

Property demand seen close to peak of cycle

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The Philippine property sector may be close to hitting the peak of a post-Asian-crisis cycle, as analysts expect robust demand to extend for about two to three more years.

Analysts and bankers said low interest rates and big demand from end-users were supporting appetite for real estate -- the exact opposite of the situation 10 years ago when people were buying real estate on speculation that prices would rise further.

"I think we're closer to the top" of the cycle, said Michael Manuel, chief investment officer of Sun Life of Canada (Philippines) Inc. "A lot of things are going on in the property market, but if you look at the supply that's being built now, I think come 2009 and 2010, we'll probably see some kind of peaking."

Manuel told the Inquirer that in 2005 people were not too confident on the domestic economy expanding at a robust pace. He added the construction of buildings only started in 2006.

"If it takes three years to put up a building, then all of the supply will come in 2009 and 2010," Manuel said. "While I feel like the property sector has a way to go -- because of the vacancies right now which are still pretty tight at below single digits -- once supply comes in 2009-2010, we may see some plateauing."

Aurelio Montinola III, president of the Bank of the Philippine Islands (BPI), noted that real estate prices today are still 15 percent lower than the levels seen during the height of the Asian currency crisis ten years ago.

In disposing of its idle property assets, BPI has seen a significant improvement in valuation deals, Montinola said.

"Previously, we were giving discounts of 30 percent," he said. "Today, we give discounts of five to 10 percent for the big pieces, and there are pieces that we can sell at appraised or higher-than appraised value."

Alfonso Salcedo, president of BPI Family Bank, agreed that the real estate boom could still last for up to three years, supported by low interest rates which make it more affordable for people to finance housing requirements.

Salcedo said bulk of the housing borrowers today are people who buy real estate units for their own or their family's use -- vastly different from the situation 10 years ago.

Manuel said that in 1997, "property purchases were more speculative than anything, so it was easy to give up on payments."

"Now the units -- such as those bought by OFWs [overseas Filipino workers] -- are those where their families live," he added.

As of end-September, the combined real estate exposures of Philippine commercial banks amounted to P220 billion, up 2.4 percent over a year earlier, according to the latest central bank data.

The majority, or 96.8 percent of the sector's total real estate exposure, was held by the banks proper, while the remaining 3.2 percent was accounted for by their trust departments.

Loans extended for the construction and development of commercial properties, including infrastructure projects, comprised the bulk at 79.9 percent, or P154 billion, while the remaining 20.1 percent, or P38.6 billion, was granted for the acquisition of residential units by individual homeowners/borrowers.

Past-due real estate loans fell by 17 percent to P15 billion from the previous quarter's P18.1 billion.

"The improvement was mainly due to banks' rigorous collection, settlement, restructuring and foreclosure efforts," the central bank reported.

Consequently, past-due real estate loans fell to 7.8 percent of total loans from 9.4 percent a quarter earlier and 13.9 percent a year earlier.