MARKET IN MINUTES
Savills Research

Residential Leasing

Rents strengthen in all wards

Rental growth observed across the 23W, especially the C5W, driven by sound demand.

- Average rents in the Tokyo 23 wards (23W) climbed by 1.3% quarter-on-quarter (QoQ) and 6.4% year-on-year (YoY), reaching JPY4,332 per sq m. All wards experienced rental increments on both a quarterly and an annual basis.
- Average rents in the central five wards (C5W) increased by 2.2% QoQ and 6.7% YoY to JPY5,250 per sq m.
- The C5W rental premium over the 23W average rose by 0.4 percentage points (ppts) QoQ to 19.9%.
- In the C5W, Chiyoda and Shibuya witnessed the largest rental increments of 3.1% QoQ, while Shinjuku was the most modest at 0.1% QoQ.
- Average rents for the larger 45-60 sq m size band recorded the highest increase, at 4.4% QoQ, while the 15-30 sq m and 30-45 sq m size bands grew at more moderate rates.
- Average occupancy rates in the 23W saw an uptick of 0.3ppts QoQ to 96.6%, while the C5W also increased by 0.3ppts QoQ to 96.2%.
- Average prices of new condominium units in the 23W continue to hit record levels, supported by sound demand and supply constraints resulting from rising construction and land costs.

"Optimism continues to grow in the 23W residential market, with all constituent wards having experienced both quarterly and annual rental growth. Net migration continues to hit new highs, while supply constraints for new for-sale condominiums should continue to shift some demand to the rental residential market, bolstering confidence in the sector for the year to come."

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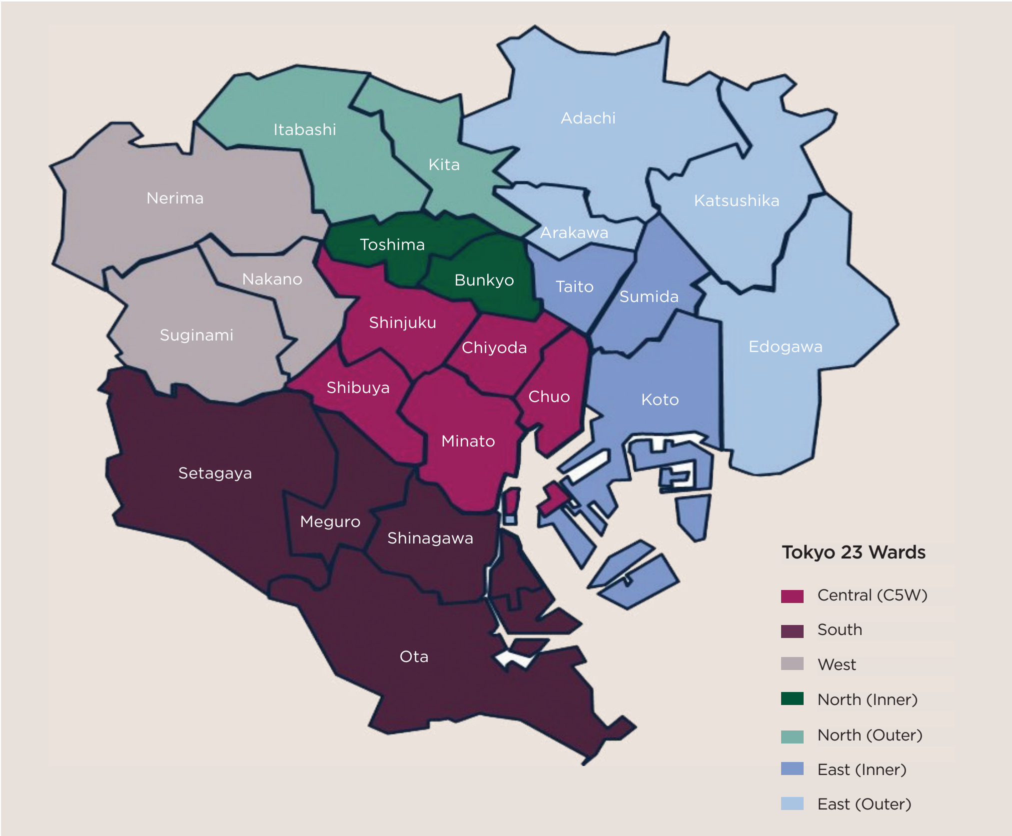
MAP 1: Tokyo's 23 Wards by Survey Area



Source Savills Research & Consultancy

SURVEY GEOGRAPHY

In order to illustrate trends in the central Tokyo residential market, Savills has segmented Tokyo's 23 wards (23W) into seven distinct geographical areas: Central (or "central five wards"), South, West, North (Inner and Outer) and East (Inner and Outer).

RENTAL INDEX DATA CHARACTERISTICS

Savills collates thousands of leasing comparables each quarter in order to analyse trends affecting "mid-market" rental apartment units in Tokyo. 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, and

3) properties located in Tokyo's 23 wards and situated within a ten-minute walk of the nearest station.

In contrast to the luxury residential market, advertised or "asking" rents for mid-market units fitting the above criteria are typically non-negotiable and are not subject to incentives such as rent-free periods. Savills mid-market rental indices are therefore considered to closely reflect movements in contract rents for the Tokyo market.

OVERALL RESULTS

Average rents in the Tokyo 23W and C5W experienced steady growth in Q4/2024, with all individual wards recording rental increases on both a quarterly and an annual basis. The C5W premium over the 23W widened by 0.4ppts to 19.9% over the quarter. Occupancy rates have also improved, and further improvements should continue in the next quarter preluding the spring moving season.

Net migration into the 23W remains strong. Between September and November 2024, a net total of 22,000 new residents were recorded, with foreign nationals comprising a significant majority. The net migration figures mark a 3% and 50% increase compared to the same period in 2023 and 2019, respectively, highlighting robust and consistent population growth in the 23W, which continues to support demand in the Tokyo residential market. In particular, foreign nationals should continue to play a bigger role.

Japan has also experienced strong wage growth in 2024, reaching a 33-year high, with winter bonuses for the year also seeing further improvements. Younger employees in large corporations in Tokyo are likely to be the biggest beneficiaries of this growth, and together with the 23W's steady population growth, fundamentals for the residential market appear strong. Elsewhere, prices of for-sale condominiums have hit record highs, and those priced out of this for-sale market would have to resort to rental housing. Overall, leasing demand is likely to remain strong, supporting rental growth.

MID-MARKET RENTAL TRENDS BY SURVEY AREA

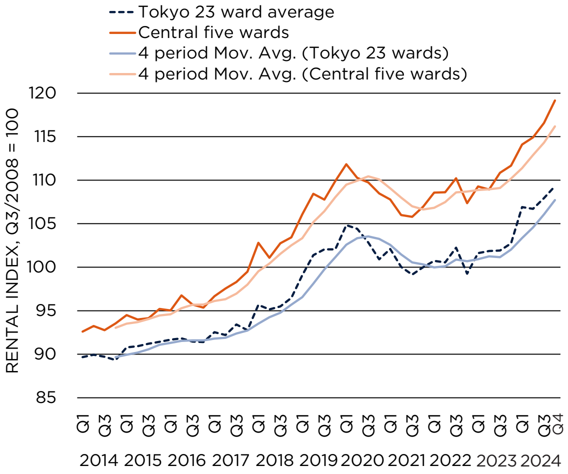
The Tokyo 23W residential leasing market has performed well, as average mid-market rents continue to grow for a third consecutive quarter, climbing by 1.3% QoQ and 6.4% YoY to JPY4,332 per sq m. All constituent wards saw both quarterly and annual growth, which is a firm demonstration of the bright prospects in the 23W residential market looking ahead.

Average rents in the C5W strengthened for a sixth consecutive quarter, growing by 2.2% QoQ and 6.7% YoY to JPY5,250 per sq m, and the C5W premium over the 23W increased marginally to 19.9% in Q4/2024. At the ward level, Chiyoda and Shibuya witnessed the largest quarterly rental growth of 3.1%. Average rents in Chuo and Minato saw moderate increments of 2.8% QoQ and 1.7% QoQ, while Shinjuku's rents increased marginally by 0.1% QoQ.

Average rents in the South submarket climbed by 1.7% QoQ and 5.8% YoY to JPY4,452 per sq m. Meguro recorded the highest quarterly increase of 2.8%, while Setagaya, the strongest performer in the submarket in the previous quarter, saw the most modest gain of 0.2% QoQ. The Inner North submarket grew by 1.4% QoQ and 7.0% YoY, reaching JPY4,457 per sq m, with Toshima and Bunkyo's average rents rising by 2.2% QoQ and 0.7% QoQ, respectively.

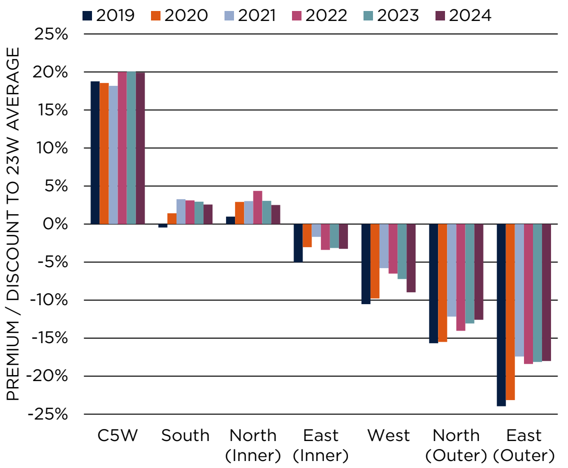
The Inner East submarket rose by 0.7% QoQ and 6.5% YoY to JPY4,197 per sq m. Koto saw the largest rental growth for the third consecutive quarter, increasing by 1.1% QoQ. Average rents in the West submarket

GRAPH 1: Mid-market Apartment Rental Index, Q1/2014 to Q4/2024



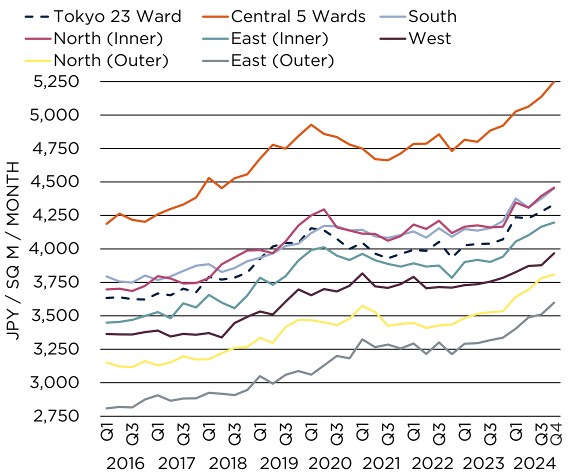
Source Savills Research & Consultancy

GRAPH 2: Rental Premiums/Discounts* vs 23W Average, 2019 to Q4/2024



Source Savills Research & Consultancy
* The above represents the average premium/discount over the respective year.

GRAPH 3: Mid-market Apartment Rents, Q1/2016 to Q4/2024



Source Savills Research & Consultancy

increased by 2.3% QoQ and 4.8% YoY to JPY3,967 per sq m. Rental growth exceeded the 23W average across all three constituent wards, and Nerima achieved the largest quarterly gain of 2.9%.

Average rents in the Outer North submarket increased by 0.7% QoQ and 7.8% YoY to JPY3,808 per sq m. Rents in Itabashi increased by 1.4% QoQ, while Kita recorded a marginal 0.1% QoQ uptick. The Outer East submarket grew by 2.5% QoQ and 7.9% YoY to JPY3,598 per sq m. Among the constituent wards, Katsushika posted the highest rental growth of 3.8% QoQ, while Edogawa recorded the most moderate gain of 1.6% QoQ.

OCCUPANCY RATES

Occupancy rates in the Tokyo 23W rose by 0.3ppts over the quarter to 96.6% in Q4/2024, down 0.4ppts on an annual basis. Meanwhile, occupancy rates in the C5W increased by 0.3ppts QoQ to 96.2%, while remaining lower by 0.7ppts on an annual basis. Given the strong wage growth in 2024, many asset managers appear to be capitalising on the opportunity to raise rents, rather than prioritising full occupancy sooner. Overall, occupancy levels remain high and are expected to grow over time.

Net migration into the Tokyo 23W has reached new highs in 2024, with foreign nationals comprising approximately half of net migration so far this year, generating solid demand for rental units. Foreign nationals are expected to continue migrating to Tokyo, and should become an even larger proportion of rental demand, particularly due to their higher propensity to rent rather than buy. As a result, occupancy levels should continue to increase.

RENTS BY UNIT SIZE

Tokyo's rental market is principally made up of compact single-occupier units, typically less than 45 sq m (13.6 tsubo) in size. Such units can often make up as much as 70% or more of the 23W area's rental listings. Unlike Western major global cities such as New York and London, house or apartment sharing does not form a meaningful segment of the rental market. As a result, there is a large, stable market for small- to mid-sized units.

The larger 45-60 sq m size band in the C5W experienced the highest increase of 4.4% QoQ in average rents, maintaining its premium over its smaller counterparts. The medium 30-45 sq m size band and the smaller 15-30 sq m size band, priced at similar levels, recorded rental increases of 2.2% QoQ and 1.0% QoQ, respectively. The larger 45-60 sq m size band overall retains some rental premium over its smaller counterparts, while the 15-30 sq m and 30-45 sq m size bands have moved mostly in tandem.

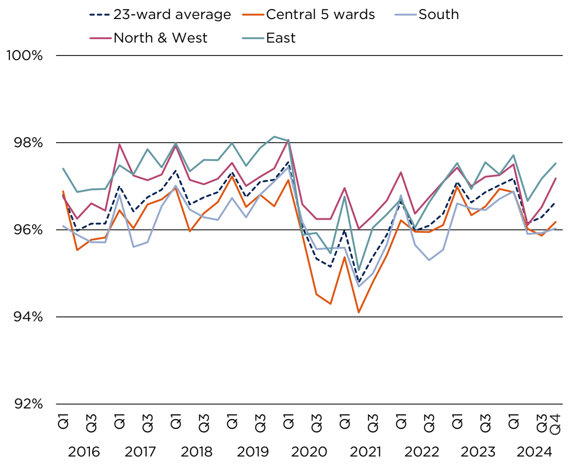
Overall, larger units in the 45-60 sq m size band appear to remain popular, likely driven by demand from employees in companies with established hybrid work arrangements who prefer slightly larger spaces to accommodate home office setups, and families that remain priced out of the expensive for-sale market. Furthermore, a majority of rental housing stock in the C5W has typically been geared toward single occupiers, making larger units scarcer overall. At the same time, it appears that some developers have caught on to this trend and look to increase the average size of rental units. Indeed, in 2023, smaller rental units less than 30 sq m in the C5W only comprised 10% of housing starts, which is considerably less than the previous 5-year average of 18%. As such, with more supply of comparatively larger units expected to enter the market, this premium could possibly narrow.

UNWAVERING GROWTH IN TOKYO'S CONDOMINIUM PRICES

The Tokyo 23W condominium market continues to grow, driving record-high average prices of JPY114.8 million in 2023, fuelled by robust demand and rising construction and labour costs. The elevated prices continue in 2024, as the price per sq m of a new condominium has hovered above JPY1.7 million between 2023 and Q3/2024, significantly higher than the JPY1.3 million figure in 2022. Second-hand condominiums have also followed suit, particularly in the Central 3 Wards (C3W), Minato, Chiyoda, and Chuo, where prices have nearly doubled since 2018. For a more in-depth overview, please refer to our "Tokyo Residential Sales - 2H 2024" report.

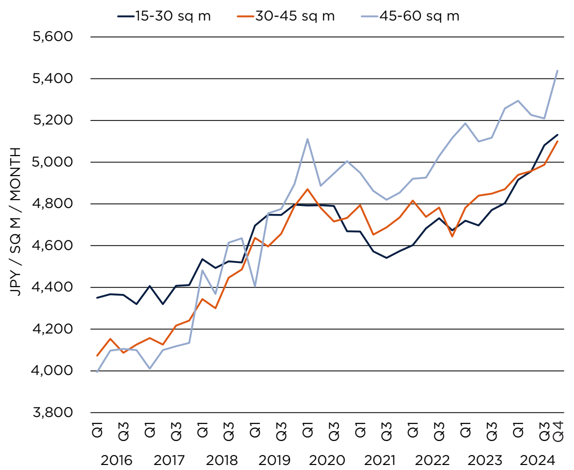
The elevated prices of both new and second-hand condominiums are driven by demand and supply factors. The supply of new condominiums in the 23W has drastically declined, with fewer than 5,700 units completed between January and October 2024, compared to nearly 12,000 in 2023. Developers have been facing headwinds such as increased land and construction costs, as well as stricter labour regulations. According to the Ministry of Land, Infrastructure, Transport and Tourism, residential land prices in the 23W have risen by 15% since

GRAPH 4: Average Occupancy for J-REIT Residential Assets, Q1/2016 to Q4/2024*



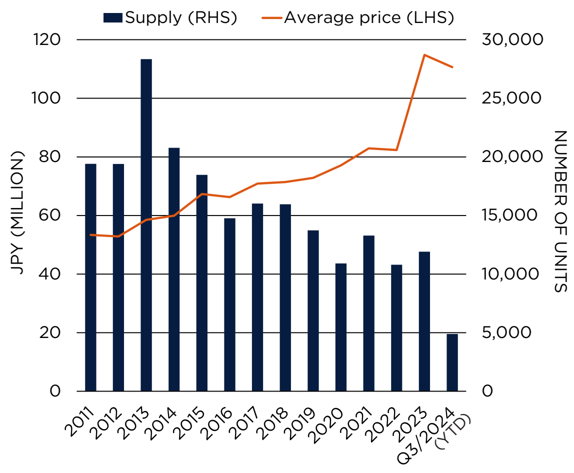
Source Savills Research & Consultancy based on publicly disclosed J-REIT property data
* Q4/2024 is as of Nov 2024

GRAPH 5: Rents by Unit Size, C5W, Q1/2016 to Q4/2024



Source Savills Research & Consultancy

GRAPH 6: Supply and Average Price of New Condominium in Tokyo 23W, 2011 to Q3/2024



Source REEI, Savills Research & Consultancy

2019, and those in the C5W have increased by 20%. According to the Construction Research Institute, reinforced concrete constructions have also risen by about 30% over the same period. Moving forward, the constraint in new for-sale condominium supply is expected to keep prices up.

Tokyo's steadily growing population has been a reliable driver of housing demand, which rebounded to record levels after a transient dip experienced during the pandemic. Despite the gradual monetary policy normalisation by the Bank of Japan, banks have been slower to raise lending rates, especially for mortgages. Additionally, the rising number of dual-income households and stronger wage growth have bolstered purchasing power. Foreign investors are also drawn to Japanese condominiums partly by the weak yen, which enhances affordability compared to other Asian markets, further stimulating demand in Tokyo's tight housing market. Specifically, the exodus of many wealthy Chinese nationals has been a boon for Japan's housing market, which has many attractive features such as affordability, peacefulness, and geographical proximity to China, on top of the country's strong ownership laws. These factors should overall boost the real demand for housing in Tokyo, both in the for-sale and rental market.

While the overall market shows robust growth, there is noticeable bifurcation as property values are influenced by location. Condominiums in prime central locations in Tokyo have seen skyrocketing demand from high-net-worth individuals (HNWIs) who view these properties as stable investments, while some in areas with poor accessibility may have experienced price corrections. This trend is likely to continue as accessibility and amenities increasingly influence buyer preferences. At the same time, the increased barriers to homeownership are expected to bolster the rental market, as more residents, including a growing number of foreign nationals, are likely to opt for renting due to affordability issues, which will further strengthen Tokyo's rental market.

Overall, the Tokyo 23W residential sales market remains a testament to resilience and growth, driven by both domestic and international demand. Supply constraints, coupled with high construction and land costs are expected to keep prices elevated, especially in prime locations, making these properties increasingly attractive to investors seeking stable returns.

OUTLOOK

Tokyo's residential market demonstrated consistent strong performance in 2024, and this positive momentum looks to continue moving into 2025. In Q4/2024, rental growth was recorded across all wards in the 23W, reflecting strong demand throughout the city.

Robust net migration has helped to drive demand in the Tokyo residential market, with foreign nationals accounting for approximately 90% of the net inflow between September and November 2024. It should be noted, however, that Japanese migration is still strong and concentrated during the peak spring moving season, while foreign national migration is spread more evenly throughout the year.

As companies continue to scale back remote work policies, demand for housing near centrally located offices is expected to rise, supported by meaningful wage growth. Meanwhile, peripheral wards will also remain popular, with demand coming from those who continue to work from home or families looking for larger living spaces. Additionally, elevated construction and land costs have constrained supply and increased for-sale condominium prices, likely pricing many out of buying and driving rental growth moving forward.

Overall, strong demand and supply fundamentals continue to support positive momentum, ensuring that the Tokyo rental market will continue to thrive over the coming year. Wage growth trends have also been strong especially for large companies, and Small and Medium-sized Enterprises (SMEs) will be pressured to follow suit, and some zombie companies or weaker SMEs could gradually be eliminated. Furthermore, while promising overall, wage growth is not evenly distributed, meaning that submarket analysis will be more important than before. Indeed, some bifurcation persists in the market - prime locations and units that are close to public transport hubs are highly sought after, while areas with poorer access may experience lower demand.