

THE ROAD TO RECOVERY: REAL ESTATE SENTIMENTS AND STRATEGY CONSPECTUS

A 2020 SPECIAL REPORT

PRIME Philippines Research & Advisory



We, in PRIME Philippines, stand with those who are relentlessly working to alleviate the adverse effects of COVID-19 in the overall welfare of the Philippines and the world. There is no better time for us to unite than this period of uncertainty and adversity, move past these hurdles, and plan our next steps towards a productive and successful recovery.

PRIME Philippines remains committed to doing its part for this country. Through this report, our valued clients and stakeholders will be provided with its important data and information that is vital in coming up with a resilient strategy. We continuously stand by our commitment, **“Real Estate. We Advise. You Advance.”**

Wishing you good health and more power!

Jettson Yu

Founder & CEO, PRIME Philippines

The fastest growing property brokerage and consultancy firm



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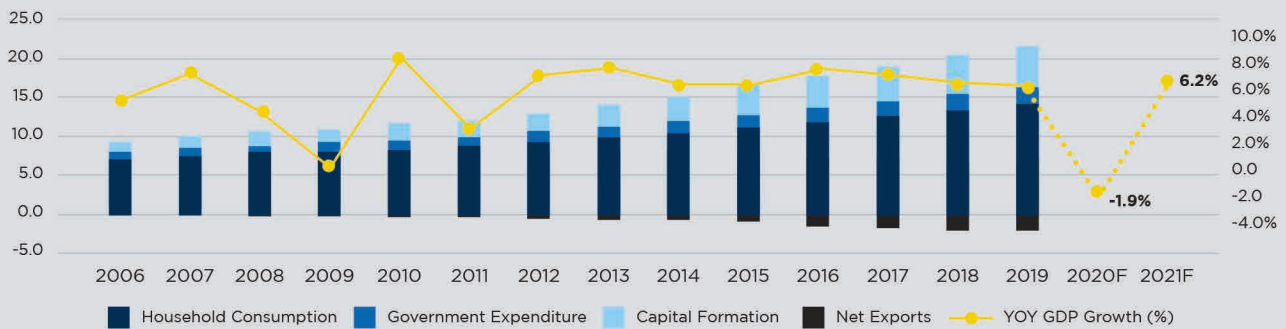
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The image features a central aerial photograph of a city skyline at dusk, with numerous skyscrapers and buildings illuminated. The scene is framed by a dark blue, angular shape on the left side. The top and bottom corners of the image are decorated with a light blue network graphic consisting of interconnected nodes and lines. The text 'PHILIPPINE ECONOMY OVERVIEW' is prominently displayed in yellow on the dark blue background.

PHILIPPINE ECONOMY OVERVIEW

PHILIPPINE ECONOMY OVERVIEW

Philippine GDP Growth and Demand-Side Contributions



Source: Philippine Statistics Authority (PSA), World Bank | Note: 2020F and 2021F values are WB forecasts

Philippine economy seen dampening in 2020 but with sharp recovery in 2021

The Philippine economy encountered several unexpected shocks during the first half of the year. These include the Taal volcanic eruption, the onset of the COVID-19 pandemic, and the implementation of extended quarantine measures.

In 2020Q2, the country's gross domestic product (GDP) YOY growth registered at -16.5%. This is lower than the 0.7% GDP contraction recorded in 2020Q1. The sustained decline in GDP growth in 2020Q2 was due to the collapse in overall economic activity. Among the main contributors to this decline was the slowdown in activities in manufacturing, construction, and

transportation and storage. On the demand side, household consumption, which accounts for about 70% of the overall Philippine economy, falls by 15.5% in 2020Q2 from its 2020Q1 expansion of 0.2%.

Given the continued adverse impact of the pandemic, the country's chief economist forecasts that for the entire 2020, the national economy may contract by 5.5%.

To aid the country from its slump, the Philippine congress is expediting the passing of the Bayanihan 2 Bill and revised the country's infrastructure program.

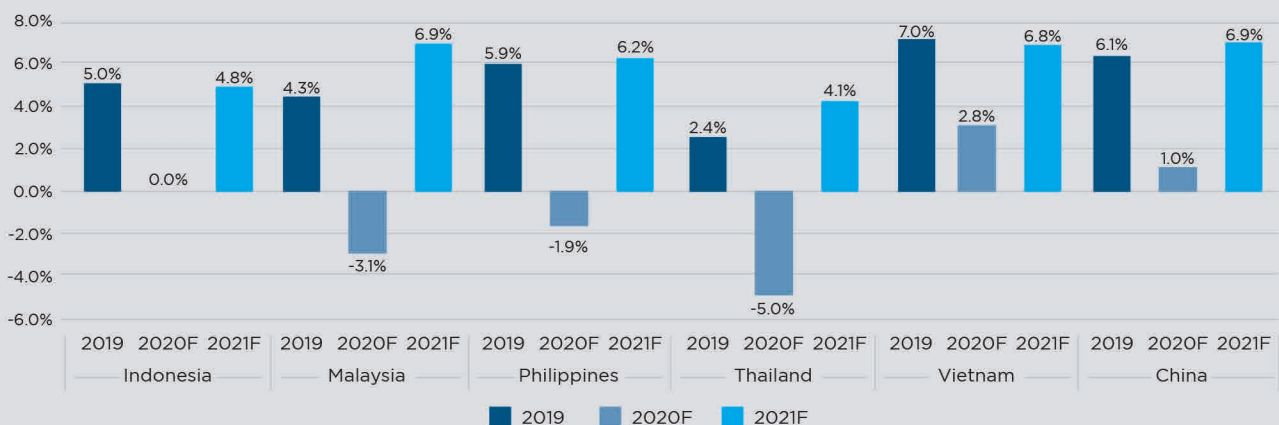
Philippine Credit Rating

Moody's	Baa2 (Stable)
S&P	BBB+ (Stable)
Fitch	BBB

Source: Moody's, S&P Global Ratings, Fitch

Despite this year's foreseen economic slackening, international debt watchers have maintained that the Philippine's credit rating will still have a stable outlook. They are expecting for a faster recovery in 2021.

ASEAN5 and China GDP Growth Rate & Forecast



Source: World Bank

PHILIPPINE ECONOMY OVERVIEW

3 Legs of the Economic Risk Significant Losses Due to Pandemic



Dip in OFW cash remittances

Cash remittances from OFWs have been one of the major drivers of the Philippine economy for many decades. It registered expansions even during previous global crises. In 2020Q1, OFW cash remittances managed to post a slight YOY increase of 1.4%, at USD 7.4 Billion, despite a 4.7% YOY decline in March 2020. However, after the 18 years of consistent growth in OFW remittances, because of the threat of the COVID-19 pandemic, it is expected to drop in 2020. BSP projected that by the end of the year, it may experience a decline of about 5%, or equivalent to USD 1.5 Billion losses, from its 2019 total of USD 30.1 Billion.

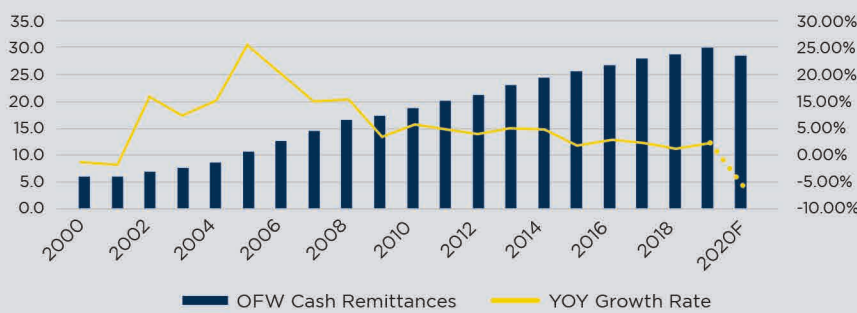
IT-BPO expansion activities slowdown

The IT-BPM Sector has been significantly contributing to the country's overall economic output and employment generation. Based on the revised revenue projections of IT-Business Process Association of the Philippines (IBPAP) published in November 2019, the sector is projected to register revenue of as high as USD 28 Billion in 2020. The current revenue projections of IBPAP, however, will be undergoing review to consider the industry disruptions caused by the pandemic.

Significant fall in tourism levels expected

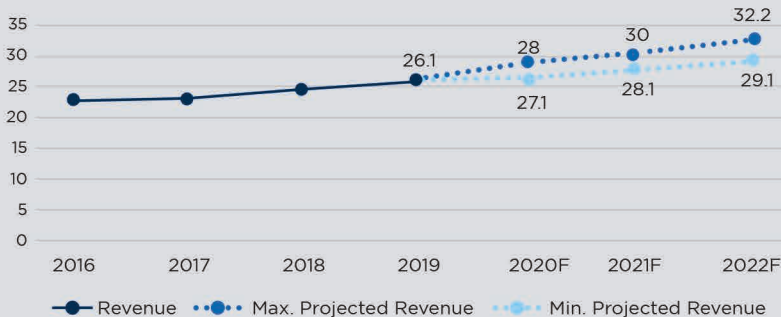
The disruption in travel and tourism sector is seen driving down the overall economic output. According to the assessment of National Economic Development Authority (NEDA) on the socioeconomic impact of the COVID-19 pandemic, the sector may lose a gross value added equivalent to 0.4% to 0.8% of the 2020 GDP and an employment loss of about 33,800 to 56,000.

OFW Cash Remittances, 2000 - 2020F (Values in USD Billions)



Source: Banko Sentral ng Pilipinas (BSP)

IT-BPM Revenue Growth, 2016 - 2022F (Values in USD Billions)



Source: IT-Business Process Association of the Philippines (IBPAP)

COVID-19's Impact on Tourism Sector

	Foregone GVA (in Billions)	Loss of Employment
Travel & Tourism	PHP 77.5 - 156.9	33,800 - 56,000

Note: Gross Value Added (GVA) is an economic productivity metric that measures the contribution of a specific industry to the economy. Source: National Economic Development Authority

Foreign Tourist Arrivals, 2010 - 2020T (Values in Millions)



Note: 2020 data covers January to April 2020 foreign tourist arrivals

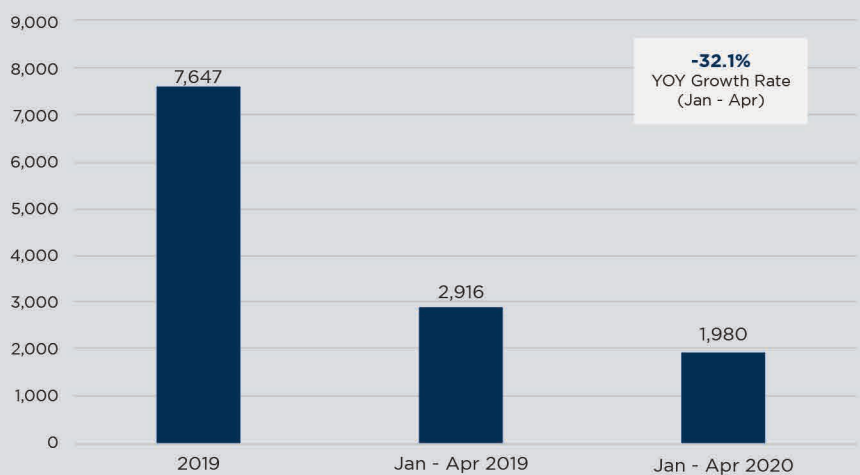
Source: Department of Tourism

Significant fall in tourism levels expected (cont.)

According to the Department of Tourism (DOT) tourist arrivals recorded an 8.8% YOY increase in January 2020. However, the following months saw a negative change in tourist arrivals due to the imposed travel bans.

The DOT, from January to April 2020, recorded a 54% decrease in foreign tourist arrivals, at 1.32 million. This resulted in a 56% decrease, at PHP 79.8 Billion, in total tourism receipts during the same period. To aid the tourism industry towards recovery, various economic stimulus packages being discussed in Congress have included subsidy programs for the tourism industry.

Net Foreign Direct Investments in USD Millions



Source: Bangko Sentral ng Pilipinas (BSP)

Uncertainties hurting investments sentiments

Approved Investment Pledges

PHP 29.4 Billion



-36.2%
YOY Decrease

2020Q1 | From Investment Promotion Agencies

The central bank recorded a YOY decline of 32.1% net foreign direct investments (FDI) in the first four months of 2020.

Due to the impact of the pandemic, the Governor of Banko Sentral ng Pilipinas (BSP) reduced its 2020 net FDI estimate from USD 8.8 Billion to USD 4.1 Billion. BSP expects, however, that the 2021 figures will recover and reach to about USD 6.5 Billion.

In terms of investment pledges recorded by Investment Promotion Agencies (IPAs), 2020Q1 saw a YOY decline of 36.2%, from its

2019Q1 amount of PHP 46 Billion. This is due to the significantly lowered pledges from Manufacturing, Electricity, Gas, Steam & Air Supply, and Information and Communication industries.

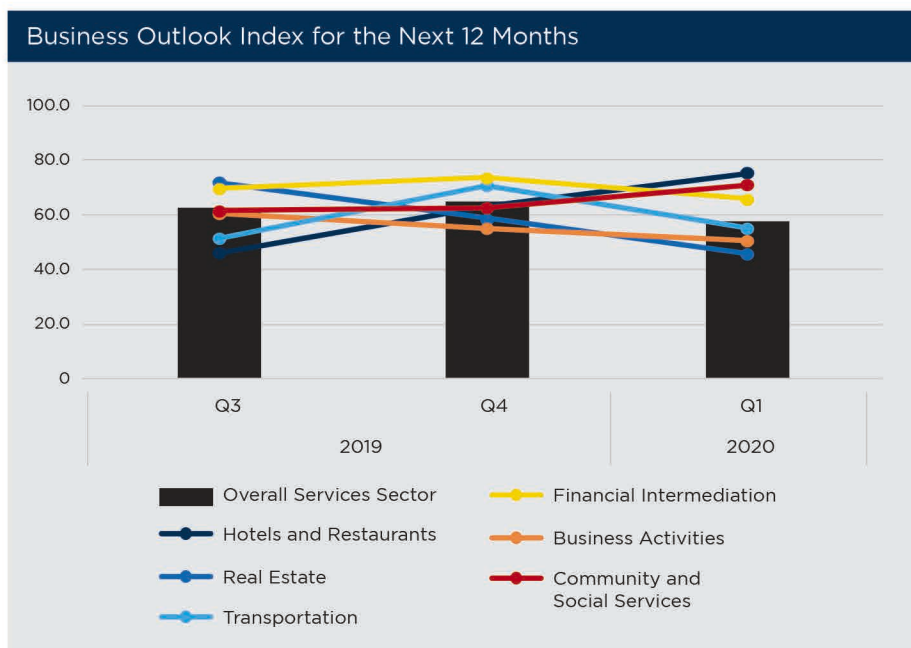
Despite the overall decrease in foreign investment commitments, Clark Development Corporation's (CDC) recorded approved foreign investments reached about PHP 2.5 Billion in 2020Q1, which is an impressive increase of almost 550% from its 2019Q1 record of PHP 381 Million.

INVESTMENT SENTIMENTS

Mixed Outlook on General Business

Mixed outlook on general business

According to the BSP’s Business Expectations Survey (BES), which is a quarterly survey on selected firms included in the country’s top 7,000 corporations, business outlook gathered during 2020Q1 showed that for the next 12 months, 57.8% of the respondents from the services sector had an optimistic outlook on the overall macroeconomy. This was a 10.4% decline from the previous quarter. Among the services sector’s industries, firms from the real estate business had a more pessimistic outlook on the macroeconomy for the next 12 months, with 13.5 percentage points (pps) decrease in confidence index. Businesses from the hotel and restaurants services sector, on the other hand had a more positive outlook for the next 12 months, with a 13.3 pps increase in confidence index.



Source: BSP

Manufacturing sector showing signs of recovery

Amidst declines in several economic indicators, the manufacturing sector is showing signs of recovery. One of the indicators of market conditions, Purchasing Managers’ Index (PMI), measures the trends in the manufacturing sector, wherein values above 50 translate to an expansion while values below 50 represents a contraction.

Based on IHS Markit’s

Manufacturing PMI Index, China’s manufacturing sector has seen a sudden crash from 51.1 in January 2020 to 40.3 in February 2020. This is due to China’s restrictions in manufacturing activities and exports due to its lockdown measures. China’s Southeast Asian neighbors immediately felt the slowdown in China’s manufacturing sectors as March 2020 records of ASEAN-5

countries started recording below-50 rates and in April 2020, these countries’ rates are at an all-time low.

ASEAN-5’s June 2020 PMI performances, however, signals a gradual recovery from the manufacturing sector. This may translate to the overall steady upturn in private and public spending in the coming months.

ASEAN-5 + China IHS Market Manufacturing Purchasing Managers Index																		
Key Locations	2019												2020					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
China	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	52.3	50.7	51.2
Indonesia	49.9	50.1	51.2	50.4	51.6	50.6	49.6	49.0	49.1	47.7	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1
Malaysia	50.9	50.6	50.2	52.4	51.8	50.8	50.6	50.4	50.9	52.3	52.5	53.0	51.8	51.5	48.4	29	45.6	51
Philippines	52.3	51.9	51.5	50.9	51.2	51.3	52.1	51.9	51.8	52.1	51.4	51.7	52.1	52.3	39.7	31.6	40.1	49.7
Thailand	50.2	49.9	50.3	51.0	50.7	50.6	50.3	50.0	50.6	50.0	49.3	50.1	49.9	49.5	46.7	36.8	41.6	43.5
Vietnam	51.9	51.2	51.9	52.5	52.0	52.5	52.6	51.4	50.5	50.0	51.0	50.8	50.6	49.0	41.9	32.7	42.7	51.1


Note: Orange to red indicates contraction (<50), while white to blue indicates expansion (>50)

Source: IHS Markit


WHAT'S THE DIFFERENCE?

CITIRA VS CREATE

CITIRA (Corporate Income Tax and Incentives Reform Act)	V.S.	CREATE (Corporate Recovery and Tax Incentives for Enterprises Act)																				
A gradual cut in the tax rate slapped on companies over a 10-year period.	CORPORATE INCOME TAX (CIT) RATE REDUCTION	A 1-percentage point reduction in the corporate income tax each year until 2027, cutting the rate to 20% so that the rate by that time + outright 5-percent tax cut in 2020.																				
NONE	LONGER NOLCO FOR LOSSES INCURRED IN 2020	For non-large taxpayers: Carry-over period of net losses in 2020 will be extended by two more years, prolonging the carry-over period from three to five years.																				
NONE	NON-FISCAL OR NON-TAX SUPPORT TO BUSINESSES	The Fiscal Incentives Review Board (FIRB), whose functions will be expanded under the bill, will also have the power to recommend to the President the grant of longer tax incentives and non-fiscal incentives to deserving companies.																				
Modify the period or manner of availment of incentives. Availment of up to 40 years.	POWER OF THE PRESIDENT	Modify the mix, period or manner of availment of incentives for highly desirable projects or specific industrial activities to create high-value jobs and attract significant foreign capital or investment. Availment of up to 40 years.																				
Under 5% GIE: <table border="1" data-bbox="113 1532 571 1850"> <thead> <tr> <th>Transition Period (years)</th> <th># of years that firm has been under GIE regime</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>More than 10</td> </tr> <tr> <td>3</td> <td>5 - 10</td> </tr> <tr> <td>5</td> <td>Below 5</td> </tr> <tr> <td>7</td> <td>100% exporter; with at least 10,000 employment; footloose projects or activities</td> </tr> </tbody> </table>	Transition Period (years)	# of years that firm has been under GIE regime	2	More than 10	3	5 - 10	5	Below 5	7	100% exporter; with at least 10,000 employment; footloose projects or activities	TRANSITION PERIOD FOR FIRMS ENJOYING A SPECIAL RATE OF 5% ON GROSS INCOME EARNED (GIE)	Under 5% GIE: <table border="1" data-bbox="1023 1532 1481 1850"> <thead> <tr> <th>Transition Period (years)</th> <th># of years that firm has been under GIE regime</th> </tr> </thead> <tbody> <tr> <td>4</td> <td>More than 10</td> </tr> <tr> <td>5</td> <td>5 - 10</td> </tr> <tr> <td>7</td> <td>Below 5</td> </tr> <tr> <td>9</td> <td>100% exporter; with at least 10,000 employment; footloose projects or activities</td> </tr> </tbody> </table>	Transition Period (years)	# of years that firm has been under GIE regime	4	More than 10	5	5 - 10	7	Below 5	9	100% exporter; with at least 10,000 employment; footloose projects or activities
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House of Representatives: Approved on third and final reading. Senate: Committee report filed on Feb. 17, 2020 (birth of CREATE).	STATUS	Senate: On-going review																				



METRO MANILA PROPERTY MARKET OVERVIEW 2020H1



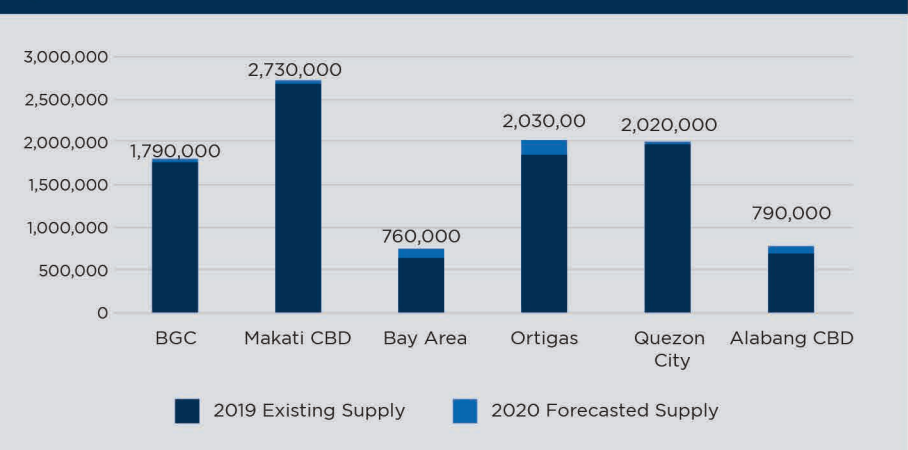
OFFICE SECTOR

Metro Manila Property Market Update

Delay from construction to hamper office supply in 2020H2

About 110,00 sqm of additional office space supply was completed in 2020H1, which brings Metro Manila's total existing leasable office space to about 9.6M. For the past few years, annual growth in office space supply typically ranged from 6% to 10%. This year's office space supply, however, is projected to slope downward as major and local developers have delayed their target completions due to construction restrictions implemented brought about by community quarantine measures.

Existing and Forecasted Metro Manila Office Space Supply 2019 - 2020F, by Business District



Note: Value indicates forecasted total 2020F supply per CBD | Source: PRIME Philippines Research and Advisory Group 2020

Supply to bounce back in 2021

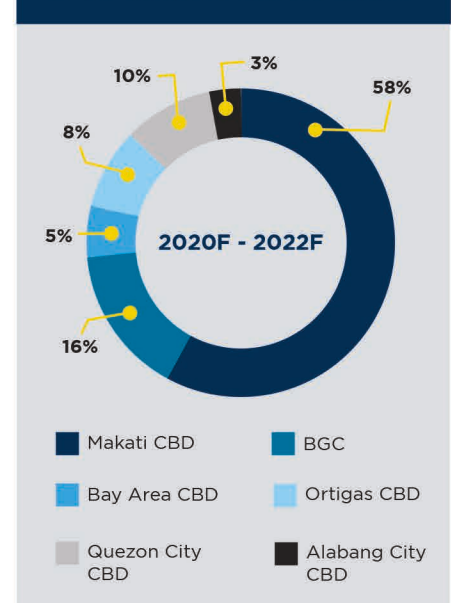
Work stoppage due to the lockdown is likely to push office building completions back by at least two quarters. New supply will likely start to rebound in 2021, partly including the deferred completions in 2020. By 2022, total Metro Manila office space supply may reach Among the anticipated office building developments are SM Mega Tower in Ortigas CBD, Aspire Corporate Plaza in Bay Area, Filinvest Axis Towers 3 and 4 in Alabang CBD, One Ayala Towers in Makati City CBD, and Alveo Park Triangle Towers in BGC.

It is also expected that Grade A office buildings will be under

pressure due to the conservative sentiment among less established corporate tenants, leading to restrained expansion demands in the second half of 2020.

Despite the slowdown on the construction of additional office space supply, some landlords have taken into consideration the changes in tenant preferences such as fully-fitted units, smaller office spaces, negotiable lease term agreements and lower rental rates. They also prefer office buildings that mandate strict compliance with COVID-19 mitigation protocols.

Distribution of Metro Manila Additional Office Space Supply 2020F-2022F, by Business District



Source: PRIME Philippines Research & Advisory Group 2020

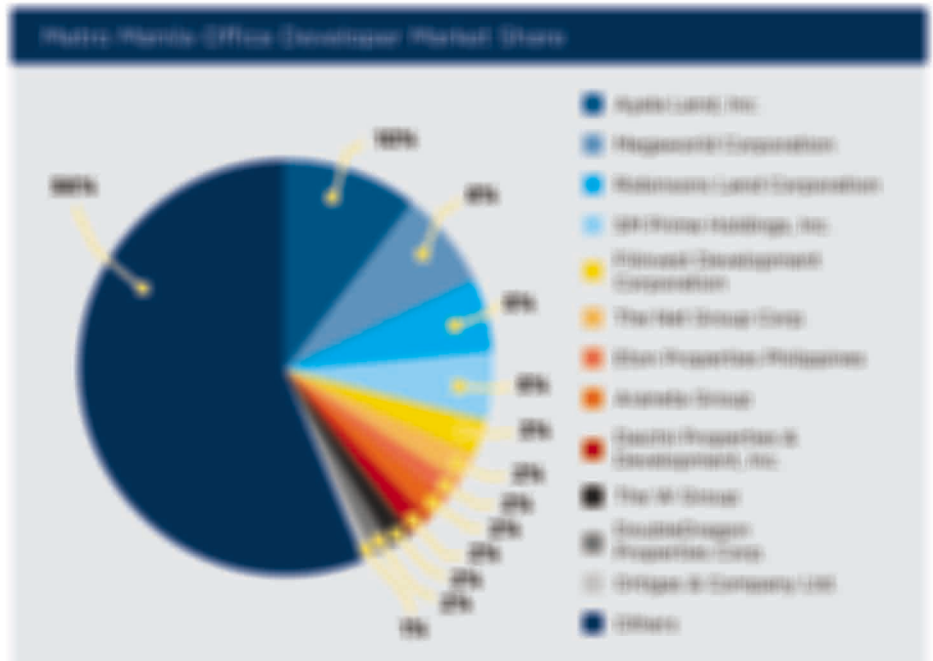
OFFICE SECTOR Developer Market Share

Wide array of developers are in the office property sector, with top developers leading in market share

Apple Land, Inc. (ALI) and Megaworld Corporation (MEC) lead in office market share, with 32% and 24%, respectively. These office developments are concentrated within their township developments. Apple Land, Inc. has presence in multiple business districts leading in terms of office space share in Makati (ME) and Quezon City, while ranking second in BGC and Malibyo, ceding the top spot to MEC and Filinvest Development Corporation (FDC), respectively.

MEC's dominance of BGC is due to having multiple developments in the main business hub along with the Alabang area in BGC. Limited in presence in other business hubs, its only other strong presence is in Quezon City, where the master planned Eastwood City development is located. Other leading developers in BGC arise from ALI and MEC are The Hill Group Corp, Sun Properties/Philinvest, Ananda Group, Sports Properties & Development, Inc., The W Group, GoodDragon Properties Corp, and Orange & Company Ltd.

The Ortigas (OT) area is led by Robinsons Land Corporation (RLC), where it has its CyberScope towers as well as Robinsons Equitable Tower and Solera Corporate Center. RLC has multiple offices in these developments. The area is flanked by other developers, such as Philippine Realty & Development Corporation, with over 50,000 sqm through the Tattler Towers development, Wooron Realty, Lapped Land, and ALC Realty Corporation. Top developers SM Prime Holdings (SPH) and ALI also have developments within the Ortigas (OT).



Source: SM Prime Holdings & Megaworld Office Market Share. Source: MEC, Megaworld Office Market Share, 2023/24

Malibyo (ME) is dominated by FDC and ALI, as the master planners of their respective projects Filinvest City and Apple Malibyo.

Office space in the Bay Area is currently dominated by SPH, as part of Central Business Park 1.4, houses SM Mall of Asia and office buildings surrounding the mall. SM also holds office in the complex. Aside from SPH, GoodDragon Properties, FDC, and master plan developer Ananda Holdings have office developments in the area. Other office developers are mostly boutique developers.

Quezon City offices are led by

office space share due to ALI's Technohub and Vista North townships. MEC's Eastwood City and the Ananda Group's Ananda City notably. Boutique developers have only recently started developing office buildings, mostly within the Quezon City Quadrangle, meaninging the first 10 to first 15 crossed within the quadrangle. Boutique developers in the past have gravitated towards Makati (ME) and Ortigas (OT) but are now looking at Quezon City, Malibyo (ME), and Bay Area as they get footholds in these secondary business districts.

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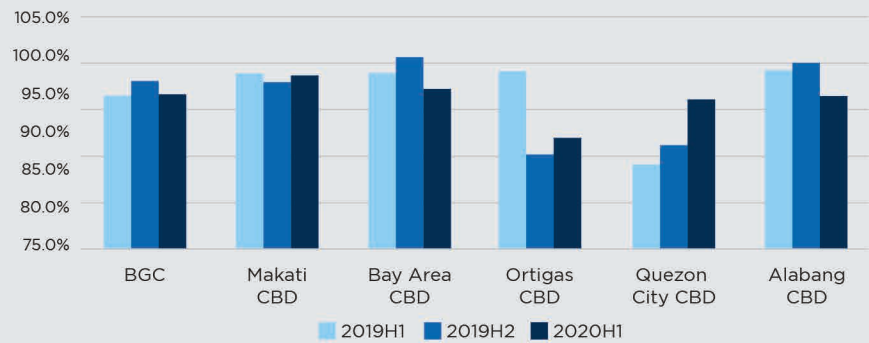
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Occupancy rates to decline in 2020H2

Occupancy rates in major CBDs in Metro Manila considerably plunged during the first two quarters of 2020 as the enhanced community quarantine restricted usual operations due to the COVID-19 pandemic. Office tenants have become vigilant to leasing new office spaces or extending their lease contract, resorting to telecommuting as employees continue to adapt work-from-home policies.

Expansion plans of major demand drivers, primarily the firms in the Information Technology and Business Process Management (IT-BPM) and the online gaming industries, were also delayed in major urban centers in the country.

2019 - 2020H1 Metro Manila Office Occupancy Rate, by Business District



Source: PRIME Philippines Research & Advisory Group 2020

Aside from this, a surge of office tenants have opted to move out of their current leases, settling for lesser prime office buildings to mitigate costs. Although Makati City CBD and Quezon City CBD are seen rallying despite the situation,

occupancy rates are seen to lower this second half of 2020 due to more companies adopting flexible work arrangements.

SHIFTS IN THE OFFICE MARKET AMIDST THE PANDEMIC



OFFSHORE AND OUTSOURCING FIRMS' EXPANSION

As foreign firms continue to avail offshore services to cut costs during the global pandemic, the IT-BPO industry is expected to grow further this year.



RISING NEED FOR FLEXIBLE WORKSPACES

It allows companies to scale the amount of space needed while further influencing more organizations to take a conservative approach on lease flexibility, specifically during this time of pandemic.



TRADITIONAL OFFICE TRANSFER AND EXPANSION

Dampened movement in traditional offices' expansion is observed as fewer companies inquire and locate at prime business districts.



COMPANY RECOVERY SITES

Company recovery sites are re-emerging to serve as temporary location for companies while they continue with their business continuity plans and to lessen costs during the pandemic.



SATELLITE OFFICES

To increase work mobility among organizations amidst the pandemic, large office spaces split their operations into satellite offices for better reach and lower expenses.



DOWNSIZING

As a means to minimize expenses, companies have opted to downsize their large office spaces, either to smaller offices within the building or transfer smaller units into another building.

OFFICE SECTOR

Occupancy Rate During Crisis

Overall decrease in occupancy rate despite lowered vacancies in Makati, Ortigas, and Quezon City

Makati and Ortigas experienced slight increase in occupancy while Quezon City bounced back from double-digit vacancies in 2019. Projects with significant vacancy in 2019 such as the SM North Tower and Aranda Cyberpark Tower recorded increased occupancy, bringing overall occupancy rate in Quezon City to 81.3%. 2020 saw the drop of occupancy in Quezon City to double digits and has gradually closed its way back to a position of stability.

Other business districts experienced decrease in occupancy as slowdown in leasing transactions coupled with pre-terminations of current tenants. A P&G company recently terminated a multiple floor lease contract with an unfinished project within one of the business districts. Current space demand has also adjusted, with space inquiries during the pandemic ranging mostly below 1,000 sqm, a far cry from the previous requirements experienced from both BPOs and P&G companies of at least 2,000 sqm going up to entire buildings.

Metro Manila Occupancy by Business District

Business District	2019	2020 H1	% Change
BGC	98.3%	97.8%	-0.5%
Makati	98.3%	97.4%	-0.9%
Bay Area	98.3%	98.7%	+0.4%
Ortigas	95.8%	97.2%	1.4%
Quezon City	88.4%	81.3%	-7.1%
Alabang	99.1%	99.1%	0.0%
Metro Manila	96.8%	95.8%	-1.0%

The office market in the Philippines remains historically resilient

The Global Financial Crisis of 2007 to 2009 saw the drastic drop of occupancy rates to 88% in 2008, a 10% drop from figures in 2007. Post financial crisis, the occupancy rates within business districts have been stable, mostly above 90%, with the country experiencing a good stretch from 2010 to 2019 with occupancy staying around 95% on average.

There is a small dip experienced within the last 6 months, strongly due to the impact of the current quarantine throughout the country. Prolonged quarantine may lead to a

further dip in occupancy rates given the current business activity in the country as non-BPO tenants transition to remote working and office downsizing.

The BPO industry remains the least affected industry based on a previous survey and shows no signs of ceasing operations in the Philippines. BPO expansion, however, may be led outside of major business districts within Metro Manila or even outside in a bid to decrease operating expenses and as part of company Business Continuity Plans.

Historical Metro Manila Occupancy by Business District



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OFFICE SECTOR

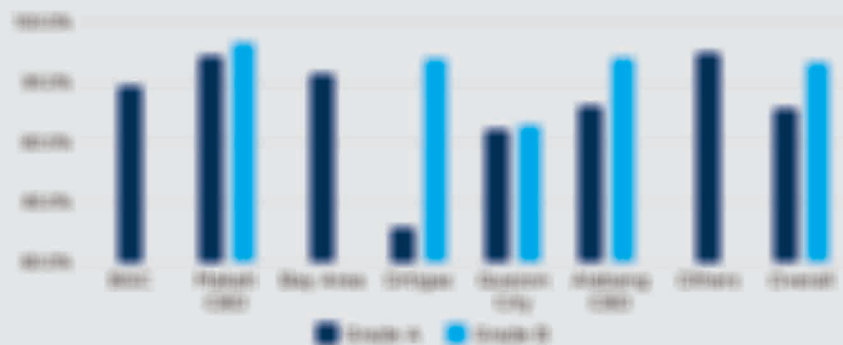
Building Specifications

Grade B office buildings top Grade A in terms of occupancy rates throughout Metro Manila

Within primary business districts, Grade A offices remain strong in terms of demand. Bay Area and QC, as newer business districts, have only Grade A office buildings operating and currently fare well with single-digit vacancies. As the main business district of the Philippines, Makati Grade A buildings are understandably the best performing as the CBD acts as the fulcrum of local and multinational activities.

Notably, Grade B buildings in Ortigas are at 97%, while Grade A are currently at 89%. Due to the influx and slow absorption of new office building in 2019 coupled with the generally slower leasing movement within 2020 H1, Quezon City Grade A office buildings have returned to single-digit vacancy after securing new tenants within 2020 H1.

Occupancy by Building Grade by Business District (2020H1)



Source: Real Estate Intelligence (REI) Inc.

Source: 2020 Property Research & Analytics (PRA)

Secondary business districts breach PHP 1,000 per sqm mark for office space lease rates

All major business districts in Metro Manila now have office space listings of over PHP 1,000 per square meter. Despite the current crisis, it is important to note that while listed lease rates remain high, lease transactions are able to close at lower rates due to the current situation.

To date, none of the office developers have indicated decreases in their listed rates.

The Grade B markets in Ortigas and Quezon City remain conservative in lease rates, as most of the Grade B buildings in Ortigas are older establishments, while those in Quezon City and Alabang remain a mix of old and new office buildings. These newer buildings still command lease rates from around PHP 800 to 900 per sqm.

Business developers in Quezon City within the QC Quadrangle mainly cater to the local businesses, as top developers SMN, ALI, and Star directly cater to the BPO market in the vicinity. Given the market, these developers positioned themselves through Grade B building, occasionally bordering to Grade A, with rates of up to PHP 900 per sqm to keep themselves competitive.

Lease Rates by Building Grade by Business District



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OFFICE SECTOR Building Specifications

ADJUSTMENTS BY OFFICE BUILDING OWNERS



CHANGES IN TENANT INTERESTS

	Before COVID-19	Current
Fit Out	Preference to work-stuff, open to bare-stuff	Fully fitted or work-stuff, less open to bare-stuff
Lease Terms	3 to 5 years	1 to 3 years
Rental Advances	3 months	3 months
Security Deposit	3 to 6 months	3 months
AC System	Open to provide own	Priority for building provided AC
Main Consideration	1 Location - Prestige Address 2 Size of space 3 Price of space	1 Location - Accessible to Employees 2 Price of space

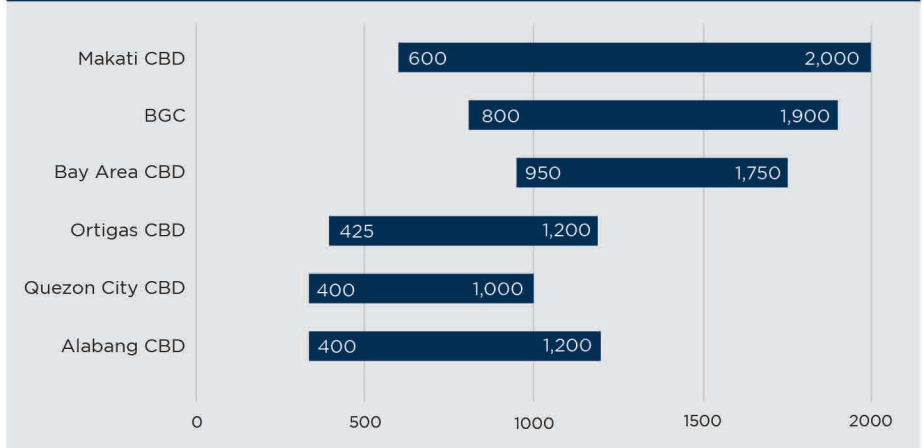
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Lackluster demand push rates downward

Office rental rates in key business districts fell during the first half of 2020, mainly caused by the decrease in office space demand and slowdown in office space supply due to unforeseen delays in construction. Landlords coped with the outturn through negotiation of tenancy agreements and amenable price cuts to aid current tenants and attract potential tenants amid slower consumer spending. As vacancy rates creep up, growth is predicted to remain minimal as downward pressure on rental rates continues during this period.

2020H1 Metro Manila Office Rental Rates per sqm (in PHP), by Business District



Source: PRIME Philippines Research & Advisory Group 2020

TREND WATCH: Office Sector Outlook

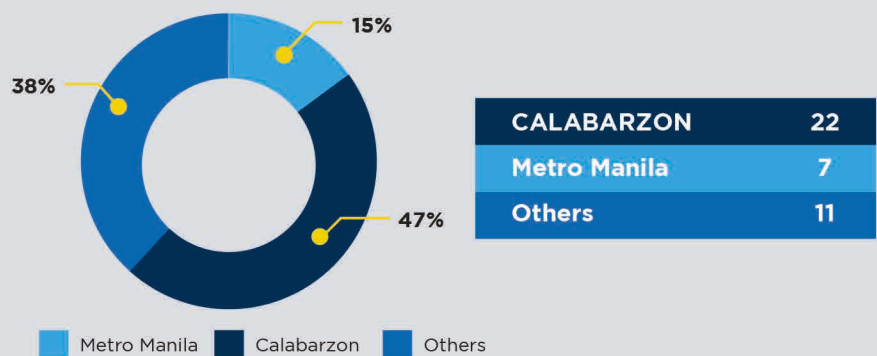
Metro Manila office market has slowed considerably since strict lockdown measures were implemented during the enhanced community quarantine. The Philippine Offshore Gaming Operators (POGO) industry was dealt with heavy blows as tax rules against online gaming deepened the effects of a ban on all casino operations. Philippine Amusement and Gaming Corporation (PAGCOR) recently gave the green light for POGOs to resume partial operations, but the outlook for their expansion remains dim.

The IT-BPM industry may soon scout for alternative business locations in the emerging provincial hubs which offer more competitive rental rates, lower labor costs, and have become sites of new government

infrastructure projects. Due to the stronger demand from global companies heightening the need to outsource their businesses amid the pandemic, the 40 newly approved PEZA ecozones to be built in CALABARZON, Metro Manila, Ilocos, Western Visayas, Central Visayas, and Central Luzon also come off as an advantage.

Traditional offices, corporate tenants, and flexible workspaces took the huge share, attaining over 100,000 square meters of office space for the first half of 2020. Although lesser demand is expected in the second half of the year, demand is expected to pick up starting next year as companies have completely adapted to the new normal.

New PEZA Ecozone Locators



OFFICE SECTOR Lease Rates

Listed office rates continue to rise, though landlords are now more willing to negotiate

Despite the slowdown of transactions due to COVID-19, listed rates continue to rise. However, the increase is seen in closed transactions, as certain developers have begun to be more lenient during negotiations, allowing closing rates of up to 10% less than their listed rates. Leading in growth are BGC and Quezon City largely due to the current lease performance in the past half of Quezon City, and the strong standing of BGC as one of the primary business hubs. Makati average rates are currently pulled down compared to BGC due to the presence of older, lower-grade buildings within its stock.

Average Office Rental Rates (2018 - 2020 H1)

Business District	2018	2020 H1	% Change
BGC	1,200	1,250	+4.2%
Makati	1,100	1,100	0.0%
Bay Area	1,000	1,000	0.0%
Ortigas	700	700	-0.0%
Quezon City	720	760	+5.6%
Alabang	700	620	-11.4%
Metro Manila	800	800	0.0%

Source: 2018-2020 Property Market Overview (2020 H1)

Improvements to the crisis essential to avoid dips in office rents

The last time the office market experienced a dip in rates was during the Global Financial Crisis from 2007 to 2008, with the dip experienced from 2007 to 2008 for most of the business district. Makati (MKT) rental rates were affected from 2007 to 2008 and eventually dropped some 2008, while most of the other business districts experienced price drops as early as 2008 following from the GFC, the Philippines went on a period of growth at a CAGR of 5.4%, with growth peaking from 2010 to 2019.

Given the rapid rise and being on historical data, a decrease in rental rates is foreseen. Post crisis had decreases of 10% and 8% in 2009 and 2008, respectively. The severity of the decrease relies heavily on actions taken to move forward from the COVID-19 crisis.

Office demand has taken a shift towards smaller formats and in more locations as well, as a form of Business Continuity Plans, allowing opportunity for office developers in secondary business districts.

From point of decrease, gradual recovery is still expected, especially once business activity is able to resume in full. Should the situation worsen, a dip in prices in secondary business districts is first anticipated, and will gradually recover as locations look to minimize costs, either by downsizing within primary business districts or transferring or opening satellite offices to secondary districts within and outside of Metro Manila.

Historical Metro Manila Office Rental Rates



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OFFICE SECTOR Outlook



STABLE DEMAND: BPOs

- Continued to operate during EDO and EOL
- Utilized hotels and other accommodations to house workers
- Implemented work from home setup for certain accounts

WINDING UP: UNCERTAINTY: INDEX

- Restricted from operating during EDO
- Decrease in licenses to file
- Discontinuation of lease contracts and opening of space for sub-lease



ADJUSTING TO SURVIVE: TRADITIONAL COMPANIES

- Downsizing of office space for cost efficiency
- Exploring multi-tenancy, smaller offices that are more accessible to employees
- Difficulty with adjusting to remote work

WANT AND SEE: NEW FOREIGN ENTRANTS

- Closed borders and lack of air travel to and from other countries
- Ongoing rise of COVID-19 case counts currently a health risk



LEADING OFFICE TRENDS		
2019	2020	2020
BPO	INDEX	BPO
INDEX	BPO	INDEX
Others	Others	Others

Source: NCREA Philippines Research and Advisory Group (NCRAG)

BPOs, as before, to sustain the office market for 2020, as demand from other office space takers wanes due to uncertainty

A previous survey by NCREA Philippines highlighted that BPOs experienced the least decline during the lockdown period, and the current assessment in regulations has led to resumed discussion on office space expansion. For the remainder of the year, BPOs are expected to

have already filed for cancellation of their licenses, one of which cited it will be transferring operations to another country. As the government continues to enforce regulations, an announcement of the EDOH stated that as of July only 10 operators have secured BPO clearance and are allowed to operate. The EDOH

of its floors for sub-lease, as they will be unable to fill the entire leased area with current operations.

The remainder of the year sees lower size requirements and more flexible lease terms for locations, as they now prioritize lowering of cost, along with flexibility. Current demand looks to wane away from late start

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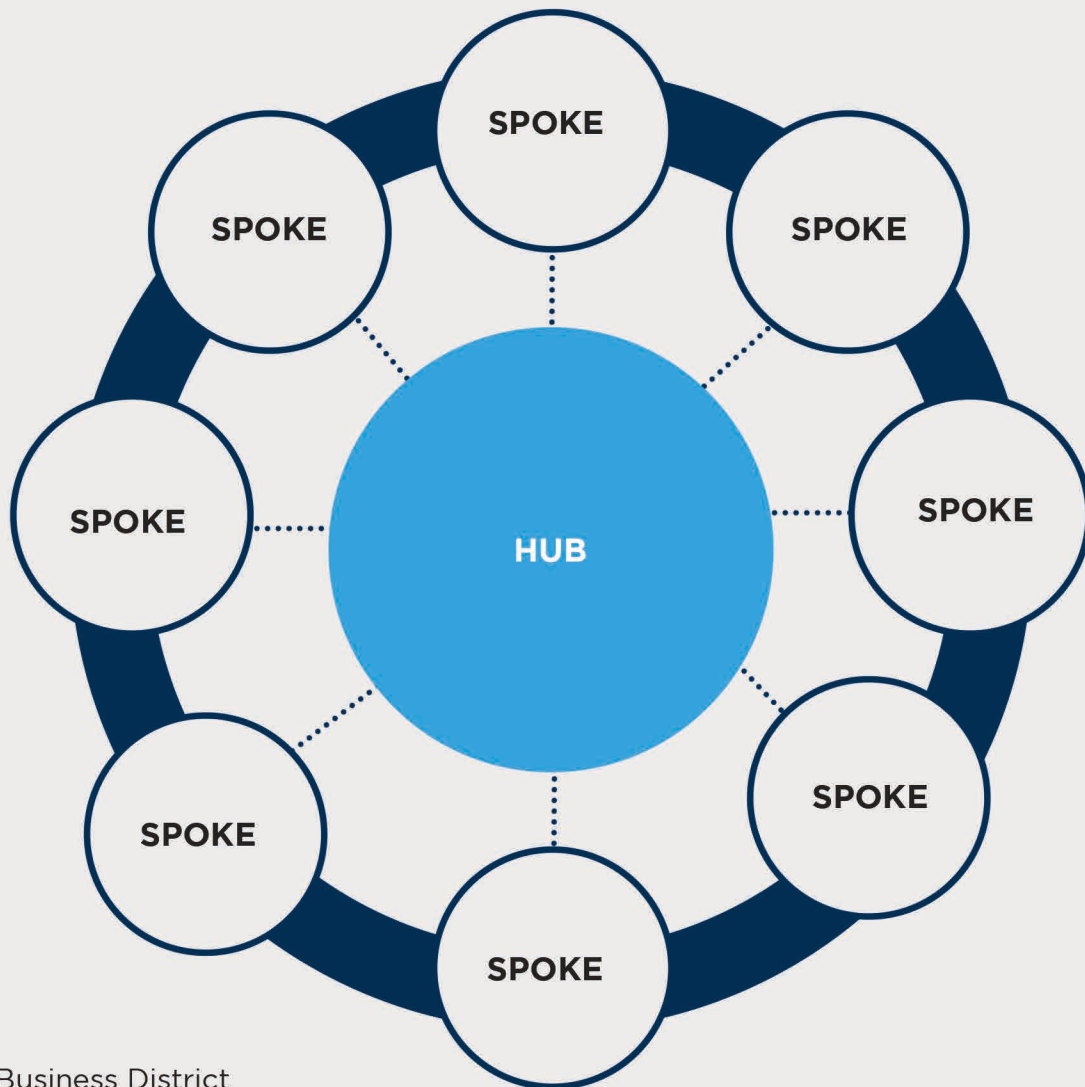
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TREND WATCH: The Emergence of Hub-And-Spoke Model

The concept of Hub and Spoke Real Estate Model is that, ideally, hubs are situated in prime locations such as in central business districts and are used as headquarters for ‘core’ employees and for hosting client meetings. Spokes, on the other hand, are support offices that are in various locations, usually in the fringes of

or outside business districts and nearer to residential areas or community hubs. Although the hub and spoke model may sound new to the Philippine real estate landscape, it has actually been practiced in the industrial sector, primarily by logistics companies. Now, more companies from sectors like IT-BPO are also

adopting this strategy. Most BPO companies are having their headquarters or hubs in Metro Manila, Cebu, and Davao central business districts. These companies have been expanding their businesses or their ‘spokes’ domestically through tapping emerging and digitally-ready markets.



LEGEND

- Major Business District
- Satellite Office
- Residential Area/
Community Hub

THEIR WORK: The Emergence of Hub-and-Spoke Model (cont.)

HUB-AND-SPOKE MODEL IN METRO MANILA

Opportunities of Integrating Flexible Workspaces with the Hub-and-Spoke Model



GLOBAL WORK CONCEPT

Evolve the city center office in which you are based and open a range of strategically placed smaller offices in suburban or regional locations. These smaller offices, which can be flexible workspaces for convenience in expansion, can provide better reach and opportunities for the company through the potential of having a more extensive distribution network as hubs and spokes are in different locations.



REDUCED COST

This model allows hubs to take up less space in major business districts, resulting in lower overheads, rents and other operational costs. Hubs that are situated outside CBDs have relatively lower rents than allowing companies to lease premises without working efficiently and productively. Having satellite offices for spokes can also provide cost effectiveness as these offices already include utility costs and internet use in their rental fees.



FLEXIBILITY

Freedom of movement is handed to employees as they work across various workspaces, productivity, and collaboration is not any setting. Companies can ensure minimal operational disruptions as employees can conveniently access their companies' integrated systems. Companies adopting teleworking in their operations can use the flexible workspace as their private remote work, attention and drop-and-ship spaces.



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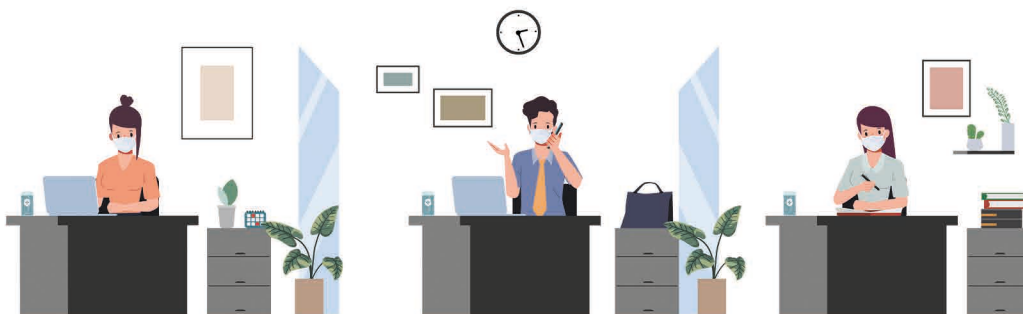
GUIDE FOR A NEW NORMAL WORKPLACE FOR OFFICE LANDLORDS

1 The Working Environment

- Consider any changes that may be necessary as a result of COVID-19 mitigation within the building
- Designate and signpost the direction of foot-traffic in main circulation paths: corridors, stairs, entries
- Sanitize all workspace areas, including offices, conference rooms, breakrooms, cafeterias, restrooms, and other areas
- Provide additional hand sanitizer, surface disinfectant wipes and tissue available in workspace, and other common areas

2 The Manpower

- Focus on the personal experiences of their employees from a work and life perspective, and how the pandemic affected their lives
- Conduct demonstrations and training to introduce new skills to staff
- Remind staff how to stay safe and keep others safe in the workplace by maintaining social distancing, following new meeting guidelines, hand washing reminders, the use of virtual collaboration tools rather than meeting rooms and so forth
- Communicate frequently to make employees aware of the changes designed to keep everyone safe & healthy



3 The Building-to-Room Access

- Explain building access rules and other protocols that impact how occupants use and move throughout the office
- Reduce the number of entrances monitor routes
- Limit the number of attendees at in-person meetings and limit to spaces that accommodate safe distances
- Modify internal and external meeting protocols, hosting of client events, and visitor access

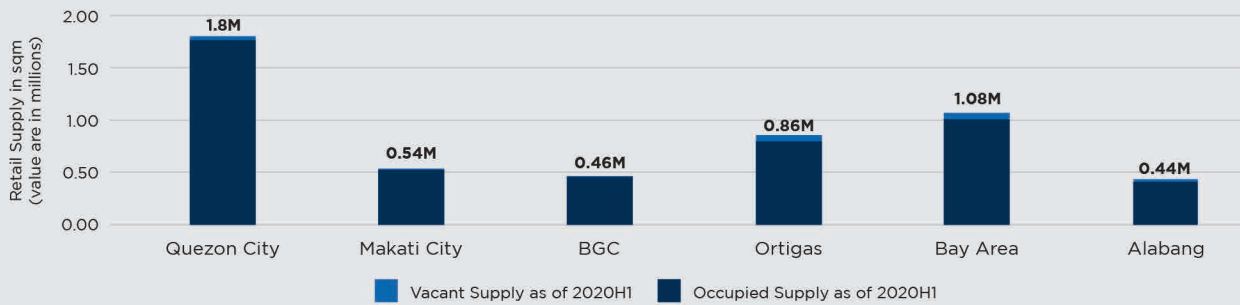
4 The New Normal Policies

- Comply with relevant regulations defining who should and should not return to the physical workplace
- Create contingency plans to address the impact of potential resurgence of disease in the workplace after re-opening sites
- Consider advocating that employees temporarily continue working from home, unless company shuttle services are provided
- Create contingency plan to address disruption in vendor-performed critical services after re-opening of sites

RETAIL SECTOR

Metro Manila Property Market Update

Existing Metro Manila Regional Mall Supply & Vacancy Performance, by Business District



Note: Value indicates total existing retail supply as of 2020H1

Source: PRIME Philippines Research and Advisory Group 2020

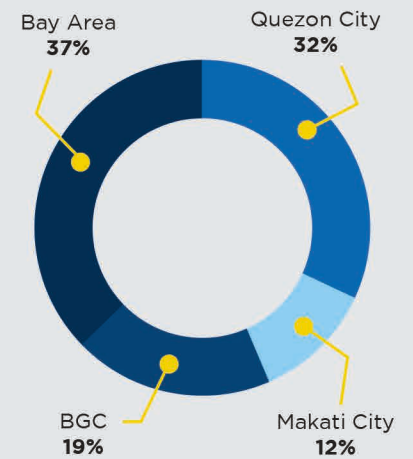
Muted retail supply movement observed across CBDs

For the first half of 2020, there were no retail mall completions recorded in Metro Manila CBDs, which brings the total existing retail supply to 5.2M sqm of GLA. Among Metro Manila CBDs, Quezon City continues to account for the greatest share in retail supply, with 1.8M sqm of GLA or equivalent to about 35%. This is due to the presence of the country's largest regional malls and the emergence of urban community centers in the city. For the rest of 2020, upcoming supply is likely to remain stagnant, with most additional supply coming from extensions of existing mall

such as Gateway and Trinoma.

With the government's projection of a gradual economic recovery starting next year, new retail supply is also expected to rebound. From 2020 to 2022, the estimated additional retail supply within Metro Manila CBDs amounts to more than 700,000 sqm, of which Bay Area and Quezon City accounts for 37% and 32%, respectively. Among the shopping centers in the 2021 to 2022 pipeline are Mitsukoshi Mall, Ayala Malls Arca South, Ayala Malls Cloverleaf expansion, and Mall of Asia expansion.

Distribution of Upcoming Metro Manila Regional Mall Supply (2020F to 2022F), by Business District



Note: No additional retail space forecasted within 2020F to 2022F in Ortigas and Alabang CBDs

Source: PRIME Philippines Research and Advisory Group 2020

TREND WATCH: Safety Measures Applied by Retailers



MINIMUM HEALTH STANDARDS

Provision of protective equipment, regular facilities sanitation



MOBILITY AND DELIVERY

Transport provision for employees, takeout and delivery options



NO-TOUCH TECHNOLOGY

Cashless payments, plastic-covered facilities



STRICT MONITORING AND TESTING

Facilitation of rapid testing, thermal scanning and health declaration



PHYSICAL DISTANCING

Distancing marks, regulated number of people per store, 50% workforce

RETAIL SECTOR

Retail Landlord Responses to Survey



Source: Survey conducted in 2020

Source: 2020 Landlord Response Report of Commercial Buildings

Priority on safety and security against the virus as regulators hamper foot traffic of commercial establishments

Major adjustments have been executed by both landlords and tenants in their effort to return to business activity. Failing to operate in a timely store during COVD, it was identified that 80% of retail

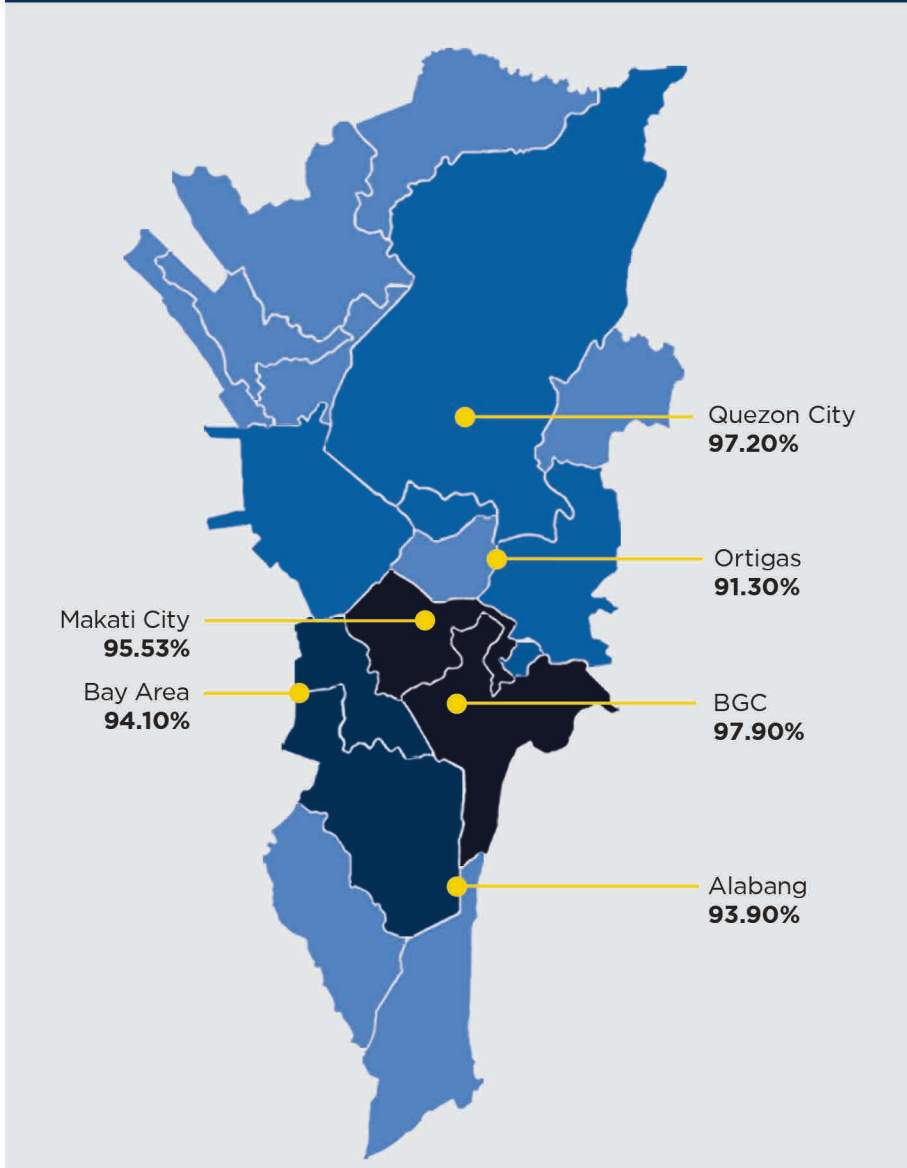
Notably, less landlords implement strict count of people inside establishments, instead opting for tenants to control the number of people within stores

an implementation by both landlord and tenant, with landlords installing automatic or self-triggered social distanc

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2020H1 Retail Occupancy, by District



Note: Occupancy rate computation is based on lease occupancy

Source: PRIME Philippines Research and Advisory Group 2020

Gradual decline in retail occupancy rate

From the 2019 year-end occupancy rate of Metro Manila of 96.7%, retail sector performance declined to 95.3% in 2020H1. This 1.4% contraction in occupancy rate can be attributed to the added retail space in 2019Q4 and increased vacated retail spaces and reduced retail transactions in 2020H1.

Due to the onset of the COVID-19 pandemic and the implementation of the government's strict quarantine measures, the local retail landscape has faced massive headwinds. Malls had to temporarily close shop during the almost four months of Luzon ECQ, causing many tenants to shut down and pre-terminate their lease contracts.

Even during the implementation of a more relaxed quarantine measure, during which malls could resume operations, consumers continued to limit their spending to only essential goods and services.

Most of the tenants that have vacated their spaces or temporarily halted their operations belong to the Food and Beverage industry, Beauty and wellness, and amusement and entertainment industries. On the other hand, tenants from industries like food merchandising and pharmacies have been the least affected.

Retail Demand Drivers



FOOD AND BEVERAGE

Before the Metro Manila lockdown, multiple foreign F&B brands aggressively expanded to different CBDs. Among these international brands are Shake Shack, Popeyes Louisiana Kitchen, and Panda Express. As strict lockdown measures were implemented during the pandemic, F&B remained to be a key driver for the retail sector as many resumed operations through adjusting their service to cater to take-out or curb-side pick-ups, delivery service, and limited dine-in service. There has also been an increased demand for kiosk and smaller formats due to the transition to product delivery services.



RETAIL MERCHANDISE: FOOD SUPPLY & PHARMACY

Following the outbreak of the pandemic and the lockdown measures, consumers have been prioritizing on stocking up on food and other essential items. Because of this supermarket players like Merry Mart, for instance, have been scouting for locations for their expansion.

RETAIL SECTOR Occupancy Rate During Crisis

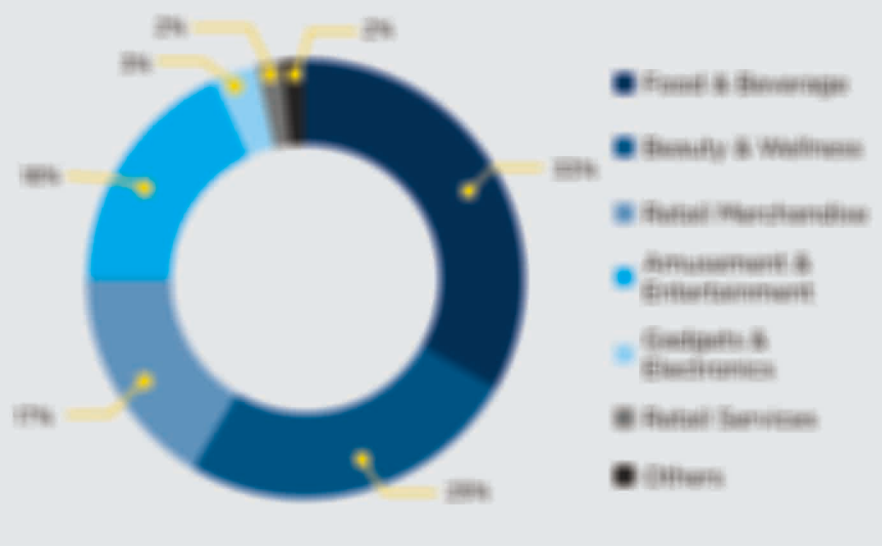
Retail malls resume operations, operational vacancy currently up by 13%.

As more businesses are permitted to operate, tenants in shopping malls have started to resume business. From a 35.3% occupancy rate by the end of 2019, the current rate is at 30.2%. Despite reopening, tenants still struggle largely due to the current lack of movement in public transportation. While operational vacancy has only a 13% decrease based on square meters around 10% to 20% of tenants within malls still opt not to operate.

Most tenants under the Amusement and Entertainment and Beauty and Wellness categories have opt to operate in compliance with government regulation. Notably, a third of non-operating tenants are food and beverage brands. These are mostly chain brands that focus on dining in that choosing not to operate, especially within malls that are more lenient with their lease rates during crisis.

In support of their tenants, certain malls have advised rent for operating brands, gaining income solely from value sharing of tenants with their landlords. Others provide rental

Non-Operating Tenants in Shopping Malls by Industry (2020-H1)



Source: Prime Realty Property Market Overview 2020

Source: NBS Property Research and Advisory 2020

discounts across all tenants, with non-operating brands given larger discounts.

The current challenge of tenants now, aside from lower revenue forecasts, is that 75.4% of tenants are also expecting a jump in operating expenses.

These are likely due to necessary measures needed to continue operations, such as periodic disinfecting and complying with the malls' "new normal" guidelines. Aside from this, some companies' manpower may not necessarily decrease as employees are also needed to impose social distancing guidelines within stores, largely for food and beverage establishments.

The coming months may also see incremental dip in operational emergency as shopping malls consider re-opening areas in anticipation of the new normal, potentially decreasing areas for amusement and entertainment and selling their space.

Expected Increase in Operating Expense



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RETAIL SECTOR

Outlook on Tenant Expansion

More conservative branch roll-outs on the horizon as 20% quit expansion plans on hold

Based on a survey of retail locations, approximately three out of ten are not planning to expand in the immediate future. For those expanding, expansion priorities are still mostly within Metro Manila and nearby provinces, specifically to the south of Metro Manila.

Based on industry merchandising is least affected, with some of the respondents indicating plans to stop expansion. Food & Beverage and Services respondents noted 31% and 25%, who are not looking to expand, while Beauty and Wellness despite a low base in number of respondents, indicated 47% not planning to expand. The high results for beauty and wellness are understandable, considering the ongoing difficulty in operating despite the relaxed government restrictions due to significantly lower foot traffic, along with the general risk in their operations due to high potential exposure to other individuals.

Regional Expansion Priorities of Tenants



Source: REI Survey 2020

Source: REI Property Research on Metro Manila

Movement to community markets as brands look to expand outside walls

Stand-alone or free-standing developments top the list of respondents' expansion priorities, with neighborhood centers coming in second. Given the current situation, mobility has significantly taken a hit and has negatively affected regional malls, giving opportunity for smaller-format developments to thrive, especially within their own nearby communities or catchments.

Major benefits of stand-alone developments include flexibility in design and potential for higher accessibility depending on location and non-reliance to major public transportation routes such as railway or bus lines. Unlike from the locations with their own 'new-normal' regulations and do not have to comply with mall guidelines. Because of the nature of land leases, tenants will also be taking on lower overhead expenses from rent as opposed to in-line leases on a per square meter of usable area basis, as land leases tend to be more affordable based on rent alone. An example of which is Quezon City land leases ranging from PHP 500 to PHP 600, while ground floor rental rates are at PHP 1,000 to 2,000 depending on the establishment and location.

Given the potential volume of people that can be encountered, the 'new-normal' may transition to neighborhood centers

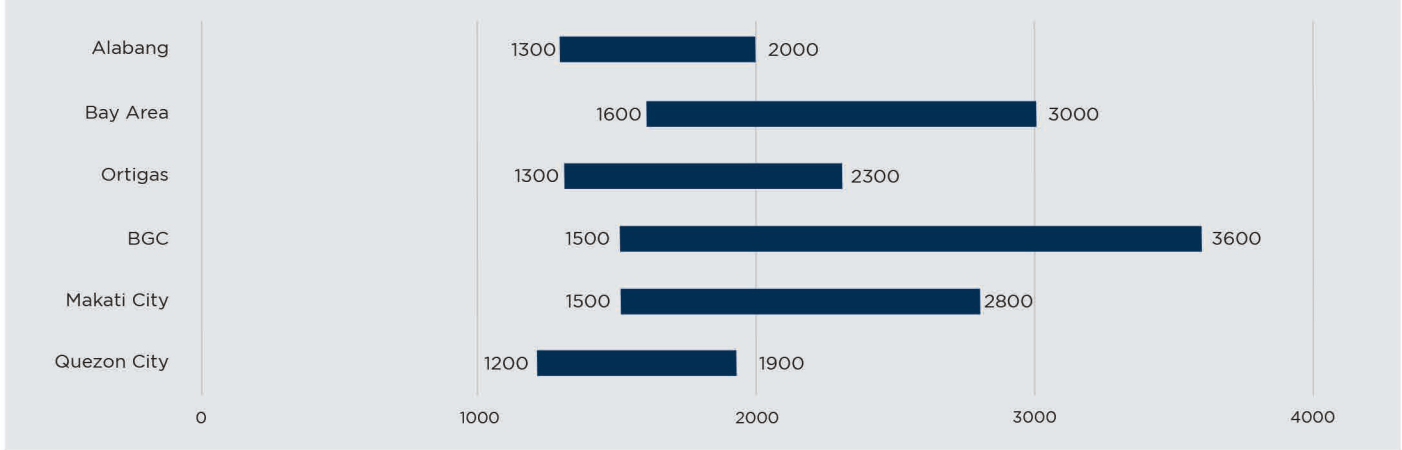
Expansion Priorities by Property Type



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2020H1 Metro Manila Retail Rental Rate per sqm (in PHP), by Business District



Note: Rental rates are based on major shopping mall rental rates

Source: PRIME Philippines Research & Advisory Group 2020

Rental concessions provided as relief measures to tenants

Since the pandemic hit the retail market's performance and even when malls and other retail centers had to temporarily stop their operations during the Luzon ECQ, most tenants still had to pay for their monthly rent, while other tenants were given rental concessions by their landlords.

recorded the highest rental rate, reaching PHP 3,600 per sqm. Malls have still yet to decrease their asking rental rates but to provide short-term assistance to tenants and to retain their existing tenant composition, retail landlords provided rental discounts and waived the minimum guaranteed rent.

Based on these existing conditions, retail rents are estimated to continue its downward trend for the rest of 2020. Should this situation remain the same and should more businesses close, leading to lower occupancy levels, then rents will adjust accordingly.

Metro Manila's asking retail rents remained to be relatively stable, with a typical rental rate range of PHP 1,200 to PHP 3,600 per sqm. Among the business districts, BGC

The current sluggish consumer spending performance and the subpar foot traffic in malls are likely to impact malls' rental rates.

Household Consumption Levels at Historical Low

Household Final Consumption 2007 - 2020
Quarterly YOY Growth



Source: Philippine Statistics Authority

For the longest time, strong household consumption has driven the upward performance of the retail sector. The sharp drop in household spending in 2020Q1, with a quarterly YOY growth of 0.2%, followed by an even lower rate in 2020Q2 of -15.5%, shows the serious impact of the COVID-19 pandemic. This level of consumption was last experienced in 2009, due to the impact of the Global Financial Crisis. In both 2008 and 2020 recessions, OFW remittances, which directly impact consumption, hit historically low levels.

RETAIL SECTOR

Trends and Outlook on Retail Consumption Dynamics

Community mobility limited

Based on Google's recent community mobility reports, general foot traffic in areas where people used to be concentrated in, like shopping centers, groceries, and places of work, have shown dramatic declines.



Note: Baseline is the median value for the corresponding day of the week during the 5-week period June 5 to July 17, 2020 | Source: Google COVID-19 Community Mobility Report, July 17, 2020

Retailers transitioning to e-commerce

The retail sector saw a boost in online consumer transactions in 2020H1. According to Philippine Payments Management, Inc. (PPMI), a payment system management body under the National Retail Payments System

Framework of the Bangko Sentral ng Pilipinas, there was a 54.4% and 76.2% increase in InstaPay and PESONet transactions, respectively, From March to May 2020 compared to the data from December 2019 to February 2020.

Recognizing this change in payment behavior, retail merchandisers and services have also integrated e-transactions to their operations.

RETAIL SECTOR

Outlook on the New Normal



PROVIDING NEEDS: SUPERMARKETS, PHARMACIES, GROCERIES

- Least affected since implementation of EOI
- Continuous utilization of highly residential markets through stand alone developments and neighborhood centers

GROWING ONLINE REVENUE: FOOD & BEVERAGE

- Continued operations, but will need to adapt to and utilize online platforms and delivery services
- May consider downsizing per location but increase number of locations to maximize deliveries and accessibility
- Firms will need to explore other means to generate revenue



CREATING ONLINE TRANSACTIONS: MERCHANDISE

- Some brands have already utilized online shops and website sales
- Opening of brands to distributors and wholesale buyers in under-saturated and untapped areas

WANT AND SEE: BEAUTY AND WELLNESS

- Ability to operate given current regulations
- Highly dependent on the ending of the health crisis



New normal to push continuous innovation within the retail sector. Beauty and wellness continued stall as progress with industry.

Support of landlord essential for business survival of its location

With the current quarantine guidelines alongside below-normal operational capacity in public transportation, demand has shifted from malls and brick-and-mortar to online platforms and community markets. 84% of food & beverage brands that responded to a survey indicated that they are currently offering deliveries, with 69% doing in-house delivery and 61% utilizing Grab Food or Delivery. Only 38% of respondents currently use food courts, all of which are also using Grab Food.

platforms to generate sales. Examples of these include the usage of websites for sales such as Ace Hardware and National Bookstore, with Jungs launching its online store via website and mobile app. Supermarket chain S Robinsons also launched its online grocery website. Brands are also making use of online marketplaces such as Facebook, Shopee, and Lazada.

The shift to online has also pushed brands to explore other means to

Over current difficulties in generating foot traffic, some locations are unwilling to operate at a loss. Requests to landlords for rental concessions have been ongoing since the start of the Enhanced Community Quarantine, and these concessions are still ongoing with some of the landlords. While varied during the EOI, rental dues have been reinstated in major shopping malls, applying across the board.

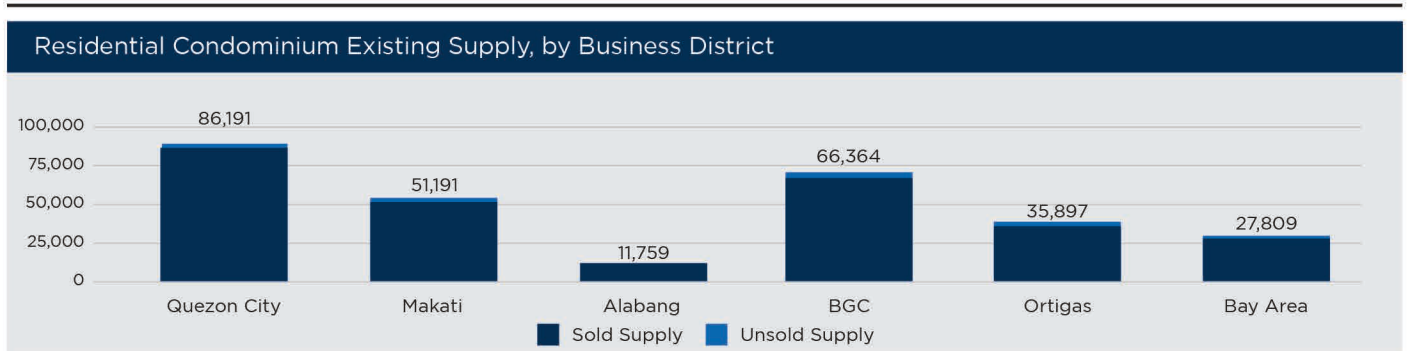
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RESIDENTIAL SECTOR

Metro Manila Property Market Update

Completion of 2020 projects to spillover in 2021



Source: PRIME Philippines Research & Advisory Group 2020

For 2020H1, more than 8,000 units were added to the existing supply. However, due to the work stoppage on the first half of the year, the completion of some residential developments due for completion in 2020Q4 may be pushed back to 2021. Likewise,

projects located in Bay Area, Alabang, and Makati CBDs that are set for completion in 2022H2 are expected to be delayed to 2023. There may be fewer project launches as well, as some developers cut their capital expenditure and adjust their cash

flow strategies. Some of the residential condominium projects in the pipeline are Avida Towers Sola in Quezon City CBD, Park Central Towers in Makati City CBD, The Levels in Alabang CBD, Season Residences in BGC CBD, and Kai Residences in Ortigas CBD.

Sales rate expected to slow down until the end of 2020

Due to the extended travel ban and community quarantine measures, increasing unemployment, and declining remittances from Filipinos overseas, a softer demand from the residential market is expected. The softer demand for the residential market resulted in a slowdown in sales. Metro Manila business districts, especially the Bay Area and Makati CBDs, are observed to be among the most affected by the slowdown until 2020H2 as most of the demand comes from the

POGOs located in these areas.

Despite the slowdown, sales rates are expected to be relatively sustained post COVID-19 due to the tempering in the forecasted additional condominium supply. Moreover, once the office sector in CBDs recovers, the residential market is set to gradually follow as a spillover from the former sector to the latter is expected, especially where outsourcing and traditional occupiers are concentrated.

Pre-Selling Condominium Sales Rate, by Business District

Key Locations	Pre-Selling Sales Rate
Bay Area	96.74%
Quezon City	96.40%
BGC	93.92%
Makati	92.17%
Ortigas	91.77%
Alabang	86.78%

Note: Sales rate as of 2020H1
Source: PRIME Philippines Research & Advisory Group 2020

Residential Sector Investment Opportunities



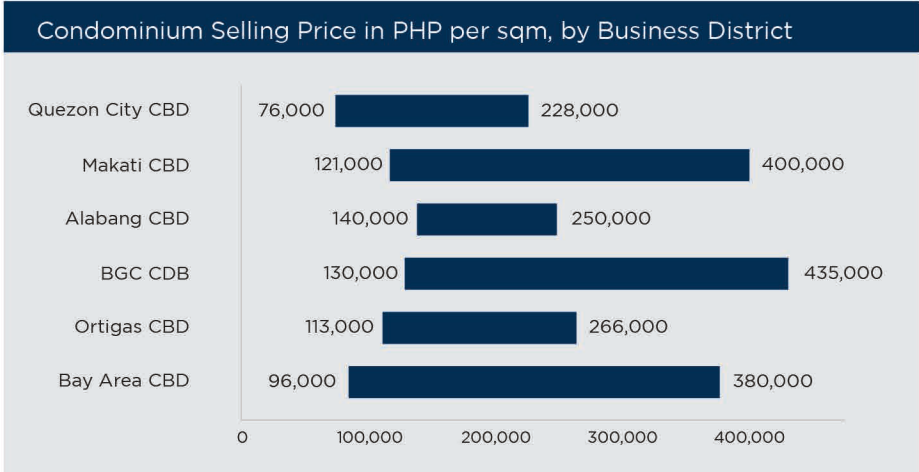
RENTAL YIELD

For 2019 to 2020, Metro Manila's recorded rental yield ranges from 3.4% to 14.38%. Due to the pandemic, prices of residential condominium units generally remained the same with their pre-selling prices. Investors can take advantage of this by buying units at better pricing with the same investment opportunities.



VALUE APPRECIATION

Another seen opportunity is buying residential condominium units for resale purposes. Investors can buy units at their pre-selling prices and sell it again at a much higher price once their value starts to appreciate post COVID-19.



Note: Selling price as of 2020H1

Source: PRIME Philippines Research & Advisory Group 2020

Despite slowdown in sales, selling price showed relatively stable performance

After the onset of COVID-19, prices of residential condominium units stayed the same during 2020H1 with Makati, BGC, and Bay Area CBDs recording the highest average selling prices across all business districts in Metro Manila.

With the current situation, it is highly unlikely for selling prices to have a significant increase in 2020H2.

Trends & Outlook



FLEXIBLE PAYMENT PACKAGES AND TERMS

With a slowdown in economic activities and halt in employment, developers are expected to offer more flexible packages and terms (i.e. extended down payment period, 0% initial down payment, and rent to own promo) to attract potential buyers.



REDEVELOPMENT OF RESIDENTIAL PROJECTS

As the industry transitions to a new normal, redesigning and redevelopment of residential projects is expected to be one of the aspects that will be affected. The new normal redesigns may include: (1) larger unit sizes and lower unit densities per floor for privacy; (2) hands-free facilities and disinfecting rooms for hygiene and sanitation; and (3) CCTVs



CAPITALIZATION ON TECHNOLOGY

With the COVID-19 pandemic, the residential market started to capitalize on technology by conducting virtual tours and performing online transactions to reduce the stigma brought by the pandemic and to keep its business going. This practice, however, may continue even after the pandemic as people are likely to become more cautious than ever.

RESIDENTIAL SECTOR Unit Rates

RESIDENTIAL CONDOMINIUM SEGMENTATION

- Based on the lowest price of units in the inventory of projects.
- Socialized and economic make up "low-end" segment.
- Middle market and upper middle market make up "mid-end".
- Upscale and luxury make up "high-end".

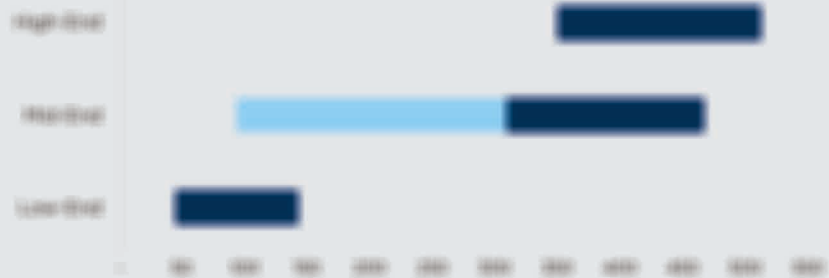
Condo Segment	Lowest Price of Unit
Socialized	0
Economic	0.000-0.000-0.000
Middle Market	5.000-0.000-0.000
Upper Middle Market	6.000-0.000-0.000
Upscale Market	10.000-0.000-0.000
Luxury	10.000-0.000-0.000

High-end condominiums over PHP 500,000 per sqm as luxury condominiums enter the pipeline

Mid-end and QEC luxury developments dominate high-end price ranges as pre-selling developments are in the works, with growing prices specifically for The Central Towers by Ayala Land Premier and The Estate Manila, a joint venture by SMHI and Federal Land. Current price listings are PHP 500 to 600 thousand per sqm, as luxury high-end condominiums are in the development by top developers in Manila (3).

Mid-end condominiums hold a wide range of prices per sqm as some developments tagged as mid-range still offer prices at PHP 300,000 per sqm, mostly in fringe areas and highly residential areas like Quezon City. Notably, some mid-end condominiums are listed at above PHP 400,000 per sqm. These are

2020H1 Range of Average Selling Prices per sqm (in PHP Thousands)



Source: Real Estate Intelligence, Inc. with data compiled from public listings and pre-selling contracts. Data as of 2020H1. Excludes Socialized and Economic.

Within the mid-end segment, two sub-categories are present, namely: middle market and upper middle market. Middle market prices range up to PHP 370,000 per sqm due to presence of big size condominiums, while upper middle

Low-end condominiums have price ranges of PHP 50,000 to 160,000 only. These developments focus in Quezon City and offer affordable units for their smallest offerings, with total contract prices at PHP 1.5M to 2.5M for 15 to 25 sqm units.

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RESIDENTIAL SECTOR Unit Sizes and Rates

Wide range of residential unit size as developers bring low-end to high-end condominiums within business districts

Due to the growth in real estate activities up to 2019, most market segments have already penetrated the main business districts of Metro Manila. While most of the upscale developments are brought in by top developers, it's the localised developers that effectively operate in low-end to mid-end segments.

Malabon and BGC are dominated by mid-end to high-end developments, with condominiums in the pipeline following the same segmentation. This is largely due to the rising value of land and the prevailing view that low-end condominiums aren't generally seen as optimal developments in terms of revenue.

Unit sizes lower than 20 sqm are also available in the market. Such units were allowed by select developers to previously stay within the 50% exemption based on total contract price, where rather than decreasing the price per sqm, floor areas were slightly adjusted and later allowed to be converted.

Upper range of prices of 2BR and 3BR units driven by CBD high-end condominiums

Due to a mix of unit configurations and offerings, condominium prices range from as low as PHP 12M up to over PHP 10M per unit. Lower range of units come from cost-efficient offerings in Quezon City, with listings ranging from 16 to 18 sqm for a studio unit. This is due in part to maximizing 50% exemption

Business District	Studio		1BR		2BR	
	LOM	HIGH	LOM	HIGH	LOM	HIGH
BGC	24	36	44	42	62	84
Malabon	16	24	28	36	52	72
Bay Area	22	27	24	40	58	77
Ortigas	21	47	28	45	58	117
Quezon City	16	20	20	72	55	125
Alibon	16	21	47	125	140	142

Source: NHA - Philippine Real Estate and Business - 2021



Source: NHA - Philippine Real Estate and Business - 2021

as well as targeting niche markets of condominium users that use units as transient lodging or halfway homes.

High-end condominiums, on the other hand gravitate towards Malabon and BGC. Aside from using these units, owners also open their units for leases to expatriate employees.

Expatriate consideration for units include vicinity to both business districts and nearby international schools for those with families. Units taken are typically 2BR units or higher and tend to be more spacious, hence, within high-end condominium units.

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HOTEL SECTOR

Metro Manila Market Property Update

Deluxe hotels continue to dominate Metro Manila Central Business Districts

Due to the pandemic, there had been no significant movement coming from the hotel sector in terms of supply. Looking at the existing number of hotel rooms, 42% belong to the deluxe or higher-end classification, which are mostly located in Makati, Bonifacio Global City, and Bay Area.

The hotel sector struggled in 2020H1 but has managed to keep the business going with the help of its major demand drivers, including: 1) essential workers (i.e. medical, bank, and BPO employees);

2) overseas Filipino workers; and 3) repatriate foreigners.

Although the initial forecasted additional rooms for 2020 and 2021 are expected to be dominated by rooms under the deluxe category, delays in project completion are expected due to the unfavorable impact of the pandemic to the hotel sector, specifically to the high-end market. Moreover, an increase in serviced residences can also be anticipated as it has pivoted towards catering to long-staying guests and BPOs.

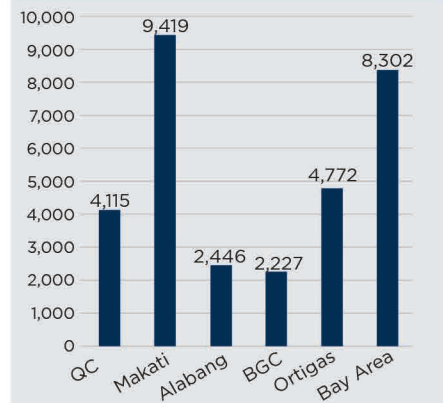
More than 12,000 hotel rooms remained operational amid the pandemic

Since the implementation of Enhanced Community Quarantine (ECQ) in March until today's situation under General Community Quarantine (GCQ), the hotel sector in Metro Manila managed to keep more than 12,000 hotel rooms operational, which are strictly used for quarantine and business purposes. Although the total existing number of hotel rooms is dominated by deluxe hotels, most

of the available rooms during the pandemic are offered by standard and economy hotels.

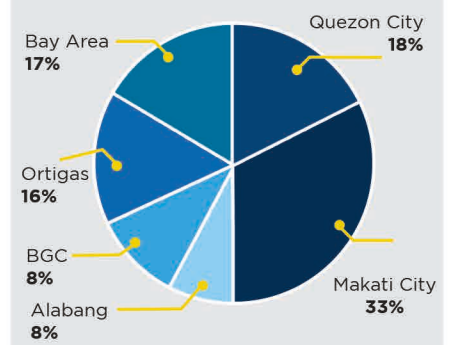
Once Metro Manila is put under a more relaxed community quarantine measure, more rooms are expected to be available to the public as accommodation would no longer be limited to quarantine and business purposes but open to leisure travel as well.

2020H1 Total Number of Hotel Rooms, by Business District



Note: Number of rooms across all segments, including operating and non-operating hotels as of 2020H1. Source: PRIME Philippines Research and Advisory Group 2020

2020H1 Distribution of Operating Hotel Rooms Across All Segments, by Business District



Source: PRIME Philippines Research and Advisory Group 2020

Upcoming Deluxe Hotels in Entertainment City



Grand Westside Hotel

Developer: Megaworld Corporation
Target no. of units : 685
Completion year: 2021
Amenities: Swimming Pool, Fitness Gym, Massage Rooms, Zen Garden, Gazebo



Kingsford Bayshore Hotel

Developer: Megaworld Corporation
Target no. of units : 529
Completion year: 2021
Amenities: Swimming Pool, Fitness Gym, Massage Rooms, Zen Garden, Gazebo

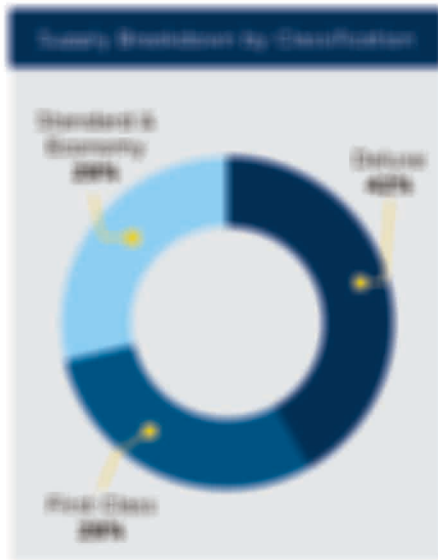


Hotel Okura Manila

Developer: Travellers International Hotel Group, Inc.
Target no. of units : 380
Completion year: 2023
Amenities: Sky Pool, Fitness Center, Wellness Center, Meeting Room

Source: PRIME Philippines Research & Advisory Group 2020

HOTEL SECTOR Occupancy Rate by Classification



Source: Prime Research & Analytics (PRCA) Inc. 2023. <https://www.primephilippines.com>

Hotels geared for business conferences and luxury resort stays dominate lodging supply in Metro Manila

Due to the Metro Manila's travel market for business and as a premier destination for foreign tourists, the industry is upscale hotels that fall under the Deluxe and First Class categories make up 62% of total rooms. Deluxe, or luxury hotels hold a market share of 42%.

Certain areas in the Metro Manila rely strongly on business and meetings, incentives, conferences and exhibitions (MICE) activity. 70% of deluxe hotels are in Makati, BGC, and Bay Area, banking on proximity to the airport and the concentration of local and multinational business activity. Aside from Deluxe hotels, the three mentioned business districts also house 42% of first class hotels.

On the other side of the spectrum, Queen City supply is comprised of 88.3% standard and economy rooms. This is mainly due to the nature of business activity in Queen City being more locally driven.

MICE activity within Queen City relies heavily on government agencies, as most government agencies have offices in Queen City as a former capital of the Philippines. Peak occupancy periods during the last quarter of the year are due to planning activities and social events held by local companies and government agencies.

HOTEL CLASSIFICATION				
	DELUXE	FIRST CLASS	STANDARD	ECONOMY
Rooms	<ul style="list-style-type: none"> • a 25 sqm including private bathroom, with 11 sqm for every 32 rooms or less • 24-hour room service • elegantly designed to the highest standard 	<ul style="list-style-type: none"> • a 25 sqm including private bathroom, with 11 sqm for every 32 rooms • 24-hour room service • well-designed to a very high standard 	<ul style="list-style-type: none"> • a 18 sqm including private bathroom • limited room service hours • designed to a very good standard 	<ul style="list-style-type: none"> • a 18 sqm including private bathroom • limited room service hours • good design
General Facilities	<ul style="list-style-type: none"> • outdoor recreation area • parking/lot • function and conference facilities with at least 200 parking capacity • shops (convenience, groceries, hardware) (247 accredited four star) • 24-hour security and medical service 	<ul style="list-style-type: none"> • parking/lot • function and conference facilities • shops (convenience, hardware) (247 accredited four star) • 24-hour security and medical service 	<ul style="list-style-type: none"> • parking • shops (convenience, groceries) • 24-hour security and medical service 	<ul style="list-style-type: none"> • shops (convenience, groceries) • 24-hour security • on-call medical service

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Occupancy Rates Across All Segments, by Business District

Key Locations	Occupancy Rate
Quezon City	40.69%
Makati	65.63%
Alabang	54.74%
BGC	35.11%
Ortigas	55.74%
Bay Area	72.01%

Note: Data presented covers all segments and are computed based on operational hotels from March 15 to June 30, 2020
Source: PRIME Philippines Research and Advisory Group 2020

Standard and economy hotels as most preferred type of hotel accommodation

With the restrictions in travel and room accommodation, the hotel industry recorded a 30% to 50% drop on occupancy rate among operational hotels since March. Compared to the occupancy rate under GCQ, the occupancy rate during ECQ was relatively higher brought about by the demand coming from essential workers, mostly from BPO companies. Hotels located in Quezon City, Makati City, and Alabang CBDs are

usually occupied by BPO employees, while hotels in Bonifacio Global City and Bay Area CBDs, due to their proximity to the airport, are booked by overseas Filipino workers and repatriate foreigners. Ortigas CBD, on the other hand, is a mix of essential workers and guests endorsed by the Department of Tourism. Given its affordability, most of the guests prefer to book rooms under the standard and economy segment.

Online Room Rates per Night, by Business District

Key Locations	Online Rates (PHP) (as of 2019 Q3)		Online Rates (PHP) (as of 2020H1)	
	LOW	HIGH	LOW	HIGH
Quezon City	2,360	8,450	1,152	8,205
Makati	3,050	10,900	1,302	10,739
Alabang	1,880	8,750	1,520	6,930
BGC	4,680	11,700	3,140	12,500
Ortigas	1,860	9,200	1,248	7,725
Bay Area	2,000	15,840	1,782	14,700

Note: Data presented covers all hotel segments

Source: PRIME Philippines Research and Advisory Group 2020

Broad range of room rates are being offered

Since leisure travel is not allowed under GCQ, hotels mainly depend on corporate companies for revenue. They offer special rates for government agencies or corporate rates for BPOs and media companies for long-term accommodation. Most of the time, the longer a company stays in a hotel, the lower the rates are.

Although corporate rates, across all hotel classifications, range from Php 1,200 to Php 12,760 most of the companies still prefer budget hotels with rates ranging from Php 1,500 to Php 2,500, while other companies go for a much higher rate ranging from Php 3,000 to Php 5,000.

Online rates and published rates typically range from Php 1,152 to Php 14,700. Comparing the rates in 2019Q3, rates during 2020H1 are relatively lower as most of the hotels in all business districts are still temporarily closed or used as quarantine facilities.

TREND WATCH: Work from Hotel



Source: Business World

While most of the companies adopted a work from home setup after the implementation of ECQ, BPO companies continued to report to their respective offices. Due to the lack of transportation means, BPOs partnered with hotels for their employees' accommodation, making it one of the main drivers of the hotel sector in this time of crisis. Due to the limitations in transportation and continued temporary closure of some office buildings during GCQ, a new

trend has been seen to rise as some hotels in Ortigas, Makati, and BGC, introduce the Work from Hotel service. With this set-up, guests can either book hotel rooms to be used as 1) an office from 8:00 AM to 8:00 PM or 2) as a place where an employee can stay at while working, giving one a sense of being home. Room sizes may range from 45sqm to 140sqm with rates ranging from Php 4,600 to Php 11,400.

HOTEL SECTOR

Occupancy Rate by Hotel Classification

Select hotels adapt to changing demand and accommodate guests despite operations challenges

Overall occupancy of hotels has suffered due to the lack of business activity and travel has resumed since the implementation of Enhanced Community Quarantine. Aside from this, COVID-19 cases continue to rise, delaying potential resumption of flights to the Philippines and for returning overseas Filipinos.

Hotels during the quarantine period transitioned to catering long-stay guests, ranging from foreign guests indefinitely stranded in the Philippines to OFW operations seeking employee accommodations amidst COVID operations, to returning overseas Filipinos, whether land-based or sea-based.

Of the 32,000 rooms in Metro Manila, only 38.5% were opened for potential guests. Due to limited manpower, some hotels only opened about 50%-70% of their total rooms. Aside from decreasing in manpower, offerings such as meals and daily cleaning were also reduced. Some hotels removed meals from their menu totally, as their corporate clients had access to more affordable commissaries. Room cleaning was reduced to once or twice a week for long-staying guests.

During the first two months of the quarantine, there was a large influx of demand from returning Filipinos that had to undergo a 14-day quarantine, leading some hotels to exclusively cater to this market due to high exposure risk.

The entirety of the COVID up to the end of the MCOs, from March 15 to June 1, also brought about a specific

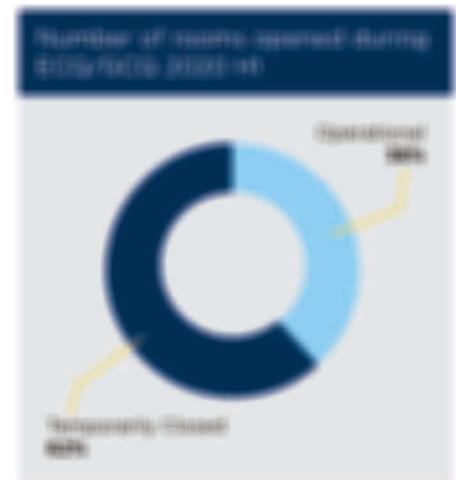
Business Model	Manila	Other Cities	Standard & Economy
Hotels/Resorts	41.7%	36.8%	74.7%
OTL	21.7%	-	-
Hostel	21.2%	21.2%	21.2%
Bed & Breakfast	-	62.4%	62.4%
Organic	61.9%	61.9%	71.9%
Guest City	51%	51%	51%
Other	21.2%	21.2%	21.2%

Source: Prime Realty Property Market Overview 2020H1, based on data from various sources.

type of demand, hotel rooms booked for two weeks at a time, lined with the periodic updates of the government on the status of the lockdown. While OFWs tried remote working setups, challenges such as lacking equipment and unstable internet connection led them to return operations to the office, hence the need for accommodations within walking distance from their offices. Once under COVID, OFW demand decreased as the overhead cost of accommodation was deemed unsustainable for most.

Standard and economy hotels experienced the highest occupancy rates, as company budgets for accommodations ranged within that 1,000 to 2,000 per night, well within the standard rates of the said hotels.

Highly residential Queen City faced lower in terms of occupancy among business districts, as multiple hotels opened their doors but were not with low to middling demand. One of the challenges faced by Queen City hotels was the preference of



Source: Prime Realty Property Market Overview 2020H1, based on data from various sources.

the hotel and amenity spaces, despite not taking up all available hotel rooms. As such, hotels housing Persons Under Investigation (PUIs), 14-day quarantined overseas workers, or even offer OFW companies were less preferred due to various health and non-health related risks.

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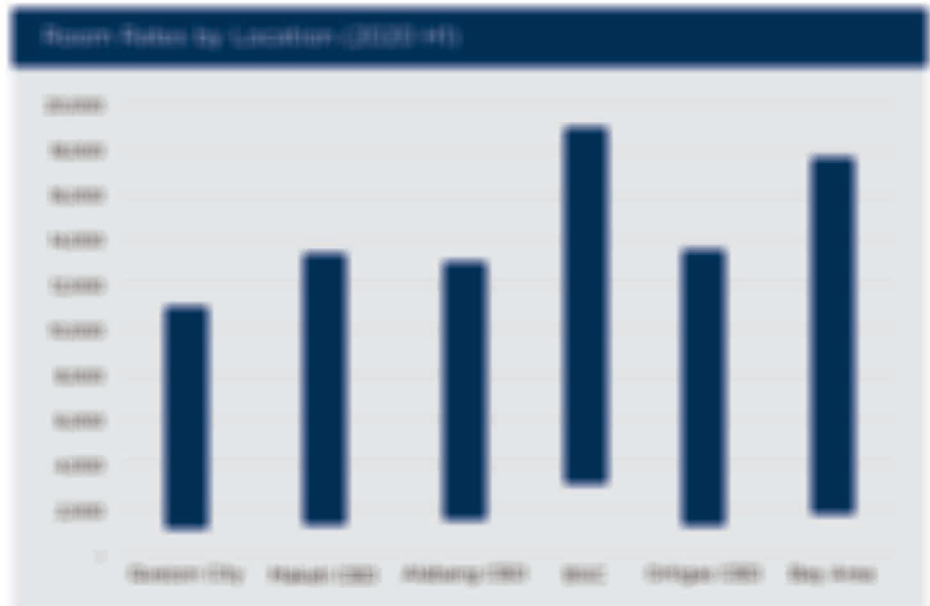
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HOTEL SECTOR Room Rates

Among operating hotels, BGC holds the highest rates

As deluxe hotels in the City Area stay dormant and non-operating, room rates in the area did drop to second, ceding the top spot to BGC, as headline rates come from Shangri-La at the Port, BGC, also currently operating below full capacity. The high range of rates are based on Suite and suite units, excluding the Executive and Presidential Suites.

Among lower ranges, BGC still holds the highest room rates, as all hotels within BGC are within the Deluxe category. Other areas offer hotels with price points under PHP 2,000 per room per night, coming from Standard and Economy hotels.



Source: Prime Realty Research Group, Inc. (PRRG)

Notes: 2020H1 Average Room Rates (USD) - BGC

Drop in room rates of most affordable rooms averaging 31.9% from 2019 as hotels see staggering lack of demand

Among hotel rates tracked by PRRG Philippines, average room rates for lowest priced rooms are at PHP 2,000, as compared to 2019's average of PHP 4,270. Figures mentioned do not include rates of non-operational hotels during the first half of 2020.

Notable price drops include those ranging from PHP 4,000 to 5,000

dropping to PHP 2,000. Hotels try to match the current budgets of BPO companies and maritime labor agencies.

Little price movement is seen for standard and economy hotels, as their current rental rates are already within the target budget of their potential guests.

The prevailing challenge for hotels under this category would be accommodating multiple beds per room, a requirement for some of the companies, as price per bed is cheaper if larger rooms are assigned.

As this practice of sharing of rooms isn't a safe standard practice during the pandemic, hotel occupancy remains relatively low.

Business District	Deluxe		Mid-Range		Standard and Economy	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
BGC	9,000	16,000	-	-	-	-
Ortigas	5,000	10,700	1,000	15,500	1,000	4,000
Alabang	-	10,000	2,075	17,700	1,700	3,070
Alibon	-	10,000	2,075	17,700	1,700	3,070

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INDUSTRIAL SECTOR

Metro Manila Property Market Update

Despite a general slowdown in real estate transactions, the industrial sector still manages to hold its own in terms of rental rates. Yearly increase in rates, even though miniscule in the grand scheme of things, has gradually increased. Warehouse and manufacturing facilities have grown in terms of demand due to a halt in the transport of goods and services.

Moreover, many people have converted to shopping for necessities online, thereby rendering warehouses used for storage somewhat valuable.

2019 - 2020H1 Industrial Warehouse Rental Rates per sqm (in PHP), by Key Location

Location	2019		2020		Average YOY Growth Rate
	LOW	HIGH	LOW	HIGH	
MM	150	500	175	500	3.85%
Laguna	130	270	130	340	17.50%
Cavite	160	200	130	250	5.56%
Batangas	185	300	180	310	1.03%
Pampanga	125	230	125	250	5.63%
Bulacan	90	120	110	150	23.81%

Note: Data presented covers both PEZA and non-PEZA accredited zones; MM for Metro Manila

Source: PRIME Philippines Research and Advisory Group 2020

A sustained boom in e-commerce

Regardless of the influence of the pandemic to the industrial sector, warehouses intended for e-commerce and online stores use have continued to see demand for their institutions. Additionally, it is likely that its market will continue to grow steadily, as the demographic for these types of commerce has been steadily expanding outside the millennial and generation Z market. The business climate in industrial

warehouses before the pandemic saw a growth in popularity directly proportionate to the demand in e-commerce brands, such as Lazada and Shopee. Despite the pandemic affecting other industries in the real estate scene, the industrial sector is expected to remain robust. With its capability to make use of logistics and warehouse supply, the industrial sector can prove to be more impactful in

terms of income generation amidst a global crisis.

Moreover, various developers see this untapped potential posed by the industrial sector and are keen to maximize its presence in this real estate landscape. Among these developers is DoubleDragon Properties, which started their manufacturing and warehouse endeavors through the CentralHub Warehouse Complex projects. In 2020 it was expected that the DoubleDragon would develop eight of these complexes, located in various places in the country. Four of the eight include: CentralHub Iloilo, CentralHub Cebu, CentralHub Davao, and CentralHub Capiz. Some of these projects, however, had to be extended until 2022 given the construction constraints brought by the pandemic.

Industrial Warehouse Market in Davao and Cebu

2020H1 Warehouse Rental Rates

Metro Cebu	150 - 450
Metro Davao	120 - 300

Note: Data presented covers both PEZA and non-PEZA accredited zones
Source: PRIME Philippines Research & Advisory Group 2020

Metro Cebu finds most of its warehouse concentrate in or near the Mandaue area, due to the proximity to the region's ports.

Metro Davao operates its warehouse scene in the fringes as opposed to the commercialized areas. Places, such as Agdao, Bunawan, Tugbok, and Toril all house a majority of Davao's industrial sector.

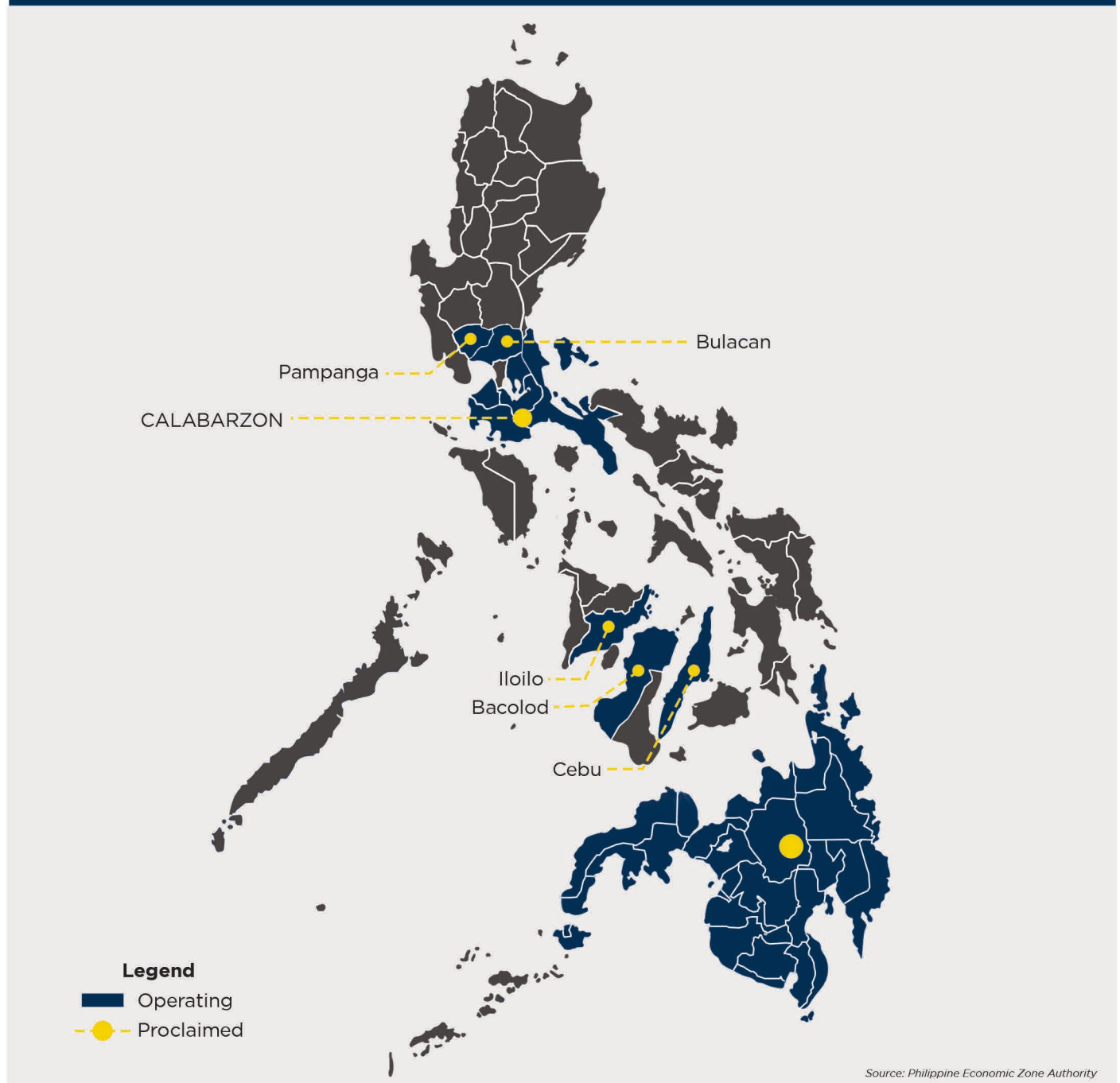
Inherent buoyancy amidst lull in business climate

Despite a general slowdown in real estate related transactions, 12 economic zones have been approved by the Malacañang since January 2020, which can further generate income from the manufacturing and warehouse sectors. Of the 12, nine are IT Centers, two are manufacturing ecozones, and one is an IT Park. The two manufacturing projects will be located in Davao del Sur and in South Cotabato. In addition to this 12 Palace-approved ecozones, the PEZA board is

eyeing 10 new ecozones to be approved through Presidential Proclamations. Of these 10, the Cordillera Administrative Region (CAR), Ilocos Region, Western Visayas Region, and the Davao Region are expected to have an economic zone located in their respective vicinities. Additionally, the CALABARZON region may potentially find itself to be the home to four new economic zones, while Central Luzon is expected to have two additional zones under its belt.

Furthermore, PEZA has noted that they will have 40 new projects. Of the total 40, two will be constructed as logistic firms, 55% of the overall projects will be in the CALABARZON Region, while 18% will be divided across existing ecozones located in the Metro Manila area. The rest of the projects will be scattered across Ilocos, Western and Central Visayas, Davao and Central Luzon.

PEZA-ACCREDITED ECONOMIC ZONES OVERVIEW



LAND SECTOR

Metro Manila Market Property Update

Commercial Land Selling Prices per sqm (in PHP), by Business District					
Key Location	2020H1		Average Selling Price per sqm		YOY Growth Rate
	LOW	HIGH	2019H1	2020H1	
Makati CBD	333,333	1,122,784	588,540	660,804	12.28%
BGC CBD	550,000	1,200,00	757,059	840,336	11.00%
Bay Area CBD	230,000	674,000	367,851	476,792	29.62%
Ortigas CBD	160,000	380,000	189,961	240,618	26.67%
Alabang CBD	211,000	450,000	223,897	335,846	50.00%
Quezon City CBD	99,937	332,180	138,744	184,352	32.87%

Source: PRIME Philippines Research and Advisory Group 2020

The Philippine economy has been negatively affected by the COVID-19 pandemic. Despite this, land selling prices have been inching up, though the overall rate of increase across Metro Manila CBDs for the half-year periods between 2019 and 2020 are lower

when compared to the rate of increase from 2018 to 2019. This slower rate of increase in selling prices is one of the indicators of a market that could be transitioning from a seller's market to a buyer's market.

Additionally, one of the key indicators leading to a shift from a seller's market to a buyer's market is the willingness of the seller to negotiate the prices of their properties.

TOWNSHIP DEVELOPMENT UPDATES: Filinvest's Mimosa and Aboitiz's Lima

In light of the pandemic and a major halt to most significant developmental projects, Filinvest Development Corp. asserts that two of their township developments will proceed as originally planned. Located in New Clark City, the first phase of the Filinvest Innovation Park, which consists of 64 hectares of land, is targeted to be completed by the second half of 2020. Additionally, two other townships from Filinvest will continue to be developed, namely the Mimosa Plus Leisure City, which is set to occupy 201 hectares worth of land, and Filinvest at New Clark City, which will have about 288 hectares of property.

Similarly, Aboitiz Land is expected to continue its projects outside the major Metro Manila Districts. Among these projects include the LIMA township situated in Batangas. The development is on track to go through the next phase, which includes expansions and further renovation of the existing business district.



Source: Filinvest Mimosa + Liesure City

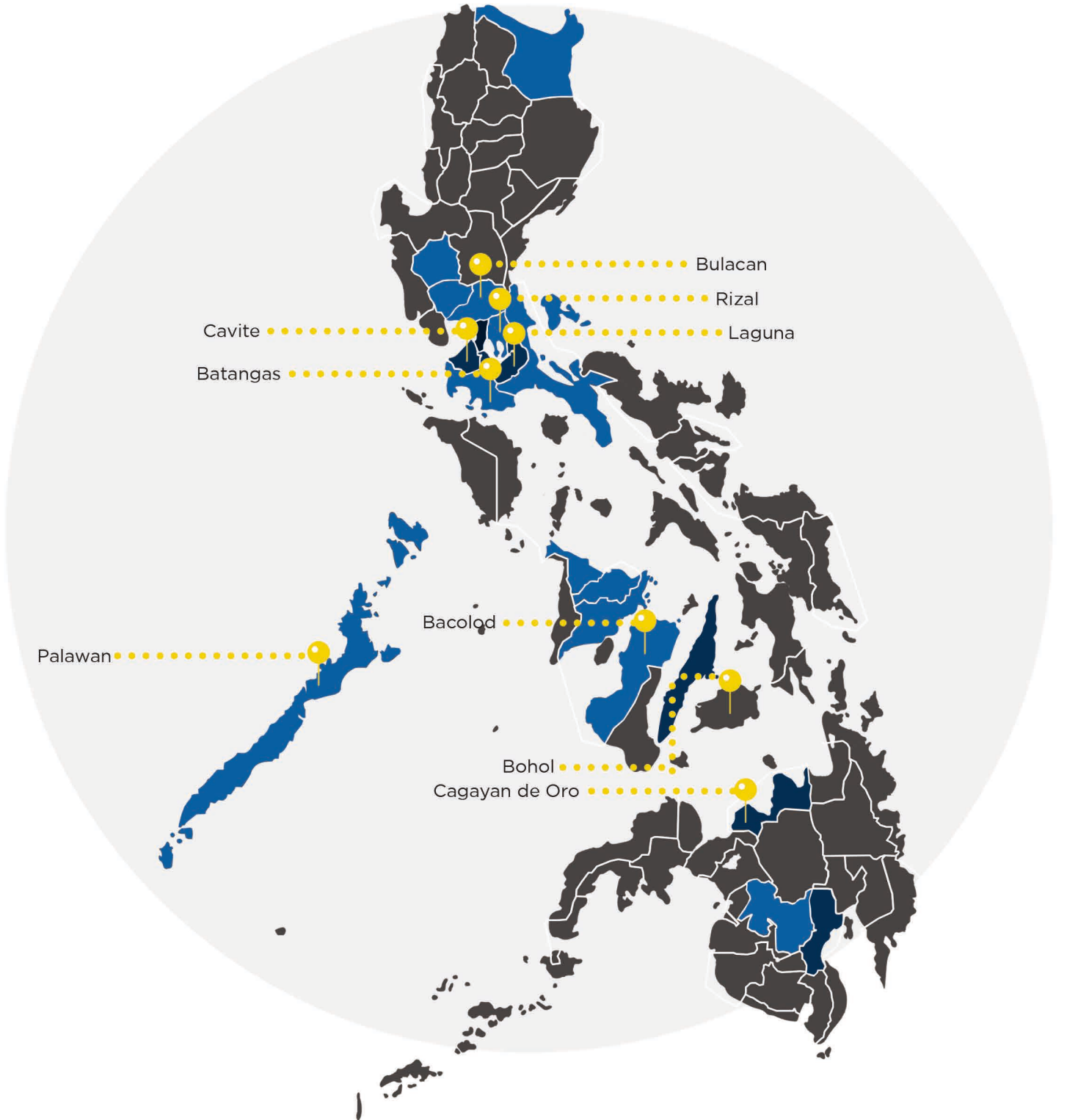


Source: Aboitiz Land | Business Mirror

Buyer's market: A move to the new normal

As aforementioned, the Philippines has been seeing a gradual shift from a seller's market to a buyer's market. The uncertainty brought about by the virus has prompted many individuals and sellers to actively look for buyers interested to purchase their properties. This may translate- to a potential increase in supply, though an increase in buyers is not definite. A commercial land market deviating from a seller's market means people looking to buy properties are at an advantage as more sellers are willing to negotiate the price of their properties.

SPRAWLING TOWNSHIP DEVELOPMENTS ACROSS THE ARCHIPELAGO

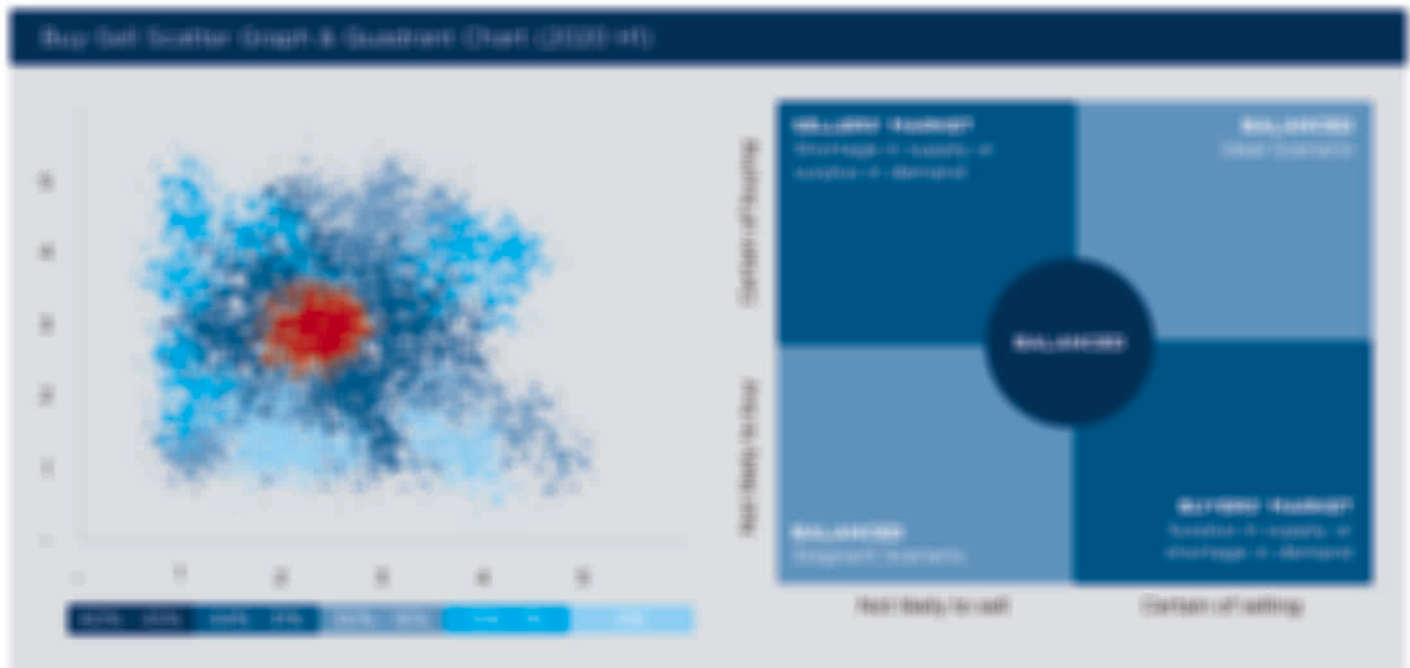


Legend  Emerging Cities	Townships (Both Existing & Upcoming)		
	1 to 5	6 to 15	16 & Up

Sources: Philippine Statistics Authority (PSA), PRIME Philippines Research & Advisory Group 2020

LAND SECTOR

Prime vs. Non-Prime Land



Buy-sell quadrant starts to shift to the right, indicating movement towards buyer's market

As the economy continues to be hindered by COVID-19, from a seller's market, the general sentiment has been a transition towards the center of the quadrant, or the balanced scenario. However, due to the current economic condition, the scenario is likely to skip the balanced scenario and shift directly into a buyer's market. As such, sellers have less power on land values, with closed transactions expanded within market value, as opposed to years prior where sellers are able to continuously sell at higher and higher prices.

The shift to buyer's market is likely to occur should the business situation not improve. While not all property sellers are looking to liquidate, those with higher risks and current loans are pressured to liquidate non-performing or stagnant

assets. As there hasn't been a full shift to buyer's market, land values are still expected to rise, though at a slower rate than prior years, where land values were rising at an average of 15.8% per year since 2017.

The same can be seen throughout the property sector, where a growing room for negotiations and requests from buyers or tenants are currently being accommodated by landlords and property owners.

While the commercial sector may see small declines in rental rates, land values are expected to be stable until the market transitions fully to a buyer's market.

Land barbers that are unwilling to sell but have stagnant properties have begun opening their properties for discussions of leasehold agreements, both short-term and long-term, depending on their current plans with the properties.

2019H1 Land Values (in Thousands)		
Business Sector	2019H1	2018H1
Land	2019/1200	2018/1200
Buy-Sell	2019/1200	2018/1200
Other	2019/1200	2018/1200

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METRO CEBU PROPERTY MARKET OVERVIEW 2020H1



OFFICE SECTOR

Metro Cebu Property Market Update

The decrease in occupancy for the first half of the year can be attributed to the pre-termination of some business process outsourcing companies and traditional firms brought about by the longer and stricter quarantine measures implemented in these cities

Additional supply to come from Cebu City's business parks

Due to the onslaught brought about by the pandemic, stricter measures are still being implemented in its key business areas, resulting in limitations in office building construction in the first half of 2020. For 2020H2 until 2022, Cebu City accounts for almost 80% of the future office supply in Metro Cebu. This is due to the location of business parks and PEZA-accredited IT centers within the city.

Other factors that contribute to the attractiveness of Metro Cebu as a preferred business destination include its competitiveness in terms of manpower, infrastructure, and cost of doing business.

Office rents remained relatively stable

Metro Cebu's overall office rental rates in the first half of 2020 saw an increase of 5% from its 2019 yearend rate. Among the three highly urbanized cities in Metro Cebu, Cebu City remained to have the most premium office rates given its abundant supply of Grade A and PEZA-accredited buildings.

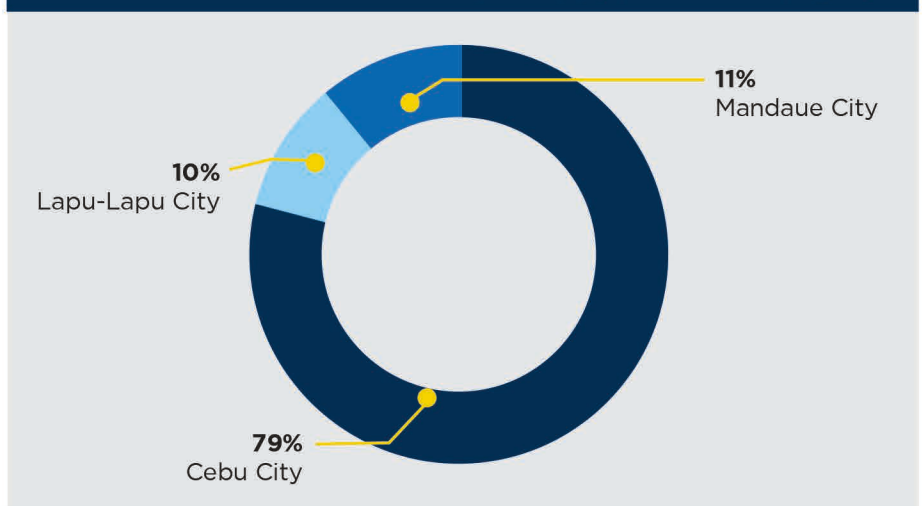
Overall rental rates may decrease in the second half due to a slowdown in demand for office space. Expected recuperation of the office market in 2021 onwards will mostly come from major demand drivers like the IT-BPM industry, which has been the dominant driver in Metro Cebu's office market for the past years.

Metro Cebu Office Space Supply and Occupancy Rate, by City

Key Locations	Existing Office Supply	Occupancy Rate	
		2019H2	2020H1
Cebu City	890,000 sqm	89.30%	86.58%
Mandaue City	75,000 sqm	82.72%	78.34%
Lapu-Lapu City	41,000 sqm	94.00%	93.00%

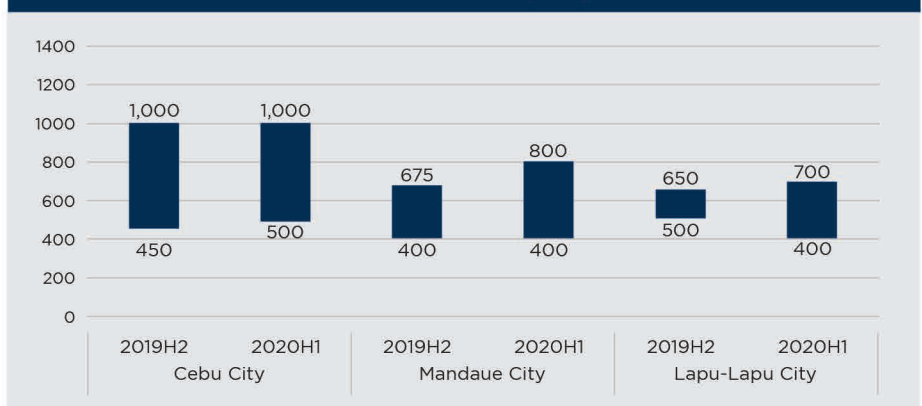
Source: PRIME Philippines Research and Advisory Group 2020

Distribution of Metro Cebu Future Office Space Supply (2020F - 2022F), by City



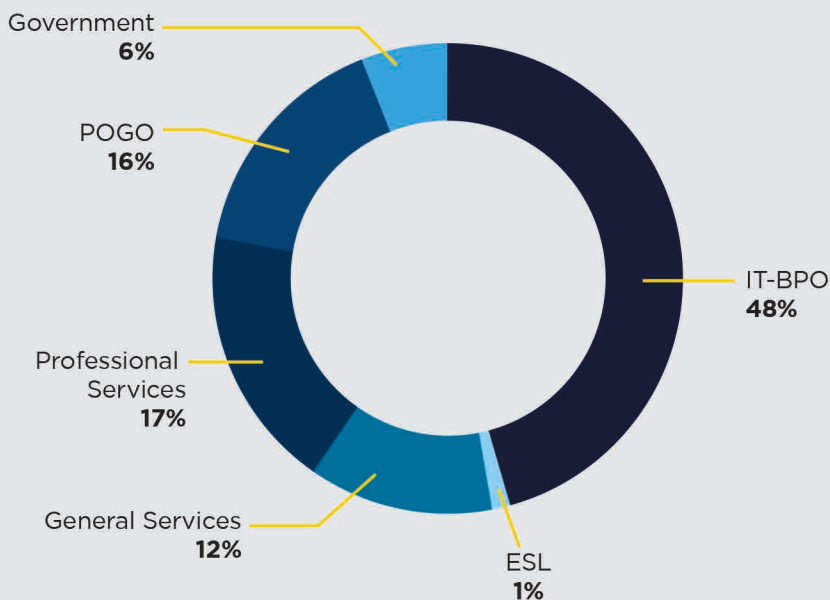
Source: PRIME Philippines Research & Advisory Group 2020

Metro Cebu Office Rental Rate (in PHP), by City



Source: PRIME Philippines Research and Advisory Group 2020

Distribution of Metro Cebu's Existing Office Space Take-Up, by Industry



Source: PRIME Philippines Research and Advisory Group 2020

IT-BPM continues to lead Metro Cebu's office market

The IT-BPM industry takes almost half of the office take-up share as it continues to transform Metro Cebu's labor market into one of today's main job generators.

Compared to last year's Philippine Offshore Gaming Operators (POGO) take-up, 2020H2 saw an increase in percentage share among the sector's drivers. Although POGO has also dominated the office market, expansion remains uncertain as disputes with tax authorities are yet to be resolved. Professional services, general services, and government offices make up the remainder of the take-up, with a significantly increasing demand from English as a Second Language (ESL) companies as a result of the COVID-19 pandemic worldwide.

MAJOR DEMAND DRIVER: The IT-BPM Industry

Metro Cebu (composed of Cebu City, Mandaue City, and Lapu-Lapu City) is a thriving investment destination outside Metro Manila and a key economic hub that has a strong foothold in the IT-BPM industry.

Business parks such as Cebu Business Park and Cebu IT Park

occupiers, mainly the IT-BPM industry since more foreign companies are looking to outsource in Metro Cebu for its lower land development costs, lower lease rates, advanced building technical specifications, and diverse manpower. Spillover is expected to be generated in nearby locations, such as South Road Properties

such as South Road Properties (SRP), where a mixed-use township with industrial, commercial, and residential components is set to rise. As soon as commercial developments start rising in SRP, it is expected to accommodate the increasing demand from IT-BPO companies.



Source: PRIME Philippines Research and Advisory Group 2020

HOTEL SECTOR

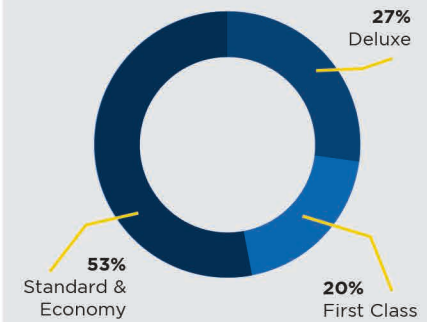
Metro Cebu Market Property Update

Corporate leasing drive the demand for hotel rooms during 2020H1

Most of the existing hotel rooms are under the Standard and Economy category. Likewise, most of the bookings during 2020H1 also came from the same category with almost 75% occupied rooms.

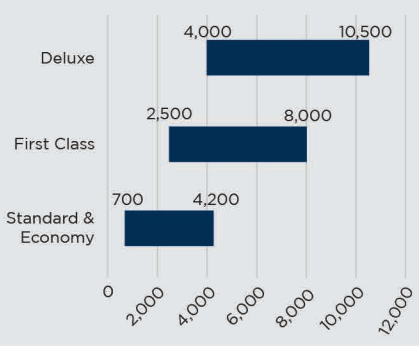
After being placed under ECQ for the second time, the hotel sector managed to pull through the pandemic by venturing into corporate leasing for 2020H1, which is expected to continue until the end of the year.

Metro Cebu Existing Hotel Room Distribution, by Classification



Source: PRIME Philippines Research and Advisory Group 2020

2020H1 Metro Cebu Hotel Room Rate (in PHP), by Classification



Source: PRIME Philippines Research and Advisory Group 2020

Flexible room rates for corporate companies

To keep the business going, the hotel sector provided special rates for corporate companies that need accommodation during the ECQ period. Since bookings are still limited for essential workers, most of the hotels had a decrease in their room rates.

Room rates for Standard and Economy range from Php 700 to Php 4,200, while First Class ranges from

Php 2,500 to Php 8,000. Deluxe offers rooms with rates ranging from Php 4,000 to Php 10,500.

Cities outside Metro Cebu also had their own initiatives to survive the crisis, which include a gradual reopening of some tourist destinations and a competitive package coming from premium hotels and resorts to entice locals.

Mactan-Cebu International Airport



Source: MegaWide Construction Corporation

After its launch in 2019, the Mactan-Cebu International Airport (MCIA) has become the newest world-class passenger terminal with a capacity of about 12.5 million passengers. It is located at Mactan Island's Lapu-Lapu City and has two operating terminals. Once the MCIA becomes fully operational and the quarantine restrictions start to relax, gearing towards the resumption of domestic travel for leisure, tourist arrivals in Metro Cebu is expected to increase, prompting a movement for the hotel sector's revenue as well.

Awards: 2019 Global Architecture Award, 2019 Completed Buildings: Transport Category Winner, 2019 International Architecture Awards for Airports and Centers Category

Source: PRIME Philippines Research and Advisory Group 2020

LAND SECTOR

Metro Cebu Market Property Update

2020H2 Metro Cebu Commercial Land Selling Price per sqm (in PHP), by City

Key Location	Average Selling Price per sqm
Cebu City	115,400
Lapu-Lapu	20,500
Mandaue	63,500

Note: Values indicated are based on selling prices of prime properties

Source: PRIME Philippines Research and Advisory Group 2020

The Cebu region has seen its fair share of demand in its general vicinity, but Cebu City continues to be its most competitive location for income generation. With properties such as the Cebu IT Park, Cebu Business Park, and South Road properties, Cebu City remains a hotbed for commercialization, centralization, and business growth.

Meanwhile, Lapu-Lapu City and Mandaue City, though both considered as emerging cities, are expected to have more master-planned developments underway. Among these master-planned developments are Mandani Bay waterfront development in Mandaue City and Mactan Seagrove in Lapu-Lapu City. Additionally, upon the

completion of infrastructure projects such as the fourth Mactan Bridge, Lapu-Lapu City can experience easier access to the goods and services from Cebu island, thereby spurring more growth in its commercial developments.



WATCH OUT!



Source: Metro Pacific Tollways Development

AT A GLANCE:

- To be constructed to connect Cebu and Mactan through Cordova.
- Project was approved in 2016 by the Cebu Provincial Board.
- Groundbreaking took place in 2017.
- Project is expected for completion in 2021.
- Total length of bridge is 8.25 kilometers, and total width is 27 meters.
- Four lanes in total.
- Can serve about 50,000 vehicles per day.

The **Cebu-Cordova Link Expressway (CCLEX)** is a priority project meant to decongest Cebu's traffic issue. Spanning 8.25 kilometers, it begins at Cebu's South Coastal Road Tunnel and ends at Mactan Cebu Circumferential Road. Additionally,

Additionally, the construction of the bridge connecting Cebu and Mactan aids in further connecting both cities, as well as stir additional economic growth. As of April 2020, the overall CCLEX project was already at 57% completion. The whole

bridge is targeted to be completed in 2021. Once completed, it can reduce the travel time from Cebu City to Mactan-Cebu International Airport by 40 minutes.

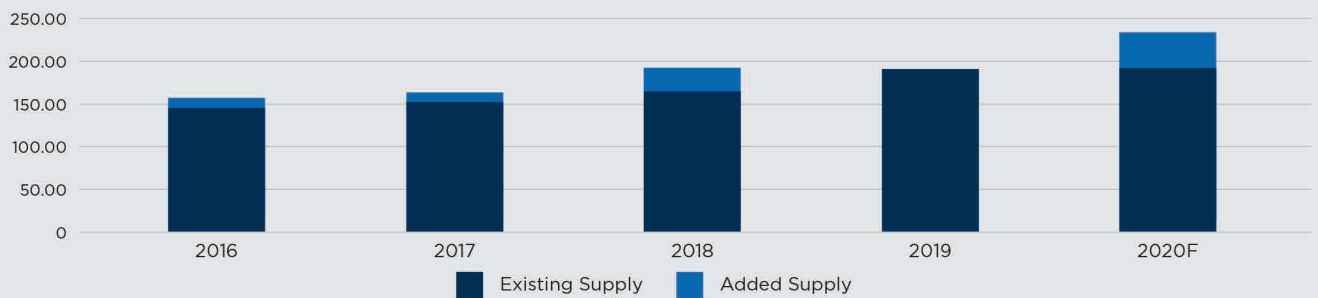
The image features a central aerial photograph of a city street in Metro Davao, showing buildings, trees, and a road. A large blue geometric shape, resembling a stylized 'D' or a triangle, is overlaid on the left side of the image. The text 'METRO DAVAO PROPERTY MARKET OVERVIEW 2020H1' is written in yellow, bold, uppercase letters within this blue shape. The top and bottom corners of the image are decorated with a light blue geometric pattern of interconnected lines and dots, resembling a network or molecular structure.

METRO DAVAO PROPERTY MARKET OVERVIEW 2020H1

OFFICE SECTOR

Metro Davao Property Market Update

Davao City Office Space Supply 2016 - 2020F



Source: PRIME Philippines Research and Advisory Group 2020

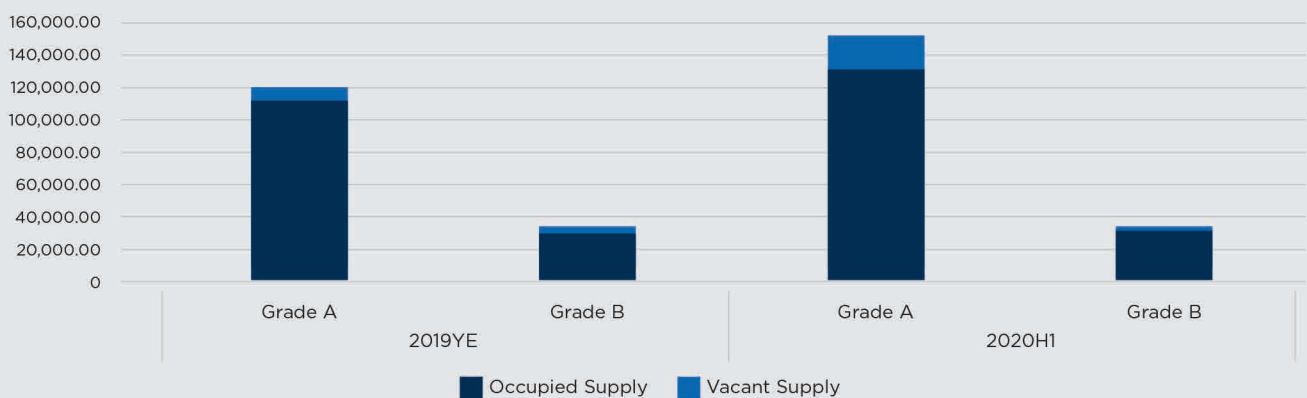
Additional supply to support scarce space demand in 2020H2

Most office building constructions have been put on hold after the execution of the enhanced community quarantine in Davao City. Still, around 43,000 square meters of office supply are expected to be completed this

year, adding to the current supply of almost 192,000 square meters. Among the office buildings in the pipeline are Damasa Land's Diamond Tower and Robinsons Land's Cybergate Delta Tower 2.

In spite of this, demand for office space is expected to decrease in the second half of 2020, which may reduce the overall occupancy in the office space market.

Davao City Office Occupancy Rates 2019YE - 2020H1



Source: PRIME Philippines Research and Advisory Group 2020

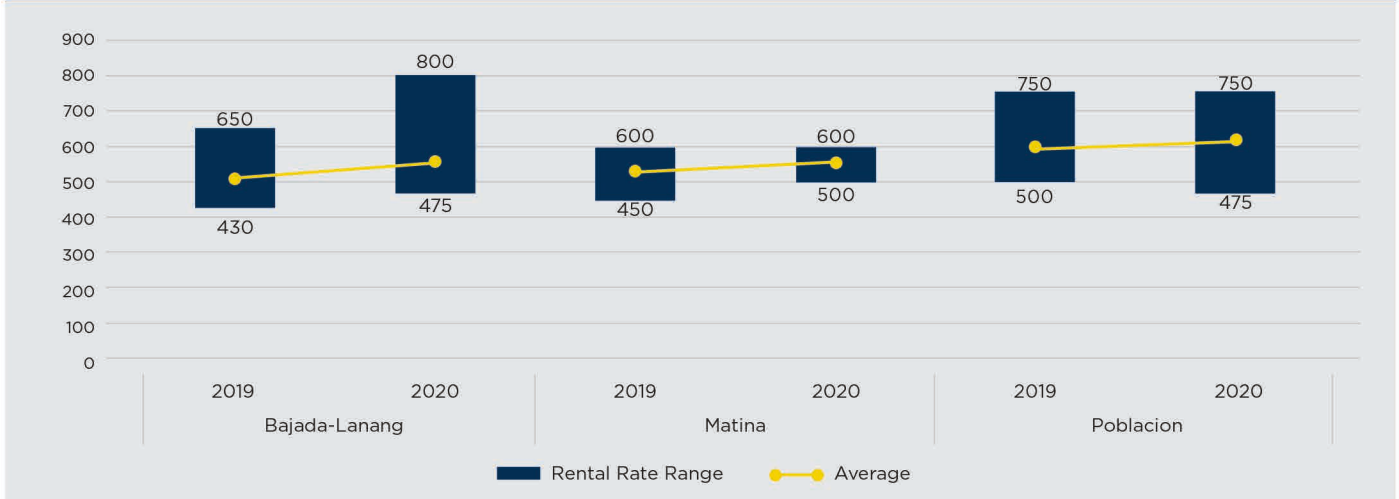
PEZA-accredited buildings remain preferred among office tenants

A decline in office tenant occupancies were observed as a result of the COVID-19 pandemic, from its 93% to 87% average occupancy on both Grade A and B office buildings. Although this

does not come off as a surprise due to the economy's circumstances, PEZA-accredited buildings still have an optimistic performance of 92% occupancy, same as last year's. A gradual

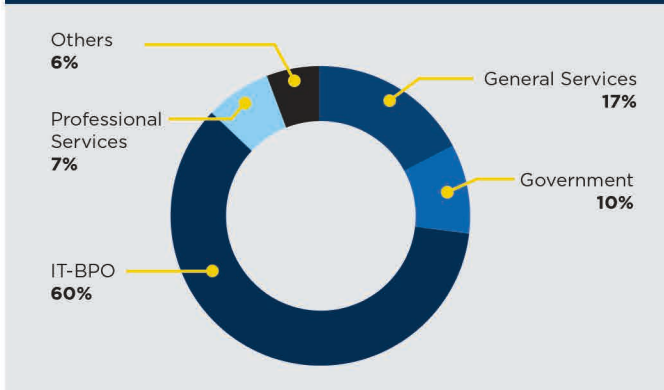
recovery in 2021 may be anticipated as outsourcing firms and traditional companies adjust to the local economy.

Davao City Rental Rate by Key Location 2019YE - 2020H1



Source: PRIME Philippines Research and Advisory Group 2020

Distribution of Davao City's Existing Office Space Take-Up, by Industry



Source: PRIME Philippines Research and Advisory Group 2020

Lease rates to rebound in 2021

Rental rates have gone up in the first half of 2020, mainly from the newly offered Grade A office buildings such as Diamond Tower and Aeon Towers. But due to the softening of demand for office space caused by the pandemic, rental rates may slightly lower in the second half of this year to adjust to the market conditions.

Rental recovery in 2021 will most likely take place first in I.T. Parks where demand drivers like the IT-BPM industry and serviced offices flourish, followed by the business district's fringes.

DEMAND DRIVERS: Davao City's Office Market Push

MAJOR OFFICE LOCATORS

IT-BPM INDUSTRY



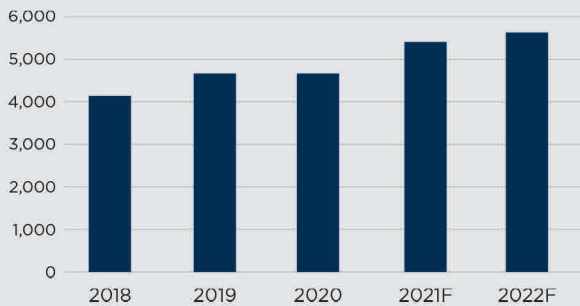
SERVICED OFFICES



HOTEL SECTOR

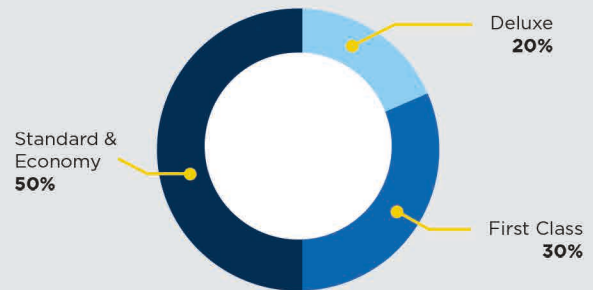
Metro Cebu Property Market Update

Davao City Total Existing Hotel Rooms (2018 - 2022F)



Source: PRIME Philippines Research and Advisory Group 2020

Davao City Hotel Room Distribution, by Classification



Source: PRIME Philippines Research and Advisory Group 2020

No additional supply expected until the end of 2020

For 2020H1, there had been no additional supply for the hotel sector. Due to the COVID-19 pandemic, construction of upcoming hotel developments were halted, causing for supply to start coming in in 2021 until 2022.

Standard and Economy segment still dominates the hotel industry with more than 2,000 rooms. Additional rooms for 2021, however, are expected to be under

the First Class and Deluxe categories. Included in Davao City's future hotel supply are Hotel 101 and Obsidian Suites.

Davao City Hotel Room Rates per Night (in PHP), by Classification

Category	Average Room Rate (2019)	Average Room Rate (2020H1)
Deluxe	5,900	3,600
First Class	4,580	2,800
Standard	2,370	1,365
Economy	1,280	920

Source: PRIME Philippines Research and Advisory Group 2020

Room rates drop in 2020H1

Due to the imposed travel ban, cancelled events, and implemented lockdowns in Davao, there has been a softer demand for the hotel sector in 2020H1. To attract more guests, hotels in Davao City had a 50% to 70% cut on their room rates.

Similar with other cities, Metro Davao depends on corporate companies for revenue and until it is placed under a more relaxed community quarantine measure, no significant increase in revenue is expected.

Cancelled Davao Events



Araw ng Dabaw



Kadayawan Festival



MICECON 2020

The cancellation of big and prestigious events in Davao City greatly affected its tourism industry and exposure. For Araw ng Dabaw alone it recorded a loss of around 200,000 domestic and foreign tourists. This collapse in the tourism industry had an

adverse impact on the city's hotel sector as events and tourists have played a major role in its optimum performance over the years. Given the current situation, both domestic and foreign leisure travels are still unlikely to happen.

In order to survive the crisis, the hotel sector needs to pivot its services from being leisure-driven to being diverse or being open to other opportunities and demands (i.e. corporate leasing, serviced apartments, condotels).

LAND SECTOR

Metro Davao Property Market Update

Davao City Commercial Land Values in PHP per sqm, by Key Location							
Location	2019			2020			YOY Ave. Growth Rate
	LOW	HIGH	Average	LOW	HIGH	Average	
Bajada-Lanang	45,000	125,000	89,376	63,333	135,000	101,788	14%
Matina	30,000	65,000	46,651	40,000	65,000	49,803	7%
Poblacion	40,000	85,837	61,394	60,168	85,837	67,237	10%

Source: PRIME Philippines Research and Advisory Group 2020

Land selling values in all three major divisions in the Davao City have continued to see similar growth, with 2020's rate of increase being slightly higher than the previous year. Government projects, such as the ambitious "Build, Build, Build" initiative, and an increasingly

progressive commercialization of the city remain to be the two key demand drivers. Additionally, more developers are locating to these three locations to erect township developments, thereby spurring further growth, and consequently reflecting investor's confidence in

the city. These townships include Davao Park District, Davao Global Township, Azuela Cove, and LPU Town Davao.

Davao-Samal Bridge



Target Construction Period: 2021 - 2024
Target Year of Completion: 2025

COVID-19 Update: In spite of the pandemic taking over the country, the Davao-Samal Bridge, as well as other big-ticket infrastructure projects, are expected to continue as planned, albeit with delays in completion.

Approved by the National Economic Development Authority on November 29, 2019, the highly anticipated Davao-Samal Bridge is expected to have its groundbreaking in 2020Q4 and start its construction period sometime in 2021.

Ultimately, the bridge will serve as a monumental link in order to spur further growth, as well as to provide a better access for the transportation of goods, services, and other such resources.

In terms of land values, it can be expected that the bridge, as well as its immediate vicinity, will benefit from future endeavors, and areas nearest the infrastructure will be in high demand.

LAND SECTOR

Davao Township in a Glance



LEGEND

- 1 Ciudades Business Park
- 2 LPU Town Davao
- 3 Amani Grand Davao
- 4 Damosa I.T. Park
- 5 Azuela Cove
- 6 Davao Park District
- 7 Abreeza Business Park
- 8 The Paragon Davao
- 9 Matina I.T. Park
- 10 Davao Global Township

The Davao region has grown to become an emerging hotspot for business parks and other such endeavors. Further growth is to be

expected with the rise of townships in the area. Of these developments, many are from major developers such as

Megaworld Corporation, Ayala Land, and Cebu Landmasters, Inc.

TOWNSHIP FEATURE: Agriya by Damosa Land Inc.

AT A GLANCE:

- 88 hectares of land.
- 44 hectares will be used for the initial phase.
 - Residential: 9 hectares
 - Commercial: 24 hectares
 - Agritourism: 9 hectares
- The University of Philippines Professional School for Agriculture and Environment (UP-PSAE) will also be taking up 3 hectares of the property.

What Agriya is is a master-planned community, whose central theme is agriculture. And I think that's something that will really set us apart from a lot of other master-planned projects that you can find all over the country.

- **Ricardo F. Lagdameo**, DLI First Vice President



With a focus on combining agriculture with real estate, Damosa Land's agriculture-focused mixed use property has been launched in February 2020. Located in Panabo City, and spanning three of its

barangays, namely New Pandan, Sto. Nino, and Cagangohan, it is considered to be the next prime agri-tourism location for investors everywhere. It also has agriculture as its backbone and gives its tourists an insight on Davao's rich

agriculture landscape. Its unique masterplan and novel premise can aid in the promotion of Davao as a tourist center, as well as further growth within the region.

REIT IS HERE!

WHAT IS REIT?

REAL ESTATE INVESTMENT TRUST (REIT)

A stock corporation that owns, operates, or finances income-generating real estate assets. Portions of the returns are distributed to shareholders as dividends. REITs come in various forms – equity, mortgage and hybrid. Most common equity REITs – corporations own and operate income-generating properties.

- Revised IRR of the Philippines' REIT Act of 2009 (REIT Law) – January 2020
- The minimum public ownership requirement (MPO) of a REIT has now been reduced to at least one-third (1/3) of the outstanding capital of the REIT, with at least 1,000 public shareholders each owning at least 50 shares.
- Reinvestments in the Philippines is now required for any sponsor or promoter who contributes income-generating Real Estate to a REIT:
 - Any proceeds from the sale of shares or other securities issued in exchange for income-generating real estate transferred to the REIT.
 - From the sale of any income-generating real estate to the REIT, must be reinvested by a sponsor or promoter in a real estate, redevelopment or infrastructure project in the Philippines.
- Amendments to the requirements for REIT Property Managers.

AREIT: The First Real Estate Investment Trust to Debut on the Local Stock Exchange

- Philippines' Securities and Exchange Commission (SEC) has approved an initial public offering (IPO) for Ayala Land, Inc.'s REIT subsidiary, AREIT.
- Expected to hold the IPO on July 27-31, 2020
- Scheduled Listing debut on the Philippine Stock Exchange is on August 13, 2020
- Initial public offering at P27 per share.
- Primary offer for the expansion of its building portfolio will be through the acquisition of a fourth building, Teleperformance Cebu.

INTERESTED DEVELOPERS



ASSETS CONSIDERED AS REIT COMPANIES



Apartment Buildings



Office Buildings



Medical Facilities



Shopping Centers



Hotels



Resorts



Hospitals



Highways



Warehouses



Railroads

PORTFOLIO OF COMMERCIAL PROPERTIES



SOLARIS ONE



MCKINLEY EXCHANGE



AYALA NORTH EXCHANGE

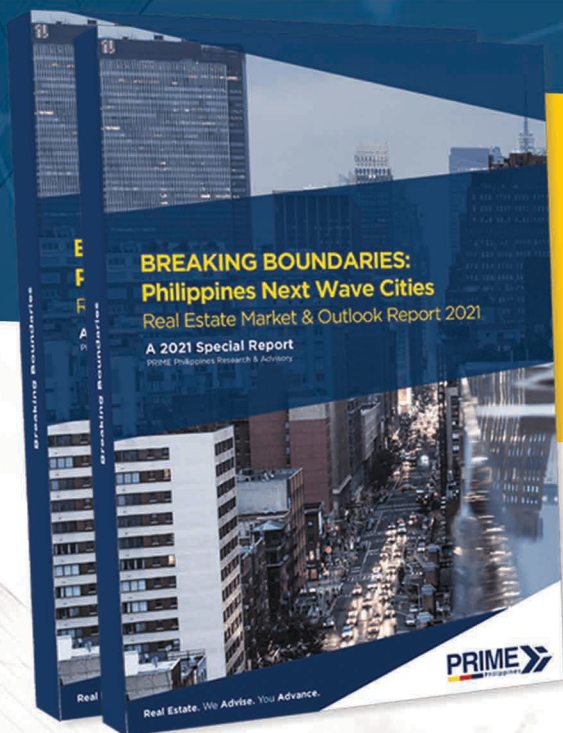
OUTLOOK

With the introduction of the very first REIT IPO in the country, other developers are expected to follow through, like DoubleDragon Properties, which plans on filing its REIT listing application by October 2020.

THE FIRST REAL ESTATE-FOCUSED SURVEY REPORT IN THE PHILIPPINES

Learn the sentiments and insights of nearly 500 landlords, occupiers and investors on the impact of COVID-19 in the overall economic and real estate business in the Philippines.

Watch out for the Volume 3 of PRIME Philippines' **2020-2021 Philippine Real Estate Business Intelligence Compendium** and get an access to exclusive package contents as follows:



VOLUME 3

(RELEASE DATE: 2021, for subscribers only)

BREAKING BOUNDARIES: Real Estate Sentiments and Philippine Emerging Cities A 2021 SPECIAL REPORT

Analyzing collective insights from real estate practitioners from various sectors – office, retail, residential, hotel, and industrial, this report focuses on the strategies stakeholders may apply to recuperate from the adverse effects of the COVID-19 pandemic and how to move forward to sustain long-term business continuity.

To equip landlords, occupiers, and investors/developers with critical market movements, forecasts, and sentiments on the rising hotspots outside the traditional business districts in the Philippines, a special report on the emerging cities will be covered.

Global Market and Business Situationer

Get access to a complete and high-level analysis of the impact of the pandemic on various industry performances globally and locally.

A Year after COVID-19: Philippine Real Estate Business Performance

Be updated about the performance of the office, retail, residential, hotel, industrial, and commercial land sectors in Metro Manila, Cebu, and Davao.

Philippine Real Estate Business Performance and Outlook

Be informed about the lasting market adjustments and calculated short-term and long-term impacts of COVID-19 from more than 1,000 data points to be gathered from our survey.

Emerging Cities outside Metro Manila

Know the sentiments of landlords, occupiers, and investors on where the next real estate hotspot could be through our geospatial investor confidence mapping.

Exclusive access to complete and raw survey results and derived statistics

Equip yourself with the right tools to strategize your next move given the impact of the pandemic through our comprehensive data gathered from landlords, occupiers, and investors.



WATCH OUT for **Volume 3** of PRIME Philippines' **2020-2021 Philippine Real Estate Business Intelligence Compendium**

COMING SOON!

PROJECT PORTFOLIO

Research | Office Developments | Retail Developments

RESEARCH PORTFOLIO Partial List



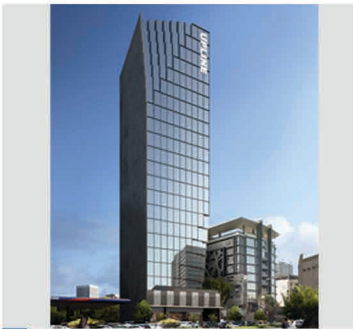
BRAVO BUSINESS CENTER
Tanauan, Batangas
Development Feasibility Study



PRESTIGE BAY MALL
Bradco Ave., Pasay City
Development Feasibility Study



CORNERSTONE CORPORATE PLAZA
Cebu City, Cebu
Development Feasibility Study



UPLINE ENTERPRISE CENTER
Quezon Ave., Quezon City
Development Feasibility Study



CEBU CITY CORPORATE CENTER
Cebu City, Cebu
Development Feasibility Study



DD CORPORATE CENTER
J.P. Laurel Ave., Davao City
Development Feasibility Study



YINYI GROUP LTD.
Greater Metro Manila
Research on the Philippine
Real Estate Trends & Potential



CALAMBA CORPORATE CENTER
Calamba, Laguna
Development Feasibility Study



TOWNSHIP DEVELOPMENT WITH INTEGRATED HOTEL-CASINO
Davao City, Davao
Multi-Sector Development Feasibility Study



METRO CENTRAL MALL
Santa Cruz, Laguna
Development Feasibility Study



POP HIVE
Clark Global City Pampanga
Market Feasibility Study

Mall Developments Partial List



METROPLAZA MALL
Quirino Highway, Caloocan City



HAPPY GO SHOPPING MALL
Valenzuela City



STA. ROSA TOWN CENTER
Sta. Rosa, Laguna



THE OUTLETS AT LIPA
Lipa, Batangas



ASCAÑO TOWN CENTER
Sto. Tomas, Batangas



MANA TOWN CENTER
Kawit, Cavite



BRAVO BUSINESS CENTER
Tanauan, Batangas



PLAZUELA DE MOLINO
Bacoor City, Cavite



HOUSE OF PRECAST
Cubao, Quezon City



ONE MAYON PLACE
Mayon, Quezon City



FELMANS PLACE
Kalentong, Mandaluyong City



HPL CENTER ANNEX III
Guiguinto, Bulacan



2410 PLACE
Fairview, Quezon City



FELCRIS CENTRALE MALL
Davao City



LANANG BUSINESS PARK
Davao City



OUR CLIENTS Partial List



Office Developments Partial List



TRIUMPH SQUARE
Quezon Ave., Quezon City



HEXAGON CORPORATE CENTER
Quezon Ave., Quezon City



THE SKYSUITES TOWER
Quezon Ave., Quezon City



UPLINE ENTERPRISE CENTER
Quezon Ave., Quezon City



ONE CORPORATE CENTER
Pasig



BEN-LOR I.T. CENTER
Quezon Ave., Quezon City



TK MAXX BUILDING
Roces Ave., Quezon City



SHAW PLAZA
Shaw Boulevard, Mandaluyong City



MTE TOWER
Commonwealth Ave., Quezon City



PRIMEX TOWER
Greenhills, San Juan City



PMI TOWER
Makati



ONE BONIFACIO HIGH STREET
BGC, Taguig



WYNSUM CORPORATE PLAZA
Ortigas Center



IBM PLAZA
Eastwood, Quezon City



AAP TOWER
New Manila, Quezon City



ST. FRANCIS SQUARE
Ortigas Center, Mandaluyong City



DOUBLE DRAGON PLAZA
Macapagal Blvd., Pasay City



FELCRIS CORPORATE CENTER
Davao City



THE IGNACIA PLACE
Mother Ignacia, Quezon City



ALYVEA CORPORATE CENTER
Davao City



ROBINSONS CYBERGATE DELTA
Davao City



ROBINSONS CYBERGATE DELTA 2
Davao City



DAVAO FINANCE CENTER
Davao City

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