MARKETBEAT

JAPAN

Retail Q3 2023

	YoY Chg.	12-Mo. Forecast
¥370,000 Harajuku/Omotesando Prime Rent	▲	▲
-6.5% (y-o-y) Household Income, Real	▼	—
6.6% (y-o-y) Retail Sales Growth, Seasonally Adjusted	▲	—

Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

ECONOMIC INDICATORS Q3 2023

	YoY Chg.	12-Mo. Forecast
-2.1% Real GDP Growth (Annualized, SAAR)	▼	▼
2.8% Core CPI Growth (y-o-y)	▲	▼
2.6% Unemployment Rate Seasonally Adjusted	—	—

Source: Cabinet Office, MIC, METI, Oxford Economics, Moody's Analytics

[1]*Bank of Japan "Outlook for Economic Activity and Prices" as of November 2023*

[2] *Prepared by Cushman & Wakefield based on figures from Ministry of Finance "Statistics on Corporate Corporations" on an all-size and all-industry basis, and the National Institute for Labor Policy Research.*

[3] *JCB Consumption NOW (Monthly indicators based on credit card consumption)*

Economy:

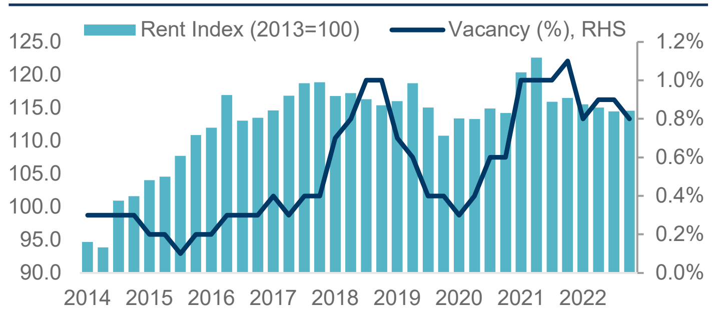
The national unemployment rate remained unchanged at 2.6% in Q3 2023, albeit private consumption has already begun to drop. On the demand side, the real household income level declined by 6.5% y-o-y, widening the quarterly decline by 1.8 pp. The combination of a weak yen and higher oil prices since August 2023 pulled the September Consumer Confidence Index (CCI) down to 35.2. The future focus remains on an elevated inflation level. The imported input price rise peaked in September 2022, but the September nationwide core CPI remained high, up 2.8% y-o-y, leading to the Bank of Japan's upward CPI forecast adjustments[1] to 2.8% for 2024 and 1.7% for 2025. However, the improving corporate earnings outlook has already lifted ordinary income per employee[2] to a historical high since the 1990s, leading to the market consensus forecast of a 5% wage increase via the 2024 annual wage negotiations between the labor unions and employers. A 5% wage hike with positive real wage growth could support a modest recovery in consumer spending ahead.

Supply and Demand:

Retail sales rose 0.6% y-o-y in Q2 2023, primarily in major urban transportation hubs in support of renewed social activity. Nominal retail sales rose 6.6% y-o-y in Q3, with the trailing 3-month average of real retail sales growth at 0.7% y-o-y. Overall, increased urban foot traffic in major cities led to stronger retail sales in major transportation hub facilities. The quarterly drug store sales rate (+9.3% y-o-y) has risen in response to growing inbound tourism. However, despite marking 20 consecutive months of recovery, department store sales decelerated, capping the quarterly increase at 10.0%, somewhat below the 17.2% of Q3 in 2022. Spending on daily necessities remains near flat, after offsetting inflation impacts, with modest quarterly sales growth at supermarkets (+3.8% y-o-y) and convenience stores (+5.2% y-o-y). Despite an ongoing recovery in dining and hospitality spending, the leading indicator[3] suggests a peak in overall service consumption due to higher prices, capping the level of service consumption at around 10% lower than the pre-COVID average up to 2019.

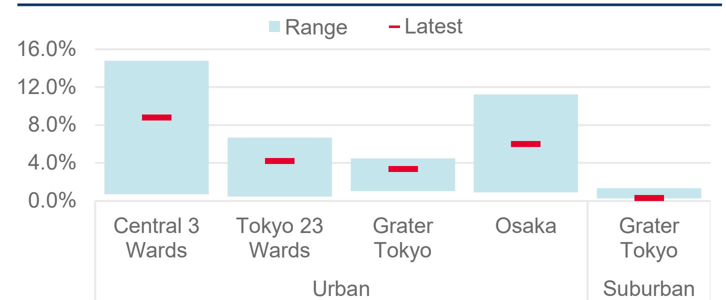
New development announcements of large mixed-use urban facilities directly connected to major stations continued in Q3. JR East and Keikyu group launched the Shinagawa Station North-South development (GFA: 0.4 million sq m), to break ground in 2025. Featuring two 28-story structures, retail facilities are planned to occupy the lower floors. Also, Sumitomo R & D and Goyo Construction jointly announced the Koraku 2-chome South District Redevelopment (GFA: 0.3 million sq m), adjacent to Iidabashi station, featuring a 35-story structure, to break ground in 2030. Elsewhere, Mitsui Fudosan continues to deliver a series of popular suburban lifestyle retail complexes, including a neighborhood shopping center in Okazaki City, Aichi Prefecture (GFA: 30,100 sq m), and an outlet mall in the adjacent Anjo City (GFA: 41,700 sq m), opening after spring 2025.

RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

HISTORICAL* VACANCY RATE BY ASSET TYPE/AREA



** Historical since January 2013*
Source: ARES

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Occupier Transactions:

High-end brand store openings continued, partially led by spending on jewelry or high resell value items. Global jewelry brand Boucheron ‘s largest flagship store opened in Ginza. Tiffany also opened a new store featuring wedding items within a renovated wedding hall facility at Anniversaire Omotesando. With the tailwind of growing inbound tourist spending, Onitsuka Tiger launched a concept store along Harumi-dori in Ginza. UGG also opened its first flagship store along Meiji Dori in Harajuku. During the quarter, Omotesando and Shibuya recorded another quarterly increase in their top rents. Over the past two years, Omotesando has achieved a notable annual rent increase of approximately 10%, tracking well above the top rent of ¥300,000 seen at the end of 2019.

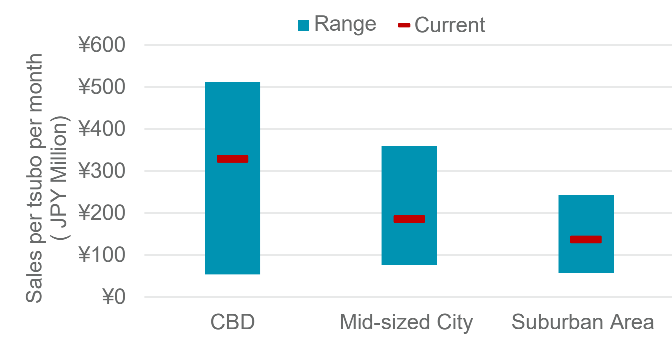
Renewed social activities have expanded the scope of leasing activities beyond Tier 1 locations. Rents have started to normalize in lower tier districts. Since the end of 2022, rental increases in Ginza, Omotesando, and Shibuya have been extending toward outer districts where middle or lower-end brands tend to locate. However, in the absence of major redevelopment, demand in secondary retail areas, such as Ikebukuro, Kichijoji, and Kobe, remains weak in the post-pandemic world. A series of renewal efforts, including a shift to more experience-based store formats or a smaller size of retail floor, has not delivered a notable rental recovery since the pandemic.

By location and tenant attribute, urban retail sales in major cities have seen a notable recovery in recent quarters. With growing tourism demand, retail sales in Fukuoka, Kyoto, and Osaka have recorded an annual gain of 20%, outpacing the corresponding sales growth in the Tokyo 23 wards. By tenant type, large anchor tenants continue to underperform with lower-than-expected recovery in retail sales. This is consistent with an ongoing shift toward the smaller service store format attracting more demand in the post-pandemic world.

Outlook

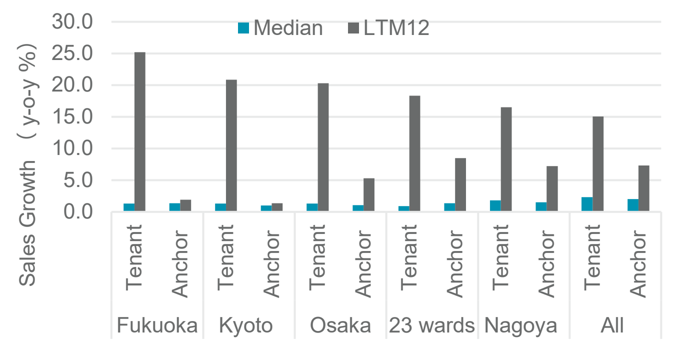
- **Top rents in luxury districts to increase:** Top rents in Ginza, Omotesando and Shinsaibashi have already exceeded pre-COVID levels, with further increases expected over the next 12 months. In these luxury retail districts, landlords can transfer cost increases to their tenants, lifting the lower levels of rent in Ginza, Omotesando and Shinsaibashi. With a series of major redevelopment initiatives running through 2030, we advise to monitor if this will translate into overall rental growth along with the arrival of major redevelopment projects.
- **Overall inflation-adjusted rents to remain flat:** Although top rents in prime locations are expected to continue to rise moderately, we see a cycle of overall rental growth lagging behind the inflation rate in the next two years. More tenants are unwilling to accept rental increases as retail sales growth is largely offset by rises in labor, energy and material expenses. We expect most tenants’ capacity to pay rent will remain weak along with the overall weak consumption trend.

Average Sales per Tsubo by Store Location (Since 2016)



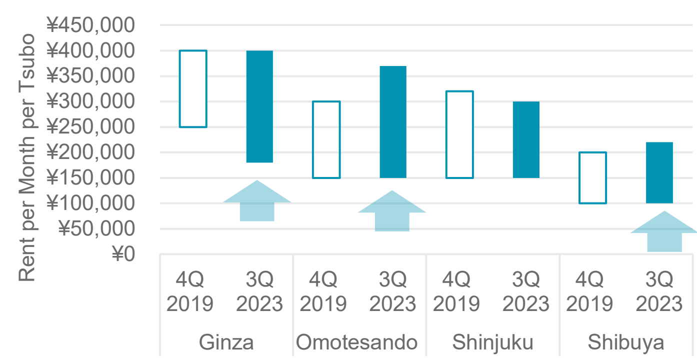
Source: Japan Council of Shopping Centers (JSCC), Cushman & Wakefield

Monthly Sales Growth % by Tenant Type (Since 2016)



Source: SC White Paper 2023, JSCC

Tokyo CBD: Pre/ Post-COVID-19 of Tier 1 Rent Range



Source: Cushman & Wakefield (Store rents refer to Top Tier 1 rent)

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KEY LEASE TRANSACTIONS

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
UGG	4-31-12 Jingumae, Shibuya	Harajuku	4,377
Onitsuka Tiger	5-6-2 Ginza, Chuo	Ginza	1,352
BOUCHERON	2-6-16 Ginza, Chuo	Ginza	10,782
Tiffany	3-5-30 Kita Aoyama, Minato	Omotesando	8,255

Source: Cushman & Wakefield

KEY NEW SC OPENING

PROPERTY	PURPOSE	OWNER/ DEVELOPER	SUBMARKET	RSF (Approx.)
dogenzaka-dori	Retail, Hotel, Office	Pan Pacific International	Shibuya	19,375
Toranomon Hills Station Tower	Retail, Residential, Hotel, Office	Mori Building	Toranomon	282,017

Source: Company disclosure, Cushman & Wakefield

Major SC CLOSING

PROPERTY	PURPOSE	OWNER/ DEVELOPER	SUBMARKET	RSF / GFA (Approx.)
Yurakucho Building	Retail, Office, Cinema	Mitsubishi Estate	Yurakucho	453,799
Shin Yurakucho Building	Retail, Office	Mitsubishi Estate	Yurakucho	893,660
Sapporo Esta	Retail	Hokkaido Railway Company	Sapporo	931,969

Source: Company disclosure, Cushman & Wakefield

PRIME RENTAL RATES: TOP/BOTTOM RENT (TIER 1)

Figures in blue indicate upward revisions for Q3

SUBMARKET	TOP JPY/Tsubo/Mo	BOTTOM JPY/Tsubo/Mo	TOP FORECAST	BOTTOM FORECAST
Ginza	400,000	180,000	▲	▬
Harajuku/Omotesando	370,000	150,000	▲	▬
Shinjuku	300,000	150,000	▬	▬
Shibuya	220,000	100,000	▬	▬
Shinsaibashi/Midosuji	320,000	100,000	▲	▬
Sakae	110,000	45,000	▬	▬
Tenjin	100,000	50,000	▬	▬
Kyoto	90,000	50,000	▲	▬
Sapporo	60,000	35,000	▲	▬

Source: Cushman & Wakefield

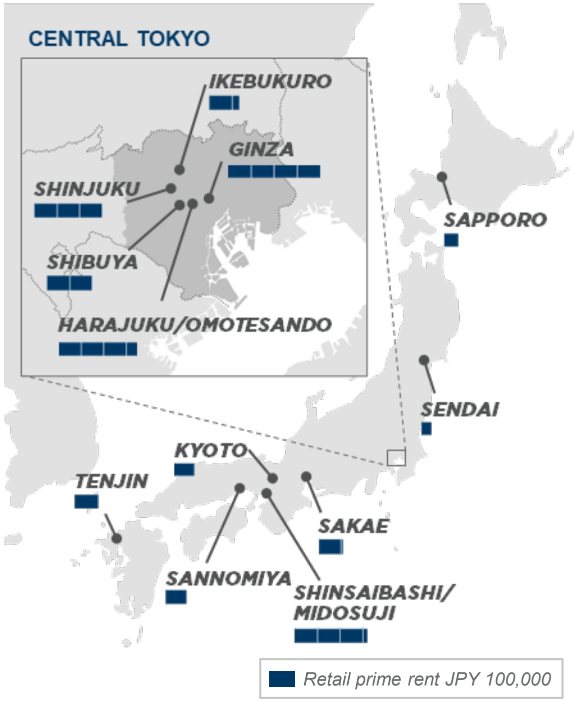
UGG (Harajuku)

Onitsuka Tiger (Ginza)

BOUCHERON (Ginza)

Tiffany (Omotesando)

Source: Cushman & Wakefield



Source: Cushman & Wakefield

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