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Colliers INTERNATIONAL
Accelerating success.

Condo take-up hits record high

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Full-year 2017 Metro Manila take-up reached 52,600 units, surpassing last year's 42,000 units and recording the highest annual take-up since 2012. The secondary market similarly showed resilience as vacancy was virtually flat QoQ at 12.6% despite the completions. Given the record take-up, it was not surprising to see prices rise to record levels as well. Meanwhile, rents have been declining or flat at best, due to the combined effect of a double-digit vacancy and the influx of new supply. Naturally, residential yields are declining. We considered yields, bank mortgage rates, and capital appreciation potential to attempt to answer whether investments in condominiums will continue. We conclude that condominium demand should remain strong due toe the following: (a) Metro Manila still has more attractive rental yields than most Asian cities; (b) Even when adjusted for inflation, returns remained positive for key Metro Manila locations; and (c) If we include capital appreciation, the returns become even more attractive. Colliers recommends strategic positioning of products from developers. This will enable developers to ride on the surge in demand driven by starting families and the growing Chinese and Korean communities. Location will be key to ensure viable returns for buyers and owners in a market where heavy supply exists. Projects in primary CBDs and those in easily accessible surrounding fringe areas will be the best investments.

Forecast at a glance

Demand

Secondary market net take-up of reached 6,600 units, complementing the 24% growth in pre-sales. Demand likely to grow by 3% this year driven by a mix of investors and end-users.

Supply

Supply in 2018 should reach 27,200 units, higher than the 7,500 annual average in the last five years. This should taper off to 8,000 by 2019 and slow down further thereafter.

Vacancy rate

Vacancy stands at 12.6%, flat QoQ. The heavy supply in 2018, we expect vacancy to mid-teens before correcting back to about 12% in 2019 and 2020.

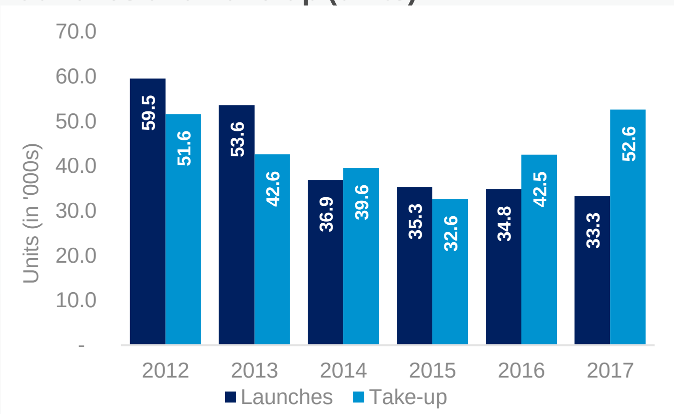
Rent

Rents have been declining but this should recover as more units in CBDs are delivered and demand from foreign and local employees grows. We expect a 1% - 3% increase in rents in the short to medium term horizon.

Price

Prices in CBDs continue to rise by 1% to 4.5% QoQ. We expect this to continue in 2018 onwards with infrastructure developments and high pre-sales levels.

Metro Manila Residential Condominium Launches and Take-up (units)



Source: Colliers International Philippines

Residential Supply Forecast (units)

LOCATION	END 2016	2017	2018F	2019F	2020F	2021F	TOTAL
Alabang	3,800	-	1,700	-	-	-	5,500
Araneta Center	4,200	-	300	-	-	-	4,500
Eastwood City	7,500	1,000	-	600	-	120	9,100
Fort Bonifacio	24,300	3,200	9,300	3,000	-	1,000	40,800
Makati CBD	22,100	2,900	2,600	600	300	240	28,740
Manila Bay Area	8,900	2,100	11,900	2,600	2,200	-	27,700
Ortigas Center	16,200	1,200	1,100	600	600	400	20,100
Rockwell Center	4,200	-	350	800	-	540	5,890
Total	91,200	10,400	27,200	8,200	3,100	2,300	142,400

Source: Colliers International Philippines

CBD stock breaches 100,000 units

Total condominium stock in Metro Manila's CBDs reached 101,500 units. Approximately 2,900 units were delivered in 4Q 2017 alone. The completions during the quarter were concentrated in Fort Bonifacio and Makati CBD, allowing them to increase their lead as the two biggest shareholders among submarkets with 27% and 25% of total stock respectively. They were followed by Ortigas Center with 17% and Manila Bay Area with 11%.

Among the condominiums completed in 4Q 2017 were Ayala Land Premier's The Sequioa at Two Serendra, Avida's Cityflex BGC Towers 1 and 2, and Megaworld's Viceroy McKinley Hill Tower 3. We noted a few delays in building completions in 4Q 2017, which put the full year total to 10,400 units or 35% lower than earlier estimates.

The delays in completion from 2017 have shifted a sizeable number of units to delivery in 2018. About 27,200 units are expected to be completed this year, a record high for Metro Manila. Note that average over the last ten years was 7,500 units only. Some of the notable projects this year include Avida Towers Altura at South Park (two towers), Filinvest's Bristol at Parkway Place, Federal Land's Madison Park West, Megaworld's The Uptown Residences, and Anchor Land's Six Senses Resort Towers.

Vacancy expected to rise

Metro Manila vacancy was largely flat at 12.6% from last quarter's 12.7%, primarily due to the delays in construction noted in 4Q 2017 and the rental market demand from young professionals. Anecdotally, we also noticed a growing community of Chinese and Korean nationals in CBDs more recently.

Primary CBDs saw marginal changes in vacancy from last quarter. Manila Bay Area and Fort Bonifacio have the highest vacancy driven by the size of stock available in these locations. Manila Bay Area vacancy improved from 18.3% to 18.1%. We attribute this improvement to the absence of new supply in the location in 4Q 2017 and the growing demand from employees of offshore gambling companies, which typically look for a residential component to complement their office space requirements. Meanwhile, Fort Bonifacio saw a slight increase in vacancy from 15.3% to 15.7% given the new supply in the area, offset by demand from young professionals.

Comparative Residential Vacancy Rates

LOCATION	3Q 2017	4Q 2017	1Q 2018
Makati CBD	14.1%	13.6%	13.4%
Fort Bonifacio	15.3%	15.7%	16.0%
Rockwell Center	11.5%	10.7%	10.6%
Ortigas Center	6.4%	6.4%	6.3%
Eastwood City	6.7%	6.7%	6.7%
Manila Bay Area	18.29%	18.1%	18.3%

Source: Colliers International Philippines

Comparative Luxury 3BR Residential Rental Rates (PHP / sq m / month)

LOCATION	3Q 2017	4Q 2017	%CHANGE (QoQ)	4Q 2018F	%CHANGE (YoY)
Fort Bonifacio	620 - 1,000	620 - 1,000	0.1%	610 - 1,000	-1.0%
Makati CBD	530 - 1,080	530 - 1,070	-0.8%	520 - 1,060	-1.6%
Rockwell Center	730 - 1,040	730 - 1,020	-1.4%	720 - 1,000	-1.3%

Source: Colliers International Philippines Research

We expect supply in 2018 to reach 27,200 units with the completion of multiple projects. This will be a record high for Metro Manila. Consequently, this should put upward pressure on condominium vacancy to reach mid-teen levels by year-end. However, with fewer completions expected in the years that follow, we project that vacancy will tumble back to the pre-teens range by 2019 and 2020.

Given current demand trends, price increases have become commonplace for projects that are selling well. As a result, not a few projects have been reclassified upwards from affordable to mid-income. Luxury segment prices meanwhile continue to break records as well. Some notable projects in CBDs are already well-above the PHP300,000 per sqm (USD 7,765) mark. Moreover, with impressive sales take-up recorded, it appears capital appreciation in CBDs will continue.

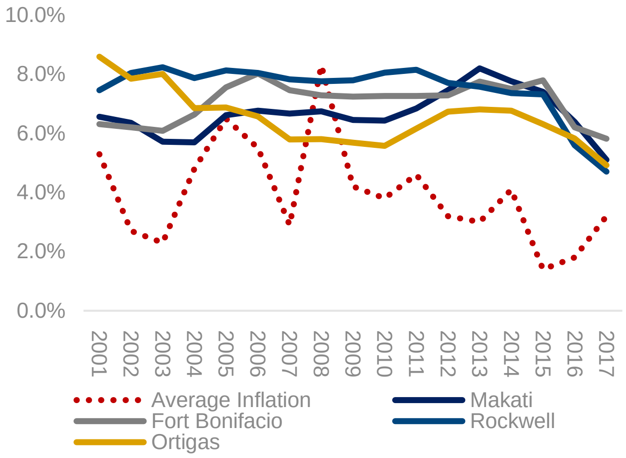
Strong primary market dictates prices

Similar to vacancies, rents were largely flat QoQ. Changes from 3Q 2017 showed variations of about one percentage point. Prime condominium units in Rockwell Center still commands the highest rental rate averaging P873 per sqm per month. It is followed by Fort Bonifacio at P810 per sqm per month and Makati CBD at P803 per sqm per month.

Albeit marginally, capital values of completed units continued to rise. Across key business districts, growth rates ranged between close to zero to as much as 2.5%. Colliers attributes this continued growth to the primary market performance in 2017, which also pushed pre-selling prices up by between 4% and 15% QoQ.

Take-up of pre-selling condominium units throughout Metro Manila, including fringe locations, reached 52,600 units in 2017, 24% higher than the prior year and the highest historically for the country's capital. This was partly driven by a late surge in launches which reached 34,000 units, approximating the 2016 total. Additionally, household formation averaged 3% annually over the last five years driven by starting families and young professionals.

Residential Yields in CBDs



Souce: Colliers International Philippines

Will investments in condos continue?

Clearly, despite declining yields and increasing prices, sales demand remained robust in 2017. We understand from our discussions with developers that demand came from a mix of end-users and investors. Therefore, it would be interesting to see how yields have moved historically and the potential impact of inflation, mortgage rates, and capital appreciation on them. Consequently, the level of return may dictate buyers' appetite for investment or purchase, which will determine the continuity of demand.

Comparative Luxury 3BR Residential Capital Values (PHP / sq m)

LOCATION	3Q 2017	4Q 2017	%CHANGE (QoQ)	4Q 2018F	%CHANGE (YoY)
Fort Bonifacio	111,600 - 238,600	112,000 - 239,400	0.3%	121,200 - 259,200	8.3%
Makati CBD	110,300 - 277,900	111,700 - 286,400	2.5%	127,000 - 325,200	13.8%
Rockwell Center	197,200 - 236,600	198,000 - 244,300	1.9%	220,500 - 270,000	11.4%

Source: Colliers International Philippines

A closer look at the historical yields in Metro Manila CBDs since 2001 would reveal that although yields are declining, condominiums remain as a viable investment option considering the following:

1. Metro Manila still has more attractive rental yields than most Asian cities;

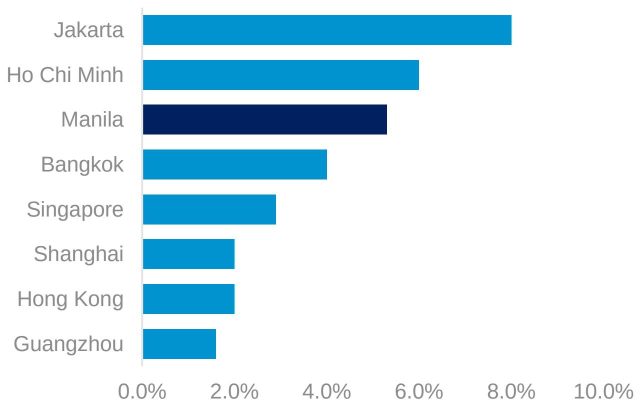
2. Even when adjusted for inflation, returns have remained positive for key Metro Manila locations; and

3. Considering average capital appreciation and bank mortgage rates the returns are attractive.

Metro Manila still has more attractive rental yields than other Asian cities

Comparing rental yields in Manila with other Asian cities, the country's capital ranks third with an average yield of 5.3% for luxury apartments, just behind Ho Chi Minh's 6.0% and Jakarta's 8.0%. Manila's rental yields are better than Bangkok's 4.0%, Singapore's 2.9%, Hongkong and Shanghai's 2.0%, and Guangzhou's 1.6%. Thus, Manila yields are still quite attractive.

Gross Residential Yields

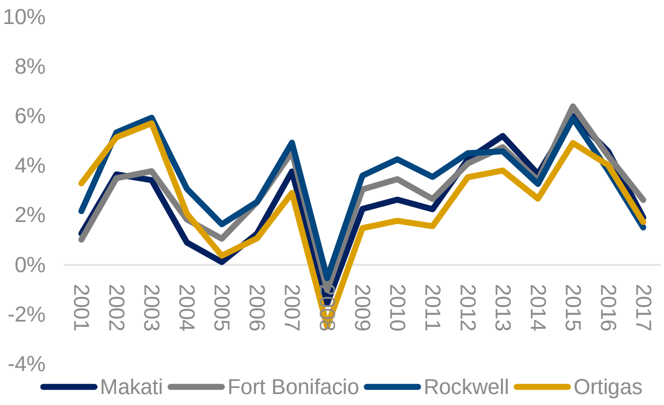


Source: Colliers International Philippines

Inflation-adjusted yields are still positive

Even when adjusted for inflation, yields have remained positive. Yields across CBDs have fallen from a high of 9% in 2001 just below 5% today. When adjusted for inflation, annual returns generally stayed above 1.5%. The only exception was 2008 when the sector was hit by the global financial crisis. Colliers believes that 27,200 units expected to add to the supply in key CBDs this year would potentially upgrade the options. Couple this with the increased demand from starting families, and the demand from the Chinese communities, we don't the decline in rents extending in the medium term. Thus, we believe yields in the local market will still be competitive.

Inflation-adjusted Yields



Source: Colliers International Philippines

Considering average capital appreciation and bank mortgage rates the returns are still attractive

Furthermore, if we consider the inversely related impact of capital appreciation and bank mortgage rates, returns will still be acceptable.

Assuming current rates, imputing a yield of 5%, annual capital appreciation of 8%, bank mortgage rate of 6%, and inflation of 3%, annual net real estate yield will still be at 4%. In fact, considering the rate at which prices have risen lately, we believe there is still upside for capital appreciation potential.

Consequently, Colliers recommends that developers strategically market their products to be able to take a share of the demand. Location will be key to ensure viable returns for buyers and owners in a market where heavy supply exists. Yields are more likely to remain attractive in major CBDs, unless an extraordinary event occurs (e.g. financial crisis, sudden change in policies, drastic FED rate hike). We suggest that potential buyers seriously consider projects in primary CBDs and those in easily accessible surrounding fringe areas because such projects would offer the best returns for investment.

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