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FIRST MOVER ADVANTAGE:

Amended implementing rules to pave way for Real Estate Investment Trust (REIT) takeoff in the Philippines as Ayala Land's filing excites the property market

Summary & Recommendations

Colliers sees greater interest in the implementation of the REIT law following the signing of the measure's amended implementing rules and regulations (IRR) and Ayala Land's Inc.'s (ALI) REIT filing. We expect ALI's move to entice national and provincial players to follow suit.

Colliers recommends that developers use REITs to access a cheaper source of capital and renovate and reposition assets such as offices, malls, and warehouses. Given the dearth of developable land and surging land values in Metro Manila, firms may also use REIT proceeds to develop integrated communities in key cities outside the country's capital such as Cebu, Davao, Iloilo, Bacolod and Pampanga. We also encourage provincial players that meet the capitalization requirement to tap REIT.

PHP300mn (USD5.9mn)

The minimum paid-up capital requirement of a Philippine REIT.

4.8%*

Average dividend yield of prime Asian REIT markets Hong Kong, Singapore, Malaysia, Taiwan, Japan and South Korea.

33%

The approved minimum public ownership (MPO), a decrease from the original requirement of 40%-66%.

11.9 million sq m

As of Q4 2019, the total leasable office space in Metro Manila and the maximum potential size of the office REIT market.

The Philippine government enacted the Real Estate Investment Trust (REIT) law in 2009 with a stated goal of democratizing wealth and attracting more foreign investment into the property sector. But the launch of REITs was initially stalled by several regulatory roadblocks, including taxation issues and a high minimum public ownership requirement. REITs are now likely to be implemented as the government has agreed to relax the law's restrictive rules.

The Securities and Exchange Commission (SEC) has relaxed the MPO requirement to 33% from the previous requirement of 40%. Note that most Asian economies have minimal MPO requirements, including Japan, Singapore, and Malaysia having MPOs of between 20% and 30%.

Meanwhile, funds raised from REIT are also mandated to be reinvested in the domestic market.

Note: USD1 to PHP51 as of the end of Q4 2019. 1 sq m = 10.76 sq ft. *Source: Colliers International

REIT HERE, RIGHT NOW

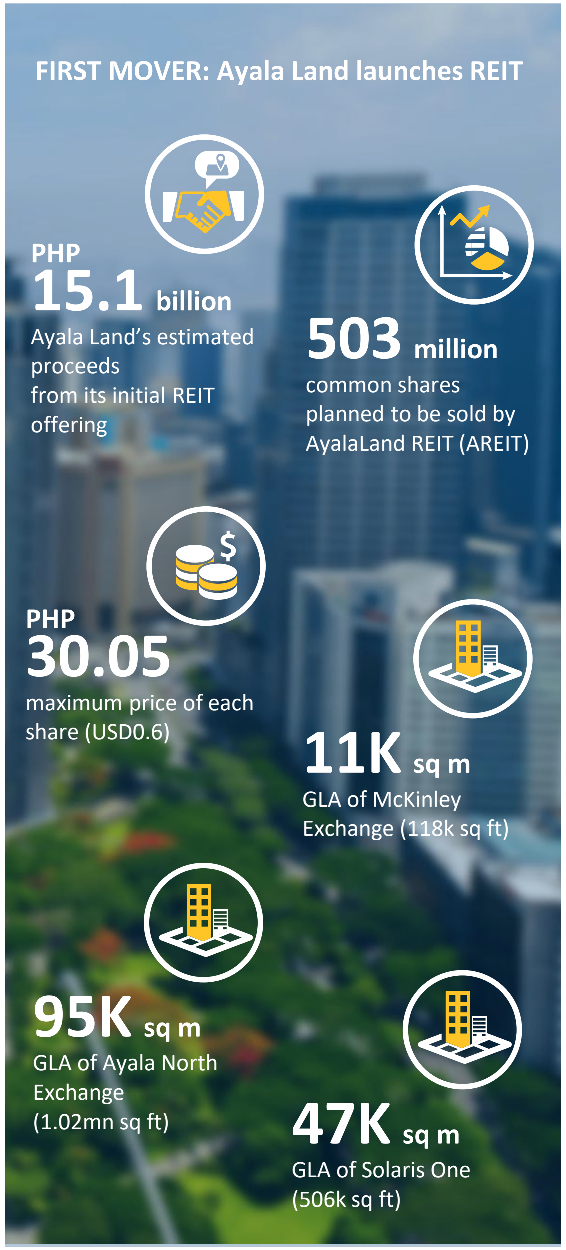
The full implementation of REITs places the Philippines at par with other Asian economies that have well developed and integrated capital and real estate markets. Colliers believes that REIT implementation in the Philippines will likely result in the further differentiation and innovation of domestic property development projects which should eventually benefit Filipino investors and end-users.

In our opinion, now is the most opportune time to launch REITs as the Philippine property market has been on an upswing. The Philippines' office market, for instance, is one of the most active in the region, with about a million sq metres (10.8 million sq feet) being completed every year and an annual take-up of more than 900,000 sq metres (9.7 million sq feet). We project Metro Manila office lease rates to be among the fastest-growing in Asia from 2020 to 2022.

Aside from traditional asset classes such as office, retail, warehouses, and hotels, Colliers believes that other segments of the economy are likely to benefit from the launch of REITs in the Philippines. With the government being more active in attracting private sector investment, property firms should also explore possible public-private partnership (PPP) projects that cover hospitals, schools, and toll roads as these assets meet the requirement to generate recurring income. With Ayala Land filing their application to launch a REIT, we are keeping a close eye on the market to see which developers follow suit. The Philippine REIT landscape can now truly develop, which should entice homegrown developers such as those in Cebu and Davao to participate in this new capital fund-raising option.

AYALA LAND LAUNCHES PHILIPPINES' FIRST REIT

Ayala Land Inc. (ALI) has filed for the Philippines' first Real Estate Investment Trust, AREIT. The firm plans to raise an estimated PHP15.1 billion (USD29.6 million) in fresh capital by selling 49% of AREIT. The figure is higher than the 33% MPO approved by government regulators. ALI is divesting three office buildings in Makati CBD for its REIT initiative. These include Ayala North Exchange, Solaris One, and McKinley Exchange which have a combined gross leasable area (GLA) of 153,000 sq metres (1,646,300 sq feet). These are Grade A office towers that also house retail and hotel components. The offices have Philippine Economic Zone Authority (PEZA) accreditation that enable occupiers to enjoy both tax and non-tax incentives. These buildings have an average occupancy of 98.2%. Among their occupants are large outsourcing and shared service firms such as Telus International Philippines, Shell Shared Services, and Concentrix. ALI already announced that part of the proceeds will be used to acquire an office building in Cebu. ALI's plan indicates the viability of office as a REIT asset class. In 2019, Makati CBD office lease rates grew by an average of 8%, higher than the metro-wide growth of 7%. Colliers sees ALI's move as a catalyst in enticing Philippine developers to utilize REITs as an alternative source of fresh capital.



Source: Ayala Land REIT Prospectus. https://areit.com.ph/initial-public-offering/reit-plan/

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