

**QUICK STATS****Metro Manila Retail Market**

	2Q07	1Q07
Supply	Up	Flat
Demand	Up	Up
Vacancy	Flat	Flat
Prime Rents	Up	Up

**ECONOMIC OVERVIEW**

The country's gross domestic product (GDP), which is the total value of goods and services produced locally grew by 6.9% in 1Q 2007, the highest since the first quarter of 1990. The surge mainly came from the services sector with 4.4 percentage points, industry sector with 1.7 percentage points, and AFF with 0.8 percentage points. Such upsurge was linked to overseas investment and remittances coming from Filipino nationals working abroad resulting to an increased consumer spending at 5.9% further facilitating the first quarter domestic economy growth.

Meanwhile, the Philippine Peso breached the PhP45:US\$1 level for the first time in nearly seven years during the last weeks of May. This is attributed to the positive outlook persisting in the economy and a subsequent increase in consumer spending brought by the increased remittances and possibly from election spending.

The nationwide inflation rate stood at 2.4% as of May 2007 while the core inflation, which excludes certain food and energy items, was steady at 2.6%, this was mainly due to the decreasing base effect of VAT on inflation referring to the one-time impact of the increase in the value added tax rate last year. The inflation rate for all commodity groups eased except for fuel, light and water, which rose by four percent from 2.2 percent in April.

**The pace of construction is showing no signs of slowing down with at least two malls rising every year, and that is just from the big players in the retail industry such as the SM, Robinsons and Ayala groups.**

Remittances from Filipinos working overseas rose by a quarter to US\$1.09 billion in February, the 10th straight month that inflows have surpassed US\$1 billion. Annual inflows coursed through banks surged 23% to US\$2.2 billion in the first two months of the year. The jump came despite a 12% drop in the number of Filipinos gaining work overseas and reflected the increasing number of people employed in higher-earning positions.

Meanwhile, the overall consumer confidence index (BSP Consumer Expectations Survey) for 2Q 2007, despite remaining negative, improved to -26.0% from -33.3% in 1Q 2007. This means that the number of optimists increased relative to the previous quarter. This optimism was due to consumers' more upbeat assessment on the country's economic condition (i.e. strength of the peso, stable prices of goods and more job opportunities) as well as their own family income and financial situations.

## MAJOR SHOPPING MALL DEVELOPER FACTSHEETS

### SM PRIME HOLDINGS

**# of Malls** : 28

**Gross Floor Area (Approx.)** : 3.98M sqm (42.75M sf)

**2006 Rental Revenue** : Php11.0B (21% Increase)

**2006 Net Income** : Php5.75B (9.5% Increase)

**New Supply (Current Quarter)**

none

**Comments**

Mass Market; Metro-Manila / Provincial Expansion; 3-to-4 Malls Per Year

### ROBINSONS LAND

**# of Malls** : 18

**Gross Floor Area (Approx.)** : 1.29M sqm (13.88 sf)

**2005 Commercial Div Revenue** : Php3.1B (14.8% Increase)

**2005 Commercial Div EBITDA** : Php2.07B (17.0% Increase)

**New Supply (Current Quarter)**

none

**Comments**

Mass Market; Metro-Manila / Provincial Expansion; Plans to Open 3-to-4 New Malls Per Year.

### AYALA LAND

**# of Malls** : 7

**Gross Floor Area (Approx.)** : 1.05M sqm (11.28M sf)

**2005 Shopping Center Revenue** : Php3.53B (22% Increase)

**2005 Net Income** : Php3.6B (22% Increase)

**New Supply (Current Quarter)**

Triangle North of Manila (TriNoMa)

**Comments**

Mid-High Market; Metro-Manila Expansion; Ongoing Projects (Greenbelt 5, Glorietta 5 expansion)

## METRO-MANILA RETAIL AREAS

### MAKATI CBD and Fringes\*

**Existing Stock:** 648,813 sqm.

**Rental Levels:** PhP600 to PhP1,200

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
Glorietta, Greenbelt, Market! Market!!

### ORTIGAS CBD

**Existing Stock:** 811,642 sqm.

**Rental Levels:** PhP550 to PhP1,200

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
SM Megamall, EDSA Shangri-La Plaza, Robinsons Galleria, The Podium

### ALABANG

**Existing Stock:** 723,597 sqm.

**Rental Levels:** PhP375 to PhP775

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
Metropolis Star, Festival Mall, Alabang Town Center, SM City Southmall, Starmall – Las Pinas

### QUEZON CITY\*\*

**Existing Stock:** 325,577 sqm. (Araneta); 446,321 sqm. (North Triangle)

**Rental Levels:** PhP600 to PhP800 (Araneta)

**New Supply**  
TriNoMa

**Major Malls /Retail Centers**  
SM North EDSA, , Gateway Mall

### ROCKWELL CENTER

**Existing Stock:** 81,818 sqm.

**Rental Levels:** PhP700 to PhP1,000

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
Power Plant Mall

### EASTWOOD CITY

**Existing Stock:** 22,750 sqm.

**Rental Levels:** PhP800 to PhP1,000

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
Eastwood Citywalk 1 and 2

### EAST OF MANILA

**Existing Stock:** 723,597 sqm.

**Rental Levels:** PhP360 to PhP420

**New Supply**  
No new supply

**Major Malls /Retail Centers**  
Robinosns Metro East, Sta. Lucia East

### BAY CITY and ERMITA

**Existing Stock:** 726,493 sqm.

**Rental Levels:** PhP400 to PhP800

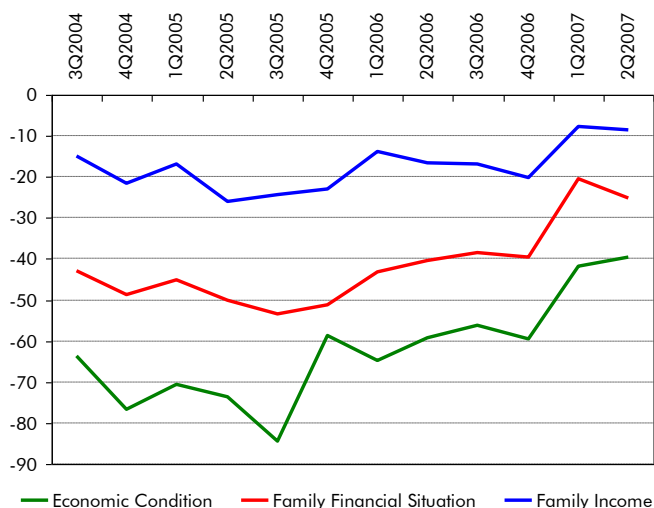
**New Supply**  
No new supply

**Major Malls /Retail Centers**  
SM Mall of Asia, Robinsons Place, SM Manila

\*Bonifacio Global City

\*\*Araneta Center and North Triangle

### Consumer Expectations in 2Q2007



Source: BSP Consumer Expectations Survey (2Q2006)

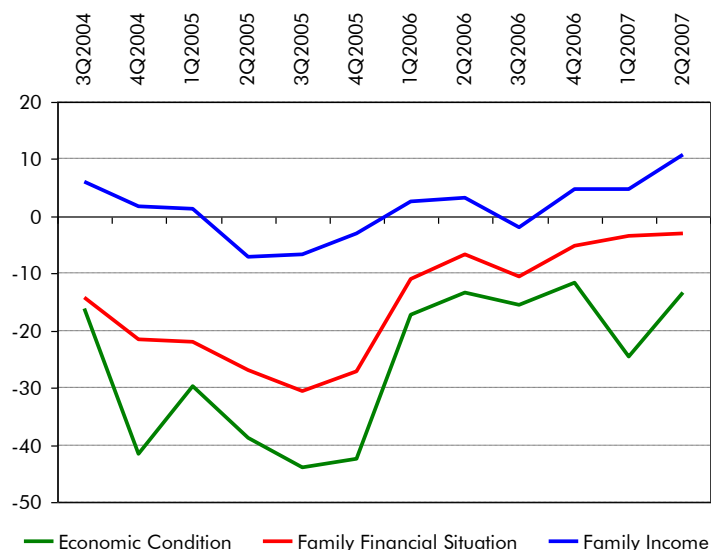
### CONSUMER EXPECTATIONS SURVEY (CES)

Consumers across income groups expected better macroeconomic and family financial conditions in the second quarter. Confidence indices were on the uptrend during the quarter at -40.4% for economic condition, -25.6% for family financial situation and -12.1% for family income situation.

Among the reasons cited behind the favorable outlook include normalization of the political situation, anticipation of improved governance by newly elected officials, expected business upturn, and increase in job opportunities.

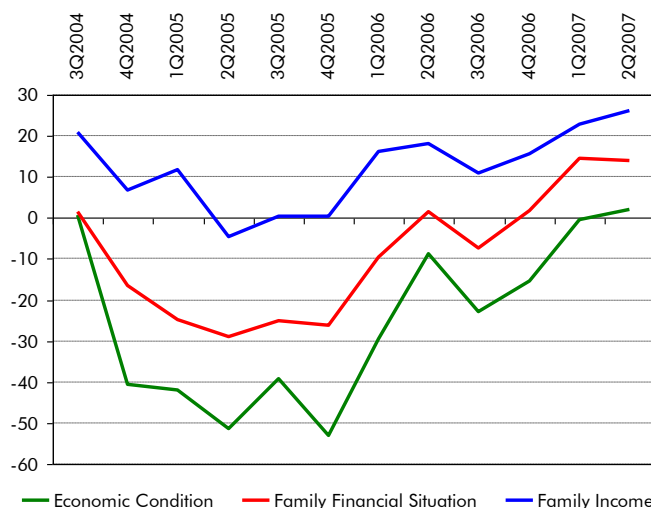
The overall consumer confidence index (BSP Consumer Expectations Survey) for 2Q 2007, despite remaining negative, improved to -26.0% from -33.3% in 1Q 2007.

### Consumer Expectations for the next 3 months



Source: BSP Consumer Expectations Survey (4Q2005)

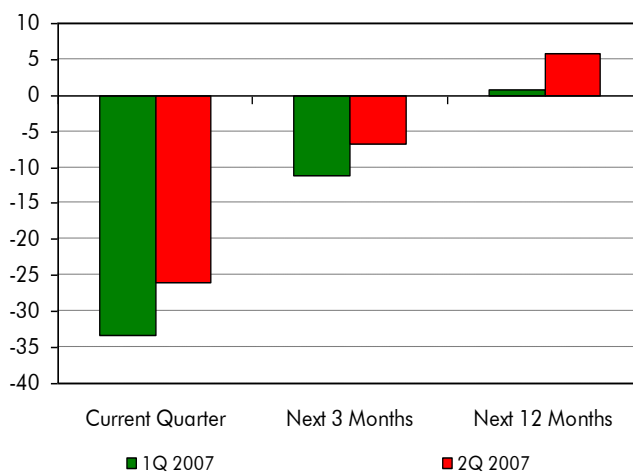
### Consumer Expectations for the next 12 months



Source: BSP Consumer Expectations Survey (2Q2006)

This means that the number of optimists increased relative to the previous quarter. This optimism was due to consumers' more upbeat assessment on the country's economic condition (i.e. strength of the peso, stable prices of goods and more job opportunities) as well as their own family income and financial situations.

### Overall Consumer Outlook Index



Source: BSP Consumer Expectations Survey (4Q2005)

## METRO-MANILA RETAIL MARKET

Supported by a large domestic consumer market and by OFW remittances, the retail sector is one of the country's primary growth engines. The rise of the indoor air conditioned shopping mall has turned "mallings" into a national pastime. Thus, consumer spending in the Philippines is resilient and even when it slows, the slowdown will only last for about six (6) months before picking up again. Other patterns include a lull in shopping mall sales in between paydays and on weekdays while about 20-25% of annual sales are recorded during the months of November and December as bonuses, benefits, and the 13th month pay are typically distributed to employees during the Christmas season.

**Foreign Participation.** Although the Retail Trade Act of 2000 opened the Philippine retail market to foreign players, the market remains dominated by only a handful of long-entrenched local players. Currently, the largest foreign retail players are the Dutch-based Makro warehouse shopping chain and the Hong Kong based Watson's pharmaceutical chain while other major international retail players (such as Walmart or Carrefour) have yet to enter the market. The number of major foreign players further decreased in August of 2005 when US based PriceSmart, the first foreign retailer to enter the market under the Retail Trade Act and the current operator of four (4) warehouse type stores in Metro Manila, agreed to sell its 52% interest in its struggling local venture to William Go in order to settle all litigation cases stemming from a shareholders dispute.

**Provincial Expansion.** With much of Metro Manila already saturated with shopping malls, major shopping mall developers are increasingly pushing expansion plans into the provinces. Although provincial mall revenues are typically lower than their Metro Manila counterparts due to the population's lower spending capacity, lower operating costs mean provincial malls can be profitable. Roughly two-thirds of OFWs come from the provinces and this suggests that a significant portion of OFW remittances are repatriated to these areas. Consequently, this leads to higher spending capacity to residents in the province.

As such, a number of provincial mall expansions have been constructed. SM Prime Holdings Inc., the country's largest

shopping mall developer has just completed the construction of SM Batangas in September 2006 while SM Sta. Rosa, SM City Clark were also completed in 2006. Meanwhile SM Bacolod is set to start operations by the first quarter of 2007, bringing the total number of SM malls to twenty-seven (27). The mall developer has also allocated funds for the construction of new malls in provinces such as: Baliuag, Bulacan; and Taytay, Rizal. It also intends to build four to five malls annually for the next three years in 14 locations including Tarlac and Pangasinan. Meanwhile, a breakthrough in mall development is the construction of a government-owned shopping mall. The 3-storey ACG Commercial Complex (Antipolo City Government Commercial Complex) owned by the local government of Antipolo City hopes to boost the city's income. To date, the mall is 90% complete and application to tenants has begun.

The City Hall will manage only the operations on the ground floor and will bid out the contract to manage the rest of the units in the mall. The commercial complex is expected to earn for the city government PhP32 million in rental fees every year. Other revenues will come from parking, terminal, and advertising fees, among others. Investment from the mall is expected to be recouped 2016. It is set to be operational by December 2006.

**Transactions.** There have been no major investment transactions involving the purchase of a shopping mall in the past 10 years as most malls and major commercial centers are developed, retained, and maintained by their original owners and/or developers for long periods of time. Furthermore, barriers to entry into the market are very high as developers need to have large land banks while shopping malls need to be located in strategic locations and have well-known retailers as anchor tenants.

Franchising, on the other hand is also driving the retail industry. A major franchise transaction is the arrival of Krispy Kreme franchised by the Trota and Fuentebella families who also own Max's Fried Chicken. The Philippine franchisee of American brand Krispy Kreme will open at least 30 to 34 new stores in the next five years with investments estimated at US\$30 million to US\$34 million.

## RETAIL NEWS

### Selected headlines compiled from CBRE's daily Compass email over the 2Q2007.

#### New mall to rise in Makati's Ayala Center

(BW, 04/3/07) As part of a redevelopment plan for Makati's Ayala Center, property firm Ayala Land Inc. will be putting up a new retail project as well as upgrade existing retail spaces. Construction of the Glorietta 5, which will rise on the parking lot between the Rustan's department store and Hotel InterContinental, has begun. The new building, with seven storeys, will be a mixed-use development, with four floors reserved for retail, and the rest to be taken up by office spaces. Glorietta 5 will be ready next year, Mr. Ayala said. The new building will have underground parking. He declined to say how much the new building would cost. The retail area of Glorietta 5 will initially house tenants from Glorietta 1, which will be renovated to become more upscale.

#### SM North makeover to cost P2-3B

(BW, 4/10/07) SM Investments Corp. recalls how people reacted negatively when mall tycoon Henry Sy set up SM City North EDSA in Quezon City back in 1985. They said then that Mr. Sy would lose money because there would be no people. But he saw the potential. It is the culture of Filipinos to shop. Over 20 years later and having proven the supermall concept, SM City North EDSA is again getting a makeover, after just having been expanded with the opening of a new building, The Block, last year. The latest renovation, SM officials said, will cost the company some P2-3 billion. Part of the reason, the officials admitted, is increased competition, with Ayala Land, Inc.'s (ALI) Triangle North of Manila (TriNoMa), located just a stone's throw away.

#### Local McDonald's franchise holder mulls IPO in H2

(PS, 4/11/07) Golden Arches Development Corp. is considering going public in the second half of the year to raise funds for its continued expansion program. Golden Arches is owned 51 percent by the family of businessman George Yang and 49 percent by Megaworld owner Andrew Tan. "Tapping the capital markets will provide the company a broader menu of sources of funds not only for its product development and domestic market expansion. McDonald's Philippines believes that going public this year would further underpin its aggressive growth strategy," Golden Arches said in a statement. Golden Arches has appointed Ernst & Young as financial advisor for its planned initial public offering (IPO). The company said it is also in the process of picking the lead underwriters for its IPO. The company plans to open 24 new McDonald's outlets this year, with each store costing about P25 million.

#### Robinsons set to expand mall operations outside Metro Manila

(MT, 4/20/07) Robinsons Land Corp. (RLC) announced that it will expand its mall operations both within and outside of Metro Manila, with the property developer eyeing six new shopping centers. The property arm of the Gokongwei family-led JG Summit Holdings Inc. said it would construct malls in the cities of Manila, Bacolod, Tagaytay, Bulacan, Tacloban, Dumaguete and Davao. It would also expand its Robinsons Manila and its first Robinsons mall in Bacolod. rederick D. Go, RLC president, said the company has opted to venture into mid-sized shopping centers, instead of the super malls that rivals have been undertaking.

#### Mall 'boom' spurs innovativeness, new ideas in business sector

(Sunstar, 4/20/07) The sprouting of more shopping malls in Cebu will encourage new, "crazy" ideas and spur innovativeness, a group of local retailers said. Although it's not spoken enough, malls are new incubation venues for budding entrepreneurs. The new generation of retailers in the areas of information technology, apparels and fashion accessories, among others, have become more creative and playful, either in product design or in marketing strategies. Cebu's booming business climate, which is characterized by the expansion of companies in the hotel, food, IT and real estates sector and the rise of new buildings in key areas around the city is attributed to the "young and fresh" entrepreneurial concepts of retailers.

#### New Burger King franchise holders set expansion moves

(PS, 4/23/07)BK Titans, the new owner of the Burger King fastfood chain in the Philippines, is spending P600 million over the next five years for the construction of an additional 75 stores and the refurbishment of existing branches as it seeks to further beef up its presence in the restaurant industry. Burger King Phils. president and chief operating officer Raul B. Nazareno said the planned expansion program will increase its store network to 100. For 2007, the company is planning to put up at least four new branches, one in Ortigas, two in Makati and one in Trinoma North Edsa. To date, there are 22 Burger King outlets in the Philippines.

#### Cebu retailers band to spur industry growth

(Tribune, 4/23/07) Cebu business owners have formed a chapter of the Philippine Retailers Association (PRA) in the city to help boost the industry. PRA-Cebu president Jay Aldeguer said he hopes to achieve with a "formidable" working team that will elevate Cebu's retail industry, which he considers to be a driving force in the local business scene. "Retail as always been one of the major industries of Cebu," Aldeguer said.

#### Sy group sets P95-B outlay for expansion

(BW, 4/26/07) After announcing that its mall operating subsidiary plans to spend P35 billion for new developments, the Sy group, via holding firm SM Investments Corp., announced it would be allocating another P60 billion in capital expenditures for its other units. The firm would be spending a total of P95 billion over the next five years, including the P35 billion allotted for SM Prime Holdings Inc. SM Investments is the Sy group's holding company for its real estate, banking, retail and tourism businesses. Listed firms under it are SM Prime, Banco De Oro Universal Bank, Equitable PCI Bank, China Banking Corp., and SM Development Corp. The bulk of the capital outlay would be poured into mall developments.

#### June opening for Ayalas' TriNoma mall

(BW, 4/26/087) Competition between the country's retail giants is heating up as Ayala Land, Inc. prepares to take on Sy-owned SM North EDSA in Quezon City. Ayala land's newest mall, the 195,000-square meter Triangle North of Manila (TriNoma), would open its doors to the public in May. A grand opening, meanwhile, has been slated for June. TriNoma - ALI's first foray to northern Metro Manila - is right across SM North, the Sy group's first mall, and is connected to what is currently the last stop in the Metro Rail Transit (MRT) system. The Ayala mall, however, will be dwarfed by SM North, which, at 331,861square meters, is one of the biggest malls of the Sy group which it had begun a P1.8-billion redevelopment plan.

### 7-Eleven to open 35 provincial outlets

(BW, 5/2/07) Publicly listed convenience store chain operator Philippine Seven Corp. aims to open at least 35 provincial outlets of 7-Eleven this year, as the company continues to aggressively expand its branch network outside Metro Manila. The expansion plan is in response to the growing demand for 24-hour convenience shopping not only in Metro Manila, but also in neighboring provinces. The new provincial stores will be opened in Batangas, Cavite, Laguna, Quezon, Baguio, Bulacan, Nueva Ecija, Pampanga, Pangasinan, Zambales and Tarlac. Their stores have grown to 51 in the South and 23 outlets in the North. By the end of 2006, there were 287 7-Eleven stores scattered nationwide, 8% more than the operating stores in 2005. Out of these, 167 were company-owned 120 were franchised. With the 35 provincial stores to be opened this year, 7-Eleven is well on its way to reach its target of 360 stores by the end of 2007.

### Ayala mall, lot sales boost Cebu Holdings' earnings

(BW, 5/9/07) Cebu Holdings Inc. reported a jump in its first-quarter earnings on the back of higher revenues from Ayala Center Cebu and commercial lot sales. In a report to the Securities and Exchange Commission, the company said its consolidated net income during the period grew by 52 percent to P112.3 million. Revenues surged by 89 percent to P486.8 million due to the continuing improvement of Ayala Center Cebu's performance and the sale of commercial lots, the company said. The current rezoning program of Ayala Center Cebu and marketing activities pushed sales to grow by 9 percent, contributing P102 million to revenues, or 4 percent higher than last year. The company's unit, Cebu Leisure Company Inc., posted a consolidated revenue growth of 15 percent to P28.9 million as total sales of Ayala Food and Entertainment Center grew by 21 percent.

### New malls push up SM Prime's profits

(BW, 5/9/07) Sy-led SM Prime Holdings, Inc. posted an 11% increase in net income to P1.55 billion for the first quarter of the year mainly due to new malls. In a statement, the company said its revenues rose 24% to P3.6 billion from P2.85 billion boosted by higher rent from five malls that opened last year - SM Mall of Asia, SM City Sta. Rosa, SM City Clark, SM Supercenter Pasig and SM City Lipa. The company, which operates 28 malls, said rent accounted for 83% of total revenues, pulling in a 26% increase to P3 billion from P2.35 billion. SM Prime said new malls have an average occupancy level of 97%. Same store rental growth was more subdued at 7%.

### Mall rental rates expected to rise

(MT, 5/24/07) Election-related spending will put pressure on the rental rates for retail stores in Metro Manila malls in the next 12 months. "In the next 12 months, our forecast points to an expansion of 7 percent,". Rentals at the Ayala Center rose by 1.4-percent quarter on quarter to P1,200 per square meter per month, while malls in Ortigas were up by nearly the same magnitude during the quarter at P980. Election-related spending is finally starting to be reflected in mall retail performance. Store sales in Ayala Center were up by 1 percent in the first quarter, while retail sales improved by 2 percent year on year. The stock of retail space in Metro Manila remains at 4.33 million square meters.

### Puregold investing P1.2B in new outlets

(Inquirer, 6/1/2007) Puregold Price Club Inc. is investing PhP1.2 billion this year to open four new supermarkets to reach more sari-sari store [neighborhood variety store] operators, which make up a

big part of its regular customers, company president Leonardo Dayao said. The new outlets will be in Taytay town outside Manila, in Meycauayan town in Bulacan province, in San Juan town in Metro Manila, and in the Monumento area of Caloocan City, Dayao said. Each new [supermarket] requires an average of PhP300 million in investments, and at the same time creates 300 direct jobs, he said. Puregold Price Club has 18 outlets, including those in the provinces of Pampanga, Cavite and Laguna.

### Mall developer raises P4 billion from notes issuance

(BW, 6/6/07) SM Prime Holdings, Inc., the country's largest shopping mall developer and operator, raised P4 billion from a floating rate notes facility, the company said. In a disclosure, SM Prime said proceeds would be used to fund ongoing capital expenditures (capex) and general corporate requirements. The facility, which will mature five years and one day from issue date, was oversubscribed with seven primary institutional lenders subscribing to the issue. First Metro Investment Corp. (FMIC) and SB Capital Investment Corp. arranged the notes issuance. The strong response by the market to this financing illustrates the high credit quality of SM Prime, as well as the local market's confidence in [the company], the Sy-led firm added.

### Southway Mall, testament of confidence on LGU: mayor

(Sun Star, 06/09/07) Zambangueños will now have another shopping destination-Southway Mall, the newest mall in town. Owned by the Lim Corporation, Southway Mall formally opened its doors to the public Friday morning with no less than Mayor Celso Lobregat and Zamboanga Chinese Chamber of Commerce and Industry President Wee Siong Ben as guests of honor. Monsignor David Alonzo officiated the blessing ceremony. This is proof that businessmen, both local and foreign, have strong confidence in Zamboanga City and the local government, Mr. Lobregat said in a message during the opening program. Mr. Lobregat said the opening of Southway Mall belies rumors spread by his detractors during the campaign period that Zamboanga's economy is sluggish and that the city is not improving. The chief executive thanked the Lim Corporation for the trust and confidence on his local administration as he vowed to continue with his programs to improve the city's economy. Southway Mall owner Edgar Lim said the putting up of the huge shopping center is the vision of his father who died four years ago. He said the company is also very appreciative of the support of the local administration to businessmen, thus, the new investment.

### RP consumer spending to surge 27 percent by 2015 says study

(PS, 6/17/07) A study by the Canadian government is projecting that consumer spending in the Philippines would surge by 27 percent by 2015, from the \$75.6 billion level in 2005 to reach \$96.3 billion. The study conducted by Agriculture and Agri-Food Canada shows that consumer spending on food and non-alcohol beverage alone would hit \$37 billion within the 10-year period, expanding by 31 percent from \$28.3 billion in 2005.

### Yet more retail malls cometh

(Inquirer, 06/24/2007) Filipinos have certainly had much practice, with malls of all shapes, sizes and concepts operating in all urban centers and spreading out to the provinces. And the pace of construction is showing no signs of slowing down with at least two malls rising every year, and that is just from the big players in the retail industry such as the SM, Robinsons and Ayala groups. There are the other construction firms that are jumping on the retail bandwagon and putting up their own establishments to take advantage of the brisk business. Fueling the growth is the unabated growth in the amount of remittances sent to the Philippines by Filipinos working overseas. There are not only more Filipinos going abroad, they are sending more money to the tune of over \$12 billion a year from over eight million overseas Filipino workers. Add to that the growing population, which now stands at over 86 million people, and there is room for further expansion.

## MAKATI RETAIL

Located at the southeast of Metro Manila, the Makati retail district primarily serves the central business district workforce. It also serves the needs of the high-income residents in Forbes Park, Dasmariñas Village, Urdaneta Village and the like. Road access to the area is provided by C-5 or circumferential road 5, a road that traverses the Northern, Eastern and Southern parts of the metropolis.

The district contains two main shopping malls developed by Ayala Land, Glorietta and Greenbelt in Ayala Center and one developed by Fort Bonifacio Development Corporation which is Market! Market! in Fort Bonifacio. These three malls boast a total of 648,813 sqm of GFA. There are two more retail establishments in Ayala Center, Landmark and SM Makati, which are smaller in scale. Ayala Center also contains three department stores, two food courts, three supermarkets, and over 600 independent stores and shops.

This is evident in the Makati CBD where as traffic tend to standstill during working hours (and sometimes after), executives and employees would rather “hangout” at the Ayala Center, which offers four distinct retail zone structures selling diverse items and services. In 1997, the Ayala Center underwent a 10% space expansion to target a more affluent catchment area, buoyed by increased service employment and incomes. This can be evidenced from the significant take-up of office space in the past six years. The new Glorietta 4 wing focused more on restaurant/ entertainment tenants in a bid to attract business even on weekends.

## ORTIGAS RETAIL

This business district contains five major malls, namely, Robinsons Galleria, SM Megamall, Shangri-La Plaza, The Podium, and Starmall EDSA. With a total gross floor area of more than 811,642 sqm, the district has the biggest stock of shopping mall space amongst the retail districts in Metro Manila. In addition to shopping malls, the Ortigas Center complex has five department stores and four supermarkets, restaurant outlets and entertainment facilities.

Mall business in Ortigas largely depends on an increasing middle-income population on its east (Pasig, Quezon City, and Rizal) and west (Mandaluyong and San Juan). By offering one-stop shop “box-type” shopping complexes, developers target retail “family” patrons who are encouraged to spend the whole day in the malls. Ortigas Center’s five malls are also niche players as they either target the upper middle to high-end population or the Class C and D market. Representing 78% of the Ortigas market, malls such as SM Megamall and Robinsons Galleria, and Shangri-La Plaza cater to the middle-income to the more affluent patrons by allocating a large area of their malls for entertainment to draw tenants. Tenants in these malls are zoned or grouped together according to the product or service they provide. This enhances traffic as small destination centers are created within the malls. The malls are also designed such that anchor tenants are placed at the end of a long corridor of shops to heighten visibility for smaller shops.

Starmall, as well as EDSA Central, a small player at the other side of Shaw Blvd targets the class C and D population. These malls have no obvious zoning plan and provide more fast-food space and small stalls (or kiosks) selling various products to transient patrons.

## ALABANG RETAIL

Retail development grew rapidly in the last five years with the opening of two super regional shopping complexes, Festival Mall in Filinvest Corporate City and SM Southmall along Alabang-Zapote Road. As direct competitors, these malls derive their sales from middle-income patrons who appreciate their one-stop shopping concepts. Festival mall tenant occupancy rates have been improving only steadily as its development was meant to service future executives, employees, and residents of the 244-hectare

Filinvest Corporate City urban center. In response to a rising affluent society in Alabang, Alabang Town Center was expanded by 92,000 sqm to add in more restaurant/ entertainment tenants, similar to ALL's moves in Makati.

## **QUEZON CITY RETAIL**

Araneta Center has three major retail shopping malls, which are Ali Mall, Farmers Plaza, and Gateway Mall. The high-end Gateway Mall is part of an on-going effort to revitalize the area. The master planning project calls for the development of office and high-rise residential buildings. The two other malls are older since they were built before 1985.

Meanwhile, the new TriNoMa at the intersection of EDSA and North triangle opened this quarter to challenge the first mall of SM in the country, SM North EDSA.

## **ROCKWELL RETAIL**

The only mall in the center is the Power Plant Mall targeting the upper class segments and the local residents, white collar workers and students in the area.

## **EASTWOOD CITY RETAIL**

This is the first IT Park in the country, and is developed by Megaworld Corporation. The development comprises residential and retail components – the shopping mall, Eastwood Citywalk I and II, and a complex of specialty restaurants, bars, and cafes. The 22,750 sqm mall complex targets shoppers living in the residential condominiums within the complex, the workforce based in Eastwood City, as well as those residing in the high-end residential developments such as Green Meadows, Valle Verde, White Plains, and Corinthian Gardens.

## **EAST OF MANILA RETAIL**

The east of Metro Manila district contains two main shopping malls, Robinsons Place Metro East and Sta. Lucia East Grand Mall, which are situated beside each other. They are located at the center of largely residential areas with a well-established consumer catchment. In addition to shopping malls, the area also contains two department stores, three supermarkets, restaurants and entertainment facilities. Soon these two will be accompanied by another SM mall, SM Marikina.

## **BAY CITY AND ERMITA RETAIL**

Ermita is one of the oldest retail districts in Metro Manila. Although it is a mature market, there are only two major malls in this area, namely, SM Manila in Lawton, and Robinsons Manila in Ermita, which together comprise a total GFA of 340,269 sqm. The rest of the retail stores in the area are either in the form of department stores or smaller shopping centers.

Meanwhile, Bay City (formerly Boulevard 2000) is an emerging area in the cities of Pasay and Parañaque, with over 1,500 hectares of reclaimed land that are open for development. Currently, the area contains only one shopping mall, SM's Mall of Asia, which was completed in May 2006. It is currently the largest mall in the country composed of four two-storey buildings interconnected with walkways, boasting 386,224 sqm of GFA. The establishment includes a department store, a hypermart, an appliance center and numerous independent stores and shops, restaurants that overlooking panoramic view of the Manila Bay.

## MAJOR SHOPPING MALL DEVELOPERS

Although there are a number of shopping mall and retail developers in the Philippines, the following three are considered the most important players in the market:

### SM PRIME HOLDINGS

SM Prime Holdings is the country's leading shopping mall developer and is part of the SM Group of Companies, one of the largest conglomerates in the Philippines - accounting for as much as half of the Philippines' retail market. SM Prime targets the mass market and pioneered the supermall mall concept of combining shopping (both local and international brands), eating (both restaurants and fast food), entertainment (cinemas, bowling lanes, ice skating, theme rides, and games), and convention and trade exhibition centers under one roof.

Currently, SM Prime has 28 supermalls in Metro-Manila and the Provinces and a total gross floor area of approximately 3.98 million sqm (42.75 million sf). Thus, SM accounts for over 48% of the mall industry's total gross floor area. SM malls will usually include SM Department Stores (taking up as much as 35% of an SM Mall's GLA), SM Supermarts, SM Food Courts, and SM Cinemas as major anchor tenants.

In 2006, SM completed the SM City Clark in Pampanga, SM City Lipa in Batangas, SM Mall of Asia in Pasay City and SM Supercenter Pasig. In March 2007, SM Bacolod in Negros Occidental was opened while SM Baliuag in Bulacan, SM Marikina, SM Taytay and SM Muntinlupa are already under construction. Meanwhile, other SM malls in the pipeline are SM Calamba in Laguna, SM Dagupan in Pangasinan, SM Laoag in Ilocos Norte and other malls in the provinces.



SM Mall of Asia

### ROBINSONS LAND

Robinsons Land is the country's second leading shopping mall developer and is part of J.G. Summit Holdings, Inc. (JGSHI), one of the country's largest and most diverse conglomerates. Currently, Robinsons Land has 18 shopping malls in Metro-Manila and the Provinces and a total gross floor area of approximately 1.29 million sqm (13.88million sf) - accounting for about 15% of the mall industry's total gross floor area. Major anchor tenants in Robinsons' malls include the Robinsons Supercenter, the Robinsons Department Store, the Robinsons Supermarket, and the Robinsons Movieworld.

Like SM Prime, Robinsons also targets the mass market. However, to set itself apart from, Robinsons has begun to pioneer new retail concepts such as the Market Bazaar (a grouping of micro retail outlets at the Robinsons Place Cainta and Lipa), the East Center (a "lifestyle center" at Robinsons Galleria), and Paseo Iloilo (a grouping of restaurants and bistros at Robinsons Place Iloilo).

Its newest malls include Robinsons Pioneer and Robinsons Metro Bacolod. No new malls were opened in 2006. Robinsons Dumaguete is still under construction but is expected to be opened within 2007.

## AYALA LAND

Ayala Land, Inc. is part of the Ayala Corporation, the oldest and one of the most diverse conglomerates in the country. Currently, Ayala Land's shopping malls have a total gross floor area of 1.05M sqm (11.28 million sf) - accounting for nearly 13% of the mall industry's total gross floor area.

Ayala Land is considered one of the most prestigious real estate developers in the Philippines and has consistently shown a willingness to take risks in order to provide high quality and innovative real estate products. For example: Their most notable retail project, the Greenbelt complex in Makati, is an outdoor mall surrounding a landscaped park that includes a chapel. Their mall projects tend to target the middle to higher end of the market.

The 204,000 sqm (2.2 million sf) TriNoMa, Ayala's newest mall, already opened in May 2007. Its tenants include National Bookstore, KFC, Jollibee and other regular mall occupants.

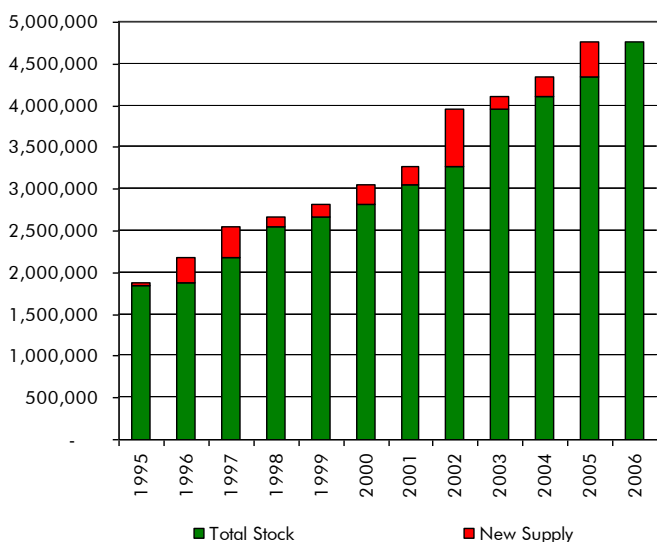


Greenbelt at night

## CURRENT STOCK & NEW SUPPLY

At the end of 2Q2007, the total amount of gross leasable mall and major commercial center space stood at approximately 4.87M sqm (52.46M sf).

During the quarter, an additional 114,460 sqm of prime retail space were added with the opening of Ayala Land's newest mall, TriNoMa, in Quezon City.



Source: CB Richard Ellis Philippines Inc

## METRO-MANILA RETAIL STOCK ESTIMATES

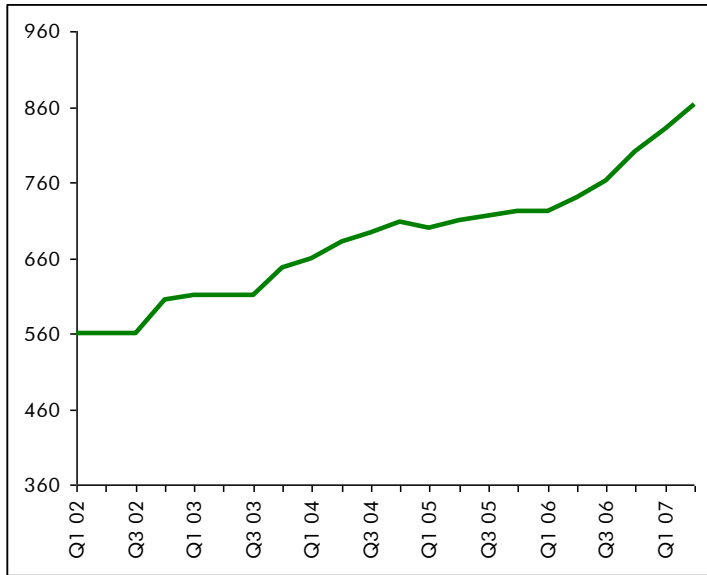
Type of Mall	2Q2007	1Q2007	Percent Change
Super Regional	2.9M sqm / 31.7M sf	2.83M sqm / 30.46M sf	4%
Regional	0.95M sqm / 10.2M sf	0.95M sqm / 10.2M sf	0%
District/Neighbourhood	0.98M sqm / 10.5M sf	0.98M sqm / 10.5M sf	0%
<b>Total</b>	<b>4.87M sqm / 52.5M sf</b>	<b>4.8M sqm / 46.77M sf</b>	<b>2.4%</b>

Source: CB Richard Ellis Philippines Inc.

## IDENTIFIED LEASING TRANSACTIONS

Building	Tenant	Size of Takeup (Sqm/Sf)
Greenhills Shopping Center	Krispy Kreme	200 sqm/2,153 sf

### Average Rental Rates



Source: CB Richard Ellis Philippines, Inc.

Rental levels have tended to vary considerably based on the location and size of the shopping mall, as well as the location of the individual shop units within the mall.

The average rental levels in Metro Manila have risen steadily since 2002 and have accelerated noticeably starting 2006. The highest average rental levels were found in Makati CBD and Ortigas Center, although the range between the lowest and highest rents was quite large. For the 2Q 2007, average rental rate is estimated to be around PhP864.

### Vacancy

Malls of SM Prime, Robinsons Land, and Ayala Land still enjoy 90-100% occupancy rates as major leasing transactions comprised mainly of space renewals in existing shopping malls and the take-up of space in recently completed shopping malls.

## NEW RETAIL OPPORTUNITIES

TriNoMa, Triangle North of Manila, is a shopping center on the corner of North Avenue and Epifanio de los Santos Avenue in Quezon City, Philippines. It is located just in front of SM City North EDSA and is located in a 20 hectare land. The mall has a Gross Leasable Area of about 195,000 square meters, including the adjacent Landmark. It will be directly connected to Manila MRT's North Avenue MRT Station and will be almost connected to the Yellow Line's proposed North Avenue LRT Station. Its nextdoor buildings are the Manila MRT North Avenue Depot and EDSA Mass Transit Project. It will have an overpass connecting TriNoma to SM City North EDSA which will be called TriNoMa-SM City North EDSA Overpass.

The mall will host to more than 550 shopping and retail establishments and the establishment has already enlisted about 600 tenants and is 90% leased out.

Its features include 7 cinemas, an Activity Center, about 8,000 parking slot mostly hosted in its 8 level parking lot, a garden in its upper floors and 7 water features, including a reverse waterfall.

TriNoma was officially launched in a private ceremony in April 24, 2007. It was inaugurated by officials of Ayala Land, its developer, and authorities of Quezon City. The soft opening was originally slated for May 3, 2007, but was delayed by structural elements that were yet to be finished. It finally opened to the public on May 16, 2007, and a grand opening scheduled on the last quarter of 2007.



Inside the TriNoMa in Quezon City

## SELECTED METRO MANILA ON-GOING RETAIL PROJECTS

Project	Developer	Location	Completion Target Date
Greenbelt 5	Ayala Land, Inc.	Makati City	2008
SM City Marikina	SM Prime Holdings	Marikina City	2008
SM Supercenter Muntinlupa	SM Prime Holdings	Muntinlupa city	4Q2007/2008

## METRO-MANILA MARKET OUTLOOK

The Philippine retail property sector will continue to see further expansion mostly from major mall and retail center developers like SM Prime, Robinsons land and Ayala Land.

SM Prime will continue to expand in the provinces with SM Taytay and SM Baliuag under construction and SM Calamba, SM Dagupan and SM Laoag in the provinces in the pipeline.

Robinson Land continues to acquire land where malls can be developed particularly in Tacloban City, Bulacan, Tagaytay City, and Davao City. It will also expand its Manila, Bacolod and Cebu malls. However, Robinsons would focus more on mid-sized malls unlike its other rivals which prefer to build large malls. The company also plans to develop commercial centers in Ortigas and in Manila.

After expanding its Ayala Center Cebu, Ayala Land, Inc. also plans further expansion. The lagoon area in the Ayala Center Cebu will be developed for more retail stores. A commercial center will be constructed in Angeles City. The Greenbelt 5 and Glorietta 5 are under construction.

The growing number of BPO employees in CBDs has affected positively the creation of new retail spaces. Some retail establishments have even gone 24-hours in their operations just to tap into the purchasing power of BPO employees and the availability of the market even during wee hours.

With this, retail rental rates will continue to increase as the influx of OFW remittances and success of BPO companies will continue to fuel purchasing power.

## METRO-MANILA RETAIL SUB-MARKETS

Metro-Manila, also known as the National Capital Region (NCR), is the economic, political, and cultural heart of the Philippines. The metropolitan area is composed of the city of Manila and 16 neighbouring cities and municipalities with a population of over 10 million people. Most Retail developments are concentrated in the two primary CBDs of Makati and Ortigas plus in a growing number of alternative CBDs.

**A. The Makati CBD and Finge .** Developed by the Ayala family, the Makati CBD is the financial and commercial heart of the Philippines and contains the headquarters of many banks, multinational corporations, and big local corporations. Most Prime/Grade A office buildings are located along Ayala Avenue, also known as the Wall Street of the Philippines, while Grade B and C buildings are concentrated in neighbouring Legaspi and Salcedo Villages. The Makati CBD commands the highest lease rates for office and residential homes and condominiums.

Also included is the Bonifacio Global City. This 214-hectare integrated community on the fringes of the Makati CBD is being developed by the Fort Bonifacio Development Corp. (FBDC) as an extension to the Makati CBD.

**B. The Ortigas CBD (II).** Developed in part by the Ortigas family 8 kilometers North of Makati, the Ortigas CBD is the second most important commercial and business district in the country and contains the headquarters of the Asian Development Bank (ADB) and San Miquel Corporation. The Ortigas CBD is also a major shopping destination - containing the highest concentration of malls in the country.



**Alternative CBDs & Retail Locations.** In addition to the above primary CBDs, Metro-Manila has six major alternative CBDs or Retail locations:

**1) Eastwood City.** This 15-hectare mixed-use community is being developed by Megaworld Corp. and was the first approved IT Park in the country.

**2) Rockwell Center.** This 15.5-hectare self-contained community on the fringes of the Makati CBD was developed by the Rockwell Land Corp. (RLC).

**4) Alabang.** Filinvest Corporate City is a 244-hectare mixed use community developed by the Filinvest Development Corp. (FDC) while the Madrigal Business Park is a 25-hectare joint development by the Madrigal family & Ayala Land.

**5) Bay Area and Ermita:** The Bay Area contains the Aseana Business Park and SM Mall of Asia, which is the country's largest shopping mall. The area currently offers limited existing office space as it largely remains in the early development stages.

**6) Quezon City**

a. **Araneta Center (Cubao):** Located in Cubao (Quezon City), the Araneta Center is a 35-hectare commercial shopping, entertainment, and transportation hub developed by the Araneta family. The new Gateway Mall includes an 8 storey Retail complex designed for call center/BPO tenants and there are long-standing plans to convert retail space

b. **North Triangle:** Located at the intersection of EDSA and North Avenue (Quezon City), the area is fast becoming another major commercial hub in the metropolis especially with the completion of TriNoMa and the upcoming plans to develop this part of Quezon City into another major CBD that will challenge Makati and Ortigas.

## ABOUT CB RICHARD ELLIS

CB Richard Ellis is the largest, vertically integrated commercial real estate services firm in the world. With headquarters in Los Angeles, it has more than 356 principal Retailers in 58 countries worldwide and employs over 19,500 real estate professionals. In the Philippines, CB Richard Ellis is the leading real estate service provider offering the most comprehensive and highest level of professional services in the country.

At CB Richard Ellis, we are committed to using our extensive industry knowledge, consultative approach and vast pool of resources to help clients maximize the value of their real estate assets. We assist owners belonging to a range of sizes and classifications in developing solutions for Retail, residential, industrial, and commercial / retail assets. We provide a custom mix of products and services to deliver measurable returns.

The firm has established its position as the market leader in the commercial brokerage services and undertakes a large portion of Tenant Representation assignments for multinational corporations who are entering or expanding operations in the Philippines. CBRE has also facilitated the take-up of over 250,000 sqm (2.7 million sf) of space for call center/BPOs. In addition, CBRE offers industrial and residential brokerage as an integral part of the full brokerage services offered to its clients.

The company is also aggressively expanding its involvement in Asset Services as it provides property management services for over 230,000 sqm (2.5 million sf) of prime commercial, residential, and mixed-use properties. This portfolio is spread over major areas in Metro Manila, including Makati City, Ortigas Center, the Bonifacio Global City, and the City of Manila. The company also renders Facilities Management services for over 20,000 sqm (215,000 sf) of real estate for corporate clients and other large occupiers.

The Research and Consultancy Department has an excellent track record providing professional advisory services to: financial institutions, large domestic corporations, multinational corporations and government institutions, fund managers, international real estate funds, and investment banks.

CBRE offers a full range of services consistent with other Asian CB Richard Ellis Retailers and includes:

- **Brokerage Services** — Retail, Residential, Industrial, Retail, Hotel and Leisure, Project Marketing, Cross Border Investment.
- **Asset Services** — Asset Management, Facilities Management, Project Management, Lease Management and Administration, Project and Technical Consultancy.
- **Property Management Services** — Transaction Management, Project Management, Portfolio Management/Lease Administration, Corporate Real Estate Finance, Strategic Planning and Consulting, International Services.
- **Financial Services** — Research and Consulting, Project Valuation/ Appraisal, Feasibility Studies, Occupational Audit and Management, Portfolio strategies, Investment Advisory, Development Consultancy, Financial Due Diligence, Investment Banking Support.

### TERMINOLOGY:

#### The Retail Trade Act of 2000.

This act opened the retail market to foreign retailers. Foreign ownership of as much as 100% is allowed under the law depending on the capitalization of the business and subject to certain terms and conditions. Foreign retailers not dealing exclusively in luxury goods must, however, must source at least 30% of their stock inventory, by value, locally for the first ten years after the law's effective date. Foreign retailers selling luxury products must have at least 10% of their inventory consisting of products assembled in the Philippines.

#### LEASE LENGTH

Leases are typically for 1 year while leases for an anchor tenant are 3 to 5 years in length. Short-term leasing of retail space is generally not possible.

#### REQUIRED DEPOSIT & ADVANCE

2 to 3 months deposit on rent plus service charges, monthly rent payment, and a fit-out deposit

#### RENT QUOTATIONS

Rental rates consist of 2 components: 1) A basic rent based upon the amount per sqm rented and 2) a percentage of the retailer's revenue.

#### SUCCEEDING RENTAL

Rent is usually paid monthly in advance.

#### RESTORATION

Shopping mall space is rented out as bare shell and is returned as bare shell at the end of the lease.



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