



The Knowledge Report

MARKET OVERVIEW | JANUARY | 2009



Cebu Property Market Overview

Metro Cebu, recognized as the premier destination of business outside Metro Manila, has undergone a significant transformation in the last three years. Property values have been on an upswing as Cebu transformed its skyline with large-scale residential, commercial, retail and hotel developments. The property boom in Cebu offered an alternative metropolitan-pace business lifestyle at a discount from Metro Manila.

As the main hub of southern Philippines, Metro Cebu has two international gateways: the Mactan-Cebu International Airport and the International Seaport of Cebu. Its airport is the second busiest airport and its seaport is the largest domestic and international shipping center in the country.

Cebu City, the center of the Cebu-Mandaue-Mactan tripod for development, has transformed into an internationally recognized live-work-play center that is highly accessible and is rich with resources. Its three main business districts — Downtown Cebu, Asiatown IT Park, and the Cebu Business Park — complement a lineup of first class and deluxe hotels such as Crown Regency, Waterfront Cebu, Marriott, and Marco Polo. Leisure activities supporting Cebu's businesses are also in place to entice a broader range of visitors and tourists.

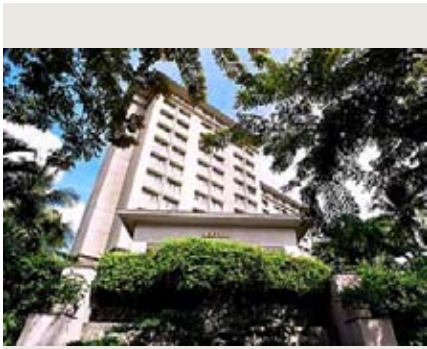
Quality of human resources, accessibility, cost of doing business and developed infrastructures are some of the points businessmen consider while investing in Cebu. There are around 800,000 inhabitants in Cebu City alone with Metro Cebu accounting for around 50% of the 3.2 million population of the province. With nine universities and around 50 college establishments producing at least 20,000 college graduates yearly, Cebu supplies a wide range of skilled workers for employment locally and internationally. Moreover, the cost of doing business in Cebu is generally lower than that of Metro Manila. Infrastructure and road development activities have been steady for decongestion and maintenance.



PHILIPPINES' SECOND CITY

The province of Cebu is a long narrow island that lies to the east of Negros Island, west of Leyte and the southeast of Bohol. It stretches 225 kilometers and is surrounded by 167 neighboring smaller islands that includes Mactan Island, Bantayan, Malapascua, Olango and the Camotes Islands. The last census done in 2000 estimated the population at 2,377,588 persons. Given the growth rate of approximately 3% per annum, end-2007 population is forecast at around 2.9 million.





The past years also witnessed the rise of the Business Process Outsourcing (BPO) industry as various BPO companies penetrated the Cebu commercial market for pilot investments and/or expansions. To date, the BPO industry remains as the key growth driver for commercial properties in Cebu. The BPO's thrust in Cebu's office market intensified over the last three years, spurring the growth of support facilities, such as malls, retail stores, hotels, and leisure centers, to complement the sector's strong growth.

As part of the continued growth and development envisioned for Cebu City, the Filinvest group secured a joint venture agreement with Cebu City's local government for the development of 40 hectares of the reclaimed 210-hectare South Road Properties (SRP). This is on top of their purchase of the first 10.6 hectares to be developed as a master-planned district with mixed-use projects. The project will be developed in phases spanning over 20 years.

SUPPLY

By the end of 2008, the stock of office accommodation in Cebu City alone is estimated at 307,201 square meters of usable space. Office stock grew by an unprecedented 104,769sqm or 52% from 202,431sqm in 2007. Since 1990, Cebu's office stock has expanded by an average of only 18% annually but construction has intensified in the last three years with the anticipated demand from the BPO industry.

The emergence of BPO locators in Cebu gave birth to Asiatown Information Technology (IT) Park, developed by Ayala Land, early in this decade. The master-planned development of Asiatown came in support of two existing business districts in Cebu: Downtown Cebu City and the Cebu Business Park. With a constant stream of developments expected in the IT park in the near term, commercial land value prices are currently pegged at a high range of P30,000-P35,000/sqm.

The 24-hectare Asiatown IT Park is currently at the forefront of office developments in Cebu. Registered as an economic zone by the Philippine Economic Zone Authority (PEZA), Asiatown doubled its office stock in 2008 to 122,590sqm. In six years' time, the business district effectively built its portfolio of office buildings, now home to companies

like Globe Telecom, Sykes, e-Telecare, Convergys and People Support. Four new office buildings were completed in 2008: I3, Sky Rise 2, TGU Tower, and E-Block.

On the other hand, three buildings were completed within Cebu Business Park in 2008: Cebu IT Tower, RCBC building and the Lexmark Plaza 2. The 50-hectare development has a total of 14 office buildings to date, translating to 112,639sqm of net usable area, and is home to Ayala Center Cebu and Marriot Hotel. Commercial land values are pegged at P30,000-P35,000/sqm.

There are some notable office developments outside the main CBDs that also accommodate BPO locators. One of these is the 8-storey Robinland Commercial Building set to complete in Q2 2009 at Mandaue City North Reclamation. The PEZA-accredited building offers 8,900sqm of office space for 24/7 operations and has a Computerized Building Management System (BMS) for security and maintenance, along with Green Building technology features like the Sewage Treatment Plant (STP) for water recycling, efficient building design and air conditioning systems.

VACANCY

Cebu City-wide office vacancy was recorded at around 9.23% as of end-2008. Due to the significant amount of space added to the supply pipeline last year, vacancy is currently on an upward trend. Asiatown IT Park's office buildings ended the year with a 10% vacancy but while current demand is expected to hold newer office buildings are likely to experience difficulty in finding new tenants in the near term. In Cebu Business Park, total vacancy was recorded at 4.8%, an improvement from its 15% vacancy in early 2008. Interestingly, in the last Cebu market report, higher vacancy was noted in Cebu Business Park while Asiatown was almost fully occupied.

The office vacancy trend between the two business districts may be explained in two ways:

1. Cebu Business Park's recent office developments are mostly company-owned (and likely to be owner-occupied) office buildings, hence aggregate office vacancy in Cebu Business Park is expected to be lower than in Asiatown.

CURRENT OFFICE STOCK

LOCATION	USEABLE STOCK (SQ.M.)
Cebu Business Park	112,639
Asiatown IT Park	122,590
Downtown	71,972
Total	307,201

CURRENT OFFICE VACANCY

LOCATION	VACANCY
Cebu Business Park	4.82%
Asiatown IT Park	10.72%
Downtown	8.50%
Total	9.23%

CURRENT OFFICE LEASE RATES

LOCATION	LEASE RATES (P/SQ.M./MONTH)
Cebu Business Park	P420-P515
Asiatown IT Park	P500-P600
Downtown	P200-P500

Source: Colliers International Research

SELECTED BPO'S OPERATING IN CEBU

BPO	LOCATION
ETELECARE	ASIATOWN IT PARK
SYKES	SYNERGIS IT CENTER, MABOLO
SPI	ASIATOWN IT PARK
ACCENTURE	CEBU BUSINESS PARK
PEOPLE SUPPORT	ASIATOWN IT PARK
CONVERGYS	ASIATOWN IT PARK AND BANAWA
TELETECH	OAKRIDGE IT CENTER MANDAUE
WESTERN WATS PHILIPPINES	MEPZ II PIPC BUILDING
IBM PHILIPPINES	ASIATOWN IT PARK
XLIBRIS	BANILAD, MANDAUE
SUPPORT SAVE	BAYANTEL BLDG.
EPERFORMAX	JY SQUARE MALL

Source: Colliers International Research

2. Demand coming from BPO companies has slowed down and Asiatown IT Park's anticipated demand from the BPO industry has not materialized.

Even as office space demand remains driven by BPO locators, it is unlikely to be able to support the robust growth of supply in the near term. Average vacancy is expected to be higher by mid-2009, led by Asiatown's new BPO buildings. In general, Cebu is expected to reflect the current upward office vacancy trend in Metro Manila. Nevertheless, Cebu's business districts remain the preferred choice of BPO locators outside Metro Manila.

RENTS

Cebu City's average office lease rate is currently at P480/sqm monthly, but rates are expected to correct this year as vacancies rise. Asiatown IT Park offices were transacted at the P500-600 in 2008, while offices in the Cebu Business Park were leased at an average of P460 per square meter per month. Downtown Cebu City offices rents are at a 20% discount from the market average at P350/sqm monthly, from as low as P200 to as high as P500.

Average office rental rate for Cebu is ex-

pected to correct by at least 10% due to a slower demand coming from the BPO industry. This is no different from what is happening in the Metro Manila office market which began is experiencing corrections in the last six months. Sluggish decision-making and expansion plans are expected to retract some anticipated demand that prompted the recent building boom in Cebu business districts. Nevertheless, Cebu City's office rents are seen to remain competitive in the market.

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293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 99
 Canada 19
 Latin America 18
 Asia Pacific 62
 EMEA 95

\$2 billion in annual revenue

868 million square feet under management

11,000 Professionals

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