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Briefing
Industrial sector

2H 2011

Image: Yokohama Logistics Park (Tsurumi-ku, Yokohama City, Kanagawa Prefecture)

SUMMARY

A positive supply-to-demand balance prompted strong investor interest in Japan's logistics market.

- Nittsu Research Institute & Consulting's (NRIC) Cargo Movement Index demonstrated a v-shaped recovery in Q3/2011, largely attributable to restoration efforts after the March earthquake disaster.
- Cargo movements, however, slipped again in the fourth quarter as external factors such as the strong appreciation of the yen weighed on the export market.
- A handful of large leasing transactions took place in 2H/2011, including two deals of over 30,000 sq m at modern logistics facilities in the Chiba and Saitama submarkets.
- Four smaller deals were reported at Orix Real Estate's Yokohama Machida IC Logistics Centre in Tokyo, bringing the occupancy rate at the recently completed facility to just under 60%.
- Global Logistic Properties announced a 50:50 joint venture with China Investment Corporation to acquire 15 modern logistics facilities in Japan for JPY122.6 billion.
- Other investment transactions included sizable development site purchases by Lasalle Investment Management and Goodman Japan.

"Japanese manufacturers' concerted efforts to recover supply lines post-quake lead to a bounce back in cargo volumes in 2H/2011. High occupancy levels in modern logistics facilities meanwhile acted to spur landmark transactions, with global investors also seeking new development opportunities."
Savills Research & Consultancy

Cargo movement statistics

According to survey data produced by NRIC, the Cargo Movement Index – one of the leading indicators of cargo trends – demonstrated a v-shaped recovery in Q3/2011. This is attributable to restoration efforts after the Great East Japan Earthquake of March 2011, which conferred short-term benefits on the logistics sector due to emergency and reconstruction-related demand. Following this, however, the index fell back into negative territory in Q4/2011 as a result of a weakened export market, hit by external factors such as an unbalanced currency exchange and global economic uncertainty stemming from the European debt crisis.

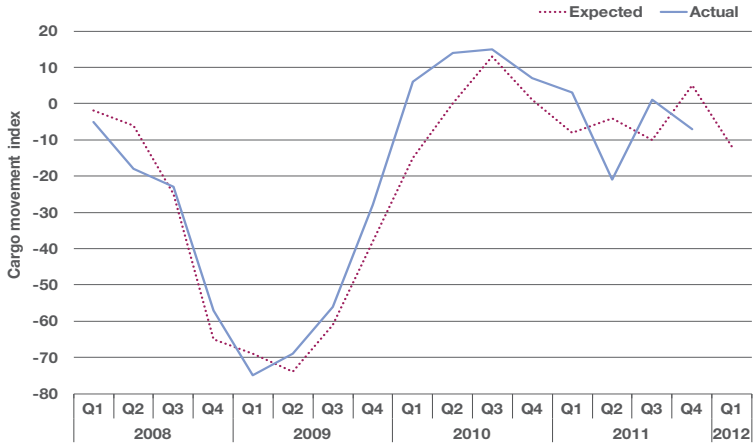
The historically strong yen in particular is reported to have had a considerable negative impact on manufacturing and export companies. When looking at cargo movement by industry, survey breakdown figures suggest that the chemical and machinery industries were worst hit, whereas output from consumer goods manufacturers and the wholesale sector remained robust.

Looking forward, the Nippon Express-affiliated research house maintains a negative outlook for the first quarter of 2012. NRIC's Expected Cargo Movement Index is pegged to fall below the 10% figure, suggesting that cargo volume, especially for the manufacturing industry, may remain depressed for the time being.

Cargo movement statistics are considered to be a key indicator for predicting the future outlook of the logistics market. In general, when cargo volume increases, the logistics real estate market can expect to see heightened demand.

GRAPH 1

Japan's actual and expected cargo movement index, Q1/2008–Q1/2012



Source: NRIC, Savills Research & Consultancy

Japan logistics leasing market

Following a dearth of speculative logistics development in recent years, occupancy rates in modern multi-tenant distribution facilities are at historical highs. Tenant demand for such premises has remained at healthy levels in recent quarters. This has been supported by short-term lease requirements arising from eastern Japan's post-quake recovery and reconstruction efforts, as well as a general, albeit gradual, trend towards property modernisation. Larger leasing deals in excess of 30,000 sq m were, however, limited in number during the second half of the year, with most reported occupier agreements falling below the 10,000-sq m threshold.

In the largest leasing transaction of 2H/2011, DHL Supply Chain, the Japanese arm of global distribution company DHL, took approximately 35,000 sq m of space at GLP Urayasu 3 in Urayasu City, Chiba Prefecture. The logistics company already occupies space in nearby facilities operated by Global Logistics Properties (GLP) and ProLogis, and plans to improve its network in the Greater Tokyo region. Elsewhere, ProLogis Parc (PP) Kawajima, a 166,871-sq m five-storey distribution centre in Saitama

TABLE 1

Selected logistics leasing transactions, 2H/2011

Tenant	Location	City/ward	Prefecture	Space (sq m)	Owner
July					
DHL Supply Chain Ltd.	GLP Urayasu 3	Urayasu	Chiba	34,813	GL Properties
TL Logicom	ProLogis Parc Maishima 3	Osaka	Osaka	6,450	ProLogis
August					
Stream Co., Ltd.	IIF Atsugi Logistics Centre	Atsugi	Kanagawa	10,959	IIF REIT
Trancom Co., Ltd.	Saitama Kisai Logistics Centre	Kazo	Saitama	24,574	Japan Logistics Fund
September					
Hitachi Logistics Collabonext	ProLogis Parc Kawajima	Kawajima	Saitama	7,700	ProLogis
Undisclosed tenant	ProLogis Parc Kawajima	Kawajima	Saitama	30,400	ProLogis
Undisclosed tenant	Orix Yokohama Machida IC LC	Machida	Tokyo	16,530	Orix Real Estate
Undisclosed tenant	Orix Yokohama Machida IC LC	Machida	Tokyo	5,290	Orix Real Estate
November					
Undisclosed tenant	Orix Yokohama Machida IC LC	Machida	Tokyo	6,612	Orix Real Estate
December					
Undisclosed tenant	Orix Yokohama Machida IC LC	Machida	Tokyo	8,265	Orix Real Estate

Source: Company press releases, Savills Research & Consultancy

Prefecture, welcomed an undisclosed transportation company as a new tenant. The deal related to 30,400 sq m of space, bringing the occupancy level of the facility to approximately 70%. PP Kawajima is located along the Ken-O Expressway, a partially-constructed arterial loop road around Tokyo, which upon completion in 2014, will connect with all the major expressways serving the region.

Another large leasing deal in Saitama Prefecture saw third-party logistics company Trancom take Japan Logistics Fund's Saitama Kisai Logistics Centre in its entirety, accounting for almost 24,600 sq m of space. The distribution centre is situated approximately 8 km from the Kazo Interchange on the Tohoku Expressway and will benefit from convenient access to the new Ken-O Expressway.

Four smaller deals were also reported at Orix Real Estate's Yokohama Machida IC Logistics Centre, a 65,714-sq m multi-tenant property which reached completion in May 2011.

Including the largest deal here, which accounted for approximately 16,530 sq m, the total occupancy rate at the Tokyo property rose quickly over the course of 2H/2011 to just under 60%. Elsewhere, e-commerce site operator Stream signed a lease agreement for approximately 11,000 sq m of space previously master-leased by Mitsubishi Warehouse at IIF Atsugi Logistics Centre in Kanagawa Prefecture.

Japan industrial investment market

With tenant demand for modern distribution facilities at steady levels

TABLE 2

Selected industrial transactions, 2H/2011

Property name	Property type	Prefecture	GFA/site area* (sq m)	Price (JPY million)	Buyer
September					
Rinku International Logistics Center	Logistics	Osaka	52,815	4,805	Airport Facilities
Fujikura Rubber Omiya Plant	Factory	Saitama	24,900	N/A	Polus Group
Konan Daiichi Warehouse	Logistics	Tokyo	2,584	N/A	Sumitomo R&D
October					
Site for LogiPort Sagamihara	Development site	Kanagawa	94,197*	N/A	LaSalle Investment/Mitsubishi Estate
Site for LogiPort Atsugi	Development site	Kanagawa	25,000*	N/A	LaSalle Investment Management
Site for Goodman Sakai	Development site	Osaka	60,000*	N/A	Goodman Japan
Former Ikegami Tsushinki Haneda Branch	Factory	Tokyo	2,534	630	Koatsu Gas Kogyo
November					
Tsurugashima Logistics Center	Logistics	Saitama	23,774	N/A	Orix Real Estate
December					
Kawagoe Daini Sangyo Danchi Logistics Centre	Logistics	Saitama	50,263	N/A	Mitsui & Co
Hokkaido Coca-Cola Bottling Plant	Factory	Hokkaido	60,157	2,300	Homac
Edosaki Industrial Park Plot 2	Development site	Ibaraki	103,463*	2,100	Komeri Co Ltd
Pending					
Hamura Logistics Centre	Logistics	Tokyo	42,849	122,600	GL Properties/China Investment Corporation
Logiport Kashiwa		Chiba	148,451		
Logiport Hokkaido		Hokkaido	19,095		
LUX Funabashi 1		Chiba	N/A		
LUX Funabashi 2		Chiba	N/A		
Ichikawa Shiohama Centre		Chiba	62,338		
Sumika Logistics Shiinomori Logistics Centre		Chiba	50,963		
Nakano Shokai Wakasu Storage		Tokyo	25,051		
Logiport Kawasaki		Kanagawa	132,615		
Zama		Kanagawa	N/A		
Muroo Chubu		Mie	N/A		
Logiport Osaka		Osaka	140,526		
Muroo Kobe		Hyogo	N/A		
Muroo Hiroshima		Hiroshima	N/A		
LUX Hiroshima		Hiroshima	N/A		

Source: Real Capital Analytics, Savills Research & Consultancy

and supply currently at historical lows, several global investors and specialist developers are re-focusing on the stable returns which this sector can offer.

GLP, the Singapore-listed real estate firm backed by the Government of Singapore Investment Corporation (GIC), entered into a 50:50 joint venture with China Investment Corporation (CIC) to acquire 15 modern logistics facilities in Japan. The seller of the portfolio is LaSalle Investment Management (LIM) and the total acquisition price is JPY122.6 billion, making it Japan's largest reported real estate transaction of 2011 in terms of price. Joint venture and purchase and sale agreements were signed on 19 December 2011 by Light Year TMK, the co-investment vehicle. The initial equity injected by each party is reported to be JPY21.22 billion, invested through their respective wholly-owned subsidiaries. The acquisition is expected to complete in the first quarter of 2012, after which GLP will assume the role of asset manager of the acquired properties. According to a press release by GLP, the portfolio of 15 properties has a GFA of just under 771,000 sq m and is predominantly located in the Greater Tokyo and Osaka areas. The current occupancy rate of the properties is 98.3%, with a weighted average lease expiry of 5.6 years. The properties in the portfolio are of modern construction, offering a weighted average building age of only 6.9 years. The three "Logiport" facilities, located in Kashiwa (Chiba), Kawasaki (Kanagawa), and Osaka, can be considered the trophy assets of the portfolio, being fully occupied with high-credit tenants. Although the official handover of the properties is yet to be executed, unverified press reports suggest that the joint venture is considering listing the portfolio in a J-REIT structure going forward.

Taking a different strategy, several other global logistics investors seized opportunities to acquire industrial or logistics sites during the second half of the year. US-based LIM acquired two developable sites in Kanagawa Prefecture. The larger of these was acquired jointly with domestic real estate giant Mitsubishi Estate and will be the home of LIM's planned LogiPort Sagamihama multi-tenant facility. Separately, in the greater Osaka area, the Japanese arm of the Australian-listed real estate group Goodman acquired over 60,000 sq m of industrial land in Sakai City.

With occupancy levels in modern logistics facilities at historical highs, big-shed developers are seeking new development opportunities to take advantage of the current positive supply-to-demand balance. Demand for industrial land acquisitions is expected to continue in the short- to mid-term, especially in the key Greater Tokyo and Osaka regions, with competition for the best sites likely to heat-up further.

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