

## Demand: China policy risk looming large, which could extend the broader supply chain disruptions toward 2023

Japan's economic outlook has been downgraded due to upside inflation surprises, weak currencies, and the escalation of sanctions against Russia, leading to the Real GDP growth of 1.8% for 2022 and 1.2% for 2023. Although the current wave of infections is projected to be contained by Q3 2022, China's lockdowns and restrictions are likely to extend the period of global supply chain bottlenecks until after 2023. The impact of higher inflation becomes evident in higher cargo price, up 5.3% y-o-y<sup>1</sup>, mostly through international ocean freight, up 67% y-o-y, and air freight, up 85% y-o-y. A combination of weak currency and rising oil price also led to the import increase of 24.1% y-o-y, offsetting the export increase of 8.8% y-o-y<sup>2</sup>. For the fiscal year ending March 2023, corporate earnings should similarly suffer, with their ordinary profits estimated to fall by 20% y-o-y<sup>3</sup>. Looking ahead, we remain cautious on the overall logistics volume staying near flat with increasing consumer demand being offset by weak corporate demand at least until H1 2023. That said, Japan's low modern logistics stock per capita should still drive the future LMT demand as more consumers are shifting to online retail for broader product categories.

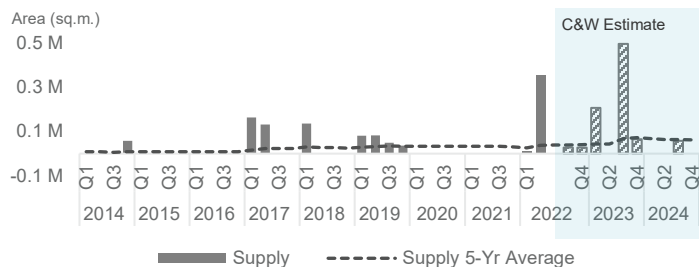
## Supply: Nagoya's low modern warehouse stock per capita should mitigate the long-term supply concerns

Nagoya's modern logistics stock per capita remains very low, less than half of that in Tokyo and Osaka, limiting the city's potential to attract tenants requiring digital infrastructure. Assuming the LMT as modern warehouse stock, Nagoya's modern stock remains less than 6% of total warehouse stock against Tokyo (15%) and Osaka (8.6%). Nagoya finally saw an unprecedented supply totaling over 312,000 sq.m, equivalent to 87% of existing submarket stock during H1 2022. With the full opening of Shin-Meishin Expressway connecting Nagoya and Kobe, the city is set to see an increasing delivery of 8 buildings, totaling to approximately 524,000 sq.m over the next two years. The impact of lump-up supply may result in temporary uptick in vacancy peaking around 15% over the next two years, however it is likely to be absorbed by the city's missing tenant base of major EC operators beyond 2024. Elsewhere, Amazon has announced the opening of 18 delivery stations to total their delivery stations to 45 locations nationwide. An increasing number of delivery stations will be required for same day delivery given storage facility other than fulfillment center already represents around 45% of total warehouse stock in Amazon U.S. Vacancy rates remain low across locations; the Greater Tokyo Area saw vacancy doubling toward 4% with the Greater Osaka Area tracking around 2.1%.

## Pricing: Japan's industrial spreads remain wide to other global cities

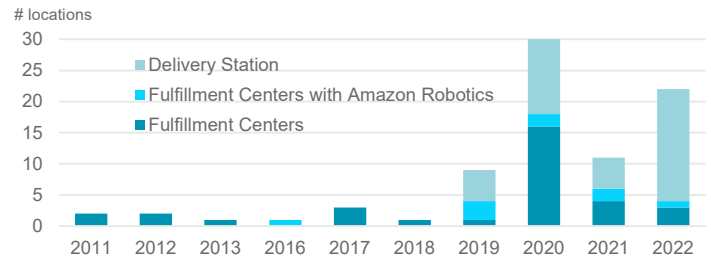
Japan's industrial spreads relative to 10-year government bond remain unchanged. This contrasts with other advanced economies which saw significant tightening over the past year such as Singapore (506 bps/ 368 bps), Australia (388 bps/ 98 bps), South Korea (257 bps/ 89 bps), and Hong Kong (228 bps/ 37 bps)<sup>4</sup>. The U.S cities saw further tightening led by coastal cities albeit their risk spread as pricing proxy may appear misleading under volatile interest rate environment. Looking ahead, we expect further industrial spreads tightening for Japan as the country continues to modernize the overall logistics infrastructure similar to its peers in advanced countries.

## Greater Nagoya Area: Historical Logistics Supply & Forecast

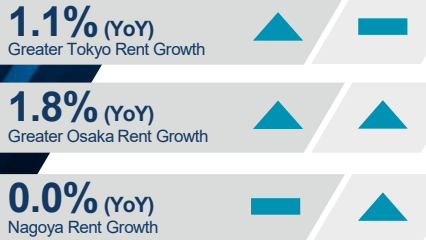


Source: LNEWS, Cushman & Wakefield

## Amazon (Japan): Tracking # Warehouse Openings by Function

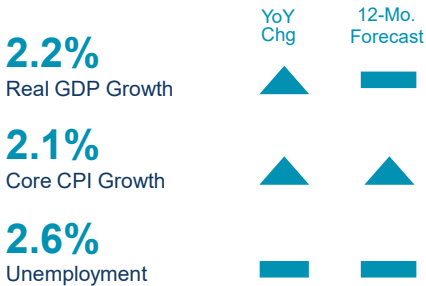


Source: Company disclosure, LNEWS, Cushman & Wakefield



Source: Cushman & Wakefield  
 Note: Growth of Assumed Achievable Rent (average, incl. CAM)

## JAPAN ECONOMIC INDICATORS Q2 2022 FORECAST



Source: Japan Center for Economic Research (JCER), Cabinet Office, Statistics Bureau. GDP Growth is annualized, based on the real seasonally-adjusted quarterly figure. Core CPI is YoY figure, seasonally-adjusted.

<sup>1</sup> Corporate Service Price Index, BOJ  
<sup>2</sup> Ministry of Economy, Trade and Industry  
<sup>3</sup> Financial Statement Statistics of Corporations, MoF  
<sup>4</sup> RCA/MSCI as of 8 August 2022

Survey scope: C&W quarterly survey target is based on Large Multi-Tenant Logistics Facilities (LMT) with GFA 15,000 tsubo and over, except Nagoya and Fukuoka with GFA 5,000 tsubo and over.

Note: All data is as of June 30, 2022, unless otherwise stated.

### MAJOR SUBMARKETS: AVERAGE ASSUMED ACHIVABLE RENT FORECAST

AREA	JPY/TS/MO	USD/SF/YR	GROWTH (YoY)	FORECAST
Greater Tokyo Bay	7,500	20.54	4.17%	▲
Gaikan Road	5,400	14.79	0.00%	▲
Nagoya Bay Area	3,900	10.68	0.00%	■

USD/JPY = 123.13, period Average as of June 30, 2022

### MAJOR SUBMARKETS: MARKET SUPPLY % TO TOTAL STOCK

AREA	PREFECTURE	SQ.M.	SF	FACILITIES	% OF EXISTING STOCK
Nagoya Bay Area	Aichi	312,013	3,358,480	3	87.3%
Gaikan Road	Tokyo, Saitama, Chiba	237,862	2,560,325	2	20.5%
Chiba Bay Area	Chiba	183,824	1,978,663	1	8.1%

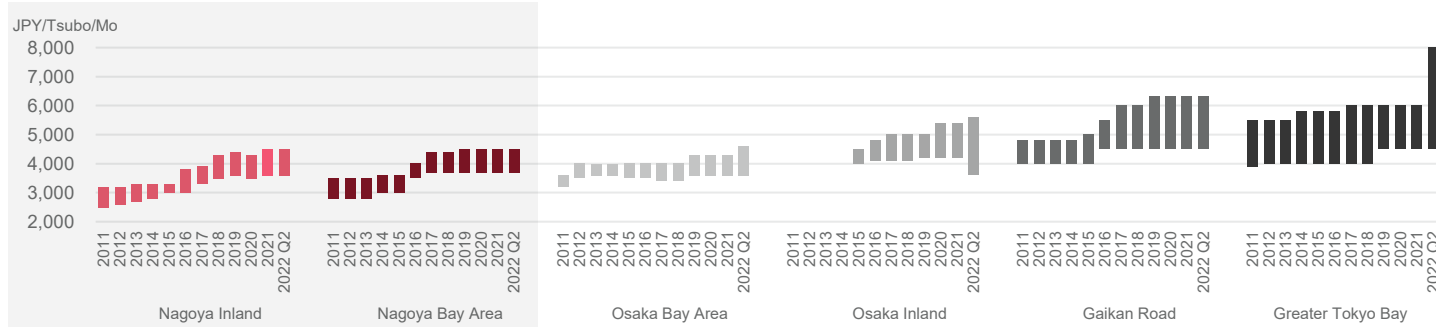
Source: LNEWS, Cushman & Wakefield

### MAJOR LEASING TRANSACTIONS

TENANT NAME	EXPECTED DATE	PREF.	ESTIMATED GFA (SQ.M.)	ESTIMATED GFA (SF)	PROPERTY
Japan Post	Mar 2022	Chiba	43,000	462,848	MFLP Ichikawa Shiohama II
Suzuken *medical pharmaceutical wholesaler	Apr 2022	Saitama	75,874	816,699	Prologis Park Soka
Amazon (Saitama Fulfillment Center)	Apr 2022	Saitama	27,047	291,132	Senko Saitama PD Center
Nitori	May 2022	Aichi	52,496	565,058	DPL Meiko Yatomi I
Tea Life	May 2022	Aichi	20,324	218,767	GLP Nagoya Moriyama

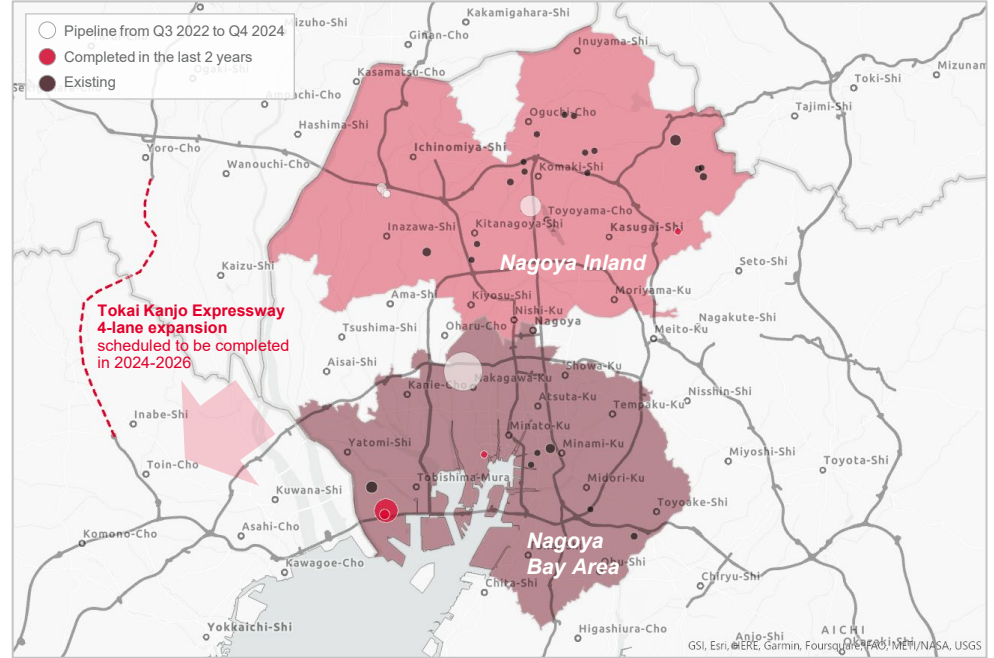
Source: LNEWS

### ASKING RENT BY SUB-MARKET



Source: Cushman & Wakefield

### NAGOYA LOGISTICS MAP BY SUBMARKET



Source: Cushman & Wakefield

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