

Briefing Residential leasing

Q4 2015



SUMMARY

Occupancy rates for mid-market apartments are expected to remain high for the foreseeable future, maintaining average rental values.

■ Average mid-market asking rents in the 23-ward area stood at JPY3,623 per sq m (JPY11,978 per tsubo¹), up 0.2% quarter-on-quarter (QoQ) and 2.4% year-on-year (YoY).

■ Within our seven survey areas, rents in the Inner East area (which consists of Koto, Sumida and Taito Wards) increased at the fastest rate, up 1.5% QoQ to JPY3,422 per sq m (JPY11,312 per tsubo).

■ Rents in the central five wards rose 1.1% QoQ to JPY4,195 per sq m

(JPY13,867 per tsubo) – the highest level since Q4/2009.

■ The highest rental premium against the 23-ward average rent was seen in the central five wards at over 15.3%, while the Outer East showed the lowest figure at -24.0%.

■ Though there have been minor fluctuations, average occupancy rates have been above the 95% threshold.

“Rents are still increasing, albeit very slowly. Leasing activity is high, especially in the central five wards. Real wage increases are the key to meaningful rental increases.”

Savills Research & Consultancy

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

➔ **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).

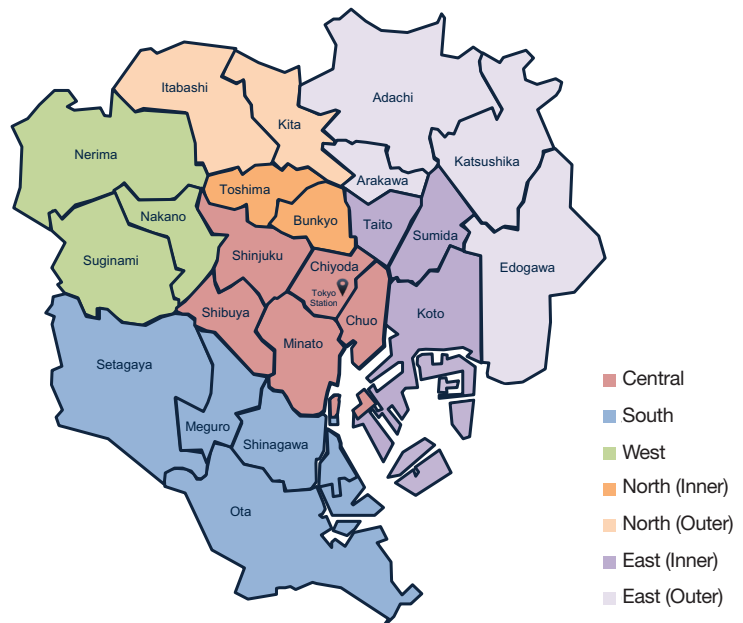
Savills rental index: Tokyo 'mid-market' apartments

Savills collates over 20,000 leasing comparables each quarter in order to analyse trends affecting 'mid-market' rental apartment units in Tokyo. Our benchmark rental data is based on average advertised monthly rents for units which fit the following criteria:

- 1) one- or two-bedroom rental apartments 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.

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



Source: Savills Research & Consultancy

After hitting a low in 2012, Tokyo's 23 ward and central five ward rents have gradually recovered, although they are still 5 to 8% below the 2H/2008 average. Tokyo's 23 ward average rent in Q4/2015 rose slightly by 0.2% QoQ to JPY3,623 per sq m.

Tokyo mid-market apartment rental trends by survey area

Graph 2 shows the differences in rental levels between the Tokyo 23-ward average and each area as

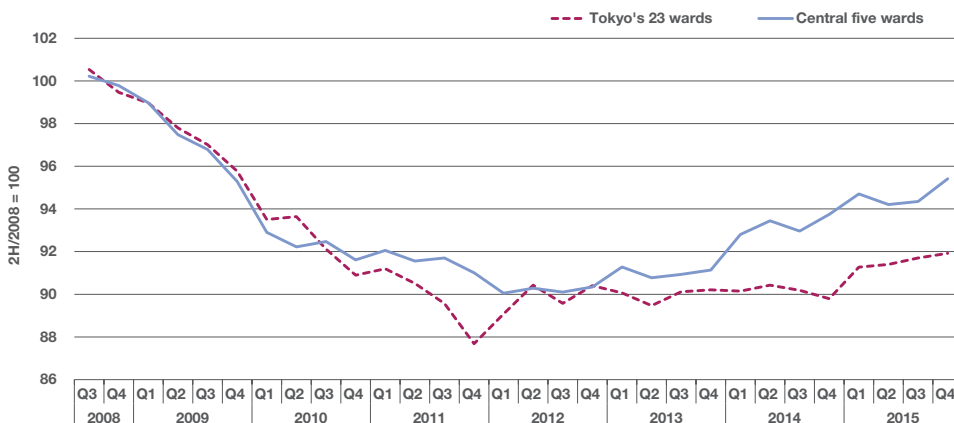
a rental premium (%) for each year. For example, positive figures depict the extent to which the area's rental level is higher than the Tokyo 23-ward average.

In general, centrally located areas such as the central five wards, and areas with close proximity to the centre, are expected to show higher rental premiums due to their convenience and accessibility. On the other hand, outer areas, such as Outer North and Outer East, tend to have low premiums.

In the fourth quarter, the highest premium rate was seen in the central five wards where the premium stood at over 15.3%. The South and the Inner North indicated 3.2% and 1.5% premiums respectively. The outer areas showed the lowest premiums; the lowest figure was seen in the Outer East at a -24.0% rental premium, followed by the Outer North (-12.7%) and West (-7.7%). Notably, the Inner East, which consists of Koto, Sumida and Taito Wards, had a low premium of around 5.0%. However, rents in the areas are gradually increasing and are projected to keep improving amid high expectations in regard to several plans to transform the area towards the Olympic Games in 2020.

Our breakdown of rental trends within Tokyo's 23 wards shows that the Inner East area posted the highest rate of

GRAPH 1 **GRAPH 1 Tokyo mid-market apartment rental index, Q3/2008 – Q4/2015**



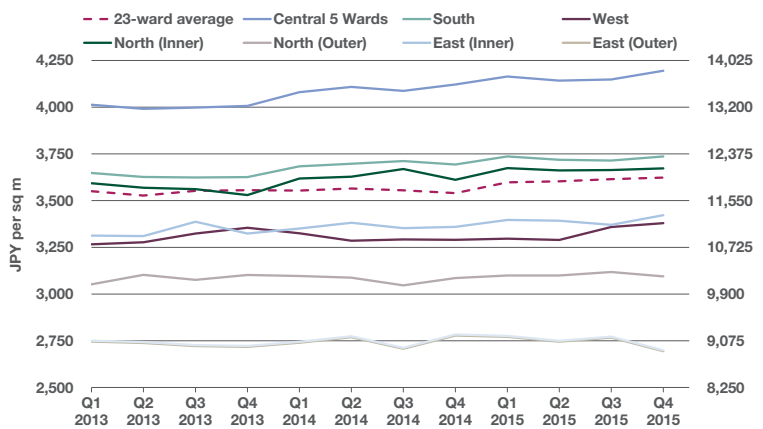
Source: Savills Research & Consultancy

GRAPH 2
Rental premiums over the Tokyo 23-ward average, 2010-2015



Source: Savills Research & Consultancy

GRAPH 3
Average asking rents for mid-market rental apartments by survey area, Q1/2013 – Q4/2015



Source: Savills Research & Consultancy

1.5% growth on a QoQ basis. The submarket commanded an average rent of JPY3,422 per sq m (JPY11,312 per tsubo), up 1.9% YoY. On the other hand, the most disappointing performance was from the Outer East area which slipped 2.6% QoQ to JPY2,694 per sq m (JPY8,907 per tsubo).

The rental average in the central five wards – the most expensive of our residential survey areas – continued to rise at a rate of 1.1% QoQ, up 1.8% YoY to JPY4,195 per sq m (JPY13,867 per tsubo). This rental figure marks the highest level since Q4/2009.

Average rents in the South and West each posted a modest rental movement of 0.6% QoQ to stand at JPY3,737 per sq m (JPY12,352 per tsubo) and JPY3,380 per sq m (JPY11,172 per tsubo) respectively. The Inner North showed a marginal increase of 0.2% QoQ while the Outer North declined 0.7% over the same period.

Tokyo mid-market apartment rents by unit-size

Tokyo's rental market is principally made up of compact single-occupier units, typically less than 45 sq m (13.6 tsubo) in size. Unlike other major global cities such as London and New York, house or apartment sharing does not form a major segment of the rental market. As a result, there is a large, stable market for small- to mid-sized units.

TABLE 1
Average mid-market monthly asking rents by unit size-band, Q4/2015

Size band	15–30 sq m		30–45 sq m		45–60 sq m		60–75 sq m	
	JPY per sq m (tsubo)	% QoQ	JPY per sq m (tsubo)	% QoQ	JPY per sq m (tsubo)	% QoQ	JPY per sq m (tsubo)	% QoQ
Tokyo's 23 wards	3,740 (12,365)	1.5	3,520 (11,635)	0.3	3,480 (11,505)	1.3	3,430 (11,340)	-3.4
Central five wards	4,310 (14,250)	1.6	4,070 (13,455)	1.8	4,100 (13,555)	2.5	4,240 (14,015)	-4.7
No. of units surveyed	>10,000		>5,000		>2,500		>500	

Source: Savills Research & Consultancy

Table 1 shows that there were great variations in rents by size of residential property within the same area surveyed. In the central five wards, the average rent for units between 15 and 30 sq m increased by 1.6% QoQ to JPY4,310 per sq m; in Tokyo's 23 wards, the average rents increased 1.5% QoQ to JPY3,740 per sq m.

Mid-market apartment occupancy rates

Though there have been minor fluctuations, average occupancy rates have been above the 95% threshold, as shown in Graph 4. The average occupancy rate for Tokyo's 23 wards declined 30 basis points (bps) YoY to stand at 96.3% in Q4/2015. The average occupancy rates of the central five wards is strong at 96.1%, up by 1.1 percentage point YoY. The highest occupancy rate was recorded in the North & West, at 97.1%, while the lowest was in the South at 95.8%.

Real Wage Index

According to Provisional report of the Monthly Labour Survey released in early February 2016, total cash earnings rose only slightly by 0.1% YoY, a slower growth rate compared to 0.4% in the previous year, the labour market has been very tight. On the other hand, a moderate inflation reduced real wages by 0.9% YoY.

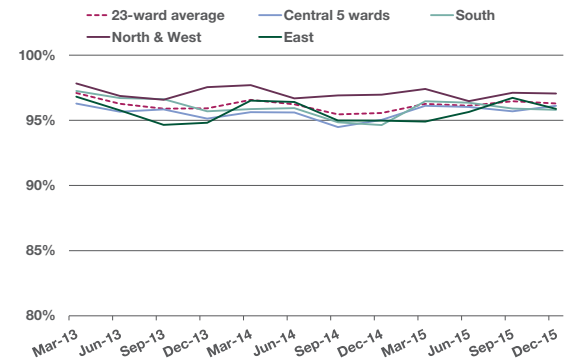
While Japanese corporations enjoy historically high profits, the economic prospects look uncertain. Shunto - annual negotiation on base salary in Spring must be closely monitored.

The survey was conducted with the aims to obtain a clear picture of the wage structure of employees in major industries with a sample size of approximately 33,000 establishments, selected from all private and public sector establishments normally employing 5 or more regular employees.

Outlook

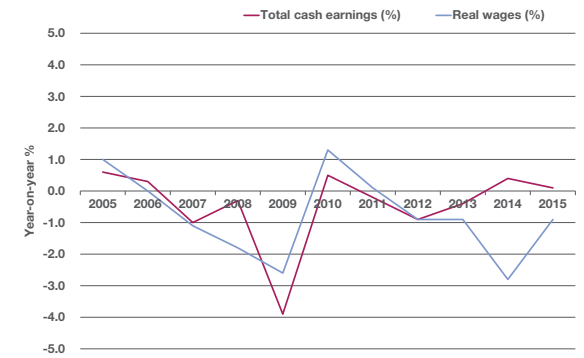
From a demand perspective, further urbanisation and the trend towards smaller household sizes in Tokyo's central wards are expected to continue. The stable outlook in Tokyo's residential sector should not change in the foreseeable future. Real wage growth is the key to improving market sentiment and the government would like to support the increase. Currently, the nominal wage increase is offset by inflation, which impedes rental increases. ■

GRAPH 5 Average occupancy rates for J-REIT residential assets, Q1/2013–Q4/2015



Source: Savills Research & Consultancy based on publicly disclosed J-REIT* property data (* Advance Residence and Nippon Accommodation Fund)

GRAPH 6 Total cash earnings and real wages growth, 2005-2015



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

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