

METRO MANILA

Investment Q4 2019

	YoY Chg	12-Mo. Forecast
7.10% Ave. Office (Gross) Yields	▼	▼
6.88% 10-Year T-Bond Rate	▲	▼
128.7 Q3 2019 RREPI	▲	▬

7.10%

Ave. Office (Gross) Yields

6.88%

10-Year T-Bond Rate

128.7

Q3 2019 RREPI

Note: RREPI = Residential Real Estate Price Index, prepared by the Bangko Sentral ng Pilipinas (BSP)

HIGHLIGHTS

- Estimated average office (gross) rental yields declined by about 65 basis points year-on-year (YoY) to settle at 7.1% by end-2019. It is likely to exhibit further compression due to continued relaxation of the benchmark interest rates by the Bangko Sentral ng Pilipinas (BSP).
- The expansionary monetary policy stance by the government is seen to reinforce economic growth and over-all liquidity in the market that was stalled by the delay in the passage of 2019 spending budget.
- The quarterly residential real estate price index (RREPI) by the BSP exhibited a double-digit YoY increase of 10.4% to hit a record 128.7 in Q3 2019 from 116.6 in Q3 2018. The RREPI measures the average change in the cost of acquiring various types of housing units in the Philippines.
- Ayala Land, Inc. (ALI) is waiting for the revised guidelines from the Securities and Exchange Commission to finalize its maiden Real Estate Investment Trust (REIT) offering.

ECONOMIC OVERVIEW: Macroeconomic fundamentals supportive of the real estate market growth

The Philippine economy remains among the fastest growing in Asia in 2019, despite the full-year target GDP growth likely to be missed due to the slowdown experienced in the first half of the year.

Cumulative cash remittances from overseas Filipinos (OFs) grew by 0.4% YoY to US\$27.231 billion from January-November 2019. The growth in the supply of mid-end residential condominium developments has been largely attributed to the growth of OF remittances.

Full-year 2019 inflation rate settled at 2.5% from 5.2% registered in 2018. On the other hand, Foreign Direct Investments (FDI) from January-September 2019 registered at USD 5.12 billion, around 37% lower than that of the same period in 2018 totaling to USD 8.11 billion.

MARKET OUTLOOK

Investment outlook remains generally positive, as several reported commercial transactions involve development sites in traditional growth areas and areas outside Metro Manila. Local developers were generally active in landbank acquisitions in a bid to capture growth opportunities, especially in new, emerging urban centers.

Average office rental yields are expected to continue to exhibit downward trend and align more closely with average global yield rates.

The Securities & Exchange Commission (SEC) is expected to finalize the new REIT guidelines. The new guidelines will incorporate the removal of the levy on properties transferred to a REIT vehicle and capping the minimum required public flotation to at least 33% of the REIT company.

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
USD 27.23B OF Cash Remittances Cumulative Jan-Nov 2019	▲	▲
USD 748M Foreign Direct Investments Jan-Sept 2019	▼	▲
2.5% PHL Ave. Headline Inflation Rate FY Average 2019	▼	▼
PHP 51.79 Exchange Rate (PHP:USD) FY Average 2019	▼	▼

USD 27.23BOF Cash Remittances
Cumulative Jan-Nov 2019**USD 748M**Foreign Direct Investments
Jan-Sept 2019**2.5%**PHL Ave. Headline Inflation Rate
FY Average 2019**PHP 51.79**Exchange Rate (PHP:USD)
FY Average 2019

SECTORAL UPDATE

OFFICE Leasing activities are mainly driven by the growth in demand from the IT-business processing management (IT-BPM) and the Philippine offshore gaming operations (POGO).

RETAIL High occupancy in strategically-located retail developments indicative of retailer optimism. The surge in the number of international retailers is influenced by the improvement in consumer confidence and the growing number of foreign migrants and workers.

INDUSTRIAL Soon-to-be-completed infrastructure developments and rising e-commerce industry driving demand for logistics facilities and warehouses.

RESIDENTIAL Majority of new completions (mostly mid-end developments) were located in the Bay City area, where rental rates were also observed to increase the fastest within the year. New luxury developments launched in 2019 were located in Makati CBD and BGC.

HOTEL Still increasing level of tourist arrivals (mainly from Koreans and Chinese tourists) is expected to buoy the demand for hotel/leisure developments, not just in Metro Manila but in key tourist sites and areas in the countryside.

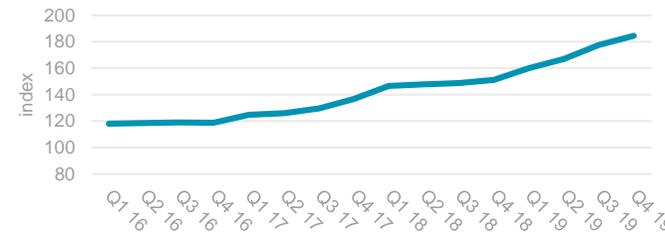
SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS WITHIN 2019

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
Malate District Property	City of Manila	Retail	57,000
Bay City Property	Parañaque City	Commercial Property	2,200
Alabang Property	Muntinlupa City	Commercial Property	17,000
E.Rodriguez Avenue Property	Quezon City	Commercial Property	10,032

Note: Transactions valued over \$10 million (estimated)

Sources: Real Capital Analytics, Cushman & Wakefield Research

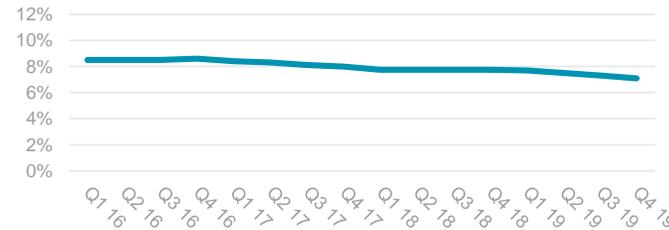
OFFICE CAPITAL VALUES INDEX



Base: Q1 2014 = 100

Source: Cushman & Wakefield Research

OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research

CLARO CORDERO, JR.

Director

Research, Consulting & Advisory Services

Claro.Cordero@cushwake.com

cushmanwakefield.com

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