Briefing
Industrial sales and leasing

February 2018

SUMMARY

Fresh demand from both new and traditional industries is driving vacancy down in the modern warehouse market.

- An active investment market saw a few en-bloc industrial buildings change hands, the largest of which was Winner Godown Building for HK$2.163 billion.

- Q4/2017 saw a pick-up in activity in the leasing market with demand from multiple sources taking up space in both traditional and modern warehouses.

- In the traditional warehouse segment, sales of some large scale assets for redevelopment meant that in a single quarter, around 800,000 to 1 million sq ft of displacement demand was injected into the market.

- China Merchant Logistics Centre has only made one floor available for lease according to market news.

- As we look ahead to 2018, displacement demand should continue to benefit the traditional warehouse sector, while new industries look set to continue to support the modern warehouse segment.

- Upbeat industrial investment sentiment may be challenged by the recent stock market volatility and signals from the US that further interest rate rises are on their way.

"The sale of large scale industrial premises for redevelopment has led to sizeable displacement demand looking for traditional warehouse space for lease."
Simon Smith, Savills Research

Sales market

An active investment market was a feature of Q4/2017 with a few en-bloc industrial buildings changing hands, the largest of which was Winner Godown Building for HK$2.163 billion, which the new buyer intends to redevelop, leading to a wave of displacement demand in the leasing market. Three other en-bloc industrial buildings were sold over the quarter (each for over HK$1 billion), most for redevelopment.

Boosted by the positive investment sentiment, a total of 26 major industrial transactions (over HK$30 million) were recorded in Q4/2017, a 117% increase from the previous quarter. Total consideration reached HK$10.8 billion, the highest quarterly number since Q1/2007, and a 144% increase from last quarter.

Leasing market

Q4/2017 saw a pick-up in activity in the leasing market with demand from multiple sources taking up space in both traditional and modern warehouses. New demand was noted from both new industries such as e-commerce and online gaming, while we also saw some more unusual demand from traditional industries such as banking. The world leading gaming appliance producer Razer leased 120,000 sq ft in ATL as their regional distribution centre for Asia, while Suning, which has already occupied 100,000 sq ft in ATL, was reported to be keen to expand their online business by taking up more warehouse space within the same property. Meanwhile Standard Chartered Bank was reported to have leased a floor in Kerry Cargo Centre for 10 years to serve as one of its vaults, which was quite an unusual move given that most bank vaults in Hong Kong are stand-alone buildings. Wilson Logistics, which handles the storage and shipment of Gilman's electric appliances, relocated from a warehouse in the New Territories to take up 150,000 sq ft in HLC. Modern warehouse vacancy edged down from 0.9% to 0.8% over the quarter as a result.

In the traditional warehouse segment, sales of some large scale assets for redevelopment, such as the 500,000 sq ft Winner Godown Building in Tsuen Wan, as well as the changing

TABLE 1

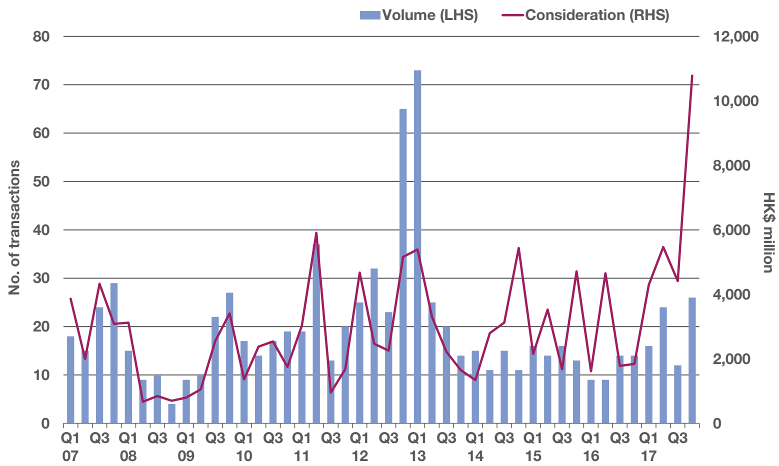
Industrial price growth by subsector, Q4/2017

	Q4/2017 (%)	Q3/2017 (%)	Q2/2017 (%)	Q1/2017 (%)	2016 (%)	2015 (%)
Flatted factories	+3.1	+0.4	+3.7	+3.2	+4.1	+8.3
I/O	+3.1	+0.3	+3.5	+3.2	+3.4	+5.1
Warehouse	+7.1	+2.9	+3.9	+2.1	-1.2	+8.5

Source: Savills Research & Consultancy

GRAPH 1

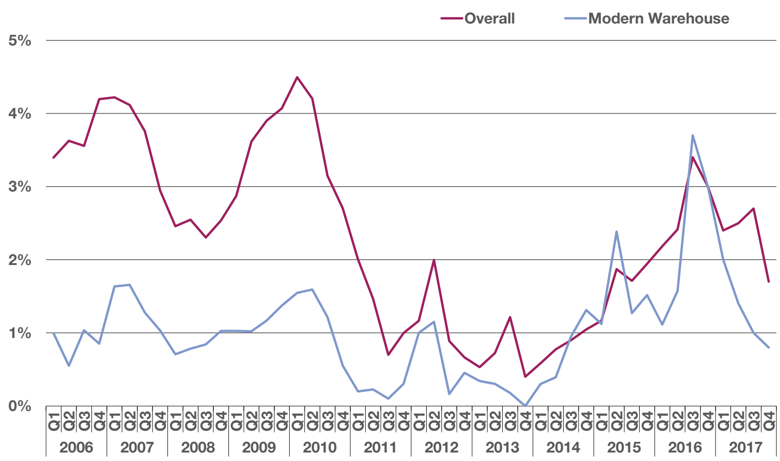
Major industrial transaction volumes and values (>HK$30 million), Q1/2007–Q4/2017



Source: Savills Research & Consultancy

GRAPH 2

Warehouse vacancy rates, Q1/2006–Q4/2017



Source: Savills Research & Consultancy

leasing strategies of some traditional warehouse landlords meant that in a single quarter, around 800,000 to 1 million sq ft of displacement demand was injected into the market. Most were medium scale end users and logistics operators looking for 30,000 to 50,000 sq ft space in cargo-lift warehouses, matching the available stock in the market, and more proactive landlords were able to seize the opportunity to let up their buildings. 1.5 floors (around 50,000 sq ft) of Goodman Dynamic Centre was taken up by relocating tenants, while another 50,000 sq ft space was under active negotiation. Two floors (total 60,000 sq ft) in Roxy Centre were also taken up by these kinds of outgoing tenants. As such, overall warehouse vacancy declined dramatically from 2.6% in Q3/2017 to 1.7% in Q4/2017.

China Merchant Logistics Centre, which has a total GFA of 1.7 million sq ft and was completed in Q3/2017, has four floors committed by two of the world's most well-known logistics operators, DHL and DB Schenker respectively. According to the latest market news, the four cold-storage floors, which had previously been said to be available for short-term lease, were earmarked for own-use. While there were two floors remaining, the landlord has indicated that they would reserve one floor for self-use, resulting in only one floor actually being available for lease on the market.

OUTLOOK

The prospects for the market

As we look ahead to 2018, displacement demand should continue to benefit the traditional warehouse segment over the next couple of months, resulting in a decline in overall warehouse vacancy rates. Meanwhile, new demand for modern logistics centres from both new and traditional industries looks set to continue to support the modern warehouse segment over the next two to three quarters. This is likely to further reduce modern warehouse vacancy rates, which are already at low levels.

Upbeat industrial investment sentiment may be challenged by the recent stock market volatility and signals from the US that further interest rate rises are on their way, but given redevelopment potential and the possibility of further industrial revitalization initiatives, industrial investment looks a safer bet than other property asset classes, at least in the short-run.

Please contact us for further information

Savills Industrial

James Siu
Deputy Managing Director
Head of Kowloon
+852 2378 8628
jsiu@savills.com.hk

Savills Research

Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Jack Tong
Director
+852 2842 4213
jtong@savills.com.hk