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China Logistics

April 2022

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China’s Economy

China's Economy 2021

Economic insights and expectations

Economy

2021 has witnessed lockdowns in other parts of the world affected production output while stimulus packages boosted global demand for Chinese goods leading to exports surging to RMB21.7 trillion up 21.2% and the trade surplus to RMB4.4 trillion up 20.2%. 2022 is likely to see lower levels of export growth or indeed a contraction as production capacity in overseas markets recovers and stimulus-fuelled consumption abates.

In domestic markets retail sales grew to RMB44.1 trillion up 10.7% in real terms, meanwhile online retail sales of goods grew steadily to RMB10.8 trillion up 12.0%, and eCommerce penetration now stands at close to 25%. 2022 is likely to see slower consumption growth as slower economic growth and local covid outbreaks continue to cause disruption.The steady growth in online sales was mirrored in the number of courier parcels delivered, growing as they did by 29.9% to 108 billion for the year. an ongoing crackdown on tech firms and eCommerce giants is likely to impede growth rates in 2022.

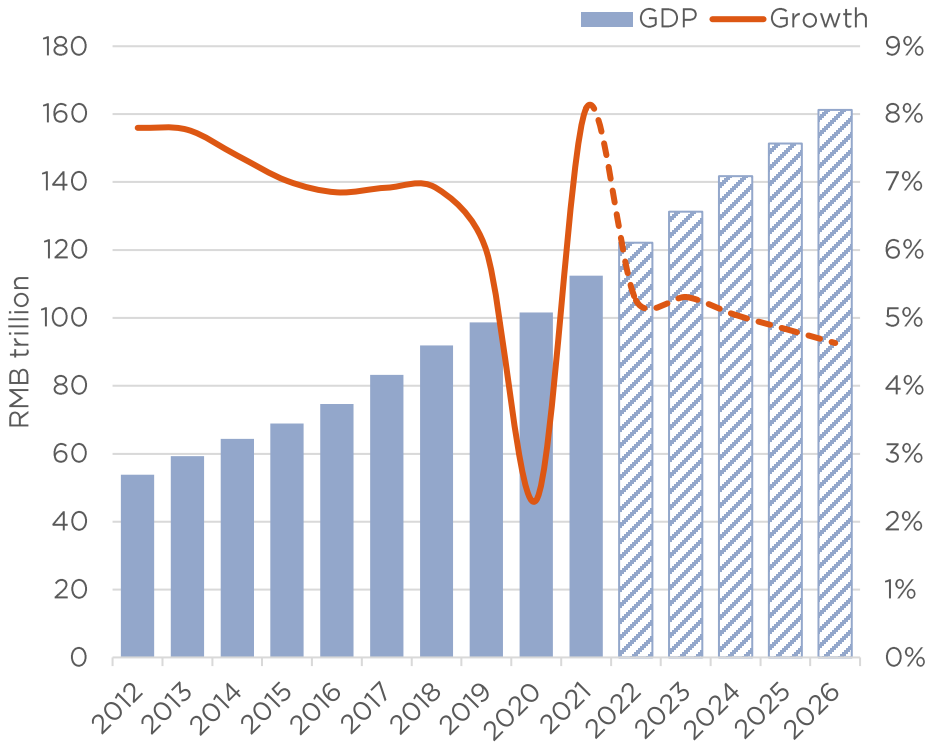
Policies

China has placed increasing emphasis on the development of the consumer markets over the last decade to start rebalancing the economy. This has been accelerated in recent years with initiatives such as common prosperity, dual circulation and international consumption cities, as a result, retail sales growth is expected to outperform GDP growth as a whole hopefully bringing China, household consumption as % of GDP level closer to developed economy levels of 60-70% from its 2020 level of 38.1%.

Part of the Dual Circulation strategy and Made in China 2025 is the continued development and upgrading of China's industrial sectors, reducing reliance on overseas markets and internalising supply chains, while also upgrading traditional sectors and expanding into new fields. As manufacturing in the developed east transitions to advanced, high-tech manufacturing more labour-intensive production will gradually shift to western regions, with Guiding Opinions on Promoting Orderly Transfer of Manufacturing issued in January 2022 outlining key objectives. It will be important to build out infrastructure links as production shifts further from consumption centres and trade with neighbouring countries continue to grow through agreements such as RECP and initiatives such as BRI.

A Jan 19, 2022 circular unveiled measures to advance the integrated development of domestic and foreign trade. Included in the document included reference to promoting integrated trade requires nurturing new business models, such as customer-to-manufacturer (C2M) production and smart factories backed by advanced information technology as well as the continued development of free trade ports and pilot free trade zones.

China GDP and GDP Growth Rate



Source: Focus Economics, Savills Research

China's Economy 2021

Economic insights and expectations

Feb 8, 2022 also saw the State Council approve a plan to set up cross-border e-commerce comprehensive pilot zones in 27 cities and regions.

Urbanisation

Urbanisation has been a significant driving force of the economy in preceding decades, while the continued pace of urbanisation is slowing, the appeal of key city clusters which provide job opportunities remains strong. The key economic clusters of YRD and GBA have seen the permanent populations grow over the decade to 2020 by 15.1% to 165 mn and 39.1% to 110 mn respectively.

While larger cities and clusters may promote greater efficiency they also soak consume vast amounts of resources that all need to shipped in from other parts of the country/world placing eve greater pressure on existing infrastructure.

Infrastructure, transportation capacity and costs

Low costs but also increasingly scale and speed have allowed China to dominate the global manufacturing sector over the last two decades. The growth in domestic consumption, shifting production locations and pandemic restrictions have however put China's infrastructure to the test.

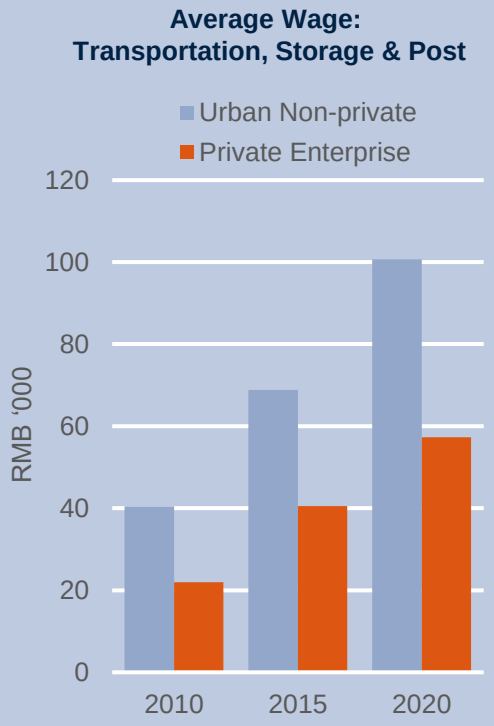
China already has one of the most developed expressway networks in the world 285,754 km of expressways and Class 1 highways (double that of a decade earlier), compared to the United States national highway system of 260,000 km.

Nevertheless increasing demands and bottlenecks upon existing infrastructure and underserviced parts of the country will continues to require additional development

Likewise, there are similar plans for continued expansion of the rail and airport networks for both passenger and freight in both rural and developed regions.

PropTech, automation and rising labour costs

While continued investment in infrastructure is likely to keep transportation costs in check, adoption of PropTech and increasing automation is key for keeping labour costs in check. Urban non-private wages in the Transportation, Storage & Post have increased from roughly RMB40,000 in 2010 to RMB100,00 in 2020 a 150% increase in the last decade. With raising living costs it is unlikely that this pace of growth will slow especially with negative publicity stories forcing firms to take better care of workers and pay ensure adequate compensation for their labour. The only way is to increase worker productivity by employing technological solutions, whether that be the automation of warehouse space, Simultaneous Localization and Mapping (SLAM), Robot as a Service (RaaS) or Wearable Devices. Or indeed in the broader supply chain in terms of Trunk line autopilot systems, drone delivery as well as adoption of blockchain and digital twins.



Source: NBS, NRA, CAAC, Savills Research

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Key region reviews

* Without further notice, rent in this section refers to face rent and project management fee, and is exclusive of tax.

National logistics trends

Future supply fuelled by policy and increasing demand

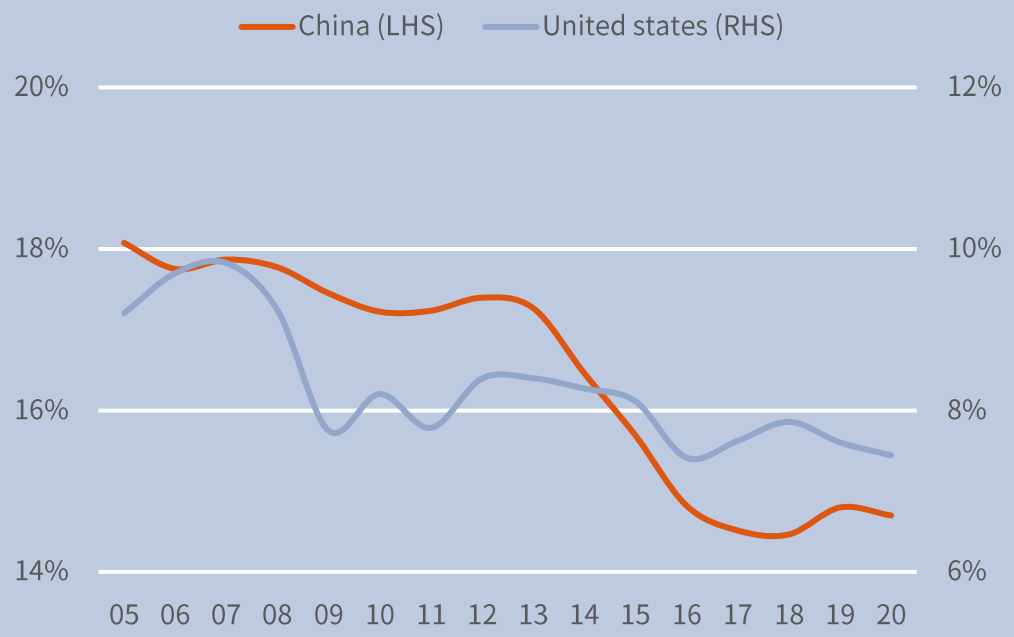
The logistics market has been a key focus of investors worldwide as they seek alternatives to the battered commercial markets as well as the higher yields offered by warehousing as well long-term growth drivers such as rising eCommerce penetration rates and the need to build redundancy into supply chains as we shift from “Just-in-Time” to “Just-in-Case”. China is experiencing similar demand drivers at the same time as possessing a significantly underinvested logistics network that was built over the last decades to support the exporting of goods to western markets, as new export markets open up, domestic consumption rises, product values increase, and consumers become more demanding the logistics market requires a significant injection of capital to facilitate the continued growth of the economy. The government realises this and is determined to support the expansion of the sector as well as infrastructure networks to realise its goal of boosting domestic consumption, boosting economic activity in underdeveloped regions and bridging the gap between rural and urban areas by reducing logistics costs and creating economic opportunities for consumer-focused SMEs.

The rollout of the new facilities has a more decidedly top-down approach and a long-term vision, the plan to develop 150 advanced logistics hubs by 2025, as well as the need to create 30 national and 70 regional key cold-chain logistics bases for agricultural products, both fit within a broader national strategic priority and are in coordination with other sectors of the economy, for example, the agricultural sector. They also identify the full range of functions of these locations from logistics hubs, backbone routes, regional distribution centres and final distribution nodes.

We have already seen a significant expansion in the number of participants over the last five years, though this could continue to increase in coming years before we start to see consolidation in the market. Eventual market leaders are adopting the latest property technology to automate facilities and reduce costs while also increasing efficiency and sustainability standards. They will look to establish a broad network of facilities and property subtypes to provide one-stop solutions to leading national retailers, 3PLs, and eCommerce platforms.

China still has a long way to go with an estimated 80 mn sqm of Grade A logistics facilities in a country of 1.4 bn equating to 0.06 sqm per capita, compared to 0.2 sqm in Japan, 0.8 sqm in the US and 1.3 sqm in Australia. At the same time, the cold chain segment is also undersupplied with just 0.152 cubic meters per urban capita compared to 0.571 m3 in the US and 0.312 m3 in India.

Logistics Cost as % of GDP

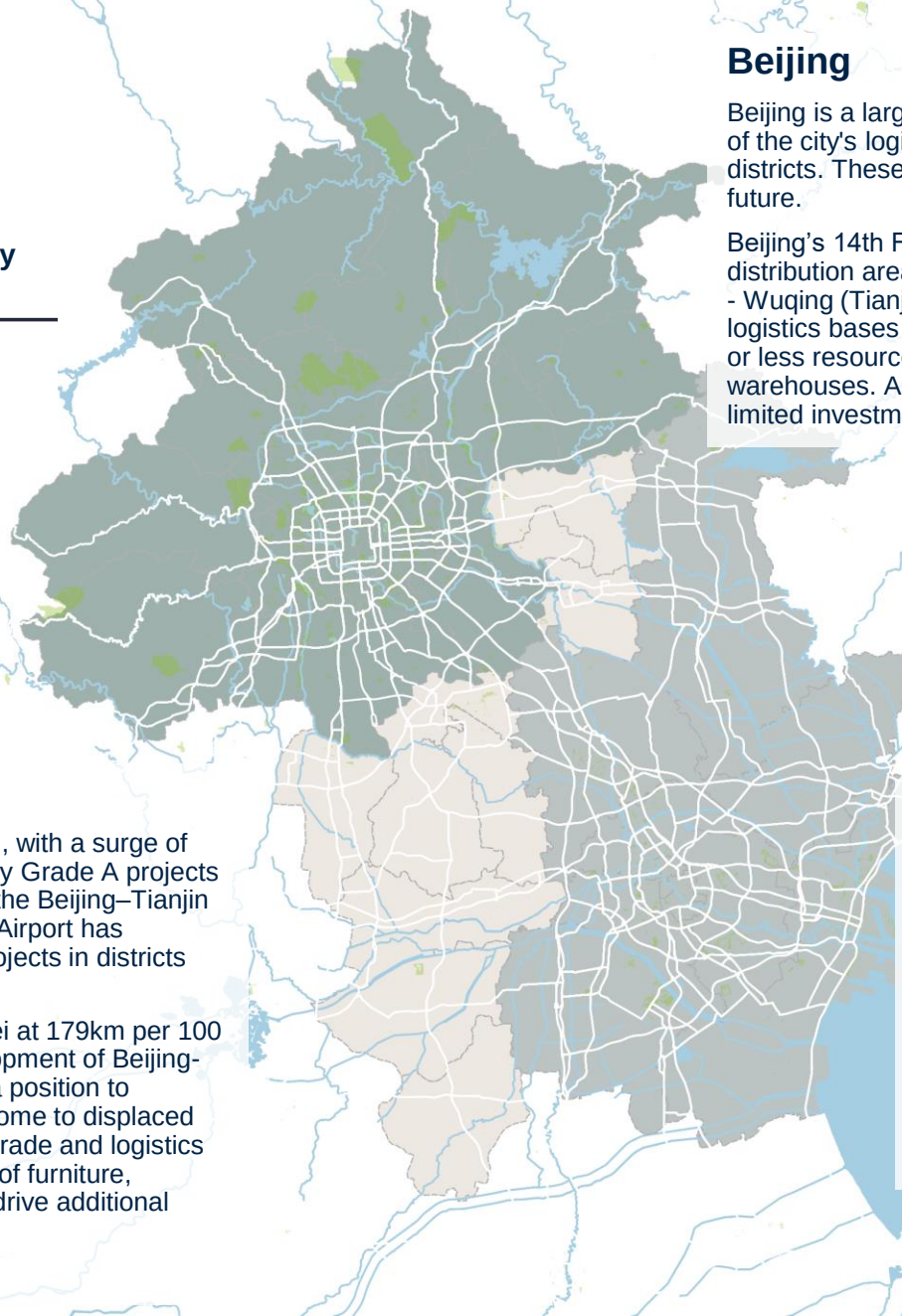


Source: World Bank, Savills Research

Greater Beijing

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Beijing	2.28	56.9	2%
Tianjin	4.83	34.7	22%
Langfang	1.83	40.1	42%

Source: Savills Research
NB: Langfang projects near Daxing airport are excluded from Langfang figures and included in Beijing figures.



Beijing

Beijing is a large consumer market but also functions as a distribution centre. 90% of the city's logistics projects are located in Shunyi, Tongzhou and Daxing districts. These areas will be further optimised to form key logistics hubs in the future.

Beijing's 14th Five-Year Plan and Vision for 2035 outlines plans to establish large distribution areas around Daxing International Airport and its neighbouring regions - Wuqing (Tianjin) and Zhuozhou (Hebei). Speed up the construction of two smart logistics bases in Changping Nankou and Fangshan Doudian, as well as greener or less resource-intensive facilities such as vertical warehousing and cloud warehouses. As the industrial logistics market attracts long-term capital with limited investment opportunities, developers also seek more M&A opportunities.

Langfang

Non-bonded Grade A stock stood at 1.83 million sqm, with a surge of supply doubling stock from a year earlier. Traditionally Grade A projects have focused on Guangyang and Anci districts near the Beijing–Tianjin expressway. The completion of Daxing International Airport has however attracted established developers to build projects in districts like Gu'an.

Langfang road network density is the highest in Hebei at 179km per 100 sq km by the end-2020. The national strategic development of Beijing-Tianjin-Hebei has meant that Langfang has been in a position to undertake many non-capital functions and become home to displaced industries. In addition to playing an important role in trade and logistics distribution for the region, Langfang's agglomeration of furniture, construction materials and other local industries will drive additional demand for warehouses.

Tianjin

Tianjin has 4.83 million sqm of non-bonded Grade A warehouse space, the largest in Northern China. The city received significant supply from 2019 to 2021 but remains overall relatively healthy. Stock is predominantly in Wuqing, Beichen, Dongli and Binhai districts close to the Beijing-Tianjin transit corridor. In recent years, authorities have tightened restricted logistics land sales while planning for 7 international and 10 regional logistics parks in the Tianjin Logistics masterplan (2019-2035).

Demand is mostly from e-commerce and manufacturing firms, while there is expected to be strong growth in demand from biomedicine, IT and petrochemical industries in the future.

Greater Shanghai

Suzhou

Suzhou's non-bonded Grade A warehouse stock totalled 6.85 million sqm, the largest in the country accounting for nearly a tenth of the national market. Besides Suzhou proper, the three county-level cities of Kunshan, Taicang and Changshu all have sizeable markets and mature infrastructure and are able to capture spillover demand from Shanghai and Suzhou. Demand is also enhanced by local industrial development.

Kunshan market saw large supply from 2015 to 2017, while demand was driven mainly by e-commerce and retail companies. Kunshan had the largest stock (2.44 million sqm) in the Greater Suzhou region in 2021. It is also better integrated with Shanghai and benefits from the Beijing-Shanghai railway and G2 highway. Hence, it is an optimal distribution choice for Shanghai despite the rising rental costs.

Suzhou proper and Changshu markets serve mostly local manufacturing. The latter is set to have 1.5 million sqm of supply in the next two years, becoming the main focus for development in the region. Some developers also seek to expand further north of Zhangjiagang.

Taicang market is mainly located near the port.

Huzhou

Huzhou's stock of non-bonded Grade A warehouses is 300,000 sqm, mostly in Zhili and Deqing.

Huzhou market spans the Greater Shanghai and Greater Hangzhou: Zhili connects Shanghai and Suzhou through the G50 highway while the Deqing submarket mainly receives spillover demand from northern Hangzhou. Some developers are also located in Nanxun (east Zhilli). With the opening of the Huzhou-Hangzhou highway, the main Grade A warehouse markets will be connected and Huzhou east and Hangzhou ties are strengthened.

Nantong

Nantong's stock is 800,000 sqm, mainly around the G15 expressway in Chongchuan and Haimen districts. The expansion of transportation networks allows the city to further integrate with the Greater Shanghai region.

Nantong has three pillar industries: 1) high-end textile; 2) marine engineering, and 3) electronic information, with three key emerging industries including intelligent equipment, new materials and NEV. Most Grade A warehouse tenants are textile enterprises. The low land development intensity in Nantong makes it attractive for large scale developments. Moreover, benefiting from the expansion of traffic networks, many cold chain service providers have set up their warehouses in the city to serve the YRD region.

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Shanghai	6.31	48.7	13%
Nantong	0.80	27.7	12%
Suzhou	6.85	37.2	8%
Huzhou	0.30	30.7	25%
Jiaxing	3.16	32.8	23%

Source: Savills Research
NB: Zhangjiagang projects are excluded from Suzhou figures;
Southern Huzhou projects are excluded from Huzhou figures

Shanghai

Shanghai recorded four en bloc logistics warehousing deals in 2021, including the two portfolios purchased by CapitaLand China Trust and Shenzhen International Holdings Limited for a total transaction value of RMB2.54 billion. While investments are active, investors are also cautious about their project choices.

Jinshan and Fengxian submarkets saw the majority of new projects in 2021. The overall vacancy rate rose 7.9 ppts in the final quarter to 13.0% due to the large influx of supply.

Jinshan and Qingpu are expected to receive a substantial supply of Grade A warehouses in 2022; while Fengxian and Jiading will also have new projects. The total supply for the year is expected to exceed one million sqm in 2022, a new supply peak for the city.

Jiaxing

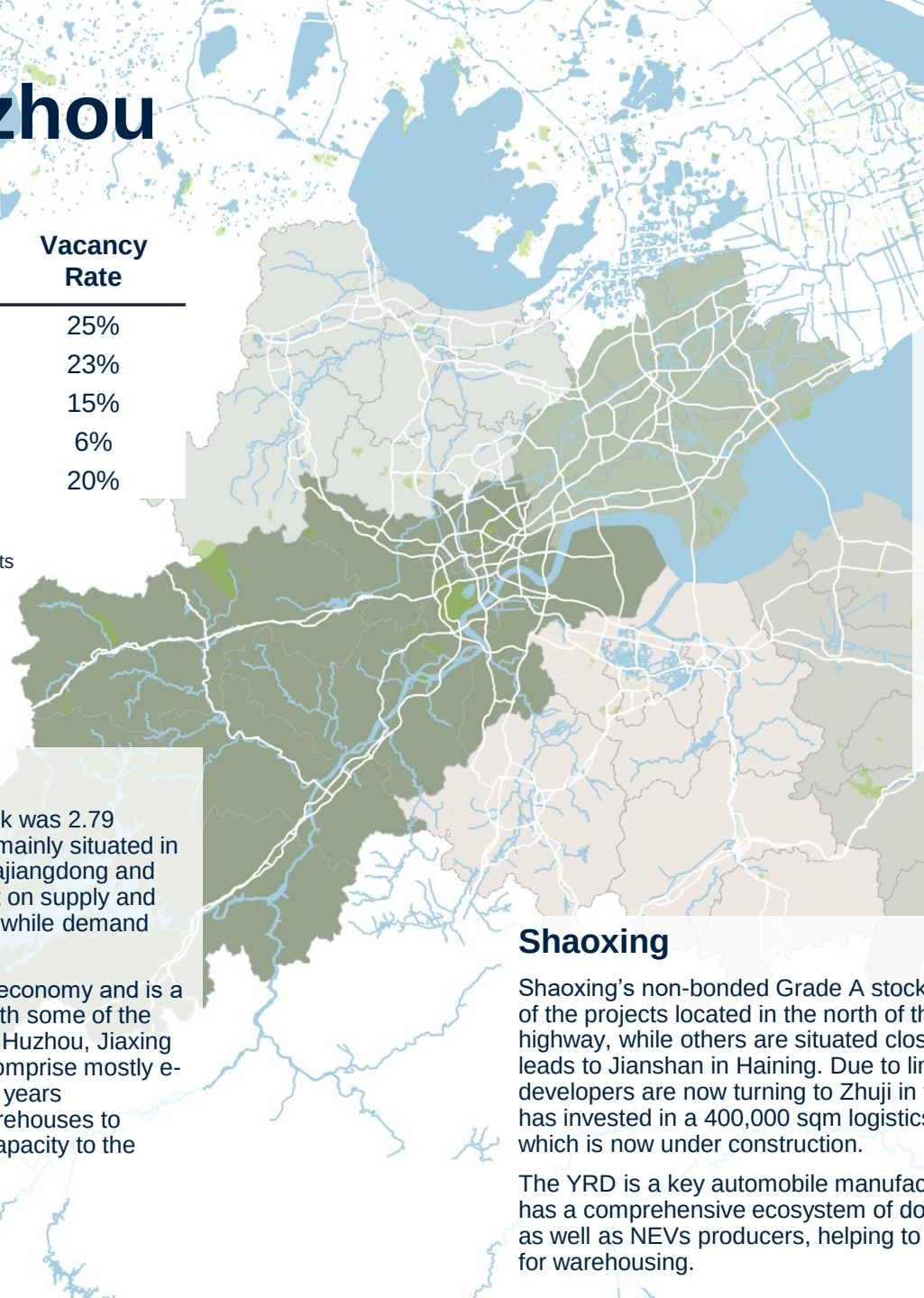
Jiaxing's stock stood at 3.16 million sqm by the end of 2021, with a supply peak starting in 2020 with Jiashan and Haiyan submarkets launching many projects in 2021. G60 and G92 highways are important thoroughfares connecting Shanghai and Hangzhou with most Grade A warehouses situated in along them. Additionally, there are some other projects located in Zhapu and Dashan port areas for shipping needs.

The manufacture of home appliances and other small goods is an important component of Jiaxing's economy, with these tenants being sensitive about inventory turnover. A surge in supply in recent years has made the leasing of the upper floors of multi-storey development challenging with tenants favouring street level access. Food processing is another major industry in Jiaxing. Many food manufacturers have set up factories and have helped drive demand for cold chain storage.

Greater Hangzhou

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Huzhou	0.30	30.7	25%
Jiaxing	3.16	32.8	23%
Ningbo	1.98	32.5	15%
Hangzhou	2.79	37.4	6%
Shaoxing	0.83	31.3	20%

Source: Savills Research
NB: Some southern Huzhou and northern Shaoxing projects are included in Hangzhou figures and by extension excluded from the Huzhou and Shaoxing figures



Ningbo

Ningbo's overall non-bonded Grade A stock is 1.98 million sqm, mainly located in Beilun, Yuyao and Cixi. Beilun serves port demand while Yuyao and Cixi connect with the G92 highway. With Qianwan New Area, in the geographic centre of Shanghai, Hangzhou and Ningbo, making it an ideal central distribution centre for the region.

Warehouse tenants are mainly couriers and 3PL providers. The city's traditional industries such as textile, kitchen and household appliances have relatively limited demand while emerging industries such as advanced equipment, new materials and automotive (R&D and manufacturing) have grown rapidly in recent years. Automakers in Ningbo such as Geely and SAIC Volkswagen now account for close to 50% of the province's output and have significantly boosted demand for warehousing.

Hangzhou

Hangzhou's overall non-bonded Grade A stock was 2.79 million sqm by the end of 2021, with projects mainly situated in Qiantang District and sub-markets such as Dajiangdong and Xiasha. Policies have had a significant impact on supply and demand, with industrial land supply restricted while demand fell due to rising costs.

E-commerce plays a vital role in Hangzhou's economy and is a key demand driver for the logistics industry with some of the demand spilling over to neighbouring cities of Huzhou, Jiaxing and Shaoxing. Grade A warehouse tenants comprise mostly e-commerce, 3PLs and delivery firms. In recent years eCommerce firms have built out their own warehouses to better control costs and will lease out spare capacity to the market.

Shaoxing

Shaoxing's non-bonded Grade A stock is 830,000 sqm, with most of the projects located in the north of the city along the G92 highway, while others are situated close to Jiashao Bridge, which leads to Jianshan in Haining. Due to limited logistics land, developers are now turning to Zhuji in the south of the city. DNE has invested in a 400,000 sqm logistics warehouse in the area which is now under construction.

The YRD is a key automobile manufacturer in China and Shaoxing has a comprehensive ecosystem of down and upstream industries as well as NEVs producers, helping to significantly boost demand for warehousing.

Greater Bay Area (Mainland)

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Guangzhou	2.02	42.4	3%
Shenzhen	0.49	61.2	0%
Dongguan	2.05	40.9	0%
Foshan	2.37	34.9	6%
Huizhou	1.01	35.1	8%
Zhongshan	0.28	30.4	3%
Jiangmen	0.46	29.8	2%
Zhaoqing	0.15	23.8	11%
Zhuhai	0.02	26.5	14%

Source: Savills Research
NB: Rent in GBA area refers to a lump sum cost of net effective rent, property management fee and tax.

Guangzhou-Foshan-Zhaoqing (GFZ)

GFZ's overall Grade A warehouse stock is 4.55 million sqm, accounting for 51.4% of the GBA. Over the last two decades, the highly developed transportation network and manufacturing expertise of Guangzhou and Foshan have made the region one of the most mature logistics centres in China, attracting firms from GBA and southern China more generally. Continued demand in 2021 has generated spillover demand for neighbouring cities like Zhaoqing.

Guangzhou continues to attract retailers to set up supply chain centres in the region given its traditional strength in apparel and textiles. Domestic developers and investors are looking at opportunities in Zhaoqing.

Zhuhai-Zhongshan-Jiangmen (ZZJ)

The ZZJ warehouse market is relatively small with only 760,000 sqm of stock by the end of 2021. Zhuhai remains largely driven by tourism while Zhongshan and Jiangmen are still dominated by traditional manufacturing industries whose demand for Grade A warehouses is limited. Most of the demand comes from 3PLs and e-commerce enterprises.

The region recorded an increase in investment activity in the second half of 2021. Investments are primarily executed based on the future development potential of GBA and the higher returns projected from the subsequent asset price appreciation.

Shenzhen-Dongguan-Huizhou (SDH)

SDH's Grade A warehouse stock is 3.54 million sqm, accounting for roughly 40% of GBA. Shenzhen stock is limited as a result of insufficient W1 industrial land supply. Shenzhen however continues to boast a growing population and expanding economy driving demand for products and warehousing. This demand has spilled over into Dongguan and Huizhou, especially from fresh food e-commerce and large 3PL firms.

The continued strength of the high-end manufacturing industry continues to drive rental demand in Dongguan with rent and capital value growth exceeding all other GBA cities in 2021 while yields are likely to continue compressing in 2022.

Western China

Xi'an

Xi'an's non-bonded Grade A stock is 3 million sqm, mainly located in the Airport New City and International Trade and Logistics Park. Covid outbreaks in the second half of 2021 reduced consumer demand and resulted in an increase in the vacancy rate towards the end of the year. However, as new supply is postponed and life returns to normal, we can expect to see vacancy rates falling and rents possibly picking up.

Modern logistics is strongly supported by the local government with initiatives such as the construction of Belt and Road trade and logistics centres and inland national logistics hubs that look set to boost supply and demand.

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Xi'an	3.00	24.0	18%
Chengdu	5.14	23.5	7%
Chongqing	5.00	21.4	25%
Kunming	1.12	28.0	17%
Guiyang	0.87	29.3	8%

Source: Savills Research
NB: Some Xianyang projects are included in Xi'an figures

Chengdu

Chengdu's non-bonded Grade A stock is about 5 million sqm, mainly situated in Longquanyi, Shuangliu and Qingbaijiang. The population has grown rapidly in the last decade reaching 20 million in the 2020 census and laying the foundations for a large consumer market and logistics demand. The 14th Five-Year Plan outlines further development of Chengdu's e-commerce market which will generate steady demand growth for logistics with the city's vacancy rate already falling to 7% in 2021.

Grade A supply is likely to slow in the future while sustained demand from the retail sector will boost the logistics market further.

Chongqing

Chongqing's non-bonded Grade A market saw more than 10 projects handed over in 2021. Strong manufacturing demand ensured the market remained stable despite the supply peak. Rental declines stabilized at RMB21.4 psm pmth, while the city vacancy rate fell to 25%.

The Chengdu-Chongqing twin city transportation development plan is expected to leverage the city's major logistics hubs and channels (4 ports, 1 national level airport economy demonstration zone, and three international logistics channels) boosting warehouse demand. Vacancy rates are likely to decline while rents will remain stable as future supply levels decline.

Kunming

Kunming logistics rents stood at RMB29 psm pmth by the end of 2021. Stable demand from manufacturing, retail and trade industries supported strong leasing activity in Chenggong and Guandu districts. The city's vacancy rate increased 10 ppts in the final quarter as a result of new supply, ending the year at 17%.

Kunming's 14th five-year plan envisages the city becoming an international logistics hub helping to accelerate the development of the Grade A warehouse market. The city is set to build five logistics regions:

- Taohua Village-Caopu (桃花村-草铺物流片区)
- Wangjiaying (经开区王家营物流片区)
- Linkong Airport (空港经济区临空物流片区)
- Jinning Qingshan (晋宁青山物流片区)
- Songming Yanglin (嵩明杨林物流片区)

Guiyang

The city's permanent population has grown rapidly to 6 million by the 2020 census, creating the firm foundations for a vibrant consumer base. Meanwhile continued investment in the city's industrial structure has attracted companies and promoted the development of the logistics industry.

Guiyang's future is tied to the big data industry, improving technological innovation and integration of real and digital economies, which will help to stimulate related logistics development and enhance logistics infrastructure and services.

Central China

	Stock Mn sq m	Average Rent RMB psm pmth	Vacancy Rate
Zhengzhou	1.49	32.2	15%
Wuhan	4.78	24.9	28%
Changsha	1.37	25.2	8%

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

Zhengzhou

Zhengzhou's non-bonded Grade A warehouse stock is 1.49 million sqm, mainly in the Economic Technology & Development Zone and near the Xinzheng Airport. The city's mature infrastructure and high rents have attracted many potential developers. Henan remains a major hub for apparel and textile, food processing and automobile production generating the majority of demand for warehousing while industrial upgrading is generating new demand for smarter logistics facilities, as well as more cold chain and central kitchen facilities.

Xinzheng Airport is one of the eight major airport hubs and the fourth largest cargo airport in China. 90% of China's population can be reached within a two-hour flight, while 30% can be reached up a two-hour train journey. Additionally, China-Europe train freight volumes have remained resilient during the pandemic, reaching a record high in 2020.

Wuhan

Wuhan, listed in the 14th Five-year Plan (FYP) in the first batch of the national logistics hubs, is critically important to the national network. Wuhan's NDRC subsequently released the city's industrial map clearly outlining logistic functions in each area.

The market was greatly impacted by the 2020 pandemic with supply delayed, resulting in a supply peak of one million sqm in 2021 pushing city stock to 4.78 million sqm by the end of 2021 the largest in Central China. Dongxihu and Huangpi District lead the market in rents due to their airport advantages.

400,000 sqm of new supply is set to enter the market in 2022, pushing the stock to over five million sqm. The 14th FYP for the Development of Modern Logistics Industry in Hubei Province envisages Wuhan taking a leading role in integrating emergency response, cold chain, delivery and intermodal transfer functions.

Changsha

Changsha's non-bonded Grade A warehouse stock is 1.37 million sqm, mainly in Wangcheng, Jinxia, and High-tech zone in the northwest of the city, the area surrounding the airport in the east, and Yuhua in the southeast. The city's Grade A warehouse stock doubled in 2020 with a surge of new completions. Changsha is a city of entertainment and a key consumption centre, this in addition to its central location connecting east and west, as well as north and south will continue to drive demand for Grade A warehouse space.

Aside from Changsha, developers are also exploring opportunities in Zhuzhou and Xiangtan. 3PL, courier firms and fresh grocery sectors continue to drive demand.

3

Hot Markets

* Rents in this section refer to face rent inclusive of PM fees but excluding tax unless otherwise stated.

Langfang

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
1.83	1,072,000	40.1	42%

Source: Savills Research

Policy & Market Trends

- Non-capital function opportunities

New logistics land is scarce in Beijing, but tenant demand is considerable. Langfang is seizing the opportunity presented by the Beijing-Tianjin-Hebei development to capture non-capital functions. Its comprehensive transportation network and proximity to Daxing airport will help serve Beijing, Tianjin & Xiong'an.

- Logistics industry layout

Sanhe, Dachang, and Xianghe will focus on fulfilling 30-min-services to Beijing's sub-city centres; the central region will focus on Daxing airport servicing airport freight. The southern area will focus on manufacturers and e-commerce platforms with a strong manufacturing base.

- Cultivation of multi-industry clusters

Langfang is actively building up infrastructure to support its multi-industry clusters. It aims to promote and adopt emerging technologies and support local logistics service providers with global procurement and distribution capabilities. The city is also developing standardized cold chain logistics to form the 60-min-services to Beijing.

Supply, Absorption & Vacancy 2021

The Grade A warehouse market supply exceeded one million sqm in 2021, doubling its previous stock. Most new supply is located in traditional logistics areas such as Anci, Gu'an and the High-tech Industrial Development Zone with about 60% of the supply developed by ESR or DNE Group.

The market was fully occupied before 2020 as a result of insufficient supply; however, with the plan to relieve Beijing of non-capital functions, the potential for spillover opportunity ushered in a spate of new developments in 2021 pushing Langfang's vacancy rate to a new high.

The Grade A warehouse vacancy rate hit 42% by Q4/2021, putting significant pressure on the market, though demand is expected to swiftly absorb a large chunk of vacant stock. Local non-bonded warehouse space is primarily occupied by e-commerce, retail, delivery and 3PL firms. Data service companies such as GDS have also leased Grade A warehouses in the past.

City Snapshot:

Langfang, a central and fast-developing area of the Jing-Jin-Ji, has seen a surge in interest in recent years for the development of advanced industrial clusters.

Traditional Grade A warehouses are in Guangyang and Anci, near the Beijing-Tianjin expressway. Leading logistics developers have more recently built up a presence around the new Daxing International Airport, such as in Gu'an.

Tenant Profile

3PL 57%	**E-commerce** 20%
Manufacturing 6%	**Retail** 6%
Others 11%	

Estimated by local brokers

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Suzhou

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
6.85	973,000	37.2	8%

Source: Savills Research

Policy & Market Trends

- Modern logistics hub

The city is stepping up efforts to build an integrated trade and logistics system in Taicang Port, support Changshu to build the pre-eminent fashion supply chain hub in the Yangtze River Delta and make Zhangjiagang into a national demonstration city for supply chain innovation.

- Modern trade circulation system improved

Promote sustainable distribution; expand urban delivery hubs and innovative organisations. Accelerate the digital transformation and upgrading of large logistic bases and improve 3PL efficiency.

- Active investment market

Due to the ongoing pandemic and economic headwinds, investment in traditional commercial assets has slowed with investors shifting their target to the logistics sector. As first-tier city logistics yields fall, markets like Suzhou with proximity to Shanghai and clear demand drivers will increasingly come into the spotlight.

Supply, Absorption & Vacancy 2021

Suzhou had over one million sqm of supply in 2021. The city proper (250,000 sqm) was mostly located in Xiangcheng, Wujiang and New District; Taicang (250,000 sqm) was mainly in Liuhe and Taicang Port and Changshu (250,000 sqm) in Zhitang Town. While Zhangjiagang and Kunshan both received roughly 150,000 sqm.

Take up for the year was equivalent to 460,000 sqm with demand coming from urban distribution, industrial manufacturing and 3PL.

The city property and Kunshan managed to maintain a vacancy rate of roughly 5% in 2020-2021. Brands are active, securing customized space and large leases. Global brands such as Adidas and L'Oréal have over 100,000 sqm of customised warehouse space.

City Snapshot:

Suzhou has the largest non-bonded Grade A warehouse stock in China, accounting for one-tenth of the nation.

The satellite cities of Kunshan, Taicang and Changshu, located near the border of Shanghai, are continuing to expand. The momentum has been supported by mature infrastructure, proximity to large consumer markets in Shanghai and Suzhou, as well as a vibrant local manufacturing base.

Tenant Profile

3PL 45%	**E-commerce & Retail** 40%
Manufacturing & Others 15%	

Estimated by local brokers

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Jiaxing

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
3.16	645,000	32.8	23%

Source: Savills Research

Policy & Market Trends

- Renovation of Jiaxing airport

The RMB12 bn investment by YTO Express to build a logistics hub by Jiaxing airport emphasizes the importance of the region and will also mean that the airport is likely to mainly handle cargo in the future. Leather, wool and electronic information products will benefit from this investment.

- Strong ties with Shanghai, Hangzhou, Suzhou & Ningbo

Jiaxing will further strengthen ties with neighbouring cities assisting in the development of the tech and other industrial sectors. With Shanghai strengthening partnerships with Caohejing and Zhangjiang groups, Hangzhou forming stronger links across the border, in Suzhou's SIP strengthening the electronic information and biomedicine industrial chain, the marine economy including port logistics will be enhanced through working with Ningbo.

- Promotion of bonded warehouse market

Corporates and investment firms will explore opportunities in the bonded warehouse market while greater collaboration between Jiaxing Comprehensive Bonded Area and Shanghai Waigaoqiao supports the expansion of the bonded warehousing and logistics, bonded processing, and more.

Supply, Absorption & Vacancy 2021

645,000 sqm of new supply was launched in 2021, down from a peak in 2020. New projects were mainly situated in the south in the submarkets of Haiyan, Haining and Jianshan.

The recent surge in supply has left tenants spoilt for choice, with tenants, especially smaller firms with high turnover select single-storey development or the first floor of multi-storey development while upper floors are leased at a steeper discount.

The vacancy rate in Q4/21 was about 23%; tenants are mostly e-commerce and regional delivery centres from the manufacturing sector as well as some spillover demand from Shanghai and Hangzhou. The vacancy rate is likely to drop as the new supply slows and daily goods demand rises.

Food processing is an important industry in Jiaxing where manufacturers like Hormel and Mars have built their plants. Demand for cold chain storage remains strong with occupancy rates higher than in most Yangtze River Delta cities.

City Snapshot:

Located in between Shanghai, Hangzhou and Taihu, Jiaxing recorded a surge in supply from 2020, with developers looking to capture spillover demand from neighbouring cities as well as from local retail and food production industries.

Projects are typically located alongside G60 and G92 highways as well as some near Zhapu and Dushan ports.

Tenant Profile

3PL 35%	**E-commerce** 20%
Manufacturing 20%	**Retail** 18%
Others 7%	

Estimated by local brokers

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Dongguan

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
2.05	0	40.9	0%

Source: Savills Research
Note: Rent refers to a lump sum cost of net effective rent, property management fee, and tax.

Policy & Market Trends

- Supply and cold chain innovation

Key projects in Dongguan include the Hong Kong-Dongguan International Airport Logistics Centre, Alibaba's cross-border retail centre, Cainiao smart logistics project, JD Asia No.1 and SF Express Smart Supply Chain Innovation Headquarters.

Accelerate the development of food import and distribution centres and cross-border cooperation while establishing national key cold chain logistics base construction.

- Smart logistics application

Improve management, integration and registration procedures to improve output and efficiency. Encourage new technologies and innovation; improve standardization and traceability and supervised based on credits. Adopt Smart applications in parks and warehousing facilities.

- Overall planning for Dongguan Port

Dongguan Port has established a firm base in coal and grain transport, a petrochemical park (Lisha Island) and an international logistics park (Xidatan) mainly for containers and bonded parks.

Supply, Absorption & Vacancy 2021

No new supply was added to the non-bonded Grade A warehouse market in 2021. The overall stock remains at 2.05 million sqm. The potential for infrastructure improvement and industrial development has brought significant inward migration and attracted more industrial firms to establish operations in the city. The growth of the city's business activity has driven demand for quality warehouse space to all-time highs and vacancy rates down to frictional levels especially given the relatively limited supply in recent years.

Livestreaming e-commerce, fresh food retail and 3PL firms are new rapidly growing sources of demand in the non-bonded logistics market. 3PL and e-commerce firms account for 55% of tenant stock.

City Snapshot:

Dongguan, situated between Guangzhou and Shenzhen, has unbeatable infrastructure. As a transportation hub, the city has numerous connections to surrounding regions and its highway network is still expanding, including the recent completion of the Dongguan Expressway and Nanshan Bridge.

Dongguan has a solid industrial foundation and population growth as well as a vibrant logistics market.

Tenant Profile

3PL & E-commerce 55%	**Retail** 10%
Manufacturing 30%	**Others** 5%

Estimated by local brokers

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Chengdu

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
5.14	**377,000**	**23.5**	**7%**

Source: Savills Research

Policy & Market Trends

- Population hit 20 mn

Chengdu's population surged to over 20 million people according to the 2020 national census, after having recorded the third-fastest growth over the last decade. The expanding population will continue to support consumer services and product demand.

- Significant drop in land supply

Logistics and warehousing land supply are declining, falling 40% in 2020 to 1.21 million sqm and then an additional 20% in 2021 to 965,000 sqm. As this follows through into the completion of new projects, the supply of Grade A warehouse space is expected to slow in the coming year supporting higher occupancy and rental growth.

- Dual international airports

Chengdu added a second international airport with the completion of Chengdu Tianfu International Airport in June 2021. Additionally, with the approval of the Chengdu International Railway Port Economic Development Zone, foreign trade channels have been further enhanced.

Supply, Absorption & Vacancy 2021

Chengdu recorded steady new supply in 2021 with a majority of projects located in Qingbaijiang District. The city's Grade A warehouse stock currently totals five million sqm the third-largest in the country, after Shanghai and Suzhou.

The steady growth of the retail and e-commerce industries continues to support demand and pushed the overall vacancy rates down to a multi-year low of 7%.

On the back of population growth and changing consumption patterns, fresh food e-commerce and the 3PL operators continued to expand in 2021. E-commerce and 3PL tenants have taken up 25% and 42% of Grade A warehouses, respectively. Demands from manufacturing industries like auto parts are also rising.

City Snapshot:

Chengdu's permanent population has grown rapidly in the past decade, hitting over 20 million in 2020. the expanding population base and rising prosperity lay the foundation for a strong consumer market and demand for warehousing.

Chengdu will further enlarge the e-commerce sector during the 14th Five-Year Plan period and promote the stable development of e-commerce logistics.

Tenant Profile

3PL **42%**	**E-commerce** **25%**
Manufacturing **15%**	**Retail** **13%**
Others **5%**	

Estimated by local brokers

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Wuhan

Stock	Supply	Average Rent	Vacancy Rate
Mn sq m	Sq m	RMB psm pmth	
4.78	**944,000**	**24.9**	**28%**

Source: Savills Research

Policy & Market Trends

- Cold chain is heating up

  The pandemic has accelerated the cold chain logistics market. A three-year campaign launched by the Hubei government in 2020 includes the development of three key national cold chain logistics bases in Wuhan, Yichang and Ezhou, adding an additional cold chain capacity of 700,000 tons. Wuhan later launched a plan to boost efficiency and cut logistics costs, by building and renovating multi-functional public refrigerators that can handle over 300,000 tons as well as adding over 500 standard refrigerator vans to support the delivery network.

- Multi-storey development trend

  As logistics land supply becomes scarce and land costs increase for developers, Wuhan planning authorities have issued policies to encourage multi-storey industrial and logistics projects.

Supply, Absorption & Vacancy 2021

Wuhan Grade A warehouse supply totalled 944,000 sqm in 2021, a ten-year peak. Over 20% of the new supply was located in the Airport Economic Development Zone, strengthening air logistics and maintaining its position as the most expensive submarket in the city.

The recent pandemic has boosted demand for live streaming, fresh food retail and cold chain logistics and the demand for 3PL and e-commerce services has grown. Net take-up totalled 439,000 sqm in 2021, up 35.9% YoY, though an excess of supply pushed the citywide vacancy rate up 6.2 ppts YoY to 28.2%.

Submarket performance continues to diverge with the Airport Economic Development Zone rents commanding average rents of RMB33.0 psm pmth while Gedian and Xiaogan are only able to achieve RMB15-20 psm pmth.

City Snapshot:

Wuhan was recognised as the largest transportation hub in the inland region and ranked seventh nationally in the latest edition of the “Competitiveness of City Logistics in China”.

The city is situated at the centre of five national city clusters and plays a vital role in national logistics.

Tenant Profile

3PL **54%**	**E-commerce** **14%**
Manufacturing **11%**	**Retail** **9%**
Others **12%**	

Estimated by local brokers

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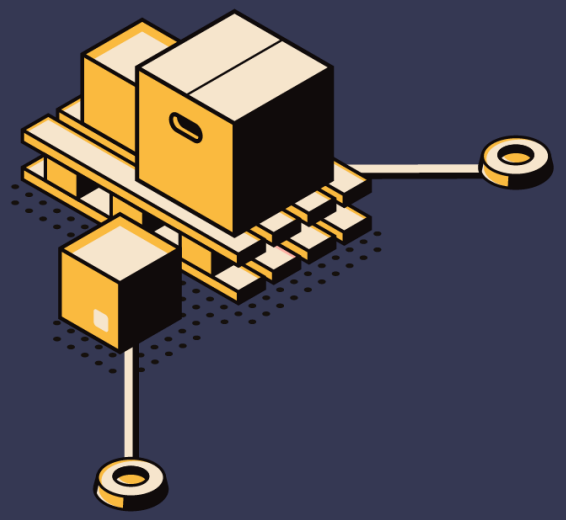
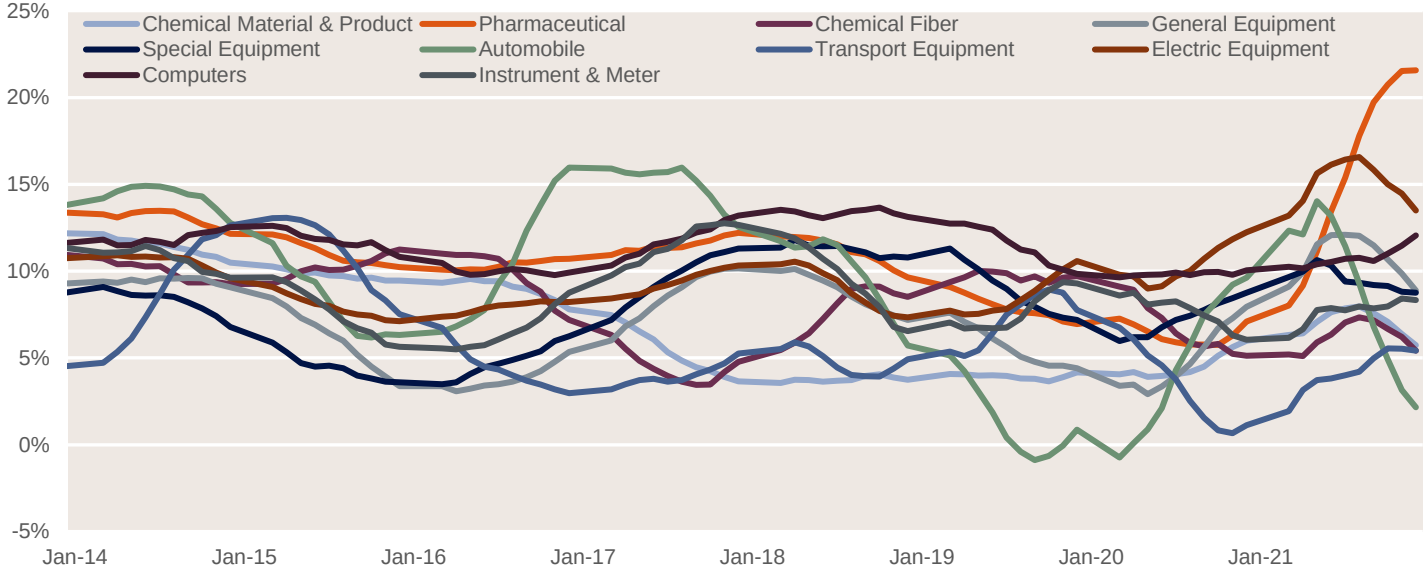


Manufacturing sector

Manufacturing sector

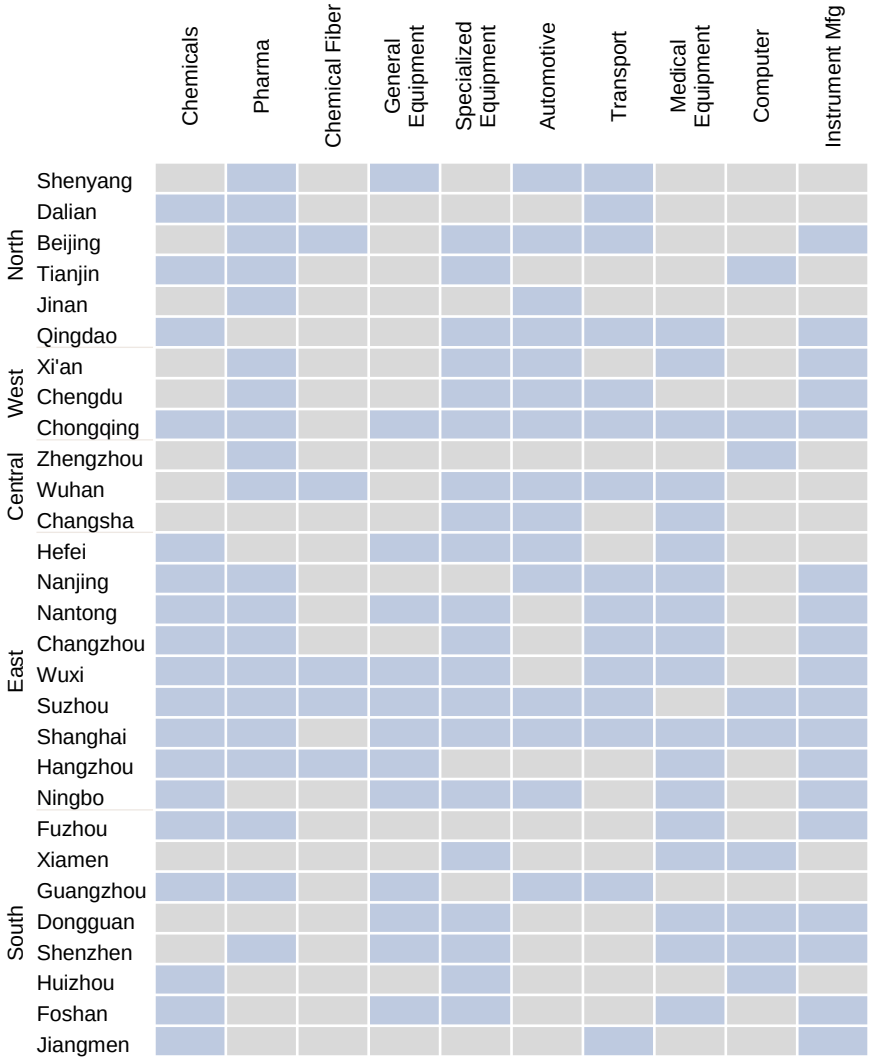
Value-added of Industry, YoY Real growth rates



The manufacturing sector is a critical component of China's long-term economic strategy, with the leadership looking to retain the country's manufacturing prowess and know-how. While some low value-add industries might be transferred to other countries or western provinces, eastern provinces will focus on advanced manufacturing and new economy sectors in combination with R&D facilities focusing on medical appliances and pharmaceuticals, new energy vehicles and renewable energy generation, not only building self-reliance but also helping to set the standards in new technologies.

The value add from manufacturing in China stood at 26.2% of GDP in 2020, down 5.4ppts compared to a decade earlier. The decline over the last decade had been largely from growth in the services sector but still higher than many large economies US (10.9%, 2019) and UK (8.6%, 2020), though just above developed Asian neighbours Japan (20.3%, 2019) and Korea (24.8%, 2020).

Industry Focus



Source: NBS, Savills Research

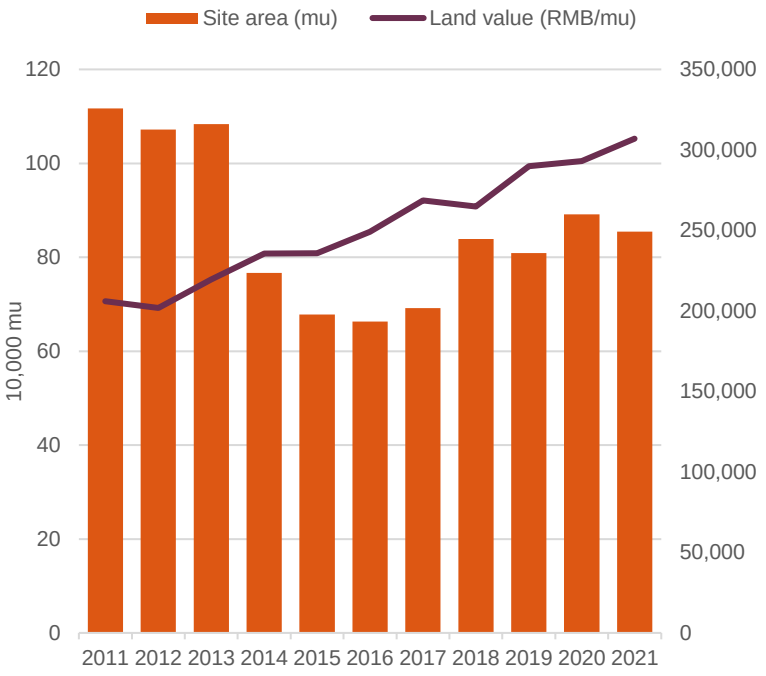
Industrial land

Sales volumes remain stable in major cities

Despite a gradual transition to the services sector, manufacturing remains a cornerstone of the Chinese economy, the business community and the labour pool, despite trade tension, debt crises and supply-side reforms the sale of industrial land has remained relatively resilient, initially falling to 600,000-700,000 mu in 2014-2017, and then recovering to 800,000-900,000 mu from 2018-2021. Meanwhile, land prices have reached all-time highs of RMB307,000 per mu, up almost 50% from a decade earlier with most of that increase coming from an increase in plot ratios, which rose from 1.07 to 1.58 over the same period. The total buildable area for land sales in 2021 reached 898 million sqm. Average accommodation values, therefore, remained relatively stable and stood at RMB291 per sqm in 2021.

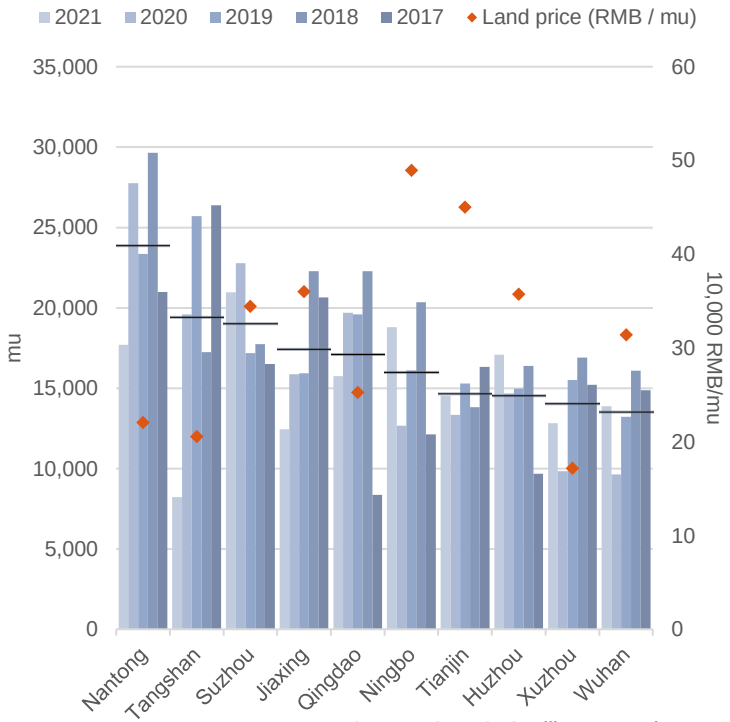
Most land sales still tend to focus on the key economic regions of the YRD and Bohai region, with markets such as Nantong, Suzhou, Jiaxing and Ningbo in the YRD and Tangshan, Qingdao and Tianjin in the north. While GBA markets did not see as much land being sold, their higher plot ratios – Guangzhou (3.3), Huzhou (2.7), and Foshan (3.1) mean that ranked by buildable area some make the top 10 cities while also demanding higher land prices than many other regions.

300 city industrial land sales volumes and price



Source: CREIS, Savills Research

Top 10 Industrial Land Sales Cities



Source: CREIS, Savills Research

Tax contributions and investment thresholds

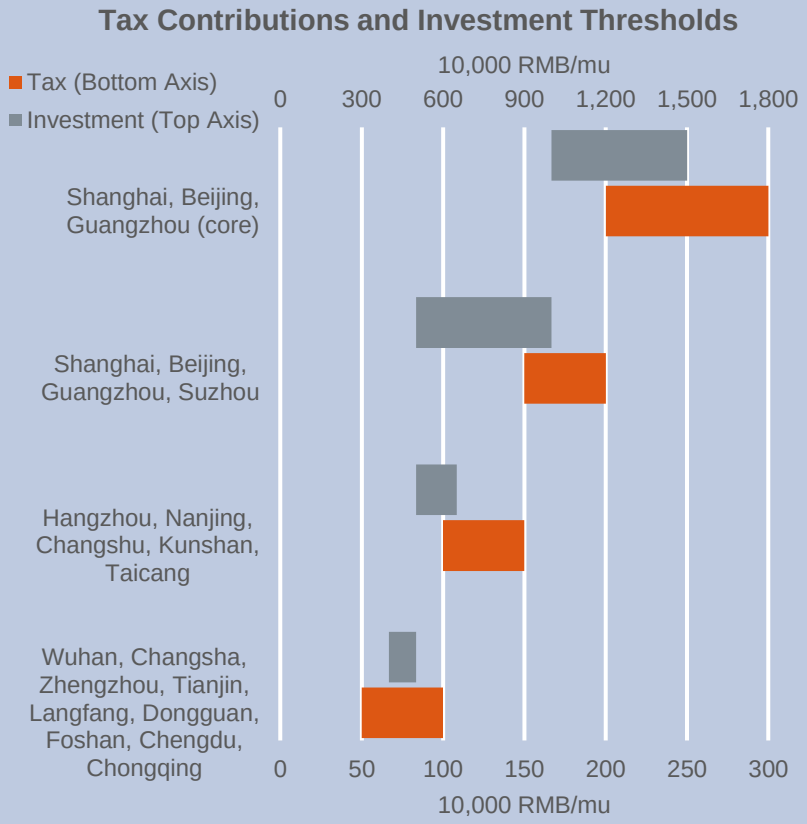
Meeting thresholds is a prerequisite for hot markets

There are many important considerations for developers and manufacturers to consider when identifying a location to set up a factory. Land prices are one of the most significant input costs is one but also an important consideration is the labour pool, infrastructure, rents and local regulations.

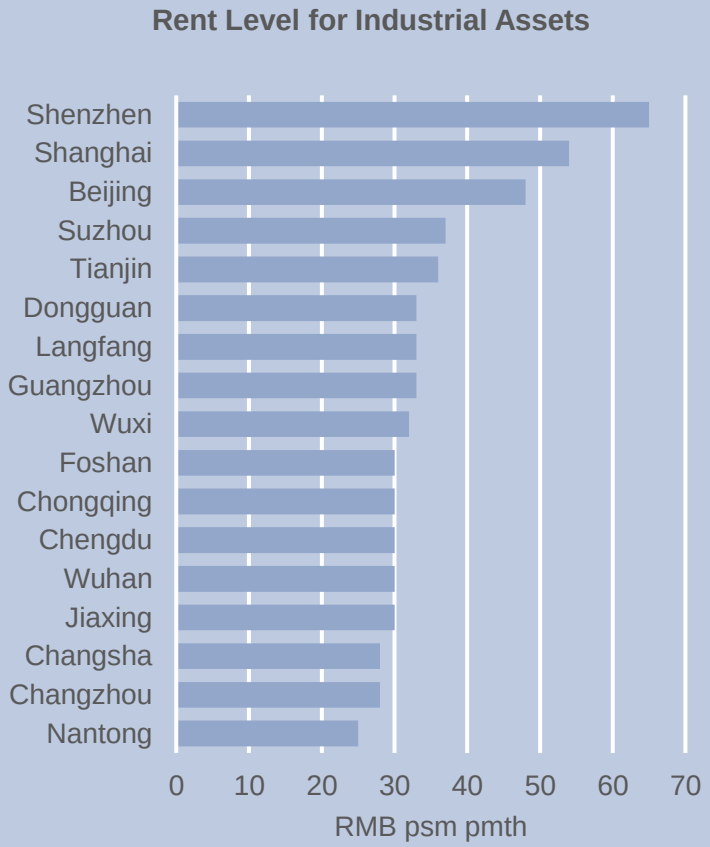
Shenzhen tends to come top of most tables and it is no different for industrial rents, with facilities in Longhua district able to reach at high as RMB65-70 psm pmth, Pingshan District in the east of the city however comes in at half the cost, at roughly RMB30-35 psm pmth. Other first-tier cities come close behind with Shanghai and Beijing able to charge rents as high as RMB55 and 50 psm pmth respectively. Lower rents can be found within key economic clusters outside of these cities with rents in Nantong able to reach RMB10-15 psm pmth in Hai'an or Rudong ETDAs, or indeed in Wuhan's Xinzhou or Chengdu's Jintang for roughly RMB15-20 psm pmth.

Wages will depend upon industry and level of skill required, but minimum wages range from RMB2,590 in Shanghai to RMB1,650 in Anhui at the end of 2021.

Government regulation for the industrial sector continues to evolve whether that be more stringent EIA standards, carbon emissions caps or promoting industry clusters. One of the clearest regulations has been over the last few years to require minimum tax contributions and investment thresholds which are usually correlated with the size of the facility and the proximity to and wealth of urban clusters. This has the benefit of increasing tax revenues while also forcing out lower-value manufacturing and creating space for companies from higher-value industries. In the case of first-tier cities more central locations are likely to require an investment intensity of above RMB10 million per mu and tax contributions in excess of RMB1 million per mu.



Source: Savills Research



Source: Savills Research

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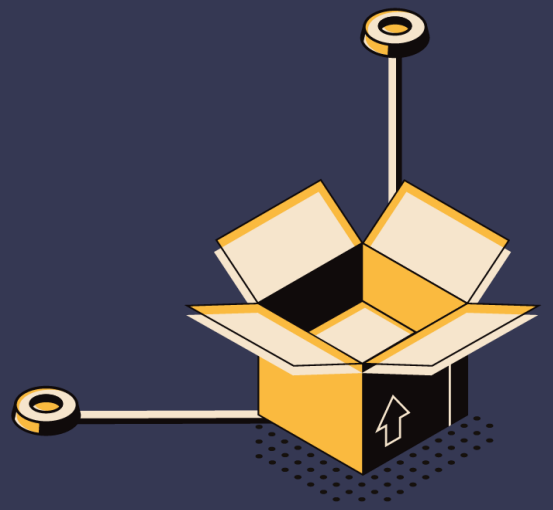


Investment Market

Funds targeting logistics assets

Multiple funds with dry powder target Chinese logistics assets

Several funds having some exposure to the China logistics sector are raising or are recently closed.

Sino-Ocean, DNE, GLP and ESR are the most active fund managers raising funds to expand their logistics portfolio in China. Strategies within the sector vary between core, core-plus to opportunities targeting properties in different locations, quality or status/development stage.

Recent Vintage Funds with mainland China Logistics Exposure

Name	Status	Strategy	Fund size (USD mn)	Fund manager	Logistics assets only
ESR China Development Platform	Raising	Development	4,000	ESR	Y
Gateway Real Estate Fund VII	First close	Opportunistic	2,500	Gaw Capital	N
GLP China Logistics Fund III	First close	Opportunistic	2,000	GLP	Y
Warburg Pincus Asia Real Estate	Raising	Opportunistic	1,500	Warburg Pincus	N
LaSalle Asia Opportunity Fund VI	First close	Opportunistic	1,500	LaSalle	N
New Ease Gold Development	Raising	Opportunistic	1,000	New Ease	Y
Sino-Ocean Logistics Fund	Closed	Value added	400	Sino-Ocean Capital	Y
SilkRoad Core-Plus Real Estate Fund	Raising	Core-plus	400	Silkroad	N
Keppel China Logistics Property Fund	Closed	Opportunistic	216	Keppel Capital	Y
CapitaLand RMB Real Estate Fund	Planning	Value added	TBC	CapitaLand	N

Source: Preqin, Savills Research

Logistics investments remain active

Yields compress further

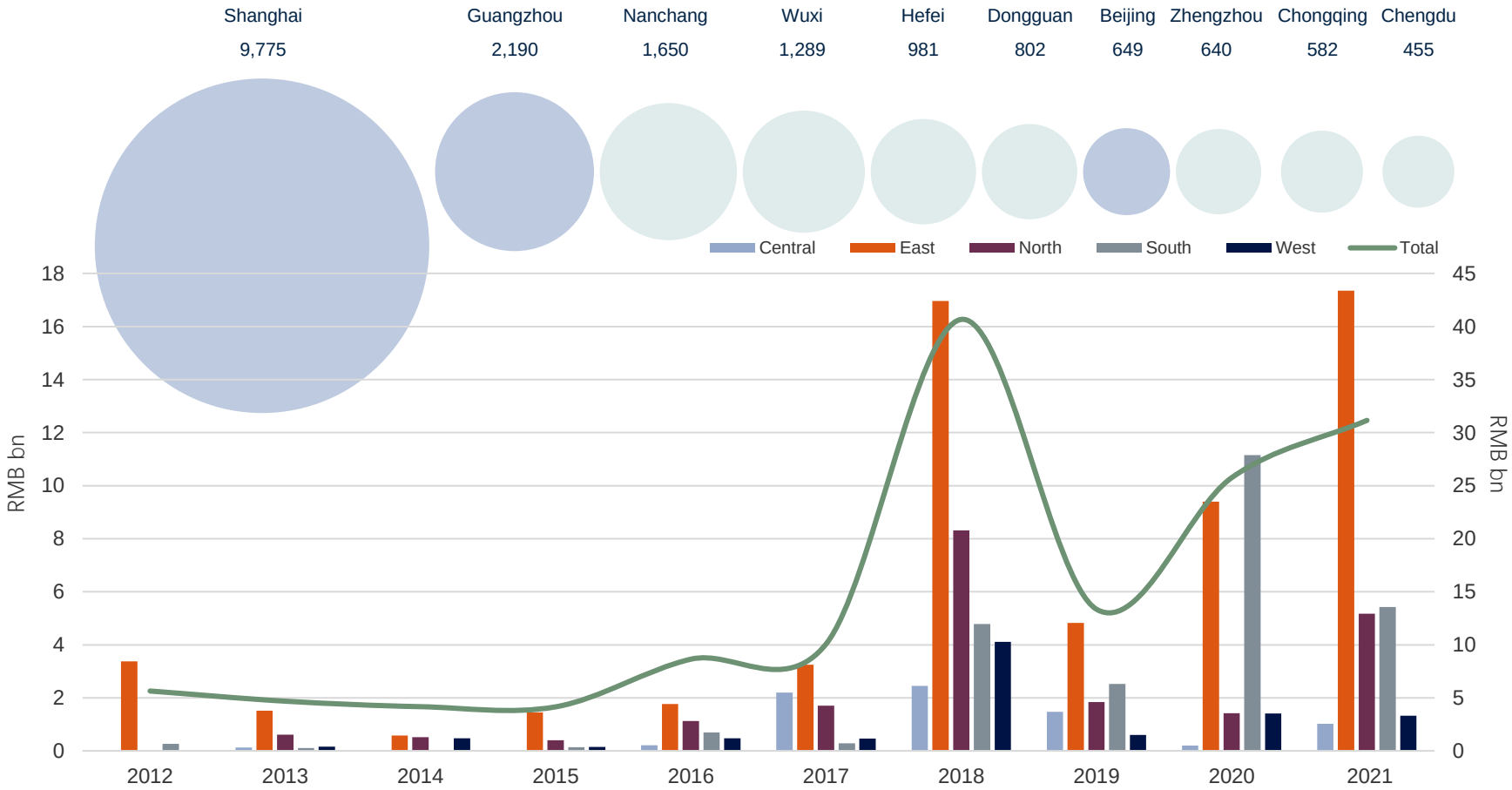
Investors' appetite for the logistics sector has grown in leaps and bounds since 2015 driven by solid fundamentals. The key trends are as follows:

Investment trend

- Single assets tend to be relatively small lump sums and so investors are tending to acquire portfolios to more effectively deploy capital.
- Investors tend to cooperate with experienced logistics platforms.
- Limited options in first-tier cities, mean that investors will focus on cities around first-tier cities with strong infrastructure links.
- Investor profile is more diversified, with more domestic investors and developers dominating the logistics market.
- NOI yields are hardening, with yields for high-standard warehouses in first-tier and satellite cities under 5.0%.
- China Infrastructure REITs are expected to bring more liquidity to the sector.

2021 Top 10 China Logistics Investment Destinations

Total Consideration: RMB mn



Source: RCA, Savills Research

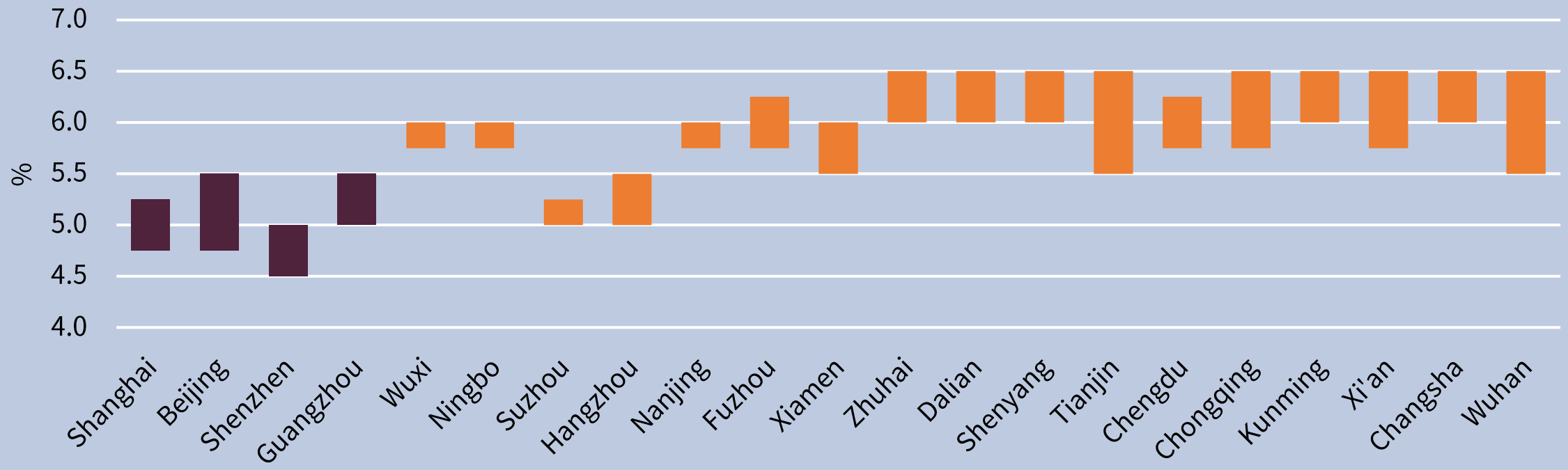
Note：Only include warehouse and cold-chain logistics transactions over RMB 100 mn

Cap rate

Sellers require sub 5% cap rates for core assets in first-tier cities

While the weight of capital chasing real estate opportunities in China and worldwide continues to compress yields in nearly all asset classes, the logistics sector continues to draw significant interest given higher returns and strong fundamental demand drivers. Logistics cap rates have fallen by half compared to a decade ago, with first-tier cities hovering around 4.5-5.5%, almost comparable to Grade A office buildings.

Against this backdrop, how much lower could cap rates go? Will first-tier cities remain undersupplied? And as landlords raise rents to meet their targeted IRR, will tenants consider moving to satellite cities with lower rents?



Source: Savills Research

Outlook

01

A broadening variety of platforms and business models will continue to drive demand, from cross-border platforms, to live streaming, advanced manufacturing, regional trade, fresh food and pharmaceuticals and B2B / C2M / supply chain logistics.

02

Future supply will continue to focus on key consumption hubs and their satellite cities like Guangzhou, Shanghai, Tianjin and Suzhou.

03

New supply and upgrades will focus on smart logistics and sustainable facilities. More hybrid and mixed-use developments are likely for example introducing more manufacturing capacity in warehouses, or the conversion of dry capacity into cold storage capacity. Product type may also change as we see more built-to-suit, multi-storey and e-commerce self-built warehouses.

04

Tenants will be challenged by ongoing Covid outbreaks, trade tension and rising costs; while landlords, on the other hand, need to deal with challenges in acquiring land, tightened regulation and intensifying competition.

05

The investment market will see more diverse investors, new exit opportunities brought by REITs, a focus on key hub cities, more portfolio transactions and renovation opportunities.

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