

# JAPAN



## White Paper: Japan Integrated Resorts

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CLAIRVEST



## I. EXECUTIVE SUMMARY

The next emerging integrated resort market is on the horizon in Japan. After years of debate, Japan is in the process of developing legislation to create the regulatory and market structure for integrated resorts (“IR”). While the debate still has several issues to work through, Japan has the potential to be one of the largest gaming markets in the world with a revenue potential of \$24.2 billion, assuming fully developed IRs are introduced in six regions. Global Market Advisors (“GMA”) completed a detailed analysis that examined the current gaming market, the prospective legislation, components of the RFP process, potential sites, definition of an integrated resort, and the full market potential.

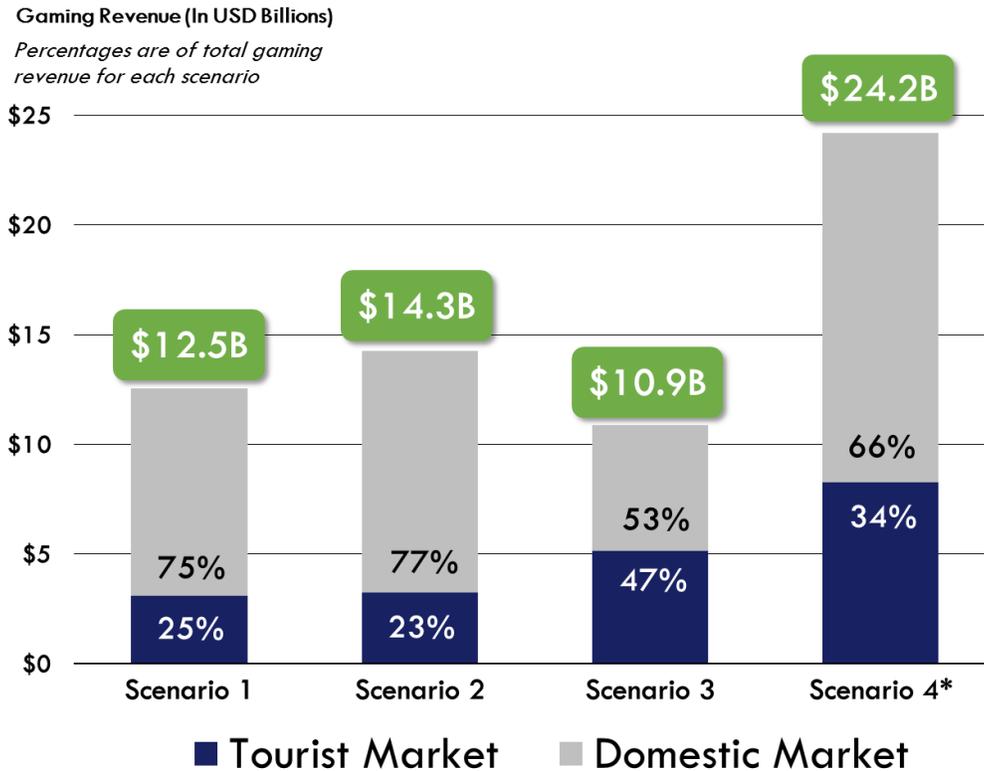
### MARKET POTENTIAL

While the number of sites has not officially been determined, it is widely viewed that there will be an initial one to three IRs in the first round of RFPs, with a second round beginning after the initial IRs have opened and demonstrated their benefits to Japan. GMA would suggest that if tourism is one of the main reasons for IR expansion, as it was in Singapore, that one of the sites, such as Yumeshima Island in Osaka, be considered as a host site for multiple IRs. Three or more operators would create critical mass and a more dynamic tourist destination, allowing the Osaka Strip to compete with destinations such as Las Vegas, Macau, and Singapore. If this concept were adopted, GMA would still advocate that additional regional concessions be allowed to further stimulate tourism and economic growth.

Global Market Advisors developed a series of models that took into account the sites currently under discussion and as outlined in this white paper. The gaming market revenue potential ranges from an initial market of two large integrated resorts at \$12.5 billion in revenue to a full build-out of six different sites at \$24.2 billion. GMA tested four different scenarios, including a scenario in which several IRs are developed on Yumeshima Island in Osaka. This scenario would generate an estimated \$10.9 billion on the single site assuming multiple operators. In addition, this scenario would allow for the largest capture of gaming revenue from the tourism market with 47% of gaming revenue expected to stem from international travelers in this scenario. These numbers further confirm that Japan has the capacity to be one of the largest gaming markets in the world, providing substantial economic and social benefits for the local population. This is assuming that legislators follow best practices in the IR industry.



## Japan IR Gaming Revenue Potential



Source: Global Market Advisors

Note: \*Scenario 4 projected year is 2030, Scenarios 1, 2, & 3 are 2025

Scenario 1: Sites in Osaka and Yokohama

Scenario 2: Sites in Osaka, Tokyo, Sasebo, and Hokkaido

Scenario 3: Osaka Strip (Multiple Operators)

Scenario 4: Sites in Tokyo, Osaka Strip, Sasebo, Sendai, Yokohama, and Hokkaido

One issue critical to the development of all integrated resort sites is that the regulatory and RFP structure does not constrain operators by mandating an investment floor or specific space allocation requirements for gaming and non-gaming amenities. Operators should be able to design, invest, and build out their facilities based on the market environment and demand. However, a balance must be developed that ensures that once an operator commits to the project through their RFP submission, they should remain consistent from concept to final build-out. Any deviations in the scope of the project would need to be approved through its government partner.



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## IR EDUCATION

Through conversations with Japanese stakeholders and market research, it became clear that the public needs a general understanding of the components of an integrated resort. Education will need to occur both by operators and the government to look at a cadre of existing and strong examples of IRs that will highlight how the casino, while centric to the model, only encompasses a small footprint of the overall facility.

GMA's white paper evaluates existing IRs developed by several international operators who are currently interested in Japan. This portion of the white paper is provided to help the reader understand the components and size of properly developed integrated resorts. With this explained, GMA believes it will help improve the overall perception of integrated resort style casino gaming amongst the general public. Additional educational efforts will be necessary to help highlight the positive impact that an IR can bring to the market in terms of tourism, investment, job creation, economic development, and additional revenue.

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## THE IR DEVELOPMENT PROCESS

The Japanese National Diet is in the midst of working through the logistics of the regulatory structure. Prime Minister Shinzo Abe stated in early April 2017, "The world's highest standards of casino regulations will be introduced, and policies to deal with issues like gambling addiction will be addressed. This will create clean, Japanese-style integrated resorts." The first bill that authorized the process to write the legislation for casinos and IRs passed in December 2016. By the end of 2017, it is anticipated that the second bill that writes the legislation governing IRs will pass and is expected to define a clear two-step process.

The first step will be an internal process to identify the cities and prefectures that have an interest in hosting IRs. Upon completion and evaluation by the Diet in determining the appropriate locations, estimated to be complete by Q3 2018, the second step will begin. It is anticipated that this step will be an RFP process, organized by the chosen prefectures with the winners chosen by Q3 2019. With the current timetable of events in the RFP selection, as well as the development timeline of a project of this scale, GMA believes that 2023 will be the first potential year for an integrated resort to open.

GMA anticipates that this will be the most competitive RFP process since Singapore awarded its two IRs over ten years ago. Based on discussions with local constituents, it is widely believed that operators who wish to submit a bid and compete in the Japan market will be well advised to have a local partner as part of their overall project. GMA believes that potential bidders will face a steep climb if they try and "go it alone" without a local partner.



The debate over the second IR bill will highlight the regulatory structure, number of IRs, selection process, and the importance of responsible gaming for the operators. The Singapore and Nevada regulatory structures will serve as a baseline for most of Japan's regulatory framework. Japan will need to balance a strong regulatory environment while allowing operators to build iconic facilities that allow for the full market potential to be realized. This would include not placing a government-mandated limit on the size of the gaming space.

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#### RESPONSIBLE GAMING

Responsible gaming and social safeguards has been defined as one of the biggest issues to address in the second IR bill. This issue has been top-of-mind to the public and legislators as the latter continue to debate the expansion of gaming. It is expected that operators submitting proposals will be evaluated on responsible gaming initiatives carried out in other major jurisdictions, in addition to their development and revenue projections. Corporate social responsibility will be a focus as well, including operator's existing commitment to offer an environment of responsible gaming and serving as a good corporate citizen in their host communities.

GMA believes that many, if not most of the problem gambling concerns in Japan, will slowly fade as the IR process in Japan continues to evolve. Many international operators have experience and sensitivity to this issue, and as has been demonstrated in Singapore, the problem gambling treatment, education, and prevention communities will also be strengthened with proper funding and regulation. As the paper outlines, with IRs, "the notion that problem gambling rates will simply and automatically increase over time, and in a linear fashion, has been debunked."

Any responsible gaming programs developed in Japan should be evidence-based, and should focus on all (IR-based and non-IR-based) forms of gambling in Japan. One of the biggest responsible gaming issues to address remains the issue of entry levies for those patrons who wish to gamble in casinos, similar to that which Singapore currently has in place for the local patron market. GMA has not identified any research that indicates that entry levies reduce problem gambling, and some industry experts have suggested that it encourages problematic "chasing" behavior. Wherever possible, Japanese stakeholders should continue to seek sound research for policymaking -- not only with a potential entry levy, but also with all measures that affect the local community and patron base.



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