

# German Philippine Chamber of Commerce: Construction Update

17 March 2011



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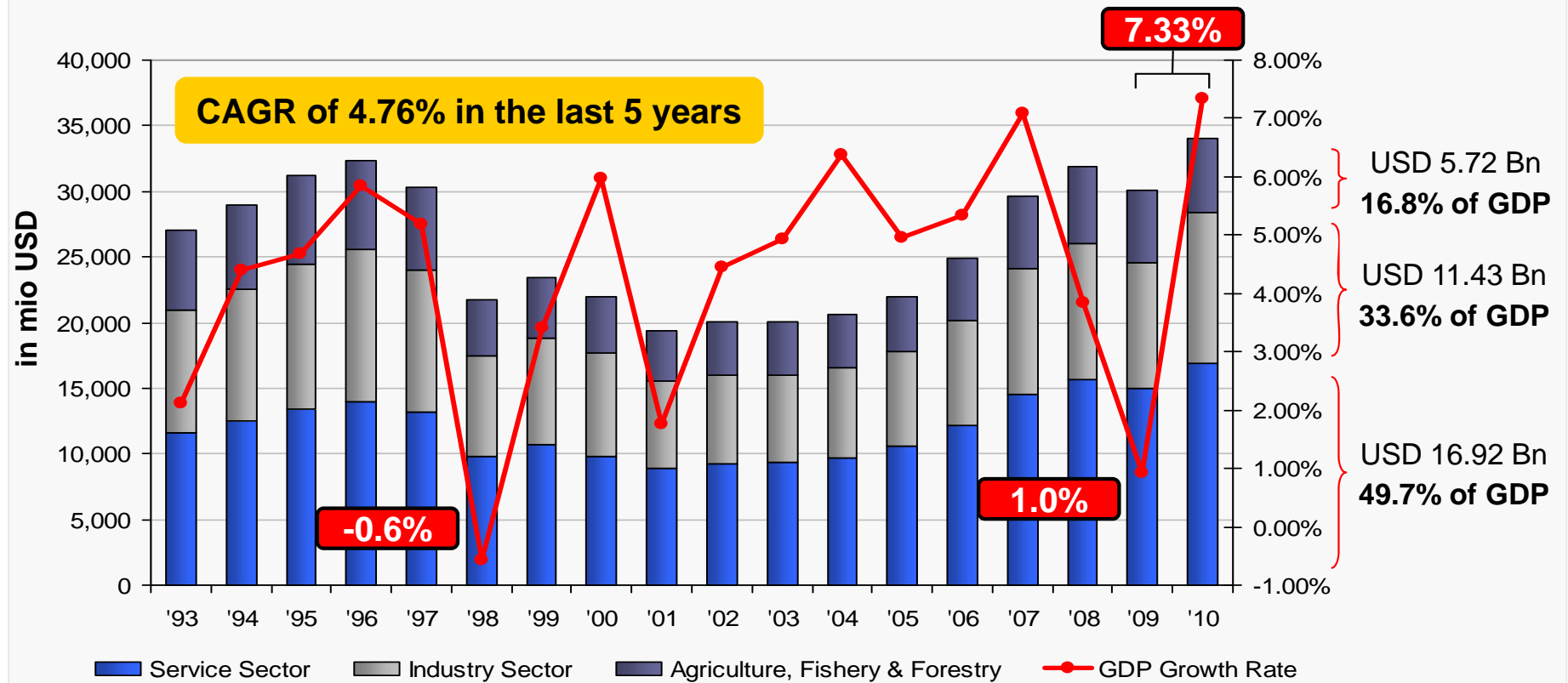
My brief has been to share insights with you on the Philippines construction industry and its development



An example of the excellent construction opportunities in the Philippines

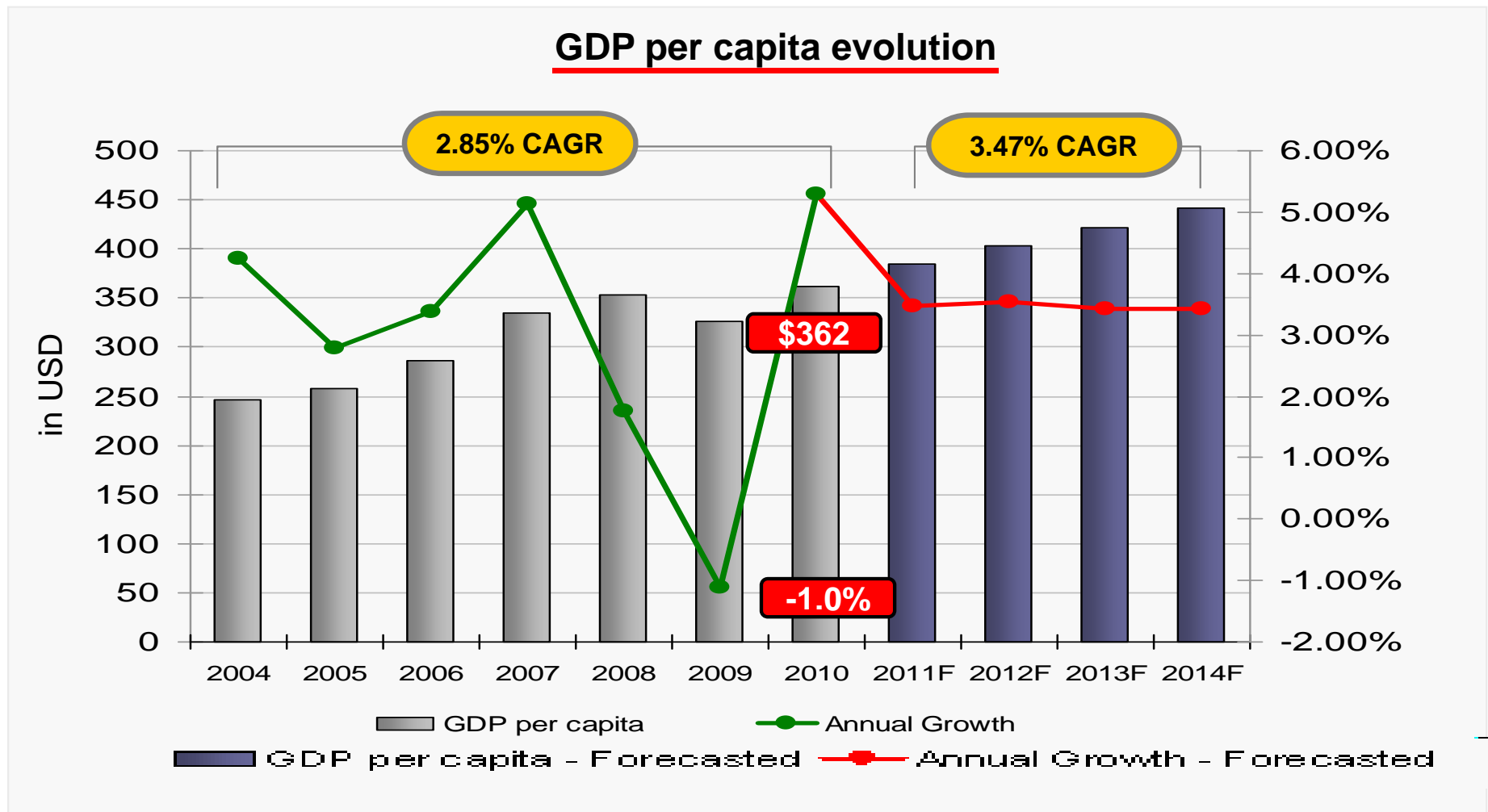
# The Philippine economy has consistently grown despite economic downturns outside the country

## Breakdown of Gross Domestic Product (GDP) by Sector



Source: NSCB, BSP

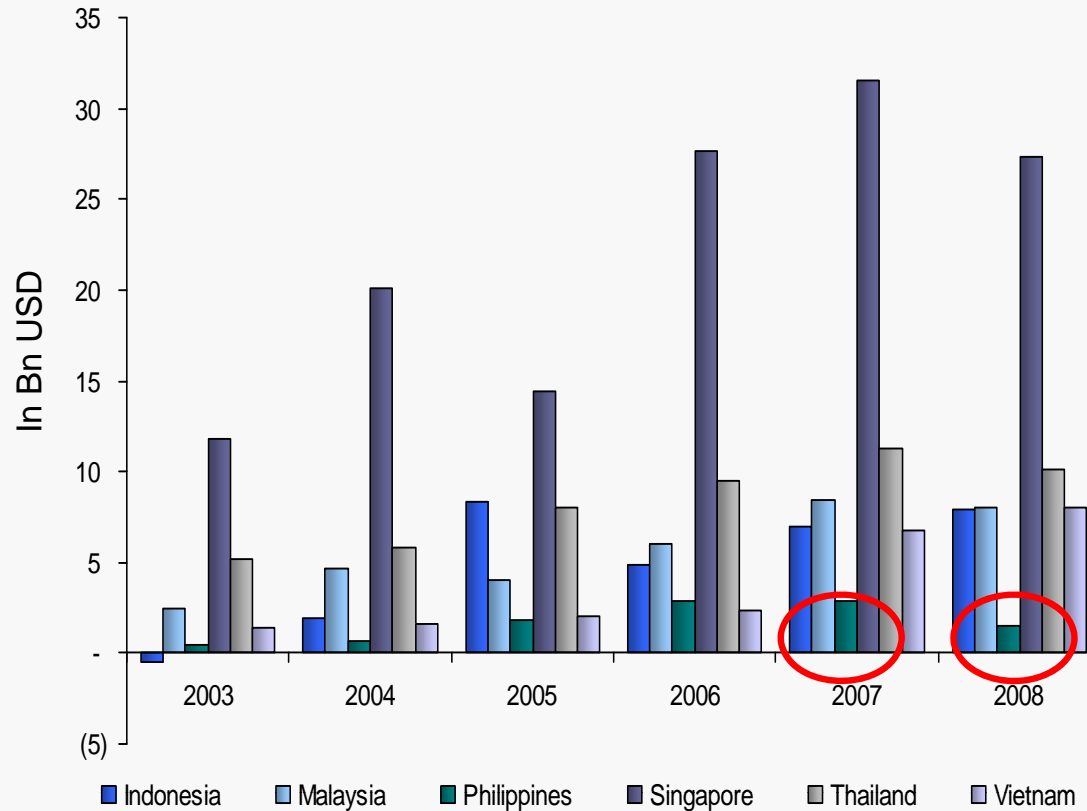
Further growth in GDP is expected , however, per capita GDP growth is affected by the 2% growth in population.



Source: BSP, EIU Report (Feb 2011)

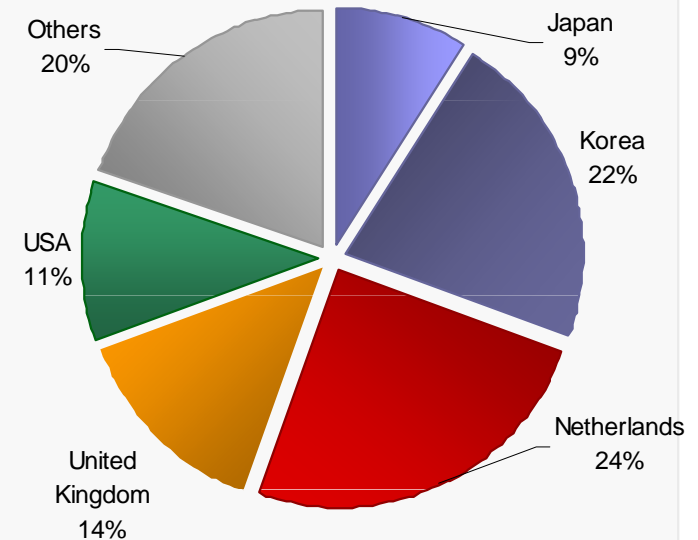
# The Philippines needs to attract more (Foreign Direct) Investments

**Philippine FDI versus ASEAN 6**



Source: BSP

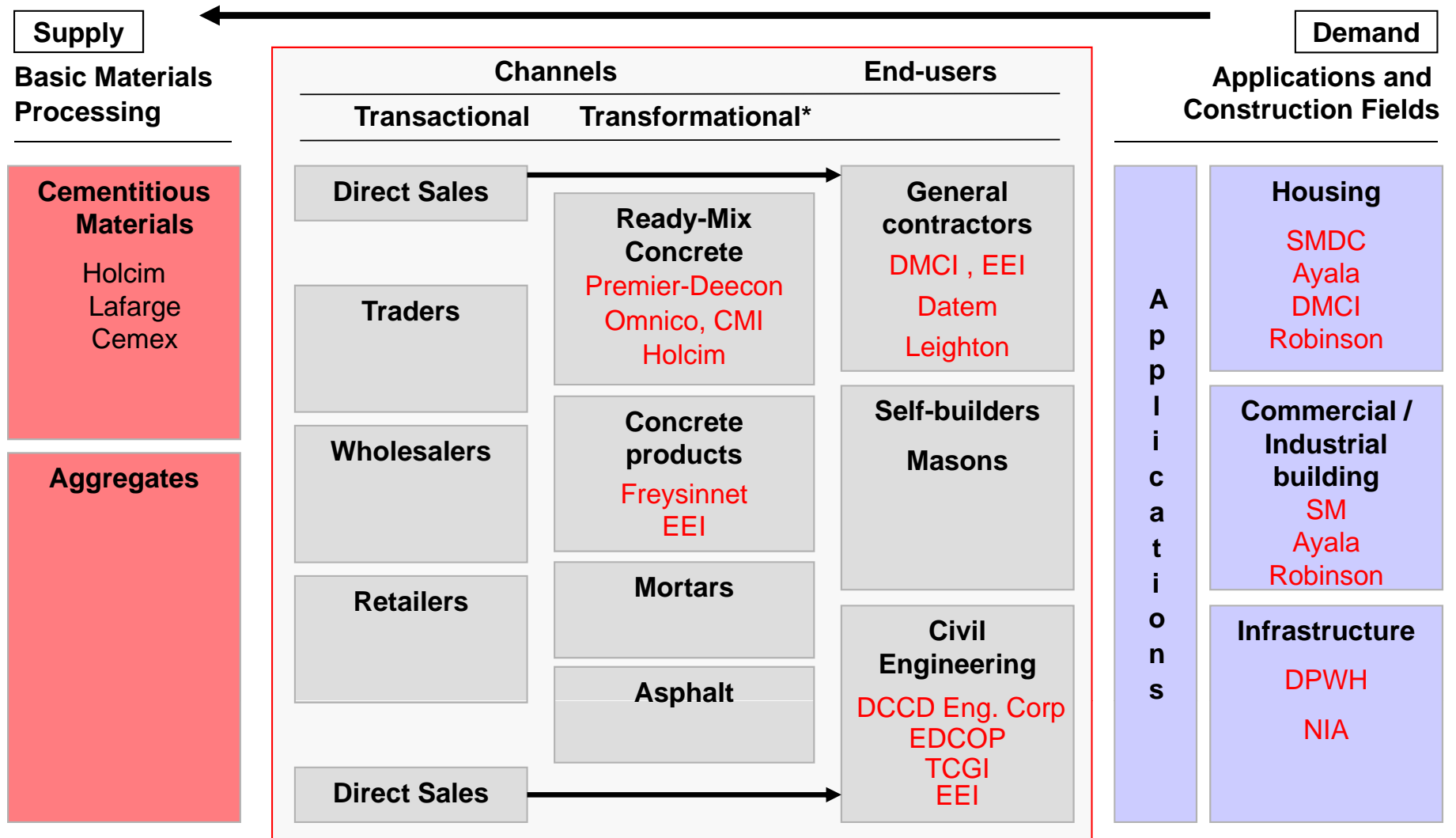
**Top 5 FDI Investors in 2008**



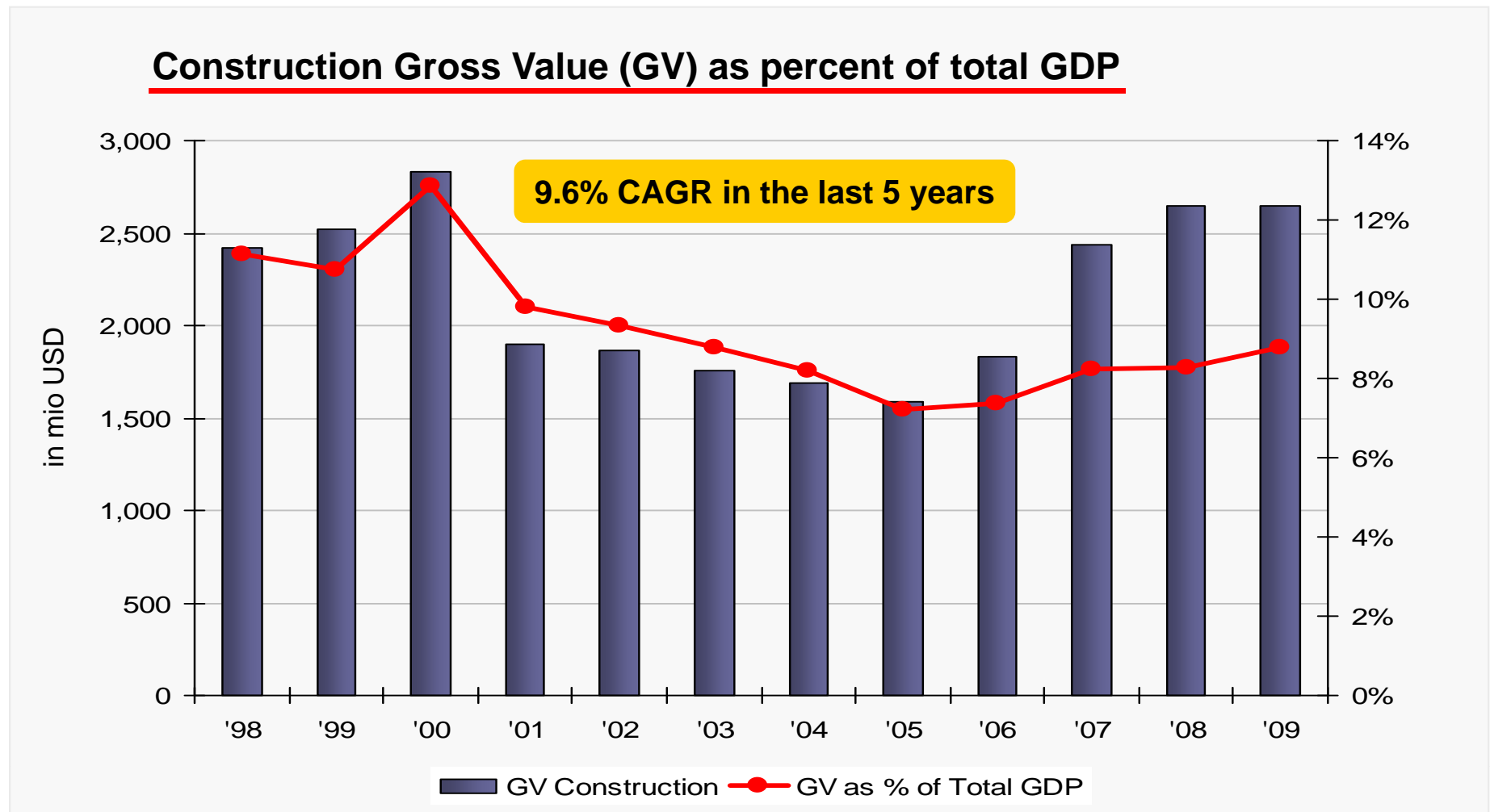
Source: NSCB

In 2010, the FDI amounted to a low of \$1.7B

# Looking at the Construction Value Chain shows that major players have developed in many parts of the playing field



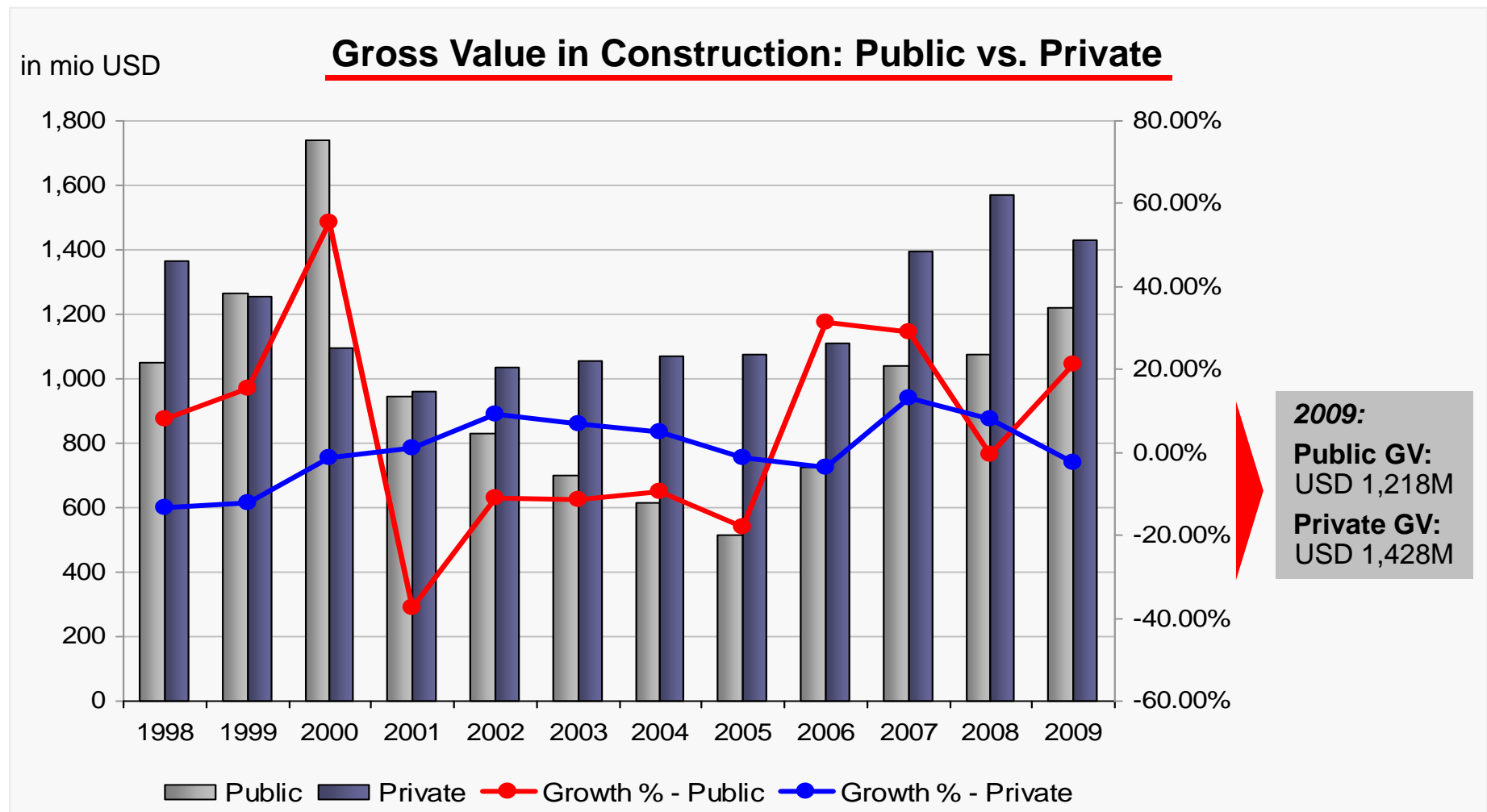
# Construction spending is growing but slowly compared to GDP growth rate



Source: NSCB 2009

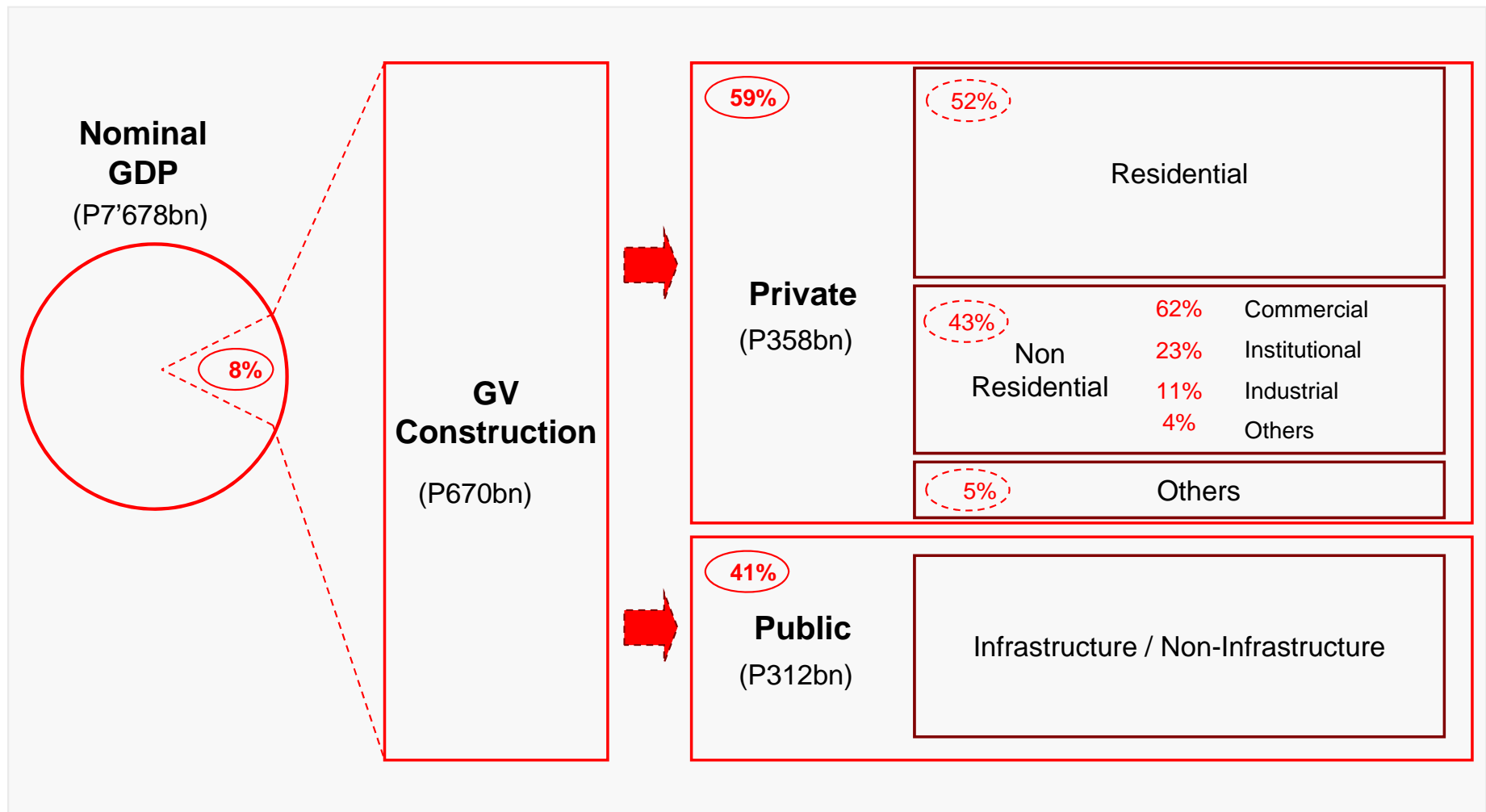
**Gross Value** is the total construction spending but includes other cost factors like electricity, water, etc., whereas, **Gross Value Added** excludes these intermediate cost factors and reflects only the essential factors related to construction.

The private sector has provided a stable consumption base in the construction industry.



Source: NSCB 2009

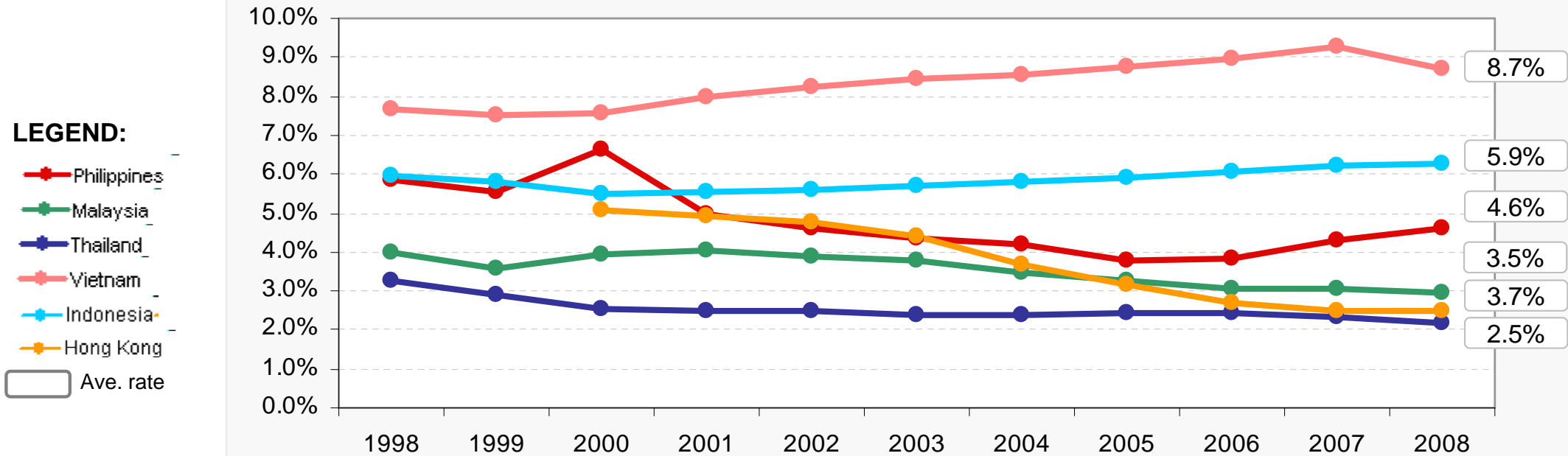
# Gross value of construction sector is around 8% of GDP



Construction industry contributes a huge chunk to the world GDP amounting to 1/10th of the same. (Construction Industry Trends / Economy Watch)

Compared to other countries, the Philippines is averaged on construction spending.

### Construction GVA as percentage of total GDP: Philippines vs. Asian countries



\*\*Construction GVA is approximately 50-57% of Construction GV

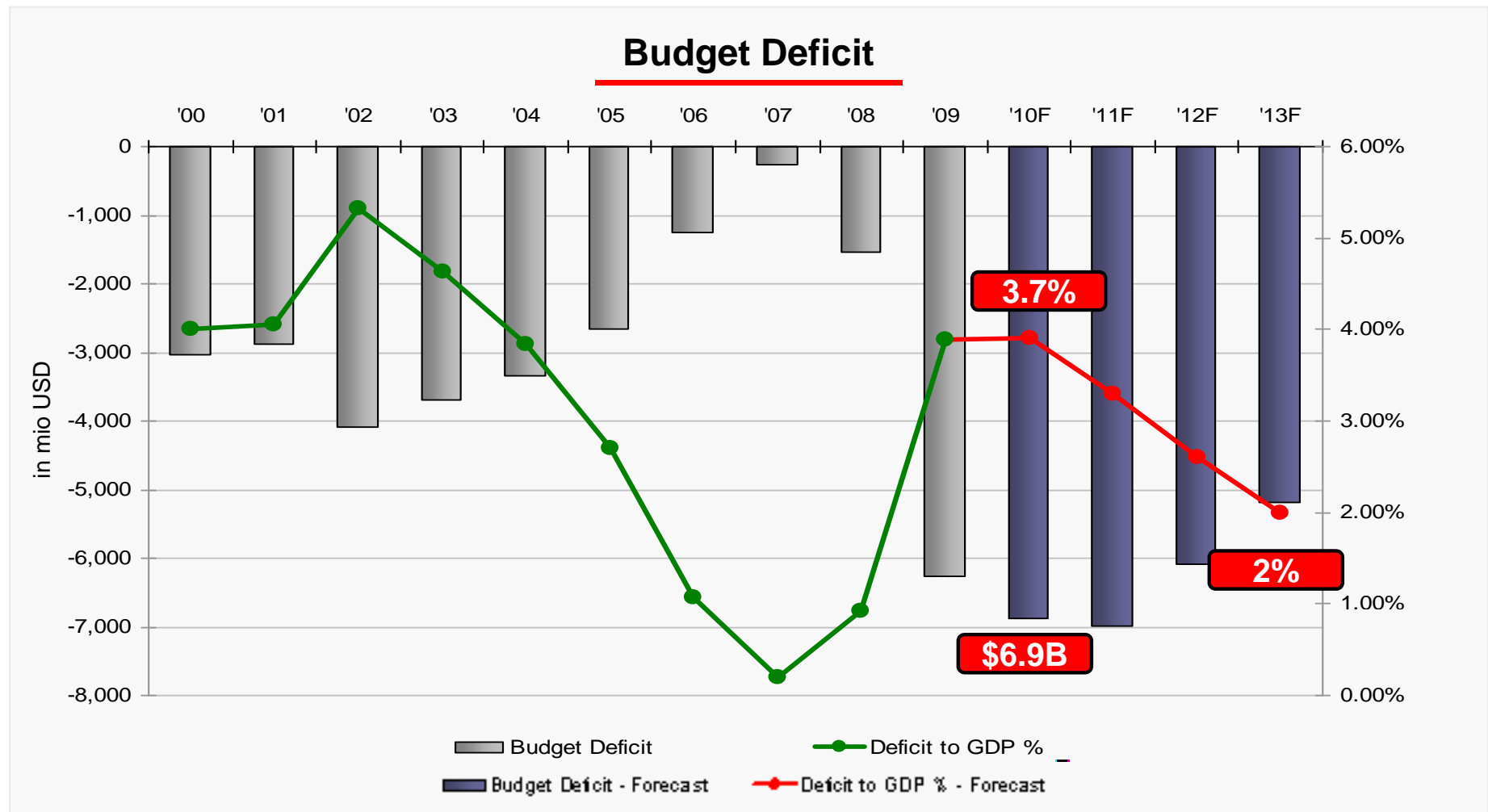
Source: Asian Development Bank

## We expect the construction activity to grow for the following five reasons

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1. The new administration will not slowdown on infrastructure projects as it is not projecting a drastic decrease in budget deficit
2. The Public Private Partnership (PPP) program will assist in the funding of major infrastructure projects.
3. There will be need for commercial and residential structures as Business Process Outsourcing (BPO) industry continues to grow, as real estate companies (SM, Robinson, Ayala) expands in the provinces, and lastly, the population growth.
4. OFW remittances will continue to grow thereby supporting the economic growth through increased consumption.
5. There is available funds in the economy as inflation and interest rates are expected to stay at reasonable level.

# 1. Govt. does not intend to sacrifice economic expansion by controlling ballooning budget deficit



Source: BSP (Actual), NSCB

Government spending on construction will not be affected by budgetary constraints

## 2. The Public Private Partnership (PPP) program will add in the funding of major infrastructure projects.

Project name	Description	Estimated project cost	Status
<b>CALA Expressway – Cavite Side</b>	A 27.5 km, 6-lane, at-grade extension of the ongoing Manila-Cavite Coastal Expressway Extension	Php 11.79 Bn	<ul style="list-style-type: none"> <li>▪ Ongoing Feasibility study</li> </ul>
<b>NAIA Expressway (Phase II)</b>	A 4.9 km, 4-lane project that will link the Skyway and the Manila-Cavite Coastal Expressway and provide vital access to the NAIA terminals.	Php 10.59 Bn	<ul style="list-style-type: none"> <li>▪ Completed Feasibility Study</li> <li>▪ Bidding/Tendering in May 2011</li> </ul>
<b>LRT Line 2 East Extension Project</b>	A 4-km eastern extension of LRT line 2 from Santolan, Pasig to Masinag, Antipolo	Php 11.30 Bn	<ul style="list-style-type: none"> <li>▪ Feasibility study to start in Jan 2011 (JICA)</li> </ul>
<b>MRT / LRT expansion program: LRT 1 South extension project</b>	Construction of additional 11.7-km extension to the LRT 1 South Line	Php 70 Bn	<ul style="list-style-type: none"> <li>▪</li> </ul>
<b>New Bohol Airport development</b>	Construction of a new airport (w/ 2,500m x 45m runway) to replace the existing Tagbilaran Airport	Php 7.6 Bn	<ul style="list-style-type: none"> <li>▪ Updating project to reconfigure into PPP</li> </ul>
<b>Puerto Princesa Airport development</b>	Construction of new landslide facilities and upgrading of existing 2.6km runway and its strip		
<b>New Legaspi (Daraga) Airport</b>	Construction of new airport facilities	Php 3.2 Bn	<ul style="list-style-type: none"> <li>▪ Updating feasibility study</li> <li>▪ PPP bid by Q1 of 2011</li> </ul>



Potential for Bidding  
 2011

Roads

Rails

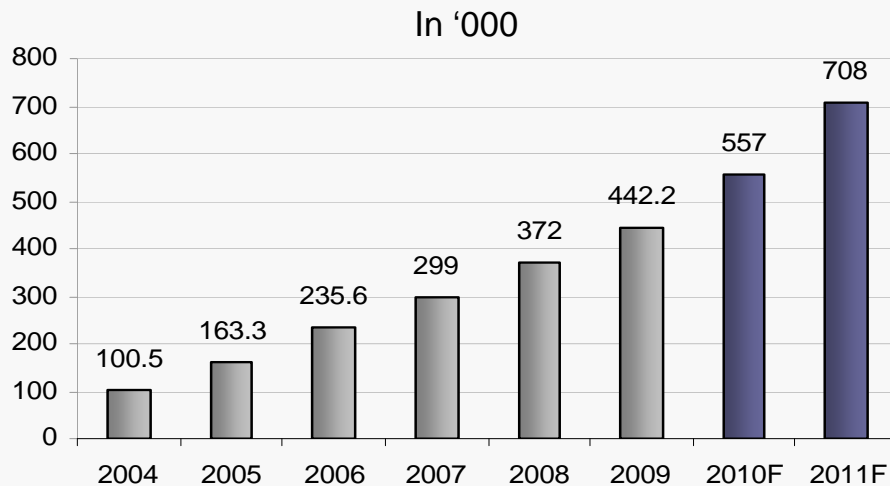
Airport

# Despite some delay in the process the administration seems determined to make this happen

Project name	Description	Investment value	Status
<b>Central Luzon (CLEX) Expressway (Phase I) Tarlac-Cabanatuan</b>	<ul style="list-style-type: none"> <li>A 28.2-km, 2-lane road project that aims to decongest traffic at Daang Maharlika.</li> </ul>	<ul style="list-style-type: none"> <li>Php 11.5 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Feasibility study was completed in January 2010.</li> <li>To implement in 2012-2014</li> </ul>
<b>C-5/FTI/Skyway Connector</b>	<ul style="list-style-type: none"> <li>A 6.8-km, 2-4 lane road project that would provide direct access to FTI from both Skyway and C-5.</li> </ul>	<ul style="list-style-type: none"> <li>Php 5.64 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Detailed design already completed in August 2010</li> <li>Expected bidding in Q3 2011</li> </ul>
<b>CALA Expressway (Laguna side section)</b>	<ul style="list-style-type: none"> <li>A 14.3-km, 6-lane, at-grade expressway – a continuation of CALA Expressway (Manila Side) and will connect to SLEx in Calamba.</li> </ul>	<ul style="list-style-type: none"> <li>Php 7.0 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Update Feasibility study in 2011</li> <li>Expected bidding in Q1 of 2012</li> <li>To implement in 2013-2015</li> </ul>
<b>C-6 Expressway (South Section) – Global City link</b>	<ul style="list-style-type: none"> <li>A 50-km, 4-lane road project that will start from NLEx in Marilao and will be connected to the Skyway in Bicutan.</li> </ul>	<ul style="list-style-type: none"> <li>Php 40.4 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Feasibility study to start in January 2011</li> <li>To implement in 2013-2016</li> </ul>
<b>SLEx Extension (to Lucena City)</b>	<ul style="list-style-type: none"> <li>A 47.8-km, 2-lane extension of the existing SLEx from Batangas to Lucena, Quezon</li> </ul>	<ul style="list-style-type: none"> <li>Php 9.5 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Target implementation schedule: 2013-2016</li> </ul>
<b>Calamba – Los Baños Expressway</b>	<ul style="list-style-type: none"> <li>A 15.5-km, 4-lane project with a combined structure of a flood control dike along Laguna de Bay and a highway.</li> </ul>	<ul style="list-style-type: none"> <li>Php 5.9 Billion</li> </ul>	<ul style="list-style-type: none"> <li>DPWH to conduct full feasibility study by 2011</li> <li>To implement in 2014-2016</li> </ul>
<b>C-6 Extension (Laguna de Bay Flood Control Dike Expressway)</b>	<ul style="list-style-type: none"> <li>A 43.6-km, 2-lane extension of the north and south section of C-6 expressway.</li> </ul>	<ul style="list-style-type: none"> <li>Php 18.59 Billion</li> </ul>	<ul style="list-style-type: none"> <li>Feasibility study completed in January 2010</li> <li>Tentative schedule: 2015</li> </ul>

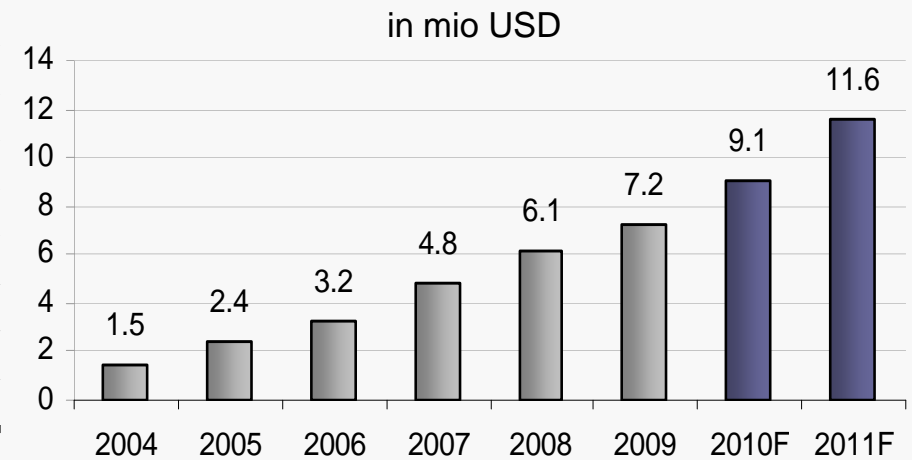
### 3. The BPO industry is expected to increase, expanding to other services, thereby requiring more facilities.

#### Offshoring & Outsourcing (Employment)



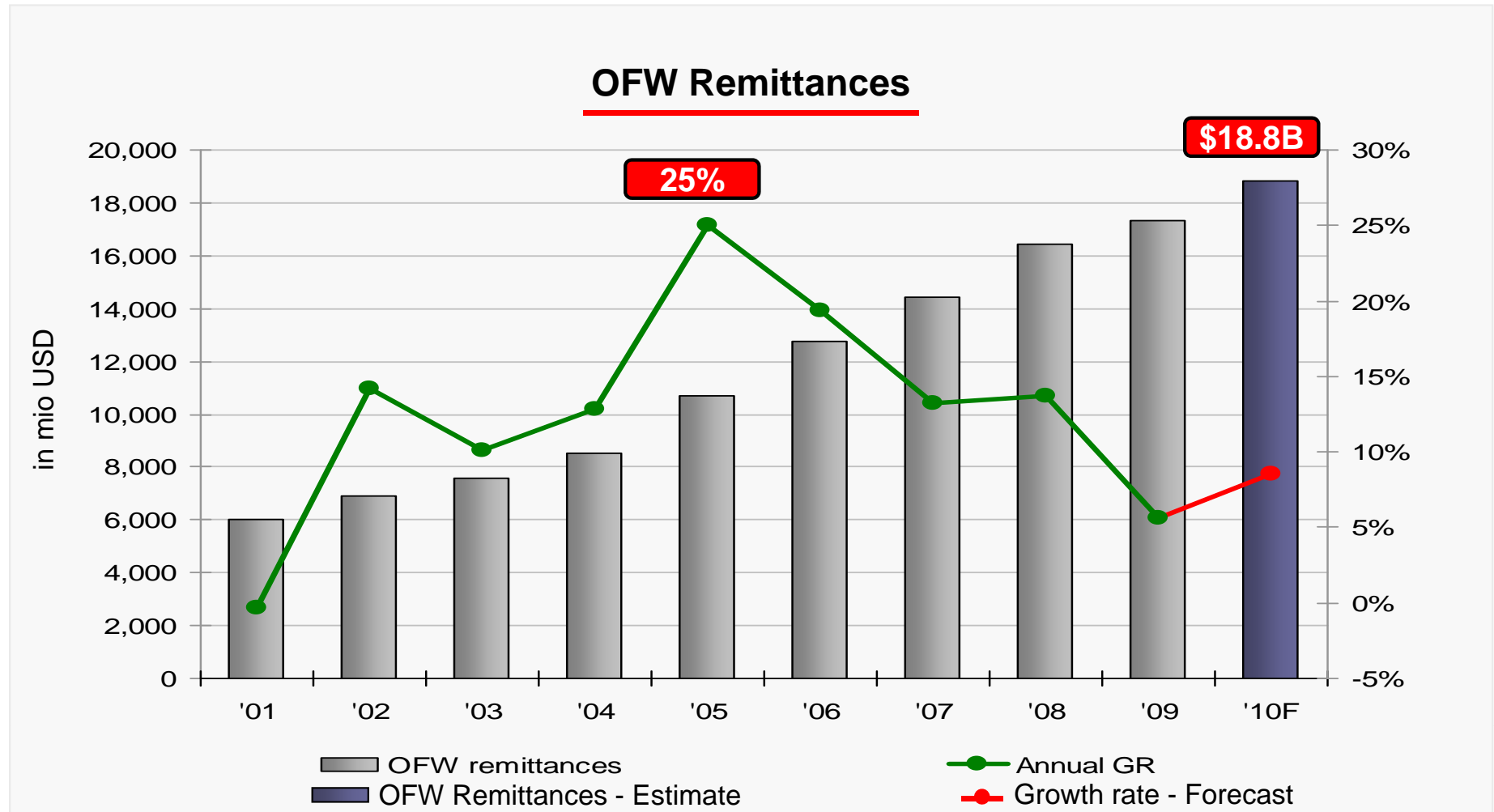
Source: BPA/P

#### Offshoring & Outsourcing (Revenues)



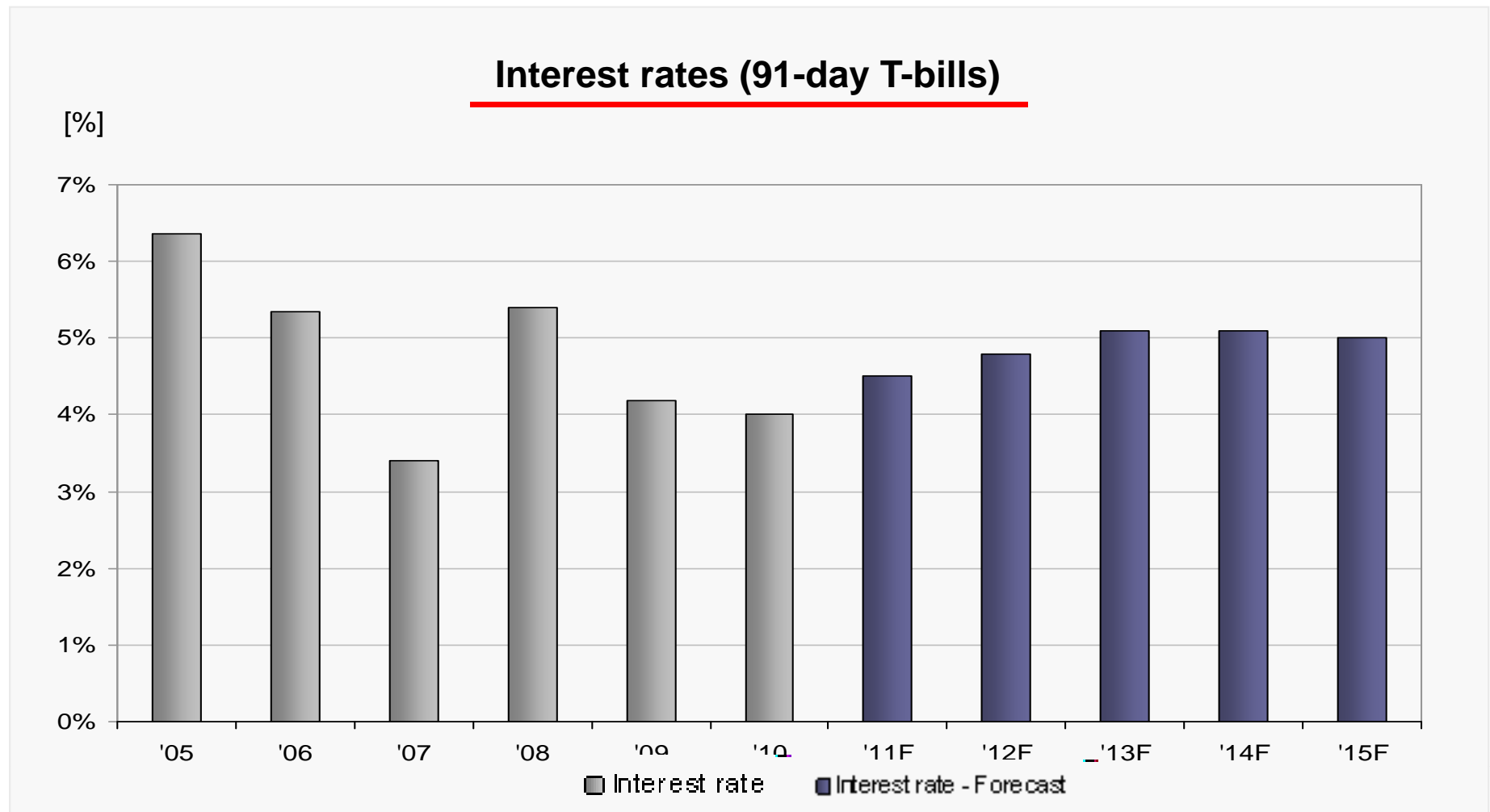
Source: BPA/P

## 4. OFW remittances continue to grow thereby supporting the economic growth



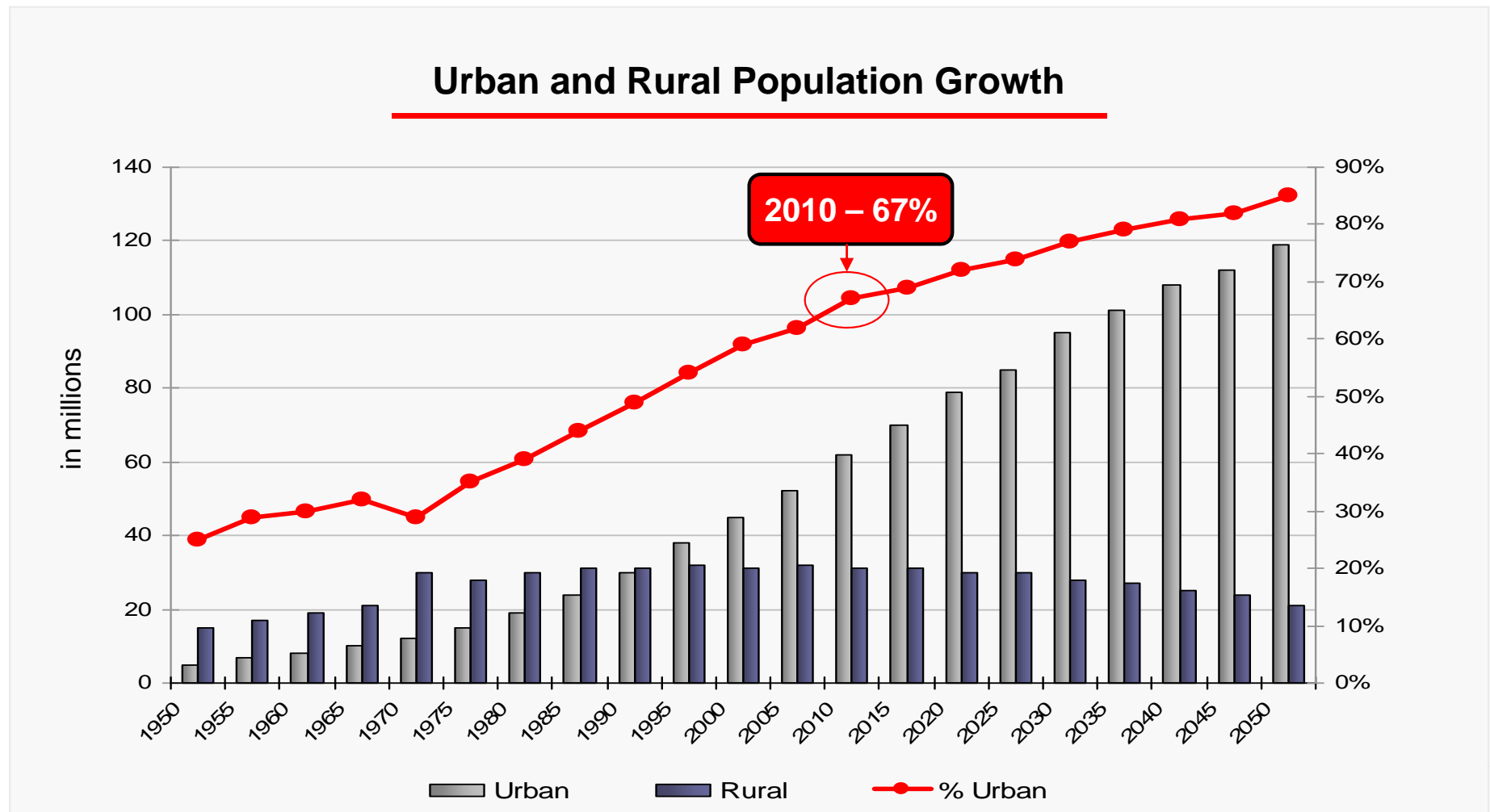
Source: NSCB (Actual), EIU (Forecast)

## 5. Interest rates is expected to be maintained below 5% level. This will help fund construction projects.



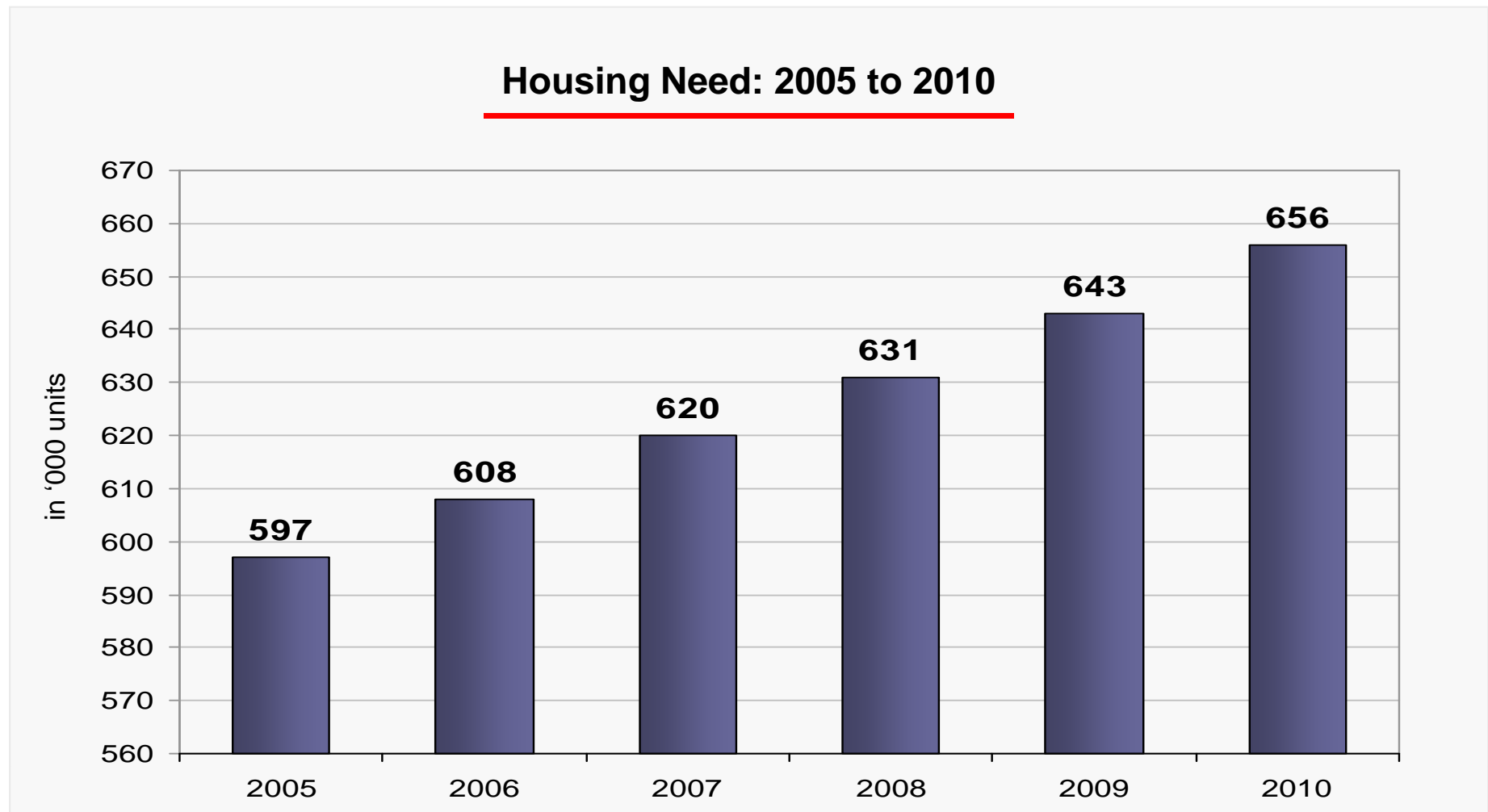
Source: BSP

# The economic development will further the growth of urban areas throughout the Philippines



Source: NUDHF, UN World Urbanization Prospects: The 2007 Revision

# A growing population with increased income will drive the demand for housing



Source: Cumulative Backlog and New Households (HUDCC)

# So all with all it seems the Philippines is a place to go...

## Trends in the Philippines

- The Philippines is one of the emerging countries in Asia and is resilient to the global crisis.
- The economy is expected to continue to grow as there is increased business confidence.
- Construction, one of the drivers for economic growth, is expected to grow backed by increased demand for housing, expanding commercial spaces, expansion of local industries, and sustained Government construction spending.
- The current government focuses on promoting investments in infrastructure (PPP Projects)

## Opportunities for foreign investors

- The growth in BPO industry.
- Construction is part of the new administration's agenda.
- Participation in the PPP
- On going development in the country side.
- While mature markets (like Europe, US) are recovering from the global recession, emerging markets in Asia continue to grow.

## Threats to foreign investors

- Historically a slow growth in construction activities
- Big item projects may be politically driven.

or do you see some bears on the road.....



Thank You!



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