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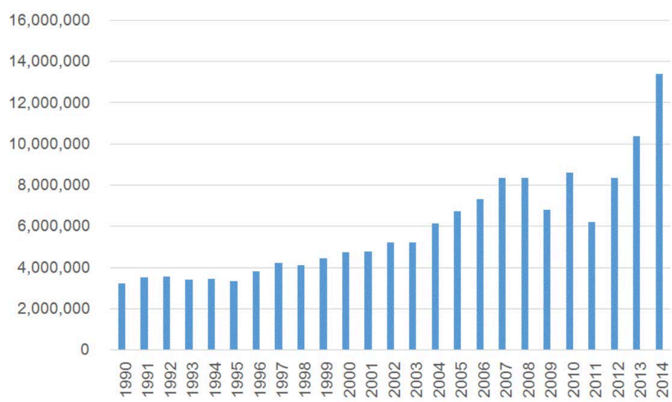
Japan sees boost from international visitors

In April 2015, more than 1.76 million international visitor arrivals to Japan were recorded, a 43.3% increase from the previous year.

The Japanese tourism and hospitality industry is enjoying an unprecedented boom in international visitors. According to Japan National Tourism Organization, the estimated number of international visitors to Japan increased to a record high level of more than 13.4 million in 2014. The 2014 figure was a 29.4% up from the previous year and more than double the number recorded in 2011 (6.2 million).

The increasing trend has continued this year, too. In April 2015, more than 1.76 million international visitor arrivals were recorded, a 43.3% increase from the previous year. By country, travelers from China reached 0.4 million (400,000) that month, while the number of Taiwanese visitors exceeded 0.3 million (300,000) for the first time. Among 20 major countries listed by JNTO, 18 countries except Russia and Spain have recorded the highest figure for April 2015.

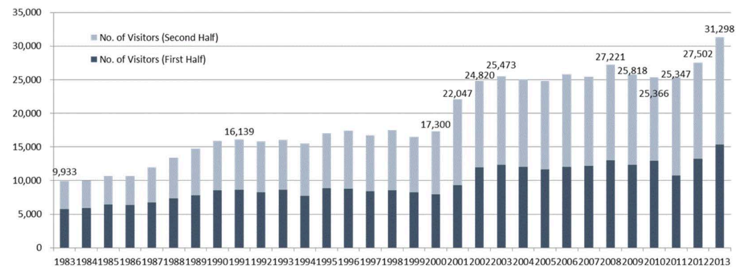
International visitors to Japan



Source: Japan National Tourism Organization

Along with the increase in the number of inbound tourists, major Japanese theme parks are enjoying the boom, too. Visitors to Tokyo Disney Resort, which comprises Tokyo Disneyland and Tokyo Disney Sea, amounted to 31.3 million in 2013 and is confirmed to have further increased to 31.4 million in 2014, according to company figures.

***Visitors to Tokyo Disney Resort** (Unit: thousands)*



Source: Tokyo Disney Resort

Accordingly, hotels around Tokyo Disney Resort performed well. Hotels around Tokyo Disney Resort are classified into three classes:

Three years ago, chains accounted for less than 1,300 properties and about 140,000 rooms. While 2014 has marked a slowdown in the growth of branded portfolio, 2015 started with a positive

4. Turmoil in northern Africa boosted southern Italy performances

Northern Africa and the Maghreb countries are experiencing a difficult stage of their international appeal since the turmoil of the Arab Spring about five years ago. Since the beginning of this phenomenon, central and northern European markets have continued searching for sunny and Mediterranean affordable destinations. Both Turkey and regions such as Sicily or Apulia, as viable alternatives to northern Africa destinations (Tunisia, Egypt, Morocco and Libya in general), have benefited from increased international demand. In the last four years, Sicily and Apulia tourism demand has grown at a pace of 1.6% and 2.2% per year, respectively (CAGR 2009-2013).

5. Hotel supply is getting more qualified

n the last 10 years the Italian hotels portfolio has continuously changed its skin, getting more qualified, through a process of starting up of new luxury and upscale properties while converting or ceasing the economy and budget properties.

Since 2004, while 5-star and 4-star properties have grown in units by 7% and 5% per year (CAGR) respectively, the 2- and 1-star hotels have registered a respective -3% and -6% per year. Put it simple, they faced troubles being inadequate to serve the increased international demand and are the more and more substituted by emerging luxurious bed-and-breakfasts, serviced apartments and country-houses.

6. Hotel transactions are growing

2014 and the first semester of 2015 both proved to be intensive times for transactions of iconic and trophy hospitality assets in Italy, well over Rome and Milan, including Venice, Florence and Livorno.

According to our recent analysis based on Real Capital Analytics data, 2014 has recorded transactions in Italy of at least €775 million ($856 million) involving 13 properties and totaling more than 3,100 keys.

Among these we counted nine properties managed (or to be managed) under international or domestic brands, the most relevant being Boscolo Aleph, Boscolo Palace and St. Regis, all in Rome. The highest price per unit achieved by an independent property was the Villa Vignamaggio, in Greve in Chianti, province of Florence. This was sold at €970,000 ($1.1 million) per key, as reported by RCA.

Analysts and investors acknowledge that there are adverse forces playing against a revival in international (and domestic) investments in Italy, namely bureaucracy for business startups, high income taxation and high labor taxation. Besides these aged weaknesses, we believe that, in a way, high price for square meter for prime location surfaces and the still-evident reluctance of owners and developers to admit management contracts as opposite to guaranteed leases, are evident—direct and indirect signs that money invested in hospitality in key Italian locations are worth it and fundamentals are strong.

Moreover, some new regulations might support investments in hospitality, namely the new regulation on condo-hotels, some taxation benefits and increased labor flexibility from Renzi's government regulations.

All these considering, the economic and financial stability of the country (as it would happen for any comparable European country) will play a significant role for the future of Italian hospitality. There is room now, much more than a year ago, to think positively about Italy.

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Zoran Bačić is a graduate in Economics from the University of Rijeka, and a Doctor in Economics and Business from the University of Trieste (Italy). Zoran started his professional career as an economist for development and marketing in Croatia for the House Building Co. He then continued in Croatia as an independent economist for strategic development in the consulting firm Adriagradnjacommerce. Subsequently he was team leader in several research and development projects for the Port of Rijeka (a public company) and was one of the company founders and VP for strategic development, planning, construction and operation of Adriatic Club Yugoslavia, the first system of nautical tourism in the World (20 ports with 8,000 water berths). Moving to Italy (Rome and Milan) he was development department manager for construction Co. Costital SpA, and financial advisor for the biggest Italian construction company Lodigiani Group. At the same time, he was assistant to the President of the Alosa company (a JV between Astaldi and Lodigiani, two of the most important Italian construction companies). After 1994, he continued his professional career as head of the Project Finance in Central and Eastern Europe, and strategic advisor for project development in Central and Eastern Europe for the Astaldi Group. In Austria, he was strategic development advisor of Creditanstalt Investment Bank, Infrastructure Project Advisors (CAIB-IPA) in Central and Eastern Europe. In London, he was co-founder and partner of Infrastructure Capital Partners (ICP - project finance advisors) and Managing Director for Italy and Mediterranean Countries for ICP. Beside his investment banker role with ICP, he is Senior Partner and Managing Director of Horwath HTL in Italy.

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Giorgio Ribaudo, graduated in tourism management, owns an MBA at the St. John's University (New York) and teaches Tourism Management at the University of Bologna, Faculty of Management. In his career, started in hotel operations in 1999 for some LHW and Best Western affiliated hotels, Giorgio has supported or managed development projects for IHG, Aman, Jumeirah, Hashoo Group, Accor, Choice, Trenitalia, Alitalia, Costa Crociere, Todini Costruzioni, Carlyle, Morgan Stanley and others. He has been responsible for hotel development or chain development projects, hotel start-up, assistance to newly created hotel consortia, business planning and commercial due diligence. In his career within advisory for tourism development he has assisted several tourism boards and government authorities or international institutions (World Bank, European Commission, Italian Ministry of Cultural Heritage and Tourism), in performing market analysis tourism development plans and promotional campaigns in Italy, Russia, Albania, France, Tunisia, Montenegro and Slovenia. Within Horwath HTL in Italy, as Project Manager, Giorgio is in charge of of hotel development projects, market insights and field assistance to hospitality investors.

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