Sumitomo Realty & Development Co., Ltd.

Keynote Address at the Financial Results Briefing for FY2025 (Fiscal Year Ended March 31, 2026)

We will begin with an overview of the financial results. In FY2025, which is the first year of the 10th Medium-term Management Plan, we achieved record highs across the board in revenue from operations, operating income, ordinary profit, and net income. In particular, net income reached a new record high for the 13th consecutive year, and we believe we have made a steady start for the first year of the Plan. In FY2026, the second year of the Plan, we are determined to achieve our long-held target of ¥300 billion in ordinary profit while appropriately responding to emerging challenges, including the uncertain situation in the Middle East and rising interest rates driven by inflation.

The five key challenges we have identified are as follows.

First, whether we can secure office rent increases that outpace rising interest rates.

In FY2025, our average rent increase was just over 7%. Most of our lease agreements are fixed-term leases, and we have been actively pursuing rent increases. Office rents in Tokyo were around ¥44,000 per tsubo at their 1991 peak, but even with rents now rising, they are still only around ¥22,000 per tsubo today—roughly half that level. While rents may not necessarily surpass their previous peak in the same way that our stock price did, we believe it is clear that there is still considerable room for further rent growth. It should also be noted that this rent data covers all types of properties, from buildings owned by individual owners to Class A buildings owned by major developers. As I recall, in the office market in 1991, rents for Class A buildings in Marunouchi were around ¥100,000 per tsubo, and those for high-rise buildings in Nishi-Shinjuku were around ¥70,000 per tsubo. More recently, we have heard that leases have been concluded at rents of ¥100,000 per tsubo in the area around Tokyo Station. We therefore believe that sustained rent growth going forward will be more than sufficient to absorb the current rise in interest rates.

* One tsubo is approximately 3.3 square meters.

Second, how we will address soaring construction costs and extended construction periods.

As we have mentioned before, our relationships with general contractors and subcontractors are not built on simply awarding contracts to the lowest-priced contractor. Rather, with the expectation of placing a large number of orders on a continuous basis over multiple years, we engage in direct, in-depth discussions with each partner to identify room for improvement in construction scheduling and execution. Of course, we have been affected by recent cost increases, but not to the extent that our projects have been derailed. Going forward, we will continue to adjust construction costs and schedules in a way that is mutually beneficial for all parties, and steadily advance our redevelopment projects totaling 600,000 tsubo in central Tokyo.

Third, the outlook for our condominium sales business.

Looking ahead, we believe that in the condominium sales business, a key point will be selecting areas where rising construction costs can be appropriately reflected in sales prices. Meanwhile, the properties we are currently selling are mainly “completed inventory.” As of the end of FY2025, our completed inventory exceeded 6,000 units. Given that we expect to deliver more than 2,000 units annually, we believe that the impact of instability in the Middle East will be extremely limited for roughly the next three years. As a separate note, our core condominium properties are targeted at owner-occupiers, specifically first-time condominium buyers. Many of them are dual-income households who are able to purchase units priced up to the mid-¥100 million range by taking out a mortgage. In addition, some buyers are existing condominium owners who, benefiting from recent increases in condominium prices, are looking to sell their current unit and trade up to another one generally priced up to the low-¥200 million range. Broadly speaking, these two segments represent the largest portion of our owner-occupier demand. The concentration of our core condominium offerings in these price ranges is also one reason we do not have significant concerns about future sales.

Fourth, the updates on the progress of our Mumbai, India business.

BKC Project 1 is scheduled for completion this fall, and approximately 70% of the tenant space has already been pre-leased or pre-committed. We have also established flexible workspaces available from a single seat, particularly for Japanese companies entering India initially with small-scale operations for purposes such as research, and these have been very well received. Based on the above, we believe BKC Project 1 has gotten off to a very strong start as our first project in India. At the same time, the focus of our leasing activities has already shifted to BKC Project 2, where construction has begun. In India, lease agreements are typically structured as fixed-term leases of around five to ten years, and we have already begun proposing BKC Project 2, which is scheduled for completion in three years, in line with the timing of lease expirations for our prospective tenants. Rents there exceed ¥40,000 per tsubo on a calculation basis equivalent to that used in Japan, and we believe the yield will be higher than our assumption of “over 10%.” We see our business in India as having strong potential, and our expectation of positioning Mumbai as our major hub alongside Tokyo remains entirely unchanged.

Fifth, balancing growth investments and returns to shareholders and employees, as well as progress in strengthening corporate governance.

While continuing to pursue growth investments, we also intend to strengthen returns to shareholders and employees. Needless to say, we will continue the progressive dividend policy we have already committed to. For FY2025, in light of stronger-than-expected earnings, we have decided to raise the dividend increase from the previously planned ¥8 to ¥9 by adding ¥1. In addition, we have expanded the Stock Compensation Plan to reward long service and dedication for employees, a plan designed to recognize employees’ diligent and steady contributions over many years. Through this, we aim to raise the motivation of employees across the Group and, as one Group, enhance corporate value. At the same time, as stated in our various disclosures including the release published on May 13, 2026, with respect to governance, we are steadily proceeding with the transition to a Company with an Audit and Supervisory Committee, as previously committed.