



Nonperforming Loan of Japanese Banks

Real Estate Investment Opportunity Continues

Monthly Economics Overview

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(Translated by Yoshie)

<Introduction>

- The total nonperforming loan of 16 major Japanese banks was calculated to be 15.25 trillion yen in end of September 2000, down 3.3% from the previous survey in end of March. Some argues that disposal of nonperforming loan has finally seen a light at the end of long tunnel since the actual disposed loan (1.66 trillion yen) overwhelmed the projection (893 billion yen).
- I would not go into whether the disposal of nonperforming loan has seen a light or not, as it also concerns additional reserve and future profit.
However, the reserve ratio for major banks was 44% in March 2000. Together with the high number of bankruptcy and continuing loan waiver requests, the situation does not seem so positive.
- Among the four major financial groups: Mizuho is planning to integrate it's business in 2002; Sumitomo Mitsui has forwarded the schedule of merger to April 2001; and the merger of Tokai Bank and Sanwa Bank to form UFJ will take place in April 2002.
- I believe that the disposal of negative heritage of the 20th century (i.e. nonperforming loan) will speed up as the time for financial restructuring is running out.

<Investment Opportunity>

The disposal of nonperforming loan is expected to accelerate in 2001 as the banks' business integrations and mergers increase.

(However, even though the existing nonperforming loan has been disposed, the overall nonperforming loan may remain the same if new nonperforming loan keeps on increasing.)

I would like to look into the investment opportunities that disposal of nonperforming loan may bring.

Nonperforming loan of construction, real estate, and retail sectors

Financial group	Mizuho	Sumitomo Mitsui	UFJ	Tokyo Mitsubishi
Ratio of NL	49.3%	56.8%	47.4%	63.1%

(As of end September 2000)

As shown in the above graph, over 50% of the nonperforming loan still belongs to the construction, real estate, and retail sectors.

It is not hard to imagine that the collaterals of these loans are real estate properties, which now changing their name to “distressed assets”.

As they are classified as the “risk management loans”, most of the assets are “non-class-A” (NB: “most” as in 99.9999%). Indicating “vacant lands” or “under development properties”, which were left behind from the Bubble Economy. Also, properties which cannot be sold due to the complicated ownership (even though they are creating cash flow) can be included here as well. These assets are still in the hands of many loan holders. In order to dispose the nonperforming loans, these assets must be sold to the third parties.

<The first Year of 21st Century>

In 2001, I would like to focus my attention on these “distressed assets”.

If the financial institutes are to dispose these nonperforming loans seriously, enormous investment opportunities will be in our hands.

I believe that the year 2001 will offer unlimited opportunities to aggressive real estate investors with skill and experience. You would face far less competition compared to the acquisition of class A office buildings. High return will roll into your pocket if you are talented investor. However, if not, unfortunately an investment opportunity would pass right under your nose without you noticing. You would be lucky if you could reach as far as the battle field, even if you do end up with an investment loss (if you call that lucky is debatable, however).

Completely different skills will be required and be tested in the investment of distressed asset, compare to that of class A office buildings investment.