



Philippines

Overview

The Philippines offers vast opportunities in the agricultural sector as it is endowed with extensive rainforests, mountainous regions and coastlines. It is a major producer of agricultural products and is rich in mineral and geothermal energy resources. The country is also a main supplier of automotive, aerospace and electronics parts. Aside from its vast natural resources, another main driver of the Philippine economy is its skilled and educated population. The country has a high number of overseas Filipino workers (whose remittances support the Philippine economy). Its talented population has also contributed to the growth of the business process outsourcing sector in its major central business districts of Bonifacio Global City, Makati and Ortigas, surpassing India as the leader in voice-based call-centre services.

The Philippines is a constitutional republic with a democratic presidential system. Benigno Aquino III is the incumbent president and will remain as the head of state and government until 2016. Aquino's programmes and platforms are focused on maintaining the country's political and economic stability, and creating reforms to promote

Table I

Key Statistics

| | |
|----------------------------|--|
| Official Name | Republic of the Philippines |
| Currency | Philippine Peso (PHP) US\$ 1 = PHP 43.84 (2013) |
| Population | 97.7 million (2013) |
| Land Area | 300,000 sq.km |
| GDP Per Capita | Php 202,698; US\$ 4,691 |
| GDP Growth | 7.8% (Q2, 2013) |
| Principal business centers | Makati Central Business District, Bonifacio Global City, Ortigas Center |

Source: National Statistical Coordination Board, Banco Sentral ng Pilipinas, Bureau of Treasury

good governance. The peaceful May 2013 elections, recent credit ratings upgrade and the Philippines' strong GDP growth in the first quarter of 2013 are just some of the country's achievements credited to the Aquino administration.

To further boost the country's development, the Aquino administration is currently focused on the improvement of infrastructure, education, healthcare and other public services. This is to ensure more inclusive growth in the country, and to improve the provision and delivery systems of public service. Aside from this, the administration's priority is to enact bills to boost the economy and

improve the ease of doing business in the Philippines. Some of these bills include the Cabotage Law, the Fiscal Incentives Rationalization Bill and the Land Administration Reform Bill.

Aquino is also working towards more economic reforms and the enhancement of key industries to make the Philippines more attractive to investors.

Types of property ownership

There are two main types of property ownership in the Philippines:

1. Freehold land. Private freehold land is exclusively available only to Philippine nationals. Those that count as Philippine nationals include Filipino

citizens, and corporations, partnerships or other juridical persons that are at least 60% Filipino-owned.

2. Leasehold land. Leasehold corresponds to properties that may only be held for a given length of time. All public land may be owned by Filipino citizens on a leasehold tenure; however, private land may be leased by international corporations with certain restrictions.

Restrictions on overseas ownership of lands

The 1987 Constitution generally reserves ownership of private land to Filipino citizens. To some extent however, overseas nationals and former Filipino citizens are allowed to own properties. Although there are some restrictions, owning real estate or land in the Philippines is not impossible. Unlike other countries where the only prerequisite is money, property ownership is confined to Filipino citizens, and corporations, partnerships or juridical persons with at least 60% Filipino interest. Dual citizens and former Filipino citizens are also accorded the right to own private

lands subject to some limitations imposed by law.

Except in instances when land is inherited, overseas nationals are restricted from owning private lands. They are only allowed to lease private land for up to 50 years. This half-century period is only renewable once for a further 25 years at most.

In terms of condominium projects, the overseas ownership rule applies wherein overseas nationals can only own up to 40% of the entire project.

Measurement of areas

All measurement of areas is done in sq m. Within agreements, the most commonly used measurement terms include:

- Gross area: the total area within the building, including common areas and areas used for other purposes such as parking or comfort rooms.
- Total leasable area: the area available to lease to tenants.
- Floorplate: the size of each floor, typically measured in sq m.

Lease terms

- Residential Lease Term

| Years | Broker's Fees |
|-------------------------------|-----------------------------------|
| Residential Lease Term | |
| 1 | 1 month rent |
| 2 - 3 | 1.5 months rent |
| Commercial Lease Term | |
| 1 - 3 | 1 month rent |
| 4 - 5 | 2 months rent |
| 5 & above | 3 - 4 months rent (negotiable) |
- Commercial Lease Term

| Years | Broker's Fees |
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| 1 | 1 month rent |
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| Commercial Lease Term | |
| 1 - 3 | 1 month rent |
| 4 - 5 | 2 months rent |
| 5 & above | 3 - 4 months rent (negotiable) |
- Rent-free period: constitutes the period wherein the lessee is allowed to occupy the space and also provides as a period for fit-out. The usual rent-free period in the Philippines ranges from one to two months.
- Rent: rental levels are quoted as gross figures per sq m per month.

- Deposits: deposits are usually the equivalent of three months' rent with advance payments for three months.

The usual length of a lease for residential space ranges from one to three years, while for commercial space it ranges from three to five years. For industrial space, the length of a lease can range from anywhere between one and 15 years.

Transaction costs

Brokerage/agency fees

For both commercial and residential sales, the brokerage or agency fees usually range from 3% to 5% of the total price, but may depend on the lease period, as shown in Table 2. Usually, the fee for a one-year lease is the amount equivalent to one month's rent. For a lease period exceeding one year, the concomitant increase in broker's fees are usually subject to negotiation.

Legal fees

Apart from the purchase price, there are other fees and taxes associated with every real estate transaction and these are listed in Table 3. The usual fees associated in such transactions are customarily assigned to the seller and the buyer depending on the mutual agreement of the parties. These stipulations must be expressly stated in the Deed of Absolute Sale to delineate the rights and responsibilities of each party and avoid any future problems that may arise thereat.

Table 2

| Years | Broker's Fees |
|-------------------------------|-----------------------------------|
| Residential Lease Term | |
| 1 | 1 month rent |
| 2 - 3 | 1.5 months rent |
| Commercial Lease Term | |
| 1 - 3 | 1 month rent |
| 4 - 5 | 2 months rent |
| 5 & above | 3 - 4 months rent (negotiable) |

Table 3**Commercial and Residential Transaction Costs**

| | | Payer |
|------------------------------------|----------------------|--------|
| Legal fees | 5 - 10 | buyer |
| Local transfer tax | 0.25 - 0.75 | buyer |
| Deed of sale | 0.225 - 0.5 | buyer |
| Documentary stamp tax | 1.5 | buyer |
| CGT | 6 | seller |
| Real estate agent's fee | 3 - 5 | seller |
| Costs paid by buyer | 5.73 - 11.25 | |
| Costs paid by seller | 10.5 - 12.5 | |
| ROUNDTRIP TRANSACTION COSTS | 16.23 - 23.75 | |

Real estate legislation

As previously mentioned, Philippine real estate laws set certain limitations on overseas property ownership within the country. There are also limitations on purchases made by former natural-born Filipino citizens who have acquired overseas citizenships and have not applied or have not been granted dual citizenship. They may purchase property, however some limitations to this include:

1. The land must be used for business and residential purposes only.
2. Acquisition of land may be through sale, donation, foreclosure, tax sale or execution sale.
3. If land is for residential purposes, there is a maximum of 1,000 sq m of urban land or 1 ha of rural land allowed.
4. A former natural-born Filipino citizen can acquire either urban or rural lots, but not both.
5. If land is to be used for business pur-

poses, a maximum of 5,000 sq m of urban land or 3 ha of rural land is allowed.

6. A maximum of two lots not exceeding the maximum limit in total combined area is allowed. Lots must be located in different cities or municipalities.
7. Either one or both spouses may avail of this privilege, but the above limits must be observed.

Holders of dual citizenships are allowed

full rights of possession of real estate in the Philippines. Overseas nationals and international companies may indirectly own private lands by taking a minority interest (only up to the extent of 40% equity) in corporations that are considered Philippine nationals.

Condominium ownership

Overseas nationals can own condominiums under the principle of the 60%/40% rule. They may purchase up to 40% of the condominium and once the purchase is complete, their shares can entitle them to be a stockholder of a condominium corporation. Most condominiums in the country are usually vertical developments and high-rise buildings.

In addition, a Special Resident Retirement Visa (SRRV) is offered by the government to overseas nationals who wish to stay permanently or those who would like to frequently visit or stay for long periods in the country. Holders of an SRRV can also gain additional benefits aside from being allowed to buy a condominium property, lease a parcel of land or a house and lot. Information

Table 4**Major Property Tax Legislation**

- 1987 Philippine Constitution
- Condominium Act (RA 4726)
- Dual Citizenship Law (RA 9225)
- Property Registration Decree (PD 1529)
- Local Government Code (RA 9640)
- National Building Code (PD 1096)
- The Subdivision Development Act (PD 1216)
- Urban Land Reform (PD 1517)
- Rent Control Act of 2009 (RA 9653)
- Foreign Investments Act (RA 7042)
- Realty Installment Buyer Protection Act (RA 6552)
- Public Land Act (CA 141)
- Urban Development and Housing Act (RA 7279)
- Investors' Lease Act (RA 7652)
- Special Economic Zone Act (RA 7916)
- Rental Reform Act (RA 9161)
- Land Use Ordinance
- Zoning Ordinance
- Real Estate Investment Trust (REIT) Act of 2009 (RA 9856)

regarding other benefits of the SRRV is available on the Philippine Retirement Authority Website.

Leasing

Land can be leased by an overseas national or an international corporation on a long-term contract for an initial 50-year period and is renewable every 25 years thereafter. An overseas national can rent a lot and at the same time legally own the house on the rented land.

Buying land

Before purchasing a property, the buyer must take note of certain differences in terms of owner rights when acquiring land in the Philippines, including the fact that maximum length for long-term financing only ranges from ten to 15 years.

Another aspect to note is that all real estate transactions are completed with a Professional Regulation Commission-licensed real estate broker/firm. Moreover, keeping a record of sample computations, requirements and payment schemes may come in handy.

Table 5

Income tax rates for Philippine residents

| Amount of Net Taxable Income | | Rate |
|------------------------------|--------------|--|
| Over | But not over | |
| 0 | P10,000 | 5% |
| P10,000 | P30,000 | P500 + 10% of the excess over P10,000 |
| 30,000 | 70,000 | P2,500 + 15% of the excess over P30,000 |
| 70,000 | 140,000 | P8,500 + 20% of excess over P70,000 |
| 140,000 | 250,000 | P22,500 + 25% of excess over P140,000 |
| 250,000 | 500,000 | P50,000 + 30% of the excess over P250,000 |
| 500,000 | | P125,000 + 32% of the excess over P500,000 |

Table 6

Income tax rates for non-Philippine residents

| | |
|---|-----------------|
| Non-resident aliens engaged in trade or business | Table 6 applies |
| Non-resident aliens not engaged in trade or business | 25%* |
| Aliens employed by regional or area headquarters and regional headquarters of multinational companies | 15%** |

*of gross income tax

**of final income tax

Ownership is declared by the Transfer Certificate of Title in the case of single houses and raw land. The Land Registration Act obliges the owners of property to register titles with the Registry of

Deeds. The titles must be registered in the same province as the property and it may take around 33 days to complete the eight required procedures.

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