

	YoY Chg	12-Mo. Forecast
6.70% Ave. Office (Gross) Yields	▼	▼
2.86% 10-Year T-Bond Rate	▼	▬
149.4 Q2 2020 RREPI	▲	▼

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

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q3 2020 remained at 6.7%. Year-on-year (YoY), the rental yields declined by about 60 basis points from its level in Q3 2019.
- The BSP's Residential Real Estate Price Index performed unexpectedly well in Q2 2020 as it hits an all-time high of 149.4, a YoY growth of 27.1% as compared to 12.4% in Q1 2020. Growth was driven by the increased demand for high-end residential properties which stretched the average selling prices upwards. Residential properties in Metro Manila, particularly residential condominiums, grew faster at 34.9% YoY as compared to areas outside Metro Manila at 18.1% YoY.
- Despite the limitations imposed by the ongoing pandemic, the country launched its first-ever real estate investment trust (REIT) listing in Q3 2020, through the Ayala-backed AREIT. The implementing rules and guidelines for REITs have been in effect for more than 10 years prior to this historic maiden listing; although the regulation on public flotation and imposition of transfer tax have only been recently relaxed. AREIT has nearly 172,000 sq.m. of real estate portfolio which includes three (3) office developments in Makati CBD, with an additional office development in Metro Cebu. At least three other major property developers have indicated strong interests in forming and listing their own respective REITs.

ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
USD 6.62B OF Cash Remittances Q2 2020	▼	▲
USD 1,107M Foreign Direct Investments Q2 2020	▲	▲
2.5% PHL Ave. Headline Inflation Rate Q3 2020	▲	▲
PHP 48.9 Exchange Rate (PHP:USD) Q3 2020	▼	▼

ECONOMIC OVERVIEW

Amidst constrained consumer demand, inflation rate continues to slide down to 2.3% in September, lower than the 2.4% recorded during the previous month and resulting in a year-to-date average inflation of 2.5% which is at the lower range of the 2-4% target set by the central bank. Meanwhile, the BSP maintains an accommodative monetary policy stance of keeping the interest rates at the low level to support economic recovery.

With the dismal Gross Domestic Product (GDP) performance during the first half of the year, coupled with the lingering pandemic uncertainties, the government now sees a full-year contraction of between 7% and 9%. As the economy slowly reopens while managing the spread of the virus, the growth prospects for the Philippines for 2021 remain bright.

MARKET OUTLOOK

Greater economic recovery stimulus is deemed necessary to boost the generally dampened consumer and market sentiment. Major real estate developers are prioritizing *proptech* and other digitization initiatives to cushion and adjust to the impacts of the pandemic in their traditional business models.

Investment activities remain largely sluggish as investors and developers hold off acquisition plans. In the mid-term, purchasing opportunities are likely to come from firms with cash flow issues stemming from the recession. Affected companies need to improve their balance sheets to stay liquid, driving sale of their real estate assets. As some developers resort to asset repurposing to adapt to the shifting real estate demand during the pandemic, the hunt for bargain assets with high redevelopment potential will also be the key consideration for investors.

SECTORAL UPDATE

OFFICE Overall office demand remains subdued while rental rates have remained stationary since the imposition of the community quarantine. With muted demand coming from the Philippine online gaming operator (POGO) firms, the office sub-sector reckons on IT-BPM and the other traditional sources of demand while landlords are on a wait-and-see stance as more business have been allowed to resume operations. While it is not clear yet how it will affect the long-term real estate demand and behavior of corporates, most companies are still adopting the work-from-home (WFH) option.

RETAIL Footfall in retail establishments remains low despite the easing of community quarantine, prompting operators to prioritize digitization initiatives in order to capture customers who give preference to contactless transactions. Significant reduction in the supply of new retail space is expected as roughly half of the retail development pipelines over the next 12 months are indefinitely stalled by the pandemic.

INDUSTRIAL The accelerated e-commerce growth bodes well for the logistics and warehousing sub-segments which maintained resiliency despite the weakened manufacturing and external trade activities. Industrial park expansions in Central Luzon are on track for completion within 2020 which will further strengthen the region's premier industrial position.

RESIDENTIAL The low-interest rate environment which motivates residential ownership contributes to the increased demand for residential developments, especially in the peripheral areas of Metro Manila. Demand growth for residential developments is hinged on the growth of new urban centers with enhanced connectivity with the traditional commercial business districts.

HOTEL As the local hospitality sector slowly returns to commercial operations, the sector needs to embrace new ideas and technologies to create a new level of standard that will entice traditional occupants to patronize their developments.

SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2019-2020)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
CBD Makati Property	Makati City	Office	8,000
Non-CBD Makati Property	Makati City	Office	63,000
Malate District Property	City of Manila	Retail	57,000
Bay City Property	Parañaque City	Commercial Property	2,200

Note: Transactions valued over \$10 million (estimated)
Sources: Real Capital Analytics, Cushman & Wakefield Research

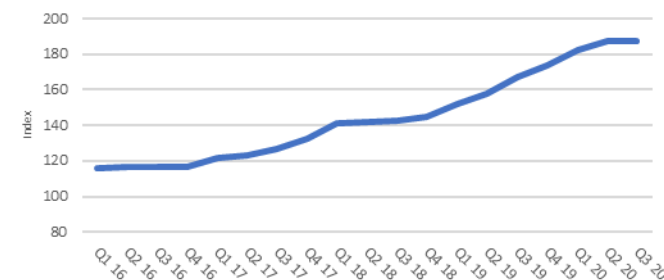
CLARO CORDERO, JR.

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

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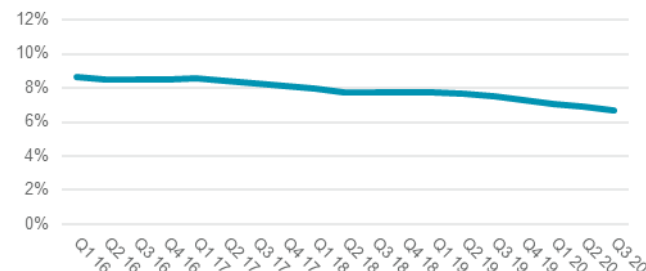
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OFFICE CAPITAL VALUES INDEX



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

OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research