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SPOTLIGHT
Savills Research

Osaka Residential Markets



Prospects are bright for Osaka City

Summary

- The average annual taxable income in Osaka City is lower than that of its counterparts like Tokyo 23W and Nagoya, but there is large potential for growth, especially from its relatively low current base.
- Yumeshima will see a long pipeline of developments and projects, including Expo 2025, an integrated resort, and a new train line.
- The integrated resort is expected to be a game changer not only for Osaka but also Japan, serving as a pivot for economic and wage growth.
- Domestic net migration into Osaka City has remained positive albeit dipping slightly during the pandemic. This is expected to grow in the post-pandemic environment.
- While the city's population has been increasing, this has not been evenly distributed, with central areas seeing significantly more growth than peripheral wards.
- Osaka City has also seen high levels of positive net migration from foreign nationals, who appear to favour central and western wards.
- The residential markets in Osaka City have been popular with investors, and cap rates have compressed more rapidly than in Tokyo.
- Developments like Grand Green Osaka will transform the landscapes of surrounding areas, probably in a similar fashion to what has taken place in Minato.

INTRODUCTION AND ECONOMIC OVERVIEW

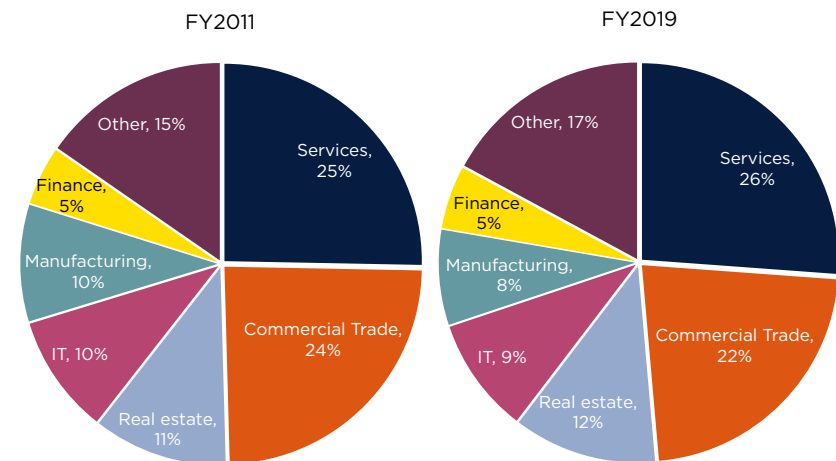
Osaka City is the economic powerhouse of the Kansai region, and is the third largest city in Japan by population, behind the Tokyo 23 Wards (23W) and Yokohama. Its population has been increasing on the back of the many migrants moving to the city in search of career and educational opportunities, and these strong fundamentals have propped its residential market up. There are also multiple development projects that look to completely transform the city and boost its economic capacity going forward.

From a macroeconomic perspective, Osaka City's real GDP was 20.8 trillion yen in

FY2019, and has overall been on an increasing trend over the past decade. Nearly half of its economy is comprised of the services sector and commercial trade. Real estate is the next largest segment of the economy, encompassing 12% of GDP. Elsewhere, inbound tourism has also become an important component of Osaka City's GDP, having been the core of the growth of multiple luxury hotel and retail developments. Overall, the economy of Osaka City appears to be gradually moving away from commercial trade and manufacturing, towards a more services oriented one, and this trend will likely continue.

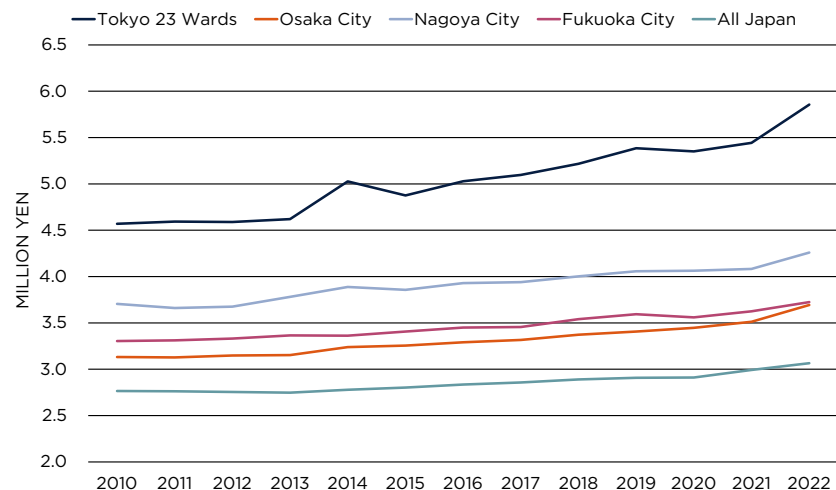
Osaka City's taxable income per taxpayer in 2022 was around 3.7 million yen. While

GRAPH 1: Osaka City GDP by Sector, FY2011 vs FY2019



Source: Osaka City Government, Savills Research & Consultancy

GRAPH 2: Taxable Annual Income per Taxpayer by Area, 2010 to 2022



Source: National Tax Agency, Savills Research & Consultancy

this is higher than the national average of 3.1 million yen, it is significantly lower than that of the Tokyo 23W, which stood at 5.9 million yen, and that of Nagoya at 4.3 million yen. Unlike Tokyo and Nagoya, Osaka City has comparatively fewer large Japanese corporations headquartered there, and in that respect has a smaller quantity of high-paying jobs. Nonetheless, the city has seen steady income growth, which should continue growing as the economy develops further, especially with the multiple projects in the pipeline and the return of inbound tourism. Indeed, the 2025 World Exposition (Expo 2025) is forecast to bring in approximately 28 million visitors, and the integrated resort project is expected to generate north of 500 billion yen in revenue annually and create 100,000 jobs for the city. This will significantly boost the economy of Osaka City, and should also help to promote wage growth and increase the taxable income, which gives the city a promising outlook. This report will dive into the fundamentals of Osaka City in greater depth and examine its prospects.

DEVELOPMENTS

Osaka City has become the focus of much attention due to the number of large-scale developments and projects in the pipeline that are expected to serve as an economic booster, as well as greatly improve its standing as an attractive place to live. Firstly, the city will host Expo 2025, projected to attract approximately 28 million visitors, in the Yumeshima district, a waterfront development in the Osaka Bay area. Yumeshima is also the planned site for the country's first integrated resort (IR) scheduled for opening in 2030, with initial investment volumes estimated to be around 1.3 trillion yen. Indeed, the city and prefectural governments have been working towards the Yumeshima Development Plan, which aims to promote the area as a new global tourism hub. These projects will serve as remarkable boosts to the city's economy, with Expo 2025 expected to have an economic ripple effect of around 2 trillion yen. Furthermore, the integrated resort project is projected to generate 500+ billion yen annually in revenue, with Osaka prefecture collecting over 100 billion yen annually in taxes. 100,000 jobs will also be created, providing an even stronger economic base to attract further migration. Overall, the development of Yumeshima will not only further fuel Osaka City's inbound tourism boom, but will also spearhead its economic growth. As a result, residences in the west of the city should also become increasingly popular as the landscape and infrastructure of the area evolves into an integral core of Osaka City.

Fundamentals are sound for Osaka City residential markets, with its population growing steadily from both domestic and foreign migration. Major developments in the pipeline, most notably the integrated resort, will be game changers for the city, and eventually the country as a whole. Prospects for Osaka City look bright going forward, with economic and wage growth in sight.

The integrated resort could become a game changer not only for Osaka City, but also for Japan as a whole. The Japanese legislation in 2018 authorised up to three integrated resorts in the country, including the one planned in Osaka, and other prefectures will likely show increasing amounts of interest in becoming one of the hosts, especially since the Osaka project appears to be promising. The development in Osaka by MGM and Orix should bring in large amounts of foreign capital to the prefecture, propelling real economic and wage growth that the country has been struggling to attain, subsequently creating additional residential demand.

Another development is the Grand Green Osaka (former Umekita 2nd Project). Located next to Osaka station in Kita ward, the development features offices, hotels, retail spaces, rental residences, as well as for-sale residential towers, connected by a large park. JR Osaka station has also undergone significant upgrades with the addition of the new Umekita area, which has modernised current infrastructure for smoother connections, and has made train transfers notably more convenient. The express Haruka and Kuroshio trains now stop at Osaka station, and the travel times to Kansai International Airport and Wakayama have effectively been cut by 20 minutes and 33 minutes, respectively. Grand Green Osaka will create a "city within a city" atmosphere in the area, and is also expected to increase neighbouring land values. Similar to what Tokyo's Minato ward has experienced, such developments in Kita ward are expected to contribute considerably to the appeal of

the ward as a residential neighbourhood, particularly among wealthy locals and foreign expatriates. Indeed, the luxury residences that are part of the development could spur on similar projects if they are received well, which should solidify Kita ward's status as the premier ward in Osaka.

There are also multiple train line extension projects in the pipeline that will greatly improve connectivity in the city. Firstly, the JR Naniwasuji line, expected to be completed by 2031, will run north-south of Osaka and create a direct connection through Umeda and Namba, the two primary business districts, and will improve the accessibility between the shinkansen terminal in Shin-Osaka and the airport. Elsewhere, there are also plans to build two train lines that operate through Yumeshima that will significantly improve its accessibility, and further promote the area's development. The first part of the project that connects Cosmosquare station to the island via the Chuo Line is expected to be operational in 2025.

DOMESTIC MIGRATION TRENDS

Given its status as a regional economic and education hub, Osaka City welcomes many migrants every year. The city has overall seen positive net-migration over the past few years, which has formed an important core of Osaka City's population growth. However, net-migration figures have waned slightly over the years. By looking more closely at the changes and breakdowns of the city's migration figures, we can gain a better understanding of residential demand trends.

In pre-pandemic times, net-migration

into Osaka City was at its strongest, with an overwhelming majority of migrants in the 20-to-29-year-old age band, which saw an increase of around 12,000 people in 2018, and peaked at almost 17,000 people in 2020. The 0-to-9-year-old age band and 30-to-39-year-old age band, namely the ones most likely to comprise young families, saw mild net outflows from the city, while all other age bands saw slightly positive net migration. Looking at Graph 4, most migrants are from the Kansai region, although the city sees net outflows of people to Greater Tokyo. Indeed, Osaka City's status as the premier economic hub in the Kansai region traditionally attracted many younger migrants in search of career and education opportunities, which was the crux of its population growth.

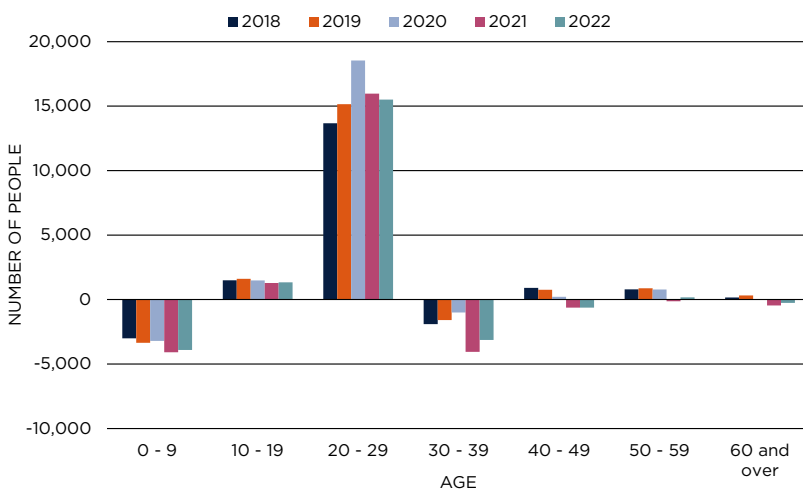
However, the pandemic appears to have somewhat dampened net-migration trends into the city, with some demographic groups having been more affected than others. Firstly, net-migration from the rest of Osaka prefecture plummeted from around 4,000 people between 2018 and 2020, to hovering around zero in 2021 and 2022. A similar trend was observed in the Tokyo 23W, because the pandemic proliferated flexible work arrangements, and consequently resulted in some people moving out to nearby cities. Osaka City appears to have experienced a similar phenomenon, with cities such as Suita, Higashiosaka, and Moriguchi, that traditionally saw net population outflows to Osaka City, observing net population inflows in 2021 and

2022. As of August 2023, year-to-date net population inflows were more than 20,000, suggesting that Osaka City's population has likely seen a notable recovery. Meanwhile, immigration from the rest of Kansai and other prefectures appears to have dipped from their pre-pandemic peaks, and they appear to have been on a recovering trend. Likewise, the net-outflow to Greater Tokyo was also back on par with pre-pandemic norms as of 2022. Next, looking at migration trends by age, the 20-to-29-year-old age band saw a slight dip in net migration, and the 0-to-9-year-old age band and 30-to-39-year-old age band saw a more pronounced population decline. All other age bands also saw some slight declines in net migration.

Osaka City's net-migration appears to have been dampened slightly by the pandemic. The increased proliferation of flexible work arrangements reduced the need to live closer to the office, which likely resulted in a reduced number of people migrating to the city, and more people being prompted to move out of the city to areas with more affordable rents. This appears to be the most apparent in age bands of younger families that might have been looking for larger units that are more conducive for raising children.

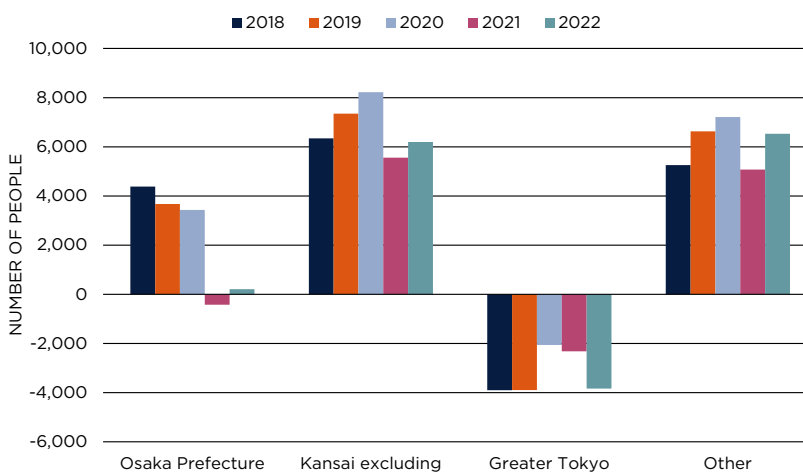
Going forward in a post-pandemic society, Osaka City will likely continue to welcome a large number of younger migrants in the 20-to-29-year-old age band moving there for career and higher education opportunities. However, the trend of slightly diminished population inflows into Osaka City, primarily stemming from fewer people in neighbouring cities moving there, will likely persist to some extent as flexible work arrangements continue to linger in the post-pandemic society. That said, with a number of developments in Osaka City down the road that will make it an increasingly attractive place to live in, as well as create more job opportunities, net migration into the city should gradually grow. In particular, the west submarket will likely receive a notable amount of attention due to the Expo 2025 and the integrated resort that will be developed, in addition to the new train lines to be added that will transform the area. Likewise, central wards should also maintain heightened popularity due to the number of large-scale developments, especially in Kita ward. The economic boost from these developments will also likely contribute to average wage growth in Osaka City and encourage more migrants seeking better employment opportunities. The integrated resort in particular will be a groundbreaking addition to the city and seek to revitalise the economy's growth and cement Osaka's status as an entertainment hub.

GRAPH 3: Osaka City Domestic Net-migration by Age, 2018 to 2022



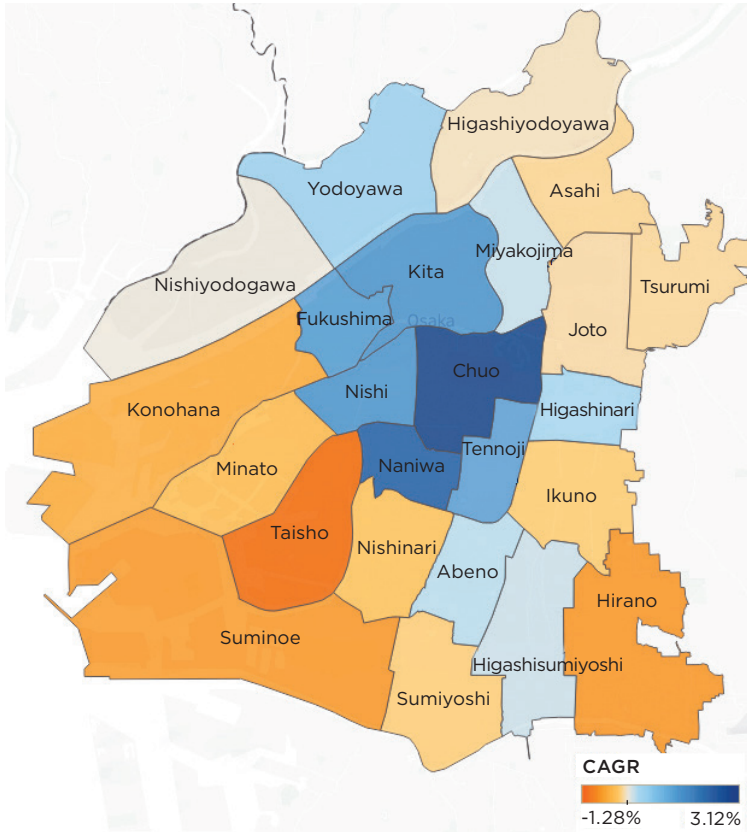
Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy

GRAPH 4: Osaka City Domestic Net Migration by Region, 2018 to 2022



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

MAP 1: Osaka City Population Compound Annual Growth Rate, 2019 to 2023



Source Osaka City Government, Savills Research & Consultancy

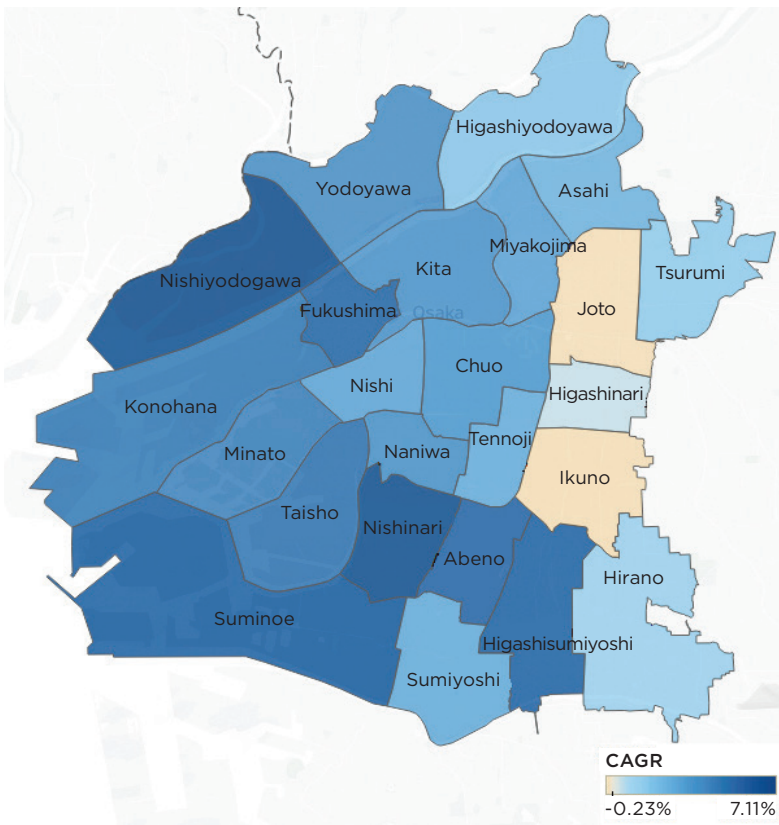
DEMOGRAPHIC TRENDS WITHIN OSAKA CITY

Barring a slight dip during the pandemic, Osaka City’s population has generally been on an increasing trend, growing approximately 1% since 2019. However, as seen in Map 1, this population growth has not been evenly distributed within the city. Indeed, over the past few years, the Central six wards (C6W); Kita, Chuo, Nishi, Tennoji, Fukushima, and Naniwa, have seen the largest population growth within the city by a significant margin. Specifically, within the C6W, Chuo saw the largest compound annual growth rate at 3.1%, while Tennoji saw the smallest at 1.4%. In contrast, the rest of the Osaka’s 24 wards (24W) have either seen very mild population growth, or have actually seen their populations decline. This trend has actually persisted over the past decade, and suggests that many people that move to Osaka City are looking to live in more central areas. On the other end, the West submarket, which comprises Nishinari, Minato, Taisho, and Konohana, has seen the largest annual population decline of 0.6%. Going forward, the bifurcation between the C6W and the more peripheral ones may intensify due to the multiple development projects in central areas that will make them more desirable places to live, although the West submarket will also likely see renewed popularity with the developments in Yumeshima.

Next, Osaka City has seen significant growth in its foreign resident population, which grew at an annual rate of 2.9% from 2019 to 2023, increasing by almost 17,000 people. The foreign-born population, however, exhibits different trends from the general population. For instance, while the West submarket’s overall population has fallen by 0.6% annually since 2019, its foreign-born population has increased by 6.1% yearly, showing a fairly stark contrast in residential preferences. The West submarket saw the largest foreign resident growth by a large margin, outstripping the North submarket at 3.9% and the C6W at 3.7%. Many immigrants appear to be from southeast and south Asian nations, in particular Vietnam, Nepal, and Indonesia, and the west submarket appears to be popular among them. Small clusters with a notable number of such residents may have started to form within these wards.

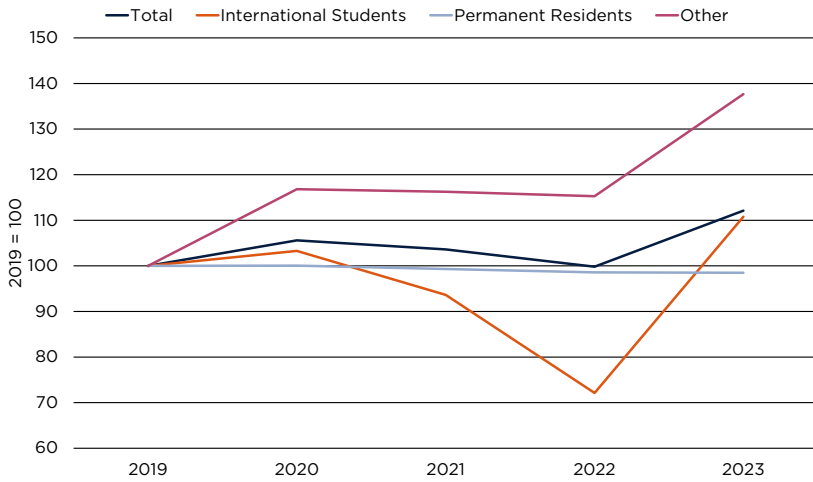
Looking at the breakdown of foreign residents, the number of international students has seen a notable recovery, with more than 22,000 students in 2022, surpassing pre-pandemic levels. Osaka City has also seen a significant increase in the number of working immigrants, with the

MAP 2: Osaka City Foreign Resident Population Compound Annual Growth Rate, 2019 to 2023



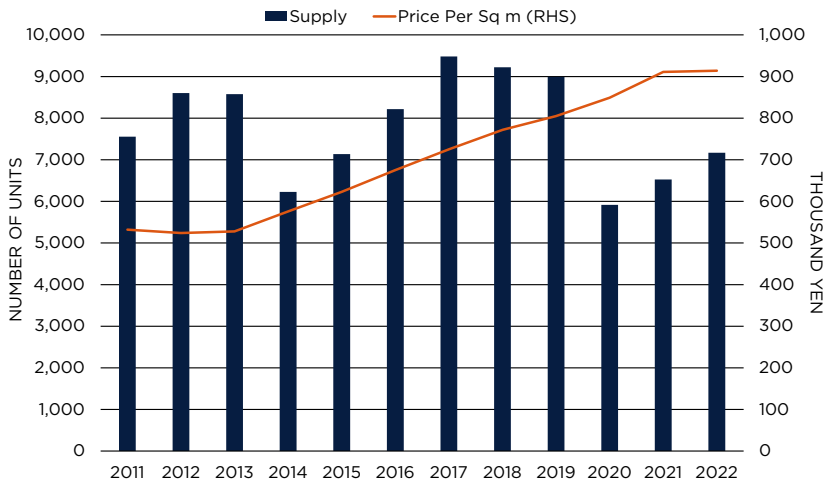
Source Osaka City Government, Savills Research & Consultancy

GRAPH 5: Osaka City Foreign Resident Population by Residential Status, 2019 to 2023



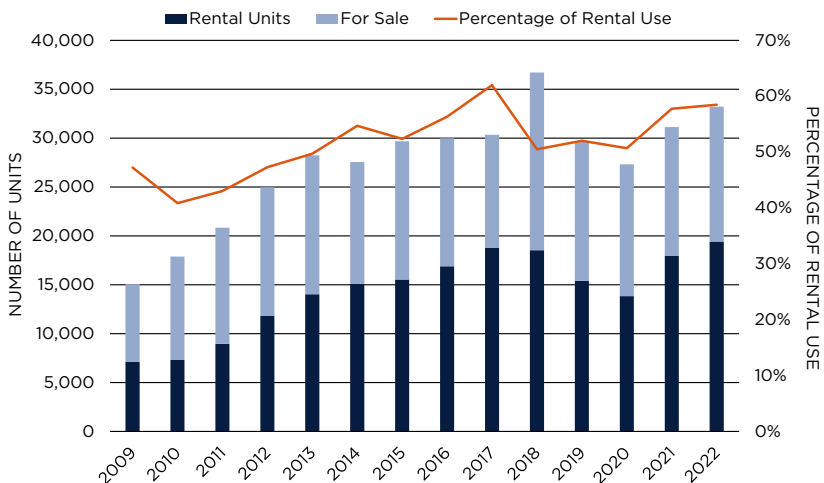
Source Osaka City Government, Savills Research & Consultancy

GRAPH 6: Osaka City Newly Constructed For-sale Condo Supply and Price, 2011 to 2022



Source Real Estate Economic Institute, Savills Research & Consultancy

GRAPH 7: Osaka City Housing Starts by Use, 2009 to 2022



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

number of people in the Other category, which primarily comprises those on working visas, has increased by about 40% from 2019 to 2023 (Graph 5). Going forward, the population of foreign nationals will likely continue increasing, especially with projects like the integrated resort coming to the city.

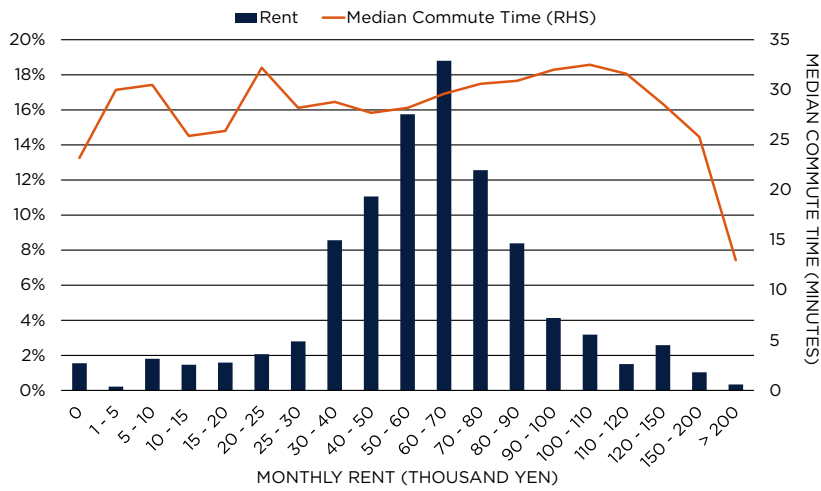
OSAKA RESIDENTIAL MARKET

According to the 2018 national Housing and Land survey conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), around 60% of people in Osaka City live in rental housing, and this figure has remained relatively unchanged over the past few decades. However, the residential market has undergone significant changes since, and the proportion of people living in rented housing has likely increased notably. This section will analyse and break down these changes, which may represent some fundamental shifts within the residential market.

Looking at housing supply, the number of newly constructed for-sale condos past 2020 remains notably lower than pre-pandemic times. There are multiple reasons for this decline. Firstly, the pandemic and supply chain disruptions have constrained the construction of new housing. Secondly, construction costs have risen significantly since the pandemic, with increases in the costs of labour, raw materials, and land. This has also led to notable increments in the prices of newly constructed condos, with the average price per sq m increasing by 13% between 2019 and 2022. Given the suppressed supply and greatly elevated prices of for-sale condos, many people looking to move to or within Osaka City will more likely turn to rental housing. On the other hand, rental housing supply looks considerably stronger, with the proportion of rental housing starts having increased from less than 50% in 2012 to around 60% in 2022. Indeed, land suitable for for-sale properties has become increasingly scarce and expensive, meaning that many prospective buyers have been priced out, which has likely contributed to the residential leasing market, like in Tokyo. This trend is likely to continue for the time being.

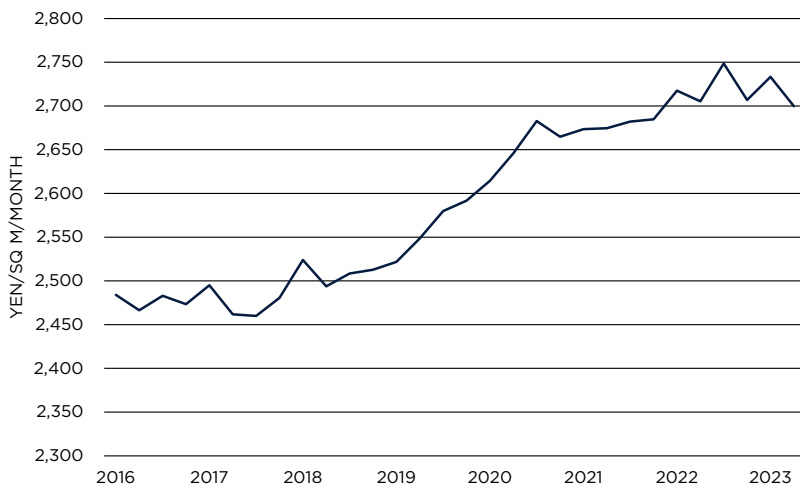
Osaka City’s residential leasing market is characterised predominantly by young middle-class individuals, many of whom are more likely to live alone. The same survey in 2018 by MLIT estimated that around 70% of renters in Osaka City live in housing with monthly rents ranging between 30,000 yen and 70,000 yen. Meanwhile, about 12% of renters pay more than 90,000 yen for rent. The market has seen rental increments over the past few years on the back of steady

GRAPH 8: Osaka City Rental Housing Breakdown by Rent and Median Commute Time, 2018



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

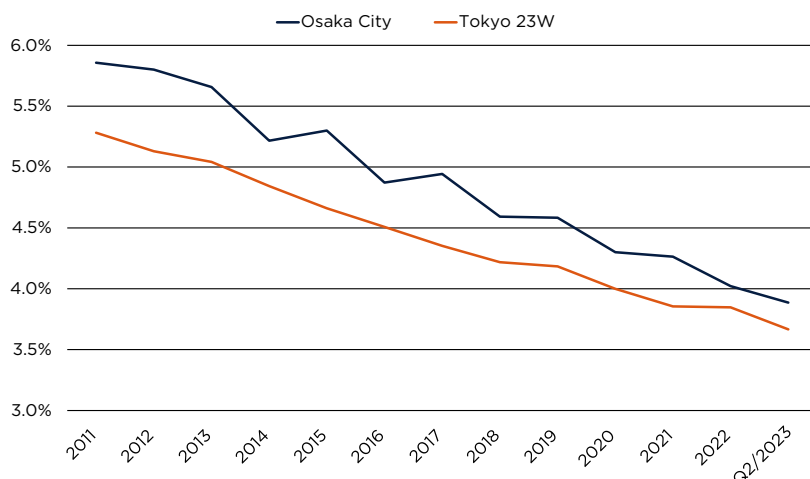
GRAPH 9: Osaka City Rents*, Q1/2016 to Q2/2023



Source Savills Research & Consultancy

* Our benchmark rental data is based on average advertised monthly rents for units which fit the following criteria:
 1) studio and one- or two-bedroom rental apartments of up to 100 sq m in size.
 2) reinforced concrete structures built within the last ten years.
 3) properties situated within a ten-minute walk of the nearest station.

GRAPH 10: Osaka City vs Tokyo 23W J-REIT Cap Rates, 2011 to Q2/2023



Source J-REIT disclosures, Savills Research & Consultancy

population growth contributing to the city's sound fundamentals. Since 2016, rents have risen by around 8%, although the pandemic appears to have slowed some of this growth. Similar to Tokyo 23W, the Osaka City residential leasing market is dominated by studio and one-bedroom apartments. While such smaller units previously exhibited a per sq m rental premium over larger units, the pandemic has reduced this gap significantly as larger units became more sought after and their stocks were significantly scarcer. However, some attention should be shifted back to smaller units in central areas in the post-pandemic era as more people return to the office and the city centre. Overall, the large upcoming developments in the pipeline are expected to drive economic growth and bring in more capital into the city, meaning that average rents should continue to increase, and a larger proportion of households will likely live in new and more expensive housing.

INVESTMENT

The residential sector in Japan has seen heightened popularity with investors in recent years, with Osaka receiving the second largest amount of investment, only behind Tokyo. The demand for residential properties in Osaka City has led to significant compression in cap rates over the past decade. Looking at Graph 10, cap rates of J-REIT properties in Osaka City have tightened from an average of 5.7% in 2013 to 3.9% in Q2/2023 (YTD). In comparison, in the Tokyo 23W, average J-REIT cap rates were 5.0% in 2013, and 3.7% as of 2023, showing that the spread between residential assets in the Tokyo 23W and Osaka City appears to have narrowed considerably. Although in-place cap rates are likely to be considerably lower in practice in the case of most J-REIT transactions, the narrative of a smaller spread between Tokyo 23W and Osaka City residential assets appears to hold water for private transactions as well, showing the increase in popularity of Osaka City's market.

In 2023, multiple large deals have been announced in Osaka City from both international and domestic investors. For instance, CapitaLand Investments will be acquiring six residential assets in central Osaka for US\$105 million, marking its regional core-plus fund's entry into the multifamily sector. In the past few years, other large, international investors have also acquired residential portfolios that include assets in Osaka City, showing the prominence of the city in capital markets. Looking at domestic players, Japan Metropolitan Fund Investment Corporation will acquire three residential properties, that will be completed between 2023 and 2024, in Osaka City for 5.3 billion yen at appraisal direct cap rates ranging between 3.6% and 3.7%.

Overall, there has been considerable appetite for residential assets in Osaka City, and the market should continue receiving attention, especially when considering the multiple developments in the pipeline that will make the city a more attractive place to live in, and with better accessibility and connectivity with other cities and transport hubs. Furthermore, greater amounts of wage growth could be expected with these transformations that the city is undergoing, which could raise the potential for rental increments.

OUTLOOK

Rents in Osaka City's residential market have continued to grow over the past decade, and even remained fairly stable during the pandemic. With the large rebound in inbound tourism, its economy is set for further growth, and migration into the city also looks to improve in the post-pandemic environment. These sound fundamentals have helped to support the residential market, and have continued to help it attract foreign investment.

Indeed, the upcoming developments on Yumeshima will be a game changer for Osaka City, and may set a precedent that could extend to the

rest of Japan. On top of the Expo 2025 that will feed into its growing inbound tourism industry, the integrated resort expected to open towards the end of the decade will greatly contribute to the regional economy. On top of the direct tax revenue that it is expected to generate for the prefecture and city, there will also be ripple effects as greater demand for hotels and retail can be expected with the surge of visitors to the city. Indeed, given the success of integrated resorts in neighbouring counterparts like Macau and the positive economic impacts on the cities, there are high expectations for this project in Osaka City, which could be replicated in other locations in Japan when well received. This will also have a wider effect on the Japanese economy, in generating the economic and wage growth that the government has been trying to achieve, and subsequently making national fiscal conditions more sustainable.

Osaka City's population growth has also been encouraging due to the sound net migration inflows into the city. As the economic hub of the Kansai region, Osaka City continues to attract a large number of young migrants, especially from neighbouring prefectures. However, the pandemic

appears to have dampened net-migration inflows from other prefectures, most notably other cities in Osaka prefecture, likely due to more flexible work arrangements, although some reversal of this trend will likely materialise in this post-pandemic environment. Meanwhile, the foreign national population of Osaka has grown considerably across the city, but particularly so in western wards. The foreign national population should continue growing, especially with the upcoming developments that would envisage greater levels of foreign labour, thus providing another backbone for residential demand.

Overall, the prospects for Osaka City are promising. Economic growth is underway, with a substantial expected upswing once the integrated resort is operational, that will transform the city and serve as a lynchpin for further growth in the city. Population demographic fundamentals are also sound, with positive net-migration into the city that should only increase with the developments in the pipeline. Going forward, there will likely be greater demand for residences in Osaka City, especially higher end ones, and in central and western wards, given the direction of the city's evolution.



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