

Overview of Hotel Market in Japan

Hospitality, the most growing segment in Japan

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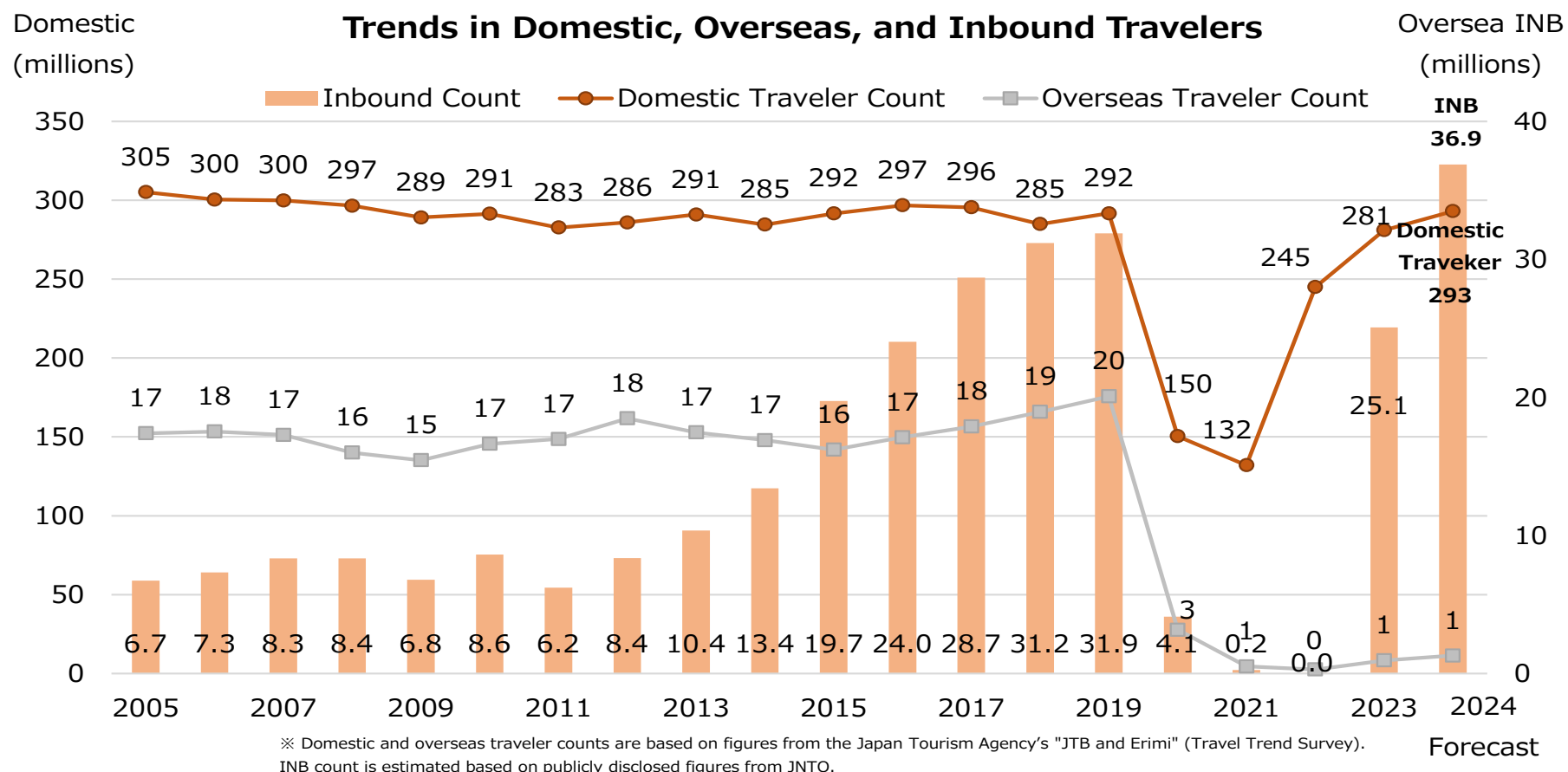
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Japan's inbound and outbound travel situation

In 2019, there were approximately 31.88 million people, and in 2024, there were approximately 36.87 million people (an increase of approximately 15.6% compared to 2019).

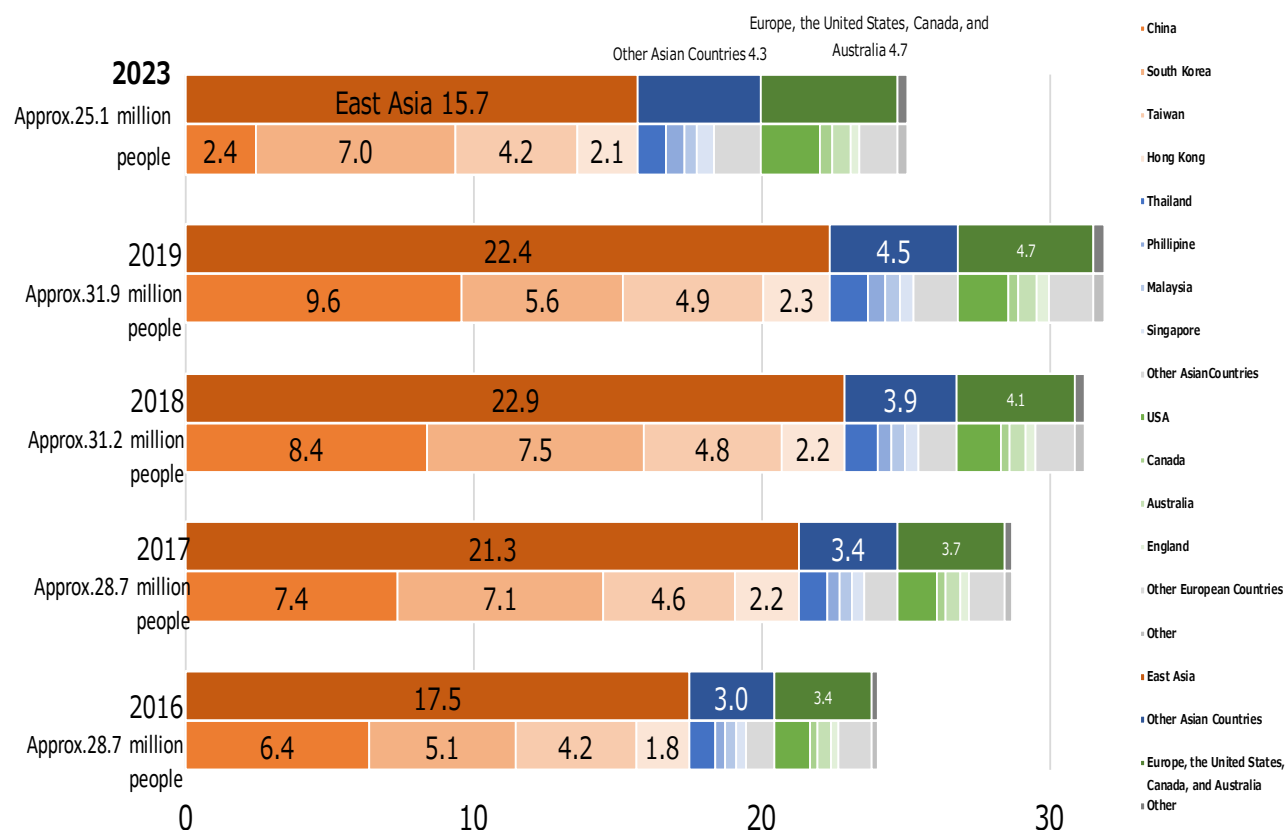
(Future issues) The inbound market has become more active, but the number of Japanese travelling overseas remains sluggish, and there are concerns about “tourism pollution” (countermeasures against overtourism) in response to the sudden increase in the inbound market. The passport ownership rate among Japanese citizens is very low, at around 17%.



Japan's inbound situation

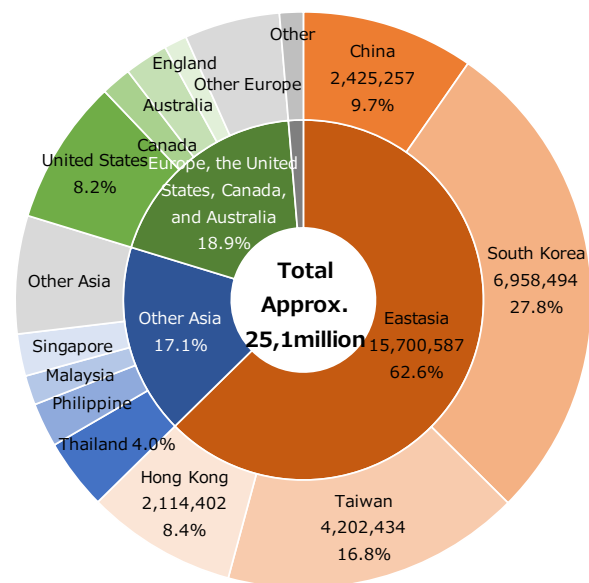
There has been a decrease in visitors from China, while there has been an increase in inbound visitors from South Korea, Taiwan and Southeast Asian countries. In Japan, where there are four seasons, monthly and weekly fluctuations in occupancy rates vary by region. Capturing the inbound market is stabilizing these fluctuations.

Trends in the Proportion of Inbound Visitors by Region and Country



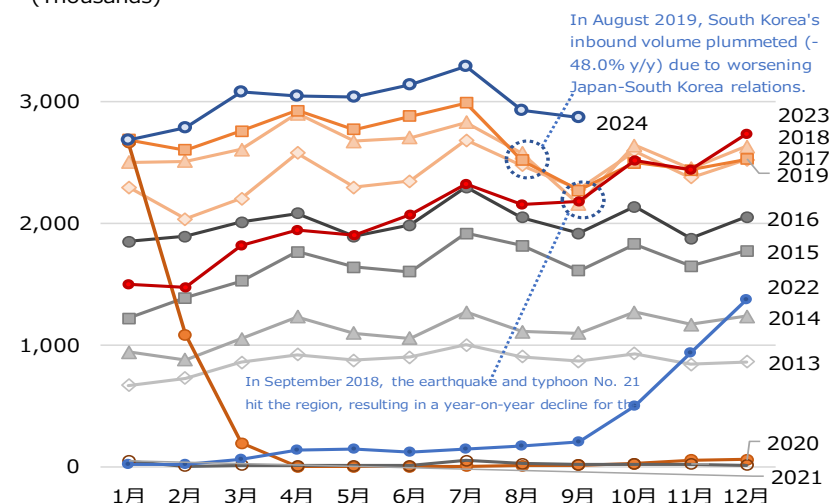
Based on figures from the Japan National Tourism Organization (JNTO).

Inbound Ratio by Region and Nationality (2023)



※Based on figures from the Japan National Tourism Organization (JNTO).

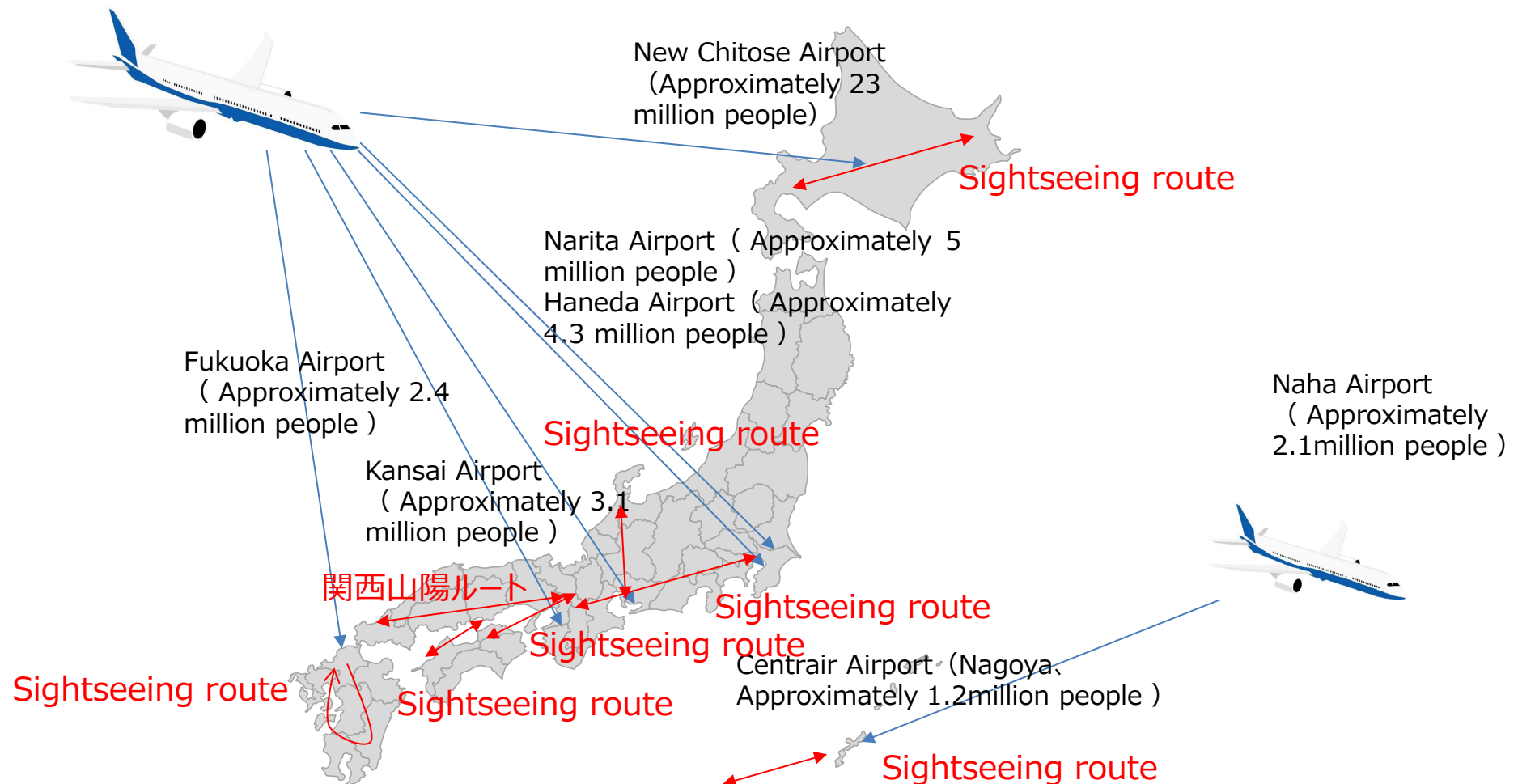
Trends in the Number of Inbound Visitors (Thousands)



※Based on data from the Japan National Tourism Organization (JNTO).

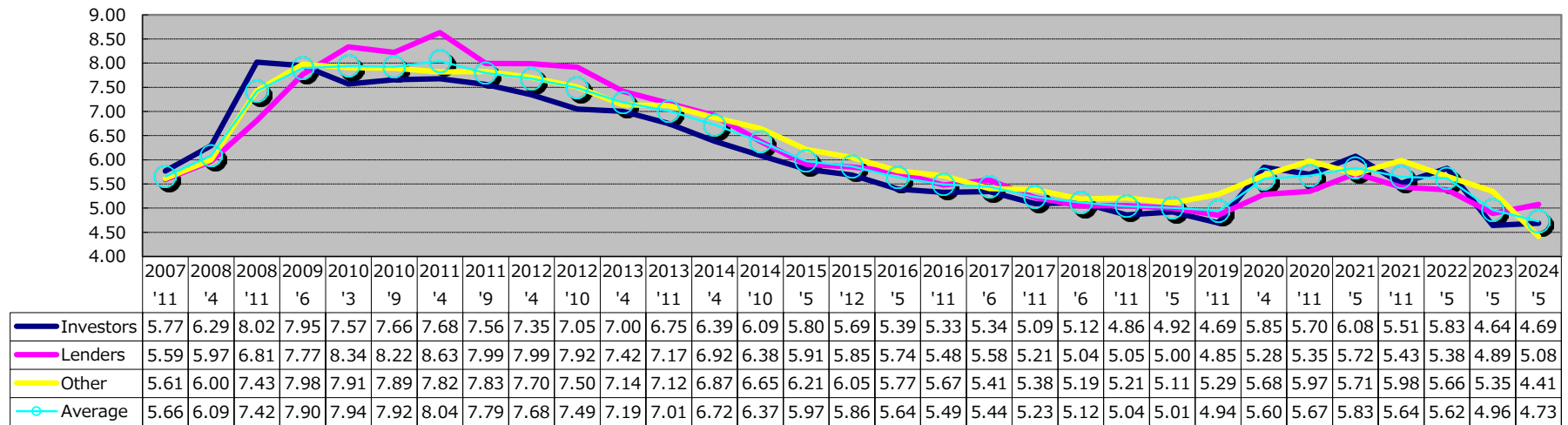
Characteristics of the Japanese tourism market

(General) Japan has four distinct seasons, and there are large monthly fluctuations depending on the destination. In addition, there are weekly fluctuations, and there are 'business hotels' that mainly target businessmen. There are approximately 10,000 hotels and approximately 35,000 ryokan. **(Tourist routes)** There are multiple routes, including the Golden Route, the Kyushu Route, the Shikoku to Kyoto Route, the Shoryudo Route centred on Nagoya, the Hokkaido Circuit, the Okinawa Circuit, etc., and these are further subdivided. **(Future)** The Osaka Expo in 2025, the subsequent linear motorcar opening plan, the Hokkaido Shinkansen, IR (Osaka) development, etc. **(Features)** Each of Japan's 47 prefectures has its own airport, and there is a Shinkansen line connecting regional destinations, while airport access from overseas is also accelerating the decentralization of regional areas. As of July 2024, there are a total of 26 World Heritage Sites in Japan.

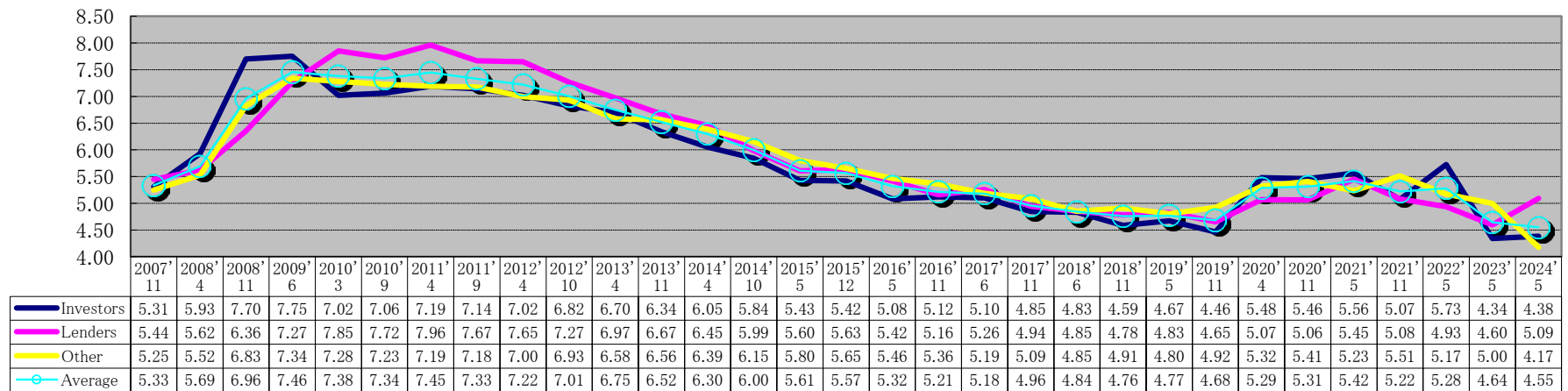


Cap Rate Trends (Researched by Japan Hotel Appraisal Co.,Ltd.)

Operation Based CapRate



Rent based Caprate



2024Caprate survey(Researched by Japan Hotel Appraisal Co.,Ltd.)

Average NCF/CapRate for Business Transaction

Survey 2024/5/1

Cap for Business Value	Sapporo	Senndai	Tokyo	Yokohama	Nagoya	Osaka	Kyoto	Hiroshima	Fukuoka	Okinawa
Laxury	4.84	5.16	4.09	4.59	4.82	4.46	4.49	5.23	4.61	4.99
City Hotel	4.79	5.11	4.07	4.54	4.77	4.42	4.47	5.19	4.56	4.95
Upper Business	4.67	5.00	3.97	4.42	4.65	4.32	4.38	5.02	4.44	4.82
Business	4.84	5.14	4.14	4.57	4.81	4.51	4.53	5.21	4.62	4.98

# of Answers	Sapporo	Senndai	Tokyo	Yokohama	Nagoya	Osaka	Kyoto	Hiroshima	Fukuoka	Okinawa
Laxury	17	17	19	17	17	18	18	17	18	17
City Hotel	18	17	20	17	17	19	19	17	19	18
Upper Business	19	17	21	17	17	20	19	18	20	19
Business	17	17	19	17	17	18	18	17	18	17

Average NCF/CapRate for Real estate Transaction

Survey 2024/5/1

Cap for Real estate Value	Sapporo	Senndai	Tokyo	Yokohama	Nagoya	Osaka	Kyoto	Hiroshima	Fukuoka	Okinawa
Laxury	4.58	4.89	3.96	4.36	4.56	4.26	4.32	4.94	4.40	4.73
City Hotel	4.61	4.86	3.91	4.36	4.55	4.25	4.31	4.91	4.36	4.72
Upper Business	4.49	4.76	3.82	4.28	4.43	4.15	4.20	4.84	4.26	4.62
Business	4.63	4.87	3.93	4.36	4.57	4.26	4.31	4.92	4.37	4.71

# of Answers	Sapporo	Senndai	Tokyo	Yokohama	Nagoya	Osaka	Kyoto	Hiroshima	Fukuoka	Okinawa
Laxury	20	18	21	19	19	19	19	19	19	19
City Hotel	20	18	21	19	19	20	20	19	20	20
Upper Business	23	21	25	22	22	24	24	23	24	22
Business	19	18	21	19	19	20	20	19	20	19

Management and rental contracts

Regarding management

- Rising labor costs (affecting room cleaning and BM costs), rising energy costs for water, gas, etc.
- The number of new developments is increasing rapidly, making it difficult to secure linen companies and cleaning companies.
- There is an increase in initiatives related to the SDGs, and there is also an increase in designer hotels and serviced apartments with improved GOP ratios. In addition, there is an increase in luxury hotel development against the backdrop of rising construction costs.
- There are more than 300 DMOs, and regional revitalization is being promoted in areas other than major cities such as Tokyo and Osaka.
- Ryokan inns are located in many rural areas (PAX Based).
- With regard to profit margins by department, the accommodation department is 60% to 70%, the food and beverage department is 20% to 25%, the banquet department is around 25%, and the GOP ratio after deduction of non-allocated expenses is around 30%, but in recent years, we have seen some serviced apartments with a ratio of over 60%.

Facilities

- The cost of construction is continuing to rise. What once cost 700,000 yen per tsubo is now over 2 million yen.

Rental contracts

- In Japan, before the COVID-19, fixed rents were common. Around 10,000 yen per 3.3 square meters.
- From there, recently, there has been an increase in hybrid rents and commission-based rents linked to RevPAR, GOP and sales.

General Comments

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- It is expected that the inbound market will continue to grow, and that the number of tourists is expected to not only be concentrated in major destinations such as Tokyo, Osaka and Kyoto, but will also spread to other regional cities.
- Hotel development is expected to increase due to the rising cost of construction, and that there will be a revitalization of Japanese-style inns.
- Measures to address the shortage of staff are also being promoted by the government.
- The long-term outlook for revitalizing regional cities, including the Hokkaido Shinkansen, the Hokuriku Shinkansen and the extension of the Kyushu Shinkansen by 2030, presents a promising opportunity.
- Although there are concerns about overtourism, a shortage of human resources, rising construction costs, rising costs and rising energy costs, the fundamentals are still strong.