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SPOTLIGHT
Savills Research

Tokyo Residential : Ultra Luxury

savills

Ultra-luxury leasing in Tokyo growing in popularity

Summary

- Tokyo's city centre has become an increasingly popular area for ultra-high-net-worth individuals (UHNWIs) to live in, aided by the multiple redevelopments that have transformed the city.

- The prices of ultra-luxury residential units in Tokyo have risen but have stayed affordable when compared to other gateway cities, suggesting that they are correctly priced at current levels.

- The leasing of ultra-luxury residences has grown in popularity, especially among relatively younger Japanese business owners, and wealthy foreign residents, due to their flexibility.

- Japan is home to a large number of UHNWIs concentrated in Tokyo. This will likely increase with an influx of foreign nationals who recognize Japan as a safe haven to store wealth.

- Ultra-luxury residential units are only around two to three more times expensive than mid-market units on a per tsubo basis, which is thought to be a sustainable level.

- Wealth is spread relatively evenly in Japan when compared to many other developed economies, creating a stable societal base for greater ultra-luxury residential demand.

- Many large-scale developments in the future will likely be mixed-use and have a greater focus on ultra-luxury residential leasing due to the comparatively high rents.

INTRODUCTION

The ultra-luxury residential sector in Tokyo has traditionally been a niche one, with a total stock of fewer than 10 ultra-luxury units as recently as a decade ago. Most developers, even major ones, have limited experience in it. However, demand for ultra-luxury residences has grown, especially over the past half-decade, and will likely garner an increasing amount of attention from developers and investors as a fresh avenue to explore as other sectors become more mature.

Several factors have contributed to nurturing the demand for ultra-luxury residences in Tokyo. Firstly, a slew of large-scale developments has transformed the landscape of many locations in central Tokyo, making them more attractive areas to live. Next, 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. Thirdly, preferences for residential locations in Tokyo amongst the wealthy have shifted away from high-end suburban residential areas to the city centre. 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.

HISTORICAL DEVELOPMENT IN THE ULTRA-LUXURY RESIDENTIAL SECTOR

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. If we apply a gross yield of 3% as a yardstick, this translates to monthly rents of JPY2.5 million, which market participants should recognise as commonplace and sensible figures. In general, the supply of ultra-luxury units in Tokyo has been extremely limited when compared to other major cities. While the number has continued to increase, especially in recent years, the total stock is around a paltry 150 units, as wealthy locals have historically favoured large detached houses over luxurious urban condominiums. This stock level is extremely small compared to Hong Kong or London, not to mention Manhattan. According to Corcoran, the number of active listings of condos in Manhattan priced over US$5 million as of Q4/2022 was more than 1,000. In London, the average number of sales over GBP5 million for last two years is over 500 per annum. Assuming a turnover rate of 20% or every 5 years, the stock in these markets is estimated to be in the order of thousands, more than a dozen times compared to Tokyo. This suggests that Tokyo has vast potential for further growth in the ultra-luxury sector, especially given its strong appeal as a global tourist destination.

Ultra-luxury residences are not an entirely new concept to Tokyo, and some were developed in the 1980s and 1990s, during the bubble era. Condominiums in the city centre grew in popularity because single-family detached houses in these locations became unaffordable as central areas became increasingly developed, and the convenience of living in the heart of the city grew more appealing. In addition, due to Japan's strongly progressive tax system, there

TABLE 1: Town Ranking by Number of Corporate Presidents

RANKING	2021	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	Takanawa (Minato)	Kamisumachi-cho (Ibaraki)
7	Shinjuku (Shinjuku)	Okusawa (Setagaya)
8	Shibaura (Minato)	Ryuo-cho (Yamanashi)
9	Minami-azabu (Minato)	Fuchu-cho (Hiroshima)
10	Mita (Minato)	Ojima (Koto)

Source Tokyo Shoko Research, Savills Research & Consultancy were estate planning benefits in the acquisition of real estate, further boosting the popularity of ultra-luxury residences.

One example of a for-sale ultra-luxury residence is Domus Minami-azabu which was built in 1993 at the beginning of the post-bubble era, whose most expensive unit was rumoured to have been on the market for around JPY4.4 billion. Even though around three decades have passed since its construction, it is still regarded as a classic luxury residence to rent in 2023.

Over the last few decades, the supply of luxury residential units in Tokyo was very limited. However, 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. The per-tsubo prices of these units are estimated to be JPY30+ million. Furthermore, the penthouse unit in Aman Residences located in the upcoming Azabudai Hills is rumoured to have been sold for JPY20 billion, or JPY40++ million per tsubo – by far the largest price recorded for a residential unit in Japan, reaching a top price benchmark almost equivalent to Manhattan or London. Aman Residences has 91 units, all of which are ultra-luxury, and presently all have either been sold or have had sales suspended. This product will further pave the way for the ultra-luxury sector and attract more development into it. Overall, it seems that there is a growing appetite for units on the higher end of the spectrum, and these changes could have an influence on the landscape of Tokyo going forward.

The prices of such ultra-luxury residences may appear exorbitant at first glance, but they may not actually be excessively expensive. For instance, the price of gold has increased by five times in the last three decades. According to Tanaka Kikinzoku, a major gold dealer, the average price of gold per gram in 1993 was US$12 or JPY1,300, while in 2022, it was US$58 or JPY7,650. In gold terms, the price movement from the most expensive ultra-luxury unit in 1993, Domus Minami-azabu at JPY4.4 billion, to the record-breaking Aman Residences penthouse at JPY20 billion, stayed almost flat. Considering the fact that inflationary environments and loose monetary policies across the globe have theoretically devalued currencies, these residences may only be correctly priced based on the real value at the time.

Tokyo's ultra-luxury residential market has grown considerably over the past half-decade on the back of multiple large-scale developments that have reshaped the heart of the city, Tokyo's large number of UHNWIs, and a shift in preferences toward living in prime central locations. Within ultra-luxury residences, leasing has grown to become an increasingly attractive option for many relatively young and newly wealthy people due to the flexibility it provides.

ULTRA-LUXURY RESIDENTIAL LEASING

Ultra-luxury rental residences have recently been growing in popularity. One reason for the increase in demand of such residences could be a growing number of wealthy younger Japanese who prefer the flexibility that renting offers. Indeed, some Japanese have been able to ride the tide of global economic growth and have amassed considerable fortunes, for instance, through a number of IPOs. Many are relatively young in their 40's or 30's and lead active lifestyles, and would find the flexible option of renting appealing. For instance, some ultra-luxury condos that were originally for-sale and primarily targeted a non-Japanese audience were struggling during the pandemic, but they appear to have recently grown in popularity among Japanese business owners. Another reason is the increasing number of wealthy foreign residents in Tokyo. 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. Typical tenants are essentially business owners, but some corporate executives also live in these ultra-luxury units, as it seems that monthly rents up to JPY2.0 – 2.5 million are more easily tax deductible.

The overall stock of ultra-luxury units is very limited and most of them were originally units for sale. At this moment, it is probably fair to assume approximately 30% of these ultra-luxury units are leased. Built-to-Rent (BTR) in the ultra-luxury space is even more limited in Japan, and this specific category appears to be very tight. Nevertheless, the market has gradually seen some supply added recently.

La Tour Daikanyama is a rental luxury apartment in the high-end Daikanyama area, developed by Sumitomo Realty & Development in 2010. This 139-unit luxury residence features a 24-hour English-speaking concierge and security staff in addition to other amenities like a gym, gardens, and children's playrooms. The penthouse unit is reported to have monthly rents upwards of JPY5.0 million – approximately JPY33,000 per tsubo, making it one of the most expensive units in Tokyo at the time of its release. La Tour Daikanyama was one of the earlier ultra-luxury developments to feature rental-only units, and the success of the property, which often sees close to full occupancy, has helped to pave the way for even more expensive developments.

In 2020, NTT Urban Development Corporation developed WITH HARAJUKU RESIDENCE, a 53-unit luxury rental residence in front of Harajuku station, adjacent to the high-end retail Omotesando area. Its prime location in a retail centre has allowed it to attain rents of nearly JPY3.0 million – more than JPY60,000 per tsubo, which is on par with estimated retail rents in the area. It appears to have few availabilities as of March 2023, showing that there is ample demand for such luxury units.

In 2022, Toranomon Hills Residential Tower opened with multiple ultra-luxury units. Some of them are likely to be available for lease, and typical rents appear to be between JPY40,000 and 50,000 per tsubo, which is more expensive that its office counterpart. In 2023, Aman Residences will open with different price lines, which should further pave way for the ultra-luxury market, and should also be significantly more expensive than its office counterpart.

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. Although primarily a for-sale project, the size of the project could mean that some premium units will be for-rent, and could help spark more interest in mixed for-sale and for-rent developments. Based on market rumours, this project is likely to be successful and provide further momentum, especially for its neighbouring project, the Mita Oyamacho redevelopment, which is a large mixed-use development with around 1,450 residential units scheduled for completion in 2027. While the project is still in its early stages and prices have yet to be disclosed, given its prime location and the prestige surrounding the development, premium units will likely be classified as ultra-luxury. Furthermore, its mixed-use nature and proximity to office space suggest that some units could also be for-rent. The success of these projects in Mita will pave the way for more ultra-luxury developments in a wider area, on top of cementing Mita as a luxury residential location.

In addition, Torch Tower, part of the Tokyo Station Tokiwabashi Project by Mitsubishi Estate, will feature ultra-luxury rental residences on its upper floors. Scheduled for completion by 2027, some rental units in the complex are reported to have monthly rents of around JPY5.0 million. Torch Tower will primarily be an office building, but will also feature a hotel and event facilities on its higher floors.

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 level of luxury residential has risen significantly to levels on par with prime office or retail. 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 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.

Indeed, these ultra-luxury residences also make economic sense. 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 per tsubo of JPY20+ million 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.

TENANT PROFILE OF ULTRA-LUXURY RESIDENCES

Given their extremely high price points, only a very small number of individuals could be considered as potential customers for ultra-luxury residences, most of whom are high profile

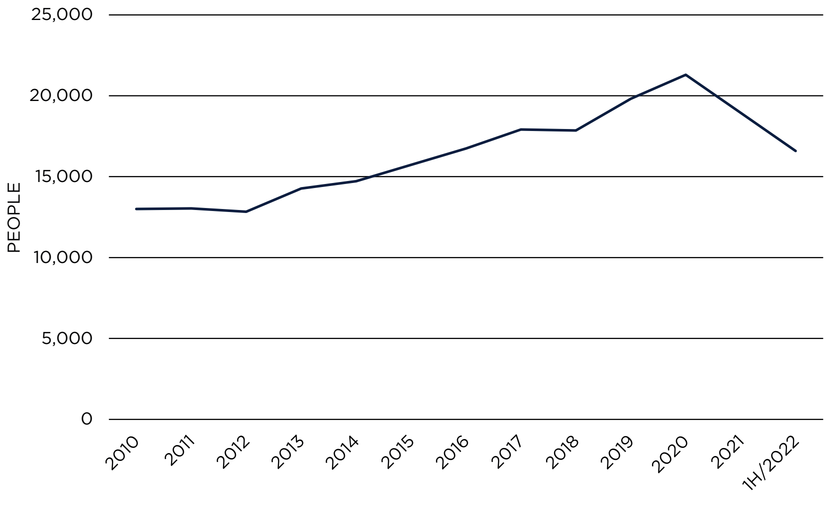
TABLE 2: Major Upcoming Residential Developments in Tokyo

NAME	LOCATION	EXPECTED YEAR OF COMPLETION	NO. OF UNITS
The Parkhouse Gran Kamiyamacho	Shibuya	2023	55
Park Mansion Toriizaka	Minato	2023	25
Hamamatsucho 2-Chome Redevelopment Project	Hamamatsucho	2024	400
Shibuya Sakuragaoka Redevelopment Project	Shibuya	2024	170
The Parkhouse Gran Sanbancho 26	Chiyoda	2024	100
Mita Garden Hills	Mita	2025	1,000
Akasaka 7-Chome Redevelopment Project	Akasaka	2026	700
Torch Tower Residence (to be named)*	Tokyo Station	2027	50-70
Mita Koyamacho Redevelopment Project	Mita	2027	1,450
Nishi-azabu 3-Chome Redevelopment Project	Nishi-azabu	2027	525
Shirokane 1-Chome Redevelopment Project	Shirokane	2028	950

Source Developer disclosures, Savills Research & Consultancy business owners. In fact, the ultra-luxury residential market is very opaque as such units are typically marketed directly to high-profile clients known to developers or realtors, and little information is released openly to the public. As such, developers will need to be reasonably certain of the existence of a pool of potential buyers or tenants in order for the ultra-luxury residence project to be a success.

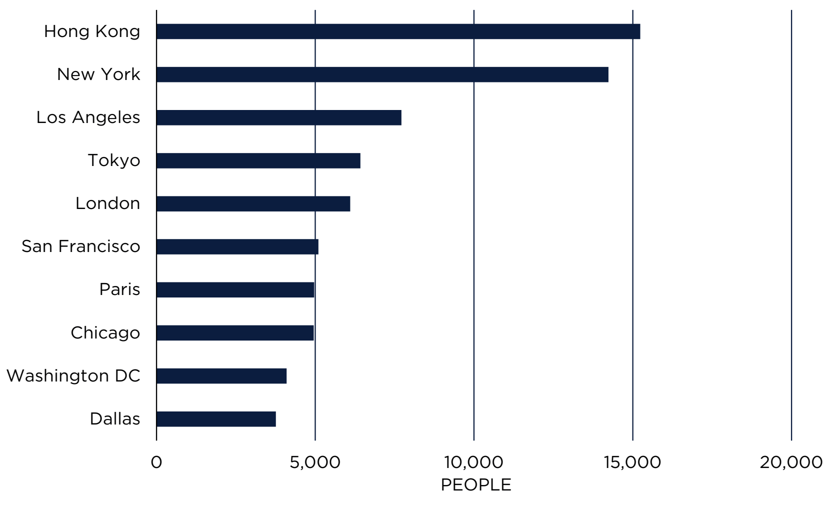
In general, developers of ultra-luxury units can feel more confident given Japan's sizable population of wealthy people. Indeed, Japan has the third largest economy in the world, and is home to a large number of UHNWIs. Looking at Graph 1, the number of UHNWIs in Japan has grown considerably over the past decade, albeit a decline in 2022 primarily due to the depreciation of the Japanese yen. Furthermore, a significant proportion of these UHNWIs are located in Tokyo. According to Wealth-X, Tokyo is the city with the fourth largest number of UHNWIs, only behind Hong Kong, New York, and Los Angeles. The relatively large number of UHNWIs concentrated in Tokyo suggests that some demand for ultra-luxury residences has always been present, but the limited supply had not allowed it to surface.

GRAPH 1: Number of Ultra High Net Worth Individuals (UHNWI)* in Japan, 2010 to 1H/2022**



Source Wealth-X, Savills Research & Consultancy
*UHNWI is defined as an individual with a net worth in excess of US$30 million
**Data for year 2015 was extrapolated between 2014 and 2016 data points, and data for 2021 was extrapolated between 2020 and 1H/2022.

GRAPH 2: Number of Ultra High Net Worth Individuals (UHNWI) by City, 1H/2022



Source Wealth-X, Savills Research & Consultancy

Given that one benchmark for ultra-luxury residences is units that cost at least JPY1 billion, only a fraction of even the UHNW population would actually be able to afford such residences. As such, many ultra-luxury residences are located in the top floors of larger developments, with a handful of units marketed at an ultra-luxury premium, while the remaining units are sold at more affordable prices to a wider audience, or are usually small-to-mid-sized properties. At the same time, ultra-luxury rental units with monthly rents of JPY2+ million could still be afforded by some company executives or exceptionally highly skilled professionals. Wealthy business owners are nonetheless likely to be the primary customers of ultra-luxury units, with many owning or leasing several units. Hence, some existing owners or tenants will likely have strong interest in new products that the ultra-luxury sector has to offer, as these tenants pay a high premium for experience and privacy. Many features and amenities must be available, and highly trained concierges that are able to solve a myriad of tenant requests are necessary to ensure top-notch standards in line with the high rents.

Tokyo has a foreign population of slightly over 4%, but the number of foreign nationals has been growing steadily over the past few decades except during the pandemic, and is currently the strong driver for Tokyo's population growth. When considering the popularity of Tokyo as a global tourist destination, there should be a large amount of potential in this figure. UHNW foreign nationals are one growth driver of the ultra-luxury residences in Tokyo, and presently, approximately a third of ultra-luxury units are estimated to be occupied by foreign residents. Given that the population growth of Japan is likely to be driven primarily by the influx of foreign nationals, this demographic will be a major source of demand for ultra-luxury units. Indeed, Japan is seen as a safe haven for individuals to store wealth due to the strong ownership laws of the country, and the presence of even a small number of UHNWIs in Tokyo will be enough to shape the market. In fact, the well-known billionaire Jack Ma is reportedly living in Tokyo, and is likely an owner or tenant of one or more of these estates.

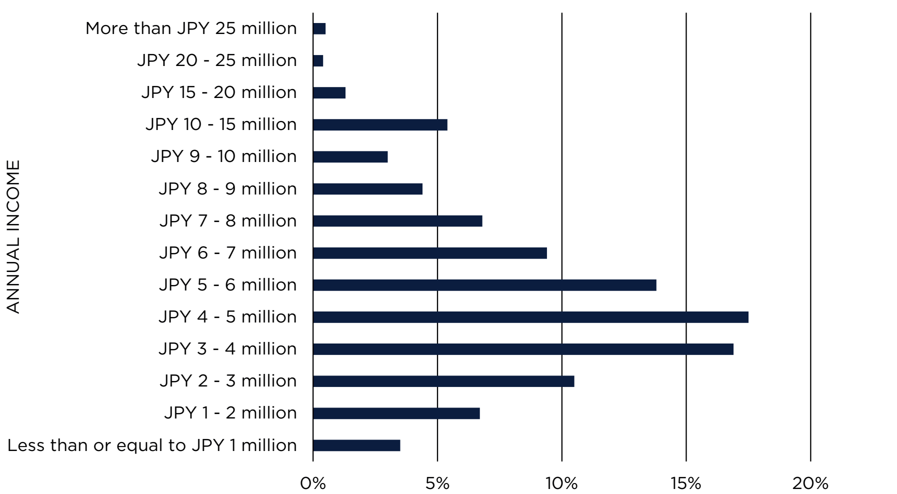
Overall, the relatively low supply of ultra-luxury residences present in the market together with the large number of wealthy individuals in Japan that could prop up demand has led to an increased amount of interest shown in the sector.

TABLE 3: Mean and Median Wealth in 2021, by Country/region

RANK	MEAN WEALTH PER ADULT (US$)			MEDIAN WEALTH PER ADULT (US$)		
	COUNTRY/REGION	2021	CHANGE FROM 2020	COUNTRY/REGION	2021	CHANGE FROM 2020
1	Switzerland	696,000	24,050	Australia	273,900	28,450
2	United States	579,050	73,630	Belgium	267,890	-3,730
3	Hong Kong	552,930	5,210	New Zealand	231,260	57,920
4	Australia	550,110	66,350	Hong Kong	202,380	8,250
5	New Zealand	472,150	114,290	Denmark	171,170	10,790
6	Denmark	426,490	32,110	Switzerland	168,080	14,170
7	Canada	409,300	55,660	Canada	151,250	16,240
8	Netherlands	400,830	-3,020	Netherlands	142,990	-600
9	Sweden	381,970	30,240	United Kingdom	141,550	9,610
10	Belgium	381,110	-12,950	France	139,170	-3,670
11	Singapore	358,200	23,280	Norway	132,480	-1,620
12	Norway	334,430	12,860	Japan	120,000	-8,740
13	France	322,070	-3,790	Taiwan	113,940	18,050
14	United Kingdom	309,380	9,820	Italy	112,140	-10,100
15	Taiwan	297,860	47,250	Spain	104,160	-640
16	Israel	273,420	41,010	Qatar	100,010	20,160
17	Germany	256,990	1,310	Sweden	95,050	-100
18	Ireland	251,340	7,550	United States	93,270	13,840
19	Austria	250,120	-5,010	Korea	93,140	1,910
20	Japan	245,240	-14,500	Singapore	93,130	2,980

Source Credit Suisse, Savills Research & Consultancy

GRAPH 3: Income Distribution in Japan, 2021



Source National Tax Agency, Savills Research & Consultancy

ECONOMIC AND SOCIAL STABILITY

The increased pace of ultra-luxury residential developments in Tokyo could give rise to concerns surrounding its sustainability from both an economic and a social standpoint. One way to approach this question is to analyse how expensive ultra-luxury units are when compared to mid-market units[1].

As of Q4/2022, mid-market units in the central 5 wards (C5W) have average rents of around JPY16,000 per tsubo. In contrast, ultra-luxury units in the C5W would have average rents around JPY30,000 to JPY50,000 per tsubo – this is about two to three times the price of mid-market units

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.

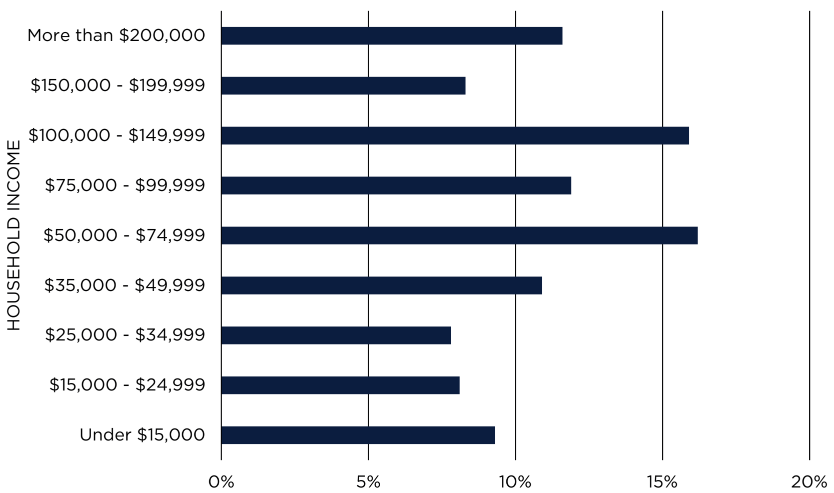
on a per tsubo basis, which still appears reasonable overall considering the multitude of services and amenities that come with these ultra-luxury units. Indeed, the high rental levels come not only from the price per tsubo, but from the significantly larger size of ultra-luxury units which tend to be many times larger than the average unit in Tokyo, usually 200 sq m or more. Overall, given that rental levels for ultra-luxury residential units do not appear to be egregiously overpriced above mid-market residential counterparts on a per tsubo basis, this aspect of the market appears sustainable.

Next, we can analyse the distribution of wealth to understand the societal structure of Japan. Japan has a pyramid-shaped distribution of income, with a very strong middle class. Only a very small percentage of the working population, about 0.5%, earn more than JPY25 million a year, while more than 70% lie within the range of JPY3 – 10 million. In comparison, the United States' income distribution is shaped like a hive, with around 11% of the country earning over US$200,000. Furthermore, according to the Credit Suisse Global Wealth Report, the median wealth in Japan in 2021 was US$120,000, versus a mean wealth of US$245,240. The difference between the mean wealth and median wealth is noticeably smaller than most other major developed major economies, showing a sense of stability in the current societal balance. The structure that Japan possesses shows that the way society is shaped will be predominantly directed by the middle class, and suggests overall societal stability, which in turn should allow for the niche market of ultra-luxury residences to proliferate uneventfully.

Next, to address the purchasing power and appetite of Japan for such ultra-luxury residences, we can look at the primary income balance of Japan, which was highest in the world in 2021 according to OECD. Indeed, the surplus has been steadily growing and should give the country additional purchasing power. This growing figure shows that Japanese corporations and some affluent Japanese have seen increments in wealth by investing overseas, while the domestic market remained more matured in comparison.

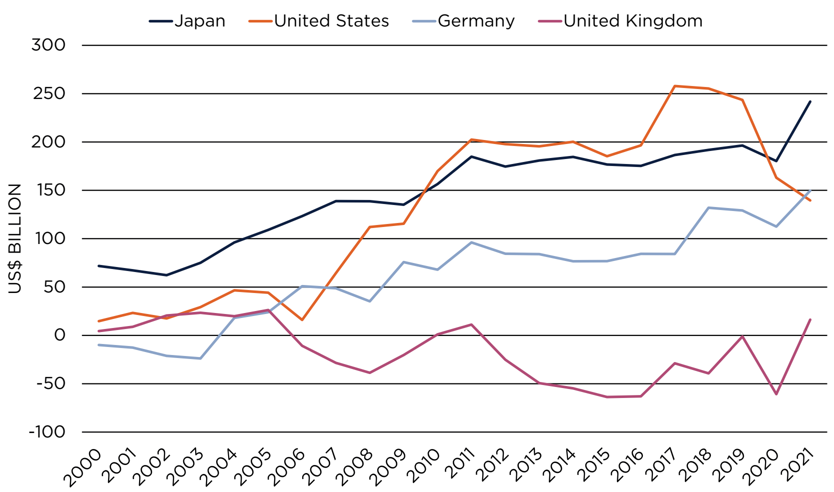
Overall, strong arguments could be made for the sustainability of ultra-luxury residential demand in Japan. The present stock and supply of such ultra-luxury residences are very low, and the strong performance of such units on the market is an encouraging sign. Furthermore, international buyers were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

GRAPH 4: Income Distribution in the United States, 2021



Source National Census, Savills Research & Consultancy

GRAPH 5: Primary Income Balance, 2000 to 2021



Source OECD Statistics, Savills Research & Consultancy

OUTLOOK

Prospects for the ultra-luxury residential market look strong going forward, with many notable projects in the pipeline, and solid demand fundamentals from the large number of UHNWIs in Japan. The multiple developments that have transformed the city landscape over the past decade have helped to shift attention away from detached properties in residential areas that were historically more favoured by the wealthy, to large-scale, ultra-luxury condominiums located in the heart of the city. Indeed, the strong performance of current developments on the market suggests that there is sufficient latent demand waiting to surface at the right opportunity.

While many ultra-luxury residences were developed primarily as for-sale projects, for-rent units have seen growing popularity especially over the past few years. Many UHNWIs in Tokyo are classified as the "new rich", having amassed wealth over the past decade, and tend to be relatively young. The prime central location of these projects together with the flexibility that renting offers has likely made rental ultra-luxury residences more attractive particularly for this target audience.

Going forward, many large-scale developments will be mixed-use, with greater focus on residential units, meaning that the market is likely to continue growing. The supply of ultra-luxury residences is currently very low in the market, and primarily dominated by a very small number of companies, suggesting that more competitors will likely try to enter the market. Given that the current stock and supply levels are so low, demand is likely to be generated from this supply. 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, ultra-luxury residences in Tokyo are still priced at reasonable levels when compared with other major cities, and is a fairly untapped market that looks on track for growth.

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