

Intelligent Investment

China Cross-border E-commerce Warehouse Demand and Outlook

Recent rapid growth in South China's cross-border e-commerce sector has led to some debate over whether current expansionary momentum is sustainable or even replicable in other markets. This CBRE report analyses the site selection and future development of China's cross-border e-commerce platforms by assessing their business and supply chain models.

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Innovation of Business Models Boosts Warehouse Demand

Global online shopping volumes have accelerated since 2020 as the COVID-19 pandemic transforms consumption habits. E-commerce data provider ECDB recently reported that the global penetration rate of online shopping (share of total retail sales) increased from 11% in 2019 to 16% in 2023.

Over the past two years, China’s leading cross-border e-commerce platforms Shein, Temu, AliExpress and TikTok Shop, collectively known as the “four little dragons”, have rapidly gained global market share on the back of their competitive pricing; effective supply chains; innovative marketing campaigns; and attractive purchasing experience. General Administration of Customs (GAC) data show China’s cross-border e-commerce exports reached RMB 1.83 trillion in 2023, accounting for 7.8% of national exports and achieving a CAGR of 23% over the past four years.

Since 2023, cross-border e-commerce platforms’ demand for non-bonded investment grade warehouses in China has surpassed that of domestic e-commerce and Third-Party Logistics (3PLs) combined. CBRE data show that new nationwide leasing volume from cross-border e-commerce platforms totalled 3.1 million sq. m. in full year 2023 and 2.3 million sq. m. in the first three quarters of 2024. Much of this surge was due to these occupiers’ adoption of the “Fully Entrusted” and “Semi-Management” form of business model (Figure 1) Under these models, sellers deliver their goods to warehouses managed by cross-border e-commerce platforms, which require a substantial volume of space for storage, sorting, quality checking, labeling, and packaging.

2023 Export Volume of Cross-Border E-commerce Platforms (RMB)

1.83 trillion

Share of Cross-Border E-commerce Platforms in New Leases

45%

Figure 1: Business Mode of Cross-Border E-commerce Platforms and Warehouse Demand

	Self-Operated/ Overseas Warehouse	Semi-Management Model	Fully Entrusted Model
Operation and Pricing	Sellers	Sellers	Sellers / Platforms
Suitable sellers	Sellers with strong online operational capabilities and stock in overseas warehouses	Experienced sellers with strong operational online capabilities and with their own customer base	Factories or sellers with less exposure to cross-border online sellers, with limited ability to fulfill logistics functions
Cross-border logistics fulfillment	Sellers send to overseas warehouses	Platforms	Platforms
Demand for domestic warehouses	Low	High	High
Function of domestic warehouses	NA.	Listing, marketing, fulfillment, customer service, packaging, and pricing	
Representatives	Amazon	AliExpress	Temu

Source: Public information, CBRE Research, November 2024

Site Selection Focuses on Industrial Belt, Harbour Resources and Property Conditions

From 2022-2024, new warehouse supply in China’s major cities exceeded 30 million sq. m., indicating an increase of 50% in total warehouse stock in the space of just three years. The average vacancy rate climbed to 22% amid the supply peak, with most cities experiencing destocking pressure and rental adjustment.

In contrast to the high vacancy levels witnessed nationwide, the vacancy rate for the Guangzhou-Shenzhen Metropolitan Area stood at only 5% as of June 2024, with rents projected to grow by 1-2% y-o-y this year. Strong cross-border e-commerce demand has underpinned the region’s strong performance. With CBRE data showing that over 97% of warehouse space leased by cross-border e-commerce platforms nationwide is in Guangdong Province, logistics developers and investors are keen to assess whether current levels of demand are sustainable and, if so, can be replicated in other regions. Analysing the warehouse location preferences and requirements of cross-border e-commerce platforms can provide insight into the outlook for demand.

Whether it is Shein’s “small order quick response” approach or Temu’s cost-effective products, **supply chain efficiency is essential for cross-border e-commerce platforms**. Under the “Fully Entrusted” model, “Transportation - Collection - Sorting - Customs Declaration” is key to improving the efficiency of the supply chain (Figure 2).

Figure 2: Logistics Supply Chains in China



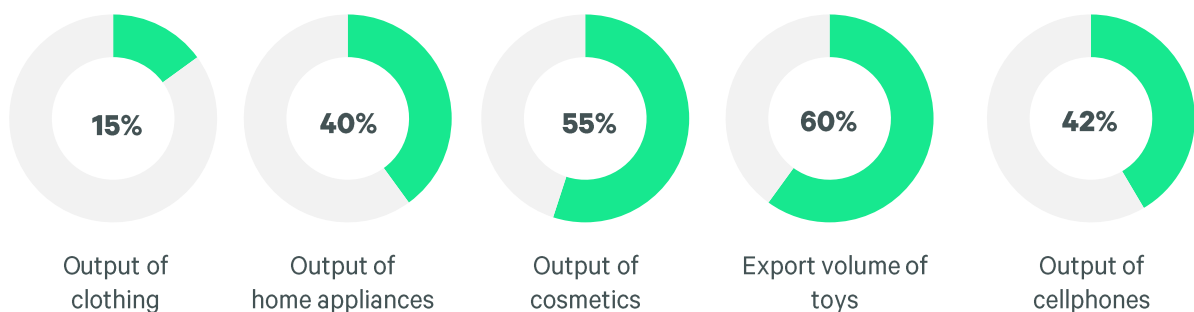
Note: Customs declaration and clearance may be in different or the same cities

Source: CBRE Research, November 2024

Industrial Belt Tops Other Site Selection Factors

Cross-border e-commerce platforms need to be situated as close as possible to industrial clusters where suppliers are concentrated. This enables them to shorten response times, including logistics delivery, collection, and stock management. Being a hub for clothing, home appliances, furniture, cosmetics, toys and electronic products manufacturing, Guangdong possesses a unique advantage in this area.

Figure 3: Guangdong’s Share of Consumer Product Output in China



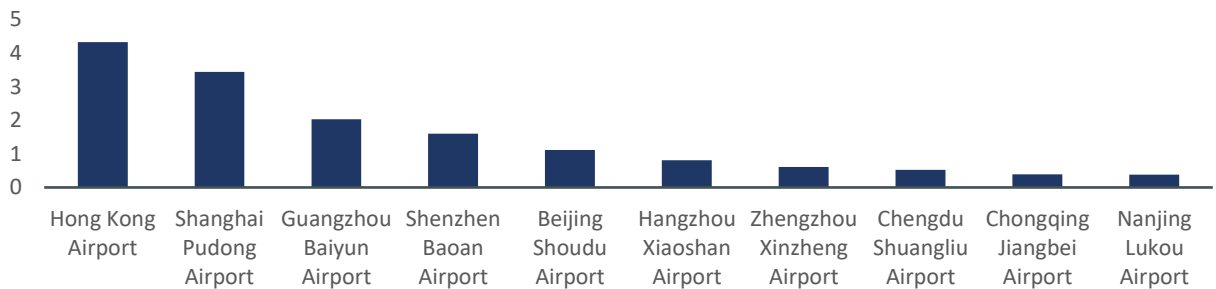
Source: Public information, CBRE Research, November 2024

Cross-Border Transportation Convenience and Capability

Location selection of cross-border e-commerce warehouses is informed by the capacity and customs clearance convenience of nearby ports. With cross-border e-commerce adopting direct mail, usually by air, as its major form of transportation, airline capacity and resources are critical. The Guangdong-Hong Kong-Macao Greater Bay Area has seven public airports, making it one of the regions with the highest airport density and capacity in the world. Of China's top ten airports in terms of cargo throughput in 2023, the Hong Kong, Guangzhou and Shenzhen airports ranked first, third and fourth, respectively.

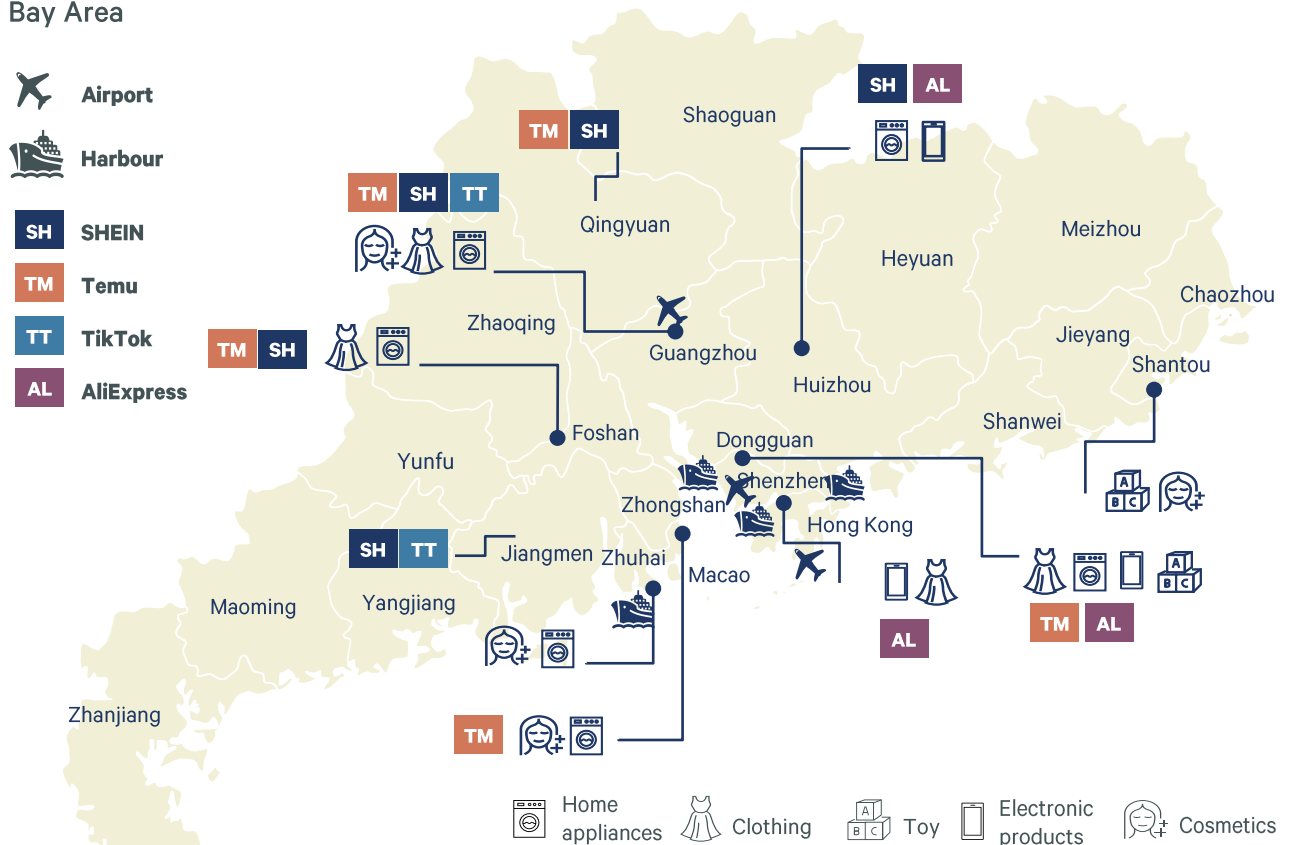
In addition to key infrastructure such as airports and ports, regional integrated customs clearance measures such as cross-border information interconnectivity; shared international cargo centres at airports; and the “Guangdong-Hong Kong-Macao Three-Places-One-Lock Scheme”, enable cross-border e-commerce platforms to reduce costs and increase efficiency. For example, cross-border trans-shipment allows cross-border e-commerce companies to avail of lower warehouse rents for cargo consolidation in Guangdong, while leveraging Hong Kong's substantial international airline resources.

Figure 4: Cargo Throughput of Major Airports in China (million tons)



Source: Civil Aviation Administration of China, Hong Kong International Airport, CBRE Research, November 2024

Figure 5: Distribution of Commodity Clusters, Airports, Harbours, and Warehouses in the Greater Bay Area



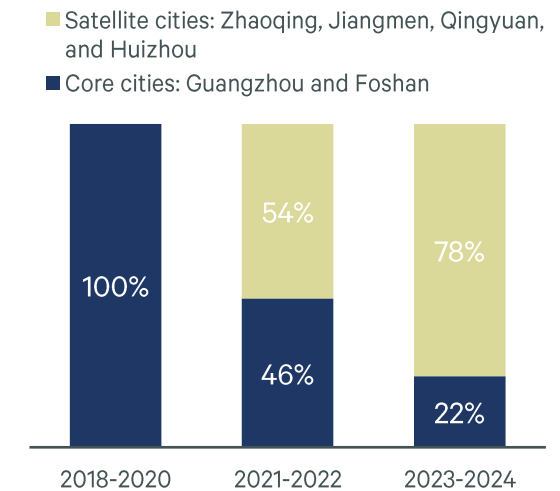
Source: CBRE Research, November 2024

Warehouse Rents and Property Specifications

In addition to connectivity with commodity clusters and transportation ports, warehouse rents are an important consideration in cross-border e-commerce platforms' warehouse site selection. CBRE data show that e-commerce platforms' warehouses in the Greater Bay Area are now expanding to satellite cities (Figure 6), rents in which are around 15-20% lower compared with those in Guangzhou and Foshan.

High cargo turnover, large goods and SKUs, and the sorting and consolidation of each parcel require warehouses to have advanced specifications in terms of height, column space, floor bearing, platforms and amenities such as canteens and dormitories (see Figure 7). Only investment-grade warehouses possess these attributes.

Figure 6: Case Study: New Lease Distribution by a Cross-Border E-commerce Player



Source: CBRE Research, November 2024

Figure 7: Cross-border E-commerce Warehouse Specifications and Amenity Requirements

Unloading Platforms

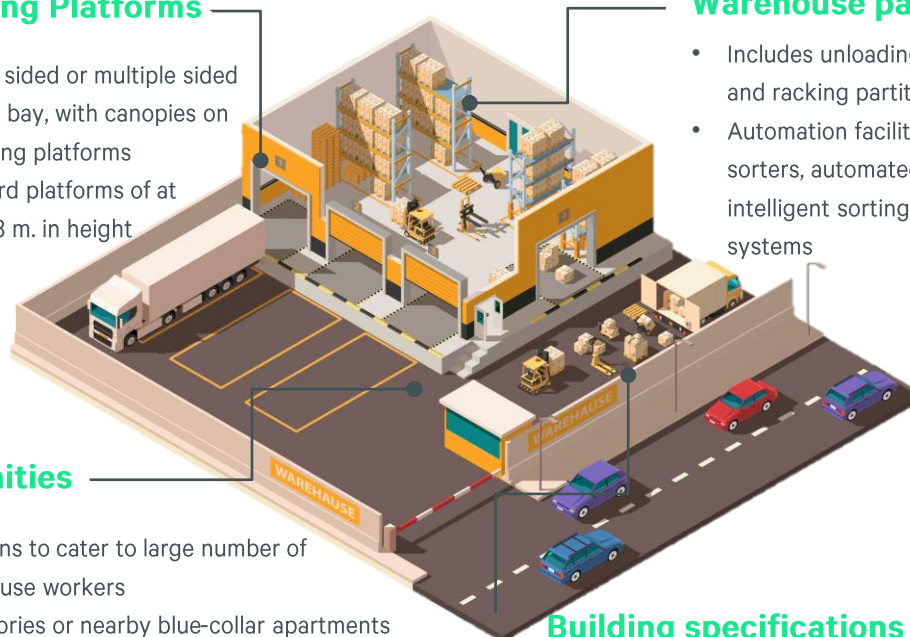
- Double sided or multiple sided loading bay, with canopies on unloading platforms
- Standard platforms of at least 1.3 m. in height

Warehouse partitioning

- Includes unloading, sorting, labeling, and racking partitioning
- Automation facilities, including sorters, automated belt conveyors, intelligent sorting and handling systems

Amenities

- Canteens to cater to large number of warehouse workers
- Dormitories or nearby blue-collar apartments
- Adequate car parking spaces

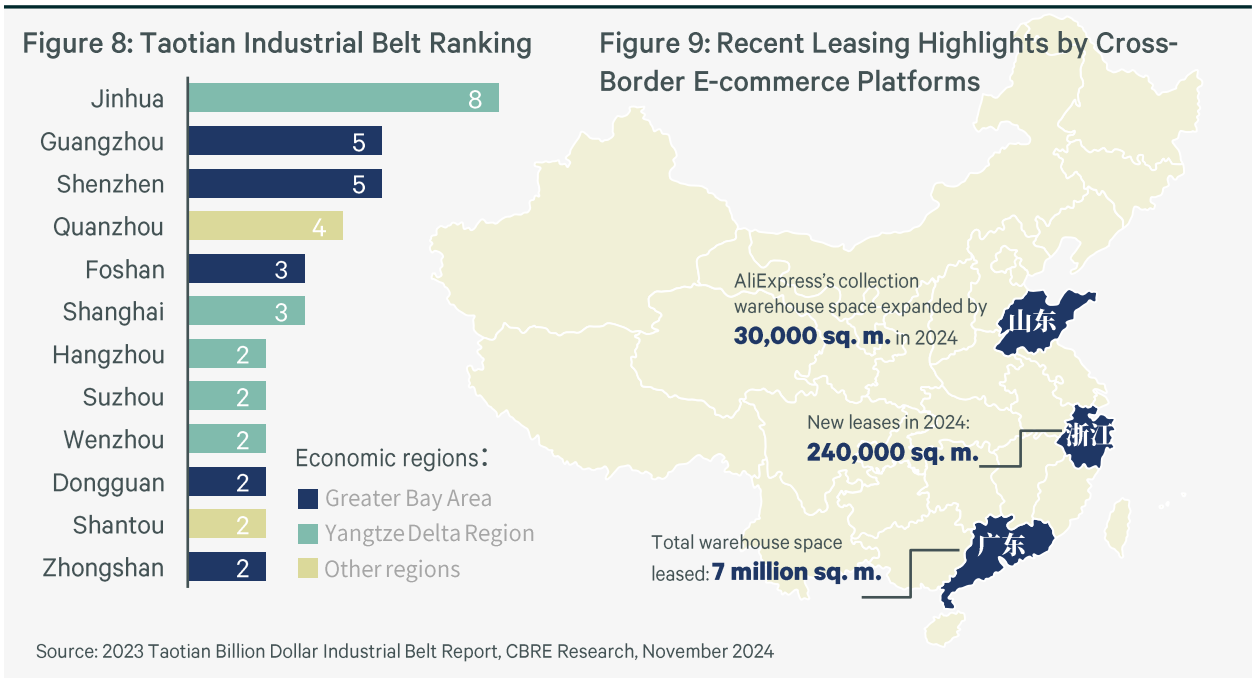


Building specifications

- Area: $\geq 50,000$ sq. m.
- Height: 9 m. for first floor; ≥ 8 m. for second floor and above
- Floor bearing: 3 tons/sq. m. for first floor; ≥ 2 tons/sq. m. for second floor and above
- Column space: ≥ 12 m.
- Floor material: carborundum, or epoxy floor for electronic products
- Elevators: six to eight elevators needed for lifting in warehouses; alternatives include external slides
- Rooftop solar power and energy storage systems

Source: CBRE Research, November 2024

Outlook: Cross-border E-commerce Offers Enormous Growth Potential; Yangtze River Delta Region Satisfies Site Selection Criteria for Collection Warehouses



With E-commerce Still Only Accounting for Under 20% of Global Online Sales, China's Cross-Border E-commerce Sector is Poised for Rapid Growth

ECDB data show that online sales' share of total global retail sales reached 16.3% in 2023; a volume expected to rise to 21% by 2028. With online sales in major consumer markets such as Europe, the U.S., and Southeast Asia still standing at or below this level, the potential for growth is significant. As the world's largest producer of consumer goods, China is ideally positioned to benefit from the coming growth wave of cross-border e-commerce.

Outside of the Greater Bay Area (GBA), the Yangtze River Delta (YRD) Satisfies Site Selection Requirements for Collection Warehouses

The GBA's mature industry ecology and large number of cross-border e-commerce players and manufacturers provides it with a strong competitive edge in attracting new lease commitments. The YRD also offers a favourable environment for cross-border e-commerce players in terms of commodity clustering, airline capacity, and availability of investment-grade warehouses at competitive rents.

In 2024, CBRE recorded two new leases signed by cross-border e-commerce platforms in Jinhua and Jiaxing. These platforms have been drawn to the area by the rapid growth in demand for the small commodity wholesale market in Yiwu and other cities that carry out co-operation in cross-border transportation with departure cities. In the short term, warehouse expansion in the YRD is still at a nascent stage of development. Future scalability will rest upon on the overall development of China's cross-border e-commerce industry and whether the YRD can achieve supply chain efficiency on a similarly advanced level as the GBA.

Trade Barriers and Transformation of Business Modes Pose Challenges

Geopolitical Disputes, Tariffs, and Trade Compliance

This year, several countries including Malaysia, Thailand, Brazil, and South Africa have tightened previous tax exemption policies for small parcels and imposed tariffs ranging from 7% to 45%. As cross-border e-commerce establishes itself as a new form of international trade, the U.S. and the European Union, the two major markets for cross-border e-commerce, are adopting measures to manage and regulate online platforms.

CBRE expects the abolition of ‘de minimis exemption’ (refers to an import shipment with an aggregate fair retail value of US\$800 or less) to impact cross-border platforms that specialise in low-priced commodities and small parcels of direct mail. However, this will be somewhat offset by improving efficiency in the supply chain and transferring higher costs to consumers through price increases. Other challenges that cross-border e-commerce platforms will need to address in future include data security, labour compliance, and operational bans.

Transformation of Business Mode

Given its strong appeal to manufacturers and export merchants, the Fully Entrusted Model will remain one of the key approaches deployed by cross-border e-commerce platforms, creating additional demand for domestic warehouses. At the same time, however, the development of this model will be constrained by limited air capacity and air transportation prices. Xeneta data show the average spot price of air cargo from South China to the U.S. reached USD 5.27/kg at the end of June 2024, more than 2x that in 2019. In addition, the tightening of the de minimis exemption policy and the increase in the logistics fulfillment loads after expansion will, to a certain extent, weaken the competitive advantage of the Fully Entrusted + Direct Mail Model. Therefore, in the medium to long term, cross-border e-commerce platforms must strive to achieve a balance between Fully Entrusted, Semi-Managed and Overseas Warehouse Models; a factor that could negatively impact domestic warehouse demand.

Shein’s Self-Built Warehouses to Impact Future Leasing Demand

Leading e-commerce platform Shein expects to be operating 600,000 sq. m. of self-built warehouse space in Zhaoqing by 2026 and 900,000 sq. m. in Guangzhou by 2027, which will inevitably exert a short-term impact on the leasing market. The company has already begun to consolidate some of its warehouses in Foshan.



Conclusion

The acceleration of global online sales since the onset of the pandemic; China's complete and efficient manufacturing supply chain; and the adoption of innovative business models have underpinned robust growth by China's cross-border e-commerce sector in recent years.

CBRE data show that new leases signed by cross-border e-commerce platforms this year had reached 7.3 million sq. m. by the end of Q3 2024, accounting for over 10% of total new logistics leases in major cities nationwide. Cross-border e-commerce platforms are now firmly established as a key source of demand for China's investment grade warehouses. CBRE expects cross-border e-commerce platforms to pre-lease a further 2.5 million sq. m. of warehouse space in the next two years.

The mid-and-long term development outlook for China's cross-border e-commerce sector remains upbeat on the back of the steady increase in share of online sales and China's advanced manufacturing supply chain. However, trade barriers, geopolitical tension, airfreight capacity bottlenecks and the transformation of business modes could all pose challenges to domestic warehouse development and demand in the coming years.

As expansion by cross-border e-commerce companies settles at a more sustainable pace, the exponential expansion in their warehouse footprint will gradually ease. While retaining a large warehouse presence in the GBA, CBRE expects the YRD to emerge as a popular location for firms seeking to expand their cross-border e-commerce business.



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