

# Residential Leasing



## Savills team

Please contact us for further information

### JAPAN

**Christian Mancini**  
CEO, Asia Pacific  
(Ex Greater China)  
+81 3 6777 5150  
cmancini@savills.co.jp

### RESEARCH

**Tetsuya Kaneko**  
Managing Director,  
Research & Consultancy,  
Japan  
+81 3 6777 5192  
tkaneko@savills.co.jp

**Yoshihiro Kanno**  
Manager, Research &  
Consultancy, Japan  
+81 3 6777 5275  
ykanno@savills.co.jp

**Simon Smith**  
Regional Head of  
Research & Consultancy,  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk

Savills plc  
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.



## Rents correct again amid market headwinds

The peak moving season brought fewer new residents to the 23W than previous years.

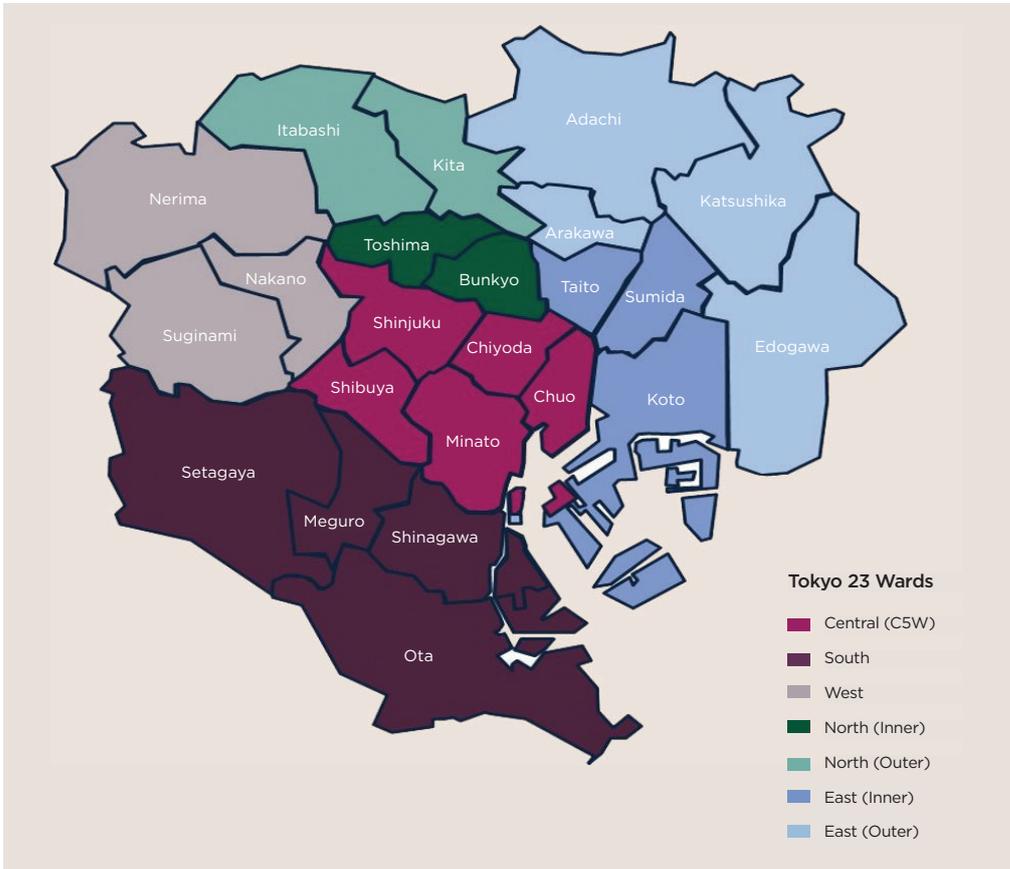
- Rents in the Tokyo 23 wards (23W) saw a mild decline of 2.0% quarter-on-quarter (QoQ) and 4.0% year-on-year (YoY) to JPY3,964 per sq m in Q2/2021.
- Average mid-market rents in the central five wards (C5W) have continued their descent and are currently at JPY4,670 per sq m – a fall of 1.6% QoQ and 5.8% YoY.
- The C5W premium has marginally increased to 17.6%, up 0.2 percentage points (ppt) from the last quarter.
- At the ward level, only a few areas posted positive growth on a quarterly basis. Here, Toshima in the Inner North marked the strongest growth this quarter with a modest gain of 0.9%. On an annual basis, Katsushika took the crown, with rents rising by 5.7%.
- In the C5W, average rents for units in the 15-30 sq m size band have seen a correction this quarter and currently remain the least expensive size band in a complete reversal of the historic trend.
- The average occupancy rate in the 23W decreased by 0.7ppt to 95.4%. The C5W, meanwhile, also saw a decline with the rate contracting by 0.9ppt to 94.2%.
- Notable demographic changes have taken place in Tokyo since the pandemic began, with the 23W population seeing

a material decline. In contrast, western regions have seen a rise in their populations.

“After a temporary rise in the previous quarter, rents have again declined across the 23W. Unsurprisingly, the demographic changes seen in Tokyo since the onset of the pandemic have dented the capital’s appeal, with areas on the outskirts being the prime beneficiaries of this change. With the end of the pandemic in sight, however, it remains to be seen if this will be long-lasting.”

SAVILLS RESEARCH & CONSULTANCY

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**

One full year has elapsed since rents first began to decline in Q2/2020. Despite the 23W seeing a slight uptick in Q1/2021, along with the C5W, it has experienced another correction this quarter. Rents stand at the lowest level since early 2019 as a result. In fact, rents in both the 23W and C5W have remained below their four-period moving averages since Q3/2020, adding to the market's already downbeat sentiment.

The peak spring moving season has passed, bringing with it the usual relocation to the capital for work and education. Specifically, following eight consecutive months of population decline, Tokyo prefecture finally welcomed around 10,000 residents per month in April and

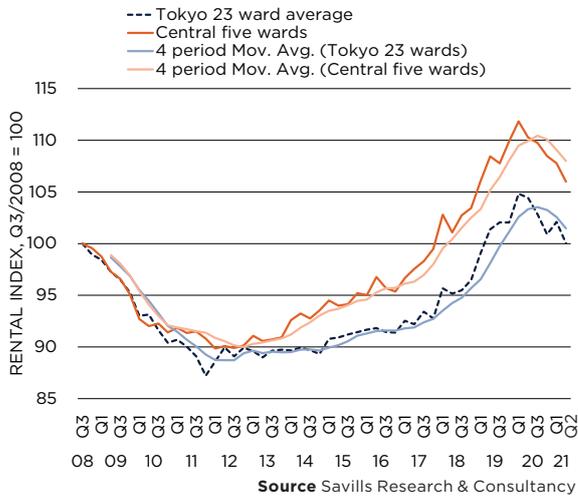
May 2021. Even so, it should be noted that this population increment is less than half of what was observed over the same period in 2019 and 2020 (Graph 6), and the prefecture's population now stands marginally higher than the levels seen at the end of last year. Somewhat paradoxically, despite the population increment seen in the 23W this quarter, occupancy rates have declined, further corroborated by a substantial increase in the number of residential listings seen when compared with the last quarter. A potential explanation here could be the prolonged state of emergency, which slowed the momentum of the economy, pushing the unemployment rate in Tokyo 0.5ppts above the lowest levels seen in Q3/2019. The Japanese economy has been experiencing a K-shaped recovery, and with certain industries like IT and semiconductors doing considerably better than other industries, this may have disproportionately weakened the spending power of some in the capital, consequently increasing the vacancy rates in some areas. At the same time, this stifled demand is coupled with a larger number of rental condo housing starts in 2019 and 2020, intensifying the competition for tenants between landlords once these units came online, putting further stress on the market.

Owing to a less pronounced drop in rents in the C5W this quarter, its premium over the 23W has increased by 0.2ppts to 17.6% (Graph 2). Within the submarket, rents in previously more affordable areas have become somewhat more expensive in comparison, perhaps as the increase in flexible work arrangements has made location somewhat less important when looking for a new home. Overall, nearly all submarkets have witnessed a drop in rents, with the Outer North and Outer East submarket standing out for their notable QoQ declines. Meanwhile, the West, Outer North and Outer East submarkets have all seen their spreads versus the 23W narrow, showing that these markets are indeed catching up with the broader 23W.

**MID-MARKET RENTAL TRENDS BY SURVEY AREA**

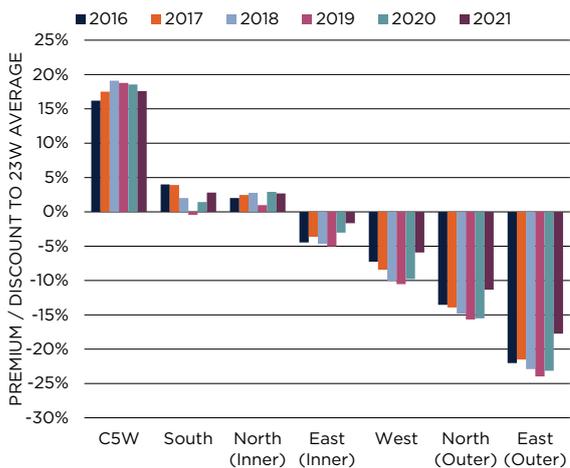
Average multifamily asking rents for the 23W have fallen by 2.0% QoQ and 4.2% YoY, landing at JPY3,964 per sq m in Q2/2021. Moreover, YoY rents have seen their third consecutive contraction, and as a result the growth accumulated over the past two years has been erased. When looking at the various submarkets, rents have seen a decline across the board, with many parring the overall gains seen in the last quarter. On a YoY basis, the decline was the most prominent within

**GRAPH 1: Mid-market Apartment Rental Index, Q3/2008 to Q2/2021**



Source Savills Research & Consultancy

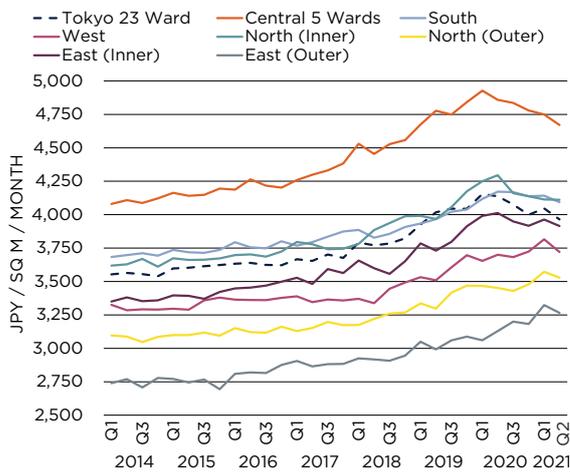
**GRAPH 2: Rental Premiums/Discounts\* vs 23W Average, 2016 to Q2/2021**



Source Savills Research & Consultancy

\* The above represents the average premium/discount over the respective year.

**GRAPH 3: Mid-market Apartment Rents, Q1/2014 to Q2/2021**



Source Savills Research & Consultancy

more expensive submarkets like the C5W and the Inner North, whereas some less expensive regions such as the Outer East actually saw an increase in rents YoY.

As with the majority of submarkets in the 23W, the C5W saw a contraction in rents this quarter. All constituents of the submarket also saw annual declines in rent. Specifically, rents fell 1.7% QoQ and 3.9% YoY to JPY4,670. Looking closely at each individual ward, Shibuya saw the largest quarterly and annual contractions of 1.6% and 5.8% respectively. Understandably, the comparatively quicker uptake of remote work by office tenants in the ward may have lessened the appeal of paying a premium to also reside there, impacting rents as a result. In contrast, Chiyoda saw a small increase in rent over the quarter, despite a moderate annual decline. To an extent, this trend can be attributed to the combination of the ward being the least populated in the 23W and the profile of its residents, namely high earners working in the vicinity. Therefore, these people are likely to have more financial protection from the pandemic and are subsequently less incentivised to move. Indeed, the C5W residential market seems to be moving in sync with its office market: Shibuya has seen a significant decline in office rents, whereas offices in Chiyoda have been much less impacted.

The South submarket saw a small correction in rents this quarter to JPY4,093 per sq m – translating to a decrease of 1.2% QoQ and 1.9% YoY. However, as in the previous quarter, the performance observed in the submarket was split unevenly. For instance, Ota and Setagaya both saw positive YoY growth of 1.5% and 0.4% respectively. Shinagawa, meanwhile, with its reputation as the sixth central ward due to the large number of offices in the area, was home to the greatest decline in rents this quarter of 2.5%. A large proportion of the ward’s office tenants are those of middle or back-office functions who are likely to have also implemented remote work. Similar to Shibuya, therefore, many residents of Shinagawa that had previously stayed there for the convenience of a short commute may have been incentivised to move, thus causing rents to weaken. Lastly, despite seeing its fourth consecutive quarterly decline of 1.9% QoQ, Meguro still maintains its status as the fourth most expensive ward in Tokyo.

Rental growth in the Inner North submarket was flat over the quarter, yet rents fell 4.3% YoY to JPY4,112 per sq m – the largest decrease amongst all submarkets. It is worth noting, however, that despite this recent hiccup, rents in both wards remain comfortably higher than two years ago. Here,

Bunkyo stands out with its large annual decline in rents of 7.0% YoY. Notably, despite this contraction, the ward saw its overall population increase during the pandemic thanks to its reputation for being family-friendly owing to its history as a residential and educational centre. Elsewhere, Toshima saw a moderate decline of 1.2% YoY. Unlike its counterpart, Toshima’s population declined in 2020, fuelling a large increase in the number of listings – suggesting a further correction may be on the horizon if the impact of the pandemic lingers.

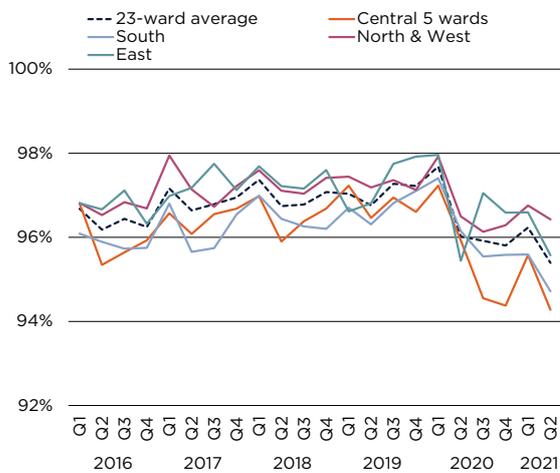
While the Inner East submarket has outperformed the 23W average, it still experienced a moderate decline of 2.4% YoY, as well as a quarterly decline of 1.2%. However, the annual decline was from the all-time highs seen in Q2/2020, and it should be noted that current rents of JPY3,915 per sq m are still clearly above levels seen two years ago. Within the submarket, Sumida saw the largest annual decline of 4.0% YoY, whereas Koto saw the smallest – falling only 1.0% YoY.

Known for its convenient access to central locations via the JR Chuo line and the availability of greenery, the West submarket saw its rents peak in the previous quarter. It has since decreased by 2.5% QoQ to JPY3,720 per sq m, though it was one of the only submarkets that had positive annual growth (0.5%). At the ward level, Nakano – the most expensive ward – accounted for most of the submarket’s annual growth as rents jumped by 3.2% YoY. In contrast, rents in both Nerima and Suginami dropped over the quarter and the year.

Average rents in the Outer North submarket saw a correction over the quarter, falling 1.2% to JPY 3,529 per sq m. Over the year, however, rents maintained growth of 2.2%. Whilst the submarket remains the second least expensive in the 23W, its mild growth in concert with the declines seen in the broader market has brought it closer to the 23W average. Growth in one of its constituents, Itabashi, was partially marked, with rents 4.2% higher compared to the previous year.

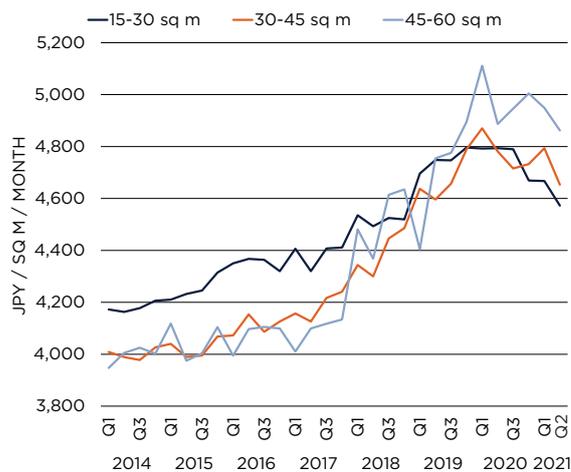
Rents in the Outer East experienced the largest annual growth in the entire 23W of 4.4% to JPY 3,266 per sq m in Q2/2021. Moreover, it is the only submarket where every constituent saw positive annual growth, with Katsushika and Adachi posting an impressive rental surge of 5.7% and 5.0% respectively. Even after this, however, the submarket continues to be the least expensive submarket. Over the quarter, although rents declined across the board, it is worth noting that the 1.8% contraction in rents comes from the all-time highs set in Q1/2021.

**GRAPH 4: Average Occupancy for J-REIT Residential Assets, Q1/2016 to Q2/2021\***



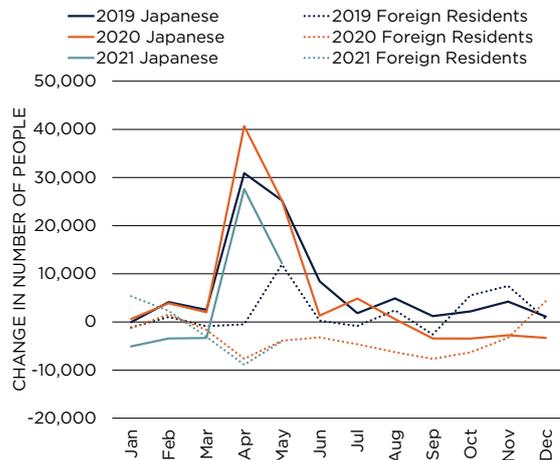
**Source** Savills Research & Consultancy based on publicly disclosed J-REIT property data (Advance Residence, Nippon Accommodation Fund, and Comforia Residential REIT)  
\*Q2/2021 is as of May 2021

**GRAPH 5: Rents by Unit Size, C5W, Q1/2014 to Q2/2021**



**Source** Savills Research & Consultancy

**GRAPH 6: Movement of Japanese Population vs Foreign Resident Population in Tokyo Prefecture, January 2019 to May 2021**



**Source** : Tokyo Metropolitan Government, Savills Research & Consultancy  
\* These population changes do not include natural attrition (new births and deaths).

**OCCUPANCY RATES**

Naturally, since the onset of the pandemic, average occupancy rates in the 23W have declined from the all-time highs seen in Q1/2020. Looking back, having reached the lowest point since 2014 in Q4/2020, average occupancy rates in the 23W showed signs of recovery in Q1/2021, driven by net positive migration into the region. This optimism appears to have been short-lived, however, with rates in Q2/2021 decreasing by 0.8ppts to a new low of 95.4% – a level not seen since 2010. A similar dynamic has also played out in the C5W. To wit, occupancy levels in central areas, having perked up somewhat in Q1/2021, fell to new lows this quarter, contracting 1.3ppts to 94.3%.

Occupancy levels also fell in every other submarket in the rest of the 23W over the quarter with a similarly temporal tightening in March followed by a deterioration in April and May. The number of people moving into Tokyo during this period has halved compared to previous years, and the inflow of new residents was not enough to counterbalance the outflow, hence reducing the demand for housing in the region. Furthermore, the prolonged state of emergency has likely caused residents to forego the renewal of their leases or take the opportunity to move somewhere else. Considering the current situation, it is clear that the 23W has lost some of its shine, partly as a result of the higher prevalence of remote work policies in Tokyo. In truth, the occupancy rate in the 23W may take time to recover if the pandemic, and the subsequent uptake in remote work policies, linger. That said, the accelerated pace of vaccinations in Japan should further fuel the optimism that a post-pandemic era should be swiftly approaching.

**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 75% or more of the 23W area’s rental listings. Unlike other major global cities such as London and New York, house or apartment sharing does not form a major segment of the rental market. As a result, there is a large, stable market for small- to mid-sized units.

Condos and apartments measuring 15-30 sq m account for the vast majority of available units in the C5W. Having previously warranted a clear premium over their larger counterparts when looking at rents per sq m, since 2020, things have reversed. Nonetheless, no size band was immune from the downtrend in rents this quarter. Looking closely at each size band, the smallest group saw a decline of 2.0% QoQ which was slightly higher than the average change seen

in the C5W as a whole. Historically, these units are the most popular amongst single office workers and university students, with interest particularly high during the spring season where many of this demographic move to Tokyo, although there were admittedly fewer people moving to the capital this year compared to previous years.

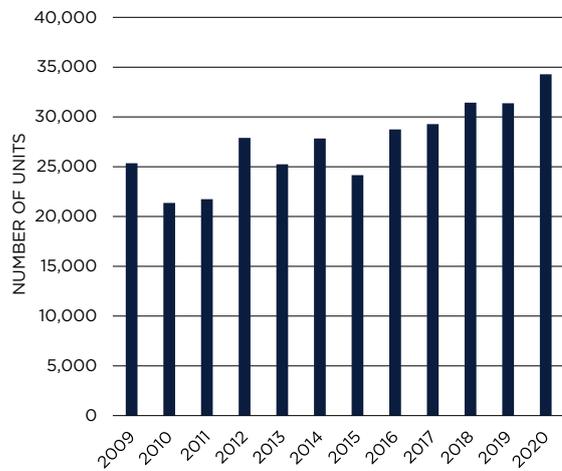
The two larger bands of 30-45 sq m and 45-60 sq m saw a decline of 2.9% and 1.8% respectively. Despite the downturn seen this quarter, average rents for these two bands are still higher than the levels seen two years ago. Indeed, the landscape has noticeably changed since then with the pandemic boosting demand for larger units that are better able to accommodate remote work, and more time at home in general. This transition in preference is particularly evident when looking at the average size of available units on the market – the average size of rentable units has decreased from around 32 sq m in Q2/2020 to below 30 sq m this quarter, with the total number of available listings significantly increasing. These observations suggest that smaller units are less in demand and have seen their popularity dwindle. Going forward, larger units are likely to remain in vogue as flexible work policies become entrenched in working culture, at least for some people.

**DEMOGRAPHIC ANALYSIS OF TOKYO**

Much has been observed in Tokyo since the onset of the pandemic one year ago. From the escalation of COVID-19 cases resulting in multiple state of emergencies and the increased adoption of remote work measures, right through to the K-shaped recovery of the economy, these changes have influenced the movement of people in Tokyo and have played a large part in shaping the demographics of the prefecture. The landscape of the residential market has markedly changed as a result.

From its peak of 14 million seen in May 2020, Tokyo’s population has decreased by around 40,000 residents. Initially, the root of this decline was the decrease in the foreign resident population. However, this was then followed by a similar outflow of the Japanese population between September 2020 and March 2021. While the population did see an increase during April and May 2021, the peak moving season in Japan, the number of people moving into the prefecture was less than half of the levels seen in 2019 and 2020. As such, the 23W is unlikely to see any further large increases in its population this year, and this may have an impact on the overall demand in the residential sector. All that said, this decline was not evenly spread throughout the prefecture (Map 2). Specifically, while a majority of the 23W saw its population decline, many cities to

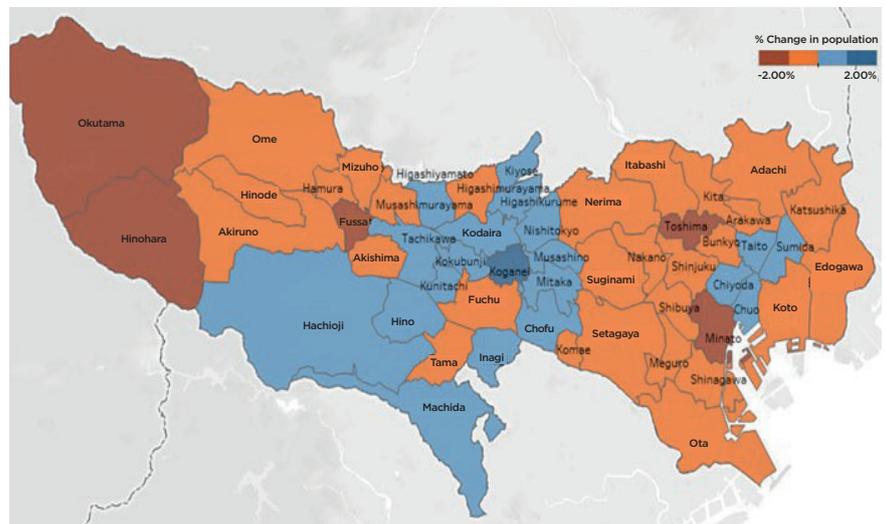
**GRAPH 7: Rental Condo Starts, 2010 to 2020\***



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

\*Estimated based on the number of rental units built using Steel Reinforced Concrete Construction and Reinforced Concrete Construction.

**MAP 2: Population Change in Tokyo Prefecture, May 2020 to May 2021**



Source Tokyo Metropolitan Government, Savills Research & Consultancy

the west of Tokyo saw an increase in the number of residents. Indeed, the prevalence of remote work policies has somewhat lessened the appeal of living in the 23W, and instead has provided the necessary impetus for some to move to other regions where they can afford larger apartments or enjoy a different lifestyle.

Population changes in the C5W, meanwhile, have exhibited some diverging trends. The two least populated wards, Chiyoda and Chuo, both saw increases in their population from May 2020, and were two of the four wards in the 23W to do so. As mentioned previously, the fact that residents of these wards often work in the area and have higher incomes may go some way in explaining this diverging trend. Throughout the pandemic, offices in Chiyoda and Chuo were generally the least impacted, and its residents had therefore less of a reason to move. On the other hand, the remaining members, Shibuya, Shinjuku, and Minato all saw their populations shrink over the past year partly due to their above-average percentage of foreign residents. Hence, these three wards should see their populations increase as foreign residents return to Japan – likely next year – increasing demand for residential assets accordingly.

Overall, the demographic changes seen in the C5W have been relatively moderate, and some reversal of the population decline seen in select wards could be in sight. Conversely, the same cannot be said for the rest of the 23W, where populations have notably dwindled, consequently weakening demand for residential units in the area. At the same time, the number of rental units in Tokyo has been climbing in recent years due to the greater difficulty in securing suitable plots of land to construct for-sale condos. This, in combination with the weakening demand, may cause rents to correct in the 23W. Nonetheless,

with the uptake in vaccinations accelerating and COVID-19 becoming more manageable towards the end of the year, we may start to see some residents move back to the 23W, especially if companies are keen to have their employees back in the office.

**OUTLOOK**

Having seen a slight recovery in Q1/2021, average rents in the 23W are back in correction territory this quarter – slipping to levels not seen since Q1/2019. Despite this recent slump, the Japanese economy has been demonstrating some encouraging signs of recovery since Q3/2020, and the downward pressure that the pandemic has brought appears to have been somewhat alleviated.

The overall downturn observed in the multi-family residential sector can be attributed to two key factors. Firstly, the lingering lukewarm market sentiment, and secondly, the demographic changes seen in Tokyo. Looking at the latter, the population of the 23W has clearly been negatively impacted by the pandemic, with many residents having moved out to neighbouring cities, including those in west Tokyo. Unsurprisingly, the flexible work policies and lifestyle changes that have arisen from the pandemic appear to have had a significant influence in the increasing demand for larger apartments, which are considerably more affordable outside the 23W.

To that end, the residential market may see some further softening ahead. For instance, whilst the C5W maintains its popularity with current residents, smaller units that would have been occupied by employees moving to Tokyo have seen a drop-off in demand, as evidenced by the average size of rentable units in the area contracting. In addition, the significant increase in the number of listings after the peak moving season may suggest that market in Tokyo is

weaker than expected. To make matters worse, this softening of demand will be joined by an upcoming increase in supply. Specifically, the number of rental condos started in the past few years has been increasing, and several rental condos built between 2019 and 2020 are likely to come online in 2021. To be sure, these newly built condos are likely to be popular, yet they will no doubt apply some downward pressure on the residential sector at large.

Despite the gloomy backdrop, there remains some hope for the Tokyo residential market. For starters, the rental market should see a boost in demand as prices of for-sale condos continue to be stretched higher – itself driven by the increase in the purchasing power of dual-income households. Indeed, this is likely to have some legs considering that more widespread ESG policies should promote the participation of female professionals in the workforce. Meanwhile, despite some early teething issues for the national vaccination push, the Japanese government has significantly ramped up its efforts recently. This, coupled with the COVID-19 situation somewhat coming under control in many countries around the world, adds to the confidence that the end is near for the pandemic, and under this situation, some of the trends observed during the pandemic are likely to be reversed to an extent.