MARKETBEAT

METRO MANILA

Investment Q2 2020

	YoY Chg	12-Mo. Forecast
6.70% Ave. Office (Gross) Yields	▼	▼
3.63% 10-Year T-Bond Rate	▼	▬
134.9 Q1 2020 RREPI	▲	▼

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

ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
USD 7.40B OF Cash Remittances *Q1 2020*	▲	▲
USD 1,116M Foreign Direct Investments *Q1 2020*	▲	▲
2.3% PHL Ave. Headline Inflation Rate *Q2 2020*	▼	▲
PHP 50.5 Exchange Rate (PHP:USD) *Q2 2020*	▼	▲

Source: Oxford Economics, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q2 2020 declined by about 80 basis points year-on-year (YoY), settling at 6.7%.
- The Bangko Sentral ng Pilipinas (BSP) initiated two rate cuts within Q2 2020, effectively reducing the policy rate cut by 100 basis points and bringing the overnight reverse repurchase, lending, and deposit facilities to record lows. The policy rate cuts are aimed at providing further support for economic recovery and ensure ample credit and liquidity in the financial system amidst global economic uncertainties.
- As the economy slightly re-opened during the latter part of Q2 2020, real estate development and activities have similarly resumed, albeit at limited operations. Demand has been quite slow to recover, as property transactions remained muted throughout the period.
- Planned capital expenditures of major property developers have been revised downwards for the remainder of 2020 and deferred to 2021, in anticipation of the weakened demand. Investments in technology infrastructure, on the other hand, have become a critical expenditure item for real estate players as digital transformation has become a priority in sustaining real estate business operations amidst the current volatile environment.
- Residential property prices as indicated by the BSP's quarterly residential real estate price index (RREPI) posted an increase of 12.4% year-on-year (YoY) in Q1 2020, faster than recorded property price increases of 10.2% and 3.3% in Q4 2019 and Q1 2019, respectively.

ECONOMIC OVERVIEW

The Taal volcanic eruption and COVID-19-induced community quarantine led to the Philippines' first economic contraction in 22 years. In Q1 2020, Gross Domestic Product (GDP) recorded a YoY decline of 0.2%. Further GDP growth contractions loom for the rest of the year with sharper GDP growth decline of 5.7% to 6.7% seen in Q2 2020. A gradual recovery is expected to start in Q3 2020 following the easing of the community quarantine restrictions while a strong economic rebound is widely seen in 2021.

The downtrend inflation trend that persisted in the last five months has provided ample room for further monetary easing. Inflation has since risen for the first time this year to 2.5% for the month of June, from 2.1% in May, whilst the outlook remains benign for the rest of the year.

Job displacements hurt overseas Filipinos (OFs) remittances with the level in Q1 2020 recording a 5.2% YoY decline to USD 7.4 billion, from USD 7.3 billion in the same period last year, the biggest contraction since March 2018.

MARKET OUTLOOK

As the impact of the COVID-19 pandemic escalated on a greater scale than what was previously expected, the Philippines shares the globally-dampened investor sentiment. Investment demand is expected to shift to alternative asset classes that are located in decentralized markets yet with strong connectivity to the major business districts and not easily susceptible to market externalities.

MARKETBEAT

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Investment Q2 2020

CUSHMAN & WAKEFIELD

SECTORAL UPDATE

OFFICE Rental growth in office sub-sector was flat in Q2 2020 on a quarter-on-quarter basis; while the IT and business process management (IT-BPM) firms sustain the sub-sector as their operations continue amid the crisis. Delay in stock completions have worsened during the period, affecting Metro Manila and Metro Cebu, the second biggest real estate market in the country.

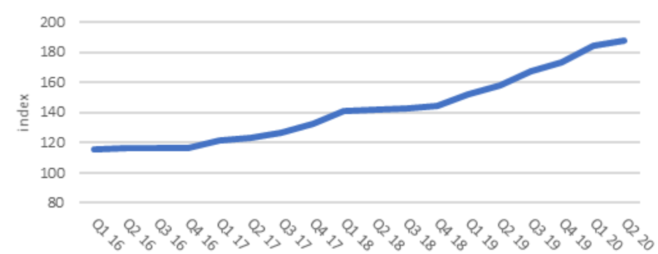
RETAIL Having partly resumed operations following the stringent observance of safely protocols, the retail sub-sector remains gloomy due to weighed-down consumer sentiment and weak household spending.

INDUSTRIAL Demand for logistics and warehousing facilities particularly in the nearby provinces of Metro Manila is expected to increase as the upswing in e-commerce activities benefit the industrial segment. On the other hand, the return to normalcy in operations of manufacturing companies remained a challenge due to weak volume order and the continued implementation of lockdown measures in most urban centers.

RESIDENTIAL Decline in residential condominium prices, particularly the mid-end segment, is expected in the medium-term with slowdown in both take-up and project launches.

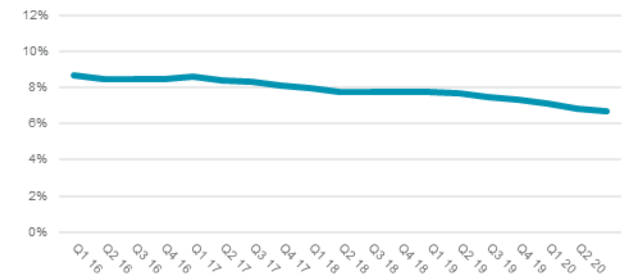
HOTEL Movement restrictions upset the hospitality sub-sector as it now bets on domestic travel to revive the tourism industry. The sub-sector remains the hardest-hit, as return to pre-pandemic profitability is expected to be derailed by low occupancy levels due to weak demand in the foreseeable future and higher operational cost.

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

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