Mizuho Economic Outlook & Analysis

August 16, 2019

Status of the private lodging market one year after the new law enactment

The market dwindled due to new restrictions, but its presence is growing in central Tokyo and some regional areas

< Summary >

◆ Compared to the time before the Private Lodging Business Act was enacted, the number of foreign tourists making use of private lodging services declined dramatically after the enforcement of the new law. But if we estimate the occupancy rate of private lodgings taking into account the new restrictions, we find that demand is stronger and more resilient compared with other lodging facilities.

◆ Currently, most private lodgings are located in the three metropolitan areas and central regional cities where the number of foreign visitors is increasing. However, in the main cities of Hokkaido, the occupancy rate of hotels did not drop even after the new law was enacted, suggesting that private lodgings and hotels are not in competition.

◆ Also, other than Sapporo City, in some areas of Hokkaido where there are no new hotels openings, the overall ratio of customers staying in private lodgings is high. In such areas, private lodgings seem to be functioning as a new platform absorbing new travel demand.

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1. What is the current status of the private lodging market one year after the new law enactment?

One year has passed since the enactment of the new Private Lodging Business Act on June 15 2018. As Miyajima (2017) points out, since 2013 the number of private lodgings has skyrocketed centering on urban cities where foreign visitors are growing dramatically in number.

But private lodgings in the early days were often illegal facilities, without the business license required by the Inns and Hotels Act, and concerns mounted as drawbacks emerged, such as noise complaints and disruptions to public security. In response to these problems, the Japanese government enacted the new Private Lodging Business Act and virtually tightened control of private lodgings. More specifically, the new act made it mandatory for private lodging agents and private lodging business operators to register with the relevant authorities, with the provision that private lodgings could operate only 180 days or less annually. Furthermore, the law has allowed municipalities to impose their own additional restrictions on the operating period and locations through local ordinances. As a result, many private lodgings operators, particularly those that focused on profitability, found it difficult to continue their business, culminating into a substantial drop in the number of lodgings compared with the days before the law's enactment.

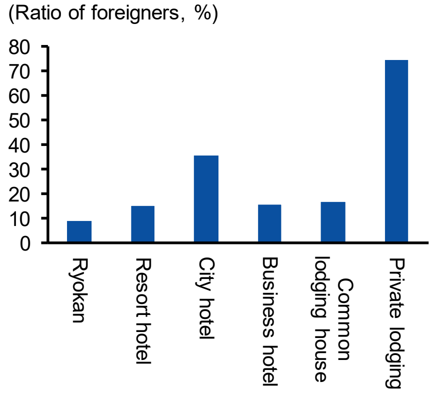
How then was the private lodging market affected by the enforcement of the new Private Lodging Business Act? The government began publicizing official statistics on private lodgings right after the law was enacted (statistics up to May 2019 have been released as of writing this report). Although the scope of disclosure remains limited, in this report we want to use these statistics to provide a general overview of the private lodging market one year after the new law enactment and consider the challenges that lie ahead. It should be noted that although common lodging houses are increasing in number due to the relative relaxation of regulations, in this report we mainly focus on private lodgings that operate based on the new Private Lodging Business Act due to the restraints of statistical data.

2. The occupancy rate of private lodgings (adjusted for operating days) remains high even after the new law enactment

We believe that private lodgings have been used mainly by foreign travelers, but did the ratio of foreigners remain high even after the enforcement of the new law? **Chart 1** depicts the ratio of foreigners by type of lodging facility. The chart reveals that the ratio of foreigners using private lodgings is substantially high at over 70% compared with other types of facilities. We can say that currently private lodgings are mainly being used to accommodate foreign travelers.

Next, we look at the total number of foreigners who stayed overnight after the new act came into force. **Chart 2** shows that the total number of foreigners who stayed in private lodgings from April to May 2019 was around 700,000, accounting for only about 3.5% of the total number of foreign customers who stayed overnight. As analyzed by Miyajima (2017), given that in 2016 about 15% of foreign customers stayed at private lodging, it seems that the new act has caused the private lodging market to shrink to a great extent.

Chart 1: Ratio of foreigners by type of accommodation facility

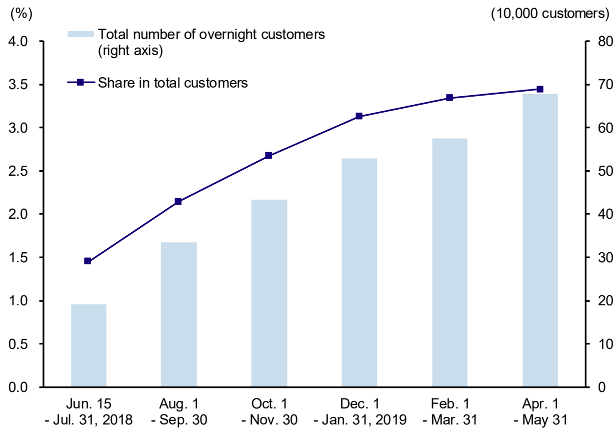


Note: The data for private lodging are after the enactment of the new Private Lodging Business Act. Other data are as of 2018.
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics of Private Lodgings* and *Overnight Travel Statistics Survey*.

But from the time right after the enactment of the law, the ratio of foreigners who stayed in private lodging has been rising steadily, revealing that the number of business owners involved in the private lodging business in accordance with the new legal requirements is gradually increasing.

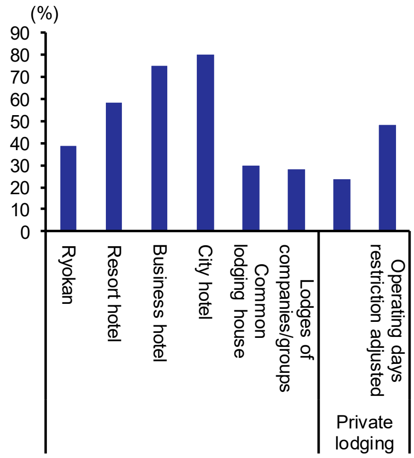
With a view to analyzing the current utilization rate of private lodgings, we estimated the occupancy rate. **Chart 3** presents the occupancy rate by type of lodging facility, and private lodging was 23.7%. Compared with other facilities, the figure was lower than for ryokans (Japanese-style inns) and common lodging houses, suggesting that the occupancy rate of private lodgings is quite sluggish. But as mentioned earlier, since the number of operating days of private lodgings is restricted by the new act, such facilities are not able to accept customers beyond 180 days a year. If we take into account this restriction, the occupancy rate of private lodgings is not necessarily low. If we recalculate the occupancy rate adjusting for the restricted number of operating days, the ratio then rises to 48.2%, exceeding the figures for common lodging houses and ryokans. In addition, considering that operating days and locations may face even stricter restrictions through local ordinances set in place by individual municipalities, the actual occupancy rate could even be higher. Hence, although the private lodging market contracted substantially after the new law was enacted, we can evaluate that the market has steadily recovered driven mainly by foreign travelers.

Chart 2: Total overnight stays of foreigners at private lodgings



Note. The above calculation assumes that the average number of overnight stays is 2.7 days.
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics of Private Lodgings* and *Overnight Travel Statistics Survey*.

Chart 3: Occupancy rate by type of lodging facility



Note: The figures for private lodgings are calculated by the number of overnight stays / reported number / number of operating days (after enactment of the new law). Other figures are guestroom occupancy rates as of 2018.
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics of Private Lodgings* and *Overnight Travel Statistics Survey*.

3. The current private lodging market is mainly centered on the three metropolitan areas and central regional cities

Next, we look at the situation of the private lodging market by prefecture.

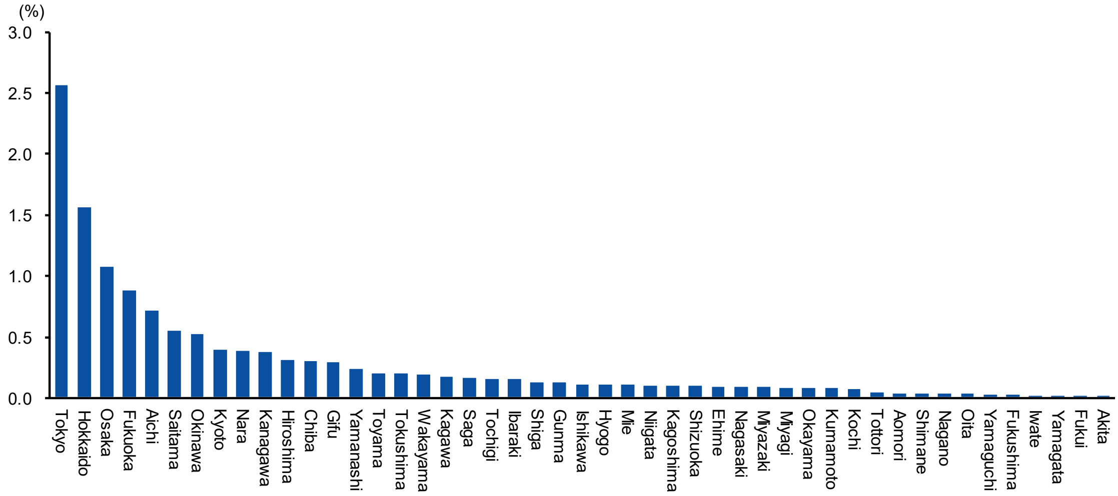
Chart 4 depicts the ratio of private lodgings in total overnight customers by prefecture. We can see from the graph that the prefectures with the highest ratios of private lodgings are Tokyo, Hokkaido, Osaka and Fukuoka prefectures. In addition to these four prefectures, Aichi, Okinawa and Saitama can also be added as prefectures with private lodging ratios higher than the national average (0.4%), showing that presence of private lodgings varies greatly depending on the region. The reasons for the high private lodging ratios of these top seven prefectures seem to be the large number of overnight visitors centered on foreigners, offering more room for private lodging operators to enter this market.

Looking at the occupancy rate of private lodgings by prefecture (**Chart 5**), the three metropolitan areas, such as Tokyo and Aichi Prefecture, and the central regional cities stood high in the ranking again, suggesting that these areas can substantially benefit from growing demand.

In sum, even though the current private lodging market is not expanding nationwide, we can say it is expanding in limited areas where the demand of overnight customers is growing centered on foreign tourists.

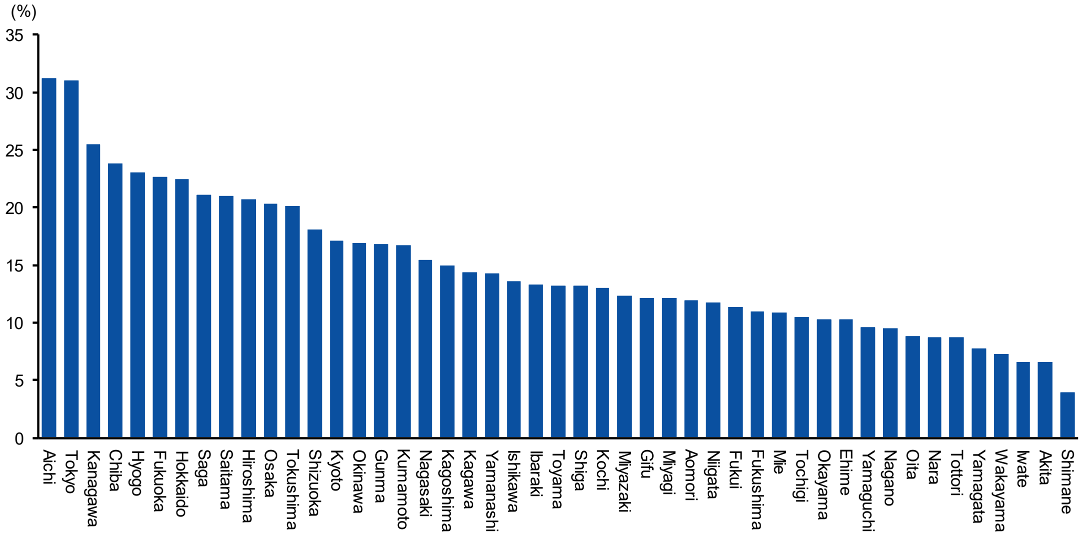
Chart 6 presents an uneven distribution of private lodgings from a more microscale perspective compared to the prefectural level. The graph reveals that private lodgings in Tokyo, Hokkaido, Osaka, Kyoto and Aichi prefectures are concentrated in central areas, such as the 23 wards of Tokyo, Osaka City and Kyoto City. Even in prefectures where the demand for private lodgings is relatively high, the locations of private lodging operations are not widespread but concentrated in limited areas where the demand for overnight stays is growing.

Chart 4: Ratio of private lodgings in total overnight customers by prefecture



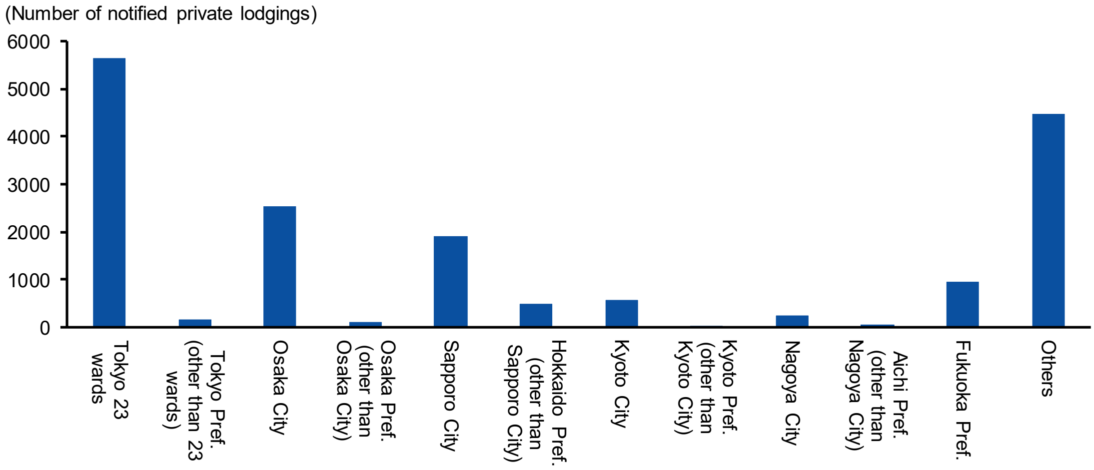
Note: The data above are after the enactment of the new Private Lodging Business Act, and are the sum of Japanese and foreign customers (no disclosure of statistics on foreign customers by prefecture).
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics of Private Lodgings* and *Overnight Travel Statistics Survey*.

Chart 5: Occupancy rate of private lodgings by prefecture



Note: The data above are after the enactment of the new Private Lodging Business Act.
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics of Private Lodgings* and *Overnight Travel Statistics Survey*.

Chart 6: Number of private lodgings by prefecture



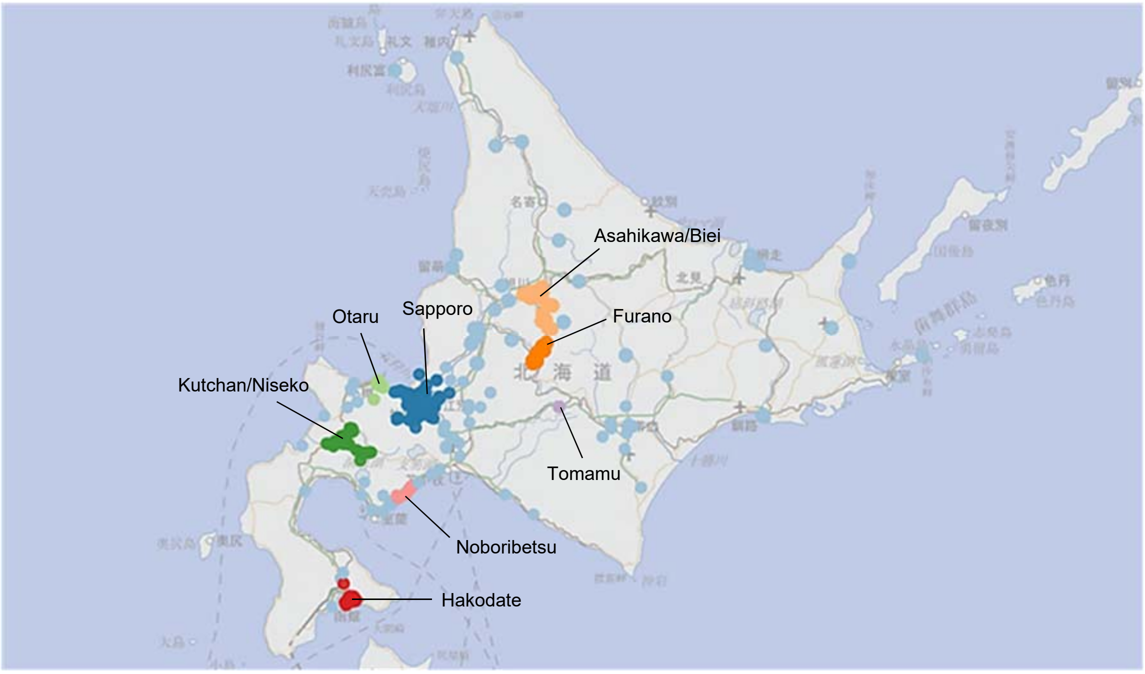
Note: Data as of July 16. The data at the municipal level mean cities with public health centers.
Source: Made by MHRI based upon the Japan Tourism Agency, *Status of Notification and Registration based on the Private Lodging Business Act.*

4. Private lodgings in Hokkaido are concentrated in the central district of Sapporo City, but competition with hotels seems to be limited

We have thus far studied the locations of private lodgings on a prefectural and micro-regional level within the main prefectures. Next, to conduct a more in-depth analysis of the locations of private lodgings, we decided to focus on Hokkaido where the addresses of all private lodgings in the prefecture are disclosed so that we can confirm their locations in more details. In the case of Hokkaido, the total number of overnight customers by municipality is disclosed, thus enabling us to conduct our analysis on a more micro level.

In **Chart 7**, we plotted the locations of private lodgings on the map of Hokkaido and visualized where the lodgings are concentrated by applying different colors to the respective clusters. The largest cluster was in the area around Sapporo City, with about 80% of all private lodgings in Hokkaido (approximately 1,800) gathered in this cluster. Along with this area, we detected clusters in Asahikawa/Biei, Kutchan/Niseko, Otaru, Hakodate, Furano, Tomamu and Noboribetsu, but the number of private lodgings remained small at less than 100 in each area.

Chart 7: Hokkaido districts where private lodgings are concentrated



Notes: 1. We clustered map markers with the DBSCAN algorithm based on the latitude/longitude database (decimal unit). We set the parameters as follows: ε (eps) = 0.1, minimum cluster size (min Pts) = 10, and 8 clusters were obtained.
2. The light blue circles represent private lodgings that did not fall under the category of any clusters.
3. We added private lodgings data to the electronic topographical map (tile) of the Geospatial Information Authority of Japan.

Source: Made by MHRI based on Hokkaido, *Notification List of Private Lodging Business Operators*, Sapporo City, *List of Private Lodgings in Sapporo City*, and the Geospatial Information Authority of Japan, *Digital Japan Basic Map* (light-colored map).

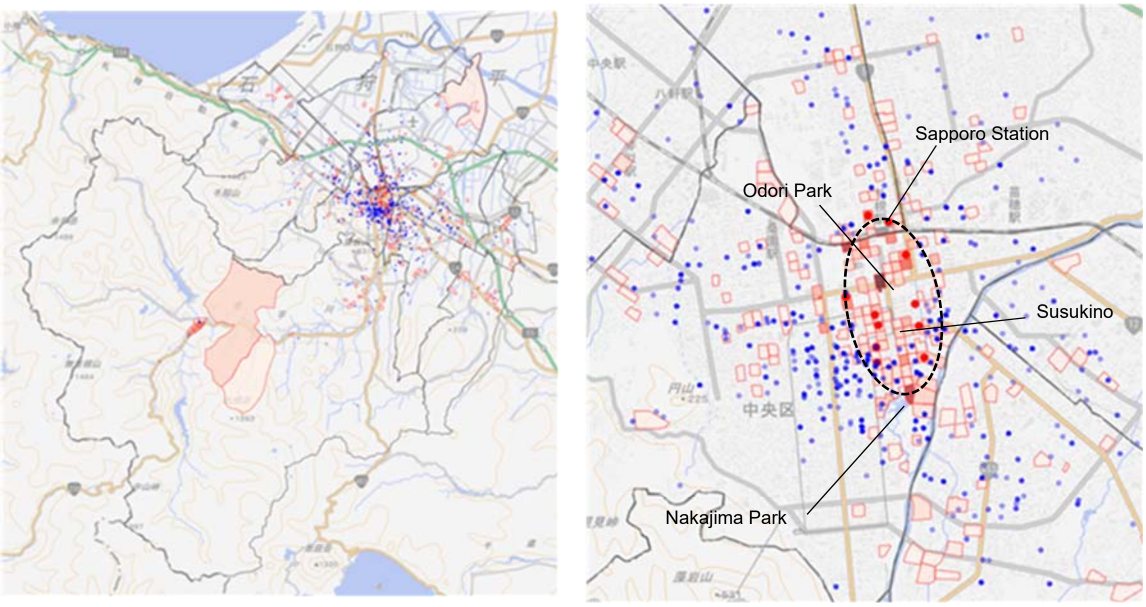
Now, in which districts of Sapporo City are private lodgings located? The blue dots in **Chart 8** show the locations of private lodgings in the central part of the city as well as the entire Sapporo City. We can see that private lodgings are not spread throughout the city but concentrated in the city center.

Furthermore, areas colored red in **Chart 8** depict the locations of lodging operators from a more micro perspective at the street/address level (as of 2014). In addition, the red dots show the locations of hotels that started operation during the period from November 2017 to June 2019. By confirming the locations of private lodgings and comparing them with the locations of lodging operators and newly opened hotels on a micro level, we can observe the geographical relationship between private lodgings and other lodging facilities.

If we look at the central part of Sapporo City from the perspective in **Chart 8**, lodging facilities marked in red are concentrated in the central commercial district that extends from Sapporo Station to Nakajima Park, south to north, and from Higashi 3-chome to Nishi 10-chome, east to west (area marked with dotted circle). Meanwhile, private lodgings dotted in blue are more concentrated in the peripheral areas of the central commercial district. They are particularly concentrated south of Odori in the southwestern part and west to Nishi 6-chome. These areas are characterized by high convenience due to their proximity to the central commercial district and the scarcity of lodging facilities, thanks to the residential nature of the area, and such factors seem to contribute to matching the supply and demand for private lodgings. Nonetheless, there were at least 12 new hotel openings during the period from November 2017 to June 2019 in the peripheral areas of the central commercial district (red dots in **Chart 8**). Since these newly established hotels are located adjacent to private lodgings, private lodgings and hotels seem ready to start competing with each other.

Chart 8: Locations of private lodgings in Sapporo City

Entire Sapporo City | Central district of Sapporo City

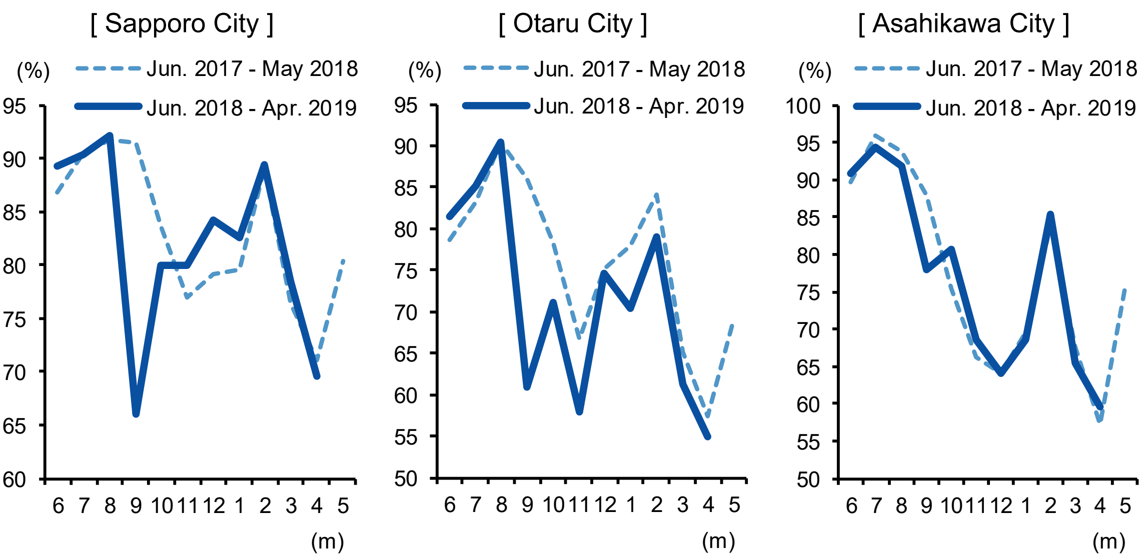


Notes: 1. Blue dots represent the locations of private lodgings (as of June 2019). Red colored areas show the locations of lodging operators (as of 2014). Red dots are the locations of hotels that started operation during the period from November 2017 to June 2019.
2. Black lines represent the border of Sapporo City's administrative district.
3. We added private lodgings data, lodging operators' data, hotel opening data, and Sapporo City's administrative district data to the electronic topographical map (tile) of the Geospatial Information Authority of Japan.

Source: Made by MHRI based upon Sapporo City, *List of Private Lodgings of Sapporo City*, the Ministry of Internal Affairs and Communications, *Economic Census*, the Geospatial Information Authority of Japan, *Digital Japan Basic Map* (light-colored map), and Ohta Publications, *Weekly Hotel & Restaurant*.

Then, is competition really becoming more intensified between hotels and private lodgings in Sapporo City? To clarify their competitive relationship, we checked the changes in the occupancy rate of lodging facilities, including hotels, ryokans and common lodging houses, albeit data were limited (**Chart 9**, left). The graph compares the recent occupancy rates (June 2018 to April 2019) with those a year ago. Although the occupancy rate of lodging facilities in Sapporo City dropped substantially in September 2018, this decline was attributable to the Hokkaido Eastern Iburi earthquake. If we look at the occupancy rates after the earthquake, they are either the same or higher than the level observed a year ago. We also confirmed the occupancy rates of Otaru City and Asahikawa City where many private lodgings are located (**Chart 9**, center and right). In Asahikawa City, the occupancy rate is hovering at a level similar to the previous year, just like in Sapporo City. In Otaru City, although the occupancy rate was slightly down from the previous year, no significant fall was observed.

Chart 9: Occupancy rate of lodging facilities in Hokkaido's major cities



Note: The graphs above cover the data for lodging facilities with 10 employees or more (coverage includes hotels, ryokans and common lodging houses but not private lodgings).
Source: Made by MHRI based upon the Japan Tourism Agency, *Overnight Travel Statistics Survey*.

Based on the above-mentioned observations, we can conclude there has been no decline in the occupancy rate of hotels in recent years due to intensified competition with private lodgings for the three areas in Hokkaido with the largest number of private lodgings. While verification of our hypothesis requires scrutiny of each hotel, it seems that hotels and private lodgings do not have a competitive relationship from an overall perspective. One of the factors for this relationship may be the imposition of stricter regulations on private lodgings after the enactment of the new Private Lodging Business Act in June 2018, since restrictions on private lodging businesses make it more difficult for them to compete aggressively with hotels. Under the new act, it is difficult for private lodging business operators to make a profit working only in the private lodging business, so it is highly likely that they are also engaged in a monthly rental business, just like farmers who adopt the "two-crop system," if the operators are corporations. If the operators are individuals, we believe the size of their operation does not place emphasis on profitability.

Another factor behind this limited competition may be that private lodgings and hotels have different customer targets. While private lodgings are heavily used by foreigners, hotels also accommodate many Japanese guests. Furthermore, foreigners who stay at private lodgings tend to seek communication experiences with locals, so hotels and private lodgings seem to cater to different types of customers.

5. In certain areas, private lodgings may become venues for new travel demand

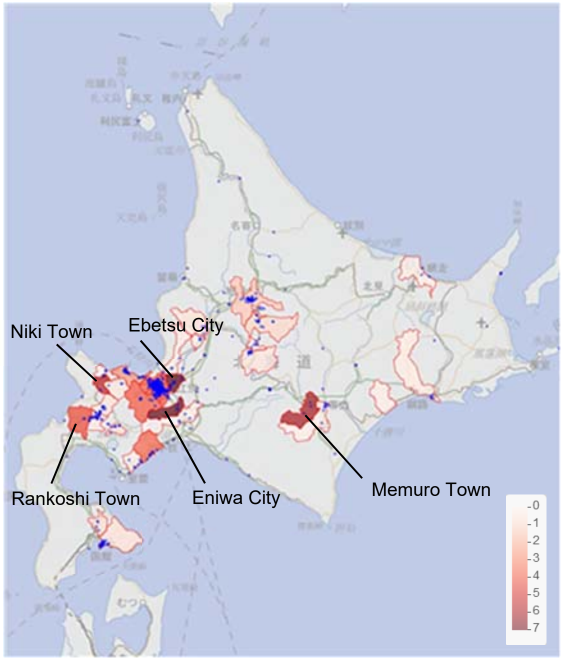
Then, what is the role of private lodgings in areas (other than Sapporo City) where the presence of private lodgings is small? **Chart 10** shows the share of private lodgings in total overnight customers (number of customers × number of overnight stays) by municipality in Hokkaido. There are five municipalities with a higher ratio than Sapporo City (private lodgings share: 3.8%), namely, Ebetsu City, Eniwa City, Memuro Towm, Niki Town and Rankoshi Town. Ebetsu City has a particularly high share at over 20%. While the number of overnight customers was small at less than 10,000 in the four municipalities excluding Rankoshi Town, these municipalities have a small number of private lodgings in the first place and naturally limited lodging capacity, which pushes up the ratio of private lodgings in total number of overnight customers. In light of such circumstances, private lodgings seem to act as a new accommodation platform hosting new travelers. In fact, these regions had no new hotel openings during the period from November 2017 to June 2019,[1] making private lodgings valuable accommodation facilities for these cities.

Also, when we compare the average number of nights customer stayed in lodging facilities and private lodgings, it was 1.4 nights for lodging facilities (other than private lodgings) and 2.7 nights for private lodgings throughout all of Hokkaido, and the number of nights stayed in private lodgings was twice as long. If we look at the data for each municipality, of the 27 municipalities that disclose data on customers who stayed in private lodgings, 23 municipalities, or over 80% of all municipalities, had longer nights stayed in private lodgings relative to other lodging facilities (average number of stays at private lodgings ratio > 1). The municipalities with the highest private lodging shares are Ebetsu City (2.0 times), Niki Town (2.0 times), and Rankoshi Town (3.0 times), meaning that the average number of nights stayed in private lodgings was more than twice as long as other lodging facilities. The results suggest that while hotels are mainly used for just one night stays, private lodgings are primarily used for longer stays, and as the period of staying is longer, they are expected to contribute to boosting inbound consumption in surrounding areas.

[1] This information is based on Ohta Publications, *Weekly Hotel & Restaurant*, June 1, 2018, December 7, 2018 and June 7, 2019 issues.

Chart 10: Share of private lodgings in total number of overnight customers

Municipalities	Share of private lodgings in total number of overnight customers	Average number of stays at private lodgings ratio	Lodging facilities		Private lodgings	
			Total no. of overnight customers	Average no. of nights stayed	Total no. of overnight customers	Average no. of nights stayed
	(%)	(times)	(people/nights)	(nights)	(people/nights)	(nights)
Ebetsu City	20.8	2.0	3,000	1.5	788	3.0
Eniwa City	7.0	0.8	3,800	2.0	285	1.5
Memuro Town	5.7	1.3	4,500	1.3	270	1.6
Niki Town	5.2	2.0	1,000	1.0	55	2.0
Rankoshi Town	4.1	3.0	56,200	1.2	2,417	3.6
Sapporo City	3.8	1.6	8,924,700	1.8	349,186	2.8
Shiraoi Town	3.4	1.5	58,800	1.0	2,100	1.5
Otaru City	2.0	1.5	602,400	1.2	12,498	1.8
Asahikawa City	1.0	1.6	599,400	1.4	6,246	2.2
Biei Town	0.7	1.6	161,000	1.4	1,171	2.2
Nanae Town	0.6	1.5	82,900	1.0	495	1.5
Rusutsu Village	0.5	3.0	313,200	2.1	1,628	6.2
Hakodate City	0.4	1.4	2,581,400	1.2	9,850	1.7
Kutchan Town	0.3	1.4	971,200	2.3	3,406	3.3
Shintotsukawa Town	0.3	1.0	16,200	1.0	56	1.0
Nakafurano Town	0.3	1.4	19,000	1.0	58	1.4
Furano City	0.3	1.6	461,800	1.4	1,369	2.3
Akaigawa Village	0.3	1.8	154,900	1.6	457	2.9
Niseko Town	0.2	1.6	494,100	2.0	953	3.1
Tobetsu Town	0.1	1.0	16,200	1.0	20	1.1
Urausu Town	0.1	1.0	5,100	1.0	6	1.0
Noboribetsu City	0.1	1.4	909,800	1.0	893	1.4
Kushiro City	0.1	1.3	1,049,400	1.1	1,018	1.5
Abashiri City	0.1	1.2	320,700	1.3	187	1.5
Obihiro City	0.0	1.2	753,900	1.4	269	1.7
Chitose City	0.0	1.7	225,100	1.2	31	2.1
Yoichi Town	0.0	1.0	14,800	1.0	2	1.0
Hokkaido (total)	1.6	1.9	24,920,100	1.4	399,191	2.7



Notes: 1. The table above only collects and shows the data of municipalities that disclose information on customers who stayed in private lodgings. The total number of customers in Hokkaido at the bottom of the table also includes the data of municipalities that do not disclose such information.
2. The number of lodging facilities as of 2014, the number of private lodgings as of June 2019, the total number of overnight customers at lodging facilities and the average number of nights stayed from August 2017 to March 2018, and the total number of overnight customers at private lodgings and the average number of nights stayed from August 2018 to March 2019.
3. Share of private lodgings in total number of overnight customers = Total number of overnight customers at private lodgings / (total number of overnight customers at lodging facilities + total number of overnight customers at private lodgings)
4. Average number of stays at private lodgings ratio = Average number of stays at private lodgings / average number of stays at lodging facilities
5. Blue dots on the map show the locations of private lodgings, and areas colored in red and color scale represent the share of total number of overnight customers who stayed in private lodgings (%). It should be noted that we used the strongest color for Ebetsu City in the color scale.
6. We added data on private lodgings to the electronic topographical map (tile) of the Geospatial Information Authority of Japan.

Source: Made by MHRI based upon Hokkaido, *Investigative Report on the Number of Visitors in Hokkaido*, *Notification List of Private Lodging Business Operators*, and *Actual Number of Nights Stayed in Private Lodgings*, Sapporo City, *List of Private Lodgings in Sapporo City*, and the Geospatial Information Authority of Japan, *Digital Japan Basic Map* (light-colored map).

6. The next challenge is how to increase private lodgings that can stimulate the local economy

We saw in our analysis that the number of private lodgings fell dramatically after the enactment of the new Private Lodging Business Act as it effectively strengthened their regulation. But if we take into account the operating restriction set at 180 days or less a year, their occupancy rate can be viewed as fairly high, reflecting the strong demand mainly from foreign customers. Location-wise, we found that the main locations are in the three metropolitan areas and central regional cities where the number of foreign visitors is increasing. We believe this is the reason behind the growing number of private lodgings in these areas.

Meanwhile, private lodgings in metropolitan areas and central regional cities do not seem to be competing with hotels. Although only limited data is available, we found that the statistics of Hokkaido including Sapporo City, for example, do not show any indication of the hotel occupancy rate being dragged down by private lodgings. This can be explained by the strict limitations imposed on the private lodging business as well as differences in their customer base.

Private lodgings seem to be functioning as a new platform absorbing new travel demand as seen in some parts of Hokkaido, such as Ebetsu City. Foreign customers who use private lodgings tend to stay longer, and this suggests that private lodgings may be an effective tool for boosting long-stay tourism in regional areas. If we could extend the stay of tourists in different regions, it may lead to growing inbound consumption and stimulate the economy of regional areas. Possibilities to promote tourism may grow in areas where no new hotel openings can be expected and where the labor shortage is serious in the lodging industry. Furthermore, private lodgings can be used to help solve the issue of the increasing number of vacant houses.

From these viewpoints, it may be a good idea to relax part of the regulations that are now evenly imposed on all private lodgings, to enable more flexible management of private lodgings based on the characteristics of each region. If we could expand the locations of private lodgings across the entire country in this way, the economic effect might also spread throughout the country through rising numbers of visitors and higher inbound consumption. Enabling local residents to feel the economic effects for themselves would deepen their understanding of private lodgings, and some regions might begin taking positive measures to buoy the tourism industry.

Lastly, we want to point out that the issues requiring examination in the future include a more detailed analysis of the economic effects that an increase in private lodgings might have on regional economies. To that end, we expect to see further disclosure of micro-level official statistics and the accumulation of relevant data.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material

https://www.mizuho-ri.co.jp/publication/research/pdf/insight/jp190816.pdf