

Working With Japanese Investors: A View From the Inside

by Diana Lomont

Until recently, Hawaii has been the nation's leader in the dollar amount of properties owned or developed by Japanese investors. While there have been spatterings of investments made by residents of Australia,



Linda Gee: The Japanese value a property from the streetline in.

New Zealand, Canada and Hong Kong, the majority of foreign investors in Hawaii is by far the Japanese.

This growing number of foreign players in the real estate field has expanded Hawaii's building management industry significantly. Has it also required property managers to learn new game rules when managing foreign-owned properties? *BMH* asked several building management professionals to share their thoughts on this question.

Linda Gee, district manager of Grubb & Ellis Co.'s Property Management Division, finds a reverse situation. "I think nationally what we're finding is that the Japanese are adapting to the American system more so than the Americans are adapting to the Japanese system of management, as well as of conducting business in general," she said.

Communication: Getting the Message Straight

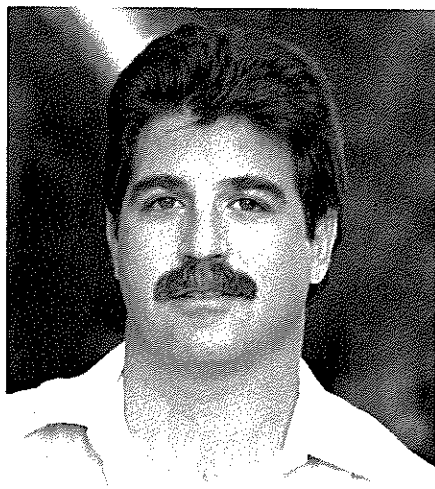
There are some inherent problems when dealing with any foreign inves-

tor. Communication is the most immediate challenge. And in building management as in any business, effective communication is extremely important. It may not be enough to send letters to Japanese owners in Japan to ask them to select people to serve on a board of directors. They may not comprehend the necessity for an association to receive a majority of proxies to elect its board.

Norb Buelsing, executive vice president of Chaney, Brooks & Co., said his company has had difficulty securing proxies from Japanese condominium owners. Cover letters explaining the importance of their participation and follow-up phone calls have not solved the problem.

"They're no different than many Mainland owners who don't fully comprehend the condominium structure - what it is and how it works," said Buelsing. "It'll be a while, but I'm sure they will grasp it and they will participate."

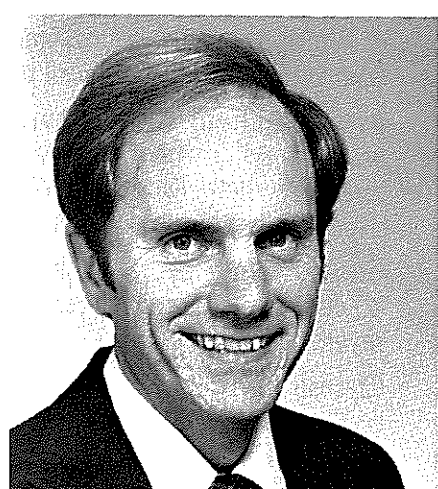
Richard Port, president of the Yacht Harbor Towers owners' asso-



Bruce Dinman: "If you can make them understand what your problem is, they usually will cooperate in addressing it."



Joyce Neeley: Local residents' suspicions of Japanese will pass as more Japanese investors improve properties for the benefit of all.



Norb Buelsing: Japanese may be buying condominium units to occupy during retirement.

A Listing of Japanese-Owned Properties

Asahi Jyukun

Turtle Bay Hilton & Country Club

Azabu USA

Ala Moana Americana Hotel
Hyatt Regency Waikiki
Keauhou Beach Hotel
King's Village
Kona Lagoon Hotel
Maui Marriott Resort
Waikiki Beachcomber

Halekulani Corp.

Amfac Center
Halekulani Hotel
Waikiki Parc Hotel

Hasegawa Komuten

444 Naha Condominium
Kaanapali Shores Resort
Kauai Hilton
Kauai Beach Villas
Kona By The Sea
Liliuokalani Gardens

Haseko Hawaii Inc.

Island Colony

Hawaii Kai Kikuei Ltd.

Hawaii Kai Shopping Center

HHC Investments Ltd.

Koko Marina Center

Jowa Hawaii

Ilikai Hotel

Kenji-Osano

Royal Hawaiian Hotel
Sheraton Maui Hotel
Sheraton Waikiki

Kokusai Kogyo Co.

Moana Hotel
Princess Kaiulani Hotel
Surfrider Hotels

Matsuzato Hawaii Inc.

Queen Kapiolani Hotel

Mauna Lani Resort Inc.

Mauna Lani Bay Hotel
Mauna Lani Terrace

Obhayashi Gumi Ltd.

Sheraton Kauai Hotel

Otake Inc.

Hawaiian Regent Hotel
Holiday Inn, Waikiki
Keauhou-Kona Golf Course
Kona Surf Resort
Makanikai Hotel

Seibu Group

Maui Prince Hotel

Seibu Railway Co.

Westin Mauna Kea Hotel

ciation, said the association has had trouble getting the necessary votes from Japanese owners to approve changes to the bylaws or physical improvements to the property.

"It's been one of our biggest problems," related Port. "Since we need 65 percent of the owners' votes to get approval, that represents a significant number of foreign investors that we need to get a response from."

Recently, the association resorted to translating all the documents related to eight bylaw amendments. Enough foreign owners finally signed approval forms to enact the amendments.

Chaney, Brooks has several people on staff who speak Japanese, said Buelsing. These employees serve as conduits for communicating to Japanese property owners. The Japanese owners know who they can talk to whenever they need to communicate something.

But Buelsing noted that translation alone is not always enough. The details of a 50-page lease can be lost in the translation. That's why Chaney, Brooks recommends that all foreign owners have local legal representation. "So they have an attorney looking out for their interests as well as making recommendations," Buelsing said.

The law firm of Dinman, Nakamura, Elisha, Nakatani & Neeley represents "a fair number" of condominium associations with Japanese owners. Principal Bruce Dinman said his firm has had some problems with collections. But these are usually due to logistical difficulties caused by sending correspondence through agents or by mail getting lost.

"If you can communicate with them, the Japanese are really pretty easy to deal with," said Dinman. "If you can make them understand what your problem is, they usually will cooperate in addressing it."

Dinman's partner Joyce Neeley recently had translated amendments to one association's bylaws into Japanese. She said it was necessary to translate them in order to gain approval from Japanese owners.

Jim Poorbaugh, general manager of the Mauna Luan condominium, which has 30 to 40 units owned by Japanese nationals, said the owners association had considered translating its house rules into Japanese but decided against doing so.

"We decided it should be their responsibility to translate the documents themselves. And also we felt that if we translated the house rules into Japanese, we should do the same for the few owners we have from West Germany, Hong Kong and Singapore," said Poorbaugh.

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Dinman reported that more and more Japanese are speaking enough English to at least know when they need a translator. He has had long-distance telephone conversations with clients in Japan where two translators have been on the line to translate for as many as eight Japanese investors during a conference call.

Cultural Differences

A person's cultural background and upbringing affects one's dealings in the business world. Foreigners may have a different outlook and philosophy toward doing business than Americans are accustomed to.

Grubb & Ellis' Gee has dealt with two Japanese owners of retail properties who shared the same viewpoint toward their properties. Since both valued the property from the streetline back, (unlike some American investors who focus mainly on the buildings themselves), both placed a lot of emphasis on landscaping improvements, an approach that may well have cultural roots from the Japanese love of gardening.

"They make sure that everything from streetside in is attractive and indicative of the type of owner they are," observed Gee.

If one phrase could characterize Japanese investors, it's "pride of ownership." Building management professionals frequently use this term as a focal point for describing the Japanese. It is this pride of ownership that drives them to sink millions of dollars into properties to improve them. The physical appearance of a property is important to them because it reflects their standing in society.

But Gee pointed out that the Japanese are not the type of investors who purchase a run-down property at a low price and then restore it to raise its value.

"They pick up a property that is already performing well," said Gee. "The improvements that they institute are as much cosmetic as anything else because they realize that the public's initial image will be based on the physical appearance of the property."

Then is the pride of ownership merely a self-fulfilling interest? Not according to Americans managing Japanese-owned properties. The Japanese evidently realize that respect is gathered from more than appearances. Tenants and people who visit their properties must also be satisfied.

Gee related that with both the Japanese-owned retail centers Grubb & Ellis manages, the owners have been concerned with safety and access. With one property, the owner expanded a drive-through access way and set up a bike rack.

The Japanese have also shown gen-

erosity in their dealings with tenants. For example, Neeley said she knew of one property where new Japanese investors let an elderly woman occupant stay in her unit "for a long time" without paying rent.

But sometimes generosity can border on naivete in the eyes of American property managers. Gee related one instance in which a Japanese owner was hesitant to discipline a commercial tenant who had a history of delinquent payments and had, again, not made his lease and common area payments.

"It was interesting that the owner thought we were being a little too aggressive in what we were trying to do to make sure that we kept this tenant in line," recalled Gee. "He was just very surprised that we didn't think that the tenant would be honorable enough to make good on his debt, and if not the tenant himself, then he could tap good from family members to make good on the debt."

"We had to advise him that here the tenants are much more transient than the kind of tenant that he might find in his properties in Japan."

Japanese Investment: Helpful or Harmful?

Until recently, Japanese nationals have concentrated their investments in the tourism market, buying whole hotels or single hotel rooms with the intent of renting them and some day reselling them after significant appreciation occurs.

"Whatever they're doing with the units I think the majority of them are holding those properties for ultimate resale to Japanese," said Dinman.

But the Japanese appear to be broadening their market in Hawaii by purchasing condominium units in areas outside of Waikiki, primarily Hawaii Kai. Poorbaugh of the 434-unit Mauna Luan in Hawaii Kai reported a sudden influx of Japanese investors last year who bought 30 to 40 units in the luxury condominium. Most of the transactions were made in cash.

The sudden investment drove up prices immediately, related Poorbaugh. Units priced at \$135,000 jumped to \$195,000; those valued at \$150,000 escalated to \$225,000. Although some owners may have appreciated the increased value of their properties, the investment had a negative impact on other resident owners.

"A lot of long-time lessees were forced out. The investment really resulted in a change of population. Some resident owners moved out in anticipation of their taxes going up," said Poorbaugh.

This sort of dramatic effect may cause resentment in some local residents forced to find other homes. But Chaney, Brooks' Buelsing sees the effect as an inevitable result of market interactions and of supply and demand. Buelsing thinks that Japanese investors, like any other kind of investor, respond to a "herd instinct," where a property becomes popular once the first Japanese investors identify it as prime property.

"Anytime you have a popularity of a property, no matter where it is, or who's investing in it, prices are going to go up," said Buelsing.

The people affected the most negatively are those on the "borderline," argued Buelsing. "Probably there are people who are priced out of their condominiums because of tax rates. Those people were on a very fine line to begin with. There's also people who are impacted negatively because of

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increases in operating costs, or because the board may elect to paint the building and levy a special assessment.

"It's kind of like having to pay more taxes because your income goes up. Would you like it the other way?"

Dinman, however, sympathizes with the fear resident owners feel when foreign owners suddenly buy the majority of the units in a building. He said the foreign owners tend to want to put in their own management team, "and rightly so." But, he added, "that creates a problem whereby the owners in the minority feel overwhelmed and feel they've completely lost control. And that can be a problem."

Neeley thinks that fear will pass as time goes on and people realize that "the Japanese are putting more money into increasing the value of the building for everyone."

She added that Japanese investors are usually low key, and they often retain local counsel and local management. Of her clients' properties, she has never seen Japanese investors kick out any residents.

"They tend to want to resolve problems without litigation. They tend to want to keep a good image," she said.

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Future Trends

Everyone agrees that Japanese nationals are likely to continue to invest in Hawaii real estate. Gee reported that two Grubb & Ellis-managed properties recently received offers from Japanese nationals.

"Whether the buying fever has quelled a little or not, I think the Japanese still remain your most predominant qualified buyers today," she said.

Buelsing has noticed a trend of the Japanese buying more multi-family rentals and condominiums outside of Waikiki. While it is difficult to defi-

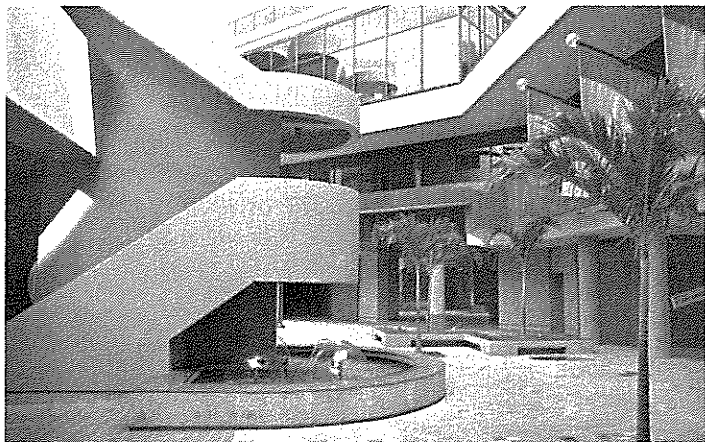
nately ascertain the nature of Japanese investments, Buelsing thinks more Japanese may be buying condominiums as personal long-term investments instead of quick resale opportunities. Poorbaugh said none of the Japanese owners who have bought into the Mauna Luan are renting out their units. They occupy the units for only one to two months out the year, he said.

Citing the aging population of Japan, Buelsing speculated that the Japanese may be buying condos to live in a few months out of the year when they retire. He has heard that the Japanese have identified Maui as an ideal location to retire.

As for the future role of Americans managing foreign-owned properties, Buelsing stressed the importance of serving the Japanese well now to gain their trust for future cooperation.

"If management does not provide the services that our Japanese investors are comfortable with, then they will go out and look for and bring in their own people and manage [their properties] themselves as much as possible," said Buelsing. □

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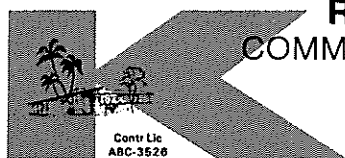


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