



Chairman's Column

The Real Estate Market in the Second Half of 2022

News can be spotted of foreign companies actively purchasing Japanese real estate, now viewed as more of a discount. The big reasons are the “weakening yen” and the “yield gap” which is substantially higher than other countries. I think the weak yen in particular is having a significant affect.

As an example, the head of our ASA Singapore office recently visited Japan. As you are familiar, the Singapore currency is the Singapore dollar, which trends similarly to the U.S. dollar. It's gone from 80 yen per Singapore dollar to 100 yen in short time, a 25% depreciation for the yen. As a result, visitors view the price of Japanese things to be quite low here. The same can be said for foreign tourists. Unfortunately, with Covid delaying the matter, a full recovery back to a booming tourism industry may be ways ahead. It's certainly testing the patience for everyone.

Meanwhile, the “yield gap” is one measure of investment return that is favorable, since the Japanese government is sticking to their policy of low interest rates, amidst other nations raising by 0.5 or 0.75%. By comparison, Japanese real estate is still an investment product with substantial margins. It is said that real estate stock prices have a high correlation to interest rates. While global REIT prices have dropped by 19% in the past 6 months, Japan still retains low interest rates and subsequently no significant drop-off has been seen.

As HULIC's Chairman Mr. Nishiura notes, “Office rents in the city are falling, however strong bids by foreign investors are keeping real estate prices stable. The weak yen is one factor, but it does remind me a bit of the bubble economy” (source: The Nikkei, August 12 morning edition). I believe this is the industry sentiment right now. For such foreign investors continuing to bid on properties in Japan, we have a diverse range of services to provide. Please feel free to reach out to us at any time.

- Kazuhiro Matsuzawa, Chairman





Japan REIT

REIT market activity

With recent economic changes like the weakened yen and rising interest rates, the **relative purchasing power of REITs is said to be falling**. We are hearing news of foreign funds outbidding domestic REITs on existing and new build properties sold by sponsors.

For REITs, the sponsor is relied upon for sourcing, while for the sponsor, the REIT is just one potential buyer. Additionally, the sponsors have a responsibility to maximize returns for their investors, which may not necessarily mean the sale goes to the REIT.

For large conglomerates that develop and operate S-class office buildings for instance, the real estate arm generally does not sell the property to outside investors but often sells to a related REIT as a means of maintaining control and finance. Meanwhile for “rotating” developers of apartments and logistics warehouses, the focus is on

profits made on the sale of the new build. In that case, the property tends to sell to the buyer offering the highest price regardless of whether the party is a related REIT or outside buyer.

Additionally, a REIT will purchase property based on appraised value, which is the market value that factors in the “cruising speed” of the property. In a rising market, the actual sale prices may exceed the market value and thus the “buy” price may be harder to determine.

Alternatively, if a REIT were to acquire property like a private fund using IRR that factors in future appreciation, if portfolio returns fall short, REIT stock prices may drop, which then may affect future fundraising through the market.

For REITs, the current conditions are tough to navigate, and perhaps it is up to the asset management firms to show their savvy.

- Shigeru Hirai, Client Relations Group





Building Automation

Smart Buildings – Are they secure?

When new technologies emerge, we often see the vulnerabilities in a more connected cyberspace typically later on after adoption. Smart buildings are no exception. The increasing number of cyberattacks on IoT and building management systems is making it apparent that security has been an afterthought for office IoT devices and software.

In many modern-day buildings, a multitude of sensors and controllers optimize HVAC systems, lighting, and security. Individual IoTs are often integrated and controlled under a building automation/management system (BAS or BMS).

In a [2020 report](#) prepared for the U.S. Department of Energy, a growing number of building owners and tenants are reliant on IoT devices and BMS that are controlled, regulated, and monitored over the internet. **While integrating various devices, sensors, controllers, and software is great for energy efficiency and workplace convenience, the downside is that such centralized systems can potentially be infiltrated through a single point of entry.**

A hacker may potentially be able to control the security system of an entire floor or building or breach weak points to access confidential data.

According to the report, nearly half of commercial buildings use devices connected to the internet, but 95% of sites do not have disaster recovery plans. An investigation uncovered that 40% of BMS servers were targeted with malware, phishing scams, or ransomware.

The report states the following when in considering cybersecurity requirements:

There is no “one-size-fits-all” cybersecurity solution for buildings. The cybersecurity requirements vary from building to building and system to system, as well as from owner to occupant to tenant. For example, temperatures in larger buildings change relatively slowly, so a building’s HVAC system could hypothetically be offline for a period of time without significant impact to the building occupants and tenants (depending on the function of the building).



Therefore, the availability requirements for the HVAC system may be moderate. On the other hand, if critical temperature and humidity requirements exist for buildings, such as for hospitals, their HVAC cybersecurity risk profile and requirements are substantially higher.

What are some measures that building owners and tenants can take?

- Having complex passwords that are not reused on other devices and controllers
- Applying patches to IoT devices and software on a timely basis
- IP address restrictions on BMS
- Segregating networks for OT (operational technology) and IT
- Having trained or competent security staff in-house or on contract

For more guidance on best practices that may suit your smart building, resources like the [Real Estate Cyber Consortium](#) may be helpful.

- Yuichi Totani, Client Relations Group



Japan Tax Update

What separates Buildings from Structures?

When acquiring property, it may be difficult to categorize whether the object is a building or structure. A building is defined under the Ordinance for Real Property Registration Article 111 as “A building shall have roof and wall or similar thereto, shall be a building structure affixed to the land and shall be in a condition available for the use of its purpose”.

As an example, the home field for professional baseball team Saitama Seibu Lions is [Belluna Dome](#). The dome does not have walls and the asset was recorded as a structure based on the definition that no “wall or similar thereto” exists. It was later reported that the city of Tokorozawa claimed that Belluna Dome was in fact a building and a subsequent revision was made.

Additionally, since buildings require registration, [Tokyo Disneyland](#) obtained registration certificates for their attractions. The registration certificate for Splash Mountain was found, however the rocky mountains of Big Thunder Mountain were missing from the registry. Apparently, there was no comment from Oriental Land, the operator of Tokyo Disneyland. It is assumed that they treated the attraction as not having “a wall or similar thereto”.

Also at my previous workplace, we discussed whether a protective roof and wall placed around a chemical factory tank constituted a building. I can’t make a conclusive explanation since there are no official perspectives on that particular asset. Adding to the difficulty is that municipalities vary in their determination of buildings and structures.

- Masafumi Kuwabara, Tax Group



Left: Airy windows of the Belluna Dome

Right: Rocky mountains of the famous Disneyland attraction



NEW Services

ASA Reporting Professional to offer PM support services

ASA Reporting Professional was initially established in April 2021 to support real estate funds with financial report preparation. We are amazed that it has already been over a year.

Our initial scope of reports were financial statements and fund-specific business reports, however at the request of our clients, we are currently assisting with PM report preparation as well.

Using this experience, we are looking to expand and diversify our support services for property managers and will reach out to our clients soon.

Our firm proposes the following support services to PMs:

- **PM report preparation**
(Using software like @property, our client's proprietary software, or Excel)

- **Other supplementary report preparation**
(non-PM reports requested by lenders and accounting firms)

Depending on the fund, necessary information will vary, and report formats will differ as well. This may cause concern as to whether our firm can handle these differences, however we can customize the service according to each type of property. For example, limiting support to just one area of a series of investments or to a specific property designated by the property manager.

In any case, we are eager to hear your opinions and requests on how we can help.

Hirokazu Ando, ASA Reporting Professional
<https://www.aoyama.ac/asarp/>
Contact: [Click here](#)

News

ASA Advisory COO, Jun Yoshioka's article was published in the August 2022 edition of Tax Accounting News.

Feature 1: Effectiveness in inheritance planning, Small-lot real estate products, System and tax risks

Part 1: Real estate securitization structure and characteristics of small-lot real estate products (Author: Jun Yoshioka)

Link: [Tax Accounting News](#)

