MARKETBEAT

METRO MANILA

Investment Q1 2020

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
6.80% Ave. Office (Gross) Yields	▼	▼
6.88% 10-Year T-Bond Rate	▬	▼
130.2 Q4 2019 RREPI	▲	▼

Note: RREPI = Residential Real Estate Price Index (Q12014=100), prepared by the Bangko Sentral ng Pilipinas (BSP)

ECONOMIC INDICATORS
Q4 2019

	YoY Chg	12-Mo. Forecast
USD 7.95B OF Cash Remittances *Q4* 2019	▲	▲
USD 1,824M Foreign Direct Investments *Q4 2019*	▲	▲
2.7% PHL Ave. Headline Inflation Rate *Q1 2020*	▼	▬
PHP 50.83 Exchange Rate (PHP:USD) *Q1 2020*	▼	▲

Source: Oxford Economics, BSP

HIGHLIGHTS

- Estimated average office (gross) rental yields declined by about 90 basis points year-on-year (YoY) to settle at 6.8% by Q1 2020. It is likely to exhibit further compression due to continued relaxation of the benchmark interest rates by the Bangko Sentral ng Pilipinas (BSP).

- The two-day trading halt at the outset of the enhanced community quarantine (ECQ) has prompted the local stock barometer to crash by as much as 24%, the lowest level in 11 years. While trading has since resumed and the PSEi slowly climbs up with investors seeing light in the slowing COVID-19 cases abroad, the country's largest conglomerates, which have traded below their previous market capitalization, have yet to recover from the crash.

- Mixed sentiments extends the property sector amid the ECQ which has been stretched up to end of April. Whereas the COVID-19 pandemic outbreak derails the retail and hospitality sub-sectors, significantly-subdued optimism prevails in the office, residential, and industrial sub-sectors in view of disrupted business activities and supply completion. Meanwhile, the residential real estate price index (RREPI) continued to exhibit a double-digit YoY increase of 10.2% in Q4 2019, albeit slightly lower that recorder YoY growth of 10.4% during previous quarter.

- More property development companies are now inclined to tap the REIT market as new guidelines were presented which include the easing of the minimum public ownership (MPO) from as high as 67% to only 33% and the 12% VAT exemption of the transfer of property to a REIT company in exchange for its shares. The local investment market is expected to be drawn into the REIT market as an alternative investment instrument, as soon as the economy and the market transitions into normalcy.

ECONOMIC OVERVIEW

The Philippines is faced with the risk of technical recession as economic contraction looms in the next two quarters. It is likely that the country will miss the previous growth target and GDP growth rate could settle between -0.6% to 4.3% in 2020.

As part of the pandemic recovery plan, the government plans to further intensify infrastructure spending to aid economic recovery. Meanwhile, the Bangko Sentral ng Pilipinas (BSP) noted enough room for more policy rate and reserve requirement cuts, dependent of the actual and outlook for inflation. Downtrend inflation continues in March at 2.5%, lower than the recorded 2.6% in February and 3.3% a year ago.

Cash remittances from overseas Filipinos (OFs) was registered at USD 30.1 billion in 2019, a 4.1% increase from USD 28.9 billion recorded in 2018. Growth forecast for remittances, however, was cut from 3% to 2% as most of the overseas Filipinos are displaced due to the prevailing lockdowns across many countries.

MARKET OUTLOOK

While the macroeconomic fundamentals remain strong, the uncertainties on a global scale will likely dampen investor sentiments. Average office rental yields, on the other hand, are still expected to continue to exhibit downward trend and align more closely with average global yield rates.

MARKETBEAT

METRO MANILA

Investment Q1 2020

SECTORAL UPDATE

OFFICE Downward trend in the growth rate of supply and demand of office space is expected in the short- to medium-term due to disruption of business activities.

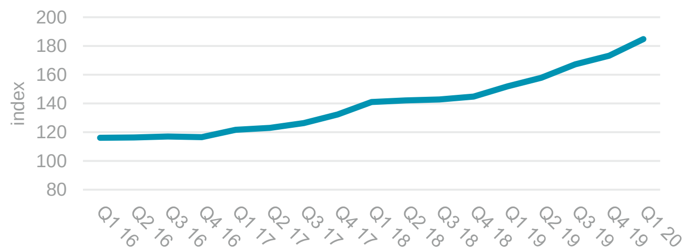
RETAIL As the ongoing ECQ measures severely impacts the operation of the retailers and mall development, developers have committed to provide rental concessions. The return to normalcy will be determined by the ability of the shopping mall developments to design step-up hygiene-enhancing measures.

INDUSTRIAL Strong demand for logistics facilities and warehouses are expected as the Covid-19 pandemic presents increased demand for facilities to support e-commerce growth. On the other hand, supply chain disruption due to designated checkpoints in Metro Manila is hindering the flow of goods and services and hampering the operations of manufacturing facilities outside of the capital.

RESIDENTIAL The sector is seen to remain resilient as consumers tend to hold out decision to invest in residential developments. .

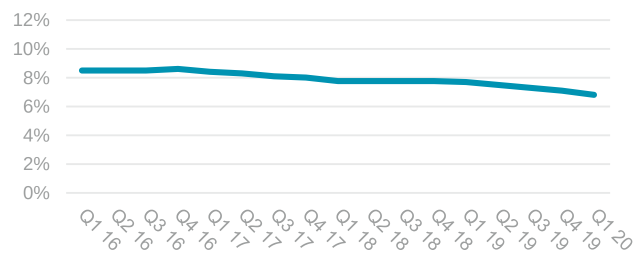
HOTEL Decline in occupancy rates due drop in tourist arrivals to linger until threats associated with COVID-19 pandemic were lifted.

OFFICE CAPITAL VALUES INDEX



Base: Q1 2014 = 100
Source: Cushman & Wakefield Research

OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research

SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2018-2020)

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

CLARO CORDERO, JR.
Director & Head
Research, Consulting & Advisory Services
Claro.Cordero@cushwake.com

cushmanwakefield.com