

Briefing Residential leasing

Q2 2015

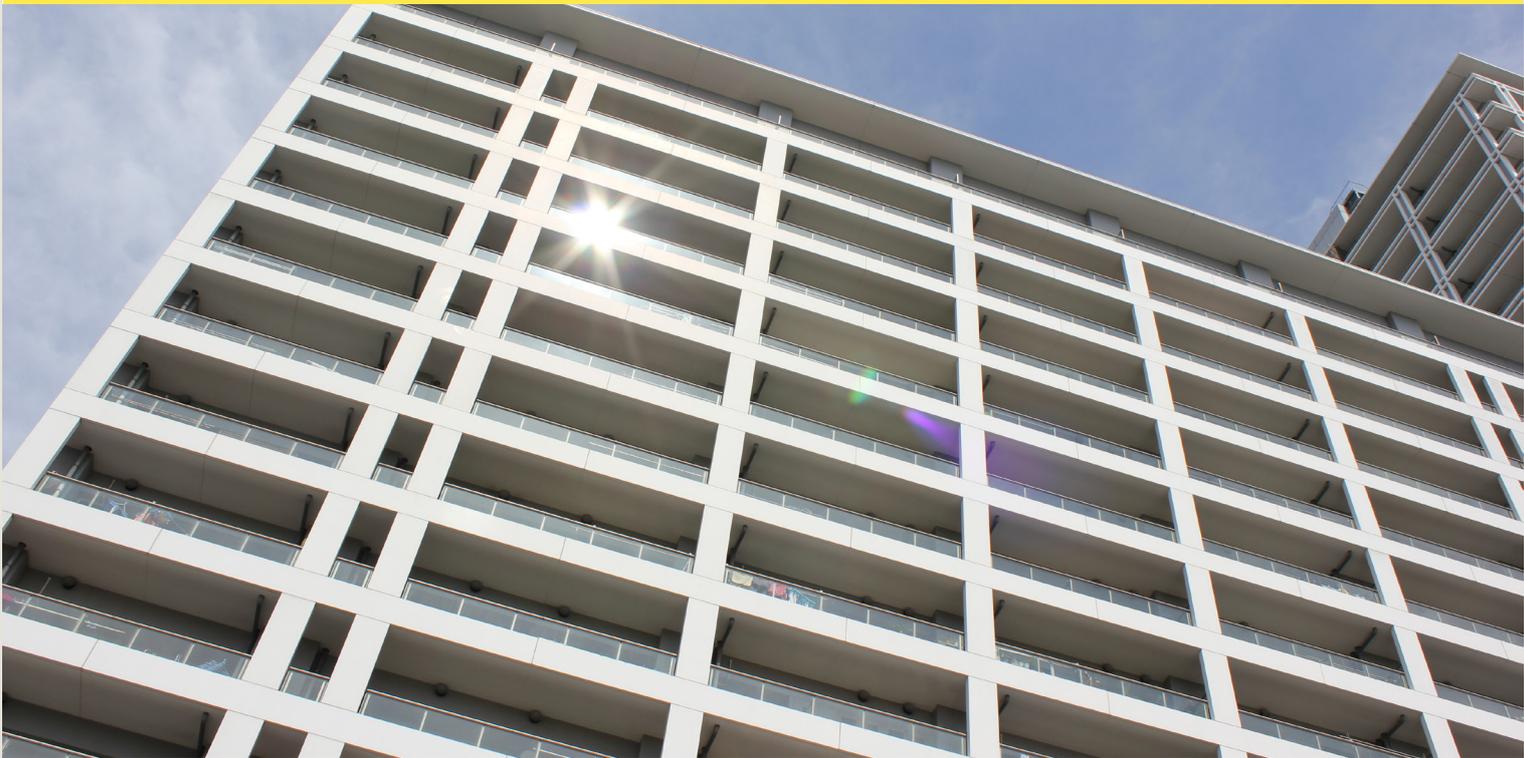


Image: Residential development in Greater Tokyo

SUMMARY

The high share of households who occupy rental apartments provides stable demand for the residential sector.

- The share of rental housing as opposed to home ownership in Tokyo's 23 wards is higher than the national average, but with considerable variation depending on household income distribution amongst Tokyo's 23 wards.
- Households with higher annual incomes tend to own their own home, whereas those with lower incomes choose rental housing.
- A notable exception is in the central five wards, where nearly half of high-income households rent, where housing prices have risen considerably, whilst rents have remained relatively stable.
- Average mid-market rents in Tokyo's 23 wards in Q2/2015 were approximately JPY3,603 per sq m (JPY11,911 per tsubo¹), an increase of 0.1% quarter-on-quarter (QoQ) and 1.1% year-on-year (YoY).
- Mid-market rents in the central five wards were the highest in Tokyo, at JPY4,142 per sq m (JPY13,691 per tsubo).
- The average occupancy rate for rental apartment buildings operated by J-REITs in Tokyo's 23 wards stood at 96.4% in Q2, unchanged from the previous quarter.

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

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 "Whilst households with higher annual incomes tend to own their own housing, nearly half of high income households chose rental apartments in 2013. The high share of households with rental apartments provides stable demand for the residential sector." Savills Research & Consultancy

➔ **Savills Tokyo residential survey: Breakdown by geography**

In order to illustrate trends in the central Tokyo residential market, Savills has divided 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).

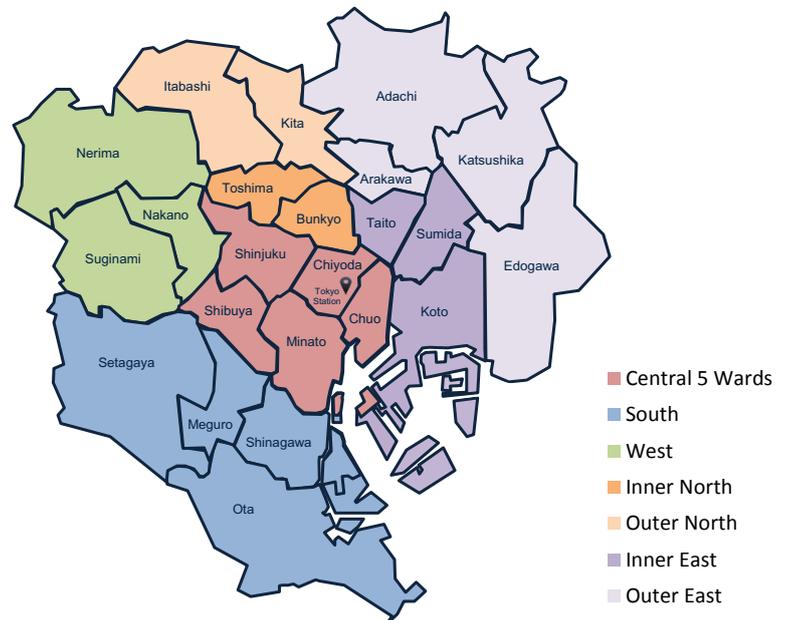
Savills Tokyo residential survey: rental market

Home ownership vs. rental housing

The share of rental housing (both condominiums and houses) in Tokyo's 23 Wards is much higher than the national average. For example, whereas Japan's total share of rental housing is 35%, the share of rental housing in Tokyo's 23 wards stood at over 55% in 2013, the latest available survey by the Ministry of Internal Affairs and Communications (MIC). Whilst Japan's total home ownership is over 60%, home ownership in Tokyo's 23 wards is about 15 percentage points (ppts) lower than the national average.

In the Savills breakdown by geographical area, the share of rental housing is slightly more prevalent in the West and North, outside central Tokyo. However, whilst the average home ownership of Tokyo's 23 wards is lower than the national average, there are considerable variations depending on household income

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



Source: Savills Research & Consultancy

levels. For example, over 70% of high-income households (over JPY10 million annual income) own housing, shown in Graph 3.

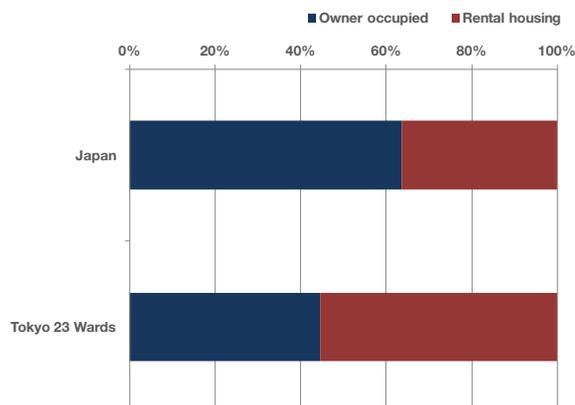
Graph 3 also shows that in Tokyo's 23 wards, on average, whilst more than 60% of households with an annual income of below JPY5 million reside in rental housing, about 25% of the high-income households also rent housing. A notable exception is in Central, where over 40% of high-income groups live in rental housing.

Space per apartment in Tokyo's 23 wards

In 2013, the average size of a privately-owned rental apartment in Tokyo's 23 wards was 34.8 sq m. Central had the highest average, at 40.7 sq m, followed by 37.9 sq m in Outer East, and 36.6 sq m in the Inner East.

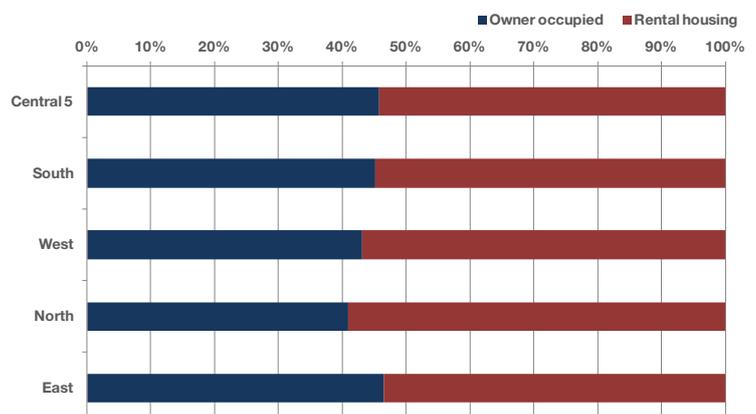
In Central, the average apartment size in Minato Ward was the largest (51.1 sq m), considerably larger than Shinjuku Ward (31.5 sq m), which

GRAPH 1 **Home ownership vs rental housing, 2013**



Source: Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

GRAPH 2 **Home ownership vs rental housing by area, 2013**



Source: MIC, Savills Research & Consultancy

is the smallest of the five wards. Following Minato Ward was Chiyoda Ward (42.1 sq m) and Chuo Ward (41.1 sq m).

Of the all 23 Wards, Nakano Ward in West recorded the smallest average size of 28.9 sq m.

Annual household income and housing space

Graph 6 shows the average size of housing by three household income ranges: annual income of below JPY5 million; between JPY5 and 10 million; and more than JPY10 million. As can be seen, households with a larger annual income show a clear tendency to live in larger homes.

For example, households with an annual income of more than JPY10 million in Tokyo's 23 Wards reside in housing of over 60 sq m on average, while those with less than JPY5 million annual income live in housing of just over 30 sq m.

A notable characteristic in the relationship between income levels and housing space is that households in Tokyo's suburbs tend to occupy more space than in centrally-located areas.

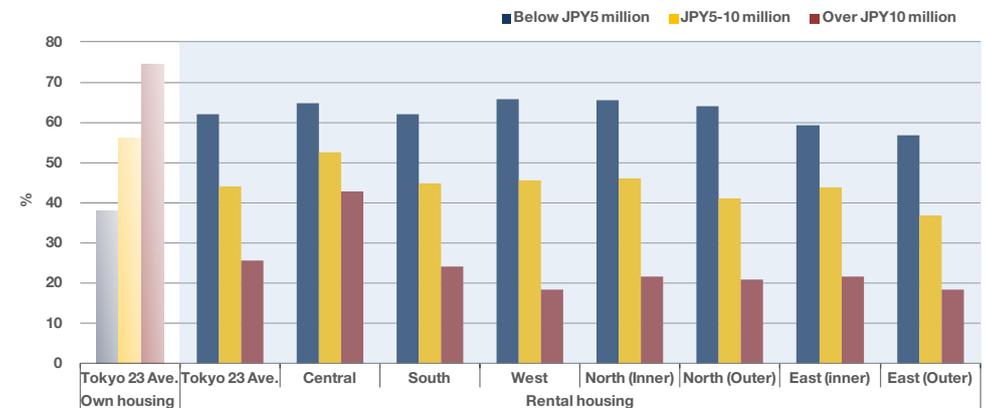
The average area occupied of households with an income of over JPY10 million in the West and Outer East was 67.5 sq m and 65.0 sq m, respectively. This contrasts with Central, where the same annual income group occupies housing which is about 20% smaller than in the West and Outer East areas.

However, no significant disparities were found for the below JPY5 million annual income households.

One of the reasons for the larger accommodation in Tokyo's suburbs is the greater number of household members. Graph 7 shows the number of people per household by income groups.

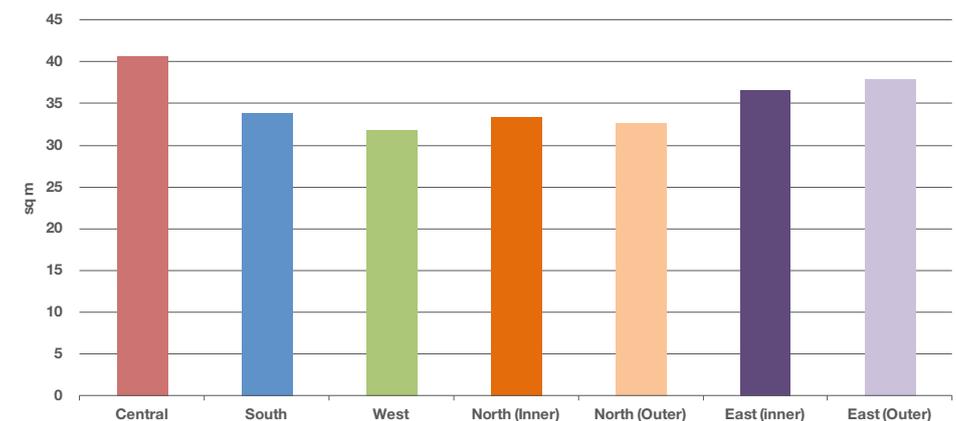
The sizes of households in Tokyo's suburbs are larger than those in the central areas. On average, the household size of Central is 1.9 persons per household (pph), whereas

GRAPH 3 Home ownership vs rental housing by income group, 2013



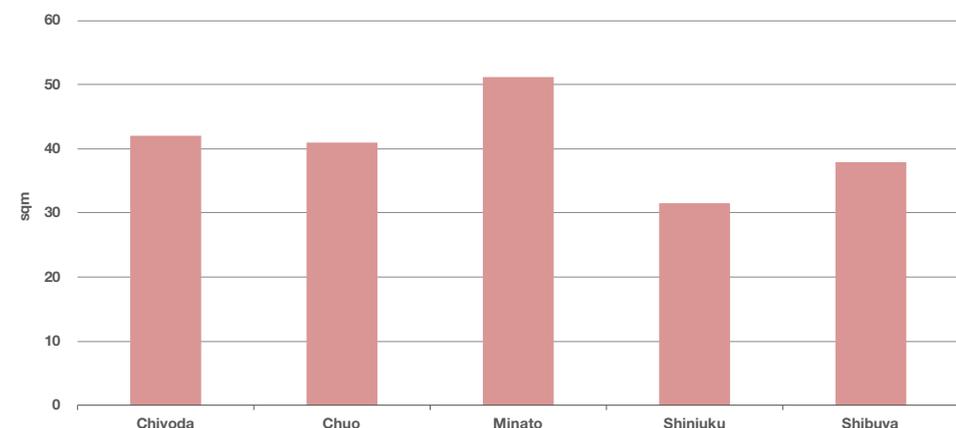
Source: MIC, Savills Research & Consultancy

GRAPH 4 Average size of privately owned rental apartments, 2013



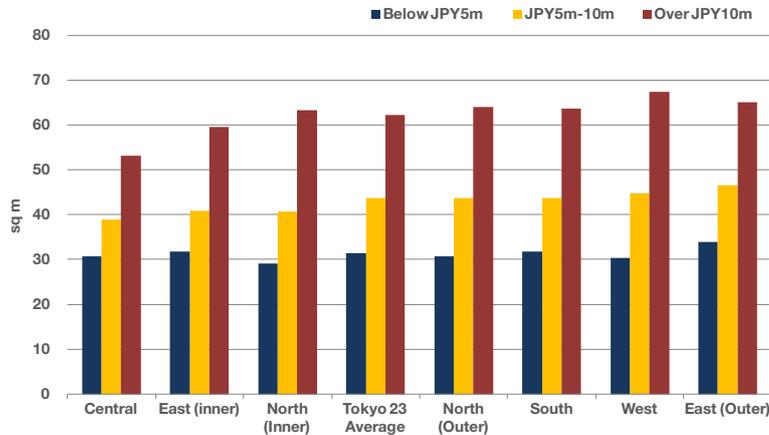
Source: MIC, Savills Research & Consultancy

GRAPH 5 Average size of privately owned rental apartments, central five wards, 2013



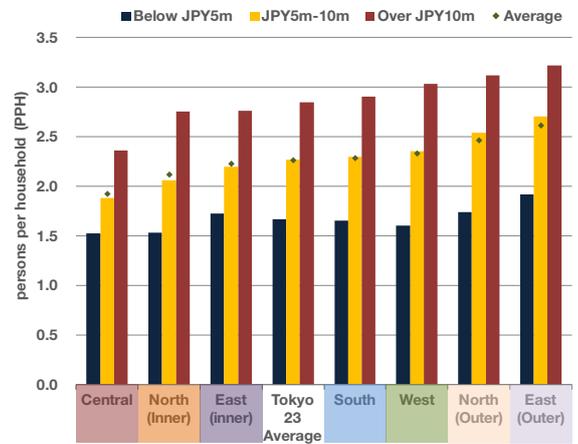
Source: MIC, Savills Research & Consultancy

GRAPH 6
Income levels and housing space, 2013



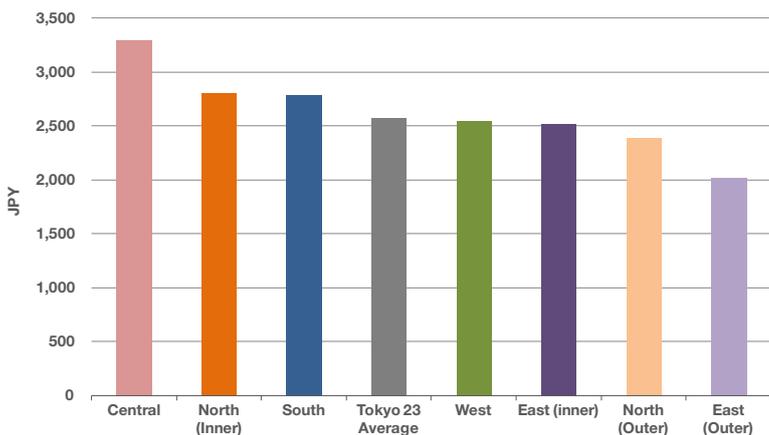
Source: MIC, Savills Research & Consultancy

GRAPH 7
Income levels and the number of household members, 2013



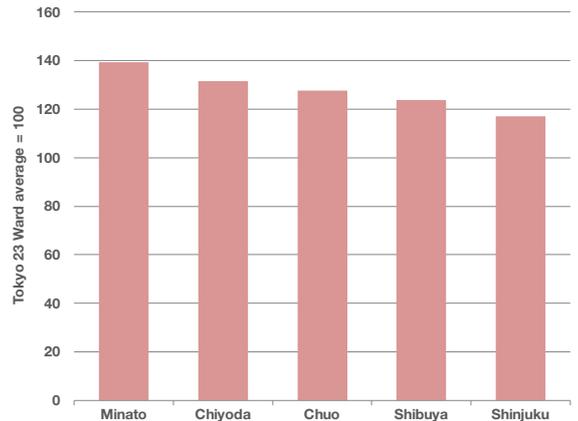
Source: MIC, Savills Research & Consultancy

GRAPH 8
Rent per sq m for privately-owned rental apartments, 2013



Source: MIC, Savills Research & Consultancy

GRAPH 9
Rental comparison, central five wards, 2013



Source: MIC, Savills Research & Consultancy

→ that of the Outer East is 2.6 pph, roughly 1.4 times larger than Central. In addition, the higher-income groups have a larger number of household members for all areas surveyed.

Another reason for the larger accommodation is the relative affordability of rental housing in suburban Tokyo. Rental levels in the suburbs are lower than in centrally-located areas on average.

Graph 8 shows that average rent per sq m for privately-owned rental apartments in Tokyo's 23 wards was JPY2,517/sq m in 2013. The most expensive area was Central, at approximately JPY3,300/sq m,

30% higher than the Tokyo 23-Ward average. In particular, Minato Ward demonstrated the highest rental levels, at JPY3,584/sq m, 40% higher than Tokyo's 23-ward average, followed by Chiyoda Ward (JPY3,384/sq m).

The lowest average rental level was seen in the Outer East, at JPY2,014/sq m, more than 20% cheaper than the Tokyo 23-Ward average. In the Outer East, Katsushika Ward was the cheapest of all the 23 wards, at JPY1,861/sq m, 30% cheaper than the average.

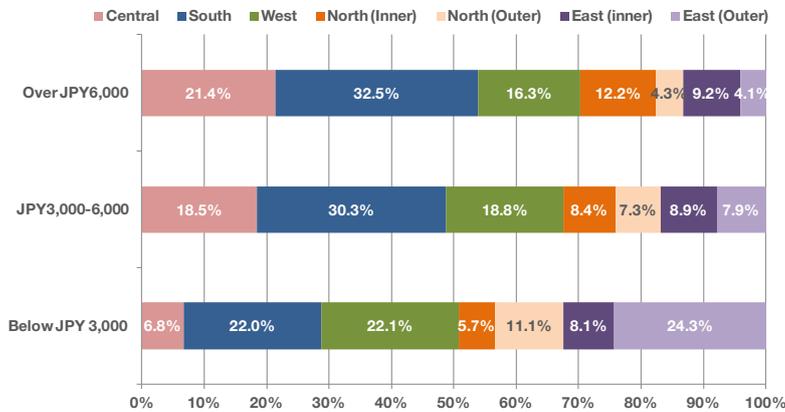
Graph 10 classifies rent per sq m into three categories: below JPY3,000/

sq m (low), between JPY3,000-6,000/sq m (medium), and over JPY6,000/sq m (high).

The South has the largest share (32.5%) of the rental apartments of over JPY6,000/sq m, followed by Central (21.4%). In contrast, nearly 25% of the low-rent apartments are located in the Outer East.

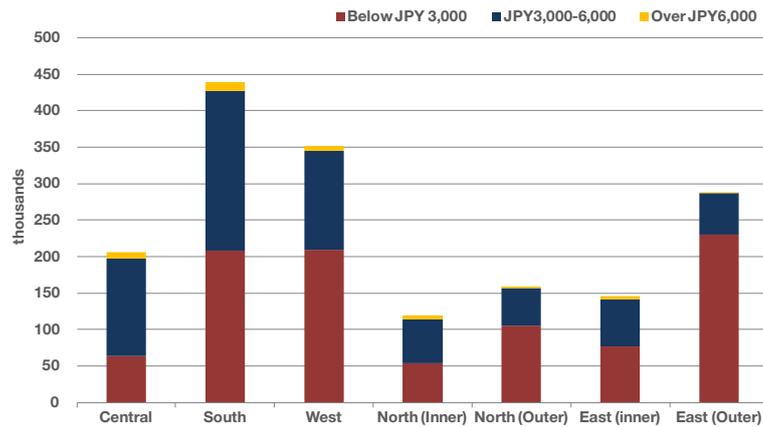
Proportionally, however, Central consists of only 12% of all privately-owned rental apartments in Tokyo's 23 wards. The South accounts for the largest share (26%), followed by the West (21%). The smallest in share is the Inner North (7%). The Outer East has the largest share of low-

GRAPH 10
Share of privately-owned rental apartments by rent per sq m, 2013



Source: MIC, Savills Research & Consultancy

GRAPH 11
The number of privately-owned rental apartments by rent per sq m, 2013



Source: MIC, Savills Research & Consultancy

GRAPH 12
Tokyo mid-market apartment rental index, 2008 – Q2/2015



Source: Savills Research & Consultancy

rent apartments in both relative and absolute terms.

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.

After the post-global financial crisis (GFC) rental correction which took place between 2008 and 2011, average rents in Tokyo’s 23 wards for mid-market apartments have recovered. In particular, since mid-2013, the pace of rental increase has been most notable for the central five wards (see Graph 2). Indeed, constant population flows into the central areas of Tokyo have provided relatively stable rental growth.

Tokyo mid-market apartment rental trends by survey area

Average mid-market rents in the 23-ward area were JPY3,603 per sq m (JPY11,911 per tsubo) in Q2/2015, a marginal increase on the quarter (0.1%), and 1.1% from a year earlier. In both quarterly and annual growth terms, however, Q2/2015 was the second straight quarter of positive rent growth.

The central five wards on average achieved a mere 0.8% increase in rent on the year, but fell by 0.5% on the quarter to JPY4,142 per sq m

(JPY13,691 per tsubo). In the central five wards, Chiyoda Ward performed poorly, with a 2.1% QoQ decline to JPY4,144 per sq m (JPY13,698 per tsubo), as well as Shibuya Ward, with a 1.9% QoQ reduction to JPY4,280 per sq m (JPY14,148 per tsubo) in Q2/2015.

In contrast, Shinjuku Ward recorded a relatively strong increase to JPY3,967 per sq m (JPY13,115 per tsubo) with growth rates of 1.7% QoQ and 3.7% YoY in the second quarter of 2015. The highest asking rent in Q2/2015 was seen in Minato Ward at JPY4,518 per sq m (JPY14,934 per tsubo), an increase of 1.8% from a year earlier.

Tokyo mid-market apartment rents by unit size-band

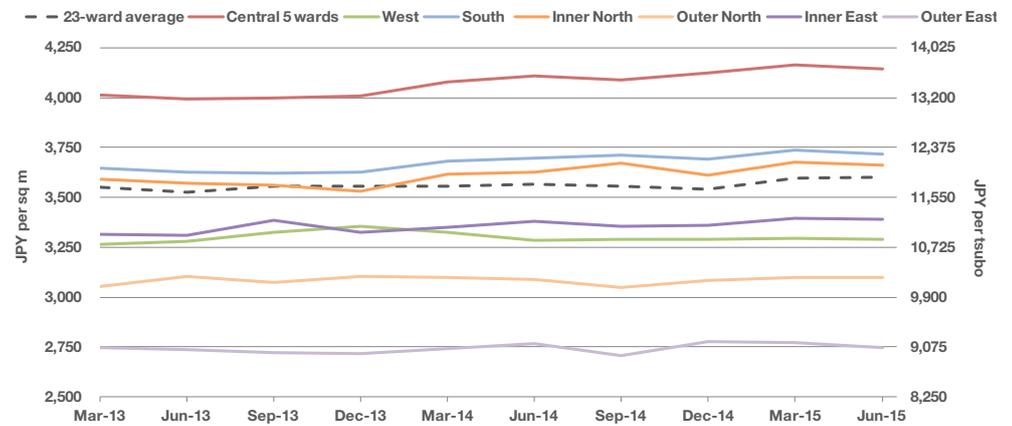
Table 1 shows average rents of Tokyo's 23 wards' smaller-than-60-sq m units increased at a faster pace than the central five wards in Q2/2015.

In C5W, rents for compact units in the 15- to 30-sq m size-band increased by 1.7%, whilst those for 45- to 60-sq m decreased by 0.7%. Apartment rents for 30- to 45-sq m units remained unchanged. However, rents for 60- to 75-sq m units increased at a faster pace of 7.4%.

Mid-market apartment occupancy rates

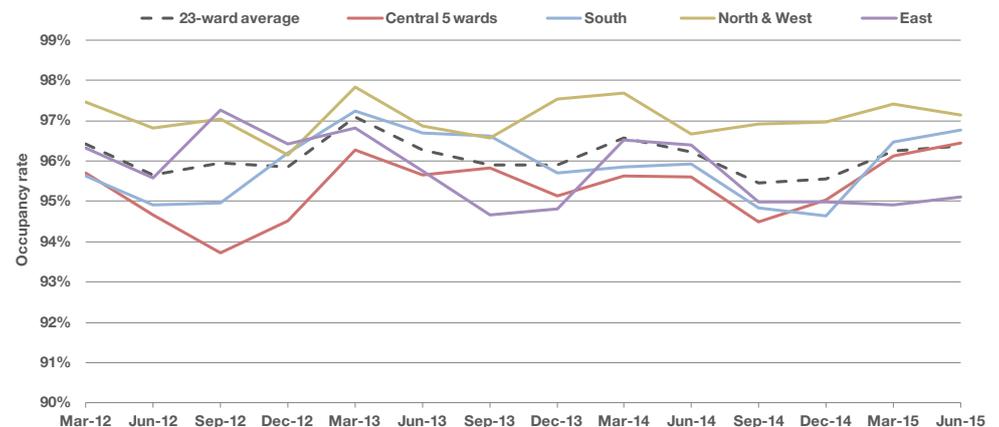
Given their typical building age and unit specifications, J-REIT-owned residential assets provide a useful

GRAPH 13 Average asking rents for mid-market rental apartments by survey area, Q1/2013 - Q2/2015



Source: Savills Research & Consultancy

GRAPH 14 Average occupancy rates for J-REIT residential assets, Q1/2012-Q2/2015



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

TABLE 1 Average mid-market monthly asking rents by unit size, Q2/2015

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	3,680 (12,165)	3.0	3,490 (11,535)	3.1	3,470 (11,470)	5.2	3,560 (11,770)	3.0
Central 5 wards	4,230 (13,985)	1.7	3,990 (13,190)	0.0	3,980 (13,155)	-0.7	4,320 (14,280)	7.4
No. of units surveyed	>10,000		>5,000		>2,500		>500	

Source: Savills Research & Consultancy

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 stood at 96.4%, unchanged from the previous quarter. However, it remained above the 95% threshold, where it has been for four years since Q3/2010.

Though there was a drop of 0.3 of a ppt from the previous quarter, the North and West areas combined have sustained the highest levels of occupancy, at 97.2%, since Q3/2014. For Tokyo's two most expensive areas – the central five wards and South – average occupancy rates both picked up by 0.3 of a ppt from the previous quarter to 96.5% and 96.8%, respectively. In contrast, occupancy rates in the Outer East continued to perform poorly at 94.8%, the lowest of all areas surveyed.

Summary

Occupancy rates for centrally-located rental housing have shown stability,

with a high level of over 95%, and rental growth is largely positive at annual rates.

The share of rental housing as opposed to home ownership in Tokyo's 23 wards is higher than the national average, but with considerable variation depending on household income. Households with higher annual incomes tend to own their own housing, whereas those on lower incomes choose rental housing.

A notable exception is the central five wards, where nearly half of high-income households rent housing, where housing prices have risen considerably, while rents are relatively stable. The higher share of households opting for rental apartments will provide stable demand for the residential sector going forwards. ■

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Savills plc

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