Warehouse giant GLP sees frothy valuations in certain logistics assets

The real quality – the right locations and the right buildings, constructed to a high standard – assets are still at fair value, says GLP fund management chief Ralf Wessel

BT EXCLUSIVE

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Singapore

WAREHOUSE giant GLP has observed asset values soaring ever higher in the global logistics sector and compressing cap rates, as a flood of new entrants and investment capital jostle for limited supply.

Over the last 12 months, prices have risen in most of the group's markets, in some cases clocking increases of more than 20 per cent.

This may create a risk of frothy valuations in certain pockets of the market, if investors deploy capital too quickly without the discipline to distinguish high-quality assets from lower-quality ones, said Ralf Wessel, managing director of fund management at GLP.

He said he does not see such a risk emerging in GLP's portfolio, given that the Singapore-based logistics behemoth is "very much a disciplined investor" as well as a property developer.

"If you look at the real quality – the right locations and the right buildings, constructed to a high standard – assets are still at fair value when compared with interest rates and the alternative segments such as offices, retail properties and hotels," Mr Wessel said in an interview with *The Business Times* (BT).

Solid fundamentals also justify "very strong" valuations for logistics properties, he added. Red-hot demand is vying for scant supply, rents are expected to continue growing, and occupancies are hitting the high 90 per cent to 100 per cent range in markets such as Japan.

"You can't be specialists overnight; it takes time to build a team, build your market presence, and that distinctive factor plays a crucial role."

Mr Wessel on investment managers previously focused on hotels or malls who are eager to get in on the logistics action

GLP anticipates low interest rates, high overall investor demand and significant structural tailwinds to continue buttressing price gains.

Some of the cap rates achieved in the market now "have set new benchmarks ahead of expectations, but can be rationalised given the substantial weight of capital chasing strong cash-on-cash yields", Mr Wessel said.

In Japan and Europe, for example, prime logistics cap rates have dipped to "mid-3 per cent" and "mid-to-high 4 per cent" respectively, he added. "In a competitive marketplace, as at present, we could see these yield levels compress further".

The Covid-19 pandemic has proven the need for a resilient logistics supply-chain system, he said. Experienced, pure-play logistics specialists with an international footprint are therefore "all growing quite fast".

At the same time, other players, including investment managers previously focused on hotels or malls, are also eager to get in on the action.

"They want to do so in an accelerated way, by hiring people very quickly to set up a logistics fund or platform. But you can't be specialists overnight; it takes time to build a team, build your market presence, and that distinctive factor plays a crucial role," Mr Wessel told BT.

Institutional investors generally remain under-invested in industrial real estate. GLP expects the weightings to continue to rise, especially as investors reallocate to logistics and data centres and away from retail and hospitality, which used to account for about 20-30 per cent. Simultaneously, these investors will try to increase allocations to industrial and digital infrastructure assets, up from the current 10-15 per cent or so.

"If you extrapolate those numbers, they'll need more than US$200 billion of logistics or data-centre assets overnight, and that simply doesn't exist," Mr Wessel said.

Dense urban areas where people live and consume have always been the primary focus of GLP's investment thesis for logistics real estate; in Japan, GLP is thus focused on Tokyo and Osaka; above: GLP's large-scale logistics facility GLP Sayama Hidaka I, located in Greater Tokyo, Japan. PHOTOS: GLP

As for GLP's investment thesis for logistics real estate, dense urban areas where people live and consume have always been the primary focus, even before the e-commerce boom.

About 90 per cent of its leases, based on leased area, are centred around domestic consumption, instead of imports and exports.

"Whether it's diapers, dog food, or bottles of water, everything comes from a warehouse at some point," Mr Wessel said. "Where are the big cities? Where are the biggest pockets of domestic consumption? That's where we set our strategy."

In Japan, GLP is thus focused on Tokyo and Osaka. And in China, options are aplenty as there are many cities with large, dense populations.

Helped by huge tailwinds, the group signed a record 22.7 million square metres (sq m) of leases last year, up 57 per cent from 2019. It also saw sustained leasing momentum in the first half of this year, inking more than 10.1 million sq m of lease agreements, up 14 per cent from H1 2020.

Meanwhile, GLP's data-centre business in China has grown to more than 200 employees since it first invested in the asset class in 2018. The data-centre arm has 10 assets that will deliver 800 megawatts of installed capacity in China upon completion.

"Our identified pipeline in China potentially doubles that capacity over the next two or three years," Mr Wessel said. GLP is also starting to explore other markets, and it has already identified sites in Japan, Brazil and Europe suited for data centres.

GLP's global footprint has swelled to 17 countries today, up from eight when it delisted from the Singapore Exchange in 2018. In that period, it also more than doubled the size of its team and its assets under management, to about US$107 billion.

Its 2018 privatisation followed a buyout by a consortium led by developer China Vanke Co and Chinese fund Hillhouse Capital. GLP's listing in 2010 was then the largest real estate IPO globally.

The group's current focus is on augmenting its presence in key markets where it holds market-leading positions. To capture demand, GLP has accelerated its development activity. In H1 2021, it started US$4.8 billion of new development projects in China, Europe, Japan, India and Brazil, up 82 per cent from the year-ago period and almost as much as its new development activity for the whole of 2020.

Entering more new markets is unlikely to be on the immediate agenda, Mr Wessel told BT.

Last October, GLP made its foray into South-east Asia through a joint venture in Vietnam with SEA Logistic Partners. "We now have five development sites with a total land area of about 700,000 sq m, which we plan to seed into our first closed-end club partnership in Vietnam," he said.

Indonesia is another potential new market that the group has always had its eye on. "But it's a matter of finding the right partner at the right time with the right market entry, and we haven't found that yet", Mr Wessel said.

ASEAN BUSINESS

Muted launch for South-east Asia's largest railway station

By Peter Janssen
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Bangkok

BANGKOK'S massive Bang Sue Grand Station – billed as the largest railway station in South-east Asia – is scheduled for a very soft opening on Monday, to be witnessed by thousands of Thais receiving their Covid-19 vaccinations on the site.

The Red Line, 40 km of elevated tracks, will launch a free trial passenger service to the public that links Bangkok's western and northern suburbs to the 290,000 square metre Bang Sue Grand Station, which is still largely vacant and will remain so for the foreseeable future.

"This is the soft opening. We hope to have an official opening in November, but the date is not fixed yet," said Kumpol Boonchom, deputy chief of special projects at the State Railway of Thailand (SRT).

The Red Line, owned by the SRT, is a crucial part of the US$3 billion Bang Sue project.

Bang Sue Grand Station, which was completed last year, has been put to use temporarily as a vaccination centre during the third and more virulent wave of Covid-19.

Thailand on Saturday reported a daily record of 18,912 new cases and a record of 178 new deaths, bringing total accumulated cases to 597,287 and 4,857 fatalities.

The ongoing pandemic has arguably taken much of the steam out of the mega-project launch.

"It is an unfortunate situation for Bang Sue," said Sumet Ongkittikul, transport and logistics expert at Thailand Development Research Institute (TDRI). "When it opens later this year it will be pretty empty, with no commercial space and no one selling food and stuff like that."

Bang Sue Grand Station, which was completed last year, has been put to use temporarily as a vaccination centre during the third and more virulent wave of Covid-19. BT PHOTO: PETER JANSSEN

The SRT has held three bids for a public-private partnership to operate the commercial space at Bang Sue terminal but each time there were no bidders.

"The Covid situation has made it very tough," Mr Kumpol said. "I think the private bidders don't see the demand yet. Maybe after we open the Red Line, they will see the demand."

That is perhaps wishful thinking. The Red Line is expected to have a ridership of about 10,000 passengers per day in its initial months, well below the break-even level.

All of Bangkok's mass rail systems have seen a dramatic decline in ridership since Covid-19 first hit last year, as international tourists disappeared, daily commuters opted to work from home and casual trips dried up thanks to lockdowns and social distancing.

Prior to the pandemic, the Green Line (Skytrain) was enjoying 800,000 passengers per day, while the Blue Line (subway) was managing 400,000 passengers daily and the rail link to Suvarnabhumi Airport about 120,000 commuters a day.

The Red Line is expected to see daily ridership of between 120,000 and 200,000 in the post-Covid period, as the route is mostly serving residential, suburban areas.

There are actually two Red Lines, comprising the Dark Red Line from Bang Sue to Rangsit in northern Bangkok, and the Light Red Line from Bang Sue to Taling Chan in western Bangkok.

The Red Lines are the first mass rail systems to use Bang Sue as their central station, and their launch marks the first step of transforming the station into the Thai capital's main rail transport hub.

Officially launched in March 2007, Bang Sue Grand Station was designed to replace Hua Lamphong Station (built in 1916) as the main hub for the railway's 4,508 km of track.

In the future, the four-storey Bang Sue station will play a more pivotal role as it provides a rail link to Don Mueang Airport, Thailand's main terminal for domestic flights.

Further down the line, Bang Sue will also be the main Bangkok station for the high-speed-railway linking U-Tapao, Suvarnabhumi and Don Mueang airports (part of the Eastern Economic Corridor scheme) and the Thai-China high speed rail link linking Bangkok and Laos.

"In the future after Covid, with the Red Line opened, and once the three-airport rail link is serving Suvarnabhumi and Don Mueang, then Bang Sue will be very attractive as a transportation hub," said TDRI's Mr Sumet.

"And because of Don Mueang, which is for domestic flights, the Red Line will become more popular for people travelling upcountry and for tourists."

Chinese cities test millions, impose new travel curbs as virus cases surge

Beijing

CHINESE cities rolled out mass testing of millions of people and imposed fresh travel restrictions as health authorities battled on Sunday to contain the country's most widespread coronavirus outbreak in months.

China on Sunday reported 75 new coronavirus cases with 53 local transmissions, with a cluster linked to an eastern airport now reported to have spread to over 20 cities and more than a dozen provinces.

The outbreak is geographically the largest to hit China in several months after the country's successes in largely snuffing out the pandemic within its borders last year.

That record has been thrown into jeopardy after the fast-spreading Delta variant broke out at Nanjing airport in eastern Jiangsu province in July. Authorities have now conducted three rounds of testing on the city's 9.2 million residents and placed hundreds of thousands under lockdown, in an effort to curb an outbreak that Beijing has blamed on the highly contagious Delta variant and the peak tourist season.

Officials are now scrambling to track people nationwide who travelled from Nanjing or Zhangjiajie, a tourist city in Hunan province which has locked down all 1.5 million residents and shut all tourist attractions.

Fresh cases were reported on Sunday in Hainan island – another popular tourist destination – as well as Ningxia and Shandong provinces, authorities said.

China is also battling a separate rise in cases in the flood-ravaged city of Zhengzhou in Henan province after two cleaners at a hospital treating coronavirus patients coming from abroad tested positive. Twenty-seven locally transmitted cases have been detected, with authorities on Sunday ordering mass testing of all 10 million residents. The head of the city's health commission has been sacked.

After reports that some people who fell ill in the latest cluster were vaccinated, health officials said this was "normal" and stressed the importance of vaccination alongside strict measures.

More than 1.6 billion vaccine doses have so far been administered nationwide as of Friday, Beijing's National Health Commission said. It does not provide figures on how many people have been fully vaccinated. AFP

All eyes on dividend payout from banks in Q2

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"We expect quarter-on-quarter revenue normalisation across the sector, as exceptional wealth and treasury income levels in Q1 2021 ease," wrote CGS-CIMB research analysts Andrea Choong and Lim Siew Khee in a research note this month.

"For Q2 2021, we think more stable financial markets and corresponding risk-off sentiment could dampen customer flows."

Analysts at UOB Kay Hian noted that the Singapore government's target for three-quarters of its population to be fully vaccinated by October should improve business sentiment and confidence, ease safe distancing measures and reduce stress on the corporate sector. As a result, the formation of non-performing loans should moderate.

"Banks, being cyclical stocks, will benefit from an economic recovery as consumer behaviour and domestic consumption normalises."

Analysts at CGS-CIMB forecast that DBS' second-quarter profit will rise 31 per cent year on year (yoy), whereas UOB Kay Hian is forecasting 23 per cent year-on-year growth.

Total fees and commissions are expected to recover yoy, with improved contributions from trade-related transaction services and cards due to the "low base" effect caused by the partial lockdown from April to June last year.

As for OCBC, contribution from insurance, which was notably strong in the previous quarter, is expected to normalise in the absence of the huge mark-to-market gains recorded in Q1 2021, said UOB Kay Hian. But a 64 per cent year-on-year increase in profit is still expected.

Meanwhile, CGS-CIMB analysts are projecting 41 per cent year-on-year net profit growth for UOB in Q2 2021, despite some easing in loan growth.

DBS closed at S$30.41 on Friday, down 9 Singapore cents or 0.3 per cent. OCBC closed at S$12.30, down 2 Singapore cents or 0.16 per cent. UOB closed flat at S$26.28.