

April 17, 2023

CEO Insight: Sustained residential demand drives Japan investment

Several factors are steadily bolstering Japanese demand for residential real estate, supporting rising rents and prices.

"What will Japan do with all of its empty 'ghost' homes?" (BBC); "Japan gives away its homes" (20min); "The land of empty houses" (Asienspiegel.ch). Such headlines about Japan have been appearing in the Western media for several years. The reports invariably attribute the vacancies to the demographically driven aging and shrinking of the population. The most recent [survey](#), conducted in 2018, found that 8.5 million housing units were vacant, or 13.5 percent of the housing stock of 62.4 million units.

Given those million-unit numbers, it's easy to see why the reports are clicked often, painting an eerily bleak picture of a supposedly decaying Japan with abandoned, half-overgrown cities full of rotting ruins. However, the actual vacancy rate is relatively undramatic, and the shrill headlines about empty houses represent only a niche aspect of the huge real estate market. Much more telling, and relevant to investors, is the continued strong demand for housing, which is essentially being met.

It is the ongoing trends of urbanization, family downsizing, influx of foreigners and professionals, and earthquake-resistant construction that are feeding this demand. According to the Nomura Research Institute, between 2018 and 2023, the nationwide housing inventory increased by about 3 million units to 65.4 million units. Even during the pandemic, more than 800,000 new homes and 100,000 new high-rise apartments [were built](#) annually. The construction boom in "tower mansions" - high-rise apartment buildings with more than 20 floors - continues. Foreign investors are lining up to buy residential property as rents and land values rise in major cities.

So where does the myth of a "glut of empty homes" come from? Let's take a closer look at the figure of 8.45 million akiya (Japanese for "empty house"). More than half of these were empty at the time of the survey only because their owners were looking for new tenants. 290,000 homes were for sale and 380,000 were vacation rentals. 480,000 homes are within one kilometer of a train station and, according to official estimates, need only minimal repairs to be inhabited again.

The only real concern for the public sector are the long-term, permanently vacant houses that have been abandoned to their fate for years and decades. Many become dilapidated, in danger of collapse, or uninhabitable in a relatively short time due to the hot and humid climate, and would have to be demolished. 3.47 million shelters still fall into this category.

Most of these genuine akiya are located far from the metropolises in areas suffering from rural exodus. The owners of these properties, often the heirs of former residents, let them fall into disrepair primarily for financial reasons. They can't or don't want to pay for the demolition because they can't find a buyer for the property anyway. In addition, the tax on undeveloped property is higher. Because of lax registration rules, many villages and towns do not know who currently owns the dilapidated house, so it cannot be demolished.

However, the government has already completed a root cause analysis and taken countermeasures. The [amended](#) property registration law requires property owners to report any change of address starting in 2024. After the death of the owner, heirs must be officially registered to allow for sale or mortgage. If no one accepts the inheritance, the state can take over the property and organize demolition itself. Many cities and towns will use public funds for this purpose. The central government is also planning tax incentives for the demolition and rehabilitation of empty houses. These initiatives should bring the akiya problem under control.

However, the overall real estate market presents a very different picture. The price index for new and second-hand apartments has been rising steadily since 2013. Nationwide, residential land prices are also on the rise. Despite this inflation, and higher labor and material costs due to inflation, the number of homes being built in 2022 did not decline due to strong demand. The number of single-person households is growing steadily, and young and old people are moving to cities. In addition, Japan has been attracting foreign professionals and students again since April 2022 after the pandemic. In 2022, 1.34 million foreigners [entered the country](#) on long-term visas. The total number of foreigners grew by 11.4% to a record 3.1 million in 2022, of which 1.83 million are [employed](#). These trends appear to be stable, so residential real estate investment in Japan will remain valuable and attractive in the medium term.

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