

February 9, 2017

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CBRE
Corporate Communications
03-5288-9283

CBRE Publishes Q4 2016 Japan Retail MarketView

Prime Rents Remain Flat for High Street Stores in All Three Major Cities

CBRE released today its Q4 2016 Japan Retail MarketView covering retail market trends in Japan's three major cities: Tokyo, Osaka, and Nagoya.

Highlights

- ◆ In 2016, the number of inbound tourists rose by 22% y-o-y to a record 24 million; this was the fifth consecutive annual rise, although the y-o-y rate of growth has slowed
- ◆ Total spending by foreign tourists in October-December (according to preliminary estimates) increased by 1.3% y-o-y to JPY 892.2 billion; while this is a record for Q4, spending per person was around JPY 147,000, down 12.2% y-o-y for the same period
- ◆ Demand for stand-alone stores in Tokyo, Osaka, and Nagoya in Q4 continued to be led by drug stores

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

Tokyo prime rents (assumed achievable rents) were flat q-o-q for the sixth consecutive quarter at JPY 400,000 per tsubo. Ginza is taking longer to find replacement tenants, especially for stores with more than one floor, or a comparatively large amount of floorspace. In Omotesando and Harajuku, demand came mostly from tenants seeking to benefit from the area's trend-setting reputation with many retailers opening their first stores in Japan, or flagship stores, in the area. In Shinjuku, a significant number of storefronts had more success with leasing than in other areas. In Shibuya, the area around the station has become increasingly popular for retailers who are looking to improve brand recognition.

"Retailers have become more cautious about their earnings outlook," said Akihisa Sato, senior director of CBRE's Retail Services team. "As a consequence, while demand exists, retailers are not as commonly proceeding with new stores unless the area, size, rent and all the other conditions match expectations. Owners may need to cover the cost of fit-out and other initial investments, and start accepting a wider variety of businesses."

Osaka (Shinsaibashi, Umeda)

Osaka prime rents (assumed achievable rents) were flat q-o-q for the second consecutive quarter at JPY 300,000 per tsubo. In Shinsaibashi, rival drugstores competed for some leases, mostly in the Shinsaibashi Suji shopping area and around Dotonbori. In Umeda, new properties in good locations attracted strong demand from tenants. In areas slightly farther from a train station, some properties struggled to find tenants.

"Competition between drugstores pushed up rents, mainly in the Shinsaibashi Suji shopping area and Dotonbori, as they continue to afford higher rents over other types of retailers, such as sporting goods and apparel," said Tsuyoshi Hashikawa, senior director of CBRE's Kansai Retail Services team. "However, some drug store operators have seen some leveling off in earnings. This is likely to have been affected by the growth of China's cross-border e-commerce market and the increasing number of foreign tourists in Japan, who prefer 'intangible' consumption. It is therefore difficult to imagine another round of aggressive store openings or rent rises."

Nagoya (Sakae)

Nagoya (Sakae) prime rents (assumed achievable rents) were flat q-o-q for the ninth consecutive quarter at JPY 120,000 per tsubo. On one of the main streets in Sakae, a store was let after competing drugstores bid up the asking rent. As there are few drugstores in the Sakae area, the district is attracting demand for new stores targeting nearby office workers and Japanese consumers.

"Luxury brands, sports brands, and food retailers are also keen to open stores, but demand from drugstores far outweighs other retailers," said Hideo Oue, senior director of CBRE's Nagoya Retail Services team. "Especially for larger properties with more floorspace and therefore higher overall rent, drugstores are the only retailers interested in signing leases. In Sakae, however, retailers, including drugstores, are generally more focused on profitability compared to tenants opening stores in other high-streets. There will therefore be limited scope for prime rents to rise."

A detailed discussion of market conditions can be found in the Q4 2016 Japan Retail MarketView published today on the CBRE website.

<http://www.cbre.co.jp/JP/research/Pages/MarketViews.aspx?redirect=true>

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