DEMAND PERFORMANCE CONTINUED TO DIVERGE ACROSS CITIES

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Summary & Recommendations

No new projects were recorded in the Chengdu and Chongqing markets in Q4 2018.

- Automobile and electronics manufacturers are actively looking for warehouse space in Chengdu. In Chongqing, retailers are replacing manufacturers to become the main demand driver.
- Given tightening measures and land supply controls, we advise developers and investors to bid jointly for logistics land, and strengthen cooperation with e-commerce and retail groups.
- Due to heavy new supply, we forecast rents in Chongqing will decrease in 2019. This should provide an opportunity for cost-conscious operators to relocate on better terms.

		Q4 2018	Full Year 2019	2018–23 Annual Average
Demand	Chengdu: we see a modest decline in annual demand due to limited quality new supply after 2020. Chongqing: slower growth in industrial output should dampen demand between 2019 and 2023.	Chengdu: 125,400 sq m Chongqing: 75,800 sq m	550,000 sq m 300,700 sq m	340,000 sq m 300,000 sq m
Supply	Chengdu: we predict tight warehouse space supply between 2020 and 2023. Chongqing, on the other hand, will see ample new supply between 2019 and 2023.	Chengdu: 0 sq m Chongqing: 0 sq m	500,000 sq m 1,000,000 sq m	320,000 sq m 430,000 sq m

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–23
Rent	Chengdu: given solid demand and limited supply, we forecast rental growth to be 1.1% per year for the next five years. Chongqing: in light of abundant new supply, rents should stay close to flat out to 2023.	Chengdu: 0.0% Chongqing: -0.2% Chengdu: RMB26.9 Chongqing: RMB25.8	1.1% -1.8% RMB27.2 RMB25.4	1.1% 0.0% RMB29.4 RMB25.8
Vacancy	Chengdu: by the end of 2019, we expect vacancy to fall below 10%. Chongqing: we expect vacancy to surge in 2019 due to very heavy new supply, to top out in 2020, and thereafter to decline steadily to about 25% by end-2023.	Chengdu: -3.8 pps Chongqing: -3.7 pps Chengdu: 11.5% Chongqing: 19.7%	-2.8 pps +16.6 pps 8.7% 36.3%	-1.1 pps +1.2 pps 5.7% 25.3%

Source: Colliers International
Note: USD1 = RMB6.75 (average for last three months); 1 sq m = 10.76 sq ft; pp: percentage point.

CHENGDU LOGISTICS MARKET

No new supply was recorded in Q4 2018

No new projects were completed in the Chengdu in Q4 2018, but for the full year, eight projects with a total of 340,300 sq metres (3.66 million sq feet) of space were delivered to the market, a 54% yoy drop in new supply. In 2018, unlike previous years, we saw less concentration from the Longquanyi area, and the new supply was more evenly distributed across all sub-markets.

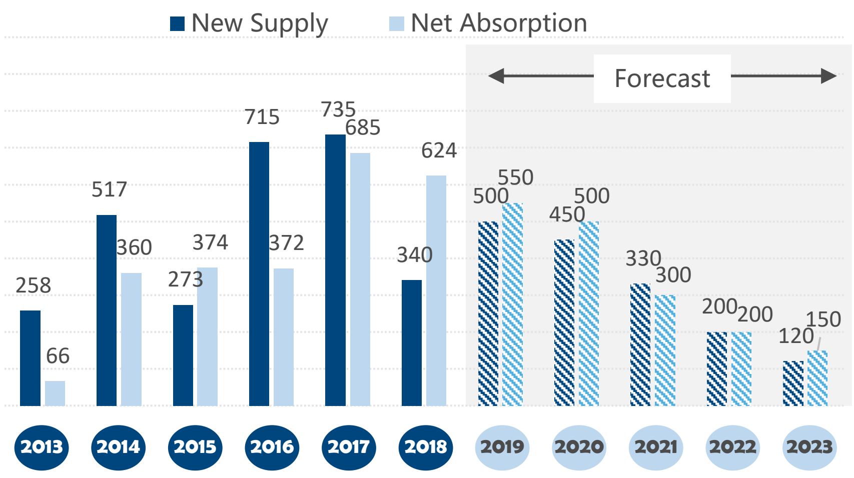
Active demand from manufacturers and 3PLs

Unlike the first three quarters in 2018, where demand came mainly from retailers and e-commerce companies, in Q4 manufacturers and 3PLs (third-party logistics groups) were the major demand drivers as they actively sought warehouse space.

Thanks to government support, the development and expansion of the auto sector and electronic information industries remained buoyant. With an increasing number of auto and auto parts companies expanding in Chengdu, we see that a conglomeration of automotive businesses and a vertically integrated supply chain is now forming. As a result, warehouse demand from auto and electronics manufacturers remains strong and the trend will probably continue in the next few years.

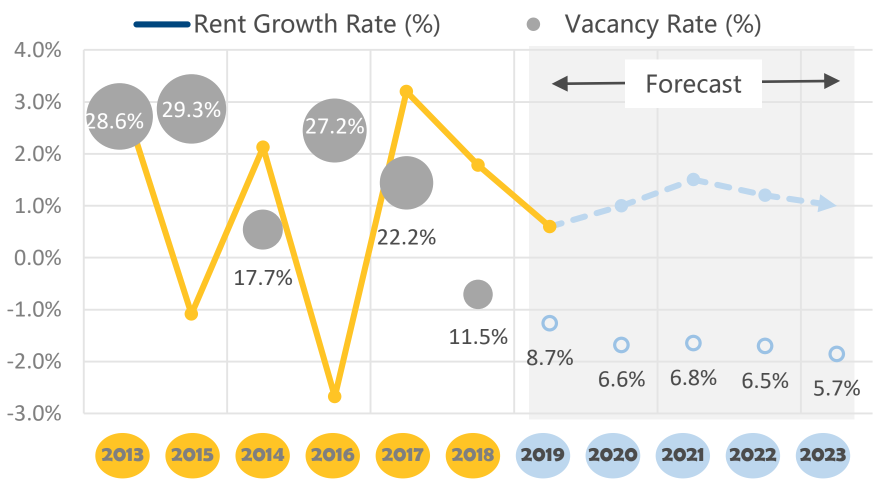
Meanwhile, besides retail, e-commerce and manufacturing, 3PLs are one of the four major demand drivers in Chengdu. With transportation volume advantages, 3PLs can achieve greater efficiencies in warehousing, vehicles and people management, resulting in lower logistics cost for consumers. As logistics service providers, 3PLs' business growth is mainly driven by their end-users. The steady retail sales growth in both brick-and-mortar stores and e-commerce, combined with an increased manufacturing output, should provide solid demand for 3PL services.

Chengdu, logistics supply & demand ('000 sq m)



Source: Colliers International

Chengdu, logistics, rental performance & vacancy rate



Source: Colliers International

CHENGDU LOGISTICS MARKET

In Q4 2018, with limited new supply, total net absorption decreased by 45.0% qoq to 125,400 sq metres (1.35 million sq feet). In 2018, the overall vacancy rate dropped by a further 3.8 pps to 11.5%, a record low for the last five years.

Average rent remains stable

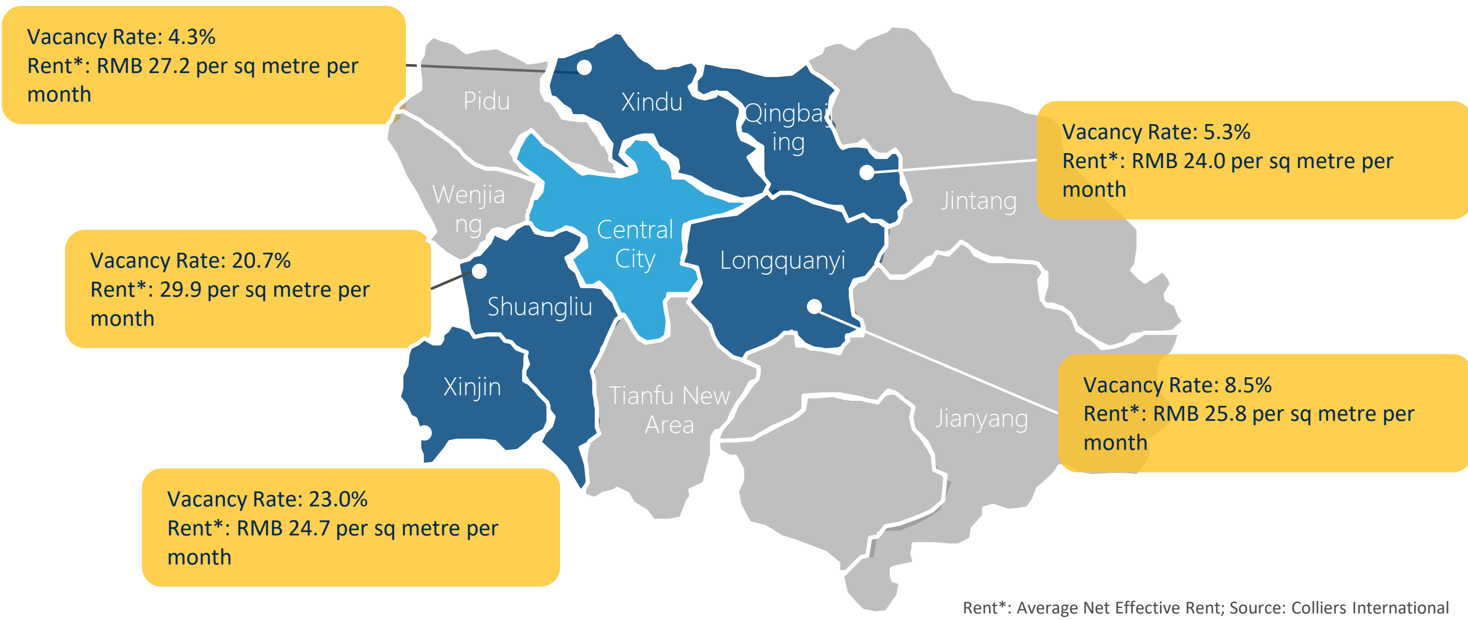
By the end of Q4, underpinned by stable demand, the average net effective rent in Chengdu remain flat qoq at RMB26.9 (USD3.99) per sq metre per month. On a full year basis, the average net effective rent increased 1.8% yoy in 2018.

Chengdu logistics, major leasing transactions, Q4 2018

Tenant	Project Name	Lease Space (sq m)
Auto Parts Manufacture	Goodman Xinjin Logistics Center	2,000
3PLs	Prologis Xindu Logistics Park	16,000
3PLs (Cold Chain Logistics)	Mapletree Airport Logistics Park	10,000

Source: Colliers International

Chengdu logistics, submarket overview



Rent*: Average Net Effective Rent; Source: Colliers International

OUTLOOK

Sources of demand are becoming more balanced

Look ahead, in 2019, in view of the solid business development of retailers, e-commence, 3PLs and manufacturers, we expect new warehouse demand to be more balanced among these four sectors.

Vertical e-commerce: as an alternative to major e-commerce sites, sub-divided e-commerce focuses on niche categories such as mother and child products, F&B and auto parts, showing strong growth demand.

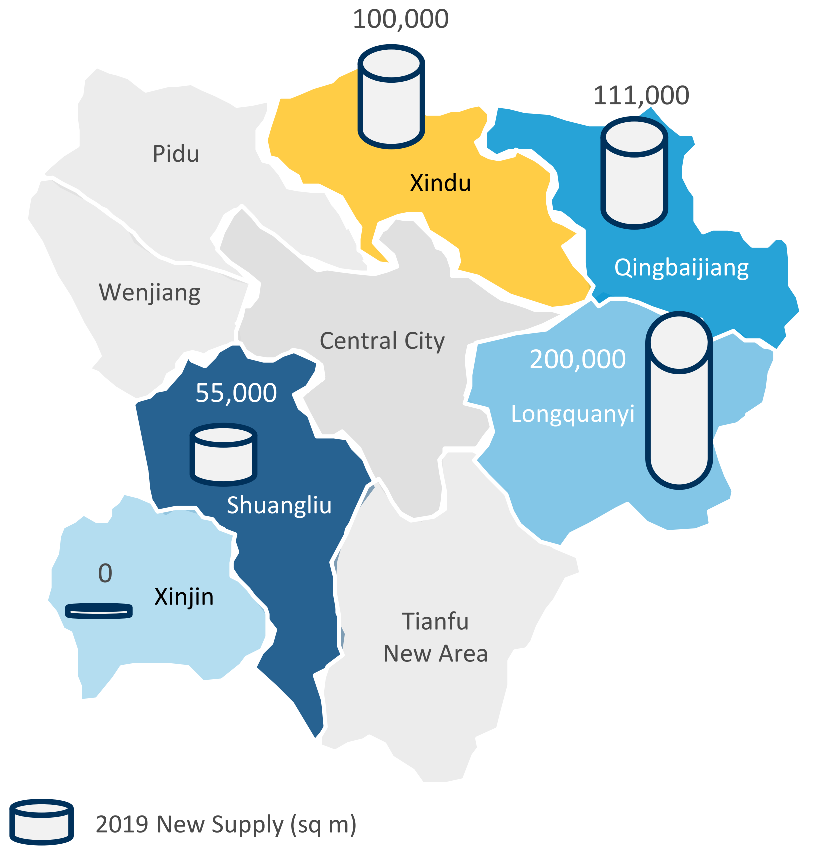
Brick-and-mortar retailers: the new personal income tax cuts, effective since October 2018, should enhance consumers' willingness and ability to spend, resulting in stronger retail sales growth.

Manufacturers: the *50 Articles of New Industrial Policy* issued by local authorities imply the government's full support for the relevant industries and that advanced manufacturing output in Chengdu is planned to account for 50% of total industrial output by 2022. Therefore, warehouse demand from advanced manufacturing, including telecommunications equipment and auto parts, should increase over the next five years.

3PLs: 3PLs that cater to cold chain logistics are also actively looking for warehouse space in Chengdu. When comparing sites, affordable rent and the ability to turn existing warehouses into cold storage facilities are the main criteria.

Around 500,000 sq metres (5.38 million sq feet) of new supply is scheduled to be completed in 2019. Despite this heavy new supply, the aforementioned industries should remain the demand drivers for warehouse space in 2019, indicating a healthy outlook for net absorption in the logistics sector in Chengdu.

Chengdu logistics, 2019 pipeline by submarket



Source: Colliers International

CHONGQING LOGISTICS MARKET

No new completions in Q4

Three projects which were scheduled to be delivered in Q4 2018 have been postponed to 2019 due to construction delays. With an annual new supply of 438,000 sq metres (4.71 million sq feet), total stock stood at 2.03 million sq metres (21.8 million sq feet) at the end of 2018, a 28% yoy increase.

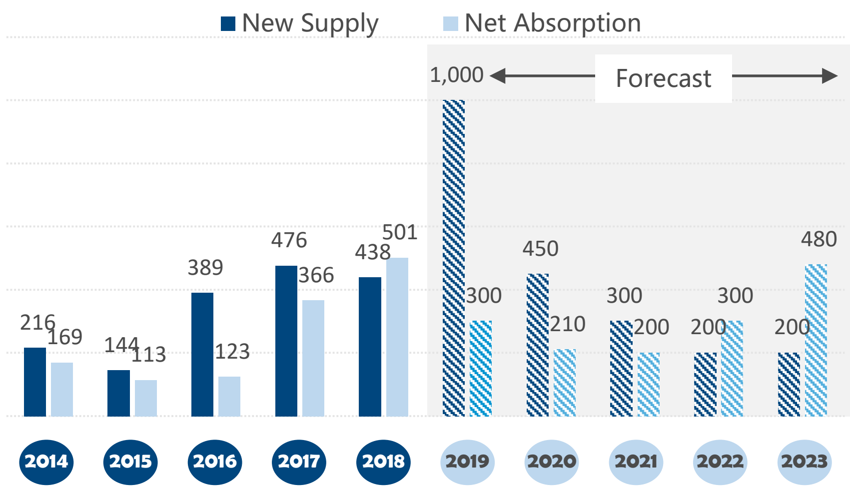
Retailers overtook manufacturers as the largest source of demand in Q4

Industrial growth continues to slow in Chongqing in Q4 2018, and retailers have now overtaken manufacturers to become the largest source of demand for logistics space. Thanks to robust retail demand in Q4 2018, overall net absorption was 76,000 sq metres (818,100 sq ft), and the vacancy rate dropped 3.7 pps to 19.7% on the back of limited new supply.

Rent declined slightly in Airport and Banan submarkets

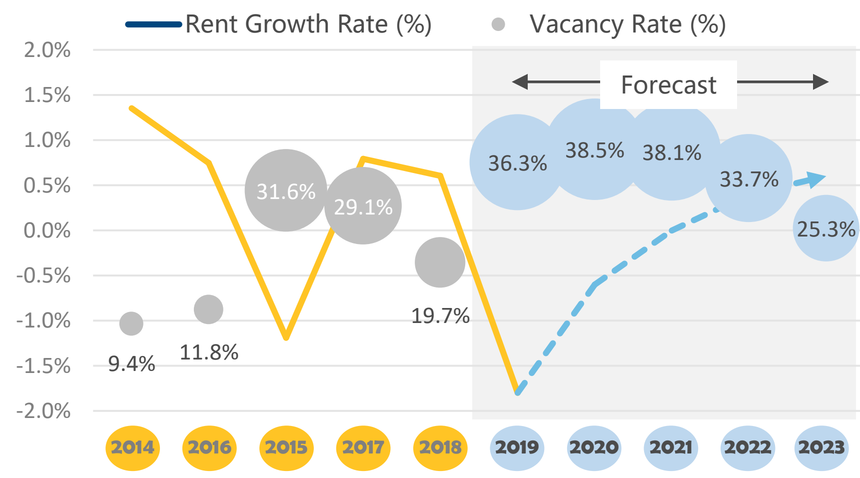
During Q4, the vacancy rate in the Airport and Banan submarkets rose as several tenants relocated to cheaper sites. Facing stiff competition, landlords were forced to lower their rental expectations. As a result, the average net effective rent for Chongqing edged down 0.2% qoq to RMB25.8 (USD3.83) per sq metre per month.

Chongqing logistics, supply & demand ('000 sq m)



Source: Colliers International

Chongqing logistics, rental performance & vacancy rate



Source: Colliers International

OUTLOOK

Chongqing logistics market faces great challenges in 2019

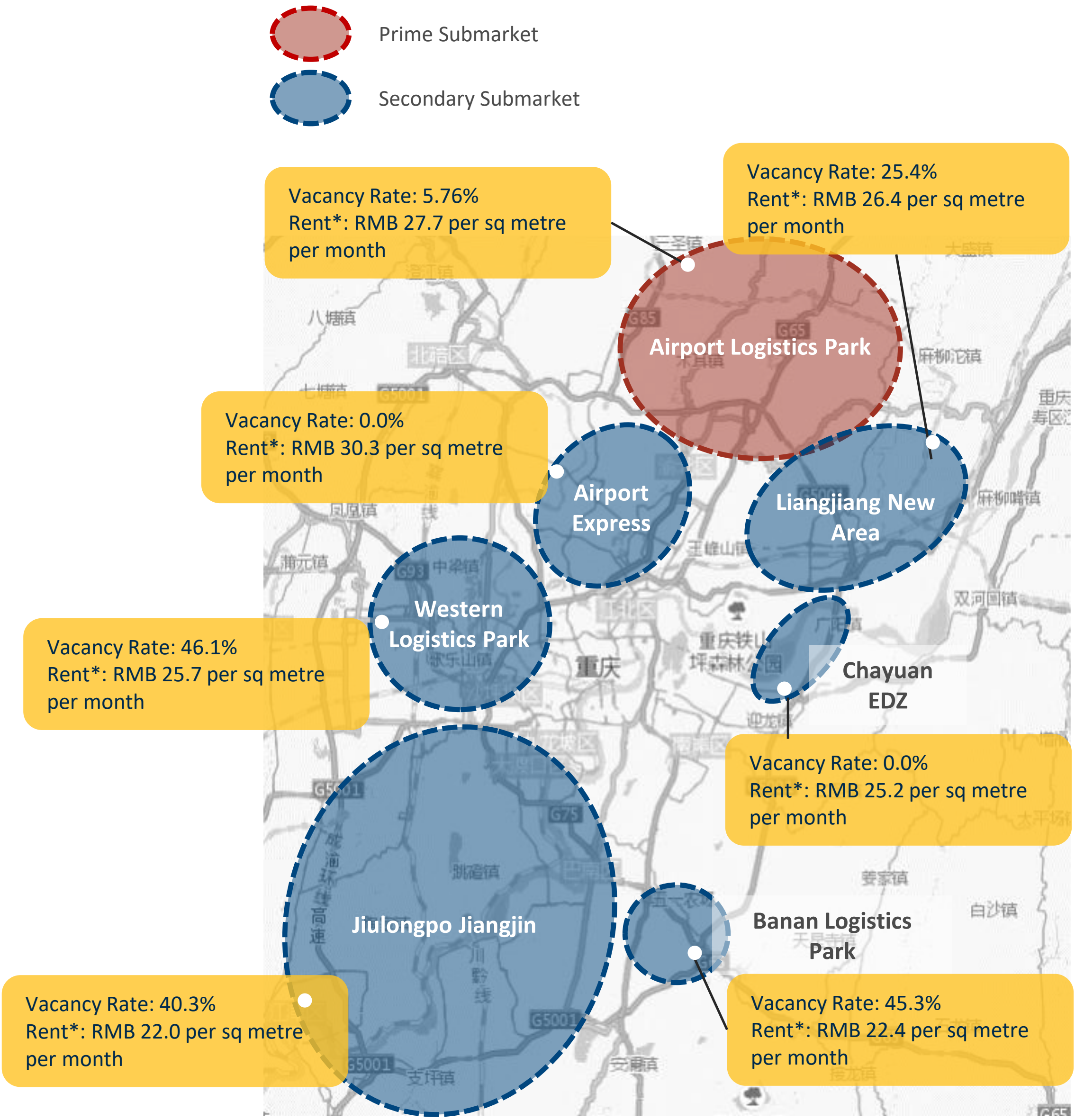
Colliers believes that the Chongqing logistics market will encounter a difficult period, as over 1.0 million sq metres (10.76 million sq feet) of new supply is scheduled to be launched in 2019. Moreover, auto parts and electronics, two of the traditional pillars of Chongqing industry, and the largest occupier of warehouse space in Chongqing, are showing signs of a slowdown. Figures from Chongqing Statistics Bureau show large manufacturing output increasing at 0.6% yoy in H2 2018, representing a 1.2 pps decline hoh.

Coupled with an influx of new supply and weaker market demand, Chongqing's overall vacancy rate will probably spike 16.6 pps in 2019, reaching 36.3%. Therefore, average rents will likely see a 1.8% yoy decline in 2019, as landlords are now more inclined to lower prices to attract new clients and keep existing tenants.

Colliers expects Chongqing's manufacturing industry to undergo a significant upgrade and structural change over the next few years. High value-added industries such as integrated circuit and new energy vehicle manufacturing should replace traditional auto parts and electronics manufacturing to become the major source of warehouse demand from 2022 onwards.

With demand from new industries, Colliers expects Chongqing's vacancy rate to top out at 38.5% in 2020, and see sequential declines thereafter, with vacancy declining to 25.3% by the end of 2023.

Chongqing Logistics, submarket overview



Rent*: Average Net Effective Rent; Source: Colliers International

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