ASA GROUP

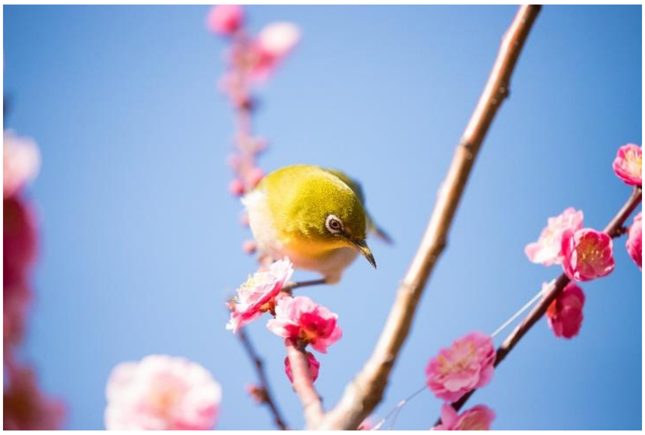
NewsLetter

～The latest in alternative investments～

Vol.41　2025.2.28

Chairman's Column

2025 kicks off – Inquiries from abroad including a family office



We hope you had a terrific New Year. This is our first volume of 2025. We look forward to serving you in this new year.

Besides the recent scandal of Fuji Television, the news in Japan has been relatively calm. The biggest topic of the moment is clearly about U.S. President Trump, who signed over 100 executive orders on the first day of his term. Since then, he has moved very rapidly. Perhaps not the best thing to say, but at age 78, he is quite impressive. This executive order is quite powerful, since barring any violations of the law or constitution, it immediately takes effect. For example, some of the orders include the discontinuance of paper straws and the recognition of man and woman as the only two sexes.

Although controversial and hard to accept at times, the swiftness in his action is testament to his preparation leading up to his second presidency. There was brief mention of the Japanese consumption tax, which is something we will keep on ear on.

As for inquiries from clients, there has been an uptick in foreign investors, in addition to the influx of international visitors which has surpassed pre-Covid numbers. The interest rate spread remains large between Japan's central bank rate at 0.5% and countries like Singapore at 4%. The U.S. is at 4.5%. The exchange rate against the U.S. dollar remains around 150 yen, which continues to give foreign investors incentive to purchase cheap assets and services.

Since the start of the new year, we have received more inquiries from international clients. Just the other day, we were introduced to a Southeast-Asian family office that was acquiring a Ginza hotel without any bank loans. Our executive officers who have visited Southeast Asia have seen firsthand the region's rapidly developing economy.

As you know, our securitization-related services have clients primarily comprised of institutional investors and fund managers. Regardless of whether we end up servicing them or not, we would like to assist more family offices in the setup stage.

In other news, our firm is currently developing the fund management system TDL (a sort of ERP system for funds), which will allow the system to manage data without relying on the memory of individual employees or separate files. Although there are various fund sizes, the structure is the same with customization available for PM data, tenant rent billing and payment administration, bookkeeping, and investor reporting. The cool-looking interface will allow easy Japanese to English translation.

The system will soon be available for our corporate clients as well, which will allow easier management of small companies. With TDL, we are looking to reduce the administrative burden on our clients and contribute to a more sustainable investment environment.

by Kazuhiro Matsuzawa, Chairman

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Real Estate

Real Estate Legends - Using prime real estate as a driver in business

Donald Trump is causing quite the stir after being re-elected as President at 78 years old. Before becoming a politician, he is known for developing high-end properties like Trump Tower and Trump Plaza, a business model that created value out of his “Trump” brand. However, he has also experienced bankruptcy six times for his failed casino ventures. Afterwards he entered television and politics, before becoming the President of the United States. Quite extraordinary.

While he was a charismatic and successful real estate investor and businessman, there are real estate legends with greater successes. Here are a few of them.

Bernard Arnault (1949-present, France)
“The emperor that merged luxury and real estate”
As one of the wealthiest people in the world, he is Chairman of LVMH, the company that holds Louis Vuitton and Dior. He dominates prime locations on Paris’s Champs-Elysees and has developed the luxury hotel Cheval Blanc and the art museum Fondation Louis Vuitton. He has established a strategy of utilizing real estate not merely as an asset but as a symbol of the brand.

Li Ka-shing (1928-present, Hong Kong)
“Asia’s real estate emperor”
The founder of Hong Kong’s largest real estate company, Cheung Kong Holdings. He is also known as the 'Warren Buffett of Asia', having achieved success through contrarian investing - buying assets cheaply during market downturns and selling them during economic booms. In the 2000s, he expanded into Europe, eventually acquiring British infrastructure companies, further extending his influence.

Sam Zell (1941-2023, U.S)
“The charismatic contrarian investor”
Nicknamed "The Grave Dancer," he is a contrarian

investor who sees market crashes as prime investment opportunities. In 2007, he sold Equity Office Properties for $39 billion, completely avoiding any Lehman Shock effects. Renowned for his ability to read the market, he is considered a legendary investor.

Stephen M. Ross (1940-present, U.S.)
"The Genius of Urban Redevelopment"
He was the mastermind behind New York’s largest urban development project, Hudson Yards. Transforming an aging area into the world’s largest mixed-use commercial complex, he established a new model for successful urban redevelopment. Additionally, as the owner of the NFL’s Miami Dolphins, he pioneered a business model that merges sports and real estate.

Gerald Grosvenor (6th Duke of Westminster, 1951-2016, United Kingdom)
“Real state emperor who holds, not sells”
British aristocrat who has held prime real estate in London’s Mayfair and Belgravia for the long term. He has established significant influence in London’s real estate market through a strategy that doesn’t sell property in the short-term, but rather “holds long-term” for asset value appreciation.

When I was involved in the setup of a REIT at a foreign investment firm, the company invited Sam Zell to speak at a seminar in Japan. Having read his biography as a staff member, I remember being excited about attending the seminar. Arriving in a private jet, he exuded the aura of a rock star.

by Shigeru Hirai, Knowledge Management Office

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Accounting Update

Changes in Lease Accounting and impact on Real Estate Funds

The lease accounting standards will change beginning April 2027 (early application is accepted from April 2025). As part of convergence with IFRS, the accounting treatment for lessees in particular will significantly change.

1. What will change?

Traditionally, transactions determined to be operating leases were kept off-balance sheet, but under the new standard, the lessee will record a right-of-use asset and lease liability. In principle, all lease agreements will be recorded on the balance sheet (with some exclusions). As a result, the total assets and liabilities of most companies will increase.

From a profit and loss perspective, while the total cost burden over the entire lease term remains unchanged, under the new standard, the interest on lease liabilities is calculated using the effective interest method. This means that the cost burden is higher at the beginning of the lease, when the outstanding lease liability is larger. Additionally, the definition of a lease has been revised, expanding the scope of applicable accounting standards. Companies will need to review lease payments and lease terms, as these will form the basis for calculating lease liabilities.

The impact on lessors is limited, but with straight-line method becoming the standard for revenue recognition, contracts with free rent periods will require revenue to be evenly distributed over the contract term.

2. Impact on Real Estate Funds

In general, real estate funds are lessors. Excluding the change in revenue recognition of free rent, the impact is limited in scope. However, if a property with leasehold rights is held, the lease treatment as a lessee is required. Additionally, tenants will be subject to lessee treatment, such that changes in the tenant's financial condition will impact credit assessments and possibly lead to shorter lease terms, which should be considered by lessors.

Real estate funds should prepare in advance for the substantial impact of these changes in lease accounting. In the next volume, I will summarize the impact of sale-and-leaseback transactions and sublease transactions.

by Kenji Hanazawa, ASA Total Solution