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Japan Real Estate Investment
REVIEW

NOMURA REAL ESTATE Development Co., Ltd

Summary

To survive in an age of global competition between urban centers, cities must make themselves more attractive, and the commercial sector has an essential role to play in this process. Within the commercial sector, the retail industry accounts for a stable percentage of GDP, and retail sales volumes haven't fluctuated greatly despite the recent economic slowdown. Moreover, populations continue to become increasingly concentrated in major metropolitan areas, and many mixed-use urban redevelopment projects are being carried out to cope with this growth.

In the present survey we visited 339 large-scale retail facilities, focusing on those located in Tokyo's 6 central wards, an area with a high density of commercial facilities, to clarify where different types and categories of retail businesses are concentrated, and which types and categories of businesses are experiencing the most growth.

National Retail Market Trends

Retail sales volumes for the nation as a whole have remained steady since 2002, showing little fluctuation even during the current economic downturn. However, the number of stores owned by individuals has declined dramatically while corporate ownership and the number of large-scale retail stores has increased. The gap in sales volumes and store floor area among different types and categories of retail businesses is also expanding.

Tokyo's Potential

When we compared Tokyo with other major Japanese prefectures in terms of retail sales efficiency, store floor area, merchandise turnover rate, and population, it became very clear that Tokyo has solid potential for future growth. Tokyo has the highest amount of sales per unit of floor space, and its merchandise turnover rate is above the national average. On the other hand, per capita retail floor area is low, and the rate of growth in store floor area has been below the national average for the last ten years, so sales efficiency rates are high. This suggests that there is ample room for further growth in retail floor space in this market.

Moreover, in terms of demographics, Tokyo's population is not set to decline until 2035, so potential demand for retail stores in Tokyo will remain high for the foreseeable future.

Current Status of the Retail Market in Tokyo's 6 Central Wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya, Toshima)

The number of retail stores has remained steady in the 6 central wards for the last 8 years, however the amount of total floor space is growing as smaller shops go out of business and are replaced by larger-scale stores. Shinjuku ward has the biggest stock of large-scale retailers, followed in order by Shibuya, and Toshima, however the three downtown wards have seen a remarkable expansion in retail floor space in the last 8 years due to an influx of new stores in large-scale mixed-use office complex developments. Among retail facilities in the 6 central

wards, the most common business categories are department stores, multi-tenant stores, and large-scale specialty shops. These make up 90% of the overall total, and the growth of multi-tenant stores and large-scale specialty shops has been especially remarkable in recent years.

Department stores

Highest concentration is in the area surrounding Shinjuku Station, but numbers are increasing in Chiyoda and Chuo.

Multi-tenant stores

Highest concentration is in Minato. The number of multi-tenant stores has increased significantly in Minato and Chiyoda due to construction of a large number of mixed-use office complexes in those areas.

Large-scale specialty stores

Highest concentration is in Chiyoda. Significant growth also noted in Toshima, Chuo, Chiyoda and Shinjuku.

Shinjuku Area

All three of the major retail business categories shown above are doing well, and improved infrastructure has expanded the potential for future growth.

Ginza Area

The influx of luxury brand shops has stopped, but there has been a remarkable increase in mass market brand shops.

Future Trends

- Much has been said about the decline of department stores, however they still account for 40% of the large-scale retail floor area in Tokyo's 6 central wards. If they take advantage of their superior location and continue to adapt their business operations they would appear to have a good chance of survival.
- Multi-tenant stores are expanding widely, even into office districts, and are expected to be the primary source of new stores in future.
- Among large-scale specialty stores, super large-scale stores will likely shift toward a multi-tenant model with a more diverse tenant composition.
- Future development of commercial facilities in the downtown area will center on multi-tenant and large-scale specialty stores.

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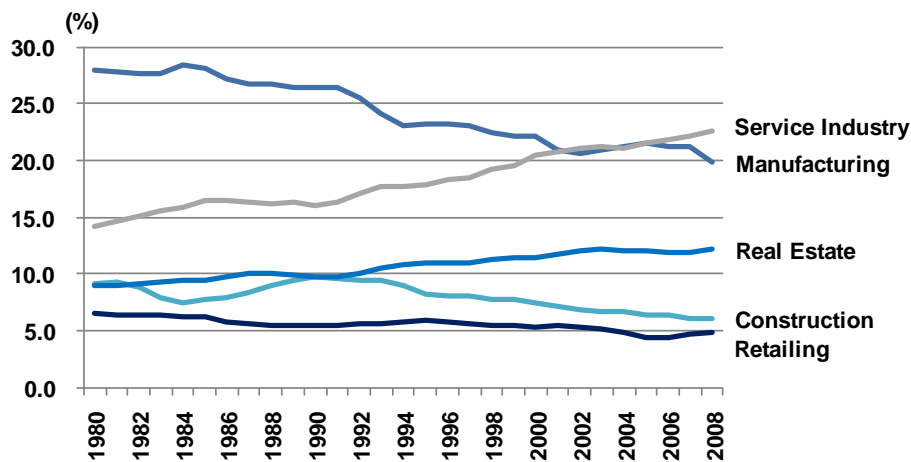
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Introduction

In the past, the most familiar types of retail stores were either small family-type operations located in shopping arcades, or all-powerful department stores. Later on department stores lost ground to general merchandise stores, which in turn gave way to convenience stores. This ongoing shift in retail dominance, together with the current economic slowdown, is forcing more and more family shops as well as large-scale stores out of business, but what is the status of the retailing industry as a whole? Are retail markets in the doldrums?

Looking at the composition of nominal GDP by industry, whereas we see a rather dramatic long-term decline in manufacturing, and a sharp increase in the service industry, the composition ratio of the retailing sector has remained steady, and its relative position has not changed.

Figure 1 Contribution of Major Industries to Nominal GDP (1980~2008)



Source: Compiled by NRE based on data from the "System of National Accounts", Cabinet Office.

Since the overall size of the retailing market has hardly changed, it is clear that significant changes must have taken place internally. Indeed, various types of industries, retail business models, locations, and companies have come and gone, producing a diverse variety of changes, but these transformations have not been uniform. Moreover, the speed of change in the retail sector is very rapid and hard to pin down. Against this background, we have to wonder which types of industries, which business categories (business models), and which types of locations, can be expected to grow and/or decline in the years ahead.

To clarify the current status and future potential of the retail industry, first we examined retail store trends in Japan as a whole (Section 1). Next we compared the current situation in Tokyo with that in other major prefectures (Section 2), and in the final section we examined recent trends among large-scale retail facilities in Tokyo's six central wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya, Toshima) by means of site surveys. This area is among the most advanced and sophisticated commercial centers in Japan (Section 3).

Targets of this latter survey were large-scale retail stores with at least 1,000m² in floor area (including those scheduled to open by December 2010). Data was obtained from the “List of Large-Scale Retail Stores” (Tokyo Metropolitan Government, June 1, 2000), from notifications pursuant to the “Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment” between June 2000 and May 2010 (Note 1; hereafter referred to as the “Large Store Location Law”), and from the “Nationwide Overview of Large-Scale Retail Stores” (2004–2010; Toyo Keizai, Inc.). This was combined with information gathered directly from site surveys and from other published materials. The information is considered valid as of May 31, 2010.

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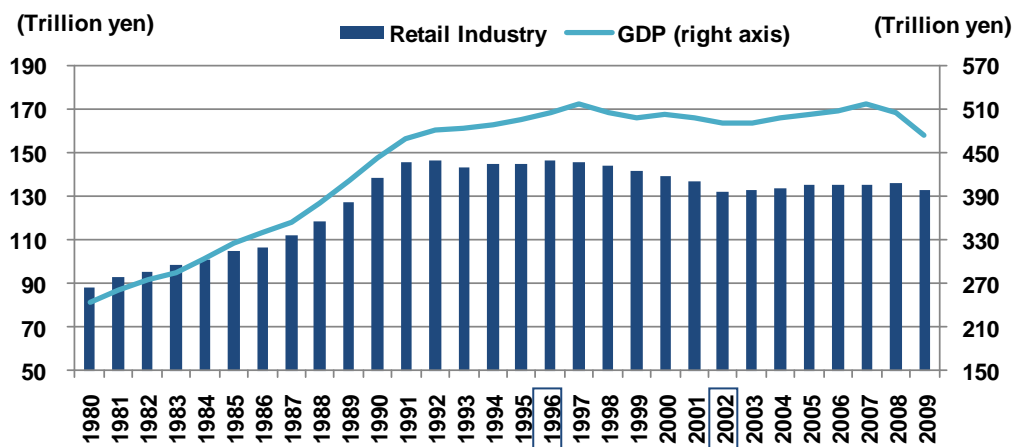
Note 1 : The “Act on the Measures by Large-Scale Retail Stores for Preservation of Living Environment” applies to large-scale retail outlets with a total store floor space of 1,000m² or greater. It went into effect on June 1, 2000, replacing the former “Large-Scale Retail Stores Act”.

1 National Retail Store Trends

1-1 Retail Sales Volume

Fig. 2 shows retail sales trends and nominal GDP by expenditure approach from 1980~2009. The graph shows that retail sales account for about 30% of GDP. The total size of the retail market expanded during the period of the bubble economy, and peaked at ¥146 trillion in 1996. Thereafter it declined, but during the 8 years since 2002 annual retail sales have been relatively stable at around ¥132~135 trillion.

Figure 2 Retail Sales Volume and Nominal GDP



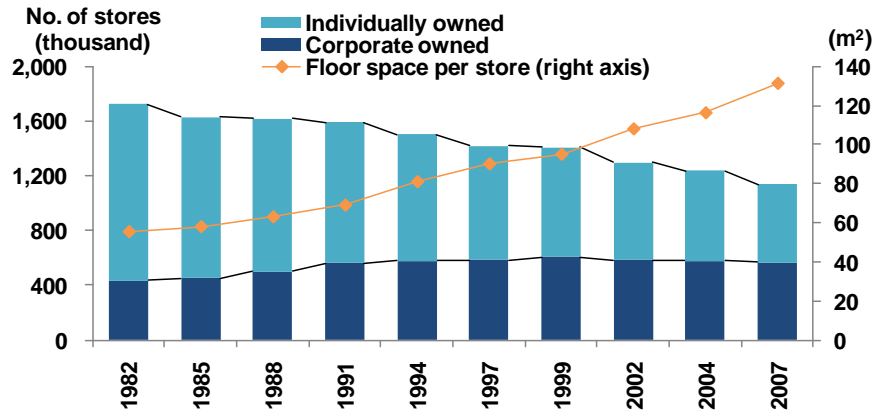
Source: Compiled by NRE based on data from the "System of National Accounts" (Cabinet Office), and "Census of Commerce" (Ministry of Economy, Trade and Industry).

1-2 Number of Retail Stores and Store Floor Area

Number of Retail Outlets is Falling but Scale is Increasing

The total number of retail stores in Japan peaked at around 1.72 million in 1982, and has been falling ever since. Private or family-type stores have accounted for most of the decline, while incorporated stores have increased in number, although the pace of growth has recently leveled off. In addition, the amount of retail floor area per store continues to expand, reflecting an ongoing trend toward larger-sized stores (Fig. 3).

Figure 3 Number of Retail Stores and Average Floor Area per Store



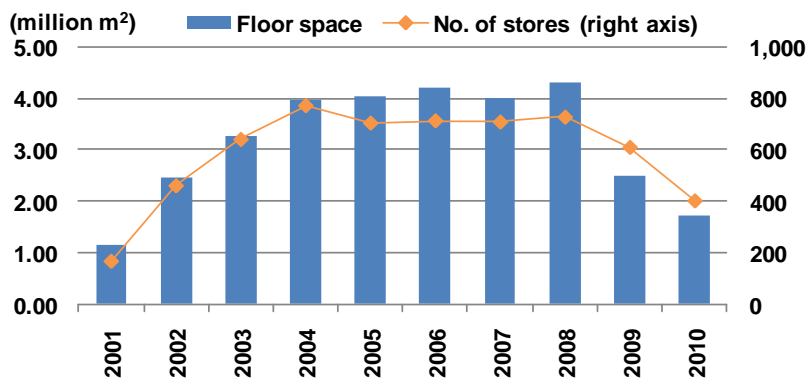
Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry).

However, since total sales volumes are not increasing, the trend toward larger-scale stores could conceivably lead to declines in store sales efficiency. It will be necessary to keep a close eye on this parameter going forward.

1-3 Large-scale Retail Store Supply Trends

Within the retail market we looked at the annual new supply of large-scale outlets with floor space of 1000m² or greater (Fig. 4). Supply was low immediately after the "Large Store Location Law" took effect in 2000, but from 2004~2008 new supply averaged 726 stores per year, with a total floor space of 4.11 million m². The amount of floor space per store also grew to 5,700m² during this period. However, new supply of large-scale stores fell in 2009 due to the effects of the economic slowdown, and to the implementation of three revised city planning laws (which include restrictions on the construction of certain types of large-scale buildings with more than 10,000m² of floor space). As a result the average floor space per store has fallen to 4,100m².

Figure 4 New Supply of Large-scale Retail Stores in Japan (based on Large Store Location Law reporting data)

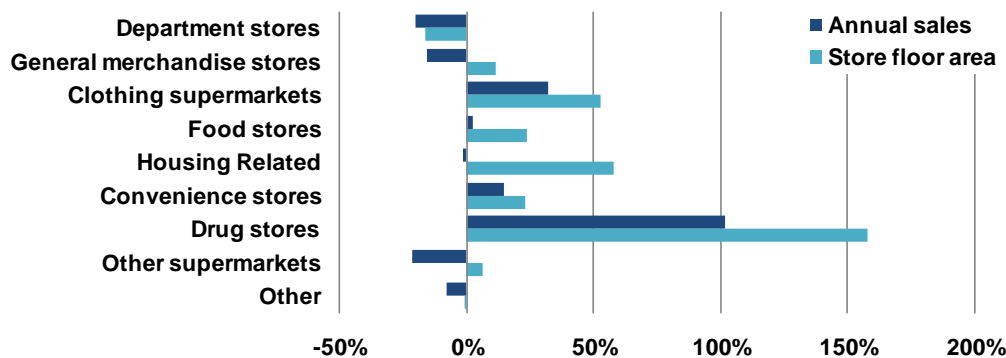


Source: Compiled by NRE based on "Large Store Location Law Incident Reports" published by the Ministry of Economy, Trade and Industry.

1-4 Rate of Growth (Loss) in Sales Volume and Store Floor Space by Business Category

Figure 5 compares retail sales volumes according to business category and amount of store floor area from 1999~2007. Sales and total floor space in department stores declined during this period. At general merchandise stores sales fell, but the amount of floor space per store increased. On the other hand, clothing supermarkets and drugstores are expanding both in sales and in floor area, so differences among business categories are becoming more pronounced.

Figure 5 Changes in Retail Sales and Store Floor Area by Business Category (1999 vs 2007)



Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry).

It is clear in terms of the national trend that the number of retail stores is dropping, privately owned shops are being replaced by corporate entities, and stores are increasing in size. Against this backdrop, the figures in the graph indicate that large differences are emerging with regard to gains or losses in sales revenues and store floor area depending on the business category. Next we will look at regional differences.

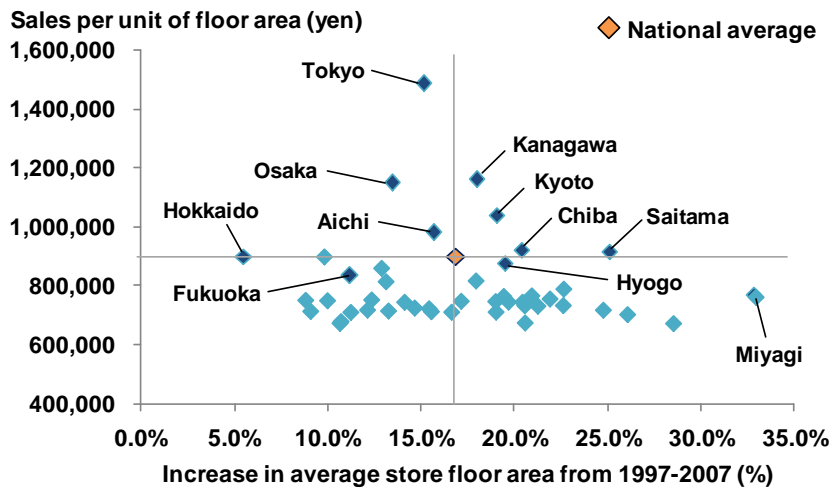
2 Comparison Between Tokyo and Other Major Prefectures

Now we will examine retail sales efficiency, store area, merchandise turnover rates and population in major Japanese prefectures to see what characteristics distinguish the Tokyo market from other parts of the country.

2-1 Store Sales Efficiency and Store Floor Area

Sales volume per unit of floor area is higher in Tokyo than in any other part of the country, and is 1.7 times higher than the national average. Tokyo is followed by Kanagawa and Osaka, Kyoto, and Aichi at 1.3, 1.2 and 1.1 times the national average, respectively. Over the last ten years the rate of increase in average store floor area has been below the national average in Tokyo, Osaka, and Aichi, so there may be room for further expansion in these areas (Fig. 6).

Figure 6 Sales per Unit of Floor Area and Rate of Expansion in Store Area in Major Prefectures (1997~2007)

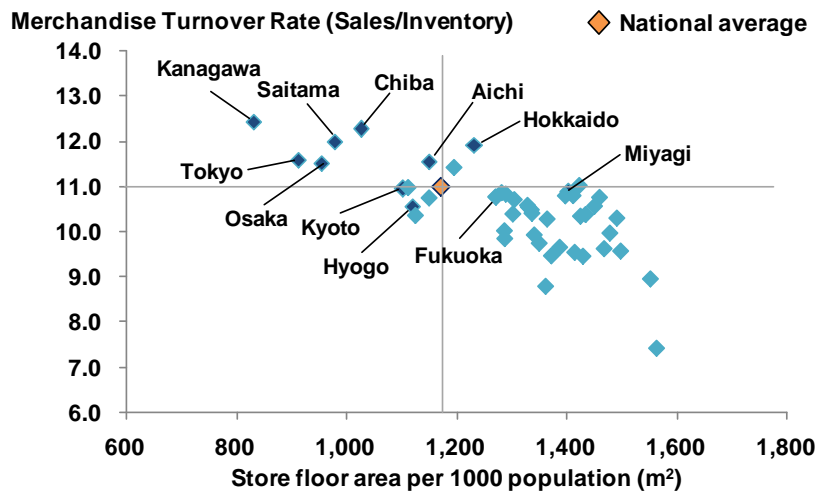


Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry).

2-2 Merchandise Turnover Rate and Store Floor Area

Merchandise turnover rates exceed the national average in Kanagawa, Saitama, Chiba, Tokyo, Osaka and Aichi. The amount of store floor area per capita in these areas is also relatively low, so sales efficiency rates are high (Fig. 7).

Figure 7 Merchandise Turnover Rates and Store Area per 1000 Population in Major Prefectures (2007)

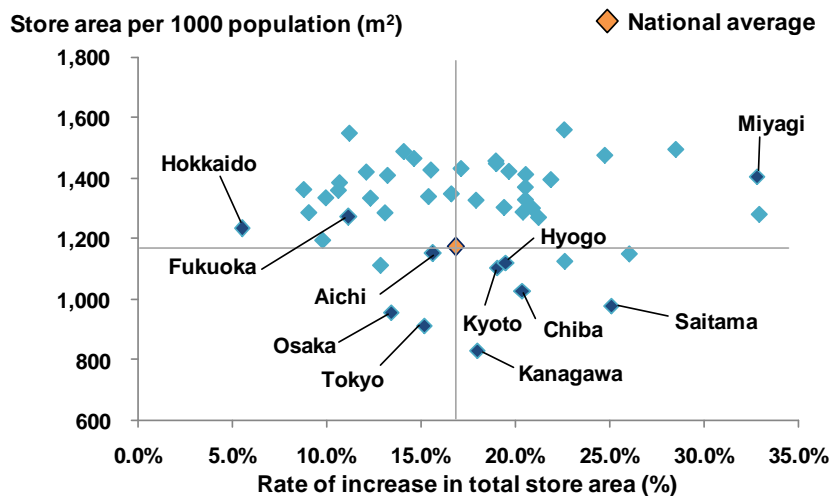


Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry), and "Population Estimates", (Ministry of Internal Affairs and Communications).

2-3 Relation Between Population and Store Floor Area

The prefectures with the smallest amount of store floor area per capita compared with the national average were Kanagawa (70%), Tokyo (80%), and Osaka (80%). The rate of growth in average floor area per store was also lower than the national average in Tokyo and Osaka during the ten years from 1997~2007, so there may be room for further expansion in store scale in these two areas (Fig. 8).

Figure 8 Store Area per 1000 Population and Rate of Expansion in Total Store Area in Major Prefectures (1997~2007)

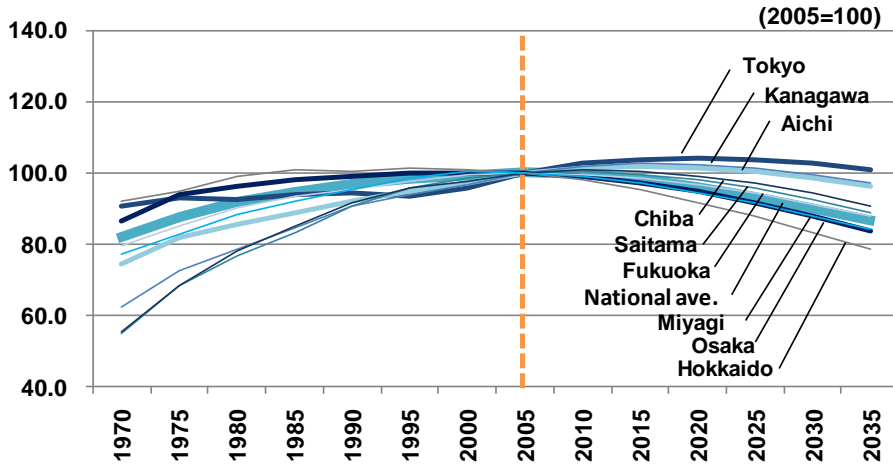


Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry), and "Population Estimates", (Ministry of Internal Affairs and Communications).

Demographic Trends Through 2035

Demographic trends can be expected to have a major effect on retail markets, so we compared demographic projections among major Japanese prefectures (Fig. 9). Using 2005 as the base year, the national average population is expected to decline, but forecasts indicate that the population of Tokyo will continue to grow for another 20 years, and should remain relatively stable thereafter. Kanagawa and Aichi will record only slight declines in population through 2035.

Figure 9 Demographic Trends in Major Japanese Prefectures (1970-2035)



Source: Compiled by NRE based on data from "Future population estimates by prefecture in Japan (as of May 2007)", published by the National Institute of Population and Social Security Research.

Judging from the above data, it would appear that Tokyo has a higher potential for retail store expansion over the medium to long term than any other prefecture. In the next section we will focus on large-scale retail stores in the central part of Tokyo, and analyze recent trends in terms of location and business category.

3 Trends in Tokyo's Six Central Wards

3-1 Overview of Tokyo's Six Central Wards

The present survey covered Tokyo's six central wards (Chiyoda, Chuo, Minato, Shinjuku, Shibuya, Toshima), which include such representative commercial districts as Ginza and Omote-sando, as well as major train and subway terminals such as Shibuya, Shinjuku and Ikebukuro. The amount of sales per store and retail drawing power (see Note) is particularly high in these six wards. (Fig. 10).

Note: Retail drawing power is defined as follows:

(annual per capital sales volume in a given ward ÷ (annual per capital sales volume in Tokyo's 23 wards).

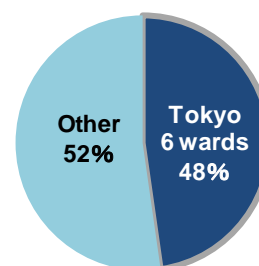
Figure 10 Total Sales per Store and Retail Drawing Power in Tokyo's Major Wards

	Ward	Total sales per store (million yen)	Retail drawing power	No. of stores	Annual sales (million yen)	Population (2005 census)
1	Chuo	482	9.55	3,059	1,473,042	98,399
2	Shinjuku	361	2.82	3,735	1,349,297	305,716
3	Chiyoda	291	13.60	3,057	890,130	41,778
4	Shibuya	287	3.60	3,989	1,145,343	203,334
5	Toshima	257	1.97	3,008	772,762	250,585
6	Minato	201	2.47	3,593	720,730	185,861
7	Koto	173	0.78	2,978	515,381	420,845
8	Shinagawa	162	0.86	2,896	468,310	346,357
9	Taito	139	1.97	3,652	509,379	165,186
10	Setagaya	135	0.56	5,470	736,143	841,165
	23-ward total	172	1.00	77,139	13,301,594	8,489,653

Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry), and "Population Estimates", (Ministry of Internal Affairs and Communications).

Sales per store were highest in Chuo at ¥482 million, followed in order by Shinjuku (¥361 million), and Chiyoda (¥291 million). Shibuya, Toshima and Minato all recorded sales per store of over ¥200 million, setting these six wards apart from the other 17 wards in Tokyo. Looking at retail drawing power, Chiyoda and Chuo stood head and shoulders above the rest, a clear indication of the ability of these two wards to draw customers from surrounding districts. Annual retail sales in the six central wards accounted for 48% of total annual sales in the entire 23-ward area, so these six wards may be said to form a typical metropolitan downtown market (Fig. 11).

Figure 11 Composition Ratio of Annual Retail Sales in Tokyo's Six Central Wards

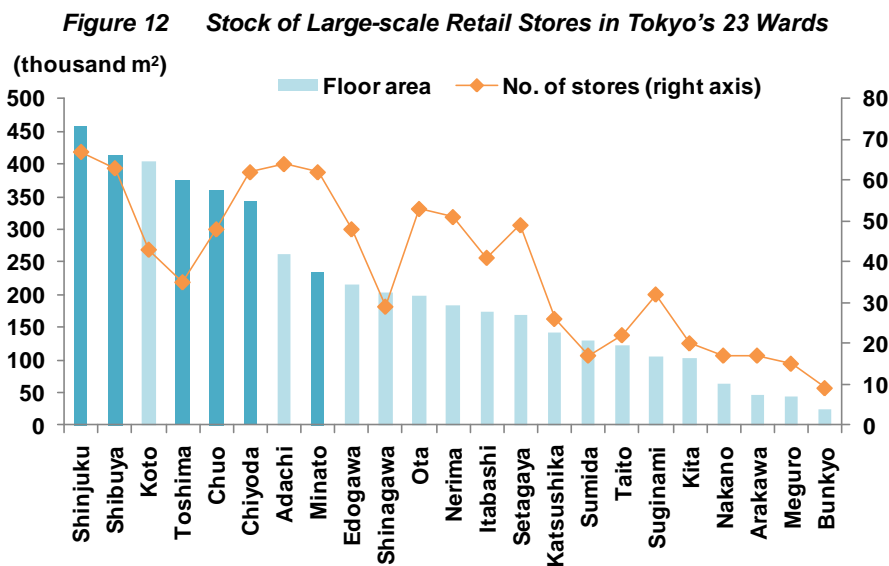


Source: Compiled by NRE based on data from "Census of Commerce" (Ministry of Economy, Trade and Industry)

Stock of Large-scale Stores is Highest in Shinjuku and Shibuya

There are 890 large-scale (store floor area $\geq 1,000 \text{ m}^2$) retail stores in the 23-ward area, with a total floor area of 4.78 million m^2 . By ward, Shinjuku has the largest amount of large-scale retail floor space (460,000 m^2), followed by Shibuya and Koto which each have over 400,000 m^2 , and Toshima, Chuo and Chiyoda at around 350,000 m^2 . Minato has 240,000 m^2 , and ranks in 8th place just after Adachi (Fig. 12).

One reason that Koto ward ranks so high in retail floor space has been the development there in recent years of large shopping centers in Minamisuna, Fukagawa and Toyosu, however this is more of a suburban-type market because it can be easily accessed by automobile, and because of its large concentration of supermarkets and similar stores.



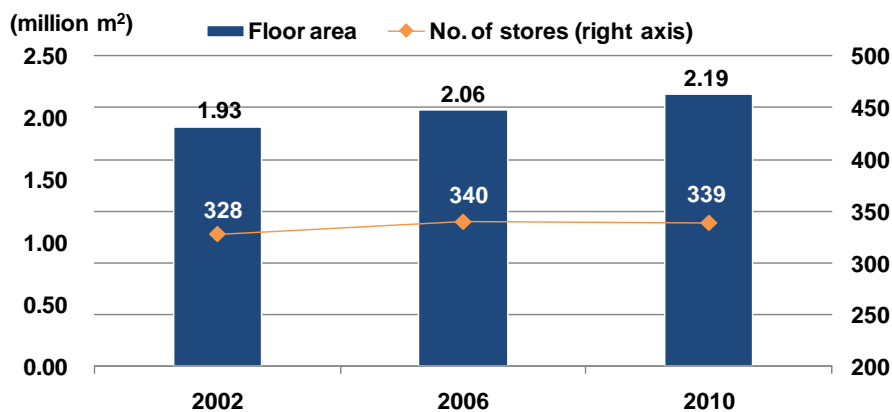
Source: NRE

3-2 Changes in Retail Store Stocks

Change in Number of Large-scale Retail Stores and Total Floor Space in the 6 Central Wards

Total retail floor space in Tokyo's six central wards was 1.93 million m^2 (328 stores) as of the end of 2002. However, by 2006 this had grown to 2.06 million m^2 (340 stores), and by the end of 2010 had reached 2.19 million m^2 (339 stores). There has been little change in the total number of stores, but the trend toward increases in scale is continuing (Fig. 13). The graph shows that the average amount of retail floor area per store has expanded from 5,883 m^2 in 2002, to 6,059 m^2 in 2006, and 6,450 m^2 in 2010, indicating that over the last 8 years weaker players are being weeded out as stores become larger and larger.

**Figure 13 Retail Floor Area and Total Number of Large-scale Retail Stores
(6 Central Wards, Dec. 2002~ Dec. 2010)**

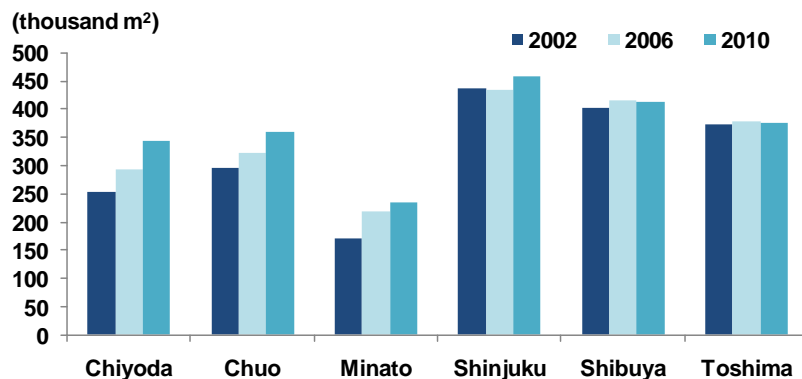


Source: NRE

Breakdown of the situation in the 6 Central Wards

Total retail floor space in each of the 6 central wards as of the end of 2002, 2006, and 2010 is shown in Figure 14. Growth of the retail market in the three downtown wards of Chiyoda, Chuo, and Minato has been especially remarkable. Shinjuku currently has the largest amount of retail floor space, and stocks have been growing recently after remaining flat from 2002~2006. Stocks in Shibuya and Toshima, however, have stayed roughly the same, suggesting that the number of retail stores may have reached the saturation point in those districts.

Figure 14 Retail Floor Area and Total Number of Large-scale Retail Stores

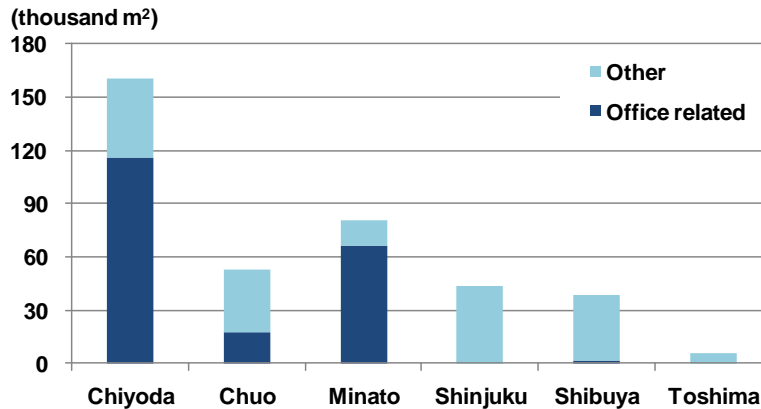


Source: NRE

Majority of New Retail Supply in Minato and Chiyoda is Located in Office-related Developments

A breakdown of new supply of large-scale stores in the six central wards (those subject to reporting requirements under the ‘Large Store Location Law’) is given in Figure 15 for the eight years from January 2003 through December 2010, between stores located in office-related developments (office complexes, office support facilities, existing offices partially remodeled to accommodate stores, etc.) and those with no connection to offices.

Figure 15 New Supply of Retail Stores in the 6 Central Wards (2003~ end of 2010)



Source: NRE, based on 'Notifications Pertaining to the Large Store Location Law' (Ministry of Economy, Trade and Industry).

As you can see in this figure, office-related supply is notable in the three downtown wards, especially in Minato and Chiyoda, where office-related supply accounts for more than half of the total. This indicates that large-scale retail stores are beginning to target office districts. In contrast, office-related new supply was virtually nonexistent in Shinjuku, Shibuya, and Toshima, where new stores were all located in existing commercial districts. Despite the development of a number of new retail stores in Shibuya, total stocks remained unchanged. This was because of the closure of a large number of stores during this period.

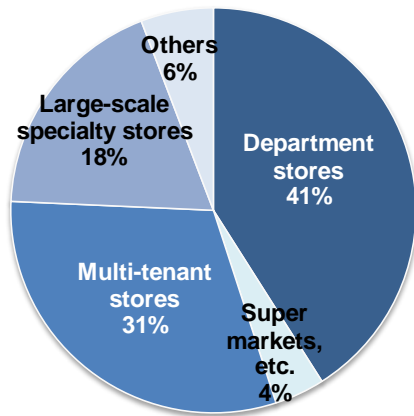
3-3 Major Business Categories Used by Large-scale Stores

Main Retail Business Categories in the 6 Central Wards are Department Stores, Multi-tenant Stores, and Large-scale Specialty Stores

We divided the large-scale retail stores in the 6-ward area into five categories (department stores, supermarkets, multi-tenant stores, large-scale specialty stores, other; see page 17 of the reference materials), and determined the ratio of overall store floor space occupied by each category (Fig. 16). Department stores accounted for the highest percentage at around 40% of the total. Next came multi-tenant stores at 30%, and large-scale specialty stores at just less than 20%. These three types of stores accounted for 90% of the overall retail floor space in the study area.

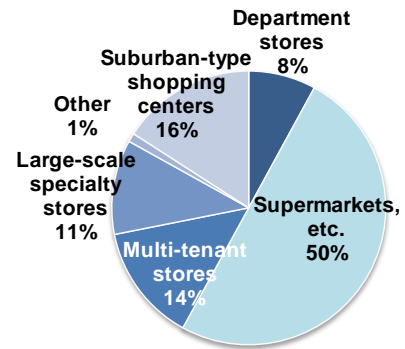
Looking at the other 17 wards we found that supermarkets comprised about 50% of the total, while department stores accounted for only about 8%. The differences between the retail market in the 6 central wards and that in the remaining 17 wards are quite clear.

Figure 16 Large-scale retail store area in the 6 central wards by business category



Source: NRE

(Reference) Large-scale retail store area in the remaining 17 wards by business category

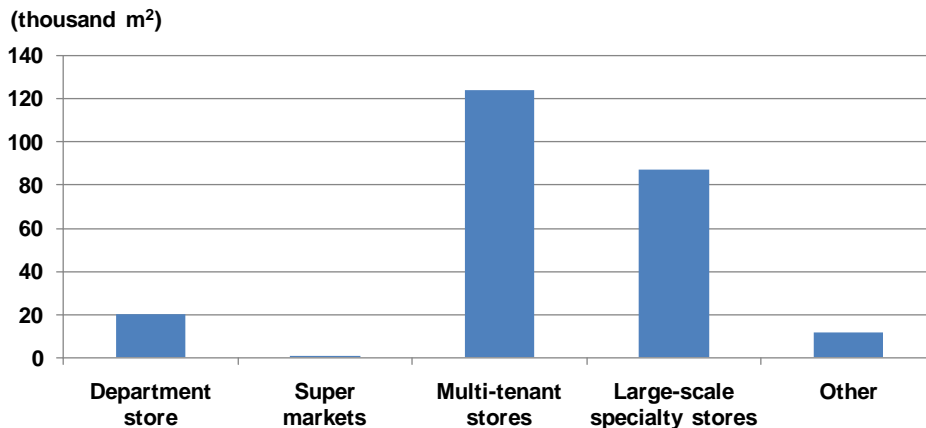


Source: NRE estimates, based on "Nationwide Overview of Large-Scale Retail Stores (2010)", Toyo Keizai, Inc.)

Multi-tenant Stores and Large-scale Specialty Stores are Expanding Rapidly

Figure 17 shows the growth in retail floor space in the 6-ward area for different categories of retail businesses between 2002~2010. During this period the amount of department store floor area increased by 20,000 m², supermarkets were unchanged, multi-tenant stores expanded by 124,000 m², and large-scale specialty stores also grew by 86,000 m². The growth in department stores was due to new development as well as expansion of existing facilities, however at the same time 5 department stores went out of business. The space formerly occupied by these department stores is now being occupied by large-scale specialty stores (home electrical appliances, apparel, outdoor goods). This sudden influx of multi-tenant and large-scale specialty stores is illustrative of the shift towards new business models that is taking place in the retail market.

Figure 17 Growth in Retail Floor Area in the 6-ward Area by Business Category (2002~2010)



Source: NRE

Reference material: Large-scale Retail Store Business Categories

In this report large-scale retail stores have been categorized as follows, taking into consideration the classifications used in other studies.

Categories used in this report

	Business model	Content	Examples in the 6-ward area
A	Department store	Department store	Takashimaya, Seibu, Mitsukoshi, Marui, Tobu, Tokyu, Odakyu, Isetan, Daimaru, Keio, Other
B	Supermarket, etc.	General merchandise store, Super store, Supermarket, Home center, Discount store, Drug Store	Daimaru Peacock, Don Quijote, Life, Seiyu, Summit, Olympic, Marusho, etc.
C	Multi-tenant store	No core store; made up of multiple tenants (excluding office support type)	Lumine, Parco, Atre, Wing Takanawa, Sunshine City, Roppongi Hills, etc.
D	Large-scale specialty store	Luxury brand stores, mass market brand stores, specialty consumer goods stores (home electric appliances, furniture, books, clothing, etc.)	Armani, FOREVER21, Yodobashi Camera, IDC Otsuka Kagu, Marzen, Tokyo Hands, etc.
E	Suburban-type shopping center	Stores meeting the standards set by the Japan Council of Shopping Centers (JCSC) (excluding 6 central wards and major train/subway stations)	
F	Other	Stores other than the above	Otemachi Building, Gran Tokyo South Tower, Tokyo Tower Foot Town, etc.

Categories used in the “Census of Commerce”

1. Department Stores
2. General Merchandise Stores
3. Specialty Supermarkets
(Clothing supermarkets, Food supermarkets, housing-related supermarkets, home centers)
4. Convenience Stores
5. Drug Stores
6. Other supermarkets
7. Specialty stores
8. Semi-specialty store
9. Other retail stores

Of these, 2,3,4,5 and 6 are self-service stores, while the others are not. Also, “Home Centers” and “Drugstores” are new categories that were introduced beginning with the 2002 Commercial Census.

Categories used by Toyo Keizai, Inc. in its “Nationwide Overview of Large-Scale Retail Stores”

1. Department store
2. Supermarket
3. Home center
4. Specialty store
5. Shopping center
6. Multi-tenant department store
7. Retail market
8. Other

Categories used by the Japan Council of Shopping Centers (JCSC)

Core tenant categories

1. Department store
2. General merchandise store
3. Super store: Large-scale supermarket with a focus on clothing
4. Supermarket: Large-scale supermarket with a focus on foodstuffs

5. Home Center: Large-scale store specializing in housing-related goods
6. Discount Store: Large-scale store offering mass market goods at cheap prices
7. Drug Store: Large-scale store specializing in medical supplies and daily goods
8. Specialty Store: Large-scale store specializing in a single type of product, or products used for the same purpose
9. Seikyo: Consumer cooperative

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Note: Shopping centers must meet the following criteria:

1. Retail floor space $\geq 1500\text{m}^2$
2. Must include at least ten different stores, not including the key tenant
3. In case there is a key tenant, the floor area of that tenant may not exceed 80% of the total retail floor area of the center
4. However, the condition in (3) does not apply if the other retail tenant stores have a total floor space $\geq 1500\text{m}^2$.
5. There is a tenant (shopkeepers) association that carries out cooperative activities in the areas of advertising, events, etc.

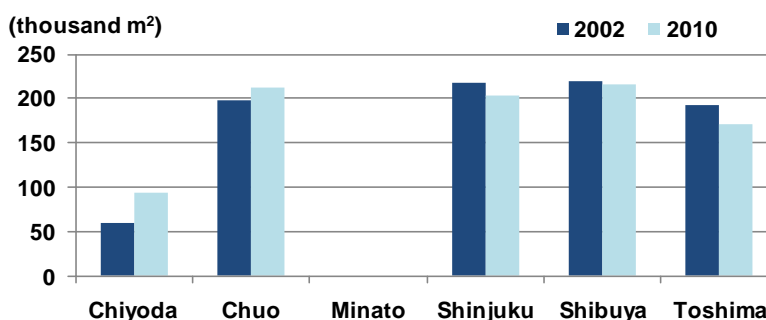
3-4 Geographical Distribution of the Three Major Retail Business Categories

Department Stores Concentrated Mainly Around Shinjuku Station, but are Increasing in Chiyoda and Chuo

By ward, Shibuya has the largest amount of department store floor space, at around 220,000 m² (See Note), while Chuo and Shinjuku each have over 200,000 m². Next comes Toshima with 170,000 m², followed by Chiyoda with 90,000 m². There are no department stores in Minato. Wards in which department store floor space increased over the last 8 years are Chiyoda and Chuo. In Chiyoda, *Daimaru* opened a new store in front of Tokyo Station, and *Yurakucho Marui* opened in front of Yurakucho Station, while the *Yurakucho Seibu* store is scheduled to close. In Chuo, *Mitsukoshi* expanded its existing store. Department store floor space fell in all other wards. In Toshima the *Ikebukuro Mitsukoshi* closed, and the *Shinjuku Marui* store underwent a significant reorganization and consolidation.

Note: The *Takashimaya Times Square* store at the south entrance to Shinjuku Station (approx. 70,000 m²) is included as part of Shibuya ward.

Figure 18 Department Store Floor Area by Ward (2002 vs 2010)



Source: NRE

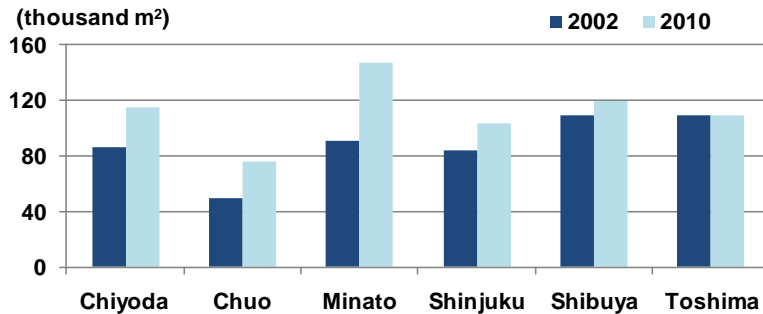
By area, the largest concentration of department stores is located near Shinjuku Station (10 stores), followed in order by Shibuya (5), Ginza (4), Ikebukuro (3), Nihonbashi (2), Yurakucho Eki-Mae (2), Tokyo Station (1), and Ebisu Station (1), for a total of 28.

Minato Has Highest Concentration of Multi-tenant Store Space; Multi-tenant Stores Have Increased Dramatically in Minato and Chiyoda as a Result of Office Complex Developments

Minato has the highest amount of multi-tenant store space at 150,000 m². Shibuya, Chiyoda, Toshima and Shinjuku each have over 100,000 m², but Chuo lags behind at around 80,000 m². Multi-tenant stores have increased over the last 8 years in every ward with the exception of Toshima, and growth has been especially remarkable in the three downtown wards. A notable trend has been the opening of multi-tenant retail stores in major mixed-use urban development

projects such as Roppongi Hills and Tokyo Midtown in Minato, and in a series of similar projects in the Marunouchi district of Chiyoda ward. Most new stores in Chuo, such as Ginza's *Marrionier Gate*, have been located in existing commercial districts.

Figure 19 Retail Floor Space in Multi-tenant Stores, by Ward (2002 vs 2010)



Source: NRE

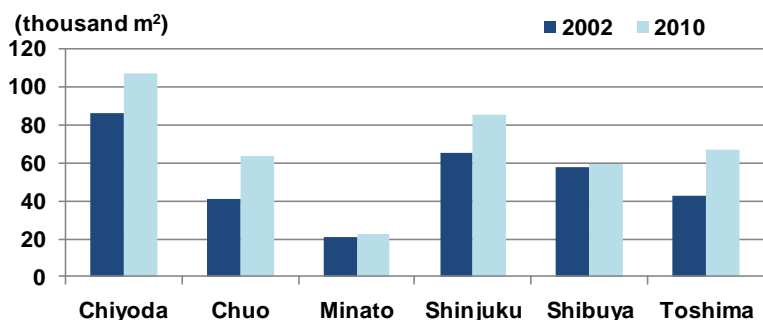
By area, the distinguishing feature of multi-tenant stores is their wide distribution, even in what have conventionally been considered office districts. Some areas with large concentrations of multi-tenant stores (on a floor space basis) are Higashi Ikebukuro, site of 'Sunshine City', and Shinjuku, where the three *Lumine* stores are located. In terms of store numbers, the top ranked area is Ginza with 12 stores, followed by Marunouchi, where multi-tenant stores are trying to coexist with offices in traditional office districts, and Daiba, which, despite being part of Minato, has more of the characteristics of a suburban-type shopping center.

Chiyoda Ranks Number One in Large-scale Specialty Stores; Notable Expansion in Toshima, Chuo, Chiyoda and Shinjuku

Chiyoda has the most large-scale specialty stores on a floor space basis at 110,000 m², followed by Shinjuku (80,000 m²), Toshima and Chuo (both over 60,000 m²), and Shibuya (just less than 60,000 m²). Minato lags behind at only 20,000 m². Wards that have seen an expansion of 20,000 m² or more over the last 8 years are Toshima, Chuo and Chiyoda, while Shinjuku has gained 16,000 m².

Electronics retailers tend to be concentrated in Toshima, Chiyoda and Shinjuku, whereas luxury brand boutiques are notable in Chuo. In contrast, there has been little new growth in Shibuya or Minato.

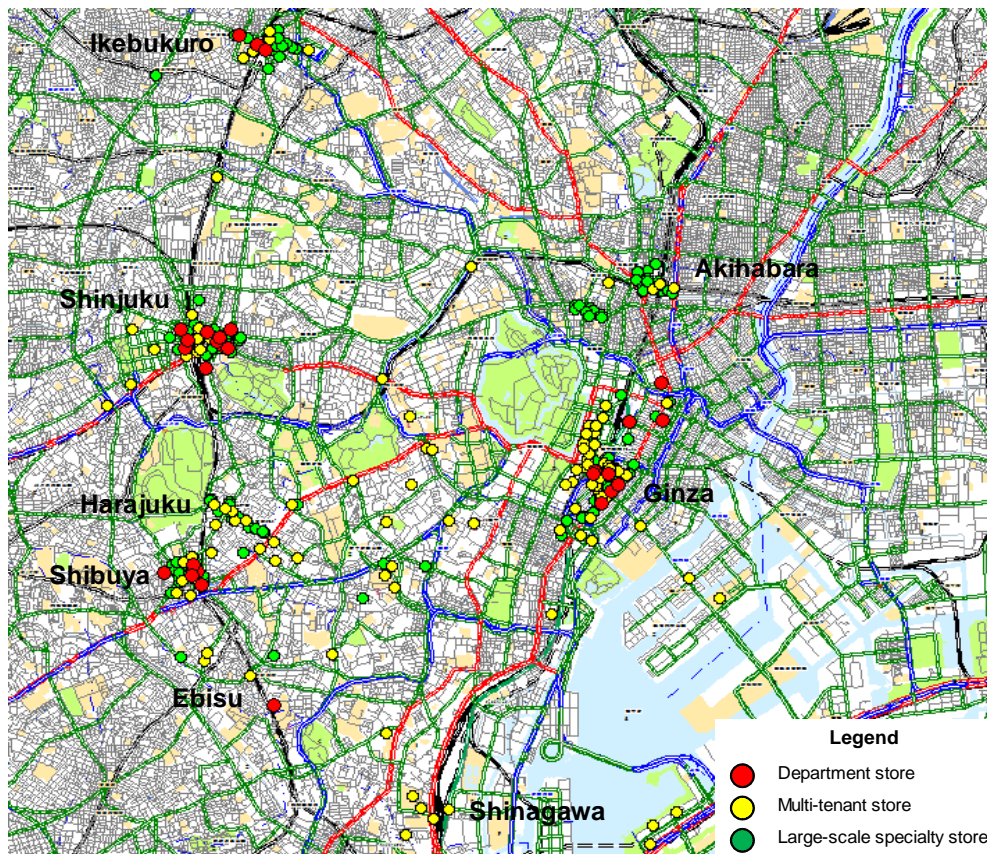
Figure 20 Retail Floor Space in Large-Scale Specialty Stores, by Ward (2002 vs 2010)



Source: NRE

By area, the largest number of stores is located in Shinjuku, which also holds top rank on a floor space basis. A wide range of specialty stores are also found here, such as electronics, furniture, apparel, outdoor goods, and book retailers. Next comes Ginza, which features many famous luxury brand stores but has no electronics stores. A large furniture store is scheduled to open in Ginza this fall. In contrast, the majority of specialty stores in Ikebukuro and Akihabara are electronics related.

Figure 21 Distribution of the Three Major Retail Business Categories in the 6 Central Wards



(C)2008ZENRIN CO., LTD. (Z07KA No.093)

Source: NRE

Finally we would like to focus special attention on the situation in Shinjuku and Ginza, which are unique because of the particularly dense concentration of commercial facilities in those areas.

[Shinjuku Area]

All Three Major Retail Models Are Flourishing; Improvements in Transport Infrastructure will Enhance Future Potential

The commercial district in Shinjuku consists of the conglomeration of buildings near Shinjuku station, and the area centered on Shinjuku-dori Avenue, from Yasukuni Street to the south entrance of the station.

There are a total of 10 department stores (approx. 280,000 m²) in this area, accounting for

about 30% of the total in the 6 central wards. These include the *Odakyu* (two stores) and *Keio* department stores inside the station buildings, 5 *Marui* stores and *Isetan* near the east entrance, and *Takashimaya Times Square* at the south entrance (included here as part of Shibuya ward).

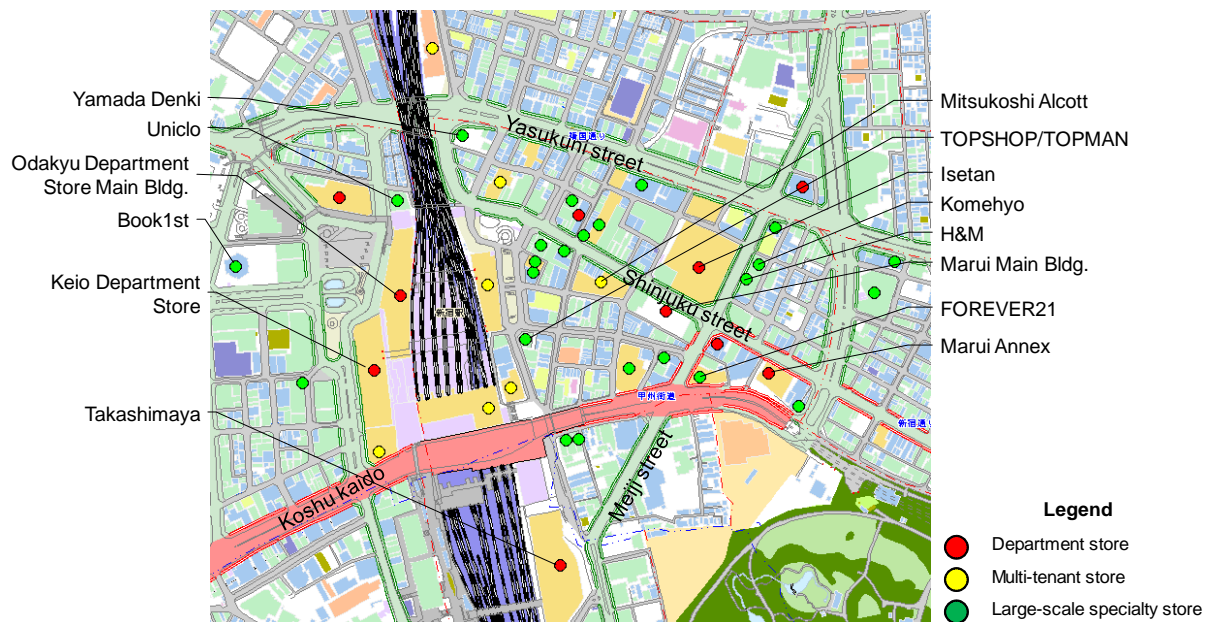
There are 7 multi-tenant stores in Shinjuku, including *Lumine* (3 stores), *Mitsukoshi Alcott* and the *Alta*.

A total of 26 large-scale specialty stores are located in this area, covering a wide range of products. They include luxury brand stores (2), mass market brand stores (8), home electronics stores (4), outdoor goods stores (4), book and CD shops (3) as well as furniture and art supplies stores.

The last 8 years have seen the opening of a number of new stores by companies that have been successful despite the weak economy. These include *Mitsukoshi Alcott*, which represents a shift in retail category from a department store to a multi-tenant store, *Komehyo*, a specialty store for reused goods which opened at the site of a former department store, and 4 mass market apparel brand stores (Uniclo, H&M, FOREVER21, TOPSHOP).

Shinjuku's terminal station boasts the largest number of passengers of any station in the country, but as it also has the highest stock of large-scale retailers it has probably reached the saturation point in terms of retail floor space. Therefore the continued influx of new stores is probably due to improvements in transportation infrastructure, such as the opening of the Fukutoshin subway line, and upgrades in the vicinity of the south entrance to the station.

Figure 22 Shinjuku Area



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Source: NRE

[Ginza Area]

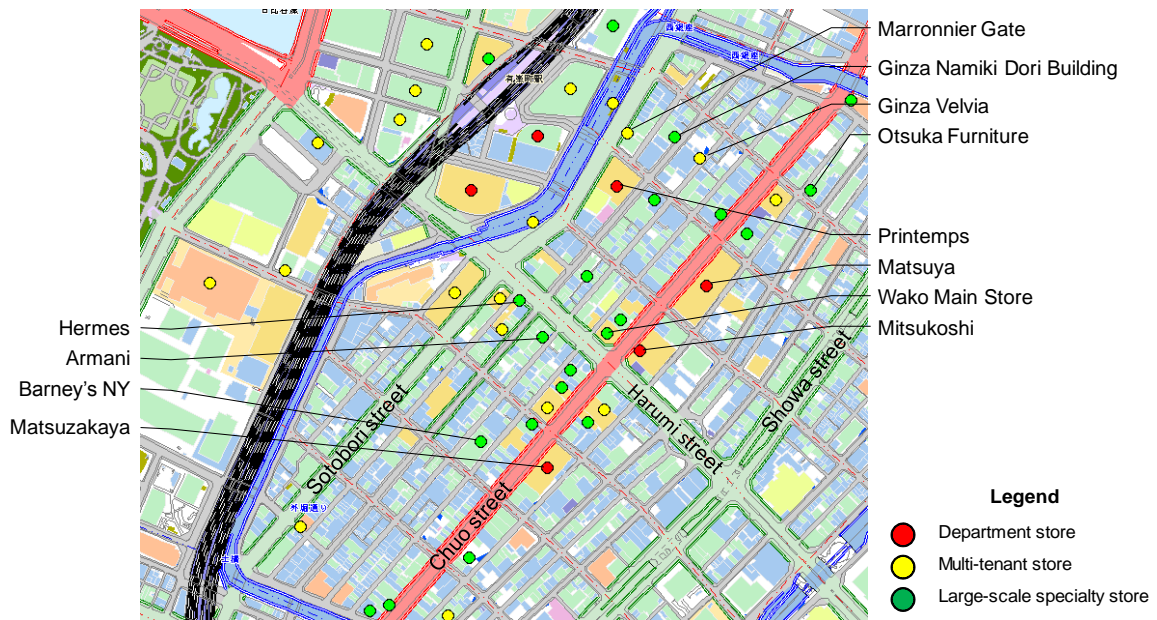
Influx of Luxury Brand Stores Has Stopped; Mass Market Brands Moving In

Ginza is the area centered on Harumi-dori Ave. and bounded by Chuo-dori St. and Sotobori-dori St. There are a total of 6 department stores in Ginza (approx. 200,000 m²), including *Matsuya*, *Mitsukoshi*, *Matsuzakaya*, and *Printemps* (110,000 m²), along with two other stores in front of Yurakucho Station. There are 12 multi-tenant type stores, including *Mosaic Ginza Hankyu*, *Nishi Ginza*, and the *New Melsa*. There are 10 large-scale specialty stores, including luxury brands stores such as the headquarters shop of *Wako*, *Armani Ginza Tower*, and the *Hermes Ginza Shop*, and 9 stores specializing in general merchandise such as musical instruments (2), apparel (2), stationery, toys, outdoors goods, shoes, and furniture.

New stores that have opened in Ginza during the last 8 years include the multi-tenant stores *Marronnier Gate* and *Ginza Velvia*. Luxury brand stores such as *Armani* and *Barney's NY* opened stores in Ginza during this period, but no new luxury brand stores have opened since 2008. Instead, as was the case with Shinjuku, mass market brands are advancing into this area, but few are large-scale (≥1,000 m²) stores with independent street level locations. One newly constructed building on Harumi-dori Ave., which had originally been planned as a luxury brand store, is now scheduled to become a *GAP* store (2011).

Among general merchandise specialty stores, IDC Otsuka Kagu is set to open a new store in Ginza in the fall of 2010.

Figure 23 Ginza Area



(C)2008ZENRIN CO., LTD. (Z07KA No.093)

Source: NRE

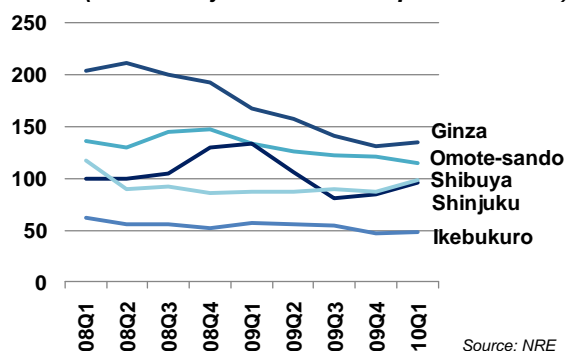
Comment : Rent Level Trends for Street Level Stores

Rent Levels Recovering in Shinjuku and Shibuya

We surveyed rents at as many street level stores as we could as of March 2010 in major shopping districts in the 6 central wards (Ginza, Omote-sando, Shinjuku, Shibuya and Ikebukuro), and converted rent level data to a price index format. The results are shown in the graph below.

We see here that rent levels have bottomed out in Shinjuku and Shibuya and are starting to recover. Ginza rents may also have bottomed out, but it appears that recovery will be slower in Omote-sando. Little change has taken place in rent levels in Ikebukuro, which remain low. What this data shows is that Shinjuku and Shibuya, which are supported by genuine, immediate demand, respond more quickly to improvements in the economy than areas such as Ginza or Omote-sando, which depend mostly on luxury brand stores.

Rents at Street Level Stores in Major Commercial Areas (100 = Shinjuku in the first quarter of 2008)



3-5 Future Trends

Future Development of Retail Market in Central Tokyo Will Center on Multi-tenant and Large-scale Specialty Stores

Tokyo's 6 central wards, with their strong drawing power, are an example of a typical urban-type retail market. This area is also at the forefront of the retail market in Japan, so trends here may well be an indicator of how retail business models will evolve in future. Following are our forecasts for the future of each of the three main retail categories, based on the results of this survey.

Department stores: Department stores are often said to have become obsolete. However, although the number of department stores in the 6-ward area has decreased, they still account for more floor space than any other retail business format and continue to be a major presence in the retail market. Some department stores have shifted more toward a multi-tenant or specialty store format in hopes of enhancing their appeal. Moreover, most department stores are located in prime locations in well-established commercial districts (see Fig. 21), and with a few exceptions we believe that most will manage to survive while steadily adapting and improving their business model.

Multi-tenant stores: Multi-tenant stores originally developed as a new retail format for station buildings. Typical examples are *Lumine* and *Parco* which, with their emphasis on fashion-related tenants, have become urban-type shopping centers. This is the retail format that has shown the highest rate of growth in recent years, and it is the format employed in all the mixed-use office complex projects that include both office and commercial space. Going forward, this category is likely to account for most new retail stores in central Tokyo.

Large-scale specialty stores: The most notable development in the area of large-scale specialty stores has been the emergence of mammoth electronics retailers. The battle for market share among electronics manufacturers has spurred competition among electronics retailers to expand the size of their stores. As a result, some stores are starting to shift away from a strict “specialty store” model by including outside tenants such as restaurants and others in their facilities. This could conceivably lead in future to a worsening of sales efficiency rates.

Among other types of specialty stores, there have been a noticeable number of closures among furniture and interior goods stores. A large new furniture store is scheduled to open in Ginza in the fall of this year (2010), and it remains to be seen whether this indicates a new trend. In the field of apparel, although nearly all specialty clothing stores have less than 1,000 m² in floor space, the future of the market depends on how many new stores are opened by mass market brands.

Conventionally speaking, commercial districts in urban centers have consisted of a wide variety of specialty stores serving the very latest and most sophisticated needs of the market. Ginza and Omote-sando with their luxury brand stores, Akihabara with its electronics stores, Shibuya and Harajuku with their focus on the youth market—all of these are examples of how specialty stores became concentrated in urban centers. The character of these existing commercial districts developed naturally as a consequence of the types of street level stores that came into the area, but space for new stores in these areas is limited, and costs are high. Given the shortage of available space, it has been large-scale multi-tenant stores that have responded to the needs of the market and reduced the cost necessary to open a store through the creation of new man-made commercial districts.

Until now multi-tenant stores have centered on fashion items such as apparel and daily goods, but in future it is possible that department stores and very large-scale specialty stores will seek to diversify their tenant composition and thus evolve into multi-tenant type businesses featuring the newest and latest products in a variety of fields. In future we believe that development of the commercial market in central Tokyo will center primarily on multi-tenant stores and large-scale specialty stores. Against this background the central Tokyo area is likely to see the emergence of a wide variety of different efforts by retailers as they seek to integrate Internet sales more seamlessly into their operations, and look for better ways to meet the needs of tourists from other Asian countries.

Conclusion

The geographical distribution of different categories of retail businesses is undergoing a transformation as mixed-use redevelopment projects provide opportunities for multi-tenant stores to expand aggressively into conventional office districts. This is particularly true in the center of Tokyo, where increased integration of basic urban functions such as work, housing, commerce, and entertainment is leading to the renewal of conventional commercial districts to better meet current needs. These changes are creating opportunities for the opening of new retail stores, and for the expansion of retail districts. On the other hand, consumer preferences can change quickly, and stores that are unable to adapt to these changes will necessarily go out of business. It will be increasingly important in the years ahead to be able to accurately assess which types of businesses and which types of retail business models are likely to survive.

In conducting site surveys in Tokyo's six central wards for the present study we became keenly aware of how rapidly the retail industry is changing, and of how little accurate data is available. For example, it is easy to collect data regarding development projects subject to reporting requirements under the 'Large Store Location Law', but information on store closures or tenant composition can only be obtained by site surveys. This is because there are no reporting requirements for retail stores that suspend operations (at least on a temporary basis). Among the retail stores we visited during the course of the present study, we found that a remarkable number had in fact changed from retail stores into amusement centers or restaurants.

Data on rents is also practically nonexistent, and as a result it is impossible to determine actual rent levels without conducting direct interviews. The only facilities for which data is publicly available are J-REIT properties, but there are only two J-REIT funds that specialize in retail properties. Compared with the office market, the almost total lack of basic data needed for investment decision making is inhibiting investment in retail properties. In order to promote the collection of statistical data on retail real estate, we believe that follow up on the part of policy makers will be essential. Meanwhile, we at NRE plan to upgrade our own database on the basis of physical inspections and surveys of corporate trends.

In order to survive in an era of global competition among major cities, the creation of attractive urban environments will be essential. An appealing retail sector can improve a city's image and help to attract visitors from Asia, and can also play a significant role in helping to stimulate domestic demand. Moreover, globalization and the expansion of Internet-based sales is changing the retail industry, and will likely help lead to adaptations in the way current types and categories (models) of retail businesses operate, and may even lead to the emergence of completely new business models. Investment in the retail sector during this period of transition is risky but could also potentially be very rewarding. What types of locations will be most

successful? What types of businesses and business models will emerge as winners? Where and how will new forms of retail businesses take shape? The present study represents the first stage of our research into these subjects. We will strive to improve our ability to identify investment opportunities by carrying out further studies to clarify the status and future potential of the retail market.

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References:

“List of New Stores Opening in Tokyo’s 6 Central Wards in 2001~2010”

2001

Name of facilities	Ward	Store floor area (m ²)
Harumi Triton Square	Chuo	8,108
Bic Camere Yurakucho Annex	Chiyoda	6,617

2002

Name of facilities	Location	Store floor area (m ²)
Marunouchi Building	Chiyoda	10,600
Ginza Namiki Street Building	Chuo	3,783
Don Quijote Kita-Ikebukuro	Toshima	3,505
Carreta Shiodome	Minato	5,534

2003

Name of facilities	Location	Store floor area (m ²)
New Tokyo Building	Chiyoda	3,285
Shiodome City Center	Minato	3,627
Shinagawa Grand Commons	Minato	7,168
Roppongi Hills District ABC	Minato	26,611

2004

Name of facilities	Location	Store floor area (m ²)
Coredo Nihonbashi	Chuo	10,030
Atre Shinagawa	Minato	3,991
Marunouchi MY Plaza	Chiyoda	6,102
Marunouchi Oazo	Chiyoda	9,752
Kojun Building (Barney’s NY)	Chuo	5,590
Cocoti	Shibuya	4,692

2005

Name of facilities	Location	Store floor area (m ²)
Tokyo Shiodome Building	Minato	3,283
Jinnanzaka Frame	Shibuya	3,329
Yodobashi Multimedia Akiba	Chiyoda	32,000

2006

Name of facilities	Location	Store floor area (m ²)
Omote-sando Hills	Shibuya	10,595
Daimaru Tokyo	Chiyoda	53,923

2007

Name of facilities	Location	Store floor area (m ²)
Shinjuku Marui Annex	Shinjuku	9,002
Ginza Velvia	Chuo	4,891
Maruzen Nihonbashi	Chuo	6,364
Tokyo Midtown	Minato	18,193
New Marunouchi Building	Chiyoda	10,336
Armani Ginza Tower	Chuo	4,331
Marronnier Gate	Chuo	9,100
Yamada Denki LABI Ikebukuro Mobility Dream	Toshima	3,479
Yurakucho Itocia (Yurakucho Marui)	Chiyoda	25,154
Sofmap Akihabara Main Bldg.	Chiyoda	4,367

2008

Name of facilities	Location	Store floor area (m ²)
Yamada Denki LABI Shinbashi for Living	Minato	4,491
Yamada Denki LABI Shibuya	Shibuya	5,565
Book1st Shinjuku Cocoon Tower	Shinjuku	3,277
AO	Minato	5,579

2009

Name of facilities	Location	Store floor area (m ²)
Shinjuku Marui Main Bldg.	Shinjuku	15,493

2010

Name of facilities	Location	Store floor area (m ²)
Yamada Denki LABI Shinjuku Station East	Shinjuku	7,880
IDC Otsuka Kagu Ginza	Chuo	7,201
Atre Akihabara	Chiyoda	4,241

Data is valid as of May 31, 2010.