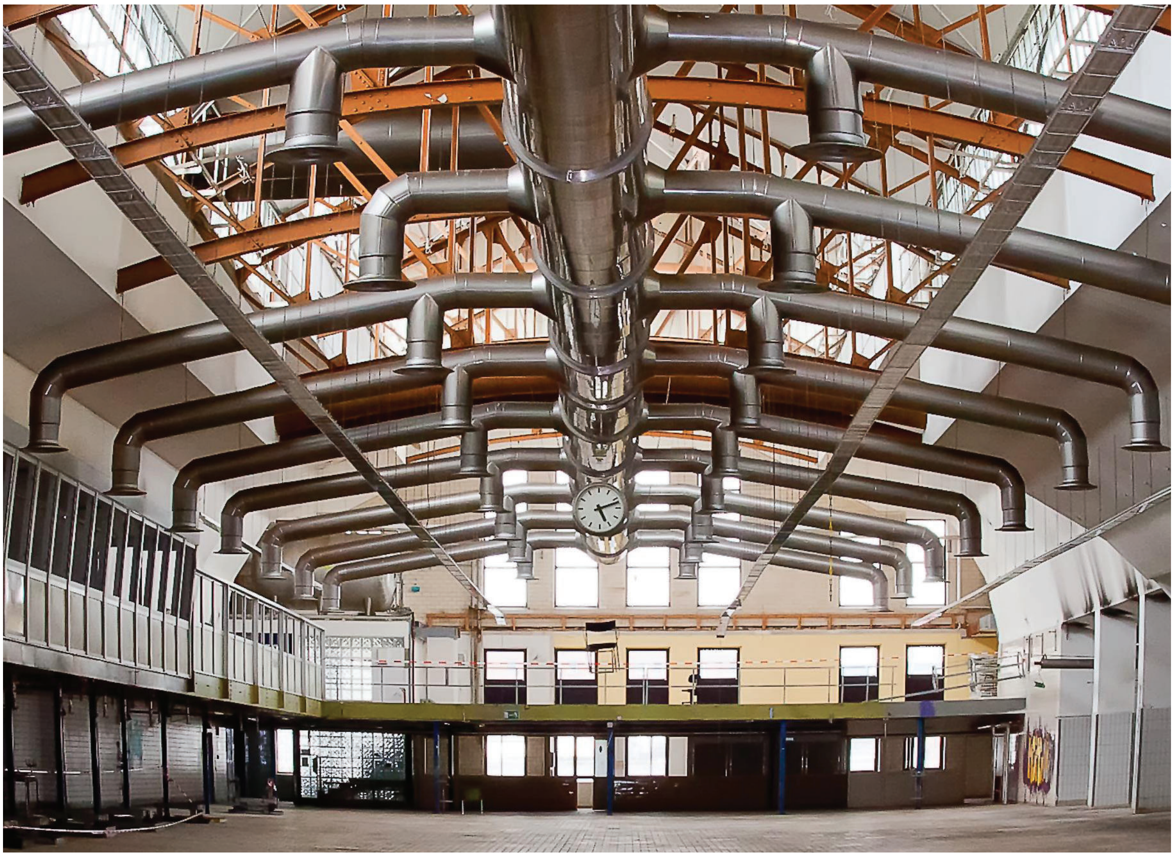
MARKET IN MINUTES

Savills Research

Hong Kong – July 2022

Industrial Sales and Leasing



En-bloc deals prevail

Logistics market sentiment has remained buoyant with sustained demand and extremely low levels of availability.

- Logistics demand has remained strong despite economic uncertainties, but leasing deals were rare in the second quarter with warehouse availability declining to extremely low levels.
- Overall and modern warehouse rents continued to rise by 1.9% and 2.7% in Q2/2022 respectively, while both overall and modern warehouse vacancy rates fell to 1.9% and 1.1% over the same quarter.
- The extremely low warehouse vacancy pushed some cash-rich operators into the sales market to secure operational space, while investors continued to hunt for high-yielding industrial assets.
- Looking ahead, while new supply may put some short-term pressure on rents, displacement demand from brownfield site resumption in the New Territories may provide some support in the near-term.
- While a potential increase in available warehouse space may slow owner-occupiers' appetite to purchase in the short term, the high yields on offer mean industrial premises are still on top of the wish list of many yield-hungry investors.

"Low warehouse vacancy has pushed some cash-rich operators into the sales market to secure operational spaces, while investors continue to hunt for high-yielding industrial assets. Looking ahead, while new supply may put some short-term pressure on rents, displacement demand from brownfield site resumption may provide some support in the near-term."

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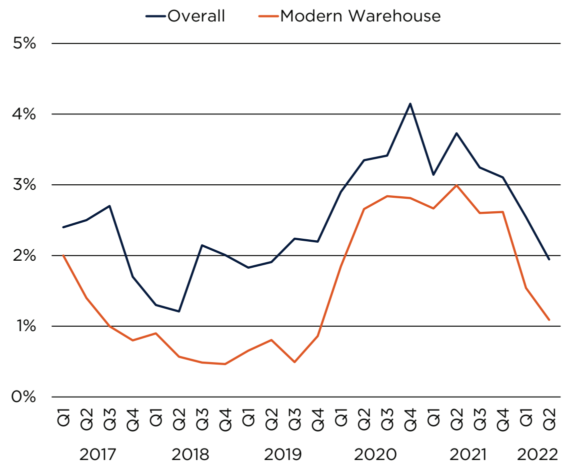
GRAPH 1: Warehouse Vacancy Rates, Q1/2017 to Q2/2022



Source Savills Research & Consultancy

TABLE 1: Industrial Rental Movement by Subsector, Q2/2022

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

Source Savills Research & Consultancy

LOCAL LOGISTICS CONTINUED TO THRILL AMIDST UNCERTAIN ECONOMIC ENVIRONMENT

The local economy was hard hit by the 5th COVID outbreak as well as stock market turbulence with most economic indicators heading firmly south in the first few months of 2022 (GDP down by 4% in Q1, retail sales contracted by 2.9% from Jan to May, air cargo and container throughput declined by 8.2% and 6.5% respectively over the first five months). Nevertheless, against such a backdrop, logistics demand remained strong over the second quarter with the outbreak gradually contained and the retail sector regained some momentum alongside a strong performance from e-commerce.

The number of leasing deals, especially new lettings, subsided compared to the previous quarter, though, as more operators chose to renew rather than relocate due to extremely low availability. Overall warehouse vacancy declined to 1.9% in Q2, while modern warehouses saw availability shrinking to a mere 1.1% of total stock, effectively putting off any near-term relocation plans of modern operators.

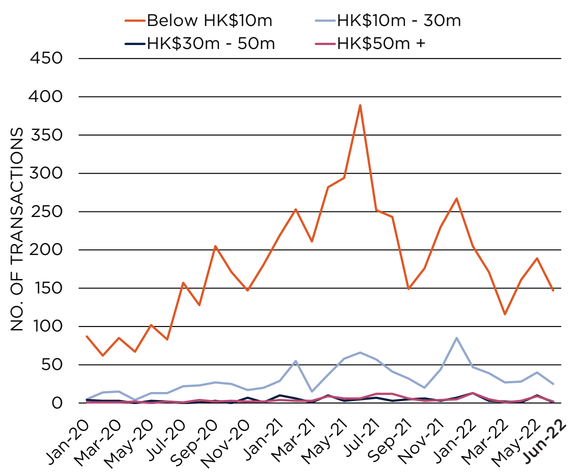
Given the sustained local demand, overall and modern warehouse rents continued to rebound by 1.9% and 2.7% in Q2/2022 respectively, as landlords had the upper hand in rental negotiations with such low levels of vacancy. Nevertheless, with plenty of uncertainties clouding local and external markets, landlords are wary of making further aggressive rental adjustments.

INVESTMENT SENTIMENT REBOUNDS WITH EN-BLOC DEALS PREVAIL

Extremely low warehouse vacancy is pushing some cash-rich operators into the sales market to secure operational spaces, with China Resources Logistics the largest purchaser over the quarter, purchasing two en-bloc godowns from Kerry Properties in Shatin and Chai Wan for a combined HK$4.62 billion for potential owner-occupation. The firm also spent another HK$264 million buying two floors in Riley House in Kwai Chung from Tsui Wah Group under a sale and lease back arrangement. Meanwhile investment funds and local investors continued their hunt for high-yielding industrial assets in Q2: Nuveen, a global investment fund, bought the converted data centre in Cargo Consolidation Complex for HK$2.88 billion for long-term investment. Another investment fund, Brookfield Asset Management, bought a floor in Shatin Industrial Centre for HK$211 million. (see Table 3 overleaf)

The investment transaction volume of stratified industrial premises rebounded slightly in April and May alongside reviving

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



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 2: Major Warehouse Leasing Transactions, Q2/2022

DATE	DISTRICT	LOCATION	UNIT	TOTAL GFA (SQ FT GROSS)	MONTHLY RENT (HK$ PER MONTH)	AVERAGE RENT (HK$ PER SQ FT PER MONTH)	TENANT	REMARKS
Apr	Kwai Chung	ATL Logistics Centre Phase V	9001W-9020W	156,463	$2,503,408	$16.0	LF Logistics	Renewal for 2 years
May	Tsing Yi	Goodman Interlink	Unit 103	68,905	$1,136,932	$16.5	DHL	Renewal for 2 years
Apr	Kwai Chung	ATL Logistics Centre Phase III	6022E-6027E	37,299	$634,083	$17.0	AWOT Global Express	New lease for 3 years
Jun	Kwai Chung	ATL Logistics Centre	2023E-2026W	32,354	$533,841	$16.5	Fairate Express	Renewal for 3 years
May	Tsing Yi	Goodman Interlink	G/F	26,010	$445,291	$17.1	Kum Shing	New lease for 5 years

Source EPRC, Savills Research & Consultancy

TABLE 3: Major Industrial Transactions over HK$100 Million, Q2/2022

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK$ MIL)	AVERAGE PRICE (HK$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Kwai Chung	Cargo Consolidation Complex, 43 Container Port Road	Whole	270,665	$2,880	$10,640	Local family	Nuveen	G	Investment
Shatin	Kerry Godown (Shatin), 36-42 Shan Mei Street	Whole	404,374	$2,330	$5,762	Kerry Properties	China Resources Logistics	G	Self-operation
Chai Wan	Kerry Godown (Chai Wan), 50 Ka Yip Street	Whole	521,253	$2,290	$4,393	Kerry Properties	China Resources Logistics	G	Self-operation
Cheung Sha Wan	Kwong Tai Fty Building, 750 Cheung Sha Wan Road	Whole	79,900 (max GFA)	$317.2	$3,970 (AV)	Various Owners	750 Holdings Co Ltd	I	Redevelopment
Tuen Mun	Luen Cheong Can Centre, 8 Yip Wong Road	G/F and multiple low floors	71,000	$284	$4,000	New World	TBC	I	Investment (Sales and lease back)
Kwai Chung	Riley House, 88 Lei Muk Road	16/F & 17/F Units 1-4	72,341	$264	$3,649	Tsui Wah Group	China Resources	G	Investment (Sales and lease back)
Yuen Long	Tsun Mee Ind Building, 8 Wang Yip East Street	Whole	39,706	$260	$6,548	TBC	Koon Wah Mirror Factory	I	Investment
Kwai Chung	Mita Centre, 552-566 Castle Peak Road	12/F-13/F	54,700	$238	$4,348	Winner City Ltd	Teton Investment Ltd	G	Investment
Shatin	Shatin Industrial Centre Block A, 5-7 Yuen Shun Circuit	Units 1-23 on 4/F & 2 parking	28,050	$211	$7,522	Hanison	Brookfield Asset Management Inc	I	Investment
Tsuen Wan	Excelsior Ind Building, 68-76 Sha Tsui Road	23/F-25/F	47,454	$180	$3,793	TBC	TBC	I	Investment

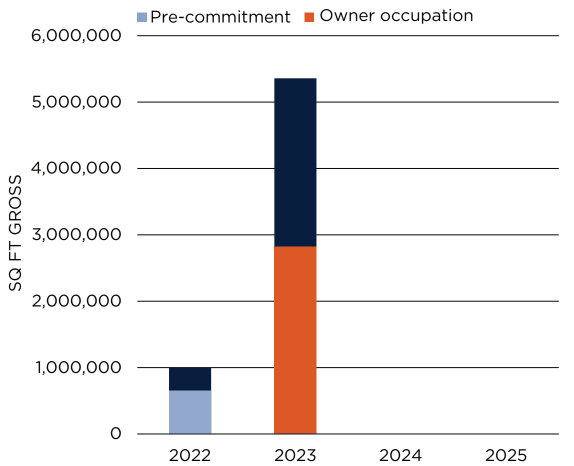
Source EPRC, News, Savills Research & Consultancy

TABLE 4: Industrial Price Growth by Subsector, Q2/2022

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

Source Savills Research & Consultancy

GRAPH 3: Major Warehouse Supply and Pre-commitment Status, 2022 to 2025



Source Buildings Department, Lands Department, Savills Research & Consultancy

sentiment, but the subsequent stock market slump and consecutive rate hikes in the US deterred potential investors in June, and the entire second quarter recorded 616 industrial transactions, a 4% QoQ decline. Both flatted factory and warehouse prices were stable over the quarter as a result.

OUTLOOK

Looking ahead, while new supply may put some short-term pressure on rents, displacement demand from brownfield site resumption in the New Territories may provide some support in the near-term. Goodman Westlink, which is scheduled for completion later this year with a GFA close to one million sq ft, is reporting around 60% pre-commitment. Cingleot Premium Logistics Centre, the 5.3 million sq ft modern warehouse which is scheduled for completion towards the end of next year at the airport, is reported to have half of its space pre-committed by CiaNiao and its related operators. The remaining space available for lease (around three million sq ft) will inevitably put some pressure on warehouse rents over the next 12 to 18 months.

While the potential increase in available warehouse space may slow owner-occupiers' appetite to purchase in the short term, the high yields on offer mean industrial premises are still on top of the wish list of many yield-hungry investors. Interest rate hikes remain a key risk factor for the industrial price rally.