

Briefing Residential leasing

Q3 2015



SUMMARY

Both mid-market and luxury residential rents in Tokyo's 23 wards are on track for recovery.

■ After hitting bottom in 2012, Tokyo's 23 wards and the central five wards rents have gradually recovered, yet they are still about 8-9% below the 2008 average.

■ Tokyo's 23 ward's average rent in Q3/2015 rose by 0.3% quarter-on-quarter (QoQ) to JPY3,615/sq m, while the central five-ward average rent increased by 0.2% QoQ to JPY4,148/sq m.

■ The rental premium (the gap between the Tokyo 23-ward average rent and each area) of areas/wards with close proximity to the centre is consistently high. On the other hand,

outer areas, such as Outer North and Outer East, tend to record a low premium.

■ The highest premium was seen in the central five wards, where on average the premium has stood at over 13%. There are, however, some variations in the premium rate within each area surveyed.

■ Although the contract rents of luxury residential in the central five wards have recovered from the low levels of early 2013, the average rent in the central five wards is still 10 to 20% below 2007 highs, suggesting that there is some potential for rents to increase.

■ In particular, Chiyoda's rent for luxury residential in 1H/2015 is still over 17% below 2007 contract rental levels. The other four wards are also 8 to 13% below.

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 "Tokyo's 23 ward and central five ward rents have gradually recovered, but are still about 8% to 9% below the 2008 average."
 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).

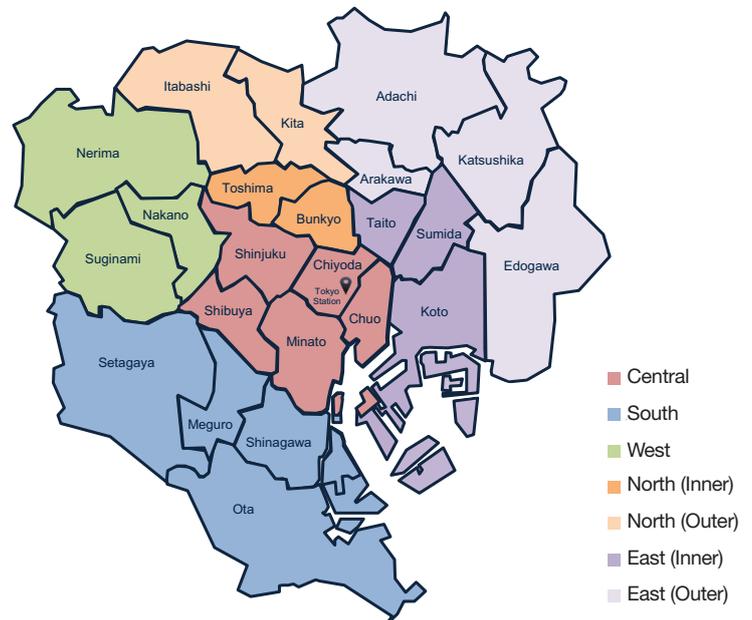
Savills rental index: Tokyo 'mid-market' apartments

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, Tokyo's 23-ward and the central five-ward rents have gradually recovered but are still about 8 to 9% below the 2008 average. In terms of quarter-on-quarter (QoQ) growth rates, Tokyo 23 ward average rent in Q3/2015 rose by 0.3% QoQ to JPY3,615/sq m, while the central five ward rent increased by 0.2% QoQ to JPY4,148/sq m. Other areas, such as Outer North, Outer East, and West performed better recording 0.6%, 0.8%, and 2.1% QoQ growth respectively.

By ward, the best growth rate for per sq m rent was found in Katsushika (5.3% QoQ to JPY2,712/sq m). Other centrally located wards, such as Chuo (1.5% QoQ, JPY3,859/sq m), Minato (0.9% QoQ, JPY4,557/sq m) and Shinjuku (0.6% QoQ, JPY3,989/sq m), saw strong growth rates, whilst Shibuya and Meguro struggled to grow.

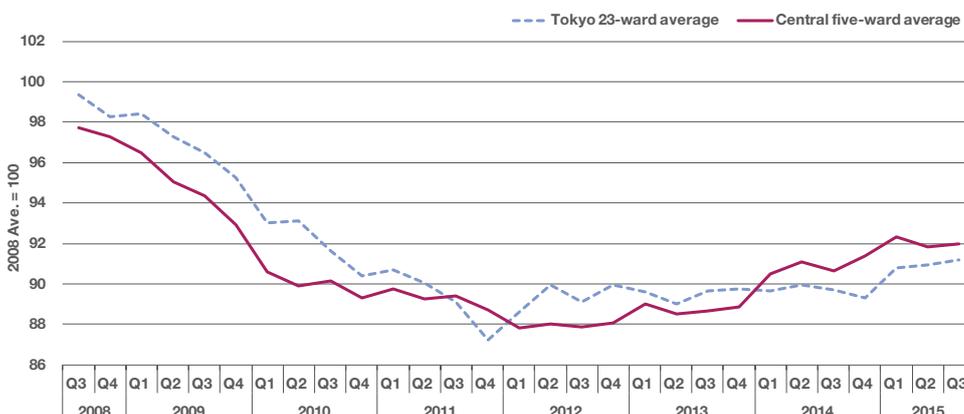
Tokyo mid-market apartment rental trends by survey area

Graph 2 shows the differences in rental levels between the Tokyo 23-ward average and each area as 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 South record high premiums. Premium rates of areas (and wards) with close proximity to the centre (for example, the central five wards) are consistently high. On the other hand, outer areas, such as Outer North and Outer East, tend to have low premiums.

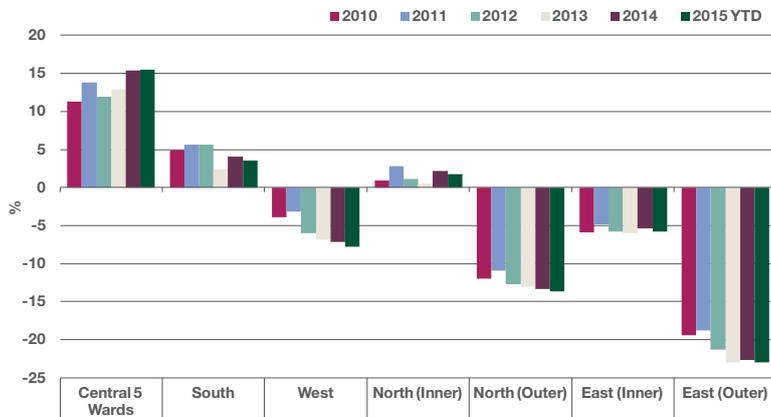
The highest premium rate was seen in the central five wards, where on average the premium stood at over 13%.

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



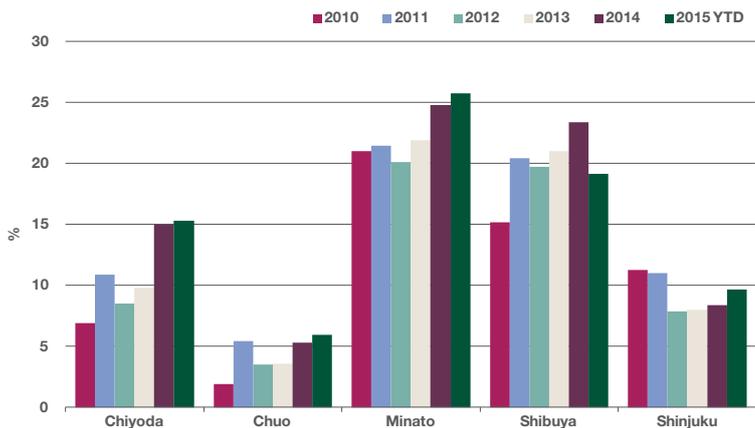
Source: Savills Research & Consultancy

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



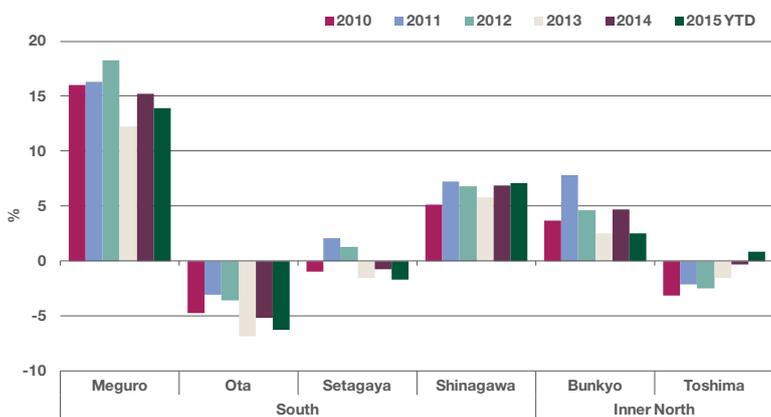
Source: Savills Research & Consultancy

GRAPH 3
Rental premium over the Tokyo 23-ward average, central five wards, 2010–2015 YTD



Source: Savills Research & Consultancy

GRAPH 4
Rental premium over Tokyo 23-ward average, South and Inner North, 2010–2015 YTD



Source: Savills Research & Consultancy

Of the central five wards, Minato has the highest premium, with a premium consistently over 20% between 2010 and 2015 YTD. The latest reading as of Q3/2015 was 26.1%. It is followed by Shibuya, whose average premium rate over Tokyo’s 23 wards between 2010 and 2015 YTD stood at 19.8%. As of Q3/2015, Shibuya’s premium rate was 17.4%, slightly down from 18.8% in Q2/2015. Whilst Chuo’s premium rate, an average of 4.2% between 2010 and 2015 YTD, is weaker compared to the other four wards of the central five wards, the rental premium has increased consecutively for four years since 2012.

Whilst the premium rates of South have been in positive territory, there are some variations between wards. As can be seen in Graph 4, the high premium in South is a result of the high premiums in Meguro and Shinagawa. Meguro’s premium was over 15% between 2010 and 2012 on average. Although the premium rate declined slightly, it is still comfortably over 10% in Q3/2015. Shinagawa’s premium has been constantly over 5%. Similarly, the modestly high premium rate in Inner North is a result of Bunkyo and dragged down by Toshima. However, it should be noted that Toshima’s premium rate turned positive this year.

Turning to the per sq m rent, Tokyo 23 wards average per sq m rent in Q3/2015 was JPY3,615/sq m, up by 0.3% QoQ.

Of the seven areas observed, rental levels in the central five wards were the highest, JPY4,148/sq m, up by 0.2% QoQ. By ward, Minato marked the highest rent, JPY4,557/sq m, which grew by 4.5% from the same quarter last year. Shinjuku also showed an impressive 0.6% QoQ growth to JPY3,989/sq m. Furthermore, Chuo’s rent grew by 1.5% QoQ to JPY3,859/sq m.

Areas with a low premium over the Tokyo 23-ward average, as seen in Graph 4, are now catching up. For example, Graph 5 shows West marked a strong QoQ growth of 2.1% to JPY3,359/sq m, largely as a result of strong growth of Nakano, or 2.4% QoQ to JPY3,529. Per sq m rents in Outer North in September 2015 stood at JPY3,118/sq m, up by 0.6% QoQ. In Outer North, Kita recorded a strong growth rate of 1.4% QoQ to JPY3,228/sq m.

The per sq m average rental level of Outer East, whose premium is the lowest (Graph 2), grew by 0.8% QoQ to JPY2,767/sq m. In particular, Katsushika showed the strongest QoQ growth amongst Tokyo's 23 wards. In September 2015, Arakawa's average rent per sq m stood at JPY3,056/sq m, up by 5.3% QoQ.

Tokyo mid-market apartment rents by unit size-band

Table 1 shows that there were great variations in rents by size of residential property within the same area observed. The average rent of the central five wards stood at JPY4,148/sq m recording 0.2% QoQ growth in Q3/2015. By size, rents for units between 60 and 75 sq m increased by 2.8% QoQ to JPY4,440/sq m. Similarly, rental levels of residential flats in the same area of 45 to 60 sq m increased by 0.7% from the same quarter last year.

In QoQ growth terms, the average per sq m rent of Tokyo's 23 wards grew by 0.3% to JPY3,615/sq m for all-sizes of apartment. By size, the rent for 30 to 45 sq m apartments grew by 0.3% QoQ to JPY3,505/sq m.

Mid-market apartment occupancy rates

Though with minor fluctuations, average occupancy rates have been above the 95% threshold as seen in Graph 6. In Q3/2015, the average occupancy rate for Tokyo's 23 wards stood at 96.5%, an improvement of 1.0 percentage point from a year earlier. Occupancy rates of the central five wards in Q3/2015 were 95.7%, up by

1.3ppt from the same quarter last year. Chuo and Chiyoda's occupancy rates were also comfortably high at 97.2% and 97.0%, respectively.

By area, the highest occupancy rate was recorded in North and West, at 97.1% in Q3/2015. Of the two areas, West, whose occupancy rate was 97.4%, returned the highest occupancy rate among Tokyo's 23 wards. East was also slightly above the Tokyo 23-ward average occupancy rate at 96.7%.

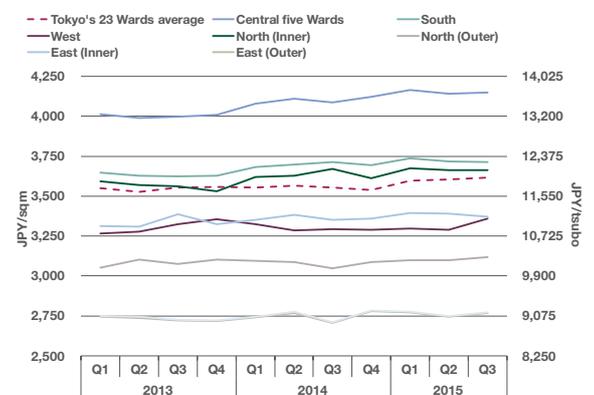
Savills Tokyo residential survey: luxury residential¹ market in central five wards

Overall, the rent levels of luxury residential in the central five wards are still lower than the 2007 highs. In the luxury residential market, 2007, a year prior to the onset of Global Financial Crisis (GFC), saw the highest rental levels. For example, the 2007 average rent for luxury residential was JPY5,203/sq m (JPY17,200 tsubo) for the central five wards. The highest was seen in Chiyoda, where the 2007 average per sq m rent was JPY5,984/sq m (JPY19,783/tsubo), followed by Minato, JPY5,683/sq m (JPY18,788/tsubo), according to Ken Corporation.

Since the Lehman Collapse in mid September 2008, the rent levels of luxury residential started to decline. When rents hit bottom in March 2013, the average rent for luxury residential stood at JPY4,019/sq m (JPY13,286/

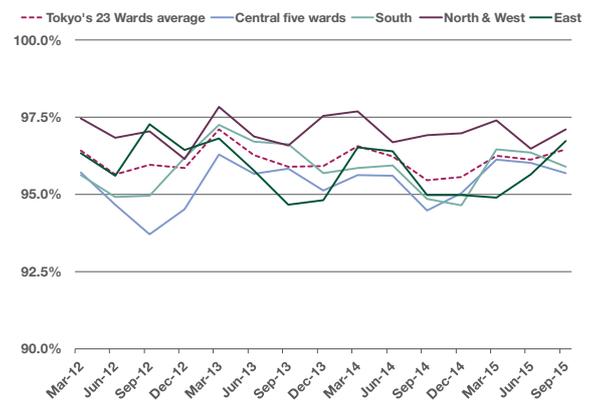
¹ Luxury residential is defined as more than JPY300,000 in rent or more than 30 tsubo (99.2 sq m) in an exclusive area in central five wards: Chiyoda, Chuo, Minato, Shinjuku and Shibuya.

GRAPH 5 Average asking rents for mid-market apartments by area, Q1/2013–Q3/2015



Source: Savills Research & Consultancy

GRAPH 6 Average occupancy rates for J-REIT residential assets, Q1/2012–Q3/2015



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

TABLE 1 Average mid-market monthly asking rents by unit size-band, Q3/2015

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	3,690 (12,200)	0.1	3,510 (11,605)	0.3	3,430 (11,340)	-1.1	3,550 (11,735)	-0.5
Central five wards	4,250 (14,050)	0.3	4,000 (13,225)	0.1	4,000 (13,225)	0.7	4,440 (14,680)	2.8
No. of units surveyed	>10,000		>5,000		>2,500		>500	

Source: Savills Research & Consultancy

tsubo), 23% below the 2007 average high.

From then onwards, the contract rent of the central five wards rose until mid to late 2014 to approximately JPY4,700/sq m (JPY15,530/tsubo). Whilst it fell slightly at the beginning of 2015, the central five wards contract rent started to rise again soon afterwards. As of 1H/2015, however, the contract rental level of the central five wards was on average 10 to 20% lower than the 2007 average.

Chart 8 depicts the historical transition of average contract rent by ward. Chiyoda, though its rental levels are usually the highest among the central five wards, is still over 17% lower than the 2007 average contract rent. The 2015 YTD average contract rent for Chiyoda stood at just over JPY4,900/sq m (JPY16,330/tsubo), followed by Minato, whose 2015 YTD contract rent, JPY4,980/sq m (JPY16,460/tsubo) is more than 12% below the 2007 high.

After the Lehman Collapse, occupancy rates of luxury residential fell to below 90% for more than a year. However, occupancy rates gradually improved from then onwards, and those for Minato and Shibuya were 92.3% and 94.2%, respectively in 1H/2015.

Outlook

The rental premium rate is high in centrally located areas such as the central five wards and South, and low in outer areas, such as Outer North and Outer East.

There are, however, some variations in the premium rates within each area surveyed. For example, in South, Meguro and Shinagawa, high premium rates over the Tokyo 23-ward average are typical, whereas Ota's premium rates are consistently in negative territory.

Although the contract rents of luxury residential in the central five wards have recovered from the low levels of early 2013, the average rent of the central five wards is still 10 to 20% below 2007 highs, suggesting that there is some potential for rents to increase.

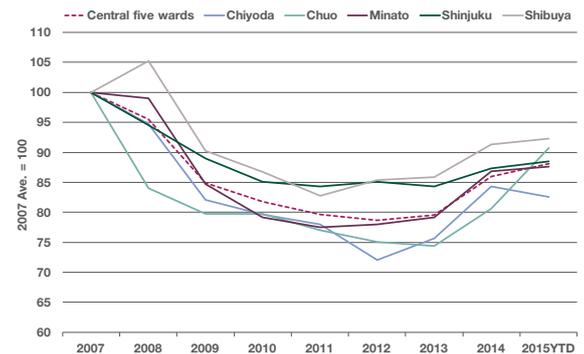
In particular, Chiyoda's average rent for luxury residential in 1H/2015 is still over 17% below 2007 contract rental levels. The rest of the four wards are also 8 to 13% below. The mid-market residential rents in Tokyo's 23 wards are about 8 to 9% below 2008 levels, though the central five wards saw slightly more improvement than the other wards. ■

GRAPH 7
Luxury residential rental index, 2007-1H/2015



Source: Ken Corporation, Savills Research & Consultancy

GRAPH 8
Luxury residential average contract rent, 2007-2015 YTD



Source: Ken Corporation, 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
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

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