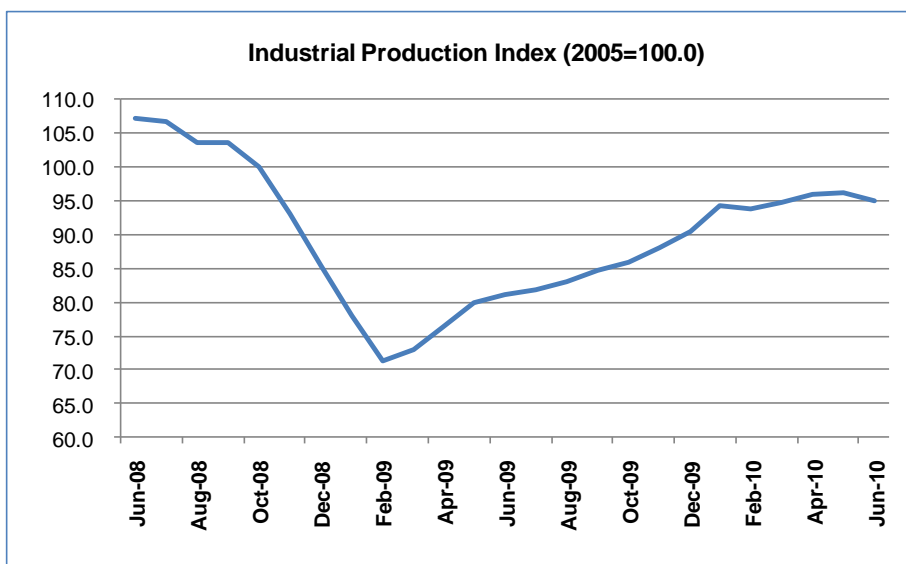


Japanese Logistics Market by the end of Q2 2010

Japanese economy

Although the Bank of Japan had recently raised its economic forecast for the current fiscal year, GDP figures for Q2 2010 were disappointing. Japan's economic growth rate was well short of expectations with real GDP rising an annualized 0.4% in Q2 2010. This was the slowest pace in three quarters compared to a revised 4.4% annualized increase in Q1 2010. Stagnant consumption, slowing industrial production and flagging exports weighed on the local economy which is already struggling with persistent deflation.



Source: Ministry of Economy, Trade and Industry

Adding further uncertainty to the outlook for Japanese exports is the strengthening of the yen, given that a strong currency makes Japanese products less competitive overseas. Furthermore, Japan's public debt rose to 218% of GDP in 2009 and without a fiscal adjustment could approach 250% by 2030. In spite of the lower than expected Q2 2010 GDP result, however, some analysts believe that business spending and consumption will improve in the coming months.



Japanese real estate market

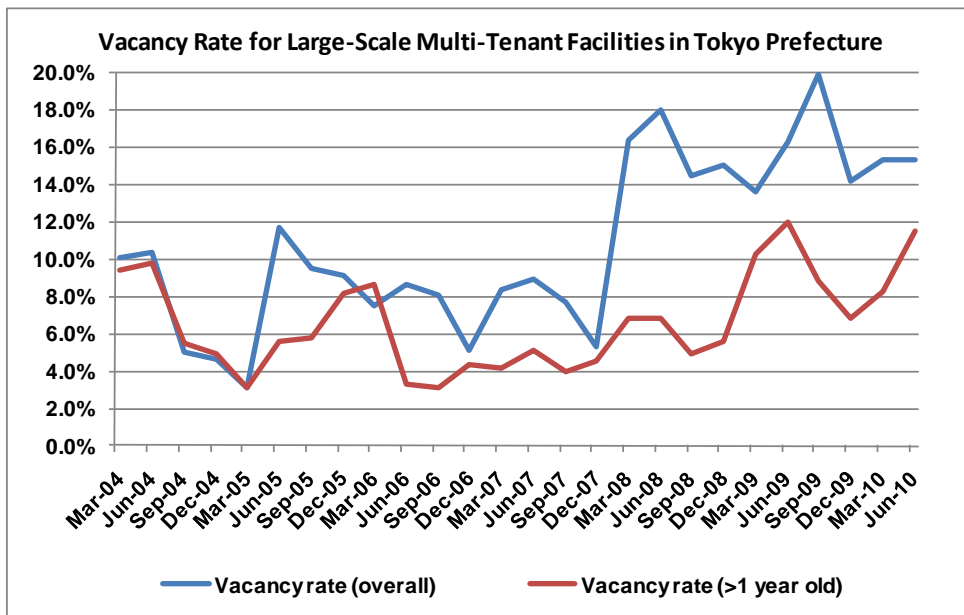
In spite of the flat economic environment, investor sentiment in the Japanese real estate investment market continued to improve through Q2 2010 and shrugged off economic concerns from other markets. There were a series of small and medium sized deals for assets in Tokyo and growing interest among foreign investors looking to come back to the market. Furthermore, Japanese banks have become more positive on lending to real estate.

Domestic investors made up most of the buyers for the bulk of completed transactions, but interest among foreign investors continued to rise with many buyers attracted by the Tokyo market's strong fundamentals. There was a noticeable increase in interest in suburban retail and logistics assets in the greater Tokyo area, and also for properties in cities such as Osaka and Fukuoka.

The Singapore-based Mapletree Investments plans to launch a US\$500 million Japanese real estate fund this year. The fund is to be called the Japan Business Space Fund which will own a platform of business-related properties such as data centres, call centres, R&D facilities, and peripheral office buildings. Mapletree, by way of its presence in Tokyo, plans to continue expanding its platform in Japan.

Logistics real estate sector

According to CB Richard Ellis, which monitors a basket of large-scale multi-tenant distribution facilities in Tokyo Prefecture, the average vacancy rate remained unchanged between March and June 2010. With no new recent supply in the Tokyo logistics market, this has provided some downward pressure on vacancy rates since mid-2009. New supply is likely to remain limited hereafter, but the vacancy rate could also remain relatively high if demand stays weak.



Source: CBRE

LaSalle Investment Management has continued its pursuit of Japanese logistics assets with the acquisition of three Tokyo Bay properties for a price consideration in the range of JPY 5 to 7 billion. Whilst these assets are reported to not be of a high specification, they are in prime locations.

The real estate arm of Singapore's main sovereign wealth fund, the Government of Singapore Investment Corporation (GIC), is close to giving the go-ahead for an IPO of its Global Logistics Properties (GLP) unit. GLP is Asia's largest industrial and infrastructure provider, which owns some of the premier logistics facilities in Japan with a total GFA of about 2.5 million sqm. GLP's core assets are the industrial properties in Japan and China which were acquired for US\$1.3 billion in 2008 from ProLogis.



Outlook

The economic outlook for Japan, now the third largest economy in the world after China, has not improved markedly over the course of 2010. The worse than expected Q2 2010 GDP figures have also added to concerns that Japan's fragile economic recovery may be running out of steam. However, in the real estate investment market there is a growing sense among investors that Japan (especially Tokyo) is still a good destination in which to allocate funds.

With little new supply expected in the Japanese logistics real estate market, coupled with the investor demand for logistics assets, the fundamentals in the sector still look attractive compared to other sectors. Therefore, in the short-medium term, rents are not expected to decline much further and vacancy rates are expected to stabilise. Valuations for existing properties and recent transaction evidence suggest that cap rates will not expand any further, unless some unforeseeable events occur.

Looking ahead, the market should remain positive and we could see some larger transactions as a number of funds are under a certain amount of pressure to spend raised equity within a limited timeframe. However it will be challenging for investors to secure attractive deals as there is a lack of quality stock currently available on the market.

Source: Pelham Higgins SCA Japan Representative