EXPLORING CHINA'S INFRASTRUCTURE PUSH

ACCELERATED INVESTMENT PLANS SET TO BOOST INDUSTRIAL PARK AND COLD CHAIN SECTORS

CUSHMAN & WAKEFIELD
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China's State Council announced a significant acceleration of infrastructure projects at its executive meeting held on Jan. 10, 2022. The session called on relevant bodies to push forward all major projects in key areas identified within the 14th Five-Year Plan (2021 – 2025) period, signaling a renewed impetus towards infrastructure investment. The meeting also pledged to streamline administrative procedures for ready-to-go projects to further speed up implementation.

The move comes against a backdrop of slower economic growth in China, amid domestic challenges stemming from COVID-19, including demand contractions, supply shocks and weakening sentiment, as well as continuing complexities and uncertainties in the global environment.

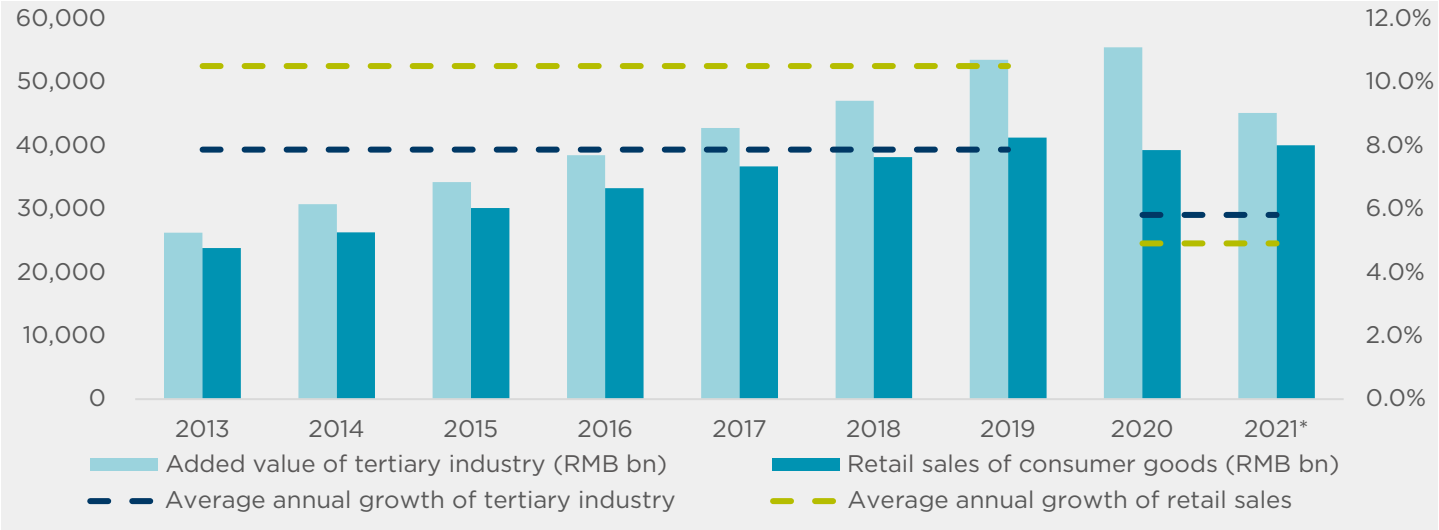
A slowdown in consumption growth presents a particular challenge for China. According to data from the country's National Bureau of Statistics, total retail sales of consumer goods grew at an average of 4.9% over the past two years, much lower than the average annual growth of around 10.5% seen from 2013 to 2019. Sporadic outbreaks of COVID-19 across the country have further dented consumer confidence, hindering efforts to boost economic growth in 2022 through stimulating domestic demand.

At the same time, the pandemic has heavily impacted micro-, small-, and medium-sized enterprises, together with the tertiary industry. The average annual growth rate of the tertiary industry for the period 2020 to Q3 2021 was at 5.8%, substantially down on the average annual growth rate of 7.9% seen from 2013 to 2019.

In response, according to the State Council meeting, the country should now place a higher priority on stabilizing economic growth, maintain the strategy of expanding domestic demand, and take targeted actions to boost consumption and investment.

In this summary report we explore why the government's pledge of accelerated infrastructure investment in 2022 will spur growth in the industrial park real estate sector, and why rising incomes should promote recovery and expansion in consumer demand, with subsequent knock-on growth effects in the cold chain logistics industry.

Figure 1: China's Tertiary Industry and Consumer Goods Sales Trends, 2013 – 2021



Note: The tertiary industry data in 2021 is for Q1 to Q3, and the consumer goods retail sales data in 2021 is for January to November.
Source: National Bureau of Statistics

New Special Local Government Bonds Highlight Infrastructure, Industrial Parks, Cold Chain Logistics Areas

China's National People's Congress approved an additional RMB3.65 trillion of special local government bonds in 2021. By Dec. 15, 2021, bonds to the value of RMB3.42 trillion had been issued, accounting for 97% of the total quota granted.

In terms of investment allocation, around 50% of the issued bonds were assigned to transportation infrastructure, and industrial park and municipal infrastructure. A further 30% went to affordable housing projects and social undertakings such as health care, education, elderly care, and culture and tourism. The remaining 20% were allotted to a range of sectors including agriculture, forestry and water conservancy, energy, and urban and rural cold chain logistics facilities. These inflows have played an important role in expanding effective investment and maintaining stable economic performance.

For 2022, the Ministry of Finance and the National Development and Reform Commission have published a notice detailing allocations for new special local government bonds for the year. The update specifies nine key areas for investment allocation:

- Transportation infrastructure
- Energy
- Agriculture, forestry, and water conservancy
- Ecological and environmental protection
- Social undertakings
- Logistics infrastructure such as urban and rural cold chains
- Municipal and industrial park infrastructure
- Major national strategic projects
- Affordable housing projects

Industrial Park Real Estate Sector Set for Further Growth

Of the key investment target areas in 2021, and for 2022, the industrial park and cold chain logistics commercial real estate sectors deserve special attention.

China's active promotion and development of the high-tech internet industry has ensured that overall office market demand has remained robust throughout the past two years, despite the impact of COVID-19.

Consequently, industrial park properties suitable for the development of high-tech internet and biomedical firms have enjoyed high levels of activity, both in terms of leasing and for en-bloc transactions. Notable larger leasing transactions have included China Mobile's lease of approximately 25,000 sq m at Youdu Workshop Stage 3 in Shanghai, and Jiahui International Hospital's lease of 23,000 sq m at Pujiang International Life and Health City.

The Beijing industrial park market was also active in leasing transactions in 2021. Key examples included Kuaishou's lease of 86,000 sq m in Wanjia Denghuo Building, while Baidu Online leased more than 20,000 sq m at Telecom Creative Plaza, and Cumulon took 15,000 sq m in Aobei Science and Technology Park.

In addition, industrial park and warehousing real estate projects accounted for three of the five China public REITs in the real estate category launched in 2021, stoking capital markets' interest and attracting investors to boost investment allocations into the sector. For example, in 2021 the Beijing market completed six en-bloc transactions for industrial parks, at a total consideration of nearly RMB5 billion. The Shanghai market saw nine en-bloc transactions for industrial parks, for a total consideration of more than RMB7.6 billion.

With the acceleration of China's infrastructure investment decreed for 2022, we can expect the industrial park real estate sector to be well-positioned for further rapid expansion.

Rising Income Levels and Recovering Consumer Demand to Spur Cold Chain Sector Development

Steadily rising urban income levels in recent years have prompted growing demand among Chinese consumers for fresh goods, leading to rapid development of the domestic cold chain transportation industry.

This has been coupled with strong growth in e-commerce activity. China's fresh commodities e-commerce market was valued at RMB288.8 billion in 2019, up 19.1% year-on-year, and accounting for 5.6% of the country's total fresh-food retail market, according to data from Euromonitor and the Qianzhan Industry Research Institute. However, available facilities stock has been unable to keep pace with the burgeoning demand. China's total stock of cold storage facility space in 2019, at 6.65 million sq m, was just 2.1% of the nation's total logistics storage.

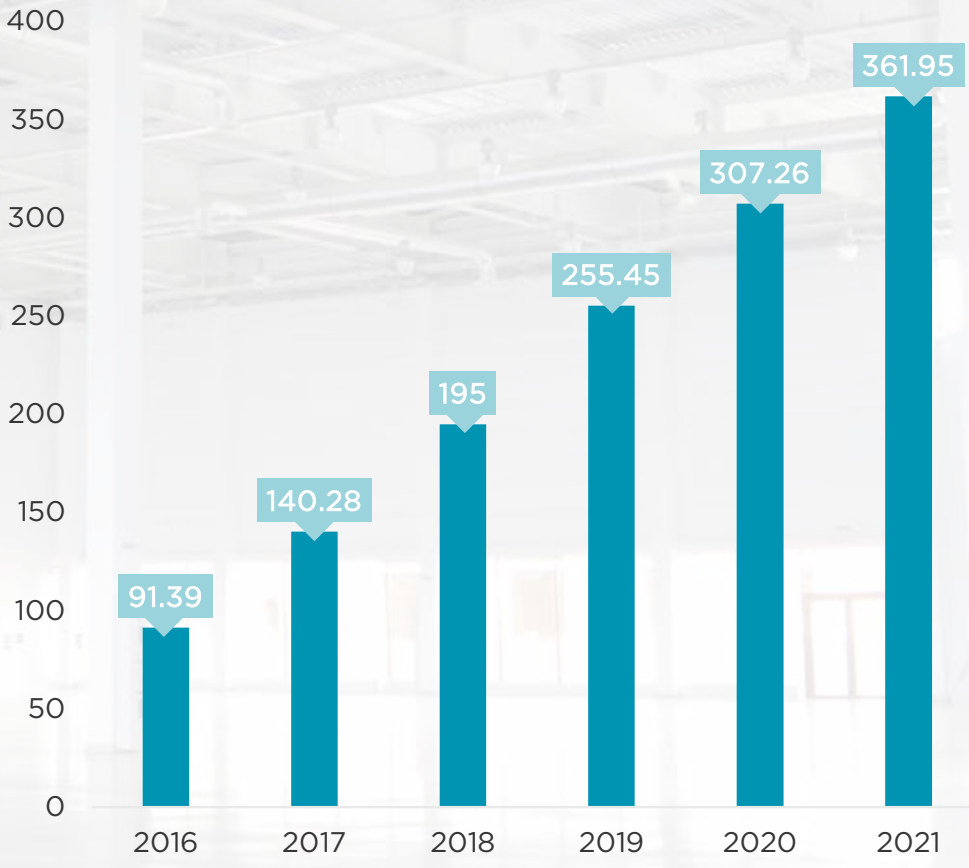
The outbreak of COVID-19 generated an additional impact on China's cold chain logistics industry, especially the cold storage sector. Pandemic containment measures such as social distancing pushed more shoppers online, even among demographic groups traditionally more comfortable with physical retail channels.

As a result, total online shopping volumes exploded, in turn further driving up online demand for various fresh goods and home medical and pharmaceutical supplies. According to AskCI Consulting, China's fresh commodities e-commerce market generated transaction volume of RMB361.95 billion in 2021, up fourfold from 2016's level.

The pandemic has also mandated China's food industry to redouble its efforts around the highest levels of food quality, safety, and storage, with subsequent additional demand for cold chain logistics and premium warehousing facilities.

Consequently, we expect demand in the cold chain logistics sector to continue to grow strongly into the future. Coupled with accelerated government investment in high-quality cold storage facilities, we see expedited development of such facilities through the 2021 – 2025 Five-Year Plan period, in turn drawing in ever greater numbers of developers, operators and investors into the sector.

Figure 2: China's Fresh Goods E-Commerce Transaction Value, 2016 – 2021 (RMB bn)



Source: CHNCI Research

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