Introduction

2013 was a bright year for Tokyo, with the residential sales market buoyed by Japan’s more optimistic economic outlook as well as the city’s strong demographics. Consumer and investor sentiment appear to have improved as a result of ‘Abenomics’, the government’s stimulus and reform programme introduced early in the year. This supported steady expansion in the economy, backed by increased corporate profitability and a significantly weaker yen. A shift towards residential land price appreciation was reported, indicating that the market has exited the post-global financial crisis down-cycle. Moreover, Tokyo’s successful bid to host the 2020 Summer Olympic Games offered further impetus to sustain the positive momentum into the mid- to long-term.

In addition to robust owner-occupier demand, Tokyo has jumped back on the radar of domestic and international retail investors. Factors attracting private capital include the high occupancy rates and stable rental yields provided by the mid-market rental sector. In particular, modern condominium buildings located in and around the centre of the city have generated significant interest.

Demographic trends

The population of Tokyo Prefecture stood at approximately 13.3 million as of 1 December 2013, reflecting cumulative growth of close to 12% since 1998. According to Tokyo Metropolitan Government (TMG) data, the number of residents continued to increase at a rate of 0.5% year-on-year (YoY), supported by in-movement from regional towns and the countryside.

Looking within the capital, the population of the Tokyo 23-ward area stood at slightly less than 9.1 million, having expanded at a rate of 0.7% YoY. The central five wards¹, meanwhile, accounted for nearly 1.0 million people, recording a higher growth rate of 1.5% YoY on the back of the ongoing trend towards centralisation. Indeed, the central areas of the capital have consistently seen the highest rates of population growth over the past 15 years. Cumulatively, the number of residents in Tokyo’s 23-ward area has risen by 13% since 1998, whereas the central five-ward area has expanded by just under 30%. At the ward level, Chuo has led the pack with a 102% increase in residents over the same period.

This positive demographic trend has supported both demand for owner-occupied condominiums and high occupancy rates in the mid-market rental sector, particularly units located in prime locations or close to transport hubs.

Residential supply

A survey conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) shows that the number of housing construction starts in Tokyo Prefecture totalled just over 144,500 units in 2013. Indicative of strong demand for new residential units, both for rent and for purchase, the total volume of new supply was 2.6% higher than in 2012, marking a fourth consecutive year of recovery since the market hit its bottom in 2009.

Despite this pick-up, construction starts remained approximately 8.5% below the long-term annual average of 158,000 units recorded between 2000 and 2012. This in part reflects a material rise in construction costs through the year, which affected the feasibility of some development projects. Moreover, it highlights caution among developers not to oversupply the market prior to the consumption tax increase from 5.0% to 8.0% on 1 April 2014, which is anticipated to have a temporary dampening effect on residential unit sales.

When broken down by use, approximately 44% of Tokyo’s housing construction starts in 2013 were units built for sale; around 40% were rental housing units, while just over 15% were owner-commissioned housing units.

Transaction volumes of new condominiums in Tokyo’s 23 wards

Transaction volumes of new condominium units can be derived...
from the average contract rate in the first month of a project’s launch2. In 2013, the contract rate was 81.5% for new condominiums in Tokyo’s 23-ward area – the highest rate recorded in eight years. Illustrative of strong demand, the contract rate jumped 7.7 percentage points (ppts) YoY and some 19.5 ppts compared with the recent low of 2008.

The key drivers of this positive movement are threefold: 1) a number of buyers brought forward condominium purchases in order to avoid paying the higher consumption tax rate that applies from the fiscal year 2014; 2) improved economic sentiment spurred by the Abe administration’s assertive efforts to overcome Japan’s moderate but persistent deflationary cycle, which seeks to stoke broader price appreciation in line with the central bank’s 2% inflation target; and 3) a general view that the shift towards increased mortgage costs.

Mid-market condominium price trends
Boosted by the aforementioned demand drivers, the average price per sq m for new condominiums supplied to the market in Tokyo Prefecture rose 4.3% YoY in 2013, to stand at JPY272,500 per sq m. For the 23-ward area, the price increase was higher still at 8.0%, with units averaging JPY865,000 per sq m. Both survey areas recorded the highest price increase in five years.

Traditionally, home ownership in Japan is considered when one gets married or starts a family. The typical size of new condominiums is illustrative of this cultural tendency by being larger than standard rental apartment units. Average unit sizes remained almost unchanged in 2013, at approximately 70 sq m in Tokyo Prefecture and 67 sq m in the 23-ward area.

Residential land price trends
As shown in Table 1, residential land prices in most areas of Tokyo exhibited mild growth in 2013. According to an annual survey conducted by the land ministry, the Tokyo 23-ward area made the shift toward positive territory, recording land price appreciation of 0.5% YoY. Chiyoda Ward outperformed the market average by showing a strong 3.1% increase, improvement that was closely followed by Minato Ward and Chuo Ward at 2.7% and 2.3% respectively.

Indicative pricing in 1H/2014
For condominiums that reach completion in the first half of 2014, the average unit price in Tokyo’s 23 wards is approximately JPY55 million3. The price differential between the top and bottom end is significant, with the lower decile commanding around JPY22 million and the upper decile as much as JPY249 million. In terms of unit size, condominiums coming on line between January and June offer an average unit size of 66 sq m, and range from compact condos of just 23 sq m to more spacious units of around 150 sq m.

Reflecting a location premium, the average price for condominiums completing in the central five wards in 1H/2014 is JPY83 million, with the least expensive units marketed at around the JPY28 million level.

Outlook
Looking ahead, the consumption tax increase of 1 April 2014 will likely have a temporary dampening effect on unit transaction volumes. However, its impact on market pricing is expected to be mitigated by several factors. These include the government’s extension of household tax exemptions and housing loan deductions, as well as the restrained supply pipeline in the near term. Improved macro-economic conditions, along with a stated government objective to increase household incomes, should help to support market fundamentals through 2014.

3 Source: Savills Research & Consultancy based on a survey of pipeline condominium developments comprising reinforced concrete structures.

**TABLE 1**
Percent change in residential land prices YoY, 2011–2013*

<table>
<thead>
<tr>
<th>Area</th>
<th>Year 2011</th>
<th>Year 2012</th>
<th>Year 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central 5 wards</td>
<td>Chiyoda</td>
<td>-0.8</td>
<td>-0.2</td>
</tr>
<tr>
<td></td>
<td>Chuo</td>
<td>-0.9</td>
<td>-0.4</td>
</tr>
<tr>
<td></td>
<td>Minato</td>
<td>-2.1</td>
<td>-0.2</td>
</tr>
<tr>
<td></td>
<td>Shinjuku</td>
<td>-1.3</td>
<td>-0.5</td>
</tr>
<tr>
<td></td>
<td>Shibuya</td>
<td>-1.6</td>
<td>-0.7</td>
</tr>
<tr>
<td>Tokyo 23 wards</td>
<td>-1.3</td>
<td>-0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Greater Tokyo</td>
<td>-1.9</td>
<td>-1.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Greater Nagoya</td>
<td>-0.7</td>
<td>-0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Greater Osaka</td>
<td>-1.8</td>
<td>-1.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Japan nationwide</td>
<td>-3.2</td>
<td>-2.5</td>
<td>-1.8</td>
</tr>
</tbody>
</table>

*Source: MLIT

**GRAPH 4**
Average price per sq m and unit size, 2008–2013

**GRAPH 5**
Average pricing for condominiums that reach completion in 1H/2014

savills.com.hk/research