

MARKET INSIGHT:  
**INTEGRATED RESORTS: JAPAN**

With 124 million population and its proximity to China, Japan's Integrated Resorts project ticked all the right boxes and the country attracted unprecedented interest as investors across the globe began to do their sums.

The Asian region at the time was prime real estate for casino development. Macau was booming and IRs in other areas, such as Singapore, had set a benchmark for what was achievable with the right concept and investment.

With three initial IR resorts up for grabs, the interest was huge as the world's top-tier operators formulated plans to be a part of what has long been regarded as the largest untapped market for casino gaming.

However, a decade later and not a single shovel has touched earth. The idea to get the resorts open for the 2020 Olympics started as laughably ambitious and ended as distant memory, and when Covid hit a whole new set of delays left the IR projects sidelined - moving at such a glacial pace that many feared the IR project would melt away entirely.

However, there was movement. Not always in the right direction, but movement nonetheless. Three IR plans became two when only Osaka and Nagasaki submitted their final bids by the April 2022 deadline and in April this year, the Japanese government finally approved the Osaka IR plan; after an expert panel selected to evaluate the proposal, and the prefecture governments, agreed the plans met all the requirements. The caveat being that the government has said more time is still required to review the Nagasaki plan.

Meanwhile, Wakayama has fully withdrawn from the IR race. The prefecture had selected Clairvest Neem Ventures as its bidder with Caesars Entertainment set to operate the resort, but this proposal was rejected by the prefecture last year.

Interest quickly waned for many of the operators who were initially at the forefront of the bidding war. Caesars pulled out in 2019 (before teaming up with Clairvest), whilst Las Vegas Sands withdrew in 2020; Suncity withdrew from its Wakayama bid in 2021, whilst Genting Singapore and Melco Resorts were both left without a resort area after Yokohama cancelled its bid to host an Integrated Resort 18 months ago, when the new mayor, Takeharu Yamanaka, came into office.

Genting later confirmed it is now fully out of the IR race, which leaves only MGM and its partner ORIX Corp fully committed to continuing with the Japanese dream in Osaka and Casinos Austria International Japan with plans for the Nagasaki bid.



MARKET INSIGHT  
**JAPAN REPORT**

# Double or nothing

## Integrated Resorts

When Japan first uttered those fateful 'Integrated Resort' words way back when Shinzo Abe was in power, the industry has been eagerly vying for a piece of the action in what could potentially be a US\$40bn gaming industry.

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With gambling largely illegal in the country the authorities are clearly cautious about the legalities. At the moment there are four public sports permitted (horse racing, bicycle racing, powerboat racing, and motorcycle racing) plus the public lottery and Japanese Football pools. Pachinko and Pachislot continue to exist under a grey umbrella whilst online gambling is still illegal.

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It is possible that Hokkaido could join a supplemental round for IR bids in the future. Its initial interest was deferred in the first round after an environmental impact study was required. This has now been completed and it is said an IR in this region would extend Hokkaido's appeal beyond ski holidays. And although Tokyo initially passed on an IR bid due to hosting big sporting events at the time, this city too could possibly enter a supplemental round. With a population of 30 million it could easily beat both Osaka and Nagasaki with predicted annual revenues of \$6bn.

However, as most operators pulled out as the tender process became lengthy, complicated, and expensive, many believe their interest may only return now depending on Nagasaki's future.

#### **WHAT WENT WRONG?**

Japan's reluctance to change is a key element. Many fear the golden goose may nose-dive before Japan actually gives the final go-ahead for the IR developments.

The public acceptance of casinos is also a huge battle. The idea of Integrated Resorts in Japan remains staunchly unpopular and casino gambling is often associated with addiction and mafia associations and the government has done little to present an alternative view. Odd really considering the Japanese obsession with the semi-legal pachinko slots with around 8,500 pachinko parlours and 2.4 million machines in the country.

Several scandals have also managed to hinder the procedures with the arrest of a lawmaker who campaigned for the casino resorts, whilst lengthy and perhaps inefficient law-making, high gaming taxes, and short licensing periods aren't the incentive required for such ambitious projects.

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The Integrated Resort Promotion Law and the IR Implementation Law were enacted in 2016 and 2018 respectively which created a framework for the operation of the casino resorts.

Officially known as Bill Promoting Implementation of Specified Integrated Resort Areas, it was sponsored by a group of lawmakers mostly from the ruling Liberal Democratic Party and the aim behind the plan is to attract more foreign tourists into the country by legalising integrated casino resorts, featuring hotels, shops and conference spaces at various locations across the country whilst helping cash strapped jurisdictions.

Travel is almost back to normal whilst the situation is expected to completely normalise this month (May) when Japan is due to downgrade the categorisation of the virus.

This means the only requirement for travellers will be either proof of three Covid vaccines or a negative Covid test result for entry. There is an exception however for travellers arriving by direct flights from China who must take a pre-arrival Covid test regardless of vaccination status. Visitors can pre-enter all their data online to allow for a fast-track entry into the country.

#### **A VERY SUCCESSFUL TOURISM INDUSTRY**

In October last year Japan fully re-opened its borders to tourists after two years of strict Covid restrictions which saw the country virtually closed off.

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Japan relies heavily on Chinese tourists. In November 2019 there were almost 150,000 Chinese visiting Japan compared to 84,300 in November last year.

It is hoped as tourists return it will help invigorate the economy as the yen recently slid to a 24 year low of ¥144 to the dollar.

Covid has had a significant impact on Japan's tourism industry. Some 31.8 million international tourists visited Japan in 2019 with ¥4.8 trillion spent. As Covid hit, the year 2020 saw just 4.1 million international visitors whilst

MARKET INSIGHT:  
**INTEGRATED RESORTS: JAPAN**

2021 saw a huge drop down to 245,800 due to a surge in infections. Last year saw some recovery with 3.8 million visitors in 2022.

The Japan National Tourism Organisation predicts 20 million visitors will come to Japan this year following three years of 'suppressed demand' although it is thought international travel demand won't recover until about 2025 at least.

The government initially predicted that 2020 would see 40 million tourists with the Tokyo Olympics scheduled and by 2030 the country would welcome 60 million tourists with ¥15 trillion in travel expenditure. However, as the pandemic began Japan closed its borders to visitors in a stringent Covid restriction policy which has lasted more than two years.

Japan implemented some of the world's strictest pandemic control rules. Most tourist attractions in Japan were closed during the first wave of infections in spring 2020 and then closed again during subsequent waves.

In October 2022 the country relaxed its restrictions for foreign residents and business travellers but introduced a limit on daily foreign arrivals which was initially 20,000, later increased to 50,000, plus visa requirements and a rule requiring travellers to book via travel agents. They divided other countries into three risk categories to determine whether visitors could bypass quarantine measures.

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Tourism arrivals fell by more than 90 per cent in 2020 practically wiping out inbound tourism and in 2021 amid a surge in infections a near-blanket ban was introduced even seeing overseas Japanese workers and students effectively locked out of the country and unable to return.

As an insular and culturally conservative country, it instigated what some said was an 'overly aggressive' approach to its borders.

Japan has also only just lifted its three-year docking ban on international cruise ships which sees around 2.5 million visitors alone coming to shore annually whilst Narita International Airport saw around 15.42 million terminal passengers last year - still a far cry from the 44.3 million pre-Covid in 2019 but an increase from 5.24 million in 2021.

The knock-on effect has also taken its toll. Hotel employment fell by 22 per cent between 2019 and 2021 whilst shops and hotels have been hugely impacted. Closures have meant hospitality workers who were out of work have since found positions elsewhere and there are now staff shortages.

#### REPERCUSSIONS AND RECOVERY

There has been huge pressure on the government to lift restrictions to help the country recover from the pandemic. Japan is the world's third biggest economy but has seen a slower recovery post Covid than most other countries. The drop in tourism coupled with falling exports, an increased consumption tax, reduced customer spending, weak yen, and growing national debt, are all issues.

Prime Minister Fumio Kishida has said his top priority is now formulating new economic measures and rebuilding the economy. His focus is also on increasing military spending and child-care benefits in a bid to boost declining birth rates in Japan.

Fumio Kishida assumed office in October 2021. He previously served as Minister for Foreign Affairs from 2012 until 2017 and as acting Minister of Defence in 2017.

Following the resignation of Yoshihide Suga in September 2021 just a year after elections, Kishida defeated Taro Kono to become the leader of the Liberal Democratic Party replacing Suga.

Suga replaced Abe after he was forced to retire due to ill health. He took over at an extremely difficult time as Japan dealt with the pandemic.

Kishida has been supportive of the country's efforts to open a casino market. He chaired the Policy Research Council of the LDP when the party passed its IR Implementation Act in 2018.

At the moment Japan is in a state of limbo. Despite becoming the world's third largest

Japan struggles with the desire to return to its heyday years of prosperity versus its resistance to change and an attachment to its past. It has an ageing population with a third of the population over 60, a drop in birth rate, and a huge public debt issue. The IMF predicts Japan's economy is expected to grow at 1.8 per cent this year. The country narrowly averted a recession at the end of last year. Private consumption makes up more than half of the country's GDP, and this is currently weak only growing by 0.3 per cent last year.

economy during the last few decades the country has been struggling with a sluggish economy. The bubble era of the mid-1980s is long gone and after the Tokyo stock market collapsed in the early 1990s property prices fell and have yet to recover.

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After touching a 41-year high of 4.2 per cent inflation in January, core consumer inflation is above three per cent as companies hike prices in response to the rise in raw material costs.

In an effort to boost household purchasing power, the government is urging firms to increase workers' wages whilst a subsidy package was introduced in October last year for petrol and utility costs in a bid to counter rising inflation.

Japan's labour unions meet every spring at the 'shunto' talks to discuss improvement in working conditions. There's a preliminary agreement to raise overall wages by 3.8 per cent - the most since 1993. This should also help the labour shortages which are said to be impacting more than half of the companies in Japan.



# Prime Mover

## Osaka

Osaka is the main player in the IR bid and some say may be the only player for the foreseeable future.



### MARKET INSIGHT: INTEGRATED RESORTS: JAPAN

Osaka prefecture is one of six prefectures in the Kansai region with 8.8 million population whilst its capital city Osaka is Japan's second largest metropolitan area after Tokyo.

Osaka city has been the economic powerhouse of the Kansai region for centuries and has a 2.7 million city population. The surrounding Kansai regional population totals almost 22 million.

Osaka's dwindling population and need to promote tourism and build MICE facilities have been key elements of its IR bid. It has always been a clear favourite for an IR with the man-made artificial island Yumeshima as the location.

Yumeshima is about 10km west of downtown Osaka and near the mouth of the Yodo River and is about 390 hectares in total. It is now home to one of the biggest container terminals in Japan and has great highway and road access to all areas of the Kansai region.

Osaka is fed by the Kansai International Airport which has an international network of 75 cities worldwide (1,433 flights per day) and connects 17 domestic cities (70 flights daily) and is used by 6.98 million people (2019 data). It is a 40-minute car journey or 70-minute train ride from the airport to the Osaka IR.

Domestically there are three airports with extensive rail and road services including Osaka International Airport as a hub airport which has a network of 26 cities (185 flights a day) and 15km from the IR and Kobe Airport which connects seven cities (33 flights a day).

In addition, the Osaka Port International Ferry Terminal provides international and domestic access from China and Korea and is just 10 minutes by car to the proposed resort.

There are plans in place to improve traffic access to Yumeshima and the development of a new train station to link up the Osaka IR through the extension of the Osaka Metro Chuo line to ensure access from the major stations in Osaka city. The Yumemai Ohashi bridge and Ymesaki Tunnel provide road links to Yumeshima and the bridge is being widened whilst a large scale bus terminal and parking is being developed within the IR area.

#### THE PROJECT

Osaka announced its interest in an IR back in 2014 and the Osaka Prefecture IR Promotion Bureau was set up in 2017.

In September 2021 Osaka confirmed a consortium between MGM Resorts International and Japanese financial services conglomerate ORIX, as its IR partner. In reality this was the only applicant after Galaxy and Genting withdrew their Osaka bids. MGM has been keen from the beginning and the company has

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The project is worth ¥1.08 trillion (US\$8.1bn) and will be 492,000sq.m in total and include approximately 2,500 rooms across three hotel brands – the MGM Osaka, MGM Osaka Villa and Musubi Hotel. There will be MICE space, a 3,500 seater theatre, and tourism facilities.

There are expected to be around 485 meetings and conventions held annually and 46 exhibitions and trade fairs after the third year of opening. The conference facilities will have a capacity for over 6,000 people.

It is estimated in the provisional plans that the casino area will be around 23,115sq.m (not more than three per cent of the total IR facility area) and will hold approximately 470 table games and 6,400 electronic games. Age limit for entry will be 20 years.

Osaka City gave its consent to the project in April last year and the Ministry of Land, Infrastructure, Transport and Tourism, which is the public department overseeing the resort

proposals via the IR District Development Plans, granted its approval last month bringing the project into its final steps.

MGM Resorts CEO and President Bill Hornbuckle said: "It is an honour to be selected by the government of Japan to develop a tourism project of this scale. We couldn't be more excited to get started on the development of one of Japan's first Integrated Resorts in the great city of Osaka, and we look forward to working with our partner ORIX and Osaka prefecture/city to realise this long-held goal."

The plans got just under 66 per cent of the available points (just above the approval threshold) at the approval process. The IR now has to meet 19 points of criteria set by the government to continue.

In July last year the Japan Casino Regulatory Commission issued the Criteria of Examination for Granting Casino Business Licenses and the Operational Guideline for Examination of Casino Business Licences.

The examination will be conducted by the commission looking at the applicant's capability of appropriate operation of a casino business, social credibility, expenditures, and problem gambling measures.

One requirement is for local governments to have gambling addiction countermeasures in place and the Osaka authorities have pledged to increase the number of psychiatric medical institutions in the area.

Osaka's governor, Hirofumi Yoshimura, was re-elected in April this year and confirmed his backing of the project. The resort is now planned to open in autumn or winter of 2029 after the continual delays.

The project is being funded by an initial

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The expected number of visitors to the IR area is estimated at 20 million in total with domestic tourism accounting for up to 70 per cent of the visitor figures (about six million foreign visitors). The project anticipates a total annual revenue of ¥520bn (\$3.9bn) in the third year after opening, and around 80 per cent is expected to come from the gambling division.

investment of ¥1.08 trillion (\$8.1bn) of which half (¥530bn) is funded by shareholders MGM, ORIX and the minority shareholders whilst the rest is from financial borrowing with MUFG Bank and Sumitomo Mitsui Banking Corp providing the financing.

The Osaka prefecture and city authorities allocated an aggregate of ¥600m (\$4.5m) for the 2023 fiscal year which began in April for their part in the IR. The budget is allocated to the Osaka IR Promotion Bureau which is behind the project and funded jointly by the prefecture and city authorities.

#### THE RETURNS

Construction is said to cause an economic ripple effect of around ¥1.58 trillion and create 116,000 jobs. After the opening around ¥1.14 trillion (\$8.5bn) is expected in annual economic benefits for the region and provide for 93,000 jobs, with 15,000 jobs at the Osaka IR directly.

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#### THE ISSUES

Soil liquefaction and contamination problems need to be addressed at the man-made Yumeshima island site where the IR is planned. The Osaka government has pledged ¥79bn (\$574.8m) to resolve the issue. There are also concerns over the complete lack of subway access.

Meanwhile construction work for the World Expo 2025 and the expo itself, which will run from April to October 2025 on Yumeshima, could delay the start of IR work.



MARKET INSIGHT  
JAPAN REPORT

# Special Purpose

## Nagasaki

Nagasaki prefecture is located in north west Kyushu and is made up of the mainland and hundreds of islands. The prefecture has a population of 1.3 million. Nagasaki is the capital and largest city whilst other major cities include Sasebo, Isahaya and Omura.

CAIJ secured some of its financing for the project through Credit Suisse which nearly went under earlier this year before being rescued by rivals UBS Group AG. This acquisition has been cited as why the tender review has been delayed.

### MARKET INSIGHT: INTEGRATED RESORTS: JAPAN

Historically, Nagasaki was the only port that permitted foreign trade during the Edo Period when Japan shut down its borders between 1639 and 1853. At that time everything flowed through Nagasaki and this has influenced culture and architecture in the prefecture today.

Nagasaki boasts a beautiful coastline, spas and nature resorts and is a key tourism spot. However, the population is decreasing due to the outflow of youngsters to metropolitan areas.

It's a prime location for an IR development mostly because of its geographical proximity to Asia and existing tourism appeal. There are five international airports within a 2.5-hour drive from the IR area and more than 330 cruise ships dock at the ports annually in the prefecture. International flights from Shanghai or Singapore to Japan take just over an hour.

The IR location is earmarked for the Huis Ten Bosch (House in the Forest) theme park in Sasebo City. This is Japan's largest theme park and commemorates the history between the Dutch and Japanese and replicates a Dutch village from the 17th century. It is located on 152 hectares of land and opened back in 1992 and houses four hotels, retail, restaurants, park areas such as Jurassic Island. Some three million visitors come to the theme park each year.

The park is connected hourly by express trains from Fukuoka Airport (Hakata station) or by car takes about two hours. Nagasaki Airport also links to the theme park via a high speed boat service which takes 50 minutes or via bus. A car ride from Nagasaki City takes about one hour 30 minutes.

#### THE PROJECT

Nagasaki submitted its bid in April last year alongside Osaka, however the prefecture has yet to receive any approval confirmation from the government.

The bid has been placed in partnership with Casinos Austria International Japan. After a controversial bidding process with seven interested parties initially this was whittled down to three finalists – Oshidori International, Niki Chyau Fwu (Parkview) Group and Casinos Austria International Japan. Oshidori International (Mohegan Gaming's partner) later withdrew from the bidding saying the RFP process was not implemented "ethically or fairly."

Total investment for the IR project will be approximately ¥438.3bn (\$3.4bn) which will be used to buy the real estate and build and run the resort. Shareholders will contribute ¥175.3bn of which CAIJ, respectively its sub-investors, will provide about 60 per cent whilst the remaining ¥263bn will come from loans.

Kyushu Resorts Japan, a special purpose company set up by CAIJ Japan, will develop the hotel and MICE facilities for 6,000 people. There are plans for four hotels which will provide 2,500 plus rooms. Other projects include retail outlets and shopping mall, restaurants, parking facilities. There will be a 1,700 seater theatre.

The area for the casino activity will be 2.38 per cent of the total IR area which will cover four floors and operate around 400 tables and 3,000 slots. The plan was to open the resort by 2027.

There is a provision within the project to provide around ¥800m annually for updating the facility with 1.5 per cent of the operating profit going towards gambling addiction programmes.

#### THE RETURNS

Visitor figures are expected to be around 6.73 million annually divided between 5.21 million Japanese and 1.51 million foreign visitors spending ¥256bn in total at the IR during their stay. There will hopefully be around 40 international conferences annually and 47 international exhibitions.

Annual sales are estimated to reach ¥218bn (\$1.7bn) by the fifth year of operation. Of this the gaming division is expected to bring in around ¥209.5bn – about 77 per cent of the revenue with non-gaming bringing in the remainder. Net income for the Integrated Resort in Nagasaki after the fifth year of opening is expected to be ¥31.7bn.

The economic ripple effect in the construction stage will be around ¥534.2bn whilst the economic ripple from the operation will be an estimated ¥327.9bn. There will be 31,386 employed at the construction stage and just under 10,000 employed directly via the IR. Nagasaki has allocated ¥1.52bn in its draft budget for fiscal year 2023 for project.

#### THE ISSUES

There have been some concerns over CAIJ's input in this project as Casinos Austria has never built an IR or operated in Asia so there have been question marks over the company's ownership, financing, and size.

Although Nagasaki as an IR location may not have as much potential as Osaka many say it still warrants a larger scale IR than what has been proposed. CAIJ owns or operates 25 casinos worldwide and is part-owned by the state.

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