Colliers Quarterly

HONG KONG | INDUSTRIAL

Q3 2017
17 October, 2017

Colliers INTERNATIONAL

Accelerating success.

Occupiers remained cost-conscious

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Hong Kong's economy has maintained strong momentum with total exports, air cargo throughput and container throughput increasing further, but MNCs and logistics operators remained cost-conscious with relocation dominating leasing activities. The encouraging recovery in global demand and the modest pick-up in tourist arrivals should continue to support local retail and export demand, suggesting a positive outlook for the warehouse market in 2018 amid no new supply.

Forecast at a glance

Leasing demand

Occupiers remained cost-conscious. Relocation drove leasing demand in Q3

Investment

Investment volume of industrial properties saw a record high, up 13% QOQ to HKD6.1 billion

Rent

Warehouse rent should increase 3-5% in 2018 given the positive outlook and no new supply, while decreasing supply should further support rental growth over the long term

Major Industrial Market Indicators	Q3 2017	Cumulative
Total Export (Jul - Aug)	7.3% YOY	8.4% YOY
Container Throughput	4.9% YOY	9.1% YOY
Air Cargo Throughput	10.1% YOY	10.9% YOY
Warehouse Rent	1.0% QOQ	2.2% YTD
Factory Rent	1.0% QOQ	4.3% YTD
I/O Building Rent	-0.2% QOQ	0.5% YTD

Source: Colliers; Census and Statistics Department

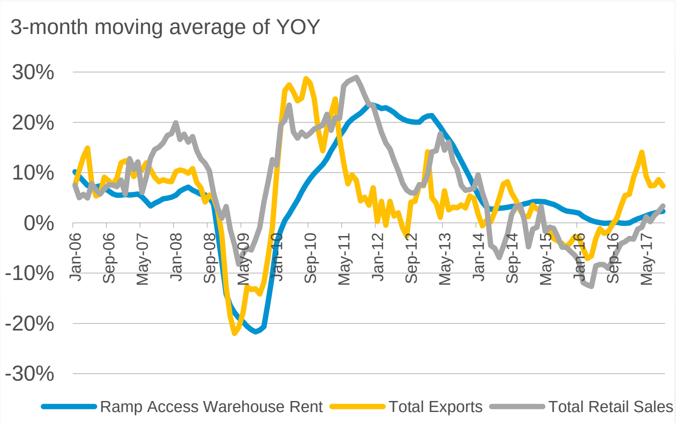
Trade remained strong

Following two robust quarters, Hong Kong's economy has maintained the strong growing momentum in Q3. Government data show that value of total exports, air container throughput and cargo throughput increased further by 7.3%, 4.9% and 10.1%, respectively, on a year-on-year (YOY) basis. According to Oxford Economics[1], the headline PMI fell to 49.7 in August amid a slowing in Chinese demand, moderating the strong growth of the trading sector.

Leasing momentum maintained by relocation

The strong trading statistics have not translated into an expansion in leasing demand as occupiers have remained cost-conscious. With relocation dominating leasing activities amid the stable market, Tsing Yi was the top destination for occupiers relocating from the Kwai Tsuen area. For example, Sagawa leased about 96,000 sq ft (8,919 sq m) in Goodman Interlink, Tsing Yi, relocating from ATL Logistics Centre, Kwai Chung, while DHL leased 300,000 sq ft in China Merchants Logistics Centre in Tsing Yi. Landlords who would like to lease out vacant space quickly were negotiable on rents, due to the newly completed China Merchant Logistics Centre in Tsing Yi strengthened competition. The overall warehouse rent showed a moderate growth amid stability, up 1.0% QOQ.

Hong Kong Warehouse Rent



Source: Colliers; Census and Statistics Department

[1] Country Economic Forecast, 13 Sep 2017

A hot investment market

The investment market was active across all property sectors in Q3, with industrial properties witnessing the strongest growth in interest from investors. Industrial properties became increasingly popular when the government hinted that it would resume the industrial revitalisation scheme and would refine the application threshold of 80% ownership of an entire building for a compulsory sale in order to help the majority of owners to redevelop their industrial properties.

The total consideration of industrial property transactions (over HKD30 million) increased 13% QOQ to HKD6.1 billion (USD784 million), being the strongest quarter recorded. The market reported five en bloc transactions in Q3, with a total consideration of HKD4.4 billion (USD566 million), which was also a record high. The volume was supported by two major transactions in the Wong Chuk Hang area, including Imperium Group Global acquiring 97% ownership of Tin Fung Industrial Mansion for HKD1.98 billion (USD254 million) and Bradford Enterprises acquiring the Gee Luen Hing Industrial Building for HKD1.11 billion (USD142 million). Both industrial buildings are located in business zones which can be revitalised or redeveloped into office buildings. Meanwhile, Laws Group was reported to acquire the Maxwell Industrial Building for HKD1.39 billion (USD179 million), the Kowloon's largest en bloc industrial transactions in Q3. The group has revitalised Kin Yip Plaza into D2 Place which was one of the most successful industrial revitalisation examples.

The strata title market was active as investors started to acquire buildings owned by multiple owners, as en bloc acquisition opportunities are decreasing. The total consideration of strata title transactions increased 46% to HKD1.7 billion (USD219 million). The decreasing supply helps ensure a positive capital value and rental outlook for investors, while the potential policy on lowering the threshold of application for compulsory sale for redevelopment will continue to attract investors to acquire properties owned by multiple owners.

A favourable outlook for the industrial market

Despite the lack of details for the resumption of the revitalisation of industrial buildings, the recent Policy Address from the Chief Executive mentioned the exploration of wholesale conversion of industrial buildings into transition housing with a waiver of land premium and a lower threshold of “compulsory sale” applicable to old industrial buildings.

The Policy Address also addressed the possibility of allowing the cultural, arts and creative industries to operate legally and safely. Although this could increase the demand for industrial buildings, redevelopments should still be investors' priority due to the additional value on their investment and the positive outlook of the office leasing market. While the proposed plans could be implemented at any time in the near future, industrial properties will continue to attract investors. However, this means the pressure of short supply will intensify.

The government plans to expand the logistics hubs in the Hung Shui Kiu New Development Area, the Yuen Long South development, Tuen Mun Areas 40 and 46 and New Territories North, in order to enhance Hong Kong's logistics business under the Greater Bay Area plan and Belt and Road Initiative.

Looking forward, the recovery in global demand is encouraging. We expect Hong Kong's trading and logistics market to stay steady due to firm global demand despite recent moderation in China’s firm import demand. A modest pick-up in tourist arrivals should also help on the holding local retail and export demand firm.

We should see operators continue to consolidate their operations and to look for relocations, given the trend for e-commerce to reshape the management of the supply chain. The overall outlook for 2018 should stay positive, thanks to the lack of new warehouse supply amid moderate growth in local exports and retail sales.

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