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CBRE Publishes Q1 2018 Japan Retail MarketView

Ginza High Street Vacancy Rate Rises to 1.8%

Rents at JPY 400,000 per tsubo for Eleventh Consecutive Quarter

CBRE today released its Q1 2018 Japan Retail MarketView covering retail market trends in major cities across Japan.

HIGHLIGHTS

- ◆The number of tourists visiting Japan rose 18.2% y-o-y to 2,608,000 in March, a record high for that month. Easter fell at the end of March this year (mid-April last year) and this helped boost tourist numbers, especially those from Europe, the U.S. and Australia.
- ◆Nationwide department store sales rose by 0.1% in March 2018, the first increase in four months. Duty-free sales increased by 48.1% y-o-y to JPY 29.0 billion, the highest figure ever recorded. Sales of cosmetics (+15.8%) and luxury items (+1.7%) were particularly brisk.
- ◆Prime rents in Tokyo, Osaka, and Nagoya were flat q-o-q. However, store demand has increased compared with last autumn (Q3 2017).

GINZA HIGH STREET RENT FORECAST FOR THE NEXT TWO YEARS

Rents are expected to bottom out by mid-2018 and begin to recover gradually thereafter, supported by further increase in foreign visitors to Japan as well as recovery in luxury sales.

Tokyo (Ginza, Omotesando, Harajuku, Shinjuku, Shibuya)

Tokyo prime rents (assumed achievable rents, including CAM) were flat q-o-q in Q1 2018 for the eleventh consecutive quarter, remaining at JPY 400,000 per tsubo. In Ginza, the period saw strong demand from luxury brands seeking to improve their location, particularly on the high streets. In Omotesando and Harajuku, demand centered on properties in prime locations, with rents in line with owners' asking levels. In Shinjuku, tenants were replaced and apparel brands opened outlets at several relatively large properties close to the station, with robust demand registered in the station area. Although Shibuya saw several major new store openings, retailers are likely to maintain a wait-and-see stance ahead of future redevelopment.

The vacancy rate in the Ginza high street area rose 0.3 points q-o-q and 1.1 pts y-o-y to 1.8% in Q1 2018. The high street rents were flat q-o-q for the second consecutive quarter.

Prince Phillips, associate director of CBRE's Retail Services team, commented: "Retail leasing demand is stronger than it was last autumn. Although we have seen a few tenants vacate stores in Ginza due to poor performance, there have been some enquiries from tenants for relatively inexpensive properties with easy-to-use floor space. This could result in a gradual increase in future rents. However, some retailers are still cautious towards tenancy costs, and some relatively large or costly properties have taken some time to finalize leases."

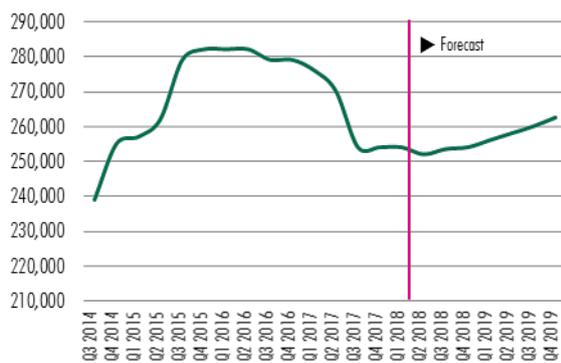
Ginza Vacancy Rate*

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018
GINZA	0.7%	1.0%	0.8%	1.5%	1.8%

Source: CBRE, Q1 2018

* The Ginza vacancy rate is based on high street spaces which were physically available at the time of the survey (does not include those scheduled to be vacant)

Average Rent for Ginza High Streets*2



Source: CBRE, Q1 2018

*2 Average of the upper and lower end of high street rents in Ginza.

Osaka (Shinsaibashi, Umeda)

In Q1 2018, Osaka prime rents (assumed achievable rents, including CAM) were flat q-o-q for the seventh consecutive quarter at JPY 300,000 per tsubo. In Shinsaibashi, there was continued demand from drugstores and duty free stores targeting inbound tourists, especially in the Shinsaibashi-suji shopping area south of Nagahori-dori. However, in Umeda, some units in a shopping complex slightly away from Osaka Station struggled to find tenants.

Tsuyoshi Hashikawa, senior director of CBRE's Kansai Retail Services team, commented: "We have seen a lull in store openings by drugstores, particularly in the Shinsaibashi-suji shopping district. However, strong demand from drugstores looking for prime locations could push up rents in the coming quarters. Since the announcement of Japan's first W Hotel in the Midosuji area to the north of Nagahori-dori, which is due to open in February 2021, demand for retail space in this area has been growing. Foot traffic in this area is also likely to increase with the expansion of pedestrian areas in Midosuji, meaning that the local shopping district is likely to become even more popular."

Nagoya (Sakae)

Nagoya prime rents (assumed achievable rents, including CAM) were flat q-o-q at JPY 140,000 per tsubo in Q1 2018. In the Sakae area, while several tenants vacated or downsized due to poor performance, replacement tenants were found at almost the same rent level, reflecting retailers' upbeat view towards this location.

"Over the past year there has been strong demand from drugstores that have grown their earnings by capturing inbound tourist spending," said Hideo Oue, senior director of CBRE's Nagoya Retail Services team. Some tenants have also opened stores to enhance their visibility. Prime rents in Sakae have risen by around 17% over the last 12 months. However, drugstores are now focusing more on profitability when opening stores. Future increases in prime rents are therefore likely to be more modest than those witnessed over the past year."

A detailed discussion of market conditions can be found in the Q1 2018 Japan Retail MarketView published today on the CBRE website.

<https://www.cbre.co.jp/en/research-reports/retail-reports>

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