

Briefing Residential leasing

Q2 2014

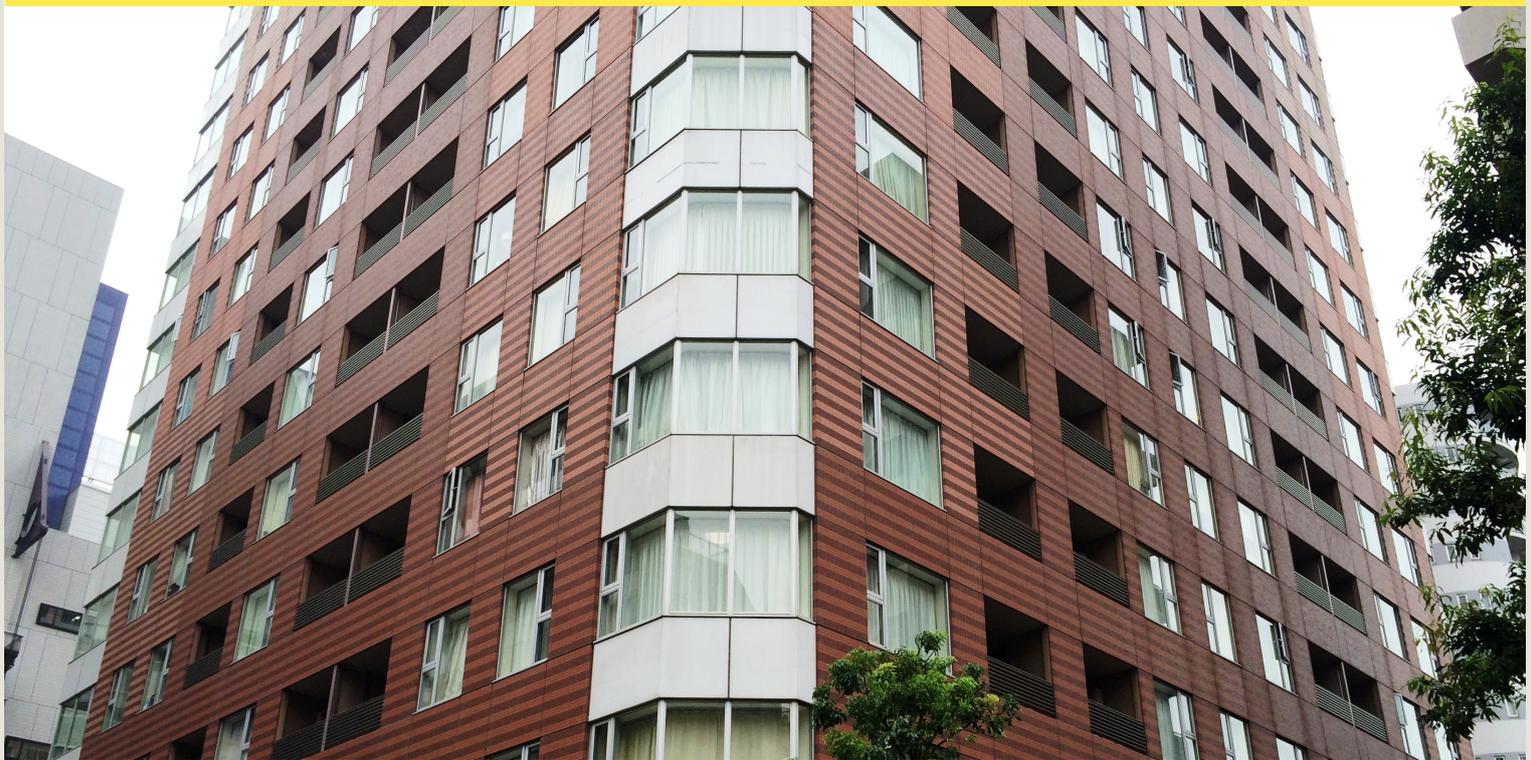


Image: West Park Tower Ikebukuro, Toshima-ku

SUMMARY

Data for the first half of 2014 suggests that the mid-market rental sector is entering a moderate recovery phase, with rental uplift strongest in the central five wards.

■ As of 1 June 2014, Tokyo Prefecture was home to just under 13.4 million people, having grown 0.6% year-on-year (YoY) and 8.0% over the last decade.

■ The fastest rates of population growth have been seen in the heart of the city, with the central five wards expanding 1.9% YoY and close to 20% over the last ten years.

■ The number of households in Tokyo Prefecture grew 19% from 2003 to 2013, slightly exceeding the increase in total dwellings across all tenures.

■ Compared with the national average of approximately 35%, around

47% of occupied dwellings in the capital were rented as of 2013.

■ According to the latest analysis from Savills, asking rents for 'mid-market' apartments in the 23-ward area stood at JPY3,565 per sq m (JPY11,785 per tsubo), up 1.1% YoY.

■ All but one of our seven survey areas posted higher average rents on a YoY basis, led by the central five wards at 2.9%.

■ The average occupancy rate for J-REIT-owned residential properties in the 23-ward area was 96.3%, remaining above the 95% threshold since Q3/2010.

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 “Urbanisation and new household formation will continue to bring tenants to Tokyo. The favourable balance between supply and demand is likely to be supported by rising construction costs and increased competition for developable sites in the lead-up to the 2020 Olympics.”

 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).

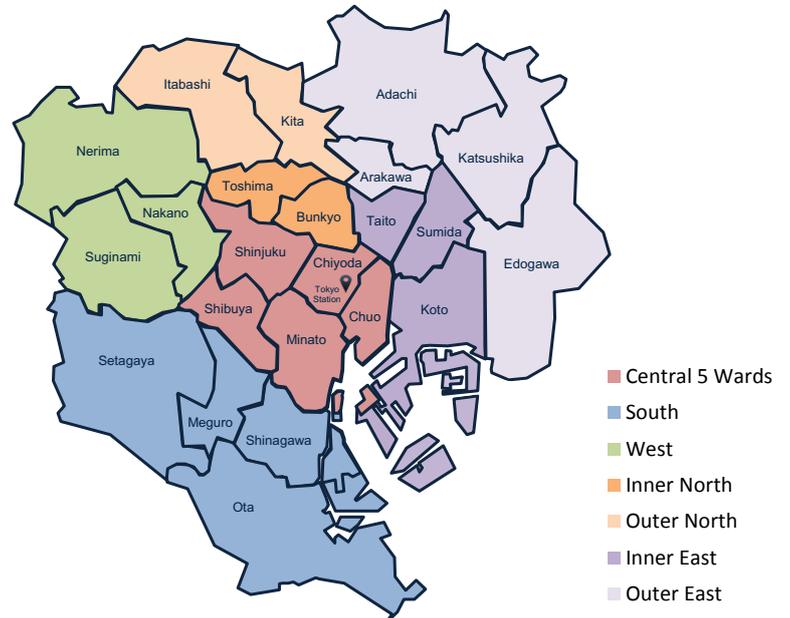
Tokyo demographic trends: Where is growth concentrated?

As shown in Table 1, Tokyo Prefecture accounts for approximately 10.5% of the national population, despite comprising just 0.6% of Japan's land mass. As of 1 June 2014, the capital was home to just under 13.4 million people, having grown 0.6% YoY and 8.0% over the last decade. Approximately 68% of the prefectural population – slightly over 9.1 million people – reside in Tokyo's 23 special wards, the administrative districts that make up the centre of the metropolis¹.

Reflecting their comparatively large land areas, the South and Outer East submarkets have the largest populations as a proportion of the 23-ward total, accounting for approximately 25% and 22% respectively. Nonetheless, the fastest rates of population growth have been seen in the central and inner areas of the city. The central five wards

¹ Analysis by Savills Research & Consultancy based on Tokyo Metropolitan Government (TMG) and Ministry of Internal Affairs and Communications (MIAC) data.

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



Source: Savills Research & Consultancy

have expanded close to 20% over the last ten years and continued to grow at a rate of 1.9% YoY as of June. Following this lead, the Inner East and Inner North submarkets each posted around 17% growth over the last decade, or 1.4% and 1.3% YoY respectively.

Household formation outpacing new development

Tokyo's rising population, combined with a trend towards smaller household sizes, has resulted in a steady increase in household

numbers. Analysis of survey data recently published by MIAC indicates that household formation outpaced new residential supply over the last decade. The number of households in Tokyo Prefecture grew 19.0% over the ten years from 2003 to 2013. This growth rate slightly exceeds the 18.9% increase in the overall number of dwellings during the same period, which totalled 7,352,300 at the end of last year.

The occupancy rate for dwellings across all tenures was 87.9% in 2013, up marginally from 2003. Most

TABLE 1 **Population breakdown and movement by area, 1 Jun 2014**

	Area (sq km)	Population	Persons (per sq km)	Population (% YoY)	Population (10-yr % change)	Percentage ratio	% of area	% of population
Tokyo Prefecture	2,188.7	13,363,004	6,106	0.6	8.0	% of national total	0.6	10.5
23 wards	623.0	9,128,090	14,652	0.8	9.3	% of Tokyo Prefecture total	28.5	68.3
Central 5 wards	75.5	953,223	12,625	1.9	19.7	% of 23-ward total	12.1	10.4
South	155.9	2,252,250	14,445	0.8	8.0		25.0	24.7
West	97.8	1,598,104	16,346	0.5	5.0		15.7	17.5
Inner North	24.3	507,629	20,873	1.3	16.5		3.9	5.6
Outer North	52.8	879,043	16,661	0.6	3.0		8.5	9.6
Inner East	63.8	919,040	14,401	1.4	17.1		10.2	10.1
Outer East	148.1	2,014,705	13,604	0.3	7.5		23.8	22.1

Source: Savills Research & Consultancy based on TMG and MIAC data

→ of the vacancy in Tokyo Prefecture is attributable to unoccupied rental units, many of which are uncompetitive in the leasing market due to their age and/or inferior build quality.

Breakdown of households by tenure

With close to 6.5 million households as of 2013, Tokyo Prefecture forms one of the largest residential markets globally. Compared with the national average of approximately 35%, around 47% of occupied dwellings in the capital are rented. As illustrated in Graph 1, the vast majority of these are multi-family housing units. Owner-occupied housing units, which make up approximately 46% of occupied dwellings, remain predominantly detached houses, although an increase in the number of owner-occupied multi-family units over the last decade suggests that mid- to high-rise living has increased in popularity.

Savills rental index: Tokyo 'mid-market' apartments

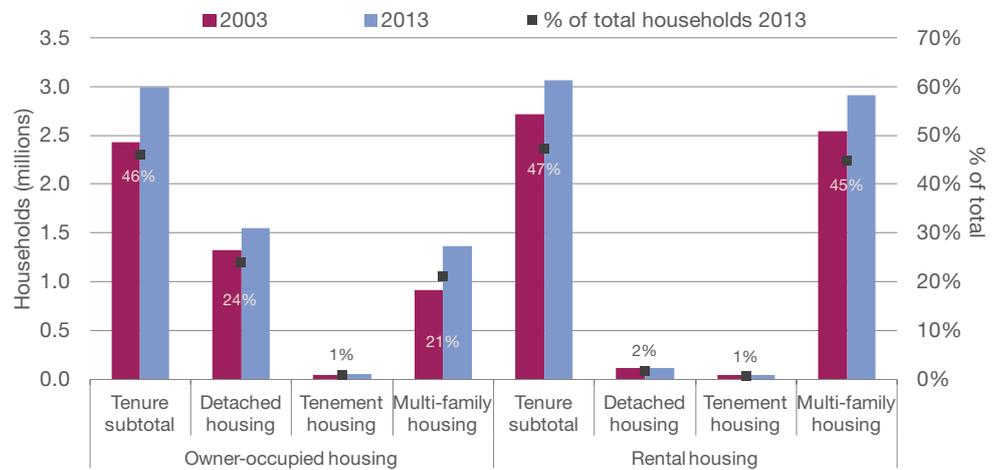
Savills collates over 20,000 leasing comparables each quarter in order to analyse trends facing 'mid-market' rental apartment units in Tokyo. Our benchmark rental data is based on average advertised monthly rents for units that fit the following criteria:

- 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).

Following the global financial crisis (GFC), Tokyo's 23-ward area saw a decline of approximately 10.6% in mid-market apartment rents over the three years from 2008 to 2011. Since this time, Savills rental indices show that central Tokyo has entered a distinct stabilisation period, with average rents bottoming out through 2012 and 2013.

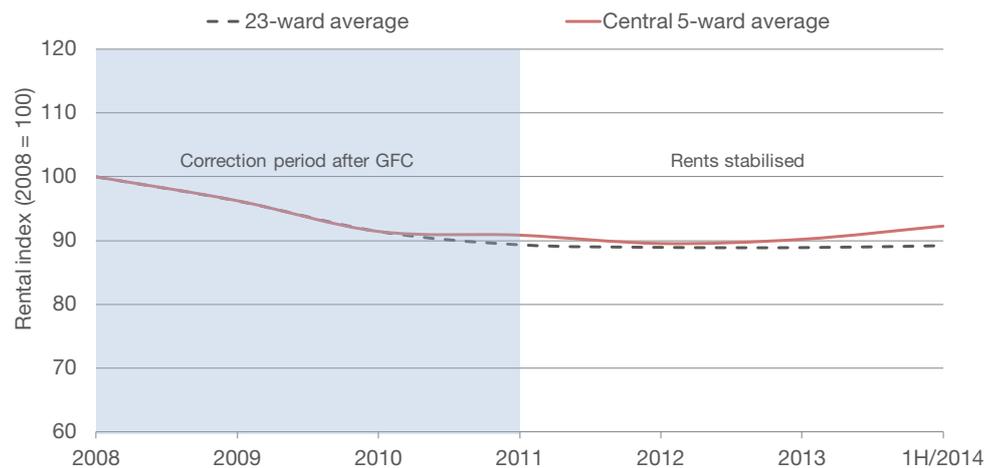
More recently, data for the first half of 2014 suggests that Tokyo is entering a moderate recovery phase, with rental uplift strongest in the

GRAPH 1 Households in Tokyo Prefecture by tenure, 2003 vs 2013



Source: Savills Research & Consultancy based on MIAC data

GRAPH 2 Tokyo mid-market apartment rental index, 2008–1H/2014



Source: Savills Research & Consultancy

central five wards as the population gravitates towards the heart of the city.

Tokyo mid-market apartment rental trends by survey area

Average mid-market asking rents in the 23-ward area stood at JPY3,565 per sq m (JPY11,785 per tsubo²) in Q2/2014. While this rental figure shows only a marginal 0.3% improvement over the preceding quarter, it was up 1.1% over the same quarter of last year.

All but one of our seven survey areas posted higher rents on a YoY

basis. These included the central five wards – the most expensive of our residential survey areas – where the rental average increased by a healthy 2.9% YoY to JPY4,110 per sq m (JPY13,580 per tsubo). This figure is just over 15% higher than the 23-ward average and represents an 11% premium over the South area, Tokyo's second most expensive residential location.

The only area to record a nominal rental decline on a YoY basis was the Outer North, Tokyo's second least expensive submarket. Rents here slipped 0.5% YoY to JPY3,090 per sq m (JPY10,205 per tsubo) as cheaper units listed for rent dragged down the submarket average.

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

→ The most inexpensive area remained the Outer East, the only submarket where modern mid-market units command average asking prices of less than JPY3,000 per sq m or JPY10,000 per tsubo.

Tokyo mid-market apartment rents by unit size-band

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.

As shown in Table 2, rental pricing per sq m for smaller units targeting single occupiers is generally more expensive on average than that of larger units. This not only reflects the strong demand for compact units but also the higher gross rental costs involved in renting larger units, which: 1) decreases affordability for single-income households; and 2) makes the option of purchasing a condominium comparatively more cost-effective. In recent decades, this price trend has encouraged developers to allocate a heavy weighting to studio and small one-bedroom apartments when planning new rental schemes.

At the 23-ward level, average rents were squeezed across the smaller size-bands in Q2/2014 on a YoY basis. Affected by an increased number of compact units competing for tenants, asking rents for units sized 15 to 30 sq m and 30 to 45

sq m slipped by more than 1% compared with the same period of last year. Comparatively larger units targeting single and dual-income households fared better, with the strongest growth seen in the 60- to 75-sq m size-band at 6.1% YoY.

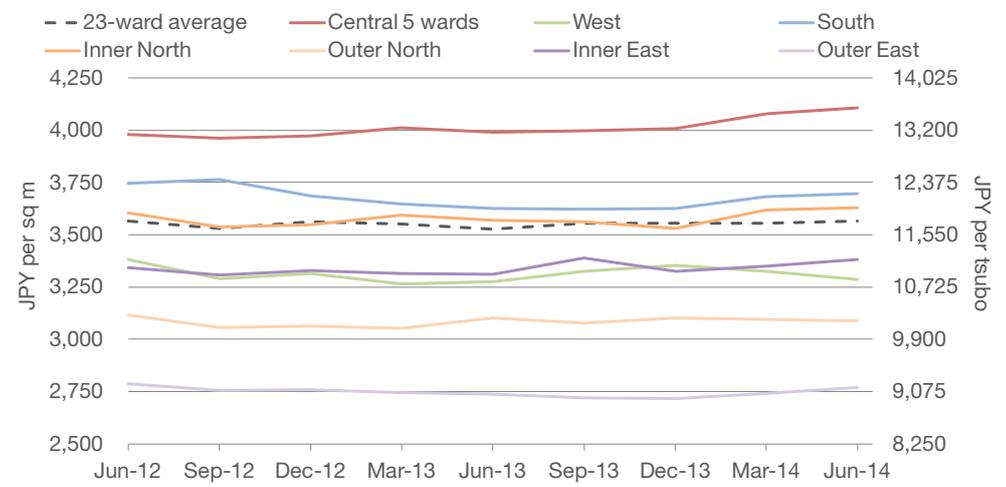
As in recent quarters, the central five wards outperformed the broader average, with asking rents up by more than 2% YoY in the smaller size categories. Again, more generously-sized units commanded the highest rate of growth: rents in the 45- to 60-sq m size-band were up 5.6%, while the 60- to 75-sq m size-band posted a strong increase of 9.1%. This recovery trend has been supported by a favourable supply-demand balance, fostered by elevated demand for larger rental units in

light of improvements in Japan's general economic and employment environment.

Mid-market apartment occupancy rates

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 J-REITs in Tokyo's 23 wards edged up 10 basis points YoY to 96.3% in Q2/2014, remaining above the 95% threshold every quarter since Q3/2010. The average occupancy rate in the central five wards was 95.7%, stable on both a quarter-on-quarter and YoY comparison. ■

GRAPH 3 Average asking rents for mid-market rental apartments by survey area, Q2/2012–Q2/2014



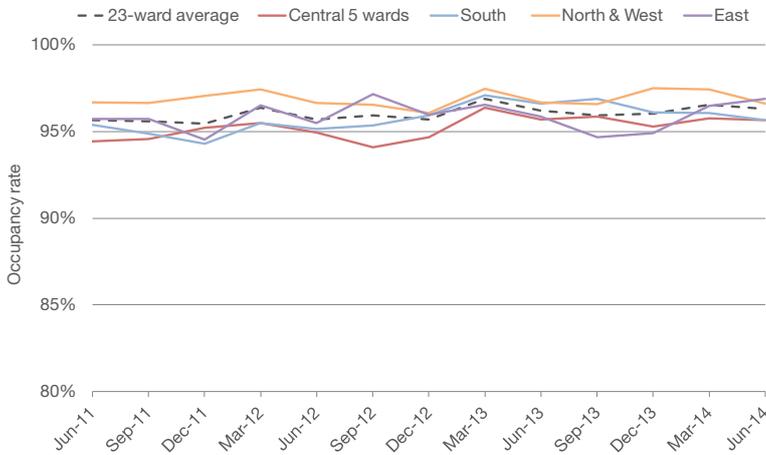
Source: Savills Research & Consultancy

TABLE 2 Average mid-market monthly asking rents by unit size-band, Q2/2014

Size band	15–30 sq m		30–45 sq m		45–60 sq m		60–75 sq m	
	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	3,570 (11,800)	-1.2	3,390 (11,205)	-1.6	3,300 (10,910)	0.6	3,460 (11,440)	6.1
Central 5 wards	4,160 (13,750)	2.1	3,990 (13,190)	2.0	4,000 (13,225)	5.6	4,020 (13,290)	9.1
No. of units surveyed	>10,000		>5,000		>2,000		>500	

Source: Savills Research & Consultancy

GRAPH 4
Average occupancy rates for J-REIT residential assets, Q2/2012–Q2/2014



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

OUTLOOK

The prospects for the market

Improving market sentiment is vital for a sustained recovery in mid-market apartment rents. Cabinet Office data indicates that consumer perceptions of employment prospects remain at their highest levels since 2007, despite the 3-percentage point consumption tax hike that came into effect on 1 April. Meanwhile, general consumer confidence demonstrated a v-shaped recovery during the second quarter. This suggests that willingness among tenants to relocate and upgrade into larger, more modern or better located premises will be sustained in the near term.

From a demand perspective, ongoing urbanisation and new household formation will continue to bring tenants to Japan's capital city. Additionally, the favourable balance between supply and demand is likely to be supported by rising construction costs and increased competition for developable sites in the lead-up to the 2020 Olympics. These factors are expected to squeeze developer margins and reduce the viability of some construction projects, in turn placing restrictive pressure on the residential development pipeline.

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