Savills World Research
Hong Kong

Briefing
Industrial sales and leasing

May 2018

SUMMARY

Redevelopment demand led to another wave of en-bloc industrial transactions over the first quarter.

- The robust investment sentiment continued into the first quarter of 2018, with several en-bloc transactions taking place, all with an eye to redevelopment.

- The warehouse leasing market has remained active as many high-end, fast-moving logistics operators are again in expansion mode.

- The general warehouse segment continued to benefit from the displacement demand of tenants fleeing from buildings earmarked for redevelopment.

- The tender for the Kwo Lo Wan logistics site at the airport closed with a satisfactory response, while another tender for the logistics site at Area 49 Tuen Mun should attract keen market interest.

- Looking ahead, an increase in leasing activity should prompt landlords to raise asking rents, indicating a recovery in warehousing and logistics after a period of subdued sentiment.

- The sales market looks set to continue to flourish with developers and investors dusting off plans to redevelop industrial premises in areas with commercial / residential potential.

"The warehouse leasing market has remained active with many large logistics operators in expansion mode. US-China trade issues now pose the largest near-term threat to the recovering segment."
Simon Smith, Savills Research

Sales market

The robust investment sentiment continued into the first quarter of 2018, with several en-bloc transactions taking place, all with an eye to redevelopment. The most eye-catching deals were the sale of the site at 41 King Yip Street, Kwun Tong to a local investor for HK$1.6 billion, as well as the sale of Grandeur Factory Building in Kwun Tong to Billion Development for HK$1.3 billion, both eyeing redevelopment. The unification of shares of Man Shun Industrial Building by Vantage also meant that another industrial building will be redeveloped. Coupled with five other en-bloc industrial buildings in Kwai Chung / Tsuen Wan, Yuen Long, Tai Kok Tsui and Sai Kung which changed hands for the same purpose, we expect another round of forced tenant relocations in the near future, driving down industrial and warehouse vacancy further.

Boosted by the buoyant investment sentiment, industrial prices rose by 3.2% in Q1/2018, after increasing by 10.8% in 2017. Warehouse prices, while increasing by the same percentage as industrial prices over Q1/2018, grew by a robust 16.9% in 2017 with a few high profile warehouses selling last year, including Winner Godown.

Leasing market

The warehouse leasing market has remained active as many high-end, fast-moving logistics operators have successfully emerged from last year's market downturn unscathed, and are now again in expansion mode, thanks to growing air and sea freight volumes. A cosmetics / health care product operator relocated and expanded to Asia Logistics Hub – SF Centre to take up around 46,000 sq ft of warehouse space and around 14,000 sq ft of offices for HK$968,000 per month. Two modern warehouses in Kwai Chung Container Terminal, ATL and HLC, also saw vacant space being taken up: ATL saw in-house tenant expansion absorbing around 50,000 sq ft of remaining available space, and close to 700,000 sq ft of vacant space has been taken up over the past 12 months, resulting in almost full occupancy and firming asking rents in the building. With a higher vacancy, HLC decided to lower asking rents slightly and as a result also helped clear 60,000 sq ft of its 270,000 sq ft of vacant space over Q1/2018.

The general warehouse segment continued to benefit from the displacement demand of tenants fleeing from buildings earmarked for redevelopment. Tin's Centre saw 25,000 sq ft of space taken up by an outgoing tenant from the recently sold Winner Godown, while six floors of Dynamic Cargo Centre have been leased over the past six months. As such, overall warehouse vacancy rates declined further to 1.3% in Q1/2018, while the modern warehouse vacancy rate remained at 0.9%, below the 1% frictional vacancy band. Both overall and modern warehouse rents rebounded by 2.0% and 2.6% over the quarter as a result.

TABLE 1

Industrial price growth by subsector, Q1/2018

	Q1/2018 (%)	2017 (%)	2016 (%)	2015 (%)
Flatted factories	+3.2	+10.8	+4.1	+8.3
I/O	+3.2	+10.5	+3.4	+5.1
Warehouse	+3.2	+16.9	-1.2	+8.5

Source: Savills Research & Consultancy

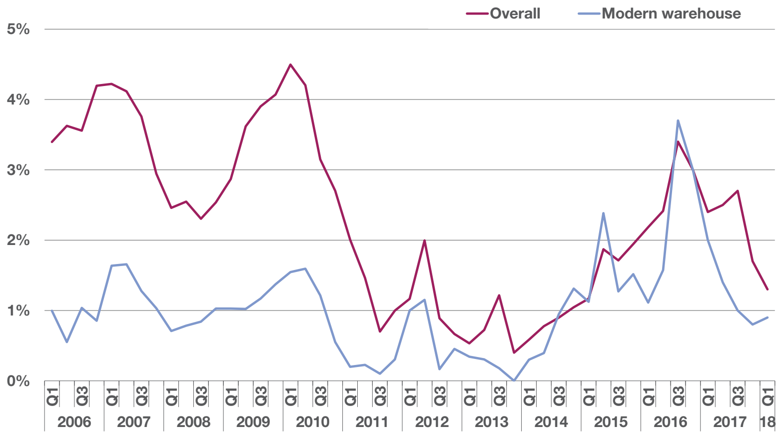
TABLE 2

Major en-bloc industrial transactions earmarked for redevelopment, Q1/2018

District	Location	Floor	Total GFA (sq ft gross)	Consideration (HK$ million)	Average price (HK$ per sq ft)	Purchaser
Kwun Tong	41 King Yip Street	Site	260,000 (max GFA)	$1,630	$6,269 (AV)*	Local investor
Kwun Tong	Grandeur Factory Building, 368 Kwun Tong Road	G/F, 1-4/F & RF	242,100 (max GFA)	$1,322.5	$5,452 (AV)*	Profit Realty Development Ltd (Billion Development)
Kwai Chung	Central Industrial Building, 57-61 Ta Chuen Ping Street	Whole	231,000 (max GFA)	$720	$3,114 (AV)*	Hanison Construction & China Merchants Capital
Tsuen Wan	No. 18-20 Tai Chung Road	Whole	172,729 (max GFA)	$600	$3,474 (AV)*	First Group Holdings
Kwun Tong	Man Shun Industrial Building, 7 Lai Yip Street	80.7%	TBC	$438.6	TBC	Bright Wind Ltd (Vantage)
Yuen Long	13 Kiu Wong Street	Whole	TBC	$360	TBC	Billion Development
Tai Kok Tsui	Tack Lee Building, 107-111 Tung Chau Street	Whole	43,213	$270	$6,248	Noble Energy Ltd (Star Properties)
Sai Kung	Four Seas eFood Centre, 2 Hong Ting Road	Whole	60,534	$250	$4,130	Tang Shing Bor

Source: Press reports, Savills Research & Consultancy
*All AV before land premiums

GRAPH 2
Warehouse vacancy rates, Q1/2006–Q1/2018



Source: Savills Research & Consultancy

Land tender news

Given the anticipated demand for logistics services, HKAA has made available a site of around 5.3 hectares at KLW in the South Cargo Precinct of the airport island to develop a modern air cargo logistics centre, with an expected gross floor area of approximately 4 million sq ft, making it the third largest modern warehouse in Hong Kong. The project will boost the supply of premium warehouse space in the city by 15% to 20% when it begins operation in 2023. According to HKAA, the response to the tender has met expectations and the results will be announced in mid-2018.

The long-awaited logistics site at Area 49 in Tuen Mun West has finally been launched for tender, with a tender closing date towards the end of April. The 340,000-sq ft site can be built into a 850,000-sq ft modern logistics centre, with the latest completion date before the end of 2023, though the actual completion date could be one to two years earlier. Its strategic location near the soon-to-be-opened Tuen Mun-Chek Lap Kok Link means that the future logistics centre on this site will have easy access to both the airport as well as the Hong Kong-Zhuhai-Macau Bridge, and as such we anticipate keen interest in this site.

OUTLOOK

The prospects for the market

Looking ahead, these relocations will provide further momentum for the warehouse sector, with an increase in leasing activity prompting landlords to raise asking rents, indicating a recovery in warehousing and logistics after a period of subdued sentiment. Nevertheless, caution remains as a trade war between the US and China could have a tremendous impact on local trading performance, as over half of Hong Kong's total trade value is related to these two countries. The heat would be mostly felt in the sea freight segment, with recovering container throughput likely to be knocked back.

The sales market should continue to flourish with developers and investors dusting off plans to redevelop industrial premises in areas with commercial / residential potential. Though Hong Kong may finally follow the US lead and increase interest rates in the second half of 2018, we don't expect a moderate increase in the cost of capital to derail industrial prices in the short term which continue to gather pace given the strong prevailing redevelopment demand.

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