URBANET CORPORATION

Develops and sells studio apartment buildings (for investment purposes); elite organization leveraging extensive outsourcing

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Business

Develops and sells studio apartment buildings (for investment) in Tokyo's 23 wards, within a 10-minute walk of train stations

Selling buildings to companies that sell condos: URBANET develops studio apartment buildings (for investment not residence) and wholesales the buildings to condominium sales companies (B2B). In FY06/19, URBANET wholesaled 44.5% of the properties it developed. Buildings it develops are mostly located in Tokyo's 23 wards and are within a 10-minute walk of a train station. URBANET also directly sells development properties (whole buildings) to companies, funds, and individuals, and develops and sells subdivided condos. By making thorough use of outsourcing and primarily selling entire buildings instead of individual units, the company achieves high efficiency and limits risk.

Leverages building design capabilities in land acquisition and condo development: Now a condo developer, URBANET got its start in building design and real estate consulting. (First-class architect Shinji Hattori established the company in July 1997.) While development companies typically delegate building design to design offices, URBANET creates general designs itself, so it can quickly make land procurement decisions. The company says its studio apartments generate higher monthly rents (JPY5,000 above market) and occupancy rates because its building designs—such as monotone exteriors, spacious bathrooms, and entranceways furnished with three-dimensional art—attract tenants (72% of whom are under 35).

Earnings

Company forecast for FY06/20: Selling 731 one-room condos it develops (+81 YoY; agreements concluded/anticipated for all units)

FY06/19: Sales were JPY20.1bn (+24.9% YoY) and operating profit JPY2.1bn (+28.7%). Sales were 5.2% and operating profit 6.3% above URBANET's forecast (as revised upward mid-term). Of 14 URBANET-developed properties (650 units), the company completed high-margin sales of six buildings (361 units) to companies, funds, and individuals. In addition, it developed and sold three terraced housing units and 18 apartments. It bought and resold seven properties and three plots of land. Rises in land prices and construction costs and longer construction periods resulted in a 0.4pp YoY drop in GPM.

FY06/20 company forecast: The company expects sales of JPY21.4bn (+6.5% YoY), operating profit of JPY2.4bn (+10.8% YoY), recurring profit of JPY2.1bn (+9.2%), and net income attributable to owners of the parent of JPY1.5bn (+10.7% YoY). It plans to develop and sell 731 one-room condos (+81 units YoY; sales agreements concluded/anticipated for all units). It also expects to sell three stores and buy and resell eight properties and projects a 0.7pp YoY rise in GPM.

Medium-term strategy

Expand existing, recurring revenue, and B2C businesses; develop hotels

URBANET's medium-term strategy has three parts. First, the company aims to expand the existing business developing and selling studio apartment buildings for investment purposes (B2B). To this end, it is narrowing its focus and working to develop new types of condos, such as studio apartments with superior acoustic insulation. Second, it aims to diversify recurring revenue businesses (boost holdings of income properties, which generate recurring revenues), including hotel business. Third, it aims to grow businesses targeting end users, ie consumers (B2C).

Started new businesses: The company realized that having only one business segment (Real Estate) limits its growth and moved into the bed and breakfast (B&B) type roadside hotel business in FY06/18. In FY06/19, it began developing hotels (completion slated for May 2020).

Strengths and weaknesses

Strengths

Solid relationships with condo sales companies: Core business is developing and selling entire buildings to condo sales companies, so risk is limited.

Development locations in Tokyo's 23 wards: Concentrates management resources in Tokyo's 23 wards, which are characterized by a continued population influx and rise in the number of single households, to take advantage of business opportunities.

Design strength a differentiator: Strong building design capabilities due to its start as a design office leads to quick decision-making on land purchases and attracts residents.

Weaknesses

Retail selling capabilities: Although a focus on wholesaling allows the company to limit risk, it has little experience in retailing to investors and tenants.

Little B2C business experience: To expand business targeting end users, the company established wholly owned subsidiary URBANET LIVING CO., LTD., in March 2015, just four and a half years ago.

Low collateral: URBANET plans to increase income properties it can use as collateral, but as of end-FY06/19, this revenue was only JPY440mn.

Profit growth drivers

[Currently] Studio apartment buildings for investment (B2B)

[Medium term] Studio apartment buildings for investment (B2B) and consumers (B2C)

Indices	
Market capitalization	JPY10.0 bn
Stock price (2019/09/24)	JPY398
No. of shares issued (inc. treasury shares)	25,158,100
Foreign stockholding ratio	0.47 %
BPS (FY06/19)	JPY332.15
PBR (FY06/19)	1.20 x
PER (FY06/20 Est.)	6.9 x
Dividend (FY06/20 Est.)	JPY24.00
Dividend yield (FY06/20 Est.)	6.03 %
ROE (06/20 Est.)	17.4 %
Net debt / Equity ratio (FY06/19)	152.7 %

	Sales (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Recurring profit (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
FY06/10	10,593	12.8%	211	nm	99	nm	98	nm	6.20	56.73	1.6%	11.6%
FY06/11	5,026	-52.5%	237	12.5%	132	33.6%	127	30.4%	7.49	60.48	3.1%	12.7%
FY06/12	6,818	35.6%	461	94.8%	422	219.7%	421	231.2%	24.79	80.90	8.2%	34.6%
FY06/13	7,092	4.0%	758	64.2%	628	48.8%	724	71.9%	39.67	128.12	8.9%	35.8%
FY06/14	10,485	47.8%	1,186	56.5%	992	57.8%	764	5.4%	36.96	153.34	10.3%	26.2%
FY06/15	11,911	13.6%	1,653	39.4%	1,396	40.8%	873	14.4%	41.57	203.43	10.6%	21.1%
FY06/16	17,705	48.6%	2,005	21.3%	1,720	23.3%	1,139	30.5%	45.64	234.60	10.0%	20.8%
FY06/17	17,789	0.5%	2,419	20.6%	2,159	25.5%	1,466	28.6%	58.59	275.54	10.2%	23.0%
FY06/18	16,085	-9.6%	1,668	-31.0%	1,441	-33.3%	989	-32.5%	39.36	296.01	5.5%	13.8%
FY06/19	20,084	24.9%	2,148	28.7%	1,914	32.8%	1,310	32.5%	52.09	332.15	6.5%	16.6%
FY06/20 Est.	21,380	6.5%	2,380	10.8%	2,090	9.2%	1,450	10.7%	57.64	-	-	-

Note: Figures rounded to nearest JPYmn (company rounds down figures under JPY1mn)

Business

Develops and wholesales studio apartment buildings in Tokyo's 23 wards, 10-minute walk from train stations

Company overview

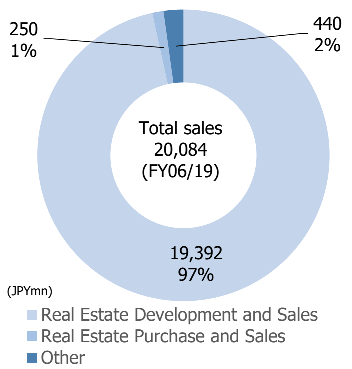
A developer of studio apartment buildings for investment not residential purposes

URBANET's main business is developing and wholesaling studio apartment buildings (for investment purposes) to condominium sales companies. Development sites are located in Tokyo's 23 wards, within a 10-minute walk of a train station. The company directly sells entire buildings to companies, funds, and individuals, and also develops and sells subdivided condos. In 2018, the supply of investment condos in Greater Tokyo totaled 7,816 units (according to the Real Estate Economic Institute Co., Ltd.). URBANET's condos for investment in FY06/19 totaled 650, or 8.3% of that figure. The company was established in July 1997 by architect Shinji Hattori (URBANET's CEO). Executives and employees numbered 60 as of end FY06/19.

One business segment (Real Estate segment)
Three subsegments:
- ▶ Real Estate Development and Sales (97% of FY06/19 sales)
- ▶ Real Estate Purchase and Sales (1%)
- ▶ Other Business (2%)

- ▶ The company has one business segment, the Real Estate segment, and three subsegments:
- ▶ Real Estate Development and Sales (97% of FY06/19 sales): Develops and sells studio apartment buildings for investment purposes; develops and sells condos for subdivision, detached homes, and smaller apartments; buys land for commercial use
- ▶ Real Estate Purchase and Sales (1% of sales): Buys and resells pre-owned family condos and other properties developed by other companies
- ▶ Other (2% of sales): Real estate leasing and brokerage

Sales by subsegment (FY06/19)

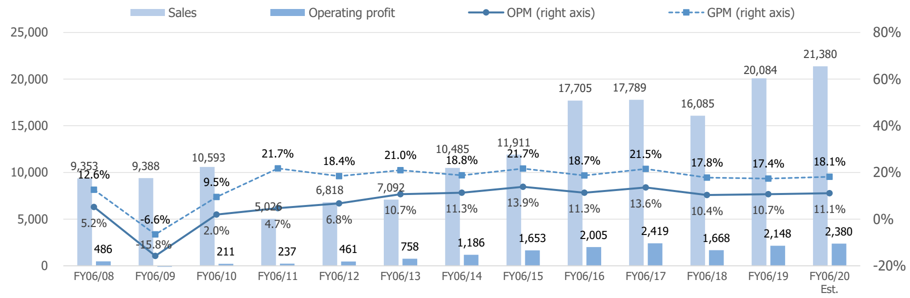


Source: Shared Research based on company data

Continued sales and profit growth from FY06/12 through FY06/17. Although both declined in FY06/18, they once more increased in FY06/19.

The company booked an operating loss in FY06/09, affected by the global financial crisis (September 2008). In FY06/17, sales and profits rose for the sixth consecutive year since FY06/12. In FY06/18, however, due to land purchasing conditions for development properties, the number of properties resulting in the booking of sales declined, resulting in lower sales and operating profit YoY. The number of properties increased again in FY06/19, and URBANET once more achieved higher YoY sales and operating profit.

Earnings trends



Source: Shared Research based on company data (rounded below JPY1mn)

Business model

Condos developed by URBANET

URBANET has 56 executives and employees developing 10–15 studio apartment buildings for investment* each year (mainly in Tokyo's 23 wards, within 10 minutes' walk of a train station**, average floor space of 25sqm). URBANET handles the overall design and buys the land for the properties it develops (thereby taking on some development risk). It outsources detailed building design to design offices and construction to general contractors. While most developers outsource everything including general design, the company handles general design itself, so it can swiftly determine profitability and whether land is suited for developing studio apartment buildings. URBANET wholesales properties it has developed (entire buildings) to condominium sales companies (B2B). As such, it does not bear the risk that comes with selling individual units to investors. The buildings it develops comprise 40–50 studio apartments. Shared Research estimates that each studio wholesales for around JPY20mn, and that the condominium sales companies sell the studios to investors for around JPY25mn each. URBANET also directly sells some studio apartment buildings it has developed to individuals, companies, and funds. In addition, the company develops subdivided condos, detached homes, and apartments, and sells them to individuals. The sale to individuals of condos the company has developed is handled by subsidiary URBANET LIVING.

Developed by URBANET: The company mainly develops buildings of studio apartments for investment and sells them to condominium sales companies.

*Renters (tenants) are the end users of studio apartments.
**The company's principal development area is within Tokyo's 23 wards, in areas 10 minutes' walk from a train station. This is because
(1) Competition to acquire land is high, and the population is expected to continue flowing into Tokyo's 23 wards. (According to the Ministry of Internal Affairs and Communications Bureau of Statistics, the influx into Tokyo's 23 wards is expected to increase until 2040, while the overall Japanese population is decreasing; detail follows.)
(2) Most people moving into Tokyo (especially Tokyo's 23 wards) are single, and are therefore potential tenants of studio apartments.
(3) Potential tenants tend to select prime locations with convenient access to school or work.
(4) As URBANET's customers buy studio apartments for investment rather than as tenants, the company can generate demand as long as yields are strong.
Note: Certain development properties are outside Tokyo's 23 wards, such as a project in Musashi-Kosugi, in Kawasaki, Kanagawa Prefecture.

In FY06/19, URBANET developed 14 studio apartment buildings (650 units) for investment. Of this figure, it sold eight whole buildings totaling 289 units (44.5%; -27.7pp YoY) to condominium sales companies and 361 units in six buildings (55.5%; +27.7pp YoY) directly to companies and funds. In terms of properties it developed itself, URBANET also

- Developed 775 studio apartments for investment (FY06/19)
- Wholesales of buildings to condominium sales companies (44.5%)
- Direct sale of whole buildings to funds (55.5%)

sold three terraced housing units and 18 apartments, for a total of 671 units. Furthermore, it booked sales from the resale of seven units and three plots of land.

The company plans to develop and sell about two condo buildings every three years. In FY06/18, it booked sales on 51 subdivided condos, but booked no sales on subdivided condos in FY06/19. Subdivided condos have high margins as the URBANET group (subsidiary) sells them directly (not through a reseller), but involve fixed costs (salespeople) and risk (units could remain unsold within the group).

Efficient and with limited risk (only development risk)

URBANET's operations are efficient and development risks limited because it outsources most operations other than development, and mainly sells entire buildings, not individual units, to condominium sales companies. The company typically recovers investments on the buildings it develops within four months of completing construction for and selling the buildings, in the form of sales proceeds from condominium sales companies. Sales proceeds are received per unit as the condominium sales companies sell each unit to investors, and the remainder not sold within four months is received from the condominium sales company in full at the end of the contract period. Proceeds are cash transfers (no receivables or promissory notes). URBANET says the process from land acquisition (name transfer on land) through sale (wholesale) takes 1.5–2.5 years. In principle, it relies on bank loans for cash to purchase land. General contractors are paid 10% at the start of construction, 10% when framework goes up, and 80% as payments for each unit are settled. URBANET wholesales buildings to condominium sales companies such as MEIWA CO., LTD. It outsources construction to GODA KOUMUTEN CO., LTD. (HQ in Takamatsu, Kagawa Prefecture) for more than half of the properties it develops.

Business model characteristics

- A small team (11 executives, 39 regular employees, 8 employees at subsidiaries, and 2 contract employees)
    - Sales per employee: JPY427mn (FY06/19; 49 employees on a consolidated basis)
    - Net income per employee: JPY28mn (FY06/19)
- Concentrates management resources on general design and development of studio apartments for investment purposes (outsources detailed design and construction)
- Mainly wholesales developed properties (sells entire building) to condominium sales companies (no risk of units remaining unsold, as the condominium sales companies sell units on to investors)
- The company bears only the development risk, so it is relatively resistant to economic downturns. Fixed costs are low, while profitability is high and the business can respond flexibly to market fluctuations.

Features of URBANET's studio apartments

- Prime locations: In Tokyo's 23 wards and within 10 minutes' walk of a train station
- Differentiates through impactful exterior design and general design capabilities (eight of 49 consolidated-basis employees handle planning and general design; company got its start in design and real estate consulting.)
    - Distinctive monotone exterior designs (Photo 1)
    - Entrances with three-dimensional art (Photo 2)
    - Spacious unit bath designed by URBANET (Photo 3)

・Ample storage space (storage capacity maximized without increasing floor space) (Photo 4)

▶ Tenants are typically young (youngest group, aged 25–29, is 35.1% of the total) (See pie chart.)

Feature of URBANET's one-room condominiums for investment: Distinctive designs

Photo 1

Photo 2

Photo 3

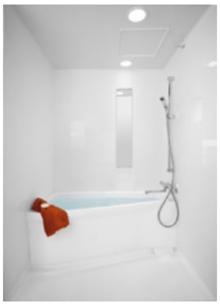
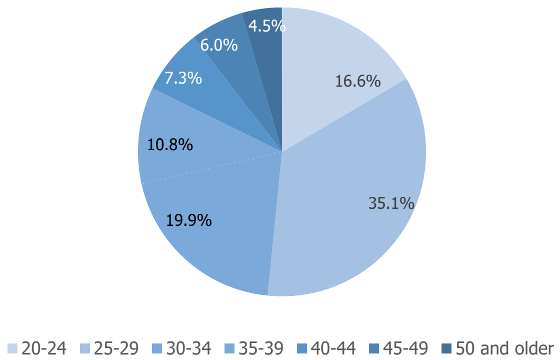


Photo 4

Note: Photos of Gran Tiara Shin-Okachimachi Asyl Court, developed by URBANET
Source: Company data

Age of residents in URBANET's studio apartments



Source: Shared Research based on company data

URBANET analyzes the results of tenant surveys (conducted every two years), and reflects this feedback when next developing next properties.

Purchase and Resale business, and Other business

In the Purchase and Resale business, URBANET buys pre-owned condos and renovates and resells them. It aims to increase its number of business partners and expand this business.

Increase number of business partners and expand business domains, including resale and condominium rental businesses

Started up new business

The company realized that having only one business segment (Real Estate) limits its growth and decided to move into the hotel business. In FY06/18, it began leasing six established hotels it had acquired as the first stage of the new business. In addition, in

FY06/19–FY06/20, it is conducting its first development project in the hotel business using land it purchased to develop one-room condos for investment (completion slated for May 2020; see Medium-term strategy section).

URBANET brands

- Asyl Court (studio apartments)
- Asyl Coffret (compact condos)
- Gran Asyl (family condos)
- Asyl Villa (detached homes)

URBANET's main customers (wholesales: condominium sales companies, direct sales: companies)

Main sales destinations (ten years through FY06/18)												
		FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Sales		**9,388**	**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**	**20,084**
	YoY	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%
Meiwa Inc.		2,154	2,226	882	2,204	2,037	3,511	2,881	5,568	5,391	2,796	
	YoY	7.3%	3.3%	-60.4%	149.9%	-7.6%	72.4%	-18.0%	93.2%	-3.2%	-48.1%	
	% of sales	22.9%	21.0%	17.5%	32.3%	28.7%	33.5%	24.2%	31.4%	30.3%	17.4%	
Assetlead Inc.		-	-	-	1,355	2,211	3,333	3,589	5,516	1,121	2,259	
	YoY	-	-	-	-	63.2%	50.8%	7.7%	53.7%	-79.7%	101.5%	
	% of sales	-	-	-	19.9%	31.2%	31.8%	30.1%	31.2%	6.3%	14.0%	
Leopalace21 Corporation		-	-	-	-	-	-	-	-	-	2,176	
	YoY	-	-	-	-	-	-	-	-	-	nm	
	% of sales	-	-	-	-	-	-	-	-	-	13.5%	
Company A		-	-	-	-	-	-	-	-	-	1,827	
	YoY	-	-	-	-	-	-	-	-	-	nm	
	% of sales	-	-	-	-	-	-	-	-	-	11.4%	
Minami Azabu RSIC G.K.		-	-	-	-	-	-	-	-	2,408	-	
	YoY	-	-	-	-	-	-	-	-	nm	-	
	% of sales	-	-	-	-	-	-	-	-	13.5%	-	
Individual		-	-	-	-	-	-	-	-	2,210	-	
	YoY	-	-	-	-	-	-	-	-	nm	-	
	% of sales	-	-	-	-	-	-	-	-	12.4%	-	
Tokyu Land Corporation		-	-	-	-	-	-	-	-	2,122	-	
	YoY	-	-	-	-	-	-	-	-	nm	-	
	% of sales	-	-	-	-	-	-	-	-	11.9%	-	
Vortex Co., Ltd.		-	-	-	-	-	-	-	1,450	-	-	
	YoY	-	-	-	-	-	-	-	na	-	-	
	% of sales	-	-	-	-	-	-	-	8.2%	-	-	
Makes Co., Ltd.		-	-	-	-	-	-	1,134	-	-	-	
	YoY	-	-	-	-	-	-	nm	-	-	-	
	% of sales	-	-	-	-	-	-	9.5%	-	-	-	
Syla Co., Ltd.		-	-	-	-	-	1,016	-	-	-	1,751	
	YoY	-	-	-	-	-	nm	-	-	-	nm	
	% of sales	-	-	-	-	-	9.7%	-	-	-	10.9%	
Prestige Co., Ltd.		-	-	-	-	776	-	-	-	-	-	
	YoY	-	-	-	-	nm	-	-	-	-	-	
	% of sales	-	-	-	-	10.9%	-	-	-	-	-	
Property Investment Managers Co., Ltd.		1,192	478	-	-	-	-	-	-	-	-	
(now: PIM Co., Ltd.)	YoY	nm	40.1%	-	-	-	-	-	-	-	-	
	% of sales	12.7%	4.5%	-	-	-	-	-	-	-	-	
ITOCHU Property Development, Ltd.		-	-	-	660	-	-	-	-	-	-	
	YoY	-	-	-	nm	-	-	-	-	-	-	
	% of sales	-	-	-	9.7%	-	-	-	-	-	-	
Nisshin Housing Support Co., Ltd.		-	-	500	-	-	-	-	-	-	-	
(now: Nisshin Property Management Co., Ltd.)	YoY	-	-	nm	-	-	-	-	-	-	-	
	% of sales	-	-	9.9%	-	-	-	-	-	-	-	
Century Tokyo Leasing Corporation		-	2,161	-	-	-	-	-	-	-	-	
	YoY	-	nm	-	-	-	-	-	-	-	-	
	% of sales	-	20.4%	-	-	-	-	-	-	-	-	
Nihon Works Co., Ltd.		1,161	-	-	-	-	-	-	-	-	-	
	YoY	nm	-	-	-	-	-	-	-	-	-	
	% of sales	12.4%	-	-	-	-	-	-	-	-	-	

Source: Shared Research based on company data

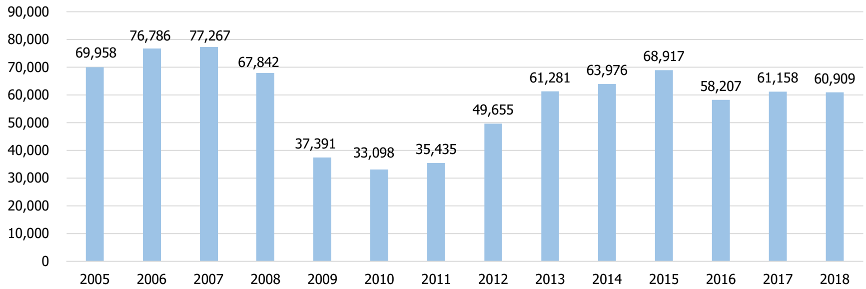
Market conditions

Demographic trend: Ongoing influx to Tokyo

Continued increase in the demographic that rents the studio apartments URBANET develops

URBANET generally develops studio apartments for investment within Tokyo's 23 wards, which have seen a net influx of population for 22 consecutive years since 1997. Single households make up the majority of this figure, so the number of people who rent properties developed by URBANET is continually rising. The net inflow into Tokyo's 23 wards was 58,207 in 2016, 61,158 in 2017, and 60,909 in 2018 (source: "Report on Internal Migration Derived from Basic Resident Registers (2018 Results)" and Ministry of Internal Affairs and Communications Bureau of Statistics). According to the report, growth trends over the past four years for Greater Tokyo have been similar to Tokyo's 23 wards: 125,282 in 2016, 125,530 in 2017, and 139,868 in 2018.

Influx into Tokyo's 23 wards



Source: Shared Research based on the "Report on Internal Migration Derived from Basic Resident Registers (2018 Results)," Ministry of Internal Affairs and Communications Bureau of Statistics

Supply and selling prices of new studio apartments

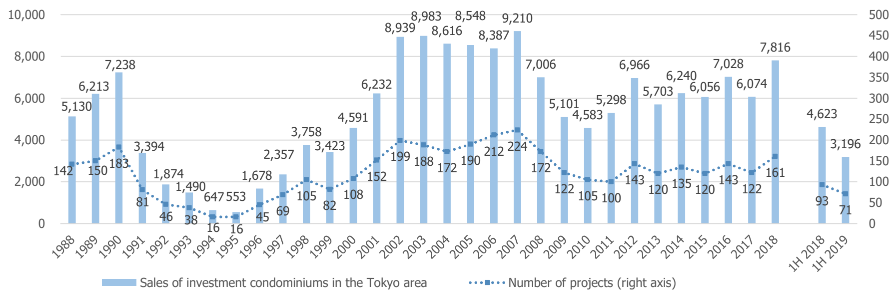
Since start of 2019, supply of studio apartments falling, selling prices decreasing

The supply of studio apartments for investment in Greater Tokyo totaled 7,816 units (161 properties) in 2018 (source: Real Estate Economic Institute Co., Ltd.). This is an increase of 1,742 units (39 properties) from 2017. Amid very low interest rates and purchases by investors seeking rental income, the supply of studio apartments for investment in Greater Tokyo in 2016 topped 7,000 units for the first time since 2008, but in 2017 saw a YoY percentage decline in the double digits, finishing in the 6,000 range once again. However, in 2018, the number grew again to 7,816 (see graph).

The sales price of studio apartments in Greater Tokyo has continued to rise since 2013, reflecting higher land prices and costs of construction materials and other items. The average selling price rose 9.2% YoY to JPY30.88mn or JPY1.15mn per sqm (+3.5% YoY) in 2017 (source: Real Estate Economic Institute Co., Ltd.).

However, supply has decreased since the start of 2019. The supply of condos for investment in Greater Tokyo totaled 3,196 units (71 properties) in 1H 2019 (Jan–Jun), down 23.7% YoY in terms of units and 30.9% YoY in the number of properties (source: Real Estate Economic Institute Co., Ltd.). According to the same source, new construction in central Tokyo is likely to remain difficult in the face of fiercer competition for land, but the supply should be stable in the short term as the company expands its reach to the Joto and Johoku areas (Eastern and Northern Tokyo). A further decline in the supply of lower-priced units because of the land price increase may result in areas other than Greater Tokyo and the pre-owned housing market becoming even more popular.

Supply of condos for investment in Greater Tokyo



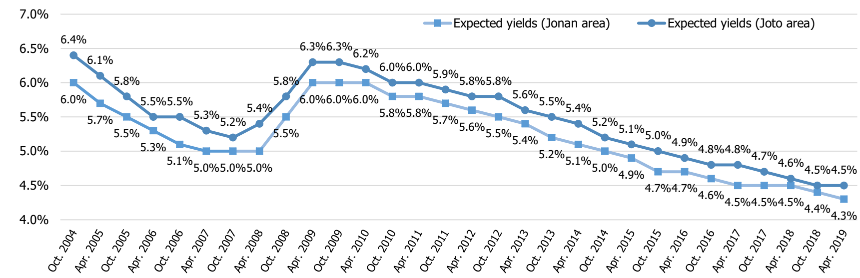
Source: Shared Research based on data from TOKYO KANTEI Co., Ltd.

Investment yields

Investment yields trending downward

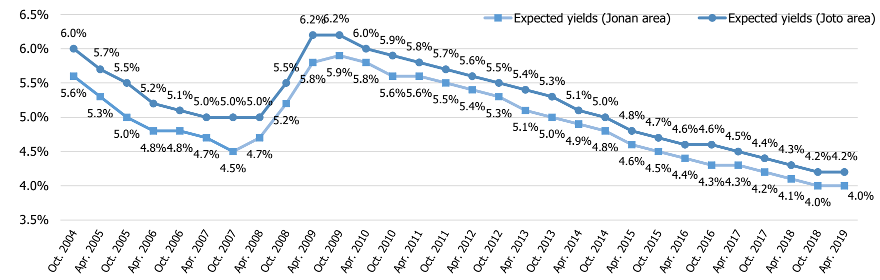
The Bank of Japan's policy of negative interest rates (since March 2016) depressed interest rates on financial products, making investment in tangible assets such as studio apartments relatively attractive. However, investment yields on investment real estate have been falling as prices rise. For instance, according to data from the Japan Real Estate Institute, the transaction yield (gross yield*) on studio apartments (within 10 minutes' walk of a train station, built within the past five years) for investment purposes in Tokyo's Jonan area (comprising Meguro and Setagaya wards) has fallen from 5.8% in April 2009 to 4.0% in April 2019, and the expected yield fell from 6.0% in April 2009 to 4.3% in April 2019.

Expected yields on one-room condominiums for investment in Tokyo



Source: Shared Research based on data from the Japan Real Estate Institute
Note: One-room condominiums built within the past five years, within 10 minutes' walk of a station, mean floor space of 25–30sqm, around 50 units per building

Transaction yields on one-room condominiums for investment in Tokyo



Source: Shared Research based on data from the Japan Real Estate Institute
Note: One-room condominiums built within the past five years, within 10 minutes' walk of a station, mean floor space of 25–30sqm, around 50 units per building

*Gross yield: Annual leasing income divided by acquisition price. Net yield is calculated as annual leasing income minus attendant expenses (management fees, property taxes) divided by acquisition price plus attendant expenses (registration license tax). Investors take into account other factors as well, such as loan interest payments, vacancy risk, and potential losses on eventual sale. According to one company that sells investment condos, main objectives when investing in studio apartments are obtaining yields, generating post-retirement cash flows, reaping tax benefits (if rental income minus various expenses during the initial purchase period is negative due to building depreciation, interest expenses, lower inheritance tax valuation, etc.), and signing up for life insurance (group credit insurance when borrowing).

Competitors

- According to the Ministry of Finance's "Financial Statements Statistics of Corporations by Industry," in FY2017 some 328,500 companies throughout Japan were involved in real estate (11.8% of the 2.79mn companies in all industries excluding finance and insurance).
- These statistics also indicate that in FY2018 the average OPM in all industries except finance and insurance was 4.4%, while the real estate sector far exceeds this percentage, at 11.1% (putting it at the top of all industries).
- Around 120 listed companies are involved in real estate.
- URBANET's main competitors are FJNext Co., Ltd. (TSE1: 8935) and The Global Ltd. (TSE1: 3271).
- Among listed companies, URBANET's profitability is essentially in line with the average for its competitors and comparable companies, while its efficiency (ROA) is somewhat below average.

Profitability and efficiency

Ticker	Company	Fiscal year	Sales	OP	OPM	RP	RPM	ROA	ROE	Equity ratio
3244	Samty Co., Ltd.	FY11/18	84,274	14,033	16.7%	11,635	13.8%	7.1%	16.9%	37.9%
8935	FJNext Co., Ltd.	FY03/19	81,516	10,093	12.4%	10,087	12.4%	14.8%	15.5%	61.8%
8877	Nihon Eslead Corporation	FY03/19	57,195	7,170	12.5%	7,237	12.7%	11.1%	11.0%	63.1%
3271	The Global Ltd.	FY06/19	35,864	2,307	6.4%	1,459	4.1%	2.9%	6.7%	17.8%
3464	Property Agent Inc.	FY03/19	21,534	1,730	8.0%	1,385	6.4%	7.0%	19.1%	22.6%
3245	Dear Life Co., Ltd.	FY09/18	20,763	2,859	13.8%	2,932	14.1%	14.3%	25.4%	53.3%
3242	Urbanet Corporation	FY06/19	20,084	2,148	10.7%	1,914	9.5%	6.5%	16.6%	27.4%
3280	S Trust Co., Ltd.	FY02/19	15,659	1,411	9.0%	1,312	8.4%	6.8%	16.0%	26.5%
3246	Kose R.E. Co., Ltd.	FY01/19	12,150	1,548	12.7%	1,544	12.7%	9.9%	15.2%	43.2%
3264	Ascot Corporation	FY09/18	10,452	605	5.8%	480	4.6%	2.2%	3.4%	40.0%
3469	Dualtap Co., Ltd.	FY06/19	9,543	431	4.5%	296	3.1%	5.1%	10.7%	33.7%
	Average		33,549	4,030	10.2%	3,662	9.3%	8.0%	14.2%	38.8%

Source: Shared Research based on individual company data

Earnings

Company forecasts higher sales and profit again from FY06/19; FY06/21 agreements already concluded for 880 units developed by company

FY06/19 earnings

- Sales totaled JPY20.1bn (+24.9% YoY) and operating profit JPY2.1bn (+28.7% YoY). In FY06/18, sales and profits fell for the first time since FY06/11, but grew again in FY06/19.
- Sales were 5.2% and operating profit 6.3% above URBANET's forecast (upward revision announced December 13, 2018).
- Recurring profit was JPY1.9bn (+32.8% YoY) and net income attributable to owners of the parent JPY1.3bn (+32.5% YoY).

FY06/19: Sales up 24.9% YoY, operating profit up 28.7% YoY

- Real Estate Development and Sales: Sales up 25.2% YoY
- Real Estate Purchase and Sales: Sales up 90.9% YoY
- Other business: Sales up 5.0% YoY

The main reason sales rose 24.9% YoY was that the number of URBANET-developed studio apartments for investment rose to 650 (+126 units YoY, +24.0%).

The main reasons operating profit rose 28.7% YoY were lower SG&A expenses ratio on higher sales. Higher land prices and construction costs and longer construction periods resulted in a 0.4pp drop in GPM to 17.4%. URBANET says the aging society and work style reform (two days off per work week) underlie the high construction costs (remaining high the last year or two after rising continuously for several years), and construction periods have become about 10% longer. At the same time, the SG&A-to-sales ratio fell 0.7pp to 6.7%. As a result, OPM rose 0.3pp to 10.7%.

Subsegment trends:

- Real Estate Development and Sales: Sales were JPY19.4bn (+25.5% YoY). The company sold 650 investment one-room condo units (14 buildings) for investment that it developed. (See the table entitled “URBANET development properties, land and real estate for resale” in the Business section.) Of this figure, eight buildings totaling 289 units (44.5%) were sold to condominium sales companies and six entire buildings totaling 361 units (55.5%) were sold to companies and funds. URBANET says that previously funds and REITs did not purchase buildings of 100 units or fewer, but are doing so now due to a limited supply of and high demand for larger properties. In addition, in terms of properties it developed itself, URBANET sold three terraced housing units (one building) and 18 apartment units (two buildings). It also resold three plots of land.
- Real Estate Purchase and Sales: Sales in this subsegment were JPY250mn (+15.2% YoY). The company resold seven pre-owned condo units (four units in FY06/18).
- Other: Sales were JPY440mn (+5.0% YoY) from businesses including real estate brokerage and real estate leasing. Recurring revenue is increasing as the company builds its inventory of profitable properties.

Purchasing

Inventories (real estate for sale and real estate for sale in process) at end-FY06/19 were JPY19.3bn (+3.4% YoY, +JPY638mn). Of this amount, real estate for sale in process was JPY15.5bn (-3.2% YoY), representing the first decline in nine years. FY06/19 saw the first net operating cash inflows in five years. Despite ongoing difficulty in procuring land for condos in central Tokyo, URBANET does not procure any land that would negatively impact its margin. Still, it has already concluded agreements for 880 units it will develop itself from FY06/21, and any future procurement will be for development in FY06/22 and later.

Interest-bearing debt at end-FY06/19 was JPY18.2bn, down JPY371mn YoY.

Dividends

As net income for FY06/19 exceeded its initial forecast, the company increased the year-end dividend from the planned JPY8 to JPY11 per share. Together with the interim dividend of JPY7, this meant total dividends for the year of JPY18. For reference, FY06/18 dividends totaled JPY16 (JPY15 ordinary dividend + JPY1 commemorative dividend) per share.

Subsegment performance

Subsegment performance		FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Sales		**9,388**	**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**	**20,084**
	YoY	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%
Real Estate Development and Sales		**7,357**	**7,776**	**4,192**	**6,380**	**6,536**	**10,219**	**11,671**	**15,755**	**17,198**	**15,448**	**19,392**
	YoY	-20.8%	5.7%	-46.1%	52.2%	2.4%	56.4%	14.2%	35.0%	9.2%	-10.2%	25.5%
	% of sales	78.4%	73.4%	83.4%	93.6%	92.2%	97.5%	98.0%	89.0%	96.7%	96.0%	96.6%
Condominiums sold	Buildings	10	8	4	7	8	12	12	15	12	12	14
	Units	401	453	112	254	293	522	554	608	587	540	650
One-room condos for investment	Buildings	10	8	1	5	6	12	11	15	12	12	14
	Units	401	453	36	222	240	522	507	608	587	524	650
Condominiums for subdivision	Buildings	-	-	3	2	2	-	1	-	-	1	-
	Units	-	-	76	32	53	-	47	-	-	16	-
Apartments and terrace houses	Buildings	-	-	-	-	-	-	-	-	1	3	3
	Units	-	-	-	-	-	-	-	-	12	16	21
Apartments	Buildings	-	-	-	-	-	-	-	-	1	1	2
	Units	-	-	-	-	-	-	-	-	12	6	18
Terrace houses	Buildings	-	-	-	-	-	-	-	-	-	2	1
	Units	-	-	-	-	-	-	-	-	-	10	3
Selling price (avg. per building)	JPYmn/bldg	736	972	1,048	911	817	852	973	1,050	1,323	1,030	1,141
Selling price (avg. per unit)	JPYmn/unit	18	17	37	25	22	20	21	26	29	28	29
Real Estate Purchase and Sales		**1,920**	**2,721**	**773**	**383**	**454**	**162**	**96**	**1,776**	**239**	**217**	**250**
	YoY	0.0%	41.7%	-71.6%	-50.4%	18.4%	-64.3%	-40.7%	1754.3%	-86.5%	-9.1%	90.9%
	% of sales	20.4%	25.7%	15.4%	5.6%	6.4%	1.5%	0.8%	10.0%	1.3%	1.3%	1.2%
Condominiums sold	Units	-	-	-	-	27	3	2	30	5	4	7
One-room condos for investment	Units	-	-	-	-	27	3	2	30	5	4	7
Condominiums for subdivision	Units	-	-	-	-	-	-	-	-	-	-	-
Selling price (avg. per unit)	JPYmn/unit	-	-	-	-	17	54	48	59	48	54	36
Other		**112**	**96**	**61**	**55**	**103**	**104**	**143**	**172**	**351**	**419**	**440**
	YoY	64.5%	-14.2%	-36.1%	-10.7%	87.3%	1.4%	38.0%	19.9%	103.1%	19.5%	5.0%
	% of sales	1.2%	0.9%	1.2%	0.8%	1.4%	1.0%	1.2%	1.0%	2.0%	2.6%	2.2%

Source: Shared Research based on company data
*Simple calculated values (For example, sale of land for resale not included in Real Estate Development and Sales)

FY06/19 units sold

Project		Type	Units	Construction status (as of end-June 2019)	Sales status (FY06/19)	Booking (FY06/19)
Land purchased for in-house development: 671 units						
Investment single-room condominium: 650 units	Asyl Court Ikegami	Single-room, for investment	63	Completed	Booked sales	1H
	COMFORIA Takinogawa	Single-room, for investment	123	Completed	Booked sales	1H
	AXAS Mejiro Asyl Court	Single-room, for investment	35	Completed	Booked sales	1H
	AXAS Musashi-koyama Asyl Court	Single-room, for investment	55	Completed	Booked sales	1H
	STAGE FIRST Ryogoku II Asyl Court	Single-room, for investment	43	Completed	Booked sales	1H
	Makes Design Iriya Asyl Court	Single-room, for investment	38	Completed	Booked sales	1H
	Asyl Court Higashi-Koenji	Single-room, for investment	42	Completed	Booked sales	1H
	AXAS Ginza Asyl Court	Single-room, for investment	48	Completed	Booked sales	1H, 2H
	KERRIA Nishimagome Asyl Court	Single-room, for investment	95	Completed	Booked sales	2H
	Stage Grande Shin-Okachimachi Asyl Court	Single-room, for investment	54	Completed	Booked sales	2H
	HT Asyl Shibaura	Single-room, for investment	34	Completed	Booked sales	2H
	Musicians' Villa Hatagaya	Single-room, for investment	45	Completed	Booked sales for 4 units	2H or FY06/20
	Grand Concierge Omorihoncho I Asyl Court	Single-room, for investment	40	Completed	Booked sales for 6 units	2H or FY06/20
	Grand Concierge Omorihoncho II Asyl Court	Single-room, for investment	60	Completed	Booked sales for 10 units	2H or FY06/20
Other: 21 units	Asyl Duke Meguro	Terrace house	3	Completed	Booked sales	1H
	Casa Amalfi Saginuma I/II	Condominium	18	Completed	Booked sales	2H
Purchase and resale	Seven properties	-	7	Completed	Booked sales	1H, 2H
Land resale	Three properties	-	-	-	Booked sales	1H, 2H

Source: Shared Research based on company data

Earnings by quarter (cumulative)

(Cumulative) (JPYmn)	FY06/18				FY06/19				FY06/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Est.
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	% of FY	Cons.
Sales	4,430	8,834	13,308	16,085	6,560	11,474	18,125	20,084	105.2%	19,100
YoY	11.0%	-17.4%	4.2%	-9.6%	48.1%	29.9%	36.2%	24.9%		18.7%
Real Estate Development and Sales	4,291	8,545	12,817	15,448	6,432	11,180	17,614	19,392		
YoY	14.5%	-17.3%	4.2%	-10.2%	49.9%	30.8%	37.4%	25.5%		
% of sales	96.9%	96.7%	96.3%	96.0%	98.1%	97.4%	97.2%	96.6%		
Real Estate Purchase and Sales	54	108	171	217	31	76	181	250		
YoY	-50.0%	-28.0%	7.9%	-9.1%	-42.6%	-29.6%	5.8%	15.2%		
% of sales	1.2%	1.2%	1.3%	1.3%	0.5%	0.7%	1.0%	1.2%		
Other	84	180	319	419	95	216	328	440		
YoY	-37.3%	-12.2%	14.5%	19.5%	13.1%	20.0%	2.8%	5.0%		
% of sales	1.9%	2.0%	2.4%	2.6%	1.4%	1.9%	1.8%	2.2%		
Cost of sales	3,483	7,012	10,720	13,223	5,247	9,427	14,847	16,595		
YoY	13.0%	-13.7%	9.5%	-5.3%	50.6%	34.4%	38.5%	25.5%		
Cost ratio	78.6%	79.4%	80.5%	82.2%	80.0%	82.2%	81.9%	82.6%		
Gross profit	947	1,822	2,589	2,863	1,313	2,047	3,277	3,489		
YoY	4.2%	-29.0%	-13.2%	-25.2%	38.6%	12.4%	26.6%	21.9%		
GPM	21.4%	20.6%	19.5%	17.8%	20.0%	17.8%	18.1%	17.4%		
SG&A expenses	323	603	893	1,194	302	635	981	1,341		
YoY	-10.8%	-24.9%	-16.3%	-15.2%	-6.7%	5.3%	9.9%	12.3%		
SG&A ratio	7.3%	6.8%	6.7%	7.4%	4.6%	5.5%	5.4%	6.7%		
Operating profit	624	1,219	1,696	1,668	1,011	1,412	2,296	2,148	106.3%	2,020
YoY	14.2%	-30.8%	-11.4%	31.0%	62.0%	15.9%	35.4%	28.8%		21.1%
OPM	14.1%	13.8%	12.7%	10.4%	15.4%	12.3%	12.7%	10.7%		10.6%
Recurring profit	566	1,105	1,535	1,441	961	1,306	2,115	1,914	110.0%	1,740
YoY	12.6%	-32.3%	-11.1%	-33.3%	69.8%	18.2%	37.8%	32.8%		20.7%
RPM	12.8%	12.5%	11.5%	9.0%	14.7%	11.4%	11.7%	9.5%		9.1%
Net income	390	758	1,048	989	671	907	1,465	1,310	108.7%	1,205
YoY	11.6%	-32.2%	-11.1%	-32.5%	72.0%	19.6%	39.8%	32.5%		21.8%
Net margin	8.8%	8.6%	7.9%	6.1%	10.2%	7.9%	8.1%	6.5%		6.3%

Source: Shared Research based on company data

Company forecast for FY06/20

The company forecasts sales of JPY21.4bn (+6.5% YoY), operating profit of JPY2.4bn (+10.8% YoY), an OPM of 11.1% (+0.4pp YoY), recurring profit of JPY2.1bn (+9.2% YoY), and net income attributable to owners of the parent of JPY1.5bn (+10.7% YoY).

FY06/20 company forecast: Sales up 6.5% YoY, operating profit up 10.8% YoY

▶ The number of URBANET-developed properties for which sales will be booked is increasing.

▶ Forecast assumes GPM will increase 0.7pp YoY (with sales of buildings to funds and affluent customers) and the SG&A-to-sales ratio will rise 0.3pp YoY.

▶ Reasons for higher sales forecast: The company forecasts a 63-unit YoY increase in sales of properties it develops to 734 units in 14 buildings (see the table entitled "URBANET development properties, land and real estate for resale" in the Business section). This breaks down into 13 blocks (731 units) of investment one-room condo units (with four blocks going to funds and two to affluent customers) and one block of stores (3 units).

▶ Reasons for higher OPM (+0.4pp YoY) forecast: URBANET expects GPM to improve 0.7pp YoY). As in FY06/19, among projects planned for FY06/20, there are multiple agreements for whole buildings to be sold to funds and affluent customers. However, the company expects the SG&A-to-sales ratio to rise 0.3pp.

▶ Development environment

・ Even as purchasing of land for condos remains difficult in central Tokyo and land prices continue to rise,*[1] URBANET is carefully considering profitability and has completed purchase agreements for 880 units that it plans to sell in FY06/21. However, inventories had declined YoY as of end FY06/19.*[2]

*[1] The average price of roadside land in Tokyo proper was up 6.5% YoY in 2019. Prices have continued to rise in central Tokyo since 2014 on robust demand from foreigners visiting Japan and demand for office space.
*[2] As mentioned, inventories (real estate for sale and real estate for sale in process) at end-FY06/19 were JPY19.3bn (+3.4% YoY, +JPY638mn). Of this amount, real estate for sale in process was JPY15.5bn (-3.2% YoY). Real estate for sale in process declined YoY for the first time in nine years. FY06/19 saw the first net operating cash inflows in five years.

▶ Sales environment

[Studio apartments for investment purposes]

・ The price of real estate in favorable locations in central Tokyo and near train stations is rising, causing a downward trend in yield, but sale is robust. In recent years, even large real estate developers have gotten involved in investment one-room condos, which are gaining importance as a major investment product.

- Amidst improper financing by some financial institutions and misconduct in the real estate industry, financial institutions adopted a stricter approach to financing real estate investment. However, there is still strong interest among affluent individuals looking to use real estate in their inheritance tax strategies and young people looking to build their assets, and supply is having trouble keeping up with demand (note from Shared Research: There is robust demand accompanying the population influx to Tokyo's 23 wards, so the market for investment one-room condo in Greater Tokyo does not carry significant risk).
- Funds and REITs with ample capital are targeting income properties, and are showing greater interest in buildings with a smaller number of units than they previously did. This is putting even greater pressure on the already thin supply of investment one-room condos.

[Condos for subdivision]

- The average price of a new condominium in Greater Tokyo is rising due to higher land prices, and the contract rate is improving in the face of a limited supply of units. However, customers are also showing less interest in new condos, causing inventories to grow.

FY06/20 forecast of units to be sold

		Project	Type	Units	Construction status (as of Aug. 9, 2019)	Sales status (as of Aug. 9, 2019)	Booking
Land purchased for in-house development: 734 units							
	Investment single-room condominium: 731 units	Musicians' Villa Hatagaya	Single-room, for investment	41	Completed	Signed agreement	1H
		Grand Concierge Omorihoncho I Asyl Court	Single-room, for investment	34	Completed	Signed agreement	1H
		Grand Concierge Omorihoncho II Asyl Court	Single-room, for investment	50	Completed	Signed agreement	1H
		Makes Design Kojiya Asyl Court	Single-room, for investment	48	Completed	Signed agreement	1H
		Negishi Project	Single-room, for investment	90	To be completed in Nov. 2019	Signed agreement	1H
		Komagome Project	Single-room, for investment	37	To be completed in Dec. 2019	Signed agreement	2H
		Fudomae Project	Single-room, for investment	46	To be completed in Feb. 2020	Signed agreement	2H
		Sakura Josui Project	Single-room, for investment	130	To be completed in Feb. 2020	Signed agreement	2H
		Nakanohoncho Project	Single-room, for investment	74	To be completed in Feb. 2020	Signed agreement	2H
		Magome III Project	Single-room, for investment	45/60	To be completed in Mar. 2020	Signed agreement	2H or FY06/21
		Chitosekarasuyama Project	Single-room, for investment	39/52	To be completed in Apr. 2020	Sales ongoing	2H or FY06/21
		Nishisugamo III Project	Terrace house	44	To be completed in May 2020	Signed agreement	2H
		Kamata IV Project	Condominium	53	To be completed in Jun. 2020	To sign agreement	2H
	Other: 3 units	Sangenjaya II Project (stores)	-	3	To be completed in Nov. 2019	Signed agreement	1H
Land resale		Eight properties	-	8	-	-	1H, 2H

Source: Shared Research based on company data

Dividends

URBANET plans dividends totaling JPY24 per share in FY06/20 (JPY10 interim dividend + JPY14 year-end dividend). This is a JPY6 increase YoY. The company is raising the targeted payout ratio, which was previously 35% of net income attributable to owners of the parent after the impact of corporate tax adjustments, to 40% starting in FY06/20 (see Policy on shareholder returns section).

Company outlook for FY06/21

As of August 9, 2019, URBANET had acquired development land to build 880 units for sale from FY06/21 onward. After leveling off in FY06/18, performance recovered in FY06/19. Provided unit sales prices and profit margins do not fall sharply amid a real estate market slump, the company is likely to achieve its FY06/20 forecast of sales of JPY21.4bn (+6.5% YoY) and operating profit of JPY2.4bn (+10.8% YoY), and maintain robust performance in FY06/21 as well.

Medium-term strategy

Expand URBANET-developed, recurring-revenue, and B2C businesses

Core strategies

Four main medium-term strategies:

- Further expand the core business of developing and selling studio apartment buildings for investment (B2B).

  Grow business in subdivided condos (family condos, compact condos), generating higher margins by taking on selling risk, and collaborate with construction companies.

- Diversify operations, including recurring-revenue model businesses (increase holdings of income properties that generate sales*[1] to grow the leasing business), and start of in-house development of hotels*[2].

*[1] FY06/15: (1) Alethea Court Hatchonawate (32 units) (developed by other companies); FY06/16: (2) Asyl Court Shinagawa Nakanobu (64 units) (developed by URBANET), (3) Alethea Court Tamagawa (19 units) (developed by other companies); FY06/17: (4) Green Eight Noborito (62 units; developed by another company) and (5) Asyl Court Kita-Shinagawa (52 units; developed by URBANET); FY06/18: (6) Hotel Asyl Tokyo Kamata.

*[2]URBANET plans to open its first self-developed hotel during FY06/20 (completion slated for May 2020). For its first hotel business project, it will use land (268.18sqm) in Nishikamata, Ota Ward, Tokyo, originally purchased to be used in the development of studio apartments for investment. The project land is conveniently located three minutes by foot from JR Kamata Station, served by the Keihin-Tohoku, Tokyu Tamagawa, and Tokyu Ikegami lines. Kamata Station provides convenient access to Haneda Airport and Shinagawa Station, making Kamata a handy place to stay for those visiting Tokyo for tourism or business. The hotel is in a favorable location and will be accommodation-focused (targeting families of three to five people), with 48 guest rooms in 15 above-ground floors and bathing facilities available.

The company says land to be used for this sort of hotel or for studio apartments for investment is virtually identical in terms of location and size. It says the size of a single studio apartment is about 21sqm, whereas hotel rooms can go as small as 11sqm, and there is demand from West European travelers for such hotels. The company believes it can improve earnings by operating hotels itself, and plans to operate hotels it develops itself based on experience gained with its B&B-type roadside hotels.

- Through a subsidiary (URBANET LIVING, established in March 2015), expand businesses targeting end users (B2C). Grow B2C businesses of selling subdivided condos, detached homes, and apartments it develops to end users, and build the leasing and management businesses.

Medium-term management strategy:

- Further expand studio apartments for investment
- Grow business in subdivided condos
- Diversify, including into recurring-revenue businesses
- Expand B2C operations targeting consumers

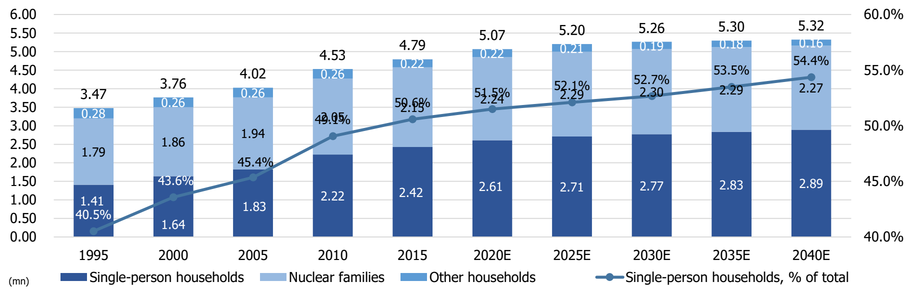
Target management indicators

Maintain a gross profit margin of 10% and equity ratio of 25%.

Development environment

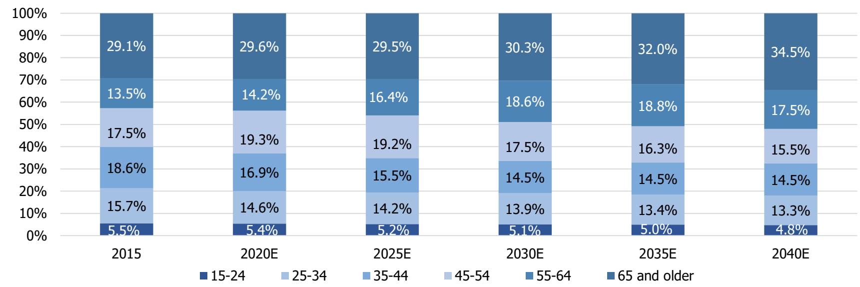
According to statistics (announced in March 2019) by the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs, the number of households in Tokyo's 23 wards—where URBANET develops condos—is forecast to continue growing until 2040. The rate of increase is expected to be particularly high among single-person households, and the age of householders is slated to rise: the total number of households in Tokyo's 23 wards is forecast to rise from 4.8mn in 2015 to 5.3mn in 2040, with the percentage of single-person households increasing over that period from 50.6% to 54.4% in 2040. The bureau's data predicts that the percentage of households headed by people 35 or older will rise from 78.8% in 2015 to 82.0% in 2040.

Households in Tokyo's 23 wards



Source: Shared Research based on data from the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs (announced March 2019)

Composition by age of general households in Tokyo



Source: Shared Research based on data from the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs (announced March 2019)

Strengths and weaknesses

Strengths

- **Solid relationships with condominium sales companies:** URBANET mainly wholesales entire studio apartment buildings it develops to condominium sales companies, such as MEIWA CO., LTD. (In FY06/19, URBANET wholesaled 44.5% of its development properties.) URBANET has built a long-term relationship with MEIWA and other condominium sales companies with a sales track record. Due to a positive, long-term relationship with MEIWA that has lasted more than 10 years, URBANET wholesales between one third and one fourth of its development properties to MEIWA. As condominium sales companies handle individual sales to investors, URBANET's risk is limited mainly to development risk.
- **Development locations in Tokyo's 23 wards:** URBANET is concentrating management resources in Tokyo's 23 wards, which are characterized by a continued population influx and rise in the number of single households to take advantage of business opportunities. The company's development properties are generally located in Tokyo's 23 wards, within 10 minutes' walk of a train station, so are convenient for commuting to work or school. Tokyo's 23 wards have seen a net population inflow for 22 consecutive years, since 1997. In the past four years, the net inflow into Tokyo's 23 wards was 58,207 in 2016, 61,158 in 2017, and 60,909 in 2018 ("Report on Internal Migration Derived from Basic Resident Registers (2018 Results)," Ministry of Internal Affairs and Communications Bureau of Statistics). According to the Tokyo Metropolitan Government Bureau of General Affairs, the number of households in Tokyo's 23 wards is also expected to continue increasing until 2035–2040, centered on single households.

[Strengths]

- Solid relationships with condominium sales companies
- Development locations in Tokyo's 23 wards
- Design strength a differentiator

[Weaknesses]

- Lacks retail selling capabilities
- Little B2C business experience
- Low collateral

- **Design capabilities differentiate it from competitors:** URBANET has strong plan design capabilities (general designs), stemming from its start as a design company. This background enables the company to make quick decisions on land acquisition and design condos that attract tenants. Whereas other development companies typically outsource general designs to design offices, URBANET handles this process internally, leading to swift decisions when acquiring land. The company has a number of design features that encourage tenants to select URBANET-developed properties over competitors': a distinctive monotone exterior design, three-dimensional art in the entranceways, and spacious bathtubs. URBANET says these features allow condos it has developed to command slightly higher monthly rents than competing properties (up to JPY5,000 more per month) and boost occupancy rates.

Weaknesses

- **Retail selling capabilities:** URBANET's main focus is on wholesaling entire studio apartment buildings for investment that it develops to sales companies, so it eliminates the risk of units remaining unsold. In exchange, however, Shared Research expects that the company misses some opportunity for returns. Because URBANET has a small team that concentrates on development, it focuses mainly on wholesaling not retailing. As a result, we believe the company may not be accumulating its own selling capabilities and experience.

- **Lacks B2C business experience:** URBANET established a subsidiary, URBANET LIVING, in March 2015 to focus on targeting end users (B2C). The company aims to increase B2C businesses such as sales of subdivided condos, detached homes, and apartments, as well as leasing and management. Shared Research sees the B2C business as being central to URBANET's growth over the medium term. However, URBANET LIVING is still young, launched in July 2015. It was already operating in the black during FY06/16, but it has only four and a half years of experience in the B2C businesses.

- **Low collateral:** URBANET weathered the situation that enveloped the real estate sector during the global financial crisis through decisive restructuring and the rapid disposal of properties for sale. Having been frozen out of new development financing from financial institutions, the company experienced shortages of cash and collateral properties. Consequently, URBANET intends to increase the amount of income properties (generating leasing sales) it can use as loan collateral. However, the company has few income properties (four buildings and six B&B roadside hotels as of end-FY06/19), generating only JPY440mn (+5.0% YoY; 2% of total sales) in FY06/19. Assuming an expected investment yield of 5% and a loan-to-value ratio of 60%, the collateral value would be around JPY5.3bn (JPY440mn x (1/0.05) × 0.6).

Income statement

Income statement (JPYmn)	FY06/09 Parent	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Est. Cons.
Sales	9,388	10,593	5,026	6,818	7,092	10,485	11,911	17,705	17,789	16,085	20,084	21,380
YoY	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%	6.5%
Cost of sales	10,005	9,590	3,934	5,564	5,605	8,512	9,331	14,391	13,962	13,223	16,595	17,500
YoY	22.4%	-4.1%	-59.0%	41.4%	0.7%	51.9%	9.6%	54.2%	-3.0%	-5.3%	25.5%	5.5%
Cost ratio	106.6%	90.5%	78.3%	81.6%	79.0%	81.2%	78.3%	81.3%	78.5%	82.2%	82.6%	81.9%
Gross profit	-616	1,003	1,092	1,255	1,487	1,973	2,580	3,314	3,827	2,863	3,489	3,880
YoY	-152.2%	-262.7%	8.9%	14.9%	18.5%	32.7%	30.8%	28.4%	15.5%	-25.2%	21.9%	-100.0%
GPM	-6.6%	9.5%	21.7%	18.4%	21.0%	18.8%	21.7%	18.7%	21.5%	17.8%	17.4%	18.1%
SG&A expenses	863	792	855	793	729	787	927	1,308	1,408	1,194	1,341	1,500
YoY	24.3%	-8.2%	8.0%	-7.3%	-8.1%	7.9%	17.9%	41.1%	7.6%	-15.2%	12.3%	11.9%
SG&A ratio	9.2%	7.5%	17.0%	11.6%	10.3%	7.5%	7.8%	7.4%	7.9%	7.4%	6.7%	7.0%
Operating profit	-1,479	211	237	461	758	1,186	1,653	2,005	2,419	1,668	2,148	2,380
YoY	n.m.	n.m.	12.5%	94.8%	64.2%	56.5%	39.4%	21.3%	20.6%	-31.0%	28.7%	10.8%
OPM	-15.8%	2.0%	4.7%	6.8%	10.7%	11.3%	13.9%	11.3%	13.6%	10.4%	10.7%	11.1%
Recurring profit	-1,597	99	132	422	628	992	1,396	1,720	2,159	1,441	1,914	2,090
YoY	n.m.	n.m.	33.6%	219.7%	48.8%	57.8%	40.8%	23.3%	25.5%	-33.3%	32.8%	9.2%
RPM	-17.0%	0.9%	2.6%	6.2%	8.9%	9.5%	11.7%	9.7%	12.1%	9.0%	9.5%	9.8%
Net income attributable to owners of the parent	-1,802	98	127	421	724	764	873	1,139	1,466	989	1,310	1,450
YoY	n.m.	n.m.	30.4%	231.2%	71.9%	5.4%	14.4%	30.5%	28.6%	-32.5%	32.5%	10.7%
Net margin	-19.2%	0.9%	2.5%	6.2%	10.2%	7.3%	7.3%	6.4%	8.2%	6.1%	6.5%	6.8%
Depreciation and amortization of goodwill	36	22	17	24	11	19	30	70	107	119	116	na
EBITDA	-1,444	233	254	485	768	1,205	1,683	2,075	2,526	1,787	2,264	na

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- Sales and profit increased for six consecutive financial years from FY06/12 to FY06/17, but decreased in FY06/18 before increasing again in FY06/19.
- Profit margins improve in financial years in which there is a higher ratio of sales from selling whole URBANET-developed studio apartment buildings to affluent customers and funds. Conversely, this does not occur in financial years in which there is a higher ratio of wholesales to sales companies. In FY06/18, the ratio of wholesales to sales companies increased 12pp YoY to 72% (with no sales of whole buildings to affluent customers). In FY06/19, the ratio of wholesales to affluent customers and funds increased.

Balance sheet

Balance sheet (JPYmn)	FY06/09 Parent	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Cash and deposits	1,029	1,392	961	1,253	2,046	2,147	2,684	2,548	4,113	4,231	5,305
Lease investment assets	-	-	-	2	-	-	-	-	-	23	25
Inventories	7,182	1,975	3,287	4,079	6,062	7,476	10,586	13,257	15,460	18,624	19,262
Real estate for sale	3,991	126	332	328	0	1,167	1,896	2,005	96	2,618	3,762
Real estate for sale in process	3,191	1,840	2,933	3,739	6,062	6,308	8,690	11,252	15,364	16,006	15,500
Work in process, other	0	9	22	12	-	1	0	-	-	-	-
Advance payments–trade	12	7	40	0	82	56	82	10	-	25	161
Prepaid expenses	19	15	13	26	14	25	-	22	25	27	35
Other	96	40	17	1	1	12	40	10	61	131	84
Total current assets	8,338	3,430	4,318	5,362	8,204	9,716	13,392	15,847	19,660	23,062	24,873
Tangible fixed assets	233	221	212	206	113	878	1,858	2,826	3,622	4,903	4,996
Buildings and structures	125	119	114	110	67	336	691	1,518	1,964	2,091	1,996
Vehicles	2	3	2	-	-	-	-	-	-	-	-
Tools, furniture, and fixtures	14	7	3	3	2	1	5	3	3	2	1
Lease assets	-	-	-	-	13	32	67	64	46	40	48
Land	92	92	92	92	30	509	624	1,240	1,609	2,770	2,770
Construction in progress	-	-	-	-	-	-	471	-	-	-	181
Intangible fixed assets	32	24	16	4	1	3	2	3	2	3	3
Investment and other assets	155	142	161	51	222	157	324	277	277	560	595
Investment securities	-	-	-	-	-	-	75	-	-	-	-
Investment in capital	60	60	60	0	0	1	1	1	1	1	1
Lease and guarantee deposits	37	30	25	25	20	20	69	65	63	59	61
Long-term prepaid expenses	2	0	5	4	4	1	2	4	2	6	4
Long-term time deposits	-	40	40	2	14	26	38	50	-	-	-
Deferred tax assets	-	0	0	0	152	26	69	60	80	39	79
Lease investment assets	-	0	0	0	0	0	0	0	0	335	310
Other	56	11	32	19	32	83	69	97	131	120	141
Total fixed assets	421	387	389	261	336	1,038	2,184	3,105	3,900	5,466	5,595
Total assets	8,759	3,817	4,707	5,623	8,540	10,754	15,576	18,952	23,560	28,528	30,467
Accounts payable	2,000	139	270	515	210	903	1,371	876	417	1,638	2,046
Short-term borrowings	150	36	419	-	-	120	80	223	255	195	724
Current portion of bonds	-	-	-	-	20	20	68	100	82	36	0
Current portion of long-term borrowings	5,255	2,031	1,371	1,931	2,759	3,806	3,695	5,740	7,173	8,131	8,879
Lease obligations	-	-	-	-	3	8	18	20	19	16	21
Accounts payable–other	119	133	122	54	15	40	100	74	95	52	104
Accrued expenses	9	7	7	9	12	12	23	23	17	21	25
Income taxes payable	-	3	3	0	63	82	515	342	460	71	470
Consumption taxes payable	-	131	-	13	20	0	50	128	13	3	0
Advances received	84	29	49	202	155	193	225	793	631	634	1,159
Deposits received	11	10	13	18	20	21	22	36	25	34	31
Other	4	4	7	11	2	2	4	5	7	13	51
Total current liabilities	7,633	2,524	2,260	2,752	3,278	5,207	6,170	8,360	9,195	10,844	13,509
Bonds	-	-	-	-	80	60	118	118	36	-	-
Long-term borrowings	404	322	1,407	1,447	2,524	2,256	4,117	4,513	7,324	10,098	8,474
Lease obligations	-	-	-	-	12	26	56	50	31	33	36
Net defined benefit liability	-	-	-	-	-	21	28	33	38	44	49
Other	5	5	6	5	1	6	6	9	15	59	36
Total fixed liabilities	409	327	1,413	1,452	2,616	2,369	4,324	4,723	7,444	10,234	8,594
Total liabilities	8,042	2,851	3,673	4,204	5,894	7,576	10,495	13,083	16,639	21,077	22,103
Shareholder's equity	716	963	1,027	1,405	2,645	3,175	5,092	5,859	6,914	7,443	8,356
(Treasury stock)	-	-	-	-	-	-	-	-	0	0	0
Accumulated other comprehensive income	-	-	-	-	-	-	-14	-	-	-	-
Share subscription rights	1	3	7	14	2	3	4	10	7	8	8
Net assets	717	966	1,034	1,419	2,646	3,178	5,082	5,869	6,921	7,451	8,364
Net debt	4,780	997	2,237	2,125	3,257	4,055	5,276	8,028	10,720	14,229	12,771
Working capital	5,183	1,836	3,018	3,566	5,852	6,573	9,214	12,382	15,042	17,010	17,241

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- Inventories (real estate for sale, including work in process) account for more than 60% of assets.
- Due to an increase in holdings of income property, the percentage of tangible fixed assets rose from 8.2% in FY06/14 to 17.2% in FY06/18. The percentage remained high at 16.4% in FY06/19.
- Interest-bearing debt (total of long- and short-term debt, lease obligations, and corporate bonds) was growing as business expanded, reaching JPY18.6bn at

end-FY06/18. However, at end-FY06/19, it fell slightly to JPY18.2bn.

Per-share data (JPY)

Per-share data (split-adjusted; JPY)	FY06/09 Parent	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Shares issued (year end)	14,006,400	17,714,400	17,714,400	17,714,400	20,641,200	20,704,800	24,958,400	24,974,400	25,091,900	25,144,100	25,158,100
EPS	-131.06	6.20	7.49	24.79	39.67	36.96	41.57	45.64	58.59	39.36	52.09
EPS (fully diluted)	na	6.11	7.42	24.54	38.40	36.73	41.46	45.60	58.49	39.34	52.09
Dividend per share	5.00	3.75	3.75	5.00	7.50	12.00	13.00	16.00	21.00	16.00	18.00
Book value per share	52.70	56.73	60.48	80.90	128.12	153.34	203.43	234.60	275.54	296.01	332.15

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	FY06/09 Parent	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
Cash flows from operating activities	2,827	3,636	-1,177	47	-1,691	231	-1,246	-1,367	-1,747	-1,601	2,043
Cash flows from investing activities	88	29	-50	126	-13	-771	-1,055	-986	-400	-1,388	-167
Cash flows from financing activities	-4,098	-3,279	746	137	2,497	638	2,839	2,216	3,737	3,107	-802

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- With sales growing, expansion of inventories (real estate for sale) usually causes operating cash outflows. However, FY06/19 saw operating cash inflows accompanying robust performance and increasing difficulty procuring land for development.
- Purchases of income property and other transactions led to negative investing cash flows.
- The company usually covers financing cash outflows with funding through indirect finance. However, FY06/19 saw net cash outflows as dividend payments and repayment of long-term loans exceeded inflows.

Financial ratios

Financial ratios	FY06/09 Parent	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.
ROA (RP-based)	-14.2%	1.6%	3.1%	8.2%	8.9%	10.3%	10.6%	10.0%	10.2%	5.5%	6.5%
ROE	-107.8%	11.6%	12.7%	34.6%	35.8%	26.2%	21.1%	20.8%	23.0%	13.8%	16.6%
Inventory turnover	1.1	2.1	1.5	1.5	1.1	1.3	1.0	1.2	1.0	0.8	0.9
Fixed assets turnover	41.5	46.7	23.3	32.6	44.4	21.2	8.7	7.6	5.5	3.8	4.1
Current ratio	109.2%	135.9%	191.1%	194.8%	250.3%	186.6%	217.0%	189.6%	213.8%	212.7%	184.1%
Net assets ratio	8.2%	25.2%	21.8%	25.0%	31.0%	29.5%	32.6%	30.9%	29.3%	26.1%	27.4%

Source: Shared Research based on company data

Policy on shareholder returns

To build up a stable management base, URBANET's policy is to solidify its financial position by continuing to accumulate retained earnings, but it recognizes the distribution of profits to shareholders as an important management priority. The company's dividend policy was to distribute 35% of net income attributable to owners of the parent after the impact of corporate tax adjustments. However, URBANET in FY06/19 discontinued* the shareholder benefit program it had launched in FY06/18, so from FY06/20 it says it will distribute 40% of net income attributable to owners of the parent after the impact of corporate tax adjustments.

*There is essentially no merit of the shareholder benefit program to corporate shareholders. In addition, the program did not apply to shareholders with only small holdings, and even shareholders with a certain number of shares expressed complaints. For these reasons, URBANET returned to its earlier policy of providing shareholder returns in the form of dividends and raised the payout ratio accordingly.

Shareholders

Shareholders	Shares held	Shareholding ratio
Hattori Inc.	5,616,000	22.32%
Shinji Hattori	700,000	2.78%
Goda Koumuten Co., Ltd.	588,000	2.34%
Hironobu Hattori	484,000	1.92%
Shuji Okuda	312,700	1.24%
MEIWA CO., LTD.	280,000	1.11%
JPMorgan Securities Japan Co., Ltd.	226,100	0.90%
Yoshihisa Yamashita	226,000	0.90%
Hisato Kumamoto	170,000	0.68%
Yoshizumi Kimura	164,000	0.65%
Yuichi Fukube	164,000	0.65%
Total shares issued	25,158,100	100.00%

Source: Shared Research based on company data

Corporate governance

Organization form and capital structure	
Controlling shareholder	None
Parent company ticker	-
Directors	
Number of directors under Articles of Incorporation	8
Directors' terms under Articles of Incorporation	1 year
Number of independent outside directors	3
Audit & Supervisory Board	
Number of members of Audit & Supervisory Board under Articles of Incorporation	4
Number of independent outside members of Audit & Supervisory Board	0
Other	
No. of independent outside officers (directors and members of Audit & Supervisory Board)	3
Participation in electronic voting platform	None
Other initiatives to enhance voting rights of investors	None
Providing convocation notice in English	None
Disclosure of directors' compensation	None
Disclosure of executive officers' compensation	-
Policy on determining amount of compensation and calculation methodology	In place
Takeover defenses	None

Source: Shared Research based on company data

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp