Japan - August 2024

SPOTLIGHT
Savills Research

The Normalisation of Japan

Bright prospects through normalisation following decades of stagnation

Summary

- Extreme levels of previous success allowed Japan to resist change for very long, but the country no longer has room to maintain its provisionally comfortable but stagnated status quo.
- Japan has many successful and competitive companies, high quality human capital, and comparable productivity to other major developed countries, but its resources do not appear to have been effectively utilised.
- Robust wage growth is a positive sign of progress towards normalisation, while the Japanese stock market, backed by strong corporate profits demonstrate the conviction for normalisation in Japan.
- Japan has successfully attracted large amounts of FDI in recent years, particularly in cutting-edge, high growth industries such as semiconductors and data centres, and should continue to be a popular destination for foreign capital.
- Japan will remain among the most populous countries in the world, and Tokyo is projected to still have one of the largest metropolitan populations for the coming decades. Japan also has capacity for more immigration, which should ease the demographic decline for a while.
- Notable game changing developments include the Osaka Integrated Resort (IR), and subsequent IR developments should follow this success.
- Luxury residences/hotels/ryokan will keep attracting UHNWIs from neighbouring nations, bringing substantial wealth and capital to Japan. Together with IRs, the development of high-end products will transform Japan into a global luxury destination.
- Overall, Japan's economy should fare well, which should support a stable real estate sector.

INTRODUCTION

Between the 1980s and 2000s, Japan had a strong economy, with many leading corporations at the top level across the globe, especially in the manufacturing sector. However, its heightened levels of success also led to complacency in many aspects, giving Japan the leeway to resist change, innovation, and progression for lengthened periods of time. At present, while the status quo is comfortable at least for the time being, it has undoubtedly become stagnant, leading to difficulties in maintaining it going forward. This has therefore prompted the urge for long-awaited normalisation.

For instance, the abruptly weakened currency has become a major concern, and the direct impacts that this has had on daily life for average Japanese citizens have led to greater awareness about the issues at hand and the desperate need for change. Another concern on a mid-term basis is the ageing and declining population; Japan has arrived at an advanced stage of this problem earlier than many of its peers, and this will threaten the country's position as an economic power.

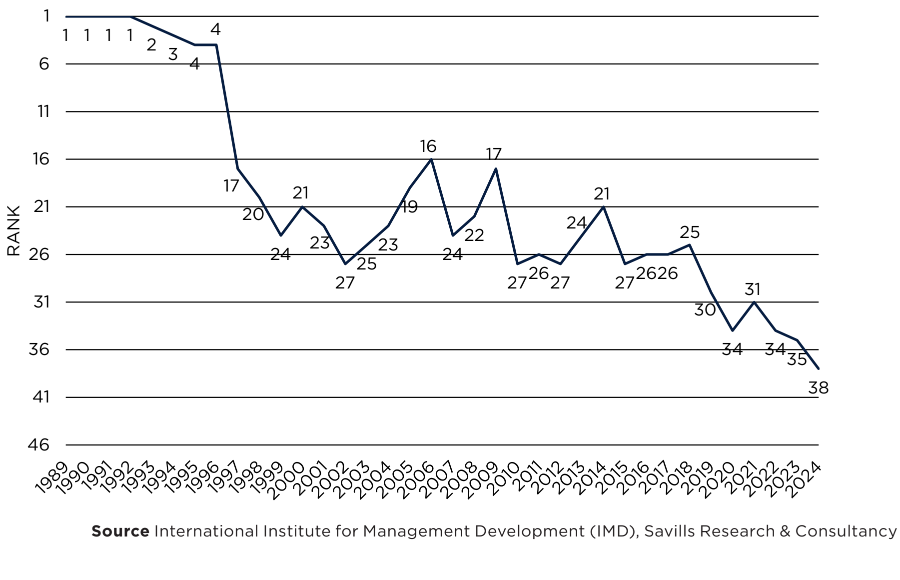
Indeed, Japan's GDP has continued to stagnate in nominal terms, from US$5.8 trillion in 2010, to US$4.2 trillion in 2023 (Table 1), though this can largely be attributed to the exchange rate situation. Furthermore, Japan's global GDP share has gradually fallen, from nearly 20% in 1995, to 8.7% in 2010, to 4.0% in

TABLE 1: Global Top Five Countries by GDP* and GDP Share, 1995, 2010, and 2023

RANK	1995			2010			2023		
	COUNTRY	GDP	SHARE	COUNTRY	GDP	SHARE	COUNTRY	GDP	SHARE
1	US	7.6	24.5%	US	15.0	22.6%	US	27.4	26.0%
2	**Japan**	**5.5**	**17.8%**	China	6.1	9.2%	China	17.8	16.9%
3	Germany	2.6	8.3%	**Japan**	**5.8**	**8.7%**	Germany	4.5	4.2%
4	France	1.6	5.1%	Germany	3.4	5.1%	**Japan**	**4.2**	**4.0%**
5	UK	1.3	4.3%	France	2.6	4.0%	India	3.5	3.4%

Source World Bank, Savills Research & Consultancy
* GDP measured in US$ (Trillions)

GRAPH 1: IMD Japan Relative Global Competitiveness Score, 1989 to 2024



Source International Institute for Management Development (IMD), Savills Research & Consultancy

2023. Similarly, the IMD world competitiveness benchmark shows that Japan plummeted from ranking number 1 in terms of global economic competitiveness until 1992, to ranking number 38 in 2024 (Graph 1). These factors, as well as the abruptly weakened currency, have made many concerned about the future of Japan, with its ageing population and depopulation likely to worsen in coming years.

That said, taking its quality of corporations and human capital into consideration, Japan's economy should fare better. While its previous extreme levels of success allowed Japan to resist change and progression for too long, the country no longer has room to maintain its comfortable but stagnated status quo, meaning that normalisation is imperative, ignited by issues of labour shortages, inflation, and the weakened currency. Indeed, Japanese citizens and corporations appear to have slowly but surely started to accept these long overdue changes. Therefore, we anticipate that Japan should fare better soon.

As recently as three decades ago, Japan was extremely successful, but its recent performance has become rather subdued. The declining population, and the abruptly weakened currency in recent years have raised some concerns regarding the prospects of the economy and real estate market. Nevertheless, looking ahead at the next ten years, Japan looks poised to normalise itself, and the economy and real estate market are likely to fare well in turn.

ECONOMIC NORMALISATION - A PATH FOR GROWTH

While Japan has just started the process of economic normalisation, it may be useful to remember the history that led the country to its current state. Economic stagnation began from the 1990s, with the end of the bubble era prompting society to be overly focused on stability in terms of both government policies and corporate activities. Successive governments have spent significantly on social welfare, but not much on investments for the future. Many companies became lean and profitable, probably at the expense of employees' salaries, and retained large amounts of cash on their balance sheets[1]. Therefore, residents in Japan have taken the stability for granted while becoming gradually poorer; money was not being properly circulated around the economy, and this had generally persisted.

For now, weak growth and a large pile of debt (or low interest rates) have significantly depreciated the currency, which has caused concerns among both citizens and investors over the past few years. That said, it is also perhaps counter-intuitively a product of one of Japan's strengths; corporate governance reforms over the previous decade have led to greater focus on return on investments, which has pushed capital abroad for higher growth. Moreover, profits generated overseas are increasingly being re-invested overseas for higher returns. Essentially, despite having the largest primary-income surplus in the world by far, these earnings are neither being converted to yen nor returned to Japan, and have thus provided little avail to the exchange rate situation. As such, these sets of circumstances surrounding the currency situation should also be considered when evaluating Japan's economy.

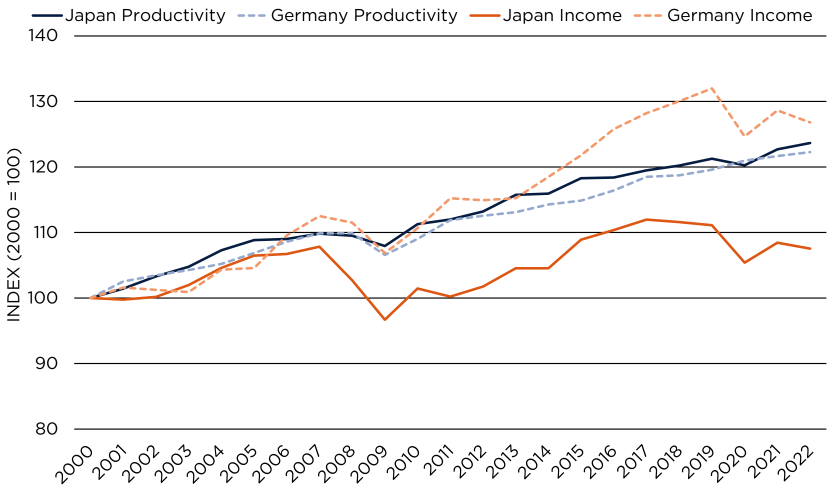
Meanwhile, productivity growth in Japan has been in line with other matured economies such as Germany, but unlike other economies, wages have not nearly kept up with productivity growth (Graph 2). In fact, in Japan, productivity improved by 23.7% over the last two decades, but national disposable income only grew by 7.5%. Nevertheless, wage growth has finally started in Japan, which has been at 5% over the last two years. Given the labour shortage and low labour share[2], wages in Japan are likely to continue growing, which will contribute towards normalising the domestic economy. Going forward, Japan's economy is likely to grow at least at nominal terms like other nations, which is an encouraging sign.

In addition, average human capital in Japan is of a very high quality. For instance, educational levels are among the highest in the world. Indeed, the Programme for International Student Assessment (PISA), a human capital measure carried out by the OECD, ranked Japanese 15-year-old students at number one for science and mathematics ability, and number two for literacy on average in 2022. Despite this,

1 Japanese companies have long accumulated huge amounts of cash and deposits on their balance sheets, reaching JPY250 trillion by the end of FY2020 according to the Japanese Ministry of Finance, which is around the same figure held by U.S. companies (around US$2.15 trillion in 2020 according to Moody's), despite the U.S. economy being five times larger.

2 The percentage of value added that is accounted for by labour costs.

GRAPH 2: Changes in Productivity and National Disposable Income, Japan vs Germany, 2000 to 2022



Source OECD, Japan Institute for Labour Policy and Training, Savills Research & Consultancy

TABLE 2: Global Top Five GDP per Capita*, 1995, 2010, and 2023

RANK	1995		RANK	2010		RANK	2023	
1	Luxembourg	51,032	1	Luxembourg	110,886	1	Luxembourg	128,259
2	Switzerland	50,114	2	Norway	88,163	2	Ireland	103,685
3	**Japan**	**44,198**	3	Switzerland	76,531	3	Switzerland	99,995
4	Denmark	35,351	4	Denmark	58,041	4	Norway	87,962
5	Norway	34,876	5	Sweden	52,869	5	Singapore	84,734
6	Germany	31,658	**16**	**Japan**	**44,968**	**31**	**Japan**	**33,834**

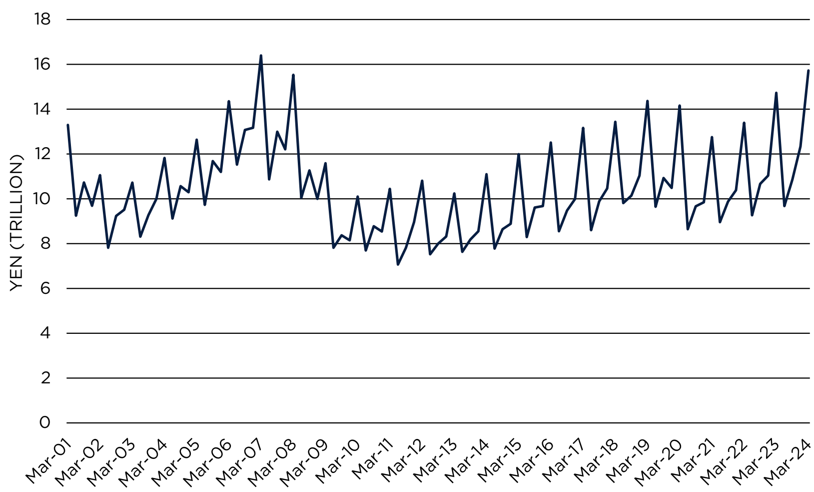
Source World Bank, Savills Research & Consultancy
* Measured in current US$

TABLE 3: Comparison of Listed Companies - Japan, US, Germany, 2022

COUNTRY	NUMBER OF LISTED COMPANIES
Japan	**3,865**
US	4,642
Germany	429

Source World Bank, Savills Research & Consultancy

GRAPH 3: Total CAPEX by Companies in Japan, March 2001 to March 2024



Source Ministry of Finance, Savills Research & Consultancy

Japan's human capital does not appear to have been effectively used, leading to Japan's uncharacteristically low competitiveness and low GDP per capita (Table 2). This appears to stem from the inefficiency of Japan corporations, which can be derived from the aforementioned poor wage growth.

Indeed, there are too many corporations in Japan, which is a remnant of Japan's former strong growth period. While Japan does have many successful and strong manufacturing companies that are internationally competitive, a majority remain small, especially when compared globally. Most Japanese companies have strong businesses and balance sheets, which has allowed them to survive as standalone entities until now. That said, Japan's economy is no longer as successful as before, and the small size (and revenues) of these companies, put together with the vast number of them are vivid signs of inefficiency in the market. For reference, Japan has nearly 3,900 listed corporations as of 2022, while the United States has 4,600, and Germany has just over 400 (Table 3). Moreover, the number of listed corporations has actually increased in Japan by nearly 90% between 2000 and 2022, while the United States and Germany saw the number decrease due to corporate consolidations.

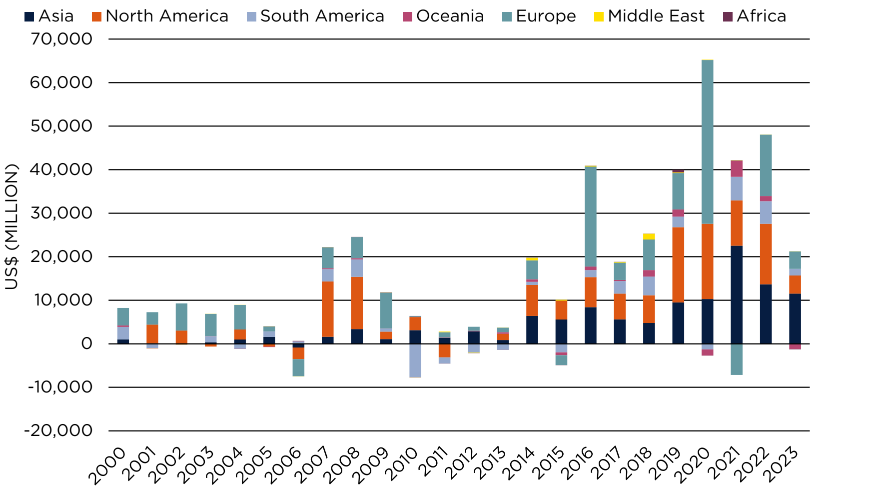
In addition, the average age of CEOs in Japan was 60.5 years old as of 2023, which has increased for 33 consecutive years, according to Teikoku Databank. Many observers also highlight the 2025 problem, where many CEOs will reach 75 years old by 2025 and would likely be considering retirement. That said, succession is a major concern, with the number of annual business closures due to lack of a successor increasing yearly, reaching 586 cases in FY2023, emphasising the need for haste toward normalisation. As such, one important progressive step will be corporate consolidation - merging and acquiring firms to a revenue level of, for instance, over US$10 billion, which would allow them to be internationally competitive and enjoy economies of scale. This would significantly improve productivity and innovation, and subsequently increase the capacity for higher salaries. Fortunately, Japan seems to be moving in the right direction in this aspect, with M&A transactions continuing to grow and hitting an 18-year high in 2023.

Next, due to the past deflationary environment, many corporations have scaled back investment. That said, recent inflation has triggered corporate Japan to resume investment activity (Graph 3). Indeed, holding too much cash is no longer seen as the favourable option, and Japan must focus on capital investment to improve capital stock, the quality of which has declined over recent decades. More investment should be made into, for instance, digitalisation and decarbonisation to be competitive with global standards.

Wage growth will be another important factor in Japan's normalisation, rather than hoarding cash on balance sheets, especially in this era of inflation. Raising wages will improve worker morale and productivity, and help companies to attract talent - both in terms of retaining human talent in Japan and making Japan an attractive destination for skilled workers to migrate to. This cycle will also clean up underperforming companies, giving further momentum to this virtuous cycle. Greater income levels should in turn boost private consumption, and contribute to a healthy economic cycle.

Overall, several business practices and social systems in Japan, such as those mentioned above, need to be normalised. On a positive note, Japan appears to be on the right track to do so for many of them, and the current momentum should continue propelling the country towards achieving this.

GRAPH 4: Foreign Direct Investment in Japan by Source, 2000 to 2023



Source JETRO, Savills Research & Consultancy

TABLE 4: Foreign Corporate Entrants in Japan, 2019 to 2024

COMPANY	YEAR	INDUSTRY	REMARKS
Equinix	2019	Data Centre	Entered data centre market in Japan. Developed three hyperscale facilities by 2023.
TSMC	2021	Semiconductor	Established Japan Advanced Semiconductor Manufacturing with Sony Group and Denso. Completed construction of Kumamoto facility in 2024, and announced development of second, with total investment in Japan to reach US$20 billion.
Citadel Securities	2022	Finance	Established office in Japan.
Total Energies	2022	Renewable Energy	Established joint renewable energy venture with ENEOS. Aims to develop over 300MW of solar power generation capacity in Japan over the next five years.
Octopus Energy Group	2023	Renewable Energy	Announced GBP600 million investment into solar and wind power, and further GBP300 million investment into technological innovation.
Amazon Web Services	2024	Data Centre	Announced plans to invest US$15.2 billion to develop data centres in Japan.
Oracle	2024	Data Centre	Announced plans to invest US$8 billion over ten years to develop data centres in Japan.
Micron Technology	2024	Semiconductor	Revealed plans to invest US$5.1 billion to construct DRAM semiconductor facility in Hiroshima by 2027.
Microsoft	2024	Data Centre	Announced plans to invest US$2.9 billion to develop data centres in Japan.
OpenAI	2024	AI	Established Asia corporate base in Tokyo.

Source Corporate Disclosures, Savills Research & Consultancy

Elsewhere, Japan also has multiple areas where it shines brightly. For instance, geopolitical tensions have helped Japan become a popular destination for foreign capital, with foreign direct investment volumes hitting notably high levels since the pandemic (Graph 4). Strategic and sensitive sectors such as semiconductors and data centres are rapidly growing, increasing Japan's importance from a geopolitical and economic standpoint. Upcoming developments, in particular the Integrated Resorts development in Osaka should further boost investments in Japan going forward and propel greater economic activity. These investments will come with an influx of highly skilled foreign workers, which should have additional positive ripple effects.

Furthermore, the fiscal situation appears to have started improving. The government announced that initial forecasts hinted at a positive primary balance of nearly JPY1 trillion being achieved by FY2025. This is likely due to strong corporate performance and inflation, which have bolstered tax revenues, while reforms and adjustments to the social security system will lead to some savings in government spending. Admittedly, Japan's Debt-GDP ratio is the highest in the world, and a shallow fiscal surplus will not be enough to cover the large interest repayment costs, but this is nonetheless an important step in the right direction.

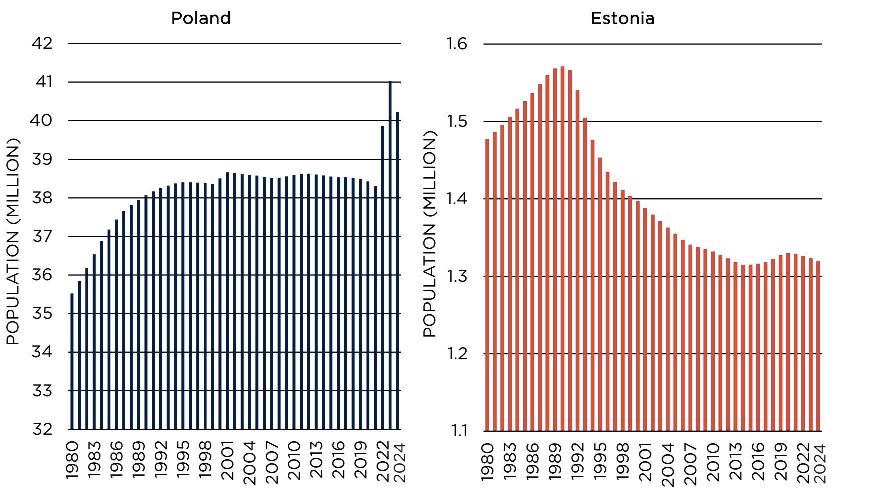
In the meantime, government-led strategies to boost the Japanese stock market, including governance reforms, have improved the viability of Japan's start-up strategy, attracting both foreign capital and start-ups looking for growth opportunities. Indeed, some Japanese start-ups are high quality and cutting edge, and international venture capital continues to enter the country. Therefore, a mixture of such measures, as well as Japan's strong reputation and wealth, should help improve the domestic start-up ecosystem.

Overall, considering the current trajectory and the country's progress towards normalisation, we anticipate that Japan will grow at least in nominal terms, falling in line with other developed nations. In parallel, GDP per capita and competitiveness will be expected to improve from the current top 30-40 to the top 20 globally.

IMPLICATIONS OF NORMALISATION FOR THE REAL ESTATE SECTOR

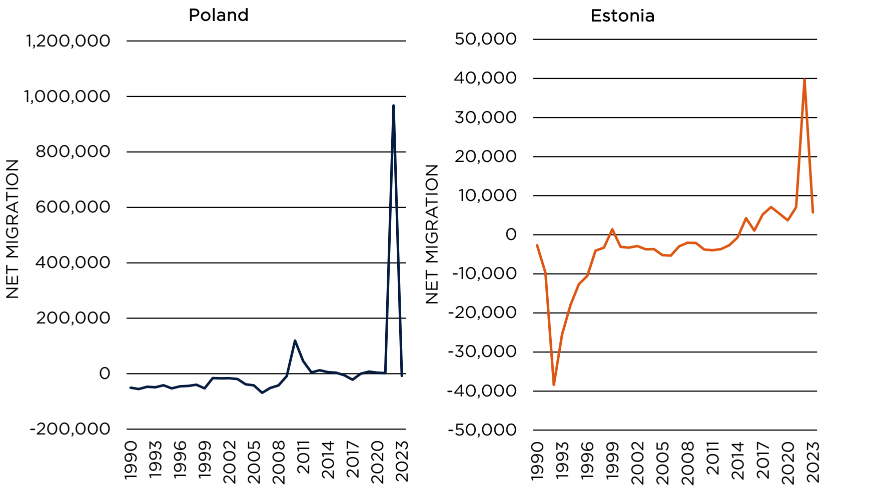
Windows of opportunity are opening up for real estate investments as large firms in Japan look to manage capital more efficiently and get ready for investment growth. For instance, there were previously very few chances to break into the grade A office sector, as major real estate developers and players clutched on tightly to their assets. However, this situation has been changing, due to more conscious capital management. Large redevelopment projects and growth plans will require significant amounts of capital, which should lead to

GRAPH 5: Poland and Estonia Total Population, 1980 to 2024



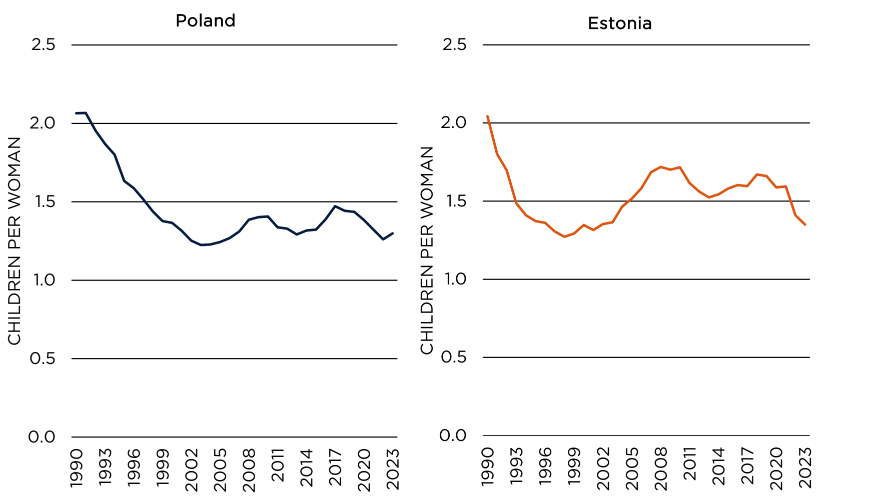
Source United Nations, Savills Research & Consultancy
Note The spike in Poland's population from 2022 was largely attributed to the influx of refugees from Ukraine.

GRAPH 6: Poland and Estonia Net Migration, 1990 to 2023



Source United Nations, Savills Research & Consultancy
Note The spike in Poland and Estonia's net migration from 2022 was largely attributed to the influx of refugees from Ukraine.

GRAPH 7: Poland and Estonia Total Fertility Rate, 1990 to 2023



Source United Nations, Savills Research & Consultancy

companies selling off more assets in order to achieve higher capital efficiency. Sale and leaseback deals are also a likely option for many players, providing even more opportunities.

The Japanese real estate market has been grappling with inflation, particularly due to heightened materials costs and the labour shortage, exacerbated by recent regulations on overtime work. However, they should also serve as an impetus for greater normalisation. Indeed, delivery times have been extended for new projects, and at significantly higher costs than before, with developers struggling to break even in some cases. As a result, more landlords are likely to explore refurbishing and renovating buildings at periodic intervals like many countries in Europe do, for instance, rather than demolishing and rebuilding, which has long been a common practice in Japan, a country that regularly experiences earthquakes, and that needs technological updates. This strategy would be significantly more cost effective in this inflationary environment, on top of being ESG friendly, and would allow rents to keep up with total cost. In addition, stringent regulations and advanced and resilient building techniques vis-à-vis earthquakes and natural disasters have been developed in the past, making this a viable option going forward. Hence, owners with existing buildings in more favourable locations are likely to be better off.

Overall, all these drivers mentioned above to normalise Japan will make its economy, and subsequently its real estate market, more sustainable in the future. The process of Japan's normalisation has just begun, leading to many opportunities for astute investors.

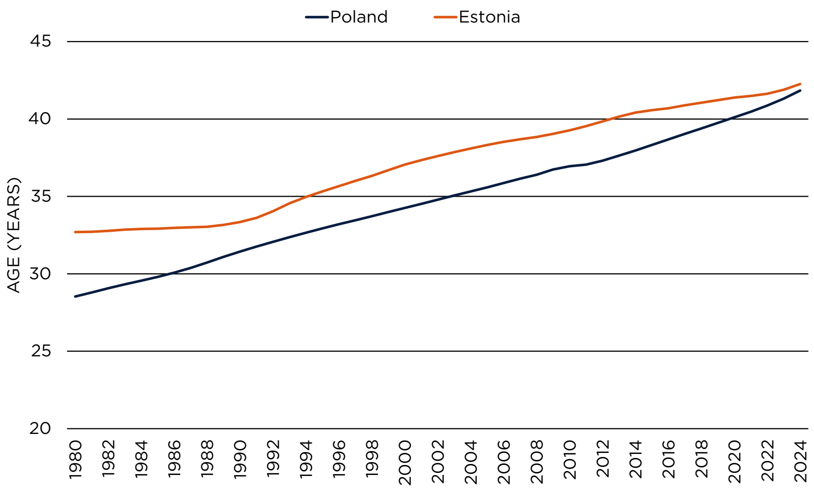
OVERCOMING UNFAVOURABLE DEMOGRAPHICS

Observers have been concerned about how a falling population will impact the Japanese economy in the future, and subsequently Japanese real estate. However, it must be noted that there are several countries that have already started to see greater extents of depopulation than Japan; some countries in Eastern Europe appear to have performed well despite stagnant population growth/ depopulation, emigration and low fertility rates.

For instance, Estonia's population has been falling for the last three decades, while Poland's has plateaued with a slight decline over the same period (Graph 5), and both countries have long experienced periods of net outward migration (Graph 6). In addition, the fertility rates of both countries have been very low, with Poland at 1.3 children per woman, and Estonia at 1.4 - both somewhat in line with Japan at 1.2 in 2023 (Graph 7). As such, the median age in both countries has increased steadily to around 42 years old in 2024 (Graph 8). Nevertheless, GDP growth has remained respectable in both countries over the past three decades (Graph 9). In addition, both countries saw consistent and strong residential house price[3] growth over the past

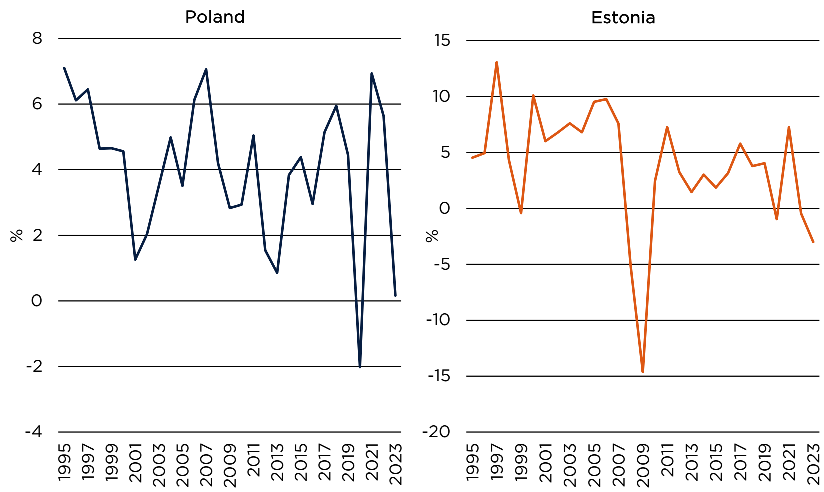
3 Residential house prices for new and existing single and multi-family housing stock.

GRAPH 8: Poland and Estonia Median Age, 1980 to 2024



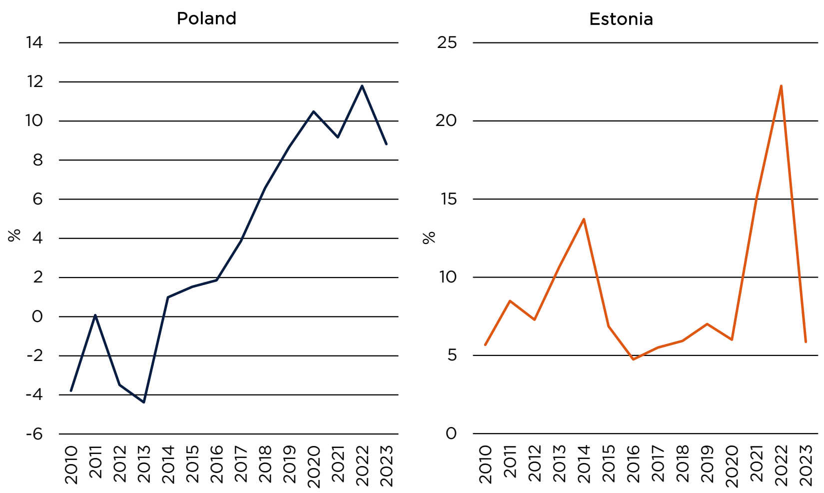
Source United Nations, Savills Research & Consultancy

GRAPH 9: Poland and Estonia Annual GDP Growth, 1995 to 2023



Source World Bank, Savills Research & Consultancy

GRAPH 10: Poland and Estonia Annual Residential Property Price Growth, 2010 to 2023



Source OECD, Savills Research & Consultancy

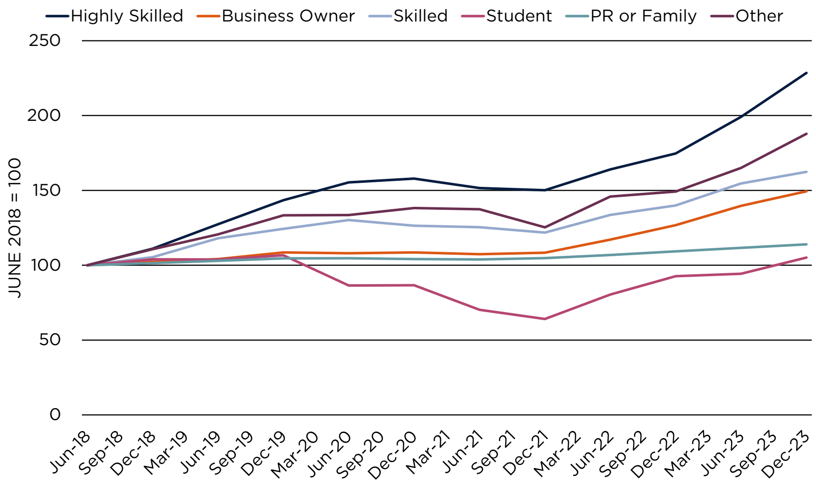
decade, with peak growth having been achieved between 2020 and 2022 of over 10% YoY in both countries (Graph 10). This demonstrates that reasonable economic growth is possible even in the face of challenging demographic circumstances if with the right growth strategy and investment, and that a declining population should be an issue that Japan should be able to deal with better.

In the case of Japan, immigration will be a key factor for stabilisation. Firstly, the foreign national population of the Tokyo 23W stands at 540,000 in 2024, which is only 5.5% of the total population. This is far below that of other major global cities, and suggests that there is more room for expansion. Japan should not have many issues in attracting new skilled migrants given its strong soft-power pull, as evidenced by the strong growth of inbound tourism, in addition to its world-class liveability and social stability. Even with relatively modest pay, given the general affordable price levels in Japan, skilled workers should enjoy a relatively comfortable standard of living in a safe and stable environment.

Across Japan, the number of foreign residents is not only increasing, but the quality and skills of such residents are also rising. According to Japan's Immigration Services Agency, the number of highly skilled person visa recipients increased from 800 people to nearly 24,000 between 2013 and 2023. Overall, statistics show a larger number of and greater proportion of more highly educated foreign nationals moving to Japan (Graph 11), a number of whom are likely to be individuals of greater income and wealth. Indeed, looking at Table 5, the number of foreign nationals on highly-skilled visas, some of which require minimum income thresholds, has increased by 115% between 2018 and 2023 to 24,000 people, and the number of business owner visa holders has increased by 50% to almost 38,000 over the same period.

While there is speculation that a rapid uptick in immigration would receive mixed reviews from the public eye, it must be noted that Japan's overall proportion of overseas-born residents of around 2.2% in 2020 is still significantly lower than that of other developed nations. According to the United Nations, Canada (21.3%), Germany (18.8%), the U.S. (15.3%), and the United Kingdom (13.8%), among others, all had foreign populations of well over 10% of their respective total populations. Therefore, as the population decline becomes more acute, immigration could become a reasonable option to alleviate this issue, given Japan's relatively large capacity to receive more overseas residents, at least for the next decade or two. Moreover, Japan operates under a set of precise and orderly social customs and norms in daily life, which strongly incentivises residents to assimilate in order to live comfortably. This implicit system of encouraging integration should ensure that social stability is likely to continue, especially with the low foreign resident ratio and minimal local pushback against

GRAPH 11: Number of Foreign Nationals in Japan by Visa Type*, June 2018 to December 2023



Source Ministry of Justice, Savills Research & Consultancy
* Data excludes short-term visas, including tourist visas

TABLE 5: Number of Foreign Nationals in Japan by Visa Type*, December 2018 vs December 2023*

	DEC 2018	DEC 2023	% CHANGE
Highly Skilled	11,641	23,958	105.8%
Business Owner	25,670	37,510	46.1%
Skilled	271,660	418,403	54.0%
Student	337,000	340,883	1.2%
PR or Family	1,651,790	1,855,147	12.3%
Other	433,332	735,091	69.6%
Total	**2,731,093**	**3,410,992**	**24.9%**

Source Ministry of Justice, Savills Research & Consultancy
*Data excludes short-term visas, including tourist visas

growing levels of immigration at present. The successful handling of such factors will change the situation in Japan, and help improve the country's competitiveness and ease its return to a state of normalcy.

Overall, Japan is still forecast to remain in the top 20 most populous countries in the world by 2040, despite being forecast to experience a 13.4% contraction in its population between 2020 and 2040. Furthermore, the contraction should be more modest in reality, especially considering the rather conservative forecast on the increase of foreign residents. Greater Tokyo has been the largest metropolitan area in the world for over half a century, and is currently ranked first globally in terms of population in 2020 at 37.4 million people, although it is forecast to decrease moderately in terms of population and be overtaken by Delhi by 2035. The region will remain globally significant in terms of its economic, political, and cultural strengths in 2040 and beyond. This can be reflected by the current size of both Tokyo and Japan's wider real estate markets. Indeed, in 2023, at a global level, Japan's real estate market was ranked fourth by MSCI at US$870 billion, and the Greater Tokyo metropolitan region was ranked third in terms of total commercial real estate transaction activity in 1H/2024. All in all, with the right growth strategy and investment supported by the normalisation process, Japan's economy and real estate market are likely to fare well despite some headwinds from an ageing and declining population.

BRIGHT SPOTS FOR INVESTMENT - BEYOND TOKYO

In many regards, Tokyo is in a favourable position. In particular, the ultra-luxury residential sector is an exciting and emerging one, having grown in popularity over the past half decade, likely due to the growing number of new, entrepreneurial younger ultra-high-net-worth individuals (UHNWIs) that have amassed wealth through IPOs and corporate sales, and also due to an increasing number of wealthy foreign residents living in Tokyo. Tokyo has seen multiple redevelopment projects over the past half decade that have transformed the landscape of the city centre, and created spaces that feel like a "city within a city", making it a more luxurious and attractive location to live in. This trend looks to continue and further accelerate when looking at the current development pipeline, and should expand into other urban areas beyond Tokyo. For a more in-depth overview, please refer to our "Tokyo Residential: Ultra Luxury March 2023" report.

Meanwhile, other metropolitan and rural areas in Japan also have much to offer, and there will likely be many exciting real estate opportunities across Japan nationwide moving forward. Indeed, key regional cities have a strong development pipeline, which should be a major pull for residents, businesses, and investors.

Firstly, public transport improvement projects will ensure strong connections between regional metropolitan areas and improve their prospects. The Linear Chuo Shinkansen will drastically reduce travel times across the so-called "mega region" of Tokyo, Nagoya, and Osaka, encouraging greater levels of business and leisure travel, and creating a 60 million+ commuter belt. The Chuo Linear Shinkansen is set to run until Shin-Osaka, with non-stop services from Shinagawa set to take only 67 minutes. Operations to Nagoya are forecast to commence from 2034, while observers are mooting 2037 for the start of operations to Shin-Osaka, with Shin-Osaka anticipated to become one of the largest and most significant travel hubs in Japan.

In addition, the extension of the Hokkaido Shinkansen to Sapporo station is slated for operational commencement in 2031, with new stations to be completed in Otaru, and Kutchan (Niseko), among others, which will open up many opportunities in these areas. In particular, this will be a boon for Niseko, which is the apex of Japan's skiing culture, allowing direct travel via bullet train from Tokyo, and will likely encourage further development in resort areas and local towns, and significantly benefit the local economy. Moreover, redevelopment around the Sapporo station front may attract more office and retail tenants, in anticipation of greater business and tourist travel via the new shinkansen line, and improve the overall landscape of the city.

Elsewhere in Hokkaido, as climate change intensifies, there are plans to further optimise Kushiro port as a point of first access as the arctic region becomes more navigable for shipping, and Kushiro might resemble the present Singapore. In addition, Kushiro is around 10 degrees Celsius cooler than Tokyo, and these developments could help the area potentially attract many migrants/tourists looking to escape the summer heat, meaning that Kushiro could also possibly position itself as a summer resort area.

BRIGHT SPOTS FOR INVESTMENT - AS A GLOBAL DESTINATION

Inbound tourism has rebounded significantly after the pandemic. Japan excels in its soft power image building, and is a staple travel destination due to its cuisine, heritage, and famous natural and urban sites.

The integrated resort in Osaka carries particularly profound significance for the Japanese tourism industry and wider economy. This will mark the development of the first large scale entertainment and casino resort in Japan, on Yumeshima island in the Osaka Bay area as part of a joint venture by MGM and Orix Corp, and will feature casinos, hotels, restaurants, retail space, and entertainment centres, and is scheduled to arrive in 2030. This will likely be a game changing development for Japan, given the likely tourism boost, and significant potential broad economic effects as well as increase in tax revenue. Eventually, Japan is likely to host several integrated resorts, with Tokyo and Hokkaido likely to be excellent candidates. For more information, please refer to our "Japan hospitality - Integrated Resorts - February 2024" report.

Japan is home to diverse climates that offer a wide range of tourism opportunities all year round, and is overall well positioned to attract a consistent stream of visitors, and thus generate stable revenue from tourism. For instance, winter sports has grown to become an important industry in Japan, having successfully marketed its voluminous powder snow to the world. Niseko and Hakuba are the most well-known, although many other resort towns are making progress towards becoming the "Next Niseko" through regeneration and investment. This has created enormous opportunities for both local economies and the real estate sector, and demonstrates the array of opportunities to be exploited outside of Tokyo. Indeed, there are several ski resorts with significant potential, including Myoko Kogen and Appi Kogen, among others. For more information, please refer to our "Japan Hospitality - Ski Resorts - February 2024" report.

Elsewhere, traditional ryokan located in scenic natural areas and onsen resort towns should also offer a range of opportunities, especially with the dramatic growth of inbound tourism, and a greater desire for more "off the beaten track" experiences outside the main tourism hotspots of Tokyo, Osaka, and Kyoto. There are numerous prime locations for ryokan in major hot spring towns, resorts, and urban areas across Japan, and many external domestic and international players have made successful entries into the market. Indeed, the vast and fragmented nature of the market, with no dominant market leaders, should offer a wide range of opportunities for operators and investors with a clear strategy and operating acumen. Overall, sentiment is high in the luxury ryokan segment, and as inbound tourism continues to pick up, we predict further entries by large operators and a continued expansion of the market. For more information, please refer to our "Ryokan Market June 2023" report.

Japan also has many areas relatively unknown to international audiences that can attract tourists. In the New York Times' annual "52 places to Travel" series, Morioka was listed as number two in 2023, and Yamaguchi was featured as number three in 2024. This shows that many relatively undiscovered places in Japan could be thought of as potential top destinations, and if the right infrastructure is in place, many more travellers would visit them. These tourist destinations should boost local economies, subsequently creating opportunities in the real estate market.

Overall, the process of Japan's normalisation has just begun, leading to many opportunities for astute investors, especially in metropolitan areas with development pipelines, as well as numerous prime regional resort spots that are suitable for future tourism. Indeed, Japan has all the trappings of a high-end tourism destination - a rich and refined culture, renowned cuisine, reputable customer service, and social stability. As such, the luxury tourism sector looks to become an important high-growth sector for Japan in particular.

OUTLOOK

Japan had previously shone on the global stage due to its economic success, but has settled into a rather stagnant status quo over the past three decades. This has manifested in terms of the abruptly weakened currency, poor wage growth relative to productivity, and decreasing global competitiveness. That said, Japan's normalisation process has just started in earnest and with greater urgency, and has led to more encouraging prospects. Indeed, it appears that both financial and human capital have started being more effectively utilised, resulting in record corporate profits and wage growth.

Overall, normalisation looks to support a strong and stable economy and real estate market in Japan. Various transformational projects are in the pipeline, not only in Tokyo, but throughout regional cities and rural areas in Japan, which will offer attractive and diverse opportunities to investors. Moreover, major public transport infrastructure projects look to enable smoother travel across Japan, and have stimulated economic growth and new developments in respective regions.

In particular, integrated resorts should be a game changer, bringing significant economic impact to Japan. Luxury residences, hotels, and ryokan will keep attracting UHNWIs from neighbouring nations, bringing substantial wealth and capital to Japan. Currently, Japan attracts a record number of inbound tourists with its overwhelming attractions offered at reasonable prices, much like Japanese products in the 1980s. This transformation into a global destination is further drawing the attention of UHNWIs.

As Japan transitions to a global tourist destination, and makes further strides in developing its high-end sectors, its image may gradually change to one of "luxury", and should allow Japan and Japanese corporations to capitalise on inbound tourism more effectively and earn greater revenue, together with the fruits of the normalisation process. This will be facilitated by Japan's world-renowned hospitality, in addition to its social and economic stability, reliable and resilient infrastructure, as well as the slew of luxury developments in the pipeline. Overall, prospects for Japan are bright, especially in high-end segments, and observers should anticipate exciting further growth.

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