



KMC Research

# Metro Manila Office Briefing

2Q 2020

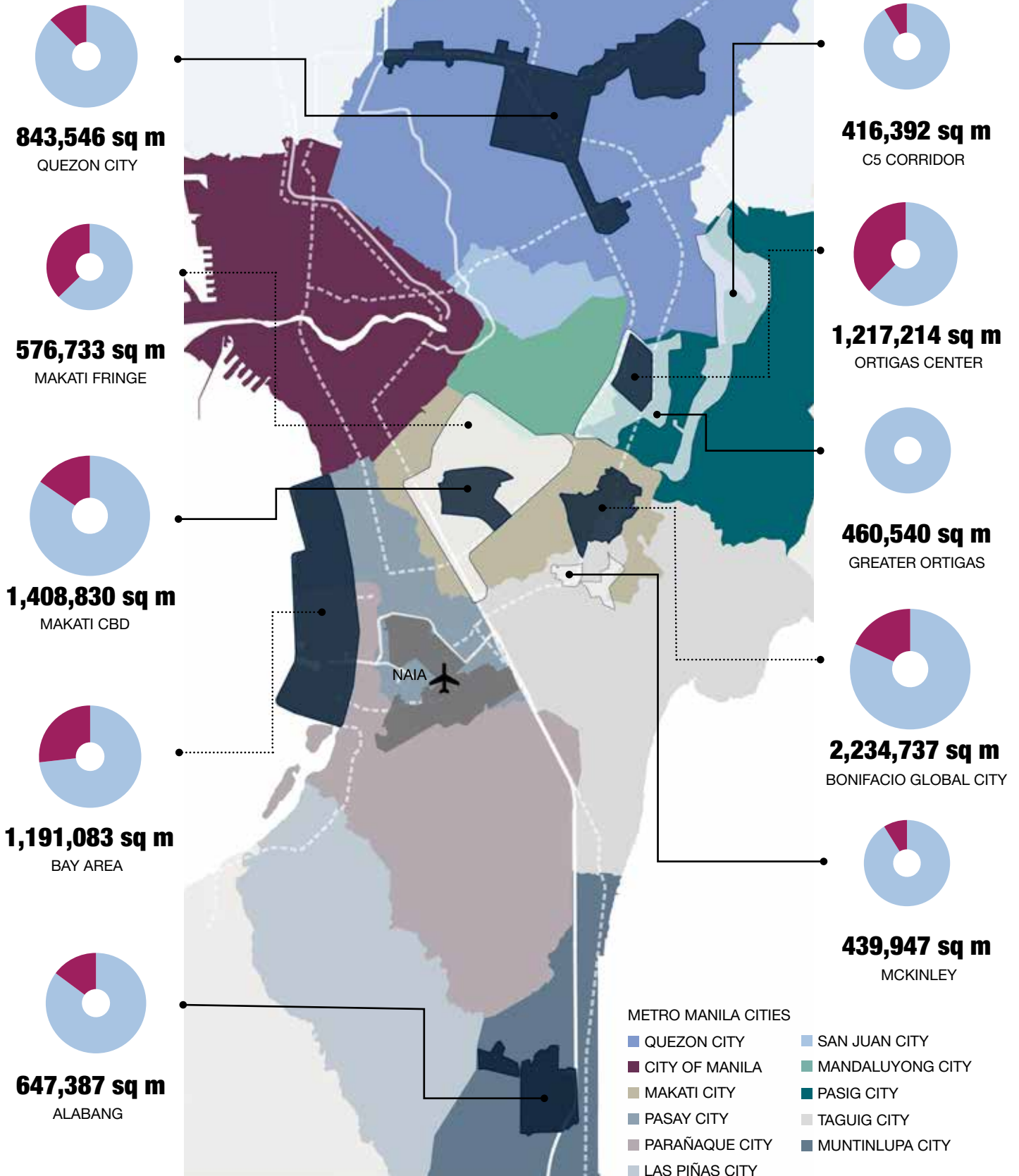


# Metro Manila Office Submarkets

## Future Stock (2023)

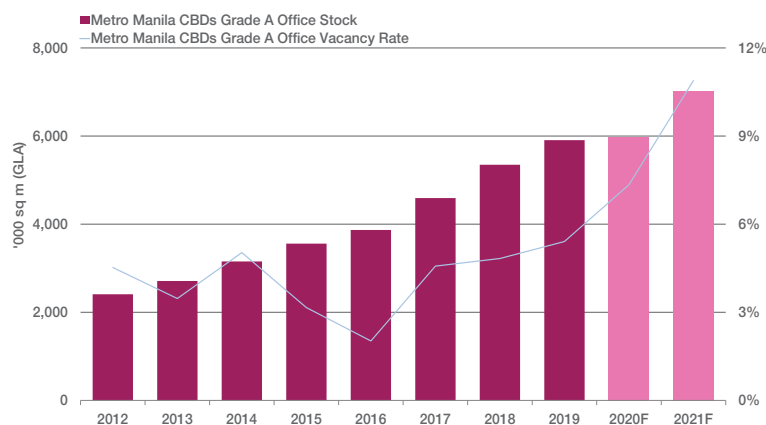
● DEVELOPMENT PIPELINE (2020-2023) ● CURRENT STOCK

MAP 1



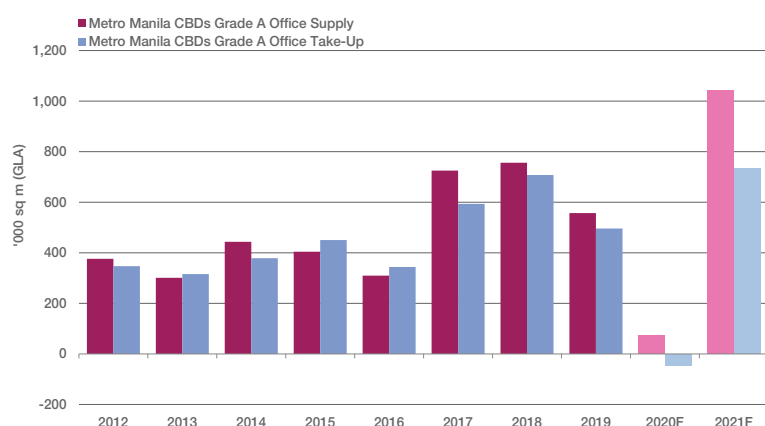
# Metro Manila

GRAPH 1  
**Stock & Vacancy**



Source: KMC Savills Research

GRAPH 2  
**Supply & Take-Up**



Source: KMC Savills Research

TABLE 1  
**Key Figures - Grade A Office**

2Q 2020	Unit	Makati CBD	BGC	Ortigas Center	Alabang	Quezon City	Bay Area
Average net rental rate	PHP/sq m	1,150.1	1,036.2	695.7	694.7	756.4	871.1
	USD/sq ft	2.09	1.89	1.27	1.26	1.38	1.58
Upper net rental rate	PHP/sq m	1,600.0	1,400.0	900.0	725.0	825.0	950.0
	USD/sq ft	2.92	2.55	1.64	1.32	1.50	1.73
Vacancy rate	%	1.8%	4.3%	16.2%	5.3%	13.2%	3.7%
Current Stock	sq m	1,191,611	1,829,458	759,357	551,299	739,051	872,157
Development Pipeline 2020-2023	sq m	217,219	405,279	457,857	96,089	104,495	318,926

\* Makati CBD includes Premium Offices

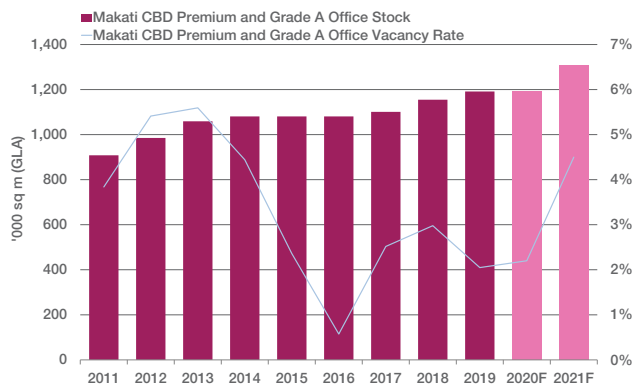
Without any new completions, Metro Manila saw an increase in office vacancies of around 58,600 sq m in 2Q/2020. The vacancy rate increased by a full percentage point to 6.5% during the quarter. A decrease in the demand was seen across most submarkets, with both BGC and Ortigas Center taking the biggest declines in occupancy. We expect majority of the delayed buildings to come online by 4Q/2020 at the earliest. However, given the circumstances, the incoming pipeline may add more pressure to the office market.

Average rental growth in Metro Manila managed a 2.7% YoY increase to PHP 1,020.8 per sq m / month. However, as the pandemic continues to put pressure on the office market, we observed overall rents decline by 0.3% from the previous quarter. Majority of the submarkets recorded a quarterly slide, with Ortigas Center taking the biggest hit. We expect a downward repricing of base rents in the near term if current market conditions do not improve.

With 2Q/2020 representing the first full quarter of Metro Manila under quarantine, there are early signs that overall office demand may be slower in the coming months; although we foresee the offshore and outsourcing (O&O) sector to compensate the slack post-COVID. Amidst the pandemic, demand from the Philippine Offshore Gaming Operator (POGO) sector may wane due to operational difficulties caused by the stringent lockdown and increased pressure from tax authorities. The sector has been dominantly responsible for the tight vacancies in some Metro Manila submarkets since 2017.

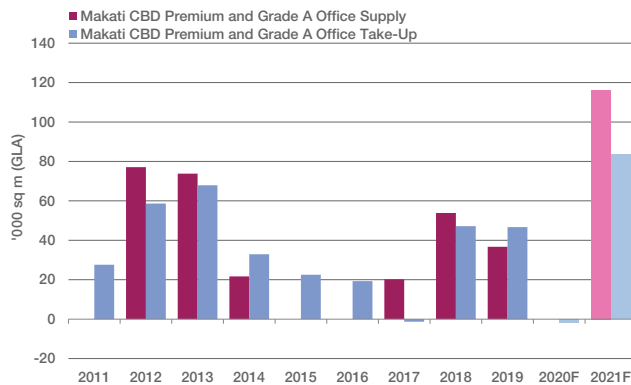
# Makati CBD

**GRAPH 3**  
**Stock & Vacancy**



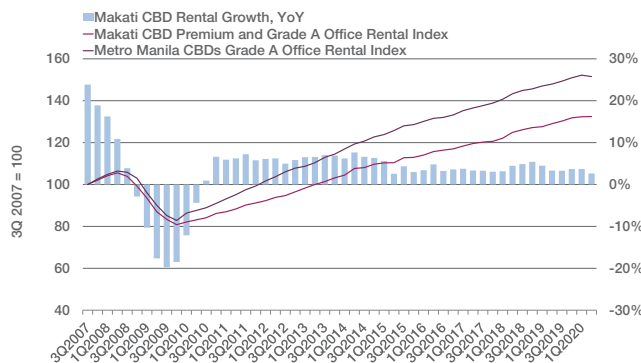
Source: KMC Savills Research

**GRAPH 4**  
**Supply & Take-Up**



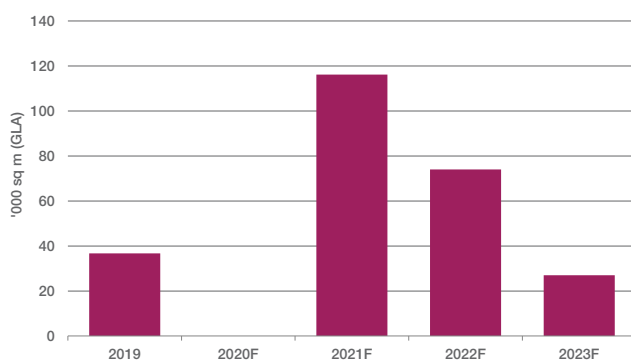
Source: KMC Savills Research

**GRAPH 5**  
**Rental Performance**



Source: KMC Savills Research

**GRAPH 6**  
**Development Pipeline**



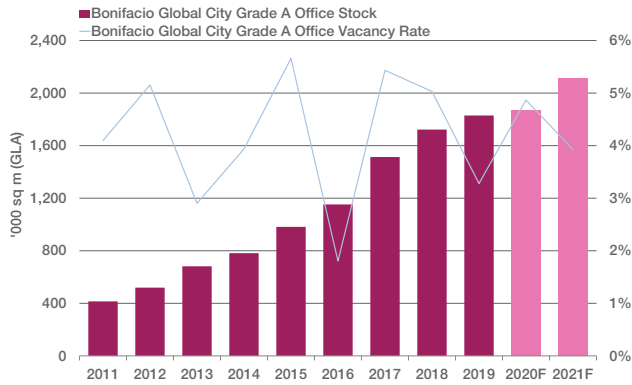
Source: KMC Savills Research

## MARKET IN MINUTES

- Makati CBD remains resilient despite the overall demand weakness while other submarkets suffered substantial losses. As a result, the submarket experienced just a slight increase in vacancies to 1.8% in 2Q/2020.
- Average rents in Makati CBD were nearly flat from the previous quarter, registering a marginal increase of 0.1% QoQ to PHP 1,150.1 per sq m / month. Landlords remain in the wait-and-see stance before considering to reprice base rents.
- Based on data from the first half of the year, there has already been cancellations of nearly 20,000 sq m of pre-committed space in Makati CBD. We do expect a lower rate of demand in the upcoming quarters as organizations reevaluate their office requirements. However, we should still expect the CBD to outperform all submarkets with vacancies remaining in the low single digits throughout the year.

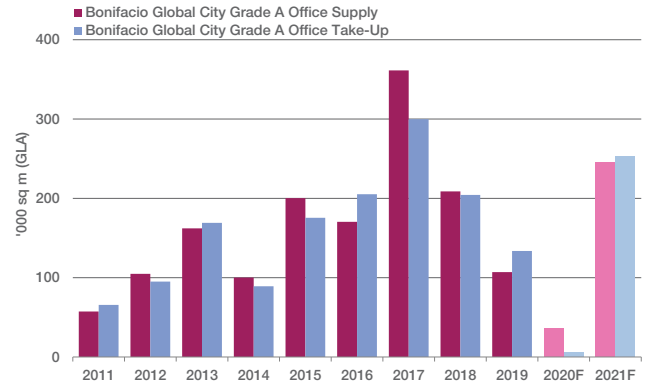
# Bonifacio Global City

GRAPH 7 **Stock & Vacancy**



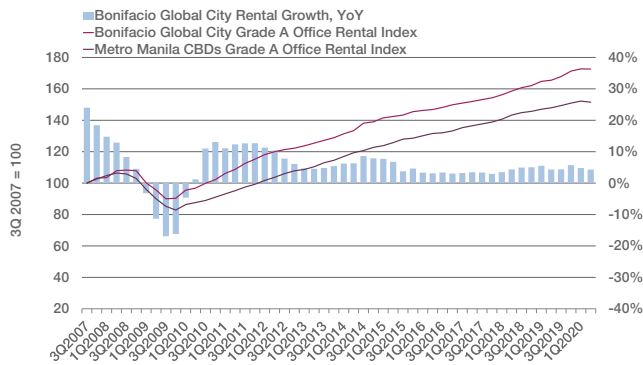
Source: KMC Savills Research

GRAPH 8 **Supply & Take-Up**



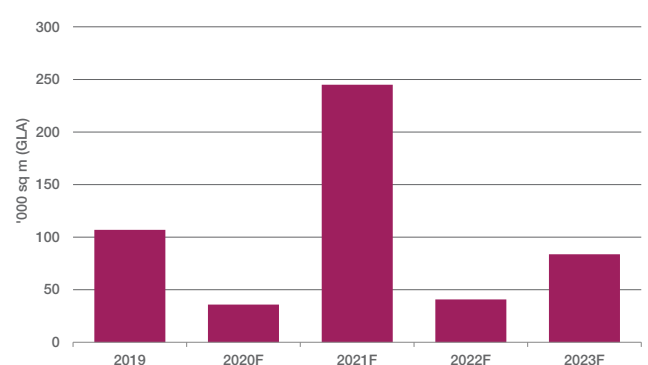
Source: KMC Savills Research

GRAPH 9 **Rental Performance**



Source: KMC Savills Research

GRAPH 10 **Development Pipeline**



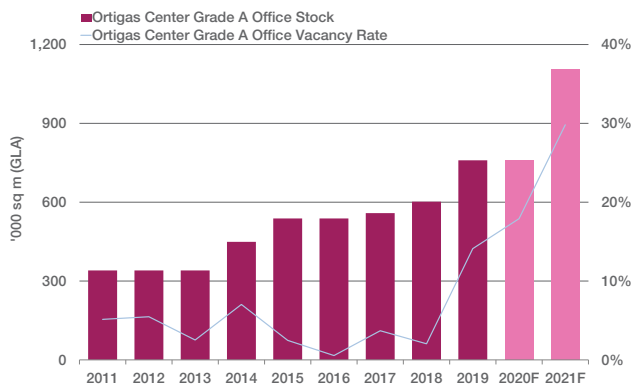
Source: KMC Savills Research

## MARKET IN MINUTES

- Construction timelines in BGC continue to be delayed, with the earliest completions forecasted to come in 4Q/2020. Compounded by the effects of the lockdown, the district's vacancy rate increased from 3.0% to 4.3% – an additional 23,500 sq m of available office space.
- With many leasing decisions put on pause and the worse-than-expected surge in vacancies, average rents in BGC slipped in 2Q/2020. Average rents for the quarter closed at PHP 1,036.2 per sq m / month, contracting by 0.1% QoQ – the first quarterly decline since 2009.
- BGC saw the highest number of new vacancies during the quarter – even with PEZA-accredited buildings. The flight of occupiers from the darling business district is an ominous signal to the rest of Metro Manila. On the other hand, the size of pre-committed space has been relatively unchanged which still signifies a strong rebound late this year or in 2021. The signals are mixed in the submarket, but we expect long-term optimism to wane if existing conditions persist.

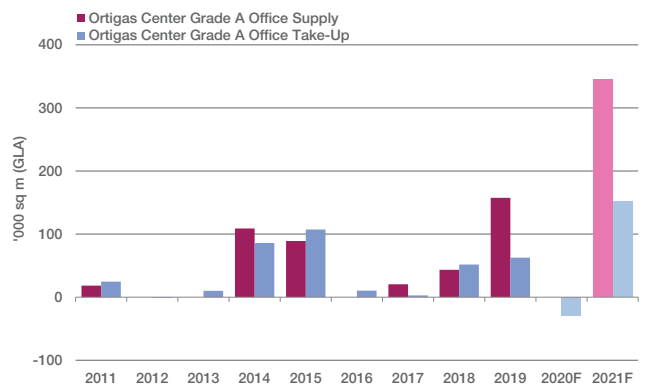
# Ortigas Center

GRAPH 11 **Stock & Vacancy**



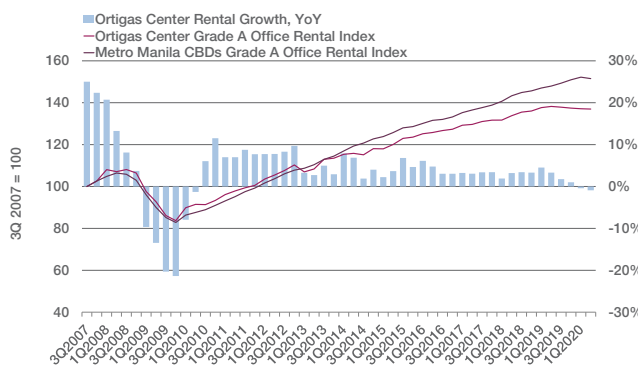
Source: KMC Savills Research

GRAPH 12 **Supply & Take-Up**



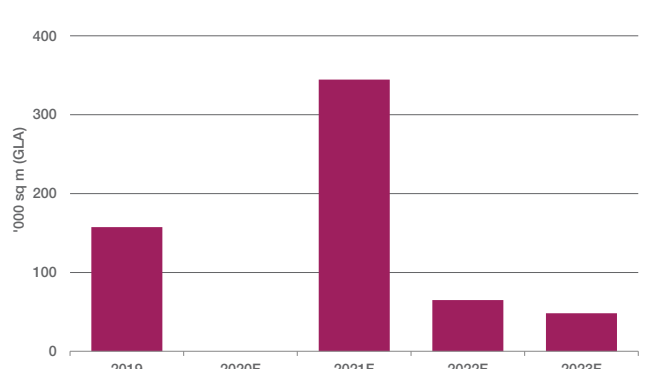
Source: KMC Savills Research

GRAPH 13 **Rental Performance**



Source: KMC Savills Research

GRAPH 14 **Development Pipeline**



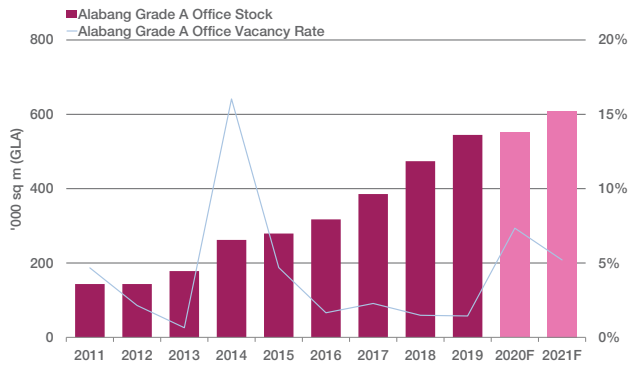
Source: KMC Savills Research

## MARKET IN MINUTES

- Vacancies continued to increase in Ortigas Center which rose to 16.2% of Grade A office stock. Although net absorption was negative at nearly 15,000 sq m, there was still some traction in the submarket – notably with Jollibee Tower. Conversely, the Podium West Tower continues to struggle and leads the submarket in terms of vacancies.
- Ortigas Center is wedged in an unfavorable condition as the pandemic abruptly cut occupier demand while it swims in new office stock. As a result, average rentals continue to be in a downward trajectory, posting a 0.9% YoY contraction to PHP 695.7 per sq m / month.
- The overall stance of landlords was relatively unchanged with asking rents maintaining pre-COVID levels. Conditions in the submarket are anticipated to further deteriorate and may be hastened by the pandemic. We forecast the vacancy rate to hit 30.0% in 2021 due to the massive office pipeline of 329,200 sq m next year.

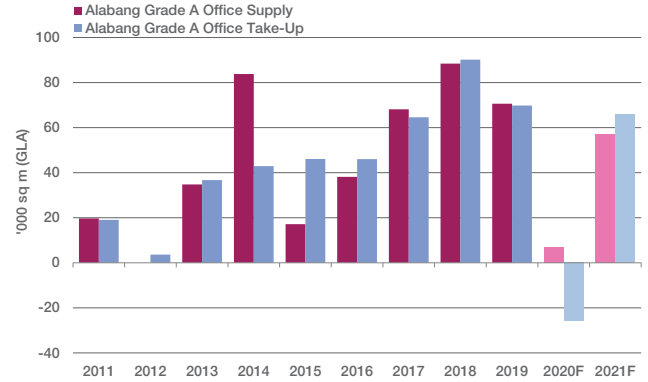
# Alabang

GRAPH 15 **Stock & Vacancy**



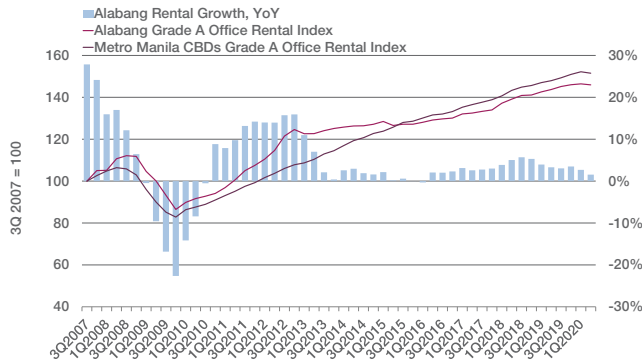
Source: KMC Savills Research

GRAPH 16 **Supply & Take-Up**



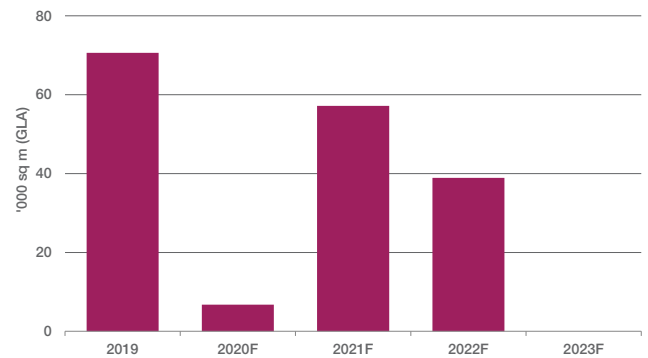
Source: KMC Savills Research

GRAPH 17 **Rental Performance**



Source: KMC Savills Research

GRAPH 18 **Development Pipeline**



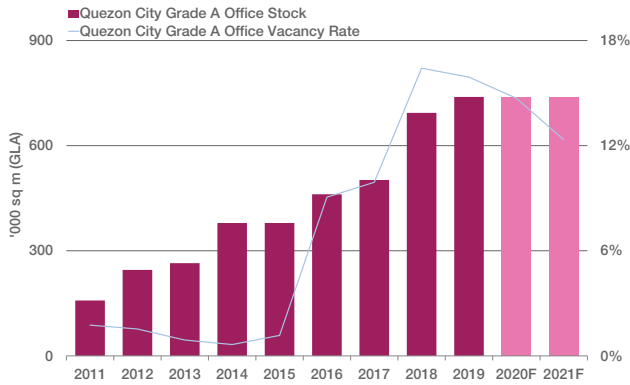
Source: KMC Savills Research

## MARKET IN MINUTES

- Vacancies continued to increase in the submarket despite a solid year of healthy demand in 2019. The vacancy rate rose to 5.3% from 4.5% in 1Q/2020 with most availabilities located in either Northgate Cyberzone or Filinvest City.
- Despite leasing activity continuing to dampen, average rents saw almost no change from the previous quarter. Rentals closed at PHP 694.7 per sq m / month and is expected to hover within that level until the end of the year. We do not foresee a continuous decrease in rents as vacancies are expected to remain manageable in Alabang.
- Despite the submarket's slide in performance, we expect it to benefit from a wave of occupiers targeting locations closer to residential districts. Although the vacancy rate may rise by the end of the year, we still expect recovery to begin at the latter half of 2020 with substantial gains by 2021.

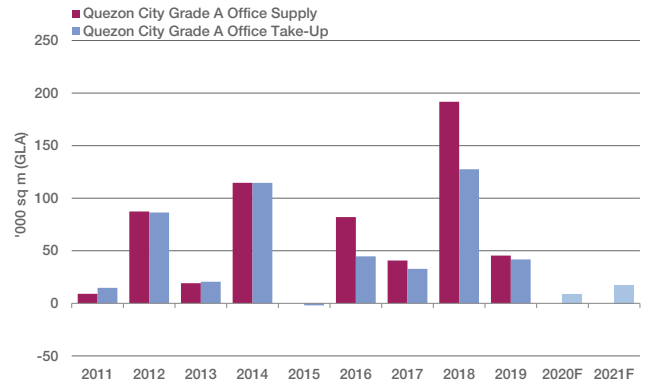
# Quezon City

**GRAPH 19**  
**Stock & Vacancy**



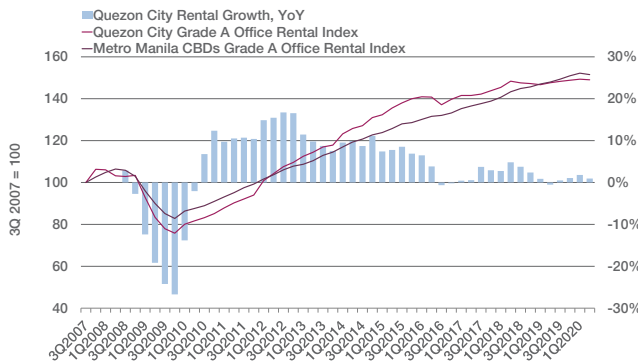
Source: KMC Savills Research

**GRAPH 20**  
**Supply & Take-Up**



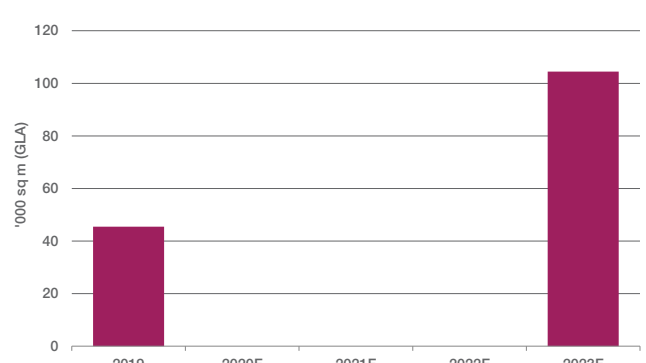
Source: KMC Savills Research

**GRAPH 21**  
**Rental Performance**



Source: KMC Savills Research

**GRAPH 22**  
**Development Pipeline**



Source: KMC Savills Research

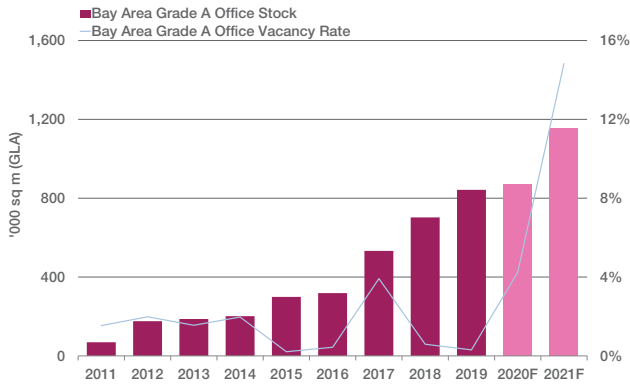
## MARKET IN MINUTES

- Total vacancies increased by 11,600 sq m in 2Q/2020, or 13.2% of Grade A office stock (from 11.9% in 1Q/2020). Although lower than the 18.0% vacancy rate recorded in 2Q/2019, we foresee an erosion of the submarket's advances from the past year. Occupier demand is forecasted to be muted with net absorption to hit just 9,000 sq m in 2020.
- Average rents in Quezon City ended the quarter at PHP 756.4 per sq m / month, a decline of 0.2% QoQ. Despite the submarket's advantageous proximity to the metro's residential districts, we still expect rents to decline in the coming quarters. The elevated vacancy rate places additional weight on Quezon City's current rentals which have been comparatively higher than Alabang and Ortigas Center.
- With no new buildings set to come online in the near term, the likelihood of vacancies aggressively advancing is reduced. Unlike Ortigas Center, the submarket is anticipated to keep its vacancy rate stable and avoid hitting the high teens in 2021.



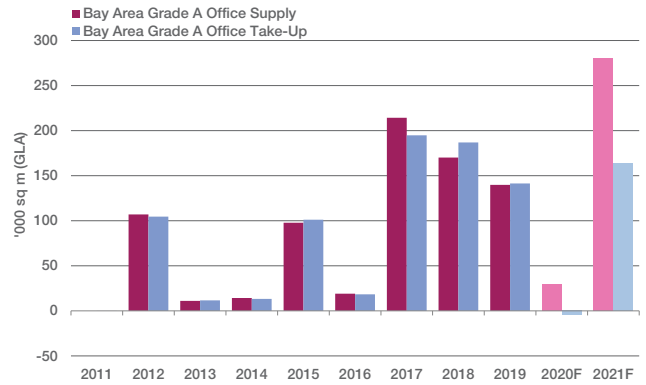
# Bay Area

GRAPH 23 **Stock & Vacancy**



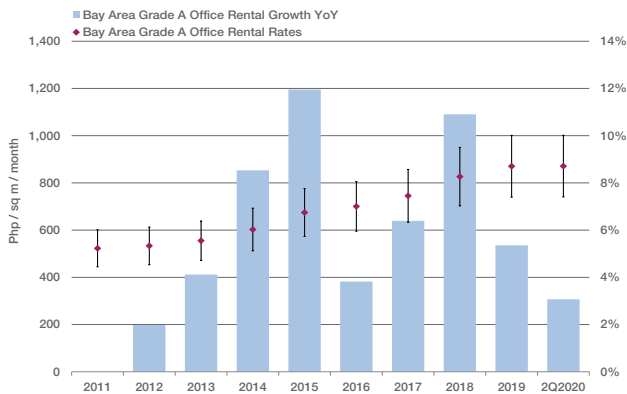
Source: KMC Savills Research

GRAPH 24 **Supply & Take-Up**



Source: KMC Savills Research

GRAPH 25 **Rental Performance**



Source: KMC Savills Research

GRAPH 26 **Development Pipeline**



Source: KMC Savills Research

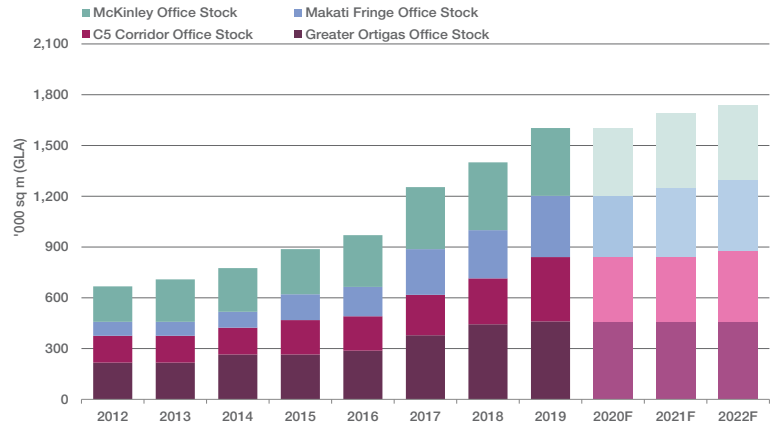
## MARKET IN MINUTES

- Vacancies in the Bay Area slightly grew to 3.7% of Grade A office stock. The submarket is relatively unaffected by the pandemic despite concerns of an exodus of POGO players during the quarantine.
- Similar to several submarkets this quarter, the Bay Area's average rental rate barely changed. The submarket recorded a minor dip of 0.1% QoQ to PHP 871.1 per sq m / month, and is the submarket's first quarterly contraction since 2Q/2015.
- The Bay Area still faces potential headwinds with the POGO sector still in the tax authority's sites. Two operators have officially exited during the quarter – with Suncity as one notable example. We do not discount the possibility of a sizeable chunk of the sector to exit if conditions do not improve. Rents are thus at risk of declining given the market landscape.

## Other Submarkets

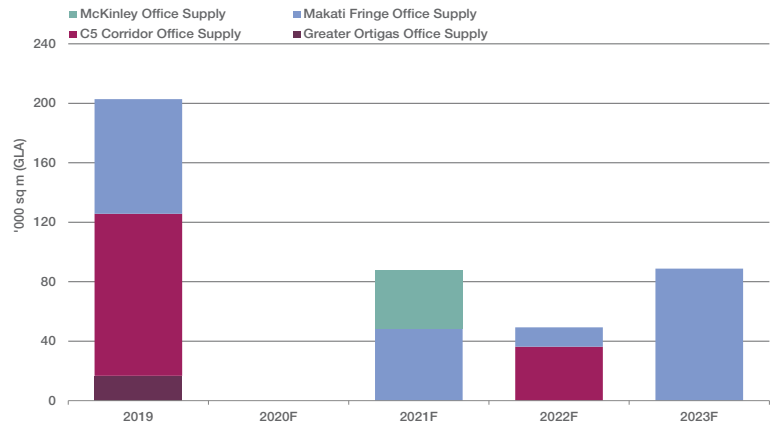
- Overall, conditions in the other submarkets were relatively unchanged. The Makati Fringe had substantial gains during the quarter and carried much of the other three submarkets' weight.
- The C5 Corridor had marginal improvements after its drop in occupancies last quarter. On the other hand, McKinley and Greater Ortigas experienced increases in vacancies.
- In the next few quarters, we may see significant changes in these submarkets as the O&O sector assess their portfolios. However, we still foresee vacancies to rise in the short run.

GRAPH 27  
Stock by District



Source: KMC Savills Research

GRAPH 28  
Development Pipeline by District



Source: KMC Savills Research

## Definition of other submarkets

These submarkets are not included in the aggregate Metro Manila figures

### MCKINLEY

The McKinley submarket is located south of Bonifacio Global City, covering McKinley West and McKinley Hill.

### MAKATI FRINGE

Rockwell Center, Century City and Circuit Makati, as well as areas outside the Makati Central Business District, comprise the Makati Fringe submarket.

### C5 CORRIDOR

C5 Corridor covers a stretch of Eulogio Rodriguez Jr. Avenue from Quezon City to Pasig City. Located north are Eastwood City, Circulo Verde, Bridgetowne Business Park, and Parklinks; farther south are Frontera Verde and ArcoVia.

### GREATER ORTIGAS

The Greater Ortigas submarket predominantly covers the cities of Pasig and Mandaluyong—which include Capitol Commons, Portico, Robinsons Cybergate Center and Greenfield District—and the areas of Quezon City that surround the Ortigas Center.

## PROJECT FOCUS

# JEG TOWER @ ONE ACACIA



**LOCATION**  
CEBU CITY

**GRADE**  
GRADE A

**TURNOVER DATE**  
3Q 2020

**GROSS LEASABLE AREA**  
14,360 SQ M

**NO. OF FLOORS**  
22

**HANDOVER CONDITION**  
BARE SHELL WITH VRF

**24 / 7 CAPABILITY**  
YES

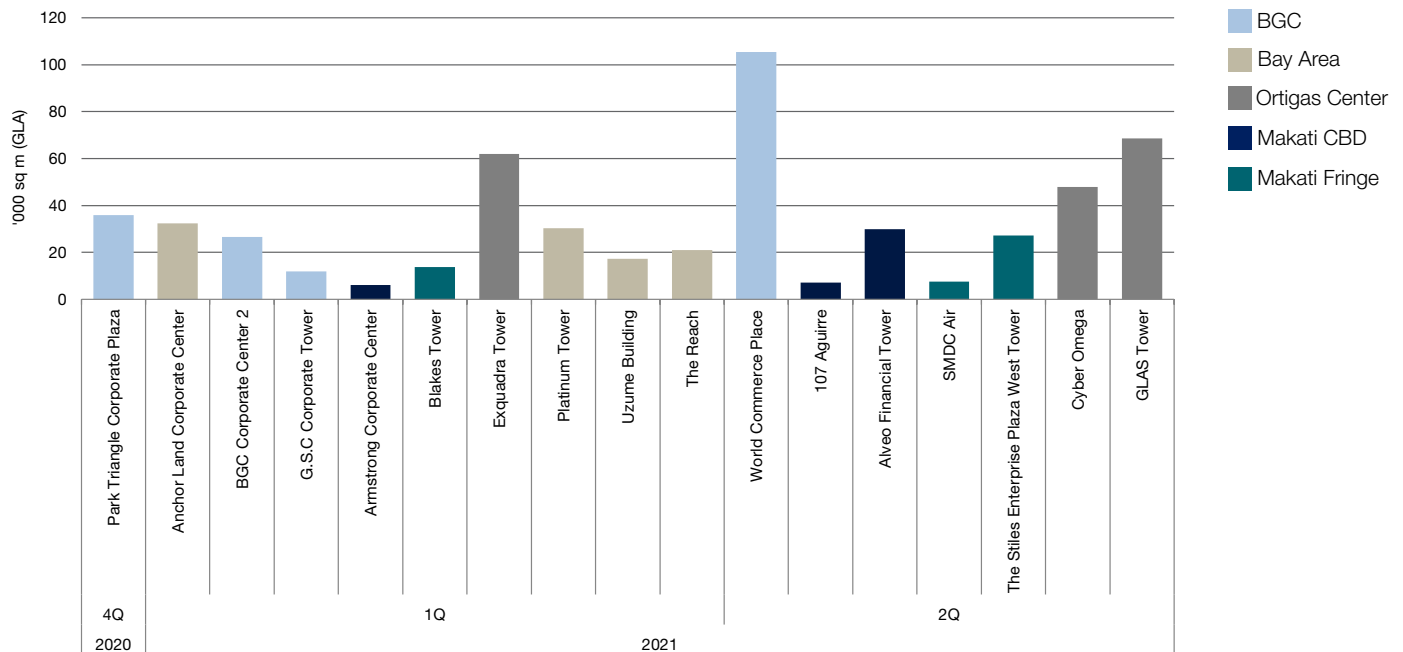
**BACKUP POWER**  
100%

JEG Tower @ One Acacia is one of Cebu City’s first premium grade green buildings. It is a Grade A building and a definite future-proof structure in terms of design. This 22-floor tower is built using environment-friendly materials and would operationalize as energy efficient as possible. As a LEED Silver Pre-Certified development by the US Green Building Council, the building uses less water, energy, and emits less greenhouse gases.

The tower is set to be an icon among office buildings in the city with said environment friendly features and sophisticated design. It is set to become the new standard in the real estate industry in Cebu City. Strategically located in one of the city’s major thoroughfares, it is soon to be one of the most desired office addresses in the heart of the Queen City of the South.

GRAPH 29

### 12-month Supply Forecast by Building



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