Hong Kong – January 2023

Industrial Sales and Leasing

Investment interest softens

The anticipated border reopening will bring much-needed breathing space to local logistics operators.

- The first eleven months saw both local air freight and container throughputs continue to decline, with local 3PLs bearing the brunt.
- With most operators struggling, landlords were more flexible in rental negotiations, leading to overall and modern warehouse rental declines of 1.0% and 1.5% in Q4/2022 respectively, while both overall and modern warehouse vacancy rates remained largely stable at 1.9% and 1.3% over the same quarter.
- Investment interest softened with continued interest rate hikes, though experienced investors and end users are still purchasing selectively.
- Looking ahead, the timing of the border reopening and the speed of supply chain recovery will be key to any logistics demand revival.
- With interest rate hikes likely to ease, the new norm of a high cost of capital (5%+ for commercial loans) and changing government policies will likely alter the purchaser profile for industrial assets in 2023.

"Investment interest has softened alongside rate hikes, though experienced investors and end users are still purchasing selectively. Looking ahead, the timing and nature of the border reopening and the speed of supply chain recovery will be key to a logistics demand revival, while a supply overhang could blunt a 2023 recovery."

SIMON SMITH, SAVILLS RESEARCH & CONSULTANCY

Savills team

Please contact us for further information

INDUSTRIAL

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

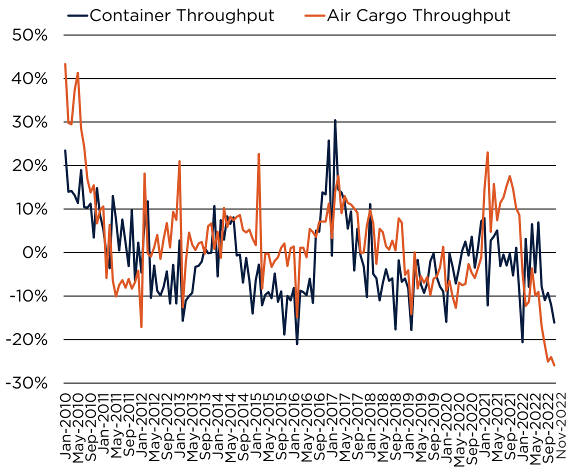
Oscar Chow
Senior Director
+852 2378 8622
ochow@savills.com.hk

RESEARCH

Simon Smith
Regional Head of Research & Consultancy Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

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

GRAPH 1: YOY Growth of Cargo Throughputs, January 2010 to November 2022



Source Census and Statistics Department, Savills Research & Consultancy

GRAPH 2: Warehouse Vacancy Rates, Q1/2017 – Q4/2022

Source Savills Research & Consultancy

LOCAL LOGISICS OPERATORS BEARING THE BRUNT OF LOGISTICS MARKET DOWNTURN

With Hong Kong closing its doors to the rest of the world during most of 2022 with strict quarantine controls, coupled with prolonged regional supply chain disruption, the first eleven months saw both local air freight and container throughputs decline by 15.4% and 6.9% respectively.

International 3PLs, whose businesses were gradually recovering alongside global supply chains, had the ability to re-route their throughputs to other regional airports / ports, and were thus least affected by the situation in Hong Kong. Local 3PLs who are much more dependent on local supply chains and logistics operations, bore the brunt of the local market downturn, and many saw their 2021 profits wiped out and were thus forced into contraction mode.

While 3PLs faced a tough time, end users focusing on daily necessities still saw business growth and expansion needs: Japan Home Centre relocated and took up 83,000 sq ft in ATL Logistics Centre for six years.

With most operators struggling, landlords were more flexible in rental negotiations, leading to overall and modern warehouse rental declines of 1.0% and 1.5% in Q4/2022 respectively, while both overall and modern warehouse vacancy rates remained largely stable at 1.9% and 1.3% over the same quarter.

INVESTMENT INTEREST SOFTENS

Investment interest softened with continued rate hikes, though experienced investors and end users were still purchasing selectively. The largest deal of the quarter was the purchase of the en-bloc Novel Industrial Building in Cheung Sha Wan by the JV of Blackstone and Storefriendly for HK$850 million, with the view to Storefriendly utilizing the space for their operations. Another self-storage operator, StorHub, also made their move to buy a further three floors in Precious Industrial Centre for HK$164.265 million, expanding their holding in the building after they bought around 70,000 sq ft of space in January last year. Meanwhile, Goodman continued their quest in the stratified market by purchasing a basement floor of Sunshine Kowloon Bay Cargo Centre for HK$111 million.

The investment transaction volume of stratified industrial premises continued to decline due to the rising cost of funds and declining rental returns, with the entire fourth quarter recording 285 industrial transactions, a 66% YoY decline. Flatted factory and warehouse prices registered 0.9% and 2.4% declines over the quarter as a result.

TABLE 1: Industrial Rental Movement by Subsector, Q4/2022

	2022 (%)				2021 (%)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Flatted factories	-1.3	-0.7	+0.7	+0.8	+0.7	+2.0	+2.6	-0.5
I/O	-1.3	-1.3	-0.6	-1.0	-0.6	0.0	-0.3	-0.2
Warehouses	-1.0	+0.8	+1.9	+0.3	+1.4	+2.1	+2.4	+0.5
Modern warehouses	-1.5	-0.1	+2.7	+0.5	+2.7	+2.5	+2.9	+2.4

Source Savills Research & Consultancy

TABLE 2: Major Warehouse Leasing Transactions, Q4/2022

DATE	DISTRICT	LOCATION	UNIT	TOTAL GFA (SQ FT GROSS)	MONTHLY RENT (HK$ PER MONTH)	AVERAGE RENT (HK$ PER SQ FT PER MONTH)	TENANT	REMARKS
Nov	Kwai Chung	ATL Logistics Centre Phase V	10001W-10006W, 10001E-10006E	83,194	$1,597,325	$19.2	Japan Home Centre	New lease for 5+1 years
Nov	Kwai Chung	ATL Logistics Centre	1W-15W, 1E-4E, 4/F	115,842	$1,911,393	$16.5	Carlsberg Brewery	Renewal for 3 years
Oct	Kwai Chung	ATL Logistics Centre Phase III, IV & VI	Various	Est. 425,099	$6,316,485	Est. $15.0	Kerry Logistics	Renewal for 2 to 3 years
Oct	Tsing Yi	China Merchants Logistics Centre	9-10/F	320,000	$5,871,035	$18.3	DHL Express	Renewal for 5 +5 years
Oct	Tuen Mun	Goodman Westlink	G02B	83,000	Est. $1,292,018	Est. $15.5	Logilink Warehouse & Logistics	New lease for 5 years

Source EPRC, Savills Research & Consultancy

TABLE 3: Major Industrial Transactions over HK$100 Million, Q4/2022

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK$ MIL)	AVERAGE PRICE (HK$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Cheung Sha Wan	Novel Industrial Building, 850-870 Lai Chi Kok Road	Whole	153,770	$850	$5,528	Swanco Ltd	Blackstone / Storefriendly	I	Investment / owner occupation
Kwun Tong	World Tech Centre, 95 How Ming Street	20/F-22F	52,000	$330	$6,346	TBC	TBC	I	TBC
Cheung Sha Wan	Precious Industrial Centre, 18 Cheung Yue Street	2/F, 7-8/F	TBC	$164.265	TBC	Cathay United Garment Fty / Aquamarica	StorHub (Self-Storage)	I	Owner occupation
Kwai Chung	Mita Centre, 552-566 Castle Peak Road	16/F	27,370	$120.6	$4,406	Individual	Bridger Investment Ltd	I	Investment
Aberdeen	Hing Wai Centre, 7 Tin Wan Praya Road	22/F	27,539	$119.888	$4,353	Happy Standard Ltd	TBC	I	Investment
Kowloon Bay	Sunshine Kowloon Bay Cargo Ctr, 59 Tai Yip Street	B/F	22,333	$111	$4,970	TBC	Goodman	G	Investment

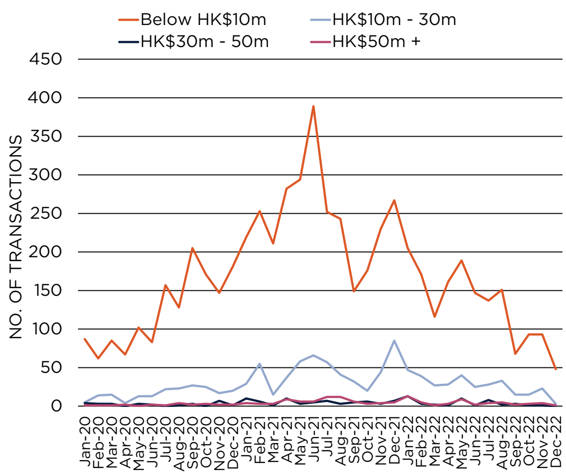
Source EPRC, News, Savills Research & Consultancy

TABLE 4: Industrial Price Growth by Subsector, Q4/2022

	2022 (%)				2021 (%)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Flatted factories	-0.9	0.0	+0.5	-0.3	0.0	-0.3	+1.7	-0.1
I/O	-0.8	0.0	+0.1	-0.1	0.0	-0.4	-0.1	-0.2
Warehouse	-2.4	+0.3	0.0	-0.1	+1.8	+3.2	+3.8	+1.8

Source Savills Research & Consultancy

GRAPH 3: Industrial Transactions by Price Range, January 2020 to December 2022



Source Rating and Valuation Department, Savills Research & Consultancy

OUTLOOK

Looking ahead, the border reopening schedule and the speed of supply chain recovery will dictate the pace of the logistics demand revival, while the supply overhang could weigh on any market rebound in 2023. We expect warehouse rents to decline in the order of 5% to 10% this year, with the market likely to bottom out from 2024 onwards when new warehouse completions are gradually taken up.

With interest rate hikes likely to ease, the high cost of capital (5%+ for commercial loans) and changing government policies will likely alter the purchaser profile for industrial assets in 2023. End users will most likely prevail as the key purchasers while investment funds with deep pockets and overseas funding (likely to be cheaper than in Hong Kong) may also enter the frame. Developers may opt to sit on the sidelines as redevelopment values (both residential and commercial) of industrial sites are likely to fall further over the year.