

Briefing

Residential leasing

Q1 2016



SUMMARY

Occupancy rates for mid-market apartments are expected to stay high for the foreseeable future, maintaining good momentum for average rents.

■ Average mid-market asking rents in the 23-ward area stood at JPY3,633 per sq m (JPY12,010 per tsubo¹), up 0.3% quarter-on-quarter (QoQ) and 1.0% year-on-year (YoY).

■ Rents in the central five wards rose 0.6% YoY to JPY4,187 per sq m (JPY13,841 per tsubo), and are down a marginal 0.2% QoQ.

■ In the first quarter, all areas posted over 1.0% rental growth YoY except for the central five wards and the Inner North area.

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

■ The highest rental premium against the 23-ward average rent was seen in the central five wards at over 15.2%, while the Outer East showed the greatest discount at -22.7%.

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

■ The population in the central five wards has grown by 34% to 1.0 million people since 2000.

“Leasing activity is very high and expected to remain steady, especially in centrally located areas. Continued population growth in Tokyo should keep occupancy rates strong and support rental increases, although rents are rising much more slowly than property values.”

Savills Research & Consultancy

→ 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

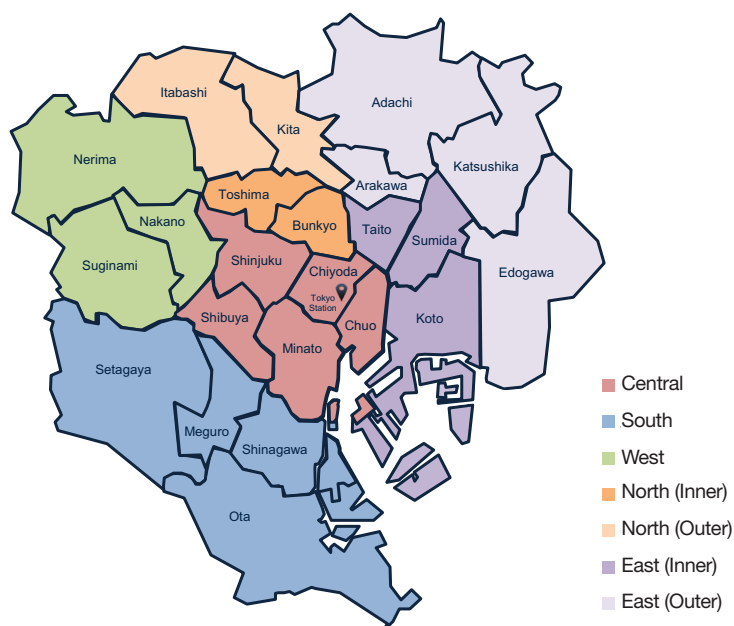
Savills collates over 20,000 leasing comparables each quarter in order to analyse trends affecting 'mid-market' rental apartment units in Tokyo. Our benchmark rental data is based on average advertised monthly rents for units which fit the following criteria:

- 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

Tokyo's 23 wards delineated by survey area



Source: Savills Research & Consultancy

After hitting a low in 2012, rents in Tokyo's 23 wards have gradually recovered, though they are still 5 to 8% below the 2H/2008 average. In Q1/2016, Tokyo's 23-ward average rent rose slightly by 0.3% QoQ to JPY3,633 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, a positive figure depicts the

extent to which the area's rental level is higher than the Tokyo 23-ward average.

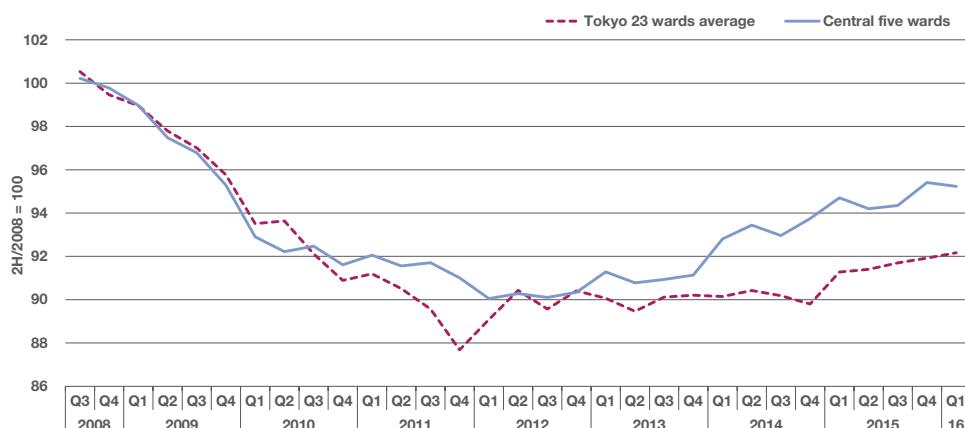
In general, centrally located areas such as the central five wards, and areas with close proximity to the centre, are expected to show higher rental premiums due to their convenience and accessibility. On the other hand, outer areas, such as Outer North and Outer East, tend to have low premiums.

In the first quarter, the highest premium rate was seen in the central five wards where the premium stood at 15.2%. The South and the Inner North recorded 4.4% and 1.8% premiums respectively. The outer areas, meanwhile, showed the lowest premiums. The lowest figure was seen in the Outer East at -22.0%, followed by the Outer North (-13.3%) and West (-7.4%). Notably, the Inner East, which consists of Koto, Sumida and Taito Ward, currently has a low premium of around 5.1% but is gradually increasing and projected to keep improving amid expectations in regards 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 West area posted the highest rate of 2.1% growth on a YoY basis. The submarket commanded an average rent of JPY3,364 per sq m (JPY11,121 per tsubo), but was down 0.5% QoQ. All areas posted over 1.0% rental

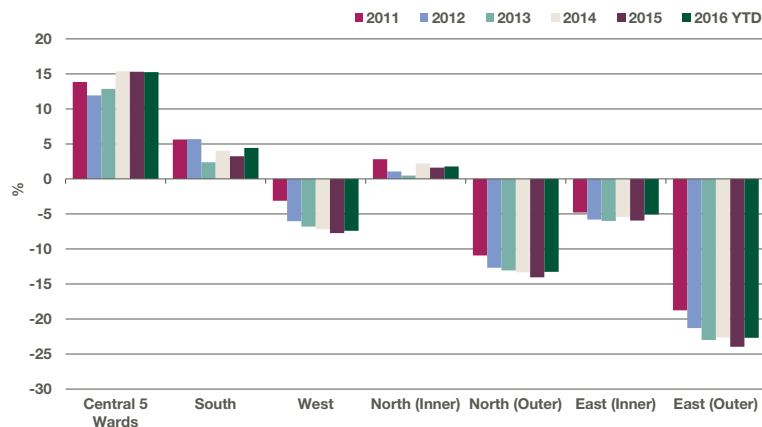
GRAPH 1

Tokyo mid-market apartment rental index, Q3/2008–Q1/2016



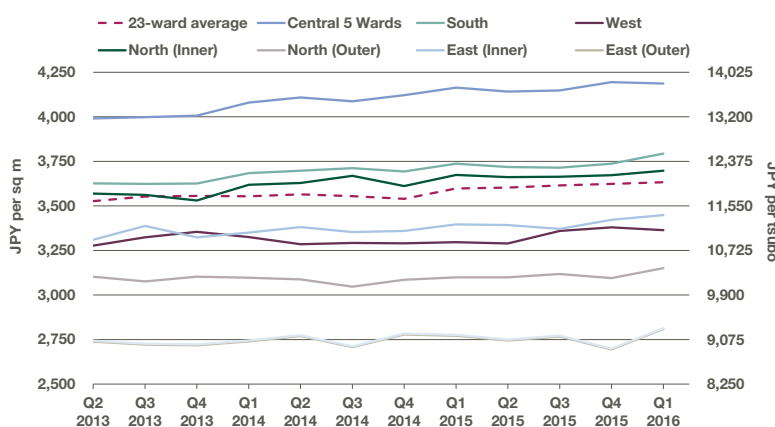
Source: Savills Research & Consultancy

GRAPH 2
Rental premiums over the Tokyo 23-ward average, 2011–Q1/2016



Source: Savills Research & Consultancy

GRAPH 3
Average asking rents for mid-market rental apartments by survey area, Q2/2013–Q1/2016



Source: Savills Research & Consultancy

growth YoY in Q1/2016 except the central five wards and Inner North area, both of which only grew at 0.6% YoY to JPY4,187 per sq m (JPY13,841 per tsubo) and JPY3,698 per sq m (JPY12,223 per tsubo) respectively.

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 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 showed an increase of 0.8% QoQ to JPY4,350 per sq m, while in the entire 23-ward region average rents showed a marginal decline of 0.3% QoQ to JPY3,730 per sq m.

Mid-market apartment occupancy rates

Though there have been minor fluctuations, average occupancy rates have remained above the 95% threshold, as shown in Graph 4. The average occupancy rate for Tokyo's 23 wards increased 60 basis points (bps) YoY to stand at 96.9% in Q1/2016. Occupancy rates for the central five wards are strong, also averaging 96.9%, and up by 0.8 percentage

TABLE 1
Average mid-market monthly asking rents by unit size-band, Q1/2016

| 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) | % QoQ | JPY per sq m (tsubo) | % QoQ | JPY per sq m (tsubo) | % QoQ | JPY per sq m (tsubo) | % QoQ |
| Tokyo's 23 wards | 3,730 (12,330) | -0.3 | 3,510 (11,605) | -0.3 | 3,460 (11,440) | -0.6 | 3,500 (11,570) | 2.2 |
| Central five wards | 4,350 (14,380) | 0.8 | 4,070 (13,455) | 0.1 | 3,990 (13,190) | -2.7 | 4,170 (13,785) | -1.5 |
| No. of units surveyed | >10,000 | | >5,000 | | >2,500 | | >500 | |

Source: Savills Research & Consultancy

points (ppts) YoY. The highest occupancy rate was recorded in the West at 97.7%, while the lowest was in the South at 96.0%.

Population

According to statistics released by Tokyo Metropolitan Government, the population of Tokyo Prefecture as of March 2016 was 13.5 million, a 12% increase since 2000. Notably, the population within Tokyo's 23 wards was near 9.3 million, reflecting about 68% of the total population in the prefecture. This reflects an increase of 14% over the past 16 years.

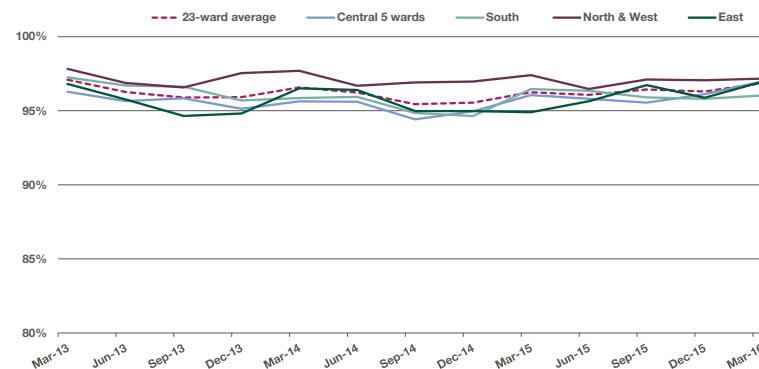
Continued urbanisation is one of the largest factors contributing to this population trend. The population in the central five wards grew to 1.0 million people in March, an increase of approximately 34% over the past 16 years. The areas that have seen the most significant influx of people over the period are Inner East (27%) and Inner North (20%), while the Outer North area showed the slowest population growth at 7.8%.

Outlook

We expect further urbanisation to continue to drive strong demand in Tokyo's central five wards, especially for smaller household sizes. The Tokyo residential sector should remain stable for the foreseeable future. We expect occupancy rates to continue their strong trend, driving stable rent revenues in this core sector. ■

GRAPH 4

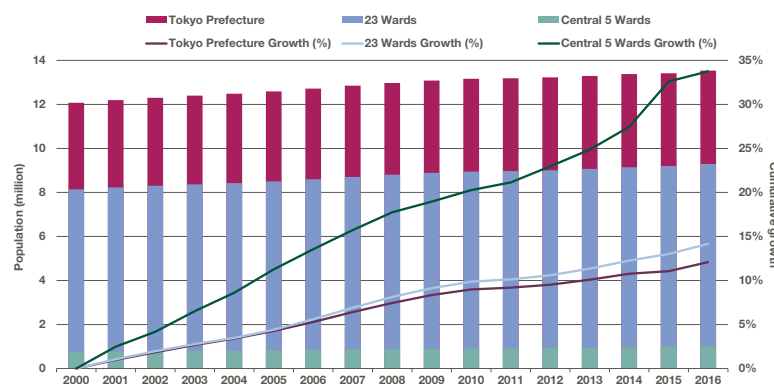
Average occupancy rates for J-REIT residential assets, Q1/2013–Q1/2016



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

GRAPH 5

Population growth in Tokyo Prefecture, 2000–2016



Source: Tokyo Metropolitan Government, Savills Research & Consultancy

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