

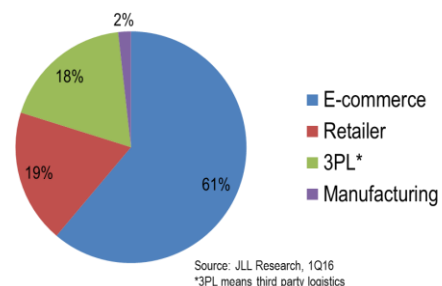
### Logistics developer wage battle on Tianjin's borders

Most people recognize that China is a manufacturing powerhouse that produces everything from shoes to cars, but few have given much thought to how goods get from one factory in southern China to one thousand different retail stores around the country or even to stores in one hundred different countries. Many people also understand that in the modern manufacturing world, parts for one airplane or from one car come from multiple manufacturers in multiple countries and where the airplane or car is put together is these days likely to be more of an assembly facility than an actual manufacturer (maker) of the actual product.

The key system that makes all of these things happen is modern logistics. And poised between Beijing and Tianjin, right in the middle of the combined urban area of 40 million people is a series of modern logistics warehouses, the second largest collection in China. The combination of people who can buy, roads that make transport convenient and manufacturers that also need logistics space has made this area a key location for logistics developers and operators. Governments would prefer to allocate land to factories that produce jobs and taxes, but also realize that logistics facilities enhance the value of their own manufacturing cluster.

Tianjin has built a robust manufacturing base starting within the last several decades, attracting foreign companies like Motorola and Kimberly-Clark to operate factories here. Additionally, Tianjin boasts the largest seaport in North China which also brought many import-export businesses who take advantage of the port to conduct trade. Logistics space, specifically international grade warehouse, was needed to support these businesses at the time. Around ten years ago, developers of high-quality warehouse space rushed into the market to fill the gap in demand. These spaces were largely used for storage of raw materials needed by the factories for production as well as for temporary storage of goods bound for export. However, as the economy has transformed from one dominated by manufacturing into a service based economy, logistics demand from these sectors has weakened and the primary end-users have changed. Rising consumption levels have brought new warehouse demand from e-commerce and traditional retailers. JD.com, one of China's major e-commerce giants, leased a total GFA of 200,000 sqm in Tianjin.

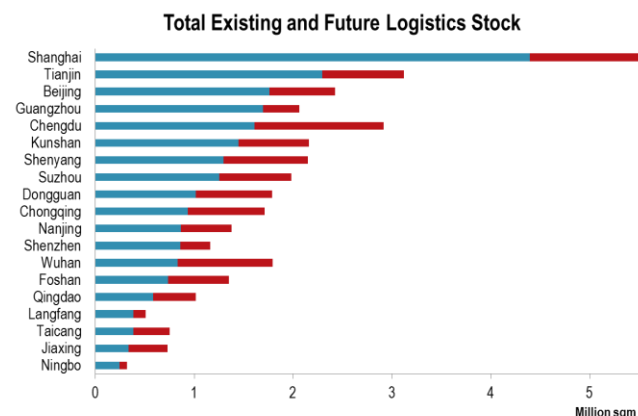
Tianjin's leasing demand breakdown in 2015



It is worth mentioning the distribution of warehouses geographically as some interesting trends have developed. Ten years ago, when manufacturers made up the majority of warehouse leasing demand, they favored locations with in close proximity to factories and the suppliers located within development zones like TBNA (Tianjin Binhai New Area) for example. Nowadays, e-commerce firms prefer the emerging areas in Tianjin with strong transport access to several locations, rather than simply close to factories. Wuqing District is the primary example of this as it locates within 90 kilometers of Beijing and now has more than 800,000 sqm of existing logistics space owned by several experienced developers like GLP and E-Shang. Its central location, between Beijing, Tianjin, and Hebei, has led to an agglomeration of e-commerce firms and traditional retailers as it is easier for these firms to cover all of the respective consumer bases. Beijing and Tianjin have a total population of 40 million with 21 million earning in excess of RMB 30,000 per year (consumer class) and the number of people is also expected to keep growing in these two cities. According to EIU (Economist Intelligence Unit), by 2020, the consumer class is forecast to rise 40% in Beijing and Tianjin for a combined 29 million. Subsequently, there is no doubt that e-commerce firms and traditional retailers will continue to drive the logistics market in the coming years as consumption plays a more prominent role in the national economy.



The logistics market has become much more competitive, compared to ten years ago. After new completions of logistics projects reached their highest level in 2015, Tianjin's total warehouse stock now ranks in the top 2 among all cities in China, behind only Shanghai, and more is on the way. The vacancy rate rose fairly dramatically in 2015, up 8.3 percentage points to 21.9%. Not only international developers but also domestic players contributed to the new completions. Blogis, E-Shang, and Yupei were the main domestic logistics developers. Another difference from ten years ago is that the perceived gap in warehouse quality has narrowed between international and domestic developers and all of the new supply is close to international-grade. The early entrance of international developers brought up the market standard, causing new domestic competitors to produce high quality.



Additionally, some end-users also built properties for their own purposes. Three online and physical retailers, Alibaba.com, Bestseller, and Wal-Mart, all have their own logistics properties in Tianjin. It is possible that these spaces be released into the leasing market in the future if any of these firms decides to relocate or downsize operation. Bestseller built its own warehouse in Tianjin after relocating from its built-to-suit project. Amazon, on the other hand, occupied 90,000 sqm in 2012 in a built-to-suit project developed by Global Logistics Properties (GLP), a Singapore based developer, but then later vacated 30,000 sqm in 2015.

One more trend we are noticing is that available land for warehouse use has become scarcer and developing warehouses with multiple storeys is likely one alternative solution. As the local government's attitude on designating land for logistics-use has changed – from supportive to hesitant, multi-storeys warehouses are commonly seen in other cities like Shanghai, since it can be a better and more efficient use of land. This has made it more sense for developers to acquire and make the best use of land.

The logistics market has developed over time in part due to economic rebalancing to a more service-sector driven economy. Unlike ten years ago, the manufacturing sector has seen its contribution to city-wide GDP decrease in share and we expect traditional retailers and e-commerce firms to drive the logistics market in the coming years. Moreover, Beijing-Tianjin-Hebei integration (Jing-Jin-Ji) will likely bring more investment in infrastructure within the three regions and will promote modern logistics facilities in Tianjin. Urbanization will be critical over the next ten years as well, as more residents and businesses move to the core of Tianjin. Lastly, developers will continue innovating and improving building specifications to retain an advantage in a highly competitive market.

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