Property Sector Outlook:
JLL stays bullish on office and retail properties

Last week, we met with Lizanne Tan, Head of Tenants Representation, and Antonio Sabarre, Associate Director, of Jones Lang La Salle (JLL). They shared with us the reasons for their company's positive view on both the office and retail leasing markets in the country.

Average office demand now at 476,000sqm. Demand for office space remained strong over the past two years. In 2012, total space committed reached 482,000sqm while in 2013, it was 470,750sqm. This implies that average annual demand was 476,000sqm, much higher than the estimated annual demand of 300,000sqm made in 2011. JLL said it saw a steady increase in demand and said that tenants have been more aggressive in committing to office space. In 2012, there were 117,000sqm of pre-commitments signed, while in 2013, there were 285,000sqm of pre-commitments signed. We see this as a sign that companies are more confident about their expansion plans in the Philippines which bodes well for the office leasing industry.

Seeing demand for traditional office space. JLL is also seeing interest pickup in the traditional corporate office space. This comment by JLL is in line with ALI's strong sales of office units in its projects in Fort Bonifacio Global City. JLL believes annual demand for traditional offices could range between 20,000sqm to 100,000sqm driven by expansion of existing companies in the Philippines and also international companies setting up shop in the Philippines. This hinges on the Philippines posting a stable fiscal position and maintaining its good credit standings.

Sun still shines on the retail property market. JLL forecasts demand for retail property to remain healthy as international and local retailers are expected to continue their expansion, buoyed by a robust domestic economy. Incoming supply in Metro Manila is approximately 700,000sqm which could lead to a slight increase in vacancy rates but should not be much cause for concern. Rents are projected to grow steadily in the next 12 months propped up by stable retail demand and healthy domestic economy.

ALI and MEG are main beneficiaries. We expect ALI and MEG to be the main beneficiaries of the favorable growth trend of the office leasing market. ALI has around 640,000sqm of office space for lease, with 197,000sqm under construction and another 263,000sqm up for launch. MEG, on the other hand, has 509,000sqm of office space for lease and plans to add another 112,000sqm this year for a total of 621,000sqm. We have a BUY rating on ALI with a FV estimate of Php36.08 and a BUY rating on MEG with a FV estimate of Php4.54.

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Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

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