

Office Trends Report — Q3, 2011

Central Business Districts, Philippines



Manila Office Trends Report Q3, 2011

Vacancy Rate of City

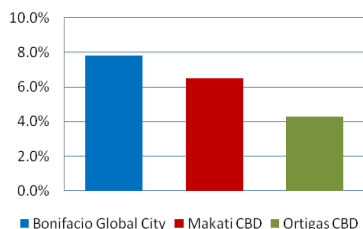


Figure 1) Vacancy rates at the end of 2nd quarter of 2011.

Metro Manila Office Supply

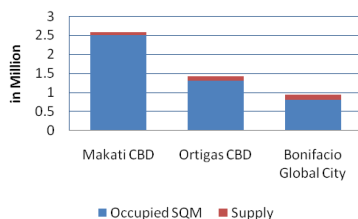


Figure 2) New supply has mostly been in Bonifacio Global City (Taguig) and Ortigas CBD (Pasig).

Achievable Rental Rates

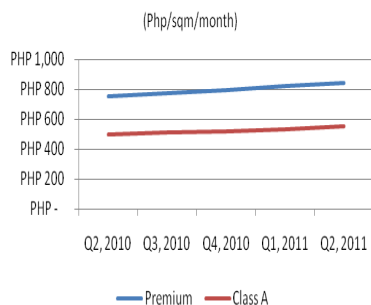


Figure 3) Achievable Rental Rates have been steadily increasing in the Makati CBD.

Real Estate Industry Summary:

Commercial

- Rental rates rose due to increasing demand and lack of availability of office space in Metro Manila
- Long term lessees kept occupancy rates at prime office buildings high despite relocation of BPOs to more affordable buildings
- Vacancy rates in CBD's are under 10% . Average rental rates are predicted to increase to Php 900/ sqm in the Makati CBD for prime and grade-A buildings
- Grade A office building occupancy rates are at an all-time high with rental rates up to Php 750/sqm
- Grade B and C commercial space rates experienced little change

Residential

- Continuous construction has increased the overall vacancy rate in Metro Manila
- Demand surpassed supply in the luxury residential market due to OFW investments and the growing expat community
- Mid-range residential condominium buildings in Bonifacio Global City and Makati to be completed by 3rd quarter of 2012 can increase vacancy rates, driving down per square meter prices
- Affordable real estate projects may be most feasible to invest in for earlier returns from the secondary market

Office Market Overview - Metro Manila

With the economy on the rise, Metro Manila's commercial real estate market is continuing to accelerate. This year it's largely lead by the rapid take up of the BPO sector. This combined with an overall positive outlook of investors towards the current administration has helped increase the demand for all investment properties.

Increased political stability has promoted investor confidence in the Philippines. FDI continues to flow as companies discover attractive investment incentive (PEZA, BOI) options for the Philippines. The commercial real estate market (particulary PEZA buildings) have seen increased demand in response to this. Behavior of investment sales activity remained modest with rates per sqm at 130,000 Php, 95,000 Php and 80,000 Php for Bonifacio Global City, Makati CBD, and Ortigas respectively.

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Office Supply

- Supply remains low with no significant change vs. Q2 2011.
- Total amount of office space in Makati CBD to date is 2.7 million square meters; Soonest notable addition to stock will come from the Zuellig building which is expected to be complete on Q1 2012.
- Accounting 50% of the Metro's office stock, Makati CBD's share is expected to decline as more leasable office space is being constructed in Bonifacio Global City, Alabang and Quezon City.
- Most of the new additions to the supply of commercial spaces are targeted to meet BPO's demand for office.
- Bonifacio Global City is the prime location for most new office space, much of which is leased out to BPOs.







Photo	Building	Location	Grade	Size (sqm)	Expected
	Sun Life Centre	5th Ave cor Rizal Dr Bonifacio Global City	Premium	25,000	Q3, 2011
	Trade and Financial Tower	7th Ave, Cor 32nd St Bonifacio Global City	A	28,000	Q3, 2011
	Active Fun Building	9th Ave cor 26th St Bonifacio Global City	A	8,000	Q3, 2011
	Science and Technology Hub	McKinley Hill Village, Bonifacio Global City	A	37,000	Q4, 2011
	iSquare	Meralco Avenue, Ortigas CBD	B	24,200	Q3, 2011
	Zuellig Building	Makati Av. Cor. Paseo, Makati	Premium	59,900	Q1, 2012

Table 1: Selected office supply

Demand and Vacancy Rates

- Premium and Grade A buildings enjoy the lion's share for all CBDs in terms of gains from demand. Conversely, a reverse trend can be seen for old and less energy efficient buildings.
- Overall vacancy rates continue to drop while average rental rate per sqm increased for all three commerce centers (Makati, Ortigas, and Bonifacio Global City).
- The upward demand trend for office space in Fort Bonifacio remains steady and will continue until the ongoing construction has caught up to serve the growing need.
- With the lack of available office spaces alongside high demand, Ortigas has the lowest vacancy rates of all business districts.
- For Quezon City, Eastwood is fully leased out, including the MDC100 building closing the last available floors to ANZ, Startek, and Convergys.

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Table 2: Vacancy rate of premium/Grade A buildings

Premium/Grade A Building	MAKATI	BONIFACIO	ORTIGAS
Average vacancy rate	10% (down)	8% (down)	3% (down)
Average asking rental rate for (Php/sqm/month)	800 (up)	650 (up)	550 (up)

Rental Rates

Rental rates increased for Grade A buildings in the three main CBDs in Metro Manila as a result of growing demand in a congested market.

Serviced Offices and Seat Leasing

The office demand from new companies entering the Philippine market are well served by “serviced offices” and has uniquely created the “seat leasing” option allowing lessors to provide space and value added services. This value added service has attracted start-ups and smaller BPOs looking for flexible lease terms and leading technology services on an op-ex model. Often, facilities will include training and conference rooms with managed IT services.

Provider	Makati	Fort Bonifacio
CEO	16,000 - 17,000	NA
Servcorp	17,200-40,000	NA
CEO Suites	17,000 -19,000	NA
Nomad Offices	15,400 - 19,800	NA
KMC Solutions	15,000 - 17,000	15,000 - 17,000
Regus	12,000-20,000	12,000-20,000

Table 3: Asking rate in Philippine Peso of workstation/employee per month.

Residential Market Overview - Metro Manila

The Philippines largest real estate developers such as Ayala Land, Robinson’s Land Corp, Century Properties, Megaworld Corp, and Rockwell Land have been actively launching residential projects. Pre-selling entire towers in advance of construction is common.

The market is divided between owner-occupants and investors hoping to turn a profit however, majority of the investment is driven by the secondary market – potential tenants searching for units available for lease. These include short term rentals to accommodate tourists.

Demand for condominiums is expected to gain strength as the number of companies establishing offices in the CBD and their employees steadily increases.

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Residential Supply

Building	Location	Room Types	Pre-Selling Price	Expected Completion
Signa Designer Residences	Salcedo Village, Makati	1 bedroom (45-50 sqm)	110,000 / sqm	Q1, 2015
		2 bedroom (60 sqm)		
		3 bedroom (80-110 sqm)		
The Grand Midori	Legaspi Village, Makati	1 bedroom (35-45 sqm)	90,000 / sqm	Q4, 2012
		2 bedroom (60-70 sqm)		
		3 bedroom (90 sqm)		
Gramercy	Century City, Makati	1 bedroom (sqm)	140,000 / sqm	Q4, 2011
		2 bedroom (sqm)		
		3 bedroom (sqm)		

Table 4: Selected residential supply

Residential Rental Rates

Residential leasing in premium to grade A buildings at Bonifacio Global City (BGC) ranges from Php 850–1,050 per square meter per month depending on what is inclusive in the unit. Price ranges of units for sale range from Php 110,000.00 – 138,000.00 per square meter depending on the turnover condition of the unit. There are some properties however that could be considered outliers in terms of price per square meter. Examples are One and Two Serendra unfurnished units, which are selling for as high as Php 152,000.00 per square meter.

The Makati CBD consist of two major residential districts –Legaspi Village and Salcedo Village. Luxury and upscale residential units for lease, range from Php 800.00–960.00 per square meter, also depending on the furniture that comes with the lease. Prices for units for sale range from Php 85,000.00–145,000.00 per square meter.

There are also residential condominiums in the Ortigas CBD with lease rates ranging from Php 650.00–880.00 per square meter for luxury and upscale.

	Size (sqm)	Rental Range (in Php)	Selling Range (Php/sqm)
Legaspi Village Makati			
1 Bedroom	35-50	28,000-48,000	85,000-100,000
2 Bedroom	80-110	64,000-88,000	
3 Bedroom	120-160	96,000-128,000	
Salcedo Village Makati			
1 Bedroom	35-50	29,750-40,000	85,000-145,000
2 Bedroom	150-170	120,000-136,000	
3 Bedroom	180-190	144,000-152,000	
Fort Bonifacio			
1 Bedroom	40-44	35,000-45,000	110,000-138,000
2 Bedroom	80-110	85,000-110,000	
3 Bedroom	130-280	136,500-294,000	

Table 5: Condominium Lease and Selling rates

Developments such as Rockwell, Eastwood, Century City, McKinley Hill, and others are all appreciating from their pre-selling prices. This trend will continue as more OFW's as well as local investors continue to purchase these units.

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Future Outlook

The Philippines, one of the world's largest business process outsourcing (BPO) providers is benefiting from a global off-shoring trend. In the next 12 months, BPOs are expected to take up current oversupply of office space, as well as require additional space.

Shortage for office space will still persist in the short and midterm as demand is steady. Rental rates are expected to increase. Vacancy rates will remain low and will only change as office building developments most of which are located in Bonifacio Global City reach completion. PEZA accredited buildings will be prevalent throughout 2011 in anticipation of more BPO investors in the country.

Developers are focusing on luxury residential developments in Bonifacio Global City and the Makati CBD. Mid-range to economy level condominiums are also being developed and are attractive investments to the secondary market of long and short term tenants.

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OFFICE TERMS AND DEFINITIONS

Occupied SQM: Office inventory includes all multi-tenant and single tenant buildings of at least 1,500 square meters. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: KMC MAG Group Inc, adheres to the BOMA guidelines. Class A/Premium properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Direct Vacant: This is the vacancy rate in space offered on the market directly by the landlord in single and multi-tenant buildings. This excludes vacant space offered for sublease and vacant space that is not offered on the market, for whatever reason.

Absorption Rate: The net change in physically occupied space over a period of time.

Asking Rent: The Philippine peso amount asked by landlords for available space expressed in Php per square meter per month in most parts of the country. The asking rent for each building in the market is weighted by the amount of available space in the building.

PEZA: Philippine Economic Zone Authority

BPO: Business Process Outsourcing

** KMC MAG Group's statistics are not audited and may result in revisions to previously reported quarterly and final year-end figures.*