

Major industrial volume muted with high cost of funds

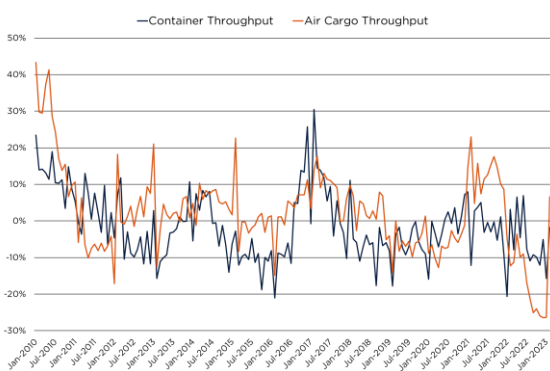
“ Reviving retail sales and online sales should induce related logistics demand to thrill, while major industrial transactions are likely to be rare with only end users still looking for opportunities. ”

JACK TONG, SAVILLS RESEARCH & CONSULTANCY

The long-awaited border reopening propelled strong recovery of logistics demand, with air cargo throughputs in particular rebounding by 6.6% in February 2023, after 13 straight months of decline.

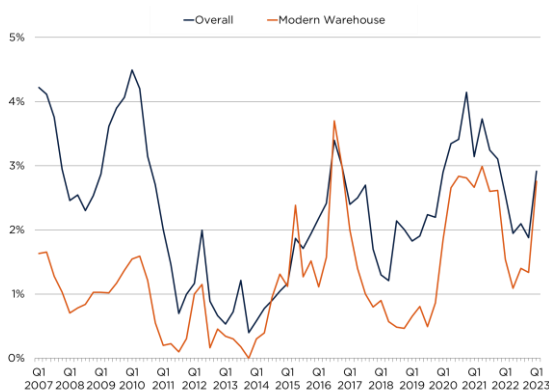
Gradual resumption of air freight, as well as cross-border land transport, helped rebuilt a lot of 3PLs freight solutions for clients, with operators seeing more light in their business growth in the near term. Nevertheless, CAPEX and general lack of availability (except Goodman Westlink) meant relocations remained scarce, with a few major renewals being recorded over the quarter.

GRAPH 2: YoY Growth of Cargo Throughputs, Jan 2010 – Feb 2023



Source Savills Research & Consultancy

GRAPH 1: Warehouse Vacancy Rates, Q1/2017 – Q1/2023



Source Savills Research & Consultancy

With the addition of Goodman Westlink, overall and modern warehouse vacancy rates increased to 2.9% and 2.8% respectively, which were still at healthy levels. As such, landlords were able to hold onto asking rents with overall and modern warehouse rents edging up by 0.5% and 0.6% respectively in Q1/2023.

Though interest rates actually declined throughout Q1 with 3-month HIBOR declining from 5.0% at the end of 2022 to 3.5% in mid-April, effective cost of funds were still high at around 5% to 6%, meaning most investors, including investment funds who were most active in the en-bloc industrial market in 2022, remained on the sideline. As a result, no major industrial transactions over HK\$100 million were recorded over the quarter.

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The investment transaction volume of stratified industrial premises saw a very different picture: volume reached 477 transactions in Q1, a 27% QoQ increase, with small lump sum deals (HK\$10 million or below) registering a 30% growth over the period, reflecting renewed optimism among local investors on stratified industrial properties.

Looking ahead, the expected rebound in retail sales (in the order of 5% to 10%), as well as sustained growth in e-commerce (13%) should support solid logistics demand in 2023. Nevertheless, the imminent completion of the 4-million sq ft CaiNiao Smart Gateway at the airport remain an overhang to the market. We expect warehouse rents to remain broadly the same this year, with the market likely to resume growth from 2024 onwards when new warehouse completions are gradually taken up.

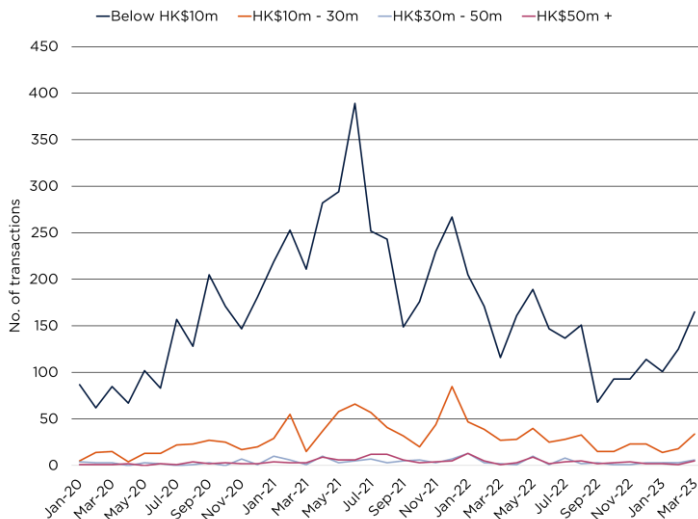
Interest rate hikes will hit price growth in the short term, leading to slight adjustment in prices in 2023, but continuous end users' demand should support en-bloc / majority holdings sales from 2024 onwards.

TABLE 1: Industrial rental movement by subsector, Q1/2023

	2023 (%)	2022 (%)			
	Q1	Q4	Q3	Q2	Q1
Flatted factories	-1.0	-1.3	-0.7	+0.7	+0.8
I/O	-1.3	-1.3	-1.3	-0.6	-1.0
Warehouses	+0.5	-1.0	+0.8	+1.9	+0.3
Modern warehouses	+0.6	-1.5	-0.1	+2.7	+0.5

Source Savills Research & Consultancy

GRAPH 3: Industrial transactions by price range, Jan 2020 - Mar 2023



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 2: Industrial price growth by subsector, Q1/2023

	2023 (%)	2022 (%)			
	Q1	Q4	Q3	Q2	Q1
Flatted factories	0.0	-0.9	0.0	+0.5	-0.3
I/O	0.0	-0.8	0.0	+0.1	-0.1
Warehouse	-1.6	-2.4	+0.3	0.0	-0.1

Source Savills Research & Consultancy

TABLE 3: Major warehouse leasing transactions, Q1/2023

Date	District	Location	Unit	Total GFA (sq ft gross)	Monthly rent (HK\$ per month)	Average Rent (HK\$ per sq ft per month)	Tenant	Remarks
1/2023	Kwai Chung	ATL Logistics Ctr Phase III & IV	4008E-4016E	67,898	\$1,086,368	\$16.0	Hongkong Suning.com Co Ltd	Renew 3 years
1/2023	Kwai Chung	Watson Centre	5/F	28,536	\$287,118	\$10.1	HKSAR Government	Renew 2 years
1/2023	Tsuen Wan	Goodman Dynamic Centre	16A-B	33,933	\$458,684	\$13.5	Specsavers Procurement Asia Ltd	Renew 3 years
1/2023	Tuen Mun	Tuen Mun Distribution Centre Block 2	18/F	28,520	\$313,720	\$11.0	Giordano Ltd	Renew 3 years
2/2023	Kwun Tong	Darton Tower	W/B	32,260	\$380,000	\$11.8	Darton Ltd	Renew 3 + 3 years
3/2023	Tuen Mun	Tuen Mun Distribution Centre Block 2	14-15/F	57,040	\$610,328	\$10.7	Geodis Hong Kong Ltd	Renew 3 years
3/2023	Tuen Mun	Goodman Westlink	G2C	83,422	TBC	TBC	Bollore Logistics HK Ltd	New Lease 5 years
3/2023	Tsing Yi	Tien Chu (Tsing Yi) Industrial Centre	W/B	88,000	\$920,000	\$10.45	Good View Dev Group Ltd	Renew 2 + 2 years

Source EPRC, Savills Research & Consultancy