

Japan - June 2020

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**SPOTLIGHT**  
Savills Research

# Yokohama



# An old fishing village takes centre stage once more

## Summary

- Following numerous redevelopment projects, such as The Minato Mirai 21 Project, Yokohama has reinvented itself since its post-war slump, becoming a genuine alternative to Tokyo.
- Investment volumes into the capital have slowly been decreasing as valuations and opportunities become less favourable. Consequently, some of these flows have been directed to peripheral markets such as Yokohama, which has seen steady increases since 2017.
- As well as the amenities available and its accessibility to Tokyo, the lower cost of living found in Yokohama makes it a popular residential hub, and this looks set to continue.
- With a strength in R&D, the office market in Yokohama is an attractive proposition for businesses. Meanwhile, as the pandemic continues to change working culture, the emergence of satellite offices for example could be a boon for the city.
- Both the retail and hospitality sectors in Yokohama have suffered the same fate as the rest of Japan. Yet the types of projects in progress could be well-positioned to benefit in future.
- The positive demographic outlook should continue to drive Yokohama's growth over the longer term, despite the challenges faced by the country as a whole.
- Much of Yokohama's future success depends on a sustained economic recovery in Japan. Regardless, solid demand fundamentals should underpin the market's resilience for the time being.

## OVERVIEW

Yokohama has come a long way since Japan opened to the world in the late 19th century. Initially a small fishing village, it came to serve as the primary port and gateway to the country, eventually becoming the centre of foreign trade. Thanks in part to its proximity to Tokyo, Yokohama prospered over the following decades. Things swiftly changed, however, as a result of the large-scale destruction and confiscation of the downtown area during and after World War II. Without the required redevelopment, many companies consequently relocated to Tokyo, taking with them the economic drive that had been prevalent in the city up until then. Indeed, by the time Japan's post-war economic boom had arrived, Yokohama had been somewhat left on the side-lines, relegated to a residential hub for Tokyo commuters.

In 1965, however, with the intention of re-modelling itself as a major city once more, six strategic projects aimed at reconnecting the various districts were announced. A core tenet of the strategies was The Minato Mirai 21 Project – a huge 186-hectare land reclamation, building, and infrastructure project, conceived as a means of regaining the city's status as a business centre. Since construction began in 1983, 76 hectares of land have been developed with the area now hosting more than 1,800 companies and over 110,000 employees. Given the city's international background, this figure includes almost 200 international corporate HQs, second only to Tokyo.

Today, Yokohama has largely reclaimed its status as an economic hub and companies are

increasingly drawn to the area. Tokyo office rent premiums – driven by strong demand – in addition to the generous economic incentive programs have made the city an attractive alternative. The office sector is not alone in reaping the rewards of redevelopment, however. Rising corporate activity has also increased demand for residential assets, adding to the estimated 3.8 million people already living in the city. As such, with the city proving popular for locals and visitors alike, the recently much-maligned retail and hospitality sectors should see better days.

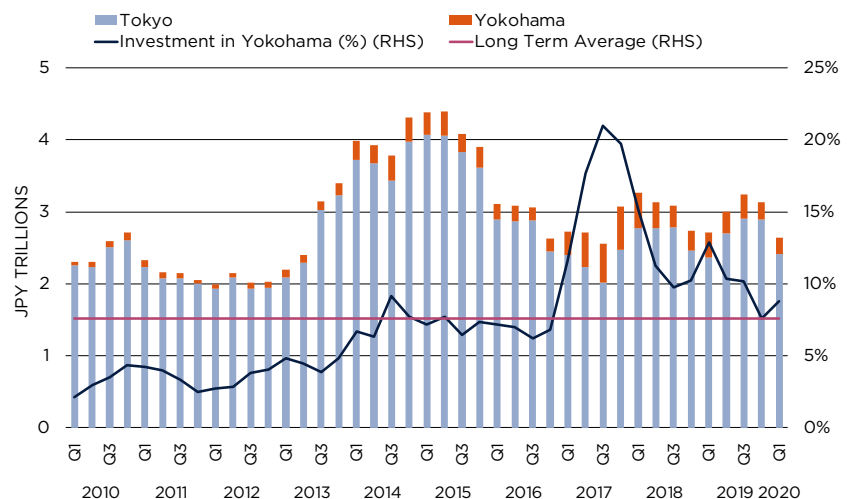
Whilst touching on the impact of COVID-19, given the above, this report will focus more on the longer-term trends that should see Yokohama emerge as a credible alternative to Tokyo.

## INVESTMENT

Against a backdrop of rock-bottom interest rates and uncertain global prospects, the Japanese real estate market continued to entice investors in search of stable yields. Meanwhile, when looking at the major cities, it's safe to say that Tokyo finds itself as the number one location. Based on data provided by Real Capital Analytics (RCA), on average, the capital was home to around 60% of total investment flows across all asset classes between 2010 and 2019. In reality, however, this figure had been on a downtrend before the COVID-19 outbreak due to the limited number of affordable opportunities in Tokyo.

As such, with the intense competition for quality assets stretching valuations in Tokyo, less financially capable market participants had no choice but to look elsewhere for opportunities.

**Graph 1: Rolling Annual Investment Flows into Tokyo and Yokohama, 2010 to Q1/2020**



Source RCA, Savills Research & Consultancy

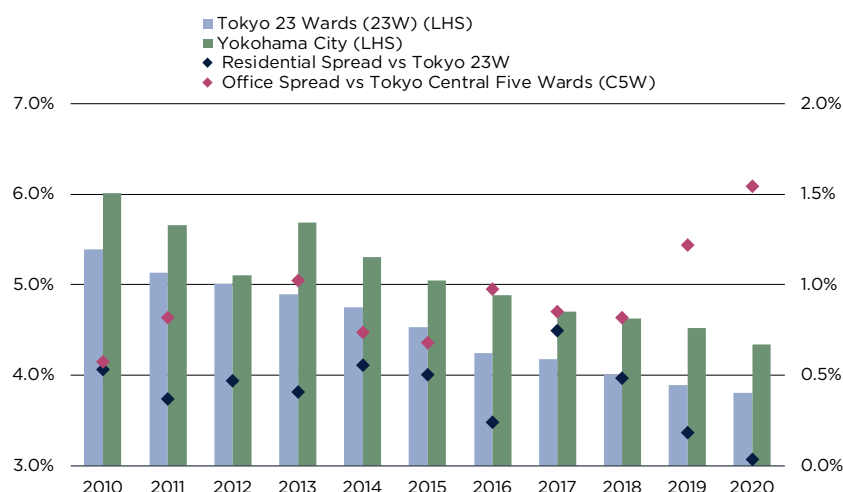
In truth, they did not have to look far. When looking at rolling annualised investment volumes specifically into Tokyo and Yokohama, since early-2017, the latter has seen a notable uptick, ensuring that its share of annual investment sits above its long term average of around 8%. To put this into perspective, Yokohama represented a mere 2% of the total transacted volume at the start of 2010 (Graph 1).

This competition for real estate assets has also led to cap rate compression over the period. Indeed, when using completed J-REIT transactions as a proxy for the broader market, the attractiveness of Yokohama becomes evident. Despite tightening in lockstep with Tokyo, across all asset classes, the cap rate remains around 50 basis points higher than its larger counterpart (Graph 2).

Looking at offices in particular, underpinned by strong investment demand for prime assets, cap rates in Tokyo have

**Thanks in part to the success of its many redevelopment projects, Yokohama has once again established itself as a major economic hub. Moreover, the onset of COVID-19 could see its popularity rise further owing to its favourable work-life environment. Meanwhile, the relative youthfulness of the city should help ensure that real estate fundamentals remain firm in the years to come, despite Japan's demographic challenges.**

**GRAPH 2: J-REIT Transaction Cap Rates\* and Spreads Across Asset Classes and Cities, 2010 to Q1/2020**



\* Cap rate information was not available for transactions involving office assets in Yokohama during 2012.  
Source J-REIT DB, Savills Research & Consultancy

continued to tighten, whilst the equivalent in Yokohama has remained relatively flat. Consequently, the spread between the two in this sector has reached a decade high of around 150bps in Q1/2020. Meanwhile, the multifamily residential sector in Yokohama remains stable and rents notably showed as much resilience as Tokyo following the Global Financial Crisis. Given this defensive nature, the spreads between residential assets remain close to nil, implying Yokohama's attractiveness, especially for residents. Under the current uncertainty, therefore, the discrepancy in valuations within certain sectors may accelerate the flight to quality. Alternatively, the "new normal" after COVID-19 may also present fresh demands and opportunities such as satellite offices.

## RESIDENTIAL

As well as an economic hub, Yokohama continues to be a popular location for would-be residents, and a big reason for this is the convenience of Yokohama Station. With a choice of around ten train lines, the station sees an estimated 2.3 million daily passengers, 400,000 of which are locals making the 30-minute commute to Tokyo. Popular lines include the Tokyu Toyoko Line going through Shibuya and the Tokaido Line, which connects the city with Shinagawa and Shinbashi – a popular destination for office workers – as well as Tokyo Station itself. Meanwhile, being within half an hour to other popular destinations, such as Kamakura to the south, as well as Shinkansen stations and Haneda Airport to the East, certainly adds to the appeal.

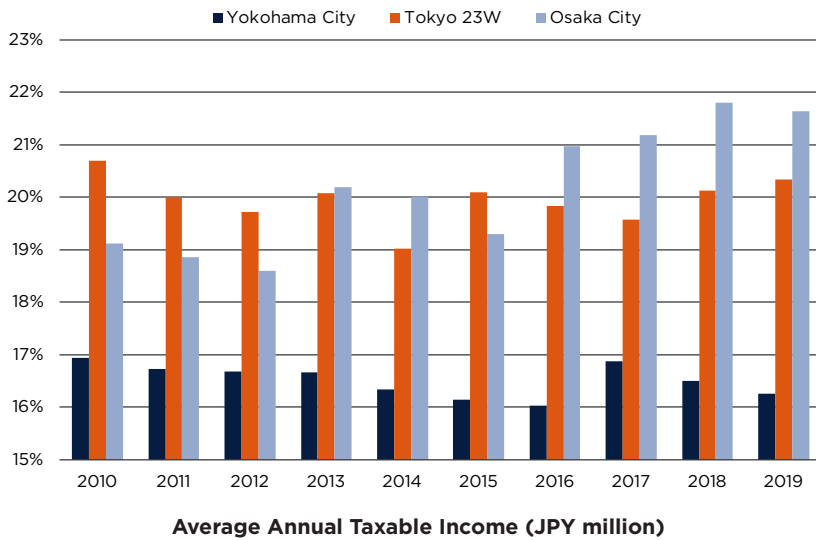
Though convenience is important, another vital consideration is the cost-of-living, and in

**TABLE 1: Major Transactions in Yokohama, 2017 to Q1/2020**

ANNOUNCED	PROPERTY	BUILDING USE	GFA (TSUBO)	PRICE (JPY BIL)	BUYER
Jan 2020	Minato Mirai Center Building	Office, Retail	28,800	98.0	GK Zest Leasing (SPC of Goldman Sachs)
Mar 2017	TOC Minato Mirai	Office, Retail, Hotel	30,900	66.5 (c70:30 - Building: Land)	Fuyo General Lease (Building) and Hulic (Land)
Dec 2017	MHI Yokohama Building	Office, Retail	33,100	64.0	GK YMM Investment (SPC of Kenedix Office REIT, Kenedix Private REIT, Kenedix)
Sep 2018	Ocean Gate Minato Mirai	Office, Retail	16,800	45.0	PLC8 GK (SPC of LaSalle Investment Management)
May 2017	Concurred Yokohama (75%)	Office, Retail	12,200	39.2	GK Yokohama Office Management (SPC of Daiwa Office REIT and Daiwa PI Partners)

Source Nikkei RE, Savills Research and Consultancy

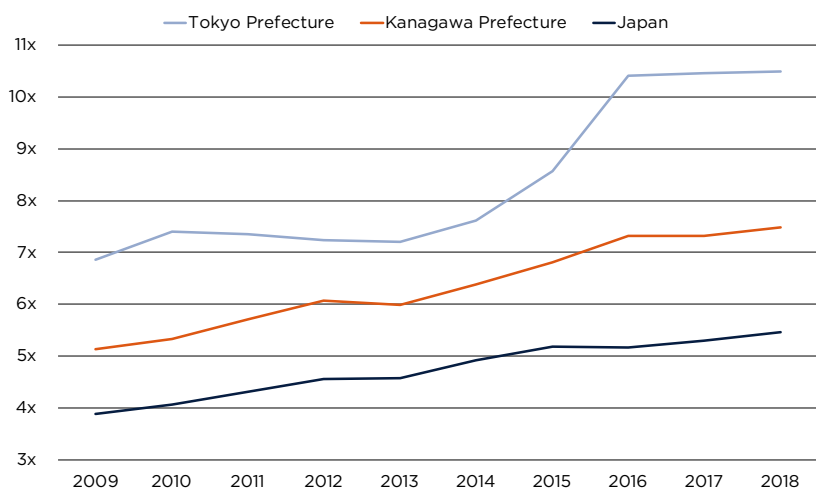
**GRAPH 3: Average Rent as a Proportion of Average Annual Taxable Income\*, 2010 to 2019**



YEAR	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Tokyo C5W	6.74	6.75	6.74	6.84	8.05	7.41	7.88	8.03	8.34	8.82
Tokyo 23W	4.57	4.59	4.59	4.62	5.03	4.87	5.03	5.10	5.22	5.39
Yokohama City	3.88	3.90	3.91	3.89	3.97	3.99	4.01	4.04	4.07	4.11
Osaka City	3.13	3.13	3.15	3.15	3.24	3.26	3.29	3.32	3.37	3.41
National	2.77	2.76	2.75	2.75	2.78	2.80	2.83	2.86	2.89	2.91

Source Tokyo Kantei, Ministry of Internal Affairs and Communications, Savills Research & Consultancy  
\*Based on an average unit size of 25 sq m.

**GRAPH 4: Average Second-hand Condo Price-to-Income Multiple by Prefecture, 2009 to 2018**



Source Tokyo Kantei, Savills Research & Consultancy

this context, Yokohama once again comes out favourably. A key component of this measure, namely taxable income, is unsurprisingly the highest in Tokyo. This is especially true in the central five wards (C5W) where average earnings are just shy of JPY9 million – over double that of Yokohama. Nonetheless, as with other asset classes, there is a premium to being in the capital. For instance, as of March 2020, average rents in the Tokyo 23 wards (23W) were over 50% higher than in Yokohama according to data provided by Tokyo Kantei. As such, when combining these two metrics, the affordability of Yokohama becomes apparent (Graph 3). To wit, for residents of Yokohama, rent accounted for 16% of taxable income, on average, in 2019 compared to 20% in the capital. Surprisingly, this figure was surpassed by the 22% observed in Osaka city – another major residential hub. In fact, the premiums of these two cities over Yokohama in 2019 of 4.1% and 5.4%, respectively, were at their highest in a decade.

For those hoping to buy rather than lease, the story is somewhat similar. Here, the average price-to-income multiple for second-hand condo developments<sup>1</sup> as of 2018 in the Tokyo Prefecture stands at around 10.5x, whilst in Kanagawa Prefecture, the figure is closer to 7.5x (Graph 4). To put these figures into perspective, the national average is around 5.5x. On the proviso that multiples between 6x to 10x have historically been assumed reasonable, Yokohama seems relatively more affordable. Indeed, this dynamic looks set to continue, with meaningful income growth looking unlikely in the foreseeable future, especially in a post COVID-19 world.

Meanwhile, a study conducted by SUUMO in March, whereby 7,000 participants were asked about their ideal station to live near in the Kanto Region, ranked the city as number one, ahead of the other top-3 stalwarts: Ebisu and Kichijoji (both in Tokyo). In fact, Yokohama has topped the table for three consecutive years, whilst it has also been in the top three since 2015. With further redevelopments in the pipeline, it would not be a surprise to see Yokohama retain its crown once again in 2021.

(Please refer to our Spotlight Report “[Tokyo Periphery and Rail Transit](#)” for further analysis on the residential market in the Tokyo periphery).

**OFFICE**

Along with the modernisation of the area surrounding the station, the success of the initial Minato Mirai 21 Project has seen Yokohama regain its status as an economic hub. Yet, with multiple eye-catching new

<sup>1</sup> Based on the average value of a 70 sq m condo built 10 years ago.

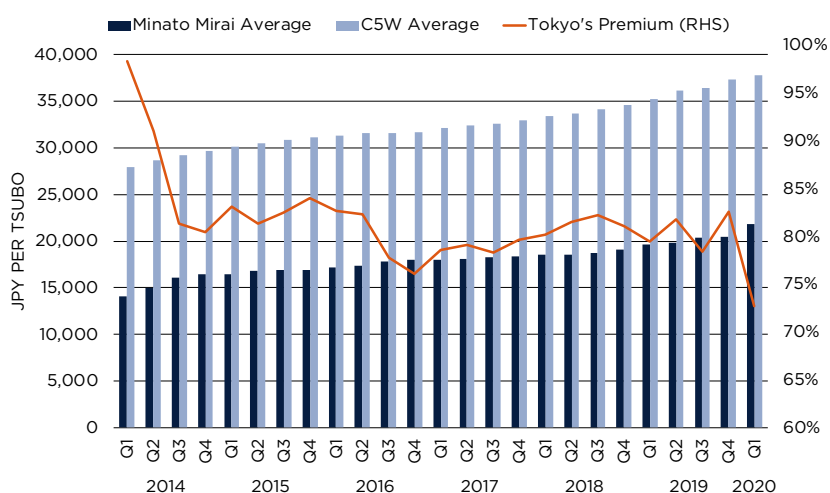
developments and the significant levels of demand for Tokyo offices, much of the attention had been stolen, and with good reason. Corporate profits had been expanding consistently – particularly in the technology sector – and, as a result, Grade A office rents had been trending higher. Meanwhile, faced with labour shortages, a focus on retaining

talented staff by improving the working environment had further enhanced the appeal of the modern, open-spaced, high-grade office – a spec found more commonly in Tokyo’s C5W. None of this is to say Yokohama office rents have lagged, however. On an annualised basis, rental growth in Minato Mirai has actually outpaced the C5W average

by an additional 2% p.a since 2014. In turn, the capital’s premium has narrowed from just under 100% to around 75% over the period (Graph 5). Yet, rents remain at an affordable level, with good potential for further upside – especially compared with the C5W.

With Kanagawa Prefecture’s Keihan industrial zone long recognised as a major R&D centre in Japan, nearby Minato Mirai has also attracted interest as an R&D hub for international companies, partly due to the provision of generous financial incentives. Starting with the completion of Fuji Xerox R&D Square in 2010, global players such as Shiseido and Kyocera have recently established themselves in the area, bringing the total number of R&D bases to over 20. In order to accommodate this growing demand, therefore, Minato Mirai has been undergoing large development of late – much of it owner occupied. In fact, the total GFA set to come online over the next four years could eclipse the total witnessed in the previous decade (Table 2). With much of this new supply expected around Shin-Takashima Station, however, it should have a limited impact on existing supply. More broadly, although this surge in office supply presents a potential headwind, current vacancy rates are extremely low – contracting from highs of 14% in 2011 to around 0.8% as of Q1/2020. As such, along with the increased demand,

**GRAPH 5: Grade A Office Rents and Tokyo’s Premium over Yokohama, 2014 to Q1/2020**



Source Savills Research & Consultancy

**TABLE 2: Office Supply in Minato Mirai, 2010 to 2024**

BUILDING NAME	NEAREST STATION	COMPLETION YEAR	GFA (TSUBO)*	TOTAL GFA
Minato Mirai Center Building	Minato Mirai	2010	28,800	179,200
Yokohama Mitsui Building	Shin-Takashima	2012	27,300	
MM Grand Central Tower	Minato Mirai	2012	34,600	
Yokohama i-Mark Place	Shin-Takashima	2014	29,400	
Yokohama Nomura Building	Shin-Takashima	2017	24,800	
Ocean Gate Minato Mirai	Minato Mirai	2017	16,800	
Shiseido Global Innovation Center	Shin-Takashima	2019	17,500	
Murata Manufacturing MM Innovation Center	Shin-Takashima	2020	18,100	180,800
Yokohama Grangate	Shin-Takashima	2020	30,600	
Yokohama Gate Tower Project	Shin-Takashima	2021	25,400	
LG Global R&D Center	Shin-Takashima	2021	11,200	
Metropolitan Expressway Kanagawa Bureau Development Project	Takashimacho	2021	4,200	
MM21 District Block 37 Development Project	Minato Mirai	2023	36,900	
MM21 District Block 53 Development Project	Shin-Takashima	2024	54,400	

Source City of Yokohama, Savills Research and Consultancy  
\*The GFA relates to the entire building.

the rise in office supply should be somewhat manageable going forward.

In a COVID-19 world, the valuations given to a previously robust C5W office market may instead make Yokohama seem even more attractive, due to its relative affordability and proximity to residential hubs. The pandemic, it would seem, has not only accelerated the requirement to be able to work from home, but has also potentially made this nascent trend a permanent part of corporate policy. For instance, in a report published by the Tokyo Metropolitan Government relating to remote work (394 responses), from March to April, the ratio of firms using, or planning to use, working-from-home policies more than doubled to just under 70%. Indeed, with many firms anticipating the potential cost savings from having the policy in place, and with social distancing requirements remaining for the time being, a paradigm shift in the office sector may be emerging. Without the need to cram employees into a large central location with lofty rents attached, previous plans to expand office space, especially in the C5W, are, in most cases, being put on ice. In its stead, a focus on cost effective satellite offices with easy access from residential hubs such as Yokohama. Indeed, the deep discount to Tokyo as well as the “new normal” in a post-COVID-19 world should be a recipe for success for this semi-regional market.

**RETAIL**

Yokohama is a popular destination for locals in addition to well over 80 million visitors per annum, and the resulting level of footfall has been a boon for retail rents in the main shopping districts adjacent to the station.

In fact, rental growth has been strong since 2018, with 1F rents in particular exhibiting exceptional year-on-year change. Whilst still markedly behind the levels of rent found in prime retail districts in Tokyo, such as Ginza, this recent uptick has led to a noticeable narrowing in rents between the two cities (Graph 6).

That said, with the prospects of the retail sector intertwined with the outcome of the COVID-19 pandemic, the immediate outlook for the sector is certainty unnerving. The impact from the substantial drop in footfall following the declaration of the state of emergency in early April is striking to say the least. Having previously been delayed to the end of May, the date at which the newly completed NEWoMan Yokohama is set to open its doors is now undecided. Housed in the retail portion of JR Yokohama Tower, the 10F structure, with around 20,000 tsubo of GFA, was supposed to be the centrepiece of the station redevelopment project but has instead remained out of operation.

Yet, the relationship with the outbreak could also provide a tailwind going forward for this sector. Namely, the emergence of working-from-home as a permanent part of corporate life could see an added vibrancy in the city, and not just on weekends. What’s more, assuming the economic recovery begins in earnest, the time and money usually spent on commuting could be diverted towards improving work-life balance, possibly spilling over into the retail sector. As such, with the facilities currently available, as well as those in the pipeline, the potential for Yokohama to emerge as a major retail hub gives some confidence in the sector’s longer term prospects.

**HOSPITALITY**

According to the Japan Tourism Agency (JTA), based on a questionnaire provided to inbound visitors, around 8% of respondents visited Kanagawa Prefecture during their trip in 2019. In contrast, Greater Tokyo was visited by over 47% of those asked. Hence, with the Tokyo Olympics on the horizon there was plenty of upside for the city, and in order to capitalise from the surge in visitors, a significant number of hotel developments were underway. Unfortunately, the COVID-19-induced postponement of the Tokyo Olympics, as well as the subsequent decimation of the tourism industry, has dealt a significant blow. With the recovery of the industry expected to outlast the pandemic itself, there are major hurdles going forward.

As for Integrated Resorts (IR), despite remaining in the running alongside Osaka, Wakayama and Nagasaki, the prospect of one opening in Yokohama now appears less clear. Indeed, the restrictions to movement and the subsequent drop in revenue have led to operators shifting their focus from expansion to survival. What’s more, the recent decision by Las Vegas Sands – a supporter of Yokohama – to drop its pursuit of a licence due to the inauspicious framework around Japan’s future casino industry certainly does not help. All that being said, if an IR were to be built, it could potentially generate 100,000 jobs and provide economic benefits of JPY1 trillion, according to the City of Yokohama.

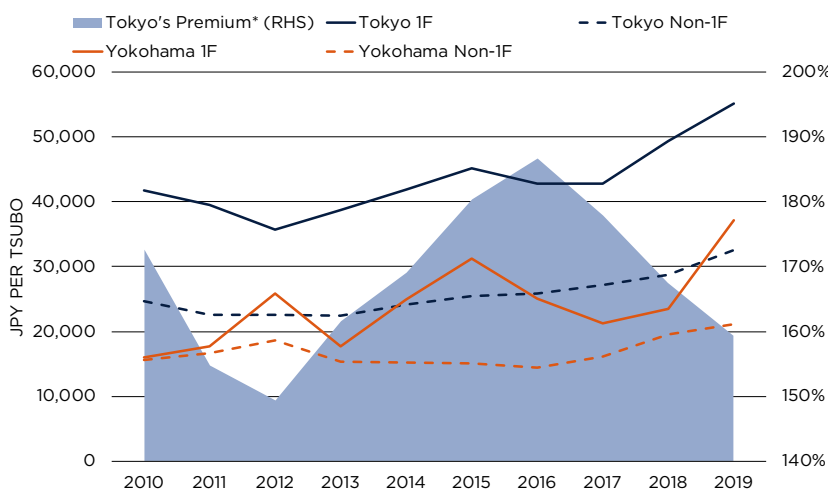
Nonetheless, despite the gloomy outlook over the shorter term, the fundamentals in Yokohama appear relatively stable. For instance, compared to international peers, luxury hotels are somewhat of a rarity in Japan and, here, Yokohama is once again positioned to profit. For that reason, projects such as the recently completed Intercontinental Yokohama Pier 8, as well as projects in progress such as The Westin Hotel, The Kahala and Yokohama Baycourt Club give a glimmer of hope for the future.

**YOUTHFUL YOKOHAMA**

The demographic challenges facing Japan as a result of both an aging and shrinking population is well known. According to forecasts made by the National Institute of Population and Social Security Research in 2015, the population is anticipated to shrink by around 16% between 2015 and 2045. Actual figures make for slightly better reading, however. Namely, the actual population in 2020, based on provisional data, is around 2% higher than forecasted, whilst the rate of decline since 2015 is also slightly less severe. That said, the drop in numbers remains a long-lasting issue.

The problems resulting from a shrinking population notwithstanding, major cities typically have younger demographics, driven by various economic and social factors, including

**GRAPH 6: Listed Retail Rents and Tokyo’s Premium over Yokohama, 2010 to 2019**



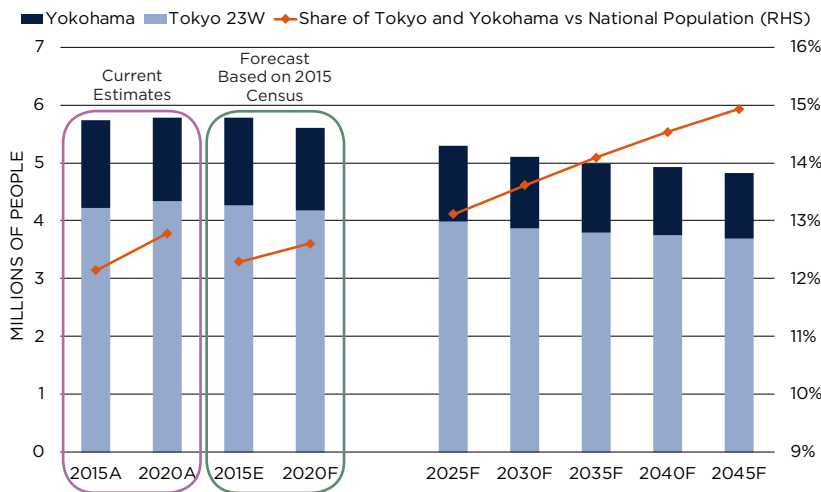
Source JREI, BAC Urban Projects, Savills Research and Consultancy  
\*Based on overall retail rents, including both 1F and non-1F.

**TABLE 3: The Number of University Students by City, 2019**

	LOCATION	NO. OF STUDENTS	% OF TOTAL
1	Tokyo 23W	539,470	38.2%
2	Kyoto City	144,713	10.2%
3	Nagoya City	102,626	7.3%
4	Yokohama City	82,389	5.8%
5	Fukuoka City	72,980	5.2%
	<b>Total</b>	<b>942,178</b>	<b>66.7%</b>

Source Ministry of Education, Culture, Sports, Science and Technology (MEXT), Savills Research and Consultancy

**GRAPH 7: Actual\* and Forecasted Population in Cities of People Aged Between 20-49 and the Share of Those Living in Tokyo and Yokohama vs National, 2015 to 2045F**



Source National Institute of Population and Social Security Research, Municipal Data, Savills Research and Consultancy

\*These estimates are made by municipalities based on the "Jumin Kihon Daicho" registration system. Therefore, estimates are subject to change once the 2020 census has been conducted.

migration for employment and educational opportunities. For instance, come 2045, the 20 to 39 cohort in Tokyo and Yokohama is forecasted to be around 30% and 10% higher, respectively, compared to the national average. As such, aided by these demographic tailwinds, the outlook for these major cities appear more positive than first thought.

One factor that may further drive this trend going forward relates to those even younger than the aforementioned demographic. With multiple competitive universities, Kanagawa Prefecture is an appealing destination for young people. Specifically, when looking at the proportion of students attending universities located in cities, Yokohama ranks fourth overall with around a 6% share (Table 3). Unsurprisingly, Tokyo leads the way with 38%. With labour shortages to persist even after the pandemic, the combined pool of well-

educated students in these two neighbouring cities, therefore, appears very attractive for prospective employers, mitigating the issues of talent acquisition. Subsequently, if these students end up working in Tokyo or Yokohama, the latter should be strongly considered as a place to live, given its amenities.

Alternatively, looking a little deeper into the SUUMO study mentioned above may also present some potential clues on the prospects for Yokohama. Around 10% of respondents, all aged between 20 and 49 who live in either Tokyo or Kanagawa Prefecture, had the station in their top three. What's more, two of the five most popular stations after Yokohama, namely Meguro and Shinagawa, are located on train lines between the city and the capital. With rents in these locations typically at a noticeable premium, Yokohama should appear an acceptable substitute for those without deeper

pockets.

Meanwhile, when looking at this 20 to 49 demographic for the 23W and Yokohama City together, this group currently accounts for around 13% of the national total (Graph 7). Despite the forecasted number of people in this age band declining, the share attributed to the two cities is forecasted to actually increase to around 15% by 2045. Indeed, with COVID-19 accelerating the desire for a better work-life balance, especially in the younger generation, and if the results of the SUUMO study are anything to go by, Yokohama has the potential to maintain its relative youthfulness going forward, despite the broader population shrinking.

**OUTLOOK**

Leading up to the end of 2019, rents had continued their seemingly unstoppable rise across most core asset classes in Tokyo, and subsequently the financial capacity of tenants had started to be tested. Meanwhile, intense competition for assets had also stretched valuations in the capital, bringing with it cap rate compression. Amid the upswing, however, having previously been somewhat overshadowed by the capital, Yokohama has re-emerged as a credible and affordable alternative following the success of its many redevelopment projects. Whilst COVID-19 may be a turning point for the property cycle, as well as a key reagent in reshaping the ideal lifestyle, many of these trends had emerged before the outbreak, and have since gained further traction. As such, these growth catalysts, allied with the demographic tailwinds, should drive Yokohama's appeal for the foreseeable future.

That said, Yokohama's prospects are largely interwoven with those of Tokyo. Accordingly, given the presence of various unknowns in the post-COVID-19 world, there is no guarantee that the themes discussed above will come to fruition. Indeed, with many predicting a long road to recovery, difficulties along the way are expected. Nonetheless, the sound fundamentals built from the progress made thus far should stand Yokohama in good stead for the time being.



For more information about this report, please contact us

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**Savills Japan**

**Christian Mancini**  
CEO, Asia Pacific  
(Ex. Greater China)  
+81 3 6777 5150  
cmancini@savills.co.jp

**Savills Research**

**Tetsuya Kaneko**  
Director, Head of Research  
& Consultancy, Japan  
+81 3 6777 5192  
tkaneko@savills.co.jp

**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk