

YoY
Chg12-Mo.
Forecast**6.50%**

Ave. Office (Gross) Yields

**2.88%**

10-Year T-Bond Rate

**134.4**

Q4 2020 RREPI



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

ECONOMIC INDICATORS

YoY
Chg12-Mo.
Forecast**USD 8.02B**OF Cash Remittances
Q4 2020**3.09M**Employment in Office-using
Industries
Q1 2021**4.4%**PHL Ave. Headline Inflation
Rate
Q1 2021**PHP 48.3**Exchange Rate (PHP:USD)
Q1 2021

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q1 2021 contracted further to 6.5%. Year-on-year (YoY), the rental yields declined by about 40 basis points from its level in Q1 2020. In anticipation of significant transactions, property values are likely to be further adjusted towards more achievable and realistic levels.
- The Residential Real Estate Price Index (RREPI) settled at 134.4 in Q4 2020, registering a subtle growth of 0.8%. Albeit considerably slower than the registered YoY growth of 10.4% a year ago, it is an improvement from a contraction of 0.4% YoY in recorded Q3 2020. The price of condominium unit continues to contract by 8.4% YoY in Q4 2020 while the rest of the residential types posted growth of 20% YoY for duplex, 16.1% YoY for townhouse, and 4.7% YoY for single detached/attached units. Residential properties outside Metro Manila lead growth at 5.9% YoY while properties within Metro Manila declined for the second consecutive quarter, contracting by 4.8% YoY in Q4 2020.
- The Philippines' real-estate investment trust (REIT) market continues to expand with the listing of DDMP REIT, Inc. (DDMPR), DoubleDragon Properties Corp.'s REIT company. DDMP REIT's stock market debut in March 2021 marks the country's second REIT listing after Ayala Land's AREIT Inc. in 2020. Moreover, AREIT Inc. has identified 10 assets for a property-for-share swap transaction that is expected to augment AREIT's earnings.

AREIT'S PROPERTY-FOR-SHARE SWAP TRANSACTION

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	ESTIMATED TRANSFER PRICE
			(in million USD)
Ayala Land Mixed Related Party Transfer 2021	-	Office	317.8
Evotech 1 & 2	Santa Rosa City, Laguna	Office	36.1
BPI-Philam Life Alabang	Muntinlupa	Office	1.2
BPI-Philam Life Makati	Makati City	Office	1.5
Vertis North Commercial Development	Quezon City	Office	255.5
Bacolod Capitol Corporate Center	Bacolod City	Office	17.1
Ayala Northpoint Technohub	Talisay City, Negros Occidental	Office	6.5
Integrated Micro-Electronics	Binan, Laguna	Industrial	22.9
The 30th Corporate Center	Pasig City	Office	105.1
Teleperformance Cebu	Cebu City	Office	29.9

Source: Real Capital Analytics

ECONOMIC OVERVIEW

The fresh surge of COVID-19 infection cases that eventually led to the re-imposition of the strict lockdown measures in high-risk areas identified as the NCR Plus – covering Metro Manila, Laguna, Cavite, Bulacan, and Rizal – disrupts the country's economic recovery path as it reignites uncertainties among consumers, and restricts the operations among businesses. The government is likely to revisit its original growth forecast of 6.5% to 7.5% in 2021 to a more tamed estimate following the perceived mild contraction in the second quarter of this year, straining the economic gains of the first quarter. The faster inflation, which settled above the upper end of the target range of 4% in the past three months before settling at 4.5% in March, also contributes to the dampening of household spending which has already shown a gradual recovery since the latter part of last year.

Before the return to the more stringent restriction measures, the reopening of businesses and the economy has won back investor optimism that translated to a 41.5% YoY increase in net inflows of foreign direct investments (FDI), reaching USD 961 million in January 2021, which is also the strongest recorded since 2019. However, the delayed inoculation program and the ballooning number of infection cases is seen to hamper the sustained flow of investments amidst dimmed economic recovery prospects.

MARKET OUTLOOK

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) law which reduces the country's corporate income tax rate to a more competitive level is expected to improve investor confidence and serve as a major stimulus in attracting investments that will create more jobs and support faster economic recovery.

Significant transactions are expected in the near- to medium-term, as property yields and values move toward realistic levels. In core cities within Metro Manila, urban renewal opportunities are likely as new infrastructure developments are being completed, further supporting the movement of corporate occupiers and workers towards less dense communities.

SECTORAL UPDATE

OFFICE The inability to operate at full capacity suppresses the demand for additional office space, especially with the availability of other viable solutions outside of the traditional business districts, as well as the availability of flexible working arrangements. Whilst business sentiment has considerably improved in the past few months as economic activity has gradually increased, demand for office space, which will be led by the BPO industry, is expected to grow at a slower pace than supply.

RETAIL The lingering economic uncertainties, reinforced with the high level of prices and joblessness, hamper the growth momentum of consumer spending and dims the immediate recovery of the retail sub-sector. Retail players are compelled to incorporate contactless solutions and e-commerce options in their long-term strategies as the country anticipates the success of the inoculation drive.

INDUSTRIAL Active expansion of industrial footprint is currently being undertaken by major industrial players in response to the bright prospects of the sub-sector which is seen to lead the property sector in the short to medium term. Moreover, the new CREATE law is expected to assist the manufacturing and electronics industries, which occupy the majority of the country's industrial hub, to gain momentum as well as encourage future expansions and new investments with the more favorable fiscal incentive schemes. Mergers and consolidation are expected among small- to mid-scale players to improve operational efficiency.

RESIDENTIAL House and lot developments in urban areas remain as an attractive residential option as compared to residential condominiums in major business centers with the latter exhibiting price softening that is expected to persist in the short to medium term. Residential condominium developments with superior property management and less dense population are expected to remain attractive in the market.

HOTEL The renewed restrictions to non-essential travel present another hurdle to the tourism and accommodation industry which banks on the resurgence of domestic tourism to restart the hospitality sub-sector which has yet to recover from the pandemic-induced financial stress.

SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2020 - 2021)

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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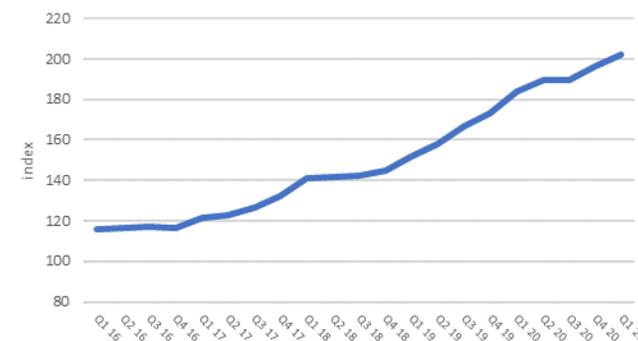
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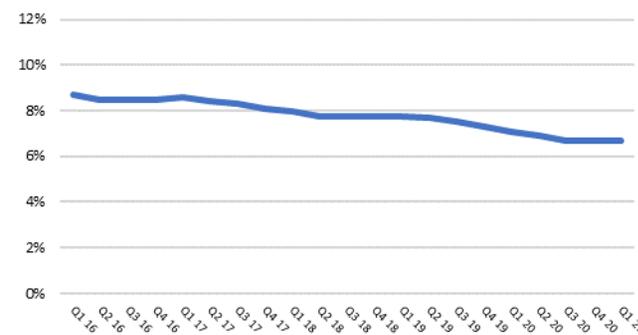
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OFFICE CAPITAL VALUES INDEX



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

OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research