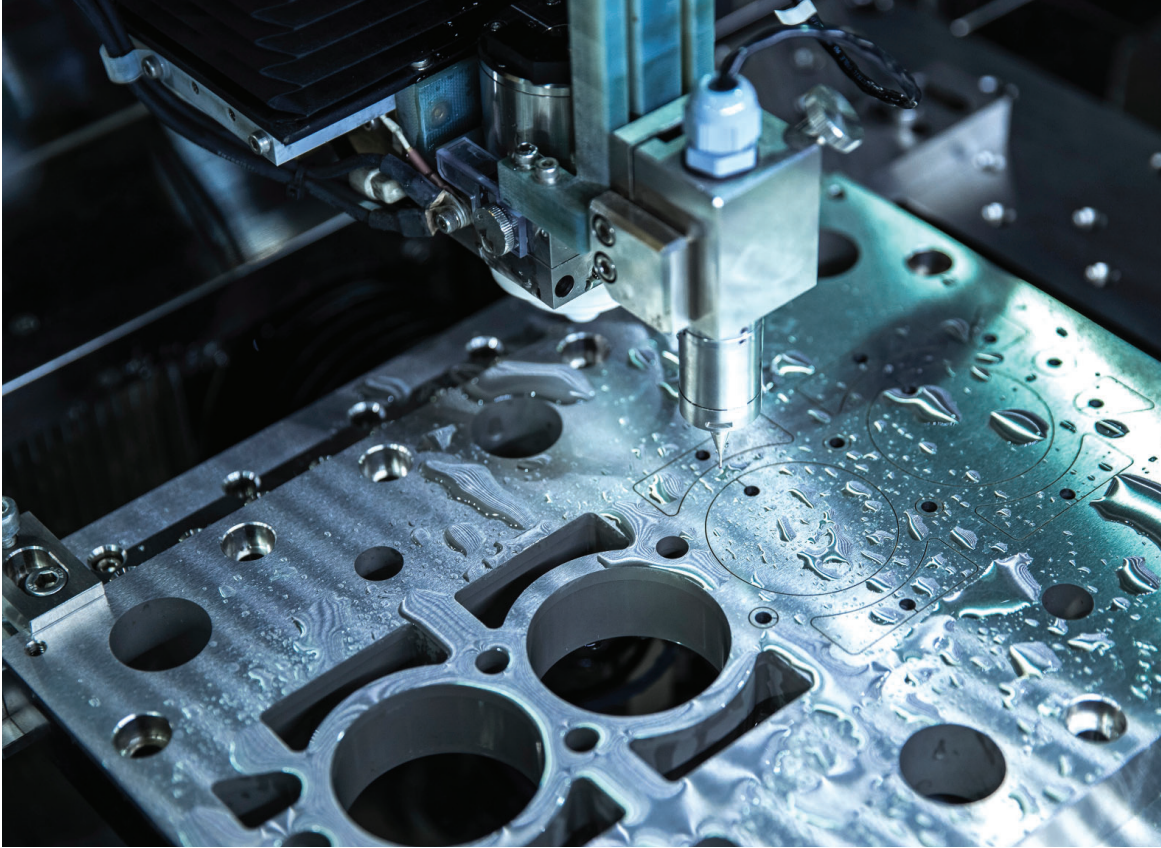


Industrial Sales and Leasing



Industrial market continues its revival

The gradual recovery of global supply chains has further boosted 3PL businesses, but with less inventory on hand vacancy has risen temporarily.

- With the recovery in global supply chains 3PLs and other logistics operators saw a strong pick up in business, leading to higher inventory turnover and more demand for modern logistics premises rather than simple storage spaces.
- While there were some major renewals / expansions in the warehouse leasing market, the reviving logistics market also meant inventory previously stuck in warehouses (mainly traditional ones) was finally shipped, causing overall warehouse vacancy to increase temporarily.
- Investment sentiment continued to thrive in Q2 with major deals over HK\$100 million concluded worth a total of over HK\$6 billion. The reviving logistics prospects attracted investment funds to chase warehouse assets given the stable yields on offer.
- With logistics prospects looking set to improve further, most warehouse landlords will act fast to raise rents, which may slow leasing transactions in the coming months even for modern warehouses. Traditional warehouses, which have benefited from broken supply chains with stockpiled inventory over the past few months, may face further upward pressure of vacancy.
- Investment sentiment has been robust for both industrial and warehouse assets in 1H/2021, with reasonably priced stock quickly snapped up. While abundant capital is still likely to be available, it will find it is chasing a diminishing pool of stock, no matter for investment or redevelopment, and prices are therefore likely to increase further.

“Logistics assets continue to attract interest, in particular from investment funds awash with capital. Looking ahead, investment interest is likely to focus on either high-grade warehouses offering strong rental reversions, or run-down industrial buildings with redevelopment potential.”

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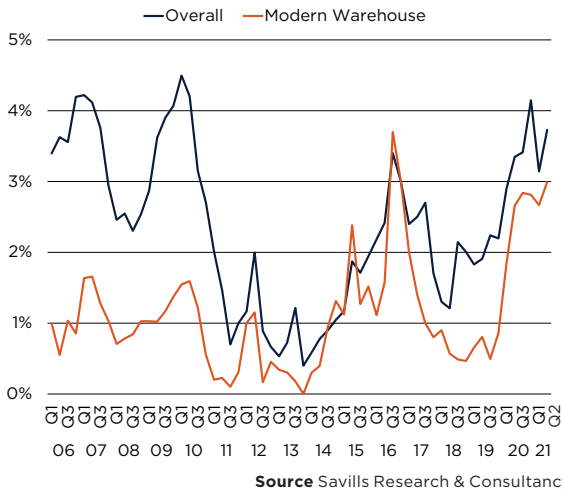
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Savills plc
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GRAPH 1: Warehouse Vacancy Rates, Q1/2006 to Q2/2021



Source Savills Research & Consultancy

THE GRADUAL RECOVERY OF GLOBAL SUPPLY CHAINS IS BENEFITTING THE LOCAL LOGISTICS SECTOR

The gradual recovery of global supply chains, mainly via the re-establishment of both air and sea trade routes worldwide, saw more optimistic forecasts from the global logistics industry. According to the latest Transport Intelligence report, the global freight forwarding market contracted by 8.7% in 2020 but is expected to rebound swiftly by 11.6% in 2021 (14.9% for air freight and 7.6% for sea freight). As such the local logistics sector has benefitted, with air freight and container throughput rebounding by 12.3% and 2.9% over the first five months of the year. 3PLs and other logistics operators saw strong business resumption, leading to higher inventory turnover and stronger demand for more modern logistics premises rather than simple storage spaces.

The industrial leasing market was very active with 75 transactions recorded over the quarter, a marked improvement from the 47 deals completed in Q1 (a 60% QoQ increase). 8/F of China Merchants Logistics Centre was leased to a cold store operator (rumoured to be Brilliant Cold Storage or related parties, who already operate a cold store in the same building) for a 10-year lease tenure. Given the fast-growing e-commerce market, HKTVMall also expanded and took up one more adjacent floor in Mapletree Logistics Hub Tsing Yi. Following its aggressive

retail expansion in the territory, Don Don Donki leased another floor (26,000 sq ft) in Goodman Kwai Chung Logistics Centre, doubling their logistics handling capacity. Elsewhere H&M renewed their logistics space in ATL for another three years for a total monthly rent of HK\$1.5 million.

The reviving logistics market, on the other hand, also meant that inventory previously stuck in warehouses (mainly traditional ones) was finally shipped, creating more temporary vacancy. As an example a large-scale traditional warehouse released over 100,000 sq ft of space due to the shipment of most retained cargoes over the past few months. Overall vacancy increased from 3.1% to 3.7% in Q2, while modern warehouses saw a much milder increase from 2.7% to 3.0% over the same period.

INVESTORS KEEN ON LOGISTICS ASSETS EYEING STABLE RETURNS

Q2/2021 continued to see strong investment interest in industrial assets, with nine major (over HK\$100 million) industrial transactions registered, representing a total consideration surpassing the HK\$6 billion mark. The reviving logistics prospects attracted investment funds to warehouse assets given the stable yields on offer. Taking the Kai Bo deal as an example, the seller leased back the property with a 10-year lease (4+3+3 renewable lease term), offering rental returns of 4.8% to 6.3% to the purchasing investment fund over the long run.

TABLE 1: Industrial Rental Movement By Subsector, Q2/2021

	2021 (%)		2020 (%)		
	Q2	Q1	Q4	Q3	Q2
Flatted factories	+2.6	-0.5	-1.5	-2.8	-1.9
I/O	-0.3	-0.2	-2.7	-1.5	-1.9
Warehouse	+2.4	+0.5	-0.4	-2.0	-4.1
Modern warehouse	+2.9	+2.4	-0.3	-1.5	-4.7

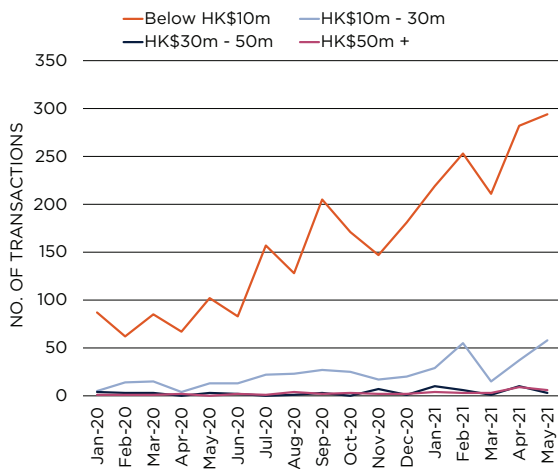
Source Savills Research & Consultancy

TABLE 2: Major Industrial Transactions Over HK\$100 Million, Q2/2021

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK\$ MIL)	AVERAGE PRICE (HK\$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Tsuen Wan	Wharf Cable TV Tower, 9 Hoi Shing Road / One Midtown, 11 Hoi Shing Road	Majority share	566,000	2,620	4,629	Wharf	Schroders Pamfleet / BentallGreenOak	I	Investment
Kwai Chung	Kai Bo Group Centre, 18 Kwai Hei Street	Whole Block	291,697	1,435	4,919	Kai Bo Group	Angelo Gordon	G	Investment
Kwai Chung	Central Industrial Building, 57-61 Ta Chung Ping Street	Whole Block	173,297	900	5,193	TBC	TBC	I	Investment
Kowloon Bay	Sunshine KIn Bay Cargo Centre, 59 Tai Yip Street	7/F	69,700	368	5,280	Meikim Ltd	Goodman	G	Investment
Fanling	Yau Shing Hong Logistics Centre, 38 On Lok Mun Street	Whole Block	46,278	217	4,689	TBC	Eagke Swift Ltd	G	Investment
Kwun Tong	Siu Fu Fty Building, 210 Wai Yip Street	G/F	TBC	180	TBC	Prosper Significance (HK) Ltd	Victory Thrive Investments Ltd	I	Investment
Chai Wan	Prince Industrial Building, 5 Sun Yip Street	5/F, 7/F, 11/F-13/F	44,709	159.7	3,572	Yourtrend Co Ltd & Rainy Investment Ltd	Storhub Chai Wan (Prince) Ltd	I	Investment
Shatin	Sunking Factory Building, 1-7 Shing Chuen Road	3/F A	TBC	103	TBC	U.S. Summit Co Ltd	Gain Max Enterprises Ltd	I	Investment
Quarry Bay	Eastern Centre, 1065 King's Road	G/F C	TBC	100.8	TBC	Full Landmark Ltd	Wealthy Yield Management Ltd	I	Investment

Source EPRC, Savills Research & Consultancy

GRAPH 2: Industrial Transactions By Price Range, January 2020 to May 2021



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 3: Industrial Price Growth By Subsector, Q2/2021

	2021 (%)		2020 (%)		
	Q2	Q1	Q4	Q3	Q2
Flatted factories	+1.7	-0.1	-0.1	-0.2	-0.8
I/O	-0.1	-0.2	-0.3	-0.1	-1.1
Warehouse	+3.8	+1.8	-2.0	-3.1	-3.8

Source Savills Research & Consultancy

Industrial sales volumes continued to surge in April and May (699), a 20%-increase when compared to January and February of this year (579), given strong investment interest from funds and end-users. Nearly 82% of the transactions in April and May (576 out of 699) were priced at HK\$10 million or below, indicating that stratified sales are still dominant with many small investors continuing to look for opportunities in the industrial sector given it's improving prospects. Flatted factory and warehouse prices increased by 1.7% and 3.8% respectively in Q2/2021 as a result.

OUTLOOK

With logistics prospects looking set to improve further, most warehouse landlords will act fast to raise rents, which may slow leasing transactions in the coming months even for modern warehouses. Traditional warehouses, which have benefited from broken supply chains with stockpiled inventory over the past few months, may face further upward pressure of vacancy. With the vacancy gap looking set to widen between traditional and modern warehouses, rental growth in the two subsectors may diverge in the coming months.

Investment sentiment has been robust for both industrial and warehouse assets in 1H/2021, with reasonably priced stock being

quickly snapped up. While abundant capital is still likely to be available, it will chase a diminishing pool of stock, no matter for investment or redevelopment, and prices are therefore likely to increase further, in the order of 3% to 5% over the next three to six months.