

Industrial Sales and Leasing



Investment sentiment softens

Logistics demand was unaffected by local and external uncertainties with renewals and expansions dominating the sector.

- The latest pandemic alongside external uncertainties has not had an impact on the local logistics scene so far with air freight and government logistics demand supporting the sector.
- Government's intention to convert more brownfield sites in the New Territories into residential and commercial uses means fewer basic warehouses, pushing these tenants back to the general warehouse market.
- Overall and modern warehouse rents continued to rise by 0.3% and 0.5% in Q1/2022 respectively, while both overall and modern warehouse vacancy rates fell to 2.5% and 1.5% over the same quarter.
- Investment sentiment was dampened by the worsening local COVID situation, recent stock market turbulence and rising interest rates, with only two en-bloc industrial transactions recorded over the quarter. Strata-sales of new industrial buildings also slowed given weak business prospects for SMEs and smaller investors.
- The Russia-Ukraine war, as well as the re-emergence of COVID infections in the Mainland will continue to cause global and regional supply chain disruption, which may likely have an adverse impact on the local logistics sector from Q2 onwards.
- With rate hikes likely throughout the rest of the year, the rising cost of capital should serve as a hurdle for industrial investment for both short and long-term investors. Nevertheless, redevelopment demand should remain intact with developers still keen on run-down industrial buildings / sites with redevelopment potential.

“Air freight and government logistics were the two most important demand drivers for the logistics sector in Q1/2022, while investment activity paused. Looking ahead, logistics operators may start feeling the heat of global and regional supply chain disruption.”

SIMON SMITH, SAVILLS RESEARCH

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

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

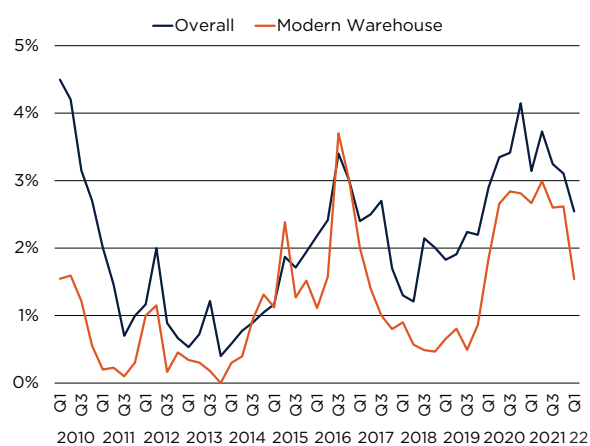
Jack Tong

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

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



GRAPH 1: Warehouse Vacancy Rates, Q1/2010 to Q1/2022



Source Savills Research & Consultancy

TABLE 1: Industrial Rental Movement by Subsector, Q1/2022

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

Source Savills Research & Consultancy

LOCAL LOGISTICS UNSCATHED BY RECENT LOCAL AND EXTERNAL UNCERTAINTIES

The outbreak of Omicron at the start of the year softened business and retail sentiment as the number of daily cases surged to over 60,000 in February, but then gradually receded to below 10,000 per day towards the end of March. Local retail sales suffered, but retail-related logistics demand remained as the slack of in-store retail logistics was more than taken up by increasing e-commerce demand.

External uncertainties, such as Russia’s invasion of Ukraine, as well as the re-emergence of COVID cases in China, disrupted both global and regional supply chains. Nevertheless, the immediate impact of the former on the local logistics sector has so far been minimal. The Mainland outbreak, however, had a much more profound impact on daily necessities, and the affected areas were mostly land transport to supermarkets and wet markets.

The air freight segment has been the least affected in the current market as this has remained a viable way to move cargoes around regionally, with a number of renewals and expansions by air freight forwarders recorded in Q1/2022 in the Kwai Tsing and Tsuen Wan area. Government-related logistics demand was surprisingly active over the quarter with a few large warehouse floor plates reportedly leased to various government departments in Chai Wan and Tuen Mun. The escalating COVID situation locally has induced logistics demand for medical equipment, virus-prevention materials as well as testing

/ protective items sourced from different countries and to be distributed locally in a timely manner.

Government’s intention to convert more brownfield sites in the New Territories into residential and commercial uses (they announced the tender of the first multi-storey industrial site in Hung Shui Kiu sometime this year), means it will be increasingly difficult for the temporary logistics uses of brownfield sites in those areas to obtain renewals, depleting the number of basic warehouses, which amount to around 5 million sq ft (best estimate). As most of these basic warehouses are one-storey sheds with high ceilings and ample open space and ramps suitable for fast-moving logistics, the potential reduction of this stock may push a number of 3PLs back to the general warehouse market, in particular modern warehouses with large floor plates, high ceilings and ramp access.

As such, overall and modern warehouse rents continued to rebound by 0.3% and 0.5% in Q1/2022 respectively, while both overall and modern warehouse vacancy rates declined to 2.6% and 1.5% over the same quarter. With available modern warehouse space being snapped up quickly and tenants keen to renew to maintain their operations, landlords seem to have regained the upper hand in rental negotiations.

INVESTMENT SENTIMENT CONTINUES TO SOFTEN

Investment sentiment was dampened by the worsening local COVID situation, recent stock market volatility and rising interest rates, with only two en-bloc industrial

TABLE 2: Major Warehouse Leasing Transactions, Q1/2022

DATE	DISTRICT	LOCATION	UNIT	TOTAL GFA (SQ FT GROSS)	MONTHLY RENT (HK\$ PER MONTH)	AVERAGE RENT (HK\$ PER SQ FT PER MONTH)	TENANT	REMARKS
Mar	Kwai Chung	ATL Logistics Centre Phase V	13001W-13013W	TBC	\$619,962	TBC	DSV Air & Sea Ltd	Renewal & Expansion for 3 years
Jan	Tsing Yi	Goodman Interlink	UG 02	48,712	\$779,392	\$16.0	TSR Logistics (HK) Ltd	Expand from UG 01 for 3 years
Jan	Tsing Yi	Goodman Interlink	8/F, 17-20/F, Unit 1101-02	619,000	\$9,285,242	\$15.0	SF Supply Chain (Hong Kong) Ltd	Renewal for 3 years (Unit 1102 2 years)
Feb	Tuen Mun	East Asia Industrial Building	G-6/F	214,790	TBC	TBC	WPG Electronics (HK) Ltd	Renewal for 10 years
Jan	Tuen Mun	UTI Logistics Centre	Whole	168,264	\$2,145,000	\$12.8	Aravto Services Hong Kong Ltd	Renewal for 2 years
Jan	Tuen Mun	Goodman Westlink	Unit 301	TBC	TBC	TBC	DHL Express (Hong Kong) Ltd	New lease for 10 years

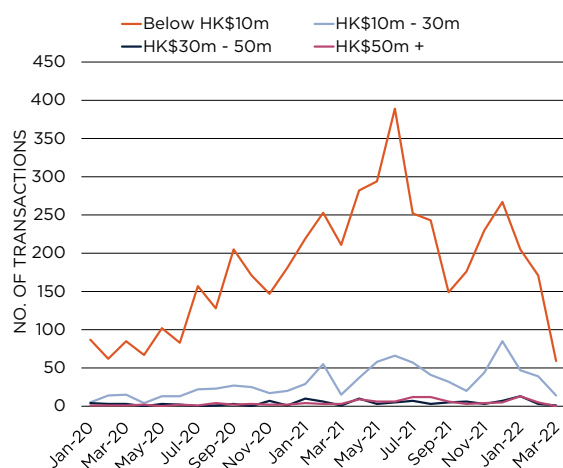
Source EPRC, Savills Research & Consultancy

TABLE 3: Major Industrial Transactions over HK\$100 Million, Q1/2022

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK\$ MIL)	AVERAGE PRICE (HK\$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Fanling	New China Laundry Group Building, 6 Yip Cheong Street	Whole	101,463	450	4,435	TBC	TBC	I	Investment
Fo Tan	Sha Tin Industrial Building, 22-28 Wo Shui Street	multi floors	80,000	370	4,625	TBC	TBC	I	Investment
Kowloon Bay	Sunshine Kowloon Bay Cargo Ctr, 59 Tai Yip Street	6/F	69,700	368	5,280	3M HK Ltd	Goodman	G	Investment
Cheung Sha Wan	Precious Industrial Centre, 18 Cheung Yue Street	LG/F, G/F, 1/F, 3/F, 9/F-11/F & R/F with 6 cpks	62,804	350	5,573	Winner Art Ltd	StorHub (Self-Storage) Five Ltd	I	Self operation
Hung Hom	Eldex Ind Bldg., 21 Ma Tau Wai Road	G/F 1-2 & 4, 1A-B, 2B-D, 4B, 5B, 6B & 7 cpks	71,481	350	4,896	Polyhope International Ltd	StorHub (Self-Storage) Seven Ltd	I	Self operation
To Kwa Wan	Tai Chiap Factory Building, 17 Yuk Yat Street	85.64% ownership	TBC	305	TBC	TBC	TBC	I	Investment
Mong Kok	China Paint Building, 1163 Canton Road	1-9/F	TBC	288	TBC	Star China Development Ltd	Metrocenter Holdings Ltd	I	Investment
San Po Kong	Horizon East, 1 Tsat Po Street	27/F 1-3 & 5-6	12,518	148.286	11,846	SPK MW Ltd	Wah Shing Investment Ltd	I	Investment
Kwai Chung	Hopeful Godown, 7-11 Wing Kin Road	Whole	94,855 (max. GFA)	137	1,444 (A.V.)	TBC	TBC	G	Redevelopment
San Po Kong	Horizon East, 1 Tsat Po Street	19/F	12,529	136.32	10,880	SPK MW Ltd	Zone Smart Development Ltd	I	Investment
San Po Kong	Horizon East, 1 Tsat Po Street	26/F	11,965	130.841	10,935	SPK MW Ltd	Tak Choi Holdings Ltd	I	Investment
San Po Kong	Horizon East, 1 Tsat Po Street	25/F	14,286	130.841	9,159	SPK MW Ltd	Success Property Holdings Ltd	I	Investment
Aberdeen	Po Chai Ind Bldg., 28 Wong Chuk Hang Road	5/F & 11/F	13,820	121.888	8,820	Lai's Sunlight Ltd	Po Sum On Medicine Fty Ltd	I	Investment
San Po Kong	Horizon East, 1 Tsat Po Street	6/F 1-6	12,400	105.4	8,500	SPK MW Ltd	Great Brilliant Int'l Holdings Ltd	I	Investment

Source EPRC, News, Savills Research & Consultancy

GRAPH 2: Industrial Transactions by Price Range, January 2020 to March 2022



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 4: Industrial Price Growth by Subsector, Q1/2022

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

Source Savills Research & Consultancy

transactions recorded over the quarter. Of note, Storhub, a Singaporean self storage operator, bought multiple floors in two industrial buildings in Cheung Sha Wan and Hung Hom for a combined HK\$700 million for their own operations adding their existing portfolio in Tsuen Wan and Chai Wan. Strata-sales of new industrial buildings also slowed given the weak business prospects of SMEs and smaller investors, but we still saw batches of units purchased by affluent investors in new projects such as Horizon East in San Po Kong.

With investment prospects uncertain, the transaction volume nose-dived by 33% in Q1/2022 to reach 570 deals. Flatted factory prices were stable in Q1/2022 as a result, while warehouse prices rose more modestly by 1.8% over the same period.

OUTLOOK

While local logistics demand remains intact in the short-term, the continuation of the Russia-Ukraine war, as well as the re-emergence of COVID infections in Mainland China will continue to cause global and regional supply chain disruption, which may have an adverse effect on the local logistics scene from Q2 onwards.

With rate hikes likely to kick in throughout the rest of the year, the rising cost of capital should serve as an obstacle for industrial investment for both short and long-term investors. Nevertheless, redevelopment demand should remain intact with developers still keen on run-down industrial buildings / sites with redevelopment potential, while foreign funds with a low cost of capital are likely to bargain hunt in the next few months.