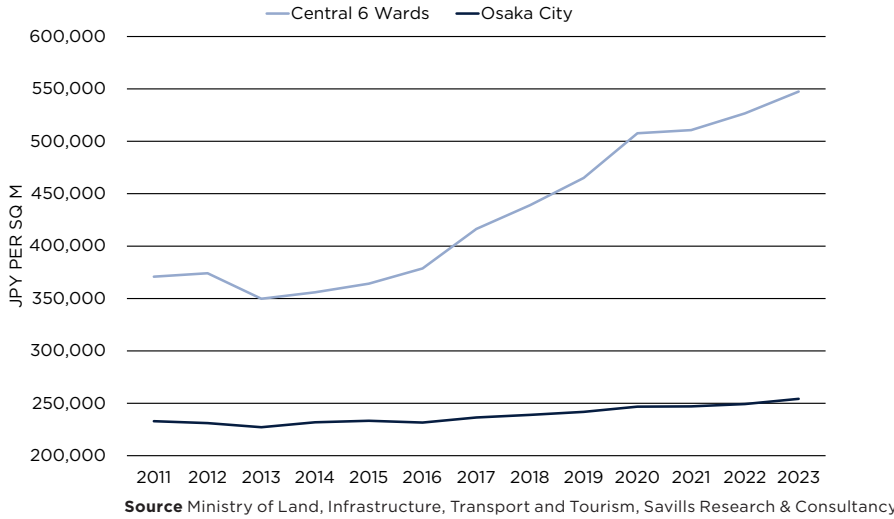


# Osaka Residential Sales

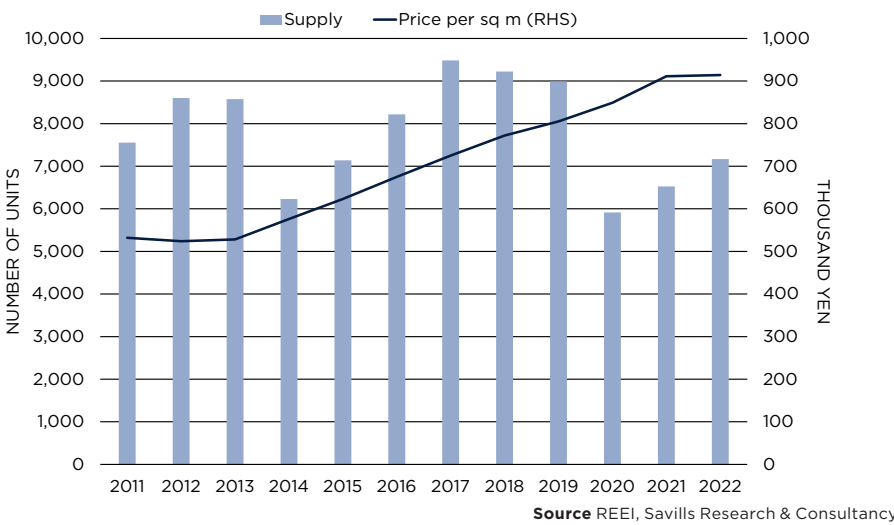


# Condominium prices in Osaka continue to rise

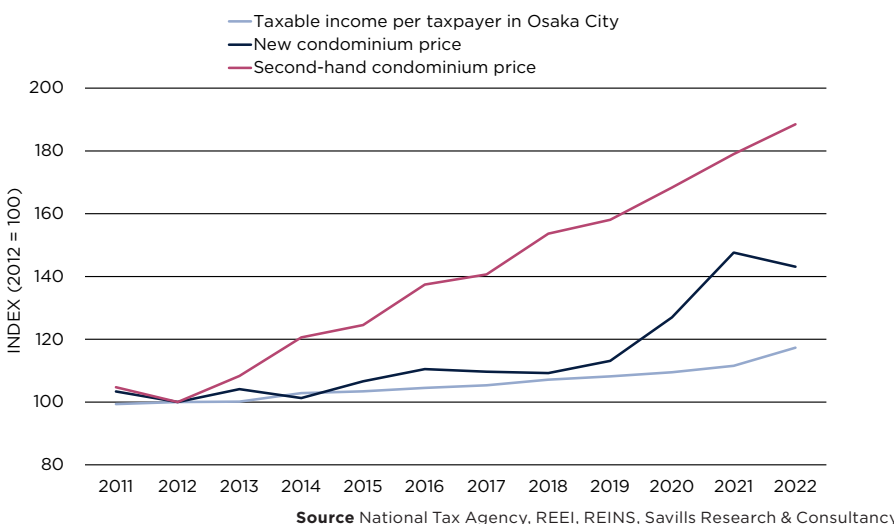
**GRAPH 1: Residential Land Prices in Osaka City, 2011 to 2023**



**GRAPH 2: Supply and Average Price of New Condominium in Osaka City, 2011 to 2022**



**GRAPH 3: Taxable Income vs Condominium Price Index, 2011 to 2022**



## INTRODUCTION

Condominiums in Osaka City have seen prices increase, especially in recent years, on the back of rising construction costs and land prices, hitting a new high of JPY914,000 per sq m in 2022. Despite these increments, the contract rate<sup>1</sup> for condominiums in Osaka has remained comfortably above 70%, with fundamental factors including a growing population and low interest rates supporting demand. Demand for housing in the city is likely to increase further in the current post-pandemic era, as higher levels of office attendance should entice more people to live closer to the main business districts of Osaka. This trend can be observed especially in central wards in Osaka City, where population growth has been the strongest, and residential land prices have skyrocketed.

Condominium prices are projected to remain elevated, with prevailing economic headwinds contributing to high construction costs unlikely to dissipate in the near future, as well as sound demand from a greater number of high-earning dual-income households. At the same time, lukewarm wage growth in Osaka City over the past decade suggests that price appreciation might slow down, and developers will control supply to cater to target demographics, thus keeping the for-sale market in balance. Overall, the market should see moderate, but sustainable growth.

## DEMAND AND SUPPLY

One reason for the increment of for-sale condominium prices is the low supply of new units. According to the Real Estate Economic Institute (REEI), the number of condominium units constructed in 2022 was about 25% lower than the peak supply observed in 2017 (Graph 2). Construction volumes in Osaka City have thus seen a clear decline since the pandemic. However, even in the post-pandemic environment, supply is unlikely to see significant increments. Construction costs are more than 20% higher compared to pre-pandemic times, having climbed sharply due to inflation and labour shortages. Furthermore, land prices are also on the rise, especially in central areas, and land suitable for developing for-sale properties is more difficult to acquire. In addition, in 2024, a new bottleneck will be added to the supply chain with new regulations on the amount of overtime allowed for construction workers, which will likely slow down new supply being added to the market. Given the prevailing

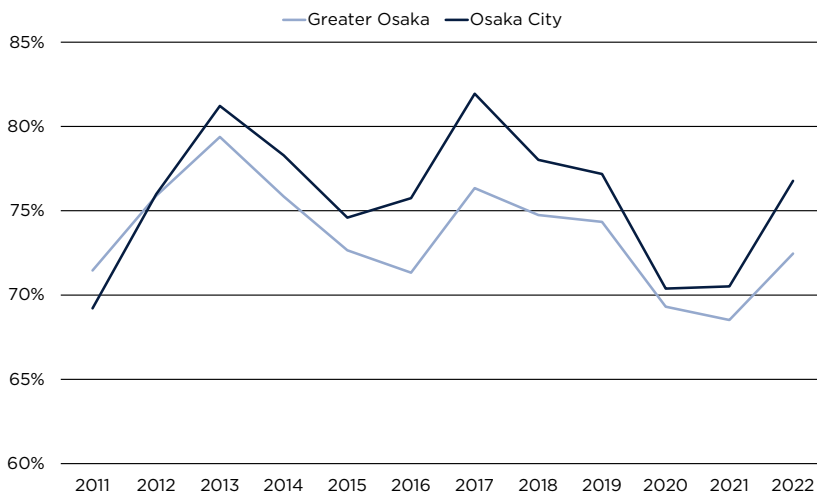
<sup>1</sup> The contract rate is generally defined as the percentage of offered units sold within the first month. This measure is closely monitored as it gauges the strength of demand. Given the significant pre-sales effort before the beginning of actual sales, 70% is typically considered to be an inflection point.

circumstances, new supply will likely be rather subdued going forward, and cost-push inflation will push developers to raise selling prices.

At the same time, a plethora of demand-side factors have also contributed to price increments. Actual domestic demand has been high, with low interest rates and government-sponsored housing loan schemes effectively lowering the barrier to entry for home buying. A growing number of high-earning dual-income households and greater demand for more space to accommodate remote work have also likely fuelled housing demand. The weak yen also appears to have attracted some inflows of foreign capital, from wealthy buyers looking for overseas homes, and from those looking for avenues to transfer

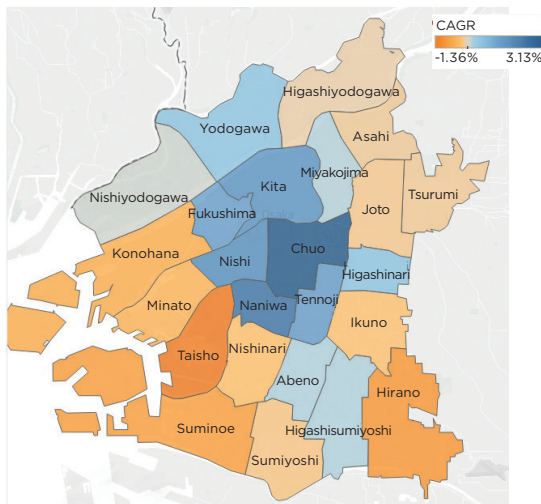
**Strong demand, high construction and land costs have contributed to elevated prices of both new and second-hand condominiums in Osaka. Wage growth has been slow in comparison, and many people will likely be priced out and required to stay in the rental residential market.**

**GRAPH 4: Greater Osaka and Osaka City Contract Rate, 2011 to 2022**



Source REEI, Savills Research & Consultancy

**MAP 1: Osaka City Population Compound Annual Growth Rate, November 2019 vs November 2023**



Source Osaka City Government, Savills Research & Consultancy

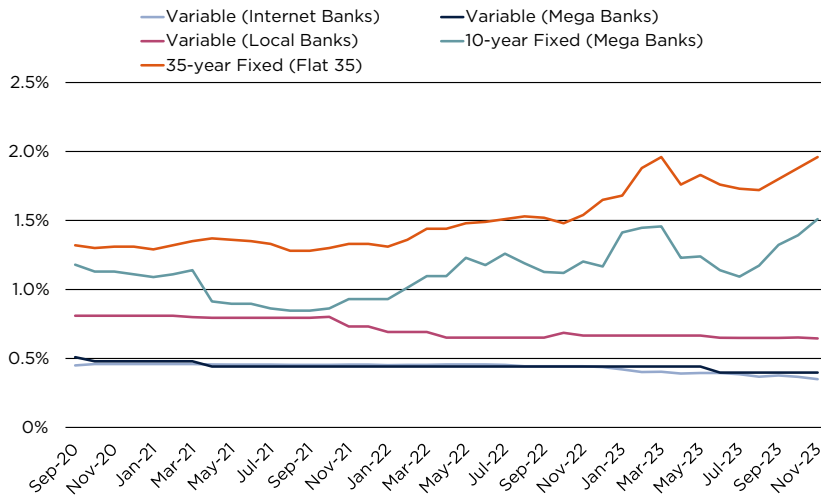
and store wealth, with Japan as a top destination due to the country's political stability and strong ownership laws within the Asia Pacific region. Osaka City is a popular inbound tourist destination, and its relative affordability compared to Tokyo should make it a favourable choice for such clientele. Overall, prices are expected to remain high, albeit controlled, as a result of these demand and supply factors.

**PRICED OUT OF THE FOR-SALE MARKET**

Indeed, condominium prices in Osaka City have been on a steadily increasing trend over the past decade. According to REEI, in 2022, average new condominiums were priced at JPY46.5 million per unit, having grown more than 40% since 2012. With higher development costs and contract rates at comfortable levels, major developers with healthy balance sheets have few incentives to lower prices, meaning that prices are expected to stay high going forward. Moreover, those turning to the second-hand condominium market will not necessarily find better luck, as this market has seen even more drastic changes, with the average transacted unit priced at JPY33.8 million in 2022 according to the Real Estate Information Network Systems (REINS), having increased by almost 90% since 2012.

In contrast, wages in Osaka City have not kept up with these rising prices at all. Looking at Graph 3, the average income per taxpayer in Osaka has grown by less than 20% since 2012, a far cry from the 40% and 90% of new and second-hand condominiums, respectively. While some wage hikes have been reported as a result of the 2023 "Shunto" spring negotiations, considerable increments are significantly more likely to be from

**GRAPH 5: Housing Mortgage Rates, September 2020 to November 2023**



Source Mogecheck, Savills Research & Consultancy

larger corporations, and not applicable to the majority of people in Osaka.

As a result, the disproportionate increments in condominium prices will likely make them unaffordable for a growing number of potential homebuyers, further exacerbated by mortgage rates that could increase when the Bank of Japan further normalises its monetary policy. Looking at Graph 5, this is already apparent in the case of fixed-rates. For-sale condominiums have become out of reach for many people in Osaka, many of whom will likely have to resort to rental properties.

**OUTLOOK**

Condominium prices in Osaka City have risen to significant levels in recent years, particularly in the case of the second-hand market. Despite these high prices, contract rates were still comfortably above 70% even during the pandemic, showing that demand was sound. Furthermore, controlled and subdued supply based on high construction costs and rising land prices is likely to lead to prices remaining elevated. This, in conjunction with slower wage growth in the city, means that buying a home has gradually become out of reach for many people. As a

result, a growing number of people will likely be required to resort to renting units instead of buying, especially for those who wish to live in central wards.

Barring a slight dip during the pandemic, Osaka City’s population has steadily increased over the past decade, and its population as of November 2023 has comfortably surpassed its pre-pandemic peak. As the economic hub of the Kansai region, Osaka is likely to continue attracting migrants both domestically and internationally, and its strong population fundamentals should serve as a solid base for residential demand. Over the next several years, Osaka City will see major developments that are likely to transform the city, most notably with the upcoming Integrated Resort, which should be a game changer for the city, further propelling its tourism industry and attracting greater levels of migration, as discussed in our [Osaka Residential Markets](#) report.

For-sale condominium prices are likely to remain high on the back of sound demand and their elevated cost structures. At the same time, the lukewarm wage growth in the city should set a limit on how high average prices can climb to, and developers are expected to control supply in accordance with projections in their target markets. As such, the for-sale market is expected to see sustainable growth. Nevertheless, prices will still be unaffordable for many residents, which will serve as a tailwind for the rental residential market.



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