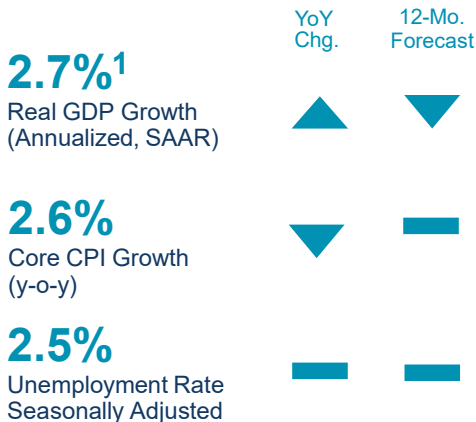


Source: MIC, METI, Moody's analytics forecast, Cushman & Wakefield

ECONOMIC INDICATORS Q2 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.

Economy: Increasing Share of Elderly Consumption Offsetting Real Wage Growth Momentum

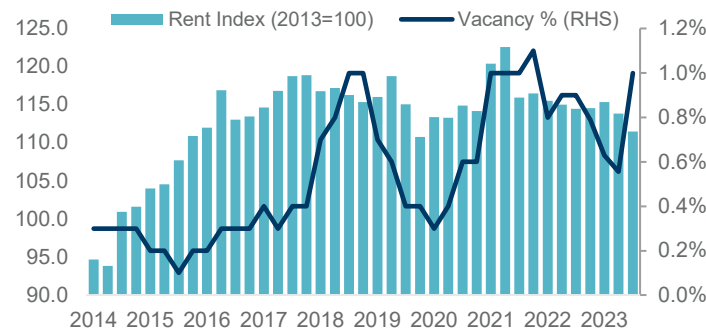
Japan's quarterly real GDP is expected to grow by 2.7% in Q2 2024 as better-than-expected wage growth offsets weakness from continued inflation. The annual growth rate of the core CPI decelerated to 2.6% from the peak of 3.5% in January 2023. Although the effective real exchange rate recorded the lowest level since 1973, inflationary pressures from higher import prices have already started to decelerate. The nationwide unemployment rate was nearly flat year-on-year at 2.5%, but real wage growth has turned positive for the first time in 20 months, at 3.0% year-on-year. An expected labor shortage with a declining working-age population will also support a projected nominal wage increase of around 3%. However, we expect an increasing share of elderly consumption, up from the current 35%, leading to weak domestic consumption. Inbound tourist arrivals expanded to 3.13 million in June 2024, exceeding 3 million for the fourth consecutive month, with per-person spending rising to ¥238,000, around 30% higher than the 2019 baseline figure. The current upward trajectory corresponds to annual consumption of ¥7.4 trillion in 2024. However, supply constraints, including limited numbers of flights and hotel rooms, are likely to cap further inbound consumption growth beyond 2025.

Supply and Demand: Continued Demand Weakness From the Current Household Income Outlook

Nominal retail sales rose 2.8% y-o-y in Q2 2024, slightly above the corresponding core CPI increase. Overall, lower services consumption was offset by higher consumption of durable goods such as automobiles. By channel, quarterly sales at department stores (+11.9% y-o-y), drug stores (+6.8% y-o-y), and large-scale home appliance stores (+4.9% y-o-y) expanded ahead of inflation. Conversely, daily necessities spending was constrained, with negative real growth at supermarkets (+2.2% y-o-y) and convenience stores (+1.0% y-o-y).

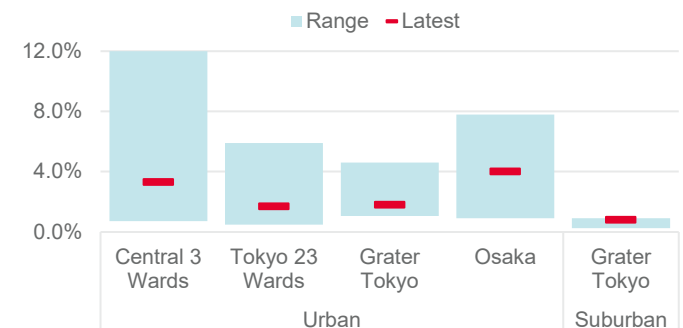
New development announcements of large mixed-use urban facilities continued in Q2. The Tsukiji Urban Development Project (GFA: 12.6M sf), led by Mitsui Fudosan and Toyota Motors, is expected to cost ¥900 billion by fiscal 2038. It comprises nine buildings with entertainment, conference, and accommodation facilities. The Okura Annex Building Redevelopment, led by Kashima, aims to deliver a 54-story building with five basement floors (GFA: 1.6M sf) comprising condominiums for sale, rental housing, hotel and retail facilities, to be delivered from 2030. Elsewhere, the Gotanda TOC redevelopment (GFA: 1.9M sf) was suspended for the next nine years, with initial cost assumptions proving too low to secure profitability and with tenants returning to the old facility from September. New openings include the Tokyu Plaza Harajuku "Harakado," with bathhouse and dining experiences, at the Jingu-mae crossing in April. For the remainder of this year, a series of new openings are expected in regional cities. In April, the Chunichi Building (GFA: 62K sf), featuring upscale lifestyle tenants, opened in the Sakae district of Nagoya.

RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

HISTORICAL VACANCY RATE BY ASSET TYPE/AREA*



* Historical since January 2013
Source: ARES

Pricing: Rent Increases Expanding to Regional Cities and Tier II Retail Districts

Rent increases are now expanding to regional cities, following Tokyo and Osaka. Kyoto Shijo and Sapporo districts saw further rises in top rents in Q2 2024 with an upswing of inbound tourist demand. In Ginza, Shinjuku, and Ikebukuro districts, rent increases are also spreading to Tier II retail districts, as top rents at Ginza, Omotesando, and Shinsaibashi have peaked after major brands have secured their retail spaces in top locations. Accordingly, we have cut our rent outlook for the next 12 months to "flat."

With record inbound arrivals in April, inbound tourists have risen to a 26.2% share of total visitors, above the pre-COVID peak of 20.2% (see the graph at middle right). However, current rent pricing for Kyoto remains at 20% less than the pre-COVID peak (see the graph at bottom right). Elsewhere, regional cities lacking inbound demand, such as Kobe and Sendai, saw rents around 30% lower than the pre-COVID pricing. Despite a pocket of strength in top highstreet rents surpassing the pre-COVID peak, overall rental strengthening remains limited.

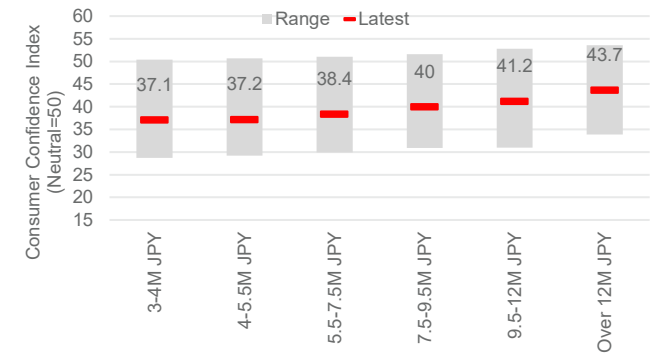
The latest Consumer Confidence Index (CCI) data suggests diverging outlooks by household income group. For annual household incomes above ¥9.5 million, increasing wealth effects from improving investment performance after COVID has pushed the CCI to the upper end of the historical range seen since 2004. For incomes of ¥7.5 million or more, the CCI remains unchanged, tracking slightly below the neutral point of 50. For incomes of ¥5.5 million or less, past negative real wage growth has meant reduced household spending since early 2022.

The Q2 2024 period saw greater store openings led by emerging apparel brands in Tier II retail districts, with overall store numbers recovering closer to the pre-COVID retail coverage. Korean media company Naver Corporation reopened a large flagship store along Shibuya Koen Dori street. Elsewhere, French athletic brand HOKA opened a highly visible flagship store in Roppongi Hills, featuring a community space and a 3D scan service booth for runners.

Outlook

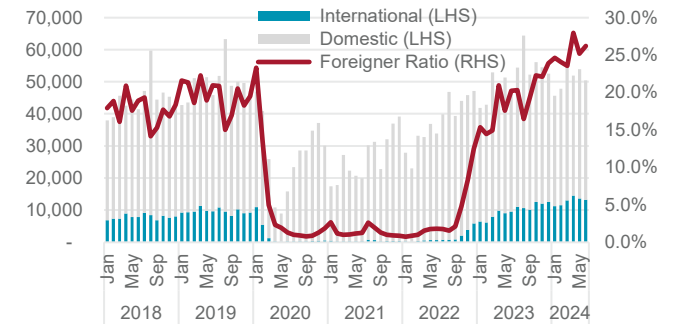
- **Rents in regional cities and Tier II districts:** With top rents in Ginza, Omotesando, and Shinsaibashi peaking, rent increases in surrounding area are expected over the next 12 months. With a series of major urban redevelopment initiatives running through 2030, overall rental growth is expected along with the arrival of major redevelopment projects in luxury districts.
- **Overall inflation-adjusted rents to remain flat:** Although top rents in top locations are peaking, a pocket of strength still exists in regional cities with tailwinds from increased inbound spending, such as with Kyoto. For the remaining regional cities, 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 that most tenants' capacity to pay rent will remain weak along with the overall weak consumption trend.

Consumer Confidence Index by Household Income, Since 2004



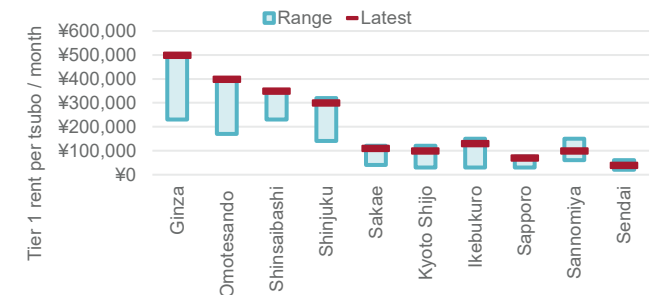
Source: Consumer Confidence Survey, Cabinet Office, as of the end of July 2024

Historical Trend of Total Overnight Stays, Since 2018 ('000)



Source: JTA

Historical Retail Rent Movement by City, Since 2011



Source: Cushman & Wakefield, latest as of Q2 2024

KEY LEASE TRANSACTIONS

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
Line Friends Square	1-19-10, Jinnan, Shibuya	Shibuya	10,675
HOKA	6-9-1, Roppongi, Minato	Roppongi	1,779
SALOMON	1-3-15, Shinsaibashisuji, Chuo	Shinsaibashi	1,601

Source: Cushman & Wakefield

KEY RETAIL FACILITY OPENING

PROPERTY	PURPOSE	OWNER/DEVELOPER	SUBMARKET	RSF (Approx.)
HARAKADO	Retail	Tokyu Land Corporation	Harajuku	214,632
Chunichi Building	Retail	Chunichi Building	Sakae, Nagoya	82,075
EATo LUMINE	Retail	LUMINE	Shinjuku	10,215

Source: Company disclosure, 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	500,000	250,000	■	■
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	70,000	40,000	■	■

Source: Cushman & Wakefield

Line Friends Square (Shibuya)



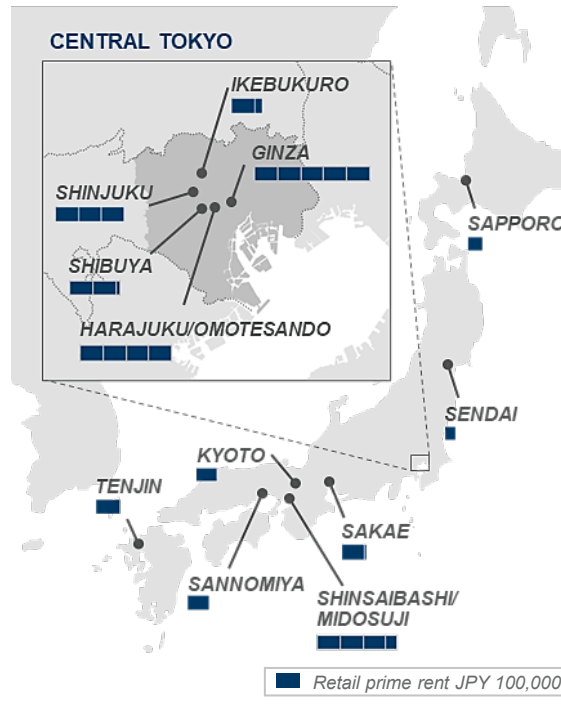
SALOMON (Shinsaibashi)



Tokyu Plaza Harajuku HARAKADO (Harajuku)



Source: Cushman & Wakefield



Source: Cushman & Wakefield

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