Japan Hotel Investment Guide

February 2023

Introduction

After various announcements that other parts of the world were easing their travel restrictions and social distancing measures in late 2021, Japan followed the movement in early 2022 by lifting the State of Emergency amidst higher vaccination rates and lower daily cases. This major step forward in the country's reopening unleashed strong domestic tourism demand: the first half of 2022 marked the time when residents of Japan were encouraged to travel without restrictions since the Go-To-Travel Campaign in late 2020. Japan's leisure destinations, such as Okinawa and Kyoto, saw tourists swarm back in the summer months. From 11 October, Japan fully opened its borders to international visitors, satisfying the strong demand from foreign tourists to visit the Land of the Rising Sun.

Whilst Japan's recovery started strongly in H2 2022, geopolitical challenges and economic headwinds dampened tourism flow in other parts of the world and the region.

What is the impact of these global challenges on Japan's tourism recovery? With the weakened Yen, there is rising interest in Japan from tourists, hotel operators and investors alike.

As the country does not restrict foreign ownership or management of hotels, foreign investors can explore a number of investment structures to best suit their profiles and goals. However, selecting the appropriate investment structure is crucial for them.

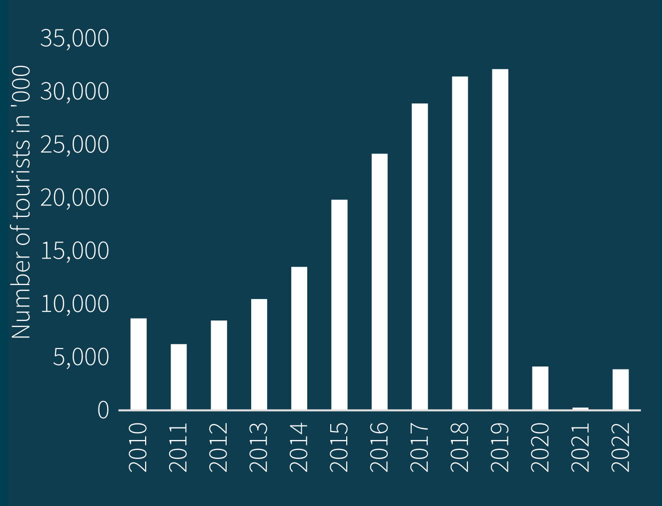
JLL's Hotels & Hospitality Group and Baker McKenzie have extensive experience and knowledge of Japan's hospitality market and structures preferred by foreign investors. We hope this 2023 Guide will provide a basic introduction to the market and insight into the investment structures typically used to acquire Japanese hospitality assets.

Japan Market Overview

Between 2010 and 2019, Japan welcomed 183 million international tourists, translating to an average annual growth rate of 14% and ranking third in Asia Pacific and 12th globally in 2019.

Japan also ranked as the No.1 country in the world in the latest Travel and Tourism Development Index 2021, released by the World Economic Forum in May 2022. This ranking was driven by a multitude of factors, including Japan's wealth of cultural resources, as well as strong infrastructure development, health and hygiene, safety and security.

International tourist arrivals in Japan



Source: JNTO

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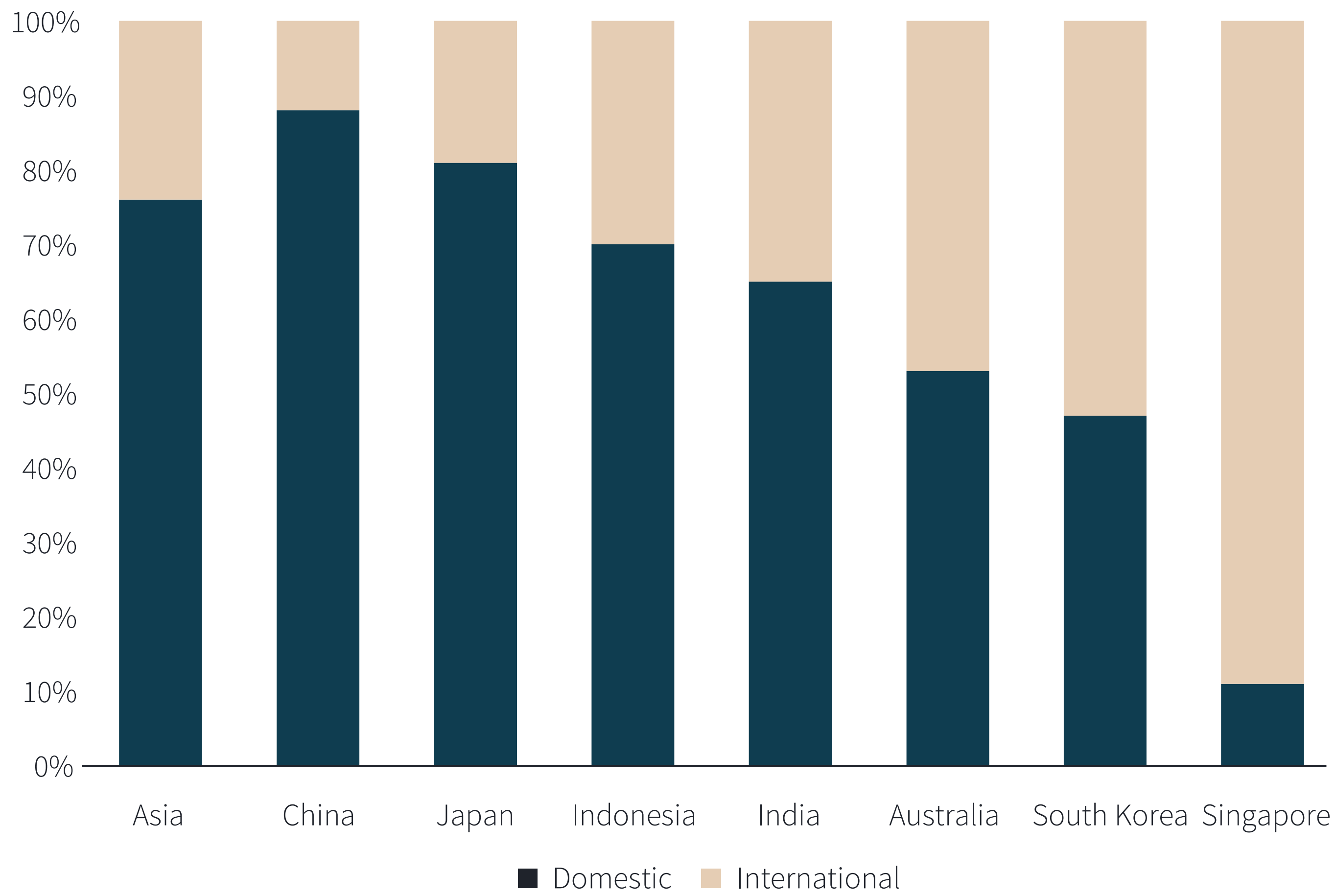
\- **World Economic Forum, May 2022**

Resilience of Japan’s tourism industry driven by domestic demand

Whilst Japan’s international visitor growth has been remarkable, domestic tourists in Japan still represented 81% of total nights in 2019, the second highest proportion in Asia after China. This high share creates a strong base for recovery after almost three years of the border closure. Like other destinations in the world, staycations have been driving the hotel business during the pandemic, not only allowing Japanese hotels to survive but also allowing Japanese tourists to discover or re-discover parts of the country, encouraged by government incentives such as ‘Go-To-Travel’. With current macroeconomic challenges and global airlift issues, domestic tourists in Japan are expected to continue leading the demand in the near to medium term.

Domestic & International share of total nights in 2019



Source: UNWTO, Tourism Economics

The Japanese government relaunched a new travel subsidy programme in time for the autumn tourism season of 2022 and extended the programme into January 2023:

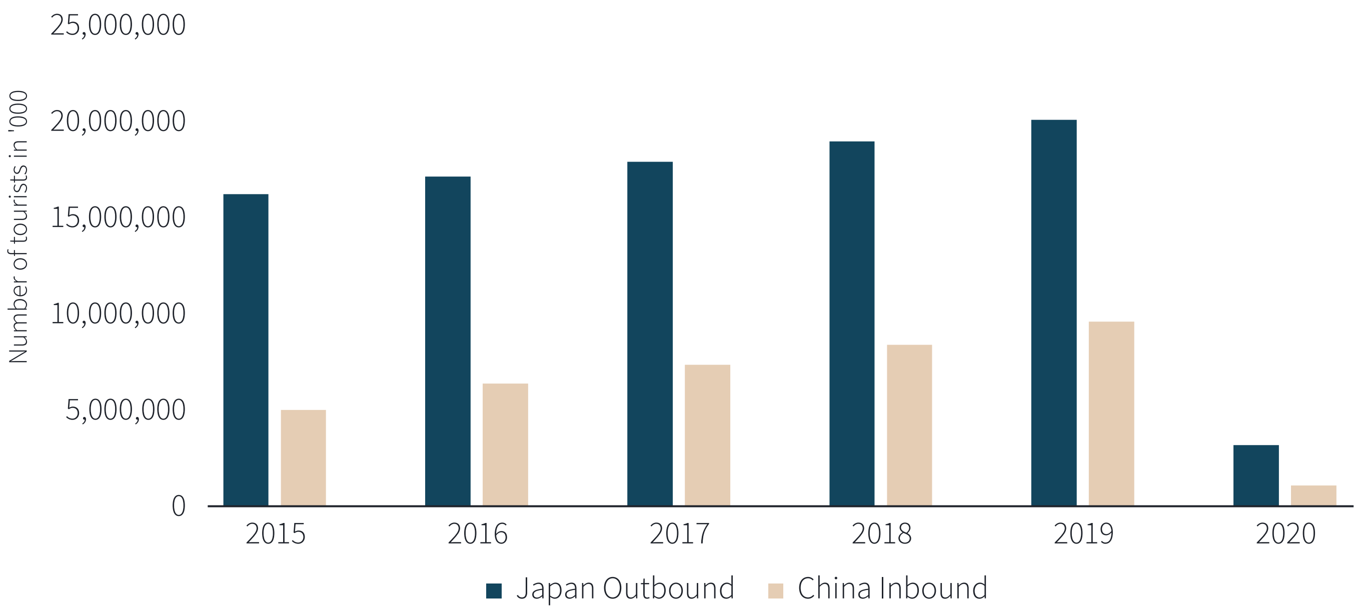
	National Travel Discount Programme 2022	National Travel Discount Programme 2023
Start Date	11 October 2022	10 January 2023
End Date	28 December 2022	Until subsidy reserves run out in each prefecture
Maximum Discount	40% on transport and accommodation	20% on transport and accommodation
Daily Maximum Discount per traveler	JPY8,000 for package tours including public transport, JPY5,000 for accommodation only	JPY5,000 per person for transport and accommodation, JPY3,000 per person for transport only
Vouchers	JPY3,000 weekday, JPY1,000 weekends and holidays	JPY2,000 weekday, JPY1,000 weekends and holidays

Opportunity to capture previous Japanese outbound tourists whilst the Yen is weak

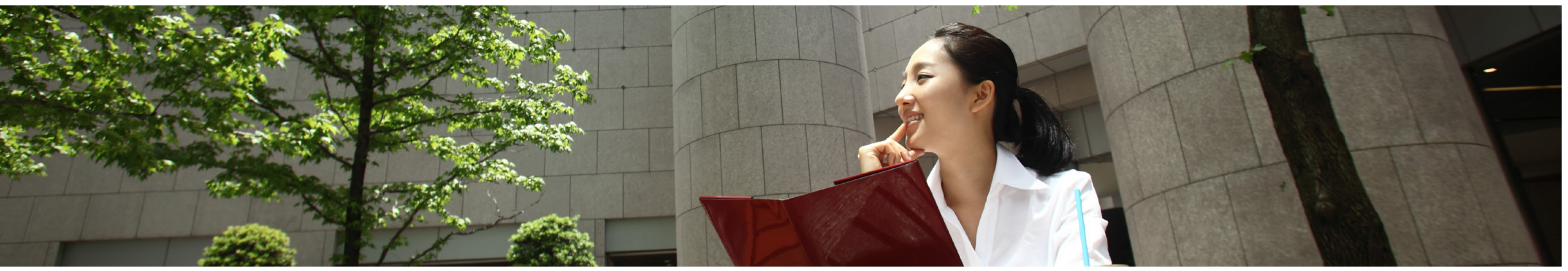
The prolonged absence of Chinese tourists has significantly impacted markets in the region which are strongly reliant on China. Although China was the main international source market for Japan in 2019, Chinese tourists generated only 6% of total room nights in the country.

The year also counted over 20 million Japanese outbound tourists, with an average length of stay abroad of 5.5 nights, leading to an estimated total of 110 million overseas nights. In other words, if 25% of Japanese outbound tourists travel domestically in 2023, it would cover the absence of Chinese tourists in terms of occupancy, whilst China inbound tourism recovers.

Japan outbound vs China inbound



Source: JNTO



When will Chinese tourists return to pre-COVID levels?

China dropped quarantine measures for overseas arrivals and shifted away from the zero-COVID strategy in early January 2023. This has driven hopes of a strong surge in Chinese tourists over the Lunar New Year period and a fast recovery back to pre-COVID levels.

However, there are several factors that may slow the recovery of Chinese tourists to Japan including tightened border restrictions imposed on Chinese arrivals, restricted flight capacity and Beijing's ban on outbound package tours.

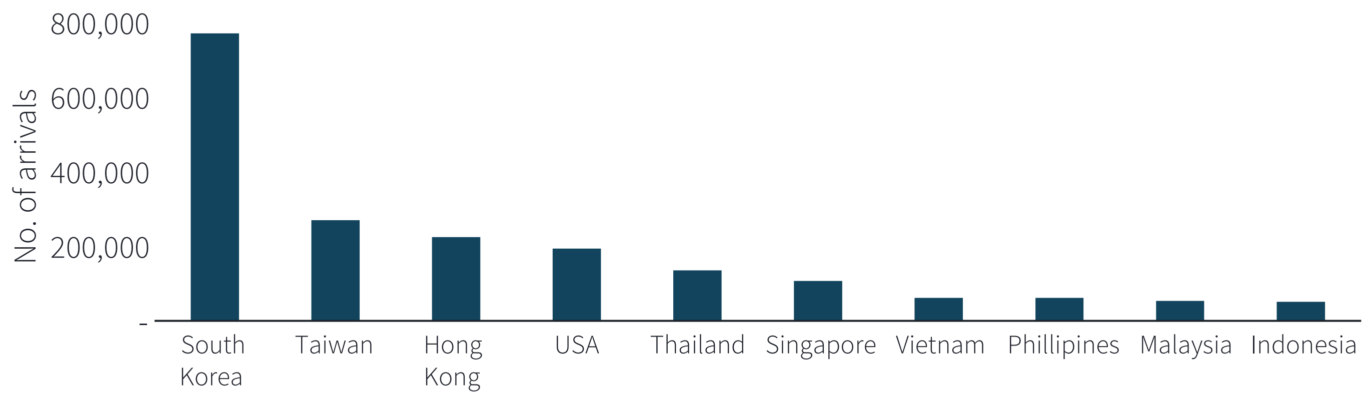
Data from Cirium showed that international flight capacity to and from China for January 2023 was only 11% of 2019 levels but is expected to hit 25% by April.

Chinese travel to Japan will also be hit by the requirement for a negative PCR test on arrival. This is not required by several other Asian countries popular with Japanese travellers including Thailand, Cambodia, Indonesia and Hong Kong. In response to these entry restrictions, China has maintained its ban on group tours to Japan, whilst lifting it for most other countries.

Until these restrictions are lifted and flight capacity is increased, the return of Chinese tourists will be slowed and thus the strength of Japan's domestic traveler base will be required to fill the gap.

In the meantime, visitor arrivals from many other countries across the world showed strong growth in December, following the re-opening of the Japanese border. South Korea gained the position of number one source market with an estimated 456,100 arrivals according to the preliminary estimates from JNTO. This represents a growth of 84% over December 2019, whilst no other country managed to reach 2019 levels.

Japan Top 10 Source Markets (November - December 2022)



Source: JNTO preliminary estimates

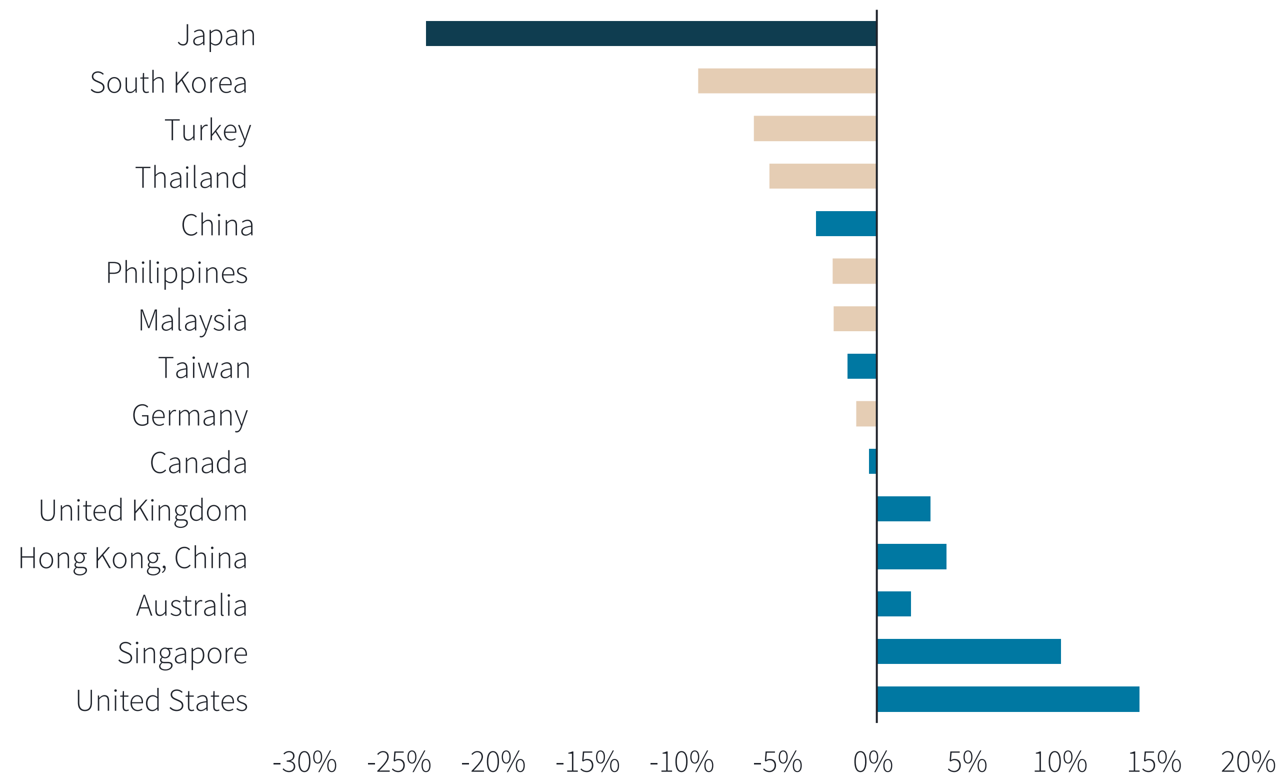
Weakened Yen will boost tourism

With the Bank of Japan maintaining ultralow interest rates whilst the Federal Reserve continued to hike rates, the Yen plunged to a 32-year low against the dollar in October 2022. Although the Yen has regained some ground against the dollar since October, Japan still represents exceptional value for overseas tourists looking at the real effective exchange rate.

The increased cost of overseas travel for Japanese citizens whilst the Yen remains weak will further drive domestic demand. In addition, Japan has a relatively low rate of vaccination (68.0%* with third booster jabs) vs other APAC countries, which will reduce the ability to travel internationally in the near future.

*Source: Cabinet Public Affairs Office, Cabinet Secretariat, data as of 25 January 2023

Change in exchange rate, effective real (2022Q4 vs 2020Q4)



Source: Oxford Economics

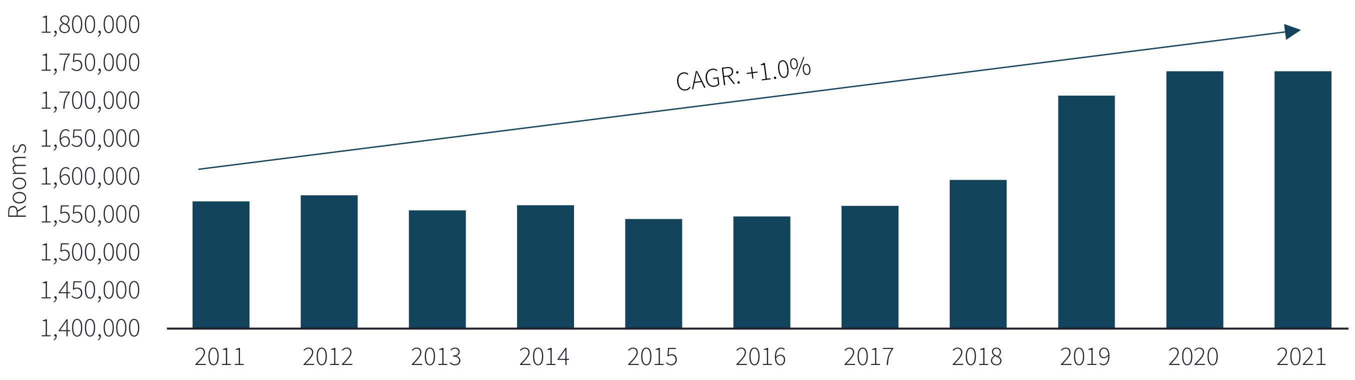
Supply and pipeline

With increased demand from overseas tourists and domestic travel over the years, Japan's hotel and ryokan supply has increased by a compound annual growth rate of 1.0%, totalling more than 1.7 million rooms by the end of 2021.

However, the supply growth has been disparate across the country. The larger cities with international tourism demand have seen notable supply increases; Tokyo (+3.3% CAGR), Osaka (+5.4% CAGR), and Kyoto (+5.2% CAGR), whilst rural areas saw a slight decline between 2011 and 2018, balancing the national supply growth rate.

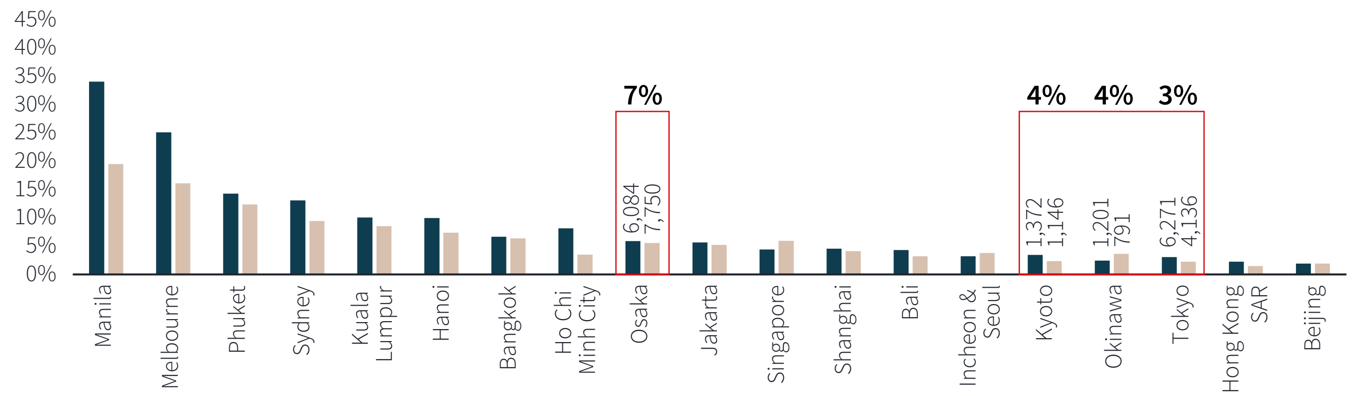
Whilst the significant supply pipeline added over the past five years will take time to be absorbed, the new supply pipeline in Japan appears to be one of the lowest among major destinations in Asia Pacific. Rapidly increasing construction costs across Japan and the growth of the multifamily residential asset class will likely restrict hotel supply in the medium term.

Total supply (hotel and ryokan)



Source: Japan Tourism Agency

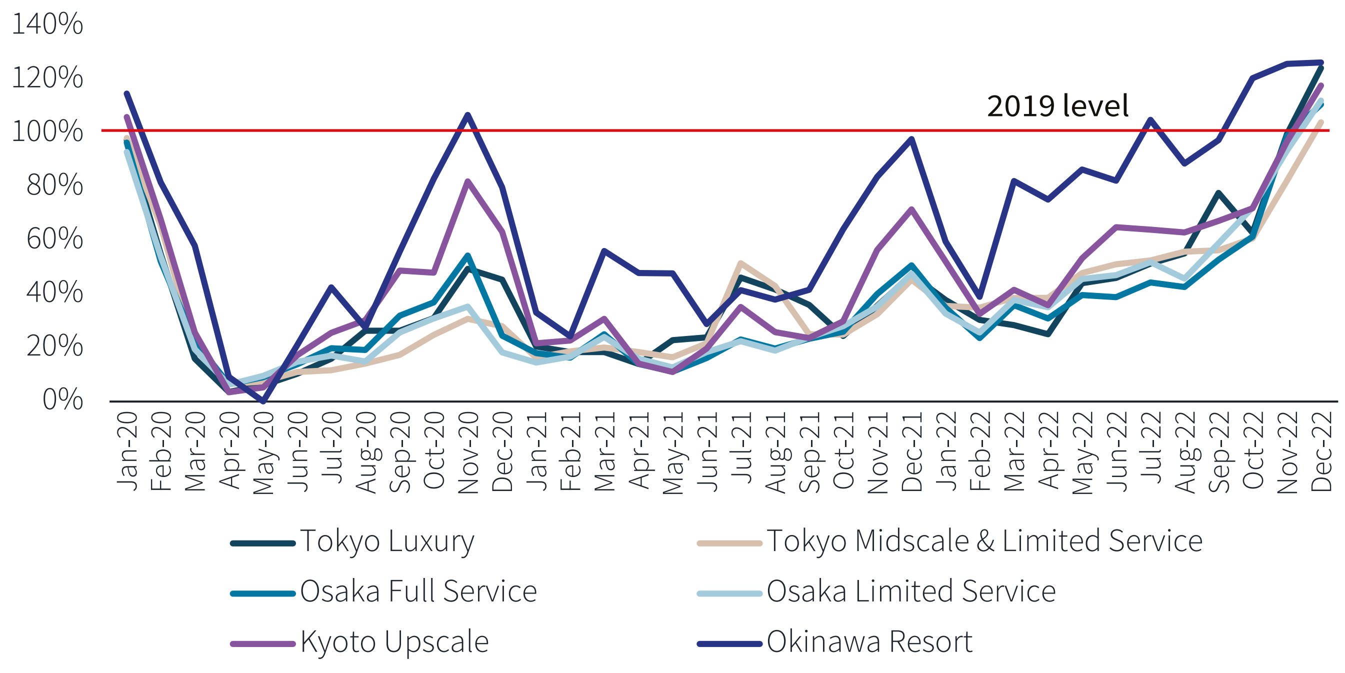
Proportion of future supply over total existing supply



Source: STR

Resort destinations have outperformed

RevPAR recovery relative to 2019



Source: STR, JLL

Since the beginning of 2022, all markets in Japan recorded significant growth in trading performance, in line with the easing of inter-prefectural travel. More specifically, the Okinawa Resort market stands out as the destination to experience the fastest recovery driven by pent-up domestic travel demand.

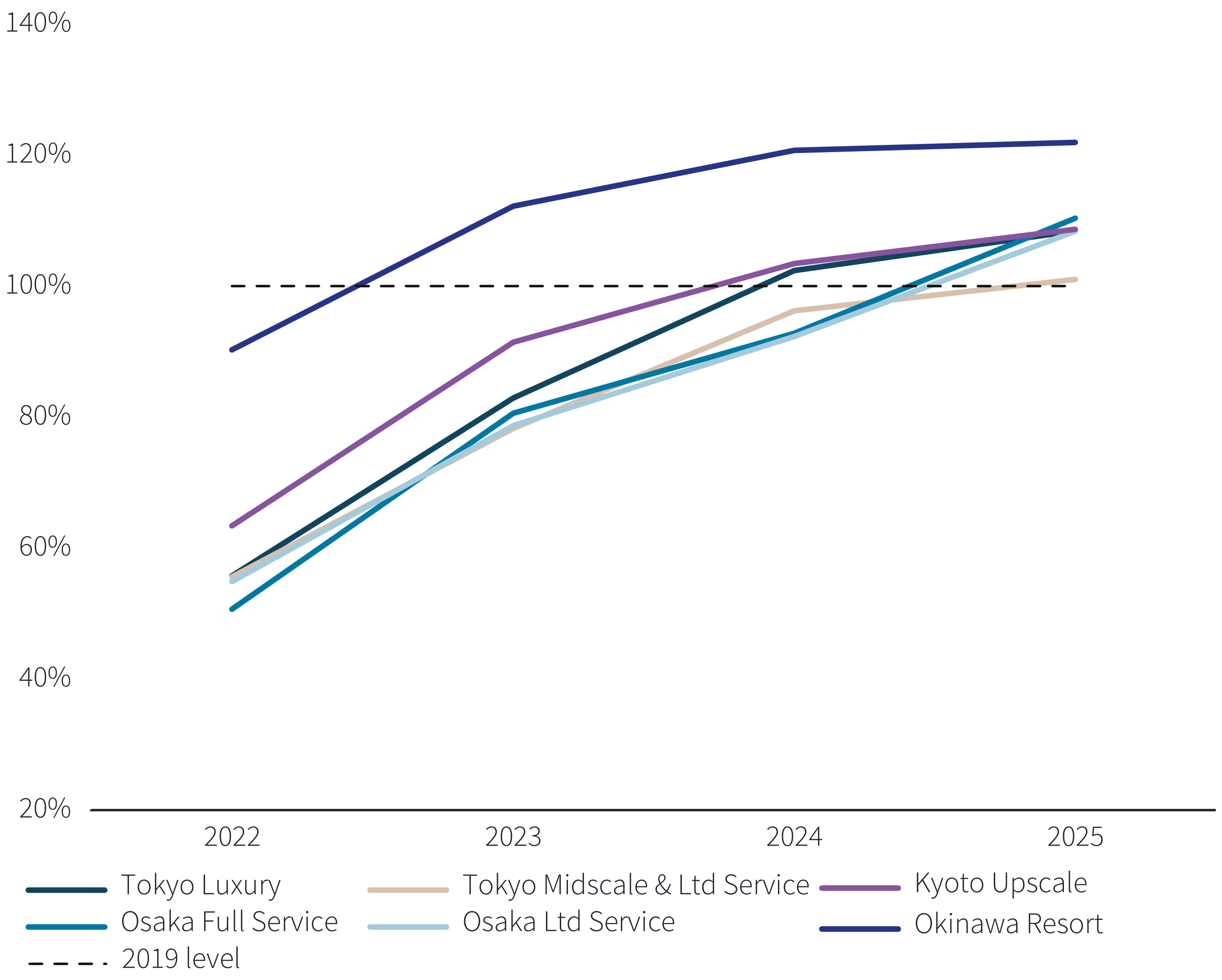
Opening borders to international tourists in October 2022 clearly impacted the trading performance of all markets. RevPAR for the six markets tracked in the above graph achieved an average 116% of 2019 RevPAR in December 2022.

A two to three-year recovery

The current economic headwinds in Europe, the USA and Australia are expected to continue to be felt in Asia Pacific during 2023. This should slow the region's general pace of recovery to a certain extent.

The lifting of quarantine measures in China is positive news for global travel, however restricted flight capacity and high fares will likely create a bottleneck for China outbound travel in the first half of 2023. In Japan, the weak Yen and pent-up domestic demand (which has already been witnessed in many countries across the world) will provide a stimulus for the recovery.

RevPAR forecast against 2019



Source: JLL

With Japan's borders now open to overseas travellers, luxury and full-service markets with a higher proportion of overseas visitors should benefit from strong pent-up demand and the weak Yen. This should be the case for Tokyo, Osaka, and Kyoto. The Kyoto Upscale Market has maintained a strong ADR throughout the pandemic. As a popular destination for both international and domestic travellers, we expect growth in occupancy to drive RevPAR above 2019 levels in 2024.

The midscale and limited-service segments in Tokyo and Osaka have a higher reliance on China. Therefore, we forecast that these markets will take until 2025 to fully recover to 2019 RevPAR levels.

Both the Osaka Full Service and Limited Service Markets have experienced significant additional supply over the past five years, which will impact the recovery speed.

However, Osaka will host the World Expo in 2025, generating huge demand in the build-up and during the event, pushing performance above 2019 levels.

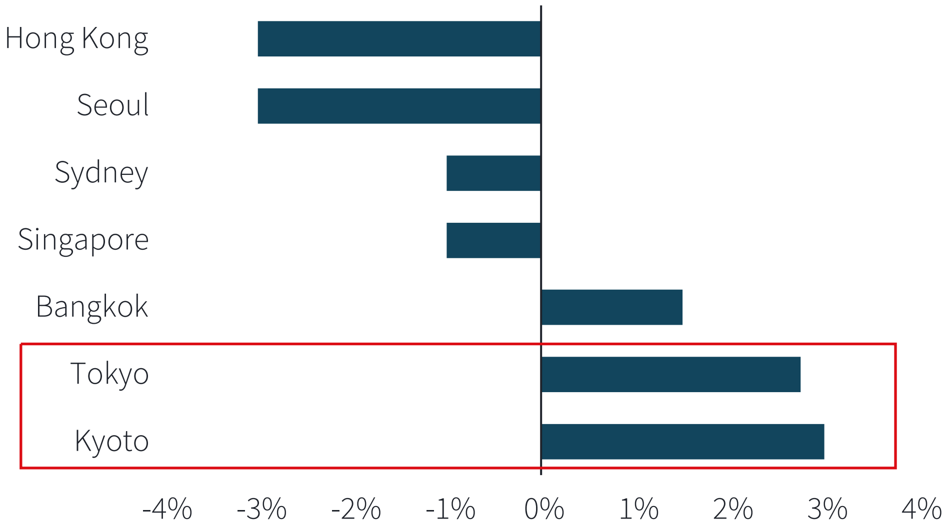
As Japan's most popular resort destination, we expect Okinawa to benefit from strong pent-up leisure demand from Japanese tourists over the next two years. Although ADR exceeded 2019 levels in 2022, to drive occupancy, Okinawa will need to rely on the return of tour groups which generate lower ADRs than the current transient travellers. Even with a slight drop in ADR, Okinawa RevPAR should exceed 2019 levels in 2023 and continue to grow further.

Historical transaction volumes and 2023 forecast

As of December 2022, Japan has recorded more than JPY 400 billion of completed deals, mostly led by portfolio transactions such as the Kanpo-no-Yado portfolio of 32 hotels, the Hotel Trusty portfolio of 6 hotels, and most notably, the Seibu portfolio. This landmark transaction of 31 assets, the largest hotel deal in Japan since 2007, was signed in June 2022 and acquired by Singapore's GIC, subject to a management agreement with Prince Hotels.

Presently, the biggest driver of offshore investment in Japan hotels is the yield spread over borrowing cost compared to other key markets across APAC. By far, Japan offers the most attractive prospect for investors looking to utilise debt financing, with markets like Tokyo and Osaka offering a spread of c.2.5-3%.

Hotel yield spread over borrowing cost



Source: JLL

Assumptions

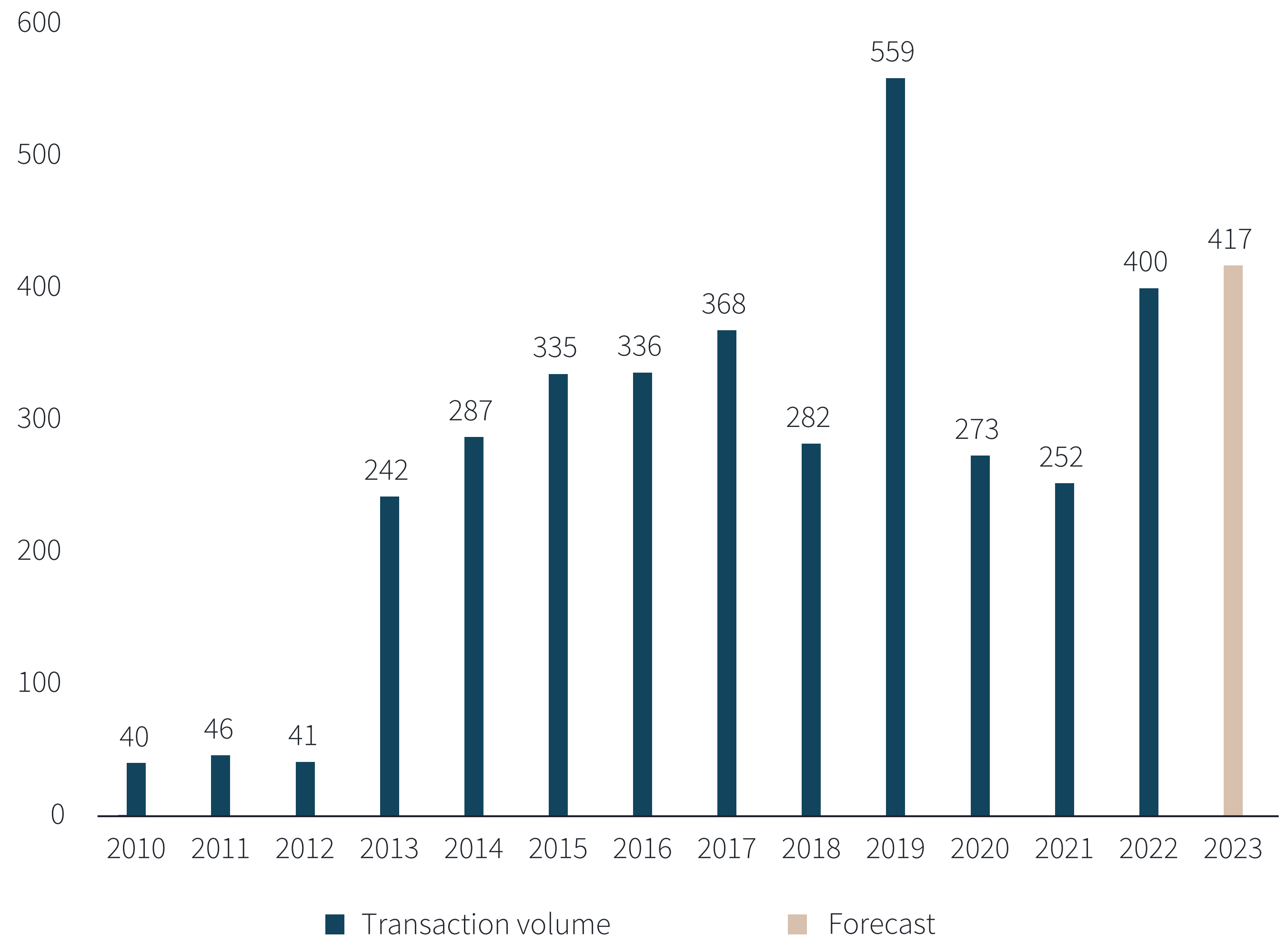
- Operated under HMA or Franchise contract
- Prime or good secondary location
- Yield based on 2019 or stabilised projections
- Non-recourse
- 50-60% LTV

Note: JLL's estimates are based on the latest transactions and market intel.

We expect volumes in 2023 to be driven by transactions in the limited-service segment, where the ownership base is more fragmented, and owners can accept market-level pricing, given a slower recovery period and supply pressures from pre-COVID.

Assets with strong domestic leisure demand, such as resorts benefiting from the Yen depreciation, are expected to be sought after, and we expect further transaction volume in this segment. In 2023, Japan is expected to record JPY417 billion of hotel transactions, a 4% growth year-on-year.

Transaction volume



Source: JLL

2 Japan Hotel Investment Structures

A threshold question to consider in planning any hotel investment in Japan is what structure or vehicle the investor ought to use in order to acquire or develop the real estate.

A number of different structures can be used in Japan for investment in hotel real estate. Investors can acquire the real estate individually, through an offshore entity or a Japanese entity or Japanese partnership structure. Available forms of entities in Japan include the kabushiki kaisha, commonly referred to as the KK, the godo kaisha, commonly referred to as the GK, and the tokutei mokuteki kaisha, commonly referred to as the TMK, and the toushi hojin / toushi shintaku, commonly referred to as a J-REIT (if it invests real estate assets). In addition, the tokumei kumiai, commonly referred to as the TK, is also frequently used for real estate investment in combination with the GK as explained below.

The structures most widely used by inbound investors to invest in hotel real estate in Japan are the TMK and the GK-TK structures.

TMKs and GK-TKs are used in a variety of real estate investments and are suitable for non- or limited-recourse financing and securitization transactions as bankruptcy remote features can be implemented.

Both structures offer tax benefits that are not available to ordinary business entities such as the KK or GK if certain conditions are satisfied. In addition, holding the real estate in trust (see commentary below) may provide some additional tax benefits. However, the tax advantages of these structures and the use of trusts must be carefully weighed against other considerations such as the cost of establishment and administration, as well as licensing and filing requirements.

The following pages of this Guide provide an overview of the GK-TK and TMK Structures.

GK-TK structure overview

A GK, sometimes referred to as a "limited liability company", is modelled on the limited liability company provided for under US law but without the pass through tax attribute. A TK, sometimes referred to as a "silent partnership" is not an entity like a KK, GK and TMK but is a type of limited partnership as explained below.

The GK has become more commonly used in real estate investment transactions by inbound investors in part because of its simpler governance structure. In addition, a lender will usually prefer a GK over a KK because unlike a KK, a GK is not subject to statutory corporate reorganization proceedings which can significantly limit a lender's right to enforce its remedies against the debtor's assets.

A TK is formed with a "silent partnership" (tokumei kumiai) agreement, commonly referred to as a "TK agreement", entered into by the "TK operator", usually a GK, and a "TK investor", sometimes referred to as a "silent partner", pursuant to which the TK investor invests in the "TK business" operated by the TK operator. This structure is commonly referred to as a "GK-TK" structure (or sometimes the other way around, i.e., a "TK-GK" structure).

An important feature of TK structures is that the TK operator is the only party permitted to participate in the day-to-day management or administration of the TK business, similar to the general partner in a limited partnership in some common law jurisdictions.

The TK operator owns all of the assets of the TK business and the TK investor merely has contractual rights and obligations under the TK agreement and is generally not liable for the debts or other obligations of the TK business.

A key advantage of a TK is that certain distributions of profits by the TK operator to the TK investor pursuant to the TK agreement can be treated as a deductible expense at the TK operator level, and such distributions for inbound TK investors will be subject to a Japanese withholding tax rate of 20.42%, or a lower tax treaty rate if applicable, which is much lower than the Japanese corporate tax (local and national) at the standard effective rate of around 30% to 35%.

Unlike a TMK structure, unless the TK operator is licensed under the Real Estate Syndication Act (Fudousan Tokutei Kyoudou Jigyou Hou), or is otherwise exempt from the licensing requirement under the Act, the real estate to be acquired and held by the TK operator would generally need to be entrusted with a trust bank, with the TK operator being the owner of the trust beneficiary interest and the trust bank holding legal title to the real estate.

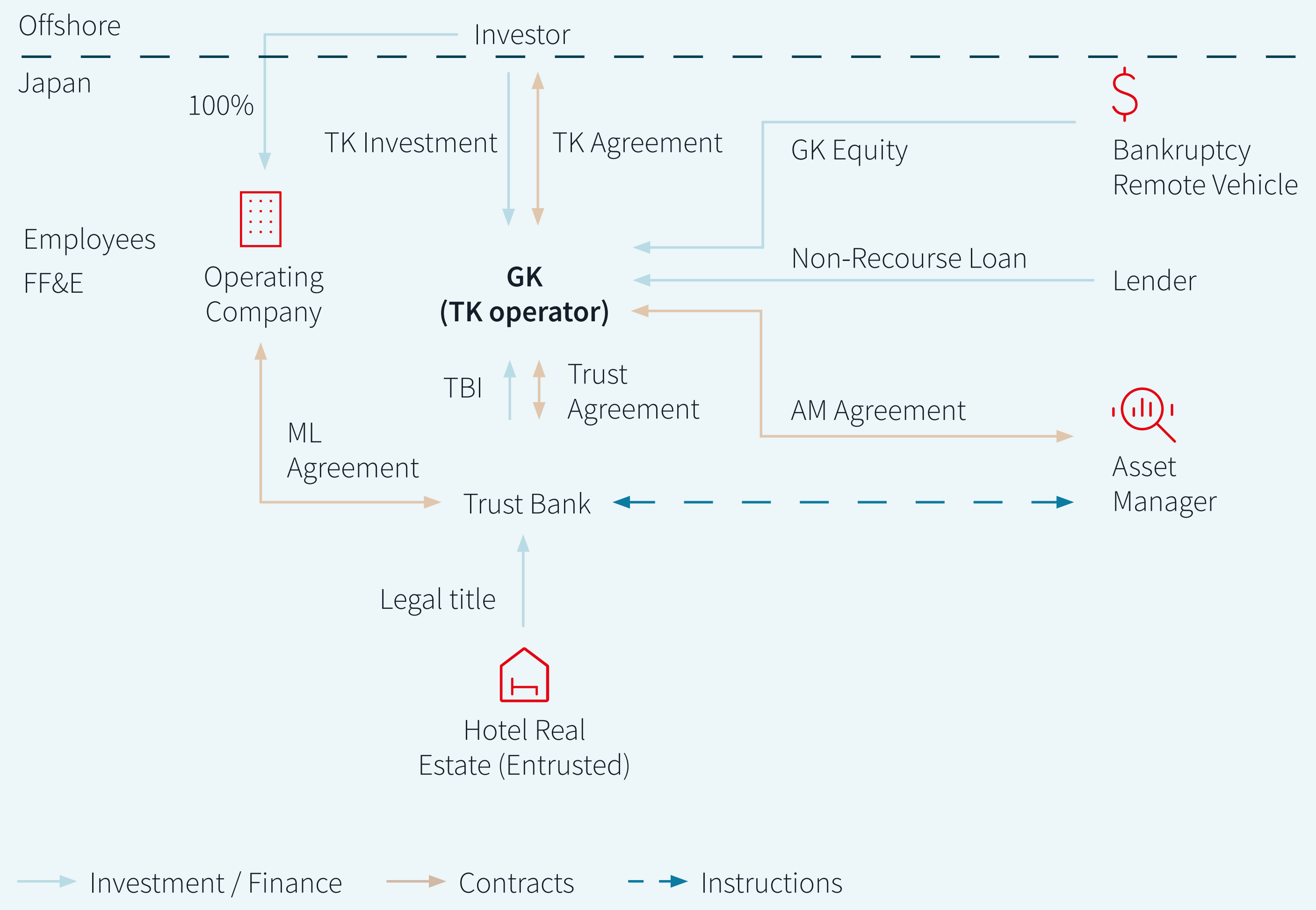
However, as a TBI is deemed to be a kind of "security" under the Financial Instruments and Exchange Act (Kinyuu Shouhin Torihiki Hou), and as a TK is regarded as a "collective investment scheme", unless it has an investment management license (Toushi Unyo Gyo) or is qualified under Article 63 of the Act, the TK operator will need to appoint an asset manager licensed under the Act in order to manage the TBI assets.

Finally, one further advantage that the GK-TK structure has relative to the TMK is that it can be used to invest in multiple properties even if not identified at the outset.

The GK-TK structure chart appearing below contemplates an investment by a TK operator that is not licensed under the Real Estate Syndication Act (Fudousan Tokutei Kyoudou Jigyou Hou) (see above regarding this requirement) and therefore acquires a trust beneficiary interest (TBI) in the hotel real estate.

The structure chart is followed by a brief summary of the key tax, regulatory and other considerations applicable to the GK-TK structure.

GK-TK Structure Chart



GK-TK Key Considerations

Tax

- Distributions of profit by the TK operator to the TK investor at the TK operator level are treated as a deductible expense, i.e. are not subject to double taxation.
- Profit allocable to a non-resident TK investor is subject to withholding tax at the rate of 20.42%, subject to a lower tax treaty rate, as applicable.
- There are no reduced rates with respect to real estate acquisition tax / registration and license tax, should the TK operator purchase the underlying property.

Regulation

- The TK is a passive "silent partner" investment arrangement, under which the investor has no right to control or manage the TK business (real estate investment).
- If bare real estate is acquired as opposed to a TBI, the TK operator must be licensed under the Real Estate Syndication Act in order to acquire bare real estate and to undertake real estate business or otherwise be exempt from the licensing requirement under the Act. However, TK operators usually acquire a TBI in order to avoid this requirement.
- In order to manage a TBI, a TK operator must generally appoint an asset manager licensed under the Financial Instruments Exchange Act since a TBI is deemed a "security" and a TK is regarded as a "collective investment scheme" under the Act.

Incorporation

- A TK operator in the form of a GK can usually be established in two to three weeks. The TK agreement with the silent partner/investor can also be prepared and executed within this timeframe.

TMK structure overview

A TMK is a special purpose limited liability company that can only be established and used in connection with the securitization of certain prescribed assets, including real estate and trust beneficiary interests of trusts holding real estate.

Unlike the GK-TK structure, the TMK does not require any license to acquire and manage either bare real estate or the trust beneficiary interests of trusts holding real estate so long as the management activities requiring the licenses are outsourced to a duly licensed company or companies. For bare real estate, the asset management company must meet certain requirements under the Act on Securitization of Assets (Shisan Ryuudouka Hou) as a "specified asset manager" (Tokutei Shisan Kanri Gyosha or Tokkan Gyosha), including being licensed under the Real Estate Brokerage Act (Takuchi Tatemomo Torihikigyou Hou) as a "real estate broker" (Takuchi Tatemomo Torihiki Gyosha).

A TMK is authorized under the Act on Securitization of Assets (Shisan Ryuudouka Hou), commonly referred to as the Asset Liquidation Law, to purchase specified assets (tokutei shisan), and to fund the purchase of such assets through the issuance of preferred shares (yuusen shusshi) to investors, and/or by the issuance of specified bonds (tokutei shasai) to or specified borrowings (tokutei kariire) from one or more qualified institutional investors (QIIs), typically a licensed bank.

Proceeds from the issuance of such preferred shares, specified bonds and specified borrowings are not permitted to be used other than for the acquisition, development or management of the specified assets.

A TMK must comply with various regulatory requirements including the filing of a "Notification of Commencement of Business" (Gyoumu Kaishi Todokedesho) together with an initial "Asset Liquidation Plan" (Shisan Ryuudouka Keikaku), commonly referred to as the ALP, with the applicable Local Finance Bureau of the Ministry of Finance. This needs to be completed in advance before the TMK acquires any assets, issues any preferred shares or specified bonds, or undertakes any borrowings.

If non-recourse financing (bond or bond and loan) is contemplated, the bond purchaser/lender usually requires the TMK to be set up as a bankruptcy remote entity, typically with the TMK's specified/common equity owned by a "general incorporated association" (ippan shadan houjin), a Japan bankruptcy remote vehicle.

As preferred shares and specified bonds issued by a TMK are regarded as a type of security (yuuka shoken) under the Financial Instruments and Exchange Act, a licensed solicitation or private placement agent is required to be retained by the TMK to issue the preferred shares or specified bonds.

Similar to the GK-TK structure, a key advantage of a TMK is that certain distributions of profits by the TMK to its preferred shareholders can be treated as a deductible expense at the TMK level, provided certain requirements prescribed by the Act on Special Measures Concerning Taxation (Sozei Tokubetsu Sochi Hou) are met. Such distributions for offshore TMK investors will be subject to Japanese withholding tax rate of 20.42%, or a lower tax treaty rate if applicable, which is much lower than the Japanese corporate tax (local and national) at the standard effective rate of around 30% to 35%.

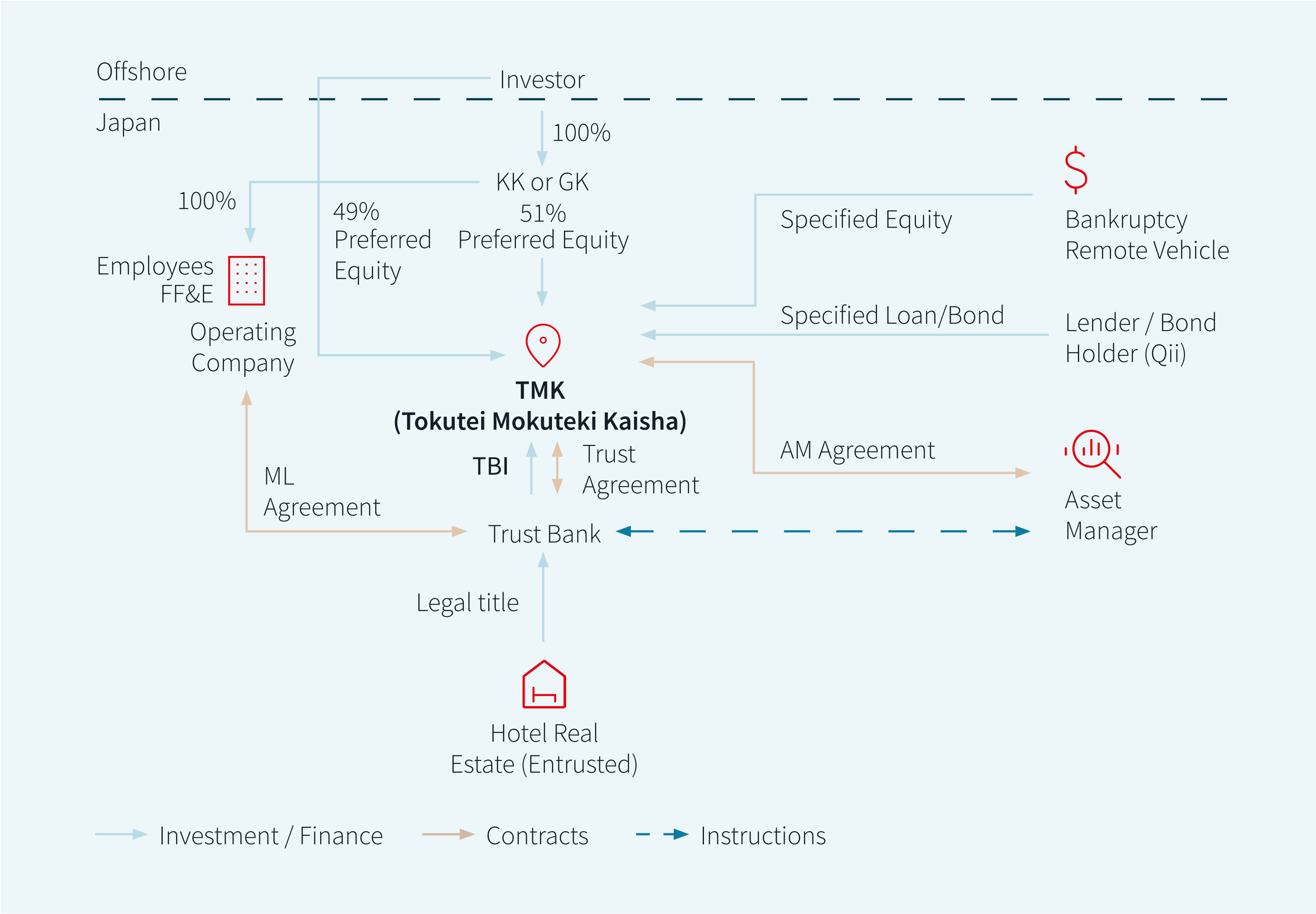
The key requirements under the Act on Special Measures Concerning Taxation include:

- a majority of the TMK's preferred shares must be held by Japan taxpayers, e.g. Japanese entities or registered Japan branches of offshore entities;
- in general, specified bonds must be issued by the TMK, and in practice are issued to one or more "Qualified Institutional Investors" (QIIs); and
- all loans to the TMK must be made by one or more QIIs; and
- the TMK must distribute more than 90% of its profits for each fiscal year as calculated under the Act on Special Measures Concerning Taxation (Sozei Tokubetsu Sochi Hou) to its specified/common share and/or preferred shareholders.

Another benefit of a TMK is that it is entitled to reduced rates of real estate acquisition tax (fudosan shutoku zei) and registration and license tax (toroku menkyo zei) when real estate is acquired (those taxes do not apply to the acquisition of the beneficiary interests of trusts holding real estate).

The TMK structure chart appearing to the right also contemplates the TMK acquiring a TBI and is followed by a brief summary of the key tax, regulatory and other considerations applicable to the TMK structure.

TMK Structure Chart



TMK Key Considerations

Tax

- A TMK is permitted to deduct distributions to preferred equity holders as an expense if it meets certain tax requirements, including:
  - issuing a majority of preferred equity to Japan taxpayers;
  - issuing specified bonds in the amount of at least 100 million Japanese yen to one or more QIIs; and
  - distributing more than 90% of profits to its preferred equity holders for each applicable fiscal year.
- Distributions made by a TMK are currently subject to withholding tax at a 20.42% rate which may be reduced under the applicable income tax treaty.
- Reduced tax rates apply with respect to real estate acquisition tax / registration and license tax, should the TMK acquire the underlying real estate (as opposed to a TBI).

Regulation

- A TMK must file a Notification of Commencement of Business and an Asset Liquidation Plan (ALP) together to the Local Finance Bureau, before it acquires any assets or issues any preferred equity or undertakes any borrowing.
- A TMK must appoint a "solicitation" or private placement agent, in order to issue preferred equity or specified bonds.
- In order to manage bare real estate, a TMK must appoint a "specified asset manager" (Tokutei Shisan Kanri Gyousha or Tokkan Gyosha) that meets the requirements under the Act on Securitzation of Assets.

Incorporation

- The incorporation of a TMK usually takes about one month and the preparation and filing of an ALP about one week – after most of the material terms of purchase and sale agreements have been finalized. It is also permissible to amend the ALP after the initial filing, at the time of additional issuance of equity, acquisition of assets and/or financing, as necessary.

A word on trust beneficiary interests or TBI

In many hotel purchase and sale transactions, the hotel real estate offered for sale will be in the form of a trust beneficiary interests (shintaku jueikken), commonly referred to as a "TBI" rather than the actual hotel land and/or building, especially if the owner is a foreign investor intending to sell the hotel in several years.

A TBI in real estate is created when the owner of the real estate entrusts the real estate to a trustee, usually a licensed trust bank. On entrustment of the real estate pursuant to a trust agreement between the owner and trustee, the trustee acquires the legal title to the real estate and in return the former owner acquires a trust beneficiary interest in the real estate.

Under the trust agreement, the trustee administers the real estate (but not the hotel business) for the benefit of the TBI holder in consideration for a fee and the TBI holder receives periodic distributions of trust income after deduction of the costs of managing the real estate (including taxes and insurance).

A couple of key points for overseas investors to note here include:

- very few licensed trust banks will agree to negotiate or document the terms of the trust agreement other than in the Japanese language;
- the TBI holder will need to appoint an asset manager with the requisite license under the FIEA in order to instruct the trustee in relation to administration of the real estate (for a TMK, this is a practical requirement of the trustee, and for a TK-GK structure, because the TBI is deemed to be a security and a TK is regarded as a "collective investment scheme" under the FIEA); and
- for regulatory and other reasons, trust banks do not normally acquire and are not involved in administering or operating the hotel FF&E, employees and other business assets of the hotel - these will be held by a separate operating company, usually in the form of a KK or GK.

Why do developers and owners of hotel real estate often place the real estate in trust? There are several advantages to the trust structure including:

- the transfer of a TBI is not subject to real estate acquisition tax, and thus, depending on the intended holding period and the trust related fees, it may be advantageous from a tax savings standpoint to entrust the real estate;
- trust banks normally undertake their own due diligence review of the real estate before accepting entrustment and will alert the buyer to any material risks identified as a result of the review, and the lender and the market often perceive entrusted property to be in good condition at least from a building code compliance perspective.

Conclusions

- The TMK and GK-TK structures are potentially more tax-efficient structures for real estate investment but attract a range of regulatory requirements.
- The GK-TK structure allows distributions to TK investors to be "tax deductible" to the TK operator and distributions are generally subject to the 20.42% withholding tax rate (or less, depending on the applicable tax treaty) to offshore TK investors.
- TK investors are not permitted to manage or control the TK business.
- The TMK structure is also an attractive vehicle from a tax perspective because distributions to TMK preferred shareholders may qualify to be tax deductible at the TMK level and a withholding tax rate to offshore TMK shareholders of less than 20.42% may apply depending on the applicable tax treaty.
- The TMK structure is potentially the more attractive vehicle from a regulatory perspective because, in contrast to a GK-TK structure, the TMK itself does not need to obtain certain licenses (can be outsourced) for management purposes or to carry on real estate business.
- However, a TMK must file an Asset Liquidation Plan (similar to a placement memorandum) and conduct its activities in accordance with the plan. In order to qualify for the tax benefits outlined above, it must issue a specified bond and distribute at least 90% of its profits, as calculated under the Special Measures Concerning Taxation (Sozei Tokubetsu Sochi Hou).

Factsheet

Acquisition Costs	
Consumption Tax	Generally, building (and FF&E if applicable) purchase price x 10% (can be reclaimed post-acquisition, usually 2-3 months after making the requisite JCT filing)
Real Estate Acquisition Tax	1.5% of Tax Assessed Value of Land (Tax Rate of 1.5% will be effective until March 2024) 4% of Tax Assessed Value of Building
Real Estate Registration Tax	1.5% of Tax Assessed Value of Land (Tax Rate of 1.5% will be effective until March 2024) 2% of Tax Assessed Value of Building 0.4% of the Value of the Mortgage
Stamp Duty	200,000 – 600,000 Yen per original copy of agreement (depending on purchase price listed on PSA)
Brokerage Fee	3% of Purchase Price + Consumption Tax (10%)

Holding Costs	
Property Tax	1.4% of Tax Assessed Value of Land & Building p.a.
City Planning Tax (Tokyo, Osaka, etc.)	0.3% of Tax Assessed Value of Land & Building p.a.
Depreciable Asset Tax	1.4% of Depreciable Asset Book Value p.a.
Corporate Tax	30 – 35% of Taxable Income (depending on the corporation type)
Capital Gains Tax	Same as Corporate Tax
Withholding Tax on dividends	20.42% of offshore distributions (Standard Withholding Tax Rate) Singapore Tax Treaty – 5% Hong Kong Tax Treaty – 5%
Trust Fee	c.1 – 2m Yen upfront fee plus c.600,000 – 1m Yen p.a.
Property Management Fee	c.1 – 3m Yen p.a. (depending on scope and asset size)
Asset Management Fee	c.0.3 – 0.5% of Purchase Price (depending on scope and asset size)

The factsheet above has been prepared for guidance purposes only as at the date of this paper. The tax rates and commercial terms may depend on the specific circumstances and latest legislation, therefore the reader should seek further professional advice.

Glossary

Key terms – abbreviations	
ADR	Average Daily Rate
ALP	Asset Liquidation Plan (shisan ryuudouka keikaku), a document analogous to a placement memorandum which a TMK must file before it issues any preferred equity and specified bonds, undertakes any specified borrowing or purchases any real estate.
CAGR	Compound Annual Growth Rate
FIEA	Financial Instruments and Exchange Act (Kin'yu Shouhin Torihiki Hou), Law No. 25 of 1948, as amended.
GK	Godo Kaisha, a type of limited liability company modelled on the US LLC. See page 20 for details.
HMA	Hotel Management Agreement
KK	Kabushiki Kaisha, sometimes referred to as "joint stock corporation", a type of limited liability company widely used to carry on business in Japan. See page 18 for details.
LTV	Loan to Value
QII	Qualified Institutional Investor (Tekikaku Kikan Toushika), a buyer of securities deemed sophisticated by Cabinet Order under the FIEA, such as banks and insurance companies licensed in Japan.
RevPAR	Revenue per available room
TBI	Trust Beneficiary Interest (Shintaku Juekiken), the interest that a trust beneficiary holds in property entrusted to and administered by a trustee under a trust agreement. A TBI is treated as a security under the FIEA. See page 27 for details.
TK	Tokumei Kumiai, a type of limited partnership commonly used for purposes of real estate investment. See page 20 for details.
TMK	Tokutei Mokuteki Kaisha, a special purpose company commonly used for purposes of real estate investment. See page 23 for details.

Key players	
Asset Manager	A TMK must outsource management and retain Asset Manager, Property Manager, etc. A TBI holder that is not licensed as an investment advisor or asset manager in Japan will need to appoint a third party asset manager with the requisite FIEA license in order to instruct the trustee in relation to administration of the real estate as the TBI is deemed to be a security under the FIEA.
Solicitation / Private Placement Agent	A TMK will need to appoint a licensed securities broker as a placement agent in order to issue preferred equity or specified bonds as those are deemed securities under the FIEA.
Trust Bank	A special financial institution licensed to undertake trust business under the Law Concerning Concurrent Undertaking of Trust Business by Financial Institutions (Law No. 43 of 1943). The underlying real estate of a TBI is usually owned and administered by a Trust Bank.

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