

Research on China's Warehousing and Logistics Public Offering REITs

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Abstract: In recent years, the number of REITs issued in Asia has shown explosive growth. In June 2021, China's infrastructure public offering REITs were successfully issued and listed. At present, 14 infrastructure public offering REITs have been issued and listed, of which 2 are warehousing and logistics REITs. This paper introduces the general situation and characteristics of China's warehousing and logistics public REITs, and puts forward the development prospect of China's warehousing and logistics public REITs in the future.

Keywords: Warehousing and Logistics; REITs; Overview; Characteristics; Outlook

1. Introduction

REITs (Real Estate Investment Trusts) originated in the United States in the 1960s and have developed rapidly in the past 30 years, expanding from 120 in 1990 to 865 in 2021. In terms of the distribution area, REITs were only issued in North America, Europe, and Australia in 1990, and by the end of 2021, REITs will be issued in all regions of the world. In recent years, there has been an explosive growth in the number of REITs issued in Asia. The number of issuances has increased from 31 in 2005 to 216. After 2015, the Asian region surpassed the European region. In addition, REITs are also issued in non-major markets such as Saudi Arabia and Oman in the Middle East and Kenya in Africa^[1].

In May 2021, the National Development and Reform Commission and the China Securities Regulatory Commission jointly issued the "Notice on Promoting the Pilot Program of Real Estate Investment Trusts (REITs) in the Infrastructure Field" (hereinafter referred to as "Circular 40"), and the pilot program of China's infrastructure public offering REITs kicked off, 14 have been successfully issued and listed, of which 2 are only warehousing and logistics REITs.

Warehousing and logistics belong to the category of infrastructure. The "Logistics Terminology" issued by the China Standardization Administration defines logistics facilities as: "places that provide logistics-related functions and organize logistics services, including logistics parks, logistics centers, distribution centers, various transportation hubs, Stations, ports, warehouses, etc.". Warehousing and logistics REITs are REITs with relatively mature overseas development, high dividend payout, relatively strong anti-risk ability, and high comprehensive income. In the overseas mature REITs market, warehousing is one of the core varieties of EITs. For example, the top ten market capitalizations of REITs markets such as the United States, Singapore, and Japan all have large-scale warehousing and logistics REITs.

China's infrastructure assets are huge. With the transformation of the economic structure, comprehensive factors such as falling interest rates provide external conditions for the development of REITs. Infrastructure public offering REITs provides an opportunity to revitalize existing assets, promote high-quality development of infrastructure, and reduce leverage.

XjngjunXu^[2] (2020) analyzed the total inflow and total storage volume of the warehousing financing cycle and pointed out that under the current economic situation, innovative methods are urgently needed to improve the efficiency of warehousing financing. Huang Ying (2018) believes that the development of e-commerce has promoted the prosperity of logistics real estate, and proposed

that the expansion of warehousing and logistics enterprises can be achieved through asset securitization. Liu Shui and Sun Xiaodong^[3](2021) believe that with the maturity and implementation of the Internet of Things and big data technologies, warehousing and logistics will continue to develop vigorously. If enterprises want to rationally plan and rapidly expand the layout of modern logistics and real estate, they need to actively make good use of funds, REITs, and other financial tools.

2. Brief Introduction to China's Warehousing and Logistics Public Offering REITs

Warehousing and logistics belong to the category of industrial investment in the international market. With the rapid rise of e-commerce, REITs are widely favored by investors in the primary and secondary markets. At present, China's public REITs have listed 2 REITs in warehousing and logistics parks, namely *CICC GLP* REITs and *Hongtu Yantian Port* REITs. The basic overview is shown in Table 1.

Table 1: 2 Warehouse logistics REITs fundraising overview

Abbreviation in REITs	Fund term	Issue price	Total funds raised (100 million Yuan)	Strategic investment ratio (%)	Payout ratio (2021) %	Payout ratio (2021) %
CICC GLP	30	3.89	72	72	4.29	4.31
Hongtu Yantian Port	50	2.3	60	60	4.15	4.40

Source: Each fund's prospectus. CNABS.COM. <https://www.eastmoney.com/>

At present, the two listed REITs in warehousing and logistics parks have good location advantages, and their market shares are significantly ahead of their peers. The overall occupancy rate is relatively high, and the quality and structure of tenants are relatively good. The projects belong to high-standard logistics warehousing and have great potential for future growth.

2.1 Overview of CICC GLP REITs

The CICC GLP project consists of seven warehousing and logistics parks, with superior tenant quality and structure. GLP's high-standard warehouses have the largest market share and are significantly ahead of the industry in terms of market share.

The projects are distributed in the core distribution centers of Beijing, Guangzhou, Foshan, Jiangsu, Suzhou and Kunshan, Jiangsu, with a total construction area of about 705,000 square meters. As of the end of 2021, there were 53 effective market-oriented tenants in total, with an occupancy rate of 98.78%, of which four were fully occupied, and the remaining 3 were over 97%, maintaining a relatively high occupancy rate. As of the end of 2020, the top ten tenants accounted for 58.32% of the rent. The main tenants include JD.com, Meituan, Deppon Logistics, Shanghai Pharmaceuticals, Jaguar Land Rover, etc. The sources of income are relatively scattered and the quality of tenants is relatively high.

According to the market data provided by Cushman & Wakefield in the fundraising report, as of the end of the third quarter of 2021, a total of 82 million sq. The advantages are more obvious in the environment^[4].

2.2 Overview of Hongtu Yantian Port REITs

The Hongtu Yantian Port project is located in the north area of Yantian Comprehensive Bonded Zone, Yantian District, Shenzhen. The project has obvious location advantages and stable tenants.

The project includes four warehouses, an office complex and a gas cylinder station. The project area is adjacent to Huishen Coastal Expressway in the east, Yanpai Expressway in the south, Yantian Road in the west, Mingzhu Avenue in the north, and adjacent to the Hong Kong International Shipping Center. Combined transportation, the location advantage is obvious.

At the end of 2020, the leased area of the top ten customers accounted for 83%, of which Yantian Port Group accounted for the largest proportion of leased area, with a leased area of 116,328 square meters, accounting for 44% of the total leaseable area of warehousing and supporting parts. The original owner based on its business The need to lease the infrastructure assets of this project

provides a guarantee for the rental income of the project. Other non-related tenants account for more than 56%, and the total cash flow sources are relatively reasonable and scattered.

3. Characteristics of China's Warehousing and Logistics Publicly Offered REITs

3.1 Warehousing and logistics companies have a strong willingness to issue public REITs

The main source of funds of Chinese warehousing and logistics enterprises is their own funds, up to 87%, followed by bank loans, accounting for 6.9%. The warehousing and logistics industry is asset-heavy and has insufficient liquidity. At the same time, facing the expansion needs and land acquisition difficulties under the fierce competition, it has spawned a large demand for funds. If it takes a long time to get back and forth just by collecting rent, this often leads to a shortage of funds for enterprises. On the other hand, most of the participants in the industry are private enterprises. Although the operation mode is highly flexible, they have disadvantages in obtaining bank loans compared with state-owned enterprises. The current loan demand of warehousing and logistics enterprises is “urgent, frequent, and The four characteristics of “risk and high” further aggravate the problem of difficult financing in the industry.

In 2016, China's warehousing and logistics field began to issue REITs products. Suning Cloud Merchant, SF Industrial Park, Cainiao Zhonglian and other similar REITs have a large base of existing REITs, and all have the willingness to issue public REITs. The National Development and Reform Commission actively promotes the financing of infrastructure public offering REITs, and prioritizes high-quality warehousing and logistics enterprises as cultivating enterprises to enter the project database, and hire securities companies, accounting firms and other intermediary agencies for guidance and planning.

3.2 The warehousing and logistics industry is highly compatible with public REITs

"Document No. 40" stipulates that the pilot industries of infrastructure public offering REITs include transportation, energy, municipal, ecological and environmental protection, warehousing and logistics, parks, new infrastructure, affordable rental housing, as well as water conservancy and tourism infrastructure REITs, but hotels, shopping malls, office buildings and other commercial real estate are included in the negative list. Among them, the pilot scope of warehousing and logistics is "warehouses that provide goods storage services for the society and charge fees, including general warehouses and specialized warehouses such as cold storage"; the pilot scope of the park is "located in free trade pilot zones, national-level new areas, national-level and Provincial development zones, R&D platforms for strategic emerging industrial clusters, industrial plants, business incubators, industrial accelerators, industrial development service platforms and other park infrastructure." Therefore, qualified warehouses and logistics parks can be used as the underlying assets of infrastructure public offering REITs.

The warehousing and logistics industry has a high degree of fit with REITs products. On the one hand, warehousing and logistics projects, especially high-standard warehouses, have the advantages of clear ownership, high rental income, stable cash flow, and clear property rights, and become a good basic asset for REITs. On the other hand, warehousing and logistics is an asset-heavy industry, with a long investment recovery period and a large amount of capital occupied. There is a large space for industry growth, and enterprises have a high willingness to raise funds.

3.3 Warehousing and logistics public offering REITs are favored by investors

The institutional investors of REITs are mainly strategic investors, self-operated securities companies, and insurance companies. As an investment product with high dividend payout and moderate risk-return, public REITs are favored by investors. From the perspective of primary placement, the largest holder of REITs is the original owner, who subscribes for REITs as a strategic investor. In addition, strategic investors also include various other financial institutions. In addition to strategic investors, among the offline institutional investors, the self-operated and insurance funds of securities companies are more active.

From a medium and long-term perspective, REITs are characterized by stability and relatively considerable returns, which are in line with the allocation preferences of insurance institutions, and the proportion of insurance institutions will further increase. In the long run, whether it is the natural fixed income + attributes of property assets (dividends + equity call options), or the quasi-fixed

income attributes of franchising, they are all attractive to public offerings, and there will be more public offerings in the future. Participation in the REITs market is still the general trend.

On the whole, infrastructure public offering REITs are investment products with yields between stocks and bonds, high dividend payout ratios, and moderate risk and return, and industrial park REITs are relatively more "equity". The fundraising is about to land, and the future development of public REITs is vast. Under the current background of low interest rates and stricter financial supervision, public REITs can help solve the problem of asset shortage and provide investors with long-term, stable, and moderate risk-return investment ideas.

4. Development Prospects of Warehousing and Logistics Publicly Offered REITs

4.1 China's REITs market will be huge in the future

According to estimates, the scale of my country's public REITs can reach 3.2-9.7 trillion yuan. Stimulated by strong market demand, China's high-standard warehouse market has developed rapidly in the past decade or so. By the end of 2021, the domestic high-standard warehouse stock has exceeded 70 million square meters. However, with the rapid development of the domestic e-commerce industry, domestic high-standard warehouses are always in a state of serious shortage. Cushman & Wakefield estimates that the overall market demand in 2021 will be about 170 million square meters, and the scarce first-hand logistics land is a constraint on the supply of high-standard warehouses in core areas. important factor. Since 2011, the sale area of industrial land (including storage) has decreased by about 10% every year.

From the perspective of market structure, China's logistics real estate industry presents a pattern of one superpower and many strong players. The main players include logistics real estate developers, traditional real estate companies, e-commerce companies, express logistics companies and financial institutions. Wei, Goodman, Yupei, Anbo, etc., Lege, Weilong, Xinyi, etc. constitute the third echelon. On the other hand, according to the China Warehousing Index compiled by the China Federation of Logistics and Purchasing, with the macroeconomic downturn, the profitability of the warehousing industry has been under pressure since 2022 (see Table 2)^[4].

Table 2:Regional distribution of warehousing and logistics enterprises

layout area	cities	Layout enterprises
Huadong region	Shanghai, Nanjing, Suzhou, Hangzhou, Wenzhou, etc.	GLP, Wanwei, Goodman, Baowan, Yupei, Ambow, Yishang, Mapletree, etc.
Beijing-Tianjin-Hebei Region	Beijing, Tianjin, Langfang, Jinan, Dalian, Qingdao	ProLogis, Wanwei, Goodman, Yupei, Ambow, Mapletree, etc.
Middle and lower reaches of the Yangtze River	Wuhan, Changsha, Hefei, Xi'an, Zhengzhou	ProLogis, Goodman, Baowan, Yupei, etc.
Chengdu-Chongqing area	Chengdu, Chongqing	ProLogis, Wanwei, Goodman, Baowan, Yupei, Ambow, Yishang, Mapletree, etc.
Pearl River Delta region	Guangzhou, Shenzhen, Zhuhai, Foshan, Nanning, Xiamen, Fuzhou, etc.	ProLogis, Wanwei, Baowan, etc.

Source: Huatai Securities, Full Analysis of Public REITs in Logistics Parks, <http://www.wuliujia2018.com/html/109009.html>

4.2 The construction and operation of high-standard warehouses is in the ascendant

High-standard warehouses refer to warehouses built according to high standards and conforming to six standards, and five-star warehouses certified by professional departments. At present, the construction and operation of high-standard warehouses is in the ascendant, and the issuance of REITs products is in the initial stage of development. In the face of the huge consumer market, the combination of the two will help to further expand the scale of the consumer market and form a new dual-circulation development pattern dominated by domestic circulation. At the same time, it enriches the investment channels of residents and promotes the market economy from the virtual to the real.

High-standard warehouse projects are more profitable and can effectively reduce investment risks for investors. The tenants of high-standard warehouses are usually e-commerce retail companies, manufacturing companies, third-party logistics companies, etc., with reasonable rental income, high occupancy rate, and long lease period, and the project is more profitable. Benefiting from the vigorous development of the consumer goods retail market, the high-standard warehouse project has good development prospects in the medium and long term. The stable operation of the underlying assets and the continuous growth of rents can bring better returns on capital appreciation for investment.

4.3 In the future, high-quality warehousing and logistics will become the mainstream of public REITs listing

4.3.1 Warehousing and logistics REITs are more suitable for key regions and core cities

At present, warehousing and logistics assets in key development areas of the logistics industry, first-tier core cities and national logistics hub cities are more suitable as the underlying assets of REITs. These areas and cities have greater demand and more stable rents, and REITs can enjoy the benefits of property appreciation after listing, so they are more likely to be sought after by investors. There are also clear guidelines in a number of national policies, giving priority to supporting key regions such as the Beijing-Tianjin-Hebei, Yangtze River Economic Belt, Xiongan New Area, Guangdong-Hong Kong-Macao Greater Bay Area, Hainan, and the Yangtze River Delta.

4.3.2 High-quality warehousing and logistics assets with mature operations are more popular

According to overseas experience, the vast majority of warehousing and logistics REITs have signed a lease agreement and have opened before listing, and the lease relationship is relatively stable, forming a relatively mature operation. In addition, high-standard warehousing with high space utilization, superior project site selection, advanced automation, strong compliance attributes and strong demand is more suitable as the underlying asset of logistics REITs; while traditional logistics warehousing requires secondary investment for upgrading and is eliminated. The probability is high, and the value is gradually decreasing.

4.3.3 Asset portfolios with large volumes and high total value are more robust

Scale is also a key indicator of warehousing and logistics listing. The financing scale of small-scale assets is not cost-effective compared with the issuance fees of REITs. In contrast, the overall performance of large-scale assets is stable, the issuance costs can be diluted, and when some assets are replaced, the overall income impact is not obvious.

With the development of China's infrastructure public offering REITs, more and more high-quality warehousing and logistics REITs will be issued and listed. It is of great significance for accelerating the development of modern logistics industry, promoting industrial structure adjustment, changing development mode, improving national economic competitiveness and building ecological civilization.

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【Foundation】 Guangzhou Municipal Philosophy and Social Science "Fourteenth Five-Year Plan" 2022 Project (No. 2022GZGJ36) Research on REITs Financing of Innovative Infrastructure in Guangzhou; Guangdong Higher Education Teaching Management Society 2021 General Project on Curriculum Civics Construction "Trinity Curriculum Civic Politics Model - Taking "Capital Operation Theory and Practice" as an example".