High street retail recovery prompts shift in new store opening strategies

By Asuka Honda, May 2024

Following the relaxation of anti-pandemic measures, 2023 saw the return of foot traffic to city center high streets in Japan and a consequent recovery in storefront sales figures. Demand from retailers for storefront space has subsequently risen, leading to falling high street vacancy rates and rising rents nationwide. Since the beginning of 2024, available properties have become so scarce that retailers are becoming seriously concerned by the cost burden of surging rent levels. CBRE expects more retailers will likely consider not only leasing but the option of acquisition to ensure they do not miss out on the few opportunities available to open new stores in high street areas amid such a tight supply-demand balance.

1. The stability of the Japan retail market

Retail sales volume in Japan has been steadily rising over the past few years (Figure 1), increasing by 6.4% in real terms between 2019 and 2023, maintaining growth throughout the COVID-19 pandemic. This trend has bucked international norms, with several other countries seeing retail sales volume decline in 2023. Factors contributing to these drops in overseas markets include a backlash against a swifter normalization of the economy than was seen in Japan, and increased consumer frugality due to inflation.

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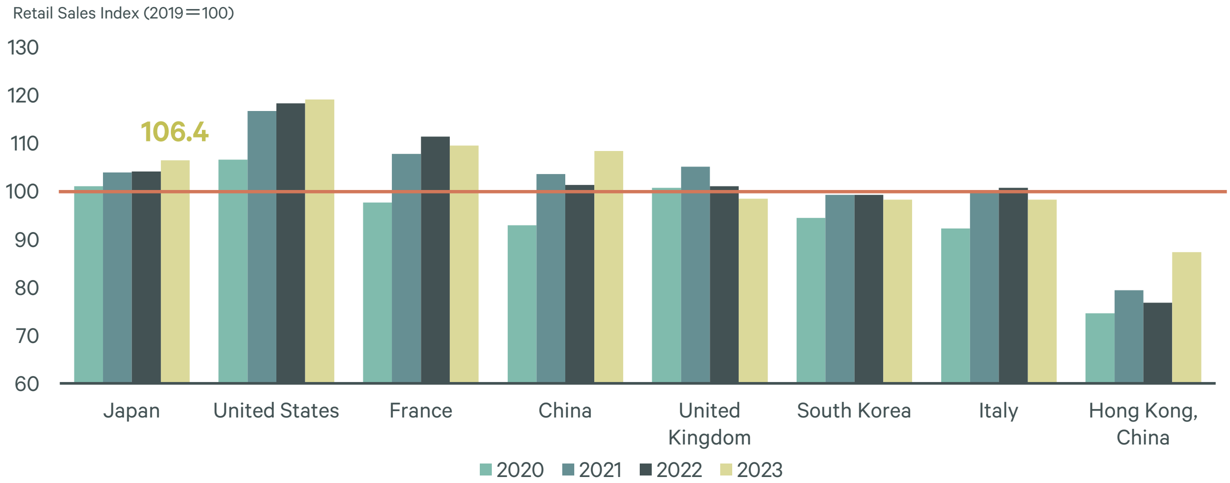
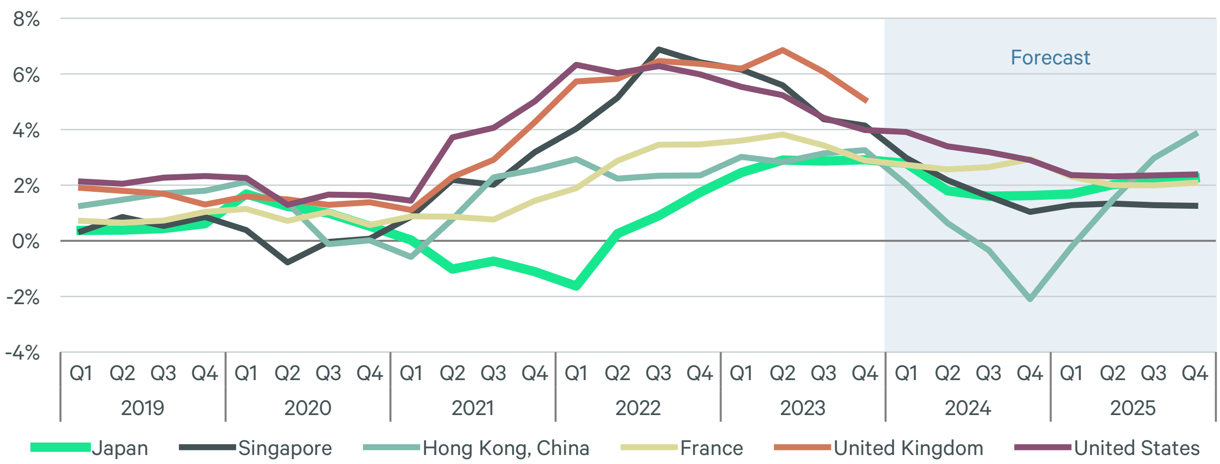
Figure 1: Retail sales volume by year in major countries (constant-currency basis)



Source: Oxford Economics, Ministry of Economy, Trade and Industry, CBRE, April 2024

Inflation has also begun to take root in Japan. The y-o-y rate of increase in the consumer price index (excluding food and energy), which began rising in Q1 2022, reached a peak in 2023, followed by a moderate decline, before stabilizing at around 2% (Figure 2). Despite these changes, the fluctuations in Japan's core CPI have been far less dramatic than those seen in many other nations. When the possibilities of an easing of the CPI growth rate and of an increase in real wages are taken into consideration, Japan's retail market is likely to continue to grow, ensuring that demand from retailers remains robust.

Figure 2: Consumer price indices (excluding food and energy, y-o-y change)



* No forecast estimates available for the United Kingdom
Source: Oxford Economics, Macrobond, CBRE, April 2024.

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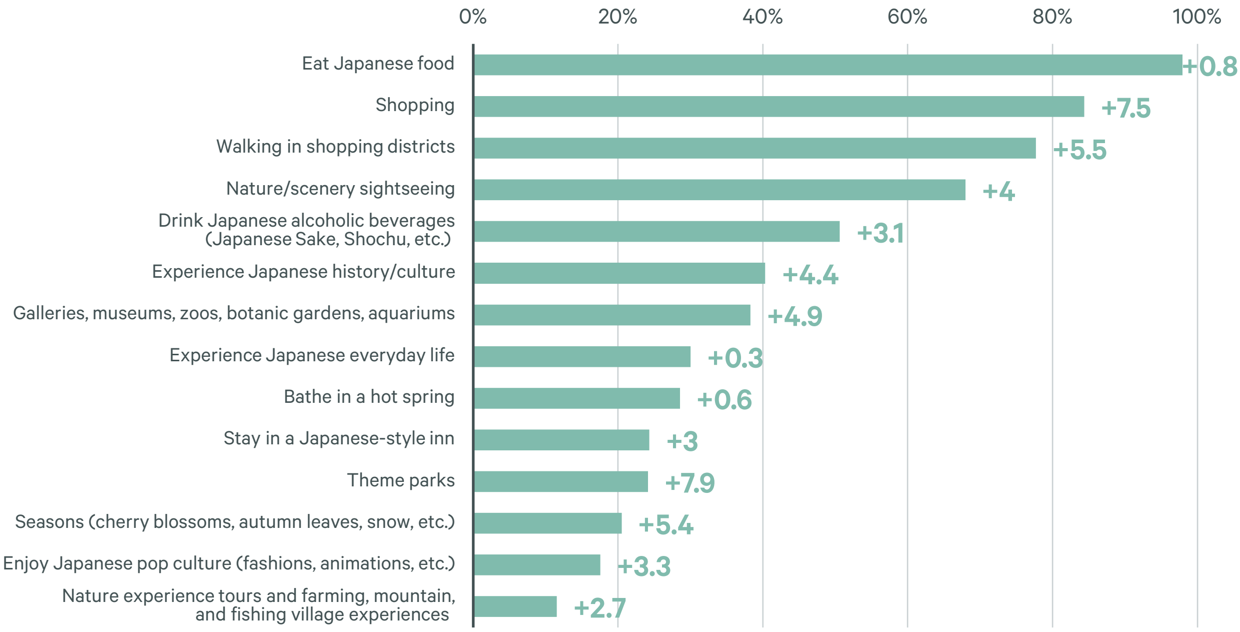
There is also considerable scope for the Japanese retail market to expand as a result of increased spending by inbound overseas tourists. Spending by foreign tourists in Japan reached JPY 5.3 trillion in 2023, an increase of 10.2% from 2019, marking a new all-time high. The biggest spenders came from Taiwan (14.8% of total), China (14.3% of total), and South Korea (13.9% of total). With the number of tourists from mainland China in 2023 having remained 70% below the figure recorded in 2019, there is further upside to the number of inbound tourists as well as spending by them.

Foreign tourists continue to flock to high street areas of major metropolises, where major storefronts are concentrated. According to a survey of international tourists conducted by the Japan Tourism Agency (October - December 2023, Figure 3), the top three answers provided by foreign visitors when asked what they have done in Japan were "eat Japanese food" (98%), "shopping" (85%), and "walking in shopping districts" (78%). These percentages were all up from the answers given to the same question in 2019. As city center high street areas such as Ginza and Shinsaibashi provide opportunities to engage in all of these activities, they are likely to draw considerable interest from overseas tourists.

Figure 3: Changes in attitudes of overseas visitors (October - December 2023)
What did you do during your current stay in Japan? (multiple answers)



* Number of respondents: 7,317. All answers indicated by at least 10% of respondents listed in graph. Values written to the right of each bar indicate pp. change from 2019.

Source: Japan Tourism Agency, CBRE, April 2024.

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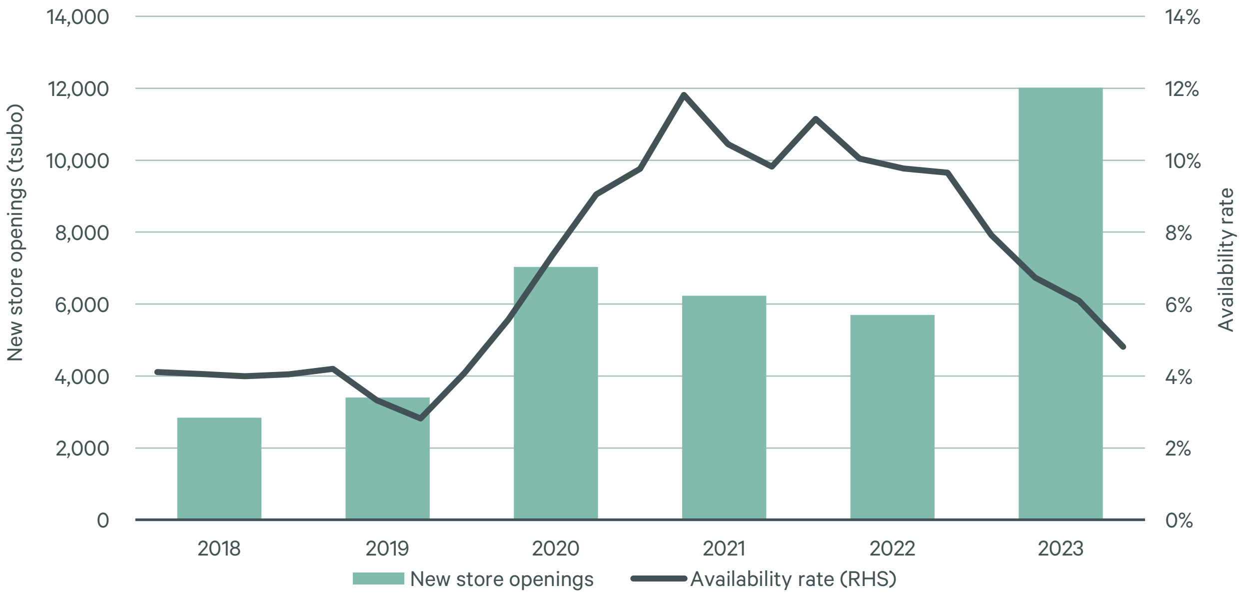
2. Options narrow as retailer appetite for store space grows

Retailer appetite for storefront space in major city centers continues to strengthen. In areas defined by CBRE as “high streets”, where storefronts are concentrated, newly contracted floor area in 2023 represented a 111% increase over the equivalent figure for 2022 (Figure 4). This also resulted in a significant reduction in the number of available units in high street areas by the end of 2023. The availability rate in Q4 2023 fell to 4.8%, a decline of 4.9 pp. from a year previously.

Overseas-based retailers are actively pursuing opportunities for new store openings, accounting for 62% of all newly contracted floor space in 2022 and 40% in 2023. The value of the yen, which has been steadily weakening since 2022, has played a significant role in facilitating this trend. When average rent levels in the world’s major retail markets are compared on a USD basis (Figure 5), Tokyo (Ginza) is now relatively cheap. Indeed, compared to the pre-pandemic levels of Q4 2019, Tokyo (Ginza) rents have fallen on a USD basis by 23%. The fact that Tokyo rents are now much more affordable than other markets is one of the factors encouraging overseas-based retailers to open stores in the city.

Figure 4: New retail openings area in major high streets



* Data includes units available for occupancy within a year of contract signing in four major high street areas (Ginza, Omotesando/Harajuku, Shinsaibashi, and Sakae).

Source: CBRE, April 2024.

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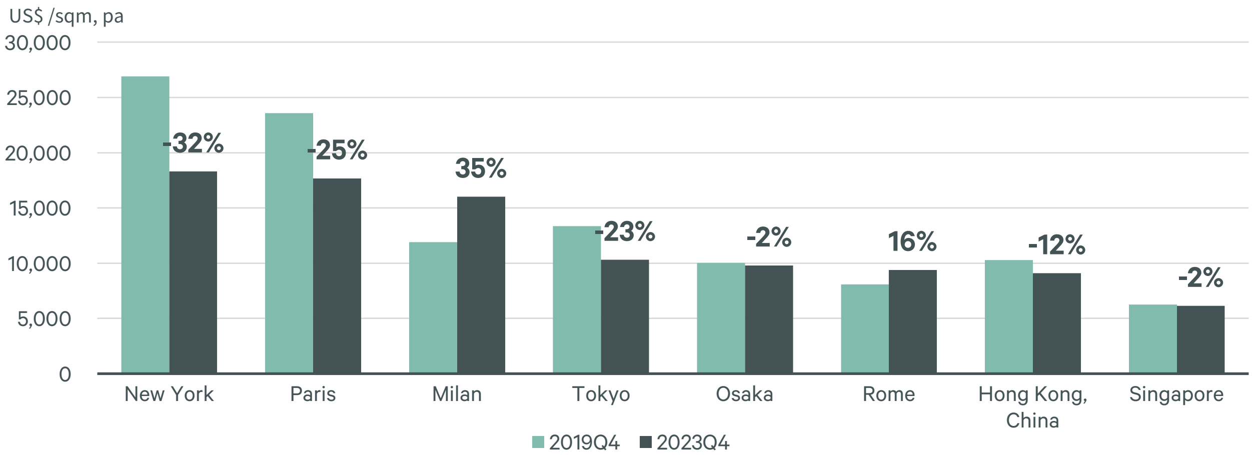
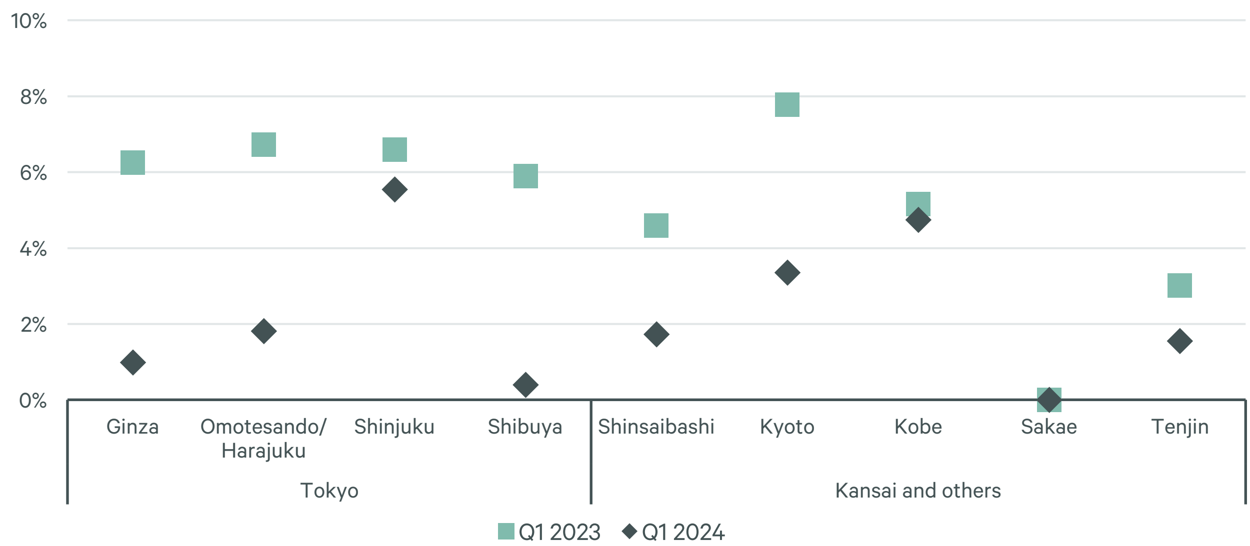
Figure 5: Prime rents in major cities worldwide (US dollar basis)



* Singapore figures are for shopping centres; figures for all other cities are high street prime rents. New York data is for Q3 2023.
Source: CBRE, March 2024.

At the same time, the steady flow of new store openings in 2023 has led to a decline in the number of available properties (Figure 6). The vacancy rates in prime locations within high street areas, particularly popular with retailers, fell in almost all of the nine surveyed areas over the course of 2023, reaching as low as 1.0% in Q1 2024 in Ginza (down 5.2 pp. y-o-y), and 1.7% in Shinsaibashi (down 2.9 pp. y-o-y). This underscores just how few options retailers now have when selecting the next location for a high street store.

Figure 6: High street vacancy rate fluctuations



* Refers to properties in prime areas in high streets. Source: CBRE, May 2024.

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Rapidly rising rents for street-level stores are also a major challenge for Japanese domestic retailers. On a local currency basis, average rents in Q1 2024 are now above the pre-pandemic levels recorded in Q4 2019 in as many as four high street areas: Shinsaibashi (+23.2% compared to Q4 2019), Kobe (+15.3%), Kyoto (+10.0%), and Ginza (+1.9%). Not only does this act as a strong disincentive for retailers to open new stores, it also functions as a significant roadblock for contract renewals, as many landlords are raising their asking rates.

3. The merits of property acquisition

Amongst the retailers' two main options when opening a new store, leasing or acquiring, leasing has been the method chosen by most retailers in Japan and indeed elsewhere, until now. According to CBRE's latest data, some 76% of retailers in the Ginza high street area were leasing their storefront units as of end-2023, with just 24% owning their stores outright.

While some retailers have always considered purchasing properties for self-use, in most instances this has been confined to flagship stores. In addition to the fact that a lack of competition from other retailers makes it easier to acquire properties in their desired location, the other primary incentive for retailers to purchase land is that it makes it easier for them to design, build and operate a store that allows them to convey the brand's image to consumers. With greater freedom in terms of interior design and no concerns regarding lease terms, the purchasing of properties also facilitates long-term investment plans. Finally, as these purchased properties tend to be in highly sought-after areas, any extra space can be leased to other retailers to earn additional profits.

An increasing number of retailers are therefore now considering the option of property acquisition. Most typical among this group are luxury brand retailers, with several cases observed in overseas markets where such retailers have acquired properties themselves (Figure 7). Japan is also witnessing luxury brands, as well as a range of other retailers including those in the jewelry and wristwatch, apparel, and sporting goods sectors, considering acquiring property for their own stores.

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With retailer demand expected to remain robust, CBRE projects high street rents to continue to rise. When signing new contracts or renewing existing ones, many retailers are now requesting longer lease periods as a way of hedging against future rent hikes. If rents rise to the extent that retailer outlay on rent over the course of the lease is no longer significantly less than the cost of property acquisition, purchasing their own land is likely to become a more viable option. CBRE expects that an increasing number of retailers will consider the option of acquisition as an alternative to leasing to ensure that they do not miss out on the few chances available to open new stores in high street areas amid such a tight supply-demand balance.

Figure 7: Major high street transactions

Date	City	Property Address	Buyer	Main tenants
2024Q2	Milan	Via Monte Napoleone 8	Kering	Cova, Prada, Saint Laurent
2024Q1	New York	715- 717 5th Ave	Kering	Giorgio Armani, Dolce & Gabbana
2023Q4	Paris	150 Av Des Champs-Elysees	LVMH	n/a
2023Q3	London	171 New Bond St	Swatch Group Ltd	Harry Winston
2023Q3	Paris	56 Ave Montaigne	Kering	n/a
2023Q2	Paris	101 Ave Des Champs-Elysees	LVMH	Louis Vuitton
2023Q1	Paris	235 Rue Saint-Honore	Kering	Gucci
2023Q1	Paris	14 Rue de Castiglione	Kering	Gucci
2021Q4	San Francisco	340 Post St	Chanel	Williams-Sonoma
2021Q2	New York	546 Broadway	UNIQLO	UNIQLO
2020Q4	London	158-159 New Bond St	Chanel	Chanel

Source: Created by CBRE based on media information

Contacts

Asuka Honda
Director

asuka.honda@cbre.com

Hiroshi Okubo
Managing Director
Head of Research
hiroshi.okubo@cbre.com

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