

Briefing Residential leasing

Q1 2013

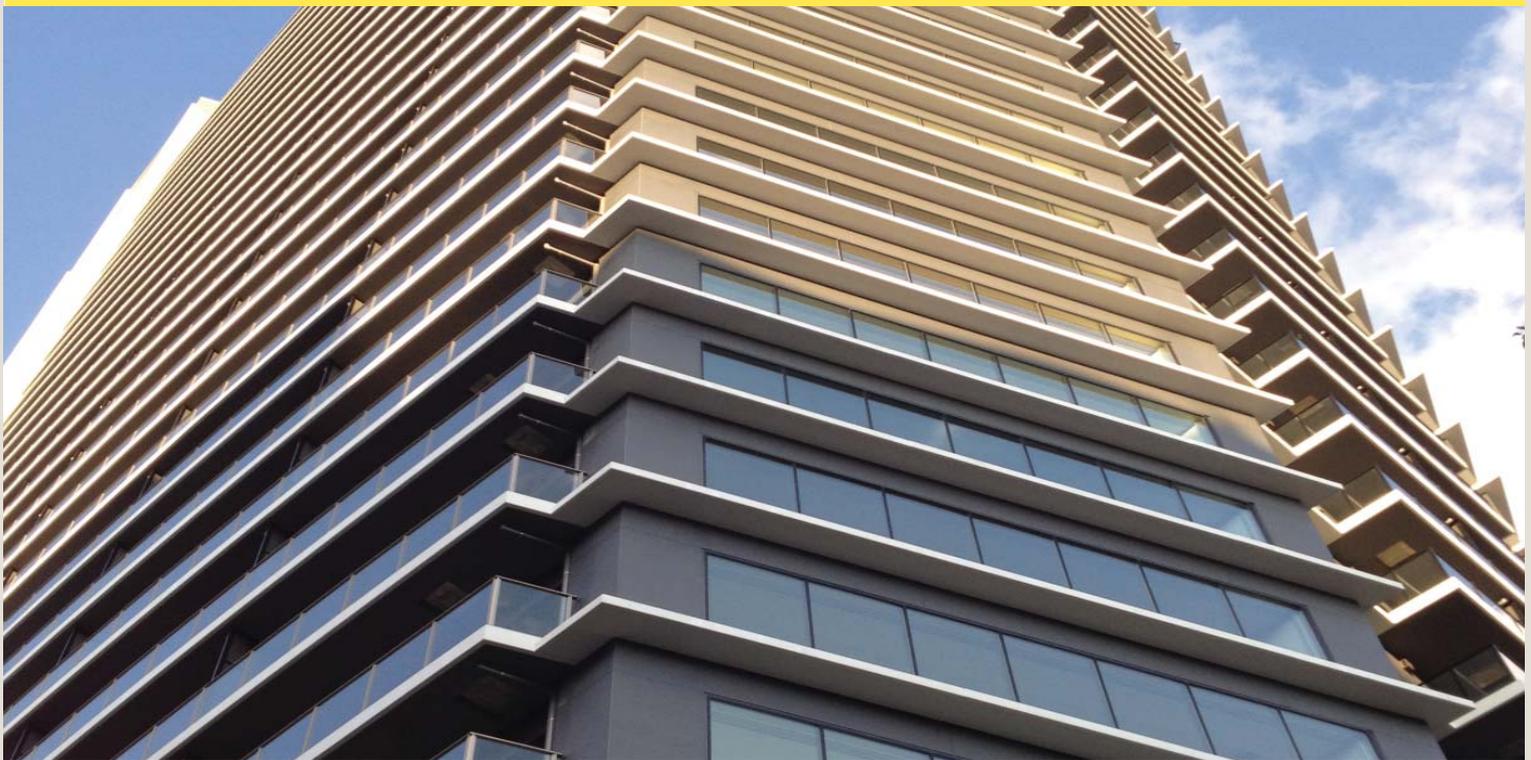


Image: Park Habio Shinjuku Eastside Tower, Shinjuku Ward

SUMMARY

Tokyo's large and growing population, as well as a trend towards smaller household sizes, is underpinning achievable rents for one- and two-bedroom apartments.

- Tokyo's prefectural population totalled just over 13.2 million as of 1 March 2013, up 0.3% year-on-year (YoY). Household formation grew at a faster rate of 4.1% YoY, spurred by a gradual reduction in household sizes in the capital.
- As of Q1/2013, the average asking rent in Tokyo's 23-ward area was JPY3,550 per sq m (JPY11,636 per tsubo), down 0.4% quarter-on-quarter (QoQ).
- Rents in the 'core-eight' residential wards stood approximately 10% higher

- than the 23-ward average at JPY3,908 per sq m (JPY12,920 per tsubo), up 0.7% QoQ.
- Tokyo's 'core-three' residential wards commanded an 18% premium over the 23-ward average. The average rent of Minato, Shibuya and Meguro wards edged up 0.1% QoQ to JPY4,176 per sq m (JPY13,804 per tsubo).
- Upwards rental pressure was most notable across units in the 45- to 60-sq m size-band, which saw asking rents rise on average 1.4% QoQ at the 23-ward level.

- The 23-ward average occupancy rate for J-REIT-owned residential assets rose 130 basis points (bps) QoQ to a new high of 97.0%.

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 "Robust demand for small-
 to mid-sized rental units
 kept mid-market rental levels
 stable in the first quarter."
 Will Johnson, Savills Research

➔ **Demographic trends**

Despite occupying just 0.6% of the total area of Japan, Tokyo Prefecture accounts for roughly 10.4% of the national population – a figure that continues to rise.

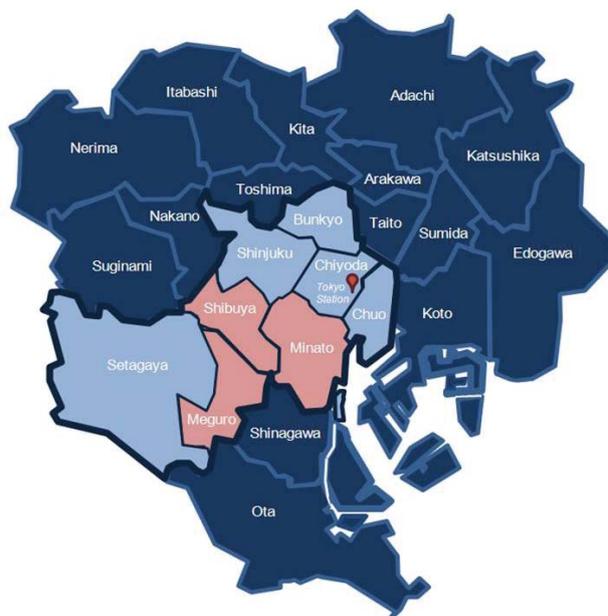
As of 1 March 2013, the population of Tokyo Prefecture stood at approximately 13.2 million, up 0.3% YoY. Government figures indicate that population growth is focusing on the capital's central districts: the population of the 23-ward area rose 0.4% YoY, while the number of residents in the core-eight¹ and core-three² residential wards (as defined by Savills) rose 0.9% and 1.1% YoY respectively.

In addition to the capital's gradually rising population, which is being supported by continued urbanisation and in-migration from regional towns and cities, a trend towards smaller household sizes is also buoying demand for residential units.

¹ Tokyo's core-eight wards are defined as Bunkyo, Chiyoda, Chuo, Meguro, Minato, Setagaya, Shibuya and Shinjuku.

² Tokyo's core-three wards are defined as Meguro, Minato and Shibuya.

MAP 1 **Tokyo's 23 wards delineated by survey area**



Source: Savills Research & Consultancy

The total number of households in Tokyo prefecture rose 4.1% YoY as of 1 March 2013 to just over 6.7 million. Household formation

was even more rapid in the central areas of the city, with the core-eight and core-three residential wards seeing growth of approximately 6.0% and 6.9% YoY respectively.

The average household size in Tokyo Prefecture is 2.0 persons. This figure falls to 1.9 persons within the 23-ward area and 1.7 persons in the core-eight and core-three residential wards. In all of these survey areas, the average number of persons per household has decreased gradually in recent years (see Table 1). Reasons behind this trend include a growing tendency for Japanese people to marry later, divorce or remain single.

Tokyo's stable demographics have helped support demand for mid-market rental apartment units, particularly those designed for single occupier and so-called DINK (Dual Income, No Kids) households.

TABLE 1 **Population and households in Tokyo as of 1 Mar 2013**

	Population	% YoY	% change over 1 Mar 2011
Tokyo Prefecture	13,234,572	0.3	0.5
23 wards	9,017,804	0.4	0.7
Core-eight wards	2,300,402	0.9	1.5
Core-three wards	693,744	1.1	1.9
	No. of households	% YoY	% change over 1 Mar 2011
Tokyo Prefecture	6,720,577	4.1	4.8
23 wards	4,812,364	4.8	5.6
Core-eight wards	1,315,185	6.0	7.1
Core-three wards	406,135	6.9	8.5
No. of persons per household			
	1 Mar 2013	1 Mar 2012	1 Mar 2011
Tokyo Prefecture	2.0	2.0	2.1
23 wards	1.9	2.0	2.0
Core-eight wards	1.7	1.8	1.8
Core-three wards	1.7	1.8	1.8

Source: Savills Research & Consultancy based on Tokyo Metropolitan Government data

→ **Tokyo mid-market apartment rental trends**

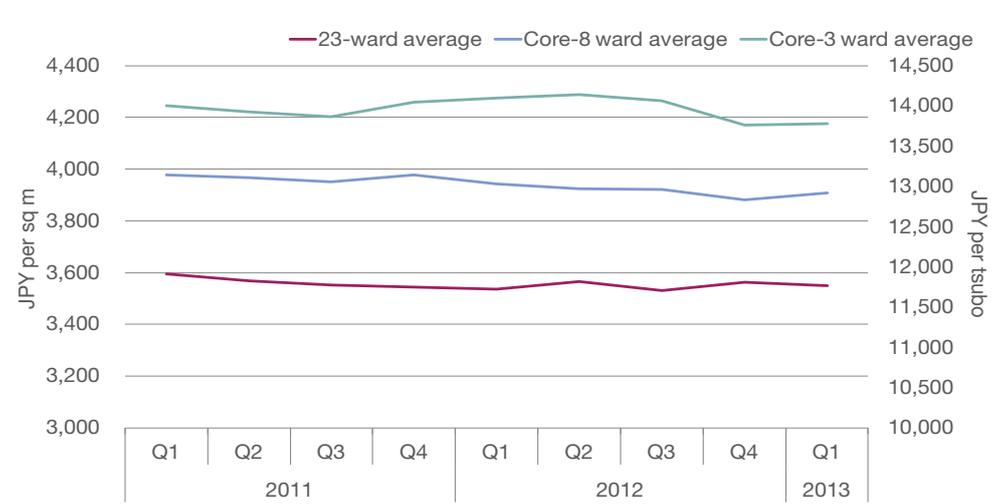
Average asking rents for mid-market apartments³ in Tokyo's 23-ward area stood at JPY3,550 per sq m (JPY11,636 per tsubo⁴) in Q1/2013. This figure represents a moderate decline of 0.4% from the preceding quarter but inched up 0.4% on a YoY basis.

Asking rents in the capital's core-eight residential wards stood at JPY3,908 per sq m (JPY12,920 per tsubo), approximately 10% higher than the 23-ward average. Quarterly movement in this central survey area reflected a 0.7% rise in asking rents, although the average rent level slipped 0.9% on a YoY comparison.

In Tokyo's core-three residential wards, asking rents for available mid-market units averaged JPY4,176 per sq m (JPY13,804 per tsubo). Minato, Shibuya and Meguro remained the three most expensive wards on average, commanding an 18% premium over the 23-ward average. Rental pricing in the core-three wards was stable from the last quarter of 2012, recording a marginal increase of 0.1% QoQ. However, average rents were down 2.3% on a YoY basis, with increased supply of lower-priced units pulling down the average rent in the survey area.

³ Rental data has been compiled by Savills utilising over 20,000 leasing comparables and is based on average advertised monthly asking rents for units that fit the following criteria: 1) one- or two-bedroom rental apartment units of up to 100 sq m in size; 2) reinforced concrete structures built within the last ten years; and 3) located within a ten-minute walk of the nearest station(s).
⁴ 1 tsubo = approximately 3.3 sq m or 35.6 sq ft.

GRAPH 1 **Average asking rents for mid-market rental apartments by survey area, Q1/2011–Q1/2013**



Source: Savills Research & Consultancy

Tokyo mid-market apartment rents by unit size-band

Tokyo's rental market is dominated by small- to mid-sized units, which account for the large majority of apartments listed for rent. House or apartment sharing – something which is common in other major developed cities such as London and New York – is not an established practice in Japan. As a result, there is a large, stable market for compact single-occupier units, which are typically less than 45 sq m (13.6 tsubo) in size.

As illustrated in Table 2, rental pricing per sq m for smaller units targeting single occupiers is more expensive on average than that asked by landlords for larger units. This not only reflects

the strong demand for compact units but also the higher gross rental costs involved in renting larger units, which decreases affordability for single-income households.

In Q1, average asking rents for units in the 15- to 30-sq m size-band were generally stable from the previous quarter. By contrast, rents for units in the 30- to 45-sq m size-band were squeezed, falling 1.3% at the 23-ward level, on the back of an increase in lower-priced units marketed for rent.

The average rental level for units with a leasable area of 45 to 60 sq m, meanwhile, rose 1.4% at the 23-ward level, while larger units of 60 to 75 sq m edged up 0.1% QoQ. This suggests

TABLE 2 **Average monthly asking rents broken down by size-band, Q1/2013**

Size band	15–30 sq m		30–45 sq m		45–60 sq m		60–75 sq m	
	JPY per sq m	% QoQ						
23 wards	3,629	-0.4	3,441	-1.3	3,321	1.4	3,361	0.1
Core-eight wards	3,982	0.0	3,816	-0.4	3,719	2.1	3,729	0.7
Core-three wards	4,283	0.0	4,140	-1.0	4,108	2.5	4,117	-0.3
No. of units surveyed	>10,000		>5,000		>2,000		>500	

Source: Savills Research & Consultancy

→ that landlords are responding to robust demand for more spacious one- and two-bedroom apartments by taking a firmer stance on rent expectations.

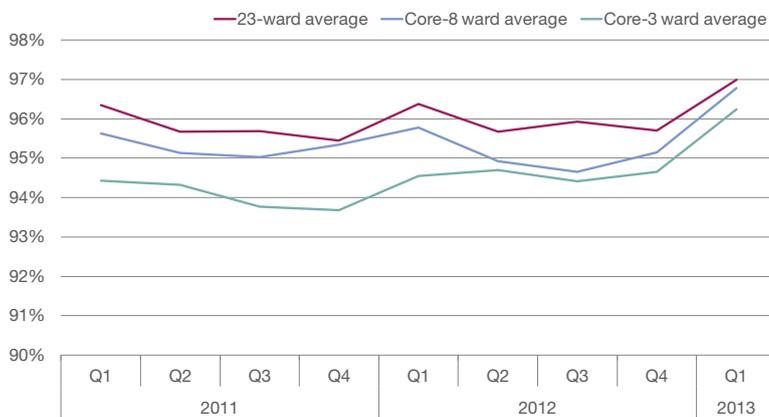
Mid-market apartment occupancy rates

J-REIT-owned residential assets provide a useful benchmark upon which to gauge mid-market apartment occupancy levels. In Q1/2013, the average occupancy rate for apartment buildings

operated by J-REITs in Tokyo's 23 wards stood at 97.0%. This figure marks a rise of 130 bps QoQ and is its highest level to date.

Tokyo's core-eight wards reached an average occupancy rate of 96.8%, while the core-three ward area rose to a high of 96.2%. Both survey areas saw their average occupancy rates increase 160 bps over the preceding quarter. The only ward with an occupancy rate falling just below the 95% threshold was Minato, at 94.7%.

GRAPH 2 Average occupancy rates for J-REIT residential assets, Q1/2011–Q1/2013



Source: Savills Research & Consultancy based on publicly disclosed J-REIT property data
 *Nippon Accommodations Fund, Advance Residence Investment Corporation and Heiwa Real Estate REIT.

OUTLOOK

The prospects for the market

Tokyo's large and growing population, as well as a trend towards smaller household sizes, is expected to underpin rental levels for mid-market apartments in the short- to mid-term. Improved consumer sentiment, resulting from the assertive fiscal and monetary measures introduced by the government and central bank to spur economic growth, may further act to stimulate demand for units priced at the upper end of the mid-market over the coming quarters. Nevertheless, until there are clear signs that economic easing is filtering down into the pockets of average households, a period of sustained, material rental growth in the mid-market residential sector is unlikely to be seen.

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