

# Bacolod chases KPOs

Joey Roi Bondoc Research Manager

Bacolod City remains a preferred location for outsourcing operations. A number of existing voice business process outsourcing (BPO) firms are continuously expanding while some knowledge process outsourcing (KPO) companies are looking at the city as a potential site outside of Metro Manila. While Bacolod City remains a major destination for call centre services, its talent pool needs to scale up if the city is to corner a larger fraction of the local KPO pie. With expansion from existing locators and limited office supply in the pipeline, Colliers encourages developers to continue constructing office towers especially in Philippine Economic Zone Authority (PEZA)-accredited zones where cost-sensitive locators can take advantage of fiscal incentives. Local and national firms should explore the possibility of developing plug-and-play offices as incoming KPO firms are in immediate need of buildings ready for occupancy and want to reduce their capex. Companies should continue developing offices within integrated business hubs as these master-planned communities provide the retail and residential complement required by outsourcing firms. Colliers also encourages tenants and landlords to explore opportunities in the Bacolod port and old airport site that can be redeveloped into mixed-use projects.

## Forecast at a glance



### Demand

From 2018 to 2020, Colliers sees the bulk of office space demand being fuelled by call centres and smaller KPO firms that provide health information management, software engineering, and financial technology services.



### Supply

Colliers sees Bacolod City's office supply reaching 128,500 sq m (1.35 million sq ft) by 2020, up 20% compared to its 2017 stock. We see about 7,000 sq m (75,300 sq ft) of GLA being added to the city's stock annually until 2020. The new office supply will be delivered by a national and local developer



### Vacancy rate

Colliers projects vacancy of below 4% this year as we do not see additional supply over the next 12 months. A marginal increase in stock coupled with sustained take-up from outsourcing companies should keep vacancy between 4% and 5% per year from 2019 to 2020. We do not see Bacolod City's vacancy exceeding 5% over the next three years.



### Rent

Colliers sees rents rising by between 2% and 4% per annum over the next two to three years in view of the sustained demand from both BPO and traditional companies and limited upcoming supply.

## Office Supply Forecast, GLA (sq m)

LOCATION	AS OF 2017	2018	2019	2020	TOTAL
Bacolod City	107,500	16,000	-	5,000	128,500

Source: Colliers International Philippines Research

## Local developers dominate

The expansion of Bacolod City's office stock over the past decade has been primarily driven by the thriving outsourcing operations in the city. Bacolod City's total office space stood at 107,500 sq m (1.16 million sq m) as of end-2017. More than a third of the city's office space is located along the busy streets of Lacson, Araneta, and Hernaez. At present, Robinsons Land is the sole national player in the office segment, offering some 2,500 sq m (26,900 sq ft) of leasable space in Robinsons Cybergate. More than 70% of Bacolod's stock or 80,000 sq m (861,100 sq ft) is developed by local developers A.U. and Sons, Pharina Corporation, ESJ Properties, Fernando Gonzaga Inc., MFC Realty, and Red Key Realty.

The growing demand for quality space in the city propelled the provincial government to open the Negros First Cyber Centre in 2015. The facility offers more than 13,000 sq m (139,900 sq ft) of GLA.

From only 11,100 sq m (119,500 sq ft) of GLA in 2004, the city's stock has grown almost tenfold to 107,500 sq m (1.16 million sq ft) in 2017. Not a single building was completed in 2H2017.

## National players to develop future supply

Over the next 12 to 36 months, we see national developers raising Bacolod City's office stock by at least 21,000 sq m (226,000 sq ft), representing close to 20% of the current stock.

Among the projects in the pipeline is the 16,000 sq m (172,200 sq ft) Capitol Corporate Centre that Ayala Land will develop within its Capitol Central Township near the Provincial Capitol of Negros Occidental. The office tower is projected to open before the end of the year and will be complemented by residential buildings and a 70,000 sq m (753,500 sq ft) mall. The township's Seda hotel opened in 4Q 2017.

Megaworld is also planning to build office buildings within its Upper East development. The project is across the new city government centre which is a thriving business district.

Megaworld is positioning the township as Bacolod's next major business hubs. Specific details on the office buildings have yet to be disclosed but we do not see the office towers being completed by 2020.

Meanwhile, a local developer is planning to build a 5,000 sq m (53,800 sq ft) office tower near the city centre. The local player plans to start construction by 3Q2018 and aims to complete the building by mid-2020.

Colliers sees Bacolod City's office stock reaching 128,500 sq m (1.39 million sq ft) by 2020, about 20% higher than the 2017 stock.

## Large BPOs drive space absorption

Overall vacancy in Bacolod dropped further to 4.5% in 4Q2017 from 5.3% in 2Q 2017. The unchanged office stock coupled with additional demand from BPO firms and minimal take up from traditional and non-BPO businesses in 2H 2017 resulted in a lower overall vacancy for the city.

### Office Vacancy Rate in Bacolod, 4Q 2017

LOCATION	VACANCY RATE
Bacolod City	4.5%

Source: Colliers International Philippines Research

Much of office space take up in Bacolod is attributed to large BPOs that have established footprint in the city.

Teletech opened shop in Bacolod in 2005, the first major BPO firm in the city. Teleperformance established operations in 2006 followed by Convergys in 2007, Transcom in 2009, Panasiatic in 2010, and Ubiquity in 2014.

These large outsourcing companies continue to operate in the city and their expansion contributes to stronger space absorption in one of the largest outsourcing hubs outside Manila.

Among the companies that expanded operations this year is Ubiquity Global Services. At present, the firm has close to 1,400 employees occupying more than 3,000 sq m (32,300 sq ft) of leasable space from only 50 agents in 2014. The company is the first and largest tenant at the Provincial Government-run Negros First Cyber Centre (NFCC). Ubiquity handles complicated financial technology services, hence the need to employ highly-skilled and customer service-oriented agents. The firm is planning to add more seats over the next 12 to 18 months. This means that Ubiquity's office space demand will now spill over to other office buildings in the city as the NFCC is fully leased.

With planned expansion of BPOs such as Ubiquity and projected take up from smaller KPO firms, we see an overall vacancy rate of between 3% and 4% this year. We see the completion of the additional 21,000 sq m (226,000 sq ft) between 2018 and 2020. This upcoming supply is small and should be easily taken up by incoming locators. Hence, we do not see Bacolod City's vacancy exceeding 5% per year from 2018 to 2020.

## Rents to increase by 2% to 4%

Average office rental rates in Bacolod City range from PHP310 (USD6.2) to PHP560 (USD11.2) per sq m per month as of the end of 2017. In view of the sustained demand from both BPO and traditional companies, Colliers sees rents rising by about 2% and 4% annually over the next 12 to 36 months.

### Office Rental Rates in Bacolod, 4Q 2017

LOCATION	RENTS (PHP / Sqm)
Bacolod City	310 - 560

Source: Colliers International Philippines Research

## Declining competitiveness a cause for concern

According to the latest Tholons survey, Bacolod City's rank among the most competitive outsourcing hubs in the world dropped to 97th in 2017 from 85th in 2016. While Bacolod continues to attract locators, its declining competitiveness might impair its ability to entice more BPO investors in the near to medium term. A number of firms have reported difficulties filling up KPO seats.

Bacolod City's colleges and universities produce nearly 14,000 graduates each year. About a third are Business

degree holders while close to 30% hold Engineering, IT, Math, and Medical-related degrees. The sufficient number of college graduates equipped with necessary skills should sustain Bacolod city's viability as a global outsourcing destination.

According to the Bacolod-Negros IT Council (BNeFIT), the city's outsourcing sector currently employs 30,000 workers. Equipping graduates with outsourcing-ready skills is crucial if the local government wants to achieve its goal of employing 60,000 outsourcing workers by 2022. Having sufficient manpower is important as the city aspires to become a major game development and health information management (HIM) destination outside of Metro Manila.

## Plug and Play

A number of smaller KPO companies are looking at Bacolod City for possible expansion outside Manila. Most of these firms have an immediate need for furnished office space. These KPO firms that mainly provide game development, software engineering, online tutorial services, and health information management (HIM) services are compelled to look for plug-and-play space due to the need to deliberately reduce capital expenditures (capex). Colliers believes that there is a lack of buildings that are ready for occupancy in the city. Hence, we recommend local and national players to develop more plug-and-play space.

## PEZA Properties

Being in PEZA-accredited locations is important especially for cost-sensitive tenants as PEZA parks grant tax BENEFITS to occupants. The presence of PEZA facilities plays a crucial role in attracting locators. In Bacolod city alone, an estimated 95% of outsourcing-related jobs are in PEZA zones. We recommend that national developers consider acquiring idle PEZA-proclaimed properties within the city suitable for office towers with retail and residential complement.

At present, there are two PEZA-accredited properties in the city, including the 20,000 sq m (215,000 sq ft) Bacolod I.T. Park located along Estefania village and the 26,400 sq m (284,000 sq ft) AIU Centre along Lacson Street.

## Brownfield Assets

Colliers encourages developers to scout aggressively for idle private properties or government assets that they can acquire and redevelop. An example is the former site of the Bacolod-Murcia Milling Company in the eastern side of Bacolod City where Megaworld is

planning to build its Upper East township. A potential site is the current Bacolod Real Estate Development Corp. (BREDCO) port area that the government is planning to transform into a mixed-use property that will feature office, retail, residential, and leisure facilities. Colliers encourages tenants and landlords to explore opportunities in the area.

Colliers believe that the location of the old Bacolod airport could also be redeveloped into a mixed-use integrated community. Developers should consider the redeveloped Lahug property in Cebu as an example. The former location of the Cebu Airport is now a bustling IT park housing office, residential, and retail towers.

## Public-Private Partnership

Colliers believes that the city government, universities, and employers should work together in providing calibrated training to college graduates. As a start, the local government can help reduce the employers' training cost by enrolling qualified graduates under the Training for Work (TFW) programme provided for free by the government-run Negros Occidental Language and Information Technology Center (NOLITC). The facility provides 840 hours of animation training, 487 hours of visual graphic design instruction, and almost 400 hours of medical transcription training. These are crucial skills required by KPO companies planning to invest in Bacolod City.

Meanwhile, universities should consider incorporating these training programmes into their respective curricula.

The city and provincial governments should look at the possibility of granting additional tax incentives to private training centres that will open shop in Bacolod. The local government should also endorse these centres' inclusion in the Board of Investment's (BOI) list of preferred activities which grants tax perks to qualified businesses.

The entry of more private training centres in Bacolod should contribute to greater office space absorption in the city. Consequently, we see these centres reshaping

the design of future office space in the area. We see the influx of these private training centres propelling the need to develop flexible and collaborative workplace in Bacolod. This is another opportunity that flexible workspace operators should look at.

## Back-up site

For tenants, we recommend that they consider Bacolod City as their expansion or back-up site given the city's skilled manpower and adequate infrastructure. The local government considers outsourcing as among Bacolod's major job-generating sectors. It has been aggressive in extending non-tax benefits to potential investors such as free training to qualified graduates.

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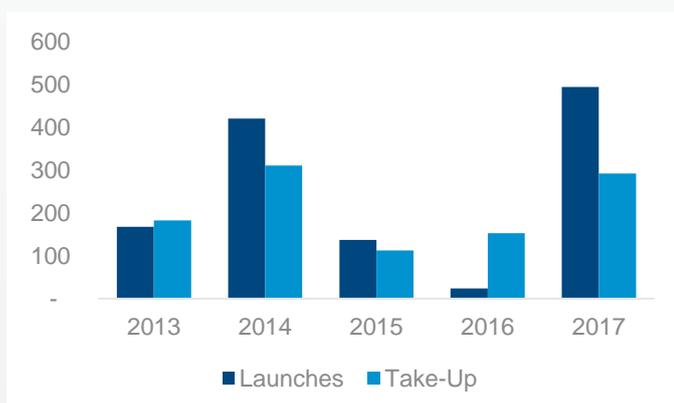
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# Horizontal play

Dinbo Macaranas Senior Research Manager

The Bacolod residential sector is primarily driven by horizontal (house and lots) developments. At present, there are over 25,000 house and lot units in Bacolod City. By comparison, vertical (condominiums) developments total merely 1,200 units. This is not surprising given the absence of a sizeable business district like major cities in the country as offices are limited in the city centre along Lacson Street. Until then, demand will still be concentrated in house and lots. Take-up of house and lots in 2017 reached over 2,000 units, the highest level in the last five years. Several horizontal projects are also nearly sold out or better. Condominiums on the other hand have reached only 290 units, and take-up is relatively slow with only two buildings sold out. This may change, however, when bigger business process outsourcers (BPO) locate in the provincial city. Thus, Colliers recommends that developers focus on horizontal developments within Bacolod City, while keeping an eye on Talisay City which is also a preferred location for house and lots given the less busy environment yet still accessible to and from Bacolod. Meanwhile, they should also be mindful of the potential of condominiums especially within mixed-use developments which may have office space components, particularly those within the city centre or near the Bacolod-Silay Airport.

## Bacolod Vertical Launches and Take-up, 2017 (units)



## Forecast at a glance



### Demand

Bacolod residential demand is primarily end-user driven. The availability of land and the comparable prices of condominiums to house and lots have kept demand for horizontal developments stronger. The growth of the BPO sector will likely unlock the potential of condominiums, especially within mixed-use developments.



### Supply

House and lots total 25,000 units within Bacolod City. Condominiums remain a minimal component of residential stock and will likely remain as such in the three to four years. We expect fewer than 500 condominium units to be completed between now and 2021.



### Price

Actively selling houses and lots command an average price of PHP1.9 million (USD38,000) as of 2017, largely flat compared to the prior year. Condominium units have a PHP2.1 million (USD42,000) average TCP, largely comparable to house and lots. We expect between 2% and 8% annual increase in residential prices in the next three years, consistent with current trends, with condominium prices increasing faster than house and lots.

## Bacolod Vertical Residential Supply Forecast (units)

LOCATION	AS OF 2017	2018	2019	2020	2021	TOTAL
Bacolod	1,175	130	-	70	290	1,670

Source: Colliers International Philippines Research

## Houses and lots within and outside Bacolod City

Total stock in Bacolod City stands at over 25,000 units of house and lots as of the end of 2017. By comparison, vertical (condominiums) developments total merely 1,200 units. This is not surprising given the absence of a sizeable business district like major cities in the country as offices are limited in the city centre along Lacson Street. Other locations outside Bacolod City such as Talisay City and Silay City are also home to several Negrenses, particularly for those who prefer a less busy environment but still wants accessibility to and from Bacolod. These two alternative locations outside have over 8,500 units between them.

Looking ahead, we expect supply of houses and lots to continue to grow faster than condominiums. In 2017 alone, close to 2,600 horizontal units were launched. This is higher than 1,600 units already launched in 2016. Vertical projects on the other hand, only saw 494 units launched in 2017, all of which are due for completion through to 2021.

## Slow condominium demand but not for long

Understandably, demand for houses and lots will also be stronger than condominiums given the available supply in market. Furthermore, the absence of a bustling business centre in Bacolod has also limited the preference for vertical developments. While take-up for both house and lots, as well as condominiums increased in 2017, take-up of houses and lots was significantly higher at 2,000 units, compared to 290 units only for condominiums.

Some of the notable horizontal projects that sold well in 2017 were One Communities Bacolod by Proxima Centauri Realty, Lumina and Camella Bacolod by Vista Land, East Homes by Bacolod South Homes, and Fountain Grove by Megaworld.

Interestingly however, despite the lower take-up numbers of condominiums, growth percentages were quite encouraging. 2017 saw a 91% increase in take-up, albeit coming from a low base of 153 units the prior year. While we recognize the slower take-up of condominiums characterized by several projects far from near sold-out levels (including those launched in 2013), we foresee the potential of condominiums alongside the growth of the business sector.

Typically, take-up is faster during the same period as the project launch before slowing down in the succeeding quarters. In fact, the three condominium projects launched in 2017, namely Belle Arte by Marosvill Development Corp, Mesa Virre Garden Residences by Cebu Landmasters, and Manors Bacolod by Vista Land, all sold quite well in their respective launch quarters. We believe this is reflective of the potential viability of condominiums in the medium to long-term horizon.

Today, BPO employees in Bacolod total approximately 30,000 individuals, primarily employed by small and mid-sized outsourcing companies. With the plans of the local government to promote Bacolod as investment destination, this number may increase further, especially if a major BPO company should enter the provincial market. Consequently, Colliers believes this event would also jumpstart the development of a business district for Bacolod. We expect the growth of the BPO sector to drive further the housing demand that is currently coming from OFW seafarers and their families.

## Bacolod Residential Average Prices, 4Q 2017

LOCATION	HOUSE & LOT (PHP TCP)	CONDOMINIUM (PHP / SQM)
Iloilo	1,900,000	68,300

Source: Colliers International Philippines Research; USD1=PHP50

## On the rise to mid-income

In Bacolod City, actively selling houses and lots command an average price of PHP1.9 million (USD38,000) as of 4Q 2017, largely flat compared to the prior year. When compared with 4Q 2015 averages, this reflects a 5% increase in price. The most sellable in 2017 are projects under the economic segment or below PHP1.7 million (USD34,000), representing 70% of total house and lot take-up in the year. Interestingly though, there are also projects that are already breaching the PHP3.0 million-mark (USD60,000). These are Glenwood East Residences by Philippine Diversified Developers, San Miguel Village by Home Invest Realty, and Golden River Village by Furen Land Development.

Meanwhile, actively selling condominium units in Bacolod City have a PHP2.1 million (USD42,000) average TCP, largely comparable to house and lots in within the Negros Occidental capital. Note though that the most sellable segment is still the affordable segment priced at between PHP1.7 million (USD34,000) and PHP3.2 million (USD64,000). This segment comprises 87% of total 2017 take-up in units. Similar to house and lots however, certain notable projects above the affordable segment are available in the market. The most expensive condominium in Bacolod is the Belle Arte, priced at PHP81,500 per sqm (USD151.43 per sq ft).

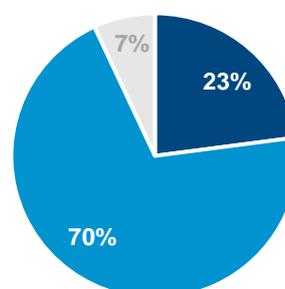
Overall, Colliers expects between 2% and 8% annual increase in residential prices in the next three years, consistent with current trends. House and lots are more likely to have slower price increases given the wider options in the market. Condominium options on the other hand are more limited, and would typically have some premium as potential business district developments can easily spike average prices.

## Increasing provincial potential

At present, the residential sector in Bacolod is primarily horizontal development dominated. For this reason, Colliers suggests that that developers continue to build house and lots within Bacolod City. Developers though, must keep a keen eye on Talisay City, just outside the capital, as it has been viable option, especially to affluent Negrenses. The most sellable units are priced at approximately PHP2.0 million (USD40,000) and below. Interestingly, not a few projects priced above PHP3.0 million (USD60,000) are also selling well.

We also expect mixed-use developments in Bacolod. The absence of any masterplanned development in Bacolod has limited the growth of businesses and real estate in general, in Bacolod. This may change soon, However, as Ayala Land has started developing a nine-hectare development in within Bacolod City called Capitol Central. Megaworld also announced that it is developing a 34-hectare township project called Upper East and another 50-hectare development called North Hill. With these kinds of developments, we expect the growth of the condominiums alongside the rise of office space-BPO ready buildings. Ultimately, the completion of these project-types which encourage the combination of live, work, and play components will potentially establish Bacolod as a key provincial location.

### Bacolod Horizontal Take-up per Segment, 2017



■ Affordable ■ Economic ■ Mid-Income

Source: Colliers International Philippines Research

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# Local malls thrive amid competition

Joey Roi Bondoc Research Manager

Bacolod City is one of the largest retail markets outside of Metro Manila. At present, national developers cover about 30% of the market while local players account for the remaining 70%. Colliers has observed that despite the influx of foreign retail brands and establishment of a major SM mall, homegrown food and beverage (F&B) brands and old retail shops operated by local players continue to thrive. We see the retail space offered by national developers expanding over the next 12 to 36 months as Ayala Land and Megaworld have lined up a number of regional malls. Colliers believes that local mall operators should continue extending exclusive credit lines and loyalty programmes to locals but should adjust their offerings based on the young consumers' preferences. We also recommend that retailers and developers undertake the following: (1) continue catering to BPO workers' needs; (2) assess the retail potential of idle Philippine Economic Zone Authority (PEZA)-proclaimed parks and the old airport site; (3) look for alternative locations for neighbourhood malls; and (4) develop retail outlets near public infrastructure projects.

## Classification of Retail Formats

CLASSIFICATION	TOTAL GLA (sq m)
Super Regional	100,000 and above
Regional	50,000 to 99,999
District Center	25,000 to 49,999
Neighborhood	Below 25,000

Source: Colliers International Philippines Research

## Forecast at a glance



### Demand

We expect F&B and fast fashion retailers to occupy much of Bacolod City's supply over the next two to three years. Colliers sees more foreign brands taking up space in the city's regional and super-regional malls.



### Supply

Colliers sees new supply over the next two to three years being developed by national developers Ayala Land and Megaworld. We expect at least 140,000 sq m (1.5 million sq ft) of leasable space to be added to the city's retail stock from 2018 to 2020. This should raise the city's current stock by 43%.



### Vacancy rate

We expect Bacolod City's vacancy to hover between 1.5% and 3.0% this year as we see additional take up from incoming foreign retailers and higher absorption in recently-opened neighbourhood malls. But vacancy should rise to between 4% and 6% per year from 2019 to 2020 given the additional space in major townships.



### Rent

Colliers sees rents growing by only 1% to 2% per year over the next two to three years in anticipation of the new retail space to be delivered by Ayala Land and Megaworld.

## Bacolod Retail Supply Stock by Shopping Mall Type (GLA, sq m)

SHOPPING MALL TYPE	AS OF 2017	2018F	2019F	2020F	TOTAL
Super Regional	107,100	-	-	-	107,100
Regional	43,200	-	70,000	74,000	187,200
District Center	62,800	-	-	-	62,800
Neighborhood	104,470	-	-	-	104,470
Total	317,570	-	70,000	74,000	461,570

Source: Colliers International Philippines Research

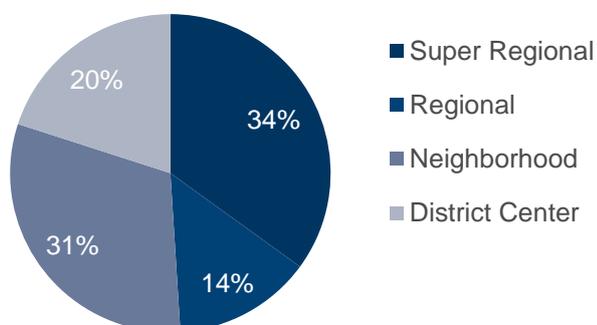
## Mix of local and national

Bacolod City is one of the major retail destinations in the Visayas group of islands. As of end-2017, the city's retail stock reached nearly 318,000 sq m (3.4 million sq ft). CityMall Goldenfields is the lone retail outlet that opened in 2017, adding some 8,000 sq m (86,100 sq ft) of leasable space to the city's stock. This is the second CityMall branch in the city following the opening of CityMall Mandalagan in November 2016.

The lone super-regional mall in Bacolod is operated by the SM Group, a national developer. The north and south wings of SM Bacolod offer a combined 107,000 sq m (1.15 million sq ft) of leasable space. The mall accounts for more than 30% of the city's retail space. The super-regional mall features a mix of local and foreign F&B, clothing, and accessory brands such as Vikings Buffet, Uniqlo, Miniso, Kuppa Coffee, and Chicken Deli.

Accounting for the remaining 65% are the smaller district and neighbourhood malls owned and operated by local developers. These include the Lopues, 888, Plaza Mart, and Bargain Square malls found along the busy Lacson, San Juan, Araneta, and Gatuslao Streets.

## Retail Distribution by Shopping Mall Type



Source: Colliers International Philippines Research

Most of the retail establishments in the old city centre are grocery stores and clothing and footwear outlets. The newer malls are those near the new city hall such as the

Hi-Strip Park. Hi-Strips 1 to 6 offer more than 6,700 sq m (72,100 sq ft) of GLA. An estimated 80% of Hi-Strip's leasable space is occupied by food and beverage retailers including home-grown brands such as Nona's Kitchen. The outlet's main customers are tourists, BPO employees, students, and government workers. The strips are across the new city centre and Panasiatic BPO tower and benefits from commuters along the circumferential road.

## Regional malls in the pipeline

Ayala Land will build a 70,000 sq m (753,500 sq ft) mall within its Capitol Central township near the provincial capitol. The establishment is surrounded by national government agencies such as the National Bureau of Investigation, Bureau of Immigration, and Civil Service Commission, and Land Transportation Office, four of the busiest government offices in the city. We also see potential consumer traffic coming from key establishments such as Negros Museum, Hall of Justice, and a number of churches and hotels. The project is expected to be completed by end-2018.

Another retail project due to open over the next 18 to 24 months is the Northhill Town Center, a horizontal retail development that will feature a central plaza, a shop that will offer Negrense products, a supermarket, and sports facilities. The outlet will be accessible along the Bacolod-Silay Airport Access Road. Colliers sees the mall benefiting from the planned expansion and modernization of the existing airport.

We see about 140,000 sq m (1.5 million sq ft) of new retail space being added to Bacolod City's stock over the next three years. By 2020, Colliers projects the city's retail supply to reach 462,000 sq m (5 million sq ft), up 43% from 2017 stock.

## Slight uptick in vacancy

We recorded a marginal rise in Bacolod City's vacancy as of end-2017. From 1.7% in 2Q2017, the city's retail vacancy rose slightly to 2.3% by the end of 2017. We attribute this to the recently-opened neighbourhood malls' difficulty in filling vacant space.

As of end-2017, several outlets recorded occupancy of between 96% and 100%; these include the Lopues Malls, VSB Malls, 888 Chinatown and Premiere Mall, CityMall Goldenfield, Hi-Strip, Negros First Cyber Centre retail, and SM Bacolod.

We expect Bacolod City's vacancy rate to hover between 1.5% and 3.0% this year as we see additional take up from retailers planning to occupy space in SM Bacolod and improved absorption in recently opened neighbourhood malls. However, vacancy should rise to between 4% and 6% per year from 2019 to 2020 given the additional space in major townships by Ayala Land and Megaworld.

Colliers has observed that despite the influx of foreign retailers and establishment of a major SM mall, homegrown F&B brands and old retail shops operated by local developers continue to thrive. We attribute this to the local operators' implementation of an integrated purchasing system among their outlets, extension of exclusive credit lines and loyalty programmes to Bacolod residents, and the locals' fondness for 'tiangge' (sale) items.

### Bacolod Average Retail Vacancy Rate by Shopping Mall Type

CLASSIFICATION	4Q 2017
Super Regional	4%
Regional	-
District Centre	0.7%
Neighbourhood	2.6%
Overall	2.3%

Source: Colliers International Philippines Research

### Stable rents

Bacolod City's retail rents as of 4Q 2017 were between PHP275 per sq m (USD0.51 per sq ft) per month and PHP700 per sq m (USD1.3 per sq ft) per month, an increase of 1.9% from 1H2017 rates.

We see lease rates growing by only 1% to 2% per year over the next two to three years in anticipation of the new space to be developed by Ayala Land and Megaworld.

LOCATION	4Q 2017
Bacolod City	PHP275 - 700

Source: Colliers International Philippines Research; USD1=PHP50

## Robust economic activities spill over to retail

Latest data from the Philippine Statistics Authority (PSA) reveal that Region 6, where Bacolod City belongs, was among the fastest-growing regions in the Philippines from 2014 to 2016. During the period, Western Visayas grew by an average of 7.5% annually. Meanwhile, gross domestic product (GDP) per capita or the proxy for individual income, grew by an average of 5.5%, the third fastest in the country after Central Luzon and Davao regions. Retail and other services grew by 11.5% during the period, among the fastest growing economic sub-segments in the region. This robust macroeconomic backdrop effectively boosts Bacolod households' propensity to consume.

Over the medium term, we see Bacolod's outsourcing and tourism sectors sustaining the city's retail sector.

At present, Bacolod City employs an estimated 30,000 BPO employees. Of the total, about half are from Bacolod City while the rest are from other parts of Negros Province (30%) and Iloilo and Panay (20%). This indicates that at least half of the outsourcing workers' disposable income is spent within the city.

Several BPO and KPO firms have expressed interest in either locating or expanding operations in Bacolod. This should further expand Bacolod's consumer base.

Tourist arrivals in the city have been growing over the past few years. In 2017, the city welcomed over 830,000 foreign and local tourists, up 4% from close to 800,000 visitors in 2016. Foreign tourists rose by 6.1% to 75,580 while local guests reached 756,100, up 4%. Visitors from the United States, China, Korea, and Japan accounted for 41% of total foreign visitors but high spending tourists from Australia, Germany, United Kingdom and Canada are also among the city's largest markets. The modernization and expansion of the Bacolod-Silay airport should support the growth of the city's retail segment.

### Cater to BPOs' needs

Retail opportunities in the city abound, especially those that cater to BPO workers' needs such as convenience stores. Colliers sees a rising demand for food retail outlets that offer hot meals 24/7. The homegrown convenience store Munsterific has stores in the city and its fringes. The brand has also expanded to neighbouring Iloilo City. But the chain's growth slowed after the entry of bigger players such as 7-11. Colliers encourages home-grown convenience stores to offer more promos and loyalty programs in partnership with merchandisers.

## PEZA Parks, old airport site

Colliers has observed that consumer interest in retail outlets near the old airport site has dwindled since the transfer of operations in Silay. We recorded relatively higher vacancy in a couple of malls within the area. But Colliers believes that interest in the old airport site will pick up once it is redeveloped. Thus, we encourage local and national players to carefully assess the district's retail potential.

Other areas with retail potential are the PEZA-proclaimed properties along Estefania Village and Lacson Street.

## Alternative locations

Colliers encourages mall developers to look for second and third tier municipalities in the fringes of Bacolod City that are viable for neighbourhood mall development. Among the smaller retail outlets that opened over the past 12 to 18 months are CityMalls in Mandalagan and GoldenField.

## Rewards and credit line

Colliers believes that local mall operators should continue providing exclusive credit lines to locals. However, owners should be more innovative with their rewards programmes to stay relevant and capture the loyalty of young consumers with constantly changing retail preferences.

## Cash in on infrastructure

The local government has lined up a number of infrastructure projects over the medium term which should unlock retail opportunities in key areas around the city and its fringes. Colliers encourages developers and retailers to scout for transit-oriented retail opportunities in the following:

- South Terminal in Tangub Village;
- Coastal Boulevard in Banago Village;
- Bacolod Economic Highway; and
- Coastal Road and Viaduct.

Within the reclamation area, the government is planning to build the Bacolod Food Centre, Bacolod I.T. Park, and Bacolod Arena Complex.

Other potential retail sites are the Central Market along Gonzaga and Gatuslao streets and the Pedestrian Mall along Araneta Street.

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