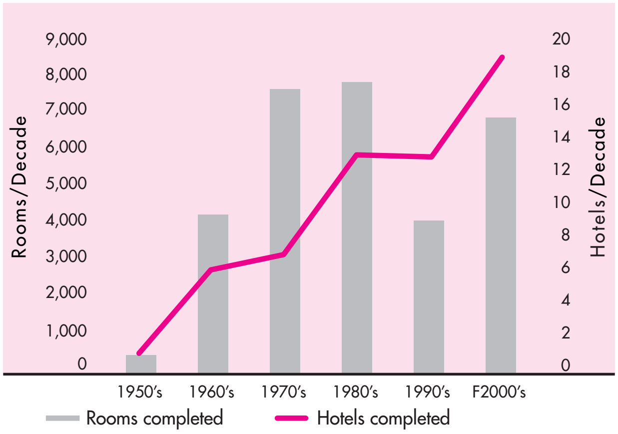
Tokyo Hotels

Too Much Room at the Inn?

Hotel developments in central areas of Tokyo are impacting the status quo. The lodging industry is being permanently altered.

Number of Rooms and Hotels Completed



Source: Colliers Halifax Research

Traditional - 1950-1989

Domestic operators dominated the Tokyo market. Many of these providers were early market entrants who built large facilities in prime and central locations. New entrants found it difficult to secure desirable locations due to the dearth of available land and rising real estate prices. As properties aged, traditional operators undertook modest renewals and upgrades while attempting to offset less than modern facilities with high levels of service and attention to guest needs. These dynamics allowed traditional providers to be regularly ranked among the better hotels in the world over an extended period of time. Examples from this period include the Imperial Hotel, Hotel Okura and the Hotel New Otani.

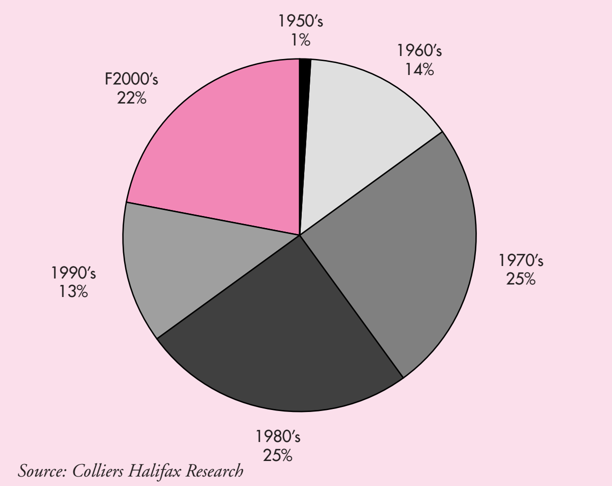
Peripheral - 1990-1999

The overdevelopment of large office and entertainment facilities in more peripheral areas of Tokyo during the "Bubble Economy" years (1985-1990) resulted in an excess of space which allowed a number of international operators to gain a foothold in the hotel market. These 'new' hotels offered more modern facilities and amenities, global branding and booking and an eclectic mix of the best of Japanese and global service standards. They enjoyed a high level of acceptance and respect in spite of their more marginal locations. These hotels were able to divert a number of international and domestic guests away from the more traditional hotels based on their facilities and posh image. Examples from this period include the Park Hyatt, The Westin and Four Seasons Chinsanso.

Central - 2000-2009

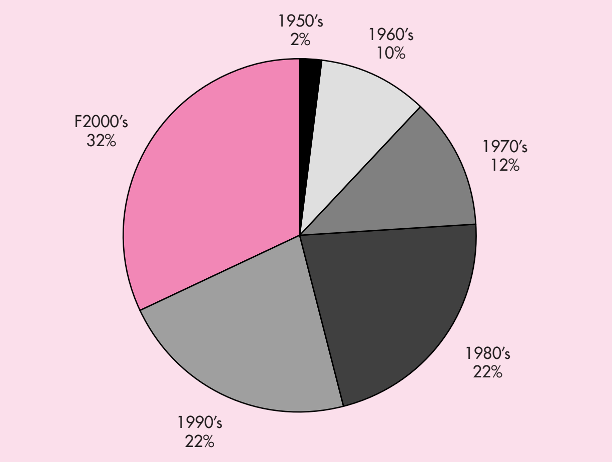
Another spate of massive development began in 2000 and will continue through the next several years. This new construction is of an entirely different nature than past eras. Government land sales, large-scale redevelopments, long-term land accumulations and plunging land and construction prices combined to allow large developments in very central areas of Tokyo. Many of these new projects are 'multi-use' complexes combining world-class office space with extensive retail, residential and hotel facilities or independent, newly-built hotel buildings. Developers have sought out international hotel firms to lease or operate the lodging portions of these properties. As a result, many of the top hotel brands in the world are or will soon be represented in the prime, central Tokyo hotel market. Examples from this period include The Mandarin Oriental, The Ritz-Carlton and The Peninsula.

Rooms Completed



Source: Colliers Halifax Research

Hotels Completed



Source: Colliers Halifax Research

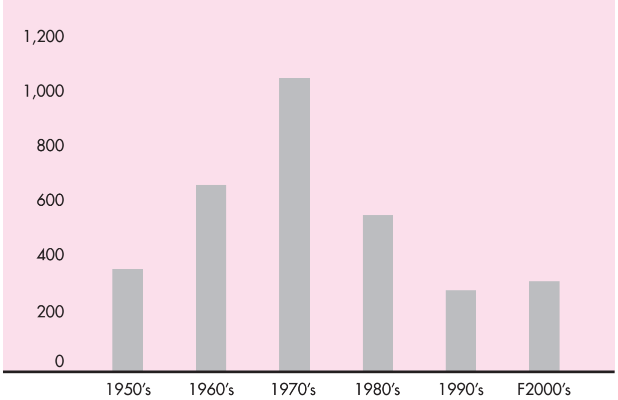
Supply

Japanese hotel design trends have tended to mirror global trends, but with a ten year delay. However, most of the current development is actually based on more current and forward-looking lodging trends.

Scale

The bulk of the pre-2000 stock is comprised of very large hotels averaging well over 600 rooms/hotel. The supply from the 1970s is generally comprised of massive bunkers averaging over 1,000 rooms. The new supply averages fewer than 400 rooms/hotel. These new hotels are designed with sufficient scale to provide a comprehensive package of services and amenities, while remaining small enough to offer guests a more casual and intimate environment with highly personalized services.

Average Rooms Per Hotel Completed



Source: Colliers Halifax Research

Differentiation

Aside from high service levels, quality beds and linens and specialty food, beverage and banqueting facilities, Market Leaders will have to provide more to attract and retain guests. Current trends include independent temperature control, employing renowned designers for rooms and public space, creating a more relaxed and luxurious atmosphere, larger bathrooms and full-service Spa/Fitness Club facilities. Newly built properties can more readily provide these features and the guest expectation levels are likely to rise in the next several years.

Demand

Much like other key global business destinations, a significant portion of hotel demand is related to business travel. The Tokyo market has some specific guest patterns that impact demand segments.

Clientele

Better hotels in Tokyo demonstrate certain common guest characteristics. The general mix is 55% international business and holiday travelers and 45% domestic patrons. The percentage of international guests reaches as high as 80% Monday through Thursday with more domestic guests lodging Friday through Sunday. International business travel is a key factor as most domestic businessmen have much lower per diems and select more modest accommodations. On weekends, an influx of domestic tourists, couples and female groups replace the international travelers businessmen. The weekend guests seek the amenities that are frequently featured on television shows and in magazines.

Tourism

Japan currently ranks as the 33rd destination preference among nations with over five million arrivals annually. High prices, a lack of pristine natural and cultural destinations and limited foreign language signs and capabilities have all been cited to explain this lower rank. Attracting international tourists has been a stated goal of the Japanese government for some time. The target is to double the number of visitors by 2010.

The bulk of foreign tourists arrive from nearby Asian countries, but some growth in European and North American visitors is expected. Even if Japan is successful in dramatically increasing the number of tourists, this is unlikely to have a large impact on the better hotels in Tokyo. Kyoto, Hokkaido and other 'more Japanese' destinations often take precedence over Tokyo. Many of these tourists who do visit Tokyo will travel from China, Korea and Taiwan via discount package tours that include more modest accommodations.

Domestic tourism represents an important demand segment for Tokyo hotels. While the bulk of Japanese tourists seek package tours inclusive of discount hotels, there are various groups that seek out more luxurious accommodations including, couples and mother/daughter groups.

Seniors

Japan has the most rapidly aging population in the G7. It is anticipated that over 25% of the population will be 65 or older during the next decade. Wealthy retirees are already boosting domestic tourism, but many of these seniors are not accustomed to utilizing luxury hotel facilities and amenities. One challenge for better Tokyo hotels will be to attract seniors without damaging the modern and trendy image desired by younger and international business guests.

Occupancy Rates

Japan has seen several peaks and valleys in occupancy. The later years of the bubble economy and then 1998-2001 during the dot-com boom and financial 'big bang' deregulation boom saw high levels of occupancy. The years in between those periods and during the SARS crisis represented substantial declines in occupancy. Recent rates have recovered to a healthy level of just under 80% occupancy. Trendy hotels of the moment (currently The Grand Hyatt) have enjoyed impressively higher occupancy rates of 90% and better.

Profit Centers

Aside from room rental, hotels commonly profit from other sources of revenue including food and beverage, weddings and banquets. On average, hotels in Japan derive a significantly larger percentage of profits from these non-room rental services than in many other countries. Pricing and services in these areas are likely to come under greater pressure from two directions.

Corporate Banqueting

The rapid development of new hotels will increase the supply of banqueting facilities competing for large events. Increased competition has already forced some prime properties to offer lower priced fixed meal options.

Wedding Receptions

From a hotel operator's perspective, marital trends in Japan are changing in a negative manner. Larger demographic trends including later marriages and an aging population may also impact this key source of revenue. Domestic weddings peaked at some 80,000 during 2000 and may drop to half that level over the next 15 years.

Overseas and less formal domestic weddings (not held in hotels) continue to gain favor, reducing the number of potential customers. While still a small portion of the total, it is estimated that over 5% of Japanese weddings are already held overseas and the trend is on an upward trajectory.

Win, Lose or Draw?

As hotels seek to retain their traditional customers and attract new patrons, they will seek (or face) landing in one of the following groups:

A) Market Leader

The best operators will emerge as the clear winners for the high-end hotel market. Many of the winners will be the Central Hotels that build strength upon strength. Some of the Peripheral Hotels will remain key players, as will some or more of the Traditional Hotels after large investments to fully refurbish or redevelop their properties.

B) Area Favorite

Peripheral Hotels will invariably lose some of their present clientele who currently select these properties in spite of them not being in the guest's target area for business or entertainment. As this trend emerges, these hotels will enjoy 'second place' in the market as the destination of choice in their immediate locale within Tokyo.

C) Notch Down

A combination of lack of capital, aging facilities, poor location and a lack of global reach will force some of the currently top tier hotels to go one or more notches down market. Room rates will inevitably be reduced as occupancy decreases. After rates are reduced, the image and guest quality will also deteriorate. Price will be the key differentiation point for these properties.

D) Uncompetitive Operations

Hotels that are unwilling or unable to secure a position in the other groups will face bankruptcy, sale, redevelopment or re-branding. Their redundancy will be a painful and gradual decline. The result will be land freed for higher and better use or acquisition by more sophisticated international operators.

Heated Competition

As the new properties open, competition between old and new, central and peripheral as well as international and domestic will increase until the market is stratified into various levels of winners and losers. Tokyo is already one of the least expensive cities among its peer group for luxury lodging frequently pricing below similar rates for rooms in London, Paris and New York City. It is fair to assume that room rates will fall even further in the coming years.

Major Tokyo Hotels

No.	Facility	Main Trade Area	Completion	Rooms	Phone	Last Renovated
1	Marunouchi Hotel	Marunouchi-Nihombashi-Hibiya	**2004**	205	3217-1111	N/A
2	Palace Hotel	Marunouchi-Nihombashi-Hibiya	1961	389	3211-5211	undetermined
3	Mandarin Oriental	Marunouchi-Nihombashi-Hibiya	**2006**	171	N/A	undetermined
4	Royal Park Hotel Nihombashi	Marunouchi-Nihombashi-Hibiya	1989	448	3667-1111	1999
5	Four Seasons Hotel Tokyo at Marunouchi	Marunouchi-Nihombashi-Hibiya	**2002**	57	5222-7222	N/A
6	Hotel Seiyo Ginza	Marunouchi-Nihombashi-Hibiya	1987	77	3535-1111	2001
7	Mercure Hotel Ginza	Marunouchi-Nihombashi-Hibiya	**2004**	208	4335-1111	N/A
8	Renaissance Tokyo Hotel (Marriott, formerly Tobu)	Marunouchi-Nihombashi-Hibiya	1987	202	3546-0111	undetermined
9	Peninsula Hotel	Marunouchi-Nihombashi-Hibiya	**2006**	350	N/A	N/A
10	Imperial Hotel Tokyo	Marunouchi-Nihombashi-Hibiya	1970	1,059	3504-1111	undetermined
11	Dai-ichi Hotel Tokyo	Marunouchi-Nihombashi-Hibiya	1993	276	3501-4411	undetermined
12	Conrad	Shiba-Shimbashi-Shiodome	**2005**	300	N/A	N/A
13	Royal Park Hotel Shiodome	Shiba-Shimbashi-Shiodome	**2003**	495	6253-1177	N/A
14	Park Hotel Tokyo	Shiba-Shimbashi-Shiodome	**2003**	274	6252-1111	N/A
15	Hotel Inter-Continental Tokyo Bay	Shiba-Shimbashi-Shiodome	1995	339	5404-2222	N/A
16	Celestine Hotel	Shiba-Shimbashi-Shiodome	**2002**	243	5441-4111	N/A
17	Tokyo Prince Hotel Park Tower	Shiba-Shimbashi-Shiodome	**2005**	680	N/A	N/A
18	Tokyo Prince Hotel	Shiba-Shimbashi-Shiodome	1964	484	3432-1111	1989
19	Hotel New Otani Tokyo	Akasaka-Roppongi	1964	1,600	3265-1111	2000
20	Akasaka Prince Hotel	Akasaka-Roppongi	1983	761	3234-1111	undetermined
21	Akasaka Excel Hotel Tokyu	Akasaka-Roppongi	1969	535	3580-2311	1990
22	Capitol Tokyu Hotel	Akasaka-Roppongi	1963	457	3581-4511	2000
23	ANA Hotel Tokyo	Akasaka-Roppongi	1986	896	3505-1111	undetermined
24	Hotel Okura Tokyo	Akasaka-Roppongi	1962	839	3582-0111	2000
25	Roppongi Prince Hotel	Akasaka-Roppongi	1984	216	3587-1111	undetermined
26	Ritz-Carlton Tokyo, The	Akasaka-Roppongi	**2007**	250	N/A	N/A
27	Grand Hyatt	Akasaka-Roppongi	**2003**	390	4333-1234	N/A
28	Strings Hotel	Shinagawa	**2003**	206	4562-1111	N/A
29	LaForet Shinagawa	Shinagawa	1990	250	5488-3911	1999
30	New Takanawa Prince Hotel	Shinagawa	1982	946	3442-1111	1997
31	Takanawa Prince Hotel	Shinagawa	1953	414	3447-1111	1987
32	Takanawa Prince Hotel Sakura Tower	Shinagawa	1998	309	5798-1111	N/A
33	Le Meridien Pacific Tokyo	Shinagawa	1971	954	3445-6711	undetermined
34	Shinagawa Prince Hotel (Executive Tower)	Shinagawa	**2002**	672	3440-1111	N/A
35	Shinagawa Prince Hotel	Shinagawa	1978	2,751	3440-1111	1997
36	Radisson Miyako Hotel Tokyo	Shibuya-Ebisu-Meguro	1979	468	3447-3111	undetermined
37	Westin Tokyo, The	Shibuya-Ebisu-Meguro	1994	445	5423-7000	N/A
38	Cerulean Hotel	Shibuya-Ebisu-Meguro	**2001**	414	3476-3000	N/A
39	Shibuya Excel Hotel Tokyu	Shibuya-Ebisu-Meguro	**2000**	408	5457-0109	N/A
40	Hotel Century Southern Tower	Shinjuku	1998	375	5354-0111	N/A
41	Park Hyatt Tokyo	Shinjuku	1994	178	5322-1234	N/A
42	Keio Plaza Inter-Continental Tokyo	Shinjuku	1971	1,448	3344-0111	undetermined
43	Century Hyatt Tokyo	Shinjuku	1980	766	3349-0111	1994
44	Hilton Tokyo	Shinjuku	1984	806	3344-5111	undetermined
45	Shinjuku Prince Hotel	Shinjuku	1977	571	3205-1952	1992
46	Sunshine City Prince Hotel	Edogawabashi-Ikebukuro	1980	1,166	3988-1111	1996
47	Crowne Plaza Metropolitan	Edogawabashi-Ikebukuro	1985	815	3980-1111	undetermined
48	Four Seasons Hotel Tokyo at Chinzanso	Edogawabashi-Ikebukuro	1992	283	3943-2222	undetermined
49	RIHGA Royal Hotel Tokyo	Edogawabashi-Ikebukuro	1994	127	5285-1121	N/A
50	Hotel Grand Palace	Iidabashi-Kudanshita-Suidobashi	1972	464	3264-1111	undetermined
51	Hotel Edmont	Iidabashi-Kudanshita-Suidobashi	1985	450	3237-1111	2004
52	Hotel Edmont (East Wing Annex)	Iidabashi-Kudanshita-Suidobashi	**2003**	220	3237-1111	undetermined
53	Tokyo Dome Hotel	Iidabashi-Kudanshita-Suidobashi	**2000**	1,006	5805-2111	2001
54	Sofitel Tokyo (Accor)	Ueno-Asakusa	1994	83	5685-7111	undetermined
55	Asakusa View Hotel	Ueno-Asakusa	1985	347	3847-1111	undetermined
56	Dai-ichi Hotel Tokyo Seafort (Tennozu)	Tokyo Bay	1992	123	5460-4411	N/A
57	Hotel Nikko Tokyo	Tokyo Bay	1996	453	5500-5500	N/A
58	Le Meridien Grand Pacific Tokyo	Tokyo Bay	1998	884	5500-6711	N/A
59	Haneda Excel Tokyu	Tokyo Bay	**2004**	387	5756-6000	N/A

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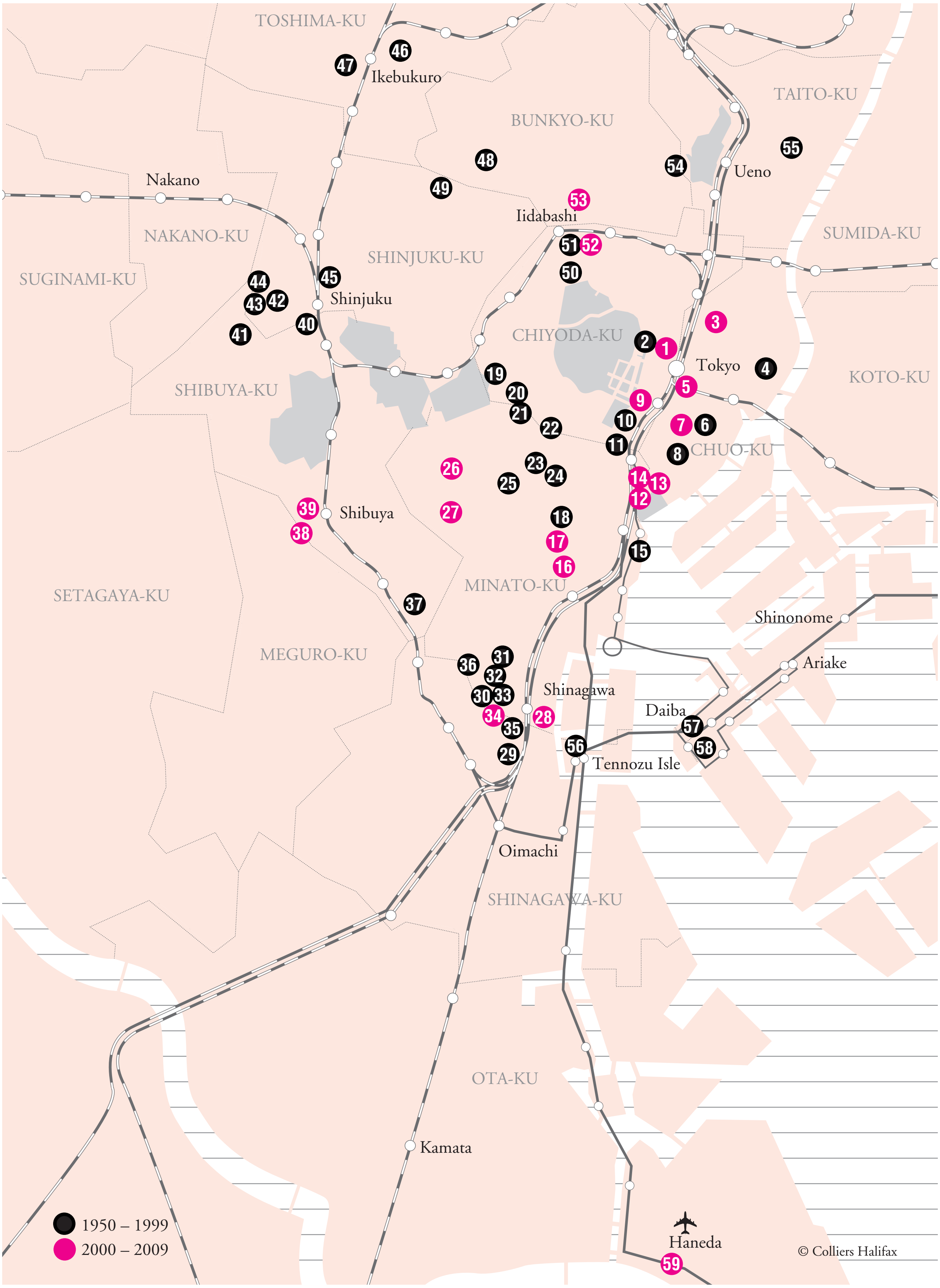

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Position Paper
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