PHILIPPINES | PROPERTY

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Colliers INTERNATIONAL

Accelerating success.

Forecast-beating GDP to fuel property

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The country's property sector remains upbeat as it is fuelled by a robust macroeconomic environment. We encourage developers and tenants to take advantage of the country's buoyant macroeconomic backdrop by implementing the following measures: cost-sensitive industrial locators should explore space in the Northern and Central Luzon areas where the bulk of new industrial space is being developed; mall operators should complement their physical stores with expanded presence on online selling platforms to maximize the Filipinos' rising disposable incomes and proliferation of e-commerce throughout the country; developers should strengthen their respective selling and leasing teams amidst the challenging residential landscape in Metro Manila and continue looking for second and their tier locations viable for horizontal (house & lot) development; office space developers should continue targeting offshore gambling firms as they are projected to occupy additional space by 2018; and tenants should consider the slight rise in office vacancy as an opportunity to transfer and consolidate to newer buildings especially in Fort Bonifacio and Manila Bay Area where bulk of new supply will be concentrated.

Philippine Economic Performance

INDICATOR (%)	3Q 2016	3Q 2017
Demand Side		
Household Consumption	7.2	4.5
Government Spending	3.1	4.5
Capital Formation	21.7	6.6
Exports	9.0	17.2
Imports	13.3	13.9
Supply Side		
AHFF	3.0	2.5
Industry	8.8	7.5
Services	6.8	7.1
Gross Domestic Product (GDP)	7.1	6.9

Source: Philippine Statistics Authority
AHFFA - Agriculture, Hunting, Forestry, Fishing
GDP at constant 2000 prices

The Philippine economy, as measured by real gross domestic product (GDP), accelerated by an impressive 6.9% in 3Q2017, beating analysts' forecasts. The growth clocked during the period is faster than the 6.7% posted in 2Q2017 and slightly slower than the 7.1% recorded in the same period last year that benefited from spillover effects of election spending. Year-to-date growth stands at 6.7%, well within the government's projection of 6.5% to 7.5% and Oxford Economics' forecast of 6.6%. The country remains as one of the fastest growing economies across Asia, outpacing China's 6.8% and Indonesia's 5.1% and only behind Vietnam's 7.5%. The better-than-expected GDP helped sustain growth in the country's real estate sector during the period under review.

Overall, we expect the local property market to benefit from the government's commitment to accelerate infrastructure spending. Aside from unlocking land values in areas outside Metro Manila, ramped up public infrastructure outlay coupled with decentralization should open more opportunities for firms engaged in construction, and operation and maintenance of key transport infrastructure. A major risk, however, is the implementing agencies' low absorptive capacities or their inability to fully spend their budgets. This could delay the anticipated "trickle-down effect" of massive public infrastructure spending especially on property.

Industrial: Developers head north, as bustling e-commerce drives logistics and warehousing demand

Among the top-performing sectors during the period was manufacturing, rising 9.4% from 6.8% in the same period last year. This is the fastest quarterly growth recorded in about a decade. We attribute this to improving global trade and the country's rising competitiveness as a manufacturing hub. We see the demand for Philippine-manufactured goods accelerating over the near to medium term given the continued implementation of the country's trade deals with European and Southeast Asian economies. Among the crucial deals signed during the ASEAN summit in Manila is the Memorandum of Understanding (MOU) between the Philippine and Chinese governments on industrial park development. This should raise industrial supply in the country particularly now that major developers are heading north of Manila. Recently, DoubleDragon acquired a 6.2-hectare lot in Luisita Industrial Park in Tarlac. The site will offer about 32,000 sq m (344,000 sq ft) of industrial space.

We see the Clark-Subic corridor heavily benefiting from the government's manufacturing resurgence programme which should result in greater industrial space absorption in the area. This should be sustained by the infrastructure projects that the Duterte administration has lined up in Clark and Subic, including the Clark Airport expansion, North Luzon Railway, and the Subic-Clark cargo railway. Colliers expects industrial land values in the Clark-Subic corridor to rise due to sustained demand from manufacturing locators and rising popularity of e-commerce which fuels demand for warehousing and logistics.

Outside of Luzon, opportunities abound in Cebu given the planned development of an industrial hub by conglomerate San Miguel Corporation in the province while Ayala Land is developing an industrial estate in Laguindingan, Misamis Oriental in the Mindanao group of islands.

Office: Rising vacancy an opportunity to expand and consolidate

Despite the slowdown in BPO transactions, net office space take-up for the first three quarters of the year reached 356,000 sq m (3.8 million sq ft), still on track to reaching 550,000 sq m (5.9 million sq ft) for the full year. The outsourcing sector's share to total space absorption declined to about 35% from 60-70% in the previous years. The void was filled by demand from offshore gambling and traditional companies including multinational companies (MNCs) and local logistics firms, and government agencies that expanded and transferred to newer office space. From January to September offshore gambling covered a quarter of total transactions while traditional firms accounted for 40%.

While we see stable demand for the remainder of the year, factors that might negatively affect transactions over the next 12 to 18 months include delays in Philippine Economic Zone Authority (PEZA) approvals and less predictable demand from offshore gambling. We see developers attempting to pare down future office supply given the slower demand from BPOs.

Colliers sees overall vacancy in Metro Manila inching slightly from 3.4% in 2016 to 7% annually from 2018 to 2020. Colliers believes this is at the midpoint of an acceptable structural vacancy rate. This indicates that new entrants and companies needing to expand will have a reasonable choice of premises and that rents might be rising at near inflation levels (2% to 3% versus the Philippine central bank's 2% to 4% inflation target). Given the projected rise in vacancy, we believe that now is the most opportune time for expanding companies, especially non-BPOs, to relocate to newer buildings or consolidate in bigger space especially in Fort Bonifacio and the Manila Bay Area where the future supply will be concentrated.

We expect the Outsourcing segment to continue supporting the growth of the Services sector, which rose by 7.1% in 3Q 2017. The sector accounts for nearly 50% of the Philippine economy.

Retail: Easing of ownership limits to entice more foreign players

Despite a slower growth in household consumption – 4.5% in 3Q2017 vs 7.2% a year ago due to an increase in inflation from 2.3% to 3.4%, retail spending remains robust enticing developers to build new malls in and outside of Metro Manila. From April to September of the year about 150,000 sq m (1.6 million sq ft) of retail space opened in the country's capital, following the partial opening of Vertis North mall and Festival Supermall in Alabang. The latter features a Landmark department store and Decathlon, the largest sports retailer in the world. SM continues to expand outside Metro Manila with the opening of its malls in Puerto Princesa, Palawan and Tuguegarao City, Cagayan. Meanwhile, among the new CityMall branches that opened during the period include those in Dumaguete (Negros Oriental), Goldenfields (Negros Occidental), and Dau (Pampanga).

A Snapshot on the Performance of Property Sectors

REAL ESTATE SECTOR	JAN-SEPT 2017 PERFORMANCE	2018 OUTLOOK	NOTABLE LOCATIONS / TRENDS
Residential	↔	↔	Vertical: QC, Bay Area, CBD Fringe, CDO, Cebu (Leisure) Horizontal: Cavite, Davao, Cebu, Pampanga (Affordable)
Commercial Office	↔	↔	Fort Bonifacio, Bay Area, QC North, Pampanga, Cebu, Davao, Bacolod, Iloilo Co-working space, SM Malls, KPO services
Commercial Retail	↔	↔	Fringe areas Townships, F&B, Fast fashion
Industrial	↑	↑	CALABARZON, Pampanga, Pangasinan, Cebu, Misamis Oriental
Hotel	↔	↑	Cebu, Bacolod, Iloilo, Palawan 3 and 4 star hotels, resort-oriented developments

Source: Colliers International Philippines Research

We see household consumption growing for the remainder of the year due to holiday spending. Mall operators and retailers, meanwhile, have been banking on the growing use of debit cards and improvement of internet connectivity which should support the expansion of e-commerce especially in areas outside of Metro Manila. For the brick-and-mortar malls we see opportunities in the development of district and neighbourhood outlets (smaller retail formats below 50,000 sq m or 538,000 sq ft) in second and third tier cities and municipalities.

Residential: Condominium leasing remains challenging

Residential condominium leasing in Metro Manila remains challenging, driven by the influx of new condominium completions both in major business districts and fringe locations. In 3Q 2017, overall vacancy in Metro Manila rose to 12.7% from 11.7% the previous quarter. We see vacancy rising to about 14% to 15% over the next 12 months given the more than 21,000 additional units projected to be completed during the period. We see overall vacancy declining to low double digits by 2019 onward as completion normalizes to between 3,000 and 8,000 units. Completions in the fringes have also been growing, adding upward pressure to overall vacancy.

To compensate for the softer outlook in Metro Manila, we expect developers to continuously venture into residential projects in second-tier and third-tier cities all over the country, where demand comes from end-user buyers. The markets may be smaller compared to Manila but more stable in terms of end user housing demand.

We are seeing sustained launches of horizontal (House & Lot) projects in urban areas which are also major sources of migrant workers. Among the projects launched in the third quarter of the year are Camella Urdaneta in Pangasinan by Vista Land; Grandview Heights in Batangas by Cumberland Development; Deca Homes Mulig in Davao City by 8990; Camella South in Davao City by Vista Land; and Balay Bugana in Bacolod City by St. Rafael Development. House & lot take up was primarily fuelled by the OFWs' remittances which reached USD23.2 billion in the first nine months of the year, up 4.8% YoY. However, remittances in September dropped 7% compared to the same month last year which the central bank attributed to the closure of a number of overseas financial service providers and lower remittances from Saudi Arabia due to the continued repatriation of OFWs under the Saudi Arabian Amnesty Program. While analysts are confident of a 4% growth in remittances this year, slower remittances from the Middle Eastern economies remain a concern particularly as Saudi Arabia covers 9% of remittances sent in by OFWs.

Hotel: Focus on resort projects

The Other Services subsector which covers hotels, restaurants, and recreational and cultural activities grew by 7.7% in 3Q 2017, up from 6.8% in the same period last year. The Hotels and Restaurant subsector continues to drive consumer spending in the country, rising by 4.4% from 4.2% recorded a year ago. This indicates that Filipinos continue to apportion a fraction of their disposable incomes to restaurants, hotels, and other leisure-related activities.

Latest data from the Department of Tourism (DOT) reveal that foreign arrivals from January to August reached 4.47 million, up 11% YoY. This is closer to our forecast of 10% growth for the entire year, or about 6.6

million international visitors. The Tourism Department projects a 17% increase in arrivals to 7 million.

We believe that the development of 3- and 4-star hotels in resort destinations will be more visible over the next two to three years. Most of these projects will be built in Cebu, which is among the most visited destinations outside of Manila. Rockwell and Filinvest are developing new facilities while Ayala Land will operate the former Cebu City Marriott Hotel under the Seda brand next year. The Ascott Limited is planning to open Citadines Cebu City in 2019 and Somerset Gorordo by 2021 while Double Dragon has disclosed plans to build Jinjiang hotels. Other notable projects include Duros Land's 23 Minore Park Hotel; Grand Land and Dusit International's Dusit Princess Hotel; Udenna's integrated casino-resort; and Megaworld's hotels under the Belmont brand.

New airport infrastructure is essential in further expanding both local and foreign tourism. While the Mactan-Cebu International Airport expansion project is on track and seven firms have submitted bid documents for the Clark International Airport expansion, other crucial projects such as the Ninoy Aquino International Airport (NAIA) modernization are still in an exploratory phase. Colliers believes that the development of international airports in major destinations such as Bohol, Bacolod, Iloilo, and Davao will allow foreign tourists to bypass Manila. This should raise tourist arrivals in the country which results in higher hotel occupancy rates and thus entice local and foreign businessmen to ramp up their leisure-related investments in the country.

Selected Indicators

3.1%
Inflation from Jan-Sep 2017

0.6%
Private construction growth in 3Q 2017

USD 23.2 billion
OFW remittances from Jan-Sep 2017, up 4.8%

3.4%
F&B growth in 3Q 2017

4.47 million
Foreign arrivals from Jan-Aug 2017, up 11%

USD 900 million
Manufacturing projects committed from Jan-Sep 2017

Source: Philippine Statistics Authority

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