

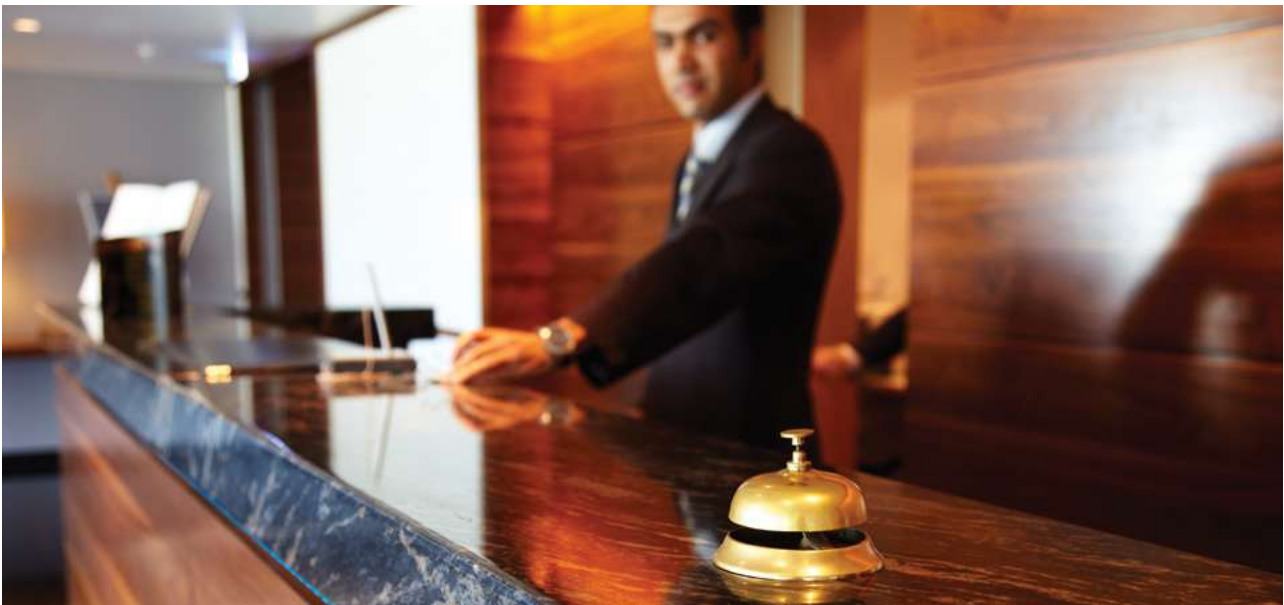


Horwath HTL™

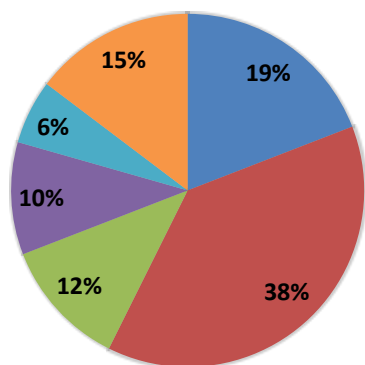
Hotel, Tourism and Leisure

Global leader in
hospitality consulting

Japan Hotel Market
Sentiment Survey



SHARE OF RESPONDENTS



- Hokkaido/Tohoku
- Tokyo/Kanto
- Nagoya/Chubu/Hokuriku/Tokai
- Osaka/Kansai
- Chugoku/Shikoku
- Kyushu/Okinawa

INTRODUCTION

The Horwath HTL Global Hotel Market Sentiment Survey gives a quick assessment of the market outlook for the global hotel industry, by the people on the ground, running the hotels. The survey focuses on the current outlook for occupancy, average room rates and total revenue and what the operators feel is going to happen based on their experience.

This report summarizes the outcome of the survey, gathered from responses across the country. Of the 68 respondents, 38% of them came from Tokyo/Kanto region, 19% from Hokkaido/Tohoku, 15 percent from Kyushu/Okinawa, 12% from Nagoya/Chubu/Hokuriku/Tokai, 10% from Osaka/Kansai, and 6% from Chugoku/Shikoku.

With regards to the star classification of the participating properties, 31% of the contributions were from budget and limited service hotels, followed by 5-star hotels (28%) and 3-star hotels (22%). Also, respondents from 4-star hotels represented 18%.

SENTIMENT RANKINGS

BY REGION	SCORE		
	FEB 2013	JUL 2013	JAN 2014
Kyushu/Okinawa	53	53	70
Chugoku/Shikoku	61	24	59
Tokyo/Kanto	50	60	53
Osaka/Kansa	46	40	52
Hokkaido/Tohoku	5	34	44
Nagoya/Chubu/Hokuriku/ Tokai	28	39	35
National Average	38	40	52

BY WORLD REGION	SCORE		
	FEB 2013	JUL 2013	JAN 2014
The Americas	50	20	40
Asia	5	0	25
Europe	14	1	17
MEA	59	44	N/A
Global Average	15	5	25

“Looking at the global survey results by world regions, Japan’s positive sentiment outstands among all other regions.”

RANKING SCORE KEY

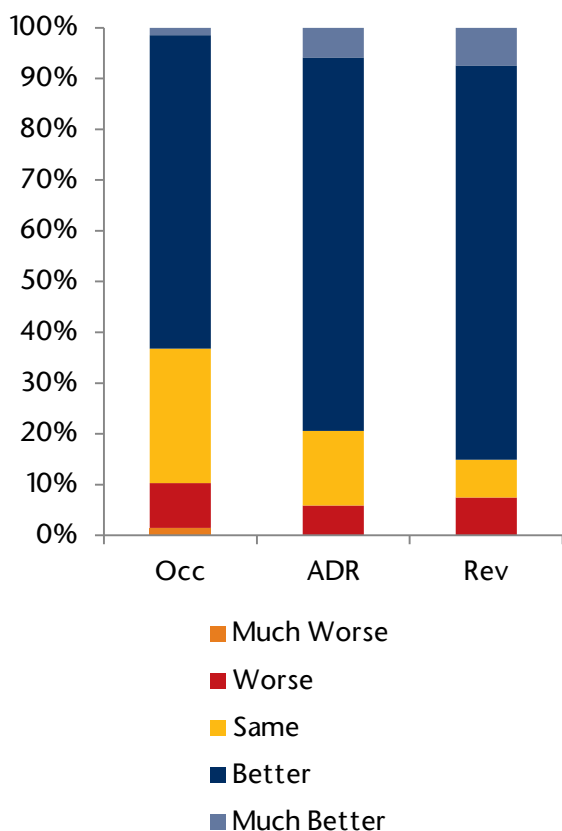
Much Worse	-150.0
Worse	-75.0
Same	0
Better	75.0
Much Better	150.0

SENTIMENT RANKINGS

As a way to measure and compare the results across regions and countries, we have created an index to formulate an overall average sentiment score from question 1 and 2. Points are assigned to each corresponding response and compounded accordingly. The index utilizes a scale of negative 150 to positive 150 in which a score of negative 150 denotes a sentiment of absolute pessimism; a zero score indicates unchanged expectations from the previous year, and positive 150 signifies a very optimistic outlook. The index also allows us to track changes in market sentiment over time.

Overall sentiments for the Japan hotel market had improved with the index score of +52 at the time of the survey from late January to the beginning of February 2014. The positive sentiments were driven by increasing business and leisure demands which are in line with Japan’s recovering economy. Also, depreciation of the yen encourages more international tourists to visit Japan as it is more affordable destination for them, in addition to recovery of international economy. Among the regions nationwide, Kyushu/Okinawa (+70) leads the way with positive sentiments followed by Chugoku/Shikoku (+59), Tokyo/Kanto (+53), Osaka/Kansai (+52), Hokkaido/Tohoku (+44) and lastly, Nagoya/Chubu/Tokai/Hokuriku (+35).

Looking at the global survey results by world regions, Japan’s positive sentiment outstands among all other world regions. Although overall sentiments of the world (+25) had improved from the previous result of +5, Japan’s sentiment has improved more drastically by 27 points during the same period of time. Japanese hotel managers’ sentiments have improved at a larger degree compared to the growing positive sentiments across hoteliers in the world.



“More than 85 % of respondents expecting overall performance growth.”

2014 HOTEL MARKET OUTLOOK

	avg	Occ	ADR	Rev
Hokkaido/Tohoku	42	35	46	46
Tokyo/Kanto	59	43	66	66
Nagoya/Chubu/Tokai	41	19	47	56
Osaka/Kansai	57	54	64	54
Chugoku/Shikoku	56	56	38	75
Kyushu/Okinawa	68	38	50	75
National Average	54	40	60	64

2014 MARKET OUTLOOK

QUESTION 1) WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET FOR 2014 VS. 2013?

Hoteliers were asked their expectation for performance levels in 2014 compared to that recorded in 2013, in relation to hotel occupancy (Occ), average room rate (ADR) and hotel revenues. Overall sentiment were positive with more than 85% of respondents expecting a performance growth. Looking back to results from the previous survey, ADR score was +40, marginal 6 points higher than that of occupancy of +34. However, sentiments for ADR was drastically improved this time, scoring 20 points higher than occupancy score. It can be said that many hoteliers feel confident to increase rates without having a negative impact on the total revenue in 2014, when strong demands already led better occupancy performance for a period of time.

OCCUPANCY

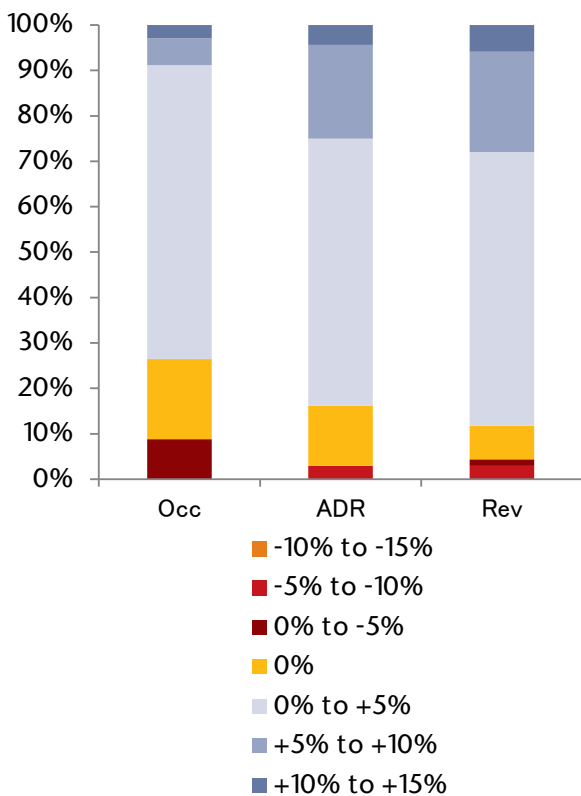
Occupancy sentiment was positive as well with the index score of +40. 63% of respondents predicted that occupancy would increase in 2014 while 27% expect occupancy to remain the same level. On the other hand, only 10% of them expressed negative feelings. Looking into regions, Chugoku/Shikoku (+56), Osaka/Kansai (+54), Tokyo/Kanto (+43) recorded higher sentiments than the national average of +40.

AVERAGE ROOM RATE

Industry outlook for ADR was even stronger than that of occupancy. 79% of respondents expressed positive sentiments of +60. The index scores of all the regions, except for Chugoku/Shikoku (+38) were higher than sentiment scores of occupancy.

REVENUES

Of the three metrics, revenue is expected to see the most growth. Approximately 85% of respondents expect increases in 2014 with the index score of +64. Chugoku/Shikoku (+75), and Tokyo/Kanto (+66) are hoping for the greatest increase in revenues.



“A national average sentiment score was +50 for question 2 with more than 80 % of respondents are expecting growth at some degree.”

2014 HOTEL MARKET OUTLOOK

	avg	Occ	ADR	Rev
Hokkaido/Tohoku	46	38	50	50
Tokyo/Kanto	48	37	54	54
Nagoya/Chubu/Tokai	29	19	31	38
Osaka/Kansai	48	43	50	50
Chugoku/Shikoku	63	50	50	88
Kyushu/Okinawa	72	50	80	85
National Average	50	38	54	57

HOTEL PERFORMANCE EXPECTATION

QUESTION 2) WHAT IS YOUR EXPECTATION FOR GROWTH/DECLINE FOR 2014 VS. 2013?

The second survey question asked hoteliers to give their expectation of how their respective hotels will fare in 2014 in comparison to 2013, in percentage terms. The outlook for 2014 was again positive. A national average sentiment score was +50 for question 2 with more than 80% of respondents are expecting growth at some degree. About 61% of hoteliers expect to see an improvement in performance growth of up to 5 % and further growth was projected by 20% of respondents.

OCCUPANCY

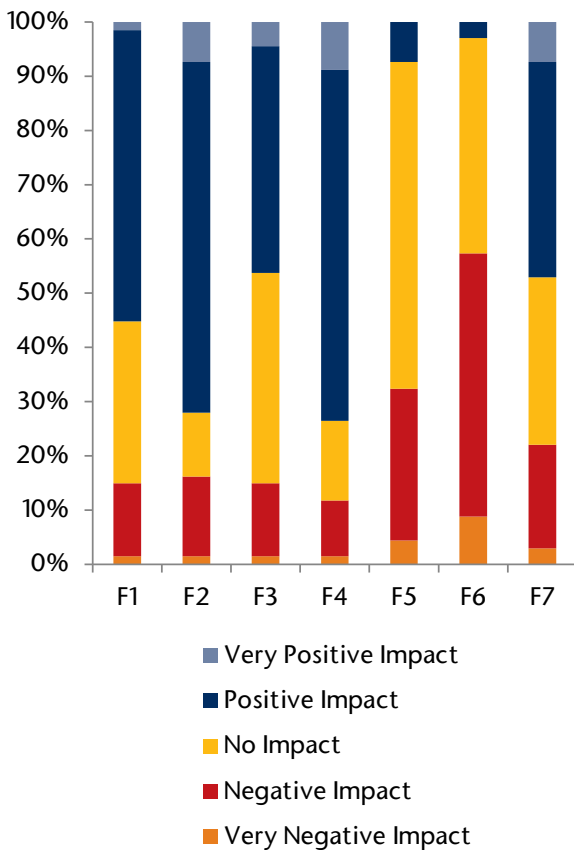
An average index score for occupancy was +38. The largest number of the participant(65%) expect growth between 0% and 5%, while further growth between 5% and 10% and between 10% and 15% were projected by 6% and 3% of respondents respectively. On the other hand, 18% of respondents expects occupancy to remain the same, while only 9% of respondents had negative outlook of up to -5% decline.

AVERAGE ROOM RATE

Like first question, industry outlook for ADR with index score of +54 was even stronger than that of occupancy. The outlook for the Kyushu/Okinawa was the most positive, with the highest index score of +80. Overall, 84% of respondents are expecting a growth, while 59% of participants expects growth between 0 and 5%, followed by 21% and 4 % of them predicts further growth between 5% and 10%, and between 10% and 15%.

REVENUES

Again for question 2, revenue is expected to see the most growth. 88% respondents expect revenues to increase, while 78% of respondents anticipated growth in the previous year. This year’s result indicates that more hoteliers across the nation sees potential for revenue growth in 2014.



“Local tourism trends were seen as having the strongest positive impact on the Japanese hotel market with 74% of respondents expecting positive impact.”

FACTORS AFFECTING PERFORMANCE RANKING

Local Tourism Trends	52
Local Economic Trends	40
Local/Global Stock Market	30
Currency Exchange Rates	22
Global Economic Growth Trends	20
New Competitive Supply	-20
Global Oil Prices	-47

FACTORS EFFECTING PERFORMANCE

QUESTION 3) WHAT IS YOUR ASSESSMENT OF THE HOTEL MARKET FOR 2014 VS. 2013?

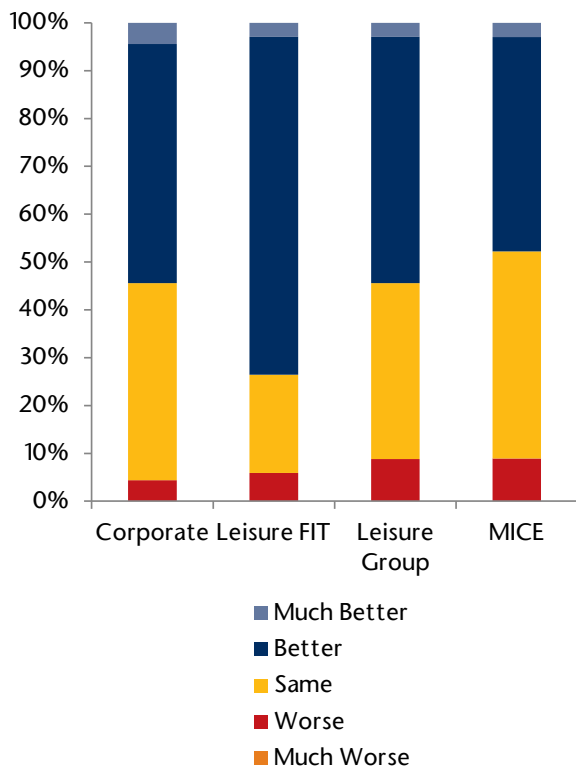
Each hotelier was also asked to gauge their attitude towards eight factors and how these will impact their hotels’ performance in 2014.

1. Local/global stock market
2. Local economic growth trends
3. Global economic growth trends
4. Local tourism trends
5. New competitive supply additions
6. Global oil prices
7. Currency exchange rates

Among these seven factors, Local tourism trends was seen as having the strongest positive impact on the Japanese hotel market with 74% of respondents expecting positive impact from this particular factor. On the other hand, the strongest negative effect was expected to come from oil price.

The strongest positive factor of local tourism trends with index score of +52 is driven by the other positive factors, such as local economic trends and depreciating currency exchange rate with index scores of +40 and +22 respectively. On the other hand, the Global Oil Prices (-47) was selected as the most negative factor for the hotel performance this year because oil prices would cause increases of operating costs.

Other notable result include that many respondents stated that New Competitive Supply Additions may cause a negative impact for their business with a score of -35, which indicates that local hoteliers feel threatened by new entries within their competing market when overall market performance is on a recovering trend.



“Overall, Japanese hoteliers showed an optimistic sentiment for leisure segments which are anticipated to growth due to the current favourable comic conditions.”

MARKET SEGMENT PERFORMANCE

Corporate	41
Leisure FIT	53
Leisure Group	36
MICE	31

MARKET SEGMENT PERFORMANCE

QUESTION 4) HOW ARE EACH OF THE MAJOR DEMAND SEGMENTS EXPECTED TO PERFORM IN 2014 VS. 2013?

The last question dealt with each participant’s opinion with regard to primary market demand segments which were Corporate, Leisure FIT, Leisure Group and MICE (Meetings, Incentive, Conference, and Exhibition) and how they are expected to perform in 2014.

The segment which were expected the most growth was the Leisure FIT with index score of +53. Of hoteliers in Japan, 74% expressed their positive feeling for this segment. As previously mentioned, domestic and international economy is recovering and it is expected that demand for leisure tourism will increase along with the favourable economic conditions. Also, the yen depreciation trend would make Japan as more affordable destination for international tourists thus international tourists are expected to increase. Those are the two main reasons why Japanese hoteliers expect the leisure FIT segment to grow in 2014.

More than half of the respondents (54%) also expressed positive feelings for Corporate and Leisure group segments with index scores of +41 and +36 respectively.

On the other hand, MICE demand was given the lowest index score of +31 since 43% of respondents expected the demand from the segment will remain the same as previous year. It is because there are strong competitions between cities of Japan for hosting MICE events, hoteliers feel quite challenging to capture a larger share from other cities in a short-term future. Therefore, their expectation for the MICE segment is conservative.

OTHER MARKET SENTIMENT REPORTS

BY REGION

ASEAN
Benelux
South East Europe
Asia South East

BY COUNTRY

Austria
Brazil
China
Hungary
Indonesia
Italy
Japan
Norway
Switzerland

BY CITY/DESTINATION

Beijing
Hong Kong
Shanghai

CONCLUSION

The latest edition of the survey shows an overall positive sentiment for outlook for performance in 2014. Also, Japan's positive sentiment outstands among all other regions in the world.

Japan's overall positive sentiment at this time of the survey was mainly driven by the optimistic outlook for ADR growth rather than the occupancy growth.

It can be said that hotel managers in Japan had already saw a growth in occupancy as a result of growing demand in line with recovering economy, which was driven by the government efforts introduced by Prime Minister Shinzo Abe at the end of 2012. During the current favourable market environment with strong hotel demand, many hoteliers feel confident that increases of ADR will not give negative impact on the hotel revenue in spite of occupancy decline because of higher room rates. 2014. Another positive factor which resulted the bright outlook for this year is because, performances F&B division are improving due to the increased demands for the general banquet and hotel restaurants under the favourable economic condition.

Looking at different regions in Japan, all regions except for Tokyo/Kanto and Nagoya/Chubu/Tokai/Hokuriku, improved overall sentiments since the middle of 2013. This positive trend tells us that the bright outlook which were centred in larger cities earlier are now spread out across the nation.

Encouragingly, global market sentiment is positive as shown in the global survey results. Along with the positive outlook in the global hotel market, outlook for Japanese hotel market and Asian market is improving from previous survey, and it is anticipated that the Japan market will continue to have a good performance in 2014.

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