

Visayas and Mindanao
Cebu and Davao
2H 2014

Real estate market in Metro Cebu and Davao sustains growth momentum

Office

Office stock increased by 51,000 sq m during 2H 2014, with the completion of four office buildings in Metro Cebu. Over the next three years, an additional 287,000 square meters are expected to be delivered in key locations. Leasing activity in the area was high as the BPO industry expanded with several key acquisitions and renewals, amounting to 30,000 square meters. Despite the fast take-up, overall vacancy in Metro Cebu increased by 270 basis points in light of the high amount of new supply. In Davao City, new supply reached 7,700 sq m with the completion of two new office buildings. By 2016, an additional 35,000 sq m of office space will be added in the market. Slow demand for office space resulted in a vacancy rate of 16.10% in 2014, as the area continued to struggle attracting tenants.

Residential

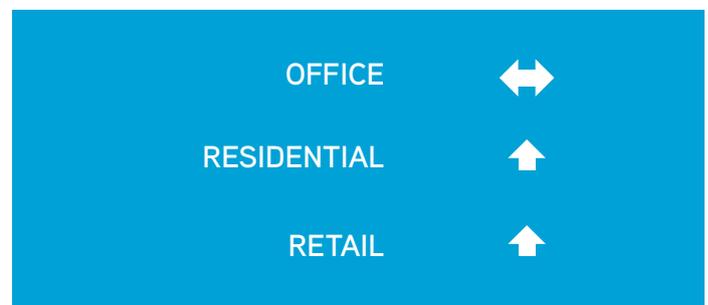
Annual condominium sales in Metro Cebu have overtaken new launches in 2014, despite sales declining by 8% YoY. Developers held back in launching new projects as new launches decreased by 19% YoY, the lowest since 2012. Meanwhile, some 3,000 units were completed and delivered in the cities of Cebu and Mandaue. As a result, overall vacancy in Cebu City reached 20.9%. Average monthly rents ranged between PHP 500 and 950

per square meter while capital values amounted to an average of PHP90,000 and PHP105,000, for both mid-income and high-end projects. Residential sales in Davao City, on the other hand, reached its highest in six years, growing by 83% YoY as new launches had been growing exponentially for the last five years. The positive performance solidified Davao City's status as one of the condominium hotspots in Mindanao.

Retail

The Metro Cebu retail market saw a stable performance in the second half, as no new completions occurred. In addition, retail vacancy decreased by 3 basis points further reflecting the stable condition of the retail market. Major Manila-based developers will dominate retail supply as they will deliver 90% of the 407,000 sq m expected to be delivered over the next three years. In comparison, Davao City retail supply increased by 15,000 sq m with the completion of Gaisano Grand Tibungco in Bunawan District. Retail vacancy improved drastically in the area by 700 basis points, as more retail spaces were being taken up by retailers aggressive to expand in Mindanao.

Market Indicators



CEBU

Record office supply in Metro Cebu causes uptick in vacancy

The Business Process Outsourcing (BPO) industry continued to fuel the Cebu office market to higher growth. Office stock in Metro Cebu has tripled in seven years, from 222,000 sq m in 2007 to 648,400 sq m by the end of 2014. The growth, which averaged at 16.5% annually over the seven-year period, was influenced by the continuous entry of BPO companies looking to set up new operations or expand their capabilities to provide a wider range of services to their clients. With close to 34,500 sq m taken up during the year, Colliers estimates that some 8,600 new jobs were created by the BPO industry. The outlook remains rosy as Cebu City retained its position as the eighth most favorable location in the world for outsourcing, based on a latest report from global outsourcing research and advisory firm Tholons. In addition, an additional 287,000 sq m of office space is expected to be delivered over the next three years.

Several companies have entered the Cebu BPO market, utilizing the location's abundant talent pool to provide services in various areas like customer support, finance and accounting, and other business processes. In the second half, Manulife, a Canadian-based insurance company, opened its shared services center in Two World Center in Mactan Newtown to provide in-house support of finance and accounting functions to its global operations. In addition, Xerox, through its newly-acquired company, ACS of the Philippines, leased a single floor in Skyrise Alpha, apart from renewing its 4,200 sq m office space lease in Skyrise 2. These instances provide the rallying point for new entrants in the Philippines to consider Metro Cebu as an attractive location for their operations.

Overall vacancy in Metro Cebu increased by 275 basis points to 7.9% in the second half, from the previous period's vacancy rate of 5.2%. The increase was driven by 51,000 sq m of office space delivered, namely E-bloc 3 (14,800 sq m) and Filinvest Cebu Cyberzone Tower 1 (17,900 sq m) in Cebu IT Park; China Bank Tower Phase 2 (10,700 sq m) in Cebu Business Park; and Two World Center (7,500 sq m) in Mactan Newtown. Cebu Business Park vacancy declined by 1.6% HoH to 3.2%, brought about by fast take-up in China Bank Tower Phase 2. Cebu IT Park vacancy rose dramatically by almost 10% to 11.2%, as Filinvest Cebu Cyberzone Tower 1 was unable to attract locators before its completion. Meanwhile, the Uptown Area and its environs experienced a relief in vacancy, declining by more than 370 basis points to 10.7%. Colliers forecasts a 2 - 3% increase in vacancy as a record 154,000 sq m is set to be delivered in 2015.

Rents in major locations in Metro Cebu exhibited stable to positive growth in the second half. Average monthly rental rates in Cebu IT Park remained at PHP505 per sq m, while rental rates in Cebu Business Park grew by 2.0% HoH to PHP512 per sq m per month. In the Uptown / Osmeña area and its environs, monthly rental rates ranged between PHP300 and 550 per sq m.

Cebu Office Stock (2H 2014)

LOCATION	USEABLE STOCK (NUA SQ M)
Cebu Business Park	178,328
Cebu I.T. Park	244,139
Others ^a	225,929
Total	648,396

^aIncludes office developments in Mandaue, Mactan, and Cebu City and excludes those in Cebu Park District

Source: Colliers International Philippines Research

Cebu Average Office Vacancy (2H 2014)

LOCATION	VACANCY (%)
Cebu Business Park	3.19
Cebu I.T. Park	11.23
Uptown / Osmeña Blvd. Area	10.69
Overall	7.90

Source: Colliers International Philippines Research

Cebu Office Lease Rates (2H 2014)

LOCATION	LEASE RATES (PHP / SQ M / MONTH)
Cebu Business Park	400 - 750
Asia Town IT Park	500 - 700
Uptown / Osmeña Blvd. Area	300 - 550

Source: Colliers International Philippines Research

Cebu Future Office Supply (NUA Sq M)

LOCATION	FY2013	2014	2015	2016	TOTAL
Cebu Business Park	155,508	22,820	66,204	68,787	313,319
Cebu I.T. Park	211,411	32,727	23,218	32,298	299,654
Others ^a	218,432	7,498	64,662	11,700	302,292
Total	585,351	63,045	154,084	112,785	915,265

Source: Colliers International Philippines Research

^aIncludes office developments in Mandaue, Mactan, and Cebu City and excludes those in Cebu Park District

Annual condominium sales rally to overtake new launches

Residential condominium developers held back from introducing new projects as launches were down for the second consecutive year by 19% YoY to 5,015 units. New supply has been driven by the low-cost segment in the second half, as 8 of the 11 new projects were classified as in the Economic and Affordable segments. Among the new projects with the highest number of units launched were Parthenon Residences (801 units) by Land Traders; Taft East Gate (314 units) by Taft Properties; and Marco Polo Oceanview (287 units) by Federal Land.

Meanwhile, annual take-up exceeded new launches for the first time in five years, although sales declined by 8% YoY to almost 5,100 units. Demand remained strong due to fast take-up in the low-cost segment, where projects sell out within three to six months of the launch. A considerable number of investors are also buoying overall demand by looking into the higher end of the market, as a result of aggressive marketing strategies pursued by local developers. This scenario, where take-up exceeds new launches, also highlights the changing perspective of Cebuanos towards purchasing high-rise residential condominiums, not only as an investment but also as a primary mode of residence.

New completions cause strain in overall vacancy

Some 3,000 units were delivered in Full Year 2014, with 75% completed during the second half. Seventy percent of the units were located in Cebu City, while the rest were in Mandaue City. Among the projects that were completed during the second half are Avida Towers Cebu – Tower 1 (518 units) by Avida Land; One Pavilion Place North and South Towers (550 units) by Gold Peach Properties; Calyx Residences (238 units) by Innoland Development Corporation; and Sedona Parc (114 units) by Alveo Land.

The supply pipeline over the next four years is expected to exceed 2014 levels, as an average of 5,200 units will be delivered annually from 2015 to 2018. If construction timelines are on track, 2016 will see the highest volume of residential units delivered in the Metro Cebu market at close to 9,400 units. While Cebu City remains the preferred location for residential

projects, Lapu-Lapu City is slowly housing residential projects with the entry of Megaworld and its Mactan Newtown development. As of 2H 2014, Megaworld has launched close to 1,350 units.

Overall vacancy in the Cebu City market was reported at 20.9% in the second half, due to some 1,830 units that were completed in the period. Excluding the new supply, vacancy was at a manageable level of 7.5%. While a relatively young market, the Cebu City market enjoyed high occupancy in the larger unit types, ranging from two- to three-bedroom units, due to the high concentration of foreigners residing in the major business areas like Cebu IT Park and Cebu Business Park. Smaller unit types, particularly studio and one-bedroom units, also exhibited high levels of leasing activity, targeting local workers. Monthly lease rates in Cebu City ranged between PHP500 and 950 per sq m.

Contributing to the high level of vacancy in Cebu City was the substantial amount of unsold inventory at some of the completed projects. The more expensive projects had a more difficult time reducing their inventory levels. On the other hand, mid-income projects manifested a stronger end-user market, as these projects had fewer units available in the secondary market. Capital values in Cebu City amounted to an average of PHP89,850 per sq m for the affordable projects, while capital values of high-end projects in the area reached an average of PHP104,125 per sq m.

Cebu Residential Condominiums Cumulative Supply Stock (2H 2014)

LOCATION	NUMBER OF UNITS
Cebu City	8,709
Lapu-Lapu City	1,919
Mandaue City	1,437

Source: Colliers International Philippines Research

Cebu City Secondary Residential Market Overall Vacancy (2H 2014)

Vacancy Rate (%)	20.90
------------------	-------

Source: Colliers International Philippines Research

Cebu Residential Condominiums Future Supply Stock

LOCATION	FY 2013*	2014	2015	2016	2017	2018	TOTAL
Cebu City	6,539	2,170	3,051	7,413	3,355	3,053	25,581
Lapu-Lapu City	1,919	-	805	1,723	488	191	5,126
Mandaue City	568	869	534	288	166	-	2,425
TOTAL	9,026	3,039	4,390	9,424	4,009	3,244	33,132

Source: Colliers International Philippines Research

* Cumulative as of period indicated, revised

Cebu City Secondary Residential Market Lease Rates and Capital Values, Semi-Furnished to Fully Furnished

SEGMENT	LEASE RATES (PHP PSM / MONTH)	CAPITAL VALUES (PHP PSM)
High-end	555 - 950	83,650 - 124,600
Mid-income	490 - 740	78,500 - 101,200

Source: Colliers International Philippines Research

Metro Cebu retail experiences stable growth

The retail market exhibited stable growth despite the absence of new retail space delivered during the second half. No new developments were reported as completed although some 407,000 sq m of retail space are expected over the next three years. Major Manila-based developers will be the main contributors to the future supply, including Filinvest Land with its retail project Il Corso; Megaworld with Plaza Magellan; SM Prime Holdings with SM Seaside City Cebu; and Robinsons Land with Robinsons Galleria Maxilom.

In the next few years, the retail market is expected to expand further as a result of the increase in the number of townships to be constructed within Metro Cebu. Retail space is a critical

driver in attracting foot traffic and helping to establish economic activity in these townships, thereby providing reliable gauges for developers to pursue their planned townships. One notable township project that will house retail components in the next few years is Mandani, the newest luxury township development by Hong Kong Land and Taft Properties. Ayala Land and Aboitiz Land, through a joint venture agreement, is also slated to add to the retail supply by developing a 15-hectare city center project in Mandaue.

Overall vacancy in Metro Cebu manifested stable growth, declining by 3 basis points to 1.32%. While this signifies that no significant movement occurred, major superregional malls demonstrated mixed performances. Ayala Center Cebu experienced virtually full occupancy while vacant spaces in SM City Cebu increased by an estimated 1,120 sq m. Colliers expects that retail vacancy to climb despite the bullish outlook of major retailers in Metro Manila spilling over to Metro Cebu, as a record 316,100 sq m will be delivered in 2015 with the completion of SM Seaside City Cebu.

Cebu Average Retail Vacancy (%)

LOCATION	2H2013*	1H2014
Metro Cebu	2.46%	1.35%

Source: Colliers International Philippines Research

* revised and rebased

Metro Cebu Retail Stock Future Supply Stock (GLA Sq M)

LOCATION	FY 2013*	2014	2015	2016	TOTAL
Metro Cebu	703,067	9,000	312,100	90,829	1,114,996

Source: Colliers International Philippines Research

* Cumulative as of period indicated, revised and rebased figures

Cebu Average Retail Vacancy (%)

LOCATION	1H 2014	2H 2014
Metro Cebu	1.35	1.32

Source: Colliers International Philippines Research

* Cumulative as of period indicated, revised and rebased figures

Regional Statistics for Region XI	
POPULATION (2014 ESTIMATE)	4,639,520
INFLATION RATE (DEC 2014)	3.8%
UNEMPLOYMENT RATE (OCT 2014)	5.5%
2013 GRDP GROWTH RATE	6.8%

Source: Philippine Statistical Authority

Sluggish demand hinders office market growth

The office market in Davao City is relatively small compared to Cebu City, with only 103,000 sq m of usable space by the end of 2014. Office activities in Davao City are concentrated in four major areas, namely Bajada, Lanang, Matina – Talomo, and Downtown. Bajada, Lanang, and Downtown share a common national highway, J.P. Rizal Street, which is also the main thoroughfare going to and from Davao City. As such, the majority of commercial activities are situated on the national highway, from hospitals and hotels to malls and offices. The Matina – Talomo area is primarily a residential area with establishments nearby to serve the needs of the residents, such as schools and retail complexes.

Until 2008, only four office buildings were online in the area, all of which cater to traditional office space takers. With the exception of Damosa Business Center and Anflocor Corporate Center, which are owned by Anflocor Management & Investment Corporation (Anflocor), the rest of the buildings offered strata-titled office space. These were Pryce Tower and Landco-PDCP Corporate Center, both of which are located in Pryce Business Park.

Local developers started constructing office space catering to the BPO industry in 2011, when three IT buildings were completed. These were Filandia IT Center and Luisa Avenue IT Center by Plaza de Luisa Development Corporation, and Damosa IT Park by Anflocor. National developers first made their presence in Davao City in 2012 with Ayala Land

completing Abreeza Corporate Center. 2013 was a record year for the office market as 32,700 sq m of office space were completed, mainly due to the entry of SM Prime Holdings (SMPH). SMPH delivered 19,400 sq m of office space located in the vicinity of their mall complexes. In 2014, two office buildings amounting to 7,700 sq m were delivered, namely Matina IT Park Building 1 (5,600 sq m) in Matina-Talomo Area and Alpha Building at Lanang Business Park in Lanang (2,100 sq m).

Moving forward, Davao City expects close to 35,000 sq m of office space until 2016 with the construction of two buildings, namely Felcris Centrale BPO by Felcris Hotel and Resorts Corporation, and Davao Finance Center by Megaworld Corporation.

Demand for office space in Davao City has slowed in 2014. Overall vacancy reached 16.1% as the newly completed buildings experienced slow take-up. The BPO sector remained the most active tenants in the Davao City market by occupying close to 30,000 sq m over the last five years. Major companies such as Teleperformance, Concentrix, Convergys, VXI, and Sutherland Global Services have been operating in this city, while lesser known BPO companies such as SSI and Conectys have established their first operations in Davao City.

The area continues to struggle in attracting tenants due to the perceived political and security issues in the greater area of Mindanao. The local government, however, has implemented measures to ensure that these issues are addressed such as greater police visibility and providing more incentives for prospective investors, thereby providing a safe and conducive environment for business.

Davao City offers more attractive rents than Cebu City, with asking rates ranging from PHP300 to 650 per sq m per month. Relative to stand-alone buildings, office space located in malls have higher rental rates, with the likes of Abreeza Corporate Center and SM City Davao charging between PHP400 and 650 per sq m per month. Stand-alone buildings, on the other hand, offer cheaper rents of between PHP300 and 450 per sq m per month.

Davao City Office Stock (NUA Sq M)					
LOCATION	FY-2013*	2014	2015	2016	TOTAL
Davao City	95,112	7,658	12,300	22,871	137,941

Source: Colliers International Philippines Research

* Cumulative as of period indicated, revised and rebased figures

Davao City Office Vacancy (%)	
Davao City	16.10

Source: Colliers International Philippines Research

Residential sales surges to record high

Davao City has been identified as one of the condominium hotspots in Mindanao. From introducing 1,203 units in the pre-selling market in 2009, new launches grew exponentially by 54% annually to 6,768 units by the end of 2014. Davao developers remained bullish in 2014, launching 1,116 units, in line with the five-year average of 1,190 units. Among the projects that were launched were Sotogrande Davao by Sta. Lucia Land (280 units), One Lakeshore Drive Tower 1 by Megaworld (356 units), The Enclaves Residences by local developer ESDEVCO (120 units), and Urban Hive, by new entrant Eco Dwellings (360 units).

Residential sales reached a peak in Davao City in 2014. Take-up of residential condominiums in Davao City grew by 83% YoY to almost 1,700 units, the highest recorded since the condominium market started in 2009. The mid-income segment contributed 62% of the total sales, as major Manila-based developers such as Ayala Land (ALI), DMCI, and Filinvest (FLI) launched the bulk of the inventory catering to the segment.

In the next three years, an average of 1,448 units is expected to be delivered annually. Close to 2,040 units are scheduled for completion in 2016, the highest in the three-year period. Significant completions in 2015 will come from Abreeza Residences by Alveo Land (263 units), One Oasis Davao Bldg 6 by Filinvest Land (161 units), and Verdon Parc Martel Building 1 by DMCI (162 units).

Davao Residential Condominiums Future Supply Stock

LOCATION	FY 2013*	2014	2015	2016	2017	TOTAL
Davao City	1,825	539	1,194	2,038	1,112	6,708

Source: Colliers International Philippines Research

Increasing incomes buoys strong retail market growth

The retail market in Davao City has grown substantially over the last four years, sustaining 19% annual growth since 2010. Retail stock amounted to 542,000 sq m at the end of 2014. Much like the office market, retail supply is centered in the Downtown area where the majority of trading and commercial activities are conducted. Until 2001, all of the retail malls were located along J.P. Rizal and Ramon Magsaysay Avenues, two of the busiest streets in Davao City.

When SMPH entered the market via its flagship project, SM City Davao, supply started spreading outside the city center particularly in areas where a large concentration of the population is located. Local retail developers followed suit with the completion of NCCC Mall of Davao by New City Commercial Corporation in 2004.

In 2013, the Gaisanos, through Gaisano Grand Group and DSG Sons Group, expanded their presence in the retail market with their first ventures in Toril District, the Gaisano Grand Mall Toril and Gaisano Mall of Toril. With a population of 125,000,

Toril District is fast becoming an established location for commercial and residential development as two major Manila-based developers have significant levels of land bank in the area dedicated to subdivision projects.

New supply for 2014 amounted to 15,000 sq m, with the completion of Gaisano Grand Mall Tibungco located in Bunawan District. Supply will increase by 30,000 sq m by next year with the delivery of Felcris Centrale in Quezon Boulevard in Talomo District.

Retail vacancy in Davao City reached 5.3%, a 700-basis point improvement from last year's figures, despite the delivery of Gaisano Grand Mall Tibungco. Major malls like SM City Davao and Abreeza Mall posted relatively high occupancies, at 94.6 and 94.4%, respectively. Meanwhile, SM Lanang Premier outperformed the previously mentioned malls with an occupancy rate of 95.7%. Demand was mainly driven by retailers that pursued aggressive expansion activities and included Davao City as a critical market for their operations. The entry of international brands into the country also facilitated the take-up of these spaces, owing to the increasing purchasing power of Davaoenos.

Davao Retail Market Future Supply Stock (GLA SQ M)

LOCATION	FY 2013*	2014	2015	TOTAL
Davao City	526,685	15,000	30,000	571,685

Source: Colliers International Philippines Research

* Cumulative as of period indicated, revised and rebased figures

Davao Average Retail Vacancy (%)

LOCATION	2013	2014
Davao City	12.29	5.30

Source: Colliers International Philippines Research

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

1.7

billion square feet
under management

16,300

professionals
and staff

Primary Authors:

Romeo Arahan
Research Analyst | Philippines
+63 2 858 9057
romeo.arahan@colliers.com

Karla Domingo
Manager | Research and Advisory
+63 2 858 9052
karla.domingo@colliers.com

Contributors:

Julius Guevara | Director
David A. Young | Managing Director

Colliers International | Philippines

11F Frabelle Business Center
111 Rada Street Legaspi Village
Makati City | Philippines
TEL +63 2 888 9988

Colliers International | Cebu Office

Doreen Alo | Manager, Cebu Office
Unit 501 Ayala Life - FGU Center
Cebu Business Park
Cebu City | Philippines
TEL +6332 233 6422

