

Intelligent Investment

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APAC Hotels & Hospitality Market Update Japan

BRIEF

CBRE RESEARCH





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01 Executive Summary & Outlook

2023 was a banner year for the hotel sector in Japan, with the country being crowned the top tourist destination globally for both business and leisure travel.

Despite being one of the last markets to fully re-open its borders to visitors following the end of the COVID-19 pandemic, the large number of foreign visitors and durable domestic demand have seen Average Daily Rates (ADRs) across all cities and categories increase significantly. STR data show aggregate daily rates reached JPY 18,403 as of February 2024 y-t-d, 35% higher than the same period of 2019.

Although occupancy was down 11% as of February 2024 y-t-d compared to the same period of 2019, CBRE expects an improvement over the course of this year on the back of further foreign tourism gains. The Japanese government estimates that international tourist arrivals will hit a record 33 million this year, with authorities setting a goal of 60 million annual foreign arrivals by 2030. CBRE is therefore confident about the outlook for further hotel operational growth in 2024, driven by an occupancy recovery in well-managed assets in core locations.

Business and city hotels are expected to register an improvement in operating performance in 2024, with accommodation nights for these assets already up 16% and 13%, respectively, when comparing 2024 y-t-d to 2019 y-t-d.

Despite the Bank of Japan's (BoJ) recent decision to raise the central policy rate to a 0% - 0.1% range, hotel investment remains extremely robust. Hotel investment volumes in Japan surpassed JPY 500 billion in 2023, with overseas buyers accounting for 46% of this figure, the highest proportion since 2007. Whilst international investors will remain active in 2024, domestic investors have been gradually increasing their activity since H2 2023, heightening expectations that they will be busy in 2024.

Institutional investors will continue to drive purchasing in 2024, with J-REITs also expected to be more acquisitive. Luxury and upscale assets remain keenly sought after by these groups, with investors also looking to increase their exposure to the co-living sector.



Steve Carroll
Head of
Hotels & Hospitality
Asia Pacific



**Tomotsugu
Ichikawa**
Head of Investment
Hotels & Hospitality
Japan



Gus McConnell
Associate Director,
Research
Asia Pacific

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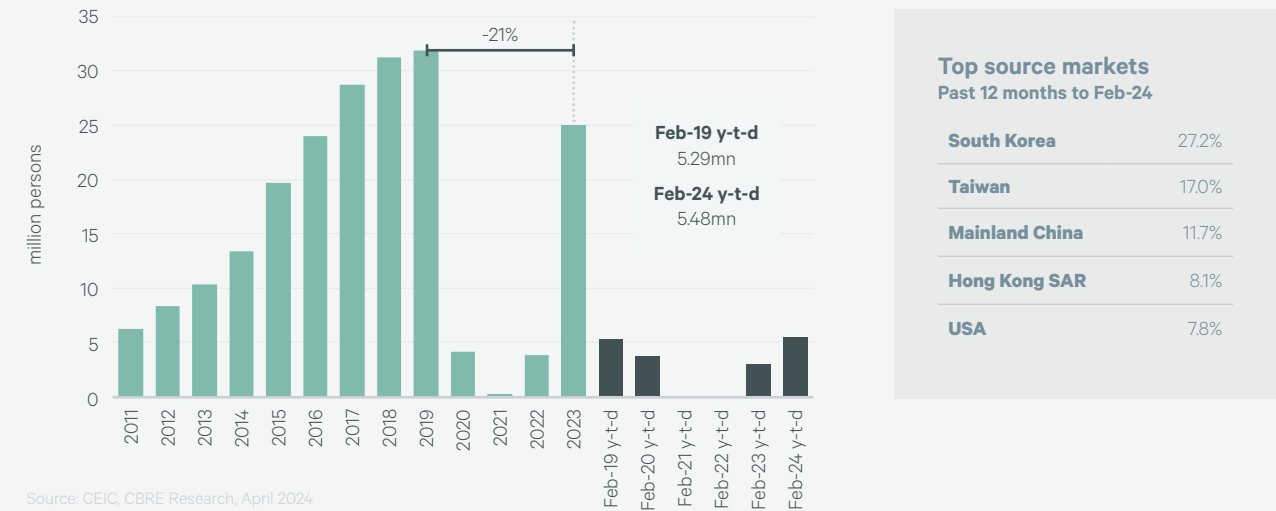
Tourism



Japan meets or surpasses 2019 monthly international tourism arrivals every month since October 2023, marking the best performance in Asia Pacific.

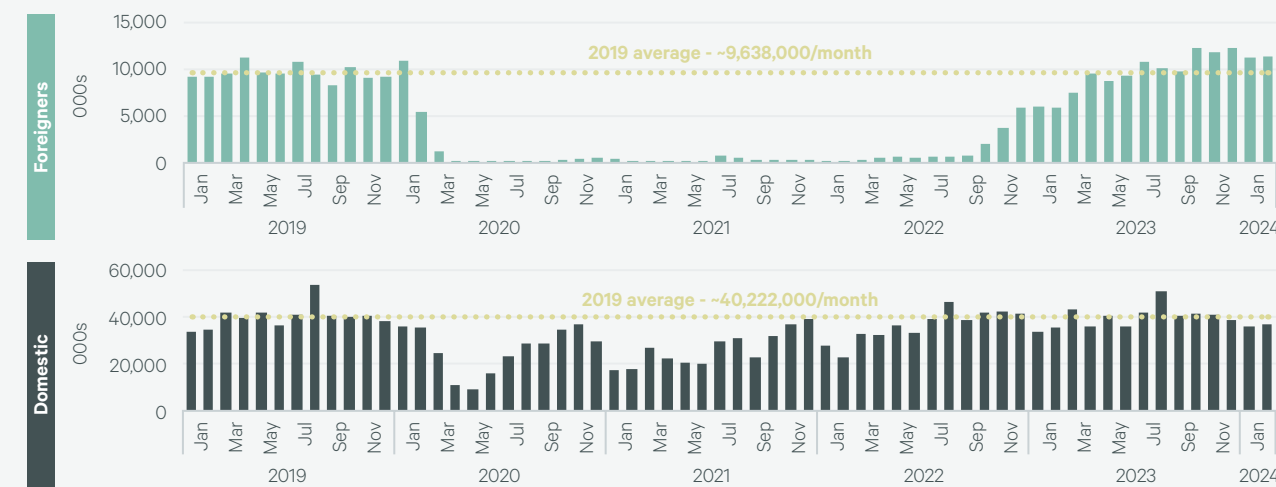
- Japan welcomed more than 2 million visitors for a ninth straight month in February, setting the stage for a potential record year for tourism. The Japan Tourism Board (JTB) estimates that the number of foreign travellers in 2024 will surpass 33 million, which, if achieved, will surpass the previous record set in 2019. The government has set a goal of attracting 60 million foreign visitors annually by 2030.
- Domestic travel has remained strong throughout the last four years despite travel restrictions. According to the Japan Tourism Agency (JTA), domestic travel has historically comprised 72% of all travel in Japan. With domestic travel seeing a full recovery by mid-2022, this supported the hospitality sector during the recovery phase.
- Korea continues to drive international demand, with over 27% of arrivals in the last 12 months originating from this market. While still significantly below historical levels, the number of visitors from mainland China continues to recover, registering a total of 459,400 arrivals in February 2024, 37% below February 2019 levels. The China Travel Research Institute is forecasting an 80% recovery in mainland Chinese tourists visiting Japan by the end of 2024, and a full recovery in 2025.

Figure 1: International tourism arrivals (millions) – as of February 2024



Source: CEIC, CBRE Research, April 2024

Figure 2: Number of accommodation nights (monthly) – Domestic vs International



Source: CEIC, CBRE Research, April 2024

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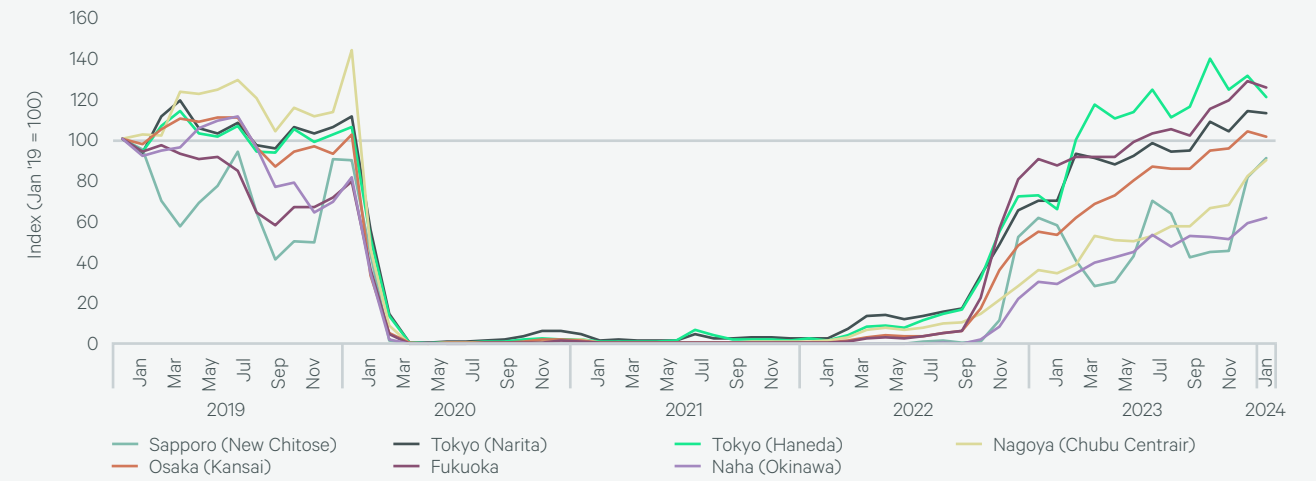
Tourism (cont.)



Foreign visitor spend in 2023 hits record; Tokyo and Fukuoka record the strongest recovery of foreign visitors over past 12 months.

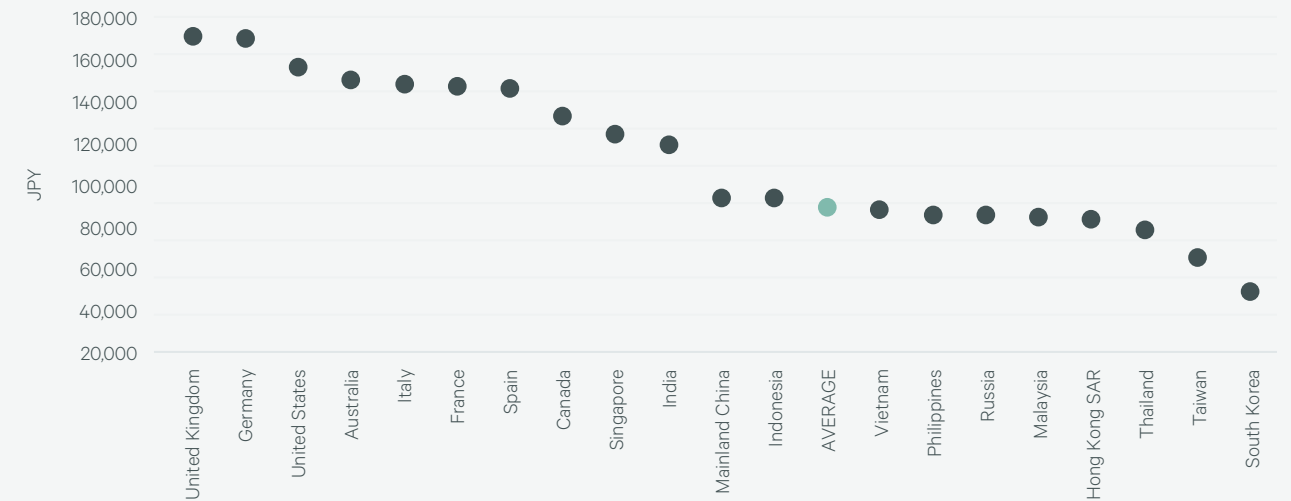
- The weak Yen has helped make Japan a more affordable destination and boosted tourist spending power. According to the JTA, annual foreign visitor spending in 2023 exceeded JPY 5.3 trillion (USD 33.28 billion) for the first time, comfortably eclipsing the government’s set target. The government has set a goal of JPY 15 trillion (USD 99 billion) of annual foreign visitor spend by 2030.
- Following an initial surge of foreign visitors into Tokyo, H2 2023 and beginning of 2024 saw tourist preferences gradually shift to other major destinations such as Osaka, Kyoto, Fukuoka and Nagoya. With the Japanese government keen to address the challenges posed by over-tourism to high population cities, regional destinations should see further growth in foreign arrivals.

Figure 3: Foreign arrivals to Japanese airports (Index) – as of January 2024

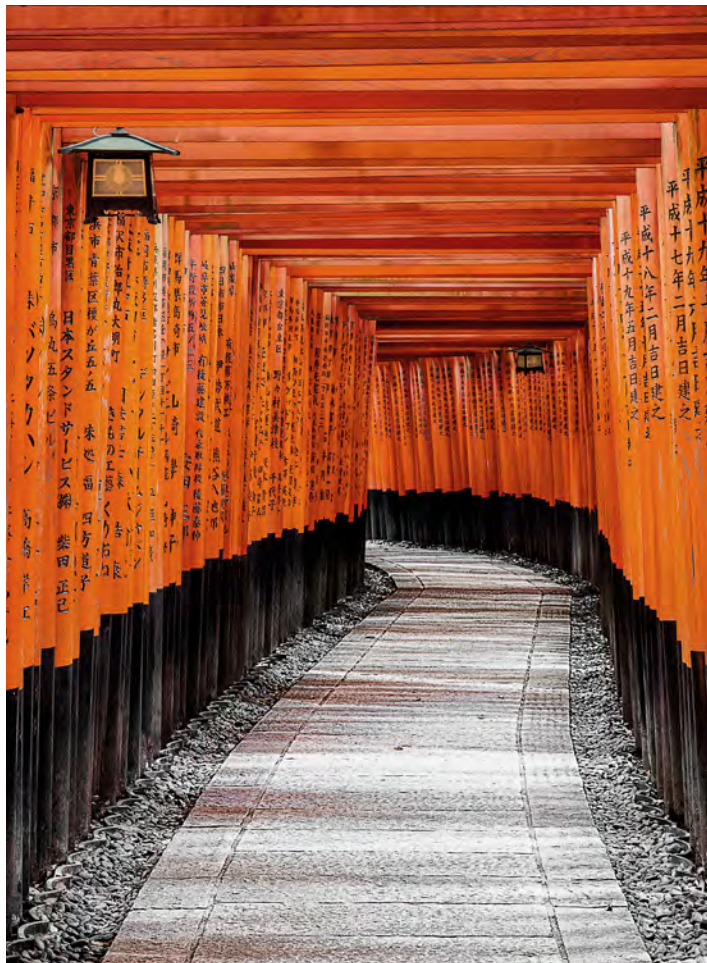


Source: CEIC, CBRE Research, March 2024

Figure 4: Average accommodation spend – By country in JPY (as of Q4 2023)



Source: CEIC, CBRE Research, March 2024

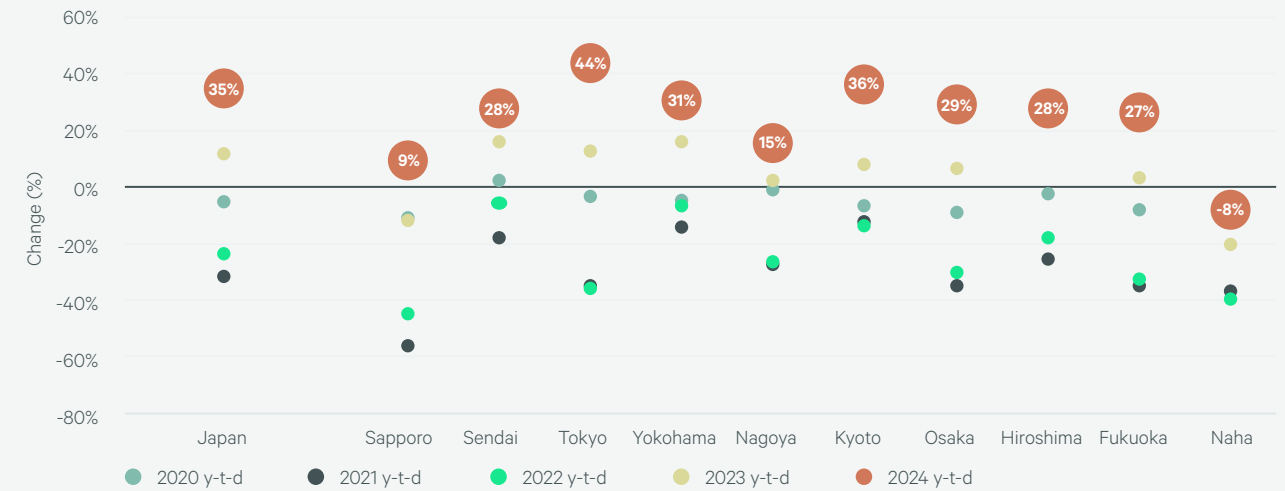


03 Performance

Hotel performance to improve in 2024 as operators bank on further tourism growth.

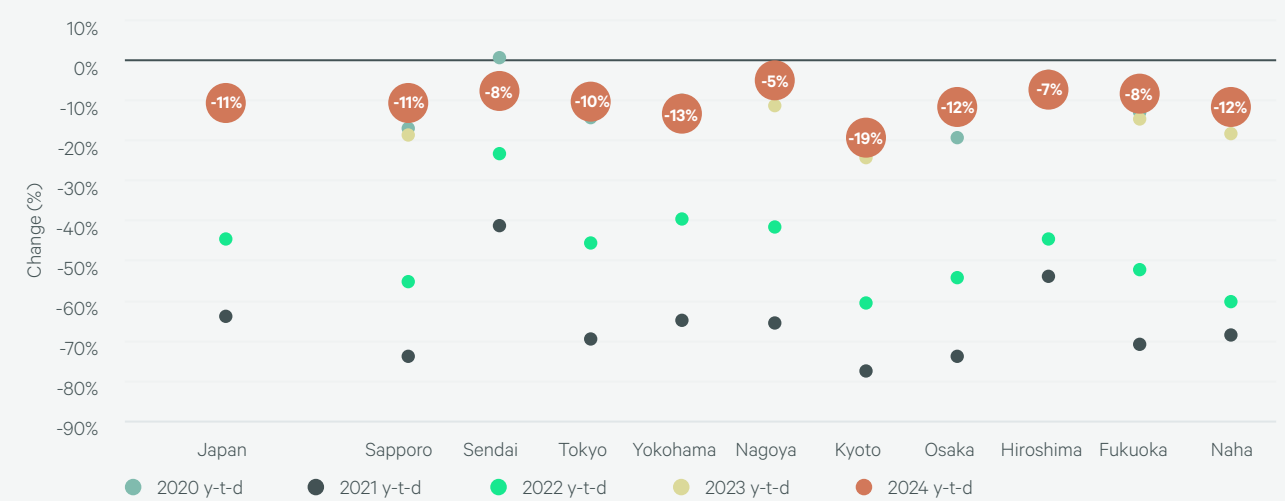
- Despite being one of the last markets to fully re-open its borders to visitors following the end of the COVID-19 pandemic, the large number of foreign visitors and durable domestic demand have seen Average Daily Rates (ADRs) across all cities and categories increase significantly. STR data show aggregate daily rates reaching JPY 18,403 as of February 2024 y-t-d, 35% higher than the same period of 2019. However, this can be partly attributed to the historically weak Yen, with ADRs on a USD basis in February 2023 y-t-d 4% below the same period in 2019. With current forecasts expecting the Yen to strengthen in H2 2024, CBRE expects that this will reflect on daily rates in Japan on a USD basis, with ADRs to see modest growth from a JPY perspective.
- As with other major markets in Asia Pacific, performance growth for hotel assets in Japan will come through occupancy gains. Despite the influx of foreign tourists, operators continue to adopt a rate-driven strategy, with occupancy down 11% when comparing February 2024 y-t-d to February 2019 y-t-d. CBRE expects that hotel occupancy across Japan will recover by the end of 2024.

Figure 5: Change in ADR by city vs. February 2019 y-t-d (in JPY)



Source: STR, CBRE Research, March 2024

Figure 6: Change in Occupancy (%) by city vs. February 2019 y-t-d



Source: STR, CBRE Research, March 2024

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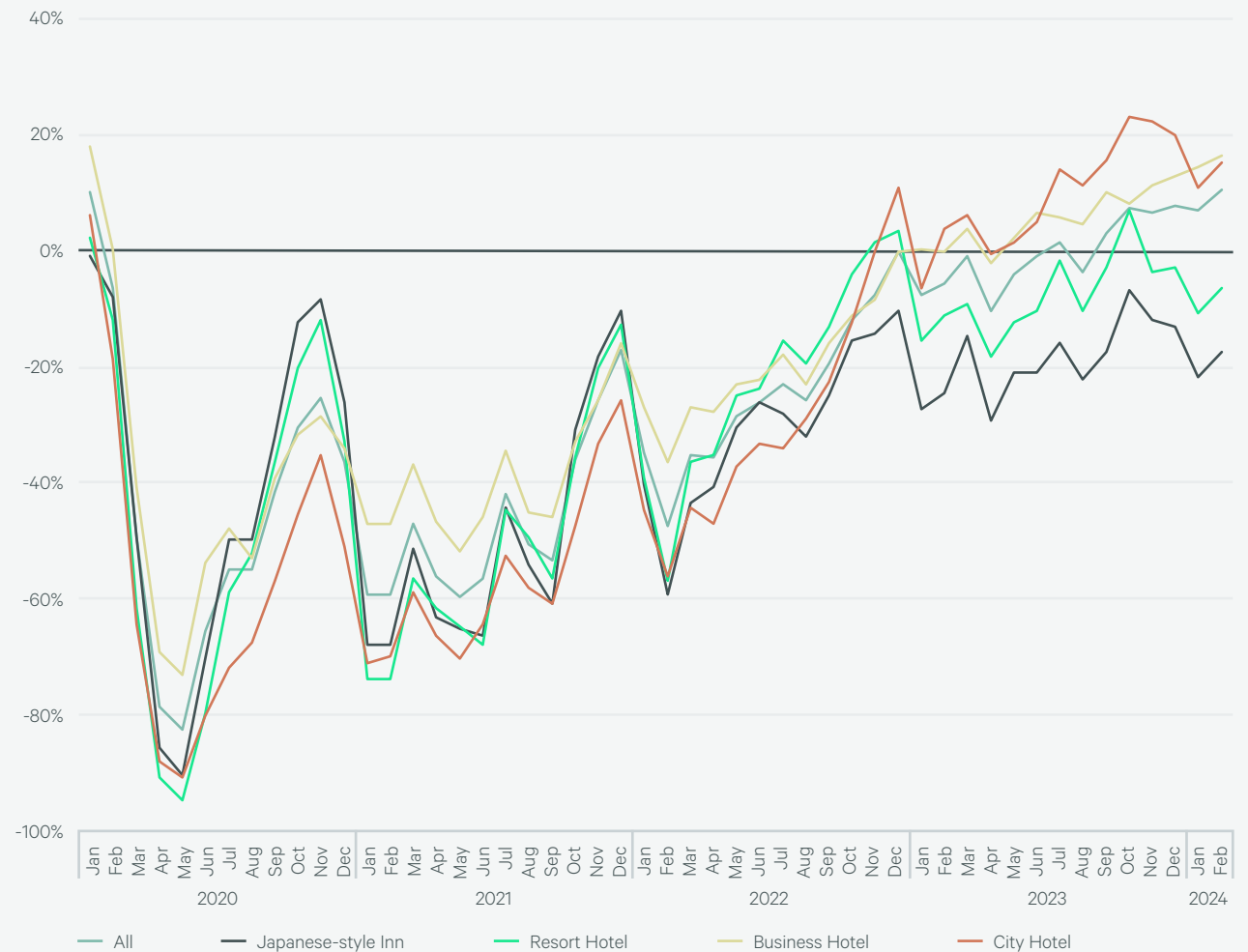
Performance (cont.)



Business and city hotels outperform on back of strong business travel demand.

- Unlike many other markets in Asia Pacific, where resort destinations have been the beneficiary of ‘revenge travel’, demand for business and city hotels has outpaced other segments in Japan. According to the JTA, international demand for business locations in Japan increased by 20% when comparing February 2024 y-t-d to February 2019 y-t-d, with domestic demand for business locations up 1%. International leisure demand rose by 12%, whilst domestic leisure demand was down 4% over the same period.
- With Japan set to remain the top destination for business travel in Asia Pacific, and continuing to record the highest office utilisation rates globally, the outlook for business and city hotel performance is upbeat. CBRE expects business hotels will continue to be the top performing segment in 2024, with leisure hotels to maintain modest performance growth this year.

Figure 7: Number of accommodation nights (monthly, % change from the same month in 2019)



Source: CEIC, CBRE Research, March 2024

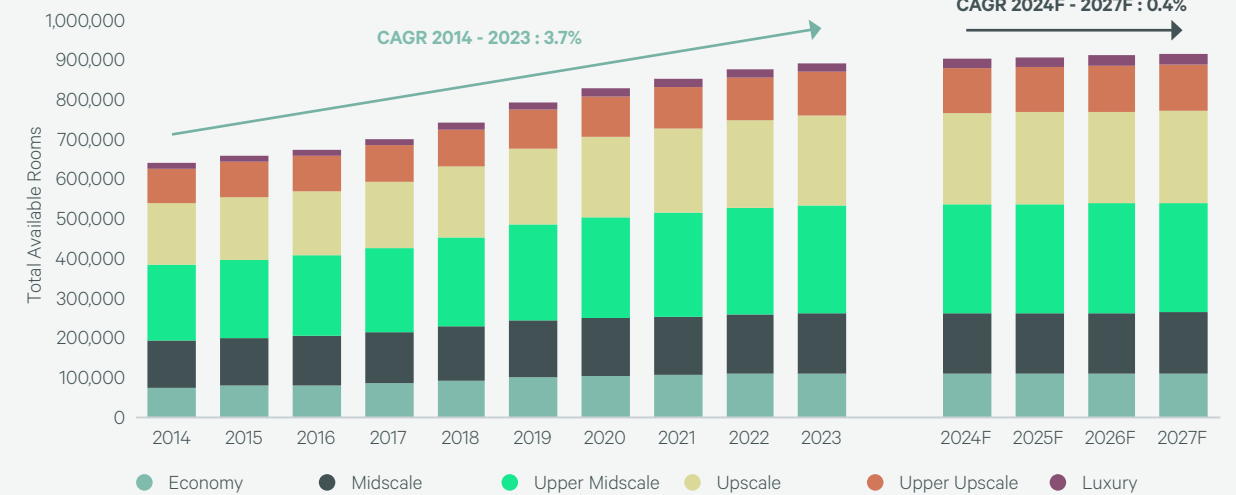
04 Supply



Significant increases in construction costs and imports to result in extremely limited hotel supply over next four years.

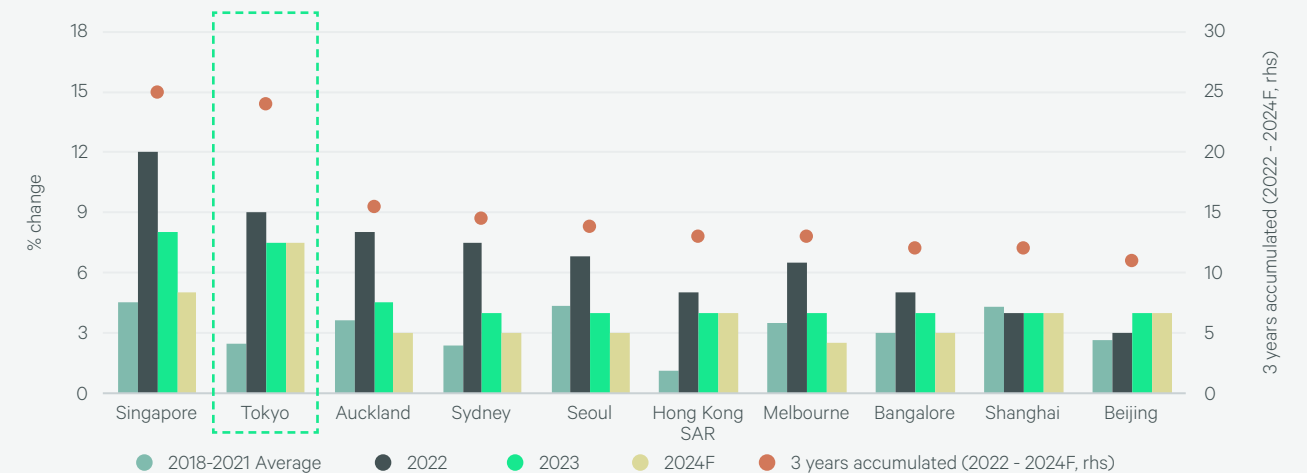
- Although investor interest in Japanese hotels has strengthened considerably over the past 12 – 18 months, developers have been extremely cautious towards committing to new projects due to an increase in commercial real estate construction costs and land prices. Turner & Townsend data show construction costs for commercial real estate in Tokyo will increase by 24% between 2022-2024F, the second highest rise in Asia Pacific behind Singapore. As a result, new hotel supply in Japan is set to grow at a CAGR of just 0.4% between 2024F-2027F, significantly down from the 10-year average of 3.7%.
- According to STR, 75% of all new hotel supply in Japan due to come on stream in the next four years will be in the Upscale+ segment, which has traditionally attracted relatively weaker interest from investors and operators. As of the end of 2023, the Upscale+ segment constituted 40% of all available rooms in Japan.

Figure 8: Hotel supply by scale – As of April 2024



Source: STR, CBRE Research, April 2024

Figure 9: Change in construction cost (%)



Source: Turner & Townsend, CBRE Research, January 2024

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Investment



Hotel investment volume surges to record high in 2023.

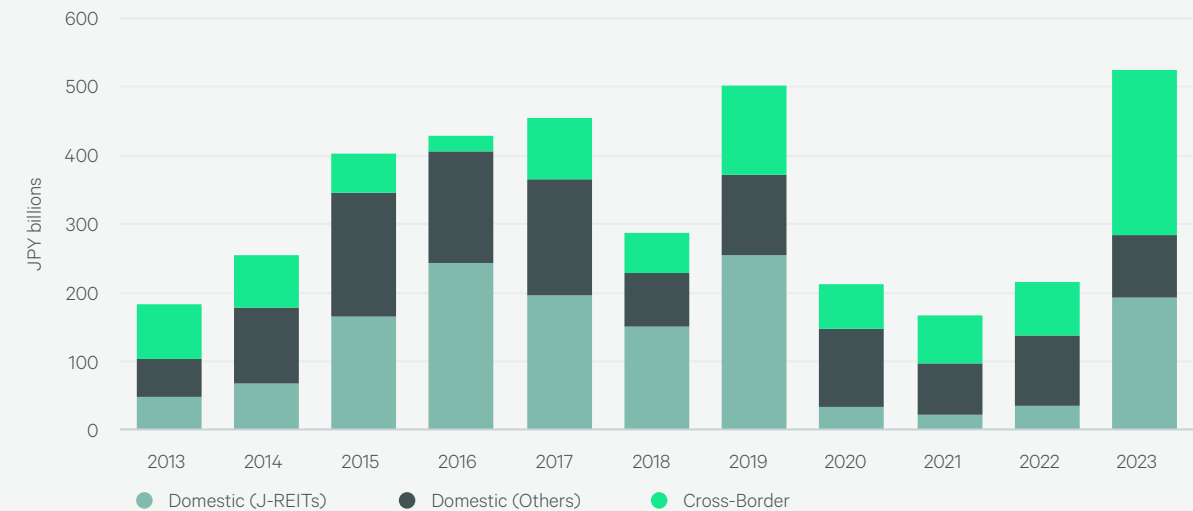
- Supported by the low cost of debt and strong hotel operating environment, Japan hotel investment volume increased significantly in 2023, surpassing JPY 500 billion. This was more than 240% higher than 2022's figure, and 4% higher than the previous record set in 2019. Cross-border investment totalled JPY 240 billion, accounting for 46% of all hotel investment, the highest proportion since 2007.
- The luxury and upscale segments, a favourite among investors in 2023, should gain even greater traction this year given the relative lack of scale. Due to the relative affordability of Japan compared to other markets in the region, tourist preference still very much lies within luxury accommodation. Investors will therefore continue to target these segments to capitalise on potential returns.

Figure 10: Recent key hotel transactions (last 12 months) – Japan

	Rihga Royal Kyoto	Wing International Premium Shibuya	Fairfield by Marriott	Moxy Kyoto
Location	Kyoto	Tokyo	Osaka	Kyoto
Date	23-May	23-Jul	24-Jan	23-Dec
Price (approx. ¥)	32,354,076,335	19,293,000,000	15,000,000,000	8,000,000,000
Number of Rooms	489	200	300	398
¥ / key (approx.)	66,163,755	96,465,000	50,000,000	50,632,911
Vendor	Florentia TMK	Violet GK	PAG	Goldman Sachs
Purchaser	Mori Trust	CapitaLand	Mori Trust	JCHI TMK

Source: MSCI, CBRE Research, March 2024

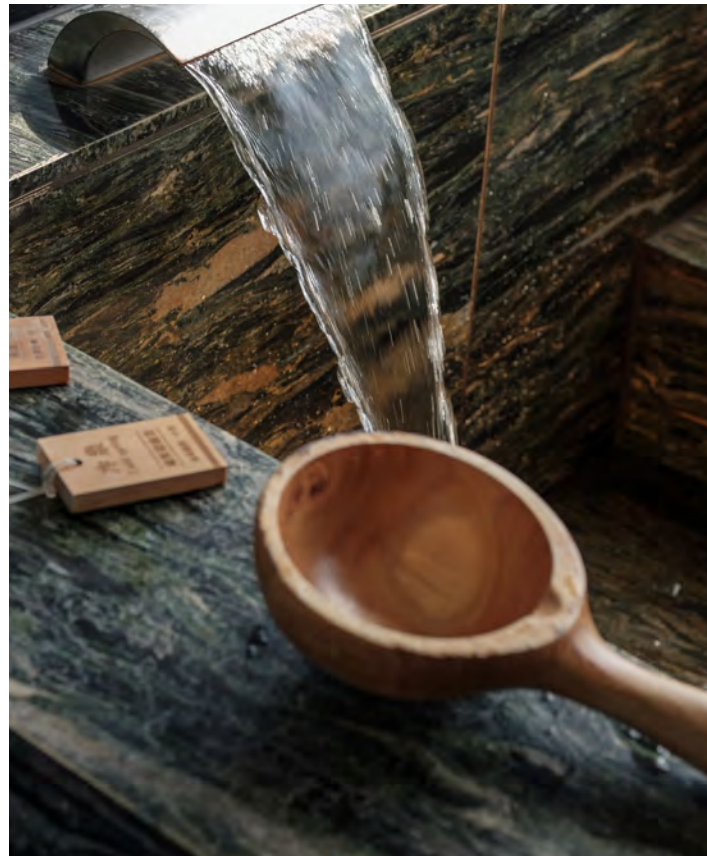
Figure 11: Hotel transaction volumes - Japan



Note: Current as of 11th March 2024. The chart represents a general cost of debt for a stabilised CRE asset.
Source: CBRE Research, March 2024

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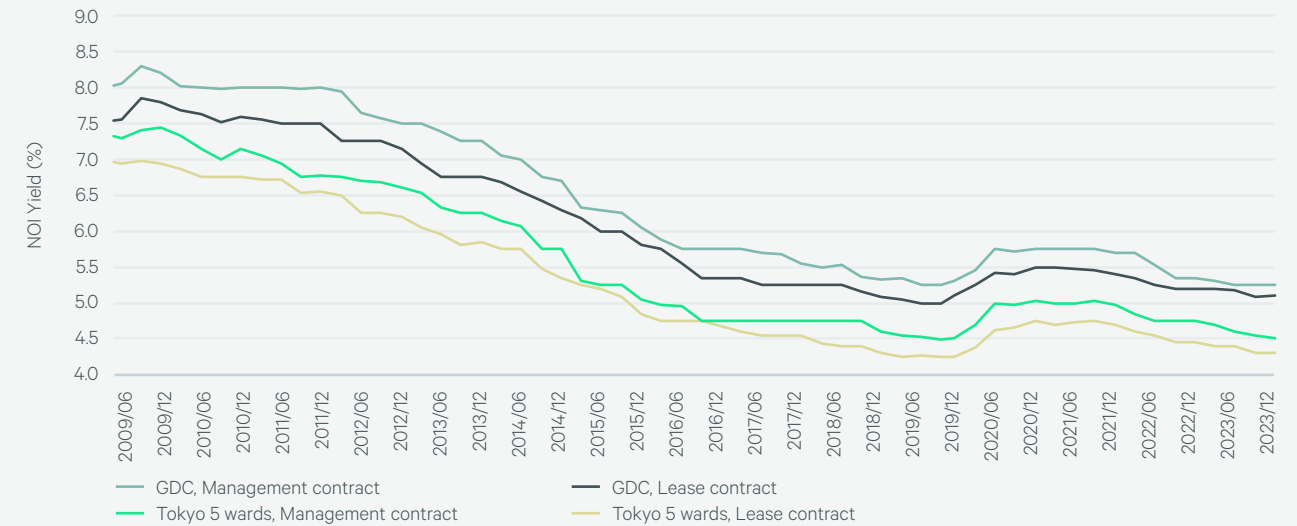
Investment (cont.)



Bank of Japan (BoJ) raises central policy rate for first time in 17 years to between 0% and 0.1%.

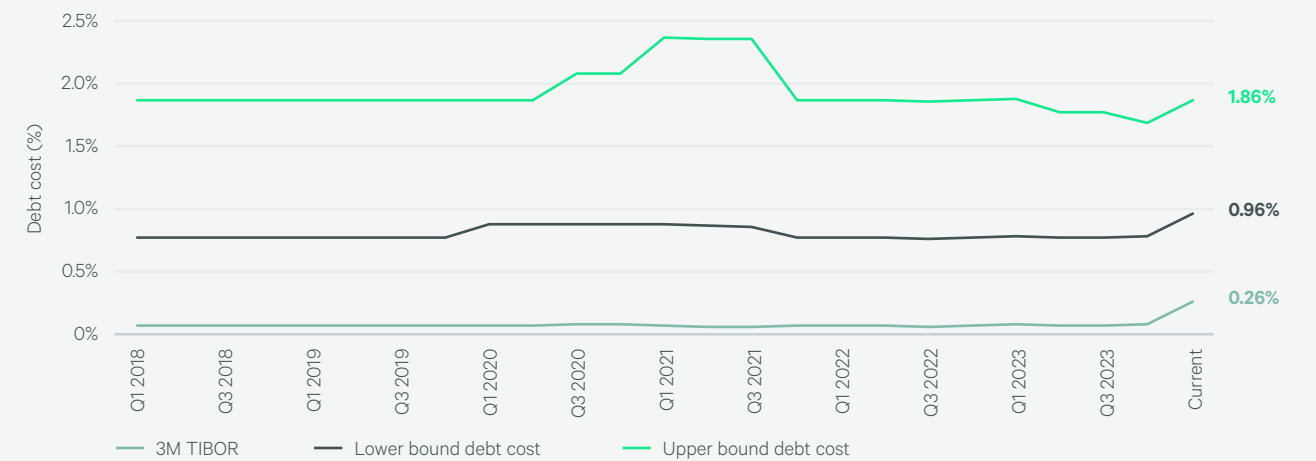
- Despite the recent hike in interest rates, Japan's relative attractiveness as an investment destination remains intact from the perspectives of liquidity and stability. Even with the potential narrowing of yield spreads, the enduring level of investor interest in Japan alongside the significant accumulation of dry powder targeted at Japanese real estate means that the impact of the shift in monetary policy should be limited. Economists and investors anticipate policy interest rates remaining within the market consensus range of 0.1% to 0.2%, representing a further increase of 10 to 20 bps from the current level in 2024.
- CBRE data show aggregate NOI yields for hotel assets in Japan ranging from 4.3% (Tokyo, Lease contract) to 5.3% (Government Designated City, Management contract). Given hotels' strong performance; the attractive entry yield compared to other sectors; and the expectation of limited overall movement in central policy rates, CBRE expects overall yields for hotel assets in Japan to remain stable over the next 12-24 months.

Figure 12: Hotel expected NOI yield - Japan



Source: CBRE Research, Q4 2023

Figure 13: Estimated commercial real estate debt costs – Japan



Note: Current as of 8th April 2024. The chart represents a general cost of debt for a stabilised CRE asset.
Source: CBRE Research, April 2024

06

Investment & Taxation Guide

Foreign Investment

Foreign ownership restrictions

No restrictions.

Incentives to foreign investors

In certain areas, the government offers reductions on corporation tax and patent fees for inviting global enterprises to establish research and development bases and Asian headquarters. The government also provides subsidies for reconstruction of disaster afflicted areas. Although the national government does not offer significant incentives for real estate, some local governments provide support programmes for the acquisition of property by companies doing certain types of business.

Currency controls

None.

Property Taxes

Taxation on owners

Fixed Asset Tax

Fixed asset tax is levied annually on fixed assets including land, buildings or other real estate for business purpose. The tax rate is at 1.4% of the asset value which is reviewed every 3 years.

Taxation on transfer

Stamp Duty

Stamp duty is levied on the transfer of ownership title of real property on a progressive basis from JPY 200 to JPY 600,000 based on the property value stated on the agreement, usually payable by both buyer and seller.

Registration Tax

Registration tax is levied on the registration of ownership and leasehold rights. The tax rates are 2% of the assessed value for building or land ownership transfer and 0.4% of the assessed value for newly constructed buildings, usually payable by buyers.

Property Acquisition Tax

Property acquisition tax is levied on the acquisition of land or buildings and is payable by the buyer. The tax rate is 3% of the assessed value of residential property and land or 4% of the assessed value of non-residential property.

Urban Planning Tax

Urban planning tax is levied at a maximum rate of 0.3% of the assessed value of land, buildings or other real estate for business purposes located in the UPA.

Capital Gains Tax

Capital gains from the transfer of real property are added to regular income and taxable for individuals and corporations by individual income tax and corporate tax. The tax rate for individuals for the transfer of land depends on the holding period. If the property is sold within 5 years, the tax rate is 39%. If the property is sold after 5 years, the tax rate is 20%. The tax is payable by the seller.

Consumption Tax

8% consumption tax is charged on transaction value of properties. Land is not subject to the tax.

Tax benefit in transfer of trust beneficiary rights

Property acquisition tax is exempted in the case of beneficiary rights. Stamp duty and registration tax are levied on the transfer of building and land, but the amount is fixed at JPY 200 for the former, and JPY 1,000 for the latter.



Contacts

Regional Research

Gus McConnell

Associate Director
Research
Asia Pacific
gus.mcconnell@cbre.com

Asia Pacific Hotels & Hospitality

Steve Carroll

Senior Managing Director
Head of Hotels & Hospitality
Capital Markets, Asia Pacific
steve.carroll1@cbre.com

Tomotsugu Ichikawa

Head of Investment
Hotels & Hospitality
Capital Markets, Japan
tomotsugu.ichikawa@cbre.com

Lachie Tranter

Associate Director
Hotel Investment Sales
Capital Markets Japan
lachie.tranter@cbre.co.jp

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