



## AN EMPIRICAL STUDY ON THE REAL ESTATE INDUSTRY AND THE ECONOMIC GROWTH PERFORMANCES OF THE PHILIPPINES

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### ABSTRACT

This study aims to determine the historical trend of the Philippine Real Estate Industry and the economic growth performances of the Philippines from 1997 to 2017 in terms of employment and gross domestic product (GDP). Specifically, it attempts to establish any significant relationship between the real estate industry and economic growth performances. In order to answer the problems specifically, the following statistical tools were used: frequency, percentage and Pearson product moment correlation ( $r$ ). The findings show that the Overseas Filipino Workers (OFW), investments and the build, build, build program of the government contributes to the continuous increasing growth rates in the Philippine real estate industry. The real estate industry is one of the economic drivers and has significant relationship on the economic growth performances of the Philippines.

## 1.0 INTRODUCTION

Real estate is the most basic resource in the world. It refers to the land and those attached to the land (Republic Act, 2009). Real estate provides area or space for many activities of the economy and resource, touches the lives of many people than any other single commodity and believe to be the most traditional investment, the most lucrative and the safest investment based on the risk return of real estate investment.

The shape of the Philippine Real Estate industry has changed dramatically over the years. In particular, the property market has grown robustly over the last twenty years as increasing demand for residential and commercial properties in the country became ever more evident against the backdrop of the changing economic landscape together with growing economy of the country. Romer (2017)

pointed out that the recent encouraging developments in Philippine economy bode well for on the real estate industry and also reported that the property industry has already been doing very well in the past few years and continuously growing amidst of rising global uncertainties. The property market across all its sectors (including office, residential, logistics, retail, and hospitality segments) poised for continued growth. The government's investments in infrastructure through the Build, Build, Build program also contributed to the positive outlook on the economy and the projected expansion of outsourcing industry, the sector seen to grow even more robustly, within the next years to come.

This study aims to determine the historical trend of the Philippine Real Estate Industry and the economic growth performances of the Philippines from 1997 to 2017 in terms of employment and gross domestic product (GDP).

The study also attempts to establish any significant relationship between the real estate industry and economic growth performances.

## 2.0 RELATED LITERATURE

Real estate refers to the physical property technically define as land and its attachment. It represents a significant portion of most peoples' wealth. There are two types of real estate property, the commercial real estate property and residential real estate property. Typically, a property can be purchase by an individual for own use consumption or for investment purpose with the aim of earning a high return by selling it in the future.

Gross domestic product (GDP) is one of the macroeconomics measures. It measures the total value of domestic production for the entire domestic economy. The aggregate integrates consumers' governments and investors' spending money within the nation that includes the net exports (exportations- importations). As GDP is an indicator of the economy, a high GDP is synonym of a favorable economic condition value and that should positively drive investments

Reshidi *et al.* (2015) stated that real estate price performance increases due to an increase in demand and rapid economic growth and recognizes the structural shocks that may affect both the demand and supply sides.

Based on studies real estate typically generates gross domestic product (GDP), creates jobs and is the source of nearly big percentage of local government revenues. Because of the significant influence of real estate on the nation's economy, housing starts and sales are widely viewed as leading economic indicators.

According to Romer (2017), globally, the real estate sector is one of the most profitable ventures of several economies and one of the indices of measuring economic growth of a society. It mirrors the economic viability and sustainability of an economy and its poverty level. In general, the level of infrastructure development in a country says a lot about its economic status.

## 2.1 Conceptual Framework

This framework shows the relationship of the Philippine real estate industry to economic growth in the Philippines.

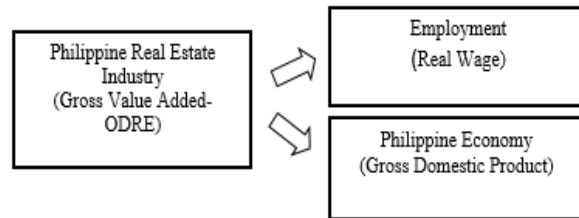


Figure 1: A conceptualized model on the relationship of real estate business to the economic growth in the Philippines

Gross value added (GVA) is the measure of the contribution to aggregate output of the real estate business sector. It covers the various activities involved in the real estate industry, including development of real estate properties such as residential and nonresidential buildings and dwellings, lease of real properties, marketing activities of real estate agents, managers and brokers, etc. as basis of the economic performance of the country: employment and gross domestic product.

## 3.0 METHODOLOGY

This study is a time series analysis. Secondary data were used in determining the historical trend, growth of real estate industry and economic performances of the Philippines. In order to answer the problems specifically, the following statistical tools were used: frequency and percentage was used to measure the volatility of Philippines real estate industry performance, gross domestic product and employment rate. Pearson product-moment correlation ( $r$ ) was used to test the null hypothesis of no significant relationship between the real estate industry and the economic growth performance in the Philippines. The computed Pearson Coefficient of Correlation,  $r$ , was interpreted based on the following scale:  $\pm 1.00$  Perfect Correlation,  $\pm 0.91$  to  $\pm 0.99$  Very High Correlation (VHC),  $\pm 0.71$  to  $\pm 0.90$  High Correlation (HC),  $\pm 0.51$  to  $\pm 0.70$ , Moderate Correlation (MC),  $\pm 0.31$  to  $\pm 0.50$  Low

Correlation (LC), Less than  $\pm 0.01$  to  $\pm 0.01$  to  $\pm 0.30$  Negligible Correlation (NC), 0.00 No Correlation.

#### 4.0 RESULTS AND DISCUSSION

Table 1: The Philippine real estate industry performance from 1997 – 2017

Year	At Current Prices	Growth Rate
1997	-	-
1998	48,006	-
1999	49,206	2.5%
2000	48,561	-1.3%
2001	46,356	-4.5%
2002	47,510	2.5%
2003	53,956	13.6%
2004	66,069	22.5%
2005	82,057	24.2%
2006	102,089	24.4%
2007	123,904	21.4%
2008	155,655	25.6%
2009	147,558	-5.2%
2010	178,922	21.3%
2011	217,870	21.8%
2012	265,361	21.8%
2013	323,213	21.8%
2014	369,145	14.2%
2015	408,267	10.6%
2016	444,111	8.8%
2017	502,078	13.1%

As shown in Table 1, no real estate performance was registered in the Philippines in 1997 due to the impact of the Asian Financial Crisis that shook most of Asian economies. It was in 1998 when real estate industry back into business that registered a 2.5% growth rate in 1999 but had a decreased of -1.3% in 2000 and continuously decreased to -4.5% in 2001.

In 2003, the growth rate of the real estate industry reached to 13.6% because of the increased of Overseas Filipino Workers (OFW) and investments in the Philippines and continuously increased up to year 2008. A -5.2% decreased was register in 2009.

The real estate industry became stable in the year 2011 to 2013 when it registered a 21.8% growth rate. In 2017, a 13.1% growth rate was register and presently continuously increasing

because of the Build, Build, Build program of President Rodrigo Duterte’s administration.

Table 2: The Philippine Gross Domestic Product (GDP) from 1997-2017

Year	GDP	GDP Growth Rate
1997	82.34 billion USD	5.2% annual change
1998	72.21 billion USD	-0.6% annual change
1999	83 billion USD	3.1% annual change
2000	81.03 billion USD	4.4% annual change
2001	76.26 billion USD	2.9% annual change
2002	81.36 billion USD	3.6% annual change
2003	83.91 billion USD	5.0% annual change
2004	91.37 billion USD	6.7% annual change
2005	103.1 billion USD	4.8% annual change
2006	122.2 billion USD	5.2% annual change
2007	149.4 billion USD	6.6% annual change
2008	173.9 billion USD	4.2% annual change
2009	168.3 billion USD	1.1% annual change
2010	199.6 billion USD	7.6% annual change
2011	224.45 billion USD	3.7% annual change
2012	250.1 billion USD	6.7% annual change
2013	271.8 billion USD	7.1% annual change
2014	284.6 billion USD	6.1% annual change
2015	292.8 billion USD	6.1% annual change
2016	304.9 billion USD	6.9% annual change
2017	313.6 billion USD	6.7% annual change

As presented in Table 2, the Philippine gross domestic product rate (GDP) decreased to -0.6% in 1998 after the Asian Financial Crisis that caused the economy slip into recession. With the improvement of the economy in 1999 the GDP gross rate continuously increased to 4.4% in 2000 but again decreased to 2.9% in 2001.

From 2002 to 2004, the Philippines managed its domestic economy despite the Iraq war and the prevailing peace and order problems in the other parts of the country. The US Financial Crisis and the strong typhoon that hit the Philippine archipelago also caused the decreased of the GDP gross rate of the Philippines in 2008 that even reached to 1.1% in 2009.

The changed in the Philippine administration leads the 7.6% increase in GDP rate in 2010 but decreased again to 3.7% in 2011. Year 2012 to 2017 shows slightly movement on the Philippine GDP rate and believed to continuously grow in today's government administration.

Table 3. The Philippine employment rate from 1997-2017

Year	Employment Rate	Underemployment Rate
1997	91.70%	21.95%
1998	89.80%	22.25%
1999	90.27%	22.37%
2000	87.50%	23.25%
2001	90.20%	16.60%
2002	88.60%	16.98%
2003	88.37%	17.33%
2004	89.00%	17.50%
2005	88.70%	16.10%
2006	91.90%	21.30%
2007	93.70%	18.10%
2008	92.60%	18.90%
2009	92.90%	19.40%
2010	92.70%	19.70%
2011	93.00%	19.30%
2012	93.00%	20.00%
2013	92.80%	19.00%
2014	93.20%	18.40%
2015	93.70%	18.50%
2016	94.50%	18.30%
2017	94.35%	16.10%

There was a slight increased and decreased of the employment rate in the Philippines from 1997 to 2017 as shown in Table 3. It was in 2007 when the Philippines has a 93.70% employment rate due to the BPO investments that were established. The Philippines has a 94.50% employment rate in 2016 and the Philippine government is optimistic that will continuously increase on the next years to come.

Table 4. Test of significant relationship between the real estate industry and the economic growth performance in the Philippines

Indicator	Computed r-value	Verbal Interpretation	Computed t-value	Verbal Interpretation
Gross Domestic Product	0.9	High Correlation	2.876	Significant
Employment Rate	0.82	High Correlation	2.514	Significant
Critical value at $\alpha.05 = 2.447$				

Tabular results in Table 4 revealed a high correlation on gross domestic product (GDP) and employment rate with + 0.90 and + 0.82 r-values respectively.

This finding signifies that there is significant relationship between the real estate industry and the economic growth performance in the Philippines in terms of gross domestic product (GDP) and employment rate. The computed t-values of 2.876 and 2.514 are greater than the critical value 2.447 at  $\alpha.05$ .

## 5.0 CONCLUSION

Real estate was one of the biggest losers during the 1997 Asian Financial Crisis wherein there was no register rate performance in the Philippines but became stable on the following years. The Overseas Filipino Workers (OFW), investments and the build, build, build program of the government contributes to the continuous increasing growth rates in the Philippine real estate industry.

Despite of the calamities, political problems, peace and order situations in other areas and in neighboring countries, many investors local and foreign are considering Philippines as the prime

destination of investments that leads to the continuous growth in its economy in terms of gross domestic product and increasing employment rates.

The real estate industry is one of the economic drivers and has significant relationship on the economic growth performances of the Philippines.

It is recommended that the Philippine government should continue to build more infrastructure projects that will encourage more local foreign investors to invest in the Philippines. Provide more programs that will help the local investors and lessen political activities.

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