

Japan continues to position for IRs despite legislative delays

By David Rittvo*

As the Japan Diet begins its winter 2015 session, there is renewed anticipation for the passage of the Draft Integrated Resort legislation. Although the previous special session ended without the passage of the bill, there have been notable developments at both the federal and regional levels.

The Innovation Group has been tracking the process in Japan for the past three years, including meeting with stakeholders in Tokyo, Osaka, Yokohama and other smaller regional markets.

Last week, Yomiuri Shimbun, Japan's largest newspaper announced that the federal government is currently considering draft legislation that includes the possibility of developing large-scale IR's in Yokohama and Osaka only by 2020, in time for the Olympics.

The draft legislation did not mention Tokyo as a possible other development. There was also no mention of a regional casino development in this announcement, but any IR is most likely to be placed in a smaller city away from the large city zones so that the developments do not cannibalize one another.

The sizing of the Japan market remains a moving target due to the fluid nature of the legislation being considered. Analysts, including Jay Defibaugh from CLSA, have provided estimates that ranged between \$4 billion and \$10 billion depending on the location and operational dynamics.

The smaller regional casinos have been pegged at between \$350 million and \$1 billion, depending on the development size and scope.

Seeing as the current legislation includes a lot of moving variables, including the potential to limit local access and/or require an entrance fee, as well as potentially limiting access to junkets and credit, exact estimates for the market are difficult to ascertain at this time.

Regardless of the exact legislation, the potential IR developments in either the Tokyo Metropolitan Area or Osaka will be the single largest property, in terms of revenue generation, in the world.

The regional level effort has seen the most progress since the last Diet Session. As most are aware from related press, Okinawa, considered by many to be a serious candidate for the first regional casino, has decided not proceed.

As a result, The Hokkaido prefecture has emerged as the leading regional casino candidate. Similar to Osaka, Hokkaido has initiated its regulatory, development and information gathering process. In late 2014, the prefecture released a request for information to over 25 casino companies and developers.

The request included background information regarding the operation of casinos, a view on potential development sites around Hokkaido and background on gaming potential for the regional market. The outcome of the RFI should begin to shape Hokkaido's next steps for the development process and position it for continued momentum once the legislation is passed on the federal level.

Meanwhile, activity in Osaka continues to move forward on both the governmental and private sector fronts. A group of Osaka based businesses, under the umbrella of Kansai Association of Corporate Executives, KACE, has released plans for a large-scale IR to be developed on Yumeshima Island.

Both the Osaka City and Prefecture governments are continuing their pre-development, planning and information gathering phases. Our impression is that Osaka is positioning itself to be ready to start the lengthy development process once legislation is passed on the federal level, with the hope of being the first Integrated Resort in Japan.

In the greater Tokyo and Yokohama area, it appears that Yokohama has increased its profile in communicating its ability to be the host city for a large scale IR development for the region. In 2014, Tokyo Governor Yoichi Masuzoe stated he would like to concentrate on the Olympic developments and continue his information gathering regarding the social and economic impacts of IR developments.

In light of Tokyo slowing down its development process and the renewed interest on federal level support, Yokohama has continued to progress. Last week, The Yokohama City council submitted comprehensive plans for the waterfront development that would include an IR. The sites would allow the IR to take advantage of Tokyo Bay, Yokohama's relative location to Haneda International Airport and strong transportation access.

Finally, on the federal level, as previously mentioned, the initial IR legislation is "in the queue" to be considered and is awaiting presentation to the legislative body.

Conflicting reports continue to surface, with some stating that due to the number of more pressing bills in front of the legislation, including on national defense, the bill might not be introduced or considered until a special session in July or November 2015. However, recent reports have also stated that the bill will be introduced this week.

In addition to the legislative process, the members of the Diet and other stakeholders are fielding questions and concerns regarding the potential social impacts of the Integrated Resorts. One prominent example of this occurred in late 2014 when a study was released by the Ministry of Health, Labor and Welfare stating that close to 5 percent of the population has a pathological gaming problem. While some might dispute the methodology and overall results of the study, it raised concerns in Japan and led to further discussions amongst politicians.

The outcome of these discussions has led to potential problem gaming mitigation factors being introduced with the bill. These could include a local entrance fee, strict self-exclusion policies and strong identification checking systems. In addition to these discussions, Congressman Takeshi Iwaya, Secretary of the IR Giren in Diet and a strong IR proponent, stated that the legislation will include a provision that allocates a certain amount

of gaming revenue to tackling gambling addiction and creating care facilities for problem gamers.

It is important to note that all of these measures are still under discussion as the Diet members continue to consider this bill.

Federal bureaucrats are also continuing their information gathering trips and research to other IR markets. These markets include Singapore, Las Vegas, Atlantic City and Europe. The goal is to gather the best practices from established IR markets and implement those into the draft legislation and second gaming bill.

Whether the legislation is passed is yet to be determined, but 2015 could be a make or break year for the stakeholders involved. Should the legislation pass, the scale and energy around the development opportunity and resulting product should be unlike anything seen in Asia.

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