

The logistics sector is on a path of recovery

Shanghai Industrial Market Report

Q2 2020

knightrank.com.cn



THE LOGISTICS SECTOR IS ON A PATH OF RECOVERY

In Q2, Shanghai industrial market recovered due to the continuous release of market demand. The China's manufacturing Purchasing Managers Index (PMI) in June reached 50.9%, up 0.3 percentage point compared with the previous month, which has remained above 50% for four consecutive months.

OVERVIEW AND OUTLOOK

According to the Shanghai Municipal Statistics Bureau, GDP in Shanghai decreased by 2.6% YoY to RMB1,735.68 billion in the first half of 2020, with the decline rate decreasing 4.1 percentage points compared to Q1 2020. In Q2, Shanghai's industrial production achieved monthly growth for three consecutive months and the cumulative decline narrowed month by month. The gross industrial output value of large-scale industrial enterprises in Shanghai dropped by 6.3% YoY to RMB1,501.475 billion, a decrease of 11.1 percentage points QoQ. Amongst, the gross industrial output value increased by 5.9% YoY to RMB318.091 billion in June.

Driven by a batch of key investment projects, Shanghai's manufacturing investment increased by 20.1% YoY. In the first half of 2020, the industrial production recovered rapidly with the gross industrial output value of strategic emerging industries in Shanghai increased by 5.5% YoY to RMB597.618 billion, showing a clear growth momentum.

In the first half of 2020, realised foreign direct investment (FDI) achieved US\$10.282 billion, an increase of 5.4% YoY, rising by 0.9 percentage point compared with Q1. The FDI of tertiary industry increased by 13.2%, accounting for 95.3% of the total in Shanghai.

In the second half of 2020, it is expected that the market will see steady growth with an estimated logistics warehouse space of more than 255,000 sqm to be completed, while the vacancy rate will climb up in a short term. In terms of leasing, landlords are expected to remain cautious due to the COVID-19. The logistics warehouse rent is expected to increase steadily in the next six months.

Figure 1: Shanghai industrial market indicators ^[1]

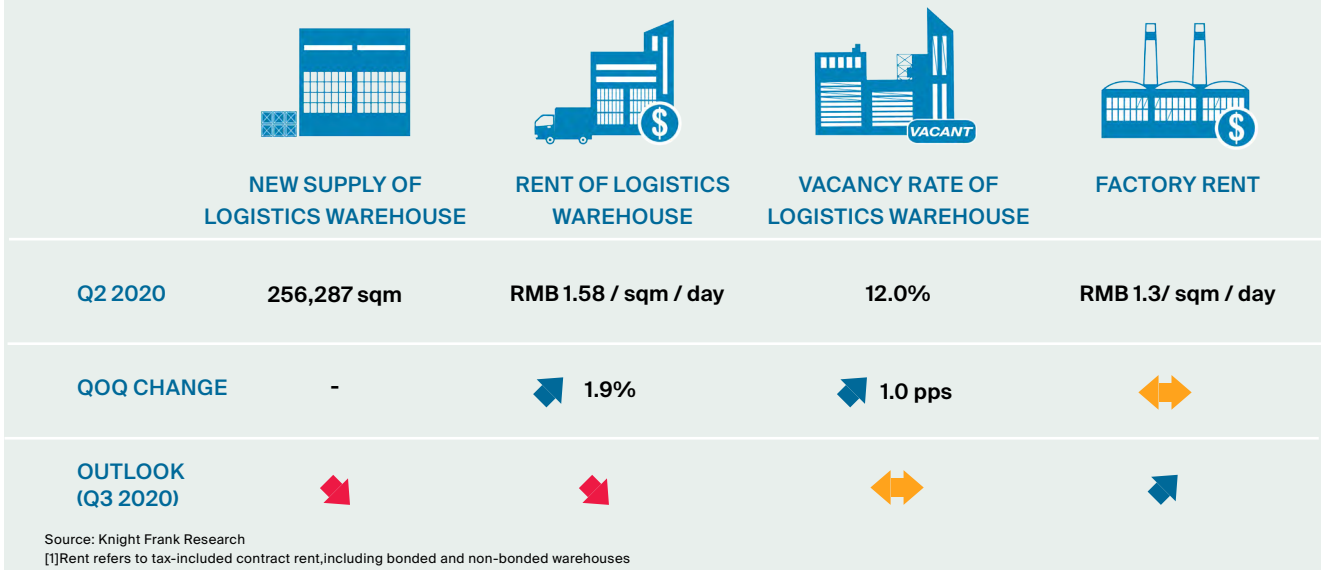
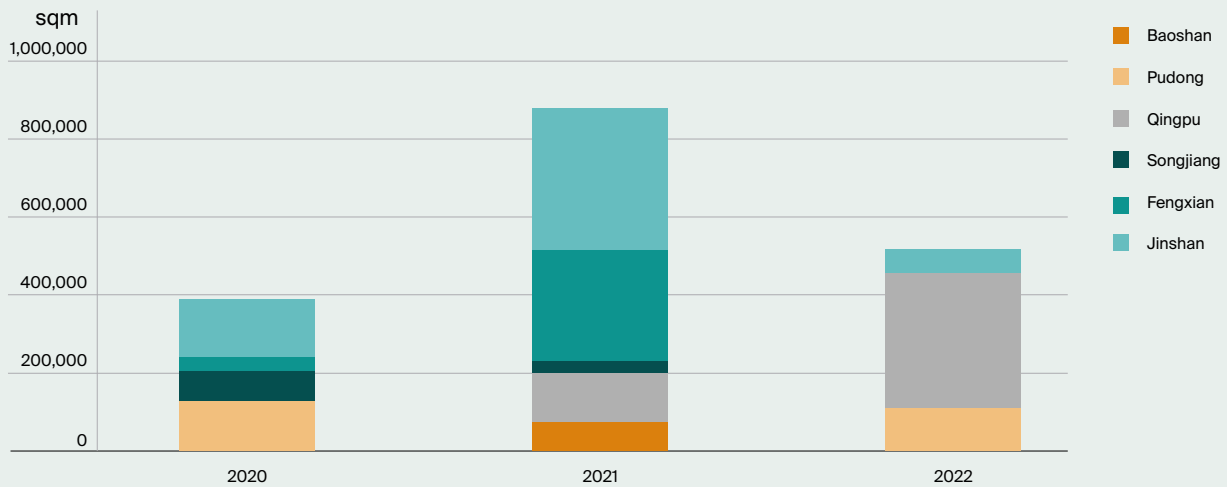


Figure 2: Future supply of logistics warehouse in Shanghai



Source: Knight Frank Research

LOGISTICS PROPERTIES

In June, the Logistics Industry Sentiment Index continued to maintain a steady upward trend. In June 2020, the China's Logistics Industry Sentiment Index, released by the China Logistics and Purchasing Federation, reached 54.9%, up 0.1 percentage

point from the previous month. China's Warehouse Storage Index reached 50.7%, up 0.3 percentage point from the previous month.

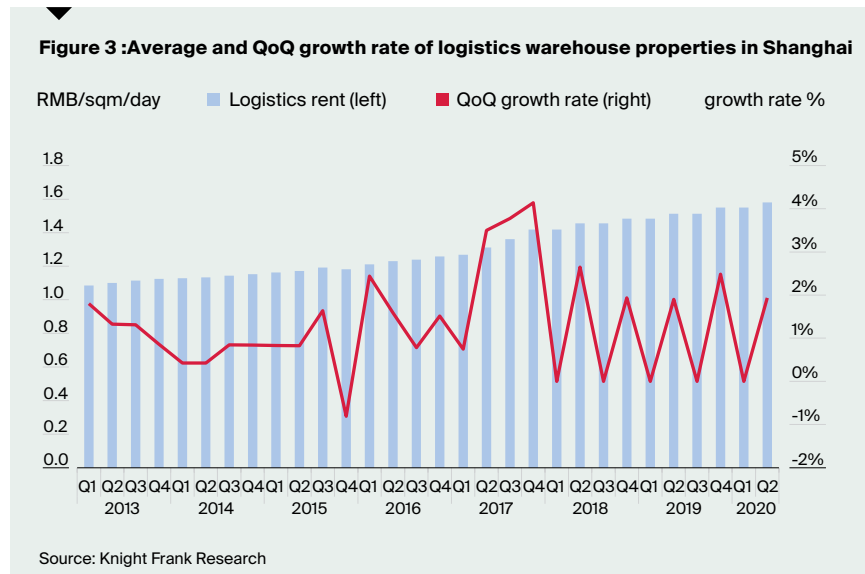
In Q2, Shanghai's logistics warehouse market showed a significant recovery

with the average rent increased by 1.9% QoQ to RMB1.58 per sqm per day. The rent in bonded warehouses remained stable at RMB1.4 per sqm per day while that in non-bonded warehouses increased by 3% QoQ to RMB1.65 per sqm per day.

In Q2, the total stock of Shanghai logistics warehouse market rose to 7.62 million sqm while the one of bonded warehouses reached over 2.15 million sqm. Nearly 97% of the total area of bonded warehouses is concentrated in Pudong, of which 50% is located in Pudong Lingang.

On the supply side, three new projects were completed in Shanghai, bringing approximately 256,000 sqm of new supply to the market. Of which two are located in Pudong, namely the Mapletree Ouluo Logistics Park Phase Two in Pudong Airport and United D Warehouse Phase V in Pudong Lingang. Due to the new supply, the vacancy rate in Shanghai increased slightly by 1 percentage point from the previous quarter to 12%.

In Q2, affected by the epidemic, the storage demand from cold chain



operators maintained steady growth. The tenant from cold chain sector leased 12,000 sqm in Blogis Songjiang in Q2. Besides, the leasing demand from daily necessities sector increased in Q2

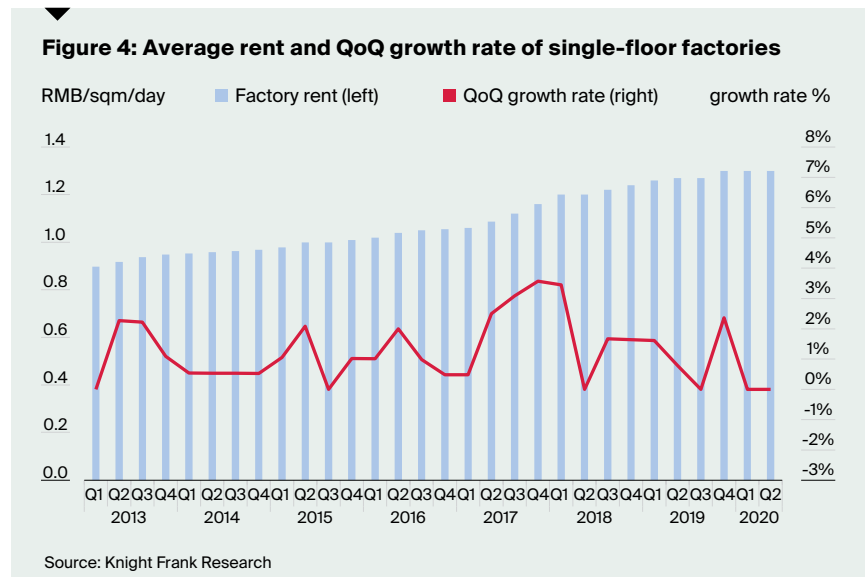
as well. A cosmetics company renewed the lease of a 20,000 sqm-warehouse space in Ping'an Shanghai Fengxian Logistics Park.

FACTORIES

In Q2, Shanghai's industrial factory rents remained stable with the average rent of single-storey factories remained unchanged at RMB1.3 per sqm per day.

Liando U Valley Shanghai Baoshan International Enterprise Harbour has one stand-alone factory for either lease or sell on separate floors, with a leasable area between 2,400 and 8,000 sqm and an asking rent of RMB0.75-1.4 per sqm per day. Besides, Liando U Valley Shanghai Minhang Maqiao Artificial Intelligence Park is expected to be completed in Q4 2020 with a leasable area of 2,400-7,700 sqm.

The recent favorable policies have been implemented to accelerate the development of new energy vehicles (NEV) sector. On 27 May, the second phase of Tesla Gigafactory in Shanghai Lingang Industry Area is about to be capped and will be used to produce Model Y models after completion.



On 30 June, the new factory of GTA Semiconductor in Lingang was officially put into operation. With a total investment of RMB35.9 billion, the project covers a land area of 230,000

sqm, which will further help Shanghai build into an integrated circuit industry highland after it has commenced operation.

SALES AND INVESTMENT

On 21 April, LOGOS, Ivanhoe Cambridge and Bouwinvest announced they have completed a first close to establish a new logistics development venture in China with a GCC-based (Gulf Cooperation Council) investor for the development of high-quality logistics and industrial facilities in the key logistics markets

covering greater Beijing, Shanghai, Guangzhou and core markets in the mid-west of China, with the total amount of over US\$800 million.

On 6 May, NE China, a logistics facility investment developer, together with JP Morgan Asset Management, announced

that it set up a joint venture to invest in logistics facilities across China. The cooperation project includes the high-quality developed logistics warehouses operated by NE China with a total amount of US\$600 million, focusing on cities including Shanghai, Nanjing and Suzhou.

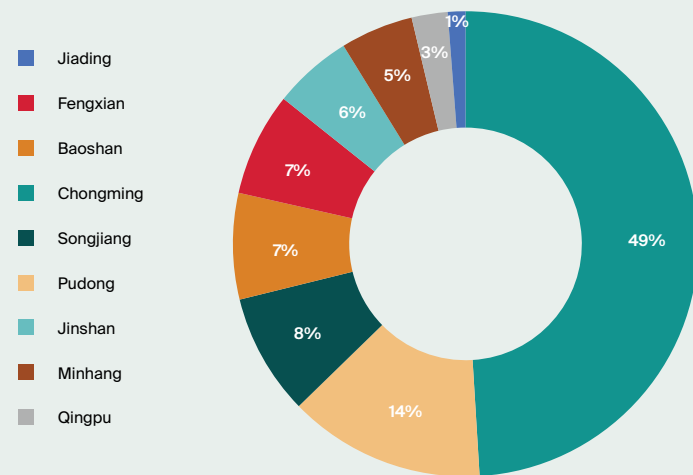
LAND MARKET

After the COVID-19 epidemic, land transactions in Shanghai have accelerated. In Q2, the primary industrial land market in Shanghai remained active with 36 industrial plots sold, involving a total land area of 2.9 million sqm, almost four times the number of transactions as well as seven times the number of transacted area.

In Q2, only one industrial plot was sold in Chongming District, which was acquired by Hudong-Zhonghua Shipbuilding (Group) Company Limited with a total transacted area of 1.42 million sqm. Chongming thus ranked first in terms of transaction area in Q2, as this land is the largest industrial plot sold in the first half of 2020, accounting for nearly 50% of the city's total transaction area in Q2. Pudong ranked second with the total transacted area of 400,000 sqm, accounting for 14% of the total.

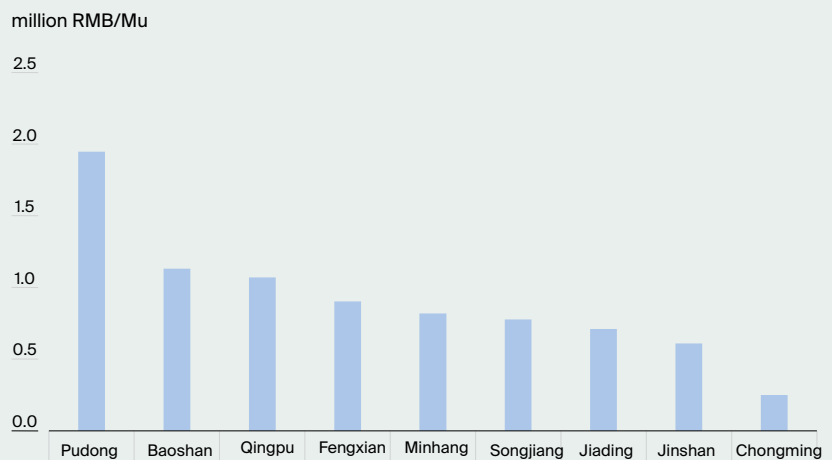
In terms of sales price, Pudong District recorded the highest average industrial land price in Q2, reaching RMB1.95 million per mu. Baoshan District secured the second place with a unit price of RMB1.13 million per mu. Chongming's land price was relatively low, recording RMB250,000 per mu.

Figure 5 :Transacted area of primary industrial land by district, Q2 2020



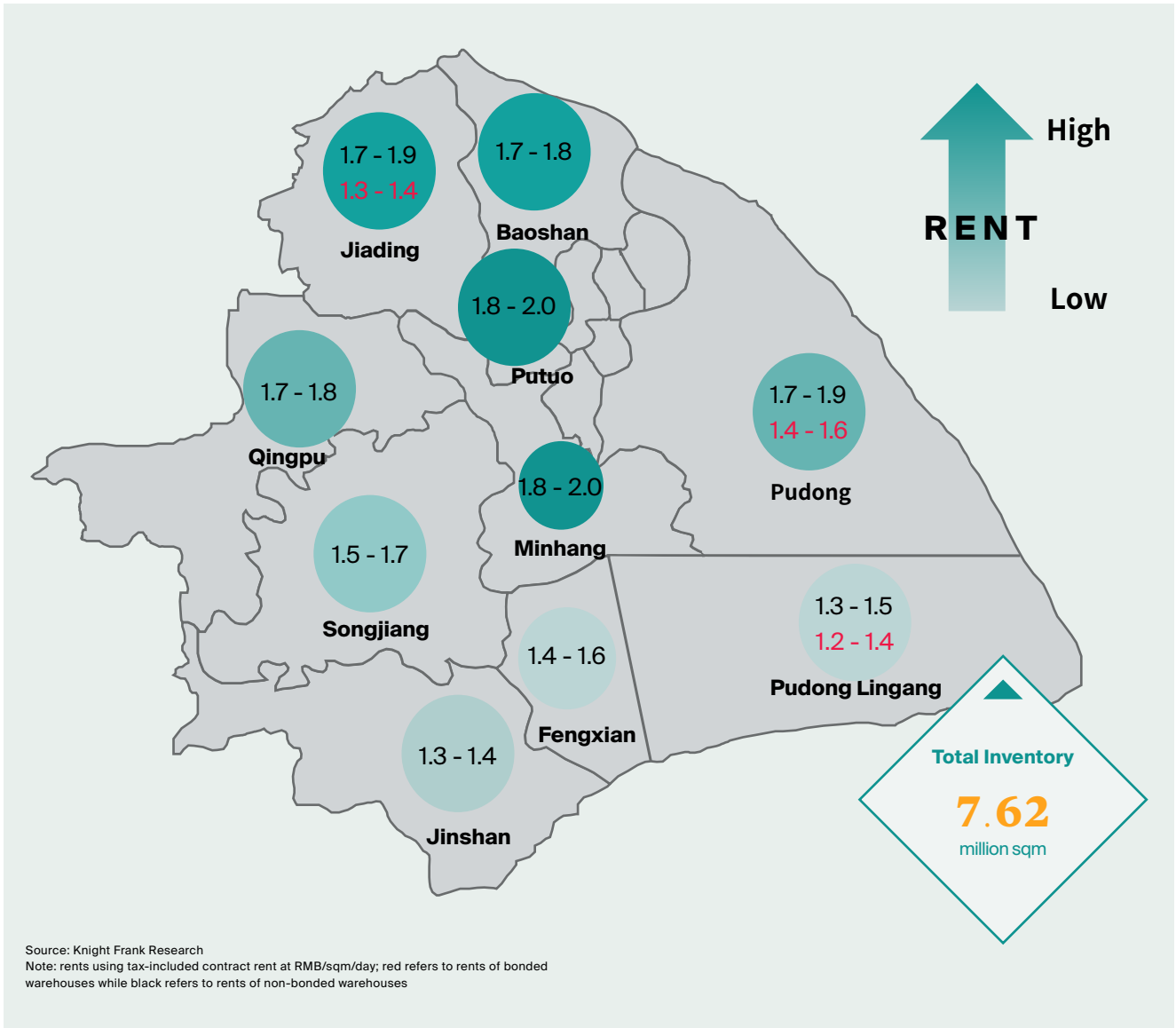
Source: Shanghai Planning and Land Resources Bureau, Knight Frank Research

Figure 6 :Primary industrial land price by district, Q2 2020



Source: Shanghai Planning and Land Resource Bureau, Knight Frank Research

SHANGHAI'S LOGISTICS WAREHOUSE RENTS BY DISTRICT



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

Research & Consultancy



Timothy Chen
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
timothy.chen@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Martin Wong
Associate Director,
Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Evan Xu
Analyst, Research & Consultancy,
Shanghai
+86 21 6032 1729
evan.xu@cn.knightfrank.com

Shanghai Office Services



Ying Lee
Managing Director, Shanghai
+86 21 6032 1719
ying.lee@cn.knightfrank.com



Will Zhang
Senior Director, Industrial & Logistics,
China
+86 21 6032 1788
will.zheng@cn.knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



China Commercial
Real Estate
Investment Market
June 2020



Beijing Office Market
Report
Q2 2020



Shanghai Office
Market Report
Q2 2020



Guangzhou Office
Market Report
Q2 2020



Shenzhen Office
Market Report
Q2 2020



Shanghai Industrial
Market Report
Q1 2020

**Knight Frank Research
Reports are available at
knightfrank.com.cn**

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: ©Knight Frank 2020: This document and the material contained in it is general information only and is subject to change without notice. All images are for illustration only. No representations or warranties of any nature whatsoever are given, intended or implied. Knight Frank will not be liable for negligence, or for any direct or indirect consequential losses or damages arising from the use of this information. You should satisfy yourself about the completeness or accuracy of any information or materials and seek professional advice in regard to all the information contained herein. This document and the material contained in it is the property of Knight Frank and is given to you on the understanding that such material and the ideas, concepts and proposals expressed in it are the intellectual property of Knight Frank and protected by copyright. It is understood that you may not use this material or any part of it for any reason other than the evaluation of the document unless we have entered into a further agreement for its use. This document is provided to you in confidence on the understanding it is not disclosed to anyone other than to your employees who need to evaluate it.

