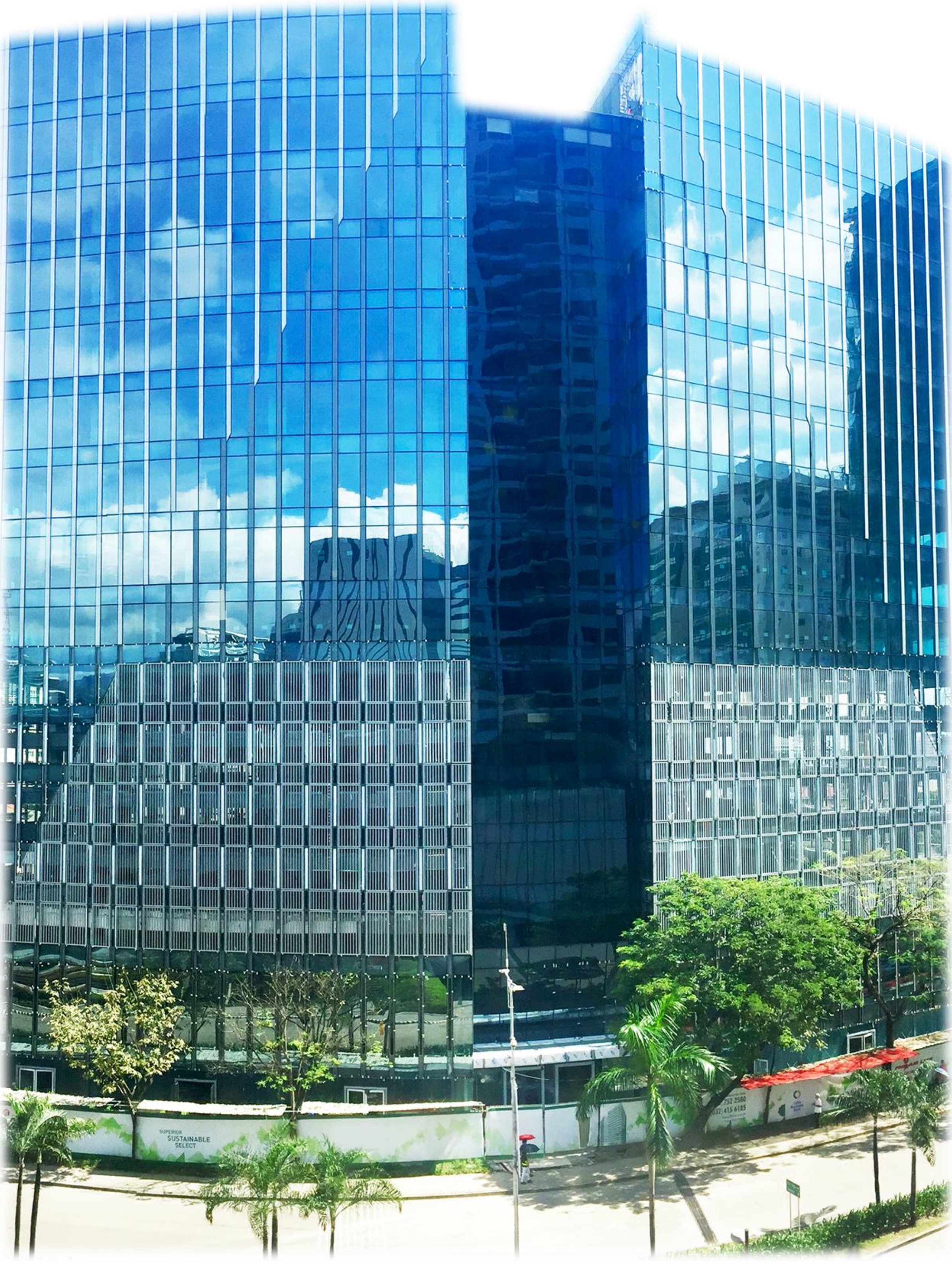
RESEARCH



METRO CEBU

MARKET UPDATE 1H 2018

METRO CEBU PERFORMANCE MATCHES METRO MANILA'S UNPRECEDENTED DEVELOPMENT

COVER | Steady real estate sector growth noted in Cebu

SNAPSHOTS
Economic Indicators

6.0% ▼
GDP
Q2 2018

5.2% ▲
Inflation Rate
June 2018

4.2% ▲
OFW Remittances
May 2018

5.9% ▲
Avg. Bank Lending
June 2018

3.36% ▲
91-Day T-Bill
June 2018

53.05 ▼
Avg. PHP-USD
June 2018

2011 to 2016 historical data from The National Economic Development Authority (NEDA) reveals an immense growth of the Central Visayas economy, increasing annually at an average of 7.5%. This is significantly higher than the national average of 6.1%. Metro Cebu was the top performer in the region as it is where most of the economic activities took place. Moreover, in the next six years, the industry sector is predicted to lead regional growth with a forecasted average of 9.2% per year, followed by services at 6.8%. Furthermore, real investment rate is expected to expand to 32.5% by year 2022, placing it among the top 3 regions with the highest real investments. This is expected to subsequently boost the Metropolitan area, as well as the rest of Central Visayas.

The development of new and upcoming Central Business Districts (CBD) in Cebu, such as Aboitiz and Ayala Land Inc.'s joint venture project, Gatewalk Central, Megaworld's Mactan Newtown, HT Land's Mandani Bay and Filinvest's City di Mare, displays unparalleled commercial performance, not limited to the two prominent business districts in Metro Cebu, the Cebu Business Park (CBP) and the Cebu IT Park (CITP).

Rising foreign interests in Metro Cebu was observed by the Cebu Investment and Promotions Office (CIPO). Foreign firms, mostly from the U.S., France, China, Korea, Japan, Switzerland, Malaysia, Brunei Darussalam, U.A.E. and Indonesia realized the potential of Metro Cebu and are setting up satellite offices in the area. Equipment electronics, energy infrastructure, housing, hazardous wastes and technology are the identified industries of considerable interest to most multinational firms. Investors from Malaysia, Indonesia and Korea also wish to tap into the local retail business, banking on the strengthening consumer market of Metro Cebu.

Further to the above, based on the statistical data of the Department of Tourism, the Mactan-Cebu International Airport (MCIA) and the Port of Cebu account for the combined total of 20.02% of total foreign visitor arrivals in the country during the first quarter of 2018. This number is expected to further climb with the recent opening of MCIA's Terminal 2, which is capable of hosting a passenger traffic volume of 8 million people a year.

The residential and hospitality sectors are to gain the most out of this upsurge in guest arrivals. The challenge is catering to the increasing demand for accommodation, which gave way to the rise of condotel projects. Condotels provide an alternative accommodation option for tourists, benefitting both the investor and the user markets.

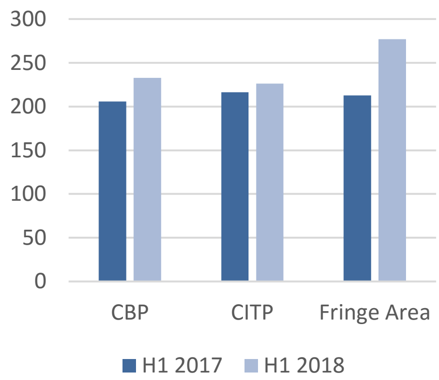
In a bid to dominate the residential and hospitality sectors, property developers are actively seeking to establish partnerships that will create synergies necessary to be able to compete for larger market shares and secure access to various resources. Cebu Landmasters Inc., for example, has partnered with an international service residences operator, Ascott Limited, for the management and operations of one of its newest serviced residences, Lyf.

With strong indications of growth in all sectors, Metro Cebu is poised to be a bastion of investment outside the capital. At present, it is second to Manila in terms of development yet its growth potential is limitless, further supported by the various lined-up infrastructure projects. Opportunities abound the metropolis. Now is considered the perfect time to invest.

OFFICE SECTOR REMAINS VIGOROUS AS MARKET DEMAND FURTHER STRENGTHENS

Office | Metro Cebu continues to attract investor interests across major Central Business Districts

FIGURE 1
Total Metro Cebu Office Stock (in thousand sqm.)



Source: Santos Knight Frank Research

Coinciding with Metro Cebu's economic development, real estate players continue to harness Cebu's potential as an alternative investment hub to Manila and expect a boom in the real estate sector this year. Gross leasable office spaces in Metro Cebu grew 14.51% Year-on-Year (YoY) during the first half of 2018. Of this expansion, 18,000 square meters is attributed to Cebu Business Park (CBP), 9,929.2 square meters to Cebu IT Park (CITP) and 64,203 square meters to the fringe areas. The office buildings credited for this office space expansion are Philam Life Center in CBP, the Mabuhay Tower in CITP, and the Oakridge IT Center II, FPN Epic Centre, Tower One Plaza Magellan, A.D. Gothong IT Tower, J Centre and the Island Central scattered in the fringes.

Further to the noted expansion, Metro Cebu has yet to welcome another 98,834.28 square meters of gross leasable area (GLA) within the present year. It is a big year for CITP as more than 65% of the upcoming GLA will be located inside its borders, supporting the position of this Central Business District (CBD) as one of the preferred locations for commercial and office development. In addition, several new office developments are anticipated in fringe areas, where 20% of the new office spaces will be situated. These are mostly in the cities of Mandaue and Lapu-Lapu, making sure to take advantage of the proximity of the two cities to the Mactan-Cebu International Airport. Finally, CBP accounts for the remaining 15%, which is entirely attributed to the CBP Tech Tower located down south, along Camiguin Road, and is set to open in the second half of the year.

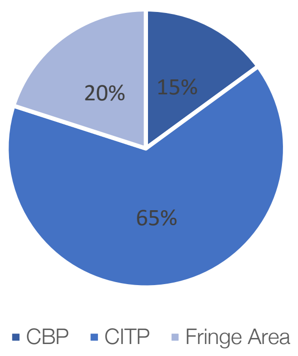
The CBP continues to assert itself as a prominent CBD in Cebu with its weighted monthly lease rates averaging PhP626.72 per square meter per month in the first half of 2018. CBP's weighted average asking rents were higher than the overall Metro Cebu weighted average asking lease rate of PhP548.30 per square meter per month. Rental growth rate in CBP was the highest of the Cebu CBDs at 13.83% YoY and was fueled by the increase in rent of traditional and BPO offices pegged at 16.63% and 9.74%, respectively. CITP's weighted average lease rate in the first half was PhP566.90 per square meter per month, which is a 5.46% increase from the first half of 2017. The most affordable rates in Metro Cebu were in the fringe areas at a weighted average of PhP467.18 per square meter per month, corresponding to a humble increase of 1.26% YoY.

Historical data shows that from 2013 up to the present, rent prices in Cebu have been increasing at an annual average rate of 3.02%, signifying major capital appreciation for those who invested in the Cebu office market. CBP had the highest lease rate increases averaging 2.62% annually since 2013. Average annual rental growth in the fringe areas was recorded at 5.48% and CITP at 2.24%. The appreciation of rents pushed developers to introduce more office spaces in Cebu, enabling the metropolitan to host new and expanding companies contributing further to economic growth.

Overall vacancy rate in Metro Cebu continued to decline in the first half of 2018. At the end of the half, Metro Cebu's vacancy rate was 8.33%. Although there were a number of new office spaces turned over, the fringe area vacancy dropped to 17.45% compared to the same period last year's 24.47%, clearly reflecting the growing demand for Cebu office spaces outside the CBP and CITP.

Vacancy rates in CBP and CITP likewise continued to drop. H1 2017 CBP

FIGURE 2
Upcoming Office Supply in Cebu, 2018



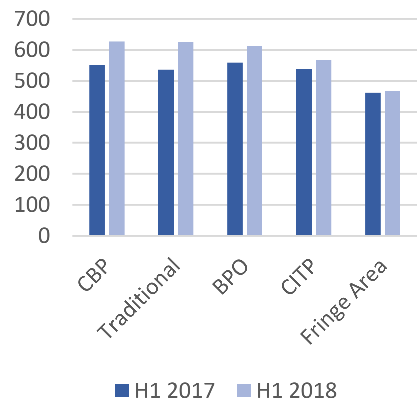
Source: Santos Knight Frank Research

vacancy rate was at 5.12% but falling to 3.96% in the first half of 2018. CITP vacancy rate was tight at 2.45% in H1 2017 yet it has further declined to 1.66% in H1 2018. The limited amount of vacant spaces in CITP led to the construction of several new office buildings in the area, three of them due to commence operations in the remaining months of the year.

The efforts of the current administration to develop and improve cities and provinces outside the capital, through infrastructure development, are expected to decongest Metro Cebu and its neighboring areas. Infrastructure projects such as the New Cebu International Container Port aim to boost Cebu's trading activities with the rest of the world, by increasing its export capacity and allowing more imported goods to enter. Cebu-to-Bohol link bridge and the Cebu-Negros link bridge are expected to improve Cebu's connectivity with its neighboring islands, heightening its inter-island trade and enabling it to tap in to nearby local populace for easier and increased access to skilled labor. In other words, a boost in trade will entice firms to set up shops in Cebu and the availability of a large labor pool will make the move easier. Consequently, these activities will spur demand for more office spaces further resulting to growth of the office market.

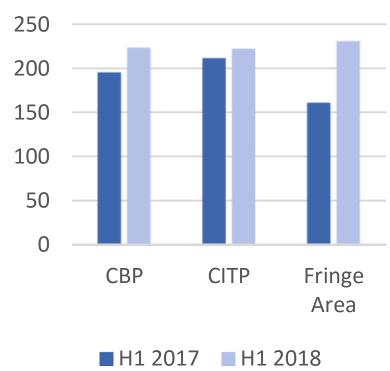
Lastly, Cebu is the center of economic activity in southern Philippines. According to Sec. Dominguez of the Department of Finance, it will continue to play a strong role as one of the reliable growth drivers of the national economy. Cebu is very promising as it continues to follow the footsteps of Manila to becoming the commercial hotspot of the country. Investors are therefore encouraged to consider the opportunities that lie within Metro Cebu.

FIGURE 3
Weighted Average Lease Rate per CBD



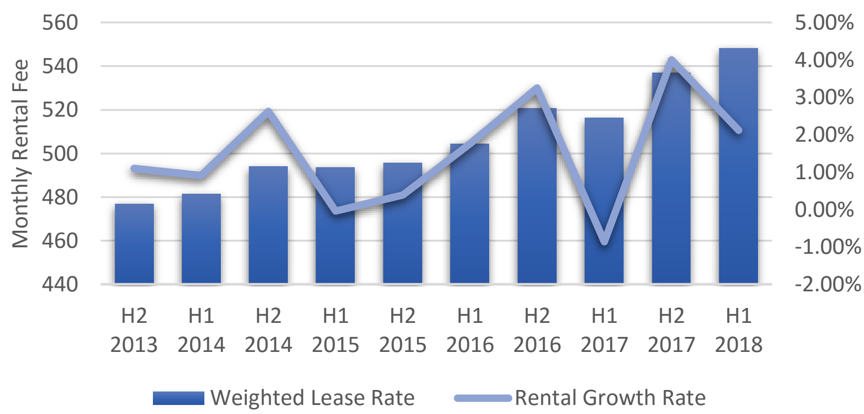
Source: Santos Knight Frank Research

FIGURE 4
Metro Cebu Occupied Spaces (in thousand sqm)



Source: Santos Knight Frank Research

FIGURE 5
Weighted Avg. Lease in Metro Cebu Rate (PHP) vs. Rental Growth Rate (%)



Source: Santos Knight Frank Research

METRO CEBU CONTINUES TO BOAST UNPARALLELED RESIDENTIAL DEMAND

Residential | High-end condominiums take the reins in the first half of 2018

Striding alongside the government's Build, Build, Build program, upcoming developments, rising tourist arrivals, and growing demand for vertical living make Metro Cebu a glowing beacon for promising investments. Rising demand surges the prices upward, giving developers the power to increase prices at a quarterly rate and thus enticing prospective buyers to reserve units sooner rather than later.

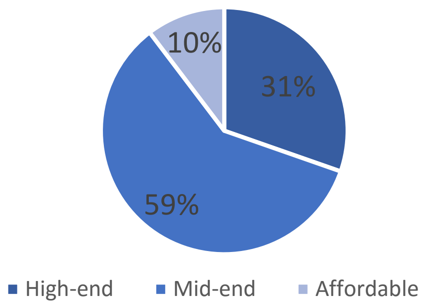
Developers are enjoying the reaps of a robust residential sector. In just one year, overall absorption rate went from 82.6% to 88.7%. High-end projects took the lead, with an average selling rate of 11 units per month. Middle income and affordable followed suit with average take up rates of 8 and 7, respectively. Buyers shifted preferences to high-end projects because of their better product offerings especially amenities. Moreover, the pricing of middle income-branded projects continues to overlap with the rates of high-end developments.

As available supply trickles down, developers should seize the moment and launch new projects while the market is still bullish. High-end projects in Mandaue and Lapu-Lapu are the most sought after, with only 3.3% and 3.7% available inventories left respectively. The expatriate community makes up majority of the target market for high-end residences. 32 Sanson Gmelina, Marco Polo Residences, and The Reef Residences are some of the high-end projects that reached full occupancy in the first half of 2018. Most of the high-end developments strategically added a playhouse to address pressing needs from start-up families, a market that requires a safe place to lodge their children while they do important errands. The market that sees Airbnb as an alternative to traditional renting likewise continues to grow, since tourists are looking for unique ways to live like locals.

Given the market situation, units are getting more and more expensive, increasing at a rate of 12-14.5% as compared to last year. As in the past periods, middle-income projects stretched their upper price range, overtaking bottom price points of high-end properties. Middle-income prices reached a maximum of PHP 147,000 per square meter and a minimum of PHP 82,000 per square meter while affordable projects now sell from PHP 66,000 per square meter to PHP 97,000 per square meter, which is a dramatic increase from last year's bottom price limit of PHP 54,000 per square meter.

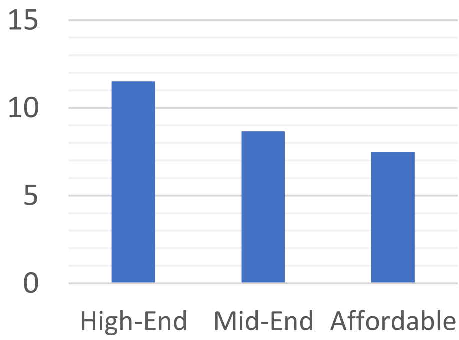
Even with raised prices, buyers still patronize units of affordable projects. The affordable price

FIGURE 6
Allocation of Condominiums per Classification



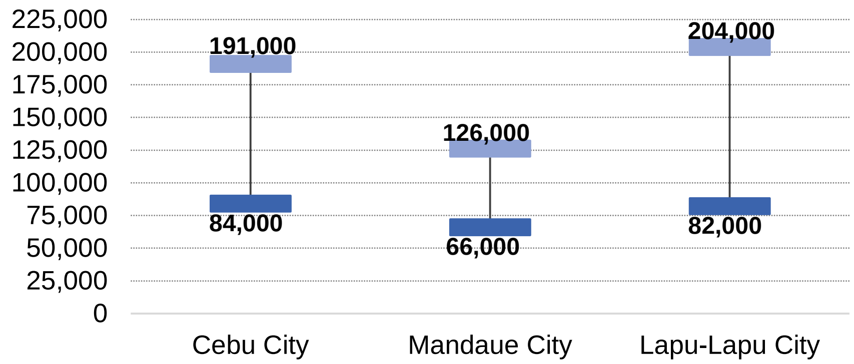
Source: Santos Knight Frank Research

FIGURE 7
Average Monthly Take-Up Rates per Classification (Units)



Source: Santos Knight Frank Research

FIGURE 8
Indicative Average Prices per Area (PHP/sqm)



Source: Santos Knight Frank Research segment had the highest sold-out rate with a 14% increase from the second half of last year. Developers offer more flexible payment schemes making it easier for the buyer to avail more units. Moreover, the current market is wiser with their investments and choose to place their bets on those that will give higher yields, hence the sizeable residential demand.

Take-up of middle-income projects might have dwindled last year but have picked-up its pace this period, having sold 88.6% of its 23,400 floated units. Developers were able to position their projects close to the business districts, with majority of the floated units consolidated in Cebu City.

Furthermore, speculations from developers include plans of adding new towers to their successful projects. Sun Park Royal by Sunkai Land, Miko Tower by LandTraders World Properties Corp, and Vertex Central by Priland Development Corp are some of the projects scheduled to commence selling either in the remaining months of 2018 or the early months of next year.

Amisa Private Residences

NEW RETAIL OPENINGS TO ADDRESS CLAMOUR FROM CEBUANOS AND GUESTS

RETAIL | Continuous low vacancy expected with commitments from various retail brands

Isla dela Victoria

Source: Cebu Daily News

With the fast-changing times, shopping mall developers and operators attempt to cater to all the different interests and shifting preferences of the Metro Cebu consumer market. New and exciting stores are in the present pipeline, which further tightens up the local retail supply.

Filipinos love to go on food trips and dine together with friends, workmates and relatives. It is not surprising therefore that a big portion of shopping mall space is occupied by stores under the Food and Beverages (F&B) category. Among the well-anticipated restaurants under F&B is Tong Yang Shabu-Shabu & Barbecue Restaurant in SM Seaside City Cebu. Tong Yang, scheduled to open in the third quarter of 2018, will offer a variety of Filipino, Chinese, Japanese and Korean dishes in a buffet spread. Buffet restaurants are a thing in the country for about a decade now, among the well-known brands are Cabalen, Dads Saisaki Kamayan, Vikings, Yakimix and Buffet 101.

Also to open in SM Seaside City Cebu is another branch of Nuat Thai Foot & Body Massage. Nuat Thai originated from Cebu in 2005 and presently has more than 180 branches nationwide. Given the many factors negatively affecting a person’s well-being nowadays, anti-stressors such as a good massage, after a hard day’s work or a hectic work week, are yearned for especially by the growing working population.

In addition, since Metro Cebu is a preferred destination by local and foreign guests, the Department of Trade and Industry (DTI) has targetted to open a Go Lokal! store in Ayala Center Cebu in the second half of 2018. It will be the first Go Local! store outside of Metro Manila. Moreover, the DTI is pursuing a space in the New Mactan-Cebu International Airport Terminal. Go Lokal! is a design-led concept store that will offer innovative native products by Filipino micro, small and medium enterprises (MSME). The DTI has partnered with mall giants such as SM, Ayala and Robinsons in putting up various Go Local! branches all over the country.

Continued on Page 7…

Metro Cebu boasts of the ease of doing business in this rising global city driven by a strong local economy, presence of skilled labor force and affordable retail rents. Rents in shopping malls are reported to be within the PHP 800 to PHP1,500 per square meter per month range. In addition, retail vacancy in Metro Cebu is expected to remain low backed by persisting robust demand and increasing commitments from local and foreign retail brands.

The South Road Properties (SRP) is a very promising area within Cebu City. It is envisioned to be a landmark address with the monumental SM Seaside City Cebu, completion of the Il Corso of Filinvest Lifestyle Malls and addition of JG Summit's Isla dela Victoria Shopping Mall. Also in the shopping mall pipeline is a 3-hectare 3-story mall at Mactan Newtown in Lapu-Lapu City.

NEW INTERNATIONAL PORT SET TO BOOST CEBU'S INDUSTRY SECTOR

Industrial | Retail growth continues to drive warehouse and logistics demand

Source:jetro.go.jp

The sizeable foreign investor interest in the Philippines is sustained in the initial months of 2018. January to April Foreign Direct Investments (FDI) rose almost 25% from $2.58 Billion in 2017 to $3.2 Billion in 2018. The manufacturing sector bounced back becoming the biggest contributor to FDI growth, as consumer spending likewise grew more than 5% year-on-year in the first quarter of 2018. The booming retail sector has again triggered industrial sector expansion.

In Metro Cebu, the growing retail market resulted to an increased demand for warehousing and industrial space. For instance, land acquisition costs range from a low of PHP9,000 per square meter to a high of PHP 25,000 per square meter in the Mandaue area, where about 40% of the export companies in Metro Cebu are located.

Dubbed as the industrial hub of Central Visayas, Mandaue City holds about 10,000 industrial and commercial companies. Asking rents of warehouses and standard factory buildings fall within PHP120 per square meter per month to PHP250 per square meter per month.

In addition, with the increasing number of activities in Metro Cebu, a new container port has been added to the pipeline of infrastructure projects that will sustain the metro's developing economy. The existing port will be converted to a business and cruise hub.

Meant to decongest traffic in the existing port, The New Cebu International Container Port is expected to be completed in 2022. It will be located in a 25-hectare reclaimed island in Consolacion, Cebu. The new port will feature a 500 m berth length to accommodate two 2,000 twenty-foot equivalent unit (TEU) vessels, 4 quay cranes and superstructures such as operation building, gate complex, weigh bridge, maintenance factory, and 1,450 m inland access road and 300 m offshore bridge connecting the port to the shoreline. It aims to add to the current port's container yard capacity of 7,373 TEUs to 14,400 TEUs.

A notable trend in the industrial sector, not only in Cebu but in other areas all over the country, is the market's movement away from the city core. The limited industrial supply in the main cities is unable to match the rising volume of industrial space requirements. Infrastructure projects are being laid to facilitate the movement in order to cut logistics cost of bringing inventories from the manufacturing plants and storage facilities to the physical stores. Nevertheless, it is the best time for industrial developers to rethink of ways to increase industrial capacity within the city, where operating costs are lower but market demand is high hence the opportunity to command higher rents and sale prices.

THE INFLUX OF TOURIST ARRIVALS BOLSTERS METRO CEBU HOSPITALITY SECTOR

Hospitality | Heightening demand created by tourists, businessmen and millennial markets

A continuing boom in the Metro Cebu hospitality sector is driven by the constantly rising number of domestic and foreign guests. Several airlines anticipated the increased demand coming from the unveiling of the new Mactan-Cebu International Airport (MCIA) Terminal 2 in the second half of 2018. AirAsia recently launched daily direct flights from Shenzhen, China to Cebu. In 2017, China recorded the highest growth rate for tourist arrivals with an 87.29% increase in volume from 2016's 108,769 visitors that arrived in Cebu. Korea and Japan, however, are in the top 2 spots in terms of tourist arrivals with 802,298 and 390,796 visitors, respectively.

With the introduction of additional direct flights to Cebu, tourist arrivals for the first half of 2018 already surpassed same period last year's recorded figure, revealing a 12.5% upsurge to be exact. Domestic passenger arrivals posted a 10.19% increase while a 17% growth in international passenger arrivals was similarly noted.

In light of the Boracay closure, tourists were deflected to nearby tourist destinations such as Bohol and Cebu which also boast of pristine beaches and social entertainment. Local airlines likewise initiated new flights to Cebu and other Central Visayas provinces to combat the cancelled flights to Caticlan and Kalibo.

The anticipated surge in tourist arrivals from the newly opened MCIA compelled hotels to renovate their guest rooms in order to better accommodate the incoming tourists. Radisson Blu Cebu is set to invest P500 million in re-upholstering 396 rooms. The whole renovation project is expected to go on for 18 months from its scheduled start in June 2018.

Demand for accommodation within the Cebu Business Park (CBP) remains high especially from travelling businessmen and investors. Developers take advantage of the growing market with new developments in the pipeline. One of the upcoming additions is Seda Hotel by Ayala Land Inc. (ALI), formerly known as Marriott Hotel. The Seda Hotel is set to open by the third quarter of 2018 and will house 301 guest rooms. Another hotel to watch out for in CBP is Holiday Inn by InterContinental Hotels Group (IHG). It will offer 180 guest rooms and is set to be completed by end of 2020.

In addition, Cebu developers are targeting a new market segment, the millennial market. Filinvest Hospitality Corp. (FHC), a subsidiary of Filinvest Development Corp. (FDC), announced the opening of a youth-oriented resort in the latter part of 2017. Grafik Resort Mactan-Cebu will be located in 2.8-hectare property in Duawon Beach in Marigondon, Lapu-Lapu City. Grafik is a lifestyle resort that caters to the young and young-at-heart who are looking for a place that is more casual and fun. FHC recognizes the gap in the market and regarded the "millennial" segment as underserved. The room rates in Grafik will range between PhP5,000 to PhP 6,000 to meet the budget of the target market. The resort will feature 308 rooms, two signature restaurants, three bars, and multiple pools-and is to be completed by 2020.

Source: Santos Knight Frank Research

The hospitality sector is therefore rapidly expanding from traditional to a younger niche market. While businessmen, family vacationers, and expat market still constitute the main market of Cebu's hospitality sector, Metro Cebu is poised to serve the additional demand to be generated from the new MCIA terminal, be it of local or foreign origin. Moreover, new concepts such as AirBnB continue to provide tourists with alternative accommodation options, enabling living like the locals at an affordable and more practical price.

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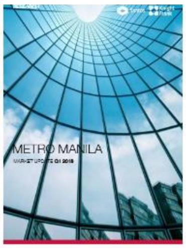

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