

Japan - October 2021

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SPOTLIGHT
Savills Research

Nagoya Residential Markets



Demographic trends underpin the market

Summary

- Nagoya’s residential market is supported by stable demographic trends.
- Although the pandemic has halted rental growth, the adverse impact has been relatively limited thus far.
- Net-migration became positive after 2000, with the migration from other parts of Aichi increasing.
- Net-migration generally increases during economic upturns, although the outflow to Greater Tokyo partially offsets this.
- The quality of Aichi’s higher education institutions helps to attract and retain young people, which eventually translates to a steady talent pool for companies in the area.
- Station-front neighbourhoods have generally exhibited stronger population growth than other submarkets in Nagoya.
- The redevelopment projects taking place across the city will continue to enhance Nagoya’s city infrastructure and attractiveness going forward.

INTRODUCTION

Greater Nagoya¹ is the third largest metropolitan area in Japan, and its regional centre, Nagoya City (hereafter referred to as Nagoya), has a strong appeal that attracts and retains people, primarily due to the employment and education opportunities. The immigration inflow from Greater Nagoya, particularly from people in their late 20s, is the primary source of population growth in Nagoya.

Just like the 23 wards in Tokyo, Nagoya also saw positive net-migration after 2000. Prior to that, the population outflow from Nagoya to other parts of Aichi outweighed the inflow from other areas. Over the past three decades, however, Nagoya has seen significant improvements to its transportation infrastructure and the redevelopment of many commercial areas (Map 2). These developments have consequently contributed to a gradual reversal of the large population exodus between the late 1980s and early 1990s.

Nagoya’s population growth has since been modest, increasing at an average annual rate of 0.3% between 2010 and 2020. The relatively slow growth is understandable as Nagoya is competing with two larger metropolitan areas that sandwich the city from the east and west. Indeed, in 2020, although the net-migration

¹ In this report, Greater Nagoya refers to Aichi, Gifu, and Mie

into Nagoya from Greater Nagoya was about 6,800, much of this increment was offset by the outflow of about 5,000 people from the city to Greater Tokyo and Greater Osaka.

Some areas in Nagoya have seen notably stronger population growth than the city average. For instance, between 2010 and 2020, Naka ward and Higashi ward saw annual growth rates of 1.6% and 1.3%, respectively, compared to the city average of 0.3%.

Additionally, further granular analysis reveals that population growth was particularly strong in station-front neighbourhoods. Whilst Nagoya is widely considered a “car society” with a higher dependency on automobiles, the population growth close to stations may signal a paradigm shift in transportation.

Overall, this steady but mild growth of Nagoya’s population is reflected in its residential leasing market. Over the past five years, rents have grown a moderate 9% while occupancy levels have remained around 94%, even during the pandemic. Considering that the supply of rental units has exceeded net-migration in Nagoya in recent years, the market momentum is unlikely to accelerate soon. In the longer term, however, ongoing redevelopments across the city as well as the Maglev line project bode well for Nagoya’s residential market.

MAP 1: Nagoya City



Source Savills Research & Consultancy

MACRO DEMOGRAPHIC TRENDS

In 2020, despite the pandemic, Nagoya saw a slight increase of about 3,000 people, 0.1% of its 2019 population². Looking at the origins of these migrants, around 6,800 people moved from the Greater Nagoya region into Nagoya, making it the city’s main driver of population growth. This trend is not new as Greater Nagoya has been supporting Nagoya’s population over the past few decades. However, the significant increase in migration from other cities in Aichi is a more recent change. Indeed, net-migration from other parts of Aichi to Nagoya has been positive since 2012 – a stark contrast with the 1990s when the outflow from Nagoya to other cities in Aichi significantly outweighed its inflow.

A reasonable explanation for this reversal is the substantial drop in land prices in Nagoya after the bubble burst in the early 1990s. Because of this, those who were priced out of the city and sought affordable houses in other parts of Aichi may have gradually returned to Nagoya. Furthermore, as mentioned in the previous section, this period corresponds to the time of Nagoya’s major redevelopments and other infrastructural improvements. As such, these advancements to Nagoya’s infrastructure seemed to have helped accelerate the population reversal.

To get a better grasp of this growing

² This figure is the sum of net migration to Nagoya. Since this does not incorporate natural causes (births and deaths), in addition to other differences in methodology, the figure will not necessarily match the population change reported by the city.

As a regional hub, Nagoya attracts and retains people, which in turn supports demand for the city’s residential market. While the population growth in Nagoya is moderate, some submarkets have exhibited stronger growth than others. Furthermore, ongoing redevelopment should further enhance Nagoya’s attractiveness.

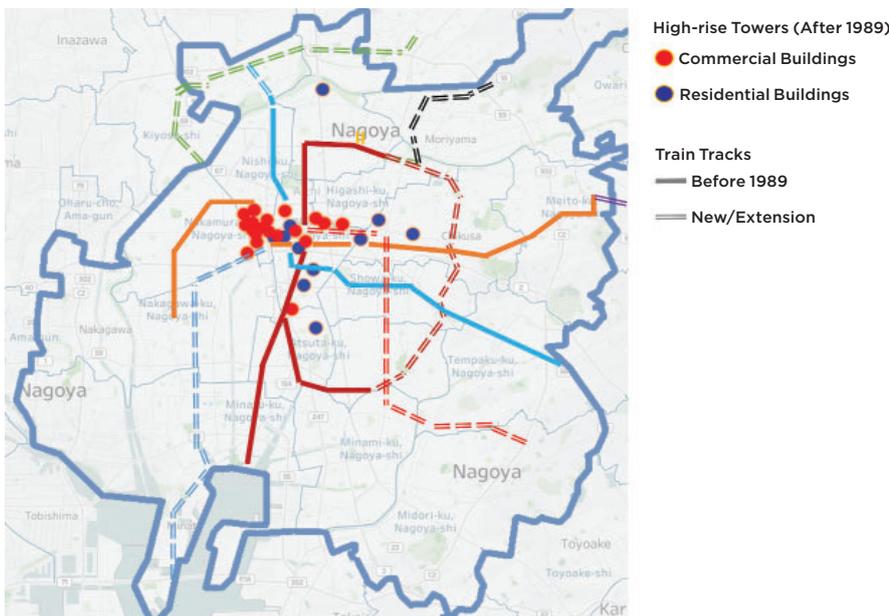
trend, a closer look at the migration patterns within Aichi is important. Upon analysing the migration trends by region, the Mikawa region and the Chita Peninsula are the major sources of population inflows into Nagoya, and that the 20-to-39-year-old age bracket dominates the inflows. On the other hand, while the Owari region also generated a net positive migration to Nagoya within the 20-to-29-year-old age group, the outflows of the 0-to-9-year-old and 30-to-39-year-old groups offset this.

This high-level observation indicates that there is a migration pattern within Aichi corresponding to the life stages of its residents. Specifically, workers who are in relatively early stages of their career tend to move to Nagoya from nearby cities in Aichi for job opportunities. However, many married couples in their 30s appear to move out to more suburban areas in the Owari region after having children. For instance, Nagakute City in Owari Higashi is a popular city for families and known for its low average age of 38.6 years as opposed to the national average of 46.4 years, according to the 2015 national census.

Despite these outward trickles, the overall net-migration from other parts of Aichi to Nagoya has been positive and growing. As discussed in later sections, the employment and education opportunities of the city are critical in attracting and retaining young migrants. Furthermore, as the redevelopment in Nagoya progresses, people should find living in the city more attractive, particularly as residents of the city seem to be reducing their dependence on cars.

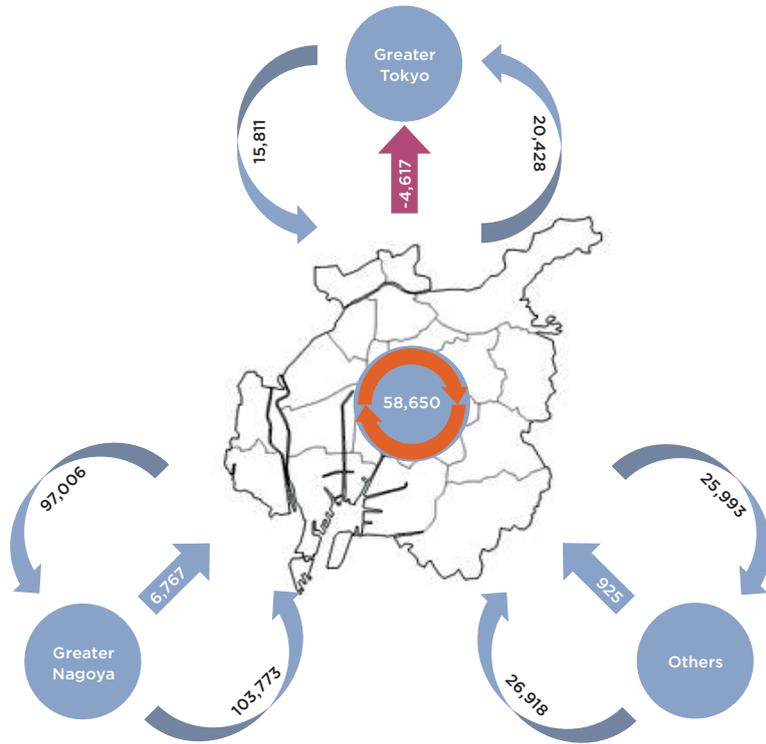
Finally, although delayed, the Maglev line, which plans to reduce the travel time between Shinagawa and Nagoya from about 90 minutes to 40 minutes, could provide a further boost to Nagoya’s long-term growth. While Sakae is a centre of recent developments, such as the opening of Odori Rayard, and planned redevelopment projects including the Chunichi Building, Sakae Hiroba, and Nagoya Mitsukoshi Sakae, the completion of the Maglev line could further gravitate interest towards Nagoya Station.

MAP 2: Nagoya’s High-rise Towers* Built After 1989 and Train Track Extension



Source Nagoya Urban Institute, Savills Research & Consultancy
 **Here, high-rise towers are mostly buildings that are over 100 meters in height.

GRAPH 1: Nagoya City Migration Flows*, 2020



Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy
*The numbers in the chart include both Japanese and foreign population.

MAP 3: Aichi Subregions



Source Savills Research & Consultancy

EDUCATION

Higher education in Aichi serves as an anchor to retain its young population. The prefecture boasts the third highest number of universities in Japan, behind Tokyo and Osaka. Many of these universities are highly ranked in the country, including Nagoya University with five Nobel laureates among its graduates. As such, the prefecture is expected to remain the region’s education hub.

About 65% of the Aichi university population is made up of students originally from the prefecture, according to the Ministry of Education, Culture, Sports, Science, and Technology. This demonstrates the high propensity of students to remain in Aichi. Specifically, in 2020, over 70% of Aichi high school graduates that pursued higher education chose to attend universities in the prefecture. In fact, the number of people that stay in Aichi after high school graduation has increased by 6.7% between 2010 and 2020, while in the same period, the total number of freshman students in Aichi universities has also increased by 3.2%. Gifu and Mie also provide a steady flow of university students into Aichi, accounting for about 50% of freshmen who come to Aichi from outside of the prefecture.

More specific to Nagoya, the overall number of students attending universities within the city increased by 17% between 2010 and 2020 to 104,200 students. This is partially thanks to the abolishment of a law that limited campus developments in urban areas in 2002, which paved the way for universities to move their campuses from other cities in Aichi to Nagoya. While students originally from Aichi are less likely to directly increase residential leasing demand since many of them can choose to commute from their family homes, they still play a key part in adding vibrancy to the local economy. Furthermore, this can lead to future leasing demand as many university students in Aichi tend to find jobs and stay in Aichi after graduation³.

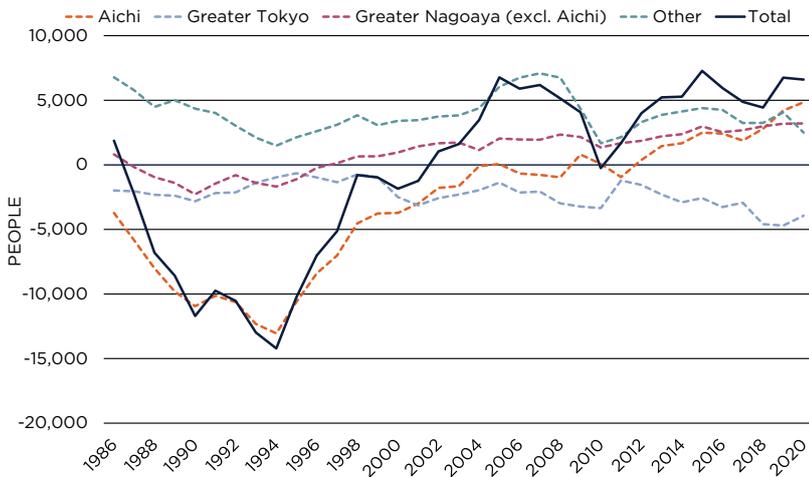
As such, higher education is an important foundation for the population of Aichi as graduates will lead to eventual residential leasing demand as they progress further into their careers. Taken together, the stable flow of university students provides steady potential for residential leasing demand, and these graduates also provide a sound talent pool for employers in Nagoya.

EMPLOYMENT

A major reason for new graduates to stay or come to Nagoya is its economic size and employment base. Indeed, Nagoya is the centre of Greater Nagoya’s economy, with

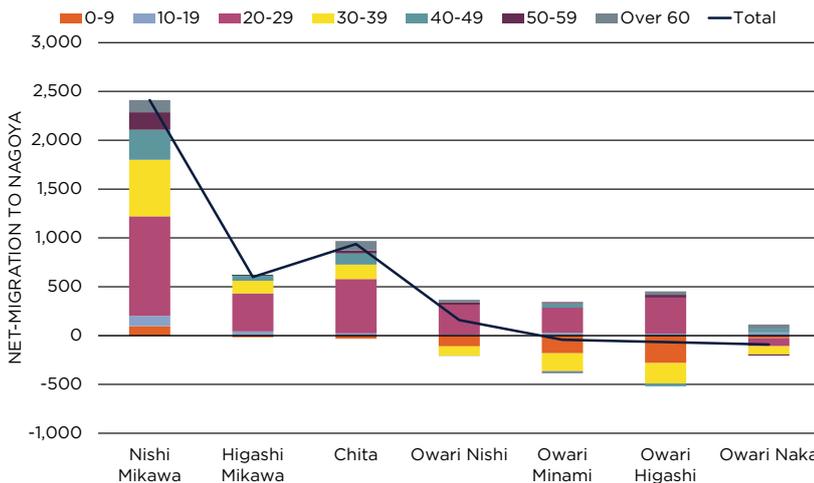
³ According to a survey of graduating university students by Recruit, 65% to 70% of university students remained in Aichi post-graduation over the past few years.

GRAPH 2: Net-migration to Nagoya*, 1986 to 2020



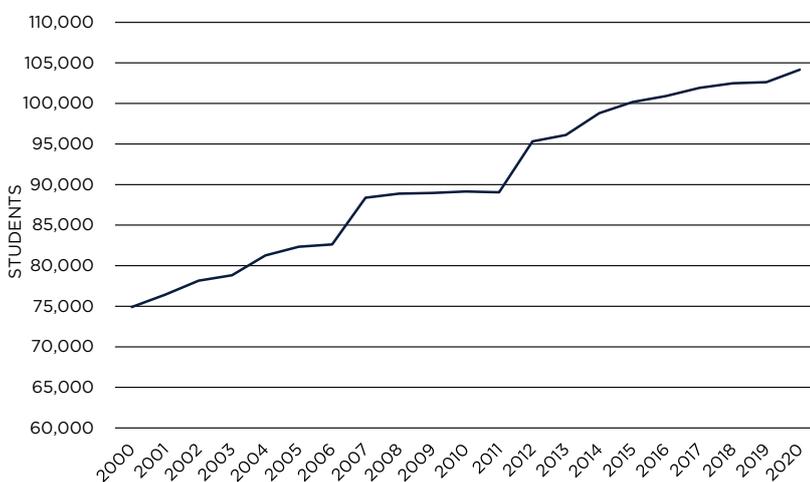
Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy
 *The methodology for counting the foreign population has changed in 2012. For consistency, this chart only includes the Japanese population.

GRAPH 3: Net-migration from Other Areas of Aichi to Nagoya by Geography and age*, 2020



Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy
 *The numbers in the chart include both Japanese and foreign population.

GRAPH 4: Trend of University Student Population in Nagoya, 2000 to 2020



Source Ministry of Education, Culture, Sports, Science, and Technology, Savills Research & Consultancy

the city accounting for about 20% of the region’s population in 2020 and 25% of its GDP in FY2018. As of 2016, there were about 170 large-scale companies per one million people in Nagoya, which was the third highest concentration seen among major cities in Japan.

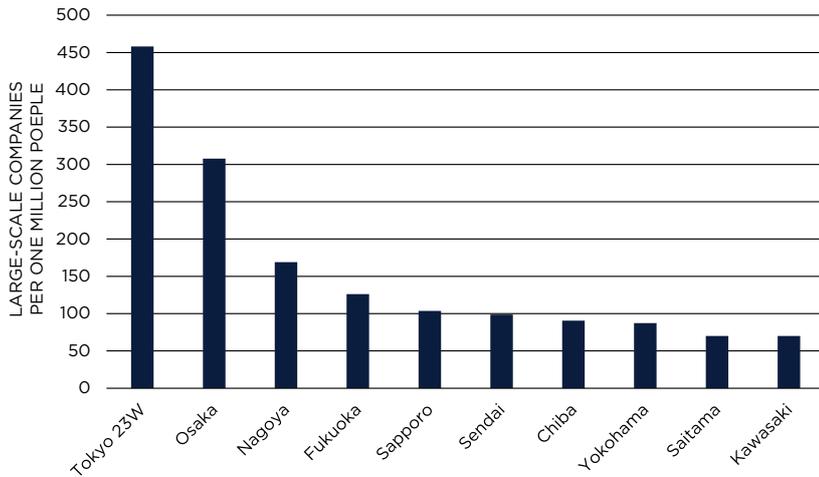
Aichi’s employment market in recent years has been trending steadily. Unemployment rates are typically lower than the national average and the job-to-application ratios were the second highest among the six prefectures that contain major markets that Savills monitors*. Additionally, income levels are high in Nagoya - the amount of taxable income per taxpayer has even been consistently higher than other major regional cities such as Osaka and Fukuoka. Furthermore, the stable office market conditions up until the pandemic reflect the strong demand for companies to have headquarters and regional offices in the city, and also show that the employment base in Nagoya is sound.

Among major companies in the region, Toyota Motor Corporation in particular has a significant presence in the market. Although the company is headquartered outside of Nagoya, many related companies and suppliers located in the region have businesses with Toyota. As such, how well Toyota can compete in the rapidly changing automobile industry should have a strong implication for Nagoya as well. Most recently, Toyota has exhibited a strong recovery in Q2/2021 with its operating profit recording a historic high. Furthermore, while Toyota currently rather lags in the electric vehicle scene, it has many investments into innovations such as hydrogen, solid state battery, and a connected city project, Woven City, which may help the company’s future growth.

Nevertheless, the overall pull force of Nagoya’s job market does not seem as strong as Tokyo. Similar to Tokyo and Osaka, Nagoya’s population tends to trend in tandem with corporate profit levels as more people from other parts of Aichi and Greater Nagoya move to Nagoya when economic conditions are improving. However, it is also true that net-migration from Nagoya to Greater Tokyo tends to increase when economy is growing (Graph 6). As a result of this opposing force at play, population growth in Nagoya is relatively subdued even during an economic upturn. Additionally, the fact that major companies in Aichi are located outside of Nagoya and that many only indirectly contribute to Nagoya’s residential demand may be a weakness of the market.

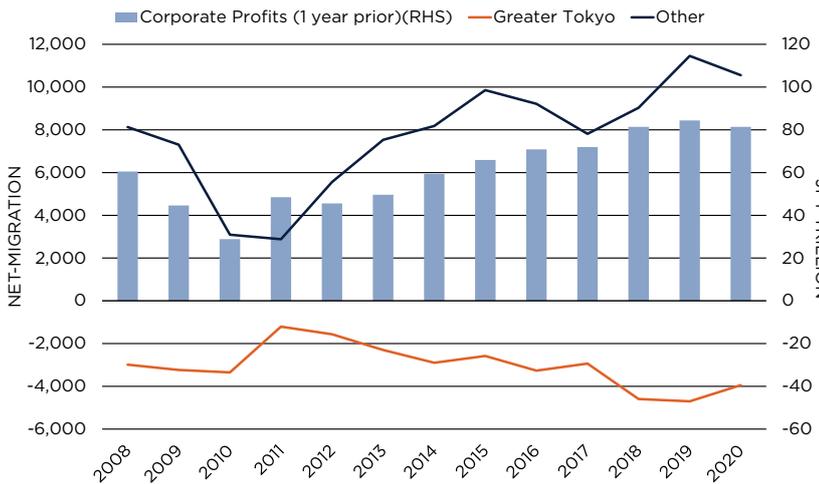
4 Tokyo, Osaka, Aichi, Fukuoka, Miyagi, and Hokkaido

GRAPH 5: Large-scale Companies per One Million People, 2016



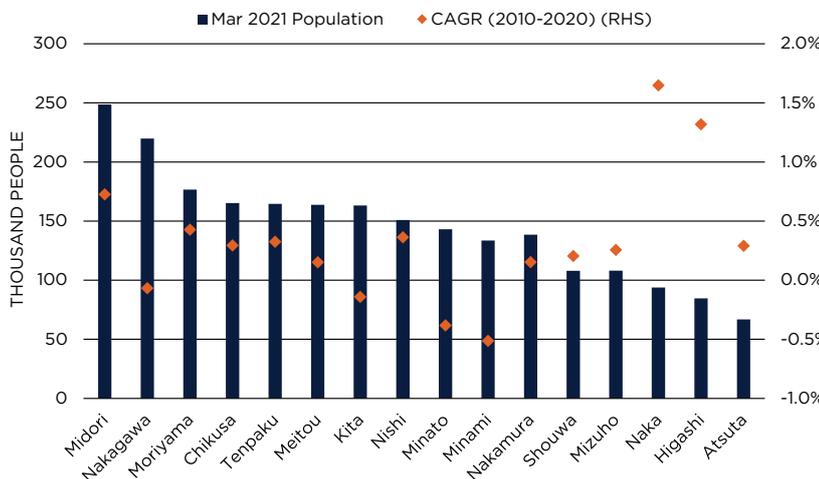
Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy
 *Large-scale companies are defined by the Small and Medium Enterprise Agency's criteria set for different industries. For instance, in the manufacturing industry, large-scale companies are the ones with more than 300 employees or the ones that are capitalised at more than 300 million yen.

GRAPH 6: Net-migration* to Nagoya vs Corporate Profits, 2008 to 2020



Source Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry, Savills Research & Consultancy
 *Only Japanese people.

GRAPH 7: Nagoya City Population as of June 2021 and CAGR* between 2010 and 2020



Source Nagoya City, Savills Research & Consultancy
 *CAGR stands for compound annual growth rate.

DEMOGRAPHIC TRENDS WITHIN NAGOYA CITY

Nagoya's population should grow steadily going forward as the city serves as a lure to attract and retain people, especially within Greater Nagoya. However, reflected in the mild demographic changes of the past decade, there are limits to population growth for the city as a whole. This shifts our interest towards movements inside of Nagoya. By analysing the city's demographic changes in greater detail, we see some areas significantly outperform others, and thus expect further growth in these areas.

Specifically, looking at Graph 7, Naka ward and Higashi ward saw annual population growth rates of 1.6% and 1.3% between 2010 and 2020, respectively, compared to the city average of 0.3%. Both wards have convenient access to business districts and retail centres, which makes them attractive especially for young professionals. Closer analysis reveals that the neighbourhoods close to stations with direct access to Nagoya Station have experienced particularly strong growth, with some seeing population increases of over 20% between 2010 and 2020.

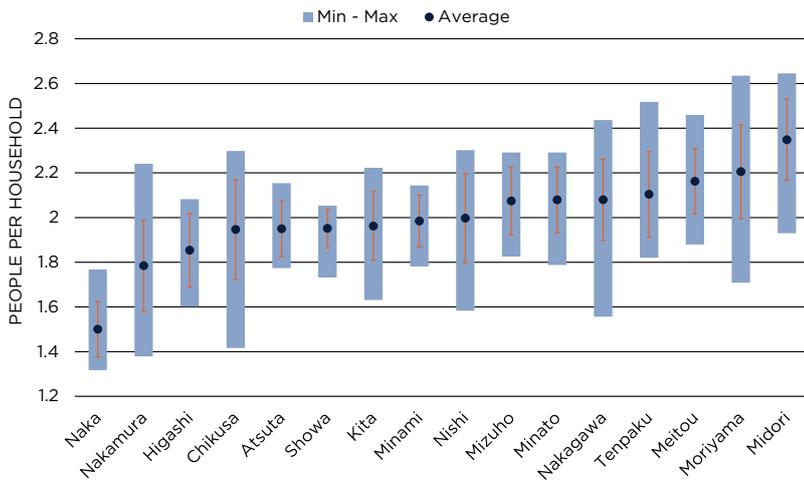
As for the sources of growth in these wards, although Higashi ward saw positive net-migration both from outside and inside of Nagoya, Naka ward lost its residents to the other wards of the city. Considering that Naka ward has a particularly low average household size (Graph 8), it seems that the ward is popular among single households, and people tend to move to other wards as the household size grows. Nakamura ward, which like Naka ward is another central ward with a low average household size, also loses its residents to other wards in Nagoya.

In contrast, wards such as Minato ward, Nakagawa ward, and Meitou ward showed negative net-migration in 2020. The former two are located west of Nagoya Station and include large industrial areas that tend to turn away many people. However, the access to the west side of Nagoya Station improved with the completion of a new thoroughfare, the Tsubakicho Line, that connects to the Sasahima-raibu area. Additionally, the whole facelift of Nagoya Station's west exit planned by 2027 may improve attractiveness of some station-front neighbourhoods in Nakagawa.

NAGOYA RESIDENTIAL MARKET

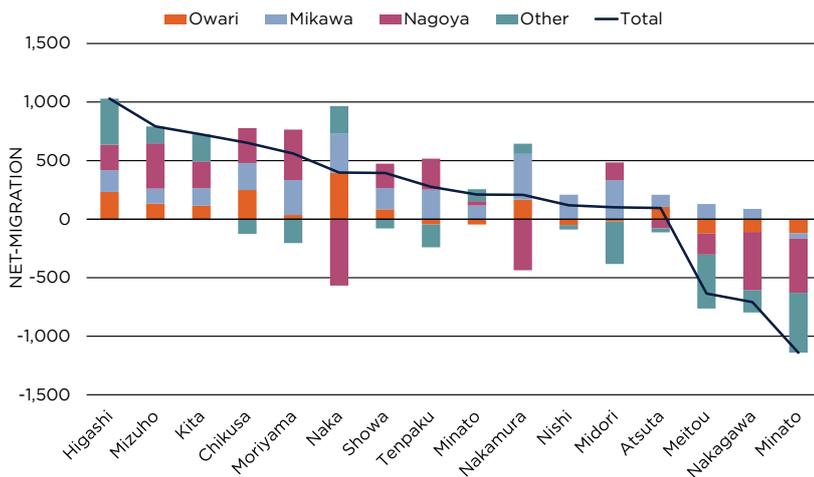
While the pandemic has halted rental growth in the Nagoya market, the average rent in Q3/2021 remains 9% higher than the lowest level over the past five years. Despite the ongoing pandemic, occupancy has been trending upwards steadily and appears

GRAPH 8: People per Household, January 2021



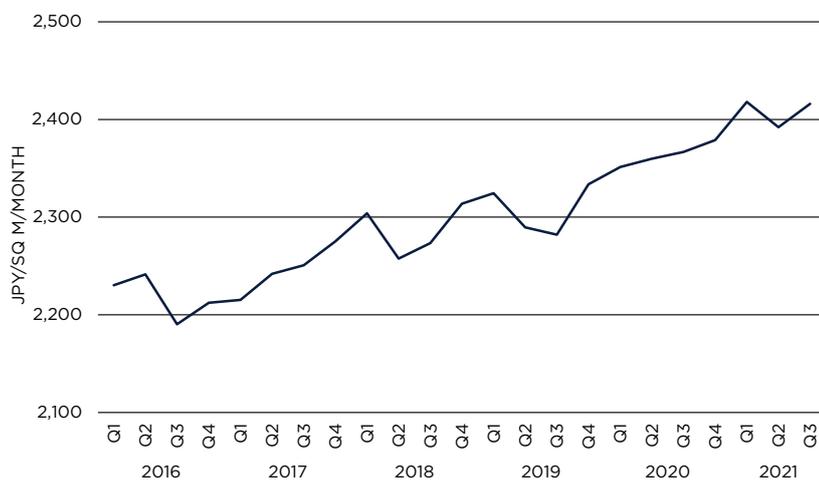
Source Nagoya City, Savills Research & Consultancy
*Each bar represents average household sizes of neighbourhoods in the ward.

GRAPH 9: Net-migration to Nagoya Wards by Origin*, 2020



Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy
*The numbers in the chart include both Japanese and foreign population.

GRAPH 10: Nagoya City Rents, 2016 to Q3/2021



Source Savills Research & Consultancy

to have helped steady rents. Additionally, noticeable increases in demand for large residential units have not been observed during the pandemic, unlike Tokyo, which is likely related to lower remote work usage in regional cities. Going forward, central areas and neighbourhoods close to popular stations will likely continue to see population growth and redevelopment, which in turn should support residential leasing demand.

That said, looking at supply and demand dynamics, volumes of new rental units have been constantly outpacing net-migration to Nagoya since 2012 (Graph 12), which can partially explain soft growth in the residential market thus far⁵. Specifically, the gaps between rental unit supply and net-migration widened particularly between 2016 and 2018 when supply continued to increase despite the slowing net-migration trend.

Compared to Tokyo and Osaka, the transaction volume of residential properties is limited in Nagoya, representing about 5% of Japan overall. However, more investors may turn their eyes to regional cities like Nagoya because Tokyo continues to see a population outflow, while the capital's properties remain expensive. For example, AXA Investment Managers acquired Royal Parks ER Sasashima and D-room Share Sasashima from Daiwa House Industry in June 2020 for approximately JPY20 billion and Aden Imaike East in July 2020. Additionally, in September 2020, LaSalle Investment Management acquired Residencia Izumi and Residencia Izumi II.

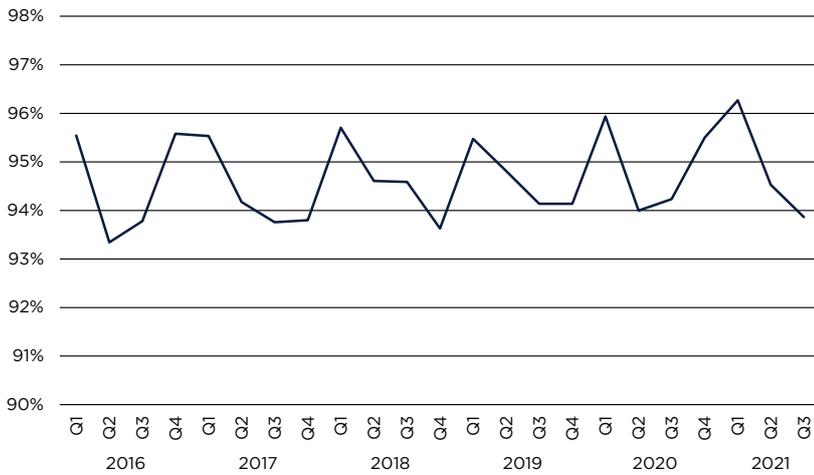
OUTLOOK

Nagoya's residential market has seen steady rental increases in recent years and has exhibited resilience throughout the pandemic thus far. Similar to Osaka, clear changes in demographic trends like those observed in Tokyo have not materialised, and the city's population has continued to grow despite the economic slowdown.

As a regional hub, Nagoya provides a sound employment base and education opportunities that are particularly attractive for people in Greater Nagoya. One of the more noticeable changes in the past decade is that net-migration from other parts of Aichi to Nagoya turned positive, a stark contrast to the bubble period when significantly more people left the city. Redvelopments in the city centre and

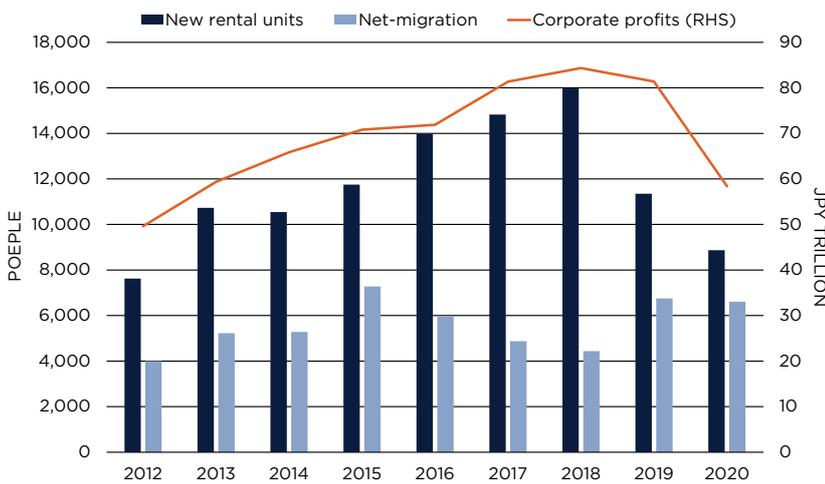
⁵ The fact that housing starts are outpacing net-migration does not necessarily mean oversupply since we also have to take existing stock and demolitions into account. Yet, if the gaps between these two metrics are widening, this could indicate potential risk of oversupply in the future.

GRAPH 11: Nagoya City Occupancy, 2016 to Q3/2021



Source J-REITs, Savills Research & Consultancy

GRAPH 12: Housing Starts of Rental Units vs Corporate Profits, 2012 to 2020



Source Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, Savills Research & Consultancy

transportation infrastructure improvements over the past three decades have helped bring back people to the city.

It should be noted, however, that Nagoya’s population growth has been modest. This seems partially due to its location as a city situated between Greater Tokyo and Greater Osaka. Nagoya has to compete with these two larger metropolitan areas for people. Indeed, while the overall net-migration to Nagoya has increased as economic conditions have improved over the past decade, the population outflow from the city to Greater Tokyo increased at the same time, partially offsetting population increases in the city.

Within the city, however, some areas are seeing much stronger growth than overall Nagoya. Neighbourhoods close to major stations in particular have seen strong population growth and the trend is likely to continue as redevelopments continue. Once the Maglev Chuo Shinkansen starts running, the Nagoya Station area is likely to gain further popularity.

Overall, Nagoya’s fundamentals support the residential leasing market. As investor interest in the residential market remains strong and prices stay elevated in Tokyo, more investors may seek opportunities in regional cities including Nagoya going forward.



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