

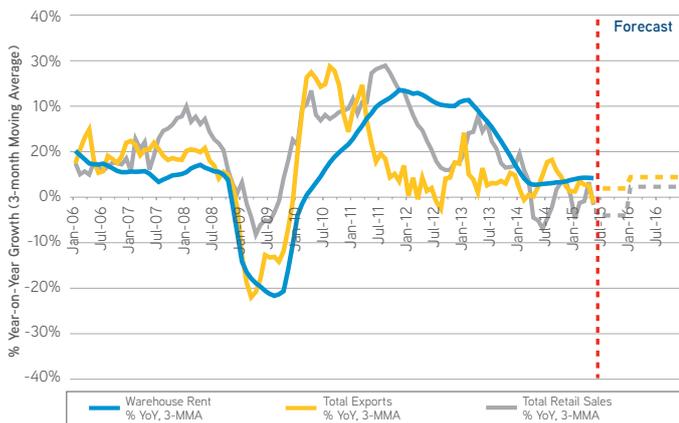
# Warehouse Rents Set to Soften

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## Warehouse Leasing Market Sentiment Weakened

Local retail sales performance remained subdued during the review period, largely due to the marked fall in sales of big-ticket items stemming from weaker visitor spending. The three-month moving average for total retail sales declined 1.7% year-on-year (YoY) in May 2015, compared with negative growth of 1.2% YoY in the preceding three-month period. Meanwhile, the three-month moving average for total exports declined 1.4% YoY, in tandem with the weak export performance of many Asian economies amid lacklustre global demand. In a challenging environment, the growth in demand from warehouse occupiers continued to moderate. Warehouse rental growth slowed to 0.9% quarter-on-quarter in 2Q 2015.

### Hong Kong Warehousing Rental (vs Retail Sales and Total Exports)



3-MMA = 3-month Moving Average  
Source: Colliers; HKSAR Government

	Current	2015F
Rents – Ramp-access warehouse	<b>HK\$14.1</b>	<b>1%</b>
Rents – Cargo-lift-access warehouse	<b>HK\$9.8</b>	<b>1%</b>
Flatted factory yield	<b>2.90%</b>	<b>5 bps</b>

Rents are expressed as HK\$ per sq ft per month  
Source: Colliers; HKSAR Government

### Colliers View

Local retail sales performance was weak during the first five months of 2015 amid slower growth in tourist arrivals and weaker tourist spending. In view of slow global economic recovery, retail sales performance is unlikely to see substantial improvement in the second half of 2015. As such we have revised down our local retail sales forecast for 2015 from 3% to a single-digit decline of 4%. Hong Kong's exports performance is likely to remain constrained by the sluggish global economic climate. The weak outlook for local retail sales and export performance will hinder demand for logistics services and warehouse premises.

There was strong demand for warehousing premises in past quarters, as indicated by pre-commitments on yet to be available space. The situation has reversed recently. Our research indicated that about 400,000 sq ft of ramp access warehouse premises will be released to the market upon expiry of existing leases in the second half of 2015. Moreover, some third-party logistics operators plan to surrender portions of their space in ramp access warehouses in view of weak local retail sales performance and slow growth in exports. Despite the demand from end-users, the backfill space is yet to be committed due to gaps between landlords and tenant rental expectations. We anticipate this backfill will exert pressure on warehouse rents in the second half of 2015. Therefore, we revised down our warehouse rental growth forecast for 2015 from 4% to 1%.

## Non-traditional Users Demand Large Industrial Units

A group of catering companies, online retailers and banks seeking to establish their own data centres looked for industrial premises sized over 10,000 sq ft for business expansion. However, there is a lack of supply within this size bracket.

### Colliers View

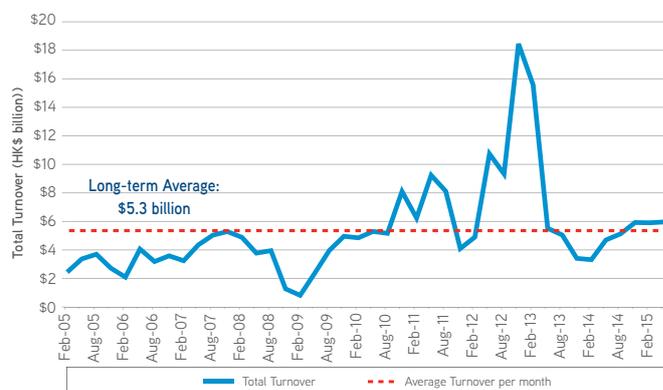
The supply shortage of large industrial units is likely to persist in the near term. On the one hand, the stock availability among existing buildings is limited. On the other hand, developers tend to sub-divide their new buildings into smaller units and offer them for strata-titled sale. As a coping strategy to the tight supply situation, the catering companies and online retailers will have to consider split-operations. Banks seeking to establish data centres may consider colocation data centre options in view of the lack of suitable premises in the marketplace.

## En Bloc Sales Market Activity Improved

Sales activity of en bloc industrial property improved as individual vendors lowered their asking prices, narrowing the gap between vendor and buyer expectations. Five buildings were sold during the three-month period ended May 2015, compared to three transactions in the previous quarter. The buyers included both overseas and local institutional investors, and local owner-occupiers.

Prominent transactions included the acquisition of the Minico Building in Chai Wan for HK\$395 million, or an average price of HK\$5,784 per sq ft by an overseas fund. The price tag was above those of nearby traditional strata-titled buildings, which transacted in the range of HK\$3,600 to HK\$4,500 per sq ft. The building is leased by Minico, a self-storage operator. Moreover, Mother Superior Of The Soeurs De Saint Paul De Chartres acquired Wilson Logistics Centre in Kwai Chung for HK\$933.8 million or HK\$3,310 per sq ft. The price tag was also above nearby strata-titled buildings, which transacted in the range of HK\$1,700 to HK\$2,700 per sq ft. It is anticipated that the Catholic Church will use the building to support the operation of its hospital in Causeway Bay.

## Strata-titled Industrial Property Transactions



3-month Ending  
Source: EPRC

### Colliers View

The potential gains from redeveloping or converting old industrial buildings for other uses will continue to attract investor interest. The application period for revitalisation of industrial building measures will end on 31 March 2016. We anticipate a group of vendors and buyers hoping to benefit from the revitalisation scheme will revise their offerings in order to narrow the price gap, which in turn will stimulate en bloc sales market activity in the coming quarters.

## Concluding Thoughts

The weaker local retail sales outlook has prompted third-party logistics operators to become cautious in leasing warehousing premises. Nevertheless, the increase in ramp access warehouse stock availability will provide property options for those tenants seeking to improve their operational efficiency through utilising better quality space.

The information contained in this report is a summarised version of our observations on the market in the past quarter. A more in-depth overview on specific sectors are available upon request.

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