

# Ryokan Thought Piece - Part 1:

What are Ryokan's, how do they operate and what are the key features?



**ODYSSEY**

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## Executive Summary

Odyssey Asset Management is a private market asset manager focused on private equity, alternative credit & real estate.

We invest in thematic opportunities within real-estate, in markets we believe represent good value, in niche strategies that aims to achieve superior returns from repositioning and value adding the capital values and cash flows generated. We partner with local execution partners with long and successful track record in the niche sectors and strategies we are most interested in.

We have high conviction that the Japanese Ryokan sector presents a unique and exciting opportunity to acquire and redevelop heritage and luxury properties to be best placed for the expected long term and structural growing Japanese tourism market.

With inbound tourism expected to return in the near term, we believe Ryokans are prime placed for benefiting from an increase focus on inbound experiential travel with a focus on wellness, culture, and privacy.

Additionally, the large domestic tourism market has continued to be a significant and resilient source of demand and the local traveller has been a key consumer of Ryokan Hospitality for many generations.

To illustrate the opportunities and develop a clear understanding of the market, we have compiled a thought piece, broken down into 3 parts:

### **Part 1: What are Ryokan's, how do they operate and what are the key features?**

Part 2: Sector Analysis – what are the emerging trends, dynamics & Unique selling points

Part 3: Investment thesis and case study of Ryokans

In this first segment of the report, we explain what is a Ryokan and the key characteristic that creates their uniqueness in the hospitality sector. Through understanding the characteristics of Ryokan and how they operate.

## What Is a Ryokan?

Ryokans are traditional Japanese-style inns and have been an icon of Japanese culture for centuries. The first one was reported to have opened in 718 AD, giving them a history of 1,300 years. Most ryokan traditionally are family-run style inns providing a very high level of service, quality food and comfortable lodgings. Japanese travel culture focuses on “omotenashi” spirit – the spirit of hospitality. This ryokan culture has traditionally flourished and as a result, the number currently totals around 63,000 nationwide.

Ryokans can be categorised by varied style, class and size. We classify as the following:

### Style:

**Figure 1: Ryokan Look & Feel**



*Source: Live Japan*

Ryokans uses a blend of traditional elements and combining modern elements.

While style may be in the eye of the beholder, we can classify broadly in 3 style “categories”.

**(I) Traditional** – Usually historic with traditional materials and design.

**Figure 2: Traditional Kyoto Ryokan**



*Source: Ryokan Hiiragiya*

**(II) Modern** – sleek in design with modern conveniences.

**Figure 3: Interior of a Modern Ryokan**



*Source: Hoshinoya*

**(III) Ryokan Hotel** – It is a hybrid of a traditional hotel with lobby, spa, and services, whilst maintaining Japanese style rooms and service. These can also be larger in size and have a resort/ large hotel feel.

**Figure 4: Interior of a Ryokan Hotel**



*Source: Hashimoto*

### Class:

**(I) Luxury Class** – All the luxury, style, privacy and amenities that can be expected from the very best hospitality accommodation. Average Daily Room Rates +750USD for dual occupancy at full board all inclusive. Interestingly, the ability to price Average Daily Room Rates north of **USD1000 per night**, exists in the Japanese market.

**(II) Traditional Standard Class** – with two basic meals, per night room rate around **USD250 to USD450** (for dual occupancy).

**(III) Economy Class** - Average Daily Room Rates around **USD150 to USD200** per person full board. It typically cater

to tour groups and families, often with communal bathrooms/ spa and dining areas.

**Size:**

**(I) Boutique/Private** - less than 20-50 rooms. Typically, the smaller style accommodations are often more luxurious and private with greater attention to details.

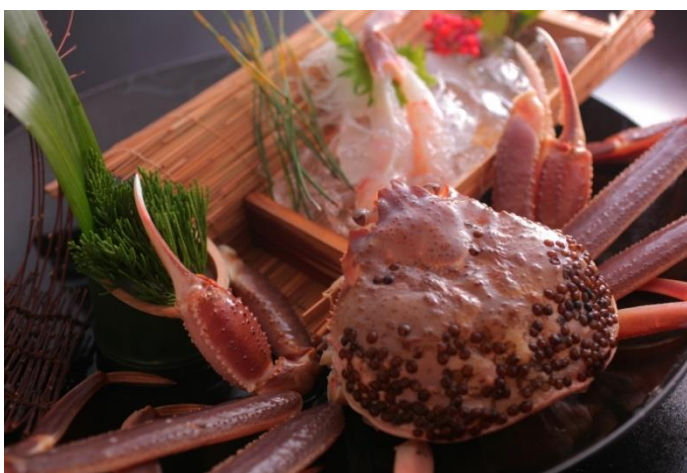
**(II) Family/ Mid** – less than 50-100 rooms. Often with facilities for groups, families, meeting rooms, restaurants and bars.

**(III) Group/Large** - typically +100 rooms. Often with multiple large hot spring baths and open-air baths, amusement facilities, swimming pools, wedding halls etc may be added.

**Ryokans have 3 Key Characteristics;**

1. **Focus on Local Environment & Culture** – it is rare to find ryokans in large urban cities like Osaka and Tokyo. Typically, Ryokans are located in beautiful locations that is closer local cultural tourism assets and are surrounded with natural environment. This connection to local community and environment, is an integral part of the Ryokan offering and positioning.
2. **Focus on Local Cuisine** - a core characteristic of the Ryokan ‘experience’ is the focus on local cuisine. Whether it be the local seafood, produce, vegetables or even style of cooking regional cuisine etc.

**Figure 5: Local Seafood served in Ryokan**



*Source: Taiza Onsen Sumihei*

3. **Focus on Local Hotspring (Onsen)** - the wellness and healing properties of Onsen have been appreciated for many generations. One might say that the Onsen culture was one of the first spa cultures in history. Nowadays, tourists seek out Onsens for their natural mineral properties, which may include treatment for medicinal and beautifying effects that are endemic to Onsens.

**Figure 6: A Traditional Onsen**



*Source: Monjusou*

**Features**

**Figure 7: Sample Room Layout**



*Source: Arashiyama Benkei*

A typical ryokan has a relatively large entrance hall, with elaborate sitting area acting as a reception and greeting room for guests. Guest rooms are constructed using traditional Japanese methods: tatami floorings and sliding doors.

Almost all ryokan have a common bathing area or ofuro, usually segregated by gender, using the water from a hot spring (onsen) if any are nearby. *(Areas with natural hot springs tend to attract high concentrations of ryokan).* Typically, ryokan provide guests with traditional lounge wear (i.e. a yukata) to wear.

Bedding is a futon spread out on the tatami floor. When guests first enter their room, they usually find a table and some supplies for making tea. The table is also used for meals when guests take them in their room. While guests are out, staff (usually called nakai-san) will move the table aside and set out the futon for a restful night when the guest returns.

## Meals

**Figure 7: Ryokan Dinner**



Source: JTBGMT

As mentioned, a key and dominant feature of Ryokan is the unique meal service and local cuisine focus. Most ryokan offer dinner and breakfast, which are often included in the price of the room. Most visitors take their meals at the ryokan, which usually promote themselves on the quality of their food. Meals typically consist of

traditional Japanese cuisine referred to as *kaiseki*, which features seasonal and regional specialties in that area. (Kaiseki originally referred to light meals served during a tea ceremony, and today refers to a meal consisting of a number of small, varied dishes.) For each dish to be enjoyed at the optimal temperature, many ryokans stress that guests should be punctual for their meals. Some ryokan has a communal dining area, but most serve meals in the guests' rooms. Ryokan which are likely to serve non-Japanese guests may also have a selection of Western food.

## Location and Preference

Ryokans are traditionally spread out across the country from north to south. However, with the modernization of Hospitality Industry, many Ryokans are closing or being replaced with more westernized style of accommodations. This is particularly the case in larger cities such as Tokyo and Osaka. As previously mentioned, many Ryokans are destinations in themselves, in that travellers seek them out due to either their local cuisine, Onsen properties, cultural enrichment or being a very popular attraction.

It is our preference to focus & seek out Ryokans with the following qualities:

- **Multiple Tourism Drivers**
- **Proximity to Transportation Infrastructure**
- **Connection to Unique Local Culture Offering**

## Conclusion

Ryokans are typically defined with the enduring Japanese customs such as having Onsen and the focus on local cuisine. We feel that this is an asset that is unique and not found in other hospitality assets that are homogenous. The next segment of the report will highlight the sector thematic, trends and the unique selling points of the asset, making it one of the most interesting opportunities within the global hospitality sector.

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