

NewsLetter



Aoyama
Sogo
Accounting Firm

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Chairman's Column

The local office market has deteriorated as much as Tokyo.

The fifth wave of the new coronavirus infectious disease has been contained and the state of emergency was finally lifted on September 30.

Aoyama Sogo Accounting Firm manages a large number of vehicles for real estate securitization projects. Not surprisingly, what I am concerned about most of all is the trend of the office market, which accounts for about half of the total of those vehicles.

Particularly during the state of emergency, corporates and organizations thoroughly implemented working-from home arrangements in Tokyo, where many headquarter functions are located. Among those corporates and organizations, some IT companies made a big turn, keeping 30% of their head office space, cancelling the contracts for all the remaining space, and embracing free-address systems. Affected by these developments, rents in Tokyo are on a downward trend.

On the other hand, local cities have turned out to be a focus of attention due to the following reasons:

- ① Teleworking has been less implemented than in Tokyo.
- ② Shared offices continue to open.

Source: Urban Research Institute Corporation (a think tank specializing in real estate within Mizuho Financial Group)



Symbolically, a major labor dispatching company declared that it would move its headquarters to Awaji Island, which became a topic of conversation.

I, myself, as a person from Ehime prefecture, thought for an instant that working in my hometown with lower Covid infection risk might be a good idea given that nothing is different wherever I work from. Even with the state of emergency lifted - and we can go for a drink - there is no mood which urges telework to go away. With the speed of communication being dramatically improved by 5G, will the move from Tokyo to other regions continue to accelerate as we see now?

Like others, we are paying attention to this matter.

(Kazuhiro Matsuzawa, Representative Director and Chairman)



Renewable Energy Information

Toward the realization of carbon neutrality



On September 30, 2021, the Ministry of the Environment formulated a "Leading Tenant Action Plan" which outlined the efforts for decarbonization by tenant companies, and began calling for companies and municipalities to support the Action Plan and publishing their names.

The background of the publication of the Action Plan is that office buildings accounting for a large proportion of emission volume are required to decarbonize in order to realize carbon neutrality in 2050. Particularly in terms of tenant buildings, persons who develop and/or operate buildings are not users of the same buildings, which is an issue to resolve in order to accelerate efforts for decarbonization.

For this reason, the Ministry of the Environment, by formulating the Action Plan, calling for companies and municipalities to support the plan and revealing their names, will inform building owners of the needs of tenant companies, and execute its plan to facilitate decarbonization of tenant buildings. More specifically, the Ministry will make widely available the needs for buildings which contribute to decarbonization such as ZEBs (Net Zero Energy Buildings) and let the owners know the efforts for decarbonization being made in cooperation with the owners of the buildings after tenants move in. It explained that provision of such information is expected to help building owners supply more decarbonized buildings. It explained that provision of such information is expected to help building owners supply more decarbonized buildings.

The Action Plan basically consists of an "action plan at the time of selection of buildings to move into" and an "action plan after moving in", and both of them are based on an idea of (1) energy saving (improvement of energy performance and reduction of energy consumption), (2) utilization of renewable energy, and (3) securing safety, health and/or comfortableness, and intellectual productivity, respectively, at the time of selecting the buildings and after tenants move into the buildings.

The Ministry cites advantages of supporting the Action Plan: communicating to owners the needs for tenant buildings which contribute to decarbonization and letting them know the efforts being made in cooperation with the owners of the buildings after tenants move in are expected to result in more supply of tenant buildings and ease of moving in; and such information provision as a part of the efforts for decarbonization and health management is expected to lead to the improvement of corporate social reputation and promotion of ESG investment.

We can expect that the government will continue to implement similar measures on the back of the situation where companies cannot ignore measures taken and information provided for carbon neutrality. If there is new useful information, we will keep you informed in this newsletter.

(Hirokazu Ando, Executive Manager)



NewsLetter



Real Estate Market Information

J-REIT 20 years



Last month, J-REITs marked the 20th anniversary of their foundation.

I was involved in structuring of securitized products at a Japanese megabank back then. Since I had been feeling the limit of product design in combining terminable debts such as corporate bonds and loans with indefinite real rights of real estate, and triggered by the lift of the ban on real estate investment trusts following the revision of the Investment Trust Act, I moved to a foreign investment bank and was preparing for listing a J-REIT.

On September 10, 2001, when Nippon Building Fund (NBF) sponsored by Mitsui Fudosan and Japan Real Estate Investment (JRE) sponsored by Mitsubishi Estate were listed earlier than any other players, I was excited along with my colleagues, saying “at last, we are up next.”

The 9/11 terrorist attack happened next day. I still clearly remember that colleagues from other countries working at midnight with me were glued to the emergency live videos on their PCs and started murmuring “Oh God....”

After that, the stock market plunged and IPOs were postponed indefinitely. In the end, I changed my job to a foreign-affiliated real estate company, unfortunately before seeing the recovery of the market. But since then, those IPOs performed successfully and have grown to be real estate securities with an established reputation.

The market capitalization of J-REITs, which was 260 billion yen at the time of foundation, has expanded to 22 trillion yen including private placement REITs while overcoming various difficulties beginning with the 9/11 incident and continuing to the 2008 global financial crisis and the Great East Japan Earthquake. I believe that J-REITs will forcefully overcome difficulties and continue to grow.

I would like to extend my heartfelt congratulations on the 20th anniversary of J-REITs’ foundation.

(Shigeru Hirai, Client Relations Group)



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Global Real Estate News



Q2 Boston Lab Market Report

Collier's Q2 Lab Report says that the Boston life science real estate market is booming, with peripheral cities gaining just as much traction. VC funding is continuing, with very low vacancy and very high rents. Lab space is in extremely high demand. Cambridge space is limited, so companies that engage in R&D to production are looking to suburban areas. Both conversions of existing properties and ground-up projects are prevalent, as "speed to market" is important right now.



Affect of U.K. Housing Boom on Post-Brexit economy

U.K.'s house prices are still rising fast. Reasons include short supply like in many cities globally. Along with investor sentiment that "brick and mortar investments" are viewed as safe during this time. Data suggests that there is an inverse relation between increase in home prices and decrease in exports. As profitability in the construction and real estate sectors rise, there is tendency for more workers and capital to flow from manufacturing into those sectors. This puts downward pressure on manufacturing and consequently to the competitiveness of U.K. exports.



Plans for \$400 billion U.S. Desert City

"Telosa" (not Tesla) is a \$400 billion project proposed by former Walmart CEO and architecture firm Bjarke Ingels Group to create a sustainable city in the desert. Proposed locations include Nevada, Utah, Idaho, Arizona, Texas and the Appalachian region. One of the key features is an endowment system that runs on the principle that citizens share in land ownership, contribute to the community, and receive good education and healthcare. The project will attempt to incorporate pretty much all ESG related principles ([City of Telosa](#)).

Architecture firm Bjarke Ingels is also behind Toyota Motor Corporation's smart city in Japan. The project is under way to create a fully sustainable 2,000 person "living laboratory" to test autonomous driving, smart technology, and robotics. ([Toyota press release](#))

(Yuichi Totani, Client Relations Group)



Tax-related Topic for This Month

Invoice system to be introduced

Toward the introduction of the "qualified invoice retention system" (so-called "invoice system") for tax deductions for taxable purchases pertaining to the consumption tax with effect from October 1, 2023, applications for registration of "qualified invoice issuers" started to be received on October 1, 2021.

Under the new invoice system, in order to inform purchasers of accurate consumption tax rates and the amount of consumption tax, etc., sellers will be required to issue and retain "qualified invoices" which fulfill certain conditions including description of the registration numbers of qualified invoice-issuing enterprises. In addition, purchasers will be required to retain qualified invoices when they claim tax deductions for taxable purchases.

In order to become an enterprise which can issue "qualified invoices," it is necessary to apply for registration as a "qualified invoice-issuing enterprise" to the tax office with jurisdiction over the address where it is located. However, registration of qualified invoice-issuing enterprises can be made only by taxable enterprises pertaining to consumption tax, which means that tax-exempt enterprises need to submit a "Report on the Selection of Taxable Proprietor Status for Consumption Tax" to register.

After the introduction of the invoice system, in principle, tax deductions for taxable purchases will not be granted for purchases from persons other than qualified invoice-issuing enterprises such as tax-exempt enterprises and consumers although transitional measures will allow tax deductions of 80% of taxable purchases from October 1, 2023, to September 30, 2026, and only 50% of the same from October 1, 2026, to September 30, 2029. Accordingly, given that taxable enterprises will review or avoid transactions with tax exempt enterprises to which tax deductions for taxable purchase will not be applied, tax exempt enterprises need to consider such measures as resolutely choosing to become taxable enterprises pertaining to the consumption tax, which are eligible to be qualified invoice-issuing enterprises, in order to continue transactions underway before the introduction of the invoice system.

The qualified invoice retention system will be introduced about two years later, but it is necessary for enterprises to fully understand the system to begin with, and make necessary arrangements as a seller or buyer, respectively, including making a decision on whether or not to register.

(Sachie Aoki, Tax Consulting Group)

