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PRESENTATION

Operator

Ladies and gentlemen, thank you for holding and welcome to the Global Logistic Properties conference call. (Operator instructions). After the speaker's remarks, there will be a question and answer session. (Operator instructions). I would now like to turn our call over to Ms. Ambika Goel, Senior Vice President of Capital Markets and Investor Relations, please go ahead.

Ambika Goel ***- Global Logistic Properties Limited - SVP Capital Markets and IR***

Welcome to GLP's second quarter FY17 earnings briefing, thanks everyone for joining us today. Our presentation materials and webcast are available on our website. Today we will hear from our COO, Steve Schutte, who will provide an overview of our results. Steve will be followed by Heather Xie, our CFO, who will provide an overview of our financials, and finally Ming Mei, our CEO, will touch on our strategies and outlook.

We will have a Q&A session following our presentation. You may ask your questions via phone or through our webcast. Please note that all numbers are expressed in US dollars and area is referenced in square meters unless otherwise stated.

Before we begin the call, we would like to address the news articles published last week stating that an investor group was potentially weighing a bid for GLP. We issued a statutory announcement to the SGX last week advising that we are not in discussions with them at this time. We have no further updates on this issue, so please understand we will not comment or answer any questions on it during today's earnings call.

Thank you and I will now hand it over to Steve.

Steve Schutte *- Global Logistic Properties Limited - COO*

Thank you Ambika and good morning everyone, thanks for joining us today. I'll start with an overview of our second-quarter highlights on slide 3. For the quarter, earnings increased 52% year-on-year to $173 million, driven by our development business and growth in our fund management platform.

More precisely, we generated $63 million of development profit during the quarter. And, year to date, we have completed 64% of our full year guidance of $200 million. And our fund management platform generated $47 million in management fees, which is up 25% year-on-year.

With $12 billion of uncalled capital, we expect those fees to continue rising as it gets invested. For example, in September we announced the acquisition of a $1.1 billion logistics portfolio from Hillwood. Investor interest remains strong and fund syndication is currently oversubscribed. And we remain on track to complete the acquisition next month, with capital partners lined up and GLP retaining a 10% stake.

And while development and fund management were central pieces of our increase in earnings this quarter, operations continued performing very well, with our Group lease ratio at 92%, up 1% quarter-on-quarter, driven largely by a higher lease ratio in China. And same-property net operating income was up 7.5% in the first half of FY17, and our overall customer retention ratio was up to 73%.

With that overview, next I'll touch on operations, development and fund management in more detail. First turning to operations on slide 4, leasing demand and rent growth remained stable globally. And, for the quarter, we signed 3.3 million square meters of new and renewal leases, which is up 21% year-on-year. While rent growth on renewal leases was up 11.3%, led by the US and China.

Our US portfolio continues to perform strongly, with a 94% lease ratio and same-property net operating income up 6.2% year to date. Looking ahead, we expect further rent growth on the back of strong market fundamentals and disciplined supply.

In Brazil, we continue our strategy of proactively keeping strong customers, and signed 100,000 square meters of renewal leases during the quarter. We feel strongly that the temporary softness in rents to provide a well occupied portfolio is the right strategy. And, to put it in perspective, the impact of the 9% decline in effective rents to earnings this quarter was about $35,000.

The overall portfolio, which is 89% leased, continues to register rent growth as our leases are indexed to inflation. And same-property rents in Brazil increased 8.2% year to date, with same-property NOI up 5.8%.

In Japan, operating fundamentals remain strong, where our lease ratio remains high at 98% and rents on renewal leases were up 4.5%. We will continue our focus on the core markets of Tokyo and Osaka.

Now, although there has been some talk about upcoming supply, the speed of market absorption is not slowing down. In fact, close to 50% of supply coming online by 2017 is pre-leased. And, over the past 12 months, we have completed three developments in Tokyo which were fully leased upon completion.

Taking a closer look at China, our lease ratio is up 1% from last quarter, to 87%. The increase reflects an improvement in lease ratios across all sub-markets, with incremental demand from both existing and new customers and a customer retention ratio of 68%.

On top of stabilizing lease ratios in China, rents continue to increase, with same-property rents up 4.8% for the quarter and rents on renewal growing at 6.3%. Same-property NOI was up 16.7%, driven largely by higher occupancy and rent growth within the same-property pool, which makes up more than 70% of our overall portfolio.

So, overall, it was a strong operational quarter for China and we expect the lease ratio to remain stable in the near term and trend up over the next 12 to 18 months. And, as our lease ratio starts to exceed 90%, we will again look to accelerate development.

Next, moving to our development business on slide 5, we continue to see development profit as a regular and recurring part of GLP's earnings stream. Our target is to generate a 25% development profit margin on our development projects upon stabilization. And, in line with that expectation, in the first half of FY17 we achieved a 30% margin.

We are steadily improving the balancing out of our development schedule and are tracking better than previous years. At the half-year mark, we have met 46% and 42% of our global development completions and start targets for FY17 respectively. For the quarter, we generated $63 million of development profit and remain on track to achieve our development targets, including $200 million of development profit for the full year.

Throughout the development cycles, we remain focused on exercising strong capital discipline. Development decisions are driven by customer demand. Specifically, we look at developing in sub-markets with lease ratios of at least 85% and a leasing pipeline of at least 1.5 times.

New development starts in China this quarter, for example, were all located in sub-markets with an average lease ratio of 92%. And we feel that this disciplined approach, coupled with a focus on development margins, will continue to yield ongoing and regular additions to our earnings stream.

Finally, I will touch on fund management on slide 6. Our fee generating capital base continues to expand steadily, causing higher recurring income from management fees. For the quarter, we recognized $47 million of fees from our invested capital, which is up 25% year-on-year. Of that, $31 million were asset management fees and $16 million were development and acquisition fees.

Having completed the syndication of our second US portfolio, we are now focused on closing our third US portfolio in December. And, given that syndication of the Hillwood portfolio is currently oversubscribed, we look forward to lining up capital partners by the time we close.

Today, roughly 67% of GLP's asset are managed in funds and we expect this percentage to steadily increase over time, as we move even further towards an asset light model. So, all told, it was a solid quarter operationally, with increased performance from our development and fund management platforms.

With that, I'll turn it over to Heather.

Heather Xie *- Global Logistic Properties Limited - CFO*

Thanks, Steve. Please turn to slide 8 for the financial highlights. 2Q FY17 earnings were $173 million, 52% higher year-on-year. Results were driven by the continued expansion of GLP's fund management platform, higher development profit in Japan and cap rate compression gains in Brazil and US

During the quarter, we saw cap rates in Brazil compress 25 basis points to 10.8%, while US cap rates compressed 7 basis points to 5.9%. We see room for cap rates to compress further in China, Japan and Brazil in the second half of this year.

2Q FY17 core earnings were up 28% year-on-year, with first half FY17 core earnings up 17%. China and Japan continue to contribute the majority of our earnings. Slides 9 to 11 provide a deeper analysis on country performance.

In China, rent growth and lease-up continued to drive higher property net operating income. The increase was partially offset by a higher cap rate compression last year in China and the weakening of Chinese RMB against US Dollar.

Japan saw strong earnings growth due to the growth of our fund management platform, higher development profit and appreciation of the Japanese yen against the US dollar. Our US segment also increased with the inclusion of one-time syndication gains.

Brazil earnings were impacted by the valuation gains due to cap rate compression this year, compared with cap rate expansion in the prior year. Brazil core earnings remain stable year-on-year.

Please turn to slide 12 for capital management highlights. GLP held $1.8 billion of cash at the end of September 2016. Net debt to assets stood at 15% for the quarter. And, on a look-through basis, our net debt to assets is 27%. We will maintain our net debt to assets below 40%.

64% of total debt is fixed and the cost of debt remains at low 3%. Our policy is to naturally hedge by financing operations in local currency. We issued our first tranche of panda bonds in July this year and we will look to issue more RMB denominated bonds in the near future.

With that, I will turn over to Ming.

Ming Mei *- Global Logistic Properties Limited - CEO*

Thank you Heather and thank you all for joining this morning. We had a great quarter overall and we're on track to meet the targets we set out for the full year. Our strategy remains the same, focused on being the best operator, being the best developer in the markets we operate in, being the best developer in the markets that we believe give us the best risk adjusted returns, and grow our fund management business.

Our operations, instead of focusing on just real estate, we look at our customers, what drives their cost and how to improve their efficiency. And over the last few years, we've been developing softwares to help them optimize their location based on the frequency of their delivery.

And last year we've seen a lot of the best operators in e-commerce, logistic providers and traditional retailers using our tools, putting their historical delivery data into the system to come up with the best site and network for the operation. And, overall, we've seen (inaudible) costs reduce by 20% and that's something that we'll continue to improve on.

On the development front, we continue to focus on developing in markets that we believe that we have an advantage and also get the best risk adjusted return. Japan is becoming more competitive, both from domestic developers as well as international developers. But Yoshi and team has done a great job of securing off the market sites that were not publicly bidded and enabled us to maintain our development margins.

In China, Victor and Teresa have done a good job of focusing on markets that we continue to have strong demand and a balance of supply. In China, we continue to be the largest developer and we maintain our discipline and focus in the markets that are well leased. As an example last quarter, we start projects in cities that are 90% lease-up.

We believe that over the next two or three quarters, supply and demand will balance out in these second-tier cities, as we've been raising this issue two or three quarters back. Land continues to be very constrained even in these second-tier cities. And we talk about second-tier cities, these are cities that have populations of 5 to 8 million people, and in our business population consumption drive our business.

In Brazil, we're still focused on selective development to meet our customer demands. What we have seen over the last quarter, cap rates have compressed by 25 basis points, from 11% to 10.8%. Over the next two or three quarters, we expect cap rates to compress further by 50 basis points.

We continue to focus on growing our fund management business. Over the last six years, we have grown the business from zero to $30 billion even. Again, we still have $12 billion uncalled capital that will generate additional fees in the future. We expect revenue contribution from fund fees to grow from 15%, 20% of today's overall revenue, to over 30% in the future.

We continue to see strong demand for core income products. We've been able to leverage our fund management platform to grow our US business. Our most recent transaction with Hillwood, $1.1 billion, is oversubscribed already and the team on the ground, led by Chuck, has done a great job, with rental renewal at record levels.

We're also seeing cap rates have compressed since we first entered the market two years ago, from 6.1% to now in the low 5%'s. Same thing for China. We get a strong demand from both domestic institutional investors, as well as international investors wanting to buy into our existing portfolio. But given the balance of our cash on hand, plus further cap rate compression, we're balancing the timing of that.

I'd like to take some time to show everyone what we currently see in China, as we get a lot of questions on this market. Domestic consumption and the growth of organized retail are the key drivers of business. Our leases with organized retail and e-commerce have grew 50% over the last three years, each year.

New customer segments are emerging. Previously they were a fragment of food industries, retailers into the convenience stores, express companies, transportation industries. These are being consolidated. To give an example, on the express and transportation industry, they make up 24% of our leased area today. That was only 1% back in 2011.

Auto sector's another key growth sector. The after-sales parts is actually growing for our business. Even though the new cars, sales are slowing down, but after 8 to 10 years of new cars being sold, after-sales service parts are growing. Customers such as BMW, Daimler, Volkswagen continue to lease facilities from us across the country.

More than 40% of our second-quarter leases come from organized retail and auto sales parts. Overall, long-term continues to be quite healthy. Despite the near-term oversupply in some of the second-tier cities, land supply and land quota allocation for good markets continue to be very constrained.

If you look at all the provincial capital cities, it's becoming very, very hard to secure land quota and farmer relocation is getting tougher and tougher. So, overall, amount of land that can be secured by developers is very, very limited.

By estimate, roughly about 5 million square meters will be completed into the system each year. Again, GLP will make up the bulk of that. Overall, we estimate about 120 million square meters of modern facilities are in the total market place. So, by definition, each year there will be about 5% added to the total inventory.

Overall, absorption continues to be quite strong, despite all the noises about oversupply in some second-tier cities. It's just that some of the projects are all coming online at the same time. But overall demand, if you look at year-on-year, there is still record leasing.

Based on our own numbers, we've seen about 20% increase from year-to-year on new leases and new absorptions. Over the last 13 years, GLP has accumulated a very high quality portfolio of logistic facilities across China that could not be replicated. Over half our portfolio is located in the sub-markets of Greater Beijing, Greater Shanghai and Greater Guangzhou area.

And, as e-commerce grew over the last few years, they're able to reach cities with populations that traditional retail didn't. So we support the growth and grew into the one-and-a-half and two tier cities. Again, just to put things in perspective, when we say about tier one-and-a-half and tier two cities, these are cities that have 8 million to 10 million people and some of them are bigger than the population in New York City.

So with that, we'll now open to questions.

Operator

Thank you. We will now begin the question and answer section. (Operator instructions). Thank you and our first question comes from the line of Paul Lian from Goldman Sachs, please go ahead.

Paul Lian *- Goldman Sachs - Analyst*

Hey Ming, morning, can you hear me?

Ming Mei *- Global Logistic Properties Limited - CEO*

Yes, Paul, good morning.

Paul Lian *- Goldman Sachs - Analyst*

Hey, just a quick one on Steve's earlier comment that lease ratios are clearly stabilizing in China and in 12 to 18 months you could actually see a reacceleration of development starts. Can you just touch a little bit on that? Clearly this seems to be pointing to a more rosy outlook for China.

Ming Mei *- Global Logistic Properties Limited - CEO*

Well I think in last two or three quarters we told you that we're experiencing some oversupply in the second-tier cities and we issue the statement and hopefully everyone doesn't rush into the second-tier cities. But overall, if we look at last quarter, our second-tier cities lease-up actually increased by 5%.

And especially in cities that we mentioned in the past that were a little bit weak, like in Wuhan, two quarters ago, on the fourth quarter 2016, the lease was 76% in Wuhan and today we're at 95%. Again, some of that was driven by seasonality, by the November 11 events on e-commerce. But, again, it shows how quickly an oversupply situation could be changed.

And, as I mentioned in the past over and over again, this absorption and demand never slow down. It's just that all of a sudden in that city, a few projects come online at the same time.

Another example is Shenyang, Shenyang we were at 69% two quarters ago and last quarter was 63% and this quarter we finish at 80% lease-up, so all pointing to the direction. And because we signaled three quarters ago that there's oversupply, a lot of players have take notice and follow and I think we get into a more healthy supply and demand situation.

Paul Lian *- Goldman Sachs - Analyst*

Thank you.

Operator

Thank you and our next question comes from the line of Michael Lim from UBS, please go ahead.

Michael Lim *- UBS - Analyst*

Good morning Ming, can you hear me?

Ming Mei *- Global Logistic Properties Limited - CEO*

Yes Michael.

Michael Lim *- UBS - Analyst*

Hi, so I've got two questions. For the China customers by leased area, I've noticed that Amazon has moved down a couple of rankings. Any cause for concerns there? My second question is on the net operating income margin for China. What is driving the 3% improvement this quarter, if we compare quarter-on-quarter?

Ming Mei *- Global Logistic Properties Limited - CEO*

Okay, so thanks Michael. Again, we won't comment on individual customers on their business. But if we also notice that there's a new customer on the top-10 list that never appeared before, it's called Analog, they are the operator for Alibaba.

So, again, the dynamic of each individual business, how they grow and how they decrease, we won't comment on it. But, overall, you continue to see customers coming into our top-10 list that didn't exist before, like Alibaba.

Heather Xie *- Global Logistic Properties Limited - CFO*

On the rent or the margin, actually the China rent went down because of the VAT impact. Before, as you know, we had the business tax, so that's part of the rent. Now obviously -- no longer there. But the overall margin on China actually went up.

Operator

Thank you, our next question comes from the line of Brandon Lee from JP Morgan, please go ahead.

Brandon Lee *- JPMorgan - Analyst*

Yes, morning Ming, just a couple of questions. First one is, can you give us a sense of whether there'll be some change in allocation for the land bank for CLF Fund II in light of the slowing development starts going forward? And how do you intend to allocate the starts within the Fund II and GLP China?

My second question is, it's been close to two years now since we saw the Chinese consortium coming into GLP China. How much do you think they've helped your business and do you think that there's actually more they can do? Yes, thanks.

Ming Mei *- Global Logistic Properties Limited - CEO*

Thank you Brandon. Again, we have specific, clear guidelines on how CLF II operates. Basically, any projects that are 100% owned by GLP, we will put into the CLF II Fund. Only joint ventures that are not 100% owned will be on our balance sheet because we will make a clear distinction and we don't want to create a competitive or cherry picking situation. So to answer your question on how we allocate, it is mainly driven by customer demand. What we continue to see is that half the portfolio is located in the three major clusters from Beijing, Shanghai and in Guangzhou area.

And as I mentioned earlier on the early part, a lot of the demand in the second-tier cities are driven by the growth of e-commerce. Because these retailers, online retailers are able to reach into cities that do not have the established shopping malls and other outlets. So the area that our customers on the ecommerce front have seen the biggest growth has been from second-tier cities, because their purchasing power from that region on a per-capita basis, sometimes it's higher than the first-tier cities.

And then as a result of that, the service provider, logistics companies that support the delivery of these partials, are also growing. So again, that's why you've seen a huge demand in and huge growth in these second-tier cities. Again, second-tier city is 5 to 10 million people. In the US when we look at a major city, it's one million population so it just kind of puts things in perspective.

Steve Schutte ***- Global Logistic Properties Limited - COO***

The next question -- this is Steve -- was on the impact of the consortium so far, and I'll start on that, Ming, and then you can hop in if there's anything else. But really, we've seen it pay off in two areas directly, which is land and leasing. So you look for example over FY15 and FY16, they were able to help us get land of 680,000 square meters and 313,000 square meters of land respectively, and that was through their support.

And in FY16 also we noted that we did our investment with CMSTD and that was really only made possible because of our support with the consortium, and it's really allowed us to drive value creation, getting access to about -- over 9 million square meters of land. So they've been very instrumental on the land side.

And as well as leasing, they really enhanced our customer base and our lease-up where we had 171,000 and 196,000 of new and expansion leases signed with SOEs in FY16 and FY16 respectively. So we're seeing some direct impacts.

Ming Mei ***- Global Logistic Properties Limited - CEO***

I just want to add one more point, is that because of our size and scale and being the largest foreign owner of a logistics facilities in China, or we're bigger than the next probably 20 competitors put together. So it draws a lot of attention.

Anytime we have a joint venture with another company, we have to go through a lengthy process of anti-trust anti-monopoly review. If it wasn't for the help being classified as a joint venture in China instead of purely foreign owned, I think these processes could easily have been slowed down. So think on many fronts on business, also on perception issues, I think they have helped us doing business in China.

Operator

Thank you. Our next question comes from the line of Donald Chua from Bank of America. Please go ahead.

Donald Chua ***- Bank of America Merrill Lynch - Analyst***

Hi, guys. Good morning.

Ming Mei - *Global Logistic Properties Limited - CEO*

Good morning, Donald.

Donald Chua - *Bank of America Merrill Lynch - Analyst*

Morning. Two questions from me, both relating to China. First is whether there is any update on the CMSTD tie-up, given that we spoke briefly about this earlier, whether there is any development joint ventures that we will be looking out for. That's one.

Two is in terms of your new land bank acquisitions for the quarter, the developments and completions in China. Could you give us a breakdown on how much of this in the tier 1, tier 1.5 cities and how much is in the tier 2, the more troubled cities in terms of either GAV or GFA for the three metrics? Thank you.

Ming Mei - *Global Logistic Properties Limited - CEO*

Let me answer the second part about -- I mentioned in my earlier announcement, basically we started last quarter and all the projects we started last quarter are in cities with an average lease-up ratio of 92%. So when you say how many projects are in troubled cities, we have become very disciplined and only start in cities that have a healthy supply-and-demand situation.

So on CMSTD, so it took us a little longer to get approval for the transaction. Actually, it took us a year, a year since we announced it to just get approval to become a shareholder because this is a company that has a long history- legacy of Chinese, they owned all their supply chain and the warehousing of this company, so it was a major issue for the government. So it took us a year to get approval and finally made the investments.

On the -- purely from a financial investment that has yielded us 50% return already. But the strategic goal of investing in that was not purely financial. It was mainly because we saw the opportunity to do a lot with the existing network as well as new projects.

Since we got approval -- we started by forming comp committees in there to help them to align and center to make sure they become more competitive and then also we start the process of forming a joint venture. We expect to get our first -- we expect to get the first joint venture approved by December this year, and then basically, that joint venture will take on all new logistic developments together with them.

We own 50%, they own 50%. We already have two projects in parallel working, one in Tianjin that's already been identified that we'll put into the joint venture. So things took us a little bit longer because of the approval process.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Wilson Ng from Morgan Stanley. Please go ahead.

Wilson Ng - *Morgan Stanley - Analyst*

Hi, Ming, morning. Just two questions from me.

Firstly, on the operational performance in China, it seems like things are picking up on the lease ratio side. Given that though, would you say that on the development starts trend for the year it's going to -- would you think that it's going to better than initial expectations of a 20% decline for the year?

And the second question is on asset recycling in China. So I think earlier in the year you mentioned you were in discussions with I think several insurance or pension funds to set up an income fund. How's progress then, and what's holding back further progress on setting up an income fund?

Ming Mei ***- Global Logistic Properties Limited - CEO***

Thanks. Thanks, Wilson. On the first question on operation in China and we expect to ramp up development. As I mentioned a couple of quarters ago, I think the guideline for us would be -- I'd like to see lease ratio in China north of 90% before we'd do any type of adjustment on the starts.

Again, you start something now, you don't see the impact until a year and a half, 2 years from now. So we typically want to have further visibility. So we are committed to complete and start -- all the complete numbers and start numbers we set up for the year, we are committed to deliver those targets.

On the second question about asset recycling. So yes, we are currently in active discussion with several options, including insurance companies and pensions and both domestic as well as international investors. The interest level is very strong. I would say what's delaying the formation of the income fund in China, mainly because we are sitting on balance sheet with $1.8 billion cash.

If we sell the assets, we lose the income from the rental and we don't have any immediate plans to deploy that capital right away so we also expect cap rate will further compress in China. So given all that, we're just trying to manage the use of capital and also cap rate compression. So I would say probably another six months will be probably a good time horizon.

Operator

Thank you. Our next question comes from the line of Yew Kiang Wong from CLSA. Please go ahead.

Yew Kiang Wong ***- CLSA - Analyst***

Hi, Ming. Just one question from me. Have you guys started to look at Europe? And also have you looked at the Europe that GIC recently is looking to acquire? Thanks.

Ming Mei ***- Global Logistic Properties Limited - CEO***

Thanks, YK. Always we have said we look at the US market; I think there is still a lot of room for further adding more AUM to the portfolio.

Europe is something that we have to look at. We currently have no -- we're not in active discussion with anyone. And to answer your question, we're not part of any transaction that's announced in the paper.

Operator

Thank you. (Operator Instructions) The next question comes from the line of Louis Chua from Credit Suisse. Please go ahead.

Louis Chua *- Credit Suisse - Analyst*

Hi, good morning, Ming. Just two questions from me. The first is a follow-up in terms of the China consortium. Can I just ask when is the end of the three-year lockup? And following that, would you be able to share with us what are the plans in terms of should we be looking at potential IPO or some other liquidity event?

And the second question is on in terms of the top 10 largest customers in China, maybe short of naming customers, just broadly we see that the top 10 customer share has gone down to about 22% today from close to 25% last year. So maybe broadly some color on which are the customers which are not renewing or which are the ones which are still leasing new facilities et cetera? Thank you.

Ming Mei *- Global Logistic Properties Limited - CEO*

Thanks, Louis. Actually, let's start with that top 10 customers make up the percentage from 23% to 22% or 21%. From our perspective, we never want any kind of concentration on any particular customers because that brings risk, because it doesn't matter how big or how good that customer is, sometimes the business environment changes and if they lose business we end up going down with them.

So from our perspective, our overall portfolio is bigger this quarter than last quarter, and our overall lease square meters is bigger than last quarter. So when we see the top 10 percentage shrinking, we're actually very happy.

If you ask me, my goal would be to get the top 10 even further down, if we -- but again, we also see some consolidation, so that's why that percentage may be relatively around the 20% range. But from our perspective, the lower the top 10 the better for us from a business risk perspective.

On the China consortium, there is a clause in there, basically original investors after three years they have the option to transfer their shares. But again, there is no hard mandate that the Company needs to do anything. Overall, the Company continues to look at all options to enhance shareholder value.

Operator

Thank you. Our next question comes from the line of Donald Chua from Bank of America. Please go ahead.

Donald Chua *- Bank of America Merrill Lynch - Analyst*

Hi, it's me again. Two follow-up questions, very quickly, and the first one on China on the tenants, the top 10 tenants. Could you give us some color in terms of trade mix and which style of industries it's leasing more and which are the ones that are leasing less, and giving us some color on an outlook of the leasing? That's the first.

The second question is more on the numbers. So I see that in the last two quarters there have been $5 million to $6 million of syndication gains at a -- presumably it's at a US level. Are we expecting more going into the next few quarters and when would this drop off? Thank you.

Steve Schutte *- Global Logistic Properties Limited - COO*

Donald, hey, it's Steve. I think I'll touch base on the first question, which about 40% of our leasing in Q2 was with organized retail and auto parts, so that continues to be a rising group that we continue to do business with. And related to that and somewhat tied to the last question, what we really focus on, our retention was up to 68% this quarter versus 62% last year, and our free rent has been stabilizing and we're still seeing really strong rental growth on renewals.

So as much as the specific tenants that we're leasing to, we really focus on are we growing the denominator, are we growing the fundamentals. And I think that's what we continue to see, but the growing trend continues to be with organized retail and auto parts.

Heather Xie *- Global Logistic Properties Limited - CFO*

For the syndication gains in the US, that's really come from the first and the second portfolio that we completed syndication. So there's nothing expected from those two portfolios.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Brandon Lee from JPMorgan. Please go ahead.

Brandon Lee *- JPMorgan - Analyst*

Yes, hi, Ming. Just a follow up on four questions.

On the pro-rata contribution, pardon me, from China, I think if you look at the operational metrics they have been very strong, but on a year-on-year comparison-wise, that number of $32.3 million is still pretty flat year-on-year. Could you perhaps give some color on when we could see some of the growth translating to the bottom line going forward?

And the second question is it seems that Brazil has kind of turned around a bit. Will you be looking at allocating more capital to this market? Thanks.

Ming Mei *- Global Logistic Properties Limited - CEO*

Thanks, Brandon. I will leave question 1 to Heather and I will touch on question 2. I just want to say, I think the worst is behind us in Brazil and we have a very strong team. Mauro has done a great job of strengthening the team there, and proactively extending leases.

We're also seeing the capital market is a little bit more favorable towards us now. So I think from a cap rate, we see probably another 50 basis points compression from where we currently are. I would not be surprised, the logistics sector will be trading at the 9%'s. We had on our book 11% cap rate, and we're now at about 10.8%. It could go down to 9%, 9.5% in the future.

We've seen REITs trading for the malls in the 6%'s, so I think there's further good news coming and we -- even through the worst time in Brazil, we didn't see any distressed asset sale in the sector. We are looking at to secure some good sites in some of the good locations. So yes, we plan to put a little bit more money into Brazil and Mauro and the team are working hard on that.

Steve Schutte ***- Global Logistic Properties Limited - COO***

This is Steve. And one thing I would say just to add onto that, if you look over the last 12 months, yes, we renewed about 525,000 square meters of space, which was about 22% of our portfolio. And in the last quarter I know we showed effective negative rental growth of 9.2%.

But to put that in perspective, that's equivalent of about $35,000 input impact on our earnings. And so Mauro and the team have done a fantastic job shoring up and making sure we have a steady portfolio, which we feel like we are getting to that point.

And I would echo what Ming said, that we do feel the tide is turning. There's a lot of capital going into Brazil and we know that there's talks of what the Selic may do with the interest rates next year and we feel like it's going in the right direction.

So certainly, it is something we're going to start exploring more. And I think the other reason is that you need a fair bit of advance time on land acquisitions in Brazil to get entitlements, and so it's something that we're starting to take a hard look at now.

Heather Xie ***- Global Logistic Properties Limited - CFO***

On the China result, actually if you look at the core earnings, even excluding the valuation, China performance is up 8%. But that actually has impact of RMB depreciation of about 6%, so if excluding the RMB impact the China core earnings, excluding the valuation, will be up 12% so is still quite healthy growth.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Louis Chua from Credit Suisse. Please go ahead.

Louis Chua ***- Credit Suisse - Analyst***

Hi, sorry, just a quick follow-up again. In terms of the three-year lockup, when specifically does it end next year? Thank you.

Ming Mei ***- Global Logistic Properties Limited - CEO***

I don't remember exactly, I think it's sometime in September - at June 2017, okay. Yes, June 6. So you can tell how much I pay attention to that.

Operator

(Operator Instructions) Our next question comes from the line of Derek Tan from DBS. Please go ahead.

THOMSON REUTERS

Derek Tan *- DBS - Analyst*

Good morning. I've just got a question on slide 5. Do you mind if you give us some color on your development completions, what are the lease ratios currently for China, Japan and Brazil. And especially for China, where are your warehouses completing, which part of China? Thanks.

Steve Schutte *- Global Logistic Properties Limited - COO*

The development completions that we've finished in China really have ranged over the top markets that we've talked about. We completed in the second quarter $262 million and really have achieved 30% of our FY17 target. None were in tier 1; 22% was in Tianjin, which is a tier 1.5, and the remaining was in tier 2.

We also have breakdowns by region as well, if that helps, we can get into that. But so far we actually feel very confident, and as Ming mentioned earlier, that we will continue to hit our targets and continuing to develop within the profit margins that we set out as our overall goal.

Operator

Thank you. It seems that there are no further questions for today. We'll hand it back to Ming for closing remarks.

Ming Mei *- Global Logistic Properties Limited - CEO*

Thank you all for joining today. In summary, we have a strong set of resultsachieved by the team this quarter. We are on track to meet the full year target.

Cap rates have compressed in Brazil and the US and we expect further compression in China, Japan and Brazil in the near term. We continue to see a stable business outlook in China and we'll maintain strong investment discipline and focus on markets with high customer demand and limited supply.

We're in a strong financial position, we're leveraging the fund management platform to raise capital for both development and core funds. Our strong balance sheet gives us the options and the flexibility of continuing to support the growth of our business, and we'll continue to focus on creating a natural hedge in both China and Japan by issuing bonds and borrowing locally. And with that, I want to thank you all for joining us today. Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating; you may all disconnect.