September 2024 – Hong Kong Research

MARKET IN MINUTES

Savills Research

INDUSTRIAL SALES AND LEASING

"In Q2 2024, imports and exports increased significantly, while logistics demand weakened. SF Express expanded its presence, and warehouse vacancy rates declined amid cautious market conditions."

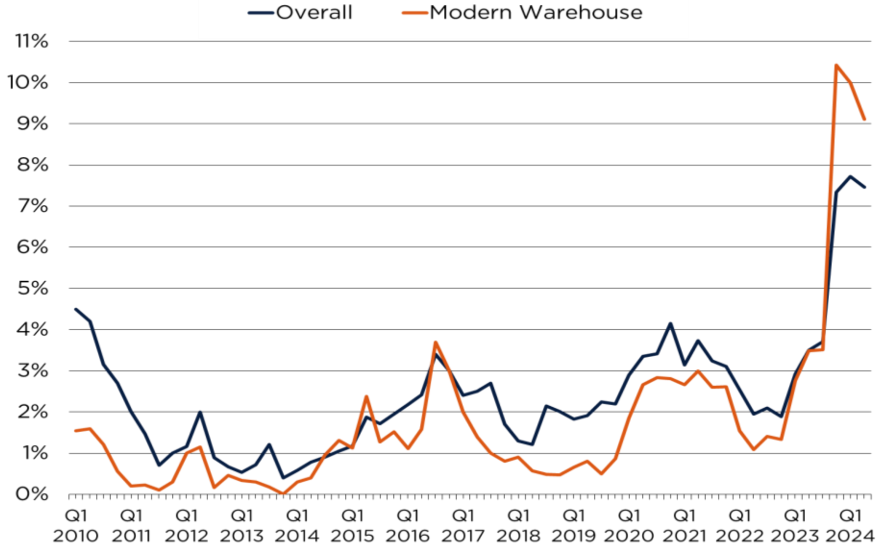
JACK TONG, SAVILLS RESEARCH & CONSULTANCY

The macroeconomic environment showed continued improvement in Q2 2024, with imports and exports increasing by 7.4% and 12.5%, respectively. This growth was primarily driven by robust merchandise trade with key partners, including Mainland China, the United States, and Europe. Air freight experienced a strong recovery, posting a 16.6% growth from April to June 2024. However, container throughput declined by 7.5% during the same period, following a modest rebound in Q1 2024.

Despite the overall recovery in logistics-related metrics, local demand for logistics services remained weak, as evidenced by a 6.1% decrease in retail sales over the first five months of 2024. Consequently, many logistics operators have adopted a cautious stance regarding expansion and relocation, resulting in a limited number of leasing transactions. Notably, SF Express has leased 120,000 square feet at Smile Centre for expansion, complementing its existing spaces in various warehouses, including SF Center in Tsing Yi, thereby enhancing its presence in the local logistics sector.

CaiNiao Smart Gateway at the airport has continued its leasing initiatives, reporting that nearly half of its space has been occupied by affiliate operators and some relocating from MTL and AFFC. As a result, the overall and modern warehouse vacancy rates slightly decreased to 7.5% and 9.1%, respectively, in Q2 2024. Nevertheless, high holding costs and the prospect of additional vacant spaces have prompted warehouse landlords to adopt more flexible rental negotiations, leading to a 1.9% decline in warehouse rents during this quarter.

GRAPH 1: Warehouse vacancy rates, Q1/2010 – Q2/2024



Source Savills Research & Consultancy

Savills Team

Please contact us for further information

Industrial

James Siu
Deputy Managing Director Head of Kowloon
+852 2378 8628
jsiu@savills.com.hk

Oscar Chow
Senior Director
+852 2378 8622
ochow@savills.com.hk

Research

Jack Tong
Director
+852 2842 4213
jtong@savills.com.hk

TABLE 1: Major industrial transactions (over HK$100 million), Q2/2024

District	Location	Unit	Total GFA (sq ft gross)	Consideration (HK$)	Average Price (HK$ per sq ft)	Seller	Purchaser	Type	Remarks
Hung Hom	Gemstar Tower	12/F	40,300	$210,000,000	$5,211	Right View Ltd	Honest Standard Ltd	G	Investment
Chai Wan	Safety Godown Industrial Building	Unit A&B, 11/F	36,255	$100,000,000	$2,758	Star Group Enterprises Ltd	Crown Pacific Ltd	G	Investment

Source EPRC, Savills Research & Consultancy

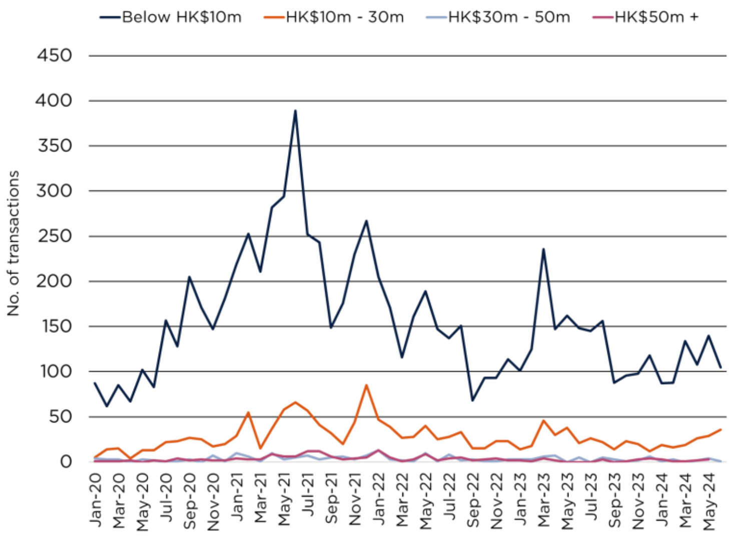
The sales market also remained subdued, with only two significant transactions (exceeding HK$100 million) completed in this period. One floor in Gemstar Tower, Hung Hom, sold for HK$210 million, while two units in Safety Godown, Chai Wan, were sold for HK$100 million, both intended for investment purposes. Reports suggest that the two industrial blocks in Tuen Mun (One Vista Summit and One Vista Supreme) are likely to be sold for HK$1.4 billion to a Singaporean fund as a repossession following the original owners' default on interest payments.

The recent amendments to Cap 545 have lowered the compulsory sale application thresholds for industrial buildings in non-industrial zones aged 30 years or older from 80% to 70%, while also providing greater flexibility for multiple adjoining-lot compulsory sale applications. However, given the current stagnation in both the residential and commercial markets, substantial industrial compulsory sale campaigns are unlikely to commence in the near term.

Looking forward, while the strengthening of import/export trades and air freight is anticipated, this may be counterbalanced by a decline in sea freight and retail-related logistics demand. Additionally, an increasing number of Mainland cross-border e-commerce businesses are opting to establish warehouse operations directly at points of sale, such as SHEIN's new cross-border fulfillment center in Mexico, which may contribute to ongoing weakness in logistics demand in the short term.

Investment and redevelopment interest in industrial properties is expected to remain limited until there is a clear shift in interest rates later this year, coupled with banks' attitudes toward lending in the non-residential market. End users may once again be the primary buyers in the market, seeking premises for their own use.

GRAPH 2: Industrial transactions by price range, Jan 2020 - Jun 2024



Source EPRC, Savills Research & Consultancy

TABLE 2: Industrial price and rental growth by subsector, Q1/2023 – Q2/2024

Price change	2023 (%)				2024 (%)	
	Q1	Q2	Q3	Q4	Q1	Q2
Flatted factories	0.0	0.0	-2.2	0.0	-2.0	-2.1
Warehouse	-1.6	-1.6	-1.0	-0.5	-0.6	-2.5

Rental Change	2023 (%)				2024 (%)	
	Q1	Q2	Q3	Q4	Q1	Q2
Flatted factories	-1.0	-0.6	+0.2	0.0	-1.7	-1.5
Warehouse	+0.5	+0.2	-0.5	-1.0	+0.2	-1.9
Modern Warehouse	+0.6	-0.6	-0.1	-0.7	+0.9	-1.7

Source Savills Research & Consultancy