Global Industrial View

Q1 2013

CBRE Global Research and Consulting

The Global Industrial View is designed to provide an immediate view of prime logistics rents across key global markets.

KEEN COMPETITION FOR MODERN FACILITIES AMID LIMITED STOCK

The Global Industrial Logistics markets were quiet, with little change in the top rankings by rent level relative to the previous quarter, as many occupiers waited for clearer indications that global economic demand and trade had strengthened. Additionally, availability for prime spaces with large floor plates remained limited, leaving occupiers who wished to consolidate few viable options. Low development pipelines have nevertheless served to buoy rents across the globe's most expensive prime Industrial Logistics markets.

Each quarter, CBRE Research closely tracks and ranks the most expensive prime logistics rents across 55 global markets, on a US$ per sq. ft. per annum basis. This ranking for the top 10 is featured in Table 1. The world's most expensive Industrial market, Greater Tokyo, saw expansionary demand this quarter on the back of strong demand from third party logistics firms and internet retailers. Accordingly, the vacancy rate for large multi-tenant logistics facilities decreased by 90 bps to 2.9%. In addition to an optimistic demand-side, a substantial amount of new supply has been added to Tokyo's market to-date in 2013, some of which was highly sought large, modern, contiguous blocks of space, which remain limited elsewhere throughout the Asia Pacific region.

From a regional perspective, Asia Pacific markets represent the majority of the globe's most expensive markets, including Greater Tokyo, Singapore, Hong Kong, Brisbane, Sydney and Perth. Ranking as the fifth most expensive market, Hong Kong's leasing market was busy with relocation demand because tenants from revitalized industrial buildings in the Kowloon East area were urged to move out.

EMEA markets took second in regional representation with the inclusion of London, Stockholm and Paris. Meanwhile, the U.S. and Canada had no representation in the top 10 and only one Latin American market, São Paulo, made the cut.

Table 1: CBRE Global Logistics Prime Rent Ranking, US$ per Sq. Ft. per Annum Basis

Markets	Q1 2013 US$ per Sq. Ft. per Annum	Q1 2013 Local Measurement	Quarterly Growth Based On Local Measurement
Greater Tokyo	$20.70	JPY 162 psf pm	5.7%
London	$18.99	STG 13 psf pa	0.0%
Singapore	$17.32	S$ 2 psf pm	0.0%
Stockholm	$14.22	SEK 1000 psm pa	0.0%
Hong Kong	$13.31	HK$ 9 psf pm	2.3%
São Paulo/ Campinas	$12.49	USD$ 13 psf pa	0.0%
Brisbane	$11.71	AU$ 121 psm pa	-0.3%
Sydney	$11.10	AU$ 115 psm pa	0.0%
Perth	$11.07	AU$ 115 psm pa	0.4%
Paris	$10.72	Euro 90 psm pa	0.0%

Source: CBRE Research, Q1 2013.

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HONG KONG AND PERTH'S LIMITED AVAILABILITY OF PRIME SPACE SPARKS SLIGHT RENT GROWTH

While rent growth stalled in the majority of the top 10 markets, preference for, and limited availability of, prime space unified the few markets which recorded ever-so-slight growth; this was the case for Hong Kong and Perth. In both markets, existing logistics facilities enjoyed high occupancies with limited future supply expectations.

Leasing demand for quality industrial space in Hong Kong was resilient on the back of rebounded retail sales growth, relocation demand and solid occupying requirements. Data center service providers, which were competing for large spaces and able to afford higher rent, have been actively looking for industrial properties.

Tight availabilities have helped boost rent levels slightly, by 0.4% quarter-over-quarter in Perth as well. Despite that the leasing activity was soft in Q1 2013, the market's resource sector continued to drive demand for quality, large units from tenants associated to the liquefied natural gas sector.

Rents across Brisbane remained stable over the quarter; however, upward pressure emerged for Grade A distribution facilities, driven by demand from the transport and logistics sector. Here too, availability rates were low for quality properties.

The attraction towards prime, large spaces was also evident in European markets such as London, Stockholm and Paris, which rank second, fourth and tenth, respectively in Table 1. Many corporations were well-into the process of consolidating into fewer core assets, which sometimes involves taking larger buildings. As such, the limited options available for occupiers seeking quality stock in large floor-plates have served to ease leasing activity. Vacancies nevertheless remained constrained on the prime end, serving to support prevailing rent levels in all three European markets included in the top 10 ranking.

GREATER TOKYO, SÃO PAULO, SINGAPORE AND SYDNEY WERE DISTINGUISHED BY LARGER SUPPLY PIPELINES

Greater Tokyo has already seen 11 million sq. ft. of space introduced to the market in 2013 and a few of these projects are of the most preferred occupier specifications—modern facilities of over 1 million sq. ft. of contiguous space. These specifications are unique as most of the new supply in Asia Pacific has been in small-to-medium size scales and more larger-scale projects aren't expected until 2014 across the region as a whole. Despite that new supply in 2013 will be higher than the historical average, oversupply is unlikely as half of the new space has been pre-committed. Expansionary demand was broad-based and suggests rental growth will continue going forward.

São Paulo and Sydney's rent growth was paused this quarter; however, this was less a result of demand conditions and more linked to supply-side dynamics. Sydney's industrial logistics rents held steady in Q1 due a restriction in the availability of high quality, well-placed stock. Sydney's new completions in 2012 were robust and its supply pipeline is also expected to remain strong in the short-to-medium term.

Similarly, São Paulo continues to witness high levels of demand; however, a sizeable amount of new inventory hit the market, which caused total Class A inventories to rise by 3.4% in Q1. Thanks to a preference for prime space, and even despite a rise in Class A vacancy, rents held firm.

Singapore's rents have been supported by tight supply and healthy demand on the back of positive trade dynamics and logistics REITs' demand. Even though a large amount of future logistics supply is in the development pipeline for 2013 through the end of 2014, some of this logistics supply will be catered for specific uses such as chemicals and a cold hub for seafood, which are not direct substitutes to each other. As such, rents could vary across developments and locations.

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CONCLUSION

Rents across the majority of the world's most expensive logistics markets held steady again in Q1. Third-party logistics operators and retail companies continued to be primary sources of demand in markets such as Tokyo, where expansionary demand helped improve rents by 5.8% quarter-over-quarter.

Pockets of growth were recorded for Hong Kong, and slightly for Perth, thanks to exceptionally tight availabilities of prime space. Demand for both markets wasn't particularly strong; however a few local factors supported their slight improvements. The resource sector continues to drive demand in Perth, where tenants associated with liquefied natural gas sector searched for high quality, large units in tight supply. Meanwhile, Hong Kong's market was active mainly due to relocation demand. Demand for prime space extended across to markets such as Brisbane as well.

While the quiet nature of rent growth in Q1 can partially be attributed to occupier reluctance and cost-containment (particularly in the form of space consolidations), occupiers looking to move were faced with very few options that met their desired specifications as large blocks of prime space in the best locations remained hard to find and expensive.

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