Better-than-expected GDP growth

The country’s economy, as measured by gross domestic product (GDP), grew by 7.1% in the third quarter of the year from 6.2% in the same period in 2015. The 3Q 2016 figure covers the first three months of the Duterte administration.

Fastest growth among emerging Asian economies

The Philippines recorded the fastest growth among Asian economies that have already released GDP figures for 3Q2016. The country outpaced China’s 6.7%, Vietnam’s 6.4%, Indonesia’s 5%, and Malaysia’s 4.3%.

The economy posted stellar growth despite the absence of election-related spending. Exports of goods increased steadily to 7.8% as global demand slightly picked up while agriculture grew by 2.9%, reversing five consecutive quarters of decline.

The Philippines’ average GDP growth for the first nine months of the year reached 7%, higher than the 5.7% posted in the same period last year. Overall, major indicators point to a robust 2016 growth.

Industry fueled by manufacturing and construction

The Industry sector grew by 8.6% in the third quarter of 2016 on the back of sturdy construction and manufacturing sub-segments.

Public construction surged by 20% due to higher government infrastructure spending. This is will be a main growth driver over the medium term as the government committed to double annual infrastructure spending from a little over two percent to about five to six percent of the country’s GDP. The implementation of key projects around the country bodes well for the property sector as the projects will provide access to properties that could be redeveloped into planned communities. The development of regional airports should translate to more domestic and foreign tourists in key areas in Southern Philippines. This will provide the impetus for developers to build more accommodation facilities. Meanwhile, the construction and rehabilitation of highways and trains should result in a more aggressive development of retail, residential, and

---

**GDP Growth of Selected Economies, 3Q 2016**

<table>
<thead>
<tr>
<th>Country</th>
<th>YoY Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>7.1</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>6.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Source: National Economic and Development Authority
office buildings in Metro Manila and its peripheries. A seamless transportation network should also support the growth of the country’s manufacturing sector, driving the development of more industrial parks in key areas in Northern and Southern Luzon. (For additional information, please read Colliers’ Radar entitled: “Planes, Trains, and Automobiles: The Impact of the Government’s Infrastructure Policy on Real Estate.”)

Office and retail developments highlight private construction

Private construction recorded a resilient 16.2% growth in 3Q 2016. This reflects the sustained appetite for office and retail developments, mainly fueled by a continuously growing IT-BPM sector and rising purchasing power of Filipinos. In Metro Manila alone, an estimated 86,000 sq m of new office space was delivered during the period, almost double the 45,000 sq m completed a year ago. Developers are responding positively to the growing demand for office space, with bulk of the new supply being absorbed by IT-BPM firms. Colliers has also observed robust pre-leasing activities with about 60% of buildings slated for completion before the end of the year already pre-leased while more than a third of office space expected to be delivered in 2017 has been pre-committed.

In time for the holiday shopping, mall developers completed around 118,000 sq m of new leasable area from April to September of this year. The supply pipeline is healthy with an additional 380,000 sq m of leasable area projected to be completed by the end of 2016. Colliers’ retail outlook remains bullish as the sector is primarily driven by household spending which grew by 7.3% YoY. Household spending is supported by sustained inflow of OFW remittances (USD19.5 billion for the first eight months of the year, up 4.5% YoY); improving employment situation (July unemployment down 5.4% from 6.5% a year ago); low inflation (average of 1.6% for the first 10 months, below the central bank’s 2%-4% target); low interest rates (4.3% to 6.6%); and the continued implementation of poverty alleviation programs such as Conditional Cash Transfer (CCT).

Labor shortage a threat to private construction

Colliers believes that private construction could’ve been more robust if not for construction delays brought about by the lack of adequately-skilled workers. The intensified development of public infrastructure projects around the country will exacerbate this problem. To alleviate this, Colliers urges developers to take a more aggressive approach in partnering with the government’s skills development agency in providing training to available manpower from the countryside.

Aggressive expansion outside Metro Manila

The completion of new office and retail space continues to thrive in key growth areas outside of the country’s capital such as Clark, Cavite, Laguna, Cebu, and Davao. Colliers sees demand for office space in other urban areas rising over the near term as Metro Manila locators look for alternative hubs where they could put up redundant sites to back up their operations. Some IT-BPM firms are also lured by these emerging BPO hubs’ skilled workforce and relatively cheaper lease rates. Meanwhile, the expansion of retail space in key Vis-Min areas is driven by the populace’s rising disposable incomes and the need to complement the construction of new office and residential buildings within township developments.

Surge in manufacturing investments to propel industrial space demand

Manufacturing, which constantly accounts for a fifth of the country’s economic output, rose by a stellar 7% YoY. The growth reflects the steady inflow of manufacturing investments as reported by the central bank. Meanwhile, investment promotion agencies (IPAs) such a Philippine Economic Zone Authority, Clark Development Corporation, and Subic Bay Metropolitan Authority reported a 15% increase in committed investments from PHP58 billion in 1H 2015 to PHP66.6 billion in the first half of the year. Nearly a third of the total committed investments will be funneled into manufacturing and around 35% of the new manufacturing activities will be in the Cavite-Laguna-Batangas area. The Philippines’ improving competitiveness as a manufacturing destination should enable the country to attract more investments, and this should result in higher demand for industrial space. The lack of industrial lots in established hubs such as Cavite, Laguna, Batangas, and Clark should compel firms to explore developing industrial estates in alternative locations such as Bataan, Bulacan, Tarlac, Pangasinan, and La Union in Luzon; Cebu in Visayas; and Davao in Mindanao.

Outsourcing and tourism drive Services sector growth

The Services sector, led by IT-BPM and tourism sub-segments, rose by 6.9% during the period under review. At present, the Services sector accounts for
58% of the country’s GDP. The IT-BPM segment will continue to grow albeit at a slower pace. The Information Technology and Business Process Association of the Philippines (IBPAP) expects the sector to generate USD23 billion in revenues and employ 1.15 million workers this year, a downward adjustment from USD25 billion in revenues and 1.3 million jobs initially projected.

The Other Services sector which covers tourism-related activities increased by 7% YoY. Colliers projects healthier arrivals this year as around 4.04 million foreign tourists already visited the country from January to August. This marks the first time that total international visitors breached the 4 million mark in just eight months. Full-year arrivals last year reached a record 5.4 million.

Being the region’s economic bright spot, the Philippines has also been experiencing a significant growth in commercial activities over the past few years and this has propelled the demand for business class accommodation and meetings, incentives, conferences, and exhibitions (MICE) facilities especially in Metro Manila, which accounts for more than a third of the country’s GDP.

The staging of major events such as Madrid Fusion, ASEAN Transport Ministers meeting, Miss Universe pageant, and Hotel Show Dubai in the Philippines should prop up tourist arrivals in the country in the next 12 months. These events should raise the occupancy rates of hotels in Metro Manila, particularly those in Makati and Fort Bonifacio CBDs and the Manila Bay Area.

**Bullish economic and property outlook**

Colliers projects a 6.5% to 7% GDP growth this year, the fastest since 2013 as the Philippine economy usually performs better during election years. Moreover, Colliers sees the economy rising between 6% to 6.5% annually over the next three years as macroeconomic fundamentals remain strong and the country’s growth is becoming more broad-based, as shown by the continually expanding share of manufacturing and investments to national economic output. The multiplier effect of ramped up public infrastructure development should also contribute significantly to the country’s GDP growth. Both manufacturing and investments provide ample support to the Philippines’ perennial growth driver, household consumption, which covers 68% of annual GDP. Household consumption’s dynamism will be sustained by BPO revenues and OFW remittances which have practically shielded the Philippines from previous global financial crises.

Overall, the bullish economic outlook should support the growth of property market segments including office, retail, industrial, and hotel & leisure.
### Economic Indicators (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product</td>
<td>6.0</td>
<td>6.5</td>
<td>8.4</td>
<td>3.2</td>
<td>6.4</td>
<td>7.5</td>
<td>5.8</td>
<td>5.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Gross Domestic Productᵃ</td>
<td>4.2</td>
<td>1.1</td>
<td>7.6</td>
<td>3.9</td>
<td>6.8</td>
<td>7.2</td>
<td>6.1</td>
<td>5.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Household Final Consumption Expenditure</td>
<td>3.7</td>
<td>2.3</td>
<td>3.4</td>
<td>6.1</td>
<td>6.6</td>
<td>5.7</td>
<td>5.4</td>
<td>6.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Government Final Consumption Expenditure</td>
<td>0.3</td>
<td>10.9</td>
<td>4.0</td>
<td>1.0</td>
<td>15.5</td>
<td>7.7</td>
<td>1.7</td>
<td>7.8</td>
<td>9.6</td>
</tr>
<tr>
<td>Capital Formation (Local &amp; Foreign Investments)</td>
<td>23.4</td>
<td>-8.7</td>
<td>31.6</td>
<td>8.1</td>
<td>-5.3</td>
<td>29.9</td>
<td>5.4</td>
<td>15.1</td>
<td>23.8</td>
</tr>
<tr>
<td>Exports</td>
<td>-2.7</td>
<td>-7.8</td>
<td>21.0</td>
<td>-4.2</td>
<td>8.5</td>
<td>-1.1</td>
<td>11.3</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Imports</td>
<td>1.6</td>
<td>-8.1</td>
<td>22.5</td>
<td>0.2</td>
<td>4.9</td>
<td>5.4</td>
<td>8.7</td>
<td>14.0</td>
<td>18.5</td>
</tr>
<tr>
<td>AHFFᵇ</td>
<td>3.2</td>
<td>-0.7</td>
<td>-0.2</td>
<td>2.7</td>
<td>2.8</td>
<td>1.1</td>
<td>1.6</td>
<td>0.1</td>
<td>-1.3</td>
</tr>
<tr>
<td>Industry</td>
<td>4.8</td>
<td>-1.9</td>
<td>11.6</td>
<td>2.3</td>
<td>7.3</td>
<td>9.3</td>
<td>7.9</td>
<td>6.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Services</td>
<td>4.0</td>
<td>3.4</td>
<td>7.2</td>
<td>5.1</td>
<td>7.4</td>
<td>7.2</td>
<td>5.9</td>
<td>6.8</td>
<td>7.6</td>
</tr>
<tr>
<td>Average Inflationᶜ</td>
<td>8.3</td>
<td>4.1</td>
<td>3.9</td>
<td>4.6</td>
<td>3.2</td>
<td>3.0</td>
<td>4.1</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Budget Surplus/Deficit (PHP billion)</td>
<td>-68.1</td>
<td>-298.5</td>
<td>-314.4</td>
<td>-197.7</td>
<td>-242.8</td>
<td>-164.1</td>
<td>-73.1</td>
<td>-121.7</td>
<td>-205.9</td>
</tr>
<tr>
<td>Average PHP:USD</td>
<td>44.7</td>
<td>47.6</td>
<td>45.1</td>
<td>43.3</td>
<td>42.1</td>
<td>42.5</td>
<td>44.4</td>
<td>45.4</td>
<td>47.0</td>
</tr>
<tr>
<td>Average 91-Day T-Bill Rate</td>
<td>5.2</td>
<td>4.0</td>
<td>3.7</td>
<td>1.4</td>
<td>1.6</td>
<td>0.3</td>
<td>1.2</td>
<td>1.8</td>
<td>1.5</td>
</tr>
</tbody>
</table>

ᵃat constant 2000 prices
ᵇAgriculture, Hunting, Forestry, Fishing
ᶜat constant 2006 prices
*First three quarters of 2016

Source: Philippine Statistics Authority, Bangko Sentral ng Pilipinas, Bureau of the Treasury

---

For more information:

**Joey Roi Bondoc**  
Research Manager  
Philippines  
+632 858 9057  
joey.bondoc@colliers.com

**Julius Guevara**  
Director  
Valuation & Advisory  
Philippines  
+632 858 9050  
julius.guevara@colliers.com

**Richard Raymundo**  
Deputy Managing Director  
Philippines  
+632 858 9028  
richard.raymundo@colliers.com

**David Young**  
Managing Director  
Philippines  
+632 888 9988  
david.a.young@colliers.com

---

Copyright © 2016 Colliers International.  
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.