

Japan - June 2024

Q
SPOTLIGHT
Savills Research

A Closer Look at Tokyo Demographics



Population in the 23W increasing and evolving

Summary

- The population of the Tokyo 23 Wards (23W) has continued to increase to new highs after a temporal dip during the pandemic.
- The Inner East, the Central 5 Wards (C5W), and the Inner North submarkets have seen the strongest population growth over the past few years.
- The number of foreign nationals in the Tokyo 23W has grown significantly and is projected to become a larger component of the population of the C5W and broader 23W.
- The C5W and 23W have seen a growing number of domestic migrants in the 20-to-29-year-old age band, and generally fewer in others, suggesting that this age band may play a greater role.
- The C5W and 23W have traditionally seen more female than male migrants, and this trend looks to continue.
- The supply of for-sale condominiums looks to remain subdued, which, on top of rising costs, has also contributed to their elevated prices.
- Conversely, the supply of rental units looks to remain steady. Migrants to the 23W are thus more likely to seek housing in the rental market.

INTRODUCTION

While Japan's population has been on a gradual decline over the past decade, Tokyo has proved an exception, having continued to see growth. At the same time, the population's characteristics have evolved over the years. This report seeks to shine a light on recent population trends and take a closer look at Tokyo's new inhabitants.

POPULATION TRENDS

Tokyo prefecture's population has grown from 13.9 million in 2019 to 14.1 million in 2024. As the economic powerhouse of Japan, the prefecture has seen positive growth as it is able to attract large numbers of young migrants in search of employment and education opportunities. As seen in Graph 1, though the population growth of the 23W temporarily performed more poorly than Tokyo cities¹ during the pandemic era, this trend saw a swift reversal as society normalised. Overall, between 2019 and 2024, populations have increased by 1.4% in Tokyo

¹ Tokyo cities in the west part of Tokyo prefecture (Tokyo prefecture outside of Tokyo 23 wards)

prefecture, 1.9% in Tokyo 23 Wards (23W), and 0.5% in Tokyo cities.

The Inner East submarket has been by far the strongest performer, and all of its constituent wards have seen population growth levels that stand head and shoulders above the 23W average. The recent growth seen is likely two-pronged. Firstly, the submarket has seen comparatively more new housing supply than the rest of the 23W, with the number of new housing starts between 2019 and 2023 about 6% greater than that of the previous five-year period, in contrast with the 23W seeing a 5% decline. Secondly, the submarket borders Chuo ward, where many large-scale mixed-use developments are in the pipeline, including the multiple projects in Yaesu and Nihonbashi, and have made the area an increasingly attractive place to live. Some investors have leveraged this opportunity, such as UBS pledging around US\$230 million to develop over 500 rental apartments in Koto ward's Kiba area. The Inner East is comparatively more affordable to live in, and should continue to see its population grow.

MAP 1: Tokyo's 23 Wards by Survey Area

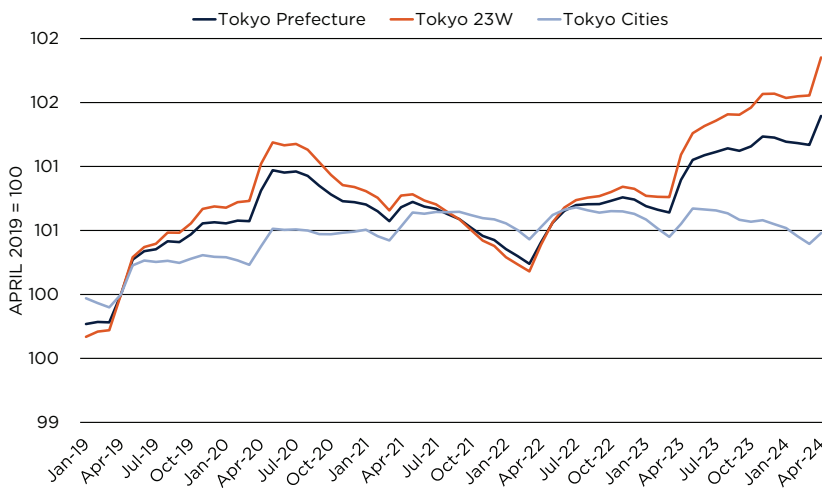


Source Savills Research & Consultancy

Despite seeing the most pronounced decline during the pandemic era, the C5W has seen its population rebound in earnest. The Inner North submarket was also in the same boat as the C5W and observed similar movements. However, performance differed significantly at the ward level for both submarkets. For instance, Chuo, Chiyoda, and Bunkyo saw the largest growth between 2019 and 2024 by a large margin, at 11.0%, 6.5%, and 4.6% respectively. A substantial portion of Chuo ward's exceptional performance has been driven by large-scale residential developments in Harumi; this specific area has seen its population rise by more than 60% over the same period, and now comprises 13% of the ward's population. For instance, one of the most prominent developments in the area is Harumi Flag, that will contain over 5,600 housing units when completed, bringing with it a plethora of family-friendly facilities and services that

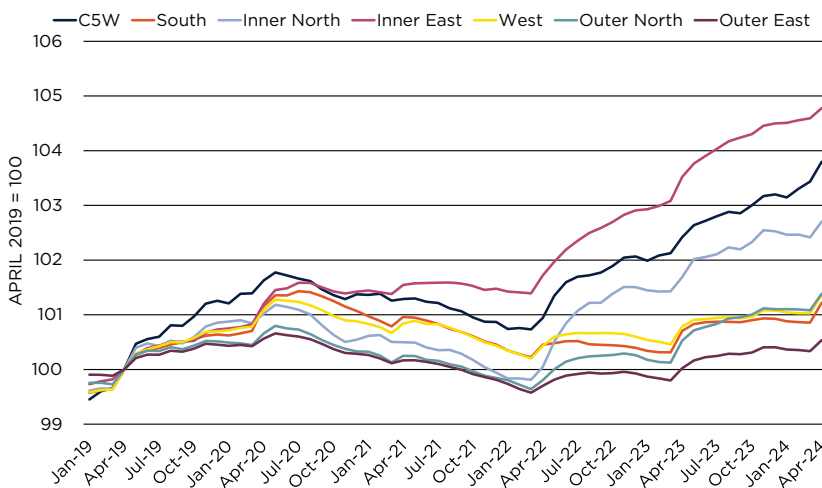
The population of the 23W has hit new highs and looks to continue increasing, especially in more central wards. At the same time, the composition of the population is evolving, and looks to gradually comprise a larger proportion of foreign nationals and younger migrants, and this trend is likely to support rental markets. Furthermore, the rental market in the 23W looks set to perform well due to elevated prices and the limited supply of for-sale units.

Graph 1: Tokyo Population, January 2019 to April 2024



Source Tokyo Metropolitan Government, Savills Research & Consultancy

Graph 2: Tokyo 23W Population by Submarket, January 2019 to April 2024

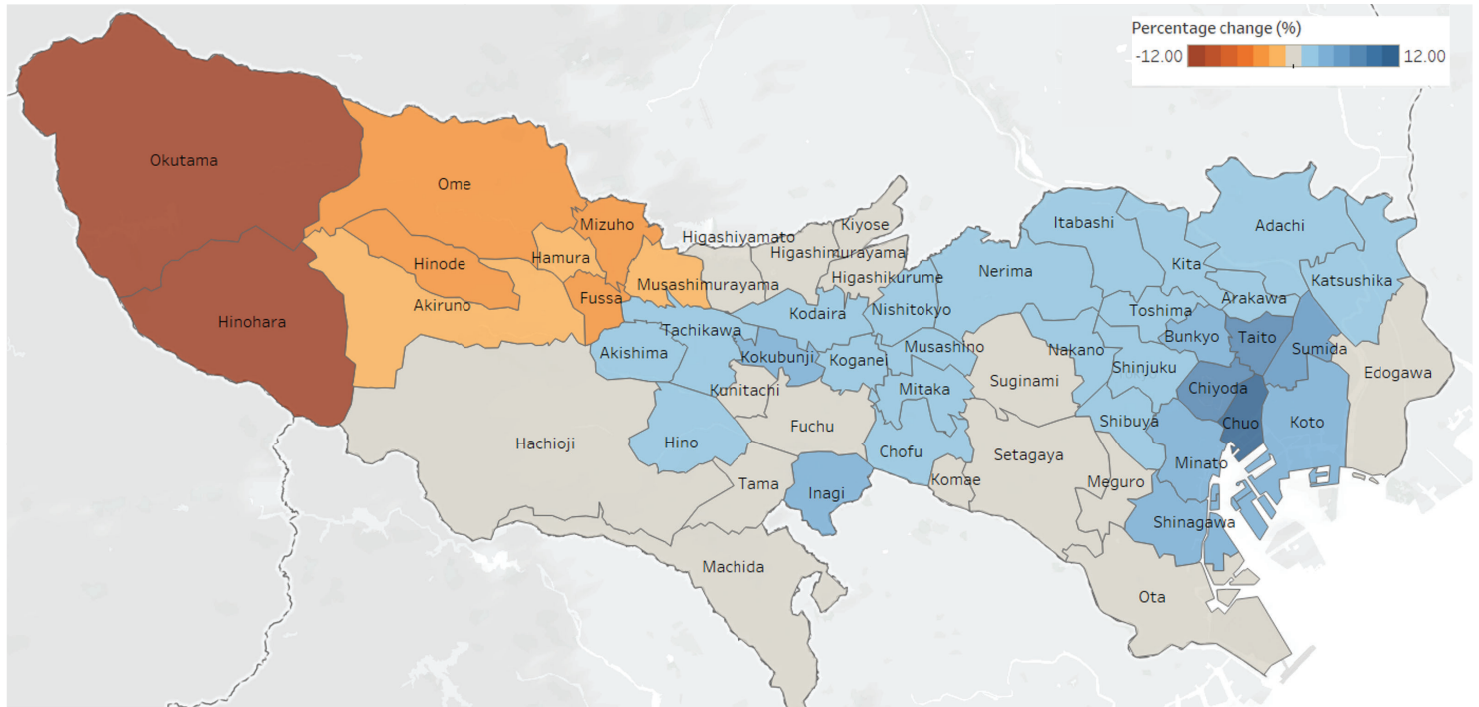


Source Tokyo Metropolitan Government, Savills Research & Consultancy

will allow the area to thrive as a residential hub. Elsewhere, Chiyoda and Bunkyo have traditionally been popular with families as quiet but central wards. For instance, both are ranked very highly on educational quality and prestige, and Bunkyo even has the lowest crime rate within the 23W.

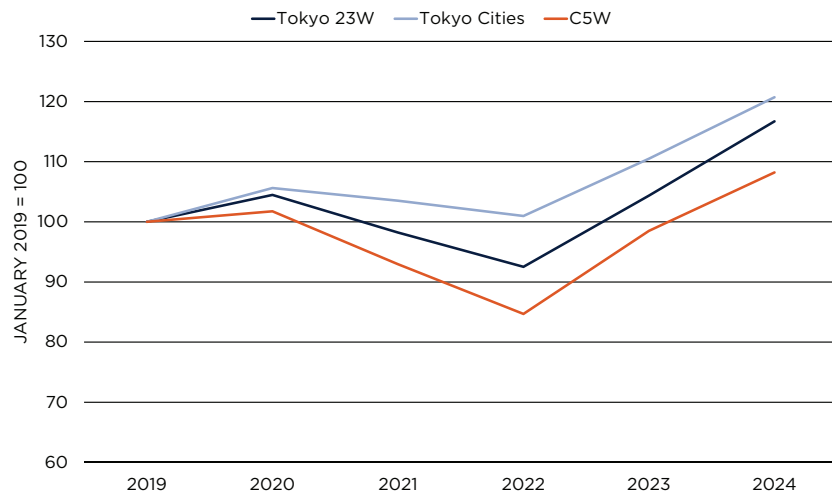
Meanwhile, other wards surrounding central areas have also seen amicable population growth, although many constituents in the South submarket, namely Setagaya, Ota, and Meguro, and the West submarket's Suginami, have performed slightly below average. That said, the post-pandemic environment appears to have overall shifted most of the attention back to central areas, probably due to a combination of dwindling levels of remote work and the post-pandemic environment breathing life back into business and retail districts. That said, some cities west of the 23W have seen commendable population growth between 2019 and 2024, like Kokubunji at 3.7%, and Inagi at 3.4% - almost on par with the C5W average. Many other cities in Tokyo have also performed around the same level as peripheral members of the 23W. Indeed, some paradigm shifts that materialised during the pandemic like greater preferences for larger room sizes appear to continue lingering, and inflationary pressures may have driven some to seek such apartments that are more affordable in areas away from central locations. Nevertheless, the central wards will likely receive the lion's share of attention in the post-pandemic society.

MAP 2: Tokyo Population Change, April 2019 vs April 2024



Source Tokyo Metropolitan Government, Savills Research & Consultancy

Graph 3: Tokyo Foreign National Population by Area*, 2019 to 2024



Source Tokyo Metropolitan Government, Savills Research & Consultancy
* Figures are as of January of each respective year

FOREIGN NATIONAL POPULATION TRENDS

Foreign nationals have grown to become an essential component of population growth for Tokyo prefecture. In January 2019, there were around 550,000 foreign nationals in Tokyo or 4.0% of the population, which has grown to almost 650,000 in January 2024, comprising 4.6% of the population. Incidentally, the foreign national population of Tokyo cities has risen slightly more rapidly than the 23W, up 21% (about 18,000

people) over the past five years compared to 17% (about 78,000 people) within the 23W. This proportion is expected to continue increasing with the declining population of Japanese nationals due to natural attrition, and the strong immigration trends observed. In fact, the National Institute of Population and Social Security Research forecasts suggest that by 2035, more than 10% of people in Japan between 18- to 34-years old will be foreign nationals, up from 5.7% in 2020. In this light, Tokyo is

likely to attain this goal much faster than the national average.

Perhaps counterintuitively, foreign national population growth in the C5W underperformed when compared to other parts of Tokyo, growing 8% between 2019 and 2024, although it must be noted that performance has not been evenly distributed, with Chuo and Chiyoda both seeing impressive growth, while other members have been more lacklustre. However, it is important to note that the C5W is thought of as foreigner-friendly, and still serves as an extremely popular point of entry for foreign nationals emigrating to Tokyo. In fact, according to statistics from the Tokyo Metropolitan Government, between 2019 and 2023, more than 20% of Tokyo foreign immigrants initially moved into the C5W, with Shinjuku receiving the lion's share of 70%.

Despite the large influx of foreign immigrants into the C5W, the proportion of foreign nationals in the C5W has counter-intuitively been on the decline, decreasing from 15% in 2019 to 14% in 2024. Indeed, upon closer inspection, internal migration trends show that the C5W has seen a consistent net outflow of foreign nationals, mostly to other wards in the 23W, and to Greater Tokyo. Indeed, it appears that many foreign nationals in the C5W choose to move elsewhere after a few years, perhaps once they become more familiar with Tokyo, or are in search of larger, more affordable units. That

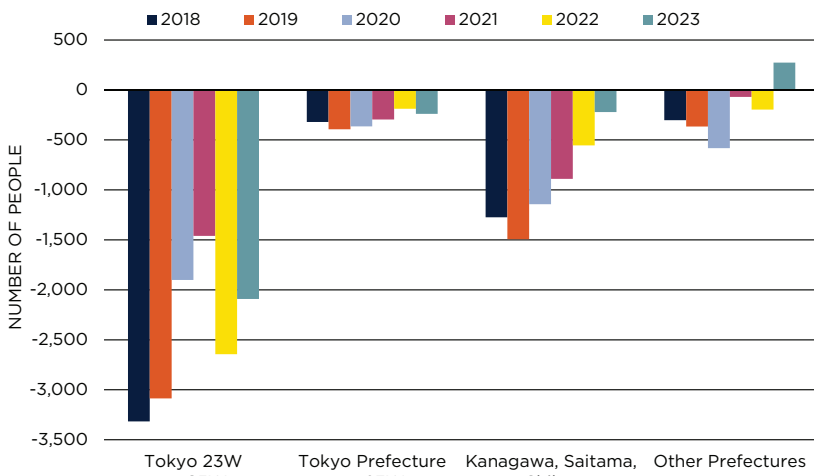
said, the outflow of foreign nationals from the C5W has been declining over the past few years, suggesting that the C5W has grown to become more popular as more than an entry point with foreign nationals. This trend can also be observed for the broader 23W, which saw annual net outflows of foreign nationals of around 5,000 - 6,000 in 2018 and 2019, shifting to strongly positive net inflows of over 6,000 in 2023.

To gauge the relative impact of foreign nationals on the population of each constituency, we have analysed the change in the proportion of foreign nationals in each ward or city. In this vein, as seen in Map 2, eastern and northern submarkets, along with a few members of the C5W, have seen the largest changes. One prominent factor at play could be the cluster effect where people of similar backgrounds tend to congregate

in the same area. For example, the Nishi-Kasai district in Edogawa ward appears exceptionally popular with Indian nationals, while Toshima ward has a notably large number of Burmese nationals. Elsewhere, although already the largest foreign national demographic by a significant extent, a recent large influx of Chinese nationals has also been recorded across many wards, but especially in more central ones. For instance, in Chiyoda, Chinese nationals only comprised 40% of the foreign national population in 2018 but rose to 55% in 2024. Indeed, a considerable number of these Chinese immigrants appear to be more affluent ones and could play a greater role in shaping the markets in central wards.

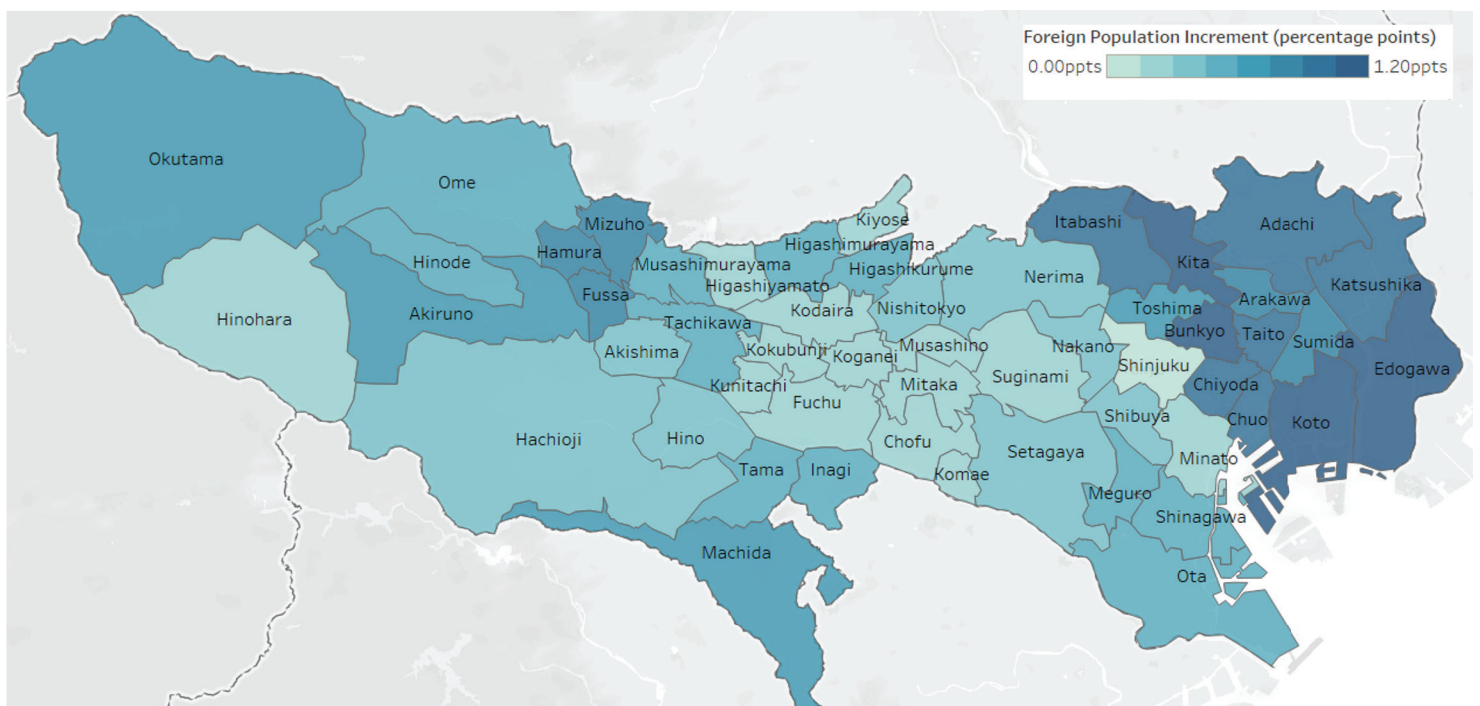
Going forward, the foreign national demographic in Tokyo is expected to continue growing, many of whom will likely be renters. Given the difficulties in navigating the Japanese real estate market, some foreign nationals would likely be willing to pay a premium for accommodating leasing services and desired amenities. In fact, some players have realised this, and have appropriately marketed their properties to such clientele, by offering services in different languages and simplifying the renting process, for instance. Indeed, it is a market that investors may need to pay increasing attention to, and perhaps incorporate into their strategy.

Graph 4: Tokyo Foreign Nationals Internal Net Migration for C5W, by Destination, 2018 to 2023



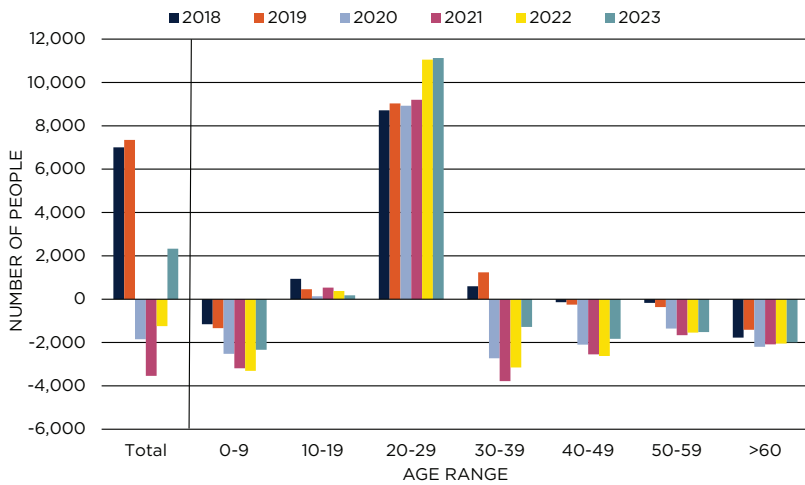
Source Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

MAP 3: Tokyo Foreign National Population, Change in Proportion of Foreigners by Constituency, April 2019 vs April 2024



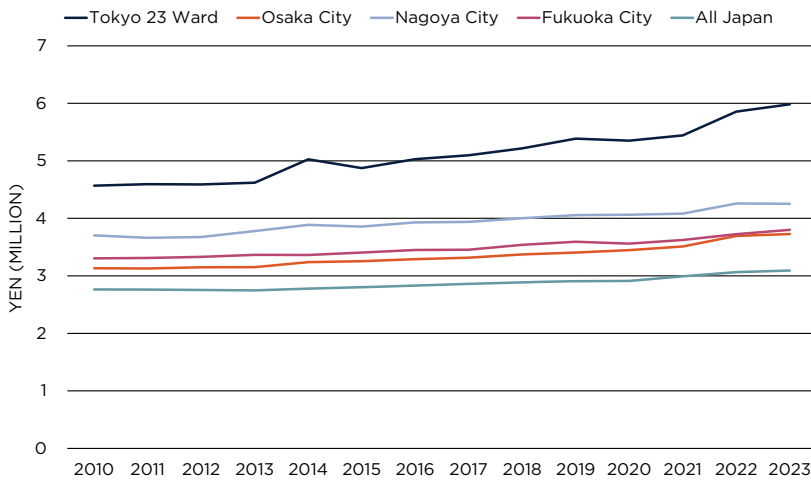
Source Tokyo Metropolitan Government, Savills Research & Consultancy

Graph 5: Internal Net Migration for C5W, by Age, 2018 to 2023



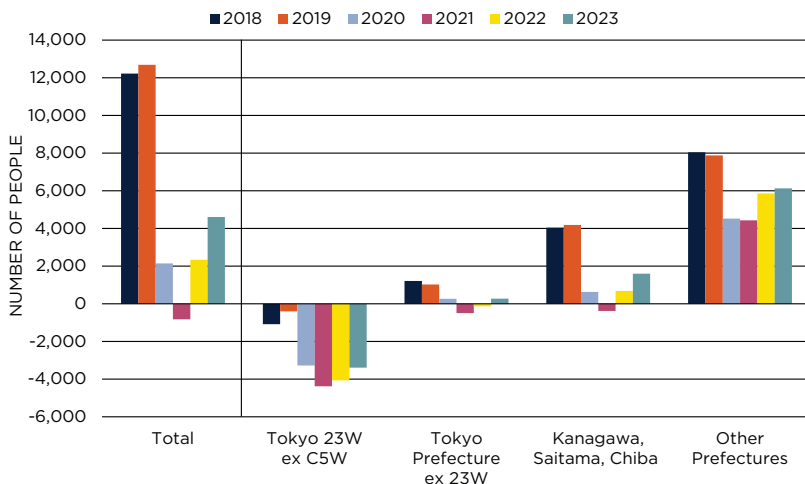
Source Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

Graph 6: Taxable Income per Taxpayer, by City, 2010 to 2023



Source National Tax Agency, Savills Research & Consultancy

Graph 7: Japanese Nationals Internal Net Migration for C5W, by Origin, 2018 to 2023



Source Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

DOMESTIC MIGRATION TRENDS

A closer look at net migration in the C5W by age band expounds some interesting trends about whom the area has grown in popularity with. As seen in Graph 5, the 20-to-29-year-old age band comprises nearly the entirety of net inflows of the C5W and has grown beyond pre-pandemic levels as of 2023. In 2018, net migration for this age band was less than 9,000, but in 2023, it had risen to more than 11,000. In addition, similar trends have also been observed in the wider 23W. One major factor likely contributing to this is the employment and educational opportunities in Tokyo; the average taxable income per taxpayer of the 23W clearly exceeds those of regional economic powerhouses and has also seen the most impressive growth over the past decade by a large margin. As such, working and living in central Tokyo would be the most appealing option for career-driven young professionals. Furthermore, the appeal of living in bustling, central Tokyo which has seen many developments in the past decade has likely spawned a cluster effect of young, like-minded individuals.

On the other hand, the C5W appears to have fallen slightly out of favour with age bands that are likely to represent younger family households, like the 0-to-9-year-old and 30-to-39-year-old age bands. There are two likely reasons that have primarily contributed to this. Firstly, the pandemic episode has paved the way for greater levels of remote work in Tokyo, and while on the decline, many companies keep flexible work arrangements in place, hence reducing the need of some people to live in central locations. Secondly, young family households are more likely to purchase a home, and the rising price tags of condominiums in central areas has likely priced many out, resulting in some households searching for homes in more affordable areas. Construction and land costs appear unlikely to see meaningful declines in the near future, suggesting that this trend should continue, at least for the time being.

In the previous section, we discussed that in pre-pandemic times, foreign nationals already living in Japan typically exhibited a tendency to migrate out of the C5W, although the area has grown more popular in the post-pandemic environment. However, migration trends of Japanese nationals appear to be the opposite. Looking at Graph 7, in pre-pandemic times, the C5W saw net inflows of more than 12,000 Japanese nationals, but dipped considerably during the pandemic, and similar trends were also observed in the broader 23W. Overall, net

migration of Japanese nationals into the C5W and the 23W appear to linger below pre-pandemic times.

Another pattern worth highlighting is that the C5W sees a considerably larger number of female migrants than male migrants. This appears consistent across all age bands with the axiomatic exception of the 0-to-9-year-old band, where net migration figures were around the same. This appears to be a longstanding trend, rooted in the modern, fast-paced, and progressive lifestyle that only big cities can offer, which likely attracts more female residents looking to escape the stereotypically old-fashioned ones. This knowledge could play into strategic tenant targeting, as female tenants generally have

different preferences for rental units, such as having separate washbasins or auto locks.

Overall, a closer inspection of recent domestic net migration figures in the C5W and extended 23W points to a general trend of a growing number of young migrants, namely in the 20-to-29-year-old age band, and a slightly diminished number of Japanese national migrants, in contrast to a growing pool of foreign nationals. Investors could take steps to tune their portfolios to be in line with where demographic trends are projected.

HOUSING TRENDS

According to the 2018 national Housing and Land survey conducted by the Ministry

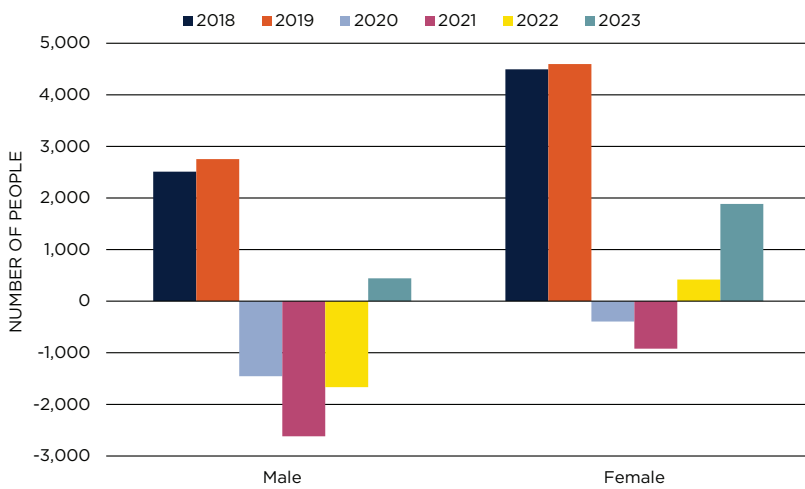
of Land, Infrastructure, Transport and Tourism (MLIT), about 55% of people in Tokyo 23W, and about 60% in the C5W live in rental housing. However, since the results of the last survey, significant events including the pandemic and decline in for-sale housing have reshaped the market, and the proportion of people living in rental housing has likely increased.

The for-sale condominium market in the 23W since the pandemic has been characterised by subdued supply and noticeably increased prices. As seen in Graph 10, the number of new for-sale condominiums units has been decreasing over the past decade, with the average yearly supply between 2019 - 2023 about 30% lower than the previous 5-year period. While partially contributed by the pandemic and supply chain disruptions, most of this stems from the limited availability of suitable land, and rising costs of labour, raw materials, and energy, exacerbated somewhat by the weakened yen. These bottlenecks are likely to linger, with stricter labour laws enacted in April 2024 further impairing the labour shortage. Indeed, a survey conducted by Nikkei has shown that average construction periods as of 2024 were about 30% longer than they were in 2014.

In addition, the average price per sq m of newly constructed condominiums in the 23W has risen by more than 50% between 2019 and 2023. The high prices in 2023 and Q1/2024 were attributed partly to some exceptionally expensive units targeting high-net-worth individuals that came to the market, although such additions to the market appear to have become more commonplace. Wage growth in Tokyo 23W, while improving, has been dwarfed in contrast to the rise in property prices, meaning that those looking to move to the 23W are likely to rent, while those insistent on homebuying may resort to other areas.

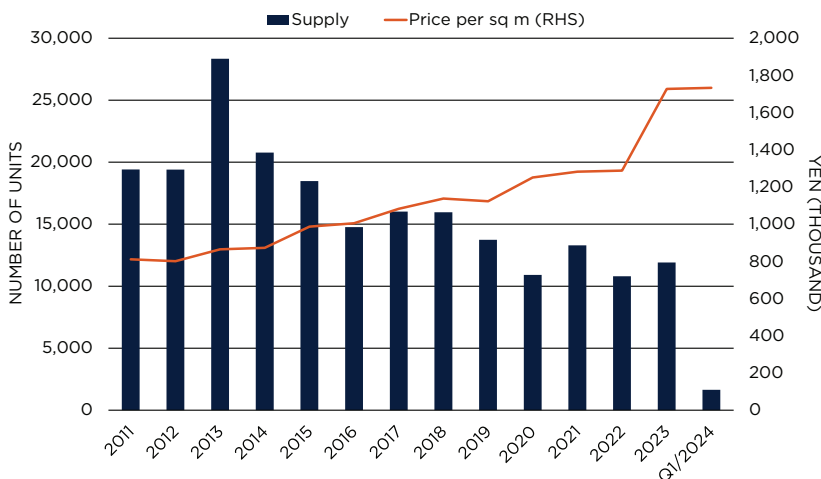
MLIT estimates that as of 2018, 50% of renters in the 23W lived in housing with monthly rents of between JPY50,000 and JPY100,000. However, more than 30% of renters also pay more than JPY100,000 per month for rent, which is significantly more than other major economic hubs, like 8% in Osaka City. Furthermore, an interesting characteristic is that the median commute time does not appear to differ significantly for mid-market rents. This suggests that even locations of reasonable distance from city centres can command high rents if they meet desirable characteristics, such as having good access to train stations, having sufficient floor space, and amenities in the property. Furthermore, the pandemic has likely pushed median commute times even higher.

Graph 8: Internal Net Migration for C5W, by Gender, 2018 to 2023



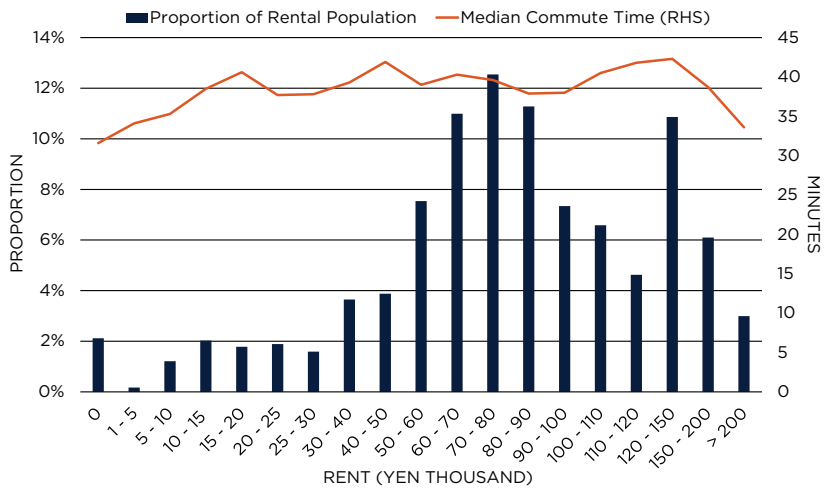
Source Ministry of Internal Affairs and Communications (MIC), Savills Research & Consultancy

Graph 9: Tokyo 23W Newly Constructed For-sale Condominium Supply and Price, 2011 to Q1/2024



Source Real Estate Economic Institute, Savills Research & Consultancy

Graph 10: Tokyo 23W, Rental Market Distribution and Median Commute Time, 2008 to 2023



Source Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Savills Research & Consultancy

This norm in the Tokyo 23W of having long commute times could be the reason why rental developments further away from central areas are likely to continue going forward.

Overall, housing trends in the Tokyo 23W have seen significantly higher for-sale condominium prices and subdued supply. In contrast, the rental housing starts trends remain stable. The significant disparity between the affordability and availability of rental housing over for-sale housing should thus push more residents to the rental market. Furthermore, recent wage growth, especially in the 23W, should allow for some

level of sustainable rental growth going forward, signalling a stable leasing market.

OUTLOOK

The population of Tokyo has risen to new highs, having recovered from the trough observed during the pandemic, with population growth in the 23W leapfrogging that of other cities and towns in the prefecture, and is projected to keep growing. Population trends in the 23W have seen central areas, namely the Inner East, the C5W, and the Inner North submarkets performing best in terms of population

growth especially in the post-pandemic era, fuelled by a combination of higher levels of office attendance, and new developments in central areas that have made it a more appealing place to live in.

At the same time, a closer look suggests noticeable changes in the breakdown of the population of the 23W. Firstly, the number of foreign nationals is expected to increase, both from external and internal migration, and especially in central wards. Secondly, although already a popular destination for the 20-to-29-year-old age band, the proportion of people in this age band moving to and living in the 23W looks set to increase even more. The proportion of new female migrants into the 23W is also expected to remain high. Elsewhere, the rental market in Tokyo is likely to remain stable going forward with strong demand, as the elevated prices of for-sale condominiums has made renting a home appear much more affordable than purchasing one, on top of positive demographic trends. As such, some families keen on purchasing homes are likely to look outside the 23W.

Central areas in the Tokyo 23W will see multiple developments that will transform the city, and make them more desirable places to live in. Demand for rental units in the 23W should remain strong. At the same time, for residential managers to understand how to market their properties and what value-add propositions would make the most economic sense, greater insight into ongoing demographic changes may be necessary given the evolving market.



For more information about this report, please contact us

Savills Japan

Jon Salyards
Managing Director,
Institutional Investment Advisory
+81 3 4330 3266
jsalyards@savills.co.jp

Andy Hurfurt
Managing Director,
Institutional Investment Advisory
+81 3 4330 3328
ahurfurt@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

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.