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SPOTLIGHT
Savills Research

Japan Hospitality - Integrated Resorts



Promising growth opportunities within Japan's integrated resort industry

Summary

- Japan's tourism industry traditionally catered primarily to domestic visitors, with minimal inbound tourist traffic. Consequently, the upscale segment has remained largely underdeveloped.
- Japan is presently enjoying a surge in inbound tourism. However, the average spending per inbound tourist remains comparatively modest, presenting significant potential for further expansion.
- The development of casinos had historically been refuted by the government, with smaller scale pachinko parlours serving as the main legal option, primarily for domestic patrons.
- Osaka's integrated resort (IR) development will herald the birth of Japan's casino sector, and aims to compete with other major IR facilities in the region and attract high-spending visitors from booming economies in Asia.
- The successful development of the Osaka IR will likely spur the creation of further IR developments elsewhere in Japan, which should propel the Japanese casino industry as a viable and sustainable tourism segment.
- We anticipate continuous expansion in the demand for high-end experiences globally as income inequality progresses in many economies, and Japan is well-positioned to adeptly capture much of this demand.
- The concurrent development of other luxury tourism sectors in Japan will likely channel some high-end demand for entertainment towards Japan's IR facilities.

BACKGROUND

Most forms of gambling have been banned in Japan, with a few notable exceptions, including race betting and pachinko (a type of slot machine game). Although a widely enjoyed pastime in Japan, public opinion vis-à-vis gambling is notably mixed, given concerns regarding gambling addiction. Against this backdrop, the development process of the Osaka IR, Japan's first officially recognised casino facility, has been complicated and cumbersome, and faces a number of roadblocks in its successful implementation, including public backlash, regulatory issues, and funding concerns.

However, the development of IR in Japan should prove serendipitous in many ways for the Japanese tourism industry and wider economy. Japan is already welcoming a surge in inbound tourist demand since society's return to normalcy, and is increasingly appealing to affluent, high-spending guests. IR facilities in Japan will have the potential to tap into the burgeoning regional market for entertainment and gambling, given its proximity to booming Asian economies, and will be able to utilise its world-renowned public infrastructure, hospitality, and social stability to attract high-spending foreign visitors, and generate further revenues from inbound tourism.

Japan's regional economies, some of which have submitted proposals for IR facilities, should be notable beneficiaries. Such resorts should generate tens of thousands of permanent, better-paid jobs, stimulate local

tourism industries and generate larger tax revenue, allowing for investment into local economies and public infrastructure, likely leading to a positive multiplier effect for both local and national economies. Overall, the development of IR will allow Japan to diversify its tourism industry, and should generate broad and sustainable growth moving forward.

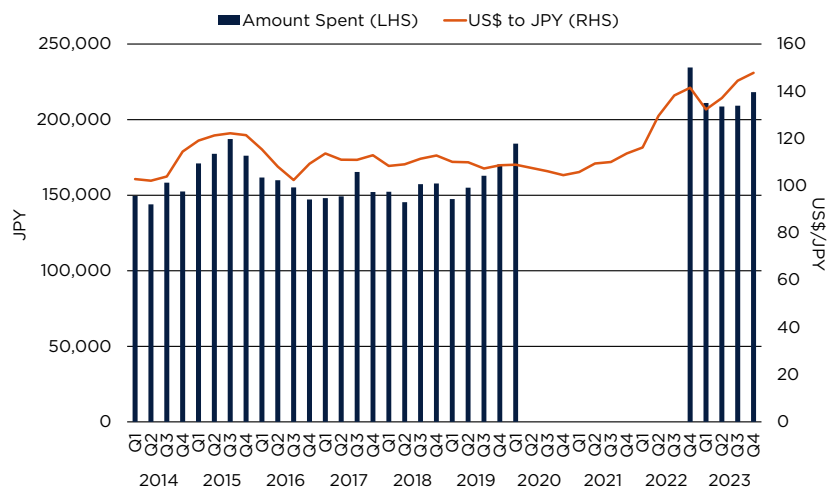
TRENDS IN INBOUND TOURISM

Until the 2000s, Japan was not on the radar as a global tourism hub. Entry into the country for many foreign travellers was cumbersome, and prices were prohibitively expensive due to the strong yen. Japan was not geared towards the needs of international travellers, with scarce foreign-language support. Indeed, the tourism industry of the country used to focus on its large domestic travel market, with little emphasis on catering to foreign visitors.

However, inbound tourists have become an essential pillar supporting the tourism industry in the country over the past decade, and the large rebound in international tourist arrivals since the pandemic has certainly brought a renewed sense of optimism for the sector. Indeed, the number of international visitors is not only at record levels as of Q4/2023, but the post-pandemic era has also seen the average amount spent per visitor hit significantly higher levels than those observed prior to the pandemic.

A myriad of factors have contributed to this remarkable growth. For instance, Japan was ranked as a top destination to visit by multiple institutions, including the World

GRAPH 1: Average Amount Spent by Each Inbound Tourist* vs US\$/JPY Exchange Rate, 2014 to 2023



Source Japan Tourism Agency, Savills Research & Consultancy
* Data points during the pandemic are either unavailable or omitted.

Economic Forum in 2021, which contributed to building a substantial amount of pent-up demand to visit the country, which was released when the country opened its borders to visa-free inbound tourism in October 2022. Secondly, the yen has significantly depreciated against most currencies as many countries, most notably the United States, have increased interest rates, in contrast with Japan sticking with its monetary easing policies. The weak yen has undoubtedly provided a considerable amount of additional purchasing power to most international visitors to the country.

However, while currency fluctuations are certainly an important factor, a considerable proportion of growth is likely organic and unrelated to currency. Between 2019 and Q1/2020, average spending appeared to be on an increasing trend even though the value of the yen was relatively unchanged (Graph 1). Indeed, Japan ran extensive marketing campaigns promoting higher-end inbound tourism in the country leading up to the 2020 Tokyo Olympics, and has also seen infrastructural improvements like an increased number of duty-free shops, and greater frequencies of direct flights into the country. These activities can be partly quantified when looking at the budget of the Japan Tourism Agency and the amount of funds dedicated to improving and promoting inbound tourism (Graph 2). These factors have also played a significant role in improving Japan's status as a popular tourist destination and increasing the number of visitors, especially high-spending ones, and have likely assisted in increasing spending as well.

Overall, Japan's inbound tourism market is in its prime, and momentum looks strong with further room for growth. Tourists

The present surge in inbound tourism is unveiling exciting prospects across various upscale tourism segments. Notably, the forthcoming Osaka integrated resort in the 2030s will signal the emergence of an entirely novel industry. Leading visionary stakeholders are already committing substantial sums of capital to this burgeoning sector, foreseeing exponential expansion and escalating demand. Overall, the outlook is optimistic, and these advancements are anticipated to expedite Japan's evolution into a sustainable tourist hub of the future.

from mainland China have yet to see a meaningful return, and further down the road, the Integrated Resort in Osaka could be a game changer for Japan and attract significantly higher spenders. The full potential of inbound tourism appears yet to have been unleashed, and still has greater business opportunities that can be explored.

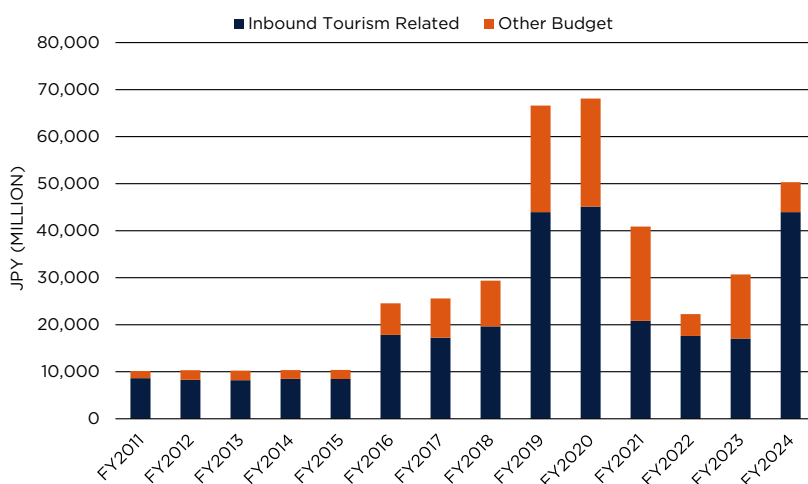
PREMIER EXAMPLE: SINGAPORE IR INDUSTRY

To assess the potential of IR developments in Japan, this report looks at Singapore as a successful model. Singapore has a modest population of 6 million and a GDP of US\$500 billion as of 2023. In 2005, it reversed its longstanding stance vis-a-vis casinos and gambling to introduce IR into the country, despite concerns regarding the potential undesirable impacts. The rationale behind this controversial decision largely stemmed from Singapore's declining market share in the regional tourism industry and a sense of urgency in losing competitiveness, and integrated resorts featuring casinos emerged as an appropriate solution.

Since the establishment of the two IRs, Marina Bay Sands (MBS) and Resorts World Sentosa (RWS) in 2010, both the country's tourism revenue and its number of inbound visitors approximately doubled by 2019 (Graph 3). According to the Singapore Tourism Board (STB), the country generated SG\$27.7 billion¹ in total tourism revenue, with the IRs contributing approximately 24%, or SG\$6.6 billion to the overall figure. Furthermore, according to Singapore Tourism Analytics Network (STAN), about half of inbound tourists visited an IR in 2019, equating to approximately 9.6 million visitors during the year.

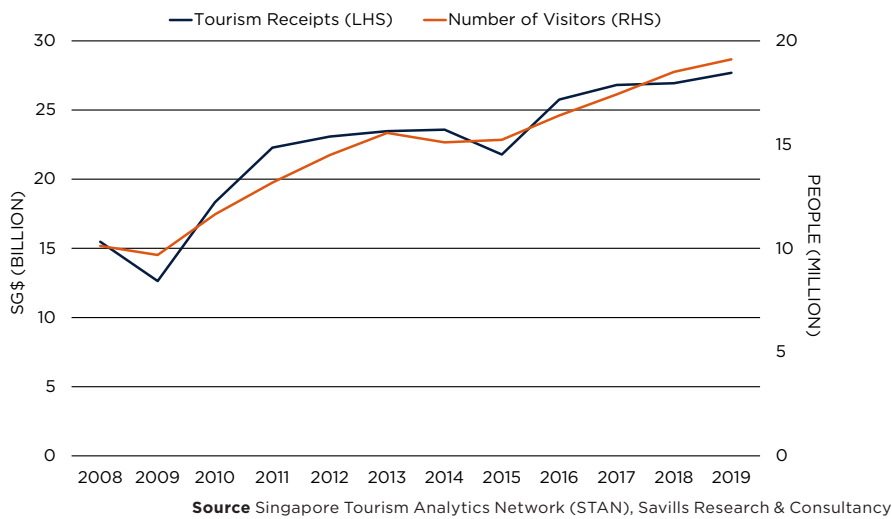
¹ STB uses an exchange rate of US\$1 = SG\$1.34 in 2019.

GRAPH 2: Budget of Japan Tourism Agency*, FY2011 to FY2024

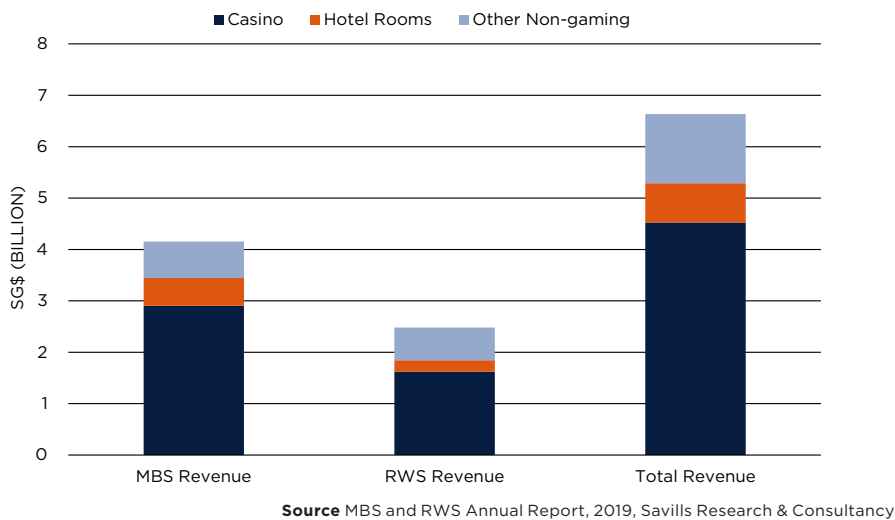


Source Japan Tourism Agency, Savills Research & Consultancy
 * Budget for the travel subsidiary campaign is not included. Inbound tourism-related budget calculated based on budget items explicitly dedicated to inbound tourism.

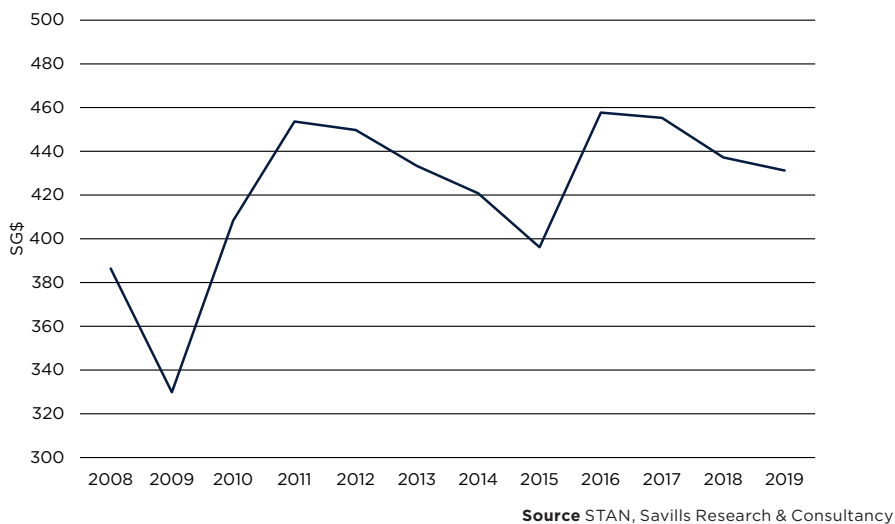
GRAPH 3: Singapore Total Tourism Revenue and Visitor Numbers, 2008 to 2019



GRAPH 4: Revenue Composition from Singapore IR Complexes, 2019



GRAPH 5: Singapore Daily Per-capita Tourist Expenditure, 2008 to 2019



Casinos comprised 68% of the total revenue generated by Singapore’s IRs, while hotel rooms accounted for over one-third of non-gaming revenue (Graph 4), and recorded a high occupancy rate of above 90% in 2019. Other additional revenue streams include, but are not limited to, attractions such as Universal Studios Singapore and the SEA aquarium in RWS, as well as Meetings, Incentives, Conference, Events (MICE) activities and luxury shopping experiences offered by MBS.

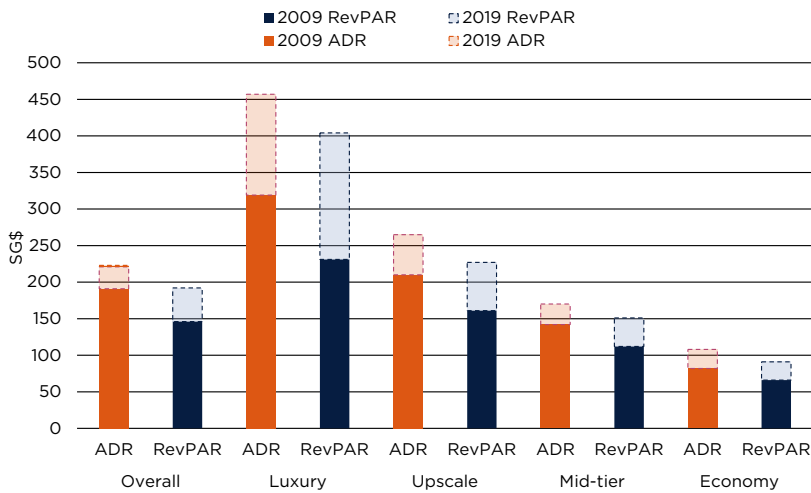
Singapore has certainly enjoyed outsized benefits from the IR developments. In addition to overall tourist revenue having doubled between 2009 and 2019, daily per-capita tourist expenditure increased by a considerable amount (Graph 5). Moreover, Singapore’s hotel industry has experienced a notable improvement in occupancy rates from 76% to 87% over the same period (Table 1), with luxury hotels experiencing the most substantial increments in terms of both Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) (Graph 6).

JAPAN’S FIRST IR DEVELOPMENT - OSAKA IR

The upcoming Osaka IR, a joint venture by ORIX Corp. and MGM Resorts, will be Japan’s first large-scale entertainment and casino complex scheduled for completion in 2030, in Yumeshima (Map 1), the site of the upcoming Expo 2025 Osaka, with slated total investment of around JPY1.3 trillion. Developers are reportedly aiming to achieve a total annual revenue of over JPY500 billion, which would generate an enormous annual tax contribution to Osaka prefecture of around JPY100 billion. In addition, the project is forecast to create 120,000 construction jobs during the course of development and 93,000 permanent jobs, potentially transforming Osaka’s economy and inspiring similar developments nationwide, generating significant tourism benefits and a wider economic windfall effect.

Osaka prefecture and Singapore share similar traits, such as overall market size, population, and geographical area (Table 2). The opening of the integrated resort in Osaka aims to not only replicate the success seen in Singapore, but also has the potential to catalyse the growth of Greater Osaka and stimulate overall economic development nationwide. The resort will aim to attract 20 million visitors annually, approximately twice the figures seen in Singapore in 2019. Considering Osaka’s larger geographical and population size, coupled with Japan’s diverse entertainment and cultural offerings for tourists, the target should be achievable. Furthermore, developers are anticipating that the casino segment will generate 80% of the total revenue generated by the IR, aligning with the current model in Singapore.

GRAPH 6: ADR and RevPAR Growth Among Hotels* in Singapore, 2009 vs 2019



Source Singapore Tourism Board (STB), Savills Research & Consultancy
 * Covers only hotels approved and inspected by the Singapore Tourist Promotion Board (STPB)

TABLE 1: Hotel Occupancy Rates in Singapore, 2009 vs 2019

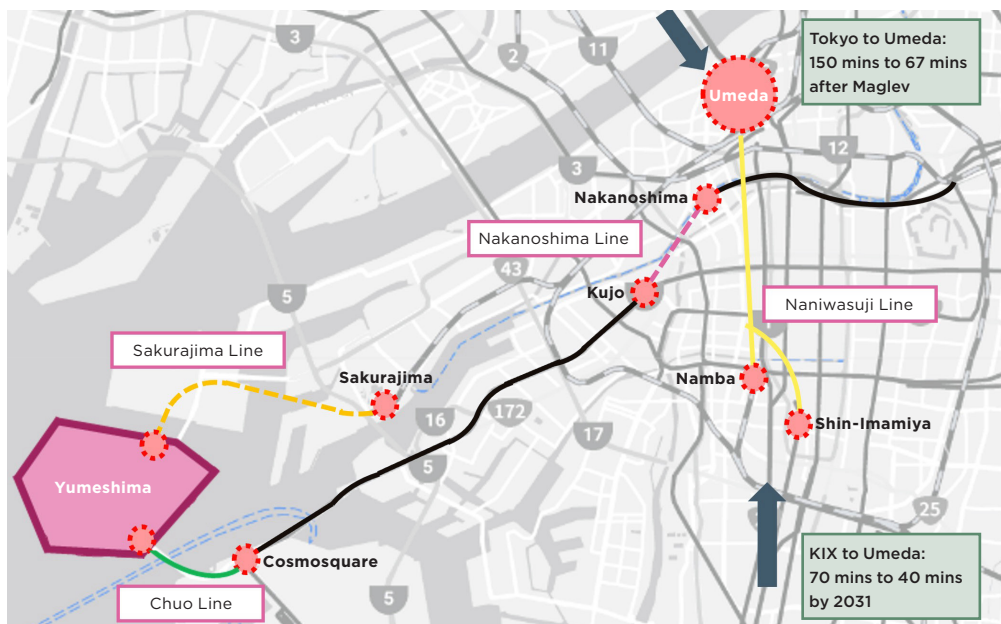
	2009	2019
Overall	76%	87%
Luxury	72%	88%
Upscale	77%	86%
Mid-tier	79%	89%
Economy	74%	84%

Source STB, Savills Research & Consultancy

Infrastructure developments have been taking place in Osaka that will further integrate the resort into the city transport network and improve wider connectivity. This includes the concurrent extension of the Chuo Line by 3.2km from Cosmosquare Station on Sakishima to a new station on Yumeshima by 2025. Meanwhile, plans have been mooted for an extension to the Sakurajima line from Sakurajima station until Yumeshima, in addition to an extension to the Nakanoshima Line from Nakanoshima station to Nishi-Kuji station, which would increase interoperability between different railway lines, and provide additional routes to the IR. That said, these proposals are yet to be finalised, and further announcements will likely be made throughout 2024.

Elsewhere, development work to the Naniwasuji Line connecting JR Namba and Nankai Shin-Imamiya stations is scheduled for completion in 2031, which will run from north to south through central Osaka, aiming to further enhance local public transport options in the city and improve accessibility to airports and major central rail hubs by connecting the Yamatoji Line and Nankai Main Line with Shin-Osaka station. This should guarantee a smoother travel experience for tourists, potentially facilitating IR visitors to explore other parts of Japan, while also minimising potential local opposition to the IR development and the region's burgeoning tourism industry by easing congestion on existing lines and improving access to central city areas.

MAP 1: Map of Osaka City - Yumeshima and Upcoming Public Transport Developments*



Source Savills Research & Consultancy
 * Dotted lines indicate that the transport development project has yet to be confirmed.

TABLE 2: GDP, Population & Area Comparison between Singapore and Osaka Prefecture, 2021 and FY2021

PERIOD	REGION	GDP/GRP	POPULATION	AREA
FY2021	Osaka Prefecture	US\$376 billion*	8.8 million	1,900 sq km
2021	Singapore	US\$424 billion	5.5 million	730 sq km

Source IMF, Osaka Prefectural Government, MUFG, Savills Research & Consultancy
* Converted with MUFG 2021 yearly average rate.

Furthermore, the Chuo Linear Shinkansen is set to run until Shin-Osaka, slated for completion in 2037, with non-stop services from Shinagawa expected to take around 67 minutes. This development will aim to create a “super mega-region” across Japan’s major metropolitan areas, by enabling faster and more seamless access between Tokyo, Nagoya, and Osaka, which contain a combined population of over 60 million people. The shorter journey time would likely create greater footfalls to the Osaka area, which should cause an expansion in the potential visitor base to the Osaka IR resort.

A positive ripple effect of the IR development will be felt across multiple sectors, and local officials are currently accepting proposals for concert venues, retail, hotels and residential developments on the present Expo 2025 Osaka site, with construction work slated to take place from 2026 after the conclusion of the Osaka expo. Further development plans will likely be confirmed in due course as the opening date of the IR draws closer. Subsequently, greater anticipated levels of tax revenue should boost overall investments in infrastructure, benefitting local residents, facilitating further growth in Japan’s tourism sector, and contributing to a positive multiplier effect for Japan’s wider economy and society.

ADDITIONAL IR FACILITIES IN THE FUTURE

The Japanese government announced in 2020 that a maximum of three localities would be given permission to host IRs. In addition to Osaka, various locations had been considered, including Hokkaido (Tomokomai, Rusutsu), Tokyo (Daiba), Yokohama, Aichi (Nagoya, Airport), Wakayama, and Nagasaki (Huis Ten Bosch), although a number of cities withdrew from the bidding process, citing concerns such as inadequate fundraising plans and gambling addiction issues. In April 2022, Osaka and Nagasaki officially applied to host IRs, and Osaka was ultimately chosen as the country’s first IR host.

Although Nagasaki’s initial proposal was rejected due to financing issues, potential plans for an IR facility in Nagasaki have likely not been completely buried, rather appear to remain on hold. PAG acquired the Huis Ten Bosch theme park for JPY100 billion in 2022, and reportedly has long-term aspirations to expand and improve the park, with plans to invest significant sums into developing new attractions and entertainment options. Given time to observe the positive trajectory of the Osaka IR, there may be renewed vigour, in addition to greater financial backing for the potential expansion of Huis Ten Bosch into an IR facility.

Elsewhere, Hokkaido may reconsider its application stance, while the Tokyo Metropolitan Government appears to maintain its position on the pursuit of IR, stating that it is currently “under consideration.” If Tokyo decides to proceed with the project, a potential candidate site would be the Tokyo Bay area that extends across Daiba in Minato and Aomi in Koto. Indeed, with the anticipated success and multiplier effect from the Osaka IR, there is potential for replicating the concept in other parts of the country, which would generate further ripple effects for regional economies and for the Japanese economy as a whole.

POTENTIAL LIMITATIONS

Although there is vast opportunity in the presently untapped casino market, a number of stakeholders have raised concerns regarding the viability and suitability of current development plans. There has been some backlash by local residents in Osaka due to concerns regarding the potential for addiction and security deterioration, particularly public disturbances and crime.

However, the government will reportedly introduce a number of measures to ease these concerns. For instance, there will reportedly be a limit on the number of times Japanese patrons may enter the casinos to three times a week, or ten times in a 28-day period. An entrance fee will also be levied on Japanese nationals at JPY6,000 per visit, of which a

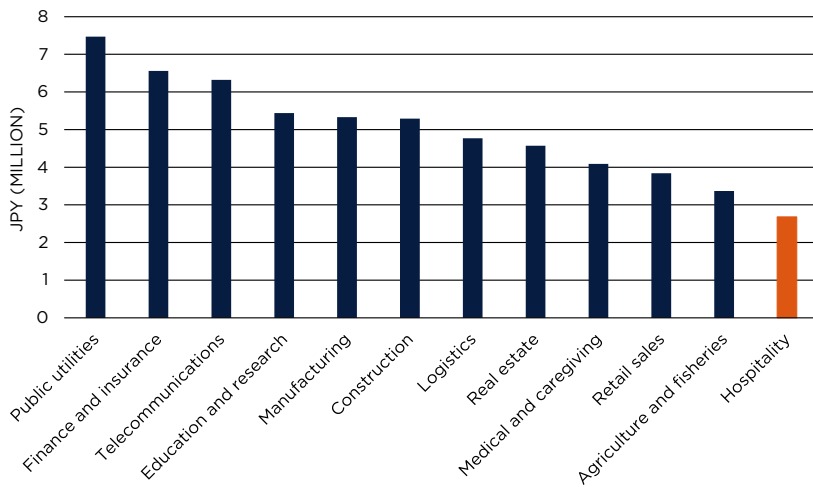
proportion will be channelled towards official gambling addiction programmes. In addition, domestic patrons of the IR will be required to verify their identity upon entry to casinos, with family members reportedly able to request that a customer be banned from using the casino. Meanwhile, casino operators will reportedly be required to report information to the government on patrons who have exchanged chips with a value exceeding JPY1 million, in an effort to prevent money laundering.

Elsewhere, ballooning construction costs, as well as various environmental concerns surrounding the host site Yumeshima have raised some doubts regarding the general feasibility of the Osaka IR project. Elevated materials and other costs have inflated overall construction costs significantly by an additional JPY190 billion to the current estimated total cost of JPY1.3 trillion. Moreover, Yumeshima is an artificial island made primarily of sand, soil and other debris, and environmental concerns such as soil liquefaction and contamination present additional hurdles for the construction process. Given these various roadblocks, a cancellation clause was included in the development contract with operators ORIX and MGM, allowing them to withdraw from the IR project without facing a financial penalty if the necessary financing and development work has not been fully prepared by September 2026. Other candidate cities may subsequently reassess the benefits of possessing their own IR when looking at the initial costs and various uncertainties that accompany the development process.

Meanwhile, labour shortages are a pertinent issue affecting all hospitality sectors in Japan equally, which has resulted in dampened occupancy rates across hotels in Japan for now. Such large-scale resorts will require a considerably large workforce, including skilled, multilingual staff, who are able to commute to and from the IR facility, which, in the case of the Osaka IR, has poor proximity to most residential areas in Osaka. Nevertheless, the average income in the hospitality industry is relatively low (Graph 7), which suggests that offering higher wages in order to attract more workers for this highly anticipated sector should be feasible in the foreseeable future.

Lastly, observers may take note of the failure of other candidate IR plans when evaluating the future prospects of the sector. Concerns surrounding public safety and gambling addiction were primary factors in Yokohama’s decision to withdraw its bid for developing an IR, while financial issues underpinned the failure of Nagasaki’s and Wakayama’s plans. In addition, while many foreign resort operators are certainly keen to operate in Japan’s fledgling casino market, some operators appear to hold reservations

GRAPH 7: Average Annual Income by Industry, 2022



Source Japan Tax Agency, Savills Research & Consultancy

due to uncertainties regarding the complicated regulatory environment. Nevertheless, many host cities and operators are currently in a wait-and-see mode. With the successful implementation of the Osaka IR project, in addition to further developments in the high-end tourism sector, many of these doubts will likely change to optimism, and other IR projects should learn from and build on the successes of Japan’s first IR facility.

OUTLOOK

The casino industry in Japan is currently a vast ocean of opportunity, and Japan has

the ideal conditions to develop this into a successful and sustainable tourism sector, given its reputable customer service, social stability, proximity to booming neighbouring economies, and renowned infrastructure base. Japan has finally begun to emerge as a popular hub for high-spending travellers, and with careful planning and sufficient investment, it will become more ready to welcome high-end visitors.

The Osaka IR will mark the birth of the casino industry in Japan, and a significant amount of investment planning has gone into realising these ambitious plans. Parties

involved anticipate that inbound spending will cause a large ripple effect, boosting local employment and transport infrastructure, as well as contributing to further regional and national economic growth. The successful development of the IR in Osaka should also pave the way for further developments in Japan, which will likely repeat this positive multiplier effect elsewhere.

Demand from inbound tourists for travel in Japan has gone from strength to strength since the end of the pandemic, and this encouraging trend is expected to continue and gain momentum. At the same time, we anticipate a general expansion in the demand for luxury services globally, with income inequality progressing in many economies and expected to accelerate as urbanisation and technological development progress. As Japan transitions into a global tourist destination, and makes further strides in developing its high-end travel sector, the perception that the international audience has of it may gradually transition to one of “luxury”, and should allow Japan to capitalise on inbound tourism more effectively and earn greater revenue. Japan’s growing appeal as a global tourism hub should help the casino sector rapidly grow and mature, rivalling and capturing an increasing share of wealthy spenders from other IR facilities in Asia. Overall, the prospects are bright for the IR sector in Japan, and observers should anticipate strong returns from its successful implementation.



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