

TENANT-FAVOURABLE MARKET AMID UPTICK IN LEASE SURRENDERING

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Insights/recommendations

- > With geopolitical uncertainties and COVID-19 weakening global trade volumes, we expect more tenants to downsize their space in H2 2020, contributing to a drop in warehouse rents.
- > Despite a relatively subdued outlook, we recommend landlords to consider data centre conversion or redevelopment with demand expected from cloud and IoTs.

Q2 2020 highlights

- > Market conditions were generally tenant-favourable. Private and medium-sized landlords were more willing to offer attractive rents together with shorter and more flexible lease terms.
- > Warehouse quarterly rents in New Territories dropped -2.6% QOQ, while Hong Kong Island (-0.6% QOQ) and in Kowloon (-0.5% QOQ) remained stable.

Q2 2020

Full Year 2020

2020-24 Annual Average

QOQ / End Q2

YOY / End 2020

Annual Avg Growth 2019-24 / End 2024



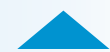
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0 sq sf



769,500 sq sf



1.1 million sq sf



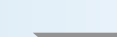
Warehouse Rent (psf per month)

-2.4%



HKD 12.6

-5.0%

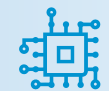


HKD 12.4

0.7%



HKD 13.5



Data centre supply



0 sq sf



805,900 sq sf



578,790 sq sf



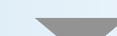
Warehouse Capital Value (psf)

-1.2%



HKD 4,650

-5.3%



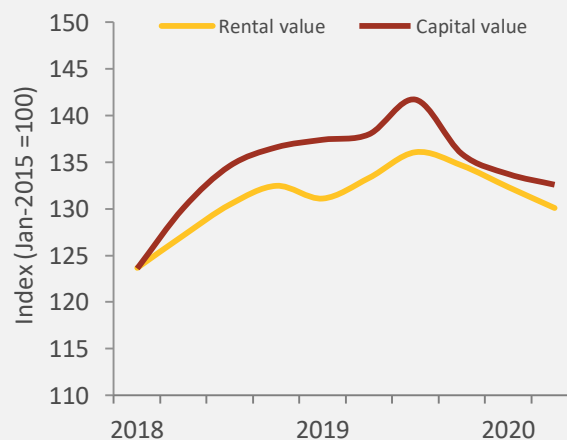
HKD 4,580

0.9%

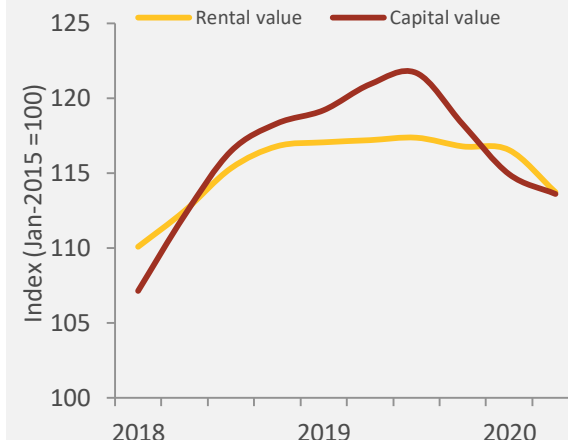


HKD 5,070

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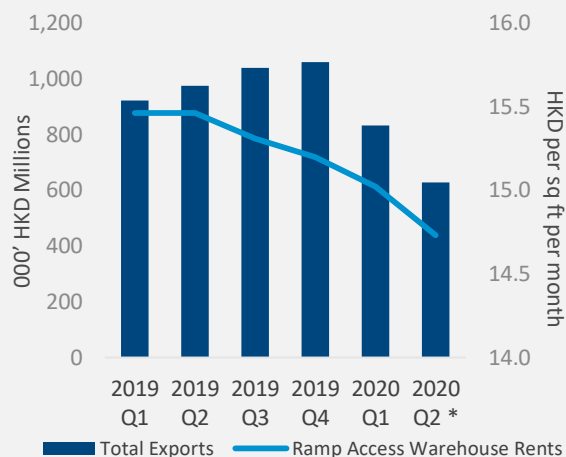


Warehouses



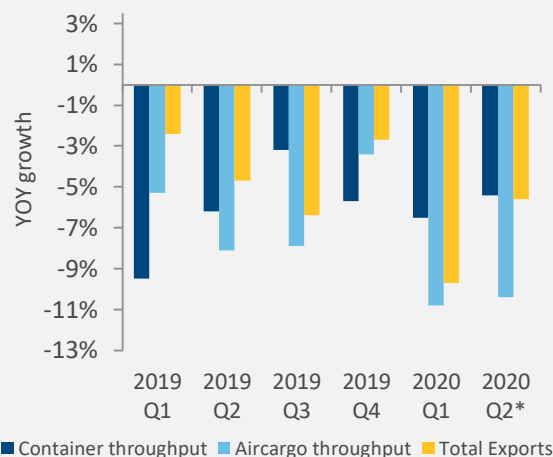
Source: Colliers International. Note: 1 sq metre = 10.76 sq feet. All information in this report refers to Hong Kong's warehouse market unless stated otherwise. This report covers the Hong Kong Special Administrative Region of the People's Republic of China.

Ramp Warehouse Rent vs. Exports



Source: Colliers International, Hong Kong Census and Statistics Dept. 2020 Q2 refers to *Apr-May Only

Trade statistics (YOY growth)



Source: Hong Kong Maritime and Port Board, Transport Department, Hong Kong International Airport. 2020 Q2 refers to *Apr-May Only

Key industrial transactions

Purchaser	Building	Area (sq ft, GFA)	Price (HKD per sq ft)
Prosper Significance	3 floors at Siu Fu Factory Bldg	9,300	9,140
Kenteam Limited	1 floor at Tsuen Wan Industrial Centre	22,700	3,470
Sunflower Art Limited	1 floors at Mai Gar Industrial Building	14,822	3,660
Avp Electronics Limited	1 floor at Metro Centre I	5,410	9,680

Source: RCA, Colliers International



Outlook

Demand from the TMT sector and data centres to remain strong

- > Tenants should continue to look for bargaining opportunities, as we expect vacancies to continue to be available in high-quality warehouse buildings owned by both international and local landlords.
- > Despite COVID-19 and continued trade tensions, data centres and the TMT industry continued to be on the spotlight. A 50-year lease industrial land on Sha Tin (STTL No. 613) was secured by China Mobile for a lump sum of HKD 5.6 billion and a site area of 98,792 sq ft, reinforcing high-end industrial and data centres demand in the future.



Q2 2020

Rents fell following an uptick in lease surrender cases

- > Some small-to-medium-sized landlords from Kwai Chung, Tsuen Wan, Tuen Mun and Yau Tong were willing to offer short or flexible lease terms for incoming tenants. Meanwhile, larger industrial tenants, such as cosmetics brands, have already started plans to surrender their leases for cost-saving purposes.
- > There were no en bloc transactions during the quarter, and strata-titled sales volume also declined. Most transaction activities were in Kowloon and New Territories. Siu Fu Factory Building (3 floors) in Wai Yip Street Kwun Tong, was transacted for HKD 85 million (USD 10.9 million) with a total GFA of 9,300 square feet (864 square metres).

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