Container wharves and logistics warehouses at the Yangshan Deepwater Port. PHOTO BY GAO ERQIANG

Logistics property a hot commodity in China

By WANG YING in Shanghai
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Premium returns of high-end logistics facilities have resulted in nearly 4 billion yuan ($641 million) worth of transactions in the sector since 2011 in Shanghai, China's financial hub, with new capital flowing in constantly, a report from CBRE said.

Investment returns average at 6.7 percent in logistics facilities in Shanghai, the highest in China. With those high returns, Shanghai accounts for 90 percent of the nation's 4.4 billion yuan prime logistics en-bloc facilities transactions in the period since 2011, the report said.

Imbalanced supply and demand

China's large logistics market potential stands in stark contrast with its limited supply of facilities. As of 2012, there were a total of 698 million square meters of commercial warehouses, with only a fraction of them meeting the standard of modern logistics facilities, according to the China Association of Warehouses and Storage.

The total modern logistics space in the nation reached 13 million square meters by the end of 2013. Shanghai was able to supply only 5.85 million square meters of industrial land throughout 2013, just half of that in 2011, and the portion for logistics use was even smaller.

Only about three percent of industrial land is used by logistics facilities and that number has been shrinking over the past three years. A total of 600,000 square meters of land was put into logistics use in 2011, 400,000 square meters in 2012 and just 270,000 square meters in 2013.

"The robust demand and a tight supply have pushed up logistics rents across the nation, which recorded growth for the last 18 quarters in a row," said Frank Chen, head of CBRE China Research.

Chen added: "The logistics sector has attracted great attention from investors, given its attractive yields and solid industry fundamentals. This is particularly true when compared with the already competitive and congested office and retail markets and the highly-regulated residential market with abundant supply."

Recent market activity

In the first quarter of 2014, non-bonded rental growth declined slightly. Demand for non-bonded warehouses in Shanghai in the first quarter of 2014 remained subdued in comparison to the peaks seen in 2011 and 2012, according to Jones Lang LaSalle, an international real estate advisory company.

Inquiry levels were stable with the previous quarter, but a lack of new completions and the dampening seasonal effect of the Chinese New Year meant that few major leases were signed. Moderate net absorption in the Pudong Airport submarket was balanced out as an e-commerce firm vacated its space in West Shanghai to build its own warehouses.

Overall non-bonded vacancy was flat, rising only 10 basis points to 10.6 percent. The area west of the city's Huangpu River, Puxi, has lost some of its attractiveness as tenants show increasing willingness to consider cheaper choices in satellite cities like Kunshan in Jiangsu province, which is connected to Shanghai by highway, rail and metro.

The softening demand in Pudong submarkets led to deceleration in non-bonded areas' rental growth, which edged down from 1.0 percent quarter-on-quarter last quarter to 0.8 percent in the quarter starts in April.

Conversely, rental growth in Kunshan continued to perform strongly, rising 3.4 percent quarter-on-quarter, with the best performing projects located close to the Shanghai border.

In the bonded market, vacancy has fallen while rents have risen. Many deals have been under negotiation in the bonded zones since the third quarter of 2013, when the Shanghai pilot Free Trade Zone was officially established.

The improvement in China's export outlook also generated more interest in the bonded areas. Most of the demand comes from the Yangshan Port Bonded Area in Lingang, where activity has been slow since the financial crisis.

Overall, the vacancy rate of the bonded area declined from 21.2 percent to 14.9 percent in the bonded areas, whilst rents rose 4.2 percent quarter-on-quarter, especially as strong inquiries and rising demand this quarter gave landlords larger pricing power for their remaining space.

Looking ahead

Regarding competition from satellite cities near Shanghai, Jones Lang LaSalle expects rental growth for Shanghai in 2014 will grow at a similar rate as last year's 4.3 percent.

There are over 460,000 square meters of non-bonded space under construction and scheduled for 2014 completion. Although nearly 60 percent of the new supply is located in the traditionally strong Puxi area, "leasing progress may be slower than usual, as several projects are multi-storey, rather than single-storey, which appeals to a broader range of tenants," noted Stuart Ross, head of industrial for Jones Lang LaSalle China.

Slow demand may lead to a rise in market vacancy this year. Bonded rental growth should remain strong over 2014, though it could slow if the trade outlook weakens, or if a lack of progress in free trade zone policy curbs demand.

There are two pieces of good news for the logistics property market. The municipal government of Shanghai has decided to reduce maximum average industrial land use for a period of 20 years beginning July 1. Additionally, there is a new policy that will make it easier for land previously zoned for industrial use to be rezoned for office and R&D use.

Future growth points

In the future, logistics developers are more likely to sign master agreements with strategically important tenants to provide logistics facilities at the national level, while the increasing difficulty of acquiring land banks in strategic locations is likely to push international logistics developers to ally with large domestic developers or third-party logistics providers with better access to industrial land.

At the same time, the increasing market share of large industry players will further drive third-party logistics demand for standard warehouses, said Louisa Lou, head of industrial and logistics services, CBRE China.

Looking ahead, the torrid e-commerce market will also reshape the nation's logistics market by adding more modern logistics facilities.

China's e-commerce market will exceed $1 trillion by 2020 and become the largest in the world, according to the Boston Consulting Group.

Brookfield creates IDI Gazeley brand for logistics platform

By BIAN YI

Brookfield, one of the world's largest owners, operators and investors in best-in-class real estate, has created a new brand for its $3.5bn global logistics property platform called IDI Gazeley, which combines the industrial distribution facility operator Industrial Developments International (IDI) and the logistics warehouses and distribution parks developer Gazeley under a single corporate umbrella.

Under the new brand, the companies will own and operate a global industrial property portfolio across the USA, Canada, UK, France, Germany, Italy, Spain, Mexico and China. That portfolio comprises approximately 5.4 million square meters of assets under management and occupied industrial warehouse space with prime land sites to develop an additional 6.3 million square meters of distribution facilities, 1.58 million square meters of which is planned for 2014.

Going forward, IDI and Gazeley will bring together its diverse customer community from across the fast-moving consumer goods, retail, transport and logistics, automotive, industrial, pharmaceutical and manufacturing sectors under a single brand. Those customers include Walmart, P&G, Porsche, Amazon, eBay, Adidas, John Lewis, Tesco, H&M, DHL and Volkswagen.

Brookfield Property Partners and its institutional partners acquired Gazeley, the world's longest-running specialist developer of logistics warehouses and distribution parks, in June 2013. IDI, a leading owner and operator of industrial distribution facilities across North America, is the result of two acquisitions by Brookfield Property Partners and its institutional partners in December 2012 and October 2013.

"Brookfield's experience in managing and developing property assets globally, coupled with IDI and Gazeley's already enviable long-term track records in their respective geographies, along with a backdrop of global economic recovery, positions the new brand well for long-term growth," said Ric Clark, chief executive officer of the Brookfield Property Group.

Clark added: "The collective brand will have scale, experience and the backing of a strong parent. We intend to grow the platform rapidly through pursuing acquisitions and development opportunities in core operational markets and developing sectors."

In early May, Gazeley made its first acquisition in China since being acquired by Brookfield, announcing plans to develop up to 77,000 square meters of sustainable logistics warehouse space at G. Park Wuxi, a 126,300 square-meter strategic development site. Wuxi is one of China's fastest growing logistics hubs, situated in Jiangsu province at the center of the Yangtze River Delta region. The G. Park site is located in the national-level Xishan Economic and Technological Development Zone.

"The acquisition of this site in Wuxi represents a strong signal of intent in terms of Gazeley's future plans, determination and commitment to China," said Gazeley chief executive officer Pat McGillycuddy. "The country is still one of the world's fastest growing consumer markets with an increasing need for high grade, sustainable warehousing space aimed at serving the supply chain."

The development of G. Park Wuxi represents the start of a concerted period of investment that Gazeley is planning for China, which includes projects in Tianjin, Beijing, Nanjing, Wuhan and Chengdu, McGillycuddy said.

G. Park Wuxi's first development phase began in May with the speculative construction of a 24,000 square-meter warehouse due for completion in the second quarter of 2015. The remainder of the site will be developed in 2015 and available for customer build-to-suit requirements.

G. Park Wuxi, which will be built in line with Gazeley's market-leading sustainable design template, will serve as a regional distribution point for businesses looking to expand their services into the Yangtze River Delta region as well as a city distribution site for companies serving the Wuxi and Suzhou market.

IDI Gazeley will also participate in China's massive biannual logistics exhibition transport logistics China, which will be held from June 17-19 in Shanghai.

Artist's rendering of G. Park Wuxi
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Competition heats up in China logistics market

By ZHUAN TI

As China's domestic e-commerce giants build their own logistics networks, competition is intensifying among logistics property conglomerates.

The inland network retail volume in China has increased 99 percent annually over the past five years. At that pace, China will surpass the United States to become the world's largest e-commerce market in 2015, according to the China Association of Warehouses and Storage.

Yet China lacks high-quality warehouse facilities for companies to store their goods. For that reason, e-commerce giants like Tmall, JD, Suning and Amazon aim to build their own warehouses and integrate them into dedicated logistics supply chains.

This trend augurs promise for China's logistics property industry, but has also spurred industry giants as Prologis and Goodman to speed up the development of their own networks in China, analysts said.

Meanwhile, Tmall will set up a nationwide warehouse network in 10 cities including Chengdu in Sichuan province, Jinhua in Zhejiang province and Tianjin.

JD now has 82 warehouses in 34 cities with a combined space of 1.3 million square meters. It also plans to build logistics centers in Beijing, Shanghai, Guangzhou, Chengdu, Wuhan and Shenyang and expand its business in third-tier cities as well.

For its part, Suning has improved its third generation of nationwide logistics bases while Amazon has also established 11 operation centers with warehouses comprising a total area of more than 700,000 square meters.

Even Tencent is entering into logistics. In January 2014, the Shenzhen-based Internet giant purchased a 9.9 percent stake of China South City for HK$1.5 billion ($195 million).

Foreign investors too are eyeing China's logistics industry. Since May 2013, the nation has received a total investment of 25 billion yuan ($4.1 billion) from both foreign and domestic investors into its logistics industry. That amount includes 5 billion yuan ($813 million) from Rookie Network, $500 million from the Australia-based property giant Goodman Group and HK$2.82 billion ($370 million) from Alibaba.

A report from Deutsche Bank said demand for earnings is spurring investors' interest in logistics property, which is seen as a reliable industrial property investment. RRJ Capital announced on April 10 that it would join hands with Temasek, a state-owned investor in Singapore, to invest $250 million in the Shanghai Yupei Group, a private-owned logistics property developer. By using the funds, Yupei will develop 3.4 million square meters of rental warehouse facilities by 2017. Yupei received $200 million from the Carlyle Group and Townsend Group in August 2013 to build 17 warehouses.

At the same time, Goodman will redouble efforts to expand its China logistics business by injecting funds of more than $3 billion into the Chinese market in the next three to four years, according to Philip Pearce, general manager of Goodman China.

"The investment will be used to build 600,000 to 800,000 square meters of high-quality logistics space annually," Pearce said, adding that the first phase of the investment will be focused on Shanghai, Tianjin, Chengdu, Hefei, Nanjing and Chongqing.

"When we complete the project within four years, our logistics space is expected to climb up to 3.3 million square meters," he said.

An automatic logistics center with the biggest daily handling capacity in Asia will operate in Shanghai.
PHOTO BY XINHUA