Horwath HTL

Hotel, Tourism and Leisure

Special Market Report

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The breakeven point of Minpaku business in Tokyo

Japan's Upper House passed the Private Lodging Business Law (the Minpaku regulation) on 9 June 2017, which allows the operation of Minpaku services (the renting out of private residences) throughout Japan as early as 2018, whilst limiting total stays to 180 nights a year.

The law requires hosts of accommodation to register with the local government and have a contract with an outside management company, which is a registered Minpaku business.

With the new law setting a green light for the home-sharing business, various industries are looking to profit from this rapidly growing business. Japanese IT giant, Rakuten has announced a joint venture with real estate brokerage website, Lifull whilst telecommunications operator, KDDI, announced a joint venture with an online travel agency to enter the Minpaku market. This will challenge Airbnb, who have expanded their business aggressively in Japan to become the market leader.

Towards the end of 2016, there were 48,000 Airbnb listings throughout Japan, with the majority unregistered 'illegal' private residences. According to the 'Airbnb & Hotel Performance Report' released by STR in January 2017, Tokyo achieved the highest Airbnb Occupancy and is the fastest growing market for Airbnb demand and supply amongst 13* major cities in the world.

Several major players are planning to move into the Minpaku market, with business expected to increase in advance of Tokyo being the Olympic 2020 host city.

Though the home-sharing limits set by the regulation are relatively lenient, compared with 90 days in London and 60 days in Amsterdam, the 180-day rule establishes a bar for those who plan to enter the market.

Horwath HTL Japan has put together a preliminary study for finding out, whether potential Airbnb hosts will make money, and what the potential is for growing a business segment.

13 Cities are: Greater Barcelona, Greater London, Mexico City, Paris, Sydney, Tokyo, Boston, Los Angeles, Miami, New Orleans, San Francisco, Seattle, and Washing DC

According to AirbDatabank, a consulting firm that provides marketing data for Airbnb hosts, occupancy and ADR for Airbnb listings in Tokyo by guest capacity are summarized below.

	Occupancy
Overall	62.5%
Single guest	53.9%
2 - 3 guests	63.9%
4 - 5 guests	65.0%
6 guests and above	60.1%

	ADR (JPY)
Overall	8,486
Single guest	4,310
2 - 3 guests	6,693
4 - 5 guests	8,780
6 guests and above	13,616

Source: AirbDatabank
Data compiled by Horwath HTL

Occupancy for Tokyo listings achieved over 50% for all type of guest capacity with the lowest for single guests at 53.9% and the highest for 4-5 guests at 65%, converting to 237 days in operation per year, exceeding 57 days from the new 180-day restriction.

In order to figure out whether the business model is still feasible under the 180-day limit, we have compiled an operational pro forma for each lodging type based on the assumption, market study and actual market data gathered from various sources.

Occupancy for all lodging type is assumed at its maximum operational condition of 49% (180 days out of 365 days) and ADR is set at market average for each type in 2016.

Departmental expenses were applied using Uniform System of Accounts for the Lodging Industry based on several case studies for the actual expenses of Airbnb listings.

	6 Guests+	PAR (month)	%	4-5 Guests	PAR (month)	%	2-3 Guests	PAR (month)	%	Single Guest	PAR (month)	%
Number of Rooms	1			1			1			1		
Number of Days Operated	365			365			365			365		
Room Nights Available	365			365			365			365		
Room Nights Demand	180			180			180			180		
OCC	49%			49%			49%			49%		
ADR (JPY)	13,616			8,780			6,693			4,310		
RevPAR (JPY)	6,715			4,330			3,301			2,126		
Revenue												
Rooms	2,450,899	204,242	77.3%	1,580,396	131,700	73.3%	1,204,730	100,394	73.6%	775,843	64,654	69.8%
F&B	0	0	0.0%	0	0	0.0%		0	0.0%		0	0.0%
OOD	0	0	0.0%	0	0	0.0%		0	0.0%		0	0.0%
Rentals & Other Income	720,000	60,000	22.7%	576,000	48,000	26.7%	432,000	36,000	26.4%	336,000	28,000	30.2%
Total Revenue	**3,170,899**	**264,242**	**100.0%**	**2,156,396**	**179,700**	**100.0%**	**1,636,730**	**136,394**	**100.0%**	**1,111,843**	**92,654**	**100.0%**
Departmental Expenses												
Rooms	490,180	40,848	20.0%	316,079	26,340	20.0%	240,946	20,079	20.0%	155,169	12,931	20.0%
F&B	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%
OOD	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%
Rentals & Other Income	720,000	60,000	100.0%	576,000	48,000	100.0%	432,000	36,000	100.0%	336,000	28,000	100.0%
Total Departmental Expenses	**1,210,180**	**100,848**	**38.2%**	**892,079**	**74,340**	**41.4%**	**672,946**	**56,079**	**41.1%**	**491,169**	**40,931**	**44.2%**
Departmental Income												
Rooms	1,960,719	163,393	80.0%	1,264,317	105,360	80.0%	963,784	80,315	80.0%	620,674	51,723	80.0%
F&B	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%
OOD	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%
Rentals & Other Income	720,000	60,000	100.0%	576,000	48,000	100.0%	432,000	36,000	100.0%	336,000	28,000	100.0%
Total Departmental Income	**2,680,719**	**223,393**	**221.5%**	**1,840,317**	**153,360**	**206.3%**	**1,395,784**	**116,315**	**207.4%**	**956,674**	**79,723**	**194.8%**
Undistributed Operating Expenses												
Administrative & General	0	0	0.0%	0	0	0.0%	0	0	0.0%	0	0	0.0%
Sales & Marketing	95,127	7,927	3.0%	64,692	5,391	3.0%	49,102	4,092	3.0%	33,355	2,780	3.0%
Utilities	216,000	18,000	6.8%	180,000	15,000	8.3%	120,000	10,000	7.3%	108,000	9,000	9.7%
POM	85,709	7,142	2.7%	75,564	6,297	3.5%	70,367	5,864	4.3%	65,118	5,427	5.9%
Total Undistributed Expenses	**396,836**	**33,070**	**12.5%**	**320,256**	**26,688**	**14.9%**	**239,469**	**19,956**	**14.6%**	**206,474**	**17,206**	**18.6%**
GOP	**1,563,883**	**130,324**	**49.3%**	**944,061**	**78,672**	**43.8%**	**724,315**	**60,360**	**44.3%**	**414,201**	**34,517**	**37.3%**

Source: Horwath HTL

Revenue Department: In addition to the rooms revenue, cleaning fees are recorded as Rental and Other Income.

Departmental Expenses: 20% of rooms revenue is allocated as the management fee for a management company which is obliged under the new Minpaku law to perform background checks of guests, deal with complaints from neighbors, manage keys for the operator, take out casualty insurance, make sure building garbage rules are complied with, etc. Expenses for cleaning is assumed at 100% of cleaning fees and allocated accordingly.

Undistributed Operating Expenses: We have included the commission fee charged by Airbnb under Sales and Marketing Department (3% of total revenue), WIFI service assumed at 4,500 yen per month and other consumables expenses assumed at 1% of rooms revenue were allocated under Property Operation and Maintenance (POM) Department.

As a result, the projected monthly GOP for a single guest facility averaged at 34,517 yen; 60,360 yen for 2-3 guests' capacity; 78,672 yen for 4-5 guests' capacity, and 130,324 yen for the property that can accommodate 6 or more guests. We then compared the monthly GOP of each lodging type with the alternative rental fee of the residential market in Tokyo.

We have excluded the 1-person listing from comparison given the fact that the majority of room offerings for single guests are a shared house/room. Room size for hosting up to 2-3 guests assumed at 20-30sqm and 4-5 guests at 30-40sqm, properties for 6 or more guests with the room size of 40-50sqm.

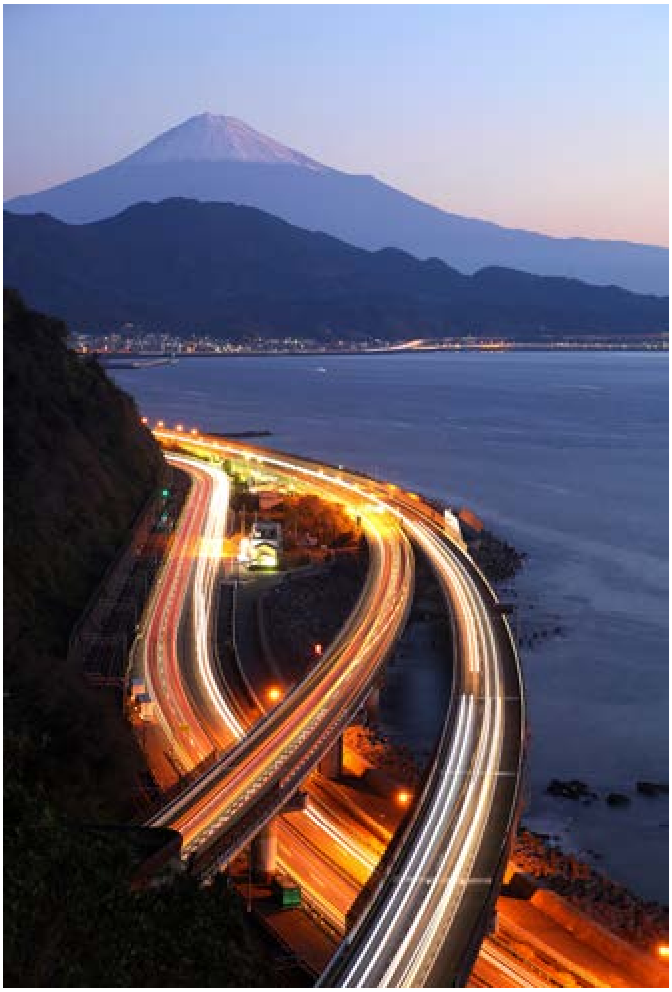
The following table summarizes the residential market rental fee in Tokyo with 10 minutes walking distance from nearest train station by 23 wards and by room size.

Monthly Rent in Tokyo ('000 ¥)

	20-30sqm	30-40sqm	40-50sqm
Minato-ku	121.3	151.4	179.3
Chiyoda-ku	113.0	142.0	169.2
Shibuya-ku	110.8	139.4	165.9
Cyuo-ku	107.5	134.6	159.5
Meguro-ku	98.5	122.2	143.8
Shinjuku-ku	93.8	117.5	139.1
Bunkyo-ku	89.7	111.7	131.7
Taito-ku	94.4	113.7	131.2
Shinagawa-ku	87.6	108.6	127.5
Koto-ku	89.2	108.3	125.5
Setagaya-ku	82.3	103.4	122.5
Toshima-ku	82.7	102.0	119.4
Sumida-ku	83.0	98.5	112.0
Suginami-ku	76.4	94.5	110.7
Nakano-ku	76.9	94.4	109.8
Ohta-ku	77.5	94.4	1096
Arakawa-ku	75.8	92.0	106.2
Kita-ku	74.0	89.4	103.0
Nerima-ku	67.8	82.7	95.9
Itabashi-ku	69.3	83.4	95.6
Edogawaku	66.1	79.9	92.1
Adachi-ku	63.0	75.5	86.3
Katsushika-ku	63.1	75.0	85.3
Average	**85.4**	**105.0**	**122.6**

Source: www.lifull.com

Data abstracted in June 2017 and compiled by Horwath HTL



23 Wards of Tokyo

By comparing the monthly rental income and the projected monthly GOP of comparable home-sharing properties, monthly operational GOP is significantly lower than the average monthly rental income for properties cater for 2-3 guests (20-30sqm) and 4-5 guests (30-40 sqm).

The only financially feasible scenario for the home-sharing business is found to be the housing of 6 guests or more.

In addition, because the rent is higher for properties located in central Tokyo areas (Minato-ku, Chiyoda-ku, Shibuya-ku, Cyuo-ku, Shinjuku-ku) and the current home-sharing projection is assumed at its full occupancy (180 operational days out of 365 days), it is easier to secure the level of rental income instead of generating the comparable amount of operational GOP by fully operating the property as home-sharing objectives, bearing the operational risk including the seasonality and higher FF&E cost (rental property in Japan is usually offered without furniture) for real estate owners of properties locate in central Tokyo.

Therefore, we conclude, the only 'growing market' for the home-sharing business is limited to 40sqm and large real estate properties that are capable of hosting larger groups and located outside of central Tokyo, with relatively lower rent costs. This will require high levels of marketing skills and revenue management expertise, to achieve the budgeted operational performance for properties with less attractive accessibility.

Overall, we see the 180-day restriction of the new Minpaku law, will possibly encourage the utilization of large-sized properties in the secondary rental market in Tokyo, to be branded and managed by industry professionals and will discourage private individuals from sub-letting their own properties.

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Horwath HTL Japan

Horwath HTL Japan provides consulting services with in-depth market and technical knowledge, to the hotel, tourism and leisure industries. Our network has offices in eleven cities in the Asia Pacific region and forty five throughout the world.

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