

Japan Urban Retail Market Update

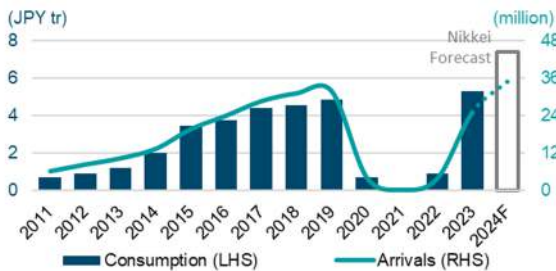
Japan as the primary beneficiary of tourism growth.

During the decade of 2010-2019, annual overseas tourist arrivals in Japan almost quadrupled from 8.6 million to 32.2 million, the highest growth in Asia Pacific and well above the average regional growth multiple of 2.2 times.¹

In 2024, Japan is once again leading the strong recovery of overseas tourism, being the only country in the region where overseas tourist arrivals during the first five months of 2024 surpassed the 2019 level, in contrast with other major countries² where overseas arrivals remained at 70-90% of the pre-pandemic level in the same period.³

The competitiveness of Japan's tourism industry is also backed by the World Economic Forum, which ranked Japan as a top 3 country in terms of travel and tourism competitiveness globally since 2021 due to its higher focus on hygiene, safety, transportation, and cultural resources.⁴ This implies that Japan is well positioned to enjoy the continuous growth of overseas tourism within the APAC region. As a proxy of overseas tourist arrivals, the International Air Transport Association (IATA) forecasts that the recovery pace of air travel in APAC will surpass that of the US and Europe in 2024 and reach 155% of the 2019 level by 2030.

Exhibit 1. Overseas Tourist Consumption and Arrivals in Japan



Source: IATA, DWS. As of August 2024

¹ UN Tourism Statistics. As of August 2024.

² Australia, Hong Kong, Singapore, South Korea, Thailand.

³ UN Tourism Statistics. As of August 2024.

Increasing per capita tourist consumption is poised to drive further growth in the sector.

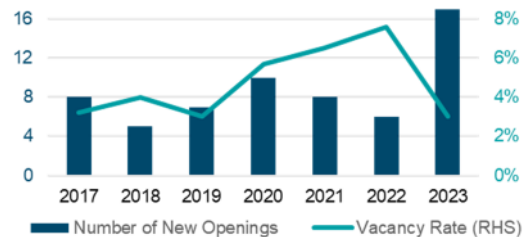
As the primary driver of urban retail market growth, overseas tourist consumption in 2023 surpassed its previous peak and is expected to grow by 40% in 2024 (Exhibit 1), yet many investors remain cautious about returning to the sector.

Before the pandemic, the growth of overseas tourist arrivals to Japan was primarily driven by Chinese tourists, but now there is increasing diversification with a rapid increase of Western visitors who stay longer and spend more on high-quality goods and services. Per capita overseas tourist consumption increased to JPY 239 thousand in 2Q 2024, an increase of more than 50% from 2019⁵.

As a result, vacancy rates in key retail areas have also significantly tightened from previous peaks of 5-17% to 1-3% in 2Q 2024, which should boost the retail rental recovery further (Exhibit 2). The main tenant groups have also switched from duty-free shops and drug stores to luxurious brands, jewelry, watches, or second-hand goods.

The robust growth momentum of the overseas tourism industry in Japan is expected to continue, which could potentially allow investors in this overly neglected sector to benefit from cyclical income growth in the next 12 months.

Exhibit 2. New Store Openings and Retail Vacancy Rate in Ginza



Source: CBRE, BAC, DWS. As of August 2024

⁴ World Economic Forum "Travel & Tourism Development Index 2024."

⁵ Japan Tourism Agency. As of August 2024.

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