Savills World Research
Philippines

# Asian Cities Report
# Manila Retail

1H 2015

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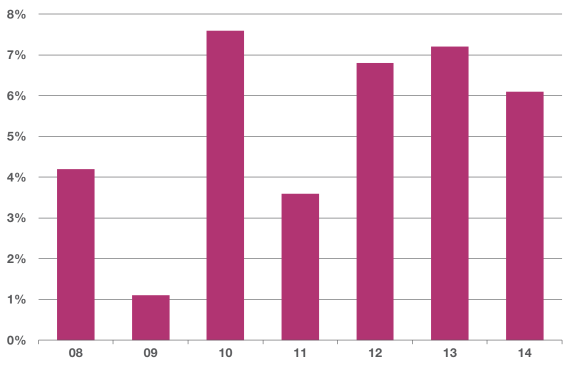
GRAPH 1

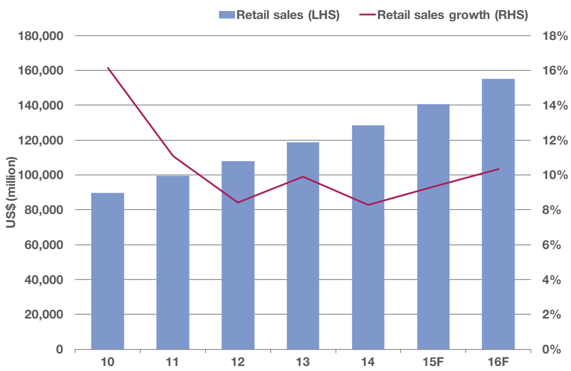
### GDP growth, 2008–2014




Source: National Statistics Coordination Board (NSCB)

GRAPH 2

### Retail sales and growth rate, 2010–2016F




Source: Economist Intelligence Unit

TABLE 1

### Retail portfolios, 2014 and 2015

| Developers | No. of malls | | GLA (million sq m) | | |
|---|---|---|---|---|---|
| | As of end of 2014 | As of end of 2015 | As of end of 2014 | As of end of 2015 | % 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 MAG Group Research & Consultancy

## Economic overview

The Philippine economy posted the second fastest economic growth in Asia last year, beaten only by China. In the fourth quarter of 2014, Philippine GDP rebounded, 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 lower than the government's target of 6.5%-7.5% last year, partly due to decelerated government spending.

However, public spending is expected to rise in 2015 as the government has allocated 5% of the GDP purely for infrastructure projects, giving special attention to much-needed upgrades for land transportation. Private consumption, on the other hand, slowed by a marginal 0.3%, reaching 5.4% in 2014. Domestic demand, which is a vital part of the economy accounting for 68.9% of the total GDP, is likewise expected to increase in 2015, supported by low oil prices, OFW remittances, and the rising middle class from the booming business process outsourcing (BPO) industry.

Domestic liquidity growth is expected to moderate as the central bank 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 3.0% in 2015. Falling oil prices have already helped ease inflation (2.5% in February 2015), further assisting the central bank to maintain the stable inflation environment in 2015.

Meanwhile, with the rebound of the US economy, foreign portfolio investments registered a net outflow of US$310 million this year, unlike 2013 which registered a net inflow of US$4.2 billion. Seemingly, US-based fund managers are closing their positions as more capital is escaping to the US in search of less risky investment, accounting for around 80% of the total outflows. The majority of these investments come and go to PSE listed securities and to government bonds.

On the other hand, Overseas Filipino Workers (OFW) remittances are growing at a steady rate of 6.2% year-on-year (YoY) and reached US$26 billion in 2014. The remittances are a vital part of the economy, accounting for around 10% of the GDP, fuelling the domestic demand and retail and residential property markets.

Overall, growth is expected to accelerate in 2015. 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 forecasts the Philippines to grow by 6.4% in 2015, while the IMF also upgraded the country's projection to 6.6%. 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.

## Retail market overview

Driven by high GDP growth, increased OFW remittances and rising incomes due to the massive BPO industry, the Philippine retail market remains one of the top gainers. Aside from the booming economy, the retail industry also received an additional boost from the oil price crash, further fuelling domestic demand. Sales are rapidly increasing and, according to Nielsen's Consumer Confidence Report, Filipinos now rank second among the most optimistic consumers globally.

The top three major domestic players (Ayala Land, SM Prime, and Robinsons Land) still dominate the retail market, and are estimated to account for 87.5% of the total gross leasable area (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, of which 75.2% will be delivered by these top three players. The largest single project is SM's 200,000-sq m Mall of Asia expansion, increasing the property's total amount to 550,000 sq m, making it one of the world's biggest malls.

With their success in Metro Manila, which is already well-served by shopping malls, developers are exploring more opportunities in the provinces and neighbouring cities. One example is the SM City Seaside, Information provided by KMC MAG Group

a much anticipated development in Cebu with a gross floor area of 472,400 sq m. SM City Seaside is also slated to be among the world's largest shopping malls once it opens in 2015.

Aside from the upcoming malls, the retail industry is also expected to shift its attention to the casinos in Entertainment City, as this will be the new home of several luxurious brands once its retail sections become fully leased out within the next year or two.

Retail activity has not only been from major players. The community mall segment has also followed suit; Cosco Capital and DoubleDragon Properties are currently executing an aggressive retail expansion strategy, mainly outside Metro Manila. DoubleDragon, whose long-term goal is to build 100 malls by 2020, is on track with its short-term goal of having 25 malls by the end of this year after securing its 15th site last December. On the other hand, Cosco Capital is planning to put up eight malls over the next two years and, likewise, was recently active on the investment market as it acquired a portfolio of five commercial properties and nine supermarkets that are under the Puregold brand.

Different and more modern retail development formats, such as convenience stores and hypermarkets, are also on the rise. The convenience store segment is a rapidly gaining footprint on the market, close to the BPO centres where professionals work day and night. Japanese convenience store giant Lawson Inc. entered into a partnership with the local brand Puregold last year to tap these favourable conditions and roll out 500 stores by 2020. Ayala and SSI Group have also seen the potential of convenience stores and are targeting to operate 500 stores in five years under the Family Mart brand. Older players, namely 7-Eleven and Ministop, are not far behind as both firms also have expansion plans that are of the same scale.

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, who opened four branches last year including the 3,000 sq m flagship store in SM Megamall. Luxurious brands such as Alexander McQueen and Givenchy also opened recently, proving that there is also demand in the Philippines for this segment.

With current prime rental rates in malls at US$49.1 per sq m per month, the Philippines remains as the most affordable market in the region, attracting more multinational retailers. However, as the market is tightly held, foreign companies have tapped local partners to make the entry easier, such as SSI Group that currently has 80 international brands in its portfolio. With this trend, top distributors are expected to maintain strong market positions.

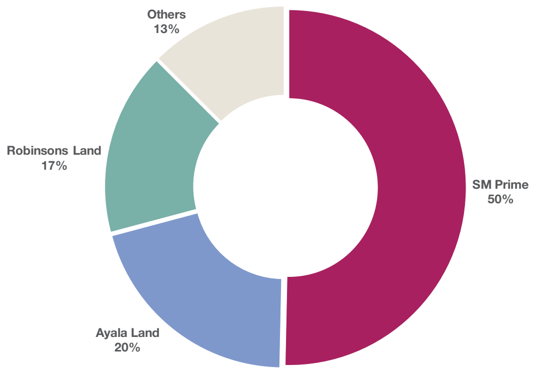
## Forecast

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. The BPO industry will be the main driver for office take-up while also improving the employment situation, thereby increasing disposable income that will eventually translate to higher demand in the retail market.

In the retail sector, Makati and BGC will continue to top the list for luxury brands; however, these brands are also likely to establish stores in the new casinos in Entertainment City. On the supply side, more shopping malls are launching in the next few years; Ayala will be the most active by 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 to be 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.

GRAPH 3

### Malls distribution by developers, 2014




Source: KMC MAG Group Research & Consultancy

TABLE 2

### Recent retail transactions, 2014–Q1/2015

| Property | Submarket | Sales (PHP mil) | Sales (US$ mil) | Purchaser | Seller |
|---|---|---|---|---|---|
| Q1/2015 | | | | | |
| TriNoma Mall (33.4% interest) | Quezon City | 2,857 | 64 | Ayala Land | Several |
| Five commercial properties | Several - Outside Metro Manila | N/A | N/A | Cosco Capital | NE Incorporated |
| Nine supermarkets | Several - Outside Metro Manila | N/A | N/A | Puregold | NE Incorporated |
| Q2/2014 | | | | | |
| Dragon Shopping Center | Manila | 577 | 13.1 | Double Dragon Props | Equitable Dev. Corp. and Menlo Capital Group |
| Q1/2014 | | | | | |
| NE Pacific Mall | Cabanatuan | 565.7 | 12.6 | Cosco Capital | NE Pacific Shopping Centeres Corp. (JV Metro Pacific Investments Corp. and Landco Pacific Inc. |

Source: KMC MAG Group Research & Consultancy

TABLE 3

### Future retail projects, 2015–2016

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

Source: KMC MAG Group Research & Consultancy

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