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Transforming Buildings Proves Profitable

The Toyochō USC Building (pre-renovation photo and post-renovation perspective shown here) is the biggest project ever undertaken by Tokyo's Sun Frontier Fudousan Co., Ltd., and symbolizes its evolution into a new stage of expansion after nearly a decade of concentrating on transforming smaller buildings. Near completion, the eight story office building is already fully leased.



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Property in Japan basically means land – buildings are scrapped and built constantly. A young entrepreneur is challenging this land myth and adding value to older buildings by totally transforming them.

The founder of one of Japan's fastest-growing real estate companies is an entrepreneur with a unique vision. Attributing some environmental problems to the "scrap-and-build" mentality that for years ruled Japan's building industry, he doggedly concentrates on renovating and revitalizing old buildings in Tokyo.

This strategy has worked extremely successfully for Tomoaki Horiguchi (48), president of Sun Frontier Fudousan Co., Ltd., founded in 1999. The firm's revitalization business (he calls it "replanning") is going so well its estimated earnings for fiscal 2007 have recently undergone a major upward revision. Net sales are now expected to grow 109.2% year-on-year to JPY35 billion (US\$299.1 million), with ordinary income rising by 115.9% to JPY7.5 billion (US\$64.0 million) and net income surging 167.2% to JPY4.4 billion (US\$54.5 million).

"These are yet conservative figures," says Horiguchi with a confident smile, indicating he sees no end to his firm's continued expansion and success. "We know how to reuse old buildings effectively, and the market is crying for our kind of expertise."

Horiguchi attributes his optimism to the company's estimate based on a government survey that shows approximately JPY4 trillion (US\$22.6 billion) worth of private sector office buildings older than 20 years will need revitalization every year from now on in the Tokyo metropolitan area.

And Sun Frontier stands ready to deliver the goods, having established a solid business model that meets the needs of this grossly untapped market: buying old buildings with lower than



Transformation Through Comprehensive Services



A typical Sun Frontier project: as commercial rents were much higher than offices in the Ginza area, a 25-year-old office building was converted into a vibrant destination, resulting in a 50% rent increase. Additionally, earthquake resistance doubled.

50% occupancy rate (most of them worth around JPY200 million, or US\$1.7 million, so far), renovating them extensively, achieving full occupancy before completion, and selling them to investors or building funds, or leasing them out themselves — all in an average purchase-to-resale time of just 5.1 months.

One of the firm's largest and most recent projects — the conversion of an office/apartment/sports complex into an eight-floor, approximately 19,000-square-foot office building is expected to be completed in just 14 months. Sun Frontier regards this project as the symbol of its evolution into the next stage of its expansion.

Sun Frontier's success is driven by its strategy of transforming buildings in Tokyo — especially in three central wards that account for 50.2% of the city's office stock. Employees of the firm's branches are seasoned professionals, fully versed in the needs of their respective markets. The firm's replanning staff is fully supported by its other divisions handling such services as real estate brokerage, office and housing leasing, and property management.

"The real secret behind our success lies in our unrivaled leasing capability," points out Horiguchi. "The crucial part of replanning is achieving full occupancy before work is completed. My people know virtually all the ins and outs of their territories, including who lives where and what specific needs there are. This is something our rival firms can hardly emulate."

"With conventional development projects," Horiguchi

Horiguchi's Little "Philosophy Notebook"



Tomoaki Horiguchi
President and CEO

Believing a company is "only as good as its employees," Tomoaki Horiguchi spends more than 80% of his time fostering employees dedicated to Sun Frontier's three-point corporate policy: altruism over egoism, effort second to none, and absolutely proactive attitude.

Since establishing his firm, Horiguchi has steadfastly followed a routine of spending every Sunday writing a 3,000-word address to present to his employees at a regular Monday morning meeting. His thoughts touch on a wide range of matters, both professional and personal.

"The main purpose is to educate and enlighten the employees about our corporate ethos," says Horiguchi. "Composing these essays, digesting what I have said, and trying my utmost to live up to practice what I preach have also been a tremendously enlightening tool for my own growth as president — a human being. After all, a company is also only as good as its proprietor, and I consider it my responsibility to further my own enlightenment."

Condensed versions of Horiguchi's addresses are contained in a 204-page booklet called "Philosophy Notebook" — a must read for all his employees who he expects to share his vision and beliefs. A section of the notebook is dedicated to a collection of remarks by Kazuo Inamori, founder of Kyocera and an ordained Zen priest who Horiguchi reveres. Coming across Inamori's remarks on altruism on a cassette eleven years ago, Horiguchi vowed to discard egoism and start caring about the needs and happiness of others more than his own, which became the core of his philosophy.

"I always had a craving for truth about the real purpose of life," reflects Horiguchi. "I found it when I heard what Inamori-san had to say about the importance of serving all stakeholders including employees. The words of one of Japan's most respected business leaders hit me hard. And I began to realize the real worth of one's life should be judged by how useful one is to others. Likewise, if a company proves itself useful to society, I believe success will follow automatically."

stresses, "usable buildings are mercilessly demolished, producing huge amounts of industrial waste and toxic emissions and requiring massive construction materials made from precious natural resources. Through replanning, we are committing ourselves to halting growing environmental destruction while creating a vibrant urban infrastructure designed to coexist with nature. Our business model significantly curbs the use of construction materials that cause depletion of natural resources, as well as industrial wastes and carbon dioxide emissions."

A case in point is a project undertaken two years ago to convert a four-story dormitory building into a shopping and rental housing complex in Tokyo's Shibuya ward. The firm reports 1,864 metric tons of carbon dioxide would have been generated had the old premises been demolished and replaced with new construction. However, actual emissions were limited to 815.8 metric tons — a 56.2% reduction.

Horiguchi admits his unconventional approach to business based on a corporate credo advocating altruism initially "drew ridicule." In fact, even after his firm listed on JASDAQ in fiscal 2005, institutional investors were generally reluctant to meet him.

"But that's a thing of the past," notes Horiguchi happily. "Our performance has completely changed the initial perception. We are now a company to be reckoned with."

Delivering Higher Returns



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will follow automatically."



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