

Shenyang: new hot spot for logistics developers & tenants

Zhibin Yao Senior Analyst | Research | North China

Several logistics investment deals have been closed in the industrial city - Shenyang in recent quarters, including an en-bloc cold chain warehouse transaction brokered by Colliers Industrial team. Many developers and institutional investors are actively looking for tradable warehousing properties here. On the other hand, Shenyang's logistics market, like that of other North China cities, saw booming demand towards year-end 2017 from enthusiastic tenants. This resulted a sharp decline in vacant space. Given the numerous quality properties and abundant future supply, as well as the rapid development of e-commerce and high-end manufacturing industries in the city, we foresee a bright future for Shenyang's logistics market, which we expect to become a new hot spot for both domestic and international logistics developers and tenants.

The third largest logistics market in North China

Located at the centre of Liaoning Province, Shenyang is one of the largest cities in Northeast China, either by geographical area or population size. Furthermore, Shenyang is also the transport hub of the Northeast region. Its well-developed highway system and railway lines guarantee easy access to the Beijing-Tianjin-Hebei region as well as other Northeast cities. These conditions are indeed advantageous for the development of the logistics industry in the city.

Based on Colliers International's survey, Shenyang is the third largest prime logistics market in North China, with a stock of around 1.79 million square metres (19.3 million sq ft) in total by end-2017, ranking only after Tianjin and Beijing. Major domestic and international logistics landlords are operating dozens standard properties scattered across the six submarkets in the city. According to the latest [*Colliers Logistics Rental Map*](#) produced by Colliers Industrial Services Team in China, the overall vacancy rate of Shenyang's prime logistics market by H2 2017 dropped by 21 percentage points HOH to 12.0% while the net effective rental level increased to RMB24.0 (USD3.7) per square metre per month.

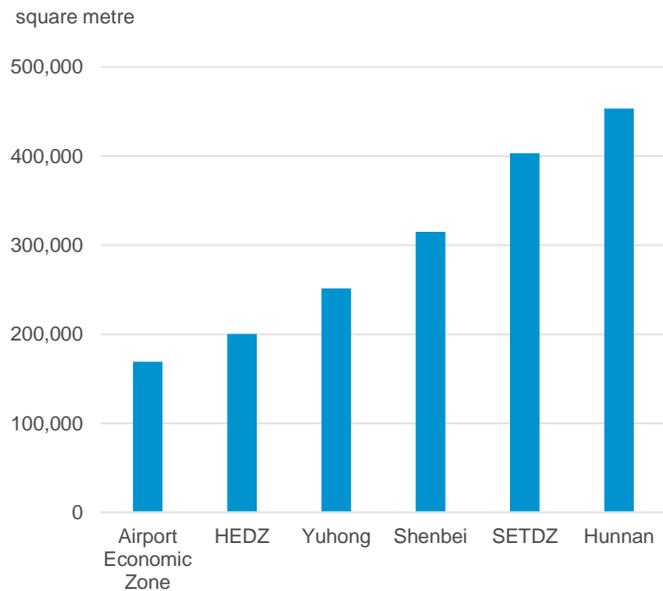
Figure 1. Submarkets of Shenyang Prime Logistics Property Market



Source: Research, Colliers International, North China

By submarket, Hunnan accounts for the highest stock by GFA, at around 450,000 square metres (4.8 million sq ft). SETDZ (Shenyang Economic & Technological Development Zone) and Shenbei with, respectively, stock of 400,000 square metres (4.3 million sq ft) and 320,000 square metres (3.4 million ft), are the second and third largest submarkets.

Figure 2. Stock of Shenyang Prime Logistics Property Market – By Submarket (H2 2017)



Source: Industrial Services, Colliers International, North China

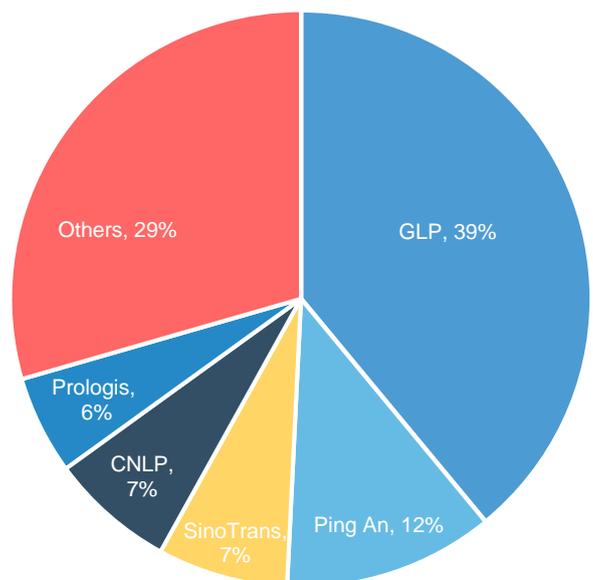
Among all areas, Hunnan and Airport Economic Zone are the most sought-after submarkets, given both the well-developed infrastructure facilities and proximity to the downtown – advantages which make these locations ideal for tenants requiring access to the city for distribution. Thus, the majority of warehousing space in these two submarkets is occupied by the e-commerce retailers and the third party logistics providers. It is noteworthy that Asia No.1, the first self-owned warehouse of JD.com in Shenyang, is also located in the Hunnan area. Given the popularity, Hunnan and Airport Economic Zone have almost reached full occupancy. As an alternative, given the relatively close distance to downtown, Shenbei and its neighbour HEDZ (Huishan Economic Development Zone) have become the preferred choice of many tenants, especially those seeking large space. The domestic e-commerce giant JD.com for example, is fully leasing several warehouse properties in these areas.

Various developers build up an active logistics market

Like many other major logistics markets in China, Shenyang has welcomed GLP, the leading logistics developer in China, as the first professional high standard logistics developer to enter the local prime logistics market. So far, GLP still occupies the largest warehousing space in Shenyang. According to GLP, it individually or jointly runs eight high standard logistics projects with a GFA of more than 700,000 square metres (7.53 million sq ft), accounting for around 39% of the total stock of the Shenyang market. Similar to the Beijing and Tianjin markets, GLP not only runs projects in sought-after submarkets, but also operates or has properties under construction in emerging areas.

Ping An Logistics is believed to be the second largest single logistics developer in the city by property GFA, operating two prime projects and accounting for about 12% of Shenyang’s total stock. Other well-known logistics developers, such as CNLP and SinoTrans also have two or more projects in Shenyang.

Figure 3. Stock Percentage of Shenyang Prime Logistics Property Market – By Developer (H2 2017)

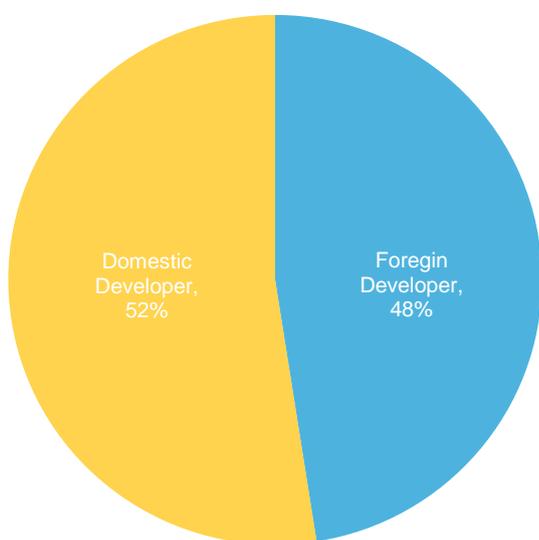


Source: Industrial Services, Colliers International, North China

Notably, newly established domestic logistics developers are dynamically expanding their coverage in China, whilst Shenyang is always the first choice for the Northeast region. Everbright Ashmore, on the other hand, has entered Shenyang through acquisition. Earlier in 2018, this new player of logistics market acquired two prime properties in Shenyang from the Australia-based logistics developer Goodman in a portfolio transaction. VX, as one of the largest and fastest-growing logistics developers in China, also runs several warehouses in the city.

Furthermore, very large e-commerce retail enterprises such as JD.com, Cainiao, Amazon.com and VIP.com recognise Shenyang as the base of their regional operating or distribution centres. In order to fulfil the rapid growth of online sales, some of these warehouse tenants also choose to build their own warehouses in Shenyang besides large-scale leasing in local projects.

Figure 4. Stock Percentage of Shenyang Prime Logistics Property Market – By Type of Developer (H2 2017)



Source: Industrial Services, Colliers International, North China

According to Colliers North China Industrial team's survey, three projects with a total GFA of around 170,000 square metres (1.8 million sq ft) prime logistics space are scheduled to be launched into the market in H1 2018; nearly 75% space of the total that they will provide has been pre-leased. We expect that another 600,000 square metres (6.5 million sq ft) of new projects will be delivered successively from 2019 to 2022.

Colliers expects the momentum of strong leasing demand since Q4 2017 to continue over the next few quarters while rental levels grow further, given the steady growth of e-commerce industry. In particular, we recommend potential tenants seeking space for expansion or with large-scale leasing requirements to consider projects in the west region of Shenyang, i.e., the Yuhong and SETDZ submarkets, as the rental level of several projects here is still low compared to properties in other submarkets. Meanwhile, the considerable leasable space and the abundant future supply in these areas may also increase tenants' bargaining power when negotiate rental and other incentives with landlords.

High-end manufacturing industry arouses extra demand for prime logistics space

In contrast to Beijing, where e-commerce and 3PL are the major demand source for prime warehouse projects. Shenyang, as a traditional industrial city, also generates demand from another sector besides the typical e-commerce retailers and 3PL – high-end manufacturing industry. The abundant manufacturing resources that the city has inherited from the last century have accelerated Shenyang's transformation into an aggregation of high-end manufacturing enterprises.

Among the various manufacturing enterprises in Shenyang, the automobile sector generates the highest demand for quality warehouses, which is also the third largest source of demand for logistics space, only after e-commerce and 3PL. Several well-known global automobile manufacturers have installed full production lines in Shenyang. The most important among these producers is undoubtedly the high-end producer BMW. According to BMW, its manufacturing plants in Shenyang have a capacity of up to 450,000 units per year. It currently runs a certain number of projects, including two full production plants, an engine plant, a high voltage battery centre and a R&D centre, all of which are respectively located at Tiexi and Dadong Districts.

Moreover, General Motors Corporation and Brilliance Auto operate their production factories here. French automobile producer Renault is building a production line in Shenyang. These enterprises, together with numerous supporting automotive industries, e.g. GESTAMP and Faurecia for auto parts and Michelin and Bridgestone for tyres, bring strong and sustained demand for quality warehouse space. For instance, GLP delivered the first phase of a built-to-suit auto parts distribution centre to

BMW in 2016. This phase contains 18,000 square metres (194,000 sq ft) of prime warehouse space while another 16,000 square metres (172,000 sq ft) phase is being developed in pipeline. The high requirements of tenants from the automobile industry not only promote the enhancement of the specifications of Shenyang's logistics markets, but also accelerate the access of more well-known logistics developers to the city.

Vibrant investment market

As a consequence of increasing warehouse land prices and limited land supply in popular submarkets in Shenyang, more and more logistics developers are seeking local quality warehouse properties and/or lands through equity or fund investment in addition to the normal land reserve from land auction. Shenyang's en-bloc investment market for logistics sector, as a result, has been vibrant over the past several quarters.

In addition to the en-bloc deal of prime cold chain warehouse brokered by Colliers' Industrial team and the above-mentioned Goodman portfolio purchased by Everbright Ashmore, several other notable deals have been concluded in Shenyang in recent quarters. For instance, according to RCA and [Beijing Properties Holding Limited \(BPHL\)'s announcement](#), the Hong Kong listed company acquired He-Chao Logistics Park, a 50,000 square metres (540,000 sq ft) warehouse in the Yuhong submarket in 2017, by purchasing an 80% stake in He-Chao for about RMB150 million (USD23.9 million). GLP also completed the acquisition in early 2018 of a local prime logistics park in the Shenbei submarket. This deal filled in the gap in GLP's layout in this popular submarket. Besides that, VX and ESR showed very

strong interests in the Shenyang logistics investment market.

Shenyang is gradually improving standards and requirements for warehouse land in the primary land market, including regulating the lowest tax revenue of properties or asking tenants to register in local districts. Following by the rosy trend of investment market in Shenyang as well as the rising difficulty of acquiring first-hand land spots, we have monitored that more and more logistics developers who are optimistic about the future of Shenyang's logistics market are seeking for tradable local properties. We therefore believe that there will be more en-bloc transactions for logistics properties in Shenyang in coming quarters. Colliers recommends that logistics developers, especially those expanding regional or national layout, pay special attention to the limited high-standard local logistics properties. We are confident about the development of Shenyang logistics market and foresee the market to soon become the new hot spot for both logistics developers and tenants.

For more information, please contact:

Jie Li

Managing Director | North China
Head | Valuation & Advisory Services | China
+86 10 8518 1593
jie.li@colliers.com

Andrew Haskins

Executive Director | Research
Asia
+852 2822 0511
andrew.haskins@colliers.com

Tower Wu

Head | Industrial Services
North China
+86 10 8518 1592
tower.wu@colliers.com

Emily Cao

Head | Research
North China
+86 10 8518 1633 ext. 601
emily.cao@colliers.com

Tony Li

General Manager
Shenyang
+86 24 2256 9475
tony.y.li@colliers.com

Copyright © 2018 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.