

LUXURY MEMO SPECIAL REPORTS

## Cities of luxury: Tokyo Luxury Memo special report

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*Tokyo's bustling streets are a marvel of color. Image credit: Unsplash*

By JOE MCCARTHY

With the 2020 Olympic Games on the horizon and a national economy on the rebound, Tokyo has reemerged in recent years as an epicenter of regional tourism, retail and art.

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The signs of prosperity are all around as the luxury real estate market booms, brands double down on store investments and affluent individuals flock to cultural attractions. Tokyo often gets overshadowed by fashion meccas such as Paris and Milan, but as the economic powerhouse of the second leading luxury market in the world, the iconic city has a lot to offer.

"Tokyo features attractive luxury shopping experiences from age-old Ginza to newer complexes such as Hibiya Midtown," said Nobuko Kobayashi, managing director and partner at **EY-Parthenon**, Tokyo. "Tourists are flocking to Tokyo, notably Chinese big spenders. This creates a momentum for Tokyo as a luxury market.

"The combination of luxury shopping and cultural experiences, in addition to proximity, is a big draw for Chinese wealthy," he said. "For the Chinese holiday season in October 2018, Japan was top destination."

Top five trends in Tokyo

- Bricks-and-mortar

All around the world, bricks-and-mortar stores have been ceding traffic to seamless online shopping experiences. Tokyo is no exception, but the vast majority of sales in Japan still take place in-person, giving department stores a chance to buck the global trend by investing in immersive experiences. At the same time, brands have plenty of room to invest in their digital presence without cannibalizing business.

- Brand agnosticism

Although many global brands have cultivated deep loyalty in Tokyo over several decades, consumers have shown a tendency to experiment with newer players to the market, and this brand agnosticism has forced brands to differentiate themselves through experiential offers.

- Hospitality

Whether a consumer is shopping in the historic Ginza district or checking in at the Mandarin Oriental, the concept of "omotenashi," or enveloping care and service, is a defining aspect of Tokyo's hospitality.

- The Olympics

With the Olympics approaching in 2020, Tokyo is preparing for an influx of tourists, and local officials are seeking to showcase the city as a beacon of cosmopolitanism.

- Regional tourism

Forget Paris, Milan and New York. Chinese tourists are increasingly choosing Tokyo as a destination to shop for luxury goods.

### Bricks-and-mortar

On weekend afternoons, pedestrians rule the broad streets of Ginza, Tokyo's premier luxury district that commands the fifth highest commercial real estate prices in the world.

In the first quarter of 2018, Tokyo overtook London as the busiest real estate market, per [JLL](#), and the signs of growth are everywhere. Although the city has limited space for construction, cranes are rampant as investors look to take advantage of the country's sunny economic prospects and looming global events such as the Olympics.

Throughout Tokyo's affluent suburbs, luxury units often sell for more than \$10 million, with some fetching upwards of \$27 million. The spike in prices can be attributed to dwindling land for development and the younger generation's preference for sky rises, according to [the Real Deal](#).

The market glut also affects the luxury retail business, which stays afloat through strong store traffic.

Luxury brands abound in Ginza, from high-end watch boutiques to coveted fashion labels such as Ermenegildo Zegna, Balenciaga and Alexander McQueen.



*Alexander McQueen boutique. Image credit: Alexander McQueen*

The lush shopping experiences these stores offer, combined with a steady influx of tourists and Japanese consumers' preference for in-person experiences, has allowed Tokyo's retail scene to remain robust despite the global rise of online shopping and the ensuing shuttering of stores.

"Potentially more than any other major Asia economy, the brick-and-mortar experience is essential to Tokyo's luxury retail market," said Andrew Peck, head of communications for Asia for [CBRE](#), Singapore. "Online retail has relatively limited penetration in Japan compared to other markets in Asia.

"Japanese consumers place great currency on the ability to try, test and touch products in person," he said.

Whereas ecommerce accounts for 20 percent of sales in China, online shopping has a penetration of only 5 percent in Japan. This meager share can partly be blamed on the minimal investments made by luxury brands in Japanese digital storefronts, according to [Business of Fashion](#).

Physical locations also remain popular because they satisfy the consumer desire to experience craftsmanship and storytelling.

In recent years, many companies have begun to embrace the idea of experiential shopping through pop-ups, themed

events and partnerships with artists. As in other major cities, brands are also accepting the changing role of retail locations.

Louis Vuitton, Chanel and Giorgio Armani are just a few of the high-end retailers that are planning to retrofit their stores to deliver more immersive experiences ahead of the 2020 Olympics, according to [Nikkei](#).



*Louis Vuitton Tokyo boutique. Image credit: Louis Vuitton*

"Brick-and-mortar stores across Tokyo are gradually changing their raison d'etre," CBRE's Mr. Peck said.

"Increasingly, locations are no longer exclusively a place to buy, but a place to experience' the product or the brand, or, in a more commonplace phrase, a tool for advertisement.

"Encouragingly, we are seeing demand from retailers aiming to use the store spaces as a pivot to a more experience-led strategy," he said.

#### Hospitality

Throughout Japan, an ethic of "omotenashi," which encompasses deference and graciousness, prevails.

It can be felt when store associates guide shoppers through a product's origins, or when a concierge at a hotel helps a guest map out the perfect day and then asks him or her how it went later on.

While these values exist in any country's hospitality sector, they are especially pronounced in Tokyo.

"Omotenashi is culturally embedded in Japanese DNA," Ms. Kobayashi said. "It is a philosophy that puts others before oneself.

"In luxury brands, Japanese hospitality is felt by hand-holding service by sales clerks tailored to needs of individual customers," he said. "The service-orientedness is one reason why foreign tourists are attracted to Japan, as the experience is unique."

The concept of omotenashi meshes especially well with the atmosphere that luxury brands try to create for their customers. It helps to explain why so many are opening up new locations in the city, and why brands go to such lengths to differentiate themselves.

Bulgari is opening its first boutique hotel in the city by 2022 ([see story](#)) and Four Seasons recently added its second location ([see story](#)). Mandarin Oriental has offered guests the option of helicopter rides to and from the airport ([see story](#)), and Peninsula Tokyo keeps Teslas on hand for concierge services ([see story](#)).



*Mandarin Oriental Tokyo helicopter. Image credit: Mandarin Oriental*

This mandate for hospitality also extends to department stores and luxury malls, which feature teams of hostesses, lift attendants and personal guides to coordinate the shopping experience.

"Walking into a Japanese department store is an extraordinary experience," Nicole Bargwanna, the founder of fashion boutique consultancy CPR Tokyo, told [Business of Fashion](#).

"You feel the weight of history and tradition from the very first moment you are bowed to as you step through the door, until the time you start browsing through the best possible selection of products, all of which are made to the highest quality in the world," she said. "These stores are designed to make you feel completely spoiled."

Many brands are thinking far outside the box to deliver one-of-a-kind experiences.

For example, for \$1,755 per night, travelers can stay on a luxury yacht built to resemble a boutique hotel while cruising along Tokyo's coast, per [Travel + Leisure](#).

The Ritz-Carlton, meanwhile, is celebrating the holidays with a tree in its lobby decorated with Manolo Blahnik-designed ornaments.

#### Brand agnosticism

Luxury shoppers are not at a loss for options in Tokyo.

"Tokyo remains a magnet for luxury retailers measured both on presence and diversity of brands," CBRE's Mr. Peck said. "Depending on what sources are used, Japan/Tokyo has the highest spend for luxury sales globally.

"As of 2018, more than 70 percent of the luxury retailers have a presence in Tokyo," he said. "Globally, this places the city as the seventh-highest penetration rate behind Shanghai, which now houses just below 90 percent of major luxury brands."

In addition to storied luxury brands such as Chanel and Louis Vuitton, Tokyo has seen a rise in emerging global brands that appeal to younger consumers flush with money from inheritance or the powerful economy.

The city's homegrown brands are a powerful presence, and conglomerates such as Shiseido now vie with powerhouses including LVMH and Richemont.



*Actor and singer Wang Zi at Shiseido store. Image credit: Shiseido*

Because of the market's saturation, many Tokyo residents are seeking out value over storied reputations. Rather than spending large sums on international brands, customers are more often supporting smaller luxury boutiques with perhaps a single location in an outer district.

These forces have fostered a tendency towards brand agnosticism and have helped to diversify Tokyo's shopping culture, allowing districts other than Ginza to draw weekend crowds of affluent consumers.

Similarly, sales in the luxury auto market reflect the consumer preference for home-grown brands such as Lexus over European luxury vehicles.

Instead of seeing this as a reason to withdraw from the market and shrink the company footprint, savvy brands are able to return to their roots by emphasizing superior craftsmanship and forward-looking aesthetics.

For example, Miu Miu invited consumers to virtually explore its microstore before deciding on whether a visit is worth it ([see story](#)).

## The Olympics

If history is any lesson, investing in the Olympics can be a bitter pill for many cities, with huge expenditures made in the run-up to the games that languish in the aftermath.

The last time Tokyo hosted the games in 1964, however, Japanese officials took advantage of the unique opportunity to modernize infrastructure and invested in bullet trains and highways.

This time around, Japan is trying to defy the odds once again by using the Games as an incentive to diversify its domestic economy and further establish Tokyo as a place for technological innovation.

Nikkei **reports** that the Olympics has spurred a surge in robotics and artificial intelligence research and investments to shore up the city's security. The gains made in these sectors could easily be parlayed into improving retail experiences throughout Tokyo.

For example, technology can help to improve the shopping experience by allowing store staff to access the preferences of a customer as he or she enters the store.

### *2020 Olympic venues as visited by AP*

City officials are also showcasing Tokyo's sustainability credentials by investing in solar panel roads, using recycled cell phone waste in medals for the Olympic Games and broadcasting the efforts that are being made to mitigate climate change. These actions will likely resonate with affluent consumers who are willing to pay more for brands and experiences that prioritize sustainability, per **Forbes**.

The Olympics has become a major driver of Tokyo's real estate boom both from a private and public perspective. The government is seeking to make retail districts, hospitality options and other attractions more amenable to tourists.

At the same time, **Nikkei** reports that high-net-worth individuals are causing rents to skyrocket in the city, and spurring the construction of luxury high rises.

The country is looking to more than double tourism to the country by 2030, using the Games as a showroom of sorts for what outsiders can expect, and Tokyo stands to be affected the most by this increase.

"Tokyo is at the front of innovation and technology," Hidetoshi Fujisawa, Tokyo 2020's executive director of communications and engagement, **told the International Olympic Committee**. "We are hoping to develop and popularize a diverse range of technological innovations.

"The 2020 Games are an opportunity for Japan, for its capital and for the Japanese business community to amaze the world," he said.

## Regional tourism

The clearest sign that Chinese tourism has made an impact in Tokyo is the number of Mandarin-speaking store associates in luxury stores.

In recent years, Chinese consumers have turned more often to Tokyo to shop for luxury. No longer simply binge purchasers, returning to the airport with mountains of goods, these tourists have cultivated a preference for niche Japanese luxury brands, while still seeking out their international favorites.

"The city is currently boasting record tourists numbers, with Chinese shoppers leading the way," CBRE's Mr. Peck said. "The surge in inbound tourists and why we believe this will continue is heavily tied to the increase in middle-class population in Asia, as well as relaxation of visa issuance for Chinese and Southeast Asian tourists."



*Ginza, Tokyo's high-end shopping district. Image credit: Unsplash*

Another reason for the spike in tourism is because of the credibility of retail in Tokyo, where counterfeits are relatively rare, according to the [South China Morning Post](#).

In addition to the shopping experience, Tokyo's peerless culinary scene draws affluent foodies from around the world, and its diverse cultural attractions are another driving force for tourism.

Tokyo has more Michelin stars than any city in the world, and travelers can find excellence in nearly any district if they plan ahead, that is.

Kanda's freshly cut sushi has earned three Michelin stars, but getting a seat usually takes a two month reservation. Whereas Kanda keeps it classic, RyuGin goes above and beyond with innovations and even turns vegetarians away at the door.

The city's thriving art scene brings in tourists from around the world to visit galleries, art fairs and dozens of museums.

More often than not, luxury and art intersect in this world.

Louis Vuitton's artistic director Virgil Abloh's "Pay Per View" [exhibit](#) opened earlier this year at the Kaikai Kiki Gallery, Herms recently opened its *Avec Elle* exhibit at Tokyo's National Art Center ([see story](#)), and Cartier not long ago brought its climate-change themed exhibit to the city ([see story](#)).

#### *Virgil Abloh's "Pay Per View" exhibit*

These trends show no signs of slowing as major global events approach the city.

"Arrivals and tourist spending in the city will potentially continue with events such as the 2020 Olympics and the Rugby World Cup approaching," Mr. Peck said. "Strong demand is seen from the luxury sector and the up-and-coming technology retailers, as well as food and beverage retailers, are reflecting consumers' shift towards experience-oriented shopping experience."

At the turn of the decade, Japan's economy struggled to climb out of the global financial crisis, and tourism eventually functioned as a key engine of growth ([see story](#)). Years later, Prime Minister Shinzo Abe's economic policies have helped to stabilize growth, and now Tokyo looks set to continue rising as an essential city of luxury.

"Tokyo has historically been a top destination for luxury brands, [but its] status lagged after the financial crisis when other Asian markets gained power," said Yuko Okayasu, head of marketing and communications at [Cushman & Wakefield's](#) Japan office. "However, it has regained its luxury position on the back of Prime Minister Abe's Abenomics policy and increased inbound tourists."

#### Best-practice tips for the Tokyo market

- Nobuko Kobayashi, managing director and partner at EY-Parthenon
  - "Address the wealthy mass segment with understated luxury. Japanese frown upon flaunting of wealth. Luxury brands should therefore help customers discreetly express wealth and good taste. The best example in this approach are German car manufactures, BMW, Mercedes-Benz, etc. They are the favorite brand by high-income earners who are concentrated in Tokyo."
  - "Rejuvenate brand message by combining luxury with newness. In a mature market like Tokyo, luxury brand growth tapers as years go by. Your consumer base gets older along with the brand. Luxury brands

should therefore rejuvenate their image by striking a balance of youthfulness and affordability with their traditional luxury image."

- "Lastly, this is not monopoly for Tokyo, but it is now possible to test the waters of the market, relatively low-cost, with pop-up stores, online marketing and ecommerce. Rather than investing heavily into bricks-and-mortar, new luxury brands can try this approach."
  - Andrew Peck, head of communications for CBRE
    - "Luxury brands need to think ahead when exploring an entry or expansion into Tokyo. Like most mature markets, timing is key in Japan given long lead times needed for securing sites, which is especially true for luxury locations."
    - "Speed is also a factor. Retailers need to be quick once an opportunity surfaces that matches the brand. Smart marketing is becoming more important."
    - "New and potential entrants typically require a broad narrative to illustrate the brand, product range, financials and legacy to sell the brand to the owner of a site."
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