Southeast Asia industrial: an emerging destination for manufacturers and capital
Southeast Asia continues to win more manufacturers in the last three years due to its competitive workforce, lower tariffs and large and growing consumer market. We are optimistic about the growth of the Southeast Asia industrial and logistics sectors.
Foreign direct investments into manufacturing sectors in emerging Southeast Asia has risen strongly in the last three years to USD 46 billion. We expect the trend to accelerate from here, as Southeast Asia wins more manufacturers from China due to more competitive labour costs, lower trade tariffs and the large and growing consumer market in Southeast Asia. In the first four months of 2019, exports to the US from Thailand and Vietnam rose 25-30% yoy. Key exports from Southeast Asia include auto-motives, electronics and even photovoltaic systems.

Logistics operators are also expanding in Southeast Asia, driven by strong domestic trends such as further e-commerce penetration, growing intra-regional trade and the improvement of logistics efficiency in emerging Southeast Asia countries in the last few years. Vietnam and Malaysia have become attractive regional logistics hubs for global consumer companies while investments in Thailand and Indonesia are driven by e-commerce companies drawn to their expanding domestic consumer bases.

Supply of industrial and logistics assets is growing in tandem with the expansion in demand. In the past three years, developers and funds have started to increase their exposure to the sector. In Vietnam and Indonesia, private equity, sovereign wealth and pension funds have established joint ventures to develop more modern industrial and logistics facilities. In Philippines and Thailand, local developers are dominating new industrial development. Malaysia’s industrial properties are still predominantly developed by owner occupiers but some build-to-suit projects are undertaken by larger REITs and logistics operators.

JLL has actively engaged with developers and industrialists in Southeast Asia over the last few years and undertaken detailed consultancy studies for investors and operators. We initiate coverage of the industrial markets in five emerging Southeast Asian countries. For more information on the outlook for Southeast Asia industrial sectors, please reach out to the authors of this note.
An emerging manufacturing powerhouse

Foreign direct investment into the manufacturing sectors in Southeast Asia has doubled over the last eight years and reached USD 46 billion in 2018. Vietnam, Malaysia and Thailand have experienced the strongest growth in the last three years at 12% CAGR.

Fig 1: Manufacturing FDI in Southeast Asia

Southeast Asian economies with higher skills to benefit from US-China trade tensions

We believe that Malaysia, Thailand and Vietnam are winning manufacturers who are expanding or relocating operations from China, Korea and Japan due to the high quality of their workforce, competitive wages and more recently, the trade tensions between China and the United States.

Today, China is Southeast Asia’s largest trading partner. The ASEAN-China Free Trade Area (ACFTA) was established in 2010 and the framework lowered the average tariff rates on both imports and exports of ASEAN goods to China to 0.1-0.6%. Since then, the ACFTA became the third largest by trade volume after the European Economic Area and the North American Free Trade Area. In 2017, China bought up to 14% of ASEAN’s exports. 48% of Southeast Asia’s exports to China are in electronics, machinery and mineral fuels and 50% of these are in intermediate goods. As a result, we think a decline in China’s exports could reduce China’s demand for such exports from Southeast Asia in the short term.

However, in the medium term, we think manufacturers are likely to expedite the relocation of operations to Southeast Asia, which has already started as wages in China have risen. The American Chamber of Commerce in Shanghai undertook a survey in September 2018 to gauge the impact of new US tariffs on American companies in China. Of the 430 companies who responded, 61% are in manufacturing-related industries. Around 70% of the companies expect a negative impact on their profits, production costs and reduced demand for products. Most respondents are adjusting their supply chains in response to the tariffs, seeking to source components and assembly outside of China and delaying investment decisions. While 64.6% of respondents are not considering relocating their manufacturing facilities out of China, 18.5% of respondents are considering relocating these to Southeast Asia.

In the first four months of 2019, exports to the US from Thailand and Vietnam rose 25-30% yoy, potentially suggesting these could be the main recipients of relocation of production out of China.
Fig 2: Preferred destinations for relocation of China-based manufacturing facilities

Southeast Asia
Elsewhere
Indian subcontinent
United States
Europe
East Asia
Latin America

Source: American Chamber of Commerce, Shanghai, Sep 2018

Amongst the countries in Southeast Asia, Vietnam has already seen an acceleration of exports to the US as well as a number of FDI projects in 2H2018, potentially due to the trade tensions between the US and China. Vietnam’s exports to the US grew 17% yoy in 2018, including substantial growth in machinery/equipment, steel and steel products and wood and wood products, where new tariffs by the US have been imposed. The number of FDI projects registered in Vietnam also started to pick up in 3Q2018, with China FDI projects growing 34% yoy while FDI projects from Korea grew 21% yoy and Singapore and Japan grew 18% yoy.

Outside of Vietnam, we also see Malaysia and Thailand as potential net beneficiaries in the medium term. IMA Asia expects China’s exports to grow around 3% p.a. over the next few years, decelerating from 15% p.a. in 2010-2014. In comparison, Thailand and Malaysia’s exports are expected to grow faster at 4-5% p.a. in 2019-2023.

Fig 4: Exports growth in Malaysia, Thailand to grow faster than China

Source: IMA Asia
**Competitive labour costs**

For manufacturing companies seeking to relocate their operations from China to Southeast Asia, more developed countries with the requisite mid-tech skills such as Thailand and Malaysia could be more likely to benefit, in our view. Wages in these countries are now about 60% lower than in China, compared to 33% in 2010.

According to Deloitte’s Global Manufacturing Competitiveness Index, CEO respondents were asked to rank nations in terms of current and future manufacturing competitiveness. The 2016 study found that Vietnam, Malaysia, Indonesia and India are expected to become more competitive over the next few years while countries such as China and South Korea could become less competitive.

**Fig 5: Manufacturing wage in Southeast Asia compared to China**

![Diagram showing manufacturing wages in Southeast Asian countries compared to China from 2010, 2018, and 2023.](source: IMA Asia)

**Fig 6: Global manufacturing competitiveness index**

![Diagram showing global manufacturing competitiveness index from 2016 and 2020, with change in rank on the right-hand side.](source: Global CEO Survey by Deloitte, 2016)
Southeast Asia is a large consumer market due to rising urbanisation, middle income population, e-commerce adoption

Manufacturers are also motivated to invest and relocate their operations to Southeast Asia due to its large and growing consumer base.

Southeast Asian cities are growing faster than in many parts of the world. In 2020-2025, SEA's urban population is expected to grow by 2.0% annually, similar to India (2.2%) and much faster than China (1.6%). The fastest rates of urban population growth are expected in Vietnam and Indonesia.

An additional seven million people per year will be making the rural to urban migration across Southeast Asia from 2015 to 2020.

Southeast Asia’s middle class is expected to grow by 6% CAGR till 2025
As the population moves to urban cities and transitions from an agrarian economy to increasing manufacturing and services exports, incomes are rising across Southeast Asia. The current middle income population in Southeast Asia is estimated to total 195 million today and is expected to grow by 6% CAGR over the next five years. Indonesia is expected to account for about three quarters of that increase.

Fig 9: Middle class population

Source: Brookings Institute. Note: Middle class is the number of people living in households earning or spending between 10 USD and 100 USD per person per day (2005 PPP USD)
Key exports from Southeast Asia include auto-motives, electronics and even photovoltaic systems.

- **Vietnam**: Korean companies such as Samsung and LG have been investing heavily in manufacturing facilities in the last decade. For instance, Samsung electronics invested over USD 7 billion into electronics, display production and electro mechanics factories in Bac Ninh Province, Thai Nguyen Province and Ho Chi Minh City. In the last five years, LG has invested close to USD 5 billion in electronics and display production in Hai Phong City.

- **Thailand**: The key exports for Thailand are automotives, electronics and agro-manufacturing products. In the last three years, growth has been stronger in exports of electronics, automotives, chemicals, petrochemical and petroleum products.

- **Malaysia**: Main exports by Malaysia include electrical and electronic products, photovoltaics, chemicals and petroleum products. Malaysia is the world’s third largest manufacturer of photovoltaics and solar equipment, behind China and Europe. Companies with factories in Malaysia include First Solar, Panasonic and SunPower.

- **Indonesia**: The automotive industry in Indonesia is well established with manufacturers attracted by low labour costs, increasing wealth and attractive demographics. Indonesia is the second largest car manufacturing nation in Southeast Asia (after Thailand). A joint venture between China’s SAIC, General Motors and Liuzhou Wuling Motors, announced the development of a USD 397 million car assembly facility in GiIC Deltamas. Construction on the facility began in 2015 and as of 2019, Wuling cars are an increasingly common sight on Indonesia’s roads.

- **Philippines’** main exports include electrical machinery and equipment and computers. Epson precision products Inc opened a new plant for inkjet printer manufacturing in 2H 2017. Approximately 5.3 hectare lot, with floor area of approximately 108,000 square meters in Lima Industrial Park.
Logistics growth to accelerate with further e-commerce penetration

Logistics operators are also expanding in Southeast Asia, driven by strong domestic trends such as further e-commerce penetration, growing intra-regional trade and the improvement of logistics efficiency in emerging Southeast Asia countries in the last few years. Vietnam and Malaysia have become attractive regional logistics hubs for global consumer companies while investments in Thailand and Indonesia are driven by e-commerce companies drawn to their expanding domestic consumer bases.

A study by Google and Temasek Holdings expects the e-commerce market in Southeast Asia to grow 20% CAGR to USD 90 billion by 2025. The largest market, Indonesia is expected to have an e-commerce market of over USD 45 billion in 2025. The study expects e-commerce sales to reach 5-8% of total retail sales by 2025, up from 1-3% currently.

Fig 10: E-commerce market in Southeast Asia

![Fig 10: E-commerce market in Southeast Asia](image_url)

Source: Google, Temasek Holdings

Amongst Southeast Asian countries, Thailand, Vietnam and Malaysia have the most efficient logistics operations, according to World Bank's Logistics Performance Index (LPI).

Fig 12: Logistics Performance Index (global ranking)

![Fig 12: Logistics Performance Index (global ranking)](image_url)

Source: Global CEO Survey by Deloitte, 2016
Vietnam’s logistics performance improved the most in the last three years and is now ranked 39th globally compared to 64th in 2016. Indonesia also moved up to 46th from 63rd rank. Singapore, Japan and Hong Kong are still the most efficient logistics hubs.

Examples of logistics firms that have expanded in Southeast Asia in the last two years:

- **Malaysia attractive as a regional logistics hub:** IKEA will invest almost USD 250 million (MYR 1 billion) in a regional distribution centre in Pulau Indah Industrial Park, scheduled to be completed by September 2019. The 100,000 sqm facility will serve IKEA’s twelve locations in Southeast Asia and is IKEA’s third largest distribution hub after Chicago and Dusseldorf.

- **Broadcom** opened its 150,000 sf global distribution warehouse on a 2 hectare site in Penang. Broadcom targets an annual export revenue of RM65 billion, making it the largest electrical and electronics exporter in Malaysia. The facility will serve as a central storage place for Broadcom’s global inventory for products manufactured in the U.S., Taiwan, South Korea, Thailand and Malaysia before being distributed worldwide.

- **Thailand logistics demand driven by domestic e-commerce growth:** In 2016, DHL set up a 3,000 sqm distribution centre in Bangkok and 20 more in other provinces. In 2017, DHL has set up another distribution centre, Eastern Gateway Service Centre comprising of 2,382sqm in Chachoengsao. Lazada has also expanded to a 17,000sqm warehouse in TPark Bangplee 3 in 2015.

- **Vietnam attracting investments by Korean operators:** In 2017, Korean logistics company, CJ Logistics acquired 50.9% shares of Gemadept Shipping Holdings, one of the leading enterprises in port operations and logistics in Vietnam. Samsung SDS, a subsidiary providing information technology services, set up a joint venture with Minh Phuong Logistics - one of the largest trucking businesses in Vietnam in 2017.

- **Indonesian e-commerce companies expanding in modern purpose built facilities:** The biggest single e-commerce occupier, Lazada is Indonesia’s single largest e-commerce occupier and is expanding their build-to-suit facility to 77,000 sqm from the existing 30,000 sqm. Li and Fung logistics recently signed an agreement to lease 21,000 sq m of a build-to-suit property at Jababeka Industrial Estate.

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Fig 13: Logistics Performance Index – Competence and quality of logistics services (global ranking)

<table>
<thead>
<tr>
<th>Country</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>77</td>
<td>69</td>
</tr>
<tr>
<td>Indonesia</td>
<td>62</td>
<td>55</td>
</tr>
<tr>
<td>Malaysia</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>Vietnam</td>
<td>49</td>
<td>33</td>
</tr>
<tr>
<td>Thailand</td>
<td>32</td>
<td>30</td>
</tr>
<tr>
<td>Taiwan</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>China</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Korea</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Singapore</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>


The index measures six components including (1) efficiency of customs and border clearance; (2) quality of trade and transport infrastructure; (3) ease of arranging competitively priced shipments; (4) competence and quality of logistics services; (5) ability to track consignments and (6) frequency where shipments are delivered on schedule. Vietnam and Indonesia improved the most on their logistics quality and competency.
Supply of industrial and logistics facilities keeping pace with demand

Due to the strong demand for industrial and logistics facilities in Southeast Asia, more developers and funds have started to add to their investments in this arena over the past 3 years.

International investors have entered Vietnam and Indonesia in joint ventures with local groups:

**Vietnam**

- **BW Industrial Development**, a joint venture between **Becamex IDC and Warburg Pincus**, has acquired over 2 million sqm of industrial land across Vietnam and aims to be the largest industrial developer in Vietnam. The group has started developing ready-built factories in Binh Duong Province. Currently, they are building 310,000 sqm of factories out of a total landbank of 680,000 sqm in Bau Bang IP and My Phuoc 3 IP.

- **Woojin Global Logistics** from Korea completed a 40,000 sqm warehouse in Bac Ninh Province in 2018 and will expand further in 2019.

- **Gaw Capital and NP Capital Partners** have established an industrial platform called “Gaw NP Industrial” with the intention to invest up to USD 200 million in industrial developments in 2019.

**Indonesia**

- Local group **Mega Manunggal Property** partnered with the **Government Investment Corporation of Singapore**, in 2015 and is now the biggest player in the modern logistics warehouse market in Indonesia, with a large current portfolio and a handful of projects in the pipeline.

- **Logos Indonesia** Logistics Venture, backed by **Canada Pension Plan Investment Board (CPPIB)**, have acquired a 23 hectare site at Deltamas, Bekasi and a 5.4 hectare site at Cileungsi, Bogor. The group is currently developing a 193,000 sqm 3-storey warehouse in Bekasi.

- **Daiwa House**, in a joint venture with a local company (BEFA), have speculatively built and leased 50,000 sq m of Grade A warehouse space at MM2100 Industrial Estate, Bekasi. They are actively acquiring additional sites and currently have another 55,000 sq m under construction.

**Philippines, Thailand and Malaysia**

In these markets, local developers are dominating industrial and logistics development:

- **In the Philippines**, **Ayala Land, Inc.** partnered with Leonio Landholdings, Inc., an oil tanker and logistics company to develop a 41-hectare industrial park in Pampanga. Ayala’s infrastructure unit also partnered a subsidiary of Zalora operator to launch Entrego Fulfillment Solutions, Inc., a PHP 1-billion investment that will cover a 12,000-square metre factory in Metro Manila. These facilities are all expected for completion in 2019. Ayala Land’s joint venture with Mitsubishi Corporation will be developing a 118-hectare Cavite Technopark in Region IV-A (Calabarzon).

- **In Thailand**, **WHA Corporation PCL and Frasers Property** have both undertaken significant M&A investments in recent years. In 2015, WHA acquired Hemaraj Land and Development PCL to become the largest integrated developer of industrial estates and logistics parks. Beginning in 2016 and completing in early 2019, Frasers Property has completed its acquisition TICON Industrial Connection PCL, making it the second largest integrated industrial developer in Thailand. Collectively WHA and Frasers Property have approximately 75% market-share in the Thai logistics sector.

- Malaysia’s industrial properties are still predominantly built by owner occupiers. For example, Alpha Galaxy & Continental Tyres is building a 1.5 mil sqft warehouse facility for its national distribution centre. Some build-to-suit projects are being undertaken by REITs and logistics operators. For instance, Axis REIT is developing a RMR210.93 million for Nestle (M) Bhd, which signed an initial lease term of 10 +3 +3 years. Tasco Bhd is building a temperature-controlled logistics hub for the world’s largest producer of microcontrollers and microprocessors, Renesas Electronics Corporation, in the Digital Free Trade Zone in Sepang.
Yields on cost

In Indonesia and Vietnam, the yield on cost of developing industrial facilities can reach 10-12%. While these are not much higher than the cost of debt, rental growth is likely to be strong given average annual inflation of 3.5-4.5%.

In more mature markets such as Thailand, Philippines and Malaysia, yield on cost of developing industrial facilities is lower, at around 7-8%. As most developers take on loans equivalent to 50-70% of development cost, effective cash on cash yield can be attractive at 11-15%.

Fig 14: Estimated yield on cost of developing an industrial property in Southeast Asia (updated March 2019)

<table>
<thead>
<tr>
<th>Market</th>
<th>Yield on cost (%)</th>
<th>Typical cost of debt (%)</th>
<th>Typical LVR</th>
<th>Yield spread over debt cost (bps)</th>
<th>Cash-on-cash yield (%)</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>10-12%</td>
<td>10-12%</td>
<td>50-70%</td>
<td>0-200 bps</td>
<td>10-15%</td>
<td>2-3%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11-12%</td>
<td>10-11%</td>
<td>up to 70%</td>
<td>100-200 bps</td>
<td>12-15%</td>
<td>3-4%</td>
</tr>
<tr>
<td>Philippines</td>
<td>8-9%</td>
<td>6-6.5%</td>
<td>60%</td>
<td>200 bps</td>
<td>10-14%</td>
<td>3-4%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7-8%</td>
<td>5.5-6.5%</td>
<td>60-70%</td>
<td>100-200bps</td>
<td>8-12%</td>
<td>1-2%</td>
</tr>
<tr>
<td>Thailand</td>
<td>7-8%</td>
<td>5-6%</td>
<td>40-50%</td>
<td>200-300bps</td>
<td>8-11%</td>
<td>1-2%</td>
</tr>
</tbody>
</table>

Source: JLL Research estimates
JLL data on the industrial markets in Southeast Asia

JLL has actively engaged with developers and industrialists in Southeast Asia over the last few years and undertaken detailed consultancy studies for investors and operators. We initiate coverage of the industrial markets in five countries providing data on stock, supply in the pipeline, rents and prices on a six monthly basis.

Across the region in our coverage, the stock of industrial property has grown by 11-16% CAGR over the last 3 years. Land prices have also appreciated by 2-8% CAGR over the last five years. Land prices appreciated the most in Vietnam, by about 45% over the last five years. While Greater Jakarta industrial land prices have increased by a modest 29% over the last five years, this was preceded by a three-fold increase in 2010-2013.

Fig 15: Industrial land prices in Southeast Asia

Source: JLL, 2018

For more information on Southeast Asia industrial outlook and data services, please reach out to the authors of this note.
Country Snapshot: Indonesia

Despite a massive uptick in interest over the past few years, the modern logistics warehouse market remains relatively immature in Indonesia. The first port of call for developers and investors looking to gain a foothold in the market is Jakarta and Greater Jakarta or Jabodetabek (the latter an abbreviation of the five cities which make up the greater metropolitan area; Jakarta, Bogor, Depok, Tangerang and Bekasi). Greater Jakarta is one of the world’s most populated urban areas with upwards of 30 million people meaning that the potential for industries such as e-commerce and consumer goods is huge in the capital city region alone.

While the law requires manufacturers to locate their facilities on established industrial estates, there is more flexibility for warehouses, which are permitted to be built both on industrial estates as well as industrial zoned land in other areas of the city. While industrial estates can be found all around the metropolitan area, areas to the east of Jakarta in Bekasi and Karawang have emerged as favoured locations for industrial developers and occupiers. The Bogor area to the south also remains extremely popular as a warehouse location but land availability is much more limited in this location. A number of the Industrial estates in the Bekasi and Karawang areas were originally joint ventures between local and Japanese groups. Well-established infrastructure and facilities ensure the enduring popularity of these areas. There is good toll road access from the Tanjung Priok Port and the city, and the Jababeka Industrial Estate is home to a dry port while further infrastructure developments are set to improve accessibility to this key industrial area.

Vietnam’s logistics performance improved the most in the last 3 years and is now ranked 32nd globally compared to 64th in 2016. Indonesia also moved up to 46th from 63rd rank. Singapore, Japan and Hong Kong are still the most efficient logistics hubs.

The index measures six components including (1) efficiency of customs and border clearance; (2) quality of trade and transport infrastructure; (3) ease of arranging competitively priced shipments; (4) competence and quality of logistics services; (5) ability to track consignments and (6) frequency were shipments are delivered on schedule. Vietnam and Indonesia improved the most on their logistics quality and competency.
With only c. 1.5 million sqm of modern warehouse stock in Greater Jakarta, the market is undersupplied despite a huge uptick in interest from developers in the past few years. Most of the existing stock is full or nearly full and the future supply pipeline is growing as investors look to meet the needs of occupiers. A handful of international groups are active; Logos is perhaps the largest market entrant in recent years with a 200,000 sqm facility under construction and a number of others in the pipeline. Mega Manunggal Property (MMP) has the largest portfolio of existing and upcoming supply amongst local players; MMP and Singapore sovereign wealth fund GIC announced a partnership a few years ago.

In terms of occupier types, third party logistics companies (3PLs) are the largest single occupier type but e-commerce is rapidly growing and consumer goods groups and tenants supporting manufacturers (of automotive companies for example) are also active. Increasingly, tenants are demanding facilities with higher specifications in order to maximise efficiencies. However, due to a lack of existing stock, options for immediate expansion are limited. We expect more investors and developers to enter the market to meet this need in 2019.
Country Snapshot: Vietnam

In 1986, Vietnam only had 335 hectares of land dedicated to industrial use. In the last three decades, Vietnam has grown rapidly into one of the brightest manufacturing destinations in Southeast Asia and the country now boasts more 80,000 hectares[1] of industrial land.

The main reason for the strong growth is Vietnam’s attractiveness as a central production hub that offers an alternative to China, backed by 1) the country’s advantageous location, 2) encouraging business environment, 3) competitive labour costs. This has helped the country establish itself as an export-driven economy. As the industrial market enters a new phase and gradually moves up the value chain, the opportunity for industrial development in Vietnam lies in the product / typology offering, product quality, and infrastructure connectivity. Approximately 40,000 hectares[1] of additional land is planned for industrial development across the country, and thus opportunities exist in the Vietnam market for existing players and new market entrants to access land bank and capture market share.

As said, Vietnam with its various advantages has succeeded in attracting manufacturing corporations over the past decade who are continuing to expand in scale, typically Samsung, LG or Unilever. These high-profile corporations have gradually driven the country’s export activities to the next level since their appearance. For instance, Samsung alone has contributed 25% to Vietnam’s total export in 2018. As these large manufacturers – known as Queen Bees – have relocated their factories, a series of suppliers have also spilled into Vietnam and created a strong wave of investment in industrial parks.

In the south, Becamex and Sonadezi are the two leading developers with their land bank at over 6,000 ha and 4,290 ha respectively, whilst the developers in the North appear to have less land bank, ranging between 1,300 – 2,300 ha. Given the favourable fundamentals, the Vietnam market has gathered pace over the last few years for further industrial growth. The establishment of BW Industrial Development, a joint venture between Warbus Pincus and Becamex IDC in early 2018, which has established itself as the largest for rent industrial and Logistics developer, suggests the attractiveness of Vietnam’s market. Alongside the escalating USA-China trade war, Vietnam is seen as a promising destination for industrial development, receiving increased interest from big funds and manufacturers.
Key Developers

- Becamex IDC: 8%
- Sonadezi: 5%
- VSIP: 5%
- Kinh Bac City: 4%
- IDICO: 4%
- Viglacera: 3%
- Vid Group: 2%
- Tin Nghia Corp: 2%
- Other: 67%

Source: JLL

Key Occupiers by Sectors

- Machinery and Equipment N.E.C: 20%
- Computer, Electronics and Optical Products: 13%
- Textile and Apparel: 12%
- Food and Beverages: 11%
- Paper and Paper Products: 11%
- Fabricated Metal Products: 9%
- Rubber and Plastics Products: 7%
- Furniture: 7%
- Chemicals and Chemical Products: 6%
- Other: 4%

Source: JLL
North Key Economic Zone (NKEZ)

- Total Land Area (ha): 18,900
- Total Ready Built (sqm): 2,700,000
- Average Net Rent (sqm/lease term): USD 78.3
- Average Net Rent (sqm/month): USD 4.1
- Range of Average Rent of Cities/provinces in NKEZ (sqm/lease terms): USD 54.0 - USD 78.3
- Range of Average Rent of Cities/provinces in NKEZ (sqm/month): USD 4.1 - USD 5.7
- Occupancy Rate: 82%

Central Key Economic Zone (CKEZ)

- Total Land Area (ha): 17,600
- Total Ready Built (sqm): 229,500
- Average Net Rent (sqm/lease term): USD 33.4
- Average Net Rent (sqm/month): USD 2.9
- Range of Average Rent of Cities/provinces in NKEZ (sqm/lease terms): USD 22.5 - USD 55.5
- Range of Average Rent of Cities/provinces in NKEZ (sqm/month): USD 2.5 - USD 3.0
- Occupancy Rate: 52%

Southern Key Economic Zone (SKEZ)

- Total Land Area (ha): 44,700
- Total Ready Built (sqm): 3,040,000
- Average Net Rent (sqm/lease term): USD 74.2
- Average Net Rent (sqm/month): USD 3.1
- Range of Average Rent of Cities/provinces in NKEZ (sqm/lease terms): USD 33.0 - USD 150.0
- Range of Average Rent of Cities/provinces in NKEZ (sqm/month): USD 2.0 - USD 5.0
- Occupancy Rate: 77%

Source: Extracted from “Vietnam| Southeast Asia’s New Industrial Powerhouse”, July 2018
Country Snapshot:

Thailand

Thailand is Southeast Asia’s second largest economy and recorded healthy year-on-year GDP growth in 2018 of 3.9%. Rising consumer confidence levels spurred increases in retail sales and private consumption more generally, supporting wider growth and is having positive downstream impacts in the logistics industry, particularly through supporting the growth of e-commerce providers and related third-party logistics firms (3PLs). Thailand’s e-commerce sales have grown by 49.4% CAGR since 2015 and are expected to continue growing rapidly through to at least 2025, at which point, e-commerce may account for as much as 8% of total retail sales, up from 3% in 2018. Major Asian e-commerce providers are leading the way for logistics growth, with Shopee from Singapore taking up space in logistics parks and Lazada and JD.com from China making their own direct investments into the logistics space with local partners to support future growth.

Thailand’s traditionally strong manufacturing sector, which accounts for about 28% of the national economy was buoyed by USD 13.2 billion in foreign direct investment (FDI) in 2018, the third highest figure on record, 40.7% of which flowed into the manufacturing sector.

Japan is historically the largest contributor to Thailand’s total FDI and accounted for 42.7% of FDI in 2018. Hong Kong and Singapore come in second and third, respectively accounting for 15.4% and 13.1% of FDI in 2018.
Key growth drivers for Thailand’s manufacturing sector and related FDI in recent years include automotives, electronics and agro-manufacturing products.

We estimate Thailand’s current total stock of logistics properties to be 4.6 million sqm as of the end of 2018. The modern logistics sector is dominated by two firms, Frasers Property Thailand PCL and WHA Corporation PCL. Collectively Frasers and WHA have captured approximately 75% market-share, as measured by total stock. The dominant position of the two firms is the result of large-scale merger & acquisition activity over the last 3-4 years, with WHA acquiring Hemaraj Land and Development PCL in 2015 to become Thailand’s largest integrated developer of industrial solutions, while Frasers Property completed its acquisition of TICON Industrial Connection PCL in early 2019, making it the second largest integrated industrial developer in Thailand.

Thailand’s Eastern Economic Corridor (EEC), spanning the provinces of Chachoengsao, Chonburi and Rayong continues to be the most attractive location in the country for both manufacturing and logistics growth.

The EEC provinces account for about 13% of Thailand’s GDP, while accounting for less than 5% of the national population.

The Thai government has implemented a number of incentive policies and programs to facilitate future industrial growth in the EEC via the Board of Investment (BOI). These incentives include substantial tax breaks and promoting specialised investment into existing industrial areas that contain high priority / high value-add sectors, such as automotive and electronics manufacturers. In addition, there are a number of major infrastructure projects either underway or set to kick off by the end of 2019 including roads, railways, airports and seaports, all of which should support future demand for the industrial and logistics hubs in the area.

Top 5 Sources of FDI into Thailand, 2013 to 2018 (Cumulative, USD Billion)

- Japan 28.3 52%
- Others 7.4 14%
- China 2.6 5%
- United States 4.9 9%
- Singapore 5.1 10%
- Hong Kong 5.6 10%

Source: Research and Consultancy, JLL Thailand

Eastern Economic Corridor Area (EEC) and Infrastructure

Source: Research and Consultancy, JLL Thailand
The Philippines has maintained its position as one of the fastest growing economies in Southeast Asia, with GDP expanding 6.1% in 2018. The manufacturing sector is a stable contributor to the economy, with gross value-added of over USD 40 billion for the year. Top contributors are in food, chemicals, and radio, television, and communication equipment.

Industrial properties within commercial centres such as Metro Manila are often converted to residential and office developments due to the high demand. Industrial development is pushed to land located outside of Metro Manila, such as south to Cavite, Laguna or Batangas, and north to Bulacan and Pampanga, which are considered part of the Greater Manila Area.

The Greater Manila Area has the largest concentration of industrial parks given the available large tracts of land, the strategic location adjacent to Metro Manila, and access to airports and seaports. As of end-2018, the Greater Manila Area had total industrial stock of around 45 million square metres, comprising industrial parks and prime location industrial facilities.
We expect further growth in manufacturing and industrial development due to incentives from the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA). Incentives are available to both developers and locators, with benefits including tax holidays and special tax rates for select industries, including export manufacturing, logistics and warehousing services, and economic zone development and operation. Land values of industrial lots in accredited industrial parks range from USD 61.41 to USD 182.30 per square metre per month, while industrial warehouses range from USD 2.40 to USD 5.76 per square metre per month. Warehouse rates have grown at CAGR of 5.8% since 2009, and at 8.1% y-o-y in 2018.

Due to the recent infrastructure push, major real estate developers in the Philippines have started taking an interest in the industrial property sector, even extending beyond the Greater Manila Area. For example, Ayala Land, Inc. (ALI) and DoubleDragon Properties Corporation started to grow their industrial exposure in 2018. ALI’s Alviera Industrial Park, a 41-hectare industrial park in Pampanga, is set for completion in 2019. The company also launched Entrego Fulfillment Solutions, Inc., a USD 19 million logistics business. Cavite Technopark was a notable addition to the industrial stock of ALI in 2018. DoubleDragon Properties Corporation has initiated industrial warehouse developments through CentralHub. Their first project in Tarlac is completing soon while a second project in Iloilo is commencing construction; the company is acquiring land for its third site in Danao, Cebu.

The 9,450-hectare New Clark City is a key upcoming industrial development and is located in Capas, Tarlac. The entire development, a total of five phases, is expected to take 30 years to complete. Accessibility to the project will be enhanced with the construction of a seven-kilometre, six-lane highway that will link New Clark City to MacArthur Highway and the Clark Freeport Zone in Angeles, Pampanga. The highway will be completed by end-2019. The first phase of the development includes a mixed-use industrial estate of 288 hectares, to be developed by Filinvest Land, Inc. through a joint venture. Construction had started in 2016 and is slated to complete by 2022. In its masterplan, a part of New Clark City has been allocated for a food-processing terminal and international food market, looking to invest in storage, processing, handling and distribution of agricultural products within the agro-industrial zone.
Country Snapshot: Malaysia

While economic growth moderated in Malaysia to 4.7% in 2018 from 5.9% in 2017, approved private investments in the manufacturing sector grew strongly by 37.2% to RM87.4 billion in 2018. The growth was driven by electronics and electrical, petroleum and chemical products.

Malaysia is an attractive global and regional distribution hub due to its central location, conducive government policies and competitive costs. In recent years, IKEA invested USD 250 million in a regional distribution centre to serve its twelve locations in Southeast Asia and this hub is IKEA’s third largest distribution centre after Chicago and Dusseldorf. Broadcom located its 150,000 sf global distribution warehouse in Penang to store products manufactured in the U.S, Taiwan, South Korea, Thailand and Malaysia before being distributed worldwide. Malaysia’s industrial properties are still predominantly built by owner occupiers while some build-to-suit projects are being developed by REITs and logistics operators on behalf of end-users. Axis REIT is one of the largest listed Malaysia REITs and focuses on industrial development and investment.
We expect demand for industrial property to stay strong, while supply could be limited. In 2018, total industrial units in Malaysia increased by only 2.0% to 117,414 units. In 2017, a Digital Free Trade Zone (DFTZ) was launched by Alibaba and the Malaysian government to promote exports by small and medium enterprises using e-commerce. This is the first overseas e-hub established outside of China and targets to attract regional trans-shipment and leverage on Malaysia’s strengths as a regional logistics hub. As of July 2018, over 3,800 small enterprises have participated in the DTFZ and received some RM52.1 million in sales. The DFTZ is comprised of three key components:

- **An e-fulfilment** hub to help small businesses export their goods with the help of leading fulfilment service providers and a centralized aviation, air cargo, and logistics facility close to Kuala Lumpur Internet City Aeropolis (KLIA). The first phase is operational and the second phase will be operational in 2020.

- **A satellite hub** to be developed at an estimated cost of RM5bn to connect small enterprises with leading players providing financing, last mile fulfilment, insurance and cross-border trade services. This hub is located in Kuala Lumpur Internet City and will have offline-to-online showrooms and training centres.

- **An e-services platform** to manage cargo clearance and other processes needed for cross-border trade.

The Malaysian government is also working to deepen the logistics supply chain. As of April 2018, MIDA had approved 89 Integrated Logistics Services (ILS) projects with total investment of RM5.9 billion. Companies providing integrated logistics services are eligible for Pioneer Status or Investment Tax Allowance as follows:

- **Pioneer Status** - Income tax exemption of 70% of statutory income for a period of five years.

- **Investment Tax Allowance** of 60% of qualifying capital expenditure incurred within five years from the date on which the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of statutory income.

The state of Selangor registered the most investments for the logistics sector as April 2018, with a total of 151 approved logistics investments that are related to the chemical, oil & gas, automotive, electronics and IT industries.