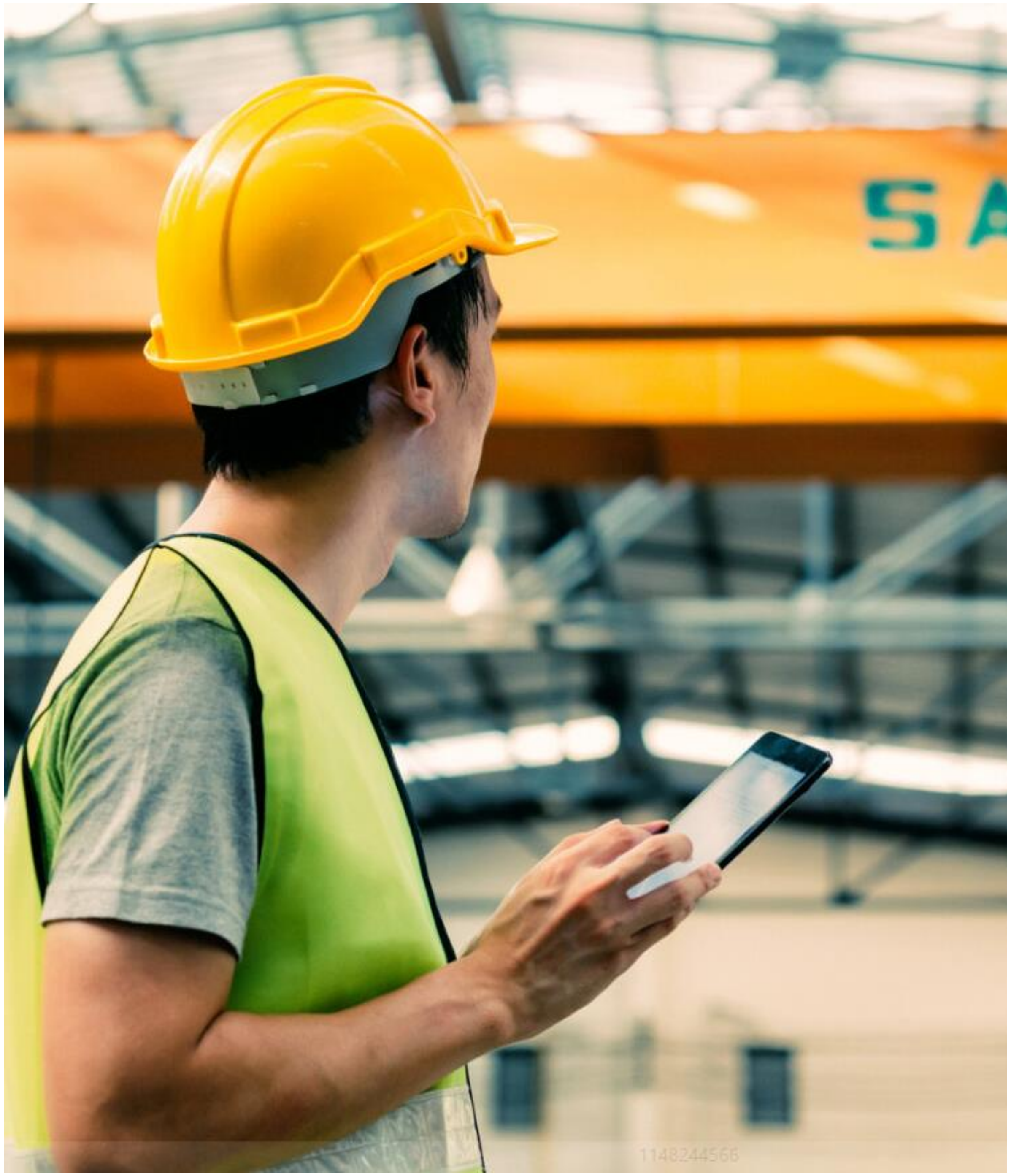
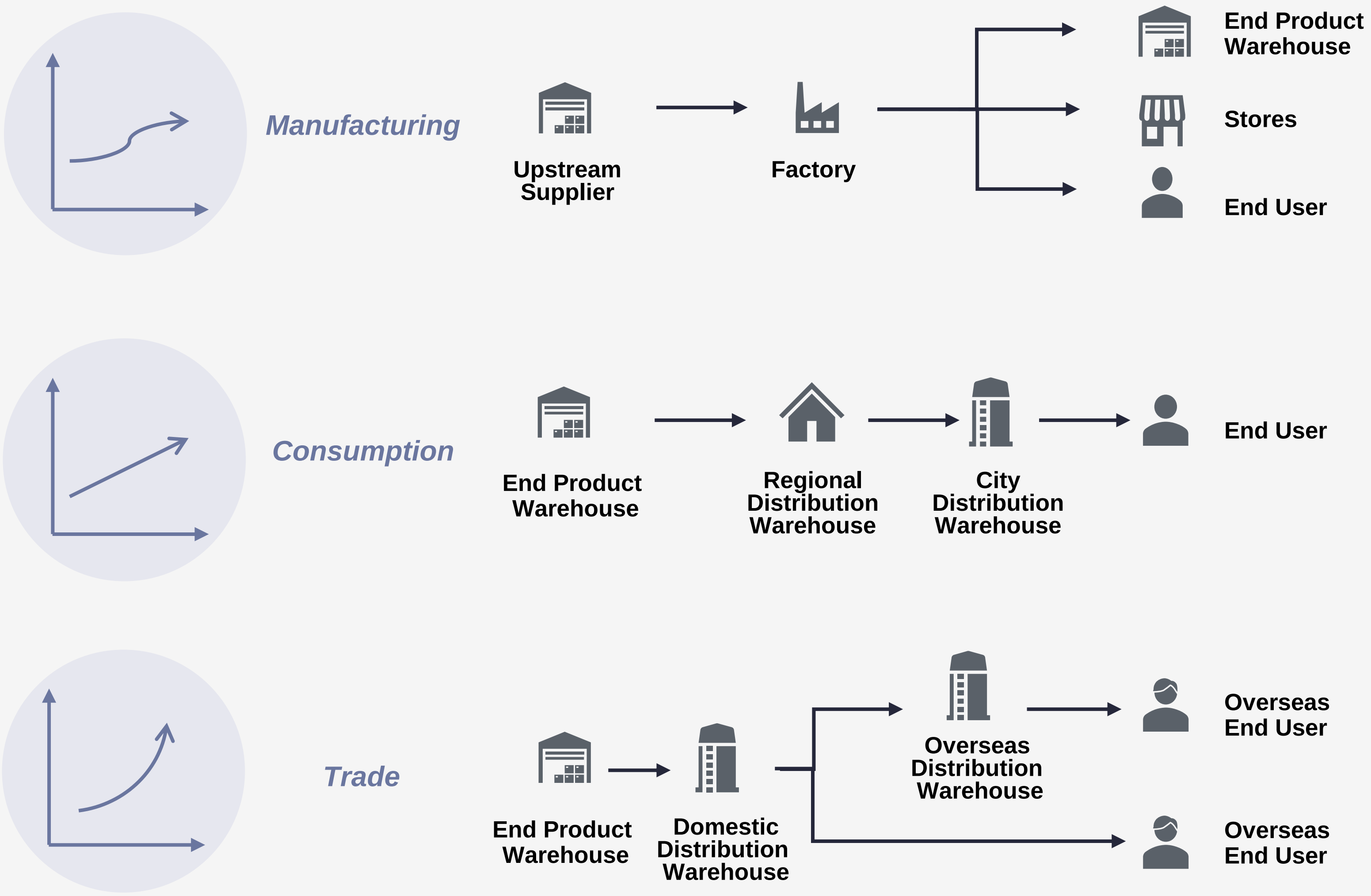
2024 China Logistics

April 2024



01 Macroeconomics

Non-bonded Grade A Market Value Chain



High-tech manufacturing growth supports the demand for warehouses

E-commerce and 3PLs account for the majority of leasing demand

Cross-border e-commerce players drive significant growth in international trade

Manufacturing

Powering economic growth

As China transitions into the Industry 4.0 era, manufacturing continues to be a pivotal driver of logistics development. The expansion of numerous high-tech manufacturers is fuelling a significant increase in demand for Grade A warehouses.

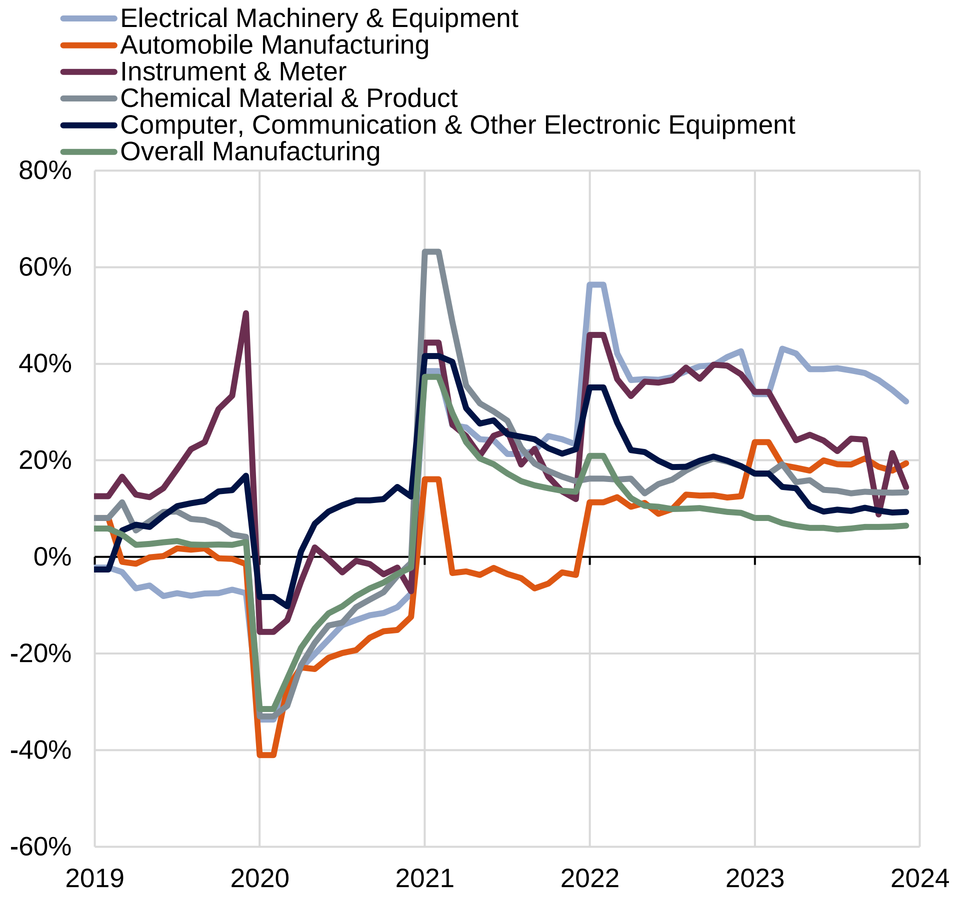
Noteworthy growth rates of 54.0% for solar cell production and 30.3% for New Energy Vehicles (NEVs) highlight the burgeoning demand for industrial goods. The China Passenger Car Association (CPCA) estimates that the penetration rate of NEVs in China reached 36% in 2023, prompting several brands to establish/expand manufacturing facilities.

Regional leasing patterns vary. In Southern China, light manufacturing companies prioritize operational flexibility within warehouses. Eastern China, at the forefront of supporting China's transition to a low-carbon economy, is witnessing the construction of numerous eco-friendly warehouses with LEED certifications. Meanwhile, Western China, buoyed by the rapid ascent of NEVs, is contributing to the stability of warehouse leasing demand.

Value Added of Industry (YoY) in 2023

Manufacturing	**5.0%**
Automobile	**13.0%**
Chemical Material & Product	**9.6%**
Electronic Machinery & Equipment	**12.9%**

Fixed Asset Investment YTD (YoY)



Source: NBS, Ministry of Commerce, General Administration of Customs, China Passenger Car Association(CPCA)

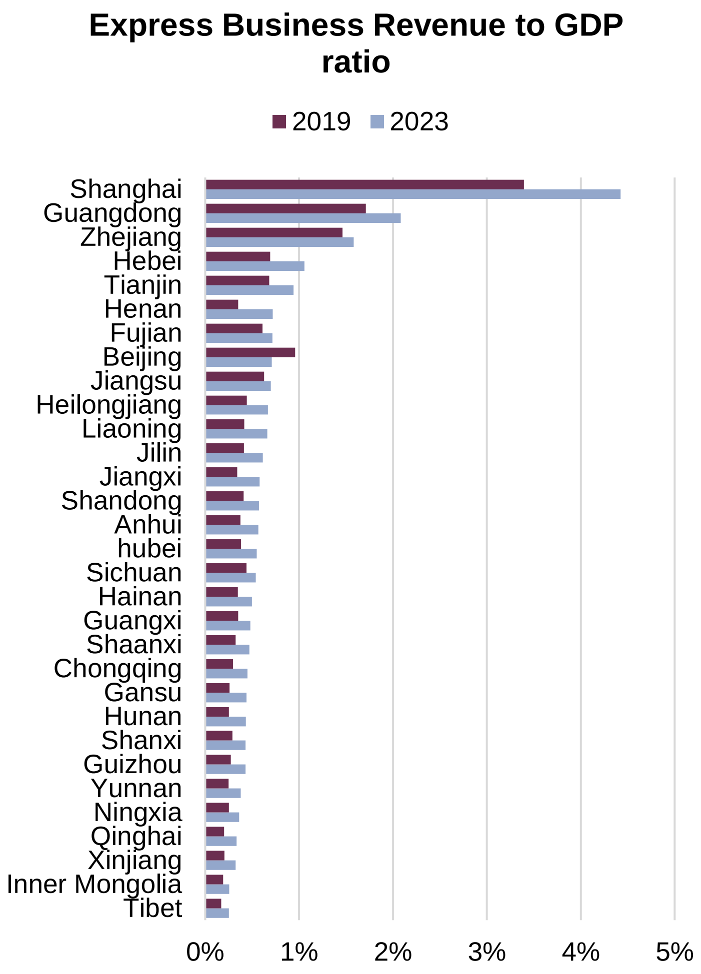
Consumption

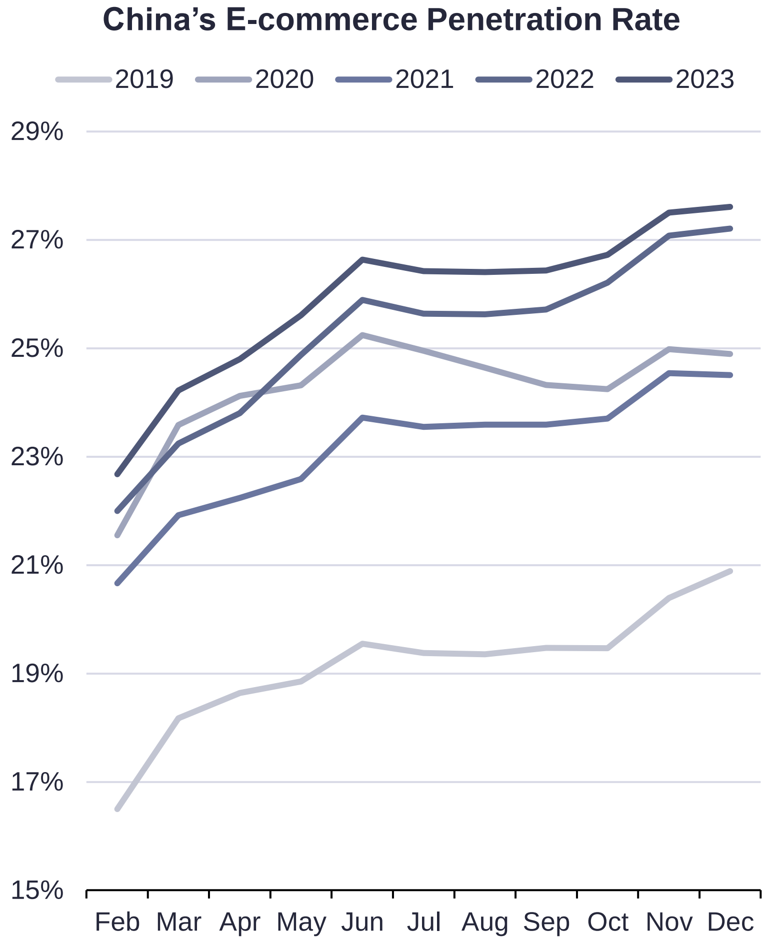
Substantial untapped potential

Benefiting from a series of consumption stimulus plans, the consumer market recovered in 2023, particularly in the F&B and retail sectors. The express delivery business maintained its vigour, with Henan experiencing significant growth compared to 2019.

Online retail sales have continued to grow steadily, with e-commerce platforms and third-party logistics (3PL) companies retaining a substantial share of the warehouse leasing market. Notably, live-streaming e-commerce has played a pivotal role in driving e-commerce growth throughout the year, with companies such as TikTok, Kuaishou, and Red accelerating the expansion of their live-streaming sales business.

Simultaneously, the Customer to Manufacturer (C2M) model is maturing, gradually reducing businesses' reliance on front-end inventory through its "decentralized" sales approach, bringing notable changes to the consumer market landscape.





Source: NBS, Ministry of Commerce, General Administration of Customs, Ministry of Transport

NB: E-commerce penetration rate= Online retail sales/ Retail sales

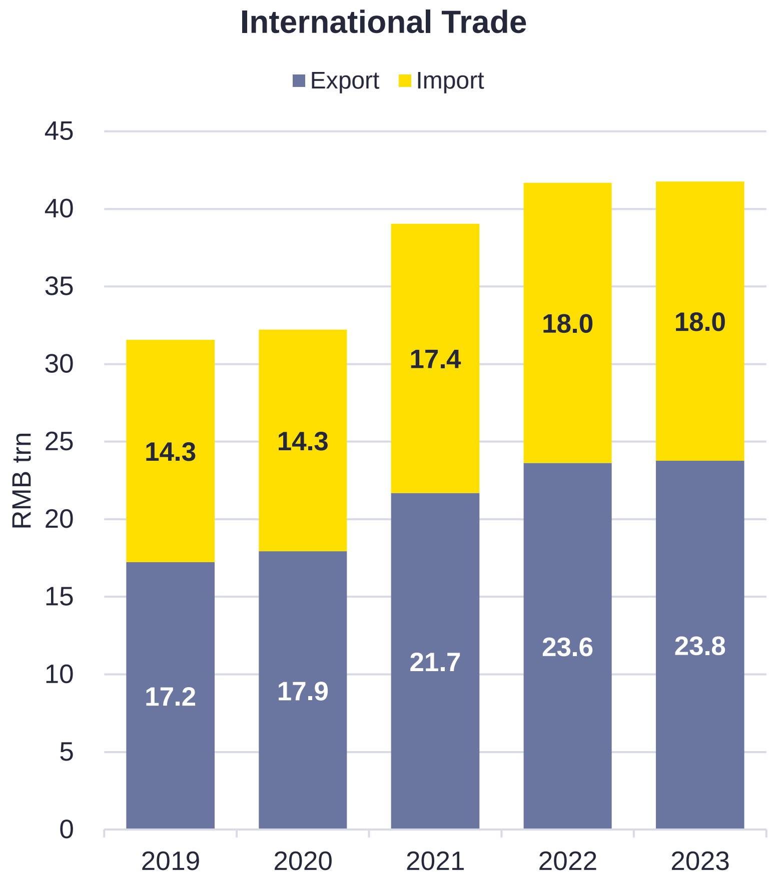
Trade

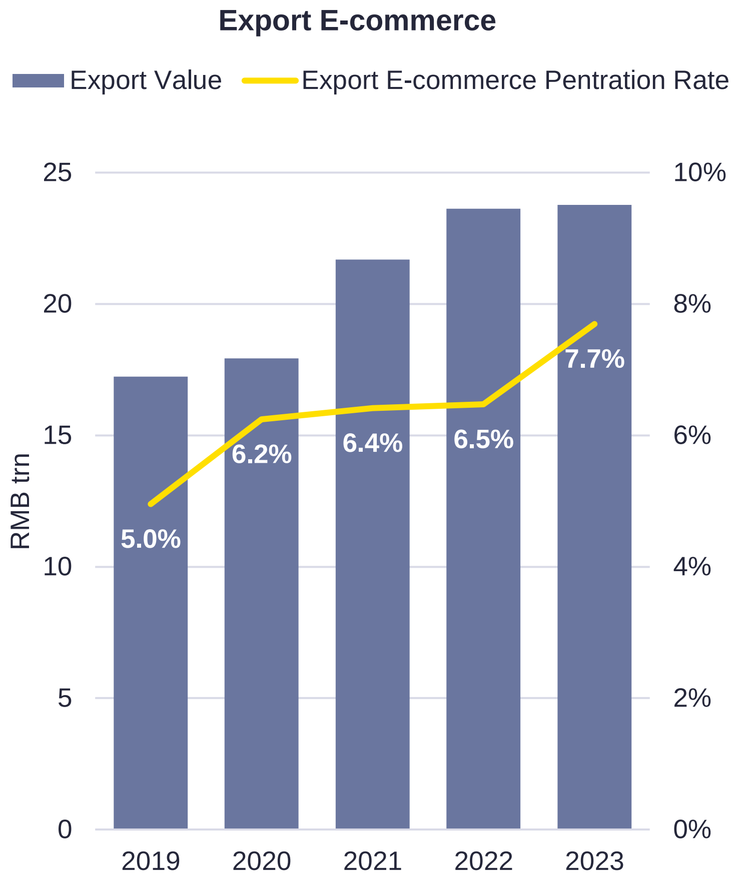
Finding new routes and new markets

China's international trade demonstrated steady growth in 2023, with notable increases in trade with countries participating in the Belt and Road Initiative. Exports continued to rise, building upon a robust foundation.

The export sector saw remarkable developments, particularly in the "New Three" products (electric vehicles, lithium-ion batteries, and solar cells), which surpassed the trillion-yuan mark for the first time, with growth of nearly 30% YoY. Cross-border e-commerce exports also flourished, driven by major players such as Shein, Temu, and TikTok, resulting in a 19.6% increase in e-commerce export scale, surpassing the overall foreign trade export growth rate of 0.6%.

Furthermore, prominent cross-border e-commerce entities are actively establishing distribution warehouses and hubs in the Southern China market. Shein, for instance, plans to establish a supply chain headquarters in the Greater Bay Area (GBA), a move expected to generate substantial warehousing demand in the region.





Source: NBS, Ministry of Commerce, General Administration of Customs, Guolian Securities

NB: Export e-commerce penetration = Export e-commerce value / Export value

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02
Leasing Market

Market Supply

Supply remains high but with regional variations

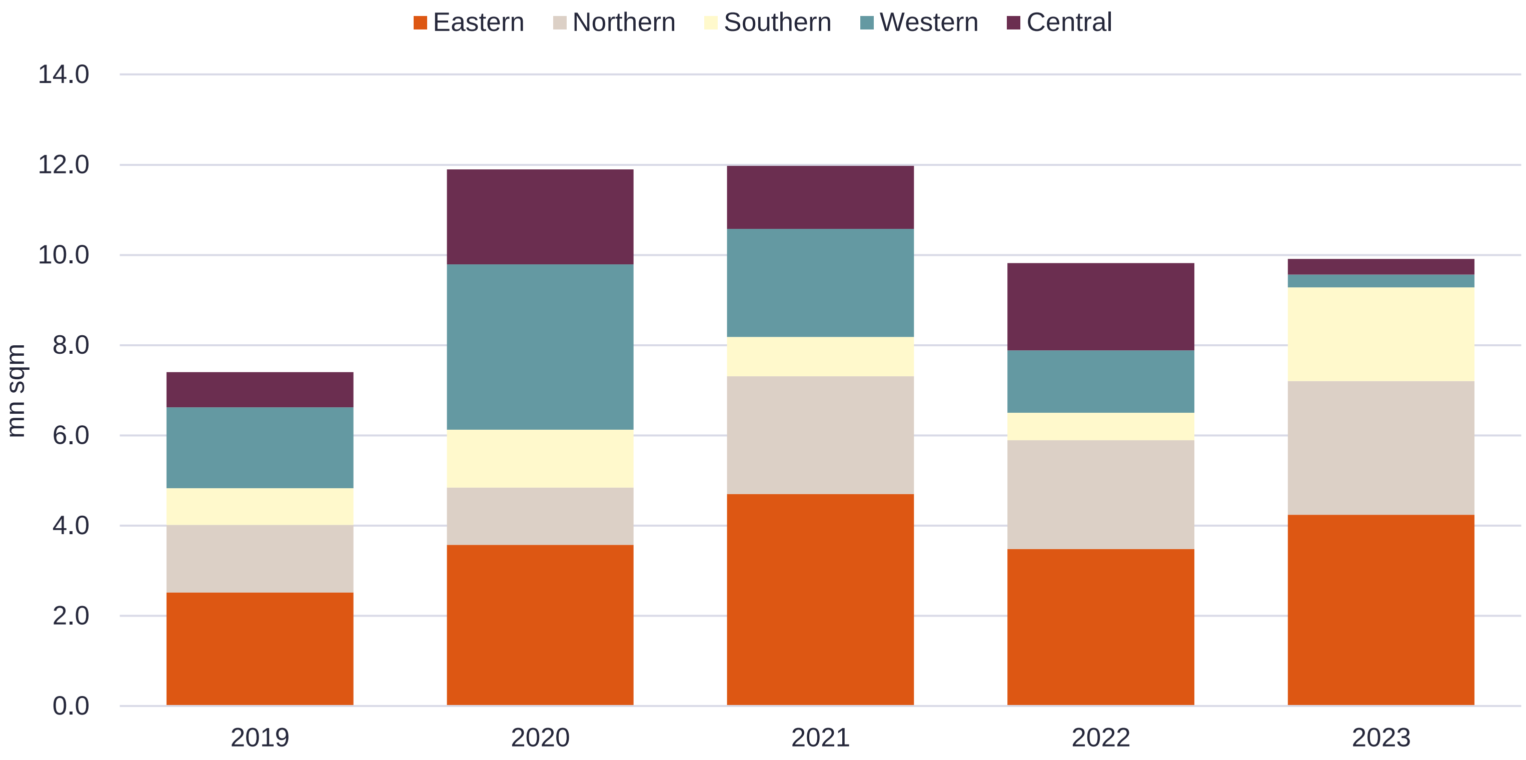
The non-bonded Grade A warehouse market stock in 31 major cities surpassed 90 million sqm in 2023. The Eastern China market stands out, accounting for over one-third of China's total stock. With a continuous influx of supply in recent years, some developers have opted for rental trade-offs in order to bring down vacancy rates.

Northern China experienced a notable increase in new supply starting in 2021, particularly in Langfang, Tianjin, and Beijing. In contrast, Western China has exhibited a gradual deceleration since 2020, allowing for market absorption of vacant stock.

Southern China observed a peak in supply, with significant surges in Guangzhou and Dongguan. Concurrently, driven by robust demand from cross-border e-commerce, the market experienced exceptionally high levels of demand.

Central China exhibited stable demand for transportation and consumption. However, due to the supply over the past three years, the market still face vacancy pressure.

Non-bonded Grade A Warehouse Historical Supply



Eastern China: Shanghai, Suzhou (incl. Kunshan, Taicang, Changshu, Zhangjiagang), Nanjing, Jiaxing, Ningbo, Wuxi, Hangzhou, Nantong
Northern China: Beijing, Tianjin, Langfang, Shenyang, Jinan, Qingdao
Southern China: Guangzhou, Shenzhen, Dongguan, Foshan, Huizhou
Western China: Chengdu, Chongqing, Xi'an, Kunming, Guiyang
Central China: Wuhan, Zhengzhou, Changsha

Source: Savills Research

Leasing Market Demand

A slower-than-expected economic recovery, has meant that tenants have become more conservative

1 Rent Sensitivity

The influx of new projects has provided tenants with ample options, enhancing their negotiating power. Some developers have responded by not only reducing rents but also offering extended rent-free periods to bolster tenant security.

2 Contract Flexibility

As the e-commerce tenants increases, market leases become more flexible. Furthermore, developers are incorporating flexible termination clauses for tenants committed to longer stays, aiming to mitigate potential default costs.

3 Value-Added Services

Beyond traditional considerations like location and facilities, tenants are now evaluating the operational capabilities of developers when choosing warehouses. This shift involves assessing the developer's ability to coordinate supply chain resources and collaborate with local authorities.

4 Sustainability

The number of LEED-certified warehouses in the market has witnessed a significant increase in recent years. Some tenants are increasingly inclined to rent green warehouses due to the potential long-term cost savings associated with sustainable operations.

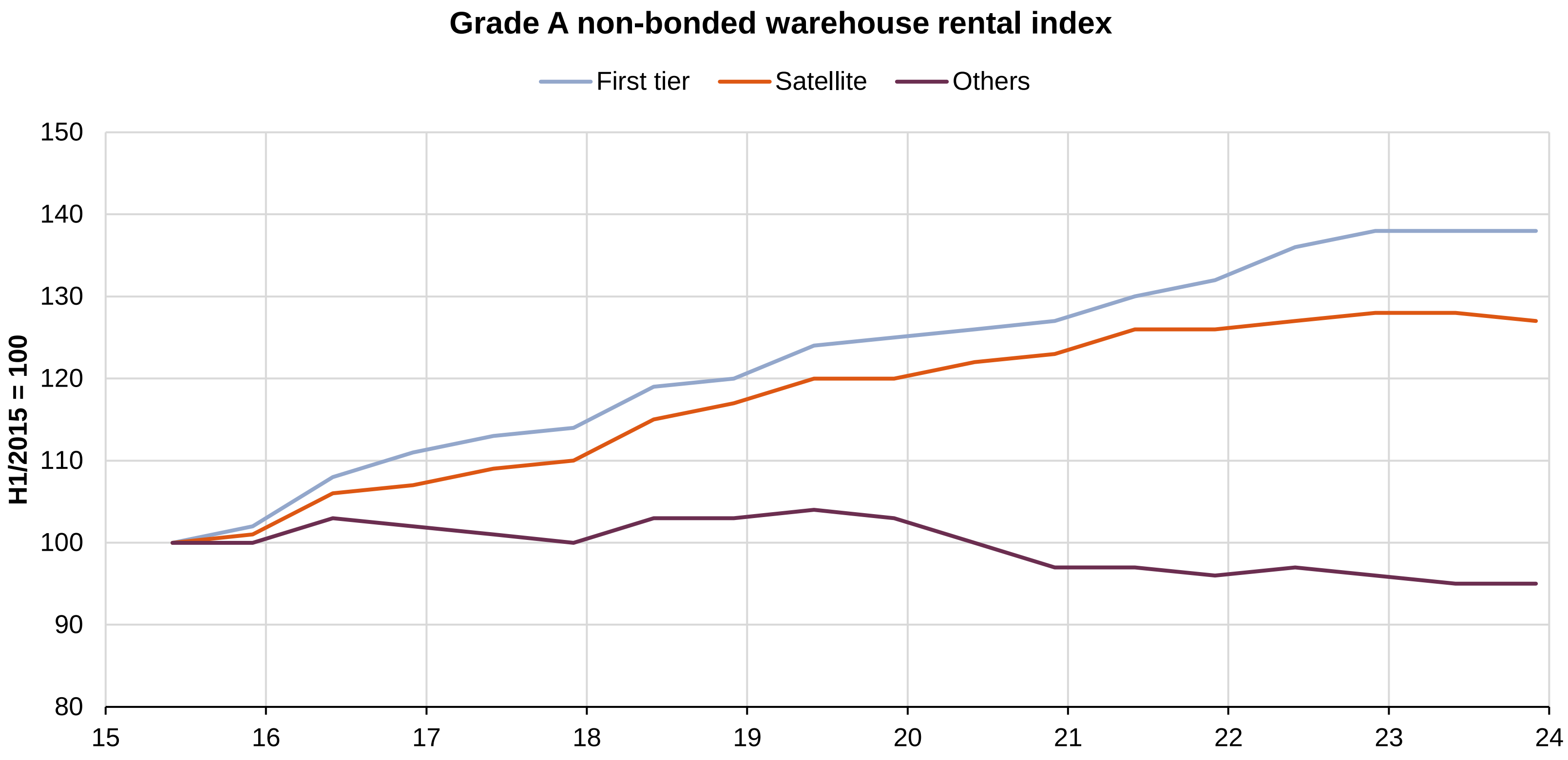
Rents

Market needs time absorb excess supply, rents continue to face downwards pressure

Nationwide rents experienced downward pressure in 2023, with average rents in major cities declining by 4.3%.

Southern China rents exhibited relative resilience, showing a slight year-on-year increase in 2023. Conversely, other regions rents experienced declines of varying magnitudes.

The decline in rents in first tier cities has eased some of the financial burden of some tenants meaning that they are less likely to relocate to lower cost alternatives further away from key consumption hubs. This should help to buoy demand in first tier cities and absorbs some of the excess supply built up over the last couple of years.

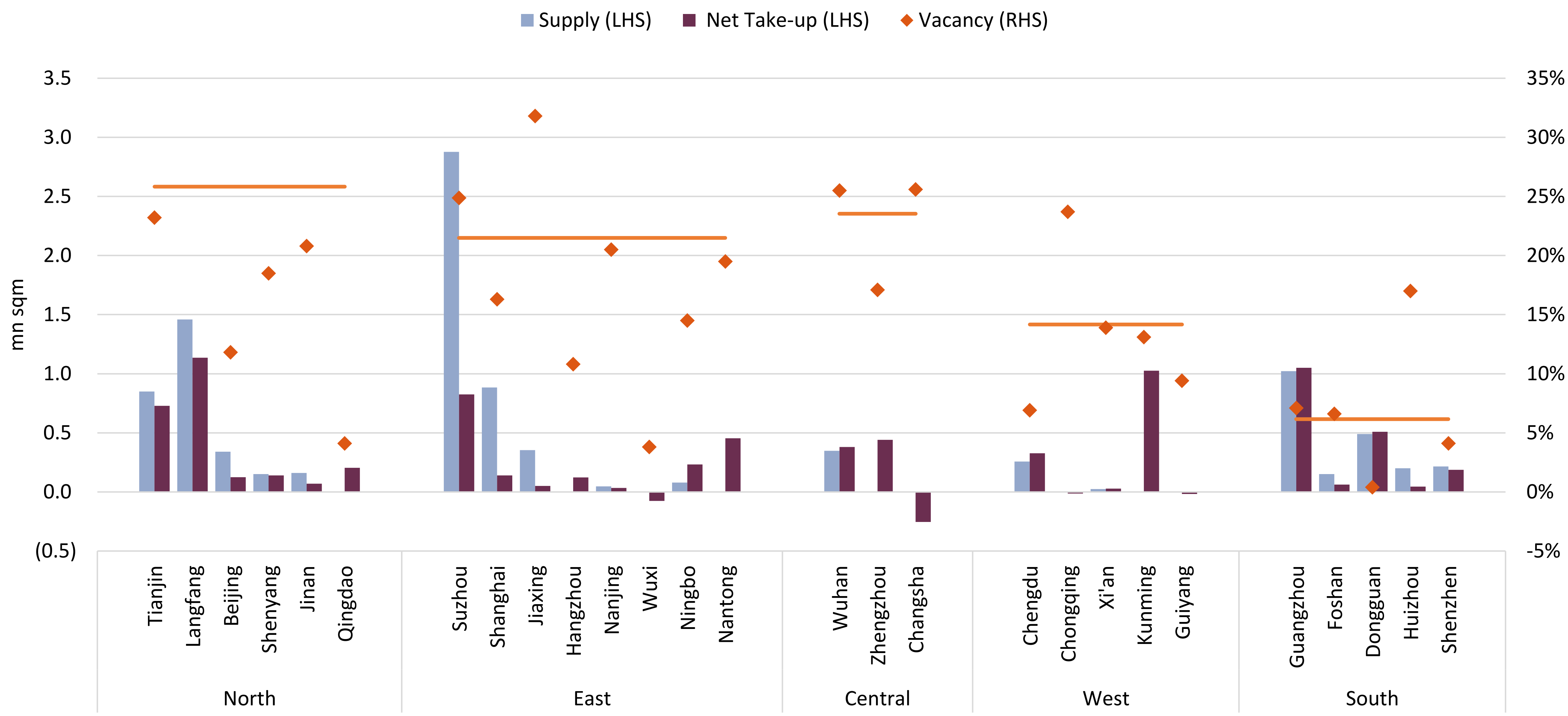


Base period: 2015H1
First-tier cities: Beijing, Shanghai, Guangzhou, Shenzhen
Satellite cities: Tianjin, Langfang, Jiaxing, Suzhou (incl. Suzhou proper, Kunshan, Taicang, Changshu, Zhangjiagang), Jiaxing, Foshan, Dongguan, Huizhou
Other cities: Shenyang, Qingdao, Jinan, Wuxi, Nanjing, Ningbo, Hangzhou, Xi’an, Chengdu, Chongqing, Kunming, Guiyang, Wuhan, Zhengzhou, Changsha

Source: Savills Research

2023 Non-bonded Grade A Market City Overview

Northern and Eastern markets could take longer to stabilize



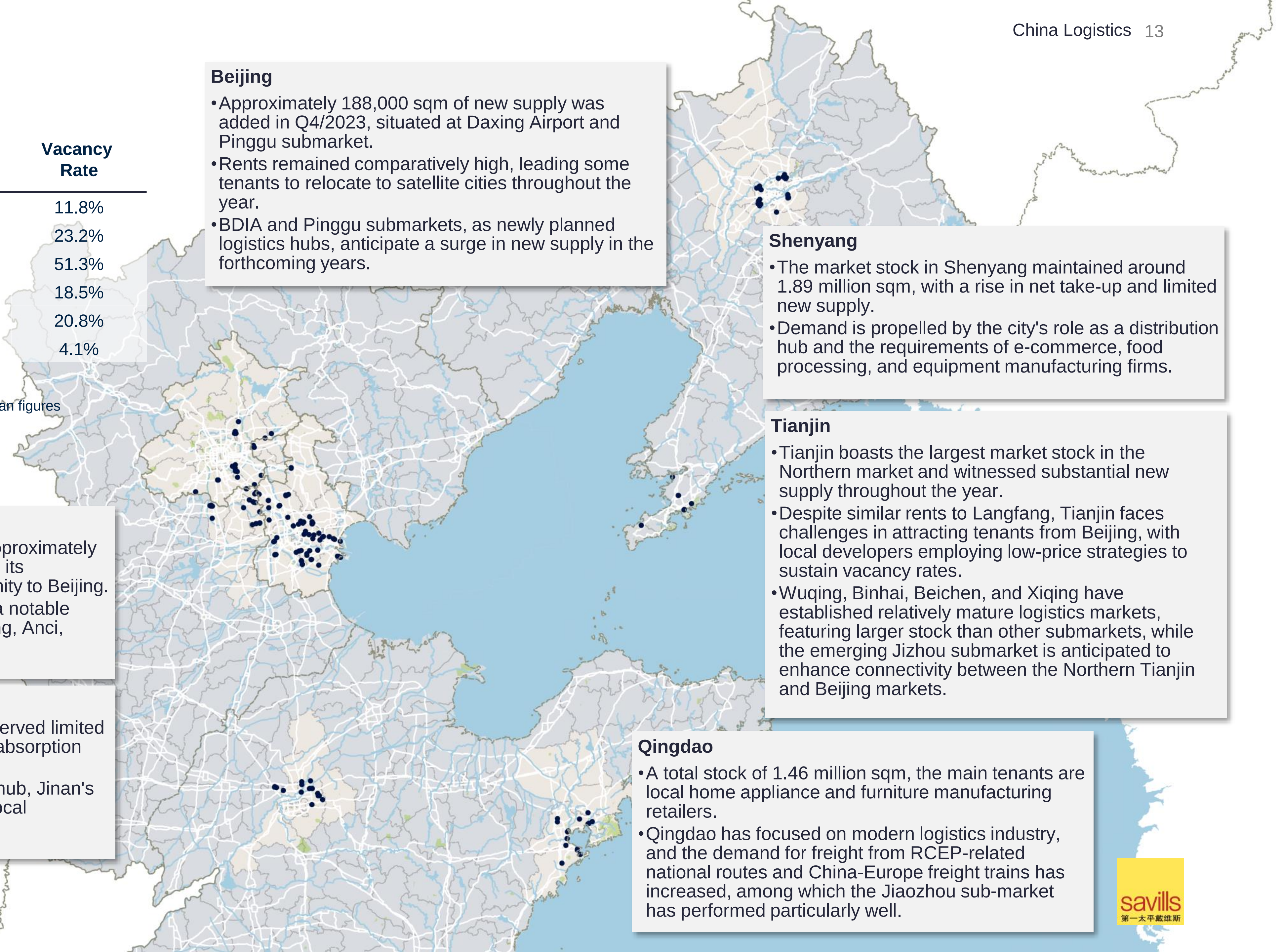
Source: Savills Research

NB: Suzhou includes Suzhou proper, Kunshan, Taicang, Changshu and Zhangjiagang

Northern China

	Stock Mn sqm	Rent RMB psm pmth	Vacancy Rate
Beijing	2.70	59.2	11.8%
Tianjin	6.09	24.9	23.2%
Langfang	4.26	24.8	51.3%
Shenyang	1.89	17.2	18.5%
Jinan	1.82	26.3	20.8%
Qingdao	1.46	27.6	4.1%

Source: Savills Research
NB: Projects in Qihe County, Dezhou are included in Jinan figures



Beijing

- Approximately 188,000 sqm of new supply was added in Q4/2023, situated at Daxing Airport and Pinggu submarket.
- Rents remained comparatively high, leading some tenants to relocate to satellite cities throughout the year.
- BDIA and Pinggu submarkets, as newly planned logistics hubs, anticipate a surge in new supply in the forthcoming years.

Shenyang

- The market stock in Shenyang maintained around 1.89 million sqm, with a rise in net take-up and limited new supply.
- Demand is propelled by the city's role as a distribution hub and the requirements of e-commerce, food processing, and equipment manufacturing firms.

Tianjin

- Tianjin boasts the largest market stock in the Northern market and witnessed substantial new supply throughout the year.
- Despite similar rents to Langfang, Tianjin faces challenges in attracting tenants from Beijing, with local developers employing low-price strategies to sustain vacancy rates.
- Wuqing, Binhai, Beichen, and Xiqing have established relatively mature logistics markets, featuring larger stock than other submarkets, while the emerging Jizhou submarket is anticipated to enhance connectivity between the Northern Tianjin and Beijing markets.

Langfang

- In 2023, Langfang saw the addition of approximately 1.46 million sqm of new supply, retaining its attractiveness for tenants seeking proximity to Beijing.
- Since 2021, Langfang has experienced a notable surge in supply, particularly in Guangyang, Anci, Gu'an, and Beixin Counties submarkets.

Jinan

- Jinan's non-bonded Grade A market observed limited new supply, resulting in a decline in net absorption and a rise in vacancy rates.
- Serving as a key industrial and logistics hub, Jinan's Grade A warehouses primarily cater to local consumption demands.

Qingdao

- A total stock of 1.46 million sqm, the main tenants are local home appliance and furniture manufacturing retailers.
- Qingdao has focused on modern logistics industry, and the demand for freight from RCEP-related national routes and China-Europe freight trains has increased, among which the Jiaozhou sub-market has performed particularly well.

Eastern China

Wuxi

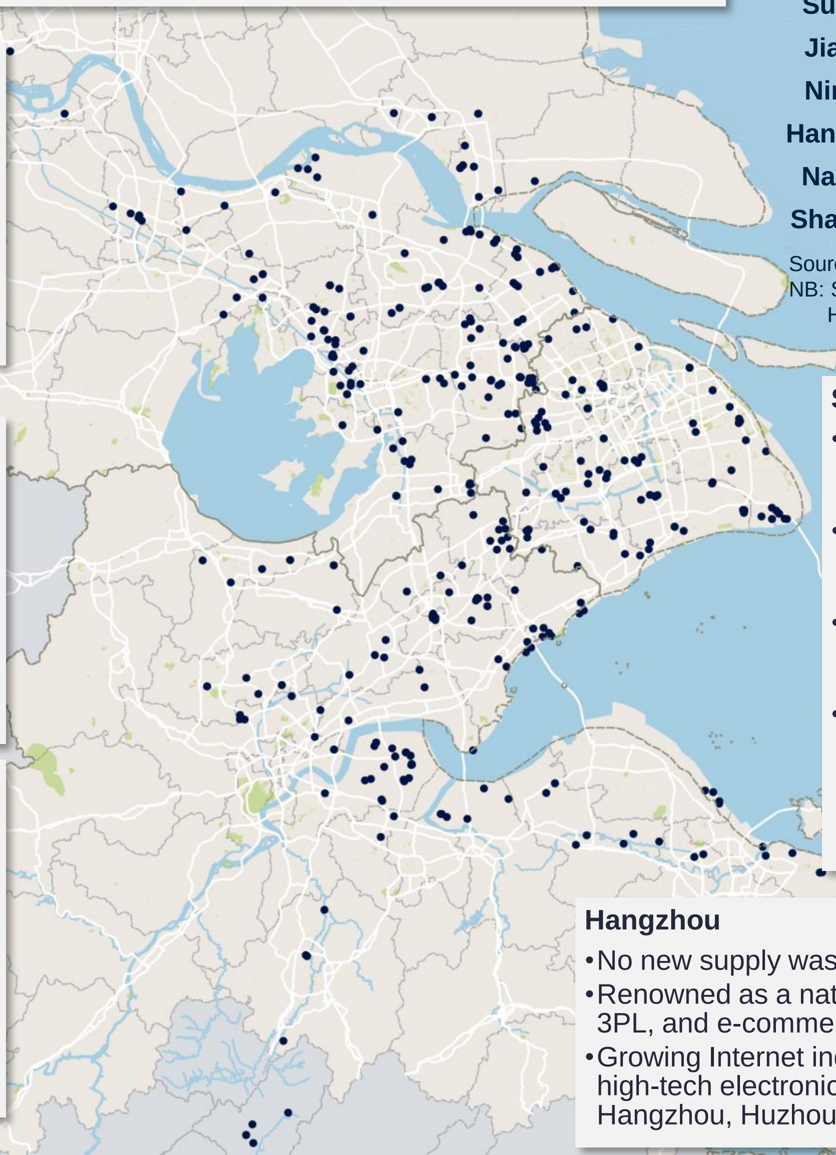
- Stringent land sales/lease requirements limit new logistics projects in Wuxi, keeping rents and vacancy rates stable.
- Government support for electronic information technology and machinery manufacturing industries, coupled with a strong GDP, ensures sustained demand for warehousing.

	Stock Mn sqm	Rent RMB psm pmth	Vacancy Rate
Shanghai	7.46	49.4	16.3%
Suzhou	11.81	37.8	29.1%
Jiaxing	2.42	31.3	3.8%
Ningbo	4.23	32.5	31.8%
Hangzhou	2.41	32.2	14.5%
Nanjing	2.89	35.5	10.8%
Shanghai	2.44	31.3	20.5%

Source: Savills Research
NB: Suzhou includes Suzhou proper, Kunshan, Taicang, Changshu and Zhangjiagang; Hangzhou includes some Huzhou & Shaoxing projects

Nanjing

- Non-bonded Grade A warehouse supply in Nanjing decreased in 2023, with new supply only recorded in the Jiangning submarket.
- Market absorption rebounded, leading to a drop in vacancy rates to 20.5%.
- The Nanjing metropolitan area's dense population and robust consumer base sustain stable demand for warehousing.



Suzhou

- With a market stock exceeding 11 million sqm, Suzhou remains China's largest logistics market.
- In 2023, Suzhou proper alone added over 1.2 million sqm of new supply, primarily in the Wujiang submarket, likely putting upward pressure on rental prices.
- Greater Suzhou's competitive rents attracted manufacturing enterprises from neighbouring regions, distinguishing it from Shanghai.

Jiaxing

- Supply in Jiaxing City slowed in 2023, maintaining stable rents.
- Local manufacturing and vertical industries primarily drive demand, with its strategic location also serving adjacent cities like Shanghai.
- New projects aim to attract high-tech manufacturing tenants, including digital economy, pharmaceuticals, healthcare, and new energy sectors.

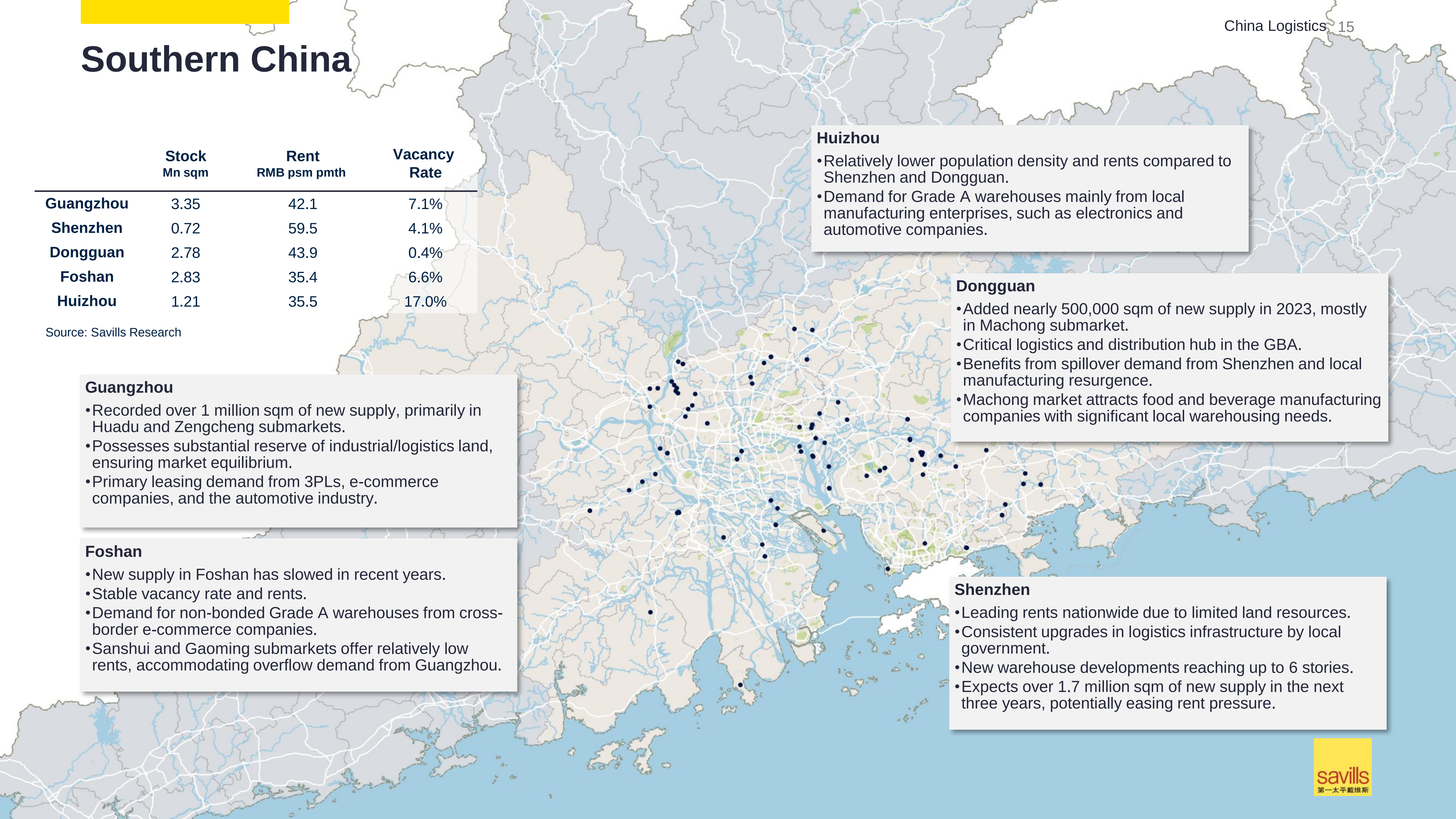
Shanghai

- In 2023, Shanghai witnessed a five-year high in new supply, with nearly 70% located in the Jinshan and Qingpu submarkets.
- A shift in the supply-demand dynamic led to a 1.4% decrease in market rental prices, discouraging some tenants from relocating.
- Q4 of 2023 saw the best net take-up levels, particularly in submarkets like Jinshan and Songjiang, indicating significant improvement.
- Expectations for 2024 include a continued influx of supply, especially with several large projects from leading developers slated to open in the first half of the year, potentially increasing vacancy rates in corresponding submarkets.

Hangzhou

- No new supply was added in Hangzhou in 2023.
- Renowned as a national hub for live-streaming e-commerce, 3PL, and e-commerce firms continue to dominate tenancy.
- Growing Internet industry development attracts demands from high-tech electronic manufacturing industries, benefiting Hangzhou, Huzhou, and Shaoxing.

Southern China



	Stock Mn sqm	Rent RMB psm pmth	Vacancy Rate
Guangzhou	3.35	42.1	7.1%
Shenzhen	0.72	59.5	4.1%
Dongguan	2.78	43.9	0.4%
Foshan	2.83	35.4	6.6%
Huizhou	1.21	35.5	17.0%

Source: Savills Research

Guangzhou

- Recorded over 1 million sqm of new supply, primarily in Huadu and Zengcheng submarkets.
- Possesses substantial reserve of industrial/logistics land, ensuring market equilibrium.
- Primary leasing demand from 3PLs, e-commerce companies, and the automotive industry.

Foshan

- New supply in Foshan has slowed in recent years.
- Stable vacancy rate and rents.
- Demand for non-bonded Grade A warehouses from cross-border e-commerce companies.
- Sanshui and Gaoming submarkets offer relatively low rents, accommodating overflow demand from Guangzhou.

Huizhou

- Relatively lower population density and rents compared to Shenzhen and Dongguan.
- Demand for Grade A warehouses mainly from local manufacturing enterprises, such as electronics and automotive companies.

Dongguan

- Added nearly 500,000 sqm of new supply in 2023, mostly in Machong submarket.
- Critical logistics and distribution hub in the GBA.
- Benefits from spillover demand from Shenzhen and local manufacturing resurgence.
- Machong market attracts food and beverage manufacturing companies with significant local warehousing needs.

Shenzhen

- Leading rents nationwide due to limited land resources.
- Consistent upgrades in logistics infrastructure by local government.
- New warehouse developments reaching up to 6 stories.
- Expects over 1.7 million sqm of new supply in the next three years, potentially easing rent pressure.

Western China

Xi'an

- Market stock of non-bonded Grade A warehouses of around 3.57 million sqm with a vacancy rate of 13.9%.
- High-end manufacturing industry, particularly NEVs, propelled demand.
- BYD's manufacturing factory continuously upgraded production capacity.

	Stock Mn sqm	Rent RMB psm pmth	Vacancy Rate
Xi'an	3.57	23.6	13.9%
Chengdu	5.87	22.8	6.9%
Chongqing	5.44	19.4	26.4%
Kunming	1.18	23.7	13.1%
Guiyang	0.80	25.9	9.4%

Source: Savills Research
NB: Some Xianyang projects are included in Xi'an figures;
Some Meishan & Deyang projects are included in Chengdu figures

Chengdu

- Resilient demand throughout the year with stable rents.
- Received approximately 250,000 sqm of new supply in 2023, marking a consistent decrease since 2020.
- Notable rebound in Chengdu economy driven by consumer spending resurgence.
- Steady growth in local logistics demand, especially from F&B and high-end manufacturing sectors.
- Anticipated low future supply expected to maintain market equilibrium.

Chongqing

- Slowed new supply growth in 2023 with a market stock of non-bonded Grade A warehouses exceeding 5.8 million sqm.
- Key hub city for inland opening-up, leveraging China-Europe Railway Express and New Western Land-sea Corridor.
- Attracted high-end manufacturing companies, including NEVs manufacturers, driving market demand.

Kunming

- Non-bonded Grade A warehouse market primarily serves local consumption and retailers, with market stock nearly 1.18 million sqm.
- Stable occupancy rate, though some developers reducing future rent expectations due to economic downturn.

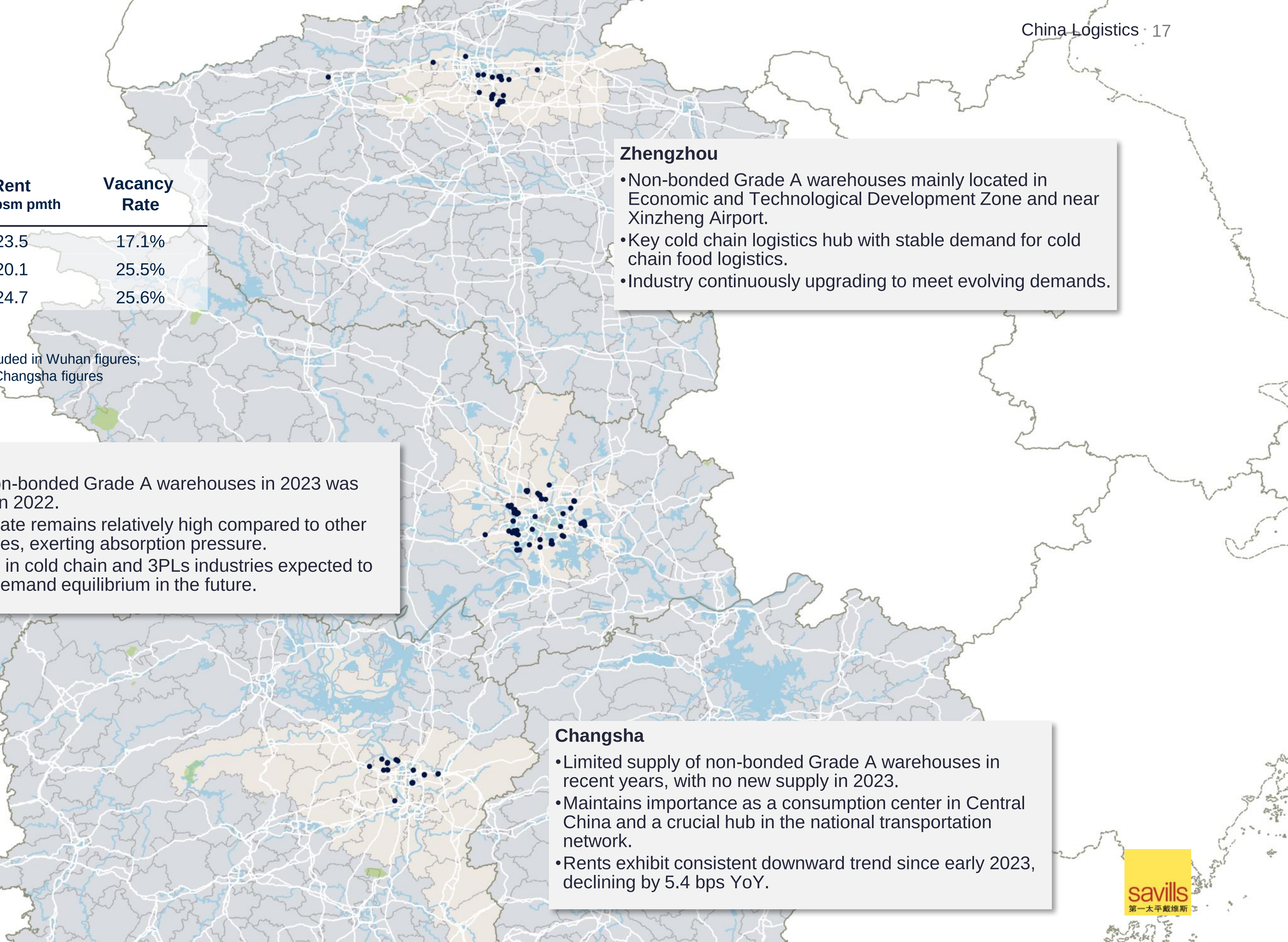
Guiyang

- Relatively small non-bonded Grade warehouse market at approximately 800,000 sqm.
- Future linked to big data industry, promoting technological innovation and integration of physical and digital economies.
- Expected to stimulate logistics development, enhance infrastructure, and improve service levels.

Central China

	Stock Mn sqm	Rent RMB psm pmth	Vacancy Rate
Zhengzhou	2.47	23.5	17.1%
Wuhan	6.30	20.1	25.5%
Changsha	1.68	24.7	25.6%

Source: Savills Research
NB: Some Xiaogan & Ezhou projects are included in Wuhan figures; Some Xiangtan projects are included in Changsha figures



Zhengzhou

- Non-bonded Grade A warehouses mainly located in Economic and Technological Development Zone and near Xinzheng Airport.
- Key cold chain logistics hub with stable demand for cold chain food logistics.
- Industry continuously upgrading to meet evolving demands.

Wuhan

- New supply of non-bonded Grade A warehouses in 2023 was one-third of that in 2022.
- Market vacancy rate remains relatively high compared to other Central China cities, exerting absorption pressure.
- Growing demand in cold chain and 3PLs industries expected to improve supply-demand equilibrium in the future.

Changsha

- Limited supply of non-bonded Grade A warehouses in recent years, with no new supply in 2023.
- Maintains importance as a consumption center in Central China and a crucial hub in the national transportation network.
- Rents exhibit consistent downward trend since early 2023, declining by 5.4 bps YoY.

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03
Investment Trends

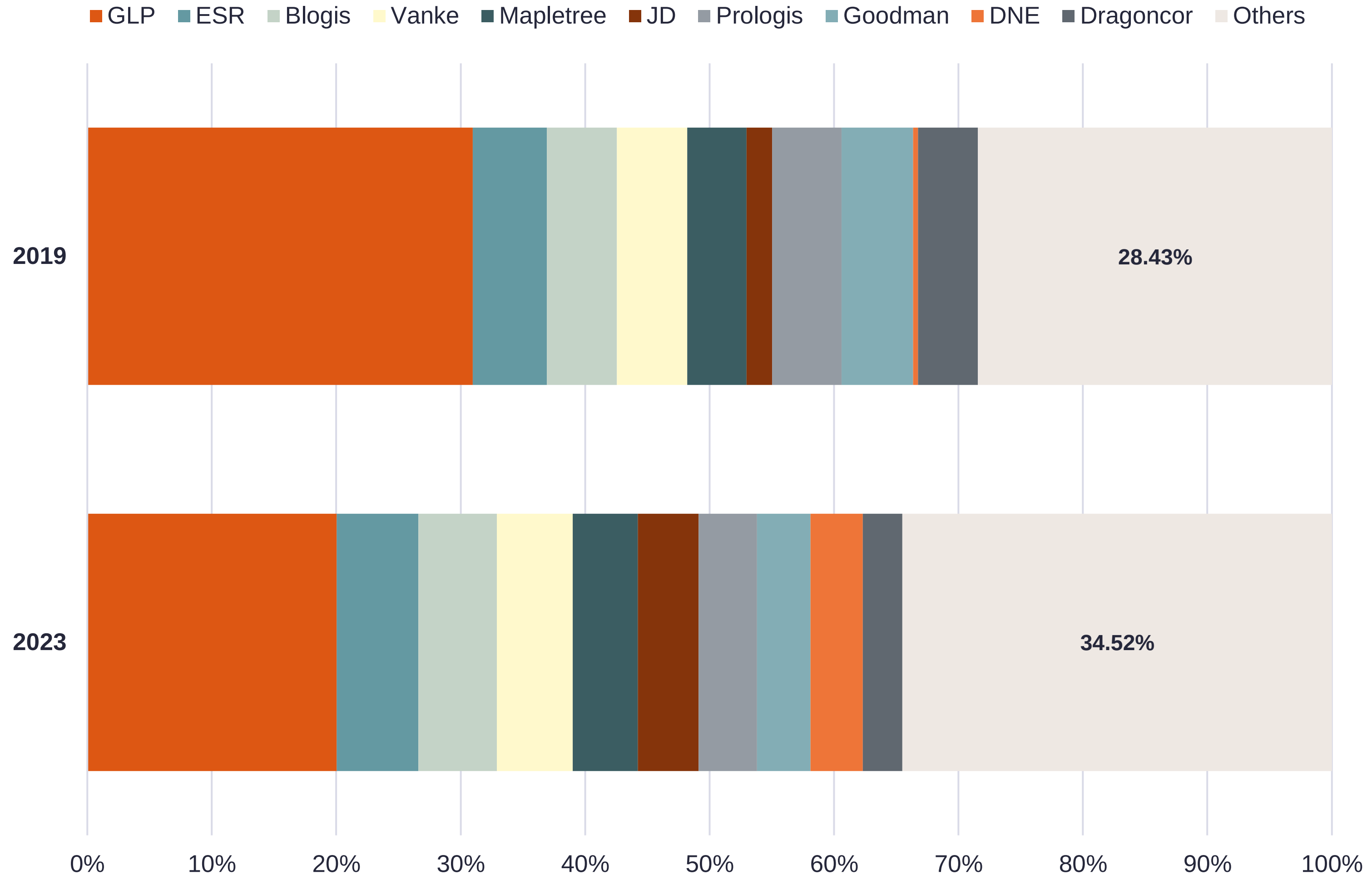
Strategic Shifts in Market Transition

Fierce competition leads to increasingly fragmented market

The market share of the top 10 developers in 2023 decreased from 71.6% in 2019 to 65.5%. Although GLP maintains its leading position in AUM, its market share has seen a decline over the past five years. Meanwhile, several other developers, including JD.com and DNE, are actively expanding their presence nationwide, indicating significant growth.

To sustain growth amidst intense competition, leading players are implementing strategic changes. Developers are moderating their expansion strategies due to limited land availability and a slowdown in demand. Simultaneously, they are constructing new projects with low-carbon footprint and intelligent automation configurations to enhance cost efficiencies.

Furthermore, developers are increasingly engaging in asset management agreements with equity partners. This asset-light approach allows developers to effectively secure tenants and reduce long-term vacancy rates.



Source: Savills Research

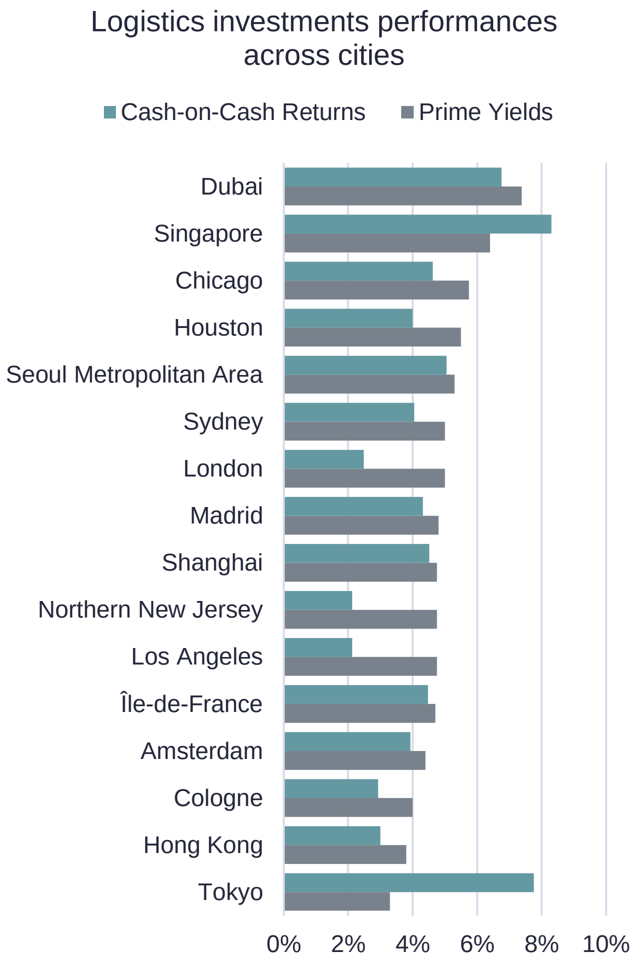
Note: Chart refers to for-lease non-bonded Grade A dry warehouse assets

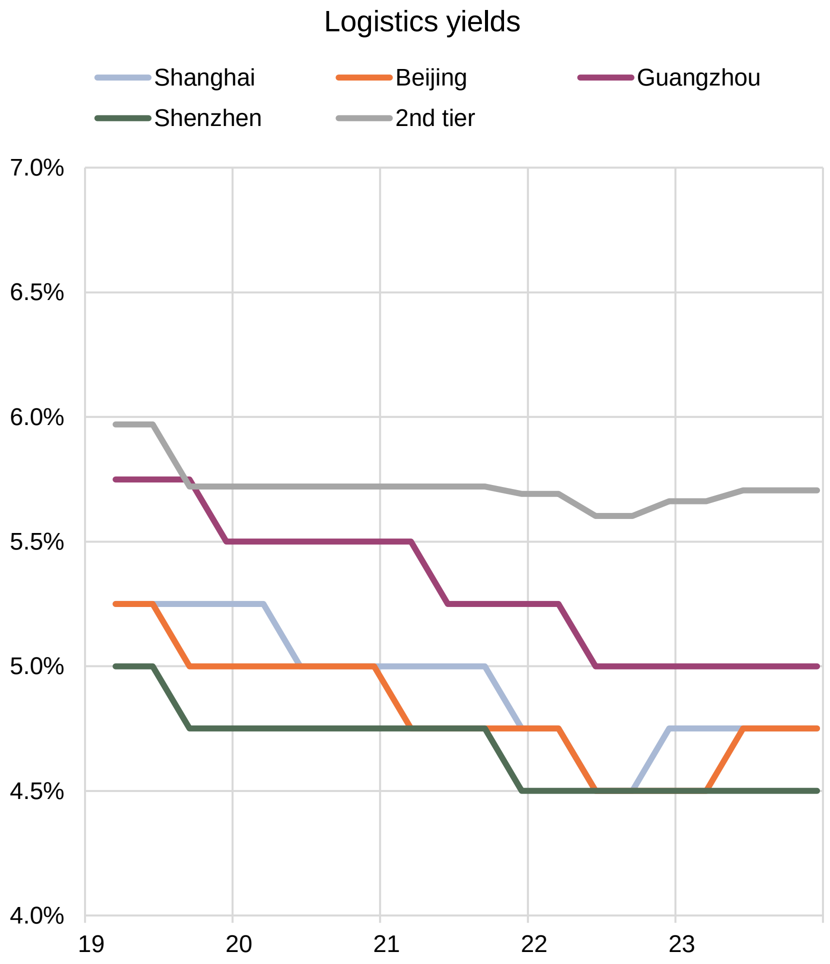
Yields climb amid weak fundamentals

First-tier cities continue to attract investors' attention

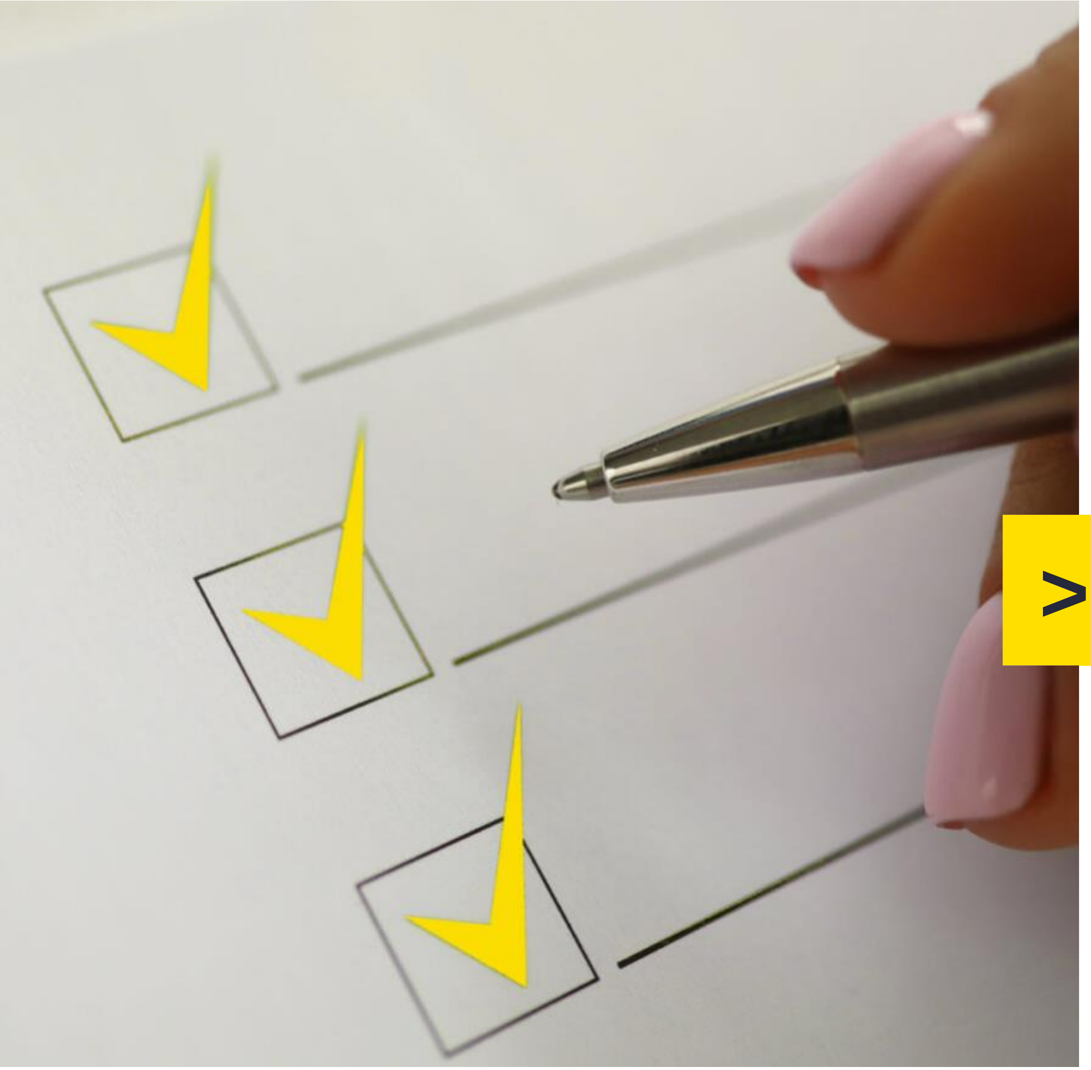
There has been a notable shift towards a more discerning investment approach within the logistics sector, characterized by rigorous evaluation of asset valuations and expected returns. Among key metropolitan areas, Shanghai stands out for its resilience in terms of both yields and Cash-on-Cash (CoC) returns despite prevailing market challenges.

Driven primarily by e-commerce promotions, China experienced a significant increase in express parcel volume in 2023. However, the decline in express delivery fares has compressed the profit margins of third-party logistics (3PL) companies. Consequently, some price-sensitive tenants opt to relocate away from Tier I cities. To maintain stable occupancy rates, certain developers have made concessions on rents, which further impacts the expected returns of assets.





Source: Savills Research



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04

Market Outlook

Market Outlook

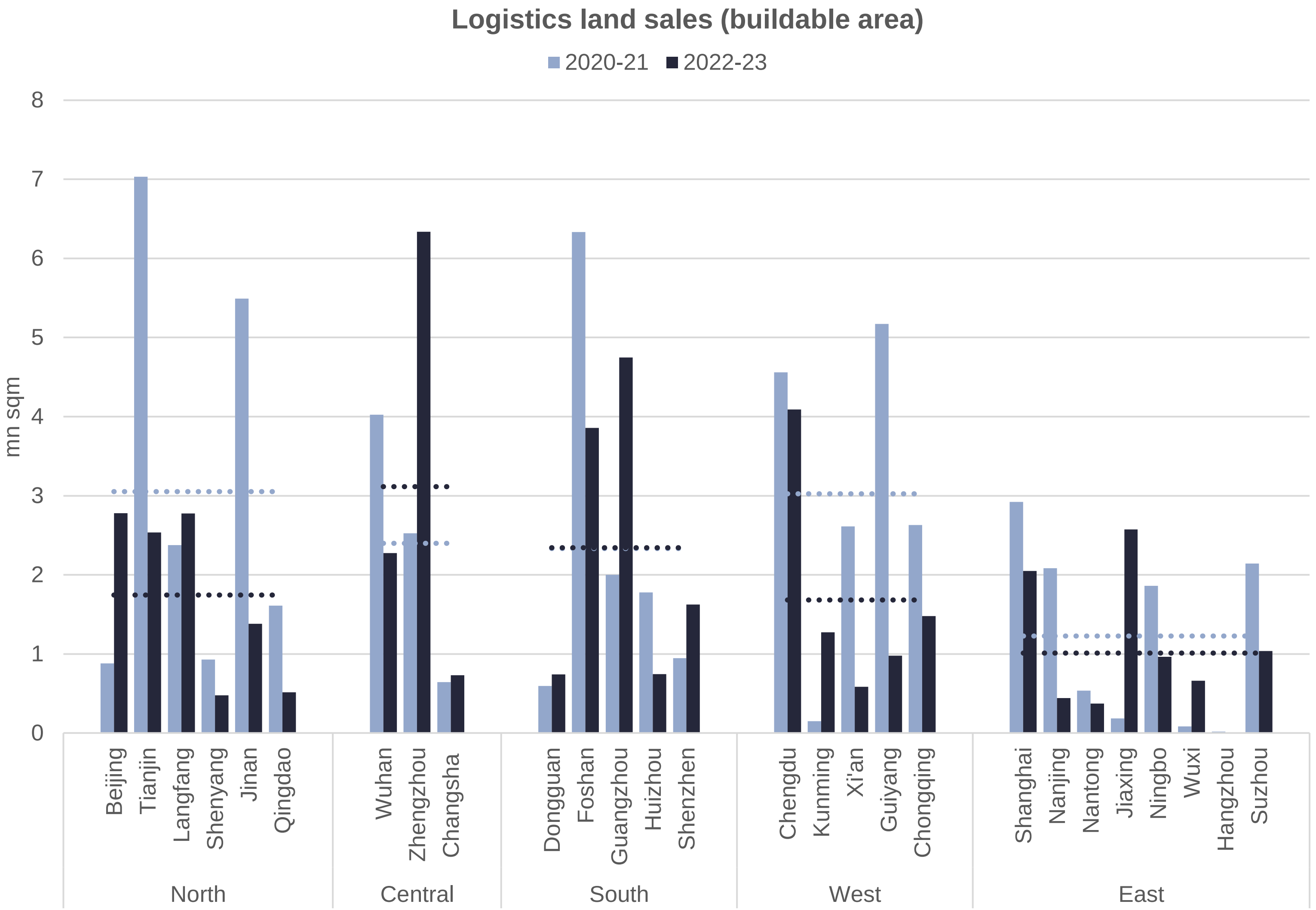
1

Long-term supply is expected to slow down

In certain markets, supply is expected to persist in the short term. However, due to limited logistics land availability and stricter government construction regulations, long-term supply levels are projected to gradually decrease.

Across the 31 cities monitored by Savills, the total planned building area for logistics in 2022-2023 has decreased by over 20% compared to the 2020-2021 level. Notable declines are evident in Northern and Western China markets. Similarly, the Eastern China market, except Jiaxing and Wuxi, also experienced supply slowdown to varying degrees. With an average construction period of 1-2 years, a reduction in logistics supply over the next 2 years is anticipated.

In 2024, the Chinese government is poised to continue stimulating domestic demand. As the market absorption capacity rebounds, more submarkets are expected to achieve long-term market equilibrium.



Source: Savills Research, CERIS

NB: Charts only include logistics land; Suzhou includes Suzhou proper, Kunshan, Taicang, Changshu and Zhangjiagang

Market Outlook

2

Intelligent Upgrades Persist

- Throughout 2023, a series of policies drove the intelligent transformation of modern logistics.
- The adoption of new technologies like AI large models is expected to enhance the digital transformation of warehouses, facilitating industry upgrades.

3

Investment Focus on Core Locations

- In 2023, logistics investors exhibited rationality in their investments.
- Some logistics assets seek buyers due to fund expiration and investment allocation adjustments, resulting in short-term selling pressure. However, assets in core areas remain attractive for long-term investment.

4

Return Logistics Drive Demand

- The expanding e-commerce sector has heightened the importance of reverse logistics management in reducing operational costs for logistics enterprises.
- Future demands from reverse logistics are expected to drive new requirements for warehouse facilities.

5

Self-built Warehouses Stimulate Upgrades

- Certain Chinese e-commerce companies have invested in self-built warehouses tailored to their supply chain needs, featuring comprehensive internal amenities.
- These developments are poised to indirectly prompt the replacement of outdated projects within the market.

6

Global Turbulence Influences Leasing Strategies

- Global challenges such as the Sino-US trade conflict, Panama Canal drought, and the Red Sea crisis impact international cargo transportation, leading to issues like rising tariffs, waterway blockages, and port congestions.
- The profitability of international trade companies may be affected, potentially influencing their warehouse leasing strategies to some extent.

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