

MARKET FUNDAMENTALS

	YOY Chg	Outlook
6.93% Ave. Office (Gross) Yields for Prime / Grade A	▼	—
5.91% 10-Year T-Bond Rate Sep-2025	▼	▼
156.3 Q2 2025 RPPI	▲	▲

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

ECONOMIC INDICATORS

	YOY Chg	Outlook
USD26.03B OF Cash Remittances YTD Jan-Sep 2025	▲	▲
4.76M Employment in Office-using Industries Q3 2025	▲	▲
1.3% Inflation Rate Q3 2025	▼	▲
PHP 57.1 Exchange Rate (PHP:USD) Q3 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.
- Amidst the Trump tariff threats, a Free Trade Agreement (FTA) between Indonesia and its fifth-largest trading partner was recently signed to ease frictions and promote the flow of goods and investments between the parties. With a pressing need for diversification, the Philippines is also seen to benefit from a similar arrangement, as the EU is among the country's biggest trading partners, while also promoting closer ties with its peers in the Asia-Pacific.
- In relation to the heightened tariff woes, investors remain cautious in their investment plans, as investment pledges posted a 72% contraction in the first half of 2025 at only PHP 95.4 billion, compared to PHP 344.8 billion in the same period in 2024. Meanwhile, more than half of the committed investments for 1H 2025 were directed to the utilities sector, with the Electricity, Gas, Steam, and Air Conditioning Supply industry garnering 58% of the total, followed by pledges in real estate activities (12%) and manufacturing (11%). The majority of the IPAs during the first half came from Singapore (58%), South Korea (15%), and the United States (7%)

ECONOMIC OVERVIEW

- Countrywide Residential Property Price Index (RPPI) showed slower growth in Q2 2025 at 7.5% YoY, down from 7.6% in Q1 2025 and 7.9% in the same period last year. Metro Manila dragged growth as it only posted a 2.4% YoY growth, a significant downgrade from 13.9% YoY a quarter prior and 9.3% YoY last year. Whilst prices of housing units in the capital continued to perform strongly at 14.3% YoY, residential condominiums recorded a contraction of 2.2% during the recent quarter. Meanwhile, residential properties outside Metro Manila performed well, with RPPI soaring to 11.5% YoY, up from 3.0% YoY in the previous quarter and 7.2% YoY a year ago. Houses also grew faster at 12.6% YoY, compared to condominiums at 6.2% YoY. The rest of the Greater Manila Area (GMA) also mirrored the performance of Metro Manila, wherein houses posted strong RPPI growth at 15.3% YoY in Q2 2025, while condominiums contracted by 2.7% YoY. Surprisingly, condominiums posted faster growth than their regional RPPI averages in Metro Cebu at 12.2% YoY and Metro Mindanao at 14.6% YoY. Their respective RPPI averages were 11.5% YoY and 7.7% YoY.
- Whilst the inflation rate slightly rose to 1.7% in September from 1.5% in August, the central bank unexpectedly reduced the policy rate by 25 basis points to 4.75% in October, as inflation expectations remained well-anchored. Upward pressure on price increases includes the anticipated higher utility rates and a possible tariff on rice imports. The recent decision was also influenced by a clouded growth outlook, as political noise concerning corruption scandals may tame public spending on infrastructure.
- Due to a sharp slowdown in government spending linked to the widely publicized major flood control corruption scandal, the government is likely to trim its 2026 GDP growth target to 5–6%, down from the previous 6–7% range, while growth for 2025 is now projected at 4.7–5.2%, reflecting weaker-than-expected performance during the first nine months of the year. Similarly, BMI (Fitch Solutions) has lowered the country's 2026 GDP growth forecast to 5.2% from 6.2%, citing subdued domestic consumption and weak investment sentiment. The downward revision also reflects the anticipated impact of US trade policies, including the 19% tariff on Philippine goods starting in 2026, as well as a slowdown in remittances due to tighter US immigration rules and a new remittance tax.

MARKET OUTLOOK

Resilient Infrastructure: Given the heightened attention on disaster risks, the urgent need for resilient infrastructure has been further underscored. This also presents a compelling opportunity for commercial real estate investment. Integrating resilience into design and construction is expected to deliver long-term value, particularly in emerging urban centers that are being positioned as the next hubs for mixed-use development.

Priority Investment Areas: The Philippines is gaining visibility among investors in fast-growing segments such as AI-driven digital ecosystems and renewable energy integration, which will benefit from policy-backed incentives designed to ensure the market remains on the radar of investors seeking high-yield portfolios.

SECTORAL UPDATE

OFFICE Major CBDs are gradually shifting toward a more balanced market, as demand in prime office submarkets is being driven by a flight-to-quality trend. In the short term, this dynamic is expected to evolve into a landlord-favorable market, particularly as available office space tightens due to limited new supply in the pipeline, allowing landlords to gain stronger negotiating leverage. Meanwhile, emerging risks from proposed U.S. legislation, specifically the 'Keep Call Centers in America Act of 2025', may dampen investor sentiment and slow the expansion plans of U.S.-based clients.

RETAIL The majority of project launches between 2015 and 2019 are now expected to be completed within the next three years, which is projected to add around 560,000 sq.m of retail space. Meanwhile, newly redeveloped space is expected to reach at least 766,000 sq.m over the same period. The retail market is doubling down on strategic upgrades to meet the increasing need to integrate lifestyle, experiential, and technological elements.

INDUSTRIAL Amid broader global uncertainties, weaker domestic demand also contributed to the slowdown in manufacturing activities. Nonetheless, continued expansion of industrial zones is expected in mature industrial areas, which will add to the existing inventory over the next two years, as demand for strategically located industrial spaces is underpinned by the long-term growth prospects of key drivers, as well as the anticipated increase in land values attributable to major infrastructure projects. These projects are poised to significantly reduce travel times within Metro Manila and between key growth centers, easing logistics bottlenecks.

RESIDENTIAL Although a series of policy rate reductions have been implemented aimed at stimulating investment and domestic demand, demand for condominium units remains subdued, while heightened risks associated with natural disasters, particularly earthquakes, may further dampen current consumer sentiment toward condominium properties, especially in urban centers located near fault lines.

HOTEL Lackluster new hotel rooms were observed as most hotel expansion moved away from the capital region. As of the first nine months of 2025, approximately 1,140 new hotel rooms were completed, with the total expected to reach around 1,500 by the end of the year. This is still below last year's recorded completions of 3,500 rooms as foreign arrivals continue to miss targets.

SELECT COMMERCIAL/INVESTMENT TRANSACTIONS (Q3 2025)

PROPERTY NAME / DESCRIPTION	TYPE	BUYER	SELLER	PURCHASE PRICE (\$ million)	SUBMARKET
Westside Resort	Hospitality	Alliance Global Group	LET Group	1,250.00	Parañaque City
Land in Barangay Loyola Heights	Development Site for Residential Project	Arthaland Corp	Undisclosed	12.84	Quezon City

Sources: Real Capital Analytics, Various PSE disclosures, Cushman & Wakefield Research. Considers only closed transactions registered in RCA platform worth over \$10 million.

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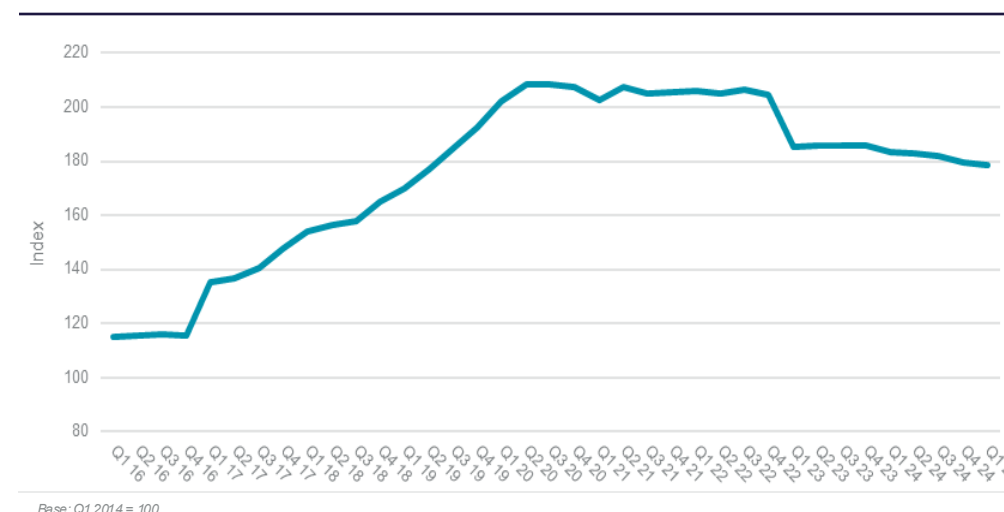
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PRIME/GRADE 'A' OFFICE CAPITAL VALUES INDEX



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

