Sumitomo Realty & Development

Keynote of the 10th Medium-term Management Plan Briefing

First, before giving specific figures or targets, we have summarized our fundamental principles we have communicated thus far into four key points:

1. We make the business platform resistant to market risks including economic downturns, primarily through the stable and growing office building business in Tokyo
2. Investment is indispensable to build a strong business platform and achieve growth
3. Sustainable growth requires accumulating “Prime Assets”, rather than selling them for one-off gains
4. Ultimately, sustainable growth leads to stronger returns for the employees, who play key roles in the Company’s performance, and for the shareholders, who sustain the Company

We aim to maintain this Win-Win cycle.

We now have a series of tangible projects instead of pie-in-the-sky ideas, including the Mumbai projects and domestic redevelopments. The 300 billion yen target of the 10th Plan is positioned as a passing point towards our long-term outlook of reaching 400 billion yen in about 10 years, with aspirations to aim even higher beyond that.

In the 10th Plan, we intend to achieve an ordinary profit of 300 billion yen one year ahead of the original schedule, as well as a three-year cumulative total of 900 billion yen. Looking at past results, the 8th and 9th Plans achieved profit increases of 79.5 billion yen and 97.3 billion yen respectively. The 10th Plan aims an increase of 119.9 billion yen, further accelerating profit growth.

The main pillar leading the Company’s performance remains the leasing segment, with the full-year operation of buildings completed in the 9th Plan, along with improved occupancy rates and rent increases for existing buildings contributing to the profit.

We have established a new company by integrating the remodeling and custom homes businesses this year. Particularly regarding the remodeling business, the housing market has shown a clear shift from new houses to existing stock. The establishment of this company reflects our intention to capture a major share of this large market by combining the expertise of both new housing and remodeling.

Sumitomo Fudosan Step deals with existing stock as well. We have renamed it to enhance our recognition as a professional by customers, rather than merely adopting a new name or sign. This change reflects our proactive stance toward innovation.

Regarding the interest rate, this medium-term plan has incorporated an annual increase of 4 billion yen in interest payments compared to FY2024. Our operating cash flow is expanding, giving us the prospect of covering investments with our own income. This means we are now in a phase to grow our business with no increase in interest-bearing debt.

As a major investment policy for the next 10 years, we plan to make an additional investment of 2.5 trillion yen in ongoing redevelopments in Tokyo and projects in Mumbai, India. We expect this to increase our operating cash flow from the current 250-260 billion yen to 450-460 billion yen, representing an increase of over 200 billion yen per year.

In parallel, we are committed to continuously reviewing our non-prime assets. Specifically, we plan to reduce about 700 billion yen from a total of 1.7 trillion yen composed of real estate for sales, fixed assets, and listed securities over the next 10 years through capital recycling.

Regarding the three-year cash allocation, we anticipate total gains from property sales of 800 billion yen, comprising 700 billion yen from condominium sales and 100 billion yen from the sale of held stocks. Furthermore, we expect income of 1.05 trillion yen primarily from leasing business, represented by office buildings, bringing the total to 1.85 trillion yen. This will be mainly used for investments for growth in Prime Assets and dividends.

Separately, we have allocated 260 billion yen for opportunity funds. This will be used for new investments in land for promising opportunities as previously explained, and also share repurchases. Additionally, we consider the possibility of a further dividend increase depending on the progress of the Plan.

While there was a period when we prioritized investments for growth even by increasing debt and maintained conservative dividends, past investments have come to fruition as income. Now we are shifting to a phase where we balance investments and shareholder returns with progressive dividend policy. As we look ahead, we will consider further strengthening shareholder returns around the time the currently planned investments start to yield results.

Finally, regarding governance, we do not set a numerical target for diversity such as the number of female managers. Our personnel system focuses on promoting individuals based on abilities, regardless of whether they were hired as new graduates or as midcareer workers. Moving forward, we intend to steadily advance a personnel structure that emphasizes supervision functions, ensuring it evolves to align with the current times.

# # #