MARKETBEAT

METRO MANILA

Investment Q3 2022

	YoY Chg	12-Mo. Forecast
6.20% Ave. Office (Gross) Yields	▼	▲
6.75% 10-Year T-Bond Rate 13-Sep-22	▲	▼
142.1 Q2 2022 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 Q3 2022 stood at 6.20%. Year-on-year (YoY), the rental yields declined by about 10 basis points from its level in Q3 2021. *C&W Research* estimates rental yields to inch up in the short-term, due to several adjustments in the key policy rate hike since the start of Q3 2022.
- The Bangko Sentral ng Pilipinas (BSP) raised the overnight borrowing rates by (an accumulation of) 225 bps by end-Q3 2022 since the start of the year. The decision of BSP to increase key policy rates was made in response to the series of rate increases by the US Federal Reserve Bank. The hawkish stance of the US Fed and the country's rising price woes are expected to prompt another benchmark rate increase for the remainder of the year.
- The Residential Real Estate Price Index (RREPI) was on its fourth quarter of consecutive growth after posting an increase of 2.6% YoY in Q2 2022 which was a reversal from the record decline in residential prices at 9.4% YoY during the same period last, albeit at a slower momentum than the recorded increase of 5.7% YoY Q1 2022. In terms of growth by property type, prices of duplex residential properties grew the fastest at 11.3% YoY, followed by residential condominiums at 8.6% YoY, townhouses at 4.1% YoY, and single detached/attached house at 0.8% YoY. The RREPI of properties in the capital region increased by 6.3% YoY in Q2 2022 led by the growth in prices of townhouses at 15.2% YoY which was faster than its recorded growth of 6.5% last quarter, followed by prices of residential condominiums at 8.4% YoY, below its registered growth of 15.1% YoY a quarter prior. Properties located outside the capital region also grew slower at 2.2% YoY in Q2 2022 from 5.1% YoY in Q1 2022.

ECONOMIC OVERVIEW

- The inflation rate soared to historically high levels by end-Q3 2022 with faster growth recorded for food, beverages, and transport items. The level of inflation worsened from 4.2% a year ago and 6.3% last month as the country battles supply issues and high fuel costs. Despite the inflation situation, the government keeps the growth target for 2023 which was set at 6.5% to 8% while the target for 2022 is eyed between 6.5% to 7.5%.
- The Philippine peso further deteriorates being among the worst performing in Asia at PHP 58.9 per US dollar as of end-September. Moreover, the country's monthly balance of payments (BoP) posted the largest deficit in four years which was at USD 2.3 billion in September, as compared to a deficit of USD 412 million a year prior and a gap of USD 572 million last month.
- Overseas Filipino (OF) cash remittances showed sustained growth in September after posting an increase of 3.8% YoY to USD 2.84 billion, albeit slower than the recorded 4.3% growth in August. The level of remittances increased amidst the better economic situations in host countries such as the United States, Singapore, and Middle Eastern countries and as workers take advantage of the weakened PHP against USD. Remittances' inflow is expected to further increase during the holiday season which will give the Philippine currency its much need boost.

ECONOMIC INDICATORS

	YoY Chg	12-Mo. Forecast
USD 8.48B OF Cash Remittances *Q3 2022*	▲	▲
3.89M Employment in Office-using Industries *Q3 2022*	▲	▼
6.2% PHL Ave. Headline Inflation Rate *Q3 2022*	▲	▼
PHP 56.2 Exchange Rate (PHP:USD) *Q3 2022*	▲	▼

Source: Moody's Analytics, BSP, PSA

MARKET OUTLOOK

- The concurrent contractionary monetary policy stance among economies amidst growing uncertainties may dim the global recovery outlook which could defer investment decisions among local and global locators in the short- to medium-term.
- Whilst external headwinds pose a greater challenge to the sustained improvement in economic and business conditions, the prospects of revenge spending and domestic travel amidst the sustained easing of pandemic restrictions will likely buoy the path (despite having slowed down significantly) towards return to pre-pandemic economic growth levels.
- Inflationary pressures will delay investment decisions in the short-term to build high-spec properties due to higher construction cost materials and the continued supply chain challenges. In the long-run, however, taking on development risks and pursuing joint ventures with established developers and construction firms will mitigate construction cost risk. The rental rates of existing prime commercial and logistics properties are poised to achieve resilient growth due to lower operating costs (due to sustainability features) and persistent *flight-to-quality* demand. As a result, this will further drive-up obsolescence risk, putting greater pressure for ageing and energy-inefficient developments to undergo asset enhancement and redevelopment.

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SECTORAL UPDATE

OFFICE While the pending imposition of the Philippine offshore gaming operators (POGOs) ban will (when it happens) drag rents down, the recovery of office space demand from IT-BPM companies (coupled with still expected delays in supply completion) will soften the downfall and eventually reverse the direction (to growth) in the short-term. The POGOs have been exiting the market since early 2020 and have caused rents to go down by as much as 4.0%, on average, over the last seven (7) quarters. While the industry may have occupied more than 1.0 million sq.m. of (primarily non-CBD Grade 'B/C') office space at its peak, the real estate footprint of the industry has significantly gone down to less than half by Q3 2022.

RETAIL Major retail establishments are now recording foot traffic of more than 80% of pre-COVID levels, boosted by the return of face-to-face classes in the country. Notwithstanding the unfavorable macroeconomic situations which include elevated inflation, retail sales are seen to improve during the remainder of 2022 as footfall and consumer spending surge during the holiday season.

INDUSTRIAL The recently completed and anticipated infrastructure developments are seen to fuel the vibrancy of the industrial segment in the CALABA corridor, and in Pampanga and Tarlac in Central Luzon. Greater demand for developable land in these areas boosts the capital value of industrial assets whilst the expansion of the logistics and warehousing segments continues to match the demand from manufacturing and exports, in addition to demand from the e-commerce industry.

RESIDENTIAL Whilst OF remittances inflow is seen to increase in the upcoming periods, the residential demand is likely to have a little boost from this inflow as funds are likely to be directed to essential items, other than for residential property purchase. The volatile environment of rising inflation and interest rates is seen to stifle pent-up demand (from the "wealth effect" due to the Philippine peso depreciation against the US dollar) for affordable to mid-market residential segments in the medium-term.

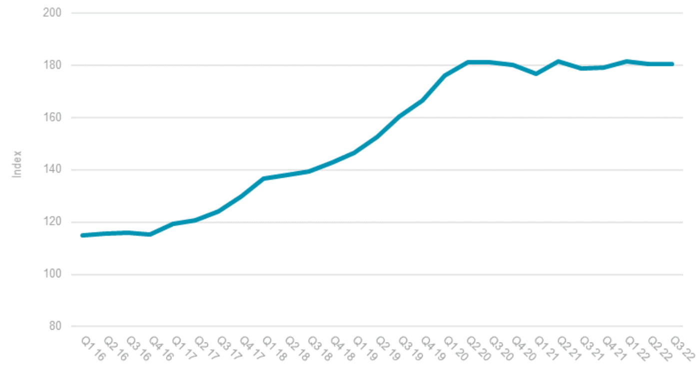
HOTEL The travel and tourism industry exhibits gradual recovery as evidenced by the increasing air passenger traffic volume. Domestic travel remains the main driver of tourism activities while international travel remains highly susceptible to global economic volatilities despite the eased documentary and border restrictions for foreign travelers.

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

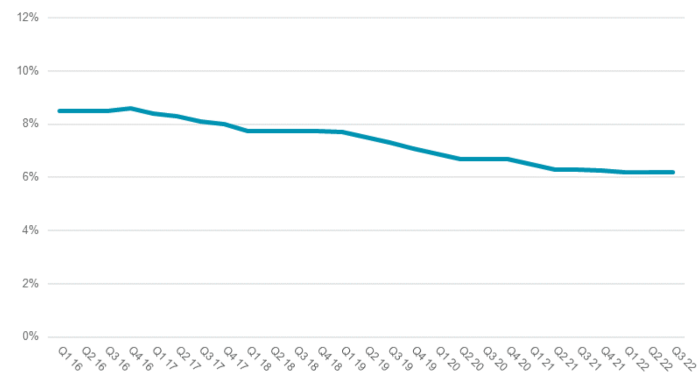
Note: Transactions valued over $10 million (estimated)
Sources: Real Capital Analytics, Cushman & Wakefield Research

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

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