savills

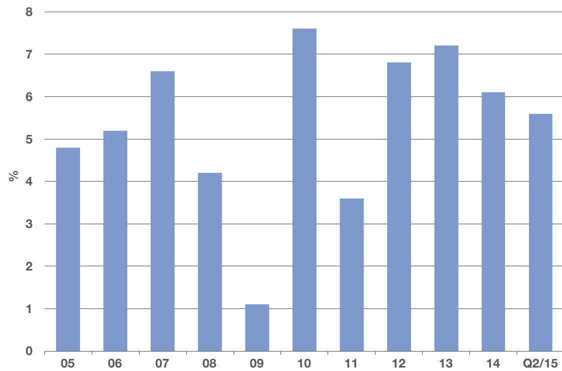
Savills World Research
Philippines

Asian Cities Report
Manila Office

2H 2015

GRAPH 1

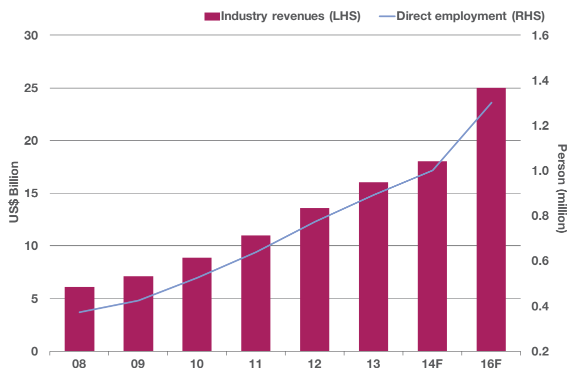
GDP growth, 2005–Q2/2015



Source: National Statistics Coordination Board (NSCB)

GRAPH 2

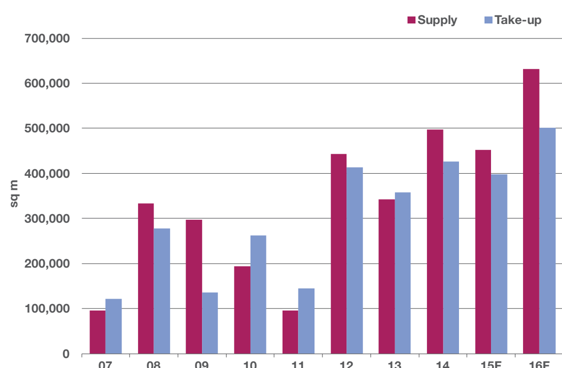
IT-BPO industry revenues and employment, 2008–2016F



Source: The Information Technology-Business Processing Association of the Philippines (IBPAP)

GRAPH 3

Grade A office supply and take-up, 2007–2016F



Source: KMC MAG Group Research & Consultancy

Economic overview

With rather uncertain news coming from the region, the Philippines is arguably one of the region's bright spots. The economy grew by 5.6% in the second quarter of 2015, however, even this figure represented a deceleration from the 6.1% seen in 2014. Despite the slight slowdown, the Philippines is still one of the fastest growing economies in the Asia-Pacific region with a very positive outlook.

Much of the current favorable environment is due to strong underlying private consumption, accounting for almost 70% of the economy and growing at 6.2% YoY (in Q2/2015), which contributes significantly to economic growth. Fueled by the steadily growing overseas Filipino workers' (OFW) remittances (around 10.0% of GDP), it has created a growth model which is highly domestically-driven, making it less vulnerable to outside shocks. Together with the booming outsourcing industry, it also sustains a rather large services sector (almost 60% of GDP), making the industrial sector less dominant.

The economy currently has relatively low levels of foreign investment and a low dependency on commodity prices which should limit the potential for capital outflows and maintain a less volatile currency compared to its regional counterparts, thus further dampening any external shocks. Furthermore, domestic liquidity has been well managed by the country's central bank. With inflation staying below the target of 2.0% to 4.0% at 1.9% YTD, there is still some room for lower monetary policy rates which could further boost the economy. However, the additional support is more likely to come from fiscal stimulus as the current administration has pledged more infrastructure projects to increase government spending. In the first semester, public expenditure has increased at a slower-than-expected pace due to low budget execution, but several government agencies have guaranteed to improve their implementation towards the year end.

Overall, the growth is expected to accelerate in 2015 from last year. Major financial institutions, however, are more conservative than the government's 7% to 8% GDP forecast. The Asian Development Bank (ADB) forecasts the Philippines to grow by 6.4% in 2015, while the International Monetary Fund (IMF) has also upgraded the country's 2015 growth projection to 6.7% from 6.6%. The World Bank, on the other hand, pegs growth at 6.5%, much higher than the expected global growth rate of 3.0% and a forecast for developing economies of 4.8% in 2015.

Office market overview

Manila's office market is witnessing a rapid expansion at the moment. With the lack of developable land in Makati CBD, the other submarkets are gaining a lot of traction. The main focus remains on Bonifacio Global City (BGC), but increasing interest has been observed in emerging submarkets, especially in Quezon City and Bay Area which are posting strong figures.

This rapid expansion is a result of the strongly performing occupier market which is driven by the IT business process outsourcing (IT-BPO) industry. The IT-BPO sector boosted annual take-up to 430,000 sq m in 2014, and is expected to reach 400,000 sq m this year with no signs of slowing down.

While the robust take-up has sustained the rapid growth of rents, the current growth rate of 5.4% YoY in Q2/2015 has slightly slowed from the 7% to 10% range seen in the past few years. Reasons for this can be found in supply factors which signal healthy market dynamics. The rather large pipeline has helped to restrain rental expectations and improved the occupiers' position in rental negotiations. Since a significant share of leasing transactions is still focused on pre-leasing, this has resulted in relatively good terms for tenants with the luxury of time.

New supply

In particular, a rapid expansion can be observed on the supply side. The market is expected to add around 2 million sq m of new office space until 2018 to the current stock of 3.7 million sq m. Except for BGC,

Information provided by KMC MAG Group

which will account for half of the new supply, new development is widely scattered among the main business districts of Metro Manila. This is a result of the increasing pressure on real estate to facilitate all the businesses which the traditional CBDs cannot handle anymore. Also, due to the fact that the outsourcing industry is somewhat price sensitive, tenants in search of cheaper occupancy costs are now more open to locate in secondary business districts, allowing them to emerge rapidly.

Meanwhile in Makati CBD, the redevelopment of Ayala Triangle and the City Gate Complex will add some new stock, especially of the traditional and headquarters-type office space. However, this supply will hit the market likely after 2018, forcing companies looking for prime space to revert to BGC.

Despite the strong demand, the large pipeline is expected to maintain a downward pressure on rental growth and slightly increase vacancies, especially in 2016 when the supply is expected to peak with 630,000 sq m to be introduced in the marketplace. Most of the supply pressure exists in BGC which accounts for 340,000 sq m of 2016's total additions, although around 47.0% of this is already pre-leased, encouraging developers to maintain the current construction activity.

The investment market

As for the asset market, investment activity is mainly focused on developments and transaction volumes have been dominated by land deals with one to two office acquisitions pushing through a year. The year's largest office deal was the sale of Tower 6789 at a price close to PHP7.0 billion. While there has been fairly steady interest in investment properties in Manila, the interminable obstacle of available assets continues to stop investors from executing deals, especially those from overseas. This, together with positive future expectations, has kept prime yields on a downward trajectory, now ranging at 7.5% to 8.5%. Looking ahead, only time can tell how long the yield compression will continue before the current landlords will become more active in the marketplace and volumes start to rise.

Since transaction volumes are low on the asset markets, investors and property owners are seeking returns from investments in new constructions and redevelopments. In particular, due to the actions of the central bank to limit the credit exposure of local banks, opportunities in the project funding side have been seemingly increasing. As developers are keen to maintain the current level of production, they are now becoming more open to start talks with financiers for alternative sources of financing.

Forecast

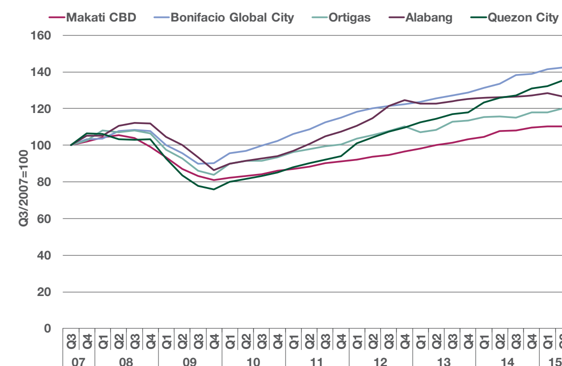
The strong economic performance, with growth projections at 6.0% to 7.0%, is expected to keep the real estate market buoyant across all sectors. Metro Manila construction activity will remain robust as major developers continue to expand their footprint. The key trend is the development of large-scale mixed use township projects which are rising all over Metro Manila. These projects are spreading the commercial focus away from the main CBDs as tenants are looking for more convenient options for their employees. Typically, these townships consist of several office and residential towers with a retail component, allowing them to be self-sustained communities.

In the office sector, the IT-BPO industry's presence in the Philippines is expected to remain strong and office demand should remain high, as global firms continue to seek reduced costs through the outsourcing of their services. With sustained demand, modest rental growth and a low vacancy rate, the significant office pipeline is expected to be absorbed and yields to remain attractive for core assets over the next few years.

Some headwinds might be felt from the latest economic turbulence but given the strong fundamentals of the Philippine economy, the effect is not expected to be significant. All in all, we maintain our bullish outlook for Manila's office sector with rents and capital values forecast to grow by 5% to 7% over the next 12 months.

GRAPH 4

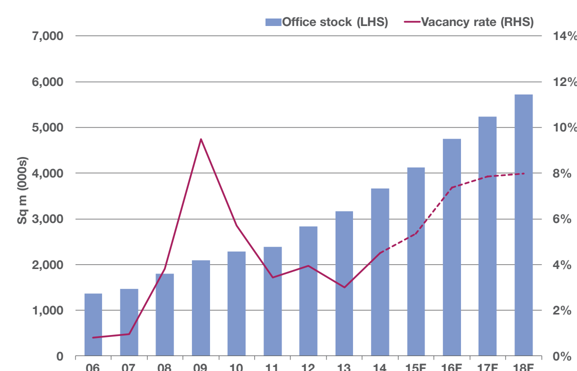
Grade A office rental indices, Q3/2007–Q2/2015



Source: KMC MAG Group Research & Consultancy

GRAPH 5

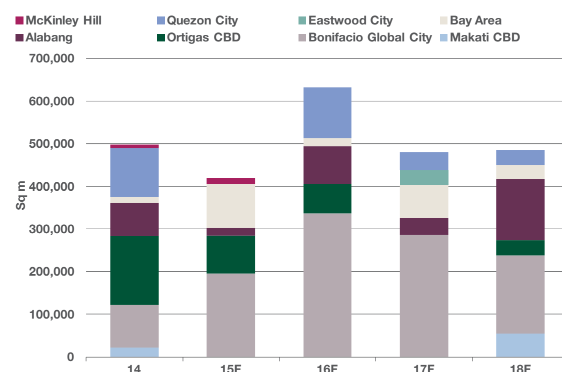
Grade A office stock and vacancy rate, 2006–2018F



Source: KMC MAG Group Research & Consultancy

GRAPH 6

Future Grade A office supply, 2014–2018F



Source: KMC MAG Group Research & Consultancy

ASIA PACIFIC HEADQUARTERS

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

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

savills.com

HONG KONG SAR

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

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

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

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

MACAU SAR

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

CHINA

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

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

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

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

ASIA

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

Savills - Japan
Savills Japan Co., Ltd
15/F Yurakucho ITOCiA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777-5150 Fax: (81) 3-6777-5105
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

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

Savills - Malaysia
Savills (Malaysia) Sdn Bhd
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur, Malaysia
Tel:+603 2092 5955
Contact: Christopher Boyd Email: chris.boyd@savills.com.my

Savills - Myanmar
Savills Myanmar Limited
192 Bo Myat Htun Street (Middle Block)
Pazundaung Township, Yangon, Myanmar
Tel: +95 1 122 3341
Contact: Richard Emerson Email: remerson@savills.asia

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

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

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

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

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

AUSTRALIA

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

NEW ZEALAND

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

NORTH AMERICA

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

UNITED KINGDOM / EUROPE / SOUTH AFRICA

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

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

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should seek independent professional advice from lawyer, accountant and surveyor and should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any from or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2015 (IX/15)