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Savills World Research
Hong Kong

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Hong Kong Logistics

2H 2014

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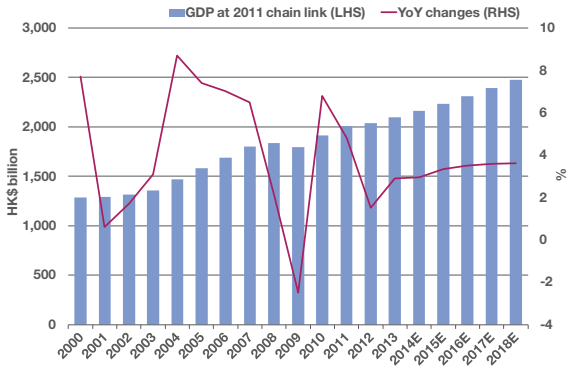
GRAPH 1

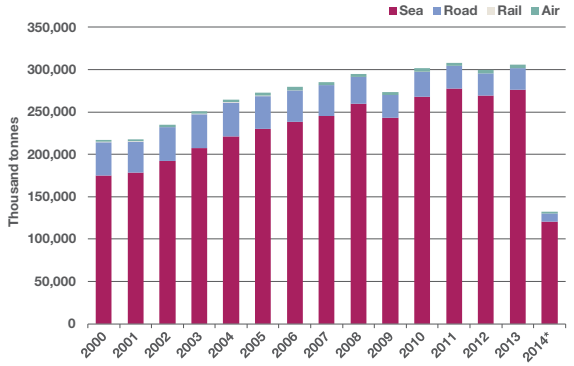
Hong Kong's real GDP and growth rate forecast, 2000–2018E



Source: Census and Statistics Department, FocusEconomics, Savills Research & Consultancy

GRAPH 2

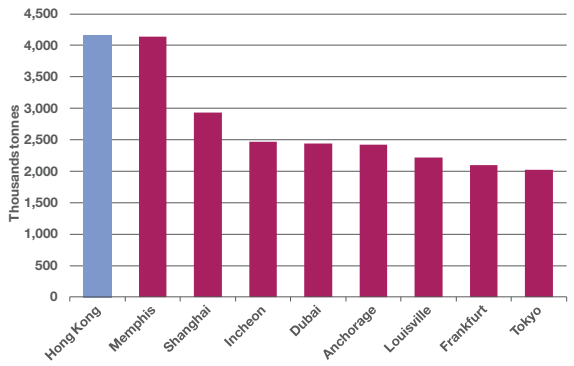
Total cargo throughput of Hong Kong, 2000–2013



Source: Hong Kong Port Development Council, Savills Research & Consultancy
* Preliminary figures in Jan to May 2014

GRAPH 3

Top Ten airports by international freight, 2013*



Source: Airports Council International, Savills Research & Consultancy
* Refers to 2013 preliminary figures.

Trading and retail performance

Total trade growth is expected to recover slightly to 9.4% per annum over the next five years, compared with the 8.3% annual growth recorded from 2004 to 2013, given a full-blown recovery of the US and European economies.

While trading performance may still moderate in the short term, the outlook for retail sales is more positive, with an expected 10.8% per annum growth rate from 2014 to 2018, higher than the 9.1% annual increment over the past decade.

Although still in its infant stage, e-commerce and e-retailing have gained unrivalled popularity in Hong Kong over the past few years. Statistics show that 1.46 million people used online purchasing services in 2012, a compound annual growth rate (CAGR) of 18.2%, compared with 274,500 people in 2002. According to PayPal Online and Mobile Shopping Insights 2012, the mobile commerce market has also recorded a phenomenal growth from HK$1.5 billion in 2011 to HK$6.4 billion in 2012, representing a 327% year-on-year growth. The market is forecast to reach HK$17.8 billion in 2015, a 12-fold growth from 2011. This should have a positive knock-on effect on the logistics industry.

Hong Kong logistics sector summary

The improving trading sector induced strong growth in total cargo throughput, which increased at a CAGR of 2.7% per annum from 2000 to 2013, amounting to 306 million tonnes. Sea freight was the dominant means of cargo throughput, representing a 90% share, while road and rail freight accounted for a combined 8.4%. Although air freight only represented around 1.3% of total cargo throughput, the value of goods delivered represents some 37.4% of total trade value in 2013.

Air cargo throughput rose by 84% from 2000 to 2013. The booming air freight sector is evidenced by the much faster growth rate of air freight value over sea freight value over the period.

Port throughput recorded a steadily upward trend, with a CAGR of 3.6% per annum from 2000 to 2013. Further research indicates that the growth in port throughputs was mainly supported by the robust growth in trans-shipments, which saw the amount of goods shipped increase from 61 million tonnes in 2000 to 157 million tonnes in 2013, a 1.6-fold increase to represent 56.8% of total cargo throughputs.

Land transport mainly serves container throughput to mainland China. As more and more of these connections are replaced by barges operating on the Pearl River, land transport throughput declined by around 25 million tonnes in 2013, representing a mere 8% of total cargo throughput for the year.

Key government policies in support of the logistics sector mainly come in the form of more land supply to increase the capacity of much needed logistics facilities. The first initiative was announced in the 2009/2010 Policy Address, with four out of the seven logistics-related sites tendered out and more sites identified for logistics development, including the Hung Shui Kiu Development Area and Tuen Mun West.

Competition and challenges

Air freight

Although Hong Kong International Airport (HKIA) maintains a considerable advantage, the continued development of Guangzhou Baiyun Airport and Shenzhen Bao'an Airport in the PRD region, with an overall combined annual capacity of 126 million passengers and 4.9 million tonnes of cargo, might pose a threat to HKIA both in terms of passenger movements and air freight throughput, given that HKIA is expected to reach its maximum capacity sometime between 2019 and 2022 before the third runway is completed in 2023.

Sea freight

The throughput of Guangdong ports has grown at a much faster pace, reducing Hong Kong's share of container throughputs from 73% in 2000 to 35% in 2012. However, as regional throughputs have increased robustly over the period, with a rise of 166% to 66 million TEUs in 2012, the 'pie' is getting bigger, despite Hong Kong container throughputs not growing at the same rate. Due to cost concerns, more and more shipping seems to be attracted northwards to Guangdong ports. However, the cost differential looks set to narrow over the next few years.

Logistics landlords

The largest logistics landlord in Hong Kong is currently Goodman with 13 completed properties and the largest GFA of up to 9.8 million sq ft, followed

by ATL with a 9.3-million-sq ft single warehouse building, and Hutchison, owner of a 5.7-million-sq ft warehouse.

Logistics warehouse market overview

There are a number of warehouse clusters supported by different modes of transport and serving different clients. Tuen Mun and Yuen Long are close to the Hong Kong–Shenzhen Western Corridor, Fanling and Sheung Shui enjoy direct road access to the mainland via Lok Ma Chau and cater for cargoes destined for the mainland, while Kwai Tsing and Tsuen Wan are close to Kwai Chung Container Terminals and cater for bulky cargoes to/from overseas.

By the end of 2013, there was 16.7 million sq ft of modern warehouse space in Hong Kong with the majority located in the Kwai Chung/Tsuen Wan and Chek Lap Kok areas. Compared with 1994, Hong Kong Island and Kwun Tong warehouse storage stock had declined by 33% and 24% to 1.6 million sq ft and 2.8 million sq ft respectively, while stock in Tuen Mun and Yuen Long rose by 67% and 180% to 1.5 million sq ft and 1.4 million sq ft respectively by the end of 2013.

The westward shift of warehouse and logistics facilities in Hong Kong in recent years has coincided with the westward shift of industrial and investment activities in the PRD. With the emerging suburban retail trend and improving infrastructure both benefiting the northern and northwestern New Territories, the combined warehouse stock of 4.3 million sq ft in Tuen Mun, Yuen Long and North[1] in 2013 seems a mismatch for future demand.

A substantial number of flatted factories were being utilised as storage or warehouse sp ace in 2013. Out of a total of 189 million sq ft of flatted factory space, it is estimated that 28%, or 53 million sq ft in total, was being used primarily as warehouses to handle less bulky and low value-added goods in 2013.

Following the industrial revitalisation policy implemented in April 2010, encouraging the conversion of wholly-owned industrial buildings in non-industrial zones into commercial uses without waiver fees, 49 out of 103 applications have been approved, representing a GFA of 6.2 million sq ft, 43% of which have been in Kowloon East.

Supply, take-up and vacancy

Supply declined to slightly below 1 million sq ft per annum from 1995 to 1999, then increased gradually with the completion of NWS Kai Chung Logistics Centre (499,905 sq ft net) in 2011 and Interlink (1,292,000 sq ft net) in 2012.

Vacancy rates increased to 5.2% alongside weakening demand due to the global financial crisis in 2009, then dropped to 3.1% in 2010. Following the gradually increasing supply in 2011 and 2012, the vacancy rate increased moderately to 4.5% at the end of 2012.

Modern warehouse rents have recovered ahead of the overall market since 2003, rising by 52% from their trough in 2003 and standing at HK$8.7 per sq ft per month in Q3/2008. Rents then fell by 17% from Q3/2008 to Q3/2009, before rising by 71% from Q3/2009 to Q1/2014. Overall and modern warehouse rents stood at HK$9.4 and HK12.2 per sq ft gross at the end of Q1/2014 respectively.

Godown prices recorded strong growth of 390% from 2003 to 2013, while modern godowns outperformed with a rise of nearly 428% over the same period. Benefiting from strong demand and limited availability, prices are expected to maintain their upward trend. One of the main drivers of values in the sector is redevelopment potential.

Market outlook

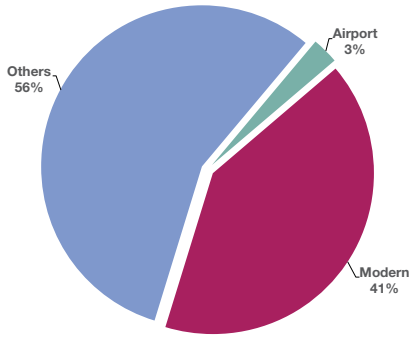
In the short term, as three new logistics sites under construction will be completed between 2014 and 2016, we expect average take-up to be more or less in line with average supply, with vacancy rates forecast to decline from 4.5% in 2012 to 3.3% in 2016.

Warehouse yields rebounded slightly to 4.8% towards the end of 2011, but fell again over 2012 and reached 4.2% in Q4/2013. With the Federal Reserve tapering the quantitative easing programme, which has driven bond yields up, we expect property yields to follow suit in three to six months. Therefore, we anticipate yields to revert slightly to 4.4% in 2015 and gradually increase to 4.8% in 2016, meaning that warehouse price growth will lag behind rental growth over the next few years. Average yields for modern warehouses are forecast at 4.5% over the next three years.

1 Including Fanling, Luen Wo Hui, Sheung Shui, Shek Wu Hui, Sha Tau Kok, Luk Keng and Wu Kau Tang.

GRAPH 4

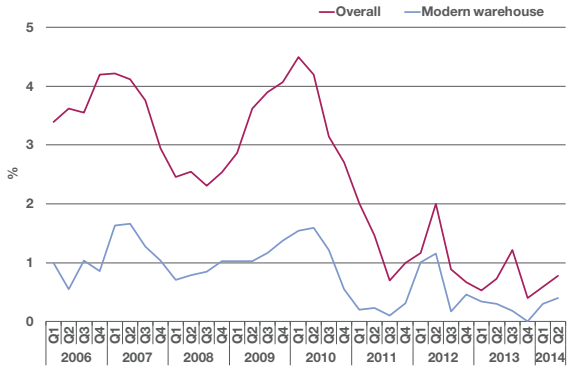
Warehouse stock by category, 2013



Source: Buildings Department, Rating and Valuation Department, Savills Research & Consultancy

GRAPH 5

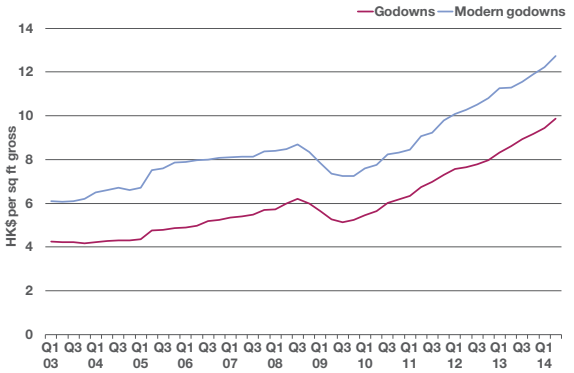
Warehouse and modern warehouse vacancy rates, Q1/2006–Q2/2014



Source: Savills Research & Consultancy

GRAPH 6

Overall godown and modern godown average rents, Q1/2003–Q2/2014



Source: Savills Research & Consultancy

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