Tokyo 2020 Olympics: Expectations for the Hotel Industry
Introduction

It is just over a year since International Olympic Committee President Jacques Rogge announced in Buenos Aires that Tokyo had beaten Madrid and Istanbul to host the 2020 Olympic Games. Around one year later the question still remains – what will the win mean for Tokyo and Japan overall?

Most analysts would agree the long term impact of hosting the Games is generally beneficial to the local economy. Share markets in Sydney, London and Brazil recorded significant gains in the period following their successful announcements. Tokyo’s Nikkei also performed admirably, albeit there are several drivers behind this including changes to economic policy. What has traditionally followed in all previous host cities are increased tourism numbers far beyond the completion of the Games.

Before hosting the 1964 Olympic Games, Japan completed an unprecedented number of city (Tokyo) and countrywide improvements and upgrades, the most notable its public transportation system which provided a new train network or Shinkansen. Today Japan prides itself on being near-ready to host the 2020 Games however, the country will still upgrade a number of large-scale infrastructure projects.

In this paper, JLL and STR Global have specifically considered previous host cities London and Beijing, identifying what are the key impacts in terms of tourism and hotel performance before, during and after the Olympic event, in order to draw conclusions about Tokyo in 2020. This is the second collaboration by both firms assessing the influence of the Olympic Games on Tokyo (see Tokyo 2020: The Olympic Games Effect, released in November 2013).

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**2020 JAPAN 2020**
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According to industry sources, the 1988 Seoul Games achieved a 78% increase in international visitors to South Korea between 1986 and 1990 (by 2002, up 222% on 1986 levels to 5.3 million international visitors). The Barcelona Games in 1992 was the second highest in terms of inbound tourism growth (with Spain as a whole reporting an increase of 27% between 1990 and 1994).

The Atlanta Games in 1996 saw a 4% rise in international visitors to the USA between 1994 and 1998 and the 2000 Sydney Games recorded a 16% increase in international visitors to Australia between 1998 and 2002. However, inbound tourism growth was not recorded in all previous host cities. The number of foreign visitors to Beijing in August 2008 declined 7% to 389,000. Over the remainder of the summer that year, visitor numbers were sharply lower, recording a 30% y-o-y decline. It should be noted that this was also at the peak of the global financial crisis.

The most recent Games in London recorded improved results. In September 2012, overseas visitors completed 2.6 million visits to the United Kingdom, or around 1% higher than the previous year. In the three months July to September 2012, there were 4% less visits by overseas residents than in the same period in 2011. However, associated spending on these visits was 6% higher than the previous year, with a total figure of over GBP 6 billion.

History shows the flow on effects for tourism and the wider economy generally extend to the whole of the host country and bordering cities, as was the case in London. In the UK, the Eurostar aided travel to many European cities for tourists attending the London Games.

It is safe to assume that in 2020, tourism will extend far beyond the city boundaries of Tokyo with Osaka and Kyoto most likely to see a large increase in overseas visitors. Kanazawa may also welcome additional tourists once the Hokuriku-Shinkansen commences operation in 2015.
Government officials recently estimated that the 2020 Games could boost Japan’s GDP by an additional 0.5%, creating a positive economic impact estimated to be JPY 4.2 trillion. The 8.5 million international tourists that the Tokyo metropolitan government estimates will visit Japan are greater than the total number of foreign visitors to Japan in 2012. So now, Tokyo’s supply and demand equation to meet the additional room requirements is imperative.

Whilst accommodating tourists, officials and athletes to the Olympic and Paralympic Games should not govern overall planning, it is important to establish whether there is sufficient accommodation supply to meet total room demand.

According to STR Global, Tokyo is a major international hotel market with approximately 94,000 available rooms however, it is noted that this room count does not include the balance of the Greater Tokyo Area where there are countless traditional accommodation options in the form of ‘Ryokans’. Additional accommodation options also include private hostels and unlisted “capsule hotels”. Airbnb has also made solid development in reinforcing its acceptability over recent years. The online community marketplace is certain to become a useful accommodation option in 2020.

In our last report, we noted the International Olympic Committee reported there were approximately 140,000 rooms within a 50 kilometre radius of the Tokyo CBD. With the anticipated displacement effect, existing room supply should meet current demand levels. The forecast increase in international visitors over the next several years however will justify the building of additional rooms.

When compared to previous host cities, London had approximately 116,000 available rooms in 2012 and Beijing had 172,000 available rooms in 2008. In contrast, the much smaller host cities of Athens and Sydney had considerably less room supply – Athens (17,000 available rooms in 2004) and Sydney (an estimated 38,000 available rooms in 2000).

Since Tokyo’s hotel market is more comparable in size to London and Beijing, we have analysed the impact of the Games on the most recent host cities.
**Beijing 2008**

The chart illustrates the impact of the 2008 Olympics in Beijing relative to major hotel markets in Mainland China. In Beijing, the city recorded an 18.8% y-o-y decline in occupancy during the Olympics. The decline was primarily a result of the government imposed visa restrictions as a security measure for the Games which led to a 7% decline in international arrivals.

This was exacerbated by the global financial crisis which affected leisure travel patterns. Nevertheless, the average daily rate recorded a remarkable increase of 250% y-o-y during the Games period. Average daily rates in Beijing rose to levels above CNY 2,000 which is typically recorded only in luxury category hotels.

This was similar to the London Olympics in 2012 which also witnessed average daily rates rise sharply. Overall, revenue per available room for Beijing grew by 184.2% for the period. The 2008 Games also had a positive impact on neighboring Mainland Chinese cities as well as Hong Kong, which recorded increases in room rates but similar declines in occupancy.

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**ADR**

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**REVENUE PER AVAILABLE ROOM**

Revenue per available room for Beijing grew by 184.2% during the Games period.
The chart above illustrates the daily impact of the 2012 Games on London hotel occupancy before, during and after the event. Historically, occupancy levels decline prior to the Olympics in all host cities. In August 2012 (when the Games’ events were staged), there was a 5% decline on international visitors to United Kingdom, however hotel occupancy was still recorded at peak levels of 90.2%, a 7.6% improvement from August 2011.

The fall in occupancy is due to the displacement of visitors during the month of the Games, where tourists who are not attending any events avoid the city and generally the higher costs associated with visiting an Olympic host city during this period. Inbound tourism attending the Games still contributes to a significant 9% y-o-y increase in overseas visitor expenditure during the month, making up for the shortfall of tourists that stayed away.

Unsurprisingly, average daily room rates in London had increased over the period the Olympics were staged. The Olympic Games is the biggest sporting event in the world, so it is inevitable room rates rise. It is worth noting that London, in comparison to past host cities, had the lowest percentage increase in room rates.

Overall, the London Olympics boosted visitation and tourism expenditure in the UK in 2012 (a 1% increase in international visitor arrivals and a corresponding 4% improvement on visitor spend was recorded), showing the positive impact of the Olympics on the country.

In London, visitor arrivals and tourism spend benefited substantially, increasing by 5% and 9% y-o-y respectively. However during the Games, retail, food and beverage outlets and most major tourist attractions experienced decline in spending. This is because visitors in London were essentially there to watch the Games and not for general sightseeing.

In the months leading up to the Games, the government implemented tourism campaigns to boost visitation including a ‘Holidays at Home’ campaign to encourage Britons to take ‘staycations’ and other related ‘Visit England’ initiatives. Despite this, a 5% fall in overseas tourists to the UK was still recorded as a restrictive visa application policy limited entry to several nations including Mainland China.

One year post the event, London welcomed a record of 16.8 million visitors, about one million additional visitors over 2012 while visitor spend was registered at GBP 11.2 billion (GBP 1 billion more than 2012).

Average daily rates across the UK recorded solid growth patterns during the Olympic period in 2012 as reflected in the chart above. Most cities experienced rate growth during this period, with London outperforming, achieving an 86.6% improvement from the previous year. In 2013, average daily rates returned to levels that were last recorded in 2011 (or before the Games).

Large football matches held in Cardiff, Coventry and Manchester underpinned increases in these cities whilst locations close to Airports such as Heathrow, Manchester, Edinburgh, Birmingham, Glasgow, Newcastle, Liverpool and Aberdeen also recorded gains.
Tokyo’s hotel pipeline is expected to increase by around 8% or an additional 7,500 rooms, either under construction or proposed over the next several years. In addition, some hotels have also announced expansion plans and refurbishment despite the strong increase in construction costs the country has faced in recent years.

On trading performance, hotels in Tokyo have recorded a consistent upward trend in average daily rates since 2012, not only on the back of the Games, but also a factor of ‘Abenomics’. Tokyo’s average daily rate in September 2014 has increased by 7.7% since the announcement. However, rates had been increasing since June 2012, so the rise is not solely a result of the Olympics win.

Government policy has promoted currency depreciation due to monetary easement, deregulation of visa requirements for several Asian countries that support increased inbound visitation, open sky policy, and the potential legalisation of casino gaming. Japan has shown a steady recovery which has influenced the local tourism industry and broader economy after the 2011 earthquake. It is noted that since the consumption tax increase in April 2014, the level of growth is now slowing. A second increase planned for late 2015 is likely to further impact domestic tourism demand.

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Government policies such as: the deregulation of visa requirements for several Asian countries that support increased inbound visitation, open sky policy, and the potential legalisation of casino gaming could all affect the number of international arrivals over the near future.
Conclusion

The Japanese government is aiming to increase the number of foreign visitors per year to 20 million by 2020 and 30 million by 2030. In 2013, international inbound tourists recorded 10.4 million, according to the Japan National Tourism Organization, making the Japanese government’s target appear ambitious. Regardless, the Olympic effect may have already been observed as the number of foreign visitors between January and July in 2014 is 26% higher than the same period in 2013.

Just one year after the 2020 Games announcement, several new full-service hotels have been proposed. However, unlike the Games of 1964, Tokyo isn’t entering a period of major new hotel development where the city welcomed several new hotels including the Hotel Okura, Hotel New Otani and the Hilton Tokyo. Japan’s tourism market is clearly in recovery but the evidence suggests Tokyo can already service demand far better than many previous host cities.

As evident by the London and Beijing Games, hotel trading performance is similarly expected to outperform in Tokyo. Outside of the capital, several Japanese cities will benefit from Tokyo hosting the Games, including Osaka and Kyoto which are all within direct train access and may form part of an ‘Olympic tour package’. These cities too will witness steep increases in average daily room rates nearer to 2020.

More importantly, Japan will be further elevated into the international spotlight post the Olympics. London continues to see solid growth in its tourism industry as a direct result of the Games and Japan too will receive its fair share of international visitors after 2020.
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