Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.31 2024.3.29

CEO's Column

Bringing Innovation to Fund Information

First and foremost, thank you for your continued business and cooperation.

Our newsletter began in July 2021 and last month marked our 30th volume. With this, our company pressured me to finally write an article. I would like to take this opportunity to briefly explain one of ASA Group's main focuses right now, which was explained at the "2024 Real Estate Fund Forum" hosted by Sogo Unicom on March 6. Thank you to those that attended.

As you may be familiar, global investors are placing their money in Japanese real estate because of the cheap yen, low interest rates, and stability of the market.

Investors must make investment decisions swiftly and accurately in such a market dynamic. The key then becomes obtaining information as fast as possible.
To review asset performance, reporting with accuracy and speed becomes crucial. Meanwhile, regulations for money laundering and cross-border transactions have complicated the landscape. The industry also faces a labor shortage, much like other industries.

Considering these unique challenges, the key becomes efficiently relaying high quality information of real estate performance from property managers to accounting firms, then to asset managers, fund managers, and finally to investors.

Over the past 25 years, ASA Group has gained experience through accounting, tax, and administration of investment vehicles, and with it we are developing a streamlined flow of information.

For property managers, this translates to more resources that are expendable for operations, leasing, and value-added services.
For accounting firms, it means producing reports with high efficiency and high quality, as well as getting them to our clients with speed and accuracy.
For asset and fund managers, this means having more time for investor support and investment strategy.

I heard that the labor shortage also compounds on the issue of companies and funds not being able to concentrate on value-added work.

As ASA Group, we provide not just our core services of tax, accounting, and administration, but through PM and AM support services, we are able to understand client needs and analyze results. <u>We are looking to expand our capabilities by producing reports that are *direct and valuable to investors*.</u>

We are currently developing and running an internal system called WATT, to organize flows of information efficiently and to collect and output information. WATT maps and collects information from various formats, including accounting data, property data, and bank

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.31 2024.3.29

CEO's Column

(continued)

account data, then can output information in different formats. Through actual projects, we have gained substantial know-how of mapping and producing information in different formats.

With so many systems that already exist, you might think this new system may instead add to the workload. To be clear, the system is not meant for distribution, but solely to "manage an optimal flow of information". WATT is merely a tool to that end. By extracting data, preparing reports, and aggregating/analyzing data to assist our clients, this "new structure" is meant to deliver high quality information efficiently and swiftly.

The structure itself will not be packaged and sold, but rather to be used to tailor services for each investor and asset manager for each investment.

Please reach out to us on ways we can free up more of your time, so that you can focus on fund performance and investment strategy and less on day-to-day matters.

by Masaki Aguni, CEO

Japan Real Estate

IFF acquires logistics facilities from Logisteed in Carve-out

I would like to comment on the news of the recent sale between IIF (Industrial & Infrastructure Fund Investment Corporation) and Logisteed.

"[Sale] IFF acquires 210 billion yen in total. On February 15, U.S. IFF, Kohlberg Kravis Roberts (KKR) agreed to acquire 28 logistics facilities and leasehold land from

Logisteed. Total acquisition price was 108.26 billion yen. The seller is Logisteed (previously Hitachi Transport, Headquarters: Chuo Ward), the investee of KKR.

These transactions unfolded after KKR and its subsidiary KJR Management proposed a CRE carve-out to Logisteed. The sales price of all Logisteed properties is over 212.6 billion yen. Logisteed has transitioned to an asset-light business model much like other logistics companies and making growth investments, with the intent to go public again as a global logistics provider" *(from February 16, 2024, Nikkei Real Estate Market Report)*

IFF was originally a Mitsubishi Corporation REIT, but in 2022, private equity giant KKR acquired the asset management firm. At the time, the acquisition price was thought to reflect the potential synergy with KKR's existing business. The latest deal is a clear example of this synergy.

In 2023, KKR acquired and took Hitachi Transport (currently Logisteed) private. With this CRE carve-out that separates the property from the company, KKR is expected to improve enterprise value and re-list the company to exit.

Also, IFF, which is a REIT would hold the property permanently in a sale-and-leaseback deal, making it the owner of the property in a CRE carve-out and receiving stable long-term income and growth.

It's possible that other PE funds holding REIT asset managers will become active in similar ways in the future.

by Shigeru Hirai, Business Management Group

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.31 2024.3.29

U.S. Real Estate

The Competition for New York City's Prime Real Estate

Why Storefronts are still important for Luxury Brands

For both retail stores and offices, the physical location can be representative of the face of the company. For example, Aoyama Sogo moved to Okura Prestige Tower not only for the earthquake-proof build, but for Okura brand's heritage and quality to represent the face of our company.

An area that's highly concentrated with companies and brands also brings significant attention where businesses can thrive. While digitalization progresses, the importance of matching a face (of a company) to a place will continue.

For a luxury brand, a storefront is especially important. As evidence, Prada and Gucci's parent company acquired properties at $425 million and $963 million, respectively.

One reason behind such acquisitions is the strong financial performance of luxury brands. For example, LVMH Group (record sales €86.2 billion, +20% YOY) and Hermes (record sales €13.4 billion, +20% YOY) had tremendous 2023 results. So instead of continuing to pay high rents, more companies are deploying their abundant cash to purchase prime real estate from their owners. Acquisitions are also active in places in Beverly Hills and Paris. There are also cases where companies issue corporate bonds in such acquisitions, so they can be financed at a lower interest rate than standard bank loans.

While ecommerce is still growing, there has been a revamping of malls and storefronts in the city. Perhaps these efforts combined with revenge spending contributed to record sales for companies like LVMH and Hermes. For the foreseeable future, it seems that the retail store in prime locations will continue to be a vital component for the brand power of luxury brands.

by Yuichi Totani, Client Relations Group

Sara Cultural Centre (Photo: Jonas Westling)

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.31 2024.3.29

Tax Update

[Tax Reform] Meals Amount included in Entertainment Expenses (“the 5,000-yen rule for meals expense”)

In the 2024 tax reform’s special tax measure for “non-deductible entertainment expenses”, <u>the amount for meals excluded from the scope of entertainment expenses will be raised to 10,000/person and under (current: 5,000 yen and under).</u>

In this case, entertainment expense is defined as “meals, entertainment, and other confidential expenses spent by a company to entertain, serve, care, gift, and other such acts towards a client, supplier, or other person related to the business” (interpreted to include “towards directors, employees, shareholders.” Meals are defined as “expenses for meals and other similar acts for entertainment” (excludes those towards directors, employees, and relatives of such persons).

Specifically, the “amount of meal expenses to be excluded from the scope of entertainment expenses”, will be applied when the “the total expenses incurred for the meal divided by the number of participants (= per person amount)” is below the stated amount. If the actual amount exceeds this stated amount, *the entire amount* (not just the excess amount) will be excluded from the omission rule.

For the consumption tax treatment for this threshold amount, each company shall follow their accounting treatment for consumption tax. For tax-excluded method, “the pre-tax amount” is used, and for the tax-included method, the “after-tax amount” is used. The amount to consider may also include whether the restaurant or store is a qualified invoice issuer or not.

Either way, this reform of threshold amount for meals included as entertainment expenses (perhaps it should be called the “new 10,000-yen rule for meals expense”) is a huge reform since the system was implemented in 2006. Companies may also have to revise business expense policies.

by Masaaki Kidokoro, Knowledge Group

Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.31 2024.3.29

Editor's Afterword

At the Academy Awards, Takashi Yamazaki's "Godzilla 1.0" won Best Visual Effects and Hayao Miyazaki's "The Boy and the Heron" won Best Animated Feature Film. I'm incredibly happy to see that Japanese technology and storytelling was recognized. In particular, Godzilla 1.0 was made using technology called VFX that created visuals that outshined even the biggest Hollywood films.

Japanese business as a whole is often said to be domestic-oriented, and that more effort is needed to sell globally. For tax and accounting and the fund administration business, this is no different, as we must engage in business with a global mindset. Just like VFX did for film, Japan has plenty of technology that can compete with the world. It no longer seems like a fairy tale to not only grow business within the country, but on a global scale as well.

by Jun Murata, Corporate Officer