

A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION

PRIME RETAIL MARKETS
ACROSS JAPAN

RE-SHAPING FOR MILLENNIALS & INBOUND TOURISTS

SEPTEMBER 2018

INSIGHTS
INTO
ACTION



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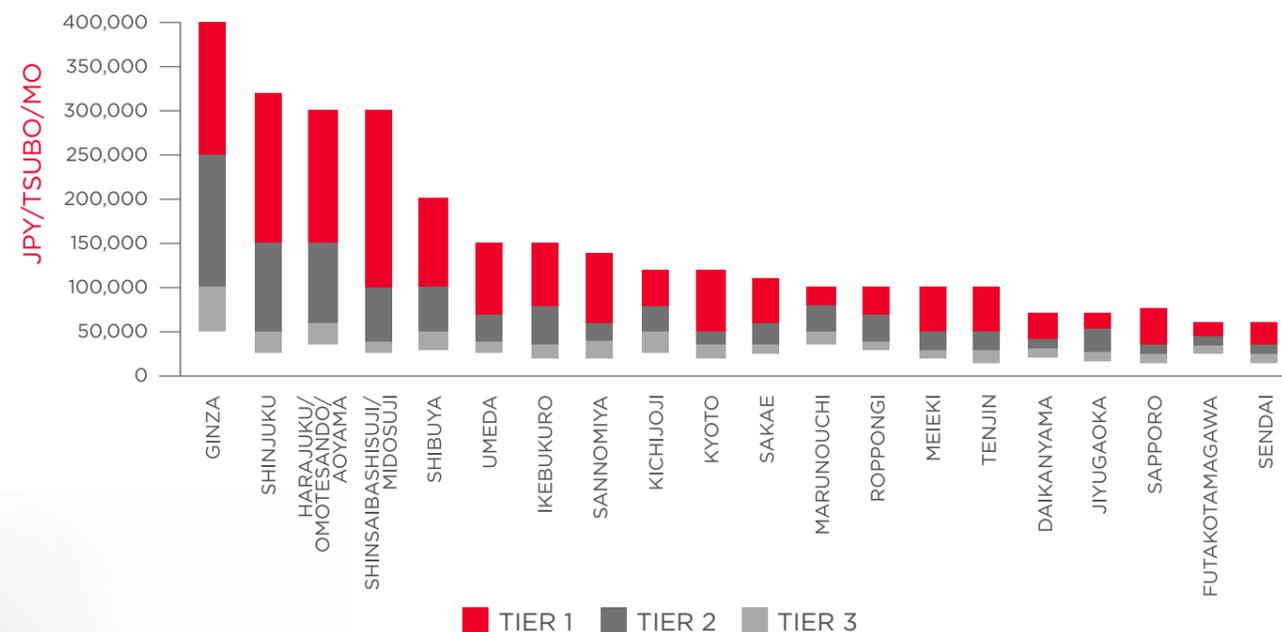
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**PRIME RETAIL MARKETS
ACROSS JAPAN**

Japan's retail landscape is shifting as evident on this year's rent ranking. What's behind this change is the increasing significance of the rise of Millennials and inbound tourism.

MAIN STREET RENT RANKING



AREA	Q2 2018	2017	2016	JPY/TSUBO/MO	USD/SF/YR
Ginza, Tokyo	1	1	1	400,000	1,220
Shinjuku, Tokyo	2	3	2	320,000	976
Harajuku/Omotesando/Aoyama, Tokyo	3	2	2	300,000	915
Shinsaibashisuji/Midosuji, Osaka	3	4	5	300,000	915
Shibuya, Tokyo	5	5	4	200,000	610
Umeda, Osaka	6	6	8	150,000	457
Ikebukuro, Tokyo	6	6	6	150,000	457
Sannomiya, Kobe	8	-	-	140,000	427
Kichijoji, Tokyo	9	8	6	120,000	366
Shijo Dori, Kyoto	9	-	-	120,000	366
Sakae, Nagoya	11	9	8	100,000	305
Marunouchi, Tokyo	11	10	12	100,000	305
Roppongi, Tokyo	11	10	8	100,000	305
Meieki (Nagoya Station), Nagoya	11	-	-	100,000	305
Tenjin, Fukuoka	11	12	8	100,000	305
Daikanyama, Tokyo	16	13	14	80,000	244
Jiyugaoka, Tokyo	16	13	12	80,000	244
Sapporo, Hokkaido	18	15	17	75,000	229
Futakotamagawa, Tokyo	19	16	15	60,000	183
Sendai, Miyagi	19	16	15	60,000	183



HIBIYA REDEFINING entertainment

MIDTOWN HIBIYA WELCOMES

4 TIMES

**MORE VISITORS
THAN TARGETED**

Tokyo Midtown Hibiya opened beside the beautiful Hibiya Park, between Marunouchi and Ginza, in March 2018. Within two months of opening, more than 4 million people had visited the building, casting aside any doubt about whether it would reach its annual target of 12 million people at a faster pace. More than half of the tenants are cafes and restaurants, including ones that are opening in

Japan for the first time. The center is connected via an underground food hall to Hibiya Station, in keeping with the recent F&B trend. Hibiya is now a business district that used to be an area where diplomats gathered to socialize which symbolized the modernization of Japan. The area was home to the magnificent Imperial Hotel, designed by American architect Frank Lloyd Wright, and many cultural facilities such as Rokumeikan existed until mid 20th century. The neighboring retail facility, Hibiya Chanter, also underwent large-scale renewal to coincide with the opening of Midtown Hibiya. These changes led to a 70% increase in visitors to the renewed facility compared to a year ago, contributing to a flourishing atmosphere. In addition, a new development project initiative has already begun.

SHINJUKU MADE A leap forward

Shinjuku's prime retail rents rose 14.8% over the last 12 months, due to continued demand from retailers. The increase placed Shinjuku ahead of Omotesando, Harajuku, Aoyama, and Shinsaibashi, as the second most expensive prime retail area in Japan. Shinjuku had long been in fierce competition with Omotesando, overtaking it for the first time ever.

Shinjuku has always been in demand among retailers, but traditionally it was home to a "melting pot" of all kinds of shops. However, more recently community oriented retailers that focus on customer experiences and interactions have begun gathering in the area. For example, Apple opened a shop in Shinjuku focusing on this concept in April 2018. Community-oriented stores are

conducting workshops and events. Shinjuku used to be a place that people passed through, but visitors now see it as a place to enjoy new experiences. More street-side retailers will open on Shinjuku-dori, between Shinjuku Station and the Shinjuku 3-chome intersection, which is expected to further boost rents in the area. Retailers relocating from older buildings into the newly constructed buildings such as Gucci will also help revitalize the area. In addition, the future redevelopment of building clusters adjacent to Shinjuku Station will further strengthen the retail scene of the world's busiest station.

SHINJUKU'S PRIME RETAIL RENTS ROSE

14.8%

**OVER THE LAST
12 MONTHS**



Luxury brands SEEKING OUT MILLENNIALS

Luxury retailers are redefining their brand image by hiring new designers who are well recognized in men's street fashion. This vital move together with a focus on digital communication is to attract Millennials. Retailers are turning to short-term pop-up stores - in addition to permanent shops - for the launch of new collection with limited items to boost sales and maintain relevance.

Louis Vuitton launched a pop-up store at the former GAP site in Shibuya during Golden Week. It offered a limited edition collection in a pop-up section, a floor for retail, and a second floor devoted to Millennials, with digital installation tools to grab attention. Millennial consumers value Instagrammable experiences they can share, and Luis Vuitton's shop created waves within two weeks, successfully using these elements.

Inclusive experiences, and surprise & discovery elements, stimulate buying intent. Shopping centers and retailers are blurring the lines between offline and online. The concept of "shopping" is no longer just about buying products. It is also about researching products by communicating with store staff - not just through shop visits but through social networking sites - to collect information about the merchandise they are seeking.

TURNING TO E-COMMERCE PLATFORMS

The strategic development of luxury e-commerce platforms has been remarkable. Luxury brands used to focus on high street retail and private online stores. But they have recently been expanding on Farfetch, a global online shopping mall for designer clothes. The partnership includes Gucci's 90-minute delivery service in 10 cities globally, Burberry's use of the Farfetch platform to allow customers to check inventory and buy online, and Chanel's collaboration to develop digital content for Millennials. This trend signifies luxury brands' evolving approach to reach out to new generations of fashionistas while nurturing brand heritage.

LUXURY STREET WINNING YOUNG CONSUMERS PLATFORMS

The "Luxury Street" is well known for offering a mix of luxury brands and streetwear. Many popular collaborations have been introduced at pop-up events, which have developed into a social phenomenon. Successful collaborations include those between Jimmy Choo and Off-White, and Louis Vuitton and Supreme. Their popularity is exploding among Millennials and post-Millennial Generation Z. Luxury Street incorporates elements of street culture into the luxury look, such as sneakers, large hoodies, and logo items. The "Neo Street" movement, based on monochromatic themes, is also very popular. Many of these designers have carved out a unique niche away from the mainstream.

Then there is the new breed of designers who wear a variety of creative and career hats, such as DJ, who are referred to as "slashers.". It is said that Marcelo Burlon was one of the first of its kind. They are constantly looking beyond fashion to identify cultural links in activities such as sports and music. Some of these designers have recently been recognized by the big fashion houses and roped into design collaborations.



Naoko Hongo



Masahiro Tanaka

For example, Balenciaga has appointed Demna Gvasalia, co-founder of Vetements, to take the creative lead at the fashion house. Leading street brands are also on the cusp of joining the mainstream fashion industry. Brands that were, until recently, only popular among skaters - such as Supreme, Stussy, A Bathing Ape, and Palace Skateboards - are now extending their reach as many Hollywood celebrities, fashionistas, and social media influencers become fans of the brands. These brands stimulate sales by opening short-term pop-up stores that offer a limited number of items. It is common to see queues snaking in front of these stores, sometimes overnight. There is no doubt that pop-up stores will become mainstream for many luxury street brands.

LUXURY STREET

WELL KNOWN
FOR OFFERING A
MIX OF LUXURY
BRANDS AND
STREETWEAR

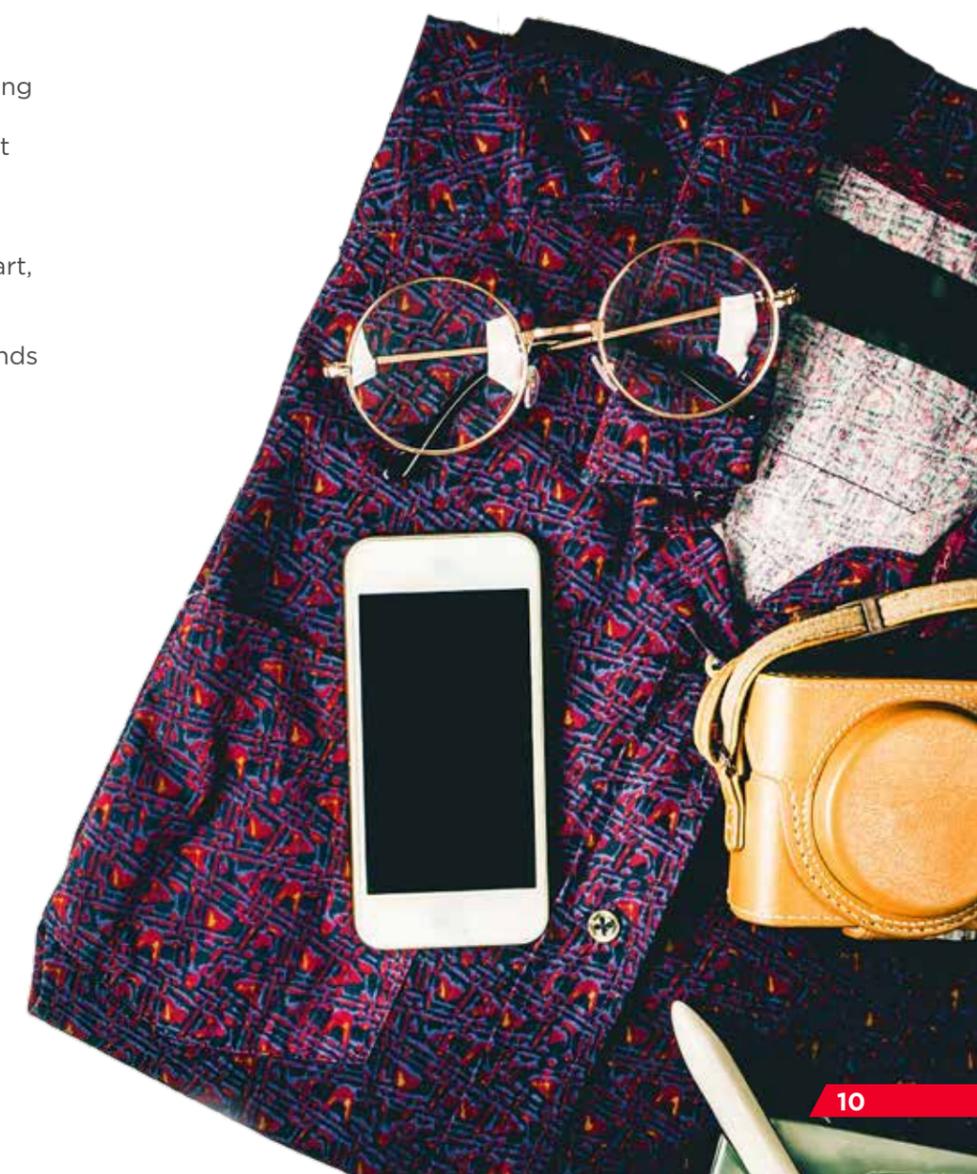


OMOTESANDO

HOME TO SOARING RENTS And Hide-and-Seek Shops

From Harajuku to Omotesando, in addition to Korean natural cosmetics retailers, domestic sneaker stores have opened. This reflects increased acceptance for relaxed dress code in Japan and inbound tourists favoring these brands. Several redevelopments are underway around Harajuku Station, ahead of the 2020 Summer Olympics. A well-known public residential block in Aoyama will be redeveloped as a mixed-use site, in addition to other redevelopments that are improving the convenience of Omotesando Station. Strong demand is continuing for branding showrooms from Omotesando to Aoyama. However, the current high rents are deterring some retailers from opening. In main streets such as Meiji-dori and Omotesando, after tenants depart, sites are standing empty due to soaring rents. In addition, an increasing number of street brands are looking for “hide-and-seek” locations that customers enjoy discovering.

SEVERAL
REDEVELOPMENT
PLANS ARE
UNDERWAY
LOOKING AT THE
2020
OLYMPICS
GAMES



“SephORIZATION” IS VITAL TO TODAY’S COSMETICS BUYERS

The beauty industry’s expansion is not limited to department stores. It has extended to options for freestanding locations. Consumers want to try before they buy and retailers are listening by offering more samples and bringing products out onto shelves, not placing them behind counters, in a trend dubbed “SephORIZATION” after the beauty store chain.

Sephora reported a 25% increase in buyer penetration and a 32% increase in regular buyer purchases in 2014, when it launched a new concept, Teach, Inspire, Play (TIP), in San Francisco. TIP features in-store education centers equipped with iPads, USB ports and Wi-Fi, as well as makeover and skincare stations, where consumers are helped to achieve a chosen look. Ultra had also a 41% increase in regular buyer purchases with this experiential concept.

In a similar vein, Jo Malone has launched a new brand, Jo Loves, in addition to the line that bears her name. Her new line is informed by consumers’ attitudes toward food, not beauty, she says. She has created a new retail experience, called Fragrance Tapas, in which consumers order four “courses” of fragrances. “We are creating together and the customers see the brand for the first time,” she says. This new retail experience, presented in an experimental store, has increased sales.

AUGMENTED REALITY FOR “TRY-ON”

ModiFace is an augmented reality app that gives users a “try-on”



Yurie Niino

capability, allowing them to test different lighting, make-up, and hair colors. ModiFace is now working with L’Oréal, Estée Lauder and Sephora to install mirrors in stores that augment changes in makeup and hair. ModiFace Chief Executive Officer Parham Aarabi says the technology will revolutionize the beauty industry.

AD DOLLERS GO ONLINE

The brand’s success illustrates the way that Millennials, who may spend hours on social media platforms watching video bloggers and influencers, are rewriting the rules. And brands are racing to evolve with the fast-changing market. Cosmetic companies are shifting ad dollars from traditional television and print platforms to Instagram and YouTube. These social media platforms allow people to review products, making recommendations to friends, colleagues, or family members. Influencers also have a tremendous social media presence. For example, Kylie Cosmetics, the online retailer established by 21-year-old Kylie Jenner, racked up more than US\$420 million in sales in just 18 months. Its advertising

efforts are minimal, largely consisting of Jenner’s Instagram account.

As the beauty industry attempts to integrate technology and social media, brands may open more freestanding locations where they can offer better customer experiences. For example, Chanel created a four-day experience in Los Angeles, called the Chanel Beauty House, as part of the launch of its Instagram page @welovecoco in March 2018. @welovecoco is dedicated to user-generated content featuring Chanel products. Users can tag the page and use the hashtag #welovecoco to create attractive content for other users to discover. The Chanel Beauty House provided an immersive experience for visitors – and helped Chanel achieve more than 3 million social media impressions for the #welovecoco hashtag. Although Japan is still relatively new to such strategies, they will become a norm in near future.

THE BRAND’S SUCCESS ILLUSTRATES

SOCIAL MEDIA

THE WAY THAT MILLENNIALS ARE REWRITING THE RULES.



New consumers redefining THE PHYSICAL STORE FOR SECOND-HAND RETAIL



Songshin Ko

DIGITAL TECHNOLOGIES AND DEMOGRAPHIC SHIFTS HAVE LED TO THE RISE OF SECONDHAND RETAIL.

TODAY'S YOUNG CONSUMERS ARE MORE WILLING TO GO FOR SECONDHAND PRODUCTS

Digital technologies and demographic shifts have led to the rise of secondhand retail. Today's young consumers are more willing to go for secondhand products. Driven by the proliferation of flea market apps on mobile devices, consumers are considering a product's resale potential before even deciding whether to buy. Following this trend, leading reuse retailers Komehyo and Geo have not only opened online stores but also joined ZOZOUSED, Japan's leading online platform for secondhand fashion. In addition, Komehyo has built a new system integrating e-commerce and its existing physical outlets so that customers can examine merchandise before buying. Although flea market apps are handy for buying and selling used products, some people prefer to go to a physical store to sell multiple used items at once - turning them into pick-up and drop-off points.



GINZA TURNING INTO tourist hub



Ginza is poised for transformation - from "tourist destination" to "tourist hub." Ongoing hotel developments and mixed use projects are fueling this transformation, uniting retailers and boutique and luxury hotels along the high streets. The Hyatt Centric Ginza Tokyo opened in January 2018 and the luxury shopping center GINZA SIX opened last year - all part of the shift. Ginza's tourist bus station and service centers have been made more convenient for visitors, attracting people to the eastern area of Ginza. The pedestrian flow has also been improved, which has had a spillover effect on the northern side of the district. Traditionally, affluent Japanese shoppers have headed to Namiki-dori, which runs parallel to Chuo-dori, the main thoroughfare running through Ginza. But Namiki-

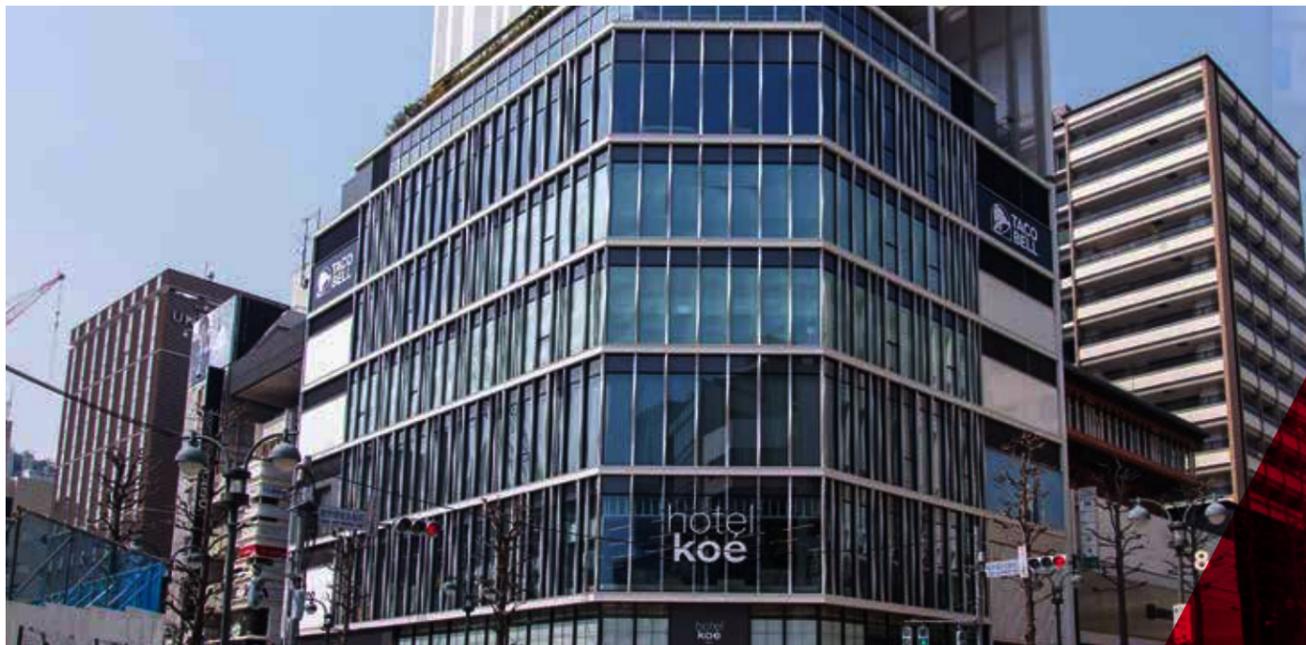
dori is now drawing a broader range of shoppers from Chuo-dori. Leading brands located on Namiki-dori include Chanel, which has renewed its Ginza Namiki Street shop, and Louis Vuitton, which is rebuilding its shop on the same street. These retailers are all part of the movement that is contributing to the restoration of the area. Appraised land values near the intersection of Chuo-dori and Harumi-dori have been growing for the past three years, achieving 9.9% growth this year. This trend will help maintain the current high rents for prime retail sites on the main streets.

APPRAISED LAND VALUES NEAR THE INTERSECTION OF CHUO-DORI AND HARUMI-DORI HAVE BEEN GROWING FOR THE PAST THREE YEARS, ACHIEVING

9.9%

GROWTH THIS YEAR





SHIBUYA REVITALIZED BY new Japanese flagships

SPORTS BRANDS TARGETING

2020

OLYMPIC
GAMES

ARE ALSO
PASSIONATE TO
TAKE UP SPACE



Shibuya is still in a transitional phase as it is going through a major update with ongoing large-scale redevelopment projects; however, the city is gradually revealing its new appearance. As the city has widely been popular among young generations both domestically and overseas, it is becoming a focus of new openings by instagrammable known concept hotels, cafes and fast food shops targeting single people and young professionals. Sports brands targeting the 2020 Olympic Games are also passionate to take up space. Although Shibuya's prime area has long been taken by international retailers due to its high rent, two major Japanese apparel companies have seized flagship locations with their popular brands in this quarter. First, it was Stripe International's Hotel Koé Tokyo which comprises of café/restaurant, retail and hotel components. Located at Koen Dori Avenue, Koé has successfully brought energy back in the neighborhood where redevelopment construction works

are still ongoing. Second, Adastria's "Global Work" opened their first standalone store on Inokashira Koen Dori Avenue, which marks a leap forward from their usual suburban shopping mall expansion strategy. Despite retailers' high demand in the area, apparel companies are still in a wait & see position, especially waiting to see the magnitude of the new retail facilities opening in 2019. On the contrary, drug stores, mobile & gadgets shops continue to show strong appetite seeking any opening opportunities. Also office agglomeration of tech companies is becoming evident, such as Google's head quarter relocation and this office worker expansion will reinforce Shibuya's retail market.

MASS MERCHANDISE SHOPS boosting rent in Osaka

In Shinsaibashi, rents have increased 20% over the last 12 months and 100% since the first quarter of 2016, driven by the growth in inbound tourist numbers. As a result, Shinsaibashi has emerged among the third most expensive areas for prime retail rents, in line with the Omotesando, Harajuku, and Aoyama areas. Inbound tourists are boosting the financial performance of department stores and other retail shops in this area of Osaka. Kansai International Airport Terminal 2 was expanded in January 2017, making it more convenient for travelers, which has increased the number of repeat gourmet and shopping tourists from Korea and China. In addition, of the 60% of tourists who return to Japan (Japan National Tourism Organization, 2017), consumer tastes are shifting from luxury goods to mass merchandise items (confectionery, beverages, liquor, tobacco, health products, and medical supplies). Destinations extend beyond airport duty-free stores to include drugstores and

convenience stores. Drugstores are opening in areas popular with inbound tourists, which is boosting market rents. One drugstore secured a great location vacated by a fast fashion store in the Shinsaibashi area. Shinsaibashi will remain active - GAP's relocated flagship store is due to open in late 2018. Construction of Daimaru Shinsaibashi's main building has also been completed. In Umeda, redevelopment plans are underway in the north and south of the Umeda station. The Yodobashi Umeda Tower is due to open in 2019, which will also improve the pedestrian flow on the north side of the station. This booming market will continue, and businesses, including capsule and budget hotels, are even leasing properties that are slightly away from the downtown area.

IN SHINSAIBASHI, RENTS HAVE INCREASED

20%

OVER THE LAST
12 MONTHS
AND 100%

SINCE THE FIRST
QUARTER OF
2016



Retailers take on
**COMMUNITY-ORIENTED
HOTEL CONCEPT**

Developers are building hotels in cities such as Tokyo, Osaka, and Kyoto, in anticipation of the 2020 Summer Olympics in Tokyo. Now hotels are seeking ways to provide unique and quality experiences. The developers leading this trend come from outside the traditional hospitality industry, bringing new perspectives to the market.

With the Japanese government setting its sights on an annual 40 million visitors, the domestic hotel market, including vacation rentals, is becoming highly competitive. The large supply influx of hotels is making brand differentiation key, and art and comfort are assuming the same importance as price-point. So it is fortunate that international hotel brands are planning to expand in Japan at a time when domestic apparel companies are focusing more on creating communities. Collaboration is expected to accelerate as their retail concepts provide holistic cultural experiences that satisfy the expectations of customers from all walks of life, while providing large public spaces to respond to the Millennials' craving for social connectivity.

The fusion of hospitality and fashion is a logical outcome. Fashion brings the flair, while hospitality brings the expertise in areas such as health and safety regulations, emergency procedures and developing sustainable business models.



Isao Suga



Tatsuya Watanabe

**TRUNK (HOTEL)
SHIBUYA**

Take and Give. Needs Co., Ltd., one of the leading wedding companies, opened TRUNK (Hotel), located off Shibuya's iconic Cat Street in May 2017. The trendsetter hotel is garnering positive reviews from European and North American guests. Focusing on environment, location, diversity, wellbeing, and culture as key concepts, the hotel promotes itself as a place for socializing. In its owner's words, "to live true to yourself without undue pressure while having life sized social purpose." The hotel represents a new hotel trend, moving away from the image of an elitist social hub to one that embraces an inclusive community. As evidence of this, the ground floor lounge fills with nomad workers armed with laptops each morning.

**HOTEL KOÉ
SHIBUYA**

Stripe International Inc., a major Japanese apparel company, opened Hotel Koé Tokyo in February 2018. It has a cafe restaurant and event space on the ground floor, apparel store on the second floor, and hotel rooms on the third floor. The hotel provides an alternative showcase for the brand. It offers a lifestyle concept revolving around "stay, fashion, music, and food." Hotel Koé also experiments with new retail technology such as a self-service checkout system.

**MUJI HOTEL
GINZA**

Ryohin Keikaku Co. plans to open Japan's first Muji Hotel, in Ginza, in spring 2019. The company is overseeing the process from concept to fit-out, ensuring it meets the minimalist ethic that epitomizes the Muji brand. The first Muji hotel opened in Shenzhen, China, in January 2018.

**ACE HOTEL
KYOTO**

Leading American boutique hotel chain Ace Hotel opened for business in Japan in late 2019, Ace Hotel, headquartered in Portland, USA, will finally expand to Japan, in partnership with NTT Urban Development Corporation. Their first location is in Kyoto's Shinpukan building, which had been a shopping mall for 15 years. Ace Hotel is one of the leading boutique hotel operators whose unique hotel concept has won the acclaim of trend-sensitive travelers from around the world. Renowned architect Kengo Kuma will blend history with modernity when redeveloping the early 20th century red brick building - renovated by Sir Richard Rogers in 2001 - which will include retail tenants in the development.

TRUNK (HOTEL)

For inquiries please contact:



Isao Suga
Head of Retail Services, Japan
+81 3 3596 7033
isao.suga@cushwake.com



Hideaki Suzuki, PhD FRICS
Head of Research, Japan
+81 3 3596 7804
hideaki.suzuki@cushwake.com



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