

# New Frontiers:

*E-Commerce and Supply Chain Evolution's  
Impact on Industrial real estate*





“ With COVID-19 accelerating the growth of online retail, we are starting to see the trajectory of e-commerce growth in China repeat itself in Southeast Asia; this in turn should be a boon for industrial real estate demand across Southeast Asia in the coming years. ”

*Tim Armstrong*  
 Head of Occupier Services and Commercial Agency  
 Knight Frank Asia-Pacific

## A changed landscape

The COVID-19 pandemic will leave a lasting impression on the commercial real estate sector across Asia-Pacific. While it brought more pain to the already battered retail sector, it put more wind in the sails of the industrial sector via the flourishing e-commerce industry, as many business-to-consumer (B2C) firms were forced to adapt quickly as lockdown and movement restrictions in many markets prompted a huge shift to online retail activity. Much of this activity will remain permanent going forward and result in higher online retail sales growth and penetration across the region, regardless of market maturity.

Market	Est. end-2020 online retail penetration	Est. online retail growth in 2020 (% YoY)
Chinese Mainland	33%	12%
South Korea	30%	20%
Australia	15%	13%
Japan	12%	20%
Singapore	10%	11%
Vietnam	8%	8%
Indonesia	6%	13%
India	5%	8%
Malaysia	5%	17%
Thailand	4%	11%
Philippines	2%	17%
Average		14%

Source: Knight Frank Research

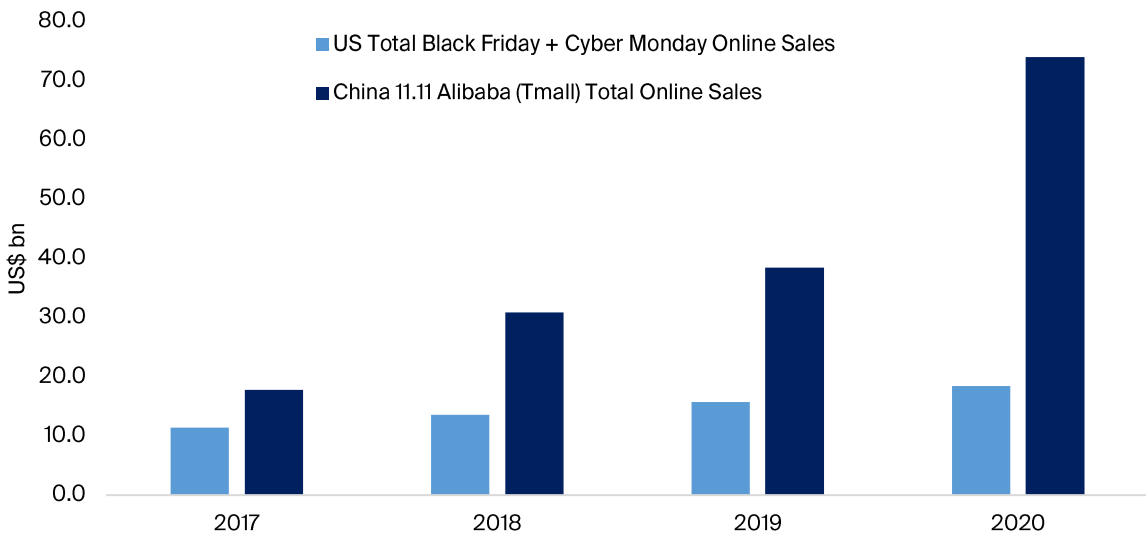
This is evident when we look at the growth rate of online retail penetration across a few selected key markets across the Asia-Pacific with online penetration rates rising an average 14% year-on-year over 2020. We do not expect this growth to abate over the near-term and penetration rates should grow further, potentially reaching the regional leaders such as the Chinese Mainland and South Korea.

### Asia-Pacific e-commerce still a bright spot

While seasonal holiday sales periods are nothing new in the retail calendar with examples such as Black Friday, Cyber Monday, and Boxing Day sales, e-commerce platforms in Asia-Pacific have taken the concept to a whole new level. Alibaba’s yearly Single’s Day days on 11<sup>th</sup> November (aka 11.11) in the Chinese Mainland has continued to set new sales records annually. 2020’s event saw US\$74 billion in total sales recorded in one day, beating the combined total US Black Friday and Cyber Monday sales of US\$18.4 billion, with as many as 500,000 orders processed per sec at its peak.



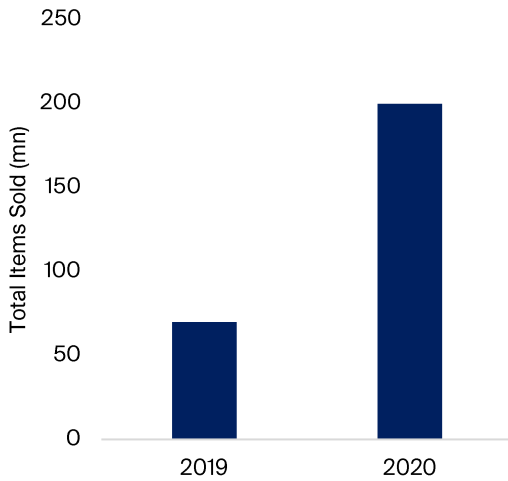
**China 11.11 sales vs. US Black Friday and Cyber Monday**



Source: Knight Frank Research

This influence is also now starting to spread across Southeast Asia as Chinese e-commerce players start to acquire stakes in many leading e-commerce platforms within the region and are replicating their sales strategies in China to much success. Examples include Alibaba’s majority stake in Lazada and Tencent’s 20% stake in SEA Group which owns Shopee. Shopee’s 2020 Singles Day sales volumes reached 200 million items sold, almost a three-fold increase when compared to 2019’s 70 million across its markets of Indonesia, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam. With such rapid growth in sales over a short span of time, the industrial real estate sector has had and still needs to react quickly to keep up with the ever-growing demand for logistics space needed to support it.

### Shopee 11.11 merchandise volume



Source: Shopee

### Rising prominence of cold chain and last mile storage

Along with rapidly growing annual sales, the variety of goods being sold and the speed between the click of the purchase button to doorstep delivery is also evolving. This is mainly led by changing consumer expectations and e-commerce platforms constantly innovating to improve their customer experience. This has led to greater space requirements for last-mile logistics centres with the advent of same-day delivery services, such as Amazon Prime, as well as for cold storage facilities as demand for temperature-sensitive products such as fresh produce has grown.

Furthermore, this has resulted in operators needing to put greater focus on their supply chain efficiency as compared to the past where proximity to the customers was not as important.

Lastly, as production of the COVID-19 vaccine ramps up, high quality cold storage facilities will be needed and will rise in prominence given their vital role in storing and disseminating vaccines to the general population across Asia-Pacific. Developed markets like Singapore will play a key role in vaccine distribution by providing an unbroken cold chain given that it has the largest number of IATA Center of Excellence for Independent Validators for Pharmaceutical Handling (CEIV Pharma) certified companies in Asia-Pacific. Many others, especially emerging markets, will struggle given their lacking cold chain infrastructure and will rely heavily on government led initiatives to repurpose existing facilities to meet this need.



### More concerns over supply chain security

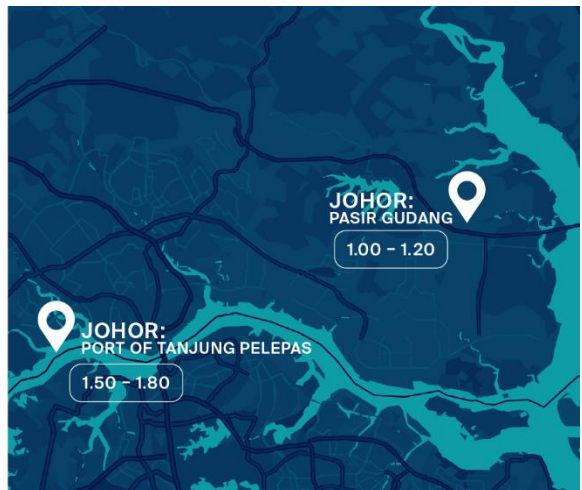
Another issue the COVID-19 pandemic has brought to the forefront is the concern around supply chain security given how the supply of goods, material and labour were disrupted when Chinese borders closed, severely hindering manufacturing output across the Asia-Pacific region. These concerns are not new, with many firms in recent years adopting a China-Plus-One model, where manufacturing operations are diversified out of the Chinese Mainland into more cost-effective markets such as Thailand and Malaysia. Many, especially small and medium enterprises, were still in their planning stages when the pandemic hit and were caught off-guard. However, over the coming years, manufacturing reliance is set to shift away from the Chinese Mainland, and regions such as Southeast Asia and its industrial sector are set to be net beneficiaries.

### Malaysia attracts e-commerce Regional Distribution Centres (RDCs)

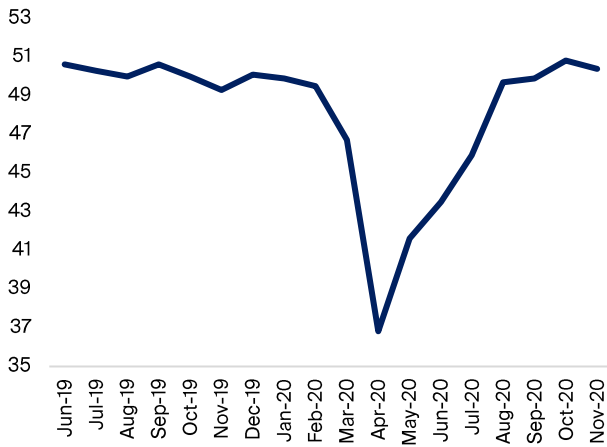
Malaysia’s ‘Look East Policy’, officially launched by former prime minister Tun Mahathir in February 1982, led to the rapid growth of the country’s manufacturing industry. In the early 2000s, the government of Malaysia began promoting strategic manufacturing-related services such as International Procurement Centre (IPC) and Regional Distribution Centre (RDC) activities, and these efforts continued to be prioritised by the current administration. In the recent tabling of Budget 2021, further policies and incentives were announced to further promote the establishments of RDCs in Malaysia – including the relaxation of limits for value-added activities to be carried out in Free Industrial Zones (FIZ) & Licensed Manufacturing Warehouses (LMW), as well as the introduction of new tax incentives for the establishment of Global Trading Centre in Malaysia, etc.

Notable multinational companies (MNCs) that have made RDC footprints in Malaysia include the likes of IKEA Asean RDC, Zalora Regional E-Fulfilment Hub, Lazada E-commerce RDC, Nestle DC, BMW Regional Parts DC, VW Regional Aftersales & Parts DC, Bosch RDC and Broadcom Global DC. This is given the fact that Malaysia is known for its competitiveness in property rental rates, readiness of infrastructure, skilled and multi-lingual labour and talent pool as well as investor-friendly policies with favourable tax structures and incentives.

As Malaysia observes further opportunities from RDC establishments by e-commerce and logistics players, the government continues to work towards increasing the nation’s appeal in attracting these new entrants, both on the policy front as well as on infrastructure readiness with Port Klang Authority developing an integrated digitalisation system to increase productivity and logistics efficiency.



### Thailand Manufacturing PMI



Source: Markit Economics

### Bangkok – Net beneficiary of the China plus one strategy

Over the short-term, Bangkok’s industrial sector will face some challenges resulting from the ongoing COVID-19 pandemic’s impact on its tourism-reliant economy and the ongoing political uncertainty. However, the manufacturing sector is starting to recover with Thailand’s manufacturing PMI reading returning to an expansionary level of 50.8 in October 2020. This should bode well for the industrial real estate sector, especially logistics assets, as more demand for warehouse properties grow on the back of more goods being transported and stored as production capacity normalizes.

In the effort to diversify production away from China, there have been ongoing deliberations by global manufacturers to turn to Thailand as part of their China Plus One strategy, given its infrastructure, cheap labour costs, and general ease of doing business. However, more can be done which would involve public sector participation either via tax incentives on investments or adjustments made to its foreign ownership policies. In the meantime, while we believe the eastern seaboard and central regions will continue to benefit especially given the rising prominence of e-commerce within the country, the area with most immediate industrial real estate opportunities would be Bangkok’s metropolitan region; especially given the growing importance of last mile logistics.



### What next?

Around 40 million people across six Southeast Asian markets – Singapore, Malaysia, Indonesia, Philippines, Vietnam, and Thailand came online for the first time in 2020, pushing the total internet population to 400 million or 70% of the region’s total population. This, coupled with expectations for total online retail sales across the region to almost triple from US\$19 billion in 2018 to US\$53 billion by 2023, is a boon for the growth story for industrial real estate demand across Southeast Asia over the coming years. However, in the immediate term, with the pandemic leading to supply chain re-strategising and driving more attention to cold storage and last mile centres; Kuala Lumpur’s Klang Valley and Bangkok’s Metropolitan region present interesting opportunities for developers and investors to consider.

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**

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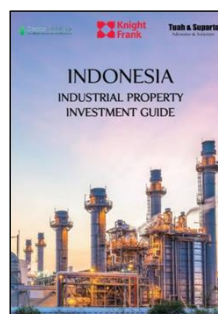
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Indonesia Industrial Property Investment Guide



New Frontiers – Infrastructure Impact on Real Estate in Southeast Asia and Bengaluru



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