Japan - March 2025

SPOTLIGHT
Savills Research

Japan Logistics

Logistics sector steadily moving towards more stabilised situation

Summary

- In Greater Tokyo, vacancy has increased again, rising 1.4 percentage points (ppts) year-on-year (YoY) to 9.0%. That said, the rate of increase has tapered off in the past year, and may stabilise further in 2025.
- In Greater Osaka, the supply-demand balance remained relatively tight, although vacancy increased slightly by 0.3ppts YoY to 3.6%. However, elevated supply in 2025 may cause some temporal disruption in the market.
- Rents in Greater Tokyo declined by 2.5% half-year-on-half-year (HoH), although strengthening by 1.7% YoY to JPY4,700 per tsubo.
- Rents in Greater Osaka increased by 2.9% HoH and 1.4% YoY to JPY4,300 per tsubo.
- Investment levels in the industrial sector in 2024 exceeded those of 2023, with a handful of big-ticket transactions observed in the second half of the year. Logistics assets remained popular, comprising nearly 30% of total transactions in Japan in 2024, with overseas investors particularly active.
- Nationwide new supply in 2025 will be similarly elevated as the previous year, with Greater Osaka seeing a record-high influx, while Greater Tokyo sees a noticeable drop. However, over the coming years, new supply nationwide is set to decline due to rising construction and land costs, as well as labour shortages.
- Overall, the logistics sector is nearing a turning point, as consistent firm demand supported by strong fundamentals in the sector, coupled with declining new supply in the coming years should create a more balanced supply-demand equilibrium.

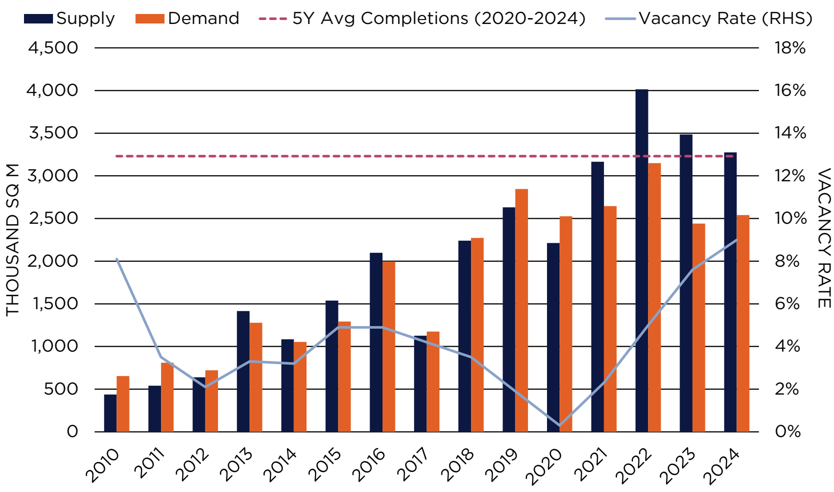
INTRODUCTION

The logistics sector in Greater Tokyo[1] is trending toward a more balanced supply-demand equilibrium, with strong demand and a declining pipeline of new supply in the market. In contrast, Greater Osaka[2] will witness record new supply in 2025 which may bring some short-term volatility to the market. However, both regions will also see new supply fall from 2026 as rising construction costs and labour shortages, along with higher interest rates, prompt developers to reassess their development plans.

1 Greater Tokyo is defined as the region which consists of Tokyo, Kanagawa, Chiba, and Saitama
2 Greater Osaka is defined as the region which consists of Osaka, Kyoto, Hyogo, and Nara

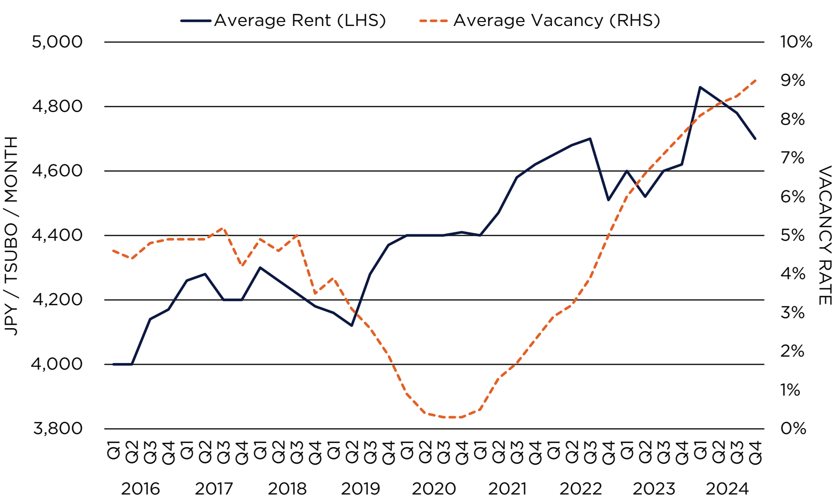
Given the extensive room for growth as well as strong mid-term fundamentals, logistics assets attracted strong investor interest in the second half of 2024, particularly among overseas players. Many logistics operators have been steadily adapting to the labour shortage exacerbated by the "2024 Problem" by optimising operations, expanding relay bases, and increasingly embracing digital transformation. Overall, the logistics sector remains strong and is poised for further growth once market conditions stabilise in the coming years.

Graph 1: Supply, Demand, and Vacancy in Greater Tokyo, 2010 to 2024



Source Ichigo Real Estate Service, Savills Research & Consultancy
Note Annual periods from February to January. Vacancy rates are as of the year end for each annual period, while the rate presented for 2024 is as of January 2025.

Graph 2: Greater Tokyo Rent and Vacancy, 2016 to 2024



Source Ichigo Real Estate Service, Savills Research & Consultancy
Note Annual periods from February to January.

MARKET TRENDS

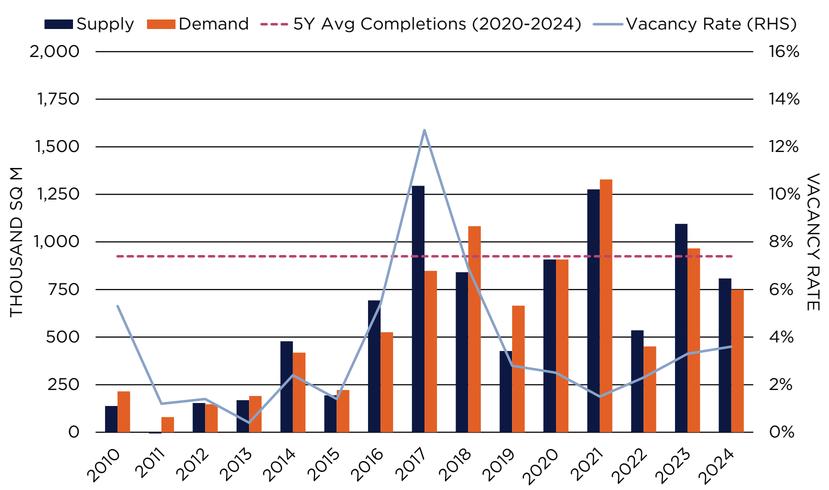
New supply continues to outpace strong demand in the Greater Tokyo market in 2024. As a result, vacancy experienced a slight uptick to 9.0% in Q4/2024, having increased by 0.6ppts HoH and 1.4ppts YoY. While vacancy has increased consecutively since hitting its lowest point in Q4/2020, the pace of increment began to gradually taper off in 2024. In addition, new supply in 2025 will be approximately 30% lower than that of 2024, declining for a second year in a row from the peak in 2023, providing further breathing room for the absorption of vacant space this year. With firm demand and a shrinking supply pipeline in Tokyo, vacancy rates are expected to gradually stabilise in 2025.

Average asking rents in the Greater Tokyo market corrected slightly, declining by 2.5% HoH, although rising by 1.7% YoY, reaching JPY4,700 per tsubo. The gradual accumulation of supply has increased the competition for tenants, leading to some softening in asking rents over the past half year, indicating that the supply-demand balance will remain somewhat loose for the meantime. Overall, rental growth remains bifurcated, with prime facilities in prime or convenient locations offering unique amenities continuing to attract demand and command premium rents, while less accessible and older properties may need to consider rental reductions to attract tenants.

The Greater Osaka market also experienced some loosening in 2H/2024, with new supply exceeding demand slightly. Indeed, vacancy loosened marginally by 0.5ppts HoH, and 0.3ppts YoY to 3.6%, albeit remaining noticeably tighter than the Greater Tokyo market. Meanwhile, average rents rose by 2.9% HoH and 1.4% YoY to JPY4,300 per tsubo, indicating that demand remains firm for the meantime. That said, 2025 will see record levels of incoming new supply in Greater Osaka and this may bring temporal disruption to the market. Nevertheless, the market has shown resilience, demonstrated by its tight and stable supply-demand balance, and stability should continue as new facilities with unique amenities receive positive attention from tenants moving forward.

The logistics sector has been resilient despite challenges in recent years, and is poised to reap the benefits in the midterm. As such, logistics assets have kept popular among investors, with large transaction volumes seen in 2024. While new supply will be elevated this year, the noticeable decline in new supply beyond 2025 will create more breathing room and support leasing activities among existing properties with vacant space. Additionally, many logistics operators have continued to enhance operational efficiency in response to chronic labour shortages, which should further strengthen the sector's resilience and longer-term outlook.

Graph 3: Supply, Demand, and Vacancy in Greater Osaka, 2010 to 2024

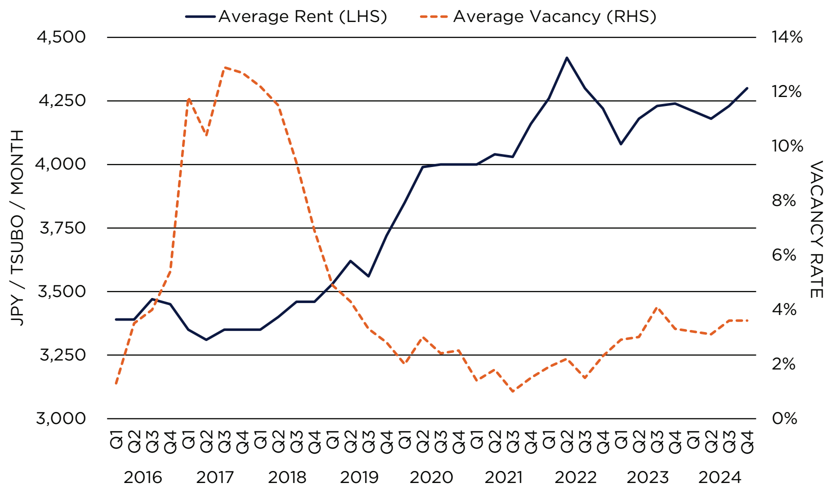


Source Ichigo Real Estate Service, Savills Research & Consultancy
Note Annual periods from February to January. Vacancy rates are as of the year end for each annual period, while the rate presented for 2024 is as of January 2025.

INCOMING SUPPLY

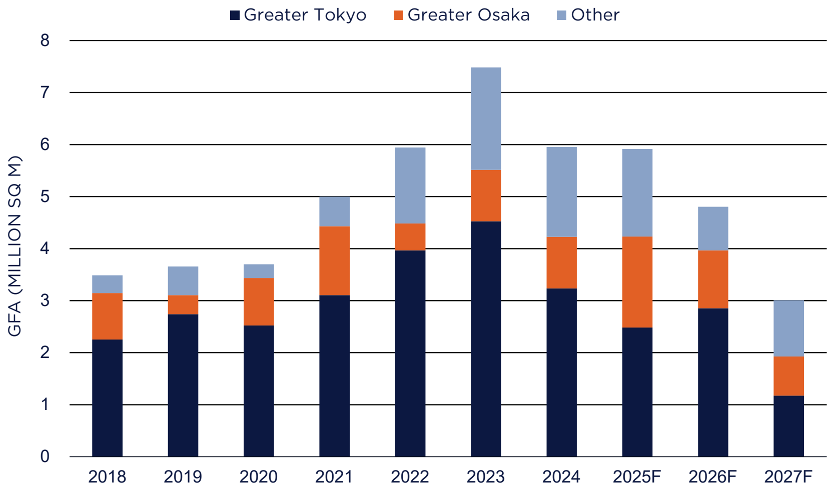
Greater Tokyo witnessed over 3.2 million sq m GFA of new supply coming to market in 2024, approximately 30% lower than the peak supply in 2023. The largest completion introduced in the second half of 2024 was the

Graph 4: Greater Osaka Rent and Vacancy, 2016 to 2024



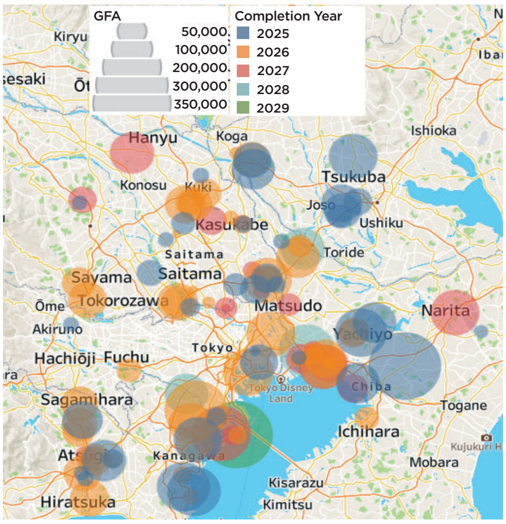
Source Ichigo Real Estate Service, Savills Research & Consultancy
Note Annual periods from February to January.

Graph 5: Annual New Supply* in Japan by Region, 2018 to 2027F



Source Ichigo Real Estate Service, Savills Research & Consultancy
* Projects in 2025 and beyond tend to be added later once details are ready to be announced. The data provided by Ichigo only considers facilities with GFAs > 10,000 sq m and is as of 1 February 2025.

MAP 1: Upcoming Completions in Greater Tokyo with GFA of Greater than 50,000 sq m, 2025 to 2029*



Source Company Disclosures, Ichigo Real Estate Service, Savills Research & Consultancy
* Projects where GFA and/or completion date are unavailable are omitted from the dataset.
New supply data is as of 1 February 2025.

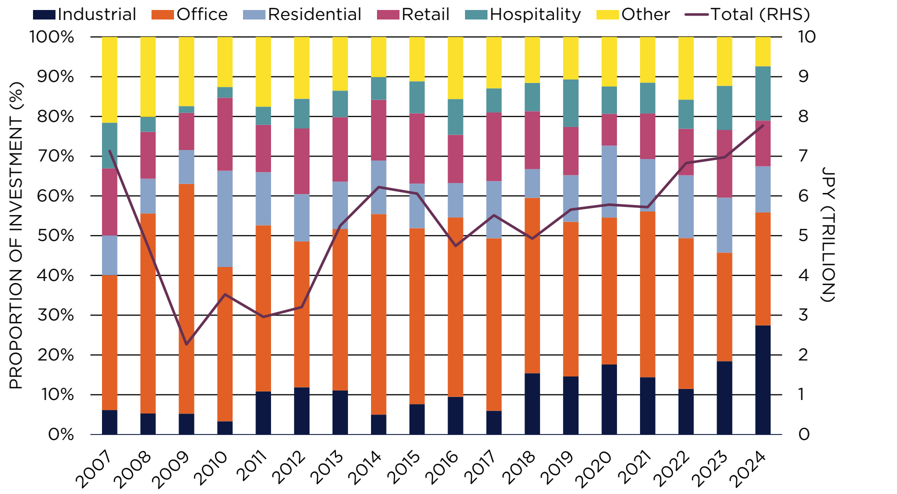
256,000 sq m MFLP·LOGIFRONT Tokyo Itabashi, the largest logistics facility located in the 23W. Strategically positioned close to the city centre, with the Tokyo Metropolitan Expressway nearby, the facility will be the area's first drone testing site for last-mile delivery and emergency relief transport.

The first half of 2025 looks to welcome over 1.4 million sq m GFA of new supply in Greater Tokyo, and the largest development to be added to the market is the tentatively named ESR Yokohama Sachiura Distribution Centre 3. To be completed in February 2025, the facility has a total GFA of 165,000 sq m. Upon full completion of the four-phase project, ESR's Yokohama Sachiura Logistics Park will be Japan's largest logistics park, spanning approximately 720,000 sq m and valued at approximately US$2.5 billion at completion. The new supply forecast in 2025 will continue to fall from the 2023 peak driven by rising construction costs and labour shortages. As such, the subdued new supply should provide an opportunity to absorb secondary vacancies and may slow the rising vacancy trend.

In Greater Osaka, nearly one million sq m of new GFA entered the market in 2024, echoing 2023 levels. The largest completion in the second half of 2024 was the GLP ALFALINK Ibaraki 1. The 165,000 sq m facility, situated between Osaka and Kyoto, offers convenient access to the Kansai and Chugoku regions via the Meishin and Kinki Expressways. Additionally, its proximity to residential areas makes it appealing to potential tenants seeking to attract and retain their workforce, particularly in an industry plagued by labour shortages. New developments in Greater Osaka appear to have been relatively well received, with some facilities reportedly achieving full occupancy upon completion, showing the firm demand for premium modern logistics facilities in Greater Osaka.

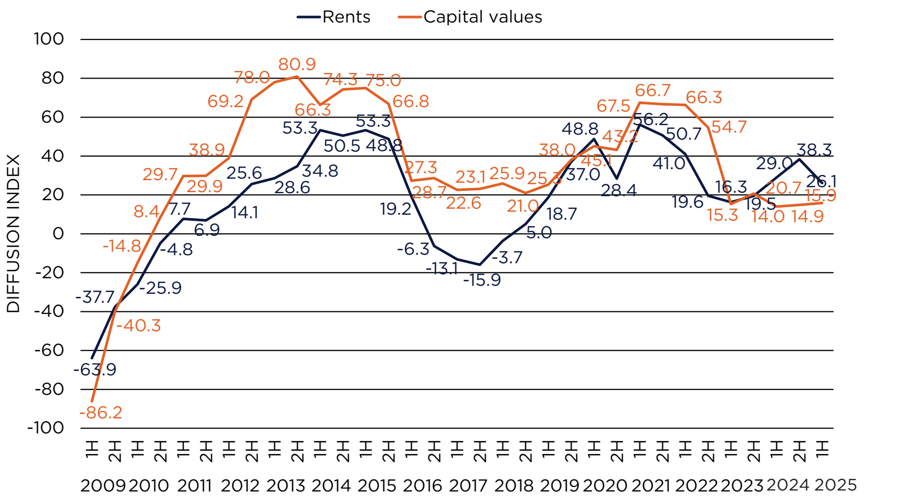
Looking ahead, 2025 will see a record 1.7 million sq m in GFA of new logistics supply in Greater Osaka, with nearly 900,000 sq m completed in the first half of 2025. The most notable upcoming completions in the first half of 2025 will be Kawanishi Distribution Centre 1 and 2, with a combined GFA of 240,000 sq m. Located near Osaka International Airport and 30 minutes from Osaka City centre, they will be connected to the Shin-Meishin Expressway, offering convenient access to Kyoto, Kobe, and other regions in Western Japan. While the large incoming new supply may cause some temporal disruption and contribute to rising vacancies, demand for modern logistics space remains strong, exemplified by the sound absorption in the previous years, which should stabilise the Greater Osaka market over the coming year.

Graph 6: Share of Investment Volumes by Asset Class, 2007 to 2024



Source MSCI Real Capital Analytics, Savills Research & Consultancy

Graph 7: Six-month-ahead Expectations for Rent and Capital Appreciation, 2009 to 1H/2025



Source Ichigo Real Estate Service, Savills Research & Consultancy

Table 1: Selected Investments, Announced between September 2024 and February 2025

PROPERTY NAME	TRANSACTION VALUE (JPY BIL)	APPRAISAL DIRECT CAP RATE	BUYER	SELLER
Sharp Sakai Factory	100.0	-	SoftBank Group Corp	Sharp
Logiport Nagoya (51% Co-ownership Interest)	69.4	-	SPC invested in by LaSalle Logiport REIT, etc.	Undisclosed
GLP Portfolio (3 properties)	50.0	-	Nippon Life Insurance	GK Libra
Prologis Park Yachiyo 1	39.0	3.8%	Nippon Prologis REIT	Akagi TMK
ESR Yatomi Kisosaki Distribution Centre	38.7	-	ESR-REIT	ESR
GLP Portfolio (2 properties)	35.0 (appraised)	-	JD Property, Alyssa Partners	GLP

Source Company Disclosures, Nikkei RE, Savills Research & Consultancy

INVESTMENT TRENDS

According to preliminary data aggregated by MSCI, investment activity in Japan continues its rising trend, with total investment volume in 2024 up 11% from 2023. Investment volumes in the industrial sector saw significant growth in the second half of 2024, bringing total annual volumes in 2024 66% higher than in 2023.

Overseas players were notably active in the market, accounting for nearly 60% of industrial transactions in 2024, with many players moving to capitalise on low funding costs as well as its strong long-term fundamentals. Investors' interest in logistics has not waned moving forward in 2025. Indeed, in January 2025, Brookfield Asset Management acquired a nearly 100,000 sq m plot of land in Nagoya as part of a US$1.6 billion deal that also included the Meguro Gajoen complex. The buyer will reportedly invest JPY45 billion to develop a 220,000 sq m logistics facility on the transacted plot of land. Additionally, Brookfield Asset Management expressed further interest in expanding its investments in Japanese real estate, highlighting the logistics sector as one of its key areas of focus, citing potential opportunities from public J-REITs still trading below net asset value and some private REITs seeking liquidity from new shareholders.

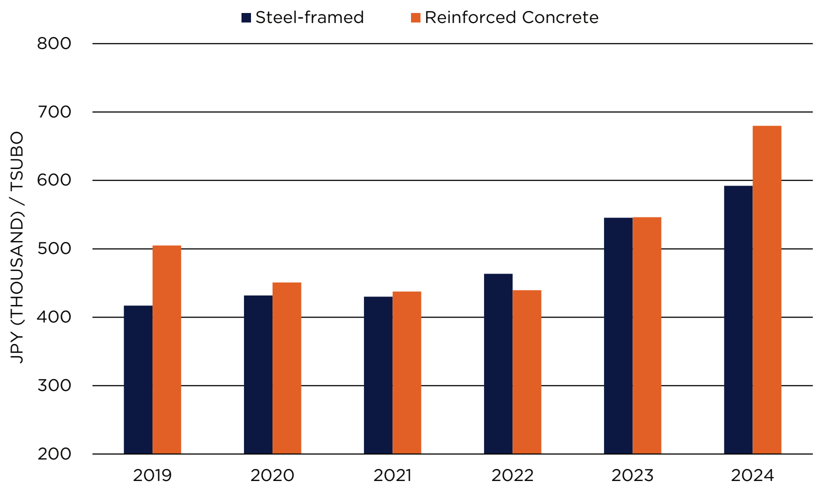
Domestic transactions, including J-REITs, remain strong as well. The largest transaction in 2024 was SoftBank's acquisition of a portion of Sharp's Sakai Plant in Osaka for approximately JPY100 billion. The buyer acquired the property on the condition that the area has the potential to supply over 250 MW within four years, with plans to convert it into an AI data centre starting in 2026. Similarly, Sekisui Chemical acquired part of Sharp's Sakai Solar Cell Plant for JPY25 billion. Another notable transaction saw Nippon Life Insurance acquire three logistics facilities in October 2024 - GLP Hidaka III in Saitama, along with GLP Yao I and GLP Yao II in Osaka - for approximately JPY50 billion. Additionally, in December 2025, Nippon Prologis REIT purchased Prologis Park Yachiyo 1 in Chiba for JPY39 billion, further underscoring the strong appetite among domestic investors for logistics assets.

According to the bi-annual market sentiment survey in February 2025 by Ichigo Real Estate Service, a majority of respondents (61%) still hold a neutral outlook on capital values, expecting stability in terms of pricing. At the same time, there is some divergence in views, with the proportions of respondents anticipating capital values to rise and fall both increasing over the coming half year. Those anticipating rising prices cite elevated construction costs and rental levels, in addition to greater profitability due to the development of facilities with strong amenities, such as cold storage and hazardous material storage. Although, interest rate hikes as well as the softening supply-demand balance were quoted as reasons for capital values of logistics facilities to potentially fall looking ahead. Similarly, while over half of respondents predict stable rents, the proportion anticipating further rental growth over the next half year fell slightly, with market players holding some caution as the market adjusts to the recent large influx of new supply.

Japan has seen a consistent increase in transaction volumes driven by strong investment appetite. Particularly, the logistics sector reached a record 27% share compared to all other sectors (Graph 6). Looking ahead, given the various short-term challenges facing the logistics sector, some players may be eager to sell logistics assets, especially as potential further interest rate increments may depress net yields. As such, many opportunities may present themselves moving forward for players with a longer-term view looking to increase their exposure to the market, and some players currently appear to be targeting value-add opportunities among less prime properties located beyond the central metropolitan areas.

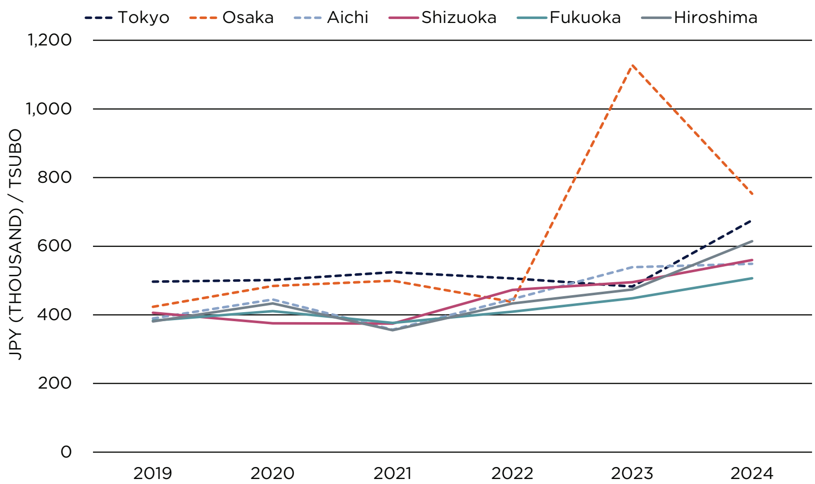
Overall, the logistics sector has strong fundamentals, with e-commerce growth continuing its momentum. Rising land and construction costs, along with rising interest rates, have put pressure on developers, evidenced by the modest overall supply forecast in coming years. Therefore, existing stock, especially modern facilities with premium amenities, strategically located in accessible areas, particularly near expressways and residential hubs that attract workers amidst the labour shortages, should benefit from greater tenant demand and increased valuations, and will become increasingly attractive for investors moving forward.

Graph 8: Average Construction Cost for Reinforced Concrete and Steel-framed Logistics Facilities in Japan per Tsubo, 2019 to 2024



Source MLIT, Savills Research & Consultancy

Graph 9: Average Construction Cost for Steel-framed Logistics Facilities by Prefecture per Tsubo, 2019 to 2024



Source MLIT, Savills Research & Consultancy

OUTLOOK ON FUTURE LOGISTICS DEVELOPMENT

Japan has seen large yearly influxes of logistics supply concentrating in Greater Tokyo since 2021, rising to a peak level in 2023, and is set to remain elevated at least through 2025. However, elevated construction costs (Graph 8) on top of severe labour shortages have compelled many developers to review, delay, or even cancel development plans, resulting in a noticeable drop in annual new supply forecast in Tokyo over the coming years. On the other hand, regional areas where supply has been limited are expected to see more supply in response to real demand and labour regulations. This section discusses a handful of factors that should provide some certainty to the development pipeline in the years ahead.

The Bank of Japan (BOJ) increased the policy interest rate by 25 basis points (bps) in January 2025, bringing it to 50 bps. Further hikes are expected, with an increase to 75 bps anticipated by mid-summer and a potential rise to 100 bps later in the year or beyond. We believe that this should be the ceiling, at least for a while. If the policy rate reaches 100 bps, the 10-year Japan Government Bond yield is expected to stabilise at around 1.5%.

While these changes will likely lead to higher average funding costs and put pressure on developers' yields, they also imply that rental growth should outpace nominal inflation because the interest rate increment should be backed by strong CPI, including rental growth. Once occupancy stabilises, inflation-proof contracts such as those linked to CPI are likely to be more accepted in the market. Additionally, established players with strong track records are likely to secure more favourable borrowing rates, due to strong relationships with banks, offering some stability and certainty to developers moving forward.

Meanwhile, a higher policy rate in Japan should help support the exchange rate and ease cost pressures on imported materials. Over the past few years, the weakened yen has significantly contributed to rising construction costs, given Japan's heavy reliance on imported materials.

As the BOJ gradually raises the policy rate while central banks of many other major economies continue to lower theirs, the yen is expected to strengthen moderately. Even if it appreciates only to around JPY140 per US$1, this would still provide some relief and help slow the upward trend in construction costs.

In addition, trends in global economic growth and demand for construction materials should further stabilise the supply situation. Geopolitical events such as the pandemic and the war in Ukraine led to severe supply chain disruptions, while strong post-pandemic demand further drove sharp price increases for construction materials worldwide in recent years. However, this trend appears to have slowed in 2024, and should slow further in 2025. Furthermore, weaker demand, especially from China should ease price pressures, contributing to greater stability. Notably, China's real estate sector has reduced its once voracious appetite for construction materials. While some inflationary pressures persist in Japan, the era of rapid cost increases appears to be tapering off, improving the outlook for logistics developments moving forward.

The "2024 Problem" has emerged with truck driver overtime capped at 960 hours a year, which has severely impacted operators' ability to perform long-distance deliveries, emphasising the need for relay bases located in regional areas between major metropolises. As such, according to a survey by Mitsubishi Real Estate Services in Q3/2024, a large proportion of responding logistics companies (44%) planned to expand their use of relay bases moving forward. Many major players have made moves in this regard, with GLP developing facilities in Hiroshima and Okayama prefectures, for instance. Such facilities may be beneficial for market players as they will likely be smaller and therefore less expensive to develop than conventional facilities located in major urban metropolises, in conjunction with prices for development plots usually being relatively cheaper in regional areas. Overall, regions beyond the major metropolitan areas may be well positioned to capitalise on the proliferation of relay bases, and there appear to be abundant such opportunities.

Observers can see that, while general development costs for logistics facilities in the largest urban metropolitan areas such as Osaka and Tokyo have risen quite sharply, inflation has been comparatively moderate in regions further afield such as, for instance, Fukuoka, Shizuoka, and Hiroshima (Graph 9). Moreover, although expedited somewhat by the pandemic, e-commerce penetration is still relatively low in Japan, and more extensive and modern logistics infrastructure will be necessary, especially given that the stock of these facilities is limited beyond Tokyo and Osaka. As such, given the further growth potential and more manageable development costs, regional areas should offer abundant potential in the logistics sector for developers and operators alike moving forward.

Overall, although new logistics supply looks set to drop over the coming years, the factors discussed in this section should help to provide more relief for elevated costs, and therefore more certainty for developers moving forward. Indeed, while construction costs for logistics facilities may continue to be elevated for the meantime, they should remain at a more manageable level, at least in regional areas, which should contribute to a more stable supply pipeline over the coming years. Indeed, numerous development opportunities exist for more extensive infrastructure and new facilities such as relay bases, potentially bolstering new supply moving forward.

OUTLOOK

The logistics sector is growing in optimism, supported by its strong long-term fundamentals. Although vacancies have continued to increase due to the large amounts of new supply introduced to the market over the past few years, the diminished pipeline in coming years should help with the absorption of existing vacancies and stabilise the market.

In recent years, despite consistently robust demand, the abundance of supply has created a supply-demand imbalance. However, the logistics market in Greater Tokyo is steadily nearing a turning point, and vacancy rates are expected to decrease in 2025 for the first time since 2020. Similarly, Greater Osaka is expected to follow this trend following the upcoming peak this year. The overall supply-demand balance is set to tighten further moving forward, and with strong fundamentals driven by growing industries like e-commerce, the logistics sector is poised for continuous growth after overcoming short-term supply imbalances.

Initially seen as a setback amid labour shortages, the "2024 problem" appears to be forcing logistics operators to streamline facility operations, while the driver shortage has prompted many companies to adopt relay transportation hubs and methods, with the transport ministry having announced plans to subsidise joint transport to enhance overall efficiency in late 2024. In addition, the labour shortage problem has also prompted an increase in technology transformation in logistics companies, including autonomous vehicles, drone deliveries, AI-powered logistics hubs. As these adaptations continue to progress, the logistics sector should gradually overcome its myriad of constraints, boosting the longer-term prospects of the sector.

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