KMC MAG GROUP Research
Metro Manila

An International Associate of Savills

Metro Manila Real Estate Midyear Report | 1H 2013

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About KMC MAG Group, Inc.

KMC MAG Group, Inc. is an award-winning real estate services firm, headquartered in Bonifacio Global City, a prime business district in Metro Manila. 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 best in class. 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.

Since early 2013, KMC MAG Group has been an International Associate of Savills, one of the largest real estate service providers listed on the London Stock Exchange. This provides KMC and its clients access to a global network of over 500 offices with nearly 20,000 employees worldwide.

Contents

A Year of Opportunities

In spite of the struggling global economy with America's sluggish growth, Europe's ongoing crisis, and China's slowdown, the Philippines' recent economic figures remain spectacular for investors. The country's remarkable 7.6% GDP expansion in the first half made it the fastest-growing economy in Asia, characterized by strong macroeconomic fundamentals that offers plenty of opportunities for investment. This positive environment is expected to last for a few years as growth forecasts remain positive, specifically the IMF which has recently raised its Philippine outlook to 7.0 percent for 2013 and to 5.5 percent in 2014.

Bullish Office Markets

Backed by the Philippines' recent credit rating achievements and robust economic growth, the demand for office space and lack of new supply has pushed up rents in the prime districts, as well as other emerging submarkets such as Quezon City. Regionally in Asia, the relatively low real estate costs, plus an attractive labor market have been driving companies to outsource to the Philippines. The entire Metro Manila continues to be the top choice for the Business Process Outsourcing and Offshoring (BPO's) industry which are driving 80+% of new office take up.

For property investors, the Philippine real estate market's current conditions in the office sector are seen as an attractive landlord's markets due to the high demand coupled with limited supply. We're seeing good yields (8-10%) in Makati which have been attracting international institutional investors. There remains a lot of potential that is untapped in the market. The real estate sector should improve transparency in terms of market information and corporate governance. The country's restrictions on land ownership also limits opportunities and discourages some investors from fully entering the market, resulting in lower transaction volume and lack of liquidity. The majority of transactions are carried out with equity, offering opportunities to improve yields using debt financing, since interest rates have come down significantly.

Future Looks Cautiously Bright

The property market in the Philippines will sustain its current performance. The second half of 2013 will be quite similar to the first six months only with added supply. In total, around 340,000 square meters of new office space will be introduced this year, concentrated mainly in Bonifacio Global City.

Short term residential investors may see pricing pressure when developments are ready for handover due to the amount of available stock plus slow leasing demand. Roughly 30,000 residential units will come online in 2013 alone. On the other hand, nearly sold-out projects in the Premium Residential sector (The Suites at One High Street by Ayala and The Proscenium by Rockwell) signal high demand for the premium residential property markets. In the long run, the mid-range residential markets will continue to grow supported by the increased purchasing power of the middle class and nationwide housing needs.

Michael McCullough
Managing Director

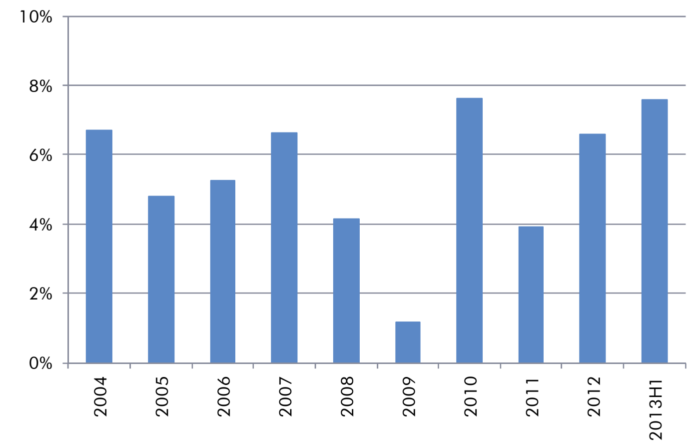
Economic Overview

The Philippine economy continued its rapid growth in the first half of 2013. Strong macroeconomic fundamentals such as the continuously expanding BPO sector, growing private consumption, and increasing government investments and tourism drove the GDP to 7.6% in H1, making the Philippines the fastest-growing Asian country according to National Accounts of the Philippines. With a rising economy, the Philippines is on its way to a continued property boom. The best performing industry last quarter was Construction, which ensures high level of activities on property markets in the future. The industry recovered from its drawbacks in 2010, accounting to a 17.4%-increase year over year with an annual average of 15.7%.

The second quarter GDP increase of 7.5% is also the fourth consecutive GDP growth of more than 7.0% under the current administration of President Aquino. It was backed up by the peaceful and successful May 2013 elections that support Aquino's platform and program, signaling the country's political stability.

Recent credit rating achievements and determined actions of the government through PPP (Private Public Partnership) have boosted investments within the country in the first half of the year. However, some concerns arose after the Federal Reserve's announcement of possible reduction in quantitative easing. According to the Philippine Central Bank (Bangko Sentral ng Pilipinas), the announcement accelerated the outflow of foreign portfolio investments from $2.4 billion to $2.6 billion in May and $2.8 billion in June, as foreign fund managers are preparing to take actions outside the emerging markets and return to developed markets that are showing recovery. Additionally, the announcement caused the Philippine Peso to weaken against US Dollar and led to a period of high volatility in the local stock markets. Stock index declined almost 22.0% from an all-time high of 7,403.65 basis points. However, this is considered as a temporary setback as markets are expected to show some signs of recovery in the second half of the year.

GDP Growth

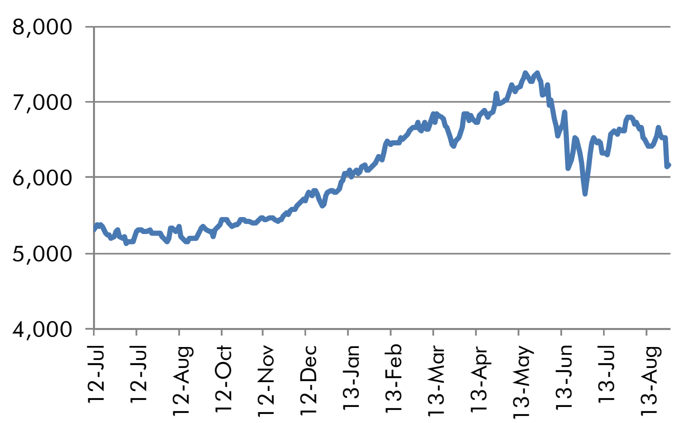


Source: National Statistical Coordination Board, NSCB

Peso per US Dollar

Source: BSP

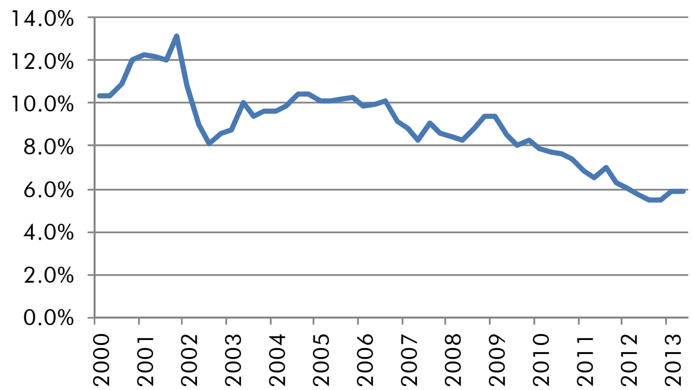
Philippines Stock Exchange Index



Source: BSP, Philippine Stock Exchange (PSE)

Meanwhile, BSP reports that net inflow of foreign portfolio investments still accounted for $1.6 billion in the first half of the year, which increased by 73.4% compared to 2012's year-to-date inflow. Net inflows of foreign direct investments (FDI) that directly contribute to the country's economy equaled to $1.5 billion during the first four months of the year, with an 2.8% YoY decline. Overseas Filipino Workers' (OFW) remittances, another form of capital inflow and a crucial part of the Philippine economy accounting for almost 10% of the GDP, increased 6.2% YoY during the first half of the year reaching $11.8 billion. In addition, a moderate inflation rate of 2.9% is slightly behind the BSP target of 3-5%, suggesting that its monetary policy rates remain unchanged. The key interest rates remain at a low level of 3.5% for Reverse Repo Rate (overnight borrowing), 5.5% for Repo Rate (overnight lending), and 2.0% for Special Deposit Account (SDA). The relatively low interest rates offer good debt financing opportunities that have also accelerated the transaction volume in the real estate sector. Real estate-related loans totaled to 676.9 billion PHP at the end of last year; 39.1% is allocated for residential loans and 60.90 % for commercial loans, significantly increasing by 20.7% compared to previous quarter's 560.8 billion PHP according to BSP.

Bank Average Lending Rates



Source: BSP

Key Figures - Philippine Economy, %

	2007	2008	2009	2010	2011	2012	2013 Q2
GDP	6.6	4.2	1.1	7.6	3.9	6.6	7.5
Private Consumption	4.6	3.7	2.3	3.4	5.7	6.6	5.2
Export	6.7	-2.7	-7.8	21.0	-2.8	8.9	-6.5
Import	1.7	1.6	-8.1	22.5	-1.0	5.3	-3.0
Average Inflation rate	2.9	8.3	4.2	3.8	4.6	3.2	2.9*
Unemployment rate	7.3	7.4	7.5	7.3	7.0	7.0	7.1
T-bill 91-days rates	3.4	5.4	4.2	3.7	1.5	1.6	0.3*
T-Bond 10-year rates	8.6	7.7	7.9	7.2	6.3	5.2	4.0

Sources: NSCB, BSP, Bureau of The Treasury

*First Semester Average

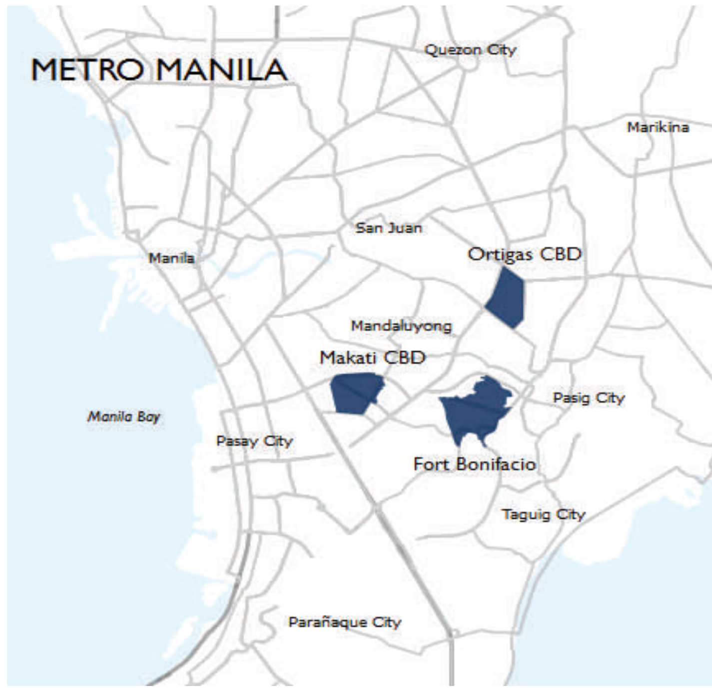
Real Estate Market Overview

The local real estate markets have not shown changes that are as drastic as in the Philippine stock markets. Investors remain optimistic towards the real estate sector, and new developments are being carried out in wide range.

This optimism has encouraged the major local players as well. The most recent action came from Megaworld Corporation, one of the major developers in the country. Megaworld consolidated its real estate units to ensure better fund availability, thus capitalizing on real estate opportunities in the coming years. Previously, SM Prime Holdings, Inc. also merged its real estate units to increase its market position, making it the largest property firm in Southeast Asia. On the other hand, Ayala Land Inc., the second largest developer, issues new bonds worth 21 billion PHP ($500 million) to raise additional capital for financing corporate expenses that include new projects worth 129 billion PHP.

The office market retains a positive atmosphere as it is boosted by the BPO sector and the solid performance of the country's economy. The low vacancy rates demonstrate the strong demand for office space within the central business districts. There seems to be no shortage of tenants ready to pay prime rent for high-quality small and medium offices in the CBDs. This can also be observed from the rapid growth of prime rental rates that continue rising at an average of approximately 6.6% p.a. On the supply side, developers are looking to benefit from the current market conditions by adding around 340,000 square meters of new office supply this year within CBDs, mainly concentrated in Bonifacio Global City.

Furthermore, the same factors — the country's continued economic growth, expanding BPO sector, and low interest rates — are driving the strong performance of the residential market. The country's growth is encouraging more investors and expatriates to establish BPOs and move to the Philippines, increasing the demand for spacious and high-end apartments in premium residential condos located near the CBDs. At the same time, the expanding BPO sector also drives the purchasing power of the middle-class, allowing them to buy their own homes, thereby increasing demand for subdivisions, townhouses, and condominiums. This phenomenon allows more people to enter the residential market, further boosting its performance in the long run. Lastly, the relatively low interest rates guarantee mortgage financing, encouraging buyers and investors to remain active.



The retail sector is also benefiting from strong consumer spending. Private consumption that makes up almost 60% of the GDP grew 5.2% YoY, encourages retail developers to take advantage of the increased consumption and to expand territory. The recently opened SM Aura in Fort Bonifacio (187,000 sqm), current expansion of SM Megamall in Ortigas (101,000 sqm) and development of Century City Mall in Makati (49,000 sqm) increases the gross floor area of retail space in CBDs by 337,000 sqm this year.

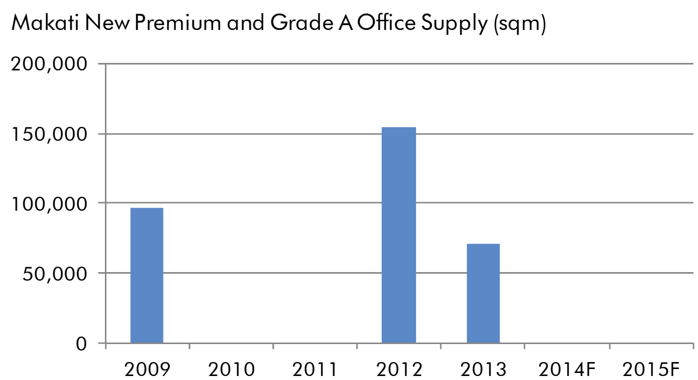
Makati City

Offices

Makati City is the prime central business district in Metro Manila, having the highest concentration of the country's commercial establishments. It is home to some of the largest companies in the Philippines, covering the IT-BPO sector. As a major cultural and entertainment hub in Metro Manila, Makati is also known for its highly cosmopolitan culture.

Currently, ongoing office developments in Makati are few, and developers are mainly looking to open projects in Fort Bonifacio. At the moment, Makati CBD facilitates around 1,100,000 square meters of premium and grade A office space that will increase by an additional 70,000 sqms by the end of the year. This consists of Alphaland Tower and V Tower.

The average asking rental rates for premium space in the Makati CBD reached up to 1,027 PHP per sqm, and maximum rate is at 1,200 PHP. Grade A rates accounted for an average of 733 PHP per sqm, with a maximum rate of 950 PHP, while Grade B equaled to 543 PHP per sqm, reaching up to 750 PHP. The rates are backed up by strong demand since vacancy rates in the prime buildings continued at a level of 3.9%. However, this rate is forecasted to increase to 7.2% once the new supply is delivered, according to KMC MAG Group's database.



Source: KMC MAG Group database

Key Figures - Premium and Grade A Office

Current Stock (GLA)	Vacancy Rate	Prime Yield
1,100,000	3.9%	7.5% - 11.0%

Commercial Lease Rates

Makati CBD	Average Rental Rate	Upper Rental Level
Premium Office	1,027.00	1,200.00
Grade A Office	733.00	950.00
Retail Lease	1,750.00	2,200.00
Serviced Offices	17,500.00*	20,000.00*

PHP/Square Meter/Month; *PHP/Seat/Month
Source: KMC MAG Group database

Residential

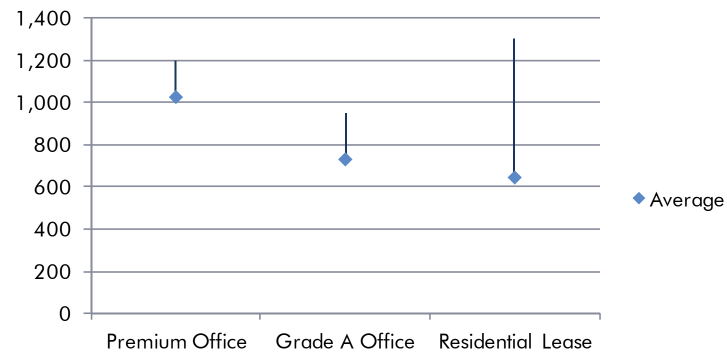
Rental rates in Makati condos vary largely depending on the grade and size of the condo building. The average rental rate across condos in the Makati CBD is 646 PHP per sqm, while small high-end premium condo units located within the district have higher rental rates, reaching up to 1,300 PHP per sqm.

For capital rates, small one- to two-bedroom condo units account for 121,182 PHP per sqm. However, similar to the rental rates, the capital rate also varies within the district. Condo units in expensive premium-grade buildings can be worth twice as much as below-average condo buildings.

Makati remains to be the location of choice for luxurious residential spaces. One of the biggest developments is Discovery Primea located along Ayala Avenue. It is a 68-storey luxury residential building with more than 50,000 sqms of floor area that is estimated to be handed over this year.

Another major development is from Ayala Land; the Garden Towers that is a multi-billion peso project offering 340 luxurious condo units with a total floor area of approximately 55,000 sqms.

Makati Rental Levels



Source: KMC MAG Group database

Rates in PHP

Makati CBD	Average Rental Rate (per Month)	Upper Rental Level (per Month)	Average Capital Rate	Prime Yield
Price per Square meter	646.00	1,300.00	121,183.00	5.5%-7.0%
2 Bedroom	60,000.00 - 95,000.00	140,000.00 - 160,000.00	14,112,873.00	

Rates in PHP
Source: KMC MAG Group Database

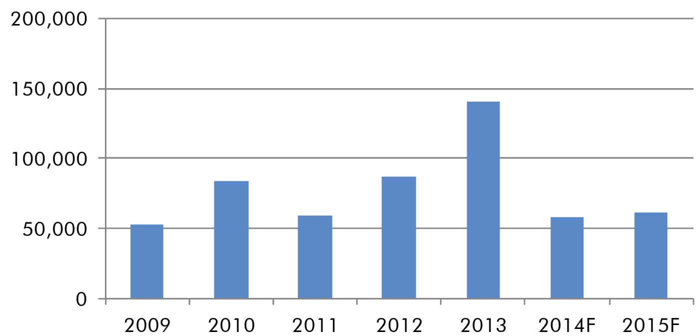
Bonifacio Global City

Offices

Bonifacio Global City (BGC) is a rapidly growing business district and cyber park located in Taguig City, Metro Manila. It is becoming the most active business district, generating almost 50% of the growth in the property market. Currently, there is 140,000 sqms of development in the pipeline by the end of year, including buildings such as Ecotower (33,000 sqm), W Fifth Avenue (33,000 sqm), RCBC Savings Bank Corporate Center (38,000 sqm) and SM Aura, which will open a 38,000 sqm office tower by the turn of the year in addition to its recently opened 187,000 sqm retail complex. Annual increase in supply of prime buildings for 2012 was recorded at 90,000 sqms increasing the total stock of BGC to 650,000 sqms.

The average asking rental rates for Grade A buildings amounted to 708 PHP per sqm, with a maximum of 1,000 PHP per sqm. Due to the numerous developments and annual increase of supply within the area, the vacancy rate rose up to 9.7% and will remain high by the end of the year.

Bonifacio Global City New Grade A Office Supply (sqm)



Source: KMC MAG Group database

Key Figures - Grade A Office

Current Stock (GLA)	Vacancy Rate	Prime Yield
650,000	9.7%	6.5%-8.5%

Commercial Lease Rates

Bonifacio Global City	Average Rental Rate	Upper Rental Level
Grade A	708.00	1,000.00
Retail Lease	1,800.00	2,500.00
Serviced Offices	18,500.00*	20,000.00*

PHP/Square Meter/Month; *PHP/Seat/Month
Source: KMC MAG Group database

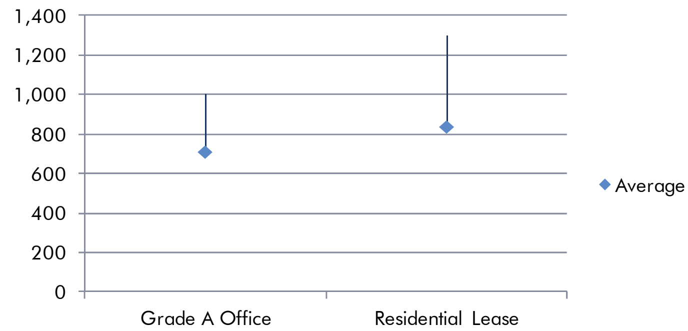
Residential

The rapidly rising residential sector remains popular even in the second quarter of the year. Almost all of the developments are sold out, signaling the high demand for space in the area.

Fluctuation in BGC rental rates is not as strong as the other CBDs, mainly because most of the stock is composed of new buildings. Average rental rate for BGC condos are at 835 PHP per sqm, reaching up to 1,300 PHP per sqm for high-end units. The capital rates are slightly higher than Makati levels, with an average value of 125,438 PHP per sqm that transmits to a spread of 7,500,000 – 15,000,000 PHP for a 2-bedroom condo.

Several projects are currently ongoing in BGC. Among the biggest developments is Grand Hyatt Residences, with 220 luxury units and a total floor area of approximately 56,000 sqms — to be turned over in 2015. This development is a two-tower mixed-use project that also features a new Grand Hyatt Manila hotel. Another high-end development is Arya Residences at the Fort by Artha-Land. The first building of the two-tower condominium development is almost sold out. Its expected turnover date is on the first quarter of 2014.

Bonifacio Global City Rental Levels



Source: KMC MAG Group database

Rates in PHP

Bonifacio Global City	Average Rental Rate (per Month)	Upper Rental Level (per Month)	Average Capital Rate	Prime Yield
Price per Square meter	835.00	1,300.00	125,438.00	6.0%-8.0%
2 Bedroom	75,000.00 - 100,000.00	120,000.00 - 140,000.00	13,648,947.00	

PHP/Square Meter/Month; *PHP/Seat/Month
Source: KMC MAG Group database

Ortigas CBD

Offices

Located in the middle of Pasig City, Mandaluyong City, and Quezon City, Ortigas Center is the third most important business district in the Philippines, and the second largest next to Makati. It is home to many condos and subdivisions, though the buildings are a lot older compared to most of the developments in Fort Bonifacio and Makati.

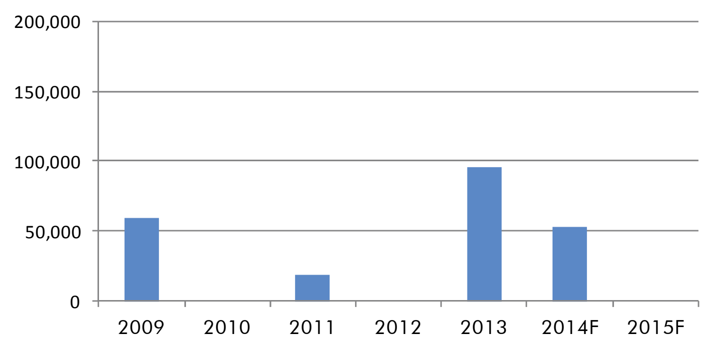
Grade A office space supply in Ortigas totaled to around 450,000 sqms in mid-2013 and is estimated to increase by 100,000 sqms by the end of the year after Robinsons Cyberscape Alpha and Beta are completed. The average rental rate for office spaces in Grade A buildings is at 518 PHP per sqm with a maximum rate of 750 PHP per sqm. Meanwhile, office space rental in Grade B buildings are at an average of 497 PHP per sqm with highest rate of 700 PHP per sqm.

Vacancy rate remains low at 3.6% but is expected to increase given the new supply of office spaces to be completed in the current year.

Residential

Although a lot of activities are in Makati and Fort Bonifacio, there are still several ongoing major developments in Ortigas. One of them is Robinsons Land's flagship luxury condo project, Sonata Private Residences. Its first tower is ready for occupancy while its second tower is expected to be turned over by early 2014. Each of the towers has 30 storeys with over 400 units. On the other hand, the Grove by Rockwell Land is the fastest emerging 5.4-hectare residential community in Ortigas and one of the biggest ongoing mixed-use developments in

Ortigas New Grade A Office Supply (sqm)



Source: KMC MAG Group database

Key Figures - Grade A Office

Current Stock (GLA)	Vacancy Rate	Prime Yield
450,000	3.6%	5.0%-9.0%

Lease Rates

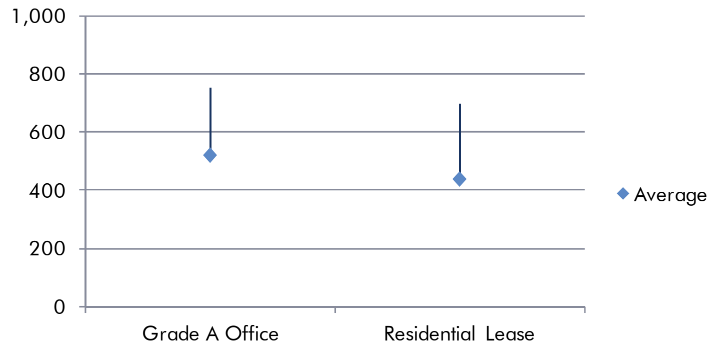
Ortigas CBD	Average Rental Rate	Upper Rental Level
Commercial		
Grade A Office	518.00	750.00
Retail Lease	1,334.00	1,650.00
Serviced Offices	12,000.00*	18,000.00*
Residential		
Residential Lease	436.00	700.00
2 Bedroom	45,000.00-60,000.00	70,000.00-90,000.00

PHP/Square Meter/Month; *PHP/Seat/Month
Source: KMC MAG Group database

Metro Manila. It features 6 residential towers — 2 of which have already been completed while the remaining towers are still under construction. Another luxurious development on the rise is One Shangri-La Place by Shang Properties, which features two 64-storey towers with a gross floor area of 190,000 sqms to be turned over in 2015.

Ortigas has significantly lower residential lease rates compared to other districts. The average rate in Ortigas is at 436 PHP per sqm, reaching up to 700 PHP per sqm.

Ortigas Rental levels



Source: KMC MAG Group database

Rates in PHP

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