

The Apartment Market in Tokyo's 23 wards through 2020

Introduction

Japan's Apartment sector has been undergoing a major transformation since the introduction of J-REITs in 2001. Once a market dominated by individual landowners seeking a return on their real estate assets, and individual businessmen purchasing high-end studio apartments for investment purposes, today more and more apartments in Japan are owned by institutional investors or pension funds and are being operated by professional managers.

Unlike the Office sector, which has a relatively long history of professional management by major real estate and life insurance companies, professional management in the Apartment sector is a recent phenomenon. As a result, few reports are available on supply and demand in this market.

In view of this situation, the present study presents an analysis of the Apartment market in Japan. This is the second in a series of reports on the Apartment market, which began with "The Apartment Sector in the United States: Implications for the Japanese Market", which was released in the fall of 2006. Because Japan's Apartment market is centered in the major metropolitan areas, the present report focused on Tokyo's 23 wards as a model for the study of urban markets in Japan.

Present conditions in the Apartment market in Tokyo's 23 wards

In Tokyo's 23 wards, the stock of dwellings as of the end of 2003 totaled 4.41 million units, of which 2.4 million (54%) were apartments. There were about 340,000 vacancies, for a vacancy rate of 14.2%.

The present study divided the Apartment sector into four major categories: "Rental condos", "Apartments, etc.", "Public housing", and "Company housing". Of these, the total stock of rental condos, which is the segment targeted by J-REITs, was about 910,000 units, representing 21% of total dwellings, and 38% of total apartment stocks.

On the other hand, the total number of households in Tokyo's 23 wards was 3.84 million as of the end of 2003. Broken down by age, 8% of the heads of households were in the 15~24 year old cohort, 18.7% were in the 25~34 year old cohort, 16.9% were in the 35~44 year old cohort, 15.5% were in the 45~54 year old cohort, 17.2% were in the 55~64 year old cohort, and 23.7% were in the 65 or over cohort. This age distribution is far more balanced than for Japan as a whole, thanks to an influx into the Tokyo area of younger people from other parts of the country.

Market projections for the year 2020

Japan's overall population is on the decline, but in Tokyo the number of households in the 23-ward district is forecast to increase from 3.84 million in 2003 to 4.35 million by 2020, a gain of about 510,000.

Moreover, according to a model based on home ownership rates by age cohort, apartment demand is projected to rise by about 200,000 units between 2003 and 2020, from 2.4 million units to 2.6 million units.

Assuming that apartments have a socially useful lifecycle of 40 years, approximately 920,000 units of present stocks will have been removed from the market by 2020. Adding the amount of new demand (200,000 units) to the number of units lost from the market yields a figure of 1.12 million units, which is the total amount of new supply that will be needed to satisfy market demand by 2020. We estimate that 520,000 units of this new supply will need to be in the form of rental condos. This will require construction of about 310,000 rental condos every ten years, a pace about as rapid as that seen during the 1970s and 1980s when large amounts of new supply entered the market.

Our conclusions are that demand for rental condos in Tokyo's 23 wards through 2020 will be strong enough to absorb even relatively high levels of new supply. Rent levels should remain stable or increase.

Summary

We forecast that supply and demand will remain firmly in balance in the rental condo market in Tokyo's 23 wards through 2020. Our projections assume a useful apartment lifecycle of 40 years, in part because by 2020 all apartments over 40 years old will have been built according to inferior seismic resistance standards, and it is therefore likely that they will have to be reconstructed.

After 2020, for example by the year 2030, most buildings in the market will have been constructed according to today's more stringent seismic standards, and building lifecycles may be expected to increase. This may act as a brake on new supply, but at least through 2020 we expect to see steady growth in the rental condo market.