growing economies in the region; and while business sentiment in the country stays very optimistic, it is expected that the property markets will remain highly active throughout the year.

2015 will be the year of flagship projects with several new townships now being built at full swing. To capitalize on the current favorable conditions, local players have allocated record-breaking capital expenditure programs, which we expect will reach the PHP300-B level as the country heads towards a more liquid property market.

However, in terms of investments, the structural shortage of suitable assets hinders the growth of transaction volume. The office sector is still the most wanted asset class, thanks to highly-performing investment and occupier markets. Current low vacancies and high rental growth expectations are likely to compress yields together with strong investor demand.

In the residential market, yield compression has already been ongoing especially for luxury and high-end properties; thus its continuance is highly unlikely. Growth of the capital values now relies on rental market performance and tenant demand. For properties in the lower

segments, the scenario is quite different. Lower-end products are showing very attractive returns for the purely investment-minded buyers. The shortage of residential units in this segment and strong demand have not been foreseen by the developers, who are currently shifting the product offering towards the middle-income categories.

Market optimism has also reached the retail sector, which recently received an additional boost from the oil prices crash, further fueling market performance. As the country is heavily reliant on private transportation, the savings are expected to immediately increase disposable incomes. In fact, the market is already responding to the strong demand with the establishment of several new retail spaces across the city, with Entertainment City being the most interesting location for retailers as its new casinos are expected to attract new luxurious brands.

Supported by low interest rates, QE from central banks, and positive future expectations of investors, indeed the Philippine market's upswing and its high activity levels shows no signs of slowing down. 2015 will open up a wide range of opportunities for all market participants. As a full-service firm, we at KMC MAG Group are prepared to assist clients in welcoming these opportunities and finding the best solution tailored according to all real estate requirements. ■

EXECUTIVE SUMMARY



The Philippines remains as one of the bright spots in both the global and regional scale.
See page 05



Local players take advantage of the favorable market by pouring in liquidity with record investment agendas.
See page 08



The office sector remains as Manila's most wanted standard real estate investment class.
See page 09



The retail market is one of the top gainers, receiving a boost from the oil price crash.
See page 12



In the short- to mid-term, the hotels sector will still strive, supported by the favorable economic environment.
See page 13



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Economic Overview

POSITIVE ECONOMIC TREND CONTINUES

The global economy remains tenuous. Declining oil prices and changing global monetary policies are reshaping the economic environment, forcing economists to revise their forecasts.

The US economy is expected to be on a rebound with GDP forecasts of 3% for the next two years, but is still suffering due to the strong dollar that has led to a widening trade deficit. Meanwhile, Europe and Japan started another round of quantitative easing in fear of deflation, while in China, the growth is slowing down and the real estate sector's weak performance is creating downside risk. The net importers of oil are expected to receive some boost for domestic demand from the falling prices while net exporters, mainly Russia, will suffer the most.

Despite lower than expected growth, the Philippines still remains as one of the bright spots in both the global and regional scale. Its strong macroeconomic fundamentals - as reflected in its advantageous demographics, strong private and public consumption, growing outsourcing industry, and OFW remittances - protect the country from external shocks that may arise when capital flows return to developed markets when the global recovery gains momentum.

Philippine Economy Remains Rosy as Private Consumption Drives Growth

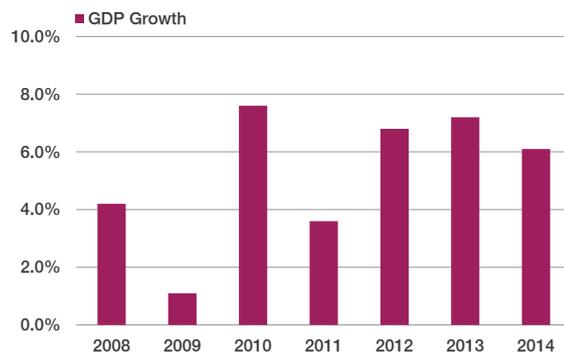
The Philippine economy posted the second fastest economic growth in Asia, next only to China. Defying the regional slowdown in the fourth quarter of 2014, Philippine GDP rebounded in 4Q/2014 posting a 6.9% growth supported by the Christmas spending,

bringing the overall GDP growth to 6.1% in 2014 according to the National Statistical Coordination Board (NSCB). This is less than what the government expected for the year with target of 6.5%-7.5% partly due to the decelerated government spending. However, public spending is expected to rise in 2015 as the government allocates 5% of the GDP purely to infrastructure projects giving special attention to much-needed upgrades for land transportation. The country's strong domestic demand also decelerated a marginal 0.3% to 5.4% in 2014. The private consumption is a vital part of the economy accounting for 68.9% of the total GDP and is likewise expected to increase in 2015 supported by low oil prices, OFW remittances and the rising middle class from the booming BPO industry. One of the few sectors that registered positive acceleration was exports, which grew a remarkable 12.1% bouncing the trade balance back



The PH economy posted the second fastest economic growth in Asia, second to China.

GRAPH 1
GDP Growth



Source: BSP

TABLE 1
Key Figures - Philippine Economy %

	2008	2009	2010	2011	2012	2013	2014
GDP	4.2	1.1	7.6	3.6	6.8	7.2	6.1
Private consumption	3.7	2.3	3.4	5.7	6.6	5.7	5.4
Public Spending	0.3	10.9	4.0	2.1	15.5	7.7	1.8
Export	-2.7	-7.8	21.0	-2.8	8.5	-1.1	12.1
Import	1.6	-8.1	22.5	-1.0	4.9	5.4	5.8
Average inflation rate	8.3	4.2	3.8	4.6	3.2	3.0	4.1
Unemployment rate	7.4	7.5	7.4	7.0	7.0	7.1	6.6
T-bill 91-days rates	5.8	4.3	1.3	1.7	0.5	0.5	1.2
T-bond 10-year rates	7.4	8.1	6.1	5.4	4.4	3.8	4.4

Sources: NSCB, Banko Sentral ng Pilipinas (BSP), Philippine Dealing and Exchange Corp (PDEX)

to surplus.

The main drivers on the supply side all performed well in 2014 despite a modest slowdown. The strong services sector, accounting for 56.7% of the total GDP, continued growing at 6.0% led by trade and real estate related services which contributed 3.5% to the overall growth whereas industry sector contributed 2.0% and agriculture the remaining 0.6%. Moving forward, the industry sector growth, led by manufacturing, will come into the spotlight in 2015 to support the exports when the ASEAN integration is expected to accelerate.

Global Monetary Policy

Meanwhile, global monetary policy remains a burning issue. While the FED is tightening and has ended the bond-purchase program, The European Central Bank announced the start of a new program to expand its balance sheet by US\$625 billion a year, while Japan’s central bank is boosting its economy with a US\$720 billion easing package. Similarly, in China, the government is trying to rejuvenate the local real estate markets by buying mortgages from commercial banks to speed up the mortgage lending and eventually the demand for properties. With these QE packages and all-time low interest rates, monetary policies have never been this

loose, and thus it is expected to reflect positively upon global asset prices.



Monetary policies have never been this loose, and thus it is expected to reflect positively upon global asset prices.

In the Philippines, the domestic liquidity growth is expected to moderate as BSP is preparing to take appropriate actions when needed. The recent policy rate hike to 4.0% is expected to release inflation pressures, which averaged at 4.1% in 2014, and hit the target of 3% in 2015. The falling oil prices already helped ease inflation which now stands at 2.4% further helping the central bank to maintain the stable inflation environment in 2015.

Foreign Direct Investments surpassed target

Supported by the sound macroeconomic fundamentals and

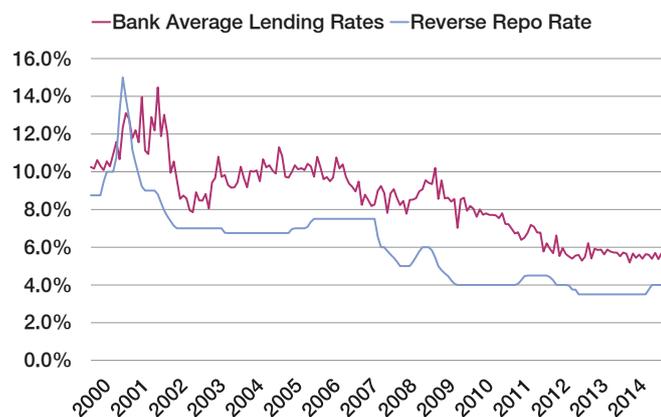
the country’s investment ratings, the investments in the country stayed solid. In the first 10 months of 2014, foreign direct investments amounted to US\$5.3 billion surpassing the US\$4.4 billion target for the year but still lagging behind the neighbors like Vietnam which posted a US\$32 billion FDI in 2014. In the meantime, mainly reflected by the rebound of US economy, the foreign portfolio investments registered a net outflow of US\$310 million compared to last year net inflow of US\$4.2 billion. Seemingly, US based fund managers are closing their positions as more capital is escaping to US in search of less risky investments, accounting for around 80% of total outflows. Majority of these investments come and go to PSE listed securities and to government bonds.

Furthermore, OFW remittances are growing at a steady rate of 6.2% YoY and are expected to reach the US\$26 billion level for 2014. The remittances are a vital part of the economy accounting to around 10% of the GDP, fueling the domestic demand and residential property markets.

ASEAN integration and what it means for the country

2015 will be the year when the ASEAN Economic Community (AEC) will take steps to create a single and dynamic open market

GRAPH 2
Key Interest Rates



Source: BSP

GRAPH 3
Peso per US Dollar Rates



Source: BSP

for its membership countries. The AEC's aim is to remove barriers for the free flow of goods, services, investments, capital and labor to achieve greater global competitiveness. This is expected to provide an attractive platform for companies to operate where they can utilize the low-cost labor in one country, manufacturing capabilities in others while having access to Singapore, one of the main financial hubs of the world.

However, it is hard to see the Philippines as the top gainer from AEC for the short term. This is due to the fact that tariff rates have been close to zero since 2010 and the foreign trade between the ASEAN countries has actually decreased. On the other hand, the upside of the integration will become significant in the long term since economic integration increases competition. As the specialization of each country gains momentum, ASEAN products will likely become more competitive globally.

To fully capitalize the opportunities that AEC brings, however, it is essential to have the political

willingness to support the unified agenda. For the Philippines, the key factors include larger allocation for infrastructure spending with proper urban planning to bring down the high logistics costs and creating better incentives for companies by loosening the foreign investment restrictions and improving the ease of doing business. This will speed up the modernization of equipment and processes, build the workforces' skills, and hence improve the productivity.

Forecast

Overall, growth is expected to accelerate in 2015 from last year. The Philippine government remains rather bullish that the country can sustain a growth of 7-8% for the next two to three years whereas the major institutions are more conservative. Asian Development Bank (ADB) forecasts the Philippines to grow by 6.4% in 2015, outpacing the Southeast Asian growth of 5.8%. The IMF also upgraded the country's projection to 6.6% compared to the expected 5.2% growth in the ASEAN 5 (Indonesia,

Malaysia, Philippines, Thailand and Vietnam). The World Bank, on the other hand, pegs the country's 2015 growth at 6.5%, much higher than the expected global growth of 3.0% and developing economies' forecast of 4.8% in 2015.

Despite some challenges, the Philippines' stable macroeconomic fundamentals, the government's commitment to reform, the central bank's prudence, and steps towards opening itself to foreign trade via the ASEAN integration highlight significant economic potential and sustainable growth in the long term. ■

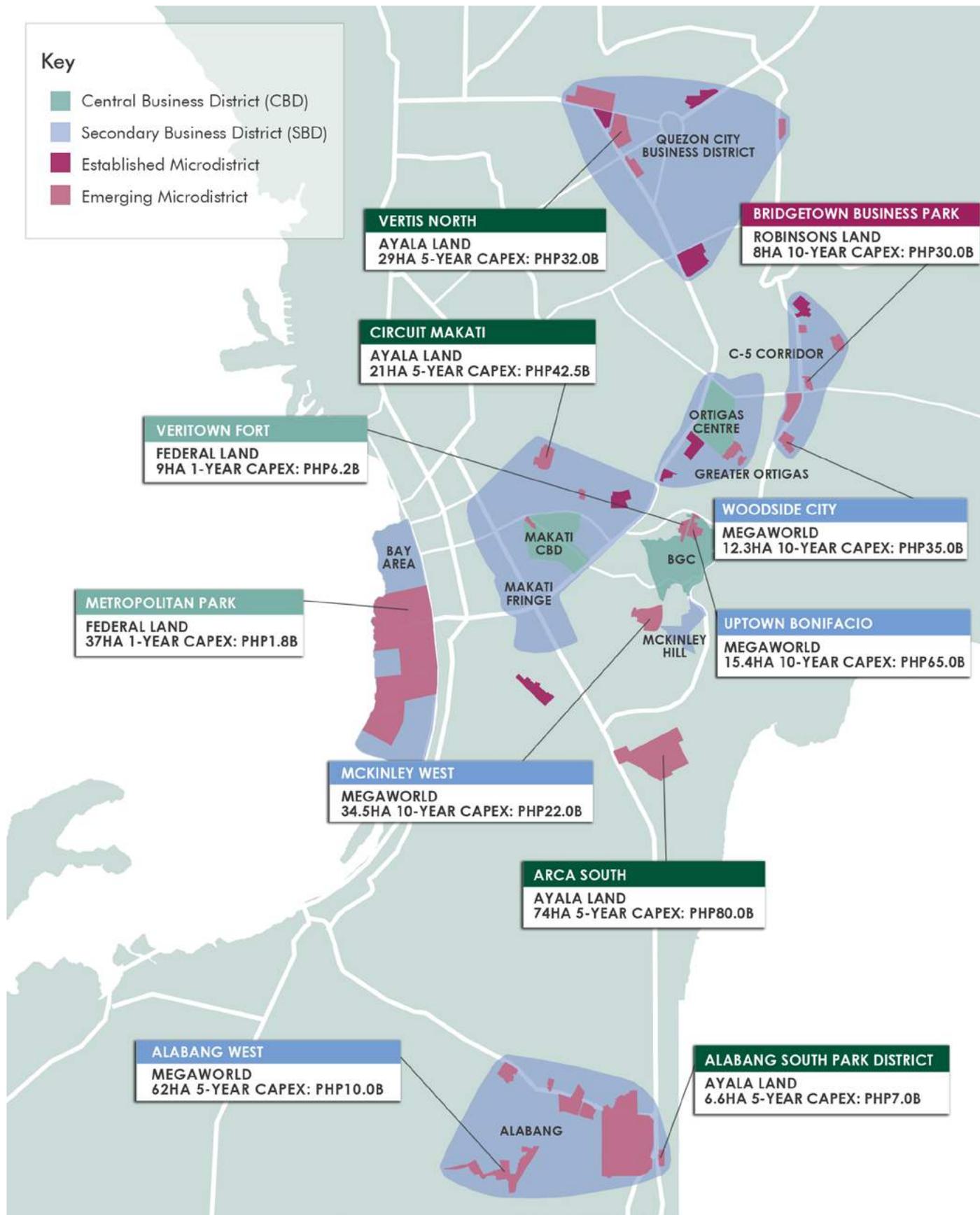


Gains from the AEC will become significant in the long term since economic integration increases competition.



MAP 1

Upcoming Metro Manila Townships



Source: KMC Research & Consultancy

Real Estate Market Overview

MARKET REMAINS FAVOURABLE

The continued rebalancing of the global financial system is shaping real estate markets across the world, and Manila is no exception.

Local developers are very aggressive in buying land and increasing their already sizeable portfolios as the bullish market shows no signs of slowing down. Several townships are being built in every corner of the country, giving cities in dire need of urban planning a much-needed facelift. 2015 seems to be the year for flagship projects: Megaworld's capital expenditures program is now focused on McKinley West and Uptown Bonifacio; SM is planning to reclaim more land while expanding its Mall of Asia Complex along with other ongoing projects; and Ayala is already in the initial phase of developing its townships Arca South in Taguig, Makati Circuit, and Vertis North in Quezon City. Aside from the top three players, other major players are also joining the township

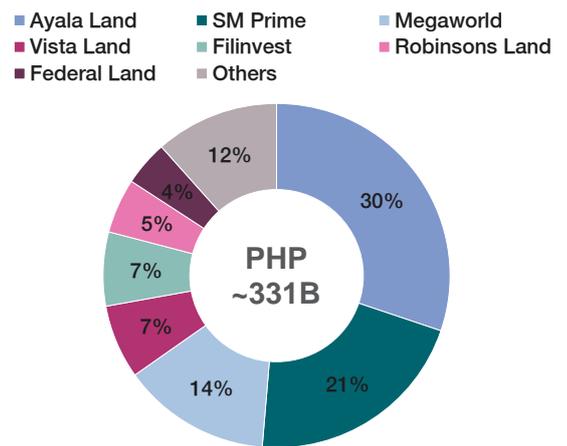
bandwagon: Federal Land with its Metropolitan Park (located near Mall of Asia Complex) and Veritown Fort in BGC and Vista Land's Vista City in south of Metro Manila.

To build these townships, players are pouring in massive amounts of liquidity with record-breaking investment agendas. Capital expenditures programs are expected to reach the PHP300-B (US\$6.7-B) level in 2015, covering land acquisitions, ongoing projects, and new launches. Despite being well-capitalized, however, developers are still in need of additional financing, causing increased activity in securing financing from both the equity and debt markets. The issuance of bonds almost doubled last year as developers raised PHP 63.9B in total from the debt market. This was mainly used to support the massive capex programs and to partly refinance earlier debt as the cost of borrowing has reduced

significantly.

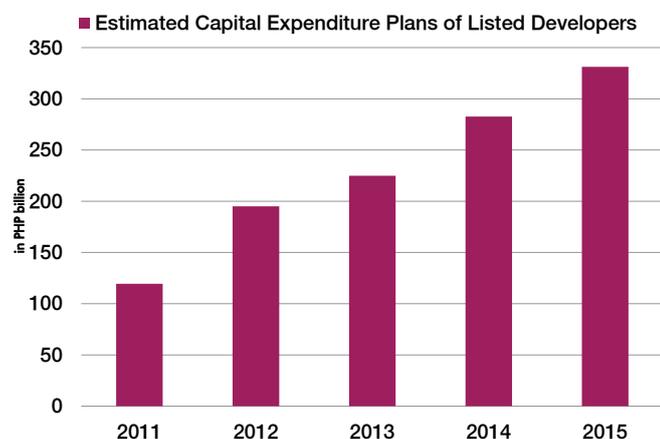
In terms of equity markets, the marketplace has seen IPO newcomers; Double Dragon recently went public during the second half of 2014. On the other hand, mass housing developer

GRAPH 4
Estimated 2015 CAPEX By Developer



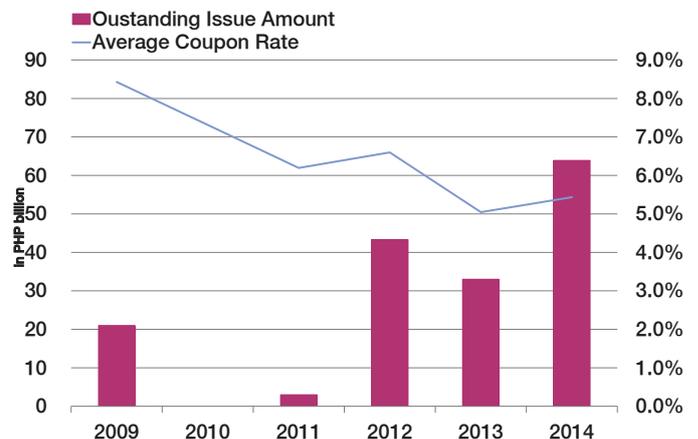
Source: KMC Research & Consultancy

GRAPH 5
Estimated CAPEX Plans of Listed Developers



Source: KMC Research & Consultancy

GRAPH 6
Issued Bonds of Listed Developers



Source: KMC Research & Consultancy

TABLE 2

Top Ten Investment Deals in 2014

Property / Portfolio	Type of Use	Time	Location	Est. Price (PHP)	Est. Price (US\$)	Buyer
Resorts World Bayshore (95% interest)	Dev Site	Q3/2014	Bay Area	16.8 bPHP	386.6 m\$US	Travellers International Hotel Group
Urban DECA Pasig	Dev Site	Q1/2014	Pasig	2.2 bPHP	48.5 m\$US	8990 Holdings
TriNoma Mall (24% interest)	Retail	Q4/2014	Quezon City	2.1 bPHP	47.0 m\$US	Ayala Land
Accralaw Tower	Office	Q3/2014	BGC	2.0 bPHP	45.7 m\$US	Baring Private Equity
Shangri-La at the Fort (20% interest)	Hotel	Q2/2014	BGC	1.7 bPHP	38.0 m\$US	Shang Properties
Future Tondo Mall	Dev Site	Q2/2014	Manila	1.6 bPHP	36.8 m\$US	8990 Holdings
Jaka Tower	Dev Site	Q3/2014	Makati CBD	1.4 bPHP	31.2 m\$US	Ayala Land
Fort Bonifacio Lot 7-3	Dev Site	Q3/2014	BGC	0.8 bPHP	18.5 m\$US	Focus Palantir
Philex Mining HQ	Dev Site	Q3/2014	Pasig	0.8 bPHP	17.8 m\$US	DMCI
Philcomcen Property	Dev Site	Q1/2014	Ortigas Center	0.8 bPHP	17.4 m\$US	Filinvest Land

Source: KMC Research & Consultancy

ProFriends has set the date for its initial offering early this year.

Investment demand stays strong

There is still significant investor interest in Philippine property; however, the everlasting obstacle of structural shortage of suitable investment products discourages investors, especially those from overseas. Thus transaction volume remains relatively low and is mainly concentrated on development sites. Among the most notable transactions in 2014 are Megaworld's consolidation of Resorts World Bayshore and the asset share between Alphaland and Ashmore. Other than these, the ticket sizes stayed below PHP2.5B and majority were located within Metro Manila.

Last year also brought in a number of new noteworthy foreign

investors when Baring Private Equity acquired an office tower in BGC and the venture between Aman Resorts and Peak Hotels purchased the Aman-portfolio including Amanpulo in Palawan. However, majority of the buyer profile consists of domestic developers and a few local retailers who bought land in BGC.

2015 is going to be busy

At the moment, there are a couple of interesting assets offered for sale which will likely make this year very busy. Again, it is no surprise that the office sector remains as Manila's most wanted standard real estate investment class with current yields across the CBDs ranging from 8.5 to 10.0% due to the strong underlying leasing demand. These yields offer a very positive spread of 4.4% over the 10-year government bond which

has attracted a lot of interest especially from overseas. However, in order for the market to grow, a number of large and high-quality assets need to be put on the market.

We see that the continued strong interest for prime assets will lead to a downward pressure on yields as the risk premium is now at an all-time high even though risk to real estate has not yet increased to support it. The current high liquidity of the financial system with new rounds of quantitative easing from Europe and Japan can also bring an added boost, as it is likely to trickle-down to Manila. This being said, we believe the current growth of capital values could reach 7.5-10% growth in 2015 and yields will continue compressing as it seems that there is still room for it. ■

Office

The current landlord market trend in the office sector is most likely to continue due a strong demand from the outsourcing industry. Supply shortage is expected to ease as a significant number of new spaces, majority of which will be in BGC, will be online this year. Though the marketplace is bullish that new supply will be taken up, as can be inferred from the single-digit vacancy rates across the districts, the additional spaces will create downward pressure on rental prices, especially in BGC.

Net absorption of Grade A and Premium office space in 2014 was an estimated 430,000 sq m while the overall vacancy rate remain low at 4.6 % in Q4/2014, backed by IT-BPO and KPO occupiers. There is also a noticeable increase in demand for traditional office spaces buoyed by favorable economic conditions.

Grade A rental rates within the major CBDs remain robust, posting a 6.6% increase YoY in 2014 with the average monthly rent pegged at PHP829.9 per sq m. Meanwhile, capital values of Grade A and Premium office buildings increased 9.8% averaging at PHP 131,889.7 per sq m. Looking ahead, the strong rental market performance as well as the high level of liquidity that

will flow to the real estate sector will support the current capital values growth.

The upswing for the office market and commercial property sector has encouraged developers to launch several office developments across Metro Manila. This year alone, around 560,000 sq m. of new office space is expected to rise across the CBDs. Of this amount, almost half will be situated in BGC, whose supply will peak this year. This may force landlords to consider lowering the rates in order to fully lease out their buildings given temporarily changed circumstances i.e high supply of office space.

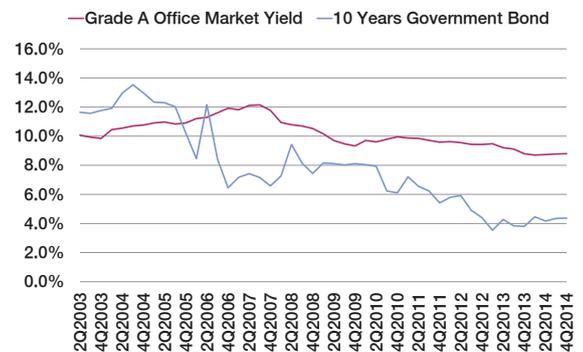


A significant number of new spaces (560,000 sq m) will come online this year, majority of which will be in BGC.

However, landlords can still remain optimistic as the IT-BPO industry continues its growth and becomes closer to reaching its target of

creating 1.3 million jobs by 2016. This would give the market a lot of confidence as the supply of new office buildings will peak again in 2017. ■

GRAPH 7
Office Yields



Source: KMC Research & Consultancy

GRAPH 8
Office Supply & Take-Up



Source: KMC Research & Consultancy



Residential

In the residential rental market, the rates continued growing although at a modest rate. The demand for residential properties is still high but shifting towards middle-income products, which will help sustain the overall market growth. The demand is derived mainly from two sources: OFW remittances and the young demographics employed by the booming BPO sector. OFWs are investing in residential condominiums while the latter, currently enjoying increased purchasing power, are increasingly able to afford condominiums.

Due to strong demand, the construction sector remains active as new condominiums are being built. It is estimated that there are around 130,000 condominiums in the pipeline across Metro Manila. Partly due to the significant new supply, the rates have been growing at a rather moderate rate

especially in the high end segment as the lease rates increased by 3% to 4% in 2014 and the prices by 4% to 5% on average resulting in an average yield of 4.5%. Meanwhile in the lower segments, the growth rate remained higher, illustrating the strong demand in these segments.



Residential rates continue to grow at a modest rate with focus shifting towards middle-income products that sustain market growth.

Despite the increasing population, access to financing still remains an obstacle to most would-be condominium owners. Majority of the growing middle-class still do not have the capability to pay off bank mortgages. As a workaround, developers take on the bank loan and offer relatively more affordable payment schemes for alternative financing, which has been acceptable so far. However, BSP's tightening might scale back real estate lending, as they are trying to manage the banks' real estate exposure, which might hinder the growth of residential sales. This may not be seen as too much of a problem by major developers who have access to capital markets, but for second tier and mid-size players, it might cause a bumpy road ahead. As such, listed companies have been fairly active on the bond markets, partly as a precaution should this occur, although one could conclude that BSP's motivation behind its action is to control the smaller players and prevent them from taking too much risk.

The actions from BSP can be seen as wise and preemptive but it can be questioned if the central bank is being too conservative. According to the World Bank, domestic credit to private sector is still relatively low compared to surrounding countries, comprising only around 35.8% of the GDP. In Indonesia, the corresponding rate is 37.9% but given the fact that the key policy rate is at 7.75%, this is understandable. On the other hand, in other countries in the region, the rate is already at 100% or above, illustrating the potential of what lies on the residential market once the big audience qualifies for bank financing. However, this underlying demand can only be tapped with the right product so that the buyers can come. Needless to say, the projects that are reasonably priced will continue to have a significant market. ■

TABLE 3

Residential Key Figures as of 4Q2014

Segment	Market	Capital Values (Php / sq m)	YoY Change	Rents (Php / sq m / month)	YoY Change	Equivalent Yield	YoY Change
High End PPP	Makati CBD	195,970.5	4.5%	1,072.3	3.5%	4.10%	-5 bps
	Rockwell	158,093.4	4.0%	979.1	3.8%	4.75%	-5 bps
	BGC	160,604.4	3.7%	1,099.2	3.2%	5.35%	-5 bps
	Ortigas	155,043.3	5.7%	847.3	3.1%	4.10%	5 bps
Upscale PP	Makati CBD	149,857.2	8.3%	1,033.3	5.2%	5.55%	-20 bps
	BGC	122,722.2	7.2%	1,003.6	6.1%	6.55%	-10 bps
	Ortigas	104,371.8	7.0%	565.3	4.3%	4.00%	-35 bps
Mid End P	Makati CBD	111,872.3	7.5%	946.9	5.5%	6.80%	-20 bps
	BGC	115,137.6	7.2%	872.0	5.4%	6.20%	-5 bps
	Ortigas	94,785.1	8.6%	548.1	6.1%	5.15%	-40 bps

Source: KMC Research & Consultancy

Retail

Driven by high GDP growth, increased OFW remittances, and rising incomes due to the massive BPO industry, the Philippine retail market remains as one of the top gainers. Aside from the booming economy, the retail industry also received a boost from the oil price crash. According to Nielsen’s Consumer Confidence Report, Filipinos now rank second as the most optimistic consumers globally.

The top three major domestic players still dominate the retail market, namely Ayala Land, SM Prime, and Robinsons Land, and are estimated to account for 87.5% of total GLA in the country. Demand for tenancies within the malls is still at its peak, encouraging developers to launch more projects. Currently in Metro Manila, there is approximately 600,000 sq m. of new retail space in the pipeline.

With their success in Metro Manila, which is becoming well-served by shopping malls, developers explore more and more opportunities in the provinces and neighboring cities. One example of this is SM City Seaside, a much anticipated development in Cebu with a gross floor area of 472,400 sq m. It is slated to break into the category of being one of the world’s largest shopping malls once it opens in 2015.

Aside from the major players, in the community mall segment, Cosco Capital and DoubleDragon Properties are also executing aggressive retail expansion strategies mainly outside the Metro Manila. DoubleDragon is on track with its goal of having 25 malls by the end of this year, after securing the 15th site last December. In total, its goal is to have 100 malls by 2020. Meanwhile, Cosco Capital is planning to put up 8 malls over the next two years. It recently acquired a portfolio of five commercial properties and nine supermarkets that are under the Puregold brand.

The high domestic demand has also piqued the interest of major

retailers, as several international brands have opened doors in the Metro Manila market. Newcomers include Pottery Barn, Pull & Bear, Oliviers & Co, Old Navy and H&M, which opened 4 branches last year. Luxurious brands such as Alexander McQueen and Givenchy have also recently opened locally, proving that there is also demand in the Philippines for this segment.

Foreign companies have also inked deals with local partners for easier market entry, given that entrance into PH market is often

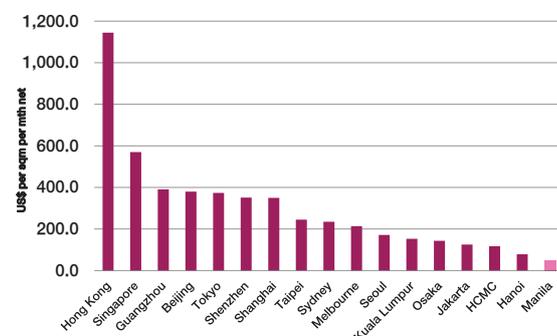


Filipinos now rank second as the most optimistic consumers globally.

difficult. One of these local firms is the SSI Group, which currently has 80 international brands in its portfolio. With this, top distributors are expected to maintain strong market positions.

Aside from the newly-built malls, the retail industry will also focus its attention on the casinos in Entertainment City, as it will be the new home to several luxurious brands once the retail sections become fully leased out within the next year or two. ■

GRAPH 9 Prime Malls Rental Benchmark



Source: Savills Research & Consultancy

TABLE 4 Developer’s Retail Portfolio

Developer	No. of Malls		GLA (million sq m)		
	2014	2015F	2014	2015F	%-Change
SM Prime	50	55	3.26	3.67	12.4%
Ayala Land	43	45	1.33	1.41	5.6%
Robinsons Land	38	39	1.08	1.15	6.8%
Others	20	21	0.81	0.88	7.9%
Total	131	139	6.48	7.10	9.5%

Source: KMC Research & Consultancy

TABLE 5

Retail Pipeline 2015 - 2016

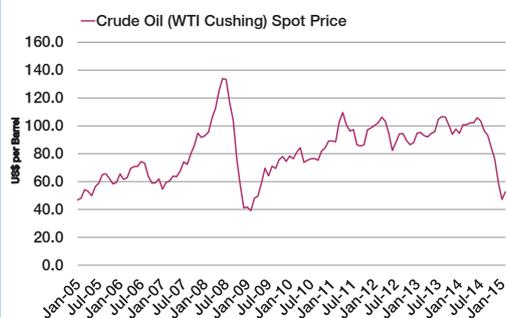
Completion	Development	Location	Developer	Size (sq m)
2015	Boni Stopover	BGC	Ayala Land	6,000
2015	McKinley Exchange	Makati Fringe	Ayala Land	2,000
2015	Paradigm Pasig	Ortigas Center	Ayala Land	28,000
2015	Robinsons Nova Market (Expansion)	Fairviews	Robinsons Land	10,000
2015	SouthPark Alabang	Alabang	Ayala Land	47,000
2015	The Block, SM City North Edsa	Quezon City	SM Prime	N/A
2015	The Grand Canal Mall (Expansion)	McKinley Hill	Megaworld	20,000
2015	Festival Supermall (Expansion)	Alabang	Filinvest	44,000
2016	Quezon City Mall	Quezon City	SM Prime	N/A
2016	SM Mall of Asia (Expansion)	Bay Area	SM Prime	200,000
2016	Uptown Mall	BGC	Megaworld	37,000
2016	Vertis Mall	Quezon City	Ayala Land	47,000
2016	Wilcon City Center	Makati Fringe	Wilcon	15,000

Source: KMC Research & Consultancy

OIL PRICES SNAPSHOT

GRAPH 10

Oil Prices



Source: US Energy Information Administration

As the falling oil prices transmits to the real economy through the terms of trade of the oil exporters and importers, net importers are likely to feel the positive impact, although this still depends on the oil intensity of the country. Lowered oil prices increases disposable income and reduces

costs of production and logistics for companies, improving future expectation and trade balance while also decelerating inflation. For several countries, especially for their central banks, this opportunity is timely and favorable. Decelerating inflation gives more room for central banks to maintain the currently loose monetary policy and to support economic growth in the midst of slow recovery.

The Philippines is seen as one of the top gainers in this decline. As it is heavily reliant on private transportation, lower oil prices will immediately reduce cost of living and increase private consumption. Oxford Economics forecasts that the Philippines can have 1.8% upside on GDP growth in 2015 if oil price per barrel would be at US\$ 40; however, in this scenario, prices should drop a little more and remain there for a few

months. But even if the prices do not fall to US\$ 40, every US\$ 10 price drop per barrel would still create a positive impact – it will account for a roughly US\$ 1.0-billion in savings for the economy and given the Filipino spending habits, this is likely to flow directly to the retail industry. The increased consumption will naturally accelerate the GDP growth and also ease the inflation pressure, allowing BSP to consider whether they should lower the 4.0% policy rate and further boost the GDP. From a retail investor’s perspective, this scenario will be very favourable; it would result in increasing rental income and lower cap rates that can push value appreciation to reach double-digit growth. ■



Source: US Energy Information Administration

Hotels

The hotel industry remains attractive, though despite its potential, long-term growth is being stifled by several factors, mainly by the lack of sound infrastructure. Last year, Philippine tourism only marked a modest increase of 3.2% to nearly 5 million in foreign tourist arrivals, making the government’s target of 10 million arrivals by 2016 seem difficult to achieve.

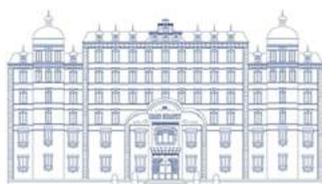
One main factor that had a hand at this slow growth is the shortage in runways at the country’s flagship Ninoy Aquino International Airport, which is already running at over capacity. There is a need to push for more runways and not just enhancements in the main terminals, as annual passenger capacity cannot grow substantially unless new runways get built.

There are several proposed solutions to this problem such as building supporting or eventually alternative airports for NAIA. The Sangley Airport in Manila Bay is the most viable option due to its proximity to the CBDs; however, the development work can take approximately ten years. Another contender is Clark airport in the north, which is also being pushed by the government through its recent infusion of PHP 1.2B to construct a new terminal building for low-cost carriers.

But this is not to say that the lack of infrastructure has completely slowed down the hotels industry; in the short- to mid-term, the hotels sector will still thrive, supported by the favorable economic environment. The deluxe segment is enjoying relatively high occupancy rates, and the number of rooms in this category is expected to increase steadily. The latest addition to this segment came from Entertainment City, when Solaire opened Sky Tower, adding 312 rooms to the existing 488, while the opening of City of Dreams added 950 rooms. The pipeline stays rather impressive, dominated by several international brands such as Shangri La, Conrad, Novotel, Moevenpick, Westin, Grand Hyatt, Hilton, and

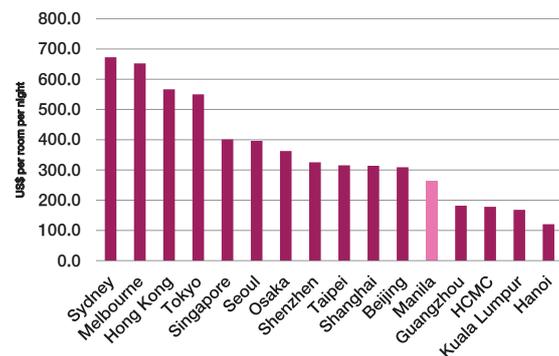
Sheraton. On the local segment, Discovery Primea is expected to have a soft opening in early 2015. The luxury hotel also recently signed a partnership with international firm, Preferred Hotel Group, to support the operations.

Meanwhile, as multinational corporations start opening offices in Manila, the demand of business travelers for serviced apartments has also significantly increased. The recent opening of Ascott in BGC with 180 keys is the latest addition that caters to this segment. Ascott is also opening another group of serviced apartments under its Citadines brand in Ortigas later this year. ■



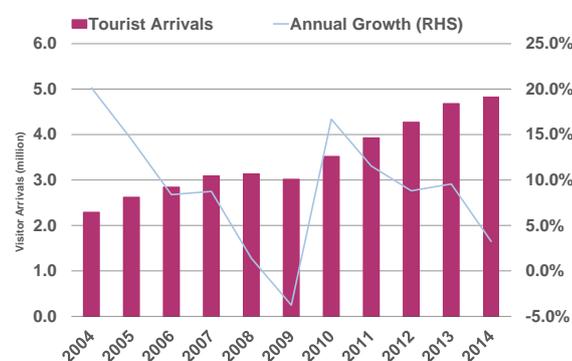
Demand of business travelers for serviced apartments has significantly increased.

GRAPH 11 Prime Hotels Room Rate Benchmark



Source: Savills Research & Consultancy

GRAPH 12 Tourist Arrivals



Source: Department of Tourism (DOT)

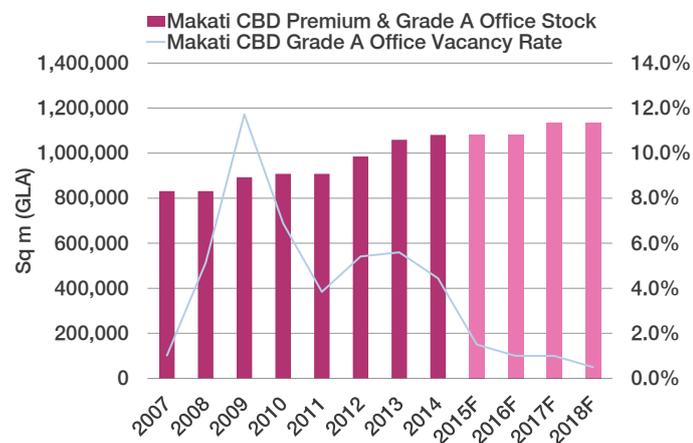
TABLE 6 Hotels Pipeline 2015 - 2016

Completion Year	Proposed Opening	Location	No. of Rooms
2015	Citadines Millennium Ortigas Manila	Ortigas Center	210
2015	Conrad Manila	Bay Area	347
2015	Novotel Manila Araneta Center	Quezon City	415
2015	Hotel 101	Bay Area	522
2015	Shangri-La at the Fort	BGC	577
2015	Valero Grand Suites by Swiss Belhotel	Makati City	220
2016	Manila Bay Resorts	Bay Area	1000
2016	Swiss Belhotel Quezon City	Quezon City	328
2016	Savoy Hotel Newport City	Newport City	610
2016	Seda Circuit	Makati City	255
2016	Seda Vertis North	Quezon City	438
2016	M Gallery Admiral BaySuites	Manila	150
2016	Grand Hyatt Hotel Manila	BGC	440

Source: KMC Research & Consultancy

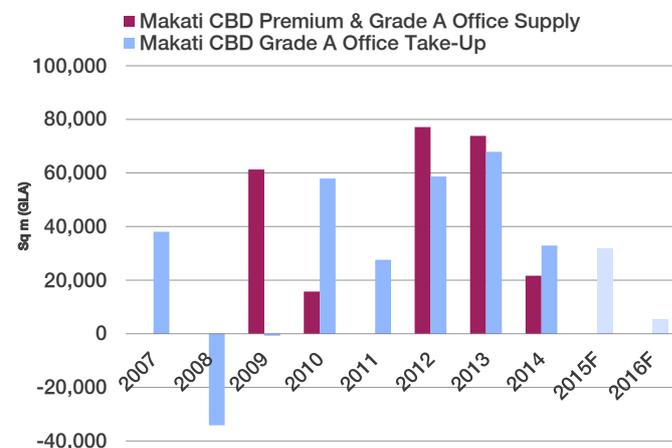
Office Market Snapshot | Makati CBD

GRAPH 13
Stock & Vacancy



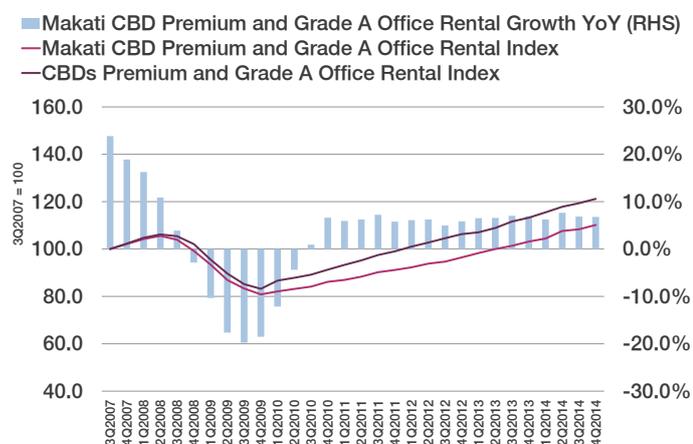
Source: KMC Research & Consultancy

GRAPH 14
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 15
Rental Performance



Source: KMC Research & Consultancy

TABLE 7
Key Figures - Premium & Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	952.5 (+6.3% YoY)
Upper net rental rate	Php/sq m/month	1,400.0
Average capital value	Php/sq m	175,896.4 (+6.4% YoY)
Equivalent yield	%	8.75
Vacancy rate	%	4.4 (-115 bps)
Current stock	sq m	1,080,863
Development pipeline 2015-2018	sq m	55,000

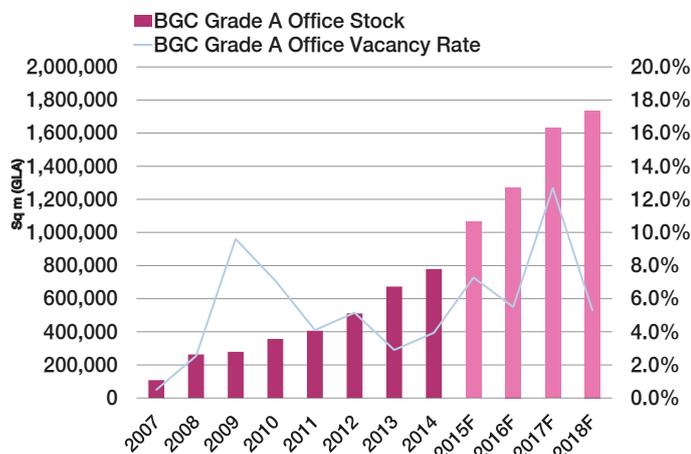
Source: KMC Research & Consultancy

Makati CBD Market in Minutes

- Office take-up in 2014 reached 33,910 sq m, decreasing by 51.5% compared to last year. The prime rents rose by 6.3% to 812.4 per sq m per month for Grade A and 1,147.7 sq m per month for Premium while the vacancy rate fell by 115 basis points to 4.4%.
- One reason for the fall in take-up was purely the lack of supply. The take-up will remain low for the next 4 years as there is no new supply coming online.
- Current vacancy is mainly due to the unoccupied Tower 6789 that is waiting to be leased out soon. The future leasing activity is expected to be limited to small space lettings from 100-1,000 sq m.

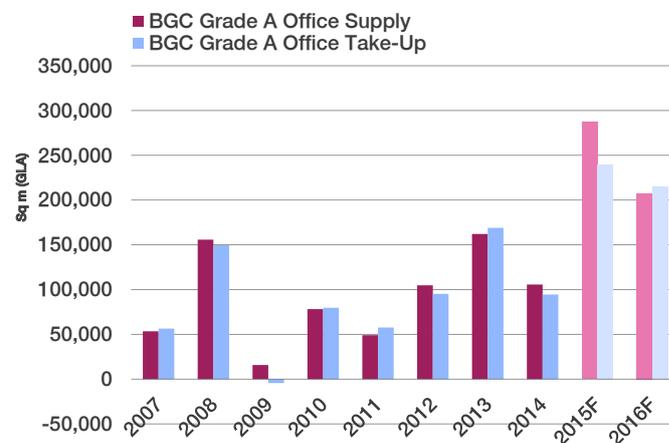
Office Market Snapshot | Bonifacio Global City

GRAPH 16
Stock & Vacancy



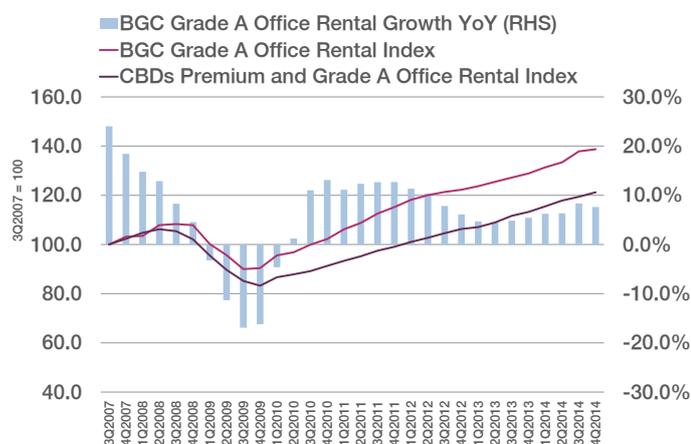
Source: KMC Research & Consultancy

GRAPH 17
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 18
Rental Performance



Source: KMC Research & Consultancy

TABLE 8
Key Figures - Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	832.5 (+7.6% YoY)
Upper net rental rate	Php/sq m/month	1,000.0
Average capital value	Php / sq m	144,305.7 (+13.9% YoY)
Equivalent yield	%	8.75 (-25 bps)
Vacancy rate	%	3.9
Current stock	sq m	778,867
Development pipeline 2015-2018	sq m	956,290

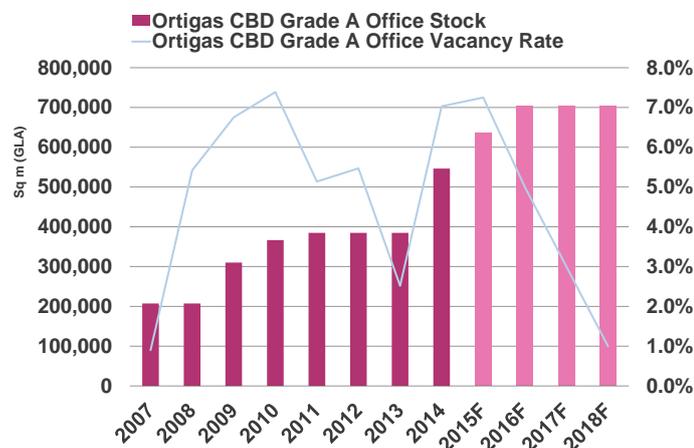
Source: KMC Research & Consultancy

BGC Market in Minutes

- Office take-up in 2014 reached 94,500 sq m, decreasing by 44.1% compared to last year. The prime rents rose by 7.6% to 832.5 per sq m/month as well as the vacancy rate, which rose by 103 basis points to 3.9%.
- The modest take-up is mainly explained by the supply factors, as 2013 saw more building turnovers. It is likely to bounce back as supply peaks in 2015 with 11 new buildings and 287,000 sq m to be introduced to the market.
- Vacancies are likely to increase with the new supply as a bulk of these will be introduced during the second half of the year, giving the market a very short time to absorb all the new space.

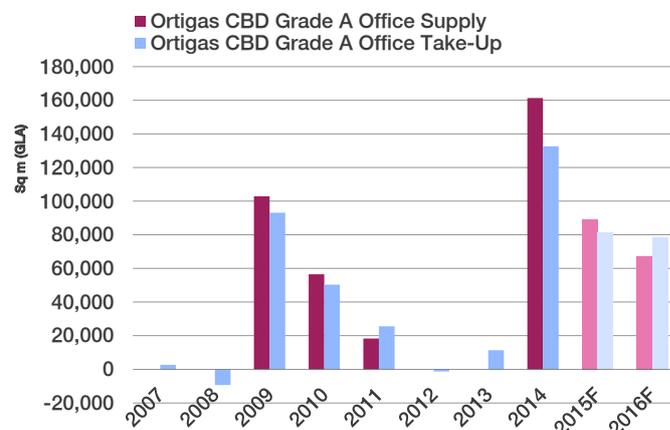
Office Market Snapshot | Ortigas Center

GRAPH 19
Stock & Vacancy



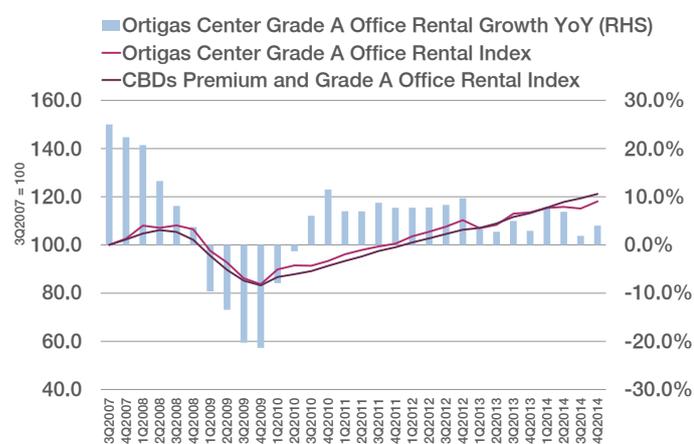
Source: KMC Research & Consultancy

GRAPH 20
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 21
Rental Performance



Source: KMC Research & Consultancy

TABLE 9
Key Figures - Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	599.7 (+4.0% YoY)
Upper net rental rate	Php/sq m/month	750.0
Average capital value	Php / sq m	93,497.5 (+5.3% YoY)
Equivalent yield	%	9.00
Vacancy rate	%	7.0
Current stock	sq m	546,199
Development pipeline 2015-2018	sq m	156,445

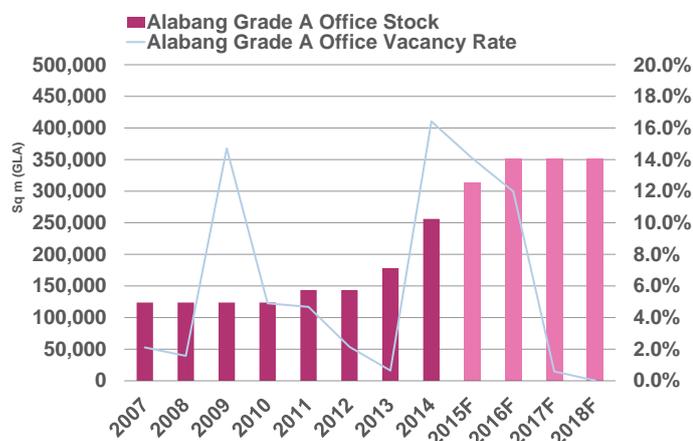
Source: KMC Research & Consultancy

Ortigas Center Market in Minutes

- Being the most active market in 2014, office take-up reached 132,640 sq m. Prime rents rose by 4.0% to 599.7 per sq m/month while the vacancy rate increased to 7.0% from 2.5% in 2013.
- Despite the high take-up, the market still could not absorb all the new spaces that were introduced last year. However, this is expected to be absorbed this year, as there is only one building, namely BDO Corporate Center, coming online and will be mainly exclusive for BDO.
- Vacancies are likely to stay at around 7.0% as there will be new supply coming online late this year.

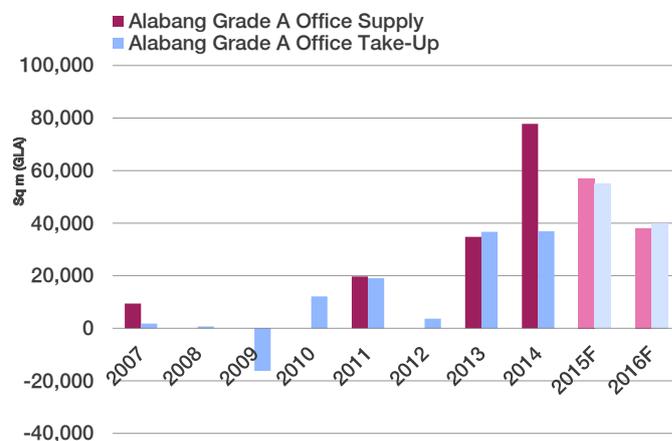
Office Market Snapshot | Alabang

GRAPH 22
Stock & Vacancy



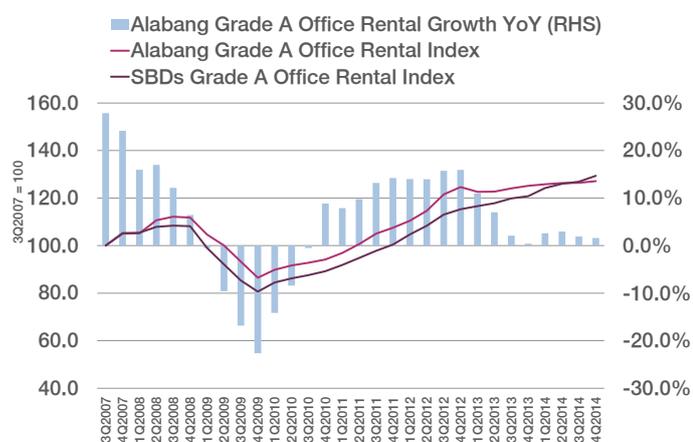
Source: KMC Research & Consultancy

GRAPH 23
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 24
Rental Performance



Source: KMC Research & Consultancy

TABLE 10
Key Figures - Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	605.1 (+1.6% YoY)
Upper net rental rate	Php/sq m/month	650.0
Average capital value	Php / sq m	74,644.7 (+2.1% YoY)
Equivalent yield	%	10.50
Vacancy rate	%	16.4
Current stock	sq m	256,110
Development pipeline 2015-2018	sq m	95,034

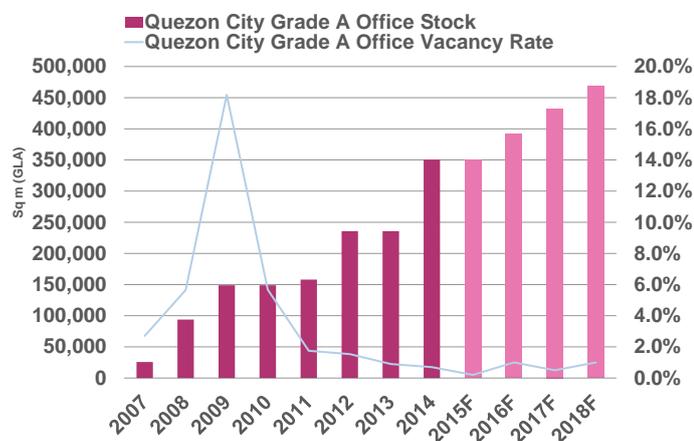
Source: KMC Research & Consultancy

Alabang Market in Minutes

- Office take-up in 2014 reached 36,920 sq m., representing a marginal increase of 0.6% compared to last year. The prime rents rose by 1.6% to Php 605.1 per sq m./month while the vacancy rate rose to 16.4%.
- The vacancy rate spiked as majority of the supply was introduced in the last quarter of 2014 and will likely to stay above 10% in 2015 as two new buildings, namely the Alabang Town Center BPO Building and Vector Three, will be added to the stock this year.
- The rental growth is expected to stay modest as the new supply creates some pressure on prices.

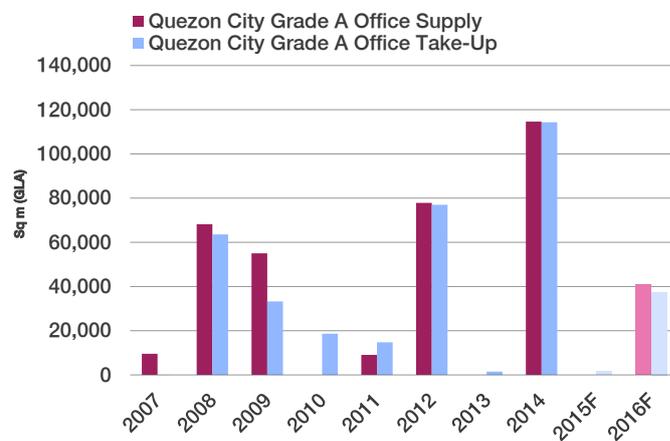
Office Market Snapshot | Quezon City

GRAPH 25
Stock & Vacancy



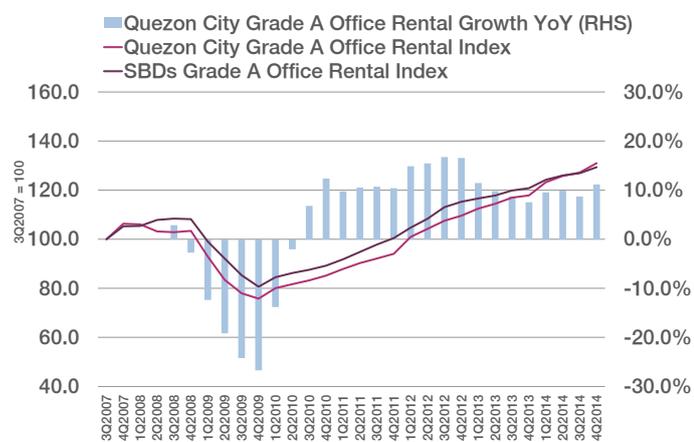
Source: KMC Research & Consultancy

GRAPH 26
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 27
Rental Performance



Source: KMC Research & Consultancy

TABLE 11
Key Figures - Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	664.9 (+11.1% YoY)
Upper net rental rate	Php/sq m/month	700.0
Average capital value	Php / sq m	99,046.3 (+17.2% YoY)
Equivalent yield	%	10.50
Vacancy rate	%	0.7
Current stock	sq m	350,405
Development pipeline 2015-2018	sq m	118,244

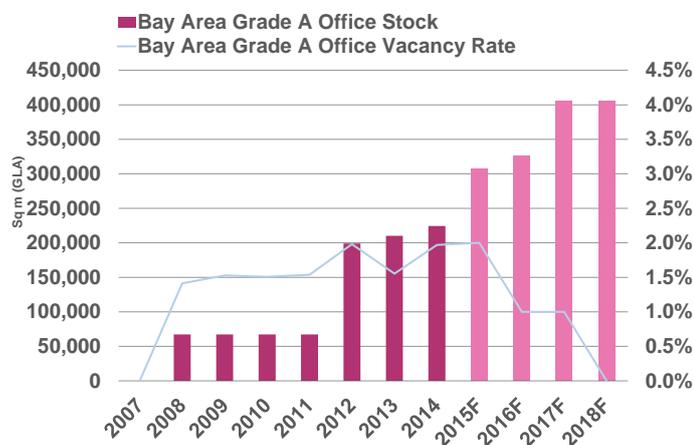
Source: KMC Research & Consultancy

Quezon City Market in Minutes

- Office take-up in 2014 reached 114,310 sq m, as all the new buildings were taken up in 2014. The prime rents rose by 11.1% to Php 664.9 per sq m/month while the vacancy rate declined by 20 basis points to 0.7%.
- Despite being a widely spread out business district, QC's local growth centers are enjoying positive market performance.
- Vacancies are likely to remain low and rental rates continue to grow as the district has to wait until 2016 before any new supply will be introduced on the market.

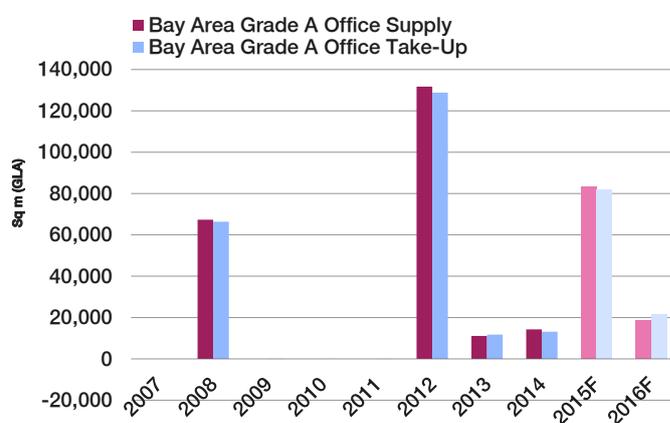
Office Market Snapshot | Bay Area

GRAPH 28
Stock & Vacancy



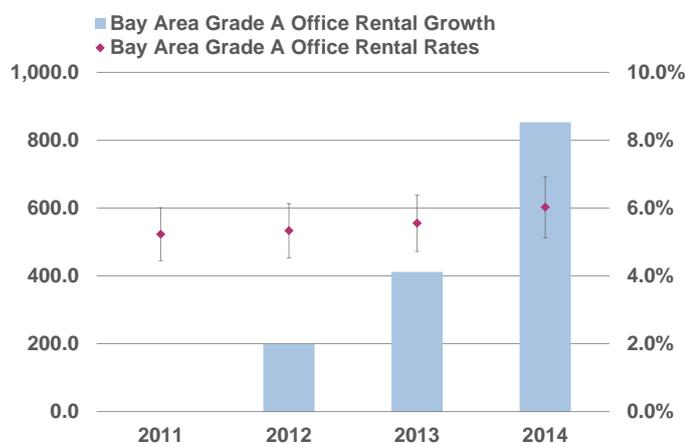
Source: KMC Research & Consultancy

GRAPH 29
Supply & Takeup



Source: KMC Research & Consultancy

GRAPH 30
Rental Performance



Source: KMC Research & Consultancy

TABLE 12
Key Figures - Grade A Office

	Unit	Q4/2014
Average net rental rate	Php/sq m/month	602.6 (+8.5% YoY)
Upper net rental rate	Php/sq m/month	750.0
Average capital value	Php / sq m	86,895.8 (+19.5% YoY)
Equivalent yield	%	10.50
Vacancy rate	%	2.0
Current stock	sq m	224,391
Development pipeline 2015-2018	sq m	180,814

Source: KMC Research & Consultancy

Bay Area Market in Minutes

- Office take-up in 2014 reached 13,140 sq m, increasing by 11.8% compared to last year. The prime rents rose by 8.5% to 602.6 per sq m/month while the vacancy rate rose by 42 basis points to 2.0%.
- Vacancies are likely to stay low as the district offers suitable options for large tenants.
- New supply in 2015 will only be Five E-com which is already 50% pre-leased.

2015 Outlook

CAPITAL VALUES TO OUTPACE RENTAL GROWTH

The strong economic performance is keeping the real estate market buoyant across all sectors.

Aside from the outsourcing industry, the expected economic growth of 6-7% has resulted in increased business activity, driving the demand. BPO industry will be the main driver for office take-up while also improving employment situation, increasing disposable income that will eventually translate to higher demand in residential and retail markets.

Interest rates are at their historic low but the prudent actions from the central bank will prevent the economy from overheating. With the low yield on government bond, current yields of the property sector, especially offices, offer an attractive premium that is expected to drive investment demand and lead to a downward pressure on yields. Prime yields for offices will be in range of 7.5-8.5% but some exceptional opportunities may go below this level.



Grade A office rents to grow 5-7% in the next 12 months although the premium segment will be more likely to outpace it due to the below 1% vacancy and shortage of new supply.

The yield compression is also supported by strong leasing market performance that is likewise expected to continue. We forecast Grade A office rents to grow 5-7% in next 12 months although the premium segment will be more likely to outpace it due to the below 1% vacancy and the shortage of new supply.

The high-end residential market is expected to have more upside in the long term, which is seemingly

priced at the current condominium market. The yield levels are low and further compression is unlikely unless the leasing market will have a better performance. Supply in key locations remains high in all segments, and new launches will concentrate in fringe areas of business districts. With this, we believe the market will keep its current pace and grow at 3-5% in next 12 months.

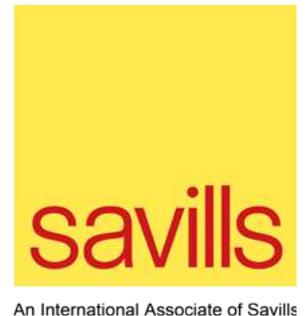
In the retail sector, Makati and BGC will top the list for luxury brands; however, these brands are also likely to establish in the new casinos in Entertainment City. More shopping malls are launching in the next few years; Ayala will be opening two new shopping malls with a couple of new podium retail spaces in 2015 while several malls are expanding across the city. By 2018 the total pipeline is estimated at 600,000 sq m. The optimistic consumer sentiment will grow sales and put upward pressure on rents, reaching 5 to 10% growth in 2015. ■

TABLE 13

Metro Manila 12 Month Forecast

	Rents	Capital Values	Yields	Vacancy	Supply
Office	↗	↑	↘	→	↑
Residential	→	↗	↘	→	↑
Retail	↑	↑	→	→	↑
Hotel	↗	↗	→	→	↑

Source: KMC MAG Group Research & Consultancy



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