

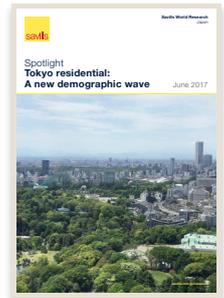
savills

Spotlight  
**Tokyo residential:  
A new demographic wave**

June 2017



# Spotlight Tokyo residential: A new demographic wave



“A stream of movement into Tokyo has resulted in constant urban population growth. Emerging trends in income, fertility, and social preferences are driving gradual shifts in the character of Tokyo’s residential neighbourhoods. These trends are creating new dynamics in housing supply and demand, resulting in a variety of opportunities for investors.”

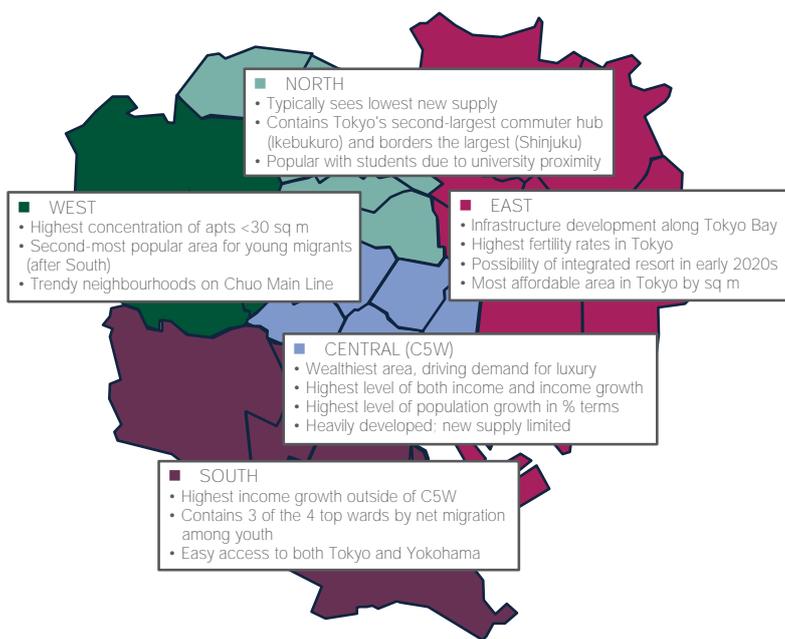
## Population trends: who are the migrants, and where are they going?

Japan’s demographic challenges are well documented. In Tokyo, the net natural population increase (births minus deaths) has held slightly positive throughout the 21st century. However, Tokyo and other large cities are enjoying a surge in migration from outlying regions. Tokyo’s 23-ward

area has increased a cumulative 13% since the turn of the century. The central five wards have generally outperformed the rest of the city. Three of them – Chuo, Chiyoda, and Minato – grew over 50%, though this is partially due to low initial bases. Perhaps more impressive is growth in Koto, where the number of residents increased 32% to 498,000, for a total gain of 121,000 people – the highest

MAP 1

## Major growth drivers and characteristics

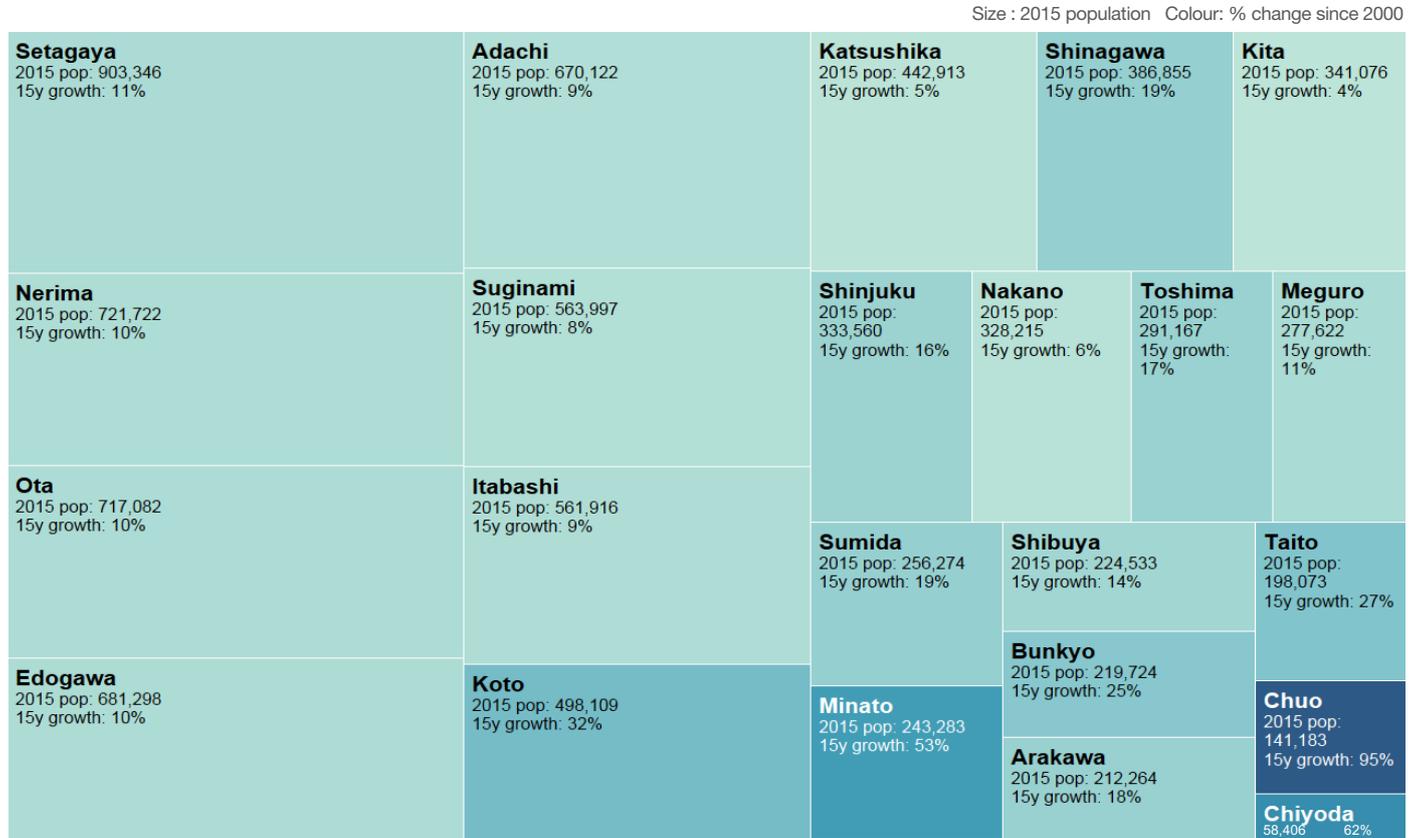


Source: Savills Research & Consultancy

## SUMMARY

- The population of Tokyo’s 23 wards (23W) has increased 13% since the turn of the century. Over half of this increase has come from young migrants in their 20s, who appear to be favouring Tokyo’s western and southern wards.
- The population of Tokyo’s central five wards (C5W) has grown 36% over the same period, and income has grown 16% in the past six years. This is driving demand for quality.
- Ongoing infrastructure development along Tokyo Bay is resulting in rapid growth in Tokyo’s eastern wards, which nevertheless still see rental discounts.
- Tokyo’s population figures and birth rate are continually beating expectations. Immigration could further support growth, depending on policy.
- Supply and demand analysis indicates that Tokyo’s leasing market is in equilibrium, and supports further gradual rental growth.
- Future large-scale supply is heavily focused on the bay area, with many tower condo projects planned in Chuo, Minato, Shinagawa, and Koto.

GRAPH 1  
Population growth in Tokyo by ward, 2000–2015



Source: Tokyo Metropolitan Government, Tableau, Savills Research & Consultancy

→ by-ward increase in the 23W area, and close to the current population of Chuo.

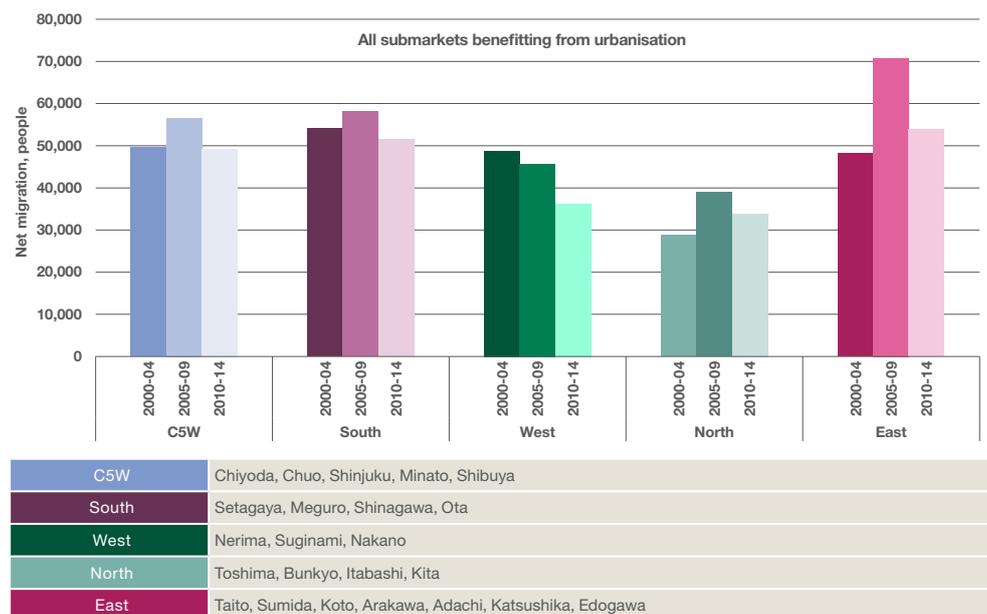
### Recent migrants are young...

On the whole, these new migrants are beginning their prime working years. Over 90% of recent migrants are under 30 years old, and almost all fall between the ages of 15 to 64, which the government classifies as working age. Meanwhile, there is a consistent net outflow of very young children and retirees from the 23W, meaning that urbanisation continuously rebalances Tokyo toward working age.

### ...and they favour the peripheral wards

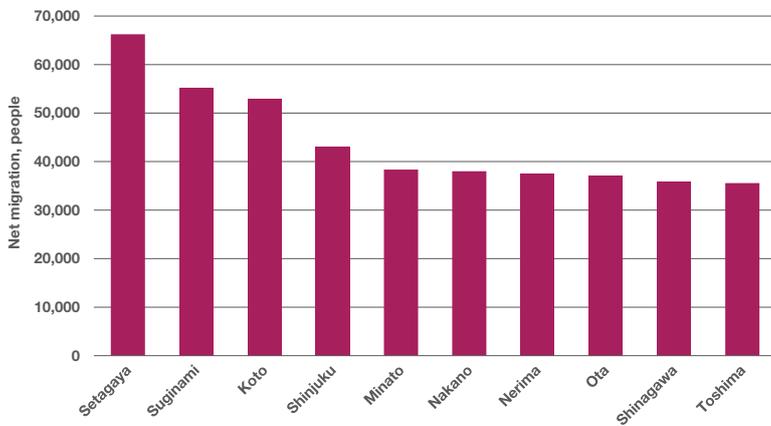
Setagaya, Ota, and Suginami are the largest receiver wards for the young, likely due to their combination of convenience and affordability. The

GRAPH 2  
Net migration by submarket, 2000–2014



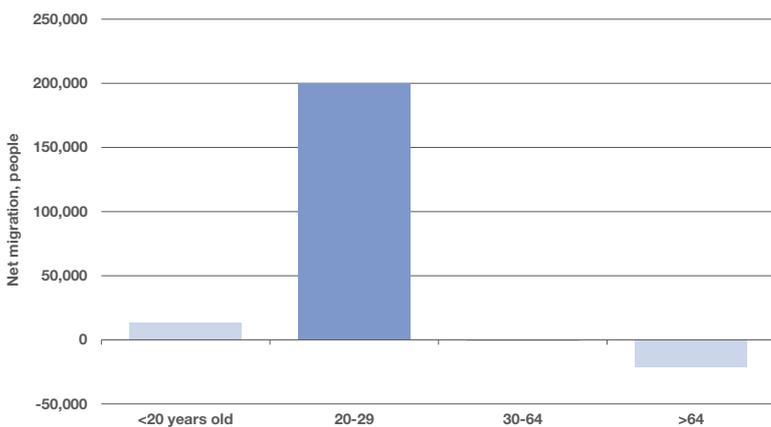
Source: Tokyo Metropolitan Government, Savills Research & Consultancy

**GRAPH 3**  
**Net migration, top ten wards, 2000–2014**



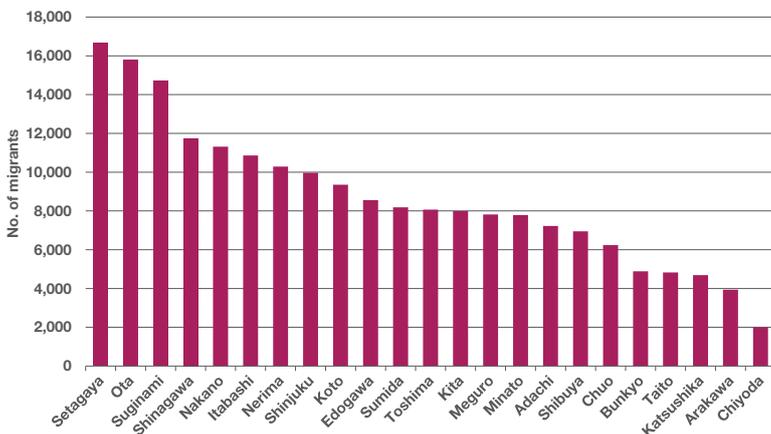
Source: Tokyo Metropolitan Government, Savills Research & Consultancy

**GRAPH 4**  
**Net migration by age, 2014–2016**



Source: Ministry of Internal Affairs, Savills Research & Consultancy

**GRAPH 5**  
**Net inflow by ward of 20-29 year olds, 2014–2016**



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

twenty-something cohort appears to be largely priced out of the C5W area – especially Chiyoda, which has only received 2,000 new young migrants since 2014 due to its high prices and low availability.

**Redevelopment-driven growth**

Looking ahead, it is possible that the geographical distribution of migrants may evolve with Tokyo’s changing economic landscape. For example, infrastructure and transportation development in Koto and Chuo along the man-made islands in Tokyo Bay has supported population growth in those areas. Tokyo’s eastern districts may receive an additional economic jolt if Odaiba is selected to host a new, large-scale integrated resort (IR) development. An Odaiba IR would likely draw its employee base from eastern Tokyo, increasing housing demand in the area.

Other development projects may also increase housing demand in select spots around Tokyo. For example, Mori Building has been hard at work revitalising the Toranomon area since the company broke ground on Toranomon Hills Mori Tower in 2011. Other plans for the area include an entirely new metro station on the Hibiya Line, the first new Tokyo metro station in 30 years. JR East also intends to open a new station in Shinagawa on the Yamanote Line, which will be the first new stop added to Tokyo’s central loop line in half a century. Infrastructure improvements continue around Shinjuku and Shibuya stations, and Shibuya has rapidly become a business hub for Tokyo’s IT sector. Such neighbourhood-specific trends should add to housing demand in their surrounding areas.

**Population forecasts have been revised upward**

Urbanisation should continue to drive population growth over the medium term. The Tokyo Metropolitan Government forecasts continuous population increases in the 23W area through 2030, based on 2015 census figures. This has been revised upward since their estimate based on the 2010 census. The government

→ cites stronger-than-expected migration, as well as an uptick in the birth rate, as primary drivers for the revision.

### Increased global workforce?

There is of course significant room for further deviation from this forecast. One remote but increasingly discussed source of upside potential is a rise in global talent. Japan has historically maintained strict limits on the amount of long-term residents it admits. Only about 3.6% of Tokyo's population is foreign-born, though this is up from 2.8% in 2005. This is nevertheless still below the double-digit percentages in many other major global cities. Though there is still strong political resistance to open borders, overseas talent has increasingly been floated as a potential solution to the country's long-term demographic issues, especially for skilled labour.

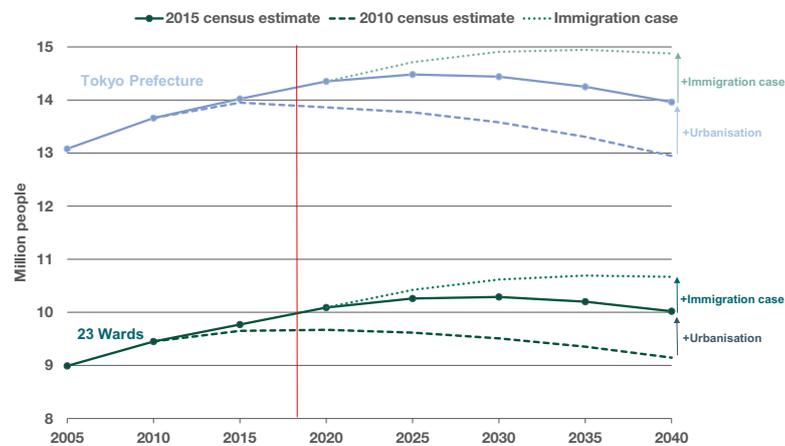
A greater international workforce in Tokyo could extend population growth by a decade or more. If the share of overseas residents in Tokyo gradually increases from 3% to 10% from 2020 to 2040, as modelled in Graph 2's "Immigration case", the urban population could continue to grow well into the late 2030s and have a strong positive impact on housing demand.

### Household sizes shrinking...

Other socioeconomic factors are changing the shape of Tokyo's housing market. As in other developed countries, young Tokyoites are marrying later, and more are choosing to forego marriage altogether. The average household size in Tokyo's 23 wards has consequently fallen from 2.13 in 2000 to 1.93 as of the end of 2016, and forecasted to reach 1.82 by 2030. Single-person households in Tokyo Prefecture have risen from 41% of total households in 2000 to 47% in 2015, according to government analysis.

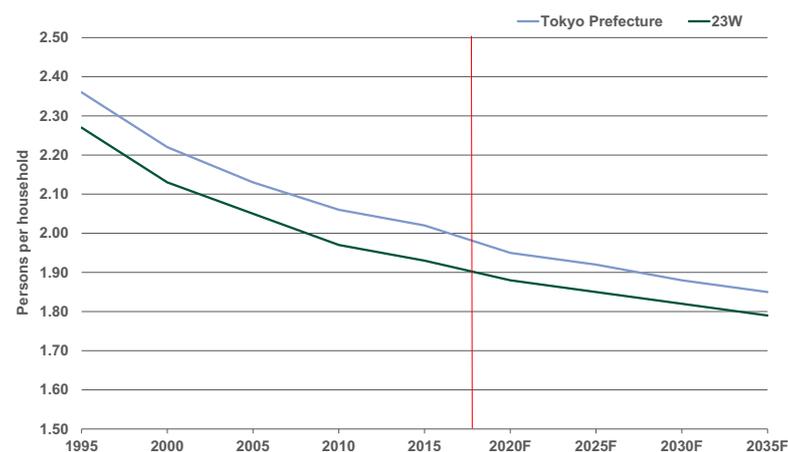
Smaller households are likely to drive continuing increased demand for smaller units, and studios and one-bedroom layouts will likely continue

GRAPH 6 Tokyo population forecast, 2005–2040F



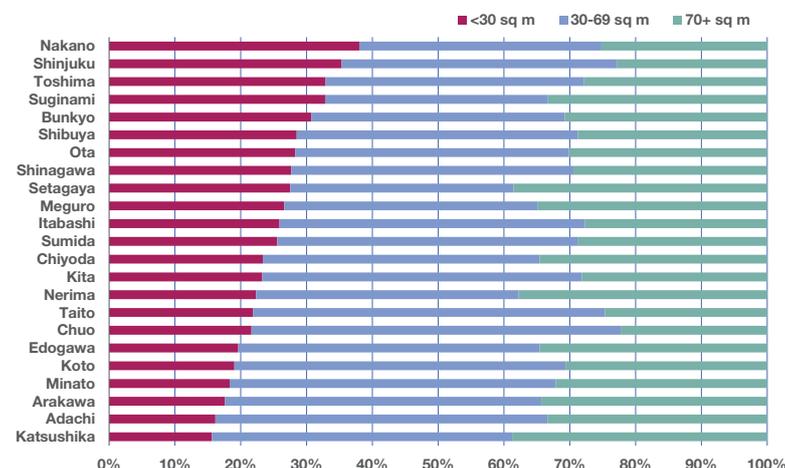
Source: Tokyo Metropolitan Government, Savills Research & Consultancy  
Immigration case derived from Savills forecast model.

GRAPH 7 Average household size, 1995–2035F



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

GRAPH 8 Share of housing stock by unit size, 2013



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

→ to dominate. The average size of a for-lease, mid-market unit in the 23 wards was 30.1 sq m in Q4/2016, down marginally from 31.9 sq m at the end of 2012.

Units of 30 sq m or less already make up a larger share of housing stock in Tokyo's northern and western wards than they do in other areas. Minato and Chiyoda meanwhile have much larger unit sizes despite being located in the city centre. This is likely due to their prevalence of luxury neighbourhoods.

This drop in household size, coupled with Tokyo's increasing population, has resulted in even greater household growth than population growth. The number of registered households in the 23W area has risen a full 29% since 2000 and may continue to rise for some time even as population growth levels off over the long term.

### ...and fertility rate increasing

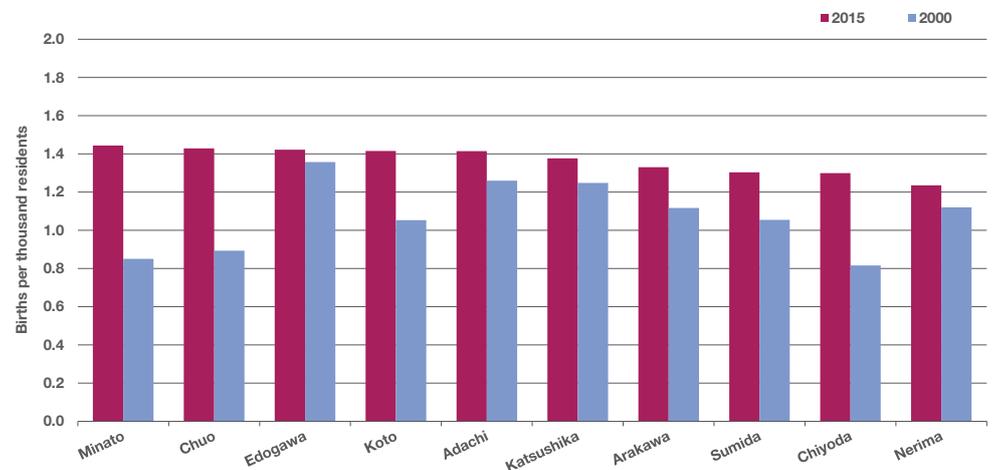
Despite this drop in household size, fertility rates have climbed since the year 2000. The 23W area's average fertility rate was exactly 1.00 births in 2000; this figure has climbed back to 1.22 in 2015. According to the World Bank, Japan's national fertility rate of 1.49 is higher than those of many other developed economies, including Korea (1.21), Hong Kong (1.23), Singapore (1.25), Italy (1.39), and Germany (1.39). The UN forecasts continued increases in Japan's national fertility rate to at least 1.80 through 2050. This increased fertility rate will help stabilise Tokyo's population over the long term.

In 2015, Minato and Chuo saw both the highest fertility rates in the 23W area and also the largest increases since 2000 [Graph 9]. The chart is otherwise dominated by Tokyo's eastern submarket. It is possible that increased fertility rates could lead to a modest increased in demand for family-oriented housing.

### Tokyoites are wealthier, driving demand for quality

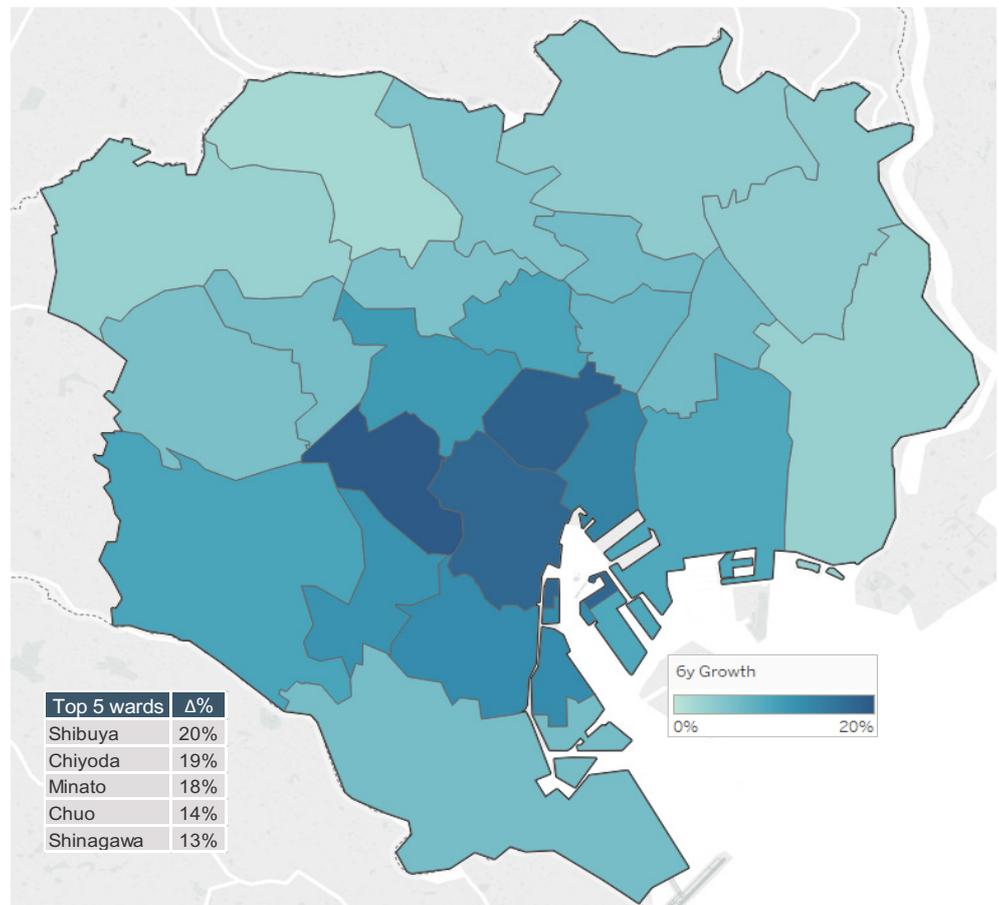
Income levels are also driving changes in housing demand. Real

GRAPH 9 Fertility rates by ward, top ten wards, 2000–2015



Source: Tokyo Bureau of Social Welfare and Public Health, Savills Research & Consultancy

MAP 2 Nominal wage growth by ward, FY2010–FY2016



Source: Ministry of Internal Affairs, Tableau, Savills Research & Consultancy

TABLE 1 Summary of changing demand factors

Factor	Demand impact	Likelihood	Impact magnitude
Continued net migration of youth	Higher demand for economical units in outlying wards	Very high	High
Decreased persons per household	Higher demand for smaller units	Very high	Low
Wage growth	Rental increases, higher demand for unit quality	High	Moderate
Increased global workforce	Higher aggregate demand for high-quality units	High	Moderate
Integrated Resorts in Odaiba	Higher demand in eastern wards	Moderate	Moderate

Source: Savills Research & Consultancy

→ wages have increased modestly and, overall income levels (including non-wage income) have increased overall. Based on analysis of taxable income per taxpayer, nine of Tokyo's 23 wards saw double-digit increases in average income between 2010 and 2016.

Wage growth has been noticeably stronger in Tokyo's C5W and their immediate neighbours. We would expect this rise to lead to increased demand for higher quality housing across the 23W area, especially in the central districts. Rental data also supports the trend. Growth in the C5W area has outpaced growth in the periphery, and luxury residential rents have recovered particularly well.

### Supply and demand in equilibrium; gradual growth should continue

In Tokyo's central 23 Wards, housing supply trends have largely followed demand since the turn of the century. The stock of physical domiciles tracks very closely with the number of registered households in the city.

To maintain this ratio, we would expect a long-term equilibrium level of new supply in the 23W area to roughly equal 1.14x demand plus demolitions.

Graph 11 demonstrates that new supply outpaced demand during the run up to the financial crisis. New supply fell below household

GRAPH 10 Ratio of housing stock to registered households, Tokyo 23W



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

GRAPH 11 Housing supply and demand balance in the 23W, 2001–2016

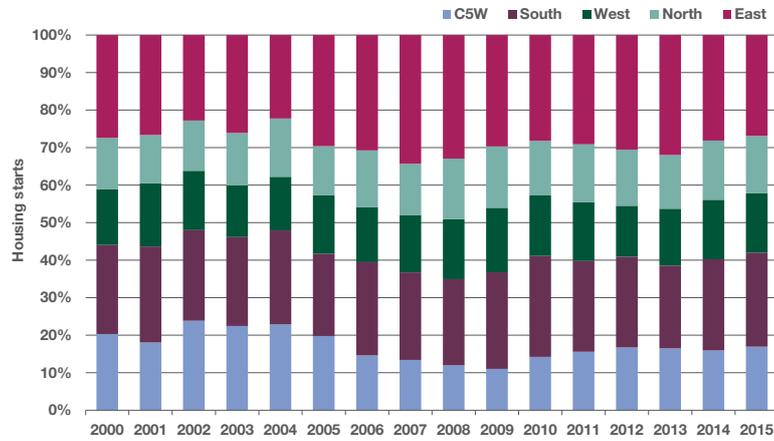


ΔSurplus = Supply – Demand  
 Supply = New housing starts  
 Demand = (1.14 x Household growth) + Estimated net demolitions  
 Source: Tokyo Metropolitan Government, Fujitsu Research Institute, Savills Research & Consultancy

growth after the crisis, reducing the estimated housing surplus to a more reasonable level. Supply began to outpace demand again after the 2011 earthquake, but quickly plateaued at just above 100,000 domiciles per year, giving demand a chance to catch up. Overall, the supply-demand balance appears to be in relative equilibrium.

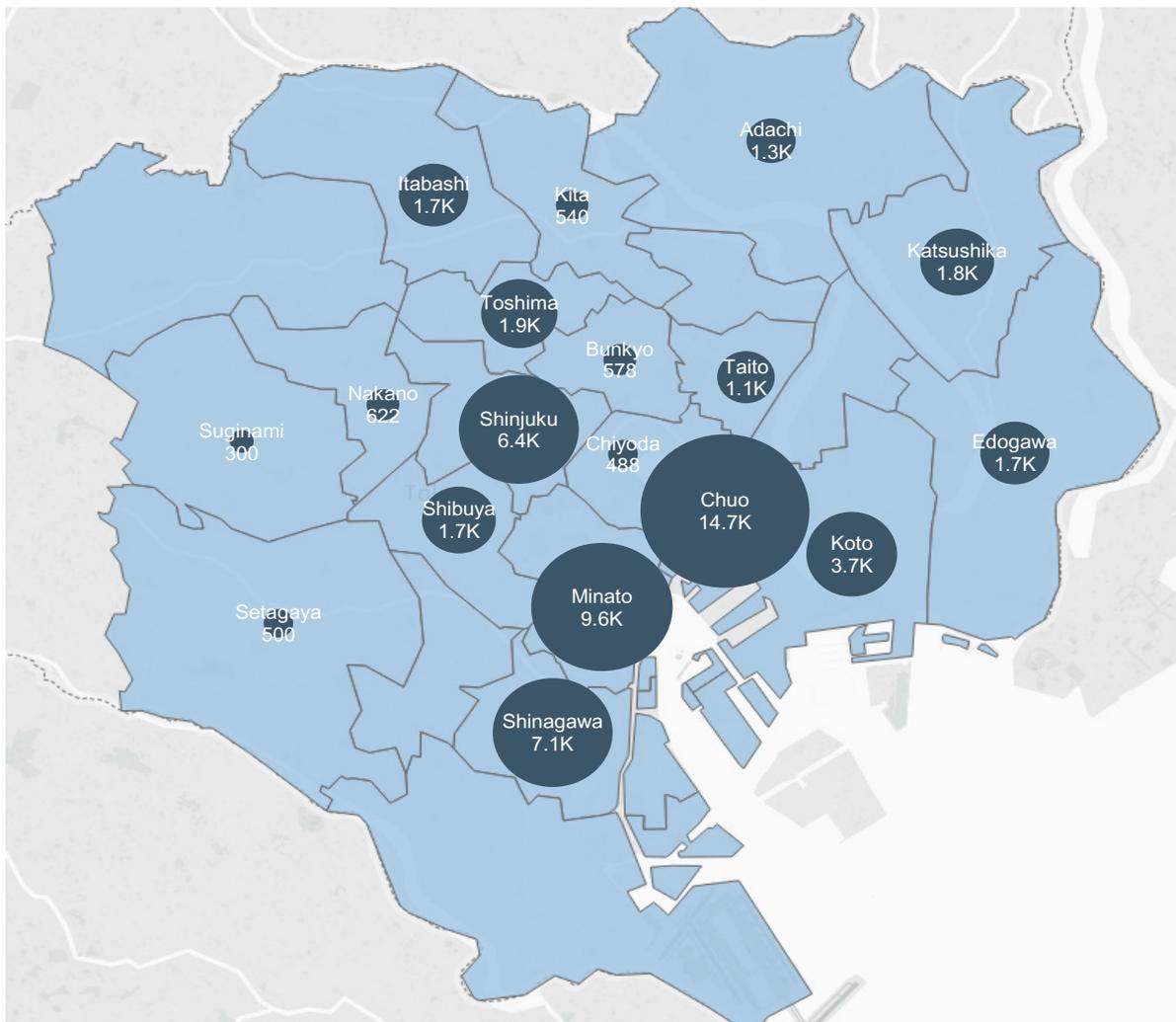
Finally, a study of new housing starts by submarket shows that the share of new supply going to each ward has not appreciably changed since the turn of the century. New supply in the C5W area tends to vary with the business cycle, but supply in almost all other areas has remained relatively stable.

GRAPH 12 Share of housing starts by submarket, 2000-2015



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

MAP 3 Planned tower condo units in the 23W, 2017 and beyond



Buildings of 20+ storeys  
Source: Real Estate Economic Institute, Tableau, Savills Research & Consultancy

TABLE 2  
**Planned skyscraper residential buildings, 2017 and beyond**

Name	Location	Storeys	Units	Completion*
Nishi-Shinjuku Project	Shinjuku	65 x 2	3,200	2026
Toranomon-Azabudai Project	Minato	65, 63, 53	1,300	2022
The Parkhouse Nishi-Shinjuku Tower 60	Shinjuku	60	976	2017
Kachidoki East District Development	Chuo	58, 45, 29	3,120	2027
Tsukishima 3 Project	Chuo	58	1,135	TBD
Harumi 5 Project	Chuo	56 x 2	2,650	2024
Toyomi 5 Project	Chuo	56 x 2	2,150	2025
Atagosan Area Project	Minato	56	600	2020
Kachidoki 2 Project	Chuo	53 x 2	2,160	TBD
Toyosu 1-1 Development	Koto	50	1,200	2021
Oshima 3-1 Project	Koto	50	750	2022

Buildings of 50+ storeys

\*Subject to change. Some projects may partially complete earlier.

Source: Real Estate Economic Institute, Savills Research & Consultancy

That being said, a number of new, high-profile housing developments are on the horizon. The Real Estate Economic Institute, a think tank, reports that there are currently 124 condo towers of 20 floors or greater planned in the 23W area for a total of 55,500 units. Much of this is coming online in the wards

surrounding Tokyo Bay. Chuo alone accounts for 14,700 units, while most of the remainder is spread between Minato, Shinagawa, Shinjuku, and Koto. The bay area typically sees a higher concentration of tower rooms due to the high cost of land acquisition.

Given that much of this supply is coming in the form of luxury condos, developers may need to rely on some overseas buyers to move units. ■

# OUTLOOK

## The prospects for the market

As Tokyo proceeds into the mid-21st century, certain demand trends have become more visible in its housing market.

A constant flow of young people into the city, especially its western and southern wards, has continuously rebalanced Tokyo's population toward working age. Eastern wards are characterised by more family-friendly environments, with more affordable rents per sq m and larger unit sizes. The C5W area continues to exhibit high rents and quality property. The C5W has moreover seen the bulk of Tokyo's income growth over the past half decade, which may drive even more demand for luxury property.

Condo prices have reached new cyclical highs, which appears to be pushing more people toward leasing, at least until the trend flips.

Shibuya looks to be undergoing especially rapid change. Large office and retail redevelopments are re-establishing it as a major business and shopping centre with large footfall, and the area is attracting very high demand from the fast-growing tech industry. Such a transformation is likely to galvanise Shibuya's already-popular housing market.

A cultural shift toward later marriages and more independence is causing a gradual increase in single-person households, and as such smaller unit sizes are growing relatively more popular across the city. Tokyo's population is expected to grow for at least the next 15 years, though higher fertility rates and new immigration could extend this even farther.

Tokyo's overall supply and demand has hovered close to equilibrium for several years and looks unlikely to change in the near future, encouraging steady occupancy

and gradual rental growth. Though some large projects may temporarily disrupt their immediate neighbourhoods, especially along Tokyo Bay, we expect this growth trend to continue into the future.

The growing diversity of Tokyo's neighbourhoods, as well as continuous infrastructure improvement through 2020 and beyond, should give residential investors a full suite of options into the future.

## Please contact us for further information

### Savills Japan



**Christian Mancini**  
CEO, Asia Pacific  
(excl. Greater China)  
+81 3 6777 5150  
cmancini@savills.co.jp

### Savills Research



**Tetsuya Kaneko**  
Director, Head of Research  
& Consultancy, Japan  
+81 3 6777 5192  
tkaneko@savills.co.jp



**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk

**Savills plc**

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.