Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

~The latest in alternative investments~

Aoyama Sogo Accounting Firm

Vol.36 2024.8.30

Chairman's Column

Hiring from a Blue Ocean of Potential Talent

As the hotly contested Paris Olympic Games have concluded, we hope you are doing well.

Japan, particularly Tokyo has had subtropical-like temperatures. On my recent trip to Singapore, I heard a report on local TV that temperatures are rising in major cities around the world. Tokyo's highest temperature this year was 37℃, with Dubai at 41℃ as one of the few cities with temperature that was higher. I remember when 30℃ was considered a hot day. I wonder why this has happened. Other countries may mock that this is due to Japan's high use of fossil fuels.

Today, I will discuss the topic of recruiting. You may be familiar that most companies are struggling with recruiting because of the labor shortage. Our firm is no exception. We have also faced the challenge of recruiting before Covid. Other accounting firms have even begun TV commercials. Tokyo, the place of our head office has a population of 14 million, but even then, we have difficulty attracting new hires.

With HR's suggestion, we began hiring foreign-born employees (or in Japanese, "valuable human resources"). Of course, making English the common office language would not be practical, so we interviewed foreign-born candidates that speak Japanese. As a result, 10 new hires, mainly in their 20s began working for us since last October. They are primarily from Asian countries and speak Japanese, English, and their native language.

Traditionally, each department separately provided on-the-job training for individual hires. However, with a big group of new hires, this would be inefficient. We began highly focused 3-month group training sessions with the cooperation of HR and other departments. After the end of 3 months, our new hires were placed in separate departments. Of course, most new hires do not have prior accounting or fund administration experience. But, since many of these employees came to Japan with a strong intent to learn, I am impressed by their ambition to work and learn. They often ask a lot of questions.

Although their Japanese can be rather vague, which presents some challenges in their work, their enthusiasm is something that catches my eye. We have employed this new model for recruiting which has resulted in 25 total foreign-born employees. We call them "global hires". The true results of this recruiting model will be seen later, but with this new approach in recruiting, we feel that we have tapped into a blue ocean. To continue providing sustainable services, we will take good care in nurturing the skills of these new global hires.

by Kazuhiro Matsuzawa, Chairman

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Japan News

The Dynamics of Population

Real estate market trends tend to be discussed in a macro perspective, but since real estate is fixed on a particular land, the micro perspective is just as important.

It's well-known that population is a big factor in economic activities and impacts consumer demand, productivity, economic growth, and tax revenue. It also directly and indirectly affects real estate sales and leasing.

From a macro perspective, Japan's population declined by 860,000 in 2023. It's hard to find the silver lining, since the equivalent of Fukui or Saga prefecture's entire population was eliminated in just one year. However, the trends from a micro perspective are quite intriguing. Some prefectures are noticeably growing/declining in population for various reasons.

I have summarized some of the interesting analysis reported by the Nisseki's Research Institute's Kanako Amano, entitled:
【Regional revitalization and Population Data Report】 2023 Prefectural Ranking by Net Move-ins - "Availability of jobs in the area" determining winners and losers.

- **Tokyo is the runaway leader in population influx**

After Covid had temporarily halted the one-sided concentration of people in Tokyo, 2023 resumed with a sudden influx of 1.8 times the prior year. Coming in at a distant second place is Kanagawa. Tokyo's one-sided concentration in population is expected to continue.

- **The key to population inflow is the presence of women**

Net move-ins for number one ranked Tokyo had 1.2 times the number of women versus men. #4 ranked Osaka had 2.7 times, and #5 ranked Chiba had only

women that had a net move-in. There is a correlation between the inflow of women and an increase in population. Meanwhile, "Areas of Population decline" such as the #1 ranked net move-out of Hiroshima and #2 ranked Aichi have succeeded in increasing men, but not with women. Prefectures such as Miyagi, Ibaraki, Yamanashi, and Nagano are among those areas of population decline that are pronounced in the small number of move-ins by women.

- **Job transfers are big factor in move-outs**

Of those moving into net move-in areas, 60% are in their early 20s, moving for a job. The number of women moving-in outnumber men by 1.3 times. One of the primary reasons for move-outs was thought to be 18-year-olds attending university, but in fact work transfers for 20-year-olds (post trade school), 22-year-olds (post university), and 24-year-olds (post graduate program) are a bigger factor.

The conclusion is that the key to become a "winning area" in terms of population may be to provide attractive workplaces for women.

For those interested, I recommend that you read Ms. Amano's report (link in footer [1]).

by Shigeru Hirai, Fund Services Division

1 Nisseki's Research Institute report (in Japanese)

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U.S. News

Inflation slows down further, but Real estate transaction volume is still low

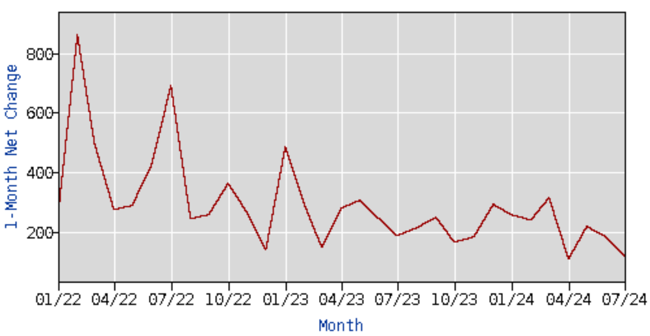
Inflation is slowing down

July employment figures show a slowdown of non-farm jobs growth (+114,000) and average wages (overall +3.6% YOY) with an uptick in unemployment rate (4.3%). Core CPI has been steadily falling (+3.2% YOY). The Core PCE Price Index also is inching closer to the Fed's target of 2% (2.6% in June).

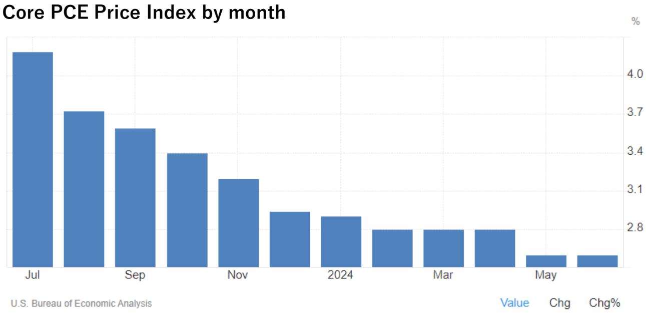
U.S. 10-year Treasury yields have been coming down, as well, with the Fed expected to bring down the interest rate by year end.

30-year fixed rate mortgage rates are slowly coming down from historic highs (6.47% as of August 7), but still very high.

Non-farm payroll increase by month



Core PCE Price Index by month



Real Estate and Private Equity

Mortgage rates still high
With mortgage rates still being at high levels, many potential homebuyers are priced out. Even with the rate cut(s), inventory levels are still low, and home prices are not expected to come down quickly.

Real estate investments
Commercial real estate deal volume has significantly slowed in 2024, due to high interest rates putting downward pressure on property values. Even with an expected rate cut, many office and other commercial building owners aren't expecting a strong rebound in demand, particularly for obsolete buildings. Distressed properties are on the rise.

MSCI reported that foreclosures and seizures of offices, apartments, and other commercial property portfolios rose 13% from the first quarter. The highest quarterly figure since 2015.

Private Equity
Private equity deal volume thus far in 2024 has remained low, due to factors including a valuation gap between sellers and buyers. Sellers are continuing to wait-and-see whether performance/valuation will improve, as well as on the Fed's expected rate cuts. Some deals are taking place as carve-outs and take-privates. Private equity-backed real estate deals globally are down significantly compared to prior year.

With three remaining meetings for the year, the Fed continues to be cautious of prematurely lowering the interest rate. For many investors, high financing costs and changed market dynamics present significant challenges in the short-term.

by Yuichi Totani, Fund Services Division

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Tax Update

Recognizing the Transfer Date of an Asset

In this volume, we examine the timing in recognizing fixed asset transfers from a tax perspective. In general, the point of transfer of an asset is at the time of delivery. However, many people may think that the effective date of the sales agreement may be used.

There are in fact circulars (Income Tax Circular 36-12, Corporation Tax Circular 2-1-14, Consumption Tax Basic 9-1-13) that allow the contract effective date to be the transfer date of the asset. However, caution must be exercised since these are solely supplementary provisions.

Particularly for consumption tax, there is a precedent that denied the contract effective date as the transfer date of the fixed asset. On March 14, 2019, the Tokyo District Court (No. 142 (line 3) of 2017) denied an annual tax refund filing for a company that purchased property in a fiscal period and recognized the contract effective date as the transfer date of the taxable asset (building), although the delivery of the building was made in the subsequent fiscal period.

Let us take a closer look at the provision in the consumption tax circular:

Excluding any other provisions, the transfer date of the fixed asset shall be the date of delivery. However, for fixed assets that are land, buildings, and similar assets, if the business recognizes the contract effective date as the transfer date, this is accepted.

The court interpretation with regards to the above precedent was that the provision in the circular states that when the contract effective date is recognized as the transfer date, if there is evidence that proves that same date is when rights are vested, that same date merely confirms the allowance as the transfer date.

Additionally, rights are only vested after registration procedures for the real estate sales transfer, and when profits from use of the real estate become possible. Ultimately, the delivery date is deemed as the transfer date of the fixed asset.

As this example demonstrates, there are tax provisions that may lead to misinterpretation. In practice, it is important to accurately understand transaction details and to carefully make decisions based not only on basic understanding of tax law, but on court precedents as well.

by Yasuhiro Ando, Knowledge Management Office

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From the Editor

The saying goes, “Management prepares for rainy days.” Another phrase commonly used is “For those prepared, there is no sadness.” This is especially important for management.

On the afternoon of August 8, there was an intensity 6 level earthquake in Miyagi. We express our heartfelt prayers to families affected. With this earthquake, the Japan Meteorological Agency issued a warning about a potential Nankai Trough earthquake. Many people seemed to promptly make preparations in case of a disaster. A century ago, the Great Kanto earthquake was a magnitude 7.9, while the Nankai Trough earthquake is expected to be up to magnitude 9.1. In terms of energy level, it is roughly 32 times.

At the time, Eiichi Shibusawa was a prominent figure in Tokyo’s recovery after the Great Kanto Earthquake and now featured on the new 10,000-yen bill. Eiichi Shibusawa’s biggest regret was not being aware to foresee that the earthquake would spark fire right after as well. We too, should be aware of making the necessary preparations in case of a natural disaster. It’s time we execute on the saying, “For those prepared, there is no sadness.”

by Jun Murata, Editor-in-chief