



# CITIES WITH HIGHEST YIELD IN JAPAN

**Priti Donnelly** suggests which cities give the best outcome when weighing in on both yield and population growth.

**Q:** Should I base my purchases on highest yield when purchasing properties?

**PD:** Ask investors what appeals to them about Japan properties and they will say – affordable prices, high yield and steady cash flow from rental income. This is true in part. However, placing your bets on high yield alone can prove to be risky when trying to replace a tenant in an area with low population growth. Therefore, in addition to yield, taking into consideration population growth and even governance can minimize investment risks for a steady rental income stream.

### HIGHEST YIELD VS POPULATION GROWTH

Due to Japan's fastest declining and fastest aging population in the world, and because population is key to the occupancy of rental properties, it is important to understand the correlation between yield and population growth. Based on the chart here, Kobe, Hiroshima and Sapporo provide the highest yield and show stable populations. But replacing a tenant might not be as quick as you would find in Kawasaki, Tokyo or Saitama based on higher population growth.

This chart which shows a low-risk blend of both population growth and yield identifies Fukuoka, Saitama and Kawasaki with the most potential.



Summer festival parade in Kyoto. Photography by Jan Yong

	2015	2008	GROWTH	AVERAGE YIELD NET PRE-TAX
Kobe	1,550,831	1,530,847	1.31%	9.69%
Hiroshima	1,188,398	1,163,806	2.11%	9.53%
Sapporo	1,936,016	1,914,434	1.13%	8.00%
Sendai	1,053,509	1,029,552	2.33%	7.10%
Fukuoka	1,486,314	1,430,371	3.91%	7.00%
Osaka	2,670,766	2,668,586	0.08%	6.82%
Kyoto	1,419,474	1,474,570	-3.74%	6.70%
Nagoya	2,260,440	2,283,289	-1.00%	6.68%
Saitama	1,260,879	1,192,418	5.74%	6.50%
Yokohama	3,722,250	3,697,894	0.66%	6.00%
Kawasaki	1,445,484	1,373,630	5.23%	5.55%
Tokyo	9,102,598	8,637,098	5.39%	4.50%

Source: Local Administration Bureau, Ministry of Internal Affairs and Communications

“Kumamoto’s growth can be attributed to the development of one of the largest solar farms in the world, established since 2013.”

Across Japan, rental income yields approximately 7.5% net pre-tax on average with less risky, high occupancy, metropolitan cities at 6% yield, and smaller townships with the prospect of higher vacancy rates closer to 11%. The drivers of yield vary considerably in each city.

“Where there is strong governance supporting the unemployed, elderly and disabled, you may receive timely rental payments directly from townships through welfare programs.”

### SAPPORO

The 2011 tsunami affected property prices across Sapporo resulting in yields of approximately 8% net pre-tax. After the 2011 tsunami and up to 2013, the tens of millions of tourists visiting the main island of Hokkaido on a yearly basis came to a halt. Property prices became depressed but rental rates remained the same as local residents did not flee to other parts of Japan.

After 2013, population began to slowly grow boosting occupancy rates, and tourists gradually returned. Property sales picked up, but not enough to boost sale prices. As a result of depressed prices and stable rental rates, we see higher yields with older (1973-2000) single room properties generating the highest yield.

### FUKUOKA

Fukuoka properties, although more expensive than other parts of Japan due to demand, are a popular choice for the conservative investor. The thriving city experienced a re-awakening since 2011 for several reasons.

First, politically, the city's governor, a modern forward-thinker, strategically marketed Fukuoka to the world as, “Japan's gateway to Southeast Asia.” Being closer to Korea, Shanghai and Taiwan than to Tokyo, this initiative proved to be successful for international conferences.

Second, after the “3-11 Tsunami” and subsequent nuclear spill in Fukushima, households and businesses in the area sought to distance themselves and moved away to the western end of the country, Fukuoka. Fukuoka city has experienced the largest organic growth of families and is seen as the best city to raise a family in the country. In this bustling city, high tenant demand and more expensive property prices bring down the yield.



Tenjin is a shopping, dining and entertainment area of Fukuoka city in Japan.

### SMALLER CITIES AND TOWNSHIPS

Investors also keep their eyes on higher yields in smaller cities and townships, particularly those growing faster than Tokyo. Kumamoto, for example, has a population of 734,917 as of 2015 and 670,348 in 2008. Not over a million like Sapporo, Kobe and Fukuoka, but much more growth at 9.63%, a significant difference to 3.91% in Fukuoka, 1.31% in Kobe, and 1.13% in Sapporo, and steadily growing. Kumamoto's growth can be attributed to the development of one of the largest solar farms in the world, established since 2013.

While yield is undoubtedly a factor for higher monthly income, and population is key to tenant demand, growth and governance should not be overlooked. Where there are factories, you can expect a demand from employed tenants. Where there is strong governance supporting the unemployed, elderly and disabled, you may receive timely rental payments directly from townships through welfare programs. ■

Traditional facade of a house. Photography by Jan Yong



**Priti Donnelly** is the sales and marketing manager at Nippon Tradings International, a proxy and buyers' agency representing foreign investors with purchasing, selling and managing real estate in Japan. She can be contacted at PH: +1 519 546 9473 / +81 3 4520 9262; or  
Email: [info@nippontradings.com](mailto:info@nippontradings.com)  
<http://www.nippontradings.com>  
<https://www.linkedin.com/in/realestatejapan>