Strategies for Japanese Developers in Potential International Markets

By

Mitsuhiro Nomura
Master of Business Administration, 2014
University of Southern California
Bachelor of Arts in Economics, 2003
Keio University

Submitted to the Center for Real Estate in Partial Fulfillment of the
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Signature of Author _____________________________________________________________

Mitsuhiro Nomura
Center for Real Estate
July 30, 2014

Certified by _________________________________________________________________

Dr. Albert Saiz
Associate Professor, MIT Department of Urban Studies and Planning
Thesis Supervisor

Accepted by _________________________________________________________________

Dr. Albert Saiz
Chairman, Interdepartmental Degree Program in
Real Estate Development
Strategies for Japanese Developers in Potential International Markets

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ABSTRACT

Global development has currently become an important business for developers. Although the business involves complex economic, political, and cultural issues, international real estate has been more attractive. Economic and political analysis tells the timing of getting into the market. Demographic analysis indicates if the market would expand and which target developers should focus on. Also, we can find out competitiveness and how to differentiate from other companies.

Japan has not showed dramatic economic improvement for 20 years. The mature country has several issues: aging, low birth rate, and natural disasters. On the other hand, Summer Olympics 2020 will be held in Tokyo and the government has decided to dramatically improve the infrastructure. Japan will change and I would like to find out the opportunities and challenges of Japanese real estate.

Hawaii market has been influenced by tourism. The market is really unique; the resort area attracts house buyers and renters from all over the world. Most visitors come from the US mainland and Japan. Glancing the US and Japanese economy, developers can find out the real estate business opportunities.

Vietnam has developed the infrastructure and real estate legal systems. With the new infrastructure development and the assistance of private developers, the country provides more housing. Moreover, the legal system had not allowed foreigners to own properties but has been changed to invite more capital from other countries.

I have worked for a Japanese developer and experienced a short period of economic growth but we did not significantly invest and the good economy was over by the financial crisis. Most Japanese developers experienced the bubble economy and were tremendously influenced by that time, becoming more cautious in their outlook. The timing for expanding business now is perhaps not optimal. However, the benefits and challenges in these regions can be well-balanced for global developers who are eager to gain a foothold into international real estate markets.

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Title: Associate Professor, MIT Department of Urban Studies and Planning
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CHAPTER 1 : INTRODUCTION

1.1 Globalization of Real Estate

1.1.1. Global Economy

While some countries/regions have political, currency, or deflation issues, the global economy has improved. Ukraine has a political issue and needs a while to resolve it. Brazil, India, Indonesia, South America, and Turkey's currencies are not stable. Deflation and employment problems exist in European countries. Other parts of the world also have serious issues as well.

However, the economies in some developed European countries are expected to be more positive than before. The following table shows the GDP change by each region/country. France represents incremental economy and UK does not show the substantial decrease in the economy. As a result, the global economy is growing; the global economy rate is forecasted as 3.8% in 2015.

Exhibit 1: GDP changes by regions/countries

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>3.0</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>5.3</td>
<td>5.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Australia</td>
<td>2.4</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>China</td>
<td>7.7</td>
<td>7.2</td>
<td>6.8</td>
</tr>
<tr>
<td>India</td>
<td>4.7</td>
<td>4.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Japan</td>
<td>1.5</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Americas</td>
<td>1.8</td>
<td>2.9</td>
<td>3.5</td>
</tr>
<tr>
<td>U.S.</td>
<td>1.9</td>
<td>2.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Europe</td>
<td>0.5</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>France</td>
<td>0.3</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Germany</td>
<td>0.5</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>UK</td>
<td>1.7</td>
<td>3.0</td>
<td>2.5</td>
</tr>
</tbody>
</table>


1.1.2. Global Real Estate

The US shows 64% growth in transactional volumes in the first quarter of 2014, which represents the recovery of the real estate market in the country. The UK, Japan, and Germany also have bigger volumes than other countries do.
Exhibit 2: Transaction Volumes

Some cities’ investment volume is going up in quarter 1 2014, but most major cities’ volume is going down. Hong Kong, Moscow, Mumbai, and Sao Paulo shows more than 50% volume decrease. Moscow and Sao Paulo also have negative growth in capital values. Dubai represents a tremendous growth, a 456% investment volume increase. Tokyo has the second biggest growth, 43%.

Source: JLL
In terms of commercial real estate, Tokyo leaps to No.1 driven by international interest. In addition, Tokyo is also the only city in Asia Pacific to make it to the top 10 list in the first quarter of 2014, because cheap financing provides a significant boost to investors’ returns.
1.2 Research Outline

In this thesis, I would like to research Japanese, Hawaiian, and Vietnamese market situations. Using the market research results, I develop case studies to find out which product types are feasible and profitable in those markets.

Economic and policy analysis - the evolution of GDP and new policies - help developers forecast future market trends such as the demand for the housing, changes in property value and rent, and the timing of purchasing/selling properties. The ownership rate, transaction costs, and house loan research tell us the local preference and feasible product types.

In addition, the capital market analysis - including lending, cap rate, and return - gives developers ideas as to how much they can expect to derive in terms of rent revenue and property sales prices after developing or owning the housing properties.

Demographic analysis is also useful to understand markets. Population research tells the market sizes and household income gives affordable housing types. To find out if foreigners are the developer’s target, I also research the number of foreign people. Means of transportation help the developers find where they should have housing projects.

By researching competition, the developers can see how to differentiate the products and find the strategies. If the local businesses need more capital, international developers can tie up with them. If there are not many global developers, the international companies can find the business opportunities easily.
CHAPTER 2 : JAPAN

2.1. Economy & Policies: Market Chances and Demand in Japan

2.1.1. GDP

GDP is one of the measures to find out the economic growth of countries. If the economy is growing, there would be more demand of properties and business chances for global developers. Japanese recession has been more than 20 years after the bubble economy. However, GDP is steadily growing. The following chart shows the forecast of the Japanese GDP growth rate from 2013 to 2019 by IMF.

Exhibit 5: Japanese GDP Growth (%)

The Japanese GDP will keep the positive growth until 2019 and, therefore, the GDP shows the positive sign for global developers. One of the reasons why the GDP has decreased from 2014 is that the consumer tax is increased from 5% to 8%. However, after 2016, the GDP forecast will going up again since Tokyo Summer Olympic will be held in 2020. Developers could be expecting to buy land at cheaper prices when the economy presumably stagnates again by 2016 and may be able to sell properties at higher prices.

Generally, the Olympic Games generate a positive impact on the economy. Forbes mentions that thanks to the 2012 Summer Olympic, prime central London home prices hit a record high in July 2012. They are currently 13.5% higher than at the previous market peak reached in early 2008. In addition, the Wall Street Journal says that home
values for the 14 postal districts around the Olympic Park have jumped 30%. However, this past year (2013), the economy has taken a toll, with home values in half of the areas close to the Olympic Park losing value once again. Therefore, the Japanese economy is expected to be positive by 2020 Tokyo Olympic.

2.1.2. Ownership or Rent

The Japanese ownership rate is higher than 50%. The National Institution of Population and Social Security Research in Japan shows the ownership rate is 61.90% and the renter share is 28.10%. Conventionally, Japanese people have tended to purchase their own houses with loans after they get married.

Exhibit 6: Japanese Ownership Ratio

![Japanese Ownership Ratio](chart)

However, the Japanese Ministry of Land, Infrastructure, Transport, and Tourism has published that the ownership ratio among young generation (under 40 years old) is decreasing from 42.2% in 1983 to 28.4% in 2012. One of the reasons is that young people have tried to enjoy changing residences more often across different rental houses. The other possible reason is the financial burden for them.

2.1.3. Transaction Costs

To confirm the reason why young Japanese people unlikely to own houses, I would like to compare property transaction costs among top 5 GDP countries. Transaction costs include registration fee, legal fee, tax, home inspections and asymmetric information costs, and commission. As discussed in International Housing Economics and Finance (MIT MSRED), Japan has a 5.8% transaction cost, which is the second highest among large advanced countries. If a buyer in Japan purchase a house at $400,000, $23,200 is
just devoted to the transaction costs. The high transaction cost could be heavy burden to new buyers, or buyers who plan to move often.

Exhibit 7: Transaction Cost Ratio

2.1.4. Loan & Finance

In addition to the purchase transaction cost, financing costs could also be the burden for the buyers. However, Japanese mortgage loan rates are lower than those of most countries. For example, the average US mortgage loan rate is 4 – 5% but the Japanese rate is only 2-3%. Although the rate is relatively low, most people in the younger generations feel that taking on large loans itself is irrational. The following table shows the comparison between rent and ownership, assuming those are same building in Tokyo. I also assume a zero discount rate, due to the general deflationary conditions.

Exhibit 8: Comparison of Costs between Renting and Owning House in Japan

<table>
<thead>
<tr>
<th>Apartment Rent</th>
<th>Condominium Ownership ($400,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rent: $1,780*12 = $21,360</td>
<td>Interest: $1,775*20 years = $425,932</td>
</tr>
<tr>
<td>20-year Rent: $21,360*20 = $427,200</td>
<td>Transaction Cost: $87,400</td>
</tr>
<tr>
<td>Deposit:$7,120</td>
<td>Management Fee: $120*20 years =</td>
</tr>
<tr>
<td>Commission: $1,780</td>
<td>$28,800</td>
</tr>
<tr>
<td>Renewal Fee (20Y): $1,780*9 = $6,020</td>
<td>Asset Tax: $19,400</td>
</tr>
<tr>
<td>Insurance: $3,000</td>
<td>City Planning Tax: $7,200</td>
</tr>
<tr>
<td>Total: $456,600</td>
<td>Total: $568,732</td>
</tr>
</tbody>
</table>
The table shows a huge difference among the totals, which is the reason why young people avoid to lend money from banks. If they keep renting houses, they can spend money for other purposes.

2.1.5. Policies

The Japanese government has encouraged people to purchase houses. While the government has increased the consumer tax from 5% to 8%, it has implemented cutting loan tax. The loan for houses that is under $400,000 is cut by 1% loan tax every year. The total cutting tax for 10 years would be up to $40,000. Although the government has implemented the tax reduction, people tend to avoid purchasing houses as I mentioned above.

In addition, Japan has participated in the TPP negotiation: Trans-Pacific Strategic Economic Partnership Agreement negotiation. The countries or regions around the Pacific Ocean could have the partnership to encourage the trade among them. They could reduce trade tax and change the regulations. In Japan, some Japanese customs and regulations could be changed by the TPP. First of all, real estate contracts would be written in both Japanese and English. It is really hard to understand legal documents in Japanese for foreigners so that the language in documents would be changed. Second, when tenants rent house or units, they have to pay “Reikin” for the landlords and the landlords spend the money for the agent commissions or in cleaning fees. However, the Reikin is such unique tradition in Japan that many foreigners attempt to avoid paying it. This sometimes generates conflicts. Such customs would be eliminated by the TPP. Finally, the landlords could dramatically increase the rent to match to market prices. In Japan, landlords cannot increase rents dramatically without acceptance from the tenants, because the Japanese rental law was enacted after WW II -when most people lost houses- and protects tenants from the large rent increases. The law would be alleviated and the landlords could change the rent more easily. The TPP would require Japanese companies to fit to the international real estate market but allow multinational developers get into the Japanese market.

2.2. Capital Market

2.2.1. Lending

Japanese credit conditions are positive for borrowers. According to RREEF’s Japan Real Estate report in 2013, the Bank of Japan’s diffusion index of lending attitudes of banks to the real estate is positive for seven consecutive quarters. Also, lending volume to new real estate projects presents positive growth for the past four consecutive quarters to September 2012. The following charts show the diffusion index for the lending attitudes and the lending volume for new real estate projects.
2.2.2. Cap Rates

Cap rates have been stable for investible assets in Japan. The economic cap rate—which incorporates actual market prices—has tightened since 2010. Timewise, the appraisal cap rate follows the economic cap rate. The average yield spread (the difference between the average cap rate of all reported commercial real estate transactions and government bond yields) held at about 500 basis points in the third quarter of 2012.

Exhibit 10: Cap Rate Changes in Japanese Market
2.2.3. Return

The average annual total return for direct real estate investment on an unlevered basis in Japan was 3.9% in September 2012. This represents steady improvement from 3.6% in the previous quarter. All sectors including office, residential, and retail shows incremental recovery in the period.

Exhibit 11: Return Changes in Japanese Market

2.3. Demographic Appeal

2.3.1. Population & Growth

The Japanese population is decreasing. According to the population forecast by National Institution of Population and Social Security Research, the population would decrease from 127 million in 2014 to 87 million in 2060. In other words, the number of house buyer will decrease.
In addition, the country is rapidly aging. By 2060, the population of over 65 years old will represent 40% of the entire population. The following population pyramids show the median group will be over 65 years old. Therefore, the house demand by younger generation will be smaller. As I described the trend among young generation in 1.2, young generation do not buy houses but elderly people would be main house purchasers in Japan.

Source: The Economist
2.3.2. Household Income and Savings

The Ministry Health, Labor, and Welfare published the average annual income is $54,960 and the mean is $43,800. The approximately 56% people have less than a $50,000 annual income. However, only the younger generations can borrow money from banks and purchase houses with loans. The average family income for people under 30 years old is $30,100, and that for people between 31 to 40 years old is $55,000. A family having $40,000 annual income is able to borrow approximately $200,000 so that the available house price range would be $200,000 to $300,000. The average savings in Japan is $178,000 but 68% people have less than the average saving, which demonstrates there is large heterogeneity in the level of savings. Elderly people are generally not able to borrow money from banks and have to spend money from savings. However, the average savings of over 65 years old is just $94,000. If they are looking for properties in Tokyo, they can buy only small condo units 1 bed or studio. According to the levels of income and savings, house price ranges should be at less than $300,000.

2.3.3. The Number of Foreign People

The number of foreign people in Japan has increased. After the financial crisis in 2008, the number was actually decreasing. The Great East Japan Earthquake in 2011 was another factor to foreign people avoid visiting Japan. However, the number of foreign-born individuals turned out to increase in 2013.

Exhibit 14: The Number of Foreigners in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>The Number of Foreigners in Japan (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2.14</td>
</tr>
<tr>
<td>2009</td>
<td>2.16</td>
</tr>
<tr>
<td>2010</td>
<td>2.09</td>
</tr>
<tr>
<td>2011</td>
<td>2.05</td>
</tr>
<tr>
<td>2012</td>
<td>2.03</td>
</tr>
<tr>
<td>2013</td>
<td>2.05</td>
</tr>
</tbody>
</table>

The main reason of the increase is the lack of labor power. Japan is an aging country and the population is also decreasing. Japanese companies attempt to compensate for
the lack of labor by hiring foreigners. With the large labor requirements form the Tokyo Summer Olympic, the number of foreigners will increase. The top 2 increased purposes are related to business. According to Japanese Ministry of Justice, the number of foreigners for investment & management has increased by 7.8% and for skill training by 6.7%. Therefore, developers cannot ignore those foreigner workers and should provide houses around business districts such as Tokyo.

2.3.4. Means of Transportation

Means of transportation influence people to choose house locations. Ministry of Internal Affairs and Communication described that about 44.6% of transportation means is car. In Tokyo, however, 38% people commute by train and 16.5% people commute by bike, while only 11.6% people commute by car. Furthermore, 8.5% people can go to office or school by walk and 8.1% people have to ride both train and bus to commute. It could be assumed that people prefer to live near train stations and near business district to walk offices.

Exhibit 15: Means of Transportation in Japan

Also the Ministry reveals commute time. The average commute time in Tokyo is 44 minutes and more than 70% people take less than 1 hour to commute to the office or school. Therefore, the developer should choose the locations that require less than 1 hour to commute.
2.4. Competition: Competitors and Differentiation

2.4.1. Local Developers

Japanese developers are divided into 2 groups: house developers and condominium developers. The supply of houses in Japanese market has decreased since 1996. The reasons are the decrease in the Japanese population, the expansion of the condominium market, and the increase in the preference for rental apartments. In addition, the stock of condominium units has increased since 2007 because of the recession. In 2009, the top 5 big condominium developers occupied just 30% market share.

Exhibit 17: Condominium Developers Market Share in Japan
This pie chart shows that even each top 5 company has a relatively small portion of the market. In other words, it is easy to get into the market because there is no big difference among producers in terms of acquisition, plan, and sales. Generally, those companies acquire lands by bids. Also, they hire architecture firms and construction companies to plan condominiums. Furthermore, they can commission sales companies to sell condominium units. Another advantage is those top 5 condominium developers do not sell small unit condominiums, but sell family size units: 2 or 3 bed rooms. As I mentioned in 2.2, the demand for small units such as studios or 1 bed rooms are high. The new condominium developers should provide small unit condos.

2.4.2. Existing Foreign Real Estate Companies

The number of foreign real estate companies has increased. Particularly, more foreign funds have gotten into the Japanese market. After the Great East Japan Earthquake in 2011, some foreign companies made their employees go back to their countries since they worried consecutive big earthquakes and the atomic radiation released from the power station in Fukushima, the northern part of Japan. However, those companies came back to Japan soon as these worries dissipated. The United Nations also published “Report of the United Nations Scientific Committee on the Effects of Atomic Radiation” in 2012 and described that no clinically observable effects were reported. The following table shows foreign fund companies which came to Japan after the earthquake. Moreover, Canadian pension funds have started to invest in Japanese properties to have a long-term, stable cash inflow. Hence, more foreign companies have gotten into Japanese markets and the business has been more competitive.

### Exhibit 18: Foreign Real Estate Companies in Japan

<table>
<thead>
<tr>
<th>Name</th>
<th>Target</th>
<th>Size</th>
<th>Investors</th>
<th>Date of Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>US GreekOak Real Estate</td>
<td>General</td>
<td></td>
<td></td>
<td>Jan, 2012</td>
</tr>
<tr>
<td>US Fortress Investment Group</td>
<td>distressed</td>
<td></td>
<td></td>
<td>March, 2012</td>
</tr>
<tr>
<td>Germany, Kenzo Japan Real Estate</td>
<td>Residence in Tokyo</td>
<td></td>
<td>Individual Investors</td>
<td>Apr, 2012</td>
</tr>
<tr>
<td>France, AXA</td>
<td>Office in Tokyo</td>
<td></td>
<td>AXA, European Investors</td>
<td>August, 2012</td>
</tr>
</tbody>
</table>
### 2.5. Conclusion of Japanese Market

There are real estate business opportunities in Japan. By 2020, Japan has positive economy trends. With the expected changes in policies, global developers could get into the market more easily. Because young Japanese people avoid to purchase houses, the demand for purchasing houses will undoubtedly be smaller than before. The target here could be providing housing for the elderly. The type of unit for this market segment should be small units. The condominiums should be under $300,000 and located around business district where residents could commute within 1 hour. Foreigners would be expected to be a more immediate target due to the Tokyo Summer Olympics in 2020.

The business will become more competitive because is relatively easy to get into the market. There will probably more business chances focusing on small-unit condominiums. More foreign real estate companies have entered the Japanese market.

For Japanese developers, they will have to comply with TPP, but there are positive opportunities by 2020. In addition, for global developers, the Japanese market will be attractive because of the positive economic signs and clear strategic targets by 2020.
CHAPTER 3 : HAWAII

3.1. Economy & Policies

3.1.1. GDP

According to the Research & Economic Analysis Division by State of Hawaii, Hawaii GDP has increased and Hawaii’s economy is expected to continue positive growth for the rest of 2014 and into 2015. Also, the GDP growth would be stable by 2017.

Exhibit 19: Hawaii GDP Growth

Hawaii’s economy depends significantly on conditions in the mainland U.S. economy and key international economies, especially Japan. Tourism is most responsible for Hawaii’s current economic growth and standard of living. The visitor industry has major impacts on almost every aspect of the economy and physical infrastructure.

The Research & Economic Analysis Division by State of Hawaii describes that U.S. real GDP is expected to increase by 2.4 percent in 2014. For 2015 the consensus forecast expects an overall 3.0 percent growth in U.S. real GDP. Real GDP growth for Japan is now expected to increase 1.3 percent in 2014. For 2015, the consensus forecast expects an overall 1.3 percent growth in Japanese real GDP. Therefore, the GDP-growth outlook is positive for global developers getting into Hawaii market.
3.1.2. Ownership or Rent

The US Census shows that while the USA home ownership rate in 2012 is 65.6%, the Hawaii ownership rate in 2012 is 58.2%. Compared to other US major cities, the rate is low and has been stable between 50% and 60%.

Exhibit 20: Hawaii Ownership Rate

While the US renter fraction rate is 36.02% in 2012, the Hawaii rate is 43.1%. Also, the US rent median is $884 in 2012, the Hawaiian rent median is $1,379. The rental house vacancy rate is 9.06% which is higher than that of the US by 2.29%. However, the vacancy rate in Honolulu, the state capital, is just 4.63%. Those differences are brought about by short-term visitors in Hawaii. Hence, developers should approach this market with micro strategies at the local level, and ingenuity in devising their products.

3.1.3. Transaction Costs

As I compared transaction costs among top 5 GDP countries, the transaction costs in the US are relatively lower than other countries. The US has a 3.5% transaction cost which is the lowest among the countries examined herein. If a buyer in the US purchases a house at $400,000, $14,000 is for the transaction costs, compared to $23,200 in Japan.
3.1.4. Loan & Finance

To determine the residential preferences of foreign households across locations, I would like to compare costs between rental and ownership houses. The US mortgage loan rate is slightly higher than that of Japanese. The average US mortgage loan rate is 4-5% but the Japanese only 2-3%. Although the rate is relatively high, foreigners are able to borrow money from local banks. The following table shows the comparison between rent and ownership, assuming those are same building in Hawaii. The rent below is the average rent in Hawaii.

Exhibit 22: Comparison of Costs between Renting and Owning House in Hawaii

<table>
<thead>
<tr>
<th></th>
<th>Apartment Rent</th>
<th>Condominium Ownership ($198,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Rent: $1,379*12months = $16,548</td>
<td>Interest: about $350,000 (depend on Banks)</td>
<td></td>
</tr>
<tr>
<td>20-year Rent: $16,548*20yrs = $330,960</td>
<td>Transaction Cost: $10,500</td>
<td></td>
</tr>
<tr>
<td>Deposit:$1,379</td>
<td>Management Fee: $250*20 years = $60,000</td>
<td></td>
</tr>
<tr>
<td>Commission: $1,379</td>
<td>Asset Tax: $15,840</td>
<td></td>
</tr>
<tr>
<td>Renewal Fee (20Y): $0</td>
<td>Insurance: $120*20yrs = $2,400</td>
<td></td>
</tr>
<tr>
<td>Total: $336,118</td>
<td>Total: $436,340</td>
<td></td>
</tr>
</tbody>
</table>

The table shows the difference among the totals. However, if the foreigner buys the property and leases it out on the periods when they go back to their own countries or...
regions, they can earn short-term rent and cancel out these excessive costs. For example, Japanese people can stay in Hawaii without visa for 180 days. If a Japanese owner leases out the house for 6 months, she can annually earn $1,379*6= $8,274 and for 20 years $165,480 (again, no discounting is effected due to low or negative real discount rates in the country). The income tax would be $165,480* 30% = $49,644. If the extra income is deducted from the total in the table, the ownership cost is changed to $320,504. The owner cost would be less than the rental cost in this scenario. There are many short-term visitors in Hawaii who would help the foreign owners to reduce their financial burden of purchasing.

3.1.5. Policies

The State of Hawaii has implemented “Hawaii Tourism Strategic Plan 2005-2015.” To move toward a sustainable and responsible tourism industry for the State, the strategies are planned and represent collective citizen and industry visions. The state has started a marketing plan to increase the number of visitors to Hawaii. As other competitors such as Florida and Las Vegas invest in the advertisements, Hawaii has also advertised Hawaii’s nature and unique cultures all over the world. The strategic plan also points out that the city needs more high-quality accommodations. Currently, there are some new projects for commercial and condominiums for local people but not accommodations. On the other hand, the existing hotels in Honolulu are getting old and sold as condominium units. Ultimately, the number of hotels has decreased. The strategy plan suggest the state should put more accommodations for visitors, which is an interesting business opportunity for global developers.

3.2. Capital Market

3.2.1. Cap Rates and Returns

Residential Multi-family type is the most favorable sector for investment in Hawaii. Office, hotels, retail mall, and warehouse have more than a 6% cap rate and expected high return. However, they also have high risks. The following chart shows the product positioning based on returns and risks. Golf courses are substantially influenced by economy condition so that the risk is very high. Particularly, the value of real estate in resort areas such as Hawaii are changed by the economy and developers should take account the risks. Therefore, the housing business is favorable in Hawaii market.
3.3. Demographic Appeal

3.3.1. Population & Growth

The Hawaii population is increasing. According to Research and Economic Analysis Division Department of Business, Economic Development and Tourism, the population in 2000 is approximately 1.2 million. However the forecasted population in 2015 is 1.4 million and that in 2020 is 1.48 million. The population has stably increased, which is expanding the housing market demand.
In addition, the Hawaii birth rate has increased. The following age distribution shows that the birth rate decline hit the bottom about 10 years ago and then the rate has increased. It indicates that there are more opportunities that people look for new houses when they get married and have babies.

Exhibit 25: Hawaii State Population Pyramid
3.3.2. Household Income

Hawaii’s median household income is $67,492 while that of the US is $53,046. However, Hawaii median value of owner-occupied housing units, 2008-2012 is $517,000 but that of the US is just $181,400, which is the one of the reasons the ownership rate in Hawaii is not as high as that in other US cities. Forbes mentions that it still puts the majority of homes on the market financially beyond the reach of families, bringing home the real median household income in the Honolulu metro area.

Furthermore, the living costs is also higher than that of other US cities. Groceries in Honolulu cost 55.6% more than the national average; utilities 67.9% more. Forbes describes eighty percent of the food is imported from the mainland and oil is 100% imported. Housing and living costs are burden on local people. Local people cannot afford the high-price houses but wealthy visitors from out of the islands can, which actually increases the house prices in Honolulu. Local people cannot afford to move often, but visitors repeatedly come to Hawaii and purchase real estate, rent, or stay at hotels. Therefore, the developers should target on visitors in Hawaii to make profitable business.

3.3.3. The Number of Foreign People

The number of tourists, particularly, foreign people in Hawaii has increased. After the financial crisis in 2008, Hawaiian tourism was negatively influenced but the number was increasing after 2010.

Exhibit 26: The Number of Annual Visitors in Hawaii

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Visitors in Hawaii</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>6,420,448</td>
</tr>
<tr>
<td>2010</td>
<td>6,916,894</td>
</tr>
<tr>
<td>2011</td>
<td>7,174,397</td>
</tr>
<tr>
<td>2012</td>
<td>7,867,143</td>
</tr>
<tr>
<td>2013</td>
<td>8,064,292</td>
</tr>
</tbody>
</table>
There are 4 notable large markets: Western US, Eastern US, Japan, and Canada. The US western market is the biggest market for Hawaii. Arrivals rose 6.1 percent to 3,178,824 visitors in 2012, the highest since 2007. These visitors stayed the longest on Hawaii Island (8.88 days), followed by Maui (8.55 days), Kauai (8.46 days), Oahu (7.86 days), Molokai (6.13 days) and Lānaʻi (4.16 days). The U.S. East continued to be the state’s second largest visitor market. The total 1,699,625 U.S. East visitors in 2012, 58.2 percent were repeat visitors to the islands, compared to 58.4 percent in 2011. U.S. East visitors stayed the longest on Oahu (7.96 days), followed by Maui (7.44 days), Hawaii Island (7.08 days), Kauai (6.75 days), Molokai (4.49 days) and Lānaʻi (3.61 days). In terms of Canada, the country has the fourth place and its arrivals increased 4.5 percent to 499,144 visitors, the highest number of visitors in the last 24 years. Direct air services from Canada to Maui contributed to more Canadian visitors to Maui (51.2% of Canadian visitors) than to Oahu (42% of Canadian visitors) in 2012.

Japan continued to rank third in total visitor arrivals. One year after the March 2011 tsunami and earthquake, arrivals from Japan to the islands increased 18 percent to 1,465,654 visitors. Most of the Japanese visitors went to Oahu (96.2%), 13.9 percent visited Hawaii Island, 4.6 percent visited Maui and 1.9 percent visited Kauai. The most popular choice of lodging among Japanese visitors continued to be hotels, which accommodated 87.6 percent of those who came in 2012. Some visitors stayed in condominium properties (9.1%), timeshare properties (4.1%), and/or with friends or relatives (1.2%). Significantly more Japanese visitors stayed in hotels (+19.5%), timeshare properties (+27.2%) and rental homes (+35.9%) compared to 2011. Unlike visitors from the US and Canada, Japanese visitors prefer to stay in Oahu island.
Therefore, Japanese developers should find house or accommodation sites in Oahu Island.

3.3.4. Means of Transportation

In Hawaii CBD, the worker population is 181,030. Means of transportation influence people to choose house locations. The United Census shows that more than 75% of the transportation means is the car, which indicates people do not have to live near public transportation but also that they need car parking at home.

Exhibit 28: Means of Commute in Hawaii CBD

![Chart showing means of commute in Hawaii CBD]

Also the Census reveals commute time in Hawaii. The mean commute time in Honolulu CBD is 25.8 minutes and more than 50% people take less than 30 minutes to commute to the office or school. Therefore, the developer should choose locations that require less than a 30-minute commute by car.
3.4. Competition

3.4.1. Local Developers

While many developers arrived in Hawaii and developed condominiums and single homes, a few local developers had existed. The Kobayashi Group is one of the biggest local developers in Hawaii. The company has provided condominiums and retail malls in suburban areas. For example, the Kobayashi Group has developed luxury houses in Kukio, which is located next to the Kona resort area. The company also developed a shopping mall in Kapolei, in the western part of Oahu Island, although most developments are in east side of the island. With its local knowledge and insight, Kobayashi Group identifies the local demand and provides developments that are appropriate for this market. The company sells the properties it develops by itself.

Outrigger Enterprises Group is also a big player in Hawaii. While the company mainly developed hotels in Hawaii, Outrigger has also currently developed hotels in China and offered time-share ownerships of hotels in Hawaii. The company has partnered with Wyndham Vacation Ownership, the world's largest timeshare company to sell these fractional ownerships. Therefore, there are no big local players so that it is easy to get into the Hawaii market from other regions.
3.4.2. Existing Global Developers

There are many new constructions and developers come from the US main land and other countries. A new condominium is built in Ala Moana Shopping Center and the developer is HHMK Development, a partnership of The Howard Hughes Corp headquartered in Dallas, Texas, and 2 local developers, The MacNaughton Group and the Kobayashi Group. The unit price would be from $500K to $1.2M. Ritz Carlton also come to Waikiki area and Pacrep LLC from Los Angeles owns and operates The Ritz-Carlton Residences, Waikiki Beach condominium hotel project. The unit price would be from $900K to $15M. Kajima Inc., one of the biggest construction company in Japan, acquired Hawaiian Dredging, a leading construction company in Hawaii in 2002. The company had a condominium construction project in 2007 and Ala Moana Shopping mall renovation project in 2008. The establishment of this company would make Japanese developers come to Hawaii more easily. For Japanese developers, the market seems competitive but there are no large Japanese developers, which is a chance to get into a less crowded market.

Exhibit 30: Global Developers in Hawaii

<table>
<thead>
<tr>
<th>Name</th>
<th>Base</th>
<th>New Project(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Kobayashi Group</td>
<td>Hawaii</td>
<td>Kukio Resort (Mixed-Use)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kapolei Commons (Shopping Mall)</td>
</tr>
<tr>
<td>Outrigger</td>
<td>Hawaii</td>
<td>Hainan Island, China (Hotel)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The South-Central Coast of Vietnam (Hotel)</td>
</tr>
<tr>
<td>The Howard Hughes Corp</td>
<td>Texas</td>
<td>One Ala Moana (Condo)</td>
</tr>
<tr>
<td>Pacrep LLC</td>
<td>California</td>
<td>Ritz-Carlton Residences Waikiki Beach (Hotel/Condo)</td>
</tr>
<tr>
<td>Robertson Properties Group</td>
<td>California</td>
<td>Live Work Play AIEA (Mixed-Use)</td>
</tr>
<tr>
<td>Marshall Hung</td>
<td>Hawaii</td>
<td>801 South St (Condo)</td>
</tr>
<tr>
<td>OliverMcMillian Pacific Rim LLC</td>
<td>California</td>
<td>Symphony Honolulu (Condo)</td>
</tr>
<tr>
<td>Stanford Carr</td>
<td>Hawaii</td>
<td>Keauhou Place &amp; Keauhou Lane (Condo)</td>
</tr>
<tr>
<td>Franco Mola</td>
<td>California</td>
<td>803 Waimanu (Condo)</td>
</tr>
<tr>
<td>Castle &amp; Cooke</td>
<td>California</td>
<td>Koa Ridge (single- and multi-family homes)</td>
</tr>
<tr>
<td>D.R. Horton</td>
<td>Texas</td>
<td>Awakea at Mehana (Townhomes)</td>
</tr>
<tr>
<td>Kajima Inc</td>
<td>Japan</td>
<td>Ala Moana Shopping mall (renovation construction)</td>
</tr>
</tbody>
</table>
3.5. Conclusions about the Hawaiian Market

There are business opportunities in the Hawaiian housing market. As the Japanese market will be stable by 2020, the Hawaiian market should also keep a positive outlook in the medium run. Furthermore, the government encourages the tourism sector to keep growing the state’s economy. The ownership rate is not overly different from that of other US states, but the rental vacancy rate is lower, which indicates that the rental demand is high. Developers should provide small size condo units for visitors who repeatedly visit Hawaii, because owning small units are cheaper than rental units to lease out when they go back to their own countries.

Developers should target visitors to the islands. The number of the visitors has increased, and property prices are so high that local people cannot afford new houses. Most visitors are from the US mainland and Japan.

The market is very competitive among the US developers. Many developers can easily enter the market and start projects. However, there are no big Japanese developers in Hawaii. If they focus on Japanese visitors, they can differentiate their products and services.
CHAPTER 4 : VIETNAM

4.1. Economy & Policies

4.1.1. GDP

Vietnamese GDP growth is stable at a relatively high rate. The Vietnamese economy slowed down after the financial crisis in 2008. However, the GDP is steadily growing and a 6% GDP growth rate in 2019 is expected. The following chart shows the forecast of the Vietnamese GDP growth rate from 2000 to 2019 by the IMF.

Exhibit 31: Vietnam GDP Growth Forecast

![Vietnam GDP Growth Forecast](image_url)

The Vietnamese GDP would keep the positive growth by 2019 and, therefore, the evolution of GDP shows a positive outlook for global developers. One of the reasons why the GDP decreased in 2014 was the high inflation rate. The inflation rate was about 20% in 2011 but the rate is 7% in 2014. While the inflation rate is decreasing but not clearly stable, banks in Vietnam avoid lending money and bad debts are not resolved. The government encourage banks to lend money and set 6% GDP growth rate target in 2015. Developers could buy the lands at cheaper prices before the economy speed up and could now sell developed properties at higher prices around 2019.

4.1.2. Ownership or Rental

The Vietnamese home ownership rate is high. According to ‘Housing Markets and the Global Financial Crisis: The Uneven Impact on Households”, the ownership rate is 93%
in 2009 because approximately 85% people live in the countryside and socialist policies requires that people have a shelter. The demand for the condominiums is also high in Vietnam. According to CBRE Vietnam, in Ho Chi Minh City and Hanoi, the supply of new condominium units are about 27,000 in 2012 and 2013. Furthermore, there are other new projects in the 2 big cities. Nowadays, Vietnamese people have more options in the condominium segment. The following pie chart shows which segments are being sold in current market conditions. In 2013 quarter 2, affordable units amounted to 43% and high-end units to 40% of the market. Luxury and mid-rise units did not represent a major share of the market, although luxury units occupied about 3% in 2013 quarter1. The high-end unit prices are from $1,500 to $2,100 per square meter. Therefore, developers could target sales of high-end condo units in Vietnam.

Exhibit 32: Vietnam Condo Units Sold by Segments

![Pie chart showing condo units sold by segments]

#### 4.1.3. Transaction Costs

I would like to compare property transaction costs between Vietnam, Singapore, and top 5 GDP countries. The transaction costs include registration fee, legal fee, tax, home inspections, asymmetric information costs, and commission. Vietnam was only 0.6% transaction cost which is lower than Singapore and the top 5 GDP countries. If a buyer in Vietnam purchased a house at $200,000, $12,000 is for the transaction costs. This is a benefit for the buyers in Vietnam.

Investors in Vietnam have to pay 20% income tax, and sellers have to pay a 25% capital gain tax. Taxable capital gains are computed by deducting the acquisition costs and incidental expenses from the gross sales proceeds. The annual property tax is from 0.03% to 0.15% which is based on the land value assessment.
4.1.4. Loan & Finance

Vietnamese mortgage loan rates are higher than that of most countries. For example, the average US mortgage loan rate is 4 - 5% but the Vietnamese rate is about 12%. Although Vietnamese people generally avoid to borrowing money and the loan interest rate is relatively high, most people in younger generations have started borrowing money with the home loan.

Vietnamese property prices have currently declined by 15 percent, and smaller, more-affordable apartments are offered by developers, which pushes potential buyers to think of purchasing homes and borrowing money. As bad debt problems are resolved, Vietnamese banks have also started home loans at lower interests. Furthermore, new condominium projects offer unique loans to buyers. For instance, in Ho Chi Minh City District 7, Him Lam Riverside projects property handovers when 50% paid and the rest payable in 2 years with 0% interest. The Tropic Garden project which provides 388 units in Ho Chi Minh City District 2 handovers units to buyers when 50% paid, and the rest is payable with 0% interest rate in 3 years. This background encourages buyers to borrow home loans.

4.1.5. Policies

The Vietnamese government has relatively restricted foreigners to own and purchase properties in Vietnam but a new proposed law would ease this situation. In Vietnam, people cannot own land but Vietnamese people can have land use rights. Foreign companies are able to lease land from the government, and they can develop the land for condominiums or rental apartments. The lease period is at most 50 years.
The companies have to pay the lease fees annually or in one payment at the beginning. The investor foreign companies are able to sell the lease right to Vietnamese people companies, but not to other foreigners or foreign companies. To establish a joint company between a Vietnamese company and a foreign company, the Vietnamese company has to provide their land-use rights, and the foreign company should invest in cash. In addition, the government has started to accept foreign companies owning condominium units since 2008. The ownership period is 50 years as well. The foreign developers cannot own office buildings or factories for investment purpose. In the proposed amended law, foreigners who have visas are able to purchase houses. Depending on the size of foreign companies, the foreign companies can buy more than one house and also the lease period would be extended from 50 years to 70 years. The proposed law would attract more foreign developers in the near future.

4.2. Capital Market

Capital is coming back to Vietnam. For the last couple of years, several issues kept investors away from Vietnam. Inflation rose to a peak of approximately 23% in 2012. Also, the Vietnamese banks had bad debts after Vietnam’s public sector engaged in lending. Those issues have been solving and the investors have started pursue the investment opportunities. One thing that is still lacking in Vietnam is a shortage of investable stock. According to the Asian Public Real Estate Association, the country has the smallest pool of investable real estate in Asia: US$21 billion which was less than half the size of the US$48 billion worth of investor-grade real estate in Philippines. However, the stock is expected to increase to US$65 billion by 2021. The growth will allow foreign investors return to the country. Furthermore, Vietnamese real estate is a better investment than that of other countries. Vietnamese investors had been looking for investment opportunities in gold and deposit money in banks. However gold values and interest rates fluctuated, which has prompted local investors to return to real estate. The bank deposit rate is now 8.4%, down from a peak of 17% 2 years ago.

4.3. Demographic Appeal

4.3.1. Population & Growth

The Vietnamese population is increasing. According to the population forecast by IMF, the population would decrease from 77 million in 2000 to 95 million in 2019. In other words, the number of house buyers will increase.
In addition, the country has a substantially large young cohort at this point. However, the population is getting old. One of the reasons why the country is getting old is the deceleration in birth rate in recent years. Another reason is that life expectancy is becoming longer because of better nutrition and advanced in medical care.
4.3.2. The Number of Foreign People

The number of foreign people in Vietnam has increased. After the financial crisis in 2008, the number was stable. However, the number turns to increase in 2011.

Exhibit 36: The Number of Foreigners in Vietnam

![Graph showing the number of foreigners in Vietnam from 2008 to 2011.]

About 58 percent of the foreign workers are Asian, while Europeans account for 28.5 percent. Thanhnien News reported that workers have come to Vietnam from more than 60 countries around the world. 48.3 percent of them have higher education degrees, and 34.6 percent have specialized certificates. Males account for 89.9 percent of the foreign workforce and 86 percent of working foreigners are above 30 years old. Most foreign workers are under employment contracts. Hence, the developers could target on those foreigners by providing high-end rental apartments.

4.3.3. Means of Transportation

In Vietnam, 81% of the commuting means is bike/scooter. Since most of them ride bikes or scooters, they do not need to live near train stations or bus stops. In Hanoi, Hoan Kiem is a historical area and many tourists visit, so that the commuting infrastructure has been well developed, and property values are stable. For Japanese developers, Hai Ba Trung and Ba Dinh could be options because those areas have Japanese hotels and restaurants, which helps developers to find Japanese buyers. Tu Liem has developed as a new economic city, sponsored by the Vietnamese government. This area has a Conference hall for APEC. Keangnam, a Korean developer, develops a 70-floor building as a landmark in this area. In Ho Chi Minh City, District 1 is the center of business and residence. The property values in the area are high but high returns are also expected. District 2 has currently
developed and located next to District 1. District 3 is located between District 1 and the international airport so that the area has condominium, hotel, and office projects. In addition, the infrastructure has improved. After 18 months of construction, the Saigon 2 Bridge in Ho Chi Minh City was opened to traffic recently. Meanwhile, the Long Thanh Bridge, which links the city and southern Dong Nai Province, was completed the same day. Those completions are expected to make people commute more easily and the city expand. Furthermore, Metro Line No. 2 is constructed. Metro Line No. 2, stretching nearly 20 kilometers, connects Thu Thiem New Urban Area in District 2 and Tay Ninh Coach Station. During the first phase, the city will develop the 11-km section running from Ben Thanh Market in downtown Ho Chi Minh City to Tham Luong Depot in District 12, including a 9.3-km underground part. In the near future, more people might use the public transportation.

Exhibit 37: Means of Commute in Vietnam

4.4. Competition

4.4.1. Local Developers

The supply of condos has increased but unsold units have also increased. In 2012 quarter 4, the number of condominium unit launch decreased by 16.1% from quarter 4 2011. However, the following chart shows that the number of completed units has increased. Moreover, the number of unsold units has increased since 2009. Those indicates the market is slowing down and developers are likely to stop supplying new projects.
There are some major local developers in Vietnam. Vingroup has been active in the real estate business since 2000 and became Vietnam’s No.1 brand-name in the real estate field. This company provides luxury villas, high-end apartments, and shopping malls. SSG group is also well known as a leading real estate developer in Vietnam. This company has started the business since 2003 and provided villas, tower residences, and international schools. NOVALAND group was established in 2007. NOVALANS provides townhouses, condominiums, service apartments, and mix-used projects. C.T Group
established since 1992. This company provides luxury condominiums, rental apartments, and villas. Those companies set up the infrastructures and provides housing as well.

4.4.2. Existing Foreign Developers

The number of foreign real estate companies has increased. Some foreign developers make partnerships with local business because foreign companies cannot buy the properties, are able to understand the Vietnam market, and utilize local business connection immediately.

Phu My Hung Corporation is a joint venture between the CT&D Group of Taiwan and City Government of Ho Chi Minh City and has started the business since 1993. The company provides condominiums and townhouses. Moreover, Phu My Hung offers international standard architecture so that more foreign buyers are expected to purchase its properties. GS E&C, a leading construction company of South Korea, offers not only infrastructure business but also condominiums in Vietnam. Currently more South Korean companies go to Vietnam market regardless industries. GS E&C has utilized the condominium business experience in South Korea to develop housing in Vietnam. Becamex Tokyu was established in 2012 as a joint venture of 2 big Vietnamese and Japanese construction corporations, Becamex IDC and Tokyu Corporation. The company specializes in investing, selling and renting real estate. While Becamex Tokyu gets involved in activities that include bus system, ICT and education, the company has developed a residential project in Binh Duong. CapitaLand came from Singapore and has developed real estate projects across 20 countries. In Vietnam, CapitaLand has a joint development with local companies: Hoang Thanh Investment and Infrastructure Development Joint Stock Company. Getting into the Vietnam real estate market is not easy for foreign developers due to the government policies, but the market attracts them. Alliancing with local businesses, more foreign developers get into the Vietnam real estate market.

Exhibit 40: Foreign Developers in Vietnam

<table>
<thead>
<tr>
<th>Name</th>
<th>Original companies</th>
<th>Countries</th>
<th>Projects in Vietnam</th>
<th>Year of Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phu My Hung Corporation</td>
<td>- CT&amp;T - Ho Chi Minh City government</td>
<td>Taiwan</td>
<td>condominiums and townhouses</td>
<td>1993</td>
</tr>
<tr>
<td>GS E&amp;C</td>
<td></td>
<td>Korea</td>
<td>condominiums</td>
<td></td>
</tr>
<tr>
<td>Becamex Tokyu</td>
<td>- Becamex IDC - Tokyu Corporation</td>
<td>Japan</td>
<td>Condominiums, apartments</td>
<td>2012</td>
</tr>
<tr>
<td>Mecong Capital</td>
<td>- Chris Freund</td>
<td>Singapore Investments</td>
<td>2001</td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
<td>-----------------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>CapitaLand</td>
<td></td>
<td>Singapore</td>
<td>Condominiums</td>
<td></td>
</tr>
</tbody>
</table>

4.5. Conclusion of Vietnamese market

There are real estate business opportunities in Vietnam. By 2019, the Vietnamese economy is going up. With recent changes in policies, global developers could get into the market more easily. Nowadays, foreign companies find Vietnamese properties at cheaper prices than what the economy can sustain, and the properties are expected to be of higher value in the future. Because most Vietnamese people live country side, townhouses and condominiums are highly demanded. With the growing population, the housing market is also expanding. Although the population has a larger young generation now, the population is getting old so that the market has more potential for young buyers in the next 10 - 20 years. The target for developers would be local and foreign people. For local people, affordable housing units are the most popular. Developers also could sell high-end condominiums and offer service apartments for foreign people. The locations should have a good access of bikes or cars. The real estate business is getting more competitive. Partnership with local businesses is helpful to foreign developers because of the property ownership law.
CHAPTER 5 : RECOMMENDATIONS AND CONCLUSIONS

Chapter 1-4 give us the inception of the international strategies. In Chapter 5, I would like to find the case feasibilities in each market and develop strategic plans as the recommendation.

5.1. Case Studies

The Japanese market needs more small-unit apartments because more young people rent houses and elderly people without house loans would be main house purchasers. Here, I would like to check the feasibilities of Small Unit Condo case and Small Unit Apartment case in this market.

In Hawaii market, the vacancy rate of rental apartments is low and more tourists stay in Hawaii for short term. The visitors repeatedly come to Hawaii and would be interested in purchasing small unit and lease out when they go back to home countries. To confirm the feasibilities, I focus on small unit condominium case and small unit vacation rental apartment cases.

The demand for housing is growing in Vietnam as the economy is increasing. More international visitors come to the country and need housing. High-end condos would be affordable for the foreigners. Short-term visitors would need serviced apartments. Comparing those 2 products, I would like to find out the profitability for developers.

5.1.1. Small Unit Condo Case in Japan

In this case, I utilize the price increase from 2016 to 2018. The land price hit the bottom in 2016 because the economic growth slow down but after 2016, the price is expected to increase as the economy growth with Tokyo Olympic. The developer in this case purchases the land at cheaper price in 2016, build the small unit condo, and sell the all units in 2018. Most workers take less than one hour to get their offices so that I choose Chofu area at a 50-minute distance by train to Tokyo CBD.
ASSUMPTIONS

- Site
  The land area is 1,500 square meter (sqm) and the FAR is 2. The building area is 1,500*2=3,000sqm but the salable space would be 85% after excluding common spaces.

- Costs
  The construction cost is $2,500 per sqm. The developer borrows money for only acquisition and construction costs and the interest rate is 3%

- Rent
  While the property price has fluctuated based on the economic conditions, the rent is stable or going down because Japanese people prefer new housing. Although the economy will increase after 2016, the rent will not be changed as the building is getting old.

- Expected sales price
  According to 2.2.2., the Tokyo residence cap rate around 5%. Conservatively using the 5% cap rate, I assume the expected sales rate is $15,506,704: rent $775,335/0.05= $15,506,704

RESULTS
This case is feasible but the developer should take into account of the location selection and the timing of acquisition and sale. The total profit is $1,390,972 which is not attractive enough for developers. The location has only 2 FAR so that the number of units is limited. However, even though the building has more units, the project is not profitable because of the high construction cost. Moreover, the developers could sell the building if the company waits until 2020, the peak of the Japanese economy. Developers should find locations with enough FAR and high cap rate and think the timing.
### Japan Condo Project Case Analysis

#### Cash Flows:

<table>
<thead>
<tr>
<th>Calendar Years Ending</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Development Cost:

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Acquisition</td>
<td>(4,727,019)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Acquisition Tax</td>
<td>(70,905)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquiring Commission</td>
<td>(141,811)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction (excl. TI &amp; leasing commissions)</td>
<td>(2,500,000)</td>
<td>(5,000,000)</td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>(5,000,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Acquisition Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site Acquisition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction (excl. TI &amp; leasing commissions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Financial Summary:

<table>
<thead>
<tr>
<th>Period</th>
<th>Sales Revenue</th>
<th>Operating Expenses</th>
<th>NOI</th>
<th>Interest Payment</th>
<th>Total '16-'18</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>15,506,704</td>
<td>(775,335)</td>
<td></td>
<td>(30,568)</td>
<td>13,994,670</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Financial Ratio:

- **CAP Rate:** 0.05
- **Units:** 68
- **Saleable space:** 2,550 sqm
- **Building area:** 3,000 sqm
- **Gross Rentable area:** 3,000 sqm
- **Gross area:** 3,000 sqm
- **规划建设面积:** 3,000 sqm
- **Max FAR:** 2
- **Min FAR:** 0.03
- **Max Grid:** 1,500 condo price
- **Min Grid:** 2,751 condo price
- **Max Price:** 3,501 condo price
5.1.2. Small-Unit Apartment Case in Japan

I expect the developer could sell the property at the highest price in 2020 when the Tokyo Olympics are held. In this case, the developer lease the small units for 5 years and sell the entire property. This case also takes Chofu as the developing site so that I can compare and find out the feasibility.

ASSUMPTIONS

- **Site**
  The land area is 1,500 square meter (sqm) and the FAR is 2. The building area is 1,500*2=3,000sqm but the salable space would be 85% after excluding common spaces.

- **Costs**
  The construction cost is $2,500 per sqm. The developer borrows money for only acquisition and construction costs and the interest rate is 3%

- **Rent**
  While the property price will fluctuate based on the economic condition, the rent is stable or going down because Japanese people prefer new housings. Although the economy will increase after 2016, the rent will not be changed as the building is getting old.

- **Expected sales price**
  According to 2.2.2., the Tokyo residence cap rate around 5% because the year 2020 is the peak of economy. Using the 5.5% cap rate, I assume the expected sales rate is $13,619,838: revenue $749,091/0.055= $13,619,838.

RESULTS

This case is favorable because the developer take advantage of the increase in cap rates and sell the property at the best timing. The total profit is $4,078,623 which is attractive enough for developers. The rent revenue from 2016 to 2020 eliminates the gap between the high construction cost and sales price.

Comparing 2 cases in Japanese market, I prefer the small-unit apartment project which yields higher profits by taking advantage of economy improvements.
Exhibit 43: Small Unit Apartment Case in Japan Cash Flow

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Cash Flow:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminal cap rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Room space (per unit)</td>
<td>50.05</td>
<td>50.05</td>
<td>50.05</td>
<td>50.05</td>
<td>50.05</td>
<td>50.05</td>
<td>50.05</td>
</tr>
<tr>
<td>Rent</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>FFA</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>FFA 0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rentable area</td>
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<td>2.55</td>
<td>2.55</td>
<td>2.55</td>
<td>2.55</td>
<td>2.55</td>
<td>2.55</td>
</tr>
<tr>
<td>Building area</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Construction cost</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Income tax</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Property tax</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Operations Payments</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Management Fee</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Bike Parking Revenue</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Effective Gross Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Income tax</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>NOI</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Amendments</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Tenant Improvements</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>NCF</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Total NCF '14-'20</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
<td>(9,364,964)</td>
</tr>
<tr>
<td>Income tax</td>
<td>(176,252)</td>
<td>(176,252)</td>
<td>(176,252)</td>
<td>(176,252)</td>
<td>(176,252)</td>
<td>(176,252)</td>
<td>(176,252)</td>
</tr>
<tr>
<td>Total Profits</td>
<td>4,078,623</td>
<td>4,078,623</td>
<td>4,078,623</td>
<td>4,078,623</td>
<td>4,078,623</td>
<td>4,078,623</td>
<td>4,078,623</td>
</tr>
</tbody>
</table>
5.1.3. Small Unit Condo Case in Hawaii

Small unit condominiums are demanded by short-term visitors. As I discussed in 3.1.4., the cost of renting apartments is higher than the cost of purchasing small unit because the owner can lease the unit when they go back to their countries. This project’s target would be the visitors and investors. As the Japanese economy is growing, the Hawaiian economy is also stable or increasing. The condominium price and rent are expected to be higher after 2014. The developer in this case purchases the land in 2017, build the small unit condo, and sell the all units in 2019. The main target purchasers are tourists so the location should be Waikiki, the most popular place near the beach. It takes about 20 minutes to the airport and 10 minutes to CBD from the site.

Exhibit 44: Commute Map from Honolulu International Airport to Waikiki

ASSUMPTIONS

- Site
  I refer the actual land for sales in Waikiki area. The land area is 2,653 square meter (sqm) and the FAR is 7. The building area is 4,4680sqm but the salable/rentable space would be 85% after excluding common spaces.

- Costs
  The construction cost is $1,700 per sqm. The developer borrows money for only acquisition and construction costs and the interest rate is 4%.

- Sales/Rent
  I assume here that the sales price and rent are going up from 2014 to 2020 as the economy is going up. The sales price is going up by 10% in2020. The rent is going up by 3% every year.

- Expected sales price
In condo case, I put 15% profit on original costs because the property price would increase after the construction and the building is brand new.

RESULTS

This case is not favorable because the final profit is really small, $862,635. The condo scale is small and does not have enough salable areas. If the economy will improve more dramatically, the developer can have profits more, but conservatively such major increase is not expected.
### Hawaii Small Unit Condo Project Case Analysis

**Land Area:**
- **1986:** 2,653
- **2017:** 1,545

**Condo Price:**
- **2014:** 15,032
- **2019:** 17,287

**Building Area:**
- **2014:** 6,960
- **2017:** 4,468

**Expected Rent Revenue:**
- **2017:** 1,960
- **2018:** 1,960
- **2019:** 1,960

**Expected Rent Revenue:**
- **2014:** 695
- **2015:** 1,050
- **2016:** 1,050

**Salable Space:**
- **2014:** 3,798
- **2015:** 3,798
- **2016:** 3,798

**Period:**
- **2014:** 3
- **2015:** 2
- **2016:** 1

**Expected Cap Rate:**
- **2019:** 0.05

**FAR:**
- **2014:** 7
- **2015:** 7
- **2016:** 7

---

### Cash Flows:

<table>
<thead>
<tr>
<th>Calendar Years Ending:</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rent Revenue</strong></td>
<td>13,921,074</td>
<td>13,921,074</td>
<td>13,921,074</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>(696,054)</td>
<td>(11,050)</td>
<td>(11,050)</td>
</tr>
<tr>
<td><strong>Property Tax</strong></td>
<td>(11,050)</td>
<td>(11,050)</td>
<td>(11,050)</td>
</tr>
<tr>
<td><strong>Sales Escrow Fee</strong></td>
<td>(69,605)</td>
<td>(4,510,000)</td>
<td>(4,510,000)</td>
</tr>
<tr>
<td><strong>Conveyance Tax</strong></td>
<td>(13,921)</td>
<td>(13,921)</td>
<td>(13,921)</td>
</tr>
<tr>
<td><strong>Capital Gain Tax</strong></td>
<td>(890,949)</td>
<td>(890,949)</td>
<td>(890,949)</td>
</tr>
<tr>
<td><strong>NOI</strong></td>
<td>11,330,445</td>
<td>13,130,445</td>
<td>13,130,445</td>
</tr>
<tr>
<td><strong>Interest Payment</strong></td>
<td>(40,351)</td>
<td>(39,294)</td>
<td>(38,234)</td>
</tr>
<tr>
<td><strong>NCF</strong></td>
<td>(7,075,711)</td>
<td>(5,074,571)</td>
<td>13,092,211</td>
</tr>
<tr>
<td><strong>Total '16-'18</strong></td>
<td>862,635</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

### Development Costs:

<table>
<thead>
<tr>
<th>Calendar Years Ending:</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Site Acquisition</strong></td>
<td>(4,510,000)</td>
<td>(4,510,000)</td>
<td>(4,510,000)</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>(5,063,521)</td>
<td>(5,063,521)</td>
<td>(5,063,521)</td>
</tr>
<tr>
<td><strong>Acquisition Escrow Fee</strong></td>
<td>(2,531,761)</td>
<td>(2,531,761)</td>
<td>(2,531,761)</td>
</tr>
</tbody>
</table>

---

**Exhibit 4: Small Unit Condo Project Case Analysis**
5.1.4. Vacation Rental Apartment Case in Hawaii

Vacation rental apartments are also demanded by short-term visitors. The number of individual vacation rental units (IVU) is dramatically increasing in the last 5 years. In 2020, while the inventory of hotel units is 43,151 and the Condo Hotel is 12,188, that of IVU is 7,567.

Exhibit 46: Inventory of Units in Hawaii

As the Japanese economy is growing, the Hawaiian economy is also stable or increasing. The condominium price and rent are expected to be higher after 2014. The developer in this case purchases the land in 2014, builds the vacation rental apartments, leases the units, and sells all the units in 2020. The main target renters are tourists so the location should be Waikiki, the same as the last case.

ASSUMPTIONS

- **Site**
  
  I refer the actual land for sale in Waikiki area. The land area is 2,653 square meter (sqm) and the FAR is 7. The building area is 4,468 sqm but the salable/rentable space would be 85% after excluding common spaces.

- **Costs**
The construction cost is $1,700 per sqm. The developer borrows money for only acquisition and construction costs and the interest rate is 4%. Furniture cost is assumed $2,000 in each unit.

- **Sales/Rent**
  I assume here that the sales price and rent are going up from 2014 to 2020 as the economy is going up. The sales price is going up by 10% until 2020. The rent is going up by 3% every year. In addition, the vacation rent is less than comparable hotel fees, which attracts more visitors to the ownership market. In this case, although the hotel cost per day is more than $170, the vacation rental fee is about $93.

- **Expected sales price**
  In vacation rental case, I expect 10% increase from 2014 acquisition cost.

- **Vacancy rate**
  Unlike the vacancy rate in Hawaii condominium case, the rate in vacation rental case is assumed as 15%. According to 2012 Annual Visitor Research Report, the vacancy rate of hotels in Oahu Island is from 8.2% to 22.4%.

Exhibit 47: Occupancy and Daily Rates in Hawaii

<table>
<thead>
<tr>
<th></th>
<th>Occupancy (%)</th>
<th>Average Daily Rate ($)</th>
<th>RevPAR ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>87.0</td>
<td>91.0</td>
<td>7.4</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>89.9</td>
<td>93.0</td>
<td>5.5</td>
</tr>
<tr>
<td>MARCH</td>
<td>84.1</td>
<td>79.0</td>
<td>5.5</td>
</tr>
<tr>
<td>APRIL</td>
<td>77.0</td>
<td>73.0</td>
<td>9.0</td>
</tr>
<tr>
<td>MAY</td>
<td>82.5</td>
<td>75.6</td>
<td>6.8</td>
</tr>
<tr>
<td>JUNE</td>
<td>85.3</td>
<td>78.0</td>
<td>8.0</td>
</tr>
<tr>
<td>JULY</td>
<td>91.8</td>
<td>85.0</td>
<td>6.8</td>
</tr>
<tr>
<td>AUGUST</td>
<td>90.0</td>
<td>89.0</td>
<td>8.0</td>
</tr>
<tr>
<td>SEPTEMBER</td>
<td>84.5</td>
<td>94.0</td>
<td>5.3</td>
</tr>
<tr>
<td>OCTOBER</td>
<td>82.0</td>
<td>81.2</td>
<td>0.5</td>
</tr>
<tr>
<td>NOVEMBER</td>
<td>81.2</td>
<td>79.8</td>
<td>8.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>84.7</td>
<td>80.7</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Smith Travel Research, Hospitality Advisors LLC

**RESULTS**

This case is favorable since the final profit is attractive, $4,150,514. The rent revenue between 2014 and 2020 substantially helps the developer’s profit.

The vacation rental case is better than the condominium case. The rent revenue is higher than regular rent but lower than hotel cost. Even though the vacancy rate is high, the rent cover the negative effect.
Exhibit 48: Vacation Rental Apartment Project Case Analysis

<table>
<thead>
<tr>
<th>Location</th>
<th>Total Project</th>
<th>Total Floor Area (sq ft)</th>
<th>Total Rentable Space (sq ft)</th>
<th>Total Rentable Area (sq ft)</th>
<th>Total Units</th>
<th>Total Project Cost (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii Vacation Rental Apartment Project</td>
<td>4,510,000</td>
<td>2,653</td>
<td>3,798</td>
<td>7</td>
<td>4.51</td>
<td>8,696,282</td>
</tr>
</tbody>
</table>

**Development Costs:**
- Site Acquisition: 4,100,000
- Acquisition Escrow Fee: 20,500
- Construction: 2,531,761
- 5,063,521

**Projected Operations:**
- Base Rental Revenue: 3,385,326
- Absorption and Turnover Vacancy: 507,799
- Scheduled Base Rental Revenue: 2,877,527
- Operating Expenses: 86,326
- Property Tax: 10,045
- Income Tax: 401,703

**Projected NCF:**
- NOI: 6,662,306
- Building Improvements: 0
- Furniture cost: 202,541
- Interest Payment: 38,984
- Capital Reserve: 47,217
- NCF: 6,701,290

**Expected Sales Price:**
- 4,510,000

**Total NCF '14-'20:**
- (43,786)

**Total Profits:**
- 4,150,514

**Capital Gains Tax:**
- (288,640)

**Total NCF:**
- 4,150,514
5.1.5. High End Condo Case in Vietnam

In this case, I take the advantage of the price increase from 2014 to 2019. As the economy will go up, I assume the land price, condo price, and rent will also increase. The developer in this case purchases the land at cheaper price in 2015, build the high-end condo, and sell the all units in 2018. The site is located in Ho Chi Ming City District 3. As I mentioned in 4.2.3., the district 3 is located between CBD and the international airport. The convenient access attracts international visitors.

Exhibit 49: Commute Map from Ho Chi Minh City District 3 to District 1

ASSUMPTIONS

- Site

  I refer the actual land for sales in Ho Chi Minh City. It takes only about 10 minutes to CBD, District 1 (Quan 1). The land area is 4,600 square meter (sqm) but the FAR is 35, which gives the developer the high volume of the building. Accordingly, the building area is 161,000 sqm but the salable space would be 80% after excluding luxury common spaces.

- Costs
The construction cost is $965 per sqm. In 2014, the construction cost is $794/sqm but the cost would be increased. I assume 1.05% annual cost increase. The developer borrows money for acquisition, construction, and acquisition tax costs and the interest rate is 4.5%. The developer has the partnership with a local developer so that the developer pays the acquisition cost instead of the annual leasing fee for the government.

- **Sales**
  I assume that the sales price is going up from 2015 to 2018 as the economy is going up. The sales price is annually going up 3% until 2018.

- **Expected sales price**
  In 2018, the condo price per sqm is $4,716. The developer will sell all the units at this price in 2019.

**RESULTS**

This case is totally green light for the developer because the final profit is really big, $458,182,816. The 35-story condo scale brings the profits which covers all costs. While the initial cost is big, the price increase also gives the developer benefits. Before the construction would be more expensive, international developers should start projects.
Exhibit 50: High-End Condo Case in Vietnam Cash Flow

Vietnam High-End Condo Project Case Analysis

Land Price '14 14,000
High-End Condo price '14 4,190

Annual property price growth 1.03
High-End Condo price '18 4,716

FAR 35

Construction
Real Estate Acquisition Tax (6,400,000)
Site Acquisition (6,400,000)

Projected Operations:

Sales Revenue 607,917,974

Calendar Years Ending:

Development Cost:

Site Acquisition (64,400,000)
Real Estate Acquisition Tax (6,400,000)
Construction (93,229,816)

Calendar Years Ending:

Cash Flows:

Calendar Years Ending:

Calendar Years Ending:

Calendar Years Ending:

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5.1.6. Service Apartment Case in Vietnam

As I confirmed in the last case, I take the advantage of the price increase from 2014 to 2019. As the economy will go up, I assume the land price, condo price, and rent will also increase. The developer in this case purchases the land at cheaper price in 2014, build the service apartment condo, run it for 3 years, and sell the property in 2019. The site is the same as that of the last case which located in Ho Chi Ming City District 3. As I mentioned in 4.2.3., the district 3 is located between CBD and the international airport. The convenient access attracts busy international visitors.

ASSUMPTIONS

- **Site**
  I refer the actual land for sales in Ho Chi Minh City. It takes only about 10 minutes to CBD, District 1 (Quan 1). The land area is 4,600 square meter (sqm) but the FAR is 35, which gives the developer the high volume of the building. Accordingly, the building area is 161,000 sqm but the rentable space would be 80% after excluding luxury common spaces.

- **Costs**
  The construction cost is $965 per sqm. In 2014, the construction cost is $794/sqm but the cost would be increased. I assume 1.05% annual cost increase. The developer borrows money for acquisition, construction, and acquisition tax costs and the interest rate is 4.5%. Furniture cost is assumed $2,500 in each unit. The developer has the partnership with a local developer so that the developer pays the acquisition cost instead of the annual leasing fee for the government.

- **Service Apartment Rent**
  I assume that the rent is going up from 2015 to 2019 as the economy is going up. The rent price is annually going up 3% until 2019.

- **Expected sales price**
  The capital cost in 2019 is assumed as 5%. To find out the price, the rental revenue in 2019 is divided by the cap rate.

RESULTS

This case is favorable because the final profit is high enough, $23,698,452. The 35-story condo scale brings the profits which covers all costs. However, the final profit would be higher if the developer keeps running the service apartment for 2 or 7 years. Since the rent increase would give the developer stable, high revenue, this case’s final profit is not so high. If the economy will keep going up after 2019, the developer should keep owning the property. Furthermore, the luxury service apartment should provide expensive furniture which reduces the profit as well.
Comparing those 2 Vietnamese cases, I believe both cases are attractive for the developers.

### Exhibit 51: Service Apartment Case in Vietnam Cash Flow

<table>
<thead>
<tr>
<th>Year</th>
<th>NCF</th>
<th>Terminal Cap Rate</th>
<th>Prepaid Rent</th>
<th>Vacant Rent</th>
<th>Annual Rent Growth</th>
<th>Prepayment</th>
<th>Rent</th>
<th>Building Area</th>
<th>FAR</th>
<th>GFA</th>
<th>Capital Reserve</th>
<th>Annual Property Price</th>
<th>Land Area</th>
<th>Annual Price Change</th>
<th>High End Condo Price</th>
<th>Total Revenue</th>
<th>Total Profit</th>
</tr>
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<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td>0.05</td>
<td>0.08</td>
<td>0.03</td>
<td>0.30</td>
<td>0.60</td>
<td>2.26</td>
<td>0.90</td>
<td>0.40</td>
<td>0.30</td>
<td>0.30</td>
<td>0.60</td>
<td>0.00</td>
<td>0.70</td>
<td>94,000</td>
<td>14,000</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>0.05</td>
<td>0.08</td>
<td>0.03</td>
<td>0.30</td>
<td>0.60</td>
<td>2.26</td>
<td>0.90</td>
<td>0.40</td>
<td>0.30</td>
<td>0.30</td>
<td>0.60</td>
<td>0.00</td>
<td>0.70</td>
<td>94,000</td>
<td>14,000</td>
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<tr>
<td>2016</td>
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<td></td>
<td>0.05</td>
<td>0.08</td>
<td>0.03</td>
<td>0.30</td>
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<td>2.26</td>
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<td>94,000</td>
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<td>2017</td>
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<td>0.05</td>
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<td>94,000</td>
<td>14,000</td>
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<td>2018</td>
<td></td>
<td></td>
<td>0.05</td>
<td>0.08</td>
<td>0.03</td>
<td>0.30</td>
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<td>2.26</td>
<td>0.90</td>
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<td>0.60</td>
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<td>0.70</td>
<td>94,000</td>
<td>14,000</td>
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<tr>
<td>2019</td>
<td></td>
<td></td>
<td>0.05</td>
<td>0.08</td>
<td>0.03</td>
<td>0.30</td>
<td>0.60</td>
<td>2.26</td>
<td>0.90</td>
<td>0.40</td>
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<td>0.60</td>
<td>0.00</td>
<td>0.70</td>
<td>94,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>

### Vietnamese Service Apartment Project Case Analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Land Price</th>
<th>Total Revenue</th>
<th>Total Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>94,000</td>
<td>14,000</td>
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<tr>
<td>2015</td>
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<tr>
<td>2019</td>
<td>94,000</td>
<td>14,000</td>
<td>14,000</td>
</tr>
</tbody>
</table>

### Vietnamese Service Apartment Project Key Figures

- **Current Year**: 2019
- **Previous Year**: 2018
- **Constant Price**: 2019
- **Terminal Cap Rate**: 0.05
- **Prepaid Rent**: 0.05
- **Vacant Rent**: 0.05
- **Annual Rent Growth**: 0.03
- **Prepayment**: 0.30
- **Rent**: 0.60
- **Building Area**: 2.26
- **FAR**: 0.90
- **GFA**: 0.40
- **Capital Reserve**: 0.30
- **Annual Property Price**: 0.30
- **Land Area**: 0.60
- **Annual Price Change**: 0.00
- **High End Condo Price**: 0.70
- **Total Revenue**: 94,000
- **Total Profit**: 14,000
- **Terminal Cap Rate**: 0.05
5.2. Business Plan

5.2.1. Establishment of an international base company

To expand the business globally, international developer should take an account of establishment of an international company in Singapore or Hong Kong because of the advantage of tax. However, the establishment in Singapore is geographically more favorable in order to expand the business in ASEAN countries including Vietnam. I would like to find the advantages of the establishment in Singapore.

- Access
  It takes just seven and half hours to get the Singapore airport from Tokyo. Also, the Singapore airport has easy access to all ASEAN countries. In this thesis, I suggested only Vietnam among ASEAN countries but if the developers go to other ASEAN countries, the transportation access is helpful for their businesses.

Exhibit 52: ASEAN Map

- Employment
  The global companies hire find English-speakers easily. However, the wage is not cheap as that of other ASEAN countries.

- Tax
  Business tax is just 17% which is almost the same as that of Hong Kong, 16.5%. 30,000 Singapore Dollars is deducted from taxable income. There is no capita gain tax so that the developers can maximize the profits if the company sell the affiliated
companies. In addition, Singapore has tax conventions with about 60 countries, which helps developers avoid charged tax by both countries.

- Culture
  The country is getting international and people in Singapore are familiar with Japanese people/companies. In addition, the developers are able to understand Asian culture and localize the products.

Those advantages help the international developers go to several countries and save costs. Establishment the developer business in Singapore is significant to expand the global business.

5.2.2. Schedule

As I discussed in this chapter, the timing of the projects are important for the success. In Japanese market, the developer should start the small unit apartment project in 2014 and sell the property in 2020, the peak of the Japanese economy. In Hawaii, the vacation rental apartment project is favorable so that the project should be started by 2014 or 2015 and sell the building in 2020. Both high-end condo and service apartment projects in Vietnam are favorable. The condo project should be started by 2015 and sold all units by 2018. The developer should start the service apartment project in 2015 and sell the building in 2019. With those projects, the developer should structure the company and establish the base of the international business in Singapore in 2014 or 2015.

Exhibit 53: Schedule

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<tr>
<td>Small Unit Apartment</td>
<td>Purchase Land</td>
<td>Construction</td>
<td>Lease</td>
<td>Lease</td>
<td>Lease</td>
<td>Lease</td>
<td>Lease/Sell</td>
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<td>Vacation Rental Apartment</td>
<td>Purchase Land</td>
<td>Construction</td>
<td>Lease</td>
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<td>Lease</td>
<td>Lease/Sell</td>
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<tr>
<td>High-End Condo</td>
<td>Purchase Land</td>
<td>Construction</td>
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<td>Lease/Sell</td>
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<td>Singapore</td>
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As the above schedule table shows, the developer should prepare for the finance in the first and second year (2014 & 2015). After 2018, the developer will be starting selling the property and improve the finance balance.
5.3 Recommendations and Conclusions

In this thesis, I found global development business is significant today. Japanese/global developers should look at each market separately with economic, politic, and competency views. The developers can find out the product types that have high feasibilities in each market.

Japan Market

1. International developers should have small unit apartment projects.
2. After 2016, the economy will go up by 2020 when Tokyo Summer Olympics is held. Developers could acquire the development lands at cheaper price in 2016 and expect the property values afterward.
3. The lending volume is increasing. The stable Japanese cap rates and returns attract more developers and investors.
4. The market is shrinking due to the dwindling birth rate and an aging population. More young people are unlikely to purchase housings and more elderly people would purchase the properties without housing loans. Those forces cause small-unit condos/apartments to be more favorable for developers.
5. The market is getting competitive but specializing on small unit condo/apartment is an effective strategy to differentiate from other companies.
6. The case study tells the apartment project is more profitable than the condominium project due to the sales/rent growth.

Hawaii Market

1. International developers should start vacation rental apartment projects.
2. The economy is gradually improving and the property values and rents are expected to be higher with Japanese booming economy. The developer could expect to sell the properties at higher price than original acquisition costs due to the economy growth.
3. The housing cap rate has lower risk than other product types do.
4. More short-term visitors come to Hawaii. The costs of purchasing condo is more reasonable than that of renting condos if the repeat visitors lease the property when they go back to their countries. The vacation apartment rent is higher than regular rent but cheaper than hotel costs. Those factors tells that small condos or vacation rental apartments are attractive for developers.
5. Japanese developers have not gotten into this market and therefore they can find the business opportunities to compete local businesses.
6. The vacation rental project gives more profits than the condo project because of the economic growth and the high rent.
Vietnam Market

1. International developers should have high-end condo and service apartment projects with local developers.
2. The economy and population is increasing and more international families come to Vietnam. The developers could expect capital gains when they sell the properties. In addition, the policies and real estate laws are changing to welcome more foreign property owners and developers.
3. The capital inflow has been increasing after the economic issues are being eased.
4. Increasing property prices and rents also help developers to earn higher profits. In addition, if the developers target on international visitors, the profit would be higher. High-end condos and service apartments for international people are favorable for developers.
5. The market is becoming competitive but foreign developers can start developments with local companies.
6. Both high-end condo and service apartment projects are profitable because the economy is growing and the sales price and rent are increasing as well.

Those markets are attractive for Japanese/global developers and the Singapore base helps the business understand local markets and save the costs. The recommendations in each region might be needed to change when the economic situation changes. However, the strategies above are effective to build up the international development models.

This thesis gave me the opportunities to not only learn international real estate markets but also to develop what I have learned at MIT Master of Science in Real Estate Development. International Housing Economics and Finance by Dr. Albert Saiz gives me the insights to find out demand/supply, marketing, and issues that developers should concern. The measurements I learned from this class are contents in this thesis to see the development opportunities. Finance & Investments class by Dr. David Geltner leads me to analyze development feasibilities. Using the analysis, I develop the case studies in this thesis. The items such as tax and sales/rent growth rate are different in each region. However, the analysis is useful to calculate the profits even though the region or product type is different.

The economic situations are changing and each development site has different potential. Also there are other countries which expand the market scale: Indonesia, Malaysia, and India. However, I believe the strategy development in this thesis can be applied to any cases. Therefore, this thesis would be hopefully useful to study the market changes and find new strategies for international developers.
## APPENDIX

### Actual Lands for Sale in Chofu, Japan

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<thead>
<tr>
<th></th>
<th>price</th>
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<th>price/sqm</th>
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</thead>
<tbody>
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**Average Rent**: 21.43539
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