MARKETBEAT

METRO MANILA

Investment Q4 2022

	YoY Chg	12-Mo. Forecast
6.25% Ave. Office (Gross) Yields	▼	▲
8.63% 10-Year T-Bond Rate 29-Nov-22	▲	▼
148.6 Q3 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 8.48B OF Cash Remittances *Q3 2022*	▲	▲
3.89M Employment in Office-using Industries *Q3 2022*	▲	▼
7.8% PHL Ave. Headline Inflation Rate *Q4 2022*	▲	▼
PHP 57.4 Exchange Rate (PHP:USD) *Q4 2022*	▲	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q4 2022 inched up by 5 bps from its Q3 2022 level to settle at 6.25%. Year-on-year (YoY), the rental yields declined by about 2 bps from its level in Q4 2021. *C&W Research* estimates rental yields to further inch up in the short-term, due to several adjustments in the key policy rate hike within Q4 2022 and expected adjustments within Q1 2023.
- In December 2022, the Bangko Sentral ng Pilipinas (BSP) delivered another benchmark interest rate hike by 50 basis points (bps), ending the rate hike cycle for the year which eventually brought the policy rate to 5.5%, the highest since 2008. For 2023, the BSP acknowledges the pressure for further interest rate increases, the earliest of which could happen in Q1 2023, amidst the hawkish Federal Reserves and the country's ongoing battle against inflation. Nonetheless, tamer rate hikes are expected until the inflation rate gets under control, back within the 2%-4% target range, by the latter part of the year.
- The growth of the overall residential prices accelerated in Q3 2022 with the BSP's Residential Real Estate Price Index (RREPI) surging by 6.5% YoY, as compared to the recorded growth of 2.6% YoY in Q2 2022 and 6.3% YoY a year ago. The prices of single detached/attached house and duplex properties recovered from the recorded a year ago declines of 4.2% YoY and 0.2% YoY, respectively, to a growth of 9.8% YoY and 26.7% YoY, respectively, in Q3 2022. Moreover, prices of residential condominiums grew for the fifth consecutive time by 19.2% YoY in Q3 2022, from 13.6% YoY a year ago and 8.6% YoY last quarter. In terms of RREPI growth by location, properties in Metro Manila recorded a faster increase of 17.5% YoY in Q3 2022 from 11.4% YoY a year ago, as compared to the growth in prices of properties located outside the capital of 2.3% YoY in Q3 2022 from 4.9% YoY in Q3 2021.

ECONOMIC OVERVIEW

- Headline inflation soared to 8.1% in December 2022, from 8.0% a month prior and 3.1% a year ago, which brings the annual average to 5.8% and marks the second consecutive year of not meeting the 2-4% annual average target range. Partly attributable to higher prices and limited global supply of imported commodities, the growth in prices was more notable in food and beverages, followed by restaurants and accommodation services, and utility items. Price pressures are expected to continue throughout 2023 until early 2024, whilst the BSP remains on standby for further rate hikes as a policy response.
- Despite grappling with high inflation, the Philippines' gross domestic product (GDP) exceeded the government's growth target of between 6.5-7.5% for 2022. Buoyed by the vibrant domestic consumption expenditure, the full-year economic growth was registered at 7.6% after the economy grew by 7.2% YoY in Q4 2022. For 2023, the country is seen to be among the better performers in Southeast Asia, albeit growth is expected to be tamer amidst slower global trade activities and elevated inflation and interest rates.
- OF Filipino remittances are also seen to be a major driver of economic growth in 2023 with the BSP targeting a growth of 4% for the year. In 2022, the 11-month period growth of personal remittances was at 3.4% to USD 32.65 billion, from USD 31.59 billion in the same period last year. Cash remittances also grew by 3.3% in the first eleven months of 2022 to USD 29.38 billion from USD 28.43 billion a year ago.

MARKET OUTLOOK

- Adjustments in policy interest rates by BSP remain dependent on the global economic outlook, as well as taming inflation and strengthening the weakened level of the Philippine peso. Nonetheless, domestic demand is seen to continually fuel growth, boosted by the implementation of the income tax breaks under the second tranche of the Tax Reform for Acceleration and Inclusion (TRAIN) law which will affect the spending of low and middle-income households.
- Inflationary pressures and the expected global slowdown will continue to delay occupancy and real estate investment decisions. As many corporate occupiers remain unsure about their future office needs coupled with the advent of hybrid work practices, the growth of office space demand and other allied property sectors will thread below pre-pandemic levels. The sub-par demand growth will be more distributed as new emerging urban districts outside the main CBDs in the Manila market continue to gain traction due to decisions of several companies to operate in multi-sites through flexible workspaces and marginally increasing demand for residential developments.
- The growth of new asset classes such as data centers and high-grade logistics facilities will continue to pick up investor interest. In lieu of this growth, several policy enhancements centered on Environment, Social Relevance and Good Corporate Governance (ESG) initiatives need to be instituted to support the sustainable growth of these nascent real estate sub-sectors.

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SECTORAL UPDATE

OFFICE The recovery of the office market remains on track whilst a handful of buildings post slight downward rental adjustments, although rental flexibility is dependent on the amount of space to be taken in by the prospective tenant. Positive rental growth is likely to happen in 2023 as delayed prospects are expected to get a green light this year, giving confidence to developers and landlords to test resistance levels on the pre-pandemic published rates, while overall market vacancy tapers down.

RETAIL Revenge spending has buoyed the retail segment in 2022 with footfall in key establishments reverting close to the pre-COVID-19 level in the latter part of the year. The more stable labor market and the increase in disposable income as the second tranche of the tax cut takes effect will soften the negative impact of elevated price hikes.

INDUSTRIAL The strong growth trajectory of the industrial and logistic segment is buoyed by the expansion of the country's online economy, as e-commerce remains a popular channel among consumers. The upward trend in domestic manufacturing is also seen to improve demand for standard factory buildings (SFBs) from traditional locators.

RESIDENTIAL Demand for residential condominiums in key business districts is slowly reverting to a positive trend as business activities have begun to normalize. Movements in completion dates were made for several projects during the pandemic due to subdued demand in the last two years. Whilst the higher interest rates are likely to have little effect on the high-end residential segment, greater impacts are likely to be observed in the mid-market residential segment in the medium term.

HOTEL A more optimistic outlook is expected for the hospitality segment amidst the anticipated increase in domestic and international travelers. Nonetheless, the effects of geopolitical and global market instabilities remain a top concern that could quickly dent the segment's recovery pace, signaling the delay in the recovery of international tourist arrivals.

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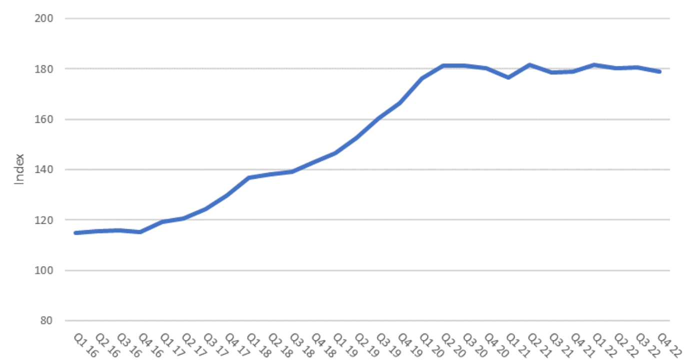
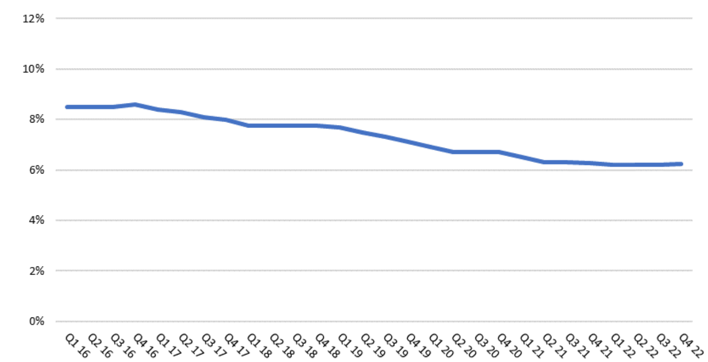
Note: Transactions valued over $10 million (estimated)
Sources: Real Capital Analytics, Cushman & Wakefield Research

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

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

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