RESEARCH

METRO MANILA

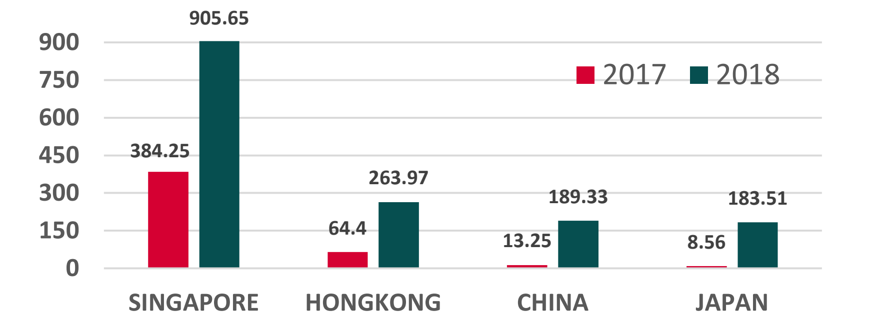
MARKET UPDATE Q4 2018

METRO MANILA REAL ESTATE SECTOR REVIEW

FDI RISES AS NEIGHBORING COUNTRIES CONTINUE TO BET ON "ASIA'S RISING TIGER"

COVER | The Philippines remains a popular investment destination for Asian investors

FIGURE 1
Net Foreign Direct Investment Level By Country of Origin (in USD Mn)



Source: Bangko Sentral ng Pilipinas

The Philippines continues to attract Foreign Direct Investments (FDI) as the economy carries on experiencing growth of above 6% for the past 7 consecutive years. The growth was mainly brought about by the increase in government spending from the present administration's "Build, Build, Build" infrastructure program.

At the end of 2017, the Philippines posted the highest rise in Foreign Direct Investments (FDI) among ASEAN countries. FDI remains robust as investments increased by 42% in the first half of 2018. As of October 2018, net foreign direct investments reached $8.5 billion, an increase of 2% from the previous year's $8.4 billion. The largest share in FDI was investments on Manufacturing, which rose to $1.03 billion from $894.8 million during the same period in 2017. Manufacturing was followed by real estate activities ($269.6 million), and financial and insurance activities ($230.2 million).

Equity capital placements predominantly came from Singapore ($905.7 million), Hongkong ($264 million) and China ($189.3 million), representing 45.3%, 13.2% and 9.5% of the total FDI from January to October 2018, respectively.

The Philippines continuously opens its doors to foreign investors and formulates policies that will limit constraints in doing business in the country. On October 2018, the 11th Regular Foreign Investment Negative List was amended to include five areas that will allow 100% foreign investment participation. The list includes internet businesses (as excluded from mass media), teaching at higher education levels provided the subject being taught is not a professional subject (i.e., included in a government board or bar examination), training centers that are engaged in short-term high-level skills development that do not form part of the formal education system, adjustment companies, lending companies, financing companies and investment houses, and wellness centers.

There is a large room for further expansion of the Philippine economy in 2019, as strong macroeconomic fundamentals remain sound and foreign capital continue to be invested in the country. The average inflation in 2019 is forecasted to revert back to 3%. The service sector will remain the main driver of growth of the economy, backed by an excellent pool of low cost-skilled labor. Moreover, the campaign spending for the upcoming mid-term elections and the country's hosting of the Southeast Asian games in the latter part of the year are expected to further advance the country's economic performance.

SNAPSHOTS

Economic Indicators

6.1%
GDP
Q4 2018

6.1%
Inflation Rate
December 2018

3.1%
OFW Remittances
November 2018

7.02%
Avg. Bank Lending
December 2018

5.11%
91-Day T-Bill
Q4 2018

52.77
Avg. PhP-USD
December 2018

RISING RENTS AND GROWING SUPPLY TO FURTHER STRENGTHEN THE METRO MANILA OFFICE SECTOR

OFFICE | 2019 predicted to be a good year for the office market despite large upcoming stock

Metro Manila Office Sector ended 2018 on a high note with a maintained positive momentum and continuing growth in the fourth quarter of 2018. Modernization of the workplace and continuing trends were noted during the year.

NET ABSORPTION & VACANCY RATE

Metro Manila's overall office vacancy rates was recorded at 4.88% in Q4 2018, which was driven by the continuing strong demand in office space from international firms, IT-BPO companies, and PAGCOR enabled companies. Office vacancy remained within healthy levels of below 6% since Q4 2010. The vacancy level was below 5% in Q4 2018 despite the more than 350,000 square meters of new supply introduced within the quarter, signifying a robust office market.

TABLE 1

Q4 2018 Office Data

Area	Weighted Avg Lease Rates (PhP/sq.m./mo.)	Vacancy Rate
Makati	1,419.68	4.13%
Fort Bonifacio	1,150.54	5.32%
Alabang	772.13	0.36%
Quezon City	900.73	8.62%
Ortigas	698.72	5.85%
Bay Area	842.71	1.27%
METRO MANILA	1,042.35	4.88%

Source: Santos Knight Frank Research

Net absorption of office space was measured at 337,277 square meters in the fourth quarter of 2018, bringing the total 2018 net absorption to almost 600,000 square meters of leasable space. Fort Bonifacio, Bay Area, and Ortigas exhibited an active and healthy office market in the last quarter of the year.

Fort Bonifacio ended 2018 with the largest net absorption among the Central Business Districts CBD) of Metro Manila. 150,899 square meters of Gross Leasable Area (GLA) was absorbed in Fort Bonifacio in Q4 2018, as the CBD competes against Makati, boasting of newer buildings with modern designs and architectures.

Bay Area office developments logged a net absorption of 68,581 square meters in Q4 2018. Demand was generated from expanding IT-BPO and PAGCOR-enabled companies.

Another notable net absorption in Q4 2018 was Ortigas CBD's 67,489 square meters of GLA. Firms choose to locate in Ortigas given the CBD's competitive rates.

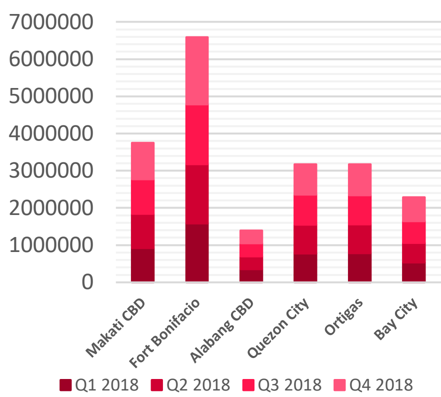
NEW SUPPLY

Completion and turnover of new office buildings added 373,331 square meters of GLA to the approximately 5.4 million square meters of existing Prime and Grade A office space in the Metro Manila major CBDs.

The Finance Center, Twenty-Five Seven McKinley, and High Street South Corporate Plaza (Tower 1 & 2) constitute the additional 193,257 square meters of new office supply in Fort Bonifacio.

FIGURE 2

Office Space Influx 2018 (in sq.m.)



Source: Santos Knight Frank Research

SM Prime's Three E-Com Center started its operations in Q4 2018, with Amazon Philippines as a major tenant. The opening of Three E-Com Center added 68,584 square meters of leasable space to Bay Area's total office stock.

Towers 1 and 2 of Ayala Land's Ayala North Exchange in Makati increased the CBD's total office supply by 56,000 square meters.

L & Y Plaza and Robinsons Land's Cyberscape Gamma in Ortigas and its fringes added 55,490 square meters of office GLA to another of Metro Manila's most sought-after business districts.

UPCOMING SUPPLY

Makati is set to witness the turnover of 247,000 square meters of office GLA in 2019. Prime-grade office building Nex Tower by Nova Group is the most notable upcoming office building in Makati. It will increase the office stock of the country's financial capital by 31,173 square meters.

The planned completion of Ayala Land's Park Triangle Corporate Center and BGC Corporate Center 2 in 2019 will inject 38,875 square meters and 26,620 square meters of GLA into Fort Bonifacio, respectively. Moreover, Asian Century Center of Century Properties, also in Fort Bonifacio, should be operational by Q1 2019. It will supply 26,000 square meters of additional GLA to the CBD. Furthermore, Megaworld's World Commerce Place is due Q2 2019, adding another 105,000 square meters to the Uptown Bonifacio development.

Ortigas will be welcoming 157,000 square meters of additional office space in 2019. The notable upcoming developments in Ortigas include SM Keppel Tower and SM Mega Tower, which will revamp the Ortigas skyline with 103,000 square meters and 96,000 square meters of office space, respectively.

WEIGHTED AVERAGE LEASE RATES

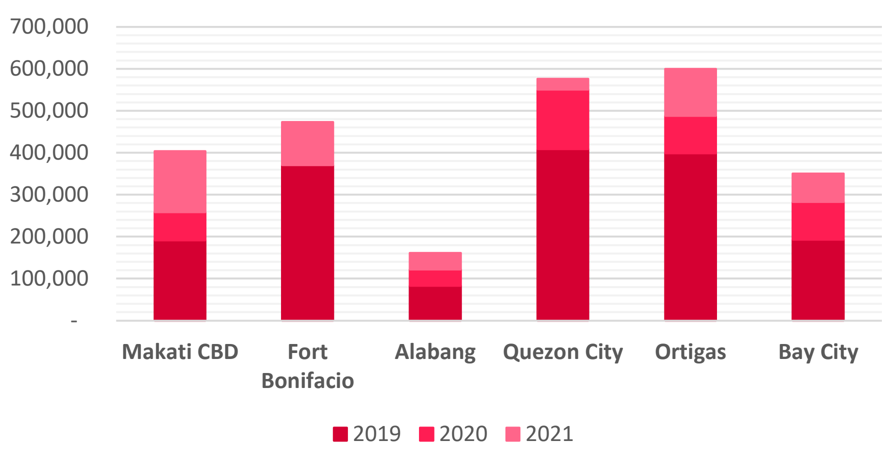
Amidst new and upcoming supply, office asking rents in Metro Manila continued to rise. Weighted average lease rates in Metro Manila grew by 3.25% Quarter-on-Quarter (Q-o-Q) and almost 10% Year-on-Year (Y-o-Y), increasing by 9.38% in Q4 2018. Weighted Average Rents remained above PhP1,000 as it was pegged at PhP1,042.35 per square meter per month.

Makati continued to occupy the top spot in terms of asking rents. Makati's weighted average lease rates was pegged at PhP1,419.68 per square meter per month, an increase of 3.10% Q-o-Q and 10.37% Y-o-Y.

Emerging developments in Fort Bonifacio drove the weighted average lease rate of the CBD to PhP1,150.54 per square meter per month, which represents a 3.50% Q-o-Q and an 11.25% Y-o-Y increase. Despite the large number of upcoming office buildings and commercial developments in Bonifacio Global City (BGC), McKinley Hill, and McKinley West, lease rates are forecasted to grow further in 2019, given the quality of the buildings slated for delivery.

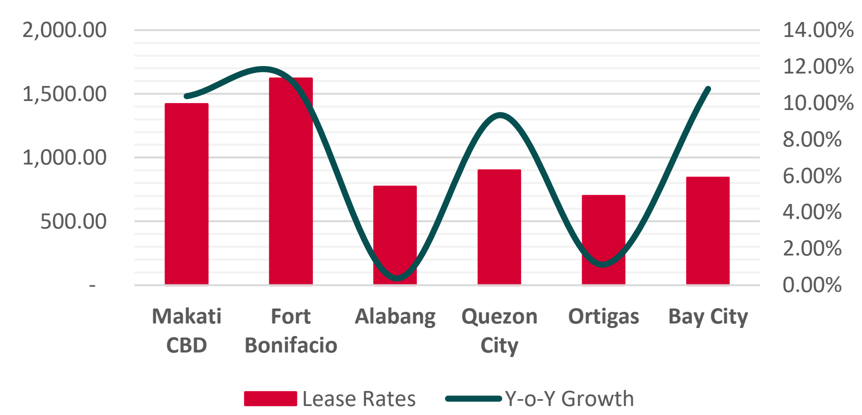
Quezon City (QC) documented a weighted average lease rate of PhP 900.73 per square meter per month, exceeding the PhP900-mark in the last quarter of 2018. Rental rates in QC grew by 0.53% Q-o-Q and 9.33% Y-o-Y. Developments in Cubao, Vertis North, and townships along the C-5 Corridor (Arcovia City, Ortigas East, Bridgetowne and Parklinks) are expected to drive rental rates up to the PhP1,000-mark this 2019, following the boosted activities in nearby areas.

FIGURE 3
Upcoming Supply (in sq.m.)



Source: Santos Knight Frank Research

FIGURE 4
Weighted Average Lease Rate (in PhP) and Year-on-Year Growth Rate (in %)



Source: Santos Knight Frank Research

OFFICE FOR SALE

The ballooning of rental rates led property developers to consider selling office spaces to interested parties. This will result to better cashflows and rate of returns to the building owners. Occupiers, on the other hand, opt to purchase spaces to save on recurring rental costs.

Pre-selling office developments in Makati command the highest selling price ranging from PhP160,000 per square meter to PhP320,000 per square meter. Notable Grade A office developments which are expected to be completed by 2022 include The Gentry Corporate Plaza in Valero Street and The Stiles Enterprise Plaza in Circuit Makati.

Due to the strong demand for office space in BGC, all buildings with offices for sale are 100% sold to-date. At the farther part of Taguig, however, Ayala Land Offices launched Tryne Enterprise Plaza in Arca South. The 13-storey West Tower has a Gross Saleable Area of 19,736 square meters and sells at an average of PhP250,000 per square meter. The tower is scheduled to be handed over to unit owners in Q4 2023.

Ample office inventories remain available for sale in the other Metro Manila business districts. Average selling prices in these areas range from a low of PhP155,000 per square meter to a high of PhP260,000 per square meter.

CO-WORKING TREND

The biggest trend in the office sector of late is the rise of serviced and co-working spaces. Coworking is a term first used by entrepreneur Brad Neuberg in 2005. A co-working office space is designed to provide a dynamic, productive, and collaborative environment that boast of ‘breathability’ and ‘flexibility’ and without the constraints of the usual corporate office environment. Co-working usually caters to freelancers, small start-up companies, and independent professionals.

Regus, Spaces, WeWork and Common Ground are some of the notable world-class serviced and co-working offices that are emerging and expanding in the Philippines. Regus is a popular serviced office provider in the country. Its first Philippine venture was in 1999 and it eventually offered co-working spaces through the “Spaces” brand. Spaces has an existing office in World Plaza in BGC and will be opening another office in Makati.

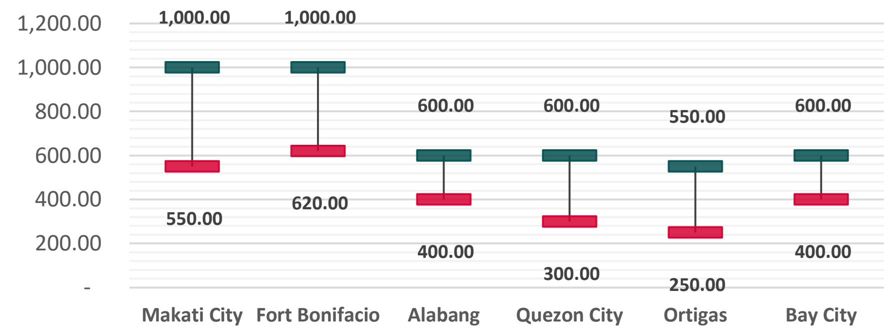
Moreover, another US-based company, WeWork, started operations in Uptown Bonifacio Tower 3 and announced a second office in RCBC Plaza in Makati.

Furthermore, Malaysian co-working brand, Common Ground, recently-opened its first branch in Arthaland Century Pacific Tower and is opening another office at IBP Tower in Ortigas.

Local property developers recognized the sizable co-working market. Ayala Land and Robinsons Land already ventured into co-working with Ayala Land’s “Clock-In” and Robinsons Land’s “Work.Able”. Clock-In emerged as one of the well-known local co-working brands. It is situated in various Ayala-owned buildings such as C2 Bonifacio High Street and Bonifacio Technology Center in BGC, Makati Stock Exchange and Ayala North Exchange in Makati and The 30th Corporate Center in Ortigas. Robinsons Land, on the other hand, introduced “Work.Able” in the newly-operational Cyberscape Gamma in Ortigas.

Co-working rates varied depending on the location. Co-working offices in Fort Bonifacio had a daily rate of PhP620 to PhP1,000 per table per day. Co-working price range in Makati was pegged at PhP550 to PhP1,000 per table per day. The daily rates for Alabang and Pasay co-working space ranged from PhP400 to PhP600 per table per day. QC and Ortigas had the cheapest co-working rates among all the CBDs in Metro Manila, ranging from PhP250 to PhP600 per table per day.

FIGURE 5
Co-Working Rate Price Range (Daily Rates)



Source: Santos Knight Frank Research

METRO MANILA RESIDENTIAL SECTOR ENDS 2018 WITH STRONG DEMAND INDICATORS

Residential | Robust buying activities from expatriates fueled the demand for residential units

The local residential market continued to display vigorous numbers due to the unwavering purchasing activities from both foreign firms and local professionals. Overall monthly take-up in the fourth quarter averaged 27.98 units per month, coming from 23.1 units per month in the previous quarter. The influx of foreign investors and workers, as a result of the growing number of PAGCOR-enabled companies in the country, remained to be one of the major drivers of residential sale in Metro Manila. The Philippine Amusement and Gaming Corporation (PAGCOR) reported a growing list of approved licenses as of December 2018. Bulk residential purchases for the purpose of employee housing created an upward pressure on the prices of units.

DEMAND AND ABSORPTION

Q4 2018 overall absorption rate in Metro Manila rose slightly at 94.95%, even with new project launches during the quarter.

Bay Area recorded the highest average take-up rate among the Metro Manila CBDs in Q4 2018 at 49.69 units per month. Majority of the Chinese companies are located in the Bay Area and some parts of Makati.

Ortigas closely followed Bay Area, with a 48.4 units per month average performance. Investors and end users in Ortigas are primarily considering the potential for high returns due to the anticipated increase in accessibility once lined-up infrastructure projects are completed.

Makati occupied the third spot with an average take-up of 44.24 units per month, a remarkable 11-unit increase from Q3 2018.

Demand for middle-income projects continued to be highest in Metro Manila, with a take-up of 37.46 units per month at an average. 1-bedroom sales overtook studio units in the quarter, making it the more sought-after unit type. 1-bedroom units sold at an average of 15.62 units per month in Q4 2018. Most of the 1-bedroom units sold were intended for employee housing in the Bay Area.

SELLING PRICES AND YEAR-ON-YEAR GROWTH

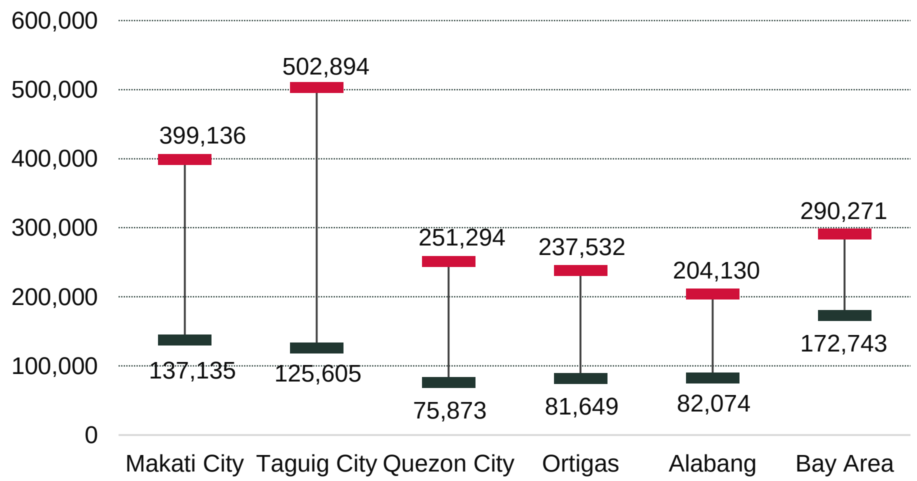
Bay Area and Makati registered the highest year-on-year growth in prices among the Metro Manila CBDs in Q4 2018 at 65.7% and 32.7%, respectively. Bay Area's indicative weighted average selling price remained the highest across Metro Manila for the last 3 consecutive quarters. Residential condominium prices in the Bay Area averaged Php242,467 per square meter in the last quarter of 2018. Taguig and Makati followed with average selling prices of PhP214,491 per square meter and PhP205,452 per square meter, respectively.

TABLE 2
Q4 2018 Residential Condominium Sales Market Statistics

Area	Units Sold (%)	Avg. Monthly Take-up
Makati	**95.45%**	**44.24**
Taguig	**94.63%**	**12.89**
Quezon City	**91.61%**	**14.15**
Ortigas*	**91.22%**	**48.40**
Alabang	**96.35%**	**11.93**
Bay Area	**95.24%**	**49.69**
METRO MANILA	**93.46%**	**27.98**

*Includes parts of Mandaluyong, Pasig, and San Juan

FIGURE 6
Indicative Average Selling Prices per Area (PhP/sq.m.)



Source: Santos Knight Frank Research

High-end condominium projects realized the highest year-on-year growth in prices, with selling prices growing at an average of 23% in the fourth quarter. High-end projects sold from Php122,554 per square meter to Php399,137 per square meter in Q4 2018.

NEWLY-LAUNCHED PROJECTS

Residential property developers continue to bank on the government's large-scale infrastructure program by acquiring land and master-planning developments proximate to planned infrastructure projects. Uptown Arts Residences, Megaworld Corporation's newly launched property in Taguig, is located near the proposed Skytrain Uptown Station and the bridge that will connect Fort Bonifacio to Pasig. In addition, Megaworld Corporation recently launched Vion Tower in Makati, which capitalizes on its accessibility to the proposed Magallanes Transport Hub. Makati is likewise set for a major transportation upgrade with the construction of a subway system. The new infrastructure is expected to improve capital values and rejuvenate interests in the city. Also in Q4 2018, Aseana Residential Holdings launched the first two of the four towers of MidPark Towers. The residential project is within Aseana City in Parañaque City and is in close proximity to the recently launched Parañaque Integrated Terminal Exchange.

GENTRIFICATION IN MANILA

The massive infrastructure projects of the government and lack of developable land within the Metro Manila CBDs paved the way for the gentrification of fringe areas. Major developers expand their portfolio by acquiring land outside the city core and turning them into urban township developments. Townships are ideal for residents because it offers an integrated community where they can live proximate to retail establishments and workplaces.

Some of the notable upcoming townships are concentrated along the C-5 Corridor. Eton Properties and Ayala Land's Parklinks project boasts of being the largest mixed-use development in the area, covering 35 hectares of land.

Megaworld Corporation continues to expand its township portfolio with the construction of Arcovia City in the Pasig side of C-5. The first high-end condominium project in Arcovia City, 18 Avenue De Triomphe, is for launching within 2019. The 37-storey residential project will offer 576 residential units of different cuts, targeting the young professionals working in the area.

Vion Tower
Source: Megaworld

18 Avenue De Triomphe
Source: Megaworld

MidPark Towers
Source: BusinessMirror

Bridgetown Business Park by Robinsons Land Corporation will soon introduce residential condominiums to complement the upcoming office buildings in the mixed-use development. The township will mostly cater to the Business Process Outsourcing (BPO) sector.

BOOM OF CO-LIVING

With the strengthening of the IT-BPO sector in the country, residential demand for products specifically targeting BPO workers and employees entices property developers to conceptualize and unveil products and projects that tap into the huge unserved demand.

Co-Living projects present an alternative accommodation that meets the needs, desires and preferences as well as addresses the focal concerns of BPO workers and staff, young urban professionals, ordinary office workers and students. Bed and room options for individuals and staff housing are available.

The worsening traffic situation within the major business districts of Metro Manila creates a demand for housing units that are close to places of work. This promotes personal and monetary well-being, saving the worker a great deal of time and money. Also, renting a residential condominium unit might be too expensive for employees living on a strict budget. Hence, the dormitory model appears to be more compelling and practical. Sharing living spaces likewise promotes social interactions and friendly collaborations for an enhanced overall living experience.


Arcovia City
Source: Megaworld

Notable co-living projects include Ayala Land's The Flats Amorsolo and SMDC's MyTown Dormitories. At present, there are 16 MyTown projects in various locations within BGC and Makati while The Flats have upcoming sites in BGC Fifth Avenue, BGC Parkway and Circuit Makati.

A bed in The Flats is priced PhP6,250 per month (excluding utilities) for the first 6 months of lease. The monthly occupancy cost increases to PhP6,700 per month (excluding utilities) in the succeeding months.

MyTown rates, on the other hand, vary depending on the type of accommodation. Rooms that could fit 6, 4, and 2 persons cost PhP4,050 per bed per month, PhP4,200 per bed per month and PhP8,100 per bed per month, respectively. A Private Queen Room is also available for PhP16,100 per month.

Another co-living project to watch out for is First Georgetown's GRID, which is also situated in Makati.


The Flats Amorsolo
Source: Make It Makati

PROPERTY DEVELOPERS MOVE INTO WAREHOUSING AND LOGISTICS

INDUSTRIAL | New opportunities in the industrial sector identified by local firms

The Gross Domestic Product (GDP) of the Philippines grew by 6.1% in the final quarter of 2018, bringing the full year GDP growth to 6.2%. The industry sector grew fastest at 6.9%. Manufacturing and construction were the largest contributors to industry growth at 62% and 25%, respectively. Moreover, government spending on infrastructure increased by 6.9%, the fastest pace since 2013.

With the projected prolonged elevated level of fuel prices and as e-commerce continues to reshape retail, last-mile delivery hubs, inner-city distribution centers, cold storage and warehouse facilities will remain in high demand.

The average lease rate for industrial space were at a minimum of PhP152 and a maximum of PhP589 per square meter per month. Cities of Makati, Mandaluyong and Parañaque recorded the highest lease rates at PhP589, PhP457 and PhP438 per month, respectively.

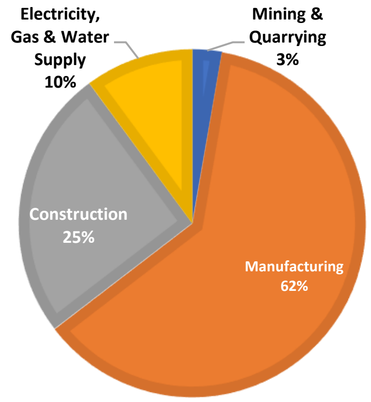
The scarce supply of industrial properties within Metro Manila, nevertheless, has been forcing property developers to re-visit opportunities in logistics and warehousing outside the city core. Developers likewise formulate strategies that cater to the notable growing demand coming from Small and Medium Enterprises (SME).

Double Dragon Properties is set to open the Central-Hub Iloilo, a warehousing hub that will add 22,000 square meters to the present industrial supply.

In addition, Prime Orion Properties, in partnership with Mitsubishi Corp., plans to build a new Standard Factory Building (SFB) inside the 11-hectare Laguna Technopark. The SFB will have an estimated GLA of more than 60,000 square meters and will include commissaries, cold storage, light manufacturing and logistics facilities. The total area will be divided into 40 leasable units, each having an estimated area of 1,200 to 1,500 square meters.

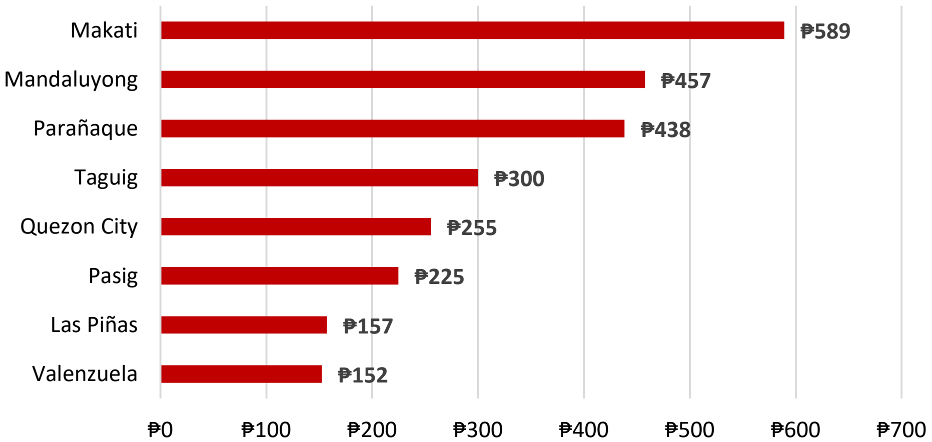
The Juan Luna Logistics Center in Binondo, Manila will be Anchor Land Holdings, Inc.'s third in the country. The building will have 29 storeys of modern storage, with only 8 units per floor. An extra space is to be provided per unit, which can be used as showroom or office space. The ground floor will be dedicated to banks, for easier trading and transactions between businesses and clients.

FIGURE 7
Industry Sector Composition (Q4 2018)



Source: Philippine Statistics Authority

FIGURE 8
Industrial Space Average Lease Rates (PhP/sq.m./mo)



Source: Santos Knight Frank Research

Juan Luna Logistics Center
Source: Anchor Land Holdings Website

HOSPITALITY MARKET STEADILY CRUISING THE 2018 FLIGHT PATH

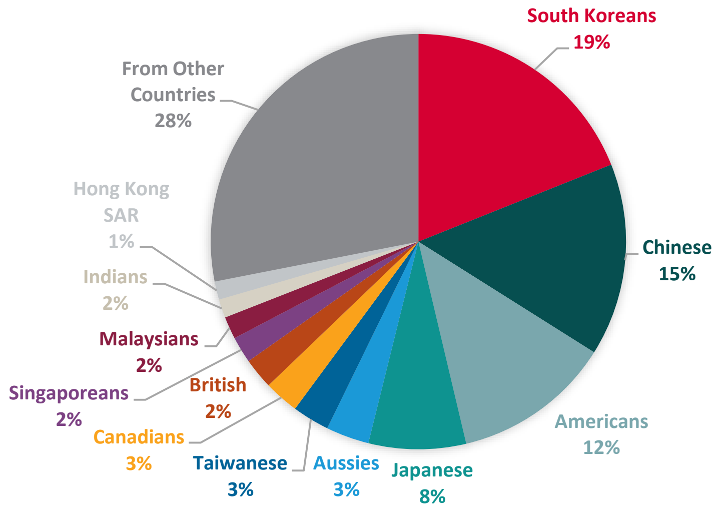
HOSPITALITY | New Transportation Routes, Expansion of Airports and Hotels, Rising Tourist Arrivals and Better Utilization of Technology all show a Brighter Future for the Capital

The Department of Tourism (DoT) celebrated a momentous occasion as the country welcomed the highest number of tourist arrivals in decades . Foreign tourist arrivals in the country increased by 7.68% to 7.1 million in 2018 despite the closure of Boracay Island. Boracay's closure opened up opportunities for alternative tourist destinations in the country, such as Cebu, Iloilo, Palawan and Siargao.

South Korea remained the country's top tourism market with about 1.6 million visitor arrivals in the full year of 2018. South Korea (19%), China (15%) and US (12%) occupied the top 3 spots in terms of 2018 visitor arrivals to the Philippines. China was recognized as the most improved tourism market, achieving an almost 30% year-on-year growth in tourist arrivals, with 1.3 million Chinese nationals visiting the country in 2018.

FIGURE 9

Philippine Foreign Tourist Arrivals 2018



Source: Department of Tourism

EXPANSION OF ROUTES AND AIRPORTS

In December 2018, AirAsia Philippines added a new direct flight route from Manila to Shenzhen, months after the launching of the airline's Cebu – Shenzhen flights. The primary objective was to cater to the growing Chinese market traveling to and from China. The new flight routes are expected to generate increased volumes of tourism and investment activities, as well as foreseen to further enhance relations between China and the Philippines.

Philippine Airlines (PAL), the country's flag carrier, and Cebu Pacific, a low-cost airline in the Philippines, are also expected to launch new domestic and international routes in 2019, pending the delivery of new airplanes. PAL is currently studying the prospect of long-haul flights to European cities while Cebu Pacific is looking at direct flight opportunities to North Asia. These new links will serve as the country's silk road connecting the country's more than 7,000 islands with the rest of the world, which will consequently stimulate trade, tourism and investments across the hospitality sector.

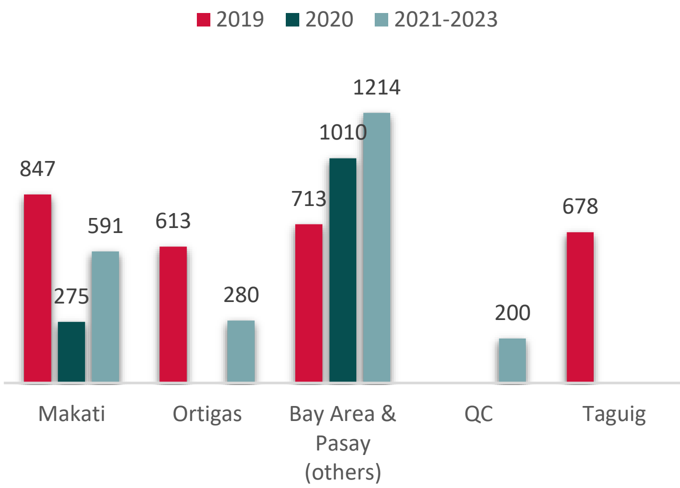
Complementing the expansion of various routes to and from the country, the DoT, together with the Department of Transportation (DOTr), is prioritizing the improvement of the country's international airports, especially those catering to the market of tourist destinations. Improvement of at least 85 airports are in the pipeline, including New Clark International Airport, New Bohol (Panglao) International Airport and Bacolod Airport. The Philippine government is likewise interested in developing smaller airports with the objective of redirecting load away from the country's main gateways.

The Ninoy Aquino International Airport (NAIA) received 42 Million passengers in 2017, which is beyond the airport's 30.5 million annual capacity. In response, a super consortium of the country's top conglomerates was awarded the Original Proponent Status (OPS) to rehabilitate and increase the capacity of the Philippine's main and most congested airport. The target commencement of rehabilitation works will be in September 2019. Estimated completion will be in 2 to 6 years from start date. The goal is to increase NAIA's capacity to 47 million in the next 2 years and to 65 million in the succeeding 4 years.

In addition, after a seven-year closure, the Manila – Davao shipping route was reopened, providing another link between Manila and four of the country's far-flung cities. The route is serviced by the 2Go Group, a Philippine-based company engaged in transporting people and cargo with the use of

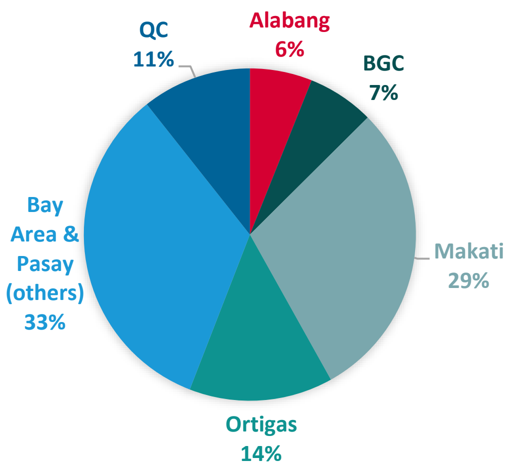
NAIA Terminal 1 (08-19-18)
Image Source: DZBB Super Radyo

FIGURE 11
MM Upcoming Hotel Room Supply



Source: Santos Knight Frank Research

FIGURE 10
MM Q4 2018 Hotel room Supply Distribution



Source: Santos Knight Frank Research

inter-island ferries and cargo ships.

From Davao, the ship first stops in General Santos (South Cotabato) then in Zamboanga, followed by Iloilo, before it finally docks in Manila, and vice-versa. This interconnectivity between the five cities provides another avenue of transport at competitive prices, a boost in domestic tourism, enhancement of trade and investments, and the expansion of a logistics provider's capability.

METRO MANILA'S HOSPITALITY INDUSTRY

As the country's center of culture, economy, education and government, Metro Manila welcomed the most number of visitors, both domestic and foreign, among all other places in the Philippines. Manila is often the venue of choice when hosting international conferences, conventions and events, such as concerts and economics summits. The Metro Manila hospitality industry growth remains mainly driven by Meetings, Incentives, Conferences and Exhibitions (M.I.C.E.) and local guests on staycation.

A number of hotel openings were recorded in Q4 2018, including Sheraton Manila by Mariott International at Newport City in Pasay. 390 new rooms were added to Newport City's present supply of more than 2,600 rooms. Moreover, Hotel Okura is set to open in Q2 2019, adding another 196 rooms. Continuing and increasing demand is noted despite the presence of numerous hotels in the area.

Budget hotels continue to mushroom in various areas in and outside of Metro Manila. Hop Inn Tomas Morato recently-opened in QC, bringing the number of hotel rooms in QC to 2,919 rooms.

Newly-minted into the Philippine Hospitality Industry, RedDoorz, an online budget hotel marketplace, partners with low-cost hotel owners to standardize product offerings, formulate marketing and sales strategies, and handle customer feedback. RedDoorz and other similar service providers, such as Zen Rooms, Nida Rooms and Oyo Rooms, play a huge role in the introduction of small and less known hotels to the market.

In response to growing tourist volume, developers have been investing in the hotel industry across the Philippines. Branded hotels are expanding not only within the capital but also in locations such as Zambales (Rosewood), La Union (dusitD2, a Dusit brand), Bacolod (Citadines, an Ascott brand), Davao (Dusit) and Cebu (Dusit, Sheraton, Radisson and Citadines). Meanwhile, homegrown players are also expanding their tourism and hotel portfolio, such as Ayala with the Seda hotel brand and its new tourism estate, Sicogon Island.

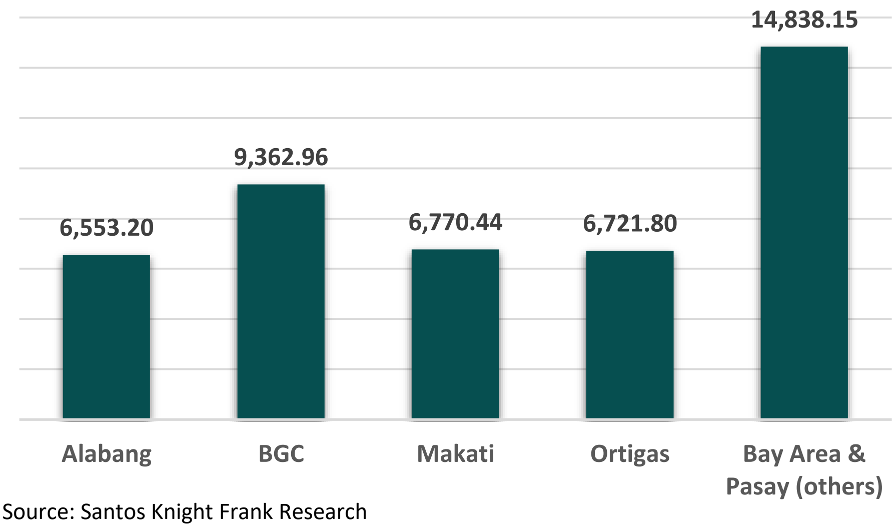
At present, Bay Area and other areas in Pasay have the most number of hotel rooms in Metro Manila, accounting for 33% of the total. Moreover, about 3,000 new rooms will soon be available in the Bay Area. Makati likewise comprises a large portion of the hotel supply with a 33% share in total number of rooms. Another 1,700 hotel rooms will be added to the Makati supply within the next five years. A total of 6,400 rooms are upcoming in Metro Manila until 2023, with nearly 2,900 expected to open in 2019.

In terms of Average Daily Rates (ADR), Bay Area and other areas in Pasay have the highest ADR across the 5-Star-rated hotels in Metro Manila. ADR of 5-star hotels in the aforementioned areas averaged PhP15,000.00 in Q4 2018. The price was mainly driven by integrated hotels and casinos. ADR in Makati was recorded at a little over PhP9,000.00 while ADR in the rest of the areas were estimated between PhP6,000.00 to PhP7,000.00.

Overall ADR follows the pattern of that of 5-star hotels, with prices in Bay Area and other areas in Pasay leading all the other business districts, pegged at almost PhP12,000.00. BGC's overall ADR was almost PhP9,000.00 while the overall ADR of the rest of the areas ranged between PhP4,000.00 to PhP5,000.00.

FIGURE 12

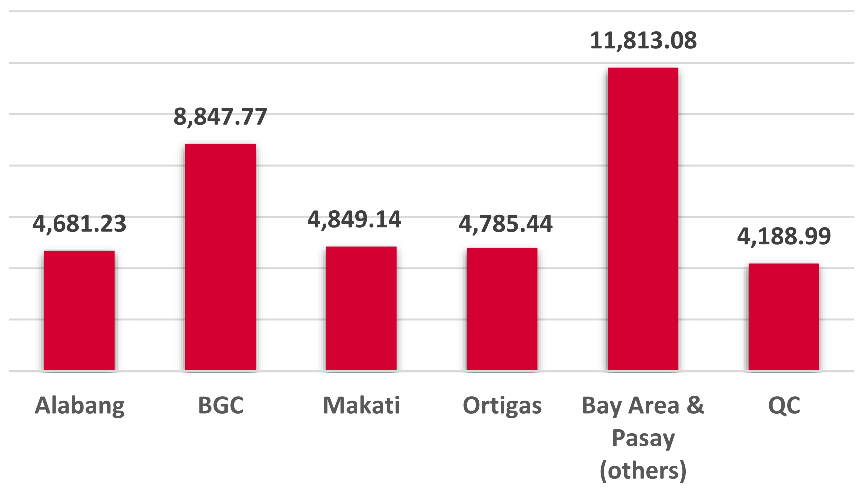
MM 5-Star Hotels ADR Q4 2018 (in PhP)



Source: Santos Knight Frank Research

FIGURE 13

MM Hotels Average Daily Rate Q4 2018 (in PhP)



Source: Santos Knight Frank Research

BRICK & MORTAR ESTABLISHMENTS SUSTAIN GROWTH AMIDST BUSTLING E-COMMERCE

RETAIL | Evolving landscape increases demand for new concepts and technologies

OPENINGS & EXPANSIONS

Both internet and traditional retail have thrived in the Philippines amid changing dynamics of customer preferences. Despite the rapid emergence and notable growth of e-commerce, Filipino consumers continue to prefer the actual shopping and dining experience of visiting physical stores. Moreover, retail expansions far and wide ascertain that retail developers expect the market to remain patrons and regulars of shopping malls.

Ortigas and Company is ramping up the *Estancia Mall* in Capital Commons, adding another 65,000 square meters of GLA in 2019. The mall expansion will include an SM department store, movie houses, new and exciting restaurants and more global lifestyle brands. The company is keen on making Capital Commons an integrated hub for live-work-play in the Ortigas Central Business District.

The Podium of SM Supermalls recently revealed the mall's much awaited expansion, which is actually a renovated version of the original mall. The estimated additional area is 20,000 square meters of leasable space.

Robinsons Magnolia in QC is likewise undergoing a considerable expansion. The mall expansion will add 10,000 square meters of leasable space to the existing mall GLA.

Ayala Land Inc. is further boosting the Bay Area retail sector in 2019 with the scheduled unveiling of the first phase of Ayala Malls Bay Area. The new mall is expected to seize a large share of the existing SM Mall of Asia market. Nevertheless, *SM Mall of Asia* continues construction works on an 8-phase expansion project, targeting to finish 1 phase per year.

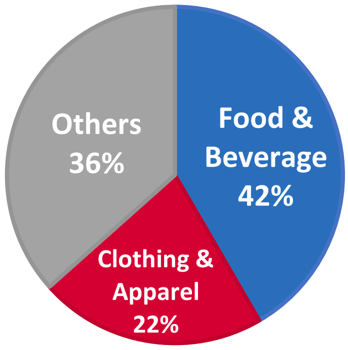
Upon completion, an additional 250,000 square meters of retail space will be added to the mall's existing GLA. Global furniture retailer IKEA is a notable locator in the expansion, with slated opening in 2020.

Mitsukoshi Mall, Japan's oldest surviving department store chain, is making its way to the Philippines. Complete with an authentic Japanese food court and a supermarket featuring wines, meats, sweets, and confectioneries, Mitsukoshi Mall will surely captivate the hearts of the Filipino market. Federal Land, Inc. together with Nomura Real Estate Development and Isetan Mitsukoshi Holdings Ltd. teamed up to bring the high-end mall to the country. It will be located in Federal Land's Veritown project in BGC. The target completion is in 2021.

To further enhance the retail experience, a number of shopping malls underwent renovation. *Robinsons Galleria* in Ortigas substantially completed renovation in time for the Christmas season. As a result of the renovation, the number of food and beverage stores increased by 10% and seats in the food court rose from 1,000 to 1,200 seats. The renovation of the Robinsons Movieworld-Galleria is on-going and, once completed, will introduce recliner seats good for about 100 viewers.

Shangri-la Mall in Ortigas enhanced the overall shopping mall experience by renovating the 30-year old movie houses. The new and improved Red Carpet cinemas were uncovered in Q4 2018.

FIGURE 14
Upcoming Retail Supply Per Retail Category



Source: Santos Knight Frank Research

NEW BRANDS & TRENDS

As of the last quarter of 2018, there are 257 upcoming brands in all of the major retail establishments in Metro Manila. The *Food & Beverage* category takes the lead representing 42% of the entire upcoming brands pie. Milk Tea takes up 6.5% while Food Buffets make up 10.3% of the F&B. The remaining percentage are restaurants, coffee shops and other food concepts.

36% of the upcoming brands is composed of collaborative retail shops, furniture, entertainment, health & wellness, supplies, tech, general merchandise, sports, cosmetics, and services.

Shops on health & wellness comprise 21.3% of the brands placed under the *Others* category. This trend signifies that Filipinos are becoming more health conscious and are aspiring to live a more active lifestyle.

The remaining 22% is made up of clothing & apparel, eyewear, accessories, and footwear.

Japanese brands grouped together to create a single destination for the selling of Japanese merchandise. The opening of @Tokyo in various malls made it easier and more convenient for patrons of Japanese items to shop for their favorite products. Brands such as *Seiko, Legato Largo, Accessories Blossom, Karuizawa Shirt, Prospex,* and *Annello* are participating names. More brands are in the pipeline. These stores share a common payment counter, similar to a department store, creating a feel of a mall-within-a-mall. Unlike collaborative retail stores, *@Tokyo* houses well-established brands, each with their own hard-walled booth as partition. *@Tokyo* has existing branches in Uptown BGC Mall and Market! Market!, and upcoming branches in The Podium and Estancia Mall.

From a simple hot dog cart in Madison Square back in 2001, Shake Shack now has around 200 global branches serving burgers, milkshakes, hot dogs, frozen custards, beer, and wine. This American-favorite food place is making its way to the country with its first-ever Philippine branch in BGC's Central Square.

We are yet to see an end to the Milk Tea phenomenon as another foreign entrant, Taiwan's popular milk-tea shop, Tiger Sugar, arrived in the country. It has opened its first branch in Bonifacio High Street. Customers line up for *hours* just for the experience. What sets Tiger Sugar apart from its competitors is the use of fresh cream instead of milk, which is a rich twist to the original recipe.

An increasing demand for beauty and skin care products led to the further expansion of Korean skin care brands in the Philippines. Influenced by Korean telenovelas, Filipinos try to achieve a "*glass-skin*" complexion (clear, luminous, seemingly transparent skin). Popular Korean skincare brand Innisfree set up its first branch in the country at the ground floor of SM Mall of

Inside of @Tokyo in Uptown Mall, BGC

Asia's main mall. Another noticeably growing skincare brand is The Saem, which means spring water or fountain in Korean. It now has 9 branches in different locations within Metro Manila.

In December 2018, the Bench Group opened the second branch of Bench Cafe in Greenbelt, Makati. This illustrates the concept of combining shopping and dining for a better retail experience, which is an evidently developing trend in the country.

Local drug store accepting Chinese e-wallets as form of payment at SM Mall of Asia

In addition, retail establishments started accepting cashless transactions to offer consumers a more convenient way of paying for purchases and elevate the buying experience. The country's strongest player of digital wallets (also known as *e-wallet, mobile payment*), GCash and Paymaya, are available in a number of major malls. Foreign players recently participated, such as China's AliPay and WeChat Pay that partnered with AUB Paymate to cater to the growing number of Chinese nationals in the country.

According to PayPal's Cross-Border Consumer Research 2018, the total online spend of Filipino shoppers for 2017 was PhP92.5 billion. This number is expected to rise to PhP122 billion in 2018, a 32% increase from 2017 statistics, and grow further to more than PhP185 billion in 2020. The top 3 purchases were for Clothing & Apparel at 68%, followed by Consumer Electronics at 57% and Cosmetics at 56%.

VACANCY AND RENTS

Retail lease rates in Metro Manila averaged PhP1,342.46 per square meter per month in the fourth quarter of 2018. Bay Area led the Metro Manila CBDs, having an average lease rate of PhP1,750.00 per square meter. This was driven by SM Mall of Asia rents. Bay Area likewise displayed the lowest vacancy rate with as little as 0.08% of available space as of Q4 2018. Following Bay Area in terms of lease and vacancy rates is Fort Bonifacio, with average rents pegged at PhP 1,541.67 per square meter and vacancy estimated at 0.94%. Sound indicators render Bay Area and Fort Bonifacio as significant growth drivers of the retail sector.

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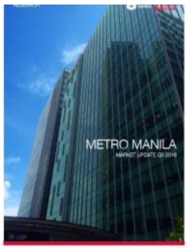

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Market Update
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Metro Cebu
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Active Capital
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The Wealth Report
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