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CBRE Releases Japan Hotel Market Outlook
Hotel room supply to increase 24% over next three years
Apparent “over-supply” may be offset by regained demand

CBRE today released its Japan Hotel Market Outlook, summarizing hotel market prospects for the next three years.

Summary:

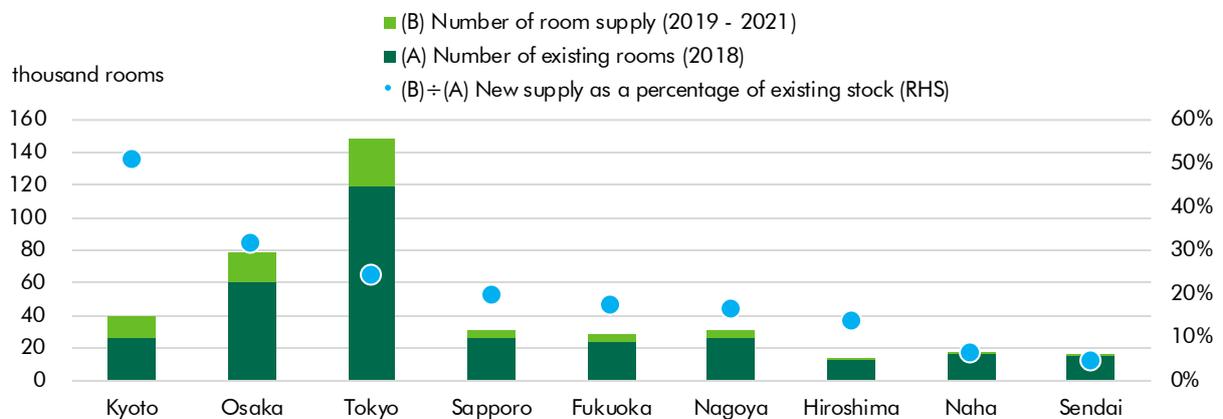
- Demand for hotel rooms in Japan is rising on the back of growing inbound tourism. The total number of inbound visitor nights*¹ in 2018 rose by 11.2% y-o-y to 88.59 million, an increase of approximately 9 million guest nights. However, the total number of guest nights in Japan fell 2.2% y-o-y to 420 million nights, a decrease of approximately 9 million guest nights, partly due to more Japanese traveling overseas. The increase in inbound accommodation is therefore offsetting the fall in domestic accommodation demand.
- The continued growth in inbound demand is driving the development of new hotels across Japan. The forecast number of hotel rooms opening in the nine major cities across Japan, between 2019 and 2021, has increased 2.5 times over the past year, from around 30,000 to 80,000. This is equal to 24% of the existing total number of rooms (as of the end of 2018). By city, Kyoto had the highest ratio of new rooms to existing stock at 51%, followed by Osaka at 32%, and Tokyo at 24%.
- The Japanese government aims to attract 40 million inbound tourists by 2020 and 60 million by 2030. Assuming these targets are achieved, and that there will be a decrease in Japan's population, CBRE calculates that the number of required rooms in 2021 (= demand) will be lower than forecast stock (= supply) in all nine major cities.
- As hotel room stock continues to increase in the coming years, not every hotel will continue to benefit from growth in inbound demand. CBRE believes that differentiation will be the key to success. Hotels must develop a finely tuned location strategy and tailor their facilities to their target demographic. Around 87% of the new hotel supply in Japan's nine major cities will be limited-service hotels*². Full-service hotels*³ only amounted to 5% of new supply. Due to the high-quality experiences they can provide, hotels in the upper-class category (where there is

*1 Visitor nights: total number of overnight guests. For example, if two people were to stay for 7 days, visitor nights would be 2 multiplied by 7 = 14.

currently a shortage) and boutique-lifestyle hotels are well-positioned to attract customers. (Figure 2)

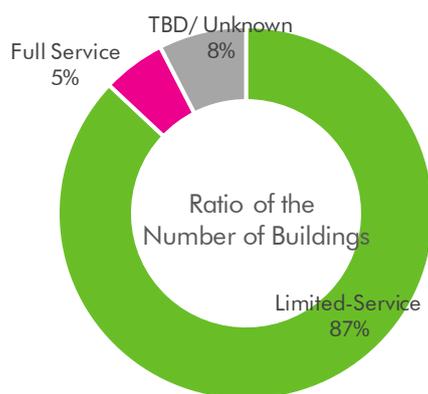
- Several major events are set to take place in Japan - the Rugby World Cup (2019), Tokyo Olympics and Paralympics (2020), the Osaka-Kansai World Expo (2025), and the anticipated opening of an integrated resort (TBD). In addition, changes in work style reform - the increase in leisure time, "workations" (working while on vacation), etc. - could generate new domestic demand. As overseas and domestic travelers become more diverse, so too will their travel objectives and needs. Successful hotels will be those that continually adapt to meet this diversifying demand.

Figure1: New Supply of Hotel Rooms by City



Source: CBRE, February 2019

Figure 2 : New Supply by Category 2019 - 2021



Note: Nine major cities; year of opening from 2019 to 2021

Source: CBRE, February 2019

*2 Limited-service hotels provide lodging with minimal other facilities.

*3 Full-service hotels provide accommodation along with on-site facilities such as restaurants, banqueting rooms/services, gyms, spas, and concierge services. Many of these are in the upper-class category.

Yoshitaka Igarashi, Associate Director of CBRE Research, commented: "In cities that have seen a large number of new hotels, the principle of fair competition has already begun separating the winners from the losers. However, in future, success will be determined by hotels' ability to differentiating themselves. This can be done by developing a finely tuned location strategy and tailoring market positioning to specific customer segments."

For further details please refer to the Japan Hotel Market Outlook released today.

<https://www.cbre.co.jp/en/research-reports/japan-research-archives>

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