MARKETBEAT

METRO MANILA

Investment Q1 2022

	YoY Chg	12-Mo. Forecast
6.20% Ave. Office (Gross) Yields	▼	—
4.88% 10-Year T-Bond Rate	▲	▼
141.0 Q4 2021 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
USD 8.30B OF Cash Remittances *Q4 2021*	▲	▲
3.53M Employment in Office-using Industries *Q4 2021*	▲	▲
3.4% PHL Ave. Headline Inflation Rate *Q1 2022*	▼	▲
PHP 51.5 Exchange Rate (PHP:USD) *Q1 2022*	▲	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q1 2022 compressed further to 6.20%. Year-on-year (YoY), the rental yields declined by about 30 basis points from its level in Q1 2021. C&W Research estimates rental yields to remain flat in the short- to medium-term, as the *Bangko Sentral ng Pilipinas* (BSP) may consider an interest rate hike towards the end of Q2 2022, as inflationary pressures remain due to external shocks to global commodity prices and supply chain disruptions.
- The residential segment performed better than the previous year as shown in the BSP's Residential Real Estate Price Index (RREPI). RREPI grew by 4.9% YoY in Q4 2021, faster compared to 0.8% YoY during the same period last year. The Q4 2021 growth, however, was slower than the growth recorded in Q3 2021 which was at 6.3% YoY. Following the further easing of mobility and business restrictions, along with the gradual return to office scenario, residential condominium demand in Metro Manila also gradually recovered, which led to an increase in residential prices by 5.0% YoY in Q4 2021. The prices of residential condominiums also grew for the second consecutive quarter in Q4 2021 by 10.4% YoY, a recovery from a decline of 8.4% during the same period last year, while prices of townhouses continued to rise by 22.6% YoY from 16.1% last year. Overall, residential properties outside Metro Manila continued to lead growth in terms of the Q4 2021 YoY performance which was 5.1% YoY, and in terms of their contribution to general RREPI YoY growth for the period.
- The improved investor sentiment translated to a 54% increase in net foreign direct investment (FDI) inflow in 2021, reaching USD 10.5 billion in December 2021 and rising from only USD 6.8 billion a year ago when the FDI bottomed by 21% as the pandemic disrupted the global markets. The recent enactment of the Republic Act (RA) No. 11659, which amends the 85-year-old Public Service Act (PSA), significantly enhances the openness of the country to foreign investments. Easing the foreign equity restrictions on public services such as telecommunications, shipping, air carriers, railways, and subways, the law is seen to promote more investments in vital sectors that will promote short and long-term growth

ECONOMIC OVERVIEW

Despite the escalating geopolitical tensions, the Philippines is expected to see sustained economic growth supported by the reopening of various economic sectors and businesses. While Fitch Solutions has downgraded its growth forecast for the Asia-Pacific region, it has maintained its outlook for the Philippines, with economic growth seen to reach 6.5% in 2022, higher than the posted 5.7% full-year growth in 2021. Joblessness was also reduced, with the unemployment rate easing from 8.9% in Q3 2021 to 6.6% in Q4 2021, before further declining to 6.4% in February 2022, boosting consumer confidence.

The rising fuel prices, however, have elevated inflation to 4% in March 2022, the highest since October last year, and settling in the upper limit of the BSP's 2-4% target range. The risk of the further escalating rate of inflation has prompted the Central Bank to take extra precautions in monitoring the global situations, and be prepared in implementing preemptive actions when necessary, reiterating that the timing for the implementation of the monetary policy normalization strategy is on still on track in H1 2022.

The increase in commodity prices globally may also thwart the growth momentum of the country's manufacturing sector, which significantly improved as shown by the strong performance of the purchasing managers' index (PMI) in March 2022 which rose to 53.2, the highest since December 2018. The overseas Filipino (OF) remittances, however, is seen to remain resilient despite the geopolitical conflicts as the exposure of OF workers in the affected areas are minimal. Recovering from a decline of 0.8% in 2020, both the personal and cash remittances grew by around 5.1% to USD 34.9 billion and USD 31.4 billion, respectively, in 2021.

MARKET OUTLOOK

- Investor sentiment is seen to improve on the back of better market conditions arising from the further reopening of the economy despite downside risks brought about by rising inflation and imminent interest rate hike.
- Acquisition of quality commercial assets in key central business districts to accelerate before the market cycle turns into full recovery.
- Office occupiers are expected to lock in favorable long-term deals before office fundamentals fully recover.
- Specialized assets such as digital infrastructures, as well as green developments are expected to attract investors, as the global trends shift focus toward sustainability and environmental efficiency. In the property sector, capital infusions are expected to be directed on more resilient segments such as industrial and logistics and residential, as well as land banking in areas with an infrastructure development focus.

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SECTORAL UPDATE

OFFICE The return-to-office mandate to entities registered with investment promotion agencies such as the Philippine Economic Zone Authority as Metro Manila and more parts of the country shifts to Alert Level 1 has created a ruckus, especially among the companies and their employees who have thrived in the implementation of work-from-home arrangements at height of the crisis. As hybrid work set-up is seen to transcend the pandemic in many markets, the office property sub-sector could benefit from the development of optimal agile working policies, comparable to other markets in the region, to safeguard its position in the highly competitive IT-BPM industry.

RETAIL Foot traffic in retail establishments has significantly increased as mobility restrictions were lifted, and consumers unleash accumulated savings over the last two years. With signs of economic resurgence becoming more apparent, retail vacancies are seen to taper off in the mid-term. Nonetheless, retail space new supply will continue to fall behind other real estate sub-sectors with minimal project launches in the market.

INDUSTRIAL The nearby provinces in Metro Manila continue to embolden the growth of logistics facilities and industrial estates, with e-commerce as its primary driver. The manufacturing and external trade segments, however, remain vulnerable as the rising commodity prices globally, and the supply chain bottlenecks present new threats.

RESIDENTIAL Along with the increase in activities in the major CBDs as companies are now encouraged to recall their employees back to offices, residential demand in these districts, particularly for residential condominiums, is gaining traction as well. The segment will see an incessant expansion, especially in the provincial areas, with the continued infrastructure improvements. New supply pipeline of residential developments is also expected to gain traction as demand for sustainable and pandemic-proof features and amenities increases.

HOTEL The increased vaccination rate gradually calms travel hesitancy, and the major tourist destinations are benefiting from the surge in visitor arrivals, despite still being mostly domestic travelers. Hotel establishments are expected to see improved occupancy rates as domestic and international travel restrictions are eased, with the country reopening to foreign tourists in February.

SELECTED COMMERCIAL/INVESTMENT TRANSACTIONS (2022)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
CBD Makati Property	Makati City	Mixed-use	8,371
Aseana Avenue Property	Parañaque City	Mixed-use	1,790
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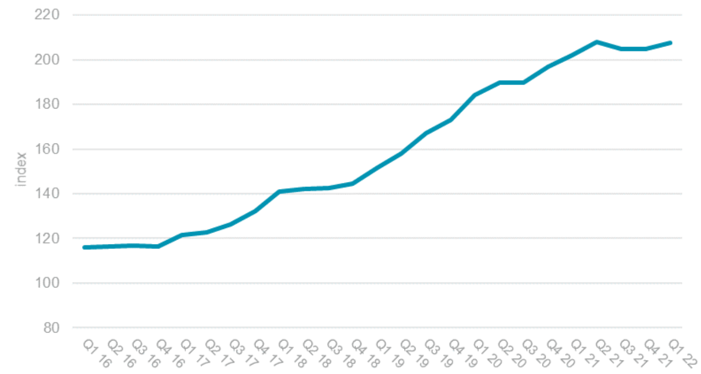
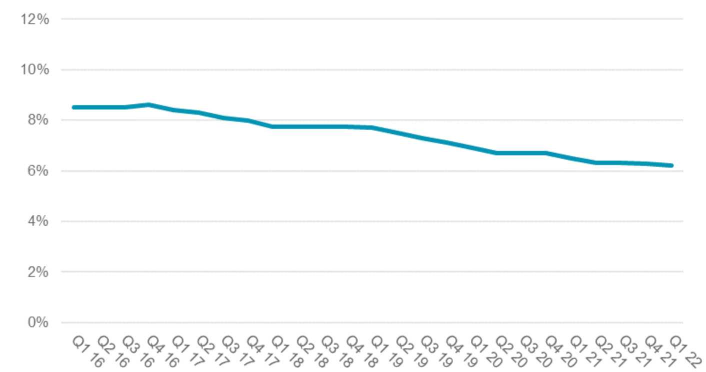
Note: Transactions valued over $10 million (estimated)
Sources: Real Capital Analytics, Cushman & Wakefield Research

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

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