

	YoY Chg	12-Mo. Forecast
6.27% Ave. Office (Gross) Yields	▼	—
4.0% 10-Year T-Bond Rate	▲	▼
139.5 Q3 2021 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 Q4 2021 compressed further to 6.27%. Year-on-year (YoY), the rental yields declined by about 43 basis points from its level in Q4 2020. The persistently low policy interest rates set by the Bangko Sentral ng Pilipinas' (BSP) is driving further compression of the average rental yield rates in the market. As the global economy recovers and pressures to hike key policy rates mount, C&W Research estimates rental yields to remain flat in the short- to medium-term.
- Following the more relaxed restrictions in the latter part of 2021, the BSP's Residential Real Estate Price Index (RREPI), an indicator of the country's overall residential prices, posted a YoY growth of 6.3% in Q3 2021, a recovery from two consecutive quarters of YoY declines. The improved market sentiment in the residential segment was also attributable to the more stable flow of the overseas Filipino remittances which posted a sustained growth for nine consecutive months since February 2021 and the reopening of more businesses after the shift to granular community lockdown which translated to an increase in demand. The price of condominium units posted a growth of 13.6% YoY in Q3 2021, a recovery from four consecutive quarters of decline, and the price of townhouses soared by 37.1% YoY during the same quarter. Meanwhile, the price of single detached/attached houses and duplex property declined by 4.2% YoY and 0.2% YoY, respectively. In terms of location, the price of residential properties in Metro Manila grew faster at 11.4% YoY as compared to the price of properties located outside the capital region which grew by 4.9% YoY.
- Similarly, foreign direct investment (FDI) soared by 98.9% in October 2021 to USD 855 million, marking its fifth consecutive months of growth since June 2021. Whilst the growth is partly attributable to the low base effect, the inflow of foreign funds may also be a result of the improvements in the pandemic situation during the fourth quarter of the year. The ten-month year-to-date figure of FDI stood at USD 8.1 million in 2021, as compared to USD 5.5 million during the same period a year ago.

ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
USD 8.20B OF Cash Remittances Q3 2021	▲	▲
3.51M Employment in Office-using Industries Q3 2021	▲	▲
4.2% PHL Ave. Headline Inflation Rate Q4 2021	▲	▲
PHP 50.5 Exchange Rate (PHP:USD) Q4 2021	▲	▼

Source: Moody's Analytics, BSP, PSA

ECONOMIC OVERVIEW

For 2021, GDP growth beats the government's full-year forecast of between 5% to 5.5% as the economic improvements in Q3 2021 spilled over in the fourth quarter following the resumption of more business activities. The economy grew by 7.7% in Q4 2021 which brings the annual GDP growth to 5.6%. The consumers, however, remain wary of the health crisis based on the Q4 2021 results of BSP's Consumer Expectations Survey (CES) wherein the overall confidence index further slumped to -24% from -19.3% in Q3 2021, due to factors that include the elevated unemployment and level of prices, limited mobility, and lower-income. During the same period, businesses were more optimistic with the overall business confidence index reverting to the positive territory at 39.7% in Q4 2021 from -5.6% in Q3 2021, citing factors such as the improvements in the restrictions, increase in demand and sales, vaccine rollout, and increased demand during the festive seasons. The government expects the economy to further expand by 7%-9% in 2022, and whilst economic fundamentals remain supportive of faster recovery, the possible economic disruptions as the country grapples from another COVID-19 wave due to the Omicron variant remains the biggest hurdle to the recovery process momentum.

The labor situation could also worsen as the operation of various industries will again be restricted, particularly in the construction and manufacturing segments which are highly susceptible to global supply chain disturbance. The rate of unemployment slightly grew to 6.6% in December from 6.5% a month prior.

Amidst the high inflation rate, which averaged at 4.5% in 2021, the BSP still kept the policy rate at a record low throughout 2021 and it is likely to remain in the 2% level in the near-term, although it is carefully assessing the possibility of relaxing the policy support as soon the economic prospects substantially improved.

MARKET OUTLOOK

Recently, the Republic Act (RA) 11595, which amends the Retail Trade Liberalization Act (RTLTA) of 2000, was signed into law to further ease the entry of foreign investors engaged in retail trade business to the country, while the proposed amendment the Public Services Act (PSA), which will allow full foreign ownership to public utilities such telecommunications, airlines, and domestic shipping, among others, has been passed by the Senate. Along with the acceleration of the vaccination and booster program, these investor-friendly legislations are seen to increase the optimism of foreign investors to the country.

As the nationwide vaccination rollout goes full steam to effectively manage future spikes in COVID-19 infection and business activities slowly creep to normalcy, C&W Research expects a marked improvement in the investment environment in the medium term. On the other hand, new decision factors on investment transactions are expected to take center stage as the pandemic brought awareness on environmental, social, and governance (ESG) metrics and the need to enhance business strategies due to the increasing digitalization of the new economy.

SECTORAL UPDATE

OFFICE In Q4 2021, more office transactions were revived as the country piloted the granular lockdown, focusing on targeted areas of concern, to generally allow more movement and business activities. Nonetheless, the effect on the level of demand may not be immediately seen until mid-2022, which is the target transaction date of the majority of pending deals. Meanwhile, the contraction of POGO activities continues as higher taxes among industry players along with the new stricter requirements on occupational safety and health standards are imposed, leaving some large office spaces vacant.

RETAIL The increased spending habit during the festive season has improved retail sales and footfall in retail establishments whilst the pandemic qualms continue to suppress consumer confidence. As parent companies are still feeling the impacts of the crisis globally, the flow of new foreign retail enterprises remains hampered although the law that lowered the required minimum investment for foreign retailers is seen to capture more investor interest once the business environment gets better.

INDUSTRIAL The fast-growing e-commerce and digital economy inspire greater demand for industrial space in warehousing, distribution logistics, and cold-storage segments. The data center continues to capture rising interest among investors, with both local and foreign players scaling up their operations in the country.

RESIDENTIAL The uptick in residential demand in the last quarter of 2021, after it suffered a slowdown during the peak of the pandemic, occurs as the economy gradually bounces back. The supply is also expected to keep up as developers resume their long-stalled development pipeline.

HOTEL Hotel operators have seen better occupancy rates in Q4 2021 as domestic travel activities improved when the borders were reopened and the documentary restrictions were eased. Just as when the tourism industry is beginning to pick up, the emergence of the Omicron variant brings fresh concerns as the changes in travel policies and border restrictions dampen sentiment for the hotel sub-sector.

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

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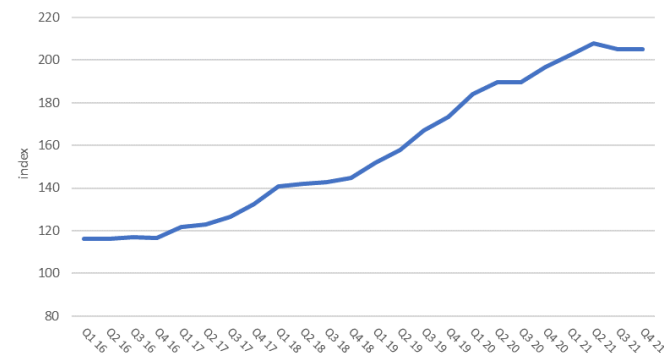
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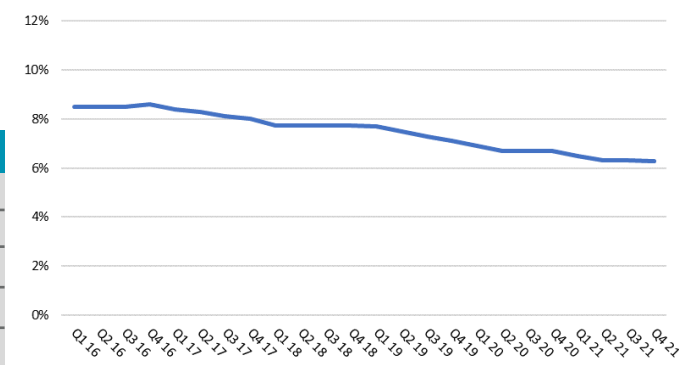
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PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



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

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



Source: Cushman & Wakefield Research