MARKETBEAT

METRO MANILA

Investment Q2 2022

	YoY Chg	12-Mo. Forecast
6.20% Ave. Office (Gross) Yields	▼	—
7.25% 10-Year T-Bond Rate	▲	▼
139.6 Q1 2022 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 7.77B OF Cash Remittances *Q1 2022*	▲	▲
3.85M Employment in Office-using Industries *Q1 2022*	▲	▲
5.2% PHL Ave. Headline Inflation Rate *Q2 2022*	▼	▲
PHP 52.2 Exchange Rate (PHP:USD) *Q2 2022*	▲	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q2 2022 stood at 6.20%. Year-on-year (YoY), the rental yields declined by about 10 basis points from its level in Q2 2021. *C&W Research* estimates rental yields to remain flat in the short- to medium-term, as rental rates are expected to remain soft due to supply pressures and expected policy rate hike. The Bangko Sentral ng Pilipinas (BSP) is expected to take on a conservative stance to ward off inflationary pressures due to external shocks such as the continuing geopolitical tension between Ukraine and Russia and supply chain disruptions due to unsynchronized opening of key ports amidst COVID-19 induced border lockdowns.
- In mid-July 2022, BSP hikes the policy interest rate to 3.25%, after delivering an increase by 75 basis points (bps) during an off-cycle meeting as it takes aggressive actions to counter the rising inflation and rescue the underperforming Philippine peso. The recent move by the BSP accompanied the monetary policy tightening stance undertaken by other central banks in the region, such that of Singapore and South Korea, also in response to their upward consumer price pressures.
- The foreign direct investments (FDI) continued to increase in April 2022 to USD 989 million, a 48.3% growth from its level a year ago at USD 667 million. These new inflows of FDI were funneled mainly to the construction, real estate, professional, scientific and technical, and manufacturing sectors. Whilst the foreign investment may encounter bumps in the short term as the global investments markets reel with recession fears due to high inflation and rising interest rates, the continuity of key reforms will help maintain the growth momentum of net FDI inflows to the Philippines.
- The residential market in Metro Manila is showing a sustained growth momentum as residential property prices in the area soared by 9.5% YoY in Q1 2022, according to the latest Residential Real Estate Price Index (RREPI) of the BSP. Property prices in the capital region were growing faster than properties in areas outside Metro Manila which posted a growth of 5% YoY during the same quarter. Meanwhile, prices of townhouses were growing the fastest at 25.6% YoY, followed by duplex housing units which grew by 20.9% YoY, and residential condominiums which increased by 14.7% YoY. The only property type that recorded a decline in prices during the quarter was the single-detached/attached houses which slid by 2.5% YoY. The overall RREPI increased by 5.6% YoY in Q1 2022, higher than the recorded 4.9% YoY increase in Q4 2021, and a recovery from a decline of 4.2% YoY a year ago.

ECONOMIC OVERVIEW

- The Philippine government made a modest adjustment to its Growth Domestic Product (GDP) growth forecast for 2022, from between a range of 7% to 8%, growth is now expected at 6.5% to 7.5% as the country grapples with the rising level of prices and external headwinds. The country's inflation rate soared to 6.3% in June 2022, higher than the 5.5% in May 2022 and the 4.0% during the same period last year, while the year-to-date average is at 4.6% as of June 2022. The government forecasts the average inflation rate to settle between a range of 4.5% to 5.5% in 2022 before returning to the BSP's target range of 2% to 4% by the year 2024.
- Meanwhile, the Philippine currency is deteriorating against United States Dollar due to the rising global oil prices, coupled with the contractionary monetary policy by the US Federal Reserve, which brought the peso to its weakest level in almost 17 years by hovering at PHP 56 against the USD in mid-July. Nonetheless, the economic outlook is seen to remain resilient amidst the sustained return to normalcy and solid fundamentals that are seen to provide enough cushions for future monetary policy tightening.

MARKET OUTLOOK

- The recent volatilities in the global market are seen to dampen investor sentiment in the short to mid-term as investors carefully assess risks amidst fluctuating macroeconomic and financial market conditions.
- Prolonged, unregulated growth of inflation rate poses greater risks to asset classes with intermediate to long-term leases such as office and industrial. The recovery of retail and residential real estate might be dented by the weakened consumer spending in the short to mid-term.
- In the long-term, however, with the appropriate tools to be implemented by the BSP at the right time to manage inflation growth and minimize damage to the economy, further cap rate compression across property sectors is expected. This will likely entice property investors and buyers to re-allocate and diversify their portfolios in high-growth real estate investment markets, including the Philippines.

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Investment Q2 2022

CUSHMAN & WAKEFIELD

SECTORAL UPDATE

OFFICE The eased mobility has undoubtedly improved the number of companies resuming their business operation in physical offices. The office sub-sector is buoyed by the Information Technology and Business Process Management (IT-BPM) industry which continues to attract prospective new entrants that express interest in locating to the country by early 2023. Fresh take-up, albeit still below the peak levels, from offshore gaming companies was seen during the period. Nonetheless, other existing occupiers are reevaluating their real estate footprints as they seek to reassess future real estate occupation strategies..

RETAIL Foot traffic in shopping malls observed a notable growth to around 70% of pre-COVID levels, from only 50% last year, as consumers return to their shopping mall habits. However, the recent uptick in prices of basic goods and services, as well as the increase in benchmark interest rates, are seen to erode the consumers' purchasing power which could lead to a decline in retail sales in the short- to near-term.

INDUSTRIAL New industrial spaces continue to spur in the CALABARZON area, specifically in Laguna and Batangas, as well as in Tarlac in Central Luzon, amid sustained growth of demand for e-commerce fulfillment and distribution centers. The fresh supply of warehouses, cold storage, and logistic facilities in these key areas curb industrial rent's steep upward pressures while future growth driver is seen to include local and global data center players.

RESIDENTIAL Pipeline supply is seen to significantly increase as construction works resumed on a full scale. Nonetheless, increases in benchmark interest rates that would entail an additional cost of capital for property developers/investors could dent the long-term supply of residential projects. Meanwhile, as mortgage rates are also likely to increase, demand for residential developments could slow down as new prospective buyers may hold-off demand in the short- to near-term.

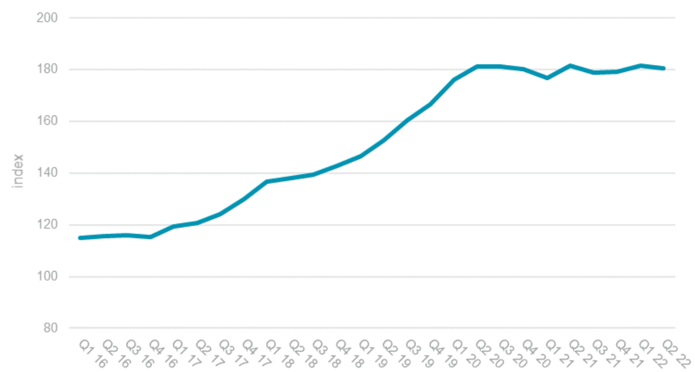
HOTEL Two years past the pandemic onset, foreign tourist arrivals are seeing slow growth whilst the increased confidence of domestic tourists is driving occupancy rates up, particularly in established tourist destinations. Although optimism is rising, the hotel and accommodation industry will continue to deal with uncertainties in the international markets such as intermittent international border controls and global geopolitical tensions.

SELECT COMMERCIAL/INVESTMENT TRANSACTIONS (2022)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
Fort Bonifacio, Taguig Property	Taguig City	Office	35,780
CBD Makati Property	Makati City	Mixed-use	8,371
Aseana Avenue Property	Parañaque City	Mixed-use	1,790
Aseana Avenue Property	Parañaque City	Mixed-use	1,790

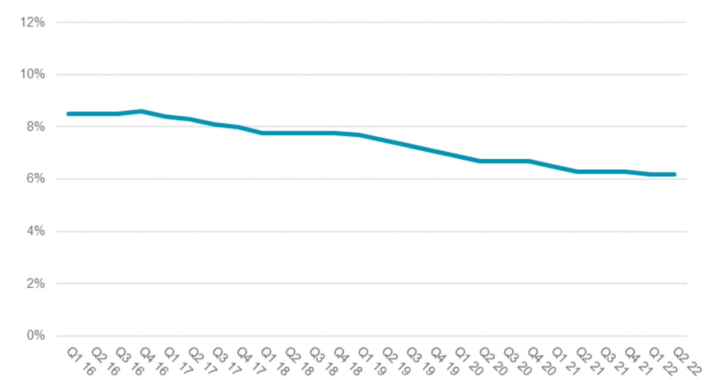
Note: Transactions valued over $10 million (estimated)
Sources: Real Capital Analytics, Cushman & Wakefield Research

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

CLARO CORDERO, JR.
Director & Head
Research, Consulting & Advisory Services
Claro.Cordero@cushwake.com

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