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## Growth in logistics sector luring investors in Asia Pacific

### Executive Summary

- Total amount of logistics space in the seven largest markets in the region currently totals more than 1.5 billion sqm (gross floor area)
- More high-specification modern logistics facilities are coming online over the next few years
- Australia, Japan, Hong Kong, Singapore and China accounted for over 80 per cent of industrial investment volumes regionally between 2011 and 2016

Modern economies thrive on speed: how quickly goods can be shifted from manufacturers to consumers.

Having the right logistics space is crucial to providing efficient logistics services. While we observe ongoing improvements in the availability and quality of logistics space in Asia Pacific, vast differences between markets remain.

According to the [2016 World Bank survey on trade logistics](#), top regional markets such as Singapore, Hong Kong and Japan feature near the top of a global league of 160 countries in terms of logistics

performance, alongside markets in Europe and the United States.

Australia and industrial powerhouses such as South Korea, Taiwan and China also rank highly, but India and Southeast Asian countries are much further down the rung.

Based on our estimates, total amount of stock in the seven largest logistics markets in the region currently totals more than 1.5 billion sqm (gross floor area), double the size of the 795 million sqm in the United States and significantly more than the 260 million sqm in Europe. However, it is more appropriate to look at

Table 1: Total logistics stock in Asia Pacific

2016	Gross floor area (million sqm)	Population (million)	GFA (sq m per 1 million persons)	Definitions
United States	795	324	2.45	
Europe	260	621	0.42	
China	955	1,383	0.69	Grades A to Z, the majority is owner-occupied.
Japan	490	126	3.88	All facilities, the majority is owner-occupied.
Australia	29.1	24	1.20	All stock above 5,000 sqm.
South Korea	24.7	51	0.49	Warehouses with GFA over 3,000 sqm in Seoul, Gyeonggi & Incheon. Mostly owner-occupied.
India	10.5	1,329	0.01	Grade A and B space in eight main cities.
Singapore	9.5	6	1.69	All types of warehouses.
Hong Kong	5.3	7	0.72	All types of warehouses.

Sources: All stock data are JLL estimates except for China (the China Association of Warehousing and Storage), Korea (Ministry of Land, Infrastructure and Transport) and Japan (Ministry of Land, Infrastructure, Transport and Tourism & Ministry of Internal Affairs and Communications).

Population data from Oxford Economics.

logistics stock at a local level, as regional economies are at vastly different stages of development.

As a share of population, each person in Australia and Singapore has 1 to 2 sqm of stock on average, as compared with 2.5 sqm in the United States and close to 4 sqm in Japan. Average stock level per person in South Korea, Hong Kong and China is comparable to Europe (0.4 sqm).

Australia has 29.1 million sqm of logistics space that is generally modern, but a lot of the stock in East Asia comprises of older facilities and the majority is owner-occupied.

Currently, less than 5 per cent of the total stock in China and Japan consists of investment-grade facilities for lease.

### More modern logistics facilities will come online

Looking ahead, we anticipate logistics stock in Asia Pacific to continue growing, with more high-specification modern logistics facilities coming online over the next few years.

Large logistics space mainly for lease is growing rapidly in China and Japan. Meanwhile, logistics real estate in India is also growing, fueled by the growth of the e-commerce sector, economic revival, proposed GST implementation and government initiatives.

In Asia Pacific, drivers of growth for logistics and warehousing space include demand from third-party logistics operators and e-commerce companies. Investment in infrastructure will also play a part, as large planned investments in road, rails, ports and

airways across emerging Asia will bolster trade and consequently warehousing demand.

### Growing industrial stock will provide more options for investors

Investors are attracted by strong occupier demand for logistics properties, and higher yields relative to other forms of traditional real estate.

Direct real estate transaction volumes in the industrial sector totaled US\$13.8 billion in 2016, based on data from Real Capital Analytics (RCA) (refer to Chart 1 on the next page). The sector accounted for about 12 per cent of total Asia Pacific volumes between 2011 and 2016.

Five markets (Australia, Japan, Hong Kong, Singapore and China) accounted for over 80 per cent of industrial investment volumes regionally in the 2011-2016 period.

In particular, Australia and Japan each accounted for over one quarter of total regional investment volumes. In comparison, India and emerging Southeast Asia accounted for less than three per cent of volumes.

2016 volumes in Australia (+27 per cent) and China (+55 per cent) both exceeded the annual average in 2011-2015, although volumes in Japan, Hong Kong and Singapore were all below the five-year average because of limited product availability.

The growing logistics sector presents an attractive alternative for investors, and enables them to enter, or exit a market.

Table 2: Prime logistics stock in Asia Pacific

2016	Gross floor area (million sqm)	Population (million)	GFA (sq m per 1 million persons)	Definitions
China	36.9	1,399	0.03	Investment grade stock in 22 cities and mostly for majority-leased.
Australia	29.1	24.2	1.20	All stock above 5,000 sqm.
Japan	16.5	125	0.13	75 per cent of investment grade stock is located in the Tokyo and Osaka regions.
Singapore	4.0	6	0.67	Buildings 10 years old or less.
South Korea	3.8	51	0.07	Buildings larger than 30,000 sqm and less than 10 years old.
India	3.0	1,376	0.00	Grade A space in eight main cities.
Hong Kong	0.9	7	0.13	Buildings 10 years old or less.

Sources: All stock data are JLL estimates except for Japan (Ministry of Land, Infrastructure, Transport and Tourism & Ministry of Internal Affairs and Communications). Population forecasts from Oxford Economics.

Note: Logistics stock in Australia generally refers to modern space.

With cumulative dry powder of US\$33 billion regionally, private equity real estate funds are expected to be strong competitors for industrial assets.

The [2016 investment intentions survey](#) from ANREV showed that investors' top three preferences were for the office sector followed by retail and thirdly industrial and logistics. 65.2 per cent of the investors and 65.6 per cent of the fund managers polled quoted the industrial and logistics sectors respectively as their third preferred sector for Asia Pacific investments.

Chart 1: Industrial comprises roughly 10 per cent of direct real estate investment in Asia Pacific



Source: Real Capital Analytics, 2017.

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