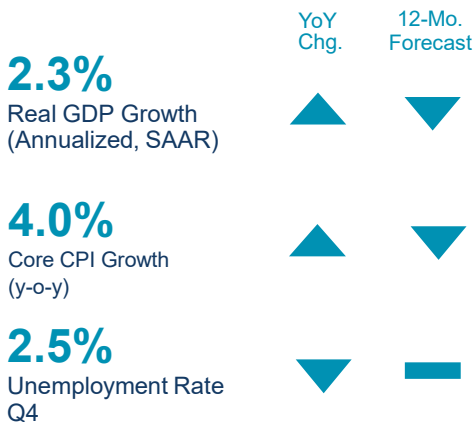


Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

### ECONOMIC INDICATORS Q4 2022 Forecast



<sup>1</sup> July-Sep 2022 average

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

### Economy:

Although global real GDP growth is expected to fall below 2% in 2023, Japan's real GDP growth is expected to remain steady at +1.1% in 2023 and +1.2% in 2024. In December, the latest employment figure rose for nine consecutive months to 60.5 million with the seasonally adjusted unemployment rate falling 0.1pp to 2.5%. As Japan's labor participation rate has already risen to 63%, equivalent to that in the U.S., securing labor is expected to become a similar supply constraint, capping the potential annual growth rate at around 0.7%.

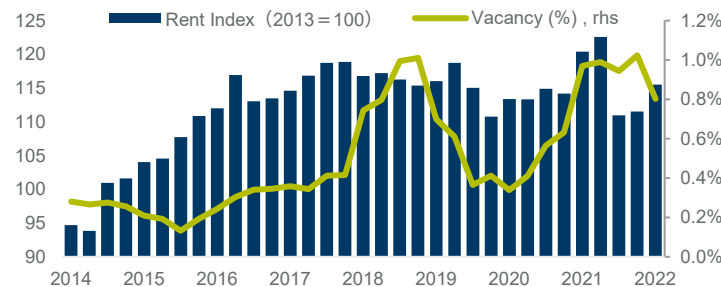
Real wages continue to decline at 1.5% y-o-y with a continued upswing in the core CPI. In December, the national core CPI increased 4.0% y-o-y, setting a record since December 1981. Excluding one-off factors, such as government fuel subsidies, the normalized core CPI rose a further 4.6% y-o-y, pushing the consumer confidence index further into negative territory. According to the BoJ survey, the price outlook in retail industries has already exceeded the level reached at the 2008 price hike, indicating wider price increases at least until mid-2023. The rising cost of living remains a major impediment to recovery of consumption. However, with an expected shift in monetary policy, declining commodity prices and the Yen's modest appreciation ahead should gradually offset some of the inflationary pressures as illustrated in the chart overpage. Furthermore, with Japan's household savings rate remaining elevated, as shown overpage, the sustained high savings rate in the high-income group is expected to support the current strength of luxury spending.

### Supply and Demand:

In Q4 2022, retail sales indicators recovered to near the pre-COVID level. The pace of recovery in department store sales has accelerated, with the 3-month rolling average of nationwide sales rising by 6.2% y-o-y, albeit lower than the 22% increase of mid-2022. Monthly department store sales have recovered to 92.9 of the base year sales (2015 = 100), indicating the near-full recovery of consumer demand. By region, sales in medium-sized cities trended downward through reduced people traffic, as demand returned to big cities. Conversely, sales of daily necessities remain largely unchanged on a volume basis, with national sales in drug stores (+7.9% y-o-y) and convenience stores (+7.9% y-o-y).

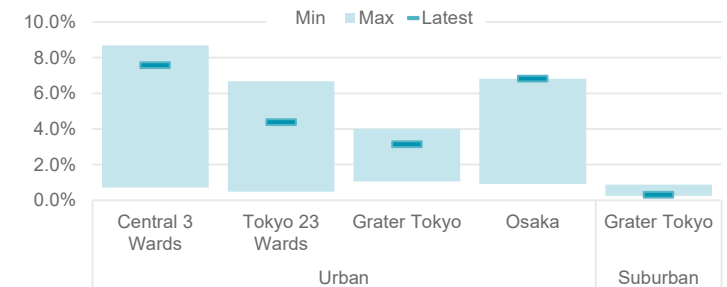
New developments are on the rise, with area-wide redevelopments over the medium to long-term gaining traction. Despite many challenges unique to Ginza, including its smaller-sized buildings, outdated building structure, and fractional ownership, Hulic has announced a six-year plan to redevelop at least 14 of its 37 buildings for JPY300 billion. A consortium led by Tokyu-Hulic also announced the Shibuya Redevelopment Project (GFA: 200,080 sq.m) with phased deliveries up to 2028. A second consortium, led by Hulic/Takenaka/ JR West/ LVMH, has announced the redevelopment of Shinsaibashi Plaza building (GFA: 46,241 sq.m). With major redevelopments of top locations in progress, we expect vacancy in secondary locations to trend upwards over the next few years.

### RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

### HISTORICAL VACANCY RATE BY ASSET TYPE/AREA



Source: ARES, historical since 2013

### Occupier Transactions :

High-end brands led leasing demand on the back of strong luxury spending in Q4 2022. Little rent movement was noted, albeit with growing demand in Ginza, Omotesando, and Shinsaibashi. Major store openings included Herman Miller in Ginza and American Eagle's reopening in Shibuya. Elsewhere, a series of medium-priced mass brand store openings followed in Shinjuku, Ikebukuro and regional cities with recovery in foot traffic. A combination of wealth effects, seeking substitutes for brand new products, and growing consumer awareness of sustainability also means renewed opportunities for pre-owned goods resellers. In summary, a gap between tenant and landlord achievable rental expectations remains wide, extending vacancies in non-core locations within submarkets. However, over the next 18 months we expect a gradual recovery in prime rents in Ginza, Omotesando and Shinsaibashi, where high-end tenants continue to demand top locations amid limited supply.

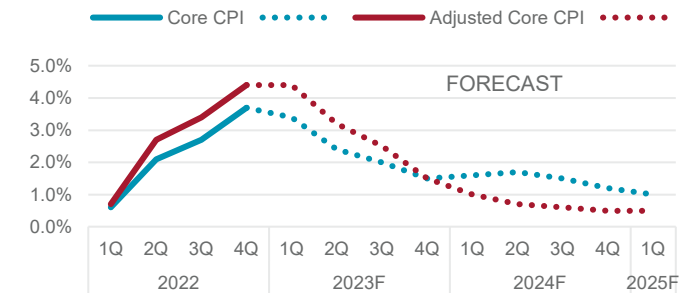
### Investor Transactions :

Increasing headwinds from rising interest rates and risk premiums continued to constrain investment transactions. Rolling annual transaction volume reached JPY562 billion, down 16% y-o-y. Excluding corporate acquisitions, investors remain cautious with the average transaction size on a downward trend. Foreign investors remain the net sellers through disposals of outdated urban center retail facilities with declining profitability. Conversely, J-REITs remain the net buyers seeking stable income from Neighborhood Shopping Center (NSC) assets. Major transactions in Q4 included the purchase by FPG, an emerging real invest securitization fund focusing on retail investors, of three retail buildings, including the Haimanten Shibuya Building owned by Heitman, for JPY40 billion. FPG's real estate fund business continues to expand with cumulative sales exceeding JPY100 billion at September 2022. Elsewhere, Grosvenor sold two buildings in Ginza to Eaton Real Estate, a Kajima subsidiary specializing in luxury real estate, for JPY19 billion.

### Outlook

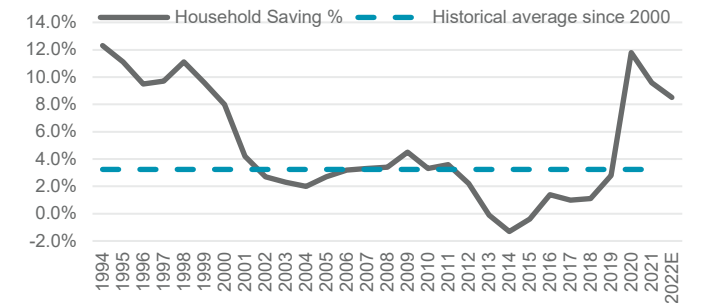
- Overall rents to trend downwards:** Although top rents in prime locations are expected to continue to rise moderately, we expect a cycle of overall rental decline reflecting the market's downcycle over the next two years. An emerging inflationary trend in service prices, up 1.4% y-o-y, is a positive given the history of limited pricing power. However, excluding high-end facilities with pricing power, most tenants' capacity to pay rent is expected to remain weak due to increasing cost pressures, weak consumption trend, and an unwinding of public support programs.
- Expect the pace of rental recovery to diverge by area:** Most areas have achieved a rental increase at CAGR 3.1% since 2013. However, with an increasingly limited availability since COVID-19, Omotesando has achieved higher rent increases than its peers. Conversely, Shinsaibashisuji, Shinjuku, and Nagoya's Sakae have suffered from larger rental declines than peers through lower inbound demand, delays in major redevelopments, and a shifting tenant base toward entertainment industries, leading to a reduced capacity to pay rent.
- Recommend Overweight on Non-Cycle Assets:** By store format, the Neighborhood Shopping Center (NSC) with grocery anchor tenants continues to demonstrate stable rents, vacancy rates, and asset pricing throughout the market cycle. For core investors, we continue to recommend NSC, especially with few interest rate increases expected for Japan. For value-added investors, we recommend a wide range of asset consideration, including building purpose conversions. Repurposing has extended toward Nagoya and Osaka, as capital values as logistics facilities started to exceed values as traditional retail stores.

### Core CPI (Composite Excluding Fresh Food) Trends and Forecasts (2022-2025F)



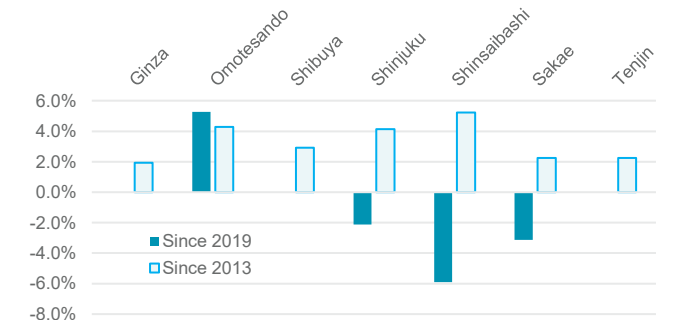
Source: Oxford Economics, MIC, Cushman & Wakefield

### Japan Household Savings Rate, Annual Trends (1994-2022)



Source: Cabinet Office (National Accounts), Cushman & Wakefield

### Store Rents by Submarket after COVID-19, Average Annual Growth Rate (CAGR)



Source: Cushman & Wakefield (Store rents refer to Top Tier 1 rent)

### KEY LEASE TRANSACTIONS Q4 2022

| TENANT         | PROPERTY                        | SUBMARKET | RSF           |
|----------------|---------------------------------|-----------|---------------|
| Herman Miller  | 1-5-13 Ginza, Chuo Ward         | Ginza     | Approx. 1,068 |
| American Eagle | 1-23-10 Jinnan, Shibuya Ward    | Shibuya   | Approx. 7,828 |
| IWC            | 3-17-2 Shinjuku, Shinjuku Ward  | Shinjuku  | Approx. 3,558 |
| Lululemon      | 5-5-1 MinamiAoyama, Minato Ward | Aoyama    | Approx. 2,847 |

Source: Cushman & Wakefield

### PLANNED NEW OPENINGS

| PROPERTY                       | PURPOSE                       | OWNER/DEVELOPER | SUBMARKET | GFA (SF)          |
|--------------------------------|-------------------------------|-----------------|-----------|-------------------|
| Tokyu Kabukicho Tower (Apr)    | Retail, Hotel, Theaters, etc. | Tokyu           | Shinjuku  | Approx. 940,765   |
| Tokyo Midtown Yaesu B1-3 (Mar) | Retail, Office, Hotel, etc.   | Mitsui Fudosan  | Yaesu     | Approx. 3,118,840 |

Source: Cushman & Wakefield

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

| SUBMARKET           | TOP JPY/Tsubo/Mo | BOTTOM JPY/Tsubo/Mo | TOP FORECAST | BOTTOM FORECAST |
|---------------------|------------------|---------------------|--------------|-----------------|
| Ginza               | 400,000          | 180,000             | ▲            | ■               |
| Harajuku/Omotesando | 350,000          | 150,000             | ▲            | ■               |
| Shinjuku            | 300,000          | 150,000             | ■            | ■               |
| Shibuya             | 200,000          | 100,000             | ■            | ■               |
| Shinsaibashi        | 250,000          | 80,000              | ▲            | ■               |
| Sakae               | 100,000          | 45,000              | ■            | ■               |
| Tenjin              | 100,000          | 50,000              | ■            | ■               |

Source: Cushman & Wakefield

### KEY SALES TRANSACTIONS Q3 2022 (INCL. ANNOUNCEMENT)

| PROPERTY  | SUB MARKET                      | SELLER / BUYER               | GFA (sq.m)   | PRICE/ JPY per Tsubo/ CAP% |
|---|---------------------------------|------------------------------|--------------|----------------------------|
| JPR Umeda Loft Bldg (30%)                       | Chayamachi Kita Ward, Osaka     | JPR REIT/ MBS Media Holdings | 18,587       | ¥5.2B   ¥0.9M   3.2%       |
| Himanten Shibuya Bldg and 3 other properties    | Dogenzaka Shibuya Ward, Tokyo   | Heitman, etc./ FPG           | Total 6,353  | Total ¥40B   -   -         |
| Namikikan Ginza CURA Ginza (Under Construction) | 4-Chome Ginza, Chuo Ward, Tokyo | Grosvenor/ Kajima Subsidiary | Total 12,120 | Total ¥19B   -   -         |

Source: Real Capital Analytics, Nikkei Real Estate Market Report

### HERMAN MILLER (Ginza)



### American Eagle (Shibuya)



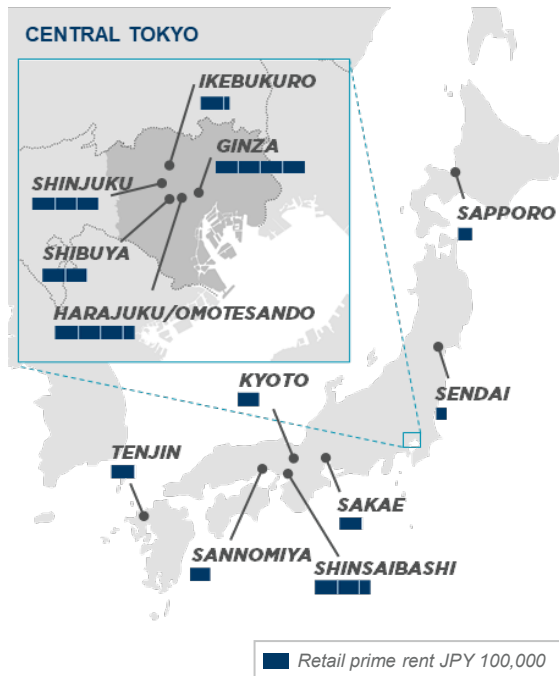
### IWC (Shinjuku)



### Lululemon (Aoyama)



Source: Cushman & Wakefield



Source: Cushman and Wakefield

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