Japan - February 2024

SPOTLIGHT

Savills Research

High-End Tourism in Japan

savills

Promising growth prospects across multiple high-end tourism areas

Summary

- Japan's tourism industry was historically geared towards domestic guests, and received very few inbound tourists. As such, the high-end segment has generally been underdeveloped.
- Japan is currently experiencing an inbound tourism boom, yet average spending per inbound tourist is still relatively meagre, and has large room for further growth.
- Osaka's IR development will herald the birth of Japan's casino industry, and aims to compete with other major IR facilities in the region and attract high-spending visitors from booming economies in Asia.
- The ryokan segment has been capturing the imagination of both domestic and inbound high-end visitors, with many available opportunities.
- Japan is now globally recognised as a ski destination. Visionary players are deploying significant amounts of capital to redevelop ski resorts across the country, integrating luxury accommodation and services in order to compete globally with other major high-end resorts.
- The luxury retail sector has been a major beneficiary of Japan's elevation as a global tourism hub. The further development of the aforementioned high-end sectors will undoubtedly contribute to greater earnings in the high-end retail segment in Japan.
- Japan's medical and healthcare expertise and infrastructure are second-to-none, but attract relatively few international visitors, which leaves room for significant growth.
- 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.

BACKGROUND

Until the 2000s, Japan was not on the radar as a global tourism hub. Entry into the country for most 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. As such, the high-end market did not grow to a comparable extent to those of other countries such as Switzerland and France, with only a handful of upscale ryokan and resorts aimed exclusively at wealthy Japanese nationals.

However, a few decades later, Japan claimed the top spot in the World Economic Forum's Travel and Tourism Development Index for 2021 (Table 1), despite borders being firmly closed during the pandemic, demonstrating the significant amount of pent-up demand among foreign nationals for travel in Japan. Japan has firmly captured global interest in recent years, and research conducted by Remitly shows that Japan ranks second among the countries that individuals express the highest interest in moving to (Table 2).

TABLE 1: World Economic Forum Travel and Tourism Development Index, 2021

RANK	COUNTRY	SCORE (OUT OF 7.0)
1	**Japan**	**5.2**
2	United States	5.2
3	Spain	5.2
4	France	5.1
5	Germany	5.1
6	Switzerland	5.0
7	Australia	5.0
8	United Kingdom	5.0
9	Singapore	5.0
10	Italy	4.9
Global average		4.0

Source World Economic Forum, Savills Research & Consultancy

TABLE 2: Remitly Top 10 Countries for Moving Abroad Survey Results, 2021

RANKING OF NUMBER OF COUNTRIES THAT PEOPLE WANT TO MOVE TO THE MOST	COUNTRY	VOTES	RANKING OF NUMBER OF COUNTRIES THAT PEOPLE WANT TO MOVE TO THE MOST	COUNTRY	VOTES (EXCL AFRICA, CENTRAL AMERICA, AND CARIBBEAN)
1	Canada	30	**1**	**Japan**	**13**
2	**Japan**	**13**	2	Canada	9
3	Spain	12	3	Spain	9
4	Germany	8	4	Germany	8
5	Qatar	6	5	Qatar	6
6	Australia	5	6	Australia	5
7	Switzerland	1	7	Switzerland	4
8	Portugal	3	8	United States	2
9	United States	2	9	United Kingdom	1
10	United Kingdom	2	10	Portugal	1

Source Remitly, Savills Research & Consultancy

Furthermore, Japan actually takes the top position amongst major voters in terms of tourism and real estate investment (excluding African, Central American and Caribbean countries). Indeed, Japan has been a soft power winner over the past few decades, attracting significant interest in Japanese cuisine, culture, history, and media from abroad. Furthermore, it is renowned for its public infrastructure that facilitates convenient and safe travel, while resilient supply chains have kept the general price of goods and services at relatively affordable levels, which has improved the ease of access to Japan by overseas tourists.

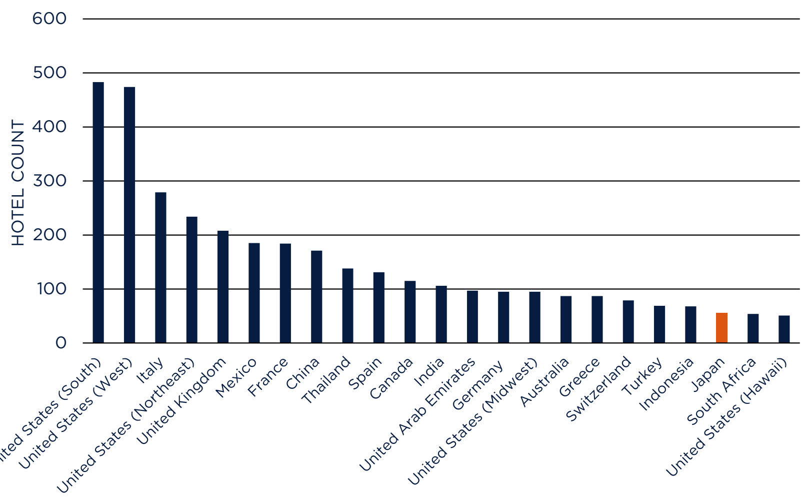
Presently, the general price level in Japan appears to be "on sale", and extremely cheap relative to global prices due to the weak yen, which may temporarily elevate the country's appeal. Major elevations in general price levels may be unmanageable and unlikely to materialise, given the large proportion of the population that has already entered retirement age. As such, prices will likely remain moderate moving forward, which should sustain the sense of affordability for the meantime, at least in yen terms.

Japan is also synonymous with peace and safety, offering reassurance to those visiting an unfamiliar country. Given the prevalence of natural disasters, Japan has established itself as a resilient nation through strong disaster preparedness, including stringent infrastructure codes, well-defined safety and evacuation procedures, and a sense of cooperation and composure among its residents. This can be evidenced by the smooth evacuation and low fatality rates during recent critical events, such as the Noto Peninsula earthquake and the Haneda airport disaster in January 2024.

Japan is currently experiencing an inbound tourism boom, while the high-end tourism market is relatively underdeveloped and ripe with opportunities. Major visionary players are already deploying significant amounts of capital in prospective fields, anticipating exponential growth and potential demand. Overall, growth prospects are bright, and these developments are likely to accelerate Japan's transformation into a sustainable tourist destination of the future.

While Japan holds significant potential for high-end tourism, the industry remains relatively modest. The number of luxury hotels in the country is notably low at 56 (Graph 1), especially relative to the roughly 25 million inbound tourists that it welcomed in 2023. In addition, the average total spending per inbound tourist in 2023 was US$1,400, which is lower than many global peers. There is considerable potential to increase per-person spending by appealing to wealthier and higher-spending visitors, which will generate broader positive returns for Japan. Due to the recent development and rapid growth of inbound tourism, Japan is beefing up the necessary infrastructure and services to welcome high-end tourists. The following five areas appear to be especially promising avenues for this growth - Integrated Resorts (IR), ryokan, ski resorts, retail, and medical tourism. This report examines these areas and outlooks.

GRAPH 1: Number of Luxury Hotels by Country/Area, 2023



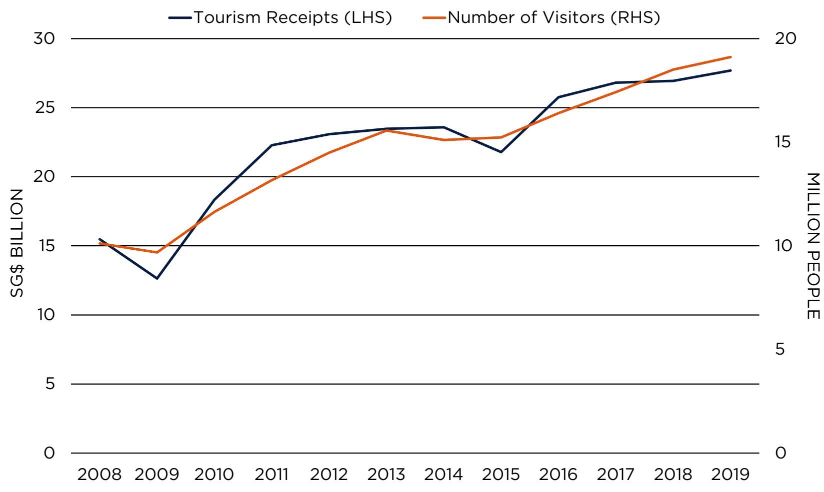
Source Five Star Alliance, Savills Research & Consultancy

INTEGRATED RESORTS

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.

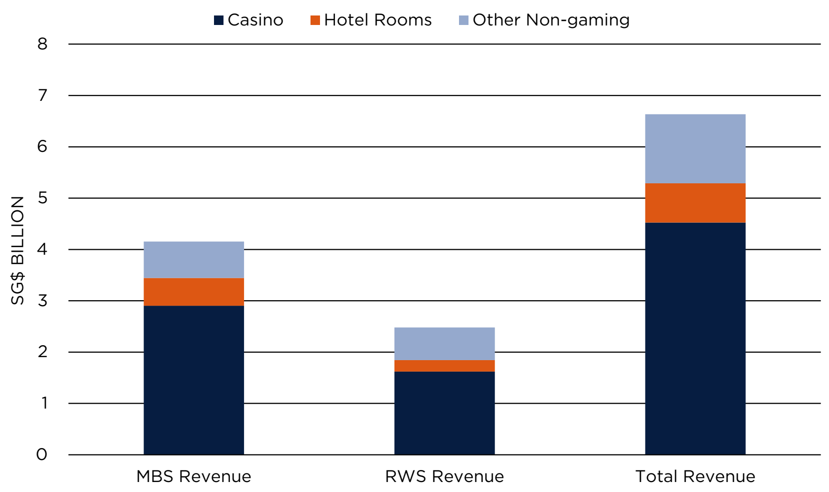
Since the establishment of the two IRs, Marina Bay Sands (MBS) and Resorts World Sentosa (RWS) in 2010, both the country's tourism revenue and its number of inbound visitors approximately doubled by 2019 (Graph 2). According to the Singapore Tourism Board (STB), the country generated

GRAPH 2: Singapore Total Tourism Revenue and Visitor Numbers, 2008 to 2019



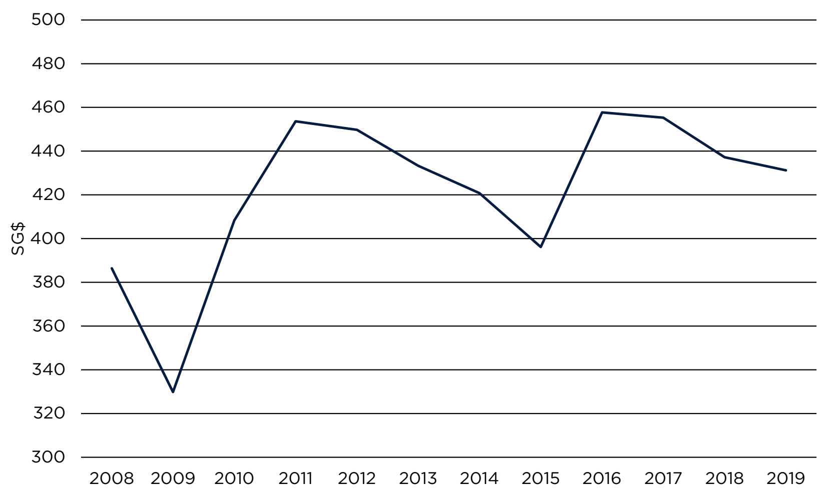
Source Singapore Tourism Analytics Network (STAN), Savills Research & Consultancy

GRAPH 3: Revenue Composition from Singapore IR Complexes, 2019



Source MBS and RWS Annual Report, 2019, Savills Research & Consultancy

GRAPH 4: Singapore Daily Per-capita Tourist Expenditure, 2008 to 2019



Source STAN, Savills Research & Consultancy

SG$27.7 billion[1] 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.

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 3), 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 S.E.A. 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 4). Moreover, Singapore's hotel industry has experienced a notable improvement in occupancy rates from 76% to 87% over the same period (Table 3), with luxury hotels experiencing the most substantial increments in terms of both Average Daily Rate (ADR) and Revenue Per Available Room (RevPAR) (Graph 5).

The upcoming Osaka IR, a joint venture by MGM Resorts and ORIX Corp., will be Japan's first large-scale entertainment and casino complex scheduled for completion in 2030, in Yumeshima, 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 4). 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

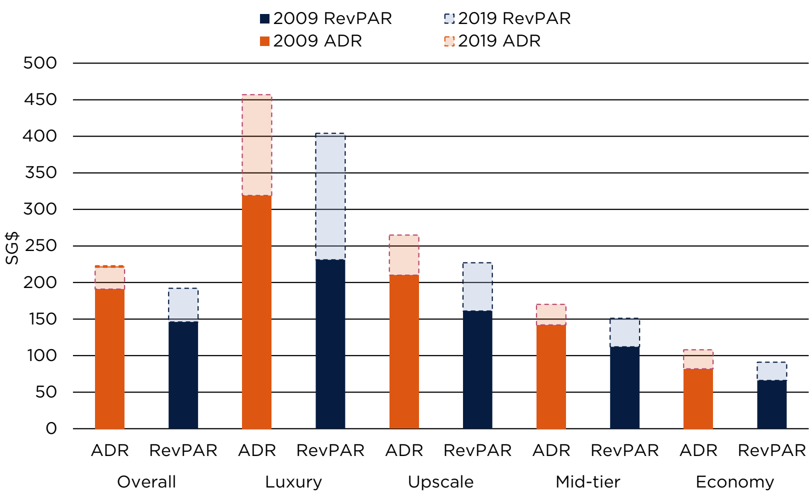
1 STB uses an exchange rate of US$1 = SG$1.34 in 2019.

TABLE 3: 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

GRAPH 5: 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 4: GDP, Population and Area Comparison between Osaka Prefecture and Singapore, FY2021 and 2021

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

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.

Meanwhile, the concurrent extension of local public transport services and the enhancement of accessibility to airports and major rail hubs will contribute to a smoother travel experience for tourists, potentially facilitating IR visitors to explore other parts of Japan. A positive ripple effect of these developments will be felt across multiple sectors, including hotel and retail, among others. Subsequently, greater levels of tax revenue should boost investments in infrastructure, benefitting local residents, facilitating further growth in Japan's tourism sector, and generating a positive multiplier effect for Japan's wider economy and society.

In addition, 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 (Tomakomai, 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, while Nagasaki's proposal was rejected due to financing issues.

Elsewhere, Hokkaido may reconsider its application stance. Additionally, the Tokyo Metropolitan Government appears to maintain its stance 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 due to 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.

RYOKAN

The ryokan segment has generally been struggling in recent decades. That said, upscale ryokan have been able to capture a significant proportion of luxury demand from wealthy Japanese nationals who had limited access to international travel during the pandemic. In addition, the inbound tourism boom over the past decade has led to growing interest among overseas repeat visitors

TABLE 5: Ryokan Performance, 2023* (see Appendix for more details)

PROPERTY NAME	ACQUISITION PRICE PER KEY (MILLION YEN)	GUESTROOMS	OCCUPANCY (%)	ADR (YEN)	REVPAR (YEN)
HOSHINOYA Karuizawa	98.7	77	70	95,900	73,800
HOSHINOYA Kyoto	115.1	25	96	111,200	107,200
HOSHINOYA Fuji	104.0	40	69	83,000	57,600
HOSHINOYA Taketomi Island	103.2	48	65	73,700	48,200
HOSHINOYA Okinawa	122.1	100	49	80,100	39,000
HOSHINOYA Average	**108.6**	**58**	**64**	**86,300**	**58,200**
KAI Matsumoto	23.1	26	89	50,700	44,900
KAI Tamatsukuri	28.3	24	91	53,700	48,900
KAI Ito	22.3	30	91	52,200	47,300
KAI Hakone	29.7	32	89	60,900	54,100
KAI Aso	47.9	12	82	78,400	64,700
KAI Kawaji	18.5	54	77	27,100	20,800
KAI Kinugawa	64.2	48	90	42,000	37,600
KAI Kaga	65.8	48	73	45,800	33,500
KAI Alps	63.8	48	67	34,500	23,000
KAI Enshu	31.8	33	85	49,200	41,800
KAI Nagato	68.8	40	80	36,000	29,000
KAI Kirishima	79.9	49	63	44,400	27,900
KAI Beppu	104.8	70	73	43,400	31,700
KAI Average	**49.9**	**40**	**79**	**44,100**	**35,100**
Ooedo-Onsen Monogatari Reoma Resort	40.2	241	73	35,600	25,800
Ooedo-Onsen Monogatari Ise-shima	44.0	83	82	36,500	29,900
Ito Hotel New Okabe	36.4	73	80	34,300	27,400
Ooedo-Onsen Monogatari Atami	39.5	76	81	37,000	29,900
Ooedo-Onsen Monogatari Toi Marine Hotel	29.8	64	76	32,500	24,600
Ooedo-Onsen Monogatari Awara	20.0	95	74	30,300	22,300
Ooedo-Onsen Monogatari Ikaho	32.5	40	87	34,900	30,400
Ooedo-Onsen Monogatari Kimitsu-no-mori	20.0	41	83	31,100	25,800
Ooedo-Onsen Monogatari Kouunkaku	10.6	98	59	27,400	16,200
Kinugawa Kanko Hotel	22.5	172	78	32,600	25,300
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	10.0	123	75	29,100	22,000
Ooedo-Onsen Average	**27.8**	**101**	**77**	**32,800**	**25,400**

Source Hoshino Resorts REIT, Ooedo Onsen REIT, Savills Research & Consultancy
*As of most recently published figures in 2023.

seeking an authentic experience in traditional Japanese ryokan. Overall, the ryokan segment appears to be a blue ocean full of opportunity, with a renewed awareness and interest in the sector among high-end visitors. This has encouraged players in the hospitality sector to look to the segment for strong returns, and many are aiming to make entries in the near future.

The ryokan industry has long been struggling due to the economic slowdown since the end of the Japanese bubble period, and the subsequent collapse of the “banquet boom” model of domestic tourism. The number of ryokan establishments has fallen from nearly 72,000 in 1995 to under 39,000 in 2017, with the 2008 global financial crisis and the 2011 East Japan earthquake expediting this decline. Conversely, hotels have grown in popularity over the same period, and have largely displaced ryokan, especially in urban areas. Currently, the overall ryokan market is vast, but also fragmented and without dominant players. Instead, most establishments are independently owned and operated, and many are dealing with financial or succession pressures.

There are numerous prime locations for ryokan in major hot spring towns, resorts, and urban areas across Japan. There appears to be an abundance of value-add opportunities in the market that have potential for robust growth for well-researched players with deep pockets and operating acumen. For instance, Hoshino Resorts REIT is a major player in the ryokan segment, and has positioned its luxury “Hoshinoya” and “Kai” ryokan properties as their flagship brands. As of October 2023, Hoshino Resorts REIT owns five properties under the Hoshinoya brand, and 13 properties under the Kai brand, which together comprise 31% or JPY60.1 billion of their total portfolio as of 2023, and expects this segment to expand further in the future.

Ooedo Onsen REIT is another established ryokan owner and operator, and has built a JPY31.1 billion portfolio of 11 hospitality assets, comprising nine mid-range ryokan properties under their “Ooedo-Onsen Monogatari” brand and two hotels properties, both centred around onsen and spa-related facilities, which are typically popular among Japanese guests. Overall, the company appears to be adeptly capturing the growing demand for traditional Japanese experiences, and has managed to achieve an impressive average occupancy rate across its ryokan and spa hotel properties of 77% in November 2023, with an average ADR of JPY32,800 per night. The APA Group, a large budget hotel group, has recently acquired the REIT’s asset manager, and has plans to grow it further, although likely in non-ryokan areas.

On top of established and growing domestic players, major international players have also been drawn to the ryokan segment. A major entry was by Hyatt Group, which has a long, established presence in the luxury hotel sector in Japan, and recently announced its collaboration with hotel and ryokan operator Kiraku to develop its upscale ryokan brand ATONA. The venture is Hyatt's response to the shockwaves caused by the pandemic, and the company aims to cater to the growing high-end demand for authentic Japanese experiences through modern onsen ryokan.

Sentiment is extremely positive in the luxury ryokan segment, and as inbound tourism continues to pick up, we predict further entries by large operators and a continued expansion of the market. Successful operators will have the capacity to offer more attractive wages to staff and carry out efficient group management of multiple properties in the same area, which can help them respond to fluctuations in demand and seasonal workforce needs, and help to mitigate the persistent labour shortage. Exceptionally savvy ones will be able to integrate and implement digital transformation initiatives to capture, measure, visualise, and analyse operating indicators, like emerging ESG initiatives, which should serve as an invaluable asset in aiding operations. Given the growing demand for "authentic" bespoke experiences in Japan, the spotlight will likely be on the ryokan segment, which looks to transform from a product of the past into a product of the future. For additional information, please refer to our "Ryokan Market June 2023" report.

SKI RESORTS

Skiing reached its peak level of popularity in Japan in the late 1990s, when Japan held the Nagano Winter Olympics in 1998. The growth in participation by Japanese nationals in skiing coincided Japan's rapid economic expansion, with a peak of over 18 million active skiers[2] recorded in 1998, according to the Japan Productivity Center. During the 1990s, significant investments were made into developing ski resorts, and Japan boasted one of the greatest numbers of ski resorts in the world at over 800 facilities to service the booming domestic demand.

That said, Japan's winter sports industry entered a long period of decline after the late 1990s. The country's economic stagnation as well as the declining number of customers caused many resorts to experience difficulties. The number of active domestic skiers in Japan fell consistently to as low as 5 million in 2022. As such, many resorts went out of business, with only those in the most popular locations such as Niseko and Hakuba continuing to prosper, and the total number of resorts in operation has fallen to fewer than 500. A lack of investment has resulted in noticeably ageing infrastructure, antiquated accommodation, and a shortfall of local services and amenities, with many potential workers from local communities instead choosing to search for work in larger urban areas.

2 Also includes people who snowboard

However, although domestic demand weakened in line with economic stagnation, the Winter Olympics in Nagano likely put Japan on the map globally as a premier ski destination, and marketing campaigns, especially by Niseko heavily targeting skiers from overseas (primarily Australia at first) led to new demand. In recent years, the growing market of winter sports enthusiasts from Asian nations has propagated further increments in inbound tourist numbers and subsequently investments into winter sports resorts in Japan. Many hotel and local business owners recognised the economic value of inbound travellers, who tend to spend more time and money in resorts and surrounding towns. As such, major players have identified the winter sports industry in Japan as one ripe with opportunities, and the current surge in development activity coincides with the overall inbound tourism wave that Japan appears to be riding to great success.

To assess the potential of ski resort developments in Japan, this report looks at Switzerland as a successful model. Given Switzerland's geography, winter sports and summer resorts have played a leading role historically in the development of its hospitality sector. The wider Swiss tourism and hospitality sector employed 250,000 people, or roughly 5% of the national workforce, and comprised roughly 5% of Swiss GDP in 2022 (US$818 billion[3]). The country attracted around 12 million overseas travellers in 2022, generating a total revenue of US$17.4 billion[4] from inbound tourism. Alpine resort towns such as Zermatt, Verbier, and St. Moritz, which twice hosted the Winter Olympic Games, have become universally recognised destinations for wealthy winter sports enthusiasts, and Switzerland's tourism industry is now synonymous with luxury hospitality.

Switzerland's luxury tourism model has seen major success thus far. There are 79 five-star hotels in Switzerland, which, relative to the number of inbound tourist arrivals of 12 million in 2022, is a large figure. In comparison, France, which received 79.4 million inbound arrivals in the same year, has 184 five-star hotels, translating to a far lower ratio of five-star hotels per inbound visitor than Switzerland. Moreover, Switzerland's average revenue per inbound visitor in 2022 amounted to US$1,450 per visitor, while France, which routinely receives the largest number of annual overseas visitors, recorded total revenue from inbound tourism of US$59.7 billion, translating to US$750 per visitor, which is significantly lower than that of Switzerland.

Looking at resort operations, average weekly prime rents in a two-bedroom apartment in the upscale resort Verbier were €5,100[5] during the winter ski season in 2023, while a chalet would cost €12,000 for a week. Elsewhere, in Andermatt, average weekly prime rents two-bedroom apartment would cost just shy of €3,000 over the same period. These cities have many other luxury hotels that likely have even more premium prices.

3 According to figures by The World Bank.
4 2022 average exchange rate of US$1 = CHF0.95 according to Credit Suisse.
5 Please refer to "The Ski Report, World Residential – Winter 2023/24" for further information.

While Switzerland has achieved notable success in cultivating its luxury tourism industry, it appears that prospects for future growth may be limited. Firstly, the cost of labour is extremely high, and the hospitality sector faces severe worker shortages. Indeed, Switzerland is one of the world's most highly developed economies, with a highly educated and skilled workforce, and is home to leading financial and pharmaceutical companies, which are able to offer more attractive compensation packages to workers. Meanwhile, although it is a potential solution that is often touted, raising immigration levels appears to be a sensitive political issue in Switzerland, and appears unlikely to resolve the issue.

From a visitor's perspective, Switzerland has become prohibitively expensive for a large proportion of international travellers. Many professionals, even those in high paying jobs, may feel priced out of Switzerland's famous alpine resorts, and may instead opt for more affordable destinations in neighbouring France, Italy, or Germany.

Japan too faces a handful of roadblocks in this regard. Japan also suffers from chronic labour shortages, which is especially prevalent in remote areas where ski resorts tend to be located. The situation is so severe that in areas such as Niseko, businesses are offering part-time workers in the winter season an hourly rate of over JPY2,000, much higher than rates of workers in Tokyo. That said, the average income in the hospitality industry is low, which suggests that offering higher wages for this growing business should be feasible in the foreseeable future.

In addition, climate change is an issue that affects the winter sports industry globally. As ski seasons become shorter and the average volume of snow falls, resort operators may struggle to generate sufficient revenue and face financial difficulties. That said, the average snowfall in these distinguished ski resorts in Japan reaches world-class levels, meaning that they should be relatively resilient even in a warming globe.

Overall, Japan is a beacon of opportunity and potential for this sector. The famous powder snow in well-visited resorts such as Niseko already attracts many winter sports enthusiasts globally. Most resorts in Japan lack extensive accommodation and infrastructure for luxury clients in particular, and are thus ripe for development. In addition, relatively low wages, coupled with a growing willingness in Japan to accept greater levels of foreign workforce and residents will likely keep development and operational costs at reasonable levels. Meanwhile, Japan is located in close proximity to several emerging nations and a growing pool of high-net-worth individuals, whose demand for luxury experiences can be serviced by resorts in Japan. By and large, Japan possesses many similar features and qualities that make Switzerland a prime luxury destination, and has yet to fully realise the growth potential of the sector. In addition, fortifications have already been made to the tourism industry in the green season.

Notable progress has already been made in this regard. For instance, a moderate luxury winter sports sector appears to have already emerged in Niseko given its quality and subsequent global popularity, having been ranked #25 in Savills Ski Resilience Index, which measures the quality and reliability of a resort's conditions. Indeed, some major luxury players have established a presence in Niseko, including the Park Hyatt, Ritz-Carlton Reserve, and Aman Resorts. Furthermore, luxury brand Louis Vuitton opened a pop up at the Park Hyatt in Niseko for the 2024 ski season.

The upcoming Hokkaido shinkansen expansion to Sapporo, touted for completion in 2031, will stop in Kutchan and should significantly improve the ease of travel to Niseko from Sapporo and Tokyo. In addition, helicopter services have become available between New Chitose airport and Niseko, especially during the high season. Further development will likely take place as resorts in Niseko become more accessible and popular, improving the prospects of the high-end ski segment in the area.

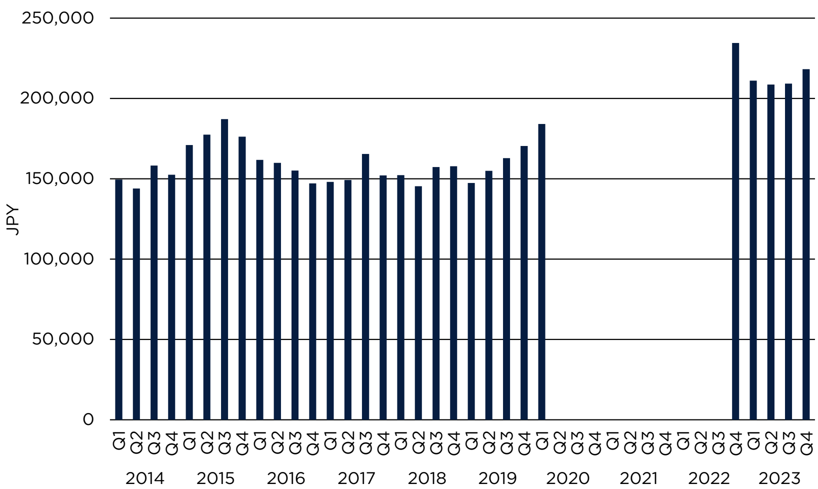
Like Niseko, Hakuba has remained competitive as a ski resort in Japan since the Nagano Olympics, and has been in high demand among overseas tourists immediately since the lifting of inbound entry restrictions. Hakuba Valley received over a quarter of a million inbound skiers in the 2022/2023 ski season, albeit moderately lower than the figure for 2019/2020 at almost 400,000 visitors. While globally recognised for its heavy snowfall, Hakuba has some ageing infrastructure and accommodation that sorely needs renovation and modernisation. Many players have made strides in this regard, with KANOLLY Resorts having paved the way and opening a luxury hotel in the area. Yet, there is notably greater demand for luxury hotels, facilities and infrastructure, which presents vast opportunities for players looking to tap into the high-end winter sports boom in Japan.

Elsewhere, Myoko Kogen in Niigata is one of Japan's longest established winter sports destinations but experienced a prolonged period of stagnation. The area routinely receives large volumes of snow, and is also famous for its onsen facilities, many of which feature milky-white, auburn, and bronze coloured hot spring water. Given its accessibility to Tokyo via the Hokuriku shinkansen, Patience Capital Group (PCG) announced its ten-year, JPY210 billion investment plan into five resorts in the ski town, aiming to transform the area into a globally competitive winter sports destination. Having reportedly collected bids from ten global luxury hotel brands, PCG will initially focus on building high-end hotel facilities and accommodation for staff by 2026, then consequently work to expand wider retail and hospitality offerings in nearby urban centres.

Although relatively moderate compared to other resorts in Japan, Appi Kogen in Iwate appears to have bright prospects as a high-end tourist destination, having been awarded 'Japan's Best Ski Resort' at the 2022 World Ski Awards. IHG Hotels & Resorts will expand its presence in the resort town by refurbishing and opening three hotels, including ANA InterContinental Appi Kogen Resort in 2022, reportedly the first luxury resort in the Tohoku region. Meanwhile, the world-renowned British Harrow School opened its international branch in Appi Kogen in 2022, with annual tuition of around JPY9 million. These developments have helped to raise the profile of Appi Kogen, and signal that confidence is high in the future growth trajectory of the area.

Overall, Japan's winter resort towns are beginning to emerge from the recent slump as destinations that can attract high-end guests. More progress will be needed in replacing ageing infrastructure and accommodation, and stimulating the growth of local services and improving accessibility. In addition, observers must pay attention to labour constraints, which will delay construction and raise operational costs. Nevertheless, the current trend appears to be promising, and there are significant opportunities for visionary players with deep pockets in the growing luxury ski market in Japan.

GRAPH 6: Per-person Spending by Inbound Tourists, 2014 to 2023*



Source JTA, Savills Research & Consultancy
* Excludes data from during the pandemic, as it doesn't represent typical "tourist" spending, given that borders were closed to inbound tourists.

HIGH-END RETAIL

Japan's retail market has recovered significantly with the influx of inbound tourists over the past year. Indeed, according to the Japan Tourism Agency (JTA), inbound tourists spent around JPY1.4 trillion in 2023, while per-person spending by inbound tourists is notably higher in the post-pandemic period (Graph 6). Initially, wealthy travellers comprised a relatively large proportion of total inbound visitor numbers, given that the cost of airfare and accommodation across the globe were elevated in 2022 and 2023. Moreover, the weak yen has improved the purchasing power of foreign guests, encouraging even greater levels of inbound spending.

The luxury sector has performed particularly well as a result, and high street retail has thrived. Indeed, several high-end store openings were observed in such areas in 2023. For instance, Grand Seiko opened their flagship store in Ginza, which is their third location in the area, and several luxury brands, such as BVLGARI have opened in Ginza Six. Elsewhere, Omotesando's main luxury retail street Omotesando-dori has welcomed famous luxury brands, including FENDI and Tiffany & Co., while luxury watch boutique Rolex opened a store in Shinjuku in 2023. Japan has been an exciting, fast-growing market for luxury brands, with many major brands recording double-digit sales growth in 2023, despite the global economic slowdown affecting sales globally. Strong performance in Japan was also underpinned by resilient spending by wealthy Japanese nationals.

Spending by inbound visitors has been serendipitous for the rapid growth of the luxury retail sector, with inbound tourists accounting for more than half of total sales in several luxury stores in Ginza. Similarly, in 2023 the department store Takashimaya in Shinjuku recorded sales of almost 50% higher than in 2019, while duty-free sales at Matsuya reached JPY14 billion from April to September 2023, notably higher than JPY10 billion over the same period in 2019. As Japan pivots towards a greater emphasis on high-end travel, the luxury retail sector will likely continue to grow in tandem. The high-end travel segments covered in this report should attract increasingly affluent profiles of inbound visitors, creating opportunities for new and diverse store openings across major prime spots, and subsequently generating greater future revenues.

Meanwhile, the growth in the demand for luxury residential properties, especially over the past half decade, will contribute to the bright future prospects of the luxury retail sector. Indeed, given the growing number of ultra-high-net-worth individuals living in Tokyo, many of whom have a greater preference towards living closer to the centre of the city, near prime entertainment and retail districts, there has been a slew of large-scale developments in central Tokyo over recent years to cater to this demand[6]. For instance, luxury residential and hospitality operator Aman Resorts opened the five-star hotel Aman Tokyo in Otemachi Tower, in addition to 91 ultra-luxury Aman branded residences in the highest floors of the newly completed Azabudai Hills Mori JP Tower in Minato. Given Japan's emergence as a prime global tourist destination, a greater emphasis on luxury offerings will likely attract many high-end repeat visitors, with many desiring to have a residential base in Japan. For instance, the well-known billionaire Jack Ma may be one example, with sightings of him in Tokyo reported last year. This is positive news for Japan's high-end retail sector, which stands to benefit from a potential influx of affluent and high-spending new residents.

Overall, prospects are positive for the luxury retail sector in Japan. The growth of inbound tourism brought about a large recovery in retail sector performance, and has come to comprise a meaningful proportion of total retail spending in Japan. The further development of Japan's luxury tourism options looks to attract more high-spending repeat visitors, whose demand should support the further growth of Japan's high-end retail sector.

MEDICAL TOURISM

Japan stands out in terms of offering high-quality and advanced healthcare services, yet has relatively affordable healthcare compared to many developed countries, and draws affluent patients from across Asia. Indeed, high net worth individuals have greater capacity to travel abroad in search of premium healthcare, and according to a study done by IMARC group, the global medical tourism market is projected to witness significant growth from US$97 billion in 2022 to an estimated US$337 billion by 2028. To promote medical tourism in Japan, the government introduced medical visas in 2011, which were designed to increase accessibility for foreign patients to receive treatment, undergo health check-ups, and simultaneously engage in sightseeing. Overall, Japan appears to be ideally positioned to cater to this demand, and the industry appears to have significant prospects for further growth.

With the global rise in life expectancy, there is a growing demand for preventive medicine and treatment for lifestyle-related diseases. Japan leads the world in healthy life expectancy, supported by a strong emphasis on preventive medicine through comprehensive health checkups and high accessibility to advanced medical technology. Indeed, Japan possesses extensive medical infrastructure, with one of the highest numbers of MRI and CT machines per capita among other OECD countries.

In addition, Japan's proficiency in specialised medicine sets it apart from other countries. For instance, cutting-edge treatments, such as regenerative medicine, stem cell therapy, robot-assisted surgery, and precision medicine for cancer treatment, offer patients advanced healthcare solutions that may not be universally accessible in patients' home countries. This also extends to specialised fields such as neurological, cardiovascular, and robotic rehabilitation treatments, presenting a notably comprehensive spectrum of care.

In recent years, specialist facilities dedicated to senior living and medical therapy have been emerging in Japan over recent years. The investment arm affiliated with major developer Mori Trust is investing JPY250 billion into developing a resort for wealthy patrons in Tomakomai, Hokkaido, including four hotels, ten condominium buildings and medical facilities, with a luxury hotel reportedly to be operated by the established high-end resort brand Jayasom. The developer has been drilling for natural onsen water, which will contribute to the resort's treatment options, while the close access to nature and ski resorts will provide a range of leisure options for guests.

Although perhaps scarcely known among non-Japanese nationals, toji culture has been alive for centuries in Japan. It is a traditional practice where guests spend an extended period of time (typically a week or longer) at an onsen resort town, regularly using hot spring baths to alleviate stress and improve their overall health and wellbeing. Certain types of accommodation, often traditional ryokan, would be focused on longer staying guests, and typically prepare healthy and locally sourced food to contribute towards the therapy process, while different types of hot spring baths are available that contain various minerals and nutrients, which are claimed to alleviate certain health conditions. Indeed, the global rise in mental health cases, in conjunction with a growing interest in traditional Japanese culture will likely lead to greater awareness of the therapeutic properties of Japanese onsen among foreigners, perhaps contributing to further growth in inbound demand for medical and healthcare services in Japan.

Meanwhile, many large insurance firms in particular appear to recognise the strong growth potential in the medical and elderly care services sector, and may look to integrate their real estate investments in the healthcare field within their core insurance business strategies as platforms for further revenue growth. For instance, AXA Investment Managers has been active in the elderly residential care market in Japan in recent years. In 2022, it acquired a portfolio consisting of 15 elderly care facilities with 800 units for JPY21.9 billion, as well as a mixed-use elderly care services building in Yokohama, housing residential units, retail, and clinics. The company extended its healthcare platform in November 2023 by acquiring two purpose-built residential healthcare facilities with a total of 331 units in Hokkaido. Players with a significant presence in the market may be able to use their healthcare and senior care home assets under management as platforms to offer more integrated and streamlined health and wellbeing services possibly to visitors and residents of these facilities and generate additional revenues.

That said, the sector is still underdeveloped and faces several issues common to other growing high-end sectors in Japan. For instance, specialist foreign language speaking workers are limited in Japan, so the cost of labour will likely be higher. Furthermore, developing large facilities in secluded municipalities such as Tomakomai will require the understanding of local communities, and planning permission may also take time. Also, additional dedicated infrastructure will be essential in many cases, including staff accommodation and transport, which may further increase development costs. Nevertheless, Japan's strengths in the field of advanced medical treatments, in addition to its growing expertise in high-end tourism will likely position Japan as an appealing destination for medical tourism.

JAPANESE CORPORATIONS THRIVING IN STRATEGIC GROWTH SECTORS

As outlined in our analysis of "Japan's Prospects Towards 2040," Japanese corporations have demonstrated impressive performance, marked by a steady increase in earnings per share (EPS). Companies with forward-thinking strategies have adeptly identified and capitalised on key growth areas. Below are exemplary companies strategically positioned in the sectors discussed:

Integrated Resorts

Company:	ORIX Corporation
Strategic Exposure:	ORIX stands as a prominent player in the integrated resorts sector, capitalising on the burgeoning demand for entertainment and hospitality complexes. With strategic investments and diversified offerings, ORIX is well positioned to capitalise on the evolving landscape of leisure and tourism.

6 For further information, please refer to our "Tokyo Residential: Ultra-luxury – March 2023" report.

Ryokan

Company:	Hulic Co., Ltd., ORIX Corporation
Strategic Exposure:	Hulic and ORIX have demonstrated significant involvement in the Ryokan industry. Leveraging their resources and expertise, these companies are contributing to preserving and promoting Japan's rich cultural heritage, while catering to the shifting preferences of domestic and international travellers seeking authentic hospitality experiences in Japan.

Ski Resorts

Company:	Tokyu Corporation, Seibu Holdings Inc.
Strategic Exposure:	Tokyu and Seibu have established a strong presence in the ski resort industry, capitalising on Japan's renowned powder snow and overall volume of snowfall, in addition to its famed picturesque landscapes. Through investments in infrastructure and amenities, these companies are working to enhance the appeal of their ski resorts, further attracting domestic and international visitors alike.

Retail

Company:	Isetan Mitsukoshi Holdings Co., Ltd., Takashimaya Co., Ltd., J. Front Retailing Co., Ltd.
Strategic Exposure:	Isetan Mitsukoshi, Takashimaya, and J. Front Retailing are stalwarts in the Japanese retail sector, catering to diverse consumer needs and preferences. With a focus on personalised services to high-end customers, these companies have demonstrated robust growth amidst an increasingly competitive retail landscape.

Medical Tourism

Company:	Mori Trust Co., Ltd.
Strategic Exposure:	Mori Trust has strategically positioned itself in the burgeoning field of medical tourism, facilitating the integration of healthcare services with hospitality offerings through its own global alliances. With a focus on premium amenities and personalised care, Mori Trust enhances Japan's appeal as a destination for medical travellers seeking world-class treatment and hospitality.

Luxury Real Estate

Company:	Mitsui Fudosan Co., Ltd., Mori Building
Strategic Exposure:	Mitsui Fudosan and Mori Building are leaders in the luxury real estate sector, offering premium properties and iconic developments. With a focus on large mixed-use developments, incorporating architectural innovation and unparalleled amenities, these companies cater to the discerning tastes of high-net-worth individuals and global investors, contributing to Japan's status as a premier destination for luxury living. Mitsui Fudosan also owns the Imperial Hotel and Tokyo Dome, which possess tremendous opportunities for future development. Mori Building has a busier upcoming pipeline of developments on top of the recently opened Azabudai Hills, which houses Aman Residences, Tokyo.

These exemplary corporations exemplify Japan's proactive approach to seizing opportunities and driving growth across diverse sectors. Through strategic foresight and effective execution, these companies continue to thrive in an ever-evolving business landscape, contributing to Japan's economic prosperity and global competitiveness.

TABLE 6: Leading Japanese Corporations in Strategic Growth Sectors

STRATEGIC AREAS	LEADING COMPANIES
Integrated Resorts	ORIX
Ryokan	Hulic, ORIX
Ski Resorts	Tokyu, Seibu
Retail	Isetan Mitsukoshi, Takashimaya, J. Front Retail
Medical Tourism	Mori Trust
Luxury Real Estate	Mitsui Fudosan, Mori Building

Source Savills Research & Consultancy

OUTLOOK

Japan has all the trappings of a high-end tourism destination – a rich and refined culture, renowned cuisine, and reputable customer service and social stability. Yet, for a long period of time, Ginza was Japan's only globally recognised high-end hot spot. Presently, Japan has finally begun to emerge as a luxury travel hub, and as infrastructure and services are developed further, it will become more ready to welcome high-end visitors. With careful planning and sufficient investment, Japan's myriad of natural and cultural features can underpin significant further a growth in Japan's high-end travel industry.

Many established players have already deployed capital in a number of existing high-end segments in Japan, which are ripe with opportunity. For instance, the profiles of many of Japan's ageing ski resorts are undergoing a transformation, notably with an influx of high-end hotels and services in response to the rapid growth in inbound demand for skiing in Japan. Meanwhile, the ryokan sector, which had experienced similar stagnation, has enjoyed a resurgence in popularity with a growing preference towards more authentic Japanese experiences, and several players are already capitalising on the wealth of opportunities available in the blue ocean market.

In addition, some relatively new industries will become promising additions to Japan's tourism roster. The Osaka IR will mark the birth of the casino industry in Japan. Parties involved anticipate that inbound spending will cause a 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. Likewise, medical tourism has historically gone under the radar in Japan, despite Japan's world-class medical care and hospitality services, in addition to its onsen and ryokan culture, which is gradually starting to attract greater attention from abroad. Further improvements to accessibility and infrastructure could help to cement Japan as a leading global destination for medical and wellbeing tourism.

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 to a global tourist destination, and makes further strides in developing its high-end sectors, its image may gradually change to one of "luxury", and should allow Japan and Japanese corporations capitalise on inbound tourism more effectively and earn greater revenue. This will be facilitated by Japan's world-renowned hospitality, in addition to its social and economic stability, reliable and resilient infrastructure, as well as the slew of luxury developments in the pipeline. Overall, prospects for high-end segments in Japan are bright, and observers should anticipate exciting further growth.

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Appendix - Detailed Ryokan Performance, 2023

PROPERTY NAME	ACQUISITION PRICE (MILLION YEN)	APPRAISAL VALUE (MILLION YEN)	NOI (MILLION YEN)	ESTIMATED CAP RATE (APPRAISAL DIRECT) (%)	ACQUISITION PRICE PER KEY (MILLION YEN)	GUESTROOMS	OCCUPANCY (%)	ADR (YEN)	REVPAR (YEN)
HOSHINOYA Karuizawa	7,600	12,300	630	5.1	98.7	77	70	95,900	73,800
HOSHINOYA Kyoto	2,878	4,530	203	4.5	115.1	25	96	111,200	107,200
HOSHINOYA Fuji	4,160	4,370	184	4.2	104.0	40	69	83,000	57,600
HOSHINOYA Taketomi Island	4,955	4,950	219	4.4	103.2	48	65	73,700	48,200
HOSHINOYA Okinawa	12,210	13,500	720	5.3	122.1	100	49	80,100	39,000
HOSHINOYA Average	**6,360**	**7,930**	**391**	**4.9**	**108.6**	**58**	**64**	**86,300**	**58,200**
KAI Matsumoto	600	982	75	7.6	23.1	26	89	50,700	44,900
KAI Tamatsukuri	680	1,410	108	7.7	28.3	24	91	53,700	48,900
KAI Ito	670	1,640	94	5.7	22.3	30	91	52,200	47,300
KAI Hakone	950	1,530	95	6.2	29.7	32	89	60,900	54,100
KAI Aso	575	725	42	5.8	47.9	12	82	78,400	64,700
KAI Kawaji	1,000	1,320	99	7.5	18.5	54	77	27,100	20,800
KAI Kinugawa	3,080	3,420	129	3.8	64.2	48	90	42,000	37,600
KAI Kaga	3,160	3,390	130	3.8	65.8	48	73	45,800	33,500
KAI Alps	3,060	3,200	123	3.8	63.8	48	67	34,500	23,000
KAI Enshu	1,050	1,110	47	4.2	31.8	33	85	49,200	41,800
KAI Nagato	2,750	2,940	172	5.9	68.8	40	80	36,000	29,000
KAI Kirishima	3,913	4,090	202	4.9	79.9	49	63	44,400	27,900
KAI Beppu	7,335	7,590	420	5.5	104.8	70	73	43,400	31,700
KAI Average	**2,217**	**2,565**	**134**	**5.2**	**49.9**	**40**	**79**	**44,100**	**35,100**
Ooedo-Onsen Monogatari Reoma Resort	9,697	8,700	630	6.5	40.2	241	73	35,600	25,800
Ooedo-Onsen Monogatari Ise-shima	3,656	3,820	218	6.0	44.0	83	82	36,500	29,900
Ito Hotel New Okabe	2,657	2,820	144	5.4	36.4	73	80	34,300	27,400
Ooedo-Onsen Monogatari Atami	3,000	3,470	190	6.3	39.5	76	81	37,000	29,900
Ooedo-Onsen Monogatari Toi Marine Hotel	1,910	2,020	112	5.9	29.8	64	76	32,500	24,600
Ooedo-Onsen Monogatari Awara	1,901	2,020	129	6.8	20.0	95	74	30,300	22,300
Ooedo-Onsen Monogatari Ikaho	1,299	1,360	70	5.4	32.5	40	87	34,900	30,400
Ooedo-Onsen Monogatari Kimitsu-no-mori	819	829	46	5.6	20.0	41	83	31,100	25,800
Ooedo-Onsen Monogatari Kouunkaku	1,040	1,190	82	7.9	10.6	98	59	27,400	16,200
Kinugawa Kanko Hotel	3,870	6,050	343	8.9	22.5	172	78	32,600	25,300
Ooedo-Onsen Monogatari Higashiyama Grand Hotel	1,230	1,410	87	7.1	10.0	123	75	29,100	22,000
Ooedo-Onsen Average	**2,825**	**3,063**	**186**	**6.6**	**27.8**	**101**	**77**	**32,800**	**25,400**

Source Hoshino Resorts REIT, Ooedo Onsen REIT, Savills Research & Consultancy
Appraisal value, NOI, occupancy, ADR, RevPAR as of most recently published figures in 2023: October 2023 for Hoshino Resorts REIT, November 2023 for Ooedo Onsen OEIT.