

Leasing & Rental
INDUSTRIAL
SURVEY

Prosperity without Profits

The leasing industry in Japan has grown rapidly in recent years. The contract value for fiscal 1986 is estimated to reach ¥5 trillion (about \$30 billion), a 7% share of total capital investment for the year. Clearly leasing has taken root as an effective means of equipment financing.

A number of factors may be cited in the dizzying growth of this business. The first is progress in computerization. Demand for information, communications and office automation equipment, particularly computers, has soared in pace with increasing corporate demand for rationalization and improved information handling. A lease, which in effect accelerates depreciation, is an efficient way to meet such demand, particularly as technological innovations render expensive equipment obsolete in a matter of years.

A second factor is growing customer acceptance of the various advantages that leasing offers. In addition to accelerating depreciation, long-term financing at fixed rates is readily available virtually free of mortgage. Moreover, the clerical work related to acquiring new property can be farmed out to outside firms.

Another consideration spurring the expansion of this industry is the fact that leasing companies have been providing financing on terms not much different from ordinary bank borrowing. This is because they have been able to obtain

enormous, low-cost funds at a time of continuing monetary relaxation.

Because of these favorable factors, the leasing industry expanded by more than 20% annually from fiscal 1981 to 1984. In fiscal 1985, the growth rate dropped to 17.6% and in fiscal 1986 to an estimated 15.7%. But despite the slowdown, the rate of expansion remains high. Information-related equipment, such as computers and communications equipment, has continued to enjoy strong growth, pulling the rest of the industry along. By contrast, the growth rate for industrial machinery and machine tool leases has dropped markedly. This is a result of weakening enthusiasm for capital investment, particularly in the manufacturing industry, reflecting the slowdown in economic activity.

The slower growth also reflects a change in the business stance of leasing companies as they come to emphasize qualitative improvements, rather than quantitative expansion that yields relatively small profit. The change comes at a time of growing competition among these companies in an expanding market.

As a result, profit margins have gradually declined. For large companies, profit ratios dropped below 2.0% in fiscal 1982 and thereafter. In fiscal 1986 the ratio is believed to have hovered around 1.7% despite the favorable effect of lower interest rates. Overall, the situation is one of "prosperity without profit."

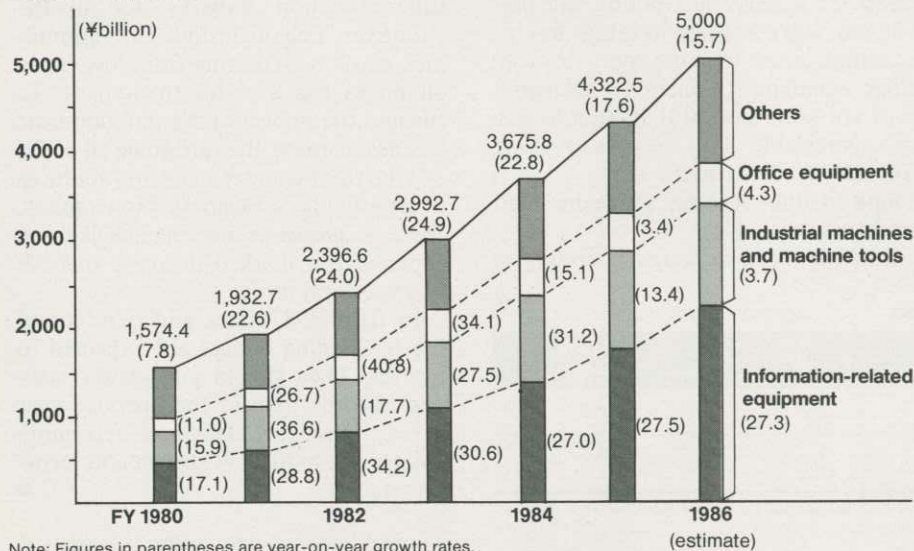
Another noteworthy recent development is the widening business scope of leasing companies. They now offer not only operating leases, which create higher value added, but also financial services in such nonlease areas as general loans on real estate and properties, installment sales and factoring. The weight of these services has gradually increased, while the share of lease contracts in total transactions of major companies declined from over 50% in fiscal 1980 to under 40% (estimated) in fiscal 1986. Other areas of business expansion are international lease contracts and transactions by overseas subsidiaries.

Looking ahead to fiscal 1987, overall capital investment is likely to stagnate, although growth should continue in information-related fields. Demand for industrial machinery and machine tool leases will remain sluggish even as high growth continues for information-related equipment. In addition, financial services and other nonleasing activities are expected to register further growth. The industry as a whole is expected to maintain double-digit growth, although without any improvement in profitability.

Whereas leasing companies lease machines and equipment to corporations, rental firms target individuals by providing consumer durables and other articles of daily life. Rental companies have surged ahead in recent years. Until the early 1980s, about the only rentals were formal wear for weddings and rent-a-cars. Now, however, there is a wide range of rental companies, up to and including fully-stocked chain stores.

The rental business is clearly a growth industry, commanding a market worth an estimated ¥400-500 billion (about \$2.4-3 billion), including rent-a-car services and formal wear. The growth of this industry reflects the greater value Japanese now place on "functionality" in their lives, a result of the material affluence that has accompanied the social maturation of the country. The increasingly diverse lifestyles of the Japanese people are also reflected in the great range of rental items available, from video cameras to furniture. The rental business is expected to continue to grow as a new service industry catering to the needs of the times. ●

Lease Contracts



Note: Figures in parentheses are year-on-year growth rates.

(Miki Naito, economist)