mapletree
logistics
RESILIENT
PERFORMANCE
SUSTAINABLE
FUTURE
INDEPENDENT MARKET
RESEARCH REPORT
2023/24

Corporate Profile

Mapletree Logistics Trust ("MLT" or "the Trust") is Singapore's first Asia Pacific focused logistics real estate investment trust. Listed on the Singapore Exchange Securities Trading Limited in 2005, MLT invests in a diversified portfolio of quality, well-located income-producing logistics real estate in Singapore, Australia, China, Hong Kong SAR, India, Japan, Malaysia, South Korea and Vietnam.

MLT is managed by Mapletree Logistics Trust Management Ltd. (the "**Manager**"), a wholly-owned subsidiary of Mapletree Investments Pte Ltd (the "**Sponsor**"). The Sponsor is a leading real estate development, investment, capital and property management company headquartered in Singapore.

The Manager is committed to providing Unitholders with competitive total returns through the following strategies:

a. optimising organic growth and hence, property yield from the existing portfolio;
b. making yield accretive acquisitions of good quality logistics properties; and
c. managing capital to maintain MLT's strong balance sheet and provide financial flexibility for growth.

Reporting Suite 2024

Annual Report

Sustainability Report

Independent Market Research Report

The Reporting suite is available for viewing and download on our website: **www.mapletreelogisticstrust.com**

Resilient Performance Sustainable Future

Our Vision

To be the preferred real estate partner of choice to customers requiring high-quality logistics and distribution spaces in Asia Pacific.

Our Mission

To provide Unitholders with competitive total returns through regular distributions and growth in asset value.

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SINGAPORE
INDEPENDENT MARKET RESEARCH
By CBRE

SINGAPORE MACROECONOMIC OVERVIEW

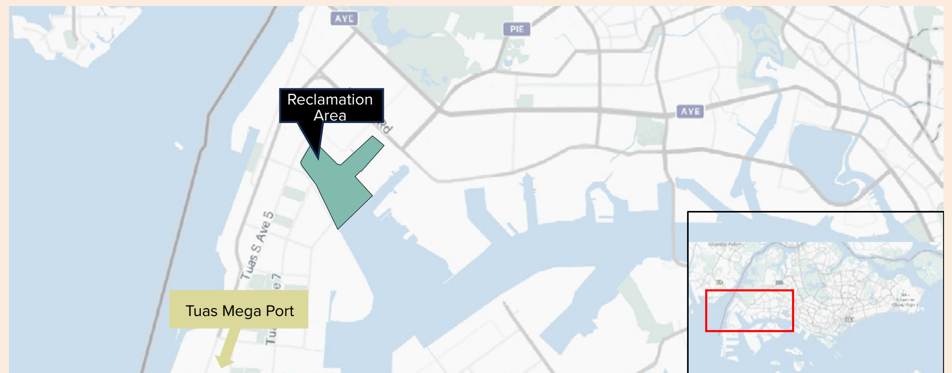
The Ministry of Trade and Industry ("MTI") reported that Singapore's Gross Domestic Product ("GDP") expanded 1.1% year-on-year ("y-o-y") in 2023, slower than the 3.8% growth in 2022. The slowdown was largely due to the contraction experienced in the manufacturing sector, which fell 4.3% in 2023 as output fell across most clusters, including electronics, biomedical manufacturing, and chemicals. In contrast, the construction sector grew 5.2%, supported by an increase in both public and private sector construction output, while the services industries expanded by 2.3%, underpinned by growth in the accommodation, information & communications, and real estate sectors.

Based on advanced estimates by MTI, Singapore's GDP grew by 2.7% y-o-y in 1Q 2024. The manufacturing industry grew marginally by 0.8% y-o-y, a reversal from the negative growth experienced in the same period the previous year, while the construction and services producing industries stayed expansionary in 1Q 2024.

Non-oil domestic exports ("NODX") in the first two months of 2024 grew 8.4% y-o-y as compared to the 7.8% y-o-y decline over the same period in 2023. Although the Red Sea crisis impacted exports in the early months of 2024 and disrupted supply chains and delaying shipments, a notable acceleration in electronics NODX growth led by the improvement in global semiconductor sales has increased optimism amongst economists.

The Monetary Authority of Singapore ("MAS") released its Monetary Policy Statement on 12 April 2024, stating that Singapore's GDP growth should improve over the course of 2024, and is projected to come in between 1.0%-3.0% in 2024. This GDP forecast has also considered the recovery in the manufacturing and financial sectors supported by the upturn in the electronics cycle and anticipated easing in global interest rates, even as growth in the domestic-oriented sectors normalise towards pre-pandemic levels.

Figure 1:
Location of Northern Tuas Basin Reclamation



Source: CBRE, JTC

RECENT GOVERNMENT MEASURES AFFECTING THE INDUSTRIAL PROPERTY MARKET

Northern Tuas Basin Reclamation

JTC Corporation ("JTC") announced that reclamation works at Northern Tuas Basin are slated to begin in 2025 and will end around 2029. The 172 hectares of new land will be added to the 2,200 hectares of land in Tuas and Tuas South and will help improve the infrastructure and road network connections to Tuas South and Tuas Port (Figure 1). The improved connectivity will help ease any potential congestion that may occur when the Tuas Port is fully opened and further increase the potential demand for more distribution and logistics centres in Tuas. Tuas Port will be opened in four phases, with its first phase operating since September 2022. When it completes after 2040, it will see the consolidation of the Port of Singapore's existing port operations at Keppel, Brani, Pasir Panjang and Tanjong Pagar, and increase the Port of Singapore's handling capacity by one-third to 65 million twenty-foot equivalent units ("TEUs").

Singapore Budget 2024

Finance Minister Lawrence Wong announced on 16th February 2024 that the government will be implementing a new tax credit with a refundable cash feature called the Refundable Investment Credit scheme to encourage companies to make sizeable investments that bring substantive economic benefits to Singapore, in key economic sectors and growth areas. Some examples cited include investing in a new manufacturing plant, establishing headquarter activities, production of low-carbon energy and carrying out Research & Development ("R&D") activities. The credits are to be offset against Corporate Income Tax payable, and any unutilised credits will be refunded to the company in cash within four years from when it satisfies the conditions for receiving the credits. This could potentially encourage manufacturers to invest in their production facilities, which in turn lead to increased demand for logistics facilities, whether through the increase of their internal warehouse capacity or through third-party logistics ("3PLs") players.

SINGAPORE LOGISTICS / WAREHOUSE MARKET OVERVIEW

Existing Stock

As at 1Q 2024, total islandwide logistics / warehouse stock rose 1.7% y-o-y to approximately 126.5 million square feet ("sf") on a Net Lettable Area ("NLA") basis. Majority was attributed to private stock (96.7%), with the remaining 3.3% under the public sector.

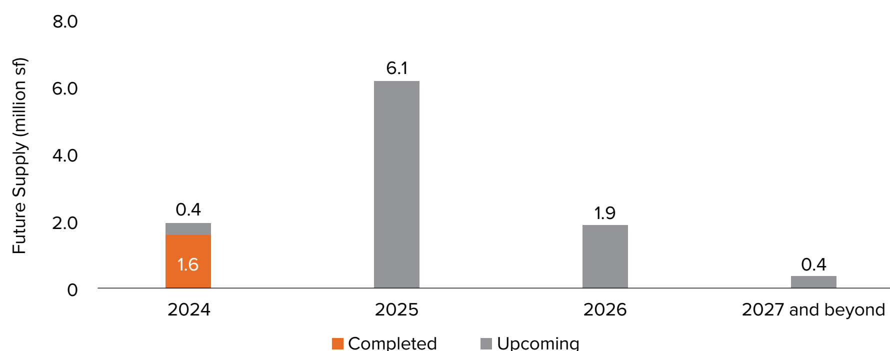
Approximately 2.9 million sf of logistics / warehouse stock was completed in 2023. Major developments completed during the period include 2PS1 (757,000 sf, 1Q 2023), 12 Penjuru Lane (487,300 sf, 1Q 2023), 32 Penjuru Lane (261,800 sf GFA, 1Q 2023), FairPrice Group Fresh Food Distribution Centre (642,400 sf, 2Q 2023) and JTC Logistics Hub @ Gul (589,600 sf, 4Q 2023).

Future Supply

Based on the latest list of projects in the pipeline tracked by CBRE Research, as of 1Q 2024, islandwide supply pipeline is estimated at 8.8 million sf[1] on a Gross Floor Area ("GFA") basis from 2Q 2024 to 2027 and beyond[2] (Chart 1).

Approximately 70.5% of upcoming supply are single-user premises that are built-to-suit, whereas the remaining 29.5% are multi-user spaces. Without factoring in stock withdrawals and change of use, supply pipeline will uplift stock by 6.9% to approximately 135.3 million sf should all these projects be completed.

Chart 1:
Singapore Islandwide Logistics / Warehouse Space Pipeline Supply (2024 to 2027 and Beyond)



Source: CBRE Research, J-Space
Note: Due to rounding to the nearest 1 decimal places, numbers in this chart may not add up exactly to the total provided in the report.

Approximately 2.0 million sf of stock is expected to complete in 2024, including the net additions in 1Q 2024 (Table 1). Another 6.1 million sf, 1.9 million sf, and 0.4 million sf will be completed respectively in 2025, 2026, and beyond 2026. However, these numbers could change in the medium-term if there are delays in construction timeline or announcements of major asset enhancement initiatives ("AEI") or redevelopment by owners of ageing assets.

Table 1:
Major* Upcoming Logistics / Warehouse Developments for 2024

Year	Name of Development	Location	Planning Region	Developer	Estimated GFA (sf)
2024	LOGOS eHub (Phase 2)**	Pandan Crescent	West	LOGOS	873,500
	Warehouse development**	Benoi Crescent	West	ESR SG Real Estate 1 Pte Ltd	694,200
	Warehouse development	Senoko Loop	North	Tiong Nam Logistics (S) Pte Ltd	268,500
2025	Maersk World Gateway 2	Benoi Sector	West	TL Development (WDG) Pte. Ltd	1,115,900
	Warehouse development	Jalan Besut	West	Chasen Logistics Services Limited	334,500
	YCH DistriCentre	28 Tuas Avenue 13	West	YCH Districentre Pte Ltd	201,700
	Warehouse development	51 Benoi Road	West	Mapletree Logistics Trust	886,700
	RedLion2	Greenwich Drive	East	Schenker Singapore Pte Ltd	659,100
	Warehouse development	Jalan Besut	West	Commonwealth Kajima Development (Logistics) Pte. Ltd.	511,200
	Warehouse development	36 Tuas Road	West	Boustead Trustees Pte Ltd	642,900
	DSV Pearl	Tukang Innovation Drive	West	Logos Pacv SG Propco Pte Ltd	721,100
	Warehouse development	Toh Guan Road East	West	CapitaLand	548,100
	Warehouse development	Tuas Avenue 13	West	Sankyu Singapore Pte Ltd	400,400
2026	Warehouse development	2 Fishery Port Road	West	ESR-LOGOS	600,000
	Warehouse development	Sunview Road	West	Allied Sunview Pte Ltd	1,257,300
2027 and Beyond	Warehouse development	Tuas South	West	Eng Kong	387,500

Source: CBRE Research, J-Space
*Refers to developments with a GFA of at least 150,000 sf
**Completed in 1Q 2024

1 The gross floor area and Completion / Temporary Occupation Permit (TOP) dates are preliminary estimates and are subject to change.
2 Projects slated for TOP in 2027 and beyond have been listed in the pipeline but have not commenced development and could potentially have a TOP date later than 2027.

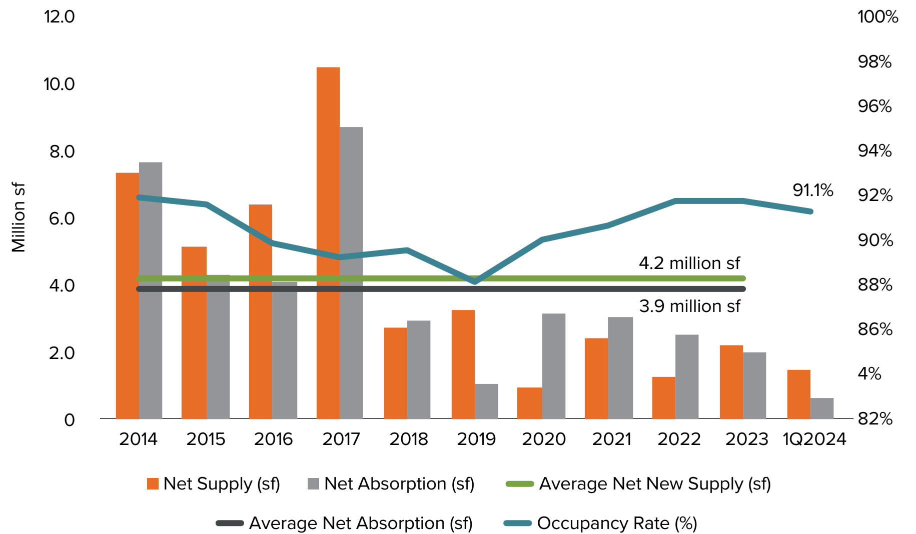
Net New Supply, Net Absorption and Vacancy

As some stock was removed due to change of use, major AEI and redevelopment, net supply in 2023 was close to 2.2 million sf, higher than the 1.2 million sf posted in the previous year, but 47.4% lower than the 10-year average of 4.2 million sf (Chart 2).

Demand for logistics / warehouse space remained healthy in 2023, and it mainly emanated from 3PLs as well as end-users from a wide range of industries, such as e-commerce players, wholesale trade and freight, food manufacturers and pharmaceutical companies. Most of the demand was observed to be expansionary, resulting in a net absorption of 1.9 million sf posted in 2023, but this was 50.2% lower than the 10-year average of 3.9 million sf. This was mainly attributed to the lack of supply. As net absorption was slightly lower than net supply in 2023, occupancy dipped slightly by 0.1 percentage points to 91.6%. This dipped further to 91.1% in 1Q 2024 as net absorption was lower than net supply.

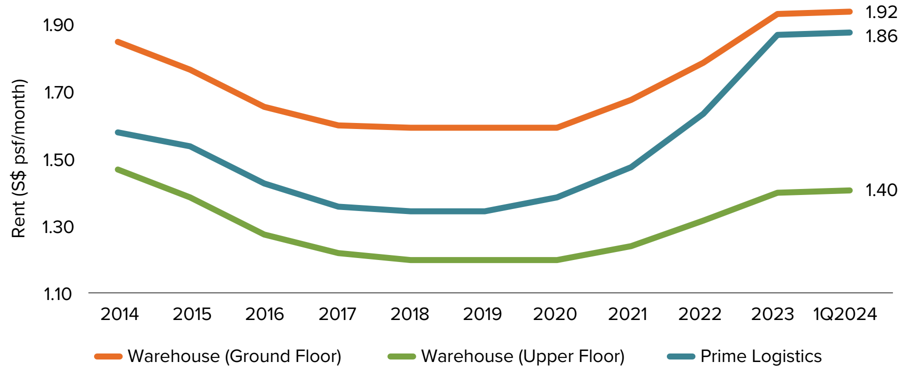
CBRE noted that available quality logistics / warehouse spaces remain limited in the market, as most of the new supply were single-user built-to-suit facilities intended for owner-occupation. This has resulted in the high occupancy levels seen in the market, especially for spaces in prime logistics assets, which are modern ramp-up logistics facilities with modern specifications. At the same time, demand remained healthy, with CBRE noting that many enquiries were from 3PLs and end-users looking for spaces for their expansionary requirements. However, some of the available spaces in the market, especially older warehouses, may not meet the physical requirements of end-users, such as electrical provision, floor loading and sufficient ceiling height. As such, some older warehouse projects with the potential to increase their lettable area are undergoing major AEI or redevelopment works to convert their conventional warehouses into prime logistics assets.

Chart 2:
Net New Supply, Net Absorption and Vacancy



Source: CBRE Research, J-Space

Chart 3:
Singapore Logistics / Warehouse Rental Trends



Source: CBRE Research

Rental Values

Based on rents tracked by CBRE Research, prime logistics rents experienced the fastest growth of 10.7% y-o-y to S$1.85 per square foot per month ("psf/month"), followed by the 5.5% and 4.5% y-o-y growth for ground floor and upper floor warehouse to S$1.92 psf/month and S$1.40 psf/month respectively (Chart 3).

Over the 10-year historical period, rents as tracked by CBRE Research showed that although logistics/warehouse rents reached their lowest point in 2018, prime logistics rents recovered the fastest and picked up in 2020, while conventional warehouses experienced a recovery in 2021. Prime logistics rents also increased the fastest by 38.8% to S$1.86 psf/month since its trough in 2019 as compared to the 21.7% and 16.7% upside experienced by ground floor and upper floor warehouse rents respectively in the same period.

Capital Values

Amid strong investor interest in prime logistics, capital values of prime logistics (30-year leasehold) tracked by CBRE Research was noted to have increased by 8.0% y-o-y to S$230 psf on a Net Lettable Area ("NLA") basis (Chart 4). This was also 35.3% higher than its trough in 2017 (S$170 psf NLA). Despite the higher cost of debt due to the increase in interest rates, as rental growth was faster than capital growth, prime yields for leasehold prime logistics assets continued to increase and maintain a positive yield spread.

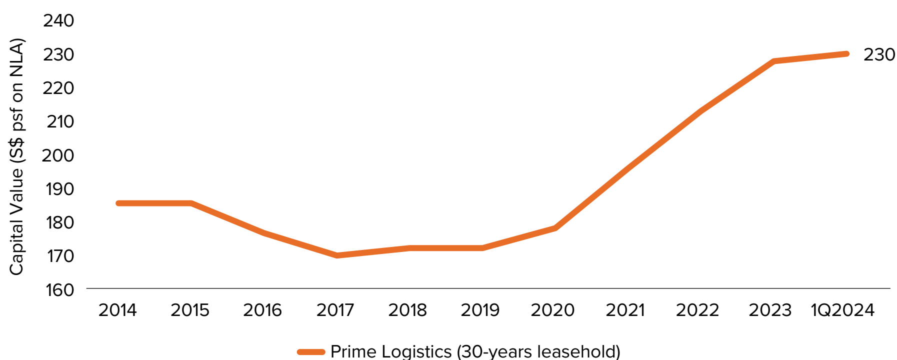
Major Investment Sales

Against the backdrop of elevated interest rates and macroeconomic uncertainties, total warehouse investment[3] volume fell 46.2% y-o-y in 2023 to S$560.8 million from S$1.0 billion in 2022. Industrial REITs were active in divesting their assets to reduce gearing amid higher refinancing costs.

Notable transactions by Industrial REITs in 2023 included the portfolio sale of five industrial assets by ESR-LOGOS REIT in 2Q 2023, including four warehouse assets, namely TVS SCS Logistics Centre, 6 Chin Bee Avenue, EAC Building and Jurong Districentre for approximately S$255.7 million to Hillhouse Capital, and the sale of Kenyon by Mapletree Logistics Trust to an unrelated third party in 3Q 2023 for S$27.8 million.

In 1Q 2024, there were two major transactions. 73 Tuas South Avenue 1 was sold by Mapletree Logistics Trust to an unrelated third party for S$16.8 million, whereas Toh Tuck LogisPark was an unrelated third-party transaction by the seller to a buyer in the retail trade (Table 2).

Chart 4:
Singapore Logistics / Warehouse Capital Value Trends



Source: CBRE Research

Table 2:
Major Logistics / Warehouse Transactions in 2023 and 1Q 2024

Period	Name of Development	Location	Sales Price (S$ mil)	Approximate Land Area (sf)	Tenure
1Q 2023	Iron Mountain Centre II	26 Chin Bee Drive	47.0	93,315	30+19 yrs from 01/04/2001
2Q 2023	Jurong Districentre	3 Pioneer Sector 3	95.0	511,834	30+30 yrs from 16/12/1990
2Q 2023	EAC Building	4 & 6 Clementi Loop	37.6	200,456	30+30 yrs from 01/10/1993
2Q 2023	6 Chin Bee Avenue	6 Chin Bee Avenue	93.0	129,748	27.73+30 yrs from 22/01/1986
2Q 2023	TVS SCS Logistics Centre	21 Changi North Way	30.1	123,117	30 yrs from 01/06/2010
3Q 2023	Kimly Building	3 New Industrial Road	61.0	34,125	Freehold
3Q 2023	Reebonz Building	5 Tampines North Drive 5	39.0	86,111	30 yrs from 1/12/2014
3Q 2023	Kenyon	8 Loyang Crescent	27.8	85,261	30+23 yrs from 01/06/2000
4Q 2023	9 Pioneer View	9 Pioneer View	58.5	157,454	30 yrs from 01/06/2016
1Q 2024	73 Tuas South Ave 1	73 Tuas South Ave 1	16.8	86,133	30+23 yrs from 01/06/1997
1Q 2024	Toh Tuck LogisPark	7 Toh Tuck Link	25.0	92,882	30+30 yrs from 16/11/1996

Source: J-Space, CBRE Research

3 CBRE denotes investment sales as transactions recorded $10.0 million and above and exclude IPO transactions.

Market Outlook

MTI expects the economy to grow by 1.0-3.0% in 2024 as trade-related sectors improve modestly. There may be a rebalancing of demand towards products as demand for services that spiked post-pandemic dissipates. This, along with the normalisation of inventory levels, is likely to support a turnaround in global manufacturing activity over the course of the year, which could lead to an increased demand for warehouse and logistics spaces. According to the Economic Development Board ("EDB") Business Expectations of the Manufacturing Sector released on 30 April 2024, business sentiments are positive for the period April to September 2024 despite geopolitical headwinds. Optimism is led by the electronics cluster, as a gradual recovery in the semiconductor segment and robust demand for artificial intelligence related chips are expected in 2024.

With the anticipated manufacturing rebound, CBRE expects leasing demand to be more diversified through the rest of 2024. As 3PL firms consolidate their real estate footprint after the expansionary momentum over the past few years, occupiers from various sectors such as life sciences, electronics, general manufacturing and engineering are expected to drive leasing activity.

Rents will continue to rise in 2024, albeit at a more muted pace than in 2023, as occupancy rates for prime logistics remain close to 100%. Although occupiers are showing resistance to higher rents and rental growth expectations in 2024 could be tempered by the high base, not many occupiers will simply relocate to a cargo lift warehouse as they remain reluctant to compromise on specifications.

Barring any unforeseen risks, including escalating geopolitical tensions in the Red Sea, the Israel-Hamas conflict and the war in Ukraine, Singapore's logistics / warehouse sector has remained relatively resilient as evidenced by its high occupancy rates and increasing rents despite the challenging economic landscape for most of 2023. Singapore remains well positioned to capitalise on Southeast Asia's ongoing supply chain diversification, as companies often establish their regional headquarters here before venturing further.

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Heightened Market Volatility
We draw your attention to a combination of global inflationary pressures (leading to higher interest rates) and signs of stress in some markets/sectors have significantly increased the potential for constrained credit markets, negative capital value movements and enhanced volatility in property markets over the short-to-medium term.

Experience has shown that consumer and investor behavior can quickly change during periods of such heightened volatility. Any investment or internal decision-making processes should reflect this heightened level of volatility and potential for deteriorating market conditions.

It is important to note that the conclusions set out in this report are valid as at the reported date only. Where appropriate, we recommend that market conditions are closely monitored, as we continue to track how markets respond to evolving events.

AUSTRALIA

INDEPENDENT MARKET RESEARCH

By Jones Lang LaSalle Incorporated

MACRO-ECONOMIC OVERVIEW AND OUTLOOK

Economic growth slowed in the December 2023 quarter, with seasonally adjusted year-on-year GDP growth decreasing to 1.5%. On a quarterly basis, GDP rose 0.2% - broadly in line with the 0.3% q-o-q growth recorded in the previous quarter.

GDP growth has been moderated by an environment of ongoing high inflation, brought on initially by COVID-19 driven supply chain pressures, which slowed the delivery of consumer goods and raw materials globally, and compounded by a sharp increase in global energy and domestic household rental costs.

In Australia, inflation is slowly decelerating after peaking at 7.8% year-on-year (y-o-y) in December 2022. As at February 2024, Australia's core annual inflation sits at 3.6%, edging closer to the Reserve Bank of Australia's (RBA) target inflation band of 2%-3%.

Incremental increases in the official cash rate were the key tool in the RBA's efforts to curb inflation pressures. There have been 13 increases to the official cash rate by the RBA since May 2022, reaching 4.35% in November 2023 - represented the highest cash rate in Australia since late 2011 (4.50% in November 2011). As at March 2024, the official cash rate remains at 4.35% with most economist forecasts expecting the next rate movement to be downwards.

The ongoing escalation of interest rates and stubbornly high inflation in the key living areas of groceries, energy and dwelling rents resulted in a slowing of consumer demand nationally. Annual retail trade has decelerated from a peak of 11.5% in January 2023 (rolling annual growth) to 2.4% in February 2024. This represents the slowest rate on growth recorded in Australia since the immediate onset of COVID-19 in April 2020 (2.1% y-o-y). However, Australia's labour force remains strong, with the unemployment rate of 3.8% in March 2024 sitting just 0.4 percentage points off the historical low of 3.4% recorded in October 2022.

In terms of trade, global instability and the resultant pressures of food and energy prices was of benefit to Australia with the growth of Australian exports reaching a cyclical peak of 34.5% y-o-y in June 2022. However, a slowing of the global economy in 2023 resulted in a sharp deceleration of demand for Australian exports. As a result, export growth has fallen into negative territory since October 2023.

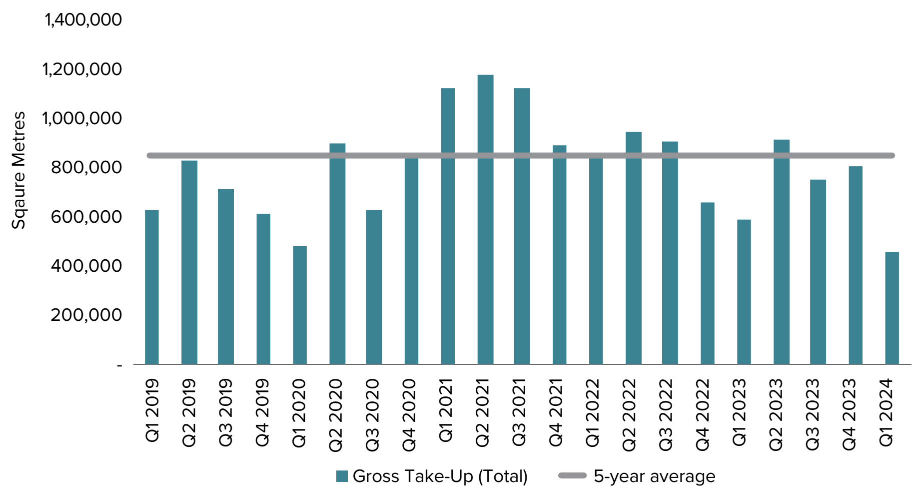
Looking forward the Australian economy, while slowing, is showing signs of a soft landing and the avoidance of a recession. Oxford Economics is forecasting that Australian GDP will recover moderately, reaching 1.4% in 2024 before peaking at 3.8% annual growth in 2026.

INDUSTRIAL AND LOGISTICS SECTOR PERFORMANCE AND TRENDS

The Australian industrial sector occupier demand and investment landscape has deteriorated since the middle of 2022 as investors grappled with higher cost of debt, fewer assets brought to market, and a rapidly changing bond yield environment which altered perception of value. Similarly, industrial occupiers have been challenged by an uncertain economic outlook, decreasing retail trade, and very low availability of modern warehouse space to lease.

As a result, industrial occupier demand has moderated after a period of strong COVID-19 driven growth throughout early 2021 and 2022. After reaching a cyclical peak of 4.32 million square metres in Q4 2021, national industrial rolling annual gross take-up has been trending down. As at March 2024, rolling annual gross take-up is 2.94 million square metres (figure 1).

Figure 1:
National Industrial & Logistics Gross Take-up



Source: JLL Research as at Q1 2024

While enquiry levels and leasing deals over the last 12 months are lower than the robust levels recorded in 2021 and early 2022, it must be noted that a lack of modern, efficient warehouse space available to lease in the market has significantly limited occupier movement. With low availability of alternate leasing options for occupiers, many have elected to renew leases in existing facilities on shorter term leases until more relocation options materialise.

Compounding this is the sharp escalation of construction materials and labour shortages which has increased the risk of speculative development in an environment of more volatile macroeconomic conditions.

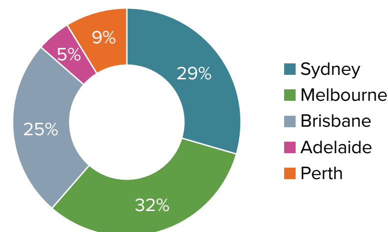
Geographically, most occupier activity has occurred in the eastern seaboard markets over the last 12 months to Q1 2024. The combined gross take-up in the Melbourne (32%), Sydney (29%), and Brisbane (25%) markets accounts for over 85% of the national total (figure 2). This proportion is in line with the pre-COVID long-term 10-year average of 84%.

As has been the case over the COVID-19 period, occupiers continue to prefer existing warehouse space over new construction in the form of pre-lease and design & construction warehouses. This is symptomatic of occupiers needing warehouse space quickly and an unwillingness to commit to construction timeframes for new facilities.

However, developers have also been challenged by escalating developments costs in the form of labour costs, material inputs costs and the cost of debt from lending institutions. This has impacted development feasibilities which has decreased the appetite for speculative supply.

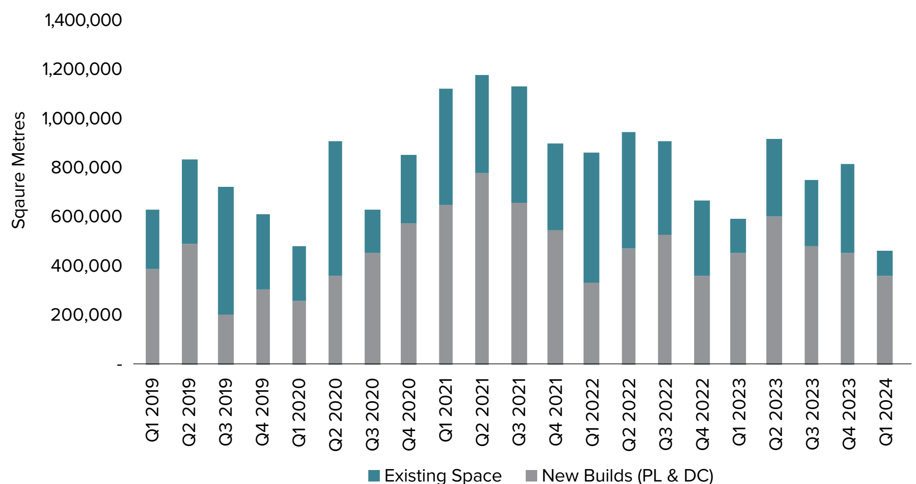
Over the last 12 months to Q1 2024, gross take-up into existing warehouse space accounted for 63.9% of the total (1.88 million sqm). Demand for new builds in the form of pre-lease and design & construction deals, accounted for 36.1% (1.06 million sqm) (figure 3).

Figure 2:
National Industrial Gross Take-up by Market, 12 Months to Q1 2024



Source: JLL Research as at Q1 2024

Figure 3:
National industrial gross take-up by lease type, 2013-2023



Source: JLL Research. As at Q1 2024

Looking forward over the next 12 months to Q1 2025, there is currently 2.14 million sqm of new supply under construction forecast to be delivered to the Australian industrial sector. Of which, 50.4% is currently pre-committed (1.08 million sqm).

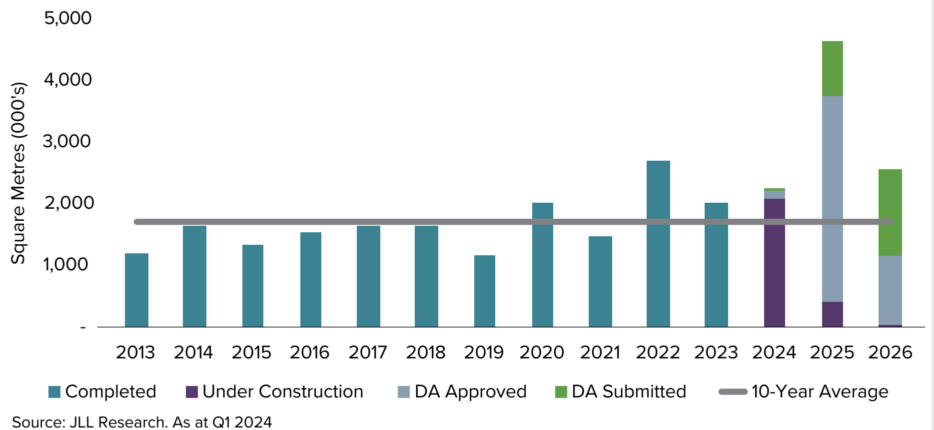
However, given the ongoing occupier demand in the market for modern efficient warehouse space, we expect that the percentage of absorption at practical completion of most projects will be significantly higher than current pre-commitment levels.

New supply to the Australian industrial sector reached record levels in 2022 (2.71 million sqm), driven by a record level of pre-lease demand predominantly from retailers and ecommerce occupiers in the early COVID-19 period. However, more recently, supply has slowed. New project commencements have been negatively impacted by a deteriorating macroeconomic environment which has affected business confidence, and a rapid escalation of construction and labour costs over the past 12 months which has placed pressure on feasibility modelling. Over the 12 months to Q1 2024, national industrial supply decreased to 2.12 million sqm – a figure still well above the long-term 10-year average of 1.58 million.

Delays in construction stemming from cost escalations, as well as ongoing labour market tightness and challenges around materials delivery, has resulted

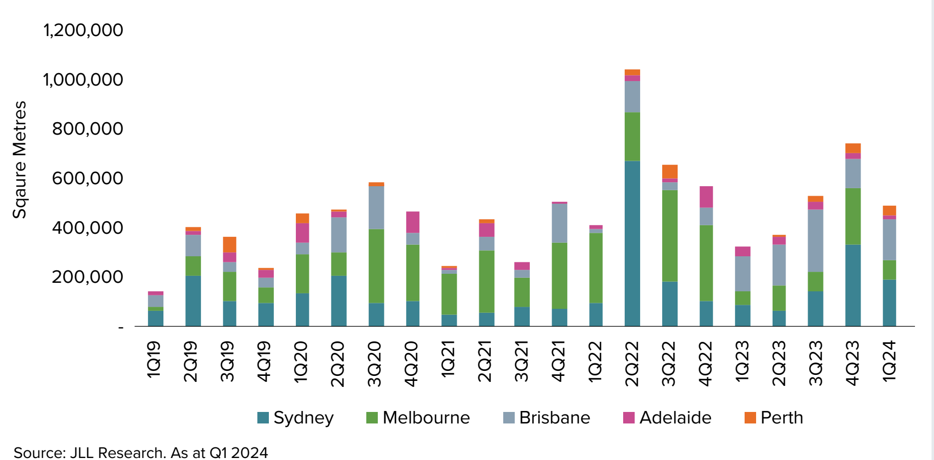
in elongated construction timeframes, and even deferment of some projects. Given this, the future supply pipeline over the medium-term is robust. As at Q1 2024, there is 2.14 million sqm of new industrial space under construction expected to complete over the next 12 months. However, it must be noted that the expectation of further project delays are likely to moderate the current forecast supply (figure 4). It is expected that projects in planning in 2025 and beyond will increasingly seek pre-commitment from occupiers to de-risk development in the face of increasing financial constraints. As a result, some of the DA approved projects in the pipeline may not materialise.

Figure 4:
National Industrial Supply Pipeline, 2013-2026



Source: JLL Research. As at Q1 2024

Figure 5:
Industrial Completions by Market, 2019-2024



Source: JLL Research. As at Q1 2024

Over the last 12 months, supply was predominantly delivered to the eastern seaboard markets, following the pattern of occupier demand recorded over the COVID-19 period. The largest proportion of warehouse space was delivered to the Sydney market (34.5% - 732,000 sqm), followed by Brisbane (31.3% - 709,700 sqm) and Melbourne (23.7% - 503,700 sqm) (figure 5). Supply delivery in Adelaide over the last 12 months reached 109,100 sqm – well above the long-term pre-COVID 10-year average of 55,700 sqm. Completions in Perth over the last 12 months were broadly in line with the long-term pre-COVID 10-year annual average, reaching 112,500 sqm.

As a result of sustained occupier demand for industrial assets as well as increasingly tight availability of space to lease, rental growth had reached record levels across the Australian industrial market in 2022. Rental growth was sustained throughout 2023 with the supply / demand mismatch and the ongoing challenges for businesses seeking modern, efficient warehouse space continuing to place upwards pressure on asking rents. National prime average weighted net face rents increased by 18.1% over the 12 months to Q1 2024 - marginally down from peak annual rental growth of 24.5% y-o-y recorded at the start of 2023.

Buyer and vendor expectations continue to calibrate against a backdrop of economic uncertainty surrounding the drivers that underpin the industrial sector. This uncertainty, coupled with long-term bond yields currently persisting above 4.0%, is resulting in yield decompression. Weighted prime national yields softened by 10 basis points to 5.74% in Q1 2024. This is a continuation of the decompression cycle nationally that commenced in Q2 2022. Average national prime midpoint yields reached a cyclical low of 3.92% in March 2022 – representing decompression of 183 basis points (bps) to the current midpoint yield of 5.74%.

The decrease in investor demand for Australian commercial real estate has not been isolated to the industrial and logistics sector. Transaction volumes in the other core sectors of office and retail has also trended downwards. Comparatively, the industrial sector has proven a resilient sector as far as transaction volumes are concerned. Over the 2023 calendar year, transaction volumes in the industrial sector reached AUD 6.9 billion, outpacing investment in the office sector (AUD 5.6 billion) and level with the retail sector (AUD 6.9 billion). However, similar fundamentals are moderating investor demand with average yields in both sectors decompressing as a result of escalating cost of debt and increasing risk-free premiums on the back of rising bond yields. Nevertheless, investor demand for land is very strong. The national quarterly transaction volume in Q1 2024 reached AUD 2.47 billion, driven largely by large-scale land acquisitions in Sydney and Melbourne.

INDUSTRIAL AND LOGISTICS MARKET OVERVIEWS

Sydney

Demand

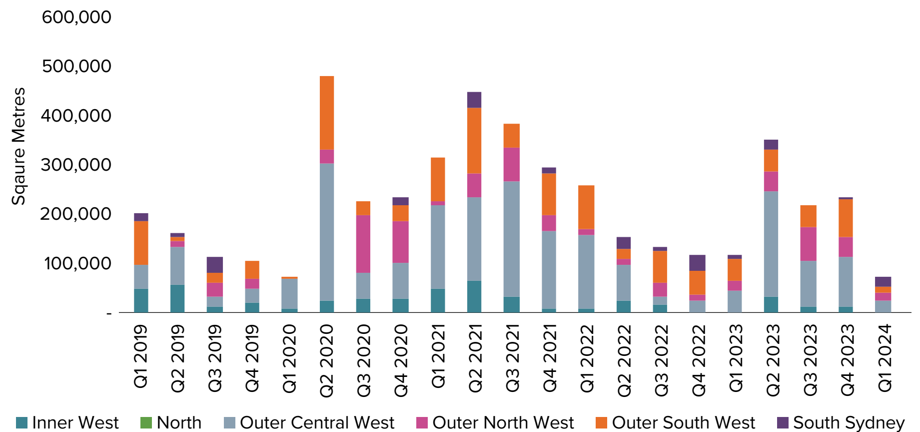
Occupier demand is improving in Sydney. Gross take-up in 2023 reached 910,900 sqm – a 39.1% increase on 2022 annual gross take-up. This increase in demand was a result of a stabilisation of macroeconomic conditions supporting improved business confidence. Quarterly gross take-up in Q1 2024 reached 72,100 sqm, comparably slower than previous quarters but typical of activity in the first quarter of the year.

Over the past 12 months to Q1 2024, commitments to new builds (in the form of pre-lease and owner-occupied design & construction projects) accounted for 34.7% of the annual gross-take-up figure. This preference for existing warehouse space over pre-lease and owner-occupier design & construction commitments is symptomatic of occupiers requiring space more rapidly as a reaction to inventory requirements and the increase of speculative warehouse development introduced to market over the past 18 months. Occupiers seeking modern, efficient warehouse space benefited from this increased speculative supply, securing new warehouse accommodation without having to wait on construction timeframes.

Geographically, the Outer Central West precinct accounted for 49.1% of Sydney's industrial take-up over the last 12 months to Q1 2024, totalling 425,200 sqm. This was followed by the Outer South West precinct accounting for 20.4% (176,800 sqm), the Outer North West for 18.9% (164,100 sqm), the Inner West for 6.6% (56,800 sqm) and South Sydney for 5.0% (43,600 sqm).

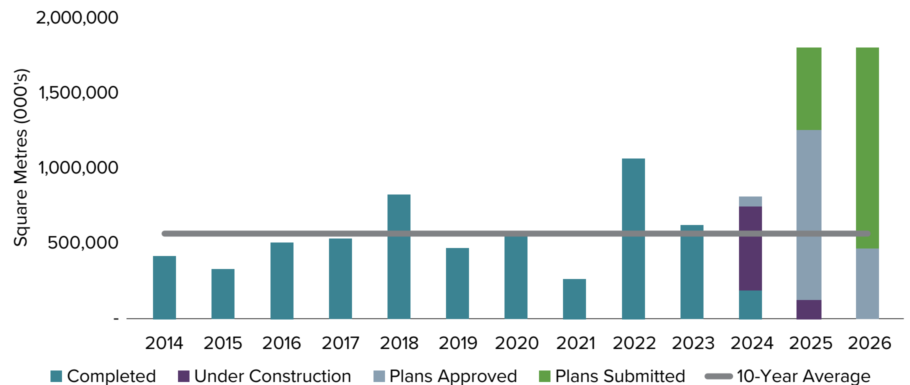
On a business sector level, over the 12 months to Q1 2024, the transport, postal & warehousing sector was the most active, accounting for 50.7% of gross take-up (439,500 sqm). While the eCommerce penetration rate in Australia has plateaued, broader retail trade was positive over the last 12 months, driving 3PL demand. The manufacturing sector also accounted for a significant take-up portion of the market total (17.4% - 151,000 sqm).

Figure 6:
Sydney Gross Take-up



Source: JLL Research as at Q1 2024

Figure 7:
Sydney Industrial Supply Pipeline



Source: JLL Research. As at Q1 2024

Supply

Quarterly supply reached 196,800 sqm in Q1 2024, bringing supply over the last 12 months to 737,500 sqm. This figure sits 30.6% above the long-term 10-year annual supply average of 564,600 sqm.

Over the last 12 months to Q1 2024, the largest proportion of new supply was delivered in the Outer South West (43.6% - 321,400 sqm). The balance of completions this quarter was predominantly recorded in the Outer Central West (39.3% - 290,100 sqm) and the Inner West (9.7% - 71,500 sqm).

Just over half of supply delivered over the last 12 months was completed with a pre-commitment occupier in place (52.3%). There is currently 563,900 sqm of supply under construction expected over the balance of 2024.

Prime rents
Average prime net face rents in Sydney increased between 1.3% to 6.4% in Q1 2024. The largest quarterly increase was recorded in South Sydney (6.4% q-o-q), driven by ongoing low availability of warehouse space in the precinct. Average prime incentives increased again in Q1 2024 across most precincts. Developers are increasingly offering higher incentive levels to attract occupiers, particularly on new speculatively developed warehouse space where higher asking rents are required to make projects feasible at higher construction input and labour costs. The rapid increase of rental growth over the last 12 months has resulted in year-on-year prime rental growth rate to 41.0% in South Sydney and 22.0% in the Outer South West. The y-o-y growth in South Sydney is currently the highest on record since JLL began tracking the market in 1986.

Yield observations
Over the last 12 months to Q1 2024, the average prime midpoint yield in the Outer Central West decompressed by 125 bps to 5.50%. Similarly, the average prime midpoint yield in South Sydney decompressed by 88 bps to 5.13% over the same time period.

Sydney Financial Indicators Summary

	Prime Existing Net Rents (AUD psm p.a.)			Capital Value Indicator			Prime Market Midpoint Yield		
	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change (bps)	Y-o-Y Change (bps)
Inner West	226	1.3%	12.4%	4,580	0.2%	-1.8%	5.38%	13 bps	88 bps
North	258	3.5%	3.5%	N/A	N/A	N/A	5.88%	25 bps	75 bps
Outer Central West	210	1.9%	8.4%	3,908	-2.9%	-16.5%	5.50%	25 bps	125 bps
Outer North West	213	1.9%	17.1%	N/A	N/A	N/A	5.63%	25 bps	100 bps
Outer South West	215	2.4%	22.0%	N/A	N/A	N/A	5.50%	13 bps	88 bps
South Sydney	399	6.4%	41.0%	6,983	3.6%	15.9%	5.13%	13 bps	88 bps

Source: JLL Research as at Q1 2024

Melbourne

Demand
Gross take-up totals decreased from the elevated levels recorded over 2021 and 2022. Over the 12 months to Q1 2024, gross take-up totaled 936,400 sqm – a 36.9% decrease from the 2022 annual gross take-up of 1.48 million sqm. A number of industrial occupiers have relocated operations from Sydney to the Melbourne market to reduce business accommodation costs through more affordable rents. However, an increasing number of occupiers are offering surplus warehouse space back to the market on a sub-lease basis which is something not recorded in the market previously over the last decade.

Pre-lease commitments accounted for 43.1% of the gross-take-up recorded over the last 12 months to Q1 2024. Similar to

Figure 8:
Melbourne Gross Take-up

Source: JLL Research. As at Q1 2024

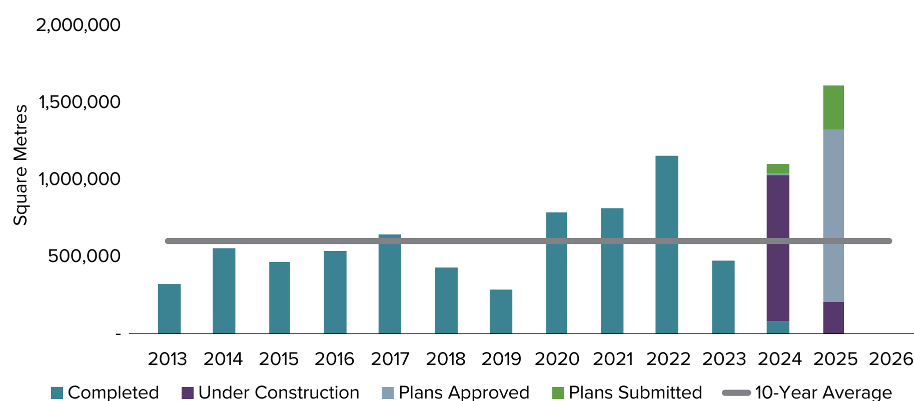
other eastern seaboard industrial markets, This preference for existing warehouse space over pre-lease and owner-occupier design & construction commitments is symptomatic of occupiers requiring space more rapidly as a reaction to inventory requirements and the increase of speculative warehouse development introduced to market over the past 18 months. Occupiers seeking modern, efficient warehouse space benefited from this increased speculative supply, securing new warehouse accommodation without having to wait on construction timeframes.

Geographically, the West precinct accounted for 46.1% of Melbourne's industrial take-up over the last 12 months, totalling 431,200 sqm. This was followed by the South East precinct accounting for 30.6% (286,600 sqm), with the majority of the balance recorded in the North (21.4%, 200,000 sqm)

On a business sector level, over the 12 months to Q1 2024, the transport, postal & warehousing sector was the most active, accounting for 33.0% of gross take-up (309,200 sqm). The retail trade sector also accounted for a significant take-up portion of the market total (29.0% - 271,600 sqm).

Supply
Quarterly supply in Melbourne reached 83,700 sqm in Q1 2024. This brought rolling 12-month supply to 503,700 sqm – a 15.9% decrease from the long-term 10-year average of 598,800 sqm recorded from 2013-2022. Under half of supply delivered over the last 12 months was completed with a pre-commitment occupier in place (36.5%). However, leasing activity for newly completed speculative supply has been positive with multiple large occupier relocations into speculative warehouse space recorded in 2024.

Figure 9:
Melbourne Industrial Supply Pipeline



Source: JLL Research. As at Q1 2024

Over the last 12 months, the largest proportion of new supply was delivered in the West (52.6% - 265,000 sqm). The balance of completions this quarter was split evenly between the South East (24.0% - 121,100 sqm) and the North (20.6% - 103,600 sqm).

There is currently 954,000 sqm of supply under construction expected over the balance of 2024.

Prime rents
Average prime net face rental growth increased between 0.0% and 7.8% in Q1 2024. The largest quarterly increase was recorded in the West precinct (7.8% q-o-q).

Incentives were stable across most precincts this quarter. However, average prime incentives in the South East precinct increased marginally as occupier demand moderates.

On an annual basis, average net face rental growth in Melbourne's South East precinct reached 19.3% in Q1 2024 – the strongest rate of annual growth recorded in the precinct since 2007. Average net face rental growth in the West precinct reached 17.1% y-o-y in Q1 2024 after peaking at 30.5% in Q1 2023. Average net face rental growth in the North precinct reached 18.7% y-o-y in Q1 2024 after peaking at 34.0% in Q1 2023.

Yield observations
Over the last 12 months to Q1 2024, the average prime midpoint yield in the South East precinct decompressed 100 bps to 5.63%. Similarly, decompression over the past 12 months in the West and North precincts was 113 bps, reaching a prime midpoint yield of 5.75%.

Melbourne Financial Indicators Summary

	Prime Existing Net Rents (AUD psm p.a.)			Capital Value Indicator			Prime Market Midpoint Yield		
	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change (bps)	Y-o-Y Change (bps)
Northern	140	5.3%	18.7%	N/A	N/A	N/A	5.75%	13 bps	113 bps
Southern	139	7.8%	17.1%	2,320	5.4%	-6.2%	5.75%	13 bps	113 bps
Trade Coast	151	7.1%	19.3%	2,724	7.1%	2.2%	5.63%	0 bps	100 bps

Source: JLL Research as at Q1 2024

Brisbane

Demand

Gross take-up in Brisbane has decreased for three consecutive quarters. However, this follows a period of particularly strong occupier demand through most of 2022 and early 2023. Gross take-up in Q1 2024 reached 151,000 sqm which brought the 12-month rolling annual gross take-up total to 735,800 sqm – well above the long-term 10-year annual gross take-up figure of 510,400 sqm recorded from 2013-2022.

Pre-lease commitments accounted for 38.7% of the gross-take-up figure recorded over the last 12 months. Similar to other eastern seaboard industrial markets, this recent preference for existing space over new buildings in the form of pre-lease and owner-occupier design & construction facilities is a result of developers looking to build more warehouse space speculatively to maximise on the strong rental growth environment as well as occupiers requiring space more rapidly as a reaction to inventory requirements.

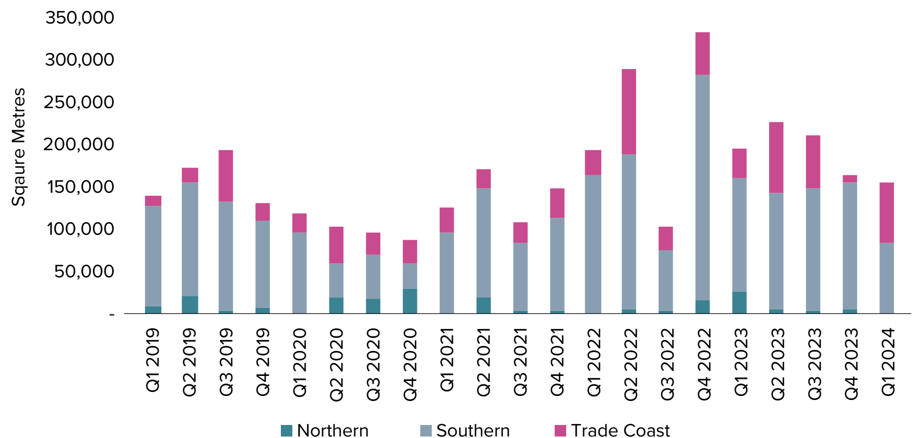
Geographically, the Southern precinct accounted for 68.3% of Brisbane's industrial take-up over the last 12 months, totalling 502,400 sqm. This was followed by the Trade Coast precinct accounting for 30.0% (220,900 sqm), with the balance recorded in the Northern precinct (1.7%, 12,500 sqm).

On a business sector level, over the 12 months to Q1 2024, the transport, postal & warehousing sector was the most active, accounting for 42.3% of gross take-up (311,400 sqm). The retail trade sector also accounted for a significant take-up portion of the market total (14.1% - 104,100 sqm).

Supply

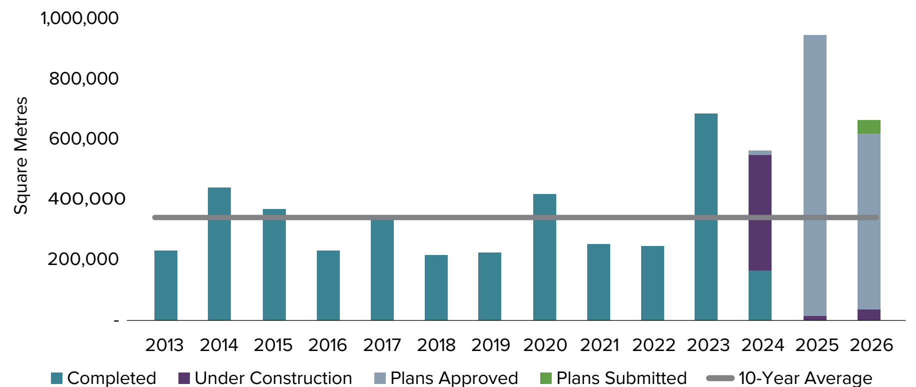
Quarterly supply in Brisbane reached 165,500 sqm in Q1 2024. This brought the rolling 12-month supply total to 709,700 sqm, which was the largest rolling 12-month supply total on record in the market.

Figure 10:
Brisbane Gross Take-up



Source: JLL Research. As at Q1 2024

Figure 11:
Brisbane Industrial Supply Pipeline



Source: JLL Research. As at Q1 2024

Approximately 49.1% of supply delivered over the last 12 months was completed with a pre-commitment occupier in place. However, 100% of the quarterly supply in Q1 2024 was completed with a pre-lease occupier commitment in place.

Over the last 12 months, most of the new supply was delivered in the Southern precinct (81.2% - 576,100 sqm). The balance of completions this quarter was predominantly recorded in the Trade Coast (14.8% - 105,000 sqm).

There is currently 430,400 sqm of supply under construction expected over the next two years to the end of 2025.

Prime rents

Average prime rental growth in Brisbane improved in Q1 2024, ranging between 4.3% and 5.9% q-o-q. The largest quarterly increase in average prime net face rents was recorded in the Trade Coast precinct (5.9% y-o-y).

Average prime incentives were broadly stable in Q1 2024 with the exception of the Northern precinct which increased marginally.

On an annual basis, average net face rental growth in Brisbane's Trade Coast precinct reached 18.8%. Average net face rental growth in the Southern precinct reached 9.5% y-o-y in Q1 2024. Average net face rental growth in the Northern precinct reached 14.5% y-o-y in Q1 2024.

Yield observations

Yield decompression in the Brisbane industrial market has been less pronounced than the Sydney and Melbourne market. Over the last 12 months, average prime midpoint yields softened by between 42-75 bps across the three precincts to 5.63% in the Trade Coast precinct and 5.88% in the Southern and Northern precincts. Investor demand in Brisbane has been supported by a strong population growth profile in the state of Queensland, which has buoyed goods consumption and, in turn, industrial occupier demand.

Brisbane Financial Indicators Summary

	Prime Existing Net Rents (AUD psm p.a.)			Capital Value Indicator			Prime Market Midpoint Yield		
	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change (bps)	Y-o-Y Change (bps)
Northern	167	4.4%	14.5%	N/A	N/A	N/A	6.00%	13 bps	75 bps
Southern	147	4.3%	9.5%	2,361	1.6%	-4.6%	6.00%	13 bps	75 bps
Trade Coast	179	5.9%	18.8%	N/A	N/A	N/A	5.63%	0 bps	42 bps

Source: JLL Research as at Q1 2024

Adelaide

Demand

Gross take-up decreased significantly in Q1 2024 with only 5,400 sqm recorded across one major occupier move. Over the 12 months to Q1 2024, gross take-up totalled 141,100 sqm, broadly in line with the long-term, 10-year average of 153,100 sqm recorded from 2013-2022.

Pre-lease commitments accounted for 27.4% of the annual gross-take-up figure. Similar to other industrial markets nationally, this preference for existing space over new buildings in the form of pre-lease and owner-occupier design & construction facilities is a result of occupiers requiring space quickly with a lower willingness to wait for new warehouse space. Developers in Adelaide have had a lower appetite for speculative development given the lower volume of occupiers of scale that could absorb newly built warehouse space.

Geographically, the North West precinct accounted for 53.7% of Adelaide's industrial take-up over the last 12 months, totalling 75,800 sqm. The majority of the balance was recorded in the Inner West/East precinct (21.2%, 29,900 sqm) and the Outer North precinct (13.2%, 18,600 sqm). On a business sector level, over the 12 months to Q1 2024, the transport, postal & warehousing sector was the most active, accounting for 23.6% of gross take-up (33,300 sqm). The manufacturing sector also accounted for a significant take-up portion of the market total (13.2% - 18,600 sqm).

Figure 12:
Adelaide Gross Take-up

Source: JLL Research. As at Q1 2024

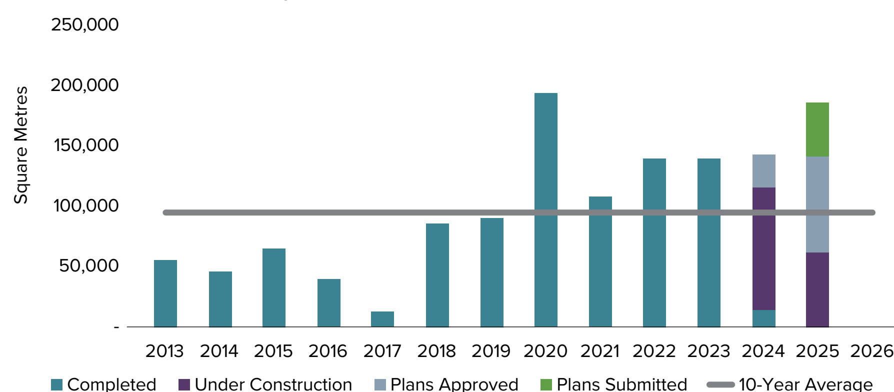
Supply
Quarterly supply in Adelaide has decreased for five consecutive quarters, reaching 14,400 sqm in Q1 2024. Rolling 12-month supply reached 109,100 sqm, above the long-term, 10-year average of 83,600 sqm recorded from 2013-2022. Approximately 80.8% of supply delivered over the last 12 months was completed with a pre-commitment occupier in place, symptomatic of developers in Adelaide lower appetite for speculative supply.

Over the last 12 months, most of the new supply was delivered in the Outer North precinct (63.9% - 69,700 sqm). The balance of completions this year was recorded in the North West (27.4% - 29,900 sqm).

The future supply pipeline is expected to be steady. An additional 161,300 sqm of new supply is currently under construction, expected over the next two years to the end of 2025.

Prime Rents
Average prime net face rents continued to trend upwards, increasing between 2.6%-4.4% across all precincts in Q1 2024. The largest quarterly increase was recorded in the North East precinct (4.4% q-o-q).

Figure 13:
Adelaide Industrial Supply Pipeline



Source: JLL Research. As at Q1 2024

Average prime incentives were stable in Q1 2024 but have increased moderately over the past 12 months. Like most markets, average incentives are increasing from cyclical lows throughout 2022 and the first half of 2023.

On an annual basis, average net face rental growth in Adelaide ranged between 6.8% to 16.9%. The largest year-on-year growth was recorded in the Outer North precinct (16.9%), followed by the Outer South (12.7%), and the North East precinct (10.2%).

Yield Observations
Average prime yields were stable in Q1 2024 across all precincts in Adelaide. Similar to other industrial markets in Australia, the average prime midpoint yields softened by between 50-75 bps over the last 12 months to 5.88% in the North West precinct, 6.13% in the Inner West/East, 6.25% in the North East, Outer North and Inner South, and 7.63% in the Outer South.

Adelaide Financial Indicators Summary

	Prime Existing Net Rents (AUD psm p.a.)			Capital Value Indicator			Prime Market Midpoint Yield		
	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change (bps)	Y-o-Y Change (bps)
Inner South	133	3.9%	8.1%	N/A	N/A	N/A	6.25%	0 bps	50 bps
Inner West-East	156	3.3%	6.8%	2,684	3.2%	-6.1%	6.13%	0 bps	75 bps
North East	119	4.4%	10.2%	N/A	N/A	N/A	6.25%	0 bps	75 bps
North West	125	4.2%	9.6%	2,613	4.1%	-4.1%	5.88%	0 bps	75 bps
Outer North	104	3.0%	16.9%	N/A	N/A	N/A	6.25%	0 bps	75 bps
Outer South	80	2.6%	12.7%	N/A	N/A	N/A	7.63%	0 bps	50 bps

Source: JLL Research as at Q1 2024

Perth

Demand

Quarterly gross take-up increased by 62.4% in Q1 2024 to 77,700 sqm. Over the 12 months to Q1 2024, gross take-up totalled 257,200 sqm – above the long-term 10-year average of 205,000 sqm recorded from 2013-2022.

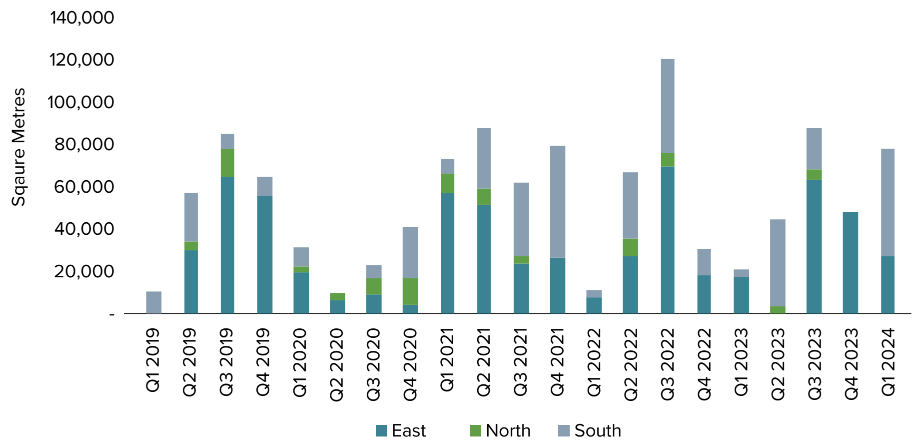
Pre-lease commitments accounted for 11.9% of the rolling 12-month gross-take-up figure. Similar to other industrial markets nationally, this preference for existing space over new buildings in the form of pre-lease and owner-occupier design & construction facilities is a result of occupiers requiring space quickly with a lower willingness to wait for new warehouse space.

Geographically, the most gross take-up over the last 12 months to Q1 2024 was recorded evenly between the East precinct (53.9%, 138,700 sqm) and the South precinct (43.0%, 110,700 sqm). On a business sector level, over the 12 months to Q1 2024, the transport, postal & warehousing sector was the most active, accounting for 26.1% of gross take-up (75,400 sqm). The manufacturing sector also accounted for a significant take-up portion of the market total (14.0% - 35,900 sqm).

Supply

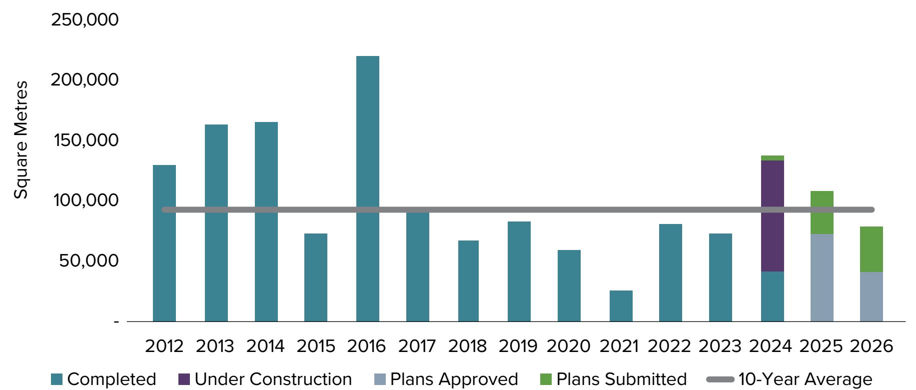
Quarterly supply in Perth reached 40,100 sqm in Q1 2024 – broadly in line with the previous quarter's supply total (40,800 sqm). As a result, rolling 12-month supply reached 112,500 sqm, in line with the long-term, 10-year average of 101,600 sqm recorded over 2013-2022. Approximately 59.7% of supply delivered over the last 12 months to Q1 2024 was completed with a pre-commitment occupier in place, reflecting increased developer appetite for speculative development.

Figure 14:
Perth Gross Take-up



Source: JLL Research as at Q1 2024

Figure 15:
Perth Industrial Supply Pipeline



Source: JLL Research as at Q1 2024

Over the last 12 months to Q1 2024, the largest proportion of new supply was delivered in the South precinct (75.3% - 84,800 sqm). Most of the balance was completed in the East precinct (18.4% - 20,800 sqm).

Looking forward, supply delivery in Perth is expected to slow with 91,000 sqm of supply under construction likely to complete in 2024.

Prime Rents

Average prime net face rents in Perth were unchanged for a fourth consecutive quarter in Q1 2024. As a result, year-on-year prime rental growth was stable.

Average prime incentives were stable in Q1 2024 but have increased across all precincts over the last 12 months, ranging from 8%-10%.

Yield Observations

Average prime yields were stable in Q1 2024 across all precincts in Perth. Similar to other industrial markets in Australia, the average prime midpoint yields softened by 75 bps over the last 12 months to 6.25% across all precincts.

Perth Financial Indicators Summary

	Prime Existing Net Rents (AUD psm p.a.)			Capital Value Indicator			Prime Market Midpoint Yield		
	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change	Y-o-Y Change	Q1 2024	Q-o-Q Change (bps)	Y-o-Y Change (bps)
East	140	0.0%	0.0%	1,522	0.0%	-11.8%	6.25%	0 bps	75 bps
North	130	0.0%	0.0%	N/A	N/A	N/A	6.25%	0 bps	75 bps
South	128	0.0%	0.0%	N/A	N/A	N/A	6.25%	0 bps	75 bps

Source: JLL Research as at Q1 2024

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CHINA

INDEPENDENT MARKET RESEARCH

By CBRE

MACRO-ECONOMIC OVERVIEW

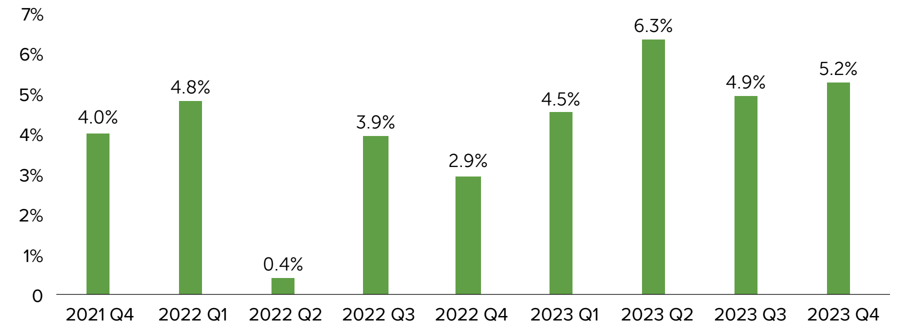
China's shift in growth engines

China's GDP grew by 5.2% y-o-y in 2023, according to preliminary estimates by the National Bureau of Statistics (NBS). While this reached the government's official target of around 5% set at the beginning of the year, the recovery throughout the year was inconsistent (Figure 1).

In 2023, China's disposable income per capita amounted to RMB 51,821, a real increase of 4.8% after deducting price factors (Figure 2). The growth was due to 2022's relatively low base, and came in below pre-pandemic levels (5.0% as of 2019). Still-weak consumer confidence slowed the consumption rebound over the year. As the fundamental force driving economic growth, domestic consumption contributed 80% or 4.4 percentage points of GDP growth in Q4 2023. However, retail sales growth lost momentum in December, while the CPI remained in negative growth territory for three consecutive months in Q4 2023. The consumer recovery therefore remains weaker than expected.

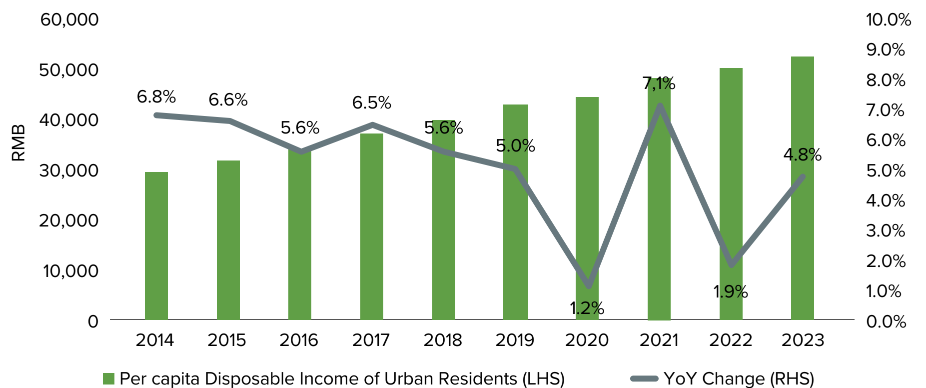
Medium and long-term economic indicators show that China is entering a new phase of economic growth. Exports, investment, and human capital, which have underpinned China's rapid growth over the past 20 years, are gradually slowing. New home sales fell by 25% in 2022 after peaking at RMB 1.7 billion in 2021, while the country's population declined for the first time in 60 years in 2022. China has seen a shift in industrial structure from labor-intensive to capital-intensive dominance. From 2012 to 2022, the equipment manufacturing industry and the high-tech manufacturing industry have been developing rapidly, with investment in the two industries achieving an average annual growth rate of 5.6% and 7.4% respectively. The proportion of value added from the equipment manufacturing and high-tech manufacturing industries also increased from 28% and 9.4% to 31.8% and 15.5%, respectively. The profound transformation of China's economic structure will promote continuous upgrading and optimization of the industrial chain, which will drive demand for the development of modern, high specification warehouses in the long term.

Figure 1:
China GDP Growth (%, Y-o-Y)



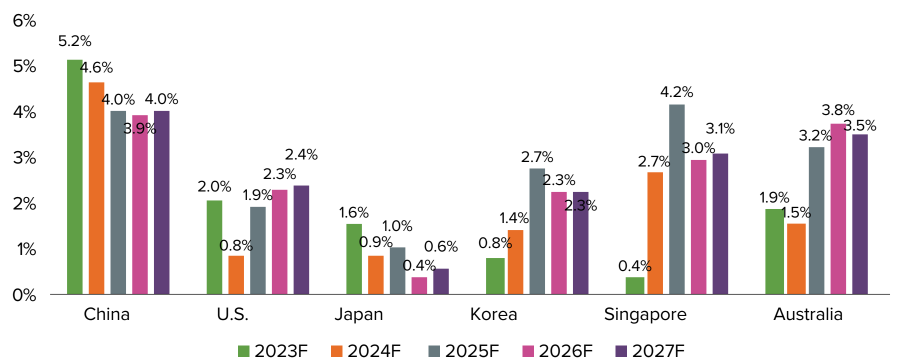
Source: Wind, NBS, CBRE, Jan 2024

Figure 2:
Per Capita Disposable Income of Urban Residents and YoY Change



*Y-o-Y refers to real increase after deducting the price factor
Source: Wind, NBS, CBRE research, Jan 2024

Figure 3:
GDP Growth Forecast of Major Economies (2023-2027F)



Source: CBRE, Jan 2024

CBRE forecasts China's GDP will increase by 4.6% in 2024 (Figure 3). The short-term economic outlook remains challenging due to volatile external economic and geopolitical conditions, along with still-fragile business expectations and consumer confidence. Over a five-year horizon, despite its enormous size, China will continue to be one of the fastest growing economies in the world, with its GDP projected to increase by 4.4% per annum. New growth drivers will emerge and propel China's economy into a new era of high-quality growth, where the sustainability of economic development, economic structural adjustment and industrial upgrading, as well as improvements to the quality of life of the general population, will assume greater importance than ever before.

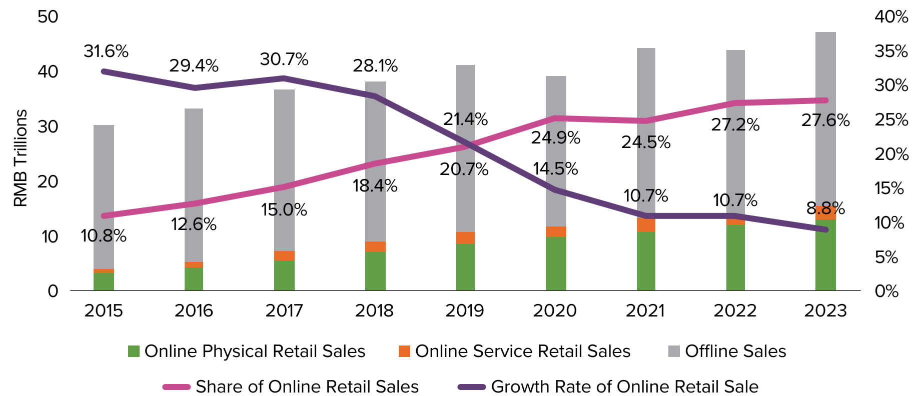
In 2023, total retail sales of consumer goods amounted to RMB 47.15 trillion, an increase of 7.2% over the previous year. Online retail sales was recorded at RMB 15.4 trillion, with a y-o-y growth of 11% (Figure 4). China has been the largest online retail market for 11 consecutive years since 2013. In 2023, the proportion of online retail sales (of physical goods) increased to 27.6%, a record high. However, the growth rate of online retail sales has normalized, falling from double digits into the single digits in 2023.

In the "Double 11" shopping festival of 2023, major e-commerce platforms achieved a gross merchandise value (GMV) of RMB 1,138.6 billion, representing a moderate y-o-y increase of 2.1%. Traditional e-commerce platforms such as Alibaba and JD maintained their dominant market share but experienced a slight drop, while the live streaming e-commerce market continued to see double-digit growth. TikTok[1] ranked first in live streaming e-commerce market share, followed by Diantao[2] and Kuaishou.

According to NBS, China's official PMI stood at 49.0 in December 2023, down from 49.4 in the previous month (Figure 5). The national investment in fixed assets increased by 3.0% in 2023, lower than the Y-o-Y growth rate of 5.1% in 2022 (Figure 6). Within this, private fixed asset investment fell by 0.4%, a further decline from the 2022 level owing to the deep adjustment of the real estate market.

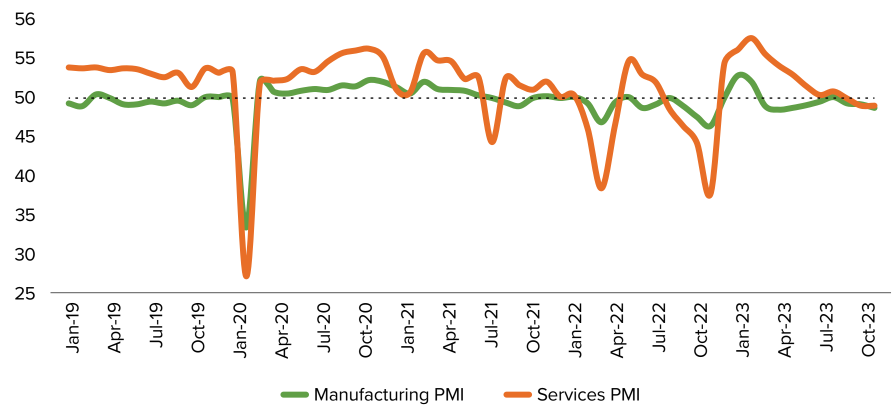
1 Owned and operated by Bytedance Group
2 Alibaba's livestream app formerly known as Taobao Live

Figure 4:
Share and Growth Rate of Online Retail Sales*



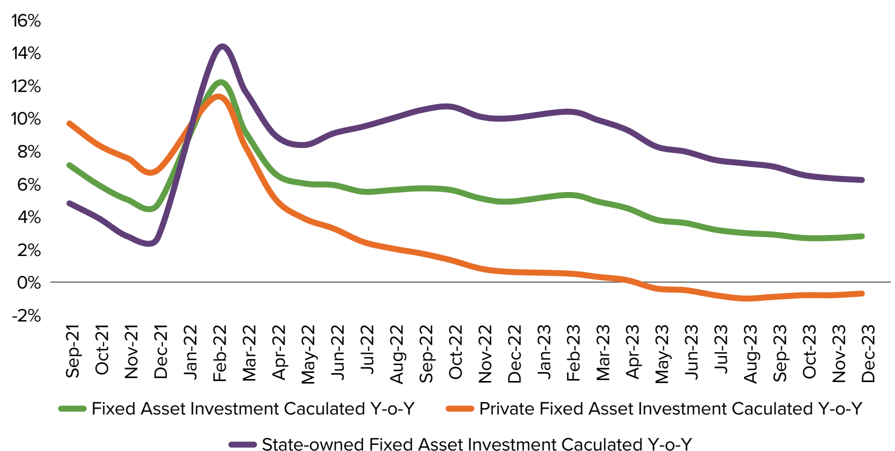
*Note: Online retail sales refers to physical merchandise retail sales
Source: Wind, NBS, CBRE research, Jan 2024

Figure 5:
China Manufacturing PMI and Service PMI (2019-2023)



Source: Wind, NBS, CBRE Research, Jan 2024

Figure 6:
Fixed Asset Investment



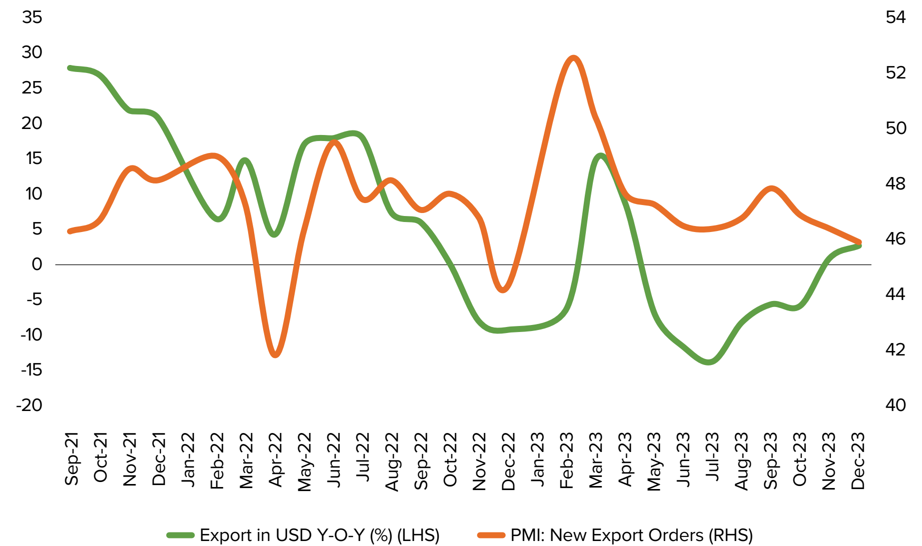
Source: Wind, NBS, CBRE Research, Jan 2024

China's foreign trade was generally stable in 2023. According to the latest data from the World Trade Organization, the international market share of China's exports is expected to remain at a relatively high level of around 14% in 2023. China's total import and export of goods amounted to RMB 4,175.7 billion, an increase of 0.2% over the previous year (but -4.6% in USD terms). The value of exports totaled RMB 23,772.6 billion in 2023, an increase of 0.6%. Exports had increased 2.3% y-o-y in December, the second consecutive month of growth after months of decline earlier in the year (Figure 7). The combined exports of the "new three" products, namely electric passenger vehicles, lithium-ion batteries and solar cells, surpassed the trillion-yuan mark for the first time with an increase of 29.9%. However, growing trade tensions and geopolitical pressure will weigh on the electric vehicle and solar industries, which are highly dependent on foreign markets. In October 2023, the European Commission launched an investigation into subsidized electric cars from China, which could lead to trade restrictive measures such as import tariffs on Chinese cars.

In response to the uncertain climate and sluggish economic growth, the central government has quickly rolled out counter-cyclical measures to mitigate the risk of economic slowdown and boost consumer confidence. The People's Bank of China (PBoC) lowered the reserve requirement ratio (RRR) by 50 bps in 2023, fueling the economy with extra liquidity. 2023 also saw the 1-year loan prime rate (LPR) further lowered by 10 bps and the 5-year LPR by 20 bps (Figure 8).

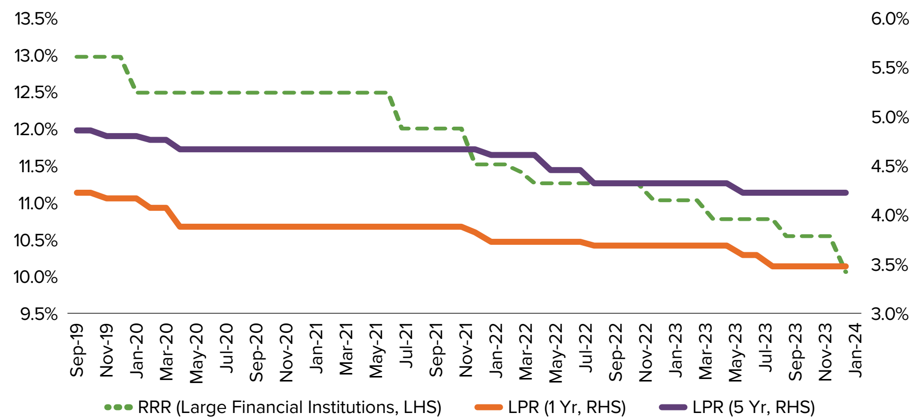
With demand remaining relatively weak and the foundations of an economic recovery still shaky, countercyclical regulation is expected to be further strengthened, and monetary and fiscal easing may continue. On 24 January 2024, China's central bank announced that it will further cut the RRR for banks by 50 bps from 5 February, which will provide 1 trillion yuan in long-term liquidity to the market, sending a strong signal of backing the volatile economy.

Figure 7:
Exports



Source: Wind, GACC, NBS, CBRE Research, Jan 2024

Figure 8:
PBoC's Loosening Monetary Policy to Cushion Economic Slowdown



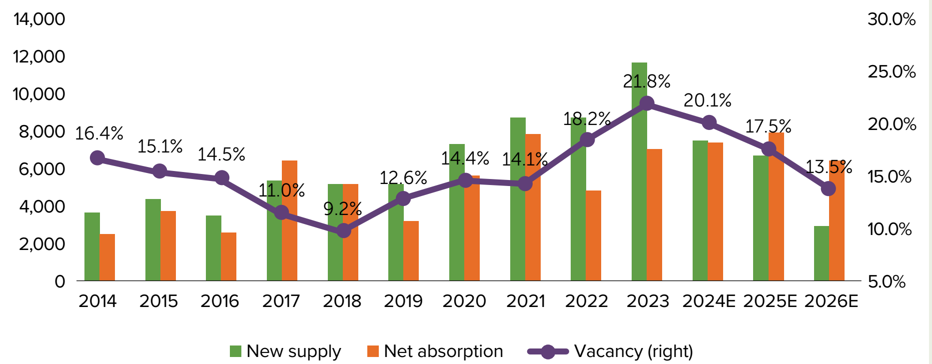
Source: PBoC, Jan 2024

LOGISTICS PROPERTY MARKET TRENDS AND PERFORMANCE

Overall Supply & Demand Dynamics

According to CBRE Research, by the end of 4Q 2023, the total stock of grade A warehouses in China will increase to 85.1 million sq. m. across 23 major markets[3] with an average rent of RMB 33.6 per sq. m. per month, and overall vacancy rate of 21.8% (Figure 9).

Figure 9:
Supply, net absorption and vacancy rate(2017-2026E)



Source: CBRE, Jan 2024

China's warehouse new supply exceeded 12 million sq. m. in 2023, which was a record high. A significant increase in land supply in 2020 and 2021 led to an increase in completed stock in 2023. The pandemic-driven suspension of business activity for large parts of 2022 also resulted in the deferral of over 2 million sq. m. of new logistics supply to 2023. In addition, the resilient performance of logistics assets during the Covid-19 pandemic drove some new players to enter the market through greenfield development, which further contributed to supply growth. As a result, the nationwide vacancy rate rose to a five-year high in 2023.

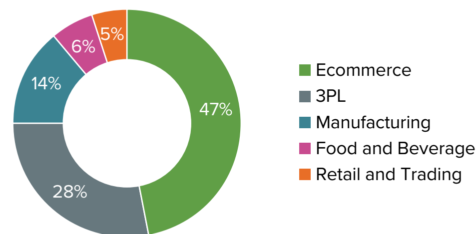
Warehouse net absorption in China's major cities reached 7.2 million sq. m. in 2023. This marked a significant increase of 45.2% y-o-y, equivalent to 149% of the average level of the three years prior to the onset of the pandemic.

Looking ahead, new supply is projected to fall back to a more manageable level of around 6-6.5 million sq. m. per annum over the next two years. Major developers have slowed or even stopped developing new projects for the past one to two years. New supply for 2024 will be mainly concentrated in tier 1 metropolitan areas, which may push up the vacancy rate and put pressure on rental growth in these areas in the near term. Rents in East China (Shanghai and Ningbo) had already weakened in 2023 amid a fragile export market. Given the resilience of leasing demand, the supply-demand balance is expected to gradually improve from 2025.

Demand Analysis

Demand for high-quality logistics space in China is predominantly driven by third-party logistics (3PL) players and e-commerce companies. CBRE's statistics show that the 3PL and e-commerce companies have cumulatively contributed to 70%-80% of the total leasing volume of grade A warehouses in the past five years (2019-2023), a trend CBRE believes is set to continue based on new growth opportunities unveiled for the two industries in the years ahead. However, the key players were not seeing major uplifts in revenues, and most of their bottom line performance had been coming from cost controls, which hit rental rates and lowered their demand for expansion.

Figure 10:
Tenant Breakdown of New Leases in 2023



Note: Ecommerce sector is mainly driven by demand from cross-border ecommerce in South China.
Source: CBRE, Jan 2024

In the past year, the logistics market saw generally muted leasing activity. That said, traditional market demand remained stable, led by a recovery in domestic consumption, with absorption growing 45% compared to 2022. 3PL and e-commerce accounted for about 80% of new leasing transactions (Figure 10). In the e-commerce sector, the continued expansion of cross-border e-commerce platforms in South China brought strong leasing demand (Figure 11). Based on the pre-leasing data and growth expectations announced by these cross-border e-commerce giants, their future demand for modern warehouses is expected to have room for growth. However, competition between major players such as Shein and Temu (owned by PDD Holdings) and trade tensions with the major EU and US markets, could present risks to growth prospects. Demand from the manufacturing industry remained stable, especially in the new energy and new consumption sectors, although risks from trade tensions persist.

Cross-border e-commerce has boomed under the dual drivers of government policies and market demand, offering massive business opportunities for numerous Chinese small and medium-sized enterprises (SMEs). Data showed that cross-border ecommerce has emerged as a significant force to propel the development of foreign trade. The

3 CBRE 23 major markets include four tier-1 markets, i.e. Beijing, Shanghai, Guangzhou, Shenzhen, and 19 tier-2 markets, i.e. Tianjin, Langfang, Dalian, Qingdao, Shenyang, Nanjing, Suzhou (main city), Kunshan, Taicang, Changshu, Wuxi, Hangzhou, Ningbo, Jiaxing, Foshan, Dongguan, Huizhou, Wuhan, Chengdu and Chongqing.

total market value of China's cross-border e-commerce imports and exports exceeded RMB 2 trillion for the first time in 2022. The 2023 figure amounted to RMB 2.38 trillion yuan, representing a y-o-y increase of 15.6%. Exports stood at RMB 1.83 trillion, up by 19.6%. Looking ahead, however, slower growth is expected to become the new normal, owing to increasingly fierce competition between global e-commerce players and weaker consumer confidence.

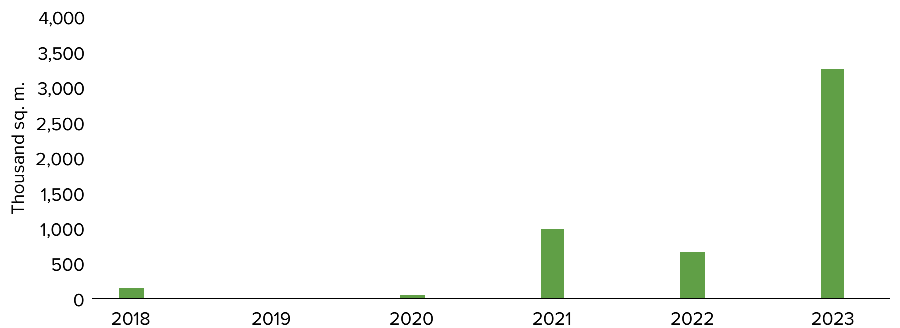
In terms of rental trends, only Wuxi and Hangzhou in East China saw stable rental growth, while rents in all other cities were flat. Shanghai and Ningbo saw weakening rents amid the fragile export market. Tier 2 markets, led by Wuhan and Chongqing, also saw downward pressure. South China was an exception, buoyed by healthy demand from the cross-border ecommerce industry. While rents in South China are expected to continue seeing stable growth, trade tensions continue to pose a risk.

Landlords have been offering higher rental incentives to new tenants recently under the highly competitive market environment. While relocation and consolidation will become more common in 2024, yet the impact on rentals will take time to emerge, and we expect the downward pressure may remain for a longer period. Certain submarkets with surged supply or weakened export segments in tier 1 cities may see weakening rents in 2024. Tier 2 cities, on the other hand, are bottoming out.

Investment Market

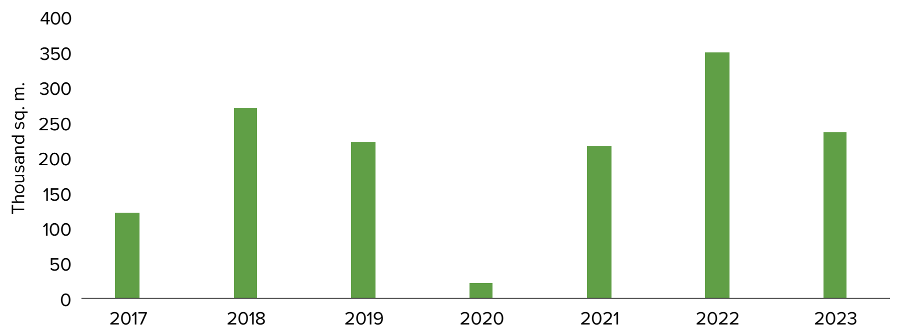
Logistics investment experienced an abrupt downturn in 2023, with both transaction volume and total transaction value declining significantly, while the logistics cap rate expanded over the year. That said, logistics transactions rebounded in Q4 2023, underpinned by major transactions including Tankang's purchase of a logistics portfolio and GLP's steady fundraising activities. This indicates that investors continue to regard logistics assets as attractive structural plays. However, price adjustment in the sector is expected to continue in the short term due to rental market volatility and the global high interest rate environment.

Figure 11:
New Leases From Cross-border E-commerce



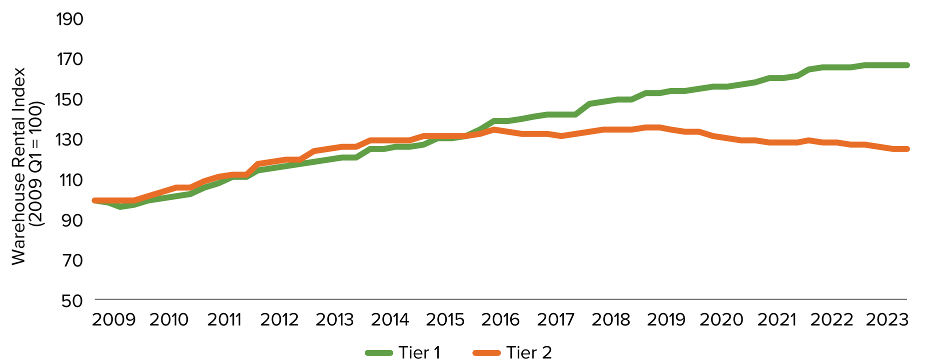
Source: CBRE, Jan 2024

Figure 12:
New Leases from Auto Parts



Note: the sudden drop in 2020 was affected by pandemic
Source: CBRE, Jan 2024

Figure 13:
Rental Trends (2009-2023)



Source: CBRE, Jan 2024

KEY LOGISTICS HUBS

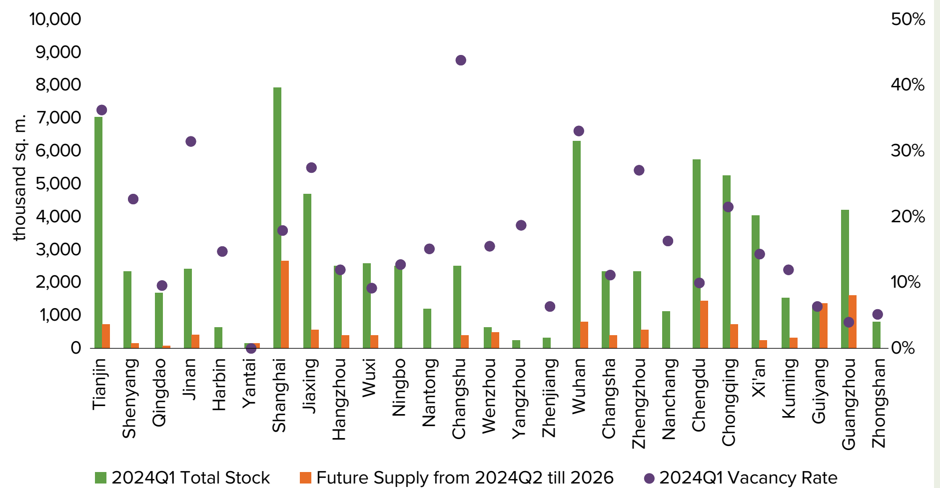
North China

In Jing-Jin-ji (an industrial cluster covering Beijing, Tianjin and Hebei), 3PLs accounted for 50% of the new leases in 2023, declining from over 60% in 2022 due to the consolidation of contract logistics. Manufacturing tenants remained stable at over 20%, while new growth was seen from the auto parts (~6%) and photovoltaic (PV) industries (~4%). Integrated transportation and logistics service providers, such as JDL and SF Express, continued to grow their presence in Jing-Jin-Ji, reaching over 17% of new leases. The warehouse landlords of Tianjin are adopting a "price for volume" strategy to attract tenants. Market rents in Tianjin have fallen sharply due to supply pressure as well as the impact of the price war in Langfang, though new leasing demand in Tianjin has emerged from the PV industry. Shenyang and Jinan are also currently tenant's markets. There will be over 400,000 sq. m. of new supply released in 2024 in Jinan, the rental growth is expected to be flat. On the other hand, Shenyang's occupancy rate is expected to continue to improve going forward as new supply will be limited.

East China

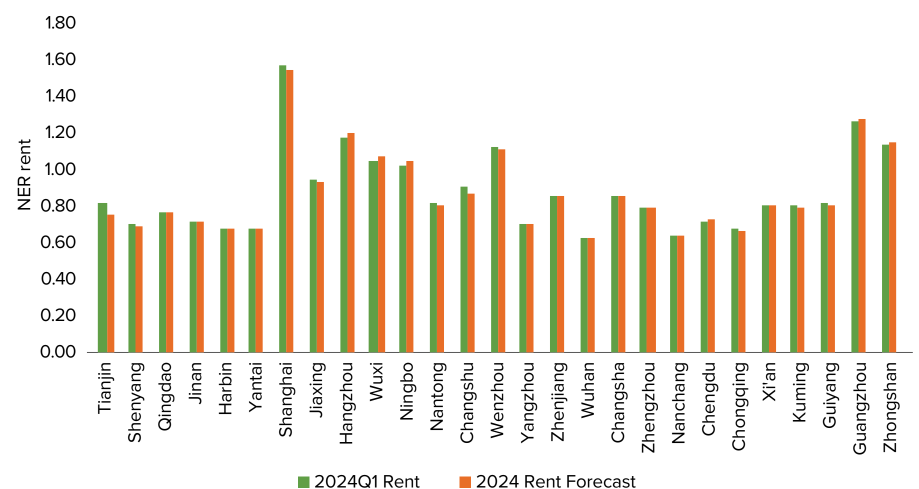
In the Yangtze River Delta area, the resilient manufacturing sector increased its share of new leases from 15% in 2022 to 42% in 2023. In Shanghai, rental growth saw a modest 0.5% y-o-y increase due to the substantial amount of new supply. That said, leasing demand from 3PLs grew significantly as more companies adopted integrated warehouse and distribution services, driven by growing demand for flexible supply chains particularly in the food, home appliances and cosmetics industries.

Figure 14:
Stock and Vacancy Rate of 2024Q1 and Future Supply till 2026 in 27 Selected Cities



Source: CBRE, Apr 2024

Figure 15:
Rent of 2024Q1 and Rent Forecast of 2024 in 27 Selected Cities



Source: CBRE, Apr 2024

In the Greater Shanghai area, 3PL and other industries have been consolidating their logistics spaces and are seeking spaces with lower rent in satellite cities. For instance, new energy vehicle manufacturer NIO moved from Jiading, Shanghai to Taicang, Suzhou. Elsewhere, growth in auto parts and PV supply chains has created new demand especially in industrial cities such as Jiaxing, which has alleviated some pressure on the leasing market. Changshu's high vacancy rate has caused landlords to aggressively lower rents to attract tenants, while Ningbo also saw its vacancy rate increase due to the export slowdown.

Central and West China

The annual volume of new supply in Wuhan exceeded half a million sq. m. for the fourth consecutive year, pushing the city's existing supply to 6.24 million sq. m. at the end of 2023. Given landlords' leasing strategy of exchanging "price for volume", the city's rental rate fell by 6.1% y-o-y. Chengdu saw a gradual pick-up in demand from the second half of the year, benefiting from the recovery in consumption and an uptick in demand for upgrading in the manufacturing sector. Net absorption grew significantly by 101.7% y-o-y in 2023, while rents fell by 1.1%. Zhengzhou was affected by the supply peak, with the vacancy rate rising significantly to 27.4%. Supply and demand dynamics in Kunming and Guiyang were relatively balanced in 2023, but Guiyang will face new supply of more than 1.3 million sq. m. in the next two years, which is expected to cause an increase in the vacancy rate and a decline in rents.

South China

In the Greater Bay Area (GBA), the surge in cross-border e-commerce was the key demand driver over the past three quarters. Leading platforms Temu, Shein and TikTok expanded aggressively, collectively leasing over 3 million sq. m. of space during the past year in Guangzhou and surrounding cities including Foshan, Zhaoqing, Zhongshan and Qingyuan (Temu leased spaces mostly in Guangzhou/Foshan, while Shein concentrated mostly in Zhaoqing/Foshan). This accounted for over 80% of new leases in the GBA over the past year. Looking forward, Temu has set its 2024 GMV target at USD 30 billion, double last year's target, which may lead to further expansion in its warehouse leasing in the coming year. Fast-fashion giant Shein is reportedly preparing to go public and aims to double its revenue by 2025. Across all regions, the rents in major cities of South China are forecast to grow at 3.0%-3.5% in 2024, while rents in other regions are expected to be flat or decline.

OUTLOOK

In 2024, China's economy will continue to face challenges amid slowing global economic growth and geopolitical tensions especially with the US and EU. While long-term fundamentals of the Chinese economy remain positive, the real estate sector could see continued weakness in the near term.

Looking ahead, e-commerce and 3PL will account for the majority of demand for warehousing logistics in 2024. Although new supply in 2024 will fall 40% to 7.7 million sq. m. compared to 2023, this is still a substantial amount of supply which will likely put further pressure on the market. Net absorption is expected to expand slightly to 7.5 million square meters. While the national vacancy rate is expected to remain high, the supply and demand balance will improve moderately and the overall rental decline is expected to narrow. The market remains challenged by supply issues, coupled with the fact that many tenants will maintain a cautious expansion strategy owing to still-fragile business expectations and consumer confidence. After 2025, however, new supply will reduce to 3 million sq. m., the supply-demand balance will improve significantly, and the vacancy rate is expected to drop to a healthy level of below 15%.

It is expected that the pace of cross-border e-commerce expansion will continue in 2024. According to public information, Temu and TikTok's 2024 e-commerce GMV targets have doubled compared to 2023. However, Chinese giants are facing geopolitical uncertainty and overseas policy regulatory risks, which creates uncertainty surrounding the demand growth for warehousing space. For example, fast-fashion giant Shein is reportedly going through a lengthy approval process and facing copyright lawsuits as it seeks a public listing in the US, which has cast a shadow on expectations for the expansion in demand for cross-border e-commerce warehouses in South China. Furthermore, due to relatively conservative business growth expectations, 3PL, especially supply chain logistics players, will continue to remain cautious in expanding. The EV and PV industries, which are the two new growth drivers for logistics demand, could also be affected by the potential risk of trade tensions as they are highly dependent on global markets.

Tier 1 metropolitan areas, including Beijing and Shanghai, will contribute close to 80% of new supply in 2024, driving the continued rise of new supply in first-tier cities. In addition, the supply of satellite towns in Tier 1 cities will fall by over 50%, entering the phase of destocking. Cities with significant rental declines in 2023, such as Langfang, Tianjin and Wuhan, could potentially see a narrowing in rent declines. South China remains a bright spot, as the only market expected to maintain stable rental growth in 2024. Capital market activity will improve amid steady flow of purchases by corporations and developers. Logistics assets are expected to attract more investors seeking cyclical opportunities as economic and leasing fundamentals improve. While foreign institutions and property funds are expected to stay cautious in 2024, domestic institutions, developers, and corporations will remain the major drivers of purchasing demand.

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HONG KONG

INDEPENDENT MARKET RESEARCH

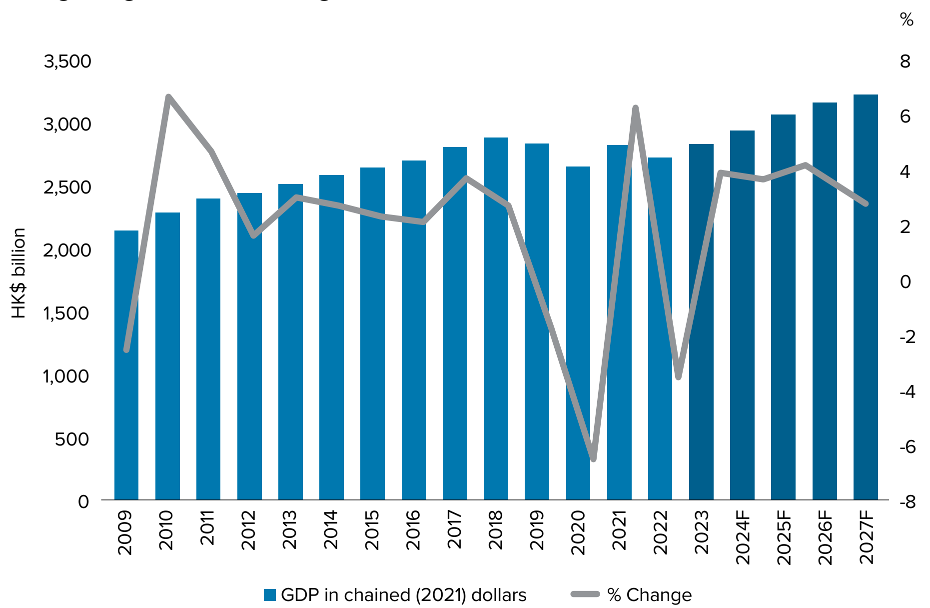
By Savills Research & Consultancy

HONG KONG ECONOMY

Key economic indicators

According to the Census and Statistics Department, Hong Kong's economy rebounded swiftly after its border reopening. Gross Domestic Product (GDP) increased by 3.2% year-on-year ("YoY") in real terms in 2023. Slowing imports and exports, which registered declines of 5.7% and 7.8% YoY respectively in 2023, contributed to the slower-than-expected economic recovery, though imports and exports rebounded by 9.7% and 16.6% over the first two months of 2024. The 16.2% rebound in retail sales in 2023, on the other hand, supported growth, though retail sales growth slowed to 1.5% over the first two months of 2024. It should be noted that as one of the four pillars of the economy, trading and logistics accounted for 22.3% of GDP in terms of basic prices in 2023.

Figure 1:
Hong Kong's real GDP and growth rate, 2009 – 2027F

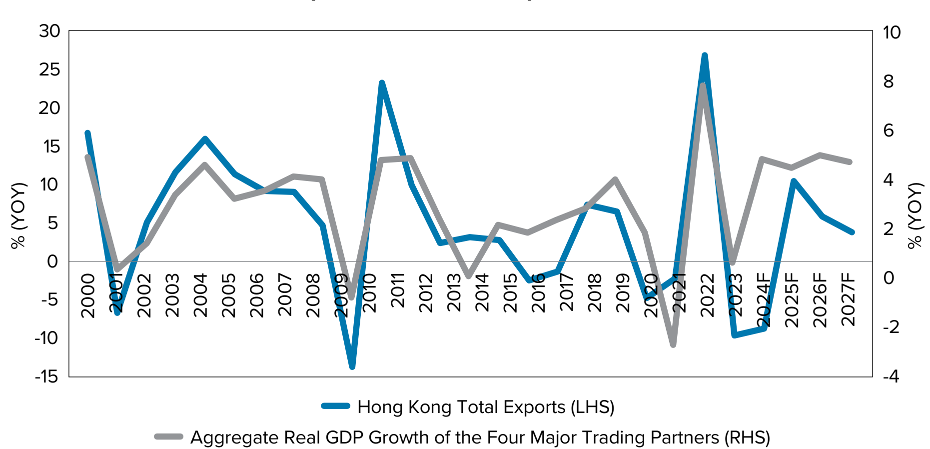


Source: Census and Statistics Department, Oxford Economics, Savills Research & Consultancy

Economic forecasts

According to Oxford Economics, Hong Kong's real GDP growth is forecast to slow to 2.9% in 2024, weighed down by continued difficulties in the external environment, lower local fiscal policy support, continued weakness in the housing market and prolonged monetary tightening.

Figure 2:
Hong Kong total exports vs market performance of four major trading partners: China, United States, European Union, and Japan, 2000 – 2027F



Source: Census and Statistics Department, IMF, Savills Research & Consultancy

Impact of border reopening with the Mainland

The full reopening of all borders in early 2023 had the desired effect of attracting tourists back to the territory, with more than 34 million visitors arriving in Hong Kong over the full year. Nevertheless, Hong Kong residents were also keen to travel abroad after three years of border closure, and coupled with new and value-for-money retail attractions in Shenzhen, Hong Kong recorded more than 72 million outbound trips in 2023. Although retail sales still registered a respectable 16.2% rebound in 2023, this was far below expectations and retail-related logistics demand grew very modestly as a result.

Coupled with the overall decline in merchandise trade in 2023 (despite a rebound in both imports and exports in the fourth quarter of 2023), container throughputs were hard hit with a 14% decline registered in 2023. Air freight fared better with the gradual resumption of air flight capacity and a rebound in regional trade, with air cargo throughput recording a slight rebound of 3.1% in 2023 as a result. With merchandise trades rebounding over the first two months of 2024, air freight continued to post a strong recovery with a 21.3% rebound, while container throughput also recorded a long-awaited rebound of 3.0% over the same period.

Merchandise trade forecasts

Hong Kong's total exports are expected to rebound by 10.6% in 2024, and will continue to grow by 3.6% to 6.2% from 2025 to 2027. The average total export growth of 6.2% per annum from 2024 to 2027 is much higher than the average growth rate of 4.5% in real GDP that is forecast for Hong Kong's four major trading partners - China, the United States, Japan and the European Union - over the same period. Instead, it leans more towards the 5.9% average expected GDP growth of China, reflecting China's increasing importance to the local trading and logistics sectors (Figure 2).

WAREHOUSE MARKET OVERVIEW

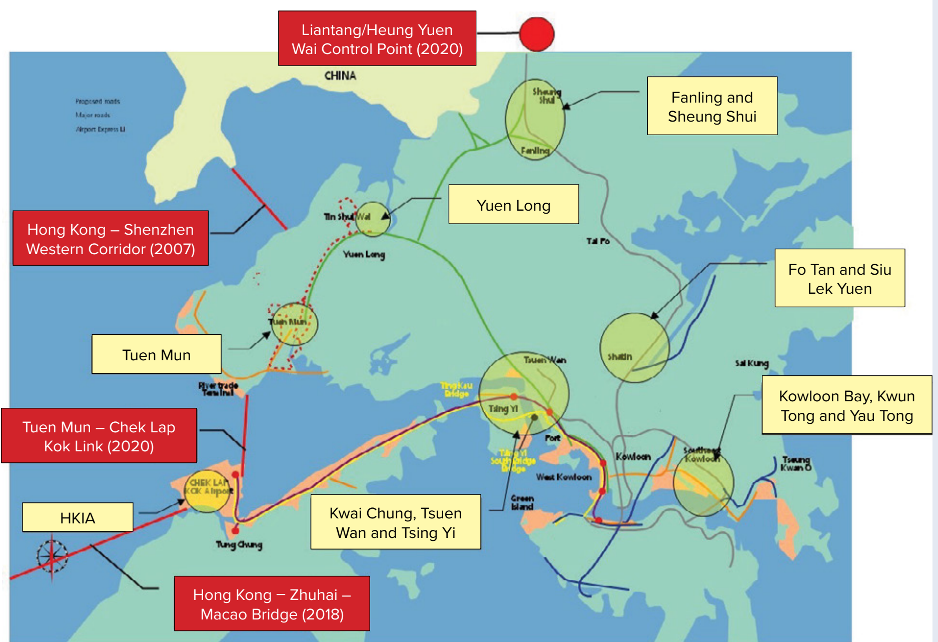
Warehouse stock[1] by category and distribution

Hong Kong's warehouse stock has grown at a relatively low CAGR of 0.8% over the past 20 years. This is largely due to severe land constraints, resulting in a limited supply of sites for warehouse use.

Modern warehouse stock[2] accounted for 51% of total warehouse stock (42.4 million sq ft IFA) at the end of 2023, 8% of which (3.1 million sq ft IFA) is situated at Hong Kong's International Airport (HKIA) at Chek Lap Kok. Modern warehouses have been developed over recent years and are managed by a few experienced developers and investors, including Goodman[3], Hutchison, CaiNiao, Mapletree, China Merchants and Kerry, with a modern warehouse market share[4] of 23%, 16%, 16%, 9%, 5% and 5% respectively.

There are 16 modern warehouses in Hong Kong with a total gross floor area of around 33.1 million sq ft, with the largest cluster in the Kwai Tsing / Tsuen Wan area close to both the cargo terminals and HKIA (Figure 3). The stock distribution of warehouses overall shows a clear shift of warehouse facilities towards the northwest New Territories over the past two decades. Compared with 1994, Hong Kong Island and Kwun Tong warehouse stock declined by 27% to 1.8 and 1.7 million sq ft IFA in 2023 respectively. However, stock in Tuen Mun / Yuen Long rose sharply from 1.4 million sq ft IFA in 1994 to 3.7 million sq ft IFA in 2023, a 164% increment (Figure 4). This shift was driven by the development of new infrastructure such as Container Terminal 9, HKIA, the River Trade Terminal, the Hong Kong-Shenzhen Western Corridor and the Hong Kong-Zhuhai-Macao Bridge, being completed over the period.

Figure 3:
Major warehouse locations, Q4/2023



Source: Savills Research & Consultancy

Figure 4:
Hong Kong warehouse market key metrics by district

District	Total stock at the end of Q4/2023 (million sq ft IFA)	Q1/2024 average rent (HK$ per sq ft effective)
Hong Kong Island	1.8	$10.1
Kwun Tong	1.7	$11.4
Sham Shui Po	1.5	$9.4
Kwai Tsing / Tsuen Wan	23.3	$13.0
Tuen Mun / Yuen Long	3.7	$10.3
North	1.4	$10.5
Shatin	4.8	$11.6
Others	4.2	N/A
Total	**42.4**	**$11.9**

Source: Rating and Valuation Department, Savills Research & Consultancy

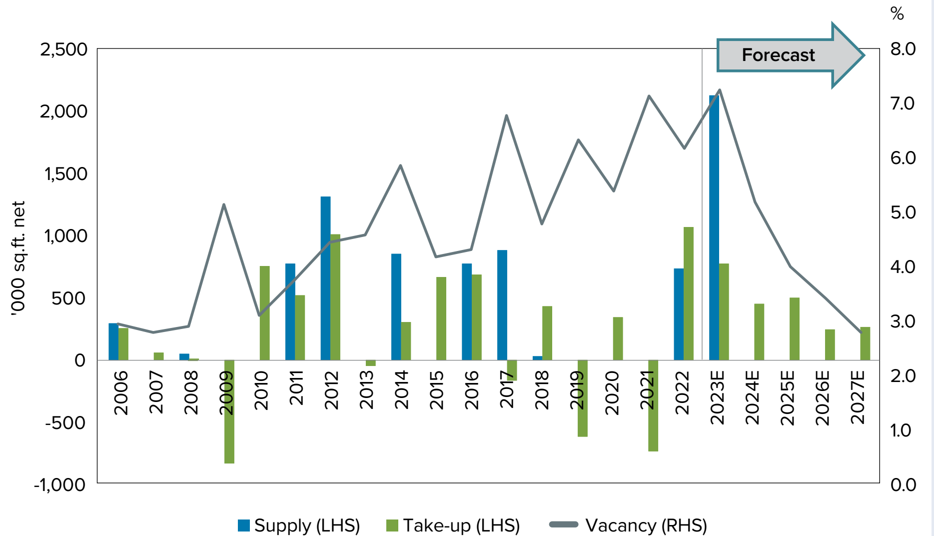
1 All floor areas in this section are measured in Internal Floor Area (IFA) as defined by the Rating and Valuation Department, which is different from gross floor area (GFA) used in other sections of the report and is defined as the area of all enclosed space of a unit measured to the internal face of enclosing external and/or party walls, unless otherwise stated.
2 A modern warehouse is defined as space with a floor to ceiling height of at least 15 feet, a floor loading of at least 250 lbs per sq ft, a floor plate of at least 50,000 sq ft and direct vehicular access to a majority of its floors.
3 Inclusive of Goodman Westlink with an approved GFA of 996,185 sq ft, occupation permit issued in August 2022
4 In terms of the Buildings Department's approved GFA

Warehouse supply, take-up and vacancy

Looking at the overall warehouse market, new supply of warehouse space has rebounded over the past decade. While average annual supply over the period from 2006 to 2010 was 69,000 sq ft IFA, from 2011 to 2020, average annual supply increased to 469,000 sq ft IFA. 2019 saw no new supply completed. From 2011 to 2019, eight warehouse projects were completed in Kwai Tsing, Yuen Long and Fanling, five of which (China Merchants Logistics Centre, China Resources International Logistics Centre, Goodman Interlink, SF Centre and Mapletree Logistics Hub Tsing Yi in Kwai Tsing) are built to modern warehouse standards. There was no new warehouse supply in either 2020 or 2021 (Figure 5).

The confluence of several adverse elements in recent years, emanating from both external and domestic sources, negatively impacted logistics demand and vacancy increased from 3.8% in 2011 to 5.4% in 2020. In particular, US / China trade tensions, coupled with local social unrest, derailed logistics demand in 2019, leading to negative take-up of 622,000 sq ft IFA in that year. Nonetheless, the gradual containment of COVID and the subsequent re-alignment of supply chains, as well as the increasing prominence of e-commerce revived the logistics sector in 2020, with 351,000 sq ft IFA of warehouse space taken up over the year. While warehouse demand rebounded in 2021 due to the reviving logistics sector, the vacating of Kowloon Godown in Kowloon Bay (around 750,000 sq ft net) due to an approval for change to residential use brought vacancy up from 5.4% to 7.2%, leading to negative take-up of 740,000 sq ft net in the year.

Figure 5:
Warehouse storage supply, take-up and vacancy rates, 2006 – 2027E



Source : Rating and Valuation Department, Savills Research & Consultancy

Goodman Westlink was completed in August 2022 with an estimated IFA of 802,987 sq ft, which was quite well received in the market with full occupancy achieved in 2023. Coupled with reviving leasing demand in general warehouses with more affordable options, take-up rebounded to slightly over 1 million sq ft net in 2022, with overall vacancy rates declining to 6.2% as a result.

The logistics sector has faced challenges in 2023, marked by a decline in imports and exports, as well as container throughputs. Air freight has been the only bright spot in 2023, with regional distribution and transhipment of high value goods still supporting the high end logistics sector.

Apart from freight forwarders and cross-border 3PLs, local 3PLs catering to the local retail and F&B sectors have also encountered stagnant business conditions. Retail sales and restaurant receipts remained stable in 2H23 compared to 1H, indicating that both local and visitor spending in retail and dining were not as robust as initially expected.

The completion of CaiNiao Smart Gateway at the airport, which offers 4.1 million sq ft of lettable area, poses a significant supply overhang for the sector. With this newly completed warehouse having several floors reserved for related logistics operators, 2023 warehouse vacancy rate is expected to rise to around 7.3%.

Warehouse rental trends

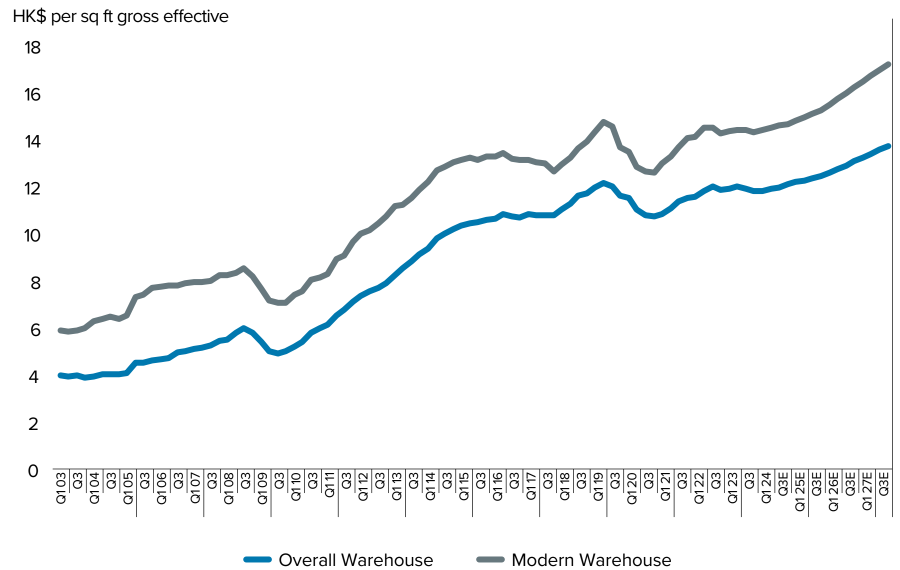
The trading and retail sales segments were impacted by social unrest and the trade war along with the pandemic resulting in weak performance, leading to declining logistics demand and dampening modern warehouse rental growth in both 2019 and 2020.

With firmer business prospects in 2021, many logistics operators opted to renew leases in 3Q21, averaging six to nine months ahead of expiry, to avoid any business disruption. Modern warehouses in both Kwai Tsing and Tsuen Wan, as well as general warehouses in Tuen Mun, recorded a number of renewal cases of long-term tenants.

Other logistics operators saw their businesses grow in the buoyant market conditions in 2021 and decided to expand and relocate. Both 3PLs (such as Kerry Logistics and Hi-speed Logistics) and end users (such as Coca-Cola and Park'N Shop) made moves to expand and consolidate into new warehouse locations to suit their business expansion needs.

In the first half of 2022, external uncertainties, such as Russia's invasion of Ukraine, as well as the re-emergence of COVID cases in China, disrupted both global and regional supply chains. Nevertheless, the immediate impact of the former on the local logistics sector has so far been minimal. The Mainland outbreak, however, had a much more profound impact on the supply of daily necessities, and the affected areas were mostly land transport to supermarkets and wet markets. Against this backdrop, however, logistics demand remained strong with the COVID outbreak gradually contained and the retail sector regaining some momentum alongside strong performance from e-commerce. We therefore saw overall and modern warehouse rents rising by 2.2% and 3.2% respectively in the first half of 2022.

Figure 6:
Savills overall warehouse and modern warehouse average rents, Q1/2003 - Q4/2027E



Source : Savills Research and Consultancy

Figure 7:
Specialized Cold Storage / Warehouse supply, 2024 – 2027

Project	District	Developer	Total GFA (sq ft)	Expected completion
KCTL 531*	Kwai Chung	ESR	1,485,418	2027

Source: Savills Research & Consultancy, Buildings Department
*Specialized warehouse, not counted towards warehouse stock

Logistics sentiment weakened from 3Q22 onwards, with the warehouse leasing market beginning to feel the heat, many operators opting for renewal rather than relocation, and very few logistics players, except e-commerce operators, in expansion mode. International 3PLs, whose businesses were gradually recovering alongside global supply chains, had the ability to re-route their throughputs to other regional airports / ports, and were thus least affected by the situation in Hong Kong. Local 3PLs, who are much more dependent on local supply chains and logistics operations, bore the brunt of the local market downturn, and many saw their 2021 profits wiped out and were thus forced into contraction mode.

As logistics demand continues to diminish, warehouse tenants are not actively seeking expansion opportunities. Additionally, the high interest rates and associated cost of funds have made it increasingly challenging for expiring tenants to justify relocations for cost-saving purposes, as any potential rental savings would likely be negated by capital expenditure. Consequently, leasing activities in 2023 were primarily focused on renewals. As a result, overall and modern warehouse rents remained flat in 2023 as well as in Q1/2024 (Figure 6).

Warehouse market forecast

There will be no upcoming genuine warehouse supply between 2024 and 2027 (Figure 7). ESR's warehouse in Kwai Chung, according to ESR, will be a specialized cold storage facility, and therefore would not be counted as a comparable warehouse facility.

The expected rebound in external trade performance and resumption in retail sales should underpin logistics demand in 2024. Coupled with sustained growth in

both local and cross-border e-commerce, logistics demand looks set to further rebound in the coming months. Warehouse landlords facing tenant expiries this year and next are likely to be more flexible with rental terms to maintain occupancy, given the competition from vacancies at newly completed warehouses. Therefore, we expect moderate rental growth of 0% to 5% in 2024 and 2025. From 2026 onwards, more sustained growth in demand supported by a full China recovery could propel stronger warehouse rental growth.

Figure 8:
Modern warehouse rental forecast, 2024 – 2027

	Overall warehouse	Modern warehouse
2024	0% to +5%	0% to +5%
2025	0% to +5%	+3% to +5%
2026	+5%	+5% to +7%
2027	+5%	+5% to +7%

Source: Savills Research & Consultancy

Modern warehouses, which continued to record a 20% premium over overall rents in 2023, have a brighter outlook in light of growth from cross-border e-commerce and cold chain logistics, as well as the structural shift towards air freight and high value-added goods. As operational efficiencies and modern facilities become increasingly crucial in the logistics sector, rents for modern warehouses are expected to post relatively stronger performance compared to the overall market over the next four years (Figure 8).

In the medium- to long-term, the key demand drivers of modern warehouses include value-added transshipment, fast-moving local distribution, emerging e-commerce distribution (both local and regional) as well as cold storage needs. Most of these demand groups require large floor plates, high ceiling heights and extra floor loadings, which can only be found in modern warehouses located in strategic locations either close to the airport, container terminals, the border, or a combination of the above. Increasingly automated warehousing solutions and robotic systems are also preferred by these operators in handling fast-moving goods in an efficient and cost-effective manner. As these operators are often handling higher value goods in large volumes, they are willing to pay premium rents to acquire warehouses which suit their needs, thereby reaffirming the rental premium of modern warehouses over their general counterparts.

The government is also going to earmark more logistics sites for tender over the 2024 to 2027 period: there is a logistics site in Yuen Long Industrial Estate (Fuk Wang Street and Wang Lee Street) release for public tender in March 2024 with a site area of 349,762 sq ft. The site comes with a special clause on handing back no less than 30% of the GFA to the government for leasing to brownfield operators upon completion. Another logistics site has been put on the Land Sale Programme of 2024/25, which is located in Areas 39A and 39B in Hung Shui Kiu and Ha Tsuen, with a total site area of 836,355 sq ft, likely to have similar special clause as with the Yuen Long site.

In the latest Action Plan on Modern Logistics Development, the government has also earmarked four logistics sites in the Kwai Tsing area with a total site area of 19 hectares, to be disposed regularly from 2024 to 2027.

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INDIA

INDEPENDENT MARKET RESEARCH

By Jones Lang LaSalle IP

MACRO-ECONOMIC OVERVIEW

In 2023, India's thriving economy has made significant progress, instilling confidence in foreign investors. The country has entered a critical phase of S-curve growth, characterized by rapid urbanization, industrialization, rising household incomes, and increased energy consumption. With a GDP of USD 3.75 trillion, India has emerged as the world's fifth-largest economy.

The robust growth trajectory is set to continue with an estimated growth rate of 7.3% for FY23-24. This growth is underpinned by buoyant investment activity, driven by the government's strategic capital expenditure (capex) initiatives, unwavering consumer demand, and an increased focus on industrial production. The manufacturing sector is poised for substantial expansion, with an estimated growth rate of 6.5% in FY24, surpassing the 4.7% growth observed in FY23.

India's manufacturing PMI rebounded to 56.0 in December 2023, surpassing market expectations and signaling the 29th consecutive month of expansion in factory activity. This growth can be attributed to various government reforms aimed at enhancing industrial production, such as the Atmanirbhar Bharat packages and Production-Linked Incentives (PLI) scheme. Additionally, the construction sector in India is expected to be the fastest-growing sector, with the gross value added (GVA) in the service sector projected to grow 10.7% in FY24.

Focusing on enhancing ease of doing business, India has embarked on a comprehensive reform drive, streamlining, and digitizing regulatory compliance processes throughout the entire business lifecycle. A remarkable stride was witnessed in the 2023-24 Union Budget, where the government announced streamlining efforts resulting in over 39,000 compliance reductions and decriminalization of more than 3,400 legal provisions. These initiatives are set to improve India's attractiveness as an investment destination, fostering a climate conducive to entrepreneurial endeavors.

India is expected to continue being one of the world's fastest-growing economies over the next decade. One significant positive factor for India is its large and fast-growing middle class, which is driving consumer spending. The rapidly growing domestic consumer market, along with its robust industrial sector, has made India an increasingly important investment destination for multinational corporations across various sectors, including manufacturing, infrastructure, and services.

LOGISTICS MARKET SNAPSHOT

India's logistics industry has achieved remarkable progress, highlighted by the country's rise of six spots to reach 38th rank out of 139 countries in the World Bank's Logistics Performance Index (LPI). This improvement is credited factors including technology innovation, data-driven decision-making, and policy initiatives aimed at facilitating world-class infrastructure. Indian warehousing is currently going through a transformation phase in terms of quality storage spaces (primarily Grade A space), growing emphasis on sustainability and increased adoption of technology.

STOCK AND SUPPLY SCENARIO

In Q1 2024, the warehousing sector in India witnessed steady growth, as the combined stock of Grade A and B warehousing space across the top eight cities recorded a significant 14% year-on-year increase. This expansion resulted in a total warehousing space of 381 Mn Sq.ft. by Q1 2024.

Notably, Grade A warehousing space in India accounted for 195 Mn Sq.ft., displaying a compound annual growth rate of 23% over a five-year period. This can be attributed to the growing investments made by institutional developers who have recognized the escalating demand for top-tier Grade A spaces. These developers are primarily targeting consumer-driven sectors such as third-party logistics (3PL), retail, FMCG, as well as specific manufacturing sectors including automotive and ancillaries, engineering, electronics, and white goods.

Among the eight major cities, Delhi NCR, Pune, and Mumbai emerged as the primary contributors, collectively accounting for over half of the country's warehousing stock. These cities have solidified their positions as significant

hubs for warehousing activities, attracting both domestic and international investors.

In Q1 2024, the Indian warehousing market experienced an influx of 9.5 Mn Sq.ft of new supply. Institutional developers and investors such as Indospace, ESR, Blackstone, LOGOS, alongside regional developers like NDR, Global Group, and others played a predominant role in providing this supply. As a result, the total warehousing stock reached 381 Mn Sq.ft. by Q1 2024 (Figure 1). With the existing strong demand in the market, there is an optimistic outlook for the rapid absorption of this new supply.

WAREHOUSE DEMAND DYNAMICS

The warehousing sector in India has demonstrated consistent growth throughout 2023 and continues to grow in Q1 2024, with net demand for warehousing space at 39.6 Mn Sq.ft. in 2023 and further 8.4 Mn Sq.ft. in Q1 2024, exemplifying the enduring momentum in the industry (Figure 2). Almost 80% of this quarter's net demand was generated by Grade A spaces, indicating a discernible shift among occupiers towards premium, high-quality facilities. This surge in demand for Grade A spaces has resulted in the Grade A vacancy rate hovering around 5.4% in Q1 2024, creating a favorable environment for developers and investors within the warehousing sector.

During Q1 2024, the warehousing sector in India experienced increased demand from 3PL companies, which emerged as the largest occupiers of warehousing space and contributed over 37% of the total absorption during this period. Several factors have contributed to this growth, including the expanding consumer market, the growing trend of manufacturing companies outsourcing their logistics operations to 3PL players, and the increasing prominence of e-commerce.

The future outlook for warehousing demand in India appears promising, with net absorption projected to surpass the 65 Mn Sq.ft. milestone by 2027.

Figure 1:
Stock Projection for Select Eight Cities

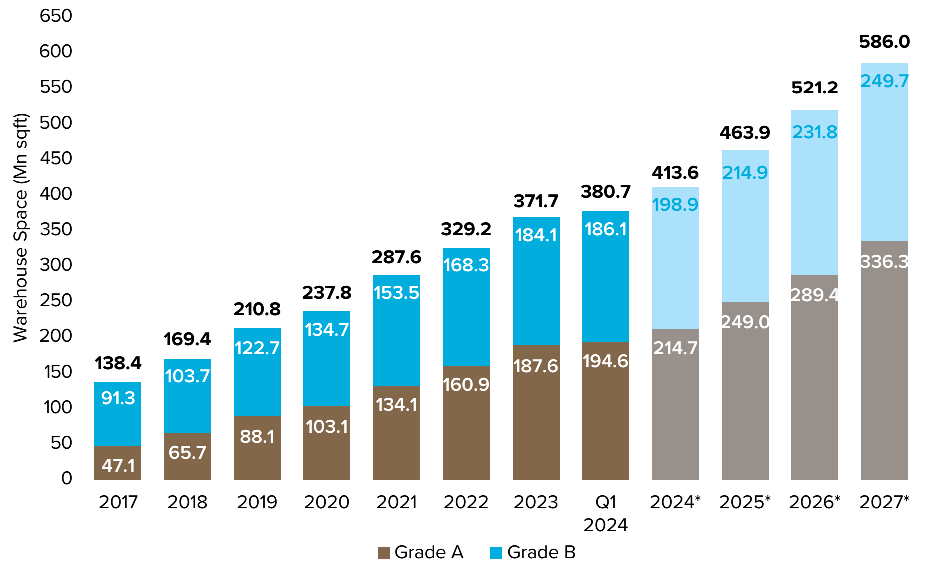
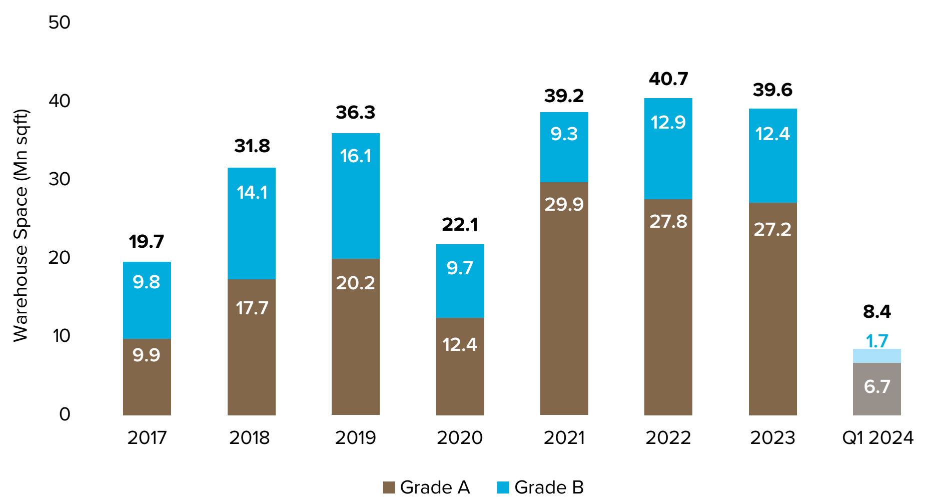


Figure 2:
India Net Absorption



KEY WAREHOUSING MARKETS

In Q1 2024, Delhi NCR continued to be the leading warehouse market among the top eight major cities in India with highest warehousing stock. Pune emerged as the city commanding the highest share of Grade A warehousing space across the country, with 36.0 Mn Sq.ft. of Grade A stock. Following Pune, significant amounts of Grade A warehousing stock were found in cities such as Delhi NCR, Chennai, and Bengaluru, with 34.2 Mn Sq.ft., 29.3 Mn Sq.ft., and 23.6 Mn Sq.ft. respectively.

Despite witnessing substantial new supply additions in these cities throughout the year, the overall vacancy rates have remained at a healthy level, hovering around 10% in Q1 2024 (Figure 3). This indicates a balanced growth pattern, with supply expanding in line with demand in the warehousing sector.

Moreover, rents in these cities demonstrated positive growth in 2023 and Q1 2024. On average, Grade A spaces commanded a rental rate of approximately INR 24 per sqft per month. Pune experienced even higher average Grade A rents, reaching INR 29 per sqft per month, while Ahmedabad achieved an average of INR 19.8 per sqft per month (Figure 4). With robust demand for logistics services propelling the market, most cities are expected to experience consistent increases in rental rates in the foreseeable future.

Pune has witnessed significant growth in its warehousing market since 2022, primarily driven by manufacturing and consumption. The region has established a thriving manufacturing ecosystem in areas like Chakan, Talegaon, and Nagar Road, contributing to the demand for warehousing space. Although land prices are high, Pune stands out for having the highest warehousing rents among all markets. Sub-markets like Chakan-Talegaon and Nagar Road observe high rentals, yet they continue to attract demand from the 3PL, retail, and manufacturing sectors due to the availability of high-quality Grade A spaces and strong connectivity. In Q1 2024, the supply and absorption in Pune reached 2.1 Mn Sq.ft. and 2.0 Mn Sq.ft. respectively, with more than 95% of the demand and supply focused on Grade A spaces in the Chakan-Talegaon and Nagar Road sub-markets.

Figure 3:
New Supply, Net Absorption and Vacancy in Eight Cities of India, Q1 2024

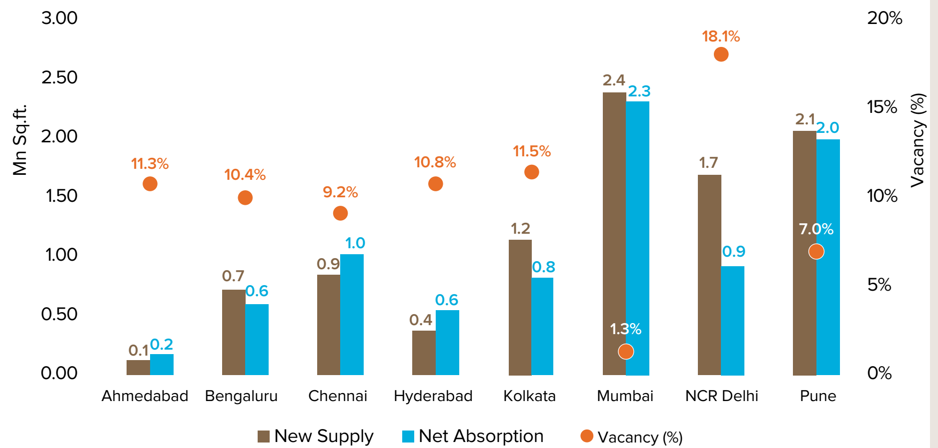
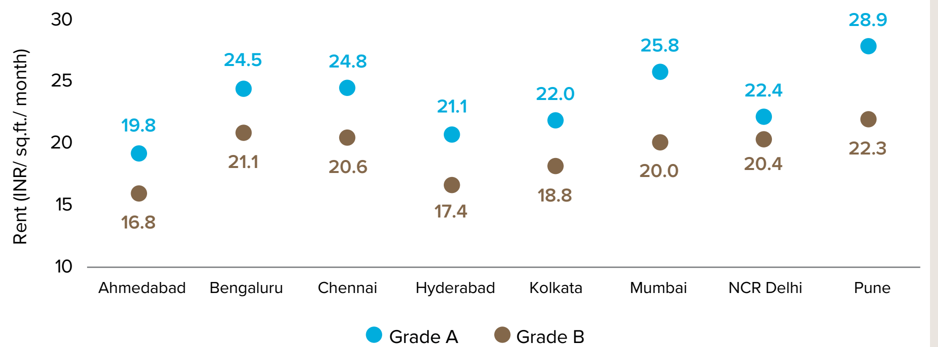


Figure 4:
Average Rents in Eight Cities of India, Q1 2024



Similarly, Bengaluru's warehousing market has grown steadily since 2022. The region witnessed a net absorption of 4.12 Mn Sq.ft. in 2023 and 0.60 Mn Sq.ft. in Q1 2024, driven by strong occupier interest, particularly in the 3PL and retail sectors, spurred by increasing demand related to consumption. Key warehouse clusters in Bengaluru, such as Hoskote and Tumkur Road, have become prominent areas for these sectors.

GROWING EMPHASIS ON SUSTAINABILITY

The pressing need to revolutionize logistics and warehousing practices in India became evident with the release of a World Bank report[1], which revealed that the country has one of the highest logistics costs globally, accounting for roughly 14% of the nation's GDP, significantly exceeding the global average of approximately 8%. This realization has emphasized the necessity for transformative changes within the sector.

With the projected CAGR of 14% for warehouse demand across India, the sector faces dual challenges. It must not only meet the increasing demand for efficient storage and light manufacturing facilities but also address the concerns regarding the environmental impact resulting from this expansion.

In 2024, there will be a heightened focus on sustainability in the warehousing

1 Economic Survey (2021-22) by Ministry of Finance, Government of India and World Bank Group Report (2018) Unlocking India's Logistics Potential

and logistics industry. For instance, 3PL companies have begun adopting energy-efficient warehouse designs, embracing renewable energy sources, and incorporating electric vehicles for deliveries, all aimed at reducing their carbon footprint. Furthermore, advancements in last-mile delivery solutions through the integration of technology not only enhance delivery service efficiency but also minimize environmental impact. Additionally, environmentally friendly packaging options, waste reduction strategies, and recycling initiatives are becoming standard practices within the industry.

ADVANCING TECHNOLOGIES IN WAREHOUSING AND LOGISTICS INDUSTRY

By 2024, there will be a significant increase in the adoption of automation and robotics technology, surpassing previous records. Warehouse operations such as material handling, picking, packaging, and sorting will greatly benefit from the implementation of automated guided vehicles (AGVs), automated storage and retrieval system (AS/RS) and robots. This trend will significantly enhance safety, reduce errors, and enhance overall efficiency in warehouses. It will enable expedited order fulfillment and enable effective inventory management.

In 2024, the gathering and utilization of data analytics will play a pivotal role in driving insights and operational improvements in the warehouse sector. Companies will utilize predictive analytics models to forecast demand, optimize inventory levels, and identify any potential supply chain bottlenecks. The application of data analytics is expected to result in more accurate demand forecasts, reduced expenses, and enhanced overall performance.

UPCOMING INFRASTRUCTURE AND POLICIES

Unveiled on 17th September 2022, the **National Logistics Policy** was formulated with the aim of integrating and enhancing the development of the logistics sector in India. It focuses on improving the efficiency of freight modes through the establishment of Multi-modal Logistics Parks (MMLPs) and the creation of logistics data and analytics centers. Currently, the logistics cost in India accounts for around 13% to 14% of GDP, and the policy strives to reduce it to 8%.

To strategically plan and enhance infrastructural capacity, the **National Rail Plan 2030** has been devised. This long-term plan aims to increase the modal share of railways in India's total freight ecosystem. The vision of the National Rail Plan 2030 is to develop capacity and infrastructure ahead of demand, ensuring that by 2030, the rail system is capable of accommodating the growing demand projected for 2050. Within the National Rail Plan, Vision 2024 has been launched to expedite the implementation of critical projects by 2024. These projects include 100% electrification, multi-tracking of congested routes, speed enhancements to 160 km/h on the Delhi-Howrah and Delhi-Mumbai routes, speed upgrades to 130 km/h on all other Golden Quadrilateral-Golden Diagonal (GQ/GD) routes, and the elimination of all level crossings on these routes.

PM Gati Shakti, known as the National Master Plan for Multi-modal Connectivity, acts as a digital platform that brings together 16 Ministries, including Railways and Roadways, to facilitate integrated planning and coordinated implementation of infrastructure connectivity projects. PM Gati Shakti incorporates various infrastructure schemes from Ministries and State Governments, such as Bharatmala, Sagarmala, inland waterways, dry/land ports, and UDAN. It encompasses economic transformation, seamless multi-modal connectivity, and improved logistics efficiency. The focus is on planning, financing through innovative methods, technology adoption, and expedited implementation.

Under the Gati Shakti program, India plans to invest USD 1.4 trillion in upgrading the nation's physical infrastructure. To support the integrated development of the logistics sector in India, a logistics division was established within the Department of Commerce on 7th July 2017, responsible for developing an Action Plan.

The Dedicated Freight Corridor Corporation of India Limited (DFCCIL), a Public Sector Undertaking under the Ministry of Railways, has undertaken the **dedicated freight corridor (DFC)** project as part of the National Rail Plan 2030. This ambitious project involves constructing six freight corridors that span the entire country, aiming to establish a secure and efficient freight transportation system. Upon completion, at least 70% of freight trains will be shifted to the DFCCIL network, facilitating timely cargo movement.

Bharatmala Pariyojana, an umbrella program for the highways sector, aims to optimize the efficiency of both freight and passenger movement across India. It addresses critical infrastructure gaps through various interventions, including Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International Connectivity roads, Coastal and Port connectivity roads, and greenfield expressways.

The development of **Multi-modal Logistics Parks (MMLPs)** is considered a crucial policy measure to rationalize logistics costs in India and enhance its competitiveness. MMLPs serve as

freight handling facilities with access to multiple modes of transport. They feature mechanized warehouses, specialized storage solutions like cold storage, facilities for mechanized material handling and intermodal transfer container terminals, and bulk cargo terminals. The policy envisions the establishment of MMLPs at 35 strategic locations, with a total capital cost of INR 50,000 Crores, to promote seamless freight movement across different modes, reduce logistics costs, and improve overall competitiveness.

FUTURE OUTLOOK

The India Warehousing Outlook for 2024 presents a promising landscape for the country's warehousing sector. As the Indian economy bounces back strongly from the impact of the pandemic, the warehousing industry is poised for robust growth, propelled by various factors including evolving consumer demand, the expanding presence of 3PL companies, and increased traction in manufacturing sectors.

Over the next three years, the warehouse stock in India is projected to experience a compound CAGR of 11%, ultimately reaching 586 Mn Sq.ft. by 2027. The demand for Grade A warehousing spaces, renowned for their modern amenities and superior infrastructure, is expected to remain buoyant. In particular, institutional developers and investors are actively prioritizing resources for the development of high-quality Grade A warehousing spaces. Grade A stock is anticipated to witness a CAGR of 16%, reaching 336 Mn Sq.ft. by 2027. The growing preference among occupiers for superior quality spaces contributes to a consistent reduction in vacancy rates and an upward trajectory in rental prices. It is predicted that vacancy rates will progressively decline to less than 5% over the next three years.

Overall, the warehousing sector in India is poised for significant growth in the coming years, driven by increasing demand, investments in Grade A spaces, and supportive government initiatives. The expansion of the industry is in line with the overall growth of the Indian economy and its integration into international supply chains.

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JAPAN

INDEPENDENT MARKET RESEARCH

By Japan Logistics Field Institute, Inc.

NATIONWIDE MARKET FOR LOGISTICS REAL ESTATE IN JAPAN

State of the market

Japan's economic environment

Japan's real GDP for the October to December 2023 quarter was up 0.1% from the previous quarter (up 0.4% on an annualized basis), thanks to stronger-than-expected capital expenditure from companies. Full-year growth came in at 1.9% in 2023, which, although middling in terms of strength, shows the economy's continuing trend toward recovery.

Looking ahead, the slowdown in overseas economies makes it unlikely that exports will drive the economy, and domestic demand-led growth underpinned by an improvement in the employment and income environment and the normalization of socio-economic activities is likely to continue. Real GDP growth in both 2024 and 2025 is expected to be in the range of 1 to 1.5%.

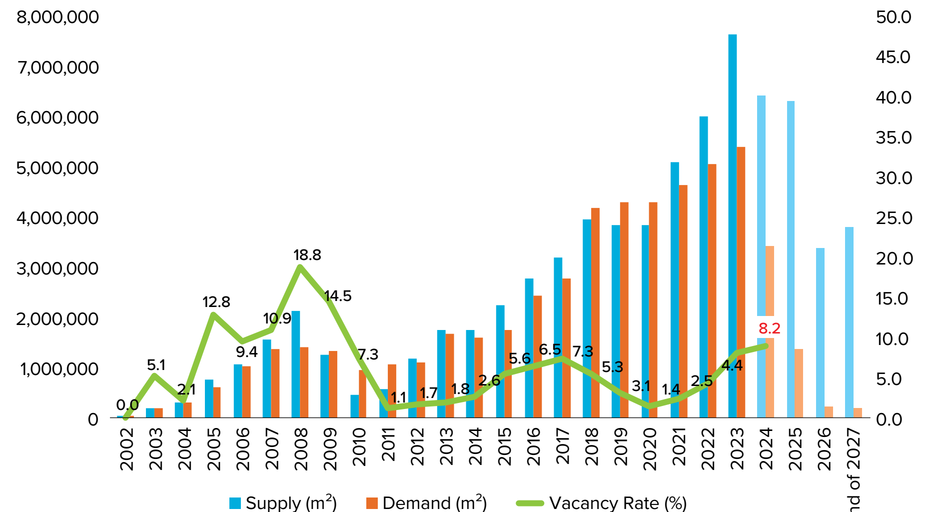
Logistics real estate market

Overall state of the market

As of the end of 2023, demand could not keep pace with the record annual supply and the vacancy rate rose. This dynamic has remained largely unchanged since 2021, but the tracking rate (generated demand volume relative to supply volume) reached its lowest point ever within this period (91% in 2021, 84% in 2022, and 70% in 2023). As a result, logistics real estate had approximately 4,200,000 m² of vacant space as of the end of 2023.

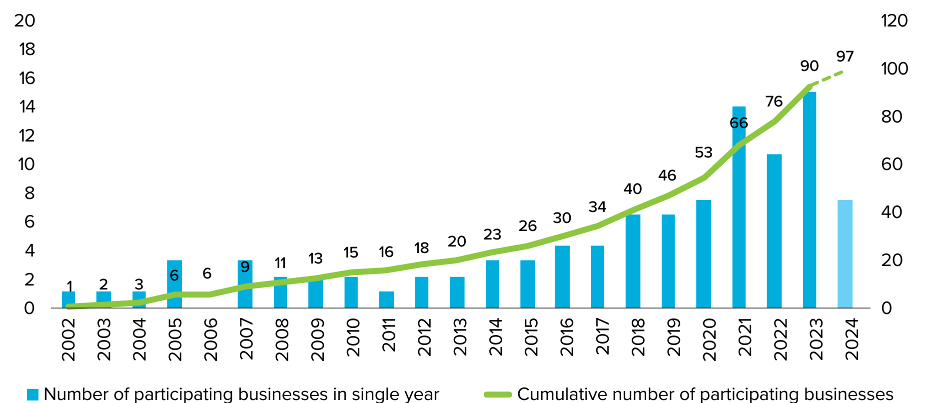
On the other hand, demand reached a record of approximately 5,400,000 m² (Figure 1), marking healthy year-on-year growth of approximately 7.0%, albeit lower than the growth rate of approximately 9.6% in 2022 and approximately 7.3% in 2021. Demand will continue to come mainly from e-commerce operators and 3PL providers, supported by demand from shippers (automobiles, machinery, supermarkets, drugstores, etc.), special group cargo operators (including delivery companies), and logistics operators (automobile-related logistics and local truck operators).

Figure 1:
Trend in Supply-Demand Balance for Large-Scale Rental Logistics Facilities (Nationwide)



Note 1: Created from our database of large-scale rental logistics facilities constructed by major developers
Note 2: Supply and demand from 2024 onward are for total developed properties and total pre-committed area that are already known.
Note 3: As of the end of December 2023 (the same applies for other economic zones)

Figure 2:
Trend in Number of Developers Entering Logistics Real Estate Market



Note 1: The completion date of the first developed property is used as the entry date.
Note 2: The number of participating businesses was revised up following a review of the data (included small-scale developers and 1 large-scale developer).

There are two key factors behind the deteriorating supply-demand balance:

Sharp rise in supply due to an increase in development volume

There were nearly 100 developers (based on completed logistics projects) as of the end of 2023 (Figure 2). At least 10 developers entered the market every year between 2021 and 2023, and aggressive development by these companies has driven record supply.

Expanding rent level gap due to soaring construction costs

The construction cost unit price for large-scale logistics real estate is soaring, with many projects around the JPY 600,000

mark. As the labor shortage is predicted to continue, it is unlikely that the construction cost unit price will stabilize. Asking rents are therefore starting to rise by JPY 400 to 500 per tsubo[1]. On the other hand, logistics operators who are using logistics real estate as business space have not yet been able to extract a sufficient increase in the fees paid by shippers. At present it is difficult to say that tenants are able to pay higher warehouse rents.

Trend in rent levels

Until last year, vigorous e-commerce demand relative to the large supply meant that rent levels were mostly trending up in the four main metropolitan areas (Greater Tokyo, Greater Osaka, Greater Nagoya and Fukuoka metropolitan area), but with the vacancy rate rising above 5%, the uptrend is slowing (Figure 3). Effective rents are starting to soften in many districts that have a high vacancy rate.

Trend in cap rate for investors

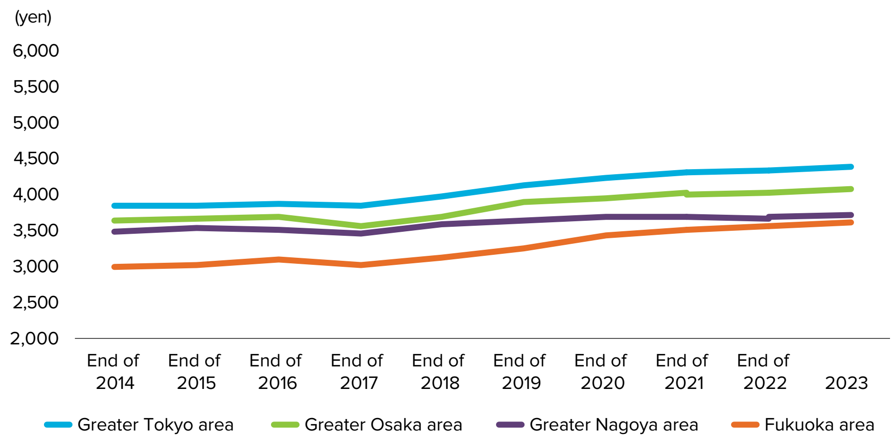
The cap rate for investors in logistics real estate has declined nearly every year from 2011 and has already fallen far below the level seen prior to the Global Financial Crisis. The cap rate on multi-tenant facilities as of October 2023 was 4.3% in the Osaka area and 3.95% in the Greater Tokyo area, marking the first time the rate fell below 4% (Figure 4).

In many cases it is in the 3% range on an NOI basis on actual sales. In addition, not only developed properties but also income-generating properties among existing facilities continue to be increasingly highly appraised and are continuing to sell at a low cap rate.

Marketability within Japan

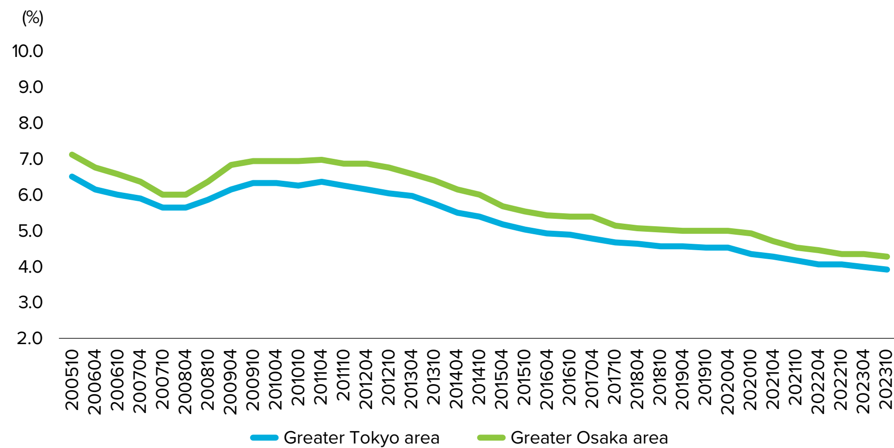
The market development rate* in Japan is estimated to be approximately 8.0%, which remains low. Large-scale, modern-spec facilities that enable more efficient warehouse operations and provide generous amenities are sought after, and demand for modern warehouses remains strong. As the issue of labor availability becomes more pressing in the future, modern-spec facilities that offer ample amenities are expected to provide an edge in the securing of labor.

Figure 3:
Rent Index in Main Areas



Note: Calculated using the average rent levels in the main districts of each economic zone

Figure 4:
Cap Rate for Investors in Logistics Real Estate



Note 1: Expected value for multi-tenant facilities in both the Greater Tokyo and Greater Osaka areas (average value for bayside and inland areas)
Note 2: Based on the Real Estate Investor Survey by the Japan Real Estate Institut

* Market development rate: Total floor area of developed logistics real estate as of the end of 2023 / estimated area of ordinary warehouses nationwide
1 One tsubo is equivalent to approximately 3.31 sqm.

Main factors behind increased demand and supply

Main factors behind demand

Emergence of last mile delivery demand
Demand among e-commerce-related companies is firming up, not only for storage and distributive processing facilities but also for bases for home delivery. Amazon is proactively establishing delivery stations (DS) all around Japan (with a total of approximately 50 locations). Many of these DS are using existing old or small warehouses or former retail facilities in city centers, but there are also cases where they are using logistics real estate to avail themselves of large sorting spaces and truck berths.

In response to last mile delivery demand, a trend is emerging toward developing small-scale logistics facilities of about 1,000 to 2,000 tsubo in areas close to the city. Rents for these facilities that meet last mile delivery demand are high. However, there are not necessarily many sites that are suitable for development or properties that can be renovated as last mile facilities, so at present the supply of facilities that meet last mile delivery demand in urban areas is limited.

Emerging demand for cold storage facilities
The cold storage warehouse market is estimated to be about 1/7 to 1/10 the size of the dry market, and against a backdrop of demand for the reconstruction of aging warehouses, demand for the upgrading of cold storage facilities due to regulations on the use of chlorofluorocarbons (CFCs), greater concern for food safety, an increase in the volume of frozen foods and other factors, the market is shifting from the leasing of cold storage space alone toward the development of rental premises that include cold storage facilities and automatic material handling equipment (as securing labor for cold storage warehouses is more challenging than for dry goods storage).

The main tenants are logistics operators who are engaged in cold storage logistics, and wholesalers. As food supermarkets and other operators reconstruct their cold storage warehouses and other facilities, demand associated with these projects is likely to increase.

Increase in demand from the manufacturing industry
Demand from manufacturers is also growing, likely stemming mainly from the need for the reconstruction of aging warehouses. Although the number of factory locations is about 1/4 of the peak posted during the bubble economy (1989), it is trending higher and demand from the manufacturing industry is growing, particularly in areas around factories that assemble automobiles. Businesses related to Japan's major automobile manufacturers are starting to make use of logistics real estate. The number of semiconductor factory locations is expected to rise in the future, driving demand for related warehouses.

Main factors behind supply

Increase in number of high-rent properties
Rent levels in the Greater Tokyo area have generally been rising since 2016. Currently, there is a growing number of properties with asking rents exceeding JPY 8,000 per tsubo including common area maintenance (CAM).

These days, the median asking rent for developed properties in the Greater Tokyo area is JPY 4,600 per tsubo (including CAM), and it is possible that 3PL providers of miscellaneous daily goods, apparel, etc. and wholesalers of miscellaneous daily goods, dry foods, etc., who tend to prefer low-rent properties, are paying higher rents.

Rekindling of small- and medium-sized market
Many properties that were completed in 2022 and 2023 have a total floor area of 3,000 to 5,000 tsubo or less. In both these years, supply exceeded 350,000 m^2 and the number of small- and medium-scale developments increased. Developers who have recently entered the market are actively advancing small- and medium-scale developments.

The rental market for medium-scale facilities is not very big, properties are scarce, and many of these facilities are used by local logistics operators (such as truck operators) whose scale of business is proportionate to the size of the property.

Increase in development of facilities for purposes other than dry goods
In addition to cold storage warehouses, development of hazardous material warehouses is also increasing. Previously, hazardous material warehouses were often incorporated within multi-tenant facilities, but with the rise in demand, some developers are developing stand-alone hazardous material warehouses.

Increase in regional development
Development of multi-tenant facilities is accelerating in Sapporo, Sendai, Shizuoka, Hiroshima, Okayama, Okinawa, etc. in addition to the four main metropolitan areas, but new developments are also starting to appear in Iwate, Nagano, Niigata, Ishikawa and other prefectures and are planned for Kumamoto, Aomori, etc. in the future. These developments are in response to leading wholesalers' expansion into regional areas. Developments (Kumamoto, Chitose, etc.) are also planned in response to demand from the manufacturing industry.

Other factors

Labor availability
For a time in 2020, it was easy to employ transport drivers and warehouse workers, but since the latter half of 2021, it has become more difficult to secure labor. Revised legislation is set to be introduced in 2024 to restrict driver work hours (to 960 hours of overtime per year), which will improve the working environment. Even so, it is feared that drivers' salary will decline and that the shortage of drivers and other labor will become even more acute, affecting both long and short distance transport. Labor shortage is becoming widely recognized as a social issue in Japan.

* Market development rate: Total floor area of developed logistics real estate as of the end of 2023 / estimated area of ordinary warehouses nationwide

Outlook

Outlook for development volume

On a nationwide basis, the development volume for 2023 reached a record high. Although 2023 is likely to mark the peak in supply volume, supply is likely to remain elevated in 2024 and 2025. From 2026, greater challenges around development are likely to lead to a slight fall in development volume.

Nevertheless, given the high number of developers, it is hard to imagine that the development volume will return to its previous level of 4,000,000 m^2 annually, and supply is likely to continue to be over 6,000,000 m^2 for some time.

Outlook for demand volume

Demand volume posted a record high (just below 5,400,000 m^2) in 2023. For the last several years, demand volume has continued to grow and, given this trend, annual demand volume could possibly reach 6,000,000 m^2 in 2025. The outlook for individual demand is as follows.

Demand from 3PL providers

The potential 3PL market that shippers are currently undertaking themselves is contracting as this style of operation will be outsourced in the future. Leading shippers are challenging themselves to reduce logistics costs (by switching to 2PL). In addition to such trends, there continues to be little new competition among shippers for properties even after the end of the critical phase of the Covid-19 pandemic, so there is still no strong demand for logistics real estate among 3PL providers.

On the other hand, some 3PL providers have set high targets in their medium-term plans, and these providers are continuing to proactively lease logistics real estate. Although there is some turnover among the 3PL providers who are leasing properties, overall demand should remain healthy.

E-commerce-related demand

Although growth is slowing, demand for space is continuing to grow in line with the e-commerce market. Leasing by virtual shopping mall operators stands out. Last mile delivery demand from e-commerce site operators, though on a small to medium scale, is also increasing. There are even cases of these operators moving into logistics real estate.

Shipper-related demand

As logistics costs rise, leading shippers are focusing on improving efficiency, and are implementing their own initiatives such as switching to 2PL. As a result, increasing numbers of shippers who previously leased properties via 3PL providers are now directly leasing logistics real estate. This is particularly the case with leading logistics operators handling products such as drugstores, apparel and furniture.

Outlook for supply-demand balance

Short-term (2024) outlook

Despite record demand, the large supply ultimately caused vacancy rates to rise to 9.1% at the end of the year. In both 2024 and 2025, supply volume is projected to exceed 6,000,000 m^2 and supply will continue to be high. Meanwhile, demand volume is predicted to grow to between 5,500,000 m^2 and just under 6,000,000 m^2 by 2025, likely causing the vacancy rate to trend higher in the near term.

The sharp rise in development costs, including construction costs, is leading to a fall in acquisition capacity due to a slump in REIT stock prices, and is also starting to have an impact on development volume. After peaking in 2023, development volume is likely to gradually decrease.

Medium and long-term outlook

Despite rising construction costs, supply is likely to remain high as roughly 100 developers are pressing ahead with development. However, purchases of sites have recently started to fall due to factors such as increased rents for finished properties, and the development volume in 2026 could fall.

In contrast, in terms of demand, there is little likelihood that an overwhelming proportion of 3PL providers will lease logistics real estate as they did in the past, but a certain level of demand is expected. In addition, e-commerce demand will grow at a steady pace, driving domestic demand for logistics real estate. Furthermore, demand to reconstruct facilities that were built in the high growth era (especially from manufacturing-related demand) or during the bubble economy (distribution-related demand) is also likely to add to demand in the future.

From around the second half of 2026, falling development volumes will improve the supply-demand balance, and the vacancy rate will likely fall.

Outlook for rent levels

With the supply-demand balance projected to deteriorate in the short term, asking rents and face rents will rise, while more and more districts are expected to see real rent levels soften via extensions to the rent-free period (although there are districts where real rent levels will continue to rise due to the tight supply-demand balance, such as bayside areas in Tokyo and Chiba Prefecture).

In the medium to long term, properties that have been hit with higher development costs will be completed in greater numbers. Even real rents are likely to lift gradually. Nevertheless, 3PL providers etc. are drawn to low-priced rents, so it is likely that they will continue to seek out logistics facilities that are located some distance away from urban areas.

TRENDS IN THE LOGISTICS REAL ESTATE MARKET IN THE MAIN ECONOMIC ZONES

Greater Tokyo area

From 2015, the vacancy rate in the Greater Tokyo area remained on a downward trend, falling to approximately 0.9% by the end of 2020, and the supply-demand balance remained fairly tight. As supply started to increase, the vacancy rate rose to 2.2% in 2021, 4.6% in 2022, and 8.3% in 2023. This has resulted in the largest ever volume of vacant space (approximately 2,800,000 m^2 against 32,800,000 m^2 of cumulative supply volume) in completed logistics real estate in the Greater Tokyo area.

In 2023, demand rose to record levels, but could not keep pace with supply. A large volume of supply is again expected in 2024 and the vacancy rate is likely to trend higher.

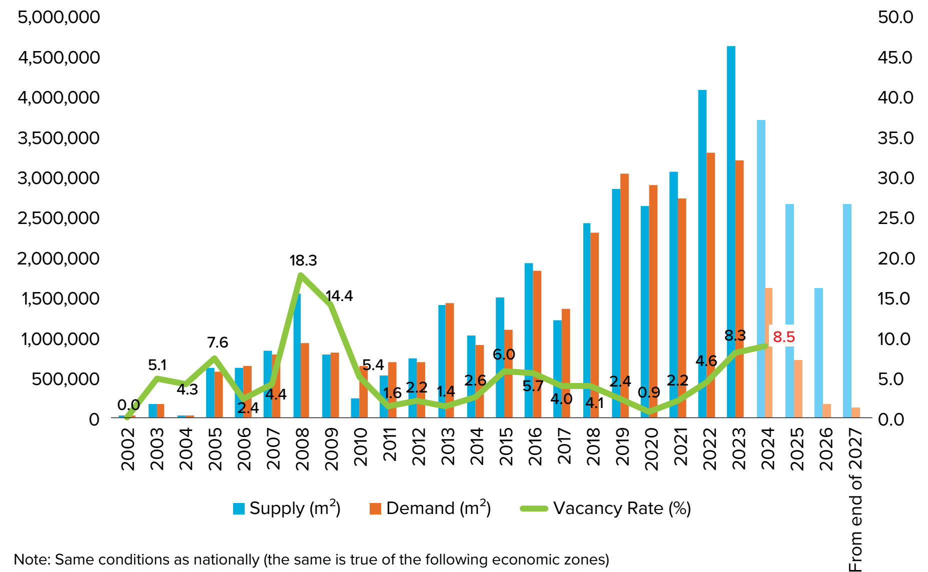
The tightness in the supply-demand balance has eased for the Greater Tokyo area overall but not evenly across all districts. Some districts, such as bayside areas in Tokyo and Chiba Prefecture, continue to see strong demand and results vary by individual district.

Greater Osaka area

Although the vacancy rate in the Greater Osaka area jumped as a result of the large volume of supply in 2017, it subsequently remained low until 2022. There was a slight increase in supply in 2023, leading to a rise in the vacancy rate to 4.5%. In 2024, supply volume is expected to be relatively low and the pre-commitment rate is currently high, so the vacancy rate is projected to fall. There will be a relatively large amount of development in 2025, so the vacancy rate may trend higher in the medium term. In the years ahead, the development volume is projected to increase in inland areas (central districts of the Osaka area and Kyoto).

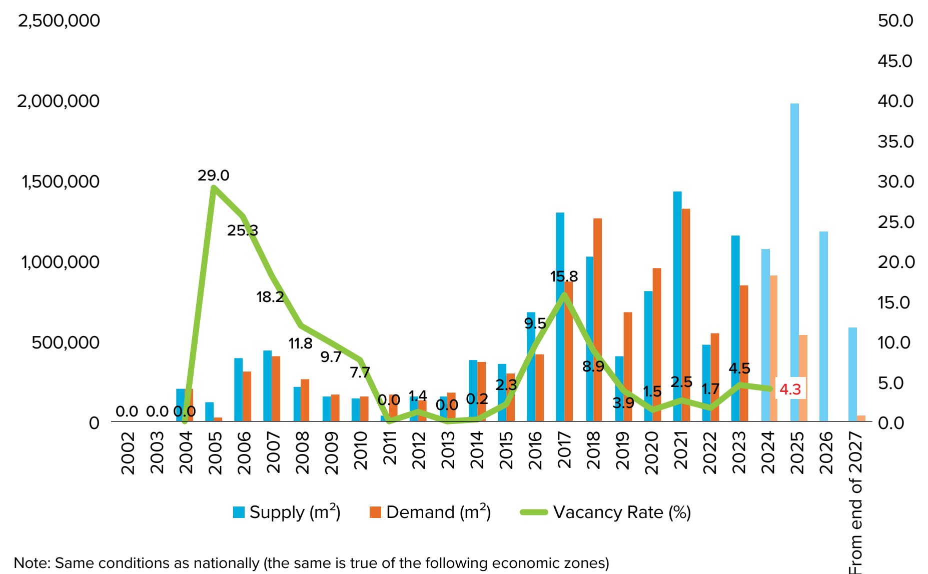
In the Joyo and Ujitawara districts in Kyoto Prefecture's southern area, logistics real estate serviced by roads that link directly to the Shin-Meishin Expressway Interchange is being developed as a new initiative. In addition, several cold storage multi-tenant developments are underway in Osaka's bayside area.

Figure 5:
Trend in the Supply-Demand Balance (4 Main Metropolitan Areas)
Greater Tokyo area



Note: Same conditions as nationally (the same is true of the following economic zones)

Figure 6:
Trend in the Supply-Demand Balance (4 Main Metropolitan Areas)
Greater Osaka area



Note: Same conditions as nationally (the same is true of the following economic zones)

Greater Nagoya area

The completion of a new expressway and road upgrades in Greater Nagoya increased land supply, causing the supply volume to hit a record high in 2023. Although demand also hit a record high, it could not keep pace with supply and the vacancy rate rose to 13.3%. Particularly in districts where development has been concentrated, such as the areas surrounding the bayside Yatomi district and inland districts such as Ichinomiya, space has remained vacant following the completion of projects and there is competition to attract tenants.

On the other hand, in districts such as Toyota, Okazaki and Kariya, where there is a thriving automotive industry, automobile-related demand is strong and is likely to remain so for some time.

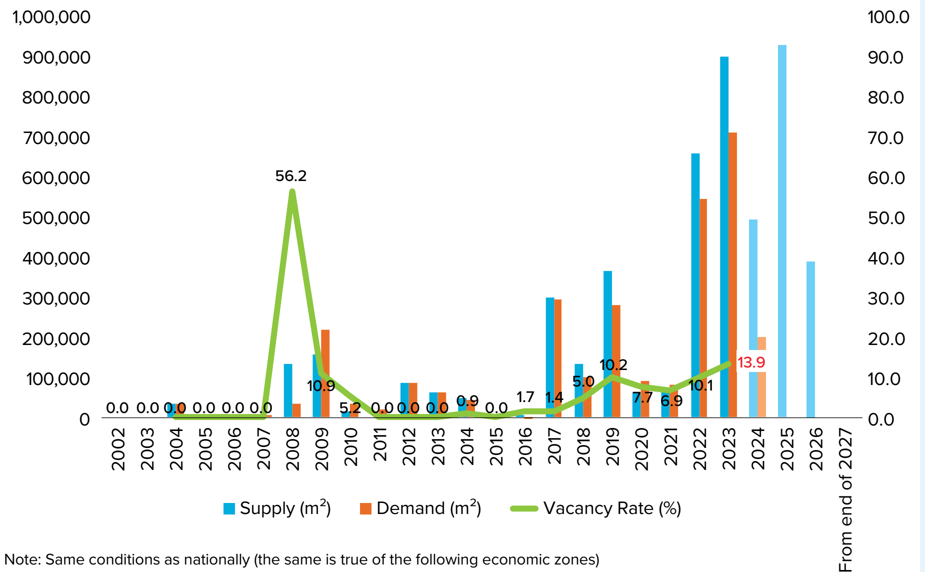
With secondary and tertiary development in the Ichinomiya district, empty space indicated by activities to attract replacement tenants in the Yatomi district, and several developments underway in the Komaki district, the large volume of supply is expected to continue into the future. The vacancy rate could therefore trend higher for some time.

Fukuoka metropolitan area

In the Fukuoka metropolitan area, where the vacancy rate had hovered at low levels since 2019, the large volume of supply that came onto the market in 2022 was met with equally high demand. However, with the same volume of supply again coming onto the market in 2023, demand was not able to keep up, and the vacancy rate rose to 6.6%. The supply volume is projected to reach a new record in 2024. Although demand is already quite high, it may not be able to keep pace with the large volume of supply and the vacancy rate may rise. However, figures for Fukuoka City and its surrounding areas show a low vacancy rate and firming rent levels, and the metropolitan area is starting to see its first developed properties with face rents around JPY 4,000 per tsubo.

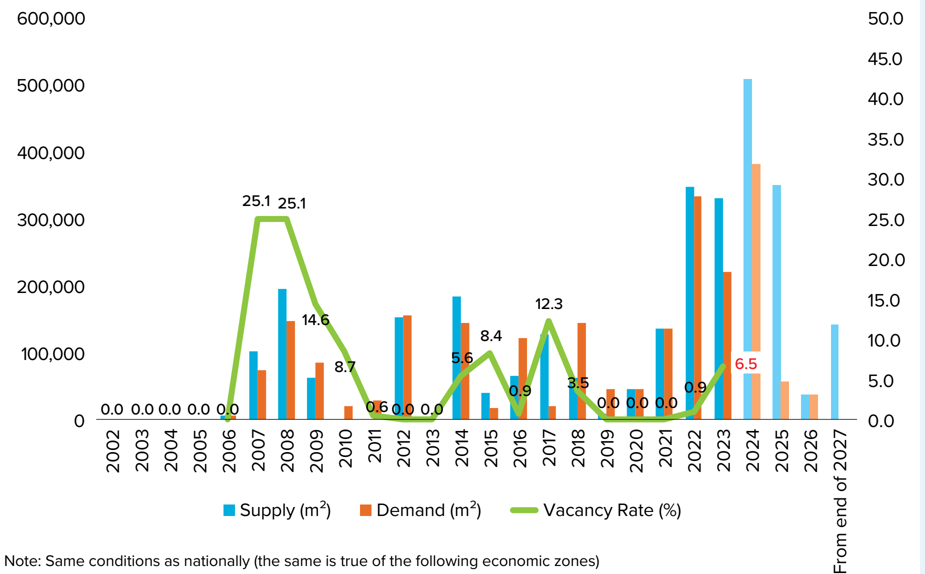
In contrast, in the Tosu and Ogori districts where developments are underway, the increase in supply is being accompanied by a rise in the vacancy rate. There is thus a difference in demand pressure between the city center areas and the suburbs.

Figure 7:
Trend in the Supply-Demand Balance (4 Main Metropolitan Areas)
Greater Nagoya area



Note: Same conditions as nationally (the same is true of the following economic zones)

Figure 8:
Trend in the Supply-Demand Balance (4 Main Metropolitan Areas)
Fukuoka area



Note: Same conditions as nationally (the same is true of the following economic zones)

Other areas

Market trends in Sendai metropolitan area
The scale of demand in the Sendai metropolitan area is essentially about 1/20 of that in the Greater Tokyo area. Reconstruction demand is now shrinking due to lower regional demand for warehouses. For a time after the Great East Japan Earthquake, there was continuous development of facilities in inland areas such as the Izumi and Tomiya districts and Medeshimadai in Natori City, after which development has again picked up in coastal areas such as the hinterland behind Sendai Port and the Iwanuma district. Development is shifting from build-to-suit (BTS) to multi-tenant facilities, which are currently being developed in the Iwanuma, Izumi, Natori, Oroshimachi and Ogimachi districts. Although reconstruction demand has softened slightly, the supply of rental space is currently limited, so rents are inching up.

Market trends in Sapporo metropolitan area
In the Sapporo metropolitan area, logistics facilities are springing up in Sapporo City and the surrounding districts. Previously, BTS developments have been the most common type of development, but multi-tenant facilities are now being developed in the Higashikariki, Kitahiroshima and Hassamu districts. The scale of the metropolitan area is not so large, so demand pressure is also contained and, depending on the developed property, attracting tenants is taking longer in some cases. Rents have risen moderately, though upward pressure on rent levels is limited.

Market trends in Hiroshima and Okayama metropolitan areas
In the Hiroshima metropolitan area, multi-tenant facilities are operating in the Itsukaichi and Nishi-ku coastal areas of Hiroshima City and in the Seifushinto and Shiwa inland districts. Around Nishi-ku (the area adjacent to Shoko Center), there is no vacant space and there is demand pressure, so this district has higher rent levels (around JPY 4,000 per tsubo) than other regional areas.

The Okayama metropolitan area not only handles demand for delivery of consumer goods within the Okayama metropolitan area but its Hayashima district also provides functions for wide area delivery of dry consumer goods to the Chugoku and Shikoku regions. There are already some multi-tenant facility developments in the Hayashima district but there are few sites suitable for development, so some facilities are located farther out in places such as Soja and Kurashiki. In Kurashiki, which is adjacent to the recently upgraded Hayashima district, BTS developments are underway for leading logistics operators.

MALAYSIA

INDEPENDENT MARKET RESEARCH

By Knight Frank

MACRO ECONOMY OVERVIEW

Gross Domestic Product and Inflation Rate

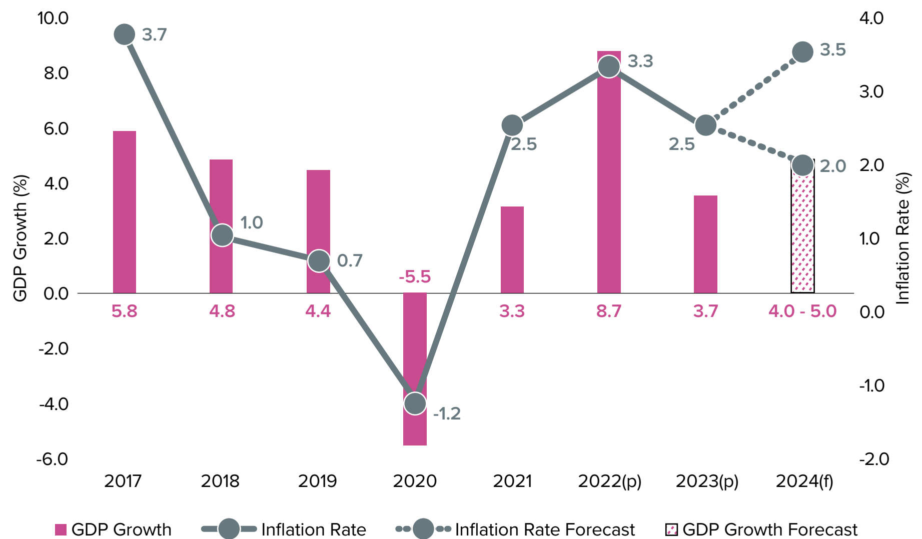
After robust growth of 8.7% in 2022, the Malaysian economy witnessed a normalisation in 2023, with growth stabilising at 3.7% (Figure 1). This moderate growth was influenced by challenging external factors such as slower global trade, geopolitical tensions, and tighter monetary policies. For the period from 2018 to 2023, the Gross Domestic Product (GDP) in 2015 constant prices grew at a Compound Annual Growth Rate (CAGR) of 2.8%.

Despite the lapse of significant policy support following the country's transition to the endemic phase of COVID-19 on 1 April 2022, sustained recovery in economic activity and labour market conditions contributed to growth in 2023. Furthermore, the economy's resilient external position further bolstered its solid growth performance.

Looking ahead, both the government and central bank anticipate economic growth of 4%-5% in 2024. Bank Negara Malaysia (BNM) foresees that growth in 2024 will be supported by stronger domestic spending and enhanced external demand, particularly in the tech sector.

For the year 2020, Malaysia registered deflation (-1.2%) for the first time in five decades, primarily due to lower global oil and commodity prices coupled with tiered electricity tariff rebates since April 2020 and suppressed domestic demand amongst other factors.

Figure 1:
Malaysia - GDP Growth and Inflation Rate at Constant 2015 Prices, 2017 to 2024(f)



Sources: Budget 2024 / Department of Statistics Malaysia (DOSM) / Bank Negara Malaysia (BNM)
Note: (p) = Preliminary data; (f) Forecast

Headline inflation rose to 2.5% in 2021 mainly due to the cost-push factor of higher global oil prices. In 2022, it continued to trend upwards to 3.3% due to the ongoing conflict between Russia and Ukraine as well as the increase in global commodity prices.

During the fourth quarter of 2023, headline inflation experienced a downward trend, easing to 1.6%. The drop was primarily attributed to lower fresh food inflation and moderating core inflation. For the whole year of 2023, headline inflation moderated to 2.5% after consistent decline throughout the year (1Q2023: 3.6%; 2Q2023: 2.8%; 3Q2023: 2.0%; 4Q2023: 1.6%). The decline has been supported by the government's consumption subsidies aimed at mitigating increases in services and food prices.

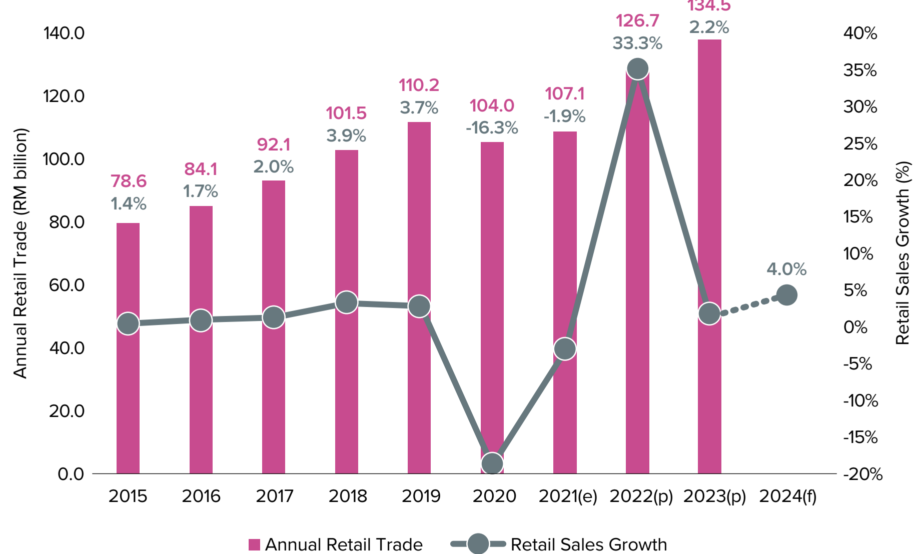
Looking ahead in 2024, the central bank has projected that headline inflation will fall within the range of 2.0% to 3.5%. Inflation is expected to remain modest with stable cost and demand conditions. However, the inflation outlook is significantly influenced by potential alterations to domestic policies regarding subsidies and price controls, along with fluctuations in global commodity prices and developments in the financial markets.

Malaysia Retail Trade and Retail Sales

Malaysia's annual retail trade experienced steady growth in recent years. In 2021, it increased by 3.0% to register at RM107.1 billion, followed by a significant improvement in 2022 with double-digit growth of 18.3%, totalling RM126.7 billion (Figure 2). Continuing this upward trend, the retail trade saw further growth of 6.2% in 2023, reaching RM134.5 billion.

Retail Group Malaysia anticipates 4% sales growth for the retail industry in 2024. The rising cost of living remains a primary challenge in the country's retail industry. Growth for the first quarter of the year is expected to be robust at 7.1%, driven by the Chinese New Year festival and the month-long school holiday while for the second quarter, retail sales are projected to grow by 3.5%, primarily fuelled by the Hari Raya festival. Additionally, moderate expansions of 2.5% and 3.2% are forecasted for the third and fourth quarters, respectively.

Figure 2:
Malaysia – Retail Trade and Sales Growth, 2015 to 2024(f)



Sources: Department of Statistics Malaysia (DOSM) / Retail Group Malaysia
Notes: (e) = Estimates; (p) = Preliminary data, (f) = Forecast

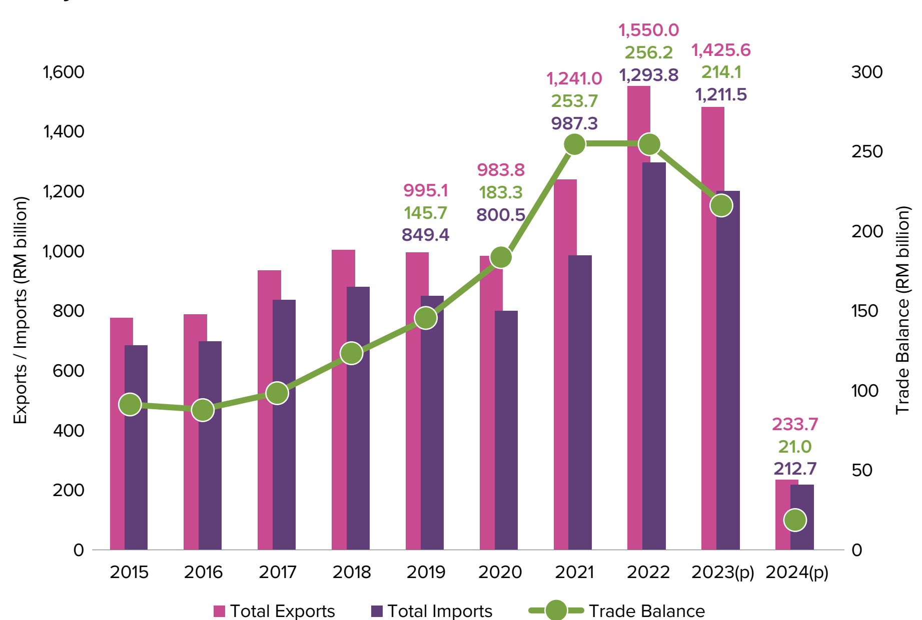
Malaysia External Trade

For the first two months of the year (January and February 2024), Malaysia registered total exports, imports and trade balance of RM233.7 billion, RM212.7 billion and RM21.0 billion respectively (Figure 3).

Throughout 2023, global trade continued to expand at a slower pace, weighed down by various factors such as lower commodity prices, geopolitical instability, high inflation rates and a downturn in the semiconductor industry. Trade performance remained affected by weak commodity prices, particularly in crude palm oil, crude petroleum and liquefied natural gas. Geopolitical uncertainties arising from conflicts between the United States and China, Russia and Ukraine, as well as in the Middle East, contributed to a subdued global economy, reducing demand for Malaysian goods. Furthermore, elevated global inflation levels diminished consumer purchasing power in importing nations.

In 2023, Malaysia experienced an 8% contraction in exports, amounting to RM1,425.6 billion. Total imports for the year decreased by 6.4% to RM1,211.5 billion compared to the previous year. Consequently, the trade surplus edged down to RM214.1 billion, marking a 16.4% contraction.

Figure 3:
Malaysia – External Trade, 2015 to Jan-Feb 2024(p)



Sources: Department of Statistics Malaysia (DOSM) / Knight Frank Research
Note: (p) = Preliminary data

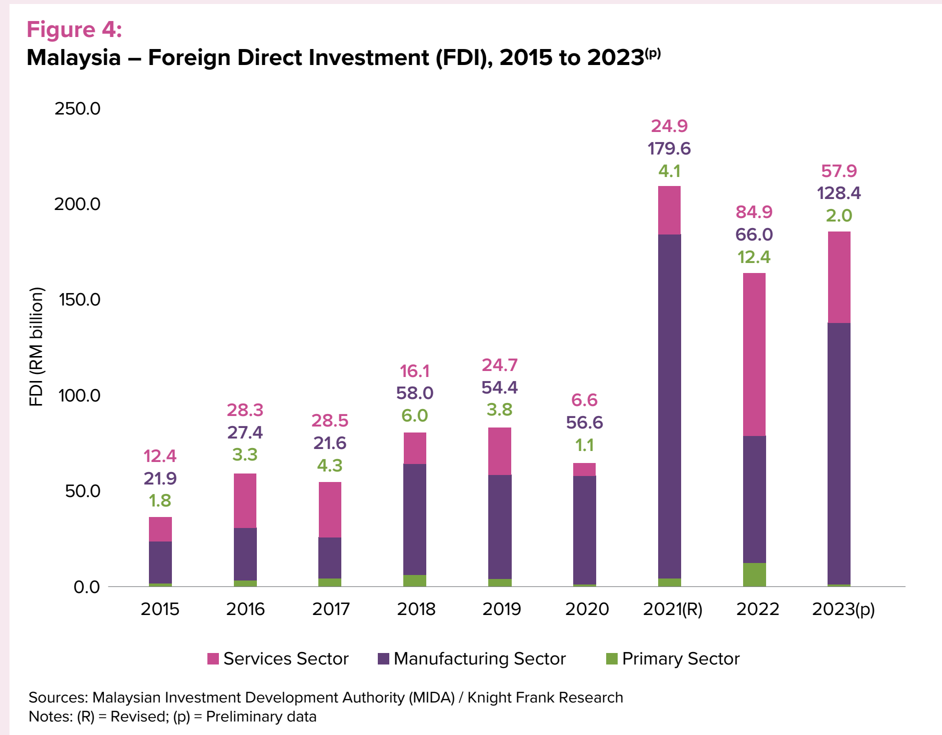
However, for the period from 2015 to 2023, Malaysia's external trade posted healthy CAGRs of 7.9% for export, 7.4% for import and 11.2% for trade balance.

In line with the World Trade Organization's projection of 3.3% global trade growth, Malaysia's trade performance is expected to rebound in 2024. Forecasts from the Ministry of Finance's Economic Outlook 2024 indicate a 5% overall trade growth for Malaysia, with exports and imports estimated to increase by 5.1% and 4.9%, respectively.

Foreign Direct Investment

In 2023, Malaysia experienced a 15.3% year-on-year (y-o-y) increase in Foreign Direct Investment (FDI), registering at RM188.3 billion, compared to RM163.3 billion in 2022. This surge was primarily driven by a near two-fold increase in FDI within the manufacturing sector, from RM66.0 billion in 2022 to RM128.4 billion in 2023 (Figure 4).

Figure 4:
Malaysia – Foreign Direct Investment (FDI), 2015 to 2023(p)



Sources: Malaysian Investment Development Authority (MIDA) / Knight Frank Research
Notes: (R) = Revised; (p) = Preliminary data

Experiencing a significant resurgence in 2023, the manufacturing sector drew in a total approved investment value of around RM128.4 billion, surpassing the services sector by more than two-fold. Leading the investments in the manufacturing sector were the Netherlands, contributing RM34.9 billion, followed by the United States of America and the Cayman Islands with RM18.1 billion and RM16.9 billion, respectively.

LOGISTICS MARKET INDICATORS

Logistics Market Trends and Performance

Logistics plays a pivotal role in facilitating the movement of goods both domestically and internationally, serving as a crucial element in the modern economy. In addition to fostering trade relationships with other nations, it serves as a vital catalyst for economic sectors like manufacturing, agriculture, and retail. This, in turn, generates positive ripple effects, including enhanced market reach and increased employment opportunities.

The logistics industry in Malaysia remains fragmented with a large number of players across the value chain. Looking ahead, as trade continues to expand, the logistics sector is anticipated to experience growth, capitalising on the surge in e-commerce activities.

The pandemic has accelerated growth in the e-commerce market and resulted in rapid digital adoption. Products relating to food, fast-moving consumer goods, health and pharmaceutical etc. have continued to spur demand for industrial real estate. There is sustained interest in the logistics industry supported by strong demand for warehouse and distribution facilities.

After enduring several years of supply chain volatility, 2024 is expected to bring about a more stable scenario, as many industry indicators are projected to revert to their pre-COVID levels.

This section reviews the potential of the logistics industry by assessing performances of the transportation and storage services (TSS) and cargo / container segments.

Transportation and Storage Services (TSS)

The national economy expanded 3.7% in 2023 as compared to 2022, with GDP recorded at RM1,566.5 billion (2022: RM1,510.9 billion). The services sector, which served as the major contributor to the country's economy, accounted for 59.2% share of GDP with RM927.8 billion (Figure 5).

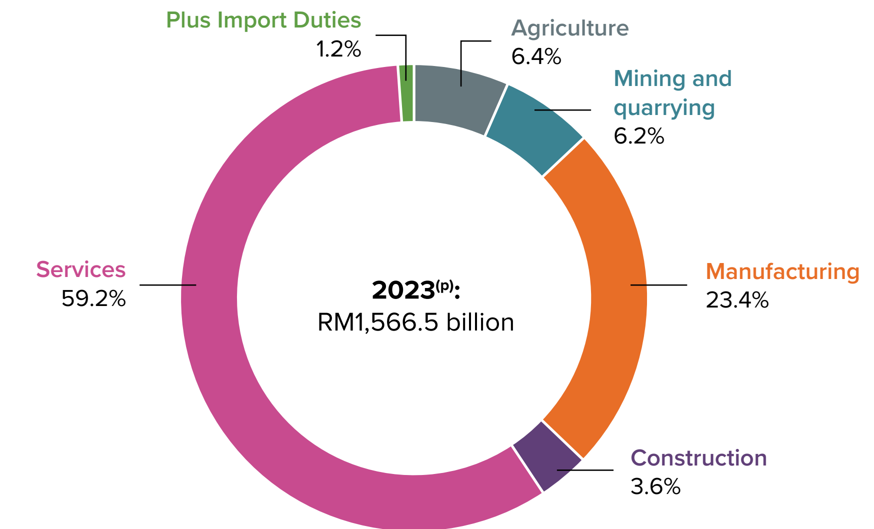
Government services activity dominates the services sector with 15.7% share, followed by retail trade (14.5%), wholesale trade (12.4%), information and communication (11.1%), finance (8.5%), transportation and storage (6.8%) and business services (5.4%) (Figure 6).

During 2023, the services sector recorded a value of RM927.8 billion, with a 6.8% or RM63.5 billion contribution from TSS.

The following section analyses activities in the TSS segment from 2018 to 2022(p).

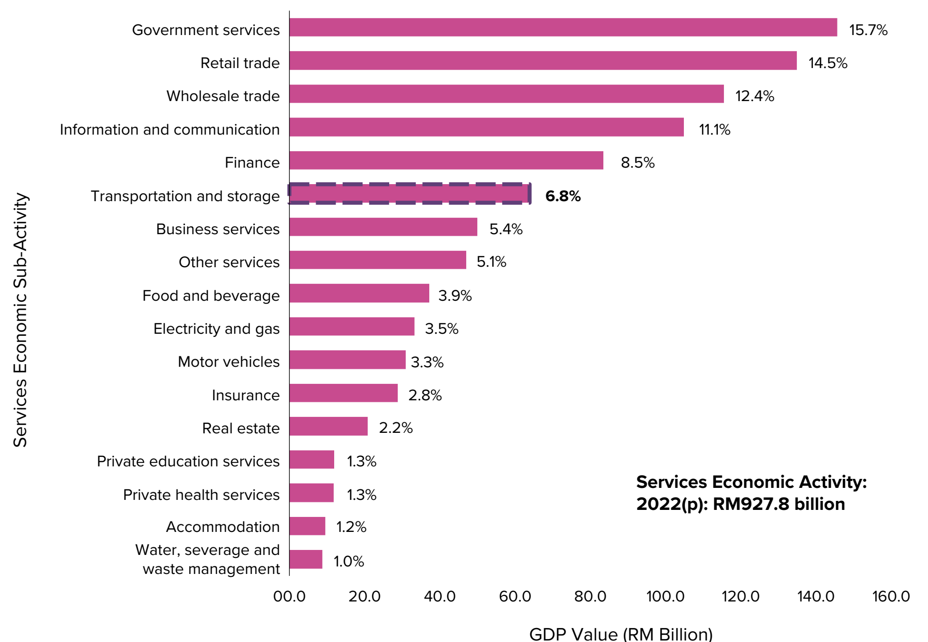
There are seven major key economic activities within the TSS segment, namely land transport; water transport; air transport; port and airport operation; highway operation; support activities for transportation and postal & courier. In 2022, the TSS segment made up 6.3% of the services sector with a contribution of RM55.8 billion, representing a y-o-y increase of 30.8% (2021: RM42.7 billion) as well as a CAGR of 2.7% for the period from 2018 to 2022(p).

Figure 5:
Malaysia GDP - Percentage Share by Sector, 2023(p)



Sources: Department of Statistics Malaysia (DOSM) / Knight Frank Research
Notes: (p) = Preliminary data
(1) GDP at 2015 constant prices

Figure 6:
Malaysia GDP - Percentage Share of Services Economic Sub-Activity, 2023(p)



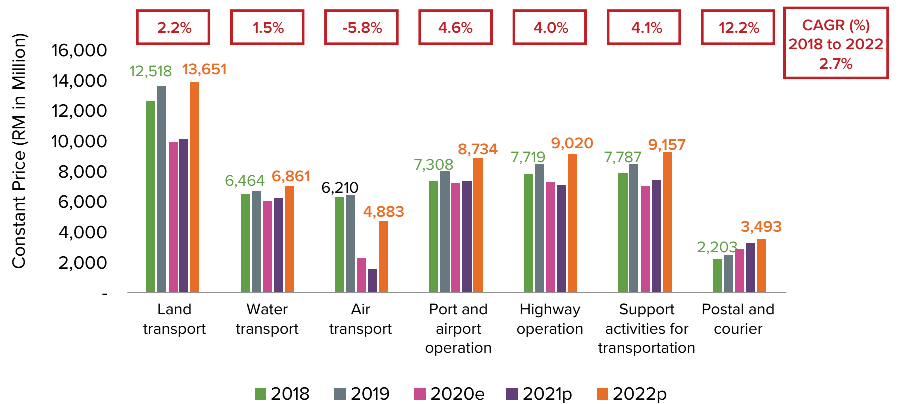
Sources: Department of Statistics Malaysia (DOSM) / Knight Frank Research
Notes: (p) = Preliminary data
(1) GDP at 2015 constant prices

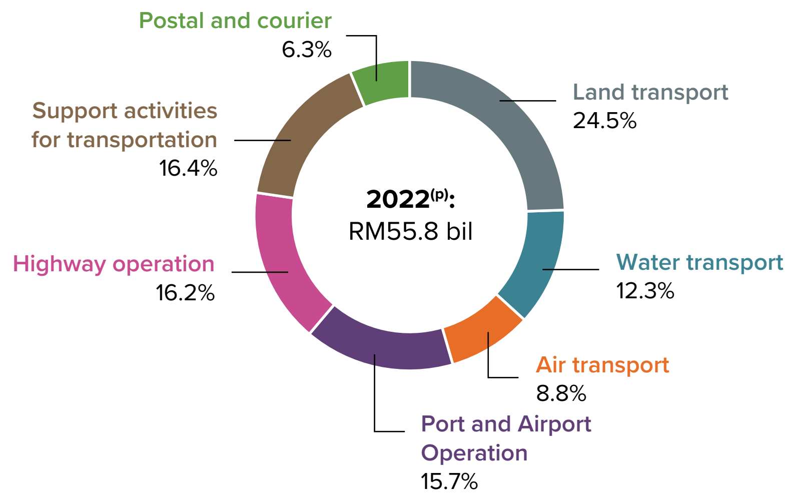
Land transport activity continues to dominate the TSS segment, registering a value of RM13.7 billion (in constant 2015 price) or 24.5% share in 2022. Meanwhile, postal and courier activity contributed the least with 6.2% share and contributions from the remaining key activities range from 8% to 17% (Figure 7).

From 2018 to 2022(p), postal & courier activity experienced rapid growth with CAGR of 12.2%, followed by port & airport operation, support activities for transportation and highway operation with CAGRs of 4.6%, 4.1% and 4.0% respectively. Activities in land transport and water transport grew moderately at 2.2% and 1.5% respectively. In contrast, activities in air transport reflected a negative CAGR of 5.8%.

The demand for logistics services and strategically located warehouse space continues to remain in expansionary mode to support the entire supply chain in the primary and manufacturing sectors.

Figure 7:
Malaysia – Transportation & Storage Services Contribution by Economic Activity, 2018 to 2022(p)





Sources: Department of Statistics Malaysia (DOSM) / Knight Frank Research
Notes: (p) = Preliminary data
(1) GDP at 2015 constant prices

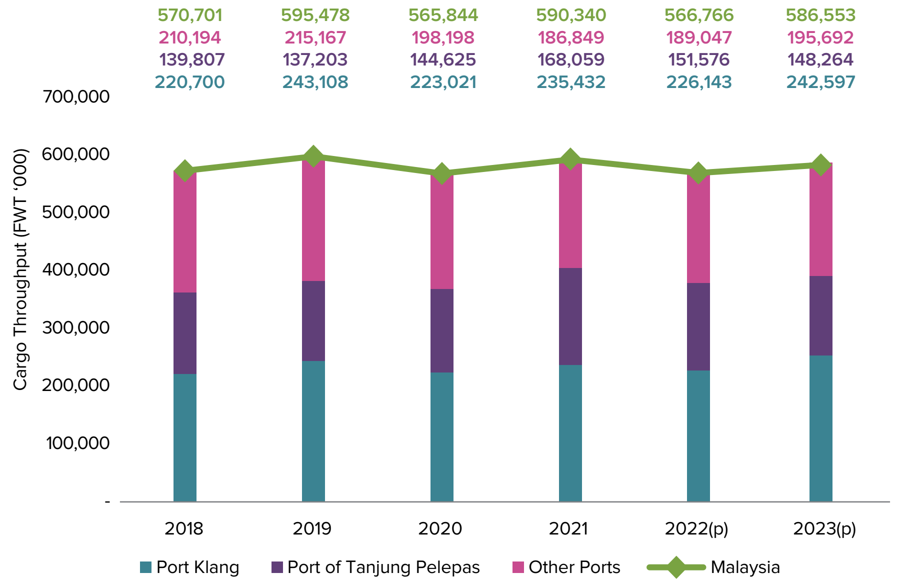
Cargo and Container Throughput by Ports

Cargo and container throughput by ports mainly support the cross-border export and import of goods. There are nine ports in Peninsular and 13 ports in East Malaysia. In Klang Valley the main port is Port Klang (inclusive of Northport and Westport). Meanwhile in Johor, there is a port known as Port of Tanjung Pelepas.

In 2023, cargo and container throughput (including trans-shipment) via Malaysia's ports were recorded at 586.6 million tonnes and 28.2 million TEUs, respectively (Figures 8 and 9). Both the cargo handled and the container throughput increased by 3.5% compared to the previous year.

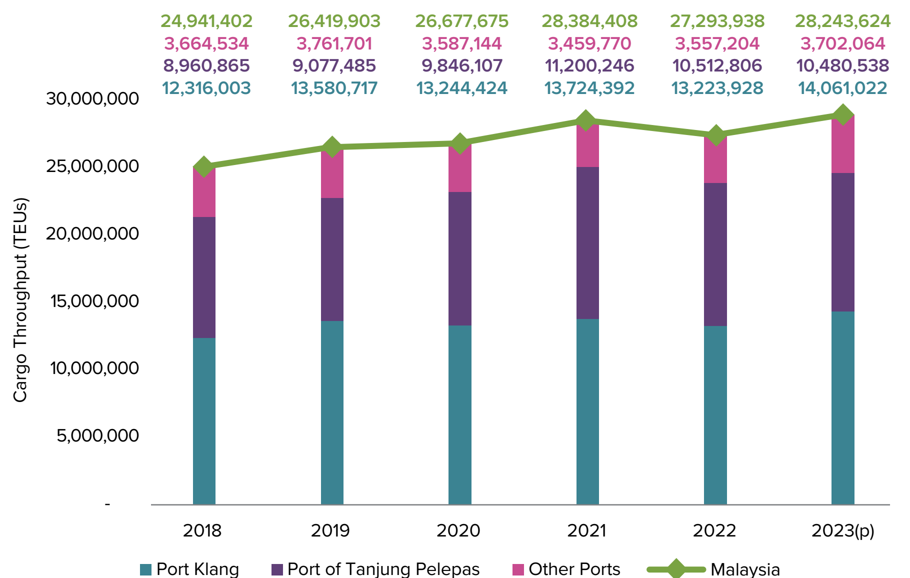
It is estimated that in 2023, some 41.4% and 49.8% of the cargo and container throughput via ports in Malaysia were handled by Port Klang (Northport and Westport), accounting for circa 242.6 million tonnes and 14.1 million TEUs respectively. Meanwhile, Port of Tanjung Pelepas handled 148.3 million tonnes of cargo and 10.5 million TEUs of containers in 2023, representing 25.3% and 37.1% of Malaysia's market share respectively.

Figure 8:
Malaysia – Total Cargo Throughput by Port (Freight Weight Tonne '000), 2018 to 2023(p)



Sources: Ministry of Transport (MOT) / Knight Frank Research
Note: (p) = Preliminary data

Figure 9:
Malaysia - Total Container Throughput by Port (Twenty Equivalent Units TEUs), 2018 to 2023(p)



Sources: Ministry of Transport (MOT) / Knight Frank Research
Note: (p) = Preliminary data

Cargo Handled by Airports
There are seven international airports and 16 domestic airports in Malaysia.

In Selangor, there are two international airports (Kuala Lumpur International Airport, KLIA and Kuala Lumpur International Airport 2, KLIA2) and a domestic airport (Sultan Abdul Aziz Shah Airport, Subang). Meanwhile, Johor is served by Senai International Airport in Johor Bahru.

The chart to the right analysed cargo handled by all / selected airports from 2018 to 2023(p).

In 2018, the Kuala Lumpur International Airport (KLIA) handled circa 57.5% of the national cargo via air freight, totalling 555,704 tonnes. However, due to the pandemic, the cargo handled by KLIA experienced a decrease of 16.6% in 2020, recording at 454,548 tonnes. The volume of cargo handled returned to pre-pandemic levels in the following year, registering 593,605 tonnes (Figure 10).

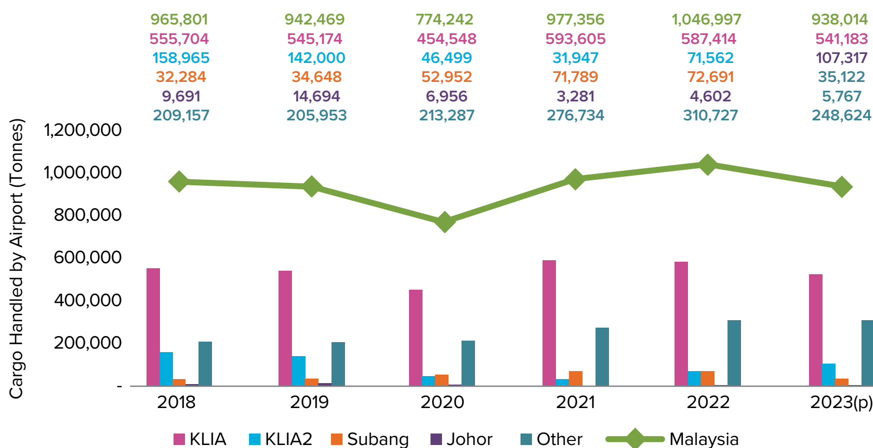
Similarly, for KLIA2, the volume of cargo handled declined sharply to 46,499 tonnes in 2020 and dipped further to circa 31,947 tonnes in 2021. It has been slowly recovering since 2022 and 2023 but has yet to return to pre-pandemic levels, with 2023 recording 107,317 tonnes.

Meanwhile, the cargo handled by Johor airport peaked at 14,694 tonnes in 2019 before declining to circa 4,602 tonnes in 2022.

Air freight is generally the most expensive mode. For the period between 2018 and 2023, cargo handled by all airports in Malaysia recorded a negative CAGR of 0.6%. The outbreak of the COVID-19 pandemic has hampered the aviation and air transport related sector.

Amidst market uncertainty, the overall outlook for air cargo industry in 2024 remains cautiously optimistic.

Figure 10:
All / Selected Airports – Cargo Handled, 2018 to 2023(p)



Sources: Ministry of Transport Malaysia (MOT) / Knight Frank Research
Notes: (p) = Preliminary data
(1) Cargo handled excludes cargo in transit

Table 1:
Southeast Asia – Growth of Gross Merchandise Value (GMV) by Selected Sectors, 2022 to 2023 and Forecast from 2023 to 2025

	E-Commerce Sector		Transport & Food Sector	
Market	2022 vs 2023	Forecasted CAGR 2023 - 2025	2022 vs 2023	Forecasted CAGR 2023 - 2025
Philippines	5%	21%	16%	19%
Vietnam	11%	22%	10%	16%
Thailand	10%	16%	1%	15%
Indonesia	7%	15%	-8%	13%
Malaysia	**-4%**	**10%**	**16%**	**13%**
Singapore	-3%	14%	11%	11%

Sources: e-Conomy SEA Report / Knight Frank Research

E-Commerce
The booming e-commerce business appears to be a silver lining consequential to the pandemic, growing tremendously in the past couple of years. According to the Department of Statistics Malaysia (DOSM), income from e-commerce transactions increased by 6.0% from RM1,037.2 billion in 2021 to RM1,099.7 billion in 2022. The growth of e-commerce has increased the demand for warehousing in more locations, including non-central locations, to serve the rural communities.

The emerging trends also encourage logistics players to increase efficiency by digitalizing their operations and this has led to higher demand for smart warehousing and e-fulfilment centres.

The countries in Southeast Asia encountered different growth trends.

Malaysia is expected to continue its growth trajectory from a higher starting point after its steep trajectory during the pandemic.

OVERVIEW: LOGISTICS MARKET IN KLANG VALLEY & JOHOR BAHRU

Supply

Existing Supply

In the past year, the logistics industry has continued to outperform many other sectors. The industrial property sector remains on an upward growth trajectory with a steady pipeline of distribution and warehouse projects, driven by strong and steady demand from both logistics players and investors.

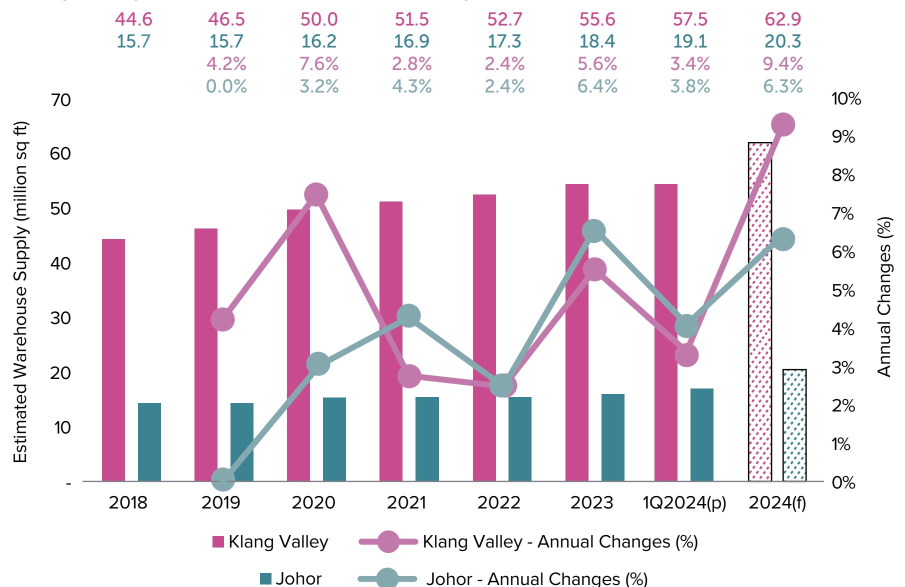
The estimated warehousing space in Klang Valley stood at 55.6 million sq ft as of 2023, depicting an annual increase of 5.6%. Meanwhile, in Johor (Johor Bahru and Kulai), the warehousing space also grew (circa 6.4%) to record at 18.4 million sq ft during the year (Figure 11).

Notable completions in 2023 include Symphony Warehouse, redevelopment of Bukit Raja Distribution Centre 2 and LYL Logistic Park @ U10 Shah Alam (Phase 2) in Shah Alam; Bukit Raja International Industrial Complex (BRIIC) Phase 1 in Bukit Raja as well as Tiong Nam Logistics' warehouse in Senai Airport City, Johor.

During the review period from 2018 and 2023, the warehousing space in Klang Valley and Johor recorded CAGRs of 4.5% and 3.2% respectively.

In the first quarter of 2024, the cumulative supply of industrial properties in the logistics and distribution center sub-sectors in the Klang Valley stood at 57.5 million sq ft, following the completion of three developments, which contributed a total of circa 1.9 million sq ft. These developments include Axis Mega Distribution Hub Phase 2, Bandar Bukit Raja Metrohub 2 and Bandar Bukit Raja Industrial Gateway (CEVA & SL Ng).

Figure 11:
Klang Valley and Johor – Estimated Supply of Warehouse Space, 2018 to 2024(f)



Source: Knight Frank Research
Note: (p) = Preliminary data; (f) = Forecast

Meanwhile, the total supply of logistics warehouse space in Johor (Johor Bahru and Kulai) in 1Q2024 amounted to 19.1 million sq ft. The recent completion of D37B Warehouse at PTP contributed approximately 265,000 sq ft to the market, with the occupier commencing operations at the beginning of the year.

As of 1Q2024, Grade A warehouse spaces in Klang Valley made up circa 8.6 million sq ft or 15.0% of the total estimated stock while in Johor, similar grade warehouse space accounts for circa 37.7% share or 7.2 million sq ft of the state's existing cumulative supply.

Future Supply

It is estimated that there are some 5.4 million sq ft of incoming stock that are scheduled for completion in Klang Valley by the end of 2024, representing an increase of circa 13.1% (2024: 62.9 million sq ft; 2023: 55.6 million sq ft).

Notable upcoming warehouses / distribution centres in Klang Valley include Bukit Raja International Industrial Complex Phase 2 (YTL-Shopee Warehouse), ALP Bukit Raja Omega, Metrohub 1 and E-Metro Logistics Park Parcel C, all situated within the locality of Klang. As for Johor Bahru, notable warehouses / distribution centres currently under construction include Tiong Nam's D25B Warehouse.

Demand and Occupancy Rate
We have selected a sampling of facilities / premises to gauge the demand for warehousing space in Klang Valley and Johor Bahru. It is to be noted that the majority of these facilities / premises are single-tenanted with long-term lease agreements.

As of 2023(f), the selected logistics hubs / distribution centres under review in Klang Valley are reportedly almost fully occupied, supported by factors such as enhanced logistics infrastructure, growing freight volume, sustained growth in e-commerce, and favourable government policies.

There is strong demand for warehousing space in Selangor, particularly in the established localities of Shah Alam and Klang.

Similarly, in Johor, the average occupancy rate is estimated to remain stable at 100% in 2023(f) (Figure 12).

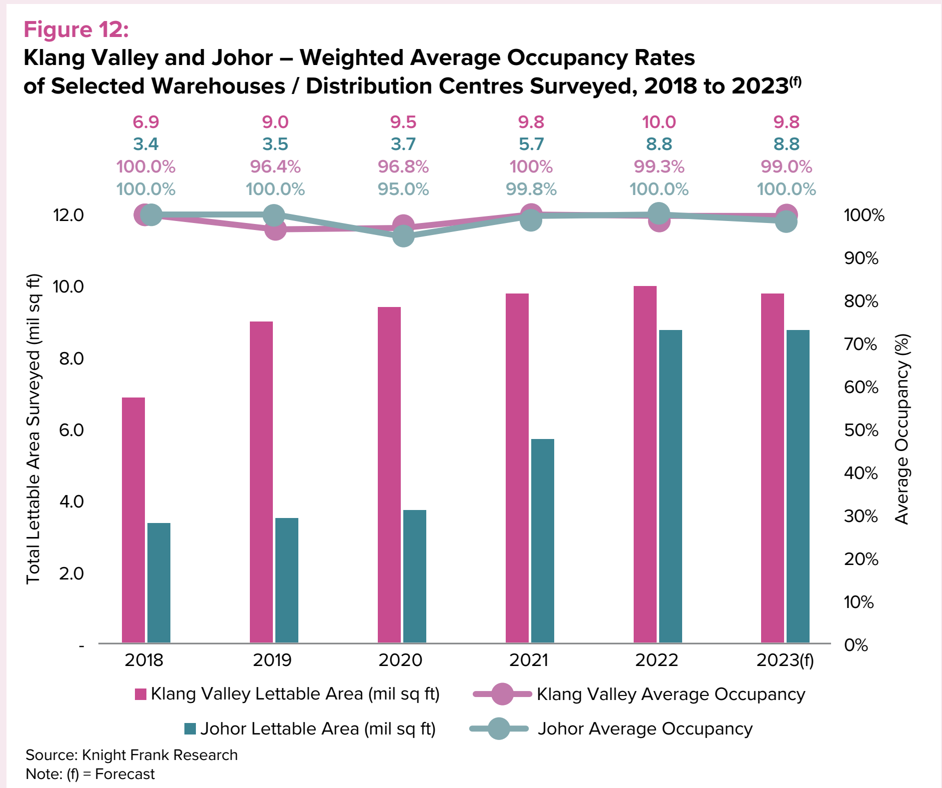
Rental Analysis
In 2023, the asking gross rentals for industrial properties in prime areas of Klang Valley ranged from RM1.50 to RM2.50 per sq ft per month where the lower band is observed to be slightly higher than the preceding year (Table 2).

Detached industrial premises / facilities located in Petaling Jaya, Shah Alam and Glenmarie command higher asking rentals, ranging from RM1.80 per sq ft to RM2.50 per sq ft per month while in other selected established industrial areas such as Subang Hi-Tech, Bukit Raja and Port Klang, the asking rentals are lower and range from RM1.50 per sq ft to RM2.30 per sq ft per month.

In Johor Bahru, the asking rental rates of industrial properties in the localities of Port of Tanjung Pelepas, Pasir Gudang and Senai are also higher in 2023, ranging from RM1.00 per sq ft to RM1.80 per sq ft per month.

During the first quarter of 2024, the asking gross rentals for industrial premises in selected schemes within Klang Valley and Johor Bahru remained relatively consistent compared to 2023. In Klang Valley, asking gross rentals range from RM1.60 to RM2.50 per sq ft per month while Johor Bahru recorded asking gross rentals from RM0.90 to RM2.00 per sq ft per month.

Figure 12:
Klang Valley and Johor – Weighted Average Occupancy Rates of Selected Warehouses / Distribution Centres Surveyed, 2018 to 2023(f)



Source: Knight Frank Research
Note: (f) = Forecast

Table 2:
Selected Prime Industrial Areas in Klang Valley and Johor Bahru – Asking Rental Rates, 2022, 2023 and 1Q2024

Region / Locality	Asking Gross Rental (RM per sq ft / month) 1Q2024	2023	2022
Klang Valley			
Petaling Jaya (Sections 19, 51 and 51A)	1.80 - 2.50	1.80 - 2.50	1.80 – 2.70
Subang Hi-Tech	1.60 – 2.30	1.60 – 2.30	1.60 – 2.30
Bukit Raja	1.60 - 2.30	1.50 - 2.30	1.70 – 2.30
Port Klang	1.60 - 1.90	1.50 - 1.80	1.40 – 1.90
Shah Alam	1.80 - 2.30	1.80 - 2.30	1.70 – 2.30
Glenmarie	1.90 - 2.50	1.80 - 2.50	1.70 – 2.40
Johor Bahru			
Port of Tanjung Pelepas	1.30 - 2.00	1.40 - 1.80	1.40 – 1.60
Pasir Gudang	1.00 - 1.80	1.00 - 1.60	1.00 – 1.50
Senai	0.90 - 1.70	1.40 - 1.80	1.20 – 1.80

Source: Knight Frank Research
Note: The above quoted rental values vary according to location / scheme, type and quality of premises, size and other value factors.

SUMMARY & MARKET OUTLOOK

Malaysia's economy expanded 3.7% in 2023. For 2024, GDP growth is anticipated to range from 4.0% to 5.0% *(source: Budget 2024)*, underpinned by a steady expansion in domestic demand and recovery in external trade while headline inflation is expected to hover between 2.0% and 3.5% *(source: Bank Negara Malaysia)*.

Malaysia is an important player in the ASEAN region in the areas of manufacturing, information communication and technology and commodities (oil and palm oil). The successful ratifications of the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on 18 March 2022 and 29 November 2022 respectively, will boost Malaysia's growth outlook. These trade agreements are expected to eliminate a significant number of tariffs among the participating nations, opening up greater access to the markets of the contracting parties.

Under Budget 2024, the government plans to allocate up to 10% of the total New Industrial Master Plan (NIMP) investment, amounting to RM200 million, as a catalyst for a 2024 startup fund to accelerate the NIMP mission. Additionally, the government will intensify efforts to attract more high-impact investments and implement new policies to enhance the ease of doing business, thereby developing Malaysia's advantage as a preferred destination for foreign investment.

The government will also provide 100% internet coverage in populated areas and provide fibre optic coverage to 9 million premises nationwide by 2025 under the National Digital Infrastructure Plan (JENDELA) Phase 2 project. For 2023, there was an allocation of RM700 million to implement digital connectivity for 47 industrial areas.

Meanwhile, the government's new blueprint for Industry 4.0, namely Industry4WRD, strives to catalyse growth of key sectors in the realm of electrical & electronics, machinery & equipment, chemicals, aerospace and medical devices. It places a high emphasis towards the development progress of SMEs as there are circa 1.2 million SMEs which make up more than 97% of the total establishments in Malaysia. Collectively, these SMEs contribute about 37.4% to the nation's GDP.

The New Industrial Master Plan (NIMP) 2030, launched in October 2023, plans to establish stronger cooperation with neighbouring countries for a more resilient supply chain, with the pursuit of vertical integration of selected industries across the ASEAN countries. It will also create opportunities for Malaysian SMEs to grow in manufacturing. The implementation of the NIMP 2030 will require an estimated total investment of RM95 billion over seven years, supported by government incentives such as the NIMP Industrial Development Fund and the NIMP Strategic Co-investment Fund.

The country's industrial property market's growth trajectory is expected to continue, supported by the robust manufacturing sector coupled with the positive trend observed in the logistics segment as initiatives such as the Digital Free Trade Zone (DFTZ) spur growth in the e-commerce sector.

The booming e-commerce business appears to be a silver lining consequential to the pandemic, growing tremendously in the past couple of years. According to the Department of Statistics Malaysia (DOSM), income from e-commerce transactions increased by 6.0% from RM1,037.2 billion in 2021 to RM1,099.7 billion in 2022. The growth of e-commerce increases the demand for warehousing in more locations including non-central locations to serve the rural communities. The emerging trends also encourage logistics players to increase efficiency by digitalizing their operations and this has led to higher demand for smart warehousing and e-fulfilment centres.

In addition, the scheduled completions of catalytic infrastructure projects such as the West Coast Expressway (WCE) by March 2025 and East Coast Rail Link (ECRL) by 2027 as well as the potential revival of KL-Singapore HSR project are expected to further enhance connectivity between industrial areas located along the routes and subsequently improve demand for logistics and warehouse space.

Traditionally, most of the larger existing industrial park developments in the country are led by State governments. However, the trend is changing as more private developers and investors see opportunities in this growing property segment. We now see the emergence of modern gated and guarded (G&G) industrial parks and logistics parks supported by amenities for the convenience of occupiers and end-users. Built-to-lease (BTL) developments have also become more prevalent where one-stop solutions are offered to companies which prefer to operate in customized facilities on long-term leases, saving the hassle and capital expenditure associated with the construction process.

The market outlook for the industrial property sector in Klang Valley and Johor Bahru remains optimistic, supported by positive sentiment in the manufacturing and logistics sectors.

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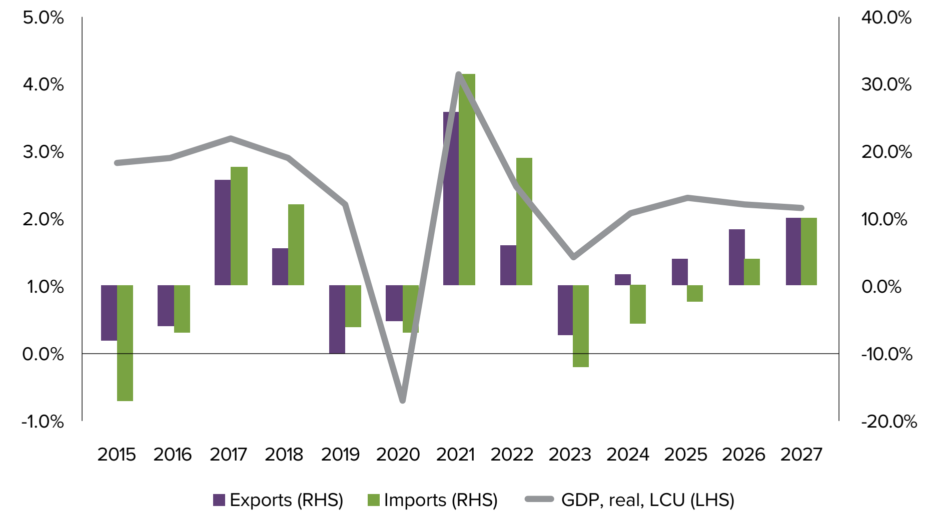
SOUTH KOREA
INDEPENDENT MARKET RESEARCH
By JLL Research

SOUTH KOREA ECONOMY

In 2023, Korea's exports shrank by 7.4%, resulting in a trade deficit of USD 9.97 billion. However, a rebound in the chip industry and stabilising energy prices caused exports to snap their year-long downturn since October, reversing the negative trade growth. Although it is too soon to conclude whether exports have entered a full-fledged recovery phase, the trade balance is expected to stay in the black in 2024 (Figure 1).

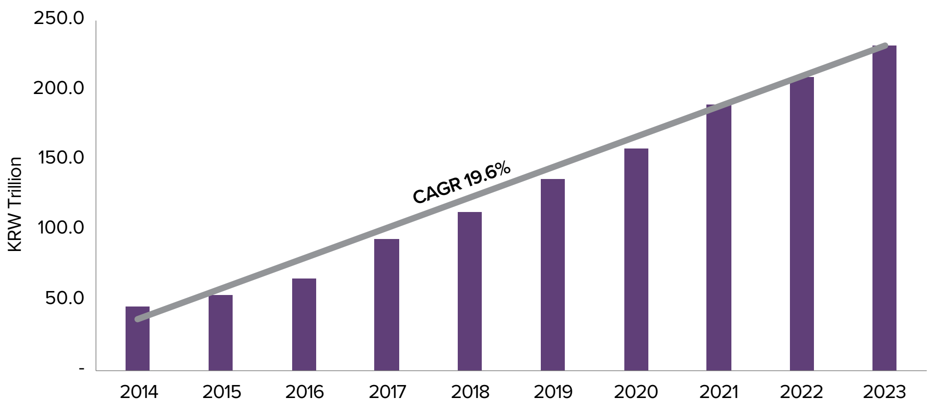
Figure 1:
Exports, Imports and GDP of Korea



Source : Statistics Korea, Oxford Economics, JLL Research

Going into 2024, the latest export figure in March posted USD 56.65 billion, up 3.1% on a yearly basis, propelled by the country's major IT items which exhibited simultaneous growth for the first time in 24 months. Import sales dipped in March by 12.3% y-o-y, reading USD 52.28 billion. The decreased imports were attributable to stabilising global energy prices. Meanwhile, the import of raw materials for chip manufacturing increased. The latest online shopping volume in February reached around KRW 18,977 billion. In 2023, online shopping volume demonstrated unfalteringly positive growth, led by the transportation services, F&B and fashion categories. The annual e-commerce growth was 8.3% in 2023, bringing the compound annual growth rate (CAGR) of 19.6% over the past decade (Figure 2).

Figure 2:
Annual Sales of E-commerce



Source: KOSIS

In April 2024, the Bank of Korea (BOK) froze the benchmark interest rate at 3.5% for the tenth straight session. The latest CPI reading in March was 3.1% y-o-y, which was far above the BOK's inflation target of 2.0%. Furthermore, the interest rate gap between Korea and the US has widened to an all-time high, adding challenges to lowering the rate. In a nutshell, easing inflation, signs of a dovish stance by the US Federal Reserve and stabilisation of household debt need to be addressed to see rate cuts.

According to the BOK's economic forecast released in February, GDP growth in 2024 is estimated to be 2.1%. The CPI projection is 2.6%, which is lower than the 2023 level of 3.6%. While there are lingering geopolitical uncertainties, the high-inflation, high-interest-rate environment is likely to be mitigated to some extent. The core inflation rate is anticipated to decelerate; however, surging agricultural prices may hamper the inflation slowdown. The disparities among sectors remain wide, with rising exports and faltering domestic demand. Exports are likely to be the main driver of GDP growth amid buoyant demand for semiconductors, which was further boosted by AI businesses such as ChatGPT. On the other hand, a slowdown in private consumption and mounting concerns about piling up real estate project financing loans collectively weakened the recovery momentum.

SEOUL METROPOLITAN AREA LOGISTICS MARKET PERFORMANCE AND TRENDS

Demand

In 2024 Q1, the Seoul Metropolitan Area (SMA) experienced a decrease in quarterly net absorption compared to the previous quarter, with a total of 479,572 sqm absorbed. The Central was the only sub-market to not experience any changes in the quarter. The other sub-markets in SMA maintained positive net take-up during this period.

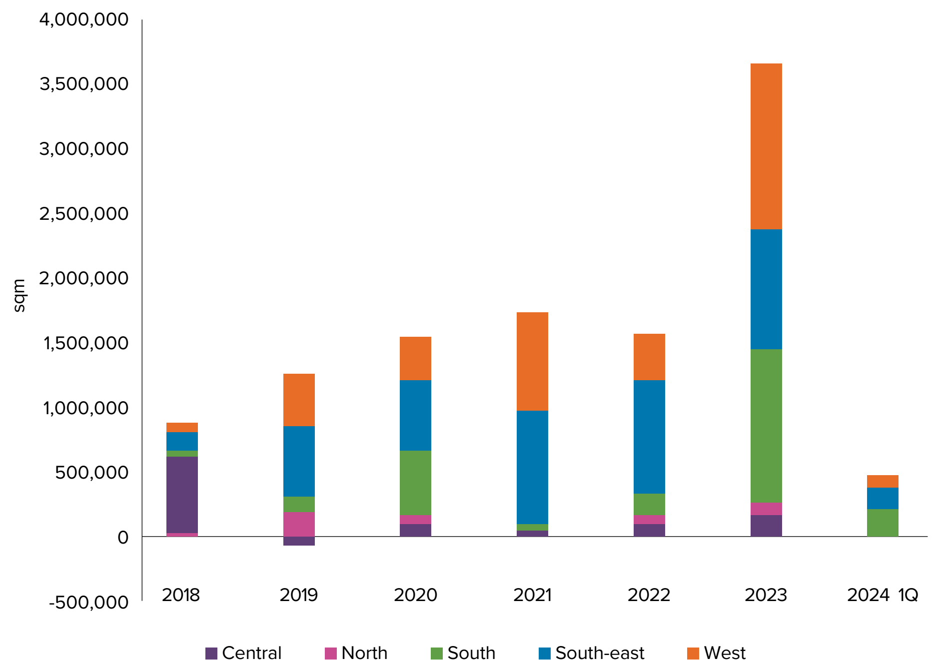
In year 2023, the annual net absorption was 3,637,513 sqm, more than double the amount of 1,572,982 sqm in 2022, and larger than 2021 and 2022 combined (Figure 3). The South, the South-east and the West collectively accounted for around 93% of the SMA overall net take-up.

In terms of logistics vacancy rates, the overall SMA vacancy rate increased from 13.1% at the end of 2023 to 15.4% in 2024 Q1. This increase was observed in all sub-markets except for the Central, which maintained a vacancy rate of 5.1% with no changes. Unlike other parts of SMA, the Central has only one new centre underway, which implies a lack of competitive assets nearby. Furthermore, as the sub-market is densely populated, obtaining development permits have become extremely challenging.

In the North, following a six-quarter streak of full occupancy, the vacancy surged to 12.2% in 2024 Q1, recording a double-digit figure for the first time since 2Q19. New completions with large vacancies led to an upsurge in vacancy. As the sub-market has a mere nine Grade A centres in the basket, vacant space in one centre tends to substantially affect the sub-market's occupancy. Notably, one new centre in Namyangju came on stream with full vacancy. On the contrary, a domestic 3PL tenant fully leased another new centre in Paju, contributing to net take-up.

The South witnessed the largest amount of new stock volume in the quarter in SMA. As a result, its vacancy soared from 12.5% to 19.1% in 2024 Q1, q-o-q. While the South posted the highest quarterly net absorption of 199,556 sqm, the quarterly new completion volume amounted to 474,415sqm, thereby lifting vacancy. The sub-market also introduced the most diversified pool of tenants during the quarter. The tenant industries included, but were not limited to, pharmaceutical, 2PL, 3PL, cold-chain, cosmetics, apparel and home shopping. In addition, most of the leases signed in 2024 Q1 were large-ticket sizes, with GFAs exceeding 6,000 sqm.

Figure 3:
2018-2024 Q1 SMA Annual Net Absorption



Source: JLL Research
* Net absorption area for 197 properties

In 2024 Q1, the South-east's vacancy rate increased from 12.9% to 14.3%. A number of notable leases were sealed in recent completions. For instance, multiple third-party logistics (3PL) companies and a lifestyle application platform secured leases for large spaces in Icheon. Additionally, one centre achieved full stabilization upon its completion during the quarter. Meanwhile, a couple of new centres were entirely vacant upon completion, creating extra vacant space in the market.

In the West sub-market, the vacancy rate saw a marginal uptick from 18.7% to 19.2% q-o-q. New leases were signed, predominantly in Gimpo and Incheon. In Gimpo, notable new tenants included GS Retail and CJ Logistics. In Incheon, Coupang, CJ Logistics, and a local 3PL agreed to occupy space. The leases concluded this quarter were also sizable deals, with GFAs exceeding 3,000 sqm each. In the meantime, one cold-chain player departed a centre in Gimpo, creating vacancy. While existing centres' occupancy improved over the quarter, new completions have unresolved vacancies which caused an uptick in the sub-market's vacancy.

In terms of industry demand, local 3PL players continued to be the major occupiers. Enquiries from e-commerce companies declined recently as they had already committed to substantial space during the fierce competition of e-commerce in 2021–2022. Nevertheless, Coupang is perceived to be the sole player to continuously expand its logistics space. For instance, Coupang leased around 47,000 sqm in Incheon this quarter.

Going forward, there could be substantial changes in the e-commerce landscape. Notably, Chinese e-commerce companies are expanding their foothold in the Korean market. The key players, such as AliExpress, Temu and Shein, forayed into Korea by providing ultra-cheap products. These Chinese e-commerce giants have already stated they plan to expand their logistics space to enable the speedy delivery

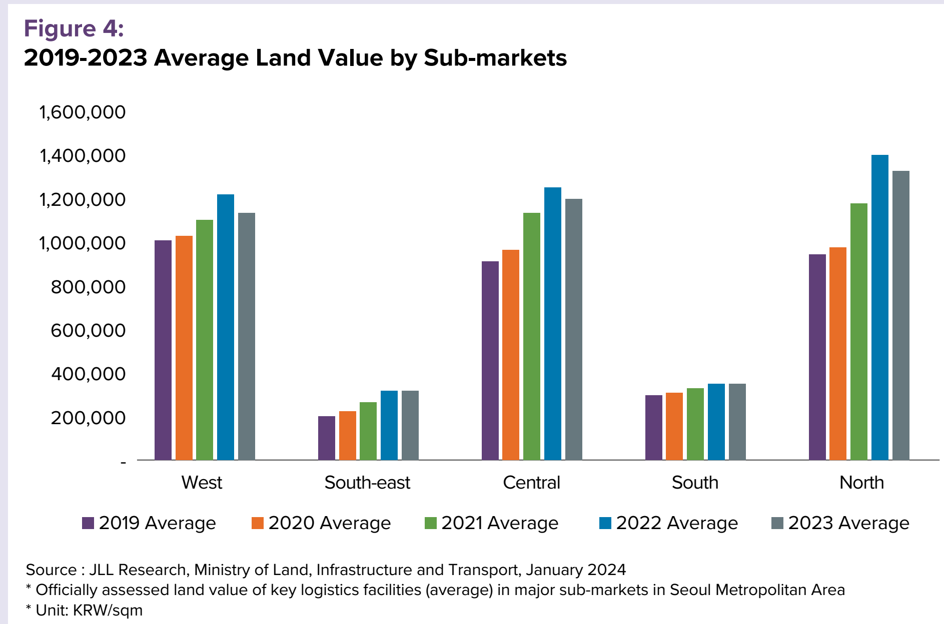
of products. Such announcements are anticipated to intensify competition among e-commerce players again, which could call for additional demand for logistics space. However, it would be too optimistic to assume that e-commerce tenant demand will spike all of a sudden, as the Korea Fair Trade Commission (KFTC) has started clamping down on rapid expansion by Chinese e-commerce companies to ensure fair competition between Chinese and Korean companies.

Recently, the huge supply has spurred upgrade demand, encouraging tenants to move into modernised, high-spec centres. By doing so, tenants were able to reduce transportation costs, implement automation technology and consolidate to enhance supply-chain efficiency.

Despite the underlying demand, large-scale upcoming projects will act as major headwinds. Due to the considerable time required to effectively absorb such expansive volumes of new space, it is expected that the vacancy rate will continue to hover in the double digits.

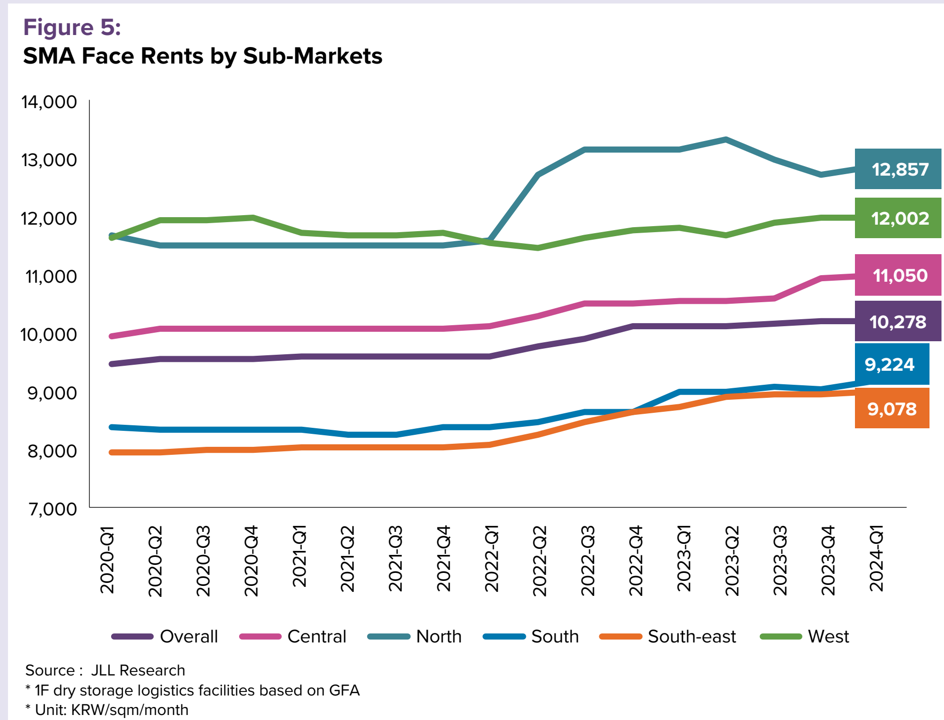
Moreover, there appears to be a notable disparity in demand between cold spaces and dry spaces, resulting in instances where conversions take place to transform cold spaces into dry spaces for the purpose of stabilising centres. However, undertaking such conversions entails substantial capital investment and technical complexities, thus limiting the frequency of such cases.

Figure 4:
2019-2023 Average Land Value by Sub-markets



Source : JLL Research, Ministry of Land, Infrastructure and Transport, January 2024
* Officially assessed land value of key logistics facilities (average) in major sub-markets in Seoul Metropolitan Area
* Unit: KRW/sqm

Figure 5:
SMA Face Rents by Sub-Markets



Source : JLL Research
* 1F dry storage logistics facilities based on GFA
* Unit: KRW/sqm/month

Rents

In 2024 Q1, the overall net effective rent in the SMA experienced a modest growth of 0.4% q-o-q and 1.3% y-o-y. All sub-markets witnessed positive rent growth on a quarterly basis (Figure 5). By sub-markets, the Central's rent increased slightly by 0.4% q-o-q amid muted leasing activity, and the North's rent rose 0.9% q-o-q as new centres proposed higher rents. The South boasted the sharpest quarterly rent growth of 1.1%, while that of the South-east increased by 0.5%. The West's rent merely changed over the quarter, up only 0.1% q-o-q. However, unless the centres have highly appealing features or are significantly under-rented, the rent growth has been minimal, with rents largely remaining unchanged across the board. Concurrently, there have been continuous signs of landlords attempting to raise outgoing fees. Previously, the standard outgoing fee used to be around KRW 600 per sqm (KRW 2,000 per pyeong) for dry storage and KRW 900 per sqm (KRW 3,000 per pyeong) for cold storage. However, due to rising inflation rates, these fees were deemed insufficient to cover operating expenses, prompting several centres to raise outgoing fees by KRW 150 to 300 per sqm (KRW 500 to 1,000 per pyeong)

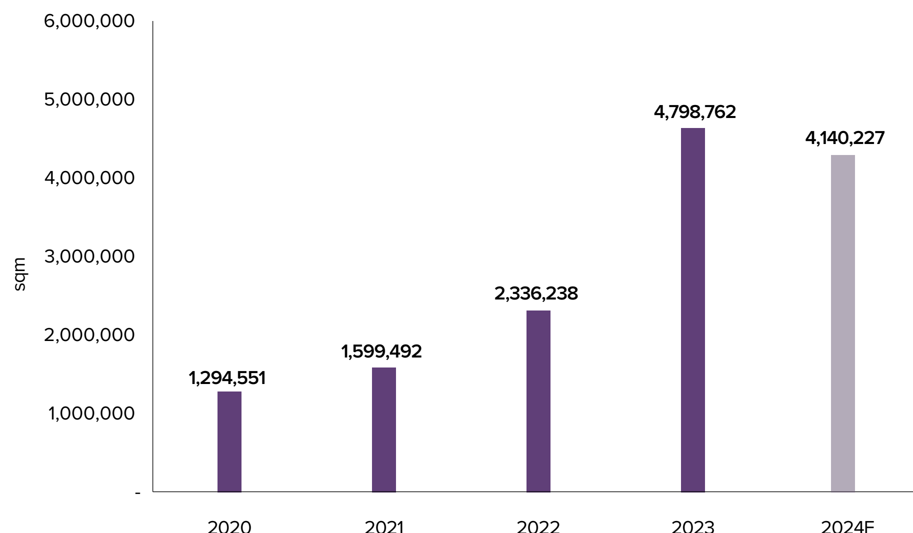
starting in 2023, despite tenant backlash. This trend of increasing outgoing fees continued in the first quarter, particularly in the South-east sub-market.

Despite the inflationary pressure, the continuous influx of new inventory has led to a moderation in rent growth. Recently, there has been an annual rent escalation of about 1 to 2% for dry storage, which is below the inflation rate. In the case of cold storage, face rent increases are minimal and sometimes even negative. This supply-demand imbalance has created a market that favours tenants, resulting in weak negotiating power for landlords who are sometimes forced to accept lower rents, as some prioritise stabilising their centres rather than waiting indefinitely for tenants willing to pay higher rents.

However, there were exceptions to this trend, with some centres having adjusted rents upwards by more than 10% on a q-o-q basis. These significant adjustments are usually applied to centres that are either under-rented or have attractive features with limited competitive assets nearby.
Despite ongoing challenges in construction financing, there is still a substantial amount of new supply underway that would stagnate rent growth. Dry rents are expected to rise, but the rate of increase for cold rents is expected to plateau, with greater incentives being offered for cold spaces. Moreover, districts expecting substantial new supply could observe additional rental incentives to retain tenants.

In a nutshell, future rent growth hinges on upcoming supply, the stabilisation period, construction costs and the direction of financing costs. Even within the same district, patchy rent performance could be seen. The strong flight-to-quality demand will bolster occupier interest in prime centres boasting high-spec features in favourable locations, thereby resulting in robust rent growth in such centres. Projections indicate annual rent growth rates of 2.4%, 1.5% and 1.3% for 2024, 2025 and 2026, respectively.

Figure 6:
Annual Constructions of Grade A Logistics Centres in SMA



Source : Ministry of Land, Infrastructure and Transport, JLL Research as of 2024 Q1
* Includes JLL-defined Grade A logistics properties which exclude pure cold centres

Table 1:
Major Mega-scale Developments Underway in 2024

Sub-market	Location	Project name	GFA (sqm)	Landlord
West	Incheon	Dohwa Logistics Warehouse	250,580	CBRE DL
West	Siheung	Sihwa MTV Logistics 2BL Logistics Center	235,627	Kiwoom AMC
South	Anseong	Anseong Daedeok Logistics B center	199,645	Jisan
West	Gimpo	Logispoint Gimpo	199,555	Mastern Investment Management
West	Gimpo	K1 Logis Logistics Center	180,347	K1 Logis
West	Gimpo	Gimpo MS Logistics Center	165,294	Hansan City Development
West	Incheon	Megawise Cheongna Logistics Center	142,853	Megawiz Cheongna (SPC)
West	Siheung	Sihwa MTV Logistics 1BL Logistics Center	139,182	Wise Development
West	Incheon	Incheon Namdong Logistics Center	124,655	Mastern Investment Management
South-east	Yeoju	Yeoju JB Logistics Center	122,146	Korea Real Estate & Investment Trust
South	Anseong	Seongeun-ri Logistics Center	116,845	IGIS AMC
West	Siheung	Logos Siheung Logistics Center	99,864	Logos Korea Core Venture

Source : JLL Research

Supply

In the SMA Grade A market, a total of 19 projects were added to the SMA basket in 2024 Q1, collectively providing fresh new space totalling 1.0 million sqm. All sub-markets except the Central welcomed new centres this quarter.

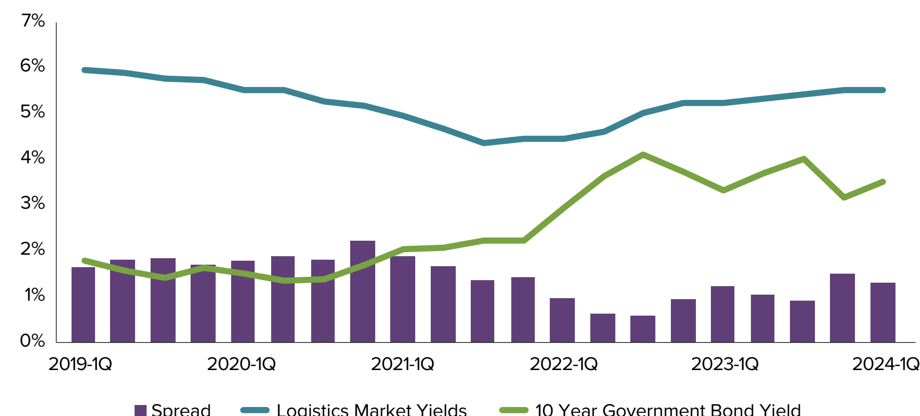
In 2023, a total of 61 leasable centres were completed, encompassing a combined area of approximately 4.8 million sqm (Figure 6). This figure surpassed the total completions of 2021 and 2022 combined. The majority of the newly added supply was concentrated in the South-east, followed by the South, the West, the Central and the North.

The anticipated total of new supply for the entire 2024 year is 4.1 million sqm GFA, which would be around 12% less than the 2023 volume. In descending order, upcoming supply will be concentrated in the West, the South and the South-east, accounting for 45%, 33% and 19%, respectively. The North will contribute around 3% of 2024's supply, while no new stock is in the pipeline for the Central. By city, Anseong will represent circa 22% of the new supply volume in 2024, followed by Gimpo (14%), Icheon (13%), Incheon (13%) and Siheung (11%).

Challenges related to construction financing were prevalent in the market. Compared to 69 new construction starts in 2022, only 13 projects broke ground in 2023, and just two projects began construction in 2024 Q1. In addition, there are rarely any cases of new construction permit approvals. The number of building permit approvals was 131 in 2022, which decreased to 83 in 2023. In 2024 Q1, there were only a couple of sites which obtained approvals.

A concerning trend was the large number of projects, totalling 135, that had not commenced construction for over a year. This indicated that many developers were struggling with credit constraints, making it difficult for them to move forward with their plans. Previously, developers had relied on high-interest bridge loans to finance new centre construction during prosperous market conditions, with the intention of repaying these loans with main project financing. However, developers who were unable to secure project financing now found themselves facing cash shortages and seeking extensions for their bridge loan maturities. Ultimately, this situation led to some developers defaulting on the land they had acquired for their projects. Despite a slight moderation in land value in 2023 (Figure 4), most developers were discouraged from pursuing new logistics projects due to the challenging financing market coupled with a potential supply glut. This discouragement was also reflected in the projections for new completion volumes in the coming years. It is expected that the volume could shrink to 1.7 million sqm in 2025 and 1.8 million sqm in 2026. However, these figures are subject to change, which largely hinge on leasing and financing conditions.

Figure 7:
SMA Grade A Logistics Market Yield



Source: Statistics Korea, Oxford Economics, JLL Research

Capital Market

Notwithstanding challenging market conditions and subdued investment sentiment, overall logistics transaction volume plunged considerably in 2024 Q1. The reading was KRW 704.2 billion, which plummeted 36.3% compared to the previous quarter's volume. There were only three transactions that closed with sales prices above KRW 100 billion. The total investment volume for 2023 amounted to approximately KRW 6.4 trillion, marking a 3% decline compared to the previous year.

The stabilised market cap rate of the Grade A SMA Logistics market stood at 5.5% as of 2024 Q1 (Figure 7). Amid the challenging debt market coupled with uncertainties related to the future supply trend, investors ardently review investment opportunities with a hawkish tilt. This led to a substantial reduction in transaction volume. A number of prospective buyers await distressed sales opportunities and have turned bearish on pricing. On the other hand, there are numerous investment opportunities, thereby creating a buyer-friendly market.

While the deal pipeline appears abundant, the process of closing transactions has become increasingly arduous, presenting considerable challenges. The oversupply issue has turned investors sour, and financing costs have remained high.

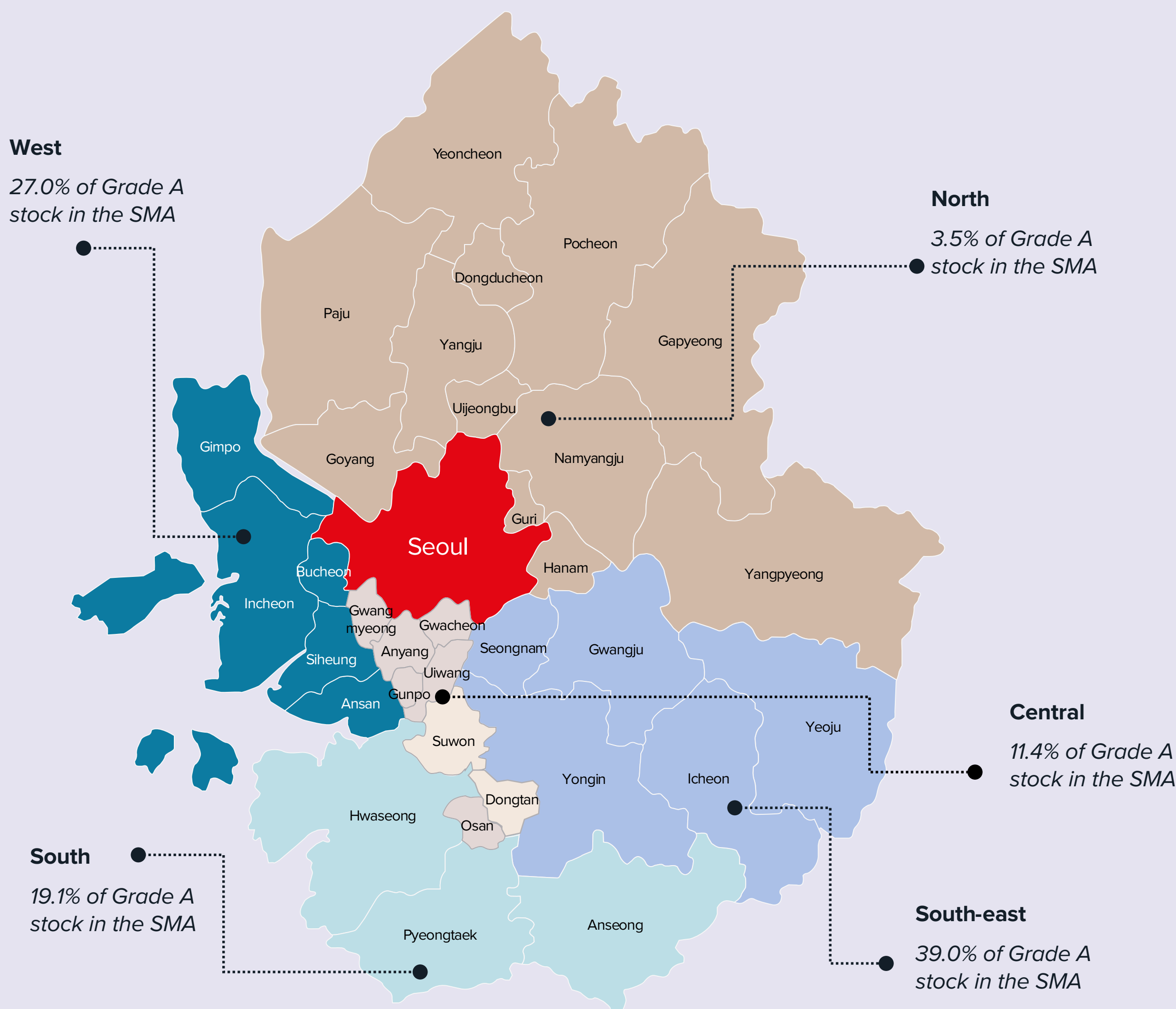
Consequently, investors have asked for higher returns, causing a softening of cap rates. Furthermore, the limited pool of prospective buyers amid financial market volatility also acts as a headwind.

Considering the substantial deal pipeline, investors have been more selective in gauging investment opportunities. Ideally, investors seek centres with a high proportion of dry storage and credible tenants with a sufficient WALE in addition to stable occupancy. On the other hand, those with large cold spaces in inferior locations would lack investor appetite. In the meantime, there are a number of investors waiting for distressed sales opportunities to purchase assets with impending loan maturities. Another noteworthy trend was that foreign investors seem reluctant to make office acquisitions amid concerns about the global office market downturn and continue to shift their interest to other sectors such as logistics.

The investment market is expected to exhibit mixed signals, depending on factors such as liquidity volatility and funding conditions. As liquidity dries up and debt financing costs remain high, the cap rate may decompress further. Around 37% of total transactions were estimated to be purchased by foreign capital in 2023, which was the highest percentage since 2018. As domestic investors already exhausted blind funds to some extent, foreign investors with abundant liquidity are better positioned to acquire core assets, and this trend is likely to persist in 2024 as well.

Going forward, the financial market conditions as well as the stabilisation period for new centres will strongly impact investor behaviour. There will be numerous opportunities ahead, but it will take some time to see resilience in investment activity given the uncertain market conditions, which causes investors to gravitate towards being more risk-averse.

Appendix: Seoul Metropolitan Area Districts



Sub-markets	Description
West	The West sub-market includes Incheon, Gimpo, Bucheon, Ansan and Siheung and is close to Incheon International Airport, Incheon Port and Gimpo International Airport. In the past couple of years, the sub-market observed large-scale brownfield developments, particularly near Incheon Port area.
South-east	The South-east is the traditional logistics hub which still has the largest proportion of the total stock in SMA. The area is accessible to Gyeongbu, Jungbu and Yeongdong expressways connected to Seoul and other main cities. Relatively affordable rents have attracted new developments and new tenants.
South	The South includes Anseong, Pyeongtaek and Hwaseong (excluding Dongtan area). It benefits from its proximity to the Seohaean Expressway as well as Pyeongtaek Port. The port handles large quantities of Chinese-produced industrial goods, auto parts and crops.
Central	The Central is a highly residential area with the least amount of new supply in the pipeline, thereby shielded from oversupply risks to some extent. It is underpinned by two expressways, Gyeongbu and Yeongdong, and demonstrates strong access to labour.
North	The North has mere seven Grade A centres, accounting for the smallest proportion of the total SMA stock. Among seven centres, five are in either Goyang or Namyangju cities which are right next to Seoul. The development potential is lower in the upper part of the sub-market due to lower population.

Source : JLL Research; 2024 Q1

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VIETNAM

INDEPENDENT MARKET RESEARCH

By JLL Reseach

MARKET BACKDROP OVERVIEW AND OUTLOOK

Macroeconomic Overview

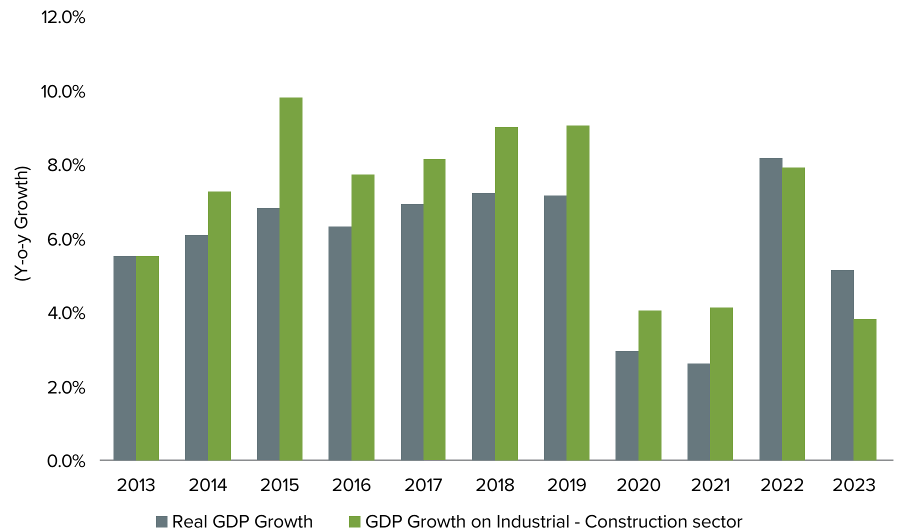
Vietnam has always been considered an attractive investment destination and highly appreciated by international investors. The country has emerged as one of Southeast Asia's standout economic performers and its remarkable growth over the past decade is underpinned by global integration, strong FDI inflows into manufacturing, favourable government policies and a youthful population.

Trade and FDI openness pave the way for the rise of manufacturing: Vietnam has strategic interests in pursuing open trade regimes and is a party to multiple frameworks for international economic integration. FDI inflows have risen robustly over the years, placing Vietnam as one of the most FDI-heavy economies in the region. These factors make the country favourable among foreign investors since more and more foreign investments have been concentrated in manufacturing in Vietnam. Some notable foreign companies that have invested in Vietnam, especially amidst US-China trade frictions and the rise of the China Plus One strategy, include Samsung, Intel, Apple, and LEGO Group.

Favourable legal corridor ensures Vietnam's attractiveness: The government is committed to ensuring a stable socio-political environment. It constantly improves its legal framework and policy related to business and investment to create a healthy competitive environment for foreign investors. Furthermore, three new laws including Land Law, Housing Law and Real Estate Business Law (effective from 2025) are expected to remove legal bottlenecks and create momentum for the real estate market to develop more safely and transparently.

Strong spending on infrastructure: Vietnam's infrastructure spending stood at an impressive 6.0% of GDP in 2023, representing a significant increase from 2.6% of GDP in 2016. This makes Vietnam the highest infrastructure spender in ASEAN, as the rest of the region spends an average of 2.3% of GDP on transport infrastructure, according to Mordor Intelligence.

Figure 1:
Vietnam GDP Growth Rate



Source: Vietnam General Statistics Office

Favourable demographic landscape: Vietnam is still in a period of golden population structure with 53% of its population at working age. A young and growing workforce, combined with an increasing number of qualified workers and competitive labour costs, remains a major driver of national development.

In the period 2013 – 2019, Vietnam saw impressive economic growth rates with GDP growing around 6.5% per year (Figure 1). The 2013-19 economic growth was driven by the industrial-construction sector with an average increase of 7.9% per year, which accounted for around 35.0% of total GDP in 2019. The economy transformed from a mainly agricultural economy to one driven by manufacturing and services. The manufacturing sector also evolved over time as it focused more on machinery and technology instead of food.

During 2020 – 2021, despite the lingering effects of the Covid-19 epidemic, Vietnam's economy still maintained a positive growth rate at 2.9% and 2.6%, respectively. The industrial-construction sector continued to show momentum with a growth rate of 4.0% per year. Thanks to Resolution No. 01/NQ-CP, Resolution No. 02/NQ-CP, and Resolution No. 11/NQ-CP on Socio-economic Recovery and Development by the Prime Ministry, GDP growth in 2022 made a strong rebound of 8.02% y-o-y. The processing and manufacturing industry was the growth engine of the economy with a growth rate of 8.1%. Overall GDP growth in 2023 reached 5.1% and continued to outperform many other nations despite being lower than the government's target. Key contributing factors were persistent national efforts to coordinate policies to ensure macroeconomic stability amidst a global recession.

Vietnam's import and export turnover maintained impressive growth over the last decade despite global economic uncertainties and declining global trade. The total export and import turnover of goods reached USD 683.0 billion in 2023, which was 2.6 times higher than 2013 (Figure 2). The trade balance also shifted rapidly from a small trade surplus of just USD 0.9 billion in 2013 to the largest ever recorded trade surplus at USD 28.0 billion in 2023. The driving force for export growth was the government's effort in opening the economy to international trade and investment, negotiations towards the signing of new trade agreements, commitments to diversify markets and support for export businesses.

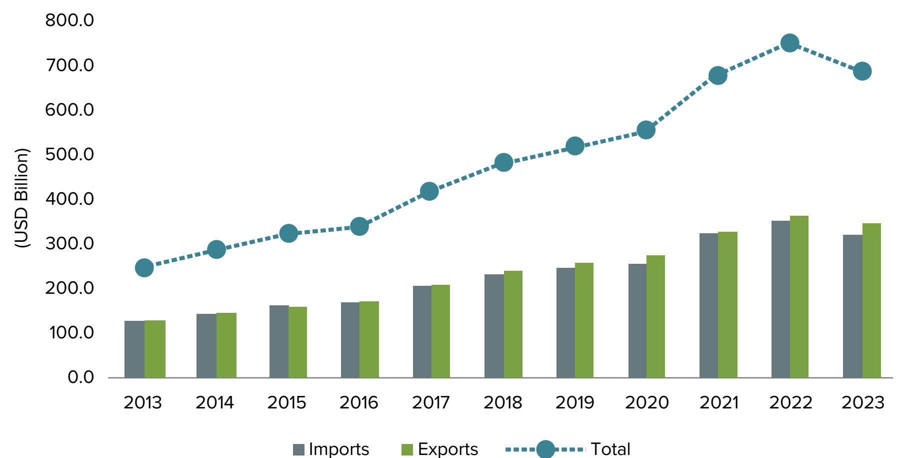
Over the same period, the structure of exports also changed dramatically from labour-intensive industries (textiles, footwear, seafood, etc) and commodities from mineral resources (coal, crude oils, etc) to the rise of high-tech products (phones, computers, and machinery, etc).

Vietnam established itself as a stable, rapidly developing, and high growth destination for multinational corporations and foreign investors. The total volume of registered FDI in 2023 reached USD 36.6 billion, up 32.1% over the previous year. Likewise, the number of newly registered projects and capital contributions and share purchases of foreign investors surged by 62.2% y-o-y and 65.7% y-o-y, respectively. This reflected the confidence of foreign investors in Vietnam's potential to continue expanding investment and create stimulus for economic growth.

Regarding FDI capital by sector, the processing and manufacturing industry ranked first with 64.2% of total registered FDI investment in 2023, equivalent to more than 23.5 billion USD and a rise of 39.9% y-o-y. Of 108 countries and territories investing in Vietnam, Singapore led with a total investment of nearly USD 6.8 billion, or 18.6% of total investment in Vietnam.

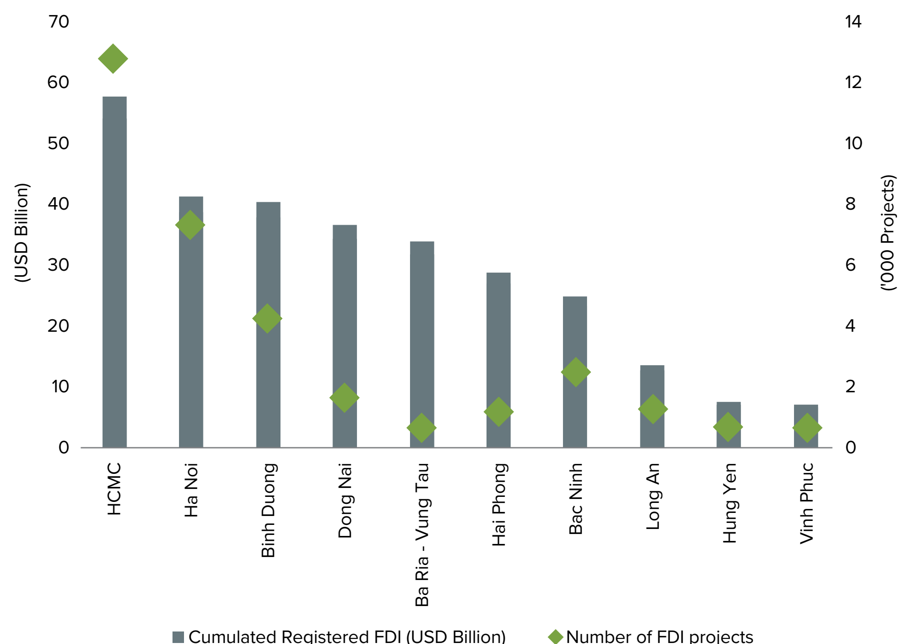
There were 56 provinces and cities across the country receiving FDI capital in 2023. The largest cumulative investment of around 5.9 billion USD went to Ho Chi Minh City (HCMC), reflecting nearly 12.3% of total FDI capital (Figure 3). Hanoi and Binh Duong followed with around USD 41.2 and 40.4 billion of foreign investment capital, respectively. New investment projects remained concentrated on provinces and cities with solid foundations for attracting FDI such as HCMC, Hanoi, Binh Duong, Dong Nai, and Hai Phong. These locales feature good infrastructure, highly skilled human resources, established administrative procedures, and active government promotion of foreign investment promotion.

Figure 2:
Vietnam Exports & Imports Trade Volumes



Source: Vietnam General Statistics Office

Figure 3:
FDI Into Vietnam by Province 2023 (Accumulated)

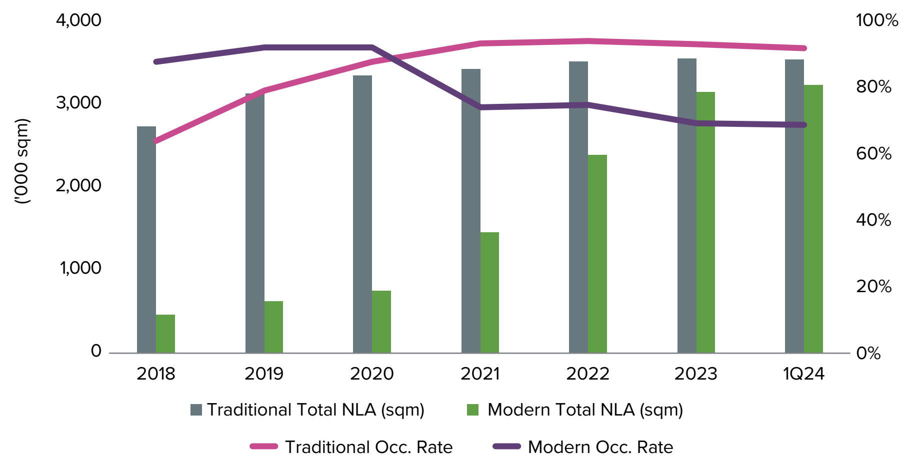


Source: Ministry of Planning and Investment

Logistics Warehouse Market Overview

The Vietnam logistics warehouse market has experienced robust growth over the past years, characterized by a substantial increase in total supply. By the end of 2023, aggregate warehouse space expanded to 6.8 million sqm, reflecting an increase of 13.7% y-o-y (Figure 4). This upward trajectory demonstrates the proactive stance of developers aiming to anticipate Vietnam's prospects in the logistics real estate sector, serving both manufacturing and consumption activities.

Figure 4:
Vietnam Logistics Warehouse Market Supply



Source: JLL Research

Significantly, in 2023, more than 800,000 sqm of new ready built warehouses (RBWs) were completed across the country. These newly launched projects accounted for 12.0% of the total supply in 2023. The growth not only comes from the continued expansions of existing developers, such as Mapletree, BWID, SLP, LOGOS, Emergent Capital Partners, and Logis United, but also from the entry of new players to the Vietnam logistics warehouse market, namely JD Property, KCN Vietnam, Indochina Kajima, and Vietlog Industrial.

Mapletree and BWID's steady expansion has solidified their national leading positions with respective market shares of 12.5% and 10.5%, as of 1Q24. They are followed by TTC Dang Huynh and SLP, contributing approximately 422,000 sqm and 343,000 sqm of warehouse space respectively. Among these top players, TTC Dang Huynh operates only in the South with traditional developments while the others have nationwide presence and focus on the Modern segment.

Over the past five years, the logistics market has progressed to a more mature stage. This has been driven by the involvement of institutional developers with high-quality RBW developments. As such, the penetration rate of Modern RBWs has increased from 14.6% in 2018 to 47.0% by the end of 2023.

The Southern region is considered the cradle of industrial real estate, welcoming initial demand for logistics space driven by increasing manufacturing activities and robust domestic consumption. Consequently, developers of ready-built facilities for lease have strategically chosen this market as the starting point for their developments. As a result, the RBW market scale in the South is nearly three times larger than that in the North. Meanwhile, the Northern region has recently caught the interest of institutional developers with many projects in the pipeline. The well-synchronized infrastructure system in the North has generated favourable conditions for investors to explore opportunities even in remote areas. In contrast, limited options persist in the South owing to its developing transportation system.

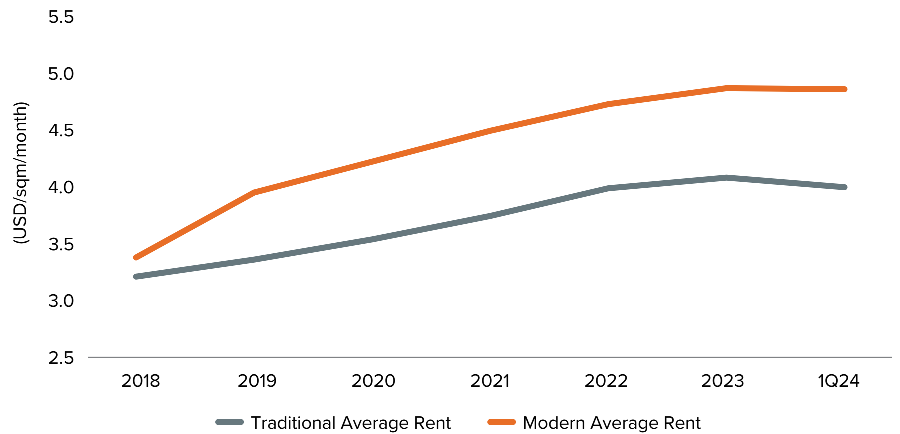
Bac Ninh and Binh Duong stand out as two pivotal provinces in the logistics real estate sector. Their substantial existing supply positions them as leaders in Northern and Southern markets, respectively. As of 1Q24, Bac Ninh commanded the largest market share in the North, accounting for 42.1%, while in the South, Binh Duong contributed 35.9% to the total supply. Long An has emerged as a promising logistics hub in the South, while in the Northern region, Hai Phong and Hung Yen are its corresponding counterweights. Notably, Hung Yen has gained prominence thanks to its strategic geographical location, a vital link between Hanoi and the Northern deep seaport cluster in Hai Phong. Hung Yen's strategic location enables it to serve both domestic consumption and export logistics.

Amidst the economic fluctuations triggered by the post-Covid-19 crisis and protracted geopolitical volatilities, such as the China-US trade tensions and Ukraine war, Vietnam's import-export activities have faced remarkable challenges. Major export partners, namely the US, China, and the EU, have curtailed spending due to these headwinds. Consequently, low business efficiency has compelled manufacturers to downsize, with some even being prompted to suspend operations temporarily. The leasing performance of RBWs was significantly affected, especially those located in manufacturing hubs with target tenant groups serving the international market. During 2023, the RBW market was primarily propelled by domestic demand, whereby retailers, e-commerce companies, and 3PLs continued to exhibit growth and were instrumental in maintaining the market dynamics.

The market has maintained growth momentum, particularly in the Modern segment, despite subdued demand. This led to elevated vacancy rates reported among new completions. As a consequence of the market slowdown, the Modern average occupancy rate has declined by 5.5% y-o-y to 70.1% by end-2023 (Figure 4).

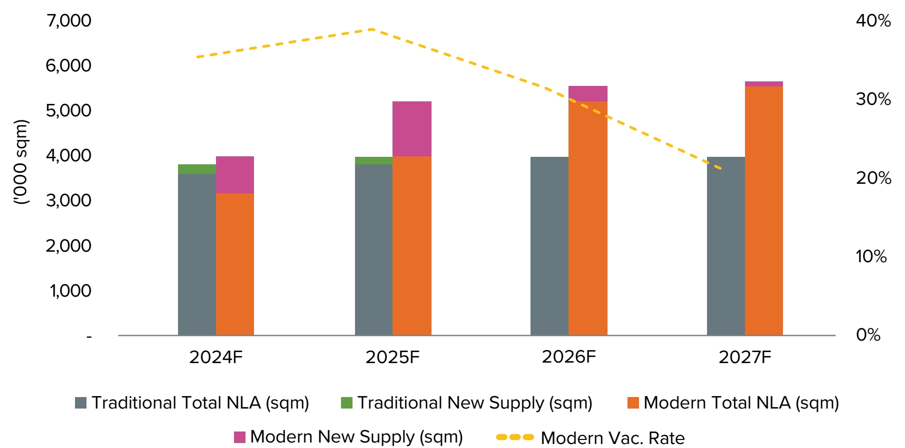
Between 2018 and 2023, the Vietnam Logistics Warehouse market's average asking rents experienced an upward trend in both Traditional and Modern segments, reaching the range of USD 3.9 to USD 4.5 per sqm per month and USD 4.6 to USD 4.8 per sqm per month, respectively (Figure 5). Notably, rental rates in the Northern region show a modest discrepancy between the two grades compared to the South. This is attributed to the legacy of some long-standing facilities of fair quality but positioned in prime locations within Hanoi, which can achieve headline rents even higher than Modern spaces. The upturn was mainly driven by the entry of high-quality new projects with high rental rates. Favourable rents can be found in facilities that not only feature modern specifications but are also situated in strategic locations that are advantageous for catering to domestic distributions and e-commerce logistics. Apart from that, muted demand has weighed on the leasing performance of completed projects. Several projects that have been facing prolonged vacancy periods have had to reduce rents.

Figure 5:
Vietnam Logistics Warehouse Market Performance



Source: JLL Research

Figure 6:
Vietnam Logistics Warehouse Market Supply Outlook



Source: JLL Research

Logistics Warehouse Investment Market

In 2023, the logistics investment market was relatively quiet with less than a handful of publicly announced transactions. Successful deals were noted involving existing players that sought to expand their portfolios while divesting stabilized assets (Table 1 & Table 2).

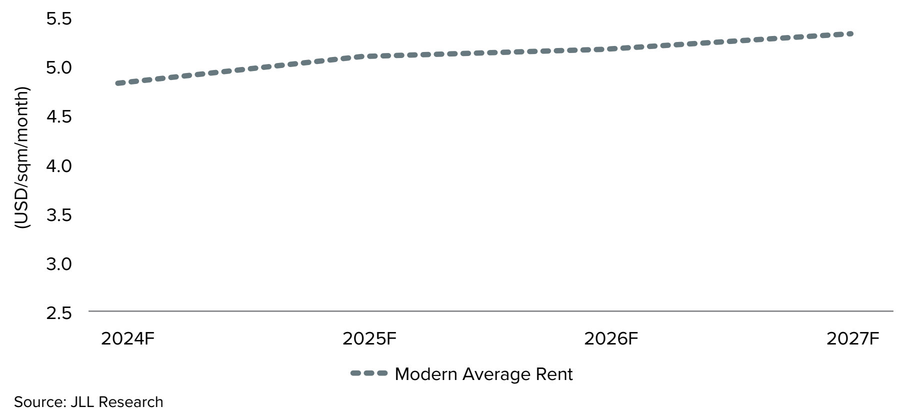
The subdued situation reflects the cautious stance of investors in the logistics real estate sector in the face of market difficulties. Land acquisitions for new developments were predominantly concentrated in the Northern region, benefiting from the availability of remaining land bank. On the other hand, the Southern region is gradually entering a mature stage, which has led to increased activity in operating asset transactions on the secondary market.

Until 2027, the Vietnam Logistics Warehouse market is expected to scale up with a total additional area of 2.8 million sqm, with the majority of contributions coming from Modern projects. Future supply is set to enter the market next year largely situated in the North. Notably, Frasers Property plans to mark its first footprint in the Northern logistics warehouse market, specifically in Bac Ninh and Hung Yen, with an expected launch of roughly 70,000 sqm of logistics space. Among prominent institutional developers, Mapletree, BWID and SLP are actively implementing developments nationwide, while others focus on either the North, such as Indochina Kajima and YCH, or the South, such as Cainiao at this stage.

Given the influx of abundant supply into the market over the past five years, certain projects have opted to delay their completion timelines until 2025 and 2026. By the end of 2027, the total RBW supply is projected to reach 9.5 million sqm, representing a 1.4-fold increase over the current level (Figure 6). The Modern segment is poised for an aggressive expansion, surpassing the Traditional grade and accounting for 58.7% of the overall market stock. When considering independent developments featuring pure

warehouse space, Mapletree and BWID will remain at the forefront in the Vietnam market, boasting market shares of 11.6% and 9.0% respectively. Following the success since late 2022, LOGOS Property plans to strengthen its presence by actively expanding in the Southern market. They are set to ascend to the top three developers, contributing over 500,000 sqm of Modern RBW space into the market by 2025. Meanwhile, SLP maintains its position in fourth place, taking up 4.9% of the cumulative supply by end-2027. Concurrent with the continued expansions of existing players, the logistics market is also expected to welcome a new entrant, Mitsubishi Estate. They have planned their official entry around the end of 2025 with phase 1 of the MEA Logicross Nam Thuan project in Long An province.

Figure 7:
Vietnam Logistics Warehouse Market Performance Outlook



Source: JLL Research

Since the market size keeps expanding, while demand has yet to fully recover, market dynamics will most likely favour tenants in the near term. Abundant supply coming to the market has heightened competition in leasing activities. Domestic consumption continues to be the main driving force for RBW demand, while the recovery of cross-border trade activities will likely be gradual. Modern vacancy rates are forecast to fluctuate around 35.2% and 38.8% by the end of 2024 and 2025, respectively. The performance will gradually improve from 2026 as the market stablises and import-export activity recovers. As a result, the average vacancy rate is expected to fall to 19.0% by end-2027.

Significantly, built-to-suit orders have been instrumental in balancing market supply and demand. This was evident from the surge in net absorption during quarters when these tailor-made facilities were handed over to tenants. Transactions between LOGOS and TTI, Shopee; BWID and Giao Hang Tiet Kiem as well as SLP and Giao Hang Nhanh are noteworthy instances of this trend.

Future Modern supply developed by institutional players, particularly those situated in good locations, continues to be the driving force behind rental growth. However, as land bank in the core area dwindles, new projects have been forced to remote areas. Rents in these new completions in less established areas will be kept at a competitive rate to sustain attractiveness, affecting market rent growth at an aggregate level. Market rent is expected to maintain an upward trend but at a moderate pace, reaching USD 5.3 per sqm per month by the end of 2027 (Figure 7). This achievement corresponds to a CAGR of 3.1% over the 2023 - 2027 period.

Amidst a muted leasing situation, the market has favoured tenants. In response, landlords have come up with initiatives such as rent-free periods to stimulate demand. In addition, the adoption of short-term leases has emerged as a temporary solution to enhance asset performance.

PROVINCIAL WAREHOUSE MARKET OVERVIEW AND OUTLOOK

Binh Duong Logistics Warehouse Market Overview

Macroeconomic Overview

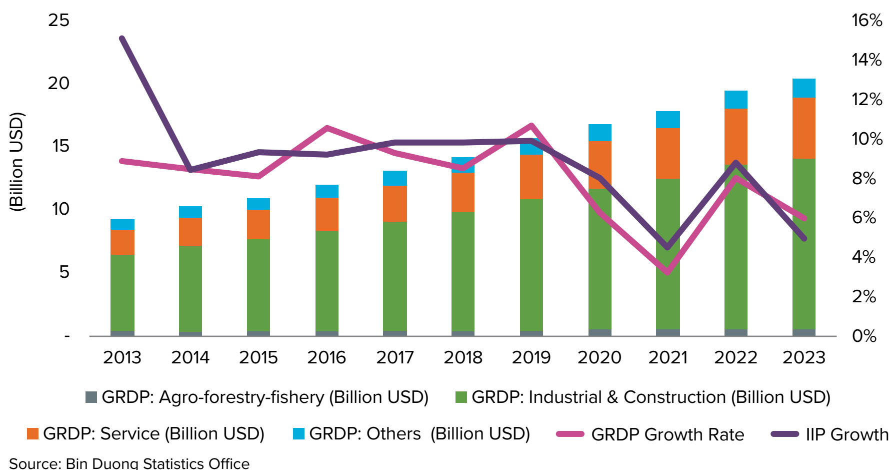
Binh Duong continued to maintain its position as one of the leading logistics markets in the Southern key economic region and in Vietnam as a whole, with a high growth rate of 8.0% per annum during 2013 – 2023 (Figure 8). It was also one of the few provinces that achieved positive gross regional domestic product (GRDP) growth in 2020 - 2021 despite the Covid-19 pandemic and economic downturns. GRDP saw steady growth, reaching around USD 20.4 billion by 2023, which was 2.2 times higher than 2013. By 2030, Binh Duong aims to become a modern and livable urban area with an average GRDP growth rate of 9% - 10% between 2023 and 2030. To achieve that result, the province has recently enacted many open-door policies and expeditiously removed difficulties and obstacles faced by businesses.

During its 26 years of development, Binh Duong evolved from an agricultural area to industrial-urban-service development amidst the fourth wave of the industrial revolution. The industrial-construction sector, accounted for 69.3% of total GRDP in 2023, while the agriculture-forestry-fishery sector decreased to under 3.0%.

In the 2013-2023 period, Binh Duong's index of industrial production (IIP) grew by an average of 8.9% per annum, higher than the country's average of 8.0%. The industry saw a structural shift from labor-intensive industries to high-tech industries. The development of concentrated industrial zones and clusters, especially the construction of the Industrial - Service - Urban Complex, has and will continue to help the province's industrial sector to develop strongly in the future.

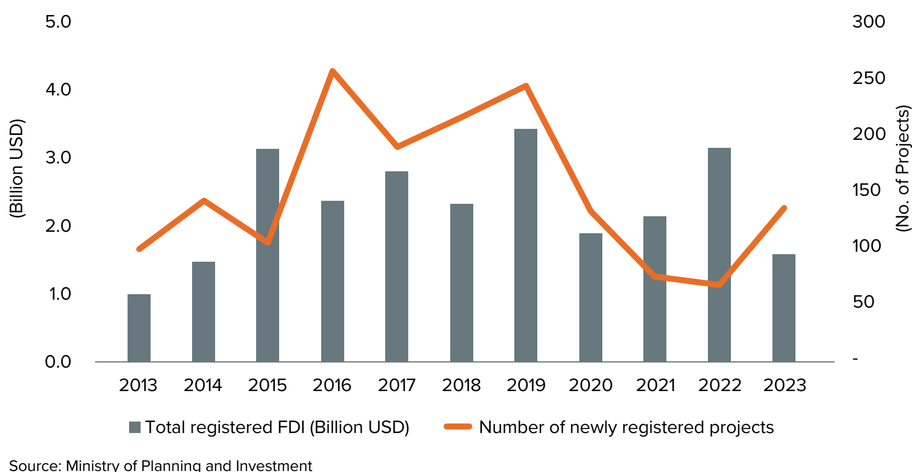
Binh Duong, the third-ranked locality in terms of attracting FDI, recorded a total cumulative registered investment capital of over USD 40.4 billion by 2023,

Figure 8:
Binh Duong GRDP (current prices), GRDP Growth and IIP Growth by Year



Source: Bin Duong Statistics Office

Figure 9:
FDI into Binh Duong by Year



Source: Ministry of Planning and Investment

averaging around USD 2.3 billion per year in the 2013 – 2023 period (Figure 9). The province's advantages included its strategic geographical location, synchronous infrastructure, abundant and qualified human resources; efficient investment procedures; and effective policy development that fostered a modern and dynamic investment environment. Taiwan was the largest investor in Binh Duong with total investment of around USD 6.3 billion for 879 projects.

In 2023, more than USD 1.5 billion of registered FDI poured into Binh Duong. The processing and manufacturing industry led the way in terms of newly registered projects with 100 projects and total investment capital of USD 0.96 billion. Notable large foreign investments included LEGO, Pandora, and Crown Company. The province continued to prioritize attracting FDI in high-tech industries, while also integrating advanced technologies into traditional industries to enhance value-added production.

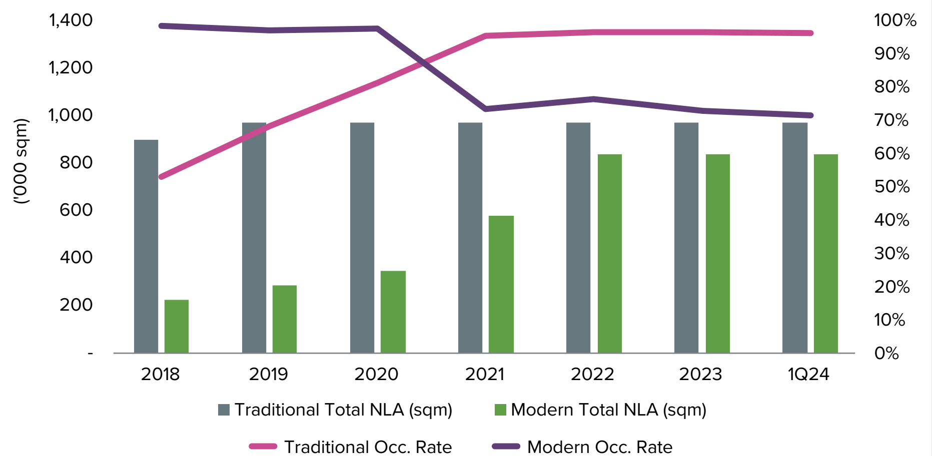
Logistics Warehouse Market Overview
Despite no new supply recorded during 2023, Binh Duong still topped the Southern market by furnishing more than 1.8 million sqm of warehouse space. The supply distribution has shifted gradually to a balance between Traditional and Modern facilities over the years. This trend was exemplified by the share of Modern RBW which surged from 20.0% in 2018 to 46.4% by the end of 2023, reflecting an impressive CAGR of 30.1%. Conversely, Traditional warehouse supply has been almost stable at around 980,000 sqm (Figure 10).

As of 1Q24, Mapletree and BWID have led the charge among institutional developers, providing approximately 400,000 sqm and 290,000 sqm of logistics space, respectively. They are followed by Emergent Capital Partners with its debut project in Tan Dong Hiep B IP.

Traditional RBW assets have consistently demonstrated robust performance over the years thanks to their prime location in the province, such as the Di An and Thuan An districts, which were secured during the early stage of the market. In contrast, the Modern segment has encountered significant fluctuations in occupancy rates, particularly between 2021 and 2023, coinciding with the continuous launches of new projects brought to the market by BWID, Mapletree, Frasers Property, and Emergent Capital Partners.

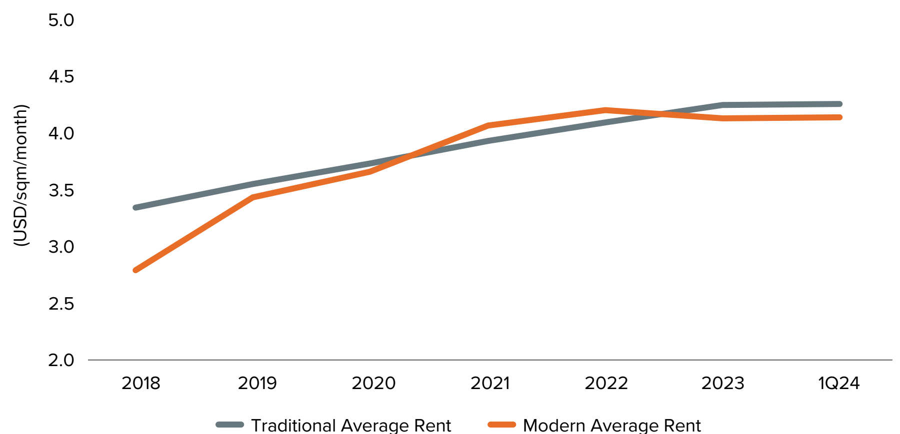
During 1H23, the stagnation of cross-border trade activities due to global headwinds significantly affected production operations. Consequently, export-oriented manufacturers have been compelled to rescale, impacting the leasing performance of RBWs located in manufacturing hubs. The market sentiment in the latter half of 2023 continued to be reinforced by domestic consumption, especially as the year-end holidays drew near. Nevertheless, market dynamics have yet to fully recover, primarily due to the lingering stagnation in import-export business. 2023 closed with a reported decline in provincial occupancy rate to 73.6% in the Modern segment, down 3.5% y-o-y.

Figure 10:
Binh Duong Logistics Warehouse Market Supply



Source: JLL Research

Figure 11:
Binh Duong Logistics Warehouse Market Performance



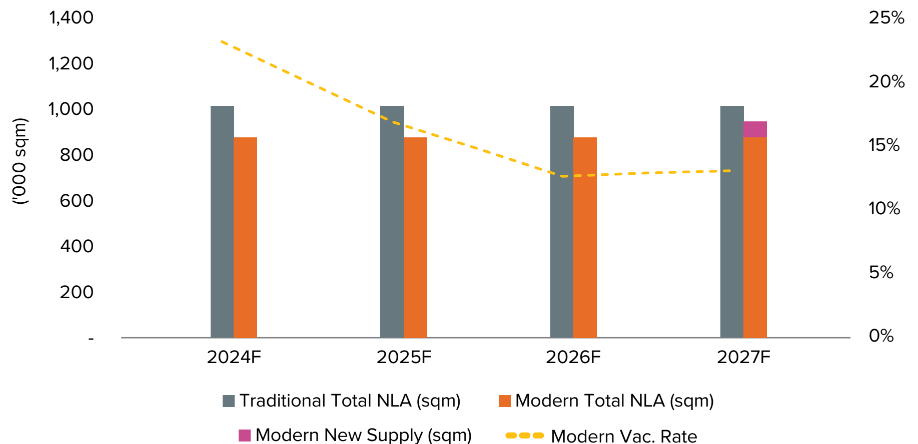
Source: JLL Research

In general, tenants have continued to prefer new facilities in good locations, while projects situated in relatively remote areas or long-standing warehouses with outdated technical systems encounter longer void time before being filled up.

Between 2018 to 2023, Binh Duong's RBW asking rents experienced growth in both Traditional and Modern grades at CAGRs of 4.7% and 7.6%, respectively. Despite possessing fair-quality facilities, Traditional RBWs commanded higher rental rates by capitalising on their favourable location for both domestic and international markets. On the other hand, Modern warehouses, as latecomers, had to be placed in further areas, thereby necessitating competitive rents to attract tenants. As a result, there is a marginal gap in asking rents between the two segments, emphasizing the critical role of location in determining leasing competitiveness.

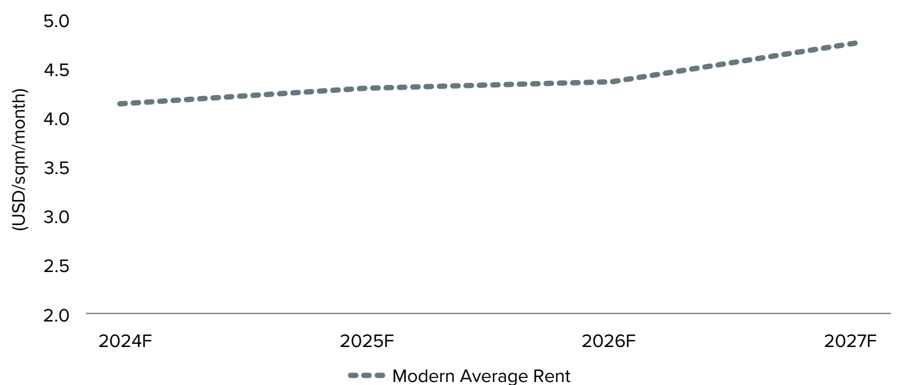
The continued contribution of institutional developers with high-quality developments has helped to boost Modern rents. Nevertheless, certain projects, especially those concentrated in production hubs in northern Binh Duong targeting manufacturers, have experienced a decline in asking rents owing to elevated vacancy rates and a slowdown in manufacturing activities. Furthermore, the degradation of facility conditions, particularly concerning outdated fire protection systems, was also a factor resulting in lower asking rents for newly released spaces. As of 1Q24, the average Modern rent dropped by USD 0.1 per sqm per month, reflecting a y-o-y decrease of 2.6% (Figure 11). Despite having modest rents at the aggregate level, Binh Duong's Modern RBW ranges from USD 2.9 to 7.1 per sqm per month. The highest rental rates are observed in Di An and Thuan An, the province's core areas. Moving further north to districts such as Thu Dau Mot and Ben Cat, asking rents fluctuate around USD 2.9 - 4.3 per sqm per month, approximately two-thirds of the core areas' rent.

Figure 12:
Binh Duong Logistics Warehouse Market Supply Outlook



Source: JLL Research

Figure 13:
Binh Duong Logistics Warehouse Market Performance Outlook



Source: JLL Research

Market Outlook

The logistics warehouse market in Binh Duong is forecast to stabilise from 2024 onwards with only 70,000 sqm of RBW in the pipeline. The scarcity of land bank, especially those with logistics functions, has limited the growth of provincial supply, inching up slightly to 1.9 million sqm over the next four years (Figure 12). Modern assets' performance is expected to gradually improve, as shown by the vacancy rate falling below 13% by the end of 2027.

It is observed that the logistics market in Binh Duong has been gradually expanding northward owing to the limited available land bank in core areas. Only emerging areas are able to accommodate large-scale developments. While location remains a crucial factor in enhancing competitive edge, the provision of reasonable rents accompanied by continuously improving infrastructure and modern specifications alongside better customer service are differentiators to attract and serve increasingly sophisticated demand from tenants.

The market sentiment in Binh Duong is expected to remain strong, driven by elements such as stable supply, resilient domestic demand, and the recovery in import-export activities. These elements collectively constitute the driving forces for rent escalation. During 2024-27, the average rent of Binh Duong's Modern RBW is projected to continue rising by around 3% per annum, potentially reaching USD 3.4 to USD 7.4 per sqm per month (Figure 13). Rental growth will likely be driven by projects in emerging areas.

BAC NINH LOGISTICS WAREHOUSE MARKET OVERVIEW

Macroeconomic Overview

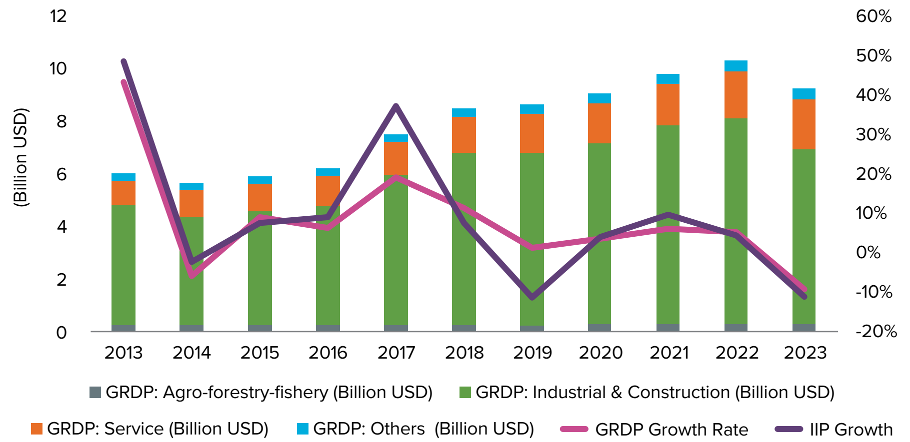
As one of the growth pillars of the Northern Key Economic Region, Bac Ninh achieved a high average GRDP growth of 9.9% in the 2013-2022 period, higher than the country's average. By 2022, Bac Ninh's economy size was around USD 10.3 billion, accounting for around 2.6% of Vietnam's GDP. However, Bac Ninh faced its most challenging year in 2023, as its GRDP contracted by 9.3% y-o-y, due to the drop in manufacturing orders amid the global trade downturn (Figure 14). That said, it is expected to recover quickly as soon as trading activities rebound. The province has focused on exploiting three growth drivers to encourage growth: consumption, investment, and export. Actions to achieve this goal include developing high-tech industries and supporting industries, focusing on infrastructure investment and urban development, and improving the efficiency of public investment capital use.

As one of the leading manufacturing provinces, industrial construction has accounted for over 70% of Bac Ninh province's GRDP from 2013 to present. Bac Ninh's IIP grew by 4.3% y-o-y in 2022 and averaged 11.4% per year in the 2013-2022 period thanks to the high-tech manufacturing industry. However, owing to the ongoing slowdown in global consumption, industrial production in 2023 declined by 11.3% y-o-y. With the goal of becoming a national hub of industrial and high-tech development, the province plans to focus on the in-depth development of its industrial sector. This could drive a strong rebound in industrial development from 2024 onward.

With a total cumulative registered capital of USD 24.8 billion, Bac Ninh ranked 7th nationwide in attracting FDI. In addition to its advantageous geographical location, Bac Ninh implemented open-door policies to attract investment, established administrative reform, and developed manufacturing bases, especially in the electronics industry. The province is Vietnam's electronics industry manufacturing cluster and home to many international enterprises such as Samsung, ABB, Foxconn, Canon, PepsiCo and Amkor.

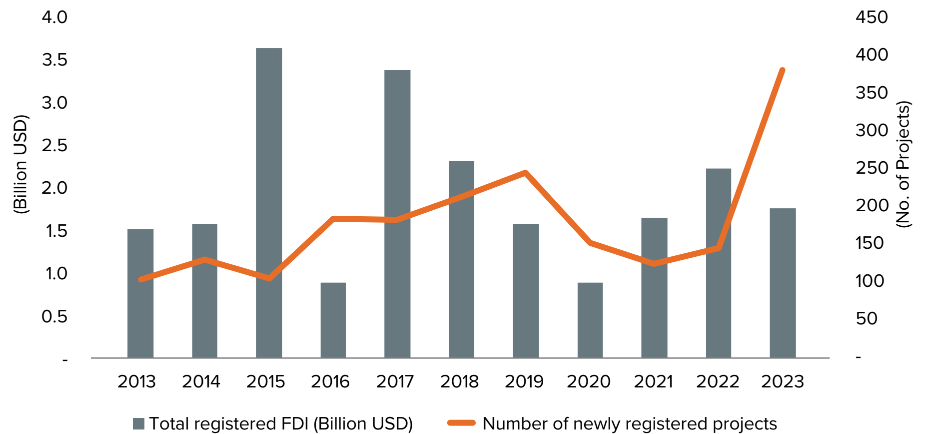
In 2023, Bac Ninh attracted a total registered investment capital of USD 1.8 billion and ranked 7th in the country and 4th only after Ha Noi, Quang Ninh and Hai Phong in the Northern Key Economic Zone (NKEZ) (Figure 15). 384 new foreign direct investment projects worth more than USD 1.1 billion were recorded, an increase of 2.6 times from 2022.

Figure 14:
Bac Ninh GRDP, GRDP Growth and IIP Growth by Year



Source: Bac Ninh Statistics Office

Figure 15:
FDI into Bac Ninh by Year



Source: Ministry of Planning and Investment

Logistics Warehouse Market
Bac Ninh, strategically positioned in the key economic triangle of Hanoi - Hai Phong - Quang Ninh, acts as a northern counterweight to Binh Duong in the South. As of 2023, this province continued to lead the total Northern supply, boasting nearly 800,000 sqm of RBW space (Figure 16). Leveraging its proximity to Hanoi, Bac Ninh has become a satellite city attracting a significant influx of FDI. Accordingly, early RBW facilities were developed in Bac Ninh, promoting it as a logistics hub for the North, catering to both domestic consumption and export production storage needs.

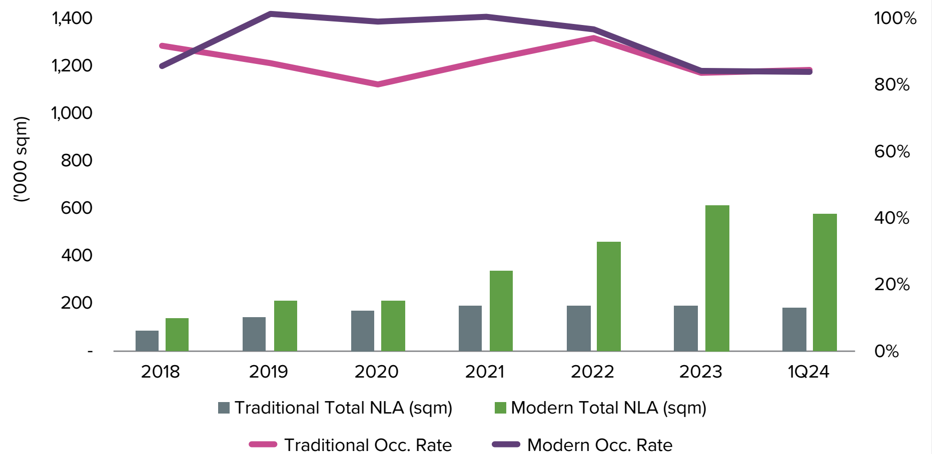
Over the past five years, the provincial supply has witnessed consistent growth. The Modern segment has significantly expanded from 134,000 sqm in 2018 to 600,000 sqm in 2023, representing a CAGR of 35.0%. Conversely, Traditional supply remained relatively stable with negligible new supply each year, reaching nearly 200,000 sqm by the end of 2023. During the first quarter of 2024, amidst an expansion in supply and a sluggish economic climate, some landlords opted to convert their RBW projects to factories for lease, causing Bac Ninh's existing supply to drop to nearly 750,000 sqm as of end-1Q24. This strategic move is aimed at navigating the market slowdown and adapting to the changing landscape.

During 2023, Bac Ninh recorded roughly 152,000 sqm of new warehouse area. This expansion was all attributed to SLP's developments in Nam Son Hap Linh and Yen Phong Expansion IPs. As a result, SLP rose to the second position in provincial market share, capturing 19.2% of total stock. Mapletree continued to hold the top spot with nearly 300,000 sqm, and LOGOS secured the third place with two developments in VSIP Bac Ninh, contributing 84,000 sqm of space.

Thanks to its strategic location for logistics activities, Bac Ninh maintained strong RBW demand from various groups of tenants serving both domestic and international markets, such as e-commerce companies, retailers, manufacturers and 3PLs. As a result, Bac Ninh achieved continuously high occupancy rates of over 80% across both segments over the years. However, between 2022 and 2023, the provincial market encountered difficulties under the impact of global headwinds. Import-export activities slowed, causing the market to be mainly driven by domestic consumption. As new supply kept entering the market despite sluggish demand, it took a longer time for new projects to be absorbed. Consequently, the occupancy rate declined to approximately 83.0%, representing an 11.7% y-o-y decrease in 2023.

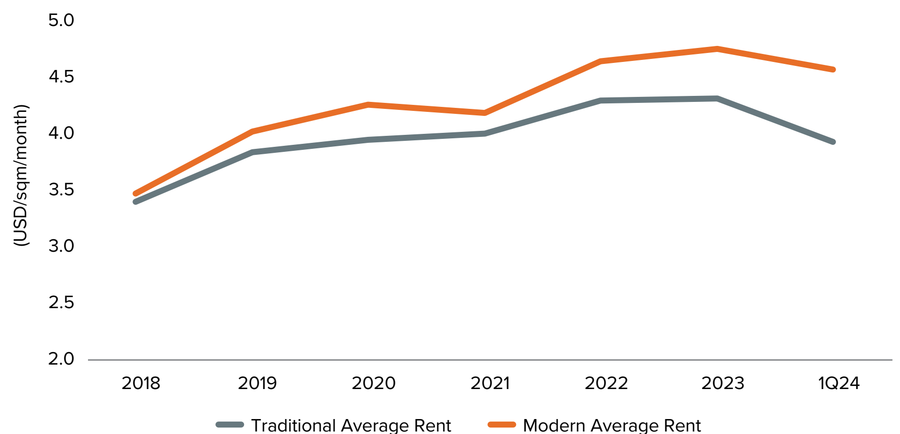
The average rent of Bac Ninh's RBWs exhibited a consistent increase during 2018-2023. Notably, the Modern segment experienced stronger momentum with a CAGR of 6.5%, reaching USD 4.7 per sqm per month. Meanwhile, despite the similar growth trend, the Traditional segment

Figure 16:
Bac Ninh Logistics Warehouse Market Supply



Source: JLL Research

Figure 17:
Bac Ninh Logistics Warehouse Market Performance



Source: JLL Research

has shown signs of slowing rental growth since 2022. As of 4Q23, Traditional RBW's average asking rent stood at USD 4.3 per sqm per month, up modestly by 0.5% y-o-y (Figure 17). The upward trend was seen in rents at the aggregate level, largely regulated by the entry of high-quality new projects with higher rates. In 1Q24, the lacklustre leasing performance, primarily driven by prevailing economic challenges, has prompted some projects to adjust rents downward. Rent adjustments were mostly experienced in long-standing facilities to stay competitive against new supply with advanced specifications.

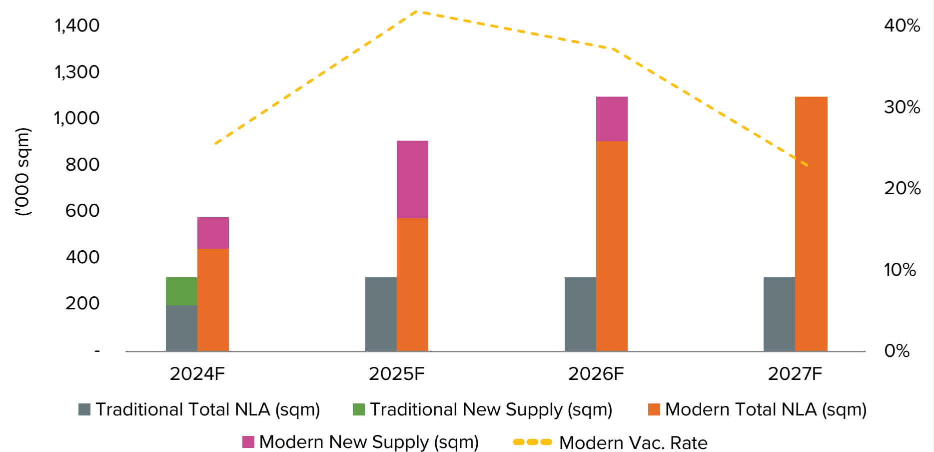
Most Modern RBWs in Bac Ninh were developed by institutional developers, the primary catalyst for the provincial rental growth. The asking rents for these properties span from USD 3.6 to 6.6 per sqm per month with long-standing large-scale developments offering the lowest rates. When solely considering projects completed since end-2022, the average rent of Modern properties in the province stood at USD 5.7 per sqm per month. Leading the way is Tu Son district with rates fluctuating between USD 6.0 and 6.6 per sqm per month. This is a significant 12.7% higher than that of the remaining districts, namely Yen Phong, Tien Du, and Que Vo.

Market Outlook

The Bac Ninh logistics market is poised for significant expansion in the next four years with notable supply pipelines in both segments. By the end of 2027, the provincial supply is projected to reach 1.7 million sqm, of which the Modern segment will constitute roughly 82% (Figure 18). The market is expected to reach maturity from 2027 with the increasing presence of stabilized assets.

The increasingly restricted land bank in Tu Son and Yen Phong districts, current primary hubs for RBW projects thanks to their strategic location, will compel RBWs to seek new development opportunities in more remote areas. This trend will facilitate the expansion of the Bac Ninh market to further districts, such as Thuan Thanh, Que Vo, and Tien Du.

Figure 18:
Bac Ninh Logistics Warehouse Market Supply Outlook



Source: JLL Research

Frasers Property, in partnership with Gelex Group, will mark their footprint in the Northern RBW market through their debut developments in Bac Ninh. The developer is scheduled to introduce nearly 45,000 sqm of space in Yen Phong 2C and the Yen Phong Expansion IPs in 2024, and another 12,000 sqm from Yen Phong 2C Phase 2 in 2025. Noteworthy developers such as SLP, BWID, Sembcorp, and Mapletree are also playing a pivotal role in contributing to future supply. By end 2027, Bac Ninh logistics warehouse market will remain under the dominance of Mapletree and SLP, commanding market shares of 30.3% and 14.1%, respectively. Furthermore, BWID will emerge as a formidable contender, backed by its notable development in VSIP Bac Ninh 2, which is set to implement 110,000 sqm of ready-built warehouses for lease.

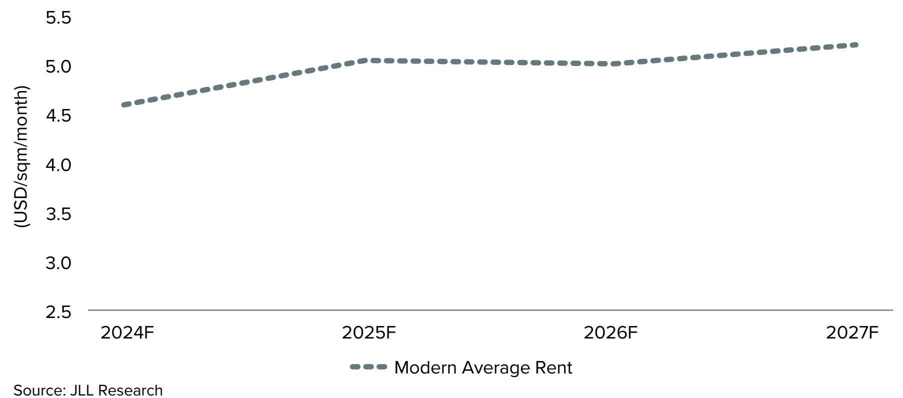
In addition to their strategic locations, RBW projects have been diversifying their competitive edge by focusing on sustainable and eco-friendly development. These include features such as solar streetlights, environmentally conscious materials, and adherence to LEED standards. Notably, the LOGOS VSIP Bac Ninh project is at the forefront of this trend, and similar developments are anticipated from Frasers Property in the near future.

In terms of tenant profile, Bac Ninh remains a preferred choice for domestically oriented businesses. As for export manufacturers, Chinese and Taiwanese companies constitute the primary target groups. This positive dynamic has contributed to maintaining market stability even during challenging economic periods. Among production industries invested in the province, electronics, electronic components, and high-tech products are reportedly the dominant sectors, leveraging Bac Ninh's strategic location and pro-investment initiatives.

The projected average asking rent for Bac Ninh Modern RBW is expected to sustain its upward momentum with a CAGR of 2.0% from 2023 to 2027, reaching USD 5.1 per sqm per month by the end of 2027 (Figure 19) with a range from USD 4.2 to USD 6.9 per sqm per month. The potential rental fluctuations between 2025 and 2026 are influenced by the anticipated lower-than-average asking rent from a new large-scale project.

In the next four years, the continuous introduction of high-quality warehouses by institutional developers alongside the expected gradual improvement in demand will bolster rental growth in Bac Ninh.

Figure 19:
Bac Ninh Logistics Warehouse Market Performance Outlook



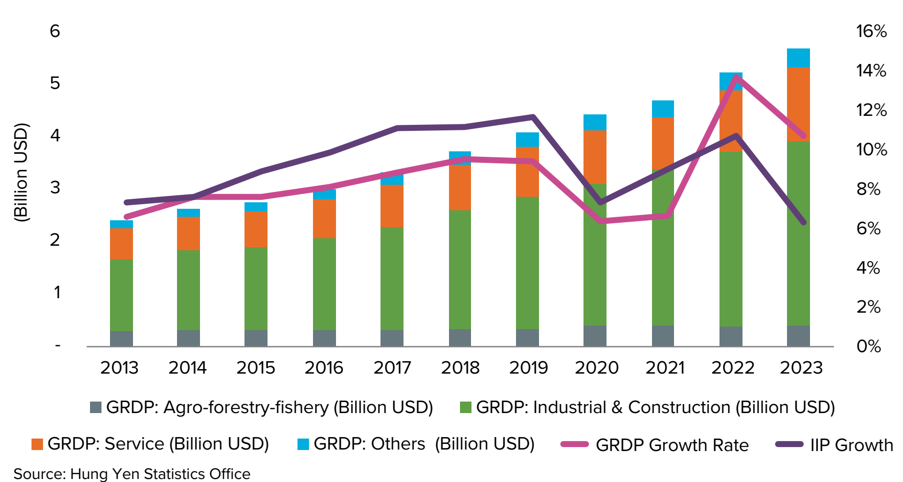
Source: JLL Research

HUNG YEN LOGISTICS WAREHOUSE MARKET OVERVIEW

Macroeconomic Overview

Over the past nine years, Hung Yen's economy saw consistent growth and improved quality. On average, GRDP increased by 8.5% per annum between 2013 to 2023, only lower than Hai Phong's average GRDP growth within the NKEZ. The scale of the economy in 2023 was estimated to reach USD 5.6 billion, 2.3 times higher than 2013's level (Figure 20). The key contributor to growth was the ongoing effort of the province in improving its investment and business environment amidst economic headwinds and increasing competition from other localities.

Figure 20:
Hung Yen GRDP, GRDP Growth and IIP Growth by Year



Source: Hung Yen Statistics Office

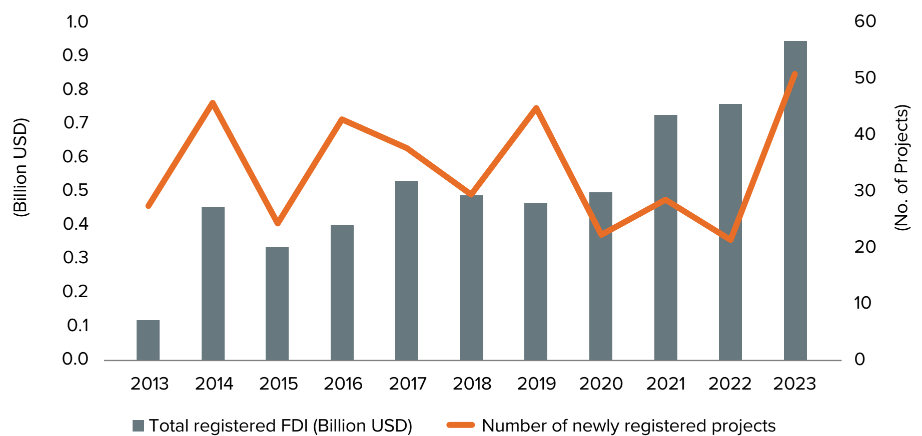
Mirroring the country's industrialization orientation, Hung Yen's economic structure also shifted rapidly towards industry and construction. Hung Yen has emerged as one of key localities in industrial development in the NKEZ, with the ratio of the industrial-construction sector increasing to approximately 62% in 2023 from 49% in 2010. This was thanks to its favourable location situated within the economic triangle of Hanoi - Hai Phong - Quang Ninh, convenient transportation network, as well as the development of industrial zones and clusters for sustainable investment and business environment.

The increase in scale of industrial production and impressive investment demand influenced industrial development in the 2013 - 2023 period. As a result, average IIP growth reached 9.0% per annum, higher than the country's average of 8.0%. By 2030, Hung Yen aims to become a modern industrial province with sustainable development, which will in turn help to maintain the high growth momentum of IIP.

Since 2013, Hung Yen has witnessed an unprecedented wave of investment with the total cumulative registered capital of projects reaching nearly USD 7.5 billion, 8.6 times higher than 2013's figure. The steady growth rate has helped to place the province in the 20th position in the country and the 6th in the NKEZ in terms of FDI attraction. Japan ranked first in FDI to the province with 173 projects worth more than USD 4 billion, including well-known brands such as Kyocera, Hoya, Nippon, Daikin, Toto, and Panasonic. The province has recently garnered significant investor attention due to an improved investment and business environment, favourable geographical location, and quality infrastructure, land, and human resources.

In 2023, Hung Yen attracted over USD 0.9 billion in new and additional capital (Figure 21), reaching a new record and up 24.4% y-o-y. Major projects included Nitto (Japan) with a total investment of USD 132 million and COT (Singapore) with a total investment of over USD 45 million.

Figure 21:
FDI into Hung Yen by Year

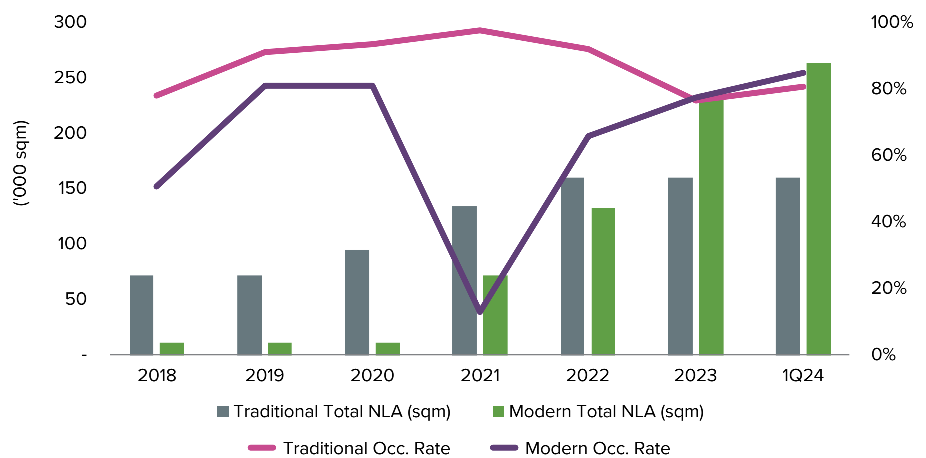


Source: Ministry of Planning and Investment

Logistics Warehouse Market

Despite its later establishment, Hung Yen has swiftly emerged as a promising logistics hub, with strong supply growth of 36.3% CAGR between 2018 and 2023. With nearly 233,000 sqm of existing space, Modern warehouse supply has surpassed Traditional by taking up 59.5% of the total supply at the end of 2023. No new Traditional facilities have entered the Hung Yen market over the past two years, resulting in a total stock that remained unchanged at approximately 160,000 sqm (Figure 22).

Figure 22:
Hung Yen Logistics Warehouse Market Supply



Source: JLL Research

The provincial market welcomed additional contributions only from Modern supply in 2023. Notably, Mapletree continued to launch phase 3 of the Mapletree Hung Yen Logistics Park project, adding approximately 56,500 sqm of warehouse space. This introduction solidified their dominant position in the Hung Yen market, accounting for 44.9% of the total stock. nPL Logistics, standing at the second place, contributed 81,000 sqm of RBWs. Another new development came from Vietlog Industrial project in Minh Quang IP, providing 29,000 sqm and bringing this player into the third position with a corresponding market share of 7.4%. The proportion of Modern segment continued to be bolstered in early 2024 by the introduction of Core5 Hung Yen RBH project in Minh Duc IP, My Hao district.

The influx of significant new projects participating in the market despite the lacklustre demand has led to extended vacant time for many projects. Consequently, aggregate asset performance in 2021 witnessed a sharp decline. Nevertheless, subsequent years saw gradual enhancement with a 11.5% y-o-y increase to 76.4% occupancy rate in the Modern segment in 2023 (Figure 22). In contrast, Traditional warehouses faced a 15.0% rise in vacancy rate compared to the same period last year, signalling a shift in occupiers' preference toward higher-quality facilities.

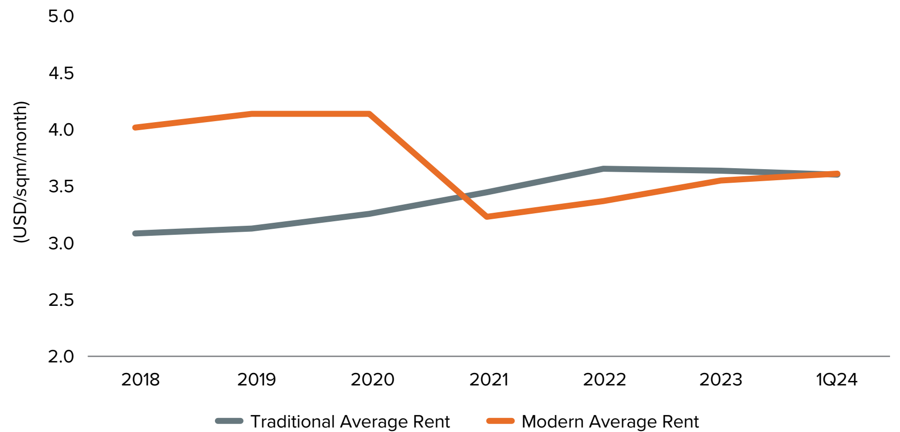
Leveraging its strategic geographical location, Hung Yen has been gaining prominence as a vital link between Hanoi and the eastern provinces. This position has enabled Hung Yen to serve both domestic demand and cross-border trade activities.

Over the past five years, the overall RBW asking rents in Hung Yen have shown steady growth. However, leasing performance diverged between two segments. The Traditional grade has experienced a consistent increase at a CAGR of 2.7% during 2018-2023 while the Modern class reported a slight decline of 2.0% during the same period. This rental contraction was attributed to the competitive rents offered by large-scale Modern projects that entered the provincial market since 2021. Benefiting from favourable land prices acquired long ago, these projects have strategically set attractive rental rates to pull demand into Hung Yen and swiftly stabilize asset leasing performance. As of 2023, the average asking rents in both classes stood at a relatively equal level of around USD 3.6 to USD 3.7 per sqm per month (Figure 23).

While Modern rents have been regaining momentum, the Traditional class has shifted sideways. This contrast has indicated the intense competition between the two segments, where tenants have better access to a variety of reasonably priced, high-quality facilities.

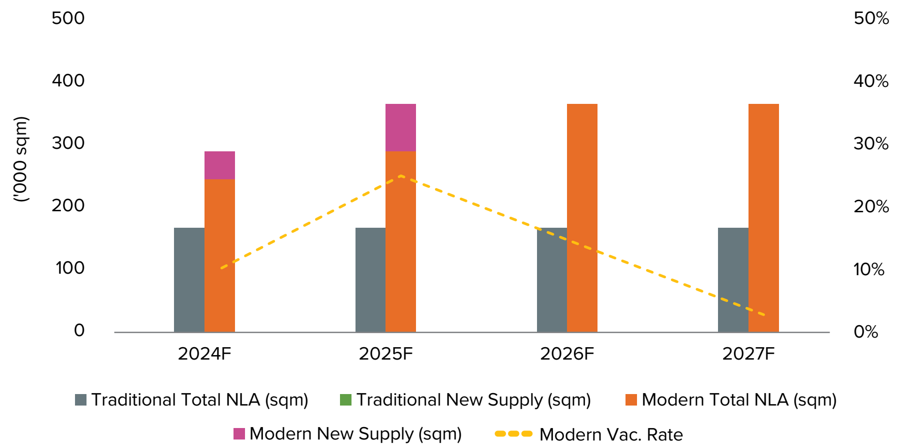
The majority of Modern warehouses in Hung Yen are concentrated in Yen My District with asking rents varying between USD 2.9 and 5.1 per sqm per month. My Hao, an adjacent district to Yen My, is benefiting from the spillover effect with Vietlog to build the first Modern project in 2023 and the second facility developed by Indochina Kajima in 1Q24.

Figure 23:
Hung Yen Logistics Warehouse Market Performance



Source: JLL Research

Figure 24:
Hung Yen Logistics Warehouse Market Supply Outlook



Source: JLL Research

Market Outlook

The logistics warehouse market in Hung Yen is expected to be stable with modest new supply solely coming from Modern RBW segment. An additional 113,620 sqm is anticipated to enter the market by the end of 2027. Stable supply, coupled with sustained demand driven by domestic consumption and revived import-export activities, will likely support performance. Gradually transitioning into the mature stage, the Hung Yen market is projected to expand to approximately 500,000 sqm by the end of 2027 (Figure 24).

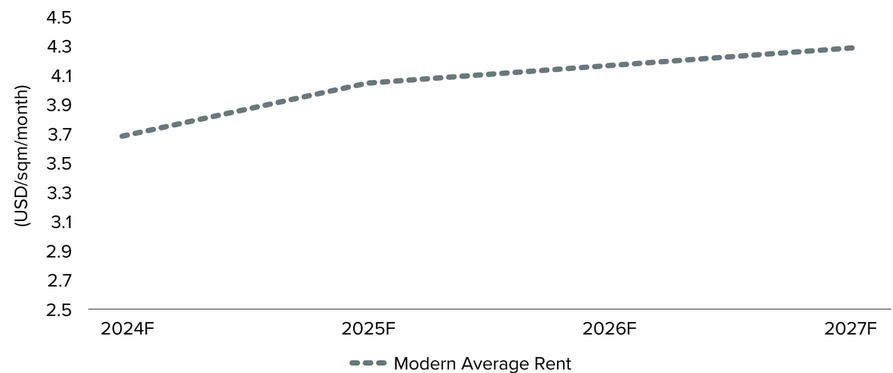
Gaw NP Capital and Frasers Property are actively contributing to the provincial supply through their upcoming projects in My Hao and Yen My districts. While Gaw NP has secured a spot in the top three prominent developers with its expanding portfolio, the leading positions remain with Mapletree and nPL Logistics even though their market shares are forecast to decrease slightly to 34.8% and 16.0%, respectively.

As land in Hanoi and Bac Ninh is increasingly limited, Hung Yen is the nearest location from Hanoi centre that can provide land for new logistics development. Positioned as a vital bridge connecting Hanoi and other provinces to major ports, Hung Yen will efficiently serve both the domestic and international markets. Moreover, Hung Yen authorities have consistently attempted to create an investment-friendly environment to attract businesses, thus supporting further investments in this province. Apart from potential tenants from e-commerce, retailers and 3PLs, manufacturing occupiers will also drive demand for Hung Yen's RBWs. While electronics is a key industry that Hung Yen could benefit from due to its proximity to Bac Ninh, traditional sectors such as textile and garment will keep contributing to the province's production activities. Yen My and My Hao continue to be investment hotspots, primarily backed by their supporting infrastructure systems.

Further rent escalation is expected in the provincial market. The forecast indicates that asking rents will experience steady growth, averaging 4.5% annually over the next four years. By the end of 2027, it is projected that monthly rents could potentially reach USD 4.3 per sqm per month (Figure 25).

The launch of new warehouses with upgraded specifications developed by institutional developers, coupled with the expectation of a demand recovery,will contribute to driving rental growth in Hung Yen.

Figure 25:
Hung Yen Logistics Warehouse Market Performance Outlook



Source: JLL Research

LOGISTICS INVESTMENT MARKET

Table 1:
Notable Logistics Transactions in the North

Purchaser	Seller	Transaction Time	Location	Land Area (ha)	Remark
Mapletree Logistics Trust	Mapletree Investments	1Q24	Mapletree Hung Yen Logistics Park - Phase 1, Yen My IP, Hung Yen	~9.7	Operating asset
Khai Toan JSC & Boustead Singapore (BKIM)	Minh Quang Industrial Development JSC	4Q23	Yen Phong IP, Bac Ninh	13.6	Development land; Leasehold
Frasers Property	Gelex Group JSC	1Q23	Yen Phong Expansion & 2C IP, Bac Ninh Yen My IP, Hung Yen	~65.1	Development land; Seller retained interest, partial interest (51%)
Boustead Singapore	Khai Toan JSC	1Q23	Yen Phong IP, Bac Ninh	N/A	Operating asset; Seller retained interest, partial interest (49%)

Source: JLL Research and RCA

Table 2:
Notable Logistics Transactions in the South

Purchaser	Seller	Transaction Time	Location	Land Area (ha)	Remark
Mapletree Logistics Trust	Mapletree Investments	1Q24	Mapletree Logistics Park Binh Duong Phase 3, VSIP II IP, Binh Duong	~9.0	Operating asset
Khai Toan JSC	Boustead Singapore	1Q23	Boustead Nhon Trach (Phase 1, 2A, and 2B), Dong Nai	~18.0	Operating asset; Seller retained interest, partial interest (51%)

Source: JLL Research and RCA

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