Asian Cities - 2H 2024

SPOTLIGHT
*Savills Research*

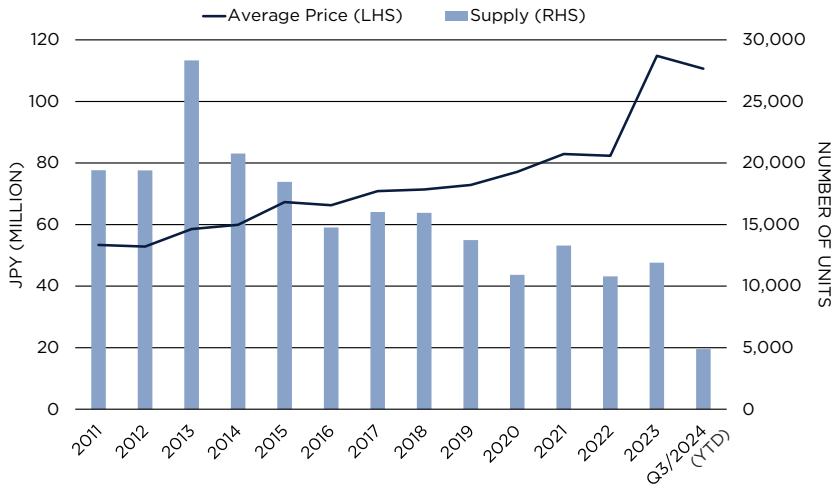
# Tokyo Residential Sales

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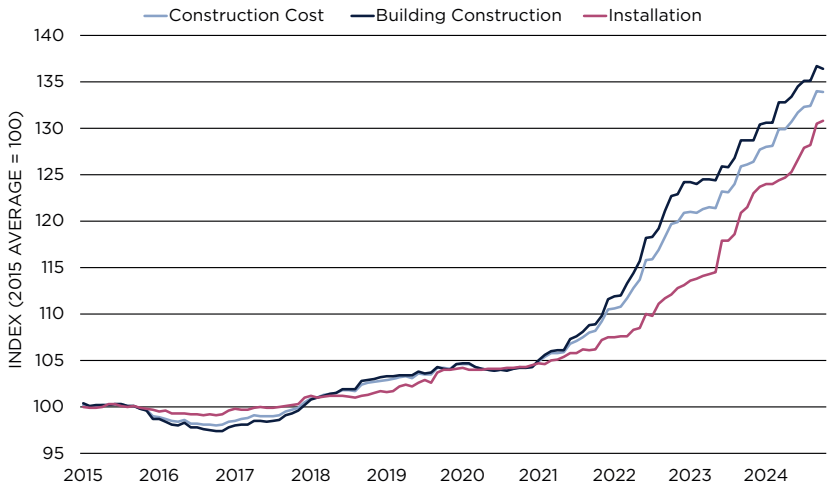
# Condominium prices in Tokyo grow unabated

**GRAPH 1: Supply and Average Price of New Condominium in Tokyo 23W, 2011 to Q3/2024**



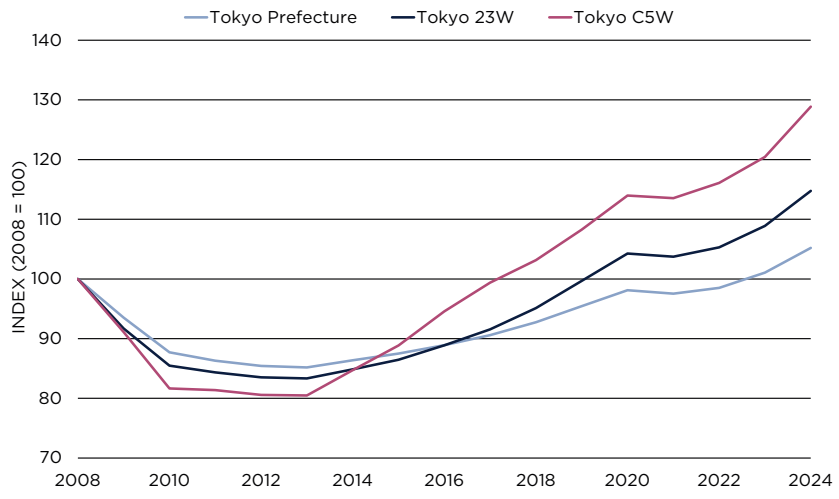

**Source** REEI, Savills Research & Consultancy

**GRAPH 2: Residential Reinforced Concrete Construction Costs, 2015 to Q3/2024**




**Source** Construction Research Institute, Savills Research & Consultancy

**GRAPH 3: Residential Land Prices in Tokyo, 2008 to 2024**




**Source** Ministry of Land, Infrastructure, Transport and Tourism, Savills Research & Consultancy

## INTRODUCTION

The for-sale condominium market in the Tokyo 23 Wards (23W) has gone from strength to strength, with prices rising to new highs. Supply levels entering 2024 are at particularly low levels, while housing demand has risen due to the growing population, affordable interest rates, and stronger wage growth, on top of the fact that rental units larger than 70 sq m are scarce, meaning that family households typically resort to the for-sale market. At the same time, elevated construction costs, increased land costs, and the difficulty of securing labour have driven up costs for developers, suggesting that for-sale condominiums prices will remain high.

At the same time, there is some level of bifurcation appearing in the market. Condominiums in prime central areas have seen demand skyrocket on the back of both domestic and foreign HNWIs (High Net Worth Individuals) who see such purchases as investments. On the other hand, condominiums in areas with poor access are reported to have seen price corrections even under the present bullish market. Location will continue to play a key role in determining pricing going forward.

## PRICES

According to the Real Estate Economic Institute (REEI), the average prices of new condominiums in the 23W have hit record highs, standing at JPY114.8 million as of 2023. These highs have continued in 2024 - the price per sq m of a new condominium in 2023 was JPY1.73 million per sq m, and as of Q3/2024, it was JPY1.72 million per sq m, both significant increments from the JPY1.29 million per sq m levels of 2022. In addition, second-hand condominium prices have moved in tandem. According to Real Estate Information Network System (REINS), the average prices in the 23W increased 6% from JPY57.8 million in 2022 to JPY61.3 million in 2023. Meanwhile, second-hand condominiums in the Central 3 Wards (C3W), Minato, Chiyoda, and Chuo, are reported to have seen prices nearly double since 2018, showing the importance of location. Overall, average prices of both new and second-hand condominiums have reached historical high levels.

## DEMAND PULL AND SUPPLY PUSH

The high prices of condominiums can be attributed to both demand and supply factors. Firstly, the supply of condominiums in the 23W has been on a gradual decline over the past decade. Furthermore, supply in 2024 has seen a steep drop, with fewer than 5,000 units

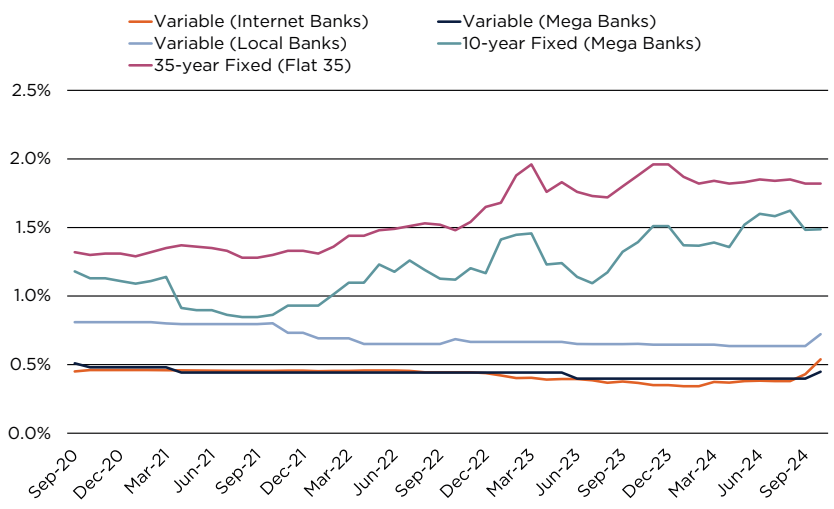
having been completed as of September 2024, compared with almost 12,000 units in 2023.

The low supply stems primarily from heightened costs of land and construction. For instance, according to the Ministry of Land, Infrastructure, Transport and Tourism, residential land prices in the 23W and Central 5 Wards (C5W) have increased by around 15% and 20% respectively since 2019, and the actual costs of land procurement for for-sale condominiums are likely to be even greater because such developments have become much more selective. Elsewhere, according to the Construction Research Institute, construction costs of reinforced concrete (RC) residences have risen by about 30% over the same period, exacerbated further by stricter labour regulations. These sharp increments in construction costs have made project planning more difficult for developers, and in some cases have resulted in project delays or even cancellations. One notable example was the redevelopment of Nakano Sun Plaza, a large mixed-use building. While originally scheduled for completion by 2029, its developer Nomura Real Estate announced in October 2024 that it would have to overhaul current plans because estimated costs ballooned from JPY181 billion in 2021 to JPY264 billion. Going forward, the supply of new condominiums is likely to be constricted by these factors, and prices should be pushed up accordingly.

**Condominium prices in Tokyo 23W have hit new highs due to continued demand from residents, consistently low interest rates, and stronger wage growth. Meanwhile, elevated construction, land, and labour costs have added additional upward price pressure and have constricted supply.**

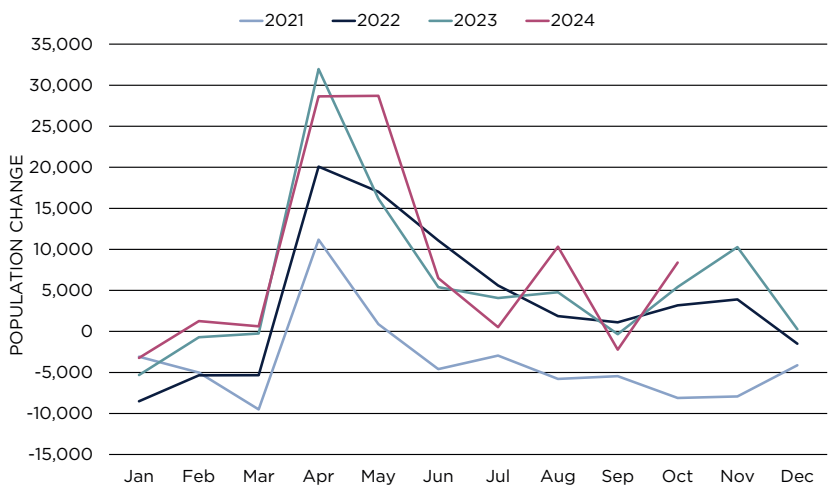
Demand-side factors have also fuelled the rise in prices. Firstly, although seeing a transient dip during the pandemic, Tokyo's population has continued to rise to record levels, which has naturally contributed to increments in housing demand overall. Secondly, interest rates are still at low levels, and have helped to reduce the cost of purchasing homes. Even with the Bank of Japan starting to normalise its monetary policy and raising policy rates in 2024, as of October 2024, bank lending rates have only seen slight increments, if at all. Indeed, many banks appear to be prioritising sales volume over raising rates. In addition, according to the Ministry of Internal Affairs and Communications, the number of dual-income households has continued to rise nationwide, and is likely to have risen even more in Tokyo. The greater purchasing power has contributed to stronger demand for housing. Furthermore, with the weakened yen, foreign buyers are still likely to find Japanese condominiums attractive, especially when compared to other developed markets in Asia like Hong Kong or Singapore.

**GRAPH 4: Housing Mortgage Rates, September 2020 to October 2024**



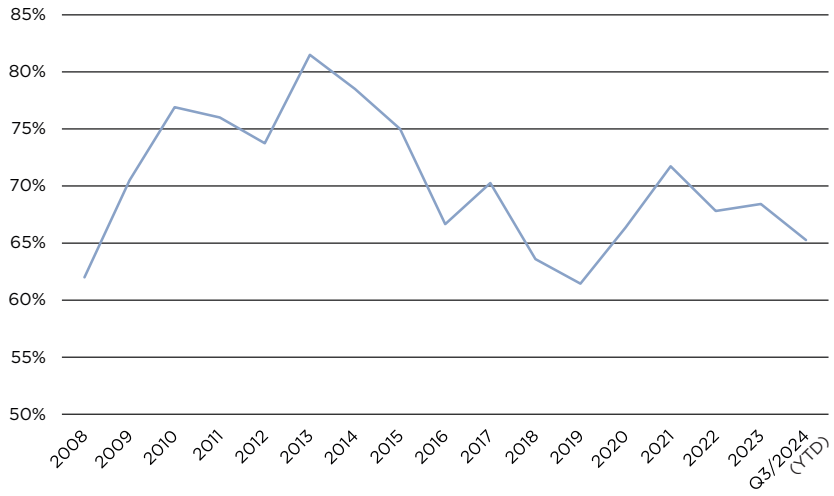

**Source** Mogecheck, Savills Research & Consultancy

**GRAPH 5: Tokyo 23W Population Change, 2021 to October 2024**




**Source** Tokyo Metropolitan Government, Savills Research & Consultancy

**GRAPH 6: Tokyo 23W Condo Contract Rate, 2008 to Q3/2024**




**Source** REEI, Savills Research & Consultancy

## OUTLOOK

Condominium prices in the Tokyo 23W are at record levels, due to multiple supply-side bottlenecks that have raised costs for developers, and consequentially increasing prices. In addition, demand remains high due to continued population growth, favourable financing opportunities, and generally stronger purchasing power.

Given the considerably higher barrier of entry to buy a condominium in the Tokyo 23W, the rental market will thrive as more residents are likely to resort to renting over purchasing a home. Moreover, a sizable portion of the population growth in the 23W is rooted in the immigration of foreign nationals, a vast majority of whom are likely to be renters, providing a further boon for the rental market.

Contract rates[1] in the 23W have hovered above 65% with the spike in prices in 2023 and 2024, showing that actual sales have slowed somewhat as new condominiums have been put out of reach for many buyers due to the high prices. However, condominiums in the Tokyo 23W are unlikely to be priced down as they are still in demand. Furthermore, those in prime locations are likely to fare better due to the robust demand and limited supply. Some developers actually sell only one unit per buyer because investment demand in prime areas is so strong, in addition to the strong real demand.

Going forward, strong wage growth and wealth effect should strengthen domestic demand. On the other hand, if the Japanese yen appreciates, foreign demand may weaken somewhat. Overall, condominium prices are expected to remain high, although there is also expected to be considerable divergence in price direction depending on location.

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

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