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Infra-led GDP to buoy property

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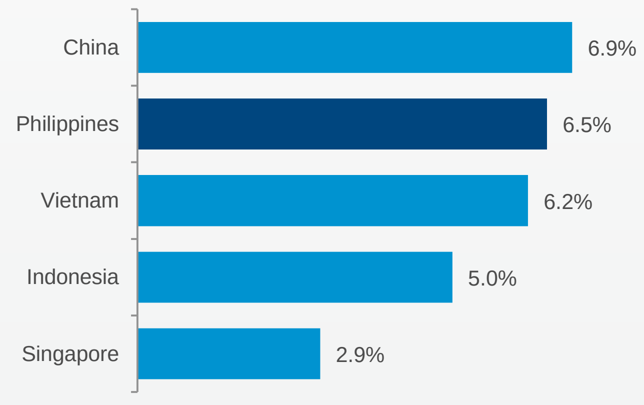
The Philippine economy, as measured by real gross domestic product (GDP), accelerated by 6.5% in 2Q 2017. This is slightly faster than the 6.4% logged in 1Q 2017 but slower than the 7.1% recorded in the same period last year. The slower growth YoY can partly be attributed to the lack of election-related spending which traditionally bolsters household and government expenditures. Despite this, the Philippines remains as one of the fastest-growing economies in Asia. Moving forward, much of the country's growth will hinge on ramped-up infrastructure spending, which should support the Duterte administration's commitment to build crucial projects throughout the country. The ushering in of the "golden age of infrastructure" also lends support to the government's decentralization push which should unlock land values in areas outside of Metro Manila and stimulate business activities in the countryside. Given this, we recommend that developers zero in on the thriving opportunities outside of the country's capital.

Philippine GDP Growth vs. Other Asian Economies, 2Q 2017



Source: Philippine Statistics Authority, government agencies abroad

Philippine Economic Performance

Indicator (%)	2Q 2016	2Q 2017
Demand Side		
Household Consumption	7.5	5.9
Government Spending	13.5	7.1
Capital Formation	30.3	8.7
Exports	10.6	19.7
Imports	25.4	18.7
Supply Side		
AHFF[a]	-2.0	6.3
Industry	7.6	7.3
Services	8.2	6.1
Gross Domestic Product[b]	7.1	6.5

Source: Philippine Statistics Authority
[a]Agriculture, Hunting, Forestry, Fishing
[b]at constant 2000 prices

Colliers recommends that BPO firms consider opening or expanding shops in the emerging provincial hubs as the government touts more fiscal and non-fiscal perks to lure outsourcing firms to locate outside of the country's capital. Hotel developers should zero in on the rising number of domestic tourists and the growing popularity of staycations by building two- to four-star hotels particularly in Iloilo, Cagayan de Oro, Bohol, Bacolod, and Davao whose regional airports are up for expansion and modernization. Horizontal residential projects continue to appeal among OFWs; thus we recommend developers to build socialized to affordable housing projects in provinces that are major sources of migrant workers and where developable land is relatively cheaper. Finally, developers should look at viable locations for industrial park development aside from the Cavite-Laguna-Batangas corridor to meet the rising demand for industrial space from current locators and Filipino conglomerates diversifying into manufacturing.

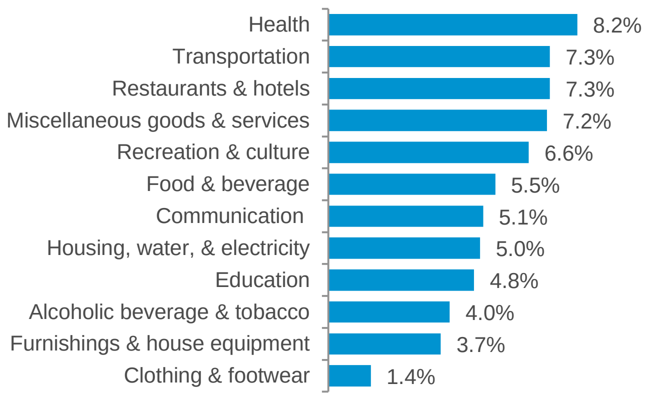
Healthy spending indicators to support retail growth

The Philippine Statistics Authority (PSA) noted that household spending rose 5.9% in 2Q 2017, slower than the 7.5% growth recorded in the same period in 2016 primarily due to the absence of election-related spending which usually peaks in April, a month before the national elections; and the slight rise in inflation (3.1% in 2Q 2017 from 1.5% a year ago). Among the major contributors to household spending's growth in 2Q 2017 were restaurants and hotels (+11.4%), education (+8.7%), and food and non-alcoholic beverage (+6%). Clothing and footwear recovered slightly (+1.1%) owing to a low base (-2.1%) in 2Q 2016.

Overall indicators point to strong household spending for the rest of the year with central bank projecting OFW remittances to rise by at least 4% this year to an estimated USD31 billion and annual inflation rate still expected to hover within the central bank's projection of 2-4%.

Per capita GDP, a proxy for individual income, grew by 5%, providing impetus for developers to build retail outlets not only within Metro Manila but in other urban areas as well. Ayala is opening seven malls in Metro Manila this year while Rockwell Land is expanding its Power Plant Mall. Meanwhile, SM and Double Dragon are developing new malls outside Metro Manila.

Compound Annual Growth Rate (CAGR) of Consumer Spending by Sub-sector, 2009-2016



Source: Philippine Statistics Authority

Online shopping in the country has been gaining traction with more developers such as Ayala and SM partnering with online shopping platforms and logistics firms such as Zalora, Lazada, and 2Go to reach far-flung areas that are slowly becoming hotspots for online shopping. Amazon's recent launch in Singapore is indicative of the growing interest in the Southeast Asian region given the people's surging disposable incomes. However, dilapidated road and air transport infrastructure raise the cost of doing business and hinder online shopping and logistics firms from making massive investments.

Aside from poor infrastructure network, the growth of online commerce in the country is also constricted by low debit and credit card penetration rate and slow and costly broadband internet.

Sustained demand pushes developers to venture into dorm development, ex-Manila projects

In Metro Manila, the continued expansion of BPOs as well as traditional firms should result in increased employment opportunities. This, in turn, should boost demand for more worker-accommodation units in the country's capital.

Colliers recommends that developers look into worker accommodation projects that cater to young urban professionals who can't afford to own their own apartment yet or rent a condominium unit within the established business districts such as Makati, Fort Bonifacio, and Ortigas Center. These halfway residential units are for professionals who want to live near their place of work. The worker-accommodation units are also more practical for employees working in CBDs as the worsening traffic in Metro Manila only makes their commute to and from work more unbearable.

SM is tapping opportunities in the affordable condo market for BPO employees and other young urban professionals thru its acquisition of a 61.2% share in Philippines Urban Living Solutions Inc. (PULS), the operator of a chain of dormitory buildings under the "MyTown" brand while Ayala Land is building five dormitory buildings in Makati and Bonifacio Global City.

Both national and local developers have been active in addressing the rising demand for residential projects in major urban areas in Visayas and Mindanao. Among the developers that launched residential projects in 2Q 2017 include Vista Land, Camella Homes, Megaworld, Grand Land, Vesta Homes, Foghorn, Paramount Property, and Iloilo Southprime. The projects were launched in provincial areas that are major sources of migrant workers including Bacolod, Iloilo, Cebu, and Davao. The improvement of road networks and expansion of airports should further unlock land values in these areas, making them more feasible for residential projects.

Colliers believes that a significant part of the USD31 billion in remittances projected to be sent in by OFWs this year will be set aside for Filipinos' housing requirements. A survey conducted by the National Economic and Development Authority (NEDA) reveals that nearly two-thirds of Filipinos consider owning a medium-sized home as one of their key aspirations.

Domestic travelers sustain hotel demand

According to the Philippine Statistics Authority (PSA) the Other Services segment, which covers restaurants, hotels, and similar facilities, grew by 5% in 2Q 2017, a slowdown compared to the poll spending-driven 9% rise in the same period in 2016. PSA data also reveal that Filipino households' hotel and restaurant spending has been growing by 7.3% annually over the past seven years, faster than the increase of other household spending subsectors such as food and beverage (7.3%), education (4.8%), and clothing and footwear (1.4%). This indicates that Filipinos continue to apportion a considerable fraction of their incomes to leisure-related expenditures.

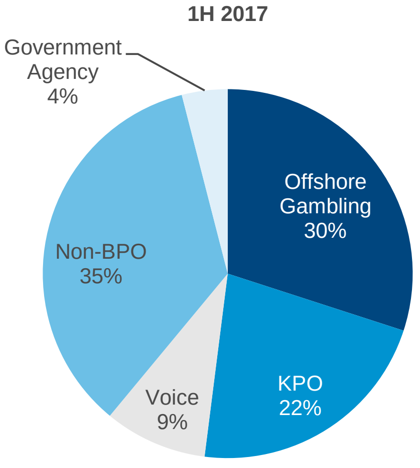
Data from the Tourism department reveal that 42 million local travelers made more than 90 million trips throughout the country from April to September 2016. About 42% of the millennial-dominated trips were for pleasure and vacation.

Some 15% of the local trips made were in Metro Manila while the rest were spread over other destinations such as Negros Occidental (7%), Pangasinan (4.6%), Cavite (4.3%), Quezon (4.1%), Bohol (4.1%) and Cebu (3.7%). Given the continuously rising domestic travel market buoyed by millennial spending and rising popularity of staycations, we recommend that developers put up more affordable hotels in the preferred destinations outside of Manila. We see Bacolod, Bohol, Cagayan de Oro, and Davao attracting more hotel and leisure investments given that their respective regional airports are up for expansion and modernization. These projects, once completed, should result in the mounting of more direct flights to these provincial hubs.

Traditional businesses drive office space absorption

The continued creation of employment opportunities in the country bodes well for the office sector as jobs are the greatest drivers of office space take up. Data from the Philippine Statistics Authority (PSA) reveal that there were 40.27 million employed Filipinos as of April 2017. The figure is higher than the 39.35 million Filipinos with jobs as of January of this year. Employment opportunities generated by ICT, Financial services, and administrative and support sub-sectors reached 4.39 million as of April 2017, up 8% from 4.05 million in January 2017. Metro Manila corners bulk of these new employment opportunities given that it accounts for nearly 40% of the country's economic output.

Metro Manila Office Transactions, 1H 2017



Source: Colliers International Philippines Research

From about 60%-70% previously, office space absorption from outsourcing firms in Metro Manila hovered between 20% and 30% of total transactions over the past two quarters. The slack was offset by increased office space take up from non-BPO or traditional companies including government agencies that transfer to newer buildings. The Philippine economy has been expanding by an average of 6.3% per annum since 2010. This robust growth reflects not just the sustained growth of the BPO-led Services sector but also the expansion of other key economic sub-sectors such as construction, telecommunications, banking and finance, warehousing and logistics, and manufacturing. Companies engaged in these businesses were compelled to expand and thus occupy larger and high-quality office space.

Given the current administration's decentralization push, we believe that firms should consider expanding in the provinces where the government intends to spur development by offering more fiscal and non-fiscal incentives and building crucial infrastructure projects such as airports and railways.

Surging exports contribute to industrial space demand

Fixed capital formation, which represents both local and foreign investments, grew by 9.4% in 2Q 2017, a huge slide from 30.3% increase posted in the same period in 2016. But the drop was offset by exports, which rose by 19.7%, faster than the 10.6% growth logged in 2Q 2016. The expansion of the country's export base indicates a potential increase in demand for industrial parks and facilities especially in the Cavite-Laguna-Batangas area, the country's primary industrial hub. The goods manufactured within the country's major industrial corridor are a significant contributor to the Philippines' annual export bill.

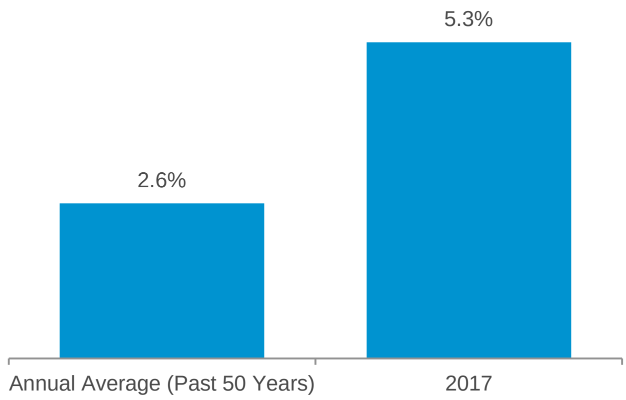
Among the factors we see sustaining the demand for industrial space in the country is the rising attractiveness of the Philippines as an investment hub in the region. A report recently released by the U.S. State Department noted that the Philippines is becoming a more attractive destination for foreign investment on the back of a growing middle class and a “fairly stable political environment”. Meanwhile, the latest United Nations Conference on Trade and Development (UNCTAD) survey ranked the Philippines as the seventh most attractive destination for foreign direct investments out of 15 developing and developed economies.

We also see the sector's growth being sustained by the expansion of existing locators such as British consumer product manufacturer Dyson and Taiwanese electronics firm Kinpo Group; Filipino conglomerates' (e.g. Ayala and San Miguel Corporation) diversification into manufacturing; and expansion of consumer base brought about by ASEAN integration.

Infra implementation and decentralization to spur property sector

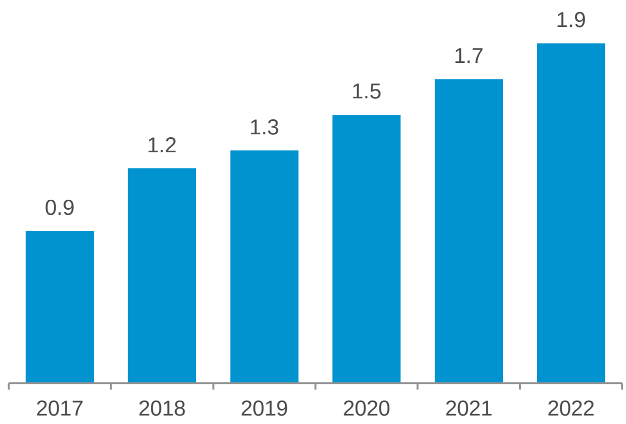
Over the near to medium term, we see the Philippines sustaining robust growth on the back of the government’s infrastructure and decentralization push. Among the key economic segments that will benefit from the government’s thrust is property development. Infrastructure implementation coupled with decentralization should spur the growth of office, residential, retail, industrial, and hotel & leisure segments.

Infrastructure Spending as % of GDP



Sources: PPP, DPWH, DOTr, BCDA

Infrastructure Program (PHP trillion)



Sources: PPP, DPWH, DOTr, BCDA

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