

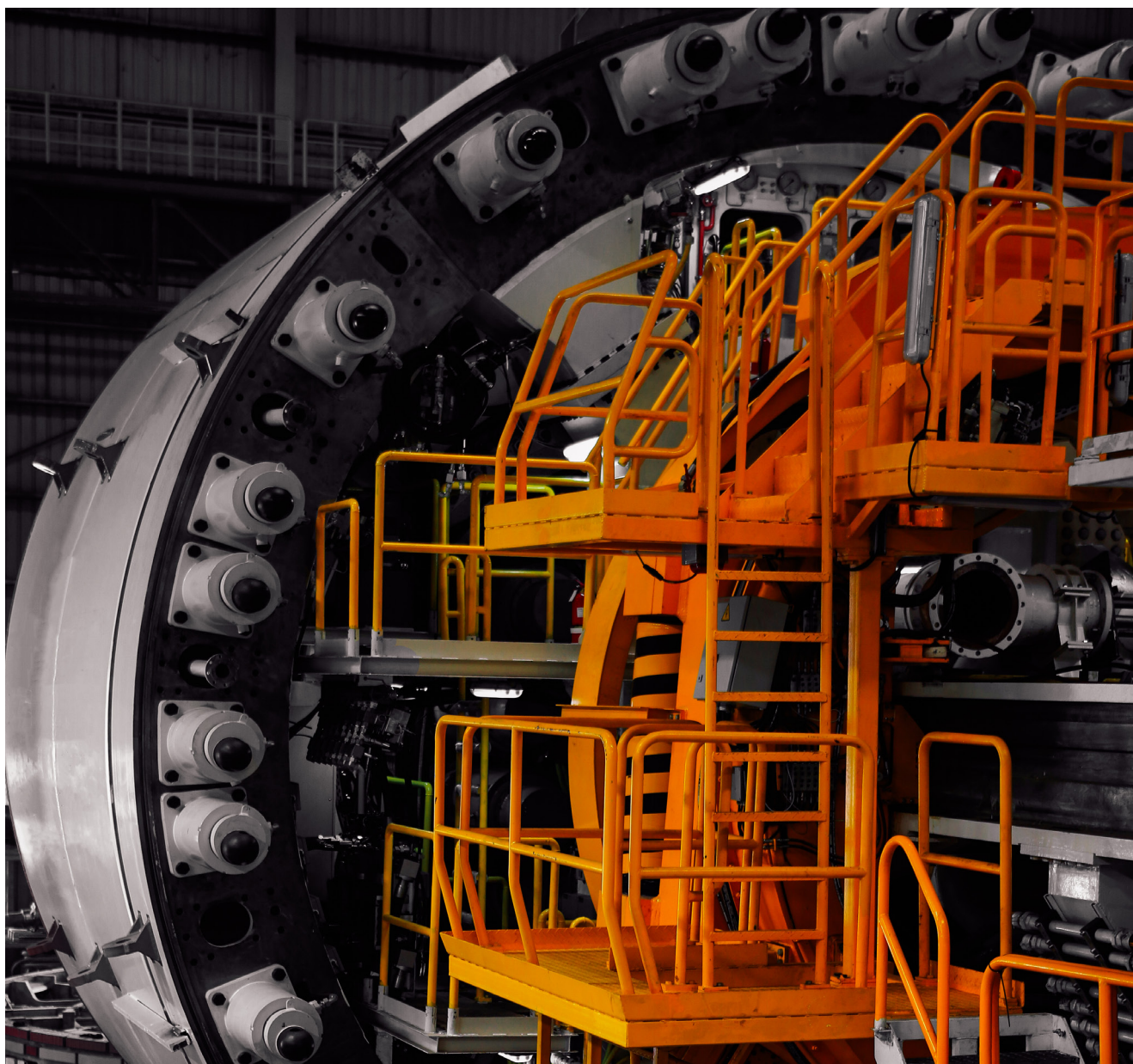
*Rents of both logistics warehouse and factories  
remained stable in Q1 2020*



# Shanghai Industrial Market Report

Q1 2020

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# RENTS OF BOTH LOGISTICS WAREHOUSE AND FACTORIES REMAINED STABLE IN Q1 2020

Following the China Manufacturing Purchasing Managers Index (PMI), which fell sharply due to the impact of COVID-19 in February, the PMI in March achieved a significant rebound driven by enterprises' timely resumption of work, up 16.3 percentage points from the previous month to 52%.

Affected by the COVID-19 pandemic, GDP in Shanghai reached RMB785.662 billion in Q1 2020, down 6.7% YoY with the largest decline among four municipalities. In Q1, the gross industrial output value of large-scale industrial enterprises in Shanghai dropped by 17.4% YoY to RMB644.48 billion. Amongst, the gross industrial output value dropped by 13.1% YoY to RMB246.951 billion in March, down 13.1% YoY.

The gross industrial output value of the six key industries decreased by 16.6% YoY to RMB422.578 billion. Amongst, "auto manufacturing" and "complete equipment manufacturing" both dropped significantly by 30.9% and 22.8% YoY respectively while "fine steel manufacturing" and "electronic information product manufacturing" decreased slightly by 1.6% and 4.3% YoY respectively.

In Q1, driven by a batch of key investment projects, the realised

foreign direct investment (FDI) achieved US\$4.669 billion, an increase of 4.5% YoY. The FDI of tertiary industry increased by 6.5%, accounting for 94.9% of the total in Shanghai.

The COVID-19 pandemic has boosted the online retail sales, which have increased rapidly after major express delivery companies gradually resumed work in February. In Q1, the online retail sales in Shanghai increased by 4.4% YoY, accounting for 17.7% of the total retail sales of social consumer goods, an increase of 4.9 percentage points YoY.

During the outbreak of COVID-19, the accelerated development of cold chain sector and the rapid rise of the online consumption of fresh food pushed up the investment on medical and pharmaceutical cold chain logistics by the government and corporates. In Q1, the total retail sales of online grocery shopping

platform in Shanghai reached RMB8.8 billion, a YoY increase of 167% while the order volume increased by 80%.

In order to prevent and control the spread of COVID-19, Shanghai issued several policies and measures to support the steady and healthy development of serviced companies, proposing that small and medium-sized enterprises leasing operating properties of state-owned enterprises in Shanghai will enjoy the rent-free period of two months. According to statistics, the rent deduction of municipal state-owned enterprises totalled approximately RMB2.5 billion, benefiting 35,000 small and medium-sized enterprises. Many enterprises in state-owned industrial parks have also benefited from the rent reduction.

Though the global pandemic may have a certain impact on foreign trade imports and exports, but as the government continues to introduce

measures to further strengthen support for related companies, the impact of the COVID-19 pandemic on imports and exports was limited in Q1. Statistics showed that the total import and export value of bonded zones in Shanghai reached RMB247.47 billion in Q1, an increase of 3.1%, accounting for 32.7% of the total in Shanghai.

In Q2, we expect that with the control of COVID-19 and continuous measures taken, the production

activities of domestic enterprises will be accelerated and the industrial logistics sector will recover. As Mapletree Logistics Trust's first logistics redevelopment in China, Mapletree Ouluo Logistics Park Phase Two with a total GFA of 37,000 sqm will be completed in Pudong. United D Warehouse Phase V is scheduled for completion in Yangshan Free Trade Port Area this May, bringing approximately 134,000 sqm of logistics warehouse space to the market. Due to the

continuous increase of new supply, the vacancy rate of logistics warehouse market will increase steadily.

Meanwhile, due to the pandemic, the cold chain and pharmaceutical tenants have become more active. E-commerce companies, third-party logistics and manufacturing sector will still be the main sources of demand for logistics properties while the logistics warehouse rent will remain stable.

## LOGISTICS PROPERTIES

In March, as the epidemic situation gradually brought under control, the resumption of work and production rate has been greatly improved, driving up the China's Logistics Industry Sentiment Index to 51.5%, up 25.3 percentage points from the previous month, according to the China Logistics and Purchasing Federation. China's Warehouse Storage Index reached 52.7%, up 13.7 percentage points from the previous month.

In Q1, Shanghai's logistics warehouse rents remained stable at RMB1.55 per sqm per day. Amongst, the rent in bonded warehouses reached RMB1.4 per sqm per day while the one in non-bonded warehouses reached RMB1.6 per sqm per day.

In Q1, the total stock of Shanghai logistics warehouse market rose to 7.4 million sqm while the one of bonded warehouses reached nearly 2.03 million sqm. 96% of the total area of bonded warehouses is concentrated in Pudong, of which 48% is located in Pudong Lingang.

On the supply side, two new projects were completed in Shanghai, namely Shanghai Fengxian Logistics Park Phase Two and Shanghai Songjiang Xinqiao Logistics Park

Figure 1: Average rent and QoQ growth rate of logistics warehouse properties in Shanghai



Source: Knight Frank Research

both developed by ESR, bringing approximately 130,000 sqm of new supply in total to the market.

ESR Shanghai Fengxian Logistics Park Phase Two is located at No.8778, Puxing Road in Fengxian with a total GFA of 35,616 sqm, including a double-storey elevator warehouse. Besides, Shanghai Songjiang Xinqiao Logistics Park developed by ESR was also completed in Q1. Located at No.95, Minyi Road, Songjiang, the logistics park includes two three-storey ramp-up warehouses, with a land area of 68,313.33 sqm and a total GFA of 95,547 sqm.

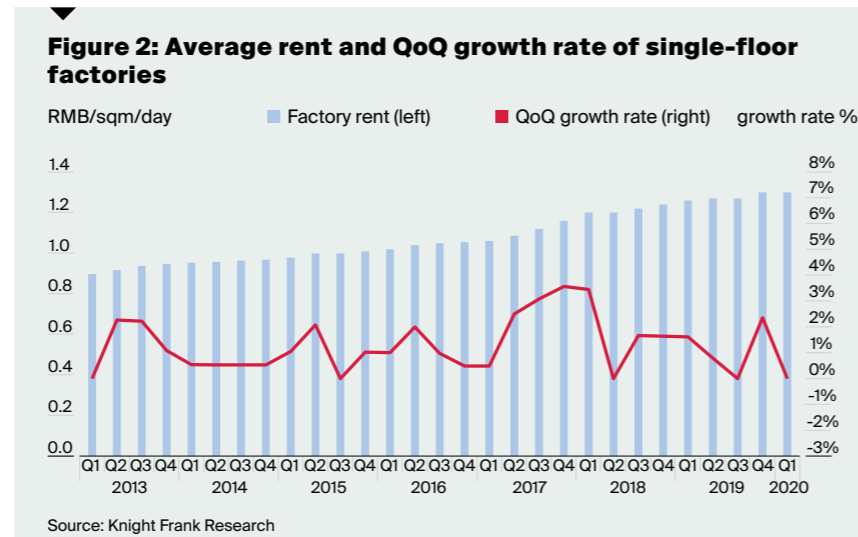
In Q1, the warehousing demand from third-party logistics continued to be active. Tenants from third-party logistics sector expanded 10,000 sqm and 4,000 sqm of warehouse space respectively in Vanke's logistics parks in Songjiang and Jinshan. Besides, the demand of the cold chain operators and E-commerce retailers with active performance during the COVID-19 epidemic will continue to show robust growth in the short run. The fresh food e-commerce platform Dingdong Maicai leased nearly 19,000 sqm of warehouse space in GLP Dongjing Logistics Park in Songjiang.

## FACTORIES

During the outbreak of COVID-19, the “unmanned smart factories” in Industry 4.0 have shown their unique advantages. ‘The Shanghai Action Plan for Promoting Online New Economy Development (2020-2022)’ recently released by the Shanghai Municipal Government has clearly proposed to build the benchmark unmanned factories, accelerating the intelligent transformation of sectors including high-end equipment, automobiles, aerospace, biomedicine, electronic information and steel chemical. Shanghai now has built 14 national-level smart factories and 80 municipal smart factories in key areas including automobiles and high-end equipment sectors.

With the government’s support, the traditional and major industries including the automotive sector, integrated circuits and intelligent manufacturing in Shanghai have largely resumed production. As one of the earliest auto enterprises in China to resume operation, Tesla Shanghai Gigafactory has returned to normal on 10 February. Tesla’s Phase I and Phase II factory projects have been both listed in the listing of major construction projects released by the Shanghai Government in 2020. Amongst, Tesla Shanghai Factory Phase One started small-scale mass production since the end of December 2019 and began its mass production of domestic Model 3 models in early 2020. Tesla’s phase two project will be larger than the phase one project, including two large buildings, which will be used for Model Y production after completion.

Following the launch of investment projects totaling an amount of RMB20 billion in Lingang New Area through the “cloud contract”, Smart Core Valley, the standard factory



of Shanghai Minlian Lingang Park Phase Three began its construction on 18 March. With a total land area of 120,000 sqm and a GFA of 130,000 sqm, the project is planned to build various property types, including six single-floor factories and three double-storey factories with an investment of RMB1 billion. Six single-floor factories are expected to be completed in 2020 while the double-storey factories are expected to be completed in December 2021.

The Shanghai government has introduced 28 measures to ease local companies’ burdens in fight against COVID-19, including rent reduction of factories and industrial parks. In Q1, Shanghai’s industrial factory rents remained stable at RMB1.3 per sqm per day.

In Q1, Gemdale Viseen Baoshan Technology and Industrial Park has a three-storey factory for lease with a leasable area of 3,200 sqm and an asking rent of RMB1.3 per sqm per day. Liando U Valley Shanghai Chedun International Industrial Park has a three-storey factory for lease with a leasable area of 1,311

sqm and an asking rent of RMB1.3 per sqm per day. TUS Caohejing Science Park has one factory for lease with a leasable area of 2,300 sqm and an asking rent of RMB1.6 per sqm per day.

The demand from biomedicine and food companies remained strong. Bidepharm, the pharmaceutical intermediate developer, leased 8,500 sqm of factory space in Gemdale Hongqiao Technology and Industrial Park. Baokai Biotech and Laidun Food leased 4,000 and 6,800 sqm of factory space respectively in Songjiang Intelligent and Manufacturing Park.

## SALES AND INVESTMENT

On 14 February, SF Holding announced that its wholly-owned subsidiary, Shenzhen SF Taisen Holding (Group) Company Limited signed the Memorandum of Cooperation with CITIC Capital Real Estate Consulting Company Limited to jointly set up the logistics fund to invest in logistics property projects. The target fund-raising scale of the first fund is initially set at US\$300-400 million or equivalent RMB.

During the COVID-19 pandemic, emerging manufacturing that relies on advanced technologies including 5G has showed its unique advantages. On 12 March, the opening ceremony of Jinqiao 5G Industrial Ecological Park and the key project of the development zone was held in Jinqiao Development Zone. A total of 42 companies and

key projects have been secured and signed with a total investment of RMB13 billion. Focusing on three major industries of “5G + future car”, “5G + intelligent manufacturing”, and “5G + dataport”, the project is dedicated to creating Jinqiao as “Eastern Intelligent Manufacturing City”.

Since 2020, Zhangjiang Science City, under the leadership of the Shanghai Municipal Government, has focused on cultivating “100 billion-scale” industrial clusters, and a number of key investment projects have been signed. In Q1, Zhangjiang Science City achieved a total industrial output value of RMB66.2 billion with realized FDI of US\$800 million. To accelerate the implementation of “Shanghai Plan” for three major industries of integrated

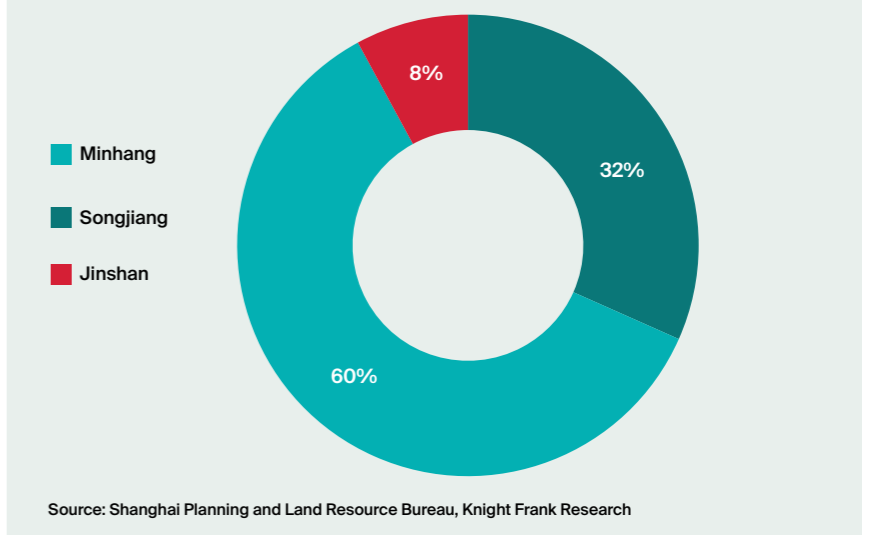
circuits, artificial intelligence (AI) and biomedicine, Zhangjiang Headquarters Park and Shanghai Integrated Circuit Design Industrial Park are planned to be built in Zhangjiang Science City. On 15 April, the opening ceremony of the two major industrial parks was held with the total GFA of 3.307 million sqm and an estimated investment of no less than RMB50 billion. Amongst, Shanghai Integrated Circuit Design Industrial Park is expected to be built into a world-class integrated circuit design industrial highland with an industry scale of 100 billion during the upcoming “14th Five-Year Plan”. Covering a total planned area of 4 million sqm, the industrial park has a GFA of 1.708 million sqm.

## LAND MARKET

In order to boost the confidence of enterprises and encourage the revitalization of existing land, Shanghai Municipal Bureau of Planning and Natural Resources issued several land use policies on supporting the development of serviced enterprises to weather the storm of COVID-19. Relevant measures include supporting large, small and medium-sized enterprises on the land use during the COVID-19, such as by exemption of land lease fees for enterprises and allowance to increase in plot ratio of existing industrial land.

As affected by the COVID-19 pandemic, land auctions have been postponed hence delayed in new land supply. In Q1, the total transaction amount of Shanghai

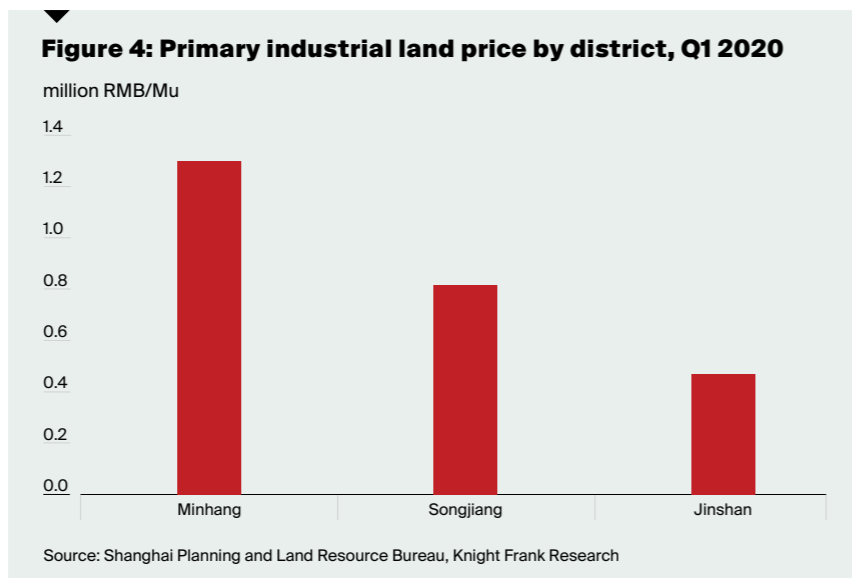
**Figure 3: Transacted area of primary industrial land by district, Q1 2020**



primary industrial land market fell sharply, reaching a total of 10 industrial sites and a total land area of approximately 421,473.5 sqm, with the number of transactions and transacted area down 55% and 58% QoQ respectively. The transacted land plots are mainly concentrated in Minhang, Songjiang and Jinshan.

In terms of transacted areas, Minhang and Songjiang transacted total areas of 250,000 and 130,000 sqm respectively, accounting for 60% and 32% of the total in Shanghai. Jinshan transacted a total area of 30,000 sqm, accounting for 8% of the total.

In terms of the number of plots, Songjiang ranked first with six plots traded, accounting for 60% of the total in Shanghai. Minhang and Jinshan districts ranked second and third respectively, with three plots and one plot traded for each, accounting for 30% and 10% of the total number of transactions in Shanghai.



In terms of sales price, Minhang District recorded the highest average industrial land price in Q1, reaching RMB1.3 million per mu. Songjiang secured the second place with a unit price of RMB0.82 million per mu. Jinshan's land price was relatively low, recording RMB470,000 per mu.

In terms of traded land size, most of the traded single land plots were 1-5 hectares in size, accounting for 80% of the total transactions in Q1. Only one land plot of over 8 hectares designated for industrial use was traded, which is located in Minhang with a plot ratio of 2.

## CASE STUDY

### ESR Shanghai Songjiang Xinqiao Logistics Park

**Table 1**

**Project Summary**

|                   |   |
|-------------------|---|
| Address           | No.95 Minyi Road, Songjiang, Shanghai                             |
| Developer         | ESR   |
| Land Area         | 68,313.33 sqm   |
| Gross Floor Area  | 95,547 sqm  |
| Completion Date   | 2020 Q1   |
| Warehouse Type    | Two three-storey warehouses                                       |
| Ceiling Height    | 6.5m (partial 5.8m)   |
| Floor Loading     | 1F: 3 ton/sqm<br>2-3F: 2 ton/sqm                                  |
| Electric Capacity | 15 W/sqm  |
| Illumination      | 150Lux  |
| Fire Safety       | ESFR Sprinkler System, Fire Hydrant and Air Sampling Alarm System |



Source: Knight Frank Research



Source: ESR, Knight Frank Research

**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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