Japan - September 2023

SPOTLIGHT

Savills Research

Japan's Prospects Towards 2040

savills

Japanese market ripe with opportunity over the coming decades

Summary

- Japan's economic outlook is cautiously optimistic, and the real estate market is attracting large amounts of overseas capital, particularly due to low interest rates and its stable fundamentals.
- Elevated inflation and historic wage growth have triggered some moderate nominal economic growth, which should also help make national fiscal conditions more sustainable going forward.
- Japan will remain among the most populous countries in the world, and Tokyo is projected to still have one of the largest metropolitan populations for the coming decades. Population ageing will continue unabated but in a gradual manner.
- Societal changes will force Japan to adapt to remain competitive; greater levels of immigration and further labour participation among elderly residents are increasingly mooted solutions.
- Multiple large-scale developments, as well as public transportation upgrades are in the pipeline for Japan's major cities.
- Notable game changing developments will be the Osaka Integrated Resort (IR) project and the Chuo Linear Shinkansen, both of which will have transformative effects on Japan.
- Risks remain prevalent, including those relating to rising geopolitical tensions, climate change-accelerated natural disasters, and Japan's significant national debt.
- Overall, Japan's stability and sound fundamentals will prove to be vital assets as it grapples with a myriad of challenges moving forward.

OVERVIEW OF PROSPECTS UNTIL 2030

From a medium-term perspective, observers should view Japan through a positive lens. The relative strength of Japan's economy is unlikely to change over the coming decade, and Japan will remain a key global economic power in the meantime, especially given its competitive edge over its neighbours as a place for stable investment. Several transformative commercial and public infrastructure developments are in the pipeline until 2030, which will continue to renew Japan's urban areas, further improve access, and polish Japan's image as an attractive and comfortable place to live, do business, and travel. Meanwhile, Japan remains at the forefront of many cutting-edge technological developments, which have the potential to revolutionise Japan's renowned automotive and manufacturing industries, as well as lead to the growth of innovative emerging sectors, and encourage greater economic growth.

Japan's population will continue to decline and age going forward, and forecasts by the National Institute for Population and Social Security Research estimate that the population will fall to slightly shy of 120 million by 2030. Regardless, Japan will still be one of the most populous countries in the world in 2030, and the slight contraction in population should have little bearing on Japan's economic performance in the medium-term. Meanwhile, Tokyo is forecast to be the world's second largest metropolitan area, and will retain a significant pull for young talent, who will continue to stimulate innovation and economic growth.

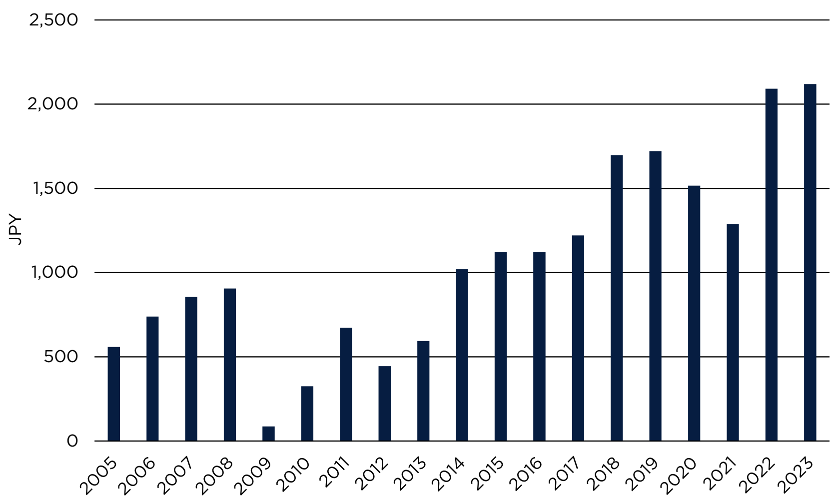
It should be noted that despite its perception, fertility rates in Japan are projected to be more positive than peer countries in East Asia, and further immigration may support a stable and productive population base for the meantime.

That said, potential risks persist, which threaten to dampen Japan's medium-term outlook. Aside from demographics, rising geopolitical tensions, economic issues such as the government's high debt levels, as well as Japan's propensity for natural disasters, all threaten to destabilise Japan's current stability. Nevertheless, we predict Japan's outlook for 2030 to be positive, and should remain competitive regardless of these risk factors. Please refer to the "Japan's Prospects Towards 2030" report for a more in-depth overview.

CURRENT STATE OF THE JAPANESE ECONOMY

Japan's equity market is currently booming in line with strong corporate performance. As such, many market players have optimistic outlooks on Japan's economy. However, the current massive amount of national debt (gross debt ratio of 264% of GDP, and net debt ratio of 169% of GDP in 2022), in conjunction with the considerable depreciation of the yen may keep some investors in a pessimistic mindset. Some observers believe that the current strong corporate performance likely has an outsized connection to the weak yen, and so this boom may only be temporary. Indeed, once the exchange rate returns to normal levels, the windfall effect may ultimately disappear.

GRAPH 1: Nikkei 225 EPS by Fiscal Year, 2005 to 2023



Source Nikkei 225 Index, Savills Research & Consultancy

At the same time, there tends to be strong correlation between the performance of equity and hard assets. Equity investments have been good but somewhat lacklustre, which has been disappointing for investors, while hard assets have performed relatively well, and have a proven firm track record over the last two decades. Indeed, hard asset investment has little agency risk, while corporate investment has both agency risk and currency risk, which is inevitable due to the relatively high overseas sales ratio among Japanese companies at around 38.5% in 2022 according to the Japan Bank for International Cooperation.

Overall, corporate Japan appears to have performed well. Earnings Per Share (EPS) have grown notably over the past two decades (Graph 1), partly due to the recent weaker yen. Furthermore, Japanese companies have long accumulated huge amounts of cash and deposits on their balance sheets, reaching JPY250 trillion by the end of FY2020 according to the Japanese Ministry of Finance, which is around the same figure held by U.S. companies (around US$2.15 trillion in 2020 according to Moody's), despite the U.S. economy being five times larger. The huge amounts of cash kept on the balance sheets of Japanese companies has contributed to sluggish wage growth over recent decades, which has subsequently stifled GDP performance.

That said, inflation may transform this situation. Due to elevated inflation, Japanese corporations saw average wage growth of around 4% following the 2023 spring wage negotiations, which outpaced CPI growth. The labour shortage also contributed to this historic wage growth, forcing companies to raise wages even further to attract requisite workers. Not only has this inflationary situation triggered some nominal GDP growth, but the government debt-GDP ratio also improved moderately, and should not be unsustainable over the coming decade as long as some inflation continues. Furthermore, the government will likely be more disciplined with its fiscal policy in an increased interest rate environment, leading to heightened fiscal sustainability.

The continuing situation surrounding Ukraine, in addition to supply chain rebuilding are highly likely to result in some inflation persisting in Japan, albeit modest. Inflation has returned and "nominal" growth will follow. Even cash-strapped Japanese consumers have started to accept these necessary price increases. Overall, equity investors, who favour change by nature, have become more optimistic, which should encourage greater investment in Japanese real estate as well. If this scenario comes to fruition, real estate investment should proceed to the next phase. Even if the current positive sentiment were to sour, Japan would likely return to a familiar and stable, albeit stagnant, status quo at worst. Furthermore, the weak yen or Japan's relative affordability are not necessarily bad for real estate investors. Affordability helps to attract huge numbers of inbound tourists, as well as capital. Indeed, Japan currently attracts investments in more factories and R&D facilities, which look to benefit from the skilled workforce and sophisticated consumer base in Japan.

While the Japanese government is indeed heavily indebted, Japan is also still the largest creditor nation in the world, owning over US$1 trillion of U.S. treasury bonds out of the total US$7 trillion held by foreign states. Japan's net credit is around JPY420 trillion or around US$3 trillion, the largest in the world over 30 consecutive years. As such, it is highly improbable that the Japanese government would be allowed to go wrong, as the shockwaves on the global economy would be cataclysmic. There are few suitable alternative locations in the region for investors to direct their funds, since many investors have already relocated capital away from China, and real estate markets in South Korea and Australia are not comparable in terms of size. As such, although risks might not be non-existent, the outlook on Japan's economic situation should be cautiously optimistic.

Japan's prospects look to remain relatively bright until 2040, regardless of some prevalent risks. Although demographic conditions are challenging, changes should be gradual and manageable, and Japan is actively exploring new avenues for innovation and growth. In particular, game-changing developments such as Integrated Resort and the Chuo Linear Shinkansen are expected to generate huge economic benefits nationwide, while multiple large-scale mixed-use commercial developments and public transport projects look to improve the urban landscape in Tokyo and beyond. As such, Japan will likely remain a popular destination for overseas capital for the coming decades, particularly given its robust and mature real estate market, and sound and stable fundamentals.

2040 ECONOMIC AND REAL ESTATE MARKET PROSPECTS

Considering Japan's positive outlook towards 2030, we predict few further changes in terms of Japan's overall prospects by 2040. We anticipate that Japan will remain competitive and will continue to play an important role in global economic and geopolitical affairs. Indeed, Japan's demographic outlook is unfavourable, which will likely have a tangible impact on GDP performance over the coming decades. However, this mirrors the worsening demographic situation

TABLE 1: Top 10 Real GDP by Country (US$ trillion), 2020 to 2040F

2020		2030F		2040F	
China	23.5	China	37.0	China	47.3
USA	19.3	USA	24.3	USA	28.1
India	8.4	India	16.6	India	25.1
Japan	**5.1**	**Japan**	**5.6**	Indonesia	7.5
Germany	3.9	Indonesia	5.3	**Japan**	**5.9**
Russia	3.7	Germany	4.6	Germany	4.9
Indonesia	3.2	Russia	4.2	Turkey	4.8
Brazil	2.9	Brazil	3.8	Russia	4.6
France	2.7	Turkey	3.7	Brazil	4.5
UK	2.7	UK	3.4	Mexico	3.8

Source Organisation for Economic Co-operation and Development (OECD), Savills Research & Consultancy

TABLE 2: Top 20 National Population by Country (million people), 2020 to 2040F

2020		2040F	
China	1,424.9	India	1,611.7
India	1,396.4	China	1,377.6
USA	335.9	USA	366.6
Indonesia	271.9	Pakistan	322.6
Pakistan	227.2	Nigeria	320.8
Brazil	213.2	Indonesia	308.2
Nigeria	208.3	Brazil	230.1
Bangladesh	167.4	Bangladesh	196.5
Russia	145.6	Ethiopia	182.1
Japan	**128.1**	DR Congo	170.0
Mexico	126.0	Philippines	145.0
Ethiopia	117.2	Egypt	143.4
Philippines	112.2	Mexico	141.1
Egypt	107.5	Russia	137.1
Vietnam	96.6	**Japan**	**110.9**
DR Congo	92.9	Vietnam	105.9
Iran	87.3	Tanzania	105.0
Turkey	84.1	Iran	96.5
Germany	83.3	Turkey	93.1
Thailand	71.5	Germany	81.2

Source United Nations (UN), Savills Research & Consultancy

experienced throughout the developed world, and Japan is expected to perform relatively well compared to neighbouring East Asian nations, which appear to be struggling to a greater extent. As a developed nation, Japan has the ability to invest in and implement digitalisation to offset the effects of the declining workforce. Moreover, Japan's overseas-born population as a proportion of its total population is a fraction of that of other developed countries. Hence, it should have the capacity to increase immigration with low levels of pushback, and should have limited issues attracting people, especially given the peaceful and relatively attractive living conditions in Japan.

Japan's economy was stable during the pandemic relative to other advanced economies, and its export and service industries have roared to life as the world has transitioned to the post-pandemic era. Looking ahead, Japan's demographic situation will naturally lead to some weakening of the domestic economy, as demand from consumers declines. That said, Japan's export and services industries will likely support further economic growth going forward, and Japan is forecast to remain in the top 5 countries globally in terms of real GDP by 2040, at fifth place (OECD). Japan's Real GDP is expected to increase from US$5.1 trillion to US$5.9 trillion between 2020 and 2040 (Table 1), and Japan's presence as a major power in the global economy will remain undisputed as a result.

By 2040, Japan is forecast to remain in the top 20 most populous countries in the world, at number 11. The UN predicts that Japan's population will fall from 128.1 million to 110.9 million people between 2020 and 2040 (Table 2). Although experiencing a contraction in its population of 13.4%, urbanisation continues unabated in Japan, especially as young people migrate from rural areas to urban areas in search of economic and educational opportunities. At the urban agglomeration level[1], the Greater Tokyo metropolitan area is currently ranked first globally in terms of population in 2020 at 37.4 million people (UN), and is forecast to decrease marginally to 36.0 million people by 2035[2], overtaken only by Delhi at 43.3 million people.

Greater Tokyo has been the largest metropolitan area in the world for over half a century, and the region will remain globally significant in terms of its economic, political, and cultural strengths in 2040 and beyond. This can be reflected by the current size of both Tokyo and Japan's wider real estate markets. In 2022, MSCI estimated that Japan's real estate market

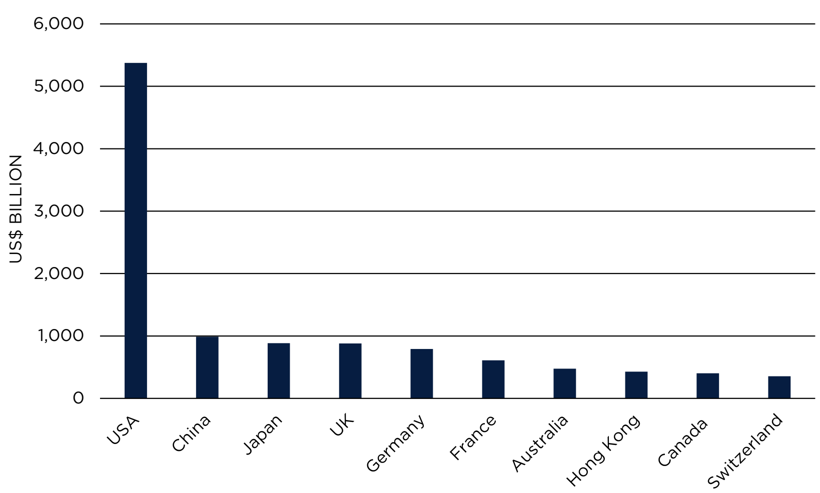
1 The United Nations defines "urban agglomeration" as the population contained within the contours of a contiguous territory inhabited at urban density levels without regard to administrative boundaries.
2 UN metropolitan population forecast available until 2035.

TABLE 3: Top 20 Population by Metropolitan Region (million people), 2020 to 2035F

2020			2025F			2030F			2035F		
Japan	**Greater Tokyo**	**37.4**	**Japan**	**Greater Tokyo**	**37.0**	India	Delhi	38.9	India	Delhi	43.3
India	Delhi	30.3	India	Delhi	34.7	**Japan**	**Greater Tokyo**	**36.6**	**Japan**	**Greater Tokyo**	**36.0**
China	Shanghai	27.1	China	Shanghai	30.5	China	Shanghai	32.9	China	Shanghai	34.3
Brazil	São Paulo	22.0	Bangladesh	Dhaka	24.7	Bangladesh	Dhaka	28.1	Bangladesh	Dhaka	31.2
Mexico	Mexico City	21.8	Egypt	Cairo	23.1	Egypt	Cairo	25.5	Egypt	Cairo	28.5
Bangladesh	Dhaka	21.0	Brazil	São Paulo	23.0	India	Mumbai	24.6	India	Mumbai	27.3
Egypt	Cairo	20.9	Mexico	Mexico City	22.8	China	Beijing	24.3	DR Congo	Kinshasa	26.7
China	Beijing	20.5	China	Beijing	22.6	Mexico	Mexico City	24.1	Mexico	Mexico City	25.4
India	Mumbai	20.4	India	Mumbai	22.1	Brazil	São Paulo	23.8	China	Beijing	25.4
Japan	Greater Osaka	19.2	USA	New York	19.2	DR Congo	Kinshasa	21.9	Brazil	São Paulo	24.5
USA	New York	18.8	Japan	Greater Osaka	18.9	Nigeria	Lagos	20.6	Nigeria	Lagos	24.4
Pakistan	Karachi	16.1	China	Chongqing	18.2	Pakistan	Karachi	20.4	Pakistan	Karachi	23.1
China	Chongqing	15.9	Pakistan	Karachi	18.1	USA	New York	20.0	USA	New York	20.8
Turkey	Istanbul	15.2	DR Congo	Kinshasa	17.8	China	Chongqing	19.6	China	Chongqing	20.5
Argentina	Buenos Aires	15.2	Nigeria	Lagos	17.2	Japan	Greater Osaka	18.7	India	Calcutta	19.6
India	Calcutta	14.9	Turkey	Istanbul	16.2	India	Calcutta	17.6	Pakistan	Lahore	19.1
Nigeria	Lagos	14.4	India	Calcutta	15.8	Turkey	Istanbul	17.1	Philippines	Manila	18.6
DR Congo	Kinshasa	14.3	Argentina	Buenos Aires	15.8	Pakistan	Lahore	16.9	Japan	Greater Osaka	18.3
Philippines	Manila	13.9	Philippines	Manila	15.2	Philippines	Manila	16.8	India	Bangalore	18.1
China	Tianjin	13.6	China	Guangzhou	14.9	Argentina	Buenos Aires	16.5	Turkey	Istanbul	18.0

Source United Nations (UN), Savills Research & Consultancy

GRAPH 2: Real Estate Market Size by Country, 2022

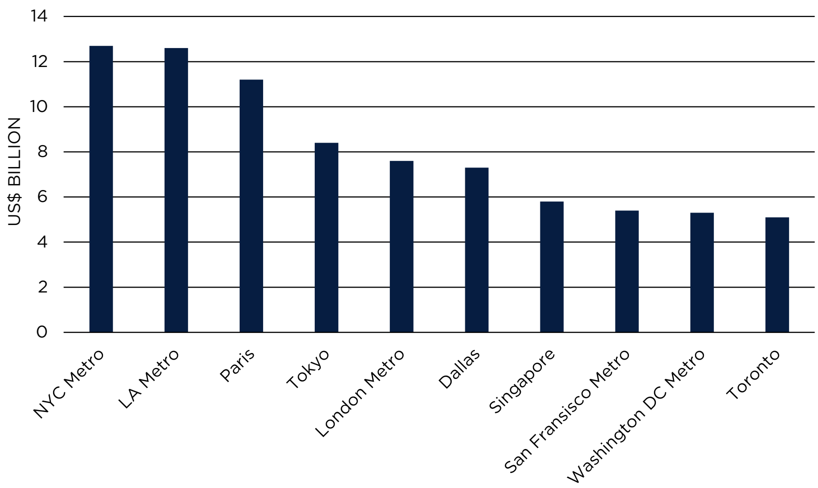


Source MSCI, Savills Research & Consultancy

size was ranked third globally at US$890 billion (Graph 2), behind the U.S. market, and marginally behind the Chinese market, despite notable differences in demographic and geographic size. Meanwhile, the Greater Tokyo metropolitan region ranked fourth in terms of total commercial real estate transaction activity in 1H/2023 (Graph 3), behind the New York City, Los Angeles, and Paris metropolitan regions. As such, although Japan's future demographic situation may paint a somewhat bleak picture overall, its position as one of the world's top-five largest economies, in conjunction with the global significance of the Greater Tokyo region, should be a positive sign, and Japan will look to remain a competitive global power by 2040.

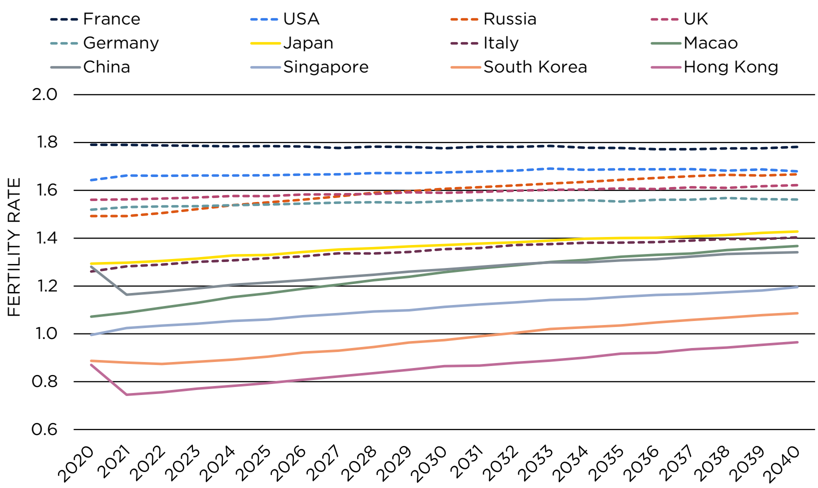
Taking a deeper look at Japan's demographics, the fertility rate is estimated to be around 1.31 children per woman in 2020 according to the United Nations, and

GRAPH 3: Real Estate Transactions by Metro Area, 1H/2023



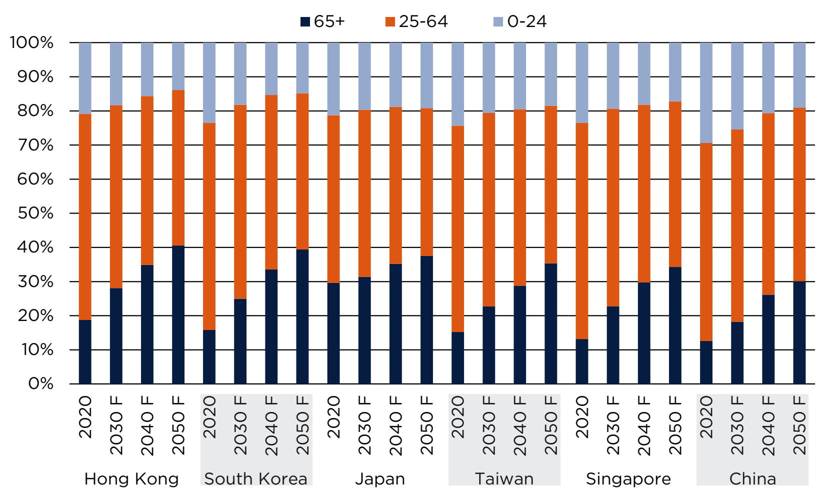
Source MSCI, Research & Consultancy

GRAPH 4: Fertility Rate by Country, 2020 to 2040F



Source UN, Savills Research & Consultancy

GRAPH 5: Population Distribution by Age-band, 2020 to 2050F



Source United Nations, University of Oxford, Savills Research & Consultancy

is forecast to grow marginally until 2040 to 1.42 (Graph 4). Although slightly lower than its western peers, Japan appears to fare better than its counterparts in East Asia, with China, South Korea, and Hong Kong notably lagging Japan until 2040. Overall, Japan's fertility rate is in line with the global trend for advanced countries, and appears to have a stable outlook.

Meanwhile, the distribution of Japan's population in the 65+ year-old age band was 29.6% in 2020 and is expected to increase to 35.2% in 2040, and further to 37.5% in 2050 (Graph 5). Forecasts show that the population of the 0-24-year-old age band will gradually decrease from 21.3% in 2020 to 18.8% in 2040, but increase slightly to 19.2% in 2050. Although Japan's population ageing is currently more advanced than any other nation, Japan has been grappling with this issue for a relatively long time, and by the 2040s Japan will not be the most aged society in the world anymore. The relatively gradual deterioration of Japan's demographics compared to its neighbours in East Asia is indicative of its stability and may be more manageable by comparison. Healthcare facilities and medical tourism should be bright spots looking ahead, and operational expertise in this field should be a valuable asset in the future. As such, Japan may fare better than others, as the government of Japan and the wider economy and society should have more time to prepare and adapt to these fundamental societal shifts.

Although Japan has historically taken a somewhat cautious approach to immigration, the growing number of foreign residents in recent years indicates that the government has earmarked immigration as a strategy to support Japan's population base. Furthermore, the recent expansion of inbound tourism should help to make the Japanese public more accustomed to foreign cultures. Official government population measures and forecasts have notably begun to incorporate immigration statistics, and these forecasts indicate that the government intends to expand Japan's overseas-born population by a large amount over the coming decades. Indeed, Japan's National Institute of Population and Social Security Research estimated in 2020 that Japan's population was 126.1 million people, of which only 2.7 million residents were born overseas - around 2.2% of the total, while, against the backdrop of an anticipated contraction of the overall population of Japan to 112.8 million people by 2040, the foreign population is estimated to expand to 5.9 million residents - comprising around 5.2% of the total.

Some may predict that the public response to a rapid uptick in immigration would be mixed. However, Japan's proportion of overseas-born residents of around 2.2% in

2020 is significantly lower than that of other developed nations. According to the UN, Canada (21.3%), Germany (18.8%), the U.S. (15.3%), and the UK (13.8%), among others, all had foreign populations of well over 10% of their respective total populations, which is far higher than even Japan's 2040 forecast. Therefore, as population decline becomes acute, immigration could become an increasingly attractive option to alleviate this issue, given Japan's relatively large capacity to receive more overseas residents.

While demographic and economic shifts may trigger some uncomfortable fluctuations in Japan, it is important to remember that Japan is renowned for its stability. For instance, Japan ranks first by a large margin in terms of countries with the most companies in operation for at least 100 years (33,076) and 200 years (1,340), comprising 41.3% and 65.0% of the global total in each category, respectively. The largest proportion of these companies are in the manufacturing, retail, and construction industries, while others are in real estate, hospitality, and finance, among other industries. This is an encouraging indicator for external investors and observers, as it indicates that Japan's economy, political system, and society support stable and predictable economic activity, and thus have enabled so many domestic companies to survive even in the face of war, countless natural disasters, and external economic shocks.

TABLE 4: Total Number of Businesses in Operation for Over 100 Years by Country, 2020

	COMPANIES IN OPERATION	TOTAL PROPORTION
Japan	**33,076**	**41.3%**
USA	19,497	24.4%
Sweden	13,997	17.5%
Germany	4,947	6.2%
UK	1,861	2.3%
Italy	935	1.2%
Austria	630	0.8%
Canada	519	0.6%
Netherlands	448	0.6%
Finland	428	0.5%

Source Teikoku Data Bank, Bureau van Dijk, Savills Research & Consultancy

TABLE 5: Total Number of Businesses in Operation for Over 200 Years by Country, 2020

	COMPANIES IN OPERATION	TOTAL PROPORTION
Japan	**1,340**	**65.0%**
USA	239	11.6%
Germany	201	9.8%
UK	83	4.0%
Russia	41	2.0%
Austria	31	1.5%
Netherlands	19	0.9%
Poland	17	0.8%
Italy	16	0.8%
Sweden	11	0.5%

Source Teikoku Data Bank, Bureau van Dijk, Savills Research & Consultancy

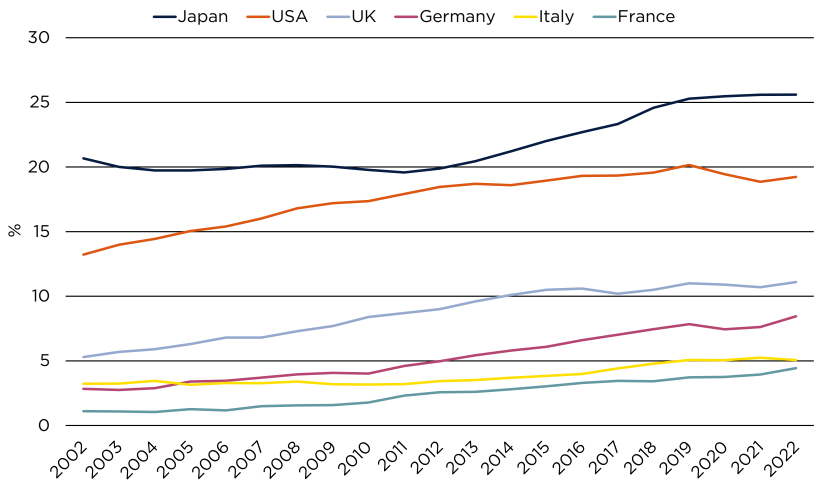
TECHNOLOGICAL AND SOCIAL DEVELOPMENT

Technological innovation will have important implications for Japan's economy and demography, and as the present reality of transport, work paradigms, and urban land usage comes under greater scrutiny, current land and real estate values may also face some recalibration. Not to mention the looming advent of the singularity, the increasing sophistication of artificial intelligence (AI) may foster seamless international collaboration and business via automatic translation technology, while autonomous driving technology and the electrification of transport will likely reshape land usage and values, as well as unsettle the traditional automotive sector, where over five million people are employed in Japan. The advent of autonomous driving vehicles should significantly reduce the demand for, and production of personally owned cars. Indeed, technological advancement and the decline of certain industries will inevitably create space for new sectors to emerge, such as those related to robotics, android technology, space exploration, and agriculture technology, which look to be promising sectors given Japan's current strengths.

Meanwhile, social developments will likely cause similar ripple effects. The ageing population will have a profound impact on Japan's labour force, social welfare systems, and economic priorities. However, as depopulation progresses at faster rates in certain areas and existing vested interests dwindle, new opportunities could emerge for development. One previous example of this is Niseko in Hokkaido, with its world-class powder snow, which has thrived as an increasingly popular tourist destination and has attracted notable amounts of foreign capital.

As healthy life expectancy continues to rise, retirement plans may change, and it is highly likely that many people will work longer or explore different career paths of their own volition in their later years, which is likely to alleviate some pressures on the ballooning social welfare system. Indeed, Japan is one of the rare countries where citizens have been actively seeking laws to allow the elderly to work for longer. Japan's labour participation rate for the 65+ year-old population in 2022 was notably higher than many of its developed peer nations at 25.6%, according to data published by the International Labour

GRAPH 6: Over-65 Years Old Labour Participation by Country, 2002 to 2022



Source International Labour Organization, UK Office for National Statistics, Savills Research & Consultancy

Organization. By comparison, France (4.4%), Italy (5.1%), Germany (8.5%), the UK (11.1%), and the US (19.2%) have yet to embrace senior citizens as active participants in the workforce to the extent that Japan has (Graph 6).

BRIGHT SPOTS FOR INVESTMENTS FOR THE FUTURE

Japan has various bright spots that should help to generate economic growth moving forward. Japan will likely continue to stand out as a matured major economy, which has tendencies to remain stable even amid global political and economic turmoil, so should remain a popular destination for foreign investment. Furthermore, major cities and tourist destinations have many new developments in the pipeline, which should be attractive for both residents and visitors. Meanwhile, given the nature of Japan as a major creditor nation, interest rates should remain moderate. Several real estate sectors appear to have strong prospects for growth, including ultra-luxury residential and luxury ryokan, and Integrated Resort (IR). Therefore, while demographic stagnation may remain a pertinent issue, Japan will likely be well placed to offer wide-ranging opportunities for investors.

Japan's urban metro areas will likely retain their pull towards both Japanese and overseas migrants. In order for Japan's urban areas to remain competitive as business, residential, and tourism hubs, several urban redevelopment and transport infrastructure projects are scheduled for development over the next 20 years, which will offer many opportunities for investors. Large, mixed-use developments will create city-within-a-city environments, and will integrate strong ESG features to attract office tenants and residents and increase sustainability within Japan's urban areas. Indeed, these mixed-use developments should be resilient even in the event of potential future pandemics and health crises.

The integrated resort in Osaka bears particularly profound significance for the Japanese tourism industry and wider economy. This will mark the development of the first large scale entertainment and casino resort in Japan, on Yumeshima island in the Osaka Bay as part of a joint venture by MGM and Orix Corp, and will feature casinos, hotels, restaurants, retail space, and entertainment centres, and is scheduled to arrive in 2030. Initial investment is expected to reach JPY1.3 trillion, and 20 million visits are expected annually, with annual income generated by the facility forecast to reach JPY500+ billion, and Osaka prefecture expecting to collect JPY100+ billion annually in taxes. In addition, construction of the site is expected to generate 120,000 jobs, while operations will generate 93,000 permanent jobs, which should support an even stronger economic base to attract migration into Osaka. After the successful development in Osaka, which is forecast to generate a windfall of JPY1.1+ trillion for the wider economy of the Kansai region, there should be several developments that will follow suit elsewhere in Japan. This will likely be a game-changing development for Japan, given the likely tourism boost, and significant potential broad economic effects as well as increase in tax revenue.

Public transport extensions will improve access to airports and major rail hubs, making business and tourist travel significantly smoother. These improvements will also ease congestion on existing lines and enhance commuting and living conditions for residents, as well as connect more remote areas to city centres, and open up new development opportunities. A number of public transport projects are in the pipeline for Tokyo over the coming decades. For instance, the development of the Haneda Airport Access Line and Namboku Line extension to Shinagawa station will improve interoperability between different modes of public transport and further connect the capital with the rest of Japan and abroad.

On a national level, the Linear Chuo Shinkansen and 2030 Sapporo Shinkansen extension projects will improve access between major urban regions in Japan, which is anticipated to improve overall business productivity, as well as open up new areas for real estate and tourism development, and should provide a major windfall for the Japanese economy. The Linear Chuo Shinkansen will drastically reduce travel times across the so-called "mega region" of Tokyo, Nagoya, and Osaka, encouraging greater levels of business and leisure travel, and creating a 60 million+ commuter belt.

Chuo Linear Shinkansen is set to run until Shin-Osaka, with non-stop services from Shinagawa set to take only 67 minutes. The development of the Nagoya-Osaka section is scheduled for early completion in 2037, and there are expectations that Shin-Osaka will become one of the largest and most significant travel hubs in Japan. To the north, the Hokkaido shinkansen will be extended to Sapporo station, with new stations to be built in Otaru, Kutchan (Niseko), among others, with completion slated for 2030. Redevelopment around Sapporo station front may attract more office and retail tenants, in anticipation of greater business and tourist travel via the new shinkansen line.

Climate change may bring some opportunities to Hokkaido, especially regarding the development of Kushiro's port area. There are plans to further optimise Kushiro port as a point of first access as the arctic region becomes more navigable for shipping, and Kushiro might resemble the present Singapore. Kushiro is around 10 degrees Celsius cooler than Tokyo, and these developments could help the area potentially attract many migrants/tourists looking to escape the summer heat, and Kushiro could possibly position itself as a summer resort area.

Inbound tourism has rebounded significantly after the pandemic. Indeed, Japan excels in its soft power image building, and is a staple travel destination due to its cuisine, heritage, and famous natural and urban sites. As such, significant opportunities exist in all major tourist destinations, including Okinawa, Kyoto, and Hokkaido. Given its geography and variety of climates, Japan is well positioned to attract a consistent stream of visitors year-round, and thus generate stable revenue from tourism.

TABLE 6: Outline of Major Commercial and Infrastructure Developments Across Japan by 2040

PROJECT		OUTLINE	COMPLETION
TOKYO			
Public Transport Improvements	Haneda Airport Access Line	Improvement of railway access between Tamachi station and Haneda airport via new 12.4km direct line branching off from Tokaido Line with no stops in between.	2031
	Yurakucho Line Extension	Extension of the Yurakucho Line to Sumiyoshi station, with two new stations (Edagawa and Sengoku stations).	Early-2030s
	Nanboku Line Extension	Extension of the Nanboku line from Shirokane-Takanawa station to Shinagawa station, in anticipation of the Chuo Linear Shinkansen.	Mid-2030s
Shinagawa Projects	Takanawa Gateway project	Large development project in Takanawa area, featuring office, retail, residential, cultural, and educational space.	2025
	Shinagawa Station West Exit Land Readjustment Project	Redevelopment of large Shinagawa Goos site next to Shinagawa station into mixed-use office, hotel, and conference space, among other amenities. Access to Shinagawa station via deck bride, in anticipation of Chuo Linear Shinkansen.	2027
	Sengakuji Station District Type Two Urban Redevelopment	Development of B3/30F mixed-used tower located next to Sengakuji station, in close proximity to Takanawa Gateway project.	2028
Hibiya Projects	Barrier-free Hibiya Park Project	Phased redevelopment of Hibiya Park to improve accessibility and redesign underutilised areas of the park.	2033
	Tokyo Cross Park	Development of new office, retail, hotel, and residential space, and integrating over 1 million sq m of space in Uchisaiwaicho with Hibiya Park.	2037
Shinjuku Projects	Nishi-Shinjuku 3-Chome West District Redevelopment	Twin 60F+ residential towers, with aggregate 3,200 units, in addition to two 9F commercial buildings.	2031
	Station West Exit Area Development Project	Redevelopment of Odakyu department store into B5/48F mixed-use tower, with department store, business space, sky corridor and office space - a city within a city. Development of Southwest exit in two sections - B3/19F and B6/37F mixed-use developments, improving access to Shinjuku station for pedestrians.	2040
Meiji Jingu Gaien Redevelopment Project		JPY350 billion redevelopment of Gaien area. Jingumae Baseball Stadium and Prince Chichibu Memorial Rugby Stadium to be relocated and rebuilt, in addition to the development of two office towers and new public parks.	2036
OSAKA			
Public Transport Improvements	Chuo Line Extension	Extension of Metro Chuo Line by 3.2km from Cosmosquare Station on Sakishima to a new station on Yumeshima, in anticipation of the Expo 2025 world fair.	2025
	Naniwasuji Line	Project to connect Osaka station's underground platforms with JR Namba, and Nankai Shin-Imamiya stations via Naniwasuji Line.	2031
Integrated Resort (IR)		Large scale entertainment and gambling development on Yumeshima island by MGM and ORIX Corp. Features casinos, hotels, restaurants, retail space, and entertainment centres. Initial investment of JPY1.3 trillion, with 20 million annual visits anticipated, and an annual income of JPY500+ billion. IR site will host the Expo 2025 world fair.	2030
Chuo Linear Shinkansen		Chuo Linear Shinkansen set to run until Shin-Osaka, and non-stop services from Shinagawa expected to take 67 minutes. Shin-Osaka anticipated to become a significant domestic and international hub, and new real estate development taking place in surrounding areas in anticipation.	2037
NAGOYA			
Sakae Developments	Nishiki 3-Chome 25-ban Gaiku Project - Conrad Nagoya	Development of new landmark building in Nagoya. B2/41F property, with 5-star Conrad hotel, cinema complex, and high-end Parco retail space.	2026
	Toyota Home Sakae Building/ Nagoya Panasonic Building Redevelopment Project	Adjacent buildings redeveloped as single large mixed-use retail development. Property set to have a height of 100 - 130m, and aggregate footprint of 7,000 sq m.	Early 2030s
Chuo Linear Shinkansen		Journey times from Shinagawa to Nagoya reduced to 40 minutes. Aichi prefecture set to see economic returns of JPY1.1 trillion as a result. Nagoya station set for redevelopment in anticipation for completion of Chuo Linear Shinkansen extension to Nagoya in 2027. East and West exits set for renovation from 2028 and become more accessible and attractive public face for the station, and improvements will take place to taxi and bus space.	2027

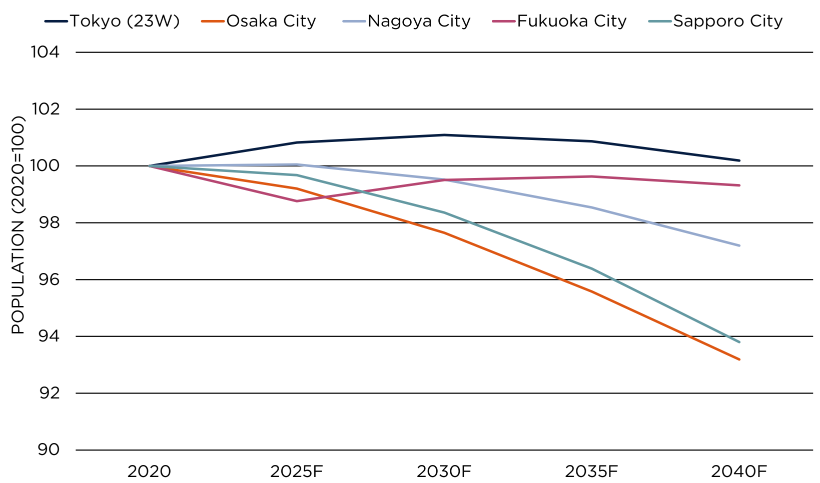
Source Savills Research & Consultancy

TABLE 6: Outline of Major Commercial and Infrastructure Developments Across Japan by 2040 (Cont'd)

PROJECT		OUTLINE	COMPLETION
HOKKAIDO			
2030 Sapporo Shinkansen Extension		Hokkaido shinkansen to be extended to Sapporo station, with new stations to be built in Otaru, Kutchan (Niseko), etc. Redevelopment around Sapporo station front may attract more office and retail tenants, in anticipation of greater business and tourist travel via shinkansen. Estimated annual increase in national productivity at JPY45.3 billion.	2030
Kushiro Port Development		Plans to further optimize Kushiro port as a point of first access as the arctic region becomes more navigable for shipping. Kushiro is already around 10 degrees Celsius cooler than Tokyo. Could potentially attract a few thousand tourists looking to escape the summer heat, and possibly position itself as a summer resort area.	N/A
FUKUOKA			
Hakata Connected	Project Overview	Series of major redevelopment projects around Hakata station, Including extension of metro Nanakuma Line and redevelopment of Hakata Ekimae-dori. Hakata Connected Bonus system will encourage development through relaxation of regulations, tax breaks, and use of public space. Goal to redevelop 20 buildings in 10 years, including Hakata East Terrace.	2028
	Hakata Station Aerial City Project	12F mixed-used office and hotel development above Hakata station. Will take advantage of relaxed regulations on floor area ratio, and aims to improve Fukuoka's image as a leading city in terms of international business and tourism.	2028
Tenjin Big Bang		Reconstruction of several buildings and beautification of surrounding Tenjin station area. Involves the construction of several mixed-use towers throughout 2020s, including Fukuoka Daimyo Garden City, HLC Fukuoka Building, Fukuoka Building, and Tenjin Business Centre, among others.	Late 2020s

Source Savills Research & Consultancy

GRAPH 7: City-level Population Change, 2020 to 2040F



Source City population disclosures, Savills Research & Consultancy

Despite Japan's population being forecast to shrink moderately by 2040, the populations of major cities are forecast to remain relatively stable going forward. In particular, the Tokyo 23 wards will continue to attract young talent, and forecasts indicate that central Tokyo may see some slight population growth by 2040 (Graph 7). Fukuoka and Nagoya are forecast to also remain fairly stable, and not contract by a significant amount despite the overall demographic deterioration.

Investors may seek opportunities for stable returns in the grade B office and mid-market residential markets, as the supply of such assets is forecast to remain limited, probably due to elevated construction costs and labour shortages going forward. As such, rents should remain stable, with some upside potential due to the outlook on inflation, and existing products should appear attractive to investors.

AREAS WITH HIGH POTENTIAL FOR GROWTH

Income inequality is an issue progressing in all economies and is expected to accelerate, especially as urbanisation and technological development progress. As such, we predict an expansion in the demand for luxury sectors as more ultra-high-net-worth individuals (UHNWIs) emerge and look for premium assets and experiences, and so investors may look to these asset classes as areas with high potential for growth. Japan as a global tourist destination continues to attract visitors and the high-quality infrastructure constructed during Japan's golden era supports robust demand.

Ultra-luxury residences have been growing in popularity, particularly over the past half decade, likely due to the growing number of new, entrepreneurial younger UHNWIs that have amassed wealth through IPOs and corporate sales, and also due to an increasing number of wealthy foreign residents living in Tokyo. Tokyo has seen multiple redevelopment projects over the past half decade that have transformed the landscape of the city centre, and created spaces that feel like a "city within a city", making it a more luxurious and attractive location to live in. This trend looks to continue and further accelerate when looking at the current development pipeline. For a more in-depth overview, please refer to our "Tokyo Residential: Ultra Luxury March 2023" report.

The inbound tourism boom over the past decade has brought a greater spotlight on traditional ryokan, with many international tourists looking to gain a more authentic experience while traveling in Japan. The ryokan market is vast, but also fragmented and without dominant players. There are numerous prime locations for ryokan in major hot spring towns, resorts, and urban areas across Japan, and many external domestic and international players have made successful entries into the market. Overall, sentiment is high in the luxury ryokan segment, and as inbound tourism continues to pick up, we predict further entries by large operators and a continued expansion of the market. For a more in-depth overview, please refer to our "Ryokan Market June 2023" report.

Large-scale casinos will be a completely novel industry in Japan, offering significant opportunities for development. Set to arrive in 2030, the integrated resort in Osaka will generate large scale tourism growth in the Kansai region. Although estimates vary, some observers predict that Japan's casino industry may rival or exceed Nevada's casino market at over US$10 billion in gross gaming revenue per year, supporting tax revenues and providing numerous permanent jobs, strengthening tourism industries, and boosting the overall economy over the long-term. Given the country's size and geographic location close to emerging Asian nations with a ballooning number of affluent people, more successful IR projects are likely to be developed. The IR industry in Japan should prove transformative, with the Osaka IR located within close proximity of a population base of over two billion people, and will likely provide substantial economic and tax benefits. The projects should also help to diversify tourism in Japan with the addition of a new type of entertainment travel, further elevating Japan's image on the global stage.

RISKS

Economic and diplomatic relations between the US and China are extremely strained, concerns are rising regarding potential hostilities surrounding Taiwan, and the situation in the Asia Pacific region has become increasingly tense regarding maritime territorial issues in the East and South China Seas. Japan, a long time US ally may be caught in the cross hairs of any potential hot conflicts between surrounding nations.

Meanwhile, Japan's national debt reached more than JPY1.2 quadrillion as of March 2023, and the Bank of Japan currently holds over 50% of Japanese government bonds. Although Japan faces pressure to increase interest rates in order to boost the yen and ease inflation, increasing interest rates will strain the government's budget significantly as debt repayments grow. This level of debt and government deficits may not be sustainable moving forward.

Lastly, Japan is infamously prone to an array of natural disasters, and concerns have grown as climate change has continued to influence global weather patterns. In addition to the threat of earthquakes, tsunami, and volcanic eruptions, Japan must also contend with typhoons, flooding, and heat waves, which have become more frequent and intense in recent years.

OUTLOOK

Overall, Japan is anticipated to continue its stable trajectory until 2040, and is likely to remain an economic, cultural, and political powerhouse on the global stage. Japan's economy will likely stay in the top 5 globally, and its population within the top 20. Meanwhile, Tokyo is forecast to remain the largest metropolitan region in the developed world in 2040, and will likely still have an enormous pull for young talent. Indeed, the demographic situation is forecast to be stable and somewhat comparative to other developed nations, and Japan has a notable capacity for greater levels of immigration, which should support the population base going forward. Despite natural disasters, war, and financial crises causing significant instability in living memory, Japan has by far the largest number of multiple century-old companies still in operation, which points to the stability and resilience of many Japanese companies within the domestic and world economies.

Likewise, Japan has a stable and mature real estate market - currently the third largest in terms of overall size. The relatively positive economic and demographic forecasts, in conjunction with stable corporate performance will likely be a good sign for the real estate market. Looking ahead, new unquantified development opportunities may emerge as a result of technological and social changes, which may shift the demand for land and property towards scarcely developed and underserved areas.

"Nominal" economic growth is likely to resume in Japan due to major supply chain restructuring across the globe. With some inflation and persistent labour shortages, Japanese corporations that sit on a huge stash of cash have started to increase employee pay in earnest. As long as this healthy circulation continues, nominal economic growth will likely get back on the right trajectory, and fiscal conditions should reach more sustainable levels within a decade. In particular, the successful development and deployment of IR will be a game changer, given the enormous size of its potential economic impacts. Partly for these reasons, the equity market is encouraged, which should spread to the hard asset market sooner rather than later.

Prospects for Japan's major urban areas remain bright, and many commercial developments and public transport projects in the pipeline look to make these areas more accessible, and have the potential to instigate further economic growth and social development. Most major developments in the pipeline will be mixed-use and have strong ESG features in order to improve resilience and appeal to tenants. Overall, Japan's property market should continue to be firm and an attractive destination for capital by 2040.

For more information about this report, please contact us

Savills Japan

Christian Mancini
CEO, Asia Pacific
(Ex. Greater China)
+81 3 4330 3611
cmancini@savills.co.jp

Savills Research

Tetsuya Kaneko
Managing Director, Head of Research & Consultancy, Japan
+81 3 4330 3103
tkaneko@savills.co.jp

Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia