

	YoY Chg	12-Mo. Forecast
6.90% Ave. Office (Gross) Yields	▬	▲
6.21% 10-Year T-Bond Rate July-2024	▲	▬
163.5 Q1 2024 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 16.25B OF Cash Remittances YTD Jan-Jun 2024	▲	▲
4.38M Employment in Office-using Industries Q2 2024	▲	▲
3.9% PHL Ave. Headline Inflation Rate Q2 2024	▼	▼
PHP 57.0 Exchange Rate (PHP:USD) Q2 2024	▼	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q2 2024 increased to 6.90% from its Q1 2024 level at 6.80%. Year-on-year (YoY), however, the rental yields were unchanged from their level in Q2 2023. Similar to market conditions earlier in the year, C&W Research estimates gross rental yields for the Manila market to continue its upward movement in the near term as key global interest rates have yet to make significant downward movements.
- The overall residential real estate prices in 1Q 2024 grew significantly slower at 6.1% YoY from 10.2% YoY in the same quarter last year and 6.5% YoY in 4Q 2023. On a quarter-on-quarter (QoQ) basis, however, residential prices grew faster at 1.1% in 1Q 2024, a reversal from a decline of 3.6% QoQ last quarter, driven by the recovery in prices of duplex property types, which increased by 71.2% QoQ from a contraction of 42.0% QoQ last quarter. Residential prices of properties located in Metro Manila and outside the capital region posted growth in 1Q 2024 at 2.8% YoY and 7.4% YoY, respectively, slower than their respective performances in 4Q 2023 at 4.3% YoY and 7.8% YoY. In Metro Manila, price contraction in single detached/attached house properties at 14.6% YoY (from a growth of 12.4% YoY in 4Q 2023) was offset by the price growth of townhouse properties at 16.7% YoY (from 18.7% YoY) and condominium units at 7.6% YoY (from -0.3% YoY). Year-on-year growth of residential prices across all property types for units located outside the capital regions grew by 8.1% for single detached/attached units, 26.6% for duplex properties, 2.8% for townhouses, and 13.5% for condominium units.
- Inflation rate further slowed to 3.7% in June 2024, from 3.9% last month and 5.4% in the same month last year, attributable to the downtrend in price increases in housing and utilities, as well as in transport indices. However, inflation for the bottom 30% income households remained elevated at 5.5% in June from 5.3% last month, particularly for lower-income households located outside the capital region with inflation rate soaring at 5.6%, as compared to lower-income households in Metro Manila with the average inflation at 3.5%. While inflation increased to 4.4% in July, the Bangko Sentral ng Pilipinas (BSP) cuts policy rate by 25 basis points to 6.25%, marking its first reduction since November 2020, as it forecasts a downtrend in inflation, settling at 3.3% in 2024 and 2.9% in 2025.

ECONOMIC OVERVIEW

- In Q2 2024, the overall business outlook index declined to 32.1% from 33.1% last quarter over businesses' concerns about tamer demand for goods and services, rising global oil prices, the decline in business activity due to extreme weather conditions, and weighed-down consumer spending due to persistent inflation. Similarly, consumers were all less optimistic in Q2 2024, with the overall confidence index (CI) turning more negative at -20.5%, from -10.9% last quarter, with concerns about the faster increase in the prices of goods and higher household expenses; lower income; jobs availability; and the effectiveness of government policies and programs on addressing inflation management, traffic and public transportation, provision of financial assistance, and labor and employment.
- The government seeks to reduce the gap in digital infrastructure in the recently approved Philippine Digital Infrastructure Project (PDIP), which involves a PHP 16.1-billion investment that aims to advance the digital economy by enhancing broadband connectivity to broader areas through the construction of a public broadband infrastructure network. Meanwhile, continuous efforts to advance the country's railway infrastructure is eyed to extend the country's current 70.16 km of railways by around 356% by 2023.
- The Philippine economy expanded by 6.3% in Q2 2024, an improvement from weaker-than-expected GDP performance in Q1 2024 at 5.7%. Whilst the government maintains its GDP growth outlook at 6-7% for 2024, the IMF revised its growth forecast to 6%, from 6.2% previously, attributable to a softer pace of household spending growth.

MARKET OUTLOOK

- Evolving consumer behavior trends, partly attributable to the shifting demographics as more 'Gen Z' joins the workforce, will continue to reinforce the growth of the digital economy. This presents an opportune time to encourage retailers to leverage the burgeoning e-commerce industry and integrate their last-mile delivery operations into existing retail space.
- Despite the Philippine Peso being the worst-performing currency and headline inflation spiking upwards towards the tail-end of Q2 2024, the off-cycle reduction in short-term interest rates by the BSP will positively impact demand growth for key property segments in the Philippine property market. The decrease in key policy rates will foster more positive forward-looking expectations of more significant reductions and set a more positive investor mindset, allowing more unlocked investment deals in the medium term.
- Given the varying degrees of geopolitical, climate, and interest rate risks present in the Philippine property market, the long-expected return to the recovery track is at bay for an extended period. While most asset types have exhibited healthy growth of demand drivers, the overall industry outlook is nuanced due to various market headwinds.

SECTORAL UPDATE

OFFICE As demand tilts toward the prime office developments, cautious investor behavior and the challenges posed by hybrid work and altered real estate occupancy demand provide the market some time to absorb available supply, exerting further pressure on vacancies, especially in areas outside the major CBDs.

RETAIL An observed pullback in discretionary expenditure persists against a weakening global economic backdrop and rising cost-of-living pressure, which paint a picture of a more challenging landscape for retail space, a first after seeing the effects of revenge spending right after the extended lockdown period. Meanwhile, new retail space supply is expected at around 177,000 sq.m. in gross floor area (GFA) for 2024, significantly below the recorded 443,333 sq.m. delivered last year with the completion of projects previously stalled at the height of the pandemic.

INDUSTRIAL Buoyed by urban decentralization efforts, changes in lifestyle and consumption habits, and the rising prominence of online grocery shopping, among other factors, the growth of the cold storage industry has accelerated in recent years with recent expansions of new modern developments to serve the increased demand. While it has attracted a pool of property developers, with a growth target set at around 8%-10% annually, impediments to growth include the associated power costs and suitable digital infrastructure for automation.

RESIDENTIAL As the (more significant) reduction of the benchmark interest rate continues to be pushed back; a relatively tamed residential price growth is expected. This anemic capital value growth, especially for the middle-income market, will be more highlighted due to increased levels of new and existing supply on the market and constrained demand attributable to affordability pressures.

HOTEL The pivotal role of infrastructure connectivity has promoted regional integration among tourism markets in the ASEAN region. In the Philippines, the slowing economic momentum among key source markets such as the US and the heightened geopolitical standoff with China may drag on the recovery momentum of the country's foreign arrivals. This market outlook will set the tone for the remainder of 2024, as new completion of hotel rooms is expected to grow by 2,556 keys, out of the total 4,036 new keys for completion for the year, accounting for 85% of the recorded 2,950 new keys delivered in 2023.

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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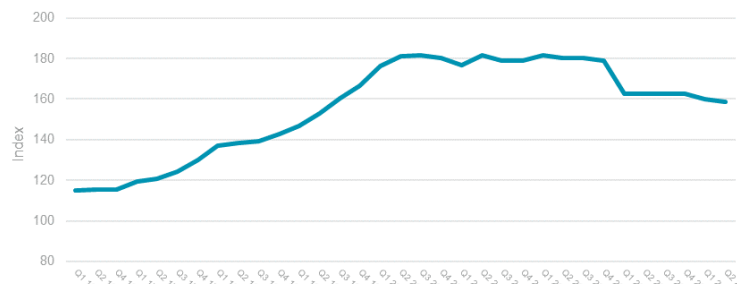
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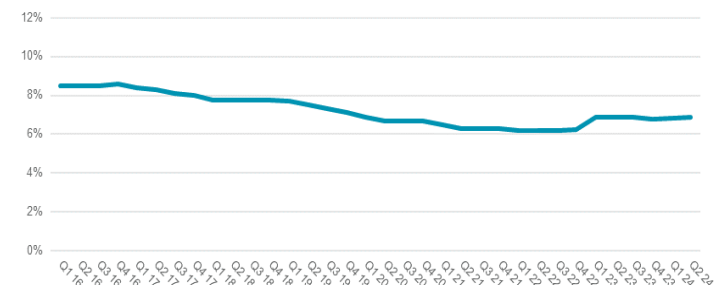
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PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



Base: Q1 2014 = 100
Source: Cushman & Wakefield Research

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



Source: Cushman & Wakefield Research