Colliers Bi-Annual

CEBU | OFFICE

1Q 2018
9 March 2018

Colliers INTERNATIONAL
Accelerating success.

Offshore gambling rises

Joey Roi Bondoc Research Manager

Offshore gambling is emerging as a critical segment of the Cebu office market as it accounted for almost 25% of recorded transactions in 2017. Business Process Outsourcing(BPO)-Voice companies continue to dominate covering more than a half of transactions while the Knowledge Process Outsourcing (KPO) firms that provide higher value services also sustained demand, taking 20% of the total office leases. Colliers sees the current administration's infrastructure implementation and decentralization thrust benefiting Cebu as it is the largest business destination outside Metro Manila. This should entice more offshore gambling, BPO, KPO and traditional firms to set up shop or expand operations. We encourage both landlords and tenants to

> explore business opportunities within the Call Center City that the local government proposes to develop with the private sector;

> build office space that could accommodate non-outsourcing and traditional businesses that require smaller space;

> assess the needs of offshore gambling companies which we see becoming major contributors to office space absorption;

> open more flexible workspace for small businesses and start-ups; and

> build office towers within integrated communities and near key infrastructure projects.

Forecast at a glance

Demand

Total office transactions reached nearly 107,000 sq m (1.2 million sq ft) in 2017. Offshore gambling is an emerging office segment and we see greater absorption from this sector over the next two to three years. The continued demand from BPO and KPO firms should support at least a 10% annual growth in transactions until 2020.

Supply

We see Cebu's office stock breaching the 1 million sq m (10.8 million sq ft) mark this year. Between 2018 and 2020, we expect the completion of close to 400,000 sq m (4.3 million sq ft) of new office space. A combined 60% of the new supply will be in Cebu Business Park (CBP) and Cebu IT Park (CITP).

Vacancy rate

Overall vacancy in Cebu stood at 9.7% as of end-2017.This is lower than the 12% recorded at end-2016. We see overall vacancy rising to about 10% to 11% annually over the next two to three years due to the completion of new space.

Rent

RENT

We expect Cebu Business Park and IT Park to continue to command the highest lease rates across Metro Cebu. We project average lease rates in these sub-markets to grow between 3% and 5% annually from 2018 to 2020. We still see upward pressure in rent given the strong demand in these sub-locations. Lease rates in other districts should grow at a slower 2% to 3% per annum as some landlords scramble to fill available space.

Cebu Office Supply Forecast (GLA, sq m)

LOCATION	AS OF 2017	2018F	2019F	2020F	Total
Cebu IT Park	299,000	52,200	23,000	143,000	517,200
Cebu Business Park	314,200	15,100	44,700	-	374,000
Mactan Newton	68,300	11,900	-	-	80,200
Mactan	4,500	-	-	-	4,500
Mandaue	84,200	-	-	-	84,200
Uptown / Downtown	191,000	50,600	55,700	-	297,300
Overall	961,200	129,800	123,400	143,000	1,357,400

Source: Colliers International Philippines Research

Office stock to breach 1-Mn mark

Cebu's office stock reached 960,000 sq m (10.3 million sq ft) of gross leasable area (GLA) as of end-2017. The figure is four times larger than Metro Cebu's stock 10 years ago. Colliers sees Cebu's total office supply breaching 1 million sq m (10.8 million sq ft) this year. Year-on-year (YoY), office stock rose by 7% from about 897,000 sq m (9.7 million sq ft) in 2016.

Some 63,000 sq m (678,100 sq ft) of office space was completed in 2017. This is lower than the 118,000 sq m (1.3 million sq ft) turned over in 2016 by national developers such as Megaworld, Robinsons Land, and Ayala Land. Cebu Business Park accounted for more than half of the new office space following the delivery of Philamlife Center, BPI Corporate Center, and Buildcomm Centre. The two other buildings completed last year were King Properties' Avenir in the Uptown/Downtown district and Oakridge Realty's Oakridge IT Center 2 in Mandaue.

As of end-2017, Cebu IT Park (CITP) and Cebu Business Park (CBP) accounted for more than 60% of Metro Cebu's office stock. These business hubs remain as the most attractive locations in Cebu due to their proximity to public transportation terminals and the presence of support facilities such as hotels, residential condominiums, and malls.

Over the next 36 months, Colliers projects the completion of an average of 132,000 sq m (1.4 million sq ft) of new office space annually. More than half of the new supply will be built within CITP and CBP.

Among the new buildings lined up for turnover this year are Tech Tower by Cebu Holdings; GT Time Square by GT Land Development; Pacific World Tower by Megaworld; and Cebu Cyberzone Tower 2 by Filinvest.

Some of the buildings due to be completed next year are PNB Tower, Innoland's One Montage, and Cebu Landmasters' Latitude Corporate Centre.

In 2020, new supply will be concentrated in the Cebu IT Park with the projected delivery of Ayala Land's Central Bloc BPO 2 and ArthaLand's Cebu Exchange.

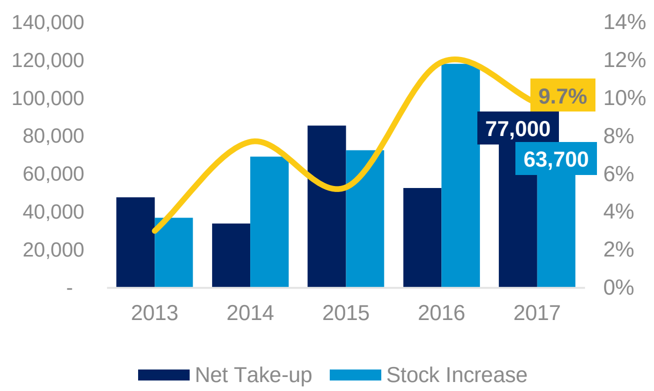
From 960,000 sq m (10.3 million sq ft) in 2017, we see Cebu's office stock expanding to 1.36 million sq m (14.6 million sq ft) by the end of 2020.

Voice BPO still dominant

Total office transactions reached nearly 107,000 sq m (1.2 million sq ft) with BPO firms taking up half or about 53,000 sq m of office space.

Among the major transactions recorded last year was multinational call centre Sykes Asia's take up of more than 4,000 sq m (43,100 sq ft) at Robinsons Galleria Cebu. The facility is the firm's second site in Cebu. Concentrix occupied space at 8 Newtown Boulevard Tower 3 in Mactan while RealPage occupied space at ACC Tower in CBP. Other notable BPO transactions last year involved Channel Fix and iPloy.

Annual Take-up, Supply, and Vacancy



Source: Colliers International Philippines Research

Offshore gambling emerges

Offshore gambling is emerging as a major plank of the Cebu office market. After taking up 25,000 sq m (269,100 sq ft) of office space in 1H2017, another offshore gambling company closed nearly 3,700 sq m (39,800 sq ft) of office space at Momentum Building. With a more conducive local regulatory environment, we expect offshore gambling to become a major contributor to office space take up in Cebu.

Comparative Office Vacancy Rates (percentage) in Cebu

LOCATION	4Q 2017
CBP	2.2%
IT Park	2.1%
Mactan Newtown	30.7%
Mactan	0%
Mandaue	48.5%
Uptown / Downtown	6.5%
Overall	9.7%

Source: Colliers International Philippines Research

KPOs sustain demand

Knowledge Process Outsourcing (KPO) firms or those that provide higher-value services such as medical coding, software engineering, and finance and accounting comprised about a 20% of total transactions or some 20,000 sq m (215,300 sq ft) of office space.

New KPO players in Cebu include the shared service unit of global manufacturer Dover and web design and development firm MoPro. The Global Delivery Center (GDC) of Fujitsu also opened a facility in Cebu. The firm plans to open 400 new positions over the next two years.

Last year, Accenture Philippines said it will hire more employees capable of handling SAP, Java, analytic programming, among others.

Hanoi-headquartered FPT Software plans to employ around 1,500 people by end-2019. The firm said that opening shop in Cebu is an integral part of FPT's Southeast Asian expansion strategy.

Other large KPO firms that have established footprint in Cebu are Synchrony, Cardo Engineering, Google, Catapult International, JP Morgan, Fluor Daniel, and Dash Engineering.

The presence and expansion plans of these KPOs should contribute to faster office space absorption over the next 24 months.

Overall vacancy in Cebu was at 9.7% as of end-2017.This is lower than the 12.0% recorded in end-2016. Major business districts such as CBP and CITP recorded vacancy rates of between 2.0% and 2.2%. This indicates that much of the demand still gravitates towards these established hubs.

Comparative Office Rental Rates in Cebu (PHP / sq m / month), 4Q 2017

LOCATION	RENTS
CBP	PHP450 - 900
IT Park	PHP450 - 650
Mactan	PHP450 - 550
Mandaue	PHP400 - 600
Uptown / Downtown	PHP350 - 700

Source: Colliers International Philippines Research; USD1=PHP50

The key business districts including CBP and CITP continue to command the highest lease rates. Rents in CITP range between PHP450 and PHP 650 per sq m (USD0.84 to USD1.21 per sq ft) per month while buildings in CBP charge between PHP450 (USD 9) and PHP900 (USD18) per month. Average lease rates across Cebu's business districts grew by an average of 6% by end-2017.Over the next two to three years we see lease rates growing by an average of 3% to 5% per annum. We see lease rates in CBP rising faster than CITP as we see more space being completed in the latter. Lease rates in other sub-locations should grow at a slower pace of 2% to 3% per annum as some landlords scramble to find tenants for their space.

We see the current administration's infrastructure implementation and decentralization thrust benefiting Cebu. This should entice more outsourcing, offshore gambling, and traditional companies to set up shop or expand operations. Colliers believes that the vibrant office market in Cebu offers opportunities to both landlords and tenants.

Opportunity in Call Centre City

The local government has announced its plan of developing a Call Centre City on South Road properties, a 300 hectare island-type reclamation area. Based on the local officials' initial pronouncements, the development will house office buildings, residential towers, dormitories and training centres that will cater to BPO companies and their employees. Other project details will be announced soon but this early we encourage developers and tenants to look at business opportunities within the area.

Flexible office cuts

We encourage developers to construct office space that could accommodate non-outsourcing and traditional businesses that require smaller space. Developers should be more flexible and keep in mind that the expansion of the Cebu economy drives the growth of traditional firms such as those involved in engineering and logistics that occupy smaller office space. This is particularly important for office towers that will be built around the Uptown/Downtown area which remains as the preferred location of traditional and non-BPO businesses.

Offshore gambling and logistics

Colliers projects a rapid expansion of these segments over the next 12 to 24 months particularly in light of the implementation of a new city ordinance that transfers international port operations to Consolacion. This is part of the government's plan to decongest the current port area. A more robust logistics segment translates into greater absorption of office space.

The Mactan area is becoming a preferred location of offshore gambling firms. Hence, we encourage developers in the area to carefully assess the needs of these firms to entice more potential locators. As a start, developers should construct buildings with large floor plates and residential complement.

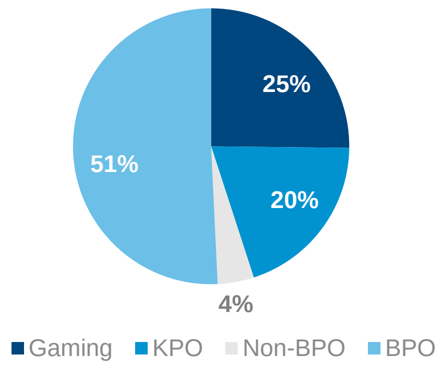
More co-working space

Metro Cebu is part of Central Visayas which is considered a hotspot for micro, small, and medium enterprises (MSMEs). The continued growth of MSMEs and start-ups should fuel demand for flexible workspace. Given this trend and the worsening traffic in Cebu, we encourage developers to carve out more flexible office space especially in malls.

Townships and infrastructure

We recommend that developers build office towers within integrated business hubs as these townships enhance living and working conditions. Developers should explore parcels of developable land especially in Mandaue and Mactan areas that would benefit from the completion of major infrastructure projects such as the expanded Mactan-Cebu International Airport; Cebu-Cordova Expressway Link; Cebu Bus Rapid Transit (BRT); and Cebu-Negros bridge.

Breakdown of Transactions, 2017



Source: Colliers International Philippines Research

For more information:

Dinbo Macaranas
Senior Research Manager
+632 858 9047
randwil.macaranas@colliers.com

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

Contributors:

David A. Young
Chief Operations Officer

Richard Raymundo
Managing Director

Kasi Yute
Research Analyst

Colliers Bi-Annual

CEBU| RESIDENTIAL

1Q 2018
16 March 2018

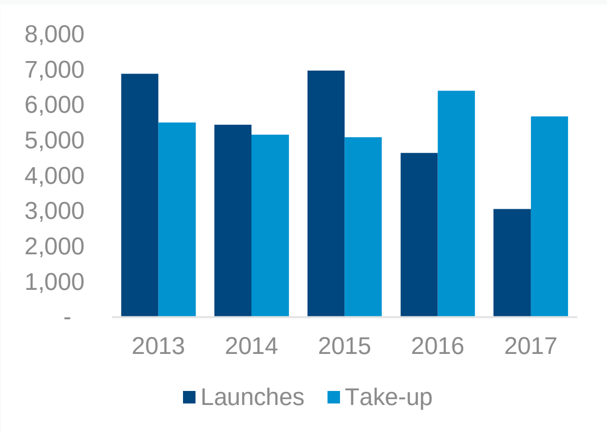
Accelerating success.

Condominium market grows

Dinbo Macaranas Senior Research Manager

Given the increasing land prices in Cebu, it is not surprising to see more condominium (vertical) developments than house and lots (horizontal). The condominium stock in Cebu totals 33,400 units, all in Metro Cebu. While launches were down for both horizontal and vertical projects in 2017, take-up for condominiums was notably faster, reaching 5,600 units versus 1,100 for house and lots. This has also translated into increasing prices of condominiums where prices are breaching the mid-income segment, nearing PHP6.0 million (USD 120,000). Colliers expects vertical demand to continue, augmented by leisure-related residential developments, especially after the planned completion of the Mactan Airport expansion by mid-2018. Thus, we suggest that developers launch more leisure-related condominiums. Meanwhile, for house and lots, developers may consider areas outside Metro Cebu such as Talisay, Consolacion, and Minglanilla, which are fast becoming viable alternatives to the city centre.

Vertical Launches and Take-up (units), 2017



Source: Colliers International Philippines Research

Forecast at a glance

Demand

Demand for condominiums continues to be stronger than for house and lots as vertical developments are within proximity of the CBD. We expect this to continue for the next two to three years, improved by leisure type developments.

Supply

Colliers projects over 15,400 condo units to be completed by 2021. This will expand the options in Cebu, which already has approximately 53,000 house and lots across the entire province.

Price

Prices of condominiums range between PHP2.8 million (USD56,000) to PHP6.8 million (USD136,000). In Metro Cebu, house and lot prices are largely comparable ranging between PHP2.8 million (USD56,000) to PHP7.1 million (USD142,000). We expect a 2% to 6% growth in prices annually in the next two to three years, driven by faster increases from condominiums.

Cebu Vertical Residential Supply Forecast (units)

LOCATION	AS OF 2017	2018F	2019F	2020F	2021F	TOTAL
Cebu City	24,500	6,600	2,600	2,000	-	35,700
Lapu-Lapu City	6,100	1,400	200	500	-	8,200
Mandaue City	2,800	-	-	1,200	900	4,900
Overall	33,400	8,000	2,800	3,700	900	48,800

Source: Colliers International Philippines Research

High rise Metro Cebu

Given the increasing land prices in Cebu, it is not surprising to see more condominium (vertical) developments than house and lots (horizontal) especially in Metro Cebu. The condominium stock in Cebu totals 33,400 units, all in Metro Cebu. This complements the total of over 27,000 house and lots across Metro Cebu, and as well as the 26,000 horizontal units more across the rest of Cebu province.

Condominium units in Metro Cebu are largely concentrated in Cebu City with over 24,500 or 73% of condominium stock located in the provincial capital. Lapu-Lapu City follows with 18% or 6,100 units, while the balance is in Mandaue City.

The condominium pipeline in the next few years will continue to grow. In 2018 alone, we are expecting over 8,000 units to be delivered in Metro Cebu, 83% of which should come from Cebu City, and 17% from Lapu-Lapu. From 2019 to 2021, we expect about 7,400 units to be delivered, still concentrated in Cebu City, but quite a significant number of units will also come from Mandaue City.

Some of the notable upcoming projects in Cebu City include Avida Towers Riala by Avida Land (660 units), Parthenon Residences by Land Traders (800 units), 38 Park Avenue by Cebu Landmasters (745 units), Vista Suarez by Vista Land (600 Units), and 32 Sanson by Rockwell Land (300 units), among others.

In Lapu-Lapu City, some of the notable projects are Saekyung Condo by Saekyung Realty (800 units), One Manchester Place by Megaworld (200 units), and Sheraton Cebu – The Residences by Apple One Properties (150 units). Lastly, in Mandaue City, Taft Properties' Mandani Bay Suites (1,200 units) and Quay (800 units) are the key upcoming developments.

Preference for vertical developments

Demand for both horizontal and vertical developments continues in Cebu, although we observe a faster take-up in condominium projects than for house and lots. Total take-up of condominiums in 2017 reached 5,600 units, consistent with the average in the prior three years of 5,500 units. House and lots on the other hand, recorded total take-up of 2,100 units, slower than the average in the last three years of 3,800 units.

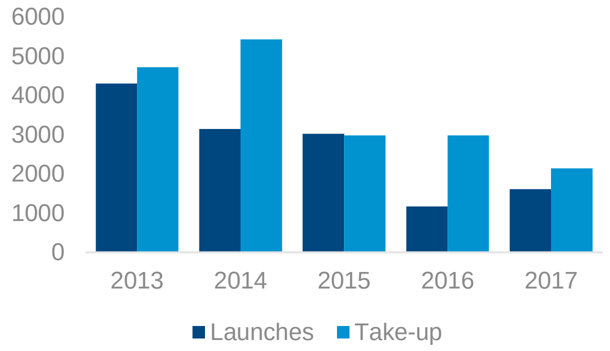
Colliers attributes this increase in preference for vertical projects to (1) the increasing land values which have forced developers to focus more on vertical developments, and (2) the proximity of condominiums to the CBD, enhanced by the worsening traffic situation in Cebu, making them the choice of Cebuanos and investors alike.

Understandably, therefore, there have been fewer house and lot developments launched in recent years. While horizontal developments saw a slight increase in launches from 1,200 units in 2016 to 1,600 in 2017, this is still slower than the three-year average since 2013 of 3,500 units annually. Launches of condominium developments, while also declining, still reached over 3,000 units in 2017, about 150% more than the number of house and lots launched.

Furthermore, house and lot developments in Cebu have also expanded outside of Metro Cebu. Some of the key horizontal projects launched in more recent years (2015 to 2017) are located in Talisay, Consolacion and Minglanilla, given the limited developable land within and near the city centre.

Examples of projects launched in Talisay in the last three years are Villa Donna by Kenrich Development, Malibu by Aldea Premier, and Sta. Monica Estates by Sterling Land Development. In Consolacion, some of the projects launched were Yanessa Country Homes by Hedland, Vista de Bahia by MCJR Realty, and Modena Consolacion by J. King and Sons. Meanwhile in Minglanilla, Francesca Highlands by Grand Land, and Ricksville Heights Minglanilla by Arieza Land were the key projects launched.

Horizontal Launches and Take-up (units), 2017



Source: Colliers International Philippines Research

Mid-income condominiums, affordable house and lots

When broken down by price segment, the take-up between horizontal and vertical developments varies. For house and lots, the affordable and economic segments or those priced between PHP1.7 million (USD34,000) and PHP3.2 million (USD64,000) are the most sellable. These two segments comprise 85% of total 2017 take-up. Meanwhile for condominiums, the affordable and mid-income segments, priced between PHP3.2 million (USD64,000) and PHP6.0 million (USD120,000) are the most sellable, comprising 67% of total take-up.

Overall average prices of condominiums rose by 5% from 2016 to 2017. Interestingly, several projects showed a mid-teens percentage increase over the same period. Thus, from being largely driven by affordable housing, more mid-income condominium developments are also selling well. Among others, projects that sold well in 2017 include Mandani Bay Quay and Suites, Grand Residences, Vista Suarez, and 38 Parc Avenue.

Notably, most expensive condominium units in Cebu priced from PHP130,000 per sqm (USD242 per sq ft) to over PHP200,000 per sqm (USD 371 per sq ft) are at least 75% sold already. The project which first breached the PHP200,000 per sqm-mark is Sheranton Cebu Mactan Resort Residences by Apple One Properties.

In terms of total contract price (TCP), actively selling house and lots in Cebu are averaging PHP4.6 million (USD92,000). By comparison, the average TCP of condominiums is 17% higher at PHP5.5 million (USD110,000). Colliers expects that prices of condominiums will increase faster than house and lots given the higher demand for these types of developments which are typically closer to the CBD.

Colliers projects a 3% to 6% annual increase in average condominium prices over the next two to three years. On the other hand, we expect prices of house and lots to increase at a slower pace of 2% to 3% annually due to expansion to other areas outside the city and the bigger impact of the affordable price segment on overall averages.

Up for a leisurely comeback

Generally, the residential market in Cebu is still strong. Sales of both horizontal and vertical developments are still at healthy levels. Colliers notes however, a shift in the market as condominiums have become slightly more viable given increasing land values in the city. In addition, the worsening traffic situation has forced individuals to look for residential options near the CBD. Upcoming supply is also sizeable which makes the market more competitive.

One upcoming bright spot is the completion of the Mactan airport expansion scheduled by mid-2018. The country has been awaiting upgrades in local and international airports to boost tourism. Once completed, the airport is expected to accommodate between 4.5 million to 13 million passengers annually. Colliers believes this will also have an impact on residential developments as it will make the location more attractive to investors and end-users.

In addition, there is a 1500-hectare reclamation project proposed by SM Prime Holdings Inc. In December 2016, the Philippine Reclamation Authority (PRA) and the municipality of Cordova in Mactan Island announced the signing of a memorandum of understanding (MOU) to jumpstart the project.

Developer recommendations

Colliers believes that both infrastructure projects will have a strong impact on Cebu real estate. We recommend that more residential developments be built in areas traversed or nearby these infrastructure plans. We also suggest that developers build more residential projects that are leisure and lifestyle-oriented in anticipation of increased interest brought about by the infrastructure improvements. Already, we have seen some developers incorporate the resort-type feel in their projects to differentiate their products.

Ultimately, location and price will still be key. Metro Cebu will still be the viable location for condominiums, with prices averaging the higher range of the mid-income segment. House and lots meanwhile, have become viable in locations outside the city such as Talisay, Consolacion and Minglanilla, at a price-point of PHP3.2 million (USD64,000).

Cebu Residential Average Price (PHP), 4Q2017

LOCATION	VERTICAL (PHP / sq m)	HORIZONTAL (PHP / unit)
Cebu City	104,900	7,100,000
Lapu-Lapu	109,900	2,800,000
Mandaue	92,000	4,900,000

Conversion: USD1 = PHP50
Source: Colliers International Philippines Research

For more information:

Dinbo Macaranas
Senior Research Manager
+632 858 9047
randwil.macaranas@colliers.com

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

Contributors:

David A. Young
Chief Operating Officer

Richard Raymundo
Managing Director

Kasi Yute
Research Analyst

Colliers Bi-Annual

CEBU | RETAIL

1Q 2018
9 March 2018

Breaching the 1-million mark

Joey Roi Bondoc Research Manager

Cebu's retail stock is now at 1.06 million sq m (11.4 million sq ft); more than double the 2010 level. Its retail market remains interesting and competitive since both local and national players are active. Despite the development of super-regional malls in established and emerging hubs and the entry of foreign retailers, the downtown area which houses some of the oldest retail outlets remains bustling. But the homegrown retailers need to cope with the constantly evolving preferences of consumers and must recalibrate their offerings if they are to stay in the game. The difficulty of filling vacant space persists especially in certain regional malls. Colliers believes that operators should be more discerning in selecting retailers and aspire for a more interesting tenant mix that would sustain visitor traffic. We think that the property firms should consider the heavy traffic along the city's main roads as an opportunity to develop smaller retail outlets in alternative locations. Colliers believes that the improvement of Cebu's infrastructure network should result in more transit- and resort-oriented retail projects. We also encourage operators and retailers to explore opportunities in future reclamation 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 see retail demand in Cebu being sustained by the growth of its outsourcing sector, deployment of migrant workers, and influx of local and foreign tourists. Food and Beverage (F&B), fast fashion and home furnishing businesses will be the major occupiers of Metro Cebu's retail space over the next two to three years.

Supply

From 2019 to 2021, we see developers adding an average of 63,000 sq m (678,100 sq ft) of new retail space per annum. From 1.06 million sq m (11.4 million sq ft) by end-2017, Cebu's retail stock should expand to 1.3 million sq m (14 million sq ft) by 2021.

Vacancy rate

We do not see a significant rise in vacancy over the next twelve months despite the projected completion of NorthDrive retail complex and the opening of Il Corso mall at City di Mare. We see overall vacancy hovering between 5% and 6% this year. Despite the delivery of substantial space between 2019 and 2021, we expect overall vacancy to hover between 7% and 9% per year.

Rent

Colliers sees rental rates rising by a slower 2% to 3% annually over the next two to three years from about 4% to 5% increase in 2017 due to the significant upcoming supply.

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

SHOPPING MALL TYPE	AS OF 2017	2018F	2019F	2020F	2021F	TOTAL
Super Regional	585,800	-	-	115,000	-	700,800
Regional	113,800	-	-	-	-	113,800
District Center	95,000	38,800	43,000	-	30,000	206,800
Neighborhood	265,600	-	-	-	-	265,600
Overall	1,060,200	38,800	43,000	115,000	30,000	1,287,000

Source: Colliers International Philippines Research

Retail stock at 1.06 million sq m

Metro Cebu remains the largest retail hub outside of Metro Manila. As of end-2017, Cebu's retail stock reached 1.06 million sq m (11.4 million sq ft).

Super-regional malls, or retail outlets with GLAs of more than 100,000 sq m (1.1 million sq ft) account for about 60% of Cebu's retail stock. Super-regional malls in Cebu include SM Seaside, SM City Cebu, and Ayala Center Cebu. Regional outlets such as SM Consolacion and Robinsons Galleria Cebu cover 10% of the market while the smaller district centres and neighbourhood outlets primarily located in the downtown area cover the remaining 30%. These smaller establishments are predominantly owned by local businessmen. Among the neighborhood and district malls in Cebu are CityMalls in Bacalso and Consolacion as well as those owned by the Gaisano family.

National developers dominate

The NorthDrive complex of local developer Elin Land had a soft opening in 2H 2017, adding about 2,500 sq m (26,900 sq ft) of new space to Cebu's retail stock. This added only 0.24% to Cebu's total retail space. The new outlet currently houses a number of F&B retailers, a money changer, and a bank. An incoming retailer is a homegrown coffee shop. The retail complex is surrounded by schools, shipping companies, residential towers, and a chapel. The retail complex also benefits from commuters along Ouano Avenue.

Despite the soft opening of NorthDrive, Metro Cebu's retail stock still stands at 1.06 million sq m (10.9 million sq ft) of gross leasable area (GLA). Expected to open this year is Filinvest's Il Corso mall within its City di Mare project located in the South Road Properties, a reclamation area located on the southern part of Cebu city. The retail outlet will have a GLA of 35,000 sq m (376,700 sq ft) and will house some 200 retail locators. Il Corso is being positioned as a resort-type mall. From 2019 to 2021, we see developers adding an average of 63,000 sq m (678,100 sq ft) of new retail space per year. Among the retail projects in the pipeline are Ayala Land's Ayala Mall at Central Bloc (43,000 sq m or 462,800 sq ft) located in Cebu IT Park as well as Ayala Land and Aboitiz Land's Ayala Mall at Gatewalk Central (115,000 sq m or 1.2 million sq ft) in Mandaue City. Gatewalk Central mall is the first super-regional mall to be developed in Cebu after the completion of SM Seaside in 2015. By 2021, we see Cebu's retail stock reaching nearly 1.3 million sq m (14 million sq ft) of GLA.

Cebu Average Retail Vacancy Rate by Shopping Mall Type

SHOPPING MALL TYPE	4Q 2017
Super Regional	6.4%
Regional	4.5%
District Center	0.1%
Neighborhood	0.5%
Overall	4.2%

Source: Colliers International Philippines Research

Retailers absorb more space

Retailers in super-regional malls continue to occupy additional space, resulting in a lower vacancy rate by end-2017. Overall vacancy in 4Q2017 reached 4.2%, lower than the 6.1% posted in 1Q 2017. Vacancy across Cebu peaked in 2015 at 14.5% following the completion of SM Seaside and Robinsons Galleria Cebu. Super regional and regional malls recorded vacancy rates of 6.4% and 4.5%, respectively. Meanwhile, the smaller district and neighborhood malls were fully occupied.

We do not see a significant rise in vacancy over the next twelve months despite the projected full turn-over of NorthDrive retail complex and the opening of Il Corso mall at City di Mare. We see overall vacancy hovering between 5% and 6% this year.

An estimated 80% of incoming retailers in SM City Cebu and Robinsons Galleria offer F&B. These should contribute to greater retail space absorption over the next six to 12 months.

We project a slight uptick once the malls of Megaworld, Ayala Land, Aboitiz Land and Cebu Holdings are delivered between 2019 and 2021. With an annual increase of at least 63,000 sq m (678,100 sq ft) of new retail space, we expect overall vacancy to hover between 7% and 9% per annum during the period. We do not see overall vacancy exceeding 10%.

Cebu's average retail rents range from PHP230 to PHP980 per sq m (USD0.43 to USD1.82 per sq ft) per month, up 3-5% compared to year-ago rates. Colliers sees rental rates growing at a slower 2% to 3% annually over the next two to three years given the substantial new supply in the pipeline.

Cebu Retail Lease Rates (PHP/sq m/month)

LOCATION	4Q 2017
Metro Cebu	230 - 980

Source: Colliers International Philippines Research
USD1=PHP50

BPO, OFW, infra to sustain demand

Overall, we still see the Cebu retail sector benefiting from traditional demand drivers such as the outsourcing sector, overseas Filipino workers (OFW) deployment, and public and private construction.

Colliers believes that the projected 5%-10% annual growth of Cebu's outsourcing workforce will support the expansion of the city's consumer base. Those employed by KPO firms receive higher salaries, thereby expanding the purchasing power of the predominantly-young outsourcing workforce.

Cebu is part of the Central Visayas region which covers about 5% of total OFW deployment per year. Meanwhile, the robust public and private construction activities in Cebu generate more employment opportunities which effectively expand Metro Cebu's consumer base. This bodes well for Cebu's retail establishments.

Exciting tenant mix

Some malls in Cebu still encounter difficulty in filling up retail space. We recommend that operators carefully choose their tenants to come up with a more interesting tenancy mix. This will also play a crucial part in sustaining visitor traffic. The country's first digital playground, PlayLab, opened in Robinsons Galleria Cebu in December 2017. PlayLab has futuristic visual arts and 3D graphics that allow visitors to create abstract art through movements. Moving forward, we believe that housing more innovative tenants will play a major role in attracting more customers

Resort-oriented retail

With the completion of the second terminal of Mactan-Cebu International Airport the capacity of the airport will more than triple to 12.5 million from the current 4.0 million. This means more foreign and domestic tourists which should result in greater tourist-related spending. To cash in on the expected surge in spending, mall operators should be on the lookout for potential retail space near resort-oriented hotels and condominium projects.

Reclaimed retail hub

In December 2016, the Philippine Reclamation Authority (PRA) and the municipality of Cordova in Mactan Island announced the signing of a memorandum of understanding (MOU) for a 1,500-hectare reclamation project proposed by SM Prime Holdings Inc. We encourage both national and local players to assess retail opportunities within the future reclamation projects in Cebu.

For more information:

Dinbo Macaranas
Senior Research Manager
+632 858 9047
randwil.macaranas@colliers.com

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

Contributors:

David A. Young
Chief Operations Officer

Richard Raymundo
Managing Director

Kasi Yute
Research Analyst