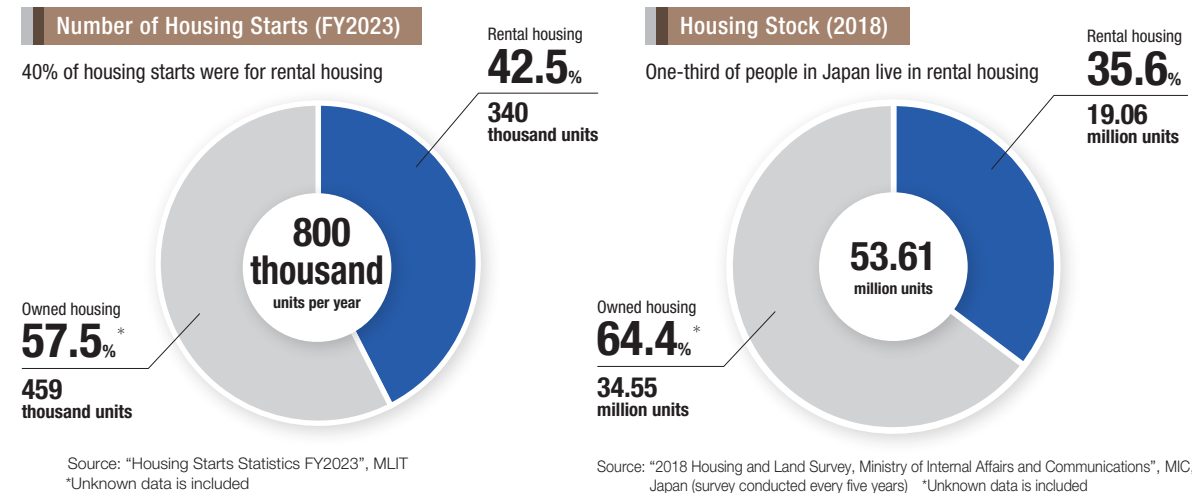


## Market Environment

## Population and Demographic Trends

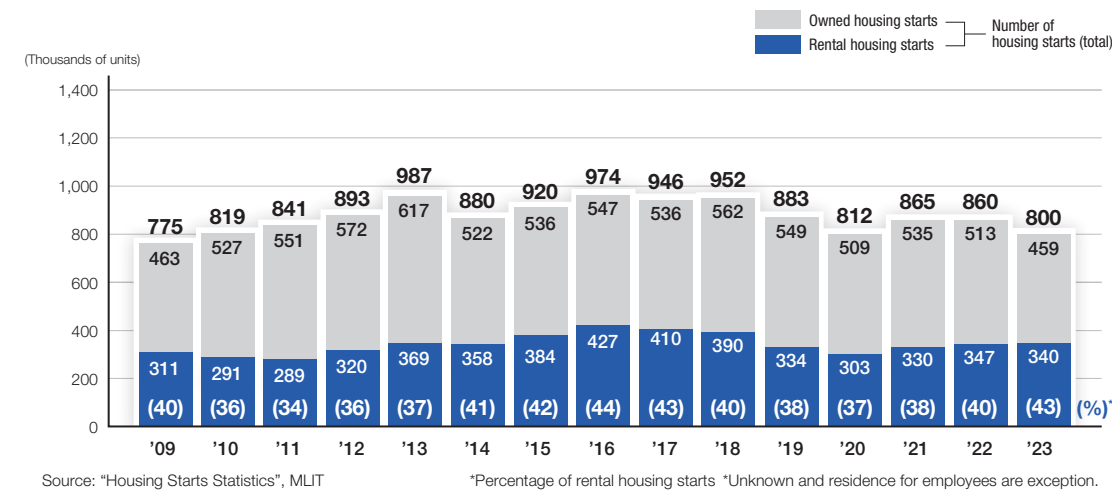
## ► Rental Housing versus Owned Housing (in Japan)

The proportion of rental housing in Japan remains at a constant level.



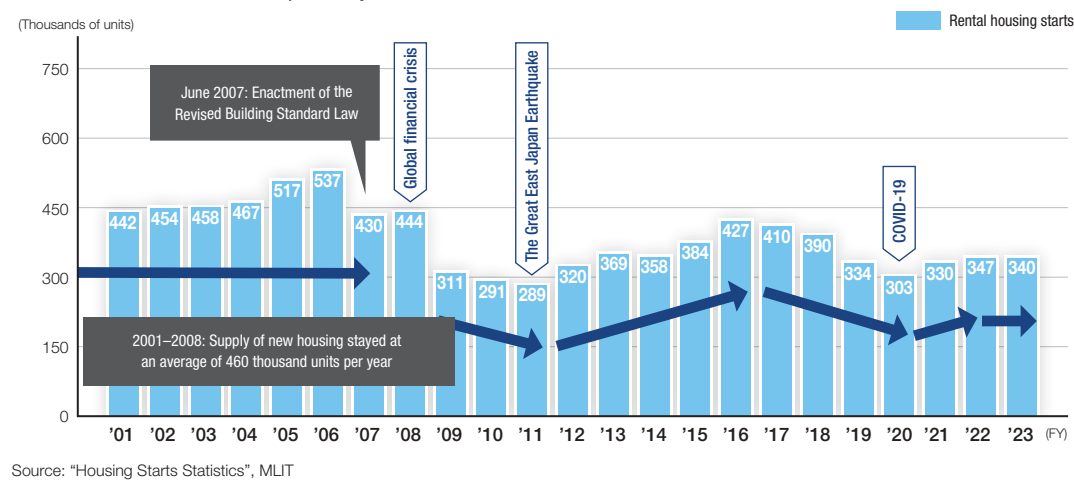
## ► Trends in the Number of Housing Starts in Japan

Trends in the Number of Rental and Owned Housing Starts FY2023 was 7.0% decrease from the previous year.



## Trends in the Number of Rental Housing Starts

FY2023 was 2.0% decrease from the previous year.



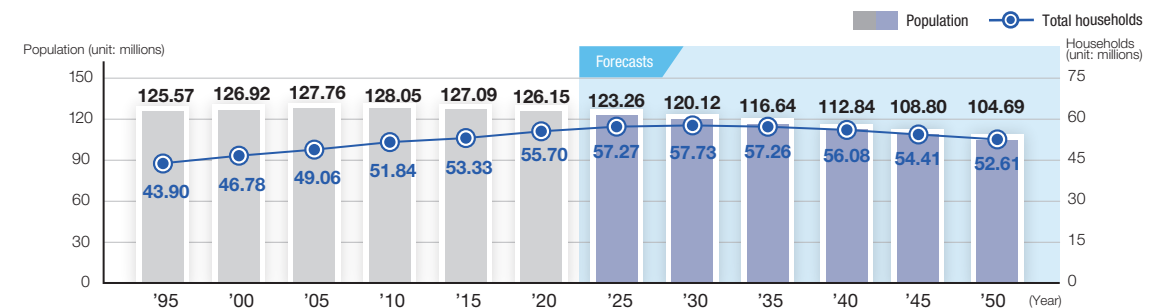
## ► Forecast for Population and Total Households

The total number of households is expected to remain roughly at the same level.

- It is forecasted that the population will decrease from 126.15 million in 2020 to 104.69 million in 2050, a decrease of 17.0%.
- In 2024, the estimated number of households was reviewed, and the rate of decrease will slow down. It is estimated that the total number of households will be 57.73 million in 2030, reaching its peak, and decrease to 52.61 million in 2050 (a decrease of 5.5% from 2020). The number of single-person households will continue to grow until reaching its peak at 24.53 million in 2036, then start to decrease slowly.
- The number of persons per household is estimated to decrease from the current level of 2.2 to 1.9 in 2050.

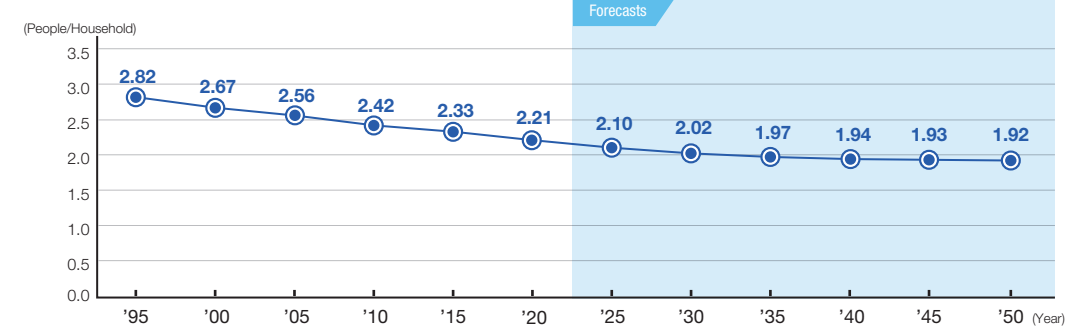
## Trends in Population and Total Households (actual data and forecasts)

It is expected that the number of households will reach to its peak by 2030, and then decline gradually.



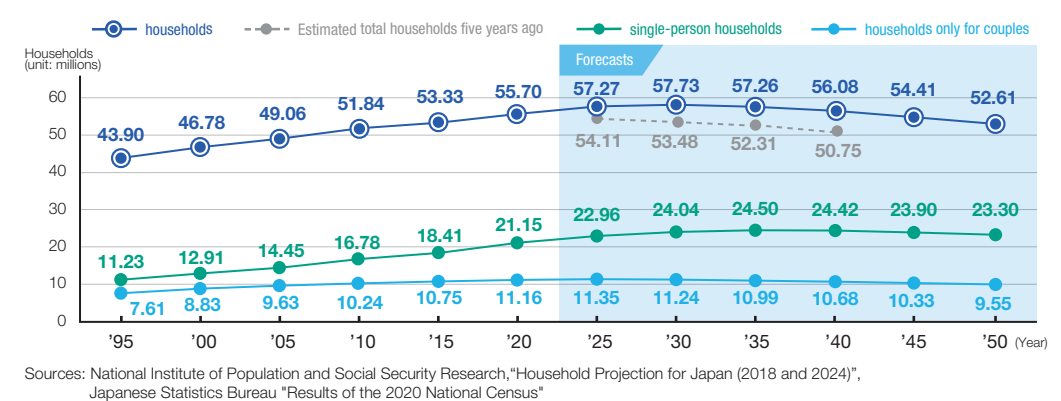
## Trends in the Average Number of Household Members (actual data and forecasts)

The number of persons per household is decreasing



## Trend in the number of single-person households and couple households (actual data and forecasts)

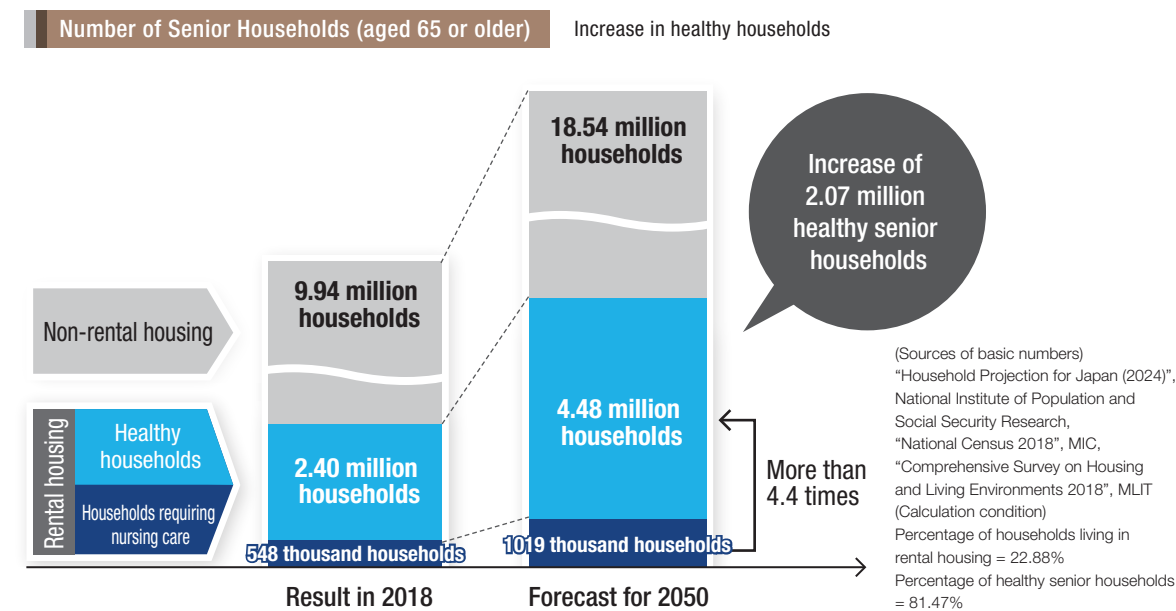
The number of single-person households will remain on the almost same level after 2030



## ► Forecasts for an Aging Society

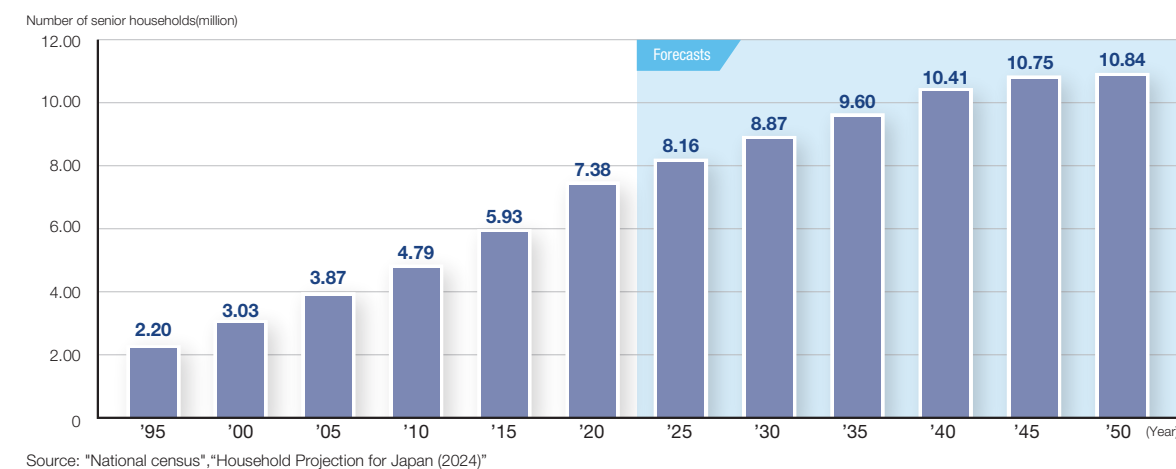
### The population of healthy and active seniors is projected to grow.

- The National Institute of Population and Social Security Research forecasts that between 2020 and 2050 the number of households headed by a person aged 65 or older will grow from 20.97 million to 24.04 million, an increase of approximately 14%.
- Most people would imagine that an aging society means a high percentage of people in need of nursing care—but we don't see it that way.
- In 2018, 81.5% of households consisted of healthy members with no disabilities, while households with members requiring nursing care accounted for less than One-fourth of this: 18.5%.
- Assuming that this percentage does not change significantly in the period up to 2050, the number of households of healthy seniors living by themselves in rental housing can be expected to increase by 2.07 million.



- The number of people aged 65 or older living alone is on the rise and is predicted to continue to increase.

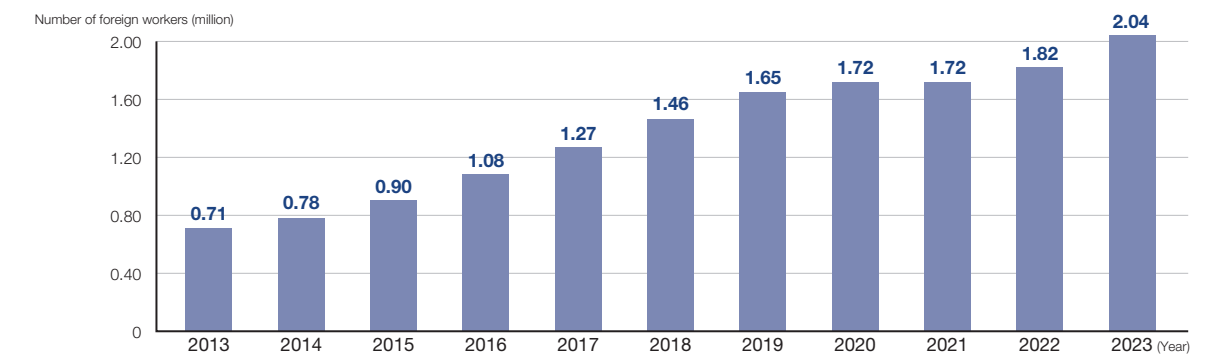
### Trends in senior households (those aged 65 or older) living alone (actual data and forecasts)



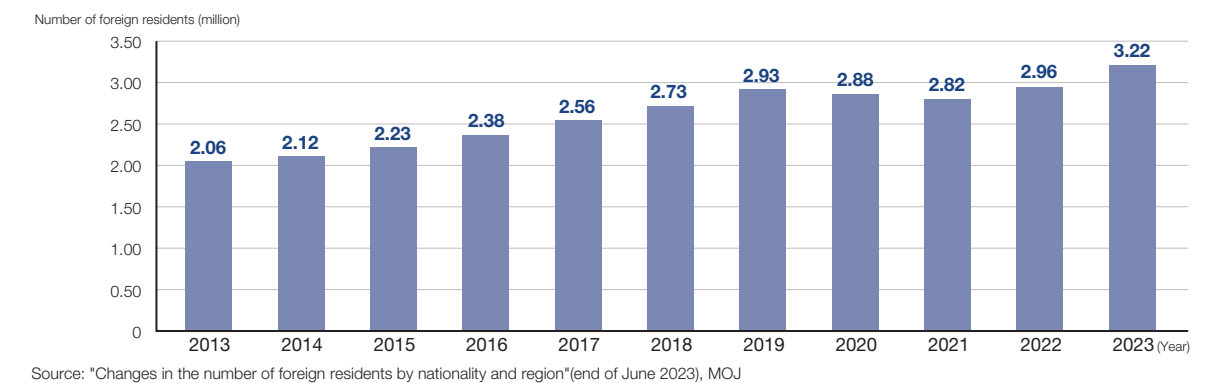
## ► Trends in Foreign Residents in Japan

- In Japan, there are concerns about a long-term decrease in population and the shortage of productive workers. Under these circumstances, there is an expectation for accepting foreign workers to secure the workforce.
- The number of foreign workers was 2.04 million as of the end of October 2023. This is about 2.9 times as much as 0.71 million in 2013.
- The number of foreign residents was 3.22 million as of the end of June 2023 increased 4.8% y-on-y.
- Both the number of foreign workers and the number of foreign residents hit record highs. The number of foreign residents is expected to continue to increase in the future.

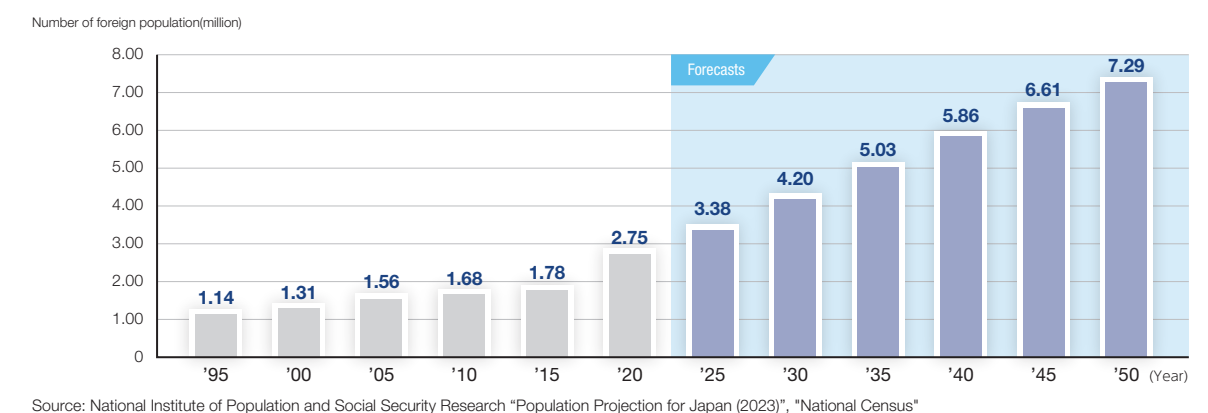
### Trends in the number of foreign workers



### Trends in the number of foreign residents



### Trends in the number of foreign population

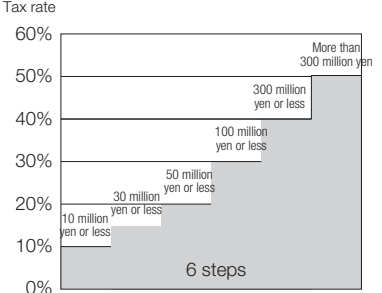
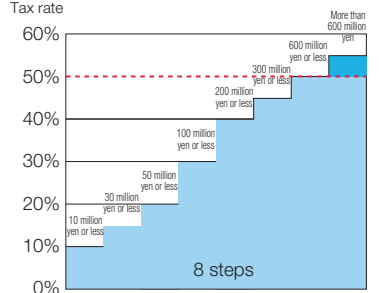


## Market Environment

Legal / Political

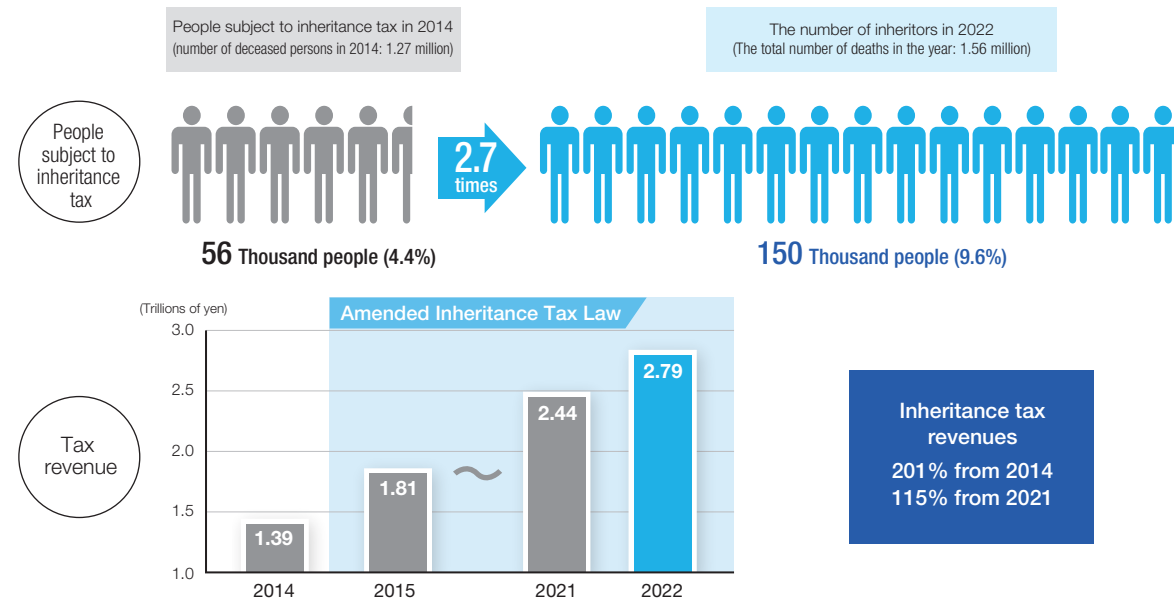
## ► Amended Inheritance Tax Law in Effect as of January 1, 2015

**Key Points of the Amendment** Tax rates will be refined from six to eight stages and the amount of basic exemption reduced

	Previous taxation (until December 31, 2014)	Current taxation (from January 1, 2015)
Tax rate structure	 <p>Taxable value after basic tax exemption</p>	 <p>Taxable value after basic tax exemption</p>
Basic tax exemption	Standard tax deduction: <b>50 million yen...①</b> Proportional tax deduction based on the number of legal heirs: <b>10 million yen × number of legal heirs...②</b>	Standard tax deduction: <b>30 million yen...④</b> Proportional tax deduction based on the number of legal heirs: <b>6 million yen × number of legal heirs...⑤</b>
Example	(Scenario: Value of inherited property is 500 million yen and number of legal heirs is two) Basic tax exemption = ① 50 million yen + ② 10 million yen × 2 = <b>70 million yen...③</b> Amount of Inheritance Tax Paid per Capita = (500 million yen - ③ 70 million yen) ÷ 2 = <b>215 million yen</b> <b>Tax rate: 40%</b>	(Scenario: Value of inherited property is 500 million yen and number of legal heirs is two) Basic tax exemption = ④ 30 million yen + ⑤ 6 million yen × 2 = <b>42 million yen...⑥</b> Amount of Inheritance Tax Paid per Capita = (500 million yen - ⑥ 42 million yen) ÷ 2 = <b>229 million yen</b> <b>Tax rate: 45%</b>

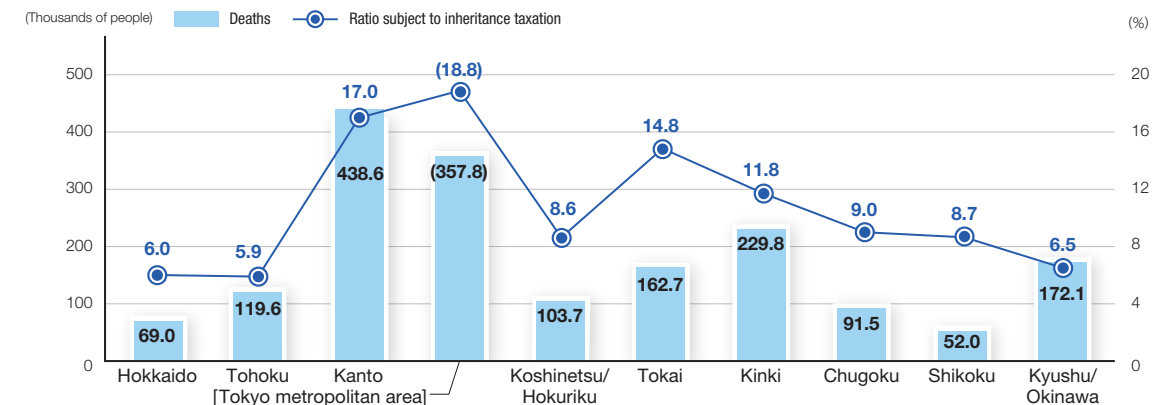
In this example, the tax rate will rise from 40% to 45%.

## ► Trends in the Number of People Subject to Inheritance Tax / Tax Revenue

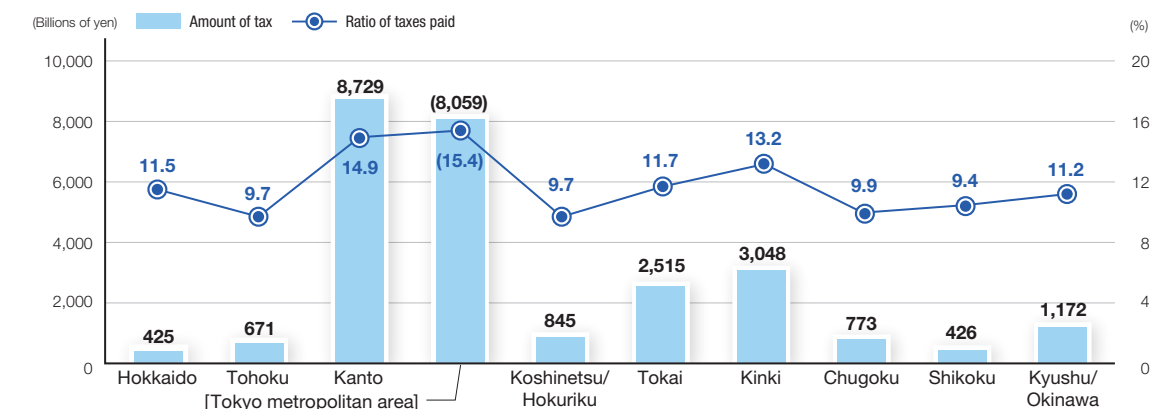


Source: The Report on the declaration for inheritance tax by the National Tax Agency 2014 to 2022

## ► Status of Inheritance Taxation by Region

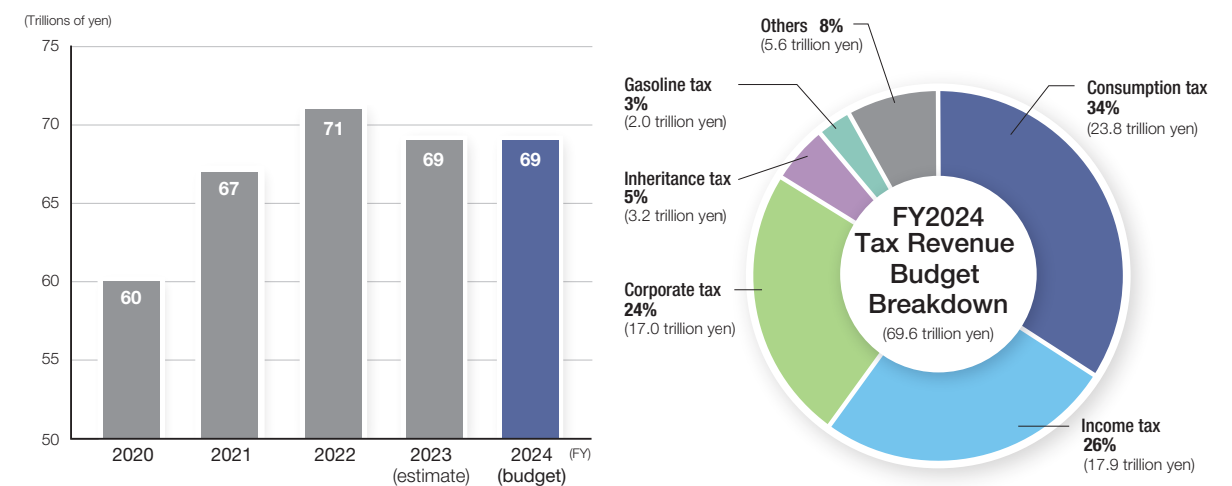
**Ratio Subject to Inheritance Taxation** Many of those taxable are in the Kanto region, especially the Tokyo metropolitan area

Source: Demographic Survey for FY2021 by Ministry of Health, Labor and Welfare, The Report on the Imposition of Inheritance Tax FY2021 by Regional Tax Offices

**Ratio of Taxes Paid** A higher payment rate can be seen in Kanto area (Tokyo metropolitan area).

Source: The Report on the Imposition of Inheritance Tax FY2021 by Regional Tax Offices

## ► Trends in Tax Revenue

**Trends in Tax Revenue** Tax revenue in Japan is increasing due to economic recovery and a raise in the consumption tax.

Source: "General Account Budget" Ministry of Finance

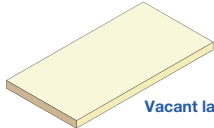

Source: "Tax and Stamp Revenues FY2024" Ministry of Finance

## ► Tax Advantages in Constructing Rental Housing: Inheritance Tax

Lowering the amount of inheritance tax is the most effective way to conserve the asset value passed on from parents to children.

- If rental housing is constructed on the land, the land leasehold rate × the house leasehold rate will be deducted from the appraised value of the land in inheritance tax appraisal value. In addition, the house leasehold rate will be deducted from the cost of construction × 60% in appraising the value of the building (fixed asset tax appraisal).
- The inheritance tax rate will also incrementally decrease along with the lowering of the inheritance tax appraisal value amount, which together will lead to a significant reduction of inheritance tax (see page 17 for details).

### Ways to Lower Inheritance Tax Appraised Value and Protect Assets

	Before implementation	After implementation
	 Vacant land	 Rental housing constructed
Appraised value of land <small>Land assessments: 100,000yen Land area: 1,000㎡</small>	100 million yen	82 million yen <small>100 million yen × (1 - 60% × 30%) (Land assessments × (1 - Land leasehold rate × House leasehold rate))</small>
Appraised value of building	0 yen	42 million yen <small>100 million yen × 60% × (1 - 30%) (Construction costs × 60% = Appraised value of fixed assets) 60 million yen × (1 - 30%) (Appraised value of fixed assets × (1 - House leasehold rate))</small>
Debt payable	0 yen	-100 million yen
Inheritance tax appraisal value amount	100 million yen	24 million yen <small>(82 million yen + 42 million yen - 100 million yen) The loan amount is deducted from the inheritance tax appraisal value</small>

76 million yen reduction in appraised value

## ► Tax Advantages in Constructing Rental Housing: Fixed Asset Tax

Constructing rental housing will lead to a reduced fixed asset tax, thereby providing an advantage in terms of annual cash flow.

- Both the land and building used for rental housing will be subject to a fixed asset tax deduction. Specifically, "housing land of 200 m<sup>2</sup> or less (small-scale residential land) will be taxed at 1/6 of the standard tax rate."
- The threshold of 200 m<sup>2</sup> is applied with respect to land space used per house or unit. So, regardless of how large the land space is, building rental housing on it with a sufficient number of apartment units can lead to a reduction in the fixed asset tax to 1/6 of the standard rate.

### Ways to Reduce Fixed Asset Tax

	Vacant land	Rental housing constructed
	<small>Land area: 1,000 m<sup>2</sup> Appraised value of fixed assets: 60 million yen</small>	<small>Land area: 1,000 m<sup>2</sup> Appraised value of fixed assets: 60 million yen Acquisition value of the building: 80 million yen Land leasehold rate: 60%</small>
Fixed asset tax (land)	840 thousand yen <small>60 million yen × 1.4%</small>	140 thousand yen <small>60 million yen × 1.4% × 1/6</small>
Fixed asset tax (building)	0 yen	336 thousand yen <small>80 million yen × 60% × 1.4% × 1/2</small>
Fixed asset tax (total)	840 thousand yen	476 thousand yen

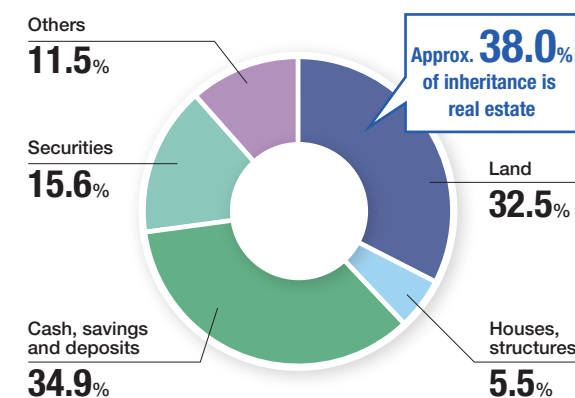
Annual tax savings of 364 thousand yen

## ► Reasons for Land Utilization

In Japan, a large bulk of inheritance comes in the form of real estate—mostly land. Dealing with inherited property therefore involves dealing with real estate and making effective use of land.

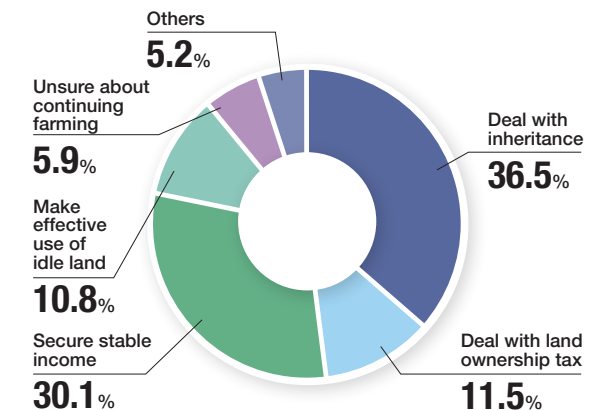
The main reason our owners want to utilize land is to make effective use of their inheritance.

### Breakdown of Assets Subject to Inheritance Tax



Source: Annual Statistics Report, National Tax Agency (2022)

### Purpose of Land Utilization



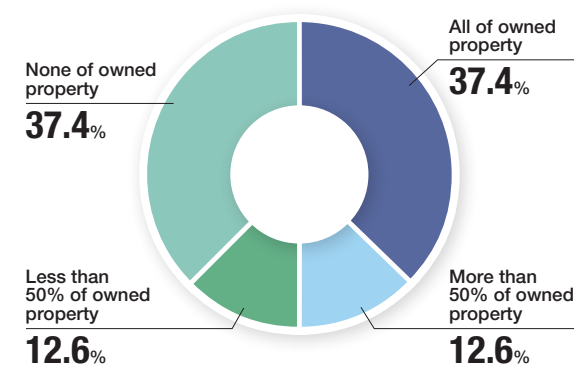
Source: FY2023 Daito Trust data

## ► Rental Housing Management

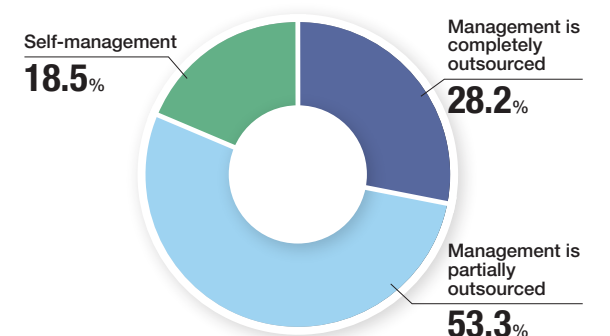
Many of owners outsource management of rental housing to professional company.

- 62.6% of rental housing owners own sub-lease property.
- 81.5% of rental housing owners who does not own sub-lease property outsource all or part of management work to professional lease management company.

### Presence/absence of sub-lease property



### Management of rental housing except sub-lease real estate



### Reason why people chose sub-lease contract

1	To save the all management task	48.3%
2	To secure stable income	47.5%
3	Agree to good proposal	26.3%
4	To save the labor as much as possible	25.9%
5	To save the labor, even just a little	23.6%

Source: Questionnaire about rental housing management task(December 2019), MLIT

### Reason why people entrust management works

1	To avoid trouble accompanied by the lease contract	52.2%
2	Having no professional skill or expertise	50.2%
3	Entrustment of support for building trouble	44.3%
4	To avoid trouble with tenant	40.8%
5	Having no time for management	40.3%



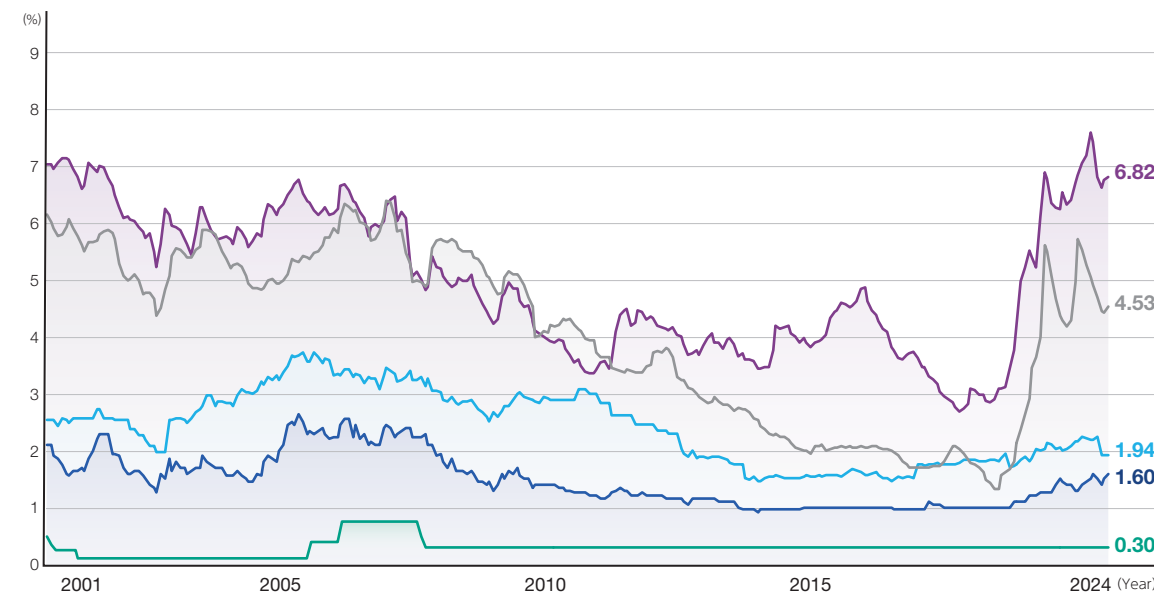
## Market Environment

## Economic

## ► Trends in Interest Rates

## Trends in Interest Rates

Interest rates in Japan remain at roughly the same low level.

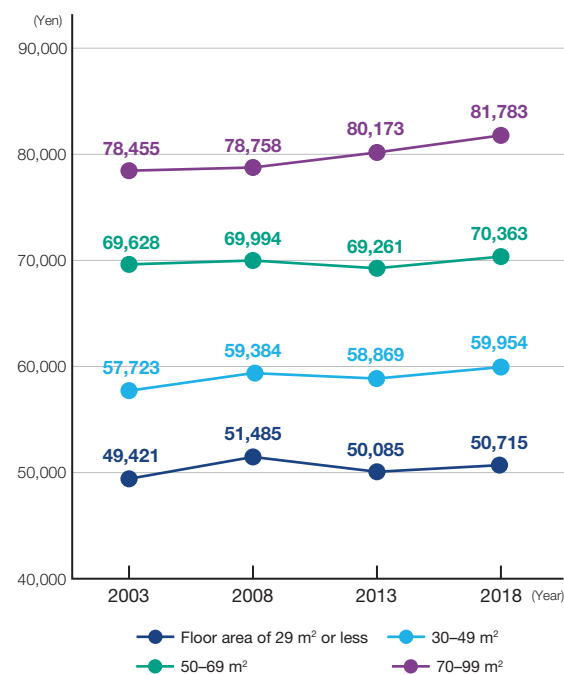
Sources: Bank of Japan, Japan Housing Finance Agency  
FRED® Economic Data, The Bank of England

— Japan Housing Finance Agency  
— Long-term prime lending rate  
— Basic loan rate  
— Mortgage rates in US  
— Mortgage rates in UK

## ► Trends in Rent

## Trends in Rent by Building Footprint

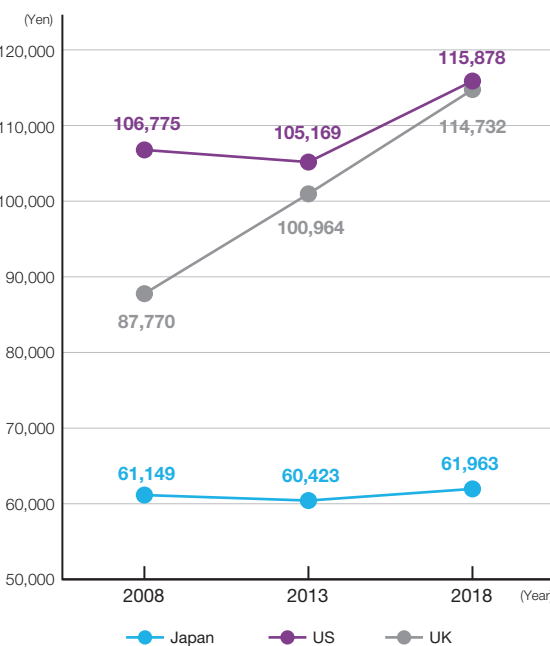
Rent in Japan is on the upward trend.



Source: Housing and Land Survey, MIC

## Change of house rent fee in each country

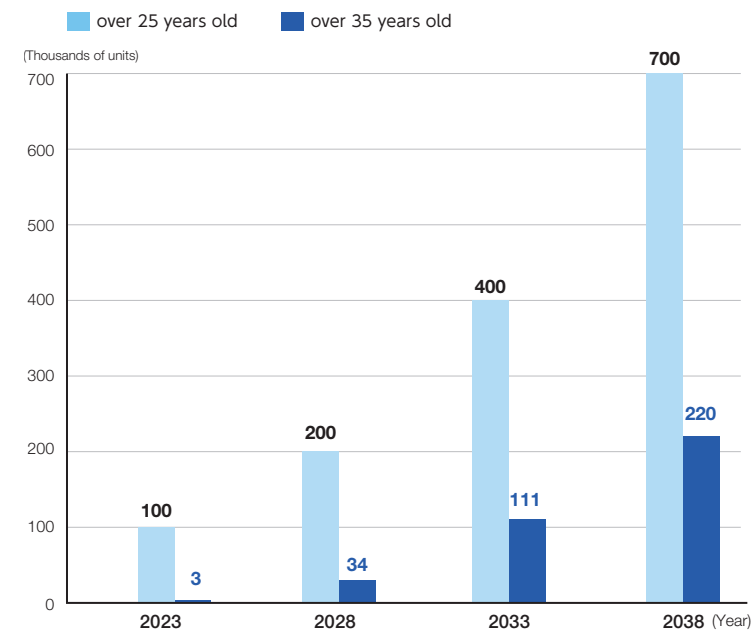
Other countries are showing an upward trend.

Source: Japan: Housing and Land Survey, MIC  
US: United States Census Bureau, "American Housing Survey"  
UK: Office for National Statistics "Inflation and price indices"

## ► Rebuilding project are increasing

Number of buildings over 25 years old will increase rapidly.

## Number of rental housing units under management over 25 years old



Source: Daito Group Data

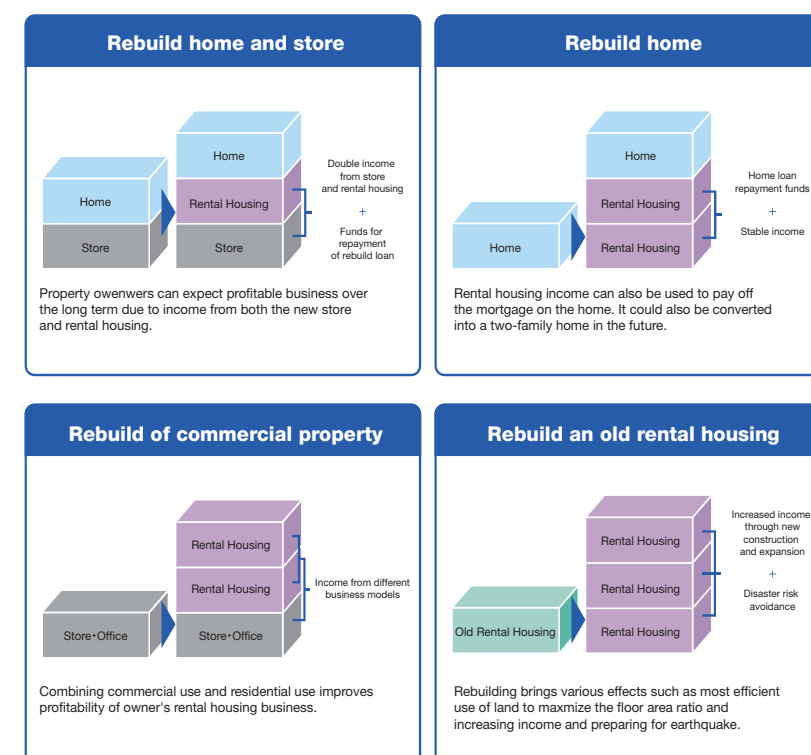
Total rebuild ratio<sup>※1</sup>  
**30.1%**Daito rebuild ratio<sup>※2</sup>  
**6.2%**Japan national rebuild ratio<sup>※3</sup>  
**3.4%**

FY2023

※1 Number of orders received for rebuilding APT / Total number of orders received  
 ※2 Number of orders received for rebuilding APT built by Daito / Total number of orders received  
 ※3 "Housing Starts Statistics", MLIT

## The effects of rebuild

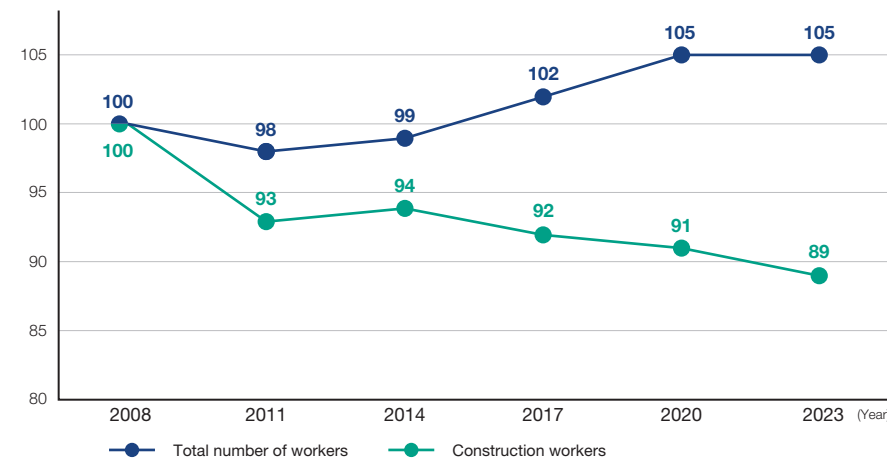
- Property owner can expect stable rental income over the long term.
- Improve the efficiency of land asset utilization.
- Allows for effective use of the land while also enabling it to be passed on to the next generation.



## ► Trends in the Construction Industry in Japan

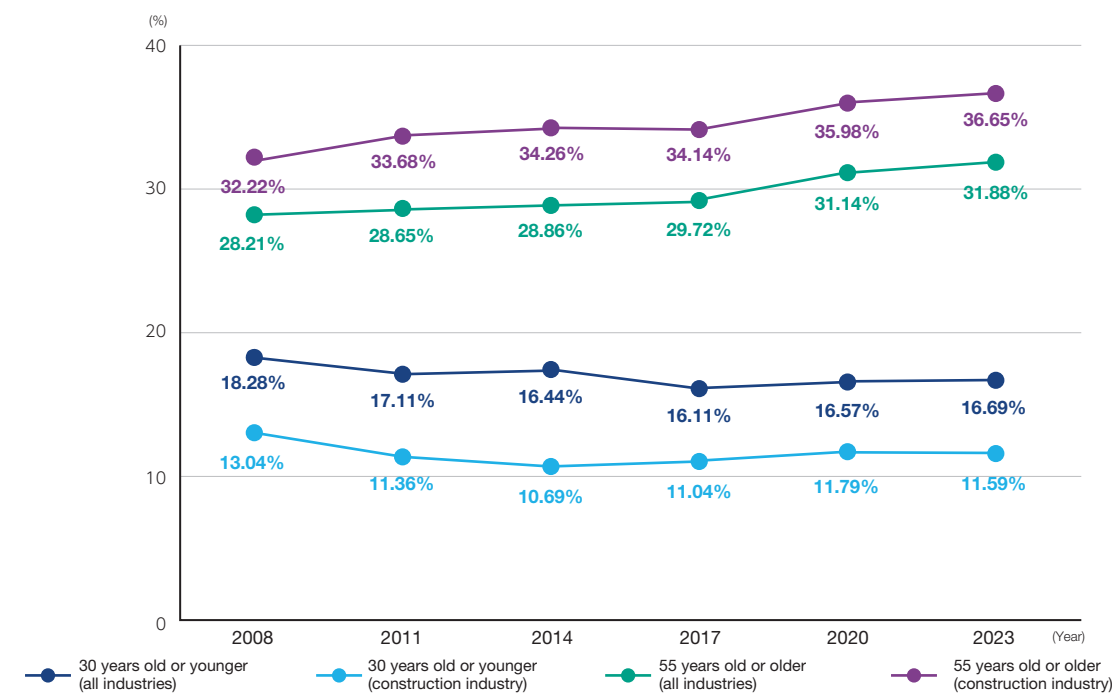
Labor costs have been increasing because of an upward trend due to rising material and fuel costs and the number of workers has been on the decline due to aging.

Number of Construction Workers (2008 average = 100) Declining number of construction workers



Source: "Labor Force Survey: Long-term Time-series Data", MIC

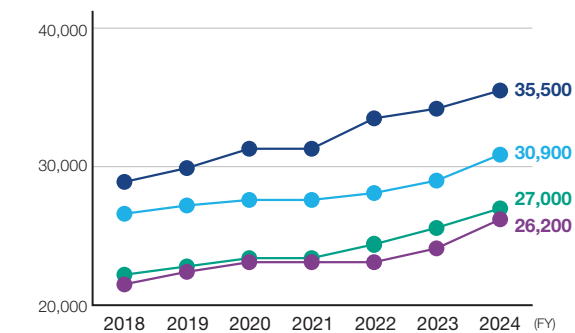
Age Composition of Construction Workers Rising proportion of aged workers, dropping proportion of young workers



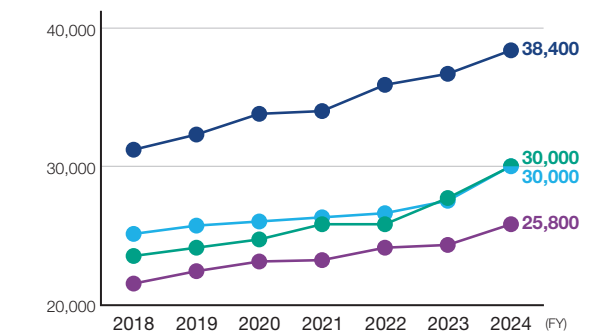
Source: Labor Force Survey, MIC

Trends in Labor Costs Rising labor costs in all types of work, notably in Tokyo in the Kanto region

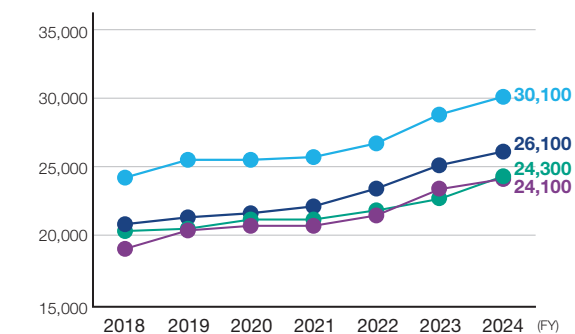
Rebar placers (Unit: yen/person)



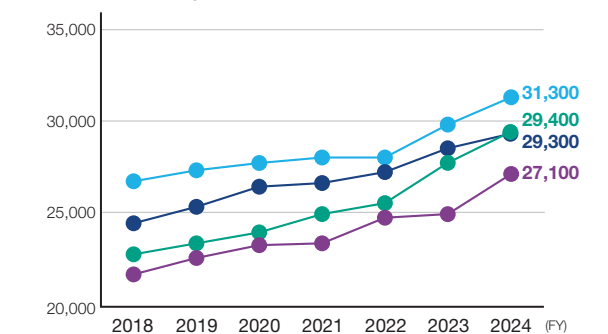
Shuttering carpenters (Unit: yen/person)



Electricians (Unit: yen/person)



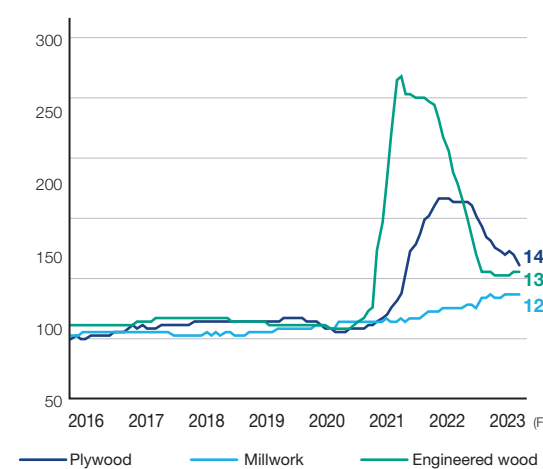
Interior finish carpenters (Unit: yen/person)



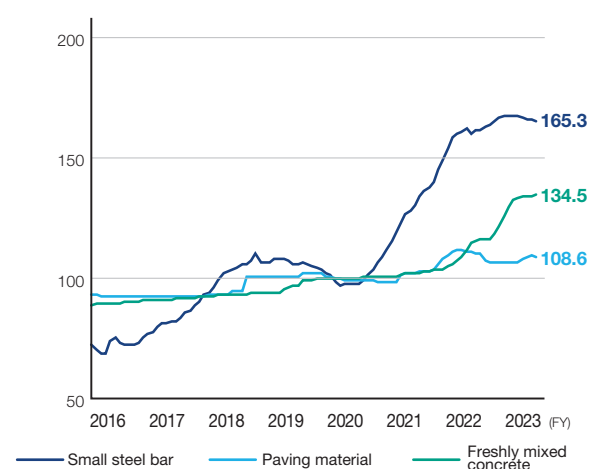
Source: Public works labor costs, by MLIT

Construction Material Costs (2020 average = 100) Construction material costs remain high despite a lull in upward trend.

Wood



Steel and others



Source: Corporate Goods Price Index, Bank of Japan