

Subic Bay Freeport

Bataan Province, Republic of
the Philippines

Project Type:
Commercial/Industrial

Case No:
C029014

Year:
1999



SUMMARY

A 4,100-hectare (10,127-acre) business, industrial, shipping, aviation, residential, and tourism site located within the Subic Bay special economic zone (SEZ). The Subic Bay Freeport (SBF) is the result of a public sector adaptive use effort by the Subic Bay Metropolitan Authority (SBMA) to convert the former Subic U.S. Naval Base.

FEATURES

- Public/private development
 - Adaptive use
 - Large-scale development
 - Special economic zone
 - Industrial, commercial, and tourism uses
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SPECIAL FEATURES

- Public/private development
- Adaptive use
- Large-scale development
- Special economic zone
- Industrial, commercial, and tourism uses

DEVELOPER

Subic Bay Metropolitan Authority
B 229, Administration Building
Waterfront Road, SBFZ, Philippines 2222

GENERAL DESCRIPTION

In 1992, the Subic U.S. Naval Base was turned over to the Philippine Government and converted to the Subic Bay Freeport (SBF), commonly referred to as Subic, after American military forces withdrew from the Philippines. The Subic Bay Metropolitan Authority (SBMA)—the public agency created to develop the site—has attracted domestic and international companies by using economic incentives, the site's excellent infrastructure, its strategic location in the center of the Pacific Rim, and a community offering a quality of life that is unique in the Philippines.

The SBMA capitalized and expanded on the infrastructure it inherited from the U.S. Navy. Located within Subic are a deepwater slip, an airport, a 12-megawatt power plant and a new 118-megawatt power plant, water and sewage treatment facilities, almost 2,000 housing units, modern telecommunications infrastructure, and an 80-kilometer (49-mile) network of roads. In addition, almost 2,200 hectares (5,434 acres) of pristine forest were preserved and are now a popular tourist draw. Key sites at Subic include the central business district (CBD), an industrial park, a technology park, and a nature reserve.

The SBMA and the Philippine government created a special customs district within the SBF to promote the economic and social development of the country and of central Luzon. Subic has one of the first start-up Global TransParks, which takes advantage of the freeport's air, sea, and land transportation to promote commercial and manufacturing activities. Since its start in 1992, the SBF has attracted more than \$2.3 billion in investments by tenants such as Federal Express, AT&T, Volvo Penta, Acer, Hitachi, and Enron Power.

SITE AND HISTORY

Subic is located 110 kilometers (68 miles) northwest of Manila on the island of Luzon, the largest island in the Philippines. Neighboring Olongapo City, located just outside Subic, has a population of 200,000. Subic's central Pacific Rim location is ideal for shipping and air transit: by air, Subic is only three hours from Bangkok, two hours from Hong Kong, 3.25 hours from Singapore, and four hours from Tokyo.

The protective mountains surrounding the natural deepwater harbor at Subic have made it an ideal port since the Spanish used it as an outpost in the 19th century. After the Spanish American War, U.S. forces maintained a presence in Subic until it was taken over by the Japanese during World War II. American forces regained control of the base after the war and remained after Philippine Independence under the 1947 Military Bases Agreement. Subic Bay became the largest U.S. military port outside the United States and a major military staging area during the Korean and Vietnam Wars. 1991 was a critical year for the future of Subic Bay: after it narrowly escaped serious damage from the eruption of Mt. Pinatubo, the nationalist Philippine senate rejected the renewal of the Military Bases Agreement, and American forces left the Philippines by 1992.

The departure of American forces had a major impact on the local and national economy: 43,000 residents of the surrounding communities had been employed in skilled and service jobs on the base, and the Philippine Government received substantial revenue from the lease agreement with the U.S. government. Faced with a tenuous future but also with a unique opportunity, the Philippine government created the Bases Conversion Development Authority (BCDA) in 1992 to guide the conversion of the American bases at Subic Bay, Clark Field, and Camp John Hay to special economic zones (SEZs).

The goal of the SEZs is to attract domestic and foreign investment by creating a special customs district. Subic allows tax and duty-free imports, unrestricted foreign investment, no foreign exchange control, and exemption from all local and national taxes. The only charge on businesses within Subic is a 5 percent corporate tax on gross income. Money generated from the corporate tax covers SBMA expenses, and the excess revenue is given to the national government.

The SBMA was established to act as the operating and implementing arm of the BCDA. Richard Gordon, the former mayor of Olongapo City, became the first chairman of the SBMA and served until replaced by Felicito C. Payumo in 1998. Gordon was an influential figure with the SBMA who was known for his salesmanship, and he is generally credited with developing the early vision of the freeport.

The SBMA is composed of a board of directors with 15 members—two from the national government, five from the private sector at the former naval installation, and eight from the business and investment sector. All members are appointed by the president; members of the business and investment sectors serve a three-year term and the others serve a six-year term.

DEVELOPMENT

The SBMA strategy uses the existing infrastructure, the site's strategic location, and the area's skilled English-speaking labor force to bolster the regional and national economies. The freeport's central Pacific Rim location along with its status as a special customs district made it a prime site for a Global TransPark (GTP).

GTPs combine manufacturing and distribution with multimodal transportation, advanced telecommunications, and links to both international and domestic suppliers and customers. Their full potential will be realized when a network

of GTPs is created. In addition to Subic, GTPs also are being developed in North Carolina and Thailand, with plans for parks in Germany, Brazil, Panama, South Africa, and the Mideast.

To develop the regional economy, the SBMA has joined with the Clark Development Corporation (CDC), the development authority at the former U.S. military base at Clark Field. The SBMA and the CDC recently finished the engineering plans for a 90-kilometer (56-mile), six-lane highway to link the two SEZs, opening up new tracts of flat and developable land, and attracting businesses that will be able to use the SBF's deepwater port and Clark's new air-cargo hub and distribution center. As envisioned, the growth corridor's easy access to international markets and shipping and air facilities will compete with metro Manila and other Pacific Rim industrial and manufacturing centers.

The SBMA is also developing Subic as a tourism site. Although tourism and industrial uses would seem to conflict, the site has benefited from the fact that while much of the Philippines has been deforested, the U.S. military left large tracts of pristine forests virtually untouched. The forests, white beaches, and clear water draw more than 100,000 tourist a week during the peak summer season.

Convenience and security are a major draw for the tenants. The SBMA created a "one-stop shop" with on-site branch offices of the departments of immigration, customs, and internal revenue, relieving investors of the need to go to Manila to conduct business with government agencies. In consideration of the security concerns of many foreigners working in the Philippines, the SBMA maintains its own police force, and a controlled access fence surrounds Subic. Subic also has its own hospital, fire department, and 911 service. While these may seem the norm in many industrialized countries, this level of security and service sets Subic apart from its competition in the Philippines.

INFRASTRUCTURE

The extensive infrastructure left by the U.S. military provided an excellent foundation for making the transition from military to industrial uses. Subic already was equipped with power, water, and sewer systems. It also had a deepwater pier, an airport, and an 80-kilometer network of roads. In addition, the existing buildings could be easily adapted for use as offices, hotels, housing, stores, schools, warehouses, and factories.

The SBMA built a new 118-megawatt plant under a build/operate/transfer program to complement the 12-megawatt power plant built by the U.S. Navy. The new power plant serves Subic, and the excess power supplies the national grid. The water and sewerage facilities left by the U.S. military have been adequate for the tenants' needs, and Subic is using a \$40 million loan from the World Bank to tap new water sources for future development.

Inadequate power supply and the frequent "brownouts" have been a chronic problem throughout the Philippines. Subic's power generally is more dependable than that in most areas, but occasional brownouts and higher than expected power, water, and sewer utility costs have become a point of contention with many investors. Tenants were promised 100 percent uninterrupted power by the SBMA under Gordon, and the current administration is tasked with easing investor tensions while making good on the promise.

Subic's airport has a 2,700-meter (8,852-foot) runway with state-of-the-art navigational and communications equipment, and it is capable of accommodating 17 wide-bodied and three 747 jets at one time. The new passenger terminal can serve 700 people per hour. Almost 100,000 incoming/outgoing passengers were recorded on more than 1,000 international and nearly 6,000 domestic flights during 1998. Subic's new \$1.6 million Transponder Landing System—the first of its kind in Asia—was just put into operation, allowing planes to land during severe weather conditions. One of Subic's largest tenants is Federal Express, which has made Subic its Asian Regional Hub.

The deepwater pier at SBF can accommodate supertankers, with docking facilities for up to 70 ships. The port area encompasses 41 hectares (101 acres) and includes a fixed pier, a movable pier, a cold-storage facility, 22 warehouses, and a container yard. The Japan International Cooperating Agency (JICA) is providing technical assistance by creating the Subic Port master plan. Within ten years the SBMA plans to develop the port to a full-scale container terminal with automated container-handling systems and new cranes. The SBMA hopes the port's improved infrastructure and easy access to major shipping lanes will allow it to compete directly with Manila.

Many existing buildings on the base were kept and reused or converted to other uses. The SBMA used the former military offices as its headquarters, old ammunition bunkers were turned into warehouses, and the base commissary now is used for duty-free shopping. Instead of waiting for construction, many tenants have been able to move into an existing building and start operations with minimal delay.

Almost 2,000 houses were retained and now are leased to executives working in the SBF or as weekend vacation homes. Roughly 3,000 residents live within Subic. A small community of waterfront luxury homes was built near the naval magazine to house the leaders from the Asian Pacific Economic Community (APEC) when Subic hosted its conference in 1997. The homes were sold after the conference. Future residential development is targeted for the marina area and Redondo Peninsula, a 3,800-hectare (9,386-acre) tract of land on the opposite side of the bay.

The existing telecommunications infrastructure was improved by replacing the trunk lines with fiber-optic cables and a 5 ESS digital switching system that is capable of handling 100,000 lines. Subic is the only place in the Philippines with direct satellite, fiber-optic, and microwave communication connections.

TOURISM

Tourism is an integral part of Subic's development strategy, drawing almost 100,000 visitors per week during the peak summer season to its diverse attractions, which include casinos, duty-free shopping, yachting, golfing, water sports, restaurants, special events, and natural attractions. The Asian economic crisis has slowed the tourist trade—especially duty-free shopping—but Subic remains a major destination for foreign and domestic tourists.

To accommodate tourists, Subic has three hotels offering 600 rooms; the hotels combine new construction with adaptive use of existing buildings. Legend International, a Malaysian resort development firm, converted the former bachelor officer quarters into the Crown Peak hotel/casino. The firm also built the Legenda and Subic International hotels; both also have casinos and cater to Malaysian and Taiwanese clientele. Subic's \$76 million yacht club—host of the President's Cup Regatta—is the centerpiece of the seaport, and there are plans to develop waterfront villas and a commercial center in the future.

More than 1,900 hectares (4,693 acres) of forest provide a scenic natural environment ideal for eco tourism. Revenue generated by the SBMA is used to protect the forest from illegal logging and poaching. Subic's forest provides habitat for hundreds of plant and animal species, including the world's smallest and largest bats. The rich marine environment found in the bay, which includes several shipwrecks, attracts scuba divers from around the world.

The SBMA is careful to balance development with environmental issues, realizing that the beautiful scenery greatly contributes to the quality of life at Subic. Few places in the Philippines offer Subic's amenities, which provide an advantage over competing industrial areas, many of which are located in congested and polluted urban areas.

LAND USE

The key development sites—the Central Area, the Subic Bay Industrial Park (SBIP), and the Subic Technopark (STEP)—are spread throughout the SBF. Although each component has its own plan, the SBMA realizes that it needs to create a master plan that unifies and guides the development of all the areas.

The Central Area encompasses 181 hectares (447 acres) where the administrative offices, commissary, and housing for the U.S. Navy were located. It is now Subic's central business district, concentrating office, hotel, commercial, and entertainment uses and tourism. A recent master plan, funded by the World Bank and designed by Kenzo Tange Associates, focuses initial resort hotel development along the waterfront.

The 300-hectare (741-acre) Subic Bay Industrial Park is a joint development of the SBMA and United Development Corporation of Taiwan. The park is targeting nonpolluting light to medium industries. SBIP's first major tenant was ACER, a computer manufacturing company based in Taiwan that now occupies three factory buildings and employs more than 1,000 people.

The Subic Technopark is a joint venture of the SBMA, the Japanese International Development Organization (JAIDO), and several Japanese entities that together form the Subic Technopark Corporation. The 60-hectare (148-acre) park targets nonpolluting, high-technology, and high-value added industries, most from Japan. STEP has developed the land and leases parcels to developers for up to 50 years. STEP also has developed for-lease space on the site. The site's hilly terrain and adjacent protected forest made developing the site challenging. Although the infrastructure is now in place, STEP's poor timing in entering the market at the start of the Asian economic crisis has resulted in a sluggish start.

Despite Subic's size—4,100 hectares (10,127 acres)—only 20 percent of the land, which is limited by its topography and conservation areas, is suitable for development. An additional limitation is the poor bearing capacity of the soil—the cost of building a foundation almost prohibits high-rise development. An important issue for the SBMA will be to maintain its environmental standards to ensure that future development will not be at the expense of the natural areas.

The SBMA's long-term strategy for overcoming its limited supply of land is to extend the economic advantages of the freeport (tax- and duty-free imports, unrestricted foreign investment, no foreign exchange control, etc.) to the neighboring communities. While the boundaries of Subic would remain the same, the expanded areas with freeport status would encompass 53,000 hectares (130,910 acres). Businesses could start operations outside Subic but take advantage of its transport and communications facilities. In addition, the superhighway linking Subic with Clark will open up more land for development and establish the area as a key economic hub in the Philippines.

EXPERIENCE GAINED

- Offering facilities that are better than the domestic competition is a start but it is not enough to compete in a global market. The SBMA inherited excellent facilities from the U.S. Navy but continued to upgrade the power, water, air, shipping, and telecommunications infrastructure to maintain its international competitiveness.
- Providing a stable business environment is the key to Subic's success. The SBMA learned a hard lesson when President Estrada replaced former SBMA chairman Gordon. Tensions flared and a two-month standoff ensued when Gordon refused to allow his successor to take over. The widely publicized turmoil was a blow to Subic—for two months tourism came to a standstill, infrastructure improvements halted, and investors questioned the future stability of the freeport. The crisis eventually ended without the loss of any investors, but the SBMA knows that in the future tenants will not have the patience for domestic political squabbles.

- Large-scale developments require the flexibility to evolve over time. In the early years of development, emphasis was placed on tourism and duty-free shopping. The strategy worked well, but in retrospect Subic may have been better off promoting industrial development early on. Now that industrial development is underway, the SBMA is refocusing its efforts on office development.
- Creating a development authority is a challenge. Establishing laws, procedures, and responsibilities takes time and is prone to conflict. The roles and powers of the SBMA now are being reexamined to see whether they run counter to the financial interest of the national government, which wants more revenue from Subic.
- The forging of a symbiotic relationship between development and the environment is an important part of Subic's success. The beautiful scenery draws many tourists and investors, while the revenue generated from development helps protect and preserve Subic's natural areas.

PROJECT DATA		
LAND USE INFORMATION		
Use	Hectares	Acres
Industrial	360	889
Commercial/mixed use	90	222
Transportation	325	802
Tourism/recreation	245	605
Utilities	68	167
Residential	358	884
Community facilities	263	649
Green buffer	2,199	5,431
Special areas	193	476
SUBIC BAY TECHNOPARK		
Site area: 44 hectares (108 acres) Number of buildings: 5 Gross building area (GBA): 172,138 square meters (1,850,946 square feet) Office: 5,576 square meters (59,956 square feet) Warehouse/industrial: 160,513 square meters (1,725,946 square feet)		
SUBIC BAY INDUSTRIAL PARK PHASE I		
Site area: 105 hectares (259 acres) Number of buildings: 20 Gross building area (GBA): 112,224 square meters (1,206,709 square feet) Office: 3,848 square meters (41,376 square feet) Warehouse/industrial: 108,376 square meters (1,165,333 square feet)		
SUBIC BAY INDUSTRIAL PARK PHASE II		
Site area: 55 hectares (135 acres) Number of buildings: 9 Gross building area: 30,829 square meters (331,494 square feet) Warehouse/industrial: 30,829 sq. M (331,494 square feet)		
DEVELOPMENT SCHEDULE		
Subic Naval Base converted into a freeport: 1992 Planning started: 1992 Construction started: 1994 Leasing started: 1993 Completed: Ongoing		

DIRECTIONS

Subic Bay is linked to the Philippines and cities throughout Asia by land, sea, and air.

By sea: Grand Seaway Ferry, Mt. Samat Express, Eagle Ferry, and Young Holiday companies run from Manila to Bataan. From Bataan, the SBF is a 15-minute drive via the Morong Gate entrance.

By air: Air Asia, Far Eastern, Dragon Air, and China Southern International airlines fly several direct charter flights from Hong Kong, Kuala Lumpur, and Kaohsiung to the Subic Bay International Airport.

By land from Manila: From Manila, take the North Expressway to the San Fernando exit in Pampanga. Upon exiting, turn right and head straight for Olongopo City. You will pass through the towns of Guagua and Lubao in Pampanga and Dinalupihan in Bataan before you enter Olongopo. Signs will lead you to the freeport.

Driving time: Approximately two hours in nonpeak traffic.

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI-the Urban Land Institute.

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The SBMA's waterfront office used to be the headquarters for the U.S. Navy's top brass. The SBMA created a "one-stop shop" with on-site branch offices of the department of immigration, customs, and internal revenue, eliminating the need for investors to go to Manila to visit government agencies.



A rendering of the Kenzo-Tange and Associates plan for the development of the SBF Central Area. The plan will concentrate office, commercial, and tourism development along the waterfront.



The new passenger terminal at Subic Bay International Airport can serve 700 people per hour and has state-of-the-art navigational and communications equipment capable of accommodating 17 wide-bodied and three 747 jets at one time. The airport serves as the Asian hub of Federal Express.



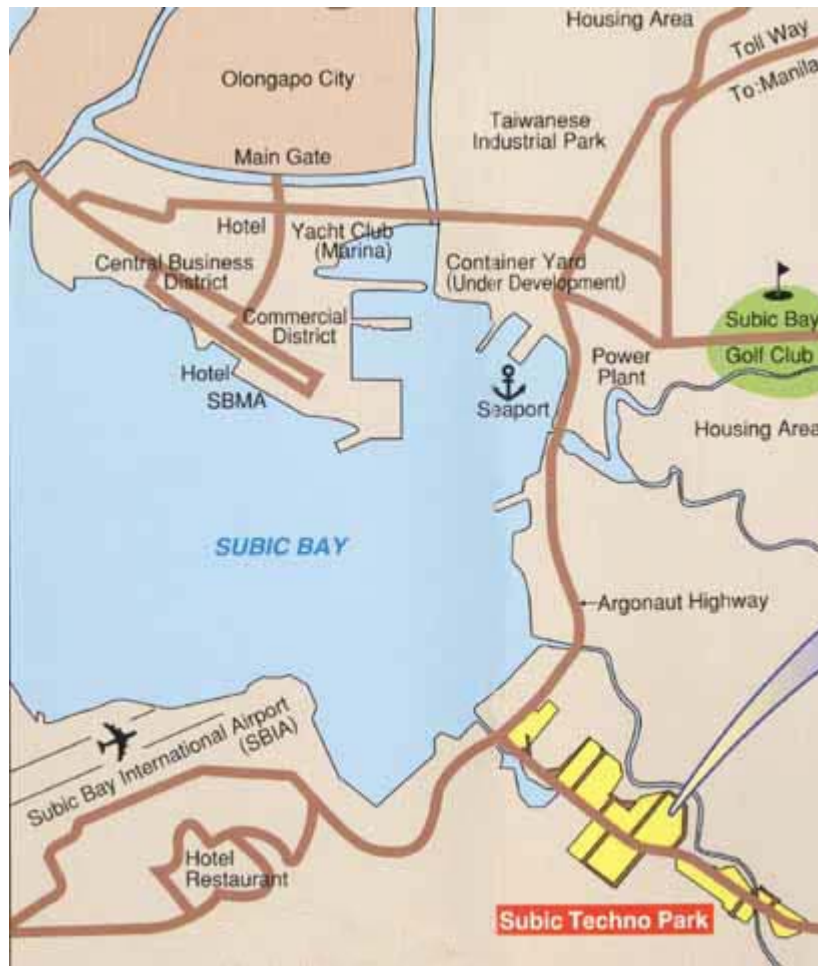
Once housing for U.S. Navy personnel, these buildings now have been converted into hotels and casinos by Legend International, a Malaysian resort development firm.



Subic's newly constructed \$76 million yacht club, just one Subic's many tourist draws, hosts the president's Cup Regatta.



The Taiwan-based company ACER was the first to operate in the Subic Bay Industrial park (SBIP), a joint development of the United Development Corporation of Taiwan and the SBMA. The SBIP targets nonpolluting light to medium manufacturing industries.



Subic Bay freeport zone.



Subic/Manila area.