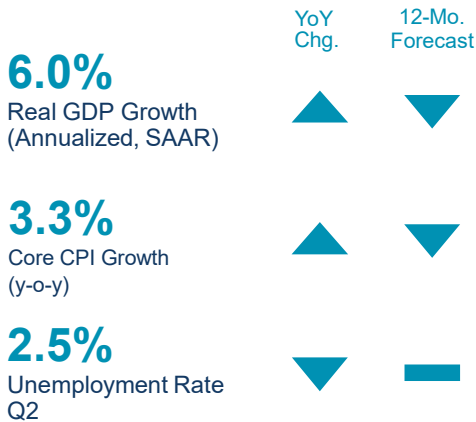


Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

ECONOMIC INDICATORS Q2 2023



Source: Cabinet Office, MIC, METI, Oxford Economics, Moody's Analytics
¹ Seasonally Adjusted Annual Rate

Economy:

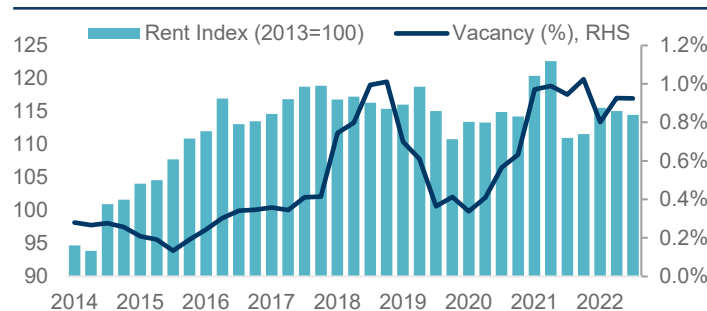
Despite an ongoing recovery in services consumption following the government's May 8 status downgrade of COVID-19 to a seasonal flu, delayed inflationary pressures on overall consumption remained strong. More positively, national employment has now grown for 16 consecutive months to record 61.1 million, led by employment recovery in hospitality industries. Increasing job offers also led to a lower unemployment rate¹, down 0.3 percentage points to 2.5%. The Corporate Goods Price Index decelerated, with the annual increase narrowing from 10.6% at the end of the year to 4.2% in June. Conversely, the core CPI accelerated, the annual rise expanding from 3.1% to 3.3%. With the headline inflation rate continuing to move upward, quarterly real wages continue to decline, falling by 4.7% y-o-y. Weak consumer sentiment remains a major impediment to a sustained recovery in consumer spending ahead. The June Consumer Confidence Index (CCI) improved slightly to 36.2, although is still far from the neutral consumer confidence point of 50. However, services consumption has started to recover, with the June tertiary industry activity index¹ confirming that lifestyle-related services and tourism-related industries are recovering to levels above the pre-COVID baseline. Similarly, the overall CCI indicates demand for leisure and entertainment services finally surpassing the pre-COVID baseline. It remains unclear if the size of overall domestic consumer spending can surpass the pre-COVID baseline with continued negative real wage growth.

Supply and Demand:

Retail sales¹ rose 0.6% y-o-y in Q2 2023, primarily in major urban transportation hubs in support of renewed social activity and growing tourist demand. By category, cosmetics and drugstore products saw double-digit annual sales growth, leading to quarterly drugstore sales increasing by 9.1% y-o-y. Department store sales also rose for the seventeenth consecutive month, up 7.5% y-o-y, although the pace of growth has halved from the previous quarter. On essential good spending, quarterly sales at supermarkets (+2.9% y-o-y) and convenience stores (+4.8% y-o-y) remains near flat in real terms. Despite some cyclical improvements, long-term trends over market cycles, suggest that annual sales at traditional retail channels excluding EC all remain well below pre-COVID levels, with shopping centers' sales efficiency per tsubo continuing to drift downward since the 1990s (see chart at upper / middle right overpage).

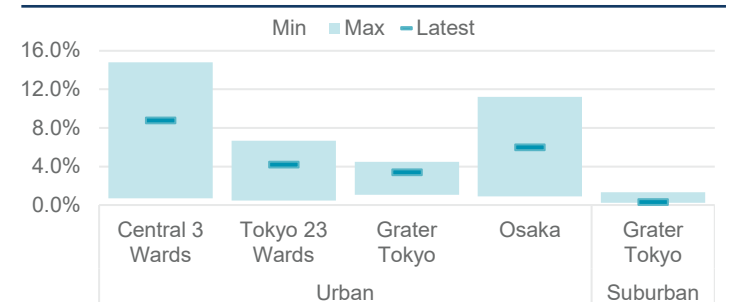
New development announcements targeting large mixed-use urban facilities in top locations continued in Q2. Mori Building and Sumitomo R&D jointly announced the Roppongi 5-chome West Project (GFA: 1.08 million sq m), to break ground in 2025, and the delivery of two 70-story skyscrapers in 2030. Tokyu Land and Tokyo Metro announced the Tokyu Plaza Harakado (GFA: 19,940 sq m) flagship retail complex to open in spring 2024. Elsewhere, Mitsui Fudosan continues to deliver a series of popular suburban lifestyle retail complexes, including LaLa Terrace Kita Ayase (GFA: 19,940 sq m), opening in 2024.

RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

HISTORICAL VACANCY RATE BY ASSET TYPE/AREA



Source: ARES, historical since 2013

Occupier Transactions:

High-end brand store openings have continued, despite luxury goods sales starting to decelerate in the U.S. Continued tenant competition for top locations in Ginza, Omotesando and Midosuji continues to lift the upper high-street rental level above our base case scenario of rental increases. During the quarter, top rents in Midosuji recovered to the pre-COVID level, with the adjacent Shinsaibashi shopping arcade also benefitting through several drug stores reopening due to an ongoing recovery of inbound tourist demand. A wave of rent increases is expected to affect other regional cities, with Nagoya's limited availability of prime locations lifting high-street rents to pre-COVID levels, followed by Kyoto and Fukuoka. Major store openings include H&M in Ginza, and Fender, a pioneering store high-end music instrument customization, in Harajuku.

Store relocations seeking superior locations also continue, mostly in Tokyo. However, the number of new non-domestic brand entries are dwindling, while a series of mass brand exits, including the Gap's flagship closure in Ginza, continues.

Investor Transactions:

Overall transaction volume has trended down with lower risk appetite prevailing. Rolling annual transaction volume reached JPY632.5 billion, down 11.3% y-o-y. While foreign investors remain the net sellers, a few domestic investors have become buyers aiming to achieve value-add strategies through repositioning outdated urban retail facilities.

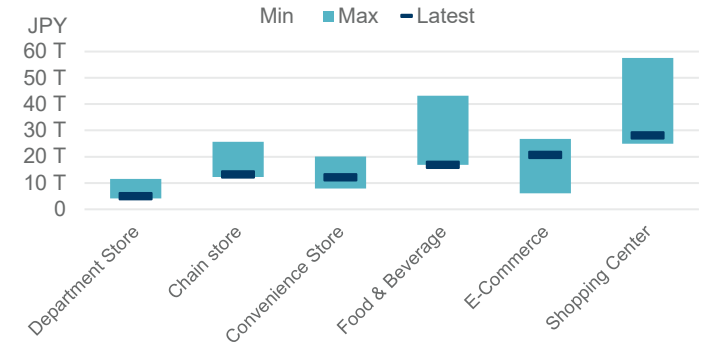
Major transactions in Q2 included JMFI's partial sale (25%) of the Aeon Mall Tsurumi Ryokuchi in Osaka City to a joint corporation for JPY6.4 billion, recording a capital gain of JPY600 million. JMFI also sold Round One Sannomiya in Kobe to a domestic company for JPY3.8 billion, recording a capital gain of JPY800 million. As a public REIT owned by KKR, JMFI has committed to dispose of retail assets equivalent to JPY100 billion over the 3-5 years from March 2021, as it seeks to reduce its retail allocation to 50%, down from 71% of the portfolio at the time of KKR's acquisition.

Elsewhere, Hulic, a major domestic investment fund specializing in value-add strategies, acquired a suburban NSC from Fronter REIT for JPY9.5 billion. Hulic, in preparing to launch a new core fund, has been expanding through rental floor increases and annual NOI enhancement by achieving a higher floor to land ratio in popular urban locations.

Outlook

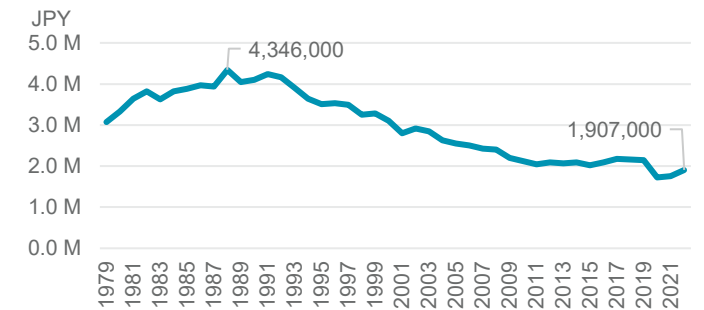
- **Overall inflation-adjusted rents to remain flat:** Although top rents in prime locations are expected to continue to rise moderately, we see a cycle of overall inflation-adjusted rental decline in the next two years. We expect leasing activities to recover, led by increasing tenant turnover. However, most tenants' capacity to pay rent is expected to remain weak with the overall weak consumption trends.
- **Expect the pace of rental recovery to diverge by area:** Since COVID-19, Ginza, Omotesando, Shinsaibashi and Nagoya Sakae have recovered to pre-pandemic rent levels. Conversely, Kyoto and Fukuoka remain below pre-pandemic rent levels despite an ongoing recovery of inbound tourist demand. We advise to monitor if the scope of high street rent recovery can extend beyond Tokyo, Osaka, and Nagoya.
- **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 assets in popular urban locations.

Annual Sales Trends by Store Format (2008-2022)



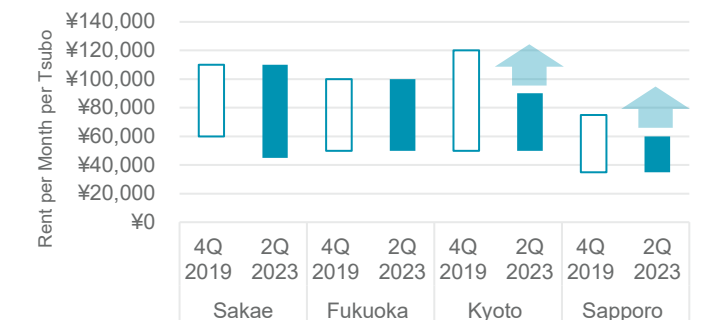
Source: Statistic Bureau of Japan, Cushman & Wakefield

Historical Sales per Tsubo at Shopping Center (Since 1980)



Source: SC White Paper 2023, Japan Council of Shopping Centers

Regional Cities: Pre/ Post-COVID-19 of Tier 1 Rent Range



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

KEY LEASE TRANSACTIONS Q2 2023

| TENANT | PROPERTY | SUBMARKET | RSF (Approx.) |
|------------|--------------------------|-----------|---------------|
| H&M | 2-3-6 Ginza, Chuo | Ginza | 13,990 |
| Fender | 1-8-10 Jingumae, Shibuya | Harajuku | 11,500 |
| BALENCIAGA | 5-2-1 Ginza, Chuo | Ginza | 9,110 |

Source: Cushman & Wakefield

PLANNED NEW OPENINGS

| PROPERTY | PURPOSE | OWNER/ DEVELOPER | SUBMARKET | GFA (SF, Approx.) |
|---------------------------------|---------|------------------|---------------------|-------------------|
| The Outlets Shonan Hiratsuka | Retail | Aeon Mall | Hiratsuka, Kanagawa | 355,209 |
| Mitsui Outlet Park Osaka Kadoma | Retail | Mitsui Fudosan | Kadoma, Osaka | 713,647 |

Source: Cushman & Wakefield

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

Figures in blue indicate upward revisions for Q2

| 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/Midosuji | 320,000 | 100,000 | ▲ | ■ |
| Sakae | 110,000 | 45,000 | ■ | ■ |
| Tenjin | 100,000 | 50,000 | ■ | ■ |
| Kyoto | 90,000 | 50,000 | ▲ | ■ |
| Sapporo | 60,000 | 35,000 | ▲ | ■ |

Source: Cushman & Wakefield

KEY SALES TRANSACTIONS Q2 2023 (INCL. ANNOUNCEMENT)

| PROPERTY | SUB-MARKET | SELLER / BUYER | GFA (sq.m) | PRICE/ JPY per Tsubo/ CAP% |
|----------------------------------|------------|---|------------|----------------------------|
| Aeon Mall Tsurumi Ryokuchi (25%) | Osaka | Japan Metropolitan Fund Investment (KKR) / Asset Finance Osaka Tsurumi GK | 138,535 | ¥6.4B ¥0.6M 5.3% |
| Ito-Yokado Higashi-Yamato (70%) | Tokyo | Frontier REIT / Hulic | 53,373 | ¥9.5B ¥0.2M 6.7% |
| Round One Sannomiya Station | Kobe | Japan Metropolitan Fund Investment (KKR) / Domestic Corporation (undisclosed) | 10,054 | ¥3.8B ¥0.1M 3.4%* |

*Yield on acquisition price Source: Real Capital Analytics, Nikkei Real Estate Market Report

H&M (Ginza)



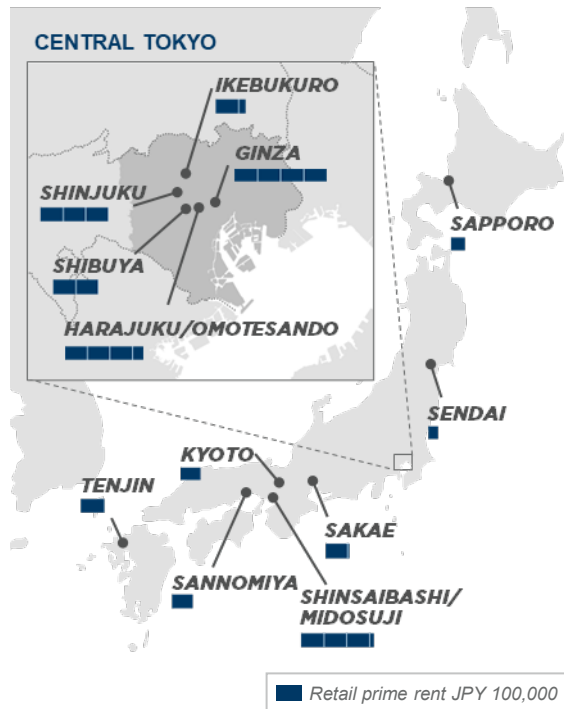
Fender (Harajuku)



BALENCIAGA (Ginza)



Source: Cushman & Wakefield



Source: Cushman & Wakefield

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