GA technologies (3491 JP)

What Happens in a 2% Policy Rate World?

10 November 2026

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GA technologies Co., Ltd. (3491 JP)

Share Price (9 November 2026) JPY 1,463

Market Cap US$ 380 million

FY (Oct-end)	F25	F26E	F27E	F28E
EPS	97	132	181	235
P/E	15	11	8	6
EV/EBITDA	4	5	3	3
P/B	1.9	1.7	1.4	1.2
Dividend Yield	1%	1%	1%	2%
ROIC	12%	17%	18%	20%
ROE	15%	16%	19%	20%
FCF Conv.*	352%	1%	99%	90%
Incremental ROI**	-1095%	-88%	74%	11%

* FCF Conversion = FCF ÷ Net Profit

**Incremental ROI = Incremental Change in FCF ÷ Incremental Change in Invested Capital

Executive Summary

At its September 2026 Monetary Policy Meeting, the Bank of Japan decided to raise the policy rate from 1% to 1.25%. Further gradual hikes are expected, and many market participants see the terminal rate in the current tightening cycle at around 1.75–2%. This report examines how a 2% policy rate world would affect GA technologies.

- **At the market level, investment properties can remain profitable even in a 2% policy rate world, provided rents keep rising at a reasonable pace. For GA technologies, CGS believes a 2% policy rate world could be an opportunity to widen its competitive edge.** With higher rates, a property's rent growth potential will matter more than ever to investment returns. In this environment, the company's strengths—its data- and AI-driven property selection, owner support, transaction speed, and the access it offers to loan terms more favorable than those available through its peers—become even more significant. Its growth strategies, including diversifying the properties it handles and building up recurring revenue, also work to make the business more resilient to higher rates.
- All else being equal, rising rates weigh on investment properties by increasing interest costs during the holding period and pushing up the yield required at the time of sale. However, these negative effects can be offset if rents rise. **In a 2% policy rate world, investment property loan rates are expected to start from around 3.2% in typical cases; even so, CGS estimates that in a model case of a new acquisition, the IRR stays positive as long as rents keep rising by more than 1.3% a year. Rent revisions at a major residential REIT have exceeded this pace, and there is no need to turn pessimistic based on rising rates alone.** The biggest risk, in CGS's view, is a sudden spike in the risk premium—a component of the required yield—triggered by factors such as tighter lending.
- **The much-discussed "correction" in the pre-owned condominium market is indeed underway. However, CGS sees it as occurring mainly in the owner-occupier market.** Transactions have thinned as buyers balk at aggressive asking prices, but contract prices have not collapsed overall. **In the investment market, where rents determine property prices, the owner-occupier pattern—asking prices rising on expectations and then being forced to correct—is less likely to occur.** Partly for this reason, the company's sales remain strong: net revenue related to property sales continues to grow by more than 20% year on year.

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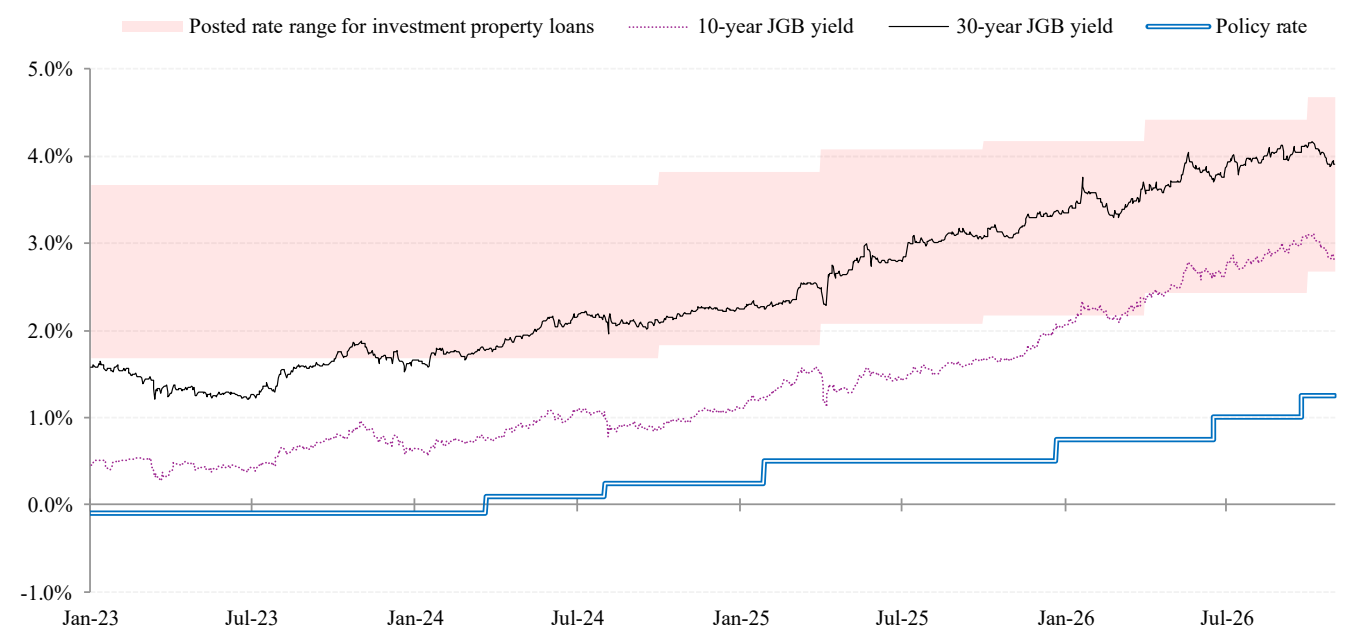
1. In a 2% Policy Rate World, Variable Loan Rates Start from Around 3.2%

・If rate hikes continue at a pace of one every three months, a 2% policy rate world could arrive as early as June 2027.
・In a 2% policy rate world, variable loan rates for investors buying properties through real estate companies are expected to start from around 3.2% in typical cases.

The variable rates commonly used for investment property loans are set with reference to the posted rate determined by each financial institution. Posted rates appear to be reviewed twice a year in many cases, in April and October. The floor of the posted rate is linked to the short-term prime rate, and each review reflects any changes in the policy rate since the previous review.

Between the end of negative interest rates in March 2024 and June 2026, the policy rate was raised to 1%. In response, the floor of the posted rate at a major financial institution rose by 1pp, from 1.675% to 2.675% (as of October 1, 2026) (Figure 1). Setting aside the 0.1pp rise in the policy rate at the exit from negative rates, increases in the short-term prime rate have tracked policy rate hikes almost one-for-one. The impact of the September 2026 hike to 1.25% is expected to be reflected at the next review. If hikes continue at a pace of one every three months, the policy rate would reach 2% as early as June 2027.

Figure 1: Posted Rates on Investment Property Loans Have Followed Policy Rate Hikes



*Policy rates before March 2024 are the rates applied under the negative interest rate policy.
**Posted rates are those published by a major financial institution; the floor matches that institution's short-term prime rate.
Source: CGS, based on materials published by the Ministry of Finance, the Bank of Japan, and a major financial institution

If this one-for-one relationship holds, the floor of the posted rate would be 3.675% once a 2% policy rate is reflected. Taking into account the discount generally offered when purchasing through a real estate company (roughly 0.4–0.5pp), variable loan rates are expected to start from around 3.2% in typical cases. Purchasing through GA technologies may also give customers access to loan terms more favorable than those available through its peers.

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2. Rent Growth Offsets the Negative Impact of Higher Rates

・In the investment market, property prices are determined by rents, which sets it apart from the owner-occupier market in how prices are formed.
・Even in a 2% policy rate world (with the corresponding loan rate set at 3.25%, assuming a typical case), CGS estimates that in a model case of a new acquisition, the IRR stays positive if rents rise by more than 1.3% a year.
・For existing owners as well, the time lag before repayment amounts are revised and the staggered timing of those revisions make it unlikely that distressed selling driven by deteriorating monthly cash flows would occur across the market all at once.

2-1. First Things First: The Investment Market Forms Prices Differently from the Owner-Occupier Market

The investment market and the owner-occupier market differ in how property prices are determined. Media reports have highlighted a "correction" in the pre-owned condominium market, but it is centered on the owner-occupier market, and CGS believes the investment property market and investment returns cannot be judged by the same yardstick. For recent trends in the pre-owned condominium market, see Column 1 at the end of this report.

In the owner-occupier market, mortgage screening focuses on the borrower's ability to repay. As borrowing capacity expands through the use of pair loans (joint mortgages taken out by couples), longer loan terms and the like, property prices can rise out of line with prevailing rents. Because prices are formed with reference to nearby transactions, a strong market can produce a cycle of "high-priced transactions → more aggressive asking prices → higher contract prices → even more aggressive asking prices → a further rise in contract prices."

In the investment market, by contrast, loan screening focuses on a property's earning power, and loan amounts are determined based on rents. Because property prices are calculated using the income approach—dividing rents by the required yield—they are unlikely to deviate significantly from the level implied by market rents. As a result, investment property prices are less prone either to rising on expectations or to the subsequent correction.

2-2. Rent Growth Is Key to Returns for Both New Buyers and Existing Owners

All else being equal, rising rates are a headwind for investment properties. They work through two channels: higher interest costs during the holding period and a higher required yield at the time of sale. However, rates are not the only thing that changes. Rising rents increase income during the holding period and also support the sale price calculated using the income approach (see Section 3 for rent trends).

So how much rent growth would a customer acquiring a new property in a 2% policy rate world need to offset the negative impact of higher rates? Taking as an example pre-owned compact condominiums, which still account for a large share of the company's earnings, CGS estimated the IRR adjusted for taxes, etc. (hereinafter "IRR") for each combination of loan rate and rent growth, and identified the rent growth needed to keep the IRR positive. The model case assumes the purchase of a property in central Tokyo with a gross yield of 3.8%, financed almost entirely by a loan (35-year, level-payment), and sold after 10 years at the same gross yield as at purchase.

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The two main takeaways are as follows:

・Even in a 2% policy rate world (with the corresponding loan rate set at 3.25%, assuming a typical case), the IRR stays positive if rents rise by more than 1.3% a year (red in Figure 2).

・For each 0.25pp rise in the policy rate, the rent growth needed to keep the IRR positive rises by just over 0.2pp a year (blue in Figure 2).

Figure 2: IRR Simulation – IRR Stays Positive in a 2% Policy Rate World If Rents Rise by More Than 1.3% a Year

Policy rate	Borrowing rate	Annualized Rent Growth						
		0.00%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%
0.75%	2.00%	-1.3%	1.8%	4.4%	6.9%	9.1%	11.1%	12.9%
1.00%	2.25%	-2.8%	0.4%	3.2%	5.7%	7.9%	10.0%	11.9%
1.25%	2.50%	-4.4%	-1.0%	1.9%	4.5%	6.8%	8.9%	10.9%
1.50%	2.75%	-6.0%	-2.4%	0.7%	3.3%	5.7%	7.9%	9.9%
1.75%	3.00%	-7.8%	-3.8%	-0.6%	2.1%	4.6%	6.8%	8.9%
2.00%	3.25%	-9.6%	-5.4%	-1.9%	1.0%	3.5%	5.8%	7.9%
2.25%	3.50%	-11.5%	-6.9%	-3.3%	-0.3%	2.4%	4.7%	6.9%
2.50%	3.75%	-13.4%	-8.6%	-4.7%	-1.5%	1.3%	3.7%	5.9%
2.75%	4.00%	-15.5%	-10.2%	-6.1%	-2.8%	0.1%	2.7%	4.9%
3.00%	4.25%	-17.7%	-12.0%	-7.6%	-4.0%	-1.0%	1.6%	3.9%
3.25%	4.50%	-20.0%	-13.8%	-9.1%	-5.3%	-2.2%	0.5%	2.9%

Each 0.25%pt policy rate hike requires just over 0.2%pt more rent growth to hold IRR at the same level

Policy rate 2%
IRR turns zero at c.1.3% annualized rent growth

*Loan rates corresponding to each policy rate are set assuming a typical case.
**Loan rates are held constant over the entire term, and the IRR is adjusted for taxes as well as the value of group credit life insurance.
Source: CGS estimates

For existing owners, the contract structure common at many financial institutions—repayment amounts revised every five years, with revised payments capped at 1.25 times the previous amount (the five-year rule and the 125% rule)—creates a time lag before higher rates feed through to repayments. Whether owners can maintain their monthly cash flows depends on whether rent increases (with opportunities for revision arising when tenants change and at renewals, typically every two years) accumulate before repayment amounts are revised.

Taking the example of an owner who borrowed when the policy rate was 0.75%, CGS estimates that in a 2% policy rate world, net rental income would need to rise by roughly 20–30% over the five years before the repayment amount is revised. Section 3 confirms that, if there is an opportunity for a tenant change within those five years, recent rent revisions broadly meet this level. Moreover, because the timing of repayment revisions is spread across contracts depending on when the loans were taken out, it is unlikely that distressed selling driven by deteriorating monthly cash flows would occur across the market all at once.

For both customers acquiring new properties and owners who already hold them, whether the impact of higher rates can be absorbed depends on whether rent growth above a certain level continues.

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3. Actual Rent Revisions Exceed the Levels Required in Our Estimates

・Rent revisions at a major residential REIT show that, over the full tenancy, rents have risen faster than the 1.3% a year that CGS estimates is needed to keep the IRR positive in the model case of a new acquisition.

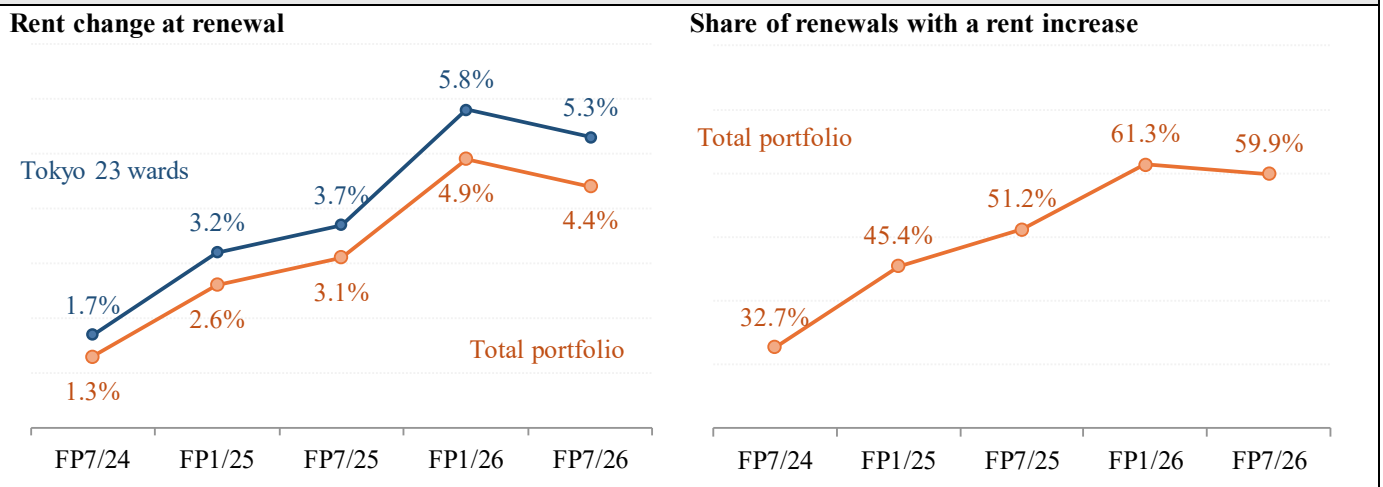
・Existing owners can also broadly secure the rent growth needed to maintain monthly cash flows if there is an opportunity for a tenant change within five years.

・Although the gap with listed rents remains wide, inquiry rents continue to rise moderately, suggesting that tenants are accepting a certain degree of rent increases.

3-1. The Rent Growth Required in Our Estimates Is Reasonable in Light of Actual Results

According to disclosures by Advance Residence Investment Corporation (ADR), a major residential REIT, rents at renewal across its portfolio changed by +4.4% in the most recent fiscal period (ended July 2026), and by +3.3% on average over the past five periods (Figure 3, left). Since leases are typically renewed every two years, these translate into annualized rates of about 2.2% and 1.6%, respectively—meaning that renewals alone exceed the 1.3% a year that CGS estimates is needed to keep the IRR positive in the model case in Section 2 (this is only a rough guide, as the properties covered and the definitions of the indicators differ). In Tokyo's 23 wards, the rent change at renewal was +5.3% in the most recent period and +3.9% on average over the past five periods, outpacing the portfolio as a whole. The share of renewals with a rent increase across the portfolio has also risen from just over 30% to around 60% over the past two years (Figure 3, right).

Figure 3: Rent Changes at Renewal – Renewals Alone Deliver Annualized Growth of 1.6–2.2%

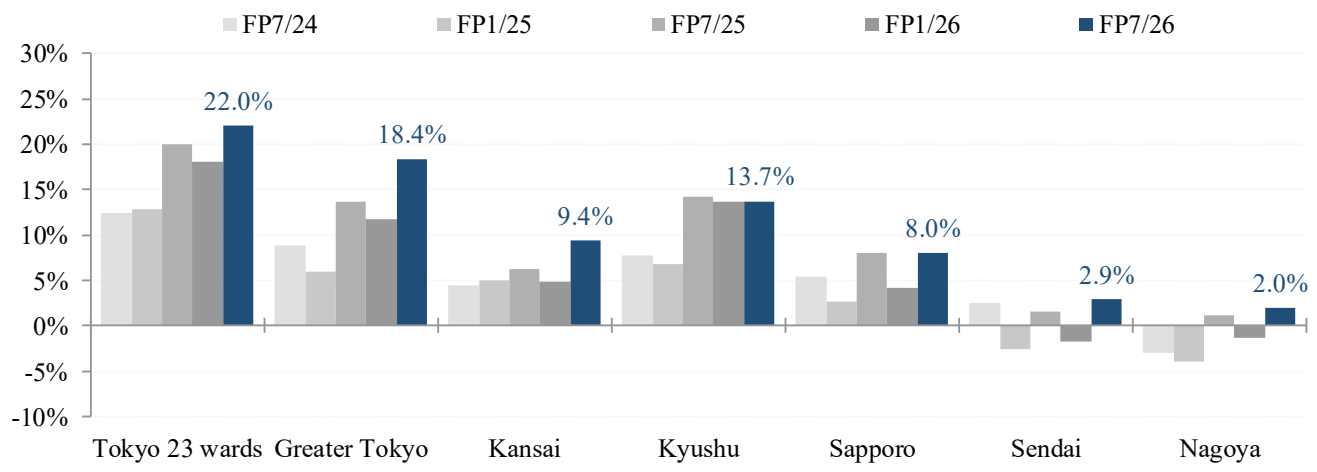


Source: CGS, based on Advance Residence Investment Corporation's financial results presentations (with CGS calculations)

ADR's disclosures also show that the rent change at tenant turnover reached +22.0% in Tokyo's 23 wards in the most recent period (Figure 4). Revisions at turnover serve as a catch-up for market rent increases that renewals during the previous lease term could not fully keep pace with. Assuming an average tenancy of four to five years (4.8 years in the most recent period for ADR's properties, both overall and for single-occupancy units), this catch-up alone is equivalent to an annual increase of 4–5%.

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Figure 4: Rent Changes at Tenant Turnover – Largest in Major Metropolitan Areas, Led by Tokyo's 23 Wards, with Clear Regional Differences



Source: CGS, based on Advance Residence Investment Corporation's financial results presentations

Although the two cannot simply be added together, over a full tenancy (roughly one turnover and two renewals), rents have risen at a pace exceeding the level required in the estimates in Section 2.

3-2. Can Existing Owners Maintain Monthly Cash Flows? Tenant Turnover Makes the Difference

Based on ADR's rent revisions in Tokyo's 23 wards, if there is one tenant turnover and two renewals within the five years before the repayment amount is revised, rents would rise by around the mid-20% range (based on five-period averages: +17.1% at turnover and +3.9% at renewal) to the mid-30% range (based on the most recent period: +22.0% at turnover and +5.3% at renewal), broadly meeting the level needed to maintain monthly cash flows. However, without a tenant turnover, renewals alone would lift rents by only around 10%. Under a standard lease, rent increases at renewal require the tenant's consent, but if new leases are fixed-term leases, rents can be reset to market levels at each re-contract even without a tenant turnover.

Box: Rent Revisions Under Japanese Lease Practice

Most residential leases in Japan are standard leases with a two-year term. Under the Act on Land and Building Leases, tenants are strongly protected: landlords cannot refuse renewal without just cause, and a rent increase at renewal requires the tenant's agreement—failing which it must be resolved through negotiation, mediation, or ultimately the courts. As a result, rents on existing leases tend to adjust slowly, and much of the catch-up to market rents occurs at tenant turnover, when a new lease is signed at the prevailing market rent. Fixed-term leases, introduced in 2000, end without renewal at the end of the term, allowing landlords to reset rents through a new contract.

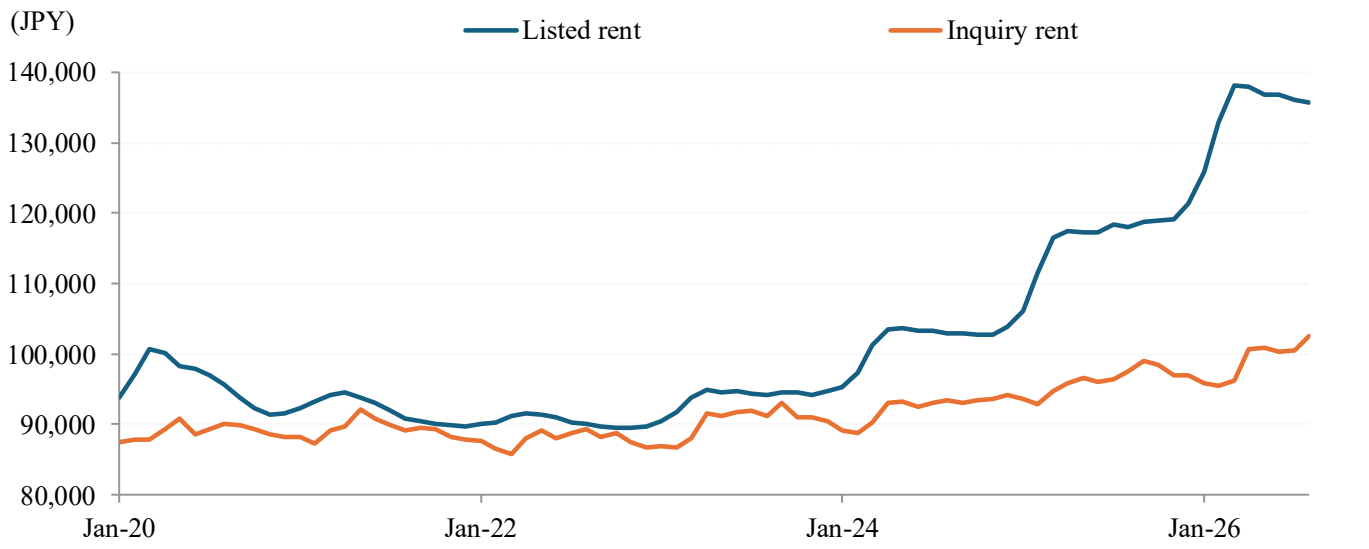
3-3. Tenants Are Accepting a Certain Degree of Rent Increases

For single-occupancy rental condominiums in Tokyo's 23 wards, listed rents (the average rent shown in rental listings) rose by 43.5% between January 2020 and September 2026, while inquiry rents (the average rent of properties that received actual inquiries from prospective tenants) rose by only 17.0% over the same period, widening the gap between the two (Figure 5).

*Both listed rents and inquiry rents differ from contracted rents.

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Figure 5: Single-Occupancy Rental Condominiums in Tokyo's 23 Wards – Listed Rents Have Plateaued, While Inquiry Rents Continue to Rise Moderately



Source: CGS, based on LIFULL HOME'S data

More recently, however, listed rents have plateaued while inquiry rents have continued to rise moderately, and the gap between the two is narrowing. The rise in inquiry rents is likely underpinned by wage growth, which funds rent payments. Indeed, at its most recent results briefing, ADR noted that tenants' rent burden relative to annual income has remained at around 25%, little changed from a year earlier, and that rising incomes are supporting tenants' ability to pay.

Wage growth is one of the necessary conditions for rent growth to continue. As long as rate hikes remain an adjustment to the degree of monetary accommodation within a range that does not undermine the virtuous cycle between wages and prices, concerns that the economy will cool and wage growth will stall should be limited.

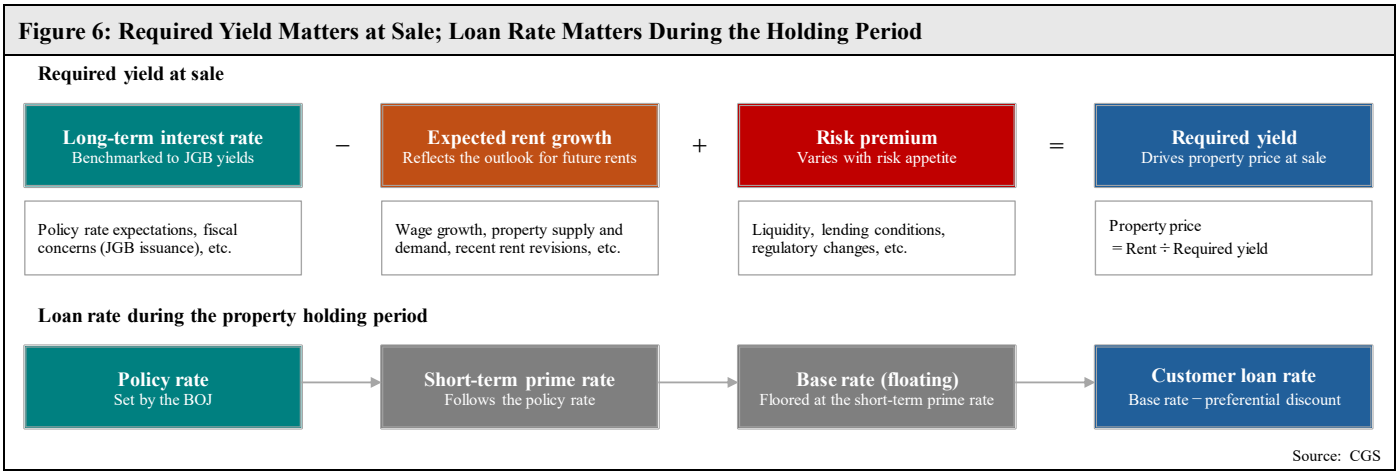
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4. Required Yield at Sale – The Risk Premium Is the Biggest Risk Factor for the Investment Market

・The main components of the required yield at sale are (1) long-term interest rates, (2) expected rent growth, and (3) the risk premium.
・The part of long-term rate movements that reflects the expected path of the policy rate is offset to some extent by expected rent growth, but any rise not accompanied by expectations of rent growth warrants attention.
・CGS expects expected rent growth to continue to restrain increases in the required yield.
・The risk premium has room to spike suddenly, triggered by factors such as a change in lending stance, and CGS regards it as the biggest risk factor that could drive up the required yield.

The sale price of an investment property is calculated by dividing the rent at the time of sale by the market's required yield. The required yield can be broken down as the level of long-term interest rates, minus expected rent growth, plus a risk premium (Figure 6).

Figure 6: Required Yield Matters at Sale; Loan Rate Matters During the Holding Period



Source: CGS

4-1. Long-Term Interest Rates: Watch for Rises Not Accompanied by Expected Rent Growth

The part of long-term rates that reflects the expected path of the policy rate tends to be offset to some extent by expected rent growth through inflation expectations, so its impact on the required yield is likely to be limited. On the other hand, rises that are not necessarily accompanied by expectations of rent growth—such as those driven by a looser supply-demand balance for JGBs (including reduced purchases by the Bank of Japan and increased issuance due to expansionary fiscal policy) or spillovers from higher overseas rates—can push up the required yield directly and therefore warrant attention.

4-2. Expected Rent Growth: Likely to Continue Restraining Increases in the Required Yield

As confirmed in Section 3, rents have been rising at both renewal and tenant turnover, with tenants showing a willingness to accept a certain degree of rent increases. An environment in which surging construction costs make it hard for new supply to increase should also support rent growth. As long as wage growth is maintained, a significant retreat in expected rent growth seems unlikely, and CGS expects it to continue to restrain increases in the required yield.

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4-3. Risk Premium: The Biggest Risk Factor Among the Components of the Required Yield

Compared with long-term rates and expected rent growth, the risk premium has room to spike suddenly. One possible trigger is a change in the lending environment. If lending for investment properties were tightened, the risk premium could surge on concerns about liquidity risk. In this sense, CGS regards the risk premium as the biggest risk factor among the components of the required yield. Through its interviews with the company, CGS has confirmed that the current lending environment is favorable and that there are no signs of financial institutions tightening lending. However, as the lending environment is also influenced by the policies of the regulatory authorities, developments there warrant close attention.

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5. GA technologies' Strengths Become More Valuable in a 2% Policy Rate World

・With higher rates making a property's rent growth potential matter more than ever to investment returns, a 2% policy rate world could be an opportunity for GA technologies to widen its competitive edge, given its strengths in data- and AI-driven property selection, owner support, transaction speed, and access to loan terms more favorable than those available through its peers.

・Growth strategies such as diversifying the properties it handles and building up recurring revenue also work to make the business more resilient to higher rates.

5-1. A 2% Policy Rate World Could Be an Opportunity to Widen the Company's Competitive Edge

The company's key differentiators from its peers remain its data- and AI-driven property selection, built on the data it has accumulated, and the support it provides to property owners throughout the holding period. The former is a system for identifying, sourcing, and offering properties with rent growth potential; the latter extends to proposing rent revisions based on market data and providing a marketplace with a broad base of buyers. Another strength is the speed of its transactions, enabled by handling everything from sourcing to sales in-house and digitizing the procedures. In addition, the company's customers may have access to loan terms more favorable than those available through its peers. This reflects financial institutions' confidence in the company's properties, customers, and sales processes, and can be counted as one of its advantages, backed by its track record of transactions.

The results of its owner support are evident in (1) rent revisions at properties it manages and (2) additional purchases by existing owners. As for (1), according to the company's results presentation for Q3 FY10/26, the share of contracts for pre-owned compact condominiums in which rents were raised at tenant turnover rose from 10.7% in November 2023 to 96.6% in July 2026, and the average increase per contract widened from about ¥3,000 to around ¥10,000. As for (2), repeat transactions have accounted for around 60% of contracts over the past 12 months, and there is no sign that existing owners who are seeing rents rise have lost their appetite for purchases, even as rates climb.

If higher rates narrow the gap between property yields and loan rates, the range of properties that can deliver adequate investment returns on current rents alone will shrink. In addition, if rent growth slows, a retreat in expected rent growth would push up the required yield and put downward pressure on sale prices. With rent growth potential becoming more important than ever to customers' investment returns, these strengths should prove even more valuable in a rising-rate environment.

5-2. The Company's Growth Strategies Also Work to Make the Business More Resilient to Higher Rates

Five examples are as follows:

1) Diversifying the properties it handles:
   The impact of higher rates varies by product depending on yield levels and reliance on borrowing. A diverse lineup allows the company to offer customers more options even as the range of properties that can deliver adequate returns narrows, limiting lost demand and cushioning the impact of a downturn in any particular segment. The company now handles a wide range of properties, including newly built, family-type, whole-building, detached, and overseas properties. The share of pre-owned compact condominiums in consolidated net revenue has fallen from 69% in FY10/22 to 45% in Q1–Q3

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FY10/26.

2) Expanding its geographic reach:
As shown in Figure 4, regional differences in rent growth are clear. By expanding into areas such as Osaka and Fukuoka, where rent growth is as strong as in Tokyo's 23 wards, the company can offer customers more properties with the rent growth prospects needed to secure adequate investment returns.

3) Raising awareness through TV commercials and other channels among customer segments less sensitive to interest rates:
In FY10/26, the company ran TV commercials in Q3 (May) following Q1. As a result, inquiries from customers in their 40s and older with annual incomes above ¥10 million—a segment with relatively strong purchasing power and high conversion rates—appear to have increased significantly. Buyers with higher incomes who can put up larger down payments are likely to be relatively less affected by higher loan rates in their investment decisions. If higher rates narrow the gap between property yields and loan rates, the leverage effect weakens, making purchases with a down payment more rational.

4) Building up recurring revenue:
Recurring revenue generated on an ongoing basis from property management and system usage fees would largely remain even if property sales were to slow due to higher rates. Net revenue from domestic Subscription (rental management services for property owners, etc.) and ITANDI reached ¥8.9bn in Q1–Q3 FY10/26, covering about one-third of the fixed portion of SG&A expenses* (compared with about 20% for the full year FY10/22).
*Total SG&A expenses minus advertising expenses.

5) Developing the fractional ownership business:
The company has acquired SPC Securities Co., Ltd. to develop its fractional ownership business, which is expected to ramp up from next fiscal year. As it does not presuppose customer borrowing, it can be positioned as a business with relatively low sensitivity to interest rates.

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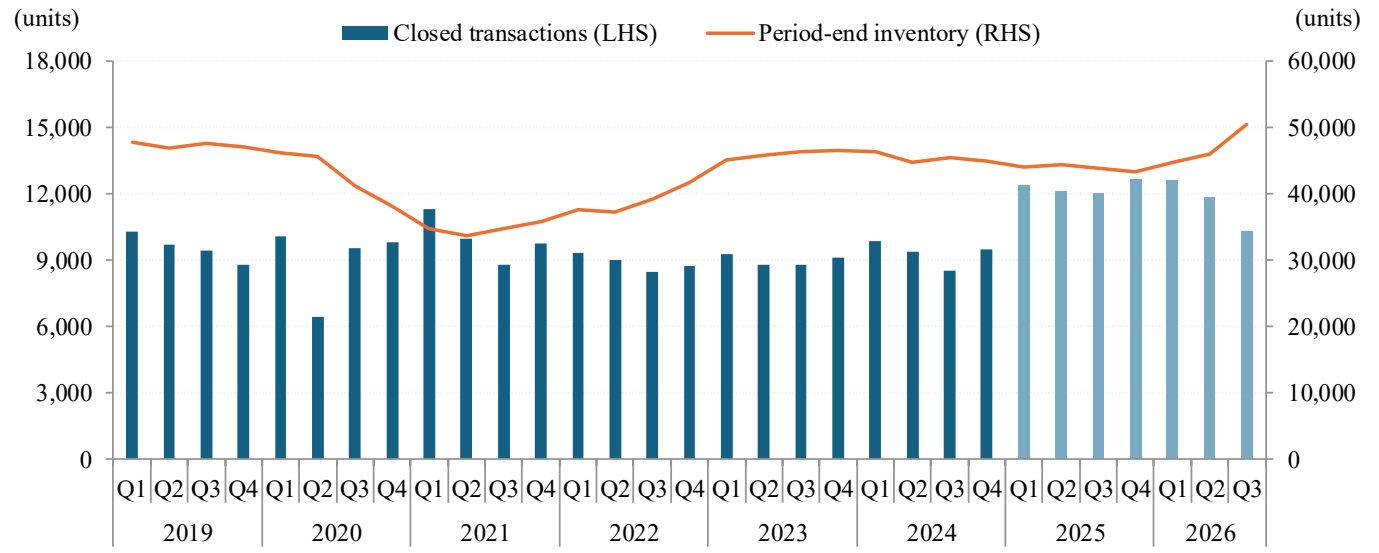
Column 1: The "Correction" in the Pre-Owned Condominium Market – Mainly an Owner-Occupier Phenomenon

CGS's view is that the much-discussed "correction" in the pre-owned condominium market is occurring mainly in the owner-occupier market, and that the investment market, where price discipline has been relatively well maintained, has seen no major disruption. Through its interviews, CGS has confirmed that the company shares this view.

C1-1. Closed Transactions Are Down, Inventory Is Up

According to the East Japan Real Estate Information Network System (East Japan REINS), closed transactions of pre-owned condominiums in the Tokyo metropolitan area fell 14.4% year on year to 10,275 in July–September 2026, while inventory at the end of September rose 15.1% to 50,450 (Figure C-1). The average closed property (July–September 2026) had a floor area of 62.82 ㎡ and a price of ¥51.72 million, suggesting that transactions are centered on owner-occupied homes for families and two-person households. Transactions of investment condominium units are often completed in ways that do not trigger an obligation to register with East Japan REINS, such as direct purchases by real estate companies or direct sales to their own customers, and are therefore less likely to appear in East Japan REINS closed-transaction data. In other words, East Japan REINS data can be seen as mainly reflecting trends in the owner-occupier market.

Figure C-1: Closed Transactions and End-of-Period Inventory of Pre-Owned Condominiums in the Tokyo Metropolitan Area



*According to East Japan REINS, system modifications made from January 2025 to ensure the proper registration of closed transactions may have affected the number of closed transactions.
Source: CGS, based on East Japan REINS' Quarterly Market Watch Summary Report, Monthly Flash Market Watch Summary Report, and Annual Report (various issues)

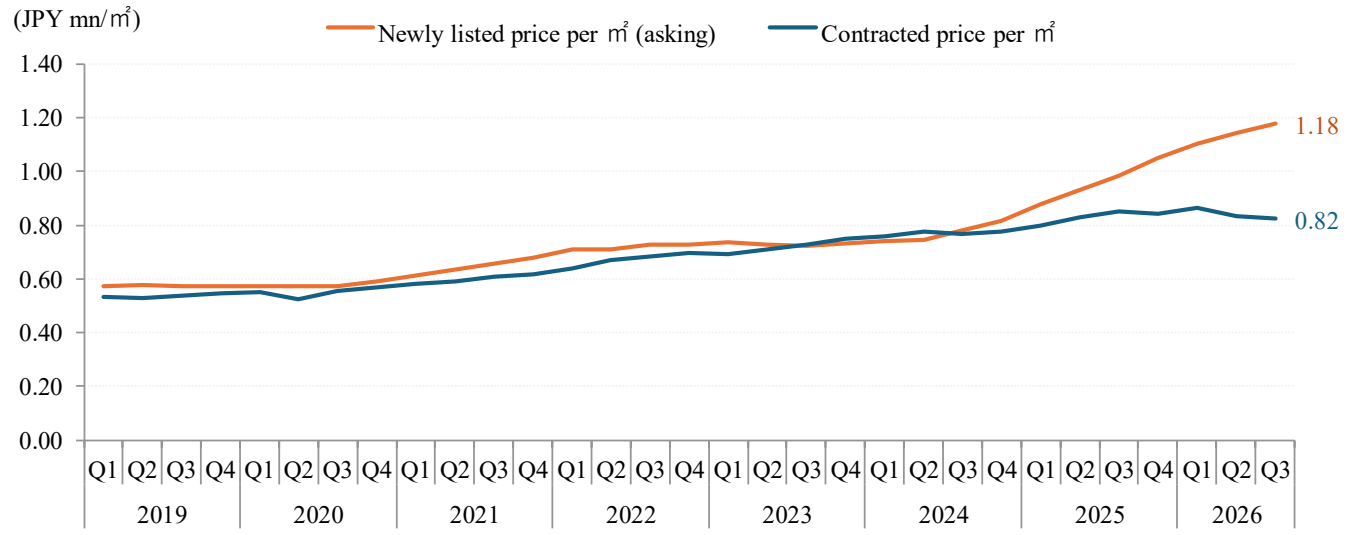
C1-2. Prices Have Not Collapsed

That said, the decline in transactions has not caused contract prices to collapse across the market as a whole. The current situation appears to be one in which, mainly in the owner-occupier market, buyers are not following asking prices that were raised on expectations in the wake of high-priced transactions, causing transactions to thin. Rising prices for newly built condominiums, driven by factors such as surging construction costs, also appear to have encouraged sellers of pre-owned units to set more aggressive asking prices.

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Indeed, in July–September 2026, the price per ㎡ of newly listed pre-owned condominiums in the Tokyo metropolitan area rose 19.3% year on year, while the price per ㎡ of closed transactions fell 3.3%, widening the gap between the two to more than 40% (Figure C-2). A market "correction" is certainly underway, and prices appear to have fallen by double digits in some areas and property types; taken as a whole, however, the market is not seeing a chain reaction of falling contract prices, and it is more reasonable to see this as a process in which asking prices are being adjusted to levels at which properties actually sell. As discussed in Section 2, such movements do not apply directly to the investment market.

Figure C-2: Price per ㎡ of Pre-Owned Condominiums in the Tokyo Metropolitan Area – The Gap Between Asking and Contract Prices Has Widened



*According to East Japan REINS, the scope of new listings was changed from January 2022 following the discontinuation of the property re-registration function.
Source: CGS, based on East Japan REINS' Quarterly Market Watch Summary Report (various issues)

C1-3. A Different Dynamic from Areas Reliant on Capital Gains

Even within the investment market, some point out that in certain areas and segments, short-term resale demand aimed at capital gains and inflows of overseas capital have pushed up prices, and that price adjustments are now underway as rates rise and capital flows shift. However, these are areas where prices have risen to levels that rents cannot fully justify, and the dynamics differ from those of markets such as pre-owned compact condominiums, where rents determine prices.

The company does not appear to be actively handling properties in overheated areas or segments at present. In addition, overseas investors appear to account for only about 3% of the company's transaction volume, so the direct impact of a slowdown in overseas capital inflows should be limited.

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Column 2: Recent Sales Trends – No Sign of a Slowdown

One point of concern is the growth rate of the company's number of closed transactions in Q3 FY10/26. Closed transactions in Q3 rose 2% year on year, slowing from double-digit growth through the first half.

The company attributes this to a change in its product mix and describes recent sales as "solid." As noted in Section 5, the company has been diversifying the properties it handles while strengthening its approach to customers in relatively high income brackets. As a result, the share of sales from properties with higher unit prices than pre-owned compact condominiums has reportedly increased. Within a given budget, whether a customer buys several pre-owned compact condominium units or a single whole building for a similar amount can change the contribution to the number of closed transactions. The number of closed transactions therefore needs to be read with the understanding that it may fluctuate more depending on customer preferences.

The more relevant indicator for gauging sales performance is likely net revenue related to property sales. Indeed, combined net revenue from RENOSY Marketplace and the US business rose 22% year on year in Q3 FY10/26, sustaining growth of more than 20% (Q1: +21%, Q2: +43%). Looking only at the number of closed transactions might suggest the impact of a market "correction," but judging by net revenue growth, there is no sign of a slowdown in recent sales. Market share gains from advertising and a more diverse property lineup may also be contributing, but CGS believes differences in market structure are also a factor. As confirmed in Section 2, property prices in the investment market are determined by rents, making it less likely that transactions will thin as buyers fail to follow asking prices raised on expectations, as seen in the owner-occupier market.

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CGS Financial Model

JPY mn	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY28E Base Case	FY28E Bull Case	FY28E Bear Case
Income Statement										
Sales	113,569	146,647	189,883	248,947	309,379	375,347	455,032	455,032	508,622	404,460
COGS	97,050	124,025	159,149	206,784	256,785	311,163	376,767	376,767	419,104	336,916
Gross Profit	16,519	22,622	30,734	42,163	52,594	64,184	78,266	78,266	89,517	67,545
SG&A	15,499	20,449	26,864	34,865	42,414	50,994	61,430	61,430	69,807	53,512
Operating Profit	1,014	2,211	3,693	7,095	9,830	13,191	16,835	16,835	19,710	14,033
Pretax Profit	477	1,585	2,957	6,179	8,707	11,831	15,305	15,305	18,166	12,451
Income Tax	93	567	1,245	2,161	3,091	4,200	5,433	5,433	6,449	4,420
Minority Interest	0	8	10	128	160	180	200	200	220	180
Net Income	384	1,010	1,702	3,890	5,456	7,451	9,672	9,672	11,497	7,851
EBIT	1,014	2,211	3,693	7,095	9,830	13,191	16,835	16,835	19,710	14,033
D&A	4,685	5,257	5,786	5,961	4,975	5,661	5,857	5,857	5,691	6,038
EBITDA	5,699	7,468	9,479	13,056	14,806	18,851	22,692	22,692	25,401	20,071
Diluted Shares Outstanding	37	37	37	40	41	41	41	41	41	41
GAAP EPS (Diluted)	10	27	46	97	132	181	235	235	279	190
DPS	0	0	0	8	13	18	24	24	56	19
Payout Ratio	0%	0%	0%	8%	10%	10%	10%	10%	20%	10%
COGS/Sales	85.5%	84.6%	83.8%	83.1%	83.0%	82.9%	82.8%	82.8%	82.4%	83.3%
Gross Margin	14.5%	15.4%	16.2%	16.9%	17.0%	17.1%	17.2%	17.2%	17.6%	16.7%
Other SG&A/Sales	13.6%	13.9%	14.1%	14.0%	13.7%	13.6%	13.5%	13.5%	13.7%	13.2%
OPM	0.9%	1.5%	1.9%	2.9%	3.2%	3.5%	3.7%	3.7%	3.9%	3.5%
EBITDA Margin	5.0%	5.1%	5.0%	5.2%	4.8%	5.0%	5.0%	5.0%	5.0%	5.0%
Cash Flow Statement										
Net Income	384	1,010	1,702	3,890	5,456	7,451	9,672	9,672	11,497	7,851
D&A	4,685	5,257	5,786	5,961	4,975	5,661	5,857	5,857	5,691	6,038
Changes in Working Capital	-4,080	-577	-3,608	6,221	-7,675	-2,478	-2,806	-2,806	-75	-2,853
OCF	2,238	6,798	3,635	15,935	2,917	10,814	12,922	12,922	17,333	11,215
CAPEX	-1,111	-1,657	-1,990	-2,233	-2,846	-3,453	-4,186	-4,186	-4,679	-3,721
FCF	1,127	5,141	1,645	13,702	70	7,361	8,736	8,736	12,654	7,494
Acquisitions	-1,212	-449	-2,902	-868	-4,000	-3,000	-3,000	-3,000	-3,000	-3,000
Cash Dividends Paid	0	0	0	0	-328	-534	-747	-747	-1,240	-657
FCF III (OCF - ICF -Div)	-774	4,746	-1,158	12,298	-4,258	3,827	4,989	4,989	8,415	3,837
Share Issuance (Repurchase)	0	0	198	5,037	0	0	0	0	0	0
Issuance (Reduction) of Debt - Net	-3,079	1,010	2,758	-5,658	5,747	262	971	971	-564	1,010
Net Change in Cash	-3,433	5,610	1,873	11,040	1,689	4,089	5,960	5,960	7,850	4,847
Conversion										
OCF/EBITDA	39%	91%	38%	122%	20%	57%	57%	57%	68%	56%
FCF/NI	293%	509%	97%	352%	1%	99%	90%	90%	110%	95%
Balance Sheet										
Cash & Cash Equivalents, ST Inv	11,842	17,452	19,325	30,365	32,054	36,143	42,102	42,102	45,217	40,483
Accounts Receivable	329	316	845	812	1,017	1,234	1,496	1,496	1,393	1,330
Inventories	8,056	10,183	13,950	11,682	19,699	23,018	26,838	26,838	26,409	28,615
Total Current Assets	22,863	31,141	38,629	48,799	58,770	66,394	76,437	76,437	79,020	76,428
Net PP&E	3,711	3,267	4,019	3,504	5,095	4,677	4,564	4,564	4,868	4,237
LT Investments	14,607	11,303	10,689	3,823	3,823	3,823	3,823	3,823	3,823	3,823
Intangible/Goodwill	11,285	12,237	19,884	22,066	26,665	30,393	34,353	34,353	35,043	33,679
Total LT Assets	32,348	30,211	38,574	33,571	39,760	43,071	46,919	46,919	47,912	45,917
Total Assets	55,211	61,352	77,203	82,370	98,530	109,465	123,355	123,355	126,931	122,345
ST Debt & Curr. Portion LT Debt	10,711	15,025	19,555	15,054	20,048	21,647	23,609	23,609	23,452	24,497
Accounts Payable	1,967	3,504	3,638	4,388	4,995	6,053	7,329	7,329	8,956	7,384
Other Current Liabilities	3,573	5,291	10,972	16,598	16,598	16,598	16,598	16,598	16,598	16,598
Total Current Liabilities	16,251	23,820	34,165	36,040	41,641	44,298	47,536	47,536	49,007	48,479
LT Debt	18,017	15,314	18,532	13,720	18,791	19,972	21,499	21,499	21,416	22,175
Total LT Liabilities	19,655	16,947	19,797	14,877	19,948	21,129	22,656	22,656	22,573	23,332
Total Liabilities	35,906	40,767	53,962	50,917	61,589	65,427	70,192	70,192	71,579	71,812
Total Equity	19,305	20,585	23,241	31,453	36,941	44,039	53,164	53,164	55,352	50,533
Total Liabilities & Shareholder's Equity	55,211	61,352	77,203	82,370	98,530	109,465	123,355	123,355	126,931	122,345
CCC										
Days of Sales Outstanding (DSO)	1	1	1	1	1	1	1	1	1	1
Days of Inventory Outstanding (DIO)	21	27	28	23	28	27	26	26	23	31
Days of Payables Outstanding (DPO)	7	8	8	7	7	7	7	7	8	8
Cash Conversion Cycle (Days)	15	20	21	17	22	21	20	20	16	24
ROE	2%	5%	8%	15%	16%	19%	20%	20%	23%	17%
ROIC	2%	3%	4%	7%	9%	10%	12%	12%	13%	10%
ROIC (ex. Cash)	2%	4%	5%	12%	17%	18%	20%	20%	24%	17%
Net Debt / EBITDA	2.4	2.0	1.7	0.7	0.2	0.3	0.2	0.2	0.1	0.3
Net Cash per Share	-458	-344	-506	40	-165	-133	-73	-73	8	-150

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