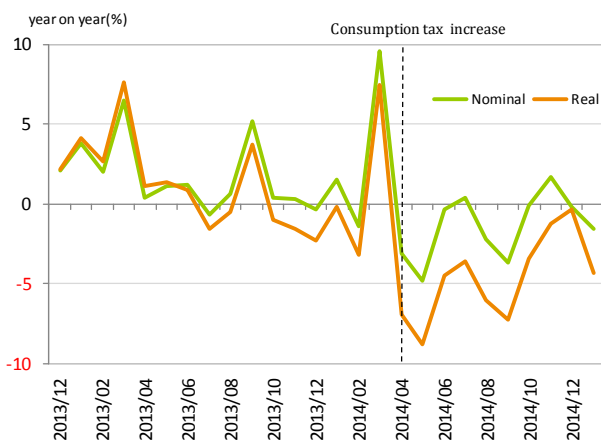


Retail Market

■ **Consumer spending is bottoming out and may turn into positive territory as real income is rising.**

Consumer spending declined significantly year on year in April and May, 2014 in reaction to a spike in demand before the consumption tax hike. Subsequently, real consumer spending remained weak, with an increase in prices as the consumption tax hike exceeded the rise in income. From October, however, the year-on-year decline narrowed. Consumer sentiment has been on an upward trend, reflecting an improvement in corporate earnings and the employment environment. In March 2015, companies, especially major companies, announced a base-wage hike. As real income is anticipated to rise, consumer spending is expected to rise year on year.

Changes in the Expenditure Index



Source :SMTRI based on Ministry of Internal Affairs and Communications

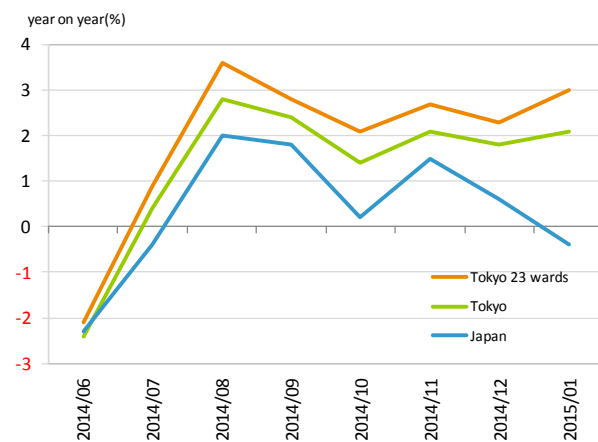
Topic in retail: Among shopping centers, the development of NSCs, which have a small trade area, and large leisure shopping centers has been increasing.

With shopping centers, the core store and the owner often sign a long-term agreement, and investors can expect stable income from their investment. Given changing lifestyles and an aging society, the types of shopping centers being developed are changing. In the past, shopping centers were places where families living in houses in the suburbs went shopping by car on weekends.

■ **Rents for retail properties in central Tokyo are on a moderate upward trend, reflecting strong consumption by the affluent and foreigners.**

Rents for retail properties in the commercial districts (such as Ginza, Omotesando, Shibuya, and Shinjuku) in central Tokyo have been on an upward trend since the latter half of 2014. The affluent, who enjoyed the asset effect of rising stock prices, and inbound foreign tourists actively have bought big-ticket items. For example, sales at department stores in Tokyo's 23 wards that sell big-ticket items rose year on year from July 2014, and year-on-year changes in sales in Tokyo's 23 wards were higher than nationwide and in Tokyo overall. Rents for retail properties in central Tokyo have upside potential, and those properties are attractive investment destinations for investors. In Ginza, the transaction volume of retail properties is small, but in Shibuya, there have been quite a few transactions involving small retail properties, and the cap rate is in the lower 4% range.

Sales at Department Stores



Source :SMTRI based on Ministry of Economy, Trade and Industry

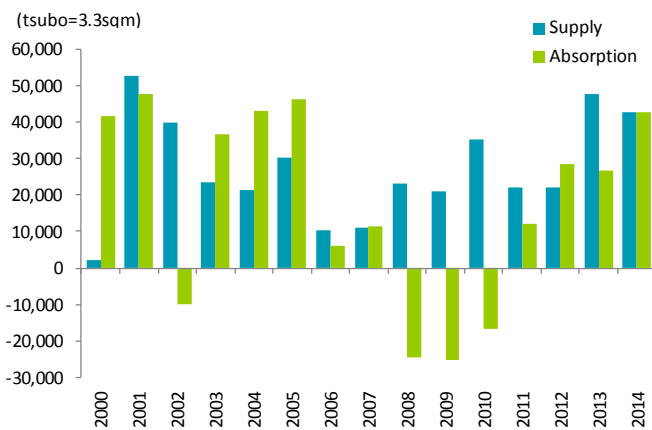
However, as more and more double-income families and aged households move to the city center for convenience, demand for compact neighborhood shopping centers (NSCs) that have a small trade area and provide basic needs is increasing. Meanwhile, large shopping centers that are 100,000 sqm or more have a growing presence. Leisure (tourism-oriented) shopping centers that provide services as well as goods so that customers can enjoy themselves there all day are increasing. This polarization in terms of size in the development of shopping centers is expected to continue.

Office Market by Area (Chuo-ku)

■ Large redevelopment projects are underway in the west of the ward, near Tokyo station.

From around 2013, large redevelopment projects led by major real estate companies are underway. This year a large building directly connected with Nihombashi Station is to be completed, and redevelopment projects are planned near the Nihombashi Takashimaya department store and at the site of the Matsuzakaya Ginza department store. In addition, a 600 billion yen redevelopment project centering on two super-high buildings in the Yaesu region, which is planned to be completed in 2023, has been reported. As prime office stock is being accumulated, particularly in the west of the ward, near Tokyo Station, would-be tenants are expected to expand to include companies other than those in the financial, insurance, and wholesale industries, which are the main tenants.

Supply and Absorption of Chuo-ku

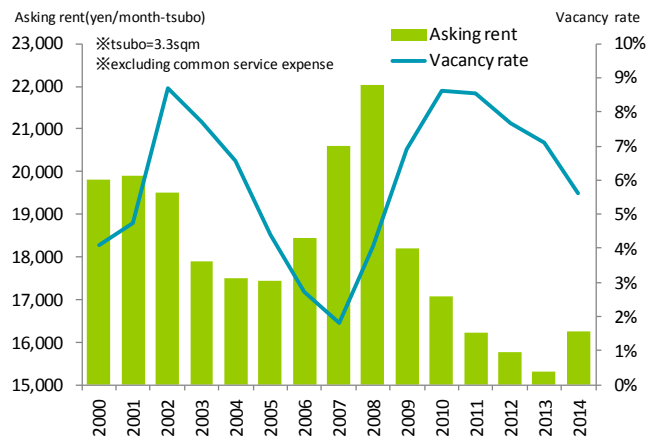


Source : SMTRI based on Miki Shoji

■ The rate of increase in rents is high. There is concern over polarization between east and west.

Asking rents in Chuo-ku has been rising since October 2013. The rate of increase from the bottom price is 7%, which is relatively high among Tokyo's five central wards. There is concern over polarization between the west (including Nihombashi, Yaesu, Kyobashi, and Ginza), where rents are high and vacancy rates are low, and the east (including Ningyocho), where rents are low and vacancy rates are high. In the trading market, an SPC of GE Japan acquired G-PLACE Nihombashi in Nihombashi Bakurocho from Taisei-Yuraku Real Estate in March 2014 and sold it to another SPC seven months later, in October.

Vacancy rates and Asking rents of Chuo-ku



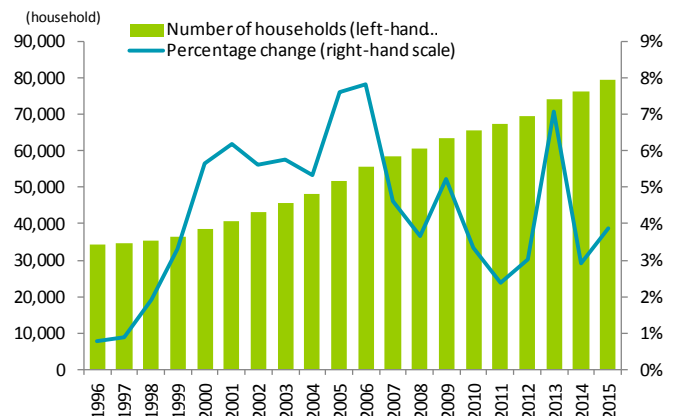
Source : SMTRI based on Miki Shoji

Residential Market by Area (Chuo-ku)

■ The number of households in Chuo-ku has doubled in the past 20 years.

Chuo-ku was traditionally a commercial district or a business district rather than a residential district. However, the number of households has more than doubled in the past 20 years, from 34,000 in 1996 to 79,000 in 2015. More and more people who emphasize convenience are moving to central Tokyo to live close to their offices, and Chuo-ku is a popular choice. This trend is expected to continue, and housing demand will likely remain strong.

The number of households in Chuo-ku

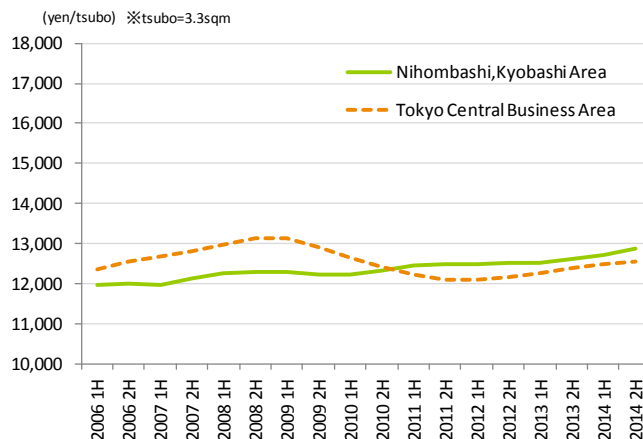


Source: SMTRI based on Tokyo metropolitan government

■ **The Nihombashi and Kyobashi zone is receiving increasing recognition as a residential district, and rents are rising moderately.**

During the real estate securitization boom in the first half of the 2000s, many rental apartment buildings were developed. The Nihombashi and Kyobashi zone in particular supplied a large number of rental apartment buildings. The new supply in the region, which had not been recognized as a residential region, triggered an upward market trend, and rents have been rising moderately. Luxury rental apartments have been supplied in the COREDO Muromachi complex. The zone is receiving increasing recognition as a residential district.

Rents of Chuo-ku



Source: SMTRI

SuMi TREIM Market Eye

Recently, some large retail properties in the prime commercial areas of central Tokyo have been traded at NOI yields in the 3% range, and some sellers want to sell properties at an NOI yield in the 2% range.

With the number of inbound foreign tourists rising in recent years, properties in Ginza, Shinjuku, Aoyama, Omotesando, Shibuya, and other popular areas are attracting greater attention from foreign investors willing to make investments, and that is considered to be one of the reasons of the falling NOI yields.

Acquiring investment properties in prime commercial areas is becoming more and more difficult, and both tenants that can pay high rents and locations suitable for their stores are limited. In this environment, investment in prime commercial areas requires greater consideration of the appropriateness of the existing lease terms and the strategies of would-be tenants.

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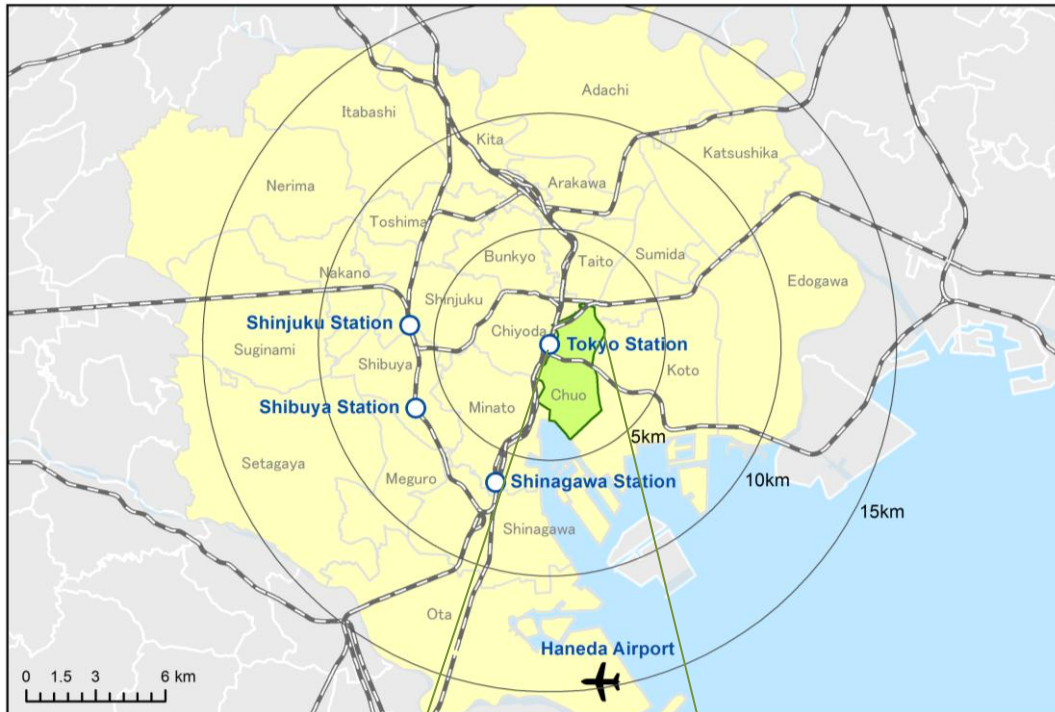
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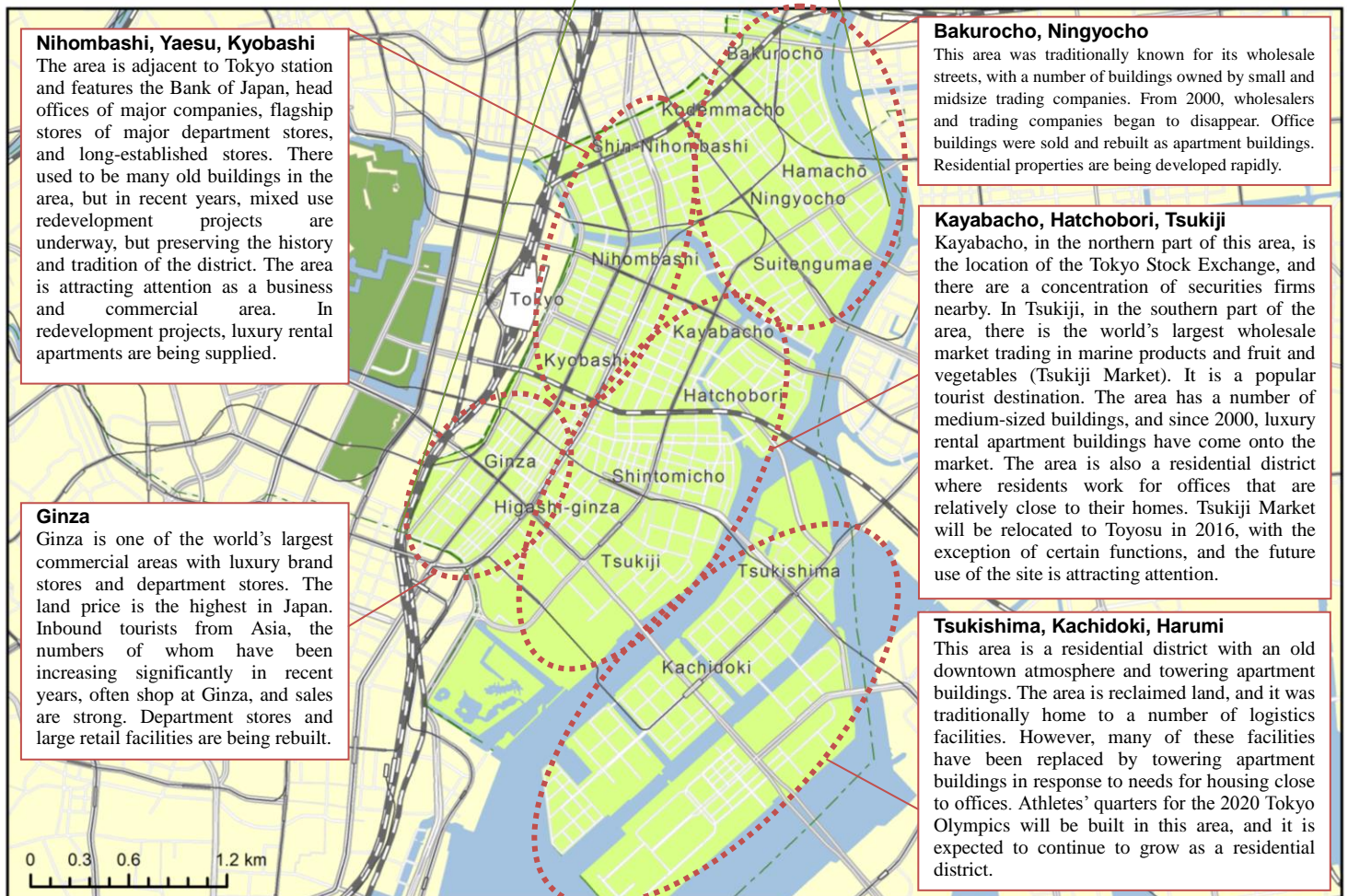
■ The next month's subject is the office rents market and the transaction market. ■

For Reference: Overview of Chuo-ku

As its name suggests, Chuo-ku (central ward) is roughly at the center of Tokyo's 23 wards and played a central role in the Japanese economy and culture in the Edo era. The ward inherits this history, and is home to the Bank of Japan, the Tokyo Stock Exchange, head offices of major companies, flagship stores of major department stores, and many venerable stores. In the southeast of the ward, there are a number of high-rise apartment buildings. Athletes' quarters for the 2020 Tokyo Olympics will be built in Chuo-ku. The ward is also attracting attention as a residential district.



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Nihombashi, Yaesu, Kyobashi

The area is adjacent to Tokyo station and features the Bank of Japan, head offices of major companies, flagship stores of major department stores, and long-established stores. There used to be many old buildings in the area, but in recent years, mixed use redevelopment projects are underway, but preserving the history and tradition of the district. The area is attracting attention as a business and commercial area. In redevelopment projects, luxury rental apartments are being supplied.

Ginza

Ginza is one of the world's largest commercial areas with luxury brand stores and department stores. The land price is the highest in Japan. Inbound tourists from Asia, the numbers of whom have been increasing significantly in recent years, often shop at Ginza, and sales are strong. Department stores and large retail facilities are being rebuilt.

Bakurocho, Ningyocho

This area was traditionally known for its wholesale streets, with a number of buildings owned by small and midsize trading companies. From 2000, wholesalers and trading companies began to disappear. Office buildings were sold and rebuilt as apartment buildings. Residential properties are being developed rapidly.

Kayabacho, Hatchobori, Tsukiji

Kayabacho, in the northern part of this area, is the location of the Tokyo Stock Exchange, and there are a concentration of securities firms nearby. In Tsukiji, in the southern part of the area, there is the world's largest wholesale market trading in marine products and fruit and vegetables (Tsukiji Market). It is a popular tourist destination. The area has a number of medium-sized buildings, and since 2000, luxury rental apartment buildings have come onto the market. The area is also a residential district where residents work for offices that are relatively close to their homes. Tsukiji Market will be relocated to Toyosu in 2016, with the exception of certain functions, and the future use of the site is attracting attention.

Tsukishima, Kachidoki, Harumi

This area is a residential district with an old downtown atmosphere and towering apartment buildings. The area is reclaimed land, and it was traditionally home to a number of logistics facilities. However, many of these facilities have been replaced by towering apartment buildings in response to needs for housing close to offices. Athletes' quarters for the 2020 Tokyo Olympics will be built in this area, and it is expected to continue to grow as a residential district.

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