

 PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	CEBU LANDMASTERS, INC.

Date: December 20, 2024
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PROPOSED SUSTAINABILITY-LINKED BOND ISSUANCE

Amount	Tenors	Assigned Rating and Outlook
₱3.0 Billion, with an Oversubscription Option of up to ₱2.0 Billion*	3 years and 5 years	PRS Aa plus Stable

Obligations rated ‘**PRS Aa**’ are of high quality and are subject to very low credit risk. The obligor’s capacity to meet its financial commitment on the obligation is very strong. The “plus” further qualifies the assigned rating.

On the other hand, a **Stable Outlook** is defined as: “The rating is likely to remain unchanged in the next 12 months.”

Analysts’ Notes:

- The proposed bond issuance will be issued from the Company’s Debt Securities Program of up to ₱15.0 billion registered in 2022. Of this total, Cebu Landmasters, Inc. (CLI) has already issued ₱5.0 billion in bonds.
- The rating assigned to CLI’s proposed Sustainability-linked Bonds is mainly in relation to the Company’s capacity to pay the rated bonds and is not an opinion on the attainability or capability to achieve the sustainability performance targets linked with the bonds.

Use of Proceeds:

Net proceeds will be used to refinance CLI’s maturing obligations in 2025, and other general corporate purposes.

Terms of the Sustainability-Linked Bond Issuance

Key Performance Indicators (KPI) / Sustainability Performance Targets (SPT)	<ul style="list-style-type: none"> Short Term SPT: Build 8,500 cumulative new Affordable Homes by the first quarter of 2027 (1Q2027) Medium Term SPT: Build 16,000 cumulative new Affordable Homes by 1Q2029 <p>Affordable Homes are priced at P6.6 million and below. This is consistent with the definitions of the Low-Cost Housing ceiling according to National Economic and Development Authority (NEDA) and the Department of Human Settlements and Urban Development (DHSUD).</p>
Original Interest Rate	Series D: 3 years: __% Series E: 5 years: __%
Interest Rate Step-up	Interest rate step-up shall be equal to the Original Interest Rate plus 0.075% for each occurrence of a Trigger Event.
Target Observation Dates	Short Term SPT: March 31, 2027 Medium Term SPT: March 31, 2029
Trigger Event	When an SPT is not met on the applicable Target Observation Dates
Call Option Date / Call Option Price	<p>Series D Bonds</p> <ul style="list-style-type: none"> 2nd anniversary date of the Issue Date and before the 3rd anniversary of the Issue Date <ul style="list-style-type: none"> Call Option Price: 100.5% <p>Series E Bonds</p> <ul style="list-style-type: none"> 3rd anniversary date of the Issue Date and before the 4th anniversary of the Issue Date <ul style="list-style-type: none"> Call Option Price: 101.0% 4th anniversary date of the Issue Date and before the 5th anniversary of the Issue Date <ul style="list-style-type: none"> Call Option Price: 100.5%

OUTSTANDING PRS-RATED ISSUANCES OF THE COMPANY

Outstanding Bonds

Amount	Tenor	Interest Rate	Issue Date	Maturity Date	Assigned Rating and Outlook
₱2.76626 billion	3.5 years	6.4222 %	October 7, 2022	April 7, 2026	PRS Aa plus Stable
₱1.24367 billion	5.5 years	6.9884 %	October 7, 2022	April 7, 2028	
₱0.99007 billion	7 years	7.3649 %	October 7, 2022	October 7, 2029	
₱5.0 billion					

Corporate Notes

Tranche Name	Facility Amount	Tenor	Interest Rate	Maturity Date	Assigned Rating and Outlook
Series A	₱2.5 billion	7 years	7.25%	December 2025 & January 2026	PRS Aa plus Stable
Series B	₱1.0 billion	10 years	6.63%	August to September 2028	
Series C	₱1.5 billion	10 years	6.75%*	October to December 2028	
	₱5.0 billion				

*To be repriced after five years

RATING RATIONALE

Sound management and strategy, with a sustained competitive advantage in the Visayas and Mindanao (VisMin) markets as evidenced by its growth over the last few years.

CLI is reportedly the leading residential developer in VisMin. The Company's portfolio includes residential condominium units, subdivision houses and lots, townhouses, hotels, office projects and retail spaces. As of September 30, 2024, CLI had a total of 124 projects in different stages of development across 17 key cities in the VisMin regions.

CLI continues to pursue its aggressive plans to establish and deliver quality developments across the VisMin region and its first project in Luzon. It remains proactive in adding to its landbank to drive its revenue growth moving forward. As of September 30, 2024, CLI had a total land bank of 87.6 hectares (ha) valued at ₱10.3 billion, including the expansion site in General Santos City. During the year, CLI developed 26.8 ha, primarily for the Casa Mira Butuan and Velmiro Heights projects. The Company is actively negotiating the acquisition of properties in Luzon for its initial expansion into that market. CLI plans to purchase a total of 47.7 ha in Luzon and the Visayas within the year.

CLI has planned several strategic land acquisitions in Greater Cebu, Bacolod, Cagayan de Oro and Davao. It will continue to pursue its plans to establish and deliver property developments throughout the VisMin region. Furthermore, the Company is actively engaged in negotiations with landowners in Naga City, as part of its strategic expansion in Luzon.

According to Colliers Philippines' 2023 Real Estate Market Study, CLI is reportedly the leading residential developer in VisMin with a market share of 22.8% in terms of net take-up from 4,233 units.

Sustained earnings growth on account of the Company's real estate sales

CLI's revenues grew at a compound annual growth rate (CAGR) of 34.5%, rising from ₱2.4 billion in 2016 to ₱18.8 billion in 2023. Such was mainly driven by the real estate segment, which accounted for over 98.0% of total revenues, on average. Revenues from real estate sales consistently increased in the past years, reaching ₱18.5 billion in 2023, due to significant construction accomplishments, coupled with robust sales. Net income also expanded to a CAGR of 29.3%, from ₱780.3 million in 2016 to ₱4.6 billion in 2023.

In the first nine months of 2024 (9M2024), CLI's total revenues grew by 9.2%, from ₱12.9 billion in 9M2023 to ₱14.1 billion. This was primarily due to higher lot sales and business segment expansions. Real estate

revenues, comprising 88.3% of the Company's total revenues, rose by 10.2%, from ₱11.3 billion in 9M2023 to ₱12.5 billion in 9M2024. Such was on account of robust lot sales and higher construction progress. CLI also recorded interest income from real estate sales of ₱1.3 billion, which was 3.6% lower than the ₱1.4 billion reported in 9M2023. Net profit stood at ₱2.9 billion in 9M2024, a 2.8% increase from ₱2.8 billion in the same period last year.

Adequate interest coverage ratios despite a more leveraged capital position

CLI maintained a relatively leveraged capital structure, with an average debt to equity (DE) ratio of 1.9x over the past three years, as the Company continued to secure additional loans to support its working capital and investment needs. In 2022, CLI issued ₱5.0 billion bonds, the first tranche of its ₱15.0 billion Shelf Registration. As of September 30, 2024, DE ratio improved to 1.5x, given the relatively higher increase in equity for the period due to the Company's preferred share issuance.

Nevertheless, CLI reported adequate earnings before interest, taxes, depreciation and amortization (EBITDA) interest coverage ratio. Such averaged 13.5x from 2021 to 2023, and stood at 4.0x in 9M2024, indicating sufficient capacity to cover interest expenses.

Threats from a highly competitive market, with its peers having access to significant capital and a substantial landbank.

The Company faces significant competition from a number of local and national players that are also expanding in VisMin, particularly Cebu. These players may have access to substantial amounts of capital and landbank in the area. Nevertheless, CLI's familiarity in VisMin attracts possible joint ventures (JVs) with landowners or offers for the sale of properties.

The Company's new JV agreement in 2023 was with NTT UD Asia Pte. Ltd. (NTTUDA) to develop premium-grade residential towers in Cebu City. NTTUDA is an international developer of commercial properties which include office buildings, residences, and other mixed-use developments in Southeast Asia.

The Company's successful partnerships in its past and present projects underscore CLI's ability to collaborate with its JV partners. Moving forward, it plans to continue to pursue local partnerships that will aid its expansion plans – securing strategic locations and entering new markets.

BUSINESS PROFILE

COMPANY PROFILE

Incorporated on September 26, 2003, CLI is reportedly the leading residential developer in Visayas and Mindanao. It is engaged in real estate development, sales, leasing and property management. The Company's portfolio includes residential condominium units, subdivision houses and lots, townhouses, hotels, office projects and retail spaces. As of September 30, 2024, CLI had a total of 124 projects in different stages of development across 17 key cities in the VisMin region.

In 2024, an independent study by Colliers International reaffirmed CLI's leading position in the VisMin residential market. The study identified CLI as the top residential developer in the region, having the largest market share among real estate firms. With a 19.0% overall residential share in net take-up value, CLI continues to grow its market share in key VisMin cities, indicating increasing consumer confidence and recognition in the market.

OPERATIONS

Listed below are the Company's operating segments, with each segment representing a strategic business unit that offers different products and markets.

- Real Estate – includes the development and sale of residential and office units to individual and corporate buyers;
- Rental – focuses on leasing of office and commercial spaces to corporate organizations;
- Management Services – covers the management of real estate projects and maintenance of condominium corporations and housing associations; and
- Hotel Operations – comprises the management of hotel business operations.

In 9M2024, CLI has spent ₱9.43 billion in capital expenditures, 72.5% or majority of which was allocated for residential developments. About 12.5% was allotted for investment properties and the remaining portion was for existing lot payments.

CLI was able to sustain robust growth in its revenues, driven by its residential business segment. Such continued to account for the bulk of the Company's topline, with its share to total revenues of 98.0%.

Table 1 Breakdown of Sales Revenues According to Business Segment

<i>(Amounts in Millions PHP)</i>	2022	% to Total	2023	% to Total	9M2023	% to Total	9M2024	% to Total
Residential	15,439	98.60	18,508	98.35	12,704	98.28	13,804	97.82
Hotel Operations	83	0.53	139	0.74	98	0.76	149	1.05
Rental	79	0.50	112	0.60	77	0.60	114	0.80
Management Services	55	0.35	59	0.31	46	0.36	46	0.32
TOTAL	15,658	100.00	18,818	100.00	12,926	100.00	14,112	100.00

Residential Real Estate

Residential developments constitute the backbone of the Company's operations and project portfolio. The Company categorizes its housing developments into distinct brands to cater to diverse market segments.

Table 2 Residential Projects

Horizontal (Subdivision) Projects	
Socialized	Villa Casita North and Villa Casita Balamban in Cebu; Guadalupe Pinamalayan Socialized Housing Project
Economic	Casa Mira Linao and Casa Mira South in Cebu; Casa Mira Coast and Casa Mira Homes Dumaguete in Negros Oriental; Casa Mira Bacolod in Negros Occidental; Casa Mira Iloilo in Panay; Casa Mira Danao in Cebu; Casa Mira Davao, Mirani Steps Danao
Mid-Market	San Jose Maria Villages, Midori Plains and Velmiro Homes in Cebu, Cagayan de Oro, Bacolod and Bohol
Vertical (Condominium) Projects	
Economic	Casa Mira Towers in Labangon Cebu, Cagayan de Oro, Mandaue Cebu, Guadalupe Cebu, LPU in Davao, Bacolod and Palawan
Mid-Market	Midori Residences, Mivesa Garden Residences and Mivela Garden Residences in Cebu; MesaVerte Garden Residences Cagayan de Oro; MesaTierra Garden Residences in Davao; MesaVirre Garden Residences in Bacolod; Mandtra Residences in Cebu; The East Village Towers in Davao Global Township (DGT); Calle 104 (Ramos Tower) in Cebu; Mindara Residences in Davao
High-End	Asia Premier Residences, Base Line Residences, Base Line Premier, Base Line Prestige, 38 Park Avenue, One Astra Place, and Calle 104 (Ranudo Tower) in Cebu; One Paragon Place in Davao; Costa Mira Beachtown in Cebu and Panglao Bohol

In 2023, CLI launched a total of ten projects valued at ₱18.7 billion. Part of the launch is the introduction of the Mirani brand addressing the needs of the lower-income segment, offering residences priced at around ₱1.9 million to ₱2.9 million. Its pioneer project, Mirani Steps, was launched in Danao in June 2023. In 9M2024, CLI launched four projects with a total value of ₱8.23 billion. Casa Mira Homes Butuan, valued at ₱2.6 billion, marked CLI's entry into Butuan. A significant portion of the inventory was sold within the first month of launch. To date, 84% of total stock has been taken-up. Additionally, the Velmiro Heights Davao project, comprising 362 units, was sold out in just two days and generated ₱2.7 billion in sales. CLI reached a 96% sell-out status across all projects at various stages of development, with total reservation sales amounting to ₱18.6 billion to date.

CLI has also announced its first international partnership in early 2024, collaborating with NTTUDA to establish CLI NUD Ventures, Inc. NTTUDA is a Japanese company and is an international developer of commercial properties which include office buildings, residences, and other mixed-use developments in Southeast Asia. As part of this collaboration, CLI sold a lot with a value ₱2.0 billion to CLI NUD Ventures, Inc. for the development of a premier-grade condominium at Cebu IT Park. Their inaugural project, valued at ₱6.4 billion, is expected to be launched and record pre-sales by the first half of 2025. The first tower of this development features over 500 premium residential units.

Overall, CLI's total sales reservations posted a growth of 2.3% to ₱17.5 billion from January to September 2024, compared to the same period last year.

Table 3 Breakdown of Sales Reservations Per Product Type

<i>(Amounts in Millions PHP)</i>	2023	% to Total	9M2023	% to Total	9M2024	% to Total
Horizontal	5,063	24.62	4,924	28.84	7,719	44.19
Vertical	15,497	75.38	12,152	71.16	9,749	55.81
TOTAL	20,561	100.00	17,076	100.00	17,468	100.00

In terms of product type, sales reservations from CLI's vertical projects or condominium projects accounted for 75.4% of total sales reservations in 2023. Its share, however, dropped to 55.8% during the first nine months of the year as take-up for landed housing outpaced vertical housing, as the Company launched more horizontal projects.

Table 4 Breakdown of Sales Reservations Per Location

<i>(Amounts in Millions PHP)</i>	2023	% to Total	9M2023	% to Total	9M2024	% to Total
Cebu	6,086	29.60	4,628	27.10	5,757	32.96
Cagayan de Oro (CDO)	131	0.64	99	0.58	221	1.27
Davao	8,327	40.50	6,965	40.79	6,139	35.14
Butuan	0	0.00	0	0.00	2,085	11.94
Bacolod	1,768	8.60	1,469	8.60	802	4.59
Dumaguete	222	1.08	215	1.26	14	0.08
Mindoro	25	0.12	24	0.14	7	0.04
Iloilo	129	0.63	108	0.63	316	1.81
Ormoc	157	0.76	159	0.93	7	0.04
Bohol	2,377	11.56	2,137	12.51	983	5.63
Palawan	1,341	6.52	1,273	7.45	1,137	6.51
TOTAL	20,561	100.00	17,076	100.00	17,468	100.00

In terms of location, Davao had the largest contribution to CLI's total sales reservations in 2023 with a 40.5% share. This was followed by Cebu which accounted for 29.6%, Bohol with 11.6%, and Bacolod with 8.6%. Palawan, Dumaguete, Iloilo, Ormoc and CDO contributed the remainder of sales reservations.

In 9M2024, sales reservations in Davao posted an 11.9% decline, while that in Cebu grew by 24.4%. As such, the former's share to total declined to 35.1%, while the latter's inched up to 33.0%. Nonetheless, PhilRatings notes that Davao and Cebu are still CLI's largest sales reservations contributors, accounting for more than half of the total.

Table 5 Breakdown of Sales Reservations Per Market Segment

<i>(Amounts in Millions PHP)</i>	2023	% to Total	9M2023	% to Total	9M2024	% to Total
Mid-Market	7,356	35.78	4,730	27.70	8,701	49.81
High-end	3,596	17.49	3,266	19.13	3,652	20.91
Socialized Housing	27	0.13	26	0.15	7	0.04
Economic Housing	9,317	45.31	8,859	51.88	4,799	27.47
Affordable Housing	238	1.16	232	1.36	249	1.43
Office Condo	27	0.13	-36	-0.21	61	0.35
TOTAL	20,561	100.00	17,076	100.00	17,468	100.00%

In terms of market segment, CLI's economic brand, Casa Mira, led the market with 45.3% of total sales reservations in 2023. This primarily came from Casa Mira Davao, Casa Mira Danao, and Casa Mira Towers in Palawan and Bacolod.

There was a shift in shares in 9M2024 as the mid-market segment had the largest contribution with 49.8% share of the total market. As such, the share of economic housing dropped to 27.5% as sales reservations significantly declined by 45.8% to ₱4.8 billion.

To date, CLI has already sold out 93% of its inventory across all projects in various phases of development.

As of March 2024, CLI's sales team consisted of over 73 sales support personnel, who collaborate, coordinate with, and support the over 11,000 accredited brokers/agents of the Company. Its strategy in working with the seller community is done by assisting the brokers 24/7 from sales origination to closing. Moving forward, CLI plans to expand its network and position sales teams in new areas in Luzon, General Santos City and Butuan. In terms of buyers, approximately 30.0% of the Company's sales come from Overseas Filipinos (OFs), 58.0% from locally-employed individuals, and 12% from self-employed individuals.

Hotel and Recreational Development

CLI expanded its hotel portfolio with the opening of three new hotels, namely: lyf Cebu City at Base Line Center with 159 rooms, The Pad Co-Living in Banilad High Street with 258 rooms, and Citadines Bacolod with 200 rooms. This brought CLI's operational hotel portfolio to four. The average occupancy rate for the Company's hotels was at around 50-60%.

By the end of 2024, CLI is also set to complete Citadines Paragon Davao with 263 rooms and Radisson Red with 144 rooms. Furthermore, with six more hotels under construction, CLI is strategically positioning itself to further capitalize on the burgeoning opportunities within the hospitality sector.

Notably, the Company's hotel operations have seen a significant boost driven by new hotel openings, with revenue rising to ₱148.8 million in 9M2024, up by 51.6% from ₱98.2 million in the same period last year.

Leasing

CLI's office buildings include Park Centrale Tower, Base Line HQ, Latitude Corporate Center, Astra Corporate Center, Patria de Cebu Office, and Masters Tower Cebu Office. Its top lessees include Business Process Outsourcing (BPO) companies, supermarkets, service providers and food establishments.

In 2023, the completion of construction of retail spaces increased CLI's gross leasable area (GLA) to 35,772 square meters (sqm), from 30,006 sqm as of end-2022. Such was attributed to the successful turnover of Banilad Highstreet (1,251 sqm GLA, 70% leased) and Drive-Thru spaces in DGT (3,708 sqm GLA, 100% leased). Given the aforementioned, the Company's rental income reached ₱112.3 million, 41.7% higher than last year's level of ₱79.3 million.

In 9M2024, revenues from leasing operations grew by 46.9% to ₱113.6 million from ₱77.3 million in 9M2023, on account of new retail tenants and higher occupancy revenues from existing completed projects. By end-September 2024, CLI has further expanded its GLA to 40,575 sqm, 13.4% higher than that of end-2023. This expansion was a direct result of the successful completion and turnover of Banilad Highstreet and Drive-Thru spaces in DGT, which currently has a 100.0% occupancy rate. Additionally, the

completion of DGT Pavilion and DGT Retail Pads has contributed an additional GLA of over 4,000 sqm. As of end-September 2024, CLI's leasing spaces had an average occupancy rate of 85.0%.

At present, CLI has various office and commercial projects in the pipeline totaling over 75,000 sqm in GLA. In the next five years, CLI targets to increase its GLA to 200,000 sqm in order to expand recurring revenue and eventually contribute to 10% of the Company's topline.

Management Fee

This is the project management fee that CLI charges for being the project manager on JV projects and the property management fee for Cebu Landmasters Project Management, Inc.'s (CLPMI) services provided to CLI's completed projects. In 9M2024, CLI's project management revenues reached ₱45.9 million, 1.3% lower than the ₱46.5 million recorded in 9M2023.

Industrial Development

CLI intends to diversify its portfolio by entering into industrial development through its associate, Ming-Mori Development Corporation (MDC), which has proposed to finance, design, and undertake the Ming-Mori Reclamation Project through a private-public partnership with the Municipality of Minglanilla, Cebu.

The project will involve the development of the 100-ha Minglanilla Techno-Business Hub, which will be a township project to accommodate light industrial facilities with residential, commercial areas and an integrated port facility. It is also expected to generate over 75,000 jobs in the municipality. The proposal of Ming-Mori was accepted and endorsed by the municipal council of the Municipality of Minglanilla in May 2013, and since then, the Municipality of Minglanilla has submitted to the Philippine Reclamation Authority (PRA) a letter of intent to undertake the reclamation and land development of the proposed project. In December 2016, the Municipality entered into a Memorandum of Understanding with the PRA, setting out requirements and timeline for the review and evaluation of the project. The planned reclamation development was issued an Environmental Compliance Certificate (ECC) by the Department of Environment and Natural Resources (DENR) in July 2020, following a comprehensive two-year review. In October 2021, PRA issued its Notice to Proceed with the reclamation.

LANDBANK

As of September 30, 2024, CLI had a total land bank of 87.6 ha valued at ₱10.3 billion, including the expansion site in General Santos City. During the year, CLI developed 26.8 has primarily for the Casa Mira Butuan and Velmiro Heights projects.

The Company is actively negotiating the acquisition of properties in Luzon for its initial expansion into the region. CLI plans to purchase a total of 47.7 ha of land in Luzon and Visayas within the year.

OWNERSHIP AND MANAGEMENT

CLI is mainly a family-run business, with most senior positions taken by members of the Soberano family. The Company, however, has taken steps to ensure that all family members with roles in the business are well-trained. As of September 30, 2024, CLI was 60.67% owned by AB Soberano Holdings Corporation (AB Soberano).

Table 2 Key Officers

Name	Position
Jose R. Soberano III	Chairman of the Board, President and Chief Executive Officer (CEO)
Ma. Rosario B. Soberano	Director, Treasurer and Executive Vice President
Jose Franco B. Soberano	Director, Chief Operating Officer (COO) and Senior Executive Vice-President
Beauregard Grant L. Cheng	Director, Chief Financial Officer (CFO) and Executive Vice President
Joanna Marie B. Soberano-Bergundthal	Director, Senior Vice President for Marketing and Assistant Treasurer

At the operational level, CLI has hired competent non-family professionals. Its CFO, Mr. Beauregard Grant L. Cheng, likewise is a non-family member.

Mr. Jose R. Soberano III (67 years old) has been the Chairman of the Board, CEO and President of CLI since 2003. He has more than 20 years of experience in managing and heading companies engaged in real estate development. He worked for the Ayala Group of Companies for over 23 years, including various stints in Ayala Investment, Bank of the Philippine Islands, and Ayala Land, Inc., where he was appointed Senior Division Manager in 1997. The last position he held before his resignation from the Ayala Group in 2000 was Vice-President of Cebu Holdings, Inc., the pioneer Ayala Land subsidiary in Cebu City. He served as President of the Rotary Club of Cebu in 2011 and President of the Chamber of Real Estate Builders Association-Cebu (CREBA-Cebu) in 2010. He is also the Chairman of the Board of the Center for Technology and Enterprise, a socially-oriented institution that offers technical training to less privileged youth. Mr. Soberano obtained a Bachelor of Arts degree in Economics from the Ateneo De Manila University in 1976, and completed the Strategic Business Economics Program at the University of Asia and Pacific in 2000. In 2015, he completed the Advanced Management Development Program in Real Estate from the Harvard University Graduate School.

Mr. Beauregard Grant L. Cheng (42 years old) is the CFO of the Company. Before joining CLI, he was a Senior Deal Manager with a rank of Vice-President at BDO Capital & Investment Corporation. Previously, he was a private banker based in Singapore, handling accounts for high-net-worth individuals and institutions. Mr. Cheng is a CFA Charterholder and a member of the CFA Philippines Society. He earned his Bachelor of Science in Manufacturing Engineering and Management as a Star Scholar from De La Salle University Manila and graduated Magna Cum Laude. He earned his Master of Science in Wealth Management, with distinction, from Singapore Management University and Swiss Finance Institute in Zurich.

STRATEGY

CLI has an integrated real estate system that covers acquisitions; business development; technical planning; engineering and project management; sales and marketing; documentation and licensing; legal services, customer service; and property management, among others. The Company's strategy focuses on the points below:

- Further expansion to key cities in VisMin
CLI continues to pursue its aggressive plans to establish and deliver quality developments across the VisMin region (Greater Cebu, Bacolod, CDO and Davao) and its first project in Luzon. It remains proactive in adding to its landbank to drive its revenue growth moving forward.

- Development of more rental projects to further expand recurring income portfolio
CLI is currently constructing commercial projects that will further boost its recurring income. Such includes Astra Center, Patria de Cebu, DGT Commercial Center, and Master Tower among others. These are designed to boost the Company's recurring income by 2025 through a combination of hotel, commercial center, office and residential units into a single structure.

Moving forward, CLI aims for a decent mix of residential developments and recurring income projects.

- Growth of economic housing brand, Casa Mira
CLI's Casa Mira brand, its fastest selling brand, is designed to address the underserved demand in the affordable housing sector. This caters to households with monthly incomes of ₱15,000 to ₱30,000. Prices start at ₱2.0 million for studio condominium units, and ₱2.2 million for house and lot units. Correspondingly, the monthly amortizations range from as low as ₱6,000 to as high as ₱15,000.

CLI plans to develop Casa Mira projects in its newly-acquired expansion sites in Butuan and General Santos City. The Company believes that the need for affordable housing options will continue to increase considering the country's young and growing workforce.

- Establish and leverage strategic partnerships, alliances JVs and corporations
Moving forward, CLI plans to continue to further pursue local partnerships that will aid its expansion plans – securing strategic locations and entering new markets.

Economic, Environmental, Social and Governance (EESG)

CLI is committed to creating long-term value for its business and stakeholders, while managing its environmental impact. In 2022, the Company enhanced its 5-Pillar Sustainability Strategy and moved towards incorporating sustainability in the value creation process, from design development to property management. Its sustainability framework interconnects all aspects of its operations and defines its sustainability vision and strategy, goals and objectives, and the Company's alignment with the Sustainable Development Goals (SDGs).

Based on its identified issues and risks, CLI pins down the following pillars which are aligned with EESG metrics:

- Developing sustainable and resilient spaces
- Growing the business and supporting local markets
- Conserving resources and managing environmental impact
- Engaging and investing in its people, customers and communities
- Achieving organizational efficiency and good corporate governance

Each pillar is overseen by a set of senior management teams who are responsible for the achievement of goals in each pillar.

Proposed Sustainability-Linked Bonds

CLI is aiming to issue its first Sustainability-Linked Bonds with a base issue of ₱3.0 billion, with an Oversubscription Option of up to ₱2.0 billion. Sustainability-linked bonds are forward-looking instruments with changing structural and/or financial characteristics depending on whether issuers meet predefined

sustainability objectives.¹ These objectives can be identified by selecting certain KPIs and setting SPTs² in relation to the selected KPIs. It is worth noting that unlike green bonds,³ social bonds,⁴ and sustainability bonds,⁵ sustainability-linked bonds impose no restrictions on the use of proceeds and may be used for general corporate purposes or other purposes.

In the case of CLI, its predefined SPTs for the aforementioned proposed bonds issuance are the following:

1. Short Term SPT: Build 8,500 cumulative new Affordable Homes by 1Q2027
2. Medium Term SPT: Build 16,000 cumulative new Affordable Homes by 1Q2029

Affordable Homes are priced at ₱6.6 million and below. This is consistent with the definitions of the Low-Cost Housing ceiling according to NEDA and the DHSUD.

According to management, the SPTs are already part of the Company's ongoing projects for its affordable housing. The target number of housing has been taken into account in CLI's pipeline.

Monitoring

CLI employed the services of Det Norske Veritas (DNV), an independent external verification provider, to assess the progress and achievement of the SPTs related to the Company's Sustainability-Linked Bonds. DNV also provides a Second Party Opinion (SPO) on the accuracy and integrity of a bond, loan, or framework based on globally recognized green, social and sustainable principles and standards.

Step-Up Mechanism

The interest rate is to step-up by 0.075% for each occurrence of a Trigger Event. There is a Trigger Event when an SPT is not met on the applicable Target Observation Date as determined in the verification assurance report of the relevant External Verification Provider. The Target Observation Dates are March 31, 2027 for the short term SPT March 31, 2029 for the medium term SPT.

Early Redemption Option

CLI has the right, but not the obligation, to redeem the outstanding Sustainability-Linked Bonds before the Maturity Date on any one of the interest payment dates indicated below, or the next business day, if such date is not a business day, in accordance with the following schedule:

Table 3 Series D Bonds

Call Option Dates	Call Option Price
2 nd anniversary date of the Issue Date and every interest payment thereafter before the 3 rd anniversary of the Issue Date	100.5%

¹ OECD (2024), "Sustainability-linked bonds: How to make them work in developing countries, and how donors can help", OECD Publishing, Paris, 2024, p. 8

² Measurable improvements in key performance indicators on to which issuers commit to a predefined timeline

³ Structurally the same as regular bonds, offering comparable risk/reward profiles and following the same issuance procedures, but the proceeds are used for a wide variety of climate and other environmental projects

⁴ Any type of bond instrument where the proceeds will be exclusively applied to finance or refinance in part or in full new and/or existing eligible social projects and which are aligned with the four core components of the Social Bond Principles

⁵ Bonds where the proceeds will be exclusively applied to finance or refinance a combination of both green and social projects and assets

Table 4 Series E Bonds

Call Option Dates	Call Option Price
3 rd anniversary date of the Issue Date and every interest payment thereafter before the 4 th anniversary of the Issue Date	101.0%
4 th anniversary date of the Issue Date and every interest payment thereafter before the 5 th anniversary of the Issue Date	100.5%

FINANCIAL PROFILE

Analysts' Note: PhilRatings' calculation of certain ratios may be different from what the Company uses and publishes.

Table 5 Balance Sheet Items

	In Php Millions					YoY Change (%)		
	2021	2022	2023	9M2023	9M2024	2022	2023	9M2024
Cash	1,096	1,435	914	1,348	2,448	31%	-36%	168%
Total Assets	66,652	85,045	102,086	96,569	106,759	28%	20%	5%
Total Debt	32,022	39,993	47,137	45,179	48,993	25%	18%	4%
Total Liabilities	48,720	64,032	76,290	72,481	74,459	31%	19%	-2%
Total Equity	17,932	21,013	25,797	24,087	32,301	17%	23%	25%

Table 6 Income Statement Items

	In Php Millions					YoY Change (%)		
	2021	2022	2023	9M2023	9M2024	2022	2023	9M2024
Revenues	11,162	15,657	18,818	12,926	14,112	40%	20%	9%
Cost of Sales and Rental	5,972	8,368	9,640	6,034	6,715	40%	15%	11%
Finance Costs	264	351	603	1,554	1,331	33%	72%	-14%
Net Income	2,671	3,608	4,643	2,833	2,913	35%	29%	3%
EBITDA	3,619	5,294	6,991	5,484	5,351	46%	32%	-2%

Table 7 Cash Flow Statement Items

	In Php Millions					YoY Change (%)		
	2021	2022	2023	9M2023	9M2024	2022	2023	9M2024
Cash Flow from Operations	(921)	1,292	(3,549)	(808)	2,666	-240%	-375%	-430%
Cash Flow from Investing	(5,230)	(6,352)	(1,339)	(2,777)	(4,134)	21%	-79%	49%
Cash Flow from Financing	6,449	5,399	4,368	3,498	3,002	-16%	-19%	-14%

Table 8 Key Financial Ratios

						YoY Change (%)		
	2021	2022	2023	9M2023	9M2024	2022	2023	9M2024
Gross Profit Margin (%)	46.5	46.6	48.8	53.3	52.4	6%	221%	-91%
Operating Profit Margin (%)	31.3	32.7	36.2	41.4	36.9	139%	344%	-448%
Net Profit Margin (%)	23.9	23.0	24.7	21.9	20.6	-89%	163%	-127%
EBITDA Interest Cover (x)	13.7	15.1	11.6	3.5	4.0	138%	-349%	49%
Debt Service Coverage (x)	0.4	0.6	0.6	0.4	0.5	23%	-5%	5%
Debt to Equity Ratio (x)	1.8	1.9	1.8	1.9	1.5	12%	-8%	-31%
Current Ratio (x)	1.7	1.6	1.6	1.6	2.0	-6%	-5%	44%
Return on Average Assets (%)	4.6	4.8	5.0	4.1	3.7	18%	21%	-43%
Return on Average Equity (%)	16.0	18.5	19.8	16.1	12.9	256%	131%	-314%

PROFITABILITY

2023 vs. 2022

CLI recorded increases across all its business segments, resulting in 20.2% growth in total revenues, from ₱15.7 billion in 2022 to ₱18.8 billion in 2023. Real estate sales grew by 19.9%, from ₱15.4 billion in 2022

to ₱18.5 billion in 2023. The growth was primarily driven by higher construction progress and more units qualifying for revenue recognition.⁶ Rental income significantly rose by 41.7% to ₱112.3 million, up from ₱79.3 million in 2022, due to new tenants and higher occupancy of completed projects. Hotel operations also increased noticeably to ₱138.6 million in 2023, 66.1% higher than ₱83.4 million in 2022, on account of a surge in bookings and elevated room rates. Moreover, property management fees grew by 6.8% to ₱59.2 million in 2023, from ₱55.5 million in 2022, reflecting an increase in managed projects by CLPMI. In terms of contribution to gross revenues, sales of real estate continued to account for the largest portion at 98.4%.

In line with revenue growth, CLI's total costs increased by 15.2%, from ₱8.4 billion in 2022 to ₱9.6 billion in 2023. This was mainly attributable to higher costs of real estate sales, including contracted services, capitalizable borrowing costs, land costs, and other costs incidental to the development of housing and condominium projects. Operating expenses also grew by 17.5%, rising to ₱2.8 billion from ₱2.4 billion in 2022, mainly driven by increased commissions and incentives resulting from strong sales performance during the year.

Other operating income of CLI, meanwhile, rose more than twofold, from ₱202.5 million in 2022 to ₱410.8 million in 2023. This account primarily comprises the reversal of payables,⁷ documentation fee, and move-in fee income. Finance costs, on the other hand, jumped by 71.8% to ₱603.2 million in 2023, from ₱351.0 million in the prior year due to loan drawdowns and higher interest rates.

As a result, net income increased by 28.7%, from ₱3.6 billion in 2022 to ₱4.6 billion in 2023. This resulted in a higher net profit margin of 24.7%, compared to 23.0% in the prior year.

9M2024 vs. 9M2023

The Company registered ₱12.5 billion revenues from real estate sales in 9M2024, 10.2% higher than the ₱11.3 billion recorded in the same period in 2023. This was primarily attributable to higher lot sales and significant construction progress. PhilRatings notes that real estate sales continued to account for the bulk of the Company's total revenues in 9M2024, with a share of 88.3%.

Additionally, CLI reported interest income from real estate sales of ₱1.3 billion, 3.6% lower than the ₱1.4 billion posted in 9M2023. Meanwhile, rental revenues grew significantly by 46.9%, from ₱77.3 million in 9M2023 to ₱113.6 million in 9M2024. This was due to the addition of new retail tenants and increased occupancy revenue. Revenues from hotel operations similarly climbed by 51.6% to ₱148.8 million in 9M2024, up from ₱98.2 million in the same period in 2023, driven by the opening of a new project in Bacolod City and additional rooms in operational hotels in Cebu City. CLI's management fee income, however, marginally declined by 1.3%, from ₱46.5 million in 9M2023 to ₱45.9 million in 9M2024.

Given the foregoing, CLI recorded total revenues of ₱14.1 billion in 9M2024, 9.2% higher than the ₱12.9 billion registered in 9M2023.

⁶ CLI recognizes revenues once it collects at least 2.0% of the project's total contract price from the buyer. After meeting this threshold, the Company applies a progress-based approach to determine the amount of revenues to be recognized based on the project's completion.

⁷ Refers to outstanding payables from buyer advances exceeding transfer charges and move-in fees, non-refundable to buyers. It also includes payables from cancelled contracts with contractors and suppliers that CLI is no longer obligated to pay, as well as income from long-outstanding unidentified deposit write-offs.

Cost of sales and rental, on the other hand, went up by 11.3%, from ₱6.0 billion in 9M2023 to ₱6.7 billion in 9M2024, in parallel with the Company's revenue growth. The majority of CLI's costs came from the cost of real estate sales, accounting for 97.6% of total. Due to the faster growth of total costs, the gross profit margin slightly fell from 53.3% in 9M2023 to 52.4% in 9M2024.

Operating expenses likewise rose to ₱2.4 billion, 28.1% higher than ₱1.9 billion in 9M2023. This was due to higher commissions and incentives from the robust sales of real estate during the period.

In 9M2024, CLI recorded a lower other operating income of ₱235.3 million, compared to ₱348.9 million in the same period in 2023. This mainly comprises refunds from cancelled units, water income, and documentation fees. Similarly, finance costs declined by 14.3%, from ₱1.6 billion in 9M2023 to ₱1.3 billion in 9M2024.

With the foregoing, net income settled at ₱2.9 billion in 9M2024, marginally up by 2.8% from ₱2.8 billion in 9M2023. Net profit margin, however, declined from 21.9% to 20.6%.

Projections

Over the projected period, CLI's revenues are expected to consistently grow, driven primarily by real estate sales, which will continue to account for the largest share of total revenues. PhilRatings notes that a significant share of real estate sales will come from economic and mid-market projects. Additionally, recurring revenues from hospitality and leasing are forecasted to contribute a smaller but steady share as the Company completes its office and commercial projects and expands its hotel room inventory. Management fee income is also anticipated to contribute a marginal share to total revenues.

The bulk of costs and expenses will continue to be driven by the cost of sales and rental. Total costs and operating expenses are projected to increase in line with revenue growth. Interest expenses are also expected to gradually rise as the Company continues to avail of additional debt.

CLI anticipates steady growth in net income, with the margins moving in line with historical periods.

CASH FLOW AND LIQUIDITY

2023 vs. 2022

In 2023, CLI recorded a negative net operating cashflow of ₱3.5 billion, a turnaround from a positive net cashflow of ₱1.3 billion in the prior year. This was due to the substantial increase in prepayments to subcontractors and suppliers on newly awarded projects, as well as higher contract assets during the period.

Net cash used in investing activities sharply decreased by 78.9%, from ₱6.4 billion in 2022 to ₱1.3 billion in 2023, reflecting reduced acquisitions of investment properties and property and equipment.

The primary sources of cash were loan drawdowns, along with additional investment from non-controlling shareholders. Besides funding operations and investments, cash was also used to settle maturing loan obligations. Net cash from financing activities declined by 19.1%, from ₱5.4 billion in 2022 to ₱4.4 billion in 2023, primarily due to lower repayments of interest-bearing loans and the bond issuance recorded in 2022.

As a result of the foregoing, cash and cash equivalents decreased by 36.3% to ₱913.8 million as of end-2023, from ₱1.4 billion as of end-2022. Nonetheless, CLI's current assets stood at ₱54.4 billion as of end-

2023, 21.9% higher than ₱44.7 billion as of end-2022. Current liabilities also rose, but at a faster pace of 26.2%, from ₱27.7 billion as of end-2022 to ₱35.0 billion as of end-2023, due to higher trade and other payables, coupled with an increase in interest-bearing loans. Consequently, the current ratio was maintained at 1.6x. EBITDA interest coverage ratio declined to 11.6x but remained sufficient to cover interest expenses. Debt service coverage ratio (DSCR), however, was still below 1.0x at 0.6x.

9M2024 vs. 9M2023

The Company turned its operating cash flow around, from an outflow of ₱808.1 million in 9M2023 to an inflow of ₱2.7 billion in 9M2024. CLI achieved positive operating cash flow due to a decline in contract assets and real estate inventories, partially counterbalanced by the significant growth in receivables.

Investing cash outflow, on the other hand, rose by 48.9% to ₱4.1 billion in 9M2024, from ₱2.8 billion in 9M2023. This increase was primarily due to additions to investment properties, as well as increased investments in associates.

Cash generated from financing activities mainly came from additional loans and a preferred share issuance. Aside from funding investment requirements, most cash disbursements were used for debt repayments and cash dividends. As a result, net cash inflow from financing declined by 14.2% to ₱3.0 billion in 9M2024, from ₱3.5 billion in the same period in 2023.

Due to the positive operating cashflow, CLI's cash and cash equivalents rose nearly threefold, from ₱913.8 million as of end-2023 to ₱2.4 billion as of end-September 2024. This increase in cash contributed to the 8.0% growth of total current assets to ₱58.8 billion as of end-September 2024. Total current liabilities, however, dropped by 15.8% to ₱29.5 billion on account of lower unbilled construction costs.⁸ Current ratio, therefore, improved to 2.0x as of end-September 2024. EBITDA interest coverage ratio and DSCR were at 4.0x and 0.5x, respectively.

Projections

CLI's operating cashflows will be supported by the accelerated collection of contract receivables within its pipeline and its continued expansion. CLI plans to use a mix of internally generated cash and additional loans to fund its working capital and investment outlays.

EBITDA interest coverage ratio is projected to remain adequate, indicating sufficient capacity to cover interest expenses.

CAPITAL STRUCTURE

2023 vs. 2022

As of end-2023, total interest-bearing debt reached ₱47.1 billion, marking a 17.9% increase from ₱40.0 billion as of end-2022. Such was mainly on account of the additional loans availed within the year. As CLI continued to plow back its earnings to operations, stockholders' equity rose by 22.8%, from ₱21.0 billion as of end-2022 to ₱25.8 billion as of end-2023.

Despite faster growth of equity, CLI remained to have a relatively more leveraged capital structure with a DE ratio of 1.8x. In contrast, total debt to capitalization ratio marginally fell from 65.6% to 64.6%.

⁸ Refers to estimated liabilities owed to contractors for services that have already been completed but not yet billed to CLI.

9M2024 vs. 9M2023

CLI’s total debt increased slightly by 3.9%, from ₱47.1 billion as of end-2023 to ₱49.0 billion as of end-September 2024. Total equity likewise grew at a faster pace of 25.2%, reaching ₱32.3 billion as of end-September 2024 from ₱25.8 billion as of end-2023. This was primarily supported by retained earnings, coupled with CLI’s preferred share issuance.

In April 2024, the Company raised a total of ₱4.28 billion through the issuance of its perpetual preferred shares. Of this amount, ₱3.0 billion was generated from the base offer, which involved the issuance of three million shares at ₱1.0 each. Due to strong investor demand, the Company exercised its oversubscription option, raising an additional ₱1.28 billion. The proceeds from the issuance were allocated for capital expenditure related to its ongoing residential projects.

As a result of the foregoing, the DE ratio eased to 1.5x as of end-September 2024. Similarly, total debt to capitalization ratio improved to 60.3%.

Projections

Due to the projected loan drawdowns and the issuance of Sustainability-Linked Bonds moving forward, the Company’s total debt is expected to gradually increase. Meanwhile, total equity will continue to be supported by earnings surplus and is projected to rise steadily, reflecting strong growth. As a result, the DE ratio is expected to improve throughout the projection period. Despite the increase in debt, CLI is well-positioned to meet its financial obligations.

FINANCIAL FLEXIBILITY

As of September 30, 2024, CLI had a significant amount of available credit facilities from various local banks. In addition, as a publicly-listed company, CLI may tap the domestic equity market should the need arise. As of December 13, 2024, the Company had a market capitalization of ₱9.2 billion.

ECONOMY

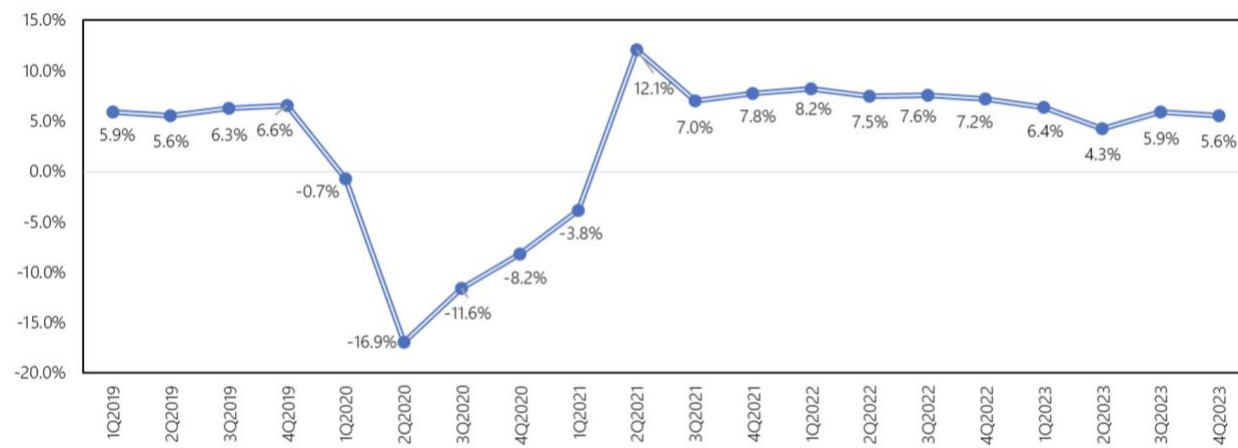


Figure 1 Historical Gross Domestic Product (GDP) Growth Rates

2023

The Philippine economy grew by 5.5% in 2023. This was slower compared with the 7.6% growth in 2022 and short of the government’s growth target of 6.0–7.0%.

Agriculture, Forestry, and Fishing grew by 1.2%, an improvement from the 0.5% growth in 2022. The Services and Industry sectors, on the other hand, recorded slower growth compared to 2022, expanding in 2023 by 7.2% and 3.6%, respectively.

The top contributors to the 2023 growth were Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (+5.5%), Financial and Insurance Activities (+8.9%), and Construction (+8.8%).

Household Final Consumption Expenditure (HFCE) expanded by 5.6% in 2023, slower compared with 8.3% in 2022. HFCE growth slowed down for seven consecutive quarters, from a growth rate of 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption nevertheless recorded a slight uptick of 5.3% in 4Q2023, backed by robust growth in spending in restaurants and hotels, transport, and recreation. In contrast, there was slow growth in food spending, despite slower inflation, due to elevated food prices.

Government Final Consumption Expenditure (GFCE) was relatively flat, recording a 0.4% growth in 2023. This was lower than the 4.9% growth recorded in 2022. Such was attributed to the government's fiscal consolidation program as well as the absence of election-related spending in 2023.

Nonetheless, the country was Southeast Asia's fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2021.

Regional GDP Growth

Based on data from the Philippine Statistics Office (PSA), GDP of Central Visayas grew by 7.3% to ₱1.4 trillion in 2023 and was recognized as the fastest growing region. It is the fourth-largest contributor to the overall growth of the Philippine economy with a 6.6% share. It follows the National Capital Region which had a 31.2% share, CALABARZON⁹ with a 14.7% share and Central Luzon with an 11% share.

Western Visayas, on the other hand, was the second-fastest growing economy, posting a 7.2% growth. This was followed by the Ilocos Region with 7.1%, the Cordillera Administrative Region with 6.9%, and the Davao Region with 6.7%.

The industries that contributed the most to the region's economic growth were: Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (5.5%); Transportation and Storage (24.9%) and Accommodation and Food Service Activities (32.3%).

Meanwhile, the GDP of Davao Region grew by 6.7% to ₱1.0 trillion in 2023, allowing it to reach the Trillion Peso economy, joining other big economies like NCR, CALABARZON, Central Luzon, Central Visayas and Western Visayas.

Of the overall 6.7% economic growth of the region, 5.1 percentage points came from Services, 1.5 percentage points from Industry, and 0.1 percentage point contributed by Agriculture, Forestry and Fishing (AFF). Of the total Industry valued at ₱250.9 billion, Manufacturing had the majority of the share, with 44.90%. This was followed by Construction which accounted for 42.86%.

3Q2024

The Philippine GDP growth rate in 3Q2024 was at 5.2%, lower than the 6.0% in 3Q2023 and 6.4% in 2Q2024. The main contributors to growth in 3Q2024 were: Construction (9.0%); Financial and Insurance

⁹ CALABARZON stands for Cavite, Laguna, Batangas, Rizal and Quezon.

Activities (8.8%); and Wholesale and Retail trade, Repair of Motor vehicles and Motorcycles (5.2%). Moreover, among the major economic sectors, Industry and Services posted YoY growth in 3Q2024 of 5.0% and 6.3%, respectively. Meanwhile, the Agriculture, Forestry, and Fishing sector declined by 2.8% YoY.

On the demand side, HFCE was the top contributor to the increase in the country's GDP, as it recorded a YoY growth of 5.1% in 3Q2024. Such growth was identical to the recorded figure from the same period last year and was attributable to the increases in Health (10.8%); Restaurants and Hotels (9.8%); and Miscellaneous Goods and Services (7.1%). Meanwhile, government spending posted a 5.0% growth, which was slower than the 6.7% growth in 3Q2023.

OUTLOOK¹⁰

The World Bank (WB) maintained its forecast of 5.8% GDP growth for the Philippines in 2024 in its latest Economic Update (June 2024). The forecast was based on expectations of easing inflation which will strengthen household purchasing power and domestic demand. In addition, consistent public investment is seen to support growth in the medium term. The prolonged El Niño and possible La Niña phenomena, however, may cause a strain to food production and in turn result in higher inflation. According to WB Senior Economist Ralph Van Doorn, such should be controlled through supply and demand management, as well as the timely and adequate import of staple items.

The Asian Development Bank (ADB) echoed WB's view that household consumption and investment will support the country's growth in 2024. ADB likewise maintained its economic outlook for the Philippines at 6.0% for 2024 and 6.2% for 2025. Such was on the lower end of the government's target. ADB added that its forecasted growth will be on the back of moderate inflation and monetary easing in the second half of the year. The International Monetary Fund (IMF), likewise, sees a positive outlook for the Philippines as it maintains its economic outlook for the country at 6.0% in 2024 and 6.2% in 2025.

On the other hand, the ASEAN+3 Macroeconomic Research Office (AMRO) cut its growth forecast for the Philippines, to 6.1% from 6.3% in 2024 and 6.3% from 6.5% in 2025. This reduction was on account of a weak external environment that is expected to weigh on the economy and will similarly affect many of the other neighboring countries. Nonetheless, the Philippines is seen to be the second-highest gainer in the region following Vietnam, and notably outpacing the projected average regional growth of 4.8% for the year.

Recently, the Philippines refined its economic growth target for 2024 to a range of 6.0% to 6.5%, down from a top end of 7.0%. It also revised its outlook through 2028 due to global events that could provide domestic uncertainties and U.S. President-elect Donald Trump's tariff agenda that could affect the country. In line with this, the country's growth target for 2025-2028 was also revised to 6.0% to 8.0%, from 6.5% to 7.5%.

¹⁰ Sources: <https://english.news.cn/asiapacific/20240604/2467de90afc74af88fd5bd774d163178/c.html>
<https://business.inquirer.net/468967/ph-gdp-growth-estimate-for-%CA%BC24-cut-but-still-2nd-fastest-in-asean>
<https://www.imf.org/en/News/Articles/2024/06/10/pr-24211-philippines-imf-staff-concludes-visit>
<https://www.gmanetwork.com/news/money/economy/913668/adb-maintains-growth-2024-2025-growth-forecasts-for-philippines/story/>
<https://www.channelnewsasia.com/business/philippines-tweaks-2024-gdp-growth-target-revises-outlook-2025-2028-4782246>

INFLATION¹¹

Inflation was at 2.5% in November 2024, which reflected a slight uptick from the 2.3% recorded in the previous month, but lower than the 4.1% posted in November 2023. The rise in the inflation rate was on account of the faster increase in food and non-alcoholic beverages prices, from 2.9% in October to 3.4% in November. In contrast, rice inflation, which is the usual driver of price increases, fell from 9.6% in October to 5.1% in November. The YTD average inflation of 3.2% was within the government's target of 2-4%.

AMRO reduced its inflation forecast for the Philippines to 3.3% from 3.6% in 2024, but raised its projection to 3.1% from 2.9% in 2025. AMRO's chief economist Hoe Ee Khor stated that inflation is well anchored to the region which had shown robust growth. This will give the BSP more flexibility to cut down policy rates. On the other hand, the IMF believes that the monetary policy should remain "restrictive" to anchor inflation within the target range. While inflation in the country has become more moderate, the IMF still sees it to be on the upside, estimating inflation at 3.4% in 2024.

INTEREST RATES

In August 2024, the Monetary Board implemented a policy rate cut of 25 basis points (bps) to 6.25%. This was the first rate cut since November 2020. According to BSP Governor Eli Remolona Jr., the rate cut also considered the decision of the US Federal Reserve to cut its own rates in the near term. On September 18, 2024, the Federal Reserve reduced its key interest rates by 50 basis points.¹² BSP Governor Remolona Jr. added that public demand remained firm despite the more restricted financial conditions in the earlier months, and the unemployment rate also declined. He believes that alongside easing price pressures, public investment and improved employment conditions are seen to bolster economic activity. Following the ease of prices, the BSP further cut key interest rates by another 25 bps to 6.0% in October 2024.

For the second half of the year, the BSP anticipates easing pressure on prices following the mandated reduction on import tariffs, including rice tariffs which notably dropped to 15%, from 35%. BSP Governor Remolona Jr. stated that the central bank may enact another 25-bps cut during its next Monetary Board meeting in December. Nevertheless, the BSP remains vigilant to the lingering upward pressures on prices. It lowered its baseline inflation forecast for 2024 to 3.1% from 3.4%, but raised its projections for 2025 to 2026 to 3.2% and 3.4% from 3.1% and 3.2%, respectively. This can be attributed to potential adjustments in electricity rates and wages.

Lower interest rates should make monthly amortization payments more affordable for real estate buyers and as such, will continue to bolster housing sales.

OFs Remittances

For the year 2023, OF remittances reached a high of \$37.2 billion (+3% year-on-year), reflecting the ever-increasing demand for Filipino workers overseas. The BSP said the full-year 2023 remittances accounted for about 8.5% and 7.7% of the country's GDP and Gross National Income (GNI), respectively. Strong remittances came from both sea-based and land-based workers.

Remittances from OFs grew by 3.3% year-on-year to \$3.3 billion in September 2024, a slight uptick from the \$3.2 billion posted in August 2024. This brought the January to September 2024 total to \$24.5 billion, 3% higher than the previous year.

¹¹ <https://www.rappler.com/business/inflation-rate-philippines-november-2024/>

¹² <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>

BSP reported a growth in remittances from the United States, Saudi Arabia, Singapore and United Arab Emirates. Based on BSP data, the US had the highest share of overall remittances during the period, followed by Singapore, Saudi Arabia, Japan and the United Kingdom. Over 40% of total remittances came from the United States.

In 2023, the largest share of OFs came from CALABARZON, accounting for 19% of total. Region III (Central Luzon) came in second with 15.2%, and the National Capital Region came in third with 9.6%. Western Visayas, Central Visayas and the Davao Region accounted for 8.5%, 5.4% and 4%, respectively.

Analysts expect continued single-digit growth in remittances in the last three months of the year, with the upcoming holiday season expected to be the main driver for remittance growth. OFs constitute a significant 30% of the demand for CLI's affordable and middle-income housing.

INDUSTRY

CEBU AND DAVAO'S RESIDENTIAL MARKET

Based on data from Colliers Philippines, about 5,600 condominium units were sold in Cebu in 2023, down 33% year-on-year. The lower mid-income segment (₱3.2 million to ₱7.0 million) accounted for nearly half of total take-up during the period. Colliers believe the demand for these segments is partly sustained by investors who plan to rent out their units to outsourcing employees.

Colliers Philippines believes that the entry of national players in Davao has paved the way for major development of integrated communities or townships. New infrastructure projects in the city, once completed, should further attract residential investment hubs in Mindanao. These projects include the Davao Coastal Road, Davao City Bypass and the expansion and modernization of Davao Airport. Colliers Philippines believes developers should continue with their land banking initiatives and capitalize on the city's improving infrastructure backbone.

CEBU'S OFFICE MARKET

Colliers Philippines observed that outside of Metro Manila, Cebu has remained to be the top choice for outsourcing firms and multinational companies. The region led in terms of provincial office space take-up in 2023, with a total of 65,800 sqm. Vacancies, however, remained high at 20.4% due to new supply which is seen to persist in 2024 as vacancy rate is seen to inch up to 21.3%. For 2024, Colliers Philippines projects net take-up to reach 72,000 sqm, with demand mainly driven by traditional and outsourcing firms.

HOSPITALITY

In 2023, the tourism industry contributed 8.6% to the country's GDP, the highest in 24 years. This was a significant rebound from 2020 and 2021, when travel services declined due to the pandemic.

The Tourism Direct Gross Value Added (TDGVA) amounted to ₱2.01 trillion in 2023, a 47.9% increase compared with the ₱1.41 trillion TDGVA in 2022. Both local and foreign tourists influenced hotel occupancies across various destinations in the Philippines. Hotel occupancy in Metro Manila improved brought about by take-up from businessmen as well as strong increased demand for meetings, incentives, conferences and exhibitions (MICE) facilities.

During the first half of 2024, foreign arrivals grew by 12% to 3 million year-on-year. The tourism department remains optimistic that arrivals will reach its target of 7.7 million by the end of 2024, a little over 40% higher than the 5.45 million registered in 2023, as foreign arrivals typically pick up leading to the holiday season. The tourism department forecasts foreign arrivals to average 9.8 million every year

from 2024-2028. The government has also set an ambitious goal of attracting 12 million international tourists in 2028.

Hotel occupancy rate marginally dropped to 63% in the first half of 2024 (from 65% year-on-year) due to substantial addition of new hotel rooms. In 2024, Colliers Philippines expects occupancy to hover between 60% and 65%. While the hotel industry in the Philippines has been experiencing a significant recovery from 2020, it has yet to revert to pre-pandemic levels. Colliers Philippines expects hotel demand to maintain its upward trajectory well into the next few years.

Cebu, Bacolod and Davao's Hospitality Market

Following the gradual opening of the economy, the recovery of the tourism industry has been driving the increase in occupancy levels for the hotel market in Cebu City, Bacolod City and Davao City, with 60-80% occupancy rates as of end 2023. As tourism continuously improves, the outlook on the hospitality sector's recovery remains optimistic as hotels slowly regain their strength with promotions, government initiatives, and increased tourist arrivals.