



# Global Market Advisors

LAS VEGAS DENVER BANGKOK

## Research Brief: Japan IR Timeline Update

June 4, 2019

Late last month, many stakeholders following the Japan Integrated Resort process believed they were thrown a curve ball, following reports stating that the process would be delayed by a year without the appointment of the Casino Management Commission and other cabinet and ministerial positions. However, the delay will likely not be as long as initially thought but would only be a minor delay in the marathon for integrated resorts in Japan.

First and foremost, this process is still in its infancy. While stalwarts of the process have been trying to get legislation passed for over twenty years, the race continues to move at a moderate pace as the government begins its official process to form the Commission and the 300-plus items that still need to be officially decided. It was thought that the Commission would likely be appointed before the end of the current regular session of the Diet. However, this part of the process has been delayed because of the upcoming elections that have been planned for the Upper House of the Diet. While it has not been confirmed that a double election would occur in July 2019, there is also the potential that a snap election in the Lower House could be held at the same time.

While many reports have stated that this will delay the process up to a year, it will likely only be a small delay in the overall process to establish gaming regulations, which would create the gaming commission and the subsequent regulations that will need to be made as a follow up to the IR Implementation Law that was passed in July 2018, as well as outlining the process for RFPs and the eventual selection of operators and locations for the three potential licenses. There are still many things going on behind the scenes, but education is still paramount in crafting regulations of the highest standard, following premiere regulatory examples such as Nevada, Singapore, and others.

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It is likely that after the election, the Diet will be called into an extra-ordinary session this fall, maybe as early as September. This session could last well into the fall, but it is believed that the key legislation to approve the Casino Management Commission will be approved before the end of 2018. This will then trigger the process to move forward with the regulations and the RFP process, only delaying the process by a few months as opposed to a full year, as was reported last month. This will also be the most critical phase as the final regulations are promulgated and the RFP process is outlined.

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#### YUMESHIMA CHALLENGES

One of the biggest challenges that was presented by the formal announcement of the delay was the process that the city and prefecture of Osaka have sought to open an integrated resort on Yumeshima Island before the 2025 World Expo. The facilities of an integrated resort would complement those facilities needed for the Expo on the island, specifically with the meeting and convention space as well as the much-needed hotel rooms with close proximity to the site.

Even under the most aggressive timeline, it would have been a challenge to get an IR open on Yumeshima by 2025, should they be awarded one of the three coveted licenses. This is because of the challenges that would face any structure of this magnitude being built anywhere in Japan, let alone a man-made island that may have its own challenges in construction. Japan's environmental process alone will likely take 20 – 24 months to complete. During this time, a successful operator will be working through their final design so that they can begin construction immediately after the environmental assessment has been completed.

Major integrated resorts typically require 34 – 40 months to build. In total, the full development timeline would likely range from 54 months to over 64 months. As of the writing of this brief, there are 67 months until the start of 2025. As such, licenses would have to be awarded within the next 12 months to have a chance at opening a complete integrated resort that is ready to go by 2025. While some may take a risk and begin the environmental and final design processes prior to the awarding of a license, they would potentially be spending hundreds of millions of dollars with no official guarantee of securing one of the three licenses.

As plans for new IRs start to be unveiled, one must also take into consideration the cost of facilities, which will be the largest of any jurisdiction in the world to date for one facility. As an example, it would cost roughly \$10 billion to replicate Marina Bay Sands™ (“MBS”) today, which many view as the model for IRs in Japan. The time span from the awarding of the license to the opening of MBS was roughly four years. If Japan seeks to set a new standard for IRs, it may likely take more than \$10 billion to create a greater facility based on the design and components of MBS.



While this reality may not meet the original objectives that leaders in Osaka had desired, it now provides them the time to choose a successful partner to bid for one of the three licenses. This also serves as an opportunity for the 2025 Expo to serve as a preview center for tourists to return to Osaka after the Expo and enjoy what will likely be one of the premier IRs ever developed, should Osaka be awarded one of the licenses.

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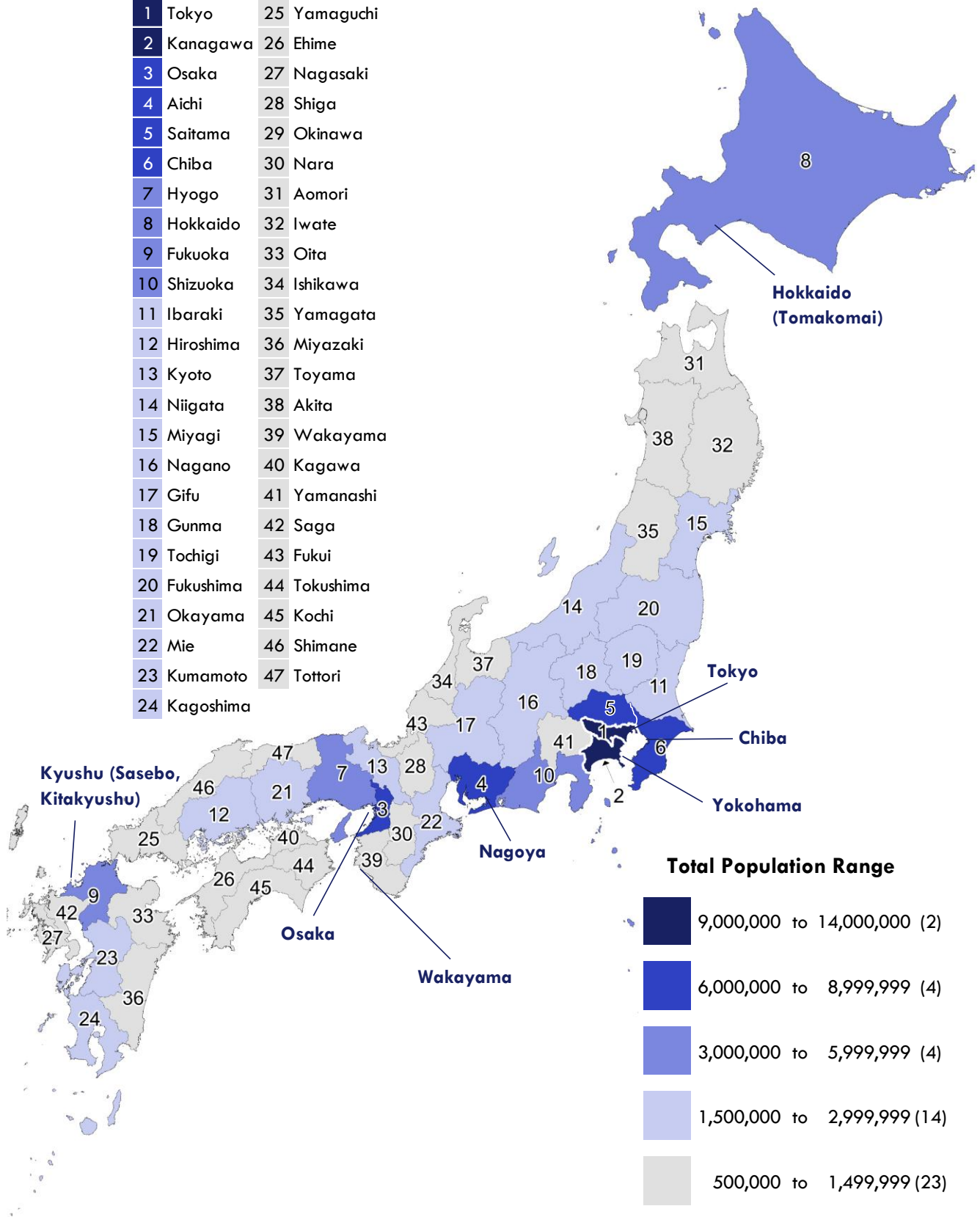
#### LOCATION, LOCATION, LOCATION

The law and subsequent regulations currently outline the framework of the various components required for a Japanese IR, including a hotel, MICE, other non-gaming amenities, and casino space. The complexity and size of these resorts limit the number of locations that are capable of hosting one of these facilities. While a Japanese IR must be designed to drive tourism throughout the country, a successful IR bid will serve as a hub and spoke for the great Japan tourism experience.

The map on the following page highlights the cities and prefectures that have shown an interest in the market to date and have the ability to host one of three potential licenses available under the IR Implementation Law. While not all local governments have officially declared their intention to compete for a license to date, and while several may not in the end, these are the most competitive sites that offer an attractive location to drive tourism while having gaming as the economic engine to invest billions of dollars into the Japan market.



1	Tokyo	25	Yamaguchi
2	Kanagawa	26	Ehime
3	Osaka	27	Nagasaki
4	Aichi	28	Shiga
5	Saitama	29	Okinawa
6	Chiba	30	Nara
7	Hyogo	31	Aomori
8	Hokkaido	32	Iwate
9	Fukuoka	33	Oita
10	Shizuoka	34	Ishikawa
11	Ibaraki	35	Yamagata
12	Hiroshima	36	Miyazaki
13	Kyoto	37	Toyama
14	Niigata	38	Akita
15	Miyagi	39	Wakayama
16	Nagano	40	Kagawa
17	Gifu	41	Yamanashi
18	Gunma	42	Saga
19	Tochigi	43	Fukui
20	Fukushima	44	Tokushima
21	Okayama	45	Kochi
22	Mie	46	Shimane
23	Kumamoto	47	Tottori
24	Kagoshima		



## THE ROAD AHEAD

While there still may be bumps in the road to the awarding and opening of IRs in Japan, stakeholders should understand how the current minor delay may affect the process and impact the overall timeline. Below is an updated timeline from what GMA originally published in its initial white paper in May 2017.

### Proposed Timeline for Integrated Resorts Development in Japan

#### 2019

- |         |   |
|---------|---|
| Q2      | Creation of Relevant new section within MLIT  |
| Q3 - Q4 | Process/identify candidates for members of Casino Control Commission<br>Approval by both of houses of Diet before assignment by prime minister<br>Budgeting approval process for new State organization created |
| Q4      | Creation of Casino Control Commission/relevant new section within MLIT<br>Issuance of Core Decrees and Regulations  |

#### 2020

- |         |  |
|---------|--|
| Q1      | Establishment of Fundamental Policy by Minister of MLIT<br>Criteria for Selection Process of Zones<br>Timeline for Proposals by Prefecture |
| Q1 - Q2 | Issuance of Implementation Policy by Candidate Prefectures<br>Issuance of RFP  |

#### 2021

- |    |  |
|----|--|
| Q1 | Selection by Candidate Prefectures of Operator Group   |
| Q2 | Preparation and Submission of Zone Implementation Plan |

#### 2022

- |            |   |
|------------|---|
| Q2 - Q3    | Minister selects the Zone(s)  |
| Q3         | Minister approves Draft Contract between Prefecture/Operator Group<br>Operator Group applies for Casino License |
| Q4 - Q1-23 | Financial Close and Construction Begins   |

#### 2026

- |         |                   |
|---------|-------------------|
| Q1 - Q3 | IRs Begin to Open |
|---------|-------------------|

Source: GMA

As noted above, the timeline could advance to a faster IR opening should the operator/prefecture partnership take the risk upon themselves to advance an IR opening earlier than 2026. If there is not a process in place by Q2 2020, it is unlikely that a full integrated resort would be open in time to meet the desires of Osaka for the World Expo in 2025, or anyone else that will be investing billions of dollars into an integrated resort.



Japan continues to serve as the greatest opportunity across the globe for the development of integrated resorts. At least eight viable areas of the country are available for development, and nearly two dozen operators have shown an interest in the overall market. Japan has the potential to see the next iteration for major integrated resort development and serve as a model for other jurisdictions that may consider similar efforts in the future. This includes both the development of facilities as well as the process for the selection of operators and local government partnerships. This also applies to developing sound regulations and evidence-based responsible gaming measures for all forms of gaming. A minor delay in the process should not be seen as more than a minor bump in the lengthy journey toward developing a premiere gaming and tourism experience, as intended by the law passed nearly a year ago.



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