JUSCO- Japanese property first

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Development Bank of Japan (DBJ) and Dai-Ichi Kangyo Bank (DKB) have jointly arranged a ¥30 billion ($270 million) project securitization to fund the construction of five shopping centers in Japan. The deal represents the first time a securitization has been arranged in Japan based on assets that have not yet been built, and as such has excited a great deal of interest from Japanese retail operators and construction companies. According to a source close to the transaction, the structure is likely to provide a funding template for other property schemes. Japan's second largest operator of shopping centers, JUSCO, will operate the five new malls.

Since the enactment of the special purpose company (SPC) law in Japan two years ago, no other securitization has been secured on a leasehold interest in a not yet completed development. In structuring the deal, the arrangers had to establish a second SPC, based in the Cayman Islands, in addition to the standard Japanese SPC. The Cayman Islands SPC will enter into contract with the shopping center construction companies, which in turn are providing guarantees for the completion of the project. Repayment will only occur after the developments are finished.

According to Toshihiro Toyoshima, deputy director in DBJ's project finance department, the first stage of the financing is the provision of a ¥30 billion back-up line for the securitization, to be provided by DKB. The sort term note, asset-backed commercial paper (ABCP) program is scheduled to take place from April 2000 to March 2001, during which time five separate ABCP deals will be issued (all of them rated ?A' by Japan Rating and Investment Information Co) as the shopping centers are completed. All the shopping centers will be put into a real estate trust. The term of the underlying lease is 10 years with a renewal or termination option says Toyoshima.

The second stage of the transaction will be a multi-tranche refinancing of the ABCP facilities, scheduled for May 1, 2001. 31% of the refinancing will be via a 9-year, publicly issued senior bond. The second tranche will be refinanced through a 20%, 19-year loan from DBJ. 18% of the refinancing will be covered by a 9-year DBJ loan, 21% via a 9-year DKB loan. 5% will come from a 14-year loan from both DKB and Tokyo Marine and Fire Insurance. Lastly, Century Leasing will purchase 5% in preferred stock.

The likelihood of other, similar transactions for Japanese property developments has been greatly increased by the gradual shift to US GAAP-style accounting in Japan. ?Financing property schemes through the traditional sale and leaseback method is becoming less and less attractive for the sponsors, because of this accounting shift,? says a banking observer.

As the securitization hinges on a leasehold and not tangible land assets, and because the shopping centers are regional developments rather than projects being built in major metropolitan areas, the deal looks at first sight to be considerably more risky than previous Japanese property development financings. Toyoshima points out, however, that including land in the deal would have doubled the overall cost and caused a significant deterioration in loan to value calculations. ?From the lending perspective it therefore made a lot of sense to arrange the deal purely around the leasehold,? the banker concludes.