

Japan Logistics, Q1 2018

# Greater Tokyo Net Absorption Sets New High; Rents Rise in All Areas

GDP Growth Q1 +1.8% (\*Forecast) Y-o-Y

Greater Tokyo Vacancy Rate of LMT\*\* properties Q1 +2.0pts Q-o-Q

Greater Osaka Vacancy Rate of LMT\*\* properties Q1 +1.6pts Q-o-Q

Greater Nagoya Vacancy Rate of LMT\*\* properties Q1 +5.2pts Q-o-Q

\*J CER Forecast \*\* Large Multi-Tenant logistics

**GREATER TOKYO AREA**

**NEW SUPPLY AND NET ABSORPTION SETS NEW HIGH**

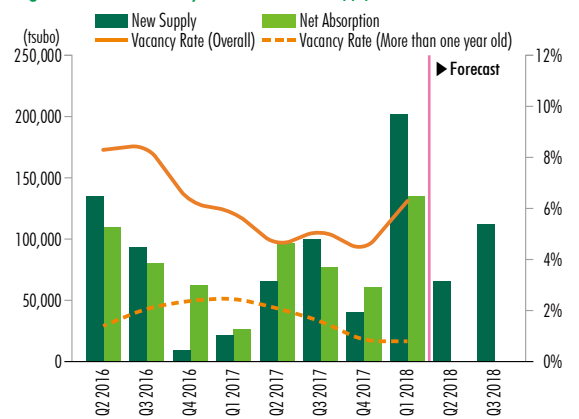
The vacancy rate for large multi-tenant properties (LMTs) in the Greater Tokyo Area rose by 2.0 points q-o-q to 6.9% in Q1 2018. New supply and net absorption both set record levels this quarter. While demand remained strong, it was unable to keep pace with new supply, which was equivalent to around 2.7x the quarterly average over the last three years. As a result, the overall vacancy rate rose as some of the new properties which came on line still had some space unlet. However, rental increases of existing buildings ensured overall effective rents for the Greater Tokyo Area rose by 0.2 q-o-q to JPY 4,080/tsubo.

New supply in the Greater Tokyo Area for the year will peak in Q2 2018, but subsequent quarters still have a relatively high volume of supply in the pipeline. The vacancy rate is therefore unlikely to decline significantly, and CBRE Research expects it to be largely flat. However, because of how the supplies are concentrated, there is increasing disparity in occupancy rates between different areas. Accessible inner areas including the Tokyo Bay, Gaikando and Route 16 areas are reporting a shortage of properties, but in parts of the Ken-O-do Area, some buildings are taking time to fill vacant space.

**TOKYO BAY AREA**

The vacancy rate fell by 3.4 points q-o-q to 2.8% in Q1 2018. There was no new supply this quarter, and Distribution B Building, which was completed

Figure 1 : Greater Tokyo LMT Market : Supply/Demand Balance



Source : CBRE, Q1 2018

in Q3 2017, reached full occupancy, driving down the vacancy rate for the area. It is increasingly difficult to find large spaces in the Tokyo Bay Area. DynaBASE, the only project due for completion this year, is already fully let, which suggests a further decline in the vacancy rate. Effective rents increased by 0.5% to JPY 6,610/tsubo.

**GAIKANDO AREA**

The vacancy rate increased by 1.1 points q-o-q to 2.5%, mainly because one of the two properties completed this quarter had space available upon completion. However, properties more than one year old are fully let. There is no space available at all, aside from units in the said property completed this quarter. There is only one other property, MCUD Kawasaki, that is due for completion before the end of the year. However, since the building is reportedly already fully let, the vacancy rate for the area is expected to

decline. The shortage of properties drove up effective rents to JPY 4,720/tsubo in Q1 2018.

**ROUTE 16 AREA**

The vacancy rate rose from 1.4% in Q4 2017 to 4.4% this quarter. New supply in Q1 2018 was the second highest quarterly supply on record, with four buildings supplying a total of 102,000 tsubo coming on stream. Although the vacancy rate increased due to some properties having empty units upon completion, there continues to be solid demand for logistics space in the Route 16 Area. Nagareyama (Chiba Prefecture) had two buildings completed this quarter, and two more are scheduled for completion in January 2019. All are receiving number of enquires, and some of the units have already secured tenants. The vacancy rate for properties more than one year old was flat q-o-q at 0.5%, and effective rents rose 0.2% to JPY 4,050.

**KEN-O-DO AREA**

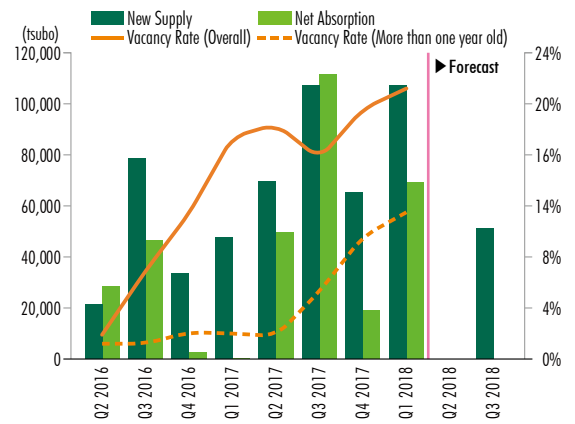
The vacancy rate climbed by 1.1 points q-o-q to 18.9% in Q1 2018 as a record volume of new supply consisting of 67,000 tsubo in three buildings came on stream. During the quarter, tenants signed leases for space in properties that are seen to have an edge for recruitment and delivery, but others may take longer to let. Effective rents rose 1.2% q-o-q. Space was let in some properties that had been vacant for several quarters, which raised the average rents.

**GREATER OSAKA AREA**

**DEMAND REMAINS STRONG BUT VACANCY RISES**

The vacancy rate for LMTs in the Greater Osaka Area increased by 1.6 points from 19.6% last quarter to 21.2% in Q1 2018. This was due to space remaining unlet in three of the four new facilities completed during the quarter, and also because of a large volume of space in existing properties vacated by tenants who moved to the new properties. However, demand was buoyant and net absorption of 69,000 tsubo was the second highest quarterly total since Q1 2008. During the quarter, number of properties

Figure 2 : Greater Osaka LMT Market : Supply/Demand Balance



Source : CBRE, Q1 2018

completed in the last two years in bayside areas of Osaka Prefecture made progress in letting by securing large tenants. Demand also remained strong in inland areas of Osaka Prefecture, and properties completed in Takatsuki and Ibaraki during 2017 were fully let this quarter.

The period saw the completion of the first two multi-tenant properties in inland areas of Kobe, which had previously been home to industrial estates and were popular locations for build-to-suit logistics facilities. One of these two properties was fully let prior to completion. Inland locations attract companies who are conscious of business continuity planning, and this should also drive demand for multi-tenant facilities in the area. In March 2018, a section of the Shin Meishin Expressway connecting the Kawanishi Interchange to Kobe Junction was opened as a bypass for the Meishin and Chugoku Expressways. As this is a good location for avoiding road congestion, several development plans for logistics facilities are already underway, in addition to those completed this quarter.

The absence of new facilities in Q2 2018 should ensure a further decline in the vacancy rate. Effective rents fell slightly from JPY 3,500/tsubo in Q4 2017 to JPY 3,480/tsubo in Q1 2018. This was due to the completion of properties in areas with lower rents. Meanwhile, rents for existing facilities in coastal areas of Osaka Prefecture remained unchanged from the previous quarter.

**GREATER NAGOYA AREA**

**MARKET REMAINS TIGHT DESPITE RISING VACANCY**

New LMT supply in the Greater Nagoya Area in Q1 2018 consisted of two properties providing a total of 39,000 tsubo. One of these properties, GLP Komaki II, was fully let to multiple tenants prior to completion. The other was the Redwood Yatomi Distribution Centre, which boasts the largest floor area in the Greater Nagoya Area. The facility includes lounges, a nursery, and shops catering to employees. Although the property was not fully let upon completion, leasing is reportedly progressing well, with tenants already signed up for number of units. Although the vacancy rate rose to 10.6% due to the impact of new supply, there are only three properties with space available, including the newly built properties. All are receiving much enquiries, meaning that choices for tenants are limited. There are no more completions for the remainder of the year, and the next supply is not until 2019. As such, despite the rise in the vacancy rate this quarter, tenants are mindful of the shortage of space, and anticipate a significant decline in the vacancy rate between now and the end of the year.

Effective rents stood at JPY 3,530/tsubo for the fourth consecutive quarter, a level 6% higher than in Q1 2016.

**FUKUOKA AREA**

**NEW FACILITY IN TOSU COMES TO MARKET FULLY LET**

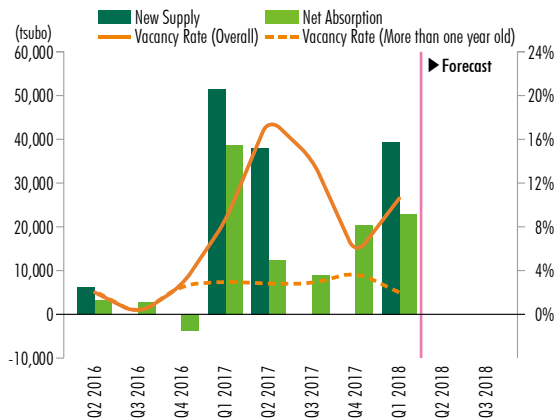
One new multi-tenant facility was completed in Tosu, Saga Prefecture, in Q1 2018. The entire space has been let to one of the major logistics companies which operates a distribution centre nearby. Despite the lack of other major leasing activity, rents are gradually rising due to limited availability in the bay area, which is the most popular location for logistics facilities in Tosu and Fukuoka. A large facility scheduled to be completed close to the Fukuoka Interchange in Q2 2018 is generally anticipated to attract much demand, as it provides excellent access.

**OTHER AREA**

**LARGE FACILITY COMPLETED IN SAPPORO; NEW DEVELOPMENT PLANS ANNOUNCED**

The largest multi-tenant facility in Hokkaido was completed in February 2018 and has reportedly attracted enquiries from number of companies. Other development schemes are gaining momentum in Sapporo, where there is a severe lack of available space. New facilities in the pipeline include the provisionally named Satozuka Distribution Centre, which is scheduled for completion in January 2019 in a location providing easy access to Sapporo's main area for distribution.

Figure 3 : Greater Nagoya LMT Market : Supply/Demand Balance



Source : CBRE, Q1 2018

Figure 4 : Large Multi-Tenant Submarket Summary

		Vacancy Rate					Effective Rent Index (JPY/tsubo)					
		Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q-o-Q
<b>Greater Tokyo Area</b>												
Greater Tokyo Area	Overall	6.5%	5.1%	5.8%	4.9%	6.9%	4,010	4,010	4,050	4,070	4,080	+0.2%
	More than one year old	3.1%	2.7%	2.2%	1.4%	1.4%						
Tokyo Bay Area	Overall	5.5%	5.5%	8.1%	6.2%	2.8%	6,320	6,330	6,580	6,580	6,610	+0.5%
	More than one year old	5.5%	5.5%	4.2%	4.1%	4.3%						
Gaikando Area	Overall	2.6%	5.0%	1.9%	1.4%	2.5%	4,670	4,660	4,650	4,660	4,720	+1.3%
	More than one year old	0.0%	2.0%	2.0%	1.6%	0.0%						
Route 16 Area	Overall	4.1%	1.9%	2.1%	1.4%	4.4%	3,970	3,980	4,010	4,040	4,050	+0.2%
	More than one year old	3.3%	1.7%	0.6%	0.5%	0.5%						
Ken-O-do Area	Overall	19.8%	15.5%	19.4%	17.8%	18.9%	3,230	3,220	3,210	3,230	3,270	+1.2%
	More than one year old	5.1%	5.3%	6.0%	3.5%	3.7%						
<b>Greater Osaka Area</b>												
Greater Osaka Area	Overall	17.4%	18.4%	15.7%	19.6%	21.2%	3,670	3,600	3,550	3,500	3,480	-0.6%
	More than one year old	2.0%	1.8%	5.3%	9.6%	11.5%						
<b>Greater Nagoya Area</b>												
Greater Nagoya Area	Overall	8.5%	18.0%	14.2%	5.4%	10.6%	3,500	3,530	3,530	3,530	3,530	±0.0%
	More than one year old	3.0%	2.8%	2.8%	3.9%	2.0%						

Source : CBRE, Q1 2018

Figure 5 : Average Asking Rent by Prefecture (JPY/tsubo/Month)

No.	Prefecture	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	q-o-q
1	Hokkaido	3,640	3,550	3,380	3,540	3,570	+0.8%
2	Miyagi	4,300	4,510	4,600	4,170	3,850	-7.7%
3	Saitama	3,930	3,960	3,970	4,150	4,000	-3.6%
4	Chiba	4,320	4,050	4,020	4,240	4,250	+0.2%
5	Tokyo	6,690	6,700	6,770	6,360	6,630	+4.2%
6	Kanagawa	4,430	4,520	4,570	4,420	4,500	+1.8%
7	Ishikawa	3,440	3,440	3,440	3,050	3,050	±0.0%
8	Aichi	3,720	3,730	3,720	3,780	3,780	±0.0%
9	Kyoto	6,520	6,940	6,750	6,930	6,880	-0.7%
10	Osaka	4,960	5,060	5,090	4,770	4,680	-1.9%
11	Hyogo	5,490	5,640	5,120	5,220	5,290	+1.3%
12	Okayama	3,110	2,930	3,140	3,040	★ 3,040	±0.0%
13	Hiroshima	3,790	3,810	3,920	3,560	3,430	-3.7%
14	Fukuoka	4,590	4,600	4,660	4,670	4,150	-11.1%

★ Sample Number: Less Than 4 Properties

Source : CBRE, Q1 2018

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**DEFINITIONS**

<b>Properties Surveyed</b>	Logistics property for lease which is planned and developed for multi-tenant use.	
<b>Large Multi-Tenant Properties (LMT)</b>	With gross floor area (GFA) :	More than 10,000 tsubo in the Greater Tokyo Area (127 properties) and Greater Osaka Area (34 properties) More than 5,000 tsubo in Greater Nagoya Area (21 properties)
	Vacancy:	Spaces that are ready to receive tenants at time of survey (newly built facilities are those on which construction is complete)
	Effective Rent Index:	Rental index based on achievable rents with CAM for new leases during the survey period. Length of lease and free rent period are taken into account.
<b>Space Measurement</b>	Floor space is usually measured in tsubo or in square meters. 1 tsubo = 3.3058 square meters = 35.58 square feet	

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