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# JAPAN PROPERTY MARKET REPORT 2021



**“Japan remained a safe haven for foreign funds looking for prime assets and stable returns in a mature market.”**

### **What’s ahead**

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Current market conditions look likely to continue into 2022 as we continue to operate with some normalcy. Interest and inflation rates may be something to keep an eye on.

Tokyo is likely to attract more investment from international institutional funds this coming year.

### **Same old, same old**

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Many of the themes that were present in 2020 continued in 2021, but with more stability and fewer disruptions in the real estate industry.

The take up of telework continued to remain low, with an implementation rate of around 20%.

Tokyo only saw a minuscule drop in population, most of which was due to shrinking foreign resident numbers. And, the 2020 Summer Olympics came and went without any noticeable impact on the real estate market.



## **OVERVIEW**

This past year has seen more stability and fewer disruptions in the real estate sector. In 2021, much of the country was under a state of emergency or semi-state of emergency until the end of September. Unlike the first one issued over April and May 2020, real estate brokerages did not temporarily close their doors this year and continued to operate as normal.

Institutional funds and investors have been attracted to the safe and stable returns provided by real estate in Japan. Despite rising vacancy rates and falling rents, office acquisitions are back in vogue after investors shied away from commercial assets in 2020 in favor of residential and logistics facilities. The biggest transaction for the year was advertising giant Dentsu Group’s head office building in Higashi-Shinbashi. The sale price is thought to be somewhere in the 270 billion Yen range, and took place in September. The buyer was a consortium led by Hulic. The sale of the nearby Nippon Express head office building for 73.2 billion Yen was the 6th most expensive deal nationwide. The sale is expected to go through in April 2022. The buyer is MinebeaMitsumi, a machinery component manufacturer with a reported 9 billion USD of revenue in 2020.

The low interest rate environment has continued, providing a cheap source of funds but also allowing yields to remain low as the yield gap continues to make real estate an appealing investment choice.



## RESIDENTIAL

Since the start of the pandemic in 2020, there has been growing demand from buyers seeking to leave their cramped rental apartments and buy more comfortable homes and apartments. Record low interest rates for home loans, tax breaks, and a relatively low unemployment rate have created an ideal environment for new home buyers. Remote work has not been widespread, and homebuyers are still preferring to stay in Tokyo's 23 wards where they have convenient access to transport, shopping and schooling for children.

The average price of a brand-new apartment released for sale across greater Tokyo (Tokyo, Kanagawa, Saitama and Chiba Prefectures) between January and November, 2021, reached 64,760,000 Yen, the highest level since 1990 (61,230,000 Yen). In Tokyo's 23 wards, the average price between January and November was 83,270,000 Yen, up 8.0% from 2020.

Second-hand apartment prices in the Tokyo metropolitan area have seen double-digit increases compared to 2020. In June, the average reported sale price, according to listing database REINS, was 16.7% higher than in June 2020. In central Tokyo's three wards of Chiyoda, Chuo, and Minato, some months saw year-on-year increases of 20 ~ 30%. Unsold inventory across the Tokyo metropolitan area as of November 2021 had seen a year-on-year decline for 24 consecutive months as demand outweighs supply.

It was a similar story for detached house sales, with reported sale prices across greater Tokyo increasing by as much as 20 ~ 25% year-on-year in some months.

## Supporting Japan's residential market:

### Low interest rates.

Variable rates start from 0.375% and full-term fixed rate mortgages start from 1.080%.

### Tax breaks.

Cash refunds and subsidies for mortgage interest tax payments continued into 2021. The program is being extended into 2022 but with some amendments to the reduction allowances.

Owning real estate remains one of the best methods of reducing inheritance tax obligations for heirs due to the way real estate is valued.

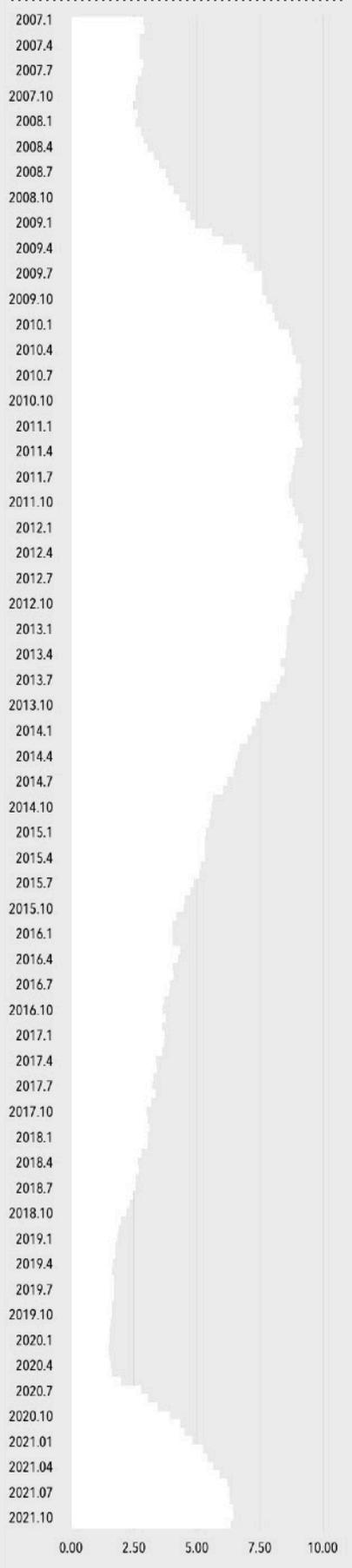
### More double-income households.

Spending power has increased and buyers have larger budgets than before. With a working couple, proximity to transport is more important than ever.

### Low unemployment.

Japan's seasonally-adjusted unemployment rate as of November 2021 was 2.8%, showing no change from 2020 and up just 0.4 points from 2019.

## Tokyo's Office Vacancy Rate



The luxury condominium market in Tokyo has been surging in the face of the pandemic. According to REINS, apartments priced over 100 million Yen represented 5.9% of all transactions in the Tokyo metropolitan area in the third quarter of 2021, up from a 4.2% share in 2020 and a 2.1% share for the same period in 2016. Quarterly transactions in 2021 are double or even triple what they were five years ago.

The population of Tokyo's 23 wards shrank by 41,383 residents between January 1, 2021 and December 1, 2021, according to the Statistics Division of the Tokyo Metropolitan Government. However, almost two-thirds of that decline is due to foreign resident outflows. Since January 1, 2020, the Japanese population of the 23 wards has risen by 14,187 residents, while the foreign resident population has dropped by 53,416 over the same period. This may be due to the temporary pauses on the issuance of new visas for workers and students.

According to Athome's reporting based on listings on its platform, rents for smaller apartments for singles (under 30 sqm) and couples (30 ~ 50 sqm) in Tokyo's 23 wards have continued their downwards trend that started in early 2020. Advertised rents for studio apartments in November 2021 were down 1.6% from November 2020, and are only 7.1% higher than they were in January 2015. Apartments suited for couples saw rents drop 0.6% over the twelve months to November. Meanwhile, larger family-type apartments (over 70 sqm) have seen rents hit record highs in Tokyo, Saitama Prefecture, Chiba Prefecture and Osaka City. In Tokyo's 23 wards, advertised rents in this sector in November were up 1.6% from last year, and have risen 20.2% since January 2015.

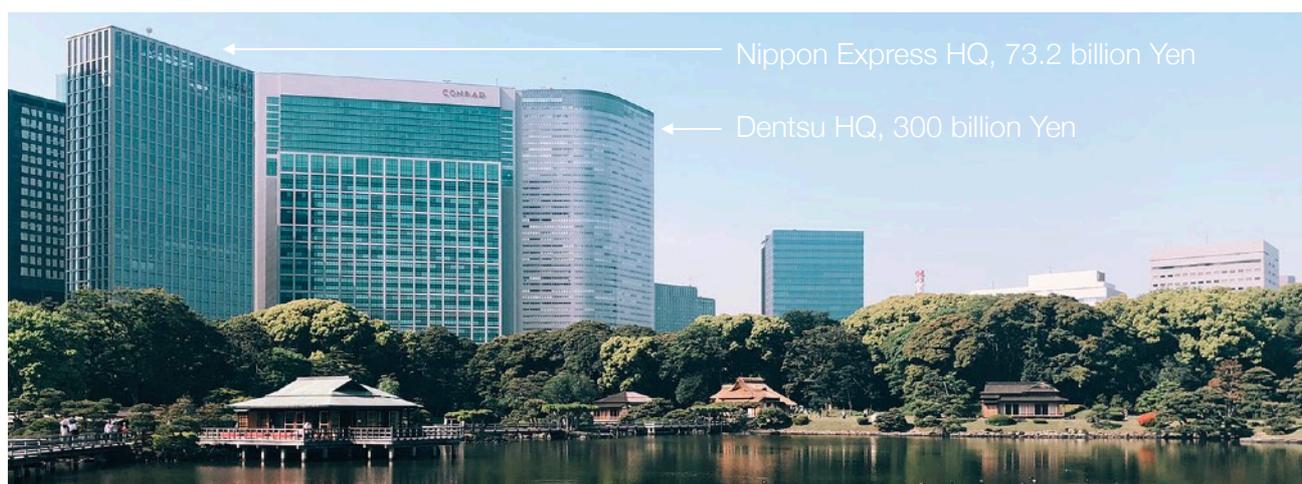
## OFFICE

There are no shortage of institutional funds seeking prime assets in Japan's urban centers, with many looking to acquire long-held properties that would not normally come to the market. Those hoping for bargain sales have been sidelined as assets have been achieving strong prices.

Office vacancy rates continued to rise for the majority of the year, but saw a slight improvement in November, ending a 21-month streak. The average vacancy rate for prime office space across Tokyo's five business districts of Chiyoda, Chuo, Minato, Shinjuku and Shibuya, as reported by office brokerage Miki Shoji, was 6.35% in November, up 2.02 points from 2020 but down 0.12 points from the previous month.

With the most recent State of Emergency ending in late September, companies have started to wind back telework and more employees are expected to return to the office. Corporations that continued to see strong sales results amidst the pandemic have boosted staff numbers and expanded their office footprint. However, other viewpoints suggest that a full-fledged recovery of the office market may not be imminent. A number of new office towers to be completed in central Tokyo in the coming years may continue to oversupply the market.

According to Tokyo Shoko Research, in the first half of 2021 (from April to September), a total of 36 companies listed on the First and Second Sections of the Tokyo Stock Exchange reported the sale of real estate holdings, a 33.3% increase from the same period in 2020. Further asset sales are expected in the second half of 2021 which could see the number rise to over 80 companies. This would be the first time the number has exceeded 80 since 2008.



In September, advertising giant Dentsu sold its 48-story headquarters in Shiodome with a capital gain of 89 billion Yen. Although not disclosed, the sale price was rumored to be somewhere around 300 billion Yen (approx. US\$2.6 billion). The office tower was acquired by a special-purpose company partially funded by Hulic. Dentsu plans to lease back the office space.

It was also reported in September that JTB Corporation, the largest travel agency in Japan, was looking to sell off two buildings in Tokyo and Osaka. Another travel agency, H.I.S. Co., sold its head office space in Kamiyacho Trust Tower that month for 32.5 billion Yen. H.I.S. had paid around 30 billion Yen for the 7,667 sqm of office space over two floors in the recently-completed building.

## **HOTELS**

According to statistics reported by the Ministry of Finance, hotel and accommodation providers saw a total loss of 296 billion Yen in operating income in the first half of 2021, down from a 152 billion Yen surplus in the first half of 2019.

Since the ending of the state of emergency in late September, there have been signs of a slight recovery in the tourism and hotel industry. The average hotel occupancy rate in October, according to the Japan Tourism Agency, was 42.1%, up 10.9 percentage points from September. Some areas are faring better than others. Prince Hotels reported that its hotel occupancy rate in Karuizawa in November had recovered to about 80% of the level seen pre-pandemic in 2019, while Hakone had recovered to around 70% of pre-pandemic levels.

The borders remained closed to inbound tourism. Tourism spending by foreign tourists accounted for about 18% of total tourism spending in Japan in 2019, pre-pandemic, as reported by the Ministry of Economy, Trade and Industry, and the lack of foreign tourists is only thought to suppress the country's GDP by around 0.8%.



## RESORTS

Resort areas accessible from major urban centers have proven popular with buyers of holiday homes. For residents of Tokyo, the historically wealthy summer retreat of Karuizawa has been in high demand. Standard Land Prices in the town increased by an average of 10.9% as of July 2021.

Miyakojima Island in Okinawa Prefecture had the highest percentage increase nationwide with Standard Land Prices at one survey site increasing by 22.9% this year. Land prices at this site in Miyakojima had stayed mostly flat for the past 35+ years, before increasing by 37.3% in 2020.

Despite the lack of foreign tourists, resort developments in the ski town of Niseko in Hokkaido have been plowing ahead, as have land values. Although Niseko normally sees the highest percentage growth in Japan, it was bumped down to 5th spot in 2021 with 17.4% growth at one residential survey site. This comes following a 29.17% increase in 2020 and a 66.67% increase in 2019. Average residential land prices across Kutchan Town grew by 6.5%.



## LAND

Nationwide, Japan's Standard Land Prices, as announced by the Ministry of Land, Infrastructure, Transports and Tourism (MLIT), dropped by 0.4% from 2020. This was the second year in a row to see a decline, but was a slight improvement from the 0.6% drop reported in 2020. The nationwide average has been in the negative for 27 of the past 30 years. Commercial land prices dropped 0.5%, after a 0.3% fall in 2020. Residential land prices dropped 0.5%, after a 0.7% fall in 2020.

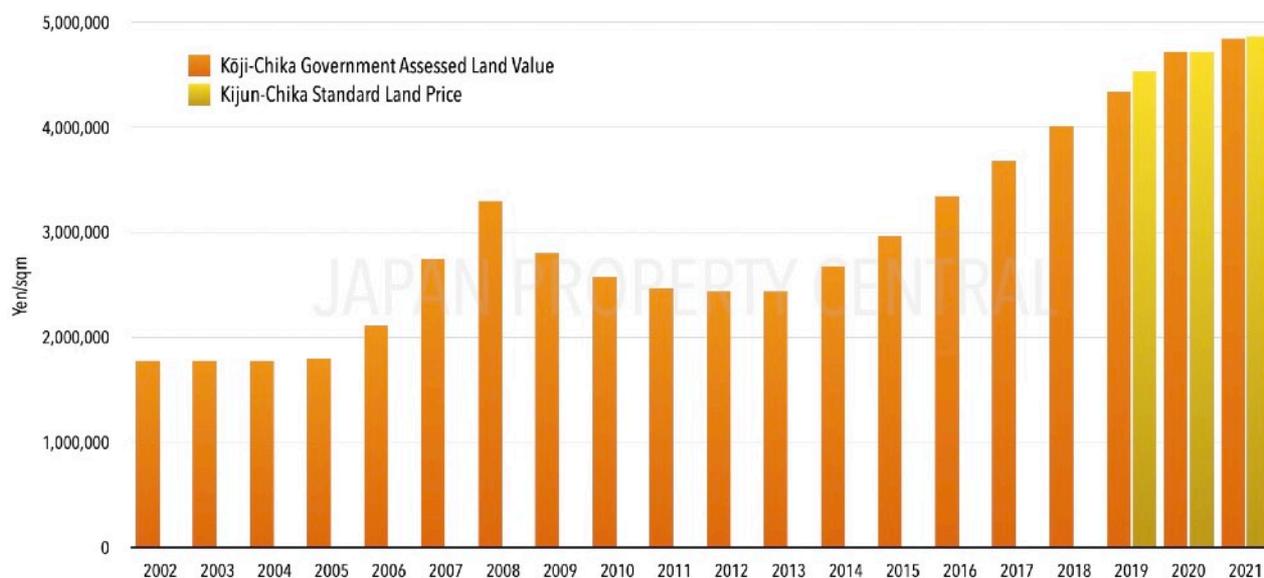
Average prices in the Tokyo region increased by 0.1% for both residential and commercial land. This is said to be due to the consistent demand for prime assets in Tokyo, particularly from foreign funds with access to cheap capital. In the Osaka region, residential land prices dropped by 0.3% and commercial land prices dropped by 0.6%.

Osaka's Dotombori district saw the biggest drop nationwide with land prices falling 18.5%. Retail has been sluggish and vacancies on the rise as the highly tourist-dependent area faced a second year without inbound tourism. Tokyo's Kabukicho bar district saw land prices drop 10.1% as restrictions on restaurant and bar operating hours had cut revenues.

The most expensive residential land in Japan for the third year running was under the Homat Royal condominium building in Akasaka, Tokyo. It was valued at 4,870,000 Yen/sqm in 2021, up 3.2% from 2020. That may be attributed to its premium location along the same street as the US Embassy and the recently redeveloped Hotel Okura. It is also in close proximity to the massive redevelopment projects underway around the Toranomom neighborhood, including the Toranomom Hills Station Tower and Toranomom-Azabudai Project. The Hotel Okura South Wing across the street is also in the process of being demolished with a potential redevelopment in the coming years.

### LAND VALUES UNDER HOMAT ROYAL

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