

Foreign investment in Japan's mountain resorts is on the upswing, with some companies making dramatic changes to lure Western skiers to Far Eastern slopes.

ROB VOLANSKY

JAPANESE Peaks

DEVELOPMENT OF THE MOUNTAIN RESORT areas of Japan presents a complex web of historical and cultural issues that complicate even further the customary legal and financial considerations encountered in land investment. Two-thirds of the country is considered mountainous. With more than 600 ski facilities and nearly 2,500 golf courses, the four main islands long have been a playground for locals but a relative unknown for foreigners.

The burst-of-the-bubble economy and the Kobe earthquake more than ten years ago still influence construction and development today. It is clear that foreign investment will be key to revitalizing Japan. At the beginning of the millennium, Prime Minister Junichiro Koizumi spearheaded regulatory reforms in finance, communications, and distribution in order to stimulate foreign direct investment (FDI). Relaxed controls on business incorporation and tax breaks for multinational enterprises have minimized financial considerations in terms of red tape and startup costs. The current upswing reflects the prime minister's efforts, but to fully understand the present, it is necessary to look back to the early 1990s.

Even before the bubble, wealthy Japanese corporations and individuals alike had no urge to purchase land in their own country. They took their money abroad and bought whatever they could, mainly in America. Precious acres within the archipelago were handed down from generation to generation, and families held firm even in the face of large profits. Then the real estate bubble burst in 1990, affecting the entire economy, and fear set

in. Property owners who managed to hold on to land through the crash tightened their grip and weathered the storm. Those who had bought saw the value of their assets plunge.

Real estate prices fell steadily since then and only began to turn around in 2003. Property in the communities of Shinjuku and Shibuya in the heart of Tokyo have shown a return to pre-bubble costs and perennially attract both foreign and domestic attention, but outside of the capital, few places have rebounded so completely. Experts, investors, and casual observers all agree that Japanese buyers are still pessimistic, though this pessimism is easing.

Punctuating the economic crash was the 1995 Kobe earthquake, which shook more than the city. Weaknesses in Japanese building standards came under scrutiny. Structures built with the traditional Japanese post-and-beam construction collapsed, while those with Western two-by-four frames stood firm. Outsiders looked at the aftermath and saw destruction that could have been avoided, leading to a universal revision of construction ordinances. Stabilizers became standard, foundation restrictions were tightened, and antiquated techniques came into question.

For builders in the mountains, stable foundations became doubly important. Roofs had to sustain the weight of snow from above as well as brace for quakes from below.

Powderhounds

The Niseko ski resort in Hokkaido, located two hours south of Sapporo and within striking distance of New Chitose International Airport, is still isolated and serene. Some argue that the resort's location is the key to its appeal, while others say they prefer it because of the comparatively low risk of a major earthquake. For winter sports enthusiasts, however, Niseko's powder snow has long been one of the best-kept secrets in the ski world.





An aggressive worldwide marketing campaign touting the world-class snow at the Niseko ski resort, located two hours south of Sapporo, generated new confidence in the Japanese real estate market and opened it up to investors of all sizes. Harmony Resorts Niseko Property Ltd. purchased the Hanazono ski field, and is planning an overhaul of the resort. In addition to the existing 18-hole golf course and the skiing infrastructure, Hanazono Resort Village will include condominiums, hotels, conference facilities, a health spa and fitness center, and retail shops.

There are several world-class slopes in the outlying region. Hirafu, the largest and best known, comprises the Alpen, Kogen, and Hanazono ski fields, all of which recently came under the control of the massive Tokyu Land Corporation (TLC). TLC asked Yamate Homes, a Japanese company with strong international ties, to conduct the marketing for the stretch of land known as North Hills.

In 2003, Australian lawyer Roger Donazzan skied the Niseko powder and returned home with a vision for a resort. He was appointed executive chairman of the Australia-based company Harmony Resorts Niseko Property Ltd. (HRN), which then purchased Hanazono from TLC in fall 2004. At about the same time, Australian Airlines, a division of Qantas Airways, whose chairman is Margaret Jackson, Donazzan's wife, began running direct flights from Australia to New Chitose.

Together, these established corporations embarked upon an aggressive worldwide marketing campaign, which generated new confidence in the Japanese real estate market and opened it up to investors of all sizes. Currently, there is a mad scramble to buy up Hirafu's remaining plots before prices level off. The excitement has allowed smaller enterprises like Niseko Real Estate, also with strong ties to Australia, to wield power in the market.

Though Hirafu has been largely bought up by developers, the Annapuri ski area to the west and the Rusutsu field a half hour



down the road remain untouched. Close to a hundred lifts rise throughout the district, and the infrastructure connecting the resorts is solid.

Many see the recent activity as a realignment of the ski world internationally. The emphasis for major developers is to build a resort that matches the world-class snow found in Niseko. Ecosign, the company that designed Whistler, will overhaul Hanazono. Care has been taken to plan hotels and condominiums offering Western amenities with Eastern flair. At the moment, even though HRN has not yet begun sales, interest from around the world is high.

The Ups and Downs of Hakuba

As part of the Nagano prefecture west of Tokyo, Hakuba has been on a roller-coaster since the first boom in the early 1980s. The inns and hotels that resulted from that boom still stand. When the economy crashed, the hotels were emptied of guests, only to be filled again for a short time in 1998 when the Olympics came. "Things

have been kind of slow around here since then," says a laughing Michael Baker, the only Australian builder in the small community. A handful of minor local tradesmen cater to weekend tourists from Tokyo who occasionally splurge on a second home.

Baker manages his own property company but also subcontracts work for local enterprises. He comments on his surprise that Japanese clients continue to build in the old post-and-beam style in spite of the Kobe disaster.

Tradition in Japan runs deep. Pride, attention to detail, and respect for the past factor into every facet of society. The flip side of this is that change often is slow to come about. Asbestos removal is still a prime topic on the evening news. And Baker insists that the Japanese approach to building insulation, a key component in mountain construction, lags far behind the rest of the world.

When asked if Hakuba will see an explosion like that in Niseko, Baker is quick to cite the differences between Eastern and Western holidays. Japanese take fewer vaca-

Tradition in Japan runs deep. Pride, attention to detail, and respect for the past factor into every facet of society. The flip side of this is that change often is slow to come about.



Hakuba, in the Nagano prefecture west of Tokyo, has been on a roller-coaster ride since its first boom in the 1980s. A land rush in the area would require a massive renovation of the current building stock. Hakuba Real Estate is developing Powderhouse, a new lodge being built on two acres near the popular Hakuba 47 resort.

HAKUBA REAL ESTATE

tion days than people in any other developed country. Winter getaway clients all over Japan have their own set customs. Cozy inns feature tatami floor mats for sleeping and common bathing and toilet areas. Eating and drinking often take place in the same room at a small table on the tatami. In any given resort town, a few restaurants exist, but bars typically do not. For many Japanese, a trip to the mountains is a chance to be with friends they already have, not an opportunity to make new ones.

Westerners, on the other hand, come for a longer stay. They require hotel rooms with a bed and bath, or even self-contained condominiums with built-in kitchen facilities. When interest in Hirafu began to grow, the area was largely undeveloped. All new buildings are being constructed to handle the influx of tourists. In Hakuba, a similar rush would require a massive renovation

of the current building stock. The infrastructure is in place and the potential is there. At the moment, though, Hakuba appears to be in a holding pattern.

PineRidge

Though often slow to initiate it, Japanese are not entirely averse to change. In fact, they are well known for taking the best of other cultures and making it theirs. Michael Marshall, COO of the blossoming PineRidge Resorts buyout company, insists that understanding this quality is the secret to being accepted in Japan. Foreign business techniques and managerial know-how are welcome, but when it comes to implementing, he says, "You need to understand the local dynamic."

PineRidge has taken the typical weekend excursion and added a new dimension to it at its Kandatsu Resort in Yuzawa city

in Niigata prefecture and the Geihoku Resort near Hiroshima. Traditional hotels with hot spring baths and high-quality home-style cooking remain the main attractions of these resorts, but by using an in-house media company, they have added a nightlife component. Young Japanese anxious for something different now can enjoy live music and retail shopping in addition to a day in the mountains. Marshall calls this the "Disneyland approach."

From the top end, PineRidge has continued to hire its management staff from the local community, a step that Marshall believes is critically important. The central offices provide guidance in implementing entertainment activities but allow accommodations to be run as they always have been.

In keeping with this all-around approach, the company also hopes to capitalize on the summer music festival scene that has recently leapt across the ocean and gained popularity. All-day concerts, all-night raves, paintball, and extreme sports like skateboarding add depth and dimension to the traditional hiking, biking, and trekking, which have long been mainstay summer activities throughout the country.

Golf!

The borderline-absurd number of golf courses in this tiny island country is a byproduct of the bubble. Developers spent hundreds of millions of dollars to build them and then targeted corporate clients who had disposable income to spend on membership dues. When the bubble burst, hundreds of clubs went bankrupt, leaving the land pockmarked with ailing links.

In 2001, Texas-based Lone Star Funds bought its first golf course in an attempt to revitalize the industry in Japan and make a

quick buck. Shortly afterwards, Goldman Sachs followed suit, and the competition began. The two entities now are respectively the number one and number two owners of Japanese golf courses. Their goal is to make golf affordable and accessible to everyone.

At present, courses can be bought for as little as US\$10 million. As with other areas of the real estate market, the farther the courses are from Tokyo the cheaper they are. However, the value of hot spots like Niseko that surround golf courses has increased pro-

portionately. The sport of golf, nevertheless, is set for a reasonable growth spurt, and there is certainly money to be made.



PINERIDGE RESORTS



PINERIDGE RESORTS



PINERIDGE RESORTS

area would likely be overrun by a mass of tourist complexes.

Troubleshooting

Geographically speaking, many mountain resort areas reside outside the jurisdiction of local governing bodies. Kutchan is the nearest seat to Hirafu but exercises no zoning control over the mountains themselves. It did, now famously, petition the Ministry of Transport, Land, and Infrastructure to rewrite legislation for the chairlifts as

moving vehicles to accommodate HRN's plan to build three new chairlifts in Hana-zono. In the past, haphazard placement of small hotels and inns gave tiny Hirafu charm, but with big developers on the scene under virtually no regulations, the

There are a number of differences between Eastern and Western ski vacations, such as tatami floor mats for sleeping and common bathing and toilet areas. Eating and drinking often take place in the same room at a small table on the tatami, and in any given resort town a few restaurants exist, but bars typically do not. PineRidge Resorts has taken the typical weekend excursion and added a new dimension to it, combining traditional hotel features such as hot spring baths and high-quality homestyle cooking with a nightlife component.

Although many businesses in Kutchan and the Niseko area have prospered, others have packed up and left in disgust because of the thousands of tourists who have little respect for Japanese customs. Cultural sensitivity is crucial. HRN stresses education

and will prepare a packet outlining some basic guidelines for its guests. The hope is that other developers will follow suit. But change is inevitable. With tall buildings full of people unfamiliar with Japanese traditions, a new feel will come to Niseko.

Moving Ahead

Growing pains are to be expected in any developing market. Prices and profits continue to rise in Hirafu. It seems only a matter of time before interest bleeds into nearby resorts, down to Nagano, and through to Hiroshima on the mainland. PineRidge, HRN, and other budding enterprises have targeted investors across Asia and into the Americas in the hope of riding on the coattails of Niseko. "After all," jokes Baker, "there are only so many Australians who ski." The potential is high for this once-insulated playground to become a truly international vacation scene. **U**

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