Private Markets

July 2025

Reframing Japan's Living Opportunity

BlackRock

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Living sector in Japan

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Key Takeaways

- Japan real estate is the fourth largest investible real estate market globally[2] and offers a compelling destination for capital.
- Several structural tailwinds continue to support the living sector namely: household formation, rising construction costs and rising wages.
- Today, there is macro uncertainty that warrants caution, with the potential for rising interest rates, focus should be on strategies that deliver high yields on cost and capitalize on growth.
- Alternative living strategies provide higher returns with a degree of sector resilience, making them attractive for investors looking to enter the living market in Japan and generate strong long term risk adjusted performance.

Why APAC?

With over half of GDP growth attributed to the region in the past decade, APAC has become the cornerstone of the global economy. Given the pro-cyclical nature of real estate, the APAC region offers real estate investors the opportunity to capitalize on robust economic growth and generate outperformance.

Amid heightened geopolitical instability, investors need to be increasingly focused on de-risking investment portfolios. To achieve this in the APAC region, focus should be on the most liquid, transparent markets that are more insulated from the effects of heightened geopolitical uncertainty. Mature markets such as Australia, Japan, Singapore, and New Zealand enable investors to gain exposure to high-growth dynamics without increasing exposure to the risks often associated with emerging market investment.

Capitalizing on the economic renaissance in Japan

A key benefit of investing in APAC is the diversity of market cycles across the region. While some countries, such as Australia, tend to follow cyclical dynamics aligned with the US and Europe, Japan often operates on a distinct and independent trajectory. This divergence in economic cycles provides a natural hedge within the region. When global markets experience widespread repricing and devaluation, as seen in recent years, the impact on APAC is often less uniform and, in some cases, more muted.

Figure 1: Japan's GDP Ranking in the World Economy

Rank	Country	GDP (in USD $Bn)
1	United States	$23,305
2	China	$18,583
3	Japan	$4,604
4	Germany	$4,120
5	India	$3,848
6	United Kingdom	$3,275
7	France	$2,983
8	Italy	$2,205
9	Canada	$1,866
10	Brazil	$1,117

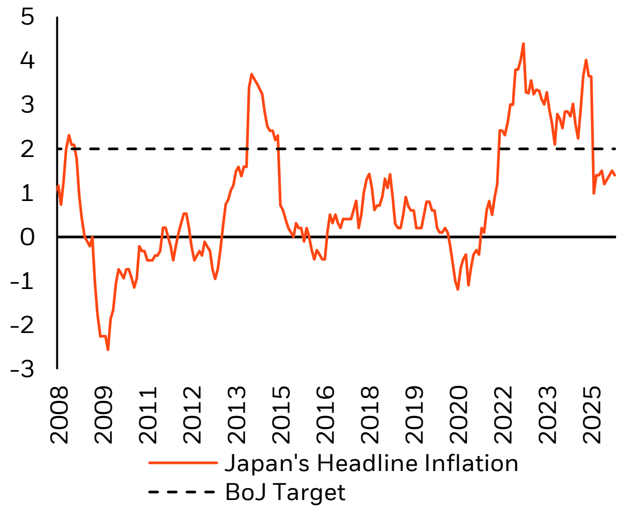
Source: Oxford Economics, as at 18 June 2025.

Japan is the world's third-largest economy, it has a stable political system, a strong rule of law, and one of the most developed legal and financial regulatory environments in Asia[1]. According to the JLL Transparency Index, Japan is ranked in the top tier of transparency, reinforcing its reputation as a low-risk institutional grade capital destination.

Note - 1. Worldometer GDP, as at 6 May 2025.

Historically, Japan's monetary regime has been characterized by ultra-loose policy, including negative interest rates and aggressive quantitative easing, aimed at combating deflation and stimulating growth. However, in the past 12–18 months, we have witnessed a meaningful shift. Japan's economy, which had become strained under weak growth and low inflation, is now showing distinct signs of life. This has been coined the country's economic renaissance.

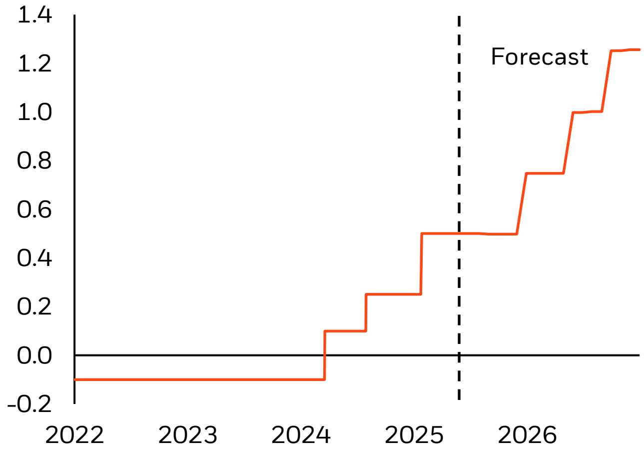
Figure 2: Japan's Headline Inflation (in %)



Source: BII, as at 11 June 2025.

Amid rising inflationary pressures and signs of wage growth, the Bank of Japan has begun to cautiously unwind its long-standing stimulus measures, most notably by adjusting its yield curve control policy and moving toward interest rate normalization.

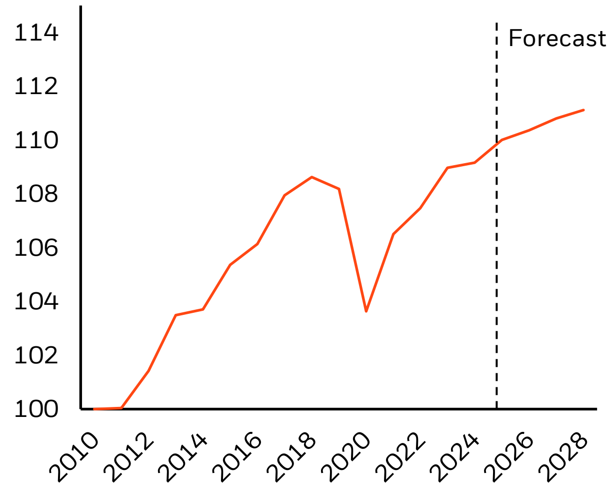
Figure 3: BoJ Policy Rate (%)



Source: Capital Economics Forecasting, as at 11 June 2025. **Forecasts may not come to pass.**

This policy pivot reflects growing confidence in Japan's domestic demand and economic outlook. For the first time in decades, investors are positioned to benefit not just from Japan's stability, but also from its renewed economic dynamism. Equity markets have responded positively, reaching multi-decade highs, while foreign capital inflows have accelerated. This transformation is creating fresh opportunities across asset classes as the macro environment becomes more supportive of sustained growth.

Figure 4: Japan GDP growth Index



Source: Oxford Economic Forecasting, as at 11 June 2025. **Forecasts may not come to pass.**

In addition to this, Japan has implemented several significant corporate governance and economic reforms aimed at attracting foreign capital. This has made it easier for investors to access and profit by improving board accountability, boosting returns to shareholders, and reducing bureaucratic barriers to investment.

For investors, Japan now offers a rare combination: structural safety, cyclical upside driven by economic revitalization, and diversification given the distinct monetary policy regime compared to other major economies. However, the Japanese economic backdrop is complex due to its idiosyncratic characteristics. Deploying successfully into Japan is not straightforward in today's market. It requires deep local knowledge and a very deliberate, targeted strategy with a laser focus on sector strategy, allocation and timing.

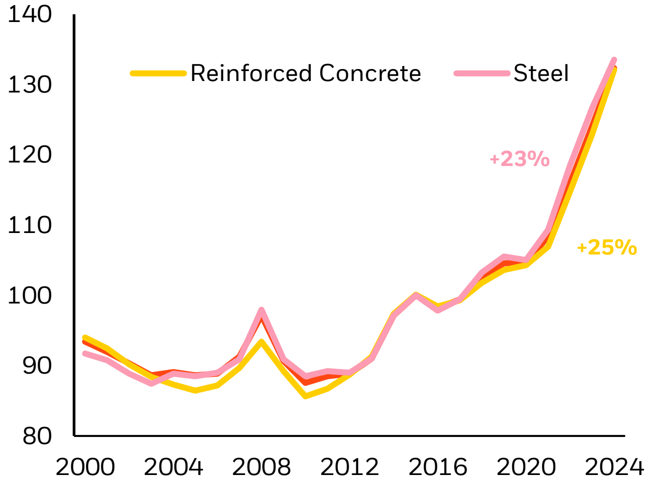
Capturing growth through the Residential Sector

To benefit from Japan's renewed economic growth, investors should focus on sectors with proven procyclicality. The traditional residential sector stands out as rising wages and more frequent rent reviews create strong potential for sustained income growth. There are three key structural drivers that we are observing in the market which continue to drive demand in the living sector.

The first of these is the increasing number of households in major cities. Despite an annual population decline of approximately 0.4% in Japan, the number of households in major cities has been increasing. Post-pandemic, there has been a migration back to major cities like Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo primarily driven by employment opportunities . Tokyo, with over 14 million residents, is currently the world's most populous metropolitan area, while Osaka, with over 8 million residents, ranks tenth globally[2]. Between 2019 and 2024, the number of households in Tokyo and Osaka increased at a compound annual growth rate (CAGR) of 1.3% and 1.5%, respectively[3].

Another significant market driver is increasing construction costs. Following the pandemic, Japan experienced a sharp rise in construction costs. To maintain development profits, developers increased strata sale apartments prices. Between 2010 and 2024, the price index for strata sale apartments in Japan surged by over 200%. Given the ongoing labor shortage in the construction industry, construction costs are expected to continue rising, which will limit supply and likely drive further increases in prices.

Figure 6: Construction Material Price Index (2015=100)

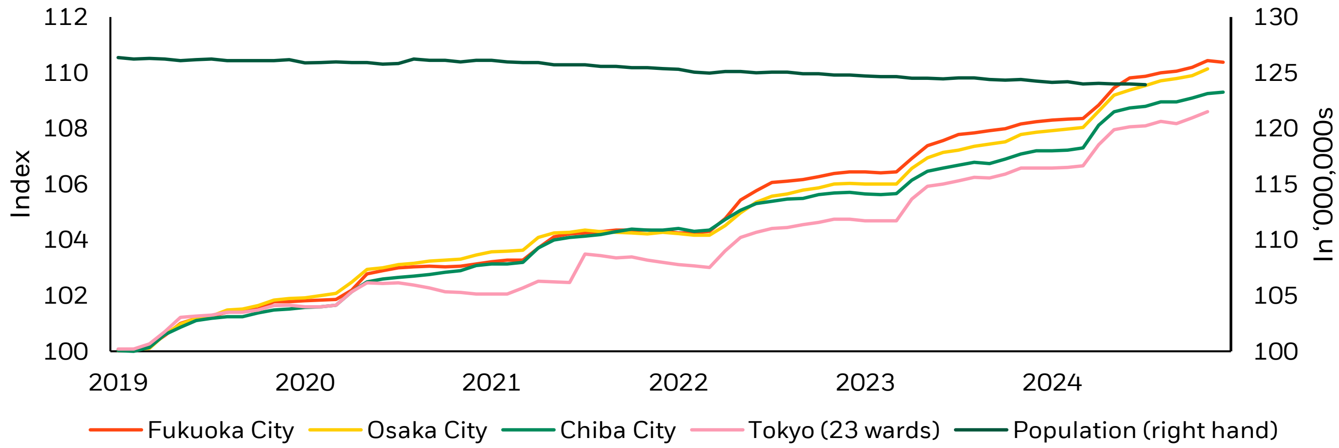


Source: Construction Research Institute, % increase since 2021, as at December 2024.

As a result, purchasing strata sale apartments is becoming prohibitively expensive for a large part of the population, leading them to opt for rental apartments instead. This growing trend is exerting upward pressure on rental prices.

The third tailwind is the rise in wages. During the spring wage negotiations of 2023, Japan experienced a 3.6% wage increase, the first such rise in 30 years, driven by inflation and labor shortages. This momentum continued into 2024 and 2025, with wage increases exceeding 5%[4]. Due to rising wages, tenants are more receptive to rent increase notices from landlords. As a result, living market rents in Tokyo 23 wards increased almost 6% QoQ in 2025 Q2, compared to just above 1% YoY increase in 2019[5].

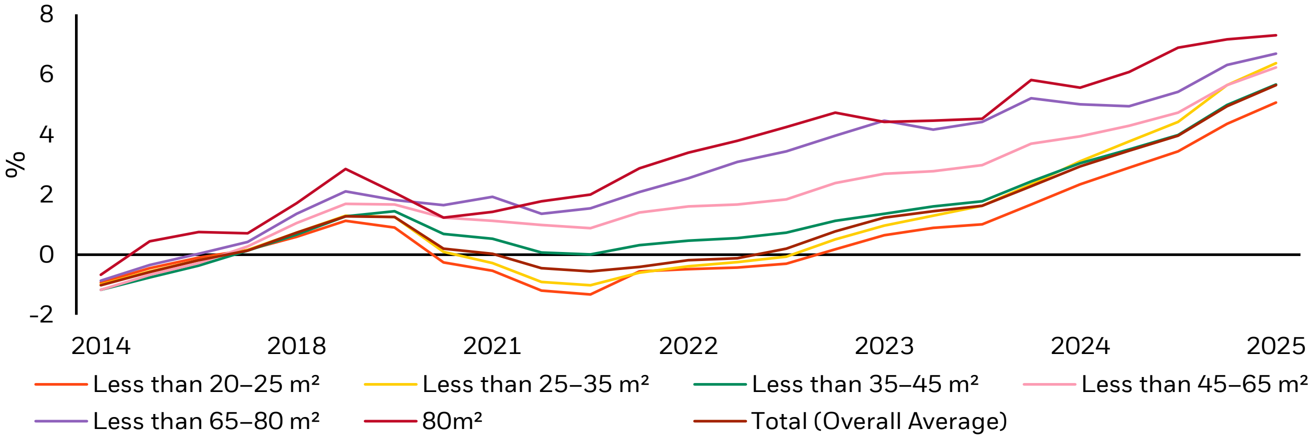
Figure 5: Japan Household Formation



Source: Fukuoka City, Osaka City, Chiba City, Statics of Tokyo, Ministry of Internal Affairs and Communications, as at December 2024.

Note - 2. Oxford Economics Forecasting; 3. Tokyo Metropolitan Government, City of Osaka; 4. Japanese Trade Union Confederation ; 5. Styleact

Figure 7: Residential rent increase YoY in Tokyo 23 wards



Source: STYLE ACT K.K., as at June 2025. Note: From 2021 onwards, the figures are in quarterly units.

Impactful capital allocation strategy for the living sector

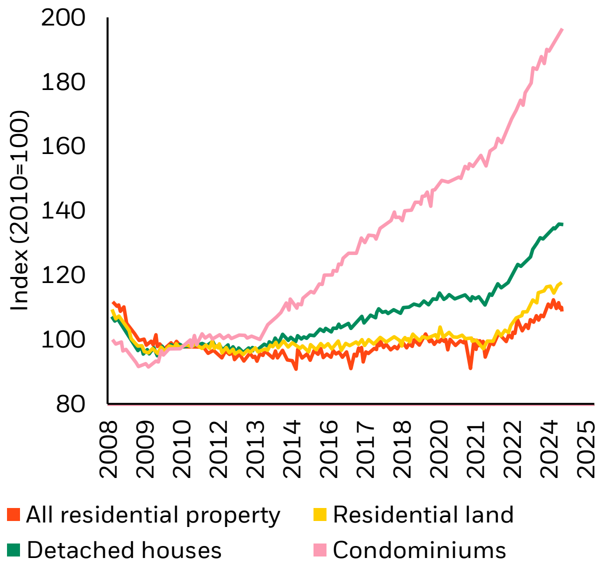
Today, the pool of capital targeting Japan's traditional residential sector has become increasingly concentrated, leading to reduced pricing competitiveness. As a result, investors must adopt differentiated strategies to achieve outperformance. Alternative living offers a differentiated approach, where we believe future returns will likely exceed that of traditional residential. A key principle driving conviction in alternative living strategies is that more frequent market pricing events enable investors to capture higher yields on cost and growth. Effective participation in this market requires bottom-up strategies executed by local teams with deep local expertise and market insight.

The alternative living sector is benefiting from multiple market tailwinds. In 2024, Japan welcomed 37 million international tourists, marking a 16% increase from pre-pandemic levels in 2019. Notably, in March 2025, the number of international visitors reached 10 million, the fastest pace to hit this milestone[6]. With the government aiming to attract 60 million international visitors by 2030, further growth in tourism demand is anticipated, providing a further momentum for the sector[7]. In addition, The Japanese government introduced a digital nomad visa in April 2024, permitting remote workers to stay in Japan for six months. This initiative is anticipated to increase demand for furnished apartments and hybrid living properties.

There are three types of operations in this sector: furnished apartments, Minpaku (short stay operations) and hybrid models.

Firstly, furnished apartments are those where furniture and appliances are already installed. This type of operation is popular among overseas tourists and workers who plan to stay in Japan for more than a month, as well as domestic office workers who need to stay in cities for business. Major furnished apartment operators offer comprehensive English communication services and do not require bank accounts, which are typically necessary for renting traditional residential properties in Japan. This makes furnished apartments an attractive option for overseas tourists. For domestic customers, there is an economic appeal of not having to purchase furniture and appliances just for a temporary period.

Figure 8: Residential Property Price Index

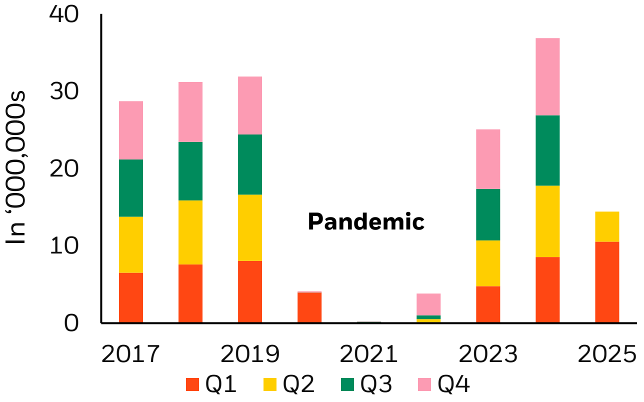


Source: STYLE ACT K.K., as at June 2025.

Note - 6 Japan National Tourism Organization ; 7. Ministry of Land, Infrastructure, Transport and Tourism

Secondly, Minpaku which refers to daily short-stay operations similar to Airbnb. In Japan, these operations can be conducted with a Minpaku license, which has less stringent regulations compared to a hotel license, enabling easy conversion from traditional residential properties into Mipnaku.

Figure 9: Arrivals to Japan



Source: Japan Tourism Statistics, BlackRock (25 April 2025). Forecasts may not come to pass.

Minpaku is 180 days in most areas of Japan, these properties typically operate as furnished apartments for the remainder of the year. **This hybrid operation falls between furnished apartments and Minpaku** on the risk-return curve. In some areas such as Osaka, Minpaku operations are permitted throughout the year, and is forecast to create 2.5x revenue uplift compared to traditional residential sector[8].

The alternative living sector has demonstrated strong resilience because properties in this sector often feature large, multi-bed layouts that can accommodate groups of four or more people. This setup contrasts with typical Japanese hotels, where families typically need to book two separate rooms. The lower cost per guest makes alternative living more accessible and less vulnerable to shifts in economic conditions than traditional hotels.

Furthermore, even if the tourism market slows down and demand weakens, these alternative living assets can easily be converted back to traditional residential properties and still generate a steady cashflow. With careful selection of suitable assets, focusing on the best locations, investors can generate strong returns even if they revert to traditional residential properties. This demonstrates the risk-mitigated nature of the alternative living sector.

Due to its potential for higher returns with an attractive risk profile, this alternative sector is gaining popularity among major domestic developers and global funds. We believe this sector will become one of the key strategies in the living sector, and by entering the market early, investors are able to capitalize on early mover advantage.

Conclusion:

Japan's economic renaissance, marked by, policy normalization, increasing purchasing power and corporate reform, is reshaping the investment landscape. Within this context, the living sector presents a compelling opportunity, underpinned by increasing urban household formation, escalating construction costs, and accelerating rental demand.

With traditional residential assets becoming increasingly competitive, investors may look to differentiated strategies to achieve their investment goals. The alternative living sector — including furnished apartments, Minpaku, and hybrid models — offers both higher yield potential and built-in resilience, supported by booming tourism and shifting lifestyle preferences. As demand for flexible, high-quality accommodation continues to rise, we believe early movers in this space are well-positioned to capture outsized returns while benefiting from downside risk mitigation.

With the potential for rising interest rates in Japan, a cautious approach is essential, investors may seek to target strategies that offer strong yields relative to cost and meaningful growth potential.

Alternative living therefore presents a strategic opportunity for investors seeking long-term exposure to Japan's next wave of growth, while enhancing diversification.

Note – 8. BlackRock Forecasting

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