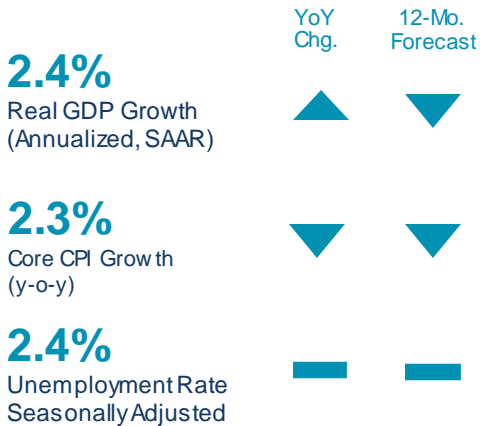


Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

ECONOMIC INDICATORS Q4 2023



Source: Cabinet Office, MIC, METI, Oxford Economics, Moody's Analytics

¹Bank of Japan "Outlook for Economic Activity and Prices" as of November 2023

²Prepared by Cushman & Wakefield based on figures from Ministry of Finance "Statistics on Corporate Corporations" on an all-size and all-industry basis, and the National Institute for Labor Policy Research.

³EPS forecast survey as of January 2024, Japan Center for Economic Research

Economy: Low Likelihood of Sustained Wage Increase to Pause Overall Consumption Recovery

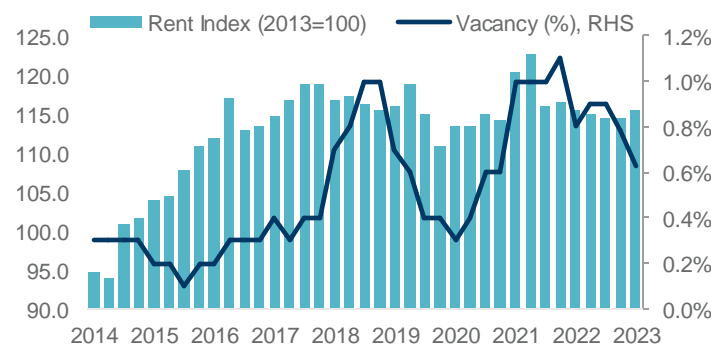
Japan's quarterly real GDP is expected to grow by 2.4% y-o-y in Q4 2023, although consumer spending indicators are mixed. The nationwide unemployment rate ticked up to 2.4%, up 0.1 pp from one year ago. The annual growth rate of the core CPI decelerated to 2.3% in December 2023 from 4.0% in the same month the previous year, due to lower food prices that contributed 60% of the index movement. Slowing inflation lifted December's Consumer Confidence Index (CCI) figure by 6.9 points to 37.2, still tracking well below the neutral score of 50. Despite corporate earnings trailing around a historical high since the 1990s², the projected wage increase via the 2024 annual wage negotiations between the labor unions and employers is limited to 3.85%, tracking below the break-even rate of 5% after adjusting for price effects. A low likelihood of sustained wage hikes at SMEs also continues to prompt households to prioritize savings over discretionary consumption. The real household income level declined further by 7.2% in Q4, down 6.8 pp y-o-y. We expect a trend of sluggish consumption ahead through a prolonged period of negative real wage growth, even after transitioning into a sustained inflationary environment in the coming quarters.

Supply and Demand: Major Developers' Shift to Large-Scale Urban Retail Formats Continues

Nominal retail sales rose 3.8% y-o-y in Q4 2023, but the trailing 3-month average of the seasonally adjusted real retail sales declined by 1.7% y-o-y. Quarterly department store sales (+6.5% y-o-y) also decelerated, below the peak growth rate of 17.2% of Q3 2022. While a warm winter led to weaker apparel sales, surging tourist demand boosted sales around major transportation hubs, lifting quarterly drug store sales (+8.3% y-o-y). Spending on daily necessities remains near flat, after offsetting inflation impacts, with modest quarterly sales growth at supermarkets (+2.2% y-o-y) and convenience stores (+2.2% y-o-y).

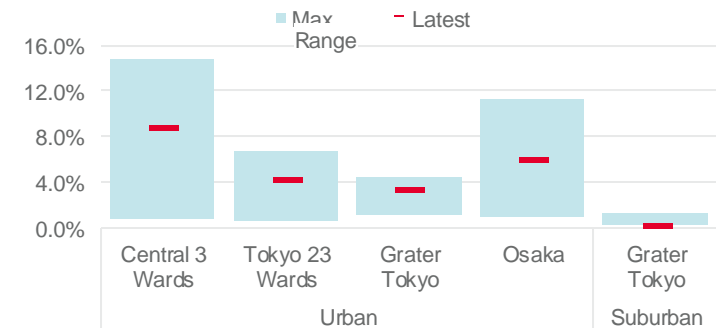
New development announcements of large mixed-use urban facilities directly connected to major stations continued in Q4. The Naka no Station redevelopment, comprising a five-story station-front building (GFA: 16K sq m), aims to deliver a greater mix of office, residential and retail space to support global media content creators, with groundbreaking scheduled for 2026. Major urban retail development openings featuring experience-based stores continue. Mori Building opened the Toranomori Hills Station Tower (GFA: 26,000 sq m) with top-floor observatory and media attractions, and Azabudai Hills (GFA: 23,000 sq m), featuring a lower-floor digital art museum. Elsewhere, Kyoto Takashimaya SC (GFA: 65,000 sq m) unveiled Nintendo's flagship store as the anchor tenant. Conversely, regional department store closures continue, as nearly 50% of their sales have shifted to suburban commercial facilities over the past two decades.

RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

HISTORICAL VACANCY RATE BY ASSET TYPE/AREA



* Historical since January 2013
Source: ARES

Rental Performance by Tier: Higher Income Households Cutting Services Consumption

Shinsaibashi/Midosuji and Kyoto saw further rises in top rents in Q4 2023. Shinsaibashi/Midosuji recorded a notable top rent of ¥350,000, above the prior peak of ¥300,000 at the end of 2019. We also expect the current demand upswing from high-end stores to extend beyond Tier I districts, lifting the bottom rents of Ginza, Omotesando, and Midotsuji in the coming quarters. High-end brand store openings continued in the quarter, featuring higher rents for top locations. Growing top brand concentrations led to record sales at Ginza Six, accompanied by a series of luxury brand openings in department stores in Kobe and Shinsaibashi. In the adjacent Tier II districts, excess demand from luxury brands has started to lift rents in Ginza and Omotesando. However, tenants' lower rental cost capabilities are tending to extend the negotiation time with landlords seeking higher rents in lower-tier districts.

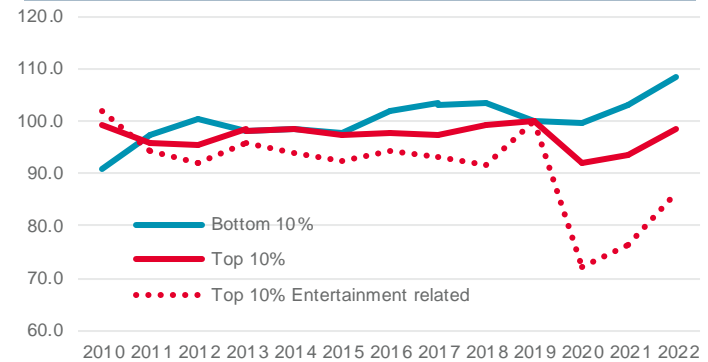
Household spending surveys by income distribution indicate a mixed picture. While the cost-of-living increase has led to a 3% rise in annual consumption in the bottom 10% of households, an 8% drop was recorded among the top 10% of households, predominantly through lower entertainment spending compared to 2019. Among discretionary spending categories, domestic services consumption remains weak, with combined entertainment and food spending declining by 11% from the corresponding figure in 2019 (see the graph at right). Although continued tailwinds from inbound tourism demand are expected through 2025, the pace of domestic services demand recovery is expected to remain slow as high-income group consumption is yet to fully recover.

The Q4 period saw notable store openings featuring large-scale urban redevelopment formats. A new Nike flagship store in Ginza integrates an urban runner's hub within the three-story building. Beauty product brand Ya-Man opened a flagship store along Chuo-dori in Ginza, featuring an experiential product space within the four-story store. Luxury brand resale store Komehyo also launched a concept store in Shibuya, targeting younger consumers seeking media-based and omnichannel retail formats, and highlighting a different retail concept on each floor.

Outlook

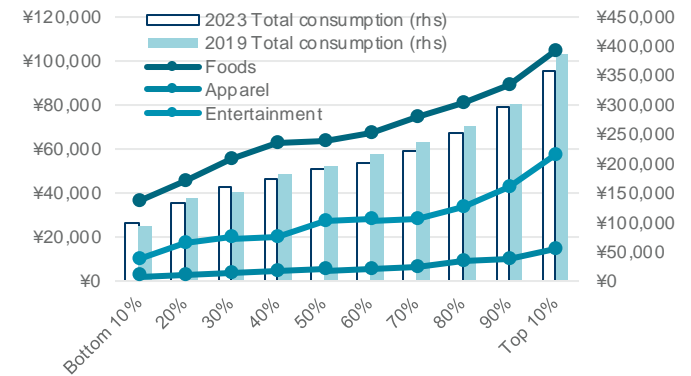
- **Top rents in luxury districts to increase:** Top rents in Ginza, Omotesando and Shinsaibashi have already exceeded pre-COVID levels, with further increases expected over the next 12 months. In these luxury retail districts, landlords can transfer cost increases to their tenants, in turn lifting the lower rent levels at Ginza, Omotesando and Shinsaibashi. With a series of major redevelopment initiatives running through 2030, we advise to monitor if this will translate into overall rental growth along with the arrival of major redevelopment projects.
- **Overall inflation-adjusted rents to remain flat:** Although top rents in prime locations are expected to continue to rise moderately, we see a cycle of overall rental growth lagging behind the inflation rate in the next two years. More tenants are becoming unwilling to accept rental increases as retail sales growth is largely offset by rises in labor, energy, and material expenses. We expect most tenants' capacity to pay rent will remain weak along with the overall weak consumption trend.

Annual Household Consumption Trend by Income Tier (2019=100, Since 2010, Excluding Housing)



Source: Statistics Bureau of Japan, Cushman & Wakefield

Major Consumption Item by Income Tier (As of September 2023)



Source: Statistics Bureau of Japan, Cushman & Wakefield

KEY LEASE TRANSACTIONS

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
NIKE	3-2-15 Ginza, Chuo	Ginza	13,023
Ya-Man	8-9-1 Ginza, Chuo	Ginza	4,982
Komehyo	16-9 Udagawacho, Shibuya	Shibuya	7,899

Source: Cushman & Wakefield

KEY NEW SC OPENING

PROPERTY	PURPOSE	OWNER/DEVELOPER	SUBMARKET	RSF (Approx.)
Azabudai Hills	Retail	Mori Building	Kamiyacho/Azabu	247,570
Toranomon Hills Station Tower	Retail, Residential, Hotel, Office	Mori Building	Toranomon	282,015
Kyoto Takashimaya S.C.	Retail	Takashimaya/Toshin Development	Kyoto Shijo	699,654

Source: Company disclosure, Cushman & Wakefield

MAJOR SC CLOSING

PROPERTY	PURPOSE	OWNER/DEVELOPER	SUBMARKET	RSF / GFA (Approx.)
Takashimaya a Gifu Store	Retail	Takashimaya	Gifu	279,862
Meitetsu Department Store Ichinomiya	Retail	Nagoya Railroad/Maruei	Aichi	188,368

Source: Company disclosure, Cushman & Wakefield

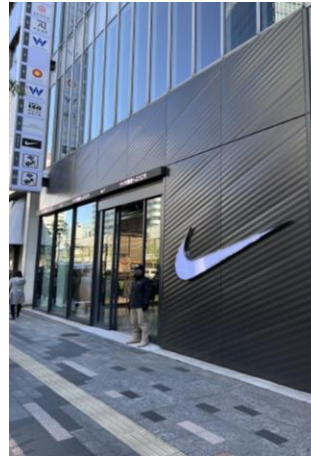
PRIME RENTAL RATES: TOP/BOTTOM RENT (TIER 1)

Figures in blue indicate upward revisions for Q4

SUBMARKET	TOP JPY/Tsubo/Mo	BOTTOM JPY/Tsubo/Mo	TOP FORECAST	BOTTOM FORECAST
Ginza	400,000	200,000	▲	▲
Harajuku/Omotesando	370,000	150,000	▲	▲
Shinjuku	300,000	150,000	■	■
Shibuya	220,000	100,000	■	■
Shinsaibashi/Midosuji	350,000	100,000	▲	▲
Sakae	110,000	45,000	■	■
Tenjin	100,000	50,000	■	■
Kyoto	100,000	50,000	▲	■
Sapporo	60,000	35,000	■	■

Source: Cushman & Wakefield

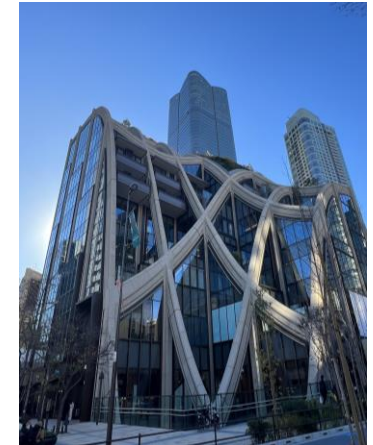
NIKE(Ginza)



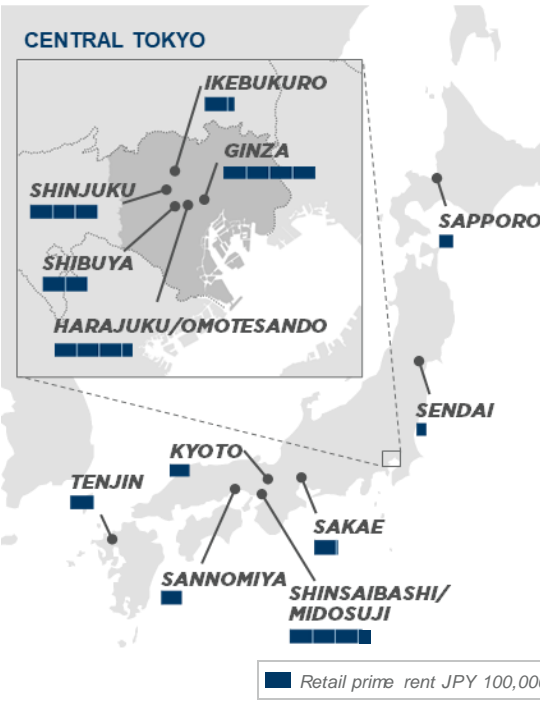
Komehyo (Shibuya)



Azabudai Hills



Source: Cushman & Wakefield



Source: Cushman & Wakefield

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