



Hotels Recovery Guide

Japan

Tokyo, Osaka, Okinawa

JLL's Hotels & Hospitality Group | July 2020



Pre-COVID-19 trend

Luxury hotel RevPAR achieved a 7.7% compound annual growth rate (CAGR) over the past five-year period (2014-2019). This was driven by the steady growth in average daily rate (ADR), supported by the increase in international accommodation demand in Tokyo.

In 2019, RevPAR of luxury hotels grew by 1.6% year-on-year (YOY) as the 11.2% increase in ADR had more than offset the 8.6% decline in occupancy. The decline in occupancy could be attributed to the influx of new luxury hotel supply over the past five years, which registered a CAGR of 5.8% compared to the total supply¹ CAGR of 1.7%. New supply of luxury hotels is expected to moderate from 2020 to 2022, increasing annually by 0.4%.

JPY 531 Billion *Japan hotel transaction activity was most active in Tokyo, which accounted for nearly 60% of the total deal volume in the country in 2019.*

Hotel investment volume in Japan, 2019

Japan was the most active hotel investment market across Asia Pacific in terms of transaction volume in 2019, representing about 37% of the total. In a record JPY 531 billion of Japan hotel assets that changed hands in 2019, nearly 60% of the deal volume originated from Tokyo. The year was bolstered by trophy asset transactions including the sale of the 438-room Westin Tokyo to an offshore HNWI, as well as the sale of the 453-room Hilton Tokyo Odaiba for a reported JPY 62.4 billion to Japan Hotel REIT.

As at YTD June 2020, hotel transaction activity in Tokyo declined by over 80% to JPY 25.6 billion. The most notable deal was the acquisition of the 306-room Far East Village Hotel Ariake, Tokyo, by Far East Hospitality and Boo Han Holdings, a subsidiary of Far East Organisation², for around JPY 8.2 billion.

Notable hotel transactions in Tokyo

Year	Property Name	Keys	Price	Price per Key
2020	Far East Village Hotel Ariake, Tokyo	306	JPY 8.2B	JPY 26.8M
2020	Hotel Emit Shibuya	72	JPY 3.7B	JPY 51.4M
2019	Westin Hotel Tokyo	438	Confidential	Confidential
2019	Hilton Tokyo Odaiba	453	JPY 62.4B	JPY 138M
2019	Hotel Vista Premio Tokyo Akasaka	140	JPY 11.2B	JPY 80M
2019	Henna Hotel Tokyo Hamamatsucho	118	JPY 4.45B	JPY 38M

Source: JLL

Note: Property Names listed as at time of acquisition

COVID-19 impact

LUXURY HOTELS

YTD June 2020 (year-on-year)

-65.8% Occ **-13.6%** ADR* **-70.5%** RevPAR*

*Local currency
Source: STR

Since the first reported case of COVID-19 in Japan on 16 January, RevPAR has trended downward during the first six months of 2020.

Although the pace of RevPAR decline has slowed slightly in June, the overall decline is expected to prolong in Tokyo as the city is currently on its highest COVID-19 alert level since 15 July. Due to the surge in new cases, Tokyo has been excluded from the government's "Go To Travel" campaign.

#1 Safest City Globally since 2015

2019 Economist Intelligence Unit (EIU) Safe Cities Index

+13.7% YOY
23.9 Million
Total International Accommodation Guests in Tokyo in 2019

38.4%
International Accommodation Guests in 2019

+3.0% YOY
19,859
Rooms¹ as at end-2019

Notable recent openings:
Mesm Tokyo Autograph Collection (2020);
The Okura Tokyo (2019)

Notable upcoming supply (2020):
Four Seasons Tokyo Otemachi, Tokyo Edition Toranomon, Kimpton Tokyo Shinjuku,

3.50% to 4.25%

Tokyo Hotel Yields (Pre-COVID-19)



Source: JLL

*Excludes the Dalian Wanda Portfolio deal in China

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Passenger Movements in Tokyo Airports*



Source: MLIT

*Haneda and Narita International Airports



Osaka



Pre-COVID-19 trend

Full-service hotel RevPAR achieved a 6.2% CAGR over the past five-year period (2014-2019), as Osaka attracted low-cost airline carriers and established itself as a base from which to visit the 25 World Heritage sites in nearby Kyoto and Nara.

In 2019, RevPAR of full-service hotels grew by 2.7% YOY, led by the 2.1% increase in ADR. Supply of full-service hotels¹ registered a CAGR of 4.2% over the past five years and is expected to increase moderately by 1.3% annually from 2020 to 2022.

JPY 531 Billion Hotel investment volume in Japan, 2019
Hotel assets in Osaka represented almost 10% of the total transaction volume in Japan.

Osaka was the second most active city for hotel transactions in 2019, after Tokyo, totalling JPY 47.9 billion or nearly 10% of the total volume in Japan. Deal volume during the year was supported by underlying demand prospects arising from the 2019 Rugby World Cup, Osaka's bid for the integrated resort license, as well as the city's successful bid to host the World Expo in 2025.

With no restrictions on ownership of freehold real estate by foreigners in Japan, it renders the country an attractive investment destination for foreign private investors, particularly those from jurisdictions without freehold ownership title. The clear and efficient tax system also allows for accurate underwriting, increasing its attractiveness as a safe-haven investment destination.

Similar to Tokyo, there was limited transaction activity in Osaka during the first half of 2020 totalling around JPY 16.5 billion, representing nearly a 50% YOY decline.

Notable hotel transactions in Osaka

Year	Property Name	Keys	Price	Price per Key
2019	Red Roof Plus Osaka Namba	232	Confidential	Confidential
2019	Bespoke Hotel Shinsaibashi	256	Confidential	Confidential
2019	ibis Osaka Umeda	181	Confidential	Confidential
2019	Hotel WBF Kitahama	116	Confidential	Confidential
2019	Hotel Oriental Express Osaka Shinsaibashi	124	JPY 2.7B	JPY 22.1M

Source: JLL

Note: Property Names listed as at time of acquisition

COVID-19 impact

FULL-SERVICE HOTELS

YTD June 2020 (year-on-year)

-62.0% Occ **-14.0%** ADR* **-67.4%** RevPAR*

*Local currency
 Source: STR

Similar to Tokyo, RevPAR of full-service hotels in Osaka trended downward during the first six months of 2020 since the first reported case of COVID-19 in Japan.

With the pace of RevPAR decline slowing slightly in June, we expect the overall decline to bottom out by July/August 2020 as restrictions on domestic travel are lifted. Domestic tourism, aided by the government's "Go To Travel" campaign, is expected to lead the way for recovery.

#1 Most Liveable City in Asia and #4 in the World
 2019 Economist Intelligence Unit (EIU) Global Liveability Ranking

+29.8% YOY
14.7 Million
 Total International Accommodation Guests in Osaka in 2019

37.6%
 International Accommodation Guests in 2019

+10.6% YOY
13,274
 Rooms² as at end-2019

Notable recent openings:
 Courtyard by Marriott Osaka Honmachi (2019);
 Hotel Royal Classic (2019)

Notable upcoming supply:
 W Osaka (2021);
 Centara Grand Hotel Osaka (2023)

4.00% to 5.00%

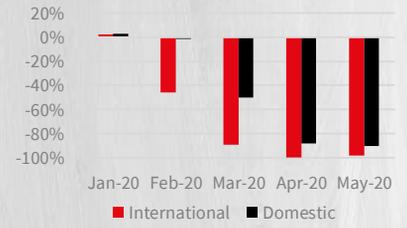
Osaka Hotel Yields (Pre-COVID-19)



Source: JLL
 *Excludes the Dalian Wanda Portfolio deal in China

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Passenger Movements in Osaka Airports*



Source: MLIT
 *Itami Airport and Kansai International Airport

Okinawa



Pre-COVID-19 trend

Resort RevPAR achieved a 3.6% CAGR over the past five-year period (2014-2019), as Okinawa's popularity amongst the Chinese and South Korean travellers increased dramatically.

International leisure visitor arrivals increased by 0.9% YOY to 2.9 million in 2019, slower than the 24.3% CAGR registered over the past five years. The slower growth in 2019 could be attributed to the decline in visitors from South Korea amidst political tension between the two countries, as nearly 20% of the visitors to Okinawa are from South Korea.

In 2019, resort RevPAR declined by 1.5% YOY led by the 4.3% decline in occupancy, although ADR increased by 3.0% during the same period. The decline in occupancy could be due to a slowdown in international visitor arrivals, coupled with the influx of new hotel and ryokan room supply¹.

JPY 531 Billion

Hotel investment volume in Japan, 2019

Hotel assets in Okinawa represented around 7% of the total transaction volume in Japan.

Total hotel transaction volume in Okinawa totalled JPY 38.5 billion in 2019, marked by the notable sale of the 352-room ANA Crowne Plaza Hotel Okinawa Harborview. As a key representative resort destination in Japan, investor interest in the market remains strong, supported by its stable trading performance and steady increase in both domestic and international visitor arrivals. The increasing profile of the resort market due to the entry of new luxury hotel products, as well as the addition of the new airport runway is expected to further drive tourism demand to Okinawa.

As at YTD June 2020, total transaction volume in Okinawa was JPY 5.3 billion. This comprised namely the sale of the 200-room Nest Hotel Naha Okinawa to an unknown domestic party.

Notable hotel transactions in Okinawa

Year	Property Name	Keys	Price	Price per Key
2020	Nest Hotel Naha Okinawa	200	JPY 5.3B	JPY 26.4M
2019	ANA Crowne Plaza Hotel Okinawa Harborview	352	Confidential	Confidential
2019	Best Western Okinawa Portfolio	105	Confidential	Confidential
2019	Loisir Living Suites Seragaki	105	Confidential	Confidential
2019	Hotel Nirakanai Iriomotejima	140	JPY 3.7B	JPY 26.1M
2019	Red Planet Hotel Naha	117	JPY 2.7B	JPY 22.6M

Source: JLL

Note: Property Names listed as at time of acquisition

COVID-19 impact

RESORTS

YTD April 2020 (year-on-year)

-90.4% Occ **-4.5%** ADR* **-90.8%** RevPAR*

*Local currency

Source: STR

Note: Data is up to April 2020 to provide a more meaningful analysis, as many of the resorts tracked by JLL were closed in May.

Resort RevPAR trended downward during the first four months of 2020, particularly in April, when it registered a significant decline of over 90% due to a steep decline in occupancy.

Given Okinawa's higher proportion of domestic demand coupled with the "Go To Travel" campaign, we anticipate it to be one of the fastest resort markets in Asia Pacific to recover.

#1 Prefecture in Local Hospitality for 14 consecutive years

2019 Recruit Lifestyle Prefectural Attractiveness Quotient Ranking

+0.9% YOY
2.9 Million
Total International Leisure Visitor Arrivals in Okinawa in 2019

28.8%
International Leisure Visitors in 2019

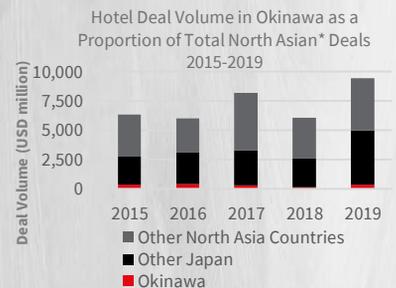
+8.9% YOY
48,682
Rooms¹ as at end-2019

Notable recent openings:
Hoshinoya Okinawa (2020); Halekulani Okinawa (2019); Lequ Okinawa Chatan Spa & Resort (2019)

Notable upcoming supply:
Hilton Okinawa Sesoko Resort (2020), Granvio Resort Okinawa (2022)

4.75% to 6.00%

Okinawa Hotel Yields (Pre-COVID-19)

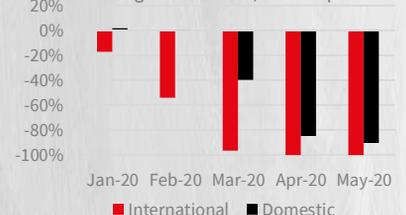


Source: JLL

*Excludes the Dalian Wanda Portfolio deal in China

COVID-19 IMPACT

Annual Change in Monthly International and Domestic Passenger Movements, Naha Airport



Source: MLIT



Since the state of emergency was lifted on 25 May, restrictions have been gradually eased allowing the opening of museums, libraries and F&B outlets.

On 27 May, the government announced the second stimulus package of the year totalling JPY 117 trillion, providing financial relief for struggling businesses. A total of JPY 234 trillion, or about 40% of Japan's GDP, has been set aside to fight COVID-19.

Tokyo entered Phase 2 of reopening on 1 June, and Phase 3 on 11 June where most retail shops, sports facilities and entertainment venues resumed operations. On 19 June, restrictions on domestic travel were lifted.

Beginning 22 July, the government's JPY1.7 trillion "Go to Travel" campaign will commence, which aims to encourage domestic tourism and help hospitality operators. As part of the campaign, the government will provide subsidies of 50% on travel within Japan, although Tokyo has been excluded due to the city's recent surge in COVID-19 cases.

Japan is also currently working on a travel bubble with four countries, namely Australia, New Zealand, Thailand and Vietnam. During the week of 6 July, Japan started entry negotiations with Asian countries and regions, including China, Malaysia, Singapore and Taiwan, to promote international business.



Domestic tourism to drive recovery

With disruption in the airline industry, caution towards other affected countries, as well as tightening of consumer spending, an opportunity for a domestic tourism resurgence in Japan is expected as social distancing rules are gradually eased.

Destinations such as Hakone in Kanagawa prefecture, Atami in Shizuoka prefecture and other locations within a 90-minute drive or Shinkansen journey from Tokyo, are expected to be popular as they offer a less crowded getaway that allow for social distancing.

Pricing reassessment of hotel assets

The bankruptcy of a limited number of hotel owners / operators may lead to pricing reassessments or potential conversion of hotel assets to alternative uses in markets with demand and supply imbalances. With a current pricing mismatch between buyers and sellers, we anticipate only highly selective divestments in the near term.

Limited distressed sales in the near-term

With lenders still taking a tolerant approach towards borrowers, bankruptcies and distressed opportunities are expected to be limited in the near term. We anticipate current circumstances to lead to lower loan-to-valuation ratios when investment activity gradually resumes.

The YTD June 2020 transaction volume in Japan of JPY 142.2 billion was bolstered by two significant transactions negotiated prior to COVID-19. This included the sales of the 472-room Onyado Nono Kyoto Shijo to Commerz Real for JPY 24.4bn in February, and the 123-room Four Seasons Kyoto for JPY 47.1 billion to Tokyo Tatemono Investment Advisors in March.

We anticipate a handful of smaller deals to close before the end of 2020, however, without any significant transactions on the horizon, we expect hotel transaction volume in the second of 2020 to be lower than the first half.



Evaluate hotel's breakeven occupancy in light of the wider market outlook, taking into consideration the new normal of flexible workplaces. Consider "teleworker" businesses at hotels in the CBD and cater to "Workation" demand at resort hotels.



Critically analyse hotel positioning, segmentation and geographical mix, accounting for limited flight connectivity and lower demand in the near term from international leisure guests.



With the government's financial support, properties to undertake zero-based budgeting now to ensure flexible manning structure is in place. Factor in gradual demand ramp up from domestic travellers mainly in regional major cities and beach / hot spring resort destinations.



Leverage on the local government's domestic tourism promotion such as the "Go to Travel" campaign to help restart operations and build local customer loyalty. Launch staycation packages to take advantage of the current travel restrictions and pent up demand from domestic travellers.



Ensure hotel facilities are ready for post-COVID-19 travel, embrace the restrictions and set up health and safety protocols for the reopening. Follow safety guidelines released by All Japan Ryokan Hotel Association, Japan Ryokan & Hotel Association and Japan City Hotel Association to instil guest confidence.



Consider selective marketing campaigns around F&B. Work around reduced outlet capacities due to social distancing, and introduce ala carte buffet instead of traditional buffet to prevent sharing of utensils.



Consider selective marketing campaigns to targeted list of repeat customers, offering attractive packages and rate flexibility via the "book now, stay later" option.



Look at alternative revenue opportunities such as creating promotional takeaway meals featuring local food products, bespoke stay packages for near-by residents, or offering local special events to enhance the demand of "micro tourism".



Contact us



Nihat Ercan

Managing Director

Head of Investment Sales, Asia Pacific

nihat.ercan@ap.jll.com

Xander Nijjens

Managing Director

Head of Advisory, Asia Pacific

xander.nijjens@ap.jll.com

Charlie Macildowie

Senior Vice President

Investment Sales, Asia Pacific

charlie.macildowie@ap.jll.com

Takahiro Tsujikawa

Senior Managing Director

Head of Japan

takahiro.tsujikawa@ap.jll.com

Isabel Wong

Investment Analyst

Investment Sales, Asia Pacific

isabel.wong@ap.jll.com

Sachiko Matsuda

Associate

Strategic Advisory and Asset Management, Japan

sachiko.matsuda@ap.jll.com

Sze Min Tay

Associate

Research, Asia Pacific

szemin.tay@ap.jll.com

www.jll.com

Jones Lang LaSalle

©2020 Jones Lang LaSalle IP, Inc. All rights reserved. The information contained in this document has been compiled from sources believed to be reliable. Neither Jones Lang LaSalle nor any of its affiliates accept any liability or responsibility for the accuracy or completeness of the information contained herein. And no reliance should be placed on the information contained in this document.