DAIWA REAL ESTATE APPRAISAL CO.,LTD.
大和不動産鑑定株式會社
Palaceside Building, 1-1-1 Hitotsubashi,
Chiyoda-ku, Tokyo 100-0003 Japan
http://daiwakantei.co.jp/

'Analysis of General Value Influences in Retail Industry' in April 2017

As of June 22, 2017

DAIWA REAL ESTATE APPRAISAL CO., LTD.

(1) Retail industry trends

1) Overview

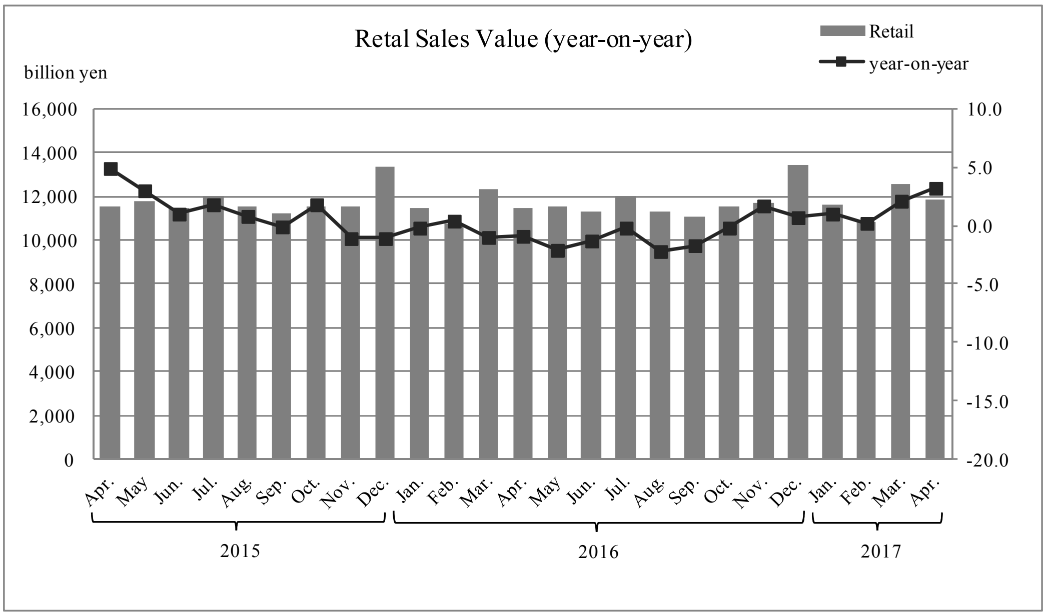
The Ministry of Economy, Trade and Industry reported in March 2017 that sales turnover decreased by 0.6% in 2016 year-on-year and decreased for two consecutive years.

General merchandise retailers such as department stores and big-box stores saw a decrease in their turnover of 2.5% year-on-year due to a decline in the sales of clothing, mainly women's clothes, under the influence of unseasonable weather conditions. As for fuel retailers, their turnover decreased by 8.8% year-on-year due to decline in the sales price of petroleum products.

On the other hand, the turnover of food and beverage retailers increased by 1.5% owing to not only livestock products and ready-prepared food dishes selling well, but also a rise in the price of vegetables and good sales in convenience stores. Regarding fabrics, apparel and daily goods retailers, their turnover increased by 0.5% because seasonal goods sold well due to high temperatures in the first half of last spring and low temperatures in the latter half of last autumn. Drug and toiletries stores also saw an increase in their turnover of 1.9%. It was attributed to good sales of cosmetics, etc.

The Preliminary Report on the Current Survey of Commerce as of April 2017 reported on the recent trends on commercial sales, the overall sales including wholesale and retail was 36,965 billion yen, an increase of 1.5% year-on-year. Retail sales were 11,811 billion yen, an increase of 3.2%.

The sales by industry were as follows: fuel retailers increased by 11.9%; fabric, apparel and daily goods stores increased by 6.0%; motor vehicle retailers increased by 6.0%; drug and toiletries stores increased by 5.3%; machinery and equipment retailers increased by 4.1%; food and beverage retailers increased by 1.5%; other retailers increased by 1.2%; non-store retailers decreased by 1.6%; general merchandise retailers decreased by 0.2%.



Reference: Ministry of Economy, Trade and Industry

2) Sales trends by sector

a. Department stores

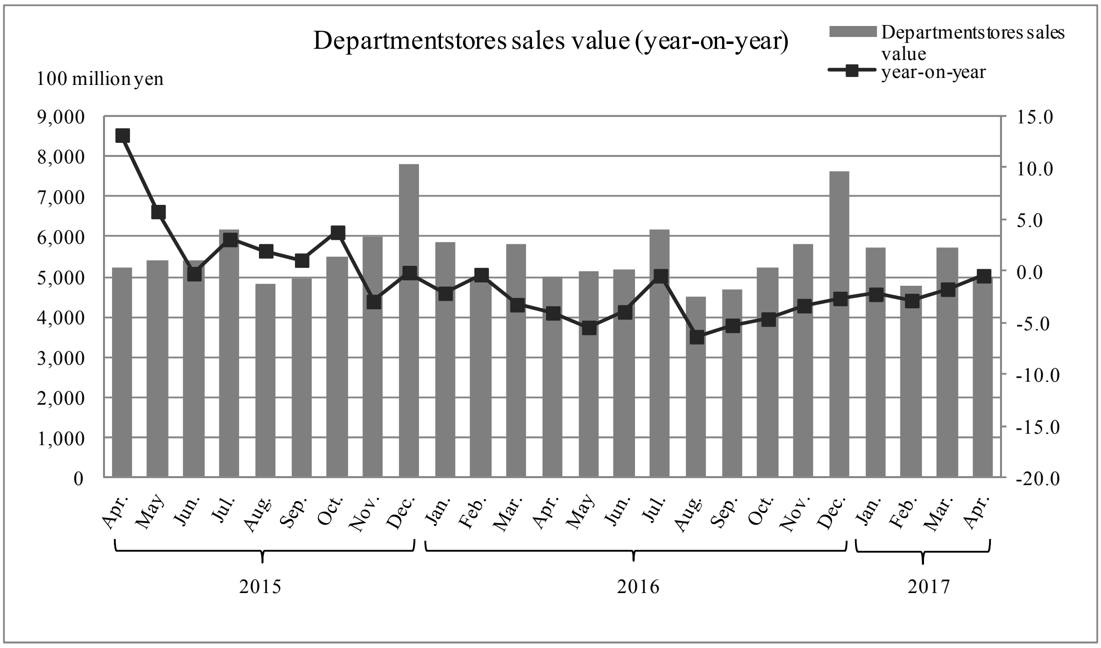
In 2016, turnover decreased by 3.3% year-on-year for two consecutive years due to a decline in the sales of clothing, mainly women's clothes, under the influence of unseasonable weather conditions, although there was strong demand for cosmetics. Turnover of existing department stores declined by 2.9% year-on-year, decreasing for the first time in five years.

The “Preliminary Report on the Current Survey of Commerce” issued in April 2017 said department stores sales were 499.5 billion yen and decreased by 0.4% year-on-year.

Clothing sales, which are one of the major items in department stores, decreased by 1.7% year-on-year, and the details of that were as follows: women's and children's clothes decreased by 2.3%; men's clothes decreased by 1.6%; accessories decreased by 0.4%; and other clothing decreased by 3.2%.

Sales of food and beverage decreased by 0.9%.

Sales of other categories increased by 2.4%; and the details of that were as follows: household equipment decreased by 7.1%; household electric appliances decreased by 5.4%; furniture decreased by 2.8%; restaurants and café decreased by 2.0%; while the remaining categories increased by 4.9%.



Reference: Ministry of Economy, Trade and Industry

b. Supermarket

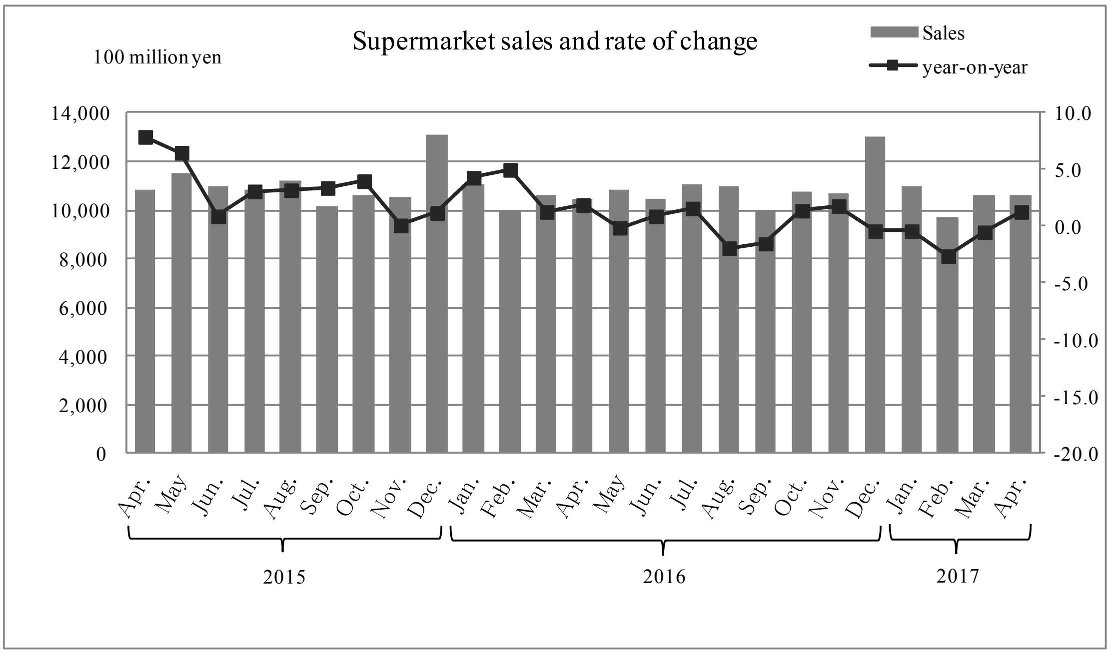
In 2016, turnover rose by 1.1% year-on-year and has increased for six consecutive years. It was attributed to not only newly opened supermarkets and good sales of food and beverages mainly ready-prepared food dishes and livestock products, but also a rise in the price of vegetables, despite a decline in the sales of seasonal goods under the influence of unseasonal weather conditions. Turnover of existing supermarkets increased by 0.1% year-on-year and has increased for the past three consecutive years.

Preliminary Report on the Current Survey of Commerce issued in April 2017 said supermarket sales were 1,058.8 billion yen and increased by 1.3% year-on-year.

Sales of clothes decreased by 2.8% year-on-year, and the details of that were as follows: men's clothing decreased by 12.1%; miscellaneous clothing decreased by 8.0%; women's and children's clothing increased by 0.9%; accessories increased by 0.2%.

Sales of food and beverages, which are one of the major products in supermarkets, increased by 1.9%.

Sales of other retailers increased by 1.3%, and the details of that were as follows: restaurants and café increased by 1.7%; household electric appliances decreased by 10.8%; furniture decreased by 9.4%; household equipment decreased by 1.3%; and other goods increased by 2.9%.



Reference: Ministry of Economy, Trade and Industry

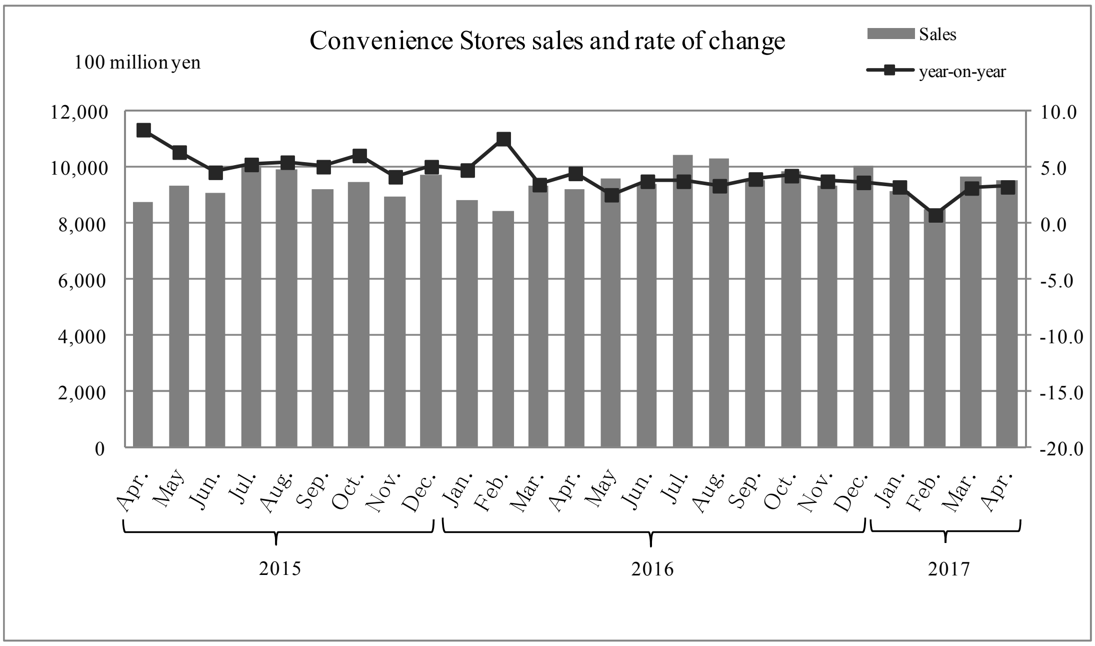
c. Convenience Store

The total of sales of products and services for convenience stores in 2016 increased by 4.1% year-on-year and increased for the past 18 consecutive years. The main reasons of this increase were good sales in fast food and daily made food.

Sales of fast food and daily made food rose by 4.9%, increasing for seven consecutive years, due to robust sales of fast food, assorted bread products and ready-prepared noodle dishes etc. Sales of processed food also rose by 4.9%, increasing for seven consecutive years, due to good sales in frozen food, ice cream and soft drinks. Sales of non-food items rose by 2.5% for 18 consecutive years due to daily goods selling well, while those of magazines and books slowed. Sales of services rose by 3.4%, increasing for ten consecutive years, due to increased range of tickets stores can sell, and robust sales of prepaid cards.

Preliminary Report on the Current Survey of Commerce issued in April 2017 said the sales of products and services for convenience stores reached 951.4 billion yen, an increase of 3.3% year-on-year.

Sales of fast food and daily made food reached 359 billion yen, an increase of 4.0%; processed food reached 256.3 billion yen, an increase of 4.2%; non-food items reached 285.5 billion yen, an increase of 1.7%. Consequently, the sales of products reached 900.8 billion yen, an increase of 3.3%. The sales of services increased to 50.6 billion yen, an increase of 2.5%.



Reference: Ministry of Economy, Trade and Industry

(2) Trend in SC

According to research published on its website, the Japan Council of Shopping Centers (JCSC) states the total number of shopping centers (SC) was 3,235 as of the end of June 2017.

The number of new SC openings decreased after 2009. However, it recovered in 2013. Therefore, the number of that in 2013 (64), 2014 (55), 2015 (60) and 2016 (54) exceeded that in 2012, which was the worst year for new SC openings since 2001, four years consecutively. From this point, it is expected that a strong trend for SC development will continue.

According to the SC Annual Sales Statistical Survey Report published by JCSC, sales of SC for 2016 are as follows: Sales from existing SC for 2016 decreased by 1.1% year-on-year. Total SC sales were estimated at 31,325.9 billion yen, a 0.8% increase year-on-year.

Although this year began with higher levels in January and February year-on-year, the sales from March to September were down compared to the previous year since the apparel sector including women's clothing was unfavorable, except for July, which had two extra holidays. The last three months in 2016 retained the same level as the previous year due to a recovery in women's clothing, a favorable trend in cinema patronage and successful end of year sales. Quarterly, the first, second and third quarter went below the previous year's level.

As for the latest monthly SC sales totals, the "Report on the Monthly Sales Statistical Survey of Shopping Centers April 2017" shows that the total sales figure realized by existing SC for April 2017 increased 2.1% year-on-year and it exceeded the previous year's level for two months in a row.

By category, sales of non-anchor tenants increased 2.7% and sales of anchor tenants decreased 0.1% year-on-year. While many SCs still have tenants from the women's clothing sector which remained in a slump, the number of SCs which answered that they met their projections increased.

By region, the sales in the Kyushu-Okinawa area increased by 6.5% year-on-year in reaction to some SCs temporarily closing their business due to the Kumamoto-earthquake last year. Hokkaido increased by 2.5%, Kanto by 2.6%, Chubu by 0.7%, Kinki by 2.8%, showing 5 in 9 areas exceeded the previous year. In the meantime, Tohoku decreased by 0.4%, Hokuriku by 1.3%, Chugoku by 0.8% and Shikoku by 1.6%, which shows the four areas were under the previous year's level.

By size of city, both cities and local areas have been favorable. Sales in government ordinance designated cities increased by 2.0% year-on-year and local areas increased by 2.2%. With regard to the growth rate of non-anchor tenants and anchor tenants, non-anchor tenants increased by 2.1% and anchor tenants increased by 1.7% in government ordinance designated cities. Non-anchor tenants increased by 3.2% and anchor tenants decreased by 0.7% in local areas, this indicates that anchor tenants in all local areas were under the previous year's level excluding the Hokkaido and Kyushu-Okinawa areas.

(3) Current trend in opening SC

year	Sales of SC (Unit: 100 million Yen)	Number of SC openings	Ave. shop area[1)]	Number of notifications required by the Large-scale Retail Store Law	Representative SC
2001	266,275	43	17,266m^2	372	Yamato Oak City, Mycal Ibaragi
2002	261,158	66	15,772m^2	577	Park Place Oita, Aeon Mall Takaoka, Diamond City Terrace
2003	261,895	63	21,199m^2	836	Stellar Place Sapporo, Aeon Mall Ota, Aeon Mall Atsuta
2004	263,826	74	23,607m^2	738	Diamond City Soleil, Stellar Town, Aeon Mall Rinku-Sen-Nan
2005	267,298	71	22,036m^2	727	Harbor City Soga, Aeon Mall Miyazaki
2006	268,306	83	25,717m^2	720	Lazona Kawasaki, Olinas, Urban Dock LaLaport Toyosu
2007	271,633	97	23,705m^2	784	LaLaport Yokohama, Aeon Mall Hanyu
2008	272,585	88	27,791m^2	666	Mitsui Outlet Park Iruma, Aeon Lake Town
2009	268,961	57	16,283m^2	520	mozo wondercity, Ami Premium Outlets, LaLaport Shinmisato
2010	274,110	54	16,408m^2	578	Aeon Mall Yamato Koriyama, Aeon Mall Kyoto, Ario Hashimoto
2011	274,398	54	19,029m^2	586	JR Hakata City, Futako Tamagawa Rise, LUCUA, Q's mall Abeno
2012	281,876	35	14,802m^2	730	Shibuya Hikarie, Tokyo Solamachi, Tokyu Plaza Omotesando Harajuku
2013	289,209	64	18,763 m^2	727	KITTE, Grand Front Osaka, Aeon Mall Makuhari New City
2014	297,697	55	20,201 m^2	678	COREDO Muromachi 2 & 3, Kirarina Keio Kichijoji, Aeon Mall Kyoto Katsuragawa
2015	310,779	60	19,942 m^2	569	Futako Tamagawa RISE SC Terrace Market, LaLaport Fujimi, Aeon Mall Shijonawate
2016	313,259	54	17,156 m^2	570	Tokyu Plaza Ginza, NEWoMan, Nitori Mall Hirakata, KITTE Hakata, Tokyo Garden Terrace Kioicho, KITTE Nagoya, Kyobashi Edogrand, Ekimachi 1 chome Kamikumamoto
2017	—	24 [2)]	23,563 m^2 [2)]	146 [3)]	BRANCH Chigasaki 2, MITO OPA, Aeon Mall Shinkomatsu, Every Okinawa Tsudaka, hareno terrace, Ekicity Hiroshima, LECT, Aeon Mall Tokushima, JR Central Towers / JR gate tower, GINZA SIX, SENRITO Yomiuri, Cross Garden Chofu, ACROSSPLAZA YOJIRO, iias Takao

1) Excluding SC whose shop area is not identified.

2) As of the end of Jun. 2017

3) As of the end of Mar. 2017

Reference: Japan Council of Shopping Centers, Ministry of Economy, Trade and Industry