

Japan Luxury Residential Real Estate Market - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

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Report description:

The Japan Luxury Residential Real Estate Market is expected to register a CAGR of approximately 3% during the forecast period 2022-2027.

Since the pandemic began, people have been spending more time at home and consequently saving more to some extent. This lifestyle change has led to heightened housing demand, particularly for high-end properties, overall resulting in asset prices rising on a global level. Japan is no exemption, although the impacts of the pandemic have been relatively milder.

The world is gradually returning to normalcy, and international travel has been slowly resuming. While the reopening of international travel on a large scale still appears out of sight, luxury travel should come back much earlier. This timely resurgence in luxury travel should further fuel demand in the luxury sector. Ultra-luxury residences are gaining traction in Japan, and the sector is growing at an unprecedented pace.

Some of the large-scale mixed-use projects in the pipeline are expected to add more units in this category, which should expand the market size and push top prices even higher. The high concentration of ultra-wealthy people in Tokyo and the stability of Japan's long-term prospects make it attractive to overseas buyers and are factors that support the growth of this sector. Japan's rich culture is another attractive attribute, and the growth of the luxury hotel market should serve as a tailwind for the ultra-luxury residential sector.

The condominium market across Japan has changed greatly over the past two decades. In the greater Tokyo area, the annual supply of new condominiums across all price ranges is still sitting at about a third of the peak supply seen in 2000, while the average price has increased by around JPY 20 million to JPY 60 million. In Tokyo's 23 wards, the average price of a new apartment

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is JPY 77 million.

Japan Luxury Residential Real Estate Market Trends

High Concentration of UHNWI in Tokyo Driving the Sales of Luxury Homes

Considering the high concentration of Ultra High Net-Worth Individuals (UHNWI) in Tokyo, it is likely that the demand for ultra-luxury units has always existed but remained dormant in the face of limited supply. This latent demand began to surface as some supply came to the market. Additionally, this sector has been buttressed by growing interest from overseas investors. Japan's resiliency and stable prospects are especially attractive during uncertain times.

In October 2021, sales started on a luxury project not far from Shibuya Station, with 13 apartments released for sale. The most expensive apartment was priced at almost 600 million Yen (approx. USD 5.3 million), or around 3.6 million Yen per square meter (USD 2,950/sq.ft). The sales office has already received over 1,200 inquiries. In Chiyoda Ward, another developer released a new project for sale back in January 2021, where the average apartment price was over 200 million Yen (USD 1.76 million). Half of the apartments had sold out in the first six months.

It's not just new apartments that are seeing an uptick in demand, with second-hand sales over 100 million Yen reaching new highs. According to the Real Estate Information Network System (REINS), apartments priced over JPY 100 million 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 2020 are double or even triple what they were five years ago.

New Developments Propelling the Growth of Ultra-luxury Residential Market

In 2023, the highly anticipated Toranomom Azabudai Project is expected to propel the growth of the ultra-luxury residential market in Minato with plans to introduce 1,400 residential units in its two main residential towers.

Furthermore, the main 330-meter tower of the project will house 91 hotel-branded residences affiliated with Aman on its top floors. The most expensive unit is rumored to be on the market for JPY 20 billion - easily exceeding the most expensive unit recorded to date.

Another project likely to house ultra-luxury units is the Mita 1-Chome project. The project will be developed by Mitsui Fudosan and Mitsubishi Estate and is expected to be completed in May 2025. The project will feature multiple buildings with over 1,000 residential units. MARQ Omotesando One, which was developed by BPEA Real Estate, is in Shibuya and was completed in November 2021.

Mitsubishi Estate also plans to add about 50 rental residential units on some of the high floors in Torch Tower, which is expected to be the tallest building in Japan after its completion in 2027. The rents for the most expensive units are likely to be well over JPY 5 million a month - comparable to other ultra-luxury residences.

Japan Luxury Residential Real Estate Market Competitor Analysis

The luxury residential real estate market in Japan is fairly consolidated. Presently, the two major developers leading the ultra-luxury sector are Mori Building and Mitsui Fudosan. However, as the market matures and a proof of concept has been established for the sector, the market should become more diverse with more players and products, eventually leading to Tokyo becoming an established market.

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Table of Contents:

1 INTRODUCTION

- 1.1 Study Deliverables
- 1.2 Study Assumptions
- 1.3 Scope of the Study

2 RESEARCH METHODOLOGY

- 2.1 Analysis Methodology
- 2.2 Research Phases

3 EXECUTIVE SUMMARY

4 MARKET INSIGHTS AND DYNAMICS

- 4.1 Market Overview
- 4.2 Market Dynamics
 - 4.2.1 Drivers
 - 4.2.2 Restraints
- 4.3 Value Chain / Supply Chain Analysis
- 4.4 Industry Policies and Regulations
- 4.5 Technological Developments in the Sector
- 4.6 Industry Attractiveness - Porter's Five Forces Analysis
- 4.7 Impact of COVID-19 on the Market

5 MARKET SEGMENTATION

- 5.1 By Type
 - 5.1.1 Apartments and Condominiums
 - 5.1.2 Villas and Landed Houses
- 5.2 By City
 - 5.2.1 Tokyo
 - 5.2.2 Kyoto
 - 5.2.3 Osaka
 - 5.2.4 Other Cities

6 COMPETITIVE LANDSCAPE

- 6.1 Market Concentration Overview
- 6.2 Company Profiles
 - 6.2.1 Mori Trust
 - 6.2.2 Mitsubishi Estate
 - 6.2.3 Mitsui Fudosan
 - 6.2.4 Sumitomo Realty & Development
 - 6.2.5 Tokyu Land Corporation
 - 6.2.6 Daikyo Incorporated

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- 6.2.7 Nomura Real Estate
- 6.2.8 Nakano Corporation
- 6.2.9 Tokyo Tatemono
- 6.2.10 Daiwa House Group*

7 MARKET OPPORTUNITIES AND FUTURE TRENDS

8 APPENDIX

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