

# Industrial Sales and Leasing



## Investment demand slows

The leasing market remained active in the fourth quarter with availability shrinking and landlords preparing to raise rents further.

- The continued recovery of the trading and retail sectors propelled sustainable growth in the local logistics sector, meaning logistics operators were keen to either renew or expand.
- Overall and modern warehouse rents continued to rebound by 1.4% and 2.7% in Q4/2021 respectively, while both overall and modern warehouse vacancy rates fell to 3.1% and 2.6% over the same quarter.
- Investment sentiment dipped in Q4 as changing Mainland policies, and a turbulent stock market have turned most investors cautious. Nevertheless, the rental prospects of logistics assets and the redevelopment potential of industrial premises have continued to attract foreign funds and local investors to the industrial segment.
- The latest outbreak of Omicron and a possible lockdown of several major economies may bring along a new round of global supply chain disruption, which may be felt mostly by the sea freight segment. Nevertheless, the gradual take-up of the Goodman Westlink in Tuen Mun has removed a major market overhang in 2022.
- While industrial investment sentiment paused in the last quarter of 2021, funds and investors remain keen on this niche segment, which is comfortably the highest yielding sector in Hong Kong. With the US Fed indicating a possible rate hike to tackle inflation, the rise in the cost of capital may test investment interest in 2022.

“The gradual take-up of upcoming logistics space in Tuen Mun has removed a major short-term market overhang, and with logistics demand looking set to grow further, warehouse rents are well supported in 2022.”

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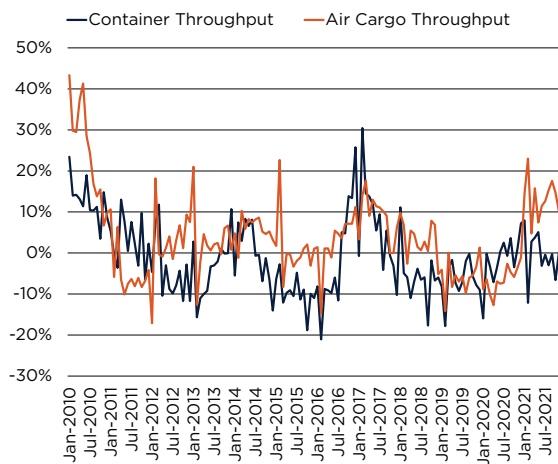
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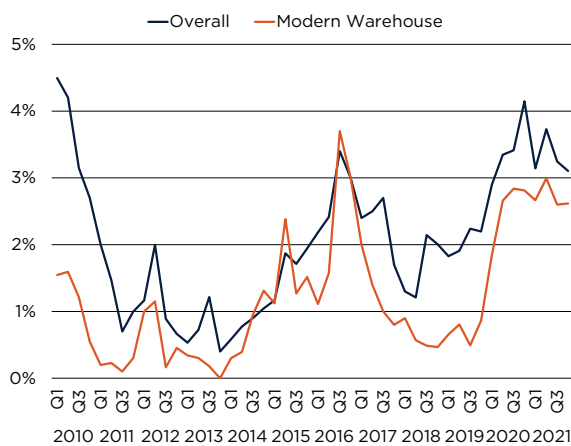


**GRAPH 1: YoY Growth of Cargo Throughput, January 2010 to November 2021**



Source HKAA, Census and Statistics Department, Savills Research & Consultancy

**GRAPH 2: Warehouse Vacancy Rates, Q1/2010 to Q4/2021**



Source Savills Research & Consultancy

**LOCAL LOGISTICS IS WELL SUPPORTED BY REVIVING TRADING AND RETAIL SECTORS**

The local trading and retail sectors, which saw total merchandise trade and retail sales rebounding by 26.0% and 8.5% respectively over the first ten months of 2021, have helped to propel the performance of the local logistics sector, in particular aviation logistics. With air cargo movements least affected by border restrictions, local air cargo throughputs rebounded significantly by 13.0% from January to November 2021 YoY, while container throughput also stabilized over the same period.

Faced with improving business prospects, many logistics operators, in particular those involved in aviation logistics and local retailers, were keen to renew their leases in ramp-access warehouses in the Kwai Tsing area, where we saw modern warehouses such as ATL, HLC and Mapletree all recording sizable renewals over the quarter.

Other logistics operators, which saw their business growing in the buoyant market conditions, decided to expand and relocate. Having won a new logistics project from a large local corporate, Kerry Logistics leased the 158,000-sq ft Sunhing HungKai Tuen Mun Godown, which is close to both the River Trade Terminal and Tuen Mun-Chek Lap Kok Tunnel, for consolidation and expansion.

The enbloc of Mineron Centre in Fanling (150,000 sq ft), which was just purchased by CR Logistics in Q3, was reported to be leased in its entirety to Hi-Speed Logistics, another fast-growing logistics

operator consolidating and expanding their operations in Hong Kong.

As such, overall and modern warehouse rents continued to rebound by 1.4% and 2.7% in Q4/2021 respectively, while both overall and modern warehouse vacancy rates declined to 3.1% and 2.6% over the same quarter.

**INVESTMENT SENTIMENT CAUTIOUS DUE TO EXTERNAL UNCERTAINTIES**

Investment sentiment dipped in Q4 as changing Mainland policies, and a turbulent stock market turned most investors cautious. Nevertheless, the rental prospects of logistics assets and the redevelopment potential of industrial premises have continued to attract foreign funds and local investors to the industrial segment. The most significant deals were the acquisition of two 4S (Sales, Service, Spare parts and Surveys) premises in Hung Hom and Chai Wan, both leased to Zung Fu, by the Link REIT for a combined HK\$5.82 billion, which provided a stable 3.3% yield.

Less optimistic investment sentiment has translated into transaction volumes, with industrial transactions over October and November recording 486 deals, 22.5% lower than the 627 deals completed in July and August. Flatted factory prices were stable in Q4/2021 as a result, while warehouse prices rose more modestly by 1.8% over the same period.

**TABLE 1: Industrial Rental Movement by Subsector, Q4/2021**

	2021 (%)				2020 (%)
	Q4	Q3	Q2	Q1	Q4
Flatted factories	+0.7	+2.0	+2.6	-0.5	-1.5
I/O	-0.6	0.0	-0.3	-0.2	-2.7
Warehouses	+1.4	+2.1	+2.4	+0.5	-0.4
Modern warehouses	+2.7	+2.5	+2.9	+2.4	-0.3

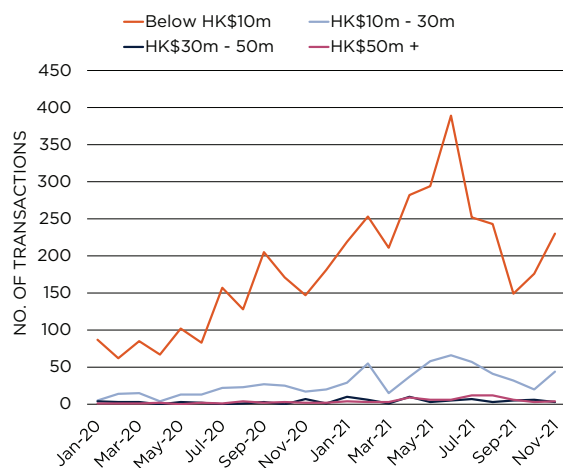
Source Savills Research & Consultancy

TABLE 2: Major Industrial Transactions over HK\$100 Million, Q4/2021

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK\$ MIL)	AVERAGE PRICE (HK\$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Hung Hom	50 Po Loi Street	Whole	421,401	3,120.0	7,404	TBC	Link REIT	G	Investment
Chai Wan	Chivas Godown, 60 Ka Yip Street	Whole	438,351	2,700.0	6,159	TBC	Link REIT	G	Investment
Kwai Chung	Tippy Tower, 45-51 Kwok Shui Road	Whole	162,500	585.0	3,600	Emperor International	Future Chance Development Limited / ATAL Engineering Group	I	Redevelopment
Shaueiwan	Elegance Printing Centre, 8 A Kung Ngam Village Road	Whole	69,680	500.0	7,176	Tang's Family	Blackstone	I	Investment
Kwun Tong	Catic Building, 44 Tsun Yip Street	Whole	56,152	390.0	6,945	Yan Yan Motors Ltd	Excellent Plus Int'l Ltd	I	Investment
San Po Kong	Tai Yau Building, 3 Luk Hop Street	Whole	30,225	345.0	11,414	Various	Grand Challenge Development Ltd	I	Investment
Cheung Sha Wan	International Ind Bldg., 501-503 Castle Peak Road	3/F B, 7/F & Roof	TBC	156.5	TBC	Bright City Int'l Ltd	Cheer Honour Investment Ltd	I	Investment
North Point	Sea View Estate, 4-6 Watson Road	7/F Blk C & 1/F 9 Blk B	12,815	132.0	10,300	Win Success Ind Ltd	World Mart Ltd	I	Investment
San Po Kong	Kai Tak Fty Bldg Ph 2, 99 King Fuk Street	Unit C-D 5/F-6/F & 11/F-12/F	38,354	127.719	3,330	TBC	TBC	I	Investment
Aberdeen	Hing Wai Centre, 7 Tin Wan Praya Road	21/F	27,280	120.0	4,399	AMW HK Ltd	Both Success Ltd	I	Investment

Source EPRC, Savills Research & Consultancy

GRAPH 3: Industrial Transactions By Price Range, January 2020 to November 2021



Source Rating and Valuation Department, Savills Research & Consultancy

OUTLOOK

The latest outbreak of Omicron and a possible lockdown of several major economies may bring along a new round of global supply chain disruption, which would be mostly felt by the sea freight segment. Nevertheless, the gradual take-up of the Goodman Westlink in Tuen Mun, which saw Goodman portfolio’s “in-house” tenants such as DHL and Zuellig Pharma all pre-committing to 1.5 million sq ft of space in this brand-new modern warehouse, has removed a major market overhang in 2022. As such, we expect warehouse landlords to continue to have the upper hand in negotiations and will be able to raise rents by 5% to 6% in 2022.

While industrial investment sentiment paused in the last quarter of 2021, funds

and investors remain keen on this niche segment, which is still the highest yielding sector in Hong Kong. With the US Fed indicating a possible rate hike in early 2022 to tackle inflation, the rise in the cost of capital may test investment interest in 2022. We are therefore more cautious about industrial and warehouse price growth, which may slow to 3% to 5% in the coming year.