MARKET IN MINUTES
Savills Research

Residential Leasing

Stable performance with bright prospects

Strong migration trends should bring about further improvements.

- Average rents in the Tokyo 23 wards (23W) corrected marginally by 0.2% quarter-on-quarter (QoQ) to JPY4,229 per sq m, although sit 4.8% higher on a year-on-year (YoY) basis.
- On the other hand, rents in the central five wards (C5W) increased by 0.7% QoQ and 5.5% YoY to JPY5,063 per sq m.
- The C5W rental premium over the 23W average increased moderately to 19.2%.
- In the C5W, Shinjuku, Minato, and Chuo saw the most significant quarterly increases of 2.2%, 1.7% and 1.0%, respectively, while rents in Shibuya contracted by 1.8% QoQ. Overall, yearly growth among all wards in the C5W continues to perform well.
- Average rents for smaller units in the C5W in the 15-30 sq m size band increased at the largest rate in consecutive quarters, by 0.8% QoQ, while average rents for larger units in the 45-60 sq m size band decreased by 1.3% QoQ, indicating that proximity and access are becoming greater priorities.
- Average occupancy rates in the 23W loosened by 1.0 percentage points (ppts) QoQ to 96.2%, while falling marginally by 0.4ppts on an annual basis. Occupancy in the C5W also loosened moderately by 0.8ppts QoQ to 96.1%.
- Tokyo prefecture's population has grown between 2019 and 2024, with foreign nationals comprising a greater proportion of new entrants.

"Following the strong rental growth in the previous quarter, the 23W market posted a marginal quarterly rental correction, while the C5W experienced moderate rental growth in Q2/2024. This spring moving season brought a large net increment of over 65,000 people to the Tokyo 23W, while increasing office attendance and recent robust wage growth should also contribute to strong and stable rental demand."

SAVILLS RESEARCH & CONSULTANCY

Savills team

Please contact us for further information

JAPAN

Jon Salyards
Managing Director, Institutional Investment Advisory
+81 3 4330 3266
jsalyards@savills.co.jp

Andy Hurfurt
Managing Director, Institutional Investment Advisory
+81 3 4330 3328
ahurfurt@savills.co.jp

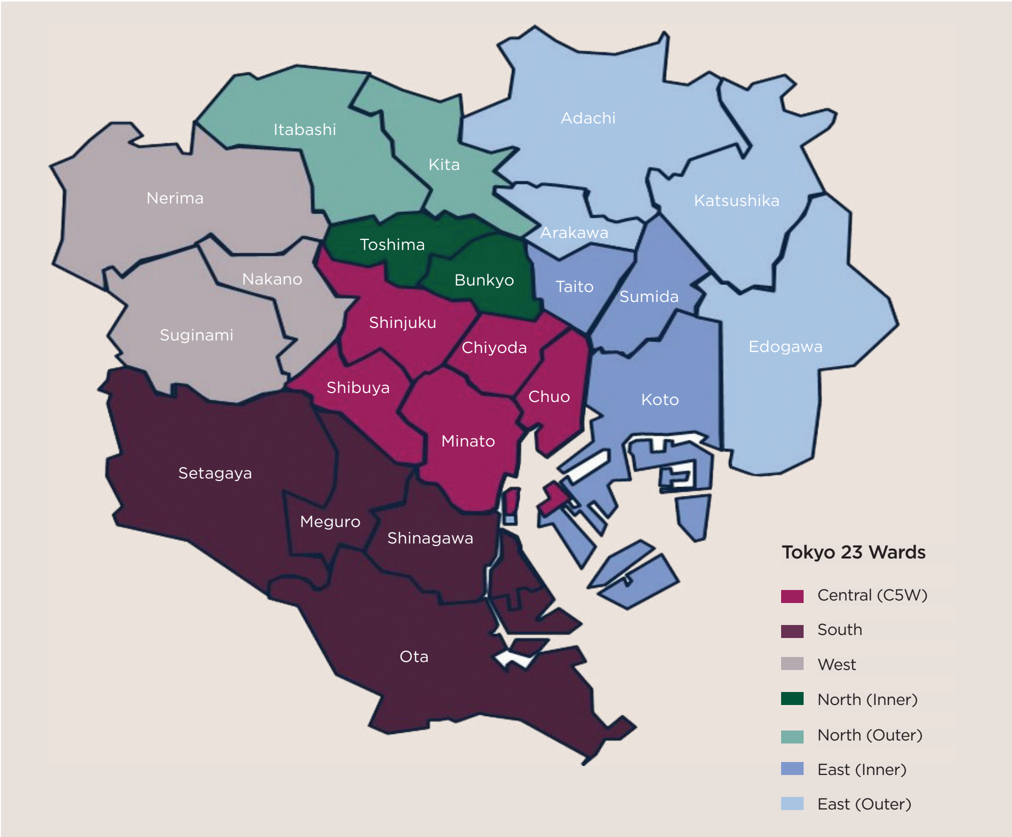
RESEARCH

Tetsuya Kaneko
Managing Director, Head of Research & Consultancy, Japan
+81 3 4330 3103
tkaneko@savills.co.jp

Bryan Kuek
Manager, Research & Consultancy, Japan
+81 3 4330 3104
bkuek@savills.co.jp

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

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 corrected marginally in Q2/2024, though the C5W saw some moderate rental growth over the quarter. That said, this followed a period of robust growth in the previous quarter, so a temporary pause was a distinct possibility.

Tokyo welcomed a large net influx of over 65,000 new residents between March and May 2024, exceeding that of the same period in previous year, and cementing the arrival of Tokyo to a normalised state of affairs. With more companies pushing for greater rates of office participation, many workers appear to be choosing to live more centrally, with less of an emphasis on larger living spaces in order to be closer to their workplaces. Among these new entrants, foreign nationals comprise an ever-growing proportion, who tend to rent and often prefer more centrally located residences, and the sustained growth of this demographic should become a more prominent driver of demand in the 23W rental market moving forward.

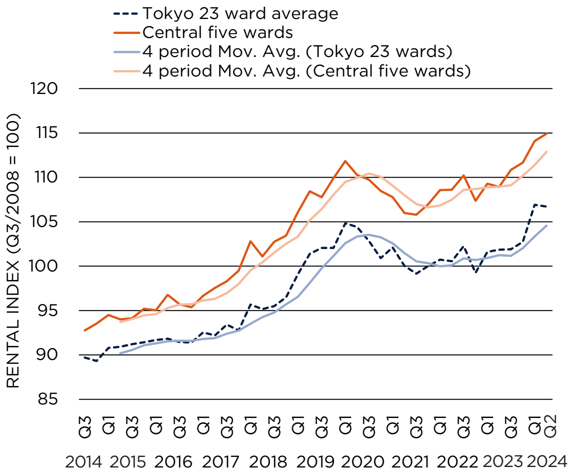
In addition to demographic factors, record corporate profits led to robust wage increments, which could support demand for units in the 23W. Meanwhile, prices in the for-sale market remain at elevated levels, and some pockets of demand appear to have consequently shifted towards the rental market. That said, many households on modest incomes are likely feeling the pinch of inflation and higher average rents, thus some demand should remain for more affordable units in outer wards of the 23W and surrounding prefectures. This is especially the case in the context of still negative real wages, which are likely to become positive only after the summer.

The situation appears positive in the Tokyo 23W residential leasing market. The level of net migration during this spring moving season demonstrated Tokyo's appeal among residents, and its socio-economic clout will continue to lure new migrants, while aforementioned macroeconomic trends look to develop further moving forward. Overall, these factors point to sustained rental growth over the coming year.

MID-MARKET RENTAL TRENDS BY SURVEY AREA

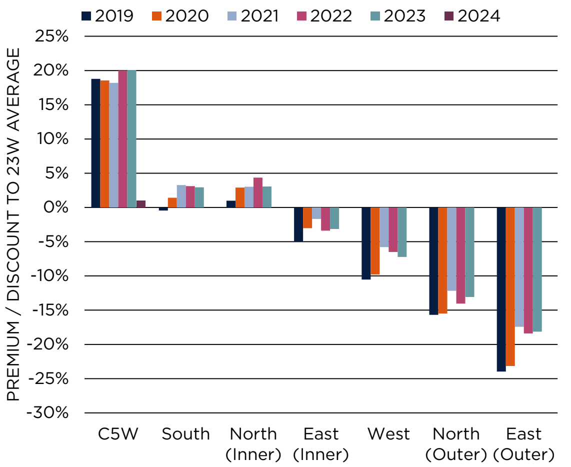
Following the period of strong rental growth in the previous quarter, which elevated the Tokyo 23W residential leasing market to new highs, the market appears to remain firm in Q2/2024. Though there was some slight variation by submarket, average rents in the wider 23W market were stable overall, dipping by 0.2% QoQ to JPY4,229 per sq m, while rents in the C5W managed to keep following a growth trajectory, reaching a record JPY5,063 per sq m, at a modest quarterly increment of 0.7%. Overall, rents among all submarkets in the 23W sit comfortably above their respective pre-pandemic levels and appear poised for further growth. This stability has been underpinned by strong demographic trends during the spring moving season, with a net increase in population of over 65,000 new residents between March and May 2024. This was notably larger than that of the previous spring moving season and was likely supported by both the growing normalisation of workstyle trends, as companies in Tokyo increasingly mandate a return to offices (Graph 4), in addition to sustained immigration, with foreign nationals comprising almost a third of this net influx. Furthermore, interest in the rental market should continue to be bolstered by

GRAPH 1: Mid-market Apartment Rental Index, Q3/2014 to Q2/2024



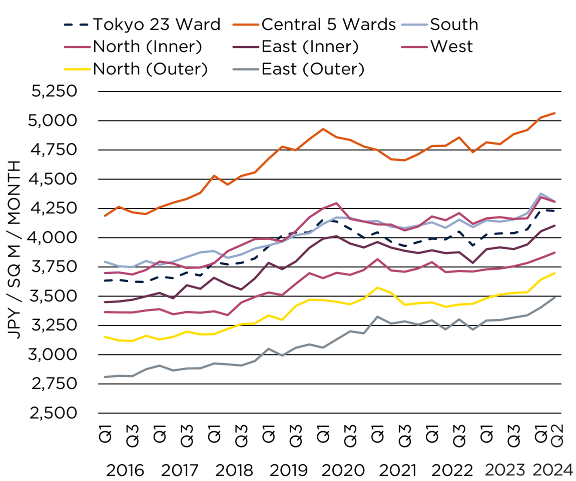
Source Savills Research & Consultancy

GRAPH 2: Rental Premiums/Discounts* vs 23W Average, 2019 to 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 Q2/2024



Source Savills Research & Consultancy

demand from residents that have been priced out of the for-sale condominium market, which has witnessed unabated inflation over recent years, largely due to elevated materials, construction, and land prices. Overall, Tokyo's undisputed appeal among residents for its employment, education, and entertainment offerings should underpin further rental growth and improvements in occupancy.

The C5W enjoyed moderate growth in Q2/2024, with average rents increasing by 0.7% QoQ to JPY5,063 per sq m. Indeed, centrally located residences in Tokyo have been extremely popular in the post-pandemic period, which can be reflected in average rental levels having exceeded pre-pandemic levels by a notable margin. Shinjuku and Minato witnessed the largest quarterly rental growth at 2.2% and 1.7%, respectively, while Chuo and Chiyoda also made further quarterly improvements, at 1.0% and 0.7%, respectively. Shibuya's average asking rents contracted by 1.8% QoQ, although this counterintuitively appears to be a sign of strong demand. Indeed, the number of available units, especially newer ones with higher rents, has decreased by a significant amount, suggesting that this contraction can be largely attributed to many premium units being taken off the market, lowering average listed rents. Owing to its proximity to workplaces, availability of public transport and amenities, and premium status within Tokyo, the C5W submarket's appeal as a residential area looks to continue, demonstrated by its net influx of over 10,000 residents between March and May.

On the other hand, average rents in the South submarket decreased moderately by 1.5% QoQ to JPY4,308 per sq m in Q2/2024, following the significant rental growth experienced in the previous quarter. All constituent wards in the South submarket recorded rental contractions, the most notable of which took place in Meguro and Ota, at 3.0% QoQ and 1.8% QoQ, respectively. Nevertheless, the situation is more positive when viewed on an annual basis, with average rents in the South submarket in Q2/2024 around 4.1% higher than those in the same period in 2023. Considered a popular residential submarket, the South recorded a large net population inflow of over 15,000 people between March and May, a large proportion of whom moved to Ota and Setagaya wards. All in all, the South submarket remains a popular choice for renters, due to its close proximity and convenient access to many central business districts, while simultaneously boasting many quiet, liveable neighbourhoods with plenty of green space.

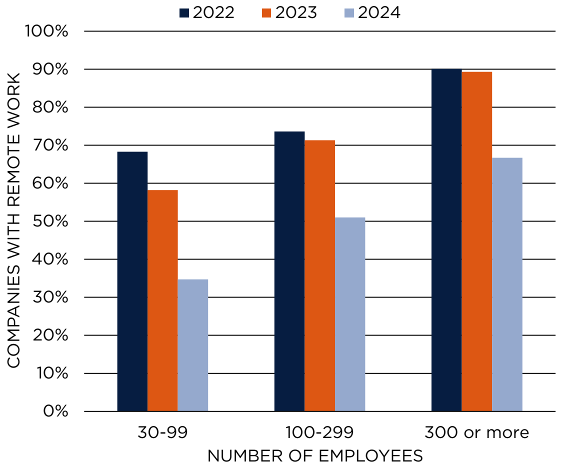
Similar to the South submarket, the Inner North recorded a modest rental contraction, following strong growth in the previous quarter. On a quarterly basis, average rents fell by 0.9% to JPY4,307 per sq m, although sit at 3.2% higher on a yearly basis. Rents in both Bunkyo and Toshima contracted by 0.9% QoQ. In particular, Bunkyo has been receiving positive attention, having enjoyed strong population growth compared to pre-pandemic times. Indeed, rents in Q2/2024 are 4.2% higher than those of the previous year, and a large number of new units were introduced to the ward during Q2/2024, which should be well received and signal confidence in the trajectory of the local residential market. Overall, the Inner North submarket recorded moderate population growth in Q2/2024, benefitting both from its close proximity to central business districts such as Ikebukuro, Shinjuku, and Chiyoda, and from its residential atmosphere, which offers various amenities, several public parks, and leading educational institutions, and should remain a popular option for residents.

Rents in the Inner East submarket grew by 1.2% QoQ in Q2/2024 to JPY4,102 per sq m, while sitting 4.7% higher on a yearly basis. Rental growth was evenly spread between constituent wards, increasing by 1.4% QoQ in Koto, by 1.1% QoQ in Taito, and by 1.0% in Sumida. The Inner East attracted a net influx of nearly 5,000 people between March and May, though this was moderately lower than the spring migration trend in 2023. Nonetheless, the market remains a popular and affordable alternative to living in the C5W, with strong public transport connections to central Tokyo, and a slew of new residential developments should reinforce its strong appeal among workers and residents going forward.

Likewise, average rents in the West submarket increased by a moderate 1.2% QoQ to JPY3,872 per sq m, translating to a yearly increment of 3.6%. At the ward level, Nerima witnessed the largest quarterly rental growth at 2.1%, while Nakano and Suginami also enjoyed positive growth at 0.9% QoQ and 0.6% QoQ, respectively. Indeed, the submarket welcomed a large net influx of 12,000 residents between March and May, among the largest in the 23W market, and remains a popular choice for residents due to its convenient public transport links to central business districts, while retaining a liveable suburban atmosphere, with plentiful access to green space and schools.

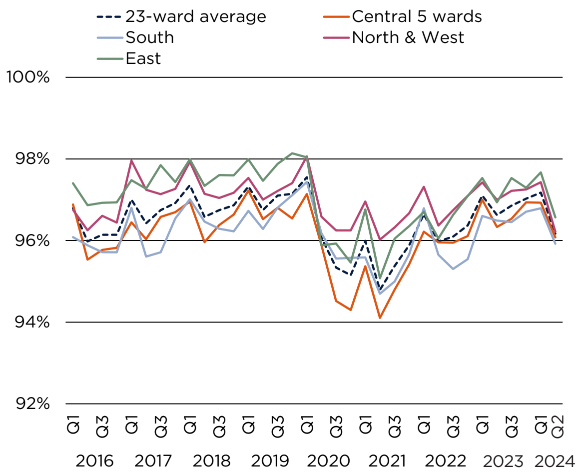
The Outer North recorded another quarter of sound rental growth at 1.5% to JPY3,696 per sq m, translating to an annual increment of 5.2%, and sits firmly above its average pre-pandemic level. A majority of

GRAPH 4: Percentage of Companies in Tokyo that Implement Remote Work by Number of Employees, 2022 to 2024*



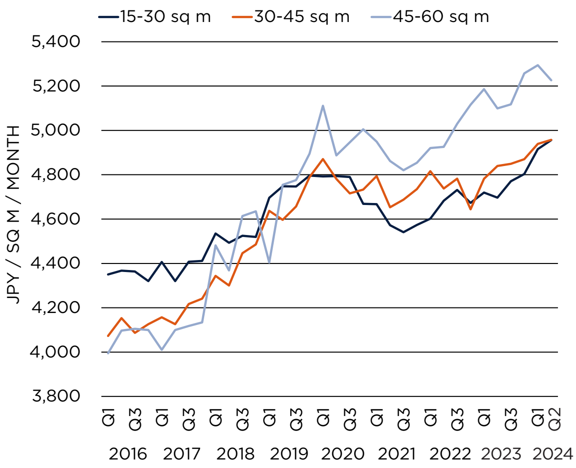
Source Tokyo Metropolitan Government, Savills Research & Consultancy
* Data was taken in March of each respective year

GRAPH 5: Average Occupancy for J-REIT Residential Assets, Q1/2016 to Q2/2024*



Source Savills Research & Consultancy
* Q2/2024 is as of May 2024

GRAPH 6: Rents by Unit Size, C5W, Q1/2016 to Q2/2024



Source Savills Research & Consultancy

this growth took place in Kita ward, where rents grew by 2.3% QoQ, while average rents in Itabashi also increased by 0.5% QoQ. The submarket benefits from a stable supply of quality residential units, with new residences completed within the past 12 months currently comprising a large proportion of the total available stock and should be a particular draw for potential residents. Overall, the Outer North enjoyed encouraging net migration of 7,500 residents between March and May, and remains an ever-popular, affordable choice for renters.

Lastly, the Outer East submarket experienced the largest rental growth among the Tokyo 23W submarkets, at 2.4% QoQ to JPY3,488 per sq m, also recording the greatest annual increment at 5.8%. Katsushika ward saw the largest increment in rents at 5.9% QoQ, with a large increase in the number of above average units available on the market over the past quarter. The Outer East enjoyed a large population increment of over 12,000 people between March and May, and it is likely that this heightened population has accelerated rental growth in the submarket. Indeed, as the submarket with the cheapest average rents in the 23W, the Outer East is a popular option for those on more modest incomes, who have felt the effects of inflation more acutely, and for families who seek greater amounts of living space. Moreover, given the ever-increasing price of for-sale units in Tokyo, residents priced out of buying have likely strengthened the demand for rental units, which should be a positive sign for the growth trajectory of the residential leasing market looking ahead.

OCCUPANCY RATES

Occupancy rates in the Tokyo 23W loosened moderately by 1.0ppts QoQ to 96.2% in Q2/2024, while decreasing by 0.4ppts on a yearly basis. Similarly, the occupancy rates in the C5W submarket loosened by 0.8ppts QoQ to 96.1%, likewise translating to an annual decline of 0.2ppts. That said, these downticks in occupancy appear in line with the past annual cycle.

The Tokyo 23W market saw a net influx of over 65,000 new residents between March and May 2024, a notably larger figure than the previous year. Indeed, living closer to central areas has become more of a priority in the post-pandemic Tokyo market, given the phasing back of flexible work arrangements. Moreover, Japanese corporate performance has been strong over the past year, with many companies reporting record profits, leading to robust wage growth in 2024, which should boost interest in moving to the Tokyo 23W.

In addition, the foreign population continues to grow in earnest, with nearly a third of the total net population influx to the Tokyo 23W between March and May comprising non-Japanese nationals. This looks to continue unabated as Japan welcomes more foreign workers in order to deal with the labour crunch situation. Overall, while average occupancy rates in Q2/2024 are still slightly shy of the pre-pandemic level, the market has made consistent progress over the past year, and we predict that this positive momentum should continue in 2024 with some further improvements in occupancy rates a possibility.

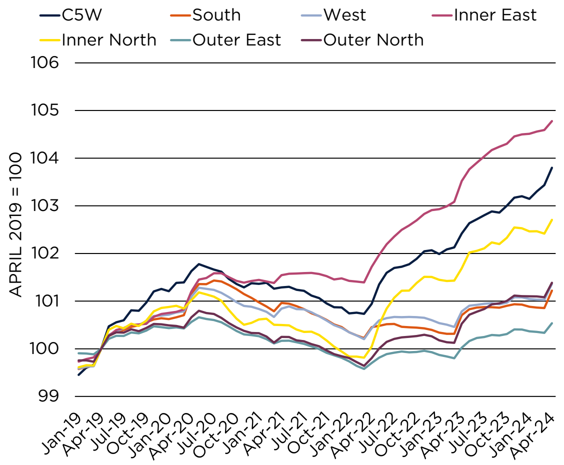
RENTS BY UNIT SIZE

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 Western major global cities such as New York and London, 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.

Larger units of the 45-60 sq m size band in the C5W retain a notable premium in terms of average rents over smaller categories. However, average rents for such units contracted by 1.3% QoQ in Q2/2024, causing this premium to shrink over the quarter. Indeed, there was a modest increase in the number of available units in the larger size band, suggesting that such units have somewhat fallen out of favour for the meantime. Indeed, with growing rates of office participation, home offices may have become less of a priority for residents. Moreover, larger units that have been rapidly becoming more expensive might appear overpriced.

On the other hand, units in the smaller 15-30 sq m size band and medium 30-45 sq m size band have continued to perform well on a quarterly basis, with average rents increasing by 0.8%, and by 0.4%, respectively. More workers appear to be moving closer to central business districts with the phasing back of flexible work arrangements. Moreover, with many young professionals migrating as part of the spring moving season, demand for cost-effective smaller units nearer to their places of work appears to have become particularly strong, as demonstrated by the nearly 10% drop in the number of available smaller units over the quarter. Overall, the demand for units of all size bands in the C5W remains strong and should be bolstered by both the phasing back of flexible work arrangements in addition to multiple mixed-use redevelopment projects that should improve the liveability of Tokyo's central wards.

GRAPH 7: Tokyo 23W Population by Submarket, January 2019 to April 2024



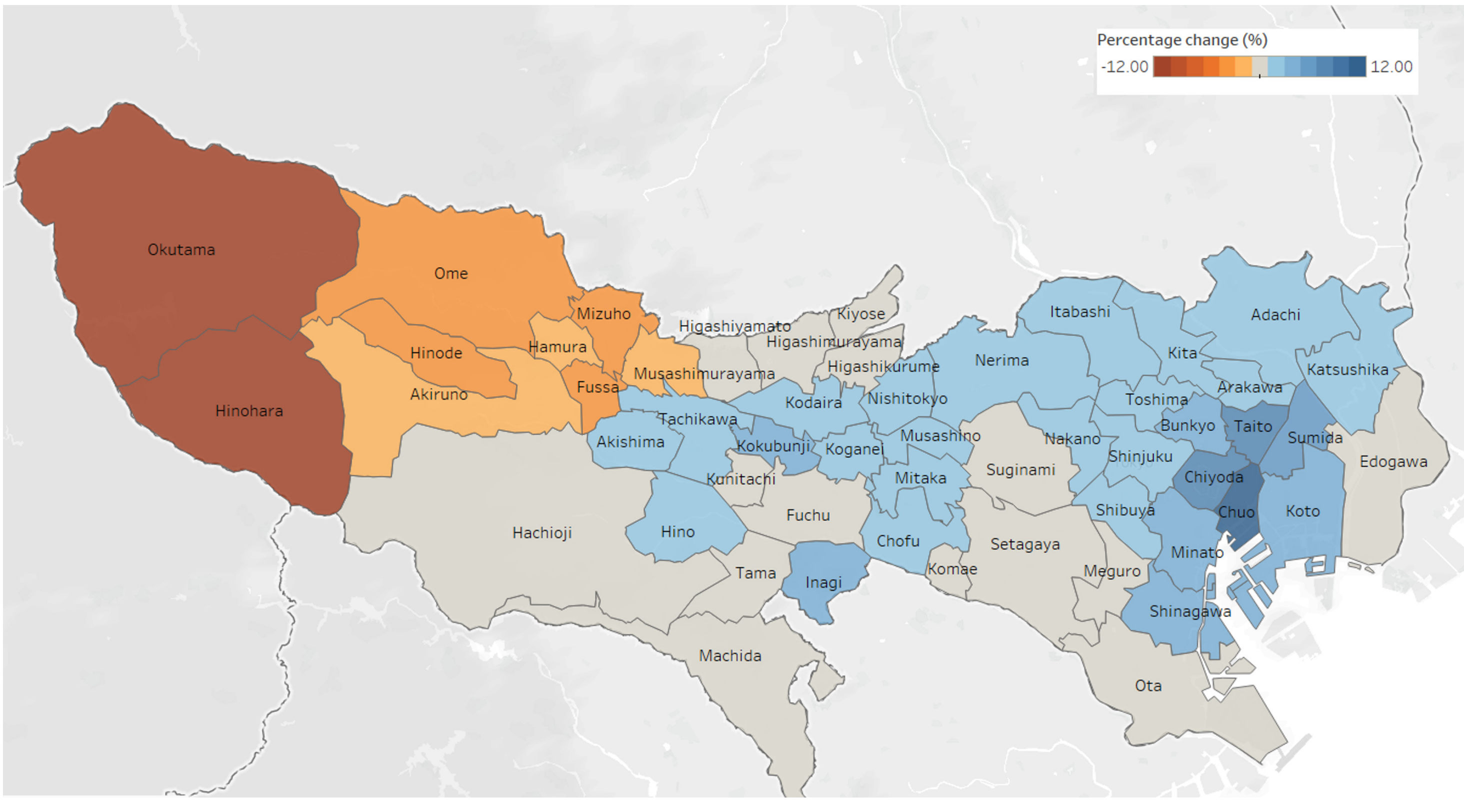
Source Tokyo Metropolitan Government, Savills Research & Consultancy

DEMOGRAPHIC TRENDS IN TOKYO

Tokyo 23W's population has grown from 9.6 million in May 2019 to 9.9 million in May 2024. As the economic powerhouse of Japan, the city has seen strong growth as it is able to attract large numbers of young migrants in search of employment and education opportunities. Within the 23W, some submarkets have demonstrated considerably stronger population growth than others. Indeed, recent population trends have seen greater focus on the Inner East, the C5W, and the Inner North submarkets. More specifically, on Chuo, Chiyoda, Taito, Sumida, and Bunkyo. Looking ahead, other major large-scale projects in Yaesu and Nihonbashi, together with Torch Tower in Tokiwabashi, which will serve as another centrepiece of the redevelopments in the area, should generate further interest in Chuo ward and surrounding areas as a place to live.

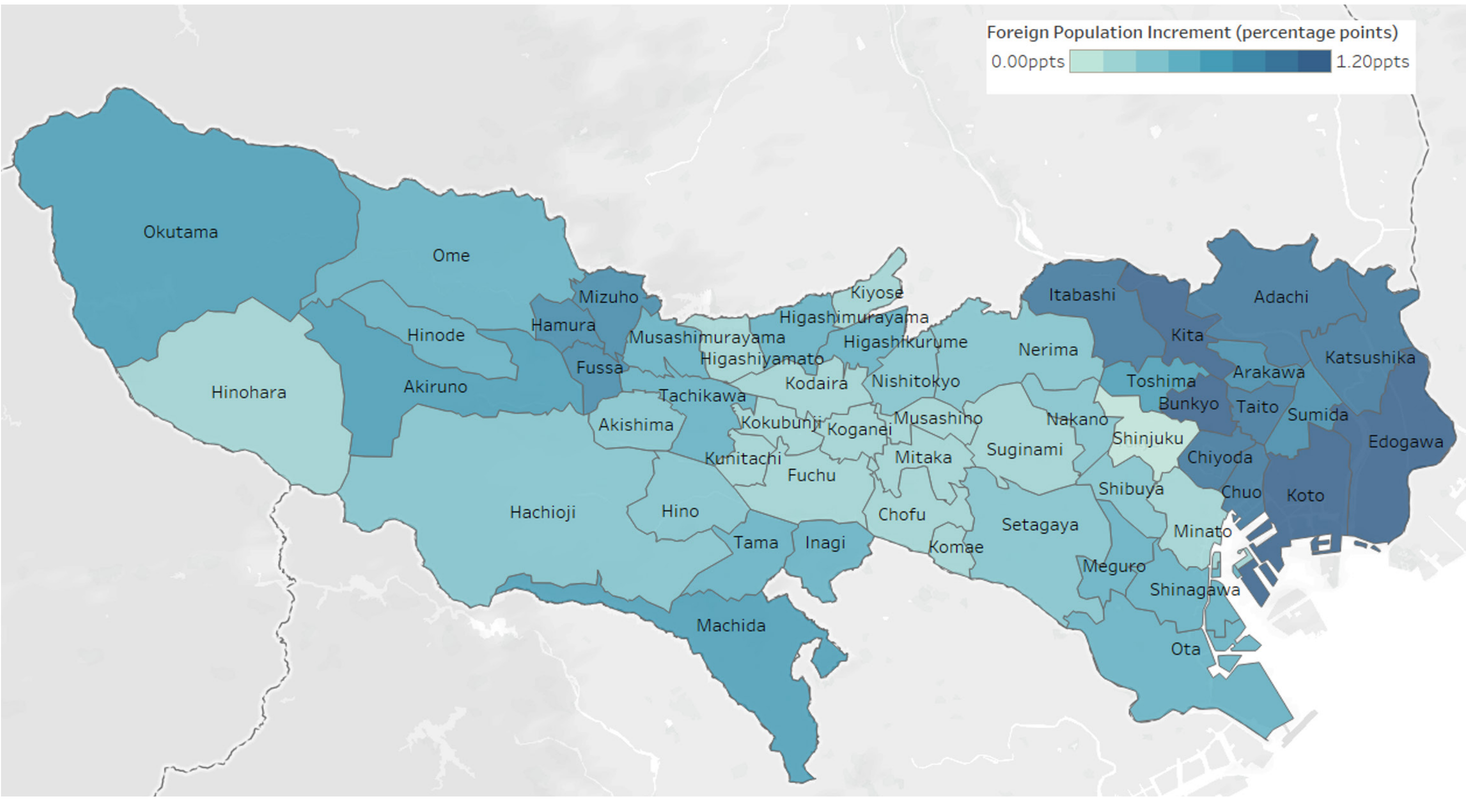
Meanwhile, other wards surrounding central areas have also seen amicable population growth, although many constituents in the South submarket, namely Setagaya, Ota, and Meguro, and the West submarket's Suginami have performed below average. Elsewhere, the Outer East submarket has seen the slowest population growth between January 2019 and April 2024 (Graph 7). Indeed, the post-pandemic environment appears to have shifted most of the attention back to central areas, probably due to a combination of dwindling levels of flexible work arrangements and the post-pandemic environment breathing life back into central business districts. That said, some cities west of the 23W have seen commendable population growth between 2019 and 2024, like Kokubunji at 3.7%, and Inagi at 3.4% - almost on par with the C5W average. Many other cities in Tokyo have also performed around the same level as peripheral members of the 23W. Indeed, some paradigm shifts that materialised during the pandemic like greater preferences for larger room sizes appear to continue lingering, and inflationary pressures may have driven some to seek such apartments that are more affordable in areas away from central locations. Going forward, the central wards will likely receive the lion's share of attention.

MAP 2: Tokyo Population Change, April 2019 vs April 2024



Source Tokyo Metropolitan Government, Savills Research & Consultancy

MAP 3: Tokyo Foreign National Population, Change in Proportion of Foreigners by Constituency, April 2019 vs April 2024



Source Tokyo Metropolitan Government, Savills Research & Consultancy

In addition, foreign nationals have grown to become an integral component of this population growth. In January 2019, there were around 550,000 foreign nationals in Tokyo prefecture or 4.0% of the population, which has grown to almost 650,000 in January 2024, comprising 4.6% of the population. In fact, the National Institute of Population and Social Security Research forecasts suggest that by 2035, more than 10% of people in Japan between 18 and 34 years old will comprise foreign nationals, up from 5.7% in 2020. In this light, Tokyo is likely to attain this level much faster than the national average. As seen in Map 3, strong performers include eastern and northern submarkets, along with a few members of the C5W, which have seen the largest changes in terms of proportion of foreign nationals relative to the total population. One prominent factor at play could be the cluster effect where people of similar backgrounds tend to congregate in the same area, and this manifestation could further propagate the foreign national populations of these areas.

Overall, we predict that Tokyo's population will continue to grow moving forward. While Japanese nationals will continue to congregate in the capital, it appears that foreign migrants will likely comprise an increasing proportion of this growth, with a particular concentration in central and east Tokyo. Furthermore, many of these residents will likely be renters, which should shore up demand in the rental residential market and raise the prospects for further rental growth. For a more detailed analysis of Tokyo's demographic outlook, please refer to our "A Closer Look at Tokyo Demographics" report.

OUTLOOK

This spring moving season has been a welcome development for the market. Net migration between March and May 2024 has exceeded that of the same period in 2023, as well as the pre-pandemic level. In particular, the foreign national population has been comprising a growing proportion of this net population growth, which looks to become an ever larger driver of demand in the sector.

Several factors look to be tailwinds for the Tokyo residential leasing market moving ahead. Firstly, companies in Tokyo appear to continue phasing out flexible work arrangements, leading to higher office attendance. With this shift, a greater emphasis will likely be placed on smaller units that are more cost effective, rather than requiring large residences for creating home offices. Furthermore, workers will likely choose locations with better connection and easier commutes to central districts, hence bolstering rental demand in more centrally located submarkets, with the C5W market seeing sustained rental growth over the quarter. Secondly, recent robust wage growth in Tokyo is positive, off the back of record corporate profits over the past year, and real wage growth is likely to become positive soon. Moreover, heightened for-sale condominium prices will likely divert some new demand towards the rental market, raising the prospects for sustained rental growth. Admittedly, while the average price of for-sale condominiums in Tokyo 23W recently sees a dip from last year, this is because 2023 saw several exceptionally expensive units came to the market, propping up the average price level. Indeed, prices are expected to remain at elevated levels due to a combination of inflation, sound demand, and the strong balance sheets of developers that have little incentive to discount prices. As such, many people will still likely be priced out of this market.

Though heightened materials, construction, and land prices threaten to eat away at developer and investor bottom lines, the broad room for growth in the residential leasing market indicates that rental growth should be meaningfully larger. Overall, prospects are bright for the Tokyo 23W rental residential market. Although the market has encountered a temporary pause in Q2/2024 after previous quarters of strong growth, this should be considered a normal annual cycle. Furthermore, Tokyo's stable economic and demographic fundamentals should help the market to perform well over the course of the year.