

savills

Savills World Research
Japan

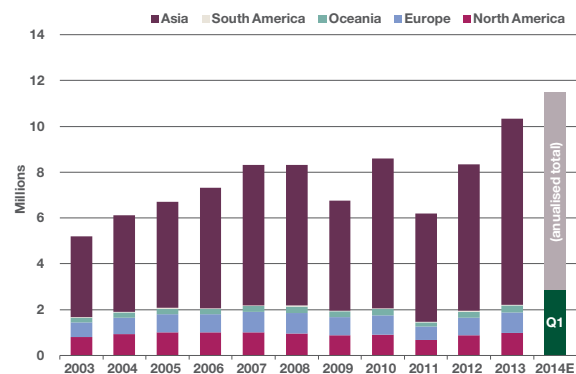
Asian Cities Report **Japan Hospitality**

2H 2014



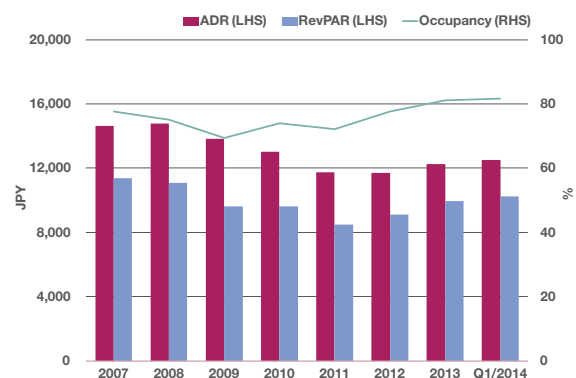
savills.com.hk/research

GRAPH 1
International arrivals to Japan by region, 2003–2014E



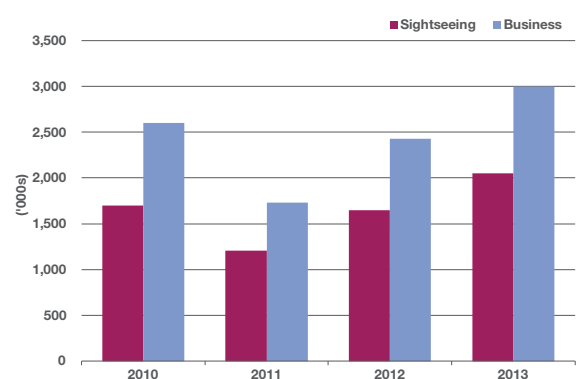
Source: JNTO, Savills Research & Consultancy

GRAPH 2
Japan hotel performance, 2007–Q1/2014



Source: STR Global, Savills Research & Consultancy

GRAPH 3
Number of overnight international tourists in Tokyo Prefecture, 2010–2013



Source: JNTO, Savills Research & Consultancy

International arrivals hitting new records

According to the Japan National Tourism Organization (JNTO), the number of international tourists visiting Japan in 2013 totalled a record 10.36 million, up by 24.0% from 8.36 million in 2012. Between January and March this year, the number of overseas arrivals reached an estimated 2.87 million – equivalent to approximately 28% of 2013’s total or 11.5 million on an annualised basis. This growth has been driven principally by Japan’s rising popularity among Asian tourists.

In order to promote inbound tourism, the government initiated the Visit Japan campaign in 2003, adopting an initial target of attracting more than 10 million overseas visitors to the country by 2010. Although this target was achieved three years later than expected, pushed back firstly by the global financial crisis (GFC) in 2009 and then by the disasters in northeast Japan in 2011, the total number of arrivals almost doubled between 2003 and 2013.

The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and JNTO aim to achieve the next target of 20 million arrivals in 2020 – the year the summer Olympic Games will be held in Tokyo for the second time – and the third goal of 30 million by around 2030. While these targets may seem ambitious, if the 11.2% compound annual growth rate achieved between 2009 and 2013 is maintained, they would be realised in 2020 and 2024 respectively.

Japan hotel market overview

Occupancy rates in Japan’s hotel market have recovered rapidly since the GFC and the disasters of 2011, hitting 81.1% in 2013 – a new high that exceeds the recent peak of 2007. As of March 2014, average occupancy rates rose to 81.6% on a rolling 12-month basis, 3.1 points higher than the same period of last year.

In contrast to the healthy growth of occupancy rates, hotel revenues have recovered at a much slower pace, as seen in Graph 2. In Q1/2014, revenue per available room (RevPAR) was 10% lower than the level reached in 2007 – the recent peak – while average daily rates (ADR) remained approximately 15% down from their 2007 level. Nonetheless, rising international arrival numbers combined with improved business sentiment at home is creating demand for hotel rooms and shifting the supply-demand balance in favour of hotel operators. The slow-paced recovery of ADR and RevPAR is expected to catch up with the high levels of occupancy, spurred by these positive market conditions.

Tokyo overview

Greater Tokyo’s population incorporates in excess of 37 million people, making it the most populous metropolitan centre in the world¹. As a megacity, it also claims the top spot in terms of gross domestic product (GDP) – its total, at US\$1,520 billion, is comparable to entire nations such as South Korea, Canada and Spain². Reflecting its status as a regional economic giant and the political and cultural powerhouse of Japan, Tokyo is an attractive destination for business visitors and tourists alike.

In recent years, factors motivating increased inbound tourism have been a weaker yen and the relaxation of visa requirements for visitors from several Southeast Asian countries. In response to the growing popularity, 12 international low-cost carrier airlines had launched new services to Japan by December 2013, including eight routes to the Tokyo area. Following the high demand for international flights to Japan, Haneda Airport expanded its annual number of plane slots by around 9% to 447,000, including 90,000 for international flights in March 2014.

Tokyo tourism

Thanks to its size and status as the capital city, Tokyo has always been popular as a travel destination for

business, leisure and sightseeing, both domestically and internationally. According to a 2012 survey conducted by JNTO, Tokyo and the surrounding prefectures that make up Greater Tokyo, such as Chiba and Kanagawa, account for around 25% of overnight stays in Japan. Approximately 17% of hotel guests in Tokyo Prefecture were from overseas, compared to 6% nationally.

In 2013, over 5 million overseas nationals lodged in Tokyo Prefecture, up from a low of 2.9 million in 2011. As shown in Graph 3, the number of overnight international tourists in Tokyo (both business and sightseeing) has grown at a compound annual rate of over 30% since 2011, the year of the Great East Japan Earthquake and the Fukushima nuclear disaster.

Tokyo hotel performance

For the 12-month period to March 2014, average hotel occupancy rates in Tokyo reached 87.1%, up slightly from 86.3% in December 2013. This represents a strong recovery from lows of 70.3% and 72.8% recorded in 2009 and 2011 respectively.

Mirroring the nationwide trend, the improvement in hotel revenues has been slower than that of occupancy rates. In the wake of the Great East Japan Earthquake, weakened business and consumer sentiment led to year-on-year drops of 35% in ADR and 37% in RevPAR in 2011. Although a gradual recovery has since been seen in the market, the most recent figures are still relatively low compared with their pre-2011 levels.

Tokyo hotel supply

According to data from STR Global, Tokyo was home to slightly over 94,400 hotel rooms as of April 2014, exclusive of an additional 7,500 rooms that are either under construction or in the final planning stages. With over 400 existing hotels, Tokyo accounts for approximately 16% of total hotel stock in Japan, while close to half of all new hotels in the pipeline (31 of 64) are located in Tokyo.

The expected increase in Tokyo hotel room inventory after 2014 is indicative of the growing popularity of the city as a travel destination, which was strengthened after Tokyo won the bid to hold the Summer Olympic Games in 2020.

Outlook

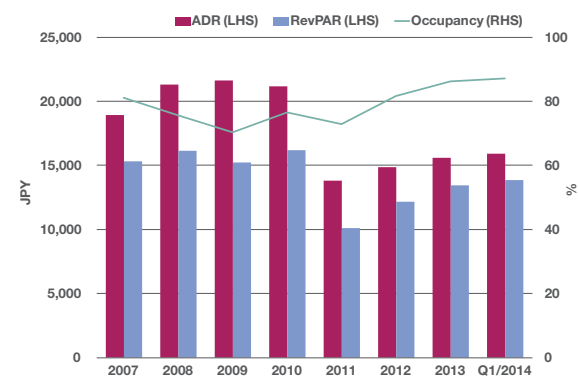
Supported by governmental measures, the recent depreciation in the yen and excitement surrounding the Olympics, the MLIT's second goal of receiving 20 million overseas visitors appears attainable. According to provisional estimates by JNTO, the number of international tourist arrivals in Japan in April 2014 hit a record high of 1.2 million. This figure is up 33% from the same month of the previous year and takes the total for the first four months of the year to 4.1 million.

Although market conditions look distinctly positive for Japan's hotel industry, Japan's tourism market may face some issues in the future, particularly relating to supply in key tourist areas. According to Japan Tourism Marketing, a research and consulting subsidiary of major Japanese tourist agency JTB, there will be a shortage of at least 10,000 hotel rooms in Tokyo if the 20 million target is achieved. Around 7,500 rooms are currently under construction in Tokyo or in the final planning stages, which suggests that there may be a shortfall in supply in the mid- to longer-term. The growing importance of overseas tourists also means that hotel operators will not only have to provide stock suitable for international tastes, but also additional 'soft services' such as multilingual reception desks or trained interpreters. ■

¹ Source: United Nations Department of Economic and Social Affairs.

² Brookings Institute and International Monetary Fund; comparison based on purchasing-power-parity valuation of nominal GDP as of 2012.

GRAPH 4
Tokyo hotel performance, 2007–Q1/2014



Source: STR Global, Savills Research & Consultancy

TABLE 1
Tokyo hotel pipeline, Apr 2014

	Under construction	Final planning	Total
No. of hotels (projects)	14	17	31
No. of rooms	3,744	3,805	7,549

Source: STR Global, Savills Research & Consultancy

TABLE 2
Selected investment transactions, 1H/2014

Property/location	Price (JPY bil)	Cap rate (%)	Buyer
Mercure Hotel Ginza/Tokyo	10.00	-	Hulic
Osaka Namba Washington Hotel Plaza/Osaka	8.90	6.4	Ascendas Hospitality Trust
The Windsor Hotel Toya Resort & Spa/Toyako, Hokkaido	6.50	-	Meiji Shipping
The B Roppongi/Tokyo	3.50	4.9	United Urban Investment Corp
Hotel MyStays Kanda/Tokyo	2.85	6.2	Invincible Investment Corp
Hoshinoya Kyoto/Kyoto	2.79	6.8	Hoshino Resorts REIT
Hotel MyStays Asakusa/Tokyo	2.58	6.9	Invincible Investment Corp
Kai Kawaji/Nikko, Tochigi	1.00	8.6	Hoshino Resorts REIT

Source: Real Capital Analytics, Savills Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Greater China
Chris Marriott - CEO, South East Asia
Christian Mancini - CEO, North East Asia
Charles Chan - MD, Valuation & Professional Services, Greater China



HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1628 Fax: (852) 2508 1883
Contact: Johnnie Chan E-mail: jckchan@savills.com.hk
EA Co. Licence: C-002955

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk
EA Co. Licence: C-004089

MACAU SAR

Savills - Macau

Savills (Macau) Limited
Suite 1309-10, 13/F Macau Landmark, 555 Avenida da Amizade, Macau
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: Albert.Lau@savills.com.cn

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: Billy.Chau@savills.com.cn

Savills - Guangzhou

Room 906, R & F Centre, 10 Hua Xia Road, Zhu Jiang New Town
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: Woody.Lam@savills.com.cn
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Qingdao, Shenyang, Tianjin, Xiamen, Zhuhai

ASIA

Savills - Indonesia

PT Savills Consultants Indonesia
Panin Tower – Senayan City
16th Floor, Unit C
Jl. Asia Afrika Lot. 19
Jakarta 10270, Indonesia
Tel: +62 (21) 293 293 80 Fax: +62 (21) 293 293 81
Contact: Jeffrey Hong Email: jeffrey.hong@propertyconnection.co.id

Savills - Japan

Savills Japan Co., Ltd
CR Kamiyacho Building 10F, 1-11-9 Azabudai, Minato-ku,
Tokyo 106-0041, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
11/F Seoul Finance Center, 84 Taepyungro-1-ga
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: K.D. Jeon E-mail: kdjeon@savills.co.kr

Savills - Malaysia

Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Myanmar

Savills Myanmar Limited
192 Kaba Aye Pagoda Road, Bahan Township, Yangon
Tel: (95) 9 250 515 035
Contact: Richard Emerson Email: remerson@savills.com.mm

Savills - Philippines

KMC MAG Group
8/F Floor Sun Life Centre, 5th Ave
Bonifacio Global City 1634, Philippines
Tel: (632) 403-5519
Contact: Michael McCullough Email: michael@kmcmaggroup.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
30 Cecil Street, #20-03 Prudential Tower, Singapore 049712
Tel: (65) 6836 6888 Fax: (65) 6836 2668
Contact: Chris Marriott E-mail: cjmarriott@savills.asia

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, 89 Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.com.tw
Office in Taichung

Savills - Thailand

Savills (Thailand) Limited
26/F Abdulrahim Place, 990 Rama IV Road
Silom, Bangrak, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Mark Price E-mail: mprice@savills.co.th

Savills - Vietnam

Savills Vietnam Ltd. Co.
18/F, Fideco Tower, 81-85 Ham Nghi Street
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Neil MacGregor E-mail: nmacgregor@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast.

NEW ZEALAND

Savills - New Zealand

Level 8, 33 Shortland Street, Auckland NZ 1010
Tel: (64) 9 951 5910 / (64) 9 951 5911
Contact: Doug Osborne E-mail: dosborne@savills.co.nz
Contact: Paddy Callesen E-mail: pcallesen@savills.co.nz

NORTH AMERICA

Savills - New York

Savills Studley
399 Park Avenue, 11th Floor, New York, NY 10022
Tel: (1) 212 326 8610 Fax: (1) 212 326 1034
Contact: Mitchell Steir E-mail: msteir@savills-studley.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

33 Margaret Street, London W1G 0JD
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.

Savills, the international real estate advisor established in the UK since 1855 with a network of over 600 offices and associates globally.

This document is prepared by Savills for information only. Whilst reasonable care has been exercised in preparing this document, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract; interested parties should seek independent professional advice from lawyer, accountant and surveyor and should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No person in the employment of the agent or the agent's principal any authority to make any representations or warranties whatsoever in relation to these particulars and Savills cannot be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills. © Savills (Hong Kong) Limited. 2014 (VIII/14)