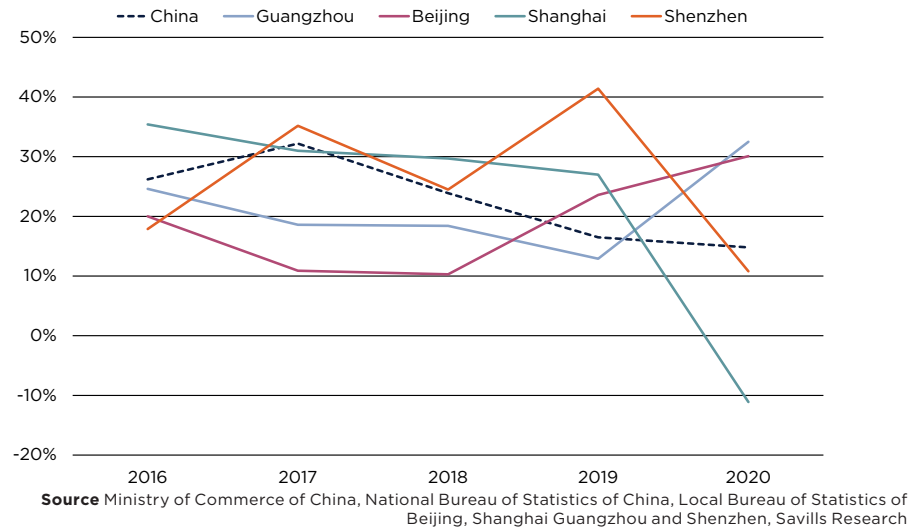


Guangzhou Logistics

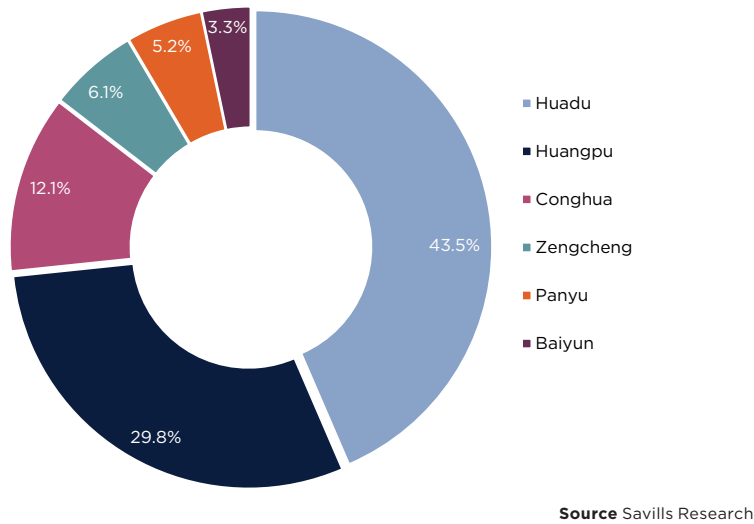


Guangzhou's logistics market remains hot

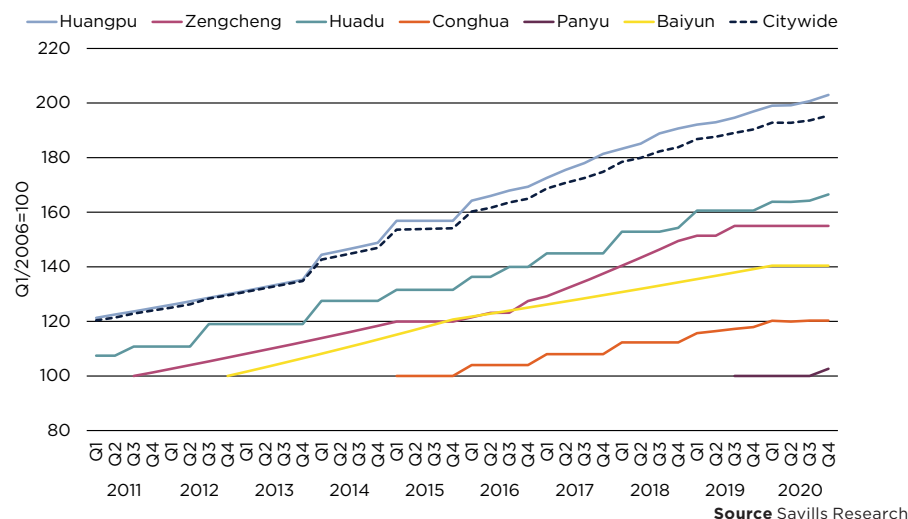
GRAPH 1: Online Retail Sales YoY Growth Rate Of China And China's Four First-tier Cities, 2016 to 2020



GRAPH 2: Guangzhou Logistics Property Market Stock Breakdown By Submarket, 2020



GRAPH 3: Guangzhou Logistics Property Market Rental Indices By Submarket, Q1/2011 to Q4/2020



RESILIENT ECONOMIC GROWTH AND LARGE-SCALE INFRASTRUCTURE DEVELOPMENT PROMOTED THE RAPID DEVELOPMENT OF THE LOGISTICS MARKET

Guangzhou's resilient economic growth provided a solid development foundation for the rapid development of the logistics property market in the city. During the 13th Five-Year Plan period from 2016 to 2020, Guangzhou's GDP grew at a CAGR of 6%, although the year-on-year (YoY) GDP growth of 2020 was slashed to 2.7% as a result of the disruption of the COVID-19 pandemic. In response to the quick evolution of economic development towards more digitalisation, the Guangzhou government announced it would build the city into the E-commerce Livestreaming Capital, with a series of strategic acts to support it.

Meanwhile, the local online consumption market boosted in sync with the consumption behaviour changes and the strengthened spending power of the populace. As a result, Guangzhou's online retail sales increased by 32.5% YoY, 17.7 percentage points (ppts) higher than the national average level and the highest growth rate among all first-tier cities. These positive notes generated a strong impetus for the fast growth and expansion of the courier sector in the locality, and to a greater extent, the whole country, and the total revenue of the courier sector increased by 9.2% YoY to RMB69.4 billion and the total volume of delivered parcels increased by 20.0% YoY to 7.6 billion as of the end of 2020. Naturally, this brought about an increasing demand from 3PLs for the logistics property market in Guangzhou, and the trend should continue to point north in the foreseeable future as the digital economy continues to grow.

Guangzhou, as a traditional transportation hub, has established an expressway network with a total mileage of 1,100 km—the most established and the longest mileage by far among all Chinese cities. Leveraging on this and supported by the aforementioned macroeconomic trends, the total freight traffic recovered well from the COVID-19 impact, though it still decreased by 2.6% YoY, compared to the total volume of ocean freight (-6.8% YoY) and air freight (-16% YoY). Meanwhile, the growth of throughput of twenty-foot equivalent units (TEUs) of the Guangzhou

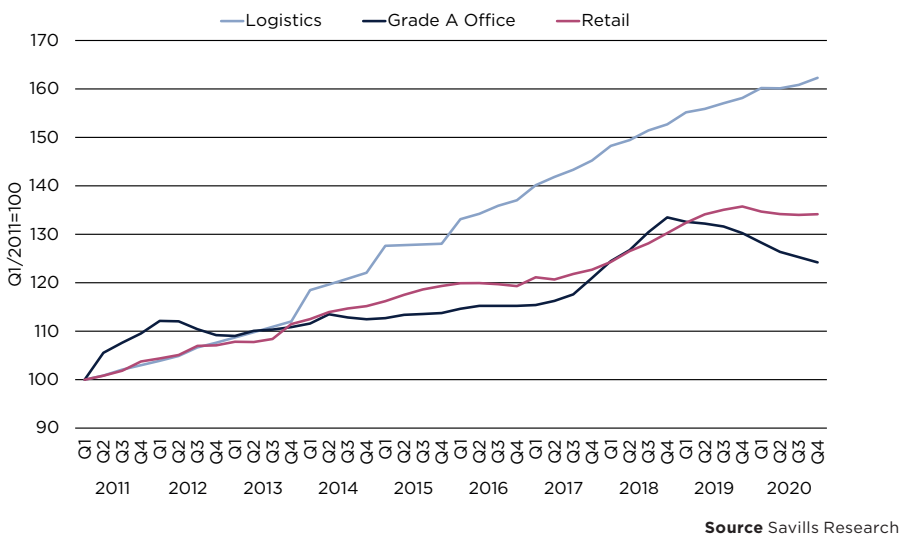
Port rebounded by 1.2% YoY as of end-2020. These contributed substantially to a rapid digestion of the logistics market supply and outperforming asset performance.

GUANGZHOU'S LOGISTICS INVESTMENT MARKET REMAINED POPULAR, BUT OPPORTUNITIES BECAME LIMITED

Benefited from the above, Guangzhou's logistics property market grew notably, with its total stock expanding by 107.4% over the last ten years from 893,383 sq m in 2011 to 1,852,897 sq m in 2020. Over the same period, the citywide average rent increased to RMB40.2 per sq m per month, and the rental index increased by 57.6%. Although the current vacancy rate

Guangzhou's logistics property market offers higher investment returns relative to other conventional property sectors, attracting many investors in recent years. However, the investment opportunity is becoming smaller as challenges associated with the sector are on the rise, making deal sourcing and conclusion much more difficult.

GRAPH 4: Guangzhou Property Market Rental Indices By Sector, Q1/2011 to Q4/2020



of the market declined to approximately 15.0% by the end of 2020, the declining trend persisted with the continued support from the rapid growth in logistics property leasing demand and, more fundamentally, ultra-fast expansion of online retail sales and businesses. The unabated leasing performance and high rental yield of 5.5% relative to other conventional real estate sectors have attracted a growing number of investors, end-users and developers to source investment and development opportunities in the locality. Particularly, giant institutional investors and funds accelerated their pace of entering the market.

These could be exemplified by a few headline en bloc and major sales transactions concluded in 2020. For example, on 10 March 2020, Jaguar Growth Partners announced its acquisition of the Brilliant China company, an SPV conveying the Brilliant Guangzhou Huadu Logistics

TABLE 1: Major Sales Transactions Of The Guangzhou Logistics Property Market, 2020

PROJECT NAME	TRANSACTION TIME	LOCATION	TOTAL CONSIDERATION	BUYER
Brilliant Guangzhou Huadu Logistics Park	Q1/2020	Huadu	N/A	Jaguar Growth Partners
ESR Guangzhou Logistics Park	Q3/2020	N/A	N/A	Core JV between Manulife and ESR
Guangzhou International Airport R&F Integrated Logistics Park (70% Equity)	Q4/2020	Huadu	RMB4.41 billion	Blackstone

Source Savills Research

Park. On 6 July 2020, a new core joint venture launched by Manulife and ESR announced the acquisition of four Grade A logistics assets from Rosewood China Logistics Fund. The acquired portfolio consists of four properties located in Guangzhou, Dongguan, Kunshan and Wuxi, with a total combined net lettable area of more than 0.2 million sq m. In November 2020, Blackstone announced the acquisition of 70% equity of the Guangzhou International Airport R&F Integrated Logistics Park at a price of RMB4.41 billion.

While the logistics property investment market remains popular relative to other conventional sectors, the question of where investors and developers can go became more prevalent as both

logistics property development, and investment opportunities in Guangzhou became limited for a number of reasons. First, as land is becoming increasingly limited and precious, the availability of industrial land designated for logistics use is extremely small in first-tier cities. This has resulted in a consecutive increase in land prices. Second, many city governments preferred to trade those limited land resources for higher tax income to land end-users rather than offering precious land supply for logistics use to either investors or developers. Last but not least, the recovering economics and continued booming online retail sales provided the logistics property market with strong support, in turn bolstering most landlords'

confidence of raising their expectations on capital values of their properties, and that provided limited choices to investors. While the outlook of the Guangzhou logistics property market should continue to be positive in the foreseeable future, investors are advised to scrutinise more investable opportunities through diversified channels and approaches.



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