Savills World Research
Japan

Asian Cities Report
Tokyo Residential Sales

1H 2018

TABLE 1

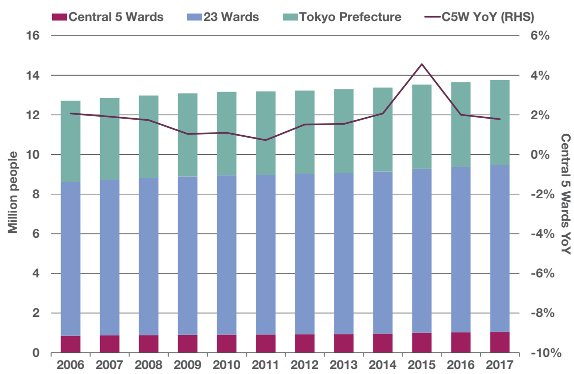
Average price and first-month contract rate, 2H/2017

	JPY per sq m	Contract rate
Tokyo 23W	1,085,000	70.7%
Tokyo Outer Cities	725,000	55.0%
Kanagawa	770,000	74.3%
Saitama	615,000	54.0%
Chiba	590,000	63.7%

Figures presented are the average of July through December 2017 readings
Source: REEI, Savills Research & Consultancy

GRAPH 1

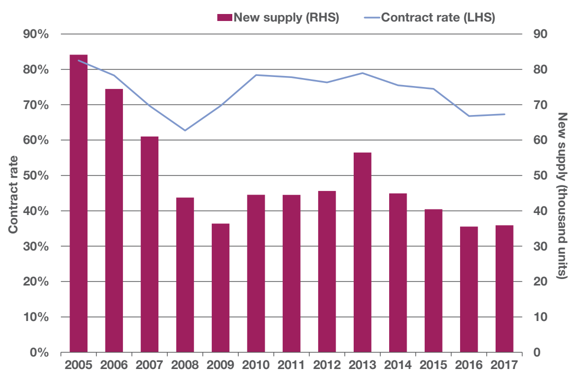
Population in Tokyo, 2000 – 2017



* Government adjusted 2015 figures to bring in line with national census
Source: Tokyo Metropolitan Government, Savills Research & Consultancy

GRAPH 2

New condo supply and contract rate, 23W, 2006 – 2017



Source: REEI, Savills Research & Consultancy

Introduction

The mild softness that materialised in late 2016 has not persisted and new condo prices returned to a positive trend and grew throughout 2017. Average first-month contract rates are healthy and still hovering near 70%. New supply has only slightly increased from that of 2016 and developers have sold off temporarily accumulated inventory. This elevated inventory level appears to be having a limited impact on prices. Low mortgage rates are likely still fuelling demand. New, high-profile projects in the Greater Tokyo area are selling well.

Sales are steady

The annual average first-month contract rate for new apartments in Greater Tokyo stood at 67.3% in 2017, almost unchanged from the 2016 average. The contract rate had previously held above 70% from 2010 to 2015 (Graph 2). 2016's dip below 70% led some observers to fear that the condo market was softening. Such fears have not materialised, however, and developers are still moving units. New supply has moderated and inventories have come down from late 2016 peaks.

Developers supplied a total of 35,898 units in 2017. This is close to 2016's total, which was itself a moderation compared to the roughly 45,000 units supplied during most years between 2010 and 2015. Developers appear to be managing supply well. Inventories rose toward the end of 2016 but have since stabilised.

According to the Real Estate Economic Institute (REEI), upcoming supply of tower condo developments in the Greater Tokyo area is expected to remain low in 2018. Supply is scheduled to pick up again in 2019 and 2020 and return to 2013-2015 levels.

Demand continues to be driven by the same factors as in early 2017. Some domestic buyers are seeking shelter from inheritance taxes and there is an influx of investors who are expecting values to appreciate from stable economic growth. The latter investors include overseas parties, mainly from other parts of Asia. Low borrowing costs are also making condo acquisitions palatable to retail investors.

There appears to be especially high demand for high-quality developments both in Tokyo and in neighbouring prefectures. Mitsui Fudosan announced in December that its first-round sale of units in The Tower Yokohama Kitanaka went extremely well, receiving 2,100 applications for 730 condos during the last week of November. All units were successfully sold at prices ranging from JPY45 to JPY800 million. Buyers were primarily in their 30s, 40s, and 50s, heading one- to three-person households. 72% of buyers were already domiciled in either Yokohama or Tokyo. At 1,176 units, the tower represents the biggest condo sale in Yokohama's history.

On the other side of Tokyo, Mitsui Fudosan, Nomura Real Estate Development, Mitsubishi Jisho Residence, and Itochu Property Development recently announced details of their joint megaproject, Makuhari Bay Towers, in Chiba. The large-scale development is expected to contain 4,500 units and be completed in stages over 10 years. The condo park will also contain coworking space, an elderly care facility, and retail stores. The first tower is expected to be completed in December 2018 with 500 units. Sales commenced in mid-December 2017.

In central Tokyo, Tokyu Fudosan is stepping up its luxury condo developments. It aims to reach a 30% share of the luxury condo market in the C5W plus Bunkyo over the coming years. It will accomplish this mainly through its Branz brand, with a focus on developing units to be sold for JPY100 million and up. Tokyu already has projects underway in Roppongi, Nagatacho, and 6-bancho.

Prices growing again

Prices per sq m in the 23W grew rapidly from 2012 to 2015 – up 30% over the period – and are now seeing increases again after a largely flat 2016. Higher inventories and marginally lower contract rates in 2016 resulted in a pause in price growth, but developers successfully moved units without material discount. Prices resumed growth in 2017.

The average price of a new unit in the 23W area was approximately JPY1.0 million per sq m in 2H/2017, up 8.2% from the prior-year period. Prices in

Tokyo's outer cities were up 4.3% over the same period, a more modest growth compared to the 23W area.

Condos in the 23W area are still selling for a healthy 20% premium over condos in the Greater Tokyo area on a per-sq-m basis. This premium has fluctuated somewhat since 2010, but has typically stayed within the 20-30% window. The premium could increase going forward if central Tokyo continues to see rising incomes and more developers successfully supply luxury property. In 2017, REEI reported 1,928 units priced for over JPY100 million in the Greater Tokyo area, up 52.4% from 2016. The highest price in 2017 was listed by Park Court Aoyama The Tower at JPY1.5 billion.

At the same time, borrowing costs could rise very gradually over the coming years. The BOJ has targeted a 10-year JGB yield of "around zero percent" since 2016; however, recent comments by BOJ officials have led some to believe that the bank may consider a slight increase in its target or a reduction in its easing over the relatively near term. These measures could make housing loans marginally more expensive, exerting some downward pressure on prices. A typical rate for a Flat 35 loan, one of Japan's most common mortgage contracts, stood at around 1.3%[1] as of December 2017. Though this is still historically low, it is 20-30bps higher than the 1.0%-1.1% rates borrowers were seeing for much of 2016 and 2017.

For now, however, condo prices appear set to rise modestly over the near term. Limited immediate supply, somewhat declining inventories, a favourable contract rate, and demand for luxury properties indicate that prices could see some increases in 2018.

The second-hand market has quietened

After a brief deviation, Tokyo's second-hand condo market has also returned to recent trends. Used condo unit prices grew rapidly from 2015 to 2017, just as prices for new units were flattening. Real Estate Information Network For East Japan reported that pre-owned sales volumes reached new historic highs in 2017 and even exceeded new condo sales volumes reported by REEI.

This short-term pattern has reversed as of late 2017, however, and new unit prices are once again growing while second-hand unit prices have flattened (Graph 4). The average price for a second-hand unit in the 23W stood at JPY761,000 per sq m, up just 0.9% over the prior year. This price represents a discount of 30% against new units, widening from 25% in 2016. It appears that buyers are still willing to pay premiums on brand-new units. This may be a reflection of polarisation among buyers in the condo market. With meagre wage growth, price increases may have put new condos out of reach for middle-income earners.

Outlook

The new condo market is once again trending upward after temporary softness in late 2016. Prices are increasing, inventories are declining, and upcoming supply appears manageable. First-month contract rates are lower than their super-hot 2010 to 2015 averages but are still holding favourable. High-end condos appear to be selling well in the Greater Tokyo area, and developers are expressing greater interest in the luxury market.

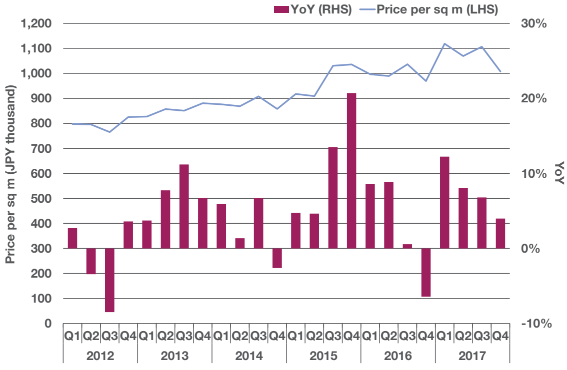
Considering current demand conditions and relatively subdued short-term supply, further price increases are likely. Risks include a rise in interest rates, which would lead to more expensive mortgages; however, interest rate increases, if any, are likely to be marginal.

If the first-month contract rate dips lower and inventories once again begin to accumulate, Tokyo could see a price correction. Also, because condo prices have reached the high end of historical market trends, middle-income earners may think twice about making the most expensive purchase of their lives. For now, however, conditions indicate further gradual increases ahead.

1 Exact Flat 35 rate varies depending on terms of loan.

GRAPH 3

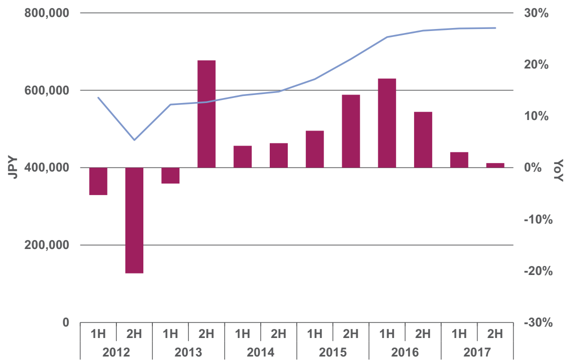
Average price per sq m for new units, 23W, 2012 – Q4/2017



Source: REEI, Savills Research & Consultancy

GRAPH 4

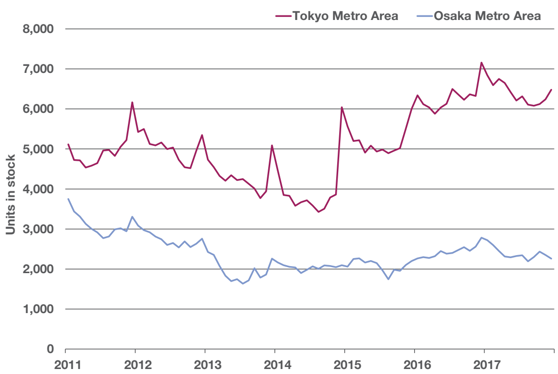
Average price per sq m for second-hand units, 23W, 2012 – 2017



Source: Tokyo Kantei, Savills Research & Consultancy

GRAPH 5

Units available in stock, 2011 – 2017



Source: REEI, Savills Research & Consultancy

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