

NewsLetter



Aoyama
Sogo
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Chairman's Column

Upward Trend in Sales and Leaseback Transactions in Real Estate

Recently it was reported that sales and leaseback transactions (herein after referred to as S&L transactions) in real estate in FY 2020 reached 200 billion yen, up 2.7 times from the previous year (Urban Research Institute Corporation). An S&L transaction in real estate is a transaction in which one party sells an asset held for its own use and leases it back.

In the second half of the 1990's, when Aoyama Sogo Accounting Firm was founded, the same type of transaction was made against the backdrop of financial restructuring and management characterized by streamlining (slim down the balance sheet and raise ROA) following the collapse of the bubble economy.

The uptrend in 2020 was caused by moves such as securing cash reserves and the reconsideration of workplace space due to COVID-19. Both of these are the same S&L transactions, but their intent seems to be quite different.

However, the prices of office buildings themselves have been transitioning without deterioration even in the current circumstances, which makes me feel that each fund is taking a wait-and-see approach.

Given that COVID-19 cases are not declining with the progress of vaccination, what will happen in the future? What do you think?

(Kazuhiro Matsuzawa, Representative Director and Chairman)



Renewable Energy Information

Survey on the Supply and Demand of Wood for Wood Biomass Power Generation

On July 30, the Ministry of Internal Affairs and Communications (MIC) released a report on the results of the "Fact-finding Survey on the Supply and Demand of Wood for Wood Biomass Power Generation." The MIC said that the survey had been carried out for the purpose of grasping the actual impact of the expansion of power generation using biomass on the regional supply and demand of wood, and of contributing to the consideration of systems and policies, etc., for the use of wood biomass, which helps the development of the forestry industry and the revitalization of regional economies.

The following three points are clearly stated as the results of the survey:

I. Operational status of facilities for wood biomass power generation and the effects after the start of facility operation
The "number of facility operating days", "total volume of power generated" and "volume of wood used" of the majority of the power generators surveyed increased by more than initially planned, and the average volume of wood production and sales at the forestry cooperatives under the survey almost doubled in the last eight years. On the other hand, some other sectors suffered from insufficient procurement of wood, some biomass power generation facilities had to cease operation due to poor timber procurement, and some wood users faced longer procurement distances.



II. Response to sustainable wood biomass power generation
Given that wood is distributed over a wide area, it is difficult for prefectures and those who wish to enter this sector to judge how the existing use of wood and the stable procurement of wood in the future will be affected.

In addition, there is concern that the extension of the area of wood procurement due to tight supply and demand will lead to an increase in greenhouse gas emissions caused by the transportation of wood.

III. Toward the independence of wood biomass power generation
Taking into account the results of the survey, MIC cited that it is necessary for the government to take the following initiatives.

- ①To assess, from a wide-area perspective, the impact of biomass power generation on the existing supply and demand of wood and the possibility of the stable procurement of wood, and to specify the roles required of each prefecture [(Ministry of Agriculture, Forestry and Fisheries (MAFF), Ministry of Economy, Trade and Industry (METI))]
- ②To provide sufficient information reflecting the actual situation of wood procurement to those who wish to enter the sector (MAFF and METI)
- ③To consider the volume of greenhouse gases expected to be generated (METI)
- ④To consider the provision of timely guidance and supervision, etc., with an eye on the trends in the local wood supply and demand after biomass power plants commence operation. (MAFF and METI)

Confirming the facts through reports on each power generator, we feel that the number of completed biomass power generation facilities was on the rise for the last few months. In addition, the size of the power plants seems to be changing—previously smaller power plants prevailed, but now more larger plants are under operation. We, Aoyama Sogo Accounting Firm, provide consultation services for biomass power generation projects and expect the number of inquiries to increase in the future.

I think that we should watch the fuel shortage from the viewpoint of the stable provision of dividends since the contents of the survey will inevitably affect the volume of power generated.

(Hirokazu Ando, Executive Manager)

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Real Estate Market Information

REIT TOB

Regarding the TOB for Invesco REIT, which has been attracting a lot of attention, it was reported that the "hostile TOB" by Starwood Capital had failed while the "defensive TOB" by Invesco itself had been successfully completed. What will happen in the future to the REIT forcibly delisted as a result of the TOB? Will Invesco continue to hold the REIT? Or will it exit?

If the investment corporation continues to hold the REIT, corporate tax will be imposed since conduit requirements as a REIT are not fulfilled. Accordingly, when considering an economic rational, proceeding to exist is probably reasonable. If it exits, what method will be taken? The first possibility is an exit in the capital market. However, given what happened from the start to the end of this TOB, relisting as a REIT or private placement maybe difficult depending on conditions for solicitation. Although the possibility of a merger with another REIT cannot be ruled out, if it happens, asst management fees will not be received any more.

The second possibility is an exit by selling property. However, if the property is simply sold to external investors, funds invested may not be sufficiently recovered and furthermore no asset management fee is expected.



Personally, I get the feeling that the most thinkable scenario is that Invesco will sell the property to some private placement funds operated by itself. If Invesco takes such property through the existing private funds, it will be able to enjoy more freedom in pursuing its management strategies such as changes in book value and property replacements, and even be able to wait for the improvement of the market while receiving asset management fees. Re-exit as a REIT would also be possible in the future.

Anyway, since this is the first case, I would like to keep an eye on what will happen from now on.

(Shigeru Hirai, Client Relations Group)



Global Real Estate News

Emerging like a Ghost

Restaurant operators have been one of the hardest hit sectors of the economy amidst the pandemic. Combined with government restrictions and changing consumer behavior, food services are changing their formula to survive.

"Ghost kitchens" or barebones kitchen-only spaces are emerging where vacant lots were once occupied by retailers. With build-out costs being low (\$60K upfront for each kitchen according to SBE Group, U.S. lifestyle hospitality operator) compared to traditional restaurants, many newcomers and established operators alike are turning to this new business model.

C3, a leading U.S. ghost kitchen operator, part of SBE Group has 250 ghost kitchens as of February 2021, with plans to open 1,000 more by the end of this year. Investors include Brookfield Asset Management and Simon Property Group, owners of large shopping malls and mixed use properties. Their biggest project to date will be New York City's Manhattan West (mixed used property) which will include C3's famous brands, Umami Burger and Krispy Rice.

Another player in the U.S. ghost kitchen market includes Cloudkitchens, started by a former Uber executive. Their holding company, City Storage Systems have begun acquiring vacant or distressed strip malls and warehouses to be converted and leased as ghost kitchens. They have received \$400 million funding by Public Investment Fund, the Saudi sovereign wealth fund, also known as an investor in Softbank Vision Fund.

While traditional restaurants will continue to have its appeal, the market for food delivery seems to have just gotten started.

(Yuichi Totani, Client Relations Group)



C3 brand, Umami Burger. (Photo: official website)



Tax-related Topic for This Month

Measures To Save Corporate Tax

Key measures to save corporate tax include (1) purchasing investment products to legally record losses, (2) transferring income to lower tax rate countries, and (3) restructuring an organization to take advantage of tax losses to be incurred, etc. However, it is necessary to takes several things into consideration before implementing any of these measures.

A typical example of (1) is investment in an anonymous association which engages in aircraft leasing business. With this method, losses attributed to depreciation and interest payment in the earlier stages of investment can be recognized to reduce taxable income. However, this method has disadvantages such as taxation being simply deferred and the cash remaining tied up until exiting the investment.

(2) is a scheme in which profits generated from transactions between related parties are transferred to subsidiaries located in lower tax rate countries, so that the tax cost of the entire group is possibly reduced. However, without taking into consideration transfer pricing taxation, Controlling Foreign Tax (CFC) rules countering tax havens, etc., a huge amount of additional tax could be imposed. (3) is a method in which, through mergers, etc., tax losses and assets with latent losses of the merged company are transferred to the surviving company. However, considering the existence of regulations to restrict tax avoidance, careful consideration is necessary to implement this method.

Furthermore, even if the legal requirements are formally satisfied, transactions without economic rationale or actions without any other purpose than tax avoidance could be problematic when tax investigation is performed.

When implementing any scheme that delivers a relatively large amount of tax-savings, it is desirable, even from the preparatory stage, to do it while incorporating the opinion of tax experts, in the expectation of receiving a tax investigation in the future.

(Ikuro Tamagawa, Tax Consulting Group)

