MARKETBEAT

# METRO MANILA

## INVESTMENT Q2 2025

CUSHMAN & WAKEFIELD

### MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **6.93%** Ave. Office (Gross) Yields for Prime / Grade A | ▼ | — |
| **6.43%** 10-Year T-Bond Rate Jun-2025 | ▼ | ▼ |
| **149.9** Q1 2025 RPPI | ▲ | ▲ |

*Note: RPPI = Residential Property Price Index (2019=100), prepared by the Bangko Sentral ng Pilipinas (BSP)*

### ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **USD13.77B** OF Cash Remittances YTD Jan-May 2025 | ▲ | ▲ |
| **5.05M** Employment in Office-using Industries *Q2 2025* | ▲ | ▼ |
| **1.4%** Inflation Rate *Q2 2025* | ▼ | ▲ |
| **PHP 56.3** Exchange Rate (PHP:USD) *Q2 2025* | ▼ | ▼ |

*Source: Moody's Analytics, BSP, PSA*

### HIGHLIGHTS

- Average office rental yields remained unchanged at 6.93% in Q2 2025 compared to Q1 2025. On a year-over-year (YoY) basis, yields saw a slight decrease of 3 bps from their levels in Q2 2024. Despite market fluctuations, yields for Prime and Grade 'A' buildings located in the established CBDs of Makati, BGC and Ortigas have remained stable, reflecting their ongoing appeal to investors. These high-quality assets continue to attract interest, even as the older grade developments in fringe areas face challenges like oversupply or reduced demand.
- Investor sentiment reflects a cautious optimism, with income-generating assets emerging as a preferred choice. Logistics facilities, modern office spaces, and mixed-use developments are attracting significant attention from yield-driven investors. However, household confidence declined to -14.0% in Q2 2025, down from -13.0% in the previous quarter, as rising costs, limited job opportunities, and political uncertainties weigh on sentiment. Similarly, business confidence slipped to 28.8% from 31.2%, reflecting a more subdued outlook.
- While positive absorption rates in the office sector signal a resurgence of confidence, they also present challenges. The (continued) completion of new developments continues to add to inventory, compounded by returned or vacated spaces, keeping vacancy rates elevated and posing absorption hurdles.
- The shift toward durability and long-term value reflects broader market maturity. Retail and industrial properties continue benefiting from robust consumption patterns and logistics expansion, while the office sector begins showing improvement most prominently in the major CBDs, despite elevated vacancy rates in the fringe areas.

### ECONOMIC OVERVIEW

- The BSP made a decisive move in June 2025, reducing the policy rate by 25 basis points to 5.25%. This accommodative stance reflects the central bank's revised inflation forecast, adjusted downward from 2.4% to 1.6% for 2025. While projections for 2026 and 2027 remain slightly elevated at 3.4% and 3.3% respectively, the immediate easing provides crucial support for real estate investment activity.
- The enhanced Residential Real Estate Property Price Index posted a 7.6% year-on-year increase in Q1 2025, marking a deceleration from the previous quarter's 9.8% growth but remaining above the 7.4% recorded in Q1 2024. This performance demonstrates underlying market strength despite economic headwinds. Metro Manila emerged as the clear growth leader with a 13.9% year-on-year increase, significantly outperforming the 3.0% growth in areas outside the capital region. This disparity reflects concentrated investment activity and limited investment-quality supply of developments in prime locations. Despite price growth, residential loan volumes contracted for the fourth consecutive quarter, declining 1.9% year-on-year in Q1 2025. This represents an improvement from the previous quarter's 3.8% contraction but indicates ongoing caution in lending practices.
- Manufacturing activity presents a nuanced picture for industrial real estate demand. The Volume of Production Index reached a year-to-date high of 104.9 in May 2025, signaling potential recovery. However, momentum cooled in June as the index retreated to 100.0, with year-on-year growth slowing to 2.2% - the lowest in three months. Key industrial challenges emerged in critical sectors. Basic metals production dropped 23.2%, coke and refined petroleum fell 12%, and chemicals contracted 14.7%. These declines highlight persistent structural challenges despite earlier recovery indicators, creating both risks and opportunities for industrial real estate investors.

### MARKET OUTLOOK

- The Philippine commercial real estate market presents compelling opportunities for investors seeking stable returns amid global uncertainty. Success requires careful sector selection, strategic geographic positioning, and adaptive management approaches to capitalize on evolving market conditions while managing inherent risks. Key strategic considerations include:

  ***Market Timing***: Accommodative monetary policy and easing inflation create favorable investment conditions, particularly for income-generating assets.

  ***Sector Allocation***: Mixed-use developments and logistics facilities offer superior risk-adjusted returns given current market dynamics.

  ***Geographic Strategy***: Regional markets beyond Metro Manila present attractive value propositions with lower entry costs and strong growth potential.

  ***Risk Management***: Focus on assets with flexible lease structures and diverse tenant bases to navigate ongoing economic uncertainties.

## SECTORAL UPDATE

OFFICE The elevated inventory—partly driven by returned or vacated spaces—in fringe areas outside the major CBDs places continued pressure on vacancy rates. In this evolving landscape, landlords and developers must prioritize differentiation, flexible leasing models, and tenant retention strategies to stay competitive. Successful navigation of this environment requires strategic differentiation. Landlords and developers must prioritize flexible leasing models and tenant retention strategies to maintain competitiveness. Structural reforms targeting offshoring and outsourcing industries are expected to enhance the Philippines' global competitiveness and stimulate demand for high-quality, future-ready office spaces.

RETAIL The Philippine retail market shows clear evolution toward more flexible, experience-centric formats. Growing demand for home and lifestyle brands, alongside the rise of curated kiosks and shared retail spaces, highlights shifting consumer preferences. Successful retail real estate strategies must reimagine physical retail as an extension of digital customer journeys, aligning store design, operations, and customer engagement with connected consumer expectations.

INDUSTRIAL Manufacturing output growth, fueled by strong local consumer demand and moderate export expansion, provides underlying support for industrial real estate demand. However, foreign direct investment in the sector declined year-over-year, indicating multinational caution regarding industrial space expansion or leasing. Despite FDI challenges, demand for well-located logistics hubs and last-mile distribution centers remains resilient. Consumption-focused industries continue driving this demand, creating opportunities for strategic industrial real estate investments in prime logistics locations.

RESIDENTIAL Although gradual policy rate reductions are intended to support demand, inflationary risks—stemming from uncertainties brought about by new global tariff rules and slower global market—may continue to moderate consumer spending. This cautious approach is evident in the residential sector, where loan approvals are showing signs of slower momentum. Developers may find it beneficial to monitor shifts in consumer sentiment and lending activity, as ongoing cost sensitivities could influence homebuyer decisions.

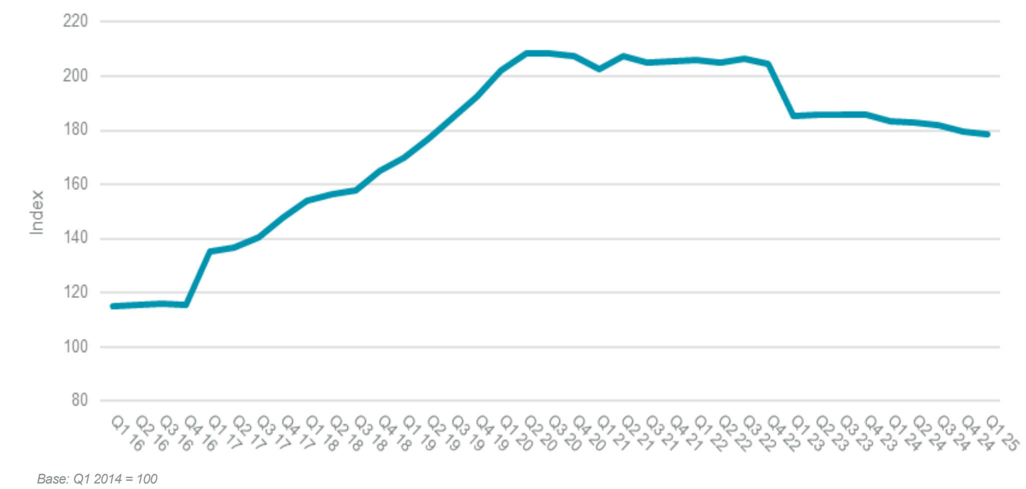
HOTEL Regional markets such as Panglao, Laoag, Clark, Batangas and Bacolod are fast becoming prime targets for large-scale hospitality and mixed-use investments. Leading developers are strategically shifting focus from Metro Manila's increasingly saturated landscape toward these emerging markets. This strategic realignment reflects renewed confidence in tourism recovery, both domestic and international, coupled with growing regional consumer spending power. The integration of hotels, retail, and leisure components represents a practical approach to enhance land utilization, broaden income sources, and strengthen long-term asset viability.

## SELECT COMMERCIAL/INVESTMENT TRANSACTIONS (Q2 2025)

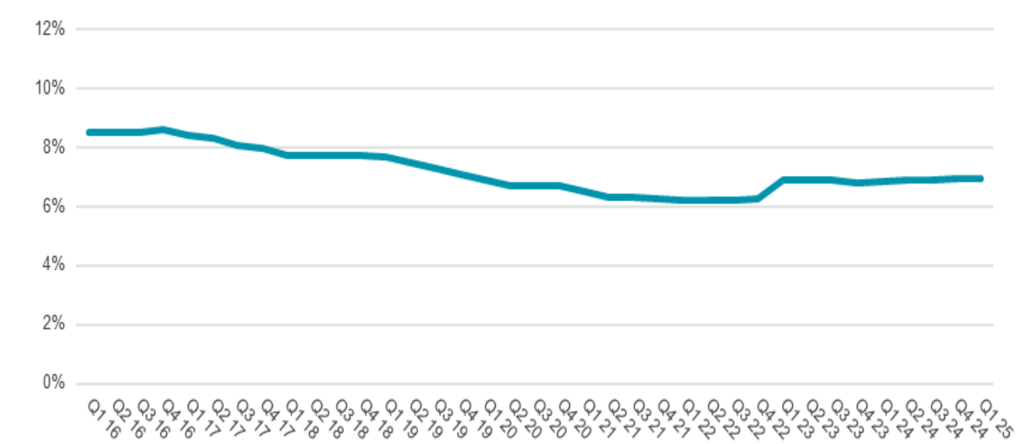
| PROPERTY NAME / DESCRIPTION | TYPE | BUYER | SELLER | PURHASE PRICE ($ million ) | SUBMARKET |
|---|---|---|---|---|---|
| Mid-Land Mansions | Residential Condominium[1] | Zileya Land Development Corporation | ISOC Holdings, Inc. | 26.64 | Makati CBD |
| Data Center Portfolio (1 in Makati and 2 in Cavite) | (Retail Colocation) Data Center | Equinix | Total Information Management | 180.00 | Makati Fringe and Carmona, Cavite |
| New World Makati Hotel | (Full-Service) Hotel | Ayala Land, Inc. | New World Development Co. Ltd. | *Undisclosed*[2] | Makati CBD |
| Digital Halo Data Center | (Wholesale Colocation) Data Center | Partners Group | ARCH Capital | *Undisclosed*[3] | Quezon City |

*Notes:*
*1 In its filing with the PSE, ALI said it redirected PHP1.44 billion in proceeds from share sales involved in AREIT in 2024. The proceeds were originally earmarked for the new BPI headquarter slated for 2029 completion*
*2 Invocving condominium units owned by ISOC Land, Inc., including the undivided interest of said units in the underlying land equivalent to 1,061.47 sqm.*
*3 As part of the transaction, Partners Group plans to commit around US$400 million alongside ARCH Capital, which will retain a minority stake.*
*Sources: Real Capital Analytics, Various PSE disclosures, Cushman & Wakefield Research. Considers only closed transactions registered in RCA platform worth over $10 million.*

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




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




**CLARO CORDERO, JR.**
*Director & Head*
Tel: +63 998 518 5158
claro.cordero@cushwake.com

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