

YoY Chg 12-Mo. Forecast

**5.3%** (y-o-y)  
Rent Growth Ginza



**-1.8%** (y-o-y)  
Household Income, Real



**3.6%** (y-o-y)  
Retail Sales Growth, Nominal



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

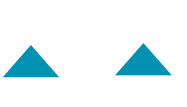
### ECONOMIC INDICATORS Q3 2022 Forecast

YoY Chg 12-Mo. Forecast

**-1.2%**  
Real GDP Growth  
(Annualized q-o-q SAAR)



**2.7%**  
Core CPI Growth  
(y-o-y)



**2.6%**  
Unemployment Rate  
Q2



<sup>1</sup> Mizuho Research Institute estimate as of October 24, 2022

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

### Economy:

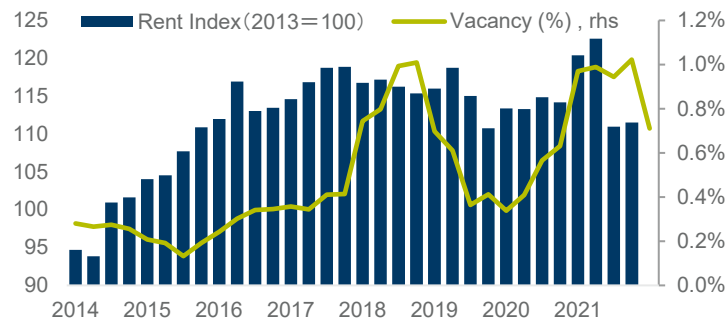
Despite external headwinds, Japan's real GDP growth is expected to remain positive at 1.3% in 2022 and 1.1% in 2023. With relaxation of border control measures and normalizing business activities, service consumption has rebounded strongly, together with increasing employment, which has increased for seven consecutive months to 60.7 million nationwide. With increasing labor participation rate, up 0.8pp y-o-y to 61.3%, the September unemployment rate unchanged at 2.6%. However, Yen weakness and the subsequent increase in the cost of living has lifted Core CPI, excluding fresh foods, up 2.7% y-o-y, with the Adjusted CPI, excluding energy and fresh foods, up 1.8% y-o-y. With widening interest rate differential, we expect further Yen depreciation to increase the cost of living, particularly in urban area; the Tokyo Core CPI recorded a 40-year high of +3.4% y-o-y in September 2022. With limited real wage growth at 1.8% y-o-y, the Consumer Confidence Index again dipped to negative territory, leading to a delayed recovery in consumer spending. A JPY 39 trillion Kishida's fiscal policy support package, should support consumption through a 10% utility cost reduction (reducing the Core CPI by 0.6pp)<sup>1</sup> and the nationwide travel expense subsidy program (increasing the consumer spending by 0.4pp)<sup>1</sup>. However, worsening terms of trade (reducing the consumer spending by 0.8pp)<sup>1</sup> is projected to delay a recovery in household consumption beyond 2023.

### Supply and Demand:

In Q3 2022, nationwide retail sales rose 3.6% y-o-y to JPY 38.1 trillion. High-end discretionary spending was strong in the urban area; department store sales rebounded strongly, up 17.2% y-o-y, led by apparel sales increasing 23.3%, and flagship store sales in Tokyo's 23 wards (up 26.6%) and Osaka City (up 27%). Conversely, daily spending patterns plateaued excluding inflationary impact, leading to muted growth in drugstores (up 5.9%) and convenience stores (up 3.7%) along with lower durable goods consumption (down 3.5%). Although foot traffic began to return in prime shopping districts, higher cost of living is expected to dampen discretionary consumption among lower income groups (as illustrated in the top right graph in the next page by income group tier).

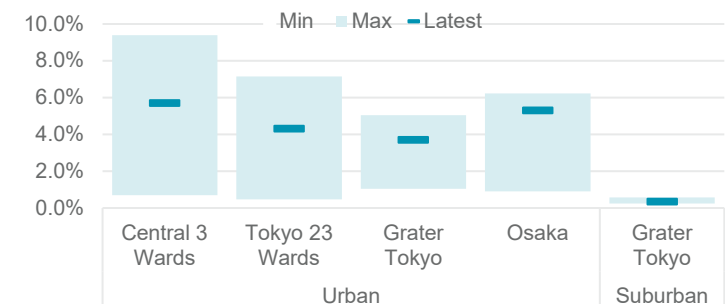
Looking ahead, new supply is set to increase. In 2023, Tokyo's forecast projects include Tokyu Kabuki Tower (GFA: 942,960 sf), Dogenzaka-dori project (GFA: 451,390 sf), and the Shibuya Sakuragaoka-guchi redevelopment (GFA: 2,732,800 sf). In 2024, major supply will shift to regional cities, including Chunichi Building in Nagoya (GFA: 1,209,830 sf), Umeda 3-chome Project (GFA: 2,455,250 sf) and Umekita 2nd stage development (GFA: 6,013,580 sf) in Osaka. Beyond 2025, a series of station-front department store redevelopments are planned, and this is likely to increase vacancies for secondary properties in the fringe CBD locations.

### RENT / VACANCY RATE, GRATER TOKYO AREA



Source: ARES

### HISTORICAL VACANCY RATE BY ASSET TYPE/AREA



Source: ARES, historical since 2013

### Occupier Transactions:

Despite limited movement during the quarter, high-street rents continued to trend upwards to the pre-COVID levels seen at the end of 2019. With no social movement restrictions, store openings have increased significantly in prime areas. With almost zero vacancy in Nagoya's Sakae district, Herman Miller opened a new store to support increasing demand for office chairs for home use. Redevelopment of the Ginza area led to Apple's relocation. A series of new brand openings were also reported in Shibuya / Harajuku leading to improved foot traffic.

Elsewhere, a mismatch of tenant vs landlord achievable rental expectations led to prolonged vacancies in non-core locations within submarkets. However, over 12 months, we expect a gradual recovery in prime rents in Ginza, Omotesando and Shinsaibashi, where high-end tenants continue to demand top locations amid limited supply.

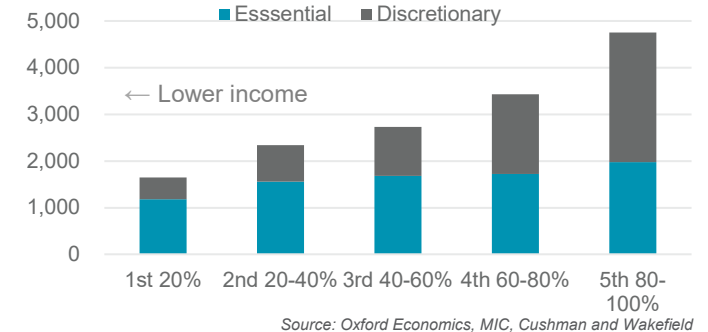
### Investor Transactions:

Increasing headwinds of rising interest rates and risk premiums constrained investment transactions. However, allocations to the retail sector remain unchanged, representing around 15% of the Japan's total transactions. By store format, equity/portfolio acquisition of traditional store formats, such as department stores, is on the rise with discounts to net book value trailing around 10% on average. Seven & i Holdings announced the sales of the entire equity stake of Sogo/Seibu, including ten department stores (aggregated GFA: 443,000 sq.m), to Fortress. With an enterprise value of JPY 250 billion, the deal is expected to close in February 2023. To accelerate its digital transformation JV with Rakuten Group, Seiyu also announced its intent to raise JPY 100 billion through the sales of its real estate holdings, including the headquarter building in Akabane, Kita-ku, Tokyo no later than May 2023. Increasing disposition of such assets highlights increased focus on the digital shift of corporates in their core business experienced at the onset of an economic downturn.

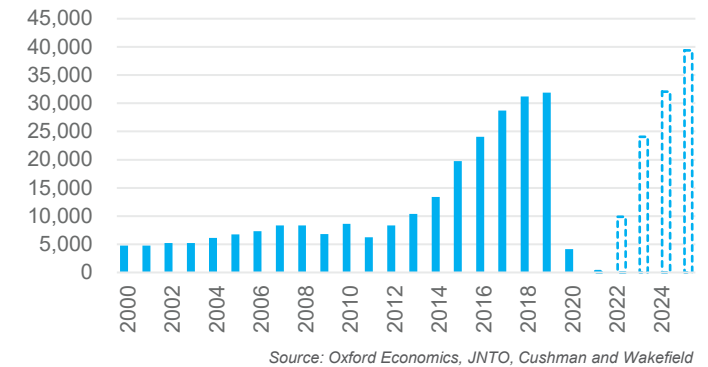
### Outlook

- **Overall rents to trend downwards:** Although high-street rent in top locations should remain solid, we expect a cycle of overall rental decline reflecting the markets downcycle over the next two years. As Japan's recovery lags its peers, service consumption, representing around 15% of household consumption, has yet to recover the pre-COVID level. Excluding high-end facilities with pricing power, most tenant's capacity to pay rent is expected to remain weak due to cost increases, weak consumption trend, along with an unwinding of public support **program**
- **About 40% of inbound tourist spending was attributed to Greater China:** A few high-streets, which suffered significantly have seen vacancy rates increase to around 15%, as a result of travel restrictions under China's zero-COVID policy, have now started to see an accelerated recovery vs peers (e.g., Shinsaibashi in Osaka). However, we do not expect recovery to pre-COVID levels earlier than 2024 given that 37% of inbound spending remains attributed to the Greater China region.
- **Recommend Overweight on Non-Cycle Assets:** By store format, Neighborhood Shopping Center with grocery anchor tenants (NSC), continues to demonstrate stable rent, vacancy rates, and asset pricing throughout market cycle. For core investors, we continue to recommend NSC, especially with little interest rate increases expected for Japan. For value-add investors, we recommend a broader set of opportunities, including repurposing to less challenged asset classes; capital value pricing as a logistics facility can notably exceed that of traditional retail store in outer wards of Tokyo for example.

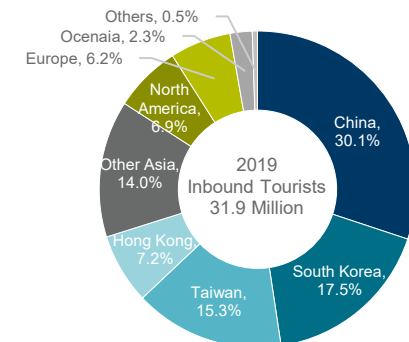
### Estimated Spending by Income Group Tier (2019, JPY Trillion)



### Inbound Tourists: Historical Trends & Forecast (2000-2025F)



### Inbound Tourists by Country Origin (2019)



### KEY LEASE TRANSACTIONS Q3 2022

TENANT	PROPERTY	SUBMARKET	RSF
Herman Miller	3-4-21 Sakae, Naka Ward	Nagoya / Sakae	Approx. 1,070
Marc Jacobs	4-30-4 Jingumae, Shibuya Ward	Omotesando	Approx. 2,140
Apple	8-9-7 Ginza, Chuo Ward	Ginza	Approx. 16,000
Versace	5-6-2 Ginza, Chuo Ward	Ginza	Approx. 2,850

Source: Cushman and Wakefield

### KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	USE	OWNER/ DEVELOPER	SUB MARKET	GFA / SF
Former Ikebukuro Marui (Ikebukuro Nishiguchi Kyodo Bldg)	Retail, Office	Shimizu	Toshima Ward, Tokyo	Approx. 430,560
Shibuya Miyamasuzaka Redevelopment	Retail, Office, Hotel	Tokyu, Hulic	Shibuya	Approx. 2,161,390

Source: Cushman and Wakefield

### TOP PRIME RENTAL RATES

SUBMARKET	JPY, tsubo / mo	US\$, psf / year	GROWTH (y-o-y)	FORECAST
Ginza	400,000	975.70	5.3%	▲
Omotesando	320,000	780.56	6.7%	▲
Shinjuku	300,000	731.77	0.0%	▬
Shibuya	200,000	487.85	0.0%	▬
Shinsaibashisuji	200,000	487.85	0.0%	▲
Sakae	100,000	243.92	0.0%	▬
Tenjin	100,000	243.92	0.0%	▬

USD/JPY = 138.25 (Q3 2022 BoJ quarterly average)

Source: Cushman and Wakefield

### KEY SALES TRANSACTIONS Q3 2022 (INCL. ANNOUNCEMENT)

PROPERTY	SUBMARKET	SELLER / BUYER	GFA (tsubo)	PRICE/¥ per tsubo/ CAP%
Futako Tamagawa Rise	Setagaya Ward, Tokyo	Tokyu Land / Tokyu REIT	79,332	¥20.2B   -   4.1%*
Iias Kasugai	Kasugai City, Aichi	Domestic Corporation / Kenedix Retail REIT	24,804	¥14.5B   ¥1.7M   4.6%*
Yokohama Yamashitacho Bldg (Barneys New York)	Naka Ward, Yokohama City	Hulic / List Development	2,597	¥4.8B   ¥1.8M   4.7%*
Sogo & Seibu	Total 10 department stores	Seven & I / Fortress	134,064	¥250B (Est.)   -   -

\*Appraisal NOI yield

Source: Real Capital Analytics, Nikkei Real Estate Market Report

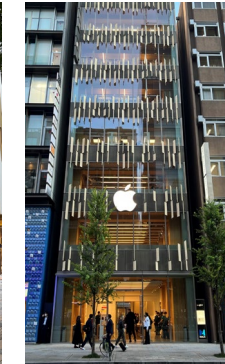
### HERMAN MILLER (SAKAE, NAGOYA)



### MARC JACOBS (OMOTESANDO)



### APPLE (GINZA RELOCATION)



### VERSACE (GINZA)



Source: Cushman and Wakefield



Source: Cushman and Wakefield

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