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Japan senior living

Capitalizing on structural trends



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SENIOR LIVING GAINING PACE IN REAL ESTATE

As one of the top three commercial real estate markets in the world¹, Japan not only provides global investors with the breadth and depth of liquidity to diversify portfolios across sectors. But also, as the pandemic has highlighted, it offers resilience and durability of income to mitigate risks across cycles.

In particular, the optimistic long-term outlook for the economy — driven by structural economic reforms, monetary expansion, and flexible fiscal policy — alongside a shift from prolonged disinflation to reflation, have continued to cement ongoing capital market confidence and interest in the Japanese real estate market.

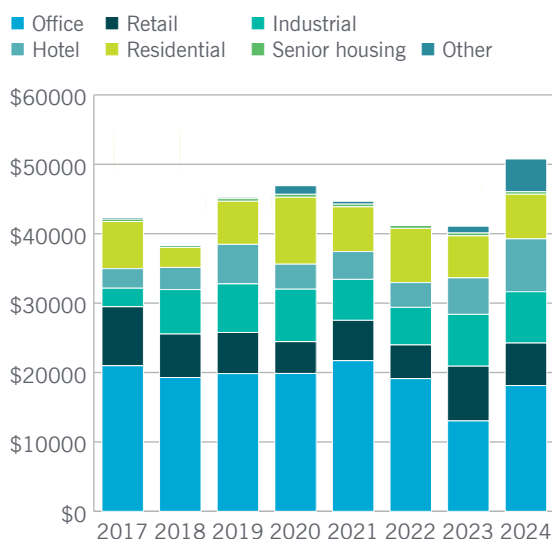
For income-driven investors, the attractiveness of Japan is particularly compelling: supportive financial conditions underpinning positive yield spreads despite rising interest rates, hence delivering consistent, stable income returns.

While traditional sectors such as office, industrial and retail remain the mainstay of the real estate investment market — accounting for 62% of investment volumes in 2024 — the living sector in recent years gained increasing interest as a target asset class among institutional investors (Figure 1). The demographic proposition for the senior living sector across key regional cities is especially alluring: structural demand buoyed by an aging population with strong affordability, but limited by the low provision rate and fragmentation among operators.

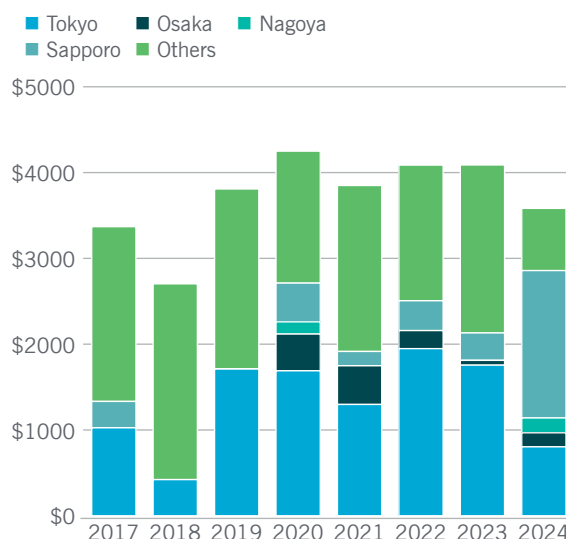
As the landscape for senior homes in Japan continues to evolve over time with deeper institutional penetration, liquidity and pricing margin will expand, in turn positioning this asset class for attractive long-term performance.

Figure 1: Total investment turnover in Japan by sector and senior housing turnover by city

U.S. millions (\$)



Source: MSCI 2025

**THE RESILIENCE OF SENIOR LIVING**

The world's population is aging and, while not alone, Japan stands at the forefront of this demographic shift. A low fertility rate (common across many OECD countries) and rising average lifespan have started to shape cities and public policy priorities (such as public pension, healthcare and long-term care systems) across the country.

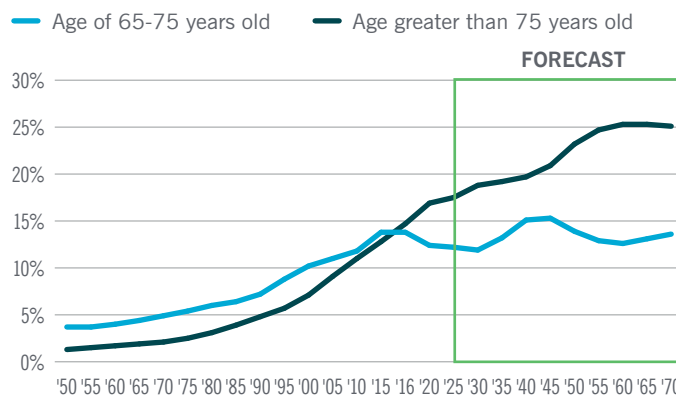
Japan leads the world in terms of life expectancy — surpassing all G20 economies as early as 1978. Extended life expectancy, combined with low fertility, has manifested in a steady increase in demand for senior homes across the key regional cities in Japan. This demand will only increase in the coming decades.

Demographic tailwinds driving demand

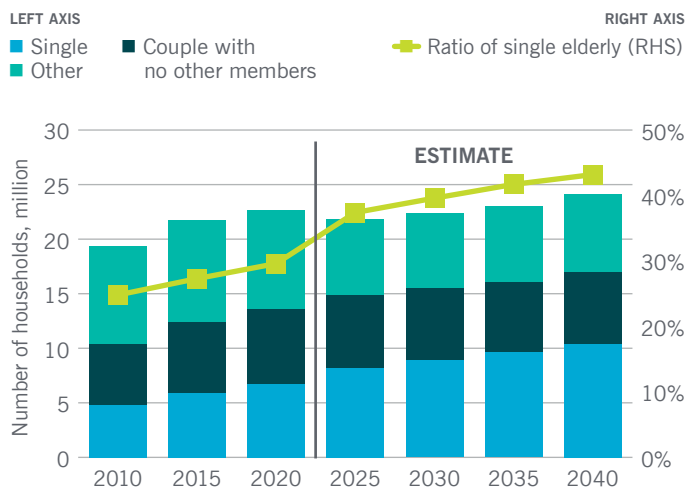
Japan is aging fast. At 29.3% of the total Japanese population, those aged 65 and above increased to 36.2 million (as of as of 2024), growing by 2.4 million people compared to 2015. The increase of the elderly population was mainly dominated by the cohort aged 75 and above. Given the rising life expectancy, it is projected that this age group will continue to grow in the coming decade, making

up at least 20% of Japan's population by 2040 and beyond (Figure 2).

More importantly, there is a significant portion of elderly households without dependents. Single elderly households are projected to grow by approximately 3.7 million from 2020 to reach more than 40% of total elderly households by 2040. Furthermore, there will be increasing numbers of elderly couples without family members to look after them (Figure 3).

Figure 2: Ratio of population by age group in Japan from 1950 to 2070

Source: For data up to 2016, Statistics Bureau (Ministry of Internal Affairs and Communications). For data from 2020 onwards, National Institute of Population and Social Security Research, 2025.

Figure 3: Ratio of single households as a percentage of total elderly households

Source: Statistics Bureau, Ministry of Internal Affairs and Communications “2020 Census” and “Household Projection for Japan (Nationwide Projection)” (2024 projection) by the National Institute of Population and Social Security Research.

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The surge in single elderly households is driving demand for care services. Between 2014 and 2024, the number of seniors aged 75 and older requiring daily or round-the-clock care increased by roughly 530,000, with the Tokyo and Osaka metropolitan areas accounting for close to 70% of this rise. A seismic shift underscoring an accelerated longer-term demand for senior housing in Japan is unfolding.

Senior living remains undersupplied

There continues to be an under-provision of senior homes in Japan, with some estimated 400,000 seniors waiting for accommodation in public nursing homes alone. While supply for senior homes has risen exponentially every year since 2010, it has failed to match the demand. Indeed,

the fill rate of senior housing reached only 2.7% of the entire elderly population in 2023. While the government has targeted raising the fill rate to 4% by 2030, that only implies an additional 500,000 beds, well under the estimated 615,000 increase of the population aged 65 and above over the same period.

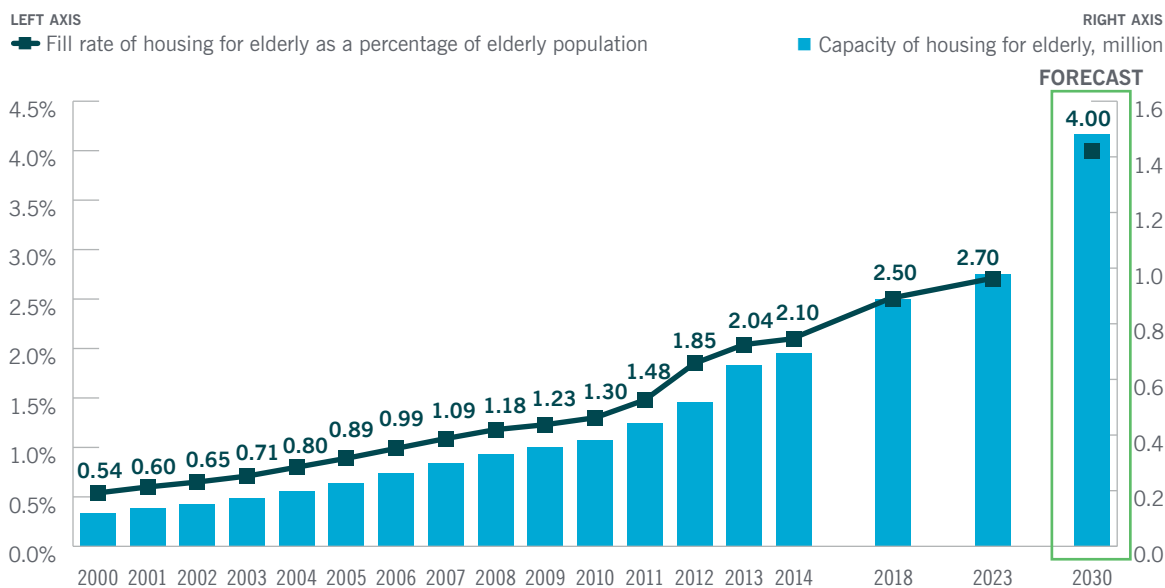
Long-term supply is limited by existing land banks and rising land prices post-2012, escalating construction costs due to higher raw material and labour shortages, along with government or policy regulations have limited the development of homes in certain locations. Fiscal constraints are another factor for publicly funded homes — to which, private and institutional sector participation is the most obvious and practical solution.

Policy reform supports private sector participation

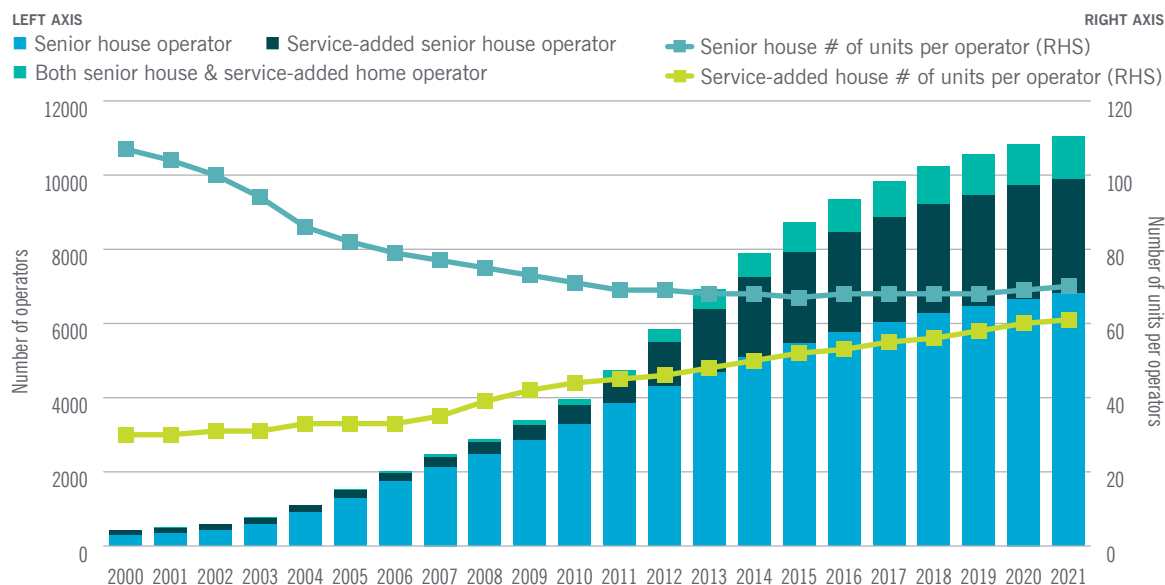
In Japan’s aging society, where most elderlies still reside in their own homes, there is a significant and growing number requiring medical and nursing care seeking places in senior homes or alternative accommodations that can provide the required level of care. And in response, the Japanese government introduced the Long-Term Care Insurance (LTCI) in 2000 to provide improved delivery of user centred high quality long-term care services to the elderly.

This new system allowed aged care residents to select services provided by various associations, including private enterprises and non-profit organisations rather than from municipal governments only. This policy reform prompted numerous operators to enter the senior living sector, as they can obtain 90% of monthly care fees from the municipal governments under the new system. Consequently, new industry entrants surged, driving the total number of senior home operators to more than 11,000 by 2021.

However, the pace of new entrants has slowed recently due to challenges in recruiting caregivers. The heightened barriers to entry, coupled with gradual market consolidation, has increased the market share of the top 50 operators (in terms of number of rooms/beds) from less than 25% to 27%. Still fragmented, it is highly likely that wave of consolidation will continue, presenting investors with a window of opportunity to participate in the future growth of the sector.

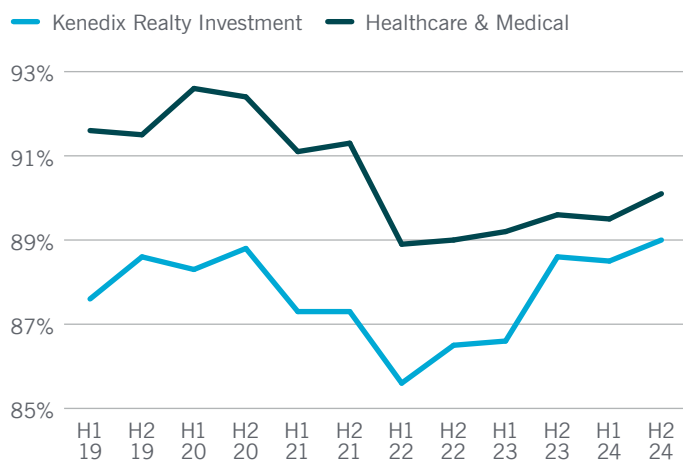
Figure 4: Fill rate of housing for elderly as a percentage of elderly population

Source: Cabinet office, Ministry of Health Labour and Welfare, Ministry of International Affairs and Communications, National Institute of Population and Social Security Research, Senior Housing Association, etc.

Figure 5: Number of businesses entering industry

Note: (a) Samples are Senior House opened by December 2021 excluding units for-sale (including facilities with opening timing unknown, but excludes facilities opened from January 2022); (b) Service-added senior house samples were registered and completed by December 2021.

Source: Prepared by KPMG based on publicly available government data and company disclosure.

Figure 6: Average occupancy rates of senior living facilities owned by J-REITs**Average occupancy rates (%)**

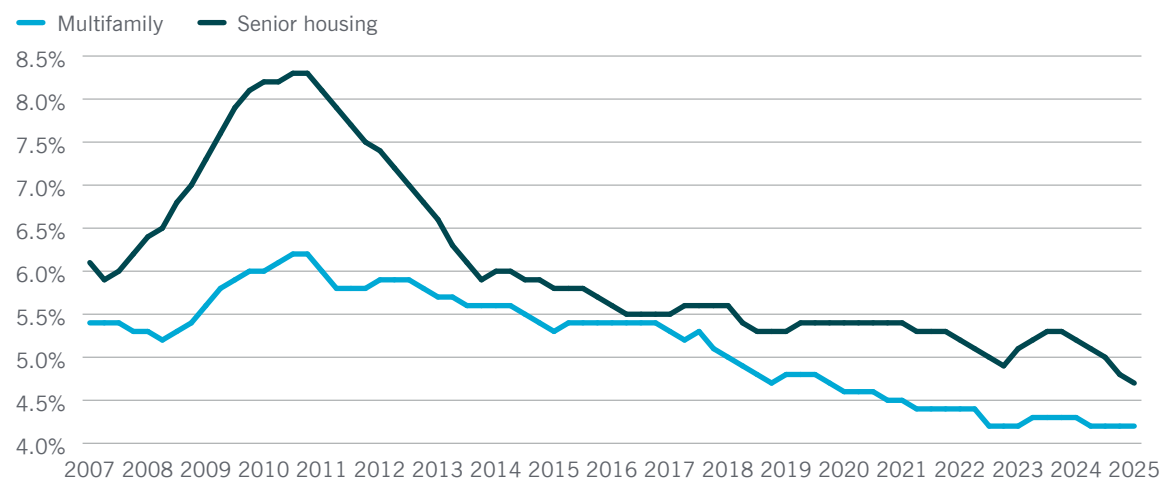
Source: J-REITs financial result announcement

WHY SENIOR LIVING?**Income resilience backed by strong occupier demand**

Despite the pandemic-led slowdown in real estate activity, the senior living sector in Japan has surfaced from the downturn relatively unscathed. Such defensive characteristics throughout the pandemic demonstrates a confluence of

underlying positive features: a short-lived hit to the labour market from the downturn, high savings rate and affordability among Japanese seniors and middle-income households, as well as supportive demand-supply dynamics. Indeed, the income resilience displayed by the senior housing sector is well reflected in the consistently high occupancy rates, with facilities reported by J-REITs maintaining rates above 85% over the past six years.

For core investors, a senior living master lease term typically ranging from 10 to 30 years underscores the attractiveness of resilience and durability of income. While rents are generally fixed, reviews every three to five years also provide potential for upside reversion. That said, engaging reputable operators with strong credit standing to manage the assets is paramount to securing stable recurring rental income. Given how fragmented the sector is, risk can also be mitigated through selecting operators with strong track record and background: operating performance, scale of operations, reputation and service quality. Manpower is another important consideration as the industry faces a shortage of care workers. Diversifying the portfolio with different operators can help mitigate credit and concentration risk.

Figure 7: Japan senior housing and multifamily cap rates

Source: MSCI RCA Senior housing & care and multifamily hedonic cap rates estimates

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A window of opportunity persists for investors, fuelled by strong demand, limited supply and enduring structural trends driving the sector's growth, allowing investors to continue extracting value in this sector.

— Leo Chung
Research Director, Asia Pacific

Sustained positive yield spread with upside

The listings of healthcare J-REITs in 2014 and 2015 helped to establish senior housing as an investable institutional asset class. In turn, pricing gradually tightened as liquidity and transparency improved over time as the sector continued to mature. By late 2019, the yield spread between senior living and multifamily assets narrowed to approximately 70 basis points. However, during the pandemic, senior living asset pricing softened due to uncertainty over business profitability and margins. In contrast, multifamily cap rates continued to compress, driven by strong demand from both domestic and overseas buyers.

Bolstered by the senior living sector's resilient long-term fundamentals, investor interest has strengthened again, compressing cap rates and further narrowing the spread with multifamily assets. Nevertheless, a window of opportunity persists for investors, fuelled by strong demand, limited supply and enduring structural trends driving the sector's growth, allowing investors to continue extracting value in this sector.

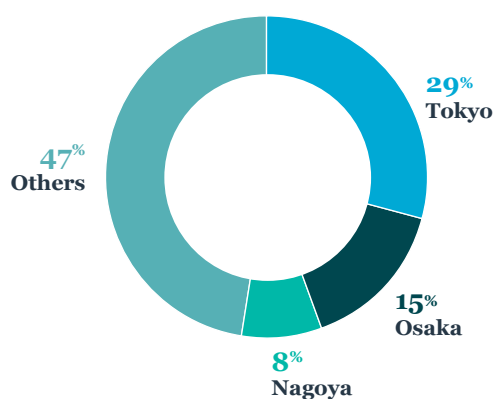
IDENTIFYING SENIOR LIVING OPPORTUNITIES

Location remains key

The Tokyo, Osaka and Nagoya metropolitan areas will be the top investment destinations for senior home opportunities given a large, growing and affluent senior population. Around 19.2 million elderly people live in these three metropolitan

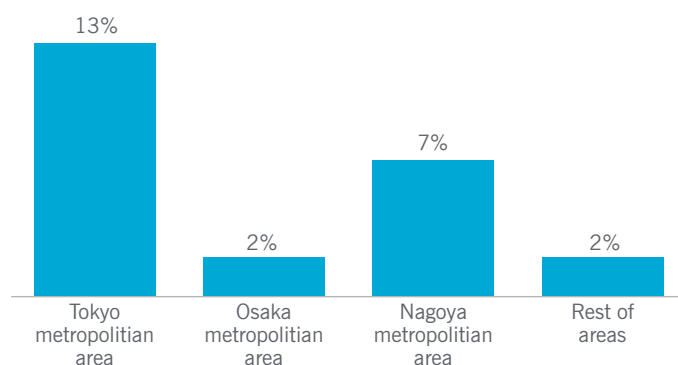
areas, equivalent to over half of Japan's total population aged 65 and above in 2025 (figure 8). Greater Tokyo particularly is projected to experience the most rapid growth in elderly population compared to nationwide especially among the age group above 75 over the next two decades. While Tokyo remains a key market for senior living strategies, neighboring prefectures such as Chiba, Kanagawa and Saitama also offer promising opportunities, fuelled by robust growth in demand for care services and expanding senior populations.

Figure 8: Proportion of population aged 65+ as of 2025 by metropolitan area



Please note that totals may not equal to 100% due to rounding
Note: Tokyo metropolitan area covers Ibaraki, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi prefecture, Osaka covers Kyoto, Osaka, Hyogo, Nara, Wakayama, Nagoya covers Gifu, Aichi, Mie
Source: National Institute of Population and Social Security Research, 2023

Figure 9: Population growth forecast for ages 75+, 2025 vs 2045 (%)



Source: National Institute of Population and Social Security Research, 2023

Figure 10: Outline of senior housing types and services

Senior housing type	Services provided	Covered by LTCI	Remarks
Senior housing full services	Long-term care services provided by permanent in-house operator	Yes	Each facility is required to have at least one care worker or nurse for every three residents
Senior housing limited services "Sakoku"	Provide an independent living environment for low level of care required residents with periodic safety checks and health and lifestyle consultation services; Other services are generally outsourced	Depends; if it is certified as "Tokutei" (specified facility), it can be covered by LTCI	Without strict labor requirement

Source: Compiled based on public disclosure.

Service facilities are a crucial component

The opportunity to invest and participate and to ride the structural tailwinds in the senior housing sector is immense, with an estimated market size of US\$59 billion in 2021. Private sector facilities accounted for just 49% of market share. With a growing senior population, rising number of single senior households, increasing demand for care services and government policies shifting care services from hospitals to community-based settings, there remains substantial potential for private sector participation in the sector.

In terms of asset type, senior housing with nursing care services will be a focus as they are well-established and fully covered by the long-term care insurance system, providing stronger downside protection. They are also likely to benefit from the growing demand for full care services in particular by single elderly households. Senior housing providing limited services will also be of interest, but only a certain type of specified facilities can be covered by the national care insurance. As this asset type is relatively new to the market — having launched in 2011 — it requires more due diligence to filter out suitable assets with credible operators to secure stable income flow.

Unlocking opportunities

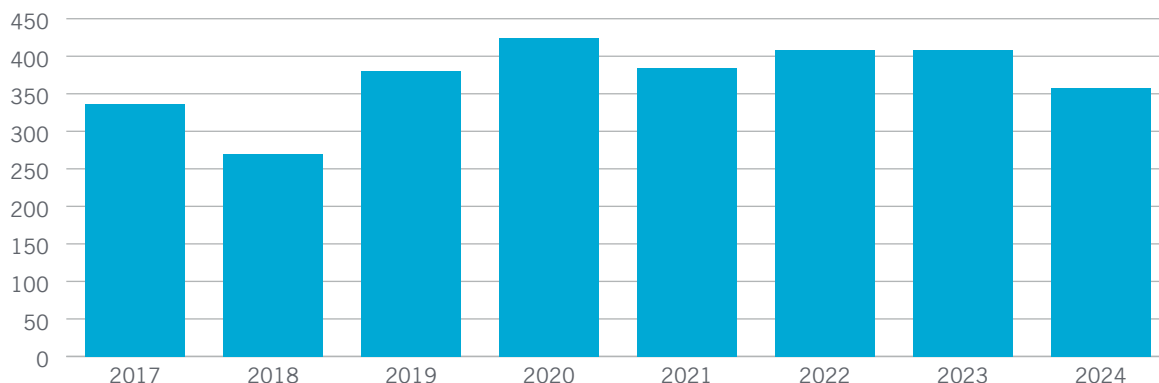
Direct investment into the senior housing sector in Japan is growing but still relatively limited at only US\$2 billion total turnover over the past five years, a fraction of the US\$36 billion invested into the multifamily sector over the same period.

The limited investment activity is largely due to government ownership of most senior housing assets which are not available for sale. However, There are a number of ways to unlock and build scale in this sector.

- Leverage relationships with local operators to source off-market opportunities or engage with operators shifting to asset-light strategies by acquiring their assets through sale and leaseback arrangements.
- Build relationships with developers to access newly completed senior housing by taking leasing risk or build-to-suit development projects with a pre-committed master lease.
- Source opportunities from Japanese conglomerates divesting non-core business assets to capitalize on their real estate holdings. So far, several senior living operators have expanded their portfolios through this approach.
- Investors without previous exposure to senior housing investment can also consider platform transaction to scale up. Since 2020, platform transactions totalling US\$3.2 billion have transacted, with three of the top 50 senior operators now owned by foreign private equity investors.

Figure 11: Total senior housing investment turnover

US millions (\$)



Source: MSCI RCA, 2025

CAPITALIZING ON STRUCTURAL TRENDS

Japan's senior housing sector presents an attractive investment case. Backed by demographic tailwinds and limited supply, occupier and investment demand are expected to grow exponentially in the key regional capital cities over the coming decades. Institutional investors can participate in this relatively nascent sector that is fragmented but likely to consolidate and mature over the coming years. Along the

way, operating margins will also improve due to economies of scale, providing potential uplift to income, sector repricing and enhanced risk-adjusted returns.

For core investors, the attractive yield spread and long weighted average lease expiry (WALE) backed by a master operator lease structure will continue to underscore income resilience and durability. Japan's senior housing sector has room to grow, judging by the performance of the multifamily sector over the past few decades.

For more information, please visit [nuveen.com](https://www.nuveen.com).

Endnotes

1 Source: MSCI, 2025

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