Japan - June 2024

SPOTLIGHT
Savills Research

Branded Residences in Japan

savills

Growth of branded residence segment gaining momentum in Japan

Summary

- The branded residence segment has long been a niche one in Japan, and stock has been limited.
- Japan is home to a large population of ultra-high-net-worth individuals (UHNWIs), the number and overall wealth of which has increased in recent years. This cohort will likely increase with an influx of wealthy foreign nationals who recognise Japan as a safe haven to store wealth.
- City centres in Japan have become increasingly popular areas for UHNWIs to live in, aided by multiple redevelopments that have transformed the respective areas.
- Many large-scale redevelopment projects in the future will likely be mixed-use and have a greater focus on ultra-luxury, and many luxury hospitality brands have aligned themselves with these projects to develop iconic residences.
- Residential units bearing a brand name have the appearance of a guarantee of high quality in terms of location, building specifications, furnishing, amenities, privacy and services, as well as high re-saleability.
- Multiple five-star hotels developments in recent years across Japan have created further demand for branded residences nationwide, especially in urban areas.
- Ultra-luxury residential units have been selling notably well recently, with Aman Tokyo paving the way for further expansion of the sector.
- In general, ultra-luxury residential units are two to four times more expensive than mid-market units on a per tsubo basis, which is thought to be a sustainable level.

INTRODUCTION

The branded residence market combines the traditional features of ultra-luxury residences, namely privacy, luxurious amenities, and round-the-clock concierge services, among other features, with reputable hospitality brand names, which can distinguish these properties and help them to command premium prices.

Though relatively new to Japan, the growth of the sector is gaining traction. This momentum has come in large part due to the expanding population and overall value of assets held by UHNWIs in Japan, many of whom are shifting towards more active and urban lifestyles. In addition, foreign residents comprise a moderate proportion of the demand for ultra-luxury residences, and the growing interest in Japan among wealthy international visitors continues to boost the prospects of the sector.

Although the stock of branded residences in Japan has long been limited, with only a few properties located in resorts, a slew of upcoming projects in central urban areas should attract significant attention and add to the momentum of the sector.

Overall, the branded residence market in Japan is ripe with opportunity. Developments may benefit from the weaker yen, growing interest in Japan as a global tourist destination, and the population of younger UHNWIs that are receptive to global luxury hospitality brands and who are seeking to live in central areas, but with privacy and access to premium amenities. The expansion in demand for ultra-luxury sectors gives a strong indication as to the bright prospects of the branded residence segment.

JAPAN ULTRA-LUXURY RESIDENTIAL MARKET OVERVIEW

The overall ultra-luxury residential sector in Japan has traditionally been comparatively modest, with a total stock of fewer than 10 ultra-luxury units as recently as a decade ago. Most developers, even major ones, had little experience in it. However, demand for ultra-luxury residences has grown, especially over the past half-decade, and will likely garner increasing attention from developers and investors as a fresh avenue to explore while other sectors mature. Moreover, a vast majority of demand for ultra-luxury units has been in Tokyo, in addition to some regional cities such as Osaka and Kyoto, and resort areas such as Niseko.

While there is no universal definition of what constitutes an ultra-luxury residence in Japan, one benchmark is a unit price of more than JPY1 billion. In general, the supply of ultra-luxury units even in Tokyo has been extremely limited when compared to other global cities. While the number has continued to increase, especially in recent years, the total stock appears to comprise at most a paltry 300 units, as wealthy locals have historically favoured large detached landed houses over luxurious urban condominiums. This stock level is extremely small compared to Hong Kong or London, not to mention Manhattan, and Tokyo has vast potential for further growth in the ultra-luxury sector, especially given its strong appeal as a global tourist destination.

Several factors have contributed to nurturing the demand for ultra-luxury residences in Tokyo. Firstly, the growing number of UHNWIs in Tokyo, especially those on the younger end of the spectrum, has formed the backbone of ultra-luxury residential demand in central locations. Next, a slew of large-scale developments has transformed the landscape of many locations, making them more attractive areas to live, which has likely contributed to preferences for residential locations in Tokyo amongst the wealthy having shifted away from high-end

Table 1: Tokyo Town Ranking by Number of Corporate Presidents

RANKING	2023	2003
1	Akasaka (Minato)	Den-en-chofu (Ota)
2	Nishi-shinjuku (Shinjuku)	Seijo (Setagaya)
3	Roppongi (Minato)	Oizumi-gakuen (Nerima)
4	Aoyama (Minato)	Aoyama (Minato)
5	Yoyogi (Shibuya)	Kameido (Koto)
6	Shibaura (Minato)	Kamisumachi-cho (Ibaraki)
7	Takanawa (Minato)	Okusawa (Setagaya)
8	Shinjuku (Shinjuku)	Ryuo-cho (Yamanashi)
9	Toyosu (Koto)	Fuchu-cho (Hiroshima)
10	Minami-azabu (Minato)	Ojima (Koto)

Source Tokyo Shoko Research, Savills Research & Consultancy suburban residential areas to the city centre, and town rankings by Tokyo Shoko Research show this trend clearly (Table 1). Furthermore, Tokyo's status as a global tourist destination and ranking as one of the safest cities in the world have boosted its popularity as a place to live, especially for foreign residents.

The market has started to welcome a notable amount of new supply in the past half decade. For instance, Park Mansion Hinokicho-koen, developed in 2017, reportedly had its most expensive unit on sale for JPY5.5 billion. In 2021, the most expensive unit in MARQ OMOTESANDO ONE in Harajuku went for a reported JPY6.7 billion, and in 2022, the penthouse unit in Toranomon Residential Hills Tower was rumoured to have been on sale for JPY10 billion. Meanwhile, the penthouse unit in Aman Residences located in Azabudai Hills has set a new standard for ultra-luxury in Japan, reportedly sold for JPY20 billion - well over JPY40 million per tsubo. The development features 91 ultra-luxury units, which have been completely sold out, and the development should pave the way for further expansion in the ultra-luxury residential sector, especially in urban areas.

The branded residence segment has long been a niche one in Japan, and stock has been extremely limited. That said, changing preferences among domestic UHNWIs and greater interest in Japan as a global tourist destination has boosted the profile of the sector. A slew of branded residence developments located in central urban areas have been receiving significant interest, and the segment appears to be going from strength to strength.

Before the pandemic, many ultra-luxury condominiums in Tokyo had been sold above the JPY15 million per tsubo mark, but hardly exceeded JPY20 million. However, in recent years, more ultra-luxury units have been transacted at well over JPY20 million per tsubo, demonstrating the robust demand for such residences. For instance, in 2023, a unit in Toranomon Hills Residence, completed in 2014, reportedly sold for JPY26.8 million per tsubo. There are certainly many more private transactions at this price levels with limited disclosure. Furthermore, a closer look at recent listings shows multiple units with asking prices of more than JPY25 million per tsubo. These trends suggest that the market for branded residences in Tokyo is being rapidly established and flourishing.

Looking ahead, there are two projects of significant size upcoming in the Mita area. The first major and highly anticipated development is Mita Garden Hills in 2025, a joint-development with more than 1,000 units by Mitsui Fudosan and Mitsubishi Estate, with the penthouse unit reportedly on sale for JPY5.5 billion. Based on market rumours, this project is likely to be successful and provide further momentum, especially for its neighbouring project, the Mita Koyamacho redevelopment, which is a large mixed-use development with around 1,450 residential units scheduled for completion in 2027, which, given its prime location and the prestige surrounding the development, will likely feature many premium units classified as ultra-luxury.

In addition, Torch Tower, part of the TOKYO TORCH project by Mitsubishi Estate, will feature ultra-luxury residences on its upper floors. Scheduled for completion by 2028, some rental units in the complex are reported to have monthly rents of around JPY5.0 million. Moreover, the Dorchester Collection may add further value to these units.

Ultra-luxury residences have also seen some shifts in design and location. For instance, the Torch Tower development differs from many other ultra-luxury residences, as it is located in business districts traditionally designated for commercial use, as opposed to a dedicated complex in a high-end residential neighbourhood. Considering the recent large office supply in conjunction with lifestyle shifts due to the pandemic, replacing office floors with other use such as ultra-luxury residences has become a viable option. This is especially the case because the rental revel of luxury residential has risen significantly to levels on par with prime office or retail use. A majority of large developments are mixed-use, which allows for the well-being of both residents and tenants, and has been strengthened further by the proliferation of ESG-centred designs.

Going forward, developments of a similar nature - ultra-luxury residences integrated into commercial complexes, should gain greater traction given the success of existing ones, and the relatively low supply present in the market. Indeed, the pandemic has changed the landscape of office and residence in central locations. In fact, an office building larger than 100,000 sq m close to the New York Stock Exchange in Manhattan is reportedly being converted into a residential building, showing that there is a precent for such large-scale renovation projects, and other locations might follow suit. In central Tokyo, Naka-dori in Marunouchi may welcome more residential units in the future. Moreover, the monthly rental levels for such units are expected to be upwards of JPY50,000 per tsubo, which is on par or even higher than prime offices in the Marunouchi area. In fact, the sales price of JPY20+ million per tsubo is higher than strata office floors. Developers of large-scale projects are likely looking to maximise their return and diversify their risk with residential space.

Ultra-luxury residences are not limited solely to Tokyo, with a number of developments in the pipeline, especially in major cities. For instance, Grand Green Osaka, located right next to Osaka station in Kita ward, features for-sale luxury residential towers together with luxury rental residences, together will Grade A offices, hotels, and retail space, connected by a large park. The project is progressing smoothly for its partial opening in late 2024, and has received a lot of attention, especially with the development of the country's first integrated resort in the background, which is expected to attract a large new crowd of potential clientele. The most expensive residence in the development was reportedly on sale for more than JPY2.5 billion, at JPY27 million per tsubo. High floors of the development went for JPY500 - 1,000 million at well over JPY10 million per tsubo, while most of the units were on sale in the JPY100 - 300 million range at around JPY7 million per tsubo. This is another testament to the strong demand for ultra-luxury residences.

Overall, it seems that there is growing appetite for units on the most expensive end of the spectrum, and these changes could have an influence on the landscape of Japan's major cities, as well as wider areas of central Tokyo going forward. In the near future, ultra-luxury residential units and branded residences should emerge beyond "traditional" or established residential areas, boosting the potential of the branded residence segment.

BRANDED RESIDENCE SECTOR OVERVIEW

Branded residences operate predominantly within the prime end of local residential markets, and offer numerous additional merits. The concept of a branded residence has existed since the 1920s, though the sector did not truly emerge as a large subset of the residential market until the 1980s. Historically centred in North America, today's branded residence schemes can be found in almost every corner of the globe. Across the world, there are 690 completed schemes as of mid-2023, with over 600 schemes in the pipeline expected to be delivered by 2030. This future growth is in line with historic trends - over the past decade, branded residences schemes have increased by over 160%.

The pioneers in this sector have typically been major luxury hotel brands, which are synonymous with premium quality, and are currently leaders in terms of market share (Graph 1). That said, non-hotel players are also making strides in the market, including sports car manufacturers such as Porsche and Aston Martin, as well as fashion and apparel giants such as Bulgari and Armani.

With ever-growing rates of urbanisation, branded residences in resort areas have also become increasingly popular as a leisure option. This was especially the case given the proliferation of remote work arrangements during the pandemic, and the trend has continued its strong momentum with the growing size and accumulated wealth of the UHNWI population globally. More and more five-star hotel chains are opening branded residences particularly in regional tourism hotspots, and this is a trend that is apparent in Japan.

Associations of quality, luxury, and premium service are major draws for residents, who benefit from a myriad of services associated with luxury hotels in their residences, including maintenance and security guarantees during their absence. These features accompanying brand affiliation can encourage premium pricing compared to other comparable nonbranded stock in the market, leading to higher resale values and more attractive rates of return for investors. Hotel brands are also interested in developing standalone branded residences. Buyers of these units may gain the highest level of membership of the brand association, subject to the terms of the overall program, which would be another inventive.

In countries with higher interest rate regimes where securing capital is notably more costly, adding for-sale branded residences to mixed-use developments has proved a beneficial option. Indeed, the pre-sale of these residences could generate essential funds, improving the viability of projects and easing investor and developer concerns. Moreover, branded residences often provide higher returns on a per tsubo basis, making them a lucrative option to be incorporated into developments.

Knowledge of brands operating within the branded residence segment can attract increased interest from global buyers, drawing on the deep customer loyalty that many brands have invested significant resources cultivating. Meanwhile, consumer brands looking to align their brands with luxury residences may benefit from diversifying and expanding their business offerings and enhancing their brand appeal.

Overall, an analysis of a sample of markets demonstrates that the global premium for branded residences over other forms of ultra-luxury residences stands at an average of 30% on an unweighted basis; however, premiums do vary significantly depending on location, brand, and type of branded residence scheme.

Global cities tend to see a lower average premium than other markets as branded schemes may face higher levels of competition from non-branded stock with similar provision of amenities and comparable quality. Notwithstanding, there is still an attractive premium in these cities; premiums in global cities are estimated to be around the 25% mark on average. In these markets, brands and developers tend to focus on lifestyle and amenities that can be found uniquely in their schemes, rather than residential finishes, as these can be easily replicated in non-branded schemes in global cities.

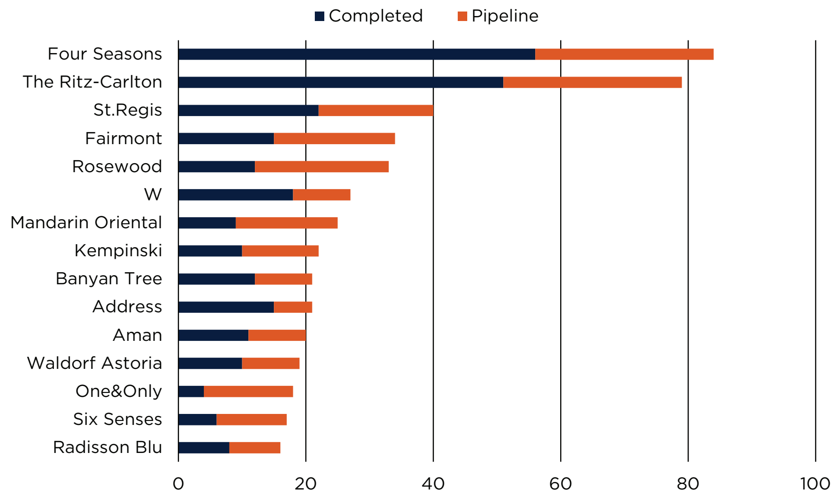
Emerging cities, on the other hand tend to enjoy the highest price premiums, with branded residential schemes commanding average premiums of over 50% compared to non-branded

TABLE 2: Major Upcoming Residential Developments in Tokyo

NAME	LOCATION	EXPECTED YEAR OF COMPLETION	NO. OF UNITS
WORLD TOWER RESIDENCE	Hamamatsucho	2024	400
The Parkhouse Gran Sanbancho 26	Chiyoda	2024	100
Mita Garden Hills	Mita	2025	1,000
Akasaka 7-Chome Redevelopment Project	Akasaka	2026	700
Mita Koyamacho Redevelopment Project	Mita	2027	1,450
Nishi-azabu 3-Chome Redevelopment Project	Nishi-azabu	2027	525
Torch Tower Residence (to be named)	Tokyo Station	2028	50-70
Shirokane 1-Chome Redevelopment Project	Shirokane	2028	950

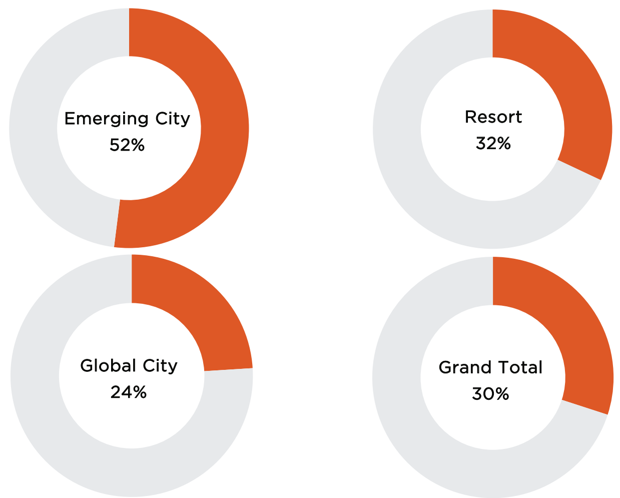
Source Developer disclosures, Savills Research & Consultancy

Graph 1: Top 20 Individual Brands - Number of Schemes



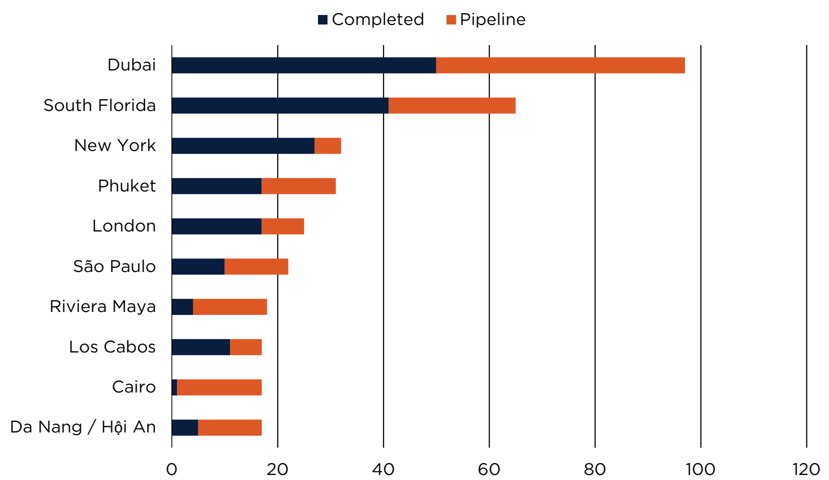
Source Savills Research & Consultancy

Graph 2: Branded Residence Price Premiums by Location Type



Source Savills Research & Consultancy

Graph 3: Branded Residence Hotspots



Source Savills Research & Consultancy

offerings. Growing numbers of UHNWIs, expanding economies, and an increasing desire to maintain appearances, have produced rising demand for branded residences across many emerging cities. In these growing markets, it is likely that a buyer will be looking for a branded residence to use as a primary residence compared to other market types as branded residences offer security, high-quality finishes, and superior implied status compared to non-branded products in these locations.

Finally, premiums in resort locations can be as varied as the locations themselves, but on average, those for resort markets stand at just over 30%. These premiums can vary based on market composition, local residential market dynamics, and buyer source markets. As the classification suggests, resort locations tend to be most popular with second home buyers looking to escape the frenetic pace of life in their home cities.

BRANDED RESIDENCE SECTOR IN JAPAN

Although branded residences are still new in Japan, the concept is gaining popularity, given the growth of the UHNWI population, and more services are emerging overall in the ultra-luxury sector to serve this growing demand. The grand opening of Aman Residences Tokyo has paved the way, with the top penthouse being sold for JPY20 billion, or well over JPY40 million per tsubo.

Many other mixed-use developments in the near future that are considered suitable to accommodate ultra-luxury residences have garnered a large amount of interest. Currently, a few examples can be found in Niseko and Kyoto. For instance, Park Hyatt Niseko Hanazono Residences was completed in 2019 and comprises 113 residential units, with market rumours suggesting that a studio of about 70 sq m was priced for about JPY150 million, while a three-bedroom of about 150 sq m was priced for about JPY550 million. Market intelligence suggests that some of the units have much higher resale prices. Meanwhile, Four Seasons Hotel & Residences Kyoto was completed in 2016 by Berjaya Corporation, featuring 57 residential units, with a 106 sq m, one-bedroom unit reportedly priced at JPY800 million as of May 2024. Many units appear to have achieved higher than JPY20 million per tsubo prices.

Building upon this success, Berjaya Corporation will reportedly invest US$1.1 billion into developing a Four Seasons resort in Okinawa, which will feature 152 for-sale condominium and private villa residences, with the villas reportedly costing around JPY22 million per tsubo. The company appears to be confident in the prospects of branded residences located in popular tourist destinations, and has reportedly acquired plots of land in Karuizawa and Hakone with the view to emulate its other successful Four Seasons branded residence ventures. Elsewhere, Aman Niseko is a wellness resort slated for opening in 2026, and is expected to be priced at above JPY10 million per tsubo, and with some units over the JPY20 million per tsubo mark.

As indicated in the examples above, branded residences in Japan have been popular options in tourist destinations. This is not surprising considering that potential buyers of these properties would already own primary homes in urban areas, and these branded residences were mainly purchased as a place to spend their leisure time.

However, the aforementioned Aman Residences Tokyo has been a game changer as it is the first urban branded residence property for sale in the heart of Tokyo almost two decades after The Park Residences at The Ritz-Carlton, Tokyo (only for rent), and the project appears to be very successful. The success of Aman Residences Tokyo should spark further interest, leading to more developments of branded residences in Tokyo and beyond.

Elsewhere in Tokyo, luxury automobile manufacturer Aston Martin unveiled a standalone branded townhouse residence in the upscale Omotesando district in 2023, with luxury furnishings designed to emulate that of the developer's vehicles. The ultra-luxury property features office space, a gym, spa area, and wine cellar, among other amenities, and Aston Martin reportedly has further development plans for Japan given the untapped potential of the market. Moreover, a series of recent prime land transactions in central locations in Tokyo should have the potential to be successfully redeveloped as ultra-luxury or branded residences in the future.

Although not as strict as luxury hotels, some branded residences have "area protection," which stipulates that once a branded residence is built, no similar branded residences may be built within a radius of a few kilometres, creating an even more exclusive façade.

As shown in Graph 3, branded residence projects are increasing in major cities and resort areas around the world. However, not a single Japanese city is ranked in the list. Now that we have entered a post-pandemic state, coupled with the weakening of the yen, Japan is once again garnering attention from around the world as an attractive destination. Five-star international hotel brands are opening one after another, mainly in Tokyo and Osaka, but also in regional tourist cities and resorts, and many more are planned for future development.

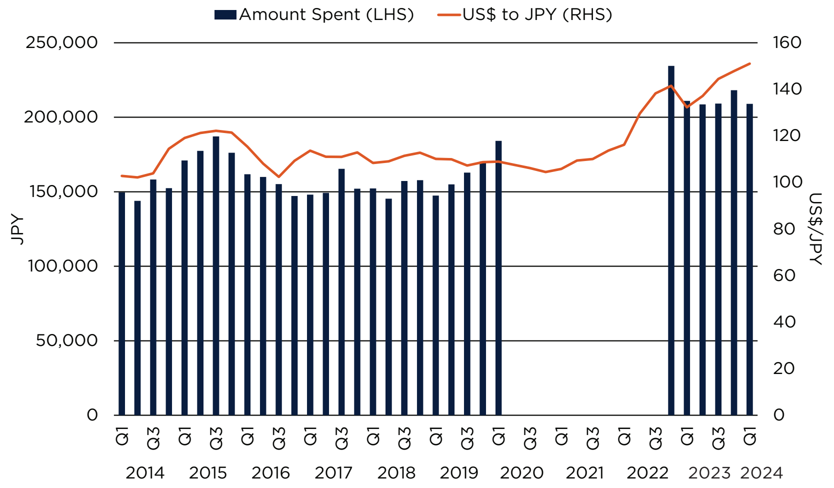
RISE IN HIGH-END INBOUND TOURISM

Japan has flourished as a tourist destination, having claimed the top spot in the World Economic Forum's Travel and Tourism Development Index for 2021, despite borders being firmly closed during the pandemic. Japan has firmly captured global interest in recent years, and research conducted by Remitly shows that Japan ranks second among the countries that individuals express the highest interest in moving to. Furthermore, Japan actually takes the top position amongst major voters in terms of tourism and real estate investment (excluding African, Central America and Caribbean countries). Indeed, Japan has been a soft power winner over the past few decades, attracting significant interest in Japanese cuisine, culture, history, and media from abroad. Furthermore, it is renowned for its public infrastructure that facilitates convenient and safe travel, while resilient supply chains have kept the general price of goods and services at relatively affordable levels, which has improved the ease of access to Japan for overseas tourists.

As these reports indicate, Japan has seen a large rebound in inbound tourism, with the number of international visitors having not only exceeded the pre-pandemic figure as of Q1/2024, but also with the post-pandemic era seeing the average amount spent per visitor hit significantly higher levels than those observed over the past decade. A myriad of factors has contributed to this remarkable growth. For instance, Japan was ranked as a top destination to visit by multiple institutions. Also, the yen has significantly depreciated against most currencies. The weak yen has undoubtedly provided a considerable amount of additional purchasing power to most international visitors to the country. However, while currency fluctuations are certainly an important factor, a considerable proportion of growth is likely organic and unrelated to currency. For instance, visitors from Asia and the west on average saw over a 50% increase in spending, while the yen had only depreciated by less than 30%, compared to 2019. Indeed, Japan ran extensive marketing campaigns promoting higher-end inbound tourism in the country leading up to the 2020 Tokyo Olympics, and has also seen infrastructural improvements like an increased number of duty-free shops, and greater frequencies of direct flights into the country. In the private sector, examples of refined services to inbound tourists include Isetan Mitsukoshi doubling the number of staff that exclusively serve high-end customers, and also developing foreigner-friendly membership apps, has partly contributed to the record revenues. Overall, these factors have also played a significant role in improving Japan's status as a popular tourist destination and increasing the number of visitors, especially high-spending ones, and have likely assisted in increasing spending as well.

Overall, there are multiple tailwinds for inbound tourism as a whole. Tourists from mainland China have yet to see a meaningful return, and events in the pipeline such as World Expo 2025 should help to prop up demand. Further down the road, the Integrated Resorts in Osaka could be a game

Graph 4: Average Amount Spent by Each Inbound Tourist* vs US$/JPY Exchange Rate, 2014 to Q1/2024



Source Japan Tourism Agency, Yahoo Finance, Savills Research & Consultancy
* Data points during the pandemic are either unavailable or omitted.

changer for Japan, attracting significantly higher spenders. Overall, the full potential of inbound tourism appears yet to have been unleashed, and still has greater business opportunities that can be explored.

The growing influx of high-end tourists is a promising sign for developers of luxury branded residences because it presents an opportunity to market to an untapped source of demand. Indeed, a considerable number of these high-end tourists are likely relatively new to Japan, having been attracted by the recent surge in popularity of Japan as a tourist destination, and if they had a memorable enough experience in Tokyo, some of them could potentially be converted to buyers of ultra-luxury residences going forward, with the country's strong ownership laws and the weakened yen serving as boosters. This is especially the case in the context of global uncertainty, potential regional conflict surrounding Taiwan, and the slowdown of Chinese economy. As such, demand for ultra-luxury residences could be expected to increase further on the back of inbound capital.

BUYER PROFILE

Given their extremely high price points, only a very small number of individuals could be considered as potential customers for such residences. Japan is the third/fourth largest economy in the world, and is home to a large number of UHNWIs, typically individuals with a net worth of US$30 million or more, a significant proportion of whom are located in Tokyo. According to Altrata's World Ultra Wealth Report 2023, the UHNWI population in Japan stood at 14,940 in 2022, the second largest figure in Asia, which suggests that some demand for branded residences has always been present, but the limited supply had not allowed it to surface.

Unlike some counterparts, especially in the west, many of these UHNW Japanese residents traditionally tend to be more discreet with their wealth and value privacy along with comfort. Moreover, the market in general is very opaque as branded residences are typically marketed directly to high-profile clients known to developers or realtors, and little information is released openly to the public.

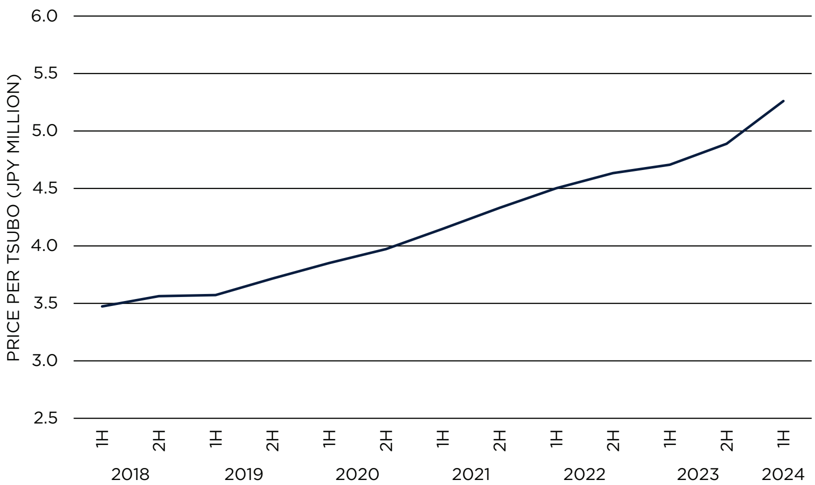
That said, the younger UHNWI population - aged in their 30's or 40's - many of whom have been able to ride the tide of global economic growth and have amassed considerable fortunes, likely lead more active lifestyles, and would prefer living in the heart of urban areas.

Meanwhile, as of the start of 2024, the foreign population as a proportion of the total population of Tokyo stood at 4.6%, and the number of foreign nationals has been growing steadily over the past few decades. UHNW foreign nationals should also comprise some demand in the branded residence sector in Tokyo, given that presently, approximately a third of ultra-luxury units overall are estimated to be occupied by foreign residents. In particular, the number of foreign residents in Minato ward, typically known for being the most expensive in Tokyo, has increased by more than 60% over the past 30 years to almost 20,000 people, suggesting that the number of wealthy expatriates that can afford such residences has also increased, and has helped to prop up demand.

Buyers are free to use a la carte the high-quality, hotel-like services and many common-use incidental facilities offered by the brand. Maintenance and security during their absence is also guaranteed to be completely hassle-free. In addition, while they own the property, they may benefit from the revenue of potential rental programs offered, which covers management fees and city taxes, and allows them to see it as an investment. And because branded residences have a higher added value than regular luxury homes, they also have a higher resale value, which is another major benefit to the end user.

Overall, the low supply of such residences present in the market together with the large number of wealthy individuals in Japan, as well as the large potential from inbound buyers, could prop up significant demand.

Graph 5: Price Per Tsubo for Used Condominiums in the Tokyo C6W* Area, 1H/2018 to 1H/2024



Source Tokyo Kantei, Savills Research & Consultancy
* C6W area includes Chiyoda, Chuo, Minato, Shinjuku, Bunkyo, and Shibuya

PRICE STABILITY

The increased pace of ultra-luxury and branded residence developments in Tokyo could give rise to concerns surrounding its price stability. One way to approach this question is to analyse how expensive ultra-luxury units are when compared to mid-market units[1].

In the Tokyo for-sale condominium market, mid-market prices have increased to new highs in recent years (Graph 5), with the price of for-sale units in the Central 6 Wards (Central 5 Wards plus Bunkyo) having reached a price of JPY5+ million per tsubo. Moreover, recent market information suggests that several used for-sale condominiums at the upper end of the spectrum in prime areas are priced between JPY15 and JPY20 million per tsubo on a median transacted price basis. This trend has helped to set a new expectation for prices, especially for those in highly desirable locations with premium specifications, which should help to accommodate branded residences at premium prices with limited issue. Also, this shows that the price difference between mid-market and upper-end is sustainable at three to four times.

Elevated demand has contributed to these inflated prices. Interest rates have remained at historic lows in Japan over recent years, effectively lowering the actual cost of purchasing a condominium. Furthermore, the increased number of dual-income households has led to greater purchasing

1 Savills defines mid-market units in Tokyo as studio and one- or two-bedroom rental apartments of up to 100 sq m in size, reinforced concrete structures built within the last ten years, and properties located in Tokyo's 23 wards and situated within a ten-minute walk of the nearest station.

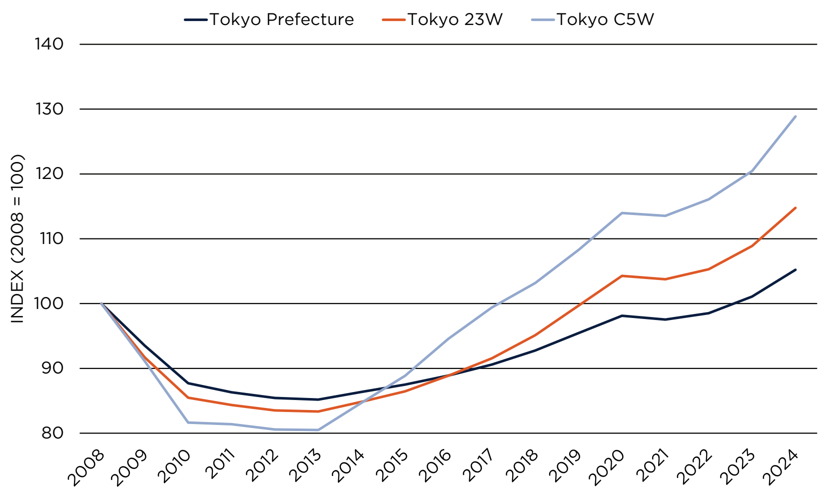
power and contributed to stronger housing demand, especially for conveniently located units in central Tokyo. Moreover, hybrid work arrangements appear to remain as a corporate perk especially among large companies, which has increased the amount of time spent at home, and has consequently increased the desired amount of space. However, large units are less common in the rental market, which has encouraged some to turn to the for-sale market instead, further driving the demand for condominiums.

In conjunction with the red-hot demand for for-sale units, moderate supply has likely resulted in greater inflationary pressure on condominium prices and have pushed them to record highs. Firstly, land prices have climbed in Tokyo over consecutive years (Graph 6). The prime C5W area in particular saw the largest growth in Tokyo, with the 2024 land price premium at around 30% higher than the 2008 level, while the wider 23W is only approximately 15% higher. Meanwhile, elevated construction costs and materials prices are additional reasons for rising condominium prices, with construction costs having skyrocketed by almost 25% since 2020 (Graph 7) from various external factors including increased import prices, elevated raw material and energy costs, and chronic labour shortages, which will likely be exacerbated by new labour restrictions on overtime work. All in all, persistently elevated prices even for mid-market for-sale condominiums in Tokyo should help to justify premium sales prices for ultra-luxury residential units, especially since such units are located in prime, central locations where land value and demand is much higher.

Meanwhile, in the rental market, as of Q1/2024, mid-market units in the C5W have average rents of around JPY16,500 per tsubo. In contrast, for-rent ultra-luxury units in the C5W would have average monthly rents around JPY30,000 to JPY50,000 per tsubo - this is about two to three times the price of mid-market units on a per tsubo basis, which still appears reasonable overall considering the multitude of services and amenities that come with these ultra-luxury units. Indeed, the high rental levels come not only from the price per tsubo, but from the significantly larger size of ultra-luxury units which tend to be several times larger than the average unit in Tokyo, usually 200 sq m or more. Overall, given that rental levels for ultra-luxury residential units also do not appear to be egregiously overpriced above mid-market residential counterparts on a per tsubo basis, this aspect of the market appears sustainable.

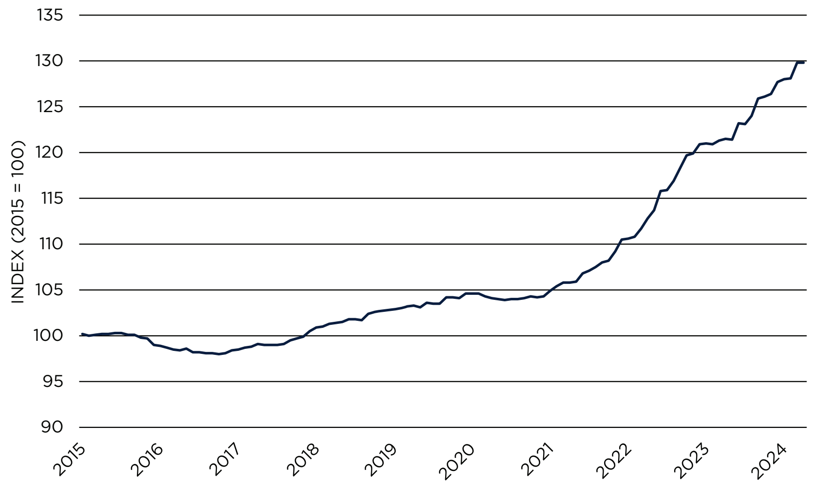
Strong arguments could be made for the demand for branded residences in Japan. The present stock and supply of such units are very low, and their strong performance on the market is an encouraging sign. Furthermore, international buyers were rather quiet during the pandemic. Considering the fact that tourists are coming back at a substantial rate, inbound demand for ultra-luxury will grow as well. Overall, Japan has strong potential latent demand for branded residences from the notable number of both domestic and foreign UHNWIs, and stable societal structure provide a firm foundation for future growth in the sector.

Graph 6: Tokyo Residential Land Price, 2008 to 2024



Source MLIT, Savills Research & Consultancy

Graph 7: Construction Costs for Reinforced Concrete Condominiums in Tokyo, January 2015 to April 2024



Source Construction Research Institute, Savills Research & Consultancy

OUTLOOK

The branded residence segment is a relatively new one in Japan, and notably underdeveloped in comparison with other sectors. That said, as the growth of the wider ultra-luxury residence market in Japan continues to gain traction, the branded residence segment should continue to grow in tandem.

Although many early branded residence developments were located in tourism hotspots, several upcoming branded residences will be situated in central urban areas, with Aman Residences Tokyo being a pioneer in this regard. Going forward, more and more international five-star hotel brands appear to have plans to enter this lucrative market in Japan, with many new developments both in urban areas, mainly Tokyo and Osaka, as well as regional resort hotspots such as Niseko and Okinawa, among others.

Japan is an untapped market for such developments, given the large population of UHNWIs living in cities, who have amassed wealth over the past decade and tend to be relatively young. The prime central location of many upcoming schemes, as well as the privacy and convenient amenities on offer will likely cement further demand among this demographic. In addition, foreign UHNWIs will likely continue to grow as a target demographic for branded residences given Japan's popularity as a tourist destination.

The branded residence market will continue to see new entrants, and supply will generate demand. That said, the success of each project will lie in the ability of the developer to establish relationships with, and market to high-profile clients, and for the property to provide exceptional levels of service to meet tenant needs while controlling costs. Overall, branded residences in Japan appear reasonably priced when compared with other countries, and is an untapped market that looks on track for further growth.

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