INDUSTRIAL SALES AND LEASING

Industrial conversion demand remain highly selective

"Logistics market faced mixed external factors in Q4/2023 with rebounding merchandise trade and air freight, while sea freight and cold storage continued to face challenging environment."

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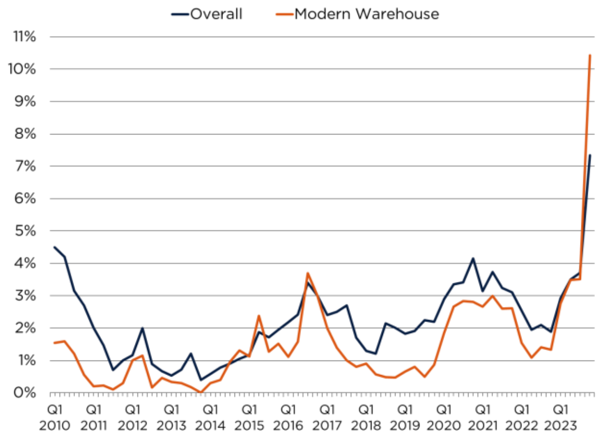
During the fourth quarter of 2023, the logistics sector experienced a mixture of external factors. Notably, both merchandise trade and air freight demonstrated significant recoveries, with growth rates of 6.8% and 16.3% respectively. These improvements were attributed to the revival of regional trades, cross-border distribution, and efficient supply chain logistics operations.

However, the local logistics industry encountered notable challenges, particularly in the cold storage segment. The declining performance of the food and beverage sector had a substantial impact on this area, leading to a decline in business during the fourth quarter. As a result, many operators reported operating their cold storage facilities at only 50% capacity. The trend of Hongkongers traveling to Shenzhen on weekends for shopping and dining has also negatively affected local retail and food and beverage sentiment, consequently reducing the demand for logistics services in these areas.

As a result, lease renewals and tenant movements within the portfolios of existing landlords were the primary activities observed in the market in Q4. Relocations and expansions were minimal during this period. However, SF Express stood out as an exception, acquiring the 4th floor of SF Center for self-utilization. Conversely, downsizing occurred in some cases, such as a logistics operator surrendering approximately 50,000 square feet in Tai Tung Industrial Building in Tsing Yi due to reduced business requirements.

In the fourth quarter, the CaiNiao Smart Gateway at the airport obtained official approval. This facility boasts a total lettable area of 4.1 million sq ft and actively seeks the relocation of large-scale logistics operators. Consequently, the overall and modern warehouse vacancy rates increased to 7.3% and 10.4% respectively. This rise in vacancy rates, coupled with landlords' increased flexibility in the face of larger tenants' lease expiries, resulted in an overall decline of approximately 1% in rents for both overall and modern warehouses during the fourth quarter.

GRAPH 1: Warehouse vacancy rates, Q1/2010 – Q4/2023



Source Savills Research & Consultancy

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TABLE 1: Major industrial transactions (over HK$100 million), Q4/2023

District	Location	Unit	Total GFA (sq ft gross)	Consideration (HK$)	Average Price (HK$ per sq ft)	Seller	Purchaser	Type	Remarks
Fanling	Kerry Warehouse (Fanling 1)	Whole	259,475	$1,000,000,000	$3,854	Kerry	CR Logistics	G	Investment
Tsuen Wan	Hale Weal Industrial Building	Whole	140,000	$560,000,000	$4,000	Local Family	Blackstone / Storefriendly	I	Conversion to self-storage
Kwun Tong	East Sun Industrial Centre Block G & H	G/F	23,429	$190,000,000	$8,110	Local Investor	Biel Crystal	I	Investment

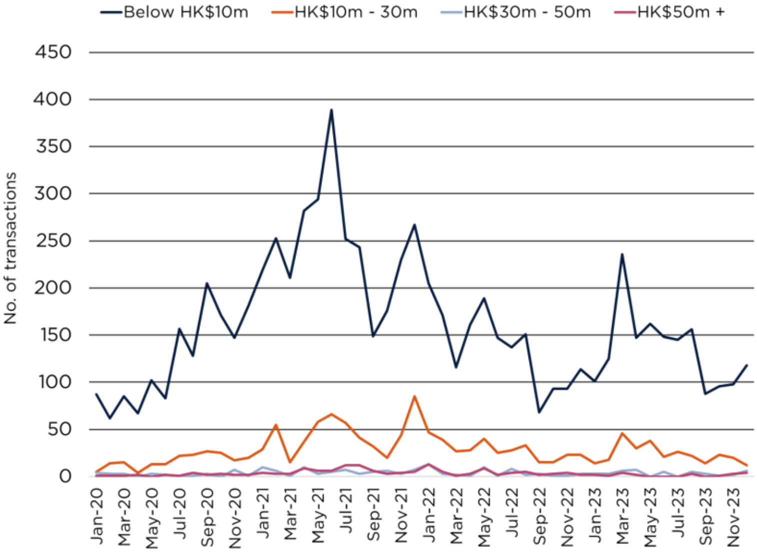
Source EPRC, Savills Research & Consultancy

In contrast to the leasing market, the sales market witnessed unexpected activity during the final quarter of the year, marked by the completion of two significant en-bloc deals. CR Logistics made a strategic acquisition by purchasing Kerry Warehouse (Fanling 1) from Kerry for a total of HK$1 billion, viewing it as a long-term investment opportunity. Additionally, Blackstone and Storefriendly once again joined forces, acquiring the en-bloc Hale Weal Industrial Building in Tsuen Wan for HK$560 million. Following the conversion process, the building is set to operate as a self-storage facility under their ownership. However, the stratified sales market experienced a more subdued performance, with a recorded decline of 16.9% quarter-on-quarter, totaling 384 transactions in Q4.

The anticipated recovery in external trade performance and the resumption of retail sales are expected to provide a solid foundation for logistics demand in 2024. This positive outlook is reinforced by the continued growth of both local and cross-border e-commerce, suggesting that logistics demand will further strengthen in the upcoming months. In light of this, warehouse landlords who are facing tenant expiries within this year and the next are likely to adopt a more flexible approach in terms of rental terms. This strategic adjustment aims to ensure high occupancy rates, especially considering the persisting challenge of vacancy resulting from newly completed warehouses

In relation to the sales market, the potential implementation of a rate cut of 1 percentage point in 2024 is anticipated to have a positive impact on market sentiment. However, it is important to note that the demand for conversion properties will be discerning in nature. While self-storage facilities continue to be an appealing option, other conversion prospects such as cold storage and data centers encounter challenges in attracting additional investment interest. The recovering logistics sector might generate some investment interest, but the pursuit of yield-driven acquisitions could be impeded by difficulties in securing financing in the near term.

GRAPH 2: Industrial transactions by price range, Jan 2020 - Dec 2023



Source EPRC, Savills Research & Consultancy

TABLE 2: Industrial price and rental growth by subsector, Q4/2023

Price change	2023 (%)				2022 (%)		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Flatted factories	0.0	-2.2	0.0	0.0	-0.9	0.0	+0.5
Warehouse	-0.5	-1.0	-1.6	-1.6	-2.4	+0.3	0.0

Rental Change	2023 (%)				2022 (%)		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Flatted factories	-2.0	+0.2	-0.6	-1.0	-1.3	-0.7	+0.7
Warehouse	-1.0	-0.5	+0.2	+0.5	-1.0	+0.8	+1.9
Modern Warehouse	-0.8	-0.1	-0.6	+0.6	-1.5	-0.1	+2.7

Source Savills Research & Consultancy