

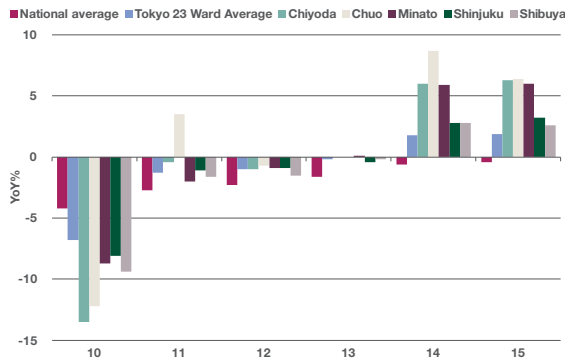


Asian Cities Report **Tokyo Residential**

2H 2015

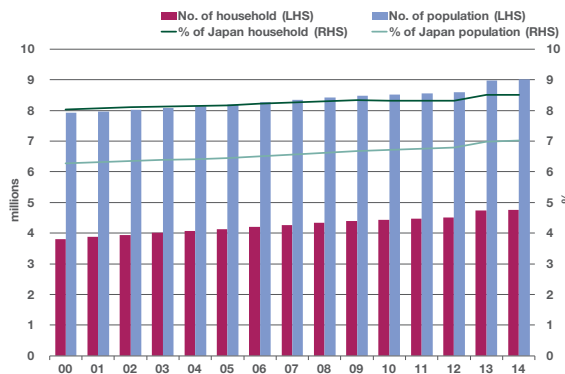


GRAPH 1
Land price change, 2010–2015



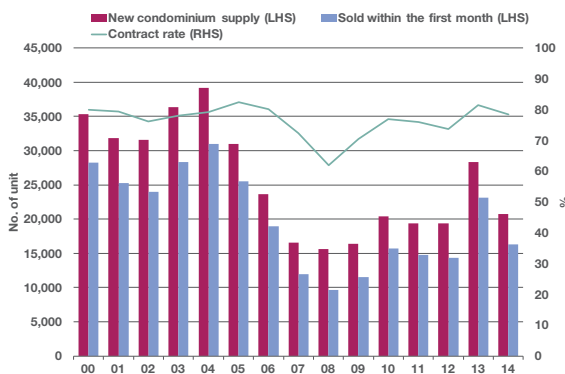
Source: Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Savills Research & Consultancy

GRAPH 2
Household and population, Tokyo’s 23 Wards, 2000–2014



Source: Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

GRAPH 3
New condominium supply and contract rate, Tokyo’s 23 Wards, 2000–2014



Source: Real Estate Economic Institute, Savills Research & Consultancy

Introduction

Since the launch of Abenomics, Japan’s real estate industry has experienced a recovery, due to the policy support the Abe administration has given the industry.

One of the notable influences is the change in residential land prices, particularly in Tokyo. Whilst the national average for residential land prices is still in negative territory, the average residential land prices for Tokyo’s 23 Wards rose both in 2014 and 2015. In particular, the five central Wards showed strong improvements in land value.

A further influence is the change in residential prices, which has been caused by the movements in foreign exchange and construction worker demand. As a result, residential prices in Tokyo are likely to be higher than in other cities in Japan.

Demographic trends in Tokyo’s 23 Wards

Despite Japan’s experience of demographic transition, the number of households and the population of Tokyo’s 23 Wards have been on a rising trend in both absolute and relative terms.

Between 2005 and 2014, the population in Tokyo’s 23 Wards increased by over 57,000 per year, on average, from 7.9 million to 9.0 million. In relative terms, the population share of Tokyo’s 23 Wards in Japan as a whole increased from 6.3% to 7.0% during the same period. This sharply contrasts with Osaka, the second largest city in Japan, where the population increased slightly from 2.5 million to 2.7 million, and its relative share of the Japanese population only increased by 0.2 of a percentage point (ppt) from 2.5% to 2.7% in the past decade.

Likewise, the number of households in Tokyo’s 23 Wards expanded from 3.8 million to 4.8 million between 2005 and 2014 – from 8.0% to 8.5% of the total number of households in Japan. In Osaka, the household number increased from 1.1 million to 1.4 million, a marginal increase from 2.4% to 2.5%.

In fact, a rising population is not the only characteristic of Tokyo’s 23 Wards. Another is its younger population structure. The share of the working age population (between 15 and 64 year olds) of Tokyo’s 23 Wards accounted for 67.7% in 2014, as opposed to 62.3% for Japan as a whole. Furthermore, the share of the elderly population (65 years old and over) of Tokyo’s 23 Wards was 21.0%

in 2014. This contrasts to a national average of 24.7% in the same year.

Moreover, the low home-ownership ratio of Tokyo is also noteworthy. In 2013, whilst Japan’s average home-ownership rate accounted for over 60% of total households, Tokyo’s percentage was 45%, about 15 pts lower. In other words, more than half of Tokyo’s 23 Ward households rent their accommodation.

It is likely that migration of population and an increase in the household numbers in Tokyo’s 23 Wards will continue. Hence, the demand for housing, in particular rental housing, in Tokyo can be assumed to be robust.

Condominium supply and contract rate

As for the supply and contract rate (the percentage of supply sold) of condominiums in Tokyo’s 23 Wards, whilst the supply levels have fallen since 2005, the contract rate has been stable at higher levels.

Between 2004 and 2005, the supply of new condominiums dropped by 21% from 39,000 to 31,000. It continued to decline to 15,600 in 2008, the year the Global Financial Crisis (GFC) hit the world economy. Since then, condominium supply improved to 28,300 in 2013, a year before the consumption tax hike, implemented on 1 April 2014.

Whilst the supply of new condominiums was significantly affected by the economic performance, the contract rates has been high level, as high as 80%, with the notable exception of 2008 when the contract rate dropped to 62%. Unarguably, the contract rate for 2013 was up due to the upcoming consumption tax hike.

An increase in price per sq m of condominium

Graph 4 plots the relationship between condominium price per sq m and floor area between 2011 and 2015, based on quarterly data for the Tokyo Metropolitan Area (Tokyo, Kanagawa, Saitama, and Chiba).

It is clear that there is a difference between the period Q1/2011 to Q1/2013 and Q2/2013 to Q1/2015. For example, up until Q1/2013, the price per sq m and size of condominium were cheaper and slightly smaller. However, from Q2/2013 onwards, the condominium size increased and price per sq m became more expensive.

The size and per sq m price of condominiums between Q1/2011

and Q1/2013 was 70.1 sq m and JPY650,000 on average. In contrast, between Q2/2013 and Q1/2015, though the average size of condominiums only marginally expanded by 1% to 70.9 sq m, the average per sq m price increased by 9% to JPY707,600.

In fact, Q2/2013 was a turning point for the Japanese economy. In mid-2013, the job-to-applicant ratio improved to as good as 1x, meaning that there were the same number of job vacancies as applications. The unemployment rate, which hit as high as 5.5% in July 2009, was approaching 4%. In addition, the yen depreciation reached a threshold, at around the JPY100 for US\$1 during the same period.

Thereafter, the job-to-applicant ratio steadily improved to 1.19x in June 2015 and the unemployment rate continued to decline to 3.3% in Q2/2015. In addition, the yen further depreciated to the JPY125 for 1US\$ levels.

What caused the price rise?

The reasons behind the rise in the per sq m price of condominiums could be as a result of changes in materials prices and labour conditions.

Graph 5 shows that since late 2012 and early 2013, the shortage of construction workers increased and construction material prices rose, when the yen began to depreciate due to the Quantitative and Qualitative Easing (QQE) by the Bank of Japan and the launch of the Growth Strategy of Abenomics. Average condominium construction costs increased as the yen depreciated, largely due to higher prices for imported products. Indeed, the correlation between the two is very high.

In Q2/2014, material prices began to tilt down, and construction worker shortages seemed to have moderated, in particular from the beginning of 2015. Nonetheless, average condominium construction costs kept hiking, though relative stability can be seen from late 2014.

The reason for the continuous rise in construction costs can be found in construction worker demand, which resulted in higher wages in the sector.

Graph 6 shows a sharp contrast of the job-to-applicant ratio between the national average and the construction sector. The job-to-applicant ratio for Japan has been just above equilibrium since mid-2014. However, since late

2013, the job-to-applicant ratio for construction workers has been as high as between 3x and 4x, in other words, there are 3 to 4 construction jobs to one application.

As demand has remained at high levels, the wage levels of construction workers have increased. According to the MIC data, the average annual salary (basic wage and bonuses) of construction workers jumped from JPY4.2 million in 2011 to JPY4.9 million in 2013, followed by JPY5.7 million in 2014. This translates to over 15% and 17% growth rates in 2013 and 2014.

Outlook

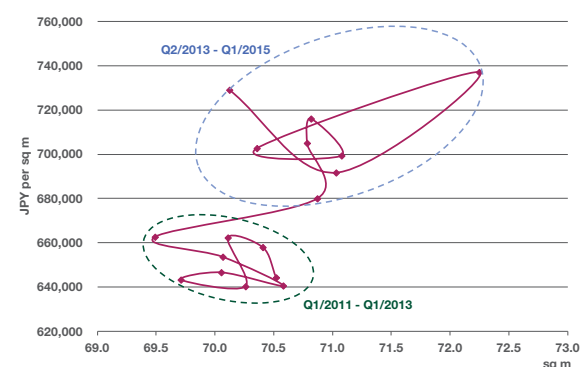
Despite a less severe construction worker shortage and stable construction material prices since mid-2014, condominium construction costs have been on the rise, resulting in higher condominium prices. Since the rise in condominium prices seems to have been an outcome of vigorous demand for construction workers leading to higher wage levels, residential prices will be determined by how labour demand changes going forward.

Due to the prolonged yen depreciation, construction material costs have been at a consistently high level. Further, since Abenomics has encouraged the construction boom, demand for construction workers will remain at high levels for the foreseeable future.

Additionally, there are a few upcoming "events" relating to the real estate industry. The first is the 2020 Olympics, which will increase the number of construction projects and demand for construction workers. Another is the consumption tax hike in April 2017, from 8% to 10%. As happened in the previous hike in April 2014, there will be more households willing and able to purchase housing prior to the increase in the tax rate. Moreover, since 1 January 2015, revisions have been made in inheritance tax. The rate for basic deduction for inheritance tax was reduced by 40%. Many properties were acquired to lower inheritance taxes because the taxable amount on properties is significantly lower than on cash and cash equivalents.

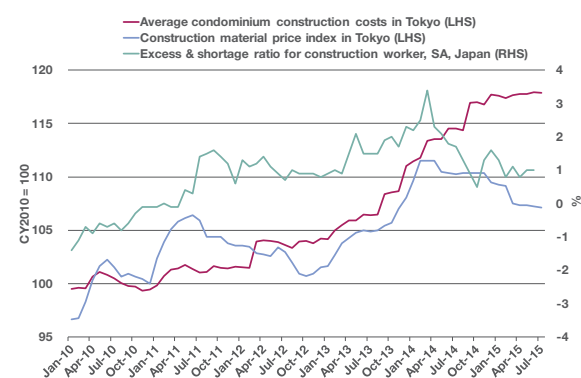
As far as Abenomics goes, the demand for construction workers will remain high if not increase; the softer yen will continue and construction material prices will remain at high levels. Greater urban concentration will also continue, causing further concentration in Tokyo's 23 Wards. Hence, the demand in the Tokyo residential market will remain high. ■

GRAPH 4
The relationship between price per sq m and floor area



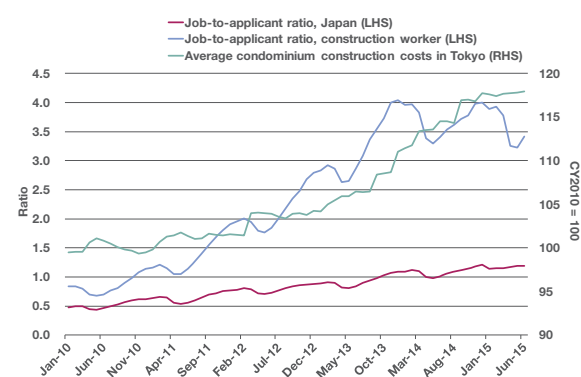
Source: Real Estate Economic Institute, Savills Research & Consultancy

GRAPH 5
Construction costs, materials prices and construction worker conditions, Jan 2010–Jul 2015



Source: MLIT, Economic Research Association, Construction Research Institute

GRAPH 6
Job-to-applicant ratio and construction costs, Jan 2010–Jun 2015



Source: Ministry of Health, Labour and Welfare, MIC, Economic Research Association, Savills Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2888 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Christian Mancini - CEO, North East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China



HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau

Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

Savills - Guangzhou

Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Indonesia

PT Savills Consultants Indonesia
Panin Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong Email: jeffrey.hong@propertyconnection.co.id

Savills - Japan

Savills Japan Co., Ltd
15/F Yurakucho ITOCiA
2-7-1 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: (81) 03 6777-5150 Fax: (81) 3-6777-5105
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
13/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia

Savills (Malaysia) Sdn Bhd
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara
50490 Kuala Lumpur, Malaysia
Tel: +603 2092 5955
Contact: Christopher Boyd Email: chris.boyd@savills.com.my

Savills - Myanmar

Savills Myanmar Limited
192 Bo Myat Htun Street (Middle Block)
Pazundaung Township, Yangon, Myanmar
Tel: +95 1 122 3341
Contact: Richard Emerson Email: remerson@savills.asia

Savills - Philippines

KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, 89 Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand

Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangkok, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: rcollins@savills.co.th

Savills - Vietnam

Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand

Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5910 / (64) 9 951 5911
Contact: Doug Osborne E-mail: dosborne@savills.co.nz
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York

Savills Studley
399 Park Avenue, 11th Floor, New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
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