

Urban Renaissance Agency (Incorporated Administrative Agency) (Urban Renaissance Account)

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1. Summary of operations implemented using FILP funds

Based on a partnership with local governments and private enterprises, the Urban Renaissance Agency works to improve urban districts and assists in the supply of rental housing in urban areas, with focus on major cities and regional society. At the same time, the Urban Renaissance Agency helps revitalize cities through advancement of city functions and improvement of living environments. By appropriately managing rental housing and other properties it has inherited from the former Urban Development Corporation, the Urban Renaissance Agency is working to steadily secure rental housing with favorable living environments as well as stable living for residents. Based on local governments' request, the Urban Renaissance Agency also implement carries out construction of public housing for victims in the Great East Japan Earthquake in order to promote providing of public housing for victims.

Note: Operations not eligible for FILP include projects with complete capital appropriation and consignment.

Deferred and accrued accounts for creation of housing sites, etc., are ineligible for FILP and are therefore excluded from analysis.

2. Amount of lending under FY2020 FILP

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
433.9	9,692.3

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	122.2	109.9	-12.2
2. Government revenue (payments to the government, etc.)*1	-4,317.7	-3,040.3	+1,277.4
3. Opportunity cost of capital investments, etc.	399.6	105.1	-294.5
Total (1+2+3=policy cost(A))	-3,795.8	-2,825.2	+970.6
Analysis period (years)	80 years	80 years	-

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-3,795.8	-2,825.2	+970.6
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	427.8	235.4	-192.5
2) Policy cost expected to be newly accrued during the analysis period	-4,223.7	-3,060.6	+1,163.1
Government expenditure (subsidies, etc.)	122.2	109.9	-12.2
Government revenue (payments to the government, etc.)*1	-4,317.7	-3,040.3	+1,277.4
Opportunity cost of surplus, etc.	-28.2	-130.3	-102.1
Opportunity cost of capital investments, etc.	0.0	0.0	-0.0

(4) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
			-2,825.2	-1,356.9	+1,468.3

(Note) Components in each column may not add up to the total because of rounding.

*1 Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

		FY2019	FY2020	Simple fluctuation
Policy cost	Simple comparison (before adjustment)	-3,795.8	-2,825.2	+970.6
	Past year comparison (after adjustment)	-3,814.5	-2,031.3	+1,783.2

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Decrease in payments to the Government due to revision of the accumulation method for rental housing operations expenses (+1,782.9 billion yen)
- Increase in subsidies, etc. due to implementation of new operations, etc. (+14.2 billion yen)

○Factors behind policy cost decrease

- Decrease in opportunity cost due to decrease in retained earnings at the beginning of the analysis period (-13.9 billion yen)

4. Outline of estimation and project prospect employed in the analysis

[Outline of estimation]

- 1) The estimation covers all operations of the Urban Renaissance Account excluding operations which capital investment will be allocated to and which will be left to trusts.
- 2) The estimation is made where new operations are implemented based on the FY2020 operation plan, in addition to the operations initiated before the end of FY2019.
- 3) The length of the analysis period is 80 years, during which the above operations will be completed, and then the depreciation period will end.
- 4) Paragraph 5 of Supplementary Article 12 of the Urban Renaissance Agency Act stipulates that profit that is generated in the Urban Renaissance Account shall be transferred to deferred and accrued accounts for creation of housing sites, etc., within a monetary limit to be approved by the Minister of Land, Infrastructure, Transport and Tourism. However, said stipulation shall not be considered in the calculations presented here.

[Project prospect]

- 1) Newly started or ongoing projects in FY2020 are supposed to be completed by the end of FY2030.
- 2) Operation costs for each FY are measured in such a way that housing and lands for housing will steadily be provided, taking progress in each district into consideration.
- 3) Operating revenues are estimated based on the budget plan prepared in accordance with prospective operation investment per district, taking mid-term plans into account.
Rent revenues from housing that has already been provided will be estimated based on the current rent for said housing, and rent revenues from newly provided housing will be based on the cost-price rent for said housing. In addition, rental property is estimated with the land sold at book value upon full depreciation.

(Unit: billion yen)

FY		Result	Estimated	Decision	Trial assumption								
		2018	2019	2020	2021	2022-2031	2032-2041	2042-2051	2052-2061	2062-2071	2072-2081	2082-2091	2092-2099
Project expenses	Projects to renew urban functions expenses	91.1	143.8	38.4	40.6	320.9	-	-	-	-	-	-	-
	Land activation project expenses	79.9	15.6	9.9	11.7	3.4	-	-	-	-	-	-	-
	Disaster-prevention parks and blocks development project expenses	6.5	2.4	2.0	2.0	1.4	-	-	-	-	-	-	-
	Residential environment development project expenses	56.6	62.4	62.0	46.6	309.6	-	-	-	-	-	-	-
	Reconstruction expenses	3.3	2.4	2.3	-	-	-	-	-	-	-	-	-
Project income	Incomes from urban renaissance	179.8	93.1	162.5	159.9	765.7	90.0	56.2	143.6	18.3	9.4	-	-
	Incomes from management of rental housing	686.1	641.9	645.3	640.7	6,488.8	8,088.1	5,435.5	3,591.3	3,134.4	1,138.0	215.1	105.1
	Incomes from reconstruction	8.0	-	4.2	-	-	-	-	-	-	-	-	-

5. Reasons for granting of subsidies, mechanism and underlying laws

Development and improvement of urban areas are implemented through organizing and integrating divided plots of land, and developing sites for construction in unity with public facilities by methods of an urban renewal project, land readjustment project, etc., for which capital investment and subsidies from the national treasury are received.

(Underlying laws and regulations)

[Provisions on capital]

“Urban Renaissance Agency Act”

Article 5

- 2 The Urban Renaissance Agency may increase its capital on approval by the Minister of Land, Infrastructure, Transport and Tourism.
- 3 The governments and a local government may invest in the agency when it increases its capital according to the above provisions.

[Provisions on payments to the Government]

“Urban Renaissance Agency Act”

Article 33: In relation to the application of the conditional clause provided in Article 44, paragraph 1 of the Act on General Rules for Incorporated Administrative Agencies (hereinafter as the General Rules Act), the said paragraph states that “where appropriated to the use determined according to the provisions of paragraph 3.” This is amended as “where the amount computed according to the Government Order is paid to the national treasury or the local authorities that invested in the Agency or where appropriated to the use determined according to the provisions of paragraph 3”.

2 The Agency sorts out the accounts for the purpose of Article 44, paragraphs 1 or 2 of the General Rules Act that are revised by the said paragraph relevant to the final FY of the period of the mid-term target set out in Article 29, paragraph 2, item 1 of the General Rules Act, hereinafter referred to as “Mid-term Target Period”. Subsequently, the Agency, where reserve remains due to the item 1 of the said article, may allocate portion of such reserve approved by the Minister of Land, Infrastructure, Transport and Tourism to the operations set out in the Article 11 for the mid-term plan (when modification due to the provisions in the said article is approved, the modified plan will be applicable.) approved under Article 30, paragraph 1 of the General Rules Act relevant to the next mid-term target period.

3 The Agency, where balance remains after the deduction of the amount approved under the said paragraph from the amount of the reserve set out in the preceding paragraph, shall repay such remaining amount to the national treasury and the local authorities that invested to the Agency.

"Enforcement Order of the Urban Renaissance Agency Act"

Article 15: The amount calculated in cabinet orders of the provisions of Article 44, paragraph 1 of the General Rules Act as it is applied by Article 33, paragraph 1 of the act (hereinafter referred to as “amount to be paid to the National Treasury, etc., in each fiscal year”) shall be the amount obtained after deducting the amount indicated in item 2 from the amount indicated in item 1.

Item 1 Surplus amount indicated in Article 44, paragraph 1 of the General Rules Act for the relevant fiscal year

Item 2 Amount obtained after deducting the provisional fund accumulated until the relevant fiscal year from an amount equivalent to one-half the total amount of capital investment received from the Government or a local government by the last day of the relevant fiscal year.

2 When the Institution intends to pay the amount to be paid to the National Treasury, etc., in each fiscal year to the National Treasury and local government body that invested in the Institution in accordance with cabinet orders of the provisions of Article 44, paragraph 1 of the General Rules Act as it is applied by Article 33, paragraph 1 of the act, the amount to be paid to the National Treasury, etc., in each fiscal year shall be distributed in accordance with the amounts of capital investment supplied by the Government or a local government.

3 The amounts of capital investment stipulated in the above paragraph shall be the amounts of capital investment received from the Government and a local government on the first day of the fiscal year in which the amount to be paid to the National Treasury, etc., in each fiscal year is generated (in the event that the Institution receives capital from the Government or a local government during the relevant fiscal year following said first day, an amount obtained by multiplying said capital by the number obtained by dividing the number of days from the day said capital was invested to the last day of the relevant fiscal year by the number of days in the relevant fiscal year shall be added to each amount).

6. Special remarks

Besides the subsidies, etc., from the government, 2.0 billion yen in capital investments has thus far been received from local governments.

(Reference) Outcome and social and economic benefits of operations

The Urban Renaissance Agency is contributing to sound development of cities and to stable improvement of citizens' living through the following approaches:

- Promotion of urban renaissance
 - Large-scale reorganization of land use in line with shifts in the industrial structure
 - Formation of bases for daily living, exchange, and economic activities in cities
 - Enhancement of disaster preparedness in cities and improvement of densely-populated urban areas
 - Formation of agreeable residential urban areas through assistance in supply of private-sector rental housing
 - Establishment of centers for regional living that utilize existing rental stocks
- Provision of affluent living spaces (management of rental housing, etc.)
 - Realization of residences in the city center and shorter distance between work districts and residences
 - Support of lifestyle in an aging society
 - Establishment of suitable environments for child-raising
 - Consideration for the environment
- Response to the Great East Japan Earthquake
 - Providing victims with UR rental housing (970 housing)
 - Providing sites for building temporary housing (about 8 ha)
 - Dispatching personnel supporting for temporary housing construction (181 personnel in total)
 - Support for reconstruction in stricken municipalities.

Actual examples of these include:

- 1) Increase in residents' population as a result of revitalizing Tokyo seaside areas
Okawabata River City 21 and surrounding areas: About 5,600 people (surveyed 1985) → About 19,100 people (surveyed 2019)
- 2) Increase of customer-attracting power by Yokohama Minato Mirai 21
Annual visitors of about 0.38 million people (surveyed 1985) → About 83.4 million people (surveyed 2019)
- 3) About 37,300 houses were built for renting, etc., in 23 wards in Tokyo, Osaka-city, and old town areas in Nagoya (from FY1998 to FY2019)
- 4) About 720,000 houses for renting are managed nationwide, and about 1.4 million people live in them.
- 5) Acquirement of land in 147 parcels (141.5 ha) for the purpose of promoting land liquidity, and transfer of 118 parcels of land (109.5 ha) (FY1998 to FY2019)

Out of the social and economic benefits of these projects, those which can be understood in quantitative aspect are estimated with certain presumption as follows:

- Social and economic benefits of projects
Operational effect on the improvement of city functions and improvement of living environment is estimated to be 746.1 billion yen by a cost-benefit analysis based on investment after FY2020 with assumed discount rate of 4%. The effect is estimated to be 972.8 billion yen with assumed discount rate equal to that of the cost analysis.

(Breakdown)

(Unit: billion yen)

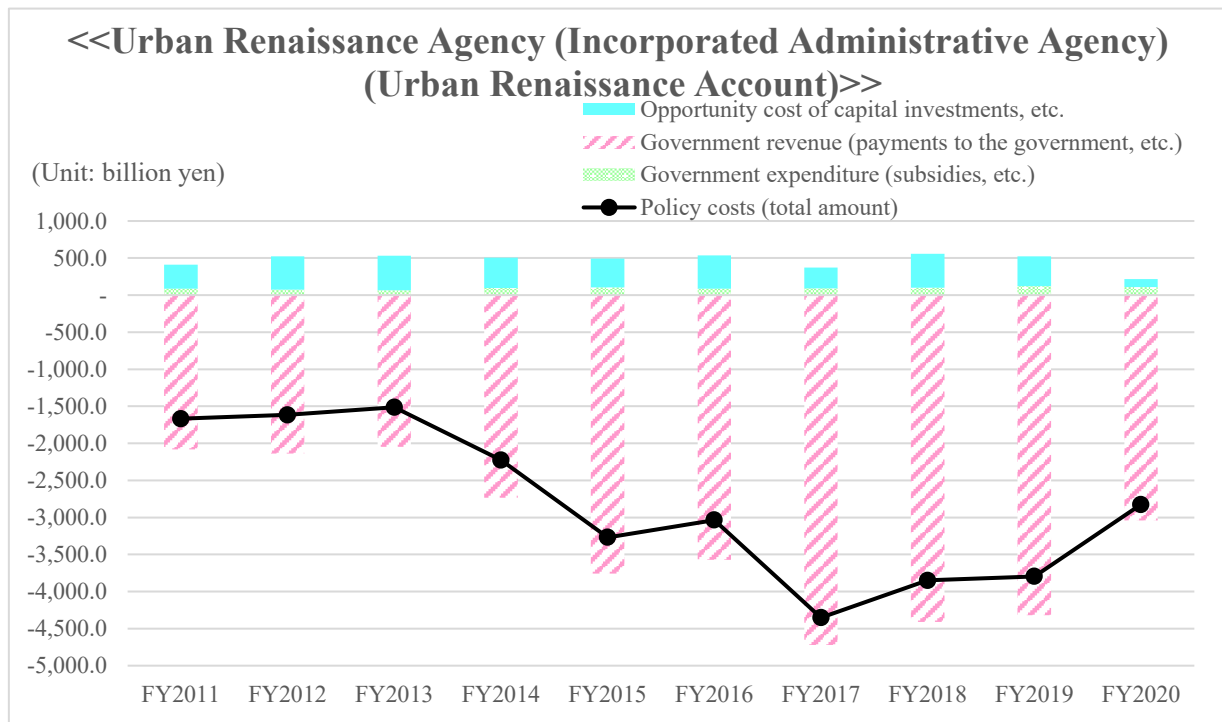
	4%	Discount factor equal to that of the cost analysis
Projects to renew urban functions (land readjustment)	224.7	205.4
Projects to renew urban functions (urban area redevelopment)	243.1	228.4
Residential environment development project	278.3	538.9
Total	746.1	972.8

Note: The quantitative benefit is estimated by the Agency.

- Demand creation effect from projects (flow effect)
It is estimated to be about 3.1 trillion yen by a multiplier effect based on investment after FY2019 (about 2.1 trillion yen including private investment).

Overview of policy cost analysis results

[Changes in policy costs]



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	-1,667.7	-1,616.0	-1,513.2	-2,225.7	-3,268.4	-3,035.1	-4,352.6	-3,850.2	-3,795.8	-2,825.2
Government expenditure (subsidies, etc.)	85.3	74.5	63.5	97.4	104.1	85.3	93.1	98.5	122.2	109.9
Government revenue (payments to the government, etc.)	-2,080.3	-2,137.2	-2,045.5	-2,732.7	-3,759.8	-3,570.1	-4,722.9	-4,408.4	-4,317.7	-3,040.3
Opportunity cost of capital investments, etc.	327.3	446.7	468.9	409.5	387.3	449.6	277.2	459.7	399.6	105.1

【Explanation of policy cost trends】

From FY2011 to FY2017, the policy cost amount followed a downtrend despite the absence of major changes in Government expenditure (subsidies, etc.) and the opportunity cost of capital investments, etc. as Government revenue (payments to the Government, etc.) increased due to falls in the assumed interest rates that reduced interest payments. From FY2017 to FY2020, the policy cost amount followed an uptrend despite the absence of major changes in Government expenditure (subsidies, etc.) and the opportunity cost of capital investments, etc. as Government revenue (payments to the Government, etc.) decreased due to falls in the assumed interest rates that reduced return on investment.

【FILP agency's self-assessment of policy cost analysis results (FY2020)】

The policy cost in FY2020 increased by 970.6 billion yen from the previous year due to a decrease in return on investment accompanying a change in the assumed interest rates. This apparently represents an adequate analysis result. In the past year comparison analysis, the FY2020 policy cost increased by 1,783.2 billion yen from the previous year as massive repairment expenses were projected to establish sustainable business infrastructure for rental housing operations. This apparently represents a more realistic analysis result.

In the sensitivity analysis, the FY2020 policy cost increased by 1,468.3 billion yen from the case before the negative interest rate policy due mainly to a decline in payments to the Government. This is because interest payments are projected to increase in line with the assumed interest rate hike over the 80-year analysis period, with rent revenue projected to remain unchanged because of uncertainties about future rent fluctuations, leading payments to the Government to fall due to the deterioration of the profit-loss balance. This apparently represents an adequate analysis result meeting realities.

(Reference) Financial Statements

Balance Sheet (Urban Renaissance Account)

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	682,902	648,043	598,360	Current liabilities	1,109,122	1,048,877	1,056,205
Cash and bank deposits	61,852	39,289	51,728	Current assets collateral subsidy	36,834	55,521	62,322
Uncollected administrative revenue	42,403	23,819	21,741	Deposited subsidies	1,203	667	-
Allowance for possible loan losses	-64	-56	-48	Expected redemption within one year urban renaissance bonds	29,400	36,700	35,000
Transferred bonds (installments, etc.)	111,068	102,914	87,640	Discount on bond (-)	-1	-0	-
Allowance for possible loan losses	-1,545	-1,523	-1,506	Long-term loans to be repaid within a year	602,771	617,780	633,835
Property for sale	30,856	30,856	30,856	Accrued administrative expenses	81,673	65,168	65,168
Account for property for sale in progress	420,731	436,362	392,567	Accrued finished assets unfinished costs	24,205	20,166	17,517
Disbursements for uncompleted construction	4,335	3,154	2,192	Guarantee fees received	114,036	111,483	108,701
Other current assets	13,268	13,229	13,191	Reserves			
Allowance for possible loan losses	-1	-1	-1	Reserve for bonuses	1,981	2,050	2,096
Fixed assets	11,316,587	11,270,792	11,211,263	Other current liabilities	217,020	139,342	131,567
Tangible fixed assets	11,252,330	11,206,302	11,146,376	Fixed liabilities	9,748,790	9,728,727	9,584,636
Buildings	2,979,111	2,947,944	2,918,686	Asset collateral liabilities	117,023	125,850	127,914
Structures	297,450	288,355	279,185	Long-term deposit of subsidies	667	-	-
Machinery and equipment	5,056	4,954	4,861	Urban renaissance bonds	421,700	495,000	540,000
Vehicles and transportation equipment	9	6	4	Discount on bond (-)	-7	-6	-4
Tools furniture and fixtures	6,516	4,430	2,657	Long-term loans payable	9,134,960	9,036,136	8,846,457
Land	7,915,094	7,890,581	7,849,968	Reserve			
Construction in progress	49,094	70,032	91,015	Reserves for retirement pensions	38,364	37,956	38,404
Intangible fixed assets	40,269	40,268	40,268	Guarantees for long-term acceptance	25,544	25,544	25,544
Investment and other assets	23,987	24,222	24,620	Asset retirement obligation	3,071	3,136	3,202
Investment securities	500	500	500	Other fixed liabilities	7,468	5,111	3,118
Affiliated companies stock	7,051	7,051	7,051	(Total liabilities)	10,857,912	10,777,604	10,640,841
Bankruptcy or rehabilitation claims, etc.	14,063	13,948	13,833	Capital	988,079	988,079	988,079
Allowance for possible loan losses	-14,063	-13,948	-13,833	Financing by the Government	986,079	986,079	986,079
Security deposit and guarantee	16,436	16,670	17,068	Local government investment	2,000	2,000	2,000
				Capital surplus			
				Capital surplus	42,728	42,775	42,775
				Retained earnings	110,769	110,378	137,928
				Reserve carried forward during former medium-term target period	-	99,969	99,969
				Reserve fund	129,107	-	10,409
				Unappropriated retained earnings or unappropriated loss for the period (-)	-18,338	10,409	27,550
				(of this, gross profit or loss (-))	(- 18,338)	(10,409)	(27,550)
				(Total equity)	1,141,576	1,141,232	1,168,782
Total assets	11,999,488	11,918,836	11,809,623	Total liabilities and equity	11,999,488	11,918,836	11,809,623

Notes 1. Figures for projects with complete capital appropriation and consignment, which are not eligible for FILP, are also included.

2. Components may not add up to the total because of rounding.

Income Statement (Urban Renaissance Account)

(Unit: million yen)

Item	FY2018		FY2019		FY2020	
	(Result)		(Estimated)		(Planned)	
Ordinary expenses		844,230		832,593		791,762
Urban renaissance expenses	146,865		156,266		112,517	
(Transfer cost)	(138,369)		(146,650)		(100,885)	
(Depreciation cost)	(56)		(56)		(56)	
(Other urban renaissance expenses)	(8,440)		(9,560)		(11,576)	
Rental housing administrative expenses	462,891		487,207		506,296	
(Depreciation cost)	(87,464)		(88,098)		(89,463)	
(Other rental housing administrative expenses)	(375,428)		(399,110)		(416,833)	
Reconstruction administrative expenses	453		188		4,382	
Consignment expenses	111,847		79,782		58,002	
General and administrative expenses	15,273		14,349		16,965	
Finance expenses	104,000		92,724		91,522	
(Interest costs)	(103,218)		(92,063)		(91,021)	
(Other financing costs)	(782)		(661)		(501)	
Loss on valuation of property for sale	607		-		-	
Miscellaneous losses	2,292		2,078		2,078	
Ordinary income		953,991		879,781		864,545
Incomes from urban renaissance	153,664		156,537		154,700	
Rental housing administrative income	658,253		625,012		626,435	
Reconstruction administrative income	-		-		4,180	
Trustee income	114,116		79,782		58,002	
Revenues from subsidies, etc.	23,462		15,454		18,775	
(Revenue from national treasury subsidies)	(21,635)		(11,866)		(14,467)	
(Revenue from local government subsidies)	(1,828)		(3,588)		(4,308)	
Contributions	97		97		97	
Financial revenues	3,997		2,899		2,356	
Miscellaneous income	401		-		-	
Ordinary profit		109,761		47,188		72,784
Temporary losses		97,491		36,809		45,259
Loss on sale of fixed assets	435		-		-	
Impairment loss	97,056		36,809		45,259	
Temporary profits		16,113		30		25
Gain on sales of fixed assets	15,425		-		-	
Reversal of allowance for doubtful receivables	688		30		25	
Net profit		28,383		10,409		27,550
Transfer to deferred and accrued accounts for creation of housing sites, etc.		46,721		-		-
Gross profit or loss (-)		- 18,338		10,409		27,550

Notes 1. Figures for projects with complete capital appropriation and consignment, which are not eligible for FILP, are also included.

2. Components may not add up to the total because of rounding.