

South Luzon draws BPOs with talent, infra – Colliers

THE OFFICE market in South Luzon is attracting business process outsourcing (BPO) firms due to the availability of local talent, infrastructure, and the advantage of being located outside the capital's traditional business districts, according to Colliers Philippines.

"There are BPOs that are actively and consciously veering away from traditional business districts in Manila and have made it a point, as part of their core site selection strategy, to not be in Manila. Instead, they are locating in the fringes of Manila where the people actually live," Colliers Associate Director for Office Services Kevin R. Jara said during a briefing on Aug. 27.

Among the BPO companies that occupy office space outside the traditional central business districts are iQor, Concentrix, Appen, Teleperformance, and TaskUs, according to Colliers Philippines.

Mr. Jara said talent availability and infrastructure remain top considerations for locators. Cavite, Laguna, and Batangas (CALABA) have a combined

population of 10 million people, with 4.8 million in the working-age group.

Office buildings integrated with retail are becoming popular among BPO companies seeking office space in South Luzon, he said.

He also noted that such buildings typically achieve higher occupancy rates compared to standard office buildings. Examples include Megaworld Corp.'s Southwoods BPO Tower 1 and 2, SM Holdings Inc.'s The Core Towers 1-3, and Ayala Land, Inc.'s One & Two Evotech.

"The average occupancy rate of office buildings here in Southern Luzon that are attached to retail or commercial developments is typically about 80%," Mr. Jara said, "compared to below 50% for standalone buildings."

The office market here in CALABA is just a small market, and we just recorded 5,000 square meters (sq.m.) over the past six months for this particular area," he also said.

South Luzon also benefits from infrastructure projects like the Light Rail

Train 1 Cavite extension, Skyway 3, and the South Luzon Expressway, which could further increase land and property values in the region, Colliers Philippines said.

Mr. Jara also noted that office space transactions in the Philippines are still concentrated in Manila, which accounted for 79% of transactions in the first six months of 2024, while provincial areas accounted for 21%.

Colliers Philippines reported a total of 122,000 sq.m. in office space transactions for the first half of 2024, up from 88,000 sq. m. in the same period last year. This increase was driven by activity in Cebu, Pampanga, and Iloilo.

Joey Roi Bondoc, director and head of research at Colliers Philippines, noted that the Cavite-Laguna-Batangas-Rizal-Quezon (Calabarzon) region accounted for 15% of deployed migrant workers in 2022. Given this, it is "not surprising" that developers are "aggressively" land banking and launching projects in the region, where many recipients of cash remittances are located, he added.

He also noted that the time required to fully absorb condominium units in Metro Manila has increased, meaning it now takes longer to sell these units. However, demand for horizontal developments remains consistently strong.

"This means there's a strong appetite for the horizontal segment, especially for the Southern Luzon region where you have OFWs and local investors that are still investing in this household lot and lot-only developments," he added.

In addition, due to the "strong demand" for horizontal units in the CALABA corridor, the average price of a house and lot unit is P4.7 million, which has been increasing by approximately 7.2% annually from 2016 to 2020, Colliers Philippines said.

"In the lot-only segment, we are also observing strong demand for horizontal properties. The average price per square meter is approximately P19,000, which results in an annual growth rate of about 6.7%," Mr. Bondoc said. — **Aubrey Rose A. Inosante**

PHL developers to see increased buyer demand as rates go down

PROPERTY DEVELOPERS in the Philippines are expected to see increased buyer demand and more affordable financing options for projects as borrowing costs decline, according to consulting firms.

"As key policy rates go down, borrowing costs will also go down for both the developers and the buyers," Sharon R. Saclolo, head of research, at Leechiu Property Consultants, Inc., said in an e-mail interview on Aug. 27.

"This should have a positive impact on the real estate market because it will increase liquidity, meaning more money can be spent to invest in real estate," she added.

The residential property sector saw a slight decline in total residential real estate loans (RRELs) in the first quarter of the year.

The total granted RREL fell 9% to 9,064 for the first quarter of 2024 from 9,975 loans in the fourth quarter of 2023, according to Leechiu, citing Bangko Sentral ng Pilipinas (BSP) data.

This month, the BSP lowered benchmark interest rates for the first time in nearly four years, citing an improving inflation outlook and strengthening economic conditions, with its governor indicating that at least one more rate cut could occur before the end of the year.

The Monetary Board lowered its target reverse repurchase rate by 25 basis points (bps) to 6.25%, a move anticipated by nine out of 16 analysts in a *BusinessWorld* poll. BSP Governor Eli M. Remolona, Jr. has indicated that another rate cut of 25 bps could be implemented within the year. The remaining policy-setting meetings of the Monetary Board for 2024 are scheduled for Oct. 17 and Dec. 19.

With the BSP signaling the possibility of an additional rate cut before the end of the year, prospective homeowners may be more inclined to enter the market sooner rather than later, anticipating more favorable borrowing conditions, according to analysts.

"That should fuel the take-up for condominium units, especially in Metro Manila for the mid-income segment, P3.6 to 12 million, which is the most sensitive right now to interest rate spikes," Joey Roi Bondoc, director and head of Research of Colliers Philippines, said in an interview with *BusinessWorld*.

He noted that while demand remains somewhat stable, it has not yet reached pre-pandemic levels. The interest rate cut is expected to "definitely jump-start" the infusion of "much-needed confidence" in the residential market.

Mr. Bondoc also expressed hope for additional rate cuts toward the end of the year and into 2025.

Similarly, lower credit card interest rates may boost consumer spending, leading mall operators to expand and occupy larger retail spaces, he noted.

He also said that this renewed interest in the retail sector could attract more foreign retailers to the Philippines, leading to an increase in new store openings.

"And while those that are already here, they might even find that as an impetus to expand brick-and-mortar spaces," he added. — **A.R.A. Inosante**

S&P upgrades Meralco's credit rating to 'BBB'

CREDIT WATCHER S&P Global Ratings has upgraded Manila Electric Co.'s (Meralco) credit rating to "BBB," noting the company's strong financial position and steady cash flow.

"We raised our long-term issuer credit rating on Meralco to 'BBB' from 'BBB-'," S&P said in its report on Meralco's credit upgrade e-mailed to journalists on Wednesday.

A "BBB" rating indicates that Meralco has an adequate capacity to meet its financial commitments but remains more vulnerable to adverse economic conditions.

S&P affirmed a stable outlook for Meralco, reflecting expectations of steady cash flow from its regulated distribution business and prudent management of leverage and growth spending over the next 12-24 months.

"We expect financial ratios to remain strong, despite heavy capital spending on the power generation businesses," S&P said.

The agency anticipates Meralco will maintain a strong ratio of funds from operations (FFO) to debt of 39% to 45% over the next two years, surpassing the previous 30%.

S&P said that Meralco's support will come from improving profitability in power generation and steady cash flow from distribution.

The agency also noted favorable power purchase agreement contract terms for Global Business Power

Corp. (GBPC) and additional earnings from the local contingency reserve market.

Meralco is expected to undertake capital spending of approximately P120 billion in 2024 and P30 billion to P40 billion in 2025, including acquisitions. This includes sizable distribution-related growth capital expenditure of P23 billion to P25 billion annually for network strengthening and asset renewal.

Additionally, Meralco plans to ramp up investments in power generation assets, including renewables, over the next two to three years.

The company has announced a proposed joint venture with Aboitiz Power Corp. to invest in two gas plants of San Miguel Corp. and a liquefied natural gas import terminal, with an expected cost of P70 billion to P75 billion for its effective 40.2% stake.

Meralco will likely provide capital injections of up to P40 billion to SP New Energy Corp. for a 3.5-gigawatt Terra Solar Project over the next two to three years. The actual capital spending will depend on the project's final financing and ownership structure.

S&P cautioned that it could lower Meralco's rating if the company's ratio of FFO to debt declines sustainably below 30% or if its financial policy becomes more aggressive.

POWER SUPPLY DEALS

Meralco expects a "swift" approval of its power supply agreements (PSAs) from the Energy Regulatory Commission (ERC) so that customers can enjoy lower rates, a company official said on Wednesday.

The power distributor recently announced that it had secured the best bids from two generation companies, San Miguel Global Power Holdings Corp. and Aboitiz Power Corp., following a competitive selection process (CSP) for 600 MW of baseload capacity.

"We are happy that the main objective of the CSP, which is to secure the least cost supply for our customers, has been achieved. We hope that there will be no further delays as we work towards immediate signing of the PSAs resulting from the 600-MW CSP," Meralco Senior Vice-President and Regulatory Management Head Jose Ronald Valles said in a statement.

"We trust that ERC evaluation and approval will also be swift so customers can enjoy these very low rates upon scheduled delivery date in August 2025," he added.

Meralco's controlling stakeholder, Beacon Electric Asset Holdings, Inc., is partly owned by PLDT, Inc.

Hastings Holdings, Inc., a unit of PLDT Beneficial Trust Fund subsidiary MediaQuest Holdings, Inc., has an interest in *BusinessWorld* through the Philippine Star Group, which it controls. — **Sheldeen Joy Talavera**

Unicapital Group sees more IPOs ahead

LOCAL investment firm Unicapital Group expects more initial public offerings (IPOs) to proceed due to a favorable outlook on interest rates.

"I think we're going to be seeing rate reductions, (and) there will be more to come," Unicapital Group President and Chief Executive Officer Jaime J. Martinez said during a briefing on Wednesday.

He said that this will lead to a gradual shift in the equity market.

"I see right now that there is a lot of upside, so there would be more interest right now (from companies) to pursue their IPO plans," Mr. Martinez added.

The Bangko Sentral ng Pilipinas recently cut its target reverse repurchase rate by 25 basis points (bps) to 6.25%, marking its first reduction in nearly four years. The move is in response to an improving inflation

and economic outlook. The central bank's governor also indicated the possibility of another cut before the end of the year.

Unicapital Head of Research Wendy B. Estacio-Cruz expects that the PSE index could reach 7,000 by the end of this year, revising the company's earlier estimate of 7,200.

"That's a 9% gain from end-2023. That's based on our bottom-up analysis, which is based on an 11% earnings per share growth rate and at 12.5% target price-to-earnings," she said.

Ms. Cruz added that Unicapital anticipates a "more pronounced easing of key policy rates" as early as the next Monetary Board meeting in October, driven by the downward trend in inflation rates.

"The inflation rate is anticipated to drop further in the coming months due to the recent rice tariff reduction from 35% to 15%. We expect easing

key policy rates in the second half of 2024, with up to a 50-basis-point rate cut, driven by a cooling inflation rate," she said.

Meanwhile, Mr. Martinez hopes more companies will list on the Philippine Stock Exchange (PSE) to spur market activity.

He noted that the main challenge in improving value turnover compared to the Association of Southeast Asian Nations (ASEAN) neighbors is to increase the number of companies listing on the market.

"In terms of the number of listed companies, I believe we still are not in the same breath as our ASEAN neighbors. We're getting there. It's just a question of time," he added.

As of this writing, the PSE has 286 listed companies. The market operator aims to achieve six IPOs this year. — **Revin Mikhael D. Ochave**

Indonesian airline TransNusa eyes Davao-Manado route

DAVAO CITY — Indonesian airline TransNusa Aviation Group has expressed interest in operating direct flights between Davao City and Manado, Indonesia, according to an official from the Mindanao Development Authority (MinDA).

Romeo M. Montenegro, MinDA assistant secretary, told *BusinessWorld* that he met with TransNusa executives at their Jakarta office on Aug. 21.

"The meeting with TransNusa was also a pitch for MinDA and presented trade, investment, and tourism opportunities, particularly highlighting Davao. We also cited the passenger stats of previous Davao-Manado flights, the recently extended EAGA travel tax exemption, and other EAGA incentives for airlines," Mr. Montenegro said.

The meeting took place during his visit to Indonesia for the Brunei Darussalam, Indonesia, Malaysia, and the Philippines-East ASEAN Growth Area (BIMP-EAGA) Special Senior Officials Meeting, which was held with the Asian Development Bank on Aug. 20.



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He said TransNusa, which currently operates domestic flights within Indonesia and to several international destinations, is considering the first quarter of

2025 as a potential start date for the new route, with initial flights two-three times per week.

"Right now, Manado is serving as a hub for TransNusa's ARJ21 aircraft flights," Mr. Montenegro said. Manado, a major city in North Sulawesi, is known for its vibrant marine life and tourism industry.

To recall, Leading Edge Air Services Corp. (LEASCOR), an aviation services provider based in the Philippines and a subsidiary of ACDI Multi-Purpose Cooperative, was planning to begin servicing the air route between Davao and Manado this year.

LEASCOR and MinDA conducted an exploratory business mission to North Sulawesi in January to evaluate the potential resumption of air connectivity between Davao and Manado.

Mr. Montenegro noted that LEASCOR has not yet finalized its plans, as the company has deployed its ATR aircraft for domestic regional routes, including the Zamboanga-Jolo route. — **Maya M. Padillo**