

	YoY Chg	12-Mo. Forecast
<b>6.90%</b> Ave. Office (Gross) Yields	▲	■
<b>6.00%</b> 10-Year T-Bond Rate Jun-2023	▼	▼
<b>151.9</b> Q4 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
<b>USD 12.98B</b> OF Cash Remittances YTD Jan-May 2023	▲	▼
<b>3.96M</b> Employment in Office-using Industries Q1 2023	▲	▲
<b>6.2%</b> PHL Ave. Headline Inflation Rate Q2 2023	▼	▲
<b>PHP 55.6</b> Exchange Rate (PHP:USD) Q2 2023	▲	▲

Source: Moody's Analytics, BSP, PSA

## HIGHLIGHTS

- Estimated average office (gross) rental yields in Q2 2023 remained unchanged from its Q1 2023 level at 6.90%. Year-on-year (YoY), however, the rental yields increased by about 70 bps from its level in Q2 2022. C&W Research estimates rental yields to remain unchanged in the short-term, as the Bangko Sentral ng Pilipinas (BSP) poses a more conservative stance in policy rate adjustments despite anticipated rate hikes from other advanced economies for the remainder of 2023.
- As of the end of Q2 2023, the inflation rate continued to taper off at 5.4% in June, from 6.1% in May 2023 and June 2022. The recent figure marks the fifth consecutive month of slower inflation rate which is also the slowest pace since April 2022, driven by the downtrend in prices of food and beverages, transport, and utility items. The downtrend in inflation has given the BSP a leeway to keep the benchmark rate unchanged at 6.25% since the last hike delivered in March this year. The full-year average inflation forecast was also adjusted downwards to 5.4% from 5.5% previously and it is projected to settle within the target range of 2%-4% in the fourth quarter. Nonetheless, wage inflation, possible supply shocks, and the potential impact of El Niño weather conditions continue to present upside risks to future increases in the overall level of prices.
- Philippines Foreign Direct Investment (FDI) declined by 14.1% YoY in April 2023 to reach USD 875.7 million, as compared to USD 1,019.6 million in the same period last year as investors become less upbeat on the global economic situation and growth prospects. Meanwhile, the business sector remains optimistic as the country's business confidence index (BCI) continues to improve to 40.8 in Q2 2023 from 34.0 in the previous quarter, citing factors that include the expectation of strengthening demand; sustained economic reopening and recovery; and easing inflation, among others.

## ECONOMIC OVERVIEW

- The Philippine bank's exposure to the property segment rises to 21.08% as of end-Q1 2023 from 20.98% as of end-Q4 2022 with the extended worth of investments and loans to the segment reaching PHP 3.0 trillion in the first three months of 2023, a 5.3% increase from PHP 2.85 trillion in the same period last year, albeit lower than the recorded PHP 3.02 trillion in the last quarter of 2022. Meanwhile, with the sustained reopening, the gross non-performing real estate loan ratio continued to decline to 4.09% in end-March, from 5.04% in the same period last year and 4.17% in end-December 2022.
- In May 2023, personal remittances from overseas Filipino (OF) grew by 2.9% YoY, faster than the YoY growth posted in the same period last year at 2.0% whilst below the growth of 3.8% YoY in the previous month. The cumulative level of personal remittances in the first five months of the year reached USD 14.46 billion, higher than USD 14.02 billion during the same period in 2022. Cash remittances also grew faster in May by 2.8% YoY, above the growth of 1.8% YoY a year ago. A downtrend in remittances inflow is expected as the global disturbances are expected to take toll on the employment prospects and income of OF workers.
- With the better-than-expected economic growth of the Philippine economy in Q1 2023 at 6.4%, the Philippines is on track to reach the 6-7% growth target set by the government for 2023. The recent economic performance, which is also above the growth posted by competitor countries such as Vietnam, China, and Indonesia, shows the country's steady trend to return to its pre-pandemic growth trajectory. Meanwhile, the current market conditions slowed the growth of household spending to 6.3% in the first quarter of 2023, from 7.0% last quarter and 10.0% a year ago.

## MARKET OUTLOOK

- The global recessionary pressures and their cooldown effect on real estate investments may prompt corporate restructuring and refinancing, which will likely restrict new project launches across the segments in the medium term. Despite sound local economic fundamentals, the continued capital flight towards more advanced markets and economies will affect the local real estate investment market.
- To arrest the spiraling inflation rate growth, the BSP liberally used foreign exchange reserves and adjusted its policy rate by 425 bps since Q2 2022. This aggressive monetary policy stance may have potential long-term effects on demand-side growth, such as higher interest rates on existing and new housing and other real estate-related loans and increases in related occupancy costs.
- Amidst uncertainties, investment decisions will be hinged on the stability of market fundamentals and how policymakers effectively manage future shocks to macroeconomic variables, such as inflation and interest rates, while ensuring demand growth.
- As financing becomes more restrictive, potential transactions and acquisitions of strategic non-CBD assets may be more favorable in the offing. Affordability issues due to higher bank interest rates will also affect the recovery and growth of the middle-income housing markets.

### SECTORAL UPDATE

**OFFICE** Office space rental rates go into a standstill as vacancies continue to exhibit an upward trend attributable to the increase in supply as previously delayed projects are now being gradually completed. Moreover, occupiers review their long-term real estate strategies to become more responsive to post-pandemic work conditions and modes of working.

**RETAIL** As the stabilizing inflation rate encourages consumer spending on goods, retail sales are seen to improve, albeit modestly due to lingering market uncertainties and inflation growth threats. Nonetheless, the resumption of recreational and entertainment activities in shopping centers has further boosted footfall which is now observed to be close to pre-pandemic levels, especially in major retail establishments in key retail districts.

**INDUSTRIAL** The fast-evolving online economy in the Philippines, which is poised for further growth in the medium term, along with other trends such as the resurgence of the cold storage industry continue to create opportunities in the industrial property segment. The increased demand from investors led to sharp increases in selling prices of industrial land whilst moderate increases in standard factory buildings (SFBs) lease rates were observed due to the continuous delivery of new supply.

**RESIDENTIAL** The normalizing business conditions, rising consumer income, and improved overall economic sentiment help drive the growth momentum of the residential segment. Meanwhile, the possible impacts of increasing mortgage rates and global disturbances on major drivers such as the OF remittances may dent demand in the short term, specifically on recently launched developments.

**HOTEL** Due to the gradual return of inbound tourists, the hotel segment is now attracting new investments, with local and global operators rolling out expansion plans in various destinations in the country. Investors are also banking on the strong demand for domestic travel as well as the resumption of business travel which has buoyed occupancy levels in the past quarters.

### SELECT COMMERCIAL/INVESTMENT TRANSACTIONS (2022-2023)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
Ortigas Center Property	Mandaluyong City	Mixed-use	140,001
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

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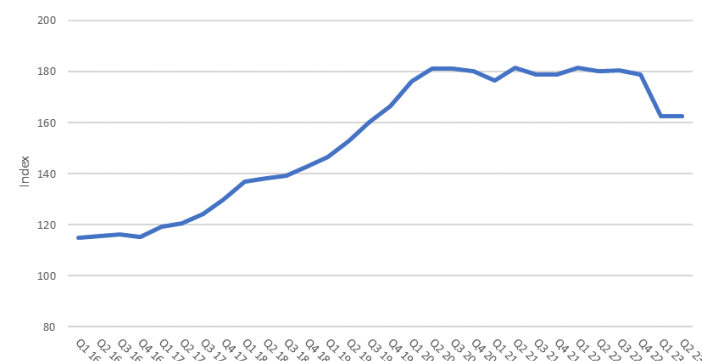
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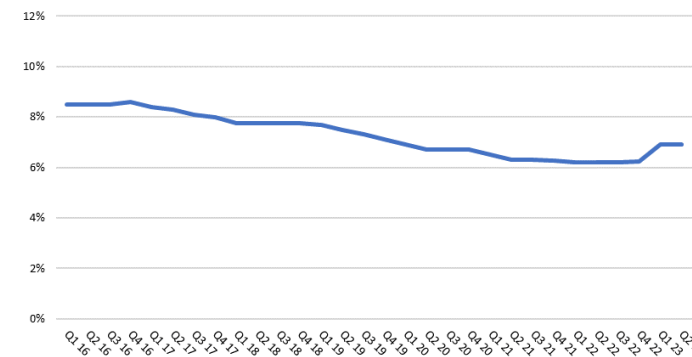
### PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



Base: Q1 2014 = 100

Source: Cushman & Wakefield Research

### PRIME/GRADE 'A' OFFICE (GROSS) RENTAL YIELDS



Source: Cushman & Wakefield Research