Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

Vol.16 10/31/2022

Chairman's Column

The Hotel industry is making a comeback

Japan began a nationwide travel discount program on October 11, 2022. And foreign visitors can now enter the country with no visa, no restrictions on group travel, and no quarantine period. There seems to be far more tourists in the city like in pre-Covid times. Our firm has also received more visitors from overseas as well. They all say that the prices of things is very low here with the weak yen and that it feels like a 20 or 30% discount. Lines can now be seen in front of high-end retailers at department stores reminiscent of times when tourists would buy exorbitantly.

With restrictions easing, within the realm of fund administration, we see the hotel industry making a strong recovery as well. During Covid, stay-at-home demand was strong which proved favorable for residential properties and warehouses. Meanwhile hotel visitors fell dramatically, and the only use for hotels was to quarantine Covid patients. Financial institutions were much more reluctant to lend to hotel operators.

But the most recent nationwide travel discount program is creating strong demand domestically and the weak yen is ushering in inbound visitors, which all seem to be contributing to a dramatic comeback for hotels.

Since hotels sell rooms to generate revenue, there are KPIs that are hotel-specific and unseen in other investments. Some examples are OCC, ADR, and RevPAR. OCC is occupancy rate or reservation rate of rooms, while ADR is average rate per occupied room.

Hoshino Resort in Nagano prefecture

RevPAR is then calculated as OCC x ADR. Hotels generally want to operate at full occupancy at the optimal room rate that attracts guests, so the RevPAR is just the metric that quantifies this. The difference is that while the ADR is the average rate for sold rooms, the RevPAR is the average rate for all rooms including unsold. As an accounting firm, it would be great if we can explain such KPIs to our clients.

With so many changes that have occurred during Covid with exchange rates, interest rates, work styles, and risk management, the managerial landscape has undoubtedly changed with it. We will continue to keep a close eye on these dynamics.

by Kazuhiro Matsuzawa, Chairman

NewsLetter

Finance Trends

A primer on Green Financing

In past newsletters, there have been countless examples of ESG investments. This time we explain green financing. Green finance is largely two forms of fund-raising for green projects - green bonds and green loans.

Green Project
Businesses that contribute to solving environmental issues like global warming. Includes renewable energy and energy conservation, sustainable waste disposal, soil use, water management, protection of biodiversity, transportation with minimal environmental impact, and climate change response.

Green Bond
Issued by countries, local governments, businesses, and SPCs that invest in green projects.
Investors include financial institutions that have committed to ESG investing. Use is strictly limited for green projects.

Green Loan
Borrowers include local governments, businesses, and SPCs that invest in green projects.
Investors include financial institutions that have committed to ESG investing. Use is strictly limited for green projects.

As shown on the Ministry of Environment's green finance portal, green bonds were first issued in 2014 and have since grown every year in issued volume and amount. 1 trillion yen was issued in 2020 and 1.8 trillion yen in 2021. Green loans were first made in 2017 and have likewise increased every year in volume and amount. 163 billion yen in loans were made in 2020 and 312 billion yen in 2021.

Globally in 2021, newly issued green bonds and green loans were 588 billion dollars and 33 billion dollars, respectively. The Japanese market will likely continue to grow as well.

The challenge in green financing is the restrictions on use and requirements for interim monitoring and reporting which limits the number of companies that can comply. But for our planet's future, it's certainly a market that I would like to see grow.

As the markets continue to grow, secondary markets will become active, and securitization backed by green bonds and new investment products that involve transfer of green loans to an SPC may very well become reality. We will continue to keep track of any developments.

by Toshihiko Hatta, Executive Manager

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Real Estate

Looking outbound – Japanese firms are investing more in U.S. real estate

Even with the weak yen, it seems that Japanese real estate firms are actively making outbound investments lately. I asked an outbound investment in-charge at a Japanese real estate firm about the current situation.

There's been a lot of reporting on outbound investments made by Japanese firms. What's the situation actually like?

Yes, there's significant growth particularly in the U.S. market. In fact, our firm closed on a U.S. deal last month. Conglomerates are certainly active, but home builders have noticeably invested more. I've heard that for home builders, 40% of sales is from overseas sales with the majority coming from the U.S. Trading companies are expanding overseas as well.

Why are Japanese firms investing overseas?

I believe the overall motivation is to invest in growth markets, amidst a shrinking domestic market. There seems to be heightened fear particularly among home builders.

Are Japanese firms investing more in the U.S. rather than other markets because property prices are appreciating?

There is certainly the aspect that the U.S. is a leading nation with a highly transparent market, but market size is likely the greatest reason. There are also diverse investment opportunities. Additionally, M&A opportunities are plentiful. M&A is the primary means for home builders. It's also big that the U.S. dollar is the key reserve currency.

What has been the effect of the weak yen?

Exchange rates are certainly a big consideration. For properties that have recouped their investment and are reinvesting, it's advantageous that the dollar is strong. Our firm actually considers the risk of a stronger yen when making reinvestments.

Is leveraging more difficult now with higher U.S. interest rates?

There seems to be reverse leverage happening now and the hot market seems to be in transition. However, the main difference with the Japanese market is that rents and salaries are still rising. However, discretion must be used in cities where the rise in rents is slowing down or is now falling. Investors that purchase with full equity are the strongest right now.

by Shigeru Hirai, Client Relations Group

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New Trends

Carbon Offsets – Where are we headed?

Let's face it, the evolving landscape of carbon emissions and credits is confusing. Different countries have their own carbon allowance and offset credit programs. At face value, the implication is that offsets can help accelerate the transition towards net zero. The trading of such carbon credits is becoming prevalent with the advent of exchanges.

In June, Blackstone (BX) announced a $400 million investment in Xpansiv, a leading exchange for environmental commodities like carbon credits, RECs, and natural gas. With a growing number of ESG-related commodities now being traded, the platform is serving a growing pool of companies and governments that either want to sell carbon allowances/credits or want to buy credits to meet their emissions targets.

An example of a carbon offset is an RRU (Redd Result Unit), which is listed as one of the tradeable commodities on Xpansiv's exchange. The offset is issued by local governments part of the Coalition for Rainforest Nations. Local governments like Papua New Guinea are given financial incentive to protect rainforests which serve as massive carbon sinks, while businesses can use credits towards meeting their emissions targets.

Recently, Japan also announced its first carbon credits exchange on the Tokyo Stock Exchange commissioned by METI (Ministry of Energy, Transportation, and Industry). Test trading began on September 22. A METI spokesperson says that "Putting a price on the value of carbon reductions through credit trading will increase the predictability of decarbonization investments."

These exchanges will accelerate carbon trading, fund more renewable projects, and hopefully get us closer to decarbonization.

by Yuichi Totani, Client Relations Group

Short definitions

Carbon (offset) credit: 1 credit = 1 ton CO_2 emission. Used to fund carbon-reduction projects (carbon storage, tree planting, etc.)

Carbon allowance: Emission permits issued by governments like California. Excess can be sold on market. Incentivizes companies to keep their emissions within allowances, and to make gains by selling excess.

Cap-and-trade program: "Cap" is maximum credits allocated to entities. "Trade" is ability to sell excess credits (allowances).

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Japan Tax Update

The introduction of Digital Invoices

With the reform of the electronic record retention law on October 1, 2022 (transition period afforded until December 31, 2024), the qualified invoice system begins on October 1, 2023, which specifies the requirements for purchase tax credit for consumption tax.

To apply the purchase tax credits in consumption tax calculation, the required accounting records and invoices must be retained. The invoice method which begins on October 1, 2023, also has similar requirements.

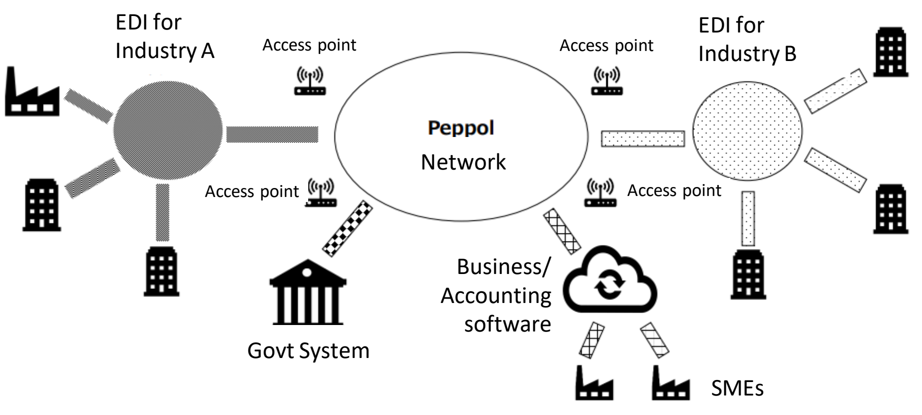
Under the invoice method, the seller who is the registered business must send a qualified invoice to the buyer (the taxpayer) when requested. Additionally, the seller must retain copies of the qualified invoices (paper form) and electronic records. For the buyer to be able to apply purchase tax credits, the rule is that the buyer must retain qualified invoices (paper) and electronic records received from the seller (the registered business).

To efficiently perform administration, the related ministries are proceeding with a standardized digital invoice and organizing the invoice method and electronic record retention laws accordingly.

The digital invoice format is based on the global standard format Peppol (Pan European Public Procurement Online). Peppol is a billing system that transmits data from the buyer's system to the seller's system without any human involvement and automatically processes data. The system will be used to provide software and services around digital invoices and planned to begin in Fall 2022.

In conjunction with the reform of the electronic record retention law and start of the invoice method, it's best to stay updated on any changes with digital invoices.

by Keiko Ikeda, Corporate Officer



(Source: Digital Agency)

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From the Editorial Department

We sincerely thank you for viewing our Newsletter. We are grateful for the numerous comments received from our clients that they read it monthly or learn something from it.
If you have any comments or requests, please reach out to us at any time.
We look forward to making future newsletters.
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