



JAN 2015 | Price: US\$ 500

IN FOCUS:
TOKYO, JAPAN

Lara Sarheim
Vice President

Casper Wong
Senior Analyst

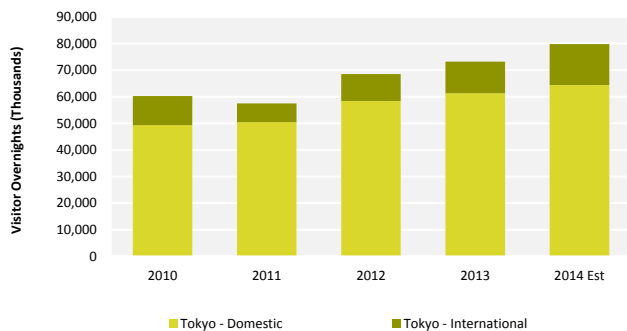


With a population of just over 13 million people, and one of the world's highest population densities, Tokyo is known as a city creative in adapting and reusing space. As the political and financial capital of Japan and a global financial centre, Tokyo has received much attention from domestic and foreign investors looking for opportunistic investments or a first step into the market. Tourists and hoteliers have benefitted from currency shifts and economic swings, though with the country once again officially in recession it remains to be seen how long the spotlight will last. This article features the city's tourism climate and trading performance of luxury hotels, as well as the future looking forward.

Visitor Overnights

Following the earthquake and tsunami in March 2011, Tokyo and Japan as a whole experienced significant decline in visitation, particularly foreign visitors. However thanks to the National Tourism Board's active campaigns at trade shows in both Europe and Asia, in 2012, Tokyo experienced a strong rebound, driven mainly by regional markets such as China, South Korea and Taiwan. International visitors reached approximately 10.1 million in 2012, a 42% growth over 2011 and almost on par with the previous high of nearly 11million visitors in 2010.

FIGURE 1: VISITOR OVERNIGHTS TO TOKYO



2014 Overnights are estimated based on JNTO's preliminary 2014 Visitor Arrivals to Tokyo figures
Source: HVS Research, JNTO

foreign visitors to Tokyo based on JNTO's preliminary figures.

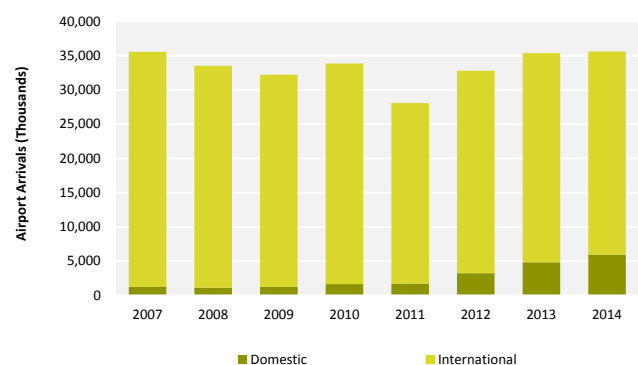
Airport Statistics

Narita International Airport is the main international gateway to Tokyo, and Japan. Recently the airport has also gained prominence as a connecting hub for flights between Asia and the Americas. Passenger traffic peaked in 2013 with just over 35 million arrivals, an increase of nearly 8% over 2012. In 2014 arrivals were up by 0.6%, to 35.6 million, fueled by increasing domestic travel. Domestic arrivals to Narita increased by 23% in 2014, after an increase of 49% in 2013 and a staggering 88% in 2012. Thanks to the proliferation of low-cost carriers on domestic routes as well as the weak yen making foreign travel more costly, outbound Japanese travel has decreased and correspondingly domestic travel has increased.

In 2013, visitation to Japan and to Tokyo continued to grow. Tokyo

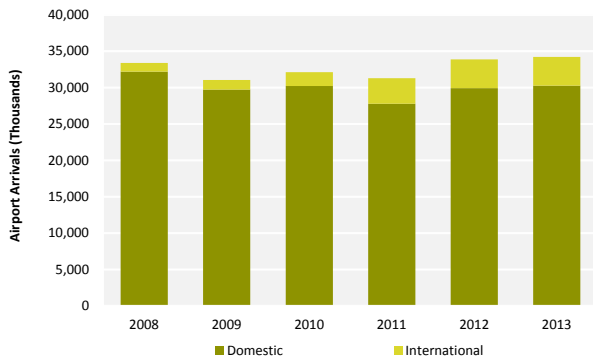
is by far the most visited destination in the country, for both foreign and domestic visitors, and accounts for over 70% of international visitors to Japan as a whole. In 2011, visitation to Tokyo was 88% domestic and 12% international. This has evolved to 84% and 16%, respectively, in 2013. The increasing proportion of international visitation combined with the climbing total visitors illustrates the tremendous potential of Tokyo (and Japan) to expand its tourism offer as a meaningful portion of its economy. The government has set a target of 20 million international visitors by the 2020 Olympic Games. Total international visitors to Japan reached a record 13.4 million in 2014 according to JNTO, and with nearly 10 million

FIGURE 2: PASSENGER ARRIVALS TO NARITA AIRPORT



Source: Narita International Airport Corporate

FIGURE 3: PASSENGER ARRIVALS TO HANEDA AIRPORT



*2014 data unavailable for Haneda
Source: Haneda Airport

Until 2010, Haneda International Airport served mainly domestic routes. When the dedicated international terminal opened in 2010, the airport’s capacity increased to 90 million passengers per year with new long-haul routes to 27 cities around the globe. Despite this, Haneda is still largely a domestic airport, accommodating 88% of domestic arrivals in 2013. This dynamic is expected to shift with the airport authority’s efforts to improve the current volume of international traffic passing through Haneda, as well as the fact that Haneda is closer and more conveniently located than Narita for access to Tokyo City. All in all, both Narita and Haneda International Airports achieved a total of 69.6 million passenger arrivals for 2013, a 4.4% increase over 2012.

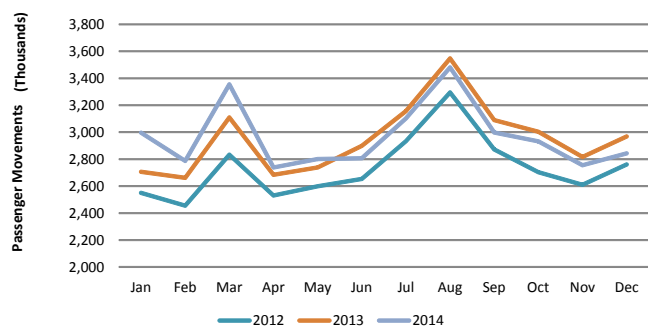
To prepare for the 2020 Olympics, Narita is currently undergoing an estimated 900 million yen renovation to its international arrival lobby. The airport will continue to operate normally with the work happening during the night, with minimal disruption to daily operations. The refurbishment is expected to be complete by March 2016, four years ahead of the Olympic games.

These renovations go hand-in-hand with the plans to expand the international routes served by the two airports transforming Tokyo into an international hub on par with other award-winning airports such Singapore’s Changi and Hong Kong International. Together the two Tokyo airports are expected to handle an additional 40,000 flights, or increase the routes served by 60%. This is part of the government’s plan to focus on Japan and Tokyo’s, tourism economy, bolstering Tokyo’s regional and global competitiveness as a tourism hub and destination. One way in which hotels are expected to benefit from this augmented demand is to partner with airlines and support demand from the ‘stopover market’, similarly to Singapore and Dubai.

Seasonality

Thanks to its reputation as a global financial hub as well as an attractive leisure destination, Tokyo does not experience stark seasonality patterns. With the exception of the peak periods during the cherry blossom and autumn foliage seasons in February-April and July-August respectively, demand is relatively constant throughout the year. This seasonality is not expected to change significantly. With small biannual trade show events projected to take place this year, 2015 is expected to experience increased demand into the city whilst portraying similar seasonality as previous years.

FIGURE 4: SEASONALITY OF ARRIVALS TO NARITA AIRPORT



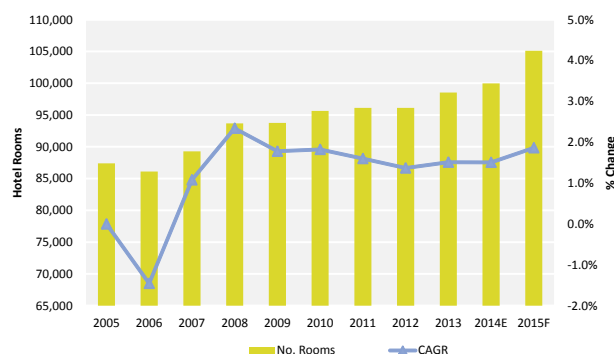
Source: Narita International Airport Corporate

Hotel Supply

According to the Ministry of Health, Labor and Welfare, in 2014, there were an estimated 700 hotels with about more than 100,000 hotel rooms in Tokyo City.

The supply of hotel accommodation in Tokyo has historically remained stable with a low CAGR under 2% between 2005 and 2014. Hotel room supply in Tokyo rose from approximately 87,380 rooms in 2005 to 100,000 rooms in 2014.

FIGURE 5: TOKYO HOTEL SUPPLY



Source: Ministry of Health, Labor and Welfare, HVS Research

Looking ahead, Tokyo's total room inventory for 2015 is expected to increase by a further 5%. This is driven in part by the strong expansion of midscale hotel product such as APA Hotels & Resorts' with six hotel openings, totaling 1,800 rooms, spread across the areas of Shinjuku, Asakusa, Roppongi, Kanda and Shinagawa. We note that the new openings in 2015 are located throughout Metropolitan Tokyo. Further into the future, in preparation for the Olympics, we expect to see increased hotel development activity in the areas proximate to the Olympic Village such as Shiodome.

Luxury Hotel Market Performance

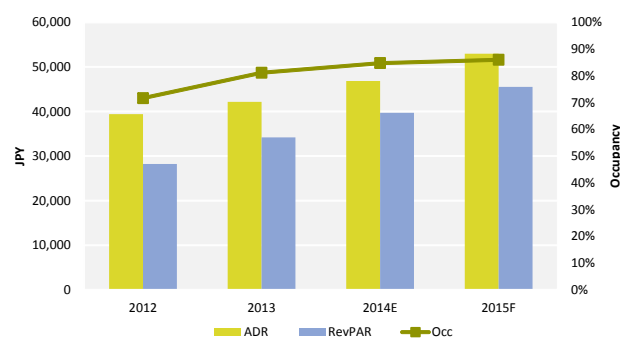
The majority of the luxury hotels are located in the business districts of the Minato ward and high-end shopping areas in the Chiyoda and the Shibuya wards. These districts are home to both major office buildings – such as Mitsui Chemicals, Sony and Mitsubishi Motors, as well as high shopping venues. The proximity of these demand generators allows luxury hotels to benefit from demand both on weekdays and weekends.

In terms of source markets, the domestic segment is particularly important to the luxury set and generating 25-30% of demand. Top international markets, on the other hand, include the Americas, followed by the UK, China and the ASEAN countries. Field research shows that the domestic market appears less price sensitive than international feeder markets – though these have benefitted from the weak yen, rendering room rates at luxury hotels more affordable for the foreign guest.

The luxury market has performed well in terms of both occupancy and average rate as a result of the limited supply growth in the luxury segment in recent years. The Andaz Tokyo opened its doors in mid-2014 with 164 rooms while the Palace Hotel Tokyo underwent extensive renovation from 2009 to reopen in 2012 with 290 rooms. The aggregate performance of a representative sample of about 1,800 rooms in the luxury segment is shown below. The total internationally affiliated luxury room inventory in Tokyo is estimated at just under 4,000 rooms.

The luxury market experienced a strong increase in occupancy from 2012 to 2013, achieving an estimated 81% by year end 2013. This was a result of the weakening yen which led to more international travel and increase in domestic tourism. Preliminary year-end estimates for 2014 show a further increase to average occupancy of 85% due to compression in the market driven by increasing international visitors and limited new supply entering the market. Occupancy growth is expected to taper off in 2015, still showing a 1-2% growth, as hoteliers expect to leverage the high occupancy with higher room rates and maximize revenue growth and contribution.

FIGURE 6: LUXURY HOTEL PERFORMANCE REPRESENTATIVE SAMPLE



Source: HVS Research

Given the paired market dynamics, average room rates for 2014, show an estimated 11% growth over 2013. This trend is likely to follow for 2015 with a further 15% rate growth in order for hoteliers to achieve real growth against the depreciating yen, which is forecast to weaken further as the Japanese economy wobbles.

Luxury Pipeline

Aman Tokyo

The Aman Tokyo opened in December 2014, with 84 rooms. The design of the property reflects the Aman's contemporary and minimalistic interior design, matched with a touch of Japanese influence. Located in the Otemachi district, Aman Tokyo is notable as Aman resort's first city property to be situated in a mixed-use development above office towers.

Hotel Okura Tokyo

The main building of Tokyo's iconic Hotel Okura Tokyo is expected to undergo a major reconstruction in end August 2015 in preparation of welcoming the Olympics in 2020. The new main building will be a mix of hotel and office components and will expand from 408 to about 550 rooms in total. The completion date for the 100-billion yen overhaul is in the spring of 2019.

Hoshinoya Tokyo

The Hoshinoya Tokyo, due to open in 2016, is anticipated to house 84 tatami-floored suites, providing a Japanese traditional ryokan experience. The property will be located in the Otemachi office district and will reflect its strong domestic brand recognition through offering service parallel to its sister resorts in Kyoto and Karuizawa.

Given Tokyo's land constraints, as well as high development costs, these upcoming hotels tend to form part of a mixed-use development, comprised of office or retail spaces, or both. Luxury hotels in Tokyo are typically constructed on the upper floors of the development, which allows hotel guests to admire the Tokyo skyline.

Future Developments

The Champs-Elysees Tokyo Project

The metropolitan government has outlined plans to transform the Minato ward, between the district of Shimbashi and Toranomom into an international business centre with public walkways lined with outdoor cafes, high-end shopping arcades and tree foliage on both sides of the roads, resembling the Parisian boulevard. With construction well underway, three buildings were completed in 2014, mainly housing offices and meeting rooms as well as the lifestyle hotel Andaz Tokyo, situated in Toranomom Hills.

Below ground, a section of the Tokyo's Loop Road No.2 still remains under construction. When completed in 2016, it is expected to be a major traffic channel connecting venues at the 2020 Tokyo Summer Olympics (for example linking the new national stadium in Shinjuku to the planned athletes' village in Chuo Ward).

2020 Olympic Village

The Olympic Village will be situated at Harumi, a waterfront area along Tokyo Bay. The quarter will be home to temporary accommodations for the anticipated 17,000 athletes during the games. Post Olympics, the housing facilities will be converted into condominiums for rent or sale to the general public.

In early 2015, the Tokyo metropolitan government announced plans to implement "clean" energy for the village by powering it with hydrogen. Plans for the futuristic village include the installation of fuel cells, linked via pipelines to proposed hydrogen stations, in order to produce power and heat water. A private company is expected to be awarded with the contract for planning the village by end of March 2015, with the use of hydrogen for the village's power as a key part of the planning agreement.

Hotels located close to Tokyo Bay are likely to benefit from the development of the Olympic Village and the surrounding event venues. These hotels in the luxury segment include the Intercontinental Tokyo Bay and the Conrad Tokyo. A handful of new hotels projects are rumored in the Tokyo Bay area with landowners and developers such as Mitsui Fudosan and Mitsubishi Estate. These hotels are still in early planning and development stages.

Casino

The discussion regarding the legalization of gambling in Japan is ongoing and a final decision has yet to be made by the government. The current leadership remains in favor of casino legalization with the aim to develop integrated resorts similar those in Singapore and Macau. These developments include numerous non-gaming attractions such as extensive retail, entertainment venues, hotels and convention spaces. It was estimated that Japan's gaming market, if it were to exist, could reach \$40 billion a year according to our research. However, although underlying societal concerns remain, other related activities such as pachinko and horse racing are legal and accepted as social activities by the Japanese public. The decision to pass the bill will be made during the first parliamentary session in 2015, with the date of the session yet to be announced as of the writing of this report.

The Weakening Yen

The yen began the year 2015 with a continuing depreciation against the US currency, as a result of the strengthening US Dollar. Accompanied with cheaper oil, weak yen and low interest rates in Japan, financial analysts are referring to 2015 as the pivotal year for growth. With Mr. Shinzo Abe re-elected, the economic reforms which began in 2014 are expected to continue and solidify in 2015. The weakening yen is expected to stimulate exports and drive more proceeds into capital investments.

The perception of more affordable travel has aided the Japanese tourism market, with more arrivals into Japan with Tokyo as the main point of entry into the country. The nation's two main airlines: Japan Airlines and All Nippon Airways have reported that the recent Christmas holiday period saw a surge of 13% increase in international passengers and 1% rise in domestic passengers. They also detailed evident increases in bookings from countries such as Thailand, Malaysia and China.

Outlook

Tokyo is known to be a reliable and stable hotel market due to Japan's historically steady political environment and stable economic environment. Thanks to high barriers to entry, both in the form of lack of space as well as high development costs, hotels in Tokyo have been able to benefit from increased demand with relatively little new supply to absorb into the market.

The upcoming Olympics Games in 2020 have placed a spotlight on the city, in addition to the healthy increases in performance displayed by hotels in the city (particularly at the luxury level). In addition, as a gateway city for Japan, Tokyo stands to gain by increasing its share of international visitor overnights in comparison to other regional, and global, capital cities such as Bangkok and Singapore.

In the short term, the limited increase in luxury hotel supply is expected to further spur the performance of the Tokyo luxury hotel market. We expect hotels to focus on driving room rate growth and maintaining occupancy in order to capitalize on strong bottom line numbers.

As Tokyo remains to be a key financial hub for the Asian region, investment interest for the capital city is expected to remain strong.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

**Superior Results through Unrivalled Hospitality Intelligence.
Everywhere.**

HVS ASIA PACIFIC is represented by nine offices in Hong Kong, Bangkok, Beijing, Guangzhou, Jakarta, Shanghai, New Delhi, Mumbai and Singapore. HVS hosts three of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC), Hotel Investment Conference South Asia (HICSA) and the Tourism, Hotel Investment & Networking Conference (THINC) Indonesia. Additionally, HVS publishes a wide range of leading research reports, articles and surveys, which can be downloaded from our online library (HVS.com/Library).

HVS SINGAPORE team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects.

About the Authors



Lara Sarhiem is the Vice President of the Singapore office of HVS, providing advisory services throughout Asia. Lara's career spans three continents, including North America, Europe and Asia, and more than 10 years in the hospitality industry. Prior to Singapore, Lara worked as an Associate Director at HVS London, covering a variety of assignments throughout Europe including strategic and investment advisory, asset management, feasibility studies and valuations. In her role, she focused on the luxury and boutique/lifestyle sector and was instrumental in organizing the first European Boutique Hotel Conference, held in London in 2011. In addition, Lara was the lead consultant for the buoyant London transactional and development market. Lara has been based in Singapore since 2013 and worked on Strategic Consulting and Valuations for clients across the region.



Casper Wong is a Senior Analyst at HVS Singapore, working primarily on hotel consulting assignments, including market studies, feasibility studies and valuations in diverse markets such as Japan, the Maldives, Cambodia and Indonesia amongst others. Graduating with an Honours Bachelor of Arts Degree in Hospitality Management from Glion Institute of Higher Education in Switzerland and with previous work experience in hotel operational experiences in Switzerland and Middle East, Casper contributes extensive knowledge of the hospitality industry to HVS.

For further information, please contact lsarheim@hvs.com or cwong@hvs.com