

Tokyo Residential



Tokyo condo prices prove resilient amidst the pandemic

INTRODUCTION

Condo sales prices in Tokyo have been gradually increasing since 2011. On the back of improving economic conditions and a low interest rate environment, housing demand was rising, and developers were thus able to transfer the increasing costs of construction and land purchases to buyers. Now, however, the rising condo prices have made buyers increasingly cautious, leading to lower contract rates¹ and supply, especially after 2015. Meanwhile, despite signs of demand cooling, prices remain elevated thanks to the unwillingness of deep-pocketed developers to lower prices.

The global pandemic has unquestionably shifted the preferences of the capital's residents, and this has been observed in the demographics with some moving away from the 23 wards (23W) to more suburban areas. That said, the central wards remain popular, broadly maintaining positive population growth over the past year. With that in mind, a greater divergence in condo demand between prime areas and less popular areas could be on the horizon, leading to new market trends on which some shrewd developers could capitalise.

¹ 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 sales effort before the beginning of actual sales, 70% is typically considered to be an inflection point.

PRICES, DEMAND AND SUPPLY

Somewhat surprisingly, the trend of price appreciation remains uninterrupted for newly built condos in Tokyo's 23W. Specifically, despite being in the midst of a global pandemic, average prices reached a new post-bubble high of JPY77.1 million in 2020. On a per sq m basis, growth was equally as impressive. According to the Real Estate Economic Institute (REEI), the capital's central region posted an 11.4% year-on-year (YoY) uptick, in stark contrast to the 1.5% YoY rise found in similar condos outside of the 23W. Premiums between the two regions have understandably widened from 42% in 2019 to 55% in 2020 as a result. This trend is nothing new, however. Since 2011, the price per sq m of these new condos has risen 54% in the central areas compared to 45% for the equivalent outside of the 23W.

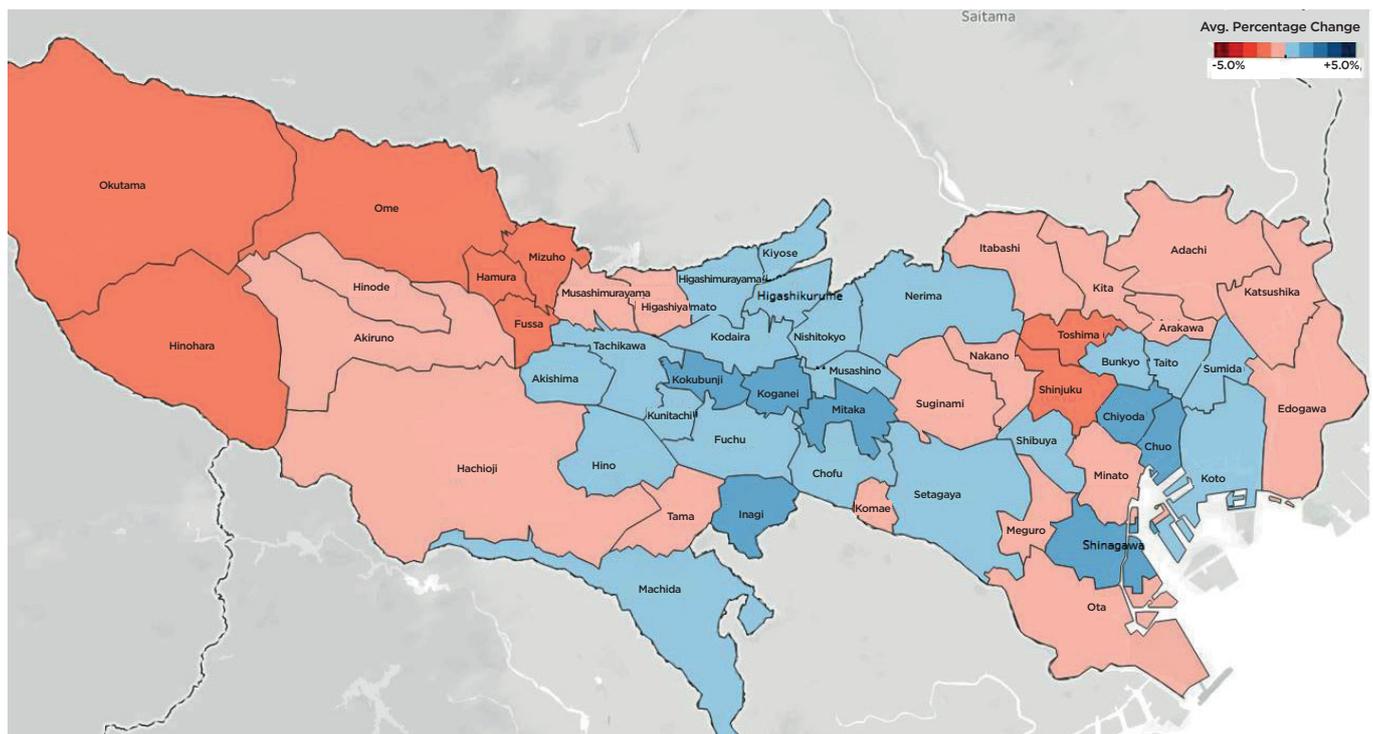
On one hand, the prolonged low interest environment has been supportive of demand, and as a result, the growth in condo prices in the 23W have shown no signs of waning. On the other hand, wage growth in the capital has been modest. The combination of these two factors has ultimately priced many residents out of buying condos, whilst those who have the finances have become increasingly cautious, resulting in some choosing to lease instead. Condo sales in Tokyo have decreased as a consequence, keeping the contract rate stubbornly below the symbolic 70% level since

2016 (Graph 1). Perhaps in response, there has been a general increase in the number of housing starts for built-to-rent units in the capital.

Despite concerns over declining contract rates and sales, major developers, backed by healthy balance sheets, have been unwilling to offer discounts. This has been particularly pronounced in Tokyo, whereby a handful of developers dominate the new condo market, and as such, the already lofty prices have been artificially maintained. Looking ahead, noticeable price declines are therefore unlikely, especially for well-located properties in central Tokyo and residential hubs close to major transport links.

Another way in which these developers have historically been able to exert an element of control is through condo supply – something that has been decreasing in Tokyo since 2013 (Graph 2). Of course, the global pandemic had a tangible impact to supply levels in 2020, with delays to construction and the suspension of sales activities marking a decade low. Things are set to reverse in 2021, however, with 17,000 units expected to be available for sale in Tokyo – 20% higher from the previous year. Going forward, developers are likely to opt to increase the supply of mid-to-large units, especially in suburban areas, in line with the shift towards remote work. In addition, supply is also expected to cool as rising costs of construction and

MAP 1: Tokyo Prefecture Population Change Pre-COVID To Present, January 2020 to April 2021



Source Tokyo Metropolitan Government, Savills Research & Consultancy

the availability of land close to train stations becomes more limited, which will cause developers to be more selective about new developments.

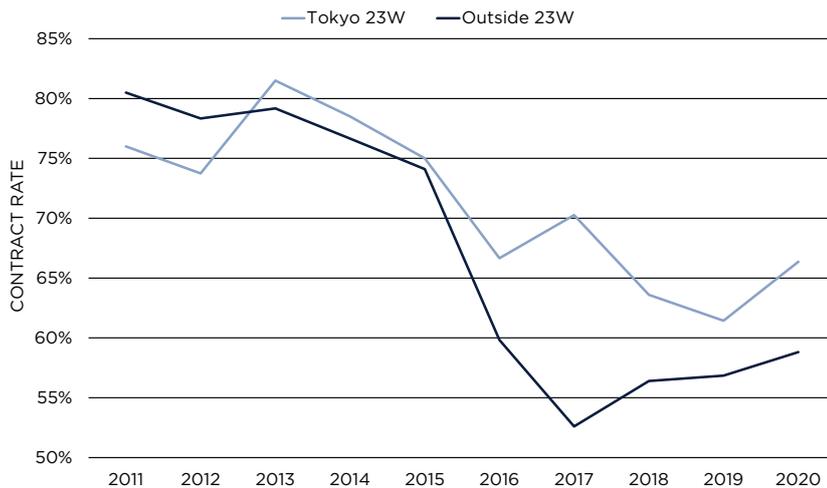
POLARISED MARKET

The pandemic has notably changed Tokyo's demographic trends. For example, between 2011 and 2019, Tokyo's population was growing at an average annual rate of around 90,000 people. When the pandemic hit in early 2020, however, momentum was lost, and the growth rate of the prefecture started to lag as a result, as seen in Graph 3.

Looking at Map 1, it can be seen that although a majority of the 23W have seen population declines following the pandemic, central wards such as Chiyoda, Chuo, and Shibuya have bucked this trend somewhat. Meanwhile, the decreasing number of

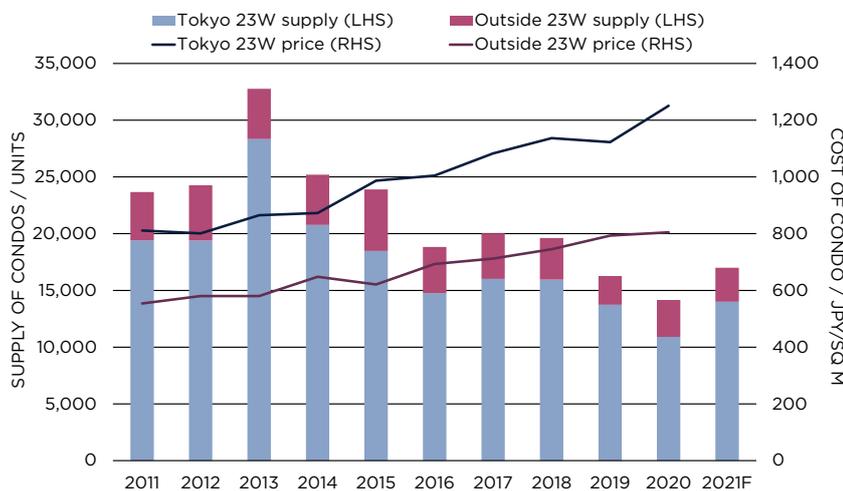
The pandemic has led to a K-shape economic recovery, further deepening the polarisation in Tokyo's condo market. Meanwhile, the demographic and lifestyle changes triggered by the pandemic appear to have modestly shifted resident preferences in location and size. This could lead to an emergence of niche markets which some are likely to tap into.

GRAPH 1: Tokyo Condo Contract Rate, 2011 to 2020



Source REEI, Savills Research & Consultancy

GRAPH 2: Condo Supply And Prices In Tokyo, 2011 to 2021F



Source REEI, Savills Research & Consultancy

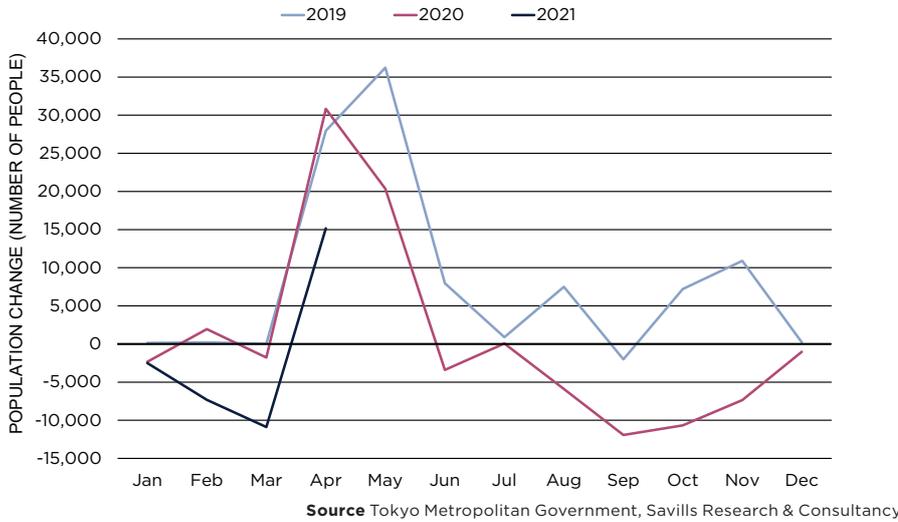
residents in the other central five wards (C5W), namely Shinjuku and Minato, can be partly explained by the net outflow of foreign residents that arose from entry-bans implemented at the onset of the pandemic. Indeed, this figure amounted to around 40,000 between January 2020 to April 2021. As such, these wards with a large foreign population suffered disproportionately more, suggesting that there should be reasonable demand for condos in central locations, especially once green shoots of recovery emerge.

In contrast, areas to west of the 23W, such as Mitaka, have seen a material increase in their population since the start of the year, and it is perhaps easy to see why under the current circumstances. Condos in these areas are relatively more affordable and are surrounded by ample greenery, whilst at the same time provide convenient access to the city centre along the popular JR Chuo line. Predictably, demand for condos in these neighbouring areas has risen. However, there may be some decline in the demand of condos in the non-central wards of Tokyo. This could be further exacerbated because some residents may turn to single-family houses that are typically located further from stations than condos, especially if they no longer need to commute to the city centre every day.

OUTLOOK

Condo prices in Tokyo have risen significantly in recent years to levels out of reach for many residents, resulting in declining contract rates. All the while, developers have approached supply levels with caution to ensure that prices remain high to maintain profitability and have had little need to lower prices. Going forward, developers are likely to be increasingly selective with new developments to preserve

GRAPH 3: Tokyo Prefecture Population Change 2019 to April 2021



the current supply and demand equilibrium. A shift toward focusing on developing rental apartments, which do not have stringent location requirements unlike condos, should therefore be expected.

As for the population shifts in Tokyo, whilst noticeable of late, the overall change remains modest. Furthermore, given that a significant source of the population decline was due to foreign residents leaving the country, we should see a reversal, albeit slowly, once entry restrictions have been lifted. Overall, we expect that these demographic changes will not materially affect the condo market in the mid-term, with urban development projects in areas like Toranomon adding to the capital's attractiveness and vibrancy for residents.

One potential consideration remains, however. With lifestyle changes resulting from COVID-19, particularly with regard to remote work practices, larger units have become increasingly sought after, even if they are somewhat further away from the city centre. Given the slow pace of vaccinations in Japan, this trend is likely to linger and may lead to an emergence of a niche market that some developers will look to tap into.



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