Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.32 2024.4.30

Chairman's Column

The End of Negative Interest Rates and Real Estate trends

Bank of Japan's Governor Ueda declared the end of the negative interest rate on March 20. As service providers, we believe there will likely be some impact on real estate fund market.

First off, the Japanese yen is becoming even weaker despite a shrinking interest rate difference between the U.S. and Japan. In terms of GDP, Japan has fallen to 4th in the world after being overtaken by Germany. Perhaps this result is a matter of the country's inability to generate income, rather than simply an interest rate matter. What's also unnerving is that the Bank of Japan is discontinuing its purchase of ETFs and J-REITs, which it had previously undertaken during its negative interest rate policy.

Meanwhile, U.S. FRB's Chairman Powell has forgone lowering interest rates at the last several meetings amidst growing pressure. Rather than lowering rates to combat a struggling economy, economic data shows the market is actually growing. It seems the central bank is waiting to see further proof that inflation is contained.

According to data released by Freddie Mac on April 4, the average 30-year fixed rate mortgage was 6.82%. At such high rates, it would be difficult to mortgage a condominium through a financial institution without a foreseeable higher income or salary.

In other news, Aozora Bank is in serious trouble with an expected loss of 28 billion yen for the latest fiscal year resulting from bad debts on U.S. commercial properties. Overall, the situation is shaky for property owners who may have to pay higher interest than rental income. The market decline is particularly pronounced for the U.S. where remote work has become normal, which has adversely affected offices and adjacent commercial buildings. As a result, property values are taking a hit.

In Japan, market conditions during and after Covid have been night and day. During Covid, hotels took a direct hit, resulting in high vacancy rates. For those that used high leverage, the strategy was to wait and see until Covid settled down. Inbound tourism is surging again, resulting in high occupancy for hotels. Post-Covid, workers have largely shifted from WFH back to the office.

As an example of rising property values in certain areas, a vacation home with maid quarters in Karuizawa have been selling in the 300 to 500-million-yen range (Nikkei Morning Satellite).

Although Japan has ended its negative interest rate, it's unlikely that rates will increase like the U.S., so CAP rates are much higher. Property values seem low in rural areas, and in stark contrast, some Minato Ward properties are listed at a whopping 13 million JPY per tsubo (~3.3 m^2).

by Kazuhiro Matsuzawa, Chairman

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Japan Real Estate

Keeping a close eye on lending rates

For this month's real estate topic, I asked the asset manager of a REIT.

-- Any recent changes in the real estate market?
There isn't anything significant that comes to mind, but interest rates have gone up. Since TIBOR has risen, both domestic and foreign investors are cautious about forward commitments.

-- I've heard that REITs are finding it difficult to acquire properties.
Long-term interest rates have been rising for a while, so asset types that rely on long-term financing are seeing a shrinkage in market cap. Implied cap rates are getting bigger than actual cap rates as well. We're keeping a close eye on interest rates.

With the BOJ's fiscal policy change to correct a drastically weakened yen, it seems that REITs are finding it difficult to acquire properties, especially assets like logistics facilities that require long-term financing. The capital market metric of implied cap rates are in some cases becoming higher than actual cap rates (more on "implied cap rate" in December 2023 article). TIBOR, the short-term interest rate is climbing as well, which is making both domestic and foreign investors cautious about forward commitments on properties.

After announcing the end of the negative interest rate in March, Governor Ueda has recently implied "an additional rate hike." Since the BOJ's fiscal policy changes on interest rates have tremendous impact on real estate investments, it is crucial to keep a close eye on any developments.

by Shigeru Hirai, Business Management Group

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Security Token

The growing possibilities of the Security Token

The security token is a token issued on the blockchain and used to fund-raise. In recent years, real estate-backed security tokens have grown tremendously in total issuance and becoming more familiar.

As of now, market players like real estate funds are primarily tokenizing Japanese Depository Receipts and TK investments, but in recent news, Marui department store began issuing tokenized bonds to Epos Card members, with a portion of interest paid out as Epos points. While many of these products are experimental, the use of security tokens are expected to grow.

For example, investments in buy-out funds and venture capital funds are only available for professional investors, but if an investment partnership (LPS) were to purchase the shares and subsequently tokenize those LPS shares, individual investors would theoretically be able to invest in products typically reserved for professionals. That would be something interesting.

Another idea might be to tokenize train lines that are on the brink of becoming defunct. If the issued token is combined with an NFT gift to a fanbase of locale-specific railroads and trains, such a system may work. It gets me very excited for such possibilities.

Meanwhile in the U.S. where the security token market is advanced, an NBA basketball player securitized his salary and sold them as security tokens. In this case, the tokens are another way for players and fans to connect. If the Dodger’s Ohtani were to tokenize his salary, I am sure it would be immensely popular.

The security token itself is simply a way to fund-raise through blockchain. However, in Japan, the financial instruments and exchange law and tax law place many restrictions on this new product, which likely causes many issuers to simply fund-raise through traditional means. Because the issuer can potentially rally their fans and use the security token as a marketing tool for their products, it would be exciting to see such possibilities unfold in the future.

by Jun Yoshioka, ASA Advisory

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Tax Update

National Tax Agency's Q&A revisions regarding the Invoice System

On the National Tax Agency's website, a Q&A for the invoice system has been available for a while and was revised in April. Over 6 months have passed since the system began last October. We hope that your compliance has gone smooth thus far.

The revision combines all FAQs into a single Q&A, which includes the 2024 tax reform measures for a total of 23 additional questions answered. Any previously answered questions have been revised as well, so it may be worth taking a second look. Here we explain one example of a frequently asked question.

＜Question 66: Issuing qualified invoice based on multiple contracts＞

The general rule allows rounding of consumption tax amounts only once for each tax rate per qualified invoice. Although very detailed, we've received numerous questions on whether the received invoice is applicable under the qualified invoice rules.

For an invoice that includes multiple contracts, as the 【example】blue outline shows, if the total sales amount including tax for the taxable asset, tax rate, and imputed tax amount is clearly stated, the requirements of having the "total amount excluding or including tax for the transferred taxable asset for each tax rate category and the applicable tax rate" and "Consumption tax totals for each tax rate" are satisfied.

In the 【example】below, although A, B, C are all stated as rounded consumption tax amounts based on separate contracts, this is solely for reference purpose. The total consumption tax amount for these separate contracts does not need to match the 【example】red outline's total consumption tax amount. Thus, even if separate consumption tax amounts for each contract is written, if the 【example】blue outline is written, the requirements for consumption tax disclosure on the qualified invoice are met.

【Example】Excerpt from NTA website "Q&A question 66: Purchase tax credits for consumption tax under the qualified invoice retention requirement"

Invoice

To: XXX company November 1, 20XX

October (10/1~10/31)

Total amount	C-tax (10%)
96,745 yen	8,795 yen

By contract	Description	Amount
Contract A	13,157 yen	1,196 yen
Contract B	38,233 yen	3,475 yen
Contract C	45,355 yen	4,123 yen

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Consumption tax is calculated as the Tax included total of the trasferred taxable asset 96,745 yen divided by the applicable tax rate. 96.475 x (10/110) = 8,795 yen

by Sachie Aoki, Knowledge Group

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From the Editor

To improve our work environment, ASA Group has the motto of “For anyone to work anywhere and anytime.” Globally, there seems to be publicly listed companies that are enforcing a return to the office, but ASA is trying to create a standard that is the opposite.

In other news, the construction of the TSMC factory in Kumamoto, Japan is creating a semiconductor chip boom. The company is making progress with their U.S. factory as well. The difference however seems to be that construction was smoother in Japan, partially due to the Japanese construction workers working day and night to complete the project according to schedule. We hope this sort of corporate excellence can set an example for other companies and local revitalization efforts in Japan.

by Jun Murata, Corporate Officer

(image: TSMC website)