**DOF Economic Bulletin on Real Estate, Property Sector and Asset Price**

19 June 2015

**Table 1: Property Prices, Rental, Banking Exposure to Real Estate Sector**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2014 | |  | 2015 |  | Growth Rate (%) | |
|  |  | Q1 | Q4 |  | Q1 |  | 2014-Q1 | 2015-Q1 |
| Land Values (per sqm) |  |  |  |  |  |  |  |  |
| Makati CBD |  | 353,797 | 440,000 |  | 443,750 |  | 18.7 | 25.4 |
| Ortigas Centre |  | 146,460 | 158,500 |  | 161,500 |  | 7.7 | 10.3 |
| Fort Bonifacio |  | 266,048 | 382,500 |  | 386,500 |  | 9.7 | 45.3 |
| Makati CBD Office Rental Rates (per sqm per month) |  |  |  |  |  |  |  |  |
| Premium |  | 1,058 | 1,150 |  | 1,175 |  | 7.9 | 11.1 |
| Grade A |  | 790 | 850 |  | 878 |  | 7.1 | 11.1 |
| Grade B |  | 565 | 660 |  | 673 |  | 10.2 | 19.0 |
| Makati CBD Vacancy Rate |  |  |  |  |  |  |  |  |
| Residential (All Grade) |  | 10.9 | 8.1 |  | 7.9 |  |  |  |
| Luxury |  | 4.6 | 4.4 |  | 3.6 |  |  |  |
| Office |  | 4.2 | 2.2 |  | 2.2 |  |  |  |
| REL/TLP (exclusive of IBL) (%) |  | 17.8 | 18.6 |  |  |  |  |  |
| Gross NPREL / REL |  | 2.8 | 2.5 |  |  |  |  |  |
| Gross NP Residential REL / Residential REL |  | 3.1 | 3.1 |  |  |  |  |  |
| Gross NP Commercial REL/ Commercial REL |  | 2.6 | 2.1 |  |  |  |  |  |
| Property Index (end-of-period) |  | 2,484 | 2,810 |  | 3,193 |  |  |  |
| PSE Index |  | 6,429 | 7,231 |  | 7,941 |  |  |  |
| Price-Earnings Ratio |  | 19.4 | 21.5 |  | 22.7 |  |  |  |
| Source: BSP; Colliers International Philippines | | | |  |  |  |  |  |

**Table 2: Real Estate Value-Added Growth Rate**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2012 | 2013 | 2014 | 2015-Q1 |
| Real Estate Value-Added Growth Rate (%) | 18.1 | 18.3 | 9.6 | 15.2 |

         Land values in the three CBDs surged by double digit rates in the first quarter of 2015. Notable fast-rising land values are in Fort Bonifacio which skyrocketed by nearly 50%. This development in Fort Bonifacio reflects the growing popularity of the CBD as an alternative to Makati. For example, the Fort Bonifacio Development Corporation has signed last month with Philippine Stock Exchange (PSE) an offer to sell. The PSE is expected to transfer to the BGC its unified trading floor and corporate headquarters by the end of 2016.

         Office rental rates also grew in the double digits in the first quarter, up 11.1% for both premium and Grade A and up 19% for Grade B..

         Vacancy rates continue to drop despite new openings due to high take-up, including luxury grade residences.

         The banking sector's exposure to the real estate market has increased, as shown by the real estate loans rising to 18.6% of total loan portfolio. The quality of real estate loans, however, still remain at healthy levels with non-performing real estate loans (NPREL) amounting to only 2.5% of total REL.

         The real estate sub-sector has grown at the double-digit rates in 2012 and 2013. This growth was halved in 2014 but showed some sign of recovery in the first quarter of 2015.

DOF View

         There is still room for more development in the BGC area. For example, Megaworld, the largest landlord in BGC, has a landbank of 105 hectares. It has already fully developed the 50-hectare McKinley Hill which leaves the rest of the landbank to be further developed.

         Interest rates are expected to keep their upward correction in the face of an anticipated rate adjustments in the US. As such, homeowners with variable interest payments will be adversely affected. Depending on the magnitude of interest rate increase, this development might trigger defaults on the part of some homeowners.

         The exposure of banks to the real estate sector has to be checked and kept within prudential limits. Intervention has to be pro-active such that deleveraging is avoided; otherwise, a fire-sell of assets might ensue. The BSP should continue giving credit advisories to banks for macro-prudential supervision and regulation.

         A significant rise in interest rates may translate to lesser demand for luxury housing units and to some extent, mid-level category housing units. A slowdown in the growth of the real estate sector may be expected.