Warehouse vacancy declines as landlords turn more willing to lower asking rents

▼ 2.2% q-o-q
Warehouse Rents

▼ 0.8% q-o-q
Flatted Factory Rents

▼ 2.2% q-o-q
I/O Rents

11.6% (▼ 1.2-ppt q-o-q)
Warehouse Vacancy Rate

Executive Summary

- Hong Kong's aggregate trade increased by 42.5% y-o-y in April-May 2026, accelerating from a 34.6% increase in Q1 2026. Container throughput declined by 1.1% y-o-y in April-May but air cargo throughput rose by 3.9% during the same period.
- New industrial leasing volume grew 118% y-o-y to nearly 1.6 million sq. ft. in Q2 2026, reaching its highest quarterly level since Q2 2022. For H1 2026, new leasing volume stood at 2.4 million sq. ft., rising 84% y-o-y compared with the same period of the previous year.
- Major leasing deals included Yick Ngai Cold Chain leasing the entirety (320,200 sq. ft.) of Yee Lim Industrial Centre Block C in Kwai Chung for expansion, and KLN taking 250,000 sq. ft. at ATL Logistics Centre in Kwai Chung to service a new retail entrant.
- During the quarter, warehouse landlords became more willing to lower asking rents to improve occupancy. Vacancy dropped by a further 1.2-ppt q-o-q to 11.6%, indicating positive net absorption of 569,200 sq. ft., the highest level since Q3 2023. Warehouse rents fell by a further 2.2% q-o-q, marking the tenth consecutive quarterly rental decline and bringing the total contraction in percentage terms from the peak achieved in Q4 2023 to 15.6%.

The Backdrop

- Aggregate trade sustained its strong performance in the first five months of 2026, led by robust expansion of AI-driven trading activity for electronic components and products.
- A divergent trend between container throughput and air cargo throughput continues to be seen. While growth in e-commerce and high-value goods are boosting air cargo throughput, container throughput continues to decline owing to increasing competition and manufacturing relocation.
- The e-commerce boom in Hong Kong extended its momentum in Q2 2026, with total retail sales experiencing y-o-y growth of 8.3% in April and May 2026 combined, and online retail sales registering an outsized increase of 32.7% y-o-y during the same period.
- The S&P Global Hong Kong PMI index reached 52.0 in June 2026, improving from the slightly contractionary reading of 49.3 registered in March 2026. This quarter's improvement in private sector business conditions was supported by accelerating growth in output and new order inflows.
- In June 2026, the Hong Kong-Shenzhen Innovation and Technology Park Limited (HSITPL) invited the submission of tenders for the development of four sites of Batches 2 and 3 of the Park under a public-private-partnership development model. The closing date for submissions will be August 31, 2026, and the award of the tender is expected in mid-October 2026.

Leasing Trends

New industrial leasing volume grew 118% y-o-y to nearly 1.6 million sq. ft. in Q2 2026, reaching its highest quarterly level since Q2 2022. For H1 2026, new leasing volume recorded about 2.4 million sq. ft., rising 84% y-o-y compared with the same period of the previous year and already representing 72% of annual leasing volume in 2025.

This quarter saw the resumption of sizeable leasing transactions above 100,000 sq. ft. after a lull in Q1 2026. Major deals included Yick Ngai Cold Chain leasing the entirety (320,200 sq. ft.) of Yee Lim Industrial Centre Block C in Kwai Chung for expansion, and KLN taking 250,000 sq. ft. at ATL Logistics Centre in Kwai Chung to service a new retail entrant.

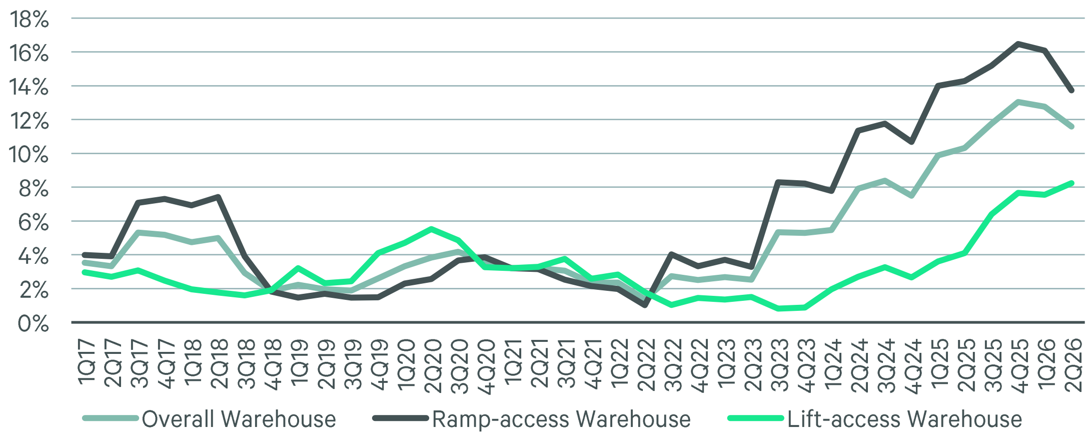
Growth in leasing volume was underpinned by strong demand for AI-related electronic products. Electronics as a sector contributed 787,200 sq. ft. or 21% of leasing volume, making it the largest contributor for the third consecutive quarter. Major transactions included a logistics service provider leasing 147,600 sq. ft. at Cainiao Smart Gateway in Chek Lap Kok for expansion, and DP World taking 100,000 sq. ft. at ATL Logistics Centre in Kwai Chung, also for expansion.

With the government expediting the development of the Northern Metropolis, more cases of forced relocation from brownfield sites in the area are emerging. Four relocation transactions totalling 166,800 sq. ft. of warehouse space were recorded at ATL Logistics Centre in Kwai Chung in Q2 2026.

During the quarter, warehouse landlords became more willing to lower asking rents to improve occupancy. Vacancy consequently dropped by a further 1.2-ppt q-o-q to 11.6%, indicating positive net absorption of 569,200 sq. ft., the highest level since Q3 2023. Excluding the considerable amount of vacant space at Cainiao Smart Gateway on the city's outskirts, the vacancy rate for the rest of the market stood at 7.1%.

Warehouse rents fell by a further 2.2% q-o-q, marking the tenth consecutive quarterly rental decline and bringing the total contraction from the peak achieved in Q4 2023 to 15.6%. Rents for ramp-access warehouses declined by 2.7% q-o-q, while those for lift-access facilities fell by 1.3% q-o-q. Flatted factory and I/O building rents continued to experience downward pressure owing to the narrowing rental gap with offices, dropping by 0.8% and 2.2% q-o-q, respectively.

FIGURE 1: Warehouse Vacancy



Source: CBRE Research, Q2 2026.

FIGURE 2: Rental Index

Source: CBRE Research, Q2 2026.

Outlook

Robust global demand for AI-related electronic products will continue to support Hong Kong's merchandise trade performance and bolster warehouse occupancy. The further expansion of the electronics sector is set to drive more demand for secured, high-specification, and climate-controlled logistics space. CBRE expects the electronics sector to remain a major contributor to new leasing volume in the short-term.

As the development of the Northern Metropolis accelerates, more logistics occupiers operating on brownfield sites in the area will be affected by government land resumption. With rents for purpose-built warehouses having already corrected from the peak, and limited availability of brownfield sites suitable for their operational requirements, more of these brownfield operators are expected to opt to relocate to purpose-built warehouses for business continuity. This forced relocation demand, combined with the absence of new warehouses slated for completion in H2 2026 and 2027, will sustain leasing activity and gradually reduce overall warehouse vacancy.

E-commerce demand will remain upbeat, with mainland Chinese platforms continuing to extend their presence in the city. Growing online retail sales and e-commerce penetration will see e-commerce companies expand their local distribution networks to better service time-sensitive and specialised orders. This will drive greater demand for modern logistics facilities suitable for technology adoption and last-mile delivery.

Government initiatives will also induce higher storage demand for high-value goods, including commodities, gold, pharmaceutical products and art pieces, thereby diversifying the tenant base.

Despite the recent easing of geopolitical tensions in the Middle East, trade volatility and economic challenges persist. As a result, logistics occupiers are likely to remain cost-sensitive. Warehouse landlords will need to offer more attractive rental packages and incentives to attract tenants. Consequently, overall rents are projected to decline by 3-5% for full year 2026.

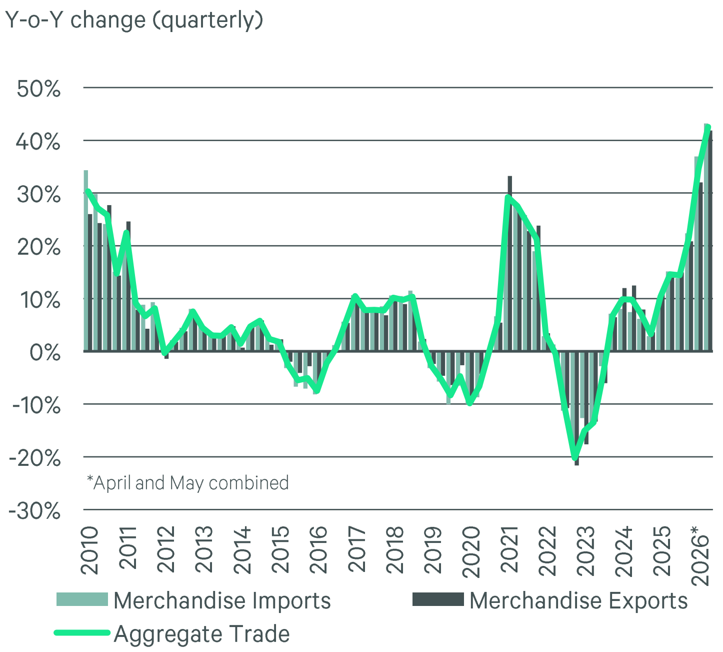
FIGURE 3: Selected Leasing Transactions

Premises	Location	Size (GFA sq. ft.)	Tenant
Yee Lim Industrial Centre Block C	Kwai Chung	320,200	Yick Ngai Cold Chain
ATL Logistics Centre	Kwai Chung	250,000	KLN
Cainiao Smart Gateway	Chek Lap Kok	147,600	A logistics service provider
ATL Logistics Centre	Kwai Chung	100,000	DP World
Kwong Sun Hong Godown	Fanling	76,000	Franco Vago
Sunshine Kowloon Bay Cargo Centre	Kowloon Bay	69,700	SF Supply Chain
ATL Logistics Centre	Kwai Chung	59,300	Arvato

Source: CBRE Research, Q2 2026.

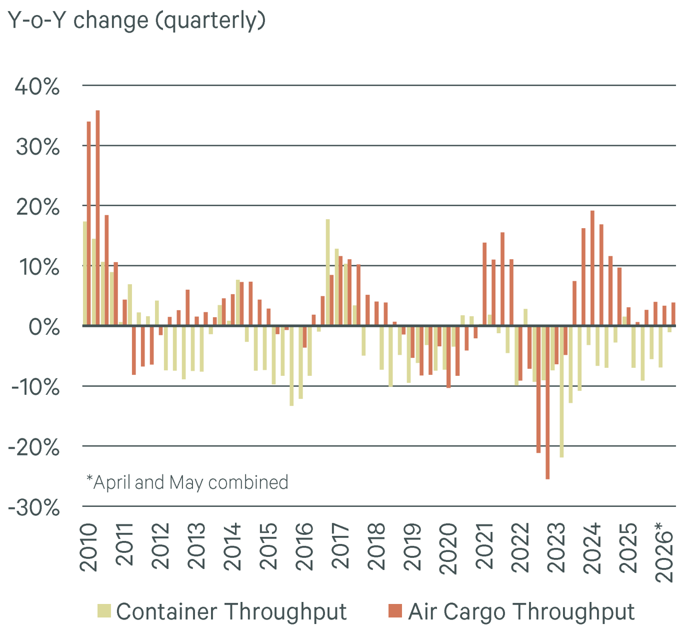
Appendix

FIGURE 4: Merchandise Trade



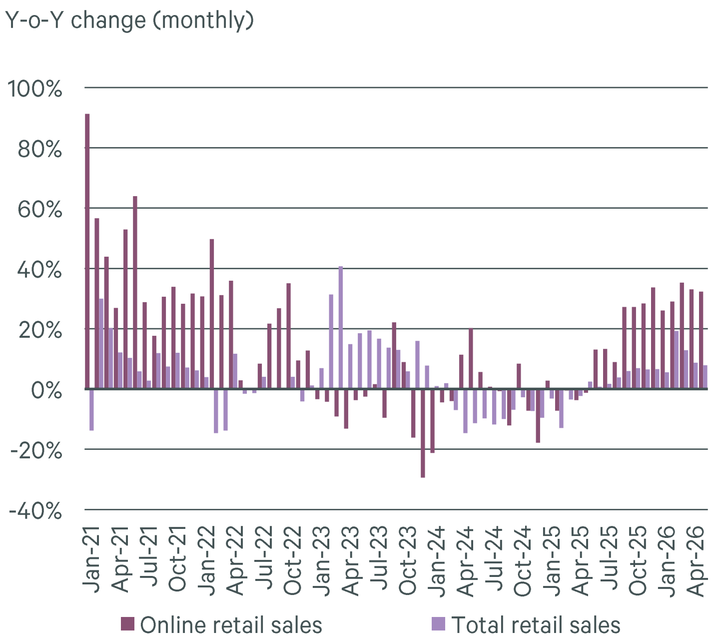
Source: Census and Statistics Department, Q2 2026.

FIGURE 5: Cargo Movement



Source: Marine Department, Civil Aviation Department, Q2 2026.

FIGURE 6: Online Retail Sales



Source: Census and Statistics Department, Q2 2026.

% Change	April-May 2026 (y-o-y)	Q1 2026 (y-o-y)	2026 YTD	3 years	5 years
Merchandise Imports	+43.2%	+37.0%	+39.6%	+79.1%	+56.2%
Merchandise Exports	+41.9%	+32.0%	+36.2%	+85.0%	+58.2%
Aggregate Trade Values	+42.5%	+34.6%	+37.9%	+82.0%	+57.2%
Container Throughput	-1.1%	-6.9%	-4.6%	-12.0%	-29.8%
Air Cargo Throughput	+3.9%	+3.3%	+3.6%	+23.3%	+8.6%
Total / Online Retail Sales	+8.3% / +32.7%	+12.1% / +30.1%	+10.6% / +31.2%	-5.7% / +49.9%	+15.2% / +61.5%

Market Area Overview

Definitions

Warehouse: This category comprises premises designed or adapted for use as godowns or cold stores and includes ancillary offices. Premises located within the container terminals are also included. About 88% of the stock is located in the New Territories, with Kwai Tsing/Tsuen Wan alone accounting for circa 60%.

Factory: This category comprises flatted factories and ancillary office accommodations. It includes flatted factory space that has received planning permission for industrial/office use but has not yet completed the government lease modification. Also included in this category is strata-title floor space with temporary planning permission for industrial/office use and short-term waivers of government lease restrictions. The majority of the stock is found in four districts of Hong Kong, namely Kwun Tong, Tsuen Wan, Kwai Tsing and Tuen Mun, which account for 60% of the total supply.

Industrial/Office (I/O): This category comprises floor space in developments with planning permission and lease modification for industrial/office use and certified for occupation as such. The stock is distributed in 11 districts throughout the territory, with Kwun Tong, Sham Shui Po and Kwai Tsing accounting for about 74% of the total floor space.

All monetary values are presented in Hong Kong dollars unless otherwise specified.

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