MARKETBEAT

METRO MANILA

INVESTMENT Q3 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
6.92% Ave. Office (Gross) Yields	▲	▲
5.78% 10-Year T-Bond Rate Oct-2024	▼	–
166.5 Q2 2024 RREPI	▲	▲

Note: RREPI = Residential Real Estate Price Index (Q12014=100), prepared by the Bangko Sentral ng Pilipinas (BSP)

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
USD 22.2B OF Cash Remittances *YTD Jan-Aug 2024*	▲	▲
4.38M Employment in Office-using Industries *Q2 2024*	▲	▲
3.2% Inflation Rate Q3 2024	▼	▲
PHP 57.2 Exchange Rate (PHP:USD) *Q3 2024*	▲	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q3 2024 increased to 6.92% from its Q2 2024 level at 6.90%. Year-on-year (yoy), rental yields increased by 2 bps from their level in Q3 2023. As the Monetary Board is expected to implement further reduction in the Bangko Sentral ng Pilipinas' (BSP) policy rates before the end of 2024, C&W Research estimates gross rental yields for the Manila market to continue its upward movement in the near term.
- The most recent overall Residential Real Estate Price Index (RREPI) further decelerated to 2.7% yoy in Q2 2024, from 6.1% yoy in Q1 2024 and 14.1% in Q2 2023, marking its third consecutive decline in yoy growth. While the prices of condominium units slightly improved to 10.6% yoy from 10.2% yoy last quarter, prices of townhouse properties contracted by 0.8% yoy from a growth of 5.6% yoy last quarter. Further, slower growth was noted for single detached/attached and duplex properties at 1.7% yoy and 27.1% yoy in Q2 2024, from 5.1% yoy and 36.2% yoy, respectively, a quarter prior. Meanwhile, overall prices of properties located in Metro Manila contracted by 1.0% yoy in Q2 2024, driven by a greater contraction in prices of single detached/attached properties by 37.2% yoy from 14.6% yoy last quarter and slower growth in prices of townhouses to 13.0% yoy from 16.7% yoy, outweighing the gain in condominium prices in the area, which grew by 10.9% yoy from 7.6% yoy. The prices of properties outside Metro Manila grew by 4.2% yoy in Q2 2024, slower than the 7.4% yoy growth in Q1 2024 and 13.8% yoy growth in the same period last year.
- In August, the BSP implemented a policy rate reduction of 25 basis points (bps), bringing the benchmark interest rate to 6.25% from an all-time high of 6.5%, as the inflation rate continues its downtrend closer to the 2-4% target range. The easing cycle was sustained in mid-October with another 25 bps rate cut, bringing the benchmark rate to 6.0% as the inflation outlook remained favorable.

ECONOMIC OVERVIEW

- The inflation rate soared to 4.4% at the beginning of Q3 2024 before tapering off to 3.3% in August and reaching a four-year low of 1.9% in September. This decline was driven by slower growth in food and non-alcoholic beverages, which fell to 1.9% from 3.3% last month and 6.1% a year ago. Core inflation also slowed to 2.4% from 2.6% last month and 5.9% a year prior.
- Supported by the growth of the country's domestic demand and public investment, the World Bank revised its growth projection for the Philippines to 6.0% in 2024, up from 5.8% previously. The projection for 2025 was also adjusted upward to 6.1% from 5.9%. For this year, the Philippine economy is projected to outperform other major competitors, including China (4.8%), Indonesia (5.0%), Malaysia (4.9%), and Thailand (2.4%).
- Businesses turned more upbeat in Q3 2024, with the business confidence index (CI) rising to 32.9% from 32.1%, driven by expectations of improving demand for goods and services, easing inflation, a seasonal uptick in business activities, and improved business operations. Meanwhile, the consumer confidence index turned less negative at -15.6% from -20.5% in the previous quarter, amidst expectations of higher income sources and job stability. The country's unemployment rate declined to 4.0% in August, from 4.7% a month prior, with an increase in employment recorded in wholesale and retail trade, public administration and defense, accommodation and food service, and transportation and storage.

MARKET OUTLOOK

- As we transition into a period of higher interest rates, both traditional challenges and new opportunities are surfacing within the Philippine real estate market. Although inflation has decreased to near pre-pandemic levels, its lingering effects remain persistent. These effects will continue to pose challenges to the relatively healthy economic fundamentals and the resilient demand drivers of select core property markets.
- Alternative asset classes, such as data centers and cold-chain logistics, have emerged and continued to thrive in the "higher for longer" interest rate environment. Addressing the persistent structural and infrastructural challenges will enhance the local real estate market's appeal to investors and developers, making it more competitive against other top emerging markets in Southeast Asia.

SECTORAL UPDATE

OFFICE The U.S. Presidential election introduces another challenge for the outsourcing industry due to the short-term uncertainty surrounding key policies affecting U.S. firms' outsourcing activities. This is compounded by the slowdown in creating regional hubs, as the global economic growth outlook remains subdued. Despite these challenges, multinational companies (MNCs) are establishing global capability centers (GCCs) to focus on strategic and core functions, leveraging innovation, international talent, and cost efficiencies for business growth. GCCs provide multinational companies with greater control and oversight, enabling them to reinvent their shared services, research and development, and center-of-excellence capabilities. Globally, around five million square meters of demand is expected in the next 2-3 years. Besides India, the Philippines is a leading contender in this emerging trend, thanks to its strengths and capabilities as a top outsourcing destination.

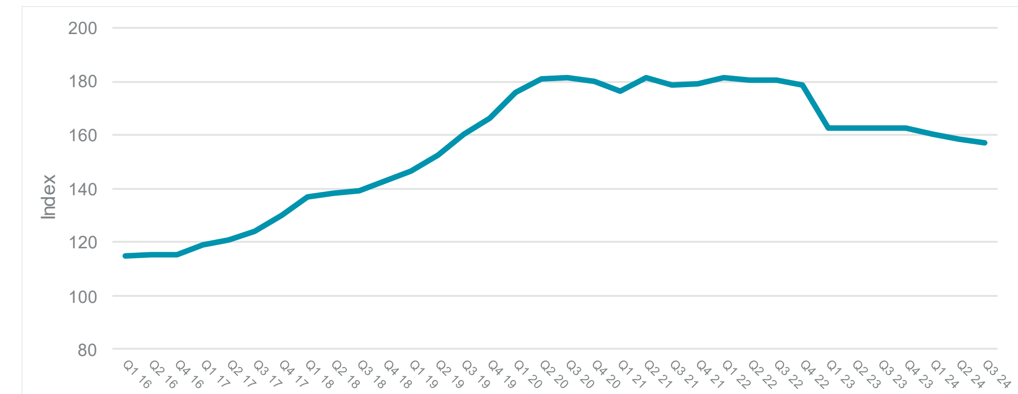
RETAIL The seasonal surge in spending is anticipated to enhance retail sales and increase customer visits. However, due to ongoing inflation, the medium-term growth prospects for the retail sector remain moderate as consumers adjust their spending habits in response to the gradual reduction in living costs.

INDUSTRIAL Upcoming and newly completed supply eases rental rate growth pressure, ably-supported by space requirements from logistics and warehousing tenants. Traditional tenants, such as those in the manufacturing industry, which have consistently driven industrial estate demand over the past years, are expected to contribute to further expansion in the segment.

RESIDENTIAL Whilst mortgage rates typically follow key interest rates movements, the recent monetary policy easing may not immediately translate to stronger demand in the near term. However, it is expected to stabilize housing demand for mid-priced units in the long term.

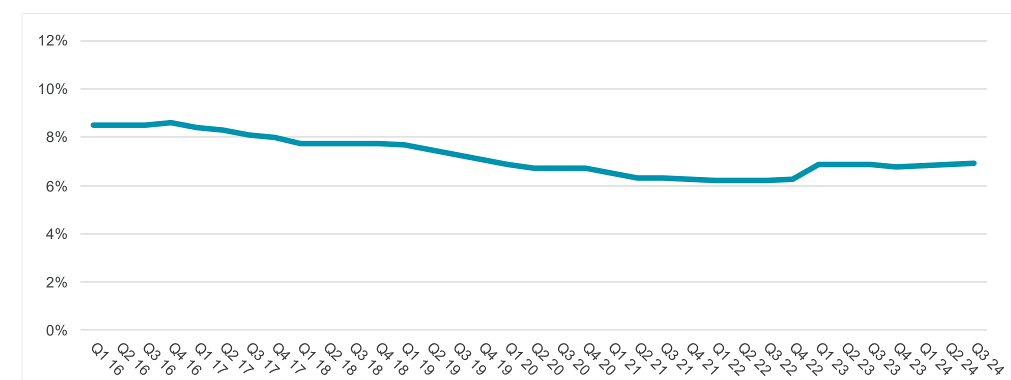
HOTEL Despite several challenges, such as the slow recovery of major developed economies, high flight costs, and geopolitical instability, occupancy rates are expected to continue improving. This is driven by the anticipated increase in international travel demand across key destinations in the country. Additionally, the segment is likely to see sharper growth in the number of rooms as positive prospects attract investors' attention once again.

PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



Base: Q1 2014 = 100

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



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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Sources: Real Capital Analytics, Cushman & Wakefield Research Closed transactions over $10 million

CLARO CORDERO, JR.
Director & Head
Tel: +63 998 518 5158
Claro.Cordero@cushwake.com

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