



# Global Market Advisors

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## Research Brief: Japan Post-Election IR Bill Update October 24, 2017

The Japanese snap election for the lower house has concluded. The Liberal Democrat Party (LDP) and Japanese Prime Minister Shinzo Abe came out on top after a very calculated risk. The LDP has a majority win in the House of Representatives and, in partnership with the Komeito, now have a two-thirds super majority. This will allow the ruling parties to push their agenda forward, focusing on several key items including the reallocation of taxes, childcare, preschool education, and the initiation of constitutional revisions. This is in addition to dealing with the labor crunch and the low birthrate that affect Japan's economy.

In addition and most importantly to the gaming and hospitality industry, it allows for the continued development of Integrated Resorts through the expected passage of the IR Implementation Bill after the passage of the Responsible Gaming Bill in the coming months to a year. IRs will infuse capital projects into the country while serving as a driver to help meet Japan's goal of tourism growth.

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### HOW DID JAPAN GET TO THIS POINT?

During the past six months, Prime Minister Abe's polling numbers dipped significantly through mid-summer as a result of two scandals. At one point, his approval numbers dropped to the high 20s to low 30s depending on the poll. His approval numbers have since recovered and the party is moving forward in a positive direction as it comes off a solid victory in this past Sunday's snap election. Prime Minister Abe restricted his cabinet over the summer and has served as a steady hand amid the turmoil in regard to North Korea.

While the results of the election show support for the LDP's philosophies, Abe still has some approval issues based on the most recent polling numbers. A Kyodo survey conducted between September 30th – October 1 showed that 46% disapproved of Abe's administration, while only 40% expressed support. This may come into play in the future for PM Abe as he may face a leadership challenge within his party. However, this will not be the case in the imminent future.

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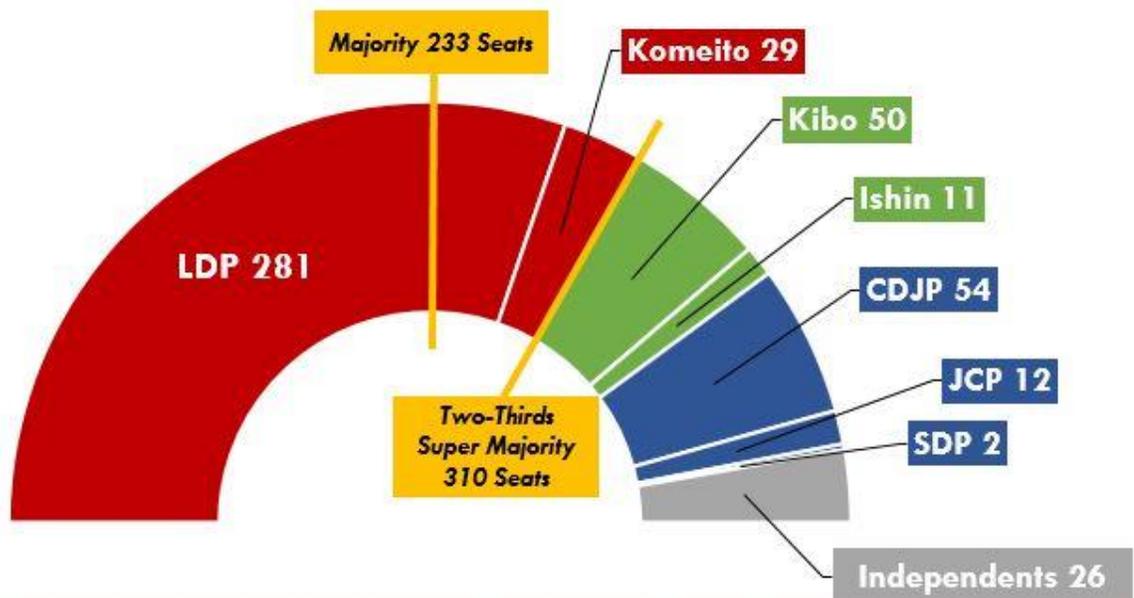
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During the summer, the LDP also suffered significant setbacks in two elections – Tokyo and Sendai. As a result, Tokyo Governor Yuiko Koike rose to power and she eventually formed the Kibo no To (Party of Hope). At the time that the snap election was called at the end of September, the Party of Hope had significant momentum that caused the collapse of the Democratic Party. As the beginning of the campaign approached, Governor Koike made the decision to not run in the Lower House Election which severely hurt the party. The former Democratic Party members formed a new party, the Constitutional Democratic Party (CDP) of Japan, which is led by Yukio Edano. Both the Party of Hope and the CDP remain as opposition parties to the LDP and Komeito.

## ELECTION RESULTS

Through this election, the LDP and the Komeito solidified a super majority in the House of Representatives by garnering 310 seats out of the 465 available seats. The following graph provides a summary of the Lower House Election Results.

### 2017 Lower House Election Results - Total Seats: 465



Source: *The Japan News by The Yomiuri Shimbun, Global Market Advisors, LLC*

In an analysis of individual seats (both single seat constituencies and proportional representation blocks), the LDP clearly has a significant lead in the single seats held. Its division among the proportional representation blocks for the ruling parties is much closer in some specific regions of the country, including even division in the Hokkaido block and not controlling a majority of seats in the Tohoku, Kanto, Tokyo, Tokai, and Kinki blocks.



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## NEXT STEPS FOR INTEGRATED RESORTS

There has already been an extra ordinary session called which will begin next week on November 1<sup>st</sup>. This session will most likely confirm Abe as Prime Minister and allow him to trigger a new cabinet, his fourth. While the specific time length of the session has not been determined at the time of this publication, if it is extended through December as has been discussed by some experts, it may allow for debate to begin on some of the key aforementioned issues, including integrated resorts. Additionally, PM Abe will be hosting U.S. President Donald Trump on November 5<sup>th</sup>. Because of this visit and the political tensions in the region with North Korea, it may cut short the extra ordinary session, delaying any action on legislation.

For most stakeholders following integrated resort development in Japan, there are two key pieces of legislation that are expected to occur before an RFP process is started. The first piece of legislation expected is the Responsible Gaming Bill. While there may be several current drafts of this bill, this is by far the most important bill to pass as it leads to the IR Implementation Bill. However, its significance is far more reaching than that because it addresses one of the main concerns of the Japanese people – problem gambling. As there have been recently published numbers that attempt to quantify the number of problem gamblers in Japan, the bill must address IRs as well as all other forms of gambling including pachinko.

Some experts believe that there may be time this fall in an extended extra ordinary session to debate the Responsible Gaming Bill and pass it this year. However, this process may be held up due to a busy fall schedule and the political tensions with North Korea. If the bill were to pass this year, it would be in a similar fashion to the initial IR Bill that was passed last December. If they do not have a long enough session to address this legislation, it is thought that the bill will pass in spring 2018 in the regular ordinary session.

Once the RG Bill is passed, the debate on the IR Implementation Bill will commence in late spring and into summer. As a follow-up to the report issued in July and the subsequent hearings throughout the country, there are several key issues that need to be resolved. GMA and other gaming industry experts believe these issues are paramount to Japan establishing a strict regulatory environment that allows for significant IR development from global operators of the highest quality.

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## PRIMARY ISSUES OF CONCERN FOR IR IMPLEMENTATION BILL

In reviewing the IR Promotion Report released in July 2017, there are several thoughtful recommendations that are based on sound principles that will allow Japan to create the next iteration of the integrated resort. Integrated Resorts offer multiple hospitality amenities for guests with the gaming floor as the main economic driver which allows for the other aspects to thrive. However, Japan should look at further ways to enhance the model as outlined in the



topics listed below. There are specific items addressed in the report that would hinder the market's ability to attract the best operators and significant investment in each facility.

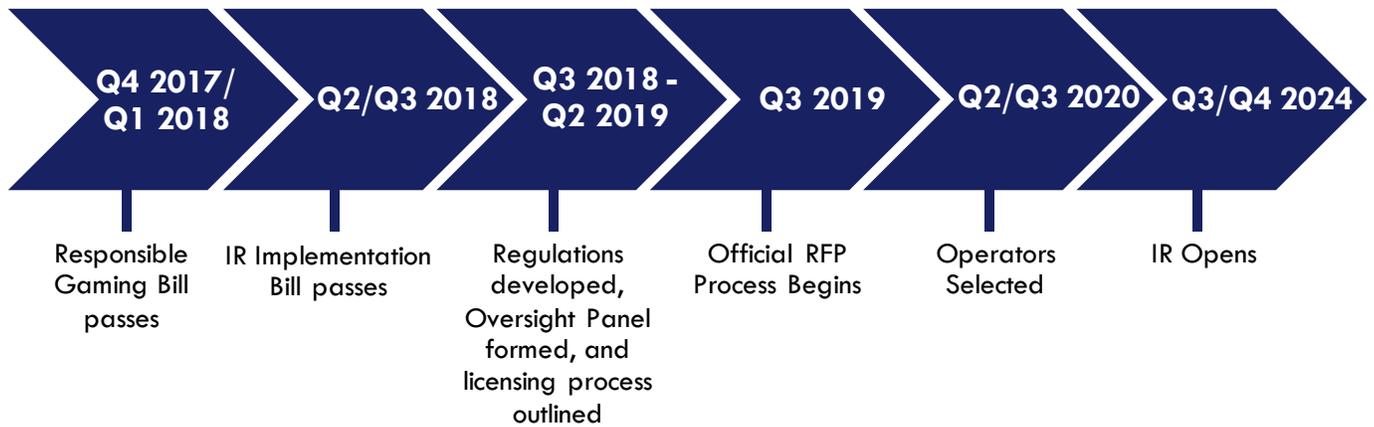
- **Gaming Floor Space Limitations** – While the report does not include a specific recommendation, several limitations continue to be discussed publicly, including thorough RFI requests by prefectures, that would restrict the gaming floor size as a percentage of the total facility. Some of these numbers have proposed limiting the gaming floor to 15,000 square meters and/or to three percent of the total facility. Instead, Japan should allow the operator to work in partnership with the regulatory board to allow for a gaming floor that meets demand, thereby allowing enough profit to warrant the large levels of investment necessary to appropriately construct the other non-gaming amenities that will help spur incremental tourism and economic benefits.
- **How Gaming Floor Space is Counted** – Additionally, the way that gaming space is counted should also be considered. The market in Singapore serves as a model for this item as they count gaming area based off of net area and not the overall gross gaming area.
- **Casino Entry** – If an entry levy is charged to locals, it should be an amount that is equivalent to the cost of entertainment. Studies have shown that entry levies are not effective in preventing problem gaming. As such, an entry levy should be viewed as a tax by the government, rather than a deterrent to problem gamblers. Any decision on entry levies should be made by the appointed regulatory authority and based on best practices from evidence-based research. These same best practices should apply to visitation restrictions that limit the number of visits a patron may make within a given period of time.
- **Credit** – For the protection of players, credit should be allowed to be extended. High dollar amounts should not be limited solely to cash. This will allow players to regulate their own play while feeling safe about the transportation of their funds.

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## TIMELINE

The following graph summarizes GMA's prospective timeline for the development of IRs based on the most recent snap election developments.





While there are over 20 prefectures and cities that have displayed an interest in hosting an IR, only a handful of prefectures will be chosen to feature an IR as a part of the initial phase of development. While most believe there will be two to three licenses in the first round, there will most likely be a balance between the urban areas of Tokyo, Osaka, and Yokohama and the regional destinations located outside of major metropolitan areas. These areas include Sasebo in the Nagasaki prefecture and Tomakomai in the Hokkaido prefecture.

Tomakomai recently closed its initial Request for Information (RFI) for a proposed IR located between the town and Chitose Airport. This process will allow the prefecture to perform initial due diligence as it vets around 15 different proposals. Nagasaki has indicated that they may start their process later this year in an RFI or Request for Concept (RFC) process for the Huis Ten Bosch site in Sasebo. Wakayama also recently completed a process to select consulting services for its RFI/C that will launch in the spring of 2018.

Most of the major cities are not expected to start their RFI/C process until 2018 once they have more information as to what will be included in the IR Implementation Bill.

## SUMMARY

GMA continues to believe that there is significant opportunity for integrated resorts within major cities, as well as various regions/prefectures throughout the country. The opportunity for Japan to set the standard for the next iteration of integrated resort development is now. The market needs to be framed appropriately to create a partnership between operators and the Japanese Government. The industry still needs to educate Japanese stakeholders and the general population on all aspects of an integrated resort.

GMA encourages the Diet to leave the specifics of many of the aforementioned items to the regulatory authority. Many of these decisions should not be set strictly in law in the IR Implementation Bill. The law should offer the guiding principles and framework from which the regulatory board can implement and oversee the Integrated Resorts. This will allow for evidence-based research to serve as a guiding principle and allow for the regulatory authority to evolve



with best practices in the future. The same principles should be applied as the Responsible Gaming Bill is debated and passed.

Prime Minister Abe and the victory by the Liberal Democratic Party are a positive for the future development of Integrated Resorts in Japan. The ruling parties will have a full agenda as they deal with several key issues, including tackling constitutional reforms. Integrated resorts will be a part of the overall agenda as demonstrated by the most recent visit of Cabinet Secretary Makoto Nakagawa to Las Vegas and Washington, D.C. However, Japan must still debate and pass both the Responsible Gaming and IR Implementations Bills in the next year. Once this occurs and the regulatory framework has been established, the race for the IR opportunity in Japan will officially begin.

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