



# TOKYO HOUSING MARKET STUDY 2018

# Executive Summary

Tokyo residential prices have increased from CY 2014- CY 2016 but factors like polarization, high vacancy rates, declining population have led to sharp decline in prices and sales in some prefectures around the Tokyo Metropolitan Region.

Tokyo has witnessed a 3.1% capital appreciation in CY 2017 YoY, but there has been a dip in the later half i.e. Q3 2017 of over -2.14%. Sales have been declining since 2016 and in Q3 2017. A whopping -41.2% QoQ sales, due to high vacancy rate, low demand levels and sluggish Japanese economy. Apart from the above mentioned factors the shift in population to rural area known as Polarization has led to sharp decrease in the pricing and sales of some prefectures in the Tokyo metropolitan area. Detached houses have underperformed due to lack of both supply and demand. In addition to their weak structures and past natural calamities in Japan, detached houses are less preferred.

Japanese economy suffered over 15 years of deflation from 1998 and people have formed a pessimistic mindset towards the growth of the country. The Japanese government intervened in April 2013 and Bank of Japan introduced a monetary accommodation called, "Quantitative and Qualitative Monetary Easing" leading to upward property prices from CY 2014 to CY 2016.

Central Tokyo has a rising population and there is strong demand for luxury apartments. 1084 apartments priced over 100 million yen were sold in CY 2017 in the Greater Tokyo region, which is a 51.6% increase YoY. Also with increase in double household incomes, couples living in these regions prefer shorter commute distances to work.

Prices have risen for new condominiums due to rising prices of building materials, labor and increased demand in Central Tokyo.

### Annual Price and Sales Timeline



### Quarterly Price and Sales Change



HOUSES		
Annual Capital Appreciation	Quarterly Capital Appreciation	Median Property Price
↓ 9.06%	↓ 6.14%	\$361 per sq. ft.
CONDOS		
Annual Capital Appreciation	Quarterly Capital Appreciation	Median Property Price
↑ 3.97%	↑ 2.46%	\$452 per sq. ft.

# Housing Demand & Supply

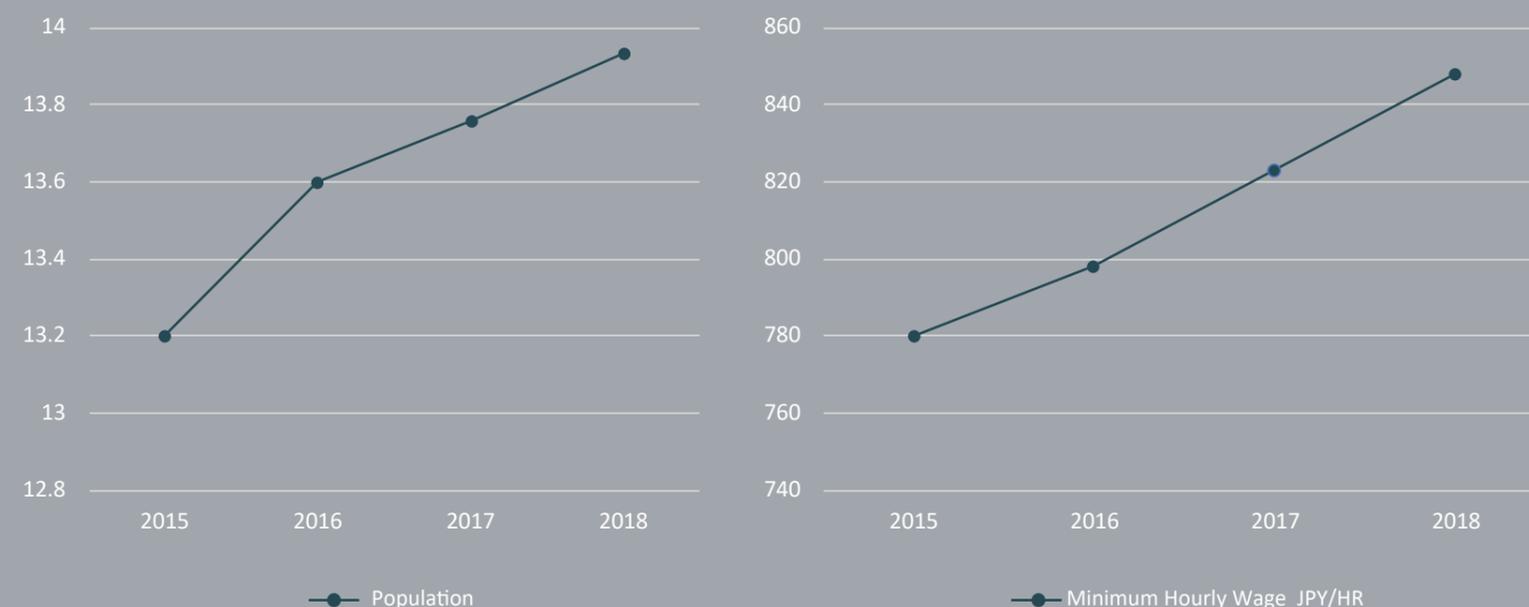
*In spite of decent market fundamentals like per capital GDP, wage rate increase and rising population in Central Tokyo, demand has been on the decline due rise in ageing population and unaffordability*

In some prefectures surrounding Tokyo23 wards there has been a downward trend in the population growth but Central Tokyo's population is expected to increase by 43% over the next 23 years. Greater Tokyo region has managed to strengthen its real estate market by continued low interest rates and increase in the number of double-income households. Japan witnessed its first per capita GDP increase in four years by a whopping 12.7% in CY 2016. Unemployment rate has been the lowest since 24 years at 2.7% and an upward trend is observed in the minimum hourly wage.

Secondary market has been favourable for buyers due to high prices of new apartments. There has been a 5.3% increase in used homes transactions, condominiums being the favourite.

Also Japan's population mainly consists of elderly people who have been a victim of the asset disinflation period which was prevalent in Japan from 1994 to 2013. The majority being the ageing population who have declining/negative household savings rate and poorer cash flows in comparison to the working population are unable to contribute to the real estate market leading to lower demand levels. Tokyo witnessed a 20.7% drop in the supply in CY 2017 leading to a decline in annual growth by over 24.3%.

## Tokyo Population Growth and Wage Rate



Housing Market Size	Annual Growth	Transactions (Mar' 17 – Mar' 18)
↓ \$6.9 Bn	↓ -24.3%	↓ 15,307

# Micro-Markets Price Performance and Industry Outlook

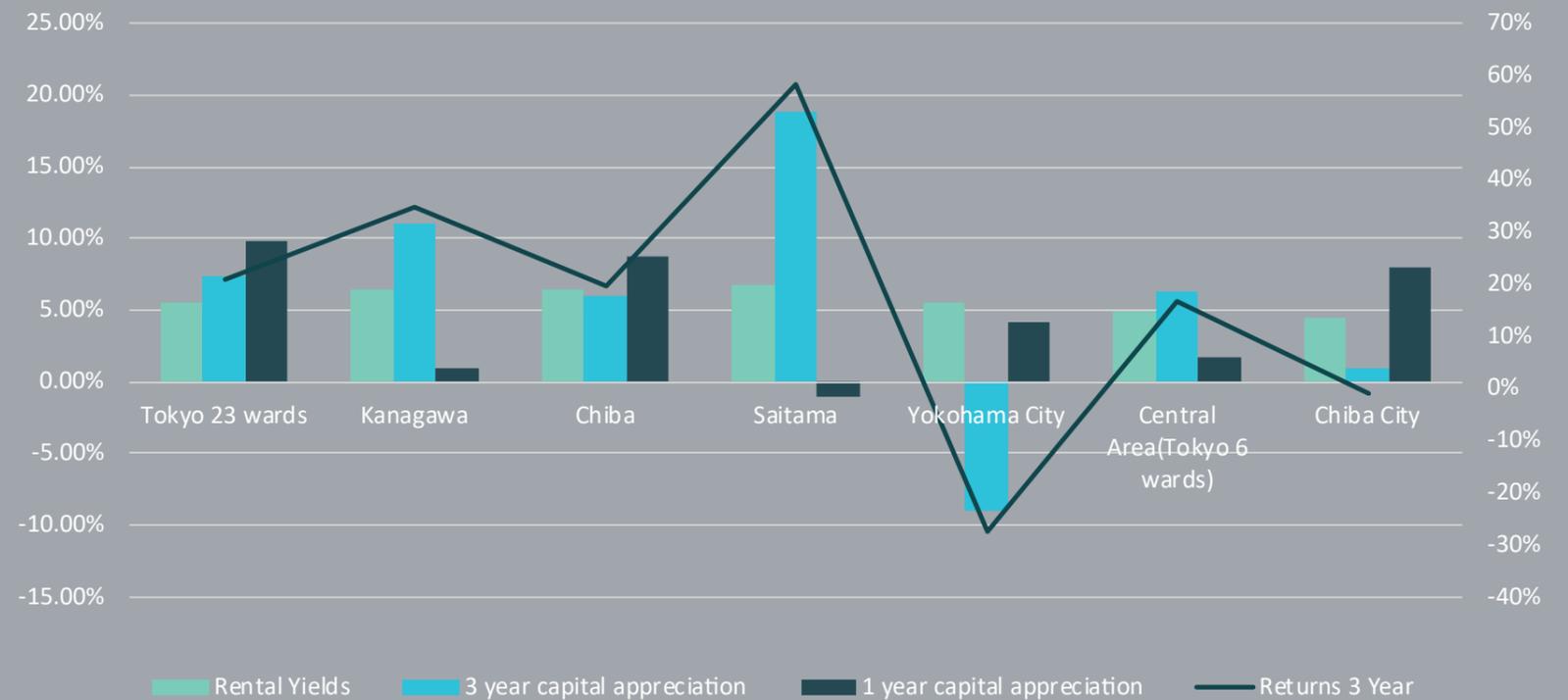
*Tokyo 23 wards have outshined the relatively affordable prefectures namely Kanagawa and Saitama. 2018 buyers and end users need to adopt a wait and watch approach strategy. In short to medium term Japanese Housing expected to continue the same trend*

Due to preference for a shorter commute distances, Tokyo 23wards have seen an increase demand due to rising population in that prefecture. Prices and sales in other prefectures might not see such exorbitant returns due to preferences and declining population rate.

Apartments over 100sqm are considered luxury in Japan. Tokyo 23 wards apartments over 100sqm are in demand with Central wards being the top favourite. Even though the current mortgage rates for primary residences at 100bps or under, people are still not positive about buying new homes. The wage rate has not increased enough, even though wage rates has been the highest in the past two decades, there is still a long way to go. The Japanese government has repeatedly failed to meet its 2% stated inflation which has further led to negate the sentiments of home buyers.

Declining Yen and the upcoming Olympics in 2020 have attracted foreign corporations and funds. It is estimated approx. 9.7B USD has been invested in real estate across Japan which is a three fold increase from 2016 levels. End-users and buyers will need to adopt a wait and approach before vesting interest in the Tokyo Real Estate market.

The micro-markets with maximum capital appreciation in the last 12 months are Chiba City(8.0%) and Yokohama City(4.16%)



Y-O-Y 'Dec 17 Data  
3 Year Returns Change

# Top Locations for Investment

*Due to the affordability factors used condos in Chiba City and Yokohama City can be fruitful investments for the short term. New condominiums in Central Tokyo can be good investments if buyers/investors are convinced to invest for the long haul.*

Yokohama city has witnessed the lowest 3 year appreciation until 2017 which led to the huge surge in sales in the secondary condominium sphere due to low prices, vacancy rate and solid rental yields . Wards in Tokyo Metropolitan Area such as Taito Ward, Koto Ward, Edogawa Ward, Sumida Ward, Katshuika Ward, Adachi Ward and Arakawa ward have had the most transactions in the secondary market.

The sentiment in Japan is weak and in some areas due to high prices people still prefer second hand condos. Even though condominiums are current favourites for the Japanese in some parts of Yokohama City, numerous transactions in Detached Houses have been transacted in Wako and Chiba. Some of the affordable locations have seen rallying capital appreciation and very good returns. The key investment areas would be:-

## Condos

- Chiba City
- Chiba Prefecture
- Yokohama City
- Kanagawa Prefecture

## Houses

- Wako
- Saitama Prefecture
- Chiba Prefecture
- Kanagawa Prefecture
- Yokohama City

## Key Developments

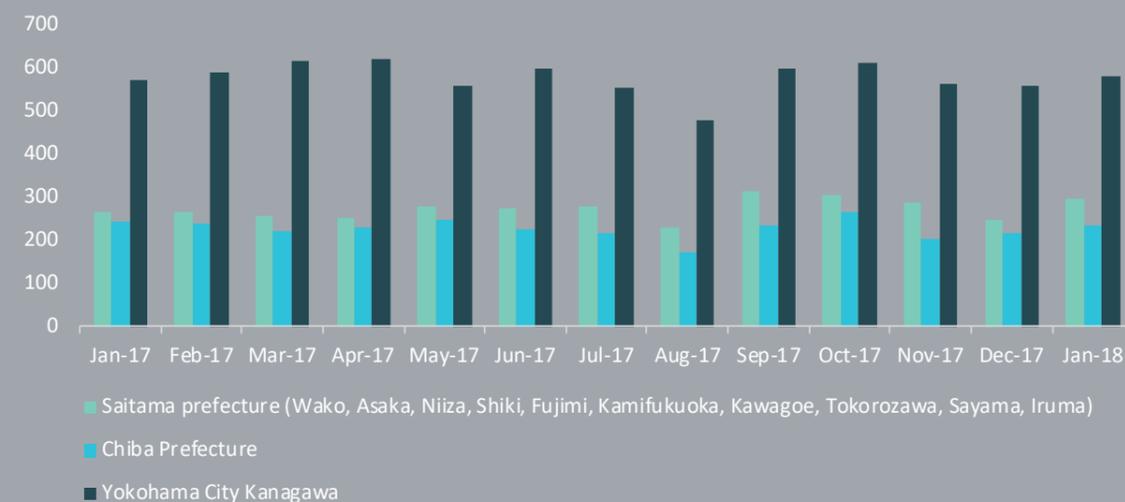
Tokyo Rail Yards Redevelopments – 1,250,000 square metre of redevelopment.

Abe plans \$61 billion in infrastructure – developing a 9 trillion yen maglev line, double tourism for the 2020 Olympics, increase capacity of Tokyo Airport and strengthen transportation hubs.

## Tokyo Secondary Market Transaction Volume- Condominiums



## Tokyo Secondary Market Transaction Volume- Detached Homes



# Investment Scores and Returns

Saitama and Kanagawa wards have had maximum returns in the last three years at 58% and 35%..

Returns from the key micro-markets are 21% for Tokyo23 wards, 20% for Chiba, 17% for Central 6wards, -1% for Chiba City and -27% for Yokohama City. The overall returns for Tokyo is expected to be around 19.65% over next three years.

## Micro Market Positioning in terms of returns



Size of bubble indicates median residential price

Market	Rental Yields	3 year capital appreciation	1 year capital appreciation	Vacancy	GDP Per Capita (factored)	Transaction Cost	LTV Factored	Cost of Capital	Capital Gain Tax	Rental Income Tax	PSF (USD)	PSF Factored	Returns 3 Year	Investment Score
Tokyo 23 wards	5.50%	7.32%	9.89%	11%	3.88%	13%	7.50%	1.09%	2%	3.40%	564	5.64%	21%	-55.11
Kanagawa	6.40%	11.07%	0.95%	15%	3.88%	13%	7.50%	1.09%	2%	3.40%	354	3.54%	35%	-33.92
Chiba	6%	5.94%	8.69%	15%	3.88%	13%	7.50%	1.09%	2%	3.40%	231	2.31%	20%	-22.28
Saitama	6.75%	18.78%	-1.10%	18%	3.88%	13%	7.50%	1.09%	2%	3.40%	254	2.54%	58%	-23.23
Yokohama City	5.50%	-9.00%	4.16%	9%	3.88%	13%	7.50%	1.09%	2%	3.40%	421	1.77%	-27%	-18.16
Central Area(Tokyo 6 wards)	5.00%	6.33%	1.71%	13%	3.88%	13%	7.50%	1.09%	2%	3.40%	785	1.77%	17%	-16.81
Chiba City	4.44%	1.01%	8.00%	15%	3.88%	13%	7.50%	1.09%	2%	3.40%	268	2.68%	-1%	-26.79

# Tokyo Micro-Markets



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