News Release

Southeast Asia manufacturing sector advancing at China's expense

Manufacturers shift to cheaper markets as Chinese economy moves up the value chain

VIETNAM, 18 April 2017 - Southeast Asian countries are winning manufacturers over from China due to lower costs, rising domestic consumption and improving infrastructure. A new report from real estate consultant JLL predicts this will deliver a significant boost for industrial property investment across Southeast Asia, with a yield on development costs in excess of 10 per cent expected in some markets.

"Our top picks for investing in industrial real estate are Indonesia and Vietnam," says Regina Lim, Head of Capital Markets Research, Southeast Asia, JLL. "Indonesia's manufacturing sector is expected to grow six to seven per cent annually until 2021, up from 5 per cent in 2016, thanks to a stabilising currency and changes to economic policy. Meanwhile, Vietnam's edge is in its young and skilled workforce, relatively low cost base, and stable political climate."

The growth in manufacturing in Southeast Asia will come at the expense of China, says the report. In the last five years, China has been restructuring its economy towards domestic consumption, services and higher value exports. Coupled with rising labour and land costs, China's manufacturing exports slowed as companies relocated their manufacturing facilities to cheaper locations, such as Indonesia and Vietnam. As a result, export growth from Indonesia accelerated to between five and six per cent annually, while Vietnam's exports grew by 16 per cent annually between 2011 and 2016, compared to just six per cent in China.

"Even as these markets experience a manufacturing boom, there are still some medium term issues to be addressed," says Ms Lim. "The ability of Southeast Asia to move up the value chain will depend on the extent to which China's costs increase. It will also hinge on growth of domestic consumption in these markets, the quality of education, availability of infrastructure and ease of doing business."

In terms of quality education and skills, Vietnam is making headway while Thailand, Malaysia and Indonesia are underperforming in those areas. Although Southeast Asia has a relatively young and educated workforce that supports the continued industrialisation, it still needs to catch up with China. Policies to improve the availability of talent and skills can help to meet the progressive demand of industrialisation in these countries, says the report.

Although China has the advantage of better infrastructure, the connectivity situation in Southeast Asia is set to improve, with many overseas firms pledging their support to construct power plants and transport links in various cities. China's 'One Belt One Road' initiative and economic integration will also facilitate intra- and inter-trade flow within ASEAN and China.

In addition, JLL data shows that the global real estate transparency score across Southeast Asia, particularly Vietnam and Indonesia, has improved in the last 12 years, giving international investors more confidence to enter these markets.

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Ms Lim concludes: "Southeast Asia could potentially become the leading industrial hub in the region but its diverse economies are at various stages of development. Foreign investors and corporates need a really in-depth understanding of the landscape when planning their industrial operations and investments."

To download 'A Revival of Southeast Asia Manufacturing Hubs' report, click here.

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About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. A Fortune 500 company, JLL helps real estate owners, occupiers and investors achieve their business ambitions. In 2016, JLL had revenue of $6.8 billion and fee revenue of $5.8 billion and, on behalf of clients, managed 4.4 billion square feet, or 409 million square meters, and completed sales acquisitions and finance transactions of approximately $136 billion. At year-end 2016, JLL had nearly 300 corporate offices, operations in over 80 countries and a global workforce of more than 77,000. As of December 31, 2016, LaSalle Investment Management has $60.1 billion of real estate under asset management. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit www.jll.com.

JLL has over 50 years of experience in Asia Pacific, with 36,000 employees operating in 94 offices in 16 countries across the region. The firm won the 'World's Best' and 'Best in Asia Pacific' International Property Consultancy at the International Property Awards in 2016 and was named number one real estate investment advisory firm in Asia Pacific for the fifth consecutive year by Real Capital Analytics. www.ap.jll.com.

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