MARKETBEAT

JAPAN

Retail Q1 2023

	YoY Chg.	12-Mo. Forecast
9.4% (y-o-y) Rent Growth, Omotesando	▲	▲
-2.3% (y-o-y) Household Income, Real	▼	▼
6.5% (y-o-y) Retail Sales Growth, Nominal	▲	▼

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

ECONOMIC INDICATORS Q1 2023

	YoY Chg.	12-Mo. Forecast
1.6% Real GDP Growth (Annualized, SAAR)	▲	▼
3.1% Core CPI Growth (y-o-y)	▲	▼
2.8% Unemployment Rate Q1	▼	▬

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

[1] 3-month rolling average, after adjusting for the numbers of existing stores

Economy:

The effects of delayed inflationary pressures on services prices are expected to drop global real GDP growth to +2.4% in 2023. With weak external growth, Japan's real GDP growth is expected to trend lower at +1.2% in 2023 and +0.9% in 2024. However, national employment has now grown for 13 consecutive months to record 60.4 million, led by employment recovery in hospitality services, non-regular employees, and the 65+ age group.

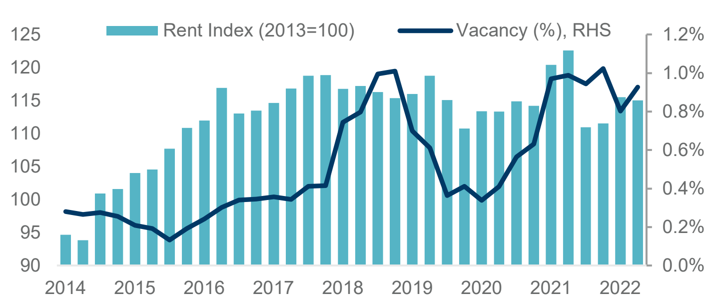
Real wages continue to decline, as nominal wage growth of 2.3% y-o-y continues to lag headline inflation. Despite lower energy prices, down 3.8% y-o-y, the core CPI rose by 3.1% y-o-y. Acute labor shortages in service industries have also led to price rise pressures. Furthermore, weak consumer confidence also remains a major impediment. Although the Consumer Confidence Index improved to 33.9 for the first time in two months, it is still far from the neutral consumer confidence point of 50. Looking ahead, leading demand indicators suggest rising price pressures, as most input price increases in service industries are yet to be reflected in output prices (see chart overpage.) With the purchase price DI substantially exceeding the sales price DI, we expect the weak retail price response to continue into 2024, except for a pocket of strength reported in the luxury goods sector.

Supply and Demand:

Retail sales rose 6.5% y-o-y in Q1 2023, primarily in high-end product channels and in support of renewed social activity. Department store sales increased for the 14th consecutive month, up 14.6% y-o-y[1], and narrowing the gap to the 2019 pre-COVID level to 6.3%. Inbound tourists' share of retail sales rose to 5.1%, boosting urban retail operators, as arrival numbers recovered to 60% of pre-COVID levels. By category, the apparel, cosmetics, and dining sectors saw double-digit annual sales growth. Bars and pubs remain relatively weaker, sales slowly recovering to 60% of pre-COVID levels. Quarterly sales at supermarkets (+0.3% y-o-y) and convenience stores (+5.0% y-o-y) also slowed or turned negative in real terms. Durable goods consumption remains sluggish, excluding automobiles, where full production has resumed following semiconductor shortages.

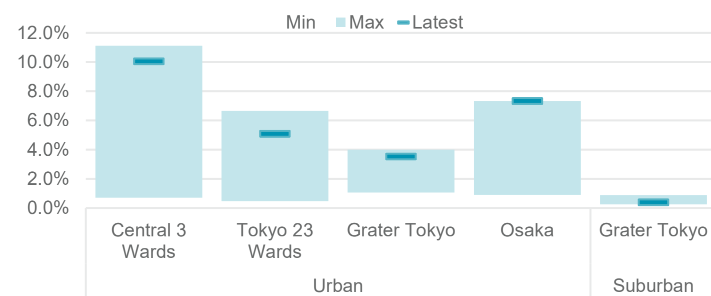
A series of new development announcements have targeted urban facilities, typically large-scale mixed-use projects to boost traffic at major rail stations. Tokyu has announced Shibuya Sakura Stage (retail area 15,200 sq m) as part of the Shibuya Sakuragaoka redevelopment to be delivered in November 2023. Mitsui Fudosan announced Mitsui Shopping Park LaLa Terrace Harumi Flag (retail area 10,100 sq m), a lifestyle complex incorporating the Harumi Flag project, opening in spring 2024. JR East, in collaboration with Shinagawa Ward, has announced the Oimachi Station Hiromachi District Development (retail area 20,800 sq m) to open by the end of 2025, as part of the revitalization of the Southern Tokyo CBD /Takanawa Gateway area.

RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

HISTORICAL VACANCY RATE BY ASSET TYPE/AREA



Source: ARES, historical since 2013

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Occupier Transactions:

High-end brand store openings have continued. Despite little change in quarterly rent movements, rising top-level rents in Ginza, Omotesando and Shinsaibashi are lifting overall rental levels. Major store openings include Fendi in Omotesando, high-end brand reseller Komehyo in Ginza, and Jordan's first World of Flight store in Japan at Shibuya. A series of mass-market brands also opened first stores in major regional cities. Overall, a rise in tenant turnover reflects changing retail consumption patterns in the post-pandemic market. Looking ahead, we expect growing turnover of top-tier tenants to gradually lift prime rents in Ginza, Omotesando and Shinsaibashi.

Investor Transactions:

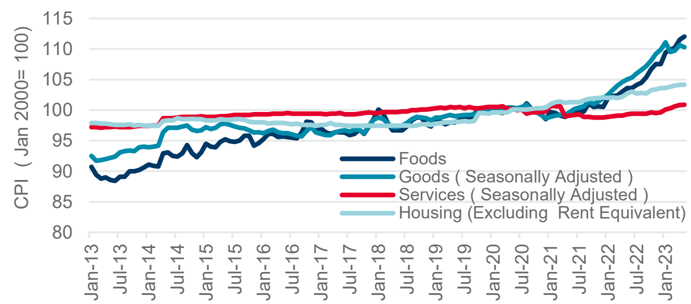
Overall transaction volume has trended down with the rising cost of capital, with corporates remaining the net seller ahead of the fiscal year-end. Rolling annual transaction volume reached JPY545.8 billion, down 17% y-o-y. There is still strong demand to divest older urban center retail facilities with declining profitability. While foreign investors remain the net sellers, transaction sizes also continue to trend downward with declining risk appetite.

Major transactions in Q1 include Tokyu Land's sale of the Tokyu Plaza building, plus 85% of the site land, to Sumitomo Mitsui Trust Panasonic Finance, for JPY130 billion. Tokyu Land also recorded a JPY21.1 billion impairment loss for the fiscal year ended March 2023. Acquired in 2007, the former Mozaic Ginza Hankyu building required an extended tenant eviction. After reaching a legal settlement in 2011, the current Tokyu Plaza finally opened in March 2016. In the absence of office tenants, its long-term revenue base has been unstable, unlike its peer, Ginza Six. Elsewhere, Voltex, a domestic investment fund specializing in strata office ownership, acquired a retail building complex in Jingumae from Blackstone Group for an estimated JPY4 billion.

Outlook

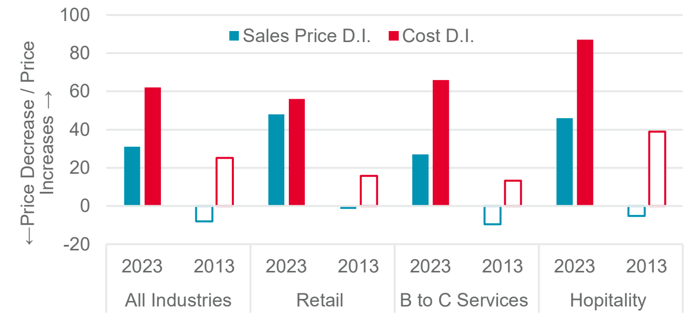
- **Overall inflation-adjusted rents to remain flat:** Although top rents in prime locations are expected to continue to rise moderately, we see a cycle of overall inflation-adjusted rental decline in the next two years, reflecting the market's downcycle. Looking ahead, we expect leasing activities to recover, led by increasing tenant turnover. However, excluding national brands and/or high-end facilities with sufficient pricing power, most tenants' capacity to pay rent is expected to remain weak due to the increasing cost of capital, rising cost pressures, and the overall weak consumption trends.
- **Expect the pace of rental recovery to diverge by area:** Most submarkets saw diverging rental recovery trends following COVID-19. Only Omotesando has surpassed pre-pandemic rent levels, while Ginza, Umeda, and Shibuya remain flat. Conversely, Shinsaibashi, Shinjuku, Ikebukuro, and Nagoya Sakae remain below the pre-pandemic rent levels. We advise to monitor if the scope of high street rent recovery can extend beyond the top locations.
- **Recommend overweight on non-cycle assets:** By store format, the Neighborhood Shopping Center (NSC) with grocery anchor tenants continues to demonstrate stable rents, vacancy rates, and asset pricing throughout the market cycle. REITs continue to seek location improvements through more frequent transactions. For core investors, we continue to recommend NSC assets, especially with few further interest rate increases expected for Japan.

Historical CPI by Goods/ Services (1980-2023)



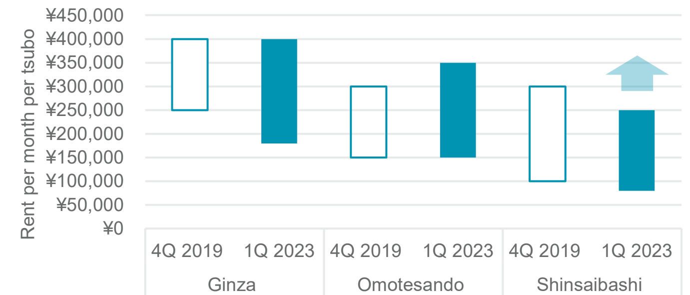
Source: Statistic Bureau of Japan, Cushman & Wakefield

Sales Price and Purchase Price DI by Segment (2013 vs 2023)



Source: BoJ, Cabinet Office (National Accounts), Cushman & Wakefield

Pre/ Post-COVID19: Tier 1 Store Rents Range by Submarket



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

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KEY LEASE TRANSACTIONS Q1 2023

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
Jordan World of Flight Tokyo Shibuya	6-25-14 Jingumae, Shibuya	Shibuya	6,997
KOMEHYO	2-7-18 Ginza, Chuo	Ginza	5,963
FENDI	5-9-13 Jingumae, Shibuya	Omotesando	9,203

Source: Cushman & Wakefield

PLANNED NEW OPENINGS

PROPERTY	PURPOSE	OWNER/ DEVELOPER	SUBMARKET	GFA (SF, Approx.)
Tokyo Midtown Yaesu B1-3F Grand Opening (Mar)	Office, Retail, Hotel etc.	Mitsui Fudosan	Tokyo Station, Yaesu	59,201
Mitsui Shopping Park LaLaport Kadoma/ Outlet Park Osaka Kadoma (Apr)	Retail	Mitsui Fudosan	Kadoma, Osaka	1,256,147

Source: Cushman & Wakefield

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

SUBMARKET	TOP JPY/Tsubo/Mo	BOTTOM JPY/Tsubo/Mo	TOP FORECAST	BOTTOM FORECAST
Ginza	400,000	180,000	▲	▬
Harajuku/Omotesando	350,000	150,000	▲	▬
Shinjuku	300,000	150,000	▬	▬
Shibuya	200,000	100,000	▬	▬
Shinsaibashi/Midosuji	250,000	80,000	▲	▬
Sakae	100,000	45,000	▬	▬
Tenjin	100,000	50,000	▬	▬

Source: Cushman & Wakefield

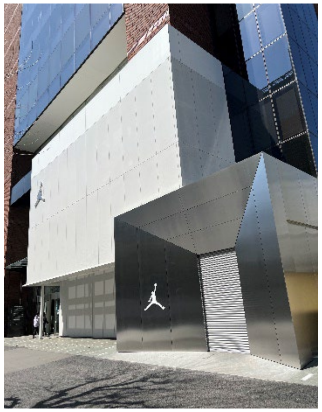
KEY SALES TRANSACTIONS Q1 2023 (INCL. ANNOUNCEMENT)

PROPERTY	SUBMARKET	SELLER / BUYER	GFA (sq.m)	PRICE/ JPY per Tsubo/ CAP%
Tokyu Plaza Ginza (land and building)	Ginza	Tokyu Land/ Sumitomo Mitsui Trust Panasonic Finance	48,682	¥13B | - | -
Aeon Mall Wakayama	Wakayama	GK Double-o-seven/ AEON REIT Investment	95,350	¥16.8B | - | 6.0%[1]
J-Cube	Omotesando	Blackstone Group/ Vortex	760	Estimate ¥4B | - | -

[1]Yield on acquisition price

Source: Real Capital Analytics, Nikkei Real Estate Market Report

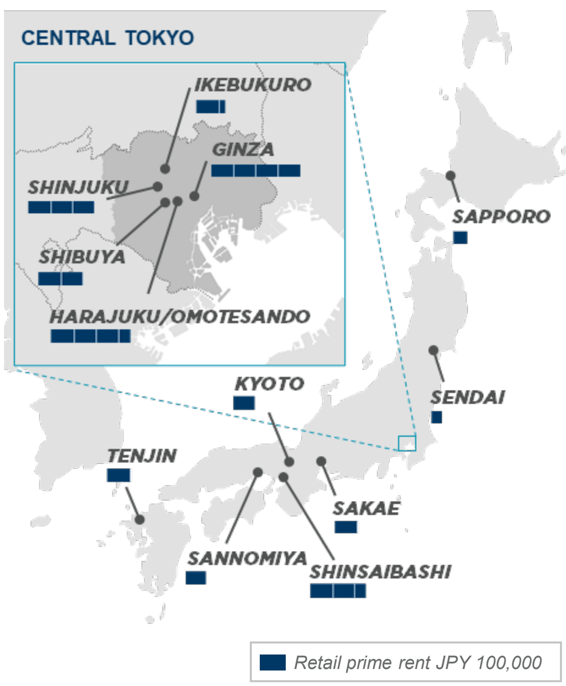
Jordan World of Flight (Shibuya)



KOMEHYO (Ginza)

FENDI (Omotesando)

Source: Cushman & Wakefield



Source: Cushman and Wakefield

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