

Concern over hotel lodging supply and demand receding significantly

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The number of foreign travelers visiting Japan in 2016 grew strongly by 21.8% year on year to 24 million, renewing a record high for the fourth consecutive year. The number of foreign visitors remains on the increase in 2017, and if this trend is sustained, the achievement of the government target of increasing the number of foreign travelers visiting Japan to 40 million in 2020 will come within reach. On the other hand, the total number of foreign visitors staying at Japanese hotels, inns, and other accommodation facilities showed only a single-digit growth in 2016, in stark contrast to the high growth of over 20% in the number of foreign visitors to Japan. Behind the divergence of the growth rates between the number of foreign travelers visiting Japan and the gross number of foreign lodgers lies the fact that the increase in the number of lodgers who stayed at hotels and inns was sluggish due to a sharp rise in the number of foreign visitors who stayed on cruise ships or used “*minpaku*” private residences temporarily taking lodgers. Going forward, if the number of foreign visitors using cruise ships or *minpaku* lodging facilities keeps rising, even when the number of foreign travelers visiting Japan reaches the target of 40 million in 2020, the number of foreign lodgers staying at hotels and inns may grow slower than the number of foreign visitors to Japan. In addition, the planned openings of new hotels may also prove to be a factor that could help ease supply and demand of lodging facilities. While the potential shortage of lodging facilities has been often trumpeted, it is fully conceivable that such shortage would actually not become so acute.

Therefore, we newly estimated the projected shortage of lodging facilities in 2020 by fully updating the estimate made in the summer of 2016¹. Our re-estimation showed that under all nine scenarios assumed², the number of hotel guest rooms is not in short supply, except for Osaka Prefecture. Although the estimate made in early 2017³ pointed to the potential shortage of up to some 15,000 guest rooms in Tokyo, the latest estimate indicated that the shortage is highly unlikely. As for Osaka Prefecture, under the scenario where the number of foreign travelers visiting Japan shows an upward swing, the estimate resulted in the shortage of up to 4,000 guest rooms (**Chart 1**). But the estimated shortage is far smaller than the projected shortage of up to 17,000 guest rooms estimated in the early 2017. This indicates that the extent of the tightness of hotel room supply and demand is likely to be significantly easier than the projection in early 2017. A larger number of plans to open new hotels, as mentioned earlier, and a slowdown in the increasing trend of demand for lodging at hotels and

¹ See Yusuke Ichikawa and Takayuki Miyajima (2016), “Shortage of lodging facilities in times of 40 million foreign visitors to Japan – 44,000 rooms in short supply despite falling demand from Japanese” (Mizuho Research Institute Ltd., *Mizuho Report*, August 26, 2016).

² See Takayuki Miyajima and Yusuke Hirayoshi (2017), “Estimate shortage of hotel guest rooms in 2020 – Supply and demand tightness concerns receding on the sharply rising use of minpaku facilities and cruise ships” (Mizuho Research Institute Ltd., *Mizuho Report*, September 22, 2017).

³ See Takayuki Miyajima (2017), “Prospects for inbound foreign travelers and estimated medium-term shortage of hotels” (Mizuho Research Institute Ltd., *Mizuho Insight*, January 20, 2017).

inns due to a sharp rise in the number of foreign visitors staying at *minpaku* lodging facilities and on cruise ships are seen to be contributing to mitigating the extent of the tightness of hotel room supply and demand.

[Chart 1: Projected Shortage of Guest Rooms in 2020]

(10,000 rooms)

Compared with the projected number of rooms in 2020	Japanese Foreigners	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
		Normal	Normal Upsw ing	Normal Dow nsw ing	Upsw ing Normal	Upsw ing Upsw ing	Upsw ing Dow nsw ing	Dow nsw ing Normal	Dow nsw ing Upsw ing	Dow nsw ing Dow nsw ing
Japan		0.00	0.08	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Hokkaido		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tohoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kanto (excluding Tokyo)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokyo		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Koshinetsu/Hokuriku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tokai		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kinki (excluding Osaka)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Osaka		0.00	0.08	0.00	0.00	0.38	0.00	0.00	0.00	0.00
Chugoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shikoku		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kyushu		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Okinawa		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Estimated by MHRI based on Statistical Survey on Overnight Travel by Japan Tourism Agency, *Weekly Hotel & Restaurant* (June 2, 2017 issue) by Ohta Publications Co., Ltd., etc.

As seen above, a significant rise in the number of planned hotel openings is expected to help ease the tightness of hotel room supply and demand. On the other hand, however, if the plans for new hotel openings increase further at the current pace, the risk cannot be ruled out of an excess of hotel rooms coming to the fore after the Tokyo Olympics. Furthermore, as a sense of labor shortage has been growing in the lodging industry in recent years, even if the number of newly completed hotels increases, they may still face difficulty recruiting sufficient numbers of employees. In light of all these things, what may be worth thinking about, as an option, is the utilization of existing stocks of empty houses and responses to lodging demand through the spread of *minpaku* services with relatively lower costs of manpower than hotels.

As discussed above, the shortage of hotel guest rooms is highly unlikely to occur in Tokyo in 2020. During the period when the Tokyo Olympics/Paralympics are held, however, as the number of people visiting Tokyo, including foreign travelers visiting Japan, is expected to increase, the lodging supply and demand may become tighter temporarily. And so, we estimated the month-by-month shortage of hotel guest rooms in Tokyo in 2020, using as a reference the changes in the number of lodgers in London during the period of the London Olympics. In the case of the 2012 London Olympics, the share of the gross number of British lodgers rose sharply in August, the month when the Olympic Games were held, and then declined in September-October, before turning up again in November-December. On the other hand, the share of the number of foreign lodgers declined in July-September, which overlapped the Olympics period. The Department for Culture, Media & Sport (2013) and LONDON & PARTNERS (2013) characterized the phenomenon of the decline in the number of foreign visitors during the Olympics period as the crowding-out effect. They reasoned that the sharp rise in the number of British people visiting London during the Olympics period prompted foreigners, who initially wished to come to London, to change their plans for visits to London to some other time in order to avoid congestion. Assuming that the patterns of foreign lodgers in Tokyo would change as did in London during the London Olympics, we project a shortage of up to 22,000 guest rooms in August 2020 (**Chart 2**). Therefore, as far as the month of the Tokyo Olympics is concerned, the possibility of lodging supply and demand tightening significantly in Tokyo requires due attention.

[Chart 2: Projected Shortage of Guest Rooms in Tokyo in 2020]

(10,000 rooms)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
Japanese	Normal	Normal	Normal	Upswing	Upswing	Upswing	Downswing	Downswing	Downswing
Foreigners	Normal	Upswing	Downswing	Normal	Upswing	Downswing	Normal	Upswing	Downswing
January	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
February	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
March	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
April	0.11	0.39	0.00	0.64	0.92	0.00	0.00	0.00	0.00
May	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
June	0.00	0.00	0.00	0.13	0.31	0.00	0.00	0.00	0.00
July	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
August	1.13	1.35	0.04	1.99	2.20	0.89	0.00	0.00	0.00
September	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
October	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
November	0.58	0.79	0.00	1.31	1.52	0.12	0.00	0.00	0.00
December	0.92	1.09	0.00	1.61	1.77	0.16	0.00	0.00	0.00

Note: Assume the same changes occurring as those in the pattern of the number of lodgers in London at the time of London Olympics.

Source: Made by MHRI based on *The Great Britain Tourism Survey*, *International Passenger Survey*, *Statistical Survey on Overnight Travel* by Japan Tourism Agency, *Weekly Hotel & Restaurant* (June 2, 2017 issue) by Ohta Publications Co., Ltd., etc.

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