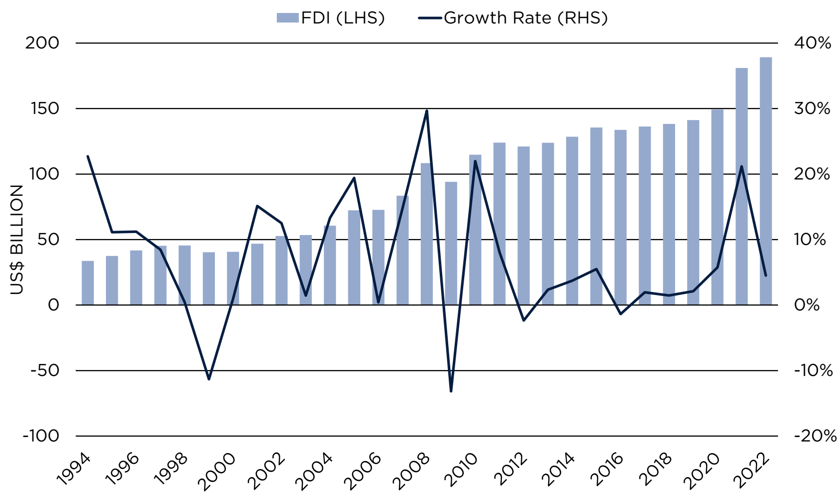
SPOTLIGHT
Savills Research

Shanghai Logistics

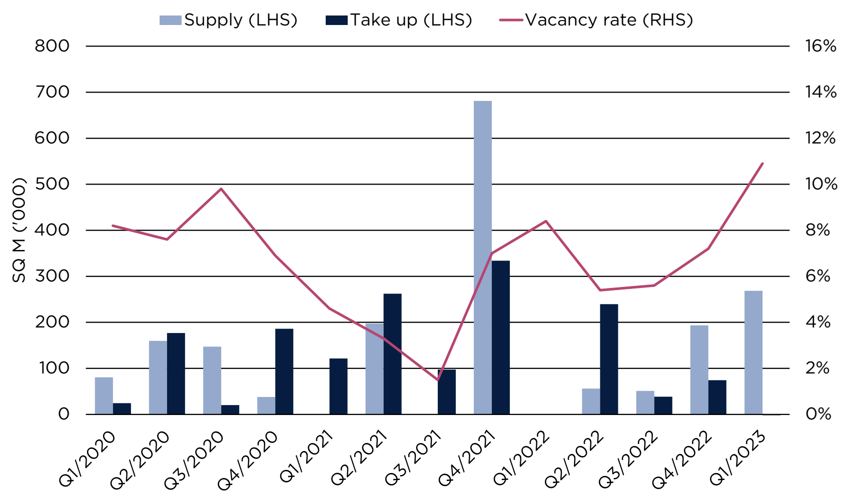
Soaring supply, surging demand, and shifting trends

GRAPH 1: Utilized Foreign Direct Investment, 1994 to 2022



Source Savills Research, Ministry of Commerce

GRAPH 2: Supply, Take-up, and Vacancy Rate, Q1/2020 to Q1/2023



Source Savills Research

GRAPH 3: Fundraising by Target Sectors, 2005 to 2022

Source Research; Realfin

OVERVIEW

China's logistics value experienced robust growth of 3.4% in 2022, reaching RMB347.6 trillion, while the total revenue of the logistics industry amounted to RMB12.7 trillion, exhibiting a year-on-year (YoY) increase of 4.7%. Notably, sectors such as railway transport, the cold chain sector, and express delivery maintained strong growth rates, showcasing their resilience and importance.

Foreign direct investment (FDI) played a vital role in 2022, with a total utilization of US$189.1 billion (equivalent to RMB1.23 trillion). Despite the persistent disruptions and lockdowns throughout the year, investments managed to grow by 8% YoY and achieved an impressive 6.8% compound annual growth rate over the past five years. Among the various regions, the Yangtze River Delta continues to retain its allure as the most attractive destination for foreign capital.

Key sectors that fuelled this growth included high-tech manufacturing, which experienced a remarkable increase of 28.3% YoY, and the automobile industry (including EVs), which recorded an astounding surge of 264%. Consequently, the demand for high-end factory and warehouse spaces witnessed a surge. China remains a critical component of the global supply chain.

However, a confluence of factors, such as COVID-related controls, trade tensions, escalating costs, and other considerations, has prompted international companies to explore the possibility of diversifying their supply chains or even shifting them partially or entirely to emerging markets like Vietnam and India. Additionally, targeted export restrictions in sectors such as semiconductors have compelled companies to seek domestic alternatives. Although these domestic substitutes may not yet rival their international counterparts, the increased sales revenues will empower domestic manufacturers to allocate more resources towards research and development, thus gradually narrowing the technological divide.

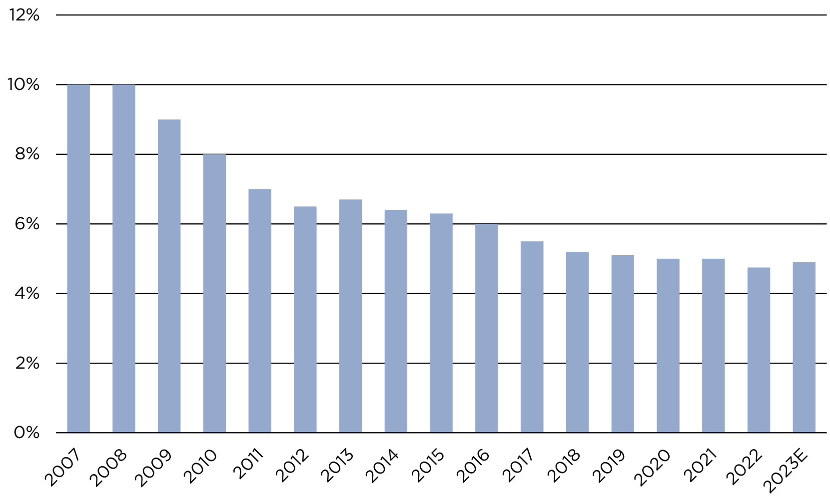
MARKET CONDITIONS

The Shanghai logistics market experienced notable developments in Q1/2023, with the addition of two new non-bonded Grade A warehouses in Songjiang and Jinshan. The new supply added a significant 268,000 sq m to the market, pushing the total stock to 6.92 million sq m. As the three largest submarkets, Fengxian, Jinshan, and Songjiang account for almost half of the citywide stock and are anticipated to be major submarkets for new pipelines in the coming years. The increase in supply has contributed to a rise in the citywide vacancy rate, which saw a 3.7 percentage point increase to reach 10.9% compared to the previous quarter.

Despite the increase in supply, the demand for non-bonded Grade A warehouses remained resilient, leading to a quarter-on-quarter (QoQ) rental increase of 0.8 in Q1/2023. The average rent for the non-bonded Grade A market reached RMB50.2 psm pmth, with Minhang and Northwest leading the city with rents of about RMB57 per sq m per month.

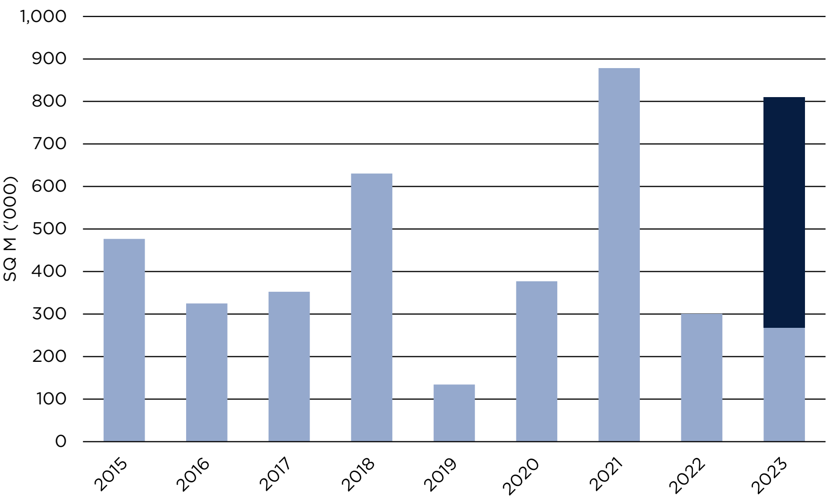
Investors stay committed to the logistics sector despite fierce competition and rising yields.

GRAPH 4: Shanghai Logistics Yields, 2007 to 2023E



Source Savills Research

GRAPH 5: Future Supply, 2015 to 2023



Source Savills Research

Among the submarkets, Jinshan stood out as a particularly active area, driven by express delivery firms and the recovering consumer market. The presence of these firms has stimulated growth, while the retail and F&B sectors have also generated demand for warehouse space. Notably, leases of more than 10,000 sq m were recorded by a white goods e-commerce platform and a commercial bakery, indicating the diverse range of businesses utilizing logistics facilities in Jinshan.

The cold chain industry is another sector benefiting from the recovering consumer market. The increased demand for cold storage prompted a cold chain operator to lease and convert dry warehouse space into cold storage facilities in Songjiang during Q1/2023. This shift highlights the adaptability and flexibility of the logistics market in Shanghai to cater to evolving industry needs.

INVESTMENT

The allure of Greater Shanghai as a top investment destination for logistics continues to hold strong. In the first four months of 2023, an overwhelming 90% of the logistics portfolios and assets' capital transactions were concentrated in this region. This highlights the immense attractiveness and potential of the logistics market in and around Shanghai. While domestic buyers, such as insurance companies and Blogis, have been actively acquiring and taking majority shares in these transactions, international buyers also recognize the opportunities presented in the vibrant market. Notable international buyers like Link REIT and Keppel have recently deployed capital, further underlining the interest and confidence in the Greater Shanghai logistics sector.

The industrial and logistics sectors, overall, have garnered considerable attention as highly sought-after asset classes, particularly evident in recent fundraising activities. Notably, industrial and logistics funds have accounted for more than half of the total funds raised in three out of the last four years (except for 2021 when Sino-Ocean raised two significant office funds). Remarkably, in 2022, this figure grew to nearly 80%. Furthermore, the market has witnessed an influx of new investors, predominantly driven by domestic investors and developers, which has shaped the dynamics of the logistics market over the past two years.

Nevertheless, it is important to acknowledge that net operating income (NOI) yields are softening on the back of increased supply, and weaker demand, as well as the introduction of several portfolios into the market. Furthermore, the implementation of previous strict COVID controls, coupled with prevailing global political and trade tensions, has acted as a deterrent to new international investors. Established investors with a substantial presence in the market, however, continue to remain active and engaged. China's stable interest rate environment and advantageous cost inputs persistently provide support for market expansion and foster an environment conducive to robust investment activities.

OUTLOOK

Consumption recovery is also reshaping the demand from luxury tenants. Luxury retailers have been moving from the Pudong airport (PVG) submarket to Minhang and Songjiang within the past year. Additionally, price-tolerant B2C tenants may opt to relocate to distribution centres nearer to the city centre to enhance their service capabilities for clients.

In terms of future supply, the market anticipates the launch of more than 500,000 sq m of new space primarily in Qingpu and Fengxian within the year. This indicates a sustained period of elevated supply that could impact market dynamics and potentially influence rental rates and vacancy rates. Market participants will need to closely monitor these developments to adapt their strategies accordingly and capitalize on the opportunities presented by the evolving Shanghai logistics market.

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