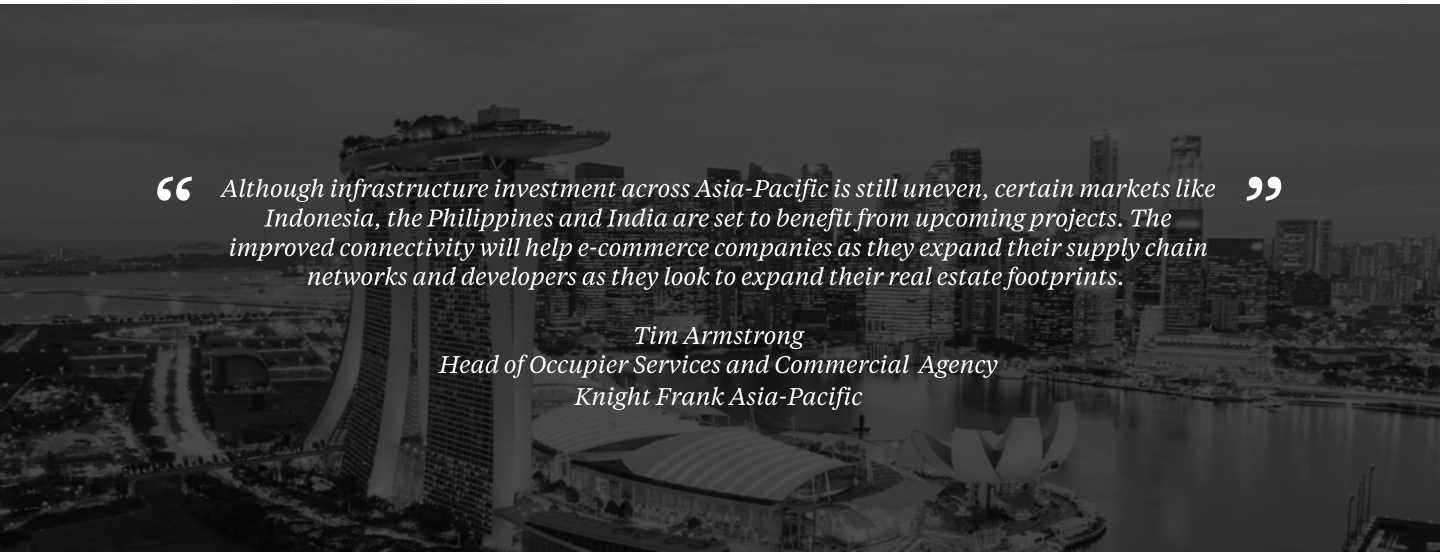
*Knight Frank Asia-Pacific*

# New Frontiers

*Regions of Opportunities: Infrastructure Impact on Industrial in Asia-Pacific*



> *Although infrastructure investment across Asia-Pacific is still uneven, certain markets like Indonesia, the Philippines and India are set to benefit from upcoming projects. The improved connectivity will help e-commerce companies as they expand their supply chain networks and developers as they look to expand their real estate footprints.*
>
> *Tim Armstrong*
> *Head of Occupier Services and Commercial Agency*
> *Knight Frank Asia-Pacific*

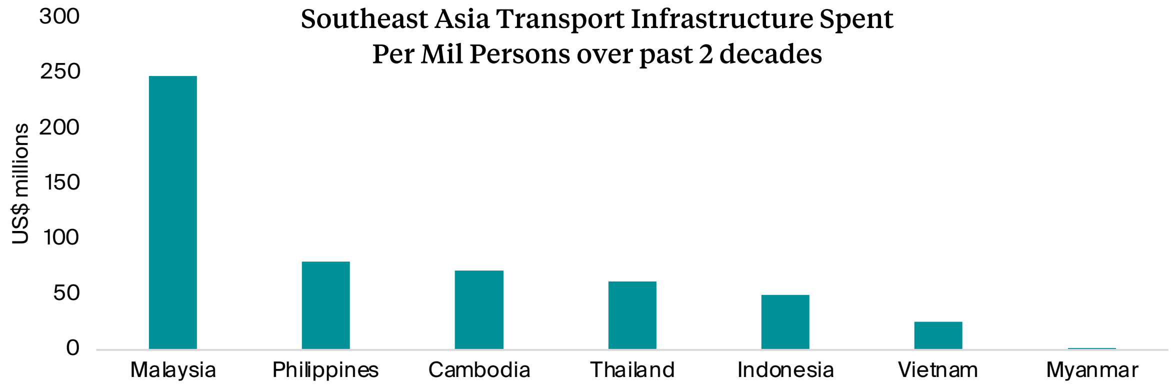
# Regions of Opportunities

## South East Asia

With a regional population of around 650 million and an economy that is the fifth largest globally, Southeast Asia's consumer base is one that cannot be ignored. Over the coming years, as its young population, with a median age of 29 years, matures and forms part of its expanding middle class, its consumer patterns and expectations are projected to mirror that of developed markets. This expanding class of consumers will demand a wide selection of goods online and efficient delivery and return options. This in turn will have profound implications on the industrial real estate sector via greater demand for warehouses.

## Lacking Infrastructure

However, for the industrial sector in these regions to proliferate, there must be a minimum standard of existing infrastructure to underpin its growth. But this is where things start to diverge given the uneven levels of investments into infrastructure, by both public and private entities, within these markets over the past two decades. Furthermore, while there have been programs such as China's Belt and Road initiative which has done its part in levelling the playing field, a disparity remains, and these have had downstream implications for attracting foreign logistics players.



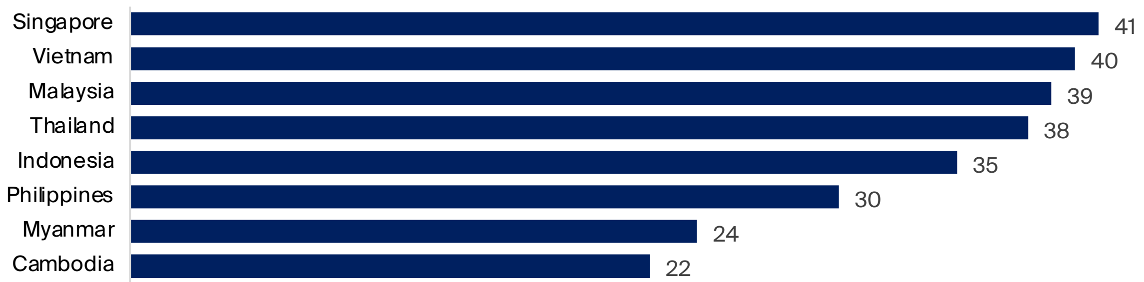

*Source: World Bank*

From the graph above, Malaysia tops the ASEAN region with c.US$250 million spent on transport infrastructure investments per million capita over the past two decades, while Myanmar lags behind the region significantly at around US$2 million. One key driver behind Malaysia's lead is its East Coast Rail Link project which will connect the peninsula's main port in Klang on the Straits of Malacca to Kota Bharu, located in the north eastern part of the peninsula. This project will connect the east coast economic regions of Pahang, Terengganu and Kelantan to West Malaysia's central west coast.

## Impact on Southeast Asia Logistics Industry

With varying levels of infrastructure investments seen over the past two decades across the Southeast Asian markets, logistics players have not surprisingly been selective in where they choose to set up operations.

### Top 50 Logistic Players Exposure




*Source: The ASEAN Secretariat*

When we look at the top 50 largest logistics players globally by revenue, Singapore and Vietnam top the ranking as their logistics hubs of choice, with 41 and 40 firms respectively that have a significant presence in the countries through either subsidiaries, branches, or representatives' offices. This is followed closely behind by Malaysia and Thailand. At the opposite end of the list, we have Myanmar and Cambodia which both have less than half of the top 50 firms having operations within their countries.

This is not unexpected given the lower levels of infrastructure spent in Myanmar seen previously, and the relatively smaller population in Cambodia, 16.3 million, which would generally put it on a lower priority as compared to its more populous regional peers. However, we do note that markets such as Indonesia and Philippines, where two thirds of the top 50 logistics players are present, do warrant more focus given their 1) high levels of investments as seen in Philippines and 2) their large consumer bases.

# Indonesia

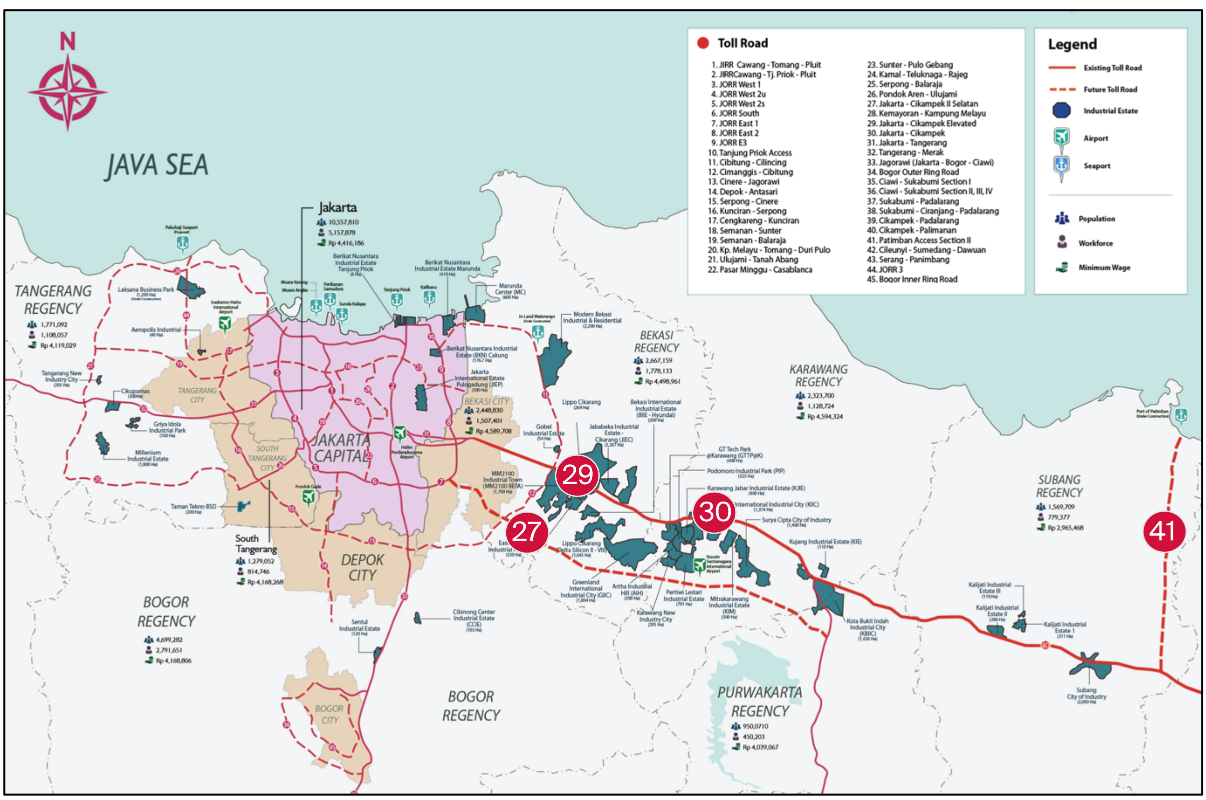
## Corridor of Growth in East Jakarta

The major industrial zones in Indonesia's capital, Jakarta, are situated mainly to the east of the city or so-called 'Eastern Corridor' of Jakarta, comprising Bekasi and Karawang. As seen in the following map, this area is currently served by the Jakarta – Cikampek Toll Road (label 29, 30) which has led to a clustering of existing industrial zones along and around the highway. Accounting for the largest share of approximately 70% of the total existing industrial land supply and approximately 40% of the Indonesian export volume, this area offers sufficient supporting infrastructure to sustain major capital-intensive industries such as the automotive and consumer electronics sectors.

With the government's intention and plan to boost the industrial sector in the West Java corridor where Jakarta is located, the area is set to enter its next growth phase with an expansion to the adjacent Subang and Purwakarta regencies in the east. This is being followed up with new transport infrastructure developments such as the upcoming Jakarta – Cikampek II South Toll Road (label 27), Jakarta – Bandung high-speed railway and Patimban seaport (label 41). Hence, it will not only boost accessibility to the area's existing industrial zones, but potentially see the establishment of newer industrial zones.

Furthermore, the recently signed Omnibus Law is expected to give a boost to the industrial growth prospects in the long-run by reducing red tape, simplifying land acquisition processes, easing restrictions on foreign investment, loosening labour laws and providing more incentives to increase competitiveness, creating new jobs and making it  easier to do business in Indonesia.

### Greater Jakarta Toll Road Infrastructure Development




*Source: Knight Frank Indonesia*

# Philippines

## Build Build Build to Lower Costs in Manila

Introduced in 2017, the 'Build Build Build' or 'BBB' program is the largest infrastructure development plan in the Philippines' history consisting of around 20,000 projects nationwide ranging from roads, seaports, airports and many others. The program was set for a six-year period till 2022, potentially extended now due to COVID-19, with a budget of around Php 8 trillion (US$165 billion).

One main impact of the 'BBB' program on the industrial and logistics sector, especially in Manila, is the reduction of congestion with the country's capital. High logistics costs have long been a challenge for logistics players in Manila, driven mainly by high transport costs brought on by the city's notorious congestion. Such projects that saw completion in 2020 include the Php 37.5 billion 18.7km Manila Skyway Stage 3 elevated highway which is slated to serve as an alternative to the highly congested Epifanio de los Santos Avenue (EDSA) highway by catering to 100,000 cars daily.

According to a 2018 study conducted by the Department of Trade and Industry (DTI) and World Bank, the logistics costs in the Philippines accounts for 27% of sales, which is high when compared to Indonesia where that cost stands at 22%. However, the DTI has plans to lower this cost to 20% of which the 'BBB' program remains a key component.

## What's next on the horizon in Southeast Asia?

With the recent signing of the Regional Comprehensive Economic Partnership (RCEP) among the Asia-Pacific nations, we expect access to markets to improve as tariffs and quotas on a majority of traded goods are eliminated. The more transparent regulatory environment will also improve business sentiment and will in turn encourage more firms to invest into the region. This includes building up supply chains, which are heavily reliant on good infrastructure. While all the Southeast Asian industrial real estate markets are expected to benefit from the RCEP, Jakarta and Manila stand to see the strongest growth in the coming years on expectations for demand from new to market manufacturing and logistics entrants as their infrastructure projects start to near completion.

# India's Bengaluru

Once considered a pensioner's paradise, Bengaluru has transformed over the past two decades into the IT Capital of India. Bengaluru's metamorphosis has made Karnataka home to over 5,500 Information Technology and Information Technology enabled services (IT/TIeS) companies and around 750 multinational corporations. A result of this has been widespread in-migration for employment opportunities which has resulted in the population within Bengaluru's Metropolitan Region ballooning from around 11.7 million in 2011 to a projected 16.5 million by 2021.

Going forward, Bengaluru's population is expected to maintain its upward growth trajectory as migrants will continue to move to the city to seek out employment opportunities in the IT/ITeS sector, boosting consumption within the metropolitan area. However, much like Southeast Asia this rapid growth is likely to face capacity constraints due to the city's strained infrastructure network.

## Infrastructure Investments to Pay Dividends

Based on Bengaluru's Revised Master Plan 2015, the city currently has around 7.3% of its land area allocated for transport and communications uses, slightly less than half the 15% allocation seen across most major economic hubs across Asia-Pacific. Not surprisingly, this lack of infrastructure has led to severe congestion issues across the city with traffic volumes across most of its major junctions exceeding capacity, some as much as 300,000 vehicles a day. However, there are bright spots on the horizon with around US$11.4 billion in transport-oriented infrastructure projects in the works. Projects such as the Satellite Town Ring Road which are expected to complete over the coming years will largely benefit the manufacturing and logistics sectors.

## Bengaluru's Satellite Town Ring Road (STRR)

The STRR in Bengaluru is a 204 km highway infrastructure ring road, set to be constructed over the next 10 years, that circumvents the city's metropolitan area, connecting the city to its suburban townships and neighbouring areas. Currently, there are many national and state highways that pass through the city with very little bypassing it, which as a result has created heavy unnecessary commercial traffic within the metropolitan area. Combined with the lack of road infrastructure, this has aggravated the traffic situation within the city leading to massive congestion as highlighted previously.

## Bengaluru's Satellite Town Ring Road (STRR)


*Source: Knight Frank India*

With the STRR, many commercial transportation enterprises ferrying goods and materials will be able to bypass the city, lowering travel time and improving operating efficiency and costs for industrialists, which will be a boon for the overall industrial real estate sector in Bengaluru. Next are a few key areas where Industrial Real Estate will benefit from the STRR

1. **Sarjapur to Attibele belt** – The area has ample supply of land parcels available potentially for redevelopment with the STRR and is an area that is suitable for the expansion of the logistics footprint given its proximity to the state border. Travel time from Sarjapur (South East of Bengaluru) to Dabaspate (North West of Bengaluru) is expected to be reduced by 45 minutes with the STRR.

2. **Hoskote** –Houses several logistics and warehousing units and has evolved into a significant industrial area for Bengaluru due to the presence of major auto manufacturers and ancillary industries. The STRR is expected to benefit the area as fully loaded trucks will take 30 mins less, down from the 90 minutes currently taken to travel from Hoskote to Devanahalli; which is near Bengaluru's international airport.

## 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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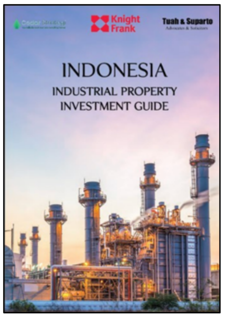
Indonesia Industrial Property Investment Guide




Bengaluru Urban Infrastructure Report 2020