MARKET IN MINUTES

Savills Research

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INDUSTRIAL SALES AND LEASING

Investment volume remained stable

> Diminishing logistics demand makes many operators conservative, with renewals dominating the Q2 leasing market and rents remaining stable. Some bright spots such as electric cars and cold chain induce some rare new leasing cases.

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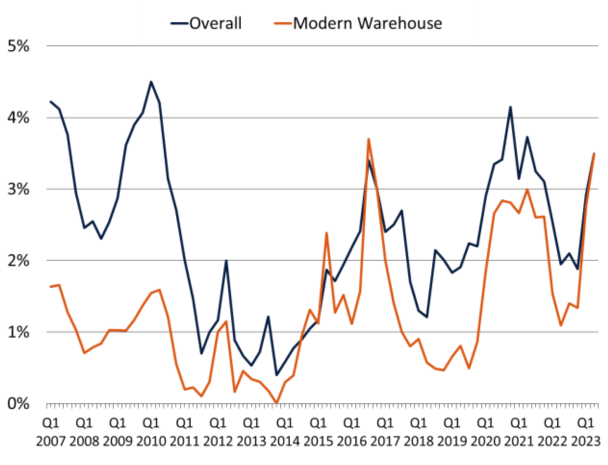
The 'feel-good' factor of border reopening quickly faded away in Q2 with most logistics related macroeconomic data continued to decline: imports and exports trade value declined by 13.3% and 16.3% Y-o-Y respectively over the first five months of the year, while both air cargo and container throughputs continued to drift by 6.2% and 13.3% Y-o-Y respectively over the same period.

Despite dwindling logistics demand, a few sectors still prevailed, namely electric cars and fresh food / cold storage: BYD leased two warehouse premises, one lot in Sunshine Kowloon Bay Cargo Centre for around 90,000 sq ft, another premises is the basic warehouse (around 60,000 to 70,000 sq ft) in Tin Shui Wai. Uni-China also leased around 38,000 sq ft in ATL as their cold store to handle their increasing fresh food business. There were also rumours that a tenant internally expanded for 22,000 sq ft in China Resources International Logistics Centre, while a floor in East Asia Industrial Building in Tuen Mun was reported to be leased at HK$11 per sq ft. As such, overall and modern warehouse rents continued to increase by 0.6% and 0.5% in Q2 respectively, despite a slight rise in vacancy rates to 3.5%.

Interest rates continued to edge up with 3-month HIBOR standing at around 5% in Q2, meaning commercial mortgage could be as high as 6% to 7%, rendering property investment unattractive. Nevertheless, there were still a few deals over HK$100 million being concluded in the quarter, the most significant one was the sales of various lots in Yuen Long, which is currently on short-term waiver with basic warehouse structure, for HK$438 million. Sime Darby Motor, the original owner, intended to sales and leaseback the space for the remainder of the waiver terms.

GRAPH 1: Warehouse vacancy rates, Q1/2007 – Q2/2023



Source Savills Research & Consultancy

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INDUSTRIAL SALES AND LEASING

TABLE 1: Major industrial transactions (over HK$100 million), Q2/2023

District	Location	Unit	Total GFA (sq ft gross)	Consideration (HK$)	Average Price (HK$ per sq ft)	Seller	Purchaser	Type	Remarks
Yuen Long	RP of Lot 3719 sD, sE, sF ss6 & sI in DD104, Lot 3723 sF RP in DD104	Whole	Total Site Area: 324,359	$438,000,000	NA	Sime Darby Motor Services Ltd	United Moral Ltd	G	Basic warehouse with waiver
Yau Tong	Wah Tung Godown, 4 Tung Yuen Street	3/F	24,732	$140,000,000	$5,661	Chinese Ceramic Arts Import & Export Co Ltd	Good Hour Int'l Ltd	G	Investment
Tsuen Wan	Wofoo Building, 204-210 Texaco Road	G/F	23,000	$178,000,000	$7,739	TBC	TBC	I	Investment

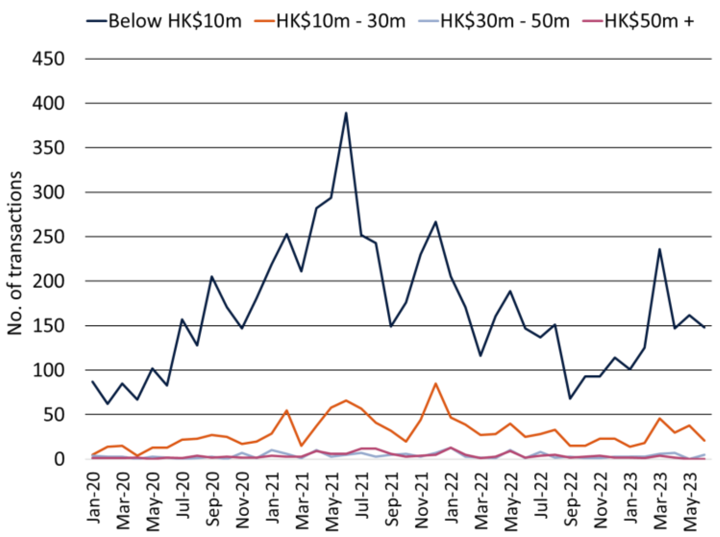
Source EPRC, Savills Research & Consultancy

The investment transaction volume of stratified industrial premises saw a slightly different picture: after volume reached a peak in March with 292 transactions, pushing Q1 volume to 559, monthly volume receded on the back of sustained high interest rates, but end user-demand continued to support the market throughout the quarter, with Q2 volume reaching 560, at par with the first three months of the year. Industrial prices remained stable over the quarter as a result.

Looking ahead, the speed of supply chain recovery will dictate the pace of the logistics demand revival, while the supply overhang could weigh on any market rebound in 2023. With retail sales growth already slowing and merchandise trade still declining, we may in fact see weaker logistics demand in the second half of 2023, and coupled with aggressive marketing by CaiNiao over the period, we expect warehouse rents to remain stable over the next 6 months.

High cost of fund will inevitably continue to hit investment sentiment, with end users also cautious given weakening logistics demand in the short run. Therefore we may expect similarly low levels of investment transactions in the next 3 to 6 months with prices likely to continue to drift.

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



Source Rating and Valuation Department, Savills Research & Consultancy

TABLE 2: Industrial price and rental growth by subsector, Q2/2023

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

Rental Change	2023 (%)		2022 (%)			
	Q2	Q1	Q4	Q3	Q2	Q1
Flatted factories	-0.6	-1.0	-1.3	-0.7	+0.7	+0.8
Warehouse	+0.6	+0.5	-1.0	+0.8	+1.9	+0.3
Modern Warehouse	+0.5	+0.6	-1.5	-0.1	+2.7	+0.5

Source Savills Research & Consultancy

TABLE 3: Major warehouse leasing transactions, Q2/2023

Date	District	Location	Unit	Total GFA (sq ft gross)	Monthly rent (HK$ per month)	Average Rent (HK$ per sq ft per month)	Tenant	Remarks
Jun-23	Tsuen Wan	Goodman Dynamic Centre	Units A-B, 17-19/F	101,799	$1,374,149	$13.5	Fujifilm Business Innovation Hong Kong Ltd	Renew 3 years
Jun-23	Kwai Chung	ATL Logistics Ctr Phase II	2001E-2013E	74,340	$1,263,780	$17.0	Yamato Logistics (Hong Kong) Ltd	Renew 3 years
Jun-23	Tsuen Wan	Goodman Global Gateway	Units 2-3, 5/F	41,909	$741,789	$17.7	Hong Kong Airlines Ltd	Renew 3 years
Jun-23	Fanling	24 On Lok Mun Street	Whole Block	TBC	$253,000	TBC	Pro Logistics Ltd	Renew 2 years
May-23	Tsuen Wan	Kong Nam Industrial Building Block A	15/F	26,410	$293,000	$11.1	Hospital Authority	New Lease
Apr-23	Tuen Mun	Tuen Mun Distribution Centre Block 2	13-15/F	85,560	$1,059,333	$12.4	Expeditors Hong Kong Ltd	Renew 3 years

Source EPRC, Savills Research & Consultancy