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SPOTLIGHT
Savills Research

Osaka Residential Markets

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Osaka's residential market shows resilience

Summary

- Even throughout the pandemic, residential demand in Osaka has been underpinned by positive population growth – a trend that has persisted since 2000. In contrast, Tokyo's residential market has recently shown signs of softening.
- Although COVID-19 has halted growth, rents remain well over 2019 levels.
- Given the circumstances, occupancy levels have understandably shown slight signs of softening. That said, they remain over the crucial 95% mark, indicating that sound leasing demand remains.
- Most of the population growth observed amidst the pandemic was primarily within the central six wards (C6W). Unlike Tokyo, the tendency to move beyond the city borders for larger sized apartments is not apparent in Osaka.
- Redevelopment projects such as the highly anticipated Umekita 2nd Project and other infrastructure improvements across the city should continue to enhance the attractiveness of Osaka over neighbouring areas.
- Supported by its sound economic base, Osaka's economy is expected to recover as the global economy starts moving towards normalcy, and the progress of the vaccine rollout should help the ailing tourism and services industry.

INTRODUCTION

Thanks to booming inbound tourism, Osaka's economy was on a roll before the pandemic struck. As tourists, especially from neighbouring Asian countries, flocked to the city, retail sales soared and hotel supply struggled to keep up with growing lodging demand. At the same time, the prospects of the World Expo 2025 in addition to a potential integrated resort (IR) development meant that the city was in an enviable position.

Now, however, with the pandemic disproportionately hurting the hospitality and retail industries, Osaka's prospects have dimmed. In the case of the latter, department store sales plummeted by over 29% year-over-year (YoY) in FY2020 according to the Japan Department Stores Association. At the same time, various areas in the region also saw large declines in commercial land values last year, with Dotonbori, one of the top tourist sites in Osaka, topping the official nationwide list with a 28% drop.

Despite these difficult circumstances, Osaka's residential market appears to have held up well thus far. Specifically, occupancy rates have stayed relatively elevated, and rental growth has continued, albeit moderately. One possible factor driving this trend is the steady population flow into the city. Here, unlike Tokyo, Osaka has maintained net positive growth throughout the

pandemic, and as a result, its residential sector has avoided the softening witnessed in the capital. As discussed in our Regional Japanese Office Markets report in July 2021, the relatively slower uptake of remote work in regional cities may go some way towards explaining this difference in demographic trends.

Looking ahead, Osaka should expect a stable recovery, especially once inbound tourism gradually returns. Moreover, in addition to the aforementioned World Expo 2025, progress appears to have been made on the IR front. Namely, the potential JPY1-trillion project proposed by Orix and MGM Resorts International is expected to have a large positive economic impact on the region. Elsewhere, major improvements planned for Osaka's transportation infrastructure should also add to the city's momentum (please refer to our [Osaka Real Estate: Rebirth of a Market - May 2019](#) for further information).

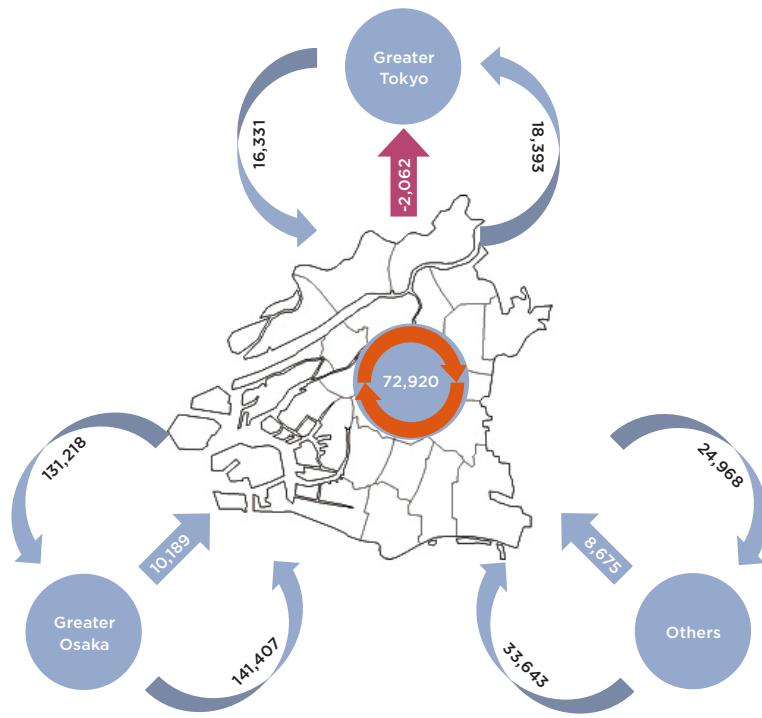
In this report, therefore, we will analyse these positive drivers that have underpinned Osaka's residential market and shed some light on future demand dynamics.

MACRO DEMOGRAPHIC TRENDS

In 2020, Osaka City saw a net-migration of 17,000 people – 0.6% of the 2019 population¹,

¹ This figure is a sum of net migration to Osaka. Since this is not incorporating natural causes (births and deaths), in addition to other differences in methodology, the figure does not necessarily match the population change reported by the city.

GRAPH 1: Osaka City Migration Flows, 2020



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

*Here, Greater Osaka consists of Osaka, Kyoto, Hyogo, and Nara. Greater Tokyo consists of Tokyo, Kanagawa, Chiba, and Saitama.

continuing the positive net-migration trend since 2000 and, in turn, maintaining market stability. At a more granular level, population growth has been distributed unevenly within the city as central areas have become more popular. As such, at the submarket level, some areas have seen stronger growth than the city average, creating opportunities for residential investments.

Looking at the population flows between regions, Greater Osaka is the major source of migrants into Osaka City (Graph 1). As discussed in our Regional Residential Markets - March 2021 report, this tendency for people to move within the same region is common across Japan. While many possible reasons could explain this trend, an obvious one is a preference to stay close to hometowns, with multiple surveys supporting this view.

Even so, Osaka's net-migration from Greater Tokyo is negative. This is unsurprising considering that migrants, especially young ones, are willing to move for jobs and education, and Tokyo undoubtedly provides the highest quality of both. Nonetheless, a majority of the residents of Greater Osaka choose to stay in the same region, and for them, moving to Osaka, the regional social and economic hub, is a reasonable option.

We expect Osaka City to continue seeing positive net-migration to the city. As discussed in the following sections, Osaka has attributes that make it attractive in terms of education and job opportunities, relative to its neighbouring areas.

The ban on international travel continues to be a major headache for Osaka's economy yet the residential market has proven to be resilient. Looking ahead, tailwinds in the form of positive demographic trends, as well as a strong pipeline of projects, should help revitalise both the city and the sector.

EDUCATION

Osaka boasts some of the top ranked universities in Japan, and these universities draw in an impressive number of students every year. In 2020, 56,000 students matriculated at universities in Osaka according to the Ministry of Education, Culture, Sports, Science and Technology's yearly survey – the second largest after Tokyo. Of that figure, approximately 29,000 were from outside the prefecture, and approximately 50% of these students originate from the surrounding Greater Osaka region with most of the remainder coming from other nearby regions such as Shikoku and Chugoku. This, again, supports the view that Osaka's positive population

growth is rooted in its status within the region.

Furthermore, there is a strong preference among university students who study in Osaka to remain in the prefecture post-graduation. According to a survey of graduating university students by Recruit, Osaka has been able to retain approximately 50 to 60% of its graduates over the last few years. Considering that most students who study in Osaka come from nearby prefectures, as seen above, it is again unsurprising that many choose to stay given the job opportunities available and the ability to remain close to their hometowns at the same time. Even some students from outside of the region seem to develop some emotional attachment to the area, according to the same survey.

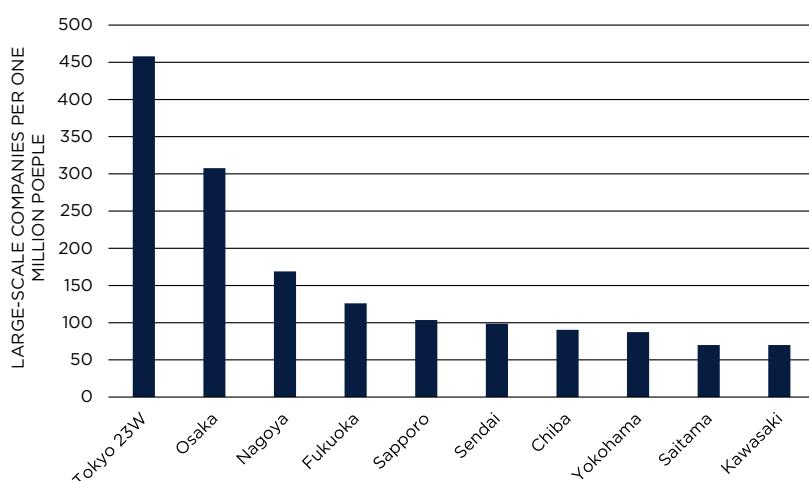
As such, higher education is an important entry point into Osaka for many. Considering that a large portion of the students are willing to stay in Osaka after graduation, the city's high ranked universities should continue to function as an anchor for its steady population trends. Additionally, the city's ability to tap into this stable talent pool is also an economic strength in a country facing a population decline.

EMPLOYMENT

Osaka is the economic powerhouse of Greater Osaka, and the city generates about a quarter of its GDP. In FY2018, for instance, Osaka City's real GDP was about JPY20 trillion – equivalent to the GDP of nations such as New Zealand. The city also has the second highest concentration of large-scale companies after Tokyo. It is, therefore, unsurprising that young workers are drawn to the city for work.

The relationship between net migration and economic conditions is also clear, with Osaka City seeing inflows in tandem with

GRAPH 2: Large-scale Companies per One Million People, 2016

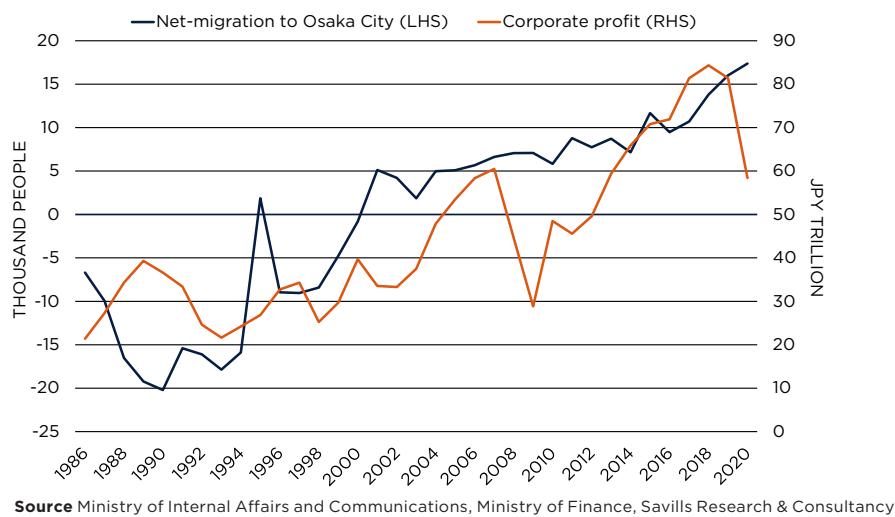


Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy

* 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 are capitalised at more than 300 million yen.

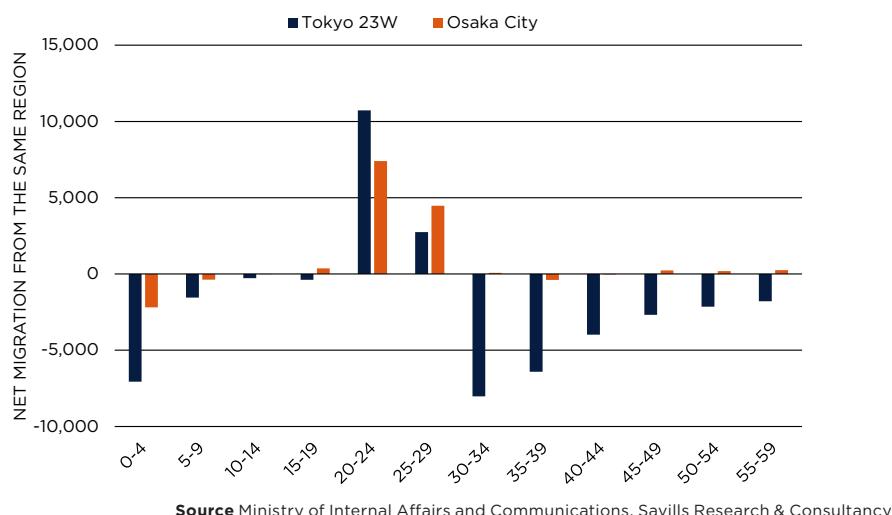
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GRAPH 3: Net-migration to Osaka vs Corporate Profits, 1986 to 2020



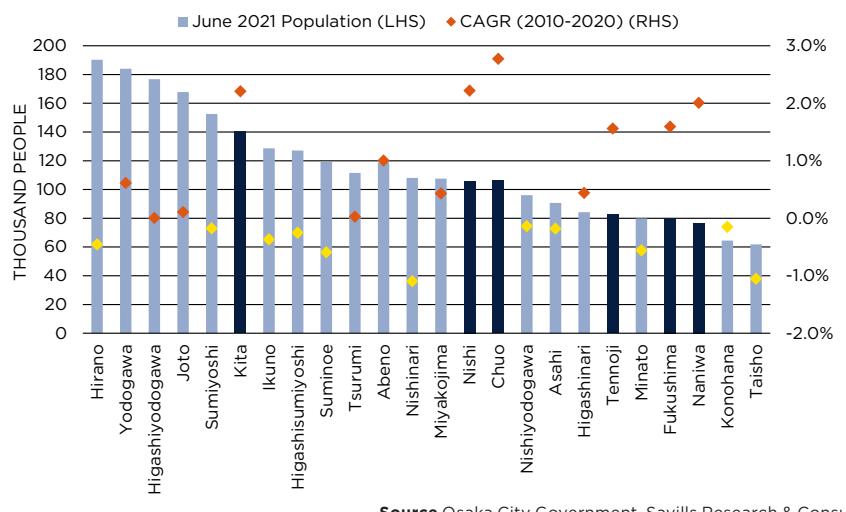
Source Ministry of Internal Affairs and Communications, Ministry of Finance, Savills Research & Consultancy

GRAPH 4: Net Migration from Greater Osaka to Osaka City and from Greater Tokyo to Tokyo by Age, 2020



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

GRAPH 5: Osaka City Population in June 2021 and CAGR, 2010 to 2020



Source Osaka City Government, Savills Research & Consultancy

growing corporate profit levels. Specifically, more people appear to move to Osaka as economic conditions improve and companies become active in hiring.

The economic expansion that prevailed prior to the pandemic helped the positive net-inflow of population to Osaka with the figure gradually increasing since 2000 (Graph 3). Although the recent pandemic appears to have slowed growth over the past year, a decrease in population, like Tokyo, does not seem to be occurring. Furthermore, limited prevalence of remote work arrangements is likely to have helped the city retain its population so far.

It is also worth noting that people in Osaka have less propensity to move to neighbouring areas later in life, unlike Tokyo. In the latter, people tend to move to prefectures such as Chiba, Saitama, and Kanagawa for larger, affordable housing as their families grow, but the former does not seem to demonstrate the same pattern (Graph 4). This could indicate that Osaka has more affordable units for families within the city, thereby successfully limiting population outflow. This pattern could work as a buffer against the potential deepening of the remote work trend in Osaka since people already have enough options within the city even if they need larger spaces.

DEMOGRAPHIC TRENDS WITHIN OSAKA CITY

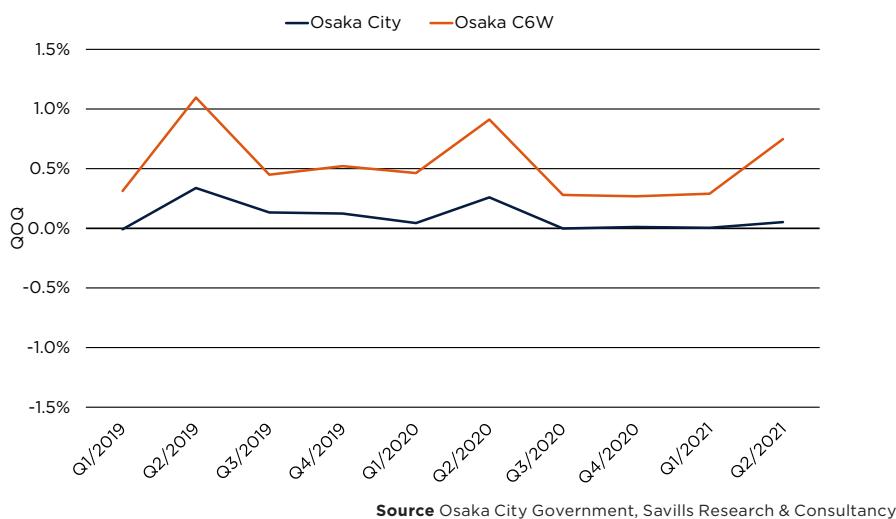
In line with trends highlighted previously in this report, Osaka City's overall population is expected to grow at a steady pace as the city continues to provide excellent education and work opportunities relative to other areas in the region. Looking closer, however, growth is expected to be uneven within the city as the central six wards (C6W) are poised to experience disproportionately stronger growth.

This trend could be partially attributable to the increase in dual-income households that prefer to live closer to their workplaces located in the city centre. Another possible explanation could be the recent redevelopments in central areas, especially in Umeda, which have made living in the city centre more attractive.

It is worth noting that the relatively stronger growth of central areas is not unique to Osaka. Tokyo's central five wards (C5W), as well as other major regional cities, have also seen similar trends. However, in the capital, the pandemic appears to have reversed this trend somewhat as remote work has made larger units outside of the central area relatively more attractive. In Osaka the population in the C6W has continued to increase through the pandemic (Graph 6).

If remote work becomes more prevalent in Osaka, the city's C6W might also see a

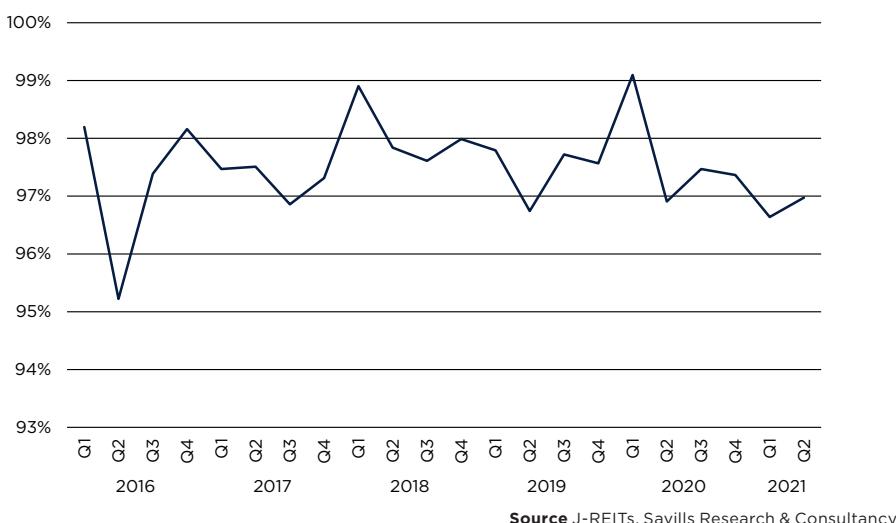
GRAPH 6: Osaka Population Growth, 2019 to Q2/2021



GRAPH 7: Osaka City Rents, 2016 to Q2/2021



GRAPH 8: Osaka City Occupancy, 2016 to Q2/2021



similar reverse trend to Tokyo. However, as discussed in the previous section, larger apartments that better accommodate remote work are generally more affordable and available in Osaka City than in Tokyo, thus reducing the need for people to move out of the city. Therefore, even if remote work becomes more widespread, the effect on Osaka should be more limited than in Tokyo.

OSAKA RESIDENTIAL LEASING

Although the pandemic halted rental growth, the 27% increase in rents from 2011 has remained intact amidst the pandemic. Similarly, occupancy levels have softened slightly since the pandemic hit, but remain over 95%, indicative of sturdy leasing demand in the city.

Larger flats in the 45 to 60 sq m range have underpinned the market during the pandemic with noticeable growth indicating a strong trend for more spacious apartments. Meanwhile, the popularity of smaller size bands has begun to level off moving into 2021. This can be partly explained by the minor increase in teleworking requiring larger apartments. Additionally, with the potential for it to become a staple in some companies' work cultures, this trend could support the demand for large sized apartments moving forward.

The sound market thus far has culminated in steadily narrowing residential yields with J-REIT transaction cap rates ranging between 4% and 5%. Moreover, total housing stock has been increasing steadily over the last two decades. Much of the new rental stock is concentrated in the city centre, reflecting where both current demand is and where most young workers in the 20 to 29 age range tend to move to. However, areas such as Yodogawa are also seeing high levels of young people move there, which could provide investment opportunities given the ageing stock in the area.

Looking ahead, according to the Regional Economic Assessment conducted by the Bank of Japan in July 2021, the overall economy of the Kinki² region where Osaka is located is expected to improve, hopefully bringing with it a further improved job market to attract both new graduates and professionals. Furthermore, with liveability and amenity focused projects on the cards over the next few years as well as an accelerated vaccination rollout, positive net migration looks set to continue and subsequently provide a tailwind for the residential leasing market.

² The Kinki region consists of Osaka, Kyoto, Nara, Shiga, Hyogo, and Wakayama.

OUTLOOK

Osaka's residential market has coped relatively well despite the economic strain caused by the large drop in inbound tourism. Additionally, the demographic changes witnessed in Tokyo have not materialised in Osaka, with the city's population continuing to grow throughout the pandemic.

Historically, Osaka's population growth has been supported by young migrants who move to the city for educational and professional opportunities. This dynamic has provided a base for sound residential demand and has reinforced the leasing market. Although the pandemic softened Osaka's residential market, with an accelerated vaccine rollout, Osaka's status as a powerful regional hub should continue to draw

more of the young population, especially within the Greater Osaka region.

Moreover, the redevelopment underway in Osaka should further enhance its attractiveness over neighbouring areas. For instance, the highly anticipated Umekita 2nd Project in the heart of the city is set to provide a plethora of state-of-the-art offices, hotels, commercial spaces, and housing in 2027, with some facilities opening in 2024. Infrastructure developments across the city are also set to improve transport access and provide further amenities to citizens. In addition, the World Expo 2025 and a potential integrated resort project, which may introduce 88,000 jobs, should act as tailwinds for the city's long-term prospects.

Overall, Osaka's residential leasing market appears to have sound fundamentals. Backed by the exciting new projects and the expected comeback of inbound tourism, the city is likely to regain its momentum as the pandemic subsides.



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