

NewsLetter



Chairman's Column

More in-person meetings with our Overseas clients

As Covid has begun to settle down, we are receiving more foreign visitors. Our firm, known for fund administration has noticed a pickup in global real estate funds seeking our assistance and in-person meetings are more common now. It may be in response to border restrictions easing and visitors all coming here at once. Compared to Japan, I feel that other countries are much swifter with their action. Since the Fall 2022, people from Canada, Singapore, Netherlands, and Hong Kong have visited us.

Meanwhile, I visited Singapore at the end of November for the first time in 3 years. Immigration procedures have also changed, with the smartphone app, Visit Japan Web allowing vaccination certificates to be shown for smooth immigration clearance (although it takes some time for initial registration). At Haneda Airport, the facial recognition system can be registered for even simpler entry. Digitalization has certainly picked up these past 2 to 3 years but just make sure not to lose your phone.

It's been a while since I last visited our clients in Singapore. Outside of public transportation, no one had masks on and it was a pleasure to actually see people's faces. Since many of our clients are global investors, the focus seems to be on Singapore's role as an investment hub that allocates capital to other Asian countries and determines asset types and financial performance expectations.



Raffles Place Singapore (photo: Ramer Borgia)

Many often say that Japan's investment structures and taxes are complicated. In those conversations, it was also eye-opening that Japan's presence within the realm of real estate investments is not as big as expected. This may be due to high economic growth of other countries relative to Japan. However, the one constant is that our firm will continue to assist our clients with the utmost care and professional service.

Another reason I visited Singapore was to celebrate the 10th anniversary of our Singapore office, established in 2011, which coincides with the year of the Great East Japan Earthquake. Including members of our Philippine accounting center, the office has 70 employees and provides tax, accounting, and inbound support for Japanese funds. It's located in Raffles Place, so for those visiting Singapore, please pay us a visit.

by Kazuhiro Matsuzawa, Chairman

NewsLetter



Renewable Energy

How the Real Estate Industry is implementing Renewable Energy

Along with the rise of RE100 member firms, carbon neutrality and the use of renewable energy is becoming more prevalent with companies. The real estate industry is no different with firms implementing renewable energy at a greater rate.

For example, a large asset management firm has implemented RE for hotels operated within the city, and by 2025, its REIT will use renewable energy in all of its properties through agreement with several hundred solar power generators under the FIP system. Other real estate firms are also becoming active, with focus on long-term procurement of renewable energy.

FIP differs from the fixed purchase price under the FIT system. Instead, a premium (subsidy) is added to the price in the wholesale market, which leads to fluctuation in purchase price. Additionally, under the FIP system, instead of going through the wholesale electricity market, a company can directly contract and purchase from an electricity supplier (energy company). After purchasing from a supplier, the firm can then resell electricity to another party.

Our firm is now servicing more SPCs that become power plant operators by acquiring power generation facilities operated under the FIP system and subsequently becoming offsite PPA operators.



In an offsite PPA structure, the SPC is the power generator (PPA operator) and forms long-term contracts with electricity buyers under a PPA. For buyers, utilizing a PPA operator's offsite solar power generation provides far greater capacity than a firm's own onsite solar power. Additionally, by forming direct agreements with PPA operators, the company can minimize impact of energy price hikes in the market.

Securitization structures for renewable energy are becoming more varied as well. It is certainly worth paying close attention to how renewable energy operators using the FIP system evolve over time. For our clients that have interest in investing in such facilities, we can provide solutions tailored to your needs. Please reach out to us at any time.

by Kenichi Shimizu, Corporate Officer

NewsLetter

Aoyama
Sogo
Accounting Firm

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Japan Real Estate

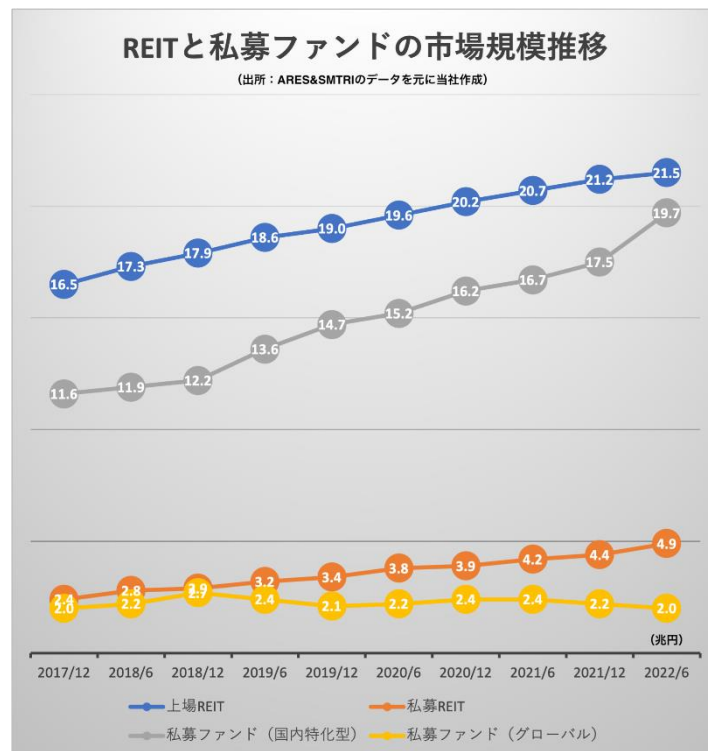
Market conditions for Real Estate Funds

We look at the “Market report for Private Real Estate Funds (as of June 31, 2022)” conducted by ARES (Association for Real Estate Securitization) and SMTRI (Sumitomo Mitsui Trust Research Institute). I’d like to summarize some of the interesting results reported.

Previously, I mentioned the declining purchasing power of **public REITs**. The report backs my understanding with half-year investments dropping to 300 billion yen from previous increases of 600 billion yen. I speculate that it’s become difficult to purchase as an outside investor and that the main investments made are sponsor-led.

Additionally, although the weak yen has seemingly ushered in investments by foreign funds, the data says otherwise. **Private fund (global)** investments are down by 200 billion yen through mid-year. Unlike REITs, investment periods are fixed for private funds, so unless acquisitions are continually made, total investment assets will begin to fall. Several reasons may be contributing to why sufficient acquisitions haven’t been made. One is that despite the interest of foreign investors, there aren’t enough available properties. Another may be that rising competition has made investment criteria harder to meet.

On the contrary, **private fund (domestic)** investments have grown tremendously. Previously, half-year investments were growing by 700 billion yen but in the most recent 6 months, it’s up to 2.2 trillion yen. It’s become the main form of fund investments. Logistics and residential continue to be the primary property types being invested in, but investor interest seems to be recovering for hotels in a post-Covid market.



Market size of REITs and Private funds

(Blue = Public REIT, Orange = Private REIT,
Grey = Private fund (domestic), Yellow = Private fund (global))

Picking up the slack for public REITs are **private REITs**. 6-month investments of 250 billion yen have doubled to 500 billion yen in the most recent period, substantially offsetting the decrease for Public REITs. Asset management firms seemed to have shifted their investments from public to private REITs.

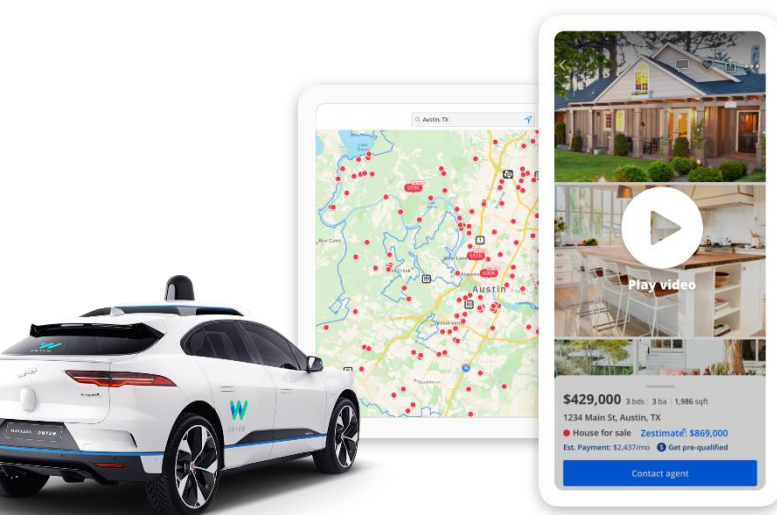
I will update you again for the December-end report.

by Shigeru Hirai, Client Relations Group



New Trends

How software is changing industry landscapes



In October, I went to Los Angeles to see family and friends. During an Uber ride from the beachside town of Santa Monica, I noticed a white vehicle zooming past me with unusual devices all over. It was an autonomous vehicle developed by Waymo, a subsidiary of Alphabet Inc. (Google).

This is just one visible example of how AI, machine learning, and other computer programs are changing the way humans live and work. For financial transactions and business processes, this is no different.

Here are some ways industries related to ASA are implementing technology for efficiency gains, accuracy, and transparency.

Accounting firms

- Auditors are using RPA (robotic process automation) for automating internal document formats. In the future, there may be [far-reaching applications](#) of AI and OCR for reviewing contracts, financial accounts, and disclosures.
- Cloud-based tax preparation like [CCH Access](#) centralizes client uploads and form preparation.

Real Estate

- STO (security token offerings) based on blockchain are giving investors another avenue to invest in real estate, giving them access to certain asset types and more transparency. [See p.2 our newsletter](#)
- PropTech companies like Zillow provide a robust platform for homebuyers and sellers giving them access to neighboring home prices, aerial views, and sales history.
- Building management systems centralize and optimize HVAC, lighting, and security systems.

It seems that the top companies are making substantial investments in software and platforms or utilizing them to fight for market share. This has obviously continued since the advent of the internet, but perhaps more pronounced now that new technology is here. It certainly feels like an arms race.

There is however a [clear shortage](#) of software developers that needs to be addressed for firms to move ahead.

by Yuichi Totani, Client Relations Group

NewsLetter



Japan Tax Update

Invoice system – How much price discount should tax-exempt businesses provide?

As the start of the Invoice system approaches next October, there are several [additional relief measures](#) that are expected to be added. One is that tax due will be capped at 20% of c-tax on sales for previously tax-exempt businesses turned new taxpayers. The other is that invoices may be unnecessary for SME transactions less than 10,000 yen. Here we take a look at how current relief measures will affect transactions after the new system takes effect.

Under current relief measures, from the start of the system through September 30, 2026, 80% of purchase tax credits from taxable purchases from tax-exempt businesses will be allowable deductions. The remaining 20% will be treated as “part of the compensation amount for the transaction”.

The following example compares journal entries for the buyer of a product costing 10,000 yen (with 10% c-tax).

【Pre-Invoice system (Current)】

Price of taxable purchase 10,000 yen / Cash 11,000 yen
Prepaid consumption tax 1,000

【After implementation of invoice system (October 1, 2023 to September 30, 2026)】

Price of taxable purchase 10,200 yen / Cash 11,000 yen
Prepaid consumption tax 800 yen

If the buyer is a taxpayer that can deduct 100% of taxable purchases, from a consumption tax perspective, in addition to purchase price of 11,000 yen, there will be a 200 yen decrease in allowable tax deduction, which results in additional tax burden. Assuming the 200 yen was discounted, the journal entry is as follows:

Price of taxable purchase 10,015 yen / Cash 10,800 yen
Prepaid consumption tax 785 yen
(10% tax rate: 981 yen)

In the transaction above, the buyer's burden will actually be 10,966 yen, and is lower than the purchase price before the new system of 11,000 yen.

※Purchase price 10,800 yen + burden of decreased tax deduction (981yen – 785 yen)

So, for this transaction, what discount amount will result in an equivalent purchase price for the buyer before and after the new system? Theoretically, if discounted by 196 yen, for a purchase price of 10,804 yen, the buyer's burden will substantially be 11,000 yen before and after the new system.

Japan's consumption tax system is getting even more complicated and confusing. We certainly hope that eventually a far simpler method is implemented.

by Yasuhiro Ando, Tax Consulting Group