

YoY
Chg12-Mo.
Forecast**6.30%**

Ave. Office (Gross) Yields

**4.75%**

10-Year T-Bond Rate

**132.2**

Q1 2021 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 7.59B**OF Cash Remittances
Q1 2021**3.31M**Employment in Office-using
Industries
Q2 2021**4.4%**PHL Ave. Headline Inflation
Rate
Q2 2021**PHP 48.2**Exchange Rate (PHP:USD)
Q2 2021

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- The compression of (gross) office property yields continued, as average yield rates in Metro Manila are down by 40 basis points (bps) from its year-ago levels. *C&W Research* notes that the continued downward movement of the key policy rates by monetary authorities is supportive of increasing the level of real estate investments and the further growth of capital values in the Philippines. As the situation further improves and investor sentiments recover, we can expect the pent-up demand from investors to move towards core and more expensive assets located in the CBDs, forcing a repricing of weaker assets outside the core areas. This will further lead to recovery in market activities, as the level of transactions becomes more fluid.
- The real estate exposure of the Philippine banking system reached a record high of 21.55% in end-December 2020, up by 171 bps from 19.84% in the same period last year. The latest figure is also the highest since the recorded 21.04% in end-March 2017, whilst still within the Bangko Sentral ng Pilipinas' (BSP) new real estate loan limit of 25%. In August 2020, the BSP raised the limit on real estate loan exposure for universal and commercial banks from its previous 20% ceiling to mobilize an estimated PHP 1.2 trillion worth of credit in a move that aims to stimulate further investments in the property sector. In terms of property type, residential real estate loans rose by 9.1% year-on-year (YoY) to PHP 833.73 billion in December 2020 while commercial real estate rose by 3.9% YoY to PHP 1.46 trillion.
- The BSP's Residential Real Estate Price Index (RREPI) growth crossed the negative territory once again after contracting by 4.2% YoY Q1 2021. The growth of the index subtly recovered by 0.8% YoY last quarter after the first-ever contraction by 0.4% YoY in 3Q 2020. The recovery path of the country's overall residential prices indicator over the course of the pandemic was largely attributable to the tamed demand for residential properties in Metro Manila that resulted in sharp prices contraction of 10% YoY for properties in the area. Meanwhile, the prices of residential properties outside Metro Manila modestly rose by 0.8% YoY, albeit considerably slower than the recorded 5.9% YoY and 8.5% YoY growth in Q4 2020 and Q1 2020, respectively.

ECONOMIC OVERVIEW

The Gross Domestic Product (GDP) growth declined anew for the fifth consecutive quarter, posting a contraction of 4.2% YoY in Q1 2021, albeit at a slower pace than the recorded decline of 8.3% YoY in Q4 2020. With the imposition of heightened restriction measures than the already strict General Community Quarantine (GCQ) beginning the end-March to mid-May this year, the economic growth will likely to remain dampened up to the medium-term, also due to the political risks that may arise from the upcoming polls in 2022. Moreover, the emergence of the new and highly infectious COVID-19 variants continues to expose the country to great vulnerability as the vaccination rate remains low, with only around 3% of the population having inoculated with two doses as of mid-July, hence the country will likely to remain to its current restriction level to curb the transmission rate.

The government's pandemic response and the Corporate Recovery and Tax Incentives for Enterprises (CREATE) received an acknowledgment among investors and contributed to an improved market sentiment that attracted more investments as reflected in the latest figure of the foreign direct investment (FDI), which more than doubled in April 2021 to USD 679 million from USD 317 million in the same period last year. Nonetheless, different organizations raised a red flag on the comprehensive tax reform package including its effects on firms registered with the Philippine Economic Zone Authority (PEZA), particularly with the eventual expiration of their 5% gross income tax in the next 9 to 10 years and the new 12% VAT rule on the previously VAT zero-rating on purchases of materials and packaging supplies by locators from local manufacturers that could deter investor interests in the future as the global business environment remains in a recovering phase from the impacts of the pandemic.

On the other hand, the BSP maintained the policy rate to its record low level of 2% to aid the economy until the recovery path becomes visibly stable despite the eventual monetary policy tightening stance of the US Federal Reserve.

MARKET OUTLOOK

Key property players and developers have firmed up plans to list in the real estate investment trust (REIT) market. These planned listings are seen to shore up and infuse fresh financial capital to gear the real estate sector towards a long-term growth path.

Expected REIT IPOs in 2021

REIT Company	Parent Firm	Property Type	Planned IPO Listing Date	Estimated Proceeds
Filinvest REIT Corp. (FILREIT)	Filinvest Land, Inc. (FLI)	Office	Q3 2021	PHP 11.8 billion
Megaworld REIT (MREIT)	Megaworld Corp.	Office	Q3 2021	PHP 27.3 billion
RL Commercial REIT Inc. (RLC REIT)	Robinsons Land Corp.	Office	Q3 2021	PHP 26.6 billion

SECTORAL UPDATE

OFFICE The pandemic continues to cause completion delays that also help keep vacancy rates from ballooning with the still tamed demand for office space. The sub-sector is also bolstered by the rapid expansion of crisis-proof industries such as logistics and e-commerce companies. These companies do not only require additional space for warehousing facilities outside Metro Manila but for presence in major CBDs, as well. The resilient global outsourcing demand will spearhead the recovery of office space demand. To ensure its growth post-pandemic, the IT and business process management (IT-BPM) industry need more consistent set of business incentives and prioritization in the ongoing inoculation program.

RETAIL The recovery of the retail sub-sector post-pandemic may hinge on achieving herd immunity through vaccination, which may not come before the first half of next year, to renew consumer confidence and encourage increased footfall. Nonetheless, the uncertain business environment and the ongoing restrictions continue to suppress new retail developments and retail space demand from retailers.

INDUSTRIAL The increasingly prominent e-commerce activities, which generate a growing need for enterprises to integrate data-driven operations, attract local and regional data center players to the Philippines to cater to the demand for a highly-secured storage facility for big data.

RESIDENTIAL The overseas Filipino (OF) remittances, a major driver of the residential sub-sector, have shown improvements in the recent months. Despite these improvements, the demand for mid-end residential condominium is expected to remain weak in the short to medium term, especially for developments located in Metro Manila, as the market takes a cue from the stable business and economic environment. On the other hand, demand for house & lot (H&L) units continues to increase, as end-user buyers prefer the low-density environments afforded by these developments.

HOTEL The hospitality sub-sector is seen to partly benefit from the emergence of hybrid and more flexible work arrangement that fuel pent-up demand from employees who wish to work remotely into hotels, as they seek a better work environment and improve work-life balance.

SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2020 - 2021)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
ICTSI, Manila Property	City of Manila	Mixed-use	100,000
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

CLARO CORDERO, JR.

Director & Head

Research, Consulting & Advisory Services

Claro.Cordero@cushwake.com

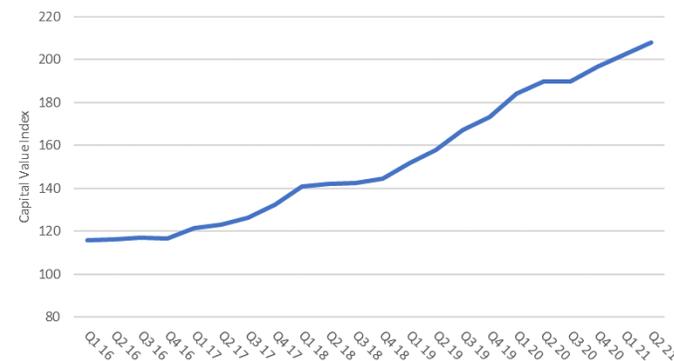
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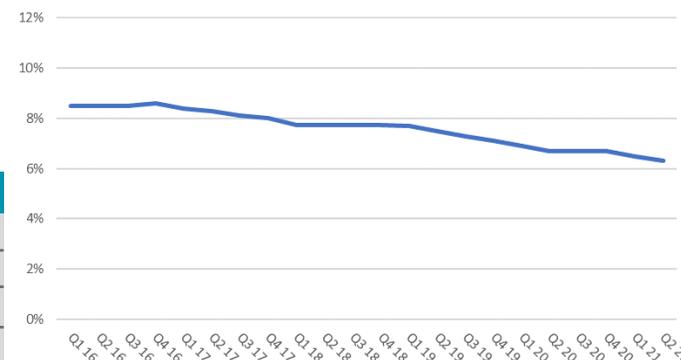
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PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



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

PRIME/GRADE 'A' OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research