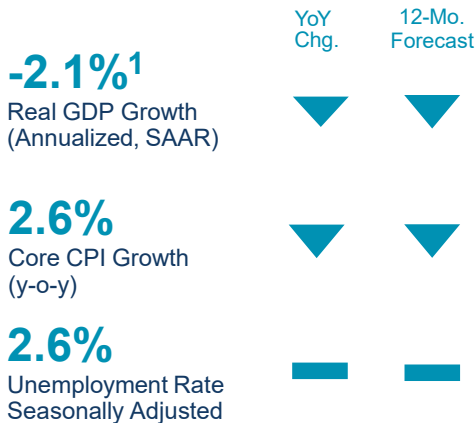


Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

ECONOMIC INDICATORS Q1 2024



Source: Mizuho Research & Technologies, MIC, METI, Oxford Economics, Moody's Analytics

¹Forecast by Mizuho Research & Technologies as of April 30, 2024

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: Increasing Inbound Spending Adds Tailwinds to Better-Than-Expected Wage Growth Prospects

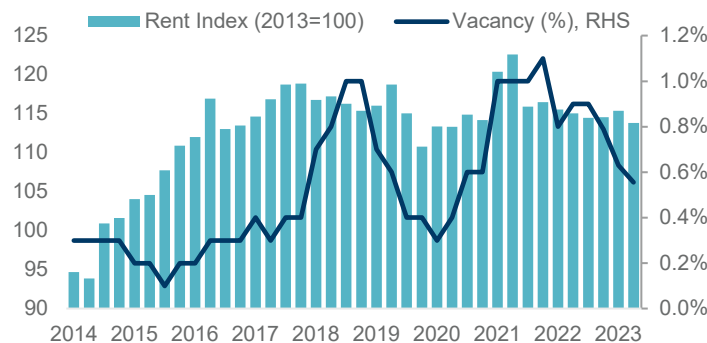
Japan's quarterly real GDP is expected to shrink by 2.1%¹ y-o-y in Q1 2024, primarily due to infrastructure disruption from the Hokuriku region earthquake. The annual growth rate of the core CPI decelerated to 2.6% in March 2024, from 3.1% in the same month of the previous year, due to lower food prices that contributed 40% of the index movement. The Consumer Confidence Index (CCI) strengthened to 39.5 points as of March 2024, up by 5.6 points y-o-y, but remains below the neutral score of 50. Strong corporate earnings trailing around a historical high since the 1990s² led to the annual projected wage increase at 5.2%, well above the consensus forecast of 3.85%³. However, a low likelihood of sustained wage hikes at SMEs continues to prompt households to prioritize savings over discretionary consumption. The real household income level fell by 1.7% y-o-y in Q1, less than the 2.0% range decline recorded in recent quarters. The nationwide unemployment rate was flat y-o-y at 2.6%. We expect a trend of sluggish domestic consumption through a prolonged period of negative real wage growth, at least until the year-end when wage increases are scheduled to take effect. However, inbound tourist numbers jumped by 112% y-o-y in March 2024, with per-person spending rising to ¥209,000, around 30% higher than the 2019 baseline figure, leading to overall quarterly inbound consumption climbing to ¥1.8 trillion.

Supply and Demand: Mixed Outlook for Consumption Trends by Category Continues

Nominal retail sales rose 2.6% y-o-y in Q1 2024, while the trailing 3-month average of the seasonally adjusted real retail sales remained unchanged. Despite lower automobile shipments due to infrastructure disruption, surging inbound demand for high-end items lifted quarterly department sales (+9.5% y-o-y) and drug store sales (+9.1% y-o-y). Conversely, spending on daily necessities remained near-flat in the quarter, after offsetting inflation impacts, with modest quarterly sales growth at supermarkets (+4.5% y-o-y) and convenience stores (+2.2% y-o-y) as well as large-scale home appliance stores (-0.3%).

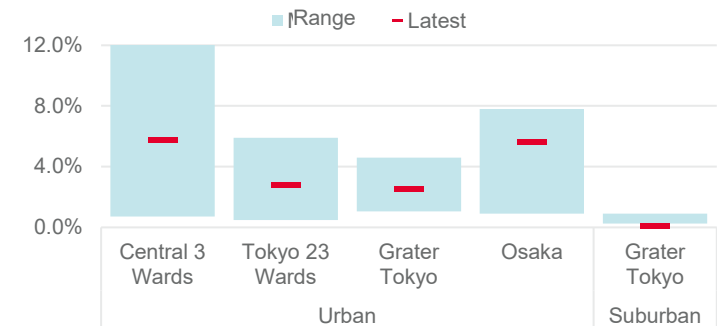
New development announcements of large mixed-use urban facilities continued in Q1. The Ikebukuro Station West Exit redevelopment, comprising retail, office and hotel space together with media facilities (GFA: 6M sf), aims to establish a global artist and media producer hub. Large-scale project openings also continued in the Tokyo Bay area. Manyo Club opened Toyosu Senkaku Banrai (GFA: 523K sf), a spa and dining facility using historically inspired wooden structures. In addition, LaLa Terrace Harumi Flag (GFA: 359K sf) opened on the site of the former Tokyo Olympics athletes' village, and Immersive Fort Tokyo (GFA: 1M sf) opened on the former site of Venus Fort. Elsewhere, Ginza Core (RFA: 91K sf) has closed as part of the Huli area redevelopment initiative. 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

Pricing: Expect Increasing Competition Among Luxury Brands Seeking Top Locations

Ginza and Harajuku/Omotesando districts saw further rises in top rents in Q1 2024. Following Harajuku/Omotesando and Shinsaibashi/Midosuji, Ginza recorded a notable top rent of ¥500,000 in Q1, exceeding the prior peak of ¥400,000 at the end of 2019. Given increasing competition among global luxury brands to open new stores in top locations, we can compare high-street retail rents in major global cities. Ginza's rents remain comparatively low, tracking less than half of those on New York's Fifth Avenue and Milan's Montenapoleone, although stronger than in Hong Kong, which is tracking nearly 40% lower than the pre-COVID baseline. Over the next five years, global luxury brands are forecast to report rising sales from Japan (5Y CAGR: 3.7%) outpacing China (5Y CAGR: 3.1%) due to rising geopolitical tensions. We expect retail location preferences, moving from regional department stores to high-street locations, to continue as global luxury brands have been shifting sales channels to directly managed stores, now reaching 52% of global sales, to keep pace with growing online retail channels (see chart at right). Finally, with the global high net-worth population — defined as households with net financial assets exceeding US\$1M — representing just 1.1% of total households and expanding their net financial asset share to 45.8%¹, we expect competition among top global brands for premier locations will accelerate given the less expensive rental levels in Ginza. Limited availability of top retail locations has already lifted landlords' pricing power in other global locations. Increasingly, global brands with strong balance sheets are shifting their options from leasing to ownership. We also expect excess demand from luxury brands and inbound tourists to lift pricing in Tier-2 districts as operating costs continue to tick up.

The Q1 2024 period saw notable store openings from global brands. The French sports brand Hoka opened a two-story flagship store integrating a community space at the Jingu-mae intersection. Elsewhere, South Korean brand Gentle Monster opened a flagship store, featuring three giant kinetic objects representing the brand's appeal as a modern visionary, on Minami-Aoyama Miyuki Street.

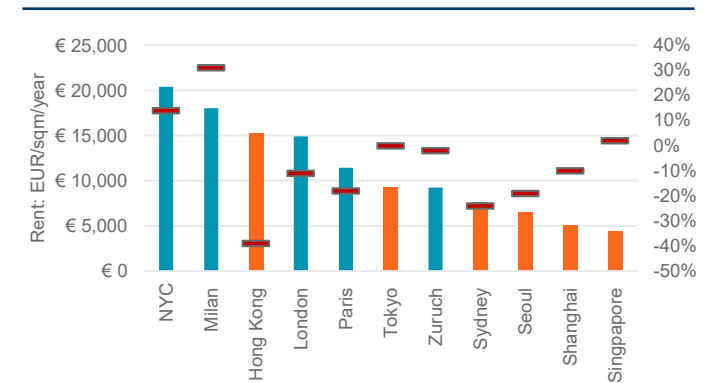
Outlook

- **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, lifting the lower rent levels in the respective district. With a series of major urban redevelopment initiatives running through 2030, overall rental growth is expected along with the arrival of major redevelopment projects in luxury districts.
- **Overall inflation-adjusted rents to remain flat:** Although top rents in prime locations are expected to rise, we see a cycle of overall rental growth lagging behind the inflation rate in the next two years. Tenants are 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.

¹ [Global Wealth Data Book](#) (2023). Figures are calculated based on the financial net assets by households. It is estimated that USD 1,081,342 of net financial assets are required to belong to the top 1% tier of the global households. By country, the top 1% tier in Japan controls lower share (18.8%) than comparative figures in the United States (34.2%) and China (31.1%). The survey covers around 5.8 billion people worldwide.

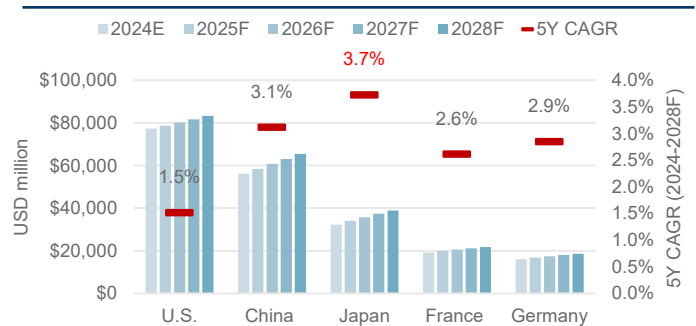
² Global Luxury Brands are defined as the top 10 companies by revenue of personal goods, ranked among the Global Top Brands 100 based on their brand intangible value, and mostly have achieved more than 20% pricing premium against the market average.

Global Main Street : Current Rent / Net Change since 2019 (%)



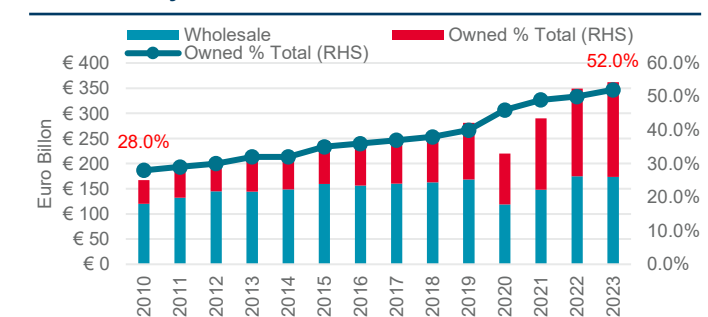
Source: [Cushman & Wakefield \(2023\)](#)

Global Luxury Brands : 5 Year Revenue Forecast by Country



Source: [McKinsey & Company](#), [Statista](#), [Cushman & Wakefield](#)

Global Luxury Brands: Sales Channel Mix % from 2010



Source: [Major company disclosure](#), [Bain & Company](#), [Cushman & Wakefield](#)

KEY LEASE TRANSACTIONS

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
GENTLE MONSTER	5-3-2 Minami Aoyama, Minato	Aoyama	Undisclosed
HOKA	1-11-11 Jingumae, Shibuya	Harajuku	1,708
NIKE	1-4-19 Shinsaibashisuji, Chuo	Shinsaibashi	10,568

Source: Cushman & Wakefield

KEY RETAIL FACILITY OPENING

PROPERTY	PURPOSE	OWNER/ DEVELOPER	SUBMARKET	RSF (Approx.)
Toyosu Senkyaku Banrai	Retail, Spa	Manyo Club	Toyosu	522,753
LaLa Terrace Harumi Flag	Retail	Mitsui Fudosan	Harumi	359,390
Immersive Fort Tokyo	Amusement, Retail	Mori Building	Aomi/Odaiba	1,067,496

Source: Company disclosure, Cushman & Wakefield

MAJOR RETAIL FACILITY CLOSING

PROPERTY	PURPOSE	OWNER/ DEVELOPER	SUBMARKET	RSF / GFA (Approx.)
Ginza Core	Retail	Hulic	Ginza	91,164
Shintokorozawa PARCO	Retail	Parco	Tokorozawa (Saitama)	419,811
Ichibata Department Store	Retail	Ichibata Group	Matsue (Shimane)	150,837

Source: Company disclosure, Japan Council of Shopping Centers, Cushman & Wakefield

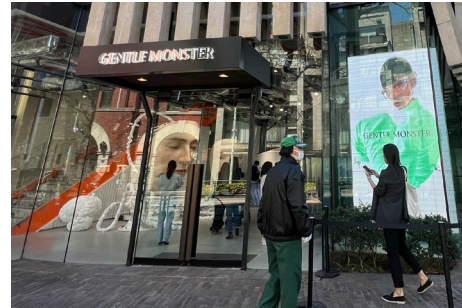
PRIME RENTAL RATES: TOP/BOTTOM RENT (TIER 1)

Figures in blue indicate upward revisions for Q1

SUBMARKET	TOP JPY/Tsubo/Mo	BOTTOM JPY/Tsubo/Mo	TOP FORECAST	BOTTOM FORECAST
Ginza	500,000	200,000	▲	▲
Harajuku/Omotesando	400,000	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

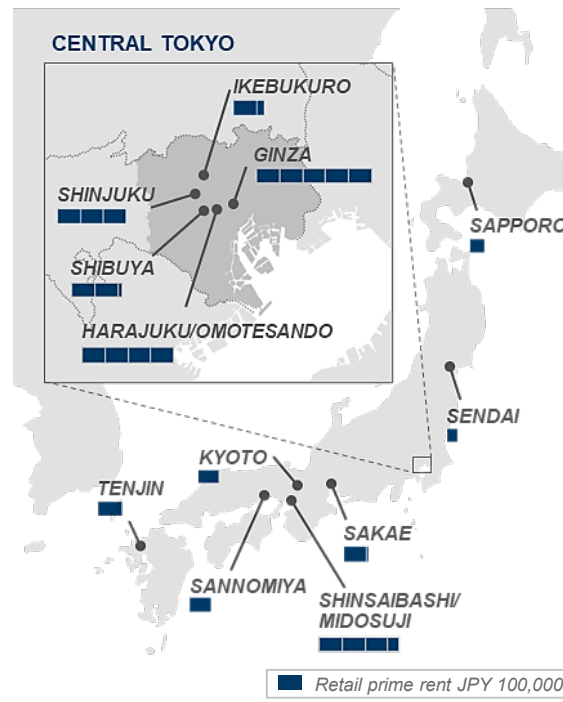
Gentle Monster (Omotesando)



HOKA (Harajuku)



Source: Cushman & Wakefield



Source: Cushman & Wakefield

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