Sumitomo Realty & Development
Q&A Session Summary of the 10th Medium-term Management Plan Briefing

Q. *Regarding the Mumbai projects in India, are there any changes in the investment amount or schedule? Does the profit figure for the 10th Plan include these projects? How is the progress in tenant-seeking activities?*

A. There are no significant changes in the investment amount or schedule. As for the progress in tenant-seeking activities, we are negotiating with several companies, who have evaluated our buildings there as being of world-class quality, comparable to our office buildings in Tokyo.
Although the completion of the property in Project 1 is scheduled for around September 2026, we do not anticipate contributions during the 10th Plan due to potential timing discrepancies from tenants moving in one by one and the period needed for fit-out. We expect substantial contributions to start from the 11th Plan.

Q. Regarding the use of extraordinary income generated from the sale of strategic shareholdings, it was previously explained that these funds would primarily be reserved for covering increased interest payments or offsetting losses from demolitions and disposals in development. Is there any consideration for leveraging this income to enhance future profits?

A. As stated in our medium-term plan document, our fundamental policy is not to seek one-off gains but to aim for sustainable growth. Therefore, our approach is to ensure that the increase in operating income is steadily reflected in the profit, which leads to stable growth.

Q. Is there room for your company to consider forming a REIT, not only within the context of the 10th Plan but also with a view toward the future?

A. We do not exclude it from our options, but currently, there is no intention to form a REIT for improving the balance sheet, generating one-off gains, or other purposes

Q. Regarding the performance targets by segment, it appears that the leasing segment is projected to increase significantly. To what extent are the rent increases of existing buildings and the operation of new buildings expected to contribute to this increase?

A. While we have not disclosed a breakdown with detailed figures, we expect full-year contributions from projects completed under the 9th Plan, such as the redevelopment in Mita and the project in Haneda. In addition, the vacancy rate of existing buildings is steadily declining, and we have already gained a certain level of understanding for rent increases. Furthermore, we anticipate that the projects to be completed under the 10th Plan, for which we are actively engaged in tenant-seeking activities, will contribute to a certain extent in the final year of the Plan.
Additionally, we expect that the increase in prices and occupancy/utilization rates at facilities such as Villa Fontaine and Bellesalle will also contribute.

Q. *How do you plan to effectively utilize fixed assets?*

A. We are considering approaches such as:
- Simple sales
- Renovate existing buildings to utilize them
- Use them as alternatives for landowners in major redevelopment projects
- Acquire and integrate surrounding sites for redevelopment and transform them into prime assets

Land in central Tokyo offers a wider range of development options compared to other cities around the world. We will consider all possibilities, such as rebuilding to create condominiums or hotels.

Q. *Are office rents increasing?*

A. Yes, they are increasing. Office buildings including those of other developers are almost fully occupied, leaving very few options for large-scale headquarters relocations on the scale of 1,000 to 2,000 tsubo (*1 tsubo ≈ 3.3m^2). Previously, we implemented rent increases in increments of one coin (500 yen), but now we are requesting increases in the range of bills (1,000 to 2,000 yen). However, it cannot be generalized though, as it also depends on the current rent of individual tenants.

Q. *If the rent from existing buildings exceeds expectations, I believe the business performance will also surpass current forecasts. In that case, is there potential to further increase the current annual dividend of 10 yen?*

A. Regarding a further dividend increase, we will consider it based on the progress of the 10th Plan.

Q. *Considering the 650 billion yen in profit expected for the 10th Plan, it seems that an ROE of approximately 9% will continue. I find the current 9% to be somewhat insufficient, and I would like to know your thoughts on this.*

A. We do not consider this figure to be low by the standards of the real estate sector. ROE is merely an indicator that provides a snapshot of a company, and we believe that focusing on it as a target can lead to managerial inflexibility and is not appropriate. We believe we can maintain a sufficient ROE by increasing profits, which are the numerator in the context of sustainable growth. This will become clear when you perform calculations with this three-year plan.

Q. *Regarding the Construction segment, a new company will be established in April with high expectations for significant growth. However, the performance forecast appears conservative. Could you explain the reasons and background for this?*

A. Unlike the Leasing segment, which is capital-driven, the Construction segment relies on the efforts of the employees involved. We are integrating the previously separate custom homes and remodeling businesses into one company, requiring a substantial structural transformation. As it may take some time to achieve concrete results, we have set conservative numerical targets for now.
As previously explained, the size of the existing housing stock market is substantial. There are several thousand houses, excluding vacant ones, and it is said that only about 10% of these meet the latest energy efficiency standards. We recognize that the market is vast with latent demand for energy efficiency in addition to earthquake resistance.

Q. *Regarding non-prime assets, what is the proportion of real estate for sales, fixed assets, and listed securities?*

A. They consist of real estate for sales, primarily condominium assets, recorded at 900 billion yen; listed securities recorded at 600 billion yen; and fixed assets, which are the first to be reviewed, recorded at approximately 200 billion yen.

Q. *How do you envision the reduction of 700 billion yen of non-prime assets? Also, are you aiming to reduce non-prime assets to zero?*

A. First, we plan to reduce 100 billion yen by selling held stocks over the next three years, and for the remaining assets, we will make decisions based on the market conditions.
Although we will gradually reduce non-prime assets, since we will continue to purchase land for real estate for sales even after selling, the 1.7 trillion yen will not be reduced to zero.

Q. *How do you incorporate the impact of rising interest rates on forecasts of condominium sales?*

A. Across the entire company's operations, we expect increases in interest payments of 4 billion yen in FY2025, 8 billion yen in FY2026, and 12 billion yen in FY2027. Regarding the impact on customer purchasing behavior, we have not observed any significant impact at present, as many customers are replacing their condominiums. However, we intend to closely monitor the situation.

Q. *Regarding the share repurchase, I believe the announced 35 billion yen was intended for the stock compensation plan. The medium-term plan document also mentions a management allocation of 260 billion yen, which includes share repurchase. What is the rationale behind this?*

A. In the same way as the M&A and other activities mentioned alongside, it means that we are not excluding possibilities.
Upon introducing the stock compensation plan to reward long service and dedication, we have repurchased shares worth 35 billion yen. In addition, we anticipate that it will take some time to consider whether this stock compensation plan can be implemented in place of the existing retirement benefit system in several subsidiaries that currently have such a system. Therefore, there may be a need for additional repurchases in the future. On the other hand, we may consider cancellation if a surplus is confirmed.

Q. *Compensation for officers is set at 1% of ordinary profit. As the company grows in size, is there any consideration for reflecting other indicators?*

A. Currently, not only directors but also executive officers are included in this compensation system, bringing the total number of individuals eligible to 20. As a real estate developer involved in businesses that carry interest, we consider ordinary profit to be a typical index for objective evaluation. I recall that this system was introduced in 2004, and considering the business performance, we believe it has effectively served as an incentive. At this time, we do not see any circumstances that would require us to change it.

Q. *Regarding debt ratings and financial perspectives, I believe the ratings have steadily improved and have already reached AA rating. In terms of financial stability, what are your goals for the future?*

A. With the AA rating from two rating agencies, we believe we have reached a relatively high level in terms of ratings. Looking ahead, based on past experiences such as being unable to acquire properties during the Global Financial Crisis due to a lack of funding despite significant buying opportunities, we aim to maintain financial capacity. This will allow us to seize promising opportunities to accumulate prime assets at undervalued prices whenever such favorable moments arise.

Q. *M&A is included in the management allocation. What form of M&A are you considering? Additionally, will new investments in land for promising opportunities be prioritized?*

A. We are not currently considering any specific M&A activities. The mention is to indicate that we are not excluding the possibility. As a fundamental approach, we aim for sustainable growth over the long term, so we believe that new investments in land for promising opportunities will be prioritized.

Q. *I believe that the ratio of strategic shareholdings and the composition of the board of directors are not aligned with current market standards. I understand that these issues have been gradually addressed, but how do you plan to improve them going forward?*

A. We believe that our company's policies are understood to move in the same direction as suggested by various guidelines when compared. However, we also recognize that a uniform standard cannot be established since the environments in which companies operate vary. Our company has transitioned from a period where we focused on prioritizing investments and expanding our business to a period where we balance investments and shareholder returns. As we move forward with our 10th, 11th, and 12th Plans, our business platform will be solidified by putting large-scale developments in India and central Tokyo into operation. During this phase, we aim to steadily achieve an even better structure.

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