

**“THE VALUATION OF PROFIT GENERATING STRATEGY
BY IMPLEMENTING SUSTAINABILITY AND DIVERSITY
–THE CASE STUDY OF A RESORT HOTEL UNDER THE
BOOMING MARKET“**

**KEY WORDS: SUSTAINABILITY, DIVERSITY, SOLAR,
DESALINATION, OKINAWA, ENVIRONMENTAL
VALUATION**



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DURING JAPAN'S GROWTH, TWO ENTREPRENEURS DISCUSSED

Konosuke Matsushita



Most vendors (OEM) complained about Matsushita
They are squeezing us!

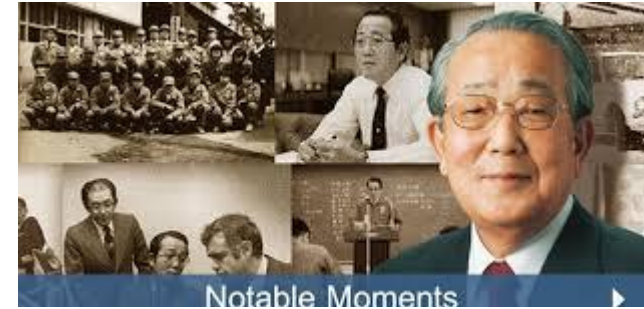
HARSH SEVERE REQUEST FROM MATSUSHITA



Only Kyocera Inamori said
“You decide the price, we accept it, but once you've made the price, no more reduction even how much profit we get!!”

Panasonic®

Kazuo Inamori



**Kyocera can make our production
profitable by creative and
innovative approach!**

**UNDER REAL
ESTATE
DEVELOPMENT
CONTEXT??**



WHAT IF THE LAND VALUE AND CONSTRUCTION COSTS ARE ALREADY VERY HIGH.....?



Workers,
Materials,

Revenue



YOU MAY THINK OF REDUCING COST TO BEAR PROFIT.....?



LAND VALUE TRANSITION

Miyako Island, Average Sales Price Transition

- Major markets had suffered **recessions**. (2008)
- The recovery and **another booming** economy.
- Property **appreciation** trend has remained active.
- Investors appetite
- How to **secure the profit** under the current status-quo.
- **Sustainability and diversity** have been the business trends
- Growth strategies would no more be feasible within the capitalism framework.
- Scheme in which investors can seek the **better return**,
- even under **harsh competition** in profitability.
- Sustainability is delivered from the **new energy** technologies.
- Co-existence of growth, Environmental protection, Improved the eco-systems
- Sustainable approach in **cost management**
- Okinawa real estate market has been quite booming.
- Thus it is now getting close to the pre-Lehman period.

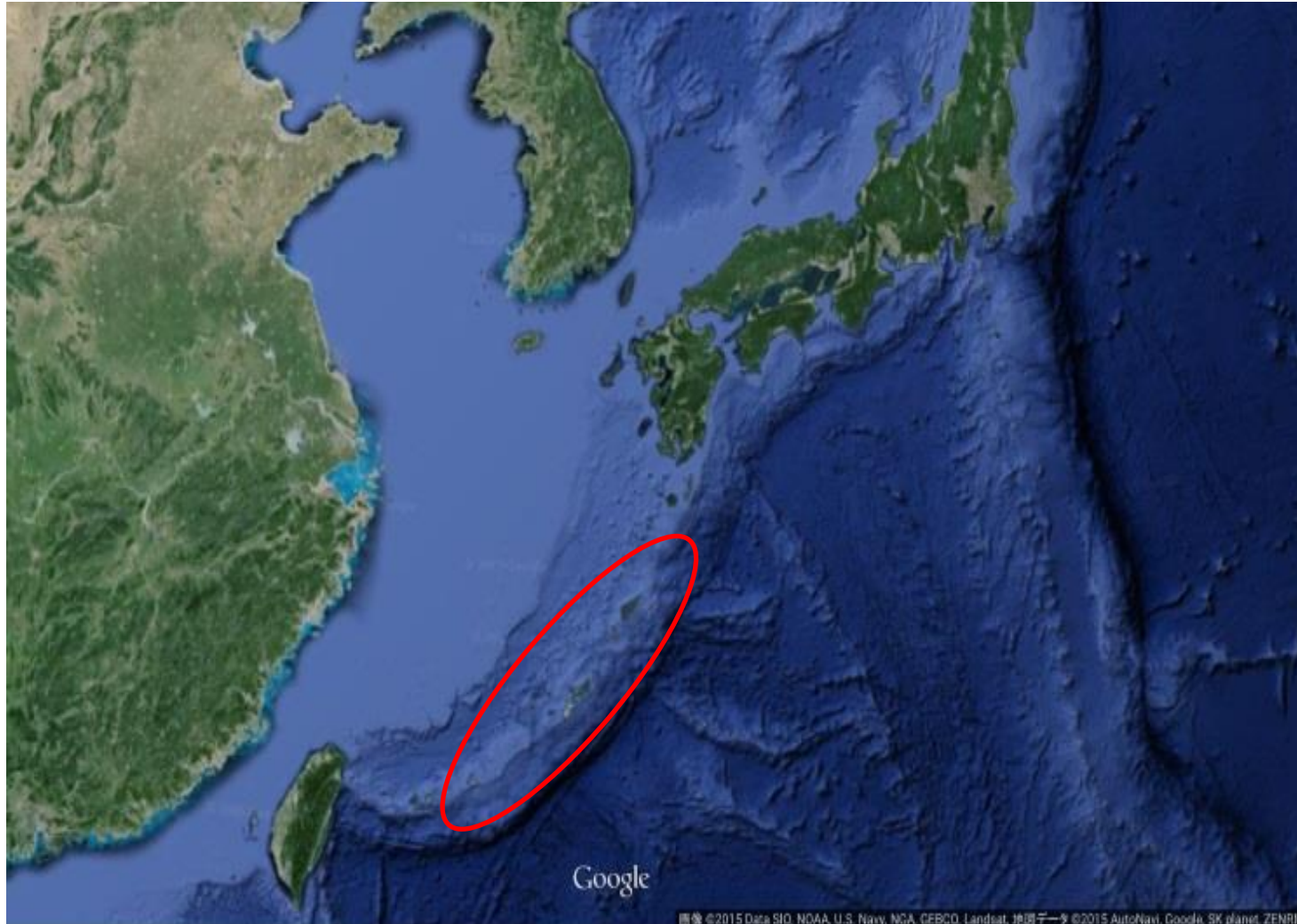


TOURISM IS THE TOP INDUSTRY TO BE GROWN

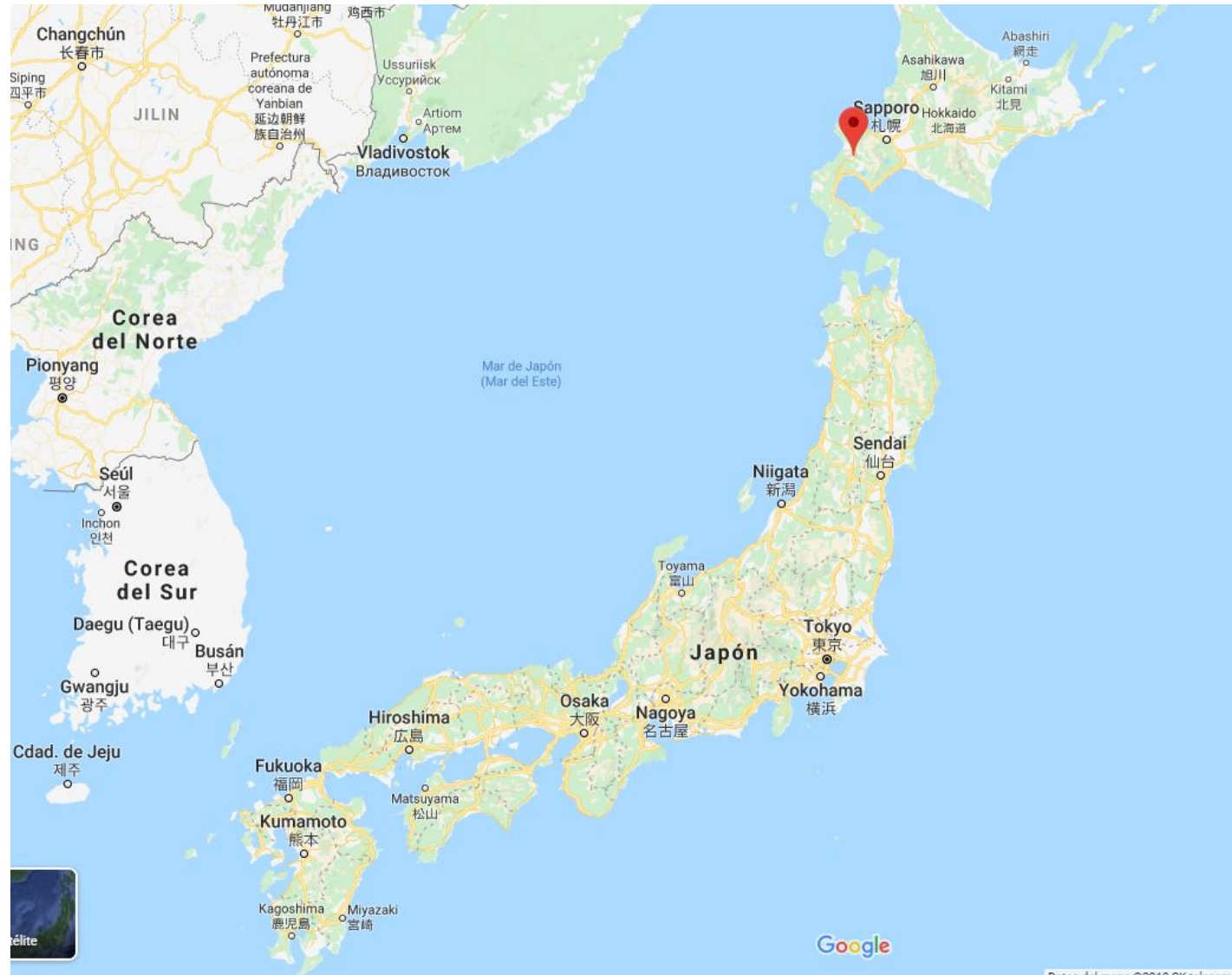
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WHAT IS BUBBLE, THE BOOMING MARKET?

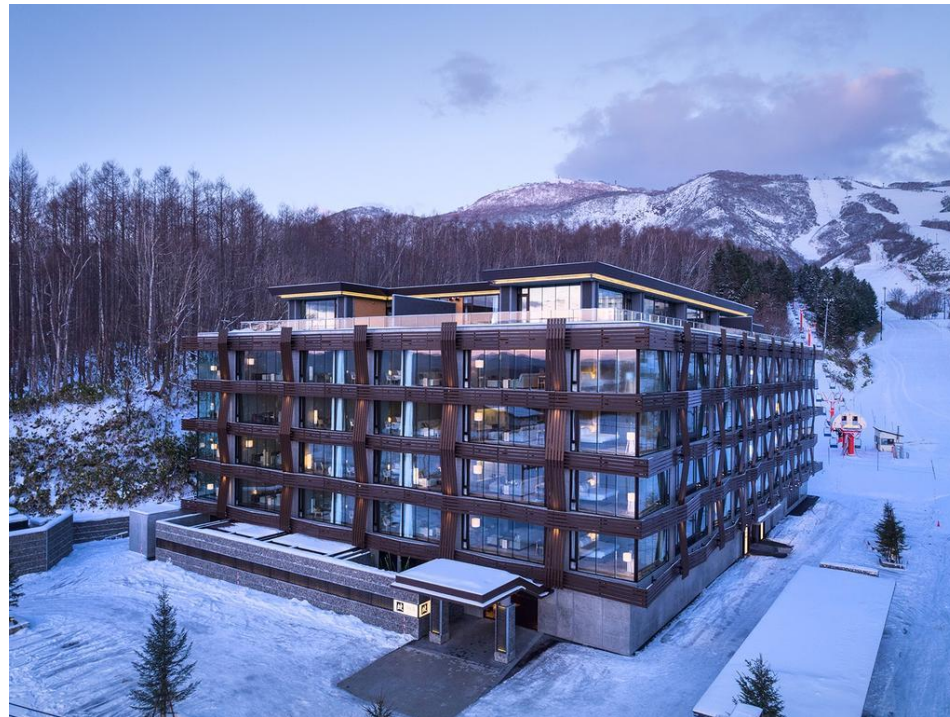
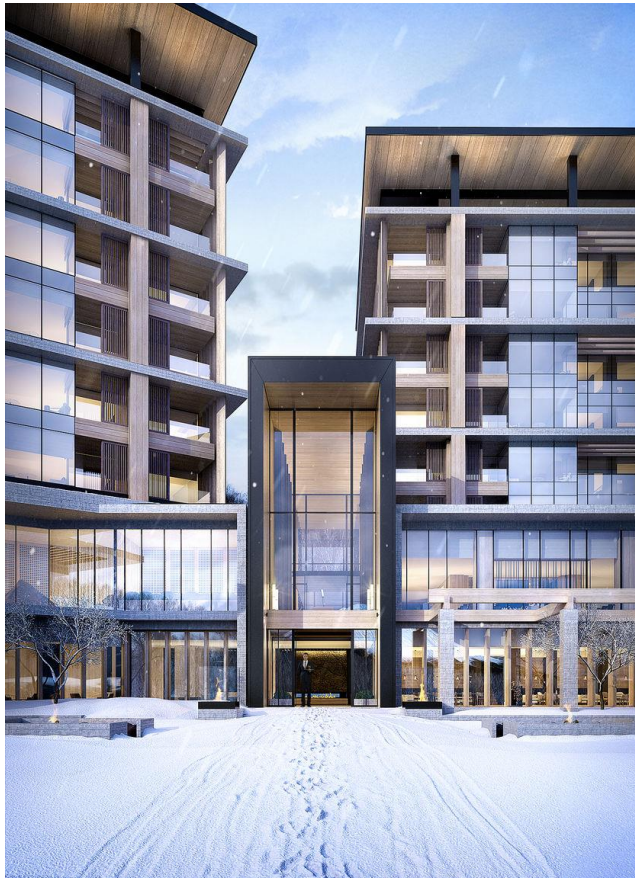


NORTH PART OF JAPAN?



TOURISM IS THE TOP INDUSTRY TO BE GROWN

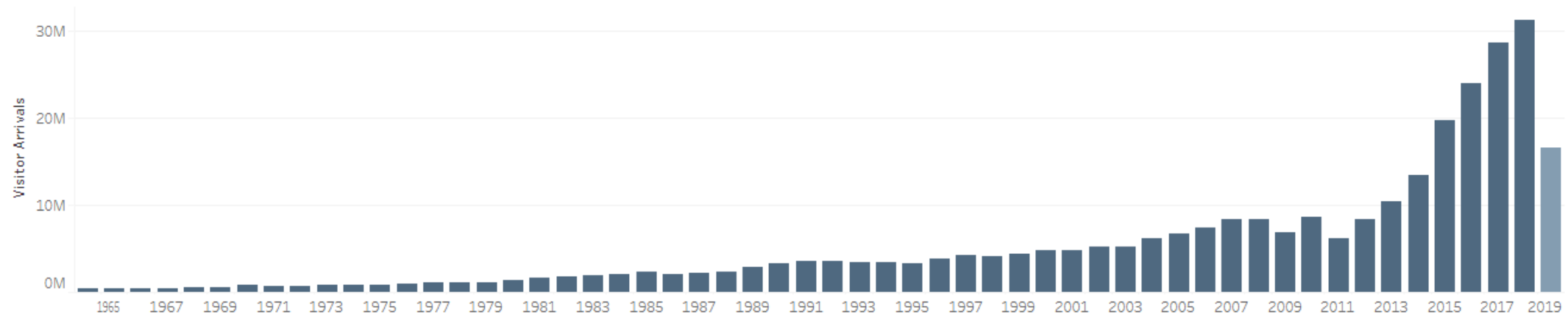
<https://www.youtube.com/watch?v=QtxhK-GNNRk>



INBOUND TOURISM BOOM

© JAPAN NATIONAL TOURISM ORGANIZATION

Trends in the Visitor Arrivals to Japan by Year



Last Update:6/10/2019 16:45:19

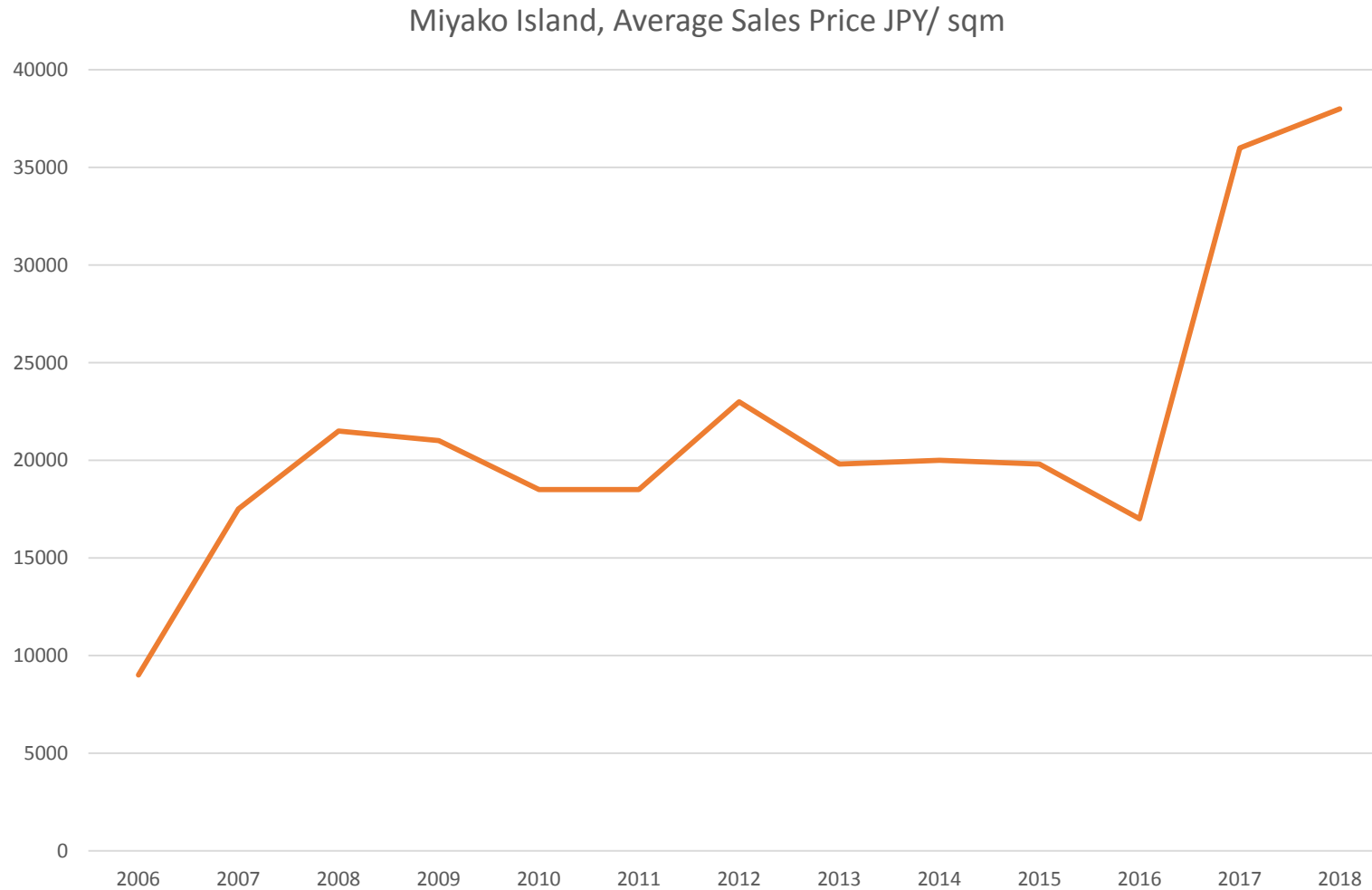
- ◆ Visitor Arrivals to Japan are calculated based on the numbers of travelers of foreign nationality entering Japan provided by the Ministry of Justice. Those figures exclude permanent residents having Japan as their primary place of residence and include travelers entering Japan for the purpose of transit. Foreigners entering or re-entering Japan, such as expatriates and their families, and international students are included in Visitor Arrivals to Japan. Crew members are excluded.
- ◆ Figures for Tourists post 2007 includes Visitors in Transit. Visitors in Transit from countries that do not require visas for short term stays were previously included in Tourists, and could not be separately distinguished from Visitors in Transit. Additionally, as a result of exception of visas from countries such as South Korea, Taiwan, and Hong Kong, the number of Visitors in Transit decreased dramatically, since they were counted as Tourists. Although the length of stay of the Visitors in Transit are short, their actions are similar to the Tourists; hence the figures of Visitors in Transit are included Tourists after 2007.
- ◆ Figures for 1964 - 2017 are definitive, January 2018 - June 2019 are provisional.

Source: Japan National Tourism Organization (JNTO)



LAND VALUE TRANSITION

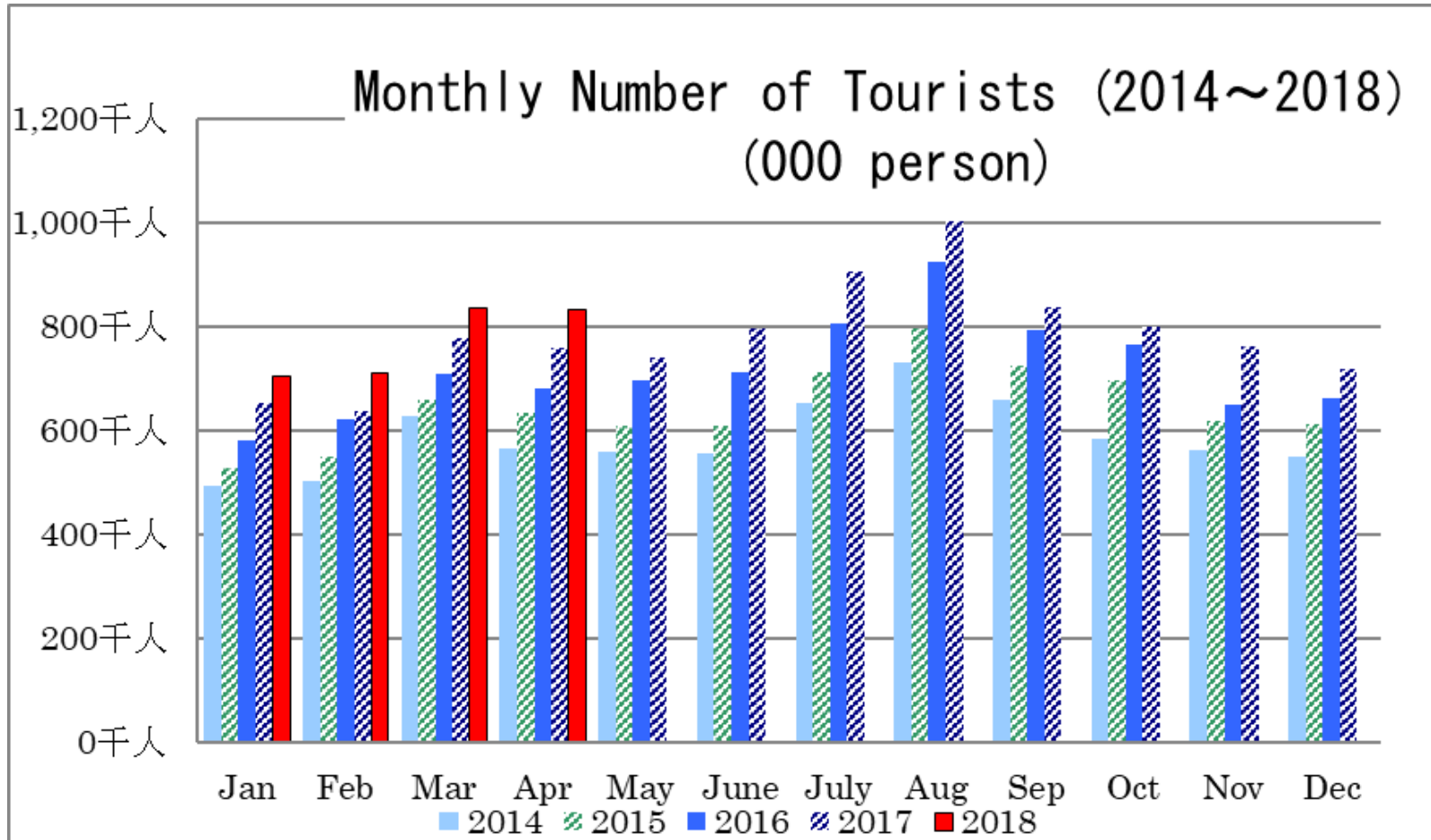
Miyako Island, Average Sales Price Transition



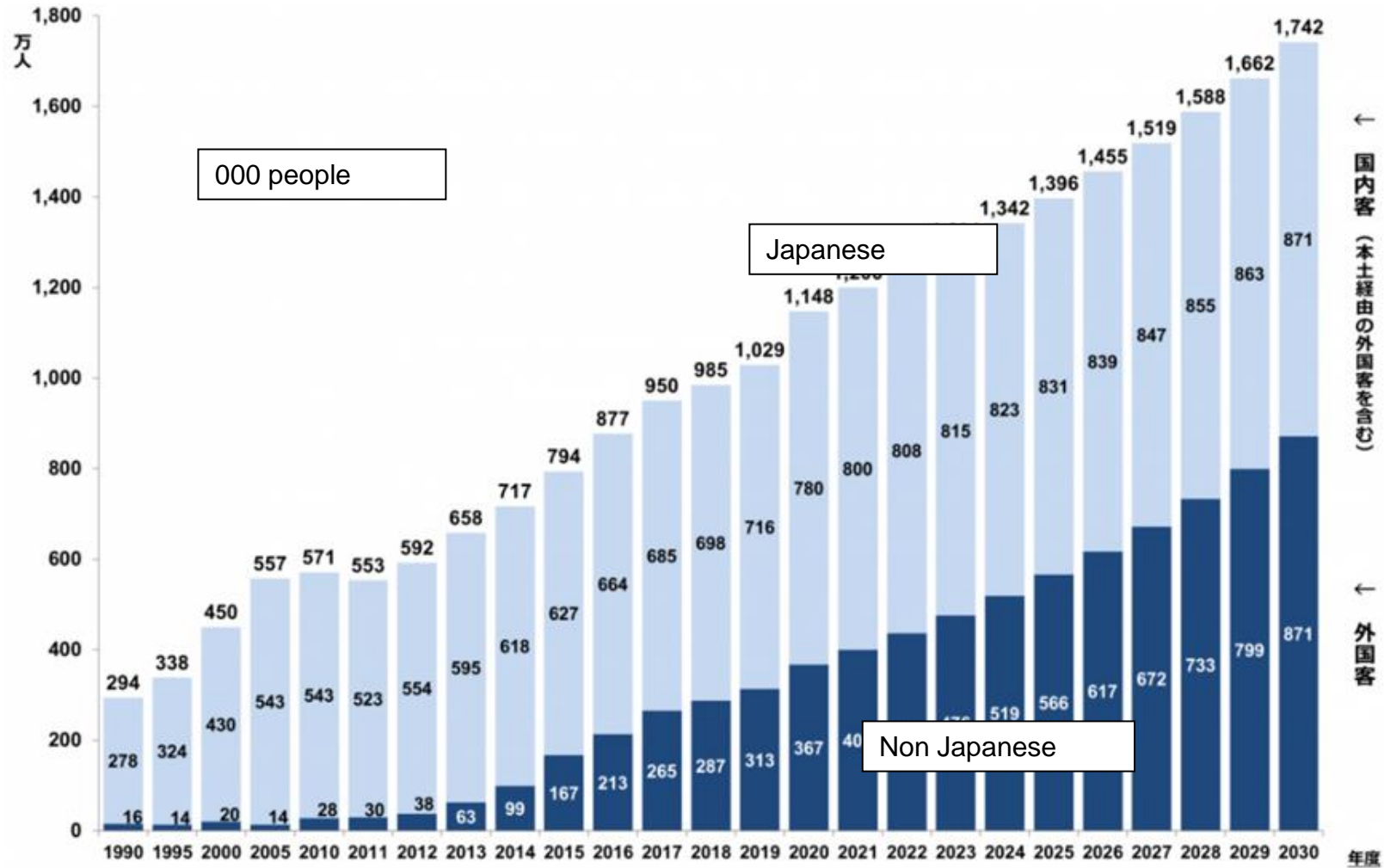
WHAT IS BUBBLE, THE BOOMING MARKET?

	IRABU MIYAKO 宮古島 伊良部 本件土地	NISECO HOKKAIDO 北海道
Boom start	2017	Mid 1990's (1st) 2004 (2nd)
Infrastructure	Re-developed Airport in the Irabu island LCC Jetstar(JAL)	2 hours by car from Sapporo, Train station
Land Value	5times, for 2yrs (40 →200)	20 times for 15 yrs, (15→290) 88% increase p.a (commercial)
Strength	Pristine Ocean	Powder Snow attracting Australian visitors
Weaknesses	Soft environment, e.g English signages	Seasonal volatility

MONTHLY NUMBER OF TOURIST OKINAWA



INCREASING NUMBER OF INBOUND TOURISTS



ABRILS

THE SUSTAINABLE APPROACH IN COST CUTTING

Electricity: Solar Energy

Regarding the solar power generation, its penetration ratio in Japan has still been low,

As the battery charging system improves, more and more electricity using solar power systems would be used for industrial facilities.

Actually, the “Huis Ten Bosch”, one of the five star hotels located in

Southern part of Japan has realized non-utility generator by implementing the hybrid of solar power and hydrogen energy.

They have been using this system in a part of the large scale of facility

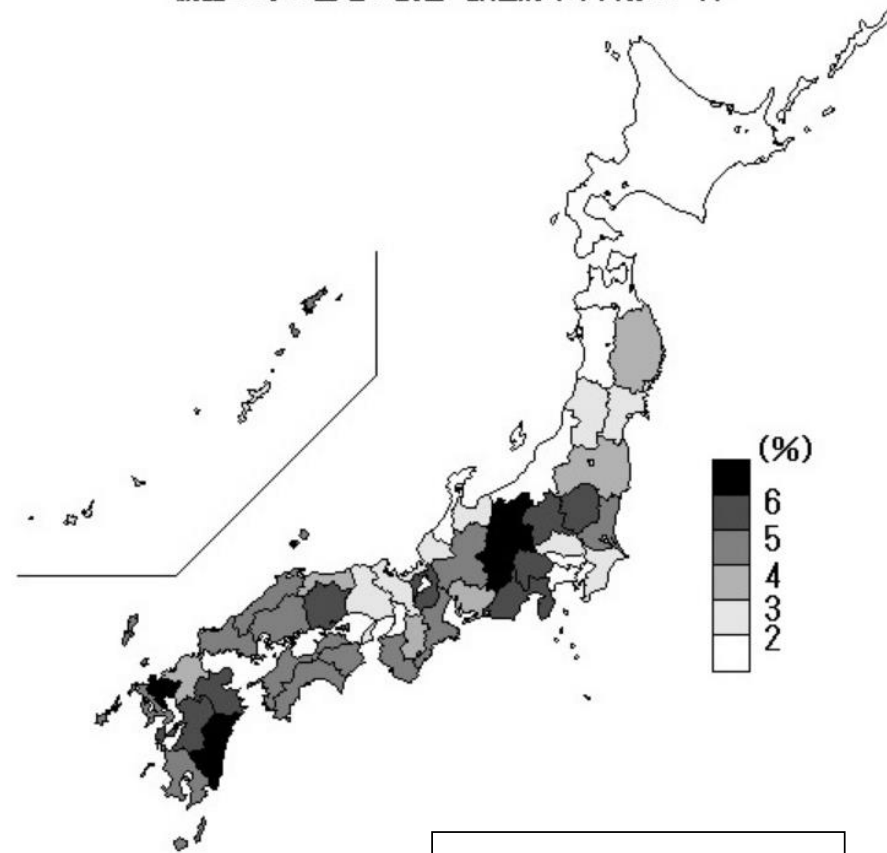
However, this would be seen as the prototype of renewable energy introduction for full service, high end hotels.

The average installation cost in Okinawa is 260 USD/ Kw and 50-100% energy cost can be saved in running cost.



THE SUSTAINABLE APPROACH IN COST CUTTING

The penetration of Solar Power Generation for household by prefecture



Source: Statistic of Japan

THE SUSTAINABLE APPROACH IN COST CUTTING

Water Supply: Seawater Desalination System

In Okinawa, due to its geographic feature, constant lack of water supply has been the issue in entire prefecture.



Some local manufacturing company have been releasing the solution; the seawater desalinations system.

Source.Sasakura

this machine has been used on ship services, seaside farming, and industrial use for middle to small businesses.

The cost for machinery is 6,000 to 10,000 USD,

So far, this has been appreciated in Hawaii, Bali, and other countries where good ocean resorts have been developed.

When it comes to the water cost to be charged, the fee in Miyako, the case subject is located

is **three times higher than that of Tokyo.**

Therefore, the effort of cost saving is worth analyzing. In this case study, taking into account the **maximum water cost saving is set out 50%**, taking into account the limitation of as-is technology.



THE SUSTAINABLE APPROACH IN COST CUTTING

Desalination machine specification

■Product Specs

Frame Size	W1,200 × D550 × H665 mm
Weight	108 kg
Water Purification Amount	Sea Water 230~250ℓ/H Sweetwater 460~500ℓ/H
Power Use	Single phase 220V / 3-phase 220V (2.57kW 12.2A)
Continuous operation	15 Hour



THE SUSTAINABLE APPROACH IN COST CUTTING

Waste Disposal: advanced technologies in incinerator
How **to dispose garbage** has been a concern in an economy of small island.

Different from city central location in a continent, setting up an appropriate disposal facility is not an easy task.



Furthermore, industrial waste and transport of reusable materials always require **high shipping costs**.

Large installation cost should be avoided.

To solve those issues, in Okinawa, local companies have invented **suitable incinerators** and providing them local societies.

Especially, now a days, by those new technologies, using the heat energy issued from combustions process, **water heating** or energy production have been promoted.

THE DIVERSITY ANALYSIS IN COST CUTTING

Generally speaking, the diversity under the business context is defined as follows:

“The "business case for diversity" stems from the progression of the models of **diversity within the workplace** since the 1960s.

The original model for diversity was situated around affirmative action drawing strength from the law and a need to comply with **equal opportunity employment** objectives.

This compliance-based model gave rise to the idea that tokenism was the reason an individual was hired into a company when **they differed from the dominant group.** : >>>> **Non Japanese**

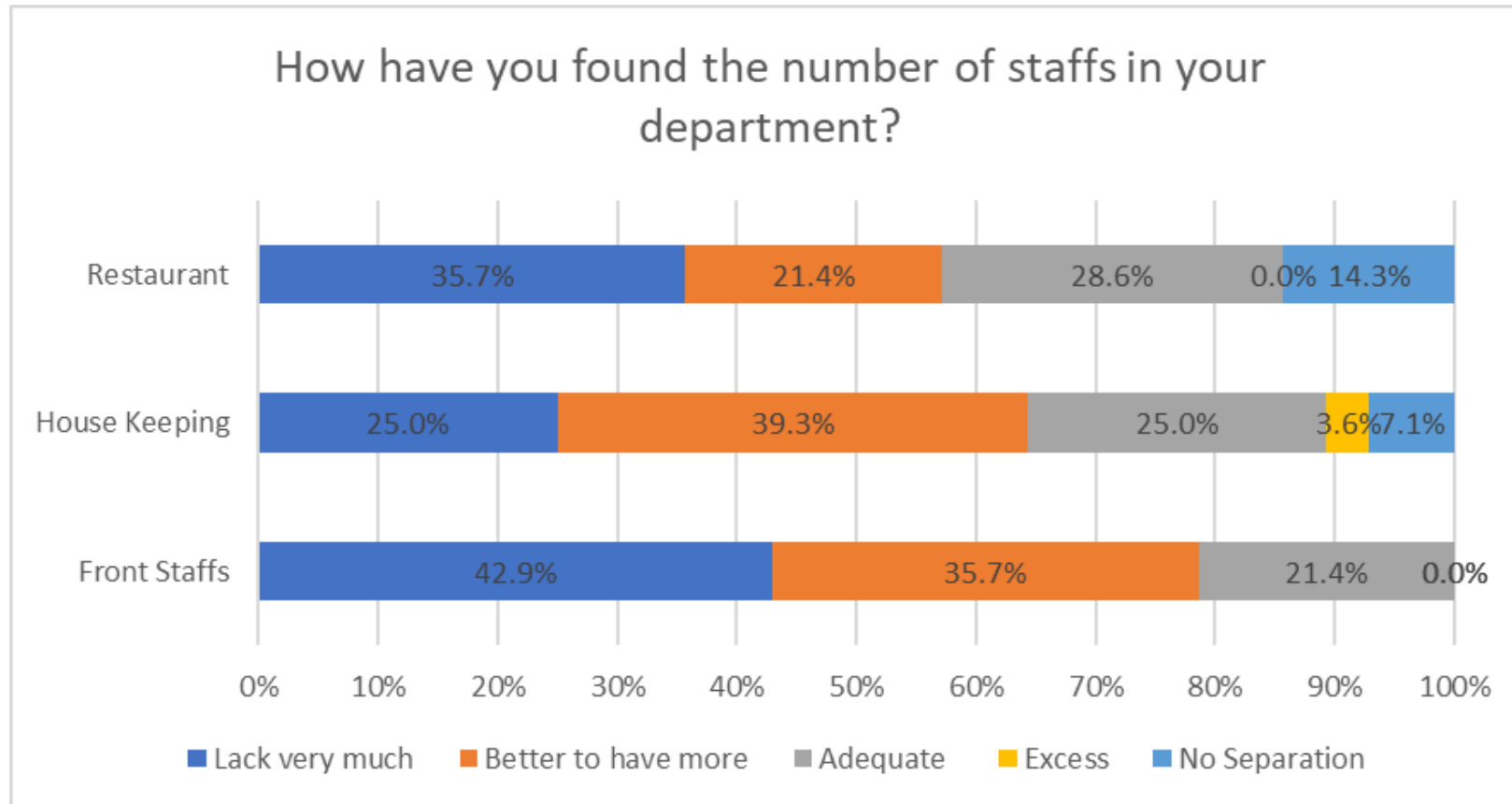
In case of Okinawa tourism, the diversity has been keenly discussed in **human resource** development.

Namely, the **lack of staffs** has been one of the serious issues to be solved in Okinawa.

Majority of resort hotels have been feeling the lack of staffs and **house-keeping, restaurant kitchens, service staffs** are major sections where people want to have immediate support.



THE DIVERSITY ANALYSIS IN COST CUTTING



(Source: “The Research on lack of human resources among hotels in Okinawa”(2016.11), Okinawa Industry Promotional Funds)

CASE DESCRIPTION



CASE DESCRIPTION



CASE DESCRIPTION



CASE DESCRIPTION



CASE DESCRIPTION HOTEL PLAN

Number of Rooms	65
ADR USD	818
Occupancy	78%
Room Revenue USD	15,140,864
F&B Revenue USD	6,835,388
Residential Revenue USD	403,200
Total Revenue	22,379,452



CASE DESCRIPTION

The Assumptions:

- 1 The valuation approach to be used is the **direct capitalization** approach.
- 2 Analysis has to be done for **Hotel profitability**, despite of the possibility of leasing and arranging the Management Contract.
- 3 Thus the case assuming that the **hotel operator invests, holds and operates** from the beginning to the exit.
- 4 **Other cost** structure than identified items are **constant**.
- 5 The sales mainly come from **room** plus Food and Beverage(**F&B**).
- 6 Taking into account the market trend, five-star hotel is developed, **average ADR is 820 USD, and occupancy is 78%**

CASE DESCRIPTION PESSIMISTIC SENARIO

Default Case, Pessimistic Senario		
25.60%	COGS	5,729,140
74.40%	Gross Margin	16,650,312
32.80%	Labor Cost	7,340,460
9.20%	Operational Expense	2,058,910
21.40%	Admin Cost	4,789,203
5.10%	Utility	1,141,352
63.40%	Total Expense	14,188,572
	Gross Operational Profit	2,461,740
Profit/ total revenue	GOP	11.0%
Profit/ total investment: land+building	GOP Cap	5.39%

Breakdown of hotel major expense items, (2015), Japan Ryokan Association
 "Statistics of business administration in 2016", Japan Ryokan Association,



CASE DESCRIPTION MODERATE SCENARIO

	Moderate Senario	
25.60%	COGS	5,729,140
74.40%	Gross Margine	16,650,312
22.96%	Labor Cost	5,138,322
9.20%	Operational Expense	2,058,910
18.85%	Admi Cost	4,218,527
2.55%	Utitily	570,676
51.01%	Total Expense	11,415,758
	Gross OperationalProfit	5,234,554
	GOP	23.4%
	GOP Cap	11.47%

CASE DESCRIPTION OPTIMISTIC SCENARIO

	Optimistic Scenario	
25.60%	COGS	5,729,140
74.40%	Gross Margin	16,650,312
16.40%	Labor Cost	3,670,230
9.20%	Operational Expense	2,058,910
22.93%	Admin Cost	5,131,608
1.53%	Utility	342,406
48.53%	Total Expense	10,860,748
	Gross Operational Profit	5,789,564
	GOP	25.9%
	GOP Cap	12.68%



CASE DESCRIPTION RESULT

By implementing sustainability and diversity, **the GOP has been doubled** and investment return is expected to be **above ten percent**.

Now a days, “**as-is**” market condition is booming and the approach prevailing in the market would **not support the clients' needs**.

Therefore, this kind of analysis definitely **helps** those who are seeking the **feasible business plans** under the market booming phase.

Under the pessimistic case, the net profit come from the hotel operation remains low.

However, once players started introducing the concepts of **sustainability and diversity**, they would be able to realize the good profit return, comparing to other investment products.



DISCUSSIONS AND CRITICS

Time-lag necessary for expecting the constant record of the benefits from the system: obviously, the solar power generation system, sea water desalination system, eco-cinerators system are quite innovative and have still **been under the improvement.**

Once the performance has been stabilized and the results get **less volatile**, the actual commercial implementation can be discussed.

Therefore, in a meanwhile, this research can be taken as the simulation for **Bata case.**



DISCUSSIONS AND CRITICS

Sales drivers and the expense reduction of cost of goods sold.

This research simply referred the data provided by the non-profit organization and most of the figures are **standardized numbers**.

However, still the **gross margin** come from the **growth in the sales** as well as the **reduced cost of goods sold**.

In the service industry like hotel, COGS has been considered the **materials** to be used for **generating room revenue and F&B sales**.

Daily, **constant and accumulated efforts** would be much effective than cost reductions discussed in this paper.

Therefore, **educating staffs** and carefully reviewing the **procurement processes** should be followed together with the environmental conscious attitude.



DISCUSSIONS AND CRITICS

Other assumptions to be considered.

Needless to say, there are many **environmental risks** and influences to be considered.



For instance, the risk of **natural disaster** has been the top of the concerns.

Actually, after the **Tohoku earthquake in 2011**, Japan tourism had been severely damaged for a couple of years.



As the society recovered, **the inbound tourists came back**.

However there were considerable numbers of hotels who could not survive.

Good preparation for unexpected sales downturn

On the other hand, saving the energy cost and HR cost would definitely help the service industry under the case of contingency like long-lasting recession.



DISCUSSIONS AND CRITICS

Improvements in the construction costs:
skyrocketing construction cost has been the root cause for potential investors to remain **reluctant to promote** newly development even by taking risks.

The background of it is the **lack of skilled construction workers** and increasing **material costs**.

Some general construction companies have been working on **training Asian workers** and **importing less costly materials** from Asian countries.

Those attitudes may be **pragmatic solutions** for the current construction environment.



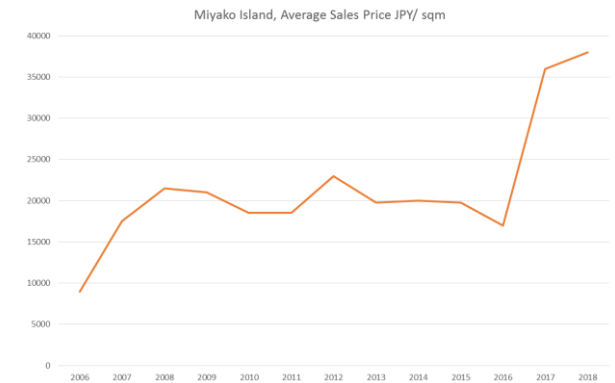
DISCUSSIONS AND CRITICS

Return ratio: in this paper, to make the analysis simple, direct capitalization approach has been used for the simulation.

DCF analysis or simple cash flow analysis would also work to figure out **the sensitivity of cost structural** change against the financial results.

Capital gain come from the land: the capital gain that investors can expect from the land value appreciation has not been considered under the direct capitalization.

However, as demonstrated in Niseco case, as the **community gets matured**, more and more tourists would come to the island and the tourism would be further promoted, resulting in **large percentage of capital value increase**. If the investor would like to reflect such speculative expectation, under the analysis, valuers and consultants can provide such **bench marks** referring one of the scenario analysis.



DISCUSSIONS AND CRITICS

The **reputation** come from the **sustainable and diversified strategies**:

this is **not measurable**, however, sustainable strategy would contribute to motivate employees and largely impact on the cost structure.

Moreover, putting **diversity as the HR** strategy also works to recruit talented and competent staffs from the global field.

Therefore, even though the economic effects are unmeasurable, operating with those two missions would gradually benefit to increase the corporate intangible value.



DISCUSSIONS AND CRITICS

Government subsidized support: In Okinawa, there are several programs for middle to small businesses to promote the eco-activities.

If the investors use some of those programs, **60-70 percent of the initial investment** would be paid by those schemes.

This would also improve the **financial figures** under the implementations of sustainable and diversified policies.

Financial possibilities: **sustainability and diversity** are two more important things that financial institutions want to promote.

Therefore, businesses that educate local people in terms of those principle implementation would help in their operational activities like facilitation of finance.



DISCUSSIONS AND CRITICS

Case analysis would contribute to develop **more accurate and relevant projection** of the future revenue and expense structures.

CONCLUSION

- 1) Under the booming economy, it's really **hard to decide the new investment.**
- 2) Analysis on the future profitability by **changing the cost structure** provides investors with indication of the value of their investments
- 3) Investments definitely bring some effect and profitability would be **pushed up to around over 10% from 5%**, the average in the real estate investment market under the current environment.

CONCLUSION

- 4) **Solar power usage and HR cost reductions** are two more important and most-impacting areas to drive the healthy business operation.
- 5) The reduced expense is the first and direct impact on the cost figures under the operation and the second, much profound impact comes from those development which have clear **concepts or at least follows the global business themes.**
- 6) Business growth may be achieved through such careful and professional analysis on how to **make hotel business feasible.**



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OUR RESEARCH AND STUDY

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検索

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HOME About our company Mission Service Founer's Background

Our Values

English

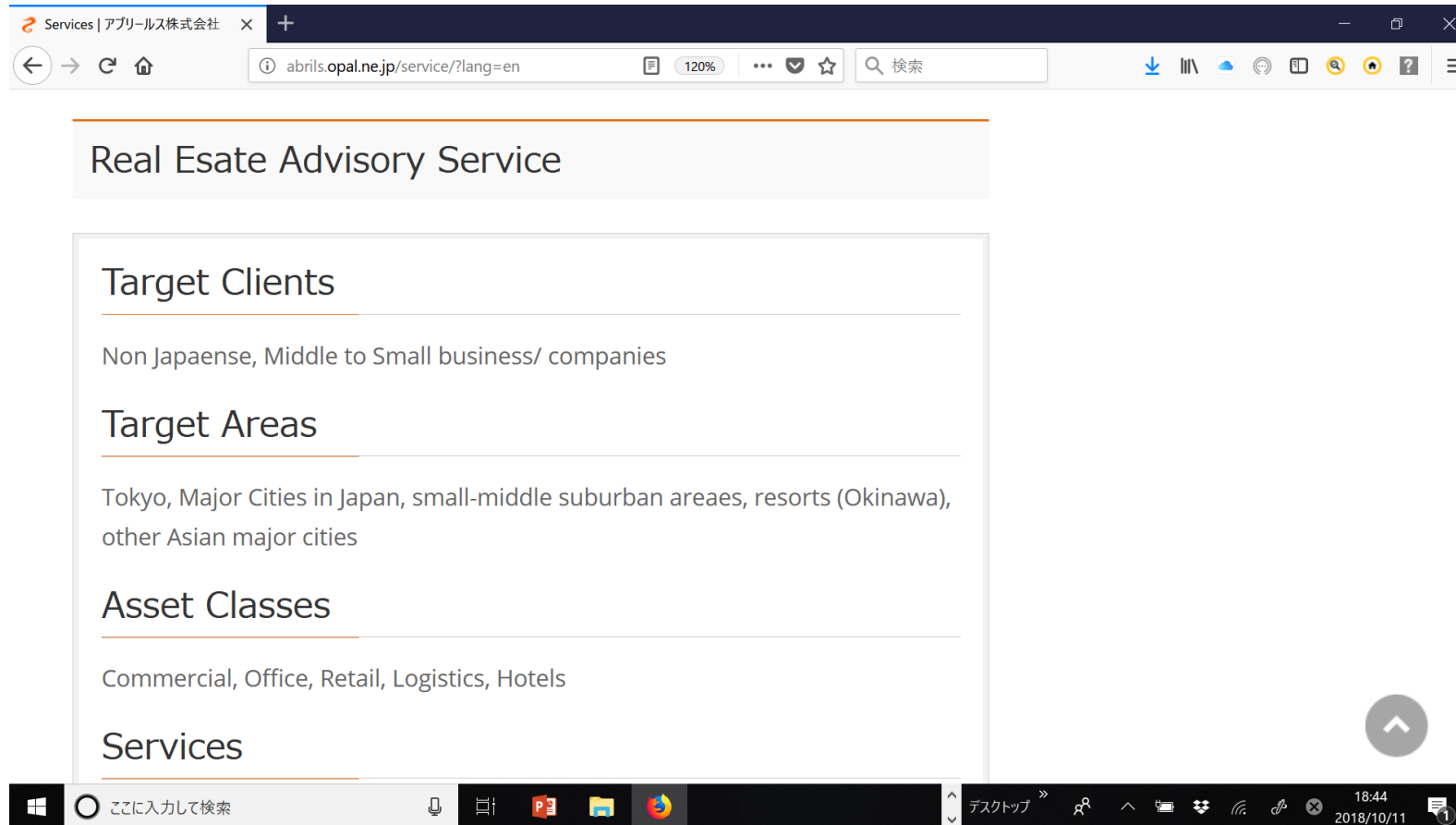
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デスクトップ

18:42
2018/10/11



OUR RESEARCH AND STUDY



The screenshot displays a web browser window with the following content:

- Browser Tab:** Services | アブリーズ株式会社
- Address Bar:** abrils.opal.ne.jp/service/?lang=en
- Page Title:** Real Estate Advisory Service
- Section 1:** Target Clients
 - Non Japanese, Middle to Small business/ companies
- Section 2:** Target Areas
 - Tokyo, Major Cities in Japan, small-middle suburban areas, resorts (Okinawa), other Asian major cities
- Section 3:** Asset Classes
 - Commercial, Office, Retail, Logistics, Hotels
- Section 4:** Services

The browser's taskbar at the bottom shows the Windows logo, a search bar with the text 'ここに入力して検索', and several application icons including PowerPoint, File Explorer, and Chrome. The system tray on the right indicates the time as 18:44 and the date as 2018/10/11.



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- Managing Director, ABRILS,Co.Ltd, a global real estate consulting firm
- <http://abrils.opal.ne.jp/>
- Asia Commercial Property Professional Group Board, MRICS. Strong career in Valuation, Research and Consulting.
- Joined Bear Sterns (2007) to deal with CMBS transactions, then German real estate banks: Eurohypo (2007–2009), WesstLB Group (2009–2013) to act as an internal consultant. Her strength covers various commercial asset classes including hotels and shopping malls, and she also has wide network in Europe, Asia, South and North America.
- Since 2013, based on Okinawa, Japan's most famous ocean resort destination, she supported a global energy group (Petrobras) to create the dynamism linking real estate field and the energy industry.
- Since 2015, she's been supporting the global hotel consulting business, Asset Real as a partner in Japan, <http://www.assetreal.net/>
- She has also been working for developing natural disaster risk management standard with other RICS members.
- Language: Japanese, English, Italian, Portuguese



Q & A



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