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# THE FUTURE OF LOGISTICS.

## A Real Estate Perspective

May 2019



# CHANGING LAND USE



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**The growing e-commerce market and continuous retail expansions spur demand for last-mile delivery hubs, inner-city distribution centers, cold storage and warehouse facilities in Manila. Several factors are re-shaping the logistics sector pushing developers, landlords and investors to rethink present business strategies and reinvent existing business models.**

## PhP 250,000

Land value (PhP/sqm) of areas in Makati and Mandaluyong currently used for industrial purposes

Manila has experienced an unprecedented level of development over the last few decades. From a metropolis with only two major business districts in the '90s, integrated and sustainable mixed-use developments have emerged in various places all over Manila. This saw the transformation of once highly-industrialized areas, such as the C5 Quezon City-Pasig corridor, into estates with multi-building complexes. For instance, Megaworld's Arcovia City was formerly an Ajinomoto plant.

The conversion of a warehouse to a mixed-use project is an ideal undertaking for a property developer. Since a warehouse normally occupies a large parcel of land, it is typically easier for the developer to conduct real estate transactions related to land acquisition. Consolidation of lots owned by multiple owners no longer poses a challenge.

Land values of properties within the city centers have increased significantly such that developers now seek for available land in the fringes. At present, the price of land in the central business districts of Makati and Bonifacio Global City (BGC) fall within PhP300,000 to PhP600,000 per square meter. Land in the continuously booming Bay Area could go as high as PhP480,000 per square meter, following the heightened business activity in the area. In the Ortigas area, land values are estimated from PhP200,000 to PhP300,000.

Several factors contribute to the rise of land values. Firstly, the limited supply of available land in the central business districts has driven land values up. Secondly, limited infrastructure impedes expansion to areas outside the city core, strengthening the demand to locate within the city center. Thirdly, the upsurge in fuel prices provides premiums to locations nearer commercial and business areas that consequently leads to transportation and operation savings. Lastly, the worsening traffic situation in Manila has likewise created the demand for walkable urban developments which increases the land values inside the development. The rising population, notable wealth expansions and more affordable vehicle purchase schemes contribute to the vehicular congestion that negatively affects an individual's productivity and overall well-being.

In terms of industrial land values, Makati and Mandaluyong can reach PhP250,000 per square meter. In the more industrialized areas of Valenzuela, Taguig and Muntinlupa, industrial properties could be acquired at PhP10,000 per square meter. This paper will discuss how the existing land values in Manila affect the financial viability of a logistics project.

## PhP 10,000

Land value (PhP/sqm) of areas in Valenzuela, Taguig and Muntinlupa currently used for industrial purposes



# THE LOGISTICS WAREHOUSING BUSINESS

Despite the rise in land prices, rents have remained essentially stagnant. Setting rents beyond the threshold would affect the profitability of the occupier's business and would be an ineffective pricing strategy.

Makati and Mandaluyong, which posted the highest industrial land value, lead in terms of lease rates. Rents in these areas range from PhP400 to PhP650 per square meter per month. Located in the center of Manila, Makati and Mandaluyong boast superior accessibility and enable landlords to command higher lease rates for warehouses in these areas.

Although other areas in the fringes of Manila exhibited lower rents compared to Makati and Mandaluyong, these are more strategic warehouse locations than in provincial areas. Situated in the southern portion of Manila, warehouses in Parañaque, Muntinlupa, and Las Piñas recorded lease rates starting from a low of PhP200 per square meter per month to a high of PhP350 per square meter per month. In the northside, rents of warehouses in Valenzuela and Quezon City extend from PhP150 to PhP250 per square meter per month. Pasig and Taguig in the east displayed warehouse rents that were noted within PhP160 to PhP350 per square meter per month.

A number of warehouses are able to sustain rents because the land was acquired when land values were still low. In other cases, the warehouse is primarily used for the owner's business activities. Leasing of warehouse space is not the core business but an auxiliary to the main revenue driver.

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# CHALLENGES IN *IN-CITY* LOGISTICS

Given the present land values, construction costs and lease rates in Metro Manila, it has been increasingly difficult to achieve an ideal internal rate of return (IRR) of 15% for a traditional warehousing business model. In fact, a warehouse project under the current situation will result to an average payback period of 18 years with an IRR ranging from 5% to 10%. The asking price of land has to go down by 70% for a project to achieve at least a 15% IRR, with a payback period of nearly 10 years.

An extensive search for low-priced properties in Muntinlupa could result to a payback period of 10 to 13 years and IRR of nearly 15%. The price of the land should just be around PhP12,000 per square meter for a reasonable rent in the area of PhP300 per square meter per month.

INDICATIVE RANGES FOR PRESENT WAREHOUSE CONSTRUCTION		
LOCATION	PAYBACK PERIOD RANGE	% CHANGE FROM ASKING PRICES OF LAND TO ACHIEVE 15% IRR
MANDALUYONG	18 TO 23	-66% TO -78%
TAGUIG	10 TO 26	-26% TO -92%
PARAÑAQUE	11 TO 42	-39% TO -76%
LAS PIÑAS	9 TO 19	14% TO -75%
MUNTINLUPA	10 TO 13	1% TO -60%
MAKATI	15 TO 35	-58% TO -85%
PASIG	13 TO 25	-68% TO -95%
QUEZON CITY	18 TO 19	-82% TO -83%
VALENZUELA	14 TO 29	-101% TO -117%

Source: Santos Knight Frank Research

In Valenzuela, where land prices are relatively cheaper compared to the other areas in Manila, an investment in warehouse development will result to a payback period of 14 to 29 years. This is mainly due to the level of rents in the area. Despite the low land values in Valenzuela, the similarly low rents in the area would compel a negative land price for a payback period of 10 years.

Constructing a warehousing facility used purely for storage within Manila will result to a longer payback period and less attractive profitability numbers. For this reason, developers seek locations in provincial areas with more developable land and reasonable land values.

WAREHOUSE RENT  
APRIL 2019 (PhP/sqm/mo)



Source: Santos Knight Frank Research

# A NEW WAREHOUSING MODEL

Technology has produced a new generation of warehousing and logistic services. With increasing orders from consumers and end-users that demand faster delivery times, innovative solutions that enhance productivity and energy efficiency are rising in importance.

One such technology is the Automated Storage and Retrieval Systems (ASRS), which has been introduced to efficiently store items in compact spaces thus decreasing space requirements. The replacement of forklifts by ASRS could reduce the required building footprint by 80% due to the smaller turning radius needed for movement around the storage facility. However, the standard ceiling height should be doubled in order to fully utilize the land occupied by the warehouse. ORCA Cold Chain Solutions is an example of a firm that uses ASRS. ORCA was able to set-up a 20,000-pallet warehouse on a 2,800-square meter footprint and increased its efficiency six times.

The robust demand for warehousing and limited supply of land has led to changes in the warehousing business to provide more value-added services and increase profitability. Value-added services such as in and out handling of



Photo: Chuttersnap // Unsplash

pallets, picking and packing, trucking and back-office support are added to the list of services offered. Warehouse occupiers started availing end-to-end solutions that allow them to focus on their main line of business. End-to-end solutions include forecasting volume of orders, issuing the purchase order, pick up from supplier, packaging, storing and the actual delivery. Foreign-based clients take advantage of this outsourced service offered by third party service providers.





# LOGISTICS: *THE NEW* BATTLEGROUND WAREHOUSING MODEL

Photo: Michael Buillerey // Unsplash

**Optimistic  
about the future  
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## 01

The logistics subsidiary of Ayala Land Inc. called Prime Orion Philippines Inc. (POPI), will be renamed Ayalaland Logistics Holdings Corp. It aims to become a prime builder of industrial parks and warehouse facilities. Notable logistic estates include Tutuban, Laguna Technopark and the 14-hectare Lepanto property in Calamba. Last April, Ayalaland Logistics Holdings Corp. led the groundbreaking ceremony of the P172 billion Laguindingan Technopark in Cagayan de Oro. Beyond this logistics company, the Ayala Group also acquired 49% of online shopping platform Zalora to bolster its presence in e-commerce as well as the logistics system that underpins it.

## 02

Sy family-led SM Investments Corporation (SMIC) is moving into the logistics industry by buying into the country's largest integrated supply chain operator, 2GO Group Incorporated. In a disclosure to the Philippine Stock Exchange (PSE) last 2017, SMIC said it has completed the acquisition of a minority stake in 2GO Group through a 34.5% stake (around PhP6.2 billion) in its parent company.

## 03

Metro Pacific Investments Corp. entered the logistics business in 2016. It has expanded its presence in the logistics sector with the acquisition of 12% Air21 interest. It also purchased a 20-hectare Cavite property from Pro-Friends in line with its bid to increase its warehouse business under Metropac Movers Inc.

## 04

Cebu Pacific Air announced last year the conversion of two of its planes to venture into cargo transport. JG Summit has also invested in Singapore-based Internet platform Sea Limited, which operates the Shopee e-commerce website.

## 05

Filinvest Land, Inc. intends to expand its present portfolio by constructing a logistics and industrial park in the New Clark City.

## 06

The Marajo Group recently introduced Space Solutions in Makati, which is a newly-built multi-level storage facility that maximizes the land where the structure is presently erected.

These developers and companies place value on the smart application of technology to boost productivity and efficiency, offering value-added services and end-to-end solutions to clients, continuous expansion plans and capacity enlargement. With more players participating in the country's expanding logistics sector, more technology-based and highly efficient warehouses and logistics platforms are expected in the coming periods.

The logistics industry will further heat up alongside the country's growing economy and thriving property market. It is presently going through a remarkable evolution as market players consider escalating land values, transportation challenges, changing market dynamics and increasing competition in their strategy formulation and feasibility studies. Technology is playing a vital role that will define the future of logistics in the country. New regional areas will emerge as logistic battlegrounds, supported by improvements in accessibility and realization of infrastructure programs. All of these have positioned the logistics sector as the next big thing to watch in Philippine real estate.

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Santos Knight Frank is the Philippines' Commercial Real Estate Leader and the country's first fully integrated real estate services provider. With 1,200 associates spread across 11 service lines, the company provides best-in-class transactional support and expert advice to the Philippines' leading occupiers, multinational firms, business process outsourcing companies and private individuals.

Its partner, Knight Frank, is the largest independent global real estate consultancy with over 500 offices in 60 countries, including the strategically important partnership with Newmark Knight Frank in the U.S.

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