



EVENT

By C Bryan Jones

Are *Minpaku* a New Asset Class?

How short-term rentals can bring personal, financial, and cultural rewards

Although inbound tourism has been put on hold as the world grapples with Covid-19, Japan was a top destination prior to the pandemic and no doubt will be again. While there long have been plenty of places for visitors to stay—Yamanashi Prefecture is home to the world's oldest operational hotel, Nishiyama Onsen Keiunkan, which was founded in 705 AD—a new market has been emerging in recent years. Driven by the Japanese government's focus on tourism as part of its recovery efforts following the global financial crisis of 2008, *minpaku* (short-term rentals) have become a big opportunity for investors and real estate owners.

On July 1, the American Chamber of Commerce in Japan Alternative Investment Committee welcomed Tracey Northcott, chief executive officer of Tokyo Family Stays G.K. and Tracey Northcott Consulting, to talk about her experience as one of Tokyo's most successful *minpaku* hosts and how she grew Tokyo Family Stays into a seven-figure business. She also discussed the ecosystem of services and operating models that provide business opportunities, as well as how hosts can make themselves a valued part of the community by collaborating with neighbors and local business.

Starting Point

While there are plenty of midrange business hotels in Japan, these are not ideal for many leisure travelers as they are neither family nor tourist friendly. They can also be difficult to book if you do not speak Japanese. *Minpaku*, in contrast, are family friendly, budget friendly, and can easily be booked online in English.

Northcott, an Australia native who has lived in Japan for 21 years, began her *minpaku* journey in 2011 with a single unit. Four years later, she had 25. She was able to take advantage of a surge in visitors to Japan that followed the easing of visa restrictions in 2013—a development to which major hotels were slow to respond, because of the planning and construction required for such large-scale facilities and the need to maximize their return on investment (ROI).

“The tourists were going to places where the cost of land is very high, such as Tokyo and Osaka,” she said. “When a hotel is built, the company really wants to maximize their ROI, which means they want to put a five-star hotel on the land. So, you didn't really see a lot of the smaller chains then that you might see now.”

As an example, she noted how companies such as Best Western operate a range of brands and hotel types, from luxury to economy, thus serving the needs not only of executives traveling on business, but also families on vacation. This is common in the United States, but not in Japan.

“There was a massive hole in the infrastructure. But for *minpaku* hosts, because they use existing buildings, there is a very low barrier to entry, and there was an absolute boom in *minpaku* growth from 2013 onwards,” she explained.

During her presentation, Northcott highlighted three points that helped that quick growth:

- Lack of regulations
- Plenty of available real estate
- Decades of flat rental prices

“It was a no-brainer for people to do exactly what I was doing—to set up a second or third apartment for rental and then list them on the [online lodging] platforms,” she added.

Backlash and Legal Turns

As more people seized this seemingly easy way to make money, the popularity of Airbnb in Japan took off. In fact, the country became the platform's second-largest and fastest-growing market after the United States. But as Airbnb grew—particularly between 2015 and 2018—there was a backlash from local communities and businesses. Northcott highlighted six reasons for this:

- Big increase in tourism, but with little improvement to infrastructure
- Popular tourist locations becoming saturated by non-Japanese
- Disruptions to neighborhoods and residents' usual lifestyles
- Some Airbnb hosts and their guests acting poorly or unprofessionally
- Press reports and TV shows doing gotcha pieces
- Airbnb's failure to educate the domestic market

These and other concerns led to a poor image of the *minpaku* industry among the general public and resulted in a push for regulation.

“It was hard when you were a professional host, and you really were proud of what you were doing, but there were some people out there who were giving us all a bad name,” she recalled.

Perhaps in a majority of cases, *minpaku* listings were in violation of local statutes. But this doesn't mean they were illegal, as rules for this form of lodging had not been defined. There were a lot of gray areas. Public sentiment against hosts, however, was definitely building.

Initially, *minpaku* fell under the rules and regulations of the Inns and Hotel Business Act, which was



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Dining at home is an experience travelers simply cannot have in traditional hotel settings. Shown here is Northcott's "Pencil House" property in Shinjuku.



enacted in 1948 to govern the operation of hotels and three other forms of lodging: *minshuku* (Japanese-style bed and breakfasts), *ryokan* (traditional Japanese inns), and youth hostels. *Minpaku*, Northcott explained, is a modern evolution of the *minshuku* tradition. Changes were needed to keep up with the evolving market, and in March 2016 the Diet passed the *minpaku* law, formally known as the Private Lodging Business Act.

A big drop in the number of listings accompanied the implementation of the law on June 15, 2018, with Airbnb removing about 80 percent of listings on June 4. In the blink of an eye, the number of available options dropped from 62,000 to 13,800. But this purge, and the clearer rules introduced by the government, led to an increase in the quality of hospitality and allowed the market to mature. Professional hosts and property managers were better able to take advantage of opportunities to build their businesses.

“The people who were just trying to make a buck decided they were going to move on to something a little bit easier,” Northcott said. “That allowed the market to mature, and for professional hosts to really dig into their hospitality style, and to do some market segmentation and outside marketing—all the things that go into a professional business.”

“A hotel is really an accommodation product; it’s a bed, it’s where you stay, and then all your experience is outside the house. A minpaku is really a hospitality and experience product.”



Kitchens such as the one in Tokyo Family Stays' Honmachi Cottage allow guests to truly experience what everyday cooking is like for a local.

With the Wild West days of *minpaku* gone, owners must now get a license to rent out a property for short-term stays. The terms and conditions for approvals are strict, while additional fire and safety certification is required. Information about guests must also be reported to the local *hokenjo* (public health center) every two months. This includes nationalities, dates and length of stay, and the tracking of guests' movement around the city or country. This health requirement is not specifically tied to Covid-19. It was already in place for hotels as part of the 1948 law.

While the Private Lodging Business Act provides a framework for the operation of short-term rentals, the regulations vary by location. Bookings are limited to stays of 28 days or less—for a total of 180 days per year per facility—but what days are allowed depends on the city or neighborhood. In Tokyo's Minato Ward, for example, you can only rent on weekends or school holidays. Toshima Ward, in contrast, is rather flexible. And areas that have strong hotel lobbies mostly have been able to keep *minpaku* out.

Building Success

Once you have your license, what comes next? How do you create a successful business? Some people worry that they might be seen as a pariah in the community. A lot of animosity was shown toward hosts in the years leading up to the *minpaku* law, and the memory is still fresh for many. But by creating alliances with neighbors and local small businesses, *minpaku* operators can become valued partners in the community.

The key, Northcott said, is to be transparent in what you are doing from Day 1. Especially in rural areas, if you get to know the officials and explain what you are doing, they are generally ready to help, as they see the benefits to the area. They understand that *minpaku* can inject significant revenue into the community.

This is related to a *minpaku* myth that Northcott dispelled during her presentation.

“People, when they start up their business, seem to think that the nightly rate is the only opportunity they have to make money, and discounting is the only marketing strategy they’ve got,” she explained. “But discounting is a bit of a blunt instrument. People who are new to the industry try to use it as a marketing tool, but that’s a race to the bottom. You’re going to get bad guests and you’re not going to have a successful business.”

The better choice is identifying the pain points of your ideal guest to create additional revenue streams. Northcott said she can earn 20–30 percent more over her nightly rate by addressing the needs of guests during their stay. This personal touch includes arranging packages for events such as micro-weddings, anniversaries, honeymoons, and birthdays. Helping create a memorable and special stay is a great way to increase revenue while maintaining a high-quality experience for guests.

And affiliate agreements with third-party service providers, such as restaurants and cafés, private chefs, cultural classes, tour companies, and ticket vendors are another great way to boost your profits while also providing benefit to the local business community.

This approach also allows you to provide guests with an authentic local experience. Many people who book *minpaku* accommodations want to know what it is like to live in another country. This is an area in which the more personal nature of *minpaku* excels compared with hotel offerings.

“A hotel is really an accommodation product; it’s a bed, it’s where you stay, and then all your experience is outside the house,” Northcott said. “A *minpaku* is really a hospitality and experience product. I don’t offer cheap accommodation—that’s not my product. I’m very clear about this in all my marketing. I offer inbound tourists a local experience, and with that they get a whole bunch of information about what it’s like to live in another country, and all the community responsibilities that come along with it.”

Of course, this all takes time and hard work. Northcott noted that *minpaku* is a full-service hospital-

ity business, so if you’re looking for passive income, it may not be for you. Success requires:

- Having great communication systems and logistics
- Educating guests on community responsibility
- Handholding throughout the guest experience
- Having a 24/7 response system, with redundancies

Beyond the Pandemic

While no one can predict when we will emerge of the ongoing states of emergency, and when Japan will reopen its borders to inbound travelers, Northcott is bullish on a strong recovery.

“Beyond 2021, revenge travel is going to be a thing, there’s going to be an exceptional amount of pent-up demand,” she said. “I know a lot of people in other countries who’ve got their credit card in hand and their fingers hovering over the keyboard. As soon as they can book a flight and the borders are open, they are coming. I don’t think demand is going to be a problem. The tourist marketing machine has already started.”



The Honmachi Cottage living space. Northcott rents the property for ¥11,000–18,500 per night, or ¥34,500 for special events.

If you’ve got an entrepreneurial spirit and are looking to invest in something that can be both financially and culturally rewarding, the road ahead looks bright for *minpaku*.

“It’s a modern evolution of the *minshuku* tradition,” Northcott reiterated in conclusion. “If you do it right, you have complete control over your profitability and the sustainability of your business.”

While Airbnb may be a name that most people recognize in connection with short-term rentals, Northcott sees them merely as one possible marketing channel, not the only one—and certainly not your identity. You get to build your own brand and you set the course.

“*Minpaku* allows you to create a unique local experience that lets you have a business of your own that can bring in additional monetization options.” ■



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