

## Large-scale Logistics Facilities in Metropolitan Tokyo -- Survey of Market Trends (2008)--

Deregulation and the need for improved efficiency have led to a rapid expansion in the leasing market for large-scale logistics facilities in the greater Tokyo area, but vacancies in some newer facilities began to increase noticeably toward the middle of 2008. Our research indicates that the average vacancy rate in large-scale facilities completed between 2000 and September 2008 stood at 13.3% (as of September 2008). However, most vacancies were concentrated in a few specific locations, and when those areas were excluded the vacancy rate fell to 6.4%.

In addition, after compiling data from various sources we estimated that the latent demand for next generation large-scale logistics facilities in metropolitan Tokyo was about 10 million *tsubo*. Although actual freight transport volumes are dropping, companies are consolidating and streamlining their logistics operations in order to survive, and we believe that underlying demand will remain firm for facilities capable of meeting those needs in terms of location, scale, and functionality. Vacancies are likely to rise in the short term due to the large amount of new supply that came onto the market in 2008, combined with the effects of the global financial crisis, however new supply in 2009 is expected to return to 2005~2007 levels, so a major collapse of the market is considered unlikely. Last year, in our Winter 2008 Review, we reported on logistics facility stocks, average facility sizes, ownership, and the shift toward construction of leased facilities in the Tokyo metro area. In the current Review (Winter 2009), we discuss supply trends in Japan and in the Tokyo region, with particular reference to changes in the source of new investment and the effects of market deregulation. We also conducted site surveys and examined land registry data on large-scale facilities in the Tokyo area in order to determine current capacity utilization rates, future new supply, and the types of facilities now experiencing vacancies.

### Supply and demand trends

- Freight transport volumes are falling, but new warehouse construction starts are rising.
- Since 2004 investment in warehouse construction by businesses in the real estate industry, including investment funds, has been rising rapidly, and in 2007 exceeded investment by the transportation industry.
- In 2006 the Tokyo metro area accounted for 25% of Japan's new warehouse starts.
- New supply of large-scale logistics facilities peaked in metropolitan Tokyo in 2008, and in 2009 is expected to return to the levels seen in 2005~2007.
- Most of the new large-scale logistics facilities constructed in the Tokyo area are running at high capacity, with most vacancies concentrated in the Kawasaki coastal zone.

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## **Cargo flow and location**

- Containerized freight entering or leaving Tokyo Bay is primarily handled at the Ports of Tokyo and Yokohama.
- Container handling centers in inland areas such as Saitama and Kanagawa are busier than those in the port districts of Kawasaki and Chiba; proximity to the coast does no longer appears to confer any advantage.
- Logistics facilities in inland areas such as Tokyo Tama and Saitama tend to focus more on distribution, whereas facilities in the Kawasaki coastal zone tend to focus more on storage functions.

## **Supply-Demand Balance and Latent Demand**

- The overall average vacancy rate at large-scale logistics facilities constructed between 2000 and September 2008 stood at 13.3% as of September 2009; however this fell to 6.4% when the Kawasaki coastal zone was excluded.
- Increases in supply in the Kanagawa coastal zone in 2008 and 2009, and in Chiba in 2008 will cause some weakening of the market in those areas, but in most other areas demand is expected to remain firm.
- Transport companies must cut transport costs, and manufacturers and retailers are anxious to cut inventories and improve distribution processing. As a result we estimate that latent demand for next generation large-scale logistics facilities capable of meeting these needs for improved distribution efficiency stands at around ten million *tsubo*.

For further details see *Japan Real Estate Investment Review-- Winter 2009* edition.

1*tsubo* 3.3 m<sup>2</sup>

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