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Accelerating success.

Developers and locators go north

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The Cavite-Laguna-Batangas region is the Philippines' primary industrial hub. In 2H 2017, the corridor recorded a significant decline in vacancy due to growing interest from locators involved in the manufacture of electronic and light products as well as establishment of warehouses. But while the region remains a competitive destination, several industrial park developers and occupiers have started to build new industrial estates and facilities in Northern and Central Luzon in anticipation of the surge in investment from local and foreign manufacturers. The corridor is also becoming more attractive due to cheaper land and lease rates; proximity to major airports and seaports and key township communities; and the projected completion of new passenger and cargo rail lines. With manufacturing and exports becoming major planks of the country's economic growth, we recommend that developers take advantage of the robust outlook by developing more standard factory buildings (SFB); apportioning a portion of township projects for industrial activities; identifying feasible industrial locations outside Luzon; and thoroughly evaluating the government's manufacturing roadmaps to align industrial park developments with the demands of the emerging manufacturing segments.

Forecast at a glance

Demand

Over the next two to three years, we see demand for industrial land and facilities being driven by manufacturers of electronics and fast-moving consumer goods. We expect electronics and semiconductor manufacturers to gravitate towards Southern Luzon due to the availability of a skilled labour pool. We see more cost-sensitive producers locating in Central Luzon.

Supply

Colliers projects industrial space in Cavite-Laguna-Batangas to grow by only 1-3% annually from 2018 to 2020. We see the bulk of new industrial space and buildings being developed in Northern and Central Luzon.

Vacancy rate

With limited supply and stable demand from local and foreign manufacturers, we see overall vacancy in the Cavite-Batangas-Laguna area hovering between 8% and 9% annually from 2018 to 2020. We see e-commerce growing over the near term and this should lead to increased occupancy of standard factory buildings.

Rent

With a 60% rise in approved manufacturing investments for the first three quarters of 2017, we see land leasehold and SFB lease rates growing by 3-5% annually until 2020 from 2-3% currently.

Manufacturing and exports drive industrial demand

Approved manufacturing investments for the first three quarters of 2017 reached PHP46.7 billion (USD916 million), up 61% from PHP29.12 billion (USD571 million) recorded in the same period in 2016. The data culled from various investment promotion agencies reveal that manufacturing projects accounted for about 55% of the total approved investments during the period under review.

According to the Philippine Statistics Authority (PSA) the Cavite-Laguna-Batangas region, the Philippines' primary industrial hub, is set to receive half of the committed projects from January to September 2017. The greater part of the investment garnered by the Cavite-Laguna-Batangas corridor is intended for manufacturing activity. This strengthens the region's stature as the major industrial destination in the country and indicates stronger inflow manufacturing investments in the next 12 to 24 months.

Approved Manufacturing Projects

Industry	Jan-Sep 2016 (PHP Bn)	Jan-Sep 2017 (PHP Bn)	Share (%)	YoY Growth (%)
Manufacturing*	29.1	46.7	56%	61%
Approved Foreign Investments*	93.3	84.1	NA	-9.9%

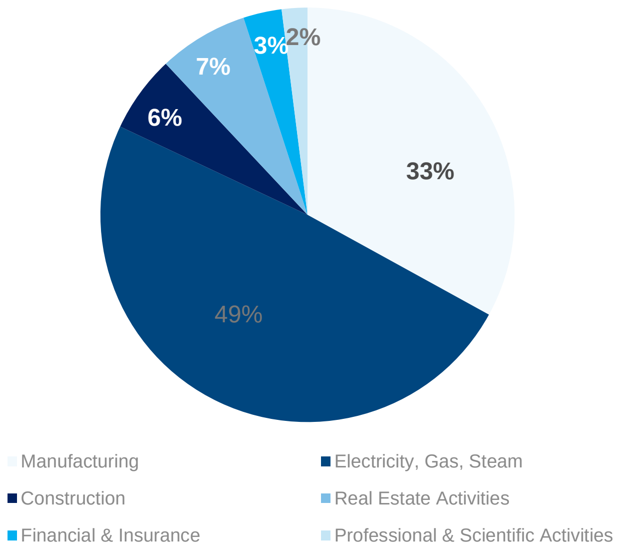
Source: Philippine Investment Promotion Agencies; *Committed projects only, yet to be invested.

After years of sluggish growth, exports rebounded to post an increase of 20.7% versus 9.2% in 2016. This is the fastest rise in outbound shipments recorded since 2010, when exports recovered after the Global Financial Crisis from 2008 to 2009. The expansion of export-oriented enterprises contributes to greater industrial space absorption.

Manufacturing and storage dominate actual investments

The Philippine central bank captures the amount of foreign investments that have actually been invested in the country. The latest available data reveal that manufacturing investments grew by 460% from USD152 million in January to October 2016 to USD852 million in the same period of 2017. Manufacturing now accounts for one-third of total foreign investments in the country versus only 10% in 2016.

Actual Foreign Investment Inflows by Sector (January to September 2017)



Source: Bangko Sentral ng Pilipinas (Central Bank)

During the same period in 2017, actual investments funnelled into Transportation and Storage reached USD53.3 million versus only USD680,000 in January to October 2016.

The jump in manufacturing and storage investments supports the increased absorption of industrial space in the Cavite-Laguna-Batangas region in 2017.

Cavite posts largest absorption

The corridor's industrial stock was unchanged HoH at 7,060 ha (70.6 million sq m). As of 1H 2017, vacancy in the Cavite-Laguna-Batangas area reached 7.9% from 9.3% in 1H 2017.

We recorded significant take up in Cavite, with vacancy declining from 9.3% to 7.9%. Over the past 12 months, most of the locators that have committed to occupying manufacturing facilities or expanding operations were manufacturers of mobile communications equipment, computer peripherals, and 3D printers. Close to half of recently approved projects in Cavite include the establishment and operation of warehouses.

Laguna continues to be the preferred industrial location with its vacancy rate further declining to only 5.0% from 6.3% in 1H2017. Firms engaged in the manufacture of hairdryers, semiconductor parts, hand push carts, and paper coffee cups have pledged to build new facilities or ramp up operations. A couple of firms will also build warehouses.

Batangas' vacancy rate was practically unchanged at 10.1% Despite this, we are optimistic that Batangas' industrial vacancy rate will improve over the next 12 to 24 months, owing to the planned construction of warehouses in the province's various industrial parks. About one-third of recently approved projects cover warehousing and logistics services. The rest cover manufacture of packaging materials and energy-saving lighting products, and assembly of different types of faucets.

We see overall vacancy rates in the Cavite-Batangas-Laguna area hovering below 8-9% annually until 2020 as investors' committed projects materialise.

Industrial Vacancy Rates

Region IV-A	1H 2017	2H 2017
Cavite	10.6%	7.3%
Laguna	6.3%	5.0%
Batangas	10.2%	10.1%
TOTAL	9.3%	7.9%

Source: Colliers International Philippines Research

Lease rates up

Industrial lease rates continue to increase, albeit at a slower pace than in 1H 2017. Average land leasehold rates in the Cavite-Laguna-Batangas region for 2H 2017 rose by 2.9% to PHP72 (USD1.44) per sq m per month from PHP70 (USD1.40) per sq m a month in 1H 2017.

Meanwhile, monthly lease rates for standard factory buildings (SFBs) rose by 3.8% to PHP244 per month from PHP235 in 1H 2017. This is slower than the 4.4% growth recorded during the first six months of 2017.

In light of the substantial amount of manufacturing projects approved by the country's investment promotion agencies during the first three quarters of 2017, we see faster growth in land leasehold and SFB lease rates annually over the next two to three years.

We see land leasehold rates hovering between PHP75 (USD1.5) and PHP80 (USD1.6) per annum until 2021, or an annual growth of between 3% and 4%.

The burgeoning e-commerce in the country should also hike demand for warehouses in the Cavite-Laguna-Batangas region. Colliers sees monthly lease rates for SFBs rising by 3-5% annually over the next two three years.

Industrial Lease Rates

Region IV-A	1H 2017	2H 2017	Growth
Leasehold (Land)	70	72	2.9%
Lease Rates (SFB**)	235	244	3.8%

Source: Colliers International Philippines Research
**Standard Factory Buildings

Slow supply growth in Cavite-Laguna-Batangas

We do not expect a significant increase in industrial space in Cavite-Laguna-Batangas area over the next two to three years. Among the minor ones are the 20 hectare (200,000 sq m) expansion of the Cavite Technopark to accommodate new electronics manufacturers as well as SBS Philippines' redevelopment of the 5 hectare space in Calamba, Laguna previously used by Coca-Cola Philippines. For this year, we see supply in Laguna and Cavite growing by 0.4% and 1.9%, respectively.

From 2019 to 2020, we see Batangas cornering the bulk of additional supply, with its total industrial space growing by about 3% per annum. We expect Laguna and Cavite supply recording a flattish growth during the period.

Northern and Central Luzon corner bulk of new supply

The growing manufacturing and export activities in the country are enticing developers to ramp up industrial estate development outside the Cavite-Laguna-Batangas area.

Recently, DoubleDragon acquired a 6.2 hectare lot in Luisita Industrial Park in Tarlac which is about 120 kilometres north of Manila. Apart from its Tarlac facility, DoubleDragon is planning to develop eight additional industrial parks in Northern Luzon, Southern Luzon, Visayas, and Mindanao.

Another proof of Northern and Central Luzon's rising viability as an industrial hub is the Xu Liang Dragon Group's commitment to developing a 3,000 ha mixed-use special economic zone in Pangasinan, about 210 km north of the country's capital.

Other industrial parks being developed in the Northern Luzon area are Ayala's 31 hectare industrial park within its Alviera estate in Porac, Pampanga and Filinvest's 100 hectare industrial estate within the Clark Green City.

We see more industrial developers and occupiers expanding to Northern and Central Luzon provinces such as Pampanga, Zambales, and Tarlac due to the

Duterte administration’s plan of developing crucial infrastructure within the region. Major projects in the pipeline are the Clark Airport expansion and modernization; passenger rail from Malolos, Bulacan to Clark Green City in Capas, Tarlac; and the Subic-Clark cargo railway. The latter covers a 77 kilometre rail connection linking Subic Port with Clark International Airport. The project should decongest Manila port and lower the cost of shipping goods. Once completed, it will raise the utilisation rate of Subic port and complement the operations of Clark airport. The project will play an important role in developing the Northern-Central Luzon regions as an alternative hub for industrial operations.

Opportunities in food, retail, and chemicals

The consumption-led economy has been driving the demand for food and chemicals used to manufacture fast-moving consumer goods such as shampoos and detergents. D&L Group, a manufacturer of chemicals and food ingredients, is expanding its operations and will develop manufacturing facilities on a 26 hectare property in First Industrial Township in Batangas.

Retail giant Puregold will open two new warehouses to support the growth of its membership shopping business, S&R.

Lulu Group, a large Middle Eastern retail enterprise, is planning to open a food processing facility to support its operations across Africa, Asia and the Middle East.

Meanwhile, the large online retail player Lazada is doubling the capacity of its warehouse in Calamba, Laguna.

The Philippine economy has been accelerating over the past few years and we see this growth being sustained over the near to medium term by sectors such as investments, manufacturing, and exports. These economic segments also propel the demand for industrial parks and facilities across the country. To take advantage of the growing demand, we recommend developers to consider the following actions:

Develop additional standard warehouses

We encourage developers to continue putting up warehouses due to growing demand for e-commerce and increased household spending. Several industrial parks in Southern and Northern Luzon manufacture light items such as food and beverages, clothes, and packaging materials and these require storage facilities. More standard factory buildings are also required to support the growth of the country's exports and imports.

The recent warehouse acquisition of SBS Philippines, S&R Membership Shopping, D&L, as well as expansion of Lazada’s existing Laguna warehouse is indicative of the surging demand for this industrial segment.

Assess locators’ needs based on industrial roadmaps

We encourage industrial park developers to look at various manufacturing roadmaps being implemented by the government to take advantage of future investment inflows. Developers should thoroughly assess the needs of future industrial locators and align their future projects with the possible locators’ requirements. We see potential in the manufacture of automotive parts, chemical products, and pharmaceuticals as these are among the segments being aggressively promoted by the Department of Trade and Industry (DTI). Developers with existing industrial estates should recalibrate their properties to retain locators and attract new ones especially in view of expanding industrial supply in Northern and Central Luzon provinces.

Develop industrial space within townships

The government’s infrastructure implementation and decentralisation thrust is pushing developers to build more townships outside of Metro Manila. Among the provinces that are benefiting from aggressive township development are Pampanga and Tarlac. Aside from the typical office, residential, and retail projects, property players should also consider developing industrial space and facilities within these integrated communities to maximise the available talent and infrastructure. Colliers also believes that developing job-generating industrial parks is crucial in supporting the economic feasibility of these integrated communities.

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