Briefing
Industrial sector

January 2015

Image: Industrial buildings in Kwun Tong

SUMMARY

Industrial investment sentiment remains buoyant.

- Purchasers turned their attention to en bloc premises, with a few big ticket sales completed over the quarter – three were over HK$1 billion, bought by both investors, and end users.

- End users were also active in pursuing their permanent places of businesses, many of them looking to stabilise long-term occupation costs.

- The warehouse leasing market slowed in Q4, mainly due to a lack of available stock, with many tenants opting to renew.

- E-commerce tenants were active, expanding their businesses and taking up more space in high grade warehouses, making up for dwindling demand from traditional logistics operators.

- The short-term outlook for the warehouse sector remains positive, in particular in the sales segment, while the leasing sector may face a short halt due to an increase in availability in the short-run.

"Both investors and end users were active in pursuing industrial properties, but the lack of available stock has driven volumes down. Tight availability saw limited leasing activity in the warehouse market, but the gradual release of some high quality space may induce market movement in 2015." Simon Smith, Savills Research

Sales market

11 major transactions of over HK$30 million were concluded in Q4/2014. Although this was a 27% decline from last quarter, the total consideration of HK$5.4 billion was up 74% quarter-on-quarter (QoQ). This was due to a few big ticket sales, including three billion-dollar deals.

Investment sentiment in the industrial sector has not been hindered by the recent Occupy protests, with a number of significant deals being done. The two most eye-catching deals were New World purchasing the revitalised KOHO in Kwun Tong for HK$1.6 billion (around HK$8,000 per sq ft) for long-term investment purposes, and Tai Hung Fai purchasing the Chevalier Engineering Service Centre in Kowloon Bay for HK$1.4 billion (around HK$8,000 per sq ft), eyeing its revitalisation potential.

Besides investment demand, end users were also active in the market, with Hong Kong Sanatorium & Hospital reportedly buying (en-bloc) Eastwood Centre in Shau Kei Wan for HK$1.3 billion for use as a medical centre, a listed company purchasing (en bloc) Luen Fat Industrial (No. 2) Building in Kwai Chung for HK$222.8 million, and another end user acquiring a floor at Kerry TC Warehouse 1 in the same district for HK$106.8 million, both for owner occupation.

Leasing market

With retail sales slowing, related logistics demand also slowed in the last quarter of 2014, with little leasing movement. One of the most significant deals was the en bloc leasing of 11 On Chuen Street, Fanling (130,000 sq ft) to a logistics company (who provide exclusive services to AEON) for around HK$8.5 per sq ft (exclusive), who had just sold their Wilson Logistics Centre in Kwai Chung to a local investor for HK$633.8 million. Another two floors at Wyler Centre I in Kwai Chung (64,000 sq ft) have already been pre-leased by two local logistics operators for HK$11 to HK$11.5 per sq ft.

TABLE 1

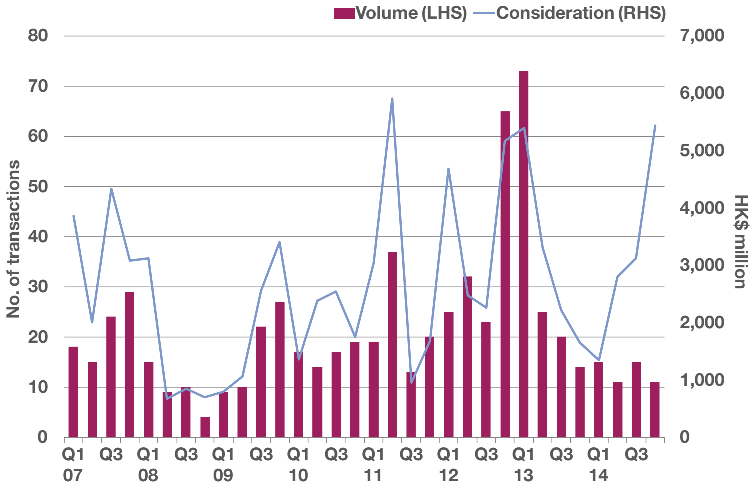
Industrial price growth by subsector, Q4/2014

	Q4/2014 (%)	2014 (%)	2013 (%)
Flatted factories	+5.9	+17.4	+5.0
I/O	+5.2	+13.2	+5.2
Warehouse	+4.0	+9.4	+16.3

Source: Savills Research & Consultancy

GRAPH 1

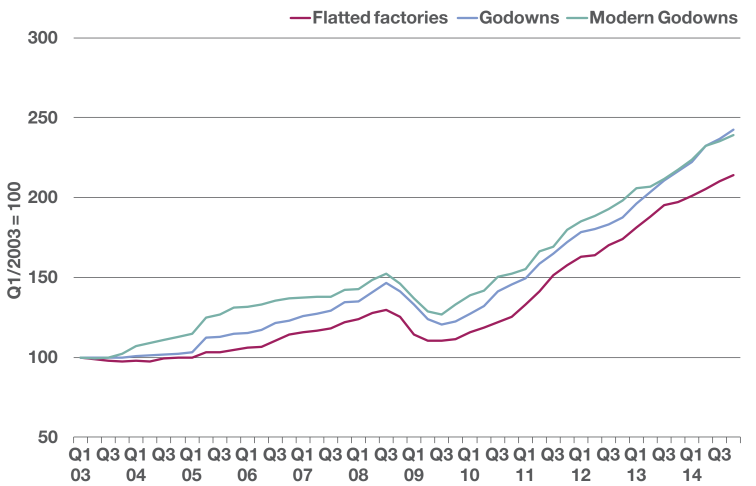
Major industrial transaction (>HK$30 million) volumes and values, Q1/2007–Q4/2014



Source: Savills Research & Consultancy

GRAPH 2

Flatted factory and warehouse rental indices, Q1/2003–Q4/2014



Source: Savills Research & Consultancy

While the market was generally quiet, with traditional logistics demand dwindling, two emerging demand trends were noted. E-commerce-related logistics companies were active, expanding their businesses and thus floor space requirements, and we noted some significant expansion (in the order of 20,000 to 30,000 sq ft per company) in high grade warehouses in Tsuen Wan, Tsing Yi and Tuen Mun – and after expansion, many of these e-retailing logistics operators could occupy up to 80,000 to 100,000 sq ft. Another demand source came from car dealers, who were actively looking at ground floor industrial space as their car showrooms; their area of focus was concentrated in Kowloon East. ■

OUTLOOK

The prospects for the market

While warehouse vacancy remains at relatively low levels, we expect to see more space being made available to the market in the first two quarters of 2015, mainly from modern warehouses in Kwai Chung / Tsing Yi, due partly to the imminent completion of SF Center in Tsing Yi. While we expect much of this 'released' space will eventually be renewed by existing tenants, we do feel that landlords within the terminal area may face some pressure in rental terms and thus rents of modern warehouses may remain flat over the first half of 2015, ticking up in the second half when this space is absorbed and SF Center is fully let.

We expect the investment market to remain cautiously optimistic, with limited stock available and end users keen to secure whatever spaces are available to stabilise occupation costs. While industrial prices are already at a record high, with an interest rate rise not likely until the end of the year (and any increment is likely to be minimal anyway) and limited new supply coming on stream, we expect industrial prices to rise by another 5% to 10% for the full year.

Please contact us for further information

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