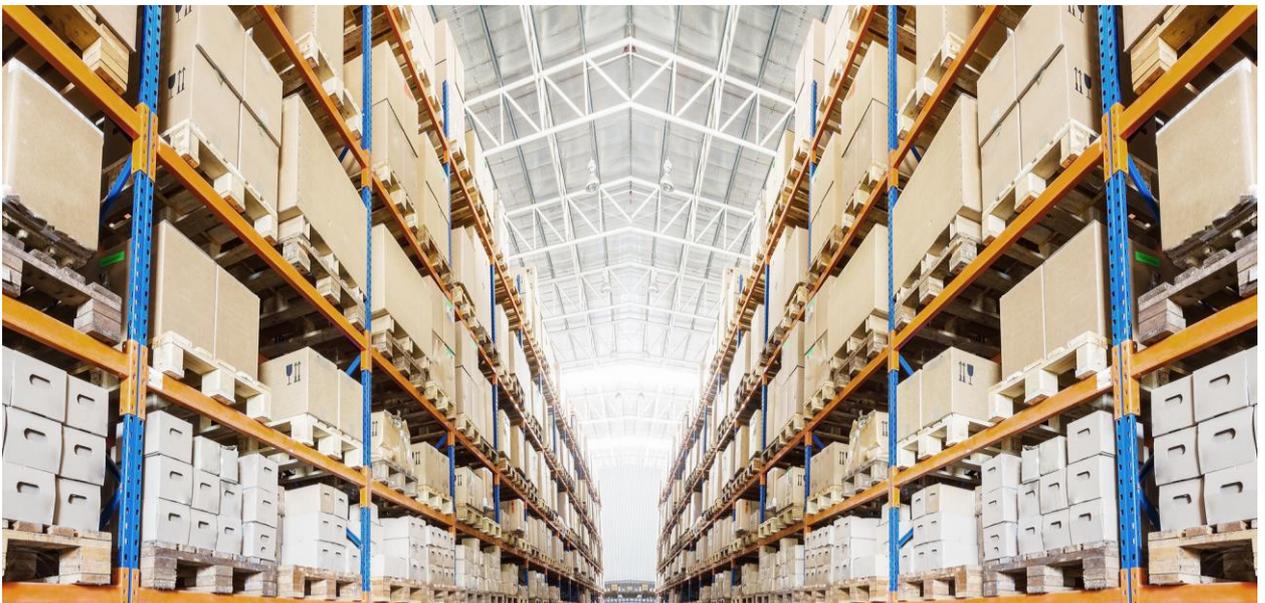


TRENDS | Creating Resilience

Q3 2023 Asia Pacific Industrial & Logistics Trends



Key Trends

- Slowing regional economy continues to weigh on leasing activity
- Strong demand from ecommerce platforms and stable activity from 3PLs
- Supply pipeline remains significant
- Investment volume holds steady in the first three quarters of year
- Leasing and investment volume forecasted to soften

Mainland China

Expansionary demand from selected e-commerce platforms pushed up leasing volume. The investment market saw a slight improvement, supported by purchasing from end-users.

OCCUPIER AND INVESTMENT TRENDS

Leasing demand improved from the previous quarter, driven by growing activity from cross border e-commerce platforms and 3PLs. Other sectors were relatively quiet.

Cross-border ecommerce platforms leased large amounts of logistics space in Guangzhou and neighbouring markets over the quarter to cater to the expansion of supply chain warehouses and operational needs for their growing client base.

Logistics investment experienced a moderate rebound in Q3 2023 amid strong demand from end-users, mostly corporations, looking to acquire space as the market slows. However, activity from foreign investors and property funds was muted.

With some logistics asset managers facing higher debt and refinancing costs, selected groups are attempting to deleverage amid looming uncertainty and refinancing risk.

SIX-MONTH TRENDS

	Tier I Markets	Tier II Markets
RENT	▲	▬
SUPPLY	▲	▲
VACANCY	▼	▲
YIELD	▬	▬

OUTLOOK AND OPPORTUNITIES

Leasing demand is expected to rebound in the coming months, with take-up to be driven by the e-commerce sector.

Domestic investors will focus on stable and prime logistics assets in tier I cities.

Long-term funds will stay on the sidelines and wait for discounted opportunities in prime locations.

Foreign investors are expected to be hesitant amid high borrowing costs.

Emerging Trends

Cost-effectiveness a key consideration for occupiers making leasing decisions.

While face rents remained stable this quarter, effective rents softened due to rising incentives.

Cross border e-commerce platforms are seeking space with higher-than-normal specifications along with properties that possess amenities and well-developed transportation infrastructure to cater to large numbers of employees.

FIGURE 1. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Nantong	188 Xueyuan Line	190	Nantong Jiahe Technology Investment Development	Charles Wang Xiaolin, Saleen Automotive
Hangzhou	116 Hongda Road	163	Undisclosed	Jane Int'l Automotive Design, Beijing Zijing Julong Tech Inv., FDG Electric Vehicles
Shenzhen	Xunbao Industrial Park	32	Shenzhen Dongming Investment Development	Shenzhen Xunbao Investment Development

Source: MSCI Real Assets, CBRE Research, Q3 2023

Hong Kong SAR

Retail-associated sectors underpinned stable logistics leasing momentum over the quarter, but high borrowing costs continued to weigh on investment.

OCCUPIER AND INVESTMENT TRENDS

Occupier demand remained stable over the quarter, supported by a steady flow of requirements from retail related occupiers such as large grocery groups.

The period also saw several e-commerce platforms and electric vehicle manufacturers complete expansionary moves. Demand for cold storage contracted.

Apart from forced relocation, relocation and expansion is being driven by upgrading to newer properties that can enable automation and help occupiers achieve ESG goals. However, CapEx remains a concern, with most tenants opting to renew leases.

Investors remain interested in industrial properties due to the attractive yields compared to other sectors; stable demand; and continued rental growth. However, high borrowing costs continue to weigh on investment decisions.

SIX-MONTH TRENDS

Hong Kong SAR	
RENT	
SUPPLY	
VACANCY	
YIELD	

OUTLOOK AND OPPORTUNITIES

External headwinds will continue to impact demand.

The retail and food accommodation sectors are expected to continue driving leasing activity, with supermarkets, department stores, and trades related to cosmetics and pharmaceuticals especially prominent.

As industrial space availability improves, there will be more upgrading opportunities for occupiers, especially those with looming deadlines to meet ESG mandates.

Emerging Trends

While warehouse shadow space is set to increase in the coming quarters due to impending relocations, vacancy in core locations will remain tight.

Many tenants of brownfield sites are seeking relocation opportunities as they can no longer use their current space due to the government’s development of Hung Shui Kiu and Yuen Long South as well as measures to hasten the brownfield site assembly process.

FIGURE 2. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Hong Kong	Multiple floors, Fortune Industrial Building	26	Undisclosed	Undisclosed
Hong Kong	G/F & 1/F, Cheong Lee Building	20	Profit Prosper Holdings	David Chan Ping Che

Source: MSCI Real Assets, CBRE Research, Q3 2023

Japan

Broad-based demand underpinned a relatively upbeat leasing market in Q3 2023. Investment was focused on value-add opportunities.

OCCUPIER AND INVESTMENT TRENDS

Leasing activity remained healthy this quarter, supported by demand from a diverse range of sectors.

Along with 3PLs, demand was seen from e-commerce platforms, which displayed growing requirements for space in many regional cities, including Osaka.

The period also saw steady interest from semiconductor sector as the Japanese government looks to accelerate chip and electric development. This is driving requirements for built-to-suit facilities.

Investors were observed seeking value-added opportunities, especially properties with rental reversion and occupancy upgrading potential. Core investors remained highly selective.

With high construction costs having fallen slightly in recent months, some cash rich investors may be more willing to pursue new development projects.

SIX-MONTH TRENDS

	Greater Tokyo	Greater Osaka
RENT	—	—
SUPPLY	↓	↑
VACANCY	—	↑
YIELD	—	—

OUTLOOK AND OPPORTUNITIES

Regional cities will see rental growth pick up as levels in the likes of Sendai and Fukushima are still undervalued.

While foreign investors remain keen on Japan logistics assets even despite the low yields on offer, fund-raising will become more challenging in future.

Although owners continue to keep asking prices high, the gap between buyers and sellers is narrow, meaning that transactions are not being impeded.

Emerging Trends

Many occupiers are looking to secure their future space requirements now before rents pick up again.

Selected investors are eyeing value-add plays in the form of older buildings which can be acquired relatively cheaply. Such properties can be refurbished at a relatively modest cost after which the tenant mix can be reshuffled, and rents raised.

FIGURE 3. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Greater Tokyo	MFLP Tomei Ayase	66	Mitsui Fudosan Logistics Park REIT	Mitsui Fudosan
Greater Osaka	MJ Logipark Kakogawa 1	51	Mitsubishi Estate Logistics REIT	JR West Real Estate & Development
Greater Tokyo	GLP Narashino II (Building)	40	Acacia Special Purpose Company	GLP J-REIT

Source: MSCI Real Assets, CBRE Research, Q3 2023

Korea

The leasing market remained in favour of tenants as high vacancy prompted landlords to provide additional incentives. Investment fell slightly from the previous quarter.

OCCUPIER AND INVESTMENT TRENDS

Seoul remains a tenant’s market, with landlords turning more willing to offer extra incentives to secure prospective lessees during the quarter.

Most of this quarter’s leasing transactions were completed by 3PLs and e-commerce platforms, mainly for space in existing buildings. Other new leases were signed by F&B and electronics groups.

Dry storage vacancy remains relatively healthy at 10% but cold storage vacancy is more than three times higher, resulting in an uneven distribution of vacancy.

Investment volume fell slightly from the previous quarter as institutional groups and REITs remained quiet. Due diligence periods and approval processes continue to lengthen while the price gap remains wide.

Most investors are seeking assets in strategic locations that provide better returns as vacancy risk is high for speculative developments, especially for cold storage.

SIX-MONTH TRENDS

	Greater Seoul
RENT	▼
SUPPLY	▲
VACANCY	▲
YIELD	▲

OUTLOOK AND OPPORTUNITIES

While overall vacancy is expected to exceed 20% by year’s end, vacancy in core locations will remain in the single digits.

Purchasers are set to become more selective as the high cost of borrowing continues to weigh on investment.

Foreign investors who can obtain funding and lower cost financing from overseas will enter the market in increasing numbers to snap up discounted opportunities.

Emerging Trends

Due to the prospect of elevated vacancy risk in the short-term, developers are committing to fewer new projects, which is likely to constrain supply in the long-term.

Some buyers are targeting developers who hold prime logistics assets in strategic locations. Many such groups are under refinancing pressure and are therefore willing to sell.

FIGURE 3. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Yongin	Coupang Yangji 5 Logistics Center	355	Mirae Asset Global Investments	Invesco Real Estate
Seoul	Gwangju Docheok Logistics Center	110	Kolon Global	Gold First
Seoul	LOGOS Yeosu Logistics Center	49	LOGOS Property	TS Logistics

Source: MSCI Real Assets, CBRE Research, Q3 2023

Singapore

Demand and investment both weakened over the quarter as domestic and international economic headwinds strengthened.

OCCUPIER AND INVESTMENT TRENDS

Demand declined from the beginning of the year as Singapore’s macroeconomic data weakened.

The period saw far fewer expansionary moves compared to previous quarters with more occupiers considering consolidation and renewals.

Prime logistics assets continued to outperform other classes of industrial property amid tight availability of high-quality modern facilities with ramp access.

With many occupiers facing significant rental hikes ranging from 30-50% next year upon lease expiry, many are stepping up the hunt for alternative options.

The completion of new projects in 2024 coupled with growing economic headwinds are set to weigh on rental growth in the coming quarters.

Industrial investment volume fell to an 18-month low in Q3 2023 as owners remained under little pressure to sell.

SIX-MONTH TRENDS

	Singapore Prime Logistics
RENT	↑
SUPPLY	↑
VACANCY	—
YIELD	↑

OUTLOOK AND OPPORTUNITIES

Prime logistics rents are expected to remain stable due to the shortage of space and weak supply pipeline.

Occupiers seeking spaces of over 100,000 sq. ft. and larger floorplates will need to target future supply or consider partnering with landlords for redevelopment.

Should cap rates remain at current levels, core funds are unlikely to return to the market.

Emerging Trends

New entrants including several advanced manufacturing firms remain keen to establish a presence in Singapore.

With logistics facilities in the east facing traffic congestion and height restrictions capping potential redevelopment, most new logistics supply is in the west. However, new stock in the west will not be completed until 2024.

While ESG is on occupiers’ agenda, adoption of green logistics facilities is slow and has more room for growth.

FIGURE 5. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Singapore	Sime Darby Business Centre	50	Eagle Land	Blackstone Group
Singapore	Reebonz Building	29	Sunray Woodcraft Construction	Reebonz
Singapore	Kenyon	21	Undisclosed	Mapletree Investments

Source: MSCI Real Assets, CBRE Research, Q3 2023

Vietnam

Strengthening macroeconomic headwinds, especially the slow recovery in mainland China, weighed on the occupier and investment markets this quarter.

OCCUPIER AND INVESTMENT TRENDS

Demand in the southern region remained stable and diverse, with e-commerce platforms and 3PLs driving leasing activity.

Demand in the northern region was relatively subdued as weakening macroeconomic conditions dragged on new manufacturing orders, resulting in a lack of demand for new space to accommodate materials and finished goods in emerging locations. New projects in established locations such as Bac Ninh attracted strong interest from both manufacturing and logistics companies.

Warehouse supply slowed over the quarter and full year forecasted completions have been revised downward as landlords seek to provide more time for occupiers to absorb excess supply.

The investment market was quiet with fewer new-to-market investors looking for opportunities due to concerns about the economic outlook. Existing investors nevertheless remain confident and remain committed to Vietnam.

SIX-MONTH TRENDS

	Northern Region	Southern Region
RENT	▬	▬
SUPPLY	▲	▲
VACANCY	▲	▲
YIELD	▬	▬

OUTLOOK AND OPPORTUNITIES

Landlords and developers are advised to construct assets that can obtain licenses for both factory and warehouse use, especially in Northern Vietnam.

With vacant space taking longer to absorb, landlords must adopt more flexible leasing strategies to capture occupier demand.

Emerging Trends

While selected landlords are applying to convert warehouses with high vacancy into factories, obtaining approval is a lengthy process and not always successful.

Mainland Chinese investors and manufacturers are increasingly willing to pay high rents for modern facilities due to the high cost incurred when upgrading older space to meet fire safety standards.

FIGURE 6. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Hanoi	SK2-3 Quang Minh	3	Bay Grove Capital	SK Logistics
Hung Yen	SK Hung Yen	3	Bay Grove Capital	SK Logistics

Source: MSCI Real Assets, CBRE Research, Q3 2023

India

Both leasing and investment activity remained upbeat over the quarter, backed by solid economic growth.

OCCUPIER AND INVESTMENT TRENDS

This quarter witnessed the slight tapering of leasing activity and slower space take-up compared to Q2 2023.

Leasing was focused on Chennai, Bangalore, and Mumbai, driven by steady take-up in newly completed developments.

3PLs remained the most active sector, accounting for half of new leases signed this quarter. Engineering & manufacturing firms' share declined after a strong Q2 2023, but these sectors remained relatively active.

Other demand drivers included FMCG, auto & ancillary along with electronics & electricals.

While the investment market remained resilient compared to other parts of Asia, opportunities are still confined to a small number of very large investors, leaving funds to compete for the few prime assets that are available.

SIX-MONTH TRENDS

	India
RENT	
SUPPLY	
VACANCY	
YIELD	

OUTLOOK AND OPPORTUNITIES

Rental growth in the coming quarters is expected to be driven by newly completed well-located premium assets with tech-enhanced specifications.

Cap rates are unlikely to expand due to the large quantum of capital chasing assets.

The completion of new logistics and industrial projects by foreign funded investment platforms will continue to boost investors' confidence and interest in the Indian market.

Emerging Trends

Some FMCGs are looking to consolidate their logistics operators into a centralised location in the long run to align with updated operating strategies and move to more compliant assets.

While the government plans to release more land parcels for new high quality logistics developments, competition from the residential and data centre sectors will remain intense.

FIGURE 7. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Cuttack	ESR Cuttack Logistics Park	230	ESR Group	Local Investor
Pune	General Motors Talegaon Facility	116	Hyundai Motor Group	General Motors
Jhajjar	AllCargo Logistics Khalikpur	76	Blackstone	AllCargo Logistics

Source: MSCI Real Assets, CBRE Research, Q3 2023

Australia

Occupier demand continued to pull back from post-pandemic highs while the investment market was little changed from the previous quarter.

OCCUPIER AND INVESTMENT TRENDS

Occupier demand normalised over the quarter with enquiries down by about 20% from earlier this year when the post-pandemic boom was still in effect.

The transport, postal and warehousing sector accounted for over half of leasing demand combined, with retail and manufacturing firms also active.

While incentives increased over the quarter as landlords look to next year’s supply peak and rising sublease space, the market remains in favour of owners.

Investment volume picked up from the previous quarter but remained stable on a y-o-y basis. Sydney and Melbourne accounted for the bulk of transactions.

Investment deals are taking longer to close, partly due to extended periods required for due diligence. Equity funding is also more challenging. However, the gap between buyer and seller expectations is narrowing.

SIX-MONTH TRENDS

	Sydney	Melbourne	Brisbane	Perth
RENT	↑	↑	↑	↑
SUPPLY	↑	↑	↑	↑
VACANCY	▬	▬	▬	▬
YIELD	↑	↑	↑	↑

OUTLOOK AND OPPORTUNITIES

Tenants are recommended to engage early with landlords of upcoming projects to capture opportunities to upgrade to modern facilities.

Investors are advised to prepare to enter the market swiftly once prime assets become available.

Other investment options will include greenfield opportunities and new developments as the leasing market will remain tight.

Emerging Trends

The period saw some interest from occupiers, particularly well-capitalised 3PLs, looking to buy assets for self-use.

Rental growth is expected to lose momentum as landlords are looking to secure tenants earlier and are increasingly nervous about the volume of new supply.

With more speculative developments due in the 2024 supply pipeline in Melbourne, Sydney and Brisbane, landlords are keeping a close eye on vacancy.

FIGURE 8. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
Melbourne	11-17 Distribution Drive	79	UniSuper	NPS
Melbourne	Bolinda Road Forward Fund	68	Centuria	Rocla Concrete Pipes
Melbourne	23-47 Villiers Street	57	Frasers	Cadence & Linkage Property

Source: MSCI Real Assets, CBRE Research, Q3 2023

UAE

The occupier market remained tight amid a lack of supply while investment and development deals were limited despite robust interest.

OCCUPIER AND INVESTMENT TRENDS

Global economic headwinds exerted mild pressure on the logistics leasing market this quarter, with leasing volume rising only slightly from the same period of last year.

3PLs, electric vehicle manufacturers, e-commerce platforms and petrochemicals were the major demand drivers.

There is a considerable amount of pent-up demand as many occupiers currently must settle for Grade B or Grade C warehouse space due to the lack of Grade A supply suited to their requirements.

Interest in developing new logistics properties for lease is diverse. Groups from Europe and Asia are seeking opportunities but are struggling to secure serviceable land.

Investment deals were limited over the quarter and cap rates continued to contract. Financing costs fell slightly from Q2 2023 while bank liquidity remained healthy.

SIX-MONTH TRENDS

	UAE
RENT	
SUPPLY	
VACANCY	
YIELD	

OUTLOOK AND OPPORTUNITIES

Occupiers are advised to negotiate for the first right of refusal in lease terms to secure space for future expansion needs. Other strategies include participating in joint ventures with developers to develop new projects.

Several speculative developments are due to be completed in 2024 and 2025, with pre-leasing expected to be strong once these projects are launched.

Emerging Trends

Robust government investment in infrastructure such as roads, power and water is providing a solid foundation for the development of logistics space.

Landlords and developers are not pursuing ESG initiatives as they still want more evidence that occupiers will pay a premium for it.

FIGURE 9. Selected Investment Transactions

MARKET	PROPERTY NAME	PRICE (US\$ mn)	BUYER	SELLER
UAE	Distribution and warehouse portfolio	150	GFH Partner	Undisclosed

Source: MSCI Real Assets, CBRE Research, Q3 2023

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