Intelligent Investment

Market Forces:
How Supply and Demand Are Shaping Residential Rents in Japan

VIEWPOINT

RESIDENTIAL RENTS DO NOT NECESSARILY TRACK HOUSEHOLD INCOME, REFLECTING THE STRONGER INFLUENCE OF SUPPLY-DEMAND FUNDAMENTALS.

CBRE RESEARCH
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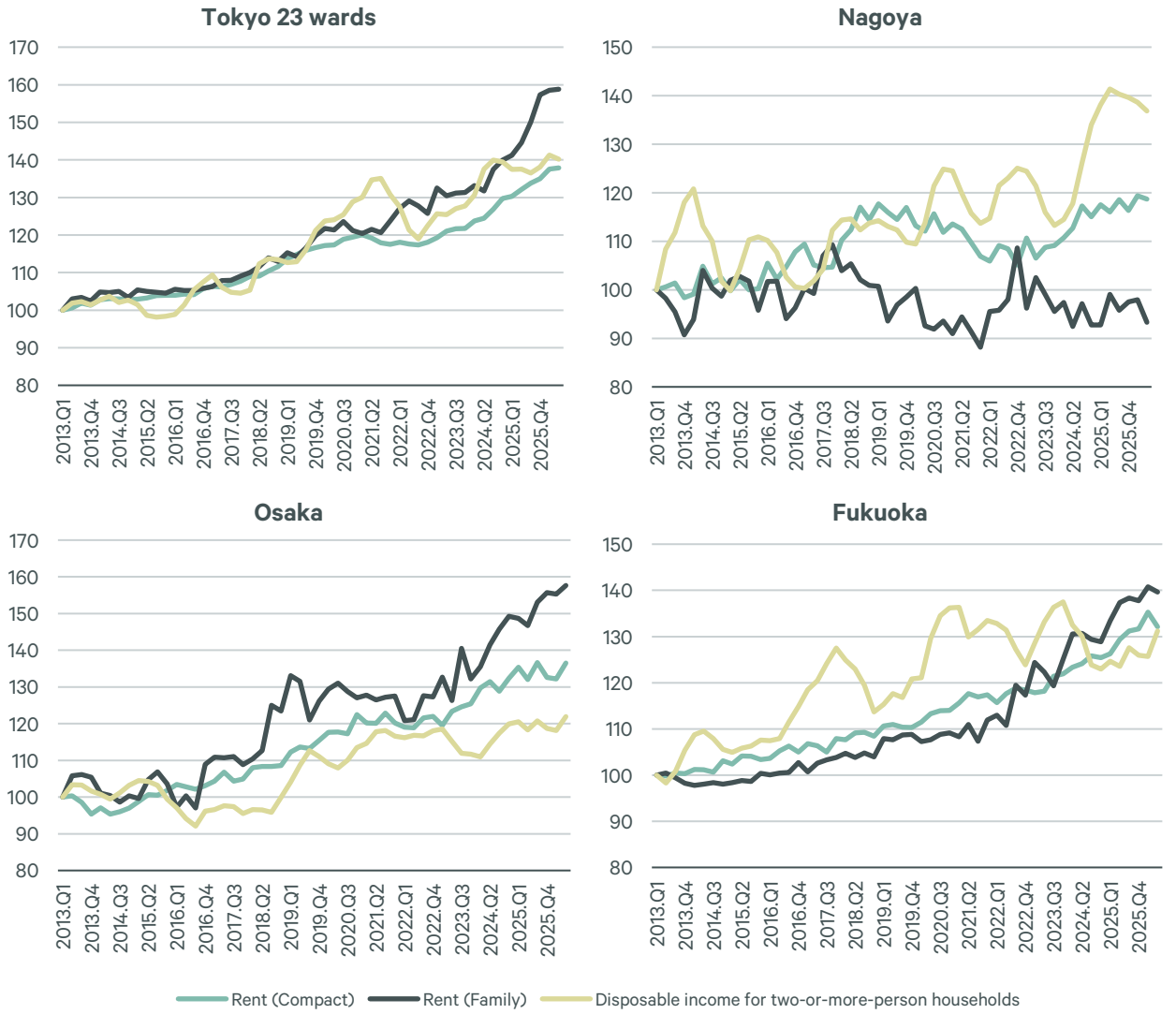
While residential rents may be influenced by average household disposable income, an examination of Japan's four major cities, namely the Tokyo 23 wards, Nagoya, Osaka, and Fukuoka, suggests that rents do not necessarily move in tandem with income trends, with each city exhibiting distinct dynamics.

Behind this divergence lie differences in the supply-demand balance across cities, including the volume of rental housing supply, unit size composition, and homeownership rates.

1. Diverging income and rent trends across cities

CBRE's comparison of the index of disposable income for two-or-more-person households (indexed to Q1 2013 = 100) with the Residential Rent Index for compact- and family-type units — the unit types most likely to be occupied by such households — across Japan's four major cities reveals that the relationship between the two indicators varies considerably by city (Figure 1).

Figure 1: Rents and disposable income (Q1 2013=100)



Note: Disposable income uses a four-quarter backward moving average to smooth the seasonal effect from bonuses and other factors (e.g., Q1 2013 = average of Q2 2012–Q1 2013).
Compact – 30-60 sqm, Family – 60-100 sqm
Sources: Family Income and Expenditure Survey, MIC, November 2026; Residential Rent Index, At Home Co., Ltd., Sumitomo Mitsui Trust Research Institute Co., Ltd., September 2026; CBRE Research.

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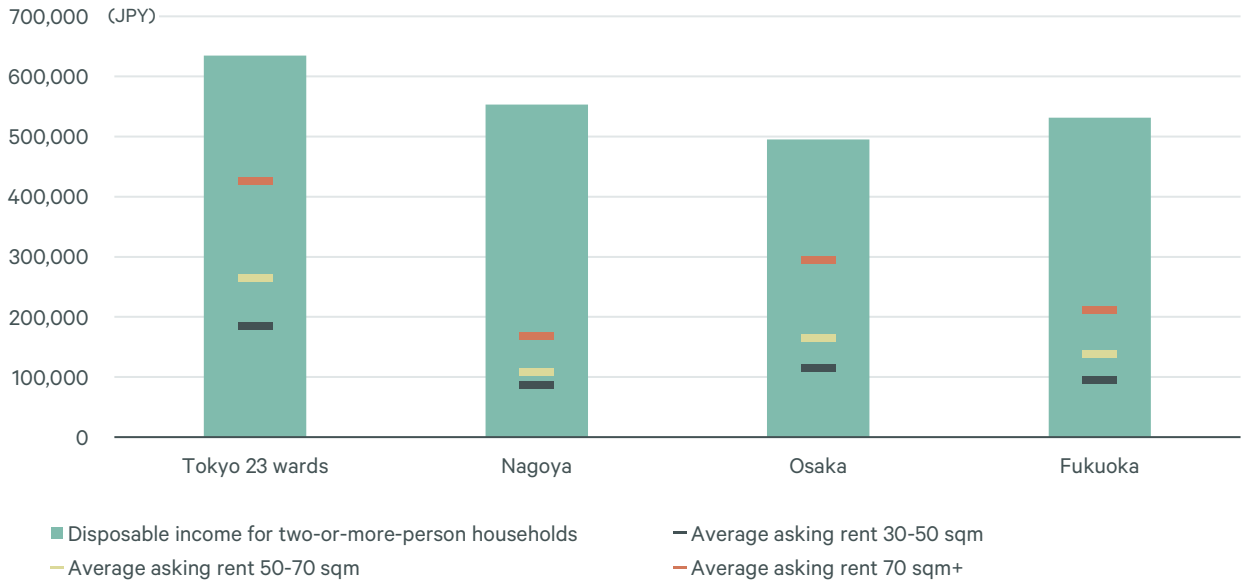
In the Tokyo 23 wards, both indicators had until recently grown at broadly similar rates over the long term. However, from Q4 2024 onwards, rental growth for family-type units began to outpace household income growth. While this has led market observers to question the remaining upside for rents, CBRE's comparison of the two trends across other cities confirms that rents and incomes do not necessarily move in tandem.

In Nagoya, rental growth for compact- and family-type units — the segments most likely to be occupied by two-or-more-person households — have remained modest even during periods of significant income growth, such as those witnessed in 2013 and 2024. In contrast, Osaka has seen rents continue to rise since 2022, despite the absence of meaningful income growth. In Fukuoka, rents have continued to climb at a steady pace even as household income declined in early 2024, thereafter remaining flat.

To further examine the income-rent relationship in absolute terms, CBRE compared disposable income for two-or-more-person households with average asking rents for apartments as of September 2026 across cities (Figure 2). This chart confirms that the relationship between the two indicators also varies significantly by city in absolute terms.

Taken together, these observations suggest that income growth does not necessarily translate into rent increases, and that other factors exert a stronger influence on rental growth.

Figure 2: Disposable income for two-or-more-person households and average residential asking rents (September 2026)



Note: Disposable income uses the average of October 2025 - September 2026 to smooth the seasonal effect from bonuses and other factors.
Average asking rent for RC/SRC apartment buildings.
Sources: Family Income and Expenditure Survey, MIC, November 2026; Average Asking Rents for Apartments, At Home Co., Ltd., October 2026.

2. Relationship between supply-demand balance and rental trends in each city

CBRE believes the supply-demand balance is the key factor influencing rental performance in each city. To examine this relationship, CBRE used the following indicators: on the demand side, "number of two-or-more-person households and homeownership rates"; and on the supply side, "ratio of rental housing starts to rental housing stock", "average floor space per unit of rental housing starts" and "breakdown of rental housing by floor area and average floor space by construction period" (Figures 3–6).

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Tokyo 23 wards

The homeownership rate in the Tokyo 23 wards has remained low and stable, suggesting that rental demand in this market can be sustained. The number of renter households among two-or-more-person households peaked in 2018 and has remained flat since 2023, indicating that rental demand from two-or-more-person households has stabilized at a consistent level. On the supply side, however, rental housing stock in the Tokyo 23 wards is heavily skewed toward smaller units. Units of 29 sqm or smaller account for 44% of all occupied rental dwellings, while the average floor area per unit stands at 39.0 sqm — the smallest among the four cities. While the average floor area of new rental housing starts has expanded from a trough of approximately 38 sqm in 2018 to around 46 sqm since 2022, this still falls well short of the 56.2 sqm average floor area recorded for two-or-more-person households living in rental housing in the Tokyo 23 wards, as MIC reported in its 2023 Housing and Land Survey. Taking the removal of older units in rental housing stock for redevelopment and other purposes into account, the persistent undersupply of medium- and large-sized rental units is tightening the supply-demand balance for housing targeting two-or-more-person households, likely contributing to sustained upward pressure on rents.

Nagoya

In Nagoya, the supply of medium- and large-sized rental units appears to be more adequate compared to other cities. While the share of small units of 29 sqm or smaller has increased among rental units built since 2016, units of 50 sqm or more still account for approximately 20–30% of total stock. New rental housing starts peaked at around 2.5% of the then-existing rental housing stock in 2018 and have since consistently remained at or above the national average, with the average floor area of new starts recently exceeding the national average. Meanwhile, the homeownership rate has remained the highest among the four major cities since 2013, standing at 66.4% in 2023. Even with a relatively abundant supply of rental housing for two-or-more-person households, the share of renter households in Nagoya has not increased. This suggests that two-or-more-person households in this market have a stronger preference for homeownership, which may be why income growth has not translated into rental increases.

Osaka

While household income in Osaka has remained broadly flat since 2021, rents have continued to rise. This is likely due to the relatively small floor area of newly supplied rental units and the limited supply of medium- and large-sized units. While the average floor area of new rental housing starts has been gradually expanding since bottoming out in 2016, it remains well below the national average and is the smallest among the four cities. By construction period, the share of small units of 29 sqm or smaller has increased in more recently built stock, indicating that the supply of medium- and large-sized rental units remains constrained. As a result, demand for rental housing targeting two-or-more-person households continues to outpace supply, generating upward pressure on rents. Against this backdrop, some rental demand has shifted toward homeownership, which may explain the recent upward trend in the homeownership rate.

Fukuoka

The homeownership rate in Fukuoka is the lowest among the four major cities, standing at just 58.1% in 2023, reflecting a market with strong demand for rental housing. On the supply side, both the average floor area of new rental housing starts and the average floor area of units built between 2021 and September 2023 are larger than in other cities, indicating ample supply of medium- and large-sized rental units. While the total number of two-or-more-person households has increased, the number of renter households has remained flat. Although this suggests that the incremental household demand has been directed toward homeownership, MIC's 2023 Housing and Land Survey shows the share of vacant units available for rent in the city's total rental housing stock declined between 2013 and 2023, indicating that rental units are being absorbed at a pace that outstrips supply. While this figure covers all rental housing rather than two-or-more-person households, it suggests that rental housing may be undersupplied in this market. CBRE believes that this demand-driven tightening of the supply-demand balance is generating upward pressure on rents for housing targeting two-or-more-person households in Fukuoka.

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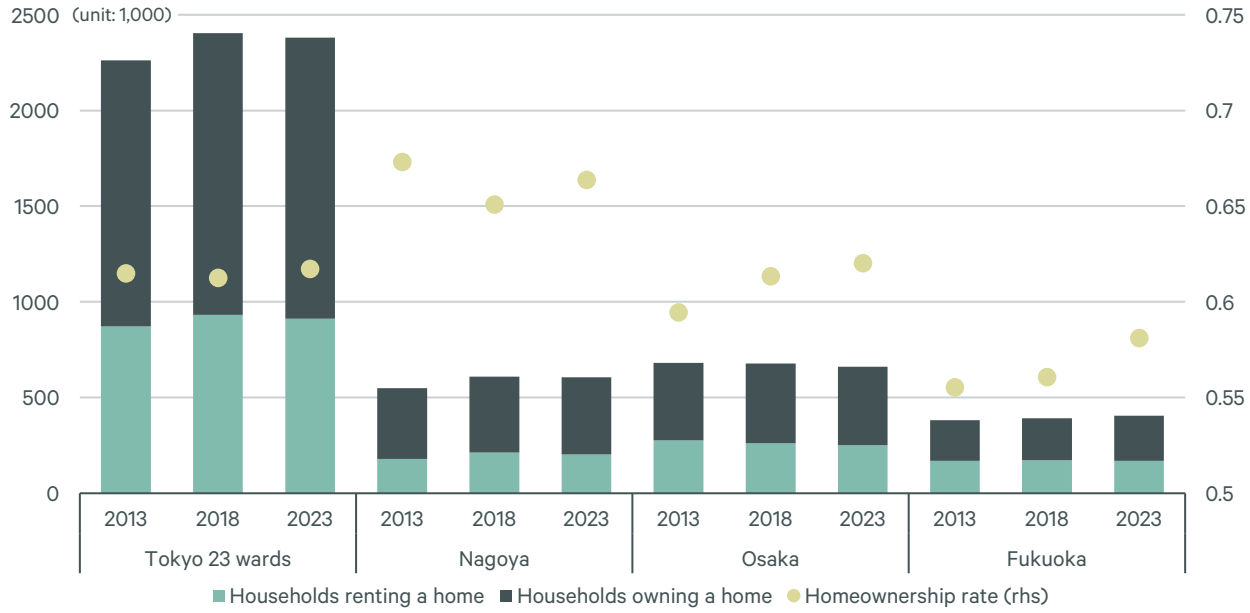
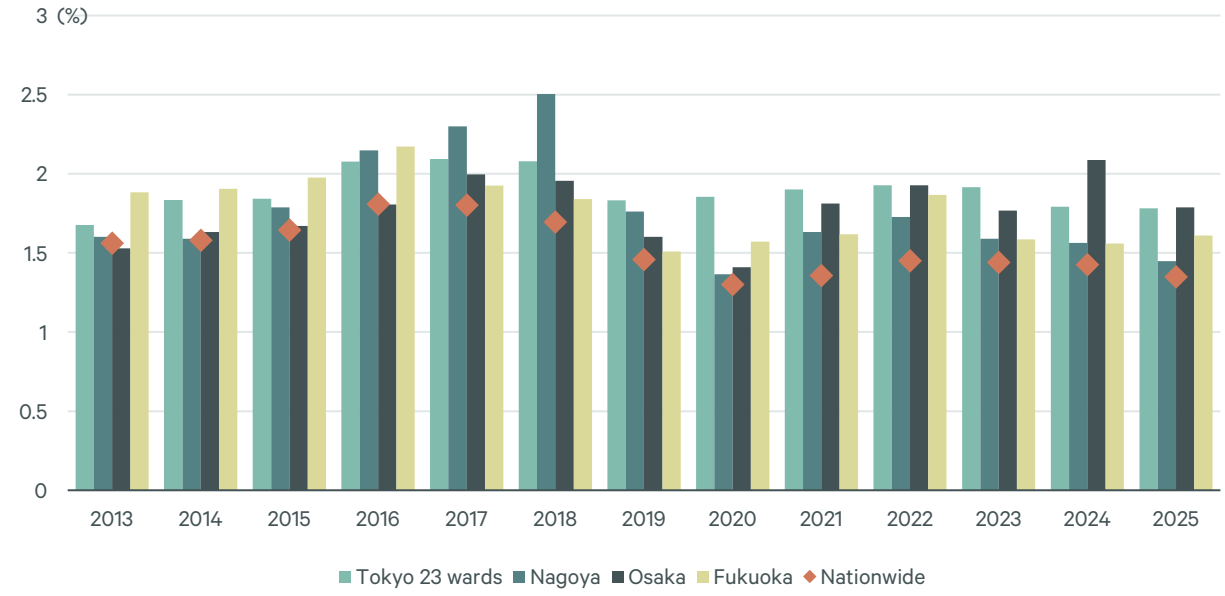
Figure 3: Number of two-or-more-person households and homeownership rates



Source: Housing and Land Survey, MIC

Figure 4: Ratio of rental housing starts to rental housing stock



Note: Rental housing stock is based on five-year survey values from MIC's Housing and Land Survey (occupied rental housing + vacant dwellings for rent), with interim years interpolated using the annual average growth rate.
Source: Statistical Survey of Housing Starts, MLIT, January 2026.

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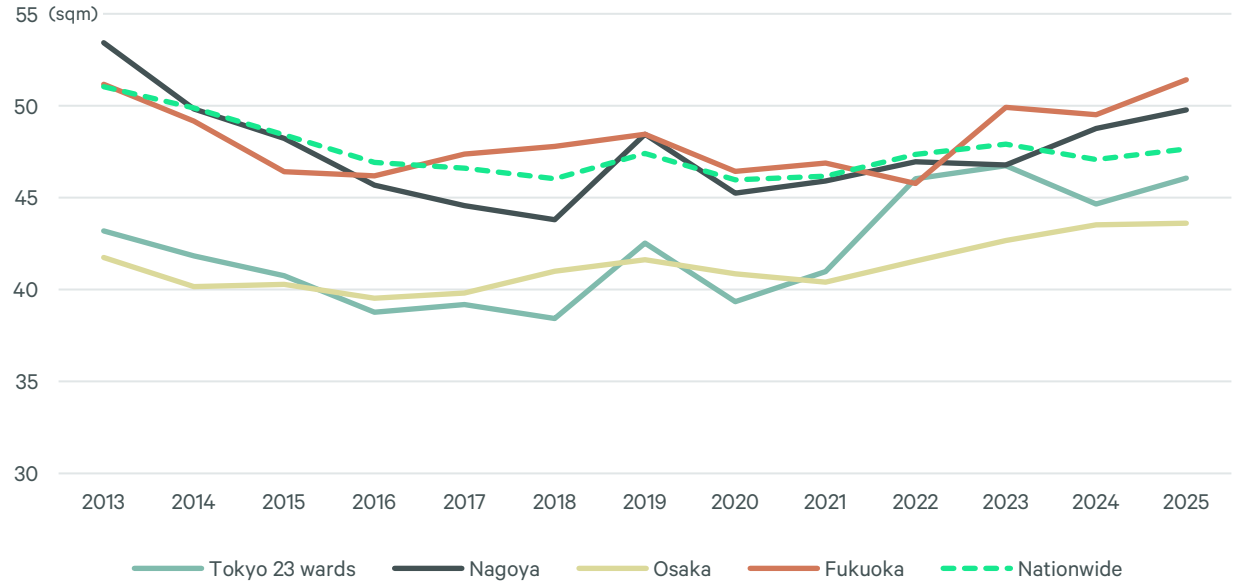
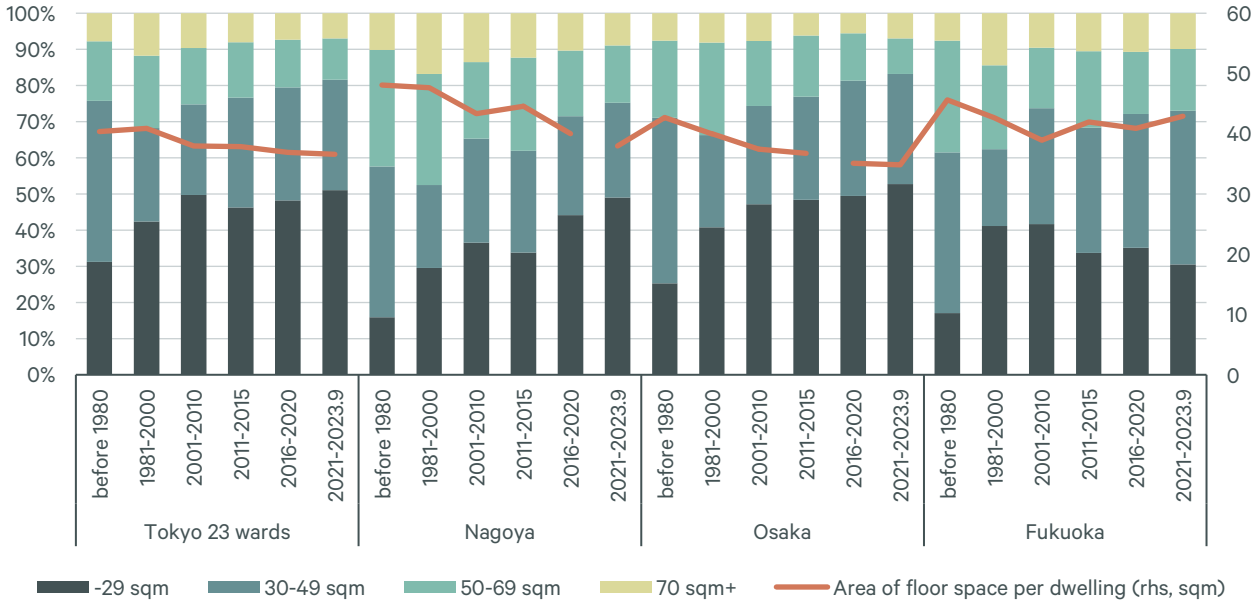
Figure 5: Average floor space per unit of rental housing starts



Source: Statistical Survey of Housing Starts, MLIT, January 2026.

Figure 6: Breakdown of rental housing by floor area and average floor space by construction period



Note: Covers dwellings used exclusively for living and occupied as rental units.
Source: Housing and Land Survey 2023, MIC, 2023.

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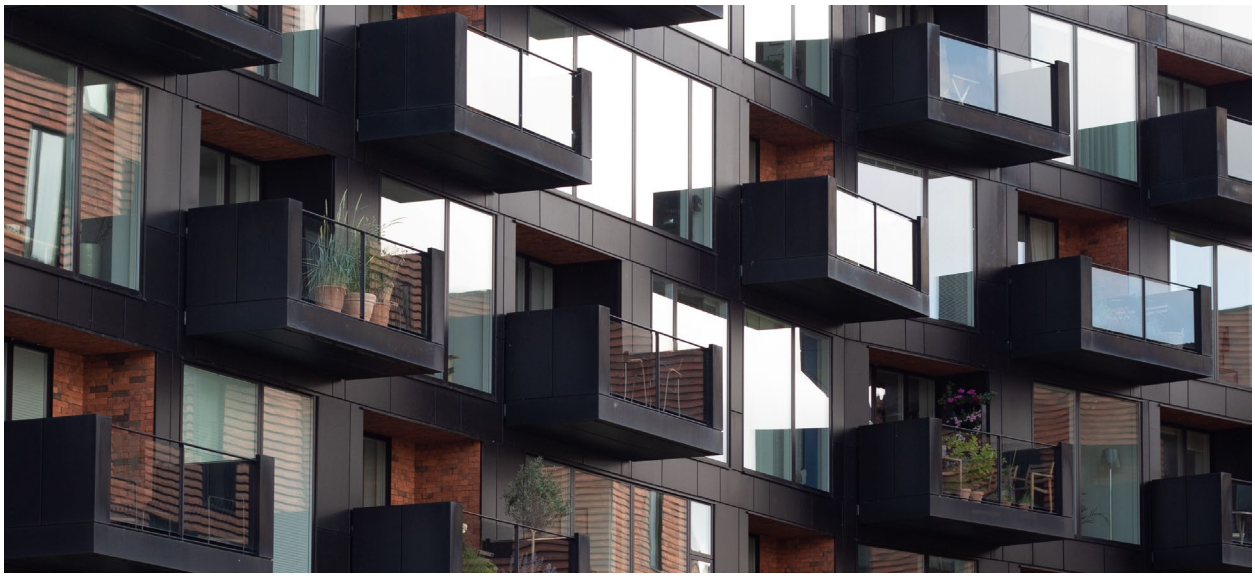
3. Conclusion

CBRE's examination of residential rent trends across the four major cities reveals that rents do not necessarily rise in response to higher household incomes and enhanced household rent-paying capacity. Rather, the supply-demand balance appears to be the dominant driver.

In the Tokyo 23 wards, Osaka, and Fukuoka, the supply-demand balance for housing targeting two-or-more-person households is tight, meaning that upward pressure on rents is likely to persist. In contrast, Nagoya's strong homeownership preference is suppressing rental demand. With a relatively ample supply of rental housing, rental growth potential in this market is more limited compared to the other three cities.

Against a backdrop of rapidly rising interest rates driving up the mortgage burden and persistently high condominium prices, the hurdles for homeownership in Japan have risen, particularly in urban areas. Should households that have previously preferred homeownership begin to enter the rental market, rents could rise even in cities where homeownership rates have been high and rental demand has historically been subdued.



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