COVID-19 AND PHILIPPINE PROPERTY

The global health scare's impact on Philippine property

- The World Health Organization (WHO) has stated that the outbreak of COVID-19 (coronavirus) has peaked in China even though the virus continues to spread globally.

- For now, following general market expectations and the lessons from SARS in 2003, Colliers assumes that COVID-19 peaks across Asia Pacific in H1 2020, with a recovery in H2, although the spread of the virus beyond Asia raises the possibility of longer-term disruption.

- Comparisons between COVID-19 and the SARS outbreak of 2003 are natural. However, China's economy is now far larger and far more interconnected with the rest of the world than in 2003, so the economic impact of the COVID-19 outbreak appears set to be bigger.

MACROECONOMIC OVERVIEW

PHILIPPINE GDP MISSES TARGET

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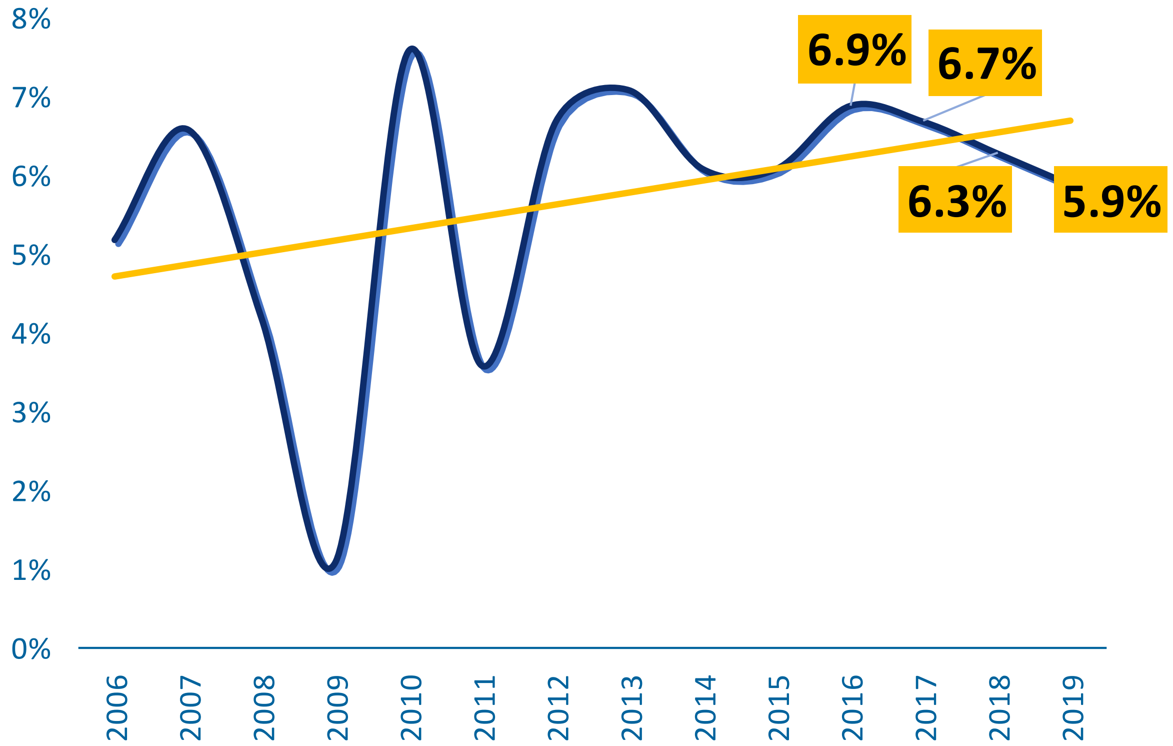
Multilateral lenders and credit rating firms forecasting slower growth due to COVID-19

2020 GDP Growth Forecast

3.0% - 4.9%

AGENCY	PREVIOUS FORECAST	2020 FORECAST
World Bank	6.1%	3.0%
Moody's Analytics	6.7%	4.9%
Fitch Solutions	6.0%	4.0%
Oxford Economics	6.0%	3.9%
S&P	5.8%	4.2%

Real GDP Growth (Constant 2000 Prices)



5.9% **2019 GDP growth, slowest in 8 years**

Source: Philippine Statistics Authority

HISTORICAL GDP GROWTH

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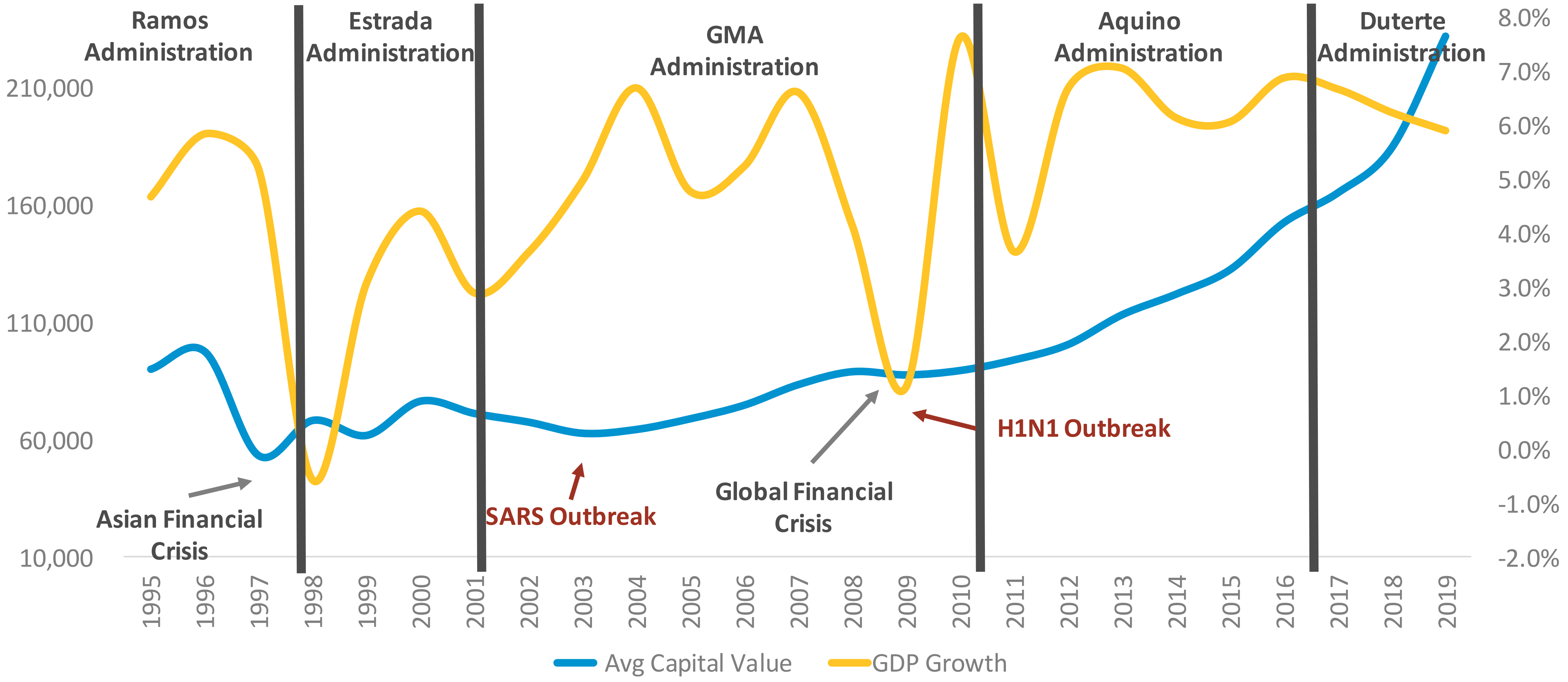
Annual property price increase vs GDP growth



Source: Colliers International

ECONOMIC INDICATORS

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Property demand drivers

National budget	Government Spending	Household Consumption
PHP4.1 Trillion - approved national budget for 2020. PHP972.5Bn for Infrastructure spending	13.7% forecasted growth for 2020, 3.7% in 2021 but should be offset by a rebound in foreign investment (+14%)	3.6% forecasted growth for 2020, 7.1% in 2021

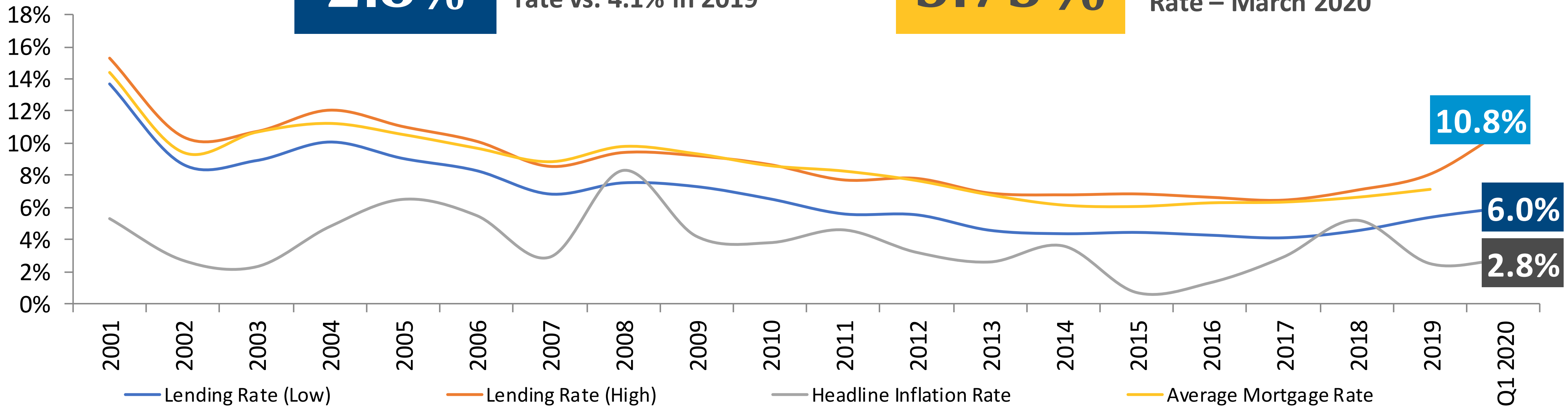
Source: Philippine Statistics Authority; Oxford Economics; Department of Budget and Management

LENDING RATES REMAIN LOW

2020 Inflation within the Central Bank's target of 2-4%

2.8% 2M 2020 inflation rate vs. 4.1% in 2019

3.75% Overnight Lending Facility Rate – March 2020



- **Lending Rates:**
  1Q 2020*: 6.0%-10.8%
  1Q 2019: 5.5% - 8.5%
  1Q 2018: 4.1% - 6.7%

- **Average Bank Mortgage Rate:**
  4Q 2019: 6.8%
  1Q 2019: 7.1%
  1Q 2018: 5.6%

- **Average Inflation Rate:**
  1Q 2018: 3.8%
  1Q 2019: 3.8%
  1Q 2020: 2.8%**

Note: *January 2020
*As of 2M 2020

Source: Bangko Sentral ng Pilipinas; Colliers International

OFW REMITTANCES STILL GROWING

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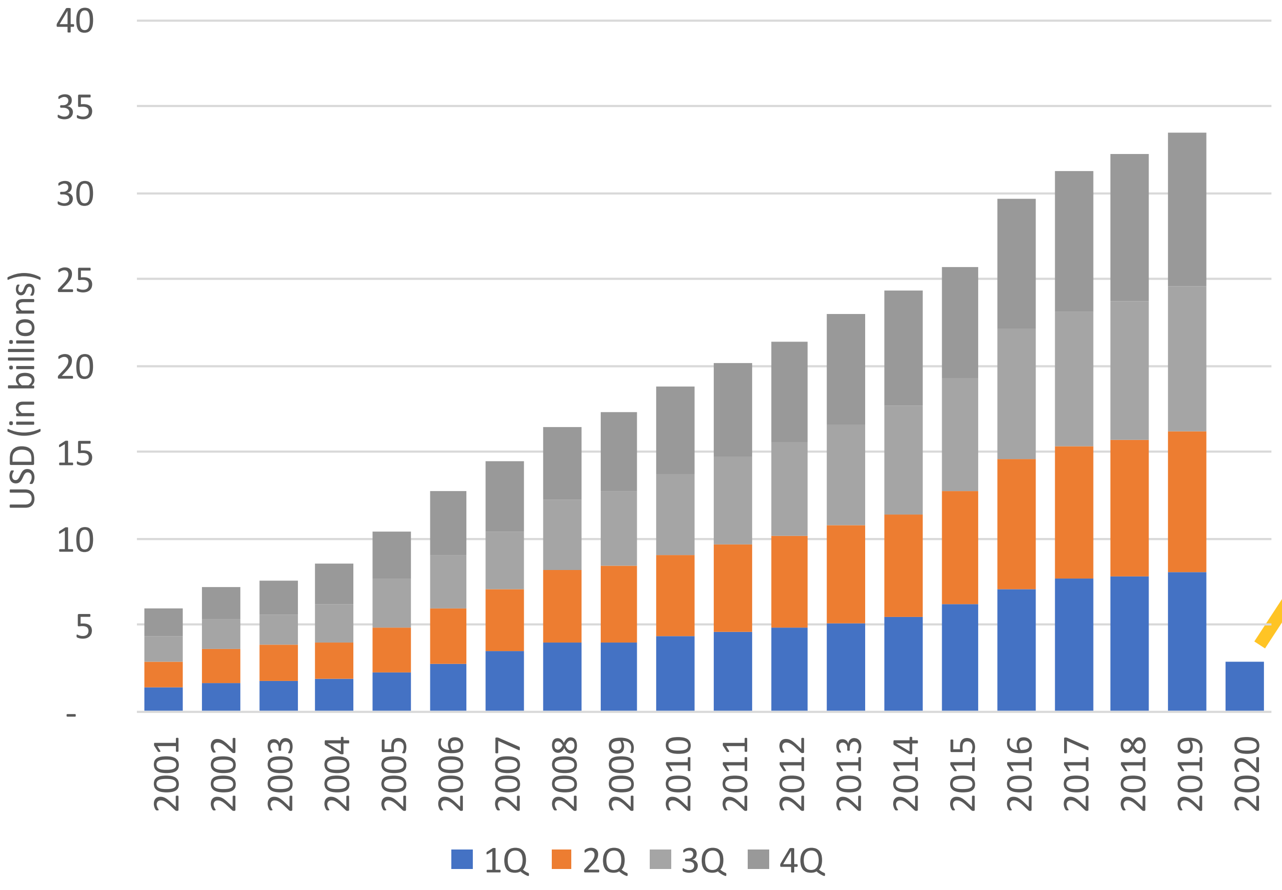
Up 7.3% YoY

- About 75% of remittances during the period are from the United States, Saudi Arabia, UAE, Singapore, Japan, UK, Qatar, and Canada

- Government's target is 2.2% growth in 2020



January 2020 Remittances

USD 2.9bn

Source: Bangko Sentral ng Pilipinas

OFFICE SECTOR

TRADITIONALS AND POGOS DOMINATED IN 2019

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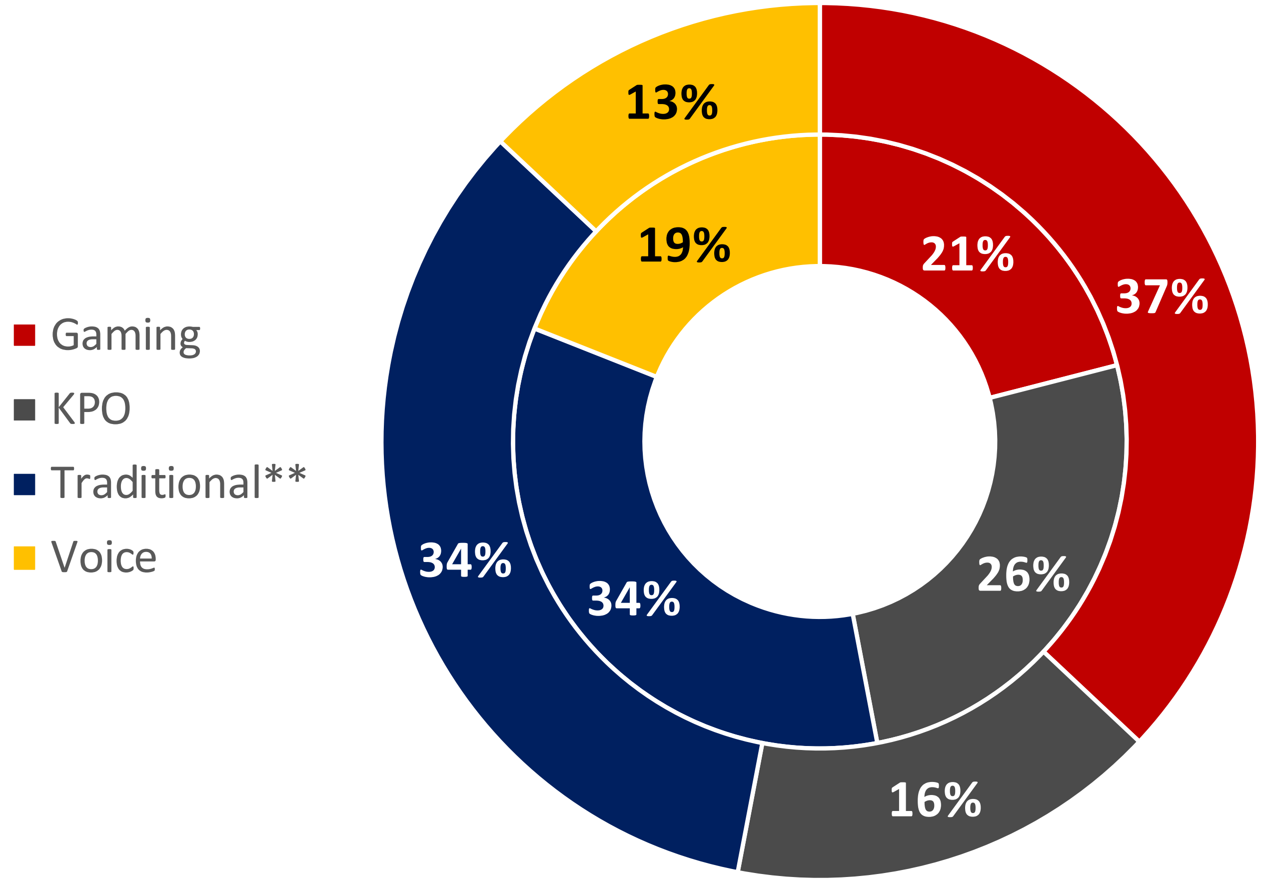
2018 (Inner Circle) vs. 2019 (Outer Circle)



446K sqm Voice + KPO transactions vs. 661K in 2018

516K sqm "Traditional" transactions vs. 489K in 2018

556K sqm Gaming transactions vs. 303K in 2018

**Includes traditional firms, government agencies, and flexible workspace operators*

Source: Colliers International

CORONAVIRUS TRAVEL BAN AND POGOs

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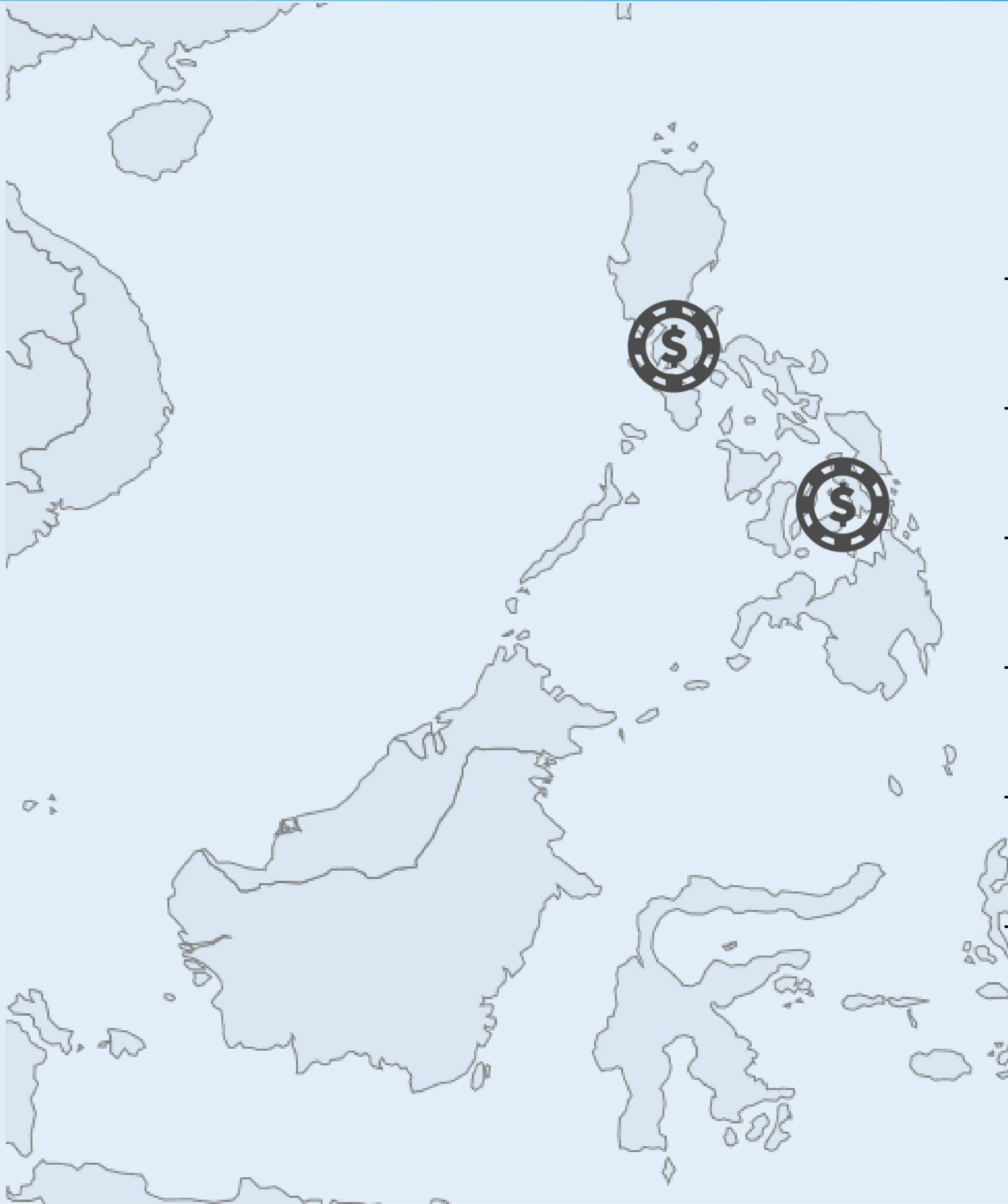
Effect on the office market of a prolonged blanket ban on Chinese travelers

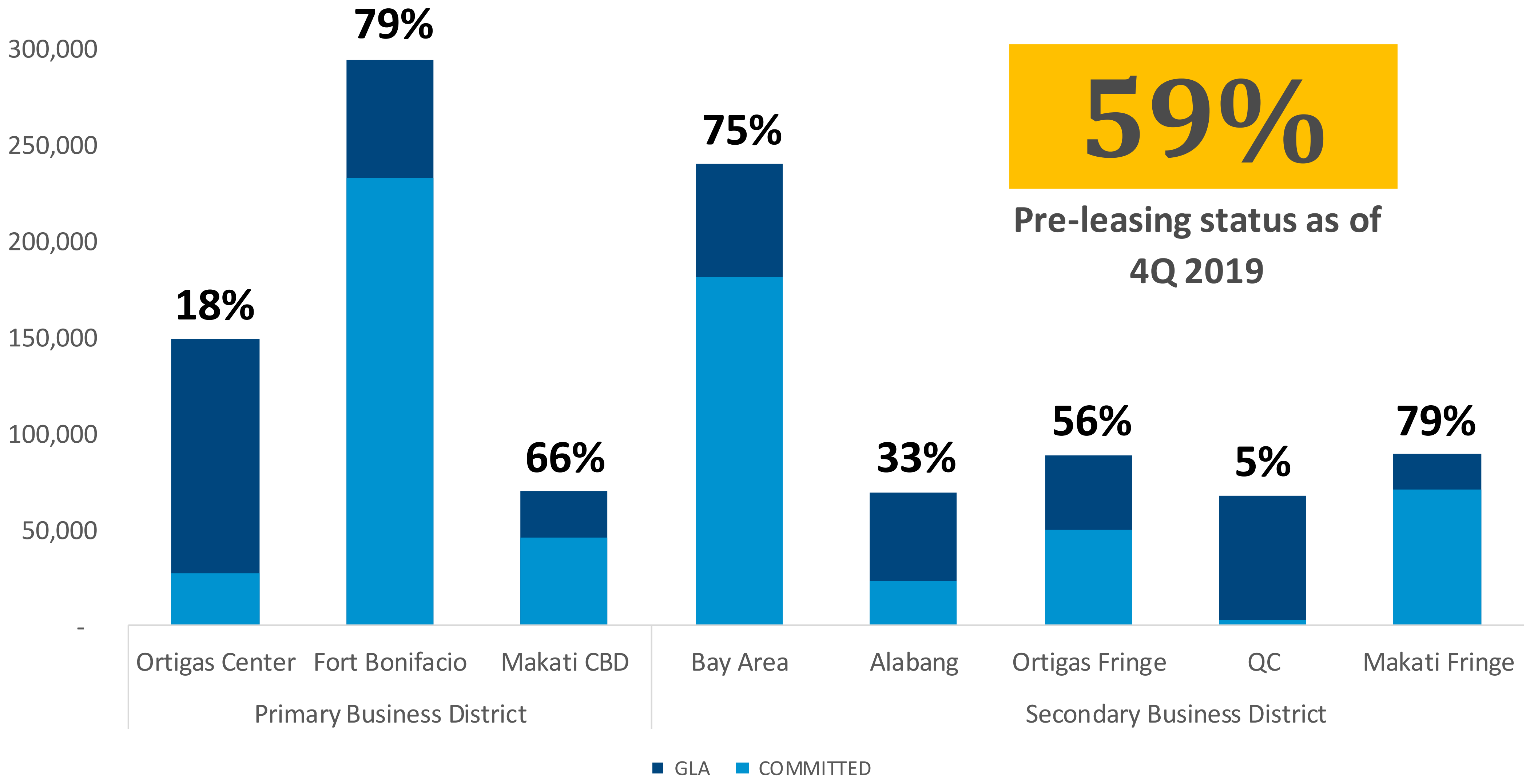


Year	POGO Take-up (sqm)	Vacancy
2019	333,000	**4.3%**
2020F	300,000	**5.3%**
2020F	200,000	**6.0%**
2020F	100,000	**6.9%**
2020F	None	**8.0%**

Source: Colliers International
Note: Estimated POGO take-up for 2020 at 300K sq m.

STRONG PRE-LEASING OF 2020 BUILDINGS

KPOs and offshore gaming drive pre-leasing



59%

Pre-leasing status as of 4Q 2019

Source: Colliers International

OFFICE: HIGHER VACANCY

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Vacancy likely to hover between 8% and 10% from 4.3% in 2019

- Initially forecasted take-up of 900,000 sq m in 2020, a third from POGOs
- Expansion of POGOs constricted by the travel ban and COVID-19
- With slower POGO demand, vacancy likely to hover between 7%-8%
- Demand dependent on outsourcing and traditional firms in H2 2020.
- Rental variance between POGO and traditional/outsourcing is about 30%. Hence, rents can adjust downwards by 20% to 30% to attract traditional occupiers.
- Depending on the duration of the community quarantine in Luzon, traditional and outsourcing could bridge the gap left by POGO firms. If only pre-leased space is considered, vacancy could be closer to 10% in 2020 from the current 4.3%.
- Supply side issues as completion of the 1 million sqm in 2020 is at risk given the work stoppage.

PHILIPPINE PROPERTY AMID COVID-19

Colliers INTERNATIONAL

Impact on the office sector and recommendations

Office sector	Recommendations
• Inspection activity is likely to decline which should result in lower take-up in Q1 2020 • Some tenants may pause long-term occupancy decisions • A slower macroeconomic growth is likely to hinder traditional occupants' expansion plans; Bank of America has revised GDP for the year at only 2% with 0% growth in Q1 and a contraction of 3% in Q2. • Slower expansion from POGOs due to travel bans imposed by Chinese and Philippine governments • Supply pressure as completions are at risk due to work stoppage on site. • Market to shift to tenant's market as vacancy possibly increase to double digit levels, depending on the duration of the Luzon quarantine.	**Occupiers** • Look at new buildings in fringe locations where rents are cheaper compared to core locations but revisit CBD options that can offer revised rates • Opportunity to negotiate long-term leasing deals • Adopt new technology and consider flex-and-core strategy • Revisit density ratio and workplace design for employee well being **Landlords** • Proactively attract traditional or outsourcing tenants for space vacated by POGOs • Target epidemic-resistant businesses like pharmaceuticals and technology • Work with existing tenants to provide flexible lease terms (rent free periods, handover dates, escalation etc) • Maximize wellness features and prioritizing wellness certifications (LEED and WELL) • Design considerations (centralized vs VRF for air circulation, glass ratio for natural sunlight) • Strengthen property management capability (sanitation, emergency preparedness, BCP).

RESIDENTIAL SECTOR

SELECTED PROJECTS IN 2020

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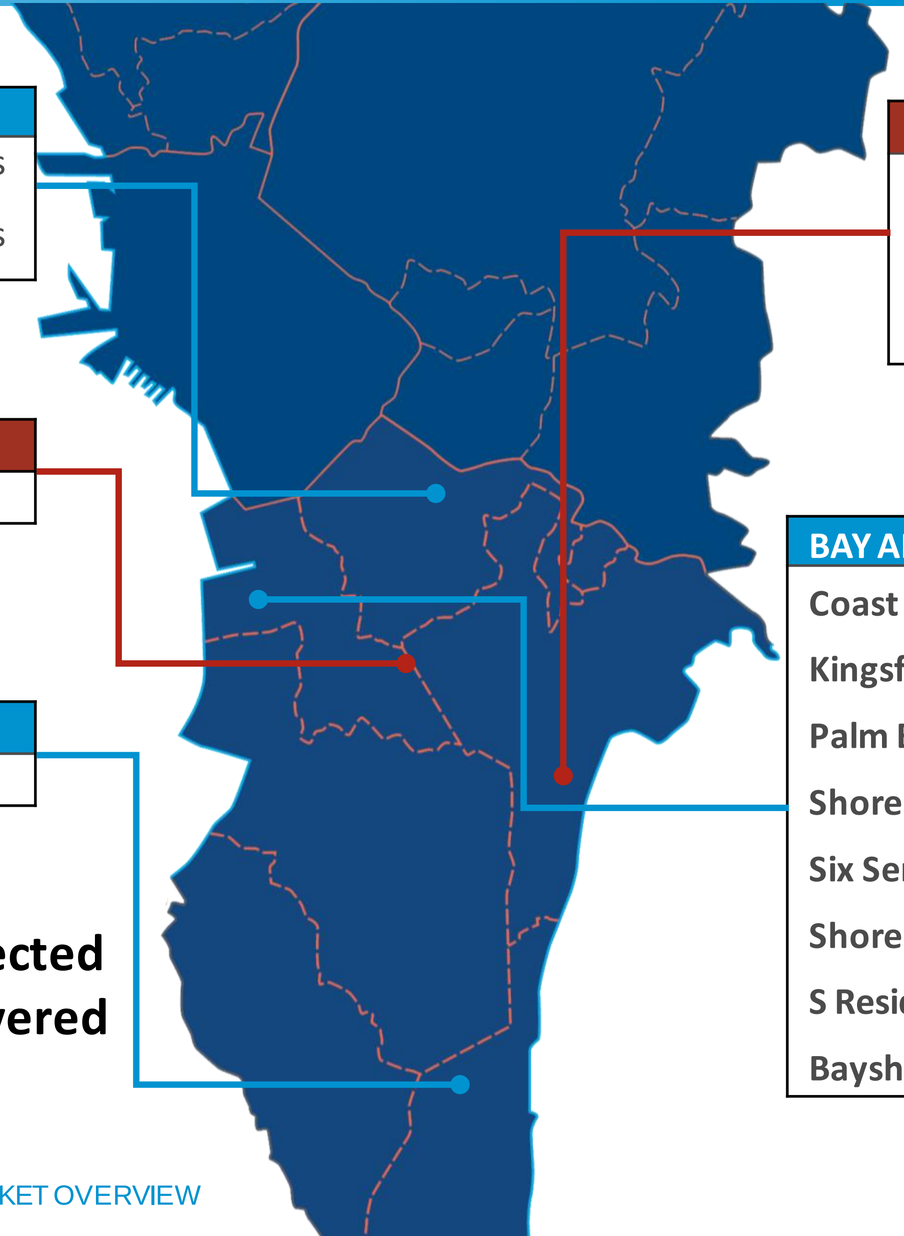
Bay Area to account for 80%



ORTIGAS CENTER | 4%	
The Imperium at Capitol Commons	196 units
The Westin Manila at Sonata Place	405 units

MAKATI CBD | 2%	
Garden Towers Tower 2	334 units

ALABANG | 3%	
Studio City Tower 5	450 units

FORT BONIFACIO | 12%	
East Gallery Place	407 units
Time Square West	738 units
Avida Turf BGC 1	540 units
The Albany - Kingsley	64 units

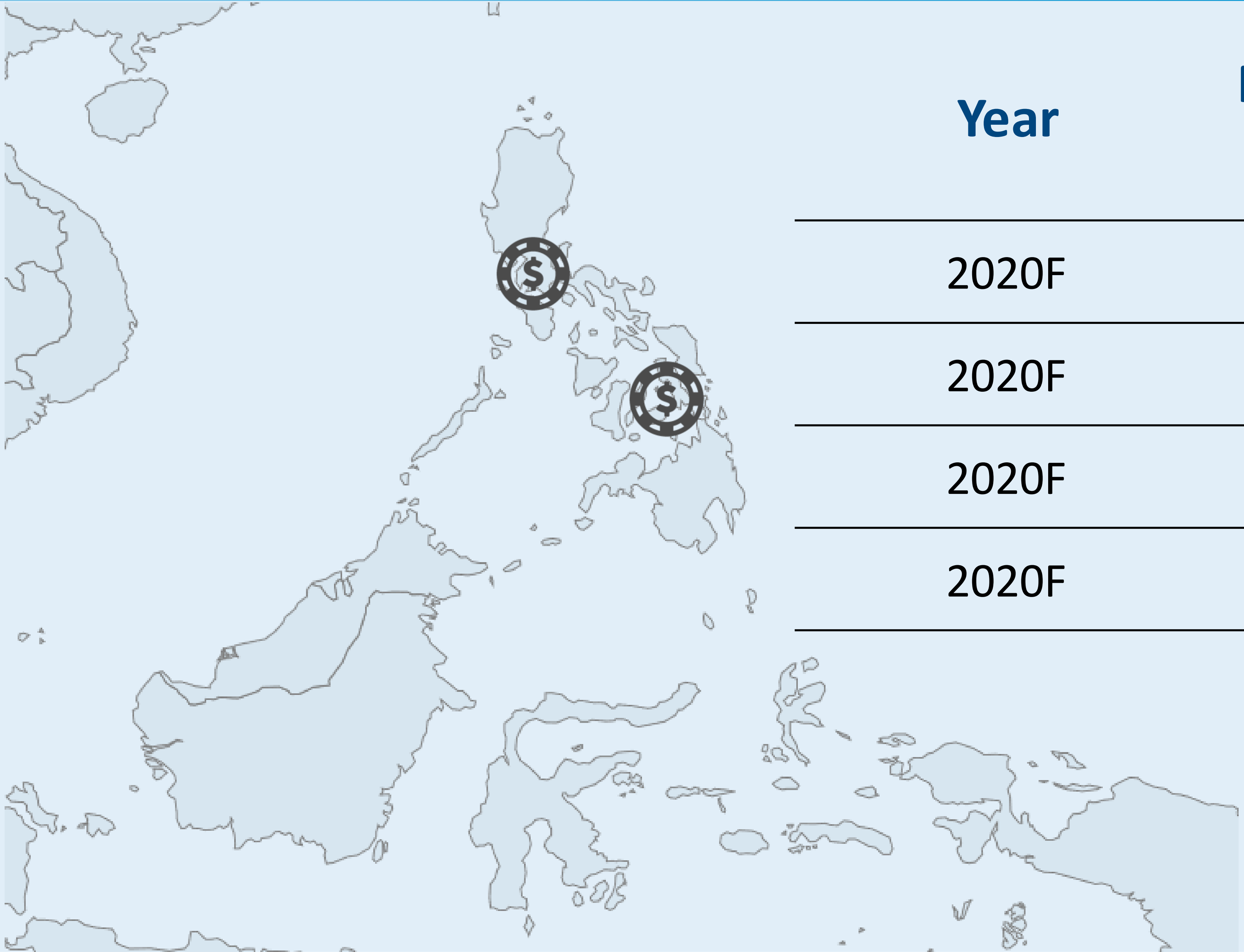
BAY AREA | 79%	
Coast Residences Tower 1	2,175 units
Kingsford Hotel	235 units
Palm Beach West Misibis	218 units
Shore 2 Residences Building 3&4	3,608 units
Six Senses Resort I-Sight Tower	152 units
Shore 3 Residences Building 1&2	2,558 units
S Residences 1,2&3	2,280 units
Bayshore Residential Resort 2 Cluster A&B	366 units

14,726 Units expected to be delivered

Source: Colliers International

LESS TAKE-UP IN THE BAY?

Effect on overall Metro Manila residential vacancy if take-up in Bay Area slows down



Year	POGO Take-up (units)	Vacancy
2020F	11,400	**10.4%**
2020F	6,000	**15.4%**
2020F	3,000	**17.6%**
2020F	None	**19.0%**

Source: Colliers International
Note: Estimated POGO take-up for 2020 at 300K sq m.

RESIDENTIAL: SLOWER TAKE-UP

Colliers INTERNATIONAL

Vacancy likely to peak at 19%

- Colliers sees the completion of about 14,720 units in key districts in Metro Manila. Colliers estimates that about 79% will likely be in the Bay Area or about 11,590 units.
- These units were previously sold and developers were able to book these at their peak price. The concern is on the secondary lease and re-sale market, especially in the Bay Area where demand has primarily been driven by POGOs.
- Developers to stop launches if prices significantly soften.
- Depending on the duration of the Luzon quarantine, prices in the secondary market can soften to their pre-selling rates for developments completing this year.
- In the event that the COVID-19 situation worsens, we project a slower take-up in selected business districts in Metro Manila, particularly the Bay Area.
- Factoring in a slower take-up from Chinese investors especially in business districts where demand is mainly POGO-driven, Colliers sees Metro Manila vacancy increasing to nearly 20% from 11% in end 2019.

PHILIPPINE PROPERTY AMID COVID-19

Colliers INTERNATIONAL

Impact on the residential sector and recommendations

Residential sector	Recommendations
• Prices and lease rates in the near term could be challenged by the COVID-19 pandemic and a possible increase in unemployment • Pause in new launches for this year • Depending on the duration of the Luzon quarantine, condominium prices likely to revert to pre-selling levels • Demand in business districts that mainly house offshore gaming firms is likely to decline particularly if the travel ban remains • Supply pressure as completions are at risk due to work stoppage on site.	**Developers** • Developers to offer more flexible packages/terms to attract buyers • Highlight property management as it is crucial to the health and safety of the building residents. • Developers that responded well to the crisis will be remembered **Buyers** • Mortgage rates to ease with key rates lowered • Pricing in the secondary market could soften near pre-selling levels given the uncertainty.