

**RED**PAPER

# Stay on Top of Real Estate Industry Trends

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# **TRANSFORMING LOGISTICS: HOW E-COMMERCE BOOM AND GLOBAL SUPPLY CHAIN DISRUPTIONS BOOST WAREHOUSE GROWTH IN THAILAND**

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# TRANSFORMING LOGISTICS: HOW E-COMMERCE BOOM AND GLOBAL SUPPLY CHAIN DISRUPTIONS BOOST WAREHOUSE GROWTH IN THAILAND

Thailand's logistics have been experiencing rapid change due to changes in the global supply chain and the boom of e-Commerce since the pandemic started. Logistics properties must keep evolving to meet the needs of modern occupiers.



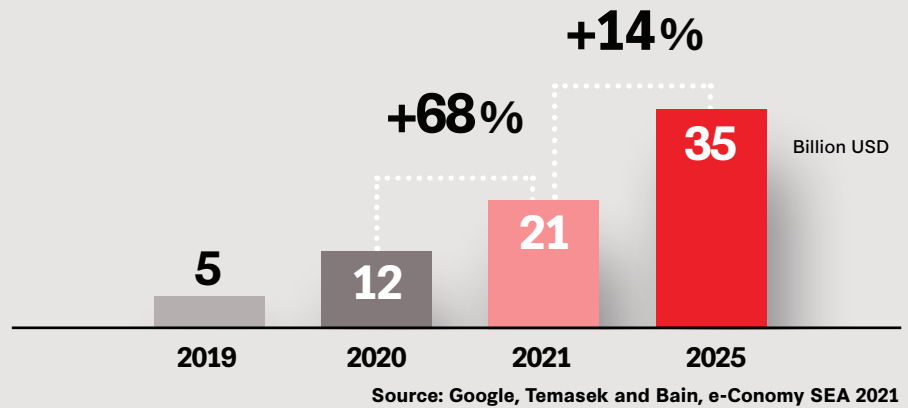
**REDPAPER**, an insight report analysing data and trends of Thailand's real estate industry by Frasers Property (Thailand) Public Company Limited, in collaboration with JLL Thailand, which researches the evolution of Thailand's logistics property sector from 2018 to present. The report explores the trends driving the increasing demand for modern warehouses despite several key events disrupting global supply chains – the COVID-19 pandemic and the US-China trade war.

Supply chain disruptions remain a major challenge as the world continues to recover from the COVID-19 pandemic. However, problems in the global supply chain had already markedly worsened in 2018 due to the US-China trade war. The tariffs and restrictions introduced by both sides profoundly affected the global supply-chain networks. Major industrial players revised and altered their supply chains to minimize the impact on their businesses. Since the US-China trade war, we have seen a significant movement across Southeast Asia. Foreign companies based in the U.S., Europe and Japan began to move their supply chain out of China and relocate production to Southeast Asian countries, particularly following COVID-19 which further disrupted manufacturing activities globally.

Southeast Asia has been one of the key beneficiaries of the disruption. Leading Southeast Asian countries like Thailand, Vietnam, and Indonesia have stepped up efforts to attract the aforementioned potential foreign investment into their industrial and logistics sectors, by providing attractive financial incentives. **For Thailand, the country does not only offer extensive incentives but also enables investors to make the most of its strategic location as a gateway to Asia with access to a wide range of resources. Additionally, Thailand also has transformational infrastructure improvements such as roads, railways, airports, and seaports which are important to modern logistics players.**

In addition to the strong demand from supply chain relocation, **the rapid emergence of E-Commerce in the region has also greatly helped strengthen this shift.** In particular, Thailand's E-Commerce gross merchandise value in 2025 is expected to hit USD 35 Billion (approx. THB 1.2 Trillion), growing from just 5 Billion in 2019 (approx. THB 1.7 Hundred Billion), according to research by Bain Analysis, Google and Temasek in 2021.

### Gross Merchandise Value (GMV) (Billion USD) of Thailand's e-commerce sector



Samut Prakan has experienced even faster paced growth of the industry, fuelled by the expansion of the E-Commerce and Third-party Logistics (3PL) sectors. The province has had particular traction in these sectors as it is situated in proximity to Bangkok and all major manufacturing hubs across EEC provinces, providing convenient access for last-mile delivery as well as exporting and importing activities via sea and air freight. The rise of the E-Commerce industry has required equally rapid growth in the logistics property supply, which has increased at a particularly fast rate since 2018 as a number of the largest E-Commerce players (e.g., Shopee, Alibaba, JD.COM) entered the market.

Regarding the Eastern Economic Corridor (EEC) development plan, it focused on Rayong, Chonburi, and Chachoengsao where leading manufacturers and logistics players have chosen to operate their businesses to maximize logistics performance through deep seaports. These three strategic locations are highly recognized by global investors as they are known for attractive industrial clusters, incentive packages and infrastructure investments.

With its strong reputation as the key domestic distribution hub for retail giants such as CP ALL, Makro and Lotus's, Wangnoi district in Ayutthaya province has also seen

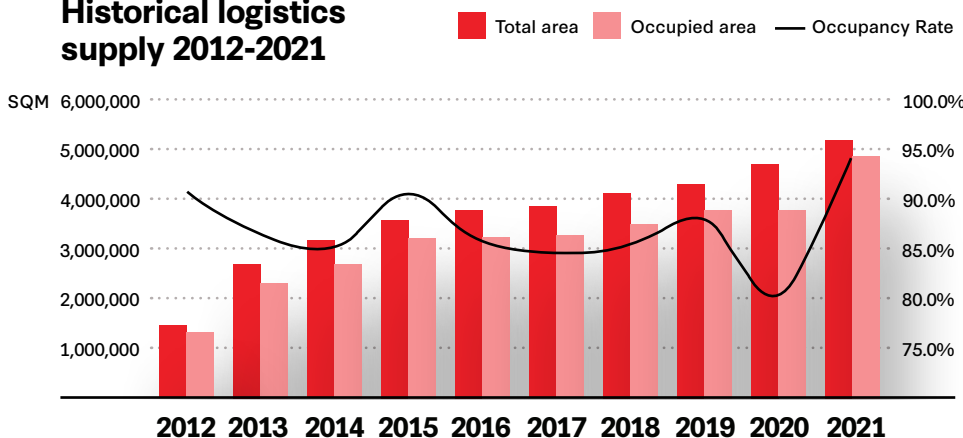
increased interest from retail and modern trade players. E-Commerce and food manufacturers are also in the process of expanding their new facilities to the northern vicinity of Bangkok. The area has similarly convenient access to the capital and provides even greater access throughout Thailand's northern and north-eastern regions. Several e-Commerce, modern trade, 3PL and F&B players (e.g., Flash Express and Shopee Express, F&N Dairies) have already established a facility in the area with many more set to follow.

**Looking from a wider perspective, Thailand's logistics market had seen a massive growth of prime grade supply during the last decade, having tripled its size from 2012 to reach approximately 5.1 million sqm as of the end of 2021.** This predominantly resulted from the evolution of industrial investment in Thailand from private and public sectors, along with the attractiveness of the Eastern Economic Corridor (EEC) initiative that drew the attention of modern industrial players.

The expansion of industrial and logistics properties was partly driven by occupiers relocating from the central region to the eastern seaboard and Bangkok vicinities due to the Great Flood of 2011, which severely affected the central region. This relocation was one of the major factors that drove the growth of warehouses in Samut Prakan, which fared well during the flood.

Despite challenges posed by the incident, Ayutthaya, in the central region, has continued to be a strategic location for leading manufacturers, logistics operators and distribution hubs for the F&B, electronics and FMCG industries as industrial property developers and industrial estates have implemented preventive measures.

### Historical logistics supply 2012-2021



Remarks: This data represents only modern warehouses, excluding traditional warehouses. Source: JLL

A section of the new Bang Pa-in - Nakhon Ratchasima elevated motorway connecting the north of Bangkok to the northeastern region, that is expected to fully open in 2023, has propelled the demand for warehousing facilities, as it optimized the connecting route between the north of Bangkok and the northeastern region.

In addition, the positive trend in prime grade demand had been anticipated by industry players since Thailand's e-Commerce market started to boom in 2018, this has resulted in new spaces being launched by developers as they cater to this continuous wave of demand.

It is expected that there will be a considerable amount of new high-quality modern logistics facility supply entering the market each year until 2024. Also, it is absolutely certain that one of the major drivers of this growth is warehouses for the E-Commerce sector.

The E-Commerce boom in Thailand is in line with the Asia Pacific trend, if not globally. The value of the domestic E-Commerce market in 2020 was estimated at THB 3.78 trillion and is expected to achieve high single-digit growth each year until end of 2025, according to a database published by Electronic Transactions Development Agency (ETDA). B2C transaction volume accounted for 57.4% of the total market value showing a significant 24.0% growth Y-O-Y as e-tailers have adopted the "direct-to-customer" approach as their key strategy in scaling up their businesses.

The growth of the E-Commerce sector outperformed the other key sectors and led to massive growth in prime logistics space across Bangkok and the vicinities as the market registered the CAGR of 5.9% between 2018-2021, with a total stock increase totaling at approx. 850,000 sqm. This exceeded the growth of 3.7% between 2015-2018 when the logistics market was more focused on catering to demands from the manufacturing and FMCG sectors, according to JLL.

Having said that, this trend indicated the importance of E-Commerce regarding the strong growth of the domestic logistics market.

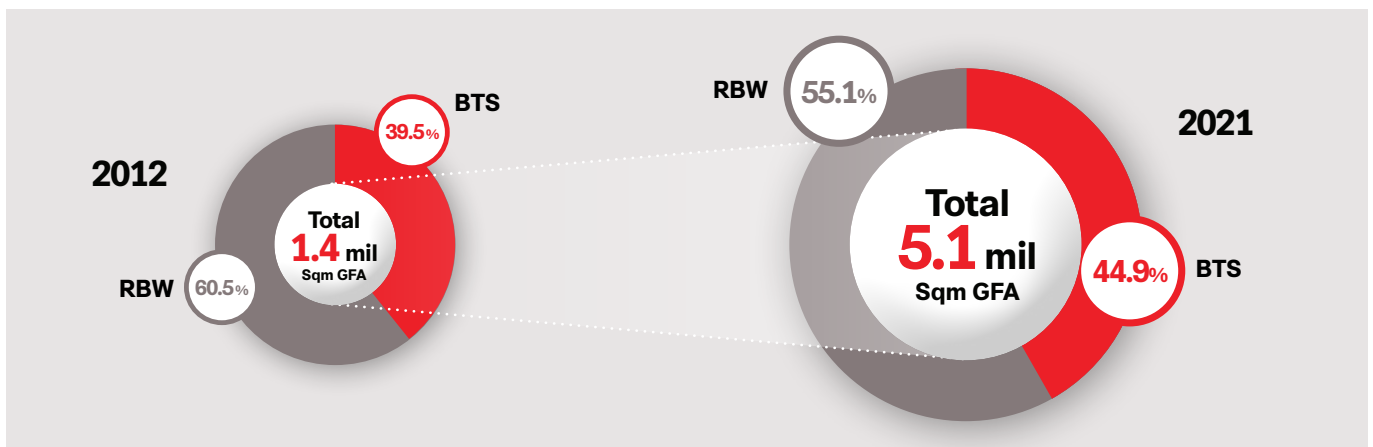
**According to JLL's estimates, for every 1 billion USD of E-Commerce GMV 120,000 sqm GFA of logistics space is required. This presents the opportunity for Thailand's logistics market to see more than 1.7 mil sqm GFA of prime grade warehouse and logistics facilities enter the market by the end of 2025. This is the estimated amount for e-Commerce occupiers only, not to mention its associated businesses like retailers, wholesalers, and logistics service providers.**

Over the course of the pandemic, the supply of logistics properties continued to grow rapidly as developers rushed to accommodate the increasing demands from E-Commerce and growing manufacturing sectors (EV, automotive, electrical appliances, food, etc.).

The challenge for the market to accommodate this growth was not only in terms of the increasing demand for warehouse space, but also in regard to the type of warehouse product. Some developers shifted their priority from the speculative Ready-Built Warehouses (RBW) to Built-to-Suit Warehouses (BTS). Since BTS allows for increased customization, in order to meet an occupier's requirements as best as possible, this is often required by modern warehouse operators that need increased economies of scale, minimized delivery times and operational costs, catering for highly future-proofed requirements such as automation or feature Environmental, Social & Corporate Governance (ESG) Certifications.

As a result, the logistics market saw a significant increase in BTS warehouses across the market to approximately 2.2 million sqm GFA, rising to 44.9% of the total prime logistics stock nationwide in 2021, according to JLL's database.

### Share of Thailand warehouse stock by types (prime grade, 2012 vs. 2021)



**Remarks:** Thailand logistics market saw a significant relocation of supply in 2012 - shifting from northern vicinities to Bangkok's eastern vicinities and eastern seaboard provinces, as a result from the great flood in 2011.

**Source:** JLL



In response to the changed market preference, developers have paused project launches or have launched in smaller phases as it allows them to be more flexible in trying to exactly meet demand, this minimizes their risk of creating too much supply. It is expected that some RBW projects will continue to be launched, these will likely have top of the market specifications to serve short-term leases from large-scale occupiers who always look for flexibility and additional space to manage their overflow inventory more efficiently.

With the popularity of BTS warehouses, lease-terms are also changing. Previously, logistics properties would have typically had short lease-terms for flexibility to support their growth strategies of e-Commerce occupiers. With the sectors' increasing maturity and with the highly customized BTS warehouses, longer-term lease-terms have become normal.

In addition, emerging trends in sustainability at a global level and the increase in competition amongst the top-end of the market have further driven demand for BTS warehouses in Thailand. The Leadership in Energy and Environmental Design (LEED) certification is a popular ESG standard that helps guarantee the sustainability and quality of the property and appeals to the increasing number of corporations that have sustainability targets.

Automation is also another prominent trend affecting the direction of logistics properties in Thailand, being increasingly utilized across sectors. Modern logistics facilities are being designed to help occupiers better incorporate automated systems and to maximize the efficiency for

output as well as function for workers. At the same time, logistics facilities are also becoming increasingly human-centric, focusing on providing greater wellbeing for workers, which in turn helps to improve workers' performance and often increases the retention rate. Logistics and industrial properties in the past were merely looked upon as a means to meet the demands of moving products from point A to point B or manufacturing products, they were product-centric, not human-centric. Modern-day logistic properties are in no way associated with that definition, as they are much better designed to incorporate the life that takes place within them.

In modern day, logistics facilities can be tailored to integrate within less industrial areas. Logistics parks can be utilized as business parks, providing local communities with space for both business and leisure purposes, demonstrating another human-centric change that is occurring within the industry. This style of business park allows retailer occupiers to operate a store at the front of the facility whilst storing their products at the back, providing ease and convenience for the operators or business clients. These facilities not only feature cleaner modern designs but have also been designed around human users, making them a pleasant place to visit.

With so much change occurring within Thailand's industrial sectors, it is crucial that developers seek to provide occupiers with future-proofed facilities and properties, that have been designed from the ground-up for modern uses in order to remain relevant in the future.

**Thailand logistics and industrial property market is at an exciting juncture, with extensive change occurring within the industrial sectors and increasingly innovative uses being required by occupiers. Looking at the rapidly evolving market today, Thailand's industrial facilities are evolving in line with operators' requirements and are expected to continue their evolution into the future.**



## About US

**REDPAPER** is Frasers Property Thailand's insight report providing a running series of articles that address trends, gaps and analysis of the real estate industry in Thailand particularly in the residential, industrial and commercial sectors. It aims to report facts and market leaders' commentaries to readers.

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