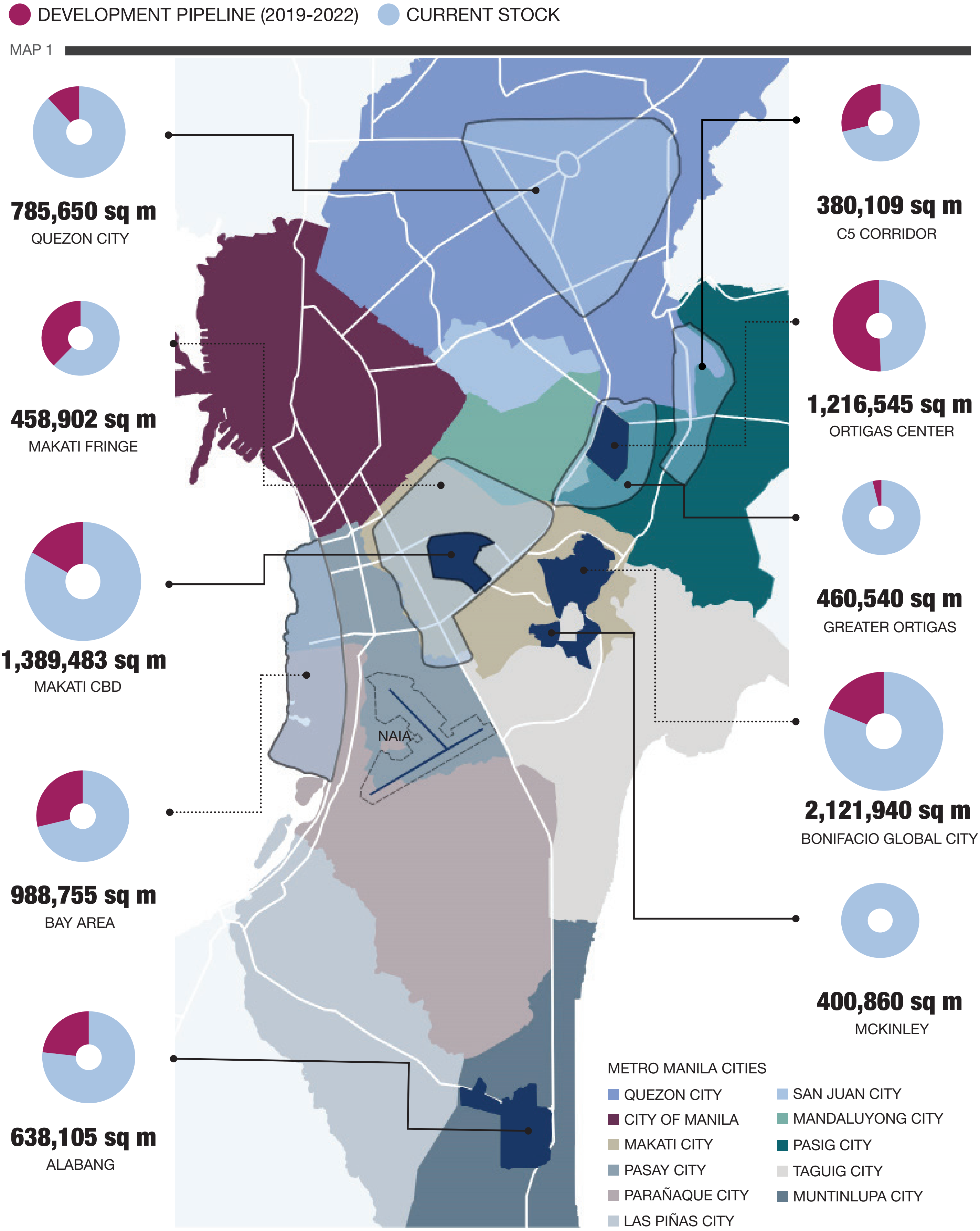
KMC Savills Research
Metro Manila

Metro Manila
Office Briefing

4Q 2018

Metro Manila Office Submarkets

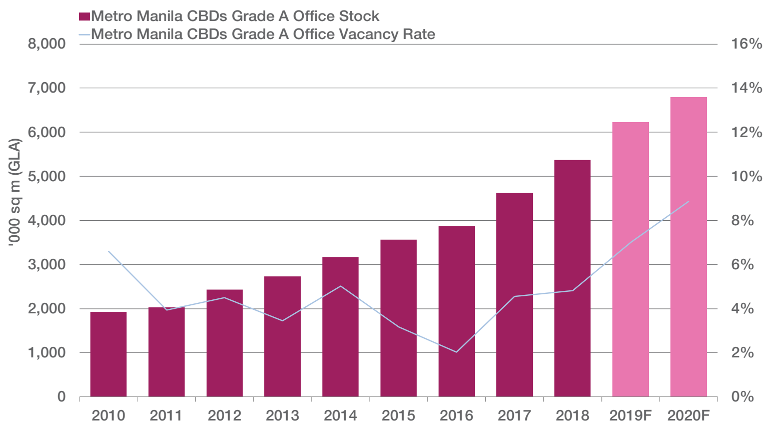
Future Stock (2022)



Metro Manila

GRAPH 1

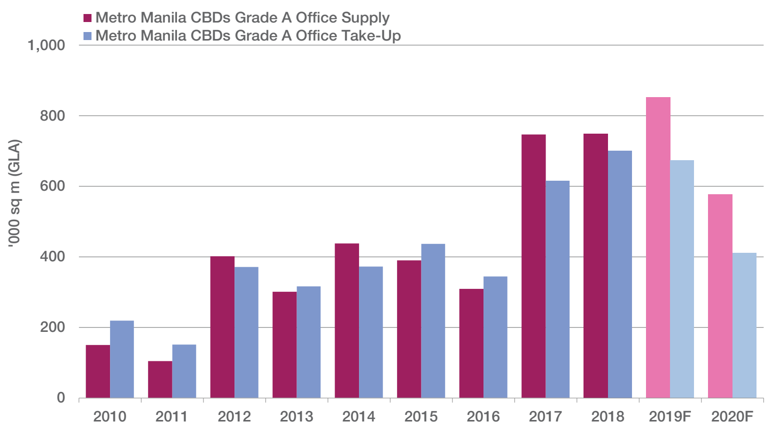
Stock & Vacancy



Source: KMC Savills Research

GRAPH 2

Supply & Take-Up



Source: KMC Savills Research

- Metro Manila saw 746,900 sq m of new Grade A office completions in 2018 – roughly the same amount recorded in 2017. Net absorption was significantly higher last year at 701,100 sq m compared to 615,200 sq m recorded in 2017. As such, overall vacancies were kept at just 4.8% of stock and is slightly higher than the 4.5% vacancy rate the previous year.

- Rents in the capital have accelerated further, hitting 5.0% YoY in 4Q/2018. The tight conditions coupled with contract expirations have propped higher bids in Makati CBD while subsequently pushing up rents in the premier district. In addition, rents in BGC are still on the uptrend as the strong outsourcing and offshoring (O&O) demand raised rentals further during the quarter.

- Quezon City received more than half of new supply in 4Q/2018 which raised its vacancy rate to a ten-year high of 16.4% as occupier demand remained sluggish. This has dragged Metro Manila's performance during the quarter and may pull the office market further in the coming quarters. It has been a key outlier since 2016, failing to follow other submarkets such as the Bay Area and Alabang which have reversed its course since then.

- In the coming quarters, our eyes are on Ortigas Center which is expected to see 206,000 sq m of new Grade A office stock. We anticipate that occupier demand in the CBD will struggle with the influx of office supply as it will consequently raise total vacancies. However, we also forecast a significant acceleration in rents in Ortigas Center as new supply improves the quality of its overall stock.

TABLE 1

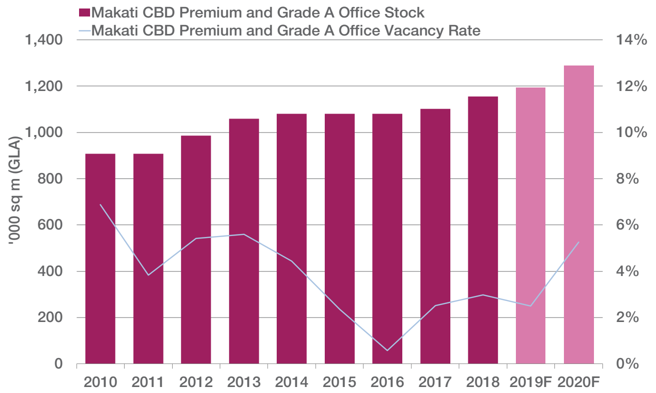
Key Figures - Grade A Office

4Q 2018	Makati CBD	BGC	Ortigas Center	Alabang	Quezon City	Bay Area
Average net rental rate (Php/sq m/month)	1,104.0	972.8	691.0	671.6	747.4	826.5
Upper net rental rate (Php/sq m/month)	1,550.0	1,250.0	850.0	725.0	825.0	950.0
Vacancy rate (%)	3.0%	5.0%	2.0%	1.4%	16.4%	0.6%
Current stock (sq m)	1,154,911	1,722,450	601,857	489,696	693,601	704,527
Development pipeline 2019-2022 (sq m)	234,572	399,490	614,687	148,410	92,048	284,228

** Makati CBD includes Premium Offices*

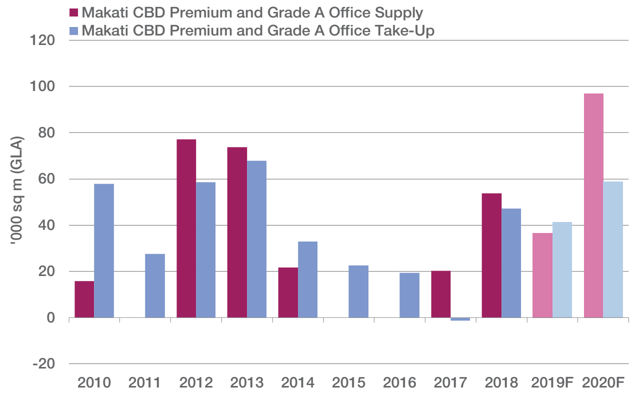
Makati CBD

GRAPH 3
Stock & Vacancy



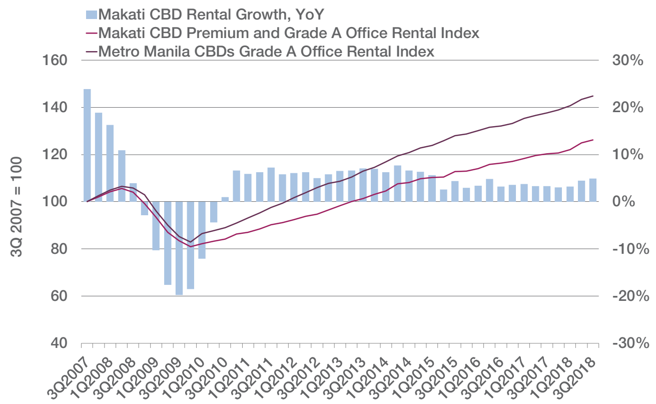
Source: KMC Savills Research

GRAPH 4
Supply & Take-Up



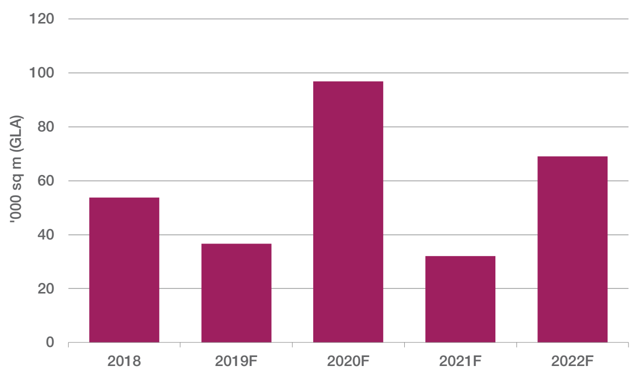
Source: KMC Savills Research

GRAPH 5
Rental Performance



Source: KMC Savills Research

GRAPH 6
Development Pipeline



Source: KMC Savills Research

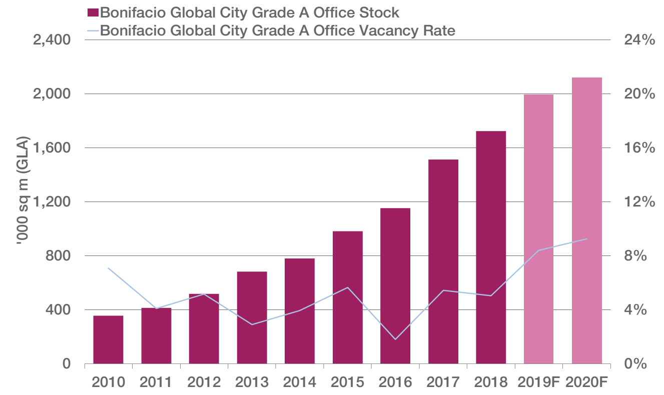
MARKET IN MINUTES

- The vacancy rate in Makati CBD remained tight at 3.0% notwithstanding the completion of NEX Tower and a slower net absorption of 19,500 sq m compared to last quarter.
- The premier business district has had very tight conditions since 2016, and we are seeing the effects with rents accelerating in 2018. Makati CBD registered a rental growth of 5.4% YoY in 4Q/2018, bringing average rents to PHP 1,104.0 per sq m / month.
- For 2019, we expect further contraction in vacancies given the limited supply in the district's pipeline. As a result, rents are still expected to further escalate since contract expirations are forecasted to drive higher bids given the limited availability of office space.

Bonifacio Global City

GRAPH 7

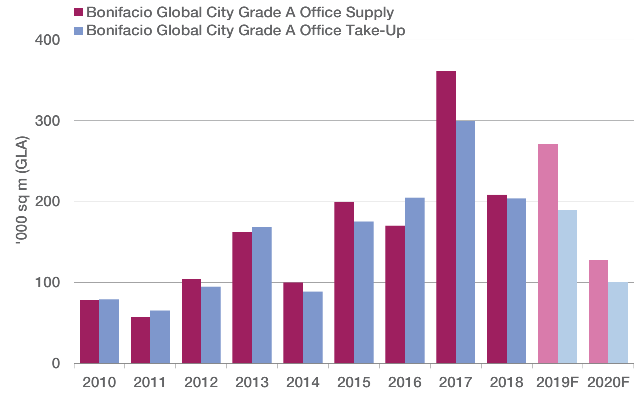
Stock & Vacancy



Source: KMC Savills Research

GRAPH 8

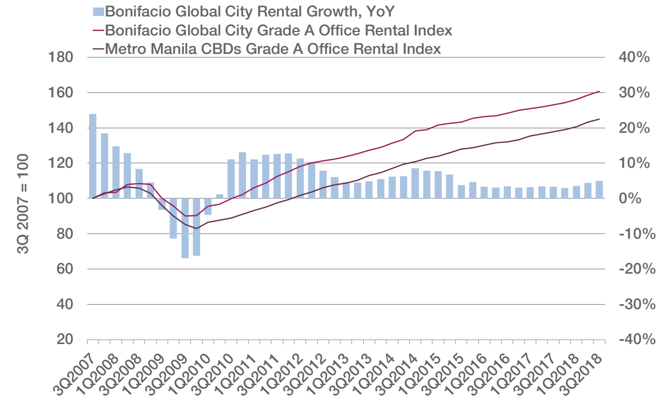
Supply & Take-Up



Source: KMC Savills Research

GRAPH 9

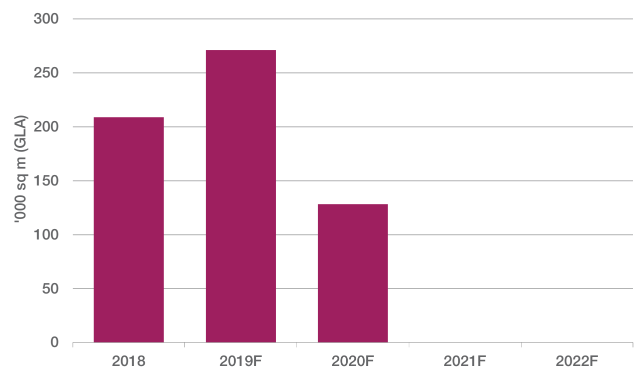
Rental Performance



Source: KMC Savills Research

GRAPH 10

Development Pipeline



Source: KMC Savills Research

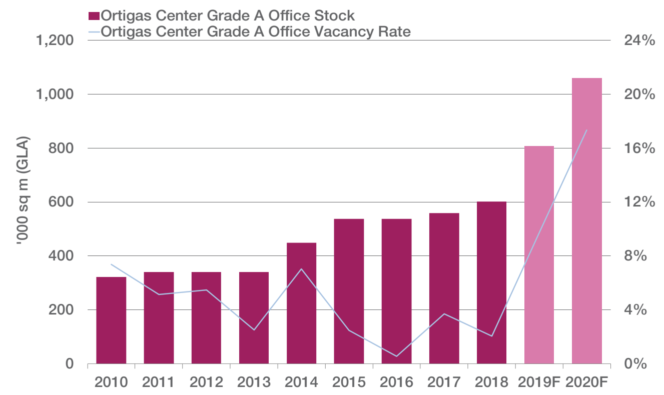
MARKET IN MINUTES

- The additional supply of 26,000 sq m from Asian Century Centre and the slower net take-up drove the vacancy rate higher to 5.0% in 4Q/2018 from 4.5% the previous quarter.
- Despite the slack in vacancies, rents in BGC continued to grow at a healthy pace of 5.0% YoY resulting to PHP 972.8 per sq m / month on the back of stronger demand from the O&O sector.
- In the coming quarters, we anticipate an upswing in vacancies due to the incoming 271,000 sq m of new supply expected to be completed in 2019. We still see rents growing in the coming quarters despite the incoming supply; although the increasing vacancies in the submarket should increase the risk of rents stagnating.

Ortigas Center

GRAPH 11

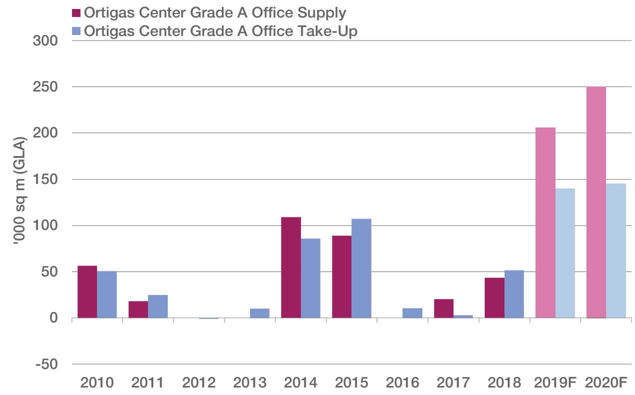
Stock & Vacancy



Source: KMC Savills Research

GRAPH 12

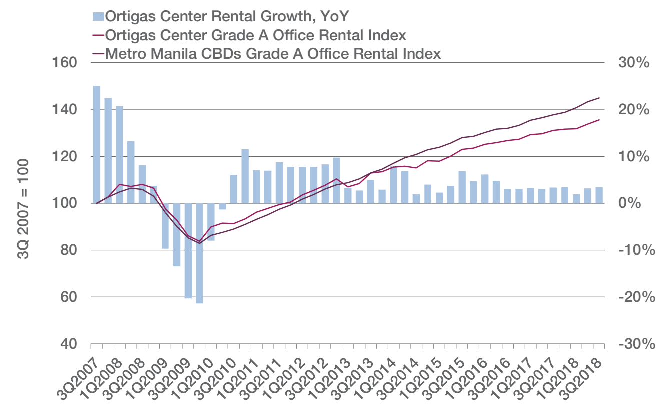
Supply & Take-Up



Source: KMC Savills Research

GRAPH 13

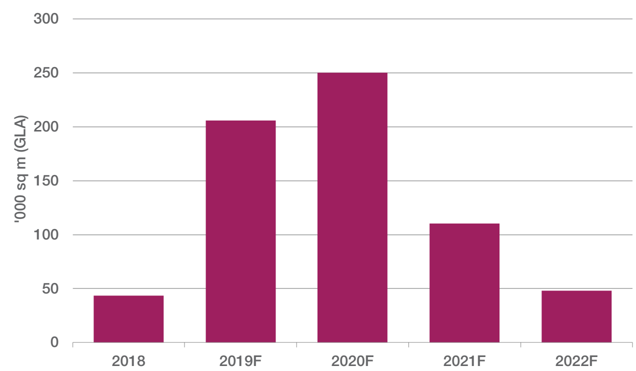
Rental Performance



Source: KMC Savills Research

GRAPH 14

Development Pipeline



Source: KMC Savills Research

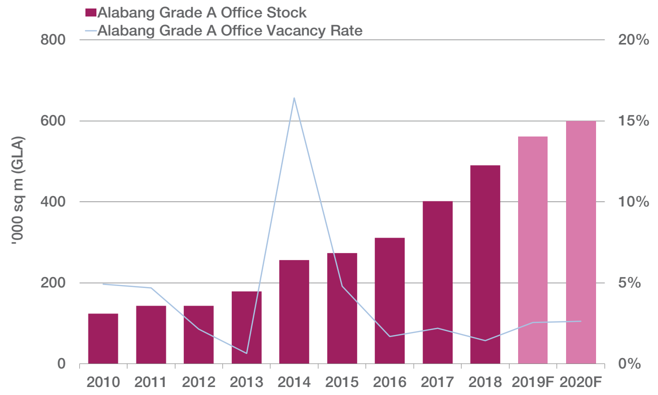
MARKET IN MINUTES

- Market conditions in Ortigas Center improved as we saw a substantial decrease in vacancies amid no new completions in 4Q/2018. The submarket ended the year with a vacancy rate of 2.0% after net absorption rebounded to 51,700 sq m in 2018 compared to just 2,800 sq m in 2017.
- Despite the tightening conditions, rental growth was still modest at 3.3% YoY and raising average rents to PHP 691.0 per sq m / month.
- We may see double-digit vacancy rates in the coming quarters due to the large inflow of new supply from The Podium West Tower in 1Q/2019. Although elevated vacancies typically pull rental growth down, improvement in the quality of the overall stock in Ortigas Center should correct the rental disparity between the established CBDs.

Alabang

GRAPH 15

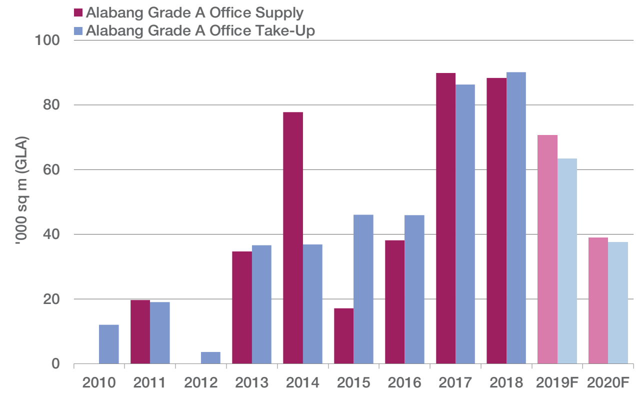
Stock & Vacancy



Source: KMC Savills Research

GRAPH 16

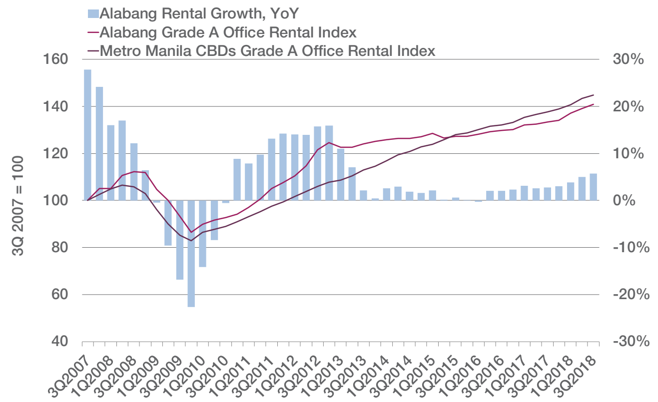
Supply & Take-Up



Source: KMC Savills Research

GRAPH 17

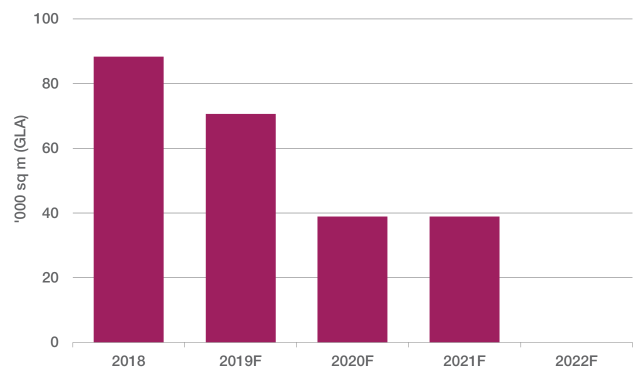
Rental Performance



Source: KMC Savills Research

GRAPH 18

Development Pipeline



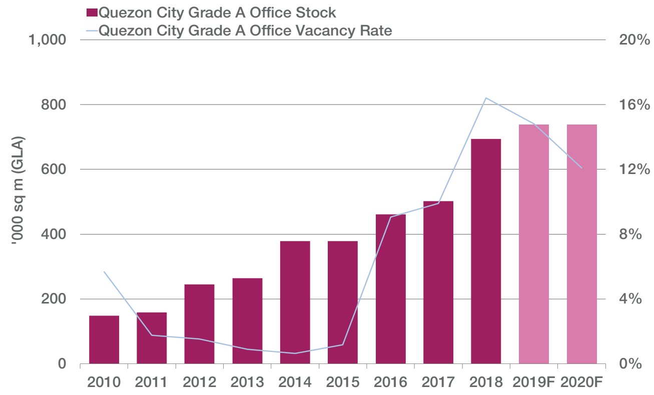
Source: KMC Savills Research

MARKET IN MINUTES

- Even with an additional 26,600 sq m of GLA in 4Q/2018, Alabang sustained its momentum with a solid net take-up of 37,400 sq m. Vacancies are becoming tighter in the fledgling district as vacancies further dropped to 1.4% of stock.
- Rental rates saw a rise of 5.3% YoY leading to PHP 671.6 per sq m / month. These rates are within expectations due to the presence of the POGO sector in the submarket.
- Alabang could still experience low vacancies in the coming quarters as the POGO sector further entrenches itself in the south of the capital. We still see rentals to breach PHP 700.0 per sq m / month in 2019 with the additional demand from the O&O sector.

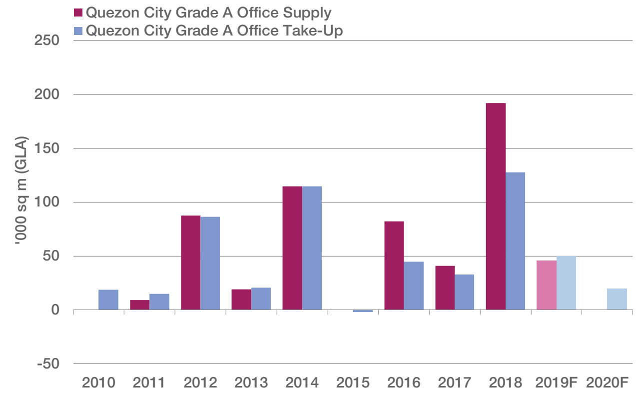
Quezon City

GRAPH 19
Stock & Vacancy



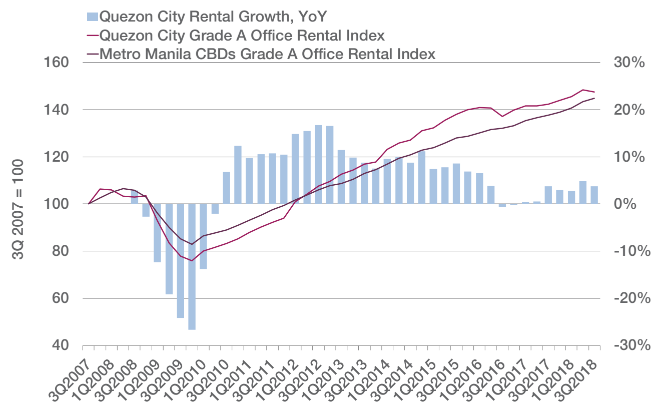
Source: KMC Savills Research

GRAPH 20
Supply & Take-Up



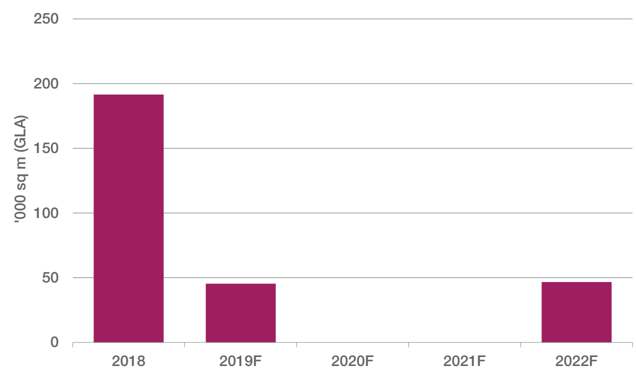
Source: KMC Savills Research

GRAPH 21
Rental Performance



Source: KMC Savills Research

GRAPH 22
Development Pipeline



Source: KMC Savills Research

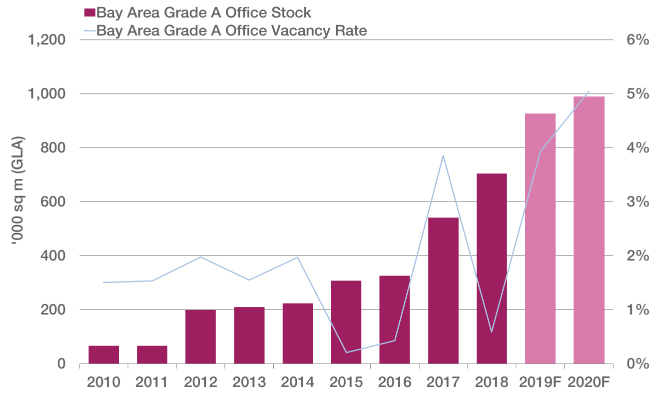
MARKET IN MINUTES

- With the completion of Cyberpark Tower Two and Centris Cyberpod Five, Quezon City continued its slump as the vacancy rate doubled to 16.4% in 4Q/2018 compared to 8.7% last quarter.
- Rents were still in the downtrend as it declined by another 0.2% QoQ, ending with an average rate of PHP 747.4 per sq m / month
- We forecast sluggish net absorption in the coming quarters given that the anemic occupier demand in Quezon City could be sustained in 2019. Further weakness in rental growth is also expected due to the record vacancy rate in the submarket.

Bay Area

GRAPH 23

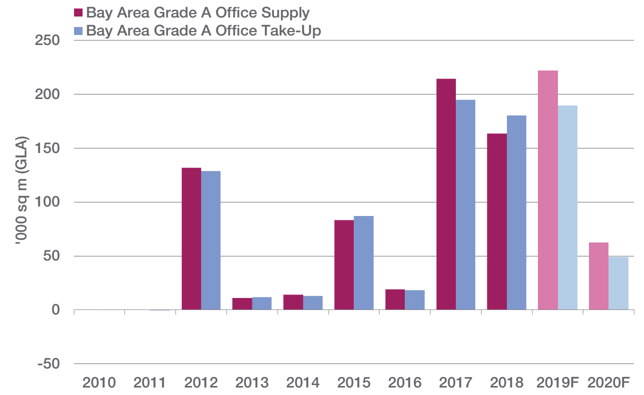
Stock & Vacancy



Source: KMC Savills Research

GRAPH 24

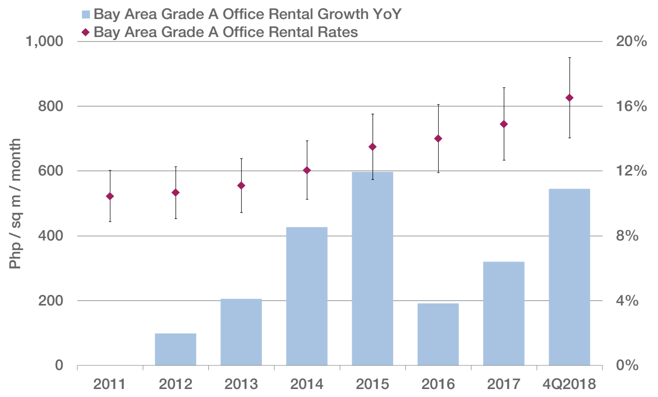
Supply & Take-Up



Source: KMC Savills Research

GRAPH 25

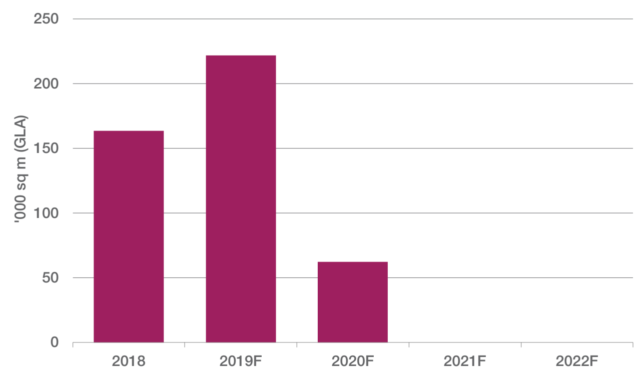
Rental Performance



Source: KMC Savills Research

GRAPH 26

Development Pipeline



Source: KMC Savills Research

MARKET IN MINUTES

- The Bay Area's vacancy rate marginally increased to 0.6% amid the additional 35,200 sq m from Filinvest Land and Estopace Properties. The budding district had an excellent year with net absorption of 180,300 sq m exceeding new supply of 163,500 sq m.
- Rental rates continued to show strong growth as it registered a 10.9% YoY surge during the quarter.
- Conditions in the Bay Area have been consistently tight and may persist until 2019 due to the steady demand coming from the POGO sector. However, we may see conditions ease this year as the sector enters new locations such as Alabang and the Makati Fringe.

Other Submarkets

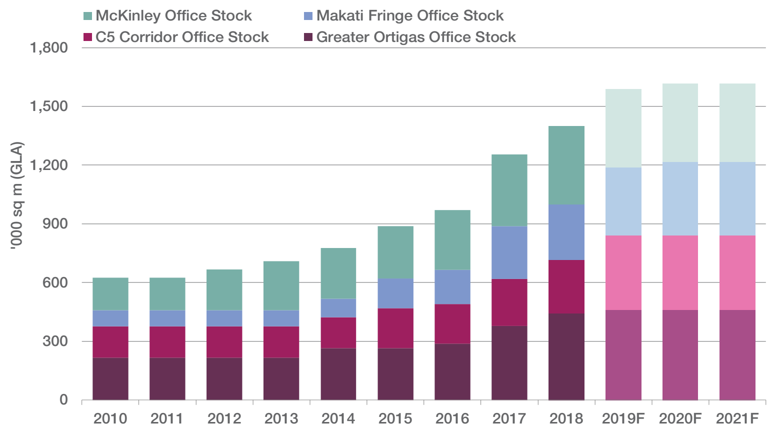
- The C5 Corridor showed stellar improvement as we saw a sharp drop in its vacancy rate to 2.7% in 4Q/2018 compared to the submarket's 12.4% in 3Q/2018. On the back of stronger net absorption of 26,400 sq m, the submarket was able to reduce vacancies amid no new completions.

- Greater Ortigas was able to reduce its vacancy rate to 10.7% as net absorption increased to 9,500 sq m during the quarter. McKinley also recorded a drop in vacancies at 5.6% of stock against 6.6% in 3Q/2018. Conditions in the Makati Fringe further tightened as well with the vacancy rate declining to 3.8% from 5.0% the previous quarter.

- In 2019, these submarkets are expected to have 189,700 sq m of new office space which should raise vacancies. However, the expansion of the O&O sector should alleviate any concerns of the vacancy rate hitting double digits in these submarkets.

GRAPH 27

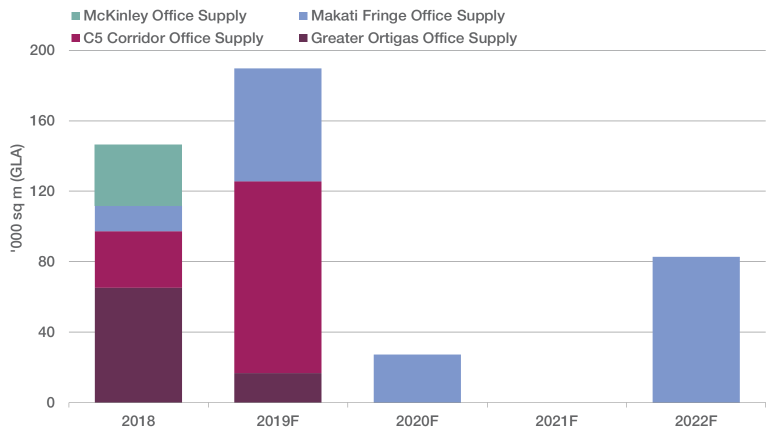
Stock by District



Source: KMC Savills Research

GRAPH 28

Development Pipeline by District



Source: KMC Savills Research

Definition of other submarkets

These submarkets are not included in the aggregate Metro Manila figures

MCKINLEY

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

MAKATI FRINGE

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

C5 CORRIDOR

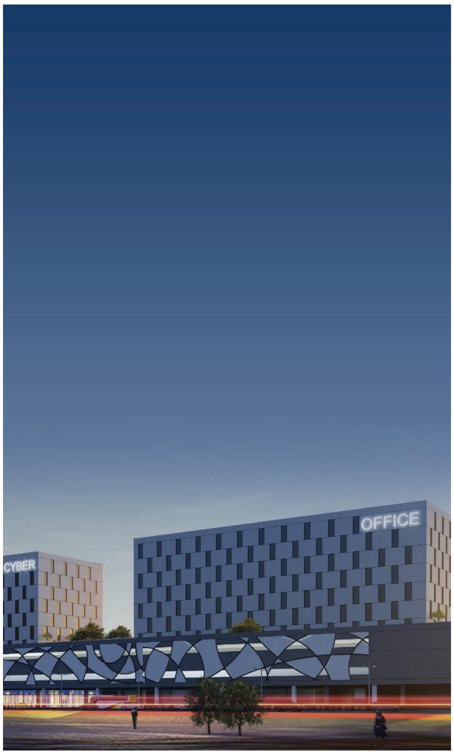
C5 Corridor covers a stretch of the C5 Road from Quezon City to Pasig City. Located north are Eastwood City, Nuvo City, Circulo Verde, Bridgetowne Business Park, and the upcoming Ayala-Eton joint-venture project; farther south are Frontera Verde and ArcoVia.

GREATER ORTIGAS

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

PROJECT FOCUS

PARANAQUE INTEGRATED TERMINAL EXCHANGE (PITX)



LOCATION
PARANAQUE CITY

GRADE
GRADE A

TURNOVER DATE
Q1 2019

GROSS LEASABLE AREA
76,900 SQ M (19,200 SQ M/ TOWER)

NO. OF FLOORS
6

FLOOR PLATE (GLA)
3,200 SQ M

HANDOVER CONDITION
BARE SHELL

24 / 7 CAPABILITY
YES

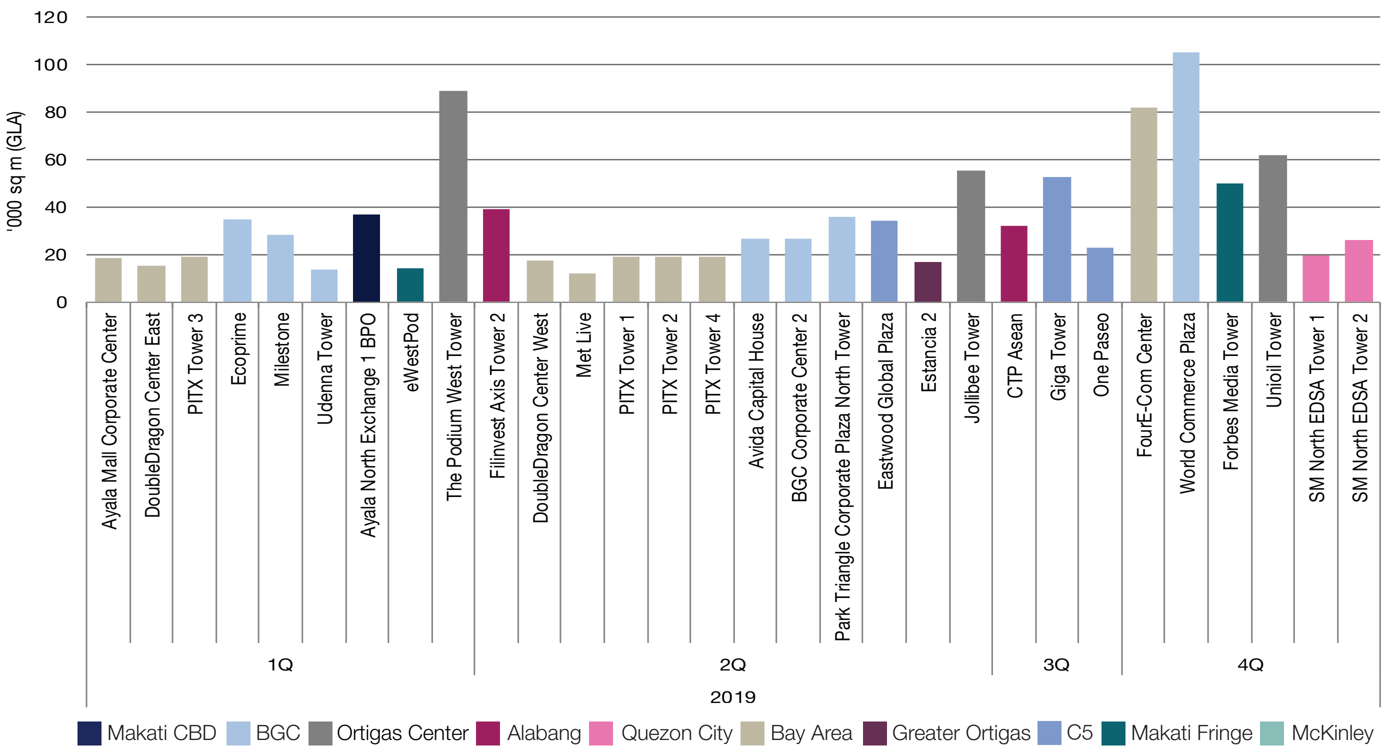
BACKUP POWER
100%

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

The structure also carries 6 floors of premier office spaces with a typical floor plate of 3,200 square meters, accommodating multiple tenants or businesses to ensure maximum occupancy.

GRAPH 29

12-month Supply Forecast by Building



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