savills

Briefing
Residential leasing

Q4 2014

Image: Park Axis Kiba, Koto Ward

SUMMARY

Positive demand and supply factors enabled the Central, South and Inner North areas of Tokyo to achieve modest rental growth in 2014, with scope for continued upwards movement across the capital.

- The population of Tokyo's 23 wards has risen approximately 12% since 2000, led by a 28% demographic expansion in the central five wards.
- This growth continued in 2014, with the 23-ward population up 0.8% YoY and the central five wards up 2.1%.
- Housing construction starts for 2014 are expected to tally slightly below the 10-year annual average, in part due to higher construction costs.
- Average mid-market asking rents in the 23-ward area slipped a marginal 0.5% year-on-year (YoY) to stand at JPY3,540 per sq m (JPY11,700 per tsubo) in Q4/2014.
- Meanwhile, the rental average in the central five wards rose 2.9% YoY to JPY4,120 per sq m (JPY13,625 per tsubo) – its highest level since Q4/2009.
- The central five-ward area saw rents rise across all size bands, ranging from 1.7% YoY for smaller units (15- to 30-sq m) to 4.9% for relatively larger units (60- to 75-sq m).
- The average occupancy rate for J-REIT-owned residential properties in the 23-ward area remained high at 95.9%.

"Tokyo's multi-family residential sector is a favoured asset class for institutional investors due to the stability of income it provides."

Will Johnson, Savills Research

Savills Tokyo residential survey: Breakdown by geography

In order to illustrate trends in the central Tokyo residential market, Savills has segmented Tokyo's 23 wards into seven distinct geographical areas: Central (or "central five wards"), South, West, North (Inner and Outer) and East (Inner and Outer).

Demographic breakdown and growth trends

As of 1 January 2015, Japan's capital has a population of approximately 13.4 million people at the prefectural level. This figure is up 0.6% YoY and reflects aggregate growth of around 11% over the past 15 years. Over 9.1 million reside in Tokyo's 23 special wards, the administrative districts that make up the centre of the city[1], or 68% of the prefectural population.

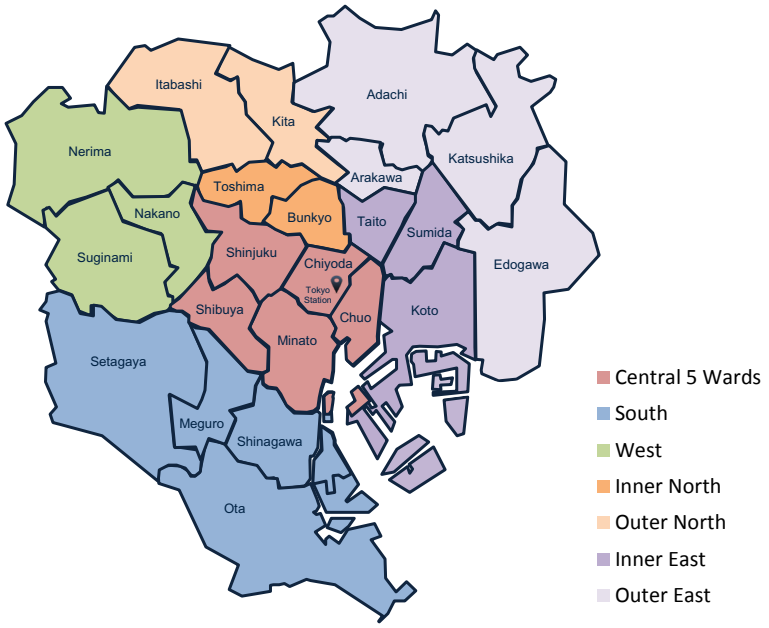
As a proportion of the 23-ward area, the central five wards that make up Tokyo's CBD are home to just over 10% of the total population. The South and West submarkets, respectively, account for approximately 25% and 18% of all residents. Meanwhile, combining the inner and outer areas, the North submarket comprises around 15% of the total, whereas the East accounts for the largest portion at approximately 32%.

According to TMG data, the Tokyo 23-ward area has seen its population expand by approximately 12% since 2000. The central areas of the city have demonstrated above-average growth: the central five wards expanded by just under 28%, while the Inner East and Inner North areas have grown by approximately 23% and 20%, respectively.

More recent data shows a similar trend, with the central five wards experiencing population growth of 2.1% YoY as of 1 January 2015, compared with a 0.8% YoY increase across the 23 wards as a whole. The Inner East and Inner North areas both expanded by 1.4% YoY. On both a long- and short-term comparison, the slowest rates of population growth have been recorded in the Outer North, West and Outer East areas of the city.

MAP 1

Tokyo's 23 wards delineated by survey area



Source: Savills Research & Consultancy

Residential supply

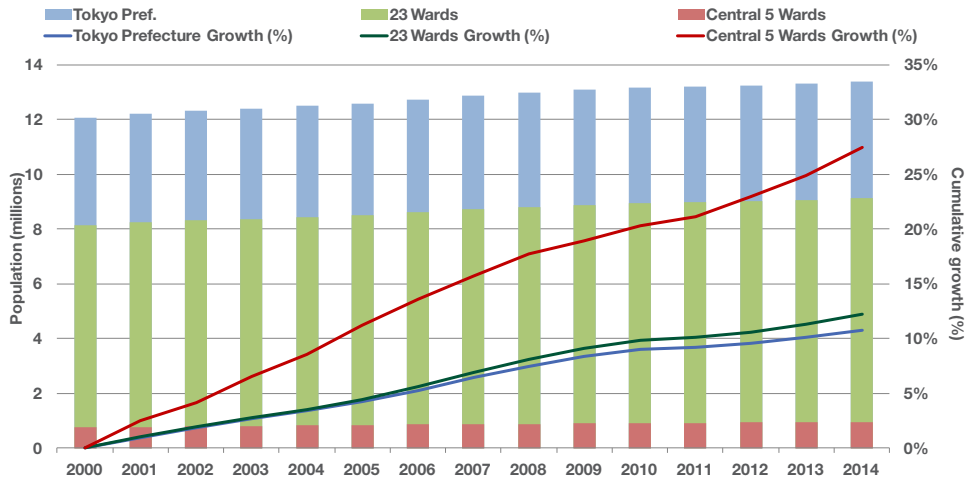
A survey conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), shows that the number of housing construction starts in Tokyo Prefecture through the year up to November was in line with the same period of 2013, at just over 131,000 units[2].

Construction starts for 2014 as a whole are expected to remain slightly below the 10-year annual average of 149,600 units recorded between 2004 and 2013. This in part reflects increased construction material and labour costs through the year, which affected the feasibility of some development projects.

When broken down by use, the ratio of units built for rental purposes was 43%, equal to the ratio of housing units built for sale. Just over 14% were owner-commissioned housing units.

GRAPH 1

Population growth in Tokyo Prefecture by area, 2000–2014



Source: Savills Research & Consultancy, based on TMG data

1 Analysis by Savills Research & Consultancy, based on Tokyo Metropolitan Government (TMG) data.
2 2014 housing construction start data relates to January to November only.

Savills rental index: Tokyo 'mid-market' apartments

Savills collates over 20,000 leasing comparables each quarter in order to analyse trends facing 'mid-market' rental apartment units in Tokyo. Our benchmark rental data is based on average advertised monthly 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) properties located in Tokyo's 23 wards and situated within a ten-minute walk of the nearest station(s).

In contrast to the luxury residential market, advertised or 'asking' rents for mid-market units fitting the above criteria are typically non-negotiable and are not subject to incentives such as rent-free periods. Savills mid-market rental indices are therefore considered to closely reflect movement in contract rents for the Tokyo market.

Indicative of the limited volatility this market sector enjoys, average rents for mid-market apartments in Tokyo's 23-ward area have been remarkably stable since 2011. This follows an aggregate rental decline of slightly less than 11% over the three years from 2008, when the market depressed in the wake of the global financial crisis (GFC).

More recently, data for the last quarter of 2014 indicates that mid-market apartment rents have entered a gentle recovery phase. While market movement across the 23 wards as a whole has been flat, the core of the city has outperformed, with rental uplift strongest in the Central, Inner North and South districts.

Tokyo mid-market apartment rental trends by survey area

Average mid-market asking rents in the 23-ward area exhibited a flat trend throughout the year to stand at JPY3,540 per sq m (JPY11,700 per tsubo[3]) in Q4/2014, slipping 0.4% from the previous quarter and 0.5% lower on a YoY comparison.

3 1 tsubo = approximately 3.306 sq m or 35.58 sq ft.

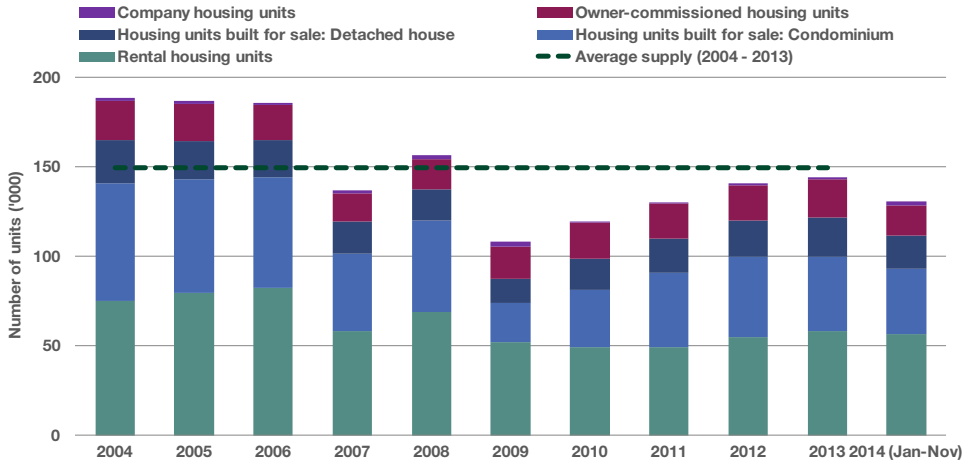
The rental average in the central five wards – the most expensive of our residential survey areas – continued to rise at a rate of 2.9% YoY to JPY4,120 per sq m (JPY13,625 per tsubo). This rental figure marks the highest level since Q4/2009 and represents a more than 16% premium over the 23-ward average.

Our breakdown of rental trends within the 23 wards shows that the Inner North area posted the second highest rate of growth YoY. The area commanded an average rent of JPY3,610 per sq m (JPY11,940 per tsubo), up 2.3% over the previous year. The Outer East – Tokyo's least-expensive area in terms of mid-market apartment rents – picked up in the fourth quarter to place third in terms of growth, with average rents up 2.2% YoY to JPY2,780 per sq m (JPY9,185 per tsubo).

The weakest performing survey area YoY was the West, where average rents dipped 1.9% to JPY3,290 per sq m (JPY10,875 per tsubo). This movement is in part attributable to an increased number of comparatively larger units listed for rent, which

GRAPH 2

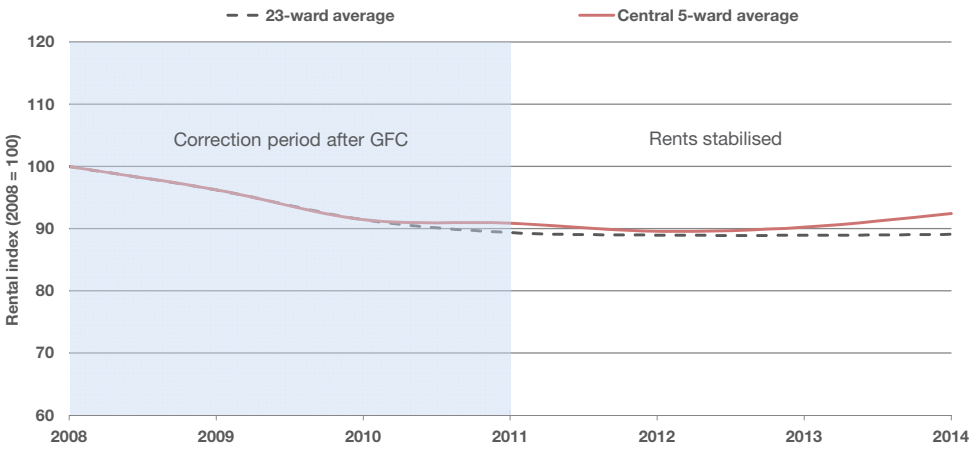
Housing construction starts in Tokyo Prefecture by use, 2004 – 2014 (Jan-Nov)



Source: Savills Research & Consultancy based on MLIT data

GRAPH 3

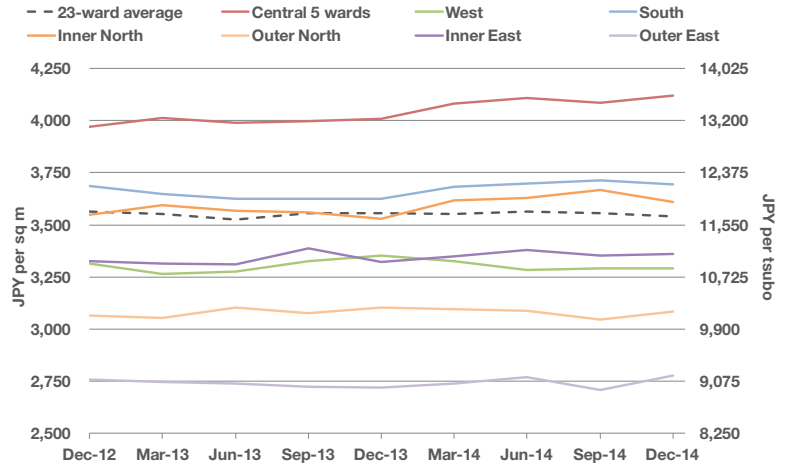
Tokyo mid-market apartment rental index, 2008-2014



Source: Savills Research & Consultancy

GRAPH 4

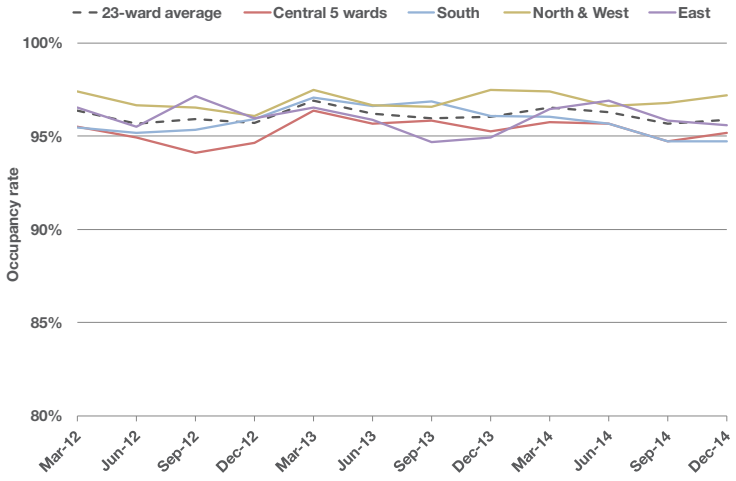
Average asking rents for mid-market rental apartments by survey area, Q4/2012-Q4/2014



Source: Savills Research & Consultancy

GRAPH 4

Average occupancy rates for J-REIT residential assets, Q1/2012–Q4/2014



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

typically command lower per-sqm pricing despite achieving higher gross monthly rents.

Tokyo mid-market apartment rents by unit size-band

As shown in Table 1, average rents in the 23-ward area were relatively stable across all size-bands YoY, with volatility kept within a margin of 1%.

Continuing its recent growth trend, the central five-ward area saw rents rise by close to 2% YoY for compact units in the 15- to 30 sqm and 30- to 45 sqm size-bands. Meanwhile, rents for units larger than 45-sqm – which are considered suitable for dual or family occupation – increased at a faster pace. Rents in the 45- to 60-sq m size-band were up 4.2%, while the 60- to 75-sq m size-band rose by 4.9%.

These rental trends suggest that plentiful supply of compact units is dampening rent potential in the smaller size bands, whereas a shortage of more generously-sized one- and two-bedroom rental units relative to demand is creating a rental premium.

Mid-market apartment occupancy rates

Given their typical building age and unit specifications, J-REIT-owned residential assets provide a useful benchmark upon which to gauge mid-market apartment occupancy levels. The average occupancy rate for rental apartment buildings operated by

TABLE 1

Average mid-market monthly asking rents by unit size-band, Q4/2014

Size band	15–30 sq m		30–45 sq m		45–60 sq m		60–75 sq m	
Survey area	JPY per sq m (tsubo)	% YoY	JPY per sq m (tsubo)	% YoY	JPY per sq m (tsubo)	% YoY	JPY per sq m (tsubo)	% YoY
23 wards	3,620 (11,965)	-0.4	3,450 (11,405)	-0.4	3,280 (10,845)	-0.6	3,350 (11,075)	0.5
Central 5 wards	4,210 (13,915)	1.7	4,030 (13,320)	1.9	4,000 (13,225)	4.2	4,100 (13,555)	4.9
No. of units surveyed	>10,000		>5,000		>2,500		>500	

Source: Savills Research & Consultancy

J-REITs in Tokyo's 23 wards stood at 95.9%, just 0.1 percentage point (ppt) below the same quarter of the preceding year. It remained above the 95% threshold, where it has been for four years since Q3/2010.

In Tokyo's two most expensive areas – the central five wards and South – average occupancy rates dipped 0.1 ppt and 1.3 ppts YoY to 95.2% and 94.7%, respectively. The North and West areas combined sustained the highest levels of occupancy, at 97.2%.

OUTLOOK

The prospects for the market

Tokyo's multi-family residential sector is a favoured asset class for institutional investors due to the stability of income it provides.

Mid-market apartment rents will remain firm for the foreseeable future, supported on the demand side by Tokyo's positive demographics and increasing tenant demand for centrally-located units. Downside risk is mitigated not only by cyclically low rents, but also a dampened supply pipeline as a result of rising construction costs and higher land prices.

Such factors have enabled the Central, South and Inner North areas of Tokyo to achieve modest rental growth over the last year, and provide scope for continued upwards movement across the capital in the near-term. Nonetheless, a material rise in market rents is unlikely to be recorded until salaries enter a sustained upwards trend in real terms.

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