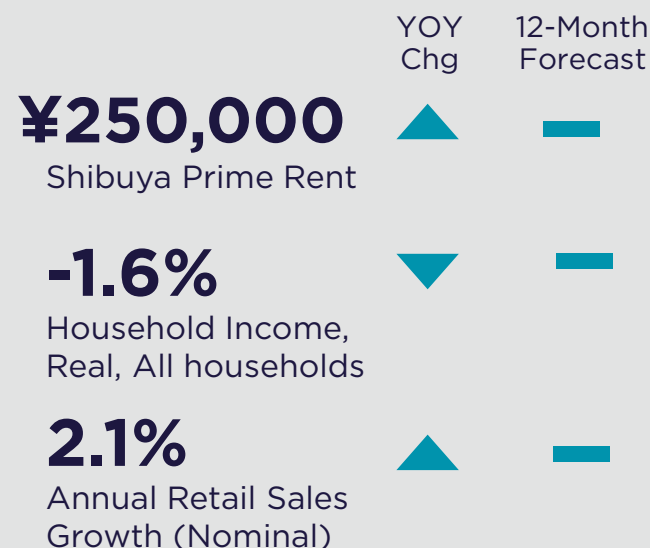
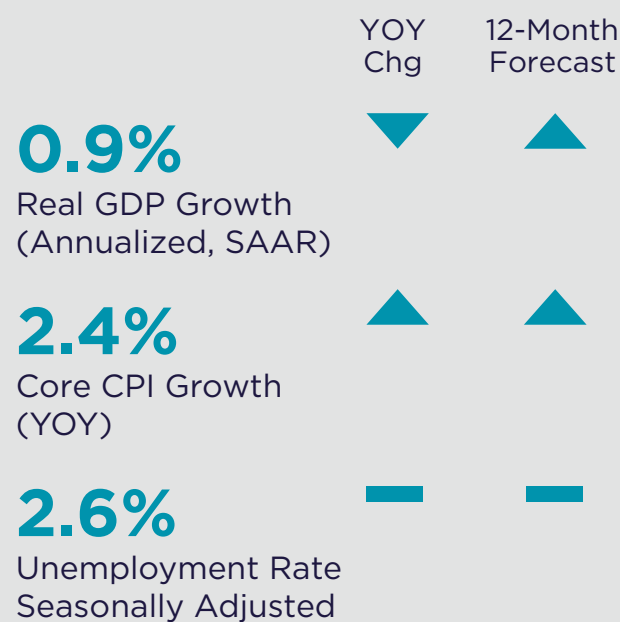


### MARKET FUNDAMENTALS



### ECONOMIC INDICATORS



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

### ECONOMY:

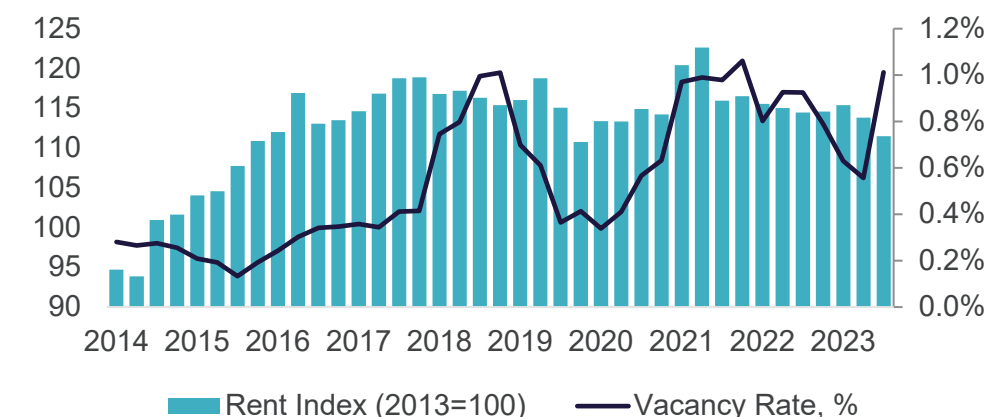
Japan's quarterly real GDP is projected to grow by 0.9% in Q3 2024. Core CPI growth decelerated to 2.4% from a peak of 3.5% in January 2023. However, real wage growth turned negative at minus 1.6% y-o-y, highlighting continued pressures on household spending. Despite a projected nominal wage growth of 3% y-o-y in 2025, weak consumption trends are likely to persist given the increasing share of elderly consumption, which now accounts for 35% of total domestic consumption. Quarterly inbound tourist spending expanded to ¥223,000 per visitor, a 40% increase compared to Q3 2019. Year-to-date inbound tourist arrivals reached 2.6 million, already surpassing the full-year total of 2023. However, further inbound consumption growth beyond 2025 is likely to face constraints due to growing infrastructure limitations, including restricted availability of flights and accommodations.

### SUPPLY OR DEMAND:

Nominal retail sales rose 2.1% y-o-y in Q3 2024, slightly below the corresponding core CPI increase of 2.4%, attributed to the decline in fuel sales and slowing automobile sales. By sales channel, drug stores (+5.3% y-o-y) and department stores (+3.8%) led the growth. Conversely, supermarkets (+1.8% y-o-y) and convenience stores (+0.7% y-o-y) saw limited growth, remaining negative in real terms. Elsewhere, dining facilities and urban shopping centers experienced an accelerated pace of recovery, reflecting the continued shift to an experiential retail format following the pandemic, as illustrated in the bottom right.

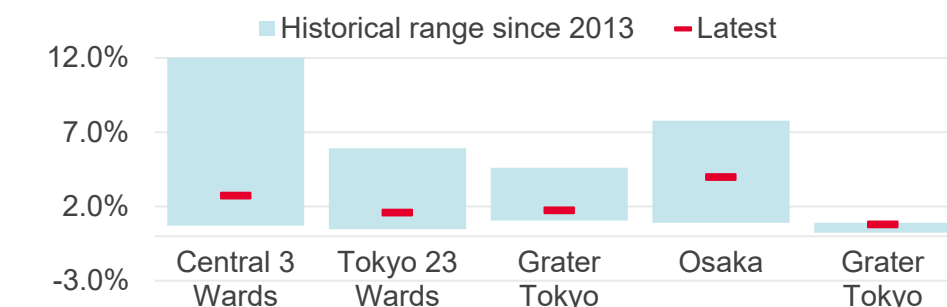
New mixed-use urban developments continue. NEWoMan Takanawa (RFA: 0.6M sf, approx. 200 stores) is scheduled to open in March 2025 in TAKANAWA GATEWAY CITY, led by JR East. This development will include three office buildings, residential units and an exhibition hall. One Fukuoka Building (RFA: 0.5M sf), led by Nishi-Nippon Railroad, is set to open in April 2025. In September 2024, Grand Green Osaka, adjacent to Osaka Station, opened with a retail floor of 32,000 sf and an additional retail area of 200,000 sf is scheduled to open in March 2025.

### RENT / VACANCY RATE, GREATER TOKYO AREA



Source: ARES

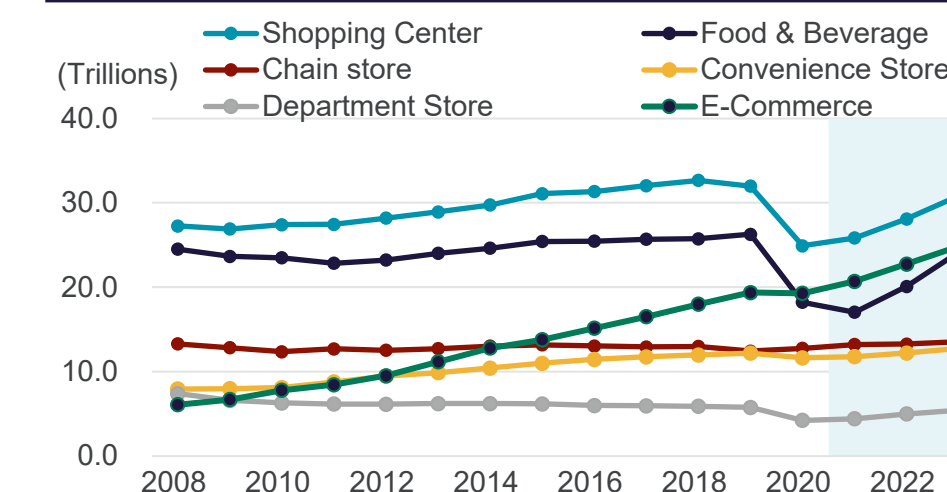
### HISTORICAL VACANCY RATE BY ASSET TYPE/AREA\*



\*Latest as of December 2023

Source: ARES

### HISTORICAL RETAIL SALES BY SALES CHANNEL



Source: SC White Paper 2024, Japan Council of Shopping Centers, METI

**PRICING: URBAN STATION FRONT FACILITY WITH EXCELLENT TENANT MIX OUTPERFORMING**

Shibuya’s prime retail rents increased by 14% year-over-year in Q3 2024, reaching ¥250,000 per tsubo, driven by the delivery of large-scale shopping facilities. Despite tightening availability rates in top locations, rent pricing ranges in other areas have remained stable. High-end retail sales, excluding a few major tourist hotspots, turned negative from mid-year, resulting in muted rent growth across broader segments. Notable new store openings included flagship and micro-format stores that reflect evolving consumer behavior. For example, United Arrows launched “Conte,” a new brand targeting women in their 40s, expanding its online business to physical stores in Aoyama and Shinjuku. Pandora, a Danish fashion jewelry brand, opened 14 stores, including a micro-store in Shibuya featuring onsite engraving services, while New Balance introduced its largest flagship store in Shinsaibashi.

By store format, **urban station-front shopping centers** demonstrated the most significant sales recovery, benefiting from improved sales efficiency. **Affluent suburban station-front shopping centers** also performed well. Excluding a few dominant malls such as Lazona Kawasaki Plaza, a combination of aging consumer profile and a structural shift to online format remains a headwind for large retail facilities exceeding 50,000 sq.m., resulting in declining revenue generation despite stable annual foot traffic.

Elsewhere, shopping centers attached to major transportation hubs, such as Shinjuku, Yokohama, Omiya and Osaka, reported high visitor numbers but struggled with sales conversion. Retail facilities that leveraged strategic tenant curation outperformed; for instance, Tokyo Solamachi capitalized on inbound tourism, Shibuya PARCO benefited from its premium brand strategy, and Atré Kichijoji excelled by capturing the demands of affluent local residents.

Looking ahead, we recommend tenants refine their location strategies using micro-market level market analysis, combining mobile usage statistics with census data to better align store positioning with target demographics. For investors/landlords, we recommend identifying mismatches between tenant mix and visitor profiles, utilizing mobile-phone data to optimize the overall NOI performance.

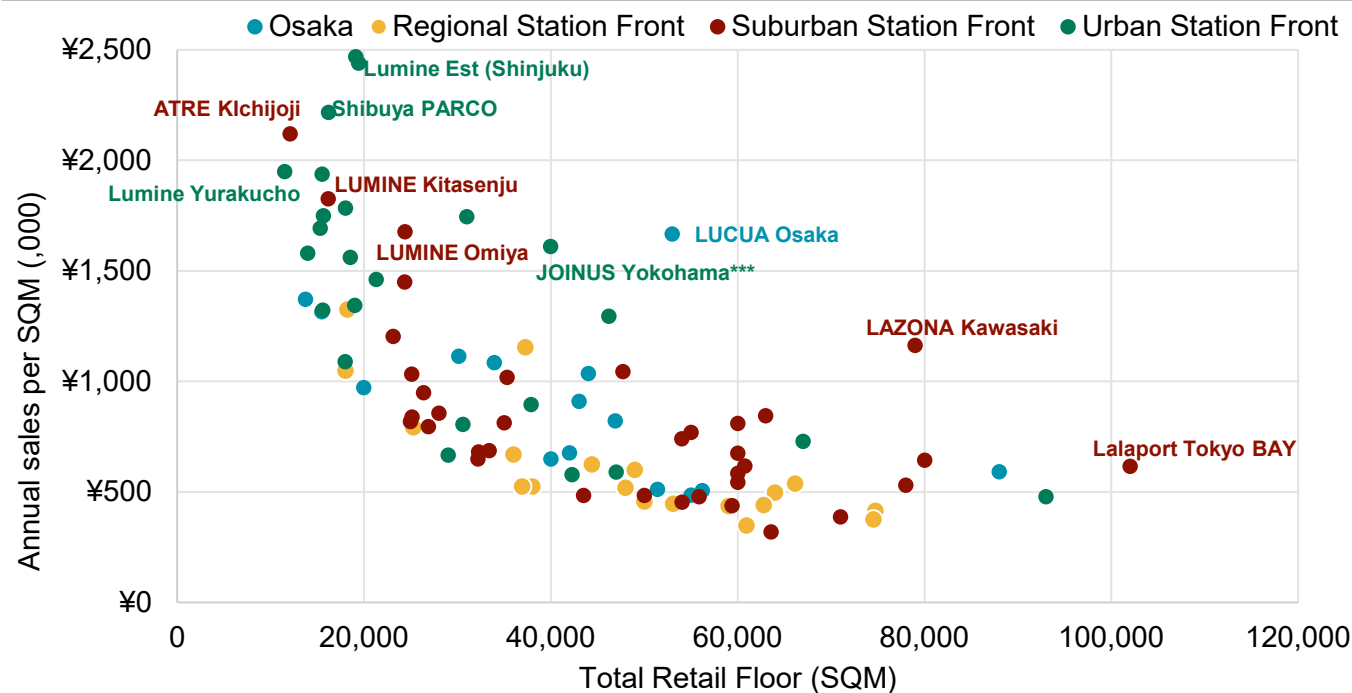
**RENTS TO REMAIN NEAR FLAT:**

Rents in prime retail locations have plateaued, reflecting a negative growth of high-end retail sales. Increasing inbound tourism remains a tailwind for urban retail facilities, despite structural challenges in non-urban retail formats. Rising operational costs and tenants’ low capacity to pay rent are likely to lower NOI growth in non-prime areas over the next two years, reflecting broader economic slowdown trends.

**AVAILABILITY IN URBAN REDEVELOPMENT PROJECTS:**

A series of incoming supply, including major urban redevelopments in Shibuya and Shinagawa, is expected to drive steady rental growth until 2030. With renewed Tokyo’s urban retail landscape, we also expect increasing competition among major shopping districts.

**MAPPING SALES EFFICIENCY BY FACILITY SIZE (2023)**



**ANNUAL RETAIL SALES / FOOT TRAFFIC**

Retail Sales Ranking	Shopping Center	Total Retail Floor (SQM)	Unique Foot Traffic** # / SQM	Sales / SQM
13	LUMINE EST	19,112	8,197	¥2,467,664
12	LUMINE Shinjuku	19,406	14,233	¥2,438,988
30	Shibuya PARCO	16,200	6,335	¥2,215,926
65	atré Kichijoji	12,093	7,782	¥2,118,250
80	LUMINE Yurakucho	11,491	6,220	¥1,947,872
43	LUMINE Kitasenju	16,166	14,475	¥1,825,189
37	LUMINE Yokohama	18,008	16,905	¥1,783,207
55	atré Ebisu	15,640	9,921	¥1,748,593
6	TOKYO SOLAMACHI	31,000	6,934	¥1,744,355
63	Midland Square	15,288	5,016	¥1,692,177
19	LUMINE Omiya	24,389	11,480	¥1,675,386
2	LUCUA Osaka	53,000	18,351	¥1,666,038
3	JOINUS YOKOHAMA	39,967	33,273	¥1,609,027

\*In 2023, \*\*The number of visitors refers to the estimated number of people who stayed in the facilities for 15 minutes or more on a daily basis, \*\*\*Excluding Takashimaya in areas and sales  
 Note: above annual ranking is based on the calendar year sales in 2023 unless otherwise noted.  
 Source: Senken Shimbunn (2024), JSCC(2024), KDDI Location Analyzer, METI, the latest available data as of September 2024

KEY LEASE TRANSACTION

TENANT	PROPERTY	SUBMARKET	RSF (Approx.)
New Balance	1-4-18 Shinsaibashisuji, Chuo	Shinsaibashi	10,497
CONTE/United Arrows	5-10-5 Aoyama, Minato	Aoyama	1,238
PANDORA	24-6 Udagawacho, Shibuya	Shibuya	356

Source: RECO ORLANDO "Fashion Snap", Senken Shimbun

KEY RETAIL FACILITY OPENING

PROPERTY	PURPOSE	OWNER/DEVELOPER	SUBMARKET
Ginza Sony Park	Park/Retail	Sony	Ginza
KITTE Osaka	Retail	Incl. Japan Post	Umeda
Shibuya Sakura Stage	Retail	Tokyu Land	Shibuya
Shibuya Axsh	Retail	Tokyu	Shibuya

Source: press releases from Owner/Developer

PRIME RETAIL EFFECTIVE RENT (TIER 1)

FIGURES IN BLUE INDICATE UPWARD REVISIONS FOR Q3

SUBMARKET	TOP JPY/Tsubo/Mo	BOTTOM JPY/Tsubo/Mo	12-Month Forecast		
			TOP	MEDIAN	BOTTOM
Ginza	500,000	250,000	—	▲	—
Harajuku/Omotesando	400,000	150,000	—	▲	—
Shinjuku	300,000	150,000	—	▲	—
Shibuya	250,000	100,000	—	▲	—
Shinsaibashi/Midosuji	350,000	150,000	—	▲	—
Sakae	110,000	45,000	—	—	—
Tenjin	100,000	50,000	—	▲	—
Kyoto	100,000	60,000	—	▲	—
Sapporo	70,000	40,000	—	—	—

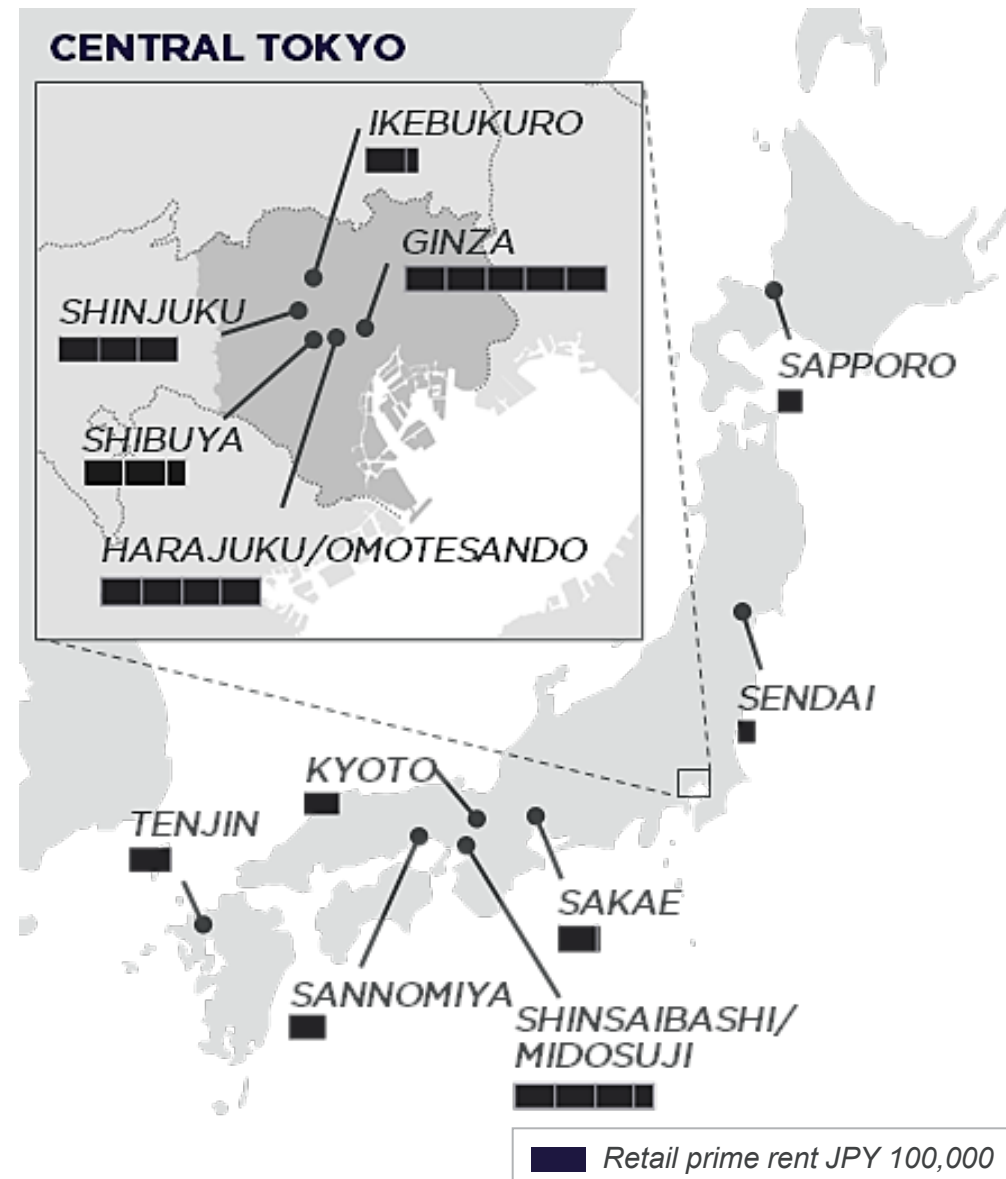
NEW BALANCE (SHINSAIBASHI)



CONTE/ UNITED ARROWS (AOYAMA)



PANDORA (SHIBUYA)



CONTACT:  
ISAO SUGA

Head of Retail Service  
Tel: +81 3 3596 7033  
[isao.suga@cushwake.com](mailto:isao.suga@cushwake.com)

AUTHOR:  
MARI KUMAGAI

Head of Research&Consulting  
Tel: +81 3 6625 8323  
[mari.kumagai@cushwake.com](mailto:mari.kumagai@cushwake.com)

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