

Investors get intimate with love hotels

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Stocks, bonds and real estate are among the assets found in diversified investment portfolios.

But among the more unique assets available to investors in recent years are love hotels.

Investing in exotic assets is risky but offers the potential for high returns. Financial experts thus recommend that individual investors limit such investments to a small part of their portfolio.

But investment trusts (mutual funds) that invest in love hotels are considered less risky than other alternative investments while offering a higher yield than conventional financial products such as stocks and bonds. This is drawing the attention of investors looking to boost returns amid the recession, experts say.

"Before I learned about love hotel funds, I already had a feeling that love hotels are profitable. After I went to a seminar about (one such) fund, I realized I was right," said Kiyoto Hirano, 34, a resident of Nagoya who invested ¥6 million in a love hotel fund. "It's related to one of the three biggest basic human desires, so it's recession-resistant."

Love hotels, also euphemistically called "leisure" or "boutique" hotels, are indeed considered less affected by recession than other industries that depend on discretionary spending. The industry enjoys

annual sales of ¥2 trillion to ¥3 trillion, according to Leisure Hotel, an industry trade publication.

Initia Star Securities Inc. in Shibuya Ward, Tokyo, began marketing a love hotel fund in 2008. Four hotels in Tokyo and the Kanto region run by Comuei Inc., a leisure hotel management company that is part of the Initia Star group, are currently held by the fund. Comuei uses the money raised from investors to acquire and renovate properties, while looking for ways to boost individual hotels' operational efficiency and sales.

Initia Star offers dividends yielding 5 percent to 8 percent annually, with the investment maturing in three years. The minimum investment is ¥500,000.

"Now that interest rates are really low, 5 percent to 8 percent is quite high," said Takashi Kadokura, head of BRICs Research Institute, who has written several books on the sex industry and other underground businesses in Japan. "I think the principal will be fully paid back because love hotels will be renovated after funds buy them, and remodeling love hotels has a great effect in attracting customers."

According to Takashi Iwamoto, manager of Initia Star's sales department, the company, which is now soliciting investors for a seventh series of the fund, has raised a total of about ¥1.2 billion from the previous six funds. It has paid half-year dividends of 2.53 per-



Suite spot: The Hotel Washe in Sugunami Ward, Tokyo, is one of four hotel properties managed by Comuei Inc. with money collected by Initia Star Securities Inc. INITIA STAR SECURITIES

cent in the second series and 2.87 percent in the third to investors so far.

Investors in the first fund have not received dividends yet because of a delay in the opening of a hotel the fund had invested in, Iwamoto said.

In three years, Initia Star Securities says it will either find a buyer for the hotels it is currently managing or set up a new fund to pay for redemptions after the initial three-year investment period ends.

As with any investment, there are risks. The yield on the dividend could fall below 5 percent and there is no guarantee the principal will retain 100 percent of its original value. In addition, management companies may not be able to raise profitability at their properties as much as hoped: earthquakes may damage or destroy properties, and land prices may go

down, Iwamoto said.

But Kadokura of BRICs Research Institute said land prices are unlikely to fall fast enough to offset the increase in sales and the value of buildings after they are renovated.

There is a lot of room in the industry for consolidation. Comuei manages more than 20 love hotels, and according to Initia Star and Comuei this makes it one of the largest companies in an industry that comprises some 37,000 establishments.

Although there are no objective statistics on the size of love-hotel managers, Kadokura doesn't doubt that Comuei is one of the biggest.

"First, I have never heard of other companies that specialize in renovating love hotels. Second, many love hotel owners are old, and they bought hotels a long time ago with some extra money from

their main businesses," Kadokura said. "Those people don't think about renovating."

Mirror balls and revolving beds that were once common don't attract customers anymore, Iwamoto said. Nowadays, interiors are simpler and more elegant. But even the older, less tasteful properties still enjoy higher profitability than other industries, he added.

Operating profit margins range from 20 percent to 30 percent on average for older properties, while more modern hotels have margins of 40 percent to 60 percent, Iwamoto said.

Love hotel owners tend to sell their establishments because they need to raise cash to pay for losses in other businesses, or because their children don't want to take over the business, he said.