MARKETBEAT

METRO MANILA

INVESTMENT Q4 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
6.93% Ave. Office (Gross) Yields	▲	—
5.89% 10-Year T-Bond Rate Dec-2024	▼	▼
163.9 Q3 2024 RREPI	▼	▲

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

ECONOMIC INDICATORS

	YOY Chg	Outlook
USD 34.5B OF Cash Remittances YTD Jan-Dec 2024	▲	▲
4.46M Employment in Office-using Industries *Q4 2024*	▲	▲
2.6% Inflation Rate *Q4 2024*	▼	▲
PHP 58.1 Exchange Rate (PHP:USD) *Q4 2024*	▲	▼

Source: Moody's Analytics, BSP, PSA

HIGHLIGHTS

- Estimated average office (gross) rental yields in Q4 2024 increased to 6.93% from its Q3 2024 level at 6.90%. Year-on-year (YoY), rental yields increased by 13 bps from their level in Q4 2023. As policy rate trajectories become more complex due to persistent business risks and potential US trade policy shifts, we expect yield movements to remain relatively flat in the short- to medium-term.
- The country's residential prices barometer saw a decline in Q3 2024. The overall Residential Real Estate Price Index (RREPI) contracted by 2.3% YoY, down from a growth of 2.7% last quarter and 12.9% in the same period last year. This marks the first YoY contraction since Q3 2021. While single-detached/attached houses and townhouses saw price increases of 2.9% and 0.7% YoY, respectively, these gains were outweighed by the declines in prices for duplexes and condominiums, which fell by 48.1% and 9.4% YoY, respectively In terms of regional asset performance, residential property prices in the National Capital Region (NCR) dropped by 14.6% YoY, whereas prices of properties in areas outside the NCR (AONCR) rose marginally by 3.0% YoY, which is still below the growth of 4.2% YoY recorded last quarter. Property prices in the NCR were dragged down by lower prices for duplexes (-37.6% YoY), single-detached/attached houses (-22.9% YoY), and condominiums (-14.3% YoY), despite a rise in townhouse prices (13.9% YoY). On a quarter-on-quarter (QoQ) basis, prices in the NCR and AONCR fell by 3.7% and 1.0%, respectively, and the overall index decreased by 1.6% QoQ.
- Although overall economic growth fell short of expectations, achieving an average growth rate of 5.6% in 2024, below the government target of 6-6.5%, the easing of monetary policy is expected to stimulate consumer spending in 2025. Furthermore, increased public investment in infrastructure is anticipated to significantly bolster economic activities, facilitating improved economic performance.

ECONOMIC OVERVIEW

- As of December 2024, the central bank further reduced the benchmark interest rate by 25 basis points to 5.75%. While inflation is forecasted to stay within the 2-4% target range over the policy horizon, the risk-adjusted forecast for 2025 inched slightly up to 3.4% from 3.3% previously, while the 2026 forecast is pegged at 3.7%. The inflation outlook faces upward pressure primarily due to anticipated increases in transport fares and electricity rates. However, this is partially offset by the mitigating impact of reduced import tariffs on rice. Moreover, external risks continue to pose a threat to economic activity and market sentiment. The easing inflation and improved labor market conditions are expected to support domestic demand, which is projected to be stable but subdued.
- Persistent improvements in tax policies, business regulations, and governance are crucial for drawing investments and boosting economic activity. The enactment of the CREATE MORE Act, which lowers the Corporate Income Tax (CIT) to 20%, aligns the country to global, is expected to position the country as a highly competitive destination for global investors.

MARKET OUTLOOK

- In light of the current market slowdown and the diversity of sub-markets and alternative growth segments, stakeholders should remain flexible and adaptive. Key strategies involve diversifying investments to mitigate risks and capitalize on new opportunities, focusing on resilient sectors such as technology, healthcare, and logistics, and staying informed about market trends and policies. It is also crucial to embrace changes such as remote work and flexible spaces, while developing long-term plans that account for market fluctuations and aim for sustainable growth.
- Office rental yields are anticipated to remain stagnant due to market saturation and a high concentration of rental properties. As the market teeters between recession and recovery, stagnant yield rates may impede market expansion and decelerate recovery efforts by diminishing investment incentives and constraining value growth.

SECTORAL UPDATE

OFFICE The flight-to-quality trend persists, with CBD office developments benefiting from superior finishes, amenities, and tenant mix. Meanwhile, developers and landlords have exercised caution, holding onto their rental offers, and new office stock has become more dispersed outside traditional CBDs.

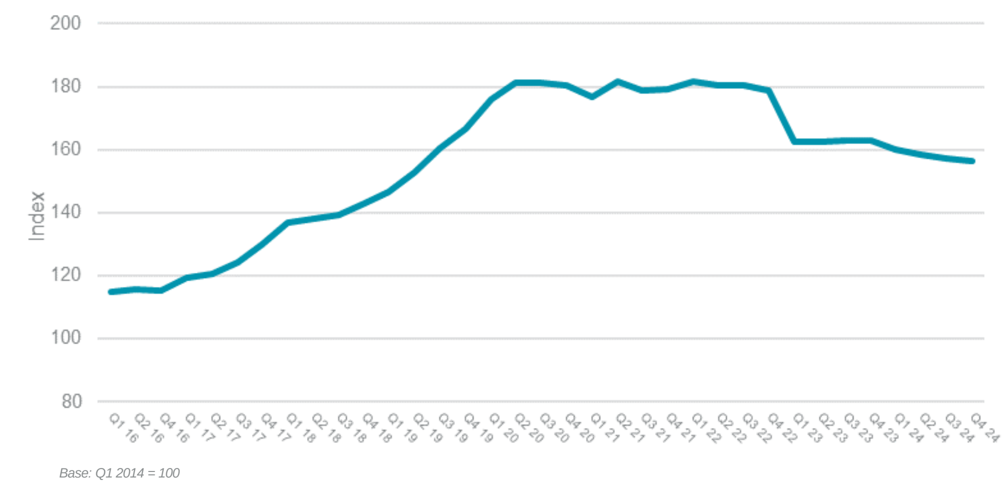
RETAIL As consumer preferences shift towards experiential retail, aging malls must innovate to stay competitive. Outdated infrastructure, lack of modern amenities, and inefficient space layouts may lead to declining footfall rates. The recovery trajectory of the retail segment will vary across different shopping districts based on the concentration of developments and the quality of available retail space. Maturing retail developments face challenges due to low foot traffic and high capital expenditure for space redevelopment. Despite this, mature retail districts like Makati, Mandaluyong, and Quezon City remain viable for new and expanding locators due to the availability of quality retail space.

INDUSTRIAL The logistics and industrial sub-sector remains resilient, driven by digital economy growth. However, there is a need for higher-quality logistics facilities to meet new occupiers' demands, necessitating new or redeveloped warehouses. Additionally, the rise of data centers presents growth opportunities in the Philippines, though challenges include sustainability targets, data privacy laws, and managing costs and availability of support utilities.

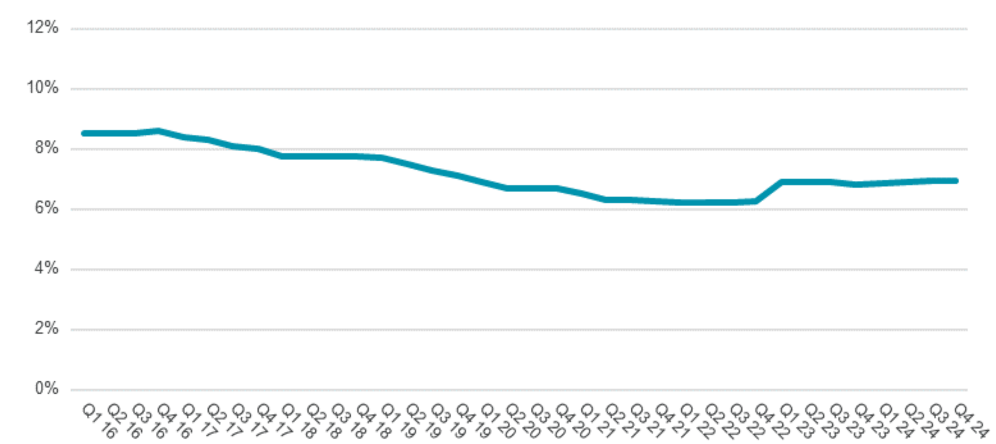
RESIDENTIAL The disparity between high-end and mid-end segments in the residential real estate market is growing. High-end markets see increased demand for luxury developments, while mid-end markets face a supply-demand mismatch. Meanwhile, developers struggle with high input costs due to global inflation and supply chain issues, hindering quick price adjustments. Elevated mortgage rates worsen the situation, resulting in persistent excess inventory in the mid-end residential sector.

HOTEL The hospitality segment is experiencing uneven regional recovery due to untapped potential in various tourist destinations, including the Philippines. Currently, mid-end and high-end hotel and serviced residence stock totals around 50,000 keys, with an additional 1,600 expected by 2025. In Metro Manila and beyond, branded developments are expanding, reflecting a shift towards quality over affordability.

PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



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



SELECT COMMERCIAL/INVESTMENT TRANSACTIONS (2023-2024)

PROPERTY NAME / DESCRIPTION	SUBMARKET	TYPE	LOT / FLOOR AREA (SQ.M.)
Land in Tambo, Parañaque City	Parañaque City	Development Site	93,997
Land in Taguig City	Taguig City	Development Site	61, 759
CBD Makati Property	Makati City	Hotel	85,580
Ortigas Center Property	Mandaluyong City	Mixed-use	139,997
CBD Makati Property	Makati City	Office	3,300

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

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