



Industrial and Logistics Sector

May 2021

As the Philippine real estate industry continues to navigate through the post-pandemic setup, the outlook of the industry is geared towards the increased need for warehouses, distribution centers, and industrial lots that can support different business operations in the country and in a global scale.

Warehousing in the limelight

At the onset of the pandemic, industrial and logistics properties have been the most sought-after asset class. The sector taps into the rapid growth of online retail, while cold-chain storage and warehouses have been gaining traction amid the country's procurement and importation of COVID-19 vaccines.

There remains sufficient industrial land and construction costs are still stable, which is a good opportunity for CapEx spent.

Reaping the benefits from 'China Plus One' strategy

Countries will move towards a 'China Plus One' strategy, which diversifies and regionalize manufacturing activities that currently have supply chains interconnected with China. Manufacturers have been considering setting up shop in Southeast Asia to circumvent tariffs and increasing Chinese labor costs.

Technology and shifting supply chains set the stage

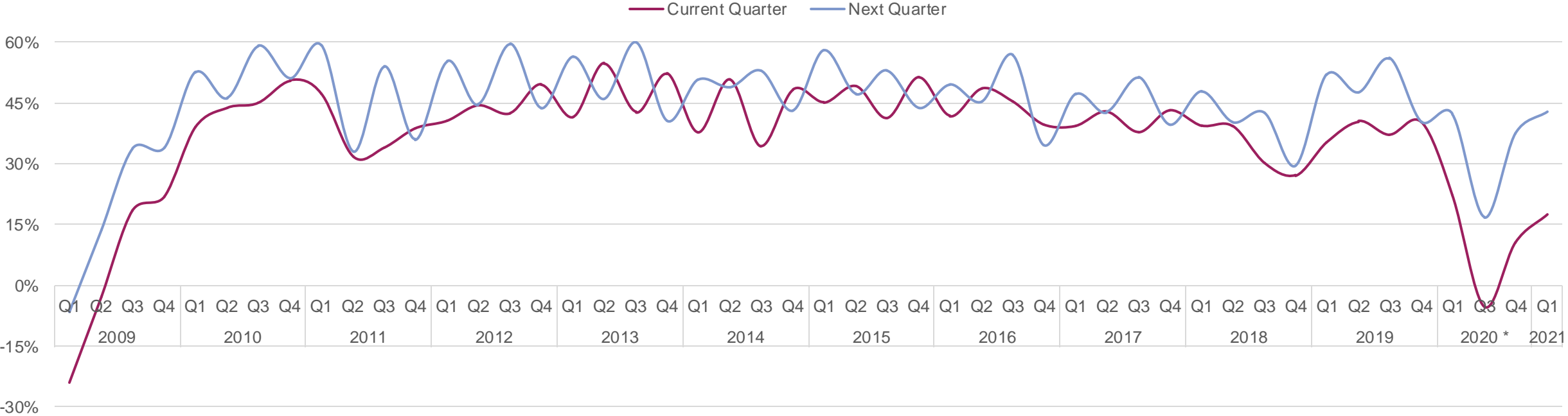
Although e-commerce in the Philippines accounts roughly only 1% of total retail sales, COVID-19 has pushed its potential to the limit. Revenue in e-commerce market is projected to reach US\$4.4 billion in 2021.

Meanwhile, supply chain disruption brought upon by the pandemic has led companies to reassess and strengthen supply chain resilience by expanding production and sourcing, which can translate to warehouse space demand.

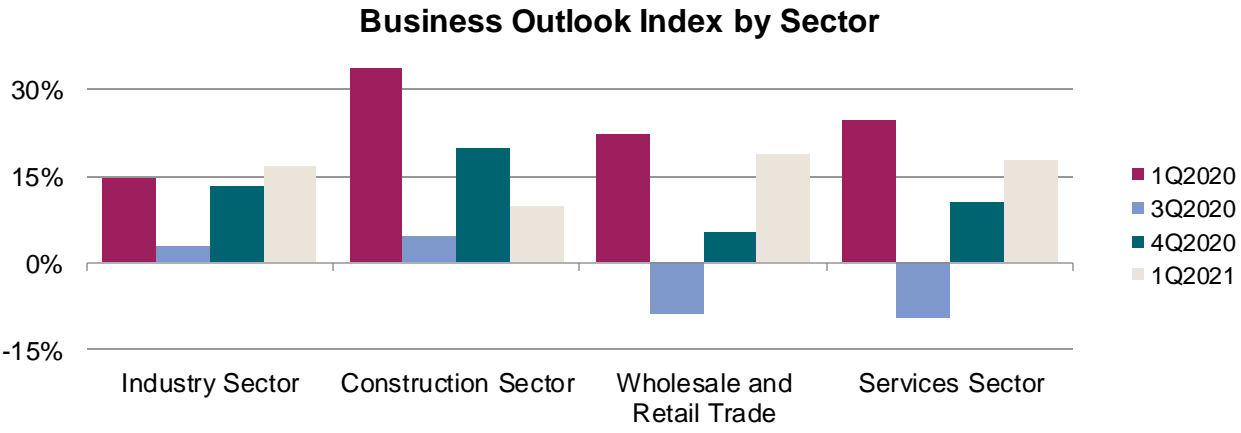
Location, location, location!

Location plays a strategic importance and proximity to population and transportation is paramount. Good locations are generally those with the best access to key delivery routes via airports, ports and major transportation hubs with proximity to cheap labor, consumers, and transportation connectivity.

Business outlook improving, but continuous rise of COVID-19 cases and reimposition of a strict lockdown threatens to stifle sentiment



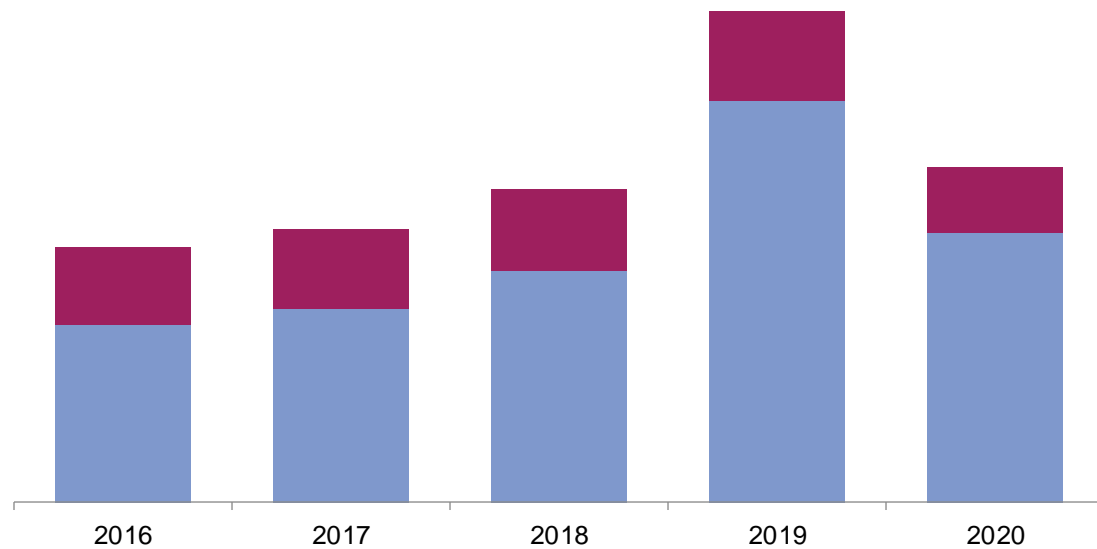
- As more companies adapt to the new normal, develop new business strategies and the rollout of vaccines, business optimism continues to pick up as it registered another increase for the second consecutive quarter
- However, lackluster demand and domestic competition remain to be the major risks to businesses



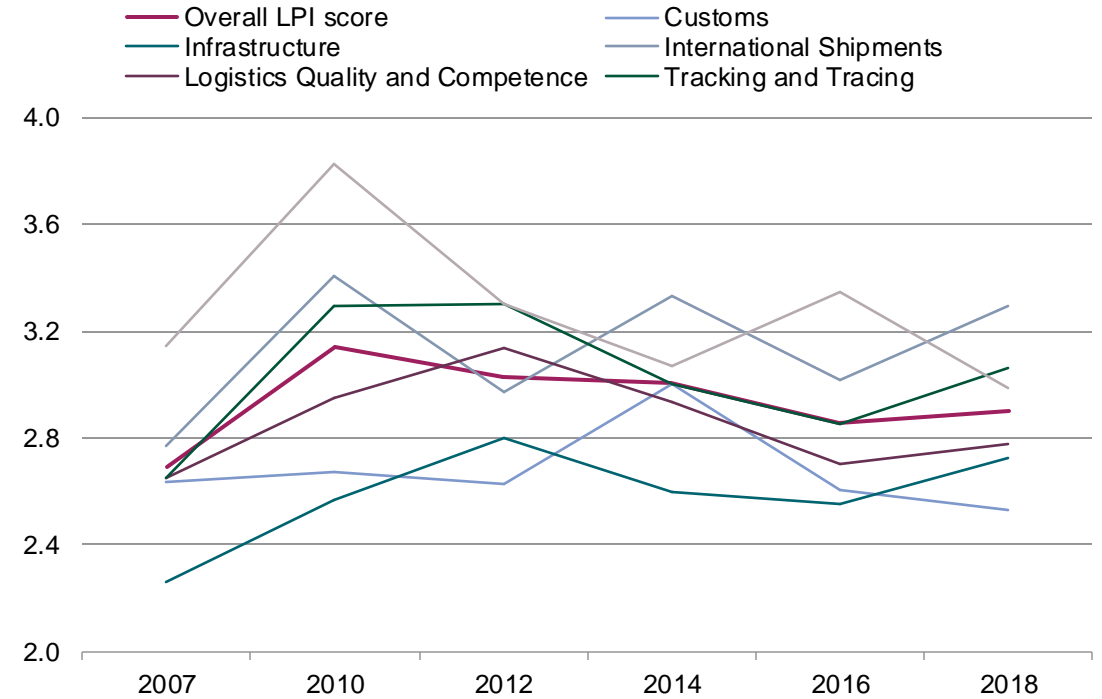
The logistics industry plays a significant and growing segment of the Philippine economy

Transportation & Storage % share to Philippine GDP

■ Rest of GDP
■ Transportation & Storage

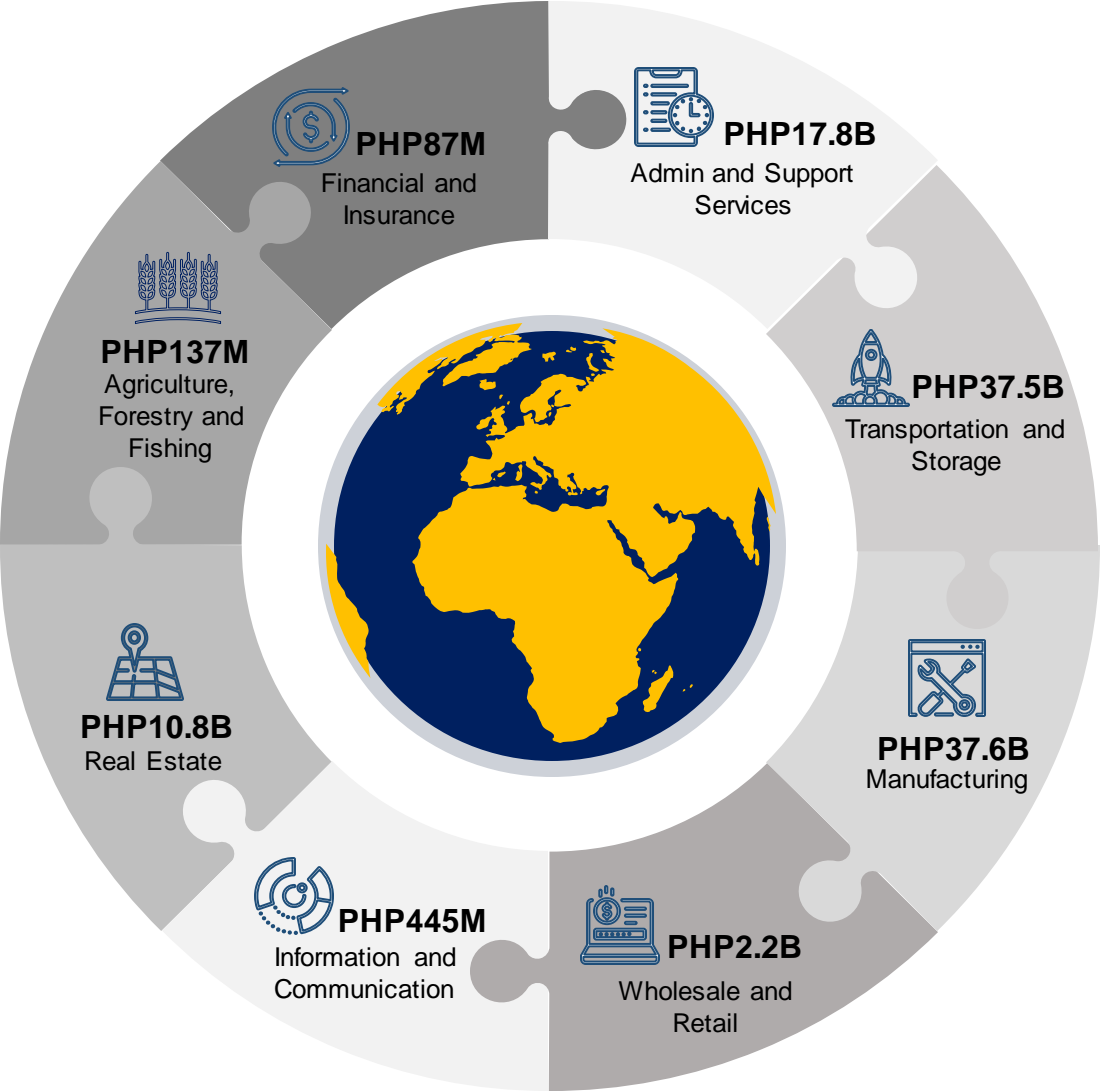


Philippines' Logistics Performance Index (LPI) Scorecard

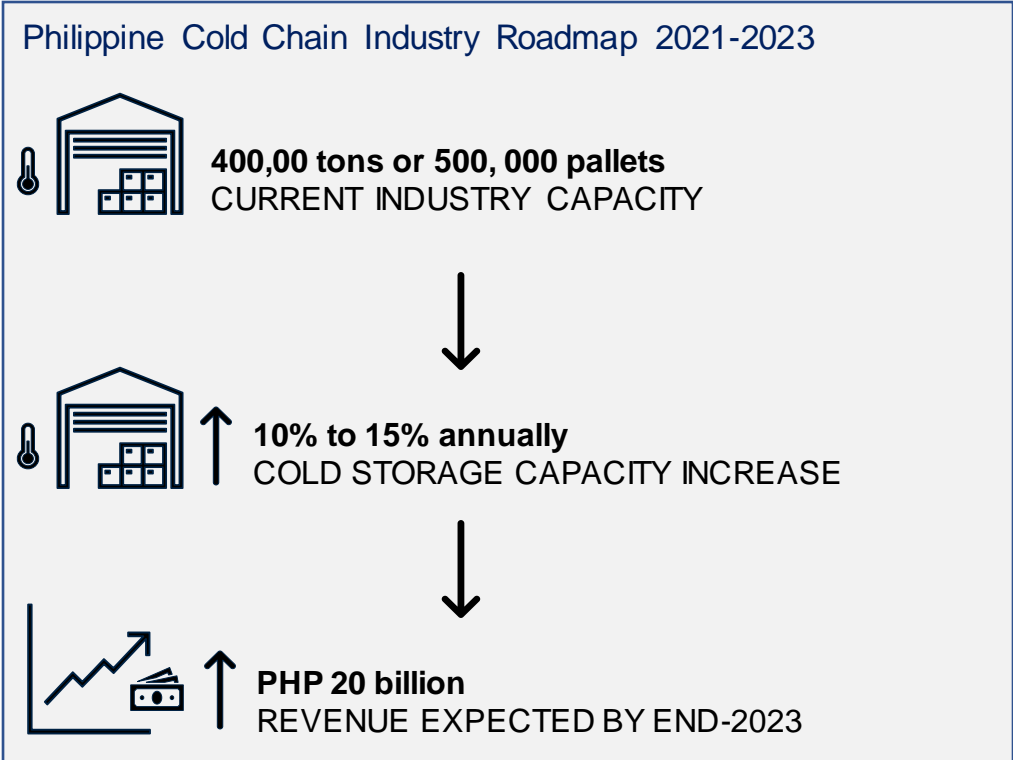


- Despite the country suffering in deep recession, transportation and storage remain an important factor in the growth of the economy, consistently accounting for around 4% of the Philippine GDP
- Philippines' overall Logistics Performance Index (LPI) shows improvement buoyed by progress in infrastructure and economical pricing of international shipments
- In terms of global ranking, the country improved 11 places to 60th spot out of 160 countries in the World Bank's LPI

Investment pledges for Transportation and Storage sector grew almost nine-fold in 2020



➤ Demand for highly specialized cold storage for pharmaceuticals, particularly vaccines, is expected to drive the sector



PH warehousing and logistics will benefit from relocation of manufacturing companies



- Expensive manufacturing wages in China has caused manufacturers to outsource to countries where worker wages are still low
- Countries in Southeast Asia are welcoming new manufacturing opportunities and streamlining the setup process for new companies



However, attracting these companies will be a challenge due to noncompetitive cost and ease of doing business in PH

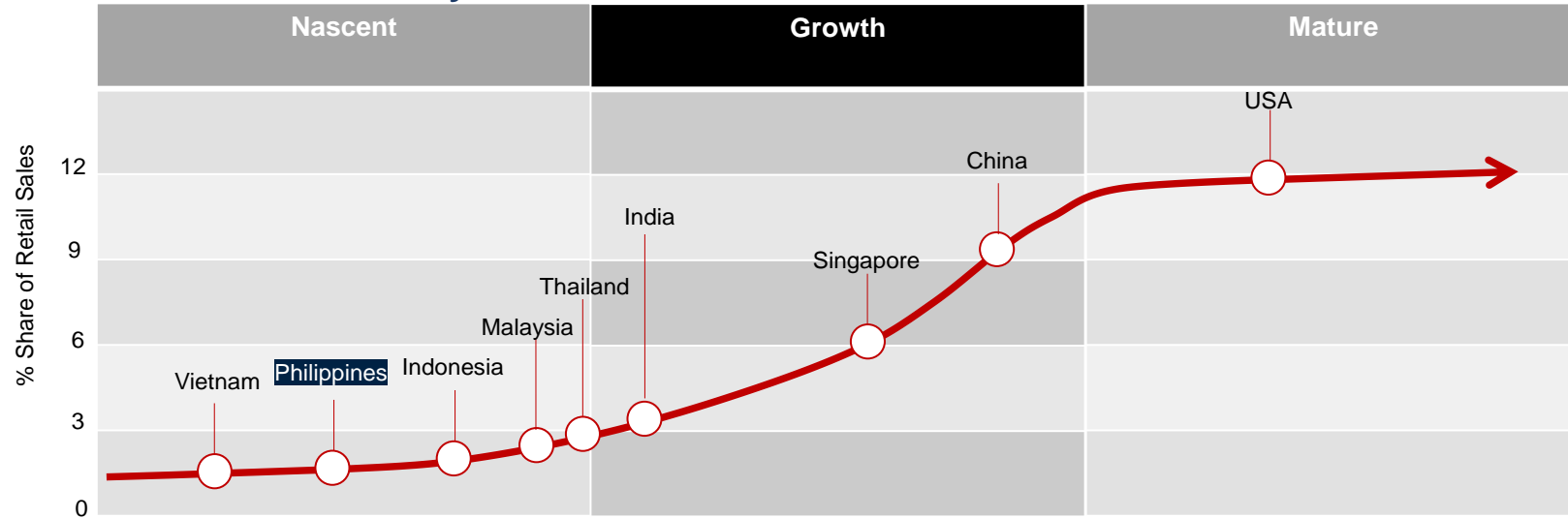
| Country | Quality of Labor | | Operating Costs | | Attractiveness | | | Construction Cost for Warehouse in the Philippines | | | | |
|--------------------|---------------------------|---------------------------------|----------------------------|----------------------------------|--|--|-------------------------------|---|-----------|-----------|-----------|-----------|
| | English Proficiency Index | Labor Force, 2017 (In Millions) | Electricity/ kWh (In US\$) | Minimum Wage / mo 2020 (In US\$) | Average Industrial Land Price /sqm (In US\$) | 2018 Political Stability Index (Highest:100) | Ease of Doing Business (Rank) | Building Type (USD / sq m, CFA) | 2017 | 2018 | 2019 | 2020 |
| Indonesia | 61 | 125 | 0.10 | 203 | 217 | 28 | 73 | Industrial Units, shell only | 450 - 460 | 445 - 501 | 485 - 538 | 519 - 584 |
| Vietnam | 52 | 55 | 0.08 | 253 | 104 | 54 | 70 | | | | | |
| Thailand | 74 | 38 | 0.12 | 324 | 183 | 20 | 21 | | | | | |
| Philippines | 20 | 43 | 0.19 | 256 | 108 | 13 | 95 | Owner operated factories, low rise, light weight industry | 560 - 650 | 598 - 677 | 685 - 789 | 697 - 872 |
| Malaysia | 26 | 15 | 0.06 | 269 | 225 | 54 | 12 | | | | | |
| Myanmar | 86 | 22 | 0.04 | 100 | 80 | 10 | 165 | | | | | |

➤ Despite the country's healthy workforce filled with able and highly skilled individuals, ease and cost of doing business in the Philippines has been a challenge compared to its ASEAN neighbors.

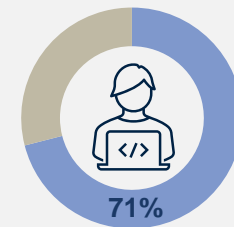
Increase in e-commerce spending will ramp up demand for warehouse space even in the provincial areas

- Revenue is expected to show an annual growth rate (CAGR 2020-2024) of 18.3%, resulting in a projected market volume of US\$4.4B by 2021
- One of the drivers of e-commerce growth is the untapped market in rural areas. It is expected that they will take advantage of shifting consumer behavior and will extend its reach driving demand for industrial space outside of NCR.
- Filipinos are one of the largest populations using the internet, spending at least an average of 10 hours a day on the web. This conveys the huge appetite of online consumers in the country
- Aside from the big e-commerce players, SMEs are emerging within the online retail market due to the popularity of online shopping. Social media platforms are widely used by small-scale entrepreneurs

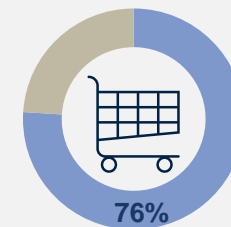
E-commerce Maturity of Select Countries



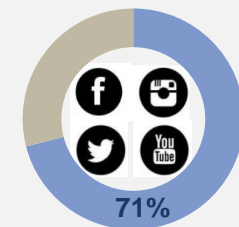
Internet and E-commerce Penetration Rate in the Philippines



or **76.6 million**
are internet users



of active internet
users **shop online**



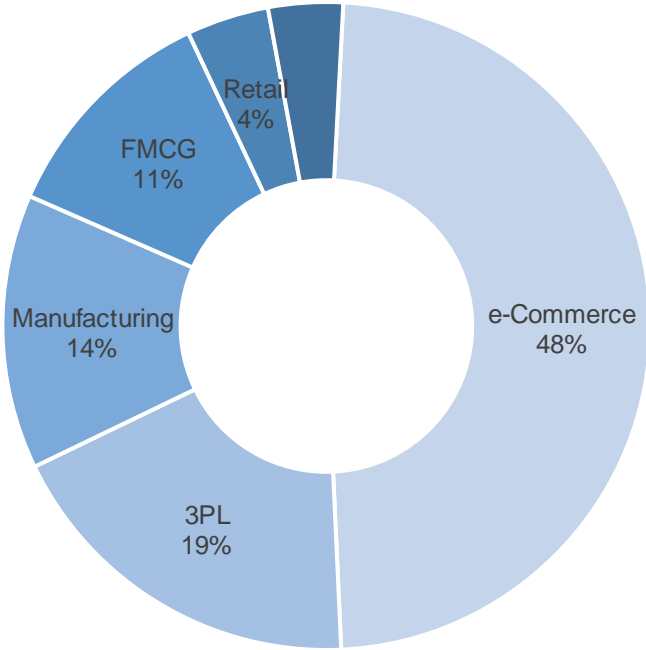
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Demand from e-commerce sector is driving the industrial segment



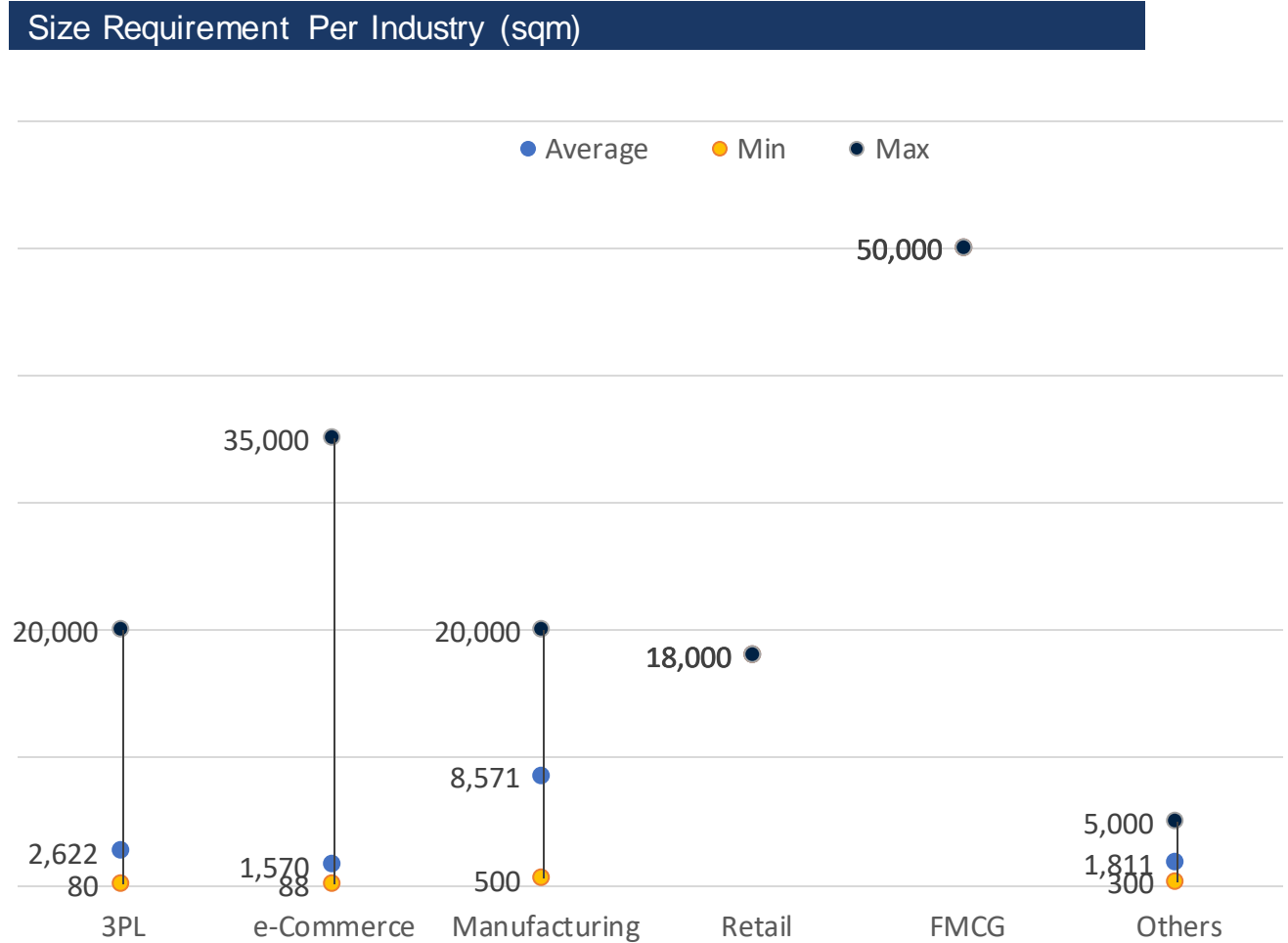
➤ E-commerce will continue to drive logistics leasing demand in 2021 as the pandemic accelerates the shift to omnichannel retailing

Warehouse Demand per Industry



Demand from e-commerce sector is driving the industrial segment

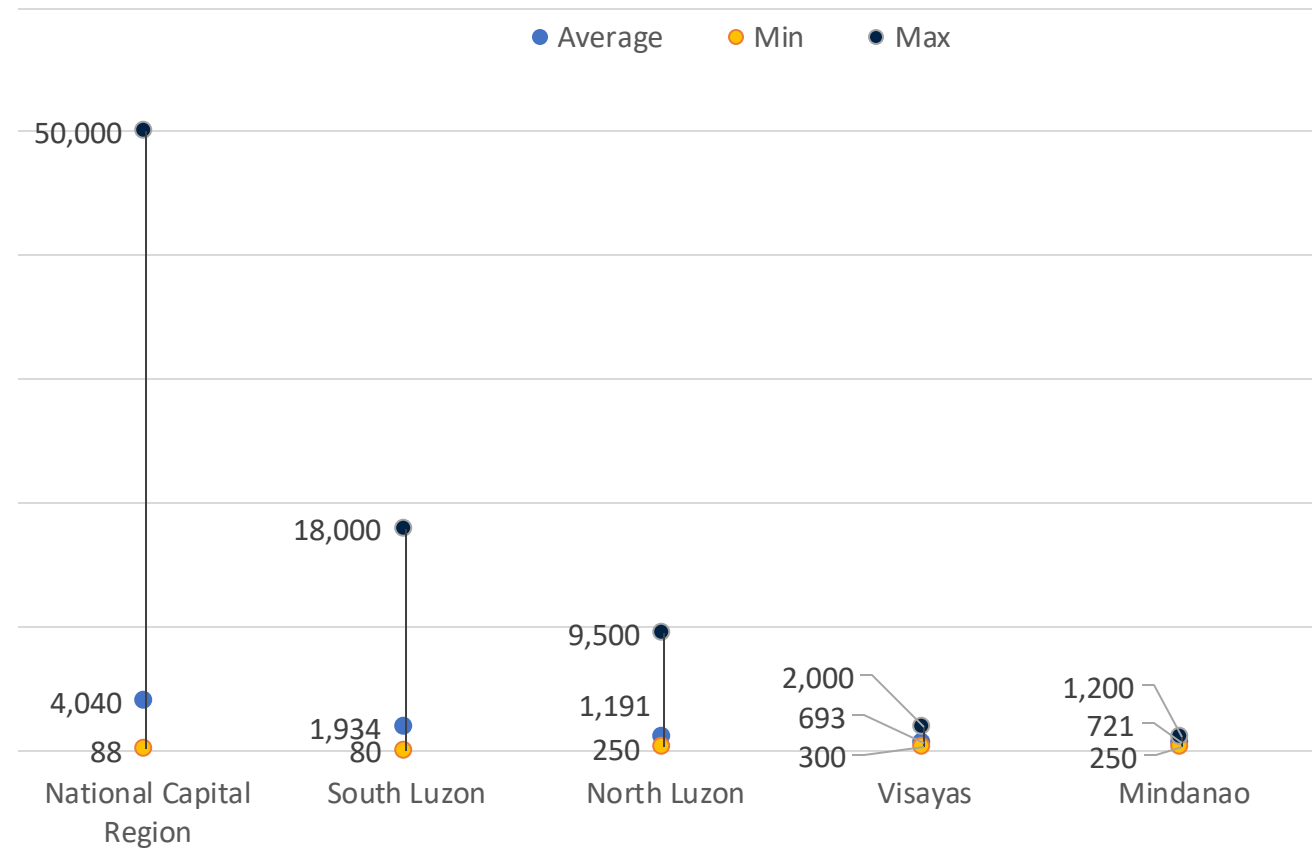
➤ E-commerce/3PL size requirements vary from 100 sqm fulfillment centers to at least 20,000 sqm sortation centers



Demand from e-commerce sector is driving the industrial segment

➤ Warehouse demand is also increasing in Vismin as e-commerce companies expand in untapped markets.

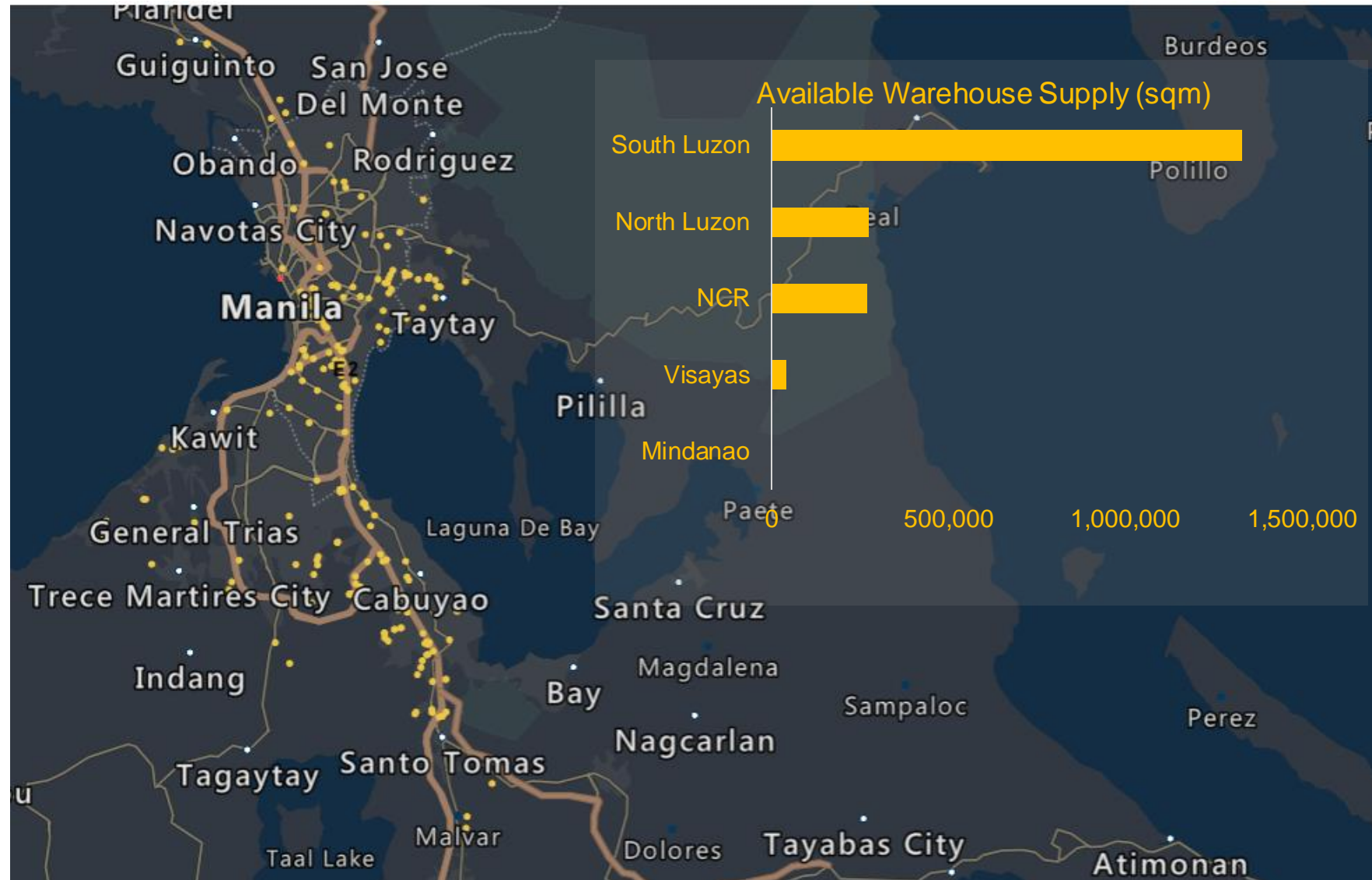
Size Requirement Per Region (sqm)



Almost 70% of available warehouse supply is in South Luzon

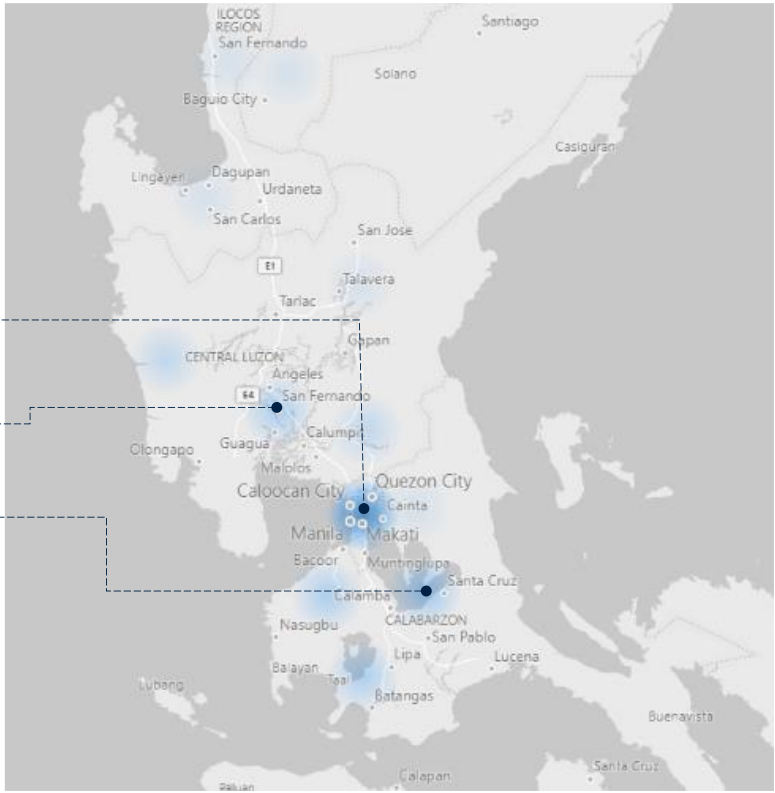
➤ Available warehouse supply is largely in South and North Luzon as most warehouses in Manila are already occupied with the increasing need for fulfillment centers of e-commerce and 3PLs.

➤ Future supply expansion will be in South and North as well where most manufacturing companies are located and where there is available developable land.



On the other hand, 60% of space demand is in NCR where warehouses are mostly occupied

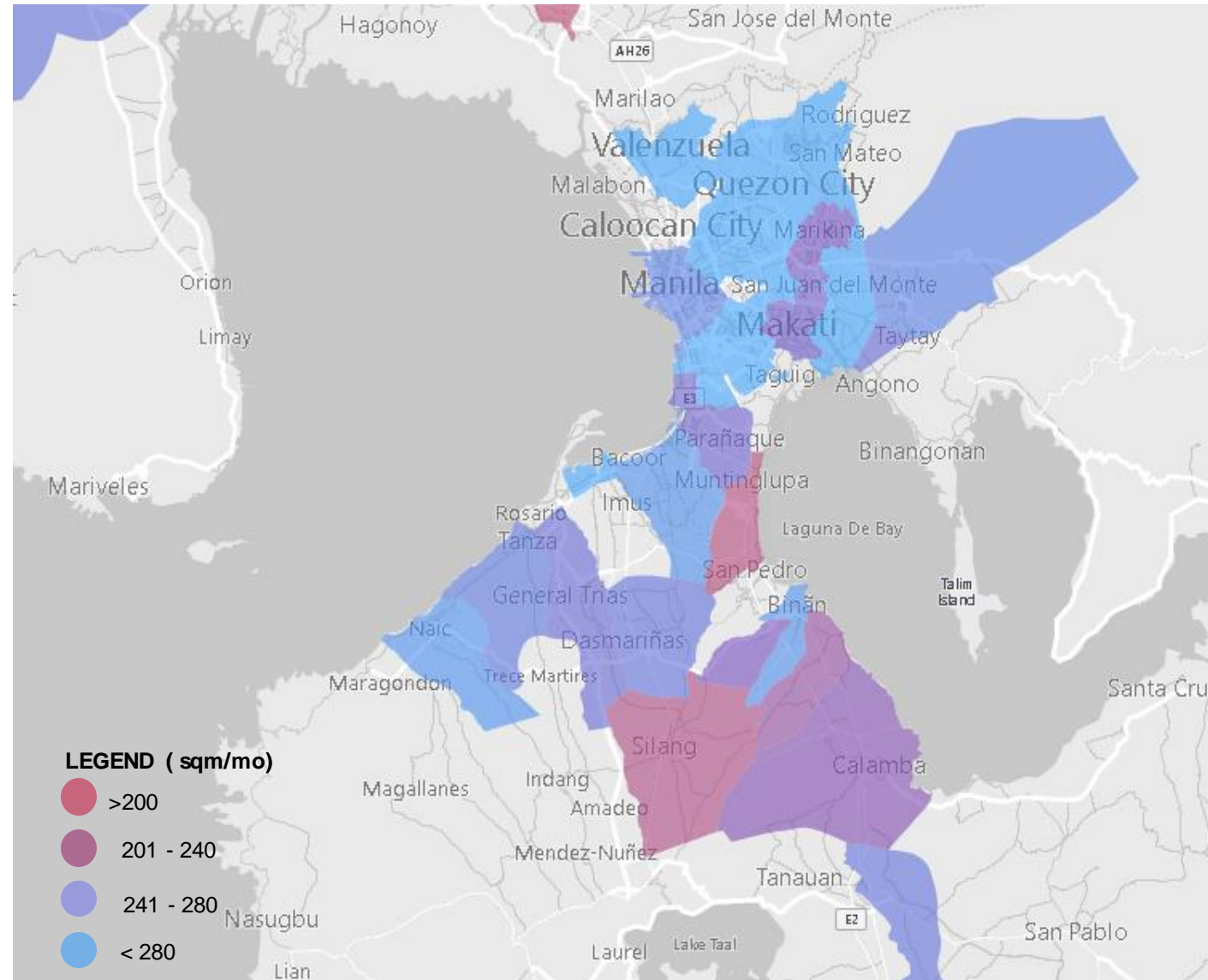
| | Current Demand | Available Supply |
|----------|----------------|------------------|
| NCR | 63% | 14% |
| S.Luzon | 17% | 69% |
| N.Luzon | 11% | 14% |
| Visayas | 4% | 2% |
| Mindanao | 4% | 0% |



- 3PLs prefer warehouses near customers to reduce the cost to service last mile deliveries and to manage the increasing required service level and delivery lead time.
- Without enough supply in NCR, there is an opportunity to convert existing facilities to vertical warehouses to address the demand-supply gap

Metro Manila lease rates have accelerated with the presence of e-commerce players

| Area | Lease Rates (sq m / mo) | |
|---------------------------|-------------------------|---------|
| | Previous | Current |
| Makati, Metro Manila | 900 | 678 |
| Cainta, Rizal | 284 | 640 |
| Taguig, Metro Manila | 400 | 425 |
| Quezon City, Metro Manila | 646 | 400 |
| Valenzuela, Metro Manila | 175 | 400 |
| Biñan, Laguna | 240 | 300 |
| Tanza, Cavite | 260 | 270 |
| General Trias, Cavite | 230 | 250 |
| Parañaque, Metro Manila | 341 | 238 |
| Pasig, Metro Manila | 220 | 231 |
| Marikina, Metro Manila | 247 | 220 |
| Carmona, Cavite | 253 | 218 |
| Cabuyao, Laguna | 223 | 200 |
| Calamba, Laguna | 265 | 200 |
| San Pedro, Laguna | 178 | 190 |



Where to take it from here?

- Regional logistics and warehousing will be a major catalyst for the sector in the long term.
- The pandemic will continue to drive a shift towards omni-channel retailing. Last-mile delivery facilities is in line with the expansion of e-commerce and the expectations of an increasingly sophisticated market.
- Demand for warehousing will continue to grow even in the provincial areas as e-commerce expand in untapped markets. However, growth of the sector might be slow due to absence of quality supply options that meet the strict specification requirements of e-commerce companies.
- As the country procure and import COVID-19 vaccines, demand for local cold-chain storage and warehouses rapidly grows.
- Without enough supply in NCR, there is an opportunity to convert existing facilities to vertical warehouses to address the demand-supply gap.



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