

MARKET OVERVIEW

Positive economic indicators in the first quarter have provided an atmosphere conducive to boosting retailer's confidence. After years of stagnation, the rising consumer price index (gained 0.5% y-o-y, March) and retail sales figures (gained 1.0% y-o-y, March), both major benchmark indicators of consumer sentiment, are revealing welcoming signals to the positive momentum of growth. The rise in consumer spending is particularly evident amongst the retail sector where specialty and department stores both recorded profits for the 2005 fiscal year. On the back of rising household incomes and assets, department stores' sales of luxury items such as jewelry and superior apparel items marked the biggest improvement in sales.

The first quarter of 2006 continued to witness some of the most competitive market conditions since the late 1980's. In light of robust consumer demand, domestic and foreign retailers alike are devising expansion plans and fighting a fierce battle for prime retail property in Tokyo. The openings of Omotesando Hills (24,630 sq m, 7,450 tsubo) and Minami Aoyama Square, (2,900 sq m, 877 tsubo) this quarter provided approximately 27,530 sq m (8,327 tsubo) of prime retail accommodation but did little to cool the intense competition. As witnessed in the last quarter, scarcity of prime locations has encouraged some retailers, keen to establish market presence in Tokyo, to acquire or to lease an entire building in order to secure the retail floors. Examples of recent transactions with substantial leasing commitments included those undertaken by Bulgari, Giorgio Armani and Gucci.

Meanwhile, confident of a rebound in consumption, major department stores have unleashed a wave of substantial investment to fund the renovation and expansion of their flagship stores in Tokyo and Osaka.

Takashimaya has announced plans to invest JPY 34 billion to renovate and add an additional building with 22,000 sq m of floor space to its Osaka store; whilst Isetan will inject JPY 15 billion for the complete overhaul of its well performing Shinjuku store. Similarly, Seibu plans to invest JPY 8 billion on its Shibuya and Yurakucho stores, and at least JPY 10 billion on its Ikebukuro store.

In suburban Tokyo, where competition to acquire assets is comparatively less intense, shopping centers and malls are becoming increasingly popular investment targets for foreign investors.

City	Tokyo
Real GDP Growth (%)	5.4% (Q4 05*)
Inflation Rate (%)	0.5%** (Mar 06)
Unemployment Rate (%)	4.1% (Feb 06)
Bank Prime Lending Rate (%)	2.1% (Mar 06)
Visitor Arrivals	7,450,000 (annum, 2005)

* 2nd preliminary figure

** Excludes perishable

Robust demand for luxury items in Japan has attracted much of the international retailers' attention, with many eager to set up and to expand their presence in Tokyo. Whilst much of the retailers' attention still continued to focus on Ginza and Omotesando, Shinjuku, an area traditionally associated with department stores and social retail, is gaining popularity and experiencing continual upsurge in tenant demand for freestanding space. Thanks to the vibrant atmosphere

brought in by this quarter's two latest developments, Mori Building's Omotesando Hills and Veloqx Group's Minami Aoyama Square, the Omotesando district continues to be a target location for many foreign luxury brands. Brands such as Cartier and Chloe opened their first Omotesando boutiques in Minami Aoyama Square; whilst Bulgari and Giorgio Armani both unveiled plans for mega flagship stores in Ginza.



Minami Aoyama Square, Tokyo

In addition, international and domestic apparel retailers are expected to be particularly active throughout the course of 2006 as they attempt to realize their aggressive expansion goals. The bullish market sentiment can be reflected in a recent trade survey where, 69.3% of the 179 surveyed apparel firms foresee improvements in sales volume and 72.6% expect rising profits in 2006. Hugo Boss Japan is one retailer talking about rapid expansion with plans to add 11 new Boss Black stores and four women's wear stores this year. Similarly, Zara Japan is reported to be launching its nationwide store expansion plan this year, aiming to open approximately eight new stores, each of around 500 sq m, per year for the next three to five years.

New market entrants such as Banana Republic (GAP Group), American Apparel and Comptoir de Cottonniers (Fast retailing) are also amongst

those eager to tap into the Japanese retail market. Banana Republic, which opened its first store last quarter is planning to increase to around 20 stores in total within the next 12 months. Meanwhile, Comptoir de Cottonniers is also eyeing an aggressive market penetration. The newly acquired Fast Retailing brand hopes to open as many as one hundred stores in the next three years, and launched a total of five stores in Ginza, Shibuya, Ebisu and Yokohama areas within three weeks during the first quarter.

Market Indicators (indicate y-o-y change) :

- Rents ▲
- Inflation ▲
- Retail Sales ▲

LEASING TRANSACTIONS

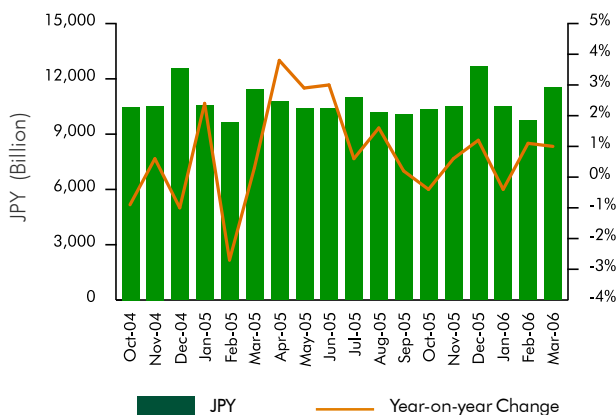
District	Property	Size (sm)	Tenant
Ginza	Sankyo Building	1,400	Bulgari
Ginza	Fujikoshi Building	1,400	Giorgio Armani
Ginza	Ginza Kintestu	1,400	Gucci
Omotesando	Espoir Omotesando	370	Reebok
Omotesando	Espoir Omotesando	3,500	Polo Ralph Lauren
Omotesando	Minami Aoyama Square	510	Cartier
Omotesando	Minami Aoyama Square	310	Chloe
Omotesando	Omotesando Hills	740	Dolce & Gabbana

The above transactions are reported according to the best of our knowledge but we do not guarantee their accuracy.

RETAIL SALES

Japan's overall retail sales increased by 1.1% in 2005 after several years of stagnation. The figures released by the Ministry of Economy, Trade and Industry suggested that Japan's steady economic recovery is finally having a positive impact on consumer spending, following improvements in the employment market and strong corporate earnings. Overall, retail sales in March rose by 1% y-o-y, driven mostly by sales for fuel such as gasoline and kerosene (10.4%), motor vehicles (3.4%), machinery / equipment (1.1%), and other retail (1.8%). Year-on-year declines are seen in fabrics, apparel and accessories (1.6%), food and beverages (2.8%), general merchandise (0.7%). The above figures represented substantial retail sales increases in recent times; however, declines in most consumable goods may indicate that overall consumption has not spread wide enough yet to catch up with the economic recovery and, consumers are still relatively cautious towards their spending.

Monthly Total Retail Sales in Japan



RETAIL DEVELOPMENT HIGHLIGHTS

Omotesando Hills

Located on Omotesando Dori, Omotesando Hills is the culmination of over 10 years planning by the Mori Building Group. The shopping centre, opened in late February, is one of the biggest developed in



Omotesando Hills, Tokyo

central Tokyo for decades. This landmark development offers a total floor area of 24,630 sq m over six levels, and provides accommodation for 93 retailers as well as 38 luxury residential units. The property, which boasts over 250 meters of frontage to the Omotesando Dori, has attracted brands such as Dolce & Gabbana, Gieves and Hawkes and Harry Winston.

Bulgari's flagship store - Ginza

Bulgari Japan has revealed plan for the opening of a new flagship store in Ginza. The ten-storey Bulgari building, to be completed by December 2007 will provide a total floor area of 5,761 sq m (1,742.6 tsubo). The first three stories of the building, with sales floor said to be amongst the largest in Japan will sell jewelry, watches and leather

goods. The fourth to seventh floors will house Bulgari Japan's headquarters; whilst the ninth and tenth floors will be occupied by an Italian restaurant operated by Bulgari Hotels & Resorts and a bar.

Selected Retail Investment Transactions

The 2005 mandatory new asset impairment accounting rule has witnessed many publicly traded companies writing off losses incurred by holdings of real estate assets with depreciated value. Continued from the last quarter, major GMS operators such as Maruetsu Inc., Daiei Inc., AEON Co., and Ito-Yokado Co., are increasingly adopting a strategy of leasing rather than owning properties.

The 'sell-and-lease-back' framework in turn, also provided flows of retail investments in the market and is opening up channels of opportunities for real estate funds and other investors. Foreign real estate fund investors are active in the acquisition of large-scale retail properties. Together with its latest acquisition of Vivit Square Mall last quarter, the Singapore-based CapitaLand's CapitaRetail Japan Fund acquired a total of four urban shopping malls in 2005. Foreign interests in retail properties can be highlighted by the following recent investment transactions:

District	Property	Type	Gross Floor Area (sm)	Approx. Price (JPY Bn)	Acquirer	Local/ Foreign
Ginza, Tokyo	Ginza Shaddy Building	Retail store	1,916	9.50	Prime Retail Y.K	Foreign
Motomachi, Yokohama	Yokohama Yamashita-machi Building (Barneys New York Store)	Retail store	8,584	6.48	LaSalle Asia Opp. Fund	Foreign
Funabashi, Chiba	Tokyo Bay Lala Port East	Shopping centre	22,066	13.95	Tokyo Bay Properties Y.K	Local
Hamamatsu, Shizuoka	AEON Hamamatsu Shitoro S,C	Shopping centre	183,842	17.00	Hamamatsu Property	Foreign

LOOKING AHEAD

The outlook for the retail sector remains positive with developers and landlords anticipating a continued surge in demand for prime retail property. Overall basic conditions pertaining to retail sales growth also appear promising. Even though rapid growth in retail sales may not be evident in the short term, continual positive economic improvements should drive further increases in consumer spending, thereby enhancing retail sales.

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