Secondary Residential Demand Trends
in Contemporary Japan and North Asia

by

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Submitted to the Center for Real Estate in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

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ABSTRACT
This research paper attempts to address the opportunity and challenges for Vacation Residential Development in North Asia, with specific geographic focus on Japan first through an analysis of national and regional consumption, tourism and real estate trends, followed by examination of similar successful developments in the surrounding region and lastly, application of research findings to assess the feasibility for a vacation home development in Kanagawa (Japan), a prefecture filled with several coastal communities approximately thirty-five miles south west of Tokyo.

The concept of vacation homes has not been as well received in Japan as in other developed regions, specifically Western Europe and North America. In the most recent housing survey conducted by the Japanese government, less than 1% of the housing stock could be considered as, "second dwellings" whilst in France and the US vacation homes make up roughly 10% and 3% (respectively) of the total housing stock. More recently in the past decade, there has been significant efforts made by both international and domestic developers to develop the vacation home market in the world's second largest economy. The hypothesis for this research is: demand for vacation residences in Japan will be driven by 1) the demographic shift within Japan, 2) emergence (and in some cases reemergence) of both the Japanese and surrounding regional Asian economies and 3) subsequently the large and growing concentration of high net-worth individuals within the region.

This thesis engages qualitative research with quantitative analysis of the market and existing developments around the globe. Research findings are then used as inputs to assess what product type and operating model should be built to properly capture demand. The thesis may be considered the precursor to a more intensive quantitative research applying urban econometric models to determine exact demand both nationally and within specific micro markets. The thesis is presented with the assumption that the reader has a good understanding of the geography and the economic, socio and political conditions in Japan; and is written with a bias in favor of real estate development in Japan. Lastly, best efforts have been made to aggregate and use the most recent and available data, but in some cases industry and public sector reports are not released on an annual basis.

With regards to forex conversion, the rate used throughout this research is USD 1=JPY 113, the monthly last price average between 2001.09 and 2009.5.

Thesis Supervisor: Dennis Frenchman
Title: Leventhal Professor of Urban Planning + Design,
Director, City Design + Development

To Mom, Dad, Michele and Mari.................thank you.

TABLE OF CONTENTS

1.0 Overview

Rapidly modernizing infrastructure, increase in wealth, changing demographics and lifestyle at both the regional and country level will drive a resurgence in demand for vacation residences in Japan. The country has a lot to offer its foreign visitors, from the Kanagawa Coast, which shares many similar characteristics with the coastal communities of California, to the slopes of Niseko, home to some of the best downhill skiing, These attributes combined with the country's rich history and culture, and a real estate market that is based on a free hold system (not to mention readily available financing and a tradable currency), that if properly leveraged will result in significant increase in demand for secondary residences in contemporary Japan and North Asia and ultimately providing both private and institution investors one of the better risk-adjusted real estate returns in the region.

Secondary residences in Japan will appeal to expanding groups that have preferences towards leisure, travel and wellness and personally have a significant amount of disposable income and savings. These are the same attributes shared with the following groups: 1) Japan's Grey Yen - or otherwise better known as the country's aging elders, 2) the Emerging Singletons – successful single professionals that prefer to marry and start a family later and 3) North Asia's high concentration of High Net Worth Individuals (both local and expatriates). Together these groups have already shown substantial interest in purchasing second residences in traditional foreign tourist destinations such as Whistler, Canada. The decision to purchase properties in these foreign locations could be partially attributed to the lack of variety and quality stock in Asia (e.g. majority of vacation residences in Asia are located in South East Asia, not necessarily a location that is convenient or favored by all).

Not too much attention has been directed towards assessing the feasibility of vacation residences in Japan. Japan's high cost of living and rather insular tourism industry deterred many international developers from previously considering this asset type. However, external factors (e.g. shift in regional demographics and wealth, improved infrastructure resulting in direct routes between the rest of Asia to Japan and increasing preference for regional travel) combined with the aforementioned internal factors provide a strong argument for developers and investors alike to reconsider the feasibility of developing secondary residences in Japan.

SECTION ONE: MARKET DEMAND

2.0 Macro Analysis[1]

The purpose of this chapter is to understand potential and existing target markets for second homes in Japan. Lessons from my preliminary research and previous private sector experience led me to focus my investigations on identifying market segments within North Asia that would be interested in vacation residences. Because of Japan's location and high cost of living combined with its surprisingly underdeveloped inbound tourism market, it is reasonable to assume that Japan cannot compete with the more developed regional tourism powerhouses like Bali and/or Phuket that are very popular with tourists from around the globe. Therefore the research was targeted towards identifying specific subsets of consumers who would be interested in specifically second residences for leisure in Japan. Methodology and architecture of the research was structured as follows:

First, an examination of vacation home trends in developed markets specifically the US was performed. Both the US and Japanese economies are quite similar in that they are developed and significant in size (the US being the World's largest economy and Japan being the second in GDP terms). Vacation residences in both markets are a small percentage of total stock: in the US vacation residences make up roughly 3% and in Japan that number is 1%. Furthermore, the secondary residence market in the US is developed and well documented with various product types and together these factors make the it a good general market to benchmark against.

- Second, analyses were conducted on understanding what drove Asian investment in secondary residences from 1985-2000 and then 2000 to the present. Both the socio-political and economic situation in the region were completely different during these two time periods and therefore a better understanding of what drove Asian households to purchase property in Hawai'i in the late '80s and Vancouver in the late'90s assists in forecasting future regional demand drivers for second residences in Japan.

- Third, research was performed to better understand travel both regionally and to Japan. This was done primarily based on theory that the development of second residences traditionally trails tourism. Vacation home developments only come on to market once a specific geographic area has developed and proven itself to be a vacation destination as seen in many cases ranging from the French Alps (where the

[1] A substantial amount of the data analyzed for this section was derived from various academic and industry reports that were released in 2006, although not the most current, it is the latest data available at the time research was conducted.

concept of timeshares began) to South Florida. Understanding travel trends within the region provides valuable insight for understanding not only what markets within the region draw visitors but also what markets does and can Japan pull from. And therefore a focused examination of regional travel trends to and within Japan is necessary.

- Fourth, efforts were made to understand the demographics, intentions and geographic preferences of buyers of vacation residences in Asia by examining Phuket, Bali and Niseko, three established tourism markets that have been successful in attracting both locals and foreign tourists to invest and purchase a second residence in their respective market. In addition, a best practices assessment of the city and projects was carried out to better understand how each respective party positioned themselves to attract foreign and domestic interest and sales.

- And lastly, a detailed assessment of consumer groups within Japan was conducted to understand which markets are the most attractive and viable.. The wealth and demographic shifts in Japan present challenges and opportunities for developers. Research efforts were focused on identifying specific consumer segments that a vacation residence in Japan would be of interest to. The research concludes that local purchasers would be one of the more practical markets to target primarily because of their disposable income, cultural comfort and knowledge of Japan.

2.1 Vacation Home Trends: The United States

Historically in the US second homes or vacation residences represent 3% of all housing stock, a statistic on par with England (3.3%), above Scotland (1.3%) and substantially below France where 10% of all housing stock is a second home.[2] The typical vacation-home owner is 59 years old (median age of an investment property owners is 55). Of this group, a more recent study by the Mortgage Bankers Association and Research Institute for Housing America discovered that only 15% of age 50+ households who own their main residence also own a 2nd home.[3] The traditional vacation-home owner has a reported median income of $120,600 (2005 non-inflation adjusted)[4], has a high probability of being married (3/4 are married) and close to 50% of all second-home owners' primary residence is in the suburbs.[5]

In the 2006 National Association of Realtors report titled, "The Profile of Second-Home Owners", it highlighted how the type of residences this consumer segment prefers are primarily used for vacations (3/4) and 1/3 of owners report that investment prospects also factored into their decision making process. Furthermore, over half of vacation home owners noted that their interest in water sports was one of the main reasons for purchasing their second home, which would explain why close to half of vacation residences are in resort or recreation areas. This recreational affinity combined with perhaps climate, would also explain why 44% of all vacation residences are located in the South.[6] These areas where second homes are purchased are located within 220 miles from the owner's primary residence and owners reported that they spend a median of thirty-nine nights at their vacation residence.[7, 8]

Midwesterners purchased more vacation homes than residents of any other region in 2006. They accounted for 33% of all sales, Southerners bought 30% and those from the West Coast and the Northeast purchased 20% and 17% respectively - which could explain why a majority of

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[2] Spain, boasts the largest second-homes industry in the world, worth more than four billion euros ($5.2 billion) in sales annually.

[3] "Mortgage Bankers Report: 50+ Not More Likely to Own a Second Home. " Selling to Seniors 1 Dec. 2006: 6. Banking Information Source.

[4] The median income of investment property owners was $98,600 (2005 non-inflation adjusted).

[5] Bishop PhD, Paul C., Shonda D. Hightower, and Harika Bickicioglu. The 2006 National Association of Realtors Profile of Second-Home Owners. Rep. Washington DC: National Association of Realtors, 2007

[6] "Demand Rises for Vacation Homes." Herald-News (Joliet, IL). 1999. HighBeam Research. 12 Jul. 2009 <http://www.highbeam.com>.

[7] 47% of the respondents had second residences within 100 miles of their primary residence, and 43% had second residences within 500 miles of their primary residence.

[8] Conversely, properties that were purchased as investment properties by households were located a median of ten miles from the investor's primary residence.

developments are located in the South.[9] Vacation homes cost more than homes bought for investment, whereby the median price paid for a vacation home was $204,100, up 7.4% from 2004, while investment homes cost a median of $183,500, up 24%.[10] The typical vacation-home owner with a mortgage financed 73% of the purchase price, while the typical investment property owner financed 77%. In a separate National Association of Realtors report, it was identified that for existing stock, a large number (37%) of vacation residences were inherited and 11% were noted to be conversion of the owner's original primary residence.

As research for this paper began, the US was at the end of one of the largest real estate market expansions in modern history, and therefore relevant data reflects a more optimistic perspective on the market than may currently be justified. The buoyant global economy at the time provided financiers confidence to make borrowing affordable and available which then drove land, commercial and residential values.[11, 12, 13] In concert with these macro economic and political factors (see footnotes below), vacation and residential product, both old and new, began to come to the market in droves. Today, by contrast en-bloc apartment towers in the once booming area of South Florida are sitting empty..[14, 15] Even in less known geographies like Bucks County, PA, vacation homes were in demand. Prior to the recession, in 2000 Chris Beadling, marketing manager for Kurfiss Real Estate in New Hope (PA), cited a common example whereby vacation properties would list and sell in the same weekend. "We had a converted barn in the rural town

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[9] "Wealthy Americans Remain Confident Home Values Will Increase". PNC Survey http://pnc.mediaroom.com/index.php?s=43&item=155).

[10] Christie, Les. "Second-Home Sales At All-Time High." CNN.com 24 April 2006.

[11] Lam, Michael, Bryan Lee, and Michael Tilford. "An Autopsy of Unlevered Real Estate Returns." *Urban Land* May 2009, Capital Markets sec.: 80-81. Print.

[12] Between 2000 and 2005, existing-home prices rose by over 50 percent, while the Standard & Poor's 500 Index returned just over 2 percent over the same period. (*Source: National Association of Realtors*)

[13] Public policy also had a hand in supporting the growth of the real estate market. In 1997, there was a tax law change that took effect which allowed home sellers the luxury to exclude up to $500,000 from capital gains taxation. For households that had held on assets that would be subject to large capital gains taxation, this tax law change provided enough incentive for households to look for various techniques to take advantage of both the market and the tax law. A simple and common seen practice was households simply purchased a smaller primary residence and then used the tax-free gain to purchase a vacation or investment property.

[14] In the 2005 National Association of Realtors survey of homebuyers 15 percent of recent buyers owned two or more homes. Furthermore, approximately 40 percent of home sales in 2005, equivalent to more than 3.3 million new and existing home sales, were second homes. This was up from 36 percent the year before -- 27.7 percent of all home purchases were for investment (compared with 23 percent in 2004) and 12.2 percent were bought as vacation homes (13 percent in 2004).

[15] Double-digit property appreciation was a sign of the times: in 2000 George C. Ballantyne, senior vice president and New England regional manager of Sotheby's International Realty, reported sharp increases in prices. "In Nantucket, Martha's Vineyard and Northeast Harbor, Me.," he said, "we have seen an increase of 20 percent, especially for waterfront property. Fifteen percent appreciation over a year, which is substantial, is not unusual.'

of Ferndale that we listed on a Thursday in February and sold on Monday."[16] Nevertheless, while the fallout from this is unfortunately severe, from a research and academic perspective the increase in volume of transactions provides a large sample set that allows researchers to better understand the demographics and mentality of second home buyers in the US.

In summary, the vacation home market in the US can be described as primarily driven by older, well-off, highly educated, married couples. Purchase decisions are primarily driven by climate, affinity for the coastal lifestyle (e.g. watersports) and more recently an interest in real estate investing, and cheap and available financing.

[16] Brozan, Nadine. For Vacation Homes, The Trend Is Bigger 9 Apr. 2000, sec. 11: 1. Www.nytimes.com. The New York Times Company. 12 July 2009 <http://www.nytimes.com/2000/04/09/realestate/for-vacation-homes-the-trend-is-bigger.html?pagewanted=2>.

2.1.1 Vacation Home Trends: Asia

Conversely, the second home market in Asia is relatively thin in comparison to North American and European markets. This is primarily due to the region's developing economies (pre 2000) and subsequent limited disposable household income that has restricted the pool of clients for vacation home developers. However, the recent growth of the region's economies, as seen in China and India, both of whom are forecasted by Deloitte to be the World's 2nd and 3rd largest economies by 2020[17], combined with Japan's position as the 2nd largest economy in the World (4th by 2020), and changing lifestyle preferences region wide presents an opportunity for developers of all sizes to reassess market opportunities for second home development in the region.

As the region develops, we can assume the same recreational homes products (eg. condo/hotel products, timeshare) that have been well received in the West, will increase in demand, albeit with obvious changes made to accommodate different lifestyle and culture (e.g. culinary) differences. Successful *for sale* vacation developments in Asia have already proven that the established and emerging wealth in the region has an appetite for second homes whether it would be for personal interest, wealth preservation or health/wellness reasons. The most commonly cited example in Western media of Asian demand for second residences was the decade long Japanese real estate frenzy in Hawaii, whereby both large and small investors snapped up Oahu real estate starting from the mid-'80s.It is estimated that during that time Japanese investors bought an estimated $18 billion (non-inflation adjusted) worth of real estate.[18]

Today, Asian demand for private vacation residences has increased, but along with interest in owning a second residence in popular vacation locales (e.g. Whistler and Hawaii), there is increased demand for second residences within Asia, as evidenced by the substantial increase and absorption of new residential developments in locations such as Phuket and Bali. Even more interesting, demand is driven by not only locals, and expatriates[19] in the region but also

[17] "Russia to Become Fifth Largest Economy." Iran Daily. 27 Dec. 2007. Iran Daily Newspaper. 4 July 2009 <http://www.iran-daily.com/>.

[18] Lu, Mark. The Causes and Consequences of Condo Hotel Conversion in Waikiki, Hawaii. Thesis. Massachusetts Institute of Technology, Cambridge MA, 2005. Cambridge: MIT, 2007.

[19] Based on HSBC's most recent Expat Survey, titled "Expat Explorer 2009": Asia is home to the highest paid expats in the world, with one in four expats (25%) earning more than US$200,000 per year. Individually, the survey identified Russia, Japan and Qatar as home to the wealthiest expats, defined as an annual income in excess of US$200,000 (*cont)* and a monthly disposable income in excess of

surprisingly European and North American investors have also demonstrated interest. The increase of wealth regionally and globally and evolving demand for vacation destinations within Asia combined with the limited amount of stock (defined as private vacation residences for sale) are reasons enough to begin considering delivering second home product to the market.

US$3,000. Forty percent (40%) of expats surveyed in Japan answered that their annual income was over the US$200,000 mark.

2.1.2 Asia Demand Drivers: 1985-2000

Prior to 2000, Asian real investment abroad was driven by two polar opposites: 1) excessive wealth (primarily a result of the Japanese asset price bubble in the late 1980's) pushed investors to look anywhere and everywhere to place capital and 2) the socio and political environment from 1985-1998 forced primarily Hong Kong and Taiwanese residents to consider immigrating to countries like Australia, Canada, England and the US to avoid, what was perceived as an inevitable takeover by the Chinese government - which at the time many assumed would involve military force and an immediate implementation of communist government rule taking away all private property rights. As such, prior to 2000 the concept of purchasing a second residence for leisure (as opposed to survival) for some was unfathomable, and for others was purely to place excessive cheap capital.

In Japan's case it was the opportunity and at times the need to place excessive cheap capital that drove both Japanese institutions and households to purchase property in places such as Hawai'i from the mid '80s to '90s. Those that benefited from the rise of the Japanese economy and the large amount of cheap capital available, the dream of playing a round of 18 holes at Pebble Beach and making an offer to purchase the course shortly afterwards over drinks at the clubhouse could become real (as was the case with Mr. Minoru Isutani in 1990)[20]. The creation of the Japanese asset bubble started immediately after World War II. In restructuring the country and the economy, the government put in strict policies to encourage households to save a significant portion of their income. As the economy grew, savings ratios maintained if not increased, and therefore banks became flush with cash. On the macro side of the equation, Japanese industry was not only able to bring to the global market innovative and well received products world wide but also produce them on competitive terms. This combined with an appreciating yen, catapulted the Japanese economy from a devastated post World War country to the World's largest economy in a matter of less than 40 years. In December 1990 (considered by many as the pinnacle of the Japanese bubble), the Nikkei stock index hit an all time high of 38,957.44 – as of July 2009 the Nikkei trades in the 9800 range.[21]

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[20] Seal, Mark. "The Sale of the Century : How the deal was done: After a decade of Japanese ownership, Pebble Beach is back in American hands-this time for good". Golf Digest. FindArticles.com. 05 Jul, 2009. http://findarticles.com/p/articles/mi_m0HFI/is_2000_June/ai_63026328/

[21] Kitano, Masayuki. "Nikkei gains 1.8 pct, ends best quarter since 1995." 30 June 2009. Reuters. 5 July 2009 <http://www.reuters.com/article/rbssFinancialServicesAndRealEstateNews/idUST 6379720090630>.

With so much liquidity in the system, banks were careless with capital and began lending on very liberal underwriting terms – products such as the 100 year mortgage was a product of these times. Institutions and private households bid up anything and everything from apartments to parking lots to restaurants. As a result, many began to look abroad for opportunities to place their wealth and take advantage of the cheap financing readily available. Second residences that were purchased during this time by the Japanese were primarily driven by speculation and again, a unique once in a lifetime phenomenon given the availability and affordability of capital during that time. Therefore, based on the above a very loose assumption can be made that Japanese interest in vacation residences was not driven by genuine leisure interest and lifestyle demands, but instead purely by conditions unique and specific to the Japanese asset bubble.

Conversely, the main drivers behind the Hong Kong and Taiwanese money that flooded real estate markets abroad at the same time, was socio and political concerns related to China's growing economy and military. Two major events during that time accelerated this concern: the Tiananmen Square massacre in 1989 and the the transfer of sovereignty of Hong Kong from the United Kingdom to the PRC in 1997. As a result, many of the region's wealthy were looking for safe haven locations to relocate and quite possibly to immigrate to for the sake of their family and private assets.

Vancouver, Canada is a perfect case study of this, as reported by Canadian Business, "In 1989 the market really took off, when the June 1989 massacre in Tiananmen Square sent an instant chill through China's free-market outliers, Hong Kong and Taiwan. Vancouver realtors remember June 4, 1989, as the day their pagers started going off like so many car alarms. In Vancouver's west side and nearby Richmond, prices rose as much as 40% in a matter of weeks."[22] Whilst sales volume did increase sizably, most of those houses were in fact occupied by no one. In reality these houses were used as vehicles to gain residency and advance immigration into Canada – efforts that were openly recognized by Canada – also commonly referred to as home of "the industrialized world's most open policies for 'business immigrants'."[23] BusinessWeek in 1991 reported that, "Canada has become the No. 1 destination for entrepreneurs and professionals fleeing Hong Kong. In one of history's great drains of talent,

[22] Sutherland, Jim. "Flat and happy. " Canadian Business 24 Dec. 1998: ABI/INFORM Global, ProQuest. Web. 5 Jul. 2009.

[23] Symonds, William C., Dori Jones Yang, and Larry Zuckerman. "Hong Kong Hustle is Heating up Canada." Businessweek 23 Sept. 1991: n. pag. www.businessweek.com. Business Week. Web. 5 July 2009. <http://www.businessweek.com/archives/1991/b323243.arc.htm>.

the country has welcomed more than 110,000 immigrants from Hong Kong since 1984, or about 2% of the British colony's entire population."

Vancouver real estate continued to do well into the '90s. In late April of '93, 191 apartments went up for sale in the first phase of Harbourside Park, a 27-story condo tower with "spectacular views over Stanley Park, the harbour and the snow-capped mountains beyond". Commitments for 90% of these units were completed in two weeks. 20% of the purchasers lived in Hong Kong, whilst another large group of investors were identified as Chinese living in Vancouver, which now made up 30% of Vancouver's population.[24] Afraid of missing out on the influx of foreign investment (much of which involved the purchase of (second) residences), the governments of major economies like Australia, New Zealand and the US made immediate efforts to revise their immigration policies to mirror those of Canada.[25] The socio and political climate during this time made it difficult for institutional and private real estate investors from Hong Kong and Taiwan to consider second residences for other than immigration and/or safe haven reasons.

[24] "Canadian property: The perfect wave." The Economist 26 Jun 1993: ABI/INFORM Global, ProQuest. Web 5 Jul.2009.

[25] Rees, Jacqueline. "Opportunities of Oz. " Far Eastern Economic Review 29 Dec. 1994: ABI/INFORM Global, ProQuest. Web. 5 Jul. 2009.

2.1.3 Asia Demand Drivers: 2000-2009

Today, the region has experienced substantial economic growth in the past decade, primarily driven by the emergence of China and India and the reemergence of the Japanese economy. Contemporary decoupling theory (whereby both Asian and European economies were expected to no longer be dependent on established economies like the US for growth) has proven to be embarrassingly incorrect.[26, 27] And whilst Asian economies continue to function primarily on its export driven model, countries within Asia have shown to have benefited from the growth of China, India and Japan. From resource rich countries like Australia, to competitive manufacturing hubs in Vietnam to financial and legal hubs in Hong Kong, Singapore and Tokyo, economies around the region have grown and as a result a substantial amount of wealth has been generated by both local and foreign nationals in Asia. Reuters reports that, "the wealth of millionaires in Asia to grow by 6.7 percent a year through 2010 to $10.6 trillion, ahead of the global average of 6 percent."[28] HSBC's International Expat Explorer Survey 2009 discovered that, "Japan, Russia, Qatar and Hong Kong are home to some of the wealthiest expats in the world." [29] As such, a corollary could be drawn from an increase in disposable income to an increase in demand for leisure activities and hobbies, which would include vacation residences. This has shown to be particularly true in recent history with select "destination" locales in Asia where resorts and private residential developments have been built to cater to this specific but growing market segment.

How demand this time for second residences differs from the last boom to come from Asia (pre 2000) is: first, demand is for second residences within the region, built in areas with proven, established and sustained tourist resorts; second vacation residences are being purchased by foreign and local (to the region) nationals; third while we cannot dismiss the notion that some of these properties were purchased with buy and flip intentions, most of these properties have been purchased for vacation and leisure purposes and not the intent to seek political safe havens to immigrate to (as was the case in the '90s with the Chinese diaspora in Hong Kong and Taiwan) or the need to place cheap and available capital (as was the case with the Japanese in the late '80s). Developments in Phuket (Thailand), Bali (Indonesia), and Niseko

[26] Peng, Chan Kok. "Watch the underlying numbers." Asia GRI 2009 Keynote. Grand Hyatt, Singapore. Feb. 2009. Lecture.
[27] de Aenlle, Conrad. "Decoupling: Theory vs. reality." *New York Times* 7 Feb. 2008, Final ed.: n. pag. New York Times. Web. 23 July 2009. <http://www.nytimes.com/2008/01/27/business/worldbusiness/27iht-26delink.9520541.html?_r=1&pagewanted=2>.
[28] Munroe, Tony. "Asia wealth managers see growth, risk." *Reuters.com*. Reuters, 5 Oct. 2005. Web. 5 July 2009. <http://www.reuters.com/article/WealthManagement06/idUST229920061005>.
[29] Expat Explorer Survey 2009. Publication. Vol. 2. London: HSBC Bank International, 2009.

(Japan) are exemplary of this and will be further examined later in this chapter. Therefore, the market for secondary residential development in Asia can be expected to be one with continued growth opportunities, but unlike last time, demand will be stable and driven by a shift in wealth and lifestyle preferences.

2.2 Regional Tourism

Similar to the economic growth in the region, tourism in Asia has also grown substantially driven by similar factors such as the emergence and reemergence of wealth in cities like Hong Kong and Tokyo and the increase in business travel to the region. Interest from European and North American tourists has also increased substantially, contributing to the industry and region's success. Exemplary of this is the recent results of the *Visa and Pacific Asia Travel Association 2009 Asia Pacific Travel Intentions Survey* whereby the majority of 5,000 respondents named Asia Pacific as the number one region for those intending to travel overseas in the next two years.[30] The top three Asia Pacific destinations that leisure travelers surveyed were considering between now and 2010 were Australia (43%), Japan (37%) and Hong Kong (35%).[31]

Figure 1: World Travel & Tourism Council Rankings
(Source: http://www.wttc.org/eng/)

ABSOLUTE TERMS

Which countries are expected to total the largest amount (absolute terms) of Travel & Tourism Demand in 2019?

	Travel & Tourism Demand	**2019 US$ bn**
1	United States	2,961.2
2	China	1,880.5
3	Japan	709.4
4	Germany	673.9
5	United Kingdom	616.0
6	France	550.6
7	Russian Federation	490.7
8	Spain	485.2
9	Italy	388.9
10	Mexico	335.4

ABSOLUTE TERMS

Which countries are expected to produce the largest amount (absolute terms) of Travel & Tourism Economy GDP in 2019?

	Economy GDP	**2019 US$ bn**
1	United States	2,358.0
2	China	1,597.0
3	Japan	588.6
4	United Kingdom	406.3
5	France	390.6
6	Spain	380.5
7	Germany	368.9
8	Russian Federation	366.4
9	Italy	285.0
10	Mexico	276.9

ABSOLUTE TERMS

Which countries are expected to spend the largest amount (absolute terms) on Travel & Tourism Capital Investment in 2019?

	Personal Travel & Tourism	**2019 US$ bn**
1	United States	1,380.7
2	China	717.8
3	Japan	354.9
4	United Kingdom	305.3
5	Germany	240.8
6	France	217.3
7	Russian Federation	172.8
8	Spain	171.0
9	Italy	157.3
10	Mexico	154.6

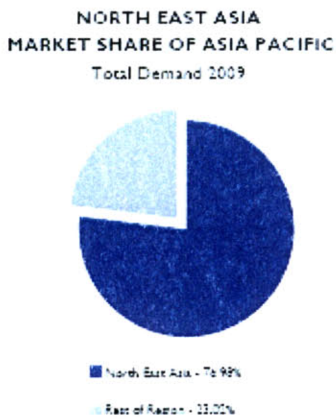
Asia has come a long way. In 1951 less than 250,000 people visited Asia each year. By 1990, the number of travelers to the region reached 25 million and in the past 10 years, this figure has surged past the 90 million mark.[32] As a result the Travel & Tourism Industry has become a critical component of the larger regional economy as it represents 9.4% (US$1,053.7 BN) of the economy and is forecasted to increase to 9.7% (US$2,470.3 BN) by 2019. For companies like Expedia and Paul Brown (president of Expedia North America) its quite clear, "Asia-Pacific represents

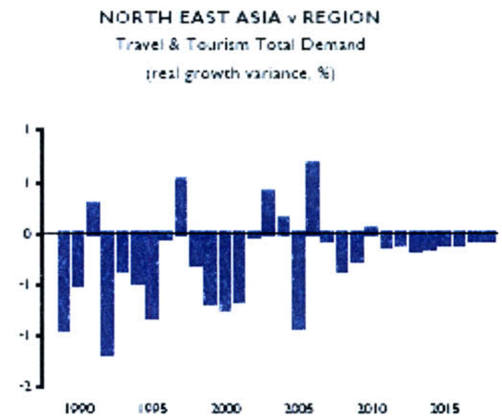
[30] Of the about 5,500 people surveyed from around the world, 60 per cent said they would travel to Asia Pacific. North America and Western Europe trailed Asia Pacific at 35 per cent of respondents.
[31] "Asia Pacific The Top Choice for Travel: Survey." AsiaPulse News. Asia Pulse Pty Ltd. 2009. *HighBeam Research.* 16 Jul. 2009 <http://www.highbeam.com>.
[32] "Enhancing growth, quality of Pacific Asia travel and tourism." New Straits Times. 2001. HighBeam Research. 16 Jul. 2009 <http://www.highbeam.com>.

the greatest growth opportunity for the travel industry as a whole in terms of inbound and outbound travelers." [33]

A substantial amount of this growth in the region is being driven by North East Asia (defined as China, Japan and Korea), not surprising given that Northeast Asia makes up 76.98% of the total demand of the region.[34] As a region it ranks 3rd in terms of absolute size and growth (out of 13 regions) when compared to other regions around the Globe. This is expected as China[35] and Japan rank 2nd and 3rd in many of the key World Travel & Tourism Council categories including: Travel & Tourism Economy, Demand, and Personal Travel & Tourism.[36] Specific to real estate development, China and Japan are forecasted to maintain these rankings well into 2019, and therefore demand for additional hospitality related facilities should increase accordingly.

Figure 2: North East Asia Represents Majority of Regional Tourism Demand
(Source: World Travel & Tourism Council)





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[33] "Increasing Regional Air Travel Coupled with Growing International Demand for Cost-Effective Services to Power the Asia Pacific Engines MRO Market." Business Wire. Business Wire. 2008. *HighBeam Research.* 16 Jul. 2009 <http://www.highbeam.com>.
[34] *Travel & Tourism Economic Impact 2009 (Northeast Asia).* Rep. London: World Travel & Tourism Council, 2009. Print.
[35] From 2004-2007, scheduled weekly air seat capacity between China and Asia alone has increased by close to 40%.
[36] *Travel & Tourism Economic Impact 2009 (Northeast Asia).* Rep. London: World Travel & Tourism Council, 2009. Print.
[37] *Travel & Tourism Economic Impact 2009 (Northeast Asia).* Rep. London: World Travel & Tourism Council, 2009. Print.

Combine, the WTTC findings with the 2008 Pacific Asia Travel Association survey of arrivals[38] (see Figure 3), and it becomes clear how large travel to and within North East Asia is. For example, in 2008 the amount of passengers traveling to North East Asia was not only 2.68 times the amount of passengers traveling to North America but also 55% of all the passengers traveling to the greater Asia Pacific region.[39] Much of the arrivals within North East Asia is driven by China, but both the trend towards increased regional travel (via progressively improving visa restriction in favor of travel between China, Japan and Korea and greater trade and interests between the three economies) and interest amongst North Americans and Europeans to travel and visit Asia (*Visa and Pacific Asia Travel Association 2009 Asia Pacific Travel Intentions Survey*) ensure that Japan and Korea contribute to the expected increase in arrivals. In conclusion, travel & tourism to and within North East Asia is substantial and significant. These trends will not subside and will continue for the next ten years, providing developers focused on resort and vacation related development continued (if not increased) confidence to develop within North Asia and Japan.

Figure 3: PATA Travel Statistics - Number of Arrivals (*Source: http://www.pata.org*)

SUB-REGION	Year		% CHANGE
	2007	2008	
The Americas	17,652,468	19,465,285	10%
North East Asia	**47,694,597**	**52,085,380**	**9%**
South Asia	1,890,651	2,096,572	11%
South East Asia	14,506,844	15,732,141	8%
The Pacific	4,788,245	4,894,038	2%
Asia Pacific	86,532,805	94,273,416	9%

[38] 2008 Report was latest available, but still provides a "global" picture of the how each region compares to each other.
[39] "Travel Statistics." *Travel Statisticcs*. Pacific Asia Travel Association, July 2008. Web. 16 July 2009. <http://www.pata.org/patasite/index.php?id=111>.

2.3 Tourism within Japan

The tourism industry in Japan although substantial in size, still has significant amount of opportunity to grow. In its current state it is primarily driven by domestic demand and whilst this makes for a strong domestic tourism market, the government has recognized this imbalance and the country's poor performance in attracting foreign tourists. As a result it has put into place a plan with defined goals of growing its tourism industry to attract foreign visitors. Today tourism in Japan employs 2.29 million people and it accounts for 3.4% of Japan's GDP (in comparison to Spain, an economy less than 1/3 the size of Japan, where the tourism industry accounts for 10% of their GDP).[40] A good example of how this market primarily services domestic Japanese demand is, of the total 24.4 trillion yen ($244B USD)[41] spent on tourism in 2005, 97.5 % of it was from Japanese vacationers.[42] Conversely, last year Japan hosted 7.3 million foreign visitors - and nearly 30% was for business.[43]

To better understand how "domestic" the tourism market in Japan is, one should examine the split between domestic and foreign visitors in hotel occupancy. On an average annual basis, +90% of hotel guests are Japanese. In 2007 of the 304.45 million guest/nights overall, the total number of Japanese guests was 282.54 million guest/nights, the balance of 21.91 million were foreigners. While this is unique especially within Asia, where most tourism markets are heavily reliant upon foreign visitors, there is an immense amount of potential to grow the tourism industry, especially, as previously mentioned in the section above, with the support and commitment from the public sector to invest in infrastructure and government programs related to tourism.

For their domestic trips, Japanese tend to spend on average 2.7 nights and take an average 2.5 domestic trips a year that include an overnight stay (per capita basis). In terms of peak seasons, August is traditionally the busiest (31.40 million guests) while January is considered the quietest (20.58 million). Okinawa, for example, is expecting 10 million Japanese visitors this year, a huge

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[40] *Country Brand 2008*. Publication. New York: FutureBrand, 2009. Print.

[41] 1 USD = 100 JPY (although not current exchange rate, but used more for stylistic purposes for consistency in research.

[42] "View from Tokyo Japan sets tourism target." UNB - United News of Bangladesh. Asia Pulse Pty Ltd. 2007. *HighBeam Research*. 16 Jul. 2009 <http://www.highbeam.com>.

[43] Rowley, Ian, and Hiroko Tashiro.. "Land of Rising Tourism Hopes." BusinessWeek (03 Sep. 2007): 57-57. Business Source Complete. EBSCO. [Library name], [City], [State abbreviation]. 17 July 2009 <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=26356962&site=ehost-live>.

leap from six million last year.[44] The Japanese preferred mode of transportation is their highly advanced railway system that many choose to use in lieu of airplanes or private cars, due to convenience and accessibility. Interest in domestic travel among Japanese continues across all age groups. The most recent government tourism survey discovered that 60-70% of people in their 20s, who made one or more domestic trip(s) over the past year, are interested in pursuing additional overnight trips and traveling more within Japan. Prior to the survey, much of the domestic tourism industry saw particular demand from age groups of 60 and older.[45]

Outbound tourism is still quite popular among the Japanese. Various public sector programs have incentives in place to promote vacationing abroad. The motive of these programs are based on legacy macroeconomic theory that believe local economies also prosper from their citizens traveling overseas (the prevailing assumption is a drainage of country's coffers abroad).[46] For the Japanese economy, international travel is of particular interest because of the money spent in advance of a trip for such things as cameras, books, insurance and other items or services. The Japanese government views this as an opportunity as this group of expenditures benefits the local economy and places additional money, that otherwise would have sat idle, into the economy.

While numbers for outgoing departures and expenditures have been increasing and trending in line with economic growth, what is surprising and important to note for this research is that an overwhelming amount of trips abroad were for leisure vs. business. In the latest government survey 78% of the trips were for leisure and the balance for work.[47]

The number of foreign visitors has increased over the years. In 2007, 8.35 million foreign travelers visited Japan, a 13.8% year over year increase, and a new all-time record. Four years prior, only 5.21 million foreign travelers visited Japan. This was partially the result of the Japanese Government's (Japanese Tourism Agency) aggressive "Yokoso! Japan" (Visit Japan) Campaign that was promoted both by the public and private sectors. This marketing campaign

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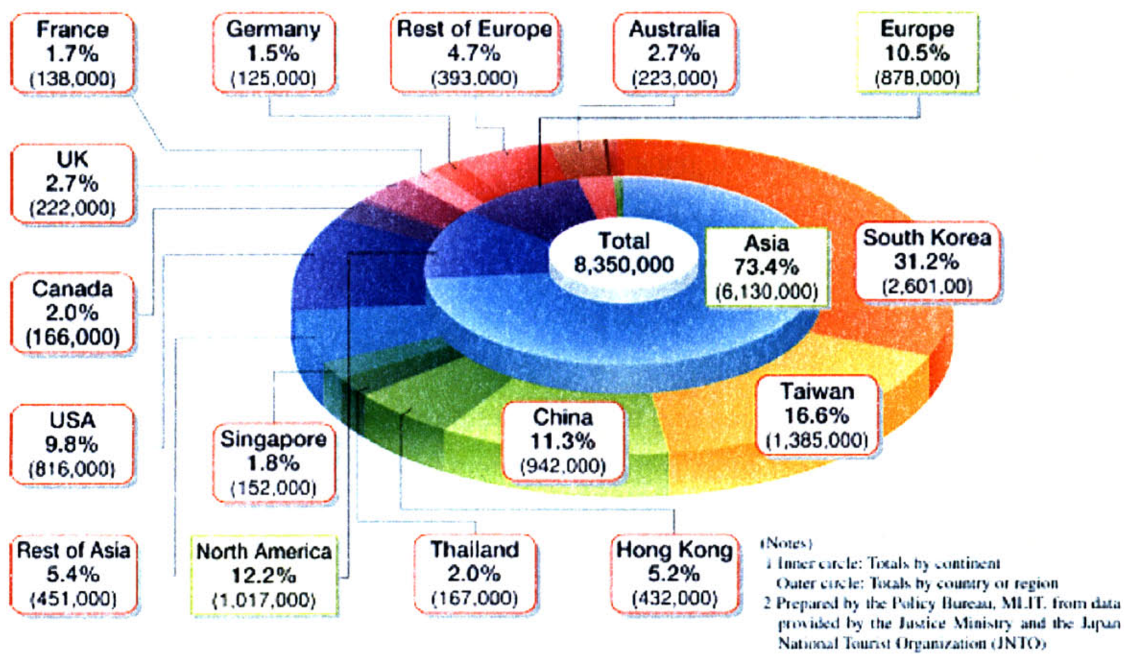
[44] Smith, Glenn. "Hotels vie for visitors as room numbers surge. " Media 30 Oct. 2008: 21. ABI/INFORM Global. ProQuest.
[45] "Interest in Travel Polarize among Young Japan People. " Jiji Press English News Service 2 June 2009. ABI/INFORM Trade & Industry. ProQuest.
[46] Huq, Monzurul. "View from Tokyo Japan sets tourism target." UNB - United News of Bangladesh. Asia Pulse Pty Ltd. 2007. *HighBeam Research.* 16 Jul. 2009 <http://www.highbeam.com>.
[47] "New Travel And Tourism In Japan Report Offers A Comprehensive Guide To The Size And Shape Of The Market At A National Level." M2 Presswire. M2 Communications Ltd. 2007. *HighBeam Research.* 16 Jul. 2009 <http://www.highbeam.com>.

targeted twelve countries and regions whose "nationals visit Japan with particular frequency" and they included: South Korea, Taiwan, China, Hong Kong, Thailand, Singapore, USA, Canada, UK, Germany, France and Australia. South Korea, the traditional favorite nine years running, led the pack with most visitors at 2.6 million an increase of 22.8%, Taiwan had the second most visitors with 1.39 million (an increase of 5.8%), China was third with 940,000 (an increase of 16.1%), the US was fourth with 820,000 visitors (down by 0.1%), and Hong Kong came in fifth place with 430,000 visitors (up by 22.6%).[48, 49]

Figure 3: Foreign Travelers Visiting Japan (2007)
(*Source: Japan National Tourist Organization*)



[50]

As expected visitors from different parts of the World come to Japan with different expectations. South Koreans traditionally enjoy visiting Kyushu, those from Taiwan frequent Hokkaido and Hokuriku up North, and Americans prefer to visit Tokyo and Kyoto. Surveys have discovered that Asians enjoy coming to Japan for its shopping, hot springs and nature. Visits to factories

[48] The number of visitors to Japan from South Korea, Taiwan, China and Hong Kong have almost doubled from five years earlier, to 5.36 million, according to the Japanese National Tourist Organization. Those four regions alone account for nearly two-thirds of all foreign visitors to Japan.
[49] In the 1980s, Americans were the largest group of overseas visitors to Japan.
[50] "Proportions of Foreign Travelers Visiting Japan." Chart. Tokyo: JNTO, 2007. N. pag. Print.

are also quite popular. Hokkaido has recently become one of Taiwanese visitors' favorite Japanese destinations because of its large open natural setting and "picturesque farms reminiscent of the American Midwest. Mr. Kao, a Taiwanese teacher, called Hokkaido's natural beauty a welcome change from pollution-choked cities in Taiwan, and China, where he has visited."[51] Conversely, American visitors come to Japan to visit cultural attractions such as temples and sit in on sumo wrestling matches.

The increase in arrivals of visitors from nearby Asian countries is a clear example of both a growing preference among Asian travelers for regional travel vs. long trans-oceanic flights and an increase in wealth in the region that now enables visitors from countries like China and South Korea to vacation in what is a comparatively expensive country. In a 2007 New York Times Article titled "Flush With Cash, More Asian Tourists Flock to Japan", it pointed out that visitors from China, Hong Kong, Korea, and Taiwan make up 2/3 of all foreign visitors to Japan. In the article it noted that Asians liked to visit Japan because, "they liked to shop (there) because Japan has the latest fashions first, and at prices way below those in many other Asian countries, where tariffs are steep." Interviewees for the article also noted that they, "liked visiting Japan because it was close, safe and cleaner than much of the rest of Asia." [52]

However, many also say they were drawn by, "a deep fascination for Japan. Now that they can afford to come, they say they want to see the country that has long been the region's front-runner in high technology, fashion and other realms of popular culture. They said they felt envy and respect for Japan as the region's only fully developed nation, even if they did not always see eye to eye on matters like the events of World War II."

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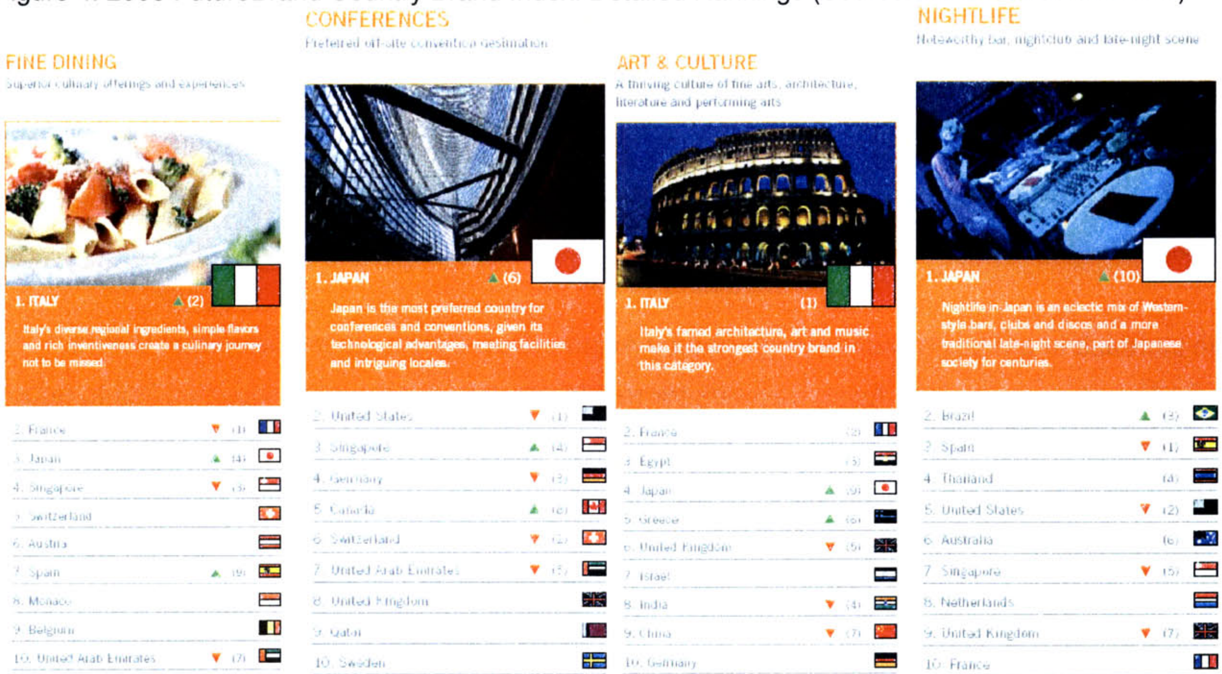
[51] Fackler, Martin. "Flush With Cash, More Asian Tourists Flock to Japan." *Www.nytimes.com.* New York Times, 26 July 2009. Web. 17 July 2009. <http://www.nytimes.com/2008/07/26/business/worldbusiness/26tourists.html?scp=196&sq=japan&st=cse>.

[52] Fackler, Martin. "Flush With Cash, More Asian Tourists Flock to Japan." *Www.nytimes.com.* New York Times, 26 July 2009. Web. 17 July 2009. <http://www.nytimes.com/2008/07/26/business/worldbusiness/26tourists.html?scp=196&sq=japan&st=cse>.

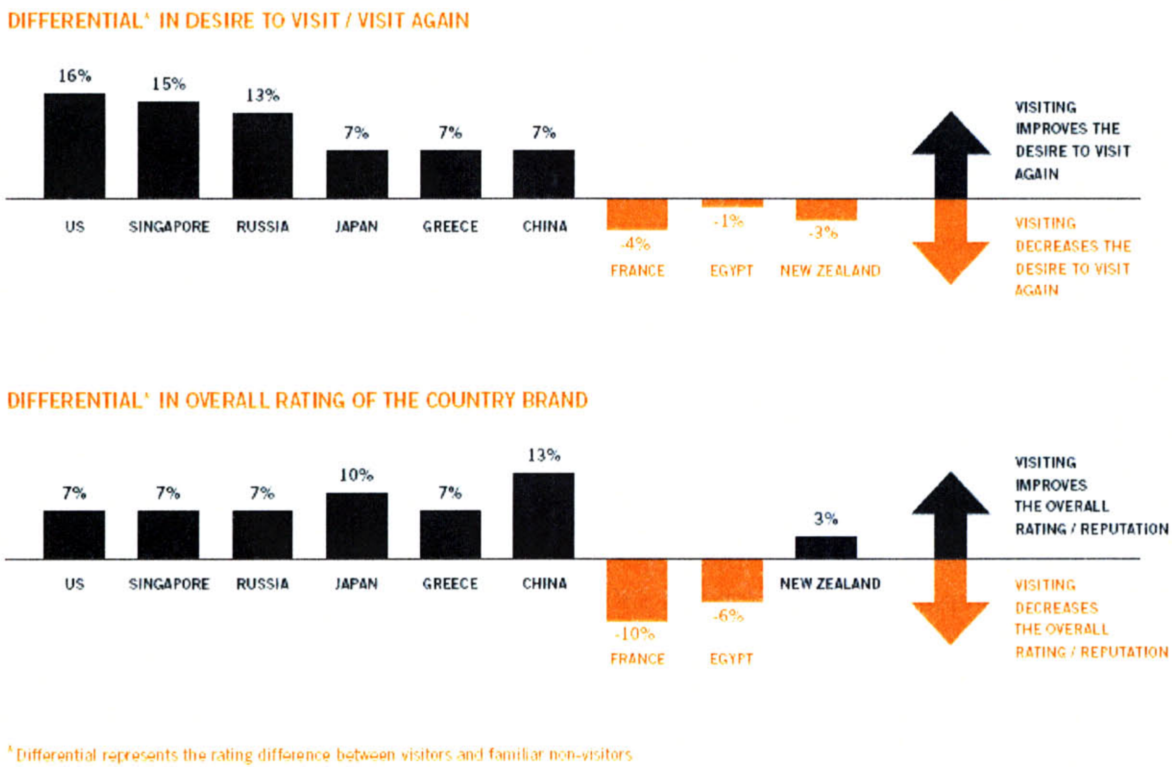
Figure 4: 2008 FutureBrand Country Brand Index: Detailed Rankings (Source: www.futurebrand.com)



Moreover, globally Japan has come back into vogue. With the support of emerging fashion designers, recent accolades from Michelin, and Hollywood Japan has captured the interest of the global audience. In the 2008 FutureBrand Country Brand Index which "ranks countries as brands and assesses opportunities, insights, and findings related to nation branding," various aspects of the Japanese experience have led it to receive high marks. The study is founded on the basis that a country's brand effects many aspects/perceptions but has a more profound effect on tourism, "tourism is often the most visible manifestation of a country brand." The study revealed that after foreign travelers visited Japan they had a better impression of the country and a desire to return and visit again. Also, in fourteen of the thirty sub-rankings/studies, Japan was ranked in the top ten, which included #1 in Authenticity, #4 in Art & Culture, #1 in Conferences, #1 in Quality Products, and #8 in Desire to Visit / Visit Again.

However, not resting on its laurels (if any) the Japanese government has responded to its poor performance in attracting and developing its tourism industry, by making it a priority to grow and develop the industry. The "Tourism Nation Promotion Act" which came into effect on January 1st, 2007, specifically identifies tourism as an important cornerstone of Japan's national policy in the 21st century. It has laid out clear and defined goals, which include the following: 1) to increase the number of foreign travelers to Japan to 10 million[53], 2) to increase the value of tourism consumption to 30 trillion yen ($319 B USD)[54], 3) to increase the number of overnight stays per person in connection with domestic travel to four nights per year and 4) to increase the number of international congresses and conventions held in the country by 50 percent. [55, 56]

Figure 5: 2008 FutureBrand Country Brand Index: Once travelers visit Japan, they leave with a positive impression and desire to visit again. (*Source: www.futurebrand.com*)



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53 The Japanese Government saw with great effect the direct impact of easing of visa restriction had on the tourism industry. In 2003 it waived visa requirements for visitors from Korea and Taiwan. During that same time, visitors from those same countries doubled. In an effort to replicate similar success with Chinese visitors, effective 1 July 2009, Japan will issue visas to individual mainland Chinese tourists with 'good references in terms of occupation, financial resources and other factors'. The policy change is in line with the country's bilateral agreement signed during Japan Prime Minister Taro Aso's visit to China in April 2009. Prior to this, Japan only issued visas to mainland Chinese tourists traveling in groups of five to 40 people accompanied by Japanese and mainland Chinese tour guides, as well as issuing visas to two to three people traveling as a family (also with a tour guide), given that the family has an annual income of US$36,700. Japan expects the total number of mainland Chinese visitors to increase to 1.25 million by 2010.

54 1 USD = 100 JPY (although not current exchange rate, but used more for stylistic purposes for consistency in research.

55 "White Paper on Tourism in Japan, 2008" p 33. Japanese Tourism Agency.

56 The "Bill to Promote Visits and Stays by Tourists Through the Development of Tourism Spheres" was submitted to the 169th session of the Diet and became law on May 16th, 2008.

There are various additional government programs which should be of particular interest to developers interested in vacation related product types. The various available hospitality stock cannot sufficiently accommodate the type of growth the Japanese government is aiming for. Using 2007 numbers of 8.35 million visitors and average occupancy rates during that time equates to just under 10 million keys nationwide. With the governments goal to increase visitors to Japan to 10 million combined with incremental growth of domestic tourism there simply are not enough properties to accommodate this growth. [57] In response to the lack of available stock and/or antiquated properties that need to be updated, various public sector incentives are available to support the development of hotel, restaurant and other travel-related and public facilities: specifically 1) treasury loans and special tax exemption measures have been made available for the development of hotels and inns, 2) grants for urban development have been used to support a wide variety of projects, both 'hard' and 'soft' and 3) public sector development of travel-related and public facilities including streetscape improvement which encompasses assisting historical districts retain and preserve their unique architectural aspects, placing power lines below ground, and the development and improvement of roads, parks and other district facilities.

Despite these goals and recent growth in number of visitors, there is still a lot of room for improvement. Exemplary of this is, Japan's $30 million budget last year for tourism promotion was less than half what Hawaii alone spent in 2006. And regardless of public sector initiatives, there still needs to be the support from the private sector to ensure the goals of the "Act" are accomplished. Currently, Japan's big travel companies, are more focused on domestic travelers than international visitors. JTB and HIS, the two largest travel agencies, receive less than 2% of their sales from foreigners. Today, there's easier money to be made providing vacations for the Japanese baby boomers, whom are starting to retire and have the disposable income to spend. "If hotel owners can fill rooms with people that speak the same language and whose tastes they know, there's no need to take on all the extra work finding out what an American or English person likes to eat," says Neil Riley, who runs Japan Worldwide, a travel agency that specializes in ski packages pitched at Westerners.

Key themes from tourism trends that can used to identify target markets for secondary residences in Japan are as follows.

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[57] "Investors rushing to check in to Japanese hotels Tourism is likely to grow as retiring baby boomers with time and money are expected to push up travel demand." *South China Morning Post* [Tokyo] 4 Oct. 2006: 4.

First there is an increasing preference for regional travel. This is supported by an abundant amount of forecasted traffic and investment within the tourism industry in Northeast Asia, primarily dominated by China and Japan, for the next ten years. The region itself represents a substantial portion of global tourism market demand. Ease of travel (namely visa restrictions and an increase in direct flights) are being resolved to allow travelers from North Asia to be able to seamlessly travel between all three countries. Japan's identity as an aspirational market for many with its high cost of living and leading position in fashion, innovation industries and academic circles, is no longer an issue for many. Whilst Japan has retained its identity, increasing wealth in the surrounding region has made it easier to travel to Japan leading to the increase in travel from places like China Hong Kong, Korea and Taiwan. Unlike competing vacation destinations in Asia, where cost arbitrage is a reason to visit (e.g. competitively priced foot massages and meals in lower cost cities and locales in Indonesia, Thailand, and Vietnam), it is evident that the influx in visitors are not visiting Japan because it is affordable.

Second, there still remain substantial growth opportunities within the domestic Japanese travel industry. First, anchored by strong and continuing domestic demand to travel within Japan, the tourism industry has significant potential to grow revenues by pursuing the International market and attracting foreign visitors. Similar goals are shared by the government with outward PR campaigns along with public sector financing to spur investment in the tourism industry. Second, recent data show 78% of all Japanese travelers abroad are traveling for personal and leisure reasons. If historic data is at all exemplary of what is to come, this represents a monument lifestyle and mentality shift within Japan, a critical point in understanding opportunities for secondary residential development in Japan . Third, the significantly high proportion of Japanese vacationers domestically is forecasted to continue to grow, which represents another area of opportunity for the hospitality and real estate development industries.

Lastly, "Japan is cool". Japan, regardless of economic woes, has for the past decade attracted attention from Rap Moguls like Pharell Williams and Timbaland (in his 2007 hit, "Give it to Me", he raps, "I'm respected from Californ-I-A, way down to Japan"[58]), luxury design houses who produce limited edition Tokyo items, incubated some of today's most avant-garde industrial designers and architects (e.g. Tadao Ando) and produced some of the region's leading

[58] "GIVE IT TO ME Lyrics - TIMBALAND." *Song Lyrics*. N.p., n.d. Web. 17 July 2009. <http://www.elyrics.net/read/t/timbaland-lyrics/give-it-to-me-lyrics.html>.

actors/actresses, singers/songwriters and models. All of this has slowly been recognized by the global audience, and as such FutureBrand's Country Brand Index ranked Japan as #8 in their 2008 rankings (the only Asian country to break the Top 10). Along with this, the current and upcoming generations in around the globe have become comfortable with Japan. And as such, specific to this research if vacation developments in Japan can engage and capture this coolness factor, it could then appeal to both domestic home purchasers as well as foreigners that understand, appreciate and identify with the aesthetic and cultural characteristics of Japan.

3.0 Who's Buying Where, What, and Why?[59]

Asia, the world's largest and subsequently most populous "area" includes the largest continent on the globe, and a collection of islands and archipelagos that includes countries as far west as Kazakhstan and far south as Indonesia and Papa New Guinea. The region is vast – it covers 8.6% of the Earth's total surface area (or 29.9% of its land area) and as such accounts for 60% of the world's current human population (approximately 4 million).[60]Yet despite the area's size, resort development and residences have been highly concentrated in Indonesia and Thailand with recent development in both emerging markets like Vietnam and more developed markets like Japan. Tourism demand drivers for the traditional locales in Southeast Asia are access to pristine natural coastline and/or some direct connection to nature. While traditionally these locations provided many of life's luxuries at competitive prices, the area also caters and prices accordingly to the wealthy. An example of this is the island of Koh Samui (Thailand) has more five and six star resorts than any island in Asia[61]. Although long-known as a destination for backpacking students to spend a year, South East Asia has become a luxury vacation destination as seen in the increase in number and variety of luxury resorts dressed with a range of amenities and facilities.

Figure 6: Map of Asia (CIA World Factbook)

Paul Collins, online editor of property website NewSkys comments: "There is an established market for foreigners buying property in Thailand, particularly wealthy expats working in financial hubs such as Hong Kong and Singapore who are prepared to pay top money for lavish property. Add to this tourists and travelers from all over the world and there is a readymade holiday rental market.[62] While this market is small in comparison to similar markets in the West, the concept of owning a vacation residence in Asia is no longer so foreign and gaining

[59] A substantial amount of the data analyzed for this section was derived from various academic and industry reports that were released in 2006, although not the most current, it is the latest data available at the time research was conducted.
[60] *CIA The World Factbook.* CIA, n.d. Web. 6 July 2009. <https://www.cia.gov/>.
[61] "Thai Real Estate market attracting investors." M2 Presswire. M2 Communications Ltd. 2008. HighBeam Research. 11 Jul. 2009 <http://www.highbeam.com>.
[62] Drane, Sarah. "Modern Homes in an Ancient Land." *Thailand Property Market* 2007: 44-45. Print.

momentum. Even the Hong Kong contingency is back, this time looking for genuine interest for a place for the family to vacation. Scott Sanders, developer of the Terrace Downs community near Christchurch, New Zealand, sold nine properties over three days to Hong Kong residents. "People are investing in this (new) lifestyle," he says.[63]

Similarly in second choice South East Asia locations such as Sabah (Malaysia), demand from foreigners has increased. At the Nexus Residence beach-front villas project in Sabah, a housing property on the same grounds as the five-star Nexus Resort Karambunai, home owners bought into a gated community that adjoins a 4 mile stretch of secluded beach and only 30 mins from downtown. Before product was even delivered, 50 percent of the 243 units available were sold, mostly to Europeans, while other buyers were from Australia, Singapore and Hong Kong.[64] Showing strong demand for similar product, down the road from the Nexus project was a development focused on capturing a more demanding clientele by delivering to market individual villas with price entry points that started at $300,000 (2006). Even before construction started, 50% of the units were sold.

While demand for vacation residences in Asia has traditionally been focused in and around the Southeast, developments have begun to pop up in other parts of the region, a positive indicator for second home developers as the region's wealth increases and subsequently its appetite for alternative vacation options. The primary reasons behind this shift, other than wealth, include:

- first an increased interest in traveling within the region. A combination of lengthy travel time, visa issues and language and cultural concerns have made Asians think twice about traveling to once popular foreign locations.

- Second, the improved infrastructure and recent development around the region (especially in some of the emerging markets) has increased connectivity throughout Asia and opened up new markets which have historically been areas of interest, but lacked the proper accommodation and amenities to attract tourism

[63] Seno, Alexandra A.. "There's No Place Like Home.(vacation homes)." Newsweek International. Newsweek, Inc. 2003. *HighBeam Research.* 5 Jul. 2009 <http://www.highbeam.com>.
[64] "More foreigners buying Sabah beach-front units." New Straits Times. 2006. HighBeam Research. 5 Jul. 2009 <http://www.highbeam.com>.

(e.g. Bhutan and Cambodia).[65] Conversely, developed markets like Japan have also benefited from this, as now residents from some of the emerging economic powerhouses (e.g. China and India) now can travel to Japan with both relative ease and frequency.[66, 67, 68]

- Lastly, recent market survey results have discovered that Asians determine whether or not a vacation was "fun", by placing substantial emphasis (approximately 60%) on food and dining. Food within the region is palatable and desired by the Asian diet, something continental cuisine cannot offer, and therefore an undeniable advantage Asia has over its peers around the world.[69]

Niseko (Japan) is a great example of this paradigm shift, whereby a significant portion of outdoor and snow sport enthusiasts from Australia, Hong Kong and Singapore have recently foregone their annual trek(s) to ski resorts in Europe and North America and instead have decided to stay within the region and ski in Niseko, which receives on average 13 meters (approximately 43 feet) of powder snow. In 2001 only 4,216 foreign tourists visited Niseko and stayed overnight. That number has dramatically changed. In 2006, the number of foreign visitors that visited and stayed at least a night in Niseko increased to 91,420 (close to a 22x increase). However, 96% of this population was visitors from Australia, but also the number of visitors from locations such as Hong Kong tripled during the same time. [70] All of the qualitative reasons identified above point to an increase in probability that travel within the region will increase. And similarly to how secondary residential development only came online after an increase in tourism in locations such as Hawai'i and Southeast Asia, , a similar trend that could also develop in Japan . Furthermore, If the age old industry adage that, *people most likely buy real*

[65] According to the latest WTO Report Available Online, in 2004 Bhutan received 9,000 tourists, a 50% increase from the 6,000 it had received annually up to that point.
[66] In March 2009, Japan began to issues individual visas to Chinese PRC Nationals that had a certain amount of assets, and were employed in senior positions and/or successful entrepreneurs. This was an improvement to the previous Visa policy which only granted Visas to either tour groups with five to forty tourists or tour groups whose annual income exceeded RMB250,000 (approx $36,500). This change in regulations is part of the Japanese government's initiative to attract 10 million foreign tourists (per annum) by 2010.
[67] As of 2009, six Chinese and Japanese airlines now operating a total of 738 flights per week between 19 Chinese cities and 17 Japanese cities (*source* Xinhua).
[68] China Hospitality News. 16 Feb. 2009. BDL Media Ltd. 11 July 2009 <http://www.chinahospitalitynews.com/en/2009/02/16/10505-japan-to-lift-tourism-restrictions-for-wealthy-chinese/>.
[69] "Telephone Interview with Harry Pang (Morgan Stanley)." Telephone interview. 25 June 2009.
[70] *Visitation Statistics on Tourism to Niseko.* Hokkaido Tracks, n.d. Web. 11 July 2009. <http://property.hokkaidotracks.com/investment/visitationStatistics.do>.

estate within four-hours of their primary residence holds true, parts of China, Korea, Hong Kong, Taiwan and arguably Malaysia and Singapore present significant opportunity for vacation residential development in Japan.

The following sections will analyze specifically Phuket (Thailand), Bali (Indonesia) and Niseko (Japan). These locations have performed extremely well in attracting tourism and subsequently encouraging further development of both hospitality product type and for sale residences.[71] The analysis conducted in the following sections examines each of these three cities to better understand how they were able to position themselves and gain market share from competing peer tourist locations, examine both going prices for finished *for sale* product as well as RevPAR for four to five star hotels and consider what lessons learnt from these successful cases could be applied to developments targeting similar markets in Japan.

3.1 Phuket, Thailand

In the mid-80's, an American news magazine listed Phuket as one of the "travel destinations of the future. Only then would the most adventurous backpackers know of Phuket and its location in the Andaman Sea off Thailand's most southern peninsula. To get there, it required a 15-hour non-air conditioned bus ride from Bangkok and those that made the trek would then be pleasantly surprised to discover an untouched island, as freelance writer William Warren described in his 1988 New York Times article, "blessed with jungle-topped mountains, planted on their lower slopes with rubber trees and coconut palms, and valleys patterned with lush rice paddies. Its coastline is dotted with more than a dozen white sand beaches, each on a self-contained bay formed by rocky outcrops that jut into the translucent sea."[72]

Figure 7: Masterplan of Cape at Yamu: 17 private pool villas (priced at +$3 million) on a secluded peninsula of Phuket. (*Source: Developer http://www.theyamu.com/philippe-starck-hotel.php)*

[71] Efforts were made to apply quantitative analytics to seek the region's top three tourist markets but inconsistent and unavailable data made this difficult. Therefore these three locations were selected based on interview discussions with industry practitioners, specifically responses to the question, "What three cities in your mind are the preferred locations where you could imagine yourself and your friends not only vacationing but also buying a place?" Responses were collected from 20 interviewees.
[72] Warren, Wiliiam. "Phuket, Thailand's Resort Island - New York Times." The New York Times. 1988. HighBeam Research. 12 Jul. 2009 <http://www.highbeam.com>.

Figure 8: Map of Phuket
(*Source: www.nytimes.com*)

Today, this once wealthy tin mining and trading outpost has been transformed to one of the vacationing meccas of Asia, with amenities and accommodations to service backpackers to luxury vacationers.[73] Phuket is nearly 10 times the size of Manhattan at 206 square miles and has a very mountainous topography. Its more famous beaches, known to some as "The Prized 13" sit on the west coast. However, despite its size, strict zoning and environmental preservation have kept resorts and development fairly concentrated, perhaps a reason why despite the devastating tsunami in 2004, followed by political unrest in 2006, 2008 and 2009, prices for property continued to climb, regardless: sea-view property on the island's west coast jumped upward of 30%, year on year, in July (2009).[74, 75]

What primarily spurred resort and residential development was started primarily in the '90s, when investment bankers from Hong Kong and Singapore priced out of both the luxury resort and real estate market(s) in the Mediterranean began looking for vacation / getaway-home alternatives. In response both the resort and residential property markets in both Bali and Phuket began to "sizzle". The government responded by investing in infrastructure and amenities that would appeal to foreign contingencies. The establishment of foreign hospitals, schools and more importantly regular direct flights to/from Hong Kong and Singapore and seasonal direct flights from Australia, Europe, the UK and Scandinavia opened up Phuket and

[73] Phuket came into its heyday in the 19th century when Chinese tin miners exploited its mineral-rich hills. Later, fortunes were made in rubber trees. The island's main city was originally inland from the Andaman Sea to distance itself from possible devastation by tsunamis or typhoons.

[74] Political unrest has affected Thailand's tourism industry as a whole. STR reports that political unrest, airport closures and foreign embassy travel advisories are a concern for many and have deterred them from visiting Thailand. "Security is a main concern of travelers, and the recent media coverage of violent protests will deter many business and leisure guests contemplating travel to Thailand", said James Chappell, managing director of STR Global. A combination of political unrest and the global economy has substantially impacted the Thai hotel industry: demand in Bangkok in the middle of April (2009) has rapidly fallen by more than half of that of the previous year, down to as little as 33 percent on certain days. This is in line with however, similar declines in the region: Beijing and Shanghai has recorded year to year RevPAR declines of 50% and India has reported 20% to 25% declines in rate and occupancy.

[75] Beech, Hannah. "A Tale of Two Islands. " Time International 27 Oct. 2008: Research Library Core, ProQuest. Web. 4 Jul. 2009.

connected it to the rest of the World. Flights now from either Hong Kong or Singapore take three (3) and one and a half hours (1.5) respectively. As a result, today in Phuket there are approximately 40,000 registered hotel room(s), 25% of these being international star rated. New development in the pipeline will increase international star rated rooms by 50%, and of these 5,000 rooms scheduled to come online, 47% are scheduled to be targeted towards the upscale market, and 3% will be villas and condos targeting the for sale market.[76, 77]

At the extreme end of this spectrum are new private island developments such as The Yamu - designed by the design dream team Philippe Starck/Jean Michel Gathy, Jumeriah Private Island and Taj Exotica. These developments offer buyers a private lot on their own secluded island, often selling lots with either ready to go pre-designed customized houses or in some cases allowing the buyer to design and build his/her own dream vacation house within obvious zoning and design limitations. Tropical Homes Real Estate (http://www.phuketproperty.biz) listed a four bedroom Cape Yamu villa for $3.65M (July 2009), which includes approximately 6000 square feet of living space (4 bedrooms) built on one acre of land.[78]

Regardless of the level of extravagance, the Phuket second home market is primarily dominated by condominiums or villa complexes managed by luxury hoteliers. Such management services are charged at a premium, at times 30% more than similar "nonbranded villa developments", but market trends prove that second home buyers are willing to pay for these services. As one home purchaser put it, "you don't have to worry about whether the gardener is feuding with the cook."

Whilst increased development such as these, is exemplary of continued tourism demand balanced with similar interest from foreign and local developers and operators, the abundance of supply has naturally affected occupancy levels and RevPAR performance - occupancy rates in Phuket from 2002-2009 were 60-70%, with the exception of Q1 2008 where occupancy rates hit 80%, but immediately reverted back to historical norms in Q2 2008 with a recorded occupancy rate below 60%.[79] In Figure 3, Phuket and Thailand both have continued to under

[76] "Phuket Hotel Investment Growing." M2 Presswire. M2 Communications Ltd. 2008. HighBeam Research. 13 Jul. 2009 <http://www.highbeam.com>.
[77] Remaining forecasted stock; 41% and 9% of the market are targeting mid and budget/economy markets respectively.
[78] *Cape Yamu - Villas by Phillipe Starck.* Tropical Homes Real Estate, n.d. Web. 13 July 2009. <http://www.phuketproperty.biz/402_cape_yamu_-_luxury_villas_by_phillipe_starck.html#>.
[79] *MarketView Phuket.* Rep. Vol. 2. Phuket: CB Richard Ellis, 2008. Print.

perform its regional peers. Figure 4 presents raw data of the four major tourism markets in Thailand. Occupancy rates in the country were highest in Phuket at 60.8% and Chiang Mai further up the coast had the lowest occupancy rates of 43% - as previously mentioned political instability, foreign perceived level of safety, substantial amount of supply and the "hangover Olympic effect" depressed RevPAR and occupancy performance.

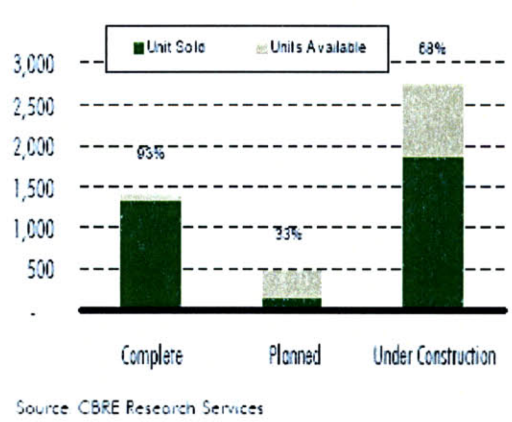
Figure 9: RevPAR% Change Year on Year for Thailand and South East Asia

Figure 10: Five Month Performance of Select Thai Markets: Nov 08 - Mar 2009 (all terms in USD)

	Occupancy	% Change	ADR	% Change	RevPAR	% Change
Bangkok	52.7%	-31.6%	$ 104.11	-3.70%	$ 55.04	-34.1%
Chiang Mai	43.0%	-31.9%	$ 109.65	-11.90%	$ 47.35	-40.0%
Hua Hin	57.4%	-27.0%	$ 151.11	-9.00%	$ 86.96	-33.6%
Phuket	60.8%	-24.8%	$ 155.57	-10.90%	$ 94.84	-33.0%

[80, 81]

Figure 11: 2008 Phuket Condominium Sales by Construction Progress *(Source: CB Richard Ellis)*



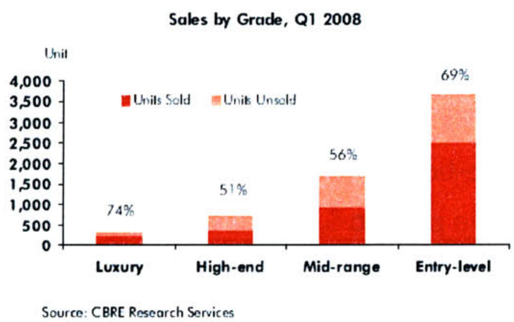
The for sale market segment in Phuket is divided into condominiums and villas (which in North American nomenclature simply refers to single-detached houses). Although much of the recent investment, operating and foreign development has been focused on capturing the high end and luxury segments of the market, there continues to be substantial demand for entry-level and mid-range villa market segment(s). For condominium

[80] Both Figure 3 and 4 are from: "Occupancy Declines Hit Thai markets, Rates Are Steadier." (n.d.): n. pag. *HNN Newswire*. Smith Travel Research, 27 Apr. 2009. Web. 13 July 2009. <http://www.hotelnewsnow.com/Articles.aspx?ArticleId=1076>.

[81] RevPAR performance for Phuket is in line with the rest of the region. In 2008 Asia Pacific RevPAR increased by 1.8% and for 2009 it is forecasted to decline by -30.3% (*Source STR).*

developers, demand metrics look very compelling. In 2008, 93% of all completed units had been sold and 29 out of 43 developments had been completely sold out. Specific to the high end segment of the market 82% of completed units had been sold, and five out of fourteen developments were sold out. Similar take up success was seen in the middle market segment where 70% of total supply was sold in 2008. In the luxury segment, only 50% of units had been sold, and CB Richard Ellis estimates that the primary reason is because still many of the developments are either in spec or construction stage(s), at which point buyers are reluctant to purchase units. As for villa developments, there was not the same amount of volume in transactions, not because of their popularity (or lack thereof), but the land restrictions that encumber villa developments which inherently need larger plots to develop on.[82] In 2008, there were 5,300 villa units marketed for sale. This number included both existing and future stock. Remarkably, 70% of all future (until 2010) and existing villa stock was sold last year.[83]

Figure 12: Q1 2008 Phuket Villa Sales Bifurcated by Grade
(*Source: CB Richard Ellis*)



The demographic segment that is responsible for a majority of these Phuket property purchases are split primarily between three groups: 1) Retirees aged 50-60 that are considering purchasing retirement properties in other more established locations such as Majorca, Spain; 2) as previously mentioned white collar professionals from nearby Hong Kong and/or Singapore and 3) successful local professionals and entrepreneurs . For developer Norbert Witthinrich, Managing Director of the developer SEA Property Phuket Co Ltd., he positions some of his villa developments aimed specifically at expat retirees. He has found success in developing villas with the amenities that rival those of more developed markets like Majorca, but priced competitively between $230-430K USD. These, as expected have been popular with retirees from various countries but primarily England and Sweden. Expatriates who do buy are enticed about the prospect of being able to stay for long durations (three months or more) especially with nearby international hospitals, and lifestyle amenities that make them feel (somewhat) at home. Separately, SEA has built thirty townhouses priced at $122K [84] per unit and has found

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[82] In some years, villa developments out number condominium developments. In 2004 of the 30 developments in the ground, 10 were condo developments and the remaining were villa developments.
[83] *MarketView Phuket*. Rep. Vol. 2. Phuket: CB Richard Ellis, 2008. Print.
[84] 1 USD = 34.2457 THB (Source: www.xe.com)

them to appeal to locals looking for a vacation residence. SEA also has product aimed at capturing demand from the luxury segment. These villas are often priced in the $1 MN (USD) range and have found most buyers are lawyers and bankers from Hong Kong and Singapore.[85]

PRICING: Condominiums prices on the island range from $55K - $1.2M USD, while houses cost anywhere from $175K to upwards of $4M.[86] There is a slight premium to owning property in Phuket and in Thailand than in competing geographies such as Bali and that is foreigners can own property in a 120 year lease hold structure. Prices are projected by brokerage firms to continue to move upwards with increased demand from buyers from India, South Korea and Central Asia and limited developable remaining beachfront land. A 2006 transaction at the Trisara residential complex, a sea-view, fully furnished villa managed by the boutique hotel of the same name signified the top of the market. The three-bedroom villa, one of eighteen in the first phase, changed hands four times, and tripling its sale price to $10 million. "It's amazing to see these prices," says sales manager Sukanya Chuaywang, "but they keep selling." Its hard to imagine that in today's economy this type of buy and flip mentality has continued at the pace witnessed between 2004-2006, but nevertheless this transaction does provide an extreme example of both how property in Asia is perceived as an investment vehicle (short-term and long-term) and the incredible amount of concentrated wealth in the region.

In conclusion, lessons learned from how Phuket has been able to demand a land premium and draw tourists which can then be used to understand the feasibility for secondary residential developments in Japan are as follows:

1) Direct connectivity to/from nearby financial and trading hubs:
    a) However distance was not a concern as proven by European retirees, but further study needs to be conducted to better understand how much the competitive cost of living in Phuket factored into the decision making process of these Europeans;[87]
        i) Similar phenomenon is witnessed in Bali, as many Britons have been lured to the area regardless of the sixteen hour flight.[88, 89]

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[85] "Property Investors Still Eye Phuket." Bangkok Post (Bangkok, Thailand). McClatchy-Tribune Information Services. 2005. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>.

[86] (2003 Prices Non-Inflation Adjusted) Siripunyawit, Sriwipa. "Land Prices in Phuket, Thailand, Surge by 20 Percent to 50 Percent." Knight Ridder/Tribune Business News. McClatchy-Tribune Information Services. 2003. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>.

[87] Seasonal migration to areas with cheaper cost of living is not specific only to South East Asia. Europeans are flocking to Croatia and Bulgaria to snap up Mediterranean villas that are cheaper than what's on offer in Western Europe. Americans have been going (for the past 15-20 years) south to Mexico, Costa Rica, Panama, Nicaragua and Honduras in search of affordable getaways.

2) Transparent real estate market with clear title:
   a) Lease-hold interests are perceived riskier and therefore are at a discount to property with clear title;
3) Strong supporting infrastructure and amenities to help vacationers and long-term residents have access to familiar conveniences;
4) Phuket's white sand beaches and pristine waters of the Andaman Sea are a major draw;
5) Continued demand and limited remaining ocean-view land also contributed to appreciation of land prices;
6) Whilst not discussed above, some potential purchasers decided not to purchase vacation property in Phuket because of the "sterile resort feel" of the island and aside from the beaches and water sport activities, the island did not have many cultural activities to offer. In other words, Phuket was not unique and felt like any other resort beach town. These individuals were looking for a strong cultural experience in addition to what a coastal community can offer.

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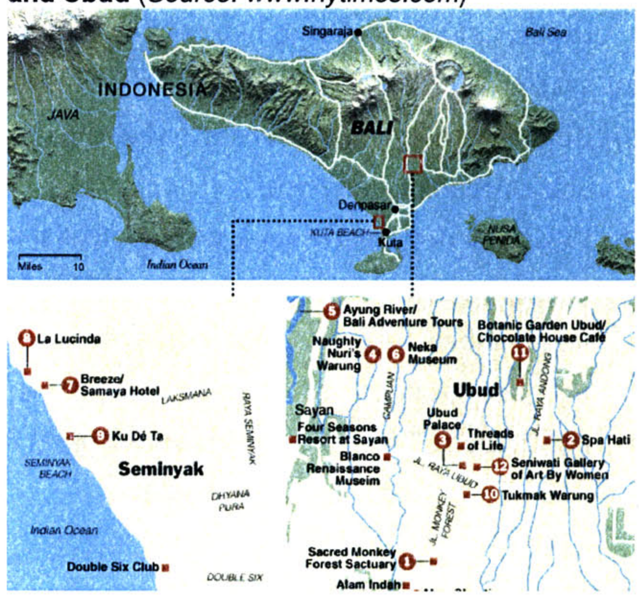
[88] Vedrickas, Ginetta. "New High for Bali; Overseas Property Distances and Bombers Don't Deter Canny British Buyers." The Mail on Sunday (London, England). Solo Syndication Limited. 2006. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>

[89] "Worldwide Property Boom Prices Locals Out of Market." The Hindustan Times. HT Media Ltd. 2007. *HighBeam Research*. 14 Jul. 2009 <http://www.highbeam.com>.

3.2 Bali, Indonesia

Bali is one of the more wealthy provinces of the 33 provinces in Indonesia., primarily relying on its tourism, agricultural and real estate industries to drive its economy. Bali's location on the Indian Ocean, topography and weather (which hovers around 85 degrees Fahrenheit year round and cools gradually as you move inland) have continuously attracted foreigners and locals alike. It was first discovered by the Dutch visitors dating back to the 19th Century and today is frequented by cosmopolitan jet-setters from around the world who come to Bali and become enchanted by not only the island lifestyle but also the cultural richness and traditions that are still omnipresent in daily life on the island. Bali does not have the resort-feel of Phuket, as previously mentioned, but this has served it well. "Say Bali and most people think paradise. There are stunning sunsets, sculpted rice terraces and a temple on almost every corner. And for less-spiritual seekers, this steamy Indonesian island also has great surfing and a rollicking nightlife."[90]

Figure 13: Map of Bali and Popular Areas Seminyak and Ubud (*Source: www.nytimes.com*)



HISTORY: The island is located just eight degrees south of the equator and although small in size – east to west and north to south the island spans 95 and 69 miles (respectively) at their most extreme points – the mountainous topography challenges even the best of city planners. And to their credit, the Balinese government was smart with their planning. Between the 1960-1970s, they took notice that there was some interest from tourists primarily amongst surfers, hippies and backpacking beachgoers. Surfing breaks such as Uluwatu and white sand beaches on Padangbai and Candi Dasa (both of which continue to be famous for their clean breaks and long rolls), put Bali firmly on the hippie-trail and the surfing map. Kuta Beach was the epicenter of this new found awareness, with bamboo guest houses (*losman*) and *warungs* catering, on a basic level to the customers. Concerned about preserving land for agriculture use (the island's

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[90] Kinetz, Erika. "36 Hours in Bali." *New York Times* 24 June 2007, Final ed.: n. pag. *Www.nytimes.com*. New York Times. Web. 14 July 2009. <http://travel.nytimes.com/2007/06/24/travel/24hours.html>.

primary source of income), the Balinese government took the advice of city planners in 1972 and designate an area that was sparsely populated and "unharvestable" for resort development.[91][92] The plot of land was flat, expansive with uncontested views and direct access to the beach. Today, that piece of land is more commonly known as the very popular Nusa Dua development on the eastern side of the Bukit Peninsula. [93]

In the 1930s, tourism started to wash up on Bali's shores. Visitors from Europe or North America would endure trans-oceanic voyages on steam ships, finally arriving at modern day Singaraja, an active trading port complete with Javanese, Arabs, Chinese and Europeans. Westerners soon came upon a World that presented almost an exact replica of the paradise images presented in fiction and adventure novels. The island later came under Dutch control and subsequently became a colonial playground for the Netherlands Indies, which extended from Indonesia to Malaysia.[94] Tourism numbers reached its first peak in 1998 and the industry as a whole gradually transformed from catering to budget tourists and Australian and Japanese surfers to a more discerning and upscale market. Nusa Dua, itself, has since then flourished with new resorts such as the Conrad, Ritz Carlton and Bulgari Hotel leading the way.[95]

Figure 14: 4 Bedroom Villa Istana Semer rents for $1,000 a night.

Similar to Phuket, by the late '90s, visitors from around the World could fly directly to Bali. Today, Bali itself has a new airline, Air Paradise International, which recently inaugurated service to a fifth city in Australia, to go with thrice-weekly flights to Osaka, Japan, and Seoul. Russian airline, Transaero Airlines recently announced it will commence direct flights from Moscow to Bali to serve the 70,000 Russians forecasted to visit Indonesia this year, an up tick from last year's

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[91] The government plan was carried out by a government formed entity named the Bali Tourist Development Corporation ("BTDC") and was to act as an intermediary between consultants, brokers, planners and developers and the government to understand and study how to design and plan the island.
[92] Culturally, the Balinese coasts are considered the domain of demons (traditional Balinese cuisine forsakes fish from the normal diet), and therefore culturally it was not too difficult for the BTDC to agree to allow tourists access to its beaches.
[93] The BTDC really pushed the development of the 300 hectare (4,500 keys) resort area at Nusa Dua.
[94] Lee, Denny. "The Rebirth of Bali." *www.nytimes.com.* New York Times, n.d. Web. 14 July 2009. <http://travel.nytimes.com/2005/03/27/travel/27bali.html?pagewanted=4>.
[95] "Re: Bali History." Weblog comment. *Bali History.* BootsnAll Travel, n.d. Web. 14 July 2009. <http://www.baliblog.com/history>.

65,362 (89% of whom visited Bali), which surprisingly was more than the number of tourists from the US, Germany and France. The Japanese continue to be the number one in terms of number of visitors, followed by Australians.[96]

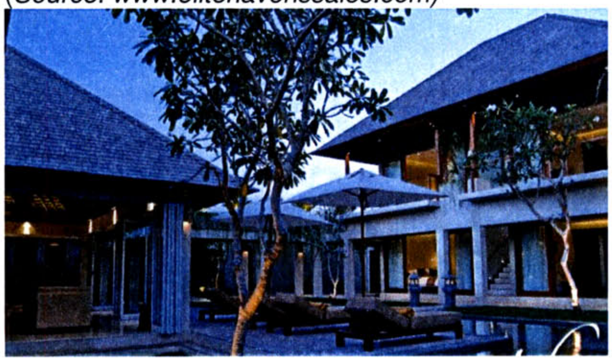
The first villas in Bali, according to local developers, were built in the 1970s by "disenchanted trust-fund kids who got tired of roughing it in Bali's simple local huts." They realized for a few thousand dollars that they could build respectable Balinese-style villas with open-plan courtyards surrounded by several bedrooms under traditional, thatched roofs. An informal rental market began when these trust-fund kids began renting out their own villas to friends and family when they themselves went home for the holidays. An industry was immediately born. By the early 1990s, foreign visitors to Bali discovered that building a villa could be a lucrative investment: the rental income more than recouped the cost of construction and maintenance. In concert, the Asian financial crisis shut capital flows to any and all resort developments at the time, leaving seasoned tradesmen without work. Villa-building was a natural segue for Western-trained contractors. They aggressively bid to work on villa projects, pushing construction costs even further down. Soon streets were dotted with individual villas built by small and entrepreneurial developers on the island.

Today, Bali's residential sector continues to grow, partially because most of the foreign-owned property on the island is not bank-financed. Despite the tragic terrorist bombings in 2002 and '05, land prices have increased by a minimum of 20% annually over the past three years, with some prime beachfront land going for double what it traded for a year ago. Foreigners continue to invest, albeit at a slower pace than Phuket. And if land price appreciation and residential prices are any indication, Bali is no longer a cost of living arbitrage. Private villas have gained an immense amount of popularity that even businesses around Asia have begun renting villas for exclusive retreats rather than hotels. Not surprisingly, some of these private residences rival the fanciest luxury resorts. The practice of renting out their residences to offset building and maintenance costs has become common practice amongst many "weekend" landlords. The four-bedroom Istana, for example, sits on a cliff with a sunset view and starts at $1,000 a night.[97, 98] On the other end of the spectrum, two and four-bedroom villas are rented out on

[96] *The Knowledge Report, Indonesia Market Overview.* Issue brief. Marcy ed. Jakarta: Colliers International, 2009. Print.
[97] Arnold, Wayne. "A Bali Beach Worth a Stay." *New York Times* 22 Feb. 2004, Final ed., sec. 5: 6. *Www.nytimes.com.* New York Times. Web. 14 July 2009. <http://www.nytimes.com/2004/02/22/travel/a-bali-beach-worth-a-stay.html?sec=&spon=&pagewanted=2>.

average for $200 and $400 (respectively) per night – as expected prices include full-time staff to tend to the needs of the guests, paid at the expense of the landlord.

Figure 15: Batu Belig Villa listed at $1.1M : 4 bedrooms, 5000 sq ft
(*Source: www.elitehavenssales.com)*



PRICING: The lure of the island's location and climate combined with cost of living has driven property demand on the island. Similar to Phuket, many foreigners are enticed by the opportunity to own something in Bali for not only a portion of the price of comparable properties in Europe, but in some areas, *half the price of similar properties in Phuket.* This price arbitrage has led an influx of foreigners to consider Bali for their second residence purchase/investment and therefore a primary driver of land appreciation during the five years.[99]

An example of the interest and demand is the English population. A recent poll showed a thousand of the four thousand Britons living in Indonesia owned homes there. Britons have traditionally been comfortable with overseas ownership and Damien Vanderwilt, 28, an investment banker from Notting Hill is a good example of this. In 2006 he bought three hectares of land in Bukit where he built a six-bedroom villa. At the same time, he just completed selling plots he previously purchased at Pantai Selatan, an upscale development where completed five-bedroom residences (villa) were selling for $975,000. [100] [101] For Damien, the sixteen plus hour flight from London Heathrow was not an issue. The aforementioned classic formula of weather, adjacency to the beach, and certain cultural aspects of Bali have attracted his money, which clearly could have bought something in the Mediterranean or something closer to home. But for him Bali made sense for other reasons than cost of living and currency arbitrage..

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[98] Rowlinson, Liz. "Tropical isle on a crest of success; Why buy in Bali? Liz Rowlinson went to find out." The Daily Mail (London, England). Solo Syndication Limited. 2006. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>

[99] Vaudine England. "Bali dream homes: resiliently ever-rising." International Herald Tribune. 2006. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>.

[100] Vedrickas, Ginetta. "New High for Bali; Overseas Property Distances and Bombers Don't Deter Canny British Buyers." The Mail on Sunday (London, England). Solo Syndication Limited. 2006. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>

[101] Vedrickas, Ginetta. "New High for Bali; Overseas Property Distances and Bombers Don't Deter Canny British Buyers." The Mail on Sunday (London, England). Solo Syndication Limited. 2006. HighBeam Research. 14 Jul. 2009 <http://www.highbeam.com>

Residential product in Bali ranges from one bedroom apartments in fully serviced buildings that start at $250K and three bedroom apartments in the same tower that trade in the $700K range. On the more extravagant side of the spectrum, there are the 6,996 square foot villas that sit on 15,000 square feet of land, with a 60 foot long pool, three bedrooms, a study and Philippe Starck-designed bathrooms - this particular one on is on the market for $1.8 million. Most properties that are spec, or in the ground are sold via a cash deposit and a good handful of developments sell properties with options to allow the developer/operator rent out your unit when you are away. Some come with guarantees of six percent yields for two years and other developers are even more bullish to commit to twelve percent returns over a certain time period.

Other products like timeshare concepts have also recently come to market to capture a larger consumer segment. The ALiLa Villas development, designed by Singapore based WOHA, operated by the developer, combines open-plan modern designs and infinity pools with five-star amenities include personal butler service, restaurant and clifftop bar. For one bedroom villas priced at $400K and three bedrooms priced at $1.35million, owners are guaranteed 30 days' of annual use.

Figure 16: Architect WOHA Renderings of Alila Villas Uluwatu (*Source: www.contemporist.com*

Similarly, the Nusa Dua Golf Resort, a $19M project developed by Jakarta based PT Metafora International and operated by Accor's Novotel brand, is a condo/hotel project with a large timeshare component to it. The development consists of four structures, each just tall enough to top a palm tree, and houses private residences. The apartments can be used by their owners for three weeks a year and for the rest of the time Novotel rents them as hotel suites. Forty percent of the rental income is guaranteed for five years. The product was positioned well enough that prior to completion 70% of the units were already sold, with prices ranging from $190K to $400K.

The Bali Discount, if any, is primarily because of the convoluted (for some) ownership structure which makes it challenging for foreigners to buy property outright. Land ownership rights for the most part are leasehold structures with renewals[102] or in some cases a separate legal entity is

[102] Some leasehold renewals are automatic after 30 years.

set up whereby a foreigner partners with a local Indonesian passport holder to purchase a property. The local Indonesian partner would own the land but usage rights are held by the foreigner. This provides obvious financing challenges because very few banks are willing to lend on such premises.[103] Furthermore if wealth preservation was at all a motive for purchasing property in Bali, the lease hold structure would be counterintuitive as the value of a lease tends to depreciate as the years pass on leases.[104]

Concluding, Bali has many similar traits to Phuket specific to how it leveraged its natural resources to attract and drive tourism. Some of Bali's successes and detriments that can be applied to secondary residential development in Japan are as follows:

1) Strong culture and available activities to learn and understand local traditions was one of the defining factors that attracted tourists and investment away from Phuket to Bali;
2) Varied topography with hills and beaches allowed for developers and residents to design and build unique houses with more creativity;
    a) Specific references were made to how "stale" Phuket was compared to Bali;
3) Direct Air Travel connectivity again was a critical matter;
    a) Bali does not offer the convenience to/from some of the regional finance and trade hubs like Phuket does. Its remote location has been mitigated by direct connectivity from local airport to regional powerhouses. However it is exemplary of how individuals will make the trek if the destination is worth it;
4) Similar to Phuket, access to water sports and pristine beaches drew many to Bali;
5) Bali once was a cost arbitrage story, but land and residential prices indicate that there is a thriving affluent market segment willing to pay top dollar for property in Bali;
6) Inability to own property and lack of free and clear title to land is an issue.

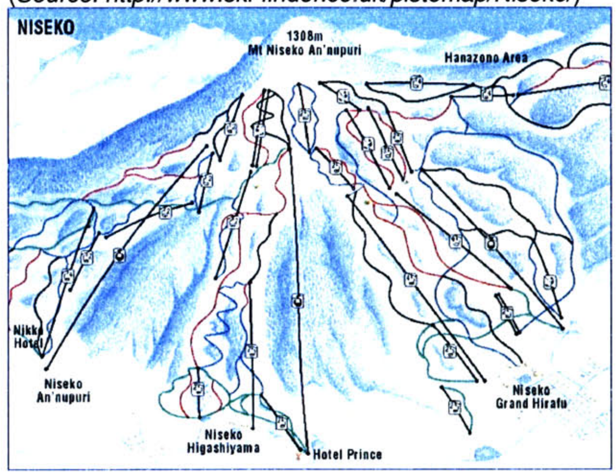
[103] Some banks, such as the Australian Commonwealth, will loan on existing villas if bought and structured via a shell company entity (an Indonesian registered company).

[104] Tax effects: **1)** Sales tax is a "5%" land transfer tax, usually equates to about 1% of the purchase price. **2)** 10% value added tax is payable on top of the sales price. **3)** Owners are subject to a 0.5% annual property tax. **4)** Most buyers buy through a Singapore-registered company in which case no capital gains tax is payable and **5)** Bali has no inheritance tax.

3.3 Niseko, Japan

Niseko, located on the south west corner of Japan's most northern Island, was recently voted #2 in Forbes Traveler's 20 snowiest ski resorts in the world and has lately become a popular ski site among locals as well as visitors from Australia, Hong Kong, Singapore and the UK.[105] Niseko is unique as it has become a skiing boomtown where the growth is driven mostly by foreigners.[106] Prior to its current life as a ski and outdoor destination, Niseko for the longest while was an anonymous farming community, where many older generations would curse Mount Yotei and threaten to flatten it one day. That same mountain today has developed into a major outdoor destination for many. The area offers year-round activities, including golf, river rafting and mountain biking in the summer and unrivalled skiing when the weather turns cold. In the winter the area attracts snow sport enthusiasts from everywhere along the Pacific Rim - from as south as Australia to as far east as California, The snow season in Niseko on average lasts for 195 days, second only to Canada's Whistler resort city, which has 254 days of snow.[107]

Figure 17: Map of Niseko Ski Runs
(*Source: http://www.ski-finder.co.uk/pistemap/Niseko/*)

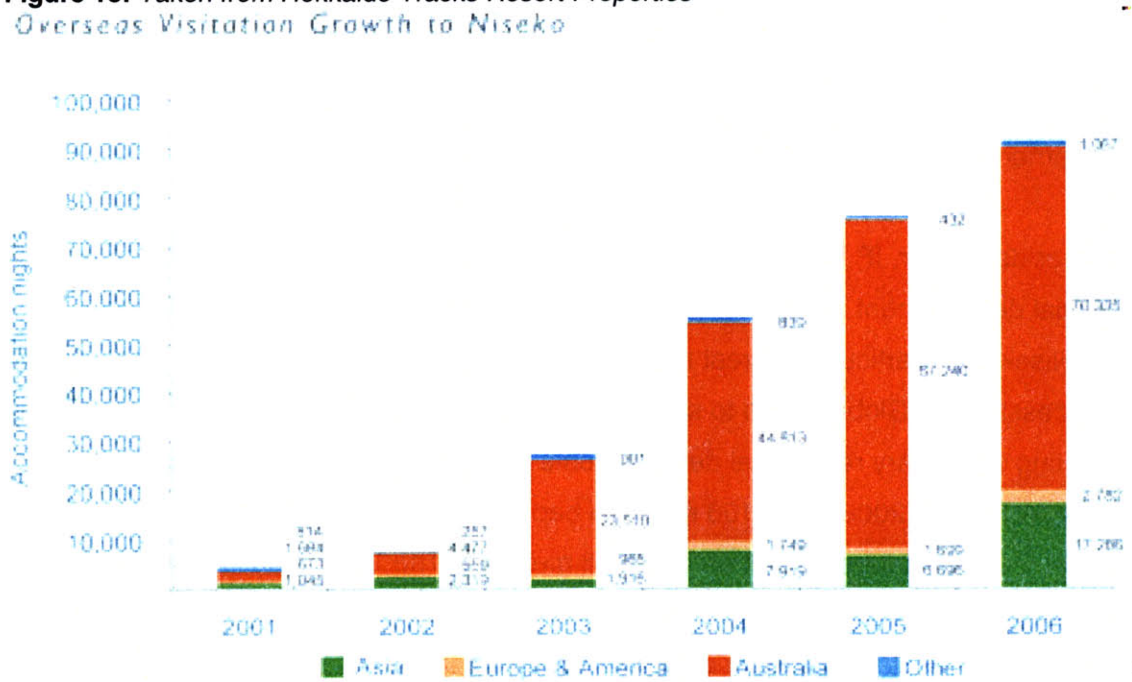


Niseko is a good example of how there is an increased interest amongst Asian tourists to travel within the region. It is also a good example of how there is a growing demand for different vacation experiences in Asia, which has been primarily more or less confined to three main categories: beaches, shopping and historic and cultural tourism. In addition, the area's recent redevelopment is a great showcase of how cities can reinvent themselves to capture new demands and lifestyles. The area's renaissance was primarily initiated by Australians who were, "attracted by the chance to ski world-class snow without suffering the jet lag they associate with

[105] How good is the snow? From mid-December to February, Niseko gets hit with winter storms that blow off Siberia and bury the mountain in some of the, "lightest, driest powder on the planet." On-mountain averages are harder to come by, but it is believed that Niseko gets more than 600 inches a year. Vail by comparison averages 348.
[106] Brazil, Ben. "Niseko, Japan: Downhill Skiing in the Land of the Rising Sun." New York Times 19 Nov. 2006, Final ed. Print.
[107] Sandy Li. "Hokkaido ski resort chalets offer holidays and rent income. " South China Morning Post [Hong Kong] 17 Dec. 2008,2. International Newspapers. ProQuest.

North American and European resorts."[108] Japan, as later discussed, has a significant amount of antiquated resorts of all different types – existing resorts and lifts were a result of the "ski boom" of the 1980s, when skiing in Japan became trendy, slopes stayed packed and resort investment soared. Niseko was no different. By the mid-'90s entrepreneurs and developers, local and foreign, began to sense the area's' potential for redevelopment and the opportunity to attract snow sport enthusiasts from Australia and Hong Kong to take the comparatively short flight up to Niseko and ski its great powder.[109] There was already in place existing infrastructure and land prices had reached all time lows, with plots of land trading as low as $12/ sq ft, which today would trade for $75. The area was still active, but there were definitely deals to be made, with some existing resort properties in distress.

Figure 18: *Taken from Hokkaido Tracks Resort Properties*



[110]

As a result the number of tourists (foreign and domestic alike) began to increase year to year. In 2001, approximately foreign visitors stayed 4,216 nights. That same segment increased to over 91,000 nights in 2006, a 22x increase. A substantial 77 percent of the visitors in 2006 were from Australia, and 19 percent were from Asia. Domestic tourism had also come back. Overall

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[108] Brazil, Ben. "Niseko, Japan: Downhill Skiing in the Land of the Rising Sun." *New York Times* 19 Nov. 2006, Final ed.: n. pag. Print.

[109] Nakamoto, Michiyo. "An eastern Aspen?" FT.com Nov 2006,1. ABI/INFORM Global database

[110] "Visitation Statistics on tourism to Niseko." Web. 23 July 2009. <http://property.hokkaidotracks.com/investment/visitationStatistics.do>.

tourism in the area has increased from 1.46M in 2001 to 1.5M, a 4% increase over the same time period. To respond to this increase in demand, existing hotels were upgraded and construction for new hotels got underway. In parallel, a few Australian developers also started developing world-class resorts and/or vacation residences built to Western spec, but designed to respect the local culture and aesthetics of the town. One of these developers, Hokkaido Tracks, has developed both apartment complexes and single family residences which have been a success. A description of the build quality of their developments and the "service" they provide for a homeowner is listed below:

- Superior construction, built to withstand Hokkaido's heavy snowfall while providing excellent insulation;
- Double and triple glazed windows, Hydrothermic low-allergy ambient heating;
- Fully furnished properties;
- Free hold title;
- Flexible and effective management by Niseko-Hirafu's most respected property management group.[111]

Similarly another developer, IP Global, had similar success. Its Niseko Country Report, a three phase residential development, is exemplary of the type of demand for *for sale* vacation residences in Niseko. Of particular interest to the Niseko Country Report development is the amount of concessions IP Global made to sell each property, a critical point to keep in mind when underwriting secondary residential developments in Japan. Pricing for the properties ranged from US$276,449 (2008) for a 100 sqm two-bedroom chalet on a 480 sqm lot, to US$1.2 million for a 300 sqm four-bedroom unit on a 870 sq meter lot. The 25 chalets in Phase 1 and 2 were sold out, but concessions of up to 15 percent discounts were offered in order to close the deals. Buyers received bank financing of up to 80 per cent of the purchase price, with mortgage rates of less than three per cent a year.

IP added in an investment option to the property, which was well received, allowing the buyers an option to receive a seven per cent rental guarantee for the first two years, but in exchange buyers could only use the house for three weeks a year, and the hotel operator would rent out the rooms for the remaining balance. During the peak season, rents ranged from 50,000 yen ($442) to 60,000 yen ($531) per night. The firm reported at the time of the interview in December 2008 that, "All chalets under (their) management had been fully booked in the first

[111] "Hirafu Houses." Web. 23 July 2009. <http://property.hokkaidotracks.com/investment/hirafu.do>.

week of that winter." All twenty-five buyers were based in Hong Kong which included Chinese families and Canadian and British expatriates, as well as those from Singapore.[112]

Tim Murphy, Managing Director of IP Global, continues to invest and develop in Niseko. He and his firm are attracted to the area's fundamentals, "it has a four-season climate, receives plenty of snow and is not overdeveloped. People are still happy to buy for lifestyle."

Figure 19: Hokkaido Tracks' 2009 Hirafu House

The success Niseko has had with attracting not only international and local tourism, but also demand for vacation residences proves that indeed, a site and product well located and positioned can successfully draw both Japanese and foreign interest. Even more importantly the sold out developments in Niseko provide further convincing evidence that there is a market for secondary residential developments in Japan. The following observations of the development of Niseko provides significant contextual lessons that can be applied in deciding what are the critical factors that can contribute to the success of a similar development in Japan:

1) Active Lifestyle Component: similar to drivers behind purchases of vacation residences as seen in the US example and Phuket, the active lifestyle attached to Niseko was what primarily drove tourism demand. Without Niseko's powder, it is very difficult to make an argument in favor of Niseko.
2) Time lag between discovery to demand for vacation residences in Niseko was approximately 5-7 years. An interesting observation of all of the available data was a best estimation of when tourists started to come back to Niseko was roughly around the mid-'90s. Real estate brokerage firms began opening up in the early 2000s sensing an increase in demand.
3) Design: Traditional Japanese Aesthetics with Western Specs: developer Hokkaido Tracks, despite key client being Australian skiers, had properties designed with Japanese Aesthetics in mind, but on the interior applied Western specs.

[112] Li, Sandy. "Hokkaido ski resort chalets offer holidays and rent income. " South China Morning Post [Hong Kong] 17 Dec. 2008,2. International Newspapers. ProQuest.

4.0 Domestic Target Market

The following four markets have been identified as feasible consumer segments that would not only have the ability to purchase second residences, but also would seriously consider and pursue the opportunity to own a second residence. Research results were derived from both interviews and email correspondences with regional real estate practitioners, desktop research and marketing generalists.

4.1 The Grey Yen

One of the defining characteristics of Japan, often mentioned in popular press, is Japan's rapidly ageing population. This demographic shift, combined with Japan's restrictive immigration policy poses significant challenges to the country's future development and economic growth.

The often discussed aging group, also referred to as the "Grey Yen", has grown as a percentage of the population from 14.6% in 1995 to 22.4% in 2007. Growth of 21.9% is expected to increase the total number of pensioners in Japan to 35 million by 2015. More recently, Dai-Ichi Life Research Institute (the research arm of insurance conglomerate Dai-Ichi Life) estimated retirement pensions to grow from 10.7 trillion yen ($107 Billion) in 2007 to 15.2 trillion yen ($152 Billion) in 2008[113]. To put the aging of Japan in better perspective, the median age in Japan was 39.70 in 1995 and within twenty years (by 2015) it is forecasted to increase to 47.44. These figures are going to dramatically change both fiscal policy and private consumption trends in Japan as the older population increases its demand for healthcare and pension costs. Conversely, the savings amongst the Grey Yen age group are greater than those of the middle-aged in Japan, roughly equating to half to three-fifths of the private savings in the country, estimated to be valued at 11 billion yen.[114]

The Grey Yen has led companies to focus marketing and product development on older consumers, and away from the 20-30 age market, and those in middle-age bracket, who have traditionally made up the vast majority of consumers and have held the greatest amount of disposable income. There has been an increasing amount of attention paid to developing many goods and services to better cater for the new aged core market across most sectors of the Japanese economy. Moves have been made towards the development of multifunctional home

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[113] 1 USD = 100 JPY (although not current exchange rate, but used more for stylistic purposes for consistency in research.

[114] Euromonitor International. Consumer Lifestyles – Japan. Publication. Euromonitor International, 2008.

appliances, DIY home medical care products, and of specific interest to this research, the tailoring of holidays and retreats to meet the requirements of the older clientele.

There are new markets for the 'Grey Yen', as older generations are carrying more economic clout there are moves by the market to supply this lucrative demand. Increased marketing of goods aimed at the older consumer have helped push sales of certain items out into the mainstream. The rise of digital photography, hiking shoes and casual golf-wear, originally aimed at the older generation's leisure market, are just a handful of examples of how markets have blossomed through the influence of the older generations. Dai-Ichi Life predicts travel will be high on the list for this consumer segment.

First and foremost, there will be an immediate impact on building typology and design. Many older working Japanese are looking to move to smaller apartments, and away from larger family homes as families continue to decrease in size, there will be a corresponding demand for smaller and multi-functioning home aids and appliances to furnish these new residences. Functionality will be important to older consumers and home furnishings that ease movement and offer health benefits through ergonomic design will see greater demand over the forecast period.

Second, a combination of well-being and travel and leisure will be high on the list for The Grey Yen. Spending on medical care and services will continue to gain proportional consumption from this age group, as will the pharmaceutical, health and wellbeing markets. Healthier living is being promoted in Japan in order to control the burden of healthcare costs on public spending and this will increase expenditure by this group on bottled water, organic and health foods, health-promoting teas, toiletries and health breaks such as spa weekends. The older population will also remain active and mobile enough to enjoy their retirement years, traveling around Japan and abroad, thereby increasing consumption of accommodation, domestic tourism, cultural and other recreational spending, can be expected.

Lastly, we can expect the financial services markets to cater for the needs of the ageing population through insurance schemes and investments by which many pensioners will look to make the most of their savings and pension incomes.

This consumer segment is attractive for vacation residential development because research efforts have discovered a very clear demand for travel, well-being and the capacity to spend. Younger seniors, who are increasingly healthy and active and with financial means, will fuel demand for second homes and recreation-oriented adult communities located near cultural amenities.[115] Vacation residences for the Grey Yen need to first be located in key areas of interest, primarily geographic focus should be at or nearby the many World Heritage sites in Japan (to accommodate aforementioned demand for travel) and/or in areas that have a strong hook into accommodating the health and well-being focus of this consumer segment. As mentioned before, building design and typology need to be flexible and/or focused to provide comfortable barrier free amenities for this age group. Lastly, although difficult as we will discuss later, the introduction of a time-share and/or condo-motel model could be developed to cater to the financial and investment needs/interests of the Grey Yen.

4.1.2 Middle Aged Adult Segment

Although not part of nor as significant as The Grey Yen segment, the middle-aged adult group, is substantial and therefore worth mentioning. With a huge 33.9% of the population making up this expansive age group of those in their 40s and 50s. and with marginal decline as compared to the age groups below them, the middle-aged segment will perhaps be the largest important consumer base by age over the forecast period.

Middle-aged people generally have a greater tendency to save, when compared with their more junior counterparts in Japan. These amassed savings, it is hoped, will begin to find their way into the marketplace over the forecast period in the form of heightened consumption. Consumption by this age group is felt across all the broad categories of the market, with increased disposable income and savings tending to go towards family orientated spending within the household, such as grocery shopping, household appliances, communications, furnishings and home entertainment, and on more expensive clothing, jewellery and watches, as well as recreational activities involving the family, such as vacations and day trips. [116]

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[115] Lachman, M. Leanne, and Deborah L. Brett. "Global Demographic Highlights 2008." *UrbanLand* May 2008: n. pag. Print.

[116] "Investors rushing to check in to Japanese hotels Tourism is likely to grow as retiring baby boomers with time and money are expected to push up travel demand." *South China Morning Post* [Tokyo] 4 Oct. 2006: 4.

4.2 High Net Worth Individuals

High Net Worth Individuals, otherwise commonly referred to as "HNWI", in both Japan and the region are a critical target market for vacation home developments in Japan – primarily because of the growth prospects for this consumer segment, their appreciation for recreational travel and their propensity to spend. HNWIs are identified as people/households with assets of more than $1 million, excluding their primary assets such as homes. Developers and financiers have already identified this market and within this past decade have been developing, re-positioning and marketing developments in and around ski destinations in Hokkaido to both foreign and domestic HNWIs.

In the most recent CapGemini / Merrill Lynch Asia Pacific Wealth report Asia-Pacific accounts for 27.8% of the world's HNWI population and 23.3% of global HNWI wealth. The number of HNWIs in the region grew by 8.7% in 2007, to 2.8 million, exceeding global HNWI population gains of 6.0%. Total wealth in the region is forecasted to reach US$13.9 trillion by 2012, growing at a projected annual rate of 7.9%, which slightly exceeds the 7.7% global rate.[117]

Their (Asia-Pacific HNWI) wealth expanded by 12.5% in 2007, to US$9.5 trillion, exceeding both the 10.5% rate posted a year earlier and total world wealth growth in 2007 of 9.4%. As expected, economies such as India, China and (surprisingly) South Korea experienced the highest HNWI population growth within the region, gaining 22.7%, 20.3% and 18.9%, respectively. Other countries also experiencing growth in this consumer segment are Singapore, Hong Kong and Indonesia. Much of this growth was seen in this last decade and post Asian Financial Crisis. Strong economic growth across the region since then has lifted the number of HNWI households in Asia. Double-digit growth in this segment was not too uncommon – for example: between 2002 and 2003, the number of HNWIs in Asia rose 21.4% to 1.9 million, according to the Boston Consulting Group.[118]

Even more impressive, is the most recent report found the number of ultra-HNWIs--those with net assets of more than $30 million—in the region rocketed by 12.2 percent, to a total of 17,500.

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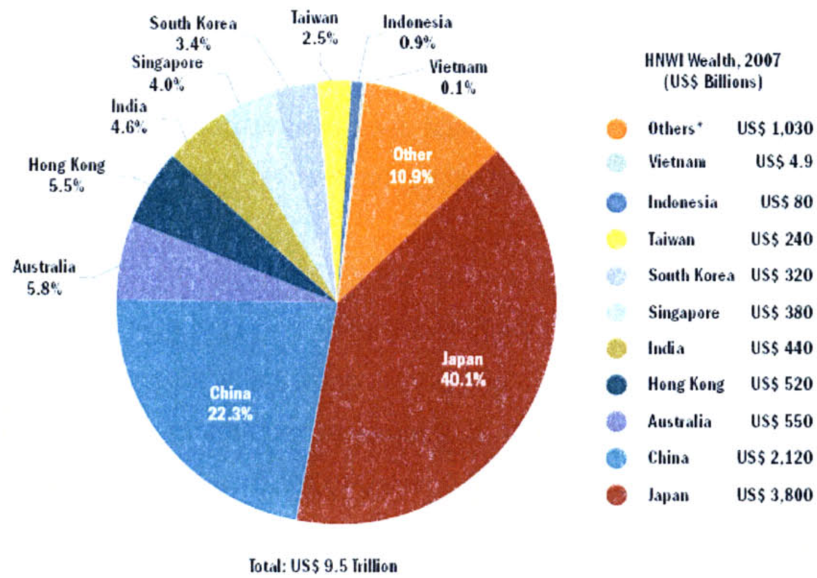
[117] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008.
[118] Baglole, Joel. "Managing Asia's New Millionaires. " Far Eastern Economic Review 1 Jul 2004: 42-46. ABI/INFORM Global.

Figure 20: 2008 Asia Pacific High Net Worth Individuals: by Country
Source: Capgemini/Merrill Lynch Asia Pacific Wealth Report 2008)



Note: *Others category is comprised of eight markets: Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka and Thailand
Chart numbers are rounded
Source: Capgemini Lorenz curve analysis, 2008

[119]

Industries from professional services to retailers are continuously assessing how to approach this market in the region. "Asia is the most promising market in the world," says Norio Suda, executive deputy president at Nikko Cordial and the man in charge of its overseas strategy. Mr Suda represents the third-biggest Japanese securities house and scours Asia for possible ventures intended to service a growing and increasingly affluent middle class and high net worth individuals.[120]

With respect to real estate, the following are identified global private wealth trends that favor real estate investment, especially when placed in the context of Japan:

1) A continued preference for real property investment;

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[119] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008.
[120] Turner, David. "Attention turns to the rich in Japan's regions PRIVATE BANKING: Institutions are waking up to the growing client pool beyond Tokyo, as they plan expansion or form alliances with local banks, says David Turner :[SURVEYS EDITION]. " Financial Times [London (UK)] 29 Jan. 2007,9. ABI/INFORM Global.

a) HNWIs in North America and Asia increased their exposure to commercial real estate (direct investment) in 2007;
b) 50% of the HNWI direct real estate investment volume in the region is driven by the Japanese HNWI population;
c) HNWIs held a higher percentage of their holdings in real estate in 2007 compared with global peers
d) Hong Kong: Emerging-HNWIs (defined as individuals with investable assets between US$750000 and US$1 million) here allocated a greater proportion of their portfolios to residential property rather than commercial real estate;

2) HNWIs showed greater interest in domestic market investments, preferring more familiar grounds amid heightened levels of economic uncertainty;
   a) As such, globally HNWIs continued to decrease their holdings in North America.

4.2.1 Market Share Continues to be Largely Influenced by Japan

The number of millionaires in Asia in 2007 increased by 8.6 percent, with Japan home to more than 1.47 million., 43.7 percent of the region's share of super-rich. Together, Japan and China accounted for 68.8% of the Asia-Pacific HNWI population and 62.4% of its wealth. Japan' has the second largest HNWI population in the world after the United States with over 3 million.[121] China has the second largest number of HNWIs *in the region* with 345,000, up 7.8 percent, followed by Australia with 161,000, up 10.3 percent, and South Korea with 99,000, up 14.1 percent. It is of importance to note the change over the years. In 2004, according to the Boston Consulting Group, 73% of the region's high-net worth wealth was Japanese wealth.[122] Regardless, Japanese wealth continues to be a dominant force in both the region and worldwide.

Japan accounts for more than one-third (36.7%) of the region's overall wealth and is home to more than half (55.6%) of the region's wealthy individuals. And despite the "lost-decade", where the Japanese economy did not grow, Japan has the largest population of Emerging-HNWIs (661,000) and the second-largest concentration of Ultra-HNWIs (5,300 - described as those with investable assets in excess of $30MN) in the Asia-Pacific region. The country's Emerging-HNWI

121 "Millionaires Still Prosper: Merrill's World Wealth Report. " Jiji Press English News Service 26 June 2008. ABI/INFORM Trade & Industry.

122 Baglole, Joel. "Managing Asia's New Millionaires. " Far Eastern Economic Review 1 Jul 2004: 42-46. ABI/INFORM Global.

population was more than five times larger than that of China, which ranked a distant second in the region.

Japanese HNWIs continued to hold the largest portion of their financial wealth in cash/deposits in 2007, allocating the highest percentage (34%) to this asset class compared with their Asian peers. The Japanese historically have held their financial institutions in high regard, especially since World War II, when they played an active role in helping the Japanese economy recover, in part, by lending to small business owners. As a result, local investors have viewed domestic banks as a safe haven in times of economic downturn, despite the nearly 0% yields they offer.[123]

However, Japanese investors are becoming more savvy and venturing into more complex financial instruments, including hedge funds. "The main investors are from outside the region," Mr [Alex Mearns] says. "They always have been." Just 10 per cent of hedge fund investment comes from Asia, he adds. Japan alone accounts for half of the money from within the region. As for the other 90 per cent: "The majority comes from Switzerland, the UK and US," Mr Mearns says.[124]

4.2.2 HNWI's Preference for Real Estate

Outside of fixed income, equities and cash deposits, there is a continuing global trend for private real property investment in both public vehicles such as REITS and direct investment. From 2006-2008 direct property investment transaction volumes varied: in Europe transaction volumes increased by 1.9%, whereas in the Americas, they rose about 10%, and in Asia-Pacific investment increased by 27.4%, led by Japan, owner of approximately 50% of regional volumes.

Whether inherited or acquired, property has been a significant source of wealth in Asia. As a result, Asian HNWIs traditionally have held a high portion of their financial assets in real estate. Each year is no different than the next: in 2007, 20% of HNWIs' holdings were allocated to real property — versus the 14% global average – it should be noted that this increase is also

[123] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008.
[124] Wood, Andrew. "New hedge launches braving dark climate. " Financial Times [London (UK)] 30 Mar. 2009,8.

partially due to, up until recent, the strong performances of the region's real estate investment markets.[125]

Commercial real estate in Asia-Pacific experienced remarkable growth throughout the first and second halves of 2007. The U.S. financial market turmoil and tightening credit conditions late in the year seemingly did not dampen performances. Direct commercial real estate investment reached a record US$121 billion in 2007, up 27.4% over the previous year. Japan, by far the largest market in the region, accounted for 50% of total transactions, while Australia followed with 15%.Consistent with these strong results, HNWIs in Asia-Pacific increased their exposure to commercial real estate in 2007, while globally the portion of HNWIs' financial assets allocated to commercial real estate remained unchanged.[126]

HNWIs in South Korea traditionally allocate a large percentage of their wealth to real estate, 2007 was no different. They allocated the largest percentage (40-42%) of their holdings to real estate, followed by those in Australia (28%) and Singapore (25%). Traditionally, real estate has represented the major source of South Korean HNWI wealth – real estate in South Korea is considered a long-term investment because the local real estate market is relatively illiquid. Furthermore, South Korean HNWIs tend to have limited international exposure to real estate compared with their Asian peers. Consequently, HNWIs in South Korea were not as negatively impacted as other Asian investors by the U.S. financial market turmoil and tightening credit conditions in late 2007.[127,128]

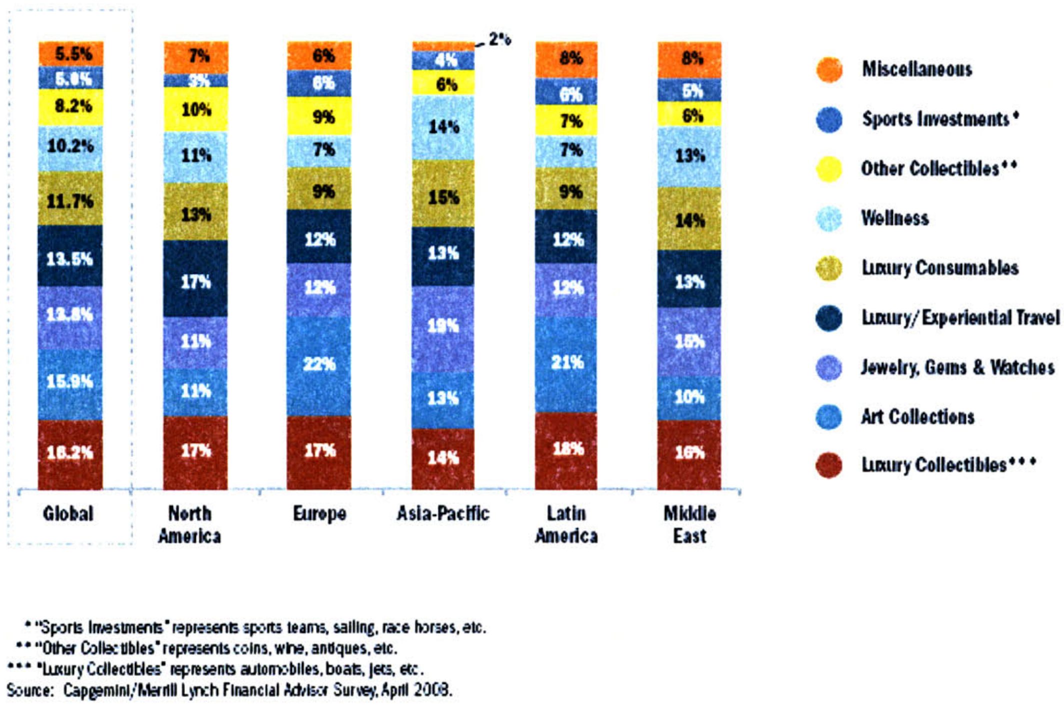
In sync with regional consumption trends, Asian HNWIs have also started to place more emphasis on personal lifestyle. Surprisingly, Asian HNWIs allocated more of their wealth to "intangible categories," such as luxury and experiential travel, health and wellness, and luxury consumables, than their North American and European counterparts. This recent phenomenon could be explained by 1) aging HNWIs' longer than average life expectancy rate which drives their concern for wellness and disease prevention; 2) the growing and emergence of new wealth in the region curious to flex their financial muscle, travel the World and enjoy their new earned

[125] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008.
[126] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008.
[127] Capgemini, and Merrill Lynch. Asia-Pacific Wealth Report, 2008. Publication. 3rd ed. N.p.: Capgemini and Merrill Lynch, 2008
[128] Leyco, Chino S. "Expansion of super-rich class lags behind RP economic growth. " Knight Ridder Tribune Business News 18 October 2007. ABI/INFORM Dateline.

wealth and 3) the generation shift of HNWIs in the region, whereby younger generations are coming into control of the family estate and are diverting emphasis/investment away from traditional categories and instead spending it on the aforementioned intangible categories.

Globally, the HNWIs have upped the ante. With luxury goods increasingly within the reach of the upper-middle-class, especially in more mature markets, HNWIs continued to purchase "exclusive experiences" as a way to differentiate themselves. According to the founder of the travel firm DreamMaker International, HNWIs are "fixated on the story—and [want to] tell their friends what they did." Whether it's an impromptu trip to Italy to race a Ferrari, Lamborghini and several Porsches from Florence to Portofino, or a three-week adventure across the world, Ultra-HNWIs are ready to spend large sums of money to "live the dream" in the most luxurious conditions.[129]

Figure 21: High Net Worth Passion Dollars, 2008 Survey Detail
(*Source: Capgemini Merrill Lynch Asia Pacific Wealth Report 2008*)



[130]

[129] Capgemini, and Merrill Lynch. World Wealth Report, 2008. Publication. 12th ed. N.p.: Capgemini and Merrill Lynch, 2008.
[130] Capgemini Merrill Lynch Asia Pacific Wealth Report 2008.

Combining the above findings, vacation residences in Japan can appeal to the demand and needs of High Net Worth Individuals in both Japan and Asia, and therefore a market segment which should be targeted. In order to be successful, these developments need to be positioned to be unique and exclusive, utilizing certain aspects of Japanese culture which have been well received globally: namely the Hot-Spring Spa culture, Japanese cuisine, design, and hospitality.

4.3 The Emerging Singletons

A significant growing portion of the Japanese population second to the Grey Yen segment is the emerging singletons – a term often used to describe single households. In Japan one and two person households grew by a third between 1995 and 2007. Single person households now consists of 30% of the total households in Japan – these rates are somewhat similar in Britain where single and two person households make up 32% and 34% (respectively) of total households.[131, 132] Over the same amount of time, three person households grew by only 15%, and households of four and five people have dwindled over the same period. It is expected that this transformation of the Japanese household will continue until 2015. As a result of the growing legions of singletons in Japan and an extended period of time for which Japanese people remain single, there is an increased demand for individual accommodation in Japan. Combine this with the increasing average age of first marriage and the correlating decreased rate of fertility in Japan over the past decade and the result is a huge shift in Japan towards a more individual lifestyle, with less emphasis on family and so a depleted demand for larger homes – critical factor(s) to understand especially in deciding what size and type of product to build.

The term singleton spans numerous and varied demographic categories in Japan from young professionals in their mid 20s to 30s to the large number of elderly widows and widowers who continue to live independently. This trend, single households, is forecasted by the Japanese government to grow and make up close to 50% of all households by 2030. Married couples will make up the remaining half, with half of this population expected to be childless.

Within the singleton market, there are three particular sub-groups that have a significant amount of disposable income and a penchant for leisure, vacations and personal wellness. First and most obvious would be the single male white-collar professionals that enjoy their single life. They are reluctant to get married or even consider living with a partner. However, because of their profession and lifestyle they have accumulated a substantial amount of disposable income which is spent on personal care, fashion, automobiles and vacations. This group is primarily occupied by males between the ages of 30-40.

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[131] Demographics make apartments more appealing: since 1980, the proportion of *single*-person *households* has risen by half to 30 per cent.
[132] Izuhara, Misa. "Residential Property, Cultural Practices and the 'Generational Contract' in England and Japan." International Journal of Urban and Regional Research 28 (2005): 327-40.

The second sub-group is singleton women. One in four Japanese women in their early 30s are not married.[133] Within this segment there are variations of the single working women. On one extreme, there are what the Japanese have termed "parasite *singles*" or women who live alone or with their parents, work, eschew marriage and shop a lot."[134] At the other extreme, there are upwardly mobile career women that have shunned the women's traditional role in Japanese culture and to instead pursue a career. Similar to their single white-collar male professionals, these "salarywomen" pursue competitive careers in lieu of marriage aspirations. Regardless parasite single or salarywoman, Japanese women in their 20s and 30s lead consumer trends. An example of how powerful this group is, in 2005 Resona Bank, a leading Japanese full-service bank based in Osaka, started the Resona SG Ladies Balance Fund in conjunction with Societe Generale Asset Management in Japan, to primarily target the wealth and consumption of Japanese women. The fund went on sale on Feb. 21 and by March had 1,200 investors with commitments of $190 million. Resona was confident it could raise an additional $100 million within the first year.[135] As such, working women between the ages of 30-40 are a growing and increasingly wealthy segment that has the disposable income for vacation residences in Japan.

Lastly, the large number of elderly Japanese widows and widowers who live independently make up the last segment of the singleton market. As previously described the combination of long life expectancy and substantial amount of personal savings make this group particularly attractive and one that needs serious consideration when looking at what type of product to build. [136] In addition, the different types of hospice care both available and coming to the Japanese market provide the single Grey Yen segment various options to consider including living at a retirement community full or part-time, to receiving care at their residence.

The issue of the ageing population of Japan will continue to shape occupancy statistics in Japan, as younger Japanese are increasingly unwilling to house their elderly relatives in favour of private homecare and even the traditionally unpopular nursing home.

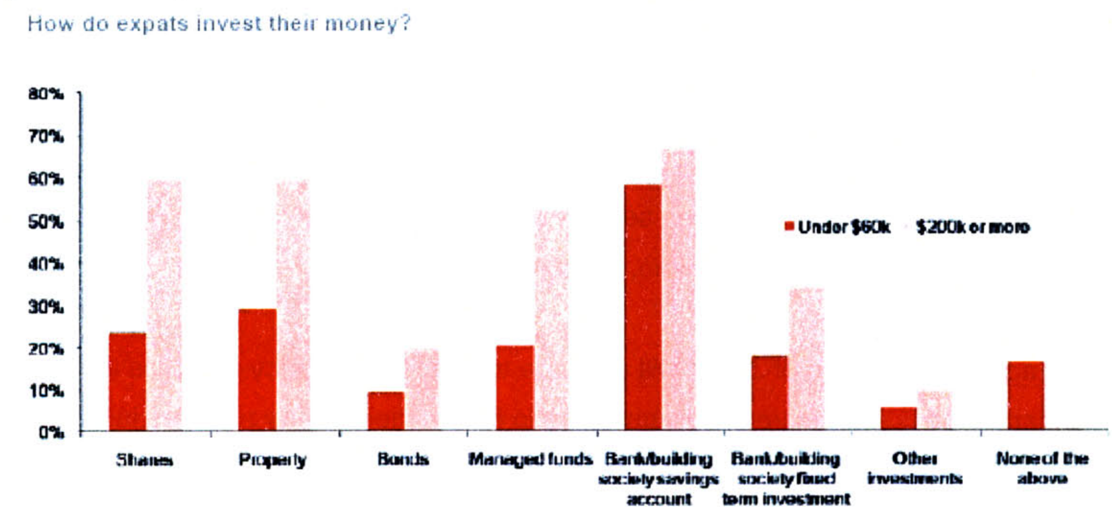
[133] Bruce Wallace in Tokyo. "Single princess finally hitched. " *Irish Times* 15 Nov. 2005,International Newspapers, ProQuest. Web. 17 Jul. 2009.
[134] Vallely, Paul. "The population paradox. " The Independent 9 Aug. 2008,International Newspapers, ProQuest. Web. 17 Jul. 2009.
[135] Tanikawa, Miki. "In Japan, a fund reserved for women :[3 Edition]. " *International Herald Tribune* 10 Mar. 2005,International Newspapers, ProQuest. Web. 17 Jul. 2009.
[136] "Japan's 'Mini-Super-Rich' Are Hot Market for Fashion and Luxury, Says Expert Naomi Moriyama." PR Newswire. PR Newswire Association LLC. 2002. HighBeam Research. 17 Jul. 2009 <http://www.highbeam.com>.

4.4 Other: Regional Expatriate Population

Another very compelling target segment is the region's expatriate population. Asia is home to among the highest paid expats in the world. 27% of expats in Hong Kong and 26% in Japan earn more than $250,000, ranking 2nd and 3rd respectively in the world in the "HSBC Bank International Expat Explorer Survey 2009 – the global average is 16% and Russia was ranked 1st with 30%. Expats living in the region's top ranked countries have disposable incomes of more than $48,000 per annum, which was more than what they had when living in their origin country. Most expats in these countries allocate a substantial portion of their income to savings.[137]

More importantly for this research, similar to high net-worth individuals in the region, expats globally have a penchant for property. They allocate anywhere between 30-60% of their savings to property.[138] In Hong Kong expats were particularly favorable to property allocating 45% of their savings to this asset class,

Figure 22: HSBC International Expat Explorer Survey 2009
(*Source: HSBC*)



It can be expected the high proportion of bankers, lawyers and white-collar professionals in locations such as Hong Kong, Singapore and Tokyo and their respective higher than average incomes are reasons why Asia is home to some of the highest paid expats globally. There is risk

[137] Expat Explorer Survey 2009. Publication. Vol. 2. London: HSBC Bank International, 2009.
[138] In HSBC's survey the expat sample was bifurcated into two categories, those that earned more than $250,000 and those that earned less than $60,000.

in marketing to this group, as seen in the most recent recession, when economies perform poorly expats are amongst the first to be retracted or even worse made redundant. Conversely, when economies grow, these same firms recruit aggressively to expand their market presence. Furthermore, an expat's length of stay in his/her host country is questionable and therefore this would make it difficult for him/her to commit to purchasing a second residence. However, this has not proven to be the case per HSBC's recent survey.

5.0 Summary of Findings

Secondary residential demand trends in North Asia look promising based on the analysis and research accomplished in this section. A shift in demographics, increase in disposable income and emphasis on wellness and lifestyle trends are the general drivers that have and continue to drive demand for vacation residences. Specific to Asia, an increasing preference for regional travel combined with rapidly improving infrastructure now provide the region's citizens the luxury of being able to travel around Asia with greater ease, ultimately opening up additional markets for both tourism at first, and shortly thereafter secondary residential development.

Below is a review of the research findings detailed in this section:

1. In the US second residences are mainly or almost exclusively in demand by individuals in their 50s, married, with a median income of $98,600 (2005 non-inflation adjusted) and with a primary residence in the suburbs. Primary driver to purchase a second residence was an affinity for water sports, which could also explain why 44% of the second houses in the US are in the South. Although not a majority, 1/3 of second home owners took into consideration the prospect of wealth appreciation in their vacation residence. The actual property was within 220 miles of the owners' primary house. The median price of vacation residences in the US was $204,100, 77% of it was financed (numbers are 2004 non-inflation adjusted). It was also noted that Capital Gain Tax write-offs also contributed to the demand for second residences.

   Similar indices should be used to understand potential target markets in Japan. Furthermore, once a site has been located in Japan, target cities and countries should be initially identified by its location within a four-five hour commute (e.g. by plane, train or private car).

2. Asian consumption behavior of 2nd residences pre 2000 should be ignored as the political and socio-economic situation during that time was unique and not a proper representation of Asian demand drivers for vacation property. However post 2000 is a better indication of consumer behavior towards vacation property. The massive creation and/or reemergence of wealth in the region during this time, combined with aging population and cultural shift to greater emphasis on wellness and health prompted many of the region's wealthy and newly minted individuals to purchase second residences for genuine leisure interests. Popular locales such as Whistler and Hawai'I were considered,

but an increase interest in regional travel pushed investors to purchase property in Niseko, Bali and Phuket. Furthermore, interest was driven by not only locals and Asia expats but also Europeans and North American households.

3. Secondary residential development trails tourism in the sense that only once a location has been established as a leisure/vacation destination, only will residential development commence. North East Asia, the area defined by the World Travel & Tourism Council ("WTTC") as China, Japan and Korea, has cemented itself as a travel destination. The region commands 55% of all travel to the greater Asia Pacific region (2008) and China and Japan are ranked in the top three for most of the WTTC rankings. Tourism demand, investment and performance in both countries are forecasted to be at the top for the next 10 years, which should provide further confidence for developers interested in developing in the North East region.

4. There are substantial growth opportunities in the Japanese Tourism Industry: most benchmark metrics within the industry in Japan show +90% being domestic travelers and only <10% foreign visitors, of which 30% is for business. There is support from the public sector to attract and increase tourism to Japan, which to the government's credit has increased tourism from 5.21 million visitors in 2003 to 8.35 million visitors in 2007 (an all-time record high). A combination of programs including easing of visa restrictions, public financing for tourism projects and aggressive marketing has helped Japan come close to reaching its goal of attracting 10 million foreign visitors.

   "Once prohibitively expensive, Japan is now drawing soaring numbers of visitors from across the Asia-Pacific region who come to splurge at its posh department stores, lounge in its resorts or explore the pristine mountains and forests in remote corners of the country."[139] Foreign visitors are well aware that Japan is not a cost arbitrage play, but for those that can visit are enjoying their time in the land of the rising sun. Japan has been an aspirational market for many, and for those that can afford to vacation there (which is a large and growing number), take the opportunity.

[139] Fackler, Martin. "Japan's newest growth industry: Asian tourists." *Www.nytimes.com*. New York Times, 25 July 2008. Web. 18 July 2009. <http://www.nytimes.com/2008/07/25/business/worldbusiness/25iht-wbtourists.1.14766070.html?_r=1&scp=27&sq=japan%20wealthy%20tourism&st=cse>.

5. Japan is not only back, but cool: it has impressed those that have visited and is well recognized as a brand, per the most recent FutureBrand 2008 Country Brand Index. Japan was the only Asian country ranked in the top 10 of FutureBrand's rankings. Furthermore, it placed in the top ten in many categories including nightlife (#1), dining (#3) and preferred off-site conference destination (#1). FutureBrand found visitors to Japan were even more impressed upon visiting Japan and had an increase desire to return and visit again. As such, it is critical for developments to embrace Japanese design and culture in the architecture and construction of the property.

6. Demand for vacation residences in Phuket and Bali originally began primarily due to the area's competitive cost of living. Both markets continue to receive interest from European retirees, but as demand has increased in the past few years, property prices have risen 30% to 50%. On average pricing for one bedroom apartments trade between $250-400K and two bedroom villas trade for on average $750K and above. Despite these price increases, a significant amount of most developments are pre-sold. Timeshares, to date, have been received well, and a few of the popular ones were sold out prior to completion. Mid-range product in Bali traded between $190-400K and luxury product in Bali traded for $400K to $1.35 M. Most guaranteed three weeks to one month of annual use. Critical amenities that add to the allure of each of the islands is primarily direct airline connectivity to the World, immediate access to the beach and for Bali, visitors appreciated the presence of the local culture. Drawbacks of the locations were primarily Phuket had a stale resort feel which some visitors did not appreciate and the convoluted land ownership structure, more prevalent in Bali, caused some buyers to walk away from owning property.

7. Three specific domestic target markets should be interested in secondary residences in Japan:

    a. The Grey Yen primarily because of its growing majority amongst the Japanese population, long life expectancy and substantial control over both its wealth and the country's savings provide it with a sizable and available disposable income to purchase the right property for him. Sites should be chosen nearby the many World Heritage sites in Japan and/or in areas that have a strong hook into accommodating the health and well-being focus of this consumer segment.

Lastly, although difficult as we will discuss later, the introduction of a time-share and/or condo-motel model could be developed to cater to the financial and investment needs/interests of the Grey Yen.;

b. High Net Worth Individuals: HNWI in Japan account for more than one-third (36.7%) of the region's overall wealth and is home to more than half (55.6%) of the region's wealthy individuals. This specific segment would be interested in secondary residential houses. Asian HNWsI have a legacy of having a penchant for real estate which has drove many HNWIs to increase exposure to real estate whether it be direct investment or in equities (REIT). 50% of direct real estate volume in the region was placed by Japanese.
   Separately, another interesting group for second residences would be the Hong Kong: Emerging-HNWIs (defined as individuals with investable assets between US$750000 and US$1 million). This group allocated a greater proportion of their portfolios to residential property rather than commercial real estate last year;
c. Lastly, the singletons of Japan with no one to feed or house, have a sizable disposable income which is spent on personal care, spa services, fashion and vacations. Both men and women working professionals have a penchant to take care of themselves and enjoy life more than their parents. Similar to the Grey Yen, this demographic (single household) is growing and forecasted to make up 50% of the total households in Japan by 2030.

SECTION TWO: ANALYSIS AND APPLICATION OF RESEARCH RESULTS

The coastal communities within the Kanagawa Prefecture were chosen as a test case to apply the findings of Section I and II. The area's vicinity to international airports and major commerce hubs within Japan (as learned with Phuket infrastructure connectivity is critical), its strong history and distinct culture – still very much apart of the community today (similar to what visitors and investors enjoy about Bali) and the coastal lifestyle the area provides its residents (a common theme in secondary residences both in Asia and the US) are all the right ingredients for successful development for the target markets identified in Section II. In addition, the prefecture's rather liberal and openness to foreigners and outsiders (as compared to other very closed and conservative cities such as Kyoto) and pro development support from the public sector are additional positive attributes in favor of development in Kanagawa.[140]

The following two chapters will try to accomplish the following. First an attempt will be made to engage an in-depth analysis of the prefecture's location, topography, history, economy and demographics. A case for development in Hayama, a coastal city in Kanagawa, will be made, followed by real world application of a highest and best use study of a small piece of ocean fronting vacant land, 2163 sq ft. The size of the property was deliberately chosen simply for demonstration purposes to highlight both opportunities and challenges with development in Japan. In the concluding chapter, recommendations will be made for any developer of any size on the opportunities for secondary residential development in Japan, highlight data inconsistency and provide thoughts on what additional research and analysis can be conducted on this subject matter to further identify opportunities for this product type in Japan and North Asia.

[140] Urban planning and zoning in Japan is conservative overall, and has been described at times xenophobic. Culturally, consensus decision making is necessary in order to move forward and therefore as a foreign developer, this could be at times a very frustrating and expensive experience. The prefecture's openness can be seen on the government's webpage (http://www.pref.kanagawa.jp). As of July 2009, on the homepage it lists in ten different languages information about both the HN1 Flu and the prefecture, definitely not par for course in both the public and private sector in Japan. This is not to say that Kanagawa is completely open for development, in fact Kamakura is notorious for being difficult to develop in and critical of foreign investment.

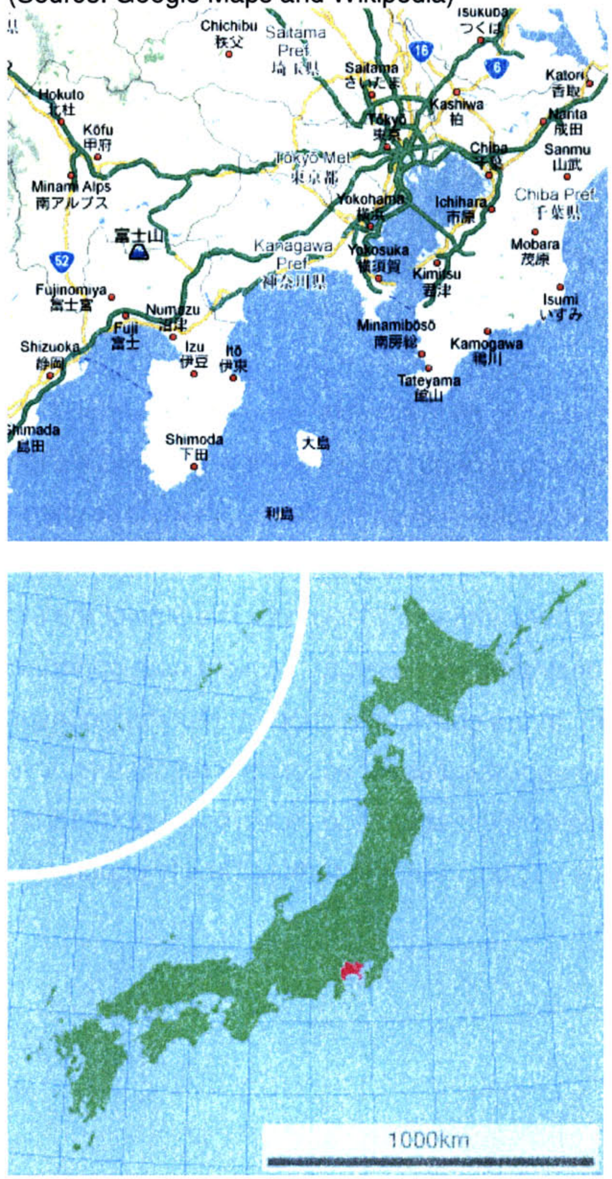
6.0 Kanagawa Prefecture Overivew

6.1 Kanagawa:

Kanagawa, one of the denser, but smaller and younger prefectures[141] in the nation, is rich with history, and filled with a variety of cultural and recreational activities. It offers its visitors and residents a myriad of cultural and recreational activities within a very small vicinity. Its location along the Pacific Ocean coast and up against the hills that form the base of Mount Fuji invoke a very similar feel to the environs of California coastal communities such as Marin County, Carmel and Palos Verdes.

On one side of the Kanagawa Prefecture, you have Hakone, an intimate resort town located at the base of Mount Fuji and home to the Royal Family's Summer Palace. It is famous for its natural hot spring baths. There you will find Ryokans or traditional Japanese inns frequented by both foreign visitors (mainly Hong Kong, South Koreans and Taiwanese) and locals that enjoy coming for the hot springs and getting away from the hot summer climate.

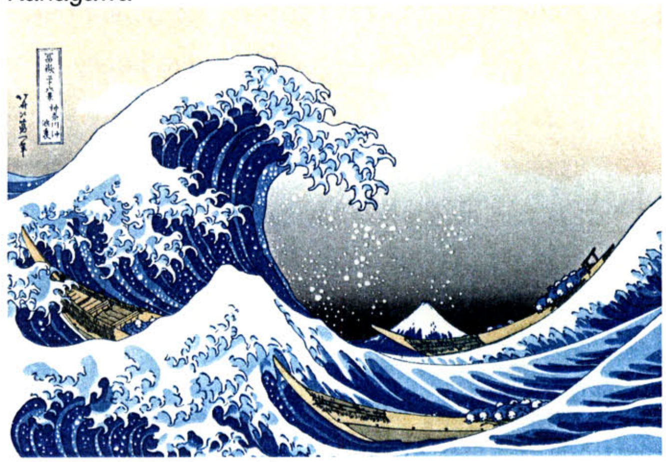
Figure 23: Map of Kanagawa Prefecture (Source: Google Maps and Wikipedia)



141 9106 people per sq mile – ranked 3rd, and 41.2 years vs. nation wide average of 41.4

Less than an hour away from Hakone is Yokohama, one of the major commerce hubs in Japan, and home to the very popular Minato Mirai area (a landmark mixed use development home to the Yokohama Museum of Art and Japan's tallest skyscraper, The Landmark Tower), one of the world's largest Chinatowns and the popular Shin Yokohama Ramen Museum – a museum dedicated to the history of noodles). Further south, you can take a nice scenic drive along the Miura-hanto Peninsula and take in the sunlight and breathtaking views of the coast - the same views that also inspired the famous wood block artist Katsushika Hokusai to paint his world-famous Great Wave of Kanagawa painting that is rumored to have also inspired the logo of Quicksilver, the surfboard manufacturer. [142, 143] Along the way stop off at Kamakura and visit the many ancient temples and shrines in the hills, or catch a wave at Yuigahama Beach before calling it a day.

Figure 24: Hokusai-san's The Great Wave of Kanagawa



Kanagawa's coastline, topography and historical place in Japanese history provides interesting opportunities for secondary residential developments and has the potential to become what English writer Danielle Demetriou has appropriately described as the "Hamptons of Tokyo."[144] Kanagawa's vicinity to Tokyo and Yokohama[145], the first and second most populated cities in Japan not to mention centers of regional finance (Tokyo) and trade (Yokohama), make it easily

[142] The Metropolitan Museum of Art (New York) describes 'The Great Wave at Kanagawa' as an inspiration to both Debussy's "La Mer" and Rilke's "Der Berg." "The turbulent wave seems to tower above the viewer, whereas the tiny stable pyramid of Mount Fuji sits in the distance. The eternal mountain is envisioned in a single moment frozen in time. Hokusai characteristically cast a traditional theme in a novel interpretation. In the traditional "meisho-e" (scene of a famous place), Mount Fuji was always the focus of the composition. Hokusai inventively inverted this formula and positioned a small Mount Fuji within the midst of a thundering seascape. Foundering among the great waves are three boats thought to be barges conveying fish from the southern islands of Edo (modern Tokyo). Thus a scene of everyday labor is grafted onto the seascape view of the mountain."

[143] Kurt. "The Great Wave off Kanagawa." Rev. of *The Great Wave off Kanagawa*. Weblog post. *Random Knowledge*. N.p., 22 May 2008. Web. <http://randomknowledge.wordpress.com/2008/05/22/the-great-wave-off-kanagawa/>.

[144] Demetriou, Danielle. "Gnarly Waves in Kamakura." *Hemispheres* n.d.: n. pag. *Hemispheres*. United Airlines. Web. 20 July 2009. <http://www.hemispheresmagazine.com/2009/04/01/gnarly-waves-in-kamakura/>.

accessible for households that work and live in either cities to have a second residence along the Kanagawa Coast.

Specific to this research, a second residence here would make sense for:

1. "The Grey Yen" that either have family living nearby in Tokyo or Yokohama, or prior to retiring worked and lived in either city and would like to stay relatively nearby, such is the case with SunCity Kanagawa (sister property to SunCity Takarazuka profiled in the previous Section), a luxury retirement community that has successfully catered to this market segment.
2. Single Professionals and Middle-Age Professionals: from any of the top ten cities in Japan by GDP, the Kanagawa Coast is reachable by train in less than four hours. Train stations are located close to the coast, making it very realistic for a trader at Goldman Sachs to leave his office in Roppongi Hills in Tokyo Friday afternoon and be at his weekend place in Hayama before Sunset.
3. High Net-Worth Individuals: similar to the trader at Goldman Sachs, the Kanagawa Coast is easily accessible to either international airports in Tokyo (Haneda and its bigger brother Narita). It takes approximately 90 mins to get from Haneda and 2 hours to get to from Narita to cities like Hayama, making it very realistic for a Shanghai entrepreneur to leave Pudong International Airport early in the afternoon and be somewhere along the Kanagawa Coast hosting dinner at his place later that evening.

The different scenarios described above are in no way hypothetical, and in fact are in "practice" by some both on a weekend basis, whilst others commute daily choosing to forgo their place in Tokyo for Pacific Ocean views. Realizing there is significant opportunity to extend this lifestyle, boutique resorts have begun to pop up along the coast. The opportunities for a developer along the Kanagawa Coast to have a positive impact and do something unique are substantial. Globally, waterfront redevelopments have created a number of success stories this past decade. Within the worldwide market over the next five years, this product type is estimated to have an assessed value of more than $100 billion. As Chief Operating Officer Douglas Smith of urban planning firm EDSA wrote in his UrbanLand article, waterfront redevelopment will "have a major effect on the quality of life in cities, as mixed-use waterfront redevelopment continues to

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[145] Yokohama boasted the greatest population growth per the Japanese government's latest census. Tokyo remains by far the most densely populated city in Japan with a massive 12 million inhabitants, making up 10 percent of Japan's total population. Population density across Japan remains higher than global levels, with 350.5 people per square kilometer recorded as the national average in 2007.

be a catalyst for a broader urban renaissance. [146] There is no reason why Kanagawa should sit on the sidelines but instead take a leading role in this renaissance.

[146] Smith, Douglas C. "Waterfront Destinations." *UrbanLand* Oct. 2008: n. pag. Print.

6.2 Kanagawa Location, Economy and Demographic Detail

Kanagawa Prefecture stretches 50 miles east to west and 38 miles north to south, contains 927 sq miles of land, and accounts for 0.64 % of the total land area of Japan. Located at the southeastern corner of the Kantō Plain, Kanagawa is wedged between Tokyo on the north, the foothills of Mount Fuji on the northwest, and on the southeast it opens up into the Pacific Ocean via the Sagami Bay and Tokyo Bay. Kanagawa itself is the sixth smallest prefecture in Japan in terms of size, but is second in terms of population size (close to 9 million). However, if combined, the populations of the Kanagawa prefecture and the greater Tokyo metro area would then account for 33 percent of the total population in Japan.

Figure 25: View from Hayama of Mout Fuji
(Source: www.flickr.com; vincentvds)

The eastern side of the prefecture is relatively flat and heavily urbanized, including the large port cities of Yokohama and Kawasaki. The area south and along the coast towards the Miura Peninsula is less urbanized and filled with the aforementioned coastal communities that line the hills and coasts. From there, residents have clear sight of both the Pacific Ocean and Mount Fuji in the distance.

Many of these cities are well known by both Japanese and foreign visitors including the previous mentioned city of Kamakura known by older generations, historical buffs and the sentimental contingent alike for both its many century old temples and shrines and for its place as the former de facto capital of Japan during the Kamakura Period.[147, 148]

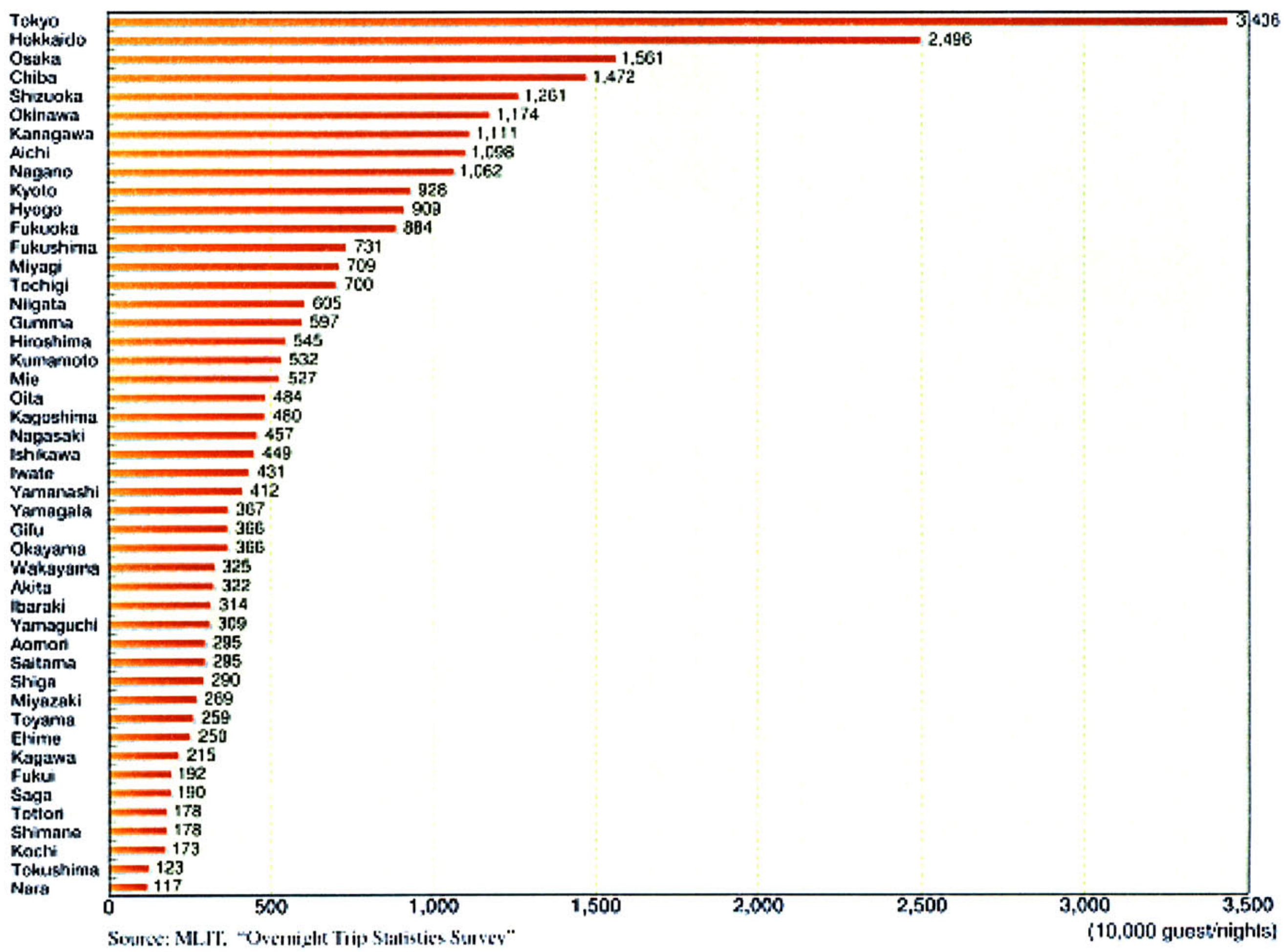
Each year, nearly 160 million tourists visit Kanagawa. Currently, Hakone is the most popular city in the prefecture, where, as previously mentioned, primarily foreign visitors consists of those from China, Korea and Taiwan. Kanagawa ranks seventh, behind Okinawa, in the nation in terms of overnight stays (per the latest available government survey performed in 2007). Whilst being ranked behind Okinawa, could be considered good company given the island is a very

[147] Kamakura has proposed that 23 of its historic temples and shrines be considered as a UNESCO World Heritage Site.
[148] Onsen is a national tradition and pastime whereby Japanese will spend nights or weekends at a hot spring inn or Ryokan, stay on premises for most of the time, and relax and enjoy the hot springs, wine and dine in traditional Japanese cuisine and have massages. .

popular tourist spot for locals and foreigners, the Kanagawa government is focused on growing its tourism industry.

Figure 26: Prefecture Comparison of Overnight Stays
(*Source: Japan National Tourist Organization*)

Fig. 22 Total Number of Overnight Guests by Prefecture (2007)

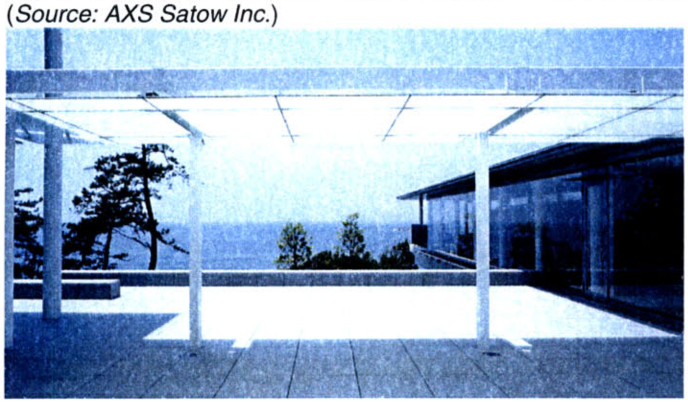


For example, the public sector in each of the seven areas of Kanagawa (the seven are: Tanzawa-Oyama/Ashigara, Oku-Sagami/Keno, Odawara/Hakone/Yugawara, Shonan, Kawasaki, Yokohama and Miura Peninsula)[149] have built facilities and supported events that honor both the area's rich past and tradition as well as its evolving future. A good example of this is The Museum of Modern Art Kamakura (which has an additional annex building in Kamakura and a newly built concrete and steel exhibition facility in Hayama) was conceived by

[149] For this thesis and the goal of assessing the feasibility of vacation homes along the Kanagawa Coast much of the discussion has been centered on the Shonan, Miura Peninsula, and Hakone areas.

local artisans and academics immediately after World War II and finally built in 1951. The museum's mission is modeled after MoMA New York, with an emphasis of exhibiting art from not only around the World but also the work of artists closer to home both in Kanagawa and Japan. In addition to programs to support public facilities such as the museum, the government also puts on close to ninety festivals a year ranging from firework displays to cherry blossom celebrations and traditional boat lighting festivals. The combination of these festivals, museums and historical monuments placed along the coast and on the cliffs of the bordering mountains make for an eventful and rich cultural experience for long-time residents and first-timers.

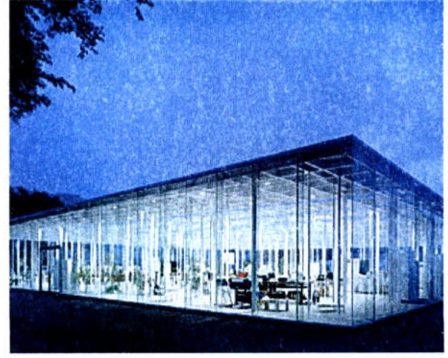
Figure 27: Museum of Modern Art Hayama - View from Deck (*Source: AXS Satow Inc.*)



The number of residents in Kanagawa are 8,994,595, and the number of households are 3,817,362. Average household size is 2.36 and unlike the rest of the country, there has been positive population growth of 6% last year. The ration of men to women is 1.01 and the average age is 41.7 for men and 39.8 for women. Their average annual income is $54,230 and $35,398 respectively. Average household income in Kanagawa is $49,027, second among prefectures in Japan, and slightly behind Tokyo which has an average household income of $53,071.[150] Most of the 175,000 foreigners that live in Kanagawa reside in Yokohama.

The GDP of the Kanagawa Economy is $242 billion, and as a country it would rank as the 28th largest economy in the world (nearby Tokyo would rank as the 15th largest economy in the world, with a GDP of $789 billion). Its top three main industries are manufacturing (26.6%), professional services – which includes tourism (20.1%), and real estate (16.9%). Electronic manufacturing and transportation and machinery equipment account for 50 percent of its manufacturing industry output. These sub categories include building and assembly of both ships

Figure 28: The new workshop at KAIT (*Source: Architectural Record*)



[150] Japanese and Kanagawa Prefecture Government

and trains, and heavy electronic industry product. This is a concern as these specific industries have to increasingly compete with low cost providers in nearby China and South Korea, which has caused many firms to either exit the industry or shift work to those markets to be more competitive. However, Kanagawa does have a large nucleus of entrepreneurs and private companies - the number of private firms (306,000) ranks fourth in the nation, that can benefit from both the area's large number of researchers and private research institutions (ranked first and second respectively in terms of number), including the Kanagawa Institute of Technology, a vocational school founded in 1963, but chartered as a university in 1975 and renamed in 1988. Industry is primarily concentrated in both Yokohama and Kawasaki, in the northern part of the prefecture. Because of its location and vicinity to Tokyo, and advanced infrastructure, Yokohama often competes closely with Tokyo to attract foreign and domestic investment.

6.3 Summary of Opportunities and Challenges for Development in Kanagawa

In a recent online poll that asked "Where in Japan would you like to have a summer house?" over 1,000 individuals between 20-49 years of age responded.[151] The locations that garnered the most responses in this poll were Okinawa (1st), Hokkaido (2nd) and Nagano (3rd). Kanagawa placed 6th and surrounding prefectures Shizuoka and Yamanashi placed 5th and 8th respectively. Whilst this informal poll is not necessarily indicative of the true responses of the target markets identified in Section II, it nevertheless provides an interesting benchmark to have in mind when assessing opportunities and challenges for development in Kanagawa.

Place	Prefecture	% of Responses
1	Okinawa	39.6
2	Hokkaido	34.8
3	Nagano	21.5
4	Kyoto	11.4
5	Shizuoka	8.6
6	**Kanagawa**	**8.1**
7	Tokyo	5.9
8	Yamanashi	3.3
9	Kagoshima	3.3
10	Hyogo	3.1

The challenges to improving Kanagawa's perception as a "dream place" to build a summer house and perhaps explaining its ranking in the above online poll is perhaps a combination of the following. First, the hospitality industry has not taken much interest in Kanagawa as it has in putting up flags in beach resorts in Okinawa and the traditional ski destinations of Hokkaido and Nagano. The area is scattered with smaller boutique hotels and inns. The lack of capacity to accommodate demand along with minimal planning to improve and allow development along the coastline could cause many to not consider Kanagawa as an ideal place to build a secondary residence. Second, traditionally in Japan during the summer months many would travel to places to escape the heat the converse of what many in the West would do. However there has been an increased acceptance and aspiration for coastal living, but it does need to be recognized that many households would forego the opportunity to live on the beach and instead opt for a place in the hills, therefore explaining the relative success of Hokkaido and Nagano that together received over 56% of the responses. However, it is interesting to note that Okinawa (often referred to as the Hawai'i of Japan) placed first. Lastly, real estate in Kanagawa is relatively more expensive than in the other prefectures ranked above it, and therefore affordability could have been a factor in the rankings and as discussed in Chapter 9, land price in Hayama and Kamakura are prohibitively high and require development creativity to make any sort of investment sense.

[151] "Ranking of Top Cities Where Japanese Want to Build a Villa." Http://www.oricon.co.jp/news/ranking/46538/#rk. 20 July 2007. 20 June 2009 <http://www.oricon.co.jp>.

Conversely, the Kanagawa Prefecture presents various opportunities for secondary residential development. The below is a summary of what has been detailed in this chapter.

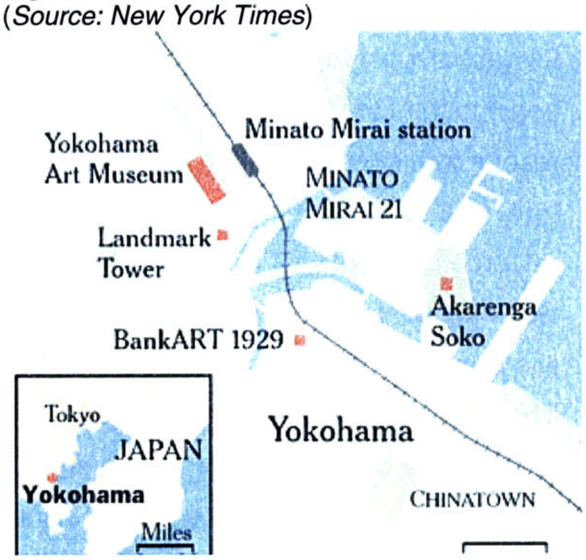
1. Its natural topography where the Pacific Ocean coastline immediately meets the hills that begin to form the base of Mt. Fuji provides opportunities to develop hillside residences, resorts with direct access to the beach, and/or any manipulation of product types that have been successful in appealing to HNWIs, successful professionals and the retirement populations in other countries like the US. The area's ambiance and place would be so familiar to someone who has spent their entire life in coastal communities like Santa Barbara.
2. The area's rich history and century-old traditions that continue to be practiced today are immediately experienced by visitors to Kanagawa. The variety of festivals, access to the harbors and marinas, nearby beaches and hiking trails provide residents and visitors alike numerous recreational activities that complement and attract (as seen in Bali) tourism to the area.
3. Lastly, Kanagawa Coast's vicinity to major metropolitan hubs, specifically Tokyo and Yokohama, both of which have large economies and above average household incomes on a global scale, can capture the growing demand to have a second residence that is within convenient commuting distance. Both Yokohama and Tokyo are within 90 minutes of coastal communities like Hayama and Kamakura. This shortened distance would appeal to all of our identified target markets. It provides opportunities for the retiring Grey Yen segment to relocate to a more scenic and relaxing locale, but still be within reasonable distance of their existing connections to Tokyo and Yokohama (e.g. family that still live and work in Tokyo). The 90 minute train ride to the Kanagawa Coast also makes it accessible for owners of second residences to truly use it as a weekend residence, increasing its appeal.

More simply put, would you pay $1 million for a place down in Bali when you could only get down there three times a year or pay the same price for a place in Hayama where you could easily get down there every weekend or at worst once a month?

6.4 Case Study: Yokohama

The history and culture of Yokohama, the capital of Kanagawa, provides those that are not too familiar with the prefecture, a better understanding of the drivers behind the international mindset and development within the prefecture. Kanagawa's capital city, is a major gateway to the Sea of Japan and has been home to a thriving international community starting from the 1860s through to the present day.[152]

Figure 29: Map of Yokohama (*Source: New York Times*)



The capital is known for its openness and today continues to embrace its international past. It was after all here in 1854 where US Commodore Perry came to an agreement, known as the Treaty of Kanagawa with the Tokugawa Shogunate to open tow ports to US vessels, and give American ships trading rights to Japanese Ports. This marked the beginning of regular political and economic exchange between Japan and the West, ending a two hundred year separation from the rest of the world.[153] Foreigners began to live and trade in Yokohama, a fishing village at the time whose main export was sea cucumbers. Subsequently, Yokohama, which means "broad beach," quickly developed as Japan's main port, attracting legions of foreign diplomats, traders and bankers, and the businesses that served them.[154]

The fishing village burgeoned into Japan's second city, its links with the West is apparent today in its shops, its broad streets, and its relaxed ambience. By the late 1860's, foreigners in Yokohama were living a surprisingly complete Western-style life, with their own officials, currency, banks, laws, postal system, and race course. The early merchants, who specialized in the raw silk and tea trade, were primarily English, with a few Europeans mixed in between. The

[152] Sakata, Shane. "Japan:A Closer Look at Kanto - Kanagawa | Japan | Japan Travel | Nihon Sun." *The Nihon Sun | Japan Travel.* The Nihon Sun, 12 Jan. 2009. Web. 18 July 2009. <http://www.nihonsun.com/2009/01/12/japana-closer-look-at-kanto-kanagawa/>.
[153] "Kanagawa, Treaty of." A Dictionary of World History. 2000. *HighBeam Research.* 18 Jul. 2009 <http://www.highbeam.com>.
[154] Tanikawa, Miki. "Once lagging, Yokohama gets a jolt Yokohama / Cities and their mayors." International Herald Tribune. 2005. *HighBeam Research.* 18 Jul. 2009 <http://www.highbeam.com>.

missionaries, who began arriving soon after 1854, were mainly American. Prior to the great Kanto earthquake in 1923, which destroyed 80 percent of Yokohama, foreigner's houses and places of worship and business were built with European influences.[155]

Yokohama became, "a gateway through which foreign cultures poured in and where Japanese culture poured out." Many foreigners arrived to pursue commercial opportunities, make residence in Yokohama and eventually died, as seen in the Gaijin Bochi, a historic foreign cemetery located in a hilly residential area where many expatriates continue to live to this date. There were Americans, Europeans, and Chinese, who came to live and to do business in Yokohama. Today there are approximately 68,000 foreign citizens, in Yokohama, representing about 10 percent of the foreign population in Japan, an unusually high percentage in Japan. City pamphlets are prepared in English, Chinese, Korean, Spanish and Portuguese,' a very progressive and unique initiative not practiced by a majority of public and private sector entities in Japan.

Today, Yokohama is the second largest city after Tokyo, with a population of 3.6 million people. The city is renowned in Japan for its relatively open-minded population, and as cosmopolitan city it has a blend of populations that is rare in Japan. In a recent informal pole complied by eight real estate companies led by Sumitomo Realty & Development Co. and Daikyo Inc., Yokohama placed 3rd in most desired place to live. First and third were Kichijoji, and Jiyugaoka respectively.[156] Likewise, the foreign community has also caught on and those that have traditionally gravitated towards Minato-ku, typically Roppongi, Azabu and Hiroo (all in Central Tokyo), now have an increase in interest in places in and around Yokohama.[157]

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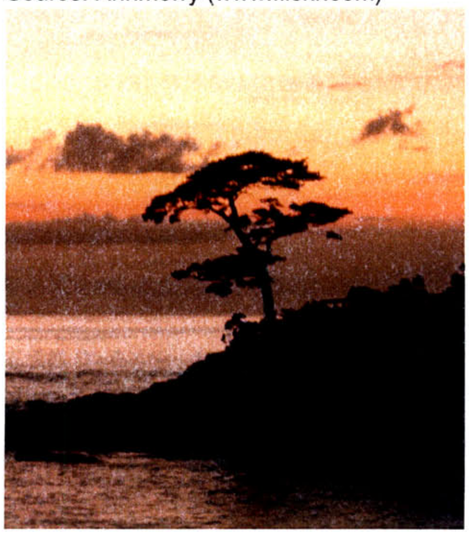
[155] Ashenburg, Katherine. "In Yokohama, Turrets and Tea." *New York Times* 26 Dec. 1999, Final ed., Travel sec.: n. pag. Print.

[156] "BRIEFING - ASIA REAL ESTATE - SEPT 12, 2008." AsiaPulse News. Asia Pulse Pty Ltd. 2008. *HighBeam Research*. 18 Jul. 2009 <http://www.highbeam.com>.

[157] Mukai, Hirokazu. "Living it up in 2008.(Real estate)." Japan Inc.. Japan Inc. Communications. 2008. *HighBeam Research*. 18 Jul. 2009 <http://www.highbeam.com>.

7.0 The Case for Hayama

Figure 30: Hayama Sunset
Source: Annmerry (www.flickr.com)



This chapter applies the finding of the thesis to shape a potential development in Hayama, Japan. It begins by taking a macroview of the market and concludes by applying a highest and best use study to an identified piece of land to determine what would the most ideal product type to build given current market conditions.

7.1 Hayama Prior to canvassing the Kanagawa Prefecture for cities to apply the research findings of this thesis, the following assumptions were first established. First, the city would have to be located directly on the coast. Second, the selected location would need to be within two hours of both Tokyo and Yokohama yet be located on the Miura Peninsula with direct views of Mt. Fuji and the Pacific Ocean. Lastly, it was assumed that the developer would be either a first-time developer or a new market entrant and neither would have local joint venture partners to assist them in quickly understanding the market and mitigating regulatory and planning hurdles. The profiles of both would be very similar in that they each would require a notable amount of additional time to receive approvals prior to construction. Therefore a city that supported development would be ideal as additional time tied spent prior to construction would be costly and potentially detrimental to investors. Whilst there are concerns of governments and cities that are supportive of development, lower barriers to entry and subject to increasing competition, this hypothetical development could be used as an exercise to test demand and get a foothold into the market.

The City of Hayama properly fulfilled all three of these criteria. Its location just up the coast from the southern most tip of the Miura Peninsula provides numerous opportunities to develop properties with clear views of Mount Fuji and Sagami Bay. By rail, it takes less than 90 minutes to travel from Tokyo Station to Hayama and speaking to real estate professionals in the region, many had mentioned Hayama's government to be very supportive of real estate development.

Despite its adjacency to Tokyo and Yokohama, Hayama is somewhat secluded and its beaches are considered to be some of the best amongst its brethren cities along the bay. A similar atmosphere surrounds Hayama, As described by the Japan Times, Hayama is home to, "the best beach of the lot (Isshiki), not just due to the quality of the sand and the beach houses, but also because of the relaxed attitude of the locals. A large number of foreigners have made Hayama their home and you'll find more English speakers and bilingual menus here than anywhere else in Shonan.[158]

[158] "Waving goodbye to the city: Waving goodbye to the city." Japan Times (Tokyo, Japan). McClatchy-Tribune *Information Services. 2006.* HighBeam Research. 5 Jul. 2009 <http://www.highbeam.com>.

7.1.1 Case Study: Hayama Boutique Hotels

Exemplary of Hayama's increasingly popularity as a weekend getaway is the opening of Scapes The Suites and Nowhere Resorts', a boutique owner and operator of select week-long vacation residences throughout Japan, Nowhere But Hayama residence. Both properties are by design exclusive and small.

Figure 31: Interior View to the "Mandarin Orange" Room at Scapes
Property of Scapes The Suites www.scapes.jp

Scapes is a four room hotel located on the Morito Kaigan Beach in Hayama. The hotel is a modern take on Japanese hospitality, designed and managed with the spirit and intimacy of traditional Ryokans. Rooms are fitted with luxury amenities such as a Bang & Olufsen audio system, Simmons bedding and Molton Brown BATH FIXTURES . Each of the four suites offers its guests panoramic ocean views. Guests have the luxury of wining and dining in the open kitchen restaurant downstairs where all meals are prepared with local ingredients. After dinner, guests are encouraged to spend the evening perusing the hotel's library located on the first and second floor where twice a year the selection of 200 books changes to match the changing themes of Scapes. Both the restaurant and library, like the hotel rooms face the ocean. Room rates range from $300 to $650 a night, depending on season and room size. The building previously was used as a Japanese firm's corporate vacation getaway. Only a mere hour's travel from the city lies the endless white sand of the Morito coast in Hayama. From here, one can see the grand Mount Fuji and Enoshima where Scapes offers a space that will relax and soothe your senses.[159]

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[159] "ASKQ: Scapes, Japan." Quintessentially Newsletter. 9 Apr. 2009. Quintessentially Group. 4 July 2009 <http://www.quintessentially.com/>.

“The rooms at (Scapes) invite late sleeping, with plush bedding, spa-like bathrooms and views of the sea. There are sights to be seen on the Kanagawa seaside, but the first order of business here is simply to escape.”[160]

Figure 32: Nowhere Resorts' Hayama Property

Nowhere but Hayama, is the Nowhere Resorts' Hayama property, a single family residence. located inland. The owner/operator renovated a traditional Japanese house to accommodate four guests and their modern day needs. The property is approximately 1700 sq feet and has two bedrooms and two bathrooms. The property, similar to Scapes, is outfitted with designer and luxury amenities - the remodel itself was led by Japanese architect Yasutaka Yoshimura. Nowhere but Hayama can only be rented on a weekly or monthly basis, and has successfully captured the increasing demand from Tokyo and Yokohama residents looking for a vacation residence nearby. Weekly rates range from $300 to $435 and a recent search for availability performed on July 1, 2009 revealed that the entire summer had already been booked.

[160] "Scapes." Tablet Hotels. Tablet Inc. 4 July 2009 <www.tablethotels.com>.

7.1.2 Case Study: Weekend House Alley, Kamakura

Completed in March 2008, Weekend Alley House, is a mixed-use development on the waterfront in Kamakura. "The structure is divided into 7 different buildings, helping to create a feeling of openness that is consistent with the ocean around it."[161] It is filled with shops hair salon, some residences, cafes and restaurants including world renown Australian chef Bill Granger's (NYTimes calls him "the egg master of Sydney") first restaurant in Japan. Mr. Granger chose Kamakura because he wanted, "to blend the restaurant into the relaxed beach culture where people can be surrounded by nature and have a wonderful dining experience." The property is one of the first of its kind in Kamakura blending modern architecture with a mixed-use concept on the waterfront.

The site originally is 2436 sqm, but with a built up area of 2,576.66 sqm (FAR of over 1) has in total four floors including the ground floor basement. Its retail has been fully let (asking rents are north of $80 per sq ft) and current rents for the apartments range from $1769 for 45 sqm (484 sq ft) to $9,800 for 210 sqm (2260 sq ft) – a clear signal that there is still market share to be had at this end of the market. Japanese architect Chiba Manabu was responsible for the design of the development.

[161] Johnny. "Weekend House Alley." Weblog post. *Spoon & Tamago*. N.p., n.d. Web. 22 July 2009. <http://www.spoon-tamago.com/2008/11/28/weekend-house-alley-chiba-manabu/>.

Figure 33: Weekend House Alley, Kamakura

7.2 Investment Analysis

Applying several different real estate investment analyses in this part of the research incorporating both the findings in Sections I and II combined with additional data aggregated from government research institutes, brokerage firms, and local and regional real estate professionals determined that: for sale secondary residential developments with ground floor retail make the most investment sense when compared to the returns of building single family residences, town homes and/or for rent apartments along the Kanagawa Coast, **but** going prices for land and low FAR ratios in Hayama limit investment returns and thereby making it an area challenging but rewarding to develop in. Results of the various cash flow and investment analyses are included in the Appendix. All results are reported on a pre-tax basis.

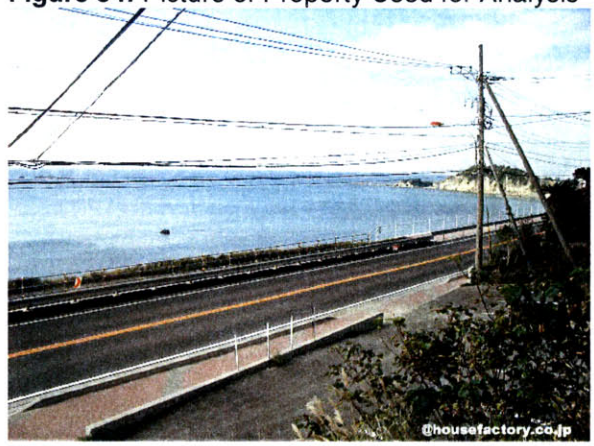
Additional observations made during this exercise included:

1. There were limited parcels of land along the coast for sale. As you moved inland, there were not only more but also larger parcels of land. Pricing was similar and contrary to Japanese cultural preferences, there was still a premium placed on waterfront property;
2. Land prices further south along the coast were cheaper;
3. Both the for rent and for sale markets are fragmented. Examples include apartments in one building commanded a 50% premium over apartments in a neighboring tower built three years prior. A similar phenomenon was observed in for sale apartments, but not in the single family residence market;
4. Whilst, the for-rent multi-family model was tested from purely an investment perspective, in informal conversations with different real estate practitioners, the for-rent market for vacation residences would not be successful as it is counterintuitive to consumers. (e.g. What is the purpose of renting a vacation residence for the whole year when I could easily rent for a week from an operator like Nowhere Resorts?)

Lastly, senior care and assisted living developments were not part of the analysis, as attempts were made to better understand real estate returns at the property level and therefore ancillary management contracts would have not made for an apple to apple comparison. Similarly, hotels were also not considered for this exact reason.

7.2.1 Description of Identified Land

Figure 34: Picture of Property Used for Analysis



The piece of land used for this study is located on the coast with the preferred views of Mt. Fuji and the Pacific Ocean. As previously mentioned, for purposes of this study examining highest and best uses for this particular market and the identified consumer segments, a smaller piece of land, 448 sqm (5253 sq ft) in size, was identified to keep this analysis simple. The lot is square in shape, sits on a corner and fronts onto the coast with no view obstructions from the beachside. The coverage ratio is 40% with a FAR of .8. Both ratios were quite common amongst similar plots of land up and down the coast. The plot of land was listed for $850,000, a 19% premium to 2008 land price averages for Hayama which were $1459 per sqm or $135.54 per sq ft. Numerous plots of land were reviewed for this particular study, and this lot was chosen partially because it was not as expensive as others.

The plot of land does not have any existing pre-built structure with the exception of a single level parking lot which is in use. The surrounding environment is primarily residential low-rise properties with a few regional ground floor retailers.

The property abuts onto a major thoroughfare in the region and therefore does offer both potential retail tenants strong visibility and residents easy access on to and off the thoroughfare. However, similar to other properties located by the coast, this property does not offer direct pedestrian access to nearby train stations.

7.2.2 Results

With a lot size of 488 sqm, FAR of .8 and Coverage Ratio of 40%, the property at most can have a floorplate of 195.20 sqm (2101 sq ft). The highest and best use for this property would be to completely dedicate the ground floor to a F&B user, and then build the entire second floor for residential use. Ground floor residences are in general more difficult to market, and because of its position within the building, ground floor units would be very difficult to command any type of premium. As for the second floor units, local brokers mentioned in conversation that 80 sqm (861 sq ft) was a good enough size especially for those with higher incomes and in the market for a weekend residence. Two apartments at 80 sqm each would then provide enough room to setback the apartments and build balconies of at least 15 sqm each, making the units and the development more unique. Instead of squeezing in the remaining 35 sqm (377 sq ft) of allowed built space on the second floor, a third apartment would be added to the third floor. By building a studio penthouse there and taking advantage of opportunities to build a large deck surrounding the penthouse, the developer would then be bringing something unique to the market and have the ability to charge a sales/rent premium to a space that otherwise would not do as well on its own.

Based on this program, market for soft and hard costs and planning for contingency, developer fees, lease and sale concessions to build the property would require $2,582,226. **Required equity is to be assumed to be 33.3% and based on this a cash on cash yield for the property is projected to be 8.72%, which includes the sale of all three units by year 4, and the NPV of the 10 year cash flows of the retail lease.** The required rate of return for the retail lease in calculating the NPV is 10%, which takes into consideration the location of the development not being in a primary retail market nor major retail thoroughfare. The Equity IRR under this scenario is 57.45% and is primarily influenced first by the sale of the units in the first few years, then receiving positive cash flow for subsequent years 6-11 and finally selling the retail component at the end of year 11. This is not necessarily a realistic scenario but was performed for illustrative and comparative purposes. Unit pricing, sales lead-time and additional inputs to the above will be discussed further in the following section.

Under an apartment scenario where the developer would take the position as a landlord, the investment return is not as compelling. **The Project IRR for this scenario is -3.24% and this is with rents that are at a 50% premium to rents charged in the Kanagawa market**, not the most realistic expectation particularly in this economic environment. Relaxing the rent premium to more realistic levels, (e.g. with a rent premium of 25%, considered realistic for high quality product along the coastline, brings down the Equity IRR to a -5.96%), proves that a strategy to lease the entire property is not the right investment decision.

Single-family residences were briefly considered, but primarily due to qualitative reasons the concept was dismissed. First, the product we are looking to develop is primarily targeted towards wealthy individuals and professionals. Presumably, these individuals are looking to get away during the weekend for some rest and privacy. The lot, such as the one that we are using in this thesis, is restrictive and does not allow the flexibility to build more than two single family residences, which would be very close to each other. Nevertheless if built, the house would not provide the privacy and rest that potential residents would demand from their vacation house. Furthermore, if the entire lot was used strictly for one single family residence, the market for vacation residences costing upwards of $2M to $3M is very thin and therefore given our risk appetite as first market entrants, this would not be the smartest real estate decision made.

7.2.3 DCF Model Architecture and Assumptions

The DCF Analysis performed to determine both cash on cash yield as well as Project IRR was a traditional 10 year discount cash flow model. An additional two years were added in at the front of the time period to account for construction and an additional year was added at the end to assist in determining a terminal value.

The land price of $850,000 was what was provided by a local brokerage firm. In addition to this price there was a 3% tax added to the purchase of the land. Hard costs and soft cost estimates were prepared by Robert Fuller, an executive with Currie Brown, a construction build out firm, Hard Costs were quoted to be between $2800-2900 per sqm but for the analysis $2900 was used with an additional 10% added on top to be safe as new market entrants. Soft costs were 10% of hard costs.[162] Additional safety precautions built into the DCF are:

- Contingency of 15% of Gross Acquisition Cost;
- Sales Commissions of 2% for both disposition of the property and/or any disposition of a smaller component of the property;
- Sales Concessions of 5% are budgeted to help close the sale of each of the private condos;
- .75% of Effective Gross Income (Rent) was included to help on any and all advertisement necessary, from marketing units for sale or rent to driving additional traffic to the retail tenant. In addition, similar amounts were budgeted for Construction Years 1 and 2, to jumpstart marketing and interest in the property;
- 15% of Effective Gross Income was used for Operating Expenses and 1% of EGI was budgeted for reserves; and lastly
- Occupancy was ran at very conservative figures:
    - Lease up was ran at 75% in year three, with the expectation there would be substantial interest in the property primarily because of aggressive marketing efforts by respective teams during the construction period;
    - One unit was expected to remain vacant every three years and occupancy was ran at 95%.

[162] "Interview with Robert Fuller (Currie Brown)." Telephone interview. 1 June 2009.

7.2.3.1 Inputs

To fund the property in addition to the required equity, two finance vehicles were used: 1) a construction loan with a two year period and 2) a permanent loan with a thirty year fixed period.

For the construction loan, it was assumed that all of the construction cost could be financed by having the land (100% equity) as collateral. The construction loan was underwritten at 450bps which is based on a very general standard in Japan. Construction loans have been traditionally priced at 300 bps over the 3 Month Japanese LIBOR (which is currently 50bps).[163] An additional 100bps was added to compensate for the risk of our project, being in a secondary market outside of Tokyo and targeted towards a yet to be proven market. An additional upfront cost of 100 bps was included for loan proceeds to the bank. The proceeds from the construction loan would fund on the first day and continue throughout the two year period. It was assumed that the developer would pay from its raised equity the required installments for the first year, and by month 13 have in place permanent financing to take out the construction loan. The loan scenario was constructed with a loan commencement date of January 1, 2010. The thirty year loan was a fixed loan with a 4% interest, 50 bps below the construction loan.

Various growth rates and opportunity costs of capital were used to reflect various levels of risk. In addition to the 10% used to derive the NPV of the retail lease, separately 7.5% was used as the exit-cap rate in the Apartment DCF scenario. In order to derive this number, current bid-ask spreads for Tokyo Prime Office were assessed and an additional 100 bps was added to reflect difference in risk return expectations. Rental growth was programmed at 2% per year which could be controversial given the recent deflationary trends in Japan, but regardless many practitioners within the field continue to use 2% as a benchmark for rental growth. Lastly, within the condo sale scenario, it is forecasted for condominiums to be sold in years 3-5. During this time, the price of the condos remain the same, along with the marketing budget.

[163] "*Interview with* Tokumasa Yamashita (Secured Capital Japan)." Telephone interview. 21 July 2009.

7.2.3.2 Retail Rents

Retail rents were ran at $40 per sq ft which were recommended by retail leasing brokers at Cushman & Wakefield's Tokyo office. It was recommended for the aforementioned program that a restaurant be the type of tenant to pursue for the ground floor, especially given the residents upstairs and its location near the beach would make for a great "destination retail experience." Leases are two to three years fixed with automatic renewals. Build out and put-back are the responsibility of the tenant. The only landlord expenses that have been budgeted are operating expense which is 15% of EGI to help maintain the space and .75% of EGI, as previously mentioned, to assist in marketing and drawing traffic to the F&B tenant.

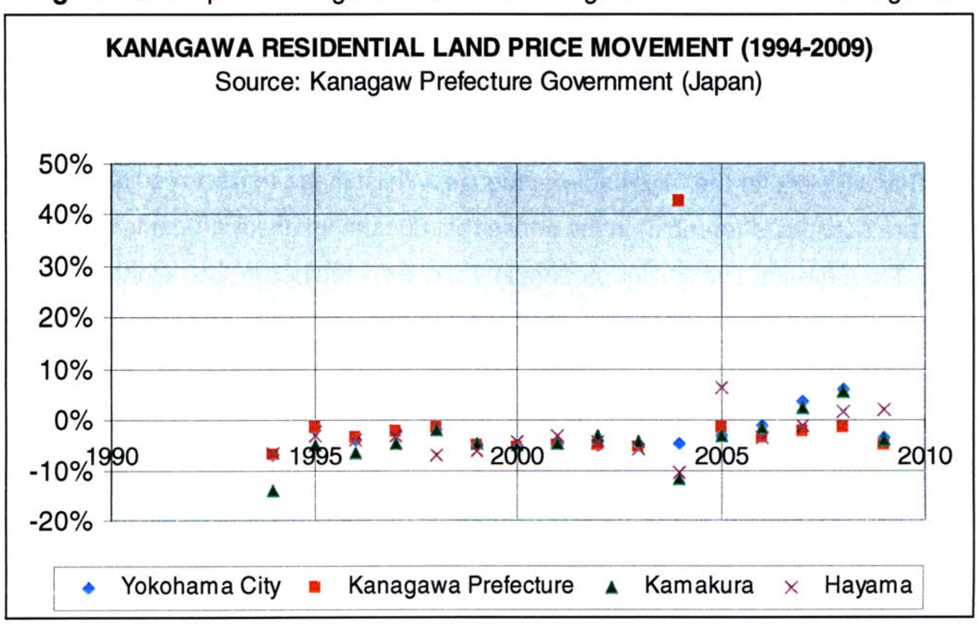
The landlord expenses are a bit heavy and above industry norm, but the challenge for landlords with regards to retail is retail tenants have not only a lot of leverage in terms of lease terms in Japan (leases tend to favor the tenant more in Japan) but have a myriad of site choices from institutional grade property to traditional residences converted into retail (a task that is quite easy to do throughout Japan with surprisingly minimal involvement from both zoning and neighborhood committees).

7.2.3.3 Residential Prices and Rents

With regards to residential pricing and rent in the aforementioned analysis we encountered that in either a rent or sale scenario the properties would have to command a significant premium to market. In the case for rent, in order for the property to break even it would have to demand a 95% premium to market rents, and in a sale scenario, prices would have to command a substantial premium as well. However, for the target markets identified that would be interested in owning property along the Kanagawa Coast, this price point would not be as much of a concern.

In the condo scenario in order for this project to have a positive +8% cash on cash return, the prices for the 80 sqm apartment would have to achieve $1,058,289 ($13,228.61 per sqm or $1228.98 per sq ft) and for the 35 sqm penthouse, it would have to achieve $637,173 ($15,540.80 per sqm or $1443.79 per sq ft), a very rich price tag, but subsequently the DCF model has budgeted for a 10% premium to an already high end build out. However, with an 8% return and what already looks to be a very thin market, +$1M apartments is not a product in continuous demand, substantial further analysis was conducted to better understand land prices in the Kamakura and Hayama areas.

Figure 35: Graph Showing Relative Little Change in Land Prices in Kanagawa



The particular plot of land chosen for this study was one of the cheaper ocean front lots at $1742 sqm ($161 sq ft). In a more recent canvas of 20 separate listings of land on or close to the coast, the average price in either Hayama or Kamakura was $1827 sqm ($169 sq ft). With pricing at such a premium it could inhibit the pace of development and could be a factor in why there is very limited on-going development along the coast – although this could also be perceived as a pro in favor of further development in the area as high barriers to entry contribute to demand. However, taking a more macro view of land prices in the area and the prefecture, an examination of land prices for the last sixteen years (1994-2009), show that pricing for the land has barely moved with the exception of a few years. This is an especially odd given land prices throughout Japan during the same period continued to decrease year on year, finally correcting itself in 2006.

Furthermore, findings of this waterfront premium were discovered in a separate analysis of newly built product, slightly inland (5 blocks or more from the coast). Pricing in these areas was dramatically different. The average price of apartments in recently built properties with service doormen was priced on average at a 46% discount to our hypothetical project. When discussing this dilemma with expat residents in Japan, Japanese and local real estate industry professionals, most were bullish on residential and were confident if residential was designed to accommodate neighborhood needs and positioned well, it would have no problem of being sold. An overly positive, and still employed investment banker, was extremely bullish on the concept of weekend residences in Kanagawa Coast, , "The amount of crazy money in Japan, both foreign and local, is unfathomable, If you have the right product, regardless of price it will be sold." Admittedly, as later discussed in a brief case study, a development down the street in Kamakura has done a very good job of this. Lastly, for "for sale" product, it should be noted that the .8 FAR on many of these plots are very constraining and partial root to the underwriting challenges outlined above.

Similarly in the apartment (for rent) scenario, in order for the property to perform (positive IRR), it needs to charge a 90% premium to market for its residential rents. This would equate to starting rents for its 80 sqm apt at $2806 and $2483 for the third floor penthouse. Whilst these rents are quite high, for high-end apartments they are actually "affordable" in the sense that 80 sqm luxury apartments in Tokyo command northwards of $8,000 a month, and similar product in Yokohama fetches in the neighborhood of $5,000 a month. Condos in Tokyo's 23 wards rented for JPY3,264 per sq. meter ($2.68 sq ft which equates to $3,752 for a 700 sq ft apartment), 4.4 percent less than from its peak last July. Kanagawa was one of three prefectures where residential rental rates have held steady, rising 0.2 per cent from April to 2,086 yen per sq. meter ($1.72 sq ft).[164]

[164] "Tokyo Apartment Lease Rates Down 0.5% in May." AsiaPulse News. Asia Pulse Pty Ltd. 2009. *HighBeam Research*. 18 Jul. 2009 <http://www.highbeam.com>.

8.0 Recommendation and Conclusion

In conclusion, as demonstrated in the above analyses there are clear opportunities for secondary residences in Japan. However, land pricing and FAR allocation could make development prohibitive. However, the identified market segments have show an ability to pay high dollar for quality product (as seen in the developments in Bali and Phuket). Niseko also provided a good example of how successful secondary residential development in Japan can be. Scale was also an issue we saw in the Hayama example, and therefore large scale developers might be able to be more successful with this product type than small boutique entrepreneurial shops. Lastly, although not covered in this research, adult care facilities could prove to be a more profitable alternative than the condominium model. Nevertheless, the key fundamentals are there and instead of walking away from the aging concern in Japan, there are clear opportunities with this and other promising segments in the region as well. Real estate development is risky, but we have proven that the fundamentals for secondary residential development in Japan for the North Asian community are there for a developer to build and contribute to the community all the while accommodating what should be strong demand trends for years to come.

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APPENDIX DISCOUNT CASH FLOW MODEL

APPENDIX 1: HYPOTHETICAL DEVELOPMENT PROFORMA FOR HAYAMA RESIDENTIAL PROPERTY: CONDOMINIUM SALE

1USD:		113	Yen
Hard Costs	$	3,190	per sqm (+10% premium)
Soft Costs		10.0%	of Hard Costs
Taxes		3%	of Land Price
Contingency		15%	

a. Property Detail

Lot Size	488 sqm
Allotted Site Coverage	40%
FAR	0.8
Ground Floor Retail	195 sqm
Residential	195.03
Average Size Per Unit	80 sqm
# of Residential Units	2.44
Gross	390.4 sqm

b. Acquisition Cost

Land Price	$	850,000	33%
Hard Costs	$	1,245,376	53%
Soft Costs	$	124,538	
Taxes	$	25,500	1%
Sub-Total	$	2,245,414	
Contingency	$	336,812	
	$	**2,582,226**	
Gross: USD / sqm	$	6,614	
Land: USD / sqm	$	1,742	

b1. Required Equity

35% of Land Price + Taxes	$	306,425
40% of Hard + Soft + Construction Loan Costs	$	553,445
	$	859,870
LTV:		66.70%

c. Condo Sale Projection

Pricing				+ Cost		Per Unit Basis		Per SQM		Per Sq Ft
2	80 sqm units	200%	$	2,116,578	$	1,058,289	$	13,228.61	$	1,228.98
1	35.03 sqm units	275%	$	637,173	$	637,173	$	15,540.80	$	1,443.79
Gross Sales			$	2,753,751						
	Less Comission	2%	$	(55,075)						
	Less Sales Concession	5%	$	(137,688)						
	Less Development Fee	3%	$	(77,467)						
Net Income			$	2,483,522						
	Less Debt Service		$	(1,892,764)						
Total Before-Tax Cash Flow			$	590,758						
NPV of 10 Year Retail DCF		10%	$	361,414						
Gross Cash Return			$	952,172						
	Less Equity		$	(859,870)						
	Net Cash		$	92,302						
	Cash on Cash Return			10.73%						

APPENDIX 1A: HYPOTHETICAL DEVELOPMENT PROFORMA FOR HAYAMA RESIDENTIAL PROPERTY: CONDOMINIUM SALE SCENARIO

10 YEAR CONDO DCF			CONSTRUCTION												
	Starting Rent		1	2	3	4	5	6	7	8	9	10	11	12	13
Growth			0%	0%	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Occupancy			0%	0%	75%	95%	95%	86%	95%	95%	86%	95%	95%	86%	95%
Gournd Floor Retail	430.556416	5%	$ -	$ -	$ 62,968.88	$ 86,335.41	$ 88,062.12	$ 81,043.64	$ 91,619.83	$ 93,452.23	$ 86,004.15	$ 97,227.70	$ 99,172.25	$ 91,268.30	$ 103,178.81
Less Operating Expenses	15% of EGI		$ -	$ -	$ (9,445.33)	$ (12,950.31)	$ (13,209.32)	$ (12,156.55)	$ (13,742.97)	$ (14,017.83)	$ (12,900.62)	$ (14,584.15)	$ (14,875.84)	$ (13,690.24)	$ (15,476.82)
Less Marketing Expenses	0.75% of EGI		$ (472.27)	$ (472.27)	$ (472.27)	$ (647.52)	$ (660.47)	$ (607.83)	$ (687.15)	$ (700.89)	$ (645.03)	$ (729.21)	$ (743.79)	$ (684.51)	$ (773.84)
Less Reserve for Replacement	1% of EGI		$ -	$ -	$ (629.69)	$ (863.35)	$ (880.62)	$ (810.44)	$ (916.20)	$ (934.52)	$ (860.04)	$ (972.28)	$ (991.72)	$ (912.68)	$ (1,031.79)
Net Operating Income (NOI)			$ (472.27)	$ (472.27)	$ 52,421.59	$ 71,874.23	$ 73,311.72	$ 67,468.83	$ 76,273.51	$ 77,798.98	$ 71,598.46	$ 80,942.06	$ 82,560.90	$ 75,980.86	$ 85,896.36
Less Debt Service			$ (535,147)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	
Before Tax Cash Flow from Operations			$ (535,620)	$ (101,003)	$ (48,109)	$ (28,656)	$ (27,219)	$ (33,061)	$ (24,257)	$ (22,731)	$ (28,932)	$ (19,588)	$ (17,969)	$ (24,549)	$ 85,896
Sale		10%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 858,964	
Sale of 20% Condos in Year 3			$ -	$ -	$ 550,750	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Sale of 40% Condos in Year 4			$ -	$ -	$ -	$ 1,101,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Sale of 40% Condos in Year 5			$ -	$ -	$ -	$ -	$ 1,101,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Less Comission		2%	$ -	$ -	$ (11,015)	$ (22,030)	$ (22,030)	$ -	$ -	$ -	$ -	$ -	$ -	$ (17,179)	
Less Sales Concession		5%	$ -	$ -	$ (27,538)	$ (55,075)	$ (55,075)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Before Tax-Proceeds from Sale			$ -	$ -	$ 512,198	$ 1,024,395	$ 1,024,395	$ -	$ -	$ -	$ -	$ -	$ -	$ 841,784	
Total Before-Tax Cash Flow			$ (535,620)	$ (101,003)	$ 464,089	$ 995,739	$ 997,177	$ (33,061)	$ (24,257)	$ (22,731)	$ (28,932)	$ (19,588)	$ (17,969)	$ 817,235	
Equity IRR	57.73%														

APPENDIX 2: HYPOTHETICAL DEVELOPMENT PROFORMA FOR HAYAMA RESIDENTIAL PROPERTY: APARTMENT DCF

1 USD	113 Yen	Development (Resi)	90% Premium	JPY 3,963.40	1.214276961	
1 sqm	10.7639104 sqft	Kanagawa (Resi)		JPY 2,086.00	JPY 18.46	JPY 1.72
		Tokyo (Resi)		JPY 3,264.00	JPY 28.88	
					JPY 2.68	
Gournd Floor Retail	195 sqm					
2F Resi	160 sqm					
3F Penthouse	35 sqm					

	Starting Rent			CONSTRUCTION 1	2	3	4	5	6	7	8	9	10	11	12	13
Growth							2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Occupancy				0%	0%	75%	95%	95%	86%	95%	95%	86%	95%	95%	86%	95%
Ground Floor Retail	$ 430.56	5%		$	$	$ 62,969	$ 86,335	$ 88,062	$ 81,044	$ 91,620	$ 93,452	$ 86,004	$ 97,228	$ 99,172	$ 91,268	$ 103,179
2F Resi	$ 35.07			$	$ -	$ 50,507	$ 69,249	$ 70,634	$ 65,005	$ 73,488	$ 74,958	$ 68,984	$ 77,986	$ 79,546	$ 73,206	$ 82,759
3F Resi	$ 70.15			$	$ -	$ 22,349	$ 30,643	$ 31,256	$ 28,765	$ 32,518	$ 33,169	$ 30,525	$ 34,509	$ 35,199	$ 32,394	$ 36,621
Effective Gross Income (EGI)				$	$	$ 135,825	$ 186,227	$ 189,952	$ 174,813	$ 197,626	$ 201,579	$ 185,513	$ 209,722	$ 213,917	$ 196,868	$ 222,559
Less Operating Expenses	15% of EGI			$ -	$ -	$ (20,374)	$ (27,934)	$ (28,493)	$ (26,222)	$ (29,644)	$ (30,237)	$ (27,827)	$ (31,458)	$ (32,088)	$ (29,530)	$ (33,384)
Less Marketing Expenses	0.75% of EGI			$ (1,019)	$ (1,019)	$ (1,019)	$ (1,397)	$ (1,425)	$ (1,311)	$ (1,482)	$ (1,512)	$ (1,391)	$ (1,573)	$ (1,604)	$ (1,477)	$ (1,669)
Less Reserve for Replacement	1% of EGI			$ -	$ -	$ (1,358)	$ (1,862)	$ (1,900)	$ (1,748)	$ (1,976)	$ (2,016)	$ (1,855)	$ (2,097)	$ (2,139)	$ (1,969)	$ (2,226)
Net Operating Income (NOI)				$ (1,019)	$ (1,019)	$ 113,075	$ 155,034	$ 158,135	$ 145,532	$ 164,524	$ 167,814	$ 154,439	$ 174,594	$ 178,086	$ 163,892	$ 185,280
Less Debt Service				$ (535,147)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)	$ (100,530)
Before Tax Cash Flow from Operations				$ (536,166)	$ (101,549)	$ 12,544	$ 54,504	$ 57,605	$ 45,001	$ 63,993	$ 67,284	$ 53,909	$ 74,064	$ 77,555	$ 63,362	$ 84,750
Before Tax-Proceeds from Sale	7.5%			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,470,405	
Total Before-Tax Cash Flow				$ (536,166)	$ (101,549)	$ 12,544	$ 54,504	$ 57,605	$ 45,001	$ 63,993	$ 67,284	$ 53,909	$ 74,064	$ 77,555	$ 2,533,767	
Less Comission	2%														$ (50,675)	
Equity IRR	0.70%		$ (859,870)	$ (536,166)	$ (101,549)	$ 12,544	$ 54,504	$ 57,605	$ 45,001	$ 63,993	$ 67,284	$ 53,909	$ 74,064	$ 77,555	$ 1,100,617	
Rent Detail (per unit basis)	12 months															
Ground Floor Retail			(RSF) / Annum	$ -	$ -	$ 37.50	$ 43.19	$ 44.05	$ 44.13	$ 45.83	$ 46.75	$ 46.83	$ 48.64	$ 49.61	$ 49.69	
2F: 80 sqm unit				$ -	$ -	$ 2,806	$ 3,037	$ 3,098	$ 3,160	$ 3,223	$ 3,288	$ 3,353	$ 3,420	$ 3,489	$ 3,559	
3F: 35.374 sqm unit				$ -	$ -	$ 2,483	$ 2,688	$ 2,742	$ 2,797	$ 2,852	$ 2,910	$ 2,968	$ 3,027	$ 3,088	$ 3,149	

APPENDIX 3: PERMANENT LOAN SCHEDULE

	Enter values
Loan amount	$ 1,754,767
Annual interest rate	4.000%
Loan period in years	30
Start date of loan	11/1/2010

Monthly payment	$ 8,378
Number of payments	360
Total interest	$ 1,261,142
Total cost of loan	$ 3,015,909

No.	Payment Date	Beginning Balance	Payment	Principal	Interest	Ending Balance
1	12/1/2010	$ 1,754,766.66	$ 8,377.52	$ 2,528.30	$ 5,849.22	$ 1,752,238.35
2	1/1/2011	$ 1,752,238.35	$ 8,377.52	$ 2,536.73	$ 5,840.79	$ 1,749,701.62
3	2/1/2011	$ 1,749,701.62	$ 8,377.52	$ 2,545.19	$ 5,832.34	$ 1,747,156.44
4	3/1/2011	$ 1,747,156.44	$ 8,377.52	$ 2,553.67	$ 5,823.85	$ 1,744,602.77
5	4/1/2011	$ 1,744,602.77	$ 8,377.52	$ 2,562.18	$ 5,815.34	$ 1,742,040.59
6	5/1/2011	$ 1,742,040.59	$ 8,377.52	$ 2,570.72	$ 5,806.80	$ 1,739,469.86
7	6/1/2011	$ 1,739,469.86	$ 8,377.52	$ 2,579.29	$ 5,798.23	$ 1,736,890.57
8	7/1/2011	$ 1,736,890.57	$ 8,377.52	$ 2,587.89	$ 5,789.64	$ 1,734,302.68
9	8/1/2011	$ 1,734,302.68	$ 8,377.52	$ 2,596.52	$ 5,781.01	$ 1,731,706.17
10	9/1/2011	$ 1,731,706.17	$ 8,377.52	$ 2,605.17	$ 5,772.35	$ 1,729,101.00
11	10/1/2011	$ 1,729,101.00	$ 8,377.52	$ 2,613.85	$ 5,763.67	$ 1,726,487.14
12	11/1/2011	$ 1,726,487.14	$ 8,377.52	$ 2,622.57	$ 5,754.96	$ 1,723,864.58
13	12/1/2011	$ 1,723,864.58	$ 8,377.52	$ 2,631.31	$ 5,746.22	$ 1,721,233.27
14	1/1/2012	$ 1,721,233.27	$ 8,377.52	$ 2,640.08	$ 5,737.44	$ 1,718,593.19
15	2/1/2012	$ 1,718,593.19	$ 8,377.52	$ 2,648.88	$ 5,728.64	$ 1,715,944.31
16	3/1/2012	$ 1,715,944.31	$ 8,377.52	$ 2,657.71	$ 5,719.81	$ 1,713,286.60
17	4/1/2012	$ 1,713,286.60	$ 8,377.52	$ 2,666.57	$ 5,710.96	$ 1,710,620.03
18	5/1/2012	$ 1,710,620.03	$ 8,377.52	$ 2,675.46	$ 5,702.07	$ 1,707,944.57
19	6/1/2012	$ 1,707,944.57	$ 8,377.52	$ 2,684.38	$ 5,693.15	$ 1,705,260.19
20	7/1/2012	$ 1,705,260.19	$ 8,377.52	$ 2,693.32	$ 5,684.20	$ 1,702,566.87
21	8/1/2012	$ 1,702,566.87	$ 8,377.52	$ 2,702.30	$ 5,675.22	$ 1,699,864.57
22	9/1/2012	$ 1,699,864.57	$ 8,377.52	$ 2,711.31	$ 5,666.22	$ 1,697,153.26
23	10/1/2012	$ 1,697,153.26	$ 8,377.52	$ 2,720.35	$ 5,657.18	$ 1,694,432.91
24	11/1/2012	$ 1,694,432.91	$ 8,377.52	$ 2,729.41	$ 5,648.11	$ 1,691,703.50
25	12/1/2012	$ 1,691,703.50	$ 8,377.52	$ 2,738.51	$ 5,639.01	$ 1,688,964.98
26	1/1/2013	$ 1,688,964.98	$ 8,377.52	$ 2,747.64	$ 5,629.88	$ 1,686,217.34
27	2/1/2013	$ 1,686,217.34	$ 8,377.52	$ 2,756.80	$ 5,620.72	$ 1,683,460.54
28	3/1/2013	$ 1,683,460.54	$ 8,377.52	$ 2,765.99	$ 5,611.54	$ 1,680,694.55
29	4/1/2013	$ 1,680,694.55	$ 8,377.52	$ 2,775.21	$ 5,602.32	$ 1,677,919.35
30	5/1/2013	$ 1,677,919.35	$ 8,377.52	$ 2,784.46	$ 5,593.06	$ 1,675,134.89
31	6/1/2013	$ 1,675,134.89	$ 8,377.52	$ 2,793.74	$ 5,583.78	$ 1,672,341.14
32	7/1/2013	$ 1,672,341.14	$ 8,377.52	$ 2,803.05	$ 5,574.47	$ 1,669,538.09
33	8/1/2013	$ 1,669,538.09	$ 8,377.52	$ 2,812.40	$ 5,565.13	$ 1,666,725.69
34	9/1/2013	$ 1,666,725.69	$ 8,377.52	$ 2,821.77	$ 5,555.75	$ 1,663,903.92
35	10/1/2013	$ 1,663,903.92	$ 8,377.52	$ 2,831.18	$ 5,546.35	$ 1,661,072.74
36	11/1/2013	$ 1,661,072.74	$ 8,377.52	$ 2,840.62	$ 5,536.91	$ 1,658,232.13
37	12/1/2013	$ 1,658,232.13	$ 8,377.52	$ 2,850.08	$ 5,527.44	$ 1,655,382.04
38	1/1/2014	$ 1,655,382.04	$ 8,377.52	$ 2,859.58	$ 5,517.94	$ 1,652,522.46

No.	Payment Date		Beginning Balance		Payment		Principal		Interest		Ending Balance
39	2/1/2014	$	1,652,522.46	$	8,377.52	$	2,869.12	$	5,508.41	$	1,649,653.34
40	3/1/2014	$	1,649,653.34	$	8,377.52	$	2,878.68	$	5,498.84	$	1,646,774.66
41	4/1/2014	$	1,646,774.66	$	8,377.52	$	2,888.28	$	5,489.25	$	1,643,886.39
42	5/1/2014	$	1,643,886.39	$	8,377.52	$	2,897.90	$	5,479.62	$	1,640,988.48
43	6/1/2014	$	1,640,988.48	$	8,377.52	$	2,907.56	$	5,469.96	$	1,638,080.92
44	7/1/2014	$	1,638,080.92	$	8,377.52	$	2,917.25	$	5,460.27	$	1,635,163.67
45	8/1/2014	$	1,635,163.67	$	8,377.52	$	2,926.98	$	5,450.55	$	1,632,236.69
46	9/1/2014	$	1,632,236.69	$	8,377.52	$	2,936.74	$	5,440.79	$	1,629,299.95
47	10/1/2014	$	1,629,299.95	$	8,377.52	$	2,946.52	$	5,431.00	$	1,626,353.43
48	11/1/2014	$	1,626,353.43	$	8,377.52	$	2,956.35	$	5,421.18	$	1,623,397.08
49	12/1/2014	$	1,623,397.08	$	8,377.52	$	2,966.20	$	5,411.32	$	1,620,430.88
50	1/1/2015	$	1,620,430.88	$	8,377.52	$	2,976.09	$	5,401.44	$	1,617,454.79
51	2/1/2015	$	1,617,454.79	$	8,377.52	$	2,986.01	$	5,391.52	$	1,614,468.78
52	3/1/2015	$	1,614,468.78	$	8,377.52	$	2,995.96	$	5,381.56	$	1,611,472.82
53	4/1/2015	$	1,611,472.82	$	8,377.52	$	3,005.95	$	5,371.58	$	1,608,466.87
54	5/1/2015	$	1,608,466.87	$	8,377.52	$	3,015.97	$	5,361.56	$	1,605,450.91
55	6/1/2015	$	1,605,450.91	$	8,377.52	$	3,026.02	$	5,351.50	$	1,602,424.88
56	7/1/2015	$	1,602,424.88	$	8,377.52	$	3,036.11	$	5,341.42	$	1,599,388.78
57	8/1/2015	$	1,599,388.78	$	8,377.52	$	3,046.23	$	5,331.30	$	1,596,342.55
58	9/1/2015	$	1,596,342.55	$	8,377.52	$	3,056.38	$	5,321.14	$	1,593,286.16
59	10/1/2015	$	1,593,286.16	$	8,377.52	$	3,066.57	$	5,310.95	$	1,590,219.59
60	11/1/2015	$	1,590,219.59	$	8,377.52	$	3,076.79	$	5,300.73	$	1,587,142.80
61	12/1/2015	$	1,587,142.80	$	8,377.52	$	3,087.05	$	5,290.48	$	1,584,055.75
62	1/1/2016	$	1,584,055.75	$	8,377.52	$	3,097.34	$	5,280.19	$	1,580,958.41
63	2/1/2016	$	1,580,958.41	$	8,377.52	$	3,107.66	$	5,269.86	$	1,577,850.75
64	3/1/2016	$	1,577,850.75	$	8,377.52	$	3,118.02	$	5,259.50	$	1,574,732.73
65	4/1/2016	$	1,574,732.73	$	8,377.52	$	3,128.42	$	5,249.11	$	1,571,604.31
66	5/1/2016	$	1,571,604.31	$	8,377.52	$	3,138.84	$	5,238.68	$	1,568,465.47
67	6/1/2016	$	1,568,465.47	$	8,377.52	$	3,149.31	$	5,228.22	$	1,565,316.16
68	7/1/2016	$	1,565,316.16	$	8,377.52	$	3,159.80	$	5,217.72	$	1,562,156.36
69	8/1/2016	$	1,562,156.36	$	8,377.52	$	3,170.34	$	5,207.19	$	1,558,986.02
70	9/1/2016	$	1,558,986.02	$	8,377.52	$	3,180.90	$	5,196.62	$	1,555,805.12
71	10/1/2016	$	1,555,805.12	$	8,377.52	$	3,191.51	$	5,186.02	$	1,552,613.61
72	11/1/2016	$	1,552,613.61	$	8,377.52	$	3,202.15	$	5,175.38	$	1,549,411.47
73	12/1/2016	$	1,549,411.47	$	8,377.52	$	3,212.82	$	5,164.70	$	1,546,198.65
74	1/1/2017	$	1,546,198.65	$	8,377.52	$	3,223.53	$	5,154.00	$	1,542,975.12
75	2/1/2017	$	1,542,975.12	$	8,377.52	$	3,234.27	$	5,143.25	$	1,539,740.84
76	3/1/2017	$	1,539,740.84	$	8,377.52	$	3,245.05	$	5,132.47	$	1,536,495.79
77	4/1/2017	$	1,536,495.79	$	8,377.52	$	3,255.87	$	5,121.65	$	1,533,239.92
78	5/1/2017	$	1,533,239.92	$	8,377.52	$	3,266.72	$	5,110.80	$	1,529,973.19
79	6/1/2017	$	1,529,973.19	$	8,377.52	$	3,277.61	$	5,099.91	$	1,526,695.58
80	7/1/2017	$	1,526,695.58	$	8,377.52	$	3,288.54	$	5,088.99	$	1,523,407.04
81	8/1/2017	$	1,523,407.04	$	8,377.52	$	3,299.50	$	5,078.02	$	1,520,107.54
82	9/1/2017	$	1,520,107.54	$	8,377.52	$	3,310.50	$	5,067.03	$	1,516,797.04
83	10/1/2017	$	1,516,797.04	$	8,377.52	$	3,321.53	$	5,055.99	$	1,513,475.51
84	11/1/2017	$	1,513,475.51	$	8,377.52	$	3,332.61	$	5,044.92	$	1,510,142.90
85	12/1/2017	$	1,510,142.90	$	8,377.52	$	3,343.71	$	5,033.81	$	1,506,799.19
86	1/1/2018	$	1,506,799.19	$	8,377.52	$	3,354.86	$	5,022.66	$	1,503,444.32
87	2/1/2018	$	1,503,444.32	$	8,377.52	$	3,366.04	$	5,011.48	$	1,500,078.28
88	3/1/2018	$	1,500,078.28	$	8,377.52	$	3,377.26	$	5,000.26	$	1,496,701.02
89	4/1/2018	$	1,496,701.02	$	8,377.52	$	3,388.52	$	4,989.00	$	1,493,312.50
90	5/1/2018	$	1,493,312.50	$	8,377.52	$	3,399.82	$	4,977.71	$	1,489,912.68
91	6/1/2018	$	1,489,912.68	$	8,377.52	$	3,411.15	$	4,966.38	$	1,486,501.53

No.	Payment Date		Beginning Balance		Payment		Principal		Interest		Ending Balance
92	7/1/2018	$	1,486,501.53	$	8,377.52	$	3,422.52	$	4,955.01	$	1,483,079.01
93	8/1/2018	$	1,483,079.01	$	8,377.52	$	3,433.93	$	4,943.60	$	1,479,645.08
94	9/1/2018	$	1,479,645.08	$	8,377.52	$	3,445.37	$	4,932.15	$	1,476,199.71
95	10/1/2018	$	1,476,199.71	$	8,377.52	$	3,456.86	$	4,920.67	$	1,472,742.85
96	11/1/2018	$	1,472,742.85	$	8,377.52	$	3,468.38	$	4,909.14	$	1,469,274.47
97	12/1/2018	$	1,469,274.47	$	8,377.52	$	3,479.94	$	4,897.58	$	1,465,794.53
98	1/1/2019	$	1,465,794.53	$	8,377.52	$	3,491.54	$	4,885.98	$	1,462,302.98
99	2/1/2019	$	1,462,302.98	$	8,377.52	$	3,503.18	$	4,874.34	$	1,458,799.80
100	3/1/2019	$	1,458,799.80	$	8,377.52	$	3,514.86	$	4,862.67	$	1,455,284.95
101	4/1/2019	$	1,455,284.95	$	8,377.52	$	3,526.57	$	4,850.95	$	1,451,758.37
102	5/1/2019	$	1,451,758.37	$	8,377.52	$	3,538.33	$	4,839.19	$	1,448,220.04
103	6/1/2019	$	1,448,220.04	$	8,377.52	$	3,550.12	$	4,827.40	$	1,444,669.92
104	7/1/2019	$	1,444,669.92	$	8,377.52	$	3,561.96	$	4,815.57	$	1,441,107.96
105	8/1/2019	$	1,441,107.96	$	8,377.52	$	3,573.83	$	4,803.69	$	1,437,534.13
106	9/1/2019	$	1,437,534.13	$	8,377.52	$	3,585.74	$	4,791.78	$	1,433,948.38
107	10/1/2019	$	1,433,948.38	$	8,377.52	$	3,597.70	$	4,779.83	$	1,430,350.69
108	11/1/2019	$	1,430,350.69	$	8,377.52	$	3,609.69	$	4,767.84	$	1,426,741.00
109	12/1/2019	$	1,426,741.00	$	8,377.52	$	3,621.72	$	4,755.80	$	1,423,119.28
110	1/1/2020	$	1,423,119.28	$	8,377.52	$	3,633.79	$	4,743.73	$	1,419,485.48
111	2/1/2020	$	1,419,485.48	$	8,377.52	$	3,645.91	$	4,731.62	$	1,415,839.58
112	3/1/2020	$	1,415,839.58	$	8,377.52	$	3,658.06	$	4,719.47	$	1,412,181.52
113	4/1/2020	$	1,412,181.52	$	8,377.52	$	3,670.25	$	4,707.27	$	1,408,511.27
114	5/1/2020	$	1,408,511.27	$	8,377.52	$	3,682.49	$	4,695.04	$	1,404,828.78
115	6/1/2020	$	1,404,828.78	$	8,377.52	$	3,694.76	$	4,682.76	$	1,401,134.02
116	7/1/2020	$	1,401,134.02	$	8,377.52	$	3,707.08	$	4,670.45	$	1,397,426.94
117	8/1/2020	$	1,397,426.94	$	8,377.52	$	3,719.43	$	4,658.09	$	1,393,707.50
118	9/1/2020	$	1,393,707.50	$	8,377.52	$	3,731.83	$	4,645.69	$	1,389,975.67
119	10/1/2020	$	1,389,975.67	$	8,377.52	$	3,744.27	$	4,633.25	$	1,386,231.40
120	11/1/2020	$	1,386,231.40	$	8,377.52	$	3,756.75	$	4,620.77	$	1,382,474.65
121	12/1/2020	$	1,382,474.65	$	8,377.52	$	3,769.28	$	4,608.25	$	1,378,705.37
122	1/1/2021	$	1,378,705.37	$	8,377.52	$	3,781.84	$	4,595.68	$	1,374,923.53
123	2/1/2021	$	1,374,923.53	$	8,377.52	$	3,794.45	$	4,583.08	$	1,371,129.09
124	3/1/2021	$	1,371,129.09	$	8,377.52	$	3,807.09	$	4,570.43	$	1,367,321.99
125	4/1/2021	$	1,367,321.99	$	8,377.52	$	3,819.78	$	4,557.74	$	1,363,502.21
126	5/1/2021	$	1,363,502.21	$	8,377.52	$	3,832.52	$	4,545.01	$	1,359,669.69
127	6/1/2021	$	1,359,669.69	$	8,377.52	$	3,845.29	$	4,532.23	$	1,355,824.40
128	7/1/2021	$	1,355,824.40	$	8,377.52	$	3,858.11	$	4,519.41	$	1,351,966.29
129	8/1/2021	$	1,351,966.29	$	8,377.52	$	3,870.97	$	4,506.55	$	1,348,095.32
130	9/1/2021	$	1,348,095.32	$	8,377.52	$	3,883.87	$	4,493.65	$	1,344,211.44
131	10/1/2021	$	1,344,211.44	$	8,377.52	$	3,896.82	$	4,480.70	$	1,340,314.62
132	11/1/2021	$	1,340,314.62	$	8,377.52	$	3,909.81	$	4,467.72	$	1,336,404.82
133	12/1/2021	$	1,336,404.82	$	8,377.52	$	3,922.84	$	4,454.68	$	1,332,481.97
134	1/1/2022	$	1,332,481.97	$	8,377.52	$	3,935.92	$	4,441.61	$	1,328,546.06
135	2/1/2022	$	1,328,546.06	$	8,377.52	$	3,949.04	$	4,428.49	$	1,324,597.02
136	3/1/2022	$	1,324,597.02	$	8,377.52	$	3,962.20	$	4,415.32	$	1,320,634.82
137	4/1/2022	$	1,320,634.82	$	8,377.52	$	3,975.41	$	4,402.12	$	1,316,659.41
138	5/1/2022	$	1,316,659.41	$	8,377.52	$	3,988.66	$	4,388.86	$	1,312,670.75
139	6/1/2022	$	1,312,670.75	$	8,377.52	$	4,001.96	$	4,375.57	$	1,308,668.79
140	7/1/2022	$	1,308,668.79	$	8,377.52	$	4,015.30	$	4,362.23	$	1,304,653.50
141	8/1/2022	$	1,304,653.50	$	8,377.52	$	4,028.68	$	4,348.84	$	1,300,624.82
142	9/1/2022	$	1,300,624.82	$	8,377.52	$	4,042.11	$	4,335.42	$	1,296,582.71
143	10/1/2022	$	1,296,582.71	$	8,377.52	$	4,055.58	$	4,321.94	$	1,292,527.13
144	11/1/2022	$	1,292,527.13	$	8,377.52	$	4,069.10	$	4,308.42	$	1,288,458.03

No.	Payment Date		Beginning Balance		Payment		Principal		Interest		Ending Balance
145	12/1/2022	$	1,288,458.03	$	8,377.52	$	4,082.66	$	4,294.86	$	1,284,375.36
146	1/1/2023	$	1,284,375.36	$	8,377.52	$	4,096.27	$	4,281.25	$	1,280,279.09
147	2/1/2023	$	1,280,279.09	$	8,377.52	$	4,109.93	$	4,267.60	$	1,276,169.16
148	3/1/2023	$	1,276,169.16	$	8,377.52	$	4,123.63	$	4,253.90	$	1,272,045.54
149	4/1/2023	$	1,272,045.54	$	8,377.52	$	4,137.37	$	4,240.15	$	1,267,908.16
150	5/1/2023	$	1,267,908.16	$	8,377.52	$	4,151.16	$	4,226.36	$	1,263,757.00
151	6/1/2023	$	1,263,757.00	$	8,377.52	$	4,165.00	$	4,212.52	$	1,259,592.00
152	7/1/2023	$	1,259,592.00	$	8,377.52	$	4,178.88	$	4,198.64	$	1,255,413.11
153	8/1/2023	$	1,255,413.11	$	8,377.52	$	4,192.81	$	4,184.71	$	1,251,220.30
154	9/1/2023	$	1,251,220.30	$	8,377.52	$	4,206.79	$	4,170.73	$	1,247,013.51
155	10/1/2023	$	1,247,013.51	$	8,377.52	$	4,220.81	$	4,156.71	$	1,242,792.70
156	11/1/2023	$	1,242,792.70	$	8,377.52	$	4,234.88	$	4,142.64	$	1,238,557.82
157	12/1/2023	$	1,238,557.82	$	8,377.52	$	4,249.00	$	4,128.53	$	1,234,308.82
158	1/1/2024	$	1,234,308.82	$	8,377.52	$	4,263.16	$	4,114.36	$	1,230,045.66
159	2/1/2024	$	1,230,045.66	$	8,377.52	$	4,277.37	$	4,100.15	$	1,225,768.28
160	3/1/2024	$	1,225,768.28	$	8,377.52	$	4,291.63	$	4,085.89	$	1,221,476.65
161	4/1/2024	$	1,221,476.65	$	8,377.52	$	4,305.94	$	4,071.59	$	1,217,170.72
162	5/1/2024	$	1,217,170.72	$	8,377.52	$	4,320.29	$	4,057.24	$	1,212,850.43
163	6/1/2024	$	1,212,850.43	$	8,377.52	$	4,334.69	$	4,042.83	$	1,208,515.74
164	7/1/2024	$	1,208,515.74	$	8,377.52	$	4,349.14	$	4,028.39	$	1,204,166.60
165	8/1/2024	$	1,204,166.60	$	8,377.52	$	4,363.64	$	4,013.89	$	1,199,802.96
166	9/1/2024	$	1,199,802.96	$	8,377.52	$	4,378.18	$	3,999.34	$	1,195,424.78
167	10/1/2024	$	1,195,424.78	$	8,377.52	$	4,392.78	$	3,984.75	$	1,191,032.01
168	11/1/2024	$	1,191,032.01	$	8,377.52	$	4,407.42	$	3,970.11	$	1,186,624.59
169	12/1/2024	$	1,186,624.59	$	8,377.52	$	4,422.11	$	3,955.42	$	1,182,202.48
170	1/1/2025	$	1,182,202.48	$	8,377.52	$	4,436.85	$	3,940.67	$	1,177,765.63
171	2/1/2025	$	1,177,765.63	$	8,377.52	$	4,451.64	$	3,925.89	$	1,173,313.99
172	3/1/2025	$	1,173,313.99	$	8,377.52	$	4,466.48	$	3,911.05	$	1,168,847.52
173	4/1/2025	$	1,168,847.52	$	8,377.52	$	4,481.37	$	3,896.16	$	1,164,366.15
174	5/1/2025	$	1,164,366.15	$	8,377.52	$	4,496.30	$	3,881.22	$	1,159,869.85
175	6/1/2025	$	1,159,869.85	$	8,377.52	$	4,511.29	$	3,866.23	$	1,155,358.55
176	7/1/2025	$	1,155,358.55	$	8,377.52	$	4,526.33	$	3,851.20	$	1,150,832.22
177	8/1/2025	$	1,150,832.22	$	8,377.52	$	4,541.42	$	3,836.11	$	1,146,290.81
178	9/1/2025	$	1,146,290.81	$	8,377.52	$	4,556.56	$	3,820.97	$	1,141,734.25
179	10/1/2025	$	1,141,734.25	$	8,377.52	$	4,571.74	$	3,805.78	$	1,137,162.51
180	11/1/2025	$	1,137,162.51	$	8,377.52	$	4,586.98	$	3,790.54	$	1,132,575.53
181	12/1/2025	$	1,132,575.53	$	8,377.52	$	4,602.27	$	3,775.25	$	1,127,973.25
182	1/1/2026	$	1,127,973.25	$	8,377.52	$	4,617.61	$	3,759.91	$	1,123,355.64
183	2/1/2026	$	1,123,355.64	$	8,377.52	$	4,633.01	$	3,744.52	$	1,118,722.63
184	3/1/2026	$	1,118,722.63	$	8,377.52	$	4,648.45	$	3,729.08	$	1,114,074.19
185	4/1/2026	$	1,114,074.19	$	8,377.52	$	4,663.94	$	3,713.58	$	1,109,410.24
186	5/1/2026	$	1,109,410.24	$	8,377.52	$	4,679.49	$	3,698.03	$	1,104,730.75
187	6/1/2026	$	1,104,730.75	$	8,377.52	$	4,695.09	$	3,682.44	$	1,100,035.66
188	7/1/2026	$	1,100,035.66	$	8,377.52	$	4,710.74	$	3,666.79	$	1,095,324.92
189	8/1/2026	$	1,095,324.92	$	8,377.52	$	4,726.44	$	3,651.08	$	1,090,598.48
190	9/1/2026	$	1,090,598.48	$	8,377.52	$	4,742.20	$	3,635.33	$	1,085,856.29
191	10/1/2026	$	1,085,856.29	$	8,377.52	$	4,758.00	$	3,619.52	$	1,081,098.28
192	11/1/2026	$	1,081,098.28	$	8,377.52	$	4,773.86	$	3,603.66	$	1,076,324.42
193	12/1/2026	$	1,076,324.42	$	8,377.52	$	4,789.78	$	3,587.75	$	1,071,534.64
194	1/1/2027	$	1,071,534.64	$	8,377.52	$	4,805.74	$	3,571.78	$	1,066,728.90
195	2/1/2027	$	1,066,728.90	$	8,377.52	$	4,821.76	$	3,555.76	$	1,061,907.14
196	3/1/2027	$	1,061,907.14	$	8,377.52	$	4,837.83	$	3,539.69	$	1,057,069.31
197	4/1/2027	$	1,057,069.31	$	8,377.52	$	4,853.96	$	3,523.56	$	1,052,215.35

No.	Payment Date		Beginning Balance		Payment		Principal		Interest		Ending Balance
198	5/1/2027	$	1,052,215.35	$	8,377.52	$	4,870.14	$	3,507.38	$	1,047,345.21
199	6/1/2027	$	1,047,345.21	$	8,377.52	$	4,886.37	$	3,491.15	$	1,042,458.83
200	7/1/2027	$	1,042,458.83	$	8,377.52	$	4,902.66	$	3,474.86	$	1,037,556.17
201	8/1/2027	$	1,037,556.17	$	8,377.52	$	4,919.00	$	3,458.52	$	1,032,637.17
202	9/1/2027	$	1,032,637.17	$	8,377.52	$	4,935.40	$	3,442.12	$	1,027,701.77
203	10/1/2027	$	1,027,701.77	$	8,377.52	$	4,951.85	$	3,425.67	$	1,022,749.91
204	11/1/2027	$	1,022,749.91	$	8,377.52	$	4,968.36	$	3,409.17	$	1,017,781.56
205	12/1/2027	$	1,017,781.56	$	8,377.52	$	4,984.92	$	3,392.61	$	1,012,796.64
206	1/1/2028	$	1,012,796.64	$	8,377.52	$	5,001.54	$	3,375.99	$	1,007,795.10
207	2/1/2028	$	1,007,795.10	$	8,377.52	$	5,018.21	$	3,359.32	$	1,002,776.89
208	3/1/2028	$	1,002,776.89	$	8,377.52	$	5,034.93	$	3,342.59	$	997,741.96
209	4/1/2028	$	997,741.96	$	8,377.52	$	5,051.72	$	3,325.81	$	992,690.24
210	5/1/2028	$	992,690.24	$	8,377.52	$	5,068.56	$	3,308.97	$	987,621.68
211	6/1/2028	$	987,621.68	$	8,377.52	$	5,085.45	$	3,292.07	$	982,536.23
212	7/1/2028	$	982,536.23	$	8,377.52	$	5,102.40	$	3,275.12	$	977,433.83
213	8/1/2028	$	977,433.83	$	8,377.52	$	5,119.41	$	3,258.11	$	972,314.42
214	9/1/2028	$	972,314.42	$	8,377.52	$	5,136.48	$	3,241.05	$	967,177.94
215	10/1/2028	$	967,177.94	$	8,377.52	$	5,153.60	$	3,223.93	$	962,024.34
216	11/1/2028	$	962,024.34	$	8,377.52	$	5,170.78	$	3,206.75	$	956,853.57
217	12/1/2028	$	956,853.57	$	8,377.52	$	5,188.01	$	3,189.51	$	951,665.55
218	1/1/2029	$	951,665.55	$	8,377.52	$	5,205.31	$	3,172.22	$	946,460.25
219	2/1/2029	$	946,460.25	$	8,377.52	$	5,222.66	$	3,154.87	$	941,237.59
220	3/1/2029	$	941,237.59	$	8,377.52	$	5,240.07	$	3,137.46	$	935,997.52
221	4/1/2029	$	935,997.52	$	8,377.52	$	5,257.53	$	3,119.99	$	930,739.99
222	5/1/2029	$	930,739.99	$	8,377.52	$	5,275.06	$	3,102.47	$	925,464.93
223	6/1/2029	$	925,464.93	$	8,377.52	$	5,292.64	$	3,084.88	$	920,172.29
224	7/1/2029	$	920,172.29	$	8,377.52	$	5,310.28	$	3,067.24	$	914,862.01
225	8/1/2029	$	914,862.01	$	8,377.52	$	5,327.98	$	3,049.54	$	909,534.02
226	9/1/2029	$	909,534.02	$	8,377.52	$	5,345.74	$	3,031.78	$	904,188.28
227	10/1/2029	$	904,188.28	$	8,377.52	$	5,363.56	$	3,013.96	$	898,824.72
228	11/1/2029	$	898,824.72	$	8,377.52	$	5,381.44	$	2,996.08	$	893,443.28
229	12/1/2029	$	893,443.28	$	8,377.52	$	5,399.38	$	2,978.14	$	888,043.89
230	1/1/2030	$	888,043.89	$	8,377.52	$	5,417.38	$	2,960.15	$	882,626.52
231	2/1/2030	$	882,626.52	$	8,377.52	$	5,435.44	$	2,942.09	$	877,191.08
232	3/1/2030	$	877,191.08	$	8,377.52	$	5,453.55	$	2,923.97	$	871,737.53
233	4/1/2030	$	871,737.53	$	8,377.52	$	5,471.73	$	2,905.79	$	866,265.79
234	5/1/2030	$	866,265.79	$	8,377.52	$	5,489.97	$	2,887.55	$	860,775.82
235	6/1/2030	$	860,775.82	$	8,377.52	$	5,508.27	$	2,869.25	$	855,267.55
236	7/1/2030	$	855,267.55	$	8,377.52	$	5,526.63	$	2,850.89	$	849,740.92
237	8/1/2030	$	849,740.92	$	8,377.52	$	5,545.05	$	2,832.47	$	844,195.86
238	9/1/2030	$	844,195.86	$	8,377.52	$	5,563.54	$	2,813.99	$	838,632.33
239	10/1/2030	$	838,632.33	$	8,377.52	$	5,582.08	$	2,795.44	$	833,050.24
240	11/1/2030	$	833,050.24	$	8,377.52	$	5,600.69	$	2,776.83	$	827,449.55
241	12/1/2030	$	827,449.55	$	8,377.52	$	5,619.36	$	2,758.17	$	821,830.19
242	1/1/2031	$	821,830.19	$	8,377.52	$	5,638.09	$	2,739.43	$	816,192.10
243	2/1/2031	$	816,192.10	$	8,377.52	$	5,656.88	$	2,720.64	$	810,535.22
244	3/1/2031	$	810,535.22	$	8,377.52	$	5,675.74	$	2,701.78	$	804,859.48
245	4/1/2031	$	804,859.48	$	8,377.52	$	5,694.66	$	2,682.86	$	799,164.82
246	5/1/2031	$	799,164.82	$	8,377.52	$	5,713.64	$	2,663.88	$	793,451.18
247	6/1/2031	$	793,451.18	$	8,377.52	$	5,732.69	$	2,644.84	$	787,718.49
248	7/1/2031	$	787,718.49	$	8,377.52	$	5,751.80	$	2,625.73	$	781,966.69
249	8/1/2031	$	781,966.69	$	8,377.52	$	5,770.97	$	2,606.56	$	776,195.72
250	9/1/2031	$	776,195.72	$	8,377.52	$	5,790.21	$	2,587.32	$	770,405.52

No.	Payment Date	Beginning Balance	Payment	Principal	Interest	Ending Balance
251	10/1/2031	$ 770,405.52	$ 8,377.52	$ 5,809.51	$ 2,568.02	$ 764,596.01
252	11/1/2031	$ 764,596.01	$ 8,377.52	$ 5,828.87	$ 2,548.65	$ 758,767.14
253	12/1/2031	$ 758,767.14	$ 8,377.52	$ 5,848.30	$ 2,529.22	$ 752,918.84
254	1/1/2032	$ 752,918.84	$ 8,377.52	$ 5,867.79	$ 2,509.73	$ 747,051.05
255	2/1/2032	$ 747,051.05	$ 8,377.52	$ 5,887.35	$ 2,490.17	$ 741,163.69
256	3/1/2032	$ 741,163.69	$ 8,377.52	$ 5,906.98	$ 2,470.55	$ 735,256.71
257	4/1/2032	$ 735,256.71	$ 8,377.52	$ 5,926.67	$ 2,450.86	$ 729,330.04
258	5/1/2032	$ 729,330.04	$ 8,377.52	$ 5,946.42	$ 2,431.10	$ 723,383.62
259	6/1/2032	$ 723,383.62	$ 8,377.52	$ 5,966.25	$ 2,411.28	$ 717,417.37
260	7/1/2032	$ 717,417.37	$ 8,377.52	$ 5,986.13	$ 2,391.39	$ 711,431.24
261	8/1/2032	$ 711,431.24	$ 8,377.52	$ 6,006.09	$ 2,371.44	$ 705,425.15
262	9/1/2032	$ 705,425.15	$ 8,377.52	$ 6,026.11	$ 2,351.42	$ 699,399.05
263	10/1/2032	$ 699,399.05	$ 8,377.52	$ 6,046.19	$ 2,331.33	$ 693,352.85
264	11/1/2032	$ 693,352.85	$ 8,377.52	$ 6,066.35	$ 2,311.18	$ 687,286.50
265	12/1/2032	$ 687,286.50	$ 8,377.52	$ 6,086.57	$ 2,290.96	$ 681,199.94
266	1/1/2033	$ 681,199.94	$ 8,377.52	$ 6,106.86	$ 2,270.67	$ 675,093.08
267	2/1/2033	$ 675,093.08	$ 8,377.52	$ 6,127.21	$ 2,250.31	$ 668,965.86
268	3/1/2033	$ 668,965.86	$ 8,377.52	$ 6,147.64	$ 2,229.89	$ 662,818.22
269	4/1/2033	$ 662,818.22	$ 8,377.52	$ 6,168.13	$ 2,209.39	$ 656,650.09
270	5/1/2033	$ 656,650.09	$ 8,377.52	$ 6,188.69	$ 2,188.83	$ 650,461.40
271	6/1/2033	$ 650,461.40	$ 8,377.52	$ 6,209.32	$ 2,168.20	$ 644,252.08
272	7/1/2033	$ 644,252.08	$ 8,377.52	$ 6,230.02	$ 2,147.51	$ 638,022.07
273	8/1/2033	$ 638,022.07	$ 8,377.52	$ 6,250.78	$ 2,126.74	$ 631,771.28
274	9/1/2033	$ 631,771.28	$ 8,377.52	$ 6,271.62	$ 2,105.90	$ 625,499.66
275	10/1/2033	$ 625,499.66	$ 8,377.52	$ 6,292.53	$ 2,085.00	$ 619,207.14
276	11/1/2033	$ 619,207.14	$ 8,377.52	$ 6,313.50	$ 2,064.02	$ 612,893.64
277	12/1/2033	$ 612,893.64	$ 8,377.52	$ 6,334.55	$ 2,042.98	$ 606,559.09
278	1/1/2034	$ 606,559.09	$ 8,377.52	$ 6,355.66	$ 2,021.86	$ 600,203.43
279	2/1/2034	$ 600,203.43	$ 8,377.52	$ 6,376.85	$ 2,000.68	$ 593,826.58
280	3/1/2034	$ 593,826.58	$ 8,377.52	$ 6,398.10	$ 1,979.42	$ 587,428.48
281	4/1/2034	$ 587,428.48	$ 8,377.52	$ 6,419.43	$ 1,958.09	$ 581,009.05
282	5/1/2034	$ 581,009.05	$ 8,377.52	$ 6,440.83	$ 1,936.70	$ 574,568.22
283	6/1/2034	$ 574,568.22	$ 8,377.52	$ 6,462.30	$ 1,915.23	$ 568,105.93
284	7/1/2034	$ 568,105.93	$ 8,377.52	$ 6,483.84	$ 1,893.69	$ 561,622.09
285	8/1/2034	$ 561,622.09	$ 8,377.52	$ 6,505.45	$ 1,872.07	$ 555,116.64
286	9/1/2034	$ 555,116.64	$ 8,377.52	$ 6,527.14	$ 1,850.39	$ 548,589.50
287	10/1/2034	$ 548,589.50	$ 8,377.52	$ 6,548.89	$ 1,828.63	$ 542,040.61
288	11/1/2034	$ 542,040.61	$ 8,377.52	$ 6,570.72	$ 1,806.80	$ 535,469.89
289	12/1/2034	$ 535,469.89	$ 8,377.52	$ 6,592.62	$ 1,784.90	$ 528,877.26
290	1/1/2035	$ 528,877.26	$ 8,377.52	$ 6,614.60	$ 1,762.92	$ 522,262.66
291	2/1/2035	$ 522,262.66	$ 8,377.52	$ 6,636.65	$ 1,740.88	$ 515,626.01
292	3/1/2035	$ 515,626.01	$ 8,377.52	$ 6,658.77	$ 1,718.75	$ 508,967.24
293	4/1/2035	$ 508,967.24	$ 8,377.52	$ 6,680.97	$ 1,696.56	$ 502,286.28
294	5/1/2035	$ 502,286.28	$ 8,377.52	$ 6,703.24	$ 1,674.29	$ 495,583.04
295	6/1/2035	$ 495,583.04	$ 8,377.52	$ 6,725.58	$ 1,651.94	$ 488,857.46
296	7/1/2035	$ 488,857.46	$ 8,377.52	$ 6,748.00	$ 1,629.52	$ 482,109.46
297	8/1/2035	$ 482,109.46	$ 8,377.52	$ 6,770.49	$ 1,607.03	$ 475,338.97
298	9/1/2035	$ 475,338.97	$ 8,377.52	$ 6,793.06	$ 1,584.46	$ 468,545.90
299	10/1/2035	$ 468,545.90	$ 8,377.52	$ 6,815.70	$ 1,561.82	$ 461,730.20
300	11/1/2035	$ 461,730.20	$ 8,377.52	$ 6,838.42	$ 1,539.10	$ 454,891.78
301	12/1/2035	$ 454,891.78	$ 8,377.52	$ 6,861.22	$ 1,516.31	$ 448,030.56
302	1/1/2036	$ 448,030.56	$ 8,377.52	$ 6,884.09	$ 1,493.44	$ 441,146.47
303	2/1/2036	$ 441,146.47	$ 8,377.52	$ 6,907.04	$ 1,470.49	$ 434,239.43

No.	Payment Date	Beginning Balance	Payment	Principal	Interest	Ending Balance
304	3/1/2036	$ 434,239.43	$ 8,377.52	$ 6,930.06	$ 1,447.46	$ 427,309.37
305	4/1/2036	$ 427,309.37	$ 8,377.52	$ 6,953.16	$ 1,424.36	$ 420,356.21
306	5/1/2036	$ 420,356.21	$ 8,377.52	$ 6,976.34	$ 1,401.19	$ 413,379.88
307	6/1/2036	$ 413,379.88	$ 8,377.52	$ 6,999.59	$ 1,377.93	$ 406,380.28
308	7/1/2036	$ 406,380.28	$ 8,377.52	$ 7,022.92	$ 1,354.60	$ 399,357.36
309	8/1/2036	$ 399,357.36	$ 8,377.52	$ 7,046.33	$ 1,331.19	$ 392,311.03
310	9/1/2036	$ 392,311.03	$ 8,377.52	$ 7,069.82	$ 1,307.70	$ 385,241.21
311	10/1/2036	$ 385,241.21	$ 8,377.52	$ 7,093.39	$ 1,284.14	$ 378,147.82
312	11/1/2036	$ 378,147.82	$ 8,377.52	$ 7,117.03	$ 1,260.49	$ 371,030.79
313	12/1/2036	$ 371,030.79	$ 8,377.52	$ 7,140.76	$ 1,236.77	$ 363,890.03
314	1/1/2037	$ 363,890.03	$ 8,377.52	$ 7,164.56	$ 1,212.97	$ 356,725.47
315	2/1/2037	$ 356,725.47	$ 8,377.52	$ 7,188.44	$ 1,189.08	$ 349,537.03
316	3/1/2037	$ 349,537.03	$ 8,377.52	$ 7,212.40	$ 1,165.12	$ 342,324.63
317	4/1/2037	$ 342,324.63	$ 8,377.52	$ 7,236.44	$ 1,141.08	$ 335,088.19
318	5/1/2037	$ 335,088.19	$ 8,377.52	$ 7,260.56	$ 1,116.96	$ 327,827.63
319	6/1/2037	$ 327,827.63	$ 8,377.52	$ 7,284.77	$ 1,092.76	$ 320,542.86
320	7/1/2037	$ 320,542.86	$ 8,377.52	$ 7,309.05	$ 1,068.48	$ 313,233.81
321	8/1/2037	$ 313,233.81	$ 8,377.52	$ 7,333.41	$ 1,044.11	$ 305,900.40
322	9/1/2037	$ 305,900.40	$ 8,377.52	$ 7,357.86	$ 1,019.67	$ 298,542.55
323	10/1/2037	$ 298,542.55	$ 8,377.52	$ 7,382.38	$ 995.14	$ 291,160.16
324	11/1/2037	$ 291,160.16	$ 8,377.52	$ 7,406.99	$ 970.53	$ 283,753.17
325	12/1/2037	$ 283,753.17	$ 8,377.52	$ 7,431.68	$ 945.84	$ 276,321.49
326	1/1/2038	$ 276,321.49	$ 8,377.52	$ 7,456.45	$ 921.07	$ 268,865.04
327	2/1/2038	$ 268,865.04	$ 8,377.52	$ 7,481.31	$ 896.22	$ 261,383.73
328	3/1/2038	$ 261,383.73	$ 8,377.52	$ 7,506.25	$ 871.28	$ 253,877.49
329	4/1/2038	$ 253,877.49	$ 8,377.52	$ 7,531.27	$ 846.26	$ 246,346.22
330	5/1/2038	$ 246,346.22	$ 8,377.52	$ 7,556.37	$ 821.15	$ 238,789.85
331	6/1/2038	$ 238,789.85	$ 8,377.52	$ 7,581.56	$ 795.97	$ 231,208.29
332	7/1/2038	$ 231,208.29	$ 8,377.52	$ 7,606.83	$ 770.69	$ 223,601.46
333	8/1/2038	$ 223,601.46	$ 8,377.52	$ 7,632.19	$ 745.34	$ 215,969.28
334	9/1/2038	$ 215,969.28	$ 8,377.52	$ 7,657.63	$ 719.90	$ 208,311.65
335	10/1/2038	$ 208,311.65	$ 8,377.52	$ 7,683.15	$ 694.37	$ 200,628.50
336	11/1/2038	$ 200,628.50	$ 8,377.52	$ 7,708.76	$ 668.76	$ 192,919.73
337	12/1/2038	$ 192,919.73	$ 8,377.52	$ 7,734.46	$ 643.07	$ 185,185.27
338	1/1/2039	$ 185,185.27	$ 8,377.52	$ 7,760.24	$ 617.28	$ 177,425.03
339	2/1/2039	$ 177,425.03	$ 8,377.52	$ 7,786.11	$ 591.42	$ 169,638.93
340	3/1/2039	$ 169,638.93	$ 8,377.52	$ 7,812.06	$ 565.46	$ 161,826.87
341	4/1/2039	$ 161,826.87	$ 8,377.52	$ 7,838.10	$ 539.42	$ 153,988.76
342	5/1/2039	$ 153,988.76	$ 8,377.52	$ 7,864.23	$ 513.30	$ 146,124.54
343	6/1/2039	$ 146,124.54	$ 8,377.52	$ 7,890.44	$ 487.08	$ 138,234.09
344	7/1/2039	$ 138,234.09	$ 8,377.52	$ 7,916.74	$ 460.78	$ 130,317.35
345	8/1/2039	$ 130,317.35	$ 8,377.52	$ 7,943.13	$ 434.39	$ 122,374.22
346	9/1/2039	$ 122,374.22	$ 8,377.52	$ 7,969.61	$ 407.91	$ 114,404.61
347	10/1/2039	$ 114,404.61	$ 8,377.52	$ 7,996.18	$ 381.35	$ 106,408.43
348	11/1/2039	$ 106,408.43	$ 8,377.52	$ 8,022.83	$ 354.69	$ 98,385.60
349	12/1/2039	$ 98,385.60	$ 8,377.52	$ 8,049.57	$ 327.95	$ 90,336.03
350	1/1/2040	$ 90,336.03	$ 8,377.52	$ 8,076.40	$ 301.12	$ 82,259.62
351	2/1/2040	$ 82,259.62	$ 8,377.52	$ 8,103.33	$ 274.20	$ 74,156.30
352	3/1/2040	$ 74,156.30	$ 8,377.52	$ 8,130.34	$ 247.19	$ 66,025.96
353	4/1/2040	$ 66,025.96	$ 8,377.52	$ 8,157.44	$ 220.09	$ 57,868.52
354	5/1/2040	$ 57,868.52	$ 8,377.52	$ 8,184.63	$ 192.90	$ 49,683.89
355	6/1/2040	$ 49,683.89	$ 8,377.52	$ 8,211.91	$ 165.61	$ 41,471.98
356	7/1/2040	$ 41,471.98	$ 8,377.52	$ 8,239.28	$ 138.24	$ 33,232.70

No.	Payment Date		Beginning Balance		Payment		Principal		Interest		Ending Balance
357	8/1/2040	$	33,232.70	$	8,377.52	$	8,266.75	$	110.78	$	24,965.95
358	9/1/2040	$	24,965.95	$	8,377.52	$	8,294.30	$	83.22	$	16,671.64
359	10/1/2040	$	16,671.64	$	8,377.52	$	8,321.95	$	55.57	$	8,349.69
360	11/1/2040	$	8,349.69	$	8,377.52	$	8,349.69	$	27.83	$	-

APPENDIX 4: CONSTRUCTION LOAN SCHEDULE

	Enter values
Loan amount + 100 bps	$ 1,383,613
Annual interest rate	4.500%
Loan period in years	2
Start date of loan	1/1/2010

Monthly payment	$ 60,392
Number of payments	24
Total interest	$ 65,787
Total cost of loan	$ 1,449,400

No.	Payment Date	Beginning Balance	Payment	Principal	Interest	Ending Balance
1	2/1/2010	$ 1,383,612.74	$ 60,391.67	$ 55,203.12	$ 5,188.55	$ 1,328,409.62
2	3/1/2010	$ 1,328,409.62	$ 60,391.67	$ 55,410.13	$ 4,981.54	$ 1,272,999.48
3	4/1/2010	$ 1,272,999.48	$ 60,391.67	$ 55,617.92	$ 4,773.75	$ 1,217,381.56
4	5/1/2010	$ 1,217,381.56	$ 60,391.67	$ 55,826.49	$ 4,565.18	$ 1,161,555.08
5	6/1/2010	$ 1,161,555.08	$ 60,391.67	$ 56,035.84	$ 4,355.83	$ 1,105,519.24
6	**7/1/2010**	**$ 1,105,519.24**	**$ 60,391.67**	**$ 56,245.97**	**$ 4,145.70**	**$ 1,049,273.27**
7	8/1/2010	$ 1,049,273.27	$ 60,391.67	$ 56,456.89	$ 3,934.77	$ 992,816.38
8	9/1/2010	$ 992,816.38	$ 60,391.67	$ 56,668.61	$ 3,723.06	$ 936,147.77
9	10/1/2010	$ 936,147.77	$ 60,391.67	$ 56,881.11	$ 3,510.55	$ 879,266.66
10	11/1/2010	$ 879,266.66	$ 60,391.67	$ 57,094.42	$ 3,297.25	$ 822,172.24
11	12/1/2010	$ 822,172.24	$ 60,391.67	$ 57,308.52	$ 3,083.15	$ 764,863.72
12	1/1/2011	$ 764,863.72	$ 60,391.67	$ 57,523.43	$ 2,868.24	$ 707,340.29
13	2/1/2011	$ 707,340.29	$ 60,391.67	$ 57,739.14	$ 2,652.53	$ 649,601.15
14	3/1/2011	$ 649,601.15	$ 60,391.67	$ 57,955.66	$ 2,436.00	$ 591,645.48
15	4/1/2011	$ 591,645.48	$ 60,391.67	$ 58,173.00	$ 2,218.67	$ 533,472.48
16	5/1/2011	$ 533,472.48	$ 60,391.67	$ 58,391.15	$ 2,000.52	$ 475,081.34
17	6/1/2011	$ 475,081.34	$ 60,391.67	$ 58,610.11	$ 1,781.56	$ 416,471.22
18	**7/1/2011**	**$ 416,471.22**	**$ 60,391.67**	**$ 58,829.90**	**$ 1,561.77**	**$ 357,641.32**
19	8/1/2011	$ 357,641.32	$ 60,391.67	$ 59,050.51	$ 1,341.15	$ 298,590.81
20	9/1/2011	$ 298,590.81	$ 60,391.67	$ 59,271.95	$ 1,119.72	$ 239,318.86
21	10/1/2011	$ 239,318.86	$ 60,391.67	$ 59,494.22	$ 897.45	$ 179,824.64
22	11/1/2011	$ 179,824.64	$ 60,391.67	$ 59,717.33	$ 674.34	$ 120,107.31
23	12/1/2011	$ 120,107.31	$ 60,391.67	$ 59,941.27	$ 450.40	$ 60,166.05
24	1/1/2012	$ 60,166.05	$ 60,391.67	$ 60,166.05	$ 225.62	$ -