MARKETBEAT

METRO MANILA

Office Q2 2022

	YoY Chg	12-Mo. Forecast
0.20 M sq.m. New Completions (YTD)	▼	▲
16.2% Vacancy Rate	▲	▲
-2.7% Rent Growth (YoY)	▼	▲

PHILIPPINE ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
7.4% GDP Growth	▼	▼
5.2% CPI Growth (YTD)	▲	▼
5.9% Unemployment Rate (Average)	▼	▲

Source: Moody's

INFLATION WEIGHS IN ON SLOWER PACE OF GROWTH IN Q2 2022

Despite the spike in election-related spending and loosening of more COVID-19 related restrictions, the Philippine gross domestic product (GDP) grew at a slower-than-expected pace of 7.4% in Q2 2022. All key sectors, including agriculture, manufacturing and services, whilst registering positive growth faced several headwinds, foremost of which is due to inflationary pressures brought about by the continuing Ukraine-Russia war and supply chain disruptions due to port lockdowns in several key markets.

The Philippine government expects that the target overall GDP growth rate of 6.5% to 7.5% for 2022 to remain on track despite the slowdown after three consecutive high GDP growth rates. On the other hand, the underlying risks similarly remain with unrelenting global inflation growth seeping its way through the less accommodative key policy rate stance of several central banks severely affecting the anticipated recovery of private and public investment activities.

MIXED MARKET ACTIVITY LEADS TO NEW RECORD HIGH VACANCY RATE OF 16.2%

Leasing activity continues to rebound as eased protocols led to improved economic activities. Growth in leasing activity remains elevated and continued to pick up in Q2 2022 on a year-on-year basis. However, on a quarter-on-quarter (q-o-q) basis, office space returns outpaced take-up, leading to a net absorption figure of -34,000 sq.m.

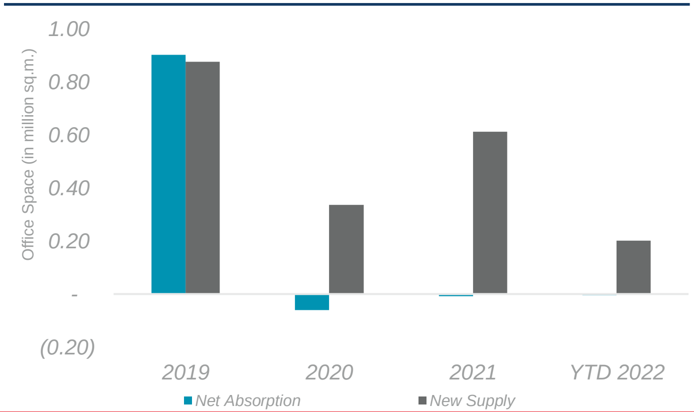
Aside from observed space returns, the number of untaken spaces in newly-completed buildings contributed to the continued increase in vacancy. The estimated overall vacancy rate further climbed to 16.2%, 80 basis points (bps) higher than the revised Q1 2022 figure of 15.4%. This new record-high vacancy rate is also 500 bps higher than the year-ago figure of 11.2%.

Vacancy rates are expected to remain elevated mainly due to renewed construction activities. In Q2 2022, approximately 47,400 sq.m. worth of Grade A office spaces were added to the Metro Manila stock, leading to a total inventory of 9.1 million sq.m.

RENTAL DECLINE QUICKENS IN Q2 2022

Due to elevated vacancy rates, average asking rents in Prime and Grade A office developments in Metro Manila in Q2 2022 contracted by 2.7% Y-o-Y and 0.8% q-o-q to PHP 1,037/sq.m./mo. With competition for transactions becoming tighter, even landlords of some Prime grade buildings made downward adjustments in their asking rates this quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

METRO MANILA

Office Q2 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SQ.M.)	VACANCY RATE	PLANNED & UNDER CONSTRUCTION (SQ.M.)	PRIME AND GRADE A ASKING RENT		
				PHP/SQ.M./MO	US$/SF/MO	EUR/SF/MO
Taguig City	2,610,000	10.1%	311,000	1,203.00	2.03	1.95
Makati City	1,768,000	17.6%	133,572	1,221.00	2.06	1.98
Pasig City	1,410,000	13.9%	200,069	796.00	1.34	1.29
Quezon City	1,243,000	15.5%	654,000	833.00	1.41	1.35
Pasay City	737,000	23.6%	117,000	1,077.00	1.82	1.75
Muntinlupa City	664,000	26.4%	72,000	834.00	1.41	1.35
Mandaluyong City	470,000	29.1%	0	848.00	1.43	1.37
Parañaque City	159,000	12.8%	0	1,208.00	2.04	1.96
MANILA TOTALS	**9,060,000**	**16.2%**	**1,489,000**	**PHP 1,037**	**US$ 1.75**	**EUR 1.68**

US$/PHP = 0.01817 ; EUR/PHP = 0.01745 as of 30 June 2022

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SQ.M.	TYPE
Circuit Corporate Center 1	Makati City	12,000	Lease Acquisition

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	SQ.M.	OWNER/DEVELOPER
One Ayala Towers 1 and 2	Makati City	75,000	Ayala Land
Filinvest Axis Tower 4	Muntinlupa City	35,000	Filinvest Development Corp.
DoubleDragon Tower	Pasay City	47,000	DoubleDragon Properties

Note: Two buildings that were originally reported as completed (one in Q1 2021 and another in Q1 2022) had their operational dates pushed back. While these buildings met traditional indicators of construction completion, C&W Research excluded them from the supply figure.

MARKET OUTLOOK

- ***Flight-to-quality***: return-to-office mandates will lead to heightened demand for more high-tech buildings and top-notch facilities management to address health and safety issues. Demand for quality space will focus on “future-proof” (i.e., Environment-Social-Governance (ESG)) and high-spec developments for large occupiers and even for small and medium enterprises/companies due to the increased rate of digitalization.
- ***Significant pipeline outside Metro Manila***: completion of delayed developments (due to pandemic-induced factors) to pile up, especially outside of the National Capital Region. The pipeline for the remainder of 2022 for Metro Manila of 545,000 sq.m., as well as scheduled new constructions for the next couple of quarters, will continue to drive elevated vacancy rates in the near- to medium-term.
- ***Signs of normalcy despite headwinds***: As competition for new tenants further tightens and options become more available outside the CBDs, several landlords continue to make their asking rents more competitive. Despite the challenges in rental rate growth, total leasing activity is expected to be closer to pre-pandemic levels by early 2023.

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