Manufacturing in CHINA

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FEATURED ARTICLE

Ten to fifteen years ago, "Made in China" was a seemingly ubiquitous feature of retail products across the globe. It could be found on most electronics, disposable goods, toys, garments, and clothing — and for good reason. China was then the manufacturing base of the world thanks to low labor costs, mature infrastructure, massive supplier network, relatively transparent government policies, and a growing middle class driving potential local consumption power.

Manufacturers from all over the world came in droves to setup up their plants in China, mostly for export processing and some for domestic production. However, with fast economic growth came rising wages and land costs, tightening labor laws, increased pollution, and a stronger currency, all which translated to significantly higher operating costs and substantial changes to China's manufacturing landscape.

During the last three years all economic indicators have shown a slowdown in growth of the Chinese economy. Among manufacturing sectors, a significant decline has been seen in labor-intensive industries and export processing industries, in particular for garments and electronics. The Chinese government is fully aware of the situation, and from the central government down to the municipal level, officials have been

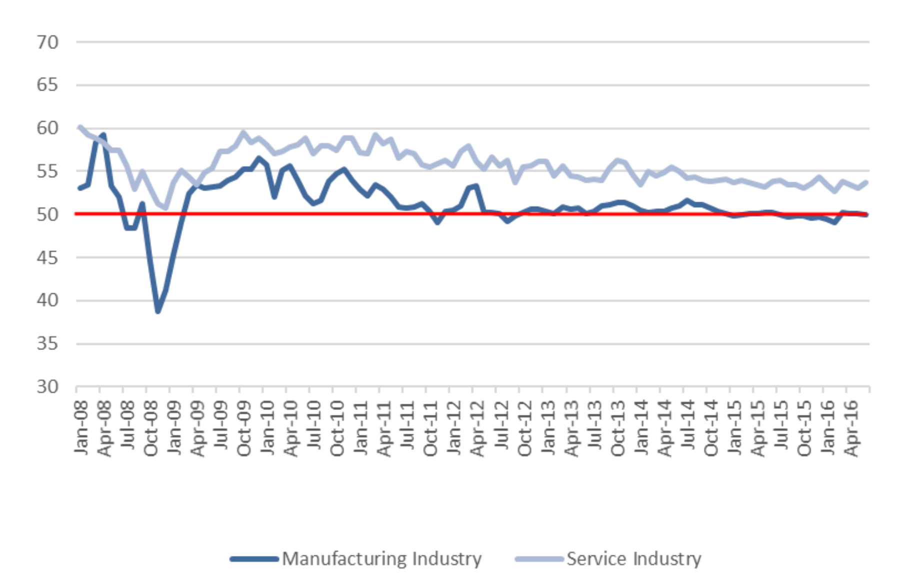

Chart Source: Eastmoney.com

promoting hi-tech and value-added manufacturing to replace lower-value, labor intensive manufacturing – in particular, low-value export processing manufacturing, such as garments and disposable goods. There have also been continuous efforts to encourage domestic consumption and entrepreneurship.

PMI Trends in China

Nowadays, hundreds and thousands of factories are closing down and seeking buyer or redevelopment opportunities. Many companies have moved their manufacturing facilities to nearby Vietnam or Cambodia, and in some cases India, to take advantage of significant cost benefits in labor-intensive production. This includes both multinationals and domestic companies.

With land value continuing to surge, factory owners have been coming to the realization that oftentimes their properties are worth much more than their businesses and production lines. Many have sold up to cover increasing losses in production, which has led to a record high in the number of factories for sale — in particular, in more mature manufacturing cities in Eastern and Southern China, such as greater Shanghai, greater Suzhou, greater Guangzhou, and greater Shenzhen. However, the resulting oversupply is limited largely to multi-story factory buildings of former low-value-product manufacturers, such as electronics and garment companies. There remains a shortage of single-story manufacturing facilities for high-tech and value-added products.

The shortage of single-story factories boils down to government development policies being misaligned with actual demand. The government prefers multi-story factories with a view to generating more investment input and production output on the same unit of land. But this falls afoul of demand from numerous industries, such as pharmaceuticals, with requirements for space, ceiling height, and floor loading that multi-story factories cannot provide. As a result, the vacancy rate among single-story factories in manufacturing centers is very low. In Shanghai, Suzhou and Nanjing, vacancy rates for single-story factories are 3 percent, 10 percent and 7 percent, respectively, showing very few quality options for high-tech value added manufacturers.

Source: Colliers International

Major Markets of Single-Story Factory in Eastern China

To meet the changing demands of the evolving manufacturing and logistics sectors, some old factories are being rebuilt into warehouses, while others in suitable locations are being converted into business parks to host value-added industry. The remainders are left with the government for repurposing into new residential and commercial developments. In first-tier cities like Shanghai, Beijing, and Shenzhen, there are clear regulations on the disposition and redevelopment of existing factories, often times meaning factory owners have less power to control sales price and repurposing direction.

In major cities the Chinese government has also increased the barriers of entry on land purchasing and development for manufacturing, which has resulted in high-tech and value-added manufacturers being the only ones able to acquire land. The restrictions include higher investment capital requirements, strict control on incentives, and shortened land usage rights tenure to 20-30 years, lowered from 50 years.

Additional challenges facing manufacturers include land policy changes that inhibit long-term staged development plans. Buyers are now required to commence development within two years and conclude within five years; sitting on vacant land may now truly be a thing of the past.

Such policy changes, as well as strengthening of labor and environmental laws, mean manufacturers have had to become more prudent in their production planning, with many now choosing to lease rather than buy. Such an approach does have its benefits though, including speed to market, as leasing can lead to production kicking-off often years sooner than is possible with a buy-and-develop strategy. There is increasing number of professional developers entering the market for standard factories development, catering to the increasing demand to lease factory space, in particular for single-story factories. Plainvim, Dong Jiu, GLP, and Unified are among those developers who focus on standard factories development to international standard.

Overall, the current trends in China's manufacturing industry mirror those experienced by Japan and Taiwan in the 1980s and 1990s. When the economy grows to a certain stage, cost structure changes and industry evolution is inevitable. Hong Kong and Singapore, as smaller-size economy, go straight to service and financial industries. China as a macro-economy must find its balance between manufacturing and service industry. The Chinese government is trying hard to establish rules and regulations to facilitate and manage these changes. Factory occupiers are looking at various ways to optimize their capital investment by considering lease and built-to-suit options. Developers and investors on the other side are adjusting their product and service strategy to accommodate these changes. As an asset class, standard factory is becoming the next hot-spot after logistic warehouses. ▽

Plainvim Kunshan Industrial Park