MARKET IN MINUTES

Savills Research

Industrial Sales and Leasing

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Investors remain engaged

Logistics leasing activity levels revived in Q3 with operators opting to renewal in order to minimize business disruption, while those with expansion needs were looking for relocation options.

- The revival of the local trading and retail sectors has meant that many logistics operators were keen to renew leases to avoid business disruption, while those with expansion demand chose to relocate.

- Overall and modern warehouse rents continued to rebound by 2.1% and 2.5% in Q3/2021 respectively, while both overall and modern warehouse vacancy rates fell to 3.2% and 2.6% over the same quarter, after a small spike last quarter.

- Investment sentiment continued to revive in Q3 with 17 major deals of over HK$100 million concluded worth a total of over HK$7.3 billion. While investment funds were still keen on the high yield logistics sector, we note more participation from logistics operators (for eventual owner-occupation) and developers (for redevelopment).

- With local and global supply chains both expected to continue to rebound, short-term logistics demand seems to be sustainable. Nevertheless, a total of 7 million sq ft of new warehouse space is scheduled to come on stream over the next two years, so far with little pre-commitment, and this will test market resolve when it arrives in 2022 and 2023.

- The robust investment sentiment for warehouse assets so far this year has already pushed prices up and yields down. With Revitalization Policy 2.0 extended for another three years, we expect industrial investment to refocus more on run-down industrial premises with redevelopment potential.

"The buoyant warehouse rental performance supported ongoing investment interest, driving prices up and yields down. With Revitalization Policy 2.0 extended for another three years, we expect to see a refocus on more run-down industrial premises with redevelopment potential."

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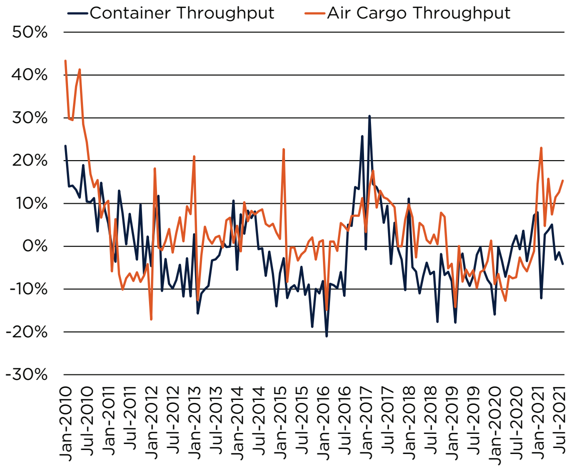
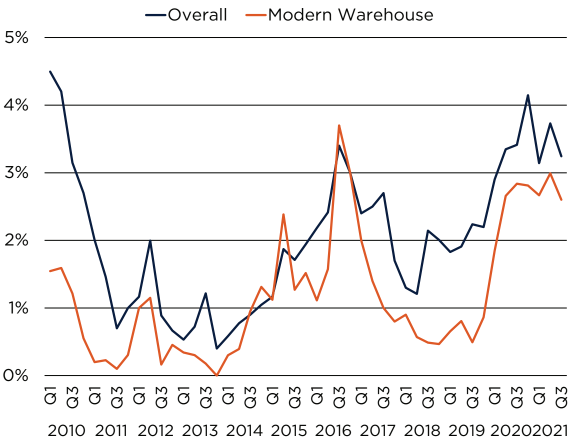
GRAPH 1: YoY Growth of Cargo Throughput, January 2010 to August 2021



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

GRAPH 2: Warehouse Vacancy Rates, Q1/2006 to Q3/2021



Source Savills Research & Consultancy

FIRM LOCAL TRADING AND RETAIL MARKET CONDITIONS SUPPORTING THE LOGISTICS SECTOR

Signs of revival in the local trading and retail sectors, which saw total merchandise trade and retail sales rebounding by 27.0% and 8.1% respectively over the first eight months of 2021, have helped to propel the performance of the local logistics sector, in particular aviation logistics. Backed by a swift resumption of international air cargo movements, local air cargo throughputs rebounded significantly by 12.6% from January to August 2021 YoY, while container throughput also stabilized over the same period.

With firmer business prospects, many logistics operators opted to renew leases in Q3/2021, normally 6 to 9 months ahead of expiry, to avoid any business disruption: modern warehouses in both Kwai Tsing and Tsuen Wan as well as general warehouses in Tuen Mun all recorded a number of renewal cases of long-term tenants.

On the other hand, some operators in need of expansion space chose to relocate: a large local 3PL moved from an enbloc warehouse (around 110,000 sq ft) in Fanling and relocated into another enbloc warehouse (230,000 sq ft) in Tsuen Wan, almost doubling in size. The original warehouse was then leased to iAdvantage and will be converted into a data centre. Crown Worldwide also relocated to take up three floors (around 120,000 sq ft) in Tuen Mun Distribution Centre with a long lease.

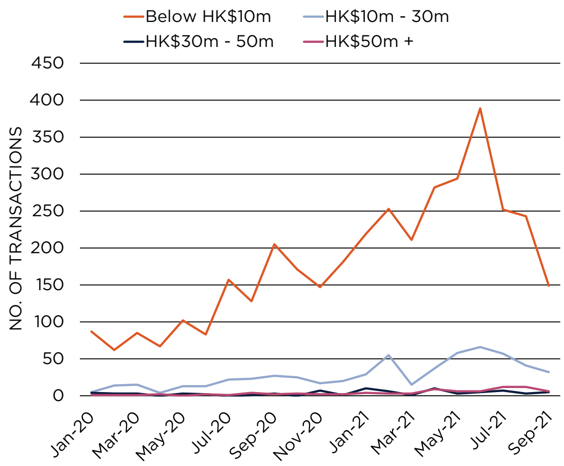
In addition to 3PLs, other logistics operators were on the move: 100 Storage Cold-Chain Logistics Services relocated from Hing Wai Ice & Cold Storage and leased two units on 6/F (around 120,000 sq ft) of Hutchison Logistics Centre in Kwai Chung for around HK$2 million per month (around HK$16.5 per sq ft). A department store operator also relocated to take up 60,000 sq ft in TS Gateway in Tsing Yi while Vestiaire Collective, an online fashion retailer, relocated and took up around 20,000 sq ft in China Merchants Logistics Centre in Tsing Yi.

As such, overall and modern warehouse rents continued to rebound by 2.1% and 2.5% in Q3/2021 respectively, while both overall and modern warehouse vacancy rates declined to 3.2% and 2.6% over the same quarter, after seeing a small spike last quarter.

BOTH INVESTORS AND DEVELOPERS ACTIVE IN THE BUOYANT SALES MARKET

Investment sentiment continued to revive in Q3 with 17 major deals of over HK$100 million concluded, worth a total of over HK$7.3 billion. While investment funds were still keen to dip into the high yield logistics sector, we saw more participation from logistics operators (for eventual owner-occupation) and developers (for redevelopment). Significant fund transactions included Silkroad who bought various floors in Hang Wai Industrial Centre in Tuen Mun for HK$1.1 billion, AEW purchasing a 50% share of Minico Building in Chai Wan for HK$305 million, as well as Goodman acquiring a majority of floors in Hou Feng Industrial Building in Kwai Chung for HK$286 million, all for investment purposes. CR Logistics bought two en-bloc warehouses, East Asia Industrial Building Phase 1 in Tuen Mun, as well as Mineron Centre in Fanling for a combined HK$2.9 billion initially for investment, but likely with an eye for owner occupation after existing leases expire. Billion bought

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



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 1: Industrial Rental Movement By Subsector, Q3/2021

	2021 (%)			2020 (%)	
	Q3	Q2	Q1	Q4	Q3
Flatted factories	+2.0	+2.6	-0.5	-1.5	-2.8
I/O	0.0	-0.3	-0.2	-2.7	-1.5
Warehouse	+2.1	+2.4	+0.5	-0.4	-2.0
Modern warehouse	+2.5	+2.9	+2.4	-0.3	-1.5

Source Savills Research & Consultancy

TABLE 2: Major Industrial Transactions Over HK$200 Million, Q3/2021

DISTRICT	LOCATION	FLOOR	TOTAL GFA (SQ FT GROSS)	AMOUNT (HK$ MIL)	AVERAGE PRICE (HK$ PER SQ FT)	SELLER	PURCHASER	TYPE	REMARKS
Tuen Mun	East Asia Ind Bldg Phase 1, 2 Ho Tin Street	Whole	466,400	2,242.6	4,808	Tang's Family	CR Logistics	G	Investment / owner occupation
Tuen Mun	Hang Wai Industrial Centre Block C, 6 Kin Tai Street	6 ground floor units, 3-19/F	317,827	1,100.0	3,461	TBC	Silkroad	I	Investment
Fanling	Mineron Centre, 35-37 On Lok Mun Street	Whole	152,762	695.4	4,552	Tang's Family	CR Logistics	G	Investment
Kwun Tong	Hay Nien Building, 1 Tai Yip Street	Whole	62,889	628.0	9,986	Hanison	TBC	I	Investment
Kwai Chung	Shui Hong Industrial Building, 543-549 Castle Peak Road - Kwai Chung Section	Whole	162,900 (max. GFA)	498.0	3,057 (A.V.)	Various vendors	Billion	I	Redevelopment
Chai Wan	Minico Building, 18 Lee Chung Street	50% share	TBC	305.0	TBC	Hanison	AEW	I	Investment
Kwai Chung	Hou Feng Industrial Building, 1-5 Wing Kin Road	G-4/F, units A/B on 5-6/F, 15-16/F, 20-21/F	145,000	286.0	1,972	Belle Worldwide Ltd	Goodman	I	Investment
Fanling	Yip's Chemical Building, 13 Yip Cheong Street	Whole	63,897	285.0	4,460	Big Youth Invs Ltd	Blackrock	I	Investment
Kwai Chung	South China Cold Storage Building, 13-17 Wah Sing Street	G/F, 1/F & Unit B on 2/F	22,513	200.0	8,884	TBC	TBC	G	Investment

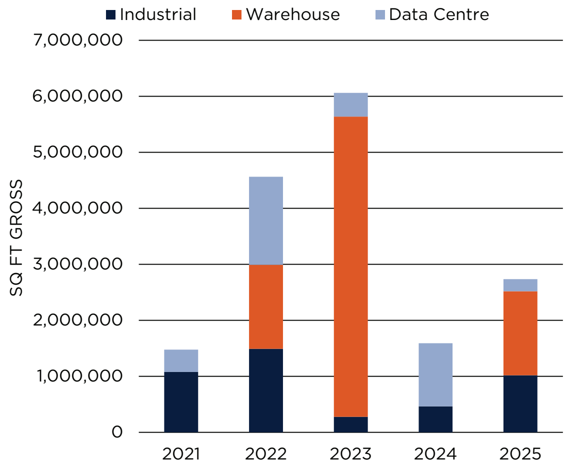
Source EPRC, Savills Research & Consultancy

TABLE 3: Industrial Price Growth By Subsector, Q3/2021

	2021 (%)			2020 (%)	
	Q3	Q2	Q1	Q4	Q3
Flatted factories	-0.3	+1.7	-0.1	-0.1	-0.2
I/O	-0.4	-0.1	-0.2	-0.3	-0.1
Warehouse	+3.2	+3.8	+1.8	-2.0	-3.1

Source Savills Research & Consultancy

GRAPH 4: Future Industrial, Warehouse and Data Centre Supply, 2021 to 2025



Source Buildings Department, Lands Department, Savills Research & Consultancy

the entire Shui Hong Industrial Building in Kwai Chung for HK$498 million for redevelopment.

While investment sentiment at the top end was robust with 30 transactions of over HK$50 million recorded in Q3, 43% higher than in Q2, the lower price bracket, mainly stratified units, was less active, with the industrial transaction volume below HK$50 million totalling 789 deals in Q3, a 31% QoQ decline, reflecting a more cautious attitude among smaller investors given the recent stock market turbulence. Flatted factory prices adjusted slightly by 0.3% in Q3/2021 as a result, while warehouse prices continued to rise by 3.2% over the same period.

OUTLOOK

With local and global supply chains both expected to continue to rebound, short-term logistics demand seems to be sustainable. Nevertheless, a total of 7 million sq ft of new warehouse space is scheduled to come on stream over the next two years, so far with little pre-commitment, and this is expected to test market resolve when it comes on line in 2022 and 2023.

Robust investment sentiment for warehouse assets so far this year has already pushed prices up by 6.8% and yields down to 3.3%, an all-time low, indicating diminishing investment returns. With the Revitalization Policy 2.0 (allowing up to a 20% GFA concession for industrial redevelopment) proving to be popular with 57 cases approved (over 12.7 million sq ft of redevelopment premises) over the past three years, the policy will now be extended for another three years to October 2024 according to the latest Policy Address. We therefore expect industrial investment to refocus more on run-down industrial premises with redevelopment potential.