Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.06 11/30/2021

Chairman's Column

DX Advances along with Coronavirus（COVID-19）

The COVID-19 infection situation has calmed down.

I would say that what we experienced during the days before overcoming the pandemic is that, contrary to expectations, we can work from home even though there are some problems and we do not mind using Zoom for meetings with people we have never met before. If the pandemic had not happened, people like me who are not tech savvy would still have come to the office every day without changing their previous working styles.

In the future, by shifting from analogue to digital with Digital Transformation (DX), a situation in which we can access accurate information to perform duties wherever we are will be generated, and DX should provide Japan with a good opportunity to improve its labor productivity, which ranks at the lowest level among OECD member countries.

Aoyama Sogo Accounting Firm's main service is the management of real estate funds. The problem is that the accounting formats for original data and delivery methods differ for each project. As a result, we are forced to deal with projects individually. Looking at the situation overseas, fully straight reporting systems are being created based on property management reports using Yardi Voyage and MRI Commercial Management. If the reporting system is generalized using a single platform, time spent preparing reports will be shorter, improving productivity in one sitting, which may reduce fees borne by clients.

Anyway, we should start being conscious of what we can digitalize besides the reporting system.
(Kazuhiro Matsuzawa, Representative Director and Chairman)

Renewable Energy Information

2021 Renewable Energy Trends

Only a small number of days left in 2021. Here, I will examine renewable energy-related trends based on the projects for which we received orders by the end of October.

In the projects for which Aoyama Sogo Accounting Firm (ASA) was entrusted with administrative work in the real estate asset and renewable energy categories, renewable asset projects account for 28.3% of the total this year. Since the renewable energy projects with which we were entrusted accounted for slightly less than half of all the projects last year, the momentum of renewable energy seems to have somewhat weakened.

Such weakness could be attributable to several factors such as that new development projects have tapered off because prices under the Feed-in-Tariffs continue to fall every year, and that clients gave up arranging projects due to the secondary market surge.

Although the number of consultations is increasing, those which do not turn out to be real projects are on an upward trajectory.

Looking at the breakdown of renewable energy projects by asset, solar power generation accounts for 90% of the total. Inquiries for power generation and biomass power generation projects started to increase and I expect that the number of non-solar power projects under our management will increase in the future.

One recent trend is that investment cases using LPS schemes are on the rise. Reasons for this may come from methods to inject funds at the time of fund creation which are relatively easy to use.

In addition, several clients who had not used SPCs such as GK-TK schemes started to use them. Some of them said that they had a hard time to explain the possible use of SPCs to their managements. We are happy to support clients in such cases, beyond the issues related to renewable energy, explaining the characteristics and merits of SPCs as much as possible. We welcome your inquiries.

(ASA Reporting Professional K.K. Hirokazu Ando, COO)

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Real Estate Market Information

ESG Waves

According to the media, the value of green bond issuance by REITs (Real Estate Investment Trusts) in the first half of 2021 amounted to a record high (cumulative value of issuance of 253.7 billion yen). The issuance of Sustainability-linked Bonds by Hulic became a hot topic last year. In addition, the use of evaluation criteria focusing on ESG (Environmental, Social and Governance) performance in real estate investments such as GRESB (Global Real Estate Sustainability Benchmark)'s industry benchmarks has started showing signs of proliferation. It seems that the impact of ESG on the real estate industry is becoming greater and greater nowadays.

CSR (Corporate Social Responsibility) became a boom slightly more than ten years ago. A real estate company I was working for tried to solicit investors using an SRI (Socially Responsible Investment) framework, but it was not yet an activity pursuing sustainability in the true sense of word. (I do not disclose details, but if it happened today, the company might be accused of greenwashing.)

I remember that when asked about the green building certification system in Japan by a German institutional investor who went one step ahead in terms of environmental issues at the time but, to be honest, I did not get it so I told him half-jokingly, "you cannot buy if you are concerned with a such matter." (It is a story from more than 10 years ago).

I feel that the tide has changed since the GPIF (Government Pension Investment Fund) started investing in ESG in 2017. It seems that along with the development in which major real estate companies and REITs started taking ESG seriously, ESG awareness rose all at once in the industry.

Waves of change such as globalization and Digital Transformation (DX) come to the real estate industry last, but I feel that ESG has finally come. We may not be able to get over the waves if we respond half-heartedly, but if such difficult waves lead to the improvement of the industry's sustainability, it will be really meaningful.

(Shigeru Hirai, Client Relations Group)

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Global Real Estate News

It seems that with every passing day, there is more news about Country A's net zero target date or Region B's renewable energy project. In this month's issue, we take a look at new developments in the U.S. market.

The Architect's Newspaper

California's solar panel mandate for new buildings

California leads the nation in both economy and green initiatives. Since January 2020, California mandated the installation of solar panels on all newly constructed single-family homes and multi-family properties up to three stories. Recently the state announced that commercial buildings and hi-rise multifamily residences will also be required to place solar panels on new buildings starting 2023. The state is in the process of getting the new additions approved for inclusion to its Building Code. There is concern however that such mandates will increase construction costs and push home prices and rents even higher (see article below).

THE WALL STREET JOURNAL.

Soaring U.S. housing rents

Asking rents on U.S. apartments have soared 10.3% on an annual basis. Several factors have contributed to this rent increase including employees renting close to reopened offices, as well as a short supply of new apartments. Another factor is that middle income households are priced out of the market from purchasing a home, and thus resort to rental properties. Mortgage lending for landowners has picked up significantly as well after a period of lender uncertainty and government-assisted forbearance programs helping to cover unpaid rents during the pandemic. Under the current conditions, "You don't have a single private source of capital that isn't interested in lending on multifamily".
As evidence, major players are increasing their exposure to multi-family residences. Cushman and Wakefiled will acquire 40% of Greystone's lending and loan servicing business

(Yuichi Totani, Client Relations Group)

Tax-related Topic for This Month

Consumption Tax Refund Scheme when Acquiring Residential Rental Buildings

Regarding the consumption tax on the acquisitions of residential rental buildings, there have been tax problems mainly due to the following two matters:

The first problem was that taxpayers carried out transactions called "vending machine schemes" and "gold investment schemes." Taking advantage of these transactions, they arbitrarily generated taxable sales and avoided calculations necessary for tax adjustments after applying for a refund. Tax authorities dealt with these acts through tax reforms on every occasion, but it looked like a "cat and mouse game," making the current legal structure extremely complicated.

The second problem was that there were no provisions clearly classifying taxable acquisitions of residential rental buildings with existing tenants acquired by real estate sales dealers for the purpose of sales. Due to this insufficiency, some conflicts were seen between taxpayers and tax authorities.

In order to resolve these two problems, the tax reform in FY 2020 implemented a provision to the effect that, with respect to the consumption tax related to the acquisition of residential rental buildings, tax credits cannot be claimed at the time of acquisition.

This development will resolve the above problems, but the system in which "consumption tax credits on taxable acquisitions can be claimed if certain events such as selling these buildings within three years after acquisitions occur" was introduced at the same time. Accordingly, as before, we need to study if using the schemes is advantageous or disadvantageous from the perspective of tax when we create the schemes to sell and/or buy residential rental buildings, while taking several factors such as the time of sales in the future and expected sales value into consideration in advance.

(Ikuo Tamagawa, Tax Consulting Group)

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Event Report

Annual Seminar 2021

Our 2021 Annual Seminar was held on November 18.

This year's event was a hybrid of in-person and live streaming format.
We were able to fill our capacity of 50 attendees in addition to the many participants who joined us online.

We truly do thank all participants who made this year's event another success.

We look forward to planning and delivering our clients with valuable information at future seminars and certainly wish you will actively participate at our next event!

On-demand recording available soon!



\ Comments from our attendees /

- It's been a while since attending a seminar in live format. I enjoyed the atmosphere.（Institutional investor）
- Participating in the survey and viewing results in real time was entertaining. (Licensed professional)
- It was interesting to see different personalities among the panelists.（Real estate AM）
- Easy for viewers to participate and a format that can become standard for future seminars.（RE developer）
- Got a better sense of SDGs and ESG initiatives（Major bank rep）

Event Details

Topic

Post-Covid investment strategies of prominent overseas real estate funds

Guest Speakers（Panel order）

nuveen REAL ESTATE

Nuveen Real Estate
Managing Director
Head of Japan
Mr. Shusaku Watanabe

J.P.Morgan Asset Management

JPMorgan Asset Management (Japan) Ltd.
Real Estate Asia Pacific
Head of Japan
Mr. Tetsuya Karasawa

AEW

AEW Japan
Country Manager
Mr. Kiyomasa Matsuda

Moderator

Aoyama Sogo Accounting Firm
Representative Director/Chairman, Kazuhiro Matsuzawa