

A STUDY ON THE SUPPORT MEASURES TO URBAN DEVELOPMENT PROJECTS TAKEN AT A TIME OF PROPERTY MARKET CRISIS IN THE 1990'S : COMPARATIVE STUDY OF THE CASES IN FRANCE AND JAPAN

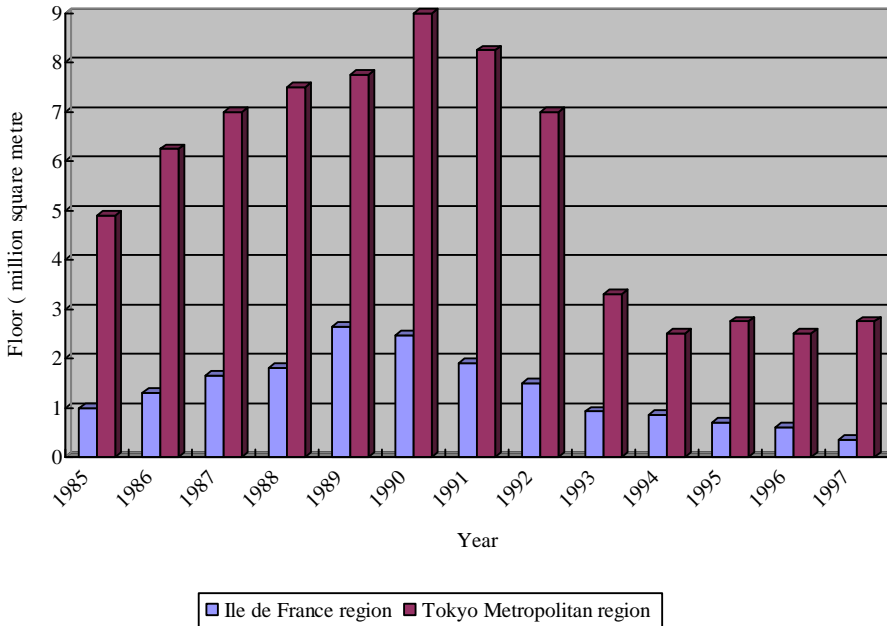
Toshihiro Hayata and Akira Koshizawa

Introduction: the objectives of this study

The international property market crisis in the early 1990's had a severe impact on urban development projects in many developed countries. Many projects suffered from large financial deficits, mainly because of the poorly performing property market and overall economic stagnation after the boom and slump in the early 1990's. As shown in Figure 1, both Japan and France experienced a similar market downturn in the 1990s and it caused severe financial difficulties to many urban development projects in these countries.

This study compares cases in France and Japan, in terms of both the financial situation after the property market crisis and the accountability of project financing, as the basis of improving the public-private partnership in major urban development projects. For this purpose, this study analysed the most recent reports and internal documents compiled by the local authorities and public corporations in both countries.

**Figure 1. Changes in office floor put into construction
in the Ile de France region from 1985 to 1997**



Source: La crise immobilière des années 80 et 90, l'Observateur de l'immobilier No.41-42, 1999.

Financial Difficulties of Large Scale Urban Development Projects in France

In France, large-scale urban development projects, such as La Défense development scheme and the Seine Rive Gauche development project in Paris, suffered from the property market crisis in the 1990's. The French national and local governments arranged for adequate and timely supportive measures for these projects. It should be noted that appropriate public accounting had been prepared and published from the outset of these projects. As to La Défense, the authors conducted the analysis of the case in other

studies¹⁾. Therefore this paper mainly analyses the case of the Paris Rive Gauche Area development projects.

The Paris Rive Gauche Area development is the largest urban redevelopment project ongoing in Paris conducted by the Paris Rive Gauche development corporation (Société d'Économie Mixte d'Aménagement de Paris, SEMAPA). Based on the concerted development plan (ZAC) decided in 1991, this project aims to develop 130 ha area of mixed land use on the left bank of the Seine River. As to this project, the financial situation has been also made available to public in its annual reports from the beginning of the project, even though it is still in the early stages of its program (see Table 1).

**Table 1. Paris Rive Gauche development project in figures
as of the year 2000**

Surface area	130ha (of which 26ha developed covering the railway tracks)
Development Area	Total 1,937,000m ² Housing 550,000m ² (5,500 apartments for 15,000 habitants) Office 900,000m ² (10,000 employees) Retail, service, arts and small scale industry 237,000m ² Public facilities 250,000m ²
Length of Roads	14,9km

Source: Rapport annual 1999, SEMAPA.

¹⁾ A study on the Financial Management of the Public Agency for the Development of La Défense Region (EPAD), etc. Although the positive financial balance at the end of EPAD's mandate was considered quite unlikely in the early half of the 1990s, the financial forecast of the project was much improved with rapid decision of the Sate to give adequate financial support in forms of direct loans, etc. much improved the financial situations in the following years. It is now considered that the financial equilibrium will be achieved in 2007. The appropriate financial acceptability of EPAD was also the basis of this support measures.

In 1991, the zone development planning (Plan d'Aménagement de Zone, PAZ) of Paris Rive Gauche Area was approved by the Paris city council and the public-private partnership company (SEMAPA) was designated as the developer for the zone. In the same decision, the Paris city council published the provisional financial programme of the project. As explained earlier, soon after this decision, the project experienced the period of bad market conditions.

Observing that the financial situations were getting different from those envisaged in the original programme, the city of Paris decided to support the project quite rapidly. It was as early as in 1996 that the Paris city council made a decision on a large scale revision of the provisional financial programme, together with the decision of transferring substantial part of the financial responsibility of providing large public facilities from SEMAPA to the city. The reasons of revision were explained as follows. Firstly, the change in economic climate, secondly, the change in legislation concerning the financial responsibility of developers, and thirdly, the change in development project itself.

As to the first point, the price of office floor was estimated at 22,500 FF per m² in the 1991 financial programme. The price was changed to 14,500 FF per m² in the 1996 programme. The price of acquisition of land, especially that from French National Railway Corporation (SNCF), was also changed. As to the second point, an article in the French urban code (L311-4-1 du Code de l'Urbanisme) was reformed in 1993, articulating that the developers do not carry any financial responsibilities for the public facilities other than the facilities for the needs of the future users of the development sites. This reform was done in order to limit the financial burdens of developers. This caused a lot of transferring the financial responsibility from SEMAPA to the city of Paris, concerning the financing of trunk roads, sewage systems and other public facilities that would serve not only for the future residents of the zone but also for a larger public users. As to the third point, the development plan (PAZ) was modified and downscaled in 1996 with the same decision of the Paris city council. Especially the project of underground roads were

abandoned and it contributed much to downscale the size of expenditure programme. The changes in the provisional financial programmes are shown in Table 2.

Table 2. The provisional financial programmes in 1991 and in 1996
(in million FF)

Expenditure	1991 program (x)	1996 program (y)	Difference (x)-(y)
(A) Land Acquisition	9,832	7,927	1,909
Acquisition from SNCF	(5,384)	(3,700)	(1,684)
Other acquisition	(4,448)	(4,227)	(221)
(B) Demolition work	100	56	44
(C) Covering work on train lines	3,680	2,742	938
(D) Works of roads, sewerage and other lines, and surface development	3,859	1,228	2,631
(E) Other works	2,447	1,505	942
(F) Common operational expenses	4,771	4,092	679
(G) Public Car Parking	629	400	229

Income	1991 program	1996 program	Difference
(I) Sales of Office Floor and related parking facility	20,295	13,095	7,200
(J) Sales of Housing Floor and related parking facility	3,006	2,424	582
(K) Sales of various premises	1,020	572	448
(L) Other income	1,280	1,900	-620
Contribution by the National Library	(550)	(details NA)	
Contribution by the Technique Gallery	(150)		
Sales of displaced rail lines to SNCF	(130)		
Public car parking	(400)		
Contribution of Paris for sewage	(50)		
(M) Total of Income (I) to (L)	25,601	17,998	7,603
(N) Balance of operation (M)-(H)	343	48	295

(H) Total of Expenditure (A) to (G)	25,258	17,950	7,308
-------------------------------------	--------	--------	-------

Source: Délibérations du Conseil de Paris du 8 juillet 1991 et du 22 juillet 1996.

The financial reports of SEMAPA have been published annually to make the financial conditions apparent to public and to show the changes in the provisions of financial balance towards the end of the project. As shown in Table 3, the most recent financial report in 1999 shows that the project financing has been maintained well in line with the decision of Paris City council in 1996. This indicates that the decisions of the city of Paris made in 1996 to revise the financial programme at a large scale and to support the financing of the project by taking over responsibilities of developing major public facilities were quite appropriate and timely.

As a result, it is forecasted that the positive financial balance at the end of the project will be secured, as shown in Table 4. Although the time of the end of project is not identified even in the most recent financial documents, it is explained by the city of Paris that the city will carefully keep checking the financial conditions of SEMAPA so that it can give appropriate advises on necessary revisions of financial programme and financial supports when necessary, until the project will be completed. In this sense, the financing of the project is always controlled by the city properly so that the objectives of the project can be successfully achieved.

As an important prerequisite of this rapid and adequate support decision taken by the Paris city, it should be noted again that the appropriate financial accountability has been secured from the beginning. SEMAPA has published its financial account on the Paris Rive Gauche Area development project annually in forms of the financial documents according to the principles of financial accountability that is required by law to all mixed economy companies in France. As shown in Table 5, the financial accounting of SEMAPA is based on the same methodology as the corporate accounting of the private sector.

**Table 3. The previsions of income and expenditure
in 1999 Financial Report of SEMAPA (thousand FF)**

Expenditure	As of 31/12/1998 (x)	To be realised (y)	Total of (x)+(y)
(A) Land Acquisition	2,788,500	5,134,400	7,922,900
(B) Demolition	15,500	37,400	52,900
(C) Covering work on train lines	397,600	2,350,900	2,748,500
(D) Works of roads, sewerage and other lines, and surface development	424,900	785,700	1,210,600
(E) Other works	215,700	1,273,100	1,488,700
(F) Common operational expenses	1,270,200	2,837,800	4,108,000
(G) Public Car Parking	121,600	278,400	400,000
(H) Running	2,200	1,900	4,100

Income	As of 31/12/1998	To be realised	Total of (a)+(b)
(J) Sales of Office Floor and related parking facility	873,200	12,221,800	13,095,000
(K) Sales of Housing Floor and related parking facility	172,000	2,252,300	2,424,300
(L) Sales of various premises	45,500	526,500	572,000
(M) Sales of public holds	76,000	0	76,000
(N) Funds of competition	0	265,000	265,000
(O) Other income	209,300	1,352,000	1,561,300
Contribution by the National Library	(207,300)	(0)	(207,300)
University	(0)	(804,000)	(804,000)
Public car parking	(0)	(400,000)	(400,000)
Sales of displaced rail lanes to SNCF	(0)	(130,000)	(130,000)
Contribution by developers	(2,000)	(18,000)	(20,000)
(P) Total of Income (J) to (O)	1,376,000	16,617,600	17,993,600
(Q) Balance of operation (P)-(I)	-3,860,200	3,918,100	57,900
(I) Total of Expenditure (A) to (H)	5,236,200	12,699,600	17,935,700

Source: rapport annual 1999, SEMAPA.

Table 4. Forecasting of the financial balance toward the end of project (million FF)

Year	End of 1998	1999	2000	2001	2002	2003	2004	2005	End of project
Accumulated income (a)	919	1,469	2,770	4,686	6,160	7,201	8,035	8,666	17,994
Accumulated expenditure (b)	4,418	4,909	5,691	6,899	7,549	7,988	8,459	8,830	17,936
Accumulated balance (a)-(b)	-3,499	-3,440	-2,921	-2,214	-1,390	-787	-424	-164	58

Source: rapport annual 1999, SEMAPA.

Table 5. Financial Balance of Paris Rive Gauche Area Development (Abbreviate, End of 1998, FF)

Assets Gross	Depreciation	Net
Current Assets 4,972,834,038.15		4,972,834,038.15
Fixed Capital 15,435,617.69	12,224,883.44	3,210,734.25
Total Assets 4,988,269,655.84	12,224,883.44	(C) 4,976,044,772.40

Liabilities and Equity
Total Liabilities (A) 4,954,373,710.19
Equity (Capital and Reserve) (B) 21,671,062.21
Total of (A)+(B) (=Net Total Assets (C)) 4,976,044,772.40

Source: Compiled and published by SEMAPA in May 1999.

Financial difficulties of large scale urban development projects in Japan

The large scale urban development projects in Japan also suffered from the property market crisis in the 1990s. The Tokyo Metropolitan Government

published this year a detailed financial report concerning the Tama New Town development plan, one of the most typical large scale new town development projects in Japan²⁾.

Although the development was very successful in around the first 20 years, supported by the steady increase in both population and land price, the weakened pressure of population inflow, together with the sharp decrease of land price has seriously damaged the financial situations of these projects after that period. For example, the specified land readjustment project that started in 1985, a 174ha area development project, was planned to balance the cost of development and the income of the development during the whole project period. However, because of the changes in market climate in 1990s, the financial conditions of the project worsened seriously.

To this situation, the problem that made things worse was that the financial situations could not be properly understood with using the traditional methodology of financial accounting. The administrative accounts, being used commonly by national and local governments to explain the financial situations of projects, do not explain the financial balance until a project is completed. Implicitly noticing that the financial situations were getting quite bad in 1990s, the Tokyo Metropolitan Government conducted for the first time a pilot case study to prepare a report on the financial situation of the project, by making the accounting documents such as a balance sheet and an income/ cost sheet which are used for projects of the private sector.

The conclusions of the report were as follows. Firstly, the accumulated negative equity was estimated as much as 2.8 billion yen at the end of 1998 fiscal year, reflecting each year's negative balance of income and cost. Secondly, it was roughly estimated that the land would have to be sold at a

²⁾ Tama New Town development plan, a plan to develop a 2,984 ha new town in a south-west part of the Tokyo metropolis, formulated in 1964 in order to accommodate the rapid and large scale inflow of population to Tokyo metropolitan area and to control sprawl. Several segmented development projects had been conducted in the New Town area.

higher price than 210,000yen per square meter, even though the estimation excluded the indispensable elements of cost, such as the cost of sales and the cost of interest on payment out of the general account. Finally, the report concluded that it would be apparently impossible to sell the land at such a high price, considering that the price of the land in the areas would still decrease significantly and that it would take several years to prepare the land for sale. The report concluded that it would be desirable to stop the project in order to avoid further increase in the financial deficit of the project.

The report also carried out a trial to give approximate guidelines on the financial situation of a specific new residential area development project implemented by the Tokyo Metropolitan Government in Tama new town, a 738ha new town development project. It concluded that a positive balancing of this project finance was impossible and that it was too late to estimate the financial balance at the time when the project was largely completed.

Several other large-scale development projects in large metropolitan areas also suffered from the severe financial problems by similar reasons in the 1990s. For example, Tokyo bay-area development project, a 422ha business district development project suffered from the much decreased moving of companies than expected due to the changes in economic conditions. Although the Tokyo Metropolitan Government still maintains the principle to balance the costs with the profits of the project, the financial plan to balance then has not been prepared yet. Another example in the Osaka metropolitan area, Izumi-Sano high-tech industrial park development project, was abandoned following the changes of economic conditions. As to this, the financial balance was disclosed to public only after the project was abandoned.

Conclusions

The above comparison of cases in France and in Japan highlights the following points. Firstly, the supportive measures were decided quite timely at the financial crisis of projects in France. Also the support measures were

adequate enough to improve the situations and to achieve the goal of financial equilibrium at the end of the project. In contrast, the cases in Japan showed the absence of quick decision making to support the financing of the projects. An important difference can be observed between the cases in France and in Japan. The former cases regained the healthy financial conditions in a rather short term and the latter ones are either still suffering from bad financial situations without any positive prospect or abandoned without achieving the original public goals.

Secondly, as an important prerequisite of the financial support to such projects, the accountability of the project financing is quite transparent in France. Whereas the real financial state of affairs of projects has not been clear in Japan due to the absence of rules of appropriate financial reporting. Almost all of the present and past urban development projects conducted by the public sector and by the public-private partnership do not have such accurate and comprehensive financial documents, an important basis to ask for the support with public financing when appropriate. Even in the case of Tama New Town of which financial conditions were made apparent as a pilot case, the information provided in the report was not at all adequate, without such important elements as the financial cost of loans from the general account, the real costs of land acquisitions or the present values of the assets (values after the depreciation).

It is generally observed that Japanese national and local governments have not been seriously concerned about the accountability of financial situations of public sector related projects. With this absence of accountability, Japanese governments are generally very slow in responding to financial crises of projects, often delaying their decisions until it is too late to revive the projects. The above analysis highlights the importance of policies for public authorities to give appropriate and timely financial support and the need of public accountability to encourage public support for such decisions of support.

Urban development projects, especially large scale ones of national interest, are vulnerable to changes in economic conditions. To give appropriate support to such projects is important considering the impacts of such projects

on the competitiveness within cities and the quality of life in cities. The basis of such support is the accountability (transparency) of project financing, because accountability is the key factor to obtain public consent for giving financial support for such projects by public resources.