During Q3, important divergences in supply and demand were witnessed between Chengdu and Chongqing.

- 3PLs and retailers actively looked for warehouse space in Chengdu. 3PLs became the main source of demand in the Chongqing market. Benefiting from stable demand, the overall vacancy rate of both Chengdu and Chongqing decreased during the quarter.
- Given tightening new supply from 2020 onwards, 2018-2019 will be a good time for occupiers to conduct leasing and expansion activities.
- We also advise developers and investors to focus on emerging logistics markets in Chengdu which offer greater investment value.

### Summary & Recommendations

#### Demand
- Chengdu: we expect the annual supply for next five years will be 360,000 sq m
- Chongqing: we expect annual supply of 280,000 sq m between 2018 and 2020.

#### Supply
- Chengdu: we predict tight warehouse space until 2022.
- Chongqing: new supply in Chongqing is relatively stable between 2018 and 2022.

#### Rent
- Chengdu: in the light of soft new supply, rental growth is still forecast to be 3% per year for the next five years
- Chongqing: rental growth should be moderate, with annual growth of 1.8% through 2022.

#### Vacancy
- Chengdu: by the end of 2022, we expect vacancy to fall below 10%
- Chongqing: through 2022 we expect vacancy will stay around 15%

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**Source:** Colliers International West China Research

**Note:** USD1 = RMB6.96 (average for last three months); 1 sq m = 10.76 sq ft; pp: percentage point
CHENGDU LOGISTICS MARKET

Five projects located in prime locations were delivered in Q3 2018

Five new projects including Mapletree Airport Logistics Park, Goodman Longquan Logistics Centre Ph II and Prologis Xindu Logistics Center Ph.I were completed in Q3 2018. All five projects are located in prime logistics submarkets (Shuangliu, Longquan, Xindu), adding a total of 228,600 sq metres (2,460,900 sq ft) of prime warehouse space to the market.

Robust warehousing demand led by retailers and 3PLs brought a further decrease in vacancy

In Chengdu, retailers and 3PL (third-party logistics) firms drove demand in Q3 2018, with retailers’ warehousing demand underpinned by the rapid growth in retail sales. Chengdu Bureau of Statistics data shows retail sales reached RMB332.6 billion (USD48.9 billion) in H1 2018, increasing by 11.1% y-o-y (and 1.7 ppts above national average). This ranks Chengdu second among 15 sub-provincial cities. Bricks-and-mortar retailers including household appliance retailers, department stores, specialised stores and supermarkets recorded improved sales growth, which supported strong warehousing demand from those retailers and their 3PL providers.

In terms of submarkets, Shuangliu, Longquanyi and Xindu remain the preferred locations for urban distribution considering traffic and distance. By the end of Q3, total net absorption has climbed significantly to 206,800 sq metres (2,226,000 sq ft) with all new supply located in the three prime logistics submarkets mentioned above. Active demand pushed the overall vacancy down further, by 0.5 ppt q-o-q to 16.4%, a low point for the most recent five years.
Rent continued to improve

Rent in Longquanyi has gradually recovered from the previous price wars, and as a result, average effective rent rose slightly by 0.4% q-o-q to RMB27.1 (USD4.0) per sq metre. By the end of Q3, the vacancy rate in Longquanyi had dropped by 6.2 ppts y-o-y to 11.5%. The reduced vacancy rate emboldened landlords to push up rents.

Limited market impact from e-commerce self-built warehouse projects

Chengdu is a logistics hub city, and has already witnessed several prominent e-commerce companies acquiring land to develop warehousing distribution centers mainly for their own use. For example, Cainiao launched two warehouse projects in Xindu and Shuangliu. In addition, JD.com’s first self-built warehouse is about to be completed in Xindu in 2019.

Since e-commerce companies and their 3PL providers have been responsible for a large proportion of demand, building their own properties aroused wide concerns, as it may weaken leasing demand. At this point, Colliers believes owner-occupied properties cannot meet all of their storage needs. The e-commerce business requires increasingly rapid delivery, and in order to increase distribution efficiency, distribution centres have to spread throughout the urban area to ensure short delivery times. As such, each individual owner-occupied property cannot cover the whole city. We expect the trade-off between storage cost and delivery cost will result in continuous warehouse leasing demand from e-commerce companies and 3PL providers.
OUTLOOK

Emerging logistics submarkets provided long-term value of investment

"Influenced by the Chinese government’s “One Belt, One Road” policy, the establishment of the free trade zone and the Rong’ou international express railway, the import and export trade in Chengdu in 2017 has accelerated. Indeed, the growth rate in trade ranks first in China. The Thirteenth Five-Year Plan for the development of Chengdu’s modern logistics industry has determined the key development direction of Chengdu’s modern logistics industry for the future. The spatial layout and functional positioning of the five logistics parks and six logistics centres in Chengdu have been systematically clarified. According to the government’s planning and data analysis, there are many projects under construction in the Chengdu International Railway Port and Longquanyi district, bringing opportunities to Chengdu’s logistics industry. Shuangliu airport district, as a traditional logistics park, has many mature and quality projects.

According to Chengdu’s “eastwards” policy, in the future a large amount of industrial capacity should be put into the Jianzhou new city, Huaizhou new city and new airport town, with Chengdu’s manufacturing centre moving eastward. The east side of Longquan mountain should become the main area of industrial space and economic development. The development of warehouse space in these districts should benefit from the expansion of Chengdu international railway port, Tianfu international airport and industrial aggregation."
CHONGQING LOGISTICS MARKET

No new supply was recorded in Q3

During Q3 2018, no new projects were completed in the Chongqing market, leaving the total stock at 1.96 mn sq metres (21.0 mn sq ft).

Warehousing demand from manufacturing sector was weak during the quarter

Previously, 3PL providers and automotive and auto parts manufactures dominated the Chongqing warehouse market. However, with industrial growth slowing in Chongqing, warehousing demand from manufacturing enterprises remained weak during Q3. Figures from the Chongqing Statistics Bureau showed that Chongqing manufacturing output just rose 1.3% y-o-y in H1 2018. Automobile manufacturing output in particular has dropped by 9.4% y-o-y. In view of intensifying competition in auto market and negative growth in car sales national wide.

By submarket, the Liangjiang new area was most affected by the weak manufacturing industry, with negative net absorption in Q3. On the other hand, demand from 3PL providers remained positive, and driving demand in the market in Q3. As such, the airport submarket, attracting a large number of 3PLs, contributed 40% of total net absorption. Benefiting from stable 3PL demand, overall net absorption decreased by 8.5% q-o-q, but still reached 94,000 sq metres (1.02 million sq ft) in Q3. Despite the declining absorption, the light of lack new supply helped push down the overall vacancy rate by 4.8 ppts q-o-q to 16.6% at the end of Q3.
CHONGQING LOGISTICS MARKET

E-commerce has small market share, owner-operated projects have small impact on leasing market

We foresee owner-operated logistics projects having a limited impact in the Chongqing market. E-commerce companies of the scale necessary to build their own projects occupy a proportionally small share of the market, and while these projects have significantly reduced their leasing demand, there is still no marked effect on the leasing market. This is due in part to other, smaller, e-commerce firms continuing to expand in the market.

OUTLOOK

Warehousing demand from the manufacturing sector is expected to pick up as the sector is transformed and upgraded

The manufacturing industry is undergoing a significant restructuring and upgrade, and as a result, growing pains were unavoidable. With the strategy to promote new industries, including next-generation information technology, advanced equipment manufacturing and new energy vehicles, we expect warehousing demand from these high value-added industries to replace traditional manufacturing from 2022 onwards.

Source: Colliers International West China Research
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