

NewsLetter



Aoyama
Sogo
Accounting Firm

Vol.09 3/30/2022

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Chairman's Column

"Ammonia power generation" as a new renewable energy

I really did not think President Putin would start such an unreasonable war. It may be hard to even call it a war, more like an invasion. It is very unfortunate to see small children bearing the consequences. With several failed negotiations and no clear resolution in sight, I wish that a peaceful solution will be reached as soon as possible.

With economic fears arising from this war, energy prices have surged. Our company manages nearly 1,500 SPCs, among them 20% are related to renewable energy. Most are solar power generation; however, we have been receiving more inquiries on wind and biomass investments.

Among the types of renewables, "Ammonia power generation" is gaining attention.

The process works like this. Heat from the exhaust of large gas turbines is used to break down liquid ammonia into nitrogen and hydrogen. The extracted hydrogen is then combusted to power the turbine which generates electricity and simultaneously creates heat which is again used to dissolve liquid ammonia.

With new technology at such ammonia power plants, NOx (Nitrogen Oxides) emissions will be reduced significantly and no longer be a concern. Ocean shipping will



Hydrogen gas turbine (Mitsubishi Heavy Industries)

be easier and perhaps convenient for a largely coal-reliant Asian market to switch to this new renewable energy. Among the companies conducting tests are Mitsubishi Heavy Industries, IHI, Kawasaki Heavy Industries, Nippon Yusen, Tokyo Electric Power and Chubu Electric Power.

When investing in this new energy, compliance under the Financial Instruments and Exchange Act and effective structures should be considered. We will accommodate such inquiries regarding potential investments in Japan. In the real estate fund industry, funds are focusing on achieving RE100 (renewable energy 100%) as a differentiator when accounting for consumed energy in their real estate businesses. As news of this new potential energy illustrates, the breadth and viewpoints of ESG investments are expanding.

(Kazuhiro Matsuzawa, Chairman)

Renewable Energy

Ministry announces newly certified "Eco-First Companies"

On February 25, 2022, Japan's Ministry of the Environment announced the list of newly certified Eco-First companies that have met the Eco-First Program requirements for companies that promise a progressive initiative for environmental conservation.



Outline of Eco-First Program:

- ① The company promises the Minister of the Environment of their environmental conservation initiative for global warming, waste, recycling, and other efforts.
- ② The company is certified by the Minister of the Environment that they are progressive, unique, and demonstrate leadership in environmental activities in their respective industry. The mission of this program is to acknowledge and promote each company's environmental initiative in their respective industry.

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The program opened for applications and 6 companies met the certification requirements.
The following are the new certifications.

※by certification date

- Sanyo Homes (Feb 10, 2022)
- Alibaba Group (Feb 17, 2022)
- Like Group (Feb 17, 2022)
- Softbank (Feb 22, 2022)
- Tokyo Construction Co., Ltd. (Feb 22, 2022)
- Nippon Road (Feb 22, 2022)

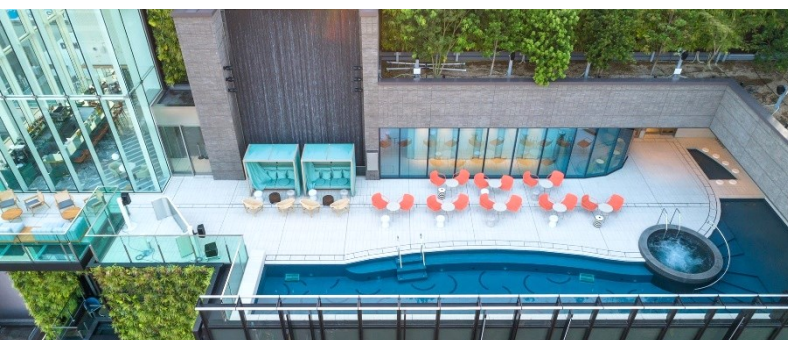
The new additions bring the total to 56 Eco-First certified companies.

Each company promises a list of detailed items and schedule regarding their goal of zero GHG emissions (2050 carbon neutrality), environmental education, and waste reduction.

The program is noteworthy in that it is available for application for all domestic companies regardless of industry or size. For many firms, membership in RE100 may be difficult due to stringent requirements. This program certification however is more readily available for smaller operators. For funds being managed by smaller teams, this may be an additional certification worth looking into.

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

Japan Real Estate



Miyako Hakata Hotel was acquired by Blackstone

Hotel Investments

It seems that many foreign investors are active in the hotel market recently. With Blackstone purchasing Miyako hotels, Fortress with Kanpo-no-yado hotels, and GIC with Prince hotels.

Hotels as an asset type are characterized as typical “operational assets” in that they require substantial management in generating revenue. Unlike office and residential properties that generate rental income (considered non-operational assets), hotels run on room sales and thus the operator’s quality of management and contract terms with the investor are crucial. Also, the typical stay for a guest is shorter compared to other asset types.

With such factors at play, returns on hotel investments are greatly impacted by the economy. Particularly with high-end city hotels, the impact is felt more than practical

business hotels. Hotels in general are considered to have more volatility than other assets, and are high-risk, high-return.

It might be more accurate to call hotel investments, a “business investment” considering such factors. Since a different set of knowledge is necessary in making hotel investments, it seems that funds assign personnel specifically with hotel expertise.

I recall the time in 2002, Bali was struck with a terrorist bombing and the hotel market fell momentarily. There was one particular fund that bravely took on investments amidst this uncertain market. When asked, an involved party said, “We previously couldn’t purchase hotels in Bali because of its popularity, and the opportunity presented itself”. In just several months after, the market had recovered.

It’s often said that when major events (those that don’t rely on economic fundamentals) create a downturn in the market, it is “buy” for hotels. If financing is not secured, investors use full equity or low leverage. In the case of our current Covid situation, it’s my impression that investors view it as a special situation where hotel demand has temporarily halted and not necessarily shrinking.

(Shigeru Hirai, Client Relations Group)

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Japan Real Estate

Tokyu Group's Smart City Involvement

Before the term "Smart City" became common in Japan, Tokyu Group has been developing forward-thinking complexes such as Futako-Tamagawa Rise (located 15min. from Shibuya). The complex consists of an outdoor shopping mall, office, and residential towers. It's wide-open in design and has LEED ND and NC Gold certifications. It is home to Rakuten, one of the biggest IT companies in Japan. Though not regarded as a smart city, it still boasts many of the common features in design and principles.

In its most recent endeavor, Tokyu Land Corporation has developed Takeshiba Port City, located close to other major business districts. The complex is an integral part of Tokyo's plan outlined in Society 5.0, which aims to collaborate with tech firms to build an ecosystem of innovation and sustainable and safe living for citizens. Japan like other nations deals with numerous issues including aging and declining population and greater concentration of people in metropolitan areas. There is a great need for smart medical care as well as technological collaboration to compete globally.



Takeshiba Port City

Smart cities will certainly be at the forefront of Japan's push to keep up with the world.

Below are some of the noteworthy features of two of Tokyu Group's prominent complexes:

(Yuichi Totani, Client Relations Group)

	TAKESHIBA PORT CITY	FUTAKO-TAMAGAWA RISE
Properties	Office tower (40 floors, 2 underground)	Office (30 floors)
	Residential (18 floors)	Residential (42 floors, 28 floors) Shopping mall
Developer	Tokyu Land Corporation	Tokyu Mall Development
Green related	DBJ Green Building 5 stars	LEED ND /NC - Gold certifications (first in Japan)
Major tenants	Issuance of green bonds and loans	JHEP (Japan Habitat and Evaluation Program) AAA certification
	Softbank, Wework Japan	Rakuten
Features	Both have open and airy design, featuring upper-level natural landscaping.	
	Both have high grade offices with great amenities for workers.	
	Softbank plans to work with Port City as a testbed for robotics and mobility.	

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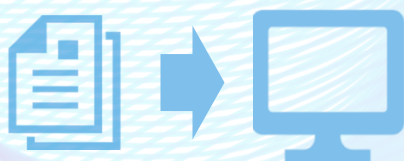
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Japan Tax Update

Changes to the Electronic Preservation System for accounting records



As our economy becomes more digitized, there is greater need for accounting processes to be more efficient as well. The 2021 tax reform (effective January 1, 2022) included changes to the provisions for electronic preservation system for a company's books and documents. Notably, there were some changes to the procedures in retaining accounting documents in electronic format.

Changes include:

- Electronic preservation system for books
Prior approval from the head of tax office is no longer required, addition of certification for best preservation practices.
- Scanned documents
Prior approval from the head of tax office is no longer required, Time stamp requirement, Easement of search requirements, Stoppage of appropriate administration requirement

- Electronic transactions
Requirement for saving electronic data

So, three months have passed since the new law took effect. How has your progress been in preparing for the electronic preservation system?

For electronic transactions, there is a grace period of 2 years (until December 31, 2023). If approved under special circumstances, saving printed documents will be allowed as an alternative. However, beginning January 1, 2024, there will be specific requirements for saving electronic data, so companies should begin their processes soon.

Regarding the preservation of electronic data, beginning October 1, 2023, the qualified invoice system will take effect. The related agency is considering electronic invoices at the moment, so it may be wise to eventually implement software that is compatible with the requirements under the electronic preservation system as well as create internal processes for properly retaining documents.

For questions about the electronic preservation system or qualified invoice method, please feel free to reach out to us for guidance.

(Keiko Ikeda, Tax Consulting Group)

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