The Olympics won't save Japan, but visas might

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Olympic host nations tend to experience increases in tourism in the run up to the event itself. Sydney, for example, enjoyed a 10.5% increase in the year before the 2000 games.

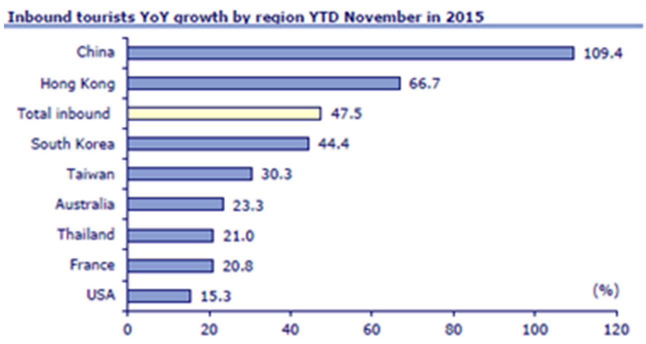
Tokyo, which hosts the 2020 Olympics, is now hoping for the same effect. Whilst this is good news for investors in the APN Asian REIT Fund it is by no means the main story. For that, we have to turn to something at once mundane and transformational.

Tokyo was awarded the Olympics in 2012. Back then, the Japanese Government had a target to reach 20 million visitors a year by 2020, a 140% increase in just eight years. That target was reached within three years and subsequently revised to 40 million visitors a year.

The Olympic effect explains only a small part of this significant increase. The relaxation of visa requirements for visitors from many Asian countries explains the rest.

Step on a plane in Shanghai, Taipei or Beijing and you'll be on Japanese soil in under three and a half hours. From Seoul, in just over two. The rapid growth in Asia's middle class is bringing foreign travel within reach of an expanding demographic. The relaxation of visa requirements seems to be encouraging many millions of them to visit Japan.

After visa requirements for Chinese visitors were relaxed on 19 January, 2015, for example, total Chinese visitors more than doubled while Hong Kong and South Korea saw 67% and 44% growth respectively as you can see in the graph below.



The top four contributors to Japan's tourism boom, all Asian neighbours, now constitute approximately 60% of the country's total tourists. This impacts the APN Asian REIT Fund in three favourable ways.

First, about 40% of the fund's assets are invested in Japanese REITs (JREITs), with a concentrated focus on Tokyo. The Japanese capital – a truly global mega city and tourist magnet at the heart of one of the world's leading export nations – is likely to be the primary beneficiary of the tourism boom. For this reason, we have long held a preference for JREITs that hold Tokyo real estate.

Secondly, Tokyo is the world's largest office market. That's reason enough to consider its investment potential. Infrastructure projects to prepare the city for the Olympics plus huge tourism growth add to the strength of this argument. Along with the construction of new hotels and office developments, demand for land is increasing at a time when office vacancy rates have fallen to post-GFC lows of around 4%. That's good for JREITs that already own sought after Tokyo office space.

Thirdly, the Japanese retail sector is a beneficiary of the increase in tourism. Tourists spend around 40% of their holiday budget shopping, boosting sales in key retail destinations like Tokyo. Here, the Chinese are having an even greater impact. Their budget is 50% larger than the average tourist and over half of it is spent on shopping. This is a windfall for retailers, especially those in Tokyo where the Fund's JREIT retail holdings are focused.

Moreover, this trend is expected to gather pace if the Japanese government, which recently increased its tourism budget by 73% for 2016, achieves its target of 40 million visitors a year by 2020. Investors basing their argument to buy on the Olympic effect alone are missing this vital, structural, transformation. Land in Tokyo is scarce and demand for it is increasing. This benefits JREITs that already own retail assets. With greater competition for retail space and higher sales, rents are going up, taking asset values with them.

The APN Asian REIT Fund is well placed to benefit from this structural transformation. As at 30 April 2016, the fund's annual distribution yield is approximately 6.11%[1] but the bigger, longer term picture may be even more upbeat.

Some investors are as excited as we are about Japanese office and retail property, especially in Tokyo. But too many are focussed on the Olympics. Boosted by a simple bureaucratic gesture, easy visas for Asian tourists are changing the face of Tokyo. We believe investors in quality office and retail assets will be among the first to benefit.

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1 Current distribution yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is no indication of future performance.

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