

Colliers Radar

Philippines | Research
27 November 2017



When Giants Invade:

National Property Developers Redefining Cebu



Accelerating success.

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Over the past few years, we have observed the transformation of Cebu's skyline with large-scale residential, commercial, retail, and hotel developments. The property boom in Cebu offers an alternative metropolitan-paced business lifestyle at a discount to Metro Manila. Its real estate sector is particularly unique as it is actively participated in by both local and national developers.

The entry and aggressive expansion of national developers have redefined the Cebu property landscape. To survive in a fiercely competitive real estate market, Colliers recommends that national developers implement the following:

- Develop mixed-use communities;
- Differentiate integrated projects;
- Expand presence into hospitality and industrial sectors;
- Partner with local developers;
- Maximize brand equity; and
- Acquire reclaimed land.

Cebu Property Market Summary

DEVELOPER	RESIDENTIAL		OFFICE NSA (sq m)	RETAIL GLA (sq m)
	HORIZONTAL (units)	VERTICAL (units)		
Ayala Land	-	5,999	221,053	316,986
Federal Land	-	1,197	-	-
Filinvest Land	2,425	3,115	47,511	38,829
Rockwell Land	-	378	-	-
Robinsons Land	586	1,133	17,511	86,500
Megaworld	-	2,122	80,191	30,000
SM Prime	-	-	102,800	478,681
Vista Land	2,720	795	-	7,500
Others (includes local developers)	50,297	33,383	847,478	294,000
TOTAL	56,028	48,122	1,316,544	1,252,496

Cebu is recognized as the premier investment destination outside of the country's capital and has undergone significant transformation over the past few years.

We see Cebu's contribution to the country's economic output surging over the next five to ten years given its rising attractiveness as an investment hub and the development of crucial air and road infrastructure projects which should significantly bring down the cost of doing business in the region. We also see Cebu benefiting from the Duterte administration's decentralization thrust or the spread of economic opportunities outside of Metro Manila.

At present, business activity in Cebu is primarily driven by the following:

- Expansion of outsourcing firms which currently employ 130,000 workers and contribute one-tenth of national industry revenues;
- Growing demand for horizontal and vertical residential developments, driven by strong OFW remittances and growing local and foreign businesses;
- Sustained influx of local and foreign tourists effectively expanding Cebu's consumer base and hotel occupancy; and
- Strong manufacturing and export sectors that drive the region's industrial growth.

Given these demand drivers, property values in Cebu have been on an upswing.

Colliers looks at the historical performance of the real estate sector in Cebu and how it was redefined by the entry of the Philippines' major property players. We also assess how national and local property players have adjusted to the needs of the dynamic real estate sector in Cebu and the strategies that they have employed to survive in the highly-competitive real estate landscape.



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Cebu Office Supply Forecast (sq m)

LOCATION	END 2016	2017F	2018F	2019F	2020F	TOTAL
Cebu IT Park	299,000	14,800	101,600	52,500	111,300	579,300
CBP	269,000	52,100	-	-	-	321,100
Mactan	72,800	11,900	-	-	-	84,700
Mandaue	62,000	-	-	-	-	62,000
Uptown / Downtown	205,400	23,000	-	82,800	-	311,200
Overall	908,200	101,800	101,600	135,300	111,300	1,358,300

Source: Colliers International Philippines Research

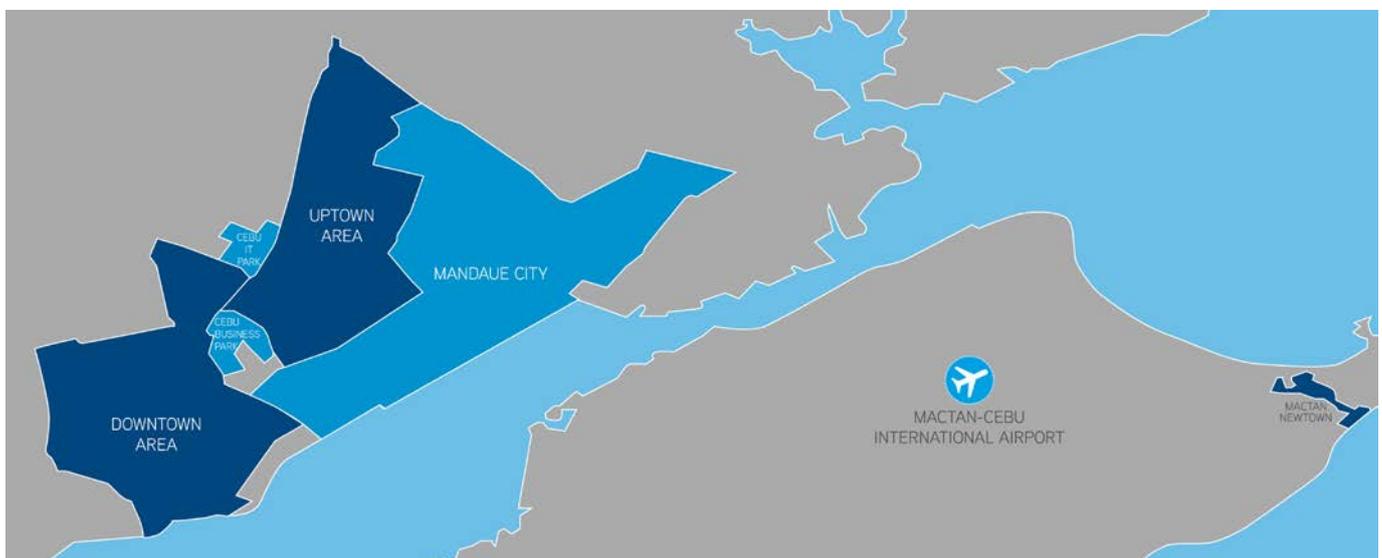
Downtown to Newtown: Evolution of Cebu's Office Sector

Traditionally, the office district has been centered on Colon in the downtown area. Buildings in the area are generally two to four storeys with upper office space provided over ground floor level retail. Most buildings were built in the 1960s and 1970s by local players. Thereafter, progress in the area has been limited as available sites for expansion have become scarce. Colon lost its stature as the main office district following the establishment of Osmeña Boulevard and General Maxilom Avenue as the Uptown commercial district. Structures in the area were built in the 1980s and 1990s through to the early 2000s. In the mid-1990s, the biggest office structure in the Uptown area was the 14-storey Metrobank Plaza Cebu with approximately 10,000 sqm (107,640 sq ft) of GLA. By the early 2000's, the Mango Square Mall which included an office component was completed by the Ludo and Luym Development Corporation with approximately 14,000 sqm (150,694 sq ft) GLA.

By the late 1990s, the office market began to gravitate towards the Cebu Business Park (CBP), an approximately 50 Ha site which used to be the former Club Filipino Golf Course.



Cebu's Key Business Districts



The majority of the site was purchased by Ayala Land, Inc. Located just two kilometers east of the Uptown Fuente Osmeña and three kilometers north east of the Downtown Colon area, it was an accessible site that proved to be a highly viable alternative to the Uptown office district.

The Cebu Business Park was developed by Cebu Holdings Inc., a subsidiary of Ayala Land, in the mid-1990s.

Selected Developers in Cebu

National	Local
Ayala Land	Apple One
Robinsons Land	Cebu Landmasters
Megaworld	Gold Peach
Filinvest Land	Innoland
SM Prime	Land Traders
Federal Land	Nexland
Rockwell	Primary Homes
Vista Land	Taft Properties
	Tytans Properties

Source: Colliers International Philippines Research

The first office building was completed in 1994, the Cebu Holdings Center, totalling 8,000 sqm (86,11 sq ft) of office GLA. Strata-titled units were sold to occupiers and investors at P30,000 (USD588) per sqm, which was the most expensive at the time. Given its size and the subsequent developments such as retail, leisure and hotel, CBP became Cebu City's premier business location.

In the early 2000s, the Cebu IT Park (CIT) was also developed, which essentially served as an extension of CBP, being adjacent to the latter. The Globe Telecom IT Plaza by Ayala Land was one of the first office buildings in the CIT. Today, the CBP and CIT cover some 60% of total office stock in Metro Cebu or about 600,000 sq m (6.46 million sq ft) of office GLA. Furthermore, the office supply in the next five years will be concentrated in the CBP and CIT corridor.

Comparative Office Vacancy Rates in Cebu

LOCATION	2Q 2017
CBP	3%
IT Park	1%
Mactan	28%
Mandaue	30%
Uptown / Downtown	15%
Overall	9%

Source: Colliers International Philippines Research

But aside from Cebu City, other parts of Metro Cebu are now offering office space to both BPOs and traditional companies. These include the Mactan Newtown developed by Megaworld which is being promoted as the first major township with its own beach outside Metro Manila. Other developers such as SM and Filinvest have acquired parcels of land in the South Road Properties (SRP) area and will develop integrated communities that are being positioned as Cebu's next major business hubs. These projects should expand Cebu's current office stock.

The demand for office space in Cebu is primarily driven by a dynamic services sector which covers more than half of Central Visayas' economy. The economic sub-segment has been getting a boost from Cebu's outsourcing sector. The expansion of current Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) locators, as well as continued influx of new players has been sustaining office space absorption in the city.

KPO companies that provide higher value outsourcing services such as health information management, software engineering, and finance and accounting are emerging as major contributors to office space absorption in Cebu. Colliers believes that Cebu remains the largest and most preferred KPO destination outside of Metro Manila due to the presence of adequate infrastructure, redundant internet connection, ample supply of skilled college graduates, and the high level of urbanization driven by the development of several townships and public infrastructure projects.

Comparative Office Rental Rates in Cebu (PHP / sq m / month), 2Q 2017

LOCATION	RENTS
CBP	PHP450 - 800
IT Park	PHP450 - 600
Mactan	PHP475 - 550
Mandaue	PHP475 - 550
Uptown / Downtown	PHP375 - 550

Source: Colliers International Philippines Research

Vertical Meets Horizontal: Transforming Cebu Residential

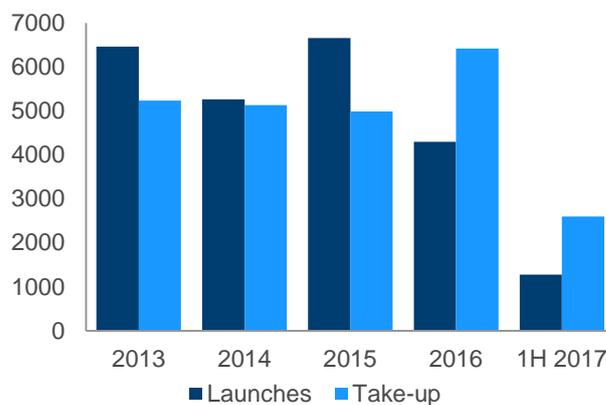
As of the mid 1990's, the residential property market in Cebu City is almost exclusively low rise. Cebu City's premier residential subdivisions were largely located at city hillsides in areas along Archbishop Reyes Avenue, mostly to the north of the Guadalupe River. This area encompasses the exclusive subdivision of Maria Luisa Park. Other quality subdivisions are Silver Hills and Sunny Hills in the Tambalan area and the Cebu Country Club Village on Archbishop Reyes Avenue. Down at the south of the River, Alta Vista Gold and Country Club was developed jointly by Sta. Lucia Realty and Development Corporation and Asian Pacific Realty and Development Corporation. At the time, residential land values for lots in established up-market subdivisions were priced between PHP3,700 (USD73) per sqm to PHP6,000 (USD118) per sqm.

Middle market housing was typically developed in Banilad, Gabanclan, Guadalupe and Banawe and in the south in Mamling and Bulacao. The developments were still focused northward. San Miguel properties developed Primavera Hills at Yati, Liloan. About the same time, Sta Lucia's Vista Grande was also developed in Pardo. Prices then ranged between PHP1,600 (USD31.4) to PHP3,000 (USD59) per sqm. In the late 1990's Filinvest also launched multiple phases of their Corona del Mar project in Talisay and Sta. Lucia followed with El Monte Verde de Cebu in Consolacion.

During early 2000's, vertical developments began to rise, complementing the horizontal developments in Metro Cebu. The majority of which at the onset was leisure-related projects located in Lapu-Lapu. Some of the initial developments include Movenpick Residences (formerly Hilton Cebu Resort) by Goldland, and Imperial Palace Waterpark by Phil. BXT Corp. Towards the end of the decade, non-leisure related condominiums were also developed within Cebu City including the likes of Citylights Garden of Syntech Properties, Sophela Tower by La Vienna Realty.

Fast forward to today, total condominium stock in Cebu has already reached more than 27,000 units across different projects and locations. Cebu City has majority of the stock considering that it generates much of the economic activities in the region.

Cebu Condominium Launches and Take-up Units (1H2017)



Source: Colliers International Philippines Research

By 2010 onwards, we saw the entry of national developers taking part in the local player-dominated residential segment. Their foray into the Cebu residential market significantly expanded the options in the metro. This made the Cebu vertical residential market popular not only for leisure but also for investment and end-use.

Some of the key projects from national developers during the period include Filinvest Land's One Oasis Cebu, Amalfi Oasis, and Grand Cenia; Robinsons Land's AmiSa Condominium in Lapu-Lapu, and Ayala Land's Avida Tower in Cebu City. Rockwell Land's entry with its

32 Sanson project further intensified competition among national developers.

Cebu Vertical Residential Supply Forecast

LOCATION	AS OF 2016	2017F	2018F	2019F	2020F	TOTAL
Cebu City	20,000	3,600	5,100	1,500	1,300	31,500
Lapu-Lapu City	4,000	500	400	200	1,200	6,300
Mandaue City	2,500	200	-	-	-	2,700
Overall	26,500	4,300	5,500	1,700	2,500	40,500

Source: Colliers International Philippines Research

A number of local developers also built their projects at the time which competed strongly with the big players.

Grand Land completed the Grand Residences, Innoland developed the Calyx Residences, Nexland built the Spianada Condominium and Primary Home completed Eagles' Nest.

Business and employment opportunities generated within Cebu and its environs propel the demand for both vertical and horizontal residential developments. These are complemented by the Overseas Filipino Workers (OFW) remittances-receiving households.

The continued demand for condominium units is also fueled by the influx of high-spending foreign tourists. The presence of direct flights from Japan, Korea, and China to Mactan-Cebu International Airport has catapulted Cebu to become one of the Philippines' most preferred tourist destinations. Some of the foreign visitors who initially stay in Cebu for short vacations eventually decide to retire and invest in the city and its neighboring areas due to the comforts of an urban landscape balanced with natural attractions. These foreign retirees and investors contribute to higher take up of residential condominium units in Cebu.

Colliers sees the development of residential condominiums being sustained by the implementation of pivotal infrastructure projects such as the proposed light rail transit (LRT), Bus Rapid Transit (BRT), Metro Cebu Expressway, Cebu subway, Cebu-Cordova bridge, and the Mactan-Cebu International Airport expansion. These public infrastructure projects should further unlock opportunities for residential developments in Metro Cebu.

Overall, condominium living is gaining traction in Cebu due to the following:

- Significant increase in land values making single detached or even low-rise formats financially less viable. Furthermore, prime sites within the city are harder to obtain.
- Expansion of the BPO sector resulting in employees choosing to stay close to areas of employment
- Sustained increase in OFW remittance fueling end-user demand; and
- Low interest rates making monthly amortizations more affordable.

Crowding Out: National Developers Dominate Retail

In the 1980s, the center of retail trade in Cebu City was the Colon area, similar to the office district. Some of the major department stores in the area include Gaisano, White Gold and Gaw's. However, Robinsons Department Store and Rustans provided an alternative in the Uptown area. These department stores were primarily frequented by affluent families living in subdivisions. By the early-1990s three major malls were developed, namely SM City located north of the reclamation area fronting Juan Luna Avenue, the Ayala Center Cebu at the heart of the CBP, and the Gaisano Country Mall located in Archbishop Reyes Avenue. Since then, these developers have expanded their retail footprint and many others such as Robinsons Land, Megaworld, and Filinvest, among others also joined the retail segment.

At present, total stock in the Cebu has already reached over 1.0 million sq m of retail GLA. The biggest contributor is SM, a national player, with about 40% of total retail stock. The SM City Seaside alone has over 240,000 sq m (2.6 million sq ft) of leasable space. Ayala Land follows with over 160,000 sq m (1.7 million sq ft). The three-year pipeline for Cebu also looks robust with close to 200,000 sq m (2.15 million sq ft) of new retail space due to be developed, mostly within the townships of SM, Ayala, Aboitiz Land, and Filinvest.

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

SHOPPING MALL TYPE	AS OF 2016	2017F
Super Regional	585,800	-
Regional	113,800	-
District Center	95,000	35,000
Neighborhood	211,400	10,000
Overall	1,006,000	45,000

Source: Colliers International Philippines Research

Cebu remains a major retail hub outside of Metro Manila due to the proliferation of outsourcing companies; continued deployment of Filipino workers abroad whose monthly remittances fuel household spending; influx of local and foreign tourists; as well as sustained generation of employment opportunities in major economic sectors such as construction, manufacturing, and export processing.

Overall, Colliers has observed that despite the substantial increase in retail stock following the entry of national developers, overall vacancy remains low as the additional supply is offset by a continuously expanding

local economy which effectively boosts Cebuanos' disposable incomes.

Metro Cebu's dynamism as a major retail hub will be sustained by continued economic growth which fuels Cebuanos' disposable incomes.

According to the National Economic and Development Authority (NEDA) Central Visayas' gross domestic product (GDP) per capita or the proxy for individual income, grew by an average of 5.5% per annum during the same period. This robust macroeconomic environment effectively boosts Cebu households' propensity to consume.

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

Cebu Average Retail Vacancy Rate by Shopping Mall Type

SHOPPING MALL TYPE	2Q 2017
Super Regional	8.3%
Regional	5.5%
District Center	0.4%
Neighborhood	6.5%
Overall	6.1%

Source: Colliers International Philippines Research

Cebu Retail Lease Rates (sq m/month)

SHOPPING MALL TYPE	2Q 2017
Metro Cebu	PHP230 - 980

Source: Colliers International Philippines Research

The entry and aggressive expansion of national players continue to shape the Cebu real estate sector.

Ayala Land

Ayala Land, through its subsidiary Cebu Holdings, was one of the first locators in the province and has gained first mover advantage over other national developers. At present, it has two masterplanned developments in the city- Cebu Business Park and Cebu IT Park.

Cebu Business Park is a 50-ha development that integrates residential, hotel, retail and office facilities. In the late 1980s, the Cebu provincial government sold the Club Filipino Golf Course to the Ayala Corporation. Land development work on the business park was completed

in 1992. Among its major projects is the Ayala Center Cebu shopping mall with a gross leasable area (GLA) of about 120,000 sq m (1.3 million sq ft). Despite its size, Ayala Center enjoys almost full occupancy.

Cebu IT Park, formerly known as Asiatown IT Park, is a 24-hectare business park that mainly targets BPO tenants. Among the major outsourcing tenants include SPI Tech, 1&1 Internet Philippines, Inc., eTelecare, Stream, and Epson. The development was accredited as a Philippine Economic Zone Authority (PEZA) economic zone in April 2000.



Source: Ayala Land

To aggressively expand its landbank in Cebu, Ayala Land has firmed up partnerships with Cebu-based, landbank-rich developers including its joint venture agreement with Aboitiz Land to develop a 15-hectare property in Mandaue City.

Robinsons Land

Robinsons Land Inc.'s (RLC) involvement in the Cebu property market is relatively minimal compared to other major national developers. However, their existing and upcoming projects are carefully selected, creating a good balance between residential, retail and office sectors.

At present, RLC has two residential vertical projects, the leisure-related AmiSa Condominium located in Punta Engaño in Mactan which was completed in phases beginning 2010 until 2015; and Azalea Place in Gorordo Avenue in Cebu City, completed in 2015. In total, both condominium projects have 478 units and are already 70% sold to date. RLC has exclusively focused on vertical developments after it launched Blue Coast Residences in Mactan and Aspen Heights in Consolacion, both in 2007.



Source: Robinsons Land

The Galleria Residences is expected to be completed late this year with about 240 units. Launched in 2015, the project is now 84% sold as of 2Q 2017. Located in Gen. Maxillom Avenue, it is the residential component of the Robinsons Galleria (56,000 sqm or 603,000 sq ft), RLC's largest mall in Cebu which was completed in 2015. The other malls of RLC are in smaller district center formats located in Fuente Osmena Circle, namely Robinsons Fuente (18,000 sqm or 193,750 sq ft) and Cybergate (12,500 sqm or 134,550 sq ft).

In terms of office spaces, RLC complemented their retail developments with office components; Cybergate was completed in 2009 while the Galleria BPO was completed in 2016. Both have a combined 17,400 sqm (187,300 sq ft) of office space. Among Robinsons Galleria BPO's major tenants are Sykes, REMAX and PMAX Global.

Megaworld

Megaworld's development in Cebu is concentrated in the Lapu-Lapu area, particularly in its township development – Mactan Newtown. It is a 28.8 ha property featuring residential, office, hotel and retail components.

Its existing residential projects are all condominiums spanning three different projects namely 8 Newtown Boulevard with four clusters (616 units), and One Pacific Residences with three towers (573 units). Its first project, 8 Newtown, has been fully sold. The second project however, is about 60% sold with slower take-up recorded in the last two towers. Interestingly, the newly launched projects such as One Manchester Place (367 units) and Savoy Hotel (557 units) which have yet to be completed and scheduled to be delivered by end-2017 and 2018 are now about 75% sold.



Source: Megaworld

Mactan Newtown's office projects offer some 46,000 sqm (495,000 sq ft) GLA. Megaworld has built One and Two World Center, and four 8 Newtown Boulevard office buildings each with over 8,000 sqm (86,100 sq ft) each. By the end of the year, the largest office structure totaling 22,000 sqm (237,000 sq ft) of GLA is expected to come online. At present, Mactan Newtown is home to major BPO firms such as Results Manila and Enfra USA. Megaworld also envisions to have a total of 150,000 sqm (1.6 million sq ft) of office space in their property by 2021.

Filinvest Land

Filinvest Land entered the Cebu residential market in 1999 thru the launch of Corona del Mar. It is the first ever residential subdivision in Cebu by Filinvest Land. In 2004, the company launched Aldea del Sol, a house and lot project located in Lapu-Lapu City. The developer entered the Cebu condominium market with the launching of Grand Cenia Hotel and Residences in 2007. Other notable projects by Filinvest Land include Amalfi Oasis, and Sanremo Oasis located in City di Mare. Its Il Corso mall will have a soft opening by 4Q 2017 and will add an estimated 36,000 sq m (387,500 sq ft) to Cebu's retail stock. In 2014, the firm completed its first office development, Filinvest Cebu Cyberzone in Lahug Cebu City. It is located in Cebu IT Park and offers 20,000 sq m (215,280 sq ft) of gross leasable area. Another tower, Filinvest Cebu Cyberzone Tower 2, is expected to be completed by 2018.

Filinvest is one of the locators in the South Road Properties (SRP) area, envisioned to become a premier business destination in Southern Philippines. The company is developing some 50 ha of reclaimed estate. Among its projects is a master-planned community divided into two sections: Il Corso facing the waterfront area and the Piazza facing the opposite side.



Source: Filinvest

Il Corso is a 10.6-hectare (1.1 million sq ft) lifestyle strip that will offer seaside leisure activities. It will also host a restaurant with 300-seat dining capacity.

Meanwhile, The Piazza is another project development by Filinvest in SRP. It will also feature a BPO, retail outlets and an al fresco restaurant.

SM Prime

SM Prime Holdings entered Cebu's retail market with SM City Cebu in 1993. The opening of the mall marked a profound new development in Cebu's retail landscape, since this was the first super-regional mall in the city. The outlet's north wing expansion was completed in 2010. Other retail outlets are SM Consolacion and SM Seaside City in SRP, currently the largest mall in the city.

SM Prime Holdings is among the major developers in the South Road Properties (SRP). It has a total area of 300 hectares which are prime properties set on reclaimed land along the city's east coast. The property was initially conceptualized to house export-oriented light industries, but the local government decided to diversify the location's use and welcomed national developers planning to build integrated communities.



Source: SM Prime

According to the local government of Cebu City, SRP will be served by a network of primary, service and collector roads. All properties within the site will be accessible through this network. The planned Bus Rapid Transit System (BRT) will also pass through the property.

SM Prime is maximizing the SRP's infrastructure links by developing office, residential and leisure projects. SM's development is envisioned as the next major CBD of Metro Cebu.

Federal Land

Federal Land entered the Cebu residential market with the launch of Marco Polo Residences in Apas, Cebu City in 2010. The residential units at the Marco Polo command one of the highest rents in Cebu as the development carries a global brand. Following the strong demand from Marco Polo Residences, the company launched the Parkview Residences in 2012. Federal Land's projects recorded an average take up of almost 90% as of 2Q 2017.



Source: Federal Land

Rockwell Land

Rockwell Land Corp. entered the Cebu residential market with the launch of the first two towers of 32 Sanson in 1Q 2015. It is Rockwell's first development outside Metro Manila. Two additional buildings, Buri and Solihiya, were subsequently launched in 3Q 2015. The first two towers have been fully sold.

The four towers have less than 400 units, keeping the exclusive community feel that Rockwell developments are known for.

The projects also have wide open space, which Rockwell considers as a distinct advantage and differentiator over other residential projects in the city.



Source: Rockwell Land

The company is also investing about PHP4 billion (USD78.4 million) for the development of a resort in Mactan. The 300-room resort will be under the Aruga brand.

Vista Land

Vista Land entered the Cebu vertical market via its Crown Communities and Camella brands. Crown Communities at Pasadena and Camella Condo Homes in Mactan were launched in 2009 and 2011, respectively. Vista Suarez, a hotel and residential development, was launched in 2015. Its residential component is almost 90% sold as of mid-2017. Meanwhile, the developer's horizontal residential projects are a mix of Camella Communities, Crown Asia, and Vista Land brands. Among these developments are Azienda Roma, Crown Riverdale, Lombardi, Lessandra, and Camella Riverfront. These projects are in Talisay City, Lapu-Lapu City, Cebu City, and Carcar.

Complementing the Camella Azienda Subdivision in Talisay City is Starmall Azienda. This is the first Starmall outside the Luzon group of islands. The community mall features the Villar Group's retail brands such as AllShopee department store and AllHome furniture and appliances.



Source: Vista Land

Recommendations

The entry of national developers has redefined the Cebu property landscape. To survive in a fiercely competitive real estate market, Colliers encourages national developers to implement the following measures:

Development of Mixed-Use Projects

Colliers expects developers to continue pursuing mixed-use communities within Metro Cebu. We believe that township projects, which integrate the live-work-play lifestyle, provide a better value proposition than standalone projects since they offer mixed-use developments such as office, residential, retail, even institutional. This feature makes integrated townships a more attractive option for both investors and end-users. Colliers has observed that premium pricing especially for condominium units in Cebu is achieved by projects in masterplanned communities launched by major developers.

Integrated townships have also become more popular in Cebu given the inadequate transport infrastructure in the traditional business district – the Uptown/Downtown area. The national developers were successful in developing townships in the country's capital and have applied the same concept in Cebu. The developers are bridging infrastructure gaps and unlocking opportunities by building master-planned communities that have the potential to become major catchment areas for business activities in Cebu.

Megaworld is replicating its successful Eastwood City, the first PEZA-accredited IT Park with Mactan Newtown; Ayala Land created a more contained version of the Makati CBD thru Cebu Business Park and Cebu IT Park; while Filinvest Land is developing City di Mare, being positioned as the integrated lifestyle hub of Cebu. The masterplanned environment continues to set national developers apart from local players.

We think the mixed-use projects will also become more attractive from now on especially as Cebu tries to retain its status as the second largest outsourcing hub in the country and one of the most attractive BPO destinations in the world. We see more BPO tenants in Cebu shifting toward these mixed-use communities as these projects offer a better living and working environment.

The current administration's thrust to raise infrastructure spending to 5% to 6% of annual gross domestic product (GDP) should greatly benefit Cebu, which is considered as one of the major urban areas outside of the country's capital. We believe that the current administration's goal of spreading economic opportunities and intensifying infrastructure development outside Metro Manila should

provide impetus for national developers to be more aggressive in pursuing mixed-use projects in Cebu.

Differentiation of Integrated Projects

Given the rising popularity of integrated townships, we see national developers actively acquiring large parcels of land in Cebu that could be developed into master-planned communities. Colliers believes that in the increasingly competitive real estate environment, developers need to distinguish their projects from others. We see competition intensifying especially with the completion of projects on Mactan Island, Mandaue, and South Road Properties (SRP). Apart from the typical land uses such as office, residential, retail, and hotel, developers should also incorporate other uses such as industrial, education and healthcare. We believe that developers should also integrate entertainment and recreational facilities for outdoor sports.

Increased Foray into Hospitality and Industrial Sectors

The major players' development of mixed-use communities integrating office, residential, and retail projects should be complemented by hotel and industrial facilities. Tourist arrivals and manufacturing activities in Cebu have been gaining traction and national developers should zero in on these opportunities.

In 2016, Cebu attracted 4.17 million local and foreign tourists, up 25% YoY. We see the expansion of the Mactan-Cebu International Airport enticing more foreign airlines to mount direct flights to Cebu. The city's rising attractiveness as a tourist spot and growing competitiveness as an investment destination should support a 15% to 20% growth in tourist arrivals over the next 12 months. This should sustain hotel occupancy of between 65% and 70% across Metro Cebu from 2017 to 2018.

Outside of Luzon, Cebu remains as a major hub for industrial operations. Manufacturing accounts for a quarter of Central Visayas' economy. We see the demand for industrial space and facilities being sustained by the continued dynamism of Cebu's export sector. Colliers sees Cebu's annual export bill being driven by the economic recovery of the Philippines' top trading partner, the United States; implementation of trade deals with neighboring ASEAN economies and the Eurozone; as well as sustained manufacturing investments from Japan and China. These should contribute to greater absorption of space and increased utilization of facilities within Cebu's industrial parks.

Partnership with Local Developers

National developers should firm up partnerships with local developers to strategically expand their landbank. Tie-ups with local developers also enable national firms to leverage on the former's familiarity with Cebu and its residents. This should allow national developers to customize their real estate offerings based on the local investors' and end-users' preferences. Examples of these partnerships include Ayala's joint venture with Aboitiz Land for the Gatewalk Central project in Mandaue, and Taft Properties and regional developer Hong Kong Land's joint development of a 20-hectare mixed-use site along the Mactan Channel.

Maximization of Brand Equity

Branding from a national developer (e.g. Ayala Land, Robinsons Land, Filinvest Land, Megaworld and Federal Land) is important particularly in the high end residential segment. Aside from being in a strategic location, Colliers has observed that national developers are able to command a price premium due to branding. Federal Land's Marco Polo Residences commands one of the highest rents in Cebu as it carries a global brand and is near Cebu's central business districts and universities. Meanwhile, Rockwell's 32 Sanson residential towers are recording strong take up as the property firm is cashing in on its image of providing exclusivity its residents. The 32 Sanson project allots 70% for open space, a key feature that Rockwell's Metro Manila projects are distinctively known for.

Acquisition of Reclaimed Land

National developers with limited land bank in Cebu should be on the lookout for ongoing reclamation projects. Strategic acquisition of land in reclaimed areas should significantly raise the land bank of national developers in Metro Cebu. Land in reclaimed areas is much cheaper than those in established business hubs, thus enabling national developers to offer residential projects at a discount.

The large parcel of land available should also allow firms to develop more mixed-use communities. The lack of developable land within Cebu's established business districts constricts national developers from expanding their respective portfolios.

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. Other projects include the development of a 100-hectare reclamation project intended for light industrial

manufacturing. Details of other pending applications have yet to be released by PRA.

For local players, we recommend that they undertake the following measures:

Acquire Land in Large Masterplanned Communities Developed by National Players

Cebu-based developers should look at acquiring parcels of land within integrated townships developed by national players. Some of the developers that took advantage of the masterplanned environment provided by Ayala's Cebu Business Park and Cebu IT Park are Skyrise Realty with its Skyrise 4 Building; Apple One Properties with its Apple One Tower; and Innoland with its The Link and Calyx Residences.

By building residential and office towers within the master-planned communities or business hubs developed by national players, local developers are able to maximize transportation network and other infrastructure built by national developers.

Firm up Partnerships with Global Property Management Firms

Local developers, particularly those with limited property management experience, should consider tapping international real estate management services companies to take advantage of the global standard of service that these firms are known for. These property management firms can handle the daily operations of residential and office buildings including management, supervision, improvement and upkeep of facilities. These firms also supervise the technical operations and maintenance of the projects' various building equipment and manage the financial aspects of the building operations. We believe that a property's value is retained only if a building is properly maintained. Some high end projects do not sustain their premium because of bad management and poor upkeep.

Among the homegrown developers that recently signed a deal with a global property services firm is Taft Properties for its condominium development project. Horizons 101 is considered as Cebu's tallest condominium development. We see the local developer's project redefining Cebu's residential landscape.

Focus on Quality

Despite the absence of partnership with national or regional developers, a number of local players have

done well in Cebu due to continued delivery of high-quality projects.

Among these local developers is Innoland. Following the strong take up of its Calyx Residences and strong leasing of its The Link and Calyx office towers, the Cebu-based firm is setting aside some PHP7 billion (USD137 million) for the construction of three-tower mixed-use complex named Montage, located in a 1.3-hectare property along Archbishop Reyes Avenue. The project will offer an estimated 40,000 sq m (430,600 sq ft) of office space, 7,000 sq.m (75,300 sq ft) of leasable retail space, and either a residential or hospitality component.

In 2010, Cebu Landmasters developed its first vertical project, Asia Premier Residences, at Cebu I.T. Park. The homegrown developer was initially into horizontal residential projects but its first foray into vertical development recorded brisk take up as it banked on the quality and strong sales of its previous horizontal projects in Talisay and Minglanilla.

Cebu Landmasters has since launched a mix of vertical and horizontal residential projects. The company is also into office, hotel, and industrial space development.

Implementation of a Unique Development Mix with National Developers

Local developers that own large parcels of land but are constrained by their lack of expertise in developing integrated communities should consider selling individual lots to national developers while retaining the greater part of the land holdings. These developers with massive landbank should allow other firms to pursue their own pockets of developments as long as the projects are aligned with the local developer's design guidelines. This should result in a more interesting development mix and landscape for the entire integrated community.

We believe that both local and national developers in Cebu mutually benefit from this arrangement with the national developer lending its expertise in designing an integrated live-work-play environment; building its own infrastructure; and attracting retailers, tenants, and end-users and investors for its mall, offices, and residential units. Over the long term, these benefits should trickle down to the local developers, enabling the homegrown firms to pursue their own township projects in the future.

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