Tokyo 2020: The Olympic Games Effect

Tokyo Hotel and Tourism Report | October 2013
Hotels & Hospitality Group
Executive Summary

Jones Lang LaSalle’s Hotels & Hospitality Group (JLL) and STR Global have collaborated on the following report providing an overview of the 2020 Olympic Games impact on Tokyo’s hotel and tourism sectors. The report considers key distinctions with the most recent host cities, London and Beijing, and also determines Tokyo’s current status to meet expectations that come with hosting the Games.

Both JLL and STR Global intend to complete a future update of this report with a more comprehensive outlook, particularly after Tokyo has had more time to consider their successful bid and what it will mean for their country politically, culturally and economically.

In Summary

- The Japanese Government has quoted Tokyo will attract 8.5 million tourists during the Games. Prior to winning their bid, a goal of raising the number of international tourists to 30 million by 2030 as part of a long term tourism growth strategy was announced. This now appears highly achievable;

- An increase in the number of hotel rooms in the lead up to the Games is anticipated, albeit Tokyo boasts an accommodation industry well equipped to cater for the expected medium term (2014-17) increase of inbound tourists. According to an International Olympic Committee (IOC) assessment on the Tokyo bid, the city currently has enough room supply to meet the demand generated by the Games in the Olympic year. Unlike most previous host cities, substantial new supply is therefore expected to be rather limited via new hotel development. Given Tokyo is a more mature hotel market in comparison to Beijing, JLL expect that only a moderate addition to supply is likely and will limit a substantial post-Games decline in Revenue per Available Room (RevPAR);

- Based on STR Global’s data tracking hotel performance in six Olympic host cities, a decline in annual average occupancy during the year of the Games can be expected. This is followed by a return to the long term average thereafter and is a common outcome for all host cities. Likewise, this will be the case in Tokyo. Whilst it is too soon to know what will happen in the lead up to the Games in terms of Average Daily Rate (ADR) performance, rates will increase during the Olympic month substantially;

- There are long term positive effects on RevPAR for host cities starting from the announcement year and continuing over the next seven years. From an investment perspective, this will also boost the attraction of Tokyo hotels as an asset class to investors. JLL anecdotally can confirm a rise in purchaser sentiment for investment grade hotel assets in Tokyo with over USD 1.4 billion recorded in transactions as at YTD Q3 2013 (up 267% over the same period in 2012). This significant growth in capital volume in 2013 was not directly a result of an impending Olympic announcement, but rather the long term outlook for hotel investment has improved as well as the availability of hotel assets for acquisition due to the unwinding of the CMBS market;

- Generally the performance of hotels as reported by STR Global in the post-Games period depends on local market fundamentals, such as the macroeconomic environment, geopolitical events and the volume of additional new hotel rooms to supply. Tokyo appears well placed compared to previous host cities in this regard although economic factors (and unforeseen circumstances such as natural disasters) can obviously change this outcome; and

- A smaller global economic presence and loss of regional competitiveness has sharpened Japan’s focus on attracting global investment. Japan aims by 2020 to attract significantly more foreign corporations to establish regional headquarters in Tokyo. The focus on infrastructure development and inbound investment resulting from the Games complements and furthers this objective.
The key impacts of the Games on hotels and tourism generally are reflected in the previous summary. However, there are also more direct and short term influences. Our analysis reveals that the direct hotel implications of hosting the Games will depend upon the size and relative maturity of the local property market. These impacts appear greater on smaller and less mature markets.

The successful bid has been beneficial for construction and hospitality industries already in Tokyo. Both sectors have already enjoyed an "Olympic bounce". Stocks of key building contractors likely to be involved in the construction of stadium and associated sporting facilities have risen. Transport companies, such as JR East, will benefit from the strong inbound tourism growth that follows over the next seven years (and beyond the Games). The flow on effects for the economy is difficult to quantify, but the Japanese Government reports the Olympics may generate as much as three trillion yen and 150,000 jobs.

The Tokyo 2020 Bid Committee predicts that a key physical legacy of the Games will be an enhancement to the urban environment and a revitalisation of the interface between the city and its waterfront. Another benefit of hosting the Games is the development of new and improved infrastructure, from which a host city derives benefits long after completion. This was certainly the case for Beijing and to a lesser extent, London. Tokyo already appears well placed on its current infrastructure and it is widely understood that major upgrades are not required.
Introduction

On the 7th of September 2013, Tokyo won its bid to become the host city for the 2020 Summer Olympic Games. It last held the event in 1964 and is the first city in Asia to host the Games twice.

With the Japanese economy already rebounding from the impact of monetary easing and fiscal stimulus via “Abenomics”, winning the Games has further bolstered optimism that the country will succeed in overcoming deflation and improving domestic demand.

Fortunately, recent host cities have learned from the costly mistakes of earlier hosts, minimising investment in temporary facilities and maximising investment in long term projects. The most obvious additions are new or upgraded stadiums and housing built specifically for the Games. These facilities generate ongoing income through the attraction of subsequent major sporting events. Such examples for previous hosts include the 2015 Athletics World Championships in Beijing or the annual Athletics Grand Prix and the 2015 Rugby World Cup, both in London.

In anticipation of the Games, Japan will host over the next few years the 2014 ISU World Figure Skating Championships, the 2014 World Table Tennis Championships, the 2017 Asian Winter Games and the 2019 IRB Rugby World Cup.

The Olympic Village site after the Games will become International Exchange Plaza, a residential and mixed-use development that will become a major cultural and education centre housing facilities for international students and global institutions.

The IOC commissioned report on Tokyo’s Olympic bid noted within a 50 kilometre radius of the city there are approximately 140,000 existing international-branded hotel rooms, as well as 9,500 rooms in traditional “Ryokans” or Japanese Inns. Tokyo’s accommodation plan offers a total guaranteed room inventory of over 46,000 rooms in 363 hotels (between 2 to 5 star) which met IOC requirements. Approximately 37,000 of these are within a 10 kilometre radius of the Olympic Village site, reflecting a compact accommodation offering.

Tokyo’s current infrastructure offering already possesses an excellent modern and high-capacity transport network and does not require any major additional transport upgrades. Tokyo has a long term transport plan which includes infrastructure to be put in place irrespectively.

A Western motorway ring-road to bypass central Tokyo and a major central arterial road are under construction to improve connections to the Tokyo Bay area, where the majority of Olympic venues will be situated.
Key Performance Measures of Hotels

The hotel sector is clearly the most influenced by the Games due to the direct impact of Olympic-related arrivals and the resulting demand for short term accommodation. However, the precise nature of this impact has varied between host cities due to a number of factors including the maturity of the local tourist market, the degree of Olympic induced hotel supply and how well the region leveraged the Games for its tourism industry.

According to STR Global’s data from 2001 to 2012, Beijing and London experienced a higher growth rate on RevPAR during the seven years from the announcement to the Olympic year compared to the average over 12 years. Beijing’s 12-year compound annual growth rate (CAGR) was 0.45%, while the seven-year CAGR was 4.2%. London’s 12-year CAGR was 3.3%, while the seven-year CAGR was 6.4%.

However we note the following. Firstly, Beijing’s room supply has grown rapidly and the number of hotel operators has followed suit. The statistics don’t track the same pool’s performance. We have utilised available data across all categories of hotels to observe the market RevPAR growth. Secondly, as mentioned earlier, the Games are not a sole factor to determine RevPAR growth and there are many other factors influencing it. The nation’s GDP forecasts, new developments, external economic impacts such as the Global Financial Crisis, and natural or unforeseen disasters are key examples.

Among other factors, room supply growth influences RevPAR. Because of the expectation on RevPAR growth due to the Games, both London and Beijing experienced growth in room supply in the two years leading up to the Games and the Olympic year itself. The CAGR for London in supply was 3.4% (between 2010 and 2012), driven by Luxury and Upscale rooms in 2010 and 2011, and by Midscale and Economy rooms in the Olympic year itself. Alternatively, Beijing achieved a CAGR of 10.1% for the period 2006 to 2008, driven by the stronger growing Luxury room segment.

In London, a moderate decline in average occupancies of almost two per cent to 80.6% in 2012 was essentially driven by the two months prior to the games in August. This fall in demand seems to be a common occurrence in the months prior to the Games. London rebounded strongly during the final quarter of 2012, based on the presumption that many travellers postponed their trips to after the event.

Source: STR Global

London & Beijing RevPAR (Year End)

Source: STR Global
JLL and STR Global expect the same to occur in Tokyo with non-urgent business or leisure trips to be postponed. Tourists avoided Beijing and London prior to the Games not due solely to higher room rates but because of other factors such as negative publicity and media, and general avoidance of the host city.

Demand for London hotels was up by 2.4% whereas Beijing suffered a decline of 6.2% after their respective Games, as reported by STR Global. In Beijing’s instance, the months following the Games were the start of the Global Financial Crisis in 2008. Compared to London, where occupancies reached levels of 80% at the end of 2012, Beijing recorded an overall occupancy of just 52.1% by the end of 2008. Oversupply also underpinned low occupancy in Beijing.

All previous host cities have experienced a substantial increase in ADR during the Olympic year. Following two years of downturn, London recovered from the Global Financial Crisis in 2010 and continued stronger momentum into 2011. STR Global reported for London an ADR of GBP 134.40 which was equivalent to a 12.5% increase in 2011.

Furthermore in 2012, London achieved another 3.2% growth to GBP 139.95, due to a very strong Olympic month with a 39.3% increase resulting in an ADR of GBP 158.57 in August 2012. In 2008, Beijing experienced ADR growth of 30.9% resulting in a year end ADR of USD 145.12. This rate was driven by an exceptionally strong Olympic month with a 286.3% increase and an ADR of USD 402.42 in August 2008. In comparison London’s ADR growth was a lot lower than Beijing, however, it was coming off a high base.

During the Olympic year the increased room rates have generally been sufficient to offset lower occupancies, with the result that both London and Beijing have recorded an increase in hotel performance as measured by RevPAR by 1.2% (USD 179.40) and 5.8% (USD 80.60) respectively. Movement in hotel performance in the post games period was negative for London (-5.9%) achieving a RevPAR of USD 167.49 YTD August 2013. Beijing, at the height of the Global Financial Crisis, recorded a 43.3% decrease resulting in an overall RevPAR of USD 45.68.

Analysis of STR Global daily data shows average occupancy in 2011 was 84.4% over what is considered the Olympic period. Looking at the Olympic year in 2012, occupancy was above 85% on most days. Highest occupancy achieved during this period was 94.4% on the day Team Great Britain won six gold medals, dubbed as “Super Saturday”.

The average occupancy over that same period in 2013 was 83%, lower than pre-Olympic and Olympic years. In 2013, London was primarily impacted by Ramadan, which started on 10 July and ended 9 August. London also has had a significant number of new hotel openings with YTD August 2013 supply growing by 4.5% compared to a historical average of one per cent.

Current ADR growth is also in part a result of Abenomics, providing monetary easement, fiscal support and strategic growth to the economy. A direct result of this has been the devaluation of the yen, an increase of consumer confidence and resulting growth of inbound tourism. In addition, Tokyo has also witnessed the opening of new tourist attractions such as Tokyo Sky Tree and Omote Sando Tokyu Plaza, as well as the 30th anniversary of Tokyo Disney Resort.

According to STR Global most recent forecast report in Tokyo, supply compound annual growth rate (CAGR) for 2013 to 2015 is expected to be up by 2.0%, while demand CAGR is expected to be up by 1.8%.
Outlook

For any Olympic host city, the key advantage of the Games is the development of new infrastructure, from which the city derives benefits long after the Games have completed. With the Japanese economy rebounding from the impact of monetary easing and fiscal stimulus, winning the Games has bolstered optimism that the country will succeed in finally controlling deflation.

Hotels are clearly the major beneficiary of the Games due to the direct impact of Olympic-related arrivals and the resulting demand for short term accommodation. The precise impact has historically varied between host cities due to a number of factors including the maturity of the tourism market, the degree of Olympic induced hotel supply and how well the country leveraged the Games for its tourism industry.

Movements in hotel performance in the post-Games period have varied as the cities resumed their normal tourism cycle. London recovered well, whilst Beijing witnessed RevPAR fall substantially in the two years following the Games, reflecting an oversupply of hotels. Above average room rates have generally been sufficient enough to offset lower occupancies. London recorded an increase in hotel performance as measured by RevPAR during the Olympic year.

Each host city is very different in terms of the state of its economy and maturity of the local hotel market. Unpredictable geopolitical events also greatly impact hotel performance. Whilst it appears that Tokyo already has a well-established hotel market, it is difficult to anticipate how successful Ryokans are able to compete with hotel rooms during the Olympic Games period. Regardless, it is likely that large scale additions via new hotel developments will be minimal.

Having said that, after a decade of lobbying to legalise casino gambling, Japan is now granted an opportunity to reintroduce this for consideration. Plans are afoot to submit an initial bill to parliament by the end of 2013. If the bill passes, this could mean the first casino resort would open in Japan prior to the Games, bringing with it substantial room supply.

The Games are anticipated to provide a significant stimulus for Japan’s economy. Ultimately the Games will be an opportunity for Japan to develop a new vision for the nation. It will bring economic development, force growth within Tokyo’s infrastructure and most importantly be a boost to the Japanese people.

The country was heavily impacted by the 2011 tsunami and the subsequent Fukushima nuclear disaster. Japan is still trying to move beyond these events. The Olympic Games will help to give the Japanese population greater hope and a chance for the country to show the world its true cultural and economic strength.
About Jones Lang LaSalle Hotels & Hospitality Group

Frank Sorgiovanni, Vice President, Research & Strategic Advisory, Asia
As Head of Research for Asia, Frank manages JLL’s regional Hotels & Hospitality Group research and sits within the strategic advisory team. His key responsibilities include authoring leading edge industry research as well as thought-provoking white papers and client specific market studies. Frank additionally provides input into the wider firm’s suite of global research reports, investment highlights and outlooks, property digests and investor sentiment surveys.

Tom Sawayanagi, Managing Director, Japan
Tom Sawayanagi is Managing Director of Jones Lang LaSalle Hotels & Hospitality Group, and heads up its Tokyo office. The services he covers range from advisory, investment sales and other related activities in Japan. He is also responsible for being a liaison on behalf of its overseas offices regarding hotel assets owned by Japanese investors.

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About STR Global

Elizabeth Randall-Winkle, Managing Director, United Kingdom
Elizabeth is the Managing Director for STR Global Limited. Prior to being appointed Managing Director, she had been Director of Operations for the company with responsibility for operations and client relationship management. Elizabeth is active in the industry, speaking at international conferences and participating on panels at various events. Elizabeth was invited to take part in the Dean’s Distinguished Lecture Series (DDLS) at the Cornell School of Hotel Administration (SHA) in 2011 and at Ecole hôtelière de Lausanne (EHL) in 2012.

Naureen Ahmed, Manager, Marketing and Analysis, United Kingdom
Naureen Ahmed is responsible for STR Global’s marketing, brand and communication efforts globally, while also providing key insights into hotel performance. She joined STR Global in 2010 as Forecast Analyst and was responsible for STR Global’s Hotel Market Forecast Reports for over 40 global markets. Naureen regularly attends and presents at client events and conferences.

Megumi Ishida, Business Development Manager, Japan
Megumi Ishida is Business Development Manager at STR Global. She joined STR Global when the company opened a Japan office in 2010. Since then she is responsible for Japan sales and extends dedicated service to Japan clients. She has various experience in both property operation and corporate sales and marketing at domestic and international hotels.

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