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Saving a symbol of US-Japan ties: Tokyo American Club

JapanBusinessSeminar

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From its humble beginnings in 1928, when the Tokyo American Club was founded in the capital's Yurakucho district by 51 American executives, TAC has reinvented itself to meet changing times. The exclusive private members' club was redeveloped not fewer than four times before it settled into its newly built facility in Azabudai in 2011.

What many people don't realize is how close the club came to financial ruin due to the 2008 Lehman crisis. When membership numbers tumbled, TAC had difficulty meeting the terms of a burdensome loan agreement.

To finance construction of the impressive ¥28 billion ($xxx million) Azabudai building, ¥11 billion had been borrowed at a 4% annual rate of interest. The loan also carried an onerous debt service coverage ratio (DSCR) covenant. If the hurdle of the DSCR ratio could not be surmounted, TAC would be in "default." Even if creditors did not pull the plug, it would still have difficulty selling memberships — who, after all, would pay ¥3 million to join a technically bankrupt club?

Back in 2006, when the construction loan was secured, the club's financial plan seemed sound. Despite Japan's "lost decade," membership had risen 27% from 3,053 in 1995 to 3,888 by 2001. True, the total fell to 3,558 at one point after the bursting of the dot-com bubble, but that was against a steady uptrend in new Japanese memberships.

The Lehman shock changed everything. Many financial services companies, U.S.-based Lehman Brothers Holdings Inc. among them, disappeared. Others moved to Hong Kong and Singapore. Although the club's number of Japanese members continued to climb, total membership sank from 3,729 in 2007 to 3,249 by 2010. The ¥11 billion loan became distressed and TAC's future was thrown into jeopardy.

It took John Durkin, a former U.S. military officer, to turn the club's fortunes around. Durkin was an experienced hand. He had worked at many blue chip companies, including a stint as chief financial officer of Nikko Cordial Financial Group — a firm that was acquired and subsequently sold by Citigroup of the U.S. Durkin, the club's volunteer treasurer, was elected TAC president in November 2011.

Durkin recognized that the club's pricing had not adjusted to the "new normal." With fewer corporate members in Tokyo to pay the hefty ¥3 million one-time entry fee, the price was dropped to ¥800,000 on a promotional basis for long-term foreign residents. Together with another promotion that closed in March, the club added an extra 350 memberships, raising the total back up to 3,604.

To address the demanding terms of the original loan, Durkin sought to restructure it. This was not easy, given that banks shy away from nonprofit organizations like TAC. For a time, the search seemed hopeless. Eventually, Sumitomo Mitsui Banking Corp. agreed to extend a new loan at less than half the original rate.

Half of the club's ¥430 million yearly debt service now goes toward reducing principal. Under the old loan, the debt service payment was mostly absorbed by interest, so it would have taken 100 years to pay off the principal. Durkin now projects the ¥9.3 billion restructured loan will have shrunk to ¥3.7 billion by 2023 — a manageable sum indeed.

Importantly, the new loan lacks that troublesome covenant.

Commenting on the club's turnaround, Mike Alfant, chairman of the American Chamber of Commerce in Japan and a TAC member, said: "The Tokyo American Club is a symbol of goodwill, which furthers U.S.-Japan relations. Durkin was instrumental at securing the future of this iconic institution."

Richard Solomon publishes regular Beacon Reports at www.beaconreports.net