

# Industrial Sales and Leasing



## Modern warehouses start feeling the heat

More en-bloc industrial buildings being transacted amidst redevelopment interest.

- Redevelopment interest has prompted several industrial sites to change hands towards the end of 2019, leading to a marked improvement in both industrial transaction values and volumes by 86% and 150% y-o-y in Q4/2019.
- The worsening business environment for logistics operators has begun to affect the modern warehouse market.
- With landlords more flexible in renewal negotiations in order to retain tenants, modern warehouse vacancy rates nudged up to only 0.9% in Q4/2019, while modern warehouse rents took the strain, declining by 5.4%.
- Redevelopment interest remains the bright spot in the industrial investment sector and with end users also coming back to the market searching for bargains, transaction volumes may be sustained over the next quarter or two.
- With landlords likely to maintain a flexible stance in renewal negotiations, we may see warehouse rents slip further by 5% in 2020.

“Upcoming warehouse supply and faltering demand will subdue warehouse market sentiment this year, with rents likely to edge down in 2020. Industrial sales are likely to continue to benefit from the Revitalization Policy 2.0, however, and sites with redevelopment potential will be in demand.”

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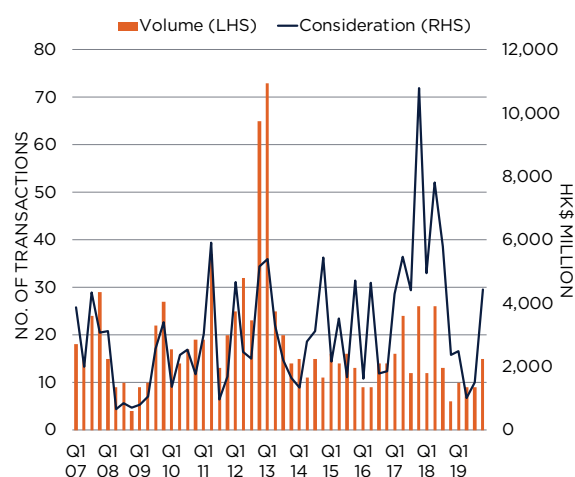
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**GRAPH 1: Major Industrial Transactions Over HK\$30 Million, Q1/2007 to Q4/2019**



Source Savills Research & Consultancy

**SALES MARKET**

While overall investment market sentiment remained relatively weak, the industrial market was supported by redevelopment interest and two such sites in Cheung Sha Wan and Tuen Mun were sold for almost HK\$2 billion in total, with A.Vs averaging around HK\$4,500 to HK\$5,800 per sq ft. Other significant transactions included the sale of several floors in World Tech Centre for HK\$312.8 million to HSBC Life Property for owner occupation, while the godown at 15 On Chuen Street was sold for HK\$150 million.

Both industrial transaction values and volumes increased significantly by 86% and 150% y-o-y in Q4/2019 given redevelopment and investment interest. Industrial prices slipped marginally by 0.4% while warehouse prices fell by 3.1% over the last quarter of the year as vendors became more flexible, helping to unlock activity levels.

**LEASING MARKET**

While the US / China trade dispute has seen some progress towards resolution (at least for the moment), leading to gentler declines in total exports (-1.4% y-o-y) and imports (-5.8%

y-o-y) in November compared to October, the social unrest and various geopolitical tensions meant local retail sales were negatively affected with November sales down by another 24% (YoY) and retail sales over the first eleven months of 2019 receded by 10%.

The worsening business environment for logistics operators has begun to affect the modern warehouse market, with a floor (around 100,000 sq ft) in China Resources International Logistics Centre leased to Pricerite for under HK\$14 per sq ft effective, while around 20,000 sq ft in Dynamic Cargo Centre was leased for below HK\$13 per sq ft effective. As such, modern warehouse vacancy rates ticked up to 0.9% in Q4/2019, while modern warehouse rents fell by 5.4%.

**OUTLOOK**

Redevelopment interest remains a bright spot in the industrial investment sector and with end users also coming back to the market in a search for bargains, transaction volumes may be sustained over the next quarter or two. The number of plot ratio relaxations for industrial redevelopment surged to 25 up to December 2019, with 12 of them already

**TABLE 1: Industrial Price Growth By Subsector, Q4/2019**

	2019 (%)				2018 (%)	2017 (%)
	Q4	Q3	Q2	Q1		
Flatted factories	-0.4	-0.7	+1.7	+1.1	+7.0	+10.8
I/O	-1.3	-1.4	+1.3	+1.1	+7.4	+10.5
Warehouse	-3.1	-1.2	+0.6	+1.5	+9.2	+16.9

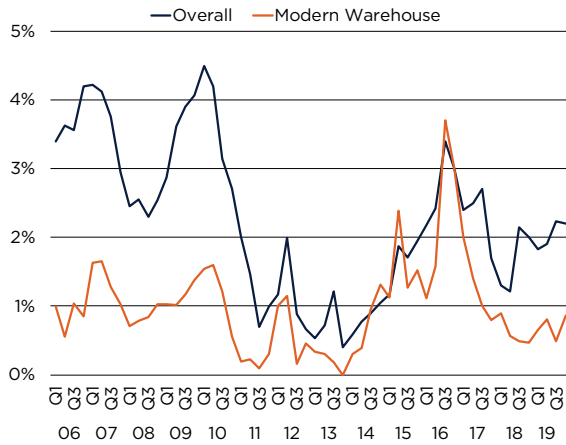
Source Savills Research & Consultancy

**TABLE 2: Major Industrial Transactions Over HK\$100 Million, Q4/2019**

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	CONSIDERATION (HK\$)	AVERAGE PRICE (HK\$ PER SQ FT)	DATE	SELLER	PURCHASER	TYPE	REMARKS
Cheung Sha Wan	Hang Fat Industrial Building, 550-556 Castle Peak Road	Whole	190,044 (max. GFA)	\$1,100,000,000	\$5,788 (A.V.)	Dec-19	TBC	TBC	I	Redevelopment
Tuen Mun	Milo's Ind Bldg, 2-10 Tai Yuen Street	Whole	195,679	\$880,000,000	\$4,497	Oct-19	TBC	TBC	I	Redevelopment
Kwun Tong	World Tech Centre, 95 How Ming Street	3/F & 11/F	46,952	\$312,800,000	\$6,662	Oct-19	Various Vendor	HSBC Life Property Ltd	I	Owner occupation
Fanling	15 On Chuen Street	Whole	48,553	\$150,000,000	\$3,089	Nov-19	Rohm	Polar Light Ltd	G	Investment

Source EPRC, Savills Research & Consultancy

**GRAPH 2: Warehouse Vacancy Rates, Q1/2006 to Q4/2019**



Source Savills Research & Consultancy

**TABLE 3: Industrial Rental Growth By Subsector, Q4/2019**

	2019 (%)				2018 (%)	2017 (%)
	Q4	Q3	Q2	Q1		
Flatted factories	-1.9	-1.8	+0.2	+1.0	+7.9	+7.0
I/O	-0.8	+0.1	+0.8	+2.1	+3.9	+2.9
Warehouse	-2.3	-1.2	+1.5	+1.6	+8.3	+0.1
Modern warehouse	-5.4	-1.3	+2.8	+2.6	+10.2	-4.2

Source Savills Research & Consultancy

**TABLE 4: Warehouse Supply List, 2020 to 2023**

PROJECT	DISTRICT	DEVELOPER	TOTAL GFA (SQ FT)	EXPECTED COMPLETION
Area 49	Tuen Mun	Goodman	912,074	2020
KCTL 478, Junction of Wing Kei Road and Wing Kin Road	Kwai Chung	Billion	214,355*	2020
Area 40	Tuen Mun	Chu Kong Warehouse Properties Co.	91,234	2020
Kwo Lo Wan Site	Airport Island	Cainiao Network	4,090,282	2023

Source Savills Research & Consultancy, Buildings Department  
\*Only showing the warehouse portion

**TABLE 5: List Of Approved Applications Of Plot Ratio Relaxation For Industrial Redevelopment, Oct 2018 to Dec 2019 (excluding withdrawal cases)**

ADDRESS	BUILDING TYPE	SITE AREA (SQ FT)	NEW PLOT RATIO	TOTAL GFA (SQ FT)	STATUS
16 Hi Yip Street, Tung Tau Industrial Area	Commercial building with public car park	33,433	5.75	192,238	Approved on 13th Dec 2019
7 Lai Yip Street, Kwun Tong	Commercial building	11,044	14.40	159,037	Approved on 13th Dec 2019
21 Luk Hop Street, San Po Kong	Industrial building	8,354	14.40	120,296	Approved on 13th Dec 2019
8-14 Sha Tsui Road, Tsuen Wan	Industrial building	50,000	11.40	570,003	Approved on 13th Dec 2019
20-24 Kwai Wing Road, Kwai Chung	Industrial building	17,000	11.40	193,798	Approved on 11th Nov 2019
14-18 Ma Kok Street, Tsuen Wan	Industrial building	20,000	11.40	228,063	Approved on 1st Nov 2019
32 Hung To Road, Kwun Tong	Commercial building	9,808	14.40	141,236	Approved on 16th Aug 2019
41 King Yip Street, Kwun Tong	Commercial building	21,980	14.97	329,119	Approved on 16th Aug 2019
57-61 Ta Chuen Ping Street, Kwai Chung	Industrial-office building	24,337	11.65	283,480	Approved on 5th Jul 2019
13 Hok Yuen Street, Hung Hom	Commercial building	39,813	12.78	508,889	Approved on 17th May 2019
1 Tsat Po Street, San Po Kong	Industrial building	14,920	14.40	214,846	Approved with conditions on 12th Apr 2019
350 Kwun Tong Road, Kwun Tong	Commercial building	19,181	14.40	276,180	Approved with conditions on 22nd Mar 2019

Source Town Planning Board, Savills Research & Consultancy

approved by the Town Planning Board.

Nevertheless, as the outlook for both the external environment and the local market remains clouded, and we remain cautious about any prospects for rises in industrial prices in the near term, we expect a 3% to 5% downward adjustment in 2020 given such uncertainties.

As expected, the drifting trading and retail sales performance has begun to adversely affect the modern warehouse sector, resulting in rising vacancies and declining rents. While many operators foresee a more uncertain year ahead many of them may prefer to renew rather than relocating to take advantage of rental savings as any resulting CAPEX can often outweigh such cost reductions.

Upcoming warehouse supply between 2020 and 2023 will amount to 5.31 million sq

ft gross, an addition of 13.1% to the existing stock of warehouses, and will come from one project located in Kwai Tsing / Tsuen Wan, two projects in Tuen Mun and one mega project on the Airport Island.

While the US/ China trade conflict has seen some progress, tensions are far from resolved and will continue to cloud the external environment, and local trading performance, at least for 2020. Meanwhile local social unrest and geopolitical tensions may continue to weigh on the local economy as well as retail sentiment. With landlords likely to maintain a flexible stance in renewal negotiations, we may see warehouse rents fall by a further 5% in 2020 before any meaningful rebound from 2021 onwards if overseas and domestic uncertainties dissipate.