

Residential Leasing



Strong growth continues

Strong demographics and stable economic fundamentals are helping underpin positive performance in the Tokyo market.

- **Average rents¹** in the Tokyo 23 wards (23W) increased by 0.9% quarter-on-quarter (QoQ) and 8.4% year-on-year (YoY), reaching JPY4,586 per sq m. Most wards saw moderate quarterly rental growth even after the robust gains seen in Q1/2025, while annual rental growth was notable across all constituent wards.
- Average rents in the central five wards (C5W) grew by 0.4% QoQ and 9.5% YoY to JPY5,545 per sq m.
- The C5W rental premium over the 23W average fell by 0.3 percentage points (ppts) QoQ to 21.2%.
- Chiyoda recorded the largest rental growth of 4.6% QoQ, while Shibuya rents increased slightly by 0.5% QoQ. On the other hand, the rest of the C5W constituents posted modest quarterly rental corrections, which should just be temporal.
- The rental gap between larger and smaller units appears to remain in a narrow position, with recent well-balanced supply.
- Average occupancy rates in the 23W increased by 0.4ppts QoQ to 96.5% while the C5W decreased by 0.3ppts over the quarter at 95.8%.

“Rental growth continues and prospects remain positive. Tokyo’s fundamentals are strong, with the peak spring moving season heralding a large net influx of new residents, bolstering rental demand. Multiple factors such as heightened for-sale condominium prices, limited new supply, strong wage growth, and elevated office participation, should underpin consistent rental growth.”

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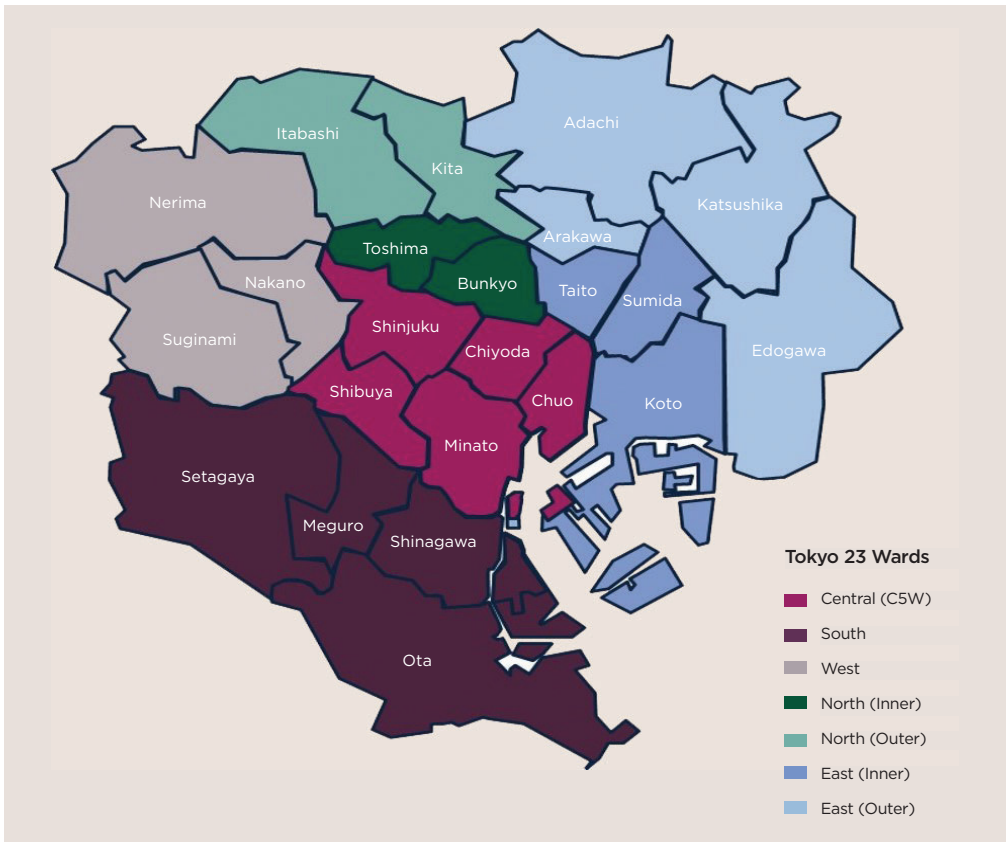
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Savills plc
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¹ These are reference figures. Please refer to the **Note** on the next page for further information.

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.

Note: We have consistently applied this methodology for over a decade, and we believe it has provided reliable indicators of the market. That said, the current strong market may present rental growth figures that appear more robust than reality. Therefore, readers should interpret these figures as indicative rather than definitive.

While it is evident that the market remains strong, our monitored portfolio tracks a sample of the overall market, and as such, the extent of rental growth reflected here may not fully align with actual conditions. For this reason, we encourage readers to exercise their own judgment when assessing rental growth, rather than relying on the figures presented.

OVERALL RESULTS

Both the Tokyo 23W and C5W recorded modest rental growth in Q2/2025, which was witnessed in a majority of constituent wards, and annual rental growth has remained impressive. Tokyo's strong market fundamentals should support bright prospects for the residential sector, on top of historic wage growth and moderate sustained inflation proceeding in Japan, which suggests that there should be more room for rental growth moving forward.

For instance, Tokyo's positive demographic situation has contributed significantly to ongoing strong demand. Indeed, this year recorded a large influx of migrants during the spring peak moving season seeking work and educational opportunities, supporting strong residential demand. Among these movers, foreign nationals have continued to comprise a large proportion, who generally have a greater propensity to rent, which has sustained firm demand in the rental residential market.

Moreover, many movers were drawn to the outer wards within the Tokyo 23W during this period, likely due to the relative affordability of rents in these areas, especially given the current inflationary environment, which suggests that demand and rental growth should be spread across the market moving forward. Given this trend, the premium of average rents in the C5W compared to the wider 23W market decreased slightly by 0.3ppts QoQ to 21.2%.

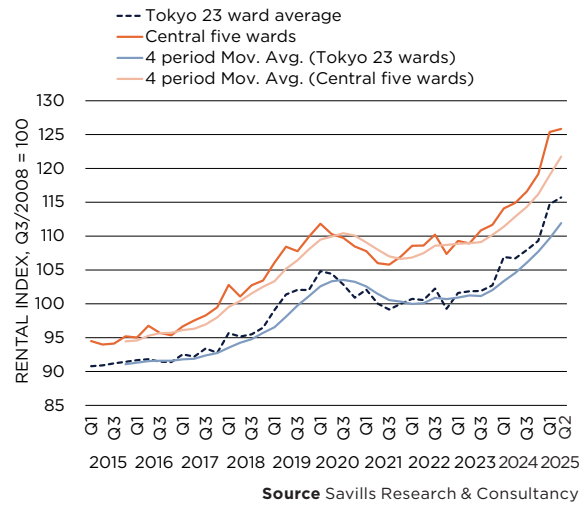
Additionally, a proportion of the strong demand seen for rental properties stems from heightened for-sale condominium prices, which reached an average price of JPY128 million per new unit as of May 2025, with many residents becoming increasingly priced out of the for-sale market. Factors such as rising construction and land costs, and subdued supply, as well as strong wage and demographic growth continue to support this momentum. Although this is a major trend, affluent buyers for properties particularly in central areas appear to be less affected by price increments, and some buyers move quickly to secure mortgages at lower rates in anticipation of further increases in interest rates.

MID-MARKET RENTAL TRENDS BY SURVEY AREA

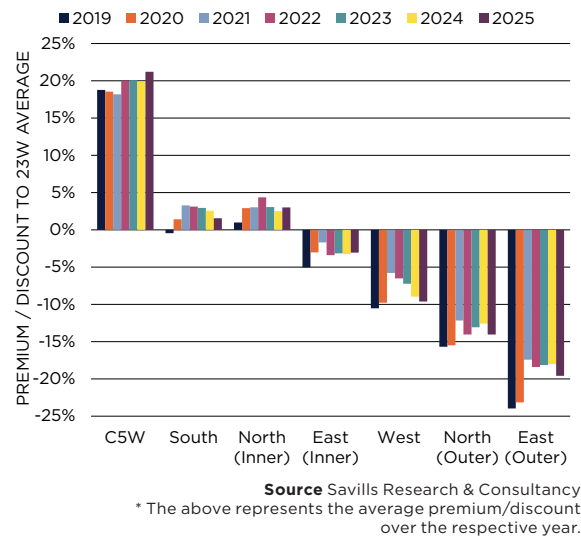
The Tokyo residential leasing market saw further growth in Q2/2025, with average rents in the 23W increasing by 0.9% QoQ to JPY4,586 per sq m, translating to an impressive annual increment of 8.4%. A majority of constituent wards enjoyed quarterly rental growth, while the entire market experienced annual growth.

The C5W market saw average rents increase by 0.4% QoQ and 9.5% YoY to

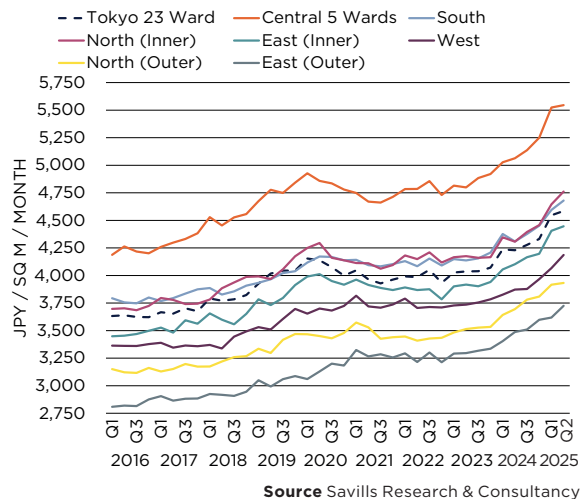
GRAPH 1: Mid-market Apartment Rental Index, Q1/2015 to Q2/2025



GRAPH 2: Rental Premiums/Discounts* vs 23W Average, 2019 to Q2/2025



GRAPH 3: Mid-market Apartment Rents, Q1/2016 to Q2/2025



JPY5,545 per sq m, a modest increment relative to the previous robust quarter. Chiyoda experienced the greatest QoQ rental increment at 4.6%, while average rents in Shibuya increased by 0.5% QoQ. On the other hand, Minato, Shinjuku, and Chuo wards saw moderate quarterly rental contractions at 0.4%, 0.6%, and 2.3% respectively. That said, this appears to be a typical annual cycle. Overall, strong annual rental growth has been observed, with some asset managers appearing to prioritise strong rental growth over achieving full vacancy soon. As such, some wards have observed a notable increase in available units over the quarter, which may raise some concerns regarding occupancy performance, although this concern appears to be short-lived.

In the South submarket, average rents increased moderately by 1.8% QoQ and 8.6% YoY to JPY4,680 per sq m in Q2/2025. Among its constituent wards, Shinagawa experienced the greatest quarterly growth at 2.3%, followed by Setagaya at 2.2%. Meguro and Ota wards grew at 1.5% QoQ and 1.2% QoQ, respectively. The Inner North submarket recorded rental growth of 2.5% QoQ and 10.5% YoY to JPY4,761 per sq m. Average rents in Toshima rose by 3.6% QoQ, while average rents in Bunkyo increased by 1.5% QoQ.

The Inner East submarket recorded average rental growth of 0.9% QoQ and 8.4% YoY to JPY4,447 per sq m in Q2/2025. Sumida's rental growth was the largest among the constituents at 1.9% QoQ, while Taito and Koto also saw quarterly rental growth at 0.6% and 0.4%, respectively. The West submarket recorded the joint highest quarterly rental growth at 2.9% to JPY4,186 per sq m, translating to an annual increase of 8.1%. Quarterly rental growth in Nakano reached 5.7%, the largest in the Tokyo 23W, while Nerima and Sugunami recorded rental growth of 1.7% QoQ and 1.1% QoQ, respectively.

The Outer North submarket recorded modest rental growth of 0.4% QoQ and 6.4% YoY to JPY3,933 per sq m. Average rents in Kita increased by 0.5% QoQ, while increasing by 0.4% QoQ in Itabashi. The Outer East submarket demonstrated its continued popularity, with rental growth of 2.9% QoQ and 6.8% YoY to JPY3,725 per sq m. Arakawa was the best performer in the quarter, with quarterly growth of 4.4%. Katsushika, Edogawa, and Adachi also saw modest rental growth of 2.4% QoQ, 2.4% QoQ, and 2.3% QoQ, respectively.

MIGRATION TRENDS

Net migration into the Tokyo 23W has reached record levels, with a net inflow of 116,000 residents in 2024, and looks to remain elevated moving into 2025. In particular, Q2/2025 comprises the spring peak moving season of new residents seeking work and educational opportunities in Tokyo, which has

supported robust net migration in 2025. That said, demographic trends differ by area, and migration flows are likely shaped by factors such as convenience and affordability.

Between March and May 2025, the Tokyo 23W recorded a net inflow of 63,200 new residents, which, albeit marginally lower than the same period in 2024, exceeds the figure over the same period in 2019, and is at an elevated level overall. That said, the C5W saw a notable decrease in net migration, with the net inflow of new residents falling by nearly half to 5,900 people between March and May 2025 compared to the same period in 2024. On the other hand, more peripheral areas in Tokyo have experienced the opposite. For instance, net migration between March and May 2025 in the Outer North submarket increased by 19% compared to the same period in 2024, while net migration in the Outer East submarket exceeded last year's figure by 8%. Meanwhile, the wider Tokyo prefecture excluding the 23W saw net migration figures increase by 9% over the same period.

A potential explanation may be that lofty rental increments over the past year and a relative scarcity of more affordable units are pricing some potential residents out of central areas, consequently generating greater interest in more reasonably priced units in more peripheral areas in the Tokyo 23W and the wider Tokyo prefecture. This is understandable given that net migration during the peak moving season comprises a large number of young workers and students, who likely have relatively modest budgets, and who are also dealing with historic inflation.

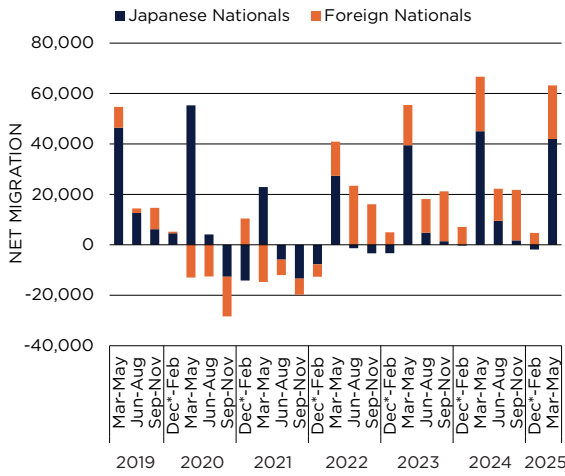
Meanwhile, the migration of foreign nationals remains elevated, with a net inflow of 26,100 residents recorded between March and May 2025, and comprising over a third of total net migration. While less pronounced than the overall trend, the net inflow of foreign nationals to the C5W between March and May 2025 fell by 17% relative to the same period in 2024. That said, net migration into the wider Tokyo 23W area and Tokyo prefecture increased moderately and remains elevated.

Overall, net migration should continue in earnest in Tokyo, and we anticipate that similarly large numbers of new residents will move to Tokyo in 2025, with foreign nationals likely to continue to comprise a large proportion. However, affordability concerns may increasingly incentivise residents to consider cheaper rental options outside of the central wards, potentially driving further demand and rental growth in peripheral submarkets in the 23W in addition.

OCCUPANCY RATES

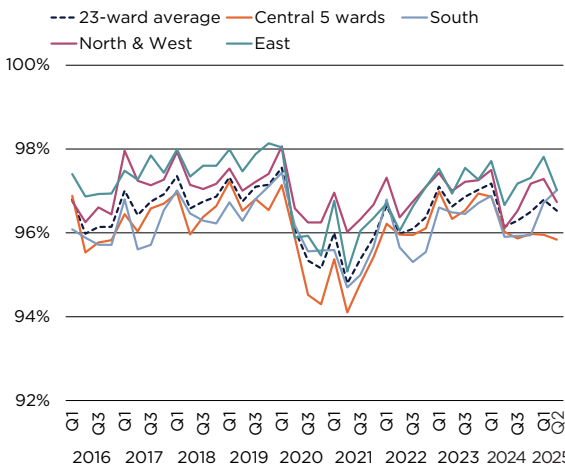
Occupancy rates in the Tokyo 23W decreased by 0.4ppts QoQ to 96.5% in Q2/2025, although sit 0.3ppts higher in an annual basis. Similarly, occupancy rates in the C5W dropped marginally by 0.3ppts QoQ and 0.2ppts YoY

GRAPH 4: Net migration in Tokyo 23W, March 2019 to May 2025



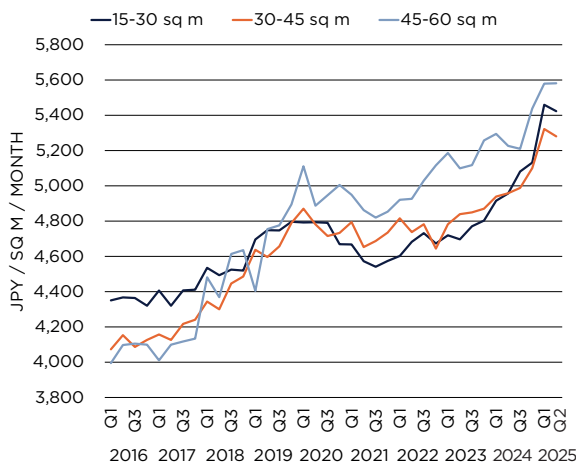
Source Tokyo Metropolitan Government, Savills Research & Consultancy
* December pertains to the preceding year.

GRAPH 5: Average Occupancy for J-REIT Residential Assets, Q1/2016 to Q2/2025*



Source Savills Research & Consultancy based on publicly disclosed J-REIT property data
* Q2/2025 is as of May 2025.

GRAPH 6: Rents by Unit Size, C5W, Q1/2016 to Q2/2025



Source Savills Research & Consultancy

to 95.8%. Indeed, many centrally located wards have seen particularly bullish rental uplifts over the past year, with many asset managers capitalising on the tight demand for central units in the post pandemic period. As such, although occupancy rates are high in any case, the market may continue to see some slight softening in occupancy rates for the meantime.

In addition to many renters having been priced out of the for-sale condominium market, more companies are keen to bring employees back to their offices and the rate of office participation is at an elevated level, both of which should support firm residential leasing demand within the 23W moving forward. As recent migration statistics suggest, it appears that there has been a slight recalibration of tenant interest, with more demand shifting from central wards towards more affordable outer wards within the 23W, given the recent bullish rental growth.

Overall, steady population growth is anticipated throughout 2025, which should ensure that residential demand remains firm. Among the new residents, foreign nationals have consistently comprised a large proportion. This demographic is notably more likely to rent rather than purchase a residence, which should support renewed demand in the rental residential market moving forward.

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.

Average rents either decreased or remained unchanged across all three size bands in the C5W over the quarter in Q2/2025. The larger 45-60 sq m size band remained flat QoQ, while the medium 30-45 sq m size band decreased by 0.8% QoQ, and the smaller 15-30 sq m size band decreased by 0.7% QoQ. Overall, the most recent trend points to a narrowing premium of larger size-band units over smaller units. Indeed, in previous years, larger units had been seen as more desirable for development given the changing working and living styles induced by the pandemic and the general scarcity of such units. That said, according to the Ministry of Land, Industry, Transport, and Tourism (MLIT), there has been a greater supply of larger size-band rental residential units in 2024 compared to previous years.

This contrasts with the shrinking supply of smaller size-band units, and this trend appears to have contributed to a relative scarcity of smaller affordable units in the C5W. Moving forward, the market should continue to see tight demand and steady rental growth moving forward for centrally located units in the smaller size-bands, especially due to greater office participation, and a tighter balance should continue across all size-bands.

OUTLOOK

The positive momentum continues in the Tokyo 23W residential market in Q2/2025. Moderate rental growth was observed even after the robust gains seen in Q1/2025 in most constituent wards, translating to strong annual growth across the market. Strong net migration took place between March and May 2025 as part of the spring peak moving season, the level of which was on par with the previous year. The elevated net influx has continued to support rental demand, with foreign nationals comprising a notable proportion of incoming residents.

Prices of for-sale condominiums in the Tokyo 23W remain elevated, and the cost of compliance with new stricter energy efficiency standards introduced in April 2025 will likely push up development costs and prices further, possibly pricing more residents out of the market and shifting greater levels of demand to the rental market. Additionally, despite uncertainty as to the timing of interest rate hikes by the Bank of Japan given the global uncertainty, they are likely to take place in late 2025 or beyond, slightly increasing borrowing rates for prospective homeowners and likely shifting some demand further from the for-sale market to the rental residential market. That said, some buyers, especially in the central wards, may move quickly to secure for-sale properties at lower borrowing costs, sustaining some demand for the meantime.

Looking ahead, Tokyo's appeal as a residential hub is unlikely to wane, and the city should retain its strong demographic fundamentals. As such, the Tokyo 23W residential market should perform well, with sustained rental growth and elevated occupancy rates likely to continue in 2025. A significant proportion of Tokyo's working population who are not working at large companies are unlikely to fully benefit from recent wage increases, and the recent bullish rental growth, compounded by inflation will likely force some to seek more affordable rental options in peripheral wards, which should spread rental growth across the entire Tokyo 23W.