

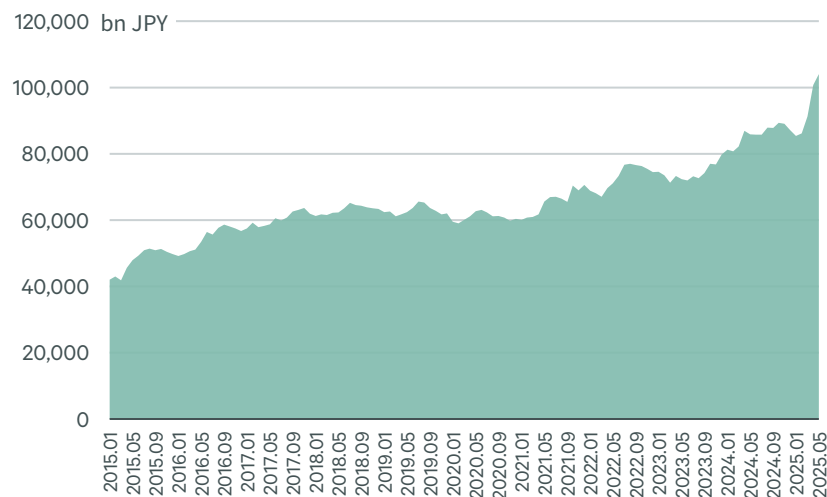
Inflection Point: Japan Logistics Demand to Outpace Supply in 2027

August 2025

1. Increase in General Contractors' Backlogs Drives up Construction Costs

Japan's general contractors' backlogs have continued to accumulate this year. As of May 2025, backlogs for non-residential private-sector construction stood at JPY 10.4 trillion, an increase of roughly 50% in three years.

Figure 1: Non-Residential Private-Sector Construction Backlogs (nationwide)



Source: Ministry of Land, Infrastructure, Transport and Tourism "Construction Statistics", May 2025.

The rise in construction demand is being driven by the many large-scale redevelopment projects led by Japanese real estate developers in key cities across Japan. Many developers are also expanding their asset turnover business, which involves the acquisition of land, development (construction), and the sale of property to investors and other parties.

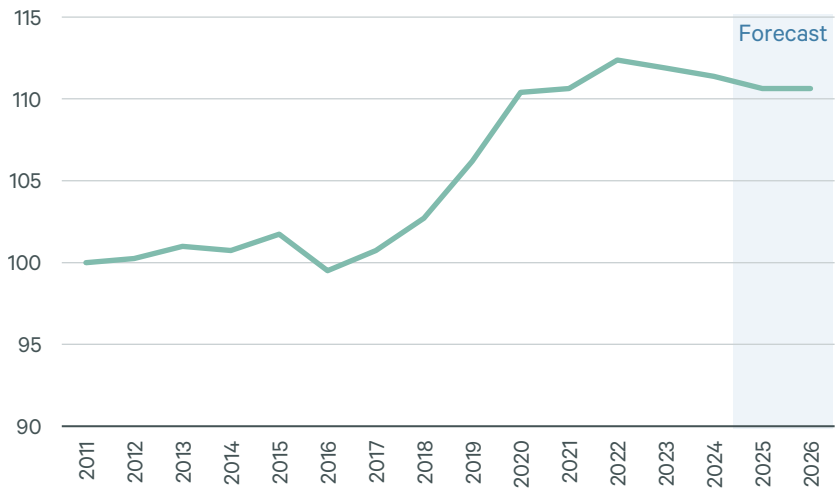
In addition, Japanese manufacturers are increasing capital investment, such as that to establish and expand production bases. As a result, construction demand has been rising across the board, from large- to small-sized projects.

Owing to robust demand, general contractors are struggling with construction backlogs. The primary reason for this is the shortage of labor. The aging and declining workforce in Japan’s construction industry, coupled with ongoing work-style reforms to attract employees, has elongated project durations. The supply-demand balance in the construction industry has tightened, pushing up construction costs. For new projects, developers are frequently receiving bids that exceed the costs they had initially estimated when acquiring the land for development.

2. Greater Tokyo LMT Supply Expected to Drop Sharply in 2027

Rising construction costs have negatively impacted the development of new logistics facilities, especially as rental increases for logistics facilities are likely to remain mild. From 2011 to 2022, rents for Large Multi-Tenant (LMT) logistics facilities in Greater Tokyo increased by 12%, but have been declining moderately since. While CBRE expects rents to rise in the Tokyo Bay and Gaikando areas, the lack of any growth in the Ken-o-do area means overall rents for Greater Tokyo are likely to continue to decline gradually until 2026 (Figure 2). This means developers are likely to be increasingly selective, prioritizing locations and types of logistics facilities where they can expect rental growth.

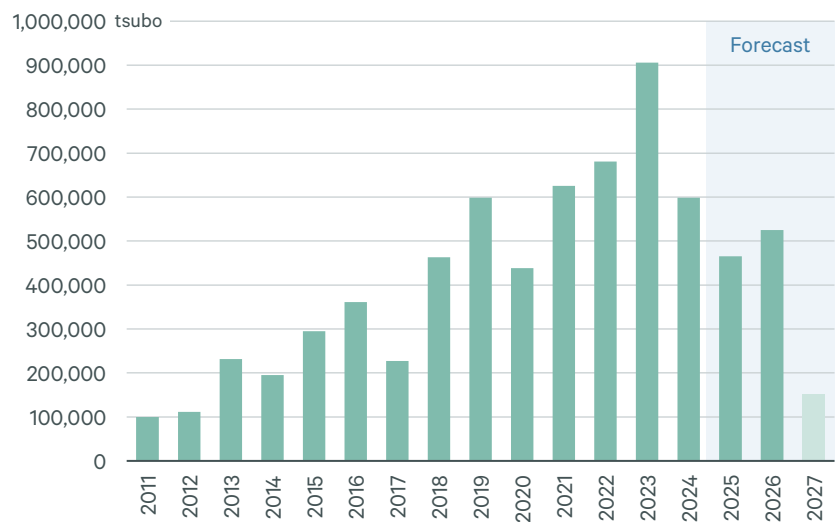
Figure 2: Effective Rent Index for LMT Facilities in Greater Tokyo (2011=100)



Source: CBRE, Q2 2025

Due to these reasons, the new supply of LMT facilities in Greater Tokyo is expected to decrease significantly. CBRE forecasts new LMT supply of approximately 465,000 tsubo in 2025 and 525,000 tsubo in 2026, but only about 152,000 tsubo in 2027 (Figure 3). This represents an 83% drop from the record-high supply in 2023 and would be the lowest level seen in about 15 years.

Figure 3: New LMT Supply in Greater Tokyo



Source: CBRE, Q2 2025

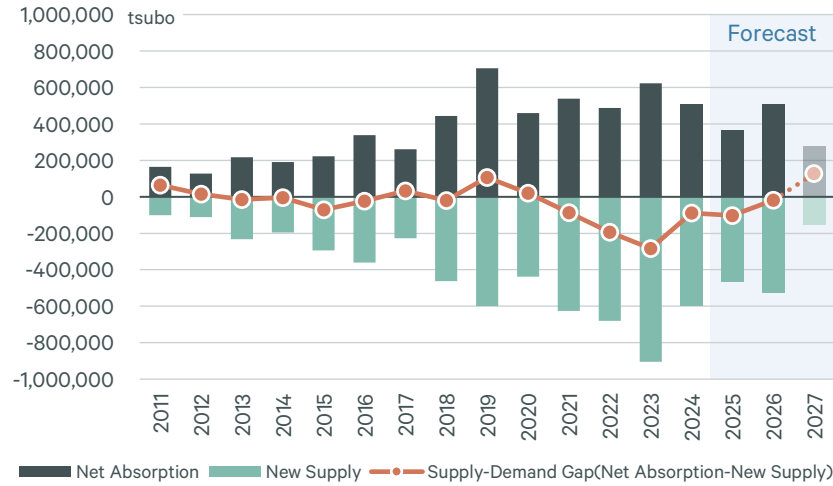
3. Robust Net Absorption to Outpace New Supply in 2027

Occupier demand for LMT space remains firm. In 2024, net absorption reached 509,000 tsubo, indicating continued strong demand for large, modern facilities with multi-level truck access, which are key to improving logistics efficiency. Tenant demand for the purpose of re-evaluating and relocating logistics hubs to maintain and strengthen supply chains has also been observed.

Tenants are also facing increased costs due to a labor shortage and rising prices, such as gasoline costs. This has led tenants to tighten their criteria when selecting new LMT premises, considering factors like the potential for shorter delivery distances and whether the facility provides a good working environment. Tenant interest appears to be especially strong for facilities located in logistics hubs that can boost delivery efficiency and facilities that offer amenities and common areas for the comfort of employees.

Considering these factors, CBRE projects LMT net absorption to reach 363,000 tsubo in 2025 and 507,000 tsubo in 2026.

Figure 4: Supply-Demand Gap of LMT Facilities in Greater Tokyo



Source: CBRE, Q2 2025

While net absorption in 2027 may be somewhat subdued due to new supply shrinking to 152,000 tsubo, CBRE still expects net absorption to reach 279,000 tsubo. The Greater Tokyo LMT market, which has been in a state of oversupply since 2021, is therefore expected to shift to a demand surplus in 2027 for the first time in six years (Figure 4). The surplus of 127,000 tsubo is more than that observed in 2019, when the market saw a steep drop in the vacancy rate. Based on CBRE’s current projections, net absorption is likely to exceed new supply in all four Greater Tokyo submarkets, including the Ken-o-do area.

After a prolonged period of significant new supply, the LMT market in Greater Tokyo is likely to reach an inflection point in 2027.

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