



The Tokyo Real Estate Market

With the 2020 Tokyo Olympics coming up, price growth of properties in Tokyo have been accelerating. In the short-term, the demand for housing in Tokyo will drive property prices and sales volume. In the long-term, it is expected that the Games will stimulate the economy alongside its monetary policy by creating thousands of new property units and infrastructure, making properties in Tokyo very attractive for investors.

Tokyo Property Market

[Figure 1]

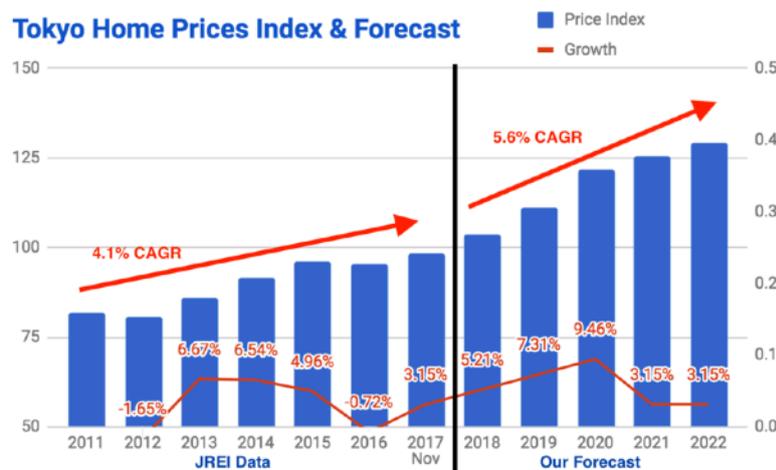
Since 2012, low interest rates and devaluation of the yen have fuelled sales in Japan. Properties became cheaper to foreign investors, the majority being in Southeast Asia. The price of new condominiums in Japan's cities in August 2017 was 36 per cent higher than in 2012 [1].

Central 5 Wards

Average asking rents in the C5W (shown in right figure) has grown 4.3% y-o-y in Q4 2017. Shibuya experiences the highest rents increase, by 10.3% and Chuo by 4.7%. The average rental premium for C5W has also gone up by 13% [2].



Tokyo Home Prices Index & Forecast



[Figure 2]

Tokyo home prices have seen a 4.1% CAGR in last 5 years. Because of Tokyo's boom in tourism and the 2020 Olympics at Tokyo, we predict the growth will accelerate (assume 2% acceleration) in the next 3 years then drop back down to 2017 level after the Olympics is over.

Source:

[1] Financial Times : Is Tokyo's Property Market Reaching Its Peak?

[2] Savills World Research

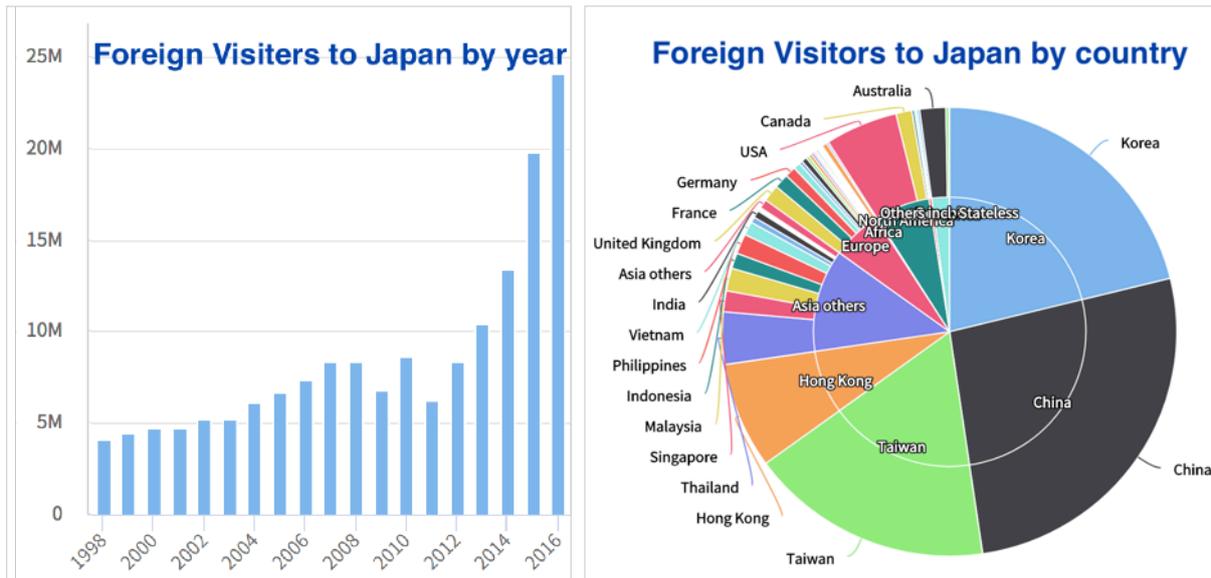
[Figure 1] Savills World Research

[Figure 2] Japan Real Estate Institute (2011-2017) + Proprietary forecast (2017-2022)

Tourism

Because of less restrictions for foreigners to obtain Visas and a low exchange rate of yen, there has been tremendous increase in the number of tourists to Japan, with the majority being from Southeast Asia. The government initially targeted to grow the number of tourists to 20 million by 2020, but Japan achieved this 4 years before. The number of foreign tourists to Japan has gone up by 26.8% in 2017 from previous year [3]. The growth of tourism will drive the demand for real estate, especially for the hotel industry. Foreign visitor expenditures, which totalled 3.7 trillion yen (\$33.8 billion), will drive economic growth.

[Figure 3 & 4]



Exchange Rate

[Figure 5]



USD/JPY spot exchange rate chart

The yen has been weak over a period of time since 2015. This has contributed to the increase in tourism activities and capital inflow.

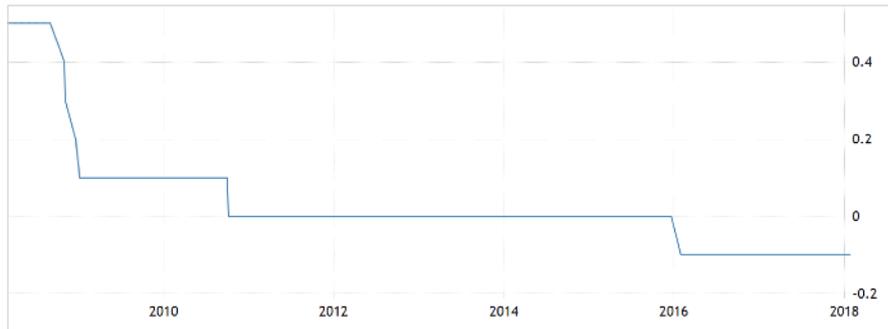
Source:

[3] Japan National Tourism Organisation

[Figure 3 & 4] Japan National Tourism Organisation

[Figure 5] Bloomberg

Interest Rate



[Figure 6]
Japan Interest Rate Chart

Bank of Japan has kept the interest rate at -0.1% since 2016, maintaining inflation. Therefore, the cost of capital in Japan is low.

2020 Olympics

The property market in Tokyo and Japan is expected to be stimulated heavily by the 2020 Olympics in Tokyo. The Japanese Government has stated that Tokyo will attract 8.5 million tourists during the Games. It may also generate over 3 trillion yen and 150,000 jobs. [4] Hosting the Games also means that there will be a significant amount of development in infrastructure. This is likely to result in a high demand of housing, increasing sales volume.

Olympic Village

The government announced in 2016 the plan to build the Olympic Village in Harumi, Chuo-ku in Tokyo, which will be used to house Olympic athletes during the games. 23 residential buildings will be built, resulting in 5,650 new units [5]. We can expect the price growth of the properties around the area to surge.

After the games, the buildings will be sold off or rented out as apartments or condominiums. Schools and commercial facilities will also be built.



[Figure 7]

Infrastructure

Prime Minister of Japan, Shinzō Abe, announced that Japan will spend 6.2 trillion yen on infrastructure to grow further the number of foreign tourists and to speed up current projects [6].

Many large-scale redevelopment projects are currently undergoing or completed in central Tokyo, including the new railway station at Shinagawa, which will also serve as a terminal for

Source:

[Figure 6] Trading Economics

[4] JLL : Tokyo 2020 : The Olympic Games Effect

[5] Sekai Property : Athletes' Village for the 2020 Tokyo Olympics

[6] Bloomberg : Abe Plans \$61 Billion Infrastructure Spending for Japan Revival

[Figure 7] : JPC : 2020 Olympics Athletes Village Plans Revealed

the maglev (magnetic levitation) Shinkansen line due to open in 2045. Moreover, before the opening of this new line, East Japan Railway intends to redevelop the area around the Shinagawa station, including the construction of 7 towers for residential and commercial functions. Two of the other many major constructions are the Tokyo Metropolitan Expressway and the Tokyo Gaikan Expressway [7]. The improvement in infrastructure will increase the demand for properties during the time leading up to Tokyo 2020, driving up prices. However, the major value lies in the long-term, when the economy will have improved significantly, attracting new talents to work and live in the city.

Technology Innovation

To cope with the large number of spectators and athletes in the 1964 Tokyo Olympics, Japan developed the bullet train, Shinkansen, it revolutionised the Tokyo's transport system and has affected property and land prices in different instances. For example, an extension of the Shinkansen led to a price increase of 40% for a property near Nagoya Station in 2015 [8].

Robot Taxi

Nissan Motor Co. said that it will be testing an autonomous car taxi service on the public roads of Japan in March 2018 and will officially start the rides in early 2020 [9].

If robot taxi is the bullet train of the 2020 Tokyo Olympics, this is going to trigger a huge change in transport dynamics. This will be reflected on property prices in Tokyo as this will make travelling from places further out in Tokyo to central Tokyo much easier and more convenient. Spectators of the Games might be more willing to stay further away from the waterfront, where most of the



games will be held. This will generate demand for properties in Tokyo as a whole, leading to even more redevelopments in outer Tokyo and have a spillover effect on the prices of properties just outside Tokyo. Therefore, this technology innovation can also potentially be a major driver of the growth of the Tokyo property market.

The 2020 Olympics is going to lead to a lot of new developments in Tokyo. The improvement of infrastructure, transport systems and demand for properties have already started reflecting on the property prices. The property market is likely to grow significantly in the short-term.

Source:

[7] Credit Suisse Research & realestate-tokyo.com : Redevelopment Plans in Tokyo

[8] Nikkei Asian Review : High-speed Rail Creates Property Minibooms in Japan

[9] Bloomberg : Nissan to Test Robot Taxis, Aims to Begin Service in Early 2020s