

	YoY Chg	12-Mo. Forecast
<b>6.70%</b> Ave. Office (Gross) Yields	▼	▼
<b>3.63%</b> 10-Year T-Bond Rate	▼	▲
<b>131.2</b> Q3 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
<b>USD 7.87B</b> OF Cash Remittances Q3 2020	▲	▲
<b>PHP 4,435B</b> Exports Q3 2020	▼	▲
<b>3.1%</b> PHL Ave. Headline Inflation Rate Q4 2020	▲	▲
<b>PHP 48.3</b> Exchange Rate (PHP:USD) Q4 2020	▼	▲

Source: Moody's Analytics, BSP, PSA

## HIGHLIGHTS

- Estimated average office (gross) rental yields in Q4 2020 remained at 6.7%. Year-on-year (YoY), the rental yields declined by about 40 basis points from its level in Q4 2019.
- The lingering economic uncertainties and weakened demand led the Residential Real Estate Price Index (RREPI) to its first-ever YoY contraction since the start of the series in 2016. In Q3 2020, the index settled at 131.2, a decline by -0.4% YoY from 131.7 recorded a year ago. The contraction is mainly driven by the decline in residential prices in Metro Manila at -12.2% YoY while residential prices in areas outside of Metro Manila managed to grow 6.4% YoY. In particular, condominium and duplex properties dipped by -15% YoY and -8.8% YoY, respectively, whereas single detached/attached units and townhouses posted a growth of 7.4% YoY and 12.0% YoY, respectively.
- The Philippine Stock Exchange Index (PSEi) closed at 7,139.71 in 2020, a decline by 8.6% from its level a year ago. The local bourse, however, remained upbeat as it recovered from a low of 4,623.42 during the onset of community quarantine in early-March 2020. Investors take a cue from the gradual reopening of the economy and the planned roll-out of the vaccination program. The market has also shown interest in the real estate investment trust (REIT) vehicles as it anticipates the subsequent REIT offerings after the successful launch of AREIT in August 2020. DoubleDragon Properties Corp. is finalizing the listing of DDMP REIT Inc., which has filed its application to the Securities and Exchange Commission (SEC) in November 2020.

## ECONOMIC OVERVIEW

The Philippine economy's full-year 2020 contraction forecast is set between -8.5% and -9.5% as the prolonged economic lockdown weighed heavily on consumer spending and investment. GDP growth is forecasted to recover between 6.5% and 7.5% by end-2021. Following the full and partial reopening of various industry sectors, macroeconomic fundamentals have shown gradual improvements with unemployment improving to 8.7% in October 2020 from the all-time high of 17.6% in April 2020; while personal remittance is in continued growth at 9.1% YoY in September and 2.5% YoY in October.

While the holiday season resulted in accelerated inflation at 3.5% in December, the full-year 2020 inflation of 2.6% remained within the 2%-4% government target. With future general price increases seen to remain manageable, it provides the BSP ample cushion in maintaining the record low benchmark overnight reverse repurchase facility rate at 2% to support the economy during its recovery phase.

## MARKET OUTLOOK

The volume of major investment transactions remained low as business and consumer confidence have been severely affected by the lingering economic uncertainties. Taking cues from other global investment markets, the key to sustainable recovery is the proper implementation of effective economic stimulus programs and continued capacity-building (such as roll-out of infrastructure development programs).

Market opportunities, on the other hand, will be enhanced as more reasonably-priced assets are expected to be offered. Speculative investment offerings are expected to take a backseat, while majority of the future transactions are seen to be aimed for self-use. The growing preference for crisis-proof alternative assets such as logistics, data centers, and other life-sciences industries is enhancing new urban renewal opportunities in non-CBD locations in the medium-term.

### SECTORAL UPDATE

**OFFICE** The flight of POGO companies led to an increase in office vacancy rates while bulk office projects delays become more apparent as developers adjust their development timetable. Demand remained low through 2020 as due diligence and decision-making were similarly delayed by the pandemic. Nevertheless, renewals and lease extension as well as pent-up demand from IT-business process management (IT-BPM) companies is expected to be revitalized in the short-to medium-term.

**RETAIL** Footfall in retail establishments remains low as uncertainties continue to dent consumer spending, the main driver of the retail sub-sector. Retailers adopt omni-channel strategies to take part of the growing preference towards online shopping while the essential segment continues to lead the retail sub-sector.

**INDUSTRIAL** The slowdown in the manufacturing and export industries offsets the gains from ballooning e-commerce activities resulting in more tamed rental growth. Whilst the demand for logistics and warehousing is seen to maintain its growth momentum as retail activities become increasingly online, the newly completed industrial estate in Central Luzon and facilities in CALABA region will lead to a modest increase in vacancy.

**RESIDENTIAL** Economic uncertainties take a toll on the mid-end residential condominium market in Metro Manila as demand from overseas Filipinos and foreign workers remained repressed. Residential supply and demand are seen to shift from traditional business districts to adjacent urban areas as a result of blended work set-up and increasing preference towards lesser dense environment.

**HOTEL** With foreign visitor arrivals plunging by 84% YoY in 2020, the hospitality sub-sector had its worst during the pandemic. Accommodation establishments can boost domestic tourism through effective promotion strategies and reinforcing the health and safety measures while waiting for the recovery of international tourism which remains uncertain in the short to medium-term.

### SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2020)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
CBD Makati Property	Makati City	Office	1,600
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

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

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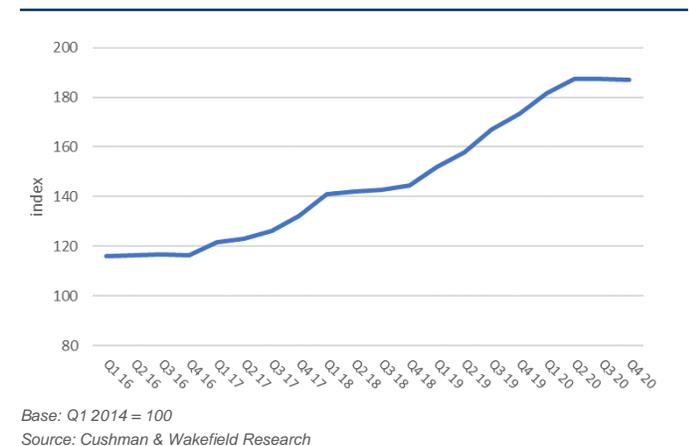
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### OFFICE CAPITAL VALUES INDEX



### OFFICE (GROSS) RENTAL YIELDS

