

Land Conversion: Transforming Urban Military Baselands To Higher Economic Uses

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ABSTRACT

The defense of the nation's sovereignty, the protection of the environment and natural resources can be carried out only to the extent that the Philippines can get other nations to respect its rights over its maritime territory, partly through diplomacy and the show of military force. Given the Philippines' current fiscal situation, there can be little argument that the Armed Forces of the Philippines (AFP) would not be able to pursue its overdue equipment-intensive modernization from traditional sources of government funds. If ever, the level of direct government funding will meet only a fraction of its capability needs. This economic reality calls for creative options: what the AFP lacks in financial assets, it can make up by converting AFP military camps located in various urban areas of the country as equity thru Private-Public-Partnership (PPP) economic activities to generate funds for the currently underfunded AFP modernization program.

This novel "project" once "implemented" is expected to generate valuable resources for the DND and the AFP other than the normal cash flow from the annual General Appropriations as stated in the National Expenditure Program. In addition, the project can help directly sustain the country's inclusive economic growth not counting its attendant local economic activities such the collection of taxes, the creation of thousands of jobs, and most especially the long-term effects of the project to the forward and backward economic linkages of the country, including its direct impact in the generation of wealth for the improvement of the country's quality of life.

Keywords: *Public-Private-Partnership, long term lease, military camps, land conversion, generation of wealth, economic linkages, inclusive economic growth*

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INTRODUCTION

The proposed urban land conversion of various military base lands into higher economic uses located in the urban areas of the country is a novel project in the country once implemented. This will be a bold policy shift on the part of the Defense Department, from its traditional role as purely resource employer into a new realm of a self generating government agency. The succeeding discussion in this paper will involve the review of several existing Philippine fiscal and defense related policies, and in the end will provide vital insights and practical recommendations, anchored in sound economic theories, on how to proceed with the proposed military land conversion thru regional economic macro analysis and existing legal framework, notably under the various modalities as provided in the Public-Private Partnership (PPP) program in the country.

The proposed urban baseland conversion, from its current utilization as an institutional areas used for military purposes into higher economic uses of the various real estate properties under the Department of National Defense (DND) through market forces of land supply and demand is expected to generate valuable resources for the much delayed Armed Forces of the Philippines (AFP) Capability Upgrade Program (CUP) as provided under Republic Act 7898 as amended by Republic 10349 (AFP Modernization Act) in particular but also to the improvement of the various economic activities of the country in general. The proposed conversion of these various real estate properties as equity will enable the DND and AFP to generate funds for the delayed and underfunded AFP CUP, aside from the traditional cash flow as provided in the annual General Appropriations by the Legislative Department in the National Expenditure Program (NEP) of the government.

The potential conversion of various military baselands in major urban growth centers into higher economic uses, will be the country's first massive urban land use conversion after the enactment of RA 7227 as amended by RA 7917, and further amended by RA 9400 (BCDA Law), which converted various military baselands by provisions of law and not by economic forces. The enactment of BCDA Law in 1992 resulted to sudden over supply of raw lands in Metro Manila in the late 1990's, after the uncontrolled conversion of the various former United States military facilities in Metro Manila and other parts of Central Luzon in 1992 into higher economic uses. BCDA Law was initially thought to provide direct funds, in the hope to generate much needed resources for the government.

These paper will be discussing in broad details the various political and economic ramifications of the "2010 State of the Nation Address (SONA) Policy Pronouncement" and a detailed discussion on the desired methodology on how to implement the President's directive with regard to the conversion and subsequent development of various DND and AFP owned and administered real estate in urban areas, from its current use as military camp into higher economic uses in order to generate funds for the "capability upgrade" of the AFP in consideration to the legal and political "constraints and restraints" prior its disposal. Whatever legal, fiscal and urban planning standards that might be established as a result of the pioneering military baseland conversion project, can served as benchmarks for the DND and the AFP in the succeeding land conversion process of large tracks of prime real estate being used as military camps located across the various urban areas of the country.

Specifically, the paper will conduct an intensive policy and fiscal assessment on how the DND and the AFP can carry the policy pronouncement as stated by President Aquino SONA in the 2010 which mentioned the potential conversion of the AFP administered BNS Lot 1 real estate property in Taguig City, into other higher economic uses by taking into consideration the various existing policy and fiscal directives of the government and the sound planning theories, anchored on practical urban and regional planning experience in the country.

Further, this paper will take a peek on the fiscal potential of the land conversion process into higher economic uses as it can generate sustainable resources for the DND and the AFP. The land conversion to higher economic uses of various DND and AFP owned and administered military camps in the middle of Mega Manila, Metro Cebu and Metro Davao, together with large tracks of military lands in the promising regional growth centers of Cagayan De Oro City, Puerto Princesa City and Tarlac City, will greatly re-shaped the land use pattern of its host local urban communities. Initially, these land conversion to higher economic use will be pilot tested in BNS Lot 1 in Taguig City thru a comparative analysis on the actual experience of BCDA in the disposal of Fort Bonifacio in Taguig City and Clark Airbase in Pampanga and by taking into

consideration the other government agencies experience in the disposal of other large tracks of government lands, between long term lease and thru outright sale.

Likewise, a comparative financial analysis on the different disposal modality in order to provide the DND and the AFP with the most appropriate methodology for an independent and sustainable source of funding for the Capability Upgrade, other than the annual general appropriations from the national budget as provided by the Legislative Department through the recommendation of the Department of Budget and Management. With the independent source of funds for its capability upgrade and modernization program, the national government could now re-focus some of the available funds to other social services, such as health and basic education, not counting additional funds for government infrastructure program on roads and bridges.

Notwithstanding, another military land conversion to other economic uses policy issue has surfaced from succeeding discussion on these paper. Whether the conversion of former US Military facilities in the country into other uses under Bases Conversion and Development Authority (BCDA) was able to achieve or failed to deliver its desired goals, notably for the improvement of the capability and materiel requirements of the Defense Department and jumpstart economic activities in the host communities after the departure of the US Armed Forces is another potential research agenda that is worthy to look at, probably using the more detailed “shift share analysis” on a local and regional perspective rather than the broad policy review and micro-economic sensitivity analysis used on these paper, as gathered from the various actual market data generated from the disposal of similar large tracks of public lands in Metro Manila recently.

Last, the over-all objective of this paper is to provide the broad policy review and fiscal analysis to influence macro-government policy decisions, on the potential positive economic ramifications of the military land conversion process as a novel idea for the DND and the AFP to generate its own fiscal resources and contribute to an inclusive economic growth for the country, by using its various real estate, mostly in tens to hundreds of hectares located in prime urban areas of the country as equity.

In particular, the supposed PPP Agenda using the DND and the AFP real estate as equity as mandated under the newly enacted AFP Modernization Act (RA 10349) will be pilot tested with 29.7-hectare BNS Lot 1. BNS Lot 1 is covered under PP No. 284 (s.2002), which excludes the area from the operation of Presidential Proclamation No. 461, series of 1965. PP No. 284 (s.2002) in particular excludes certain parcels of land of approximately 37 hectares and reserved the same as the “AFP Off-Base Housing for the AFP Personnel” and for “mixed-use component” to generate financial resources to support the AFP Modernization Program and the construction of AFP Housing Program across the country. The remaining 7.3 hectares designated as BNS Lot 2 under PP 284 (s.2002) is the current location of the Bonifacio Heights Condo, a medium-rise high-density housing development, developed thru a Joint Venture (JV) between the DMCI Construction and the AFP for the permanent housing requirements of AFP personnel in Metro Manila. BNS Lot 2 is located along Lawton Avenue, in Taguig City beside the 5-hectare former government mapping agency NAMRIA Complex and AFP JUSMAG Compound, which was already disposed thru sale under BCDA Law and converted into high-end residential block and shopping complex, dubbed as Forbes Town Center by Megaworld Corporation.



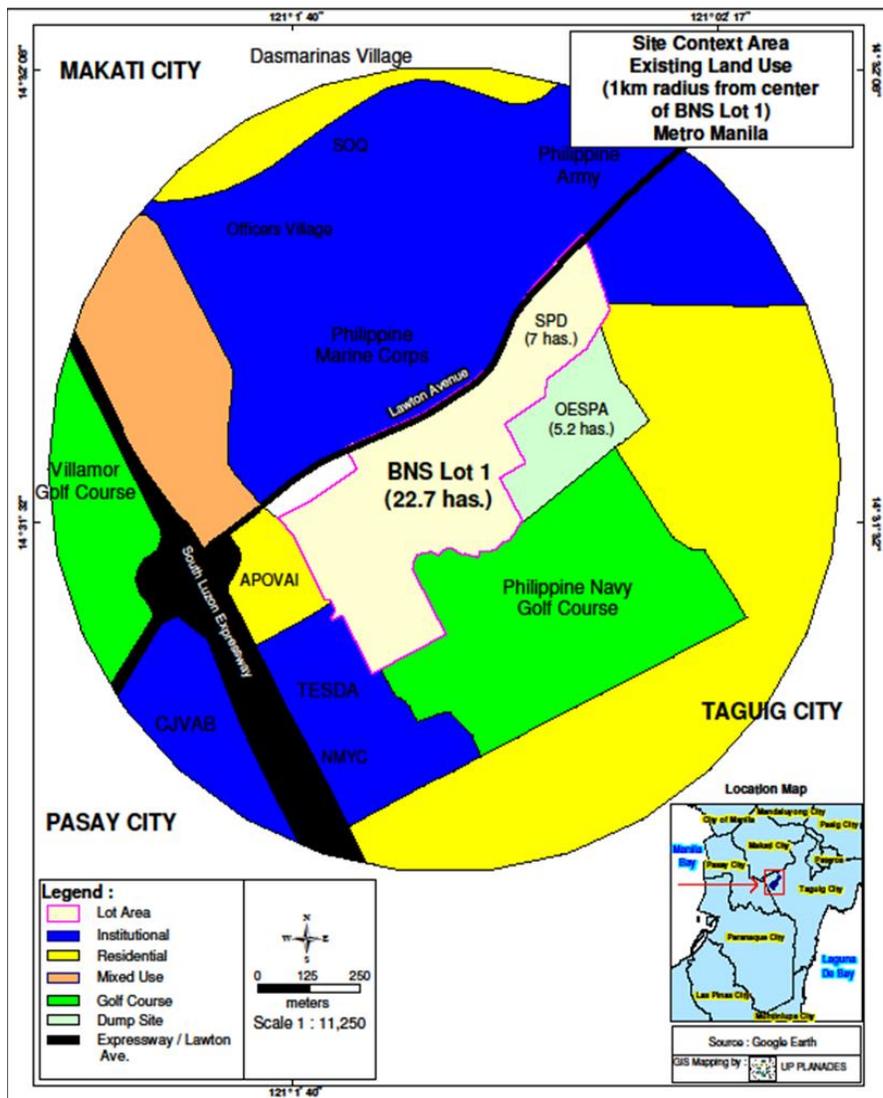


Figure 1
BNS Location Map

Source: UP-PLANADES
FS&MDP for the AFP
BNS Lot 1. 2012

Historically, BNS Lot 1 which was part of the larger military reservation, known then as “Fort William Mckinley” during the American occupation and then as “Fort Bonifacio”, after it was transferred to the AFP in 1957. Fort Bonifacio is part of the original 3,193.26-hectare Hacienda Maricaban owned by a certain “Dona Dolores Pascual Casal”. Fort Bonifacio was acquired by purchase in 1901 by Maj. Gen E.S. Otis of the United States Volunteers. The sprawling 2,578-hectare Fort Bonifacio (then Fort McKinley) was acquired by the US government for military purposes in 1902 by virtue of transfer of Certificate of Title (TCT) No. 2288. The purchase by the US Government was traced in two (2) documents: the Titulo de Propiedad, a Spanish land title, dated September 25, 1891, and Record No. 2484 issued by Judge S. del Rosario of the Court of Land Distribution on October 1, 1906. It was only on December 5, 1956 when the American Government, through the exchange of Diplomatic Notes No. 6034 and 3385 between the US Foreign Embassy and then Foreign Affairs Secretary Carlos P. Garcia, turned over to the Philippine Government all Torrens titles and other title claims held by the United States to all areas, whether public or private, used either in the past or at present as military bases, except, those that are used by the United States as diplomatic and consular establishments on what is now known as the American Cemetery. Subsequently, succeeding policy issuances were made



for the disposal of the “remaining areas of Fort Bonifacio” with an estimated 1,309.54-hectares under BCDA, out of the total 2,275.8734-hectares former US Military facilities in Metro Manila that were transferred to the Philippine government in 1956. The remaining areas are still being used as military camps by various units of the AFP in Metro Manila.

The abovementioned long-term lease concept of AFP real estate assets was an off-shoot of the “unsolicited proposal” submitted by a Singaporean led consortium, First Link, to the Philippine Navy on April 16, 2010 for the lease of BNS and HPN real estate’s thru PPP. However, initial examination made by the AFP on “First Link’s” unsolicited proposal revealed the lack of, among others, the required Feasibility Study (FS) to qualify its proposal as unsolicited pursuant to the existing Build-Operate Transfer Law (RA 6957 as amended by RA 7718) and its supposed previous experience in dealing with large scale real estate development. These findings were later affirmed by the Department of Finance (DoF) during the PN-DoF consultation meeting where Secretary Purisima of the Department of Finance raised concern on the capability and expertise of the consortium to undertake the project considering the consortium’s business competency is not on real estate development. Moreover, DoF’s suggested mode of disposal for the AFP properties is solicited rather than unsolicited. Absent a new law, First Link unsolicited proposal was subjected to the terms and conditions and all applicable provisions of the BOT Law.

In the course of doing due diligence on the unsolicited proposals made by First Link of Singapore and MRCB of Malaysia, the AFP found out a number of issues and concerns regarding the proper disposition of AFP real estate assets that require immediate action. It is to the AFP’s best interest that the preparation of FS and MDP of BNS Lot 1 preparatory to its disposal is necessary in order to determine the financial viability and its marketability and efficiency in the disposal of the property. These include, among others, the following:

- The current status of the AFP real estate properties that are subject for disposal are currently not declared as alienable and disposable;
- Neither the AFP nor the BCDA has previous experience in large-scale long-term leases save for Camp John Hay in Baguio City;
- Neither the AFP has the expertise and legal basis in disposing real estate properties; and
- The absence of a “benchmark” Feasibility Study (FS) and a Master Development Plan (MDP) as basis of evaluating proposals.

Likewise, in relation to the Department of Finance (DoF) Secretary Purisima’s Memo to President Aquino last January 6, 2011, the PN has continued to seek assistance and guidance from PPP Center, DoF PPP Task Force, and other concerned government instrumentalities for the successful implementation of this project. In order to carry out the specific instruction of President Aquino, the AFP established a core group of Officers under the PN Real Estate Management Office (PN REMO) to give focus on this various “non-traditional fund generation” activities and was directed to facilitate the preparation of a Feasibility Study (FS) and Master Development Plan (MDP) as “benchmark” for BNS Lot 1 property, as allowed under RA 9184 or the Government Procurement Reform Act:

- First option is through, on behalf of the command, bid out the conduct of FS and MDP. Several discussions and exploratory meetings were conducted on how could the BCDA assist the PN in evaluating the resultant FS & MDP;
- Second option is through the University of the Philippines (UP) to conduct the FS and MDP for the PN Projects under “Agency-to-Agency” procurement mode as allowed



- under RA 9184; and
- Third option is through the Bids and Awards Committee (BAC) to bid out through “competitive bidding process” as stipulated under the RA 9184 and its Implementing Rules and Regulation as amended (IRR-A) for the conduct of FS and MDP for consultancy service.

After thorough consultations, the DND and the AFP has decided to utilize the PN BAC to facilitate the conduct of the bidding process for the procurement of consultant that will undertake the FS and MDP in accordance to the recommendation of the various “subject matter experts”, notably those from the Department of Finance (DoF) PPP Task Force. The AFP interests are protected with the Terms of Reference (TOR) specifically drafted to tailor fit the AFP requirements including having full ownership of the resultant studies and in consideration to the BCDA Fort Bonifacio South Master Development Plan adjacent to BNS Lot 1.

The main objective of the completed FS and MDP is to present a holistic and comprehensive analysis of potential uses and users of BNS Lot 1, focusing on its efficiencies and capacity, optimal land use taking into consideration adherence to legal, environmental and social constraints and parameters. The outputs set forth deliverables in readiness for future implementation and provided a blueprint for the AFP in relation to the full development of BNS Lot 1, and to some extent, the integration in the development of the area reserved for the “Office of Ethical Standards and Public Accountability (OESPA) and the Philippine Navy Golf Club (PNGC)” as a site for future PN facilities affected by the implementation of BCDA Law and in support to the Morale, Welfare, Recreation (MWR) requirements of the AFP personnel within these three adjacent areas. To ensure that the BNS Lot 1 initiative will generate the best value for the government, the AFP initiated to commission a small group of market and financial analysts to conduct a “3rd Party Validation” to ensure due diligence and transparency, as such also to gather additional applicable financial and market data to validate the financial viability and marketability of BNS Lot 1 disposal through long-term lease.

The resultant deliberate efforts undertaken for the BNS Lot 1 conversion process using the solicited mode under the existing PPP framework and legal parameters of the country are established as more transparent methodology that will be recommended to be set forth as benchmark for other military land conversion projects across the country.

Market and Site Analysis: Balancing Land Supply with Demand

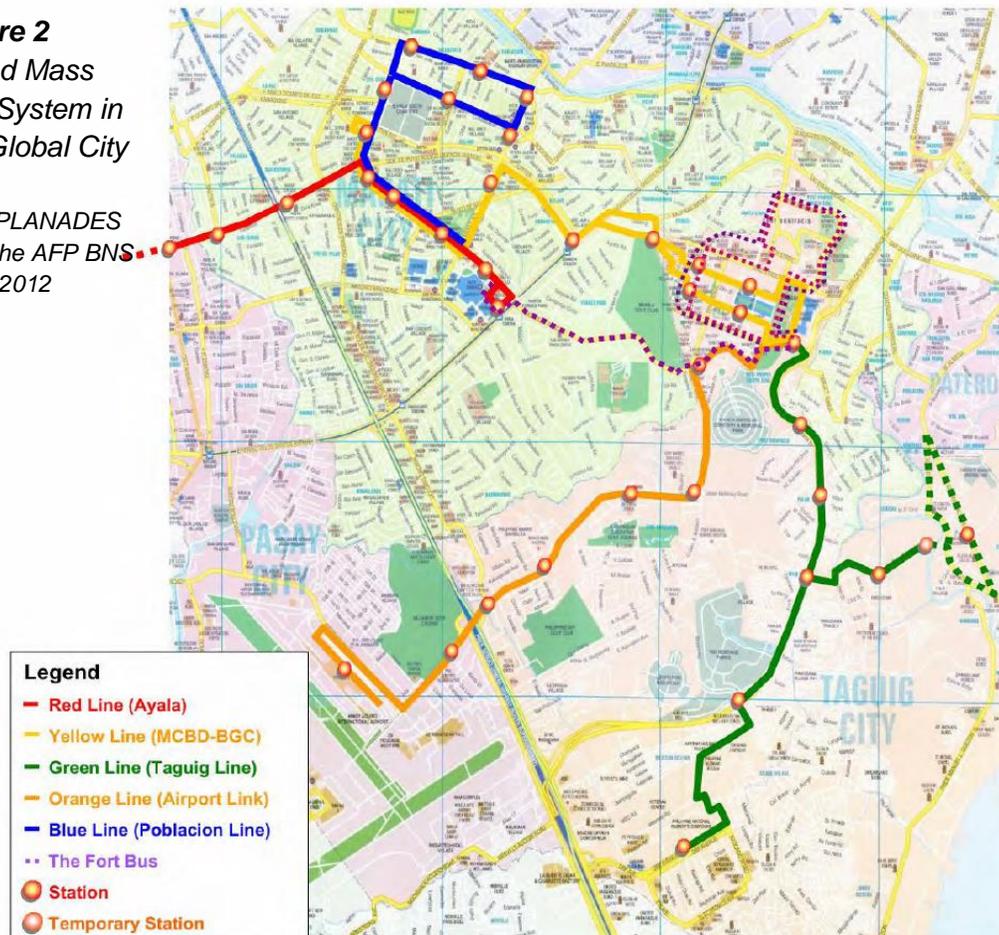
BNS Lot 1 is bounded on the north by the area occupied by the 33.1-hectare Headquarters Philippine Marine Corps (HPMC) and Army Support Command (ASCOM) which is soon to be disposed thru Joint Venture as part of the BCDA disposal program as included in the list of military lands to be disposed under RA 7227, on the west by TESDA (formerly part of PP 461) and the South Luzon Expressway (SLEX) and south by the AFPOVAI residences. Located at the southwestern portion of Taguig City, the general vicinity of BNS Lot 1 and the adjacent 47.4 remaining AFP retention areas, occupied by the Philippine Navy Golf Course (PNGC) is characterized by high ambient temperatures due to high density developments along the Bonifacio Global City and the high intensity strip developments that paralleled the South Luzon Expressway, together with many mixed-use development complexes within a 5-10 kilometer radius. Palafox&Associates (2009) stated that the *“Bonifacio Naval Station will serve as a growth center, wherein it benefits from its proximity to the major corridors of EDSA, C5 and the Makati Triangle. It is also within the line of business and commercial centers, such as Ayala, Rockwell, Fort Bonifacio Global City, Eastwood City, and the Araneta Center. Moreover, it is*

also near the major national line agencies and departments of the government. And lastly it is highly accessible to the Ninoy Aquino International Airport.”

BNS Lot 1 is situated in a very high traffic area. Earlier traffic impact study commissioned by BCDA as mentioned in the UP-PLANADES (2012) report, stated that on the opposite property (across Lawton Avenue) on the BCDA Bonifacio South Properties, the area is “less than 200 meters away from the South Luzon Expressway, a high occupancy vehicle (HOV) corridor, affording the site direct link to the Southern Tagalog Region (Region IV) as well as to the central and northern parts of Metropolitan Manila”. The BCDA traffic impact study described the area as “among the other HOV corridors within the proximity of the site are Circumferential Road 5 (C-5, or P. Garcia Avenue), which is approximately located 500 meters south of the property, Radial Road 1 (R-1 better known as Roxas Boulevard and the Coastal Road), Radial Road 3 (R-3, or SLEX itself) which runs just a few meters from the property. Current issues of traffic congestion are focused on the road network external to the naval station, since volume of vehicles inside the naval station is controlled, it being a military installation. Traffic congestion on Lawton Avenue and Bayani Road may warrant the appropriate traffic management, either in the form of a consistently present traffic enforcer or eventually, the installation of a traffic signal.” Thus the impending developments along Lawton Avenue of various BCDA properties including that of adjacent BNS Lot 1 will be heavily impeded by the exponentially expanding volume of vehicular traffic, generated by the high intensity planned unit development in Bonifacio Global City and the strip development along SLEX.

Figure 2
Proposed Mass
Transport System in
Bonifacio Global City

Source: UP-PLANADES
FS&MDP for the AFP BNS
Lot 1. 2012



Hence, UP-PLANADES (2012) recommends that in “consideration of plans for major mass transit system(s) that will be serving the influence area of the development has to be made. C-5 has been identified by the Department of Transportation and Communications (DOTC) as a mass transit corridor and on it will eventually ply a high-capacity and high-quality public transport system. The pre-feasibility study for a Bus Rapid Transit (BRT) system plying C-5 was conducted by the United States Agency for International Development (USAID) in 2007. Another BRT system, one that will connect the Bonifacio Global City and the Makati CBD, has been studied by the Ayala Group and the Asian Development Bank in 2010. These are plans that are awaiting the next stages of the study or the actual project implementation, pending government imprimatur and private sector participation. Upon fruition, these interventions will improve the accessibility of the BNS Lot 1 property.”

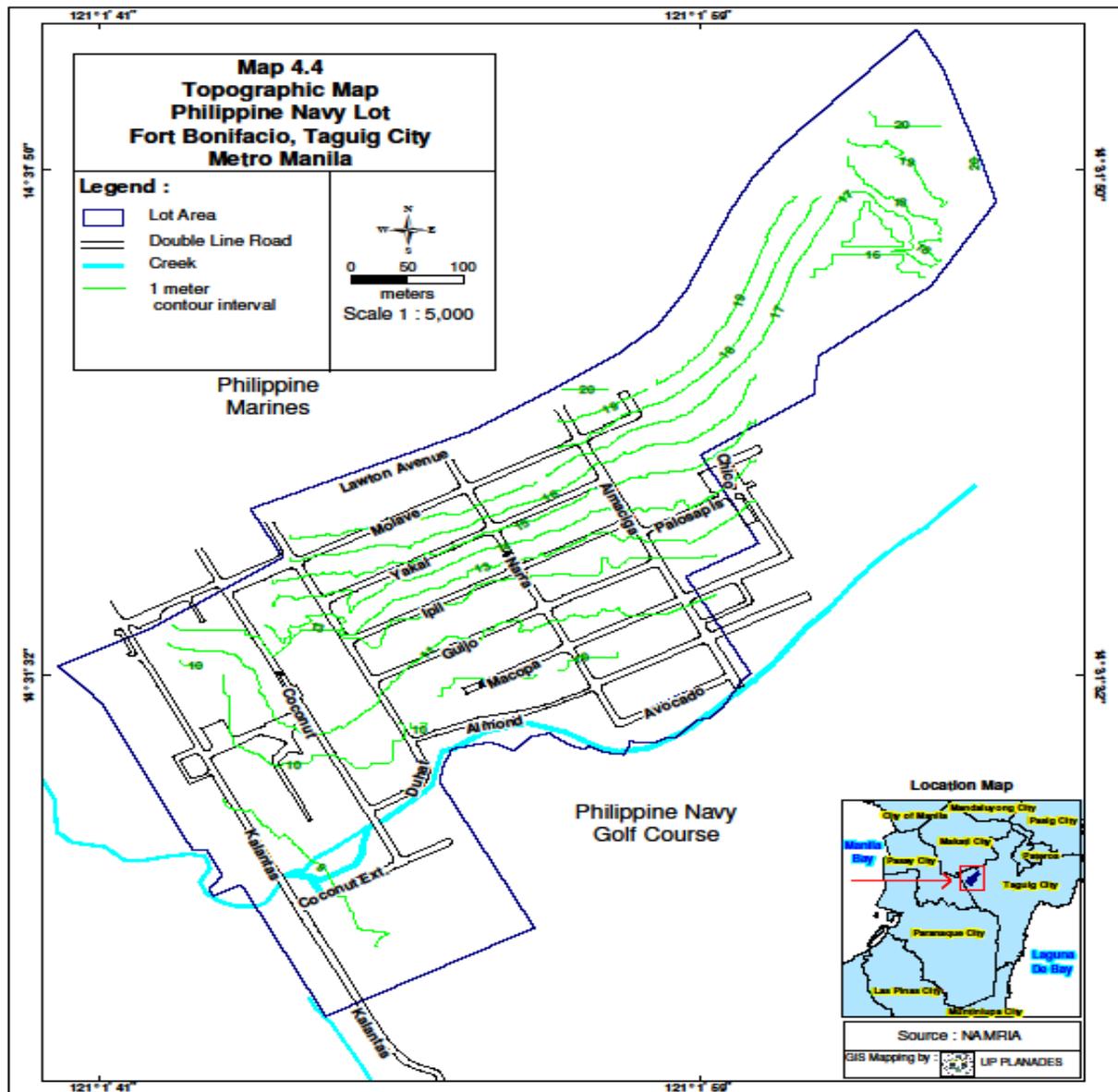


Figure 3 BNS Lot 1 Topographic Map
Source: UP-PLANADES FS&MDP for the AFP BNS Lot 1. 2012

BNS Lot 1 is predominantly a built-up area with several patches of vegetation composed mostly of fruit trees, shade trees and reforestation species, concentrated along the property line in between the AFP managed Philippine Navy Golf Course (PNGC). BNS Lot 1 as compared to neighboring areas surrounding the site, has higher land elevations, offers excellent view corridors from within the site and the western end is blessed with an unobstructed view of SLEX and NAIA runway while the view on its south side contains the rolling hills of PN Golf Course, the Libingan ng mga Bayani and Heritage Park, which are last remaining green areas in Taguig City. On the other hand, views to the east include the planned unit development by Megaworld in McKinley Hill and the AyalaLand master planned development in Bonifacio Global City.

UP-PLANADES (2012) report generally describes the physical characteristics of the property and that *“BNS Lot 1 is characterized physically by flat to gently sloping land and surface elevations of about 24 meters above mean sea level (amsl). If these characteristics are considered in the context of its strategic location within the Metropolitan Manila, the area occupied by the naval station is suitable for any kind of intensive urban development. Because it is adjacent to the NAIA Complex, the country’s premier international gateway, enveloping areas are largely commercial and residential in terms of land use mix. With rapid inroads of urbanization, future land use changes around the naval station and within its general vicinity will be driven mostly by private sector demand for land, buildings and enclosed spaces. The site is highly suitable urban development since most of the area is within the 0 to 6% slope category.”*

From an institutional perspective, absent necessary authority of the DND and the AFP to dispose BNS Lot 1 under its existing mandate in accordance to the provisions of the 1987 Administrative Code (EO 292, s.1987) and the other attendant applicable laws, the general disposal of BNS Lot 1 can be undertaken under a special provision in BCDA Act of 1992 (RA 7227 as amended by RA 7917, and further amended by RA 9400) and the AFP Modernization Act (RA 7898 as amended by RA 10349). This is in accordance to the existing BCDA mandate that provides certain variations in converting former US military base lands and Metro Manila military camps into productive civilian economic growth centers to generate business opportunities, jobs and economic activities, consistent with the recommendation of the Abueva Commission (1990). *Paragraph ‘c’ of Section 5 of R.A. No. 7227, for BCDA to carry out its objectives under the said Act, it is vested with the power to enter into, make, perform and carry out contracts of every class, kind and description which are necessary or incidental to the realization of its purposes with any person, firm or corporation, private or public, and with foreign government entities.*

Further, in pursuant to the framework laid down in the Philippine Development Plan 2011-2016, the BCDA shall provide an enabling business environment for private sector participation in the development and utilization of the transferred property from the AFP. In undertaking PPP projects and similar arrangements, BCDA shall be guided by Executive Order (EO) No. 8, series of 2010. EO 8 (s.2010) set forth the guiding parameters in the establishment and administration of various PPP program in the respective government agencies and in various government owned and controlled corporation.

Likewise, under the AFP Modernization Law (RA 7898), the disposal of BNS Lot 1 is subject to the conditions under Section 4-c: *“Bases/support system development. — The AFP modernization program shall entail the development of permanent bases for land, air and naval forces to conform with national defense strategies and the government’s socioeconomic thrusts; provide a systematic relocation of AFP units to enhance their capability in the performance of their mission; provide adequate support systems and housing facilities to AFP units and personnel; provide training grounds for maneuver and territorial forces as well as the reserve*



components; and develop bases and camps along standard criteria for space allocations, zoning and efficient correlation of land areas and structure.”

On the other hand, the signing into law of the New AFP Modernization Law (RA 10349), now provide the attendant mandates for the DND and the AFP to dispose various AFP administered property to generate non-traditional sources of funds as under Section 6 (amending Section 11-d of RA 7898). *“The DND or the AFP may assign to the Bases Conversion and Development Authority or designate it as disposition entity for the sale, lease or joint development of military reservations or portions thereof or facilities and immovables located therein not otherwise covered under Republic Act No. 7227, as amended, subject to the parameters set by the DND or the AFP and applicable laws, rules, regulations and other related issuances;”*

PPP Modality: Long Term Lease vis-à-vis Sale

The BNS Lot 1 disposal initiative intends to determine the “highest and best use” of the property based on a market study, and in consideration of the personality of the AFP and its mandate. The resultant UP-PLANADES (2012) report shows how the AFP must approach development of the project from the most advantageous lease arrangement between the AFP and interested developers. Using traditional approaches to land valuation and appraisal, the highest possible returns for BNS Lot 1 were generated.

Originally, all military camps in Metro Manila with few exceptions of designated retention areas are planned to be disposed thru outright sale as earlier recommended by LEBC studies in 1990. In response to the LEBC (1990) report, the Department of National Defense (DND) in 1990 has prioritized the disposition or sale of the of the 15 Metro Manila camps, 6 were immediately disposed, and 7 were available in the succeeding 8-years’ time including parts of Villamor Air Base and Fort Bonifacio. The inventory of camps in 1990 that are to be disposed under BCDA Law is shown in the following table:

Table 1 Inventory of AFP Camps in Metro Manila in 1990

Camp	Original Area	Present Area Occupied by AFP (Hectares)	Area Available for Disposition by 1990 (Hectares)	Area Available for Disposition In 8-years time (Hectares)	Ultimate Residual Area (Hectares)
Villamor	301.6380	263.8780	135.0900	108.7880	20.0000
Bonifacio	2275.8734	2275.8734	498.3962	318.7000	4.0000
Aguinaldo	177.7810	177.7810	177.7810		177.7810
Crame	38.4753	30.4753			38.4753
Atienza	4.9323	4.9323		4.9323	
Melchor	1.0000			1.0000	
Fort Abad	0.6074	0.6074	0.6074		
Ver	1.9495	1.9495		1.9495	
Claudio	2.0000	2.0000			



Bago Bantay	5.0000	5.0000	
AFP Medical Center	16.3002	16.3002	
Panopio	1.8700		1.8700
Malacanang Park	1.5200		1.5200
Fort Santiago / HQ Naval District II	0.5000	0.5000	

Source: LEBC Final Report. 1990

The expected income from the disposal of military lands in Metro Manila was estimated using the market data approach, as required by the LEBC in 1990. This method of comparison is based on the assumption that no prudent purchaser will buy more than it will cost him to acquire an equally desirable substitute parcel or site. The approach is primarily based on sales and listings which are adjusted for time of sale, locations and general characteristics of comparable lots in the neighbourhood where the subject lot is located. During the subsequent disposal process, land speculation from large developer were prevalent that resulted to a much higher price and even considered then as the land transaction of the century.

However, the winning developer was not able to fully develop the Fort Bonifacio property due to the Asian Economic Crisis in 1997 and the low demand for developed land in Metro Manila in the succeeding years. This in return, complicated the expected share of the AFP from the share of the military land disposal to fund its much touted AFP Modernization Program that started in 1995. Looking back, the LEBC (1990) methodology uses the hypothetical approach, by using the yearly net sales assumption multiplied by the respective present worth factor (reversion) at an average rate of 18% for each year that yielded an indication of “raw” land value which was presented as follows:

Table 2 1990 LEBC Land Valuation Methodology for Fort Bonifacio

Year	Net Sales	Present Worth Factor (Reversion)	Present value
1990	P 125,154,840	0.84746	P 106,063,721
1991	P 141,756,960	0.71818	P 101,807,017
Indicated “raw” land value			P 207,870,735
Say			P 207,871,000
or			P 460.53 / sq.m. for the entire 451,373 square meters subject land area
Say			P 460 per square meter
APPRAISAL			
451,373 square meters @ P 460 per sq.m.			P 207,632,000

Source: LEBC Final Report. 1990



Although, the LEBC (1990) discussed the various advantages of a straight sale, noting that the AFP would eventually get a fixed amount after the transaction. The market assumptions and development thrust did not happen as projected by the 1990 LEBC study. In addition to the failed market assumptions, the AFP also loses the long term benefits from outright sale as recommended by the LEBC (1990) report. LEBC (1990) assumed that payment might be in upfront cash or instalment, as implemented by BCDA in the disposal of Fort Bonifacio. The disadvantage is that the DND and the AFP would lose its control over the property and that the future generation of AFP personnel might not be able to enjoy the fruits of the transaction. Today, most of the military baselands in Fort Bonifacio were gone, except for a few patches that remain as retention areas for various AFP units in Metro Manila and its 1990 objective to generate funds for the AFP Modernization Program (RA 7898), remained unrealized as portion of the income from the baseland disposal were re-aligned to other government projects.

On the other hand, the income from disposing baseland in urban areas thru straight lease is definitely not comparable to the income from simply disposing the property thru straight sale. However, the annual income generated from the long term lease will sustain the AFP long term requirement, in addition to what it receives from the annual government appropriation. Also, the future generation of AFP personnel will be able to enjoy the fruits of the disposal process. Likewise, on advice from the DoF and other stakeholders, the AFP embarked on a sustainable novel idea of disposing this baselands lands thru long term lease, instead of the easy quick cash through outright sale as initially advocated by the 1990 LEBC study and as previously practiced by BCDA.

With the enactment of RA 10349 amending RA 7898 (AFP Modernization Act of 2012), which now provides the attendant authority for the AFP and DND to enter into commercial agreement for the disposal of various military lands not covered under BCDA Law (RA 7227). The DND and the AFP has embarked on the task of converting to higher economic use of the remaining baselands of almost thousand hectares in the heart of various urban areas and growth centers across the country thru long term lease in order to sustainably generate funds in addition to what is provided under the annual government appropriations to modernize the AFP.

Financial Analysis: Sustainable Source of Resources

In an effort to achieve a more feasible assumption prior the disposal process thru long term lease as recommended by the DoF, the AFP commissioned a group of financial and market consultants to re-visit the earlier land conversion methodology used by BCDA. The AFP required the consultants to analyze and evaluate BNS Lot 1 as a potential commercial/recreational and residential subdivision using the hypothetical approach, anchored on the highest and best use assumption and the “comparable raw land market price” approach. Since it generally takes several years to complete and sell subdivision lands of this magnitude in Metro Manila, discounting process was applied in estimating land value within BNS Lot 1 to reflect the present worth of future net benefits income. The method estimates the projected gross sales income to be received during each year of development from the lease of the proposed developed site. The total expenses on a year-to-year basis that will be involved in the development of the project are deducted and the net amount remaining is attributed to the land value. The “raw” land approach using the present (discounted) worth of the sum of these net annual amounts were used, patterned after the DoF experience in the BCDA-Ayala Project in Bonifacio Global City, summarized as follows:



Table 3 Summary of BCDA-Ayala Land Straight Lease for Market-Market

Government Owner	BCDA
Private Partner	Ayala Land, Inc (ALI)
Sale or Lease	Lease
Joint Venture or Straight Sale/Lease	Straight lease for 25 years
Size of property (hectares)	9.76 has.
Location	Market Market
Appraised value at time of sale (per sq.m.)	P 40,000.00/ sq.m. (P 3.9 billion total)
Lease income per sq.m. per year	Guaranteed P 1,200.00/sq.m. + additional 10% of ALI's share of sales revenues of outlets in Market Market (in practice: P 1,200 + P 638 = 1,838/sq.m./year)
Lease income per sq.m. per year, total	P 179.4 million (est. for 2010) (Guaranteed P 117.1 million + variable P 62.3 million)
Do we know how much we'll get?	Partially
Comments	Actual revenue from 10% share is much lower than expected revenue. (Expected share: P 15,000/sq.m. per year vs. actual P 638/sq.m/year)

Source: Dept of Finance PPP Task Force Presentation to PN. 2011

In order to determine the project sustainability and viability, UP-PLANADES (2012) report in assessing the sustainability of the BNS Lot 1 project, based its analysis on the generated value of the FIRR. *“The FIRR was used to determine whether the project is financially viable and sustainable by itself. This was compared against the discount rate of 12%. The discount rate is the interest rate used in discounted cash flow analysis to determine the present value of future cash flows. It takes into account the time value of money, in that money available now is worth more than the same amount of money available in the future because of the interest earned, and the risk or uncertainty of the anticipated future cash flow, which might be less than the amount expected.”* Considering that the project has a long gestation period, much that the disposal process was only limited through long-term lease of 25 years, the basic assumption was that it would be safe to take a capitalization rate of 10% to 12% in the determination of land value, which is also consistent with the NEDA and DoF recommendation. Based from the recommendation of former DoF Under Secretary Sevilla of the DoF PPP Task Force during the series of consultation in 2011, twelve percent is the commonplace discount rate used in discounted cash flow analyses performed by the National Economic Development Authority (NEDA) and DoF, hence the same value was used in the BNS Lot 1 study.



Thereafter, with reasonable and practical operating assumptions, the project should get a capitalization rate within an acceptable range of 10% and 12%. UP-PLANADES (2012) final report stated that the “average annual net operating income of implementing the final site development plan and discounted at 12% was computed at Php1.96 Billion. The land values or the price per square meter at 10% and 12% capitalization rates are approximately Php65,944.40/sqm and Php54,953.67/sqm, respectively.” Likewise, the basic assumptions were vetted to major industry players in the country prior the finalization of the assumed land value based from the highest and best use forward estimates. Based on the projected streams of economic benefits and costs, the economic worth of the AFP administered BNS Lot 1 project was evaluated in order to determine the results of measuring project economic worth based on the projected economic cash flows statements and market assumptions.

Capitalization Rate (%)	Total Land Value (in Billion Php)	Price/Square Meter (Php/sqm)	Table 4 2012 BNS Lot 1 Land Valuation
3	₱65,284,957,871.83	219,814.67	
4	₱48,963,718,403.87	164,861.00	
5	₱39,170,974,723.10	131,888.80	
6	₱32,642,478,935.91	109,907.34	
8	₱24,481,859,201.93	82,430.50	
10	₱19,585,487,361.55	65,944.40	
12	₱16,321,239,467.96	54,953.67	

The UP-PLANADES (2012) reported that the Economic Net Present Value (ENPV) of BNS Lot 1 amounted to Php 16.76 billion. This represents the value of the BNS Lot 1 potential net benefit streams for the next 25 years, assuming that year zero would be the time that the project was implemented. Likewise the Economic Internal Rate of Return (EIRR) of BNS Lot 1 is rated efficient and economically viable given an EIRR of 29.57% which are higher than the opportunity cost of capital of 15%. The UP-PLANADES (2012) report shows that the project is highly acceptable given the positive value obtained for the ENPV and is therefore economically viable and attractive from prospective developer.

Table 5 2012 BNS Lot 1 Economic Worth

Economic Net Present Value	Php 16.76 Billion
Economic Internal Rate of Return	29.57%

Source: UP-PLANADES FS&MDP for the AFP BNS Lot 1. 2012

Considering that the 29.7 hectare BNS Lot 1 is among the last remaining government owned large open space in Metro Manila and within the development corridor and easily accessible through the South Luzon Expressway and C-5. In addition that it is the last developable open space in the sprawling Bonifacio Global City (BGC) that is available for large scale “mixed use development”, the project has the great potential to generate the interest of both local and foreign investors to participate in the bidding process, in the projected price range as discussed in the UP-PLANADES (2012) final report. The Php54,953.67/sqm value for BNS Lot 1, was slightly higher compared to the “nearest comparable market price” of the adjacent 74-hectare Food Terminal Inc (FTI) Complex in Taguig City , based from the actual bid price of Ayala Land, valued at Php32,837.84. Although, the DoF minimum asking price was only Php13, 848.00.

Given the right market assumptions and business model, appropriate economic sense for the developer, reasonable rental rate to AFP, adjusted revenue and cost assumptions and accompanying sensitivity analyses, are few of the parameters considered in the financial estimates for the AFP BNS Lot 1 project using the highest and best use (HABU) approach. Highest and Best Use as defined is the “most profitable likely use of property”. The HABU depends on the opinion of those who made the financial computations, but generally may be used on the highest and most profitable continuous use to which the property is adapted and needed, or that use of land which may reasonably be expected to produce the greatest net return to land over a given period of time.

Table 6 2012 BNS Lot 1 Summary of Projected Financial Stream

	Minimum (12% Cap Rate)	Maximum (10% Cap Rate)
Nominal Value	Php16.32B	P` hp19.56B
Nominal Value/sqm	Php54,953.67	Php65,955
Present Value	Php4.11B	Php9.75B
IRR	23.47%	29.57%

Source: UP-PLANADES FS&MDP for the AFP BNS Lot 1. 2012

In the case of the LEBC assumptions in 1990 for the land valuation of various Metro Manila military camps, as a prelude to the full implementation of the BCDA Act of 1992 (RA 7227 as amended by RA 7917, and further amended by RA 9400), the “market data approach” was primarily used, since scarcity of similar market comparisons in the disposal of huge tract of lands in Metro Manila at that time was unavailable. However, on the case of BNS Lot 1 and the conversion of the remaining military lands, several large tracks of government lands within Metro Manila were disposed for the past 3 years. Hence the option to use the actual market data gathered as a result of the “comparable market price” valuation is already available and can be used by juxtaposing these through a series of sensitivity analysis with the hypothetical “market data approach” appraisal process in order to generate a more realistic HABU potential value of the land.

Looking forward, if the DND and the AFP market assumptions and expectation were right on track, the BNS Lot 1 conversion and other military lands in urban areas to higher economic use thru long term lease once implemented, is expected to generate valuable sustainable resources other than the normal cash flow from the General Appropriations Act. The project indeed have

the potential to help directly sustain the country's economic growth not counting its attendant economic activities such the collection of both national and local taxes, the creation of thousands of jobs, and most especially the long-term effects of the project to the forward and backward economic linkages which will contribute to the early realization on some of the desired goals and objective of President Aquino's Philippine Development Plan 2011-2016.

SUMMARY

Recognizing government policies that give paramount consideration to national sovereignty, territorial integrity, national interest and right to self-determination, put primordial consideration on the need to modernize the AFP. The defense of a nation's sovereignty, the protection of its environment and natural resources can be carried out only to the extent that the Philippines can get other nations to respect its rights over its maritime territory. This is explicitly stated in the Philippines' new Baselines Law under Republic Act 9522. RA 9522 explicitly delineates the vast expanse of the country's 12-nautical miles territorial sea and the much wider 200-nautical mile exclusive economic zones (EEZ) where the AFP thru its maritime arm, the Philippine Navy (PN) has to enforce Philippine and international laws and to protect economic interest where the country can exploit resources are clearly defined.

This novel project once implemented, is expected to generate valuable resources by providing sustainable source of funds for the DND and the AFP Modernization Program, other than the normal cash flow from the General Appropriations Act in addition on the potential to help directly sustain the country's economic growth through the forward and backward economic linkages.

With reasonable and practical operating assumptions, the project should get a capitalization rate within the acceptable range of 10% to 12%. The average annual net operating income of implementing the final site development plan and discounted at 12% was computed at Php1.96 Billion. The land values or the price per square meter at 10% and 12% capitalization rates are approximately Php65,944.40/sqm and Php54,953.67/sqm, respectively. While the nearest comparable market value/sqm was offered at Php13, 848.00 and successfully sold at the auction block at Php32,837.

Hence, the implementation of the proposed Long Term Lease of BNS Lot 1 and other military camps in urban areas in proper consideration to the land economic "supply and demand" will not only generate the much needed funds for the DND and the AFP Modernization Program but will also be a factor of economic growth that will help ensure the success of the Philippine Millennium Development Goals (MDG) and help sustain economic policies by tapping the expertise of the private sector to bring in much needed revenues for the government.

WAY FORWARD

However, prior the disposal process, the DND and the AFP should ensure a very "competitive and transparent transaction" and an industry acceptable "baseline financial figure". This could be done by ensuring that all potential transaction is comparable. Hence, once the project will push through, the DND and the AFP has to determine beforehand how bids and proposals will be evaluated and what criteria will be used to select a winner. Simply, the AFP should ensure that the criteria should be objective as possible and do not leave room for subjectivity. This simple criteria may be based on 1) Highest price; 2) Highest present value; and 3) Highest assured present value.

Second, the DND and the AFP will have to acknowledge the big role of “Financial Advisors and Urban Planners” in the conversion of BNS Lot 1 and other military camps to higher economic uses in urban areas across the country. UP-PLANADES (2012) final report already shows how the DND and the AFP could 1) determine the highest and best use, including attendant market price range of the property based on size, location, existing use in the vicinity and overall growth prospects of the larger area surrounding the property; 2) planning physical layout of the property (infrastructure requirements, i.e. roads, utilities, open spaces); and 3) determining desirable floor area ratios (FAR) which will give the highest impact to the financial values of the land to be disposed. The area and project specific FS and MDP would be able to provide an overview on how the DND and the AFP would lease out the military lands in urban areas on a long-term basis.

Third, once the DND and the AFP will be able to get President Aquino’s go signal to proceed with the disposal of BNS Lot 1 thru long term lease and other military camps in urban areas, it has to hire “financial advisors” that could recommend the right transaction structure in order to determine the 1) ideal share between the properties to be leased out; 2) Ideal length of lease contract; 3) ideal structure of lease payments, such as “Fixed vs Variable component” and 4) type of development that are “allowed and prohibited”. The DoF and BCDA have acknowledged that the role of financial advisors in every government transaction involving millions of prospective revenues is very important in order to ensure that the Filipino people will not be shortchanged from the transaction.

Last, the financial advisors should be able to provide the logical estimate of potential revenues to the DND and the AFP, both on short-term & long-term lease agreement. Once the AFP has already a defined sustainable annual income from the proposed long term lease, then it can be juxtaposed with the projected expenditure as planned under the amended AFP Modernization Program (RA 7898 as amended by RA 10349), amounting to hundreds of billions pesos.

In sum, this paper put to fore that the proposed conversion of military land in urban areas into higher economic uses will not only ensure sustainable income for the DND and the AFP to fund its capital intensive for defense related expenditures but also contribute to the micro-economic activities and influence the radical shift on land use pattern of the host local government unit in particular and the Philippine macro-economic activities in general to generate wealth for a sustainable inclusive economic growth for the Filipino people.

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