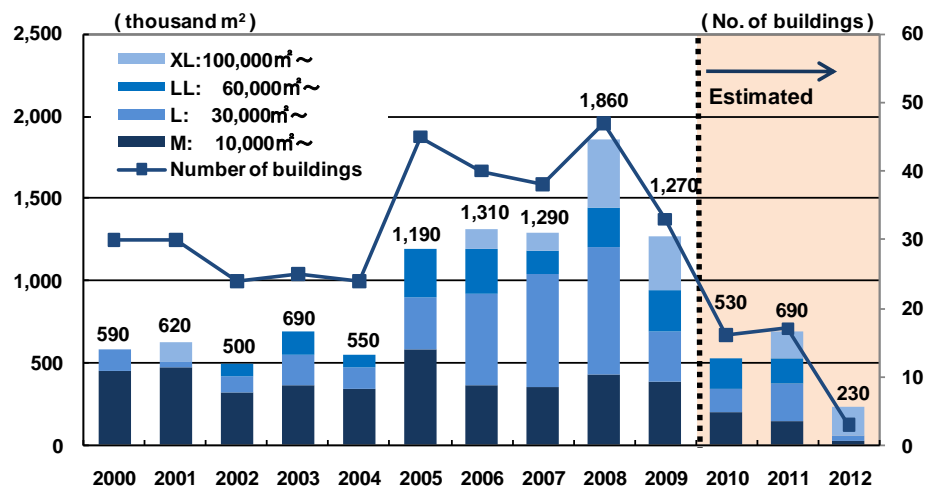


Market Survey of Logistics Facilities in Metropolitan Tokyo (2010)

Vacancy rates in leased logistics facilities in metropolitan Tokyo remained high throughout 2009, hurt by the large amount of new supply that hit the market in 2005~2009, coupled with the effects of the financial crisis and subsequent global economic downturn. However, vacancy rates improved significantly in 2010 (with the exception of a small number of facilities in a few specific areas), due to sharply lower levels of new supply, and strong underlying demand.

New supply of large-scale logistics facilities in metropolitan Tokyo (floor area ≥ 10,000m²)



Source: NRE

Supply side trends

- New supply will fall sharply in 2010~2011, to pre-2005 levels (see graph)
- New supply in 2010 will consist primarily of facilities with no vacancy risk, such as warehouses built by companies for their own use (8) and build-to-suit facilities for specific tenants (7). Only one multi-tenant facility is scheduled for completion in 2010.
- Construction start volumes in 2004~2007 were high, but not excessive when compared with the long-term trend.
- Sixty-nine percent (69%) of new warehouse starts in 2005~2008 consisted of large-scale warehouses with a total floor space of at least 10,000m².
- The majority of existing warehouse stocks are small to medium-sized facilities, so there is a shortage of large-scale facilities capable of meeting current demand.

Leasing market trends

- The leasing market for logistics facilities has only been operating in earnest since 2005.
- From 2005~2009, new supply of leased facilities far exceeded that of user-owned facilities.
- Of the 138 large-scale facilities in the Tokyo region, 60% are leased by 3PL companies. Consignment demand is strong (on a floor-space basis) from industry categories such as “daily goods” and “foodstuffs”, but is growing most rapidly in “mail-order goods”.
- Specifications in leased facilities are improving and are becoming more standardized, so they are becoming distinguished from conventional facilities.

Toshiki Hayashi

Topics

- Vacancy rates have fallen sharply, from 14.4% in 2009, to 7.2% in 2010.
- Underlying demand is strong, and with the exception of certain warehouses in a few specific areas, most facilities will be operating at full occupancy in 2010.
- Rent levels for logistics properties are relatively stable, and fluctuate less than rents in the office or retail sectors.
- Industrial land prices have stabilized, and construction prices have also fallen sharply. Conditions are becoming ripe for new development projects.

Investment market trends

- Total investment in logistics real estate represents only 4% of total investment in all sectors, so it is a growth area.
- The rise in investors' expected cap rates has leveled off.
- Most large-scale leased facilities are owned by investment funds, and both the number of these companies and investment transaction volumes are limited.
- There is a scarcity of highly functional large-scale facilities in desirable locations, so stable income gains can be expected.
- The business environment for development (land and construction prices) has improved, so new development of investment grade properties should start up again soon.

For more details see our "*Real Estate Investment Review: Autumn 2010*"

Toshiki Hayashi