



January 31, 2024

Company: Star Mica Holdings Co., Ltd.  
Representative: Masashi Mizunaga, President & CEO  
(Code 2975 on the Tokyo Stock Exchange Prime Market)  
Contact: Manabu Nagaya, Executive Officer  
URL <https://www.starmica-holdings.co.jp/en/>

### Announcement of Analyst Report Released by Shared Research Inc.

We are pleased to inform you that the analyst report by Shared Research Inc. (hereinafter referred to as SR) has been released. This report has been prepared with an emphasis on neutrality and is based on research and analysis from a third-party perspective. We believe it will help investors deeply understand our business and make investment decisions.

Publication start date	February 9, 2024
Others	This report is subject to end of publication without notice. This report is typically updated at least eight times a year.

#### Shared Research Inc.

SR is a research company that provides essential information regarding a wide variety of companies to investors around the world. The company produces reports based on the “investor’s standpoint” rather than the “company’s standpoint” for information necessary to make investment decisions. The reports are utilized by both institutional and individual investors.

#### Fundamentals (As of Nov. 30, 2023)

	FY2023	FY2024 Forecast
EPS	JPY 79.59	JPY 83.83
Operating profit	JPY 4,846 mn	JPY 5,028mn
ROE	12.0%	Approx. 12.0%

#### Financial results (year ended Nov.30,2023) and Mid-term plan “Find the Value 2026” (FY2024-2026)

Through our core business, purchase, hold, renovation and sale of existing condominiums, we have been leading to the expansion of the existing condominium market and solving social issues, aging of both people and buildings. We focus on maximization of corporate value by promoting strategies in our Mid-Term Plan “Find the Value 2026.” Published on 1/12/2024. Details are as follows:

- Financial Result Summary For FY Nov 2023 (Written in English)  
<https://www2.jpx.co.jp/disc/29750/140120240112514164.pdf>

**2975**

# Star Mica Holdings

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an “owner’s manual” to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at [sr\\_inquiries@sharedresearch.jp](mailto:sr_inquiries@sharedresearch.jp).



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# Executive summary

## Buys pre-owned condominiums, earns rental income and profits from sales

Star Mica Holdings Co., Ltd. buys pre-owned, tenant-occupied individual condominium units, collects rental income while these condominium units are occupied, renovates them when the tenants move out, and sells them for a profit. The company is an industry leader in terms of the sales value of pre-owned condominiums (estimated by the company). It deals with residential properties, which are supported by end-user demand as opposed to investor demand, and earns revenue by focusing on the difference between purchase price and sales price. Therefore, it is relatively insensitive to changes in the real estate market compared to other companies in the industry, and can generate profits steadily. As of end-FY11/23, the company's real estate for sale was JPY86.6bn (five-year CAGR of 9.0%), and the unrealized gains on property for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales) was approximately JPY25.8bn (five-year CAGR of 12.5%; the total market value of properties held is based on external appraisal results).

The downside of this method is that acquiring a single condominium unit can be inefficient and cumbersome compared to buying entire buildings. However, there is little competition to acquire such properties, allowing the company to buy them at low price. In particular, for occupied properties (owner-change properties), which account for approximately half of the company's acquisitions (on a unit basis), the number of potential buyers is limited because these properties cannot be sold immediately after purchase and because, according to local convention, the buyer cannot inspect the inside. Instead of acquiring entire buildings, the company buys individual pre-owned condominiums of different age and locations. This approach allows the company to spread associated risks (accidents, natural disasters, price fluctuations, and the tenant's length of stay, etc.).

According to the company, it quickly assesses the value of properties and makes swift purchase decisions. The company also has the ability to raise funds and enjoys a track record of successful transactions. As a result, the company is in a strong position to gather information from real estate agents on pre-owned condominiums that have been put up for sale. The company says it also has its own information network that sets it apart from competitors and gives it the ability to assess the value of a large number of properties and execute many transactions. Star Mica also has access to short-term funds that are not tied to any specific properties, allowing the company to quickly sign a purchase agreement.

In Japan, there are only a few buyers of pre-owned condominiums with tenants (owner-change properties) because these properties cannot be sold immediately after purchase and because, according to local convention, the buyer cannot inspect the inside. As a result, such condominiums tend to be cheaper than vacant pre-owned properties. Star Mica acquires such individual tenant-occupied condominiums that are being rented. The company first earns rental income (recurring income) and after the tenant moves out, it outsources renovation and secures a sales profit (one-time income) by selling the property. The average period from purchase to sale is about three and a half to four years. Although there may be some fluctuations due to changes in real estate market conditions, the company assumes GPM of 14–16% at the time of purchase.

The company has been stepping up efforts to purchase and sell vacant pre-owned condominiums to improve asset turnover and expand into regional cities in addition to the metropolitan area. While utilization of vacant properties contributes to improving turnover and expanding the business scale, they generate no rental income and require management fees. Moreover, competition at the time of acquisition is more intense compared to owner-change properties, resulting in a relatively lower profit margin for vacant properties. Therefore, the company aims to acquire vacant properties as long as their ratio does not exceed 50% of its total inventory. The company anticipates GPM of 8–10% at the time of acquisition.

In the medium to long term, it is expected that the stock of older condominiums, which are 20 years or older, will increase in Japan due to the longer lifespan of housing. From around 2024 to 2043, the supply of new condominiums is expected to remain at around 1.1mn units, while the stock of pre-owned condominiums is expected to reach approximately 8.0mn units (about 1.2x the current level). Specifically, the stock of older condominiums defined as those that are 20 years or older is projected to expand to approximately 6.9mn units (about 2.2x the current level; source: company estimates based on the rate of increase or decrease in the supply of new condominium units and the implementation status of condominium rebuilding as of March 2023).

The company's business segments consist of the Renovated Condominium business (accounting for 98.5% of sales and 94.3% of gross profit in FY11/23), the Investment business (no sales and a gross loss), and the Advisory Services business (1.5% of sales and 5.8% of gross profit). The mainstay Renovated Condominium business is divided into the Renovated Condominium

(rental) (8.6% of sales and 27.7% of gross profit) and the Renovated Condominium (sale) (90.0% of sales and 68.9% of gross profit).

The **Renovated Condominium business (rental)** sales (rental income) is calculated by multiplying the average rent payment by the number of condominium units the company owns. Shared Research understands that there is not much change in the rents for residential properties and that any changes in rental rates have only a modest impact on the company's total rental income.

Expenses in this segment include property maintenance fees, payments for reserve funds for building repairs, taxes on fixed assets, and rental property management fees. GPM was 55.8% in FY11/23. The gross profit margin for this business has been on the decline since FY11/14. This is attributable to the company's efforts to diversify its portfolio by stepping up property acquisition in regional cities where gross margins are relatively low. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tends to push down the gross profit margin for these properties. Since FY11/18, the company has increased purchases and sales of unoccupied condominiums; as unoccupied units generate no rental income but do incur management fees, the increase in the buying of these units for resale after renovation has also worked to push down the gross margin at the Condominium Renovation business. In addition, the company changed its accounting policy starting from FY11/23, which included beginning to record depreciation expenses for properties held for the long term. As a result, the GPM decreased by approximately 3pp.

The **Renovated Condominium business (sale)** can be calculated by multiplying the sale price per unit by the number of apartments sold. The company sells a certain number of its condominiums on a regular basis, and therefore the inventory of condominiums for sale (real estate for sale on the balance sheet) determines the company's sales and profits. As of end-FY11/23, real estate for sale was JPY86.6bn (JPY56.3bn at end-FY11/18), with 3,938 units in inventory (2,719), indicating an uptrend. While selling prices are subject to fluctuations in the pre-owned condominium market, these price changes have been gradual, as explained above.

Primary expenses include the initial purchase price, brokerage commissions, taxes, and renovation expenses. Gross profit margin for this business is about 10–15%.

In the **Investment business**, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales. In the Investment business, the company completed selling off tangible fixed assets in FY11/19, a process that began in FY11/15. Since then, the company paused investment in income-generating properties, until Q4 FY11/23, when it resumed such investment and recorded rental income.

The **Advisory Services business** engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

## Trends and outlook

In FY11/23, Star Mica reported sales of JPY48.9bn (+1.4% YoY), gross profit of JPY8.4bn (-13.7% YoY), operating profit of JPY4.8bn (-20.5% YoY), recurring profit of JPY3.9bn (-27.6% YoY), and net income attributable to owners of the parent of JPY2.7bn (-28.2% YoY). Sales in both the Renovated condominium (rental) business and the Renovated condominium (sale) business grew YoY. However, gross profit decreased YoY due to a decline in GPM from FY11/22, when it had benefited significantly from market conditions, especially in the Renovated condominium (sale) business.

The annual dividend per share was JPY20.0 (JPY19.5 in FY11/22; taking into account the 2-for-1 stock split implemented in December 2022), and the consolidated dividend payout ratio was 25.1% (18.2% in FY11/22).

For FY11/24, Star Mica forecasts sales of JPY54.2bn (+10.8% YoY), gross profit of JPY8.9bn (+5.8% YoY), operating profit of JPY5.0bn (+3.8% YoY), recurring profit of JPY4.1bn (+4.6% YoY), and net income attributable to owners of the parent of JPY2.8bn (+5.1% YoY). The company expects an increase in sales and profit due to stable growth in existing businesses and the resumption of the Investment business. The company expects demand for pre-owned condominiums to hold firm amid rising prices of newly built condominiums and supply declines. In such circumstances, it expects to achieve increased sales and profits by ensuring stable growth in the Renovated condominium business and resuming its Investment business. The company anticipates an annual dividend of JPY21.0 per share and a consolidated dividend payout ratio of 25.1%.

In January 2024, the company announced its medium-term management plan, Find the Value 2026, covering the three-year period from FY11/24 to FY11/26. Under this plan, the company aims to maximize corporate value by improving ROE and maintaining an appropriate WACC level. It plans to do this with continuous and stable growth through the acquisition of

owner-change properties, which underpin profits. The numerical targets for corporate value enhancement include an ROE of 12.0% or higher and a WACC of 2.0%. In terms of business strategies, the company set numerical targets for an OPM of 10.0% or higher, EPS growth of 5.0% or higher, a reduction in the sales cycle by one and a half months to two months, and an inventory of real estate for sale of JPY100.0bn or more. In terms of financial strategies, the company aims for an equity ratio of 25.0% or higher and a total payout ratio of 40.0%. To flexibly respond to changes in the business environment, the company has not set specific targets for sales and profits.

## Strengths and weaknesses

Shared Research believes the company's main strengths are as follows.

- ▶ The company has built relationships with real estate brokers for purchase of pre-owned condominiums with tenants, putting the company in a strong position to gather information on attractive investment properties
- ▶ The company deals with residential properties, which have real demand for housing, and earns revenue by focusing on the difference between purchase price and sales price. Therefore, it is relatively insensitive to changes in the real estate market compared to other companies in the industry.
- ▶ The company is the industry leader in terms of the number of units purchased and the sales of pre-owned condominiums, which allows it to reduce risks through diversified investments and enjoy cost advantages.

Shared Research believes the company's main weaknesses are as follows.

- ▶ Asset turnover rate and profitability are in a trade-off relationship.
- ▶ The company's mainstay Renovated Condominium business is an asset business, which means that the asset growth rate restricts the company's profit growth rate.
- ▶ Limited scope to lift profitability

For further details, see Strengths and weaknesses section of this report.

# Key financial data

Income statement	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23	FY11/24
<b>(JPYmn)</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Cons.</b>	<b>Consolidated forecast</b>
<b>Sales</b>	<b>13,901</b>	<b>19,333</b>	<b>20,974</b>	<b>23,075</b>	<b>30,282</b>	<b>32,164</b>	<b>39,568</b>	<b>36,897</b>	<b>48,212</b>	<b>48,878</b>	<b>54,157</b>
YoY	2.6%	39.1%	8.5%	10.0%	31.2%	6.2%	23.0%	-6.8%	30.7%	1.4%	10.8%
<b>Gross profit</b>	<b>3,531</b>	<b>4,600</b>	<b>5,520</b>	<b>6,160</b>	<b>6,924</b>	<b>6,297</b>	<b>5,971</b>	<b>7,451</b>	<b>9,760</b>	<b>8,422</b>	<b>8,910</b>
YoY	9.0%	30.3%	20.0%	11.6%	12.4%	-9.0%	-5.2%	24.8%	31.0%	-13.7%	5.8%
Gross profit margin	25.4%	23.8%	26.3%	26.7%	22.9%	19.6%	15.1%	20.2%	20.2%	17.2%	16.5%
<b>Operating profit</b>	<b>1,903</b>	<b>2,465</b>	<b>3,259</b>	<b>3,575</b>	<b>3,839</b>	<b>3,627</b>	<b>3,281</b>	<b>4,287</b>	<b>6,098</b>	<b>4,846</b>	<b>5,028</b>
YoY	5.5%	29.5%	32.2%	9.7%	7.4%	-5.5%	-9.5%	30.6%	42.3%	-20.5%	3.8%
Operating profit margin	13.7%	12.8%	15.5%	15.5%	12.7%	11.3%	8.3%	11.6%	12.6%	9.9%	9.3%
<b>Recurring profit</b>	<b>1,286</b>	<b>1,797</b>	<b>2,581</b>	<b>2,982</b>	<b>3,245</b>	<b>2,926</b>	<b>2,497</b>	<b>3,688</b>	<b>5,419</b>	<b>3,921</b>	<b>4,102</b>
YoY	4.5%	39.7%	43.6%	15.5%	8.8%	-9.8%	-14.7%	47.7%	46.9%	-27.6%	4.6%
Recurring profit margin	9.3%	9.3%	12.3%	12.9%	10.7%	9.1%	6.3%	10.0%	11.2%	8.0%	7.6%
<b>Net income</b>	<b>773</b>	<b>1,114</b>	<b>1,678</b>	<b>2,069</b>	<b>2,155</b>	<b>2,023</b>	<b>1,729</b>	<b>2,402</b>	<b>3,709</b>	<b>2,664</b>	<b>2,800</b>
YoY	3.8%	44.2%	50.6%	23.3%	4.1%	-6.1%	-14.5%	38.9%	54.4%	-28.2%	5.1%
Net margin	5.6%	5.8%	8.0%	9.0%	7.1%	6.3%	4.4%	6.5%	7.7%	5.5%	5.2%
<b>Per-share data (split-adjusted; JPY)</b>											
Number of shares outstanding at year-end(000 shares)	40,000	40,000	40,000	38,400	36,457	36,457	36,457	36,457	34,000	34,000	
EPS	21.47	30.81	46.36	57.12	59.23	55.50	47.43	65.00	107.21	79.59	83.83
EPS (fully diluted)	20.79	29.82	44.71	54.72	56.71	53.31	45.60	63.58	106.33	78.92	
Dividend per share	4.50	7.25	11.50	20.75	16.00	8.00	16.00	16.50	19.50	20.00	21.00
Book value per share	319.5	345.2	382.3	426.6	468.8	507.4	538.6	573.6	634.0	693.6	
<b>Balance sheet (JPYmn)</b>											
Cash and cash equivalents	2,037	1,934	3,260	2,266	4,075	4,331	7,405	3,112	3,110	4,200	
Real estate for sale	31,170	36,890	39,221	44,808	56,261	68,978	66,541	74,309	83,138	86,584	
<b>Total current assets</b>	<b>33,636</b>	<b>39,316</b>	<b>43,094</b>	<b>47,834</b>	<b>61,193</b>	<b>75,181</b>	<b>75,343</b>	<b>79,281</b>	<b>88,112</b>	<b>92,465</b>	
Tangible fixed assets	10,145	9,068	8,005	6,366	1,781	49	44	39	61	49	
Intangible assets	8	6	4	18	52	60	266	133	151	147	
Investments and other assets	438	404	542	456	508	831	1,105	1,388	2,052	2,321	
<b>Total fixed assets</b>	<b>10,591</b>	<b>9,478</b>	<b>8,551</b>	<b>6,841</b>	<b>2,341</b>	<b>940</b>	<b>1,415</b>	<b>1,560</b>	<b>2,265</b>	<b>2,517</b>	
<b>Total assets</b>	<b>44,229</b>	<b>48,803</b>	<b>51,652</b>	<b>54,684</b>	<b>63,537</b>	<b>76,123</b>	<b>76,759</b>	<b>80,844</b>	<b>90,378</b>	<b>94,983</b>	
Accounts payable-trade	240	330	196	254	304	491	347	614	733	670	
Short-term debt	3,838	4,171	2,872	3,053	5,748	7,735	7,613	7,444	8,341	10,226	
<b>Total current liabilities</b>	<b>5,213</b>	<b>6,094</b>	<b>4,941</b>	<b>5,197</b>	<b>8,032</b>	<b>10,161</b>	<b>10,107</b>	<b>10,591</b>	<b>12,251</b>	<b>12,868</b>	
Long-term debt	27,218	29,994	32,711	33,904	38,307	47,314	46,812	48,983	56,854	58,883	
<b>Total fixed liabilities</b>	<b>27,393</b>	<b>30,154</b>	<b>32,804</b>	<b>33,977</b>	<b>38,340</b>	<b>47,388</b>	<b>46,938</b>	<b>48,992</b>	<b>56,854</b>	<b>58,883</b>	
<b>Total liabilities</b>	<b>32,607</b>	<b>36,249</b>	<b>37,745</b>	<b>39,173</b>	<b>46,372</b>	<b>57,549</b>	<b>57,045</b>	<b>59,583</b>	<b>69,104</b>	<b>71,751</b>	
Shareholders' equity	11,555	12,486	13,847	15,451	17,090	18,498	19,637	21,202	21,214	23,173	
<b>Total net assets</b>	<b>11,622</b>	<b>12,554</b>	<b>13,906</b>	<b>15,510</b>	<b>17,165</b>	<b>18,574</b>	<b>19,713</b>	<b>21,261</b>	<b>21,274</b>	<b>23,231</b>	
Total interest-bearing debt	31,056	34,166	35,583	36,957	44,055	55,049	54,425	56,428	65,195	69,109	
<b>Cash flow statement(JPYmn)</b>											
Cash flows from operating activities	-2,649	-2,191	783	-1,822	-4,709	-10,270	4,766	-4,915	-4,593	-1,761	
Cash flows from investing activities	-2,850	-852	-630	-2	-59	-69	-378	-312	-310	-63	
Cash flows from financing activities	5,861	2,940	1,173	829	6,577	10,542	-1,313	934	4,901	2,914	
<b>Financial ratios</b>											
ROA (RP-based)	3.1%	3.9%	5.1%	5.6%	5.5%	4.2%	3.3%	4.7%	6.3%	4.2%	
ROE(ROE)	6.9%	9.3%	12.7%	14.1%	13.2%	11.4%	9.1%	11.8%	17.5%	12.0%	
Net margin	5.6%	5.8%	8.0%	9.0%	7.1%	6.3%	4.4%	6.5%	7.7%	5.5%	
Total asset turnover	0.34	0.42	0.42	0.43	0.51	0.46	0.52	0.47	0.56	0.53	
Financial leverage (equity multiplier)	3.64	3.87	3.81	3.63	3.63	3.92	4.01	3.86	4.04	4.18	
Equity ratio	26.1%	25.6%	26.8%	28.3%	26.9%	24.3%	25.6%	26.2%	23.5%	24.4%	

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

The company conducted a 100-for-1 stock split on December 1, 2012, a 2-for-1 stock split on October 1, 2017, and a 2-for-1 stock split on December 1, 2022. Per share data above have been adjusted to reflect these stock splits.

The company transitioned to a holding company structure in June 2019. YoY comparisons in FY11/19 were made with pre-transition FY11/18 results for reference.

# Recent updates

## Acquisition of treasury shares

2024-01-19

Star Mica Holdings Co., Ltd. has announced its decision regarding matters related to the acquisition of treasury shares.

### Details regarding share buyback

- Class of shares to be acquired: Common shares of the company
- Total number of shares to be acquired: 180,000 shares (upper limit; 0.5% of shares outstanding [excludes treasury shares])
- Total value of shares to be acquired: JPY100mn (upper limit)
- Acquisition period: January 19, 2024–March 31, 2024
- Method of acquisition: Market purchases on the Tokyo Stock Exchange

### Reasons for share buyback

In its medium-term management plan announced in January 2024, the company set a target for a total return ratio of 40.0% in its financial strategy. Based on this policy and considering overall financial conditions and stock price levels, the company has decided to proceed with the acquisition of treasury stock.

## Medium-term management plan, Find the Value 2026

2024-01-12

Star Mica Holdings Co., Ltd. has announced its medium-term management plan, Find the Value 2026.

### Medium-term management plan, Find the Value 2026 (three years from FY11/24 to FY11/26)

#### Overview

In January 2024, the company announced its medium-term management plan, Find the Value 2026, covering the three-year period from FY11/24 to FY11/26. Under this plan, the company aims to maximize corporate value by implementing business, financial, and IR strategies to improve ROE and maintain an appropriate WACC level. The numerical targets for corporate value enhancement include an ROE of 12.0% or higher and a WACC of 2.0%. In terms of business strategies, the company set numerical targets for an OPM of 10.0% or higher, EPS growth of 5.0% or higher, a reduction in the sales cycle by one and a half months to two months, and an inventory of real estate for sale of JPY100.0bn or more. In terms of financial strategies, the company aims for an equity ratio of 25.0% or higher and a total payout ratio of 40.0%. To flexibly respond to changes in the business environment, the company has not set specific targets for sales and profits.

#### Business strategies

Over the past five years (from FY11/19 to FY11/23), the company has been promoting expansion into regional cities and the acquisition of vacant properties. However, starting from FY11/24, the company aims for sustainable and stable growth through the acquisition of owner-change properties, which serve as a source of profit. Specifically, the company intends to improve corporate value by enhancing profitability and efficiency through the following five strategies.

- ▶ Increase the proportion of owner-change properties (contributing to profitability improvement): The company plans to increase the proportion of owner-change properties in its property acquisitions, which has been decreasing from 62% in FY11/19, from 48% in FY11/23 to 52% in FY11/24.
- ▶ Improve the share of properties in urban areas (contributing to profitability improvement): The company will redirect resources toward properties in major metropolitan areas rather than regional cities.
- ▶ Reform and optimize renovation structures (contributing to both profitability and efficiency improvement): In FY11/23, the renovation cost per unit increased by 22% compared to FY11/20, and the number of days to market (the time from key receipt to sales start) increased to 11 days. In response, the company will establish a dedicated department to fundamentally review and optimize the quality, cost, and delivery (QCD) aspects of renovations.



- ▶ Shorten the sales cycle (contributing to efficiency improvement): In Q4 FY11/22, the average sales period (from the sales start date to the sales contract date) extended to 145 days, compared to 109 days in Q1 FY11/22. By establishing a system to sell properties quickly while maintaining profitability, the company aims to shorten the sales period by one to one and a half months and improve the turnover rate, thereby reducing the inventory of vacant properties and properties after tenant departure.
- ▶ Promote fund formation (contributing to efficiency improvement): The company will consider various schemes and opportunities to generate earnings and promote business growth.

### **Financial strategies and capital allocation policies**

As part of its financial strategies, the company aims to maximize the use of cash and realize disciplined growth investments and shareholder returns.

Regarding capital allocation, the company set the following five basic policies.

- ▶ Aim to maximize corporate value through improving ROE and maintaining an appropriate WACC level
- ▶ Focus on maintaining an equity ratio while seeking low-cost borrowing
- ▶ Prioritize growth investments to create new value
- ▶ Continue to provide stable dividends and target dividend growth using excess cash after growth investments
- ▶ If the company determines that the stock is undervalued, such as if PBR falls below 1.0x, it will actively repurchase its own shares and aim for a total payout ratio of 40% and EPS growth of 5.0% or higher

# Trends and outlook

## Quarterly trends and results

Cumulative (JPYmn)	FY11/22				FY11/23				FY11/23	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY Est.
Sales	12,313	27,602	37,318	48,212	11,062	24,886	37,108	48,878	97.2%	50,264
YoY	28.5%	27.6%	24.1%	30.7%	-10.2%	-9.8%	-0.6%	1.4%		4.3%
Gross profit	2,847	5,568	7,695	9,760	2,159	4,571	6,639	8,422	94.4%	8,920
YoY	60.6%	47.6%	34.5%	31.0%	-24.2%	-17.9%	-13.7%	-13.7%		-8.6%
Gross profit margin	23.1%	20.2%	20.6%	20.2%	19.5%	18.4%	17.9%	17.2%		17.7%
SG&A expenses	749	1,795	2,566	3,661	799	1,765	2,576	3,576	96.6%	3,701
YoY	13.7%	16.9%	14.0%	15.7%	6.7%	-1.7%	0.4%	-2.3%		1.1%
SG&A ratio	6.1%	6.5%	6.9%	7.6%	7.2%	7.1%	6.9%	7.3%		7.4%
Operating profit	2,098	3,774	5,129	6,098	1,359	2,806	4,063	4,846	92.9%	5,219
YoY	88.3%	68.7%	47.8%	42.3%	-35.2%	-25.6%	-20.8%	-20.5%		-14.4%
Operating profit margin	17.0%	13.7%	13.7%	12.6%	12.3%	11.3%	10.9%	9.9%		10.4%
Recurring profit	1,958	3,453	4,592	5,419	1,148	2,306	3,360	3,921	89.6%	4,375
YoY	102.6%	80.5%	52.3%	46.9%	-41.4%	-33.2%	-26.8%	-27.6%		-19.3%
Recurring profit margin	15.9%	12.5%	12.3%	11.2%	10.4%	9.3%	9.1%	8.0%		8.7%
Net income	1,346	2,383	3,174	3,709	797	1,595	2,326	2,664	88.5%	3,011
YoY	98.7%	78.3%	50.8%	54.4%	-40.8%	-33.1%	-26.7%	-28.2%		-18.8%
Net margin	10.9%	8.6%	8.5%	7.7%	7.2%	6.4%	6.3%	5.5%		6.0%
<b>Earnings (quarterly)</b> (JPYmn)	FY11/22				FY11/23					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	12,313	15,289	9,716	10,894	11,062	13,824	12,222	11,770		
YoY	28.5%	26.8%	15.0%	59.8%	-10.2%	-9.6%	25.8%	8.0%		
Gross profit	2,847	2,721	2,127	2,064	2,159	2,412	2,068	1,783		
YoY	60.6%	36.0%	9.2%	19.3%	-24.2%	-11.4%	-2.8%	-13.6%		
Gross profit margin	23.1%	17.8%	21.9%	18.9%	19.5%	17.4%	16.9%	15.2%		
SG&A expenses	749	1,046	772	1,095	799	966	811	1,000		
YoY	13.7%	19.2%	7.9%	19.9%	6.7%	-7.7%	5.2%	-8.7%		
SG&A ratio	6.1%	6.8%	7.9%	10.1%	7.2%	7.0%	6.6%	8.5%		
Operating profit	2,098	1,675	1,355	969	1,359	1,447	1,257	784		
YoY	88.3%	49.2%	10.0%	18.6%	-35.2%	-13.7%	-7.3%	-19.2%		
Operating profit margin	17.0%	11.0%	13.9%	8.9%	12.3%	10.5%	10.3%	6.7%		
Recurring profit	1,958	1,495	1,139	827	1,148	1,158	1,054	562		
YoY	102.6%	57.8%	3.4%	23.0%	-41.4%	-22.6%	-7.5%	-32.0%		
Recurring profit margin	15.9%	9.8%	11.7%	7.6%	10.4%	8.4%	8.6%	4.8%		
Net income	1,346	1,037	791	536	797	798	731	339		
YoY	98.7%	57.4%	2.9%	80.1%	-40.8%	-23.1%	-7.6%	-36.8%		
Net margin	10.9%	6.8%	8.1%	4.9%	7.2%	5.8%	6.0%	2.9%		

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

The company transitioned to a holding company structure in June 2019. YoY comparisons in FY11/19 were made with pre-transition FY11/18 results for reference.

## Breakdown of CoS and SG&A expenses

SG&A expenses(cumulative) (JPYmn)	FY11/22				FY11/23				FY11/23	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY Est.
SG&A expenses	749	1,795	2,566	3,661	799	1,765	2,576	3,576	96.6%	3,701
YoY	13.7%	16.9%	14.0%	15.7%	6.7%	-1.7%	0.4%	-2.3%		1.1%
Directors' remunerations	21	60	94	139	34	67	94			
Salaries and allowances	193	535	746	1,097	214	545	768			
Dues and taxes	216	493	672	893	165	356	535			
Other	319	706	1,055	1,532	386	797	1,179			
<b>SG&amp;A expenses(three-month)</b> (JPYmn)	FY11/22				FY11/23					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
SG&A expenses	749	1,046	772	1,095	799	966	811	1,000		
YoY	13.7%	19.2%	7.9%	19.9%	6.7%	-7.7%	5.2%	-8.7%		
Directors' remunerations	21	39	34	45	34	32	27			
Salaries and allowances	193	341	211	351	214	331	223			
Dues and taxes	216	277	179	221	165	192	179			
Other	319	388	348	478	386	411	382			

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Sales, gross profit and operating profit by segment

Performance by segment(cumulative) (JPYmn)	FY11/22				FY11/23				FY11/23	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY Est.
<b>Sales</b>	<b>12,313</b>	<b>27,602</b>	<b>37,318</b>	<b>48,212</b>	<b>11,062</b>	<b>24,886</b>	<b>37,108</b>	<b>48,878</b>	<b>97.2%</b>	<b>50,264</b>
YoY	28.5%	27.6%	24.1%	30.7%	-10.2%	-9.8%	-0.6%	1.4%		4.3%
Renovated Condominium	12,123	27,224	36,744	47,449	10,884	24,500	36,566	48,155	97.2%	49,530
YoY	29.3%	28.2%	24.4%	31.8%	-10.2%	-10.0%	-0.5%	1.5%		4.4%
Investment	-	-	-	-	-	-	-	6		-
YoY	-	-	-	-	-	-	-	-		-
Advisory Services	189	378	574	763	178	386	542	716	98.1%	730
YoY	2.8%	2.2%	9.0%	-12.4%	-5.9%	2.1%	-5.6%	-6.1%		-4.3%
<b>Gross profit</b>	<b>2,847</b>	<b>5,568</b>	<b>7,695</b>	<b>9,760</b>	<b>2,159</b>	<b>4,571</b>	<b>6,639</b>	<b>8,422</b>	<b>94.4%</b>	<b>8,920</b>
YoY	60.6%	47.6%	34.5%	31.0%	-24.2%	-17.9%	-13.7%	-13.7%		-8.6%
Gross profit margin	23.1%	20.2%	20.6%	20.2%	19.5%	18.4%	17.9%	17.2%		17.7%
Renovated Condominium	2,700	5,290	7,280	9,210	2,030	4,290	6,260	7,940	94.6%	8,390
YoY	63.6%	49.4%	34.8%	34.3%	-24.8%	-18.9%	-14.0%	-13.8%		-8.9%
Gross profit margin	22.3%	19.4%	19.8%	19.4%	18.7%	17.5%	17.1%	16.5%		16.9%
Investment	-	-	-	-	-	-	-	-10		-
Advisory Services	130	270	410	540	120	270	370	490	94.2%	520
YoY	30.0%	35.0%	41.4%	-3.6%	-7.7%	0.0%	-9.8%	-9.3%		-3.7%
Gross profit margin	68.7%	71.5%	71.4%	70.8%	67.4%	70.0%	68.3%	68.4%		71.2%
Performance by segment(three-month) (JPYmn)	FY11/22				FY11/23					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Sales</b>	<b>12,313</b>	<b>15,289</b>	<b>9,716</b>	<b>10,894</b>	<b>11,062</b>	<b>13,824</b>	<b>12,222</b>	<b>11,770</b>		
YoY	28.5%	26.8%	15.0%	59.8%	-10.2%	-9.6%	25.8%	8.0%		
Renovated Condominium	12,123	15,101	9,520	10,705	10,884	13,616	12,066	11,589		
YoY	29.3%	27.2%	14.8%	65.4%	-10.2%	-9.8%	26.7%	8.3%		
Investment	-	-	-	-	-	-	-	6		
YoY	-	-	-	-	-	-	-	-		
Advisory Services	189	188	196	189	178	208	156	174		
YoY	2.8%	1.5%	25.2%	-45.2%	-5.9%	10.2%	-20.5%	-7.6%		
<b>Gross profit</b>	<b>2,847</b>	<b>2,721</b>	<b>2,127</b>	<b>2,064</b>	<b>2,159</b>	<b>2,412</b>	<b>2,068</b>	<b>1,783</b>		
YoY	60.6%	36.0%	9.2%	19.3%	-24.2%	-11.4%	-2.8%	-13.6%		
Gross profit margin	23.1%	17.8%	21.9%	18.9%	19.5%	17.4%	16.9%	15.2%		
Renovated Condominium	2,700	2,590	1,990	1,930	2,030	2,260	1,970	1,680		
YoY	63.6%	37.0%	7.0%	32.2%	-24.8%	-12.7%	-1.0%	-13.0%		
Gross profit margin	22.3%	17.2%	20.9%	18.0%	18.7%	16.6%	16.3%	14.5%		
Investment	-	-	-	-	-	-	-	-10		
Advisory Services	130	140	140	130	120	150	100	120		
YoY	30.0%	40.0%	55.6%	-51.9%	-7.7%	7.1%	-28.6%	-7.7%		
Gross profit margin	68.7%	74.4%	71.3%	68.8%	67.4%	72.3%	64.0%	68.8%		

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

For gross profit by segment, the company's disclosed materials were in units of JPY100mn. In the above table, we have adjusted these values to units of millions of yen.

Segment figures refer to external customer sales and gross profit.

## Renovated Condominium sales, gross profit

Renovated Condominium(cumulative) (JPYmn)	FY11/22				FY11/23				FY11/23	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY Est.
<b>Sales</b>	<b>12,123</b>	<b>27,224</b>	<b>36,744</b>	<b>47,449</b>	<b>10,884</b>	<b>24,500</b>	<b>36,566</b>	<b>48,155</b>	<b>97.2%</b>	<b>49,530</b>
YoY	29.3%	28.2%	24.4%	31.8%	-10.2%	-10.0%	-0.5%	1.5%		4.4%
Rental	996	1,999	2,985	3,996	1,020	2,079	3,126	4,188	103.1%	4,061
YoY	-0.7%	1.0%	2.1%	2.7%	2.5%	4.0%	4.7%	4.8%		1.6%
Sale	11,128	25,225	33,759	43,453	9,864	22,422	33,440	43,967	96.7%	45,468
YoY	32.9%	30.9%	26.9%	35.3%	-11.4%	-11.1%	-0.9%	1.2%		4.6%
<b>Gross profit</b>	<b>2,700</b>	<b>5,290</b>	<b>7,280</b>	<b>9,210</b>	<b>2,030</b>	<b>4,290</b>	<b>6,260</b>	<b>7,940</b>	<b>94.6%</b>	<b>8,390</b>
YoY	63.6%	49.4%	34.8%	34.3%	-24.8%	-18.9%	-14.0%	-13.8%		-8.9%
Gross profit margin	22.3%	19.4%	19.8%	19.4%	18.7%	17.5%	17.1%	16.5%		16.9%
Rental	609	1,214	1,794	2,397	568	1,162	1,735	2,337	105.7%	2,210
YoY	-3.3%	-1.9%	-1.2%	-0.6%	-6.8%	-4.3%	-3.3%	-2.5%		-7.8%
Gross profit margin	61.2%	60.7%	60.1%	60.0%	55.7%	55.9%	55.5%	55.8%		54.4%
Sale	2,103	4,086	5,503	6,866	1,480	3,161	4,581	5,804	92.9%	6,250
YoY	99.4%	73.9%	50.9%	51.6%	-29.6%	-22.6%	-16.7%	-15.5%		-9.0%
Gross profit margin	18.9%	16.2%	16.3%	15.8%	15.0%	14.1%	13.7%	13.2%		13.7%
Loss on valuation	-4	-4	-4	-48	-9	-26	-47	-211		-70
<b>SG&amp;A expenses</b>	<b>695</b>	<b>1,601</b>	<b>2,283</b>	<b>3,228</b>	<b>688</b>	<b>1,525</b>	<b>2,235</b>	<b>3,075</b>		
YoY	24.8%	24.9%	22.2%	23.7%	-1.0%	-4.8%	-2.1%	-4.7%		
SG&A ratio	5.7%	5.9%	6.2%	6.8%	6.3%	6.2%	6.1%	6.4%		
<b>Operating profit</b>	<b>2,005</b>	<b>3,689</b>	<b>4,997</b>	<b>5,982</b>	<b>1,342</b>	<b>2,765</b>	<b>4,025</b>	<b>4,865</b>		
YoY	83.4%	63.3%	41.5%	40.7%	-33.1%	-25.0%	-19.5%	-18.7%		
Operating profit margin	16.5%	13.6%	13.6%	12.6%	12.3%	11.3%	11.0%	10.1%		

  

Renovated Condominium(three-month)	FY11/22				FY11/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Sales</b>	<b>12,123</b>	<b>15,101</b>	<b>9,520</b>	<b>10,705</b>	<b>10,884</b>	<b>13,616</b>	<b>12,066</b>	<b>11,589</b>
YoY	29.3%	27.2%	14.8%	65.4%	-10.2%	-9.8%	26.7%	8.3%
Rental	996	1,004	986	1,011	1,020	1,058	1,048	1,061
YoY	-0.7%	2.8%	4.4%	4.5%	2.5%	5.5%	6.3%	5.0%
Sale	11,128	14,097	8,534	9,694	9,864	12,558	11,018	10,527
YoY	32.9%	29.4%	16.2%	76.1%	-11.4%	-10.9%	29.1%	8.6%
<b>Gross profit</b>	<b>2,700</b>	<b>2,590</b>	<b>1,990</b>	<b>1,930</b>	<b>2,030</b>	<b>2,260</b>	<b>1,970</b>	<b>1,680</b>
YoY	63.6%	37.0%	7.0%	32.2%	-24.8%	-12.7%	-1.0%	-13.0%
Gross profit margin	22.3%	17.2%	20.9%	18.0%	18.7%	16.6%	16.3%	14.5%
Rental	609	604	580	604	568	594	573	602
YoY	-3.3%	-0.5%	0.3%	1.2%	-6.8%	-1.7%	-1.2%	-0.3%
Gross profit margin	61.2%	60.2%	58.9%	59.7%	55.7%	56.1%	54.7%	56.7%
Sale	2,103	1,983	1,416	1,363	1,480	1,682	1,420	1,222
YoY	99.4%	53.1%	9.3%	54.4%	-29.6%	-15.2%	0.3%	-10.3%
Gross profit margin	18.9%	14.1%	16.6%	14.1%	15.0%	13.4%	12.9%	11.6%
Loss on valuation	-4	-0	-	-44	-9	-16	-22	-164
<b>SG&amp;A expenses</b>	<b>695</b>	<b>906</b>	<b>682</b>	<b>945</b>	<b>688</b>	<b>837</b>	<b>711</b>	<b>840</b>
YoY	24.8%	25.0%	16.3%	27.5%	-1.0%	-7.7%	4.1%	-11.1%
SG&A ratio	5.7%	6.0%	7.2%	8.8%	6.3%	6.1%	5.9%	7.2%
<b>Operating profit</b>	<b>2,005</b>	<b>1,684</b>	<b>1,308</b>	<b>985</b>	<b>1,342</b>	<b>1,423</b>	<b>1,259</b>	<b>840</b>
YoY	83.4%	44.5%	2.7%	37.0%	-33.1%	-15.5%	-3.7%	-14.7%
Operating profit margin	16.5%	11.2%	13.7%	9.2%	12.3%	10.5%	10.4%	7.3%

Source: Shared Research based on company data

Notes: Figures may differ from company data due to differences in rounding methods.

Figures for gross profit for rental and sale are Shared Research's calculations based on the company's published GPM.

## Number of acquired, sold, and inventory units in the Renovated Condominium business

Units purchased, Units sold, Units in inventory(cumulative) (units)	FY11/22				FY11/23				FY11/23	
	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY Est.
<b>Units purchased</b>	<b>435</b>	<b>902</b>	<b>1,256</b>	<b>1,640</b>	<b>334</b>	<b>746</b>	<b>1,057</b>	<b>1,410</b>		
YoY	67.3%	47.1%	33.5%	23.8%	-23.2%	-17.3%	-15.8%	-14.0%		
Purchase price per unit(JPYmn)	26.6	26.5	27.3	27.7	28.2	28.4	28.8	29.4		
YoY	1.4%	2.7%	4.0%	3.9%	5.9%	7.0%	5.2%	6.1%		
<b>Units sold</b>	<b>339</b>	<b>849</b>	<b>1,102</b>	<b>1,395</b>	<b>280</b>	<b>653</b>	<b>976</b>	<b>1,270</b>	<b>96.4%</b>	<b>1,318</b>
YoY	22.8%	22.9%	19.8%	26.8%	-17.4%	-23.1%	-11.4%	-9.0%		-5.5%
Selling price per unit(JPYmn)	32.8	29.7	30.6	31.1	35.2	34.3	34.3	34.6		
YoY	8.2%	6.6%	5.9%	6.7%	7.3%	15.6%	11.8%	11.1%		
<b>Units in inventory</b>	<b>3,649</b>	<b>3,606</b>	<b>3,707</b>	<b>3,798</b>	<b>3,852</b>	<b>3,891</b>	<b>3,879</b>	<b>3,938</b>		
YoY	10.2%	11.0%	10.7%	6.9%	5.6%	7.9%	4.6%	3.7%		
Inventory amount per unit(JPYmn)	21.1	21.4	21.7	21.9	21.9	21.9	21.8	22.0		
YoY	5.6%	6.1%	6.2%	4.7%	3.7%	2.3%	0.7%	0.4%		

  

Units purchased, Units sold, Units in inventory(three months) (units)	FY11/22				FY11/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Units purchased</b>	<b>435</b>	<b>467</b>	<b>354</b>	<b>384</b>	<b>334</b>	<b>412</b>	<b>311</b>	<b>353</b>
YoY	67.3%	32.3%	7.9%	0.0%	-23.2%	-11.8%	-12.1%	-8.1%
Purchase price per unit(JPYmn)	26.6	26.4	29.4	28.7	28.2	28.5	29.7	31.1
YoY	1.4%	3.5%	8.3%	4.8%	5.9%	8.0%	1.0%	8.4%
<b>Units sold</b>	<b>339</b>	<b>510</b>	<b>253</b>	<b>293</b>	<b>280</b>	<b>373</b>	<b>323</b>	<b>294</b>
YoY	22.8%	22.9%	10.5%	62.8%	-17.4%	-26.9%	27.7%	0.3%
Selling price per unit(JPYmn)	32.8	27.6	33.7	33.1	35.2	33.7	34.1	35.8
YoY	8.2%	5.3%	5.2%	8.2%	7.3%	21.8%	1.1%	8.2%

Source: Shared Research based on company data.

Note: The following per-unit amounts are Shared Research calculations.

Purchase price per unit: (Ending balance of real estate for sale - Beginning balance of real estate for sale + Cost of sales for Renovated condominium (sale) business + Evaluation loss) divided by the number of units purchased

Selling price per unit: Sales from Renovated condominium (sale) business divided by the number of units sold

Inventory amount per unit: Ending balance of real estate for sale divided by the number of units in inventory

## Real estate for sale and tangible fixed assets

(JPYmn)	FY11/22				FY11/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real estate for sale	76,866	77,087	80,392	83,138	84,175	85,064	84,733	86,584
YoY change	10,787	11,589	12,027	8,829	7,309	7,978	4,341	3,447
YoY	16.3%	17.7%	17.6%	11.9%	9.5%	10.3%	5.4%	4.1%
QoQ change	2,557	2,778	6,083	8,829	1,038	1,927	1,595	3,447
Increase in book value due to purchase + renovation	11,300	23,400	33,600	44,600	9,200	20,700	29,800	40,900
Units sold	-8,700	-20,600	-27,600	-35,700	-8,100	-18,800	-28,200	-37,500
QoQ	3.4%	3.7%	8.2%	11.9%	1.2%	2.3%	1.9%	4.1%
Tangible fixed assets	38	38	37	61	58	56	52	49
YoY change	-4	-2	-3	23	20	18	15	-12
YoY	-10.0%	-5.0%	-8.4%	59.1%	54.0%	46.7%	40.1%	-20.0%

Source: Shared Research based on company data

Figures may differ from company data due to differences in rounding methods.

\*"Real estate for sale" refers to pre-owned condominiums, for sale and before sale (rented).

## Reference: Pre-owned condominium market trends (Greater Tokyo area)

	FY11/22				FY11/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Properties sold (units)	8,787	9,376	8,453	8,859	8,656	9,133	8,714	9,378
YoY	-8.5%	-14.4%	-4.8%	-11.7%	-1.5%	-2.6%	3.1%	5.9%
Contract average price (JPYmn)	41.0	42.3	42.9	44.1	43.4	45.0	46.3	47.0
YoY	8.9%	10.6%	11.2%	12.4%	5.9%	6.3%	7.9%	6.7%
Contract Price per sqm (JPY'000)	636.2	665.8	676.0	694.0	689.9	703.2	727.6	739.9
YoY	10.5%	13.0%	13.1%	13.4%	8.4%	5.6%	7.6%	6.6%

Source: Shared Research based on Quarterly Market Watch Summary Report issued by the Real Estate Information Network for East Japan.

\* Figures may differ from company data due to differences in rounding methods.

\*"Greater Tokyo area" refers to Tokyo, Kanagawa, Chiba, and Saitama prefectures.

\* Figures for properties sold are cumulative for three months, and figures for contract average price and contract price per sqm are simple averages of three months.

## Reference: New condominium market trends (Greater Tokyo area)

	FY11/22				FY11/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
New units supplied	10,064	7,384	5,343	7,670	8,288	6,065	5,966	6,349
YoY	-7.9%	-5.0%	-8.4%	-21.9%	-17.6%	-17.9%	11.7%	-17.2%
Average contract price per unit (JPYmn)	63.2	63.0	63.1	64.9	62.8	100.6	79.0	71.8
YoY	6.4%	-5.5%	-6.1%	0.1%	-0.6%	59.7%	25.1%	10.8%
Price per sqm (JPY'000)	949.3	940.0	973.7	968.3	961.3	1,454.7	1,213.0	1,102.7
YoY	7.2%	-5.7%	-5.9%	-0.4%	1.3%	54.8%	24.6%	13.9%

Source: Shared Research based on statistics from Real Estate Economic Institute

\* Figures may differ from company data due to differences in rounding methods.

\*"Greater Tokyo area" refers to Tokyo, Kanagawa, Chiba, and Saitama prefectures.

\* Figures for new units supplied are cumulative for three months, and figures for average contract price per unit and price per sqm are simple averages of three months.

## Full-year FY11/23 results

- Sales: JPY48.9bn (+1.4% YoY)
- Gross profit: JPY8.4bn (-13.7% YoY)
- Operating profit: JPY4.8bn (-20.5% YoY)
- Recurring profit: JPY3.9bn (-27.6% YoY)
- Net income attributable to owners of the parent: JPY2.7bn (-28.2% YoY)

## Overview

In the mainstay Renovated Condominium business (sale), the difference between the purchase price and the sales price of the properties handled by the company expanded due to the overheated real estate market from 2H FY11/21 to FY11/22. As a result, the sales profit was higher than the company had expected when purchasing the property, and the GPM during the same period was high, ranging from 14.1% to 18.9%. On the other hand, in FY11/23, the difference between the purchase price and the sales price narrowed as the overheated real estate market cooled down. Consequently, FY11/23 GPM trended downward to 13.2% (-2.6pp YoY). From FY11/24 and onwards, the company plans to shift its purchasing strategy back to owner-change properties and increase the proportion of properties in major metropolitan areas. The company anticipates that this will result in the GPM seeing a long-term recovery from the bottom of around 12%.

In the Renovated Condominium (rental) business, the proportion of properties in regional areas, which have a relatively lower profit margin, has been increasing over the medium to long term, and GPM has been trending downward. Prior to FY11/17, GPM was approximately 70.0%, but decreased to 60.0% in FY11/22. Since Q1 FY11/23, GPM has been affected by about 3pp due to the impact of the change in accounting standards (starting to record depreciation costs for properties

held for the long term). It fell 4.2pp YoY to 55.8% in FY11/23. Although the increase in the proportion of regional properties is expected to continue to gradually weigh on GPM, the company plans to increase profits by continuing to acquire properties and increasing the number of owned properties.

## Business environment

According to the Real Estate Information Network for East Japan, the number of pre-owned condominiums sold in the Tokyo metropolitan area was 2,900 (+3.7% YoY) in November 2023, increasing for six consecutive months. Meanwhile, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area was JPY749,800 (+7.6% YoY) and the average purchase price was JPY47.3mn (+7.1% YoY), increasing for the 43rd and 42nd consecutive months, respectively. The inventory of pre-owned condominiums has been recovering since June 2021 (33,641), and totaled 46,993 in November 2023, approaching the pre-pandemic level (around 47,000–48,000 between March 2019 and February 2020).

## Sales and profit

Sales were up YoY due to higher sales in the Renovated Condominium business (both rental and sale).

Operating profit declined due to a decrease in gross profit. OPM was 9.9% (-2.7pp YoY).

- ▶ Gross profit fell on a deterioration in the GPM in the Renovated Condominium (sale) business compared to the same period of the previous year, which had a sense of overheating in the real estate market. GPM was 17.2% (-3.0pp).
- ▶ In terms of SG&A expenses, there was a decline in taxes and dues as a result of a smaller number of condominium units purchased. The SG&A ratio fell 0.3pp YoY to 7.3%.

## Achievement rates versus forecast

Versus the full-year forecast, sales were 97.2%, gross profit was 94.4%, operating profit was 92.9%, recurring profit was 89.6%, and net income attributable to owners of the parent was 88.5%. In the mainstay Renovated Condominium (sale) business, sales and gross profit progressed 96.7% and 92.9%, respectively, versus the full-year forecast.

Gross profit came in JPY498mn lower than the company's full-year forecast for FY11/23. While the Renovation Condominium (rental) business exceeded expectations by approximately JPY120mn, the Renovation Condominium (sales) business fell short by approximately JPY440mn. In addition, the valuation loss in the Renovation Condominium business exceeded the company's expectations by approximately JPY140mn. This was partly due to lower-than-planned sales volume and the need to lower prices for the disposal of certain long-term holdings. Further, the Investment business and Advisory business recorded a combined shortfall of approximately JPY50mn, mainly due to valuation losses on operational investment securities. SG&A expenses were approximately JPY130mn lower than expected, primarily due to lower purchase volume, resulting in lower taxes and dues compared to the company's plan.

## Renovated Condominium business

- Sales: JPY48.2bn (+1.5% YoY)
- Gross profit: JPY7.9bn (-13.8% YoY)

Sales rose and gross profit decreased in the Renovated Condominium business (both rental and sale). The company recorded a valuation loss on real estate for sale, a component of cost of sales, of JPY211mn (versus a valuation loss of JPY48mn in FY11/22). Operating profit was also down YoY, as a result of a 24.8% YoY drop in gross profit to JPY2.0bn. In SG&A expenses, taxes and dues were down, but personnel expenses expanded.

## Business strategy

Through the end of FY11/17, the company generally purchased condominiums that were currently being rented, collected rent from the existing tenants, and renovated and sold them after these tenants departed. Starting in FY11/18, the company has also been concentrating on buying and selling vacant condominiums to expand its earnings opportunities by increasing the asset turnover rate.

Star Mica performs renovations on vacant condominiums three to four months following their purchase and sells these properties about a year after they are acquired, while condominiums acquired under rent are not sold until about three and

a half to four years after they are purchased. The company's intensified buying and selling of vacant condominiums will have the following impact on earnings.

- ▶ Rental earnings will be affected by the lack of rent revenue generated through these properties while associated maintenance fees are incurred.
- ▶ Renovated Condominium (Sales) business: There is typically more intense competition in purchasing vacant properties compared to owner-change properties (there are a limited number of buyers for owner-change properties since they cannot inspect the condition of the property before acquisition and cannot immediately sell after acquisition). These differences in the purchasing environment result in differences in margins, with GPM for owner-change properties at 18.0% and for vacant properties at 7.6% in FY11/23. Increases in the sales ratio of vacant properties thus push down the GPM.

With this in mind, the company plans to further increase the ratio of owner-change properties in purchasing from FY11/24 onwards, and will particularly focus on properties in major metropolitan areas. The company targets a 52% ratio of owner-change properties (based on the number of units) for FY11/24 and a 55% ratio for FY11/26, compared to the 48% recorded in FY11/23. However, as mentioned above, it takes an average of three and a half to four years from purchase to sale for owner-change properties, so it expects contributions to profitability from the increased purchase of owner-change properties to be seen gradually over some years.

## Renovated Condominium (rental) business

- Sales: JPY4.2bn (+4.8% YoY)
- Gross profit: JPY2.3bn (-2.5% YoY)

Sales increased as the number of properties held increased due to continued purchases.

However, gross profit fell, and the GPM declined 4.2pp YoY to 55.8%. The reasons for the decline in GPM are as follows.

- ▶ The decline in GPM was primarily attributed to the booking of depreciation for properties held over the long term following the change in accounting policies, which resulted in an approximately 2.9pp YoY fall in GPM (impact of JPY110mn in FY11/23). Excluding the aforementioned impact, the gross profit for the Renovated Condominium (rental) business increased by approximately 2% YoY.
- ▶ Another factor weighing on GPM was an increase in the proportion of properties in regional cities with relatively low GPM in the company's nationwide operations. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tends to push down the GPM for these properties.
- ▶ Due to an increase in the ratio of vacant properties purchased in Q3, the proportion of vacant properties held has increased. While vacant properties do not generate rental income, they incur expenses such as management fees (cost of sales), which contribute to a decrease in the GPM of the Renovated Condominium (rental) business.

## Renovated Condominium (sale) business

- Sales: JPY44.0bn (+1.2% YoY)
- Gross profit: JPY5.8bn (-15.5% YoY)

### Sales

Sales in the Renovated Condominium (sale) business were up YoY as a decline in the number of units sold was offset by an increase in sales per unit. In FY11/23, the company sold 1,270 units (-9.0% YoY) and posted sales per unit of JPY34.6mn (+11.1% YoY). Excluding special factors in 1H FY11/22 (to be described later), the number of units sold continued to increase due to the strengthening of the sales structure.

- ▶ The number of units sold by quarter was as follows: 339 in Q1 FY11/22, 510 in Q2 FY11/22, 253 in Q3 FY11/22, 293 in Q4 FY11/22, 280 in Q1 FY11/23, 373 in Q2 FY11/23, 323 in Q3 FY11/23, and 294 in Q4 FY11/23.
- ▶ The number of units delivered in Q1 FY11/22 was up 22.8% and was at a high level, as delivery of some units initially scheduled for Q4 FY11/21 was pushed out to Q1 FY11/22. Compared with the elevated number of units delivered in

- ▶ Q1 FY11/22, the number of units delivered in Q1 FY11/23 was down. However, excluding the impact of delayed deliveries, the number of units delivered in Q1 FY11/23 was up YoY.
- ▶ During Q2 FY11/22, a large number of properties were sold to corporate clients, and the number of units sold was high, with a 22.9% increase YoY. In Q2 FY11/23, the number of units sold decreased compared to the high level in Q2 FY11/22. However, excluding the impact of corporate sales, the company says the number of units sold in Q2 FY11/23 was up YoY.
- ▶ Sales per unit grew against a backdrop of a YoY increase in the price of preowned condominiums.

## Profit

On the profit front, compared to the previous period, where the real estate market showed signs of overheating, the GPM mainly decreased for vacant purchase properties, resulting in a decline in gross profit. The full-year FY11/23 GPM was 13.2% (-2.6pp YoY). Quarterly GPM in FY11/22 was 18.9% in Q1, 14.1% in Q2, 16.6% in Q3, and 14.1% in Q4. For FY11/23, it was 15.0% in Q1, 13.4% in Q2, 12.9% in Q3, and 11.6% in Q4. The reasons for the decline in profit margin since Q1 FY11/23 are as follows.

- ▶ Decline in profit margins for vacant properties: As mentioned above, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area has been rising for 43 consecutive months. As for vacant purchased properties (from purchase to sale takes about a year), which account for about around 60% of the total units sold, GPM fell due to the sale of properties that were purchased during a price hike, although sales prices continued to rise. On the other hand, the GPM for owner-change purchased properties, which account for around 40% of the total units sold (which takes about three and a half to four years from purchase to sale), was high due to the sale of properties purchased before the increase in price per square meter, a trend continuing from FY11/22. In FY11/23, GPMs were 18.0% for owner-change properties and 7.6% for vacant properties.
- ▶ Discounting long-held properties: As the overheated real estate market cooled, the company focused on increasing the turnover rate of real estate sales. During the upturn in the real estate market, the company's key strategy for maximizing profit was to ensure a longer sales period and to sell at higher prices. On the other hand, in a situation where the overheated real estate market has cooled down, even if the sales profit per unit decreases, shortening the sales period and increasing the asset turnover rate to lower the running costs associated with holding properties may become an important strategy for maximizing profit. Adjusting the sales strategy according to changes in the real estate market also contributed to the decrease in profit margin. In particular, in Q4 (September to November 2023), the company strengthened its discount sales strategy in advance of measures to implement shortened sales cycles (disciplined inventory management), which is part of its business strategy for FY11/24 and beyond.
- ▶ Increased renovation costs: Due to inflation and rising material prices, construction and labor costs have been on the rise. Additionally, as the age of the company's properties increases, the number of areas requiring renovation has also increased. Renovation costs have been trending upward as a result. While the company has absorbed some of these impacts through price increases, it has stated that vacant properties, which have lower profit margins, have been relatively more affected by the decrease in profit margins.

## Real estate for sale

The monetary value of Star Mica's real estate for sale amounted to JPY86.6bn (+JPY3.4bn, or +4.1%, from end-FY11/22). It increased by JPY40.9bn due to an increase in book value due to property purchase and renovations, and decreased by JPY37.5bn due to property sales.

At end-FY11/23, the company had 3,938 units in inventory (+140 units, or +3.7%, from end-FY11/22). The company purchased 1,410 units (-14.0% YoY) and sold 1,270 (-9.0% YoY).

- ▶ The number of properties purchased was down YoY. This was because the company prioritized balance between the number of units purchased and sold and carefully selected properties with a focus on profit margins at the time of sale in the cooled-down real estate market. The company recognizes that there has been no change in the business environment, such as increased difficulties in purchasing properties due to intensified competition and rising property prices.
- ▶ The purchase price per unit was JPY29.4mn (+6.1% YoY). The purchase price increased due to an upward trend in real estate prices mainly in Tokyo and the strategic purchase of properties in slightly higher price ranges than before (however, this does not mean the company purchased high-end properties).



## Investment business

- Sales: JPY6mn (None recorded in FY11/22)
- Gross loss: JPY10mn (None recorded in FY11/22)

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

The company received rental income in Q4 (September to November 2023) due to its resumption of investment in income-generating real estate.

The company reported a gross loss due to the recognition of a partial valuation loss on operational investment securities. In addition, the company incurred personnel expenses related to the consideration of new projects such as the resumption of investment in income-generating real estate, including during cumulative Q3, when the company did not recognize revenue for the business. As a result, it recorded an operating loss of JPY24mn for full-year FY11/23 (compared to an operating loss of JPY7mn in FY11/22).

## Advisory Services business

- Sales (external): JPY716mn (-6.1% YoY)
- Gross profit: JPY490mn (-9.3% YoY)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

Brokerage commissions fell because the company did not handle any large transactions, such as the sale of an entire building, for properties owned by external investors despite an increase in the number of brokerage transactions for renovated condominium units sold by the company.

# Full-year company forecast

## Company forecast

(JPYmn)	FY11/22			FY11/23			FY11/24		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
<b>Sales</b>	<b>27,602</b>	<b>20,610</b>	<b>48,212</b>	<b>24,886</b>	<b>23,992</b>	<b>48,878</b>	<b>25,974</b>	<b>28,183</b>	<b>54,157</b>
YoY	27.6%	35.0%	30.7%	-9.8%	16.4%	1.4%	4.4%	17.5%	10.8%
Cost of sales	22,033	16,419	38,452	20,315	20,141	40,456	25,974	19,273	45,247
YoY	23.4%	41.7%	30.6%	-7.8%	22.7%	5.2%	27.9%	-4.3%	11.8%
<b>Gross profit</b>	<b>5,568</b>	<b>4,191</b>	<b>9,760</b>	<b>4,571</b>	<b>3,851</b>	<b>8,422</b>			<b>8,910</b>
YoY	47.6%	14.0%	31.0%	-17.9%	-8.1%	-13.7%			5.8%
Gross profit margin	20.2%	20.3%	20.2%	18.4%	16.1%	17.2%			16.5%
SG&A expenses	1,795	1,866	3,661	1,765	1,811	3,576			3,880
YoY	16.9%	14.7%	15.7%	-1.7%	-3.0%	-2.3%			8.5%
SG&A ratio	6.5%	9.1%	7.6%	7.1%	7.5%	7.3%			7.2%
<b>Operating profit</b>	<b>3,774</b>	<b>2,325</b>	<b>6,098</b>	<b>2,806</b>	<b>2,040</b>	<b>4,846</b>	<b>2,520</b>	<b>2,508</b>	<b>5,028</b>
YoY	68.7%	13.4%	42.3%	-25.6%	-12.2%	-20.5%	-10.2%	22.9%	3.8%
Operating profit margin	13.7%	11.3%	12.6%	11.3%	8.5%	9.9%	9.7%	8.9%	9.3%
<b>Recurring profit</b>	<b>3,453</b>	<b>1,966</b>	<b>5,419</b>	<b>2,306</b>	<b>1,616</b>	<b>3,921</b>	<b>2,059</b>	<b>2,043</b>	<b>4,102</b>
YoY	80.5%	10.8%	46.9%	-33.2%	-17.8%	-27.6%	-10.7%	26.5%	4.6%
Recurring profit margin	12.5%	9.5%	11.2%	9.3%	6.7%	8.0%	7.9%	7.2%	7.6%
<b>Net income attributable to owners of the parent</b>	<b>2,383</b>	<b>1,326</b>	<b>3,709</b>	<b>1,595</b>	<b>1,069</b>	<b>2,664</b>	<b>1,400</b>	<b>1,400</b>	<b>2,800</b>
YoY	78.3%	24.5%	54.4%	-33.1%	-19.4%	-28.2%	-12.2%	30.9%	5.1%
Net margin	8.6%	6.4%	7.7%	6.4%	4.5%	5.5%	5.4%	5.0%	5.2%

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods

## Company forecast by segment

(JPYmn)	FY11/22			FY11/23			FY11/24
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
<b>Sales</b>	<b>27,602</b>	<b>20,610</b>	<b>48,212</b>	<b>24,886</b>	<b>23,992</b>	<b>48,878</b>	<b>54,157</b>
YoY	27.6%	35.0%	30.7%	-9.8%	16.4%	1.4%	10.8%
Renovated Condominium	27,224	20,225	47,449	24,500	23,655	48,155	51,580
YoY	28.2%	37.0%	31.8%	-10.0%	17.0%	1.5%	7.1%
Investment	-	-	-	-	6	6	1,690
YoY	-	-	-	-	-	-	-
Advisory Services	378	385	763	386	331	716	870
YoY	2.2%	-23.2%	-12.4%	2.1%	-14.2%	-6.1%	21.5%
<b>Gross profit</b>	<b>5,568</b>	<b>4,191</b>	<b>9,760</b>	<b>4,571</b>	<b>3,851</b>	<b>8,422</b>	<b>8,910</b>
YoY	47.6%	14.0%	31.0%	-17.9%	-8.1%	-13.7%	5.8%
Gross profit margin	20.2%	20.3%	20.2%	18.4%	16.1%	17.2%	16.5%
Renovated Condominium	5,290	3,920	9,210	4,290	3,650	7,940	7,990
YoY	49.4%	18.1%	34.3%	-18.9%	-6.9%	-13.8%	0.6%
Gross profit margin	19.4%	19.4%	19.4%	17.5%	15.4%	16.5%	15.5%
Investment	-	-	-	-	-10	-10	240
Advisory Services	270	270	540	270	220	490	660

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Renovated Condominium business forecast

(JPYmn)	FY11/22			FY11/23			FY11/24
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
<b>Gross profit</b>	<b>5,290</b>	<b>3,920</b>	<b>9,210</b>	<b>4,290</b>	<b>3,650</b>	<b>7,940</b>	<b>8,910</b>
YoY	49.4%	18.1%	34.3%	-18.9%	-6.9%	-13.8%	12.2%
Gross profit margin	19.4%	19.4%	19.4%	17.5%	15.4%	16.5%	17.3%
Rental	1,214	1,184	2,397	1,162	1,175	2,337	2,390
YoY	-1.9%	0.7%	-0.6%	-4.3%	-0.8%	-2.5%	2.3%
Gross profit margin	60.7%	59.3%	60.0%	55.9%	55.7%	55.8%	
Sale	4,086	2,779	6,866	3,161	2,642	5,804	5,670
YoY	73.9%	27.6%	51.6%	-22.6%	-4.9%	-15.5%	-2.3%
Gross profit margin	16.2%	15.2%	15.8%	14.1%	12.3%	13.2%	
Loss on valuation	-4	-44	-48	-26	-186	-211	-70

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Overview

For FY11/24, Star Mica forecasts sales of JPY54.2bn (+10.8% YoY), gross profit of JPY8.9bn (+5.8% YoY), operating profit of JPY5.0bn (+3.8% YoY), recurring profit of JPY4.1bn (+4.6% YoY), and net income attributable to owners of the parent of JPY2.8bn (+5.1% YoY). The company anticipates that demand for pre-owned condominiums will remain solid, driven by the continued price increases and reduced supply of new condominiums. In light of this, it expects growth in both revenue and profit through steady growth in the Renovated Condominium business and the resumption of the Investment business.

In January 2024, the company announced its medium-term management plan "Find the Value 2026" (covering the three-year period from November 2024 to November 2026). The plan aims to achieve sustainable and stable growth through the acquisition of owner-change properties, particularly in major metropolitan areas, as a key business strategy for generating profits. This marks a shift in direction from the past five years (from November 2019 to November 2023), during which the company expanded its portfolio and sales by entering regional cities and acquiring vacant properties. By focusing on the acquisition of owner-change properties and properties in major metropolitan areas, the company aims to improve its long-term profitability. (See Medium-term management plan "Find the Value 2026" for details.)

## Forecast by segment

### Renovated Condominium business

- Sales: JPY51.6bn (+7.1% YoY)
- Gross profit: JPY8.0bn (+0.6% YoY) (Rental: JPY2.4bn [+2.3% YoY], sale: JPY5.7bn [-2.3% YoY])

The company expects sales to increase in both rental and sales. However, it expects gross profit to increase in the rental business but decrease in the sales business.

As mentioned above, the company plans to focus on purchasing owner-change properties, particularly in major metropolitan areas, starting from FY11/24. The ratio of owner-change properties (based on the number of units) was 48% in FY11/23, and the company plans to increase it to 52% in FY11/24. The strengthening of sales of owner-change properties and properties in major metropolitan areas should have the following impact on earnings.

- ▶ Renovated Condominium (rental) business: Since the company incurs costs such as management fees and maintenance reserves (cost of sales) for both owner-change properties and vacant properties, having a higher ratio of rent-generating owner-change properties contributes to a higher GPM. Moreover, since the abovementioned costs tend to be at a similar level regardless of the level of rent, having a higher ratio of properties in major metropolitan areas (with the accompanying higher rents) also contributes to a higher GPM.
- ▶ Renovated Condominium (sale) business: There is more intense competition during the purchasing process for vacant properties compared to owner-change properties (there are a limited number of buyers for owner-change properties because the buyers cannot inspect the condition of the unit before acquisition and cannot sell immediately after acquisition). These differences in the purchasing environment lead to differences in profit margins, resulting in a GPM for FY11/23 of 18.0% for owner-change properties and 7.6% for vacant properties. Therefore, improvement in the sales mix based on an increase in the ratio of owner-change properties contributes to an increase in GPM.

By strengthening the sales of owner-change properties, particularly in major metropolitan areas, the company expects the profitability of this business to increase in the long term. However, since it takes an average of three and a half to four years from purchase to sale for owner-change properties, the company expects to see a gradual contribution to earnings from improved profitability based on the increase in the purchasing ratio of owner-change properties.

### **Renovated Condominium (rental) business**

The company expects sales to continue to increase YoY in tandem with the increase in property holdings resulting from continued property acquisitions.

With the expansion of sales, it expects gross profit to increase by 2.3% YoY. However, it expects the GPM to decrease by approximately 1% YoY.

The main factor contributing to the decrease in GPM is the change in accounting standards starting from FY11/23, which caused the company to begin recording depreciation for properties held for the long term. It reviews properties subject to depreciation once a year. The company anticipates that the number of properties subject to depreciation will increase in comparison to the number subject to depreciation at the beginning of FY11/23, leading to an increase in depreciation expenses by the beginning of FY11/24. It sees depreciation reaching approximately JPY200mn in FY11/24, versus JPY110mn in FY11/23.

### **Renovated Condominium (sale) business**

The company expects sales to increase due to an increase in the number of units sold. While the company has not disclosed specific targets for sales and the number of units sold in response to changes in the business environment, based on the company's disclosed materials, Shared Research understands that the company expects the number of units sold in FY11/24 to increase by around 50 to 100 units YoY, resulting in a 7–8% increase in sales.

The company expects gross profit to decrease by 2.3% YoY. Based on the company's disclosed materials, Shared Research understands that the company expects a GPM of around 12.0%. In FY11/23, the GPM trended downward in line with decreasing profit margins for vacant properties, coming in at 15.0% in Q1, 13.4% in Q2, 12.9% in Q3, and 11.6% in Q4. The company expects that the levels seen in Q3 and Q4 of the previous period will continue in FY11/24.

- ▶ Shared Research understands that the company expects the profit margin for owner-change properties to decrease compared to FY11/23 (the GPM for FY11/23 was 18.0%). As mentioned above, owner-change properties take roughly three and a half to four years from purchase to sale. The company anticipates an increase in the sale of properties purchased after the real estate market heated up (2H FY11/21 to FY11/22), which is expected to lead to a narrowing of the difference between the purchasing and selling prices.
- ▶ For vacant properties, the company expects an increase in profit margin from FY11/24 onwards due to an increase in the quality of purchased properties (the GPM was 7.6% in FY11/23). Specifically, it plans to focus on purchasing properties in central areas close to train stations, while refraining from purchasing properties located farther away from city centers or train stations. Considering that these vacant properties are usually sold within a year of purchase, Shared Research understands that the increase in profit margin due to the improvement in property quality will contribute to earnings as early as 2H FY11/24.

The company expects the sales composition ratio of owner-change properties and vacant properties to remain largely unchanged from FY11/23. It plans to increase the ratio of owner-change properties in property purchases from FY11/24 onwards. However, considering the three-and-a-half to four-year period from purchase to sale for owner-change properties,

Shared Research understands that the increase in the ratio of owner-change properties in the number of units sold will be seen only gradually over the medium term.

## Investment business

- Sales: JPY1.7bn (JPY6mn in FY11/22)
- Gross profit: JPY240mn (gross loss of JPY10mn)

The company will focus on increasing the number of purchases and sales of income-generating properties, as well as actively seeking investment opportunities in growth companies and working to enhance the value of its investments.

## Advisory Services business

- Sales: JPY870mn (+21.5% YoY)
- Gross profit: JPY660mn (+34.7% YoY)

As in FY11/22, the company will continue to focus on expanding its brokerage business, improving the profitability of its rental property management business, and diversifying revenue opportunities.

The company expects an increase in both sales and profit due to an increase in the number of brokerage transactions.

# Medium to long-term outlook

## Medium-term management plan, Find the Value 2026 (three years from FY11/24 to FY11/26)

### Overview: The plan focuses on maximizing corporate value rather than simply expanding in size

In January 2024, the company announced its medium-term management plan "Find the Value 2026," which covers the three-year period from November 2024 to November 2026. This plan embodies the company's corporate slogan "Find the Value," which refers to uncovering the hidden value in existing assets, and aims to establish a solid management foundation for sustainable growth.

Under this plan, the company aims to maximize corporate value by implementing business, financial, and IR strategies to improve ROE and maintain an appropriate WACC level. The numerical targets for corporate value enhancement include an ROE of 12.0% or higher (12.0% in FY11/23) and a WACC of 2.0%. In terms of business strategies, the company set numerical targets for an OPM of 10.0% or higher (9.9% in FY11/23), EPS growth of 5.0% or higher, a reduction in the sales cycle by one and a half months to two months, and an inventory of real estate for sale of JPY100.0bn or more (86.6bn in FY11/23). In terms of financial strategies, the company aims for an equity ratio of 25.0% or higher (24.4% in FY11/23) and a total payout ratio of 40.0%. To flexibly respond to changes in the business environment, the company has not disclosed specific targets for sales and profits.

In terms of business strategy, over the past five years (from FY11/19 to FY11/23), the company has been promoting expansion into regional cities, the acquisition of vacant properties, and expanding the number of units purchased and sold. However, starting from FY11/24, the company will shift direction to target sustainable and stable growth through the acquisition of owner-change properties, which serve as a source of profit. While still aiming for expansion in terms of the number of unit purchased and sold, it will not target as aggressive of a rate of expansion as it has in the past five years. Specifically, the company aims to maximize its corporate value by improving both profitability and efficiency through five strategies: 1) returning to owner-change properties, 2) improving market share in urban areas, 3) reforming its renovation system, 4) shortening the sales cycle, and 5) promoting fund formation. (See below for details on the five strategies).

The company did not provide specific numerical targets for sales, profit, the number of purchases and sales, or the GPM. However, based on the assumption that the real estate market conditions of FY11/23 will continue unchanged, Shared Research understands the outlook as follows:

- ▶ Number of purchases and sales: The company aims to expand the number of purchases at a level slightly higher than the increase in stock of older condominiums. Taking into account the stock of pre-owned condominiums and the quality of properties as of January 2024, the company believes that the optimal level of annual purchases would be around 1,500 to 1,600 units (actual results for FY11/23 were 1,410 units). As for the number of sales, the company plans to primarily expand the sale of owner-change properties, targeting an increase of 50 to 100 units annually.
- ▶ Gross profit margin: The company expects an increase in the GPM of the Renovated Condominium (sale) business due to the improvement in the quality of vacant properties and the rise in the ratio of owner-change properties, which have relatively high profit margins.

## The company's vision and understanding of the business environment

As the stock of pre-owned condominiums in Japan grows, the company aims to promote the circulation of housing by acquiring pre-owned condominiums with a limited number of potential buyers to renovate them and supply affordable homes.

- ▶ Vision: To become the top player in the pre-owned condominium industry
- ▶ Mission: To contribute to the realization of a society premised on "utilizing" rather than "building"

### Business environment

**Population and households: Projections show urban areas experiencing a gradual decline in population, while the number of households generally remains stable through 2040.**

In the long term, the company expects that Japan will experience a decline in population and the number of households due to its aging population. According to the national census and the National Institute of Population and Social Security Research, it is projected that by 2040 the population of Japan will decrease 12.3% compared to 2020, and the number of households will decrease 8.9%. However, in major urban areas (Tokyo's 23 wards, Yokohama, Saitama, Osaka, Kobe, Sapporo, Sendai, Nagoya, Fukuoka), the population is expected to decrease by only 3.7% over the same period, and the number of households is expected to remain relatively stable with a mere 0.5% decrease. The company plans to focus on expanding in these urban areas, where there is expected to be continued demand for condominiums.

At the same time, with the growing number of senior households, single-person households, and DINK (double income, no kids) households, it is expected that the market for non-family housing purchases will expand. The company intends to meet these diversifying needs with a variety of product lineups.

**Pre-owned condominium market: Anticipated decrease in supply of new condominiums and increase in stock of older condominiums**

In the long term, it is expected that the stock of older condominiums, which are 20 years or older, will increase in Japan due to the longer lifespan of housing. From around 2024 to 2043, the supply of new condominiums is expected to remain at around 1.1mn units, while the stock of pre-owned condominiums is expected to reach approximately 8.0mn units (about 1.2x the current level). Specifically, the stock of older condominiums defined as those that are 20 years or older is projected to expand to approximately 6.9mn units (about 2.2x the current level; source: company estimates based on the rate of increase or decrease in the supply of new condominium units and the implementation status of condominium rebuilding as of March 2023).

Compared to newer pre-owned condominiums, older pre-owned condominiums often have poor interior conditions and are less suitable for immediate occupancy, making it difficult for consumer-to-consumer transactions to occur. In the Tokyo metropolitan area, in 2022, for condominiums that are 20 years old or less, the number of new listings was approximately 57,000, while the number of successful transactions was about 17,000. On the other hand, for condominiums that are 20 years or older, the number of new listings was approximately 110,000, while the number of successful transactions was about 17,000, indicating a relatively lower transaction rate. This suggests that promoting the circulation of older condominiums through renovation is a challenge that remains to be addressed.

### Longevity of housing ("200-year housing")

In 2008, the "Act on the Promotion of the Dissemination of Long-Life Quality Housing" was enacted. The law establishes procedures and standards for certifying "long-life quality housing."

Long-life quality housing, also known as "200-year housing," is not only physically durable (capable of being inhabited for multiple generations), but is also socially durable, taking into consideration changes in lifestyle and environmental considerations. To be certified as long-life quality housing, certain criteria must be met, such as deterioration prevention, earthquake resistance, ease of maintenance and renovation, and accessibility. In order to promote the spread of certified long-life housing, the government has implemented measures such as favorable tax treatment, relaxation of restrictions on floor area ratios, and long-term housing loans.

## Business strategies

As mentioned above, the company's business strategy aims for sustainable and stable growth based on the acquisition of owner-change properties, which serve as a source of profit. Specifically, the company plans to enhance corporate value by improving profitability and efficiency through the following five strategies.

### Increase the proportion of owner-change properties (contributing to profitability improvement)

The company plans to increase the proportion of owner-change properties in its property acquisitions, which has shown a downtrend from 62% in FY11/19 to 48% in FY11/23. The company plans to raise the ratio to 52% in FY11/24 and 55% in FY11/26. The impact on sales from strengthening sales of owner-change properties is as follows.

- ▶ Renovated Condominium (rental) business: Since the company incurs costs such as management fees and maintenance reserves (cost of sales) for both owner-change properties and vacant properties, having a higher ratio of rent-generating owner-change properties contributes to a higher GPM.
- ▶ Renovated Condominium (sale) business: There is more intense competition during the purchasing process for vacant properties compared to owner-change properties (there are a limited number of buyers for owner-change properties because the buyers cannot inspect the condition of the unit before acquisition and cannot sell immediately after acquisition). These differences in the purchasing environment lead to differences in profit margins, resulting in a GPM for FY11/23 of 18.0% for owner-change properties and 7.6% for vacant properties. Therefore, improvement in the sales mix based on an increase in the ratio of owner-change properties contributes to an increase in GPM.

As mentioned above, the company expects the return to owner-change properties to increase profitability, but expects efficiency to decline due to the longer period from purchase to sale compared to vacant properties (where the average period from purchase to sale is about one year versus three and a half to four years for owner-change properties). To offset this decrease in efficiency, the company will implement measures such as shortening the sales cycle and promoting fund formation, as described below.

#### Owner-change properties: Gross profit margin, forecast of units purchased and sold

- ▶ Gross profit margin: The GPM for owner-change properties in FY11/23 was 18.0%. The company forecasts a gradual decrease or maintenance of this level of GPM. Over the next three years of the medium-term plan, the company expects an increase in the sale of properties acquired after the real estate market began to overheat (from 2H FY11/21 to FY11/22). This should result in a narrowing difference between purchase and sale prices, leading to a decrease in profit margin. However, as mentioned below, the company expects profitability enhancement measures such as improving the market share in urban areas and reforming the renovation system to contribute to an increase in profit margins.
- ▶ Number of units purchased and sold: As mentioned above, the company plans to strengthen the acquisition of owner-change properties starting from FY11/24. With an increase in the number of purchases, the company expects an increase in the number of owner-change properties sold and an increase in the sales composition ratio for owner-change properties in the medium term.

#### Vacant properties: Gross profit margin, forecast of units purchased and sold

- ▶ Gross profit margin: The GPM for vacant properties in FY11/23 was 7.6%. The company targets an increase of approximately 1.0pp increase by FY11/26. From FY11/24 onwards, it plans to improve the quality of purchased



- ▶ properties. Specifically, it focuses on purchasing properties in central areas and near train stations, while restraining purchases of properties farther away from city centers or train stations.
- ▶ Number of units purchased and sold: For vacant properties, the company prioritizes improving the quality of properties, and there are no plans to increase the number of acquisitions. Consequently, the company expects the pace of increase in the number of properties sold for vacant properties to be slower than it has been for the past five years (from FY11/19 to FY11/23).

### **Improve the share of properties in urban areas (contributing to profitability improvement)**

The company will redirect resources toward properties in major metropolitan areas rather than regional cities. By doing so, it aims to expand its market share in urban areas within its key deployment areas, which include the 23 wards of Tokyo, Yokohama, Saitama, Osaka, Kobe, Sapporo, Sendai, Nagoya, and Fukuoka.

The company aims to differentiate itself from competitors by focusing on urban areas rather than suburban areas and by ensuring a sufficient number of units sold while handling relatively high-priced properties (but not luxury condominiums). Major competitors that operate pre-owned condominium purchase and resale businesses nationwide sell condominiums for JPY18–26mn, while the company's sales prices range from JPY30–35mn. Due to this background, the main buyers of the properties handled by the company are households with annual incomes of JPY6–8mn, which is higher than the income range of buyers of properties offered by competitors mentioned above. Therefore, even in a phase of rising interest rates, there is a steady demand for the properties handled by the company. It thus expects its business to generate stable profits without being significantly affected by economic conditions or real estate market conditions.

### **Reform and optimize renovation structures (contributing to both profitability and efficiency improvement)**

In FY11/23, the renovation cost per unit increased by 22% compared to FY11/20, and the number of days to market (the time from key receipt to sales start) increased by 11 days to 104 days. Renovation costs increased due to external factors such as rising construction and labor costs due to inflation and rising material costs. Additionally, internal factors such as the aging of properties (leading to more areas requiring renovation) contributed to the increase in renovation costs. The number of days to market lengthened due to external factors such as difficulties in securing skilled workers, as well as internal factors such as increased planning complexity associated with handling older properties, increased inspections for quality improvement, and an increase in corrective work.

In response to this, the company plans to establish a specialized department and undertake a thorough review to optimize QCD (quality, cost, delivery).

### **Shorten the sales cycle (contributing to efficiency improvement)**

The average sales period (from the sales start date to the sales contract date) extended to 135–125 days from Q2 FY11/23 to Q4 FY11/23, compared to 109–125 days in Q1 FY11/22 to Q1 FY11/23. As the overheated real estate market cooled down, particularly in less attractive areas such as suburban locations, the average number of days to market increased.

To address this situation, the company plans to establish a mechanism to expedite sales while maintaining profitability, aiming to shorten the sales cycle by one to one and a half months and improve turnover. Specifically, it will use data from past transactions (such as selling price, location, property grade, sales channels, and the number of days to market) to select properties for purchase, optimize the combination of sales cycle and price, and find the best sales channels.

As for the impact on the balance sheet from the shortening of the sales cycle, the company expects a reduction in inventory for properties vacated by tenants and properties purchased for resale. The company's real estate for sale consists of properties under lease and inventory for sale (including properties under renovation and properties currently on sale). The outlook for each category is as follows.

- ▶ Properties under lease: The balance as of end-FY11/23 was approximately JPY68.3bn. From FY11/24 onward, the company anticipates a continued expansion in the balance of real estate for sale owing to its stepping up purchasing of owner-change properties.
- ▶ Inventory for sale: The balance as of end-FY11/23 was approximately JPY18.2bn. From FY11/24 onward, through the aforementioned efforts to shorten the sales cycle, the company aims to restrain the expansion of the balance of real estate

- ▶ for sale even as the number of units sold increases. It estimates that the balance of real estate for sale will decrease by approximately JPY3.0bn if the sales period is shortened by one and a half months, and by approximately JPY4.0bn if it is shortened by two months.

## Promote fund formation (contributing to efficiency improvement)

In the three years of the medium-term plan, the company will consider various schemes and opportunities to generate earnings and promote business growth. The company considers the following as benefits to be gained from forming a fund:

- ▶ The ability to design fund types and redemption periods flexibly. By leveraging its accumulated data, the company can make estimations regarding vacancy rates, default rates, and prepayment rates.
- ▶ The ability to cater to a wide range of investor needs. The company is open to accepting investments from non-real estate related companies.
- ▶ The ability to diversify target properties. In addition to company-held condominiums, other real estate properties can also be included in the fund.
- ▶ The ability to expand opportunities for income generation. By utilizing its assets, the company aims to achieve comprehensive earnings growth.

## Financial strategies and capital allocation policies

As part of its financial strategies, the company aims to maximize the use of cash and realize disciplined growth investments and shareholder returns.

Regarding capital allocation, the company disclosed the following five basic policies.

- ▶ 1) Aim to maximize corporate value through improving ROE and maintaining an appropriate WACC level
- ▶ 2) Focus on maintaining an equity ratio of 25.0% or higher while seeking low-cost borrowing
- ▶ 3) Prioritize growth investments to create new value
- ▶ 4) Continue to provide stable dividends and target dividend growth using excess cash after growth investments
- ▶ 5) If the company determines that the stock is undervalued, such as if PBR falls below 1.0x, it will actively repurchase its own shares and aim for a total payout ratio of 40% and EPS growth of 5.0% or higher

## Reference: Medium to long-term outlook given at the time of the FY11/22 results announcement

**The following description is based on the medium to long-term outlook provided by the company at the time of its annual financial results announcement for FY11/22 (January 2023). While the company's recent forecasts and business strategies are as described in the aforementioned medium-term management plan "Find the Value 2026," we have provided the following for reference purposes.**

In January 2023, the company stated it would not formulate a medium-term management plan due to uncertain market conditions. However, the company will maintain the qualitative objective and basic policies of its five-year management plan, formulated in January 2018 (the company announced the withdrawal of plan targets in January 2021), and aims to expand the scale of its business over the medium term. The company has also disclosed Renovated Condominium (sales) business forecasts for GPM, the number of units purchased and sold, and capital efficiency (ROE).

- ▶ In FY11/23, Renovated Condominium (sales) business GPM is forecast at 13.8% (-2.0pp YoY). Over the past five years, GPM declined from 13.5% in FY11/18, to 10.2% in FY11/20, but rose to 14.1% in FY11/21 and 15.8% in FY11/22. This is because real estate transaction prices have been on a consistent upward trend since 2021, but the company believes prices are likely to enter an adjustment phase in FY11/23. Although GPM will continue to decline over the medium term, the company expects it will bottom out around 12–13% given that it was 10–11% during the 2008 global financial crisis and 10.2% in FY11/20 when the pandemic began.



- ▶ The decline in GPM is expected to be smaller for owner-change properties than vacant properties in FY11/23. Owner-change properties require a longer period of time from purchase to sale than vacant properties. Accordingly, in the price appreciation to adjustment phase, GPM tends to decline later for owner-change properties than for vacant properties, as a higher percentage of owner-change properties are purchased when prices are low, and thus more profitable.
- ▶ The company expects to purchase at least 1,800 units in FY11/25 (1,640 units were purchased in FY11/22) and intends to purchase over 1,800 units, depending on market conditions. The company will maintain a purchasing strategy focused on owner-change properties, of which up to 50% will comprise vacant properties.
- ▶ In FY11/23, the company will sell 1,318 units (-5.5% YoY), but expects to return to FY11/22 levels in FY11/24, with further growth in FY11/25. Sales of vacant properties are expected to increase through FY11/25, while sales of owner-change properties to decrease in FY11/23, then increase again through FY11/25. Sales of owner-changed properties are expected to decline in reaction to the large number of properties sold to corporate clients in FY11/22.
- ▶ ROE is expected to remain at the FY11/22 level. The net margin is expected to decline due to the aforementioned downward trend in Renovated Condominium (sales) business GPM over the medium term. At the same time, total asset turnover is expected to increase through the leveraging of vacant property purchases to improve inventory turnover. The company's policy is to maintain financial leverage.

## Review of FY11/18–FY11/22

### From formulation of the five-year plan "Challenge 2022," to the withdrawal of plan targets

As a leading company in the renovated condominium industry, Star Mica formulated the five-year management plan "Challenge 2022" with the aim of maintaining its position as an industry leader and continuing to create value for customers. Under the plan, the company aims to reach JPY50.0bn in sales and JPY8.5bn in operating profit in the final year of the plan (FY11/22) by expanding its Renovated Condominium, Investment, and Advisory Services businesses. From FY11/18 to 1H FY11/20, the company saw success in aggressive property acquisition and sales, such that sales, profits, and the inventory of real estate for sale generally trended according to plan.

From March 2020 onward, in response to the COVID-19 pandemic, Star Mica set preparing for possible changes in the business environment as its highest priority. It accordingly shifted its policy in FY11/20 and FY11/21 to emphasize the balance in the number of properties acquired and sold rather than growth in the inventory of real estate for sale in an attempt to maintain and increase the equity ratio and cash on hand. In addition, the company reviewed a part of the Investment business's investment plan and decided against including the sale of income-generating real estate into the plan for FY11/22.

Uncertainty persisted in the business environment in January 2021 as the state of emergency declarations have been reissued in various areas. The company has thus decided that it was difficult to predict when it could achieve the targets set forth in the medium-term management plan and to reasonably estimate targets for FY11/22. In consideration of these factors, the company withdrew the FY11/22 targets.

### Review of FY11/18–FY11/22

Looking back on the five-year period from FY11/18 to FY11/22, FY11/22 sales were JPY48.2bn (15.9% CAGR compared to FY11/17), operating profit was JPY6.1bn (11.3% CAGR), recurring profit was JPY5.4bn (12.7% CAGR), and real estate for sale amounted to JPY83.1bn (JPY44.4bn at end-FY11/17). Although FY11/22 results fell short of the FY11/22 targets announced in January 2018, sales, profits, and real estate for sale were approximately 1.7–2.1x FY11/17 levels.

In terms of capital efficiency, ROE was 14.1% in FY11/17, then declined to 9.1% through FY11/20, but increased to 17.5% in FY11/22. The net margin declined, but total asset turnover and financial leverage increased.

- ▶ The completion of tangible fixed asset sales in the relatively high-margin Investment business in FY11/19 led to a 4.4% decline in the net margin in FY11/20 compared to 9.0% in FY11/17. It rose to 7.7% in FY11/22 on the back of a consistent upward trend in real estate transaction prices from 2021 onward and higher GPM in the Renovated Condominium (sales) business, as mentioned above.

- ▶ By increasing the ratio of vacant purchased properties with short operating periods while continuing to purchase owner-change properties, the total asset turnover ratio increased from 0.43 in FY11/17 to 0.56 in FY11/22.
- ▶ The use of interest-bearing debt increased the company's financial leverage from 3.63 in FY11/17 to 4.04 in FY11/22.

Regarding the company's business portfolio, in the Investment business, the sale of tangible fixed assets promoted since FY11/15 was completed in FY11/19. The company reinvested cash generated from these sales to expand its mainstay Renovated Condominium business (details below) and expand its Advisory Services business (brokerage and rental property management services). As a result, sales by business amounted to JPY47.4bn (21.6% CAGR compared to FY11/17) in the Renovated Condominium business and JPY763mn (11.7% CAGR) in the Advisory Services business in FY11/22. There were no sales in the Investment business, which recorded sales of JPY4.8bn in FY11/17. Gross profit was JPY9.2bn in the Renovated Condominium business (17.3% CAGR compared to FY11/17) and JPY540mn in the Advisory business (13.2% CAGR).

## (Reference) Five-year plan targets and achievements

Five-year management plan (consolidated) (JPYmn)	FY11/17 Act.	FY11/22 Targets	FY11/22 Act.
Sales	23,075	50,000	48,212
CAGR		16.7%	15.9%
Operating profit	3,575	8,500	6,098
CAGR		18.9%	11.3%
Recurring profit	2,982	7,500	5,419
CAGR		20.3%	12.7%
Real estate for sale (Renovated Condominium business)	44,808	100,000	83,138

Source: Shared Research based on company data

## Renovated Condominium business

In the mainstay Renovated Condominium business, the number of units purchased and sold increased as the company expanded its sales areas and purchased vacant properties. The number of units purchased increased from approximately 800 units in FY11/17 to 1,640 units in FY11/22. The number of units sold increased from approximately 600 units in FY11/17 to 1,395 units in FY11/22. As a result, sales and gross profit increased for both rentals and sales, with rental gross profit of JPY2.4bn (5.1% CAGR compared to FY11/17) and sales gross profit of JPY6.9bn (24.0% CAGR) in FY11/22. As noted above, real estate for sale amounted to JPY83.1bn (13.2% CAGR), with unrealized gains on property for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales) expanding to JPY25.4bn (15.6% CAGR).

The company diversified its portfolio of owned properties through the promotion of branch expansions in regional cities. By region, this broke down to 85.3% in the Tokyo metropolitan area, 10.6% in the Kansai area, and 4.1% in other areas (Fukuoka Prefecture, Aichi Prefecture, Hokkaido, Miyagi Prefecture, etc.) at end-FY11/17, but by end-FY11/22, the composition was 58.5% in the Tokyo metropolitan area, 23.1% in the Kansai area, and 18.4% in other areas

# Business

## Description

### Operations

Star Mica Holdings Co., Ltd. buys pre-owned, tenant-occupied individual condominium units, collects rental income while these condominium units are occupied, renovates them when the tenants move out, and sells them for a profit. The company is an industry leader in terms of the sales value of pre-owned condominiums (estimated by the company). It deals with residential properties, which are supported by end-user demand as opposed to investor demand, and earns revenue by focusing on the difference between purchase price and sales price. Therefore, it is relatively insensitive to changes in the real estate market compared to other companies in the industry, and can generate profits steadily. As of end-FY11/23, the company's real estate for sale was JPY86.6bn (five-year CAGR of 9.0%), and the unrealized gains on property for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales) was approximately JPY25.8bn (five-year CAGR of 12.5%; the total market value of properties held is based on external appraisal results).

The downside of this method is that acquiring a single condominium unit can be inefficient and cumbersome compared to buying entire buildings. However, there is little competition to acquire such properties, allowing the company to buy them at low price. In particular, for occupied properties (owner-change properties), which account for approximately half of the company's acquisitions (on a unit basis), the number of potential buyers is limited because these properties cannot be sold immediately after purchase and because, according to local convention, the buyer cannot inspect the inside. Instead of acquiring entire buildings, the company buys individual pre-owned condominiums of different age and locations. This approach allows the company to spread associated risks (accidents, natural disasters, price fluctuations, and the tenant's length of stay, etc.).

According to the company, it quickly assesses the value of properties and makes swift purchase decisions. The company also has the ability to raise funds and enjoys a track record of successful transactions. As a result, the company is in a strong position to gather information from real estate agents on pre-owned condominiums that have been put up for sale. The company says it also has its own information network that sets it apart from competitors and gives it the ability to assess the value of a large number of properties and execute many transactions. Star Mica also has access to short-term funds that are not tied to any specific properties, allowing the company to quickly sign a purchase agreement.

In Japan, there are only a few buyers of pre-owned condominiums with tenants (owner-change properties) because these properties cannot be sold immediately after purchase and because, according to local convention, the buyer cannot inspect the inside. As a result, such condominiums tend to be cheaper than vacant pre-owned properties. Star Mica acquires such individual tenant-occupied condominiums that are being rented. The company first earns rental income (recurring income) and after the tenant moves out, it outsources renovation and secures a sales profit (one-time income) by selling the property. The average period from purchase to sale is about three and a half to four years. Although there may be some fluctuations due to changes in real estate market conditions, the company assumes GPM of 14–16% at the time of purchase.

The company has been stepping up efforts to purchase and sell vacant pre-owned condominiums to improve asset turnover and expand into regional cities in addition to the metropolitan area. While utilization of vacant properties contributes to improving turnover and expanding the business scale, they generate no rental income and require management fees. Moreover, competition at the time of acquisition is more intense compared to owner-change properties, resulting in a relatively lower profit margin for vacant properties. Therefore, the company aims to acquire vacant properties as long as their ratio does not exceed 50% of its total inventory. The company anticipates GPM of 8–10% at the time of acquisition.

## Main business segments

The company's business segments consist of the Renovated Condominium business (accounting for 98.5% of sales and 94.3% of gross profit in FY11/23), the Investment business (no sales and a gross loss), and the Advisory Services business (1.5% of sales and 5.8% of gross profit). The mainstay Renovated Condominium business is divided into the Renovated Condominium (rental) (8.6% of sales and 27.7% of gross profit) and the Renovated Condominium (sale) (90.0% of sales and 68.9% of gross profit).

Segment	Business
Renovated Condominium	Sale and rental of pre-owned condominiums
Investment	Sale and rental of properties, excluding those handled in the Renovated Condominium business
Advisory	Brokerage, rent management, and investment advisory

Source: Shared Research based on company data

## Sales and gross profit by segment

(JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Sales</b>	<b>13,901</b>	<b>19,333</b>	<b>20,974</b>	<b>23,075</b>	<b>30,282</b>	<b>32,164</b>	<b>39,568</b>	<b>36,897</b>	<b>48,212</b>	<b>48,878</b>
YoY	2.6%	39.1%	8.5%	10.0%	31.2%	6.2%	23.0%	-6.8%	30.7%	1.4%
Renovated Condominium	12,253	15,497	16,983	17,869	22,143	28,861	38,858	36,006	47,449	48,155
YoY	-1.3%	26.5%	9.6%	5.2%	23.9%	30.3%	34.6%	-7.3%	31.8%	1.5%
% of sales	88.1%	80.2%	81.0%	77.4%	73.1%	89.7%	98.2%	97.6%	98.4%	98.5%
Investment	1,200	3,420	3,547	4,767	7,435	2,412	-	20	-	6
YoY	57.3%	185.0%	3.7%	34.4%	56.0%	-67.6%	-	-	-	-
% of sales	8.6%	17.7%	16.9%	20.7%	24.6%	7.5%	-	0.1%	0.0%	0.0%
Advisory Services	448	416	444	440	704	891	710	871	763	716
YoY	21.2%	-7.2%	6.7%	-1.0%	60.0%	26.6%	-20.3%	22.7%	-12.4%	-6.1%
% of sales	3.2%	2.2%	2.1%	1.9%	2.3%	2.8%	1.8%	2.4%	1.6%	1.5%
<b>Gross profit</b>	<b>3,531</b>	<b>4,600</b>	<b>5,520</b>	<b>6,160</b>	<b>6,924</b>	<b>6,297</b>	<b>5,971</b>	<b>7,451</b>	<b>9,760</b>	<b>8,422</b>
YoY	9.0%	30.3%	20.0%	11.6%	12.4%	-9.0%	-5.2%	24.8%	31.0%	-13.7%
Gross profit margin	25.4%	23.8%	26.3%	26.7%	22.9%	19.6%	15.1%	20.2%	20.2%	17.2%
Renovated Condominium	2,930	3,620	3,850	4,150	4,570	5,300	5,560	6,860	9,210	7,940
YoY	6.0%	23.5%	6.4%	7.8%	10.1%	16.0%	4.9%	23.4%	34.3%	-13.8%
Gross profit margin	23.9%	23.4%	22.7%	23.2%	20.6%	18.4%	14.3%	19.1%	19.4%	16.5%
% of gross profit	83.0%	78.7%	69.8%	67.4%	66.0%	84.2%	93.1%	92.1%	94.4%	94.3%
Investment	240	660	1,330	1,710	2,050	550	-	10	-	-10
Advisory Services	350	300	320	290	290	430	400	560	540	490
% of gross profit	9.9%	6.5%	5.8%	4.7%	4.2%	6.8%	6.7%	7.5%	5.5%	5.8%

Source: Shared Research based on company data

Figures may differ from company data due to differences in rounding methods.

Operating profit composition percentages are calculated using the sum of segment operating profit before eliminations.

## Renovated Condominium business

### Business model

Star Mica Holdings Co., Ltd. buys pre-owned, individual condominium units, collects rental income while these condominium units are occupied, renovates them when the tenants move out, and sells them for a profit. The company focuses on residential properties with actual demand, aiming to profit from the difference between purchase and sale prices. When selecting properties for acquisition, the company considers ease of sale and places particular emphasis on liquidity and convenience. Although the company receives information on over 3,000 properties per month from real estate brokerage firms, it purchases only roughly 120 properties after conducting thorough examinations.

The company specializes in dealing with properties that are occupied by renters (referred to as "owner-change properties") at the time of acquisition, and these properties serve as a major source of its profits. Owner-change properties have a limited number of potential buyers since purchasers are unable to inspect the units before acquisition and immediate resale is not possible. As a result, owner-change properties tend to be priced lower than vacant properties so that the margin the company earns at the time of the final sale is relatively high. Moreover, owner-change properties provide rental income while they are occupied. In FY11/23, approximately 48% of the units purchased and 40% of the units sold were owner-change properties.

In FY11/23, the company acquired 1,410 units and sold 1,270 units. The total number of units held as of the end-FY11/23 was 3,938 (five-year CAGR of 7.7%).

### Process from property purchase to sale

The process from property purchase to sale is as follows.

- ▶ **Purchase:** The company purchases individual pre-owned condominiums through real estate brokers. The median age of sellers in FY11/22 and FY11/23 was 62 years old. The main properties handled are pre-owned condominiums for families, with an average age of 20 to 40 years (the average age as of end-FY11/23 was 32.0 years) and a floor area of approximately 65sqm (the average floor area is 67.4sqm). The company primarily targets properties in urban centers within its main operating areas (Tokyo's 23 wards, Yokohama, Saitama, Osaka, Kobe, Sapporo, Sendai, Nagoya, and Fukuoka). Shared Research understands that the average purchase price in FY11/23 was in the range of JPY20mn.

- ▶ **Holding:** In the case of owner-change properties, the company retains ownership until the current tenant vacates. The company takes over the leasing agreement and earns rental income from the tenant until the tenant moves out. Based on the company's sales performance in FY11/23, the standard monthly rent was JPY126,000 in the Greater Tokyo Area, JPY117,000 in the Kansai region, and JPY107,000 in regional cities.
- ▶ **Renovation:** After the tenant leaves, the company renovates the apartment. This includes replacing the wallpaper and flooring in all rooms, replacing doors, and making upgrades such as replacing the water fixtures in the bathroom, washroom, and toilet. Renovation work is carried out by affiliated contractors in major cities across the country. According to the company, it performs the largest number of renovation projects in Japan, and this has enabled it to build strong relationships with contractors. As a result, the company is able to complete high quality renovations at a relatively low cost compared to its competitors. Shared Research understands that renovation costs were roughly JPY5mn in FY11/23.
- ▶ **Sale:** After the renovation is completed, the company sells the unit, usually to individual buyers, using a broker. The median age of buyers in FY11/22 and FY11/23 was 44 years old. Shared Research understands that the average selling price was around JPY30–35mn in FY11/23.

## Renovation example



Source: Company data

## Average property data

Average property data	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
Number of properties held (units)					2,719	3,384	3,328	3,553	3,798	3,938
YoY					-	24.5%	-1.7%	6.8%	6.9%	3.7%
Properties purchased						1,551	1,180	1,325	1,640	1,410
Properties sold						886	1,236	1,100	1,395	1,270
Average space (sqm)	62.0	62.8	64.0	65.1	65.8	66.8	66.7	66.7	67.1	67.4
Average age (years)	23.2	23.5	25.0	26.2	27.9	28.9	29.8	30.3	31.0	32.0
Average acquisition price (JPY'000)	18,969	19,378	20,049	20,313	19,902	19,544	19,401	20,168	21,094	
YoY	0.8%	2.2%	3.5%	1.3%	-2.0%	-1.8%	-0.7%	4.0%	4.6%	

Source: Shared Research based on company data

Note: The company has not disclosed average acquisition price figure for FY11/23.

## Inventory of pre-owned condominiums by region and age

About 36.3% of the company's properties are in Tokyo Metropolis, and 70% of these are located outside of Tokyo's five major wards (Shibuya, Shinjuku, Chuo, Chiyoda, and Minato). The Greater Tokyo Area outside of Tokyo Metropolis (the prefectures of Kanagawa, Saitama, and Chiba) accounts for 22.2% of the total. The Kansai area (the prefectures of Osaka, Hyogo, Kyoto, and Hiroshima) meanwhile account for 23.1%.

The proportion of the company's condominium property holdings located in the Kansai area showed an upward trend from FY11/14 to FY11/23 following the opening of its Osaka branch in January 2014. A similar pattern emerged in FY11/17 as the weighting of Saitama Prefecture properties increased following establishment of a branch office in Saitama from June 2016. With the opening of branches in Fukuoka, Nagoya, Sendai, and Sapporo from August 2017 to July 2018, the composition of others (Fukuoka Prefecture, Aichi Prefecture, Hokkaido, Miyagi Prefecture, etc.) has been on the rise since FY11/18.

As a result of expanding into regional cities, the proportion of properties in Tokyo has been decreasing from FY11/14 to FY11/23.

## Inventory composition by region

Properties held by region	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
Tokyo metropolitan	93.8%	89.4%	87.4%	85.3%	77.8%	70.2%	65.0%	62.4%	58.5%	36.3%
Tokyo	67.9%	64.4%	62.0%	58.6%	51.4%	44.2%	41.2%	39.1%	37.0%	36.3%
Tokyo (5 central wards)	13.7%	12.8%	12.6%	10.3%	8.5%	6.8%	6.7%	7.5%	6.8%	
Tokyo (wards excluding the 5 central wards)	40.1%	38.7%	39.7%	38.8%	35.9%	31.7%	29.7%	27.3%	26.5%	
Tokyo (excluding the 23 wards)	14.1%	12.9%	9.7%	9.5%	7.0%	5.7%	4.8%	4.3%	3.7%	
Other Tokyo metropolitan areas	25.9%	25.0%	25.4%	26.7%	26.4%	26.0%	23.8%	23.3%	21.5%	22.2%
Kanagawa	17.5%	18.5%	17.6%	17.0%	17.2%	16.9%	14.7%	14.1%	12.3%	
Saitama	2.5%	2.6%	4.3%	6.1%	6.1%	6.2%	6.2%	6.6%	6.8%	
Chiba	5.9%	3.9%	3.5%	3.6%	3.1%	2.9%	2.9%	2.6%	2.4%	
Kansai area	3.1%	7.3%	9.2%	10.6%	14.7%	18.2%	21.1%	20.4%	23.1%	22.4%
Other	3.1%	3.3%	3.4%	4.1%	7.6%	11.7%	13.9%	17.2%	18.4%	19.2%

Source: Shared Research based on company data

The Kansai region includes Osaka Prefecture, Hyogo Prefecture, Kyoto Prefecture, and Hiroshima Prefecture. Others include Fukuoka Prefecture, Aichi Prefecture, Hokkaido, Miyagi Prefecture, etc.

Balances by region are based on purchase price ratios at each fiscal year-end.

## Composition of properties held by year of construction

By year constructed	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
1998 and later	30.7%	34.3%	33.2%	34.2%	31.6%	31.7%	31.6%	35.1%	37.0%	35.6%
2008 and later								8.3%	9.2%	13.5%
1998 - 2007								26.8%	27.8%	22.1%
1989-1997	38.8%	35.7%	34.1%	30.5%	29.9%	30.2%	30.4%	29.1%	27.5%	28.2%
1981-1988	21.8%	21.2%	22.0%	22.8%	24.0%	23.6%	22.8%	21.6%	21.7%	27.4%
1980 and prior	8.7%	8.7%	10.8%	12.6%	14.4%	14.5%	15.2%	14.2%	13.7%	8.8%

Source: Shared Research based on company data

Balances by year constructed are based on purchase price ratios at each fiscal year-end.

## Price differences in rented pre-owned condominium and vacant ones

A major source of profit after selling pre-owned condominiums is that pre-owned condominiums that are being rented are cheaper to buy than those that are vacant. It is common for a rented property to sell for about 30% less than a vacant property. According to the company, this is due to the following reasons:

- ▶ Limited liquidity: Such apartments are purchased for investment purposes and not for residential purposes. Thus, the pool of buyers is limited.
- ▶ Uncertain timeframe for recouping investment: These apartments, once purchased, cannot be sold until the tenant moves out. There is also a possibility that the tenant will stay.
- ▶ Uncertain cost: The inside of the apartments cannot be seen before the sale since there is a sitting tenant. Thus, it is difficult to estimate the amount of renovation expenses that may be incurred after the tenant leaves.

Liquidity and uncertainty vary widely between properties when purchasing pre-owned condominiums with tenants. Thus, the value and profitability of small property portfolios are heavily affected by the characteristics of each property. However, the company owned 3,938 properties at end-FY11/23 (five-year CAGR of 7.7%), and is therefore able to reduce investment risk through diversification.

The prices of some properties—such as studio apartments for investors, new family condominiums, and expensive units in desirable urban locations—fluctuate depending on conditions in the real estate market. However, price fluctuations are small for the pre-owned, family-oriented condominiums that Star Mica specializes in.

The reason, according to the company, is that demand for apartments catering to families (i.e., units which people would like to buy to live in themselves) provides downside price support. If property prices were to fall, demand for properties would rise among those who live in rental houses—since the difference between what they currently pay in rent and potential loan payments would become smaller. Therefore, pre-owned condominium prices should not fall below the level where monthly loan payments would undercut condo rent costs.

According to Shared research calculations, based on FY11/23 results, the monthly rents for pre-owned condominiums the company sells are JPY126,000 in the Tokyo Metropolitan area, JPY117,000 in the Kansai area, and 107,000 in other areas. At the same time, the monthly housing loan payment (total loan of JPY30mn, 35-year amortizing mortgage with an interest rate of 0.5%) for these condominiums would be JPY104,000, JPY86,000, and JPY73,000, respectively. As of November 2023, the buyer would spend less money on monthly mortgage repayments.



## Average sales price of pre-owned condominium; monthly loan payments vs. standard rent

	FY11/12	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21
Average sales price (JPY'000)	27,302	30,770	30,400	29,980	31,830	30,770	30,710	29,470	30,000	30,000
YoY	4.6%	12.7%	-1.2%	-1.4%	6.2%	-3.3%	-0.2%	-4.0%	1.8%	0.0%
Average space (sqm)	63.9	70.8	67.3	67.7	67.5	66.1	67.5	68.3	71.5	68.5
Standard rent (JPY'000)	152	152	148	145	143	137	133	123	121	125
YoY	3.4%	0.0%	-2.6%	-2.0%	-1.4%	-4.2%	-2.9%	-7.5%	-1.6%	3.3%
Monthly loan repayments (JPY'000)	90	85	85	85	85	84	84	81	84	84
YoY	0.0%	-5.6%	0.0%	0.0%	0.0%	-1.2%	0.0%	-3.6%	3.7%	0.0%

Source: Shared Research based on company data

Notes: "Standard rent" refers to Greater Tokyo Area figures.

The company has not disclosed the data above for the periods since FY11/21.

## Properties for sale by price range

	FY11/19	FY11/20	FY11/21	FY11/22
JPY40mn or more	15.3%	16.9%	16.3%	21.9%
JPY30-40mn	25.7%	26.2%	25.3%	28.5%
JPY20-30mn	37.8%	35.7%	36.1%	29.5%
JPY20mn or less	21.2%	21.1%	22.3%	20.1%

Source: Shared Research based on company data

Notes: Percentages based on number of units

The company has not disclosed the data above for FY11/23.

## Differentiating factors

According to the company, it quickly assesses the value of properties and makes swift purchase decisions. It also has the ability to raise funds and a track record of successful transactions, so it is in a strong position to gather information from real estate brokers on pre-owned condominiums for sale.

When assessing the value of properties, the company uses its own database with detailed information on the apartments that it acquired or considered acquiring in the past. According to the company, it uses a sales comparison approach (a method to determine the value of a property based on the transaction prices and list prices of neighboring properties) to provide appropriate and swift price assessments.

It is important to make swift purchase decisions. Real estate brokers are reluctant to disclose property information to other brokers because they want to maximize their earnings by representing both the seller and the buyer and receiving commissions from both sides. However, when a broker signs a contract with a property owner and agrees to find a buyer for the property, the broker is required by the Building Lots and Buildings Transactions Business Act to disclose information on the property. This information is disclosed through the Real Estate Information Network System, which is accessible to other brokers. These brokers then may come forward with their own buy offers, depriving the first broker of a chance to earn commissions from the buyer of its own. Shared Research understands that the broker would be able to avoid sharing the information if a buyer is found before the five-day period ends. Then, the broker would be able to earn commissions from both the seller and the buyer. That means a buyer who can make a quick purchase decision is an important customer for brokers. Such a buyer would receive property information before anyone else does.

Brokers are also eager to introduce properties to Star Mica because of its ability to raise funds. That is why the company receives property information more quickly than other potential buyers.

## Barriers to entry

When it comes to acquiring single units and renovating pre-owned condominiums, Shared Research believes that new market entrants will face difficulty competing with Star Mica, which makes diversified investments based on statistical analysis and its own history of transactions. The company has the financial resources to acquire a large number of pre-owned condominiums. It also has knowledge on apartment renovation and expertise in handling a variety of tasks associated with this business.

As it is unknown when tenants will leave, it is impossible to tell when revenue from the sale of an individual pre-owned condominium that is being rented will come in. Further, there is no way to tell whether or not there are flaws with the property before purchase, because purchasers cannot see inside the property (given that someone lives there). Thus, new market entrants with no track record of purchasing pre-owned condominiums that are being rented are unlikely to purchase these types of properties thanks to uncertainty over their liquidity and the condition of the interior. Also, buyers with small portfolios are exposed to the pros and cons of individual properties. Star Mica purchases a large number of pre-owned condominiums to spread this risk. Some individual properties could be problematic. However, profits from these properties

tend to converge at a statistical mean. When taken as a whole, these apartments generate a certain level of income for the company. As a result, the buying and selling of pre-owned condominiums that are being rented can be a viable business.

## Product, service lineup

The company is seeking to improve the value of its pre-owned condominiums through renovation. The company, for example, offers condominiums that have been renovated from the standpoint of women and condominiums that come with recycled furniture to respond to the diverse needs of consumers. In June 2017, the company began to offer Jibun Reno, a renovation service that lets customers select a renovation plan of their choice.

### Condominiums renovated from women's perspective, with recycled furniture

The company created Shiawase Renove Kenkyujo, a product planning organization made up mostly of female employees, to renovate condominiums from women's perspective. The goal is to create condominiums with plenty of space to provide comfort and ease of living for women.

### Example of renovation by Shiawase Renove Kenkyujo



Source: Shared Research based on company data

### Jibun Reno, a self-renovation service

Star Mica in June 2017 began to offer Jibun Reno, a renovation service that allows customers to choose a renovation plan of their choice. Jibun Reno introduces properties to customers, provides flat-rate renovation plans, virtual-reality experiences, and concierge services to those who want to buy pre-owned condominiums and renovate them their own way. Shared Research believes that Jibun Reno will allow the company to expand its product lineup even further.

Star Mica provides the following services:

- ▶ Introduction of properties that are unavailable elsewhere: The company can introduce customers to properties that have just been renovated or those from which renters have just vacated.
- ▶ Flat-rate renovation plan/virtual reality experiences: The company allows customers to create layout plans and equipment installation plans at fixed costs. Customers can also have virtual reality experiences based on drawings of room layout and interior colors.
- ▶ Concierge service: Dedicated staff members help customers with various tasks associated with purchasing a property (such as taking out a loan, buying insurance, and relocation).

## Other initiatives

### Provision of condominium leasebacks

One measure aimed at increasing its inventory of properties held for sale was the December 2017 launch of a condominium leaseback service (name changed from "no-worries" leaseback in 2021). As a rule, the company buys condominium units that are occupied at the time of the purchase. The new leaseback service buys condominiums from owners who are living in the unit they want to sell. Following the sale, the former owner can remain in the unit as a tenant and pay rent to Star Mica. The new leaseback service is designed to help people cash out the value of their property for whatever reason. The reasons vary;



for some it is inheritance-related issues, others might want to liquidate assets to cash for financing business interests or other purposes. As of July 2022, the company had a total of 300 lease contracts.

### **Provision of Rent Clip loan guarantee service**

To help increase property sales, in January 2018 the company launched its new “Rent Clip” service. Rent Clip offers pre-owned condominium buyers the option of renting out their property to Star Mica in the future. By applying for Rent Clip and paying a fee, pre-owned condominium buyers can at any point during the specified period exercise their option to rent out their unit to Star Mica at the rate specified when the contract was signed. This arrangement allows potential condominium buyers to make a purchase even if there is a chance they may have to move due to changes in family situation, their work, or other circumstances.

### **“SELEC” business alliance with Tsukuruba Inc. (TSE Growth: 2978)**

Company subsidiaries Star Mica Co., Ltd. and Star Mica Residence Co., Ltd. concluded a business alliance agreement with Tsukuruba concerning the sale of renovated condominiums in December 2019. In May 2020, these subsidiaries launched provision of “SELEC,” which enables buyers to select renovation design patterns using Tsukuruba’s *cowcamo*, the largest collection of media-based services specializing in renovated properties in Japan. The average time from sale to contract for properties listed on “SELEC” is about two months, approximately half the average time required to sell a pre-owned condominium in Tokyo. In May 2021, the company and Tsukuruba announced the goal of selling around 50 units per year through “SELEC.”

Tsukuruba will utilize the market data of *cowcamo*’s more than 300,000 registered users (as of October 2021) to develop design patterns based on consumer preferences. Purchasers of (pre-renovated) Star Mica properties for sale are then able to select their favorite renovation designs from multiple patterns. In the medium to long term, the company will consider making this sales scheme available to outside contractors to promote the spread of renovated condominiums in the real estate industry.

### **Initiatives with Connehito Inc. (subsidiary of KDDI Corporation [TSE Prime: 9433])**

In January 2019, the company reached a basic agreement with Connehito Inc., which operates an information app for women, “Mamari,” regarding joint development and provision of an online community dedicated to providing housing-related information. Mamari is an information app for pregnant women and women with children two years of age or younger. As of January 2020, one out of three women who gave birth in 2018 was reported to be using it. The user base, composed overwhelmingly of pregnant women, those who have recently given birth, or those who are raising young children, happens to overlap with the demographic of people who are purchasing a home for the first time. By collaborating with Connehito, the company aims to target this user base and allay their concerns about purchasing a home to promote the option of purchasing a renovated condominium. The collaboration will consist of Connehito adding a “Residence” category to the Mamari app and Star Mica responding to questions and concerns from users over housing and renovations from a specialist perspective.

## **Renovated Condominium business: breakdown of sales and gross profit**

Star Mica breaks down sales and gross profit from the Renovated Condominium business into two subsegments: Renovated condominium (rental) and Renovated condominium (sale).

## Breakdown of Renovated condominium rental and sale businesses

(JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
<b>Sales</b>	<b>12,253</b>	<b>15,497</b>	<b>16,983</b>	<b>17,869</b>	<b>22,143</b>	<b>28,861</b>	<b>38,858</b>	<b>36,006</b>	<b>47,449</b>	<b>48,155</b>
YoY	-1.3%	26.5%	9.6%	5.2%	23.9%	30.3%	34.6%	-7.3%	31.8%	1.5%
<b>Rental</b>	<b>2,120</b>	<b>2,363</b>	<b>2,530</b>	<b>2,687</b>	<b>3,106</b>	<b>3,629</b>	<b>4,058</b>	<b>3,891</b>	<b>3,996</b>	<b>4,188</b>
YoY	14.6%	11.5%	7.1%	6.2%	15.6%	16.8%	11.8%	-4.1%	2.7%	4.8%
% of sales	15.3%	12.2%	12.1%	11.6%	10.3%	11.3%	10.3%	10.5%	8.3%	8.6%
<b>Sale</b>	<b>10,130</b>	<b>13,134</b>	<b>14,452</b>	<b>15,182</b>	<b>19,037</b>	<b>25,232</b>	<b>34,800</b>	<b>32,115</b>	<b>43,453</b>	<b>43,967</b>
YoY	-4.0%	29.7%	10.0%	5.0%	25.4%	32.5%	37.9%	-7.7%	35.3%	1.2%
% of sales	72.9%	67.9%	68.9%	65.8%	62.9%	78.4%	88.0%	87.0%	90.1%	90.0%
<b>Gross profit</b>	<b>2,930</b>	<b>3,620</b>	<b>3,850</b>	<b>4,150</b>	<b>4,570</b>	<b>5,300</b>	<b>5,560</b>	<b>6,860</b>	<b>9,210</b>	<b>7,940</b>
YoY	6.0%	23.5%	6.4%	7.8%	10.1%	16.0%	4.9%	23.4%	34.3%	-13.8%
Gross profit margin	23.9%	23.4%	22.7%	23.3%	20.7%	18.4%	14.3%	19.1%	19.4%	16.5%
<b>Rental</b>	<b>1,550</b>	<b>1,719</b>	<b>1,797</b>	<b>1,873</b>	<b>2,069</b>	<b>2,323</b>	<b>2,516</b>	<b>2,412</b>	<b>2,397</b>	<b>2,337</b>
YoY	14.1%	10.9%	4.5%	4.2%	10.5%	12.3%	8.3%	-4.1%	-0.6%	-2.5%
Gross profit margin	73.1%	72.7%	71.0%	69.7%	66.6%	64.0%	62.0%	62.0%	60.0%	55.8%
% of gross profit	43.9%	37.4%	32.6%	30.4%	29.9%	36.9%	42.1%	32.4%	24.6%	27.7%
<b>Sale</b>	<b>1,380</b>	<b>1,947</b>	<b>2,204</b>	<b>2,338</b>	<b>2,570</b>	<b>3,078</b>	<b>3,550</b>	<b>4,528</b>	<b>6,866</b>	<b>5,804</b>
YoY	-3.8%	41.1%	13.2%	6.1%	9.9%	19.8%	15.3%	27.6%	51.6%	-15.5%
Gross profit margin	13.6%	14.8%	15.3%	15.4%	13.5%	12.2%	10.2%	14.1%	15.8%	13.2%
% of gross profit	39.1%	42.3%	39.9%	38.0%	37.1%	48.9%	59.4%	60.8%	70.3%	68.9%
Loss on valuation	-10	-40	-144	-48	-67	-110	-504	-81	-48	-211
<b>SG&amp;A expenses</b>	<b>1,147</b>	<b>1,430</b>	<b>1,609</b>	<b>1,920</b>	<b>2,291</b>	<b>2,060</b>	<b>2,240</b>	<b>2,609</b>	<b>3,228</b>	<b>3,075</b>
YoY	24.8%	24.7%	12.5%	19.4%	19.3%	-10.1%	8.8%	16.5%	23.7%	-4.7%
SG&A ratio	9.4%	9.2%	9.5%	10.7%	10.3%	7.1%	5.8%	7.2%	6.8%	6.4%
<b>Operating profit</b>	<b>1,783</b>	<b>2,190</b>	<b>2,241</b>	<b>2,230</b>	<b>2,279</b>	<b>3,240</b>	<b>3,320</b>	<b>4,251</b>	<b>5,982</b>	<b>4,865</b>
YoY	-3.4%	22.8%	2.4%	-0.5%	2.2%	42.2%	2.5%	28.1%	40.7%	-18.7%
Operating profit margin	14.5%	14.1%	13.2%	12.5%	10.3%	11.2%	8.5%	11.8%	12.6%	10.1%

Source: Shared Research based on company data

Figures may differ from company data due to differences in rounding methods.

SG&A expenses are the difference between Renovated Condominium business gross profit and operating profit (segment profit).

## Renovated Condominium (rental) business

When purchasing a property under lease (an owner-change property), the company takes over the existing leasing agreement with the tenant, who continues to live in the apartment and pay rent.

According to Star Mica, the average tenant stays for about two and a half to three years after the company makes a purchase. The company held 3,798 units as of end-FY11/23 (five-year CAGR of 7.7%).

## Renovated condominium (rental) business

	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
<b>Sales (JPYmn)</b>	<b>2,120</b>	<b>2,363</b>	<b>2,530</b>	<b>2,687</b>	<b>3,106</b>	<b>3,629</b>	<b>4,058</b>	<b>3,891</b>	<b>3,996</b>	<b>4,188</b>
YoY	14.6%	11.5%	7.1%	6.2%	15.6%	16.8%	11.8%	-4.1%	2.7%	4.8%
<b>Gross profit (JPYmn)</b>	<b>1,550</b>	<b>1,719</b>	<b>1,797</b>	<b>1,873</b>	<b>2,069</b>	<b>2,323</b>	<b>2,516</b>	<b>2,412</b>	<b>2,397</b>	<b>2,337</b>
YoY	14.1%	10.9%	4.5%	4.2%	10.5%	12.3%	8.3%	-4.1%	-0.6%	-2.5%
Gross profit margin	73.1%	72.7%	71.0%	69.7%	66.6%	64.0%	62.0%	62.0%	60.0%	55.8%
<b>Real estate for sale (JPYmn)</b>	<b>31,170</b>	<b>36,890</b>	<b>39,221</b>	<b>44,808</b>	<b>56,261</b>	<b>68,978</b>	<b>66,541</b>	<b>74,309</b>	<b>83,138</b>	<b>86,584</b>
YoY	15.5%	18.4%	6.3%	14.2%	25.6%	22.6%	-3.5%	11.7%	11.9%	4.1%
<b>Real estate for sale per unit (JPY'000)</b>					<b>20,692</b>	<b>20,384</b>	<b>19,994</b>	<b>20,914</b>	<b>21,890</b>	<b>21,987</b>
<b>Number of properties held (units)</b>					<b>2,719</b>	<b>3,384</b>	<b>3,328</b>	<b>3,553</b>	<b>3,798</b>	<b>3,938</b>
YoY					-	24.5%	-1.7%	6.8%	6.9%	3.7%

Source: Shared Research based on company data

Notes: Real estate for sale includes not only rental properties, but also sales inventory (properties undergoing renovation and properties for sale).

Real estate for sale per unit is calculated as real estate for sale / number of properties held

The company has disclosed the number of properties held since FY11/18. Note that the number of properties held includes vacant properties in addition to rental properties.

## Sales and costs

The segment's sales (rental income) can be calculated by multiplying the average rent payment by the number of rental condominium units it owns. Thus, the inventory of pre-owned condominiums (for sale) determines this segment's sales and profits. It is our understanding that there is not much change in the rents for residential properties and that any changes in rental rates have only a modest impact on the company's total rental income. As of end-FY11/23, the company's real estate for sale amounted to JPY86.6bn, representing a 53.9% increase over the past five years and a 9.0% CAGR. Of this, properties under rental contract amounted to approximately JPY68.3bn.

Costs in the Renovated Condominium (rental) business include property maintenance fees, payments for reserve funds for building repairs, taxes on fixed assets, and rental property management fees. GPM was 55.8% in FY11/23. The GPM for this business has been on the decline since FY11/14 owing to the following factors.

- ▶ First, as the company expands its nationwide presence, the proportion of its properties in lower-margin regional cities has increased. Rental income tends to be lower in regional cities than in Tokyo, but fixed costs such as management fees and maintenance reserves are similar. This results in a tendency for GPMs to be lower in regional cities.

- ▶ Second, since FY11/18, the company has begun purchasing vacant properties more aggressively, leading to an increase in the proportion of vacant properties held. Vacant properties do not generate rental income, yet incur expenses such as management fees (cost of sales), which means they tend to have lower GPMs.
- ▶ Third, starting from FY11/23, the company underwent a change in accounting standard and began depreciating properties held over the long term. The inclusion of depreciation expenses resulted in a decrease in the GPM by approximately 3pp in FY11/23. Properties subject to depreciation are reassessed on an annual basis. Shared Research understands that an increase in the proportion of properties held over the long term will lead to a further decline in the GPM.

## Renovated Condominium (sale)

In the Renovated Condominium (sale) business, the company renovates and sells pre-owned condominiums it owns after tenants move out. The company sold 1,270 units in FY11/23.

## Renovated condominium (sale) business

	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales (JPYmn)	10,130	13,134	14,452	15,182	19,037	25,232	34,800	32,115	43,453	43,967
YoY	-4.0%	29.7%	10.0%	5.0%	25.4%	32.5%	37.9%	-7.7%	35.3%	1.2%
Gross profit (JPYmn)	1,380	1,947	2,204	2,338	2,570	3,078	3,550	4,528	6,866	5,804
YoY	-3.8%	41.1%	13.2%	6.1%	9.9%	19.8%	15.3%	27.6%	51.6%	-15.5%
Gross profit margin	13.6%	14.8%	15.3%	15.4%	13.5%	12.2%	10.2%	14.1%	15.8%	13.2%
Average sales price (JPY'000)	30,400	29,980	31,830	30,770	30,710	29,470	30,000	30,000	31,149	34,620
Number of properties sold (units)	333	438	454	493	620	886	1,236	1,100	1,395	1,270
<b>Real estate for sale(JPYmn)</b>	<b>FY11/14</b>	<b>FY11/15</b>	<b>FY11/16</b>	<b>FY11/17</b>	<b>FY11/18</b>	<b>FY11/19</b>	<b>FY11/20</b>	<b>FY11/21</b>	<b>FY11/22</b>	<b>FY11/23</b>
Inventory of real estate for sale	31,170	36,890	39,221	44,808	56,261	68,978	66,541	74,309	83,138	86,584
Unrealized gains on property for sale	7,800	9,800	11,300	12,300	14,300	16,900	15,000	20,700	25,400	25,800
Average acquisition price (JPY'000)	18,969	19,378	20,049	20,313	19,902	19,544	19,401	20,168	21,094	-
Real estate for sale per unit(JPY'000)					20,692	20,384	19,994	20,914	21,890	21,987
Number of properties held (units)					2,719	3,384	3,328	3,553	3,798	3,938
Properties sold / Properties held (average)						0.29	0.37	0.32	0.38	0.33
Average years held						3.4	2.7	3.1	2.6	3.0

Source: Shared Research based on company data

Note: Average sales prices are figures announced by the company until FY/21. FY11/22 Renovated Condominium (sales) = sales / number of properties sold.

Until FY11/18, number of properties sold = Renovated Condominium (sales) sales / average sales price. Figures for FY11/19 onward are the company's published figures.

Average years held = Total properties (average of beginning of the year and year-end) / Properties sold

## Sales and costs

The company's sales from the Renovated Condominium (sale) business can be calculated by multiplying the sale price per unit by the number of apartments sold. The average tenant continues to stay for two and a half to three years, meaning that the company sells between 30% and 40% of the apartments it owns each year. The company sells a certain number of its condominiums on a regular basis, and therefore the inventory of condominiums for sale (real estate for sale on the balance sheet) determines the company's sales and profits.

The sale price is influenced by price movements in the pre-owned condominium market but, as previously mentioned, the impact of these movements is minimal.

Major costs include the initial purchase price, brokerage commissions, taxes, and renovation expenses. The GPM for this business is about 10–15%.

## Owner-change properties and vacant properties

From FY11/18 on, the company has focused on buying and selling vacant units to expand earning opportunities. It intends to keep vacant units at about 40–50% of purchased units and about 60–70% of units sold (these figures were 52% and approx. 60%, respectively, in FY11/23).

The period from purchase to sale is approximately one year for vacant units (versus three and a half to four years for units under lease). There is a lot more competition to purchase vacant properties than owner-change properties, since the latter has limited potential buyers owing to the inability of buyers to inspect the condition of the unit prior to buying or to immediately resell the property after acquisition. These differences in acquisition environments lead to variations in the profit margins. At the time of acquisition, the company expects a GPM of 14–16% (FY11/23 actual: 18.0%) for owner-change properties and 8–10% (7.6%) for vacant properties.

	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
Purchased owner-change properties(Units)	960	720	680	840	680
YoY	-	-25.0%	-5.6%	23.5%	-19.0%
<b>% of sales</b>	<b>62.0%</b>	<b>61.0%</b>	<b>51.0%</b>	<b>51.0%</b>	<b>48.0%</b>
Purchased vacant properties(Units)	590	460	650	800	730
YoY	-	-22.0%	41.3%	23.1%	-8.8%
<b>% of sales</b>	<b>38.0%</b>	<b>39.0%</b>	<b>49.0%</b>	<b>49.0%</b>	<b>52.0%</b>
Units purchased(Units)	1,551	1,180	1,325	1,640	1,410
YoY	-	-23.9%	12.3%	23.8%	-14.0%

Source: Shared Research based on company data

Note: Number of purchased owner-change properties and vacant properties are Shared Research estimates based on the company's disclosed composition ratio.

## GPM trends

- ▶ From FY11/18 onward, GPM trended downward as the company stepped up sales of vacant condominiums with relatively low gross profit margins, as noted above.
- ▶ In FY11/20, as COVID-19 continued to spread and uncertainty clouded market trends, the company reduced the prices of some of its properties to secure cash reserves, driving GPM downward.
- ▶ In FY11/21 and FY11/22, GPM exceeded that of FY11/19, prior to the advent of the COVID-19 pandemic. The GPM increased thanks to the tailwind from overheating in the real estate market.
- ▶ In FY11/23, the real estate market showed signs of cooling down, and the sales environment was gradually returning to normal. As a result, the GPM decreased compared to FY11/21 and FY11/22. In particular, the GPM of vacant properties with relatively shorter periods between purchase and sale fell.

## SG&A expenses in the Renovated Condominium business

The Renovated Condominium business is mainly handled by subsidiary Star Mica Co., Ltd. The segment's SG&A expenses are close to those of the company as a whole. The company became a holding company in FY11/19, but prior to that had disclosed SG&A expenses for the parent company. Before FY11/18, Star Mica's expenses were mainly comprised of fixed costs, such as personnel and office expenses.

## Trends in Renovated Condominium business segment and parent company SG&A expenses

SG&A expenses (JPYmn)	FY11/11	FY11/12	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
SG&A expenses (Renovated Condominium)	755	796	919	1,147	1,430	1,609	1,920	2,291
SG&A ratio	6.4%	6.8%	7.4%	9.4%	9.2%	9.5%	10.7%	10.3%
SG&A expenses (Parent)	979	1,001	1,128	1,366	1,799	1,908	2,239	2,762
SG&A ratio	7.8%	8.0%	8.5%	10.1%	9.5%	9.3%	9.9%	9.3%
Diff. vs. SG&A (Renovated Condominium)	224	205	209	219	369	299	319	472
Personnel expenses	395	440	459	534	658	768	840	986
% of SG&A expenses	40.4%	43.9%	40.7%	39.1%	36.6%	40.3%	37.5%	35.7%
Dues and taxes	294	288	360	484	697	618	796	1,015
% of SG&A expenses	30.1%	28.8%	31.9%	35.4%	38.7%	32.4%	35.6%	36.8%
Other	290	273	309	348	445	522	603	761
% of SG&A expenses	29.6%	27.3%	27.4%	25.5%	24.7%	27.3%	27.0%	27.5%
Number of employees	43	40	43	50	55	70	101	133
Personnel expenses per employee (JPYmn)	9.2	11.0	10.7	10.7	12.0	11.0	8.3	7.4

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Investment business

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

- ▶ The company acquired tangible fixed assets from FY11/12 to FY11/14. The value of the company's tangible fixed assets rose from JPY2.8bn in FY11/11 to JPY10.1bn in FY11/14.
- ▶ Star Mica took advantage of rising prices in the real estate market from FY11/15, using the strength in the market as an opportunity to sell off its tangible fixed assets and record earnings from the sale.
- ▶ In 1H FY11/19, the company finished selling off its tangible fixed assets, and held only JPY49mn in tangible fixed assets at end-FY11/19. From FY11/20, the company plans to carefully watch market trends and find an appropriate time to resume investment in income-generating real estate.

- ▶ From FY11/20 to FY11/22, the company continued to consider new projects but did not make any investments in income-generating properties.
- ▶ In Q4 FY11/23, the company resumed investing in income-generating properties and recorded rental income.

## Investment business results

Investment (JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	1,200	3,420	3,547	4,767	7,435	2,412	-	20	-	6
YoY	57.3%	185.0%	3.7%	34.4%	56.0%	-67.6%	-	-	-	-
Operating profit	79	298	1,056	1,467	1,782	496	-7	14	-7	-24
YoY	65.1%	275.7%	255.1%	38.9%	21.5%	-72.2%	-	-	-	-
Operating profit margin	6.6%	8.7%	29.8%	30.8%	24.0%	20.6%	-	68.4%	-	-
Tangible fixed assets	10,145	9,068	8,005	6,366	1,781	49	44	39	61	49
YoY	25.7%	-10.6%	-11.7%	-20.5%	-72.0%	-97.2%	-11.9%	-11.4%	59.1%	-20.0%

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Advisory Services business (1.6% of sales and 10.5% of operating profit in FY11/22)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

Star Mica Asset Management Co., Ltd., SMAiT Co., Ltd., and Star Mica Asset Partners Co., Ltd. (all consolidated subsidiaries) develop businesses targeting wealthy individuals and investors.

In this business, the company handles both properties sold by its group and properties owned by external investors. The commission earned from properties owned by external investors is included in sale to external customers. For properties sold by the group, the commission from the seller (the group) is included in internal sales, and the commission from the buyer is included in sales to external customers.

### SMAiT Co., Ltd.

SMAiT became a wholly owned subsidiary in December 2016. The company provides to property management services to property owners, incorporating elements of asset management. Specifically, it offers the following services:

- ▶ Support for investment property selection and purchases: present income properties already owned by real estate owners, after analyzing location and risk.
- ▶ Draw up operating plans for owned properties: prepare operating plans for individual properties or entire portfolio of properties, and manage budgets.
- ▶ Value enhancement support: carry out renovation and repair work.
- ▶ Exit strategy and sale support: help owners determine the timing of a sale, taking into account the owner's circumstances and the investment environment. Sales activities are carried out using Star Mica's sales resources.

## Advisory Services business results

Advisory Services (JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales (including intersegment sales)	791	832	911	868	1,107	1,290	1,118	1,216	1,264	1,224
YoY	14.0%	5.2%	9.4%	-4.7%	27.5%	16.5%	-13.3%	8.8%	3.9%	-3.2%
Sales (Revenue from external customers)	448	416	444	440	704	891	710	871	763	716
YoY	21.2%	-7.2%	6.7%	-1.0%	60.0%	26.6%	-20.3%	22.7%	-12.4%	-6.1%
Operating profit	435	385	442	372	370	496	503	591	704	620
YoY	47.5%	-11.5%	14.8%	-15.8%	-0.5%	33.9%	1.5%	17.5%	19.0%	-11.8%
Operating profit margin	97.1%	92.6%	99.5%	84.7%	52.6%	55.7%	70.9%	67.9%	92.2%	86.6%

Source: Created by SR company from company data

\* Figures may differ from company materials due to differences in rounding methods.

\* Operating profit margin is calculated as operating profit as a percentage of revenue from external customers

# Market and value chain

## Market overview

People in their 30s and 40s comprise 70–80% of homebuyers in Japan. The percentage of pre-owned homes on the Japanese housing market is lower than that in the West. However, the number of such properties has been gradually rising, likely because people are generally less determined to buy new homes now than in the past and have greater awareness of renovated condominiums.

Pre-owned condominiums, the company's main area of operations, may have more quality risks than newly built properties. The period of warranty against defects is shorter, and tax breaks are not as generous. Still, pre-owned condominiums in the Greater Tokyo Area are 30–40% cheaper than newly built properties, and the changing attitude toward pre-owned homes is driving the market expansion.

The government's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) plans to take steps to promote pre-owned houses, and is working to make more information available for homebuyers, adopt measures to ensure quality, and bolster liability insurance for home builders.

In the medium to long term, Japan is expected to experience a decline in population and households due to the aging population and low birth rate. According to the national census and the National Institute of Population and Social Security Research, Japan's population is projected to decrease by 12.3% versus 2020, and the number of households is projected to decrease by 8.9% over the same period. However, in the company's main areas of operation, which include the urban centers of Tokyo's 23 wards, Yokohama, Saitama, Osaka, Kobe, Sapporo, Sendai, Nagoya, and Fukuoka, it is expected that the population will only decrease 3.7% in 2040 versus 2020 and the number of households will remain relatively stable with only a slight decrease of 0.5% over the same period.

## Homebuyers in Japan

### 60–80% of homebuyers are in their 30s and 40s

People in their 30s and 40s represent the largest group and account for 60–80% of first-time homebuyers for custom-built houses, built-for-sale houses, and pre-owned properties, according to the FY2022 housing market research report released by the Ministry of Land, Infrastructure, Transport and Tourism.

- ▶ Those in their 30s accounted for 45.1% of all buyers of custom-built houses (46.5% in the FY2022 housing market research report), 50.4% of buyers of built-for-sale houses (50.0%), 45.2% of buyers of condominiums for sale (50.5%), 32.7% of buyers of pre-owned houses (27.8%), and 32.1% of buyers of pre-owned condominiums (31.7%).
- ▶ Those in their 40s accounted for 21.6% (23.3%) of all buyers of custom-built houses, 25.2% (26.6%) of built-for-sale houses, 28.1% (30.0%) of condominiums for sale, 32.7% (31.7%) of pre-owned houses, and 32.1% (38.8%) of pre-owned condominiums.

### Pre-owned housing is 30–40% cheaper than new housing

According to the FY2022 MLIT report, the average amount needed to buy a custom-built home (new home on purchased land) was JPY54.4mn (versus JPY51.1mn in the FY2021 housing market research report), for built-for-sale detached houses the average was JPY42.1mn (versus JPY42.5mn), for condominiums it was JPY52.8mn (versus JPY49.3mn), for pre-owned detached houses it was JPY33.4mn (versus JPY29.6mn), and for pre-owned condominiums, it was JPY29.4mn (versus JPY29.9mn). In short, pre-owned housing (detached houses and condominiums) runs between 30% and 40% of the cost of new housing.

### Top reason buyers select pre-owned condominiums: good home location/environment and suitable prices

Location was a factor ("home was in a good location") for 66.2% of those who purchased pre-owned condominiums (54.8%), and price was a factor ("price was right") for 64.4% of those who purchased pre-owned condominiums (versus 67.1% in the FY2020 housing market research report). The next most cited factors were "because it was a condominium," "good home design/size/fixtures," and "have lived in the area for a long time."



62.4% (57.6%) of the households that acquired a pre-owned detached house did so “because it was a detached home,” 57.9% (61.7%) “because the price was appropriate,” and 46.9% (46.9%) “because the location and environment of the house were good.”

On the other hand, people who bought newly built homes said they did so because new buildings provide greater satisfaction, they were concerned about earthquake resistance and insulation, they were afraid renovation costs of pre-owned properties might mean an inaccurate representation of value for money, and they were afraid of possible defects in pre-owned homes. Even though pre-owned homes are cheaper, buyers may choose newly built homes on concerns about possible defects.

That said, various studies have demonstrated that people are becoming less determined to purchase newly built homes. In particular, the percentage of younger people who would consider buying pre-owned homes is increasing.

### Pre-owned homes are also being considered as an option by about 50% of prospective home buyers

According to a survey on attitudes toward home-buying conducted by the National Federation of Real Estate Transaction Associations (Zentakuren) and the National Association for Real Estate Transactions Guaranty (involving 23,091 people, conducted in 2022), regarding hesitation toward pre-owned homes, 13.7% of people said they had “no hesitation at all,” 35.8% said they had “no hesitation as long as the house is clean,” 32.3% said they will “make a decision based on the price and condition of the house,” and 18.1% said they “have resistance regardless of the condition of the house.”

## Market for pre-owned homes

According to the Ministry of Land, Infrastructure, Transport and Tourism, pre-owned homes comprised some 16.0% of all houses that were being sold nationwide in 2018, compared with 81.0% in the US, 85.9% in the UK, and 69.8% in France.

### Trends in sales of pre-owned homes

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales of existing homes (0'000)	16.5	16.7	15.5	16.9	15.6	15.4	15.8	14.8	16.0
New housing starts (0'000)	81.3	83.4	88.3	98.0	89.2	90.9	96.7	96.5	94.2
Total (0,000)	97.8	100.1	103.8	114.9	104.8	106.3	112.5	111.3	110.2
Sales of existing homes / Total	16.9%	16.7%	14.9%	14.7%	14.9%	14.5%	14.0%	13.3%	14.5%

Source: “Housing and Land Survey,” Ministry of Internal Affairs and Communications; Ministry of Land, Infrastructure, Transport and Tourism housing start statistics

Japan offers a tax break to people who build or purchase a home, or construct an addition to their existing home. Under the system, homeowners are allowed to deduct 1% of their outstanding housing loans from their income for 10 years if the acquisition takes place by December 2021. This tax break is also applied to pre-owned detached homes built within 20 years of purchase, pre-owned condominiums built within 25 years of purchase, and properties meeting certain earthquake-resistance standards. The number of qualified homes increased under the government’s tax reforms of April 2014, which proposed that the tax break be applied to properties that are even older provided they are reinforced for earthquake resistance.

## Homebuyers’ income and savings

Looking at trends in income, savings, and liabilities based on the “Family Income and Expenditure Survey (Savings and Liabilities)” released by the Ministry of Internal Affairs and Communications, the annual income fell from 2002 to 2012. However, this figure has been on an uptrend since 2013.

That said, data on the difference between savings and debt shows net debt rising. Land and housing accounts for 90% of consumer debt. Shared Research believes that measures to promote home buying (e.g., tax breaks on home loans) and lower interest rates have contributed to a trend of increasing reliance on loans to buy homes.

### Working families’ annual income by age group (JPYmn)

(JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Age 30–39	5.89	6.01	6.18	6.31	6.09	6.30	6.48	6.74	6.66	6.96
YoY	3.5%	2.0%	2.8%	2.1%	-3.5%	3.4%	2.9%	4.0%	-1.2%	4.5%
Age 40–49	7.52	7.27	7.44	7.36	7.65	7.54	7.68	7.81	7.59	7.93
YoY	4.9%	-3.3%	2.3%	-1.1%	3.9%	-1.4%	1.9%	1.7%	-2.8%	4.5%

Source: Shared Research based on “Family Income and Expenditure Survey (Savings and Liabilities),” Ministry of Internal Affairs and Communications.

## Working families' savings and liabilities by age group (JPYmn)

Savings(JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Age 30-39	6.14	6.01	6.70	6.13	6.34	6.28	7.21	7.50	7.72	8.64
YoY	7.9%	-2.1%	11.5%	-8.5%	3.4%	-0.9%	14.8%	4.0%	2.9%	11.9%
Age 40-49	10.33	10.35	10.26	10.40	10.74	9.83	10.57	10.71	11.34	11.56
YoY	4.6%	0.2%	-0.9%	1.4%	3.3%	-8.5%	7.5%	1.3%	5.9%	1.9%
Liabilities(JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Age 30-39	10.16	9.99	10.46	12.33	12.32	13.63	14.17	13.37	14.64	15.75
YoY	9.4%	-1.7%	4.7%	17.9%	-0.1%	10.6%	4.0%	-5.6%	9.5%	7.6%
, for housing and land	9.67	9.58	10.04	11.79	11.66	12.97	13.65	12.66	13.87	14.96
YoY	9.0%	-0.9%	4.8%	17.4%	-1.1%	11.2%	5.2%	-7.3%	9.6%	7.9%
% of liabilities	95.2%	95.9%	96.0%	95.6%	94.6%	95.2%	96.3%	94.7%	94.7%	95.0%
Age 40-49	10.11	10.48	10.84	10.43	10.79	10.92	11.20	12.00	11.79	12.46
YoY	0.9%	3.7%	3.4%	-3.8%	3.5%	1.2%	2.6%	7.1%	-1.8%	5.7%
, for housing and land	9.58	9.94	10.22	9.72	10.19	10.25	10.53	11.32	10.92	11.75
YoY	1.2%	3.8%	2.8%	-4.9%	4.8%	0.6%	2.7%	7.5%	-3.5%	7.6%
% of liabilities	94.8%	94.8%	94.3%	93.2%	94.4%	93.9%	94.0%	94.3%	92.6%	94.3%
Difference between savings and liabilities(JPYmn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Age 30-39	-4.02	-3.98	-3.76	-6.20	-5.98	-7.35	-6.96	-5.87	-6.92	-7.11
Age 40-49	0.22	-0.13	-0.58	-0.03	-0.05	-1.09	-0.63	-1.29	-0.45	-0.90

Source: Shared Research based on "Family Income and Expenditure Survey (Savings and Liabilities)," Ministry of Internal Affairs and Communications

## Measures to stimulate the market for pre-owned homes

Efforts to promote pre-owned homes have been undertaken by the Ministry of Land, Infrastructure, Transport and Tourism since 2012. In February of that year, the ministry created a study panel on the pre-owned houses and renovation market to consider specific methods to help expand the industry.

The panel in March 2012 released a "total plan" for the pre-owned home and renovation markets, and called for the promotion of building inspections and guarantees and the widespread use of property ownership records.

The ministry in March 2013 created a study panel to discuss the promotion of pre-owned homes, and presented a timetable that called for an increase in the number of such properties on the market to 25% of the total by 2020. The panel released a report in June 2013 after interviewing a variety of people, including officials of appraisal companies, banks, and real estate associations, as well as those engaged in the purchase and resale of pre-owned homes and those who provide renovation services. The report points out the need to properly assess the value of pre-owned homes, eliminate quality concerns, and overcome various other obstacles in the sale of such properties. It further lists what should be done during FY2013 and thereafter.

The Japan Revitalization Strategy adopted by the Cabinet in June 2013 calls for the establishment of methods to properly assess the value of pre-owned homes. The report also stated that guidelines should be established for inspections of existing homes and such inspections should be promoted through training sessions.

In response, the ministry in June 2013 compiled inspection guidelines for existing homes. The guidelines set forth instructions regarding inspection items, inspection methods, and how the overall service should be rendered.

The goal of the guidelines is to hold businesses to a higher standard so that the industry will be able to gain the trust of consumers and expand further. The widespread use of standardized inspection methods would allow consumers to assess the quality and conditions of properties. That would allay concerns about possible defects, which are among the hindrances to an expansion of the market for pre-owned homes.

The revised Real Estate Brokerage Act that went into effect in April 2018 mandates that real estate brokers inform potential buyers about whether the property in question has been inspected, and to explain the results of the inspection if one has in fact been conducted.

## Reduced real estate registration and acquisition taxes

### Reduced registration tax on pre-owned houses as part of the fiscal 2014 tax reform

Tax incentives were also being implemented to help promote pre-owned homes. The Ministry of Land, Infrastructure, Transport and Tourism submitted proposals that either real estate acquisition or registration taxes be waived as part of the government's fiscal 2014 tax reform. Prior to the proposal, those that acquired and resold properties had to pay both acquisition and registration taxes. Under the proposal, one of the two taxes would be waived to promote the purchase and resale of pre-owned homes.



As a housing tax break for pre-owned homes that are newly acquired and then resold, the fiscal 2014 tax reforms lowered the registration tax rate (normal rate: 2.0%) on ownership transfers from the current reduced rate of 0.3% to 0.1% for homes that are resold after a qualifying renovation. The tax break runs from April 1, 2014 to March 31, 2022.

## Fiscal 2015 tax reform includes lower real estate acquisition tax on pre-owned houses

As part of the fiscal 2015 tax reform, the Ministry of Land, Infrastructure, Transport and Tourism proposed a special measure that would waive real estate acquisition tax on businesses that acquire and sell properties. The proposal was adopted in a modified form: companies that acquire pre-owned houses, renovate them, and sell them to individual homebuyers within two years have lower tax payments. The amount of deduction ranges from JPY1.0mn to JPY12mn depending on the age of the property. The application period was extended in subsequent tax reforms, and in the fiscal 2021 tax reform, the deadline was pushed back to March 31, 2024.

## Fiscal 2018 tax reforms lower real estate acquisition taxes to help improve liquidity of pre-owned housing

The FY2018 tax reform legislation package included amendments to previous measures that reduced real estate acquisition taxes paid by businesses that buy and resell real estate. The reduction in the acquisition tax was extended to the plot on which the residential property was built in cases where the existing residential property in question was covered by a warranty against defects or carried the "Anshin R Housing" certification. The reduction in the real estate acquisition tax would be the larger of either JPY45,000 or 3% of 50% of the value of the land per square meter times two times the area of the house. The application deadline was extended in subsequent tax reforms, and in the fiscal 2021 tax reform, the deadline was pushed back to March 31, 2024.

Warranty against defects of existing homes: An insurance scheme in which businesses that sell pre-owned residential properties can participate that guarantees the buyer of a pre-owned home against basic structural defects in the property. Upon purchasing the insurance, the pre-owned home will be inspected by an architect certified by the Association of Housing Warranty Insurers.

Anshin R Housing (a trade association registration system for businesses that provide information on specific types of existing residential properties): The "Anshin R Housing" designation, put into effect in April 2018, is a nationally recognized industry trademark indicating that the house carrying the designation has been built to withstand earthquakes and has been inspected by an architect certified by the Association of Housing Warranty Insurers; it is also used for existing homes where information is provided about remodeling and other work.

## Tax breaks on housing loans and gift tax exemption for pre-owned homes

The consumption tax was raised to 8% in April 2014 from 5%. As a means of preventing a decline in demand for homes, both new and pre-owned, the government took steps to bolster income tax deductions for housing loans, while the Ministry of Land, Infrastructure, Transport and Tourism introduced "living benefits" (this program was discontinued in 2021). Due to the consumption tax increase from 8% to 10% in October 2019, the government extended the period for tax breaks on housing loans, adopted a next-generation housing point system, and expanded housing fund gift tax exemption limits (the next-generation housing point system was discontinued in 2020). The housing fund gift tax exemption was scheduled to expire at the end of 2021, but was extended to the end of 2023 in accordance with Japan Tax Reform Proposals issued in December 2022. The tax exemption limit was reduced from JPY15mn to JPY10mn, and the age requirement for existing houses was relaxed from "25 years for fireproof houses and 20 years for non-fireproof houses," to "houses built in 1982 or thereafter."

### Tax breaks on housing loans

Japan allows homebuyers to deduct a portion of housing loan payments from their taxable income. Under the current system, 0.7% of the balance of the loans can be deducted from the homeowners' income tax for 10 years in the case of pre-owned houses (the total amount of deductions per year is limited). When the homeowners' income tax does not cover this amount, a deduction may also be made from the local residential tax. Along with an increase in the consumption tax, the maximum amount of deduction was raised to JPY4mn (JPY400,000 times 10 years) from the current JPY2mn (JPY200,000 times 10 years).

## Gift tax exemption

The gift tax exemption of housing funds is a system under which a certain amount of money is exempt from gift tax when it is given as a gift from a direct ancestor, such as a grandparent or a parent, for new home construction or acquisition or for existing home expansion or renovation. It is applicable to houses built in 1982 or thereafter (housing compliant with new earthquake-proof standards). The maximum amount of tax exemption is JPY10mn in the case of earthquake-proof, energy-saving, or barrier-free housing.

# Comparison between newly built and pre-owned condominiums

## Pre-owned condominium advantages

One characteristic of pre-owned condominiums is that they are cheaper than newly built apartments. Prices are influenced by a variety of factors, such as location. Thus, it is not easy to make comparisons under the same criteria. One way to make a simple comparison is the use of price per square meter. The average per square meter price of pre-owned condominiums sold in the Greater Tokyo Area in 2022 was JPY672,000 (source: The Real Estate Information Network for East Japan). In the same year, the average per square meter price of newly built condominiums was JPY951,000 (source: Real Estate Economic Institute). In the same year, the price per square meter for pre-owned condominiums was about 70% of that for new condominiums, and has remained around 60–70% over the past 10 years.

## Sales of pre-owned condominiums in Greater Tokyo Area

Pre-owned condominiums	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Properties sold (units)	36,432	33,798	34,776	37,189	37,329	37,217	38,109	35,825	39,812	35,429
YoY	16.0%	-7.2%	2.9%	6.9%	0.4%	-0.3%	2.4%	-6.0%	11.1%	-11.0%
Price(JPY'000)	25,890	27,270	28,920	30,490	31,950	33,330	34,420	35,990	38,690	42,760
YoY	3.6%	5.3%	6.1%	5.4%	4.8%	4.3%	3.3%	4.6%	7.5%	10.5%
Price per sqm(JPY'000)	400	425	453	479	500	516	535	552	598	672
YoY	4.6%	6.4%	6.5%	5.9%	4.3%	3.2%	3.6%	3.2%	8.4%	12.4%
Building age (years)	19.3	19.6	20.1	20.3	20.7	21.0	21.6	22.0	22.7	23.3
Floor space (sqm)	64.8	64.2	63.9	63.6	63.9	64.6	64.4	65.2	64.7	63.6

Source: Shared Research based on Real Estate Information Network for East Japan data.

The Greater Tokyo Area here covers Tokyo Metropolis, Chiba Prefecture, Saitama Prefecture, and Kanagawa Prefecture

## New condominiums (Greater Tokyo)

New condominiums	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Properties supplied(Units)	56,478	44,913	40,449	35,772	35,898	37,132	31,238	27,228	33,636	29,569
YoY	23.8%	-20.5%	-9.9%	-11.6%	0.4%	3.4%	-15.9%	-12.8%	23.5%	-12.1%
Price(JPY'000)	49,290	50,600	55,180	54,900	59,080	58,710	59,800	60,840	62,600	62,880
YoY	8.6%	2.7%	9.1%	-0.5%	7.6%	-0.6%	1.9%	1.7%	2.9%	0.4%
Price per sqm(JPY'000)	697	711	779	793	859	869	879	926	936	951
YoY	8.1%	2.0%	9.6%	1.8%	8.3%	1.2%	1.2%	5.3%	1.1%	1.6%

Source: Real Estate Information Network for East Japan

The Greater Tokyo Area here covers Tokyo Metropolis, Chiba Prefecture, Saitama Prefecture, and Kanagawa Prefecture

A variety of pre-owned condominiums is available on the market. On the other hand, the number of available newly built condominiums is limited, and the availability of new condominiums is not guaranteed in the area where the buyer wants to live. Since there are many pre-owned condominiums on the market, the buyer can choose from many properties even in an area where new condominiums are not being built.

Another advantage of pre-owned condominiums is that they already exist, allowing buyers to see what they are purchasing, check the view from the inside, meet their would-be neighbors, and see if there is any noise problem. When buying a new condominium, however, buyers usually cannot see the property because it has not yet been built. They can only see the inside of a show home. When the building is finally constructed, sometimes the finished product is not what the buyers expected.

## Pre-owned condominium disadvantages

Pre-owned condominium disadvantages include the possibility that buildings and equipment may be deteriorating. The period of product liability is shorter. At the same time, tax breaks are not as generous. Buyers also have to pay brokerage commissions.

When purchasing a newly built condominium, the buyer does not have to pay brokerage commissions and tax breaks are more generous. New condominiums also come with brand new facilities.

Newly constructed homes are eligible for a property tax deduction, but the same measure does not apply to pre-owned homes (the property tax will be cut in half for the first three years for detached homes and five years for condominiums). Income tax breaks are applicable to both new and pre-owned properties when the buyer takes out a housing loan. However, there is a restriction with regard to the age of the property (the tax break only applies to detached homes not older than 20 years, and condominiums not older than 25 years). Homebuyers also pay the real estate acquisition tax, a portion of which can be deducted from their income. However, the amount of deduction declines in proportion to the age of the property.

## Average annual income of households purchasing properties

Households that purchase pre-owned condominiums have a lower average annual income than households that purchase new condominiums. According to the FY2021 housing market research report released by the Ministry of Land, Infrastructure, Transport and Tourism, the average combined annual income for households purchasing pre-owned condominiums was JPY7.5mn in comparison to JPY9.1mn for those that purchased newly built ones. Both sets of condominium purchasers had a higher annual income than the national average, but the average annual income of those buying pre-owned condominiums was closer to the national average.

### Annual household income

(JPYmn)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Newly built condominium purchaser	6.47	6.89	6.94	7.51	8.35	7.98	8.40	7.98	8.79	9.12
YoY	-0.5%	6.5%	0.7%	8.2%	11.2%	-4.4%	5.3%	-5.0%	10.2%	3.8%
Pre-owned condominium purchaser	5.88	6.13	6.44	6.64	6.50	6.32	7.15	6.94	6.87	7.45
YoY	6.9%	4.3%	5.1%	3.1%	-2.1%	-2.8%	13.1%	-2.9%	-1.0%	8.4%
Average of all purchasers	5.37	5.28	5.41	5.45	5.60	5.52	5.52			
YoY	-2.0%	-1.7%	2.5%	0.7%	2.8%	-1.5%	0.1%			

Source: Shared research based on "Housing Market Research," Ministry of Land, Infrastructure, Transport and Tourism, and Comprehensive Survey of Living Conditions conducted by the Ministry of Health, Labour and Welfare

\*The Ministry of Health, Labour and Welfare (MHLW) has canceled the 2020 Comprehensive Survey of Living Conditions due to the spread of COVID-19, and as such there are no figures for the average annual income of all purchasers in 2019.

**Durable years of condominiums:** For tax purposes, condominiums are said to be durable for 47 years. However, how long a condominium lasts depends on its structure, specifications, equipment used, and maintenance.

Condominiums deteriorate due to neutralization of concrete. Neutralization occurs when carbon dioxide in the atmosphere enters the concrete, causing carbonization. Neutralization is not the direct cause of the deterioration of concrete. However, it makes it easier for the air and water to enter the concrete. When this condition spreads, it reaches the reinforcing steel bars and makes them rust. The steel bars then expand, causing the concrete to crack and break. That weakens the structure's load-bearing ability. At the same time, cracks in the concrete allow more carbon dioxide to come in, accelerating the process of carbonization, which in turn makes it easier for rain water to seep in. The steel bars then further deteriorate.

Concrete absorbs carbon dioxide in the atmosphere and becomes neutralized; the speed of carbonation is 0.5mm a year. The Building Standard Act (Article 76) requires the covering depth (the depth of the concrete covering the steel) of 3 cm. That means that the carbonation may reach the steel in 60 years in condominiums that meet the minimum requirements of the building code.

## Market for pre-owned condominiums in Greater Tokyo

The market for Japan's pre-owned homes and renovation services is smaller than that in the West. However, its size is gradually expanding. The volume of transactions for pre-owned condominiums in the Greater Tokyo Area has exceeded that of newly constructed properties. Pre-owned homes on the market comprised 13.5% of all properties in 2008, compared with 5.5% in 1990. In 2009, the number of pre-owned condominiums on the market in Greater Tokyo exceeded that of new properties.

Sales of pre-owned condominiums are increasing; naturally, it helps that the number of properties put up for sale is also rising. According to materials published by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), condominiums began to be sold in the 1950s. MLIT estimates the supply of newly built condominiums in fiscal 1998 and thereafter exceeds 3mn, and the total number of available condominiums in Japan on December 31, 2022 was estimated to be 6.9mn.

## Condominium stock and number of new units (thousands)

Condominium	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Stock('000)	3,861	4,058	4,272	4,468	4,656	4,848	5,055	5,280	5,449	5,617
YoY	4.7%	5.1%	5.3%	4.6%	4.2%	4.1%	4.3%	4.5%	3.2%	3.1%
Change('000)	174	197	214	196	188	192	207	225	169	168
Properties supplied('000)	175	197	214	197	189	192	209	226	170	168
YoY	3.6%	12.6%	8.6%	-7.9%	-4.1%	1.6%	8.9%	8.1%	-24.8%	-1.2%

Condominium	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Stock('000)	5,709	5,787	5,889	6,003	6,123	6,224	6,327	6,431	6,538	6,646
YoY	1.6%	1.4%	1.8%	1.9%	2.0%	1.6%	1.7%	1.6%	1.7%	1.7%
Change('000)	92	78	102	114	120	101	103	104	107	108
Properties supplied('000)	92	78	102	115	122	102	104	105	108	109
YoY	-45.2%	-15.2%	30.8%	12.7%	6.1%	-16.4%	2.0%	1.0%	2.9%	0.9%

Condominium	2020	2021	2022
Stock('000)	6,745	6,850	6,943
YoY	1.5%	1.6%	1.4%
Change('000)	99	105	93
Properties supplied('000)	102	106	94
YoY	-6.4%	3.9%	-11.3%

Source: Shared Research based on Ministry of Land, Infrastructure, Transport, and Tourism data

Note: "Stock" refers to homes that were built in the past and are still in existence today.

## Population of Greater Tokyo and number of households

### Greater Tokyo population expected to decline 4.1% by 2040 compared to 2015

Japan's population has been declining since 2010. According to an estimate by the National Institute of Population and Social Security Research, the population is likely to be 12.7% lower in 2040 than in 2015. However, population decline is expected to be relatively moderate—4.1%—in the Greater Tokyo Area. People are migrating to the area for school or work. Moreover, as Japan's population ages, Tokyo is likely attracting people for its highly developed social infrastructure, including transportation systems and hospitals.

### Forecast population trends (Greater Tokyo Area) ('000 people)

	2015	2020	2025	2030	2035	2040	2045
Saitama	7,267	7,273	7,203	7,076	6,909	6,721	6,525
YoY	1.0%	0.1%	-1.0%	-1.8%	-2.4%	-2.7%	-2.9%
Chiba	6,223	6,205	6,118	5,986	5,823	5,646	5,463
YoY	0.1%	-0.3%	-1.4%	-2.2%	-2.7%	-3.0%	-3.2%
Tokyo	13,515	13,733	13,846	13,883	13,852	13,759	13,607
YoY	2.7%	1.6%	0.8%	0.3%	-0.2%	-0.7%	-1.1%
Kanagawa	9,126	9,141	9,070	8,933	8,751	8,541	8,313
YoY	0.9%	0.2%	-0.8%	-1.5%	-2.0%	-2.4%	-2.7%
Total (Greater Tokyo Area)	36,131	36,352	36,237	35,878	35,335	34,667	33,907
YoY	1.4%	0.6%	-0.3%	-1.0%	-1.5%	-1.9%	-2.2%
(For reference) Total Japan	127,095	125,325	122,544	119,125	115,216	110,919	106,421
YoY	-0.8%	-1.4%	-2.2%	-2.8%	-3.3%	-3.7%	-4.1%

Source: National Institute of Population and Social Security Research

The Greater Tokyo Area here covers Tokyo Metropolis, Chiba Prefecture, Saitama Prefecture, and Kanagawa Prefecture

### Number of households in Greater Tokyo expected to decline 4.8% from 2015 to 2040

The number of households in Japan is expected to rise until 2020, limiting the decline from 2015 to 2040 to 4.8%. The number of people per household is declining as people outlive their spouses and delay or forgo marriage. Moreover, each year the number of single households continues to rise. However, the number of households is expected to continue rising in the Greater Tokyo Area until 2030, with an expected overall decline of 1.8% from 2015 to 2040. This is due to the fact that the Greater Tokyo population is expected to grow until 2020 while the number of people per household continues to decline.

## Forecast household trends (Greater Tokyo Area) ('000 households)

	2015	2020	2025	2030	2035	2040
Saitama	2,968	3,055	3,093	3,085	3,042	2,981
YoY	4.6%	2.9%	1.2%	-0.2%	-1.4%	-2.0%
Chiba	2,605	2,669	2,688	2,669	2,620	2,559
YoY	3.7%	2.4%	0.7%	-0.7%	-1.8%	-2.3%
Tokyo	6,691	6,922	7,054	7,107	7,097	7,019
YoY	4.8%	3.5%	1.9%	0.8%	-0.1%	-1.1%
Kanagawa	3,965	4,077	4,125	4,113	4,051	3,956
YoY	3.5%	2.8%	1.2%	-0.3%	-1.5%	-2.3%
Total (Greater Tokyo Area)	16,229	16,723	16,960	16,974	16,810	16,516
YoY	4.3%	3.0%	1.4%	0.1%	-1.0%	-1.7%
(For reference) Total Japan	53,332	54,107	54,116	53,484	52,315	50,757
YoY	2.9%	1.5%	0.0%	-1.2%	-2.2%	-3.0%

Source: National Institute of Population and Social Security Research

The Greater Tokyo Area here covers Tokyo Metropolis, Chiba Prefecture, Saitama Prefecture, and Kanagawa Prefecture

## Cap rates on rental housing in decline since 2009

Cap rates for family-type condominiums in the Jonan area of Tokyo (Meguro and Setagaya wards) peaked between April 2009 and April 2010, and have been declining ever since. By April 2015, expected cap rates were below the level (5.0%) seen during the real estate fund bubble spanning 2007–08, and they have since remained below 5.0%, decreasing to 3.8% by October 2023.

Real estate fund bubble: In Japan, property prices fell consistently following the collapse of the real estate and stock market bubble (1991–1993), but in 2007–08 in the lead-up to the global financial crisis, prices in urban areas spiked as real estate investment funds (both domestic and international) took the opportunity to buy up property.

## Competitors

Industry peers include Intellex Co., Ltd. (TSE Standard: 8940), e'grand Co., Ltd. (TSE Standard: 3294), and Mugen Estate Co., Ltd. (TSE Standard: 3299), which buy pre-owned condominiums and renovate them for sale.

However, their businesses somewhat differ from Star Mica's, as all three buy condominiums that are vacant, whereas Star Mica buys properties that are being rented out. Competitors also generally deal in pre-owned condominiums in a lower price range compared with Star Mica. In these respects, the company has developed a business model that differs from its peers.

### Competitors

	Star Mica Holdings (TSE Prime:2975)		Intellex Co., Ltd. (TSE Standard:8940)		e'grand (TSE Standard:3294)		Mugen Estate (TSE Standard:3299)	
	FY11/22	FY11/23	FY05/22	FY05/23	FY03/22	FY03/23	FY12/21	FY12/22
<b>Performance (JPYmn)</b>								
Sales	48,212	48,878	36,140	41,237	23,352	25,786	33,956	31,242
YoY	30.7%	1.4%	-12.0%	14.1%	15.2%	10.4%	-2.6%	-8.0%
Gross profit	9,760	8,422	6,109	6,113	4,875	5,056	5,788	7,150
YoY	31.0%	-13.7%	-12.6%	0.1%	39.1%	3.7%	-1.3%	23.5%
Gross profit margin	20.2%	17.2%	16.9%	14.8%	20.9%	19.6%	17.0%	22.9%
SG&A expenses	3,661	3,576	4,745	5,403	2,307	2,412	3,445	4,173
YoY	15.7%	-2.3%	-1.6%	13.9%	13.6%	4.5%	1.4%	21.1%
SG&A ratio	7.6%	7.3%	13.1%	13.1%	9.9%	9.4%	10.1%	13.4%
Operating profit	6,098	4,846	1,364	710	2,568	2,644	2,342	2,976
YoY	42.3%	-20.5%	-37.2%	-47.9%	74.4%	3.0%	-5.0%	27.1%
Operating profit margin	12.6%	9.9%	3.8%	1.7%	11.0%	10.3%	6.9%	9.5%
<b>Inventories (JPYmn)</b>								
Real estate for sale	83,138	86,584	19,770	25,751	15,416	19,489	36,093	51,633
<b>Pre-owned property sales</b>								
Pre-owned homes Sales(JPYmn)	43,453	43,967	26,238	30,286	20,773	20,980	9,375	10,856
YoY	35.3%	1.2%	-16.2%	15.4%	17.7%	1.0%	61.4%	15.8%
Pre-owned homes Units sold	1,395	1,270	1,129	1,152	925	865	201	289
Sales per unit(JPYmn)	31.1	34.6	23.2	26.3	22.5	24.3	46.6	37.6

Source: Shared Research based on Star Mica, Intellex, e'grand, Mugen Estate data

\*Sales of pre-owned properties are Intellex Renovex Mansion sales, E'grand pre-owned home renovation business (residential), and Mugen Estate real estate trading business (residential real estate).

\*Sales per unit of Star Mica, e'grand, and Mugen Estate is Sales / Units sold.

\*Main properties acquired by each company include the acquisition of leased pre-owned condominiums. Intellex and Mugen Estate acquire vacant condominiums. E'grand acquires vacant pre-owned condominiums from real estate auctions.

## Intellex Co., Ltd. (TSE Standard: 8940)

The company, established in 1995, acquires individual pre-owned condominium units and renovates them for sale as a Renovex Mansion with an after-sale guarantee (up to 10 years).

In FY05/23, the company sold 1,152 (+2.0% YoY) Renovex Mansion properties for an average of JPY26.3mn (JPY23.2mn in FY05/22). The average age of the condominiums was 34.3 years (32.3 years in FY05/22). By location, most properties were located in Tokyo or Kanagawa, or in regional cities. In metropolitan areas, Intellex conducts area management by prefecture, while in other regions, management is by branch. Looking at the component ratio of each area, regions accounting for more than 10% were: Tokyo (component ratio of sales: 27.3%), Kanagawa Prefecture (13.1%), the Sapporo area (10.9%), and the Osaka area (17.1%).

When comparing the OPMs of the company and Intellex over the past five years, the company's has ranged from 8.3% to 12.7%, while Intellex's has ranged from 1.7% to 5.3%. Shared Research understands that the reason for the higher profit margin of the company compared to Intellex is that while Intellex primarily acquires vacant properties, the company mainly focuses on rented properties that can be procured at relatively low prices, and that the price range of the properties handled by the company is relatively higher than that of Intellex.

The entire process of property acquisition and sale at Intellex takes between three and four months. In contrast, Star Mica holds owner change properties it purchased for about three and a half to four years, while it holds vacant properties it purchased for about a year. As a result, Intellex's real estate for sale by value trended around 20–30% of that of Star Mica over the past five years.

### Intellex performance overview

Performance (JPYmn)	FY05/19	FY05/20	FY05/21	FY05/22	FY05/23
Sales	36,981	37,863	41,074	36,140	41,237
YoY	-15.0%	2.4%	8.5%	-12.0%	14.1%
Gross profit	6,051	5,558	6,992	6,109	6,113
YoY	6.5%	-8.2%	25.8%	-12.6%	0.1%
Gross profit margin	16.4%	14.7%	17.0%	16.9%	14.8%
SG&A expenses	4,378	4,449	4,821	4,745	5,403
YoY	6.2%	1.6%	8.4%	-1.6%	13.9%
SG&A ratio	11.8%	11.7%	11.7%	13.1%	13.1%
Operating profit	1,673	1,109	2,171	1,364	710
YoY	7.2%	-33.7%	95.8%	-37.2%	-47.9%
Operating profit margin	4.5%	2.9%	5.3%	3.8%	1.7%
<b>Inventories (JPYmn)</b>					
Real estate for sale	18,648	22,919	13,643	19,770	25,751
<b>Renovex Mansion Sales, Homes sold</b>					
Property sales (JPYmn)	28,160	30,570	31,299	26,238	30,286
YoY	-18.1%	8.6%	2.4%	-16.2%	15.4%
Units sold	1,187	1,336	1,420	1,129	1,152
Sales per unit(JPYmn)	23.7	22.9	22.0	23.2	26.3

Source: Shared Research, based on Intellex data

## e'grand Co., Ltd. (TSE Standard: 3294)

Established in 1989, e'grand acquires pre-owned homes (detached homes and condominiums) from real estate auctions and retail channels, renovates the units, and then sells the units as pre-owned, renovated homes.

During FY03/23, e'grand sold 865 pre-owned (residential) renovated units (-6.5% YoY) and had sales of JPY21.0bn (+1.0% YoY).

E'grand deals primarily in units geared toward first-time homebuyers, such as young families. Roughly 37% of the units it sells are priced under JPY20mn, 44.4% under JPY30mn, and 18.5% over JPY30mn (FY03/23). Although it sources units from government auctions, e'grand is also bolstering its sourcing activities via retail channels. As a general policy, it diversifies its properties by region on a per-unit basis.

E'grand conducts business primarily in the greater Tokyo region, with a focus on Kanagawa, Saitama, and Chiba Prefectures (these regions account for roughly 75% of the pre-owned housing business sales). However, it is also expanding into other areas, and has established offices in West Japan and Nagoya.



## E'grand performance overview

Performance (JPYmn)	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
Sales	18,181	20,464	20,269	23,352	25,786
YoY	-11.5%	12.6%	-1.0%	15.2%	10.4%
Gross profit	2,779	3,500	3,504	4,875	5,056
YoY	-15.6%	25.9%	0.1%	39.1%	3.7%
Gross profit margin	15.3%	17.1%	17.3%	20.9%	19.6%
SG&A expenses	1,875	2,049	2,032	2,307	2,412
YoY	-0.3%	9.3%	-0.8%	13.6%	4.5%
SG&A ratio	10.3%	10.0%	10.0%	9.9%	9.4%
Operating profit	904	1,451	1,473	2,568	2,644
YoY	-36.0%	60.5%	1.5%	74.4%	3.0%
Operating profit margin	5.0%	7.1%	7.3%	11.0%	10.3%
<b>Inventories (JPYmn)</b>					
Real estate for sale, and real estate for sale in progress	12,185	12,522	11,626	15,416	19,489
Real estate for sale	8,365	8,794	7,971	9,552	12,334
Real estate for sale in progress	3,819	3,728	3,655	5,865	7,155
<b>Pre-owned renovated home(residential) Sales, Homes sold</b>					
Sales (JPYmn)	16,721	18,495	17,648	20,773	20,980
YoY	-9.8%	10.6%	-4.6%	17.7%	1.0%
Units sold	846	931	862	925	865
Sales per unit(JPYmn)	19.8	19.9	20.5	22.5	24.3

Source: Shared Research, based on e'grand data

## Mugen Estate Co., Ltd. (TSE Standard: 3299)

Established in 1990, Mugen Estate deals primarily in purchasing pre-owned real estate (subdivided condominiums, investment real estate, and detached homes) in and around Tokyo. Based upon the age, floor area, floor plan, location, and management conditions of the unit, Mugen Estate implements measures to add value via subsidiary Fuji Home. Such measures may include improving management, interior and exterior renovations, and enhancing return on investment through rental of vacant units and collection of unpaid rent. Upon completion of value-added procedures, Mugen Estate makes sales primarily to first-time homebuyers, but also to individual investors and SMEs.

Key businesses are the real estate trading business (92.8% of FY12/22 sales) and the real estate rental business (7.1%). The real estate trading business is further broken down into purchase and resale - residential real estate (37.4% of FY12/22 real estate trading business sales), purchase and resale - investment real estate (58.4%), real estate development, and real estate specified joint enterprises.

Residential properties are mainly condominiums geared toward families, and Mugen Estate will purchase these units individually, conduct renovations, and resell them to first-time homebuyers. Renovations are conducted by subsidiary Fuji Home. In FY12/22, Mugen Estate sold 289 residential units (201 units in FY12/21), and sales of these units amounted to JPY10.9bn (JPY9.4bn). Average sales per unit were JPY37.6mn (JPY46.6mn).

For investment real estate, Mugen Estate purchases rental condominiums, apartments, and buildings, performs services to add value (interior and exterior renovations, leasing activities), and resells them to individual investors and SMEs.

## Mugen Estate performance overview

Performance (JPYmn)	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
Sales	53,931	39,677	34,858	33,956	31,242
YoY	-15.2%	-26.4%	-12.1%	-2.6%	-8.0%
Gross profit	9,847	6,475	5,864	5,788	7,150
YoY	-10.2%	-34.2%	-9.4%	-1.3%	23.5%
Gross profit margin	18.3%	16.3%	16.8%	17.0%	22.9%
SG&A expenses	3,862	3,317	3,398	3,445	4,173
YoY	-6.3%	-14.1%	2.4%	1.4%	21.1%
SG&A ratio	7.2%	8.4%	9.7%	10.1%	13.4%
Operating profit	5,985	3,157	2,465	2,342	2,976
YoY	-16.0%	-47.3%	-21.9%	-5.0%	27.1%
Operating profit margin	11.1%	8.0%	7.1%	6.9%	9.5%
<b>Inventories (JPYmn)</b>					
Real estate for sale, and real estate for sale in progress	51,722	50,034	41,620	36,093	51,633
Real estate for sale	51,635	49,887	41,337	35,463	51,116
Real estate for sale in progress	87	147	283	630	517
<b>Residential real estate in the real estate trading</b>					
Sales (JPYmn)	9,141	5,291	5,810	9,375	10,856
YoY	2.3%	-42.1%	9.8%	61.4%	15.8%
Units sold	291	157	148	201	289
Sales per unit	31.4	33.7	39.3	46.6	37.6

Source: Shared Research, based on Mugen Estate data



# Strengths and weaknesses

## Strengths

### **The company has built relationships with real estate brokers for purchase of occupied pre-owned condominiums, putting the company in a strong position to gather information on attractive investment properties**

The company's mainstay business is the Renovated Condominium business, where it purchases pre-owned condominium units, collects rental income, and sells them for a profit after the tenants move out. Shared Research understands that purchasing properties is crucial in the business, as it is the source of income generated through rental and sale.

The downside of this method is that acquiring a single condominium unit can be inefficient and cumbersome compared to buying entire buildings. However, it is less likely to result in competition with other companies for property acquisition. In particular, for tenant-occupied properties (owner-change properties), which account for approximately half of the company's acquisitions (on a unit basis), the number of potential buyers is limited because these properties cannot be sold immediately after purchase and because, according to local convention, the buyer cannot inspect the inside.

The company has continued to purchase occupied pre-owned condominiums units, leveraging its accumulated knowledge on the complex operations of buying and selling such units and on pre-sale renovation methods, as well as its financial strength that allows for the purchase of many pre-owned condominium units. Furthermore, the company has maintained relationships with real estate agents it has worked with and has built a property information network for pre-owned condominiums. As a result, Shared Research recognizes Star Mica's ability to rapidly assess property values and make swift purchase decisions makes the company an important trading partner in the eyes of brokers, since real estate brokers are strongly motivated to sell properties quickly. This puts the company first in line for obtaining information on attractive investment properties.

### **The company deals with residential properties, which enjoy end-user demand, and earns revenue by focusing on the difference between purchase price and sales price.**

### **Therefore, it is relatively insensitive to changes in the real estate market compared to other companies in the industry.**

In the Renovated Condominium segment, the company's business model does not involve chasing after future property price appreciation based on its reading of market conditions. Rather, the company seeks to profit from the difference in prices between pre-owned condominiums that are vacant and those that are being rented. The properties the company deals with are residential real estates, which are supported by end-user (as opposed to investor) demand, rather than commercial real estates such as office buildings, which are vulnerable to economic fluctuations. Shared Research understands that residential real estate properties have a certain degree of downward rigidity. Because of these factors, the company is relatively insensitive to changes in real estate market conditions compared with industry peers. This gives the company a stable earnings stream with fewer fluctuations, allowing it to turn a profit even during the real estate market downturn of the 2008 global financial crisis.

At financial year-end, the company discloses profit projections (including unrealized gains) for its pre-owned condominium holdings based on third-party appraisals. According to this disclosure, at end-FY11/22, its real estate for sale amounted to approximately JPY86.6bn (five-year CAGR of 9.0%) and unrealized gains on properties held for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales) were around JPY25.8bn (12.5%). The real estate for sale and its unrealized gains have been increasing continuously with the expansion of the company's business scale.

### **The company is the industry leader in terms of the number of units purchased and the sales of pre-owned condominiums, which allows it to reduce risks through diversified investments and enjoy cost advantages.**

Shared Research understands the company, being the industry leader in the number of units purchased and the sales of pre-owned condominiums (estimated by the company), enjoys reduced risk and scale benefits.

Thanks to the high number of units purchased, the "law of large numbers" (the more properties one has, the closer to the average measured metrics become) works to diversify the risks (such as accidents, natural disasters, price fluctuation, and vacancy periods) that arise with each individual property, reducing risks. In addition, the company has been strengthening its

acquisition of properties in regional cities since around FY11/17, diversifying geographical risks. As of end-FY11/17, 85.3% of properties held were in the Tokyo metropolitan area, 10.6% in the Kansai area, and 4.1% in other areas (such as Fukuoka Prefecture, Aichi Prefecture, Hokkaido, and Miyagi Prefecture), but as of end-FY11/22, 58.5% of properties in the Tokyo metropolitan area, 23.1% in the Kansai area, and 18.4% in other areas.

Shared Research believes that handling a large number of properties contributes to reducing the cost of renovations (outsourcing). The company is keeping renovation costs down by offering a stable number of projects to external contractors who undertake renovations and enhancing the efficiency of material procurement and construction work for the contractors through the standardization of interior designs. As a result, the company is said to be renovating at about half the price per property compared to custom renovations.

## Weaknesses

### **Asset turnover rate and profitability are in a trade-off relationship**

In the company's Renovated Condominium business, the average period from property purchase to resale is approximately three and a half to four years for owner-change properties and about a year for vacant properties. Shared Research believes that to effectively utilize assets, the company would need to 1) increase the share of vacant properties in its inventory of real estate for sale, and 2) shorten the time required for sales. However, as outlined below, both of these can lower the profit margin in the Renovated Condominium business.

As vacant properties require less time from acquisition to sale than occupied properties (owner-change properties), increasing the share of vacant properties in all properties purchased can raise the asset turnover ratio. The company has strategically increased the share of vacant properties in its inventory as it strengthened its expansion into regional cities, with vacant properties accounting for about 50% of all purchased units and about 70% of all sold units (as of FY11/22). On the other hand, vacant properties do not generate rental income but require management fees. Additionally, competition at the time of purchase is more intense compared to owner-change properties, which results in a relatively lower profit margin for vacant properties. In fact, in FY11/22, gross profit attributable to owner-change properties was approximately JPY6.4bn (of which rental profit was approximately JPY2.4bn and sales profit was approximately JPY4.0bn), while the gross profit from the sale of vacant properties was approximately JPY2.8bn.

The time required to sell a property is influenced by the real estate market conditions, but one possible measure the company could take to shorten this time is to lower the selling price of the property. However, lowering the selling price of a property directly leads to a decrease in profit margin.

Shared Research believes the company can increase the asset turnover ratio without lowering the profit margin, by 1) promoting the departure of tenants in owner-change properties, and 2) shortening the renovation period. However, it is difficult to encourage tenants to leave owner-change properties due to restrictions on lease terminations by lessors under the Japan's Act on Land and Building Leases. As for shortening the renovation period, the company expects that standardizing renovation plans and improving the efficiency of renovation companies, its external contractors, could potentially shorten the renovation period. However, Shared Research thinks that the effect of this is limited.

### **The company's mainstay Renovated Condominium business is an asset business, which means that the asset growth rate restricts the company's profit growth rate.**

The company operates the Renovated Condominium business, Investment business, and Advisory Services business. In FY11/22, the mainstay Renovated Condominium business generated 98.4% of sales and 94.4% of gross profit. The Renovated Condominium business is an "asset business," wherein the company purchases properties, holds them as inventory (real estate for sale), and then earns profit through rent and sale. In order for the business to continue growing, the company needs to continuously expand its assets and continue to raise funds through borrowing and other means.

Expanding borrowings to raise funds can decrease the equity ratio, resulting in weaker financial condition. The company recognizes the lower limit of a healthy equity ratio as 22–23%, and the equity ratio as of end-FY11/22 was 23.5%. Therefore, Shared Research believes it would be challenging for the company to expand its borrowings beyond the level as of end-FY11/22. Thus, for the company to expand the scale of its business while maintaining financial health, the upper limit of its asset growth rate becomes the sustainable growth rate ( $= \text{ROE} \times [1 - \text{payout ratio}]$ ), which determines the company's profit growth rate.

The company continues to focus on the Renovated Condominium business, which is an "asset business," but is also expanding its "non-asset business" in areas related to the Renovated Condominium business in order to improve asset

efficiency. The company's Advisory Services business is a non-asset business that does not acquire real estate, and is a business whose earnings are based on fees, including fees from the purchase, sale and lease intermediation of real estate, lease and building management, and consulting in the financial and real estate fields. However, in FY11/22, the Advisory Services business accounted for 1.6% of sales and 5.5% of gross profit, making only a limited profit contribution.

### **Limited scope to lift profitability**

Profitability of the Renovated Condominium business is determined by the difference between the purchase price and the sale price of properties, rental income, property management fees, commissions paid to brokers, and renovation costs. Shared Research believes that in general, the main ways to increase the profit margin on sales are to either enhance product value-added or cut costs.

The company's Renovated Condominium business, which secures profits from the difference between the purchase price and the sale price of pre-owned condominiums, is relatively insusceptible to changes in real estate market conditions, thus generating stable profit. However, unlike commercial real estate, pre-owned condos have few features on which to differentiate, making it difficult for the company to add value and raise prices. There is also little room to cut such costs as property management fees and broker commissions. Therefore, among the few ways for the company to increase profitability is to raise the ratio of services provided within the group—rental-property management and real estate brokering in particular—and to increase value-added through renovation.

# Historical performance & financial statements

## Historical performance

### Q3 FY11/23 results

- Sales: JPY37.1bn (-0.6% YoY)
- Gross profit: JPY6.6bn (-13.7% YoY)
- Operating profit: JPY4.1bn (-20.8% YoY)
- Recurring profit: JPY3.4bn (-26.8% YoY)
- Net income attributable to owners of the parent: JPY2.3bn (-26.7% YoY)

### Overview

In the mainstay Renovated Condominium business (sale), the difference between the purchase price and the sales price of the properties handled by the company expanded due to the overheated real estate market from 2H FY11/21 to FY11/22. As a result, the sales profit was higher than the company had expected when purchasing the property, and the GPM during the same period was high, ranging from 14.1% to 18.9%. On the other hand, in FY11/23, the difference between the purchase price and the sales price narrowed as the overheated real estate market cooled down. Consequently, GPM trended downward, at 15.0% in Q1, 13.4% in Q2, and 12.9% in Q3. The company anticipates that GPM will recover from the bottom of 12–13%, unless the real estate market enters a downturn.

In the Renovated Condominium (rental) business, the proportion of properties in regional areas, which have a relatively lower profit margin, has been increasing over the medium to long term, and GPM has been trending downward. Prior to FY11/17, GPM was approximately 70.0%, but decreased to 60.0% in FY11/22. Since Q1 FY11/23, GPM has been affected by about 3pp due to the impact of the change in accounting standards (starting to record depreciation costs for properties held for the long term). Although the increase in the proportion of regional properties is expected to continue to gradually weigh on GPM, the company plans to increase profits by continuing to acquire properties and increasing the number of owned properties.

### Business environment

According to the Real Estate Information Network for East Japan, the number of pre-owned condominiums sold in the Tokyo metropolitan area increased by 0.9% YoY to 2,367 in August 2023. Meanwhile, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area was JPY740,800 (+10.1% YoY) and the average purchase price was JPY47.0mn (+9.9% YoY), increasing for the 40th and 39th consecutive months, respectively. The inventory of pre-owned condominiums has been recovering since June 2021 (33,641), and totaled 45,961 in August 2023, approaching the pre-pandemic level (around 47,000–48,000 between March 2019 and February 2020).

The company believes the impact of ongoing interest rate hikes in the US and other countries and deteriorating real estate market conditions in China on its business will be minor. This is because the majority of buyers of the properties the company handles are residents of Japan who purchase properties for residential purposes. Unlike investment properties, these are backed by end-user (those that look to buy properties to actually live in them) demand.

### Sales and profit

Sales declined YoY due to lower sales in the Renovated Condominium (sale) business resulting from a decrease in the number of units sold. However, there was an increase in the number of units sold in 1H FY11/22 due to special factors. Excluding this impact, the number of units sold in cumulative Q3 FY11/23 was higher YoY.

Operating profit declined due to a decrease in gross profit. OPM was 10.9% (-2.8pp YoY).

- ▶ Gross profit fell on lower sales in the Renovated Condominium (sale) business and a deterioration in the GPM compared to the same period of the previous year, which had a sense of overheating in the real estate market. GPM was 17.9% (-2.9pp).

- ▶ In terms of SG&A expenses, although there was a decline in taxes and dues as a result of a smaller number of condominium units purchased, personnel expenses increased due to successful recruitment activities, leading to an increase in staff. The SG&A ratio remained unchanged YoY at 6.9%.

## Progress and achievement versus forecast

Versus the full-year forecast, cumulative Q3 sales were 73.8% (cumulative Q3 FY11/22 sales were 77.4% versus the full-year results), operating profit was 77.8% (84.1%), recurring profit was 76.8% (84.7%), and net income attributable to owners of the parent was 77.2% (85.6%). The progress rate for SG&A expenses was 69.6% (70.1%). Shared Research understands that taxes and dues were below the company's expectations due to a less-than-expected number of property purchases. In the mainstay Renovated Condominium business (sale), cumulative Q3 sales and gross profit were 73.5% (77.7%) and 73.3% (80.1%), respectively, of the full-year forecast. The company stated that the number of properties sold and the profit margin were largely in line with the forecast.

In the full-year FY11/23 forecast, the company plans to focus on hiring and training personnel starting this fiscal year to strengthen its sales force, and anticipates greater increases in the number of condominium units sold and sales in 2H than in 1H. For 2H, the company will continue to purchase owner-change properties and vacant properties in a well-balanced manner and accumulate the inventory of real estate for sale, thereby enhancing sales activities. For the mainstay Renovated Condominium business (sale), the company expects GPM to decrease compared to the same period last year, when the real estate market was overheated. However, it aims to increase gross profit by increasing the number of units sold. In terms of capital efficiency, Star Mica plans to manage the inventory balance between owner-change purchase properties and vacant purchase properties, and focus on improving inventory turnover. This is to mitigate the decrease in ROE associated with the decrease in profit margin.

## Results by segment

### Renovated Condominium business

- Sales: JPY36.6bn (-0.5% YoY)
- Gross profit: JPY6.3bn (-14.0% YoY)

Sales in the Renovated Condominium business fell YoY despite higher sales in the rental business, due to a sales decline in the sale business on a fewer number of units sold. Gross profit decreased in the Renovated Condominium business (rental), due to the impact of changes in accounting standards, and in the Renovated business (sale), due to a decrease in the number of units sold and a drop in GPM. Operating profit was also down YoY, as a result of a 24.8% YoY drop in gross profit to JPY2.0bn. In SG&A expenses, taxes and dues were down, but personnel expenses expanded.

Through the end of FY11/17, the company generally purchased condominiums that were currently being rented, collected rent from the existing tenants, and renovated and sold them after these tenants departed. Starting in FY11/18, the company has also been concentrating on buying and selling vacant condominiums to expand its earnings opportunities by increasing the asset turnover rate. As a result, vacant properties accounted for a growing share of purchased properties (on a unit basis), rising to about 50% in cumulative Q3 FY11/23.

Star Mica performs renovations on vacant condominiums three to four months following their purchase and sells these properties about a year after they are acquired, while condominiums acquired under rent are not sold until about three and a half to four years after they are purchased. The company's intensified buying and selling of vacant condominiums will have an impact on earnings of both the rental and sale businesses. Rental earnings will be affected by the lack of rent revenue generated through these properties while associated maintenance fees are incurred. In Renovated Condominium (sale), vacant properties for purchase are subject to more intense competition at the time of purchase compared to units that are being leased at the time of purchase (owner-change properties for purchase). The company's GPM projection at the time of purchase for owner-change properties for purchase is 14–16%, versus 8–10% for vacant properties for purchase. (Based on company data, Shared Research believes FY11/22 GPM was just under 20% for owner-change properties for purchase and about 12% for vacant properties for purchase.)

### Renovated Condominium (rental) business

- Sales: JPY3.1bn (+4.7% YoY)
- Gross profit: JPY1.7bn (-3.3% YoY)

Rental sales increased as the number of properties held increased due to continued purchases.

On the profit front, gross profit fell despite higher sales due to a 4.6pp YoY decline in GPM to 55.5%. The reasons for the decline in GPM are as follows.

- ▶ The decline in GPM was primarily attributed to the booking of depreciation for properties held over the long term following the change in accounting policies, which resulted in an approx. 3.0pp YoY fall in GPM (impact of JPY90mn in cumulative Q3 FY11/23).
- ▶ Another factor weighing on GPM was an increase in the proportion of properties in regional cities with relatively low GPM in the company's nationwide operations. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tends to push down the GPM for these properties.

#### Renovated Condominium (sale) business

- Sales: JPY33.4bn (-0.9% YoY)
- Gross profit: JPY4.6bn (-16.7% YoY)

Sales in the Renovated Condominium (sale) business fell YoY, reflecting a decline in the number of units sold despite an increase in sales per unit. In cumulative Q3, the company sold 976 units (-11.4% YoY) and posted sales per unit of JPY34.3mn (+11.8% YoY). Excluding special factors in 1H FY11/22 (to be described later), the number of units sold continued to increase due to the strengthening of the sales structure.

- ▶ The number of units sold by quarter was as follows: 339 in Q1 FY11/22, 510 in Q2 FY11/22, 253 in Q3 FY11/22, 293 in Q4 FY11/22, 280 in Q1 FY11/23, 373 in Q2 FY11/23, and 323 in Q3 FY11/23.
  - ▶ The number of units delivered in Q1 FY11/22 was up 22.8% and was at a high level, as delivery of some units initially scheduled for Q4 FY11/21 was pushed out to Q1 FY11/22. Compared with the elevated number of units delivered in Q1 FY11/22, the number of units delivered in Q1 FY11/23 was down. However, excluding the impact of delayed deliveries, the number of units delivered in Q1 FY11/23 was up YoY.
  - ▶ During Q2 FY11/22, a large number of properties were sold to corporate clients, and the number of units sold was high, with a 22.9% increase YoY. In Q2 FY11/23, the number of units sold decreased compared to the high level in Q2 FY11/22. However, excluding the impact of corporate sales, the company says the number of units sold in Q2 FY11/23 was up YoY.
- ▶ Sales per unit grew against a backdrop of a YoY increase in the price of preowned condominiums.

On the profit front, gross profit fell on lower sales and a decline in GPM. Quarterly GPM in FY11/22 was 18.9% in Q1, 14.1% in Q2, 16.6% in Q3, and 14.1% in Q4. For FY11/23, it was 15.0% in Q1, 13.4% in Q2, and 12.9% in Q3. The reasons for the decline in profit margin since Q1 FY11/23 are as follows.

- ▶ As mentioned above, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area has been rising for 40 consecutive months. As for vacant purchased properties (from purchase to sale takes about a year), which account for about 60–70% of the total units sold, GPM fell due to the sale of inventory that was purchased during a price hike, although sales prices continued to rise. On the other hand, GPM has been favorable for owner-change purchased properties, which account for 30–40% of the total units sold (which takes about three and a half to four years from purchase to sale), due to the sale of properties purchased before the increase in price per square meter.
- ▶ As the overheated real estate market cooled, the company focused on increasing the turnover rate of real estate sales. During the upturn in the real estate market, the company's key strategy for maximizing profit was to ensure a longer sales period and to sell at higher prices. On the other hand, in a situation where the overheated real estate market has cooled down, even if the sales profit per unit decreases, shortening the sales period and increasing the asset turnover rate may become an important strategy for maximizing profit. Adjusting the sales strategy according to changes in the real estate market also contributed to the decrease in profit margin.

For cumulative Q3 FY11/23, the company booked a JPY47mn (JPY4mn in cumulative Q3 FY11/22) valuation loss on real estate for sale under cost of sales.



## Real estate for sale

The monetary value of Star Mica's real estate for sale amounted to JPY84.7bn (+JPY1.6bn, or +1.9%, from end-FY11/22). The monetary value increased JPY29.8bn due to the purchase and renovation of properties, and decreased about JPY28.2bn due to sale. At end-Q3 FY11/23, the company had 3,879 units in inventory (+81 units, or +2.1%, from end-FY11/22). Star Mica purchased 1,057 units (-15.8% YoY) and sold 976 (-11.4% YoY).

The number of properties purchased was down YoY. This was because the company prioritized balance between the number of units purchased and sold and carefully selected properties with a focus on profit margins at the time of sale in the cooled-down real estate market. The company recognizes that there has been no change in the business environment, such as increased difficulties in purchasing properties due to intensified competition and rising property prices.

The purchase price per unit was JPY28.8mn (+5.2% YoY). The purchase price increased due to an upward trend in real estate prices mainly in Tokyo and the strategic purchase of properties in slightly higher price ranges than before (however, this does not mean the company purchased high-end properties).

## Investment business

- Sales: None recorded (None recorded in Q3 FY11/22)
- Gross profit: None recorded (None recorded in Q3 FY11/22)

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

The company invested in operating companies as it did in the previous year. The company recorded operating loss of JPY5mn (operating loss of JPY5mn in cumulative Q3 FY11/22) due to personnel expenses associated with the consideration of new projects, such as the resumption of investment in income-generating real estate.

## Advisory Services business

- Sales (external): JPY542mn (-5.6% YoY)
- Gross profit: JPY370mn (-9.8% YoY)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

The number of brokerage transactions increased YoY, for both properties sold by the company and those owned by external investors. However, brokerage commissions decreased due to the absence of large transactions such as the brokerage of an entire building owned by external investors, resulting in lower sales and profit.

## 1H FY11/23 results

- Sales: JPY24.9bn (-9.8% YoY)
- Gross profit: JPY4.6bn (-17.9% YoY)
- Operating profit: JPY2.8bn (-25.6% YoY)
- Recurring profit: JPY2.3bn (-33.2% YoY)
- Net income attributable to owners of the parent: JPY1.6bn (-33.1% YoY)

## Business environment

According to the Real Estate Information Network for East Japan, the number of pre-owned condominiums sold in the Tokyo metropolitan area decreased by 4.9% YoY to 2,737 in May 2023. Meanwhile, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area was JPY709,500 (+8.1% YoY) and the average purchase price was JPY45.7mn (+9.5% YoY), increasing for the 37th and 36th consecutive months, respectively. The inventory of pre-owned condominiums has been recovering since June 2021 (33,641), and totaled 45,779 in May 2023, approaching the pre-pandemic level (around 47,000–48,000 between March 2019 and February 2020).



## Initiatives

The company focused on its Renovation Housing business, aiming to actively acquire properties and provide a stable supply of sales properties through deepening its sales areas and expanding its subsidiaries brokerage function. Additionally, it devoted efforts to strengthen its financial foundation and recruit and develop talent, working towards enhancing its management base.

## Results summary

Sales declined YoY due to lower sales in the Renovated Condominium (sale) business resulting from a decrease in the number of units sold. Gross profit fell on lower sales and a deterioration in the GPM compared to the same period of the previous year, which had a sense of overheating in the real estate market. Operating profit was also down YoY, due to the decline in gross profit. In terms of SG&A expenses, although there was a decline in taxes and dues on a smaller number of condominium units purchased, personnel expenses increased due to successful recruitment activities, leading to an increase in staff. Recurring profit fell YoY, as a result of the decline in operating profit and in reaction to the JPY50mn gain on valuation of derivatives booked a year ago.

## Progress and achievement versus forecast and 2H outlook

The achievement rate versus the 1H FY11/23 forecast was 100.6% for sales, 107.3% for operating profit, 105.0% for recurring profit, and 106.0% for net income attributable to owners of the parent.

Versus the full-year forecast, 1H sales were 49.5%, operating profit was 53.8%, recurring profit was 52.7%, and net income attributable to owners of the parent was 53.0%. In the mainstay Renovated Condominium business (sale), 1H sales and gross profit were 49.6% and 50.6%, respectively, of the full-year forecast. The company stated that the number of properties purchased and sold and GPM progressed in line with the plan.

In the full-year FY11/23 forecast, the company plans to focus on hiring and training personnel starting this fiscal year to strengthen its sales force, and anticipates greater increases in the number of condominium units sold and sales in 2H than in 1H.

For 2H, the company will continue to purchase owner-change properties and vacant properties in a well-balanced manner and accumulate the inventory of real estate for sale, thereby enhancing sales activities. For the mainstay Renovated Condominium business (sale), the company expects GPM to decrease compared to the same period last year, when the real estate market was overheated. However, it aims to increase gross profit by increasing the number of units sold. In terms of capital efficiency, Star Mica plans to manage the inventory balance between owner-change purchase properties and vacant purchase properties, and focus on improving inventory turnover. This is to mitigate the decrease in ROE associated with the decrease in profit margin.

## Results by segment

### Renovated Condominium business

- Sales: JPY24.5bn (-10.0% YoY)
- Gross profit: JPY4.3bn (-18.9% Yo)
- Operating profit: JPY2.8bn (-25.0% YoY)

Sales in the Renovated Condominium business fell YoY despite higher sales in the rental business, due to a sales decline in the sale business on a fewer number of units sold. Gross profit decreased in the Renovated Condominium business (rental), due to the impact of changes in accounting standards, and in the Renovated business (sale), due to a decrease in the number of units sold and a drop in GPM. Operating profit was also down YoY, as a result of a 24.8% YoY drop in gross profit to JPY2.0bn. In SG&A expenses, taxes and dues were down, but personnel expenses expanded.

Through the end of FY11/17, the company generally purchased condominiums that were currently being rented, collected rent from the existing tenants, and renovated and sold them after these tenants departed. Starting in FY11/18, the company has also been concentrating on buying and selling vacant condominiums to expand its earnings opportunities. As a result, vacant properties accounted for a growing share of purchased properties (on a unit basis), rising to about 50% in 1H FY11/23.

Star Mica performs renovations on vacant condominiums three to four months following their purchase and sells these properties about a year after they are acquired, while condominiums acquired under rent are not sold until about three and

a half to four years after they are purchased. The company's intensified buying and selling of vacant condominiums will have an impact on earnings of both the rental and sale businesses. Rental earnings will be affected by the lack of rent revenue generated through these properties while associated maintenance fees are incurred. In Renovated Condominium (sale), vacant properties for purchase are subject to more intense competition at the time of purchase compared to units that are being leased at the time of purchase (owner-change properties for purchase). The company's GPM projection at the time of purchase for owner-change properties for purchase is 14–16%, versus 8–10% for vacant properties for purchase. (Based on company data, Shared Research believes FY11/22 GPM was just under 20% for owner-change properties for purchase and about 12% for vacant properties for purchase.)

#### Renovated Condominium (rental) business

- Sales: JPY2.1bn (+4.0% YoY)
- Gross profit: JPY1.2bn (-4.3% YoY)

Star Mica focused on purchasing properties in the Tokyo metropolitan area and in major regional cities, leading to a YoY increase in the inventory of real estate for sale and the number of units in inventory. As a result, rental business sales increased.

On the profit front, gross profit fell despite higher sales due to a 4.8pp YoY decline in GPM to 55.9%. The decline in GPM was primarily attributed to the booking of depreciation for properties held over the long term following the change in accounting policies, which resulted in an approx. 3.0pp YoY fall in GPM (impact of JPY60mn in 1H FY11/22). Another factor weighing on GPM was an increase in the proportion of properties in regional cities with relatively low GPM in the company's nationwide operations. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tends to push down the GPM for these properties.

#### Renovated Condominium (sale) business

- Sales: JPY22.4bn (-11.1% YoY)
- Gross profit: JPY3.2bn (-22.6% YoY)

Sales in the Renovated Condominium (sale) business fell YoY, reflecting a decline in the number of units sold despite an increase in sales per unit. In 1H, the company sold 653 units (-23.1% YoY) and posted sales per unit of JPY34.3mn (+15.6% YoY).

- ▶ The number of units sold by quarter was as follows: 339 in Q1 FY11/22, 510 in Q2 FY11/22, 253 in Q3 FY11/22, 293 in Q4 FY11/22, 280 in Q1 FY11/23, and 373 in Q2 FY11/23.
  - ▶ The number of units delivered in Q1 FY11/22 was up 22.8% and was at a high level, as delivery of some units initially scheduled for Q4 FY11/21 was pushed out to Q1 FY11/22. Compared with the elevated number of units delivered in Q1 FY11/22, the number of units delivered in Q1 FY11/23 was down. However, excluding the impact of delayed deliveries, the number of units delivered in Q1 FY11/23 was up YoY.
  - ▶ During Q2 FY11/22, a large number of properties were sold to corporate clients, and the number of units sold was high, with a 22.9% increase YoY. In Q2 FY11/23, the number of units sold decreased compared to the high level in Q2 FY11/22. However, excluding the impact of corporate sales, the company says the number of units sold in Q2 FY11/23 was up YoY.
- ▶ Sales per unit grew against a backdrop of a YoY increase in the price of preowned condominiums. The company strategically acquired vacant properties at higher prices than before.

On the profit front, gross profit fell on lower sales and a decline in GPM. Quarterly GPM in FY11/22 was 18.9% in Q1, 14.1% in Q2, 16.6% in Q3, and 14.1% in Q4, and GPM in Q1 FY11/23 was 15.0%, and 13.4% in Q2 FY11/23. GPM trended at around 13%, which the company sees as an appropriate level.

- ▶ As mentioned above, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area has been rising for 37 consecutive months. As for vacant purchased properties (from purchase to sale takes about a year), which account for about 60–70% of the total units sold, GPM fell due to the sale of inventory that was purchased during a price hike, although sales prices continued to rise. On the other hand, GPM has been favorable for owner-change purchased properties, which account for 30–40% of the total units sold (which takes about three and a half to four years from purchase to sale), due to the sale of properties purchased before the increase in price per square meter.

For 1H FY11/23, the company booked a JPY26mn (JPY4mn in 1H FY11/22) valuation loss on real estate for sale under cost of sales.

### Real estate for sale

The monetary value of Star Mica's real estate for sale amounted to JPY85.1bn (+JPY1.9bn, or +2.3%, from end-FY11/22). The monetary value increased JPY20.7bn due to the purchase and renovation of properties, and decreased about JPY18.8bn due to sale. At end-Q2 FY11/23, the company had 3,891 units in inventory (+93 units, or +2.4%, from end-FY11/22). Star Mica purchased 746 units (-17.3% YoY) and sold 653 (-23.1% YoY).

The monetary value of Star Mica's real estate for sale amounted to JPY84.2bn (+JPY1.0bn, or +1.2%, from end-FY11/22). At end-Q1 FY11/23, the company had 3,852 units in inventory (+54 units, or +1.4%, from end-FY11/22). Star Mica purchased 334 units (-23.2% YoY) and sold 280 (-17.4% YoY). The number of units purchased was down YoY, but this was because the company prioritized balance between the number of units purchased and sold, and not because of any changes in the business environment.

### Investment business

- Sales: None recorded (None recorded in 1H FY11/22)
- Operating loss: JPY4mn (operating loss of JPY3mn in 1H FY11/22)

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

The company invested in operating companies as it did in the previous year. The operating loss was due to personnel expenses associated with the consideration of new projects, such as the resumption of investment in income-generating real estate.

### Advisory Services business

- Sales (external): JPY386mn (+2.1% YoY)
- Operating profit: JPY341mn (-6.2% YoY)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

Brokerage commissions fell due to the absence of large transactions (with relatively high unit price) that had been handled last year, such as the sale of an entire building, for properties owned by external investors. Meanwhile, the number of brokerage transactions for renovated condominium units sold by the company increased YoY on the back of reinforced sales force.

## Q1 FY11/23 results

- Sales: JPY11.1bn (-10.2% YoY)
- Gross profit: JPY2.2bn (-24.2% YoY)
- Operating profit: JPY1.4bn (-35.2% YoY)
- Recurring profit: JPY1.1bn (-41.4% YoY)
- Net income attributable to owners of the parent: JPY797mn (-40.8% YoY)

According to the Real Estate Information Network for East Japan, the number of pre-owned condominiums sold in the Tokyo metropolitan area increased by 3.0% YoY to 3,240 in February 2023. Meanwhile, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area was JPY687,100 (+9.9% YoY) and the average purchase price was JPY43.6mn (+8.3% YoY), increasing for the 34th and 33rd consecutive months, respectively. That being said, the increase in the average price showed signs of having run its course, with the monthly price between November 2022 and January 2023 declining versus the previous month. The inventory of pre-owned condominiums has been recovering since June 2021 (33,641), and totaled 44,760 in February 2023, but it did not reach the pre-pandemic level (around 47,000–48,000 between March 2019 and February 2020), continuing to feel a shortage of supply.

The company focused on the Renovated Condominium business, working to increase condominium units purchased and supplied through expanding sales areas and enhancing the brokerage function of its subsidiaries. It also strove to maintain and increase its equity ratio to fortify the financial base.

Sales declined YoY due to lower sales in the Renovated Condominium (sale) business. Gross profit fell on lower sales and a deterioration in the GPM. Operating profit was also down YoY, due to the decline in gross profit and a 6.7% YoY increase in SG&A expenses. The rise in SG&A expenses was attributed to higher personnel expenses, which were only partially offset by a decline in taxes and dues on a smaller number of condominium units purchased. Recurring profit fell YoY, as a result of the decline in operating profit and in reaction to the JPY39mn gain on valuation of derivatives booked a year ago.

## Progress versus forecast

The progress rate versus the 1H FY11/23 forecast was 44.7% for sales, 52.0% for operating profit, 52.3% for recurring profit, and 53.0% for net income attributable to owners of the parent.

Versus the full-year forecast, Q1 sales were 22.0%, operating profit was 26.0%, recurring profit was 26.2%, and net income attributable to owners of the parent was 26.5%.

In the mainstay Renovated Condominium (sale) business, Q1 sales and gross profit were at 21.7% and 23.7%, respectively, of the full-year targets, but the company says the number of condominium units purchased and sold, as well as the GPM were in line with plan. The company plans to focus on hiring and training personnel starting this fiscal year to strengthen its sales force, and anticipates greater increases in the number of condominium units sold and sales in 2H than in 1H.

## Results by segment

### Renovated Condominium business

- Sales: JPY10.9bn (-10.2% YoY)
- Operating profit: JPY1.3bn (-33.1% YoY)

Sales in the Renovated Condominium business fell YoY despite higher sales in the rental business, due to a sales decline in the sale business on a fewer number of units sold. Operating profit was also down YoY, as a result of a 24.8% YoY drop in gross profit to JPY2.0bn. In SG&A expenses, taxes and dues were down, but personnel expenses expanded.

Through the end of FY11/17, the company generally purchased condominiums that were currently being rented, collected rent from the existing tenants, and renovated and sold them after these tenants departed. Starting in FY11/18, the company has also been concentrating on buying and selling vacant condominiums to expand its earnings opportunities. As a result, vacant condominiums accounted for a growing share of purchased properties, rising to about 45% in Q1 FY11/23.

Star Mica performs renovations on vacant condominiums three to four months following their purchase and sells these properties about nine months after they are acquired, while condominiums acquired under rent are not sold until about two and a half years after they are purchased. The company's intensified buying and selling of vacant condominiums will have an impact on earnings of both the rental and sale businesses. Rental earnings will be affected by the lack of rent revenue generated through these properties while associated maintenance fees are incurred. In Renovated Condominium (sale), vacant properties for purchase are subject to more intense competition at the time of purchase compared to units that are being leased at the time of purchase (owner-change properties for purchase). The company's GPM projection at the time of purchase for owner-change properties for purchase is 14–16%, versus 8–10% for vacant properties for purchase. (Based on company data, Shared Research believes FY11/22 GPM was just under 20% for owner-change properties for purchase and about 12% for vacant properties for purchase.)

### Renovated Condominium (rental) business

- Sales: JPY1.0bn (+2.5% YoY)
- Gross profit: JPY568mn (-6.8% YoY)

Star Mica focused on purchasing properties in the Tokyo metropolitan area and in major regional cities, leading to a YoY increase in the inventory of real estate for sale and the number of units in inventory. As a result, rental business sales increased.

On the profit front, gross profit fell despite higher sales due to a 5.5pp YoY decline in GPM to 55.7%. The decline in GPM was primarily attributed to the booking of depreciation for properties held over the long term following the change in

accounting policies, which resulted in an approx. 3pp YoY fall in GPM. Another factor weighing on GPM was an increase in the proportion of properties in regional cities with relatively low GPM in the company's nationwide operations. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tends to push down the GPM for these properties.

### Renovated Condominium (sale) business

- Sales: JPY9.9bn (-11.4% YoY)
- Gross profit: JPY1.5bn (-29.6% YoY)

Sales in the Renovated Condominium (sale) business fell YoY, reflecting a decline in the number of units sold despite an increase in sales per unit. In Q1, the company sold 280 units (-17.4% YoY) and posted sales per unit of JPY35.2mn (+7.3% YoY).

- ▶ The number of units delivered in Q1 FY11/22 was up 22.8% and was at a high level, as delivery of some units initially scheduled for Q4 FY11/21 was pushed out to Q1 FY11/22. Compared with the elevated number of units delivered in Q1 FY11/22, the number of units delivered in Q1 FY11/23 was down. However, excluding the impact of delayed deliveries, the number of units delivered in Q1 FY11/23 was up YoY.
- ▶ Sales per unit grew against a backdrop of a YoY increase in the price of preowned condominiums. The company strategically acquired vacant properties at higher prices than before.

On the profit front, gross profit fell on lower sales and a decline in GPM to 15.0% (-3.9pp YoY). Quarterly GPM in FY11/22 was 18.9% in Q1, 14.1% in Q2, 16.6% in Q3, and 14.1% in Q4, and GPM in Q1 FY11/23 was 15.0%. GPM trended at around 15%, which the company sees as an appropriate level. It takes an average of about two years and six months for owner-change properties (units that were being leased at the time of purchase) to be sold after they are purchased. As discussed earlier, the average price per sqm of a pre-owned condominium sold in the Tokyo metropolitan area has been rising for 34 months in a row. The company sold properties that it acquired before the price began to rise, which contributed to strong GPM for owner-change properties.

In Q1 FY11/23, the company booked a JPY9mn (JPY4mn in Q1 FY11/22) valuation loss on real estate for sale under cost of sales.

### Real estate for sale

The monetary value of Star Mica's real estate for sale amounted to JPY84.2bn (+JPY1.0bn, or +1.2%, from end-FY11/22). At end-Q1 FY11/23, the company had 3,852 units in inventory (+54 units, or +1.4%, from end-FY11/22). Star Mica purchased 334 units (-23.2% YoY) and sold 280 (-17.4% YoY). The number of units purchased was down YoY, but this was because the company prioritized balance between the number of units purchased and sold, and not because of any changes in the business environment.

### Investment business

- Sales: None recorded (None recorded in Q1 FY11/22)
- Operating loss: JPY2mn (operating loss of JPY1mn in Q1 FY11/22)

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

The company invested in operating companies as it did in the previous year. The operating loss was due to personnel expenses associated with the consideration of new projects, such as the resumption of investment in income-generating real estate.

### Advisory Services business

- Sales (external): JPY178mn (-5.9% YoY)
- Operating profit: JPY157mn (-27.5% YoY)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated

Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

Brokerage commissions fell because the company sold fewer renovated condominium units than a year earlier and because the company did not handle any large transactions, such as the sale of an entire building, despite an increase in the number of transactions handled involving properties owned by external investors.

## Full-year FY11/22 results

- Sales: JPY48.2bn (+30.7% YoY)
- Gross profit: JPY9.8bn (+31.0% YoY)
- Operating profit: JPY6.1bn (+42.3% YoY)
- Recurring profit: JPY5.4bn (+46.9% YoY)
- Net income attributable to owners of the parent: JPY3.7bn (+54.4% YoY)

According to the Real Estate Information Network for East Japan, the number of pre-owned condominiums sold in the Tokyo metropolitan area declined by 18.1% YoY to 2,797 in November 2022. Meanwhile, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area was JPY696,900 (+14.4% YoY) and the average purchase price was JPY44.2mn (+13.3% YoY), increasing for the 31st and 30th consecutive months, respectively. The inventory of pre-owned condominiums has been recovering since June 2021 (33,641), and totaled 41,158 in November 2022, but it did not reach the pre-pandemic level, continuing to feel a shortage of supply.

The company focused on the Renovated Condominium business, working to increase condominium units purchased and supplied through expanding sales areas and enhancing the brokerage function of its subsidiaries, resulting in real estate for sale totaling JPY83.1bn in FY11/22 (+11.9% YoY). In line with this, total assets totaled JPY90.4bn (+11.8% YoY). At the same time, shareholders' equity increased 0.1% YoY, driven higher by net income attributable to owners of the parent and lower by the purchase of treasury shares. As a result, at end-FY11/22, the equity ratio was 23.5%, down 2.7pp from 26.2% in end-FY11/21.

Sales increased YoY on the back of higher sales in the Renovated condominium (sale) business. Gross profit also increased thanks to a sales strategy focused on securing profit per unit sold in the Renovated condominium (sale) business. Operating profit increased in line with a 31.0% YoY increase in gross profit, while SG&A expenses rose only 15.7% YoY. SG&A expenses increased, driven mainly by higher personnel expenses, taxes, and dues. Personnel expenses rose due to higher performance-linked bonuses for employees and directors based on FY11/22 performance. Higher taxes and dues reflected an increase in the number of units purchased. Recurring profit increased due to higher operating profit and a gain on valuation of derivatives of JPY92mn (JPY77mn in FY11/21).

### Full-year company forecast achievement rate

Achievement rates versus the FY11/22 full-year company forecast (revised in March 2022) were 101.7%, 108.1%, 110.2%, and 109.6% for sales, operating profit, recurring profit, and net income attributable to owners of the parent. The Renovated Condominium (sale) business in particular landed well above the company forecast.

## Results by segment

### Renovated Condominium business

- Sales: JPY47.4bn (+31.8% YoY)
- Operating profit: JPY6.0bn (+40.7% YoY)

The Renovated Condominium business posted a YoY increase in revenue because both rental business revenue and sales revenue were up YoY. Operating profit rose owing to an increase in gross profit to JPY9.2bn (+34.3% YoY), while SG&A expenses were only JPY3.2bn (+23.7% YoY) mainly because of the aforementioned higher personnel expenses, taxes, and dues.

Through the end of FY11/17, the company generally purchased condominiums that were currently being rented, collected rent from the existing tenants, and renovated and sold them after these tenants departed. Starting in FY11/18, the company has also been concentrating on buying and selling vacant condominiums to expand its earnings opportunities. As a result, vacant condominiums accounted for a growing share of purchased properties, rising to 45–50% in FY11/22.



Star Mica performs renovations on vacant condominiums three to four months following their purchase and sells these properties about nine months after they are acquired, while condominiums acquired under rent are not sold until about two and a half years after they are purchased. The company's intensified buying and selling of vacant condominiums will have an impact on earnings of both the rental and sale businesses. Rental earnings will be affected by the lack of rent revenue generated through these properties while associated maintenance fees are incurred. In Renovated Condominium (sale), vacant properties for purchase are subject to more intense competition at the time of purchase compared to units that are being leased at the time of purchase (owner-change properties for purchase). The company's GPM projection at the time of purchase for owner-change properties for purchase is 14–16%, versus 8–10% for vacant properties for purchase. (Based on company data, Shared Research believes FY11/22 GPM was just under 20% for owner-change properties for purchase and about 12% for vacant properties for purchase.)

#### Renovated Condominium (rental) business

- Sales: JPY4.0bn (+2.7% YoY)
- Gross profit: JPY2.4bn (-0.6% YoY)

Star Mica focused on purchasing properties in the Tokyo metropolitan area and in major regional cities, leading to a YoY increase in the inventory of real estate for sale and the number of units in inventory. As a result, rental business sales increased.

The number of inventory units grew faster (+6.9% YoY) than rental business revenue (+2.7% YoY) because, as discussed earlier, the ratio of vacant condominiums to purchased properties was on the uptrend.

On the profit side, although revenue increased, gross profit fell due to a decline in GPM. GPM fell 2.0pp YoY to 60.0% due to an increase in the proportion of properties in regional cities with relatively low GPM. While rents in regional areas are lower than in Tokyo, fixed costs (such as management fees and maintenance reserves) are about the same and this tend to push down the GPM for these properties.

#### Renovated Condominium (sale) business

- Sales: JPY43.5bn (+35.3% YoY)
- Gross profit: JPY6.9bn (+51.6% YoY)

Revenue from the sale of units increased because the company sold more units while sales per unit rose.

Against the backdrop of limited supplies of new condominiums and surging prices, the company adopted a sales strategy that prioritized profit per unit as demand for pre-owned condominiums remained strong. The company sold 1,395 units (+26.8% YoY) and posted sales per unit of JPY31.1mn (+6.7% YoY) in FY11/22.

- ▶ On a quarterly basis, 339 units (+22.8% YoY) were sold in Q1, 510 units (+22.9% YoY) in Q2, 253 units (+10.5% YoY) in Q3, and 293 units (+62.8% YoY) in Q4. Increases in Q1 and Q4 were due to the postponed settlement of some properties from Q4 FY11/21 to Q1 FY11/22. The rise in Q2 was due to an increase in the number of corporate sales units.

On the profit front, gross profit rose thanks to higher revenue as well as an increase in GPM to 15.8% (+1.7pp YoY). Sales per unit rose, as did GPM for units that were being leased at the time of purchase ("owner-change" properties). It takes an average of about two years and six months for owner-change properties to be sold after they are purchased. As discussed earlier, the average price per square meter for a pre-owned condominium sold in the Tokyo metropolitan area has been rising for 31 months in a row. The company sold properties that it acquired before the price began to rise, and GPM rose for owner-change properties as a result.

- ▶ GPM was 18.9% in Q1 FY11/22, 14.1% in Q2 FY11/22, 16.6% in Q3 FY11/22, and 14.1% in Q4 FY11/22. GPM temporarily declined in Q2 when the company sold units to corporate buyers at narrower margins during the quarter.

In FY11/22, the company booked a JPY48mn valuation loss on real estate for sale under cost of sales (JPY81mn in FY11/21).

#### Real estate for sale

The monetary value of Star Mica's real estate for sale amounted to JPY83.1bn (+JPY8.8bn, or +11.9%, from end-FY11/21). Unrealized gains on property for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales) amounted to JPY25.4bn (+JPY4.7bn, or +22.7%, from end-FY11/21).

At end-FY11/22, the company had 3,798 units in inventory (+245 units, or +6.9%, from end-FY11/21). Star Mica purchased 1,640 units (+23.8% YoY) and sold 1,395 (+26.8% YoY).



## Investment business

- Sales: None recorded (JPY20mn in FY11/21)
- Operating loss: JPY7mn (operating profit of JPY14mn in FY11/21)

In the Investment business, the company invests in income-generating properties, primarily in the Greater Tokyo Area, and uses them to generate revenue through rentals and sales.

The company newly invested in operating companies. It posted an operating loss due to personnel expenses for the review of resumption of investment in income-generating real estate.

## Advisory Services business

- Sales (external): JPY763mn (-12.4% YoY)
- Operating profit: JPY704mn (+19.0% YoY)

The Advisory Services business engages in commission fee businesses, such as brokering real estate transactions and leases, and consulting in areas such as leasing & property management, and finance & real estate. Unlike the Renovated Condominium business and the Investment business, the Advisory Services business does not acquire real estate (it is a non-asset business), so profit margins are relatively high.

Brokerage operations for the company's renovated condominiums held firm, and brokerage commissions from the sale of non-company owned properties to investors also increased.

# Income statement

Income statement(JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Sales</b>	<b>13,901</b>	<b>19,333</b>	<b>20,974</b>	<b>23,075</b>	<b>30,282</b>	<b>32,164</b>	<b>39,568</b>	<b>36,897</b>	<b>48,212</b>	<b>48,878</b>
YoY	2.6%	39.1%	8.5%	10.0%	31.2%	6.2%	23.0%	-6.8%	30.7%	1.4%
Cost of sales	10,370	14,733	15,454	16,915	23,358	25,867	33,597	29,446	38,452	40,456
<b>Gross profit</b>	<b>3,531</b>	<b>4,600</b>	<b>5,520</b>	<b>6,160</b>	<b>6,924</b>	<b>6,297</b>	<b>5,971</b>	<b>7,451</b>	<b>9,760</b>	<b>8,422</b>
YoY	9.0%	30.3%	20.0%	11.6%	12.4%	-9.0%	-5.2%	24.8%	31.0%	-13.7%
Gross profit margin	25.4%	23.8%	26.3%	26.7%	22.9%	19.6%	15.1%	20.2%	20.2%	17.2%
SG&A expenses	1,628	2,135	2,261	2,585	3,085	2,670	2,690	3,164	3,661	3,576
YoY	13.4%	31.2%	5.9%	14.3%	19.4%	-13.4%	0.7%	17.6%	15.7%	-2.3%
SG&A ratio	11.7%	11.0%	10.8%	11.2%	10.2%	8.3%	6.8%	8.6%	7.6%	7.3%
<b>Operating profit</b>	<b>1,903</b>	<b>2,465</b>	<b>3,259</b>	<b>3,575</b>	<b>3,839</b>	<b>3,627</b>	<b>3,281</b>	<b>4,287</b>	<b>6,098</b>	<b>4,846</b>
YoY	5.5%	29.5%	32.2%	9.7%	7.4%	-5.5%	-9.5%	30.6%	42.3%	-20.5%
Operating profit margin	13.7%	12.8%	15.5%	15.5%	12.7%	11.3%	8.3%	11.6%	12.6%	9.9%
Non-operating income	21	5	5	6	11	11	17	96	111	9
Interest income	0	0	0	0	0	1	2	5	3	1
Gain on valuation of derivatives	-	-	-	-	-	-	-	77	92	-
Non-operating expenses	637	673	682	599	604	712	802	695	791	933
Interest expenses	535	572	561	459	454	516	592	540	615	685
Commission expenses	102	99	119	137	138	134	148	151	173	196
Other	0	2	2	3	13	63	62	4	3	52
<b>Recurring profit</b>	<b>1,286</b>	<b>1,797</b>	<b>2,581</b>	<b>2,982</b>	<b>3,245</b>	<b>2,926</b>	<b>2,497</b>	<b>3,688</b>	<b>5,419</b>	<b>3,921</b>
YoY	4.5%	39.7%	43.6%	15.5%	8.8%	-9.8%	-14.7%	47.7%	46.9%	-27.6%
Recurring profit margin	9.3%	9.3%	12.3%	12.9%	10.7%	9.1%	6.3%	10.0%	11.2%	8.0%
Extraordinary gains	-	-	-	37	-	-	-	-	-	-
Extraordinary losses	-	-	-	-	-	-	-	153	-	-
Tax charges	513	683	903	951	1,091	903	768	1,133	1,709	1,257
Implied tax rate	39.9%	38.0%	35.0%	31.5%	33.6%	30.8%	30.7%	32.0%	31.5%	32.1%
<b>Net income attributable to owners of the parent</b>	<b>773</b>	<b>1,114</b>	<b>1,678</b>	<b>2,069</b>	<b>2,155</b>	<b>2,023</b>	<b>1,729</b>	<b>2,402</b>	<b>3,709</b>	<b>2,664</b>
YoY	3.8%	44.2%	50.6%	23.3%	4.1%	-6.1%	-14.5%	38.9%	54.4%	-28.2%
Net margin	5.6%	5.8%	8.0%	9.0%	7.1%	6.3%	4.4%	6.5%	7.7%	5.5%

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## FY11/09 to FY11/14

Sales were stable at between JPY12.0bn and JPY14.0bn. Excluding FY11/09 and FY11/12, operating profit ranged from JPY1.7bn to JPY1.9bn. In addition to strength in the Renovated Condominium business, growth in sales and profits in the Advisory Services business supported earnings starting in FY11/10.

In FY11/09, sales fell 5.5% YoY to JPY13.3bn, mainly due to a decline in Investment business sales. Profits fell 16.8% to JPY1.4bn on a loss on valuation of inventory in the Renovated Condominium business and losses on investments other than those on residential properties in the Investment business.

In FY11/12, sales rose 1.1% YoY to JPY12.9bn, but a change in the market environment caused lower profits in the Renovated Condominium business and operating profit fell 17.0% YoY to JPY1.5bn.

From FY11/12 to FY11/14, the company acquired tangible fixed assets in the Investment business.

### **Since FY11/15**

From FY11/15 to FY11/19, sales and profits trended upward on the sale of properties acquired in the Investment business until the end of FY11/14. The mainstay Renovated Condominium business captured increased sales and profits too, with double-digits sales growth in FY11/15 and FY11/18. In FY11/15, sales of individual units in the company's Stella series of refurbished condominiums contributed to sales and profits. In FY11/18, sales grew in the Renovated Condominium business as it began handling unoccupied condominiums in addition to the occupied condominiums it had focused on originally. In FY11/19, Star Mica finished selling off tangible fixed assets acquired before FY11/14.

In FY11/20, the company lowered the prices of some of its properties and took other measures to promote sales in order to secure cash on hand as the spread of COVID-19 continued and trends in the renovated condominium market remained uncertain. As a result, sales rose while gross profit margins fell, causing profit items from gross profit down to fall YoY.

In FY11/21 and FY11/22, amid the overheating of the real estate market, the company promoted a sales strategy that emphasized profit per unit rather than the number of units sold. This led to the company posting record operating profit, surpassing that of FY11/18, when the Investment business drove performance.

In FY11/23, the company maintained YoY revenue growth, driven by an increase in rental income due to an increase in the number of properties held, and an increase in sales from property transactions due to a rise in the unit price per unit sold. However, profit margins decreased as the real estate market cooled, particularly for vacant properties (purchased for resale with relatively short holding periods), resulting in a decline in profit lines from gross profit down.

# Balance sheet

Balance sheet(JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Assets</b>										
Cash and cash equivalents	2,037	1,934	3,260	2,266	4,075	4,331	7,405	3,112	3,110	4,200
Accounts receivable	49	63	41	47	50	56	82	249	76	46
Real estate for sale	31,170	36,890	39,221	44,808	56,261	68,978	66,541	74,309	83,138	86,584
Deferred tax assets	61	69	95	117	178	-	-	-	-	-
Other	319	360	476	596	629	1,816	1,314	1,610	1,787	1,634
<b>Total current assets</b>	<b>33,636</b>	<b>39,316</b>	<b>43,094</b>	<b>47,834</b>	<b>61,193</b>	<b>75,181</b>	<b>75,343</b>	<b>79,281</b>	<b>88,112</b>	<b>92,465</b>
Buildings and structures	4,212	3,868	3,268	2,560	684	55	58	57	66	67
Accumulated depreciation on buildings and structures	-1,157	-1,068	-1,053	-931	-243	-22	-26	-29	-32	-36
Land	7,062	6,238	5,738	4,702	1,316	-	-	-	-	-
Other	28	29	51	35	24	16	12	11	27	18
<b>Total tangible fixed assets</b>	<b>10,145</b>	<b>9,068</b>	<b>8,005</b>	<b>6,366</b>	<b>1,781</b>	<b>49</b>	<b>44</b>	<b>39</b>	<b>61</b>	<b>49</b>
<b>Total intangible assets</b>	<b>8</b>	<b>6</b>	<b>4</b>	<b>18</b>	<b>52</b>	<b>60</b>	<b>266</b>	<b>133</b>	<b>151</b>	<b>147</b>
Investment securities	-	-	70	-	0	0	108	366	794	1,089
Deferred tax assets	99	71	50	47	49	243	371	380	378	422
Other	339	334	421	409	459	587	627	643	881	811
<b>Investments and other assets</b>	<b>438</b>	<b>404</b>	<b>542</b>	<b>456</b>	<b>508</b>	<b>831</b>	<b>1,105</b>	<b>1,388</b>	<b>2,052</b>	<b>2,321</b>
<b>Total fixed assets</b>	<b>10,591</b>	<b>9,478</b>	<b>8,551</b>	<b>6,841</b>	<b>2,341</b>	<b>940</b>	<b>1,415</b>	<b>1,560</b>	<b>2,265</b>	<b>2,517</b>
<b>Total assets</b>	<b>44,229</b>	<b>48,803</b>	<b>51,652</b>	<b>54,684</b>	<b>63,537</b>	<b>76,123</b>	<b>76,759</b>	<b>80,844</b>	<b>90,378</b>	<b>94,983</b>
<b>Liabilities</b>										
Accounts payable-trade	240	330	196	254	304	491	347	614	733	670
Short-term debt	3,838	4,171	2,872	3,053	5,748	7,735	7,613	7,444	8,341	10,226
Short-term borrowings	476	118	-	-	1,658	1,399	433	699	900	52
Current portion of long-term borrowings	3,362	4,054	2,872	3,053	4,090	6,336	7,180	6,745	7,441	10,174
Current portion of bonds	-	-	-	-	-	-	-	-	-	-
Income taxes payable	272	418	589	542	653	381	485	796	1,225	477
Other	864	1,175	1,284	1,347	1,326	1,554	1,662	1,737	1,952	1,496
<b>Total current liabilities</b>	<b>5,213</b>	<b>6,094</b>	<b>4,941</b>	<b>5,197</b>	<b>8,032</b>	<b>10,161</b>	<b>10,107</b>	<b>10,591</b>	<b>12,251</b>	<b>12,868</b>
Long-term debt	27,218	29,994	32,711	33,904	38,307	47,314	46,812	48,983	56,854	58,883
Corporate bonds	100	330	203	356	260	140	120	240	100	60
Long-term borrowings	27,118	29,665	32,508	33,548	38,047	47,174	46,692	48,743	56,754	58,823
Other	175	160	93	73	33	74	126	8	-	-
<b>Total fixed liabilities</b>	<b>27,393</b>	<b>30,154</b>	<b>32,804</b>	<b>33,977</b>	<b>38,340</b>	<b>47,388</b>	<b>46,938</b>	<b>48,992</b>	<b>56,854</b>	<b>58,883</b>
<b>Total liabilities</b>	<b>32,607</b>	<b>36,249</b>	<b>37,745</b>	<b>39,173</b>	<b>46,372</b>	<b>57,549</b>	<b>57,045</b>	<b>59,583</b>	<b>69,104</b>	<b>71,751</b>
<b>Net assets</b>										
Capital stock	3,573	3,573	3,573	3,573	3,573	100	100	373	482	482
Capital surplus	3,549	3,549	3,550	3,541	3,546	7,020	7,015	7,127	3,763	3,763
Retained earnings	5,015	5,939	7,274	8,656	9,980	11,411	12,557	14,428	17,373	19,332
Treasury stock	-557	-557	-550	-317	-0	-0	-1	-720	-428	-415
<b>Total shareholders' equity</b>	<b>11,579</b>	<b>12,504</b>	<b>13,847</b>	<b>15,454</b>	<b>17,100</b>	<b>18,530</b>	<b>19,671</b>	<b>21,208</b>	<b>21,190</b>	<b>23,163</b>
Accumulated other comprehensive income	-24	-18	-0	-3	-10	-32	-34	-6	24	10
Share subscription rights	68	68	60	60	76	76	76	59	59	58
<b>Total net assets</b>	<b>11,622</b>	<b>12,554</b>	<b>13,906</b>	<b>15,510</b>	<b>17,165</b>	<b>18,574</b>	<b>19,713</b>	<b>21,261</b>	<b>21,274</b>	<b>23,231</b>
Working capital	30,979	36,623	39,066	44,601	56,007	68,543	66,276	73,944	82,481	85,961
Total interest-bearing debt	31,056	34,166	35,583	36,957	44,055	55,049	54,425	56,428	65,195	69,109
Net debt	29,019	32,232	32,322	34,691	39,980	50,719	47,020	53,315	62,084	64,909

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Assets

### Real estate for sale

Star Mica's main assets are real estate properties held for sale. At end-FY11/23, these properties comprised 91.2% of the company's entire assets (having risen from 71.9% at end-FY11/13), amounting to JPY86.6bn (10-year CAGR of 12.4%). Most of these properties are pre-owned condominiums, from which the company derives rental income and revenue after sale. Of the real estate for sale, rental properties amounted to approximately JPY68.3bn, while sales inventory (including properties undergoing renovation and those currently for sale) amounted to approximately JPY18.2bn.

The company's rental income and revenue after sale tend to converge at a level obtained by a certain formula (the turnover rate converges at a certain level). The company's real estate assets for sale determine its future sales. The company plans to increase the inventory of real estate held for sale (Renovated Condominium business) while maintaining its equity ratio and profit level.

The company's real estate assets for sale are assessed based on the current market value. When the market value falls below the book value, the difference is recognized as a valuation loss. However, the company does not book any gains when the market value exceeds the book value. According to the company, it had total unrealized gains on property held for sale (= total market value of properties held - inventory of real estate for sale - estimated cost of sales; market value is based on an external appraisal) of JPY25.8bn at end-FY11/23 (10-year CAGR of 17.4%).

## Status of real estate for sale

Real estate for sale(JPYmn)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
Market value of real estate for sale(fair value)	43,300	51,800	56,200	63,900	79,200	96,400	92,300	106,500	122,500	
YoY	23.0%	19.6%	8.5%	13.7%	23.9%	21.7%	-4.3%	15.4%	15.0%	
Inventory of real estate for sale	31,170	36,890	39,221	44,808	56,261	68,978	66,541	74,309	83,138	86,584
YoY	15.5%	18.4%	6.3%	14.2%	25.6%	22.6%	-3.5%	11.7%	11.9%	4.1%
Unrealized gains on property for sale	7,800	9,800	11,300	12,300	14,300	16,900	15,000	20,700	25,400	25,800
YoY	50.0%	25.6%	15.3%	8.8%	16.3%	18.2%	-11.2%	38.0%	22.7%	1.6%
Estimated cost of sales	4,200	5,100	5,700	6,800	8,600	10,500	10,800	11,500	14,000	

Source: Shared Research based on company data

## Tangible fixed assets

Tangible fixed assets mainly comprise rental condominiums in the Investment business. The company increased its holdings in these assets from FY11/12 to FY11/14, but began gradually selling them off in FY11/15, and as of end-FY11/23, they were less than 1% of total assets.

## Total asset expansion

The company plans to borrow money to expand its assets until its equity ratio reach 25% or higher. Therefore, the company's total assets, particularly real estate properties for sale, are likely to increase at a rate similar to its sustainable growth rate (ROE x internal reserves ratio).

## Liabilities

### Interest-bearing liabilities

As of end-FY11/23, 96.4% of its liabilities were interest-bearing debt. Long-term borrowing (corporate bonds and long-term loans) comprised 82.1%, while short-term debt and long-term loans that would be repaid within one year comprised 14.3%.

In conjunction with the expansion of its asset base (mainly real estate held for sale), the company's interest-bearing debt outstanding has been rising since FY11/09. The interest-bearing debt dependency ratio (interest-bearing debt ÷ total assets) has fluctuated between 67.6% and 72.8% over the past 10 years (at end-FY11/23, the interest-bearing debt dependency ratio was 72.8%).

### Bank overdraft

Star Mica uses bank overdraft to maintain its short-term borrowing, instead of seeking new loans each time it buys a property, thus flexibly meeting capital needs for property acquisition. The company then switches the short-term loans into long-term borrowing.

In FY11/22, the company had overdraft facilities with 17 financial institutions. The combined credit limit of these was JPY27.1bn (JPY23.3bn in FY11/21), growing in line with the expansion of operations.

## Overview of bank overdraft

	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Total limit of overdraft on checking account	5,100	5,600	7,100	7,500	8,600	16,000	23,150	20,000	23,300	27,100
Borrowings outstanding	2,584	2,500	3,770	3,725	4,255	10,963	15,459	9,219	10,822	19,090
Difference	2,516	3,100	3,330	3,775	4,345	5,037	7,691	10,781	12,478	8,010

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

## Net assets

Net assets are greatly influenced by the buildup of internal reserves, which are net income attributable to owners of the parent minus dividends paid.

Excluding an increase of internal reserves of net income, the company's capital increased after raising JPY1.2bn through the sale of new shares in FY11/11.

# Cash flow statement

Cash flow statement	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Cash flows from operating activities (1)</b>	<b>-2,649</b>	<b>-2,191</b>	<b>783</b>	<b>-1,822</b>	<b>-4,709</b>	<b>-10,270</b>	<b>4,766</b>	<b>-4,915</b>	<b>-4,593</b>	<b>-1,761</b>
Pre-tax profit	1,286	1,797	2,581	3,019	3,245	2,926	2,497	3,535	5,419	3,921
Decrease (increase) in real estate for sale	-3,863	-4,150	-994	-4,083	-6,902	-10,998	2,437	-7,767	-8,829	-3,447
Income taxes paid	-603	-523	-765	-1,040	-1,032	-1,153	-1,001	-1,224	-1,458	-2,295
<b>Cash flows from investing activities (2)</b>	<b>-2,850</b>	<b>-852</b>	<b>-630</b>	<b>-2</b>	<b>-59</b>	<b>-69</b>	<b>-378</b>	<b>-312</b>	<b>-310</b>	<b>-63</b>
Purchase of tangible fixed assets	-2,849	-850	-561	-28	-19	-13	-3	-4	-35	-2
Proceeds from sales of tangible fixed assets	-	-	2	-	-	-	-	-	-	2
<b>FCF (1+2)</b>	<b>-5,499</b>	<b>-3,043</b>	<b>153</b>	<b>-1,823</b>	<b>-4,768</b>	<b>-10,339</b>	<b>4,387</b>	<b>-5,227</b>	<b>-4,903</b>	<b>-1,825</b>
<b>Cash flows from financing activities</b>	<b>5,861</b>	<b>2,940</b>	<b>1,173</b>	<b>829</b>	<b>6,577</b>	<b>10,542</b>	<b>-1,313</b>	<b>934</b>	<b>4,901</b>	<b>2,914</b>
Net increase (decrease) in short-term borrowings( )	-1,966	-358	-118	-	1,658	-260	-966	266	201	-848
Proceeds from long-term borrowings	16,399	14,258	14,003	14,067	18,386	28,152	24,908	22,853	32,286	39,965
Repayments of long-term borrowings	-8,544	-11,019	-12,341	-12,846	-12,850	-16,779	-24,547	-21,236	-23,580	-35,163
Acquisition of treasury stock	-0	-0	-	-0	-0	-0	-	-720	-3,258	-230
Proceeds from disposal of treasury shares	28	0	0	-	67	-	-	-	-	-
Cash dividends paid	-153	-190	-344	-462	-581	-552	-583	-531	-688	-699
Net income attributable to owners of the parent(NI)	773	1,114	1,678	2,069	2,155	2,023	1,729	2,402	3,709	2,664
Depreciation and amortization (A)	452	333	286	151	60	25	61	77	48	59
Capital expenditures (B)	-2,850	-852	-562	-39	-59	-69	-267	-95	-89	-41
Increase (decrease) in working capital (C)	4,181	5,644	2,443	5,535	11,406	12,536	-2,267	7,668	8,537	3,479
<b>Simple FCF(NI+A+B-C)</b>	<b>-5,807</b>	<b>-5,049</b>	<b>-1,040</b>	<b>-3,354</b>	<b>-9,250</b>	<b>-10,557</b>	<b>3,790</b>	<b>-5,285</b>	<b>-4,869</b>	<b>-797</b>
<b>EBITDA (OP + depreciation and amortization)</b>	<b>2,355</b>	<b>2,798</b>	<b>3,545</b>	<b>3,726</b>	<b>3,899</b>	<b>3,652</b>	<b>3,343</b>	<b>4,364</b>	<b>6,146</b>	<b>4,905</b>
YoY	14.2%	18.8%	26.7%	5.1%	4.6%	-6.3%	-8.5%	30.5%	40.8%	-20.2%

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

Star Mica finances the purchase of pre-owned condominiums by leveraging its own cash with loans. Acquired properties are booked as assets for sale on the balance sheet.

These assets are the basis for the company's earnings growth for its pre-owned condominium business, and help increase the company's future sales. Therefore, the company's cash flow from operating activities tends to decline during the time of earnings growth, owing to an increase in assets for sale. Cash flow from financing activities rises due to an increase in borrowing.

Due to the above reasons, reported earnings are a poor indicator of cash flow from operating activities. Instead, the company emphasizes EBITDA.

## Cash flows from operating activities

The company's cash flows from operating activities are influenced by changes in net income, depreciation expenses, and working capital. Changes in working capital are largely caused by an increase or decrease in the volume of real estate properties for sale. As a result, cash flows from operating activities can be negative when the company increases the purchase of real estate.

## Cash flows from investing activities

The company's cash flows from investing activities are heavily influenced by the acquisition of tangible fixed assets, which are mostly rental apartments managed by the Investment segment.

## Cash flows from financing activities

The company will borrow to make up for an expected shortfall in cash flows from operating and investing activities. Therefore, cash flows from financing activities will continue to be positive. The company plans to increase borrowing until its equity ratio reaches 25% or higher. Accordingly, the borrowing and the volume of real estate held for sale are expected to rise along with an increase in retained earnings, which raise shareholders' equity.

# Other information

## History

The company was established in 2001, tracing its roots to 1997, when CEO Masashi Mizunaga, then working at an investment bank, began investing in real estate on the side. At one point, in the midst of his buying and selling many properties, a real estate broker told him about a relatively cheap pre-owned family condominium that was being rented out. The property was about 30% cheaper than a vacant pre-owned condominium—which was the price he was able to sell it for a few months later, after the tenant moved out and he renovated it. He began to focus on buying pre-owned condominiums with tenants, and established Ohgi Investment Co., Ltd. in 2001—the precursor to Star Mica.

In 2002 he changed the name of Ohgi Investment Co., Ltd. to Star Mica Co., Ltd., and spent the next year investigating whether or not buying and selling pre-owned condominiums with tenants was a viable business. In 2003, assured that success was possible, the company began full operations. The company expanded operations by acquiring two businesses in FY11/05, and in 2006 listed on the Hercules section of the Osaka Securities Exchange.

In August 2002, the company started real-estate fund operations (the current pre-owned condominium business) and raised funds from investors to create a fund (Star No. 1 Fund). The fund invested in pre-owned condominiums that were being rented out to earn rental income and revenue after sale (in the same way that the current Pre-owned Condominium business operates). In FY11/07, the company redeemed the fund by borrowing a total of JPY18bn through syndicated loans. The real estate fund business was converted to condominium liquidation operations.

The company sought to expand into a variety of fields from FY11/06, when it listed its shares, until the global financial crisis began during FY11/08. Star Mica opened an Osaka branch in November 2006. The company established Star Mica Asset Management Co., Ltd. in May 2007, Star Mica Asset Partners Co., Ltd. in August 2008, and Fan Investment Co., Ltd. in May 2008. As a result, the number of consolidated employees increased to 43 in FY11/08 from 28 in FY11/06.

Since FY11/09, the company has focused on buying and selling, and renting out pre-owned condominiums, and related businesses. Its efforts to control risk and become a viable business meant it survived—and even maintained profitability during—the downturn in the real estate market following the 2008 global financial crisis

In September 2012, the company established Star Mica Residence Co., Ltd. to broker pre-owned condominiums.

The company's unique competitive strategy marked a significant break from conventional industry thinking to that point. In recognition of this innovation, in 2011 the company received the Porter Prize from Professor Michael E Porter of Harvard University.

**Porter Prize:** The Porter Prize is named after Professor Michael E. Porter (Harvard University), a leading authority on competitive strategy. The award recognizes companies that innovate in products, processes, and management methods, while implementing unique strategies resulting in increased profitability.

## History of Star Mica Holdings Co., Ltd. and Star Mica Co., Ltd.

Date	History
May 2001	Ohgi Investment Co., Ltd. established
February 2002	Name changed to Star Mica Co., Ltd.
October 2006	Listed on the Hercules section of the Osaka Securities Exchange(now merged with TSE: JASDAQ)
September 2011	Opened Yokohama branch
November 2011	Company wins the 2011 Porter Prize
December 2013	Opened Osaka branch
November 2015	Listed on the Second Section of the Tokyo Stock Exchange
June 2016	Opened Saitama branch
July 2017	Listed on the First Section of the Tokyo Stock Exchange
August 2017	Opened Fukuoka sales office(made into a branch in November 2018)
February 2018	Opened Nagoya sales office
April 2018	Opened Sendai sales office(made into a branch in March 2019)
July 2018	Opened Sapporo sales office(made into a branch in July 2020)
June 2019	Transitioned to holding company structure
April 2022	Moved from the First Section of the Tokyo Stock Exchange to the Prime Market in line with a revision of Tokyo Stock Exchange market classifications

Source: Shared Research based on company data

## ESG initiatives

### Basic policy on sustainability

In line with its mission of "realizing society from 'build' to 'utilize,'" the company conducts business with fairness and integrity, taking on the challenge of creating businesses that benefit society, and pursuing "growth potential" and "profitability."

### Environment (E)

Since its establishment, the company has not engaged in environmentally burdensome "scrap and build" real estate development, but has instead developed its business mainly through the renovation of existing properties. The amount of CO2 emissions from existing property renovations is only about 3% that of new real estate development and new building reconstruction, which minimizes impacts on the global environment.

By revitalizing the existing home sales in Japan, which is still growing at a slower pace than in the US and Europe, the company says it will continuously reduce its environmental footprint and CO2 emissions, thereby contributing to the preservation of a sustainable global environment.

### Society (S)

The company is committed to creating workplaces that consider employee working conditions to continuously supply high-quality properties. Examples of these efforts are as follows.

- ▶ Corporate culture fostering teamwork: Aiming for an "open and flat" organizational culture, one of the company's action guidelines, is to limit employee hierarchy to three levels: director, manager, and staff. Committees and projects are organized to facilitate a free and vigorous exchange of opinions across departmental boundaries.
- ▶ Creating workplaces enabling women to play active roles: Approximately 50% of the company's employees are women, and the company has formed a project team to promote product development from a woman's perspective. The company has a 100% maternity/paternity leave utilization rate, and has established a system enabling women to work long term through the provision of thorough post-return-to-work care.



# Governance (G)

Corporate governance (as of June 30, 2023)

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholder	N/A
Foreign shareholding	20% or more but less than 30%
Directors	
Number of directors under the Articles of Incorporation	11
Number of directors	4
Directors' term of office under Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of outside directors	3
Number of independent outside directors	3
Other information	
Participation in electronic voting platform	No
Providing convocation notice in English	No
Implementation of measures regarding director incentives	Restricted stock
Eligible for stock options	Inside directors
Disclosure of directors' compensation	Disclosure of only some individual information
Policy to determine amount and calculation method of remuneration	Yes
Corporate takeover defenses	No

Source: Shared Research based on company data

## Top management

### Masashi Mizunaga, chairman, president and CEO

Born in 1964. Graduated from the University of Tokyo, Faculty of Agriculture.

Year	Career summary
1989	Joined Mitsui & Co., assigned to the finance, accounting division
1995	Obtained MBA from UCLA; joins Boston Consulting Group
1996	Joined Goldman Sachs, assigned to private banking operations; involved in the development of cutting-edge financial products and asset management.
2000	Established PI Technology Co., Ltd. (currently Ichigo Group Holdings after a name change from Asset Managers Co., Ltd.)
2002	Established Star Mica, focusing on buying and selling pre-owned condominiums. Became company president
2014	Became chairman
2016	Became chairman, president and CEO

Source: Shared Research based on company data

## Major shareholders (as of end-May 2023)

Top shareholders	Shares held (000 shares)	Shareholding ratio
Mizunaga Masashi	11,703	35.0%
The Master Trust Bank of Japan, Ltd.(Trust account)	4,177	12.5%
Custody Bank of Japan, Ltd.(Trust account)	2,358	7.0%
STATE STREET BANK AND TRUST COMPANY 505019	859	2.6%
RE FUND 107-CLIENT AC	789	2.4%
JP MORGAN CHASE BANK 380646 (Standing proxy: Mizuho Bank, Ltd)	738	2.2%
KIA FUND 136 (Standing proxy: Citibank, N. A)	634	1.9%
GOVERNMENT OF NORWAY	591	1.8%
Ark Securities Co., Ltd.	565	1.7%
NORTHERN TRUST CO. (AVFC) RE UK PENSION FUNDS EXEMPT LENDING ACCOUNT	539	1.6%
SUM	22,952	68.6%

Source: Shared Research based on company data

\*Shareholding ratio excludes treasury stock

The company conducted a 1-for-2 stock split on December 1, 2022, but the number of shares held in the table above does not take these stock splits into account.

## Shareholder returns

In the medium-term management plan "Find the Value 2026" announced in January 2024, the company outlined its capital allocation policy.

Regarding shareholder returns, the company aims to implement stable and increasing interim and final dividends twice a year, with a target total payout ratio of 40%. Additionally, the company plans to flexibly repurchase its own shares when it determines that the stock is undervalued, such as when the P/B ratio falls below 1x.

### Consolidated payout ratio

(%, JPY)	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23
consolidated dividend payout ratio	21.0%	23.5%	24.8%	36.3%	27.0%	14.4%	33.7%	25.4%	18.2%	25.1%
Dividend per share	4.50	7.25	11.50	20.75	16.00	8.00	16.00	16.50	19.50	20.00
EPS	21.47	30.81	46.36	57.12	59.23	55.50	47.43	65.00	107.21	79.59

Source: Shared Research based on company data

\*The company conducted a 1-for-100 stock split on December 1, 2012, a 1-for-2 stock split on October 1, 2017, and a 1-for-2 stock split on December 1, 2022. The per-share data in the table above reflects these stock splits.

## By the way

The company takes its name from mica, a mineral found in rocks. Minerals represent perpetuity. So, Star Mica seeks to shine like a star, and shine forever like mica.

# News and topics

## Share buyback

2023-08-17

Star Mica Holdings Co., Ltd. has announced an upcoming acquisition of treasury shares.

### Share buyback details

- Class of shares to be acquired: Common shares of the company
- Total number of shares to be acquired: 180,000 shares (upper limit; 0.5% of shares outstanding [excludes treasury shares])
- Total value of shares to be acquired: JPY100mn (upper limit)
- Acquisition period: August 17, 2023–March 31, 2024

## Changes to details related to acquisition of treasury shares

2023-04-25

Star Mica Holdings Co., Ltd. has announced changes to details related to the acquisition of treasury shares.

### Share buyback details

- Class of shares to be acquired: Common shares of the company
- Total number of shares to be acquired: Upper limit of 320,000 shares (previously 160,000 shares)
- Total number of shares to be acquired as a percentage of the total number of issued shares (excluding treasury stock): 1.0% (0.5%).
- Total value of shares to be acquired: Upper limit of JPY200mn (JPY100mn)
- Acquisition period: January 19, 2023–June 30, 2023 (unchanged)

# Profile

Company Name

**Star Mica Holdings Co., Ltd.**

Phone

**03-5776-2701**

Established

**2001-05-01**

IR Contact

**President Office IR Group**

IR Phone

**+81 3 5776 2785**

IR Email

**lr.group@starmica.co.jp**

Head Office

**28F, Shiroyama Trust Tower 4-3-1 Toranomom, Minato-ku Tokyo, Japan 105-6028**

Listed On

**Tokyo Stock Exchange, Prime Market**

Exchange Listing

**2006-10-02**

Fiscal Year-End

**Nov**

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## Contact Details

Company name

**Shared Research Inc.**

Phone

**+81 (0)3 5834-8787**

Address

**2-6-10 Kanda-Sarugakucho Chiyoda-ku Tokyo, Japan**

Email

**[info@sharedresearch.jp](mailto:info@sharedresearch.jp)**

Website

**<https://sharedresearch.jp>**

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