

HOUSING PROSPECTS FOR 2004 AND 2005

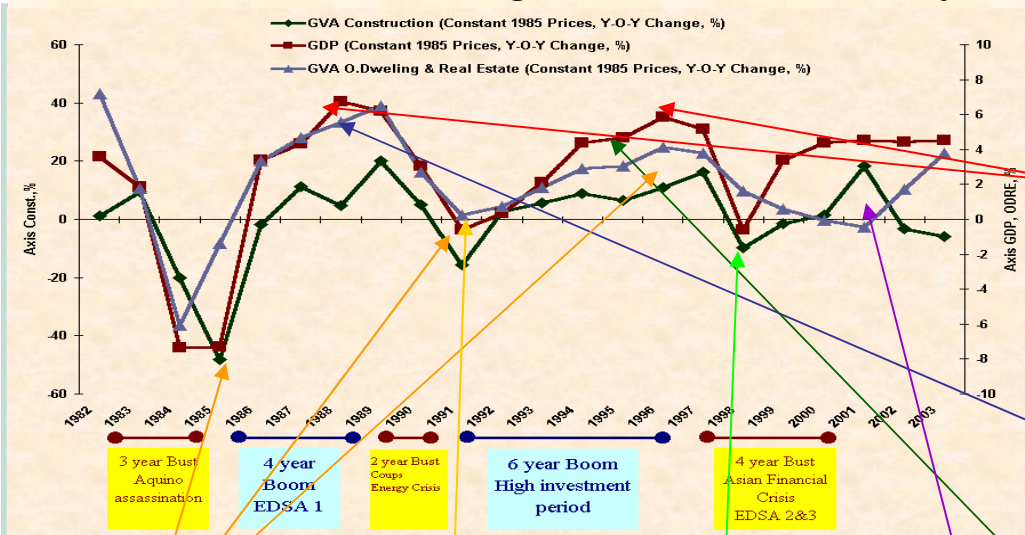
July 2004 Presentation

HYPOTHESES

Boom-bust cycle of real estate and housing sector show their vulnerability on politico-socio and economic developments

Political stability and public perception on the incumbent President influence the sectors' performance

The Real Estate and Housing Sector "Boom - Bust" Cycle



Boom years are attributed to eras of political stability, good governance and favorable public perception on the incumbent President

Boom years are characterized by high levels of investments which triggers construction and housing developments. Investments influences not only housing supply but also demand

Boom of 1986-89 attributed to restored democracy, change in political leadership and positive image in the international community

Boom of 1992-97 attributed to policy and structural reforms in the economic and financial system and the perception that the incumbent is able to address major problems

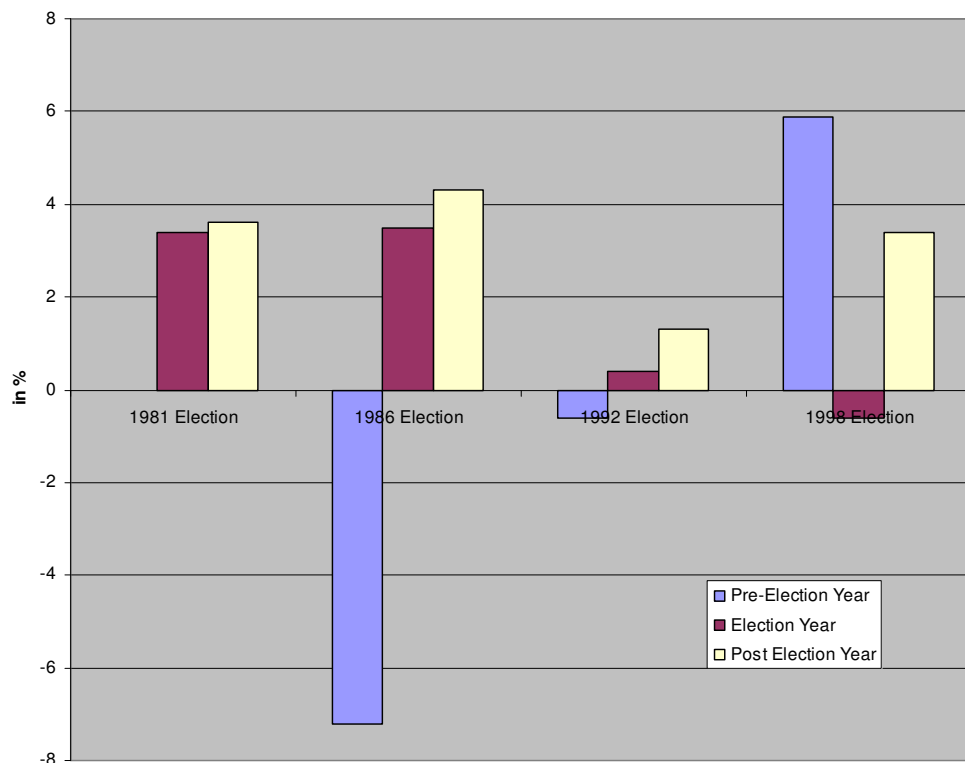
Sharp increase in Construction Growth attributed to EDSA 2 but was not sustained the following year.

Bust years occurred when there is political uncertainties and when the confidence level on the incumbent President is low

Slump in 1990-91 due to coup d' etat and energy crisis

Bust of 1998 was triggered by Asian financial Crisis and the poor perception of the middle to high income group to the incumbent President

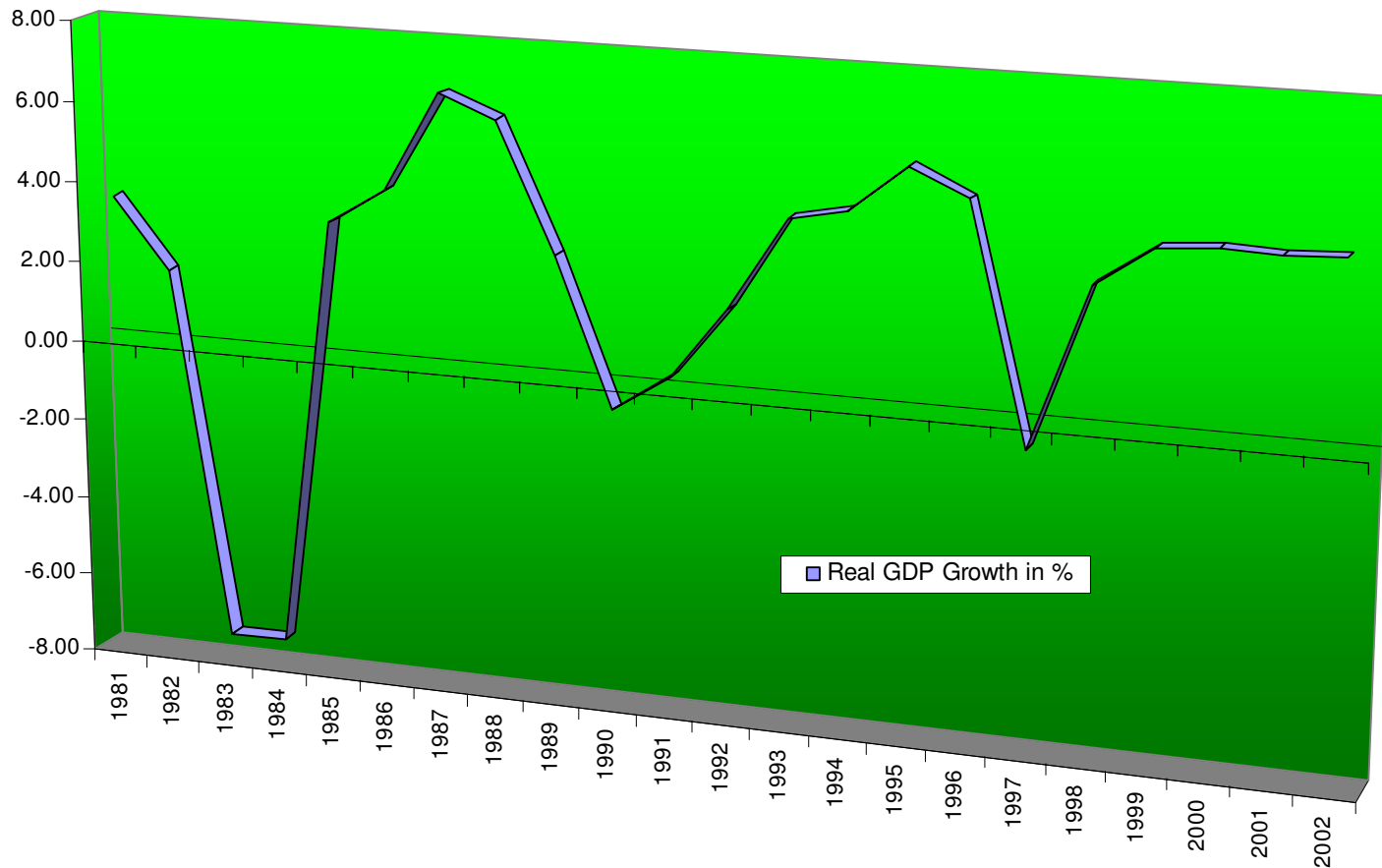
ECONOMIC BEHAVIOR DUE TO ELECTIONS



- ✓ There has been an observed trend between election years and the year immediately following
- ✓ Statistical tests reveal associations between Real GDP growth during election years and the year immediately following

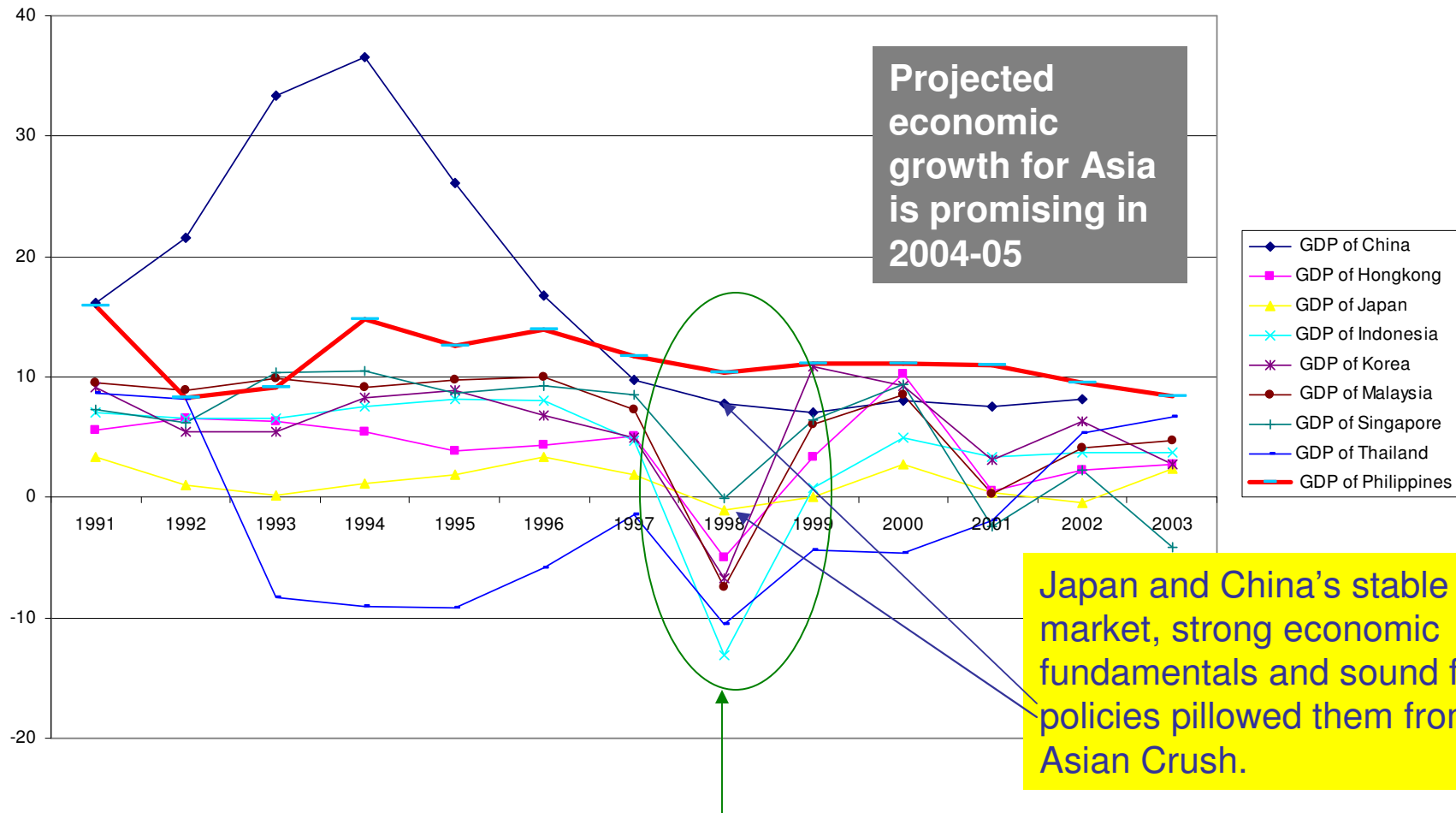
All years following Presidential Election posted higher GDP than the election year.

ECONOMIC, FINANCIAL and HOUSING INDICATORS



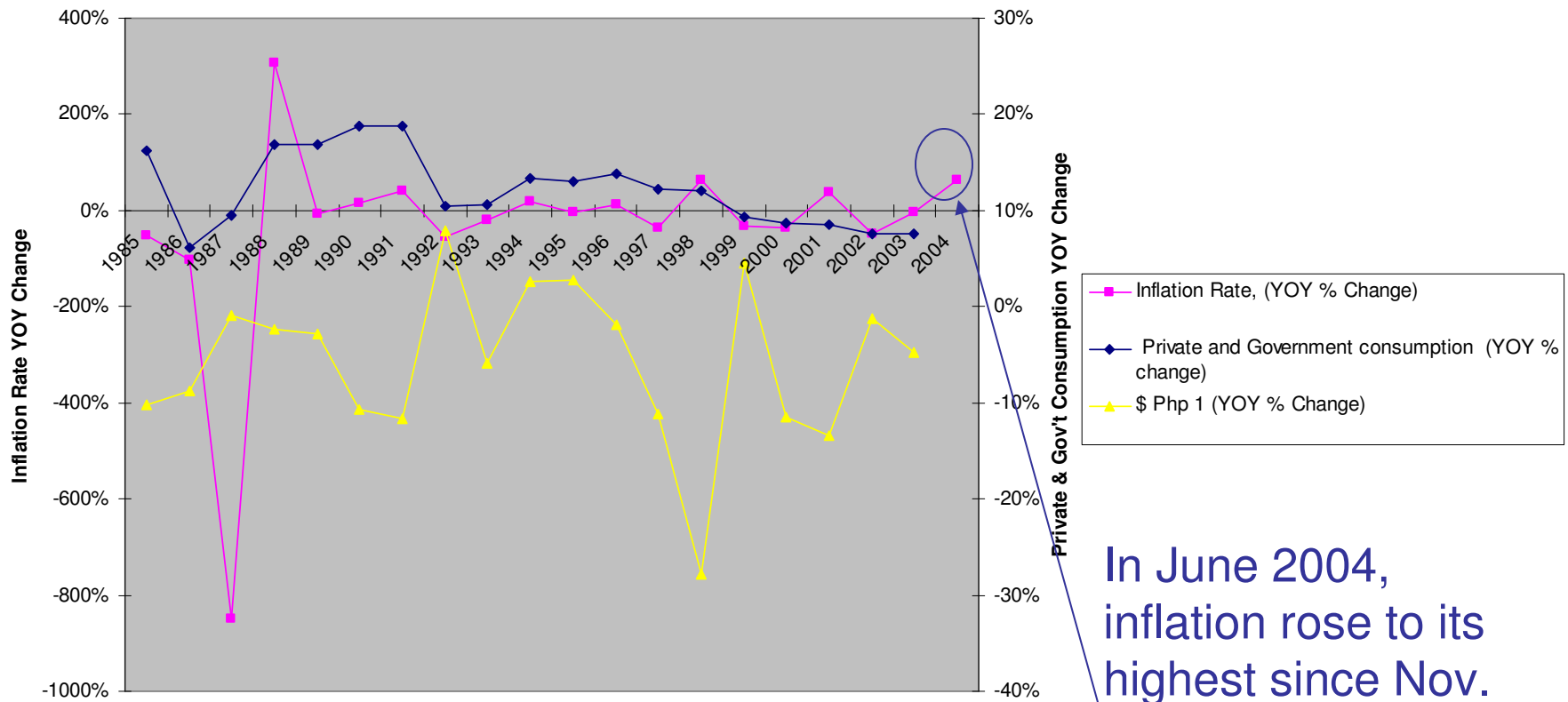
If statistical forecast was to be the basis, GDP growth for 2004 should go down to 4.4%. But the unexpected high first quarter GDP of 6.4% (due to the increase in the agricultural and export), indicates a continuous rise of the GDP . Although, sustaining this growth will not be likely in Q2 and Q3 because of the 5.1% inflation rate in June, Government is confident to surpass the GDP of 4% in June 2003.

Comparative Nominal GDP Growth of Selected Asian Countries (1991- 2003)



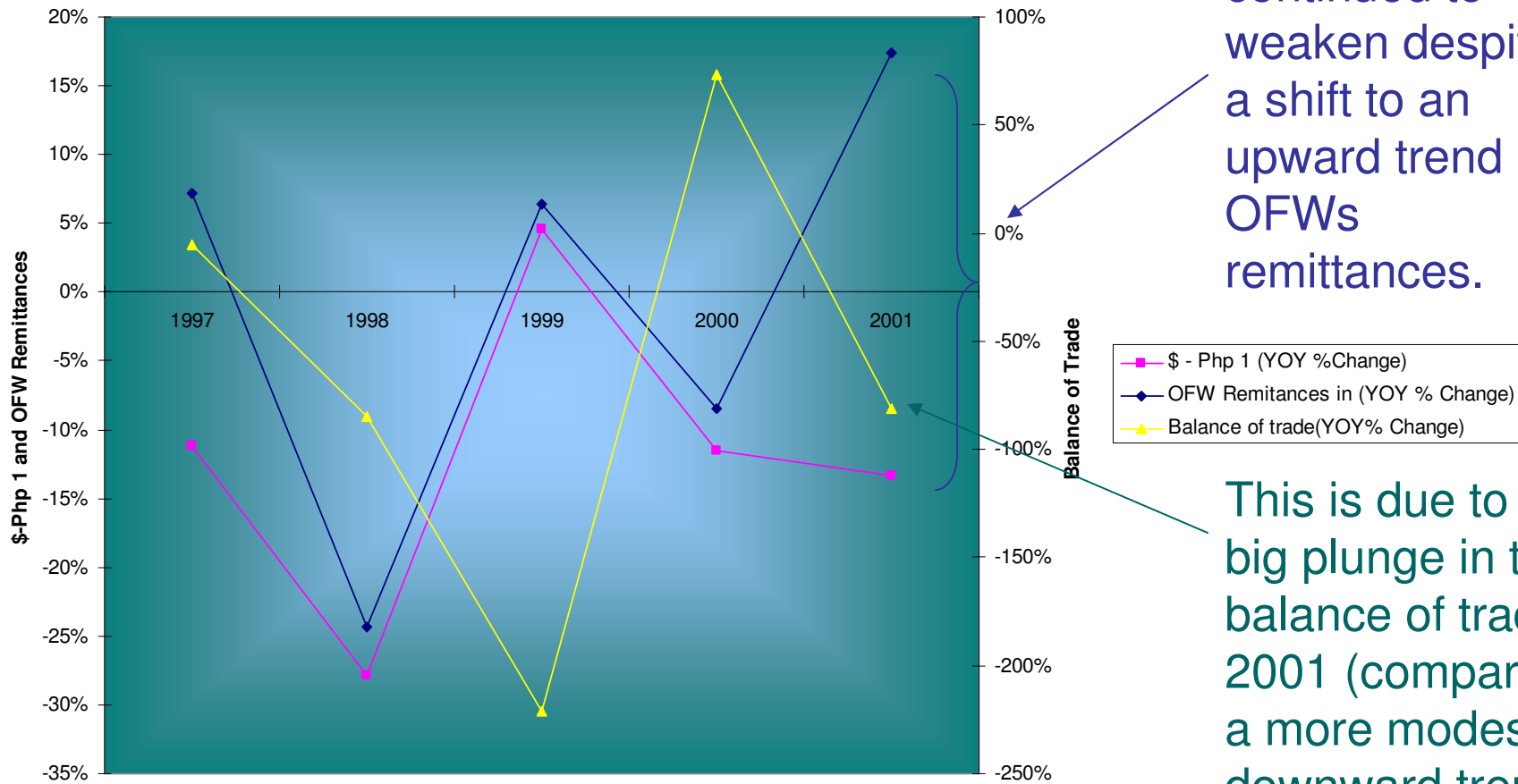
RP's GDP growth faired better than its neighboring economies in 1998. The more dependent the currency and economic activities of a country to world trade is, the harder they gave in to the blow of the Asian contagion.

Movement of Inflation, Consumption and the Philippine Currency



In June 2004, inflation rose to its highest since Nov. 2001 and up to 5.1% from 4.5% in May

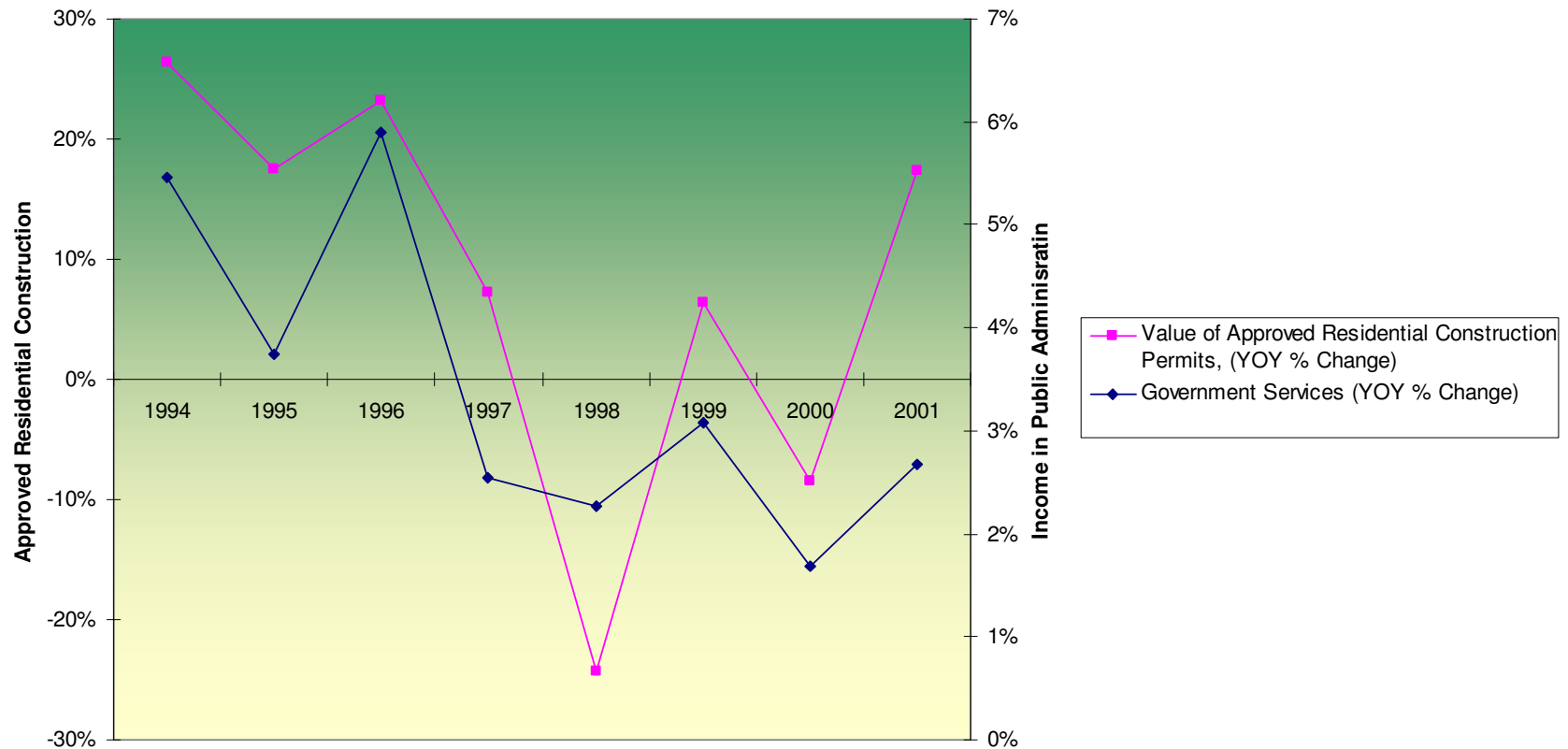
OFW \$ Remittances' contributes to the strengthening/weakening of the Philippine Currency.



In 2000-01 Peso continued to weaken despite a shift to an upward trend in OFWs remittances.

This is due to the big plunge in the balance of trade in 2001 (compared to a more modest downward trend in 1997-99).

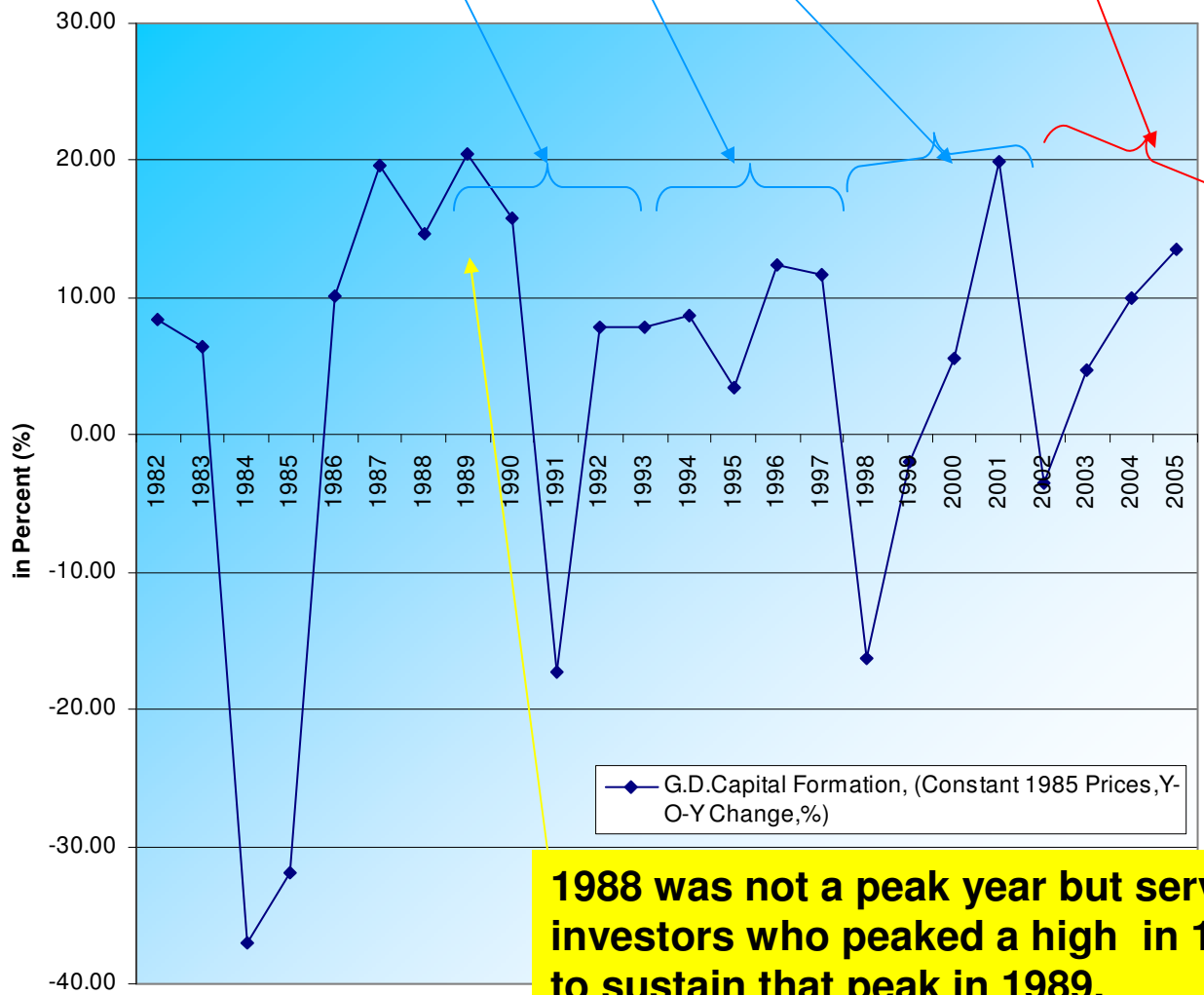
Income in Government Service have positive effect on house construction.



Approved Residential Construction and Government Service component (in GDP) has a high correlation coefficient at .76. Graph shows the two indicators have the same trends.

After 1988, GD Capital Formation peaks five years.

Following the trend, it is expected to peak at 13.6% in 2005



Peaks Scenario:

1992- Presidential Election won by FVR

1996 – within the boom years of the economy

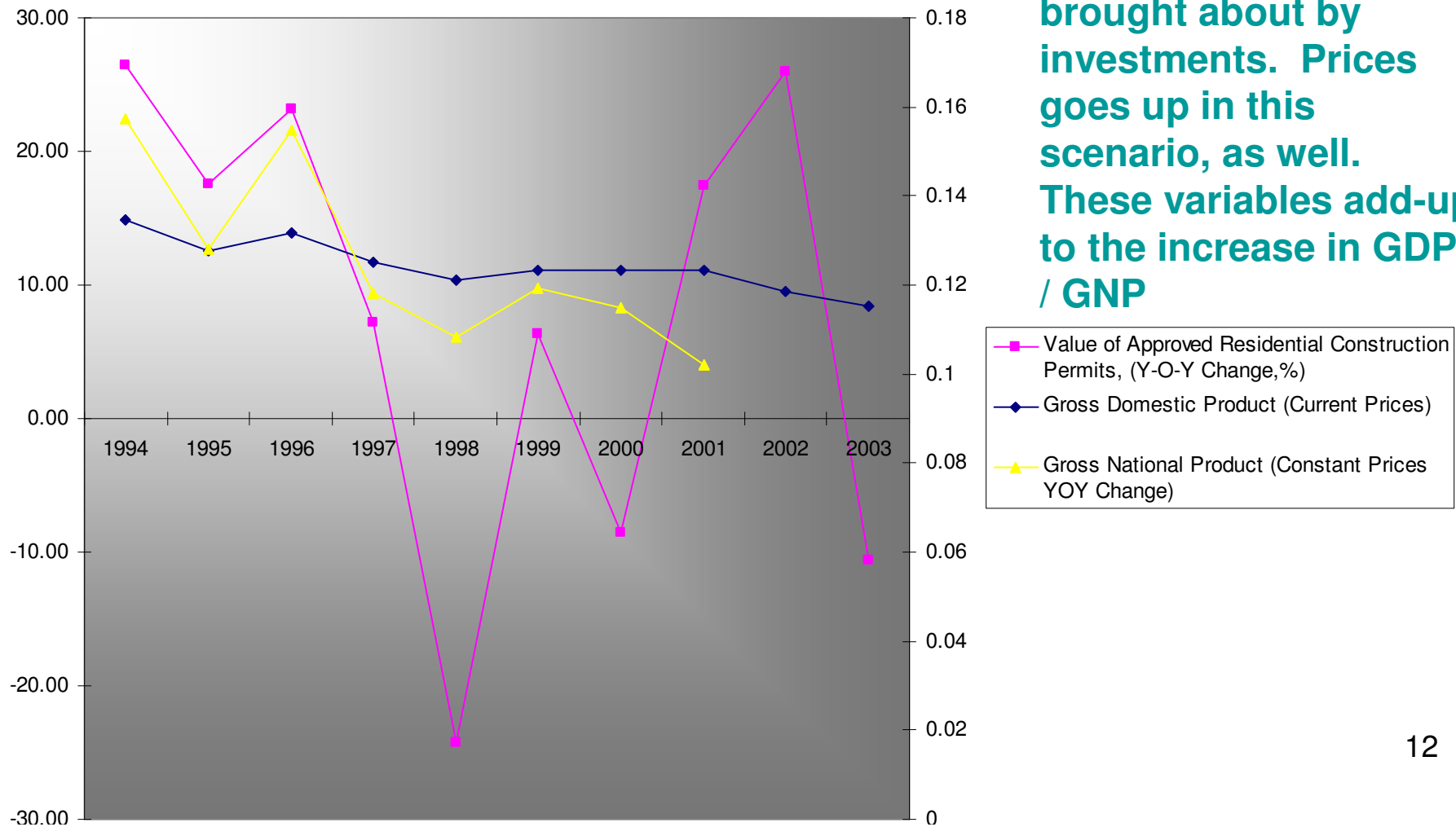
2001- EDSA DOS

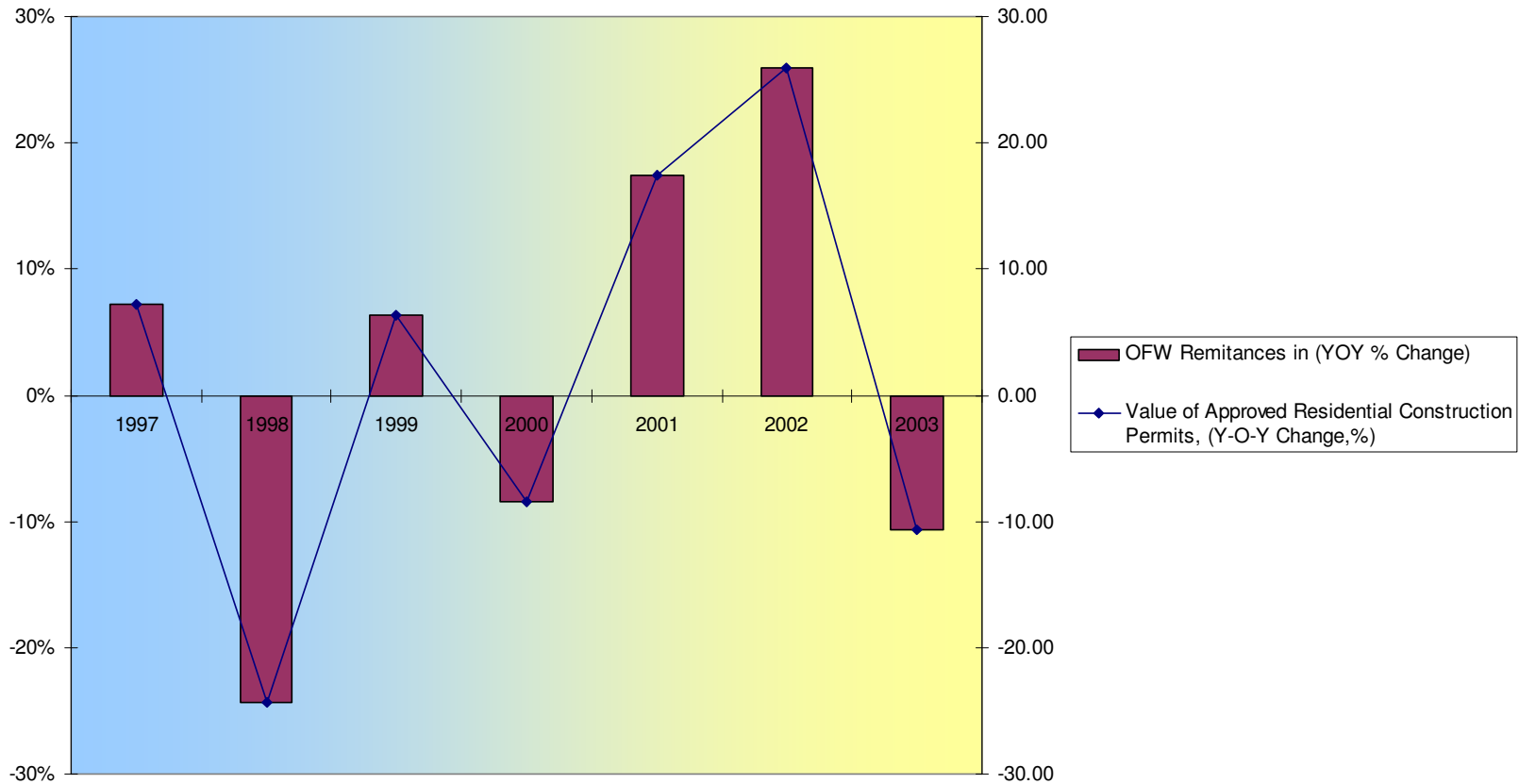
2005- expected to be the advent of another boom period

1988 was not a peak year but serve as a respite for investors who peaked a high in 1987 and regained to sustain that peak in 1989.

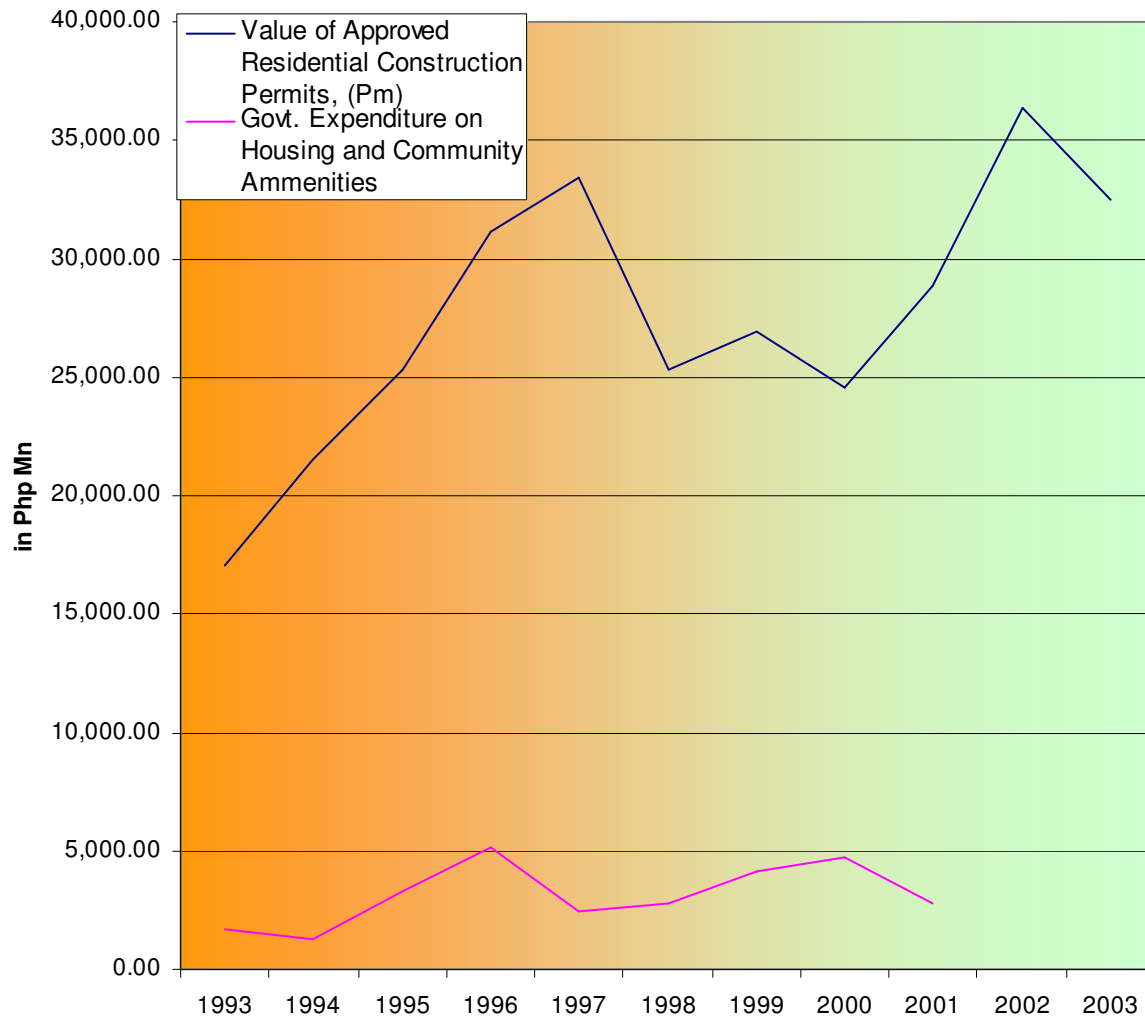
Homebuilding follows the trend of GNP and GDP. Homebuilding moves sporadically compared to the other two indicators. Homebuilding goes down during crisis years

Housing is triggered by brisk economic activity brought about by investments. Prices goes up in this scenario, as well. These variables add-up to the increase in GDP / GNP



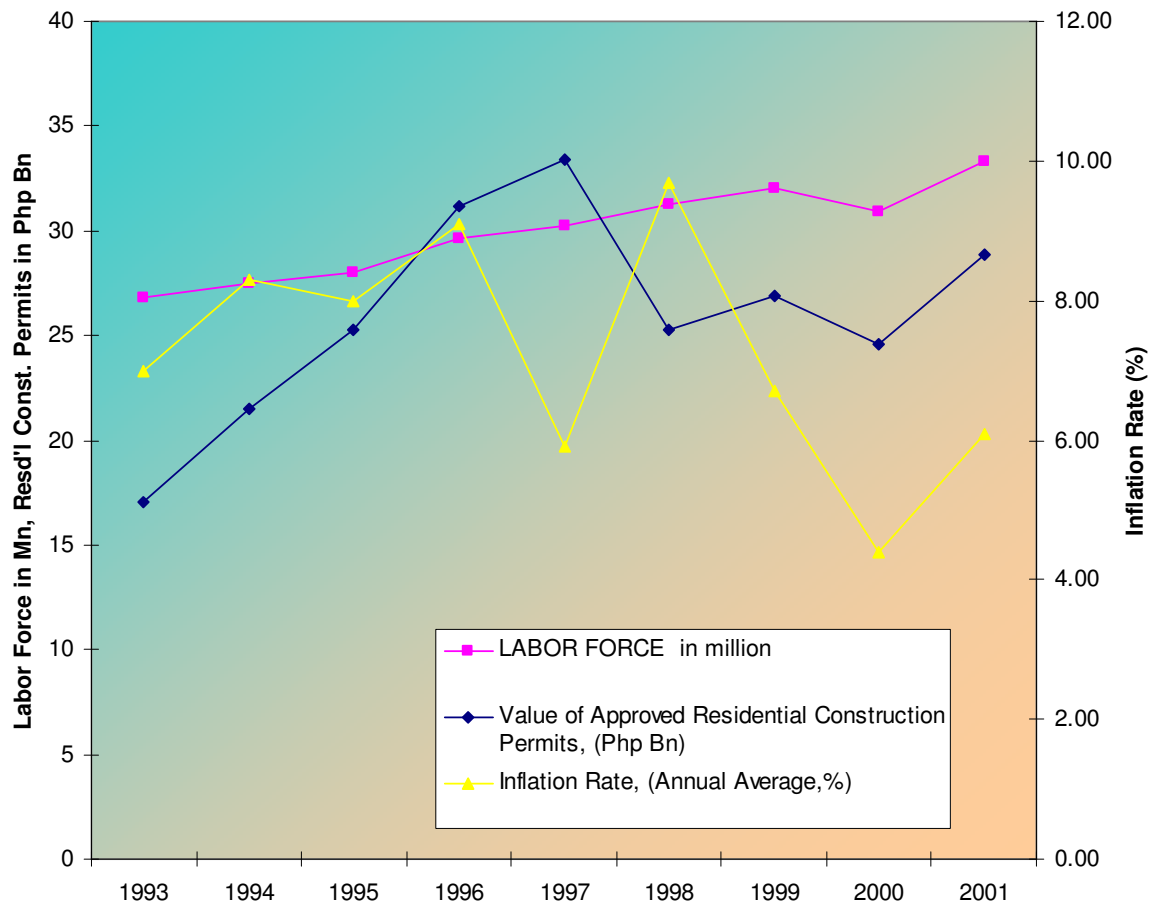


There is a direct relationship of homebuilding and OFW \$ remittances. The OFW segment has a big share in the homebuyers' market.

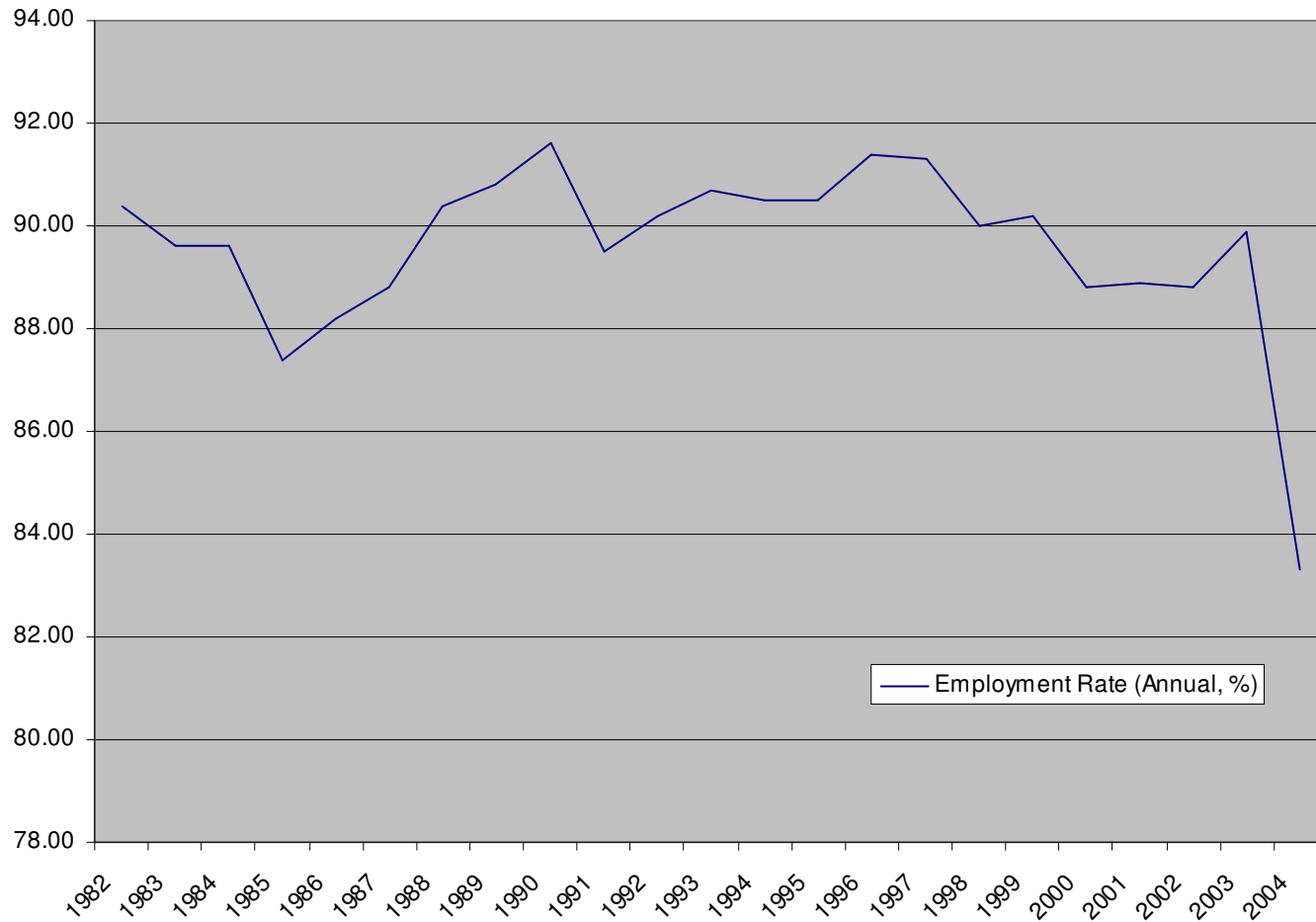


The two indicators have a correlation co-efficiency of 0.47.

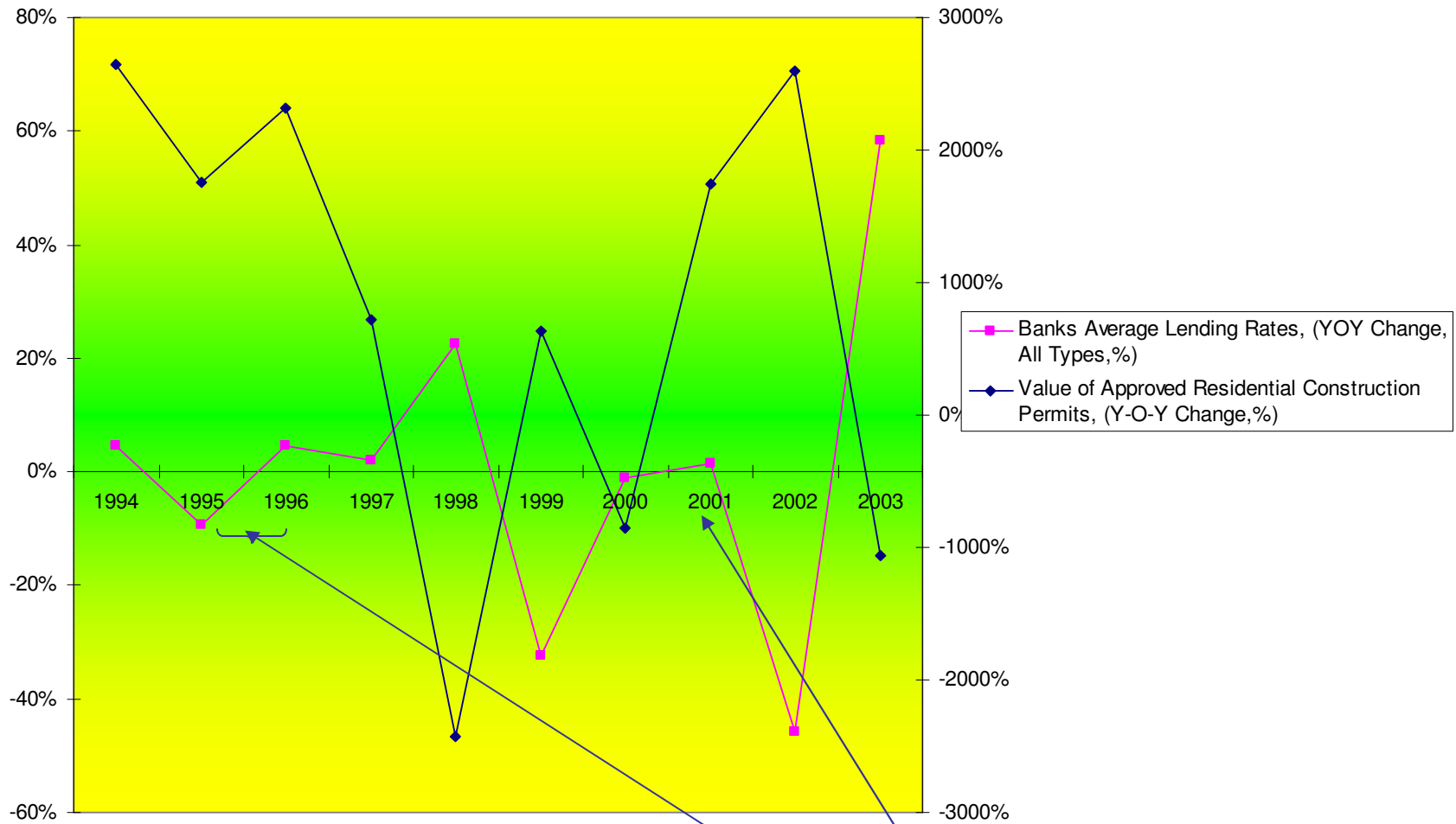
The Labor Force has been increasing from 1993-2001. Residential construction follows the trend of labor force. In 1998, the height of the Asian crisis, residential construction went down despite the continuous uptrend of labor force. Inflation went up to 9.7% that year.



Employment Rate (Annual, %)

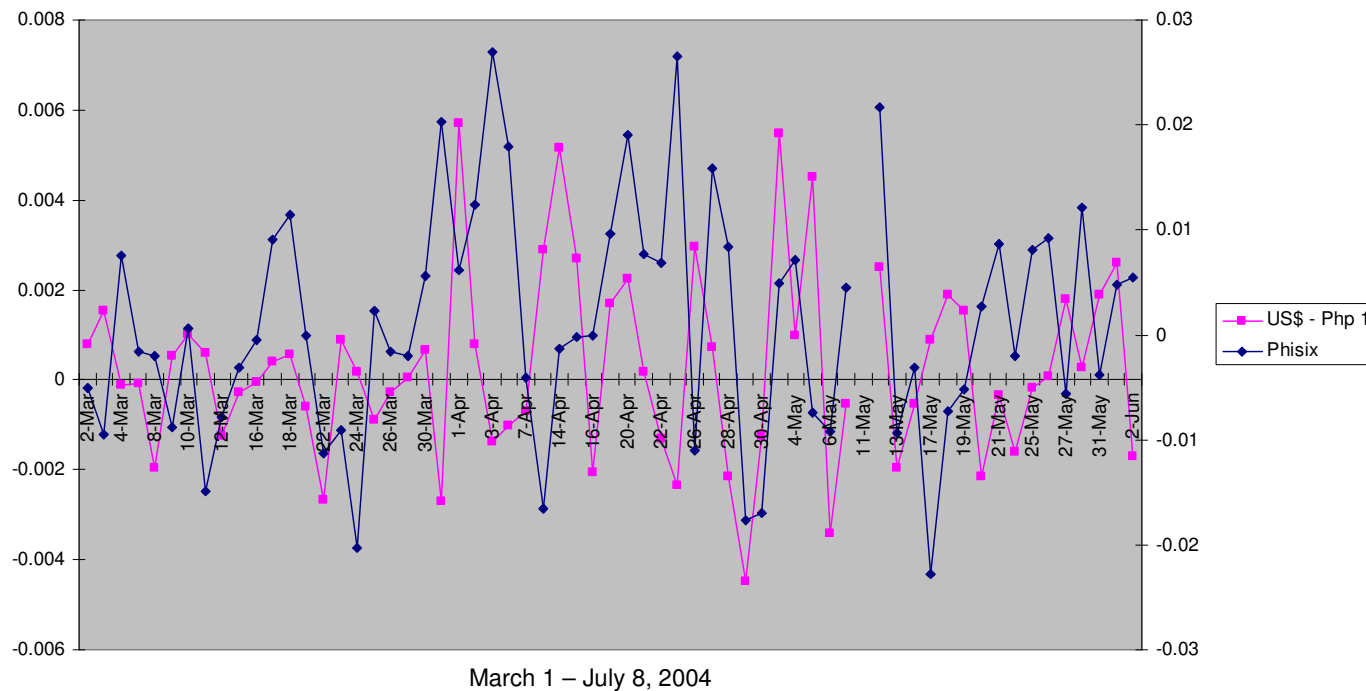


**April employment rate is already down to 83.3 %
from 87.8% a year ago. 2003 yearend figure is
89.9%**



The -0.57 correlation between the two indicators reveals that changes in the cost of housing credits explains changes in homebuilding more than half or the time. During good years, however, home builders did not react to the movements of interest rates

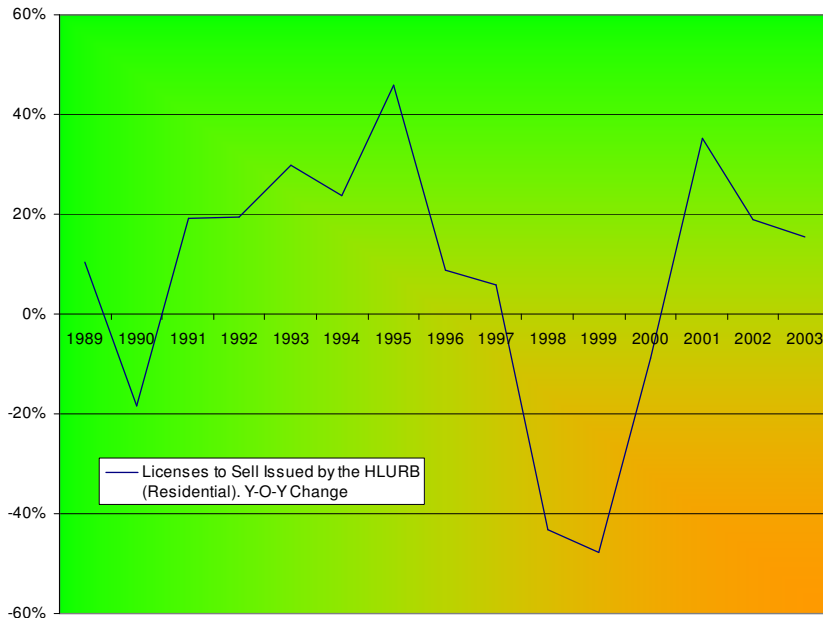
The Phisix and bank lending rates generally moved in expected ways from March 1 – April 23. A steep uptrend of bank lending rates ensued from March 17 – 22, prompted by rise in T-B ill rates, poll worries and the fall of Peso.



From April 26 up to July 9, the two indicators have similar trends. On May 19 both indicators fell due to allegations of elections irregularities.

A Positive Twist in Housing

Licenses to Sell Issued by the HLURB (Residential), Y-O-Y Change



Y-O-Y growth of License to Sell from 1989 to 2003 indicates a four year cycle. Since 2004 is the fourth year of the last cycle, it is supposed to foretell an uptrend.

The number of Licenses to Sell issued as of May 2004 is 77% higher than the figure of same month the previous year.

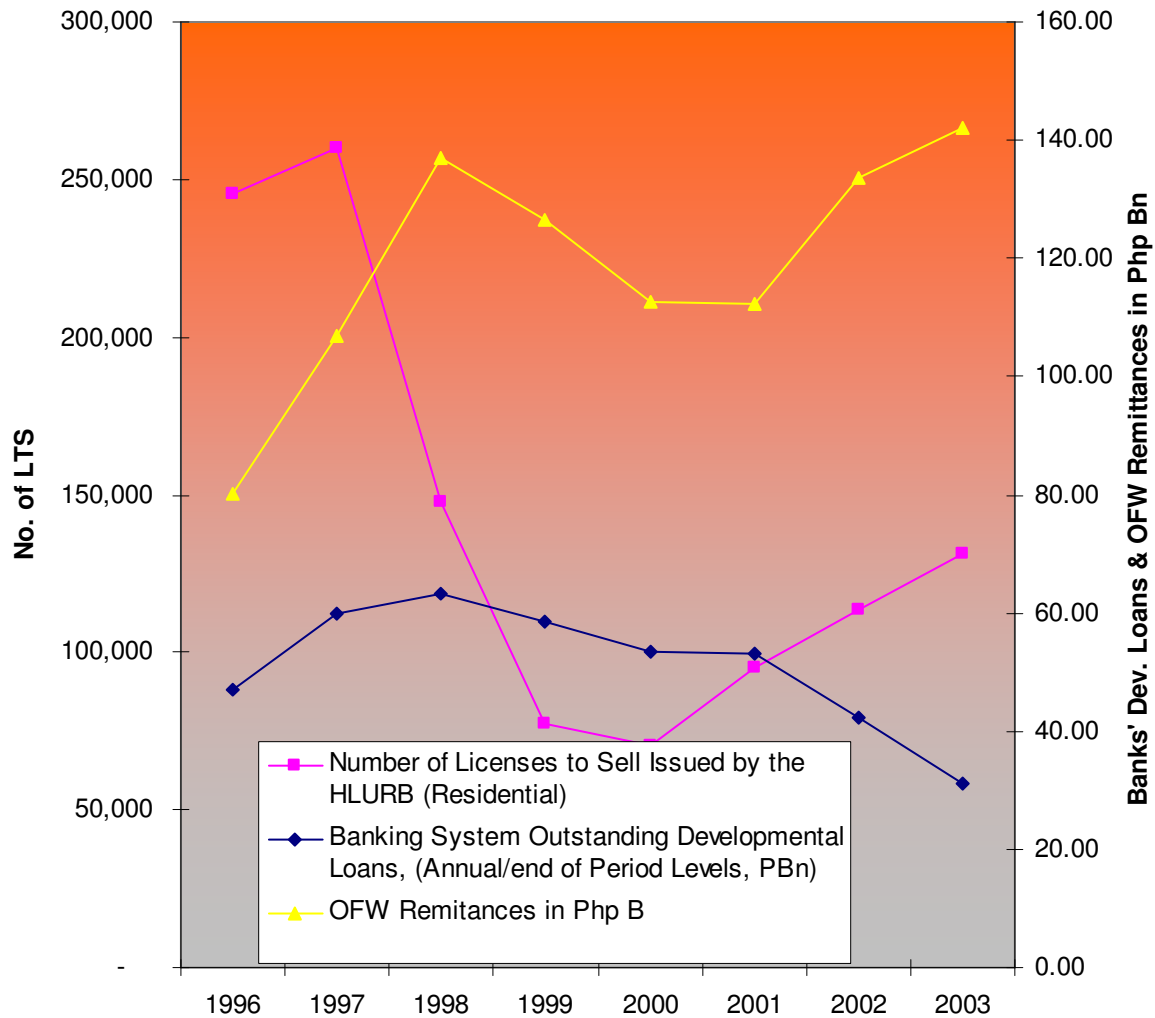
Issuance of LTS may have bottomed in 2003 and the positive figure of the first 5 months of 2004, despite the uncertainties of the election period, may signal the early advent of the boom years for the housing sector.

From Jan. – May 2004:

56% are hometown developers

33 % are medium scale developers

11% are nationally known developers

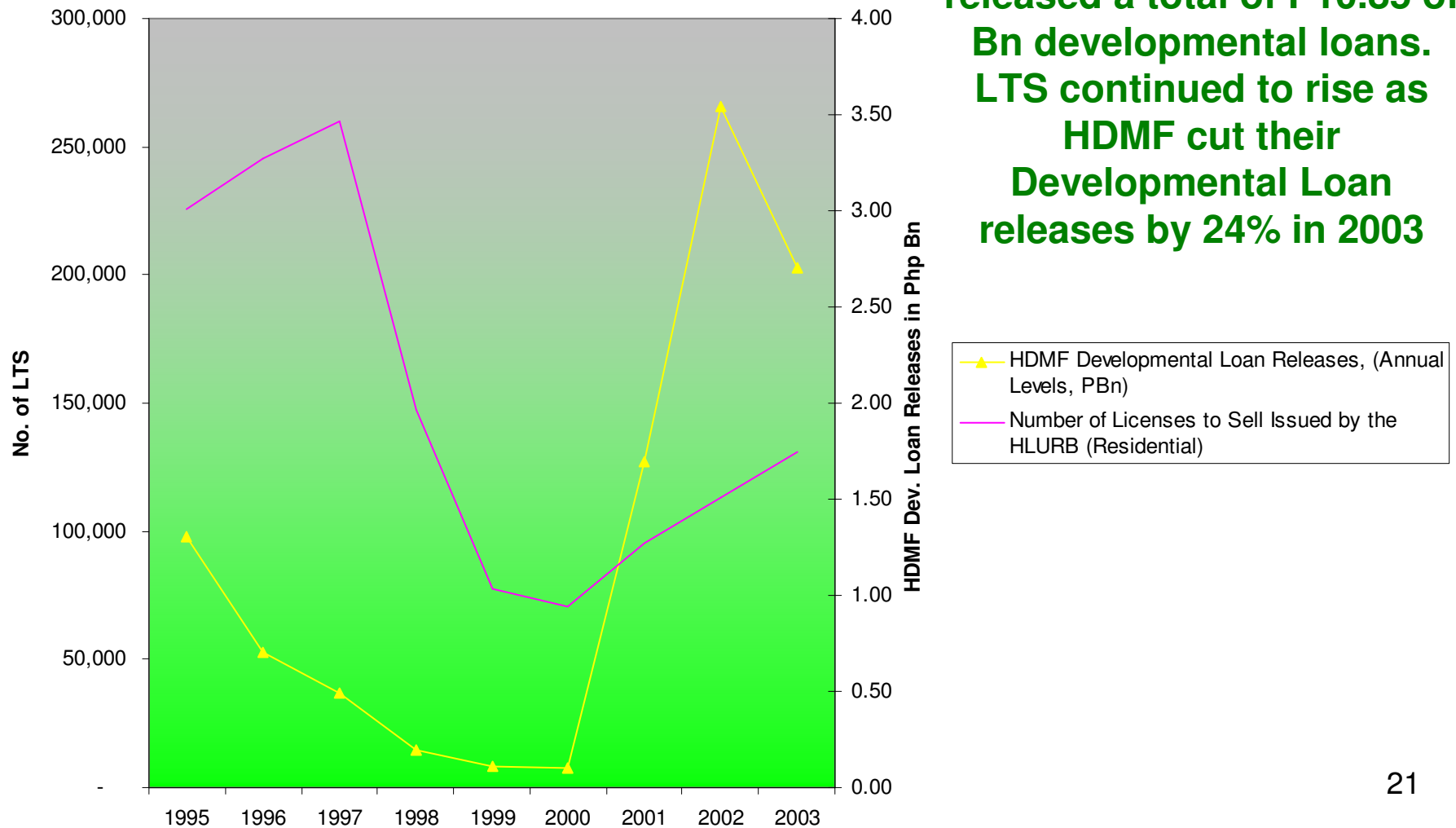


LTS first plunged 49% in 1998. Bank's outstanding loans to housing development fell by an average of 4%. \$ remittances also fell in 1999

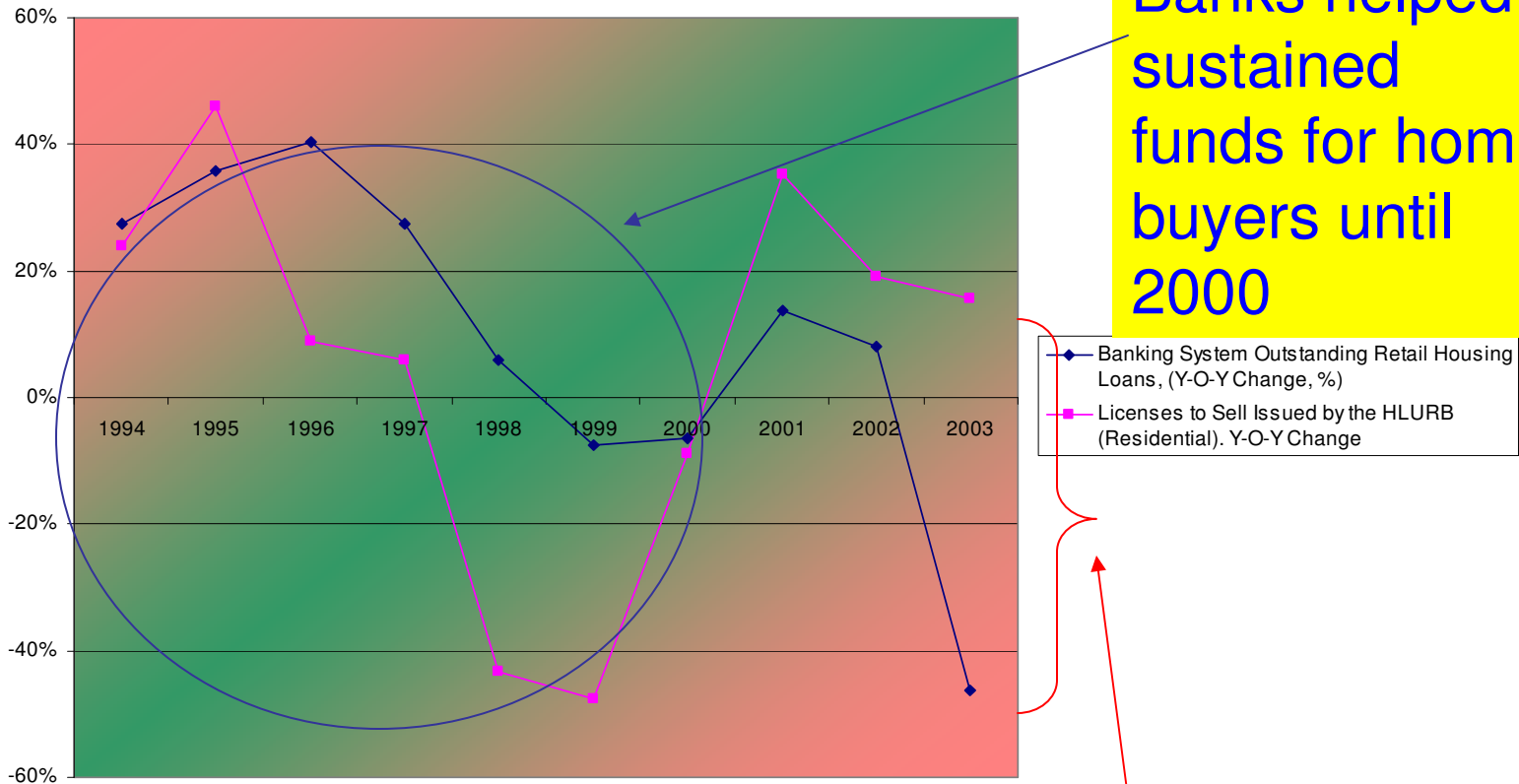
In 2001, the value of LTS and \$ remittances began to be on the uptrend. Banks' developmental loans continued on its way down.

Uptrend of LTS level peaked in 1997 when banks outstanding loan on housing development was also on an uptrend. It dove after the Asian Crisis as banks lowered their exposure on housing development. Level of LTS started to go up in 2001

HDMF's developmental loan offset the dwindling developmental loan portfolio of Banks in 2001-02. From 1995, HDMF has released a total of P10.85 of Bn developmental loans. LTS continued to rise as HDMF cut their Developmental Loan releases by 24% in 2003



Bank Loans vs. LTS



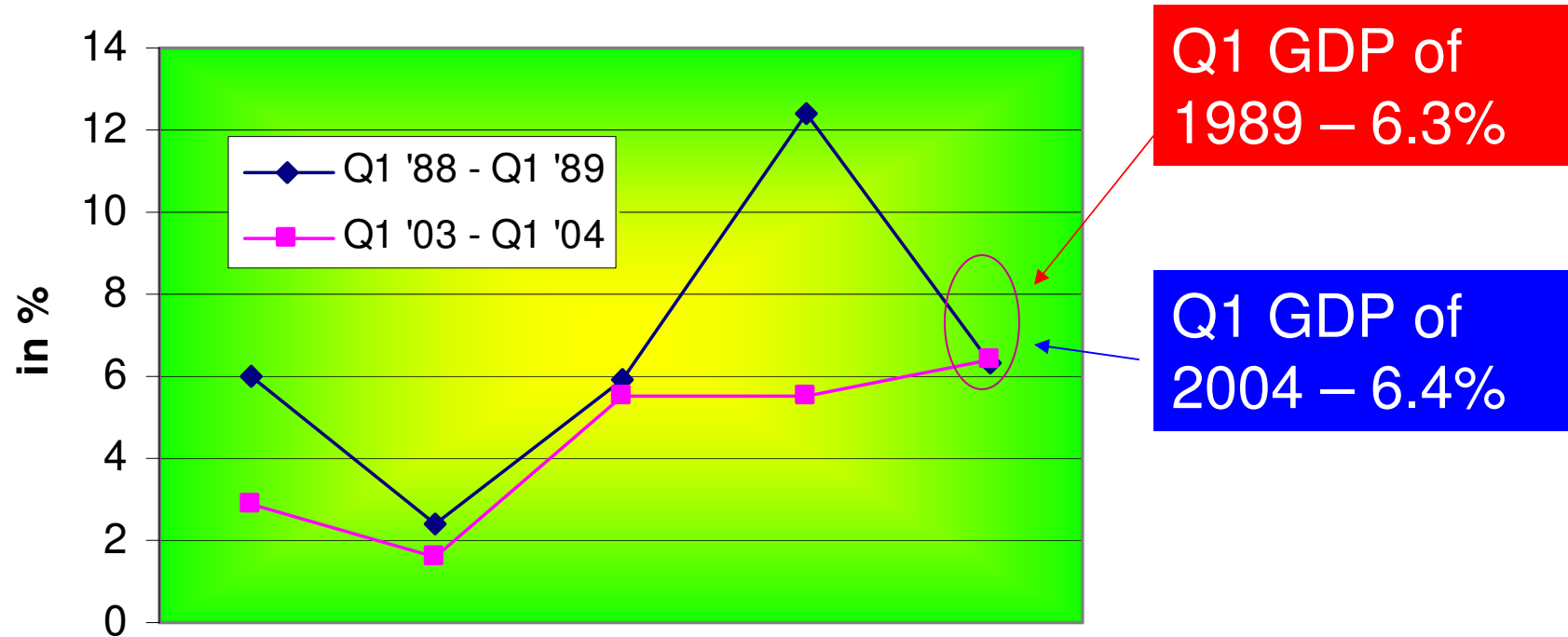
From 2001, homebuyers have turned to sources of funds other than banks

ANALYSIS

SIMILARITIES BETWEEN 1989 and 2004

- GDPs on Q1s of 1989 and 2004 are 6.3 and 6.4, respectively
- Noise of destabilization efforts
- Both years were election years. Although 1989 was only a Barangay election, it was a crucial last step to full democratization after the Marcos Regime. The March 1989 Barangay elections was, in fact, postponed thrice.

GDP



GDPs prior to Q1 of 1989 and 2004 were generally on the same trend

COMPARISON

(selected economic indicators)

Q1 1989 (GDP at 6.3)

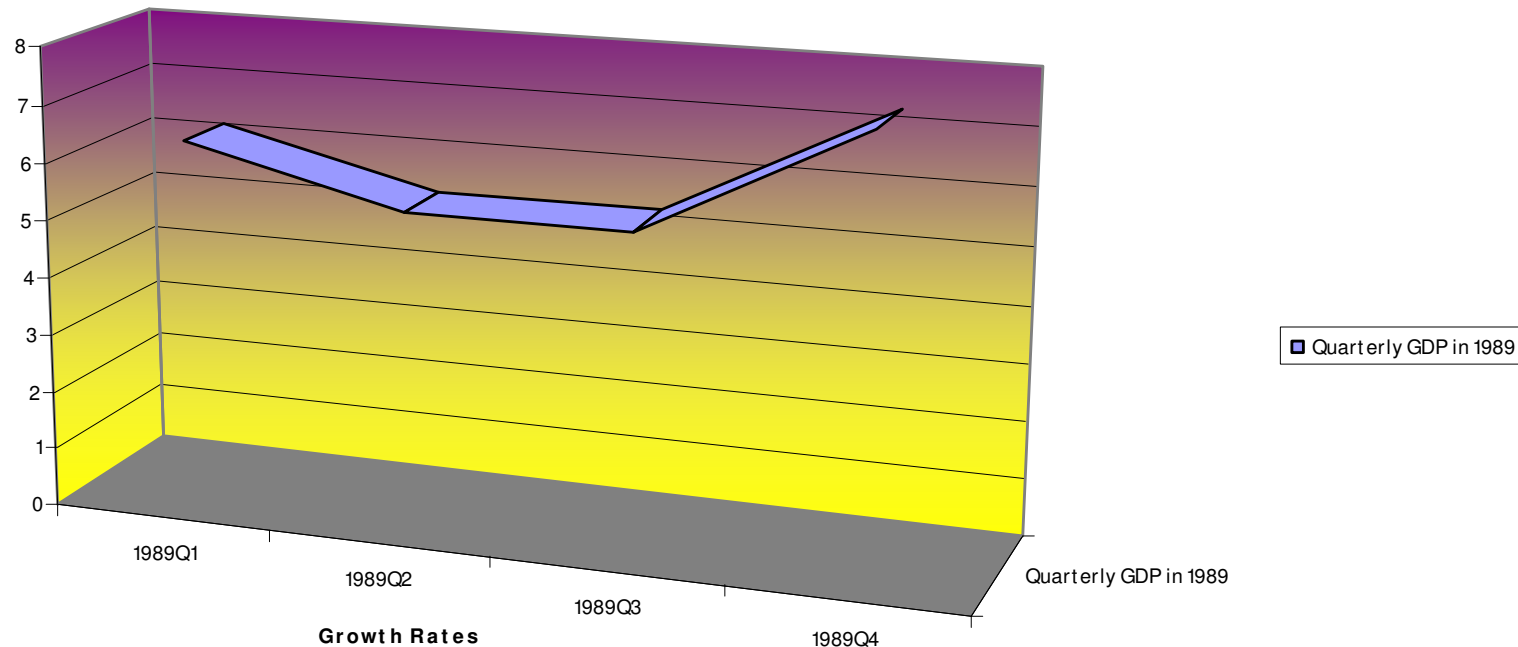
- Growth of Agri is 7.7
- Growth of industry is 4.4
- Growth Rate of Services is 8.1
- Growth of ODRE is 10
- Growth Rate of Govt. Services is 17
- Employment Rate is 90.8% in year 1989

Q1 2004 (GDP at 6.4)

- Growth of Agri is 7.7
- Growth of industry is 5.5
- Growth Rate of Services is 6.4
- Growth of ODRE is 3.6
- Growth Rate of Govt. Services is 2.6
- Employment Rate is 89%

As mentioned above, Real Estate figures improve when Government Income figures do so

Quarterly GDP in 1989



From 6.3% in Q1 '89, GDP growth rates decreased to 5.4% both in the second and third quarters and increase to 7.4 (from 6.3 of Q1) at year-end.

Years 1989 and 2004 have each share of election spending and destabilization threats

FINDINGS and PROJECTIONS

- The expanding intraregional trade and consumer demand will push economic growth in developing Asia to 6.8% in 2004 and 6.7% in 2005
- Uptrend of Phisix sign of briskness of economy
- Year-end GDP may increase to 7% due to expected stability after the elections
- The unexpected 6.4% GDP in Q1 is one of the factors for the 77% in the May Y-O-Y increase in the issuance of LTS by HLURB. Banks' developmental lending may increase but the expected increase in bank lending rates may impede this . Other fund sources will be generated if banks will not fully supply the credit demands for housing. Sources from private non bank and non-financial institutions will be able to sustain the resource requirements of the housing need.
- The 5.1% inflation in June was largely due to oil prices that jacked up consumer prices. Inflation went up despite the nearly 5 million jobless Filipinos . Monies that circulated during elections and not invested contributed to the inflation hike. Yearend average inflation will increase to 4.1% up from 3.1% of 2003.

- Govt. may need to sweep excess monies in circulation by offering higher T-Bill yield rates, exacting more taxes and increasing the government fees
- Government income seems to have the real multiplier effect that is able to generate enough economic engine to boost shelter
- Government must fill in the resource gap for housing
- Gross Domestic Capital formation will peak in the advent of boom in 2005 at 13.6%.
- The 13.7% unemployment level in April will improve with the positive outlook of the business community over the latest political developments
- Yearend employment level is expected to be down to 89%, .9% lower than 2003 figure..
- OFW remittances, government financing and other credit schemes will fill the gap produced by the downtrend of bank portfolio in housing
- All the indicators indicates that advent of an economic boom is in the offing and may come earlier than 2006 as we previously projected.