Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.11 6/1/2022

Chairman's Column

A surge in prices – what's next?

Japan has finally begun discussing an end to face masks in public places. I am very happy with this news. Meanwhile, Shanghai, China is still in strict lockdown under the government's zero-Covid policy.

Currently, the big news is about rising food and product prices. Without a doubt, two big factors at play are the recovering demand after the worst of Covid and the Russian-Ukrainian confrontation that has led to surging material costs. For example, dry foods like curry, pasta, and noodles have risen from 200 to 230 yen per package. A 30-yen or 15% increase, which is a significant difference when purchased in bulk. Add 10% consumption tax on top and you can see that prices are very high now.

The real estate businesses that ASA deals with is no exception. During Covid, property prices hardly took a dip, and most recently, a rise in building materials and fuel costs have pushed construction costs higher. However, since real estate is an asset that is used as an inflation hedge, there seems to be no signs that the market is worsening.

Also, in the blink of an eye, the currency exchange rate is

at 130 yen per dollar (128.8 yen as of May 13). For Japan, there is hope that tourism rebounds from the return of international visitors as well as more foreign investments into real estate. For tourism, it's necessary to physically come to Japan, however with real estate investing, there seems to be more opportunities for investors to remotely purchase property through trusted asset managers and developers.

However, I am seriously concerned that additional price increases will exacerbate the problem of stagnant wages and gaps will widen with the actual economy.

(Kazuhiro Matsuzawa, Chairman)

Renewable Energy

FY2022 and onward: Renewable energy purchase price and surcharge rate under FIT and FIP systems

On March 25, 2022, METI (Ministry of Economy, Trade, and Industry) announced purchase prices and surcharge rates for FY2022 and onward for renewable energy under FIT and FIP systems.

1. Purchase price from January 1, 2022 onward

- **Solar power generation**

① Solar power generation for homes and businesses (Ineligible for bids)

Power source	Scale	(reference) FY2021	FY2022	FY2023
For Homes	Under 10 kW	19yen	17yen	16yen
For Businesses	More than 10 kW less than 50 kW	12yen	11yen	10yen
	50 kW or more Ineligible for bids	11yen	10yen	9.5yen

※ Since FY2020, under FIT, regional utilization requirements for self-consumption types must be met for business-use solar power generation.

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Renewable energy (continued)

② Solar power generation for businesses (Eligible for bids)
Bids will determine the FY2022 purchase price. In FY2022, bidding will be possible at 1,000 kW or more with FIP certification and from 250 to under 1,000 kW with FIT certification. (However, bids will be waived and FY2022 purchase price will be 10 yen for roof installations on existing buildings.) Developers can bid up to four times in FY2022 with the maximum prices being 10.00 yen, 9.88 yen, 9.75 yen, and 9.63 yen, respectively.

- **Wind power generation**

① Onshore wind power generation (Under 50 kW)

Power source	Scale	(reference) FY2021	FY2022	FY2023	FY2024
Onshore wind power generation	Under 50 kW	17yen	16yen	15yen	14yen

② Onshore wind power generation (50kW or more)
Bids will determine the FY2022 purchase price. Developers can bid once in FY2022 with the maximum price being 16.00 yen. If the bid capacity exceeds 1.7 GW, however, the developer will submit an additional bid within the fiscal year. The maximum price will be the weighted average contract price from the first bid in that same fiscal year or 15.00 yen, whichever is higher.

③ Onshore wind power generation (Replacements)

Power source	Scale	(reference) FY2021	FY2022
Onshore wind power generation (Replacements)	All	15yen	14yen

④ Offshore wind power generation（Act to Promote Offshore Use by Offshore Renewable Energy Facilities is not applicable）

Power source	Scale	(reference) FY2021	FY2022	FY2023	FY2024
Bottom-mounted offshore wind power generation	All	32yen	29yen	Bidding system	-
Floating offshore wind turbine power generation	All	36yen	36yen		

2. **FY2022 Surcharge Rate**

- Based on the purchase price in section 1, we determined that the FY2022 surcharge rate is 3.45 yen/kWh. Looking at an example of a consumer who uses 260 kWh/month, their monthly charge is 897 yen (+24 yen), and their annual charge is 10,764 yen (+288 yen).

  Note: The FY2021 surcharge rate was 3.36 yen/kWh (consumer's monthly charge: 873 yen; yearly charge: 10,476 yen)

- The 2022 surcharge rate will be applicable on electricity charges based on from May 2022 to Apr. 2023 meter readings.

While purchase prices for solar power generation is falling, the country is seeking to maximize on other renewable sources leading up to carbon neutrality by 2050. Wind power is viewed as a substantial source, low-cost, and with hopes of a positive ripple effect on the economy. The current purchase price is 29yen for bottom-mounted offshore types and 36yen for floating offshore types.

The government has goals to implement 10million kW of offshore wind power generation by 2030 and 30～45million kW of by 2040. There are several challenges including a lack of consistent rules regarding offshore usage, need for technical knowledge of port infrastructure, and training of specialized personnel. However, our firm is receiving more wind power generation business than before. We will certainly keep an eye out for new developments as they come.

(Kenichi Shimizu, Executive Manager)

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Japan Real Estate

The evolving landscape of Data Center investments

In recent years, we have seen a massive increase in the volume of data transmitted online, in no small part due to Covid accelerating at-home activities and remote work. As a result, demand is up for data center (DC) construction.

Japan is third behind China and Singapore in the number of DC locations. In current trends, data stored at overseas DCs are being moved back home, and DC restrictions in other countries (e.g., electricity supply, access to undersea cables), are reasons said to be pushing demand upwards for domestic DC construction.

The merits of DC investments are that long-term leases provide stable cash-flow and tenants find it difficult to move because facilities are in place. In the U.S., DC REITs are a huge sector that make up 7% (market cap of nine trillion yen) of the US-REIT market. Also in 2014, Singapore launched Asia's first publicly traded DC REIT.

Meanwhile in Japan, there are challenges.

① 70% of investments go to depreciable assets like facilities and with the corresponding capital outflow and depreciation expense, dividends are limited
② Energy consumption can be up to 10 times that of an office and subject to regulation under the Energy Savings Act
③ Being an operational asset, there is a lack of operators in the market that can manage and operate the facility
④ Available locations with access to electricity, lines, and undersea cables is limited.

With that said, there are "hyperscale" suburban DC sites underway in Inzai, Chiba prefecture. The area is serving large foreign-based cloud service providers with ambitions for "INZAI" to become internationally recognized. Once fully operational, REITs and private funds are expected to invest.

(Shigeru Hirai, Client Relations Group)

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Blackstone continues Life Science Investments

Coming off a record financial year, Blackstone (NYSE: BX) is betting more on life sciences than ever.

Its purchase of BioMed Realty in 2016 signaled Blackstone's commitment to investing in life sciences. The real estate company leases, develops, acquires, and finances small-to-large scale labs and offices in leading innovation hubs across the U.S. and U.K. Considered one of the largest private landlords in the country, a significant portion of its Cambridge, MA area properties came from its acquisition

Global News

Blackstone (continued)

from Brookfield Asset Management Real Estate Fund in 2020.

In recent news, Biomed Realty Trust acquired Flatiron Park, a 22-building complex in Boulder, CO for $600 million. Although this move addresses an intense need for lab and office space, BioMed's CEO acknowledges that space will be added incrementally due to inherent risk of companies falling short in R&D funding.

In addition to owning real estate, BXLS (Blackstone Life Sciences) was created in 2018 to provide funding for products in late-stage clinical trials. In April of this year, BXLS Yield Fund closed with $1.5 billion for post-approval, commercial stage investments. They are looking to structure deals similar to that with Alnylam Pharmaceuticals (see table right).

Notable deals with biopharmaceutical companies	
Pfizer (NYSE: PFE)	2012: Partnership with Pfizer and SFJ Pharmaceuticals to develop a lung cancer drug (later approved) 2020: Former Pfizer CEO, Jeffrey Kindler joins as Senior Advisor
Anthos Therapeutics	2019: $250 million financing for cardiovascular medicine startup
Alnylam Pharmaceuticals (NYSE: ALNY)	2020: $2 billion deal for cholesterol-lowering drug, Inclisiran that was approved for market. $1 billion for rights to 50% of royalties and $750 million as senior term loan

(Yuichi Totani, Client Relations Group)

Japan Tax Update

Dividends from wholly owned subsidiaries no longer need to withhold tax

This year's tax reform had relatively minor changes, however one item was noteworthy – the "change in withholding tax on dividends".

Prior to this, the provision stated that even dividends received that were non-taxable were subject to withholding tax at the time of payment. For the company receiving dividends, tax credits and refund filings were used, resulting in administrative burden by the tax office and massive refunds and interest to be paid.

The Board of Audit of Japan criticized that the current process does not serve the main purpose of the withholding tax system, which is for withholdings to act as a prepayment of corporate income tax and to be an efficient and effective means to collect income tax.

Under this year's reform, effective October 1, 2023, domestic companies receiving dividends from ① wholly owned subsidiaries and ② from related companies that are 1/3 or more directly owned on the date of record will no longer need withholding.

The new provisions above will even apply for preferred shareholders of a TMK that must include dividends received as taxable income. In other words, starting next October 1 and onward, any domestic company with one third or more preferred shares of a TMK will be exempt from withholding tax. In the case of foreign capital, GKs with more than 50% as domestic shareholders will be exempt from withholding tax.

Tax revenue is expected to decrease from this change in withholding tax on dividends, so the tax reform outline states that a 2023 tax reform may include relief measures to counteract this. There is still some time remaining until this new change takes effect, so we will pay close attention to any future reforms.

(Yasuhiro Ando, Tax Group)

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Information

SDG Plan and New Services

Under our “SDG Plan”, ASA Group will become more than an accounting firm, allowing our fund-based clients to focus on sourcing and increasing the value of their investments. While we will continue to provide our core fund administration services, we look to implement DX to deliver faster and more accurate data to our clients and ultimately to investors.

SDG（Smart Data Guideway）Plan

1st STEP — Expansion of Services

We will provide asset managers (AM), general partners of PE funds (GP), and property managers (PM) with **additional support services** that align closely with existing ASA services.

2nd STEP — Systematic Approach

By extracting and standardizing information from various AM, GP, and PM data sets, we will deliver faster and more accurate data to our clients and investors. Specifically, a **web-based system** will allow financial figures to be available one business day from month-end close.

3rd STEP — Information-based Company

By maintaining confidentiality and building a database of market, investment property, and structure information, we will serve various roles including **marketing, advisory, and thinktank** for our clients and investors. ASA Group will go beyond the confines of an accounting firm to expand into an information-based company.

Final STEP — Integrated Platform

By providing an **integrated platform** in the Japanese real estate market, we will add greater transparency and convenience for real estate transactions. We hope to ultimately contribute to a more accessible market for both domestic and foreign investors.

Our 1st STEP is to expand our service lineup to include these additional services:

AM support / GP support services

Wide range of AM and GP support services for various funds including real estate, solar energy, PE (Closing support, ongoing management support, dissolution and liquidation support)

PM support services

Support of accounting functions related to PM work. (PM report preparation support, data entry into specified software)

AM/GP support services will be provided by Aoyama Sogo Accounting Firm and ASA Advisory. PM support services will mainly be provided by ASA Reporting Professional.

As always, we truly thank you for your continued business with us. Our group will continue striving to make improvements and expand our services.

Please ask about our services or topics you’d like to see in future newsletters. Comments and questions to:
✉ newsletter@aoyama.ac

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