

# Japan's Hotel Industry

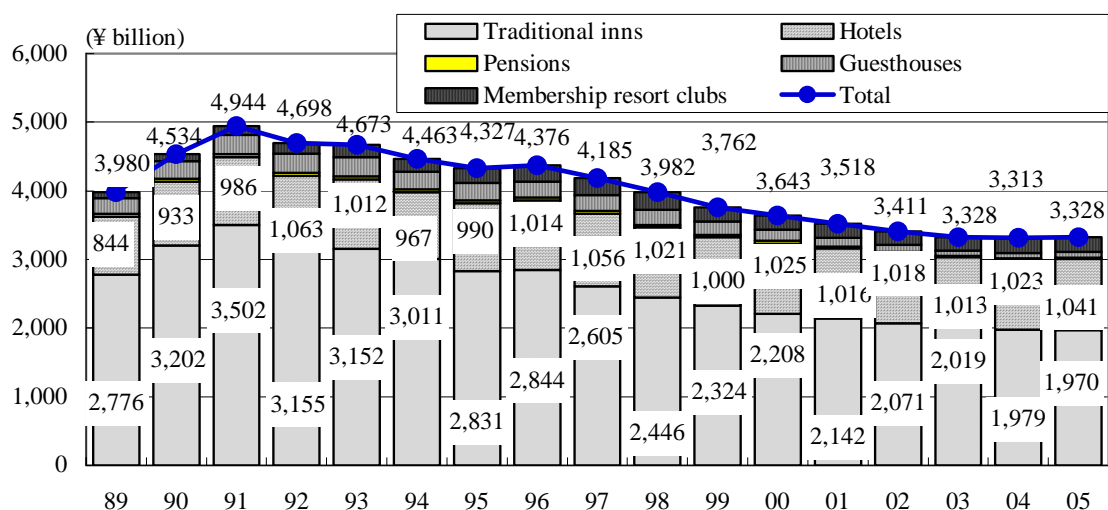
Japanese Economy Division

**Summary**  
 Hotels continue to grow both in scale and number in the Japanese market. In response to growing numbers of both domestic and overseas travelers, hotels of varying purposes and prices have appeared since around 2000. The hotel market has reached a turning point now that the markets for luxury and accommodation facilities have begun to polarize.

## 1. Market Overview

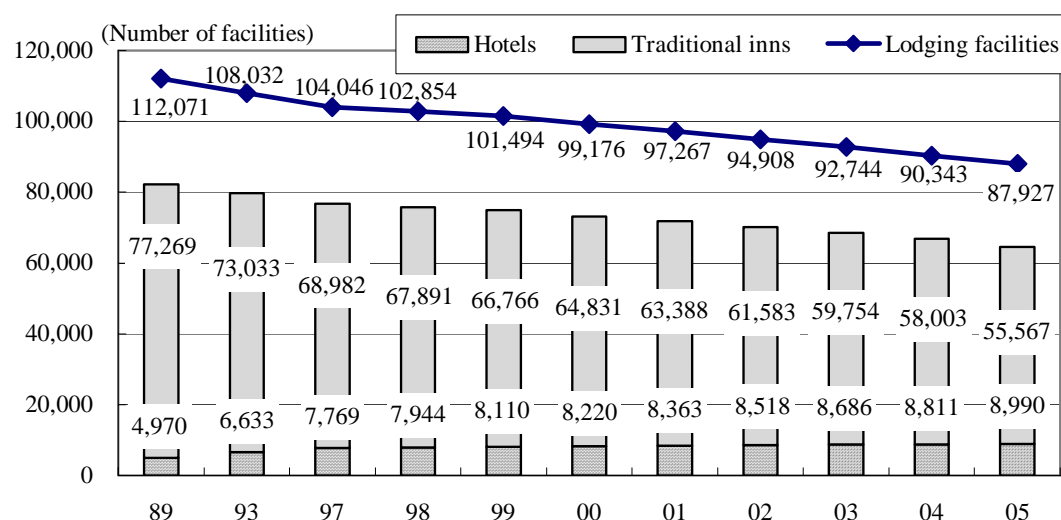
Japanese lodging facilities can be broadly divided into hotels, traditional inns, family-run guesthouses, pensions and membership resort clubs. The market earned ¥3.33 trillion in profits in 2005, a 0.5% increase over 2004, and hotels accounted for one third of this. Japanese-style inns and guesthouses continued to decline, but hotels grew in scale and number (figs. 1 & 2).

**Fig. 1 Lodging Facility Market Size**



Source: Japan Productivity Center for Socio-Economic Development

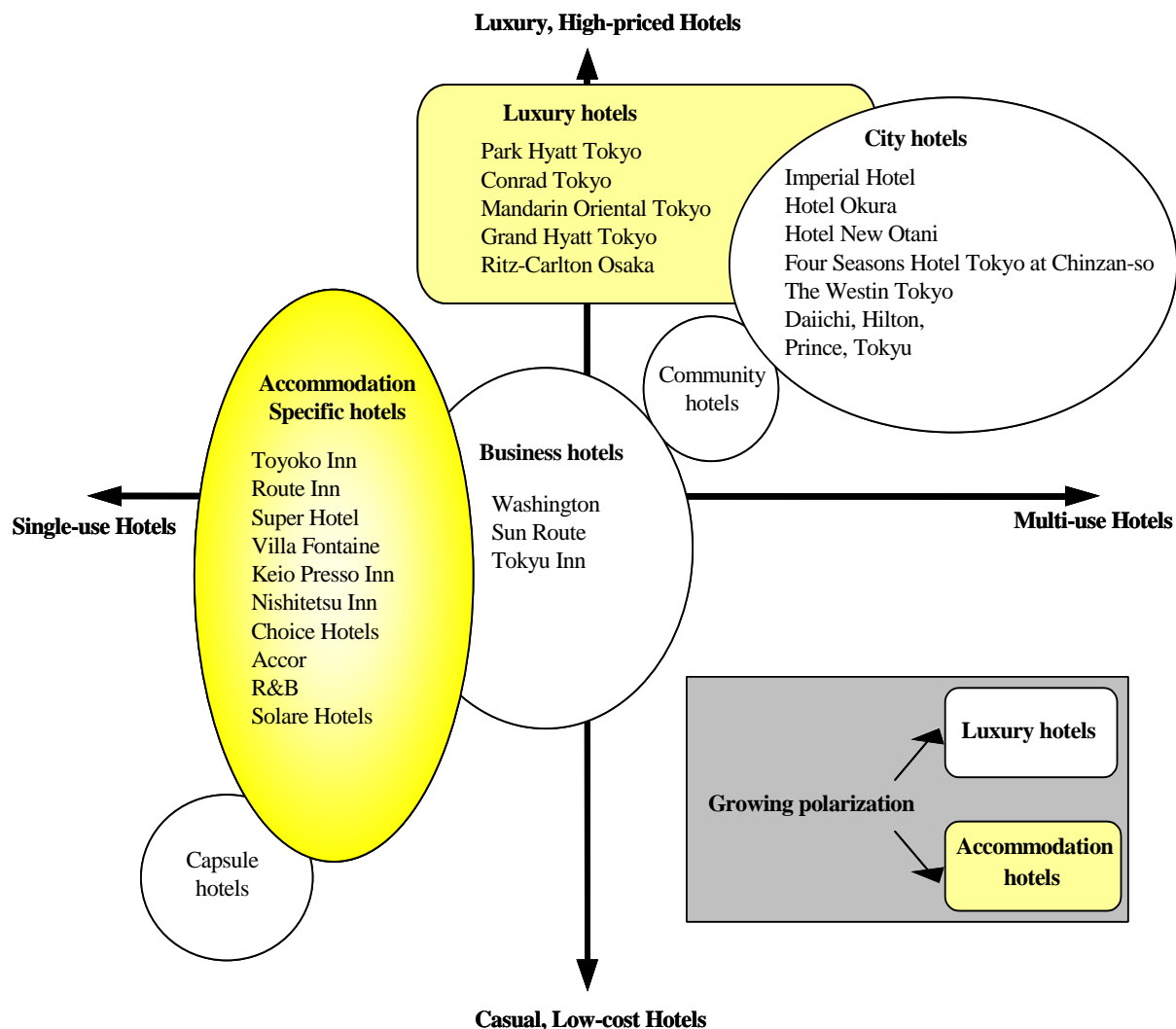
**Fig. 2 Number of Lodging Facilities**



Source: Ministry of Health, Labour and Welfare

Generally recognized hotel categories include city hotels, location-based resorts, luxury hotels and medium-priced facilities, along with “business hotels” for business travelers (Fig. 3). The market for hotels that focus purely on lodging facilities has expanded in recent years.

**Fig. 3 Hotel Categories**



Source: Yano Research Institute Ltd.

## 2. Industry Trends

A notable trend in recent years has been cases in which Japanese or foreign entities bought out and revived slumping urban hotels, etc. in regional markets (Fig. 4). According to Thomson Financial, there were 25 hotel and other lodging facility M&A transactions with a declared value of \$341 million in the 1990s. However, much faster growth took place between 2000 and 2006, with 173 transactions and a declared value of \$2.79 billion. The majority consisted of mergers and acquisitions between Japanese companies, but cross-border (out-in) transactions rose from six in the 1990s to 29 from 2000 onward, accounting for around 20% of all transactions from 1990 to 2006.

Buyers, sellers and governments were the underlying factors propelling increased M&A in hotels and other lodging facilities. Among sellers, two key motivations were, first, to qualify for impaired asset accounting from as early as March 2004 (such accounting would become mandatory from March 2006) and, second, to dispose of non-core operations. Buyers sought to realize improved profits as asset prices declined, and new mechanisms became possible to link financing and real estate, such as securitized real estate products and Japanese REITs. These developments coincided with the government’s interest in using tourism to energize local

economies. They were also linked to efforts by the Industrial Revitalization Corporation of Japan and Development Bank of Japan to stimulate regional tourism.

**Fig. 4 Hotel/Lodging Facility M&A with Japanese Firms (completed deals)**

(Number, US\$ million)

	Total					
	Total		Cross-border		Between domestic firms	
	Number	Declared value	Number	Declared value	Number	Declared value
1990	1	-	1	-	0	0
1991	1	-	0	0	1	-
1992	0	0	0	0	0	0
1993	1	-	0	0	1	-
1994	1	229	1	229	0	0
1995	1	9	1	9	0	0
1996	4	-	0	0	4	-
1997	1	-	1	-	0	0
1998	2	1	0	0	2	1
1999	13	102	2	33	11	68
2000	11	47	1	-	10	47
2001	23	793	4	147	19	646
2002	17	249	0	0	17	249
2003	20	830	4	808	16	23
2004	43	278	12	220	31	59
2005	34	375	4	22	30	353
2006	25	217	4	-	21	217
1990-1999	25	341	6	271	19	69
2000-2006	173	2,789	29	1,196	144	1,594
1990-2006	198	3,130	35	1,467	163	1,663

Data as of February 2, 2007. Includes membership lodging facilities, campsites, apartments and boarding houses, as well as hotels and motels. Announced values are totals of figures that have been released and do not include amounts that have not been publicized.

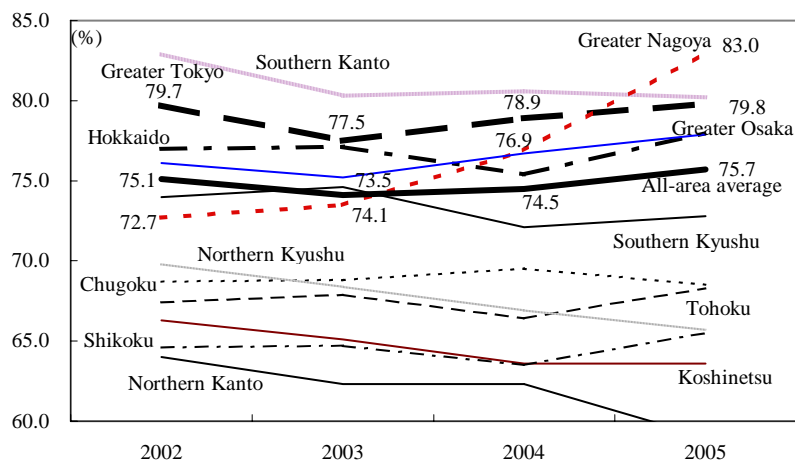
Source: Thomson Financial

International hotel chains rushed to build and operate luxury hotels once the Japanese economy began to expand in 2002. As other companies moved to increase the value of their properties and surrounding areas by incorporating luxury hotels as anchors for the redevelopment of urban centers, foreign hotel operators moved in to fill the vacuum in luxury hotels. Existing hotels prepared for the increased competition through major refurbishing, which played a key role in the expansion of demand. Occupancy rates of around

80% were achieved at hotels in the greater Tokyo, Nagoya and Osaka areas in 2005 (Fig. 5).

New market entrants operating hotels with limited functions focused on overnight stays have increased. Domestic and foreign investment funds, realties, rail companies and other firms have purchased business hotel chains that ran into trouble after they over-diversified during the bubble period. They have employed franchising and other methods to rapidly expand locations and raise brand recognition, attempting to grow their markets by attracting longer-staying non-corporate guests.

**Fig. 5 Change in Room Occupancy Rates by Districts**



Source: Ohta Publications Co., Ltd.

### 3. Market Entry Process

The construction and operation of hotels requires careful attention to relevant laws and regulations, including the Building Standards Law, Hotel Business Law and Food Sanitation Law (Fig. 6). Hotels offering lodging and services for foreign guests can receive fixed asset tax breaks and other favorable tax treatment by registering under the Law for Improvement of International Hotel Facilities (Fig. 7).

**Fig. 6 Main Hotel-Related Laws**

Law	URL
Hotel Business Law	law.e-gov.go.jp/htmldata/S23/S23HO138.html
Building Standards Law	law.e-gov.go.jp/htmldata/S25/S25HO201.html
Fire Defense Law	law.e-gov.go.jp/htmldata/S23/S23HO186.html
Amended "Heart Building" Law (accessible public transport for aged/disabled)	www.mlit.go.jp/jutakukentiku/build/barrier-free.html law.e-gov.go.jp/htmldata/miseko/S32HO026/H18HO091.html
Food Sanitation Law	law.e-gov.go.jp/htmldata/S22/S22HO233.html
Public Bath House Law	law.e-gov.go.jp/htmldata/S23/S23HO139.html
Entertainment Establishment Control Law	law.e-gov.go.jp/htmldata/S23/S23HO122.html
International Hotel Facility Improvement Law	law.e-gov.go.jp/htmldata/S24/S24HO279.html hotel.nihon-kankou.or.jp
Japan City Hotel Association standards	www.jcha.or.jp

Foreign investors should understand the key roles of travel agents, wholesalers and specialized wholesalers. Individual customers generally use a travel agent rather than making reservations directly with a hotel. Using travel agents can mean that hotels earn less profit, but can also cut sales costs and attract a broad range of customers. In recent years, more people have begun booking rooms through the Internet, making it an important sales channel alongside travel agencies. Diversification of sales has become important due to the extreme difficulty of individual hotels undertaking sales on their own.

Food procurement for facilities with their own restaurants can involve in-company distribution, route sales and commercial wholesalers. The latter is the most common method because it assures stable, efficient procurement, although it also necessitates the payment of margins to middlemen and can limit the range of products sourced. Another Japanese business custom involves the use of trading companies for the outsourcing of activities such as merchandising and bill collecting.

### 4. Outlook

Excess accommodation has become a concern in view of new hotels scheduled to open in central Tokyo by 2008, as well as existing hotels undertaking major facelifts. However, demand from domestic leisure travel is already strong and is expected to remain so (Fig. 8). Baby boomers, who will retire en masse starting in 2007, are interested in the environment and culture (Fig. 9), so it should be possible to develop new demand from this group through strategies that strategically emphasize location, target marketing and high-quality facilities and services.

Measures to waive short-term visas for travelers from China, Korea, Taiwan and other East Asian countries are expected to help boost visitations (Fig. 10).

**Fig. 7 Government-Registered Hotels and Inns**



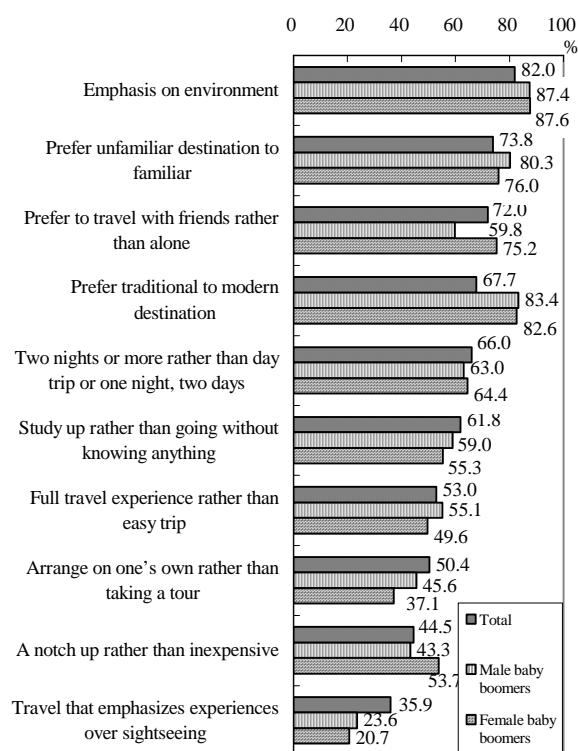
Source: Tourism Department, Policy Bureau, Ministry of Land, Infrastructure and Transport

**Fig. 8 Top 20 Preferred Leisure Activities**

2003		2004		2005	
1	Domestic travel (hot spring, to escape heat or cold, etc.)	1	Domestic travel (hot spring, to escape heat or cold, etc.)	1	Domestic travel (hot spring, to escape heat or cold, etc.)
2	Dining out (not including everyday meals)	2	Dining out (not including everyday meals)	2	Dining out (not including everyday meals)
3	Going for a drive	3	Going for a drive	3	Overseas travel
4	Overseas travel	4	PC (for games, hobbies, communications)	3	Going for a drive
5	PC (for games, hobbies, communications)	5	Overseas travel	5	Movies (not including on TV)
6	Movies (not including on TV)	6	Lottery	6	Aquarium, botanical garden, museum, zoo
7	Lottery	7	Watching videos (including rentals)	7	Concerts, recitals
8	Aquarium, botanical garden, museum, zoo	8	Movies (not including on TV)	8	PC (for games, hobbies, communications)
9	Karaoke	9	Aquarium, botanical garden, museum, zoo	8	Karaoke
10	Watching videos (including rentals)	10	Karaoke	10	Lottery
11	Hiking, picnics, strolling outdoors		Watching sports (not including on TV)	11	Hiking, picnics, strolling outdoors
12	Concerts, recitals	11	Listening to music (CDs, FM radio, records, cassettes)	12	Gardening, yardwork
13	Listening to music (CDs, FM radio, records, cassettes)	13	Bars, drinking establishments, pubs	13	Listening to music (CDs, FM radio, records, cassettes)
14	Gardening, yardwork	14	Hiking, picnics, strolling outdoors	14	Amusement park
15	Amusement park	15	Gardening, yardwork	15	Watching videos (including rentals)
16	Events, expositions	16	Concerts, recitals	16	Events, expositions
17	Bars, drinking establishments, pubs	17	Video games (at home)	17	Exercising (without equipment)
18	Swimming (at a pool)		Events, expositions	18	Swimming (at a pool)
	Watching sports (not including on TV)	19	Jogging, distance running	19	Traveling back to home town
20	Jogging, distance running	20	Fishing	20	Theater (not including on TV)

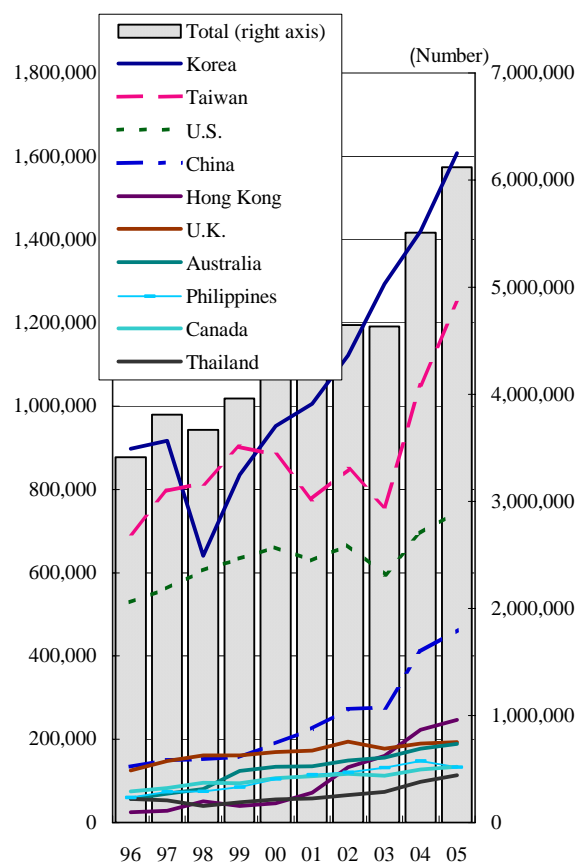
Source: Japan Productivity Center for Socio-Economic Development

**Fig. 9 Travel Styles Envisioned in Next Decade**



Source: Japan Productivity Center for Socio-Economic Development

**Fig. 10 Foreign Tourists in Japan**



Source: Ministry of Justice

## 5. Trends

### A. Foreign Luxury Hotels to Continue Opening

International hotel chains have rushed to build and operate luxury hotels (Fig. 11), with two major openings scheduled for 2007. New openings in Tokyo will fall off temporarily after the spring 2009 opening of the Shangri-La Hotel, Tokyo, but luxury hotel openings appear to be spreading to regional cities, such as the Grand Hyatt Fukuoka, Nagoya Marriott Associa Hotel and The Ritz-Carlton, Osaka. The St. Regis, the top luxury brand of the Starwood Hotels and Resorts group in the U.S., will be invited to operate in Osaka, according to an article in the February 7, 2007 issue of *Nihon Keizai Shimbun*. An InterContinental Hotel is scheduled to open in Okinawa in 2008. Many anticipate the boom in foreign luxury hotel openings will spread nationwide.

**Fig. 11 Foreign Hotels in Tokyo**

Hotel	Location	Year opened
Four Seasons Hotel Tokyo at Marunouchi	Marunouchi	October 2002
Grand Hyatt Tokyo	Roppongi	April 2003
Conrad Tokyo	Shiodome	July 2005
Mandarin Oriental Tokyo	Nihonbashi	December 2005
The Ritz-Carlton, Tokyo	Roppongi	March 2007
The Peninsula Tokyo	Hibiya	Fall 2007 (scheduled)
Shangri-la Hotel, Tokyo	Marunouchi	Spring 2009 (scheduled)

Source: Above companies' Web sites

### B. Domestic Airlines Sell off Hotels

All Nippon Airways Co., Ltd. (ANA) announced a capital partnership with InterContinental Hotels Group (IHG) in October 2006, resulting in the founding of IHG ANA Hotels Group Japan LLC. to operate the 31 hotels ANA owns in Japan.<sup>1</sup> After the new company began operating in December 2006, it announced the sale of 13 properties directly operated by ANA. Although ANA hotel operations have maintained solid business results, management will be delegated to the new company so that ANA can strengthen the competitiveness of its core airline operations.

Japan Airlines (JAL) is also in the process of restructuring. Reports indicate JAL will sell its share in the Hotel Nikko Tokyo's holding company to an American investment fund. JAL also announced it would extricate itself from the risk involved in asset holdings and strengthen its outsourcing operations as part of a medium-term business plan released in February 2007. It also announced it will concentrate resources on airline operations, and hopes to strengthen its financial condition and competitiveness by selling off 30% of its shareholdings in JALUX Inc., the operator of its air terminal shops.

These moves by both airlines are seen as a return to focusing on core businesses, which could serve as a new business model for the Japanese tourism industry.

## Reference

JETRO Japanese Market Report #75, Hotels  
(<http://www.jetro.go.jp/en/market/reports/jmr/>)

<sup>1</sup> Establishment of limited liability companies is permitted under the New Corporate Law enacted in May 2006. For details, see *Japan Economic Monthly*, "Reforms Under the New Corporate Law," August 2005. [www.jetro.go.jp/en/market/trend/jem](http://www.jetro.go.jp/en/market/trend/jem)