

# Briefing Residential leasing

Q2 2016



## SUMMARY

Mid-market apartments continue to show high occupancy rates and gradual rental increases despite lingering uncertainty in the global economy.

- Average mid-market asking rents in the 23-ward area stood at JPY3,639 per sq m (JPY12,030 per tsubo<sup>1</sup>), up 0.2% quarter-on-quarter (QoQ) and 1.0% year-on-year (YoY).
- Rents in the central five wards rose an impressive 2.9% YoY to JPY4,264 per sq m (JPY14,484 per tsubo), and are up 1.8% QoQ after a slight decline in Q1/2016.
- All but one area posted over 1.0% rental growth YoY in Q2/2016.
- The highest rental premium against the 23-ward average rent was seen in the central five wards at 17.2%, while the Outer East continues to show the greatest discount at -22.5%.
- Though there have been minor fluctuations, average occupancy rates have remained above 95%.
- Condo prices have reached JPY954,500 per sq m, a 5.0% YoY increase. Negative interest rates are likely to put upward pressure on condo prices, giving rents possible room to grow.

“Mid-market asking rents in Tokyo’s 23 wards continued to show gradual increases in Q2/2016. Though global economic conditions are uncertain, high occupancy and continued urbanisation should support additional rental growth.” Savills Research & Consultancy

<sup>1</sup> 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).

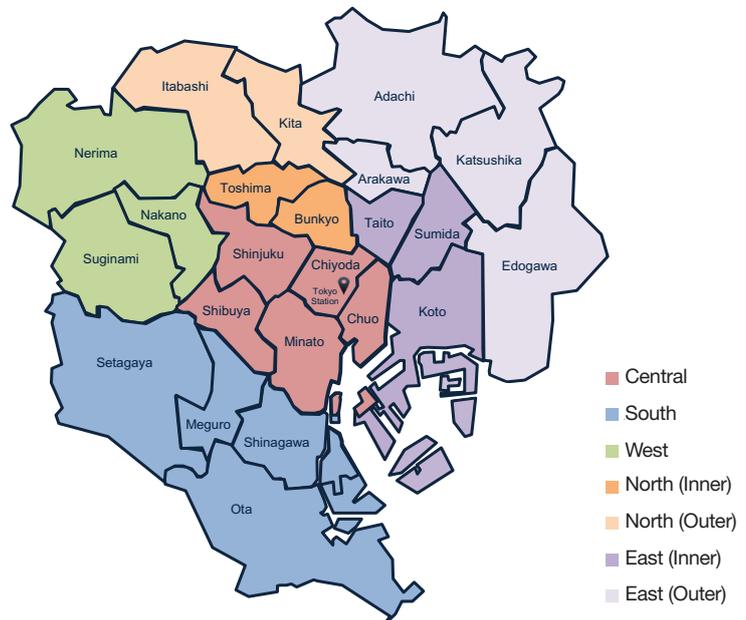
**Savills rental index: Tokyo 'mid-market' apartments**

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 Q4/2011, rents in Tokyo's 23 wards have gradually recovered, though they are still almost 8% below the 2H/2008 average. In Q2/2016, average rents in Tokyo's 23 wards rose 0.2% QoQ to JPY3,639 per sq m.

Rents in the central five wards have bounced back with more strength, and are currently less than 3% below their 2H/2008 base. In Q2/2016, rents increased an average of JPY77 per sq m or 1.8% over the preceding quarter, the single highest quarterly increase since the crisis.

**Tokyo mid-market apartment rental trends by survey area**

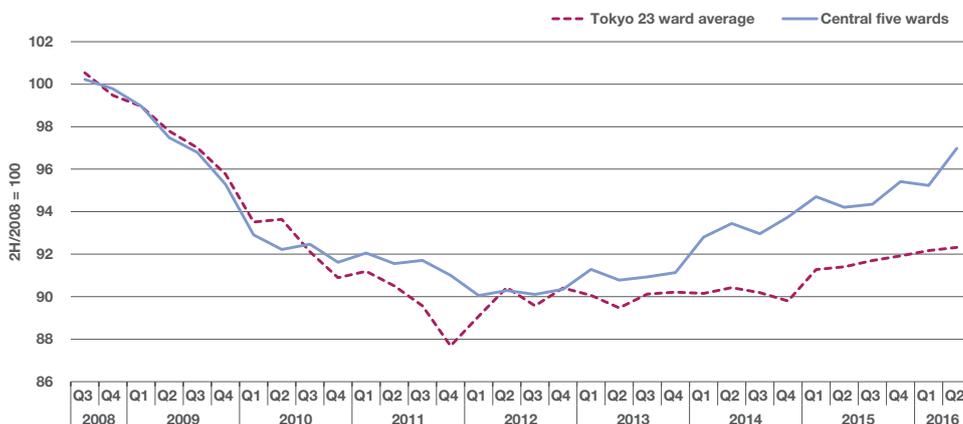
Graph 2 shows the differences in rental levels between the Tokyo 23-ward average and each area as a rental premium (%) for each year. For example, a positive figure depicts the extent to which the area's rental level is higher than the Tokyo 23-ward average.

In general, centrally located areas such as the central five wards and their adjacent neighbourhoods show higher rental premiums due to their convenience and accessibility. Outer areas, such as Outer North and Outer East, tend to have discounts.

As of Q2/2016, the highest premium was observed in the central five wards at 16.2%. The South and the Inner North recorded positive premiums of 3.8% and 1.8% respectively. The outer areas, meanwhile, showed discounts. The greatest discount was seen in the Outer East area at -22.6%, followed by the Outer North (-13.7%) and West (-7.5%) areas. The Inner East area – comprised of Koto, Sumida and Taito wards – currently shows a discount of -5.1% but is catching up to the 23-ward average as several developments progress leading up to the Olympic Games in 2020.

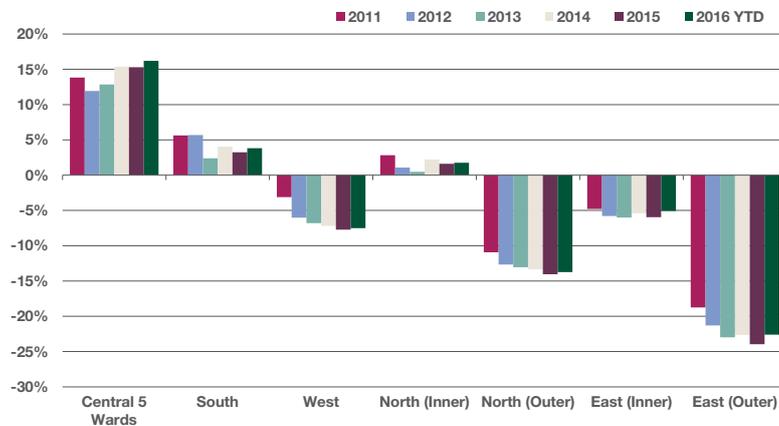
Overall, in Q2/2016, the Central and South areas pulled slightly farther

GRAPH 1 **GRAPH 1 Tokyo mid-market apartment rental index, Q3/2008–Q2/2016**



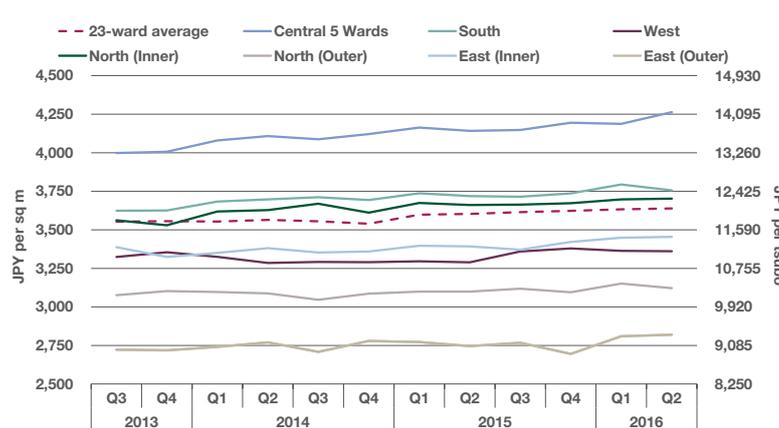
Source: Savills Research & Consultancy

**GRAPH 2**  
**Rental premiums and discounts over the Tokyo 23-ward average, 2011–Q2/2016**



Source: Savills Research & Consultancy

**GRAPH 3**  
**Average asking rents for mid-market rental apartments by survey area, Q3/2013–Q2/2016**



Source: Savills Research & Consultancy

**TABLE 1**  
**Average mid-market monthly asking rents by unit size, Q2/2016**

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
<b>Tokyo's 23 wards</b>	3,690 (12,200)	-0.9	3,540 (11,705)	1.0	3,490 (11,535)	1.0	3,640 (12,035)	4.0
<b>Central five wards</b>	4,370 (14,445)	0.4	4,150 (13,720)	2.0	4,100 (13,555)	2.6	4,160 (13,750)	-0.4
<b>No. of units surveyed</b>	>5,000		>5,000		>2,500		>500	

Source: Savills Research & Consultancy

ahead of the 23-ward average, while variances in the remaining areas all remained flat or converged slightly toward the average.

The Central area's QoQ growth has propelled it into the lead in YoY terms, growing 2.9% since 2Q/2015. The submarket currently commands an average rent of JPY4,264 per sq m (JPY14,095 per tsubo), up 1.8% QoQ. All areas posted over 1.0% rental growth YoY in Q2/2016 except the Outer North area, which is up 0.7% YoY to JPY3,122 per sq m (JPY10,319 per tsubo).

**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 in Q2/2016, rental growth was concentrated primarily in larger units of 30 to 60 sq m. Rents for units of such size increased 1.0% QoQ in the 23-ward area as a whole and 2.0% or more in the central five wards. Rental growth was much more muted for units of just 15 to 30 sq m, growing only 0.4% in the central five wards and declining by 0.9% in the 23-ward area as a whole.

### Mid-market apartment occupancy rates

Average occupancy rates in Tokyo declined slightly across most areas in Q2/2016, but remain above the 95% threshold and are comfortably within recent fluctuations, as shown in Graph 4. The average occupancy rate for Tokyo's 23 wards was almost flat YoY, declining just 4 basis points (bps) to stand at 96.0% in Q2/2016. Occupancy rates for the central five wards declined slightly more to land at 95.4%, down by 43bps YoY. The highest occupancy rate was recorded in the West at 97.2%, while the lowest was in the Outer East at 95.2%.

The North and West areas have together consistently shown the highest occupancy rates recently.

### Condominium prices

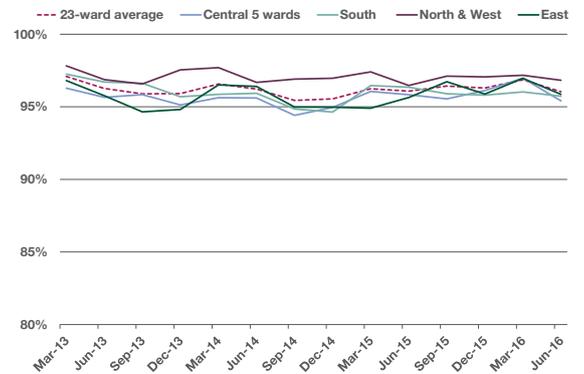
Condo prices in the 23-ward area have increased steadily over the last five years, growing at an average rate of 1.5% each quarter. As of Q2/2016, the average condo price per sq m was JPY954,500 for a unit in the Tokyo 23-ward area, representing a 5.0% increase over Q2/2015. Supply remains stable at approximately 4,319 units available at an average unit price of JPY68,380,000.

Growth in condo prices has significantly outpaced rental growth in recent years, despite a slight moderation in early 2016. Negative interest rates should positively impact condo prices. However, condo prices remain high, slowing sales. Along with tight vacancy conditions for rental property, high condo prices are expected to push rental prices higher. Real wage increases, however, are key for meaningful rental growth.

### Outlook

Tokyo's residential rents have shown resilience despite lingering uncertainty in the global economy. Continued urbanisation should drive further gradual increases. Occupancy is still above 95% and, despite fluctuations, shows few signs of dropping. ■

GRAPH 4 Average occupancy rates for J-REIT residential assets, Q1/2013–Q2/2016



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

GRAPH 5 Average condo price per sq m in Tokyo 23 wards, Q1/2012–Q2/2016



Source: Real Estate Economic Institute, Savills Research & Consultancy

## Please contact us for further information

### Savills Japan



**Christian Mancini**  
Representative Director, CEO  
+81 3 6777 5150  
cmancini@savills.co.jp

### Savills Research



**Tetsuya Kaneko**  
Director, Head of Research & Consultancy, Japan  
+81 3 6777 5192  
tkaneko@savills.co.jp



**Hafiz Ismail**  
Manager, Research & Consultancy, Japan  
+81 3 6777 5171  
hismail@savills.co.jp



**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk

#### Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.