Sumitomo Realty & Development Co., Ltd.

Summary of Key Questions and Answers at the Financial Results Briefing for FY2025 (Fiscal Year Ended March 31, 2026)

Q: Regarding the office vacancy rate, it was 4.3% at the end of FY2025. It seems there is still room for improvement. Do you intend to target a vacancy rate of 2% or 1%, as some other companies do?

A: First, as a general matter, there are cases where large tenants wishing to expand their leased space end up relocating due to inability to provide the additional space they require. From the perspective of maintaining operational flexibility, we believe that a vacancy rate of around 5% is appropriate.
On the other hand, our total gross floor area has now exceeded 1.5 million tsubo*, and with such a large denominator, we believe we can maintain sufficient operational flexibility even with a vacancy rate of around 3% or lower.
That said, with a vacancy rate below 5%, our top priority is to attract tenants at appropriate rent levels and to request rent increases to appropriate levels. Therefore, we believe that reducing the vacancy rate should not be our highest priority.
* One tsubo is approximately 3.3 square meters.

Q: Regarding the Tokyo office market, you mentioned that market office rents are about half of their peak levels. Do you believe they will eventually return to levels comparable to those seen at the peak? On a related note, we understand that office rents are currently rising day by day. I heard that some leases around Yaesu have been concluded at rents of ¥100,000 per tsubo. We believe Sumitomo Realty is also a co-owner of that property. Could you share your aspirations regarding rent levels?

A: With the economy shifting from the deflationary era of the past 30 to 40 years to an inflationary era, we believe there is indeed room for rents to rise back toward their peak levels.
Given that other companies have reportedly achieved such rent levels in the area around Tokyo Station, we would also seek to achieve similar rent levels in our leasing activities.

Q: Regarding your business in Mumbai, India, you mentioned that you would like to bring forward the start of construction for BKC Projects 3 and 4. Is this actually feasible?
Also, is there any land in BKC where further investment would be possible? If not, would any future acquisitions be located outside BKC? If so, which areas would be potential candidates?

A: In BKC, there is still a considerable shortage of buildings that meet tenants' desired specifications. Against this backdrop, we would like to start construction of BKC Projects 3 and 4 as early as possible. Through our experience with BKC Project 1, which is nearing completion, and BKC Project 2, on which construction has already begun, we believe we have established a certain level of operational readiness, including in the contractor selection process. Therefore, we believe an early start is achievable.
Regarding future land acquisitions, we do believe there is a good possibility that new sites may become available

within BKC, and we would certainly consider such opportunities. Of course, that does not exclude areas outside BKC. If Mumbai were compared to Tokyo, just as Tokyo has various areas such as Marunouchi, Shinjuku, and Roppongi, Mumbai also has other attractive areas. We would like to continue exploring such areas as well, and, as in Tokyo, if opportunities arise to acquire land suitable for the intended use at an appropriate price, we will actively consider them.

Q: Regarding your business in Mumbai, India, it seems that you have gained considerable confidence, given your policy of bringing forward investments and prioritizing the allocation of proceeds from the sale of strategic shareholdings. How has your perception of risk in the India business changed?

A: BKC Project 1 is scheduled for completion by the end of this year, and construction has already begun on BKC Project 2. In the course of these projects, we have been directly involved in advancing the business across a wide range of areas, including negotiations with the authorities on permits and approvals, the selection of general contractors and subcontractors, and on-site construction process management — down to detailed matters such as which factories in India should supply the steel frames. We believe it is particularly meaningful that we have gained a practical, on-the-ground understanding of the business in India, rather than an abstract one. The knowledge gained by having our own employees work directly on-site, rather than merely providing capital through an investment in a local Indian developer, has been extremely valuable for our current business in India. Through the accumulation of such experience over the past several years, we believe we have been able to reduce risk to a certain extent.

Q: Regarding India's macroeconomic environment, there appear to be factors such as an economic slowdown and depreciation of the rupee, partly reflecting the situation in the Middle East. How do you view these factors?

A: We recognize that there will naturally be temporary ups and downs, including the impact of the current situation in the Middle East. However, when I visited Mumbai, what struck me was that India is a country that is rapidly developing its social infrastructure — including roads, subways, and airports — over a 10- to 20-year timeframe, much like Tokyo during Japan's high-growth period in the late 1950s and early 1960s. We believe this overall direction will remain unchanged, regardless of changes in government, and that India will continue to develop steadily from a long-term perspective. As a company that seeks to hold office properties over the long term, as we do in Tokyo, we intend to continue our business operations in India.

Q: Regarding the earnings forecast for FY2026, given that Sumitomo Realty has generally achieved its initial forecasts in the past, should we view the forecast as somewhat conservative in light of the current situation in the Middle East?

A: Given the uncertain business environment, including the impact of the unstable situation in the Middle East and rising interest rates, I believe you can understand that our earnings forecast is based on a certain degree of confidence. For our core office leasing business, we have incorporated only the contribution from contracts that have already been signed. In the condominium sales business, the majority of units to be delivered in this fiscal year have already been contracted, and almost all of them have already been completed. Even in the environment mentioned earlier, we are confident that we will achieve our previously announced targets: ¥300 billion in ordinary profit and another consecutive record high in net income.

Q: Regarding the impact of interest rates, since the financial results announcement, Sumitomo Realty's share price has fallen more sharply than those of its peers. While there may be a market misconception that Sumitomo Realty, with its relatively high level of borrowings, is most exposed to the impact of interest rates, what is the actual impact of interest rates?

A: For many years, we have been working to both extend the maturities and increase the proportion of fixed rate borrowings in our debt portfolio. Of our ¥4 trillion in interest-bearing debt, we believe that approximately ¥300–400 billion is subject to refinancing each year. With respect to the impact of rising interest rates, a certain increase in costs had already been incorporated when we formulated our medium-term management plan. At the same time, it is true that interest rates have been rising at a faster pace than we initially assumed. However, rents have also been rising at a faster pace than initially assumed, and we expect this trend to continue sustainably, as we have previously explained. To the extent that the impact of rising interest rates precedes rent increases, we can offset it with gains on sales of listed securities. Therefore, we believe the situation remains well within a manageable range.

Q: Regarding office rent increases to outpace rising interest rates, the market interest rates appear to be rising rapidly at present. As you mentioned that you have achieved rent increases of around 7% in the previous fiscal year, do you expect this pace to accelerate going forward?

A: Given that current rents in Tokyo are still only about half of their peak levels, and that we are entering a full-fledged inflationary era, we believe there remains significant room for further rent increases, and that the pace of such increases can accelerate. From the perspective of office building management, it is also important how efficiently we operate our buildings. As we manage them directly rather than outsourcing to third parties, we believe this enables us to gain deeper insight into operations and further enhance efficiency. In addition to raising rents, we intend to improve efficiency in our building management from a cost perspective as well, thereby making this business leaner and more profitable.

Q: Regarding cash flow for the current fiscal year, while cash inflows are increasing, capital expenditures for rental properties are expected to remain at around ¥60 billion. Given the recent rise in construction costs, am I correct in assuming that it is becoming more difficult than before to start construction on new office buildings?

A: First of all, our fundamental policy is that we will not hold back on proactive investments necessary to achieve sustainable growth. As you pointed out, construction costs are currently rising. However, rather than cancelling projects because of higher construction costs, we believe what is important is how we can improve the viability of each project and move forward with construction under such conditions. Even in this environment, we intend to continue taking on the challenge without easing our proactive investment stance.

As for capital expenditures for rental properties in the current fiscal year, the amount is indeed lower. However,

investment tends to be larger in years when we incur costs related to large-scale redevelopment projects. Therefore, we would ask you to look at these investments not on a single-year basis, but at least over the three-year period of the medium-term management plan.
From a financing perspective, we had anticipated the decline in capital expenditures for rental properties this fiscal year, and therefore increased our issuance of commercial paper in the previous fiscal year to raise funds. Financing amounts may also fluctuate from year to year, and we believe that viewing them over each medium-term management plan period allows for a better understanding of our initiatives.

Q: Regarding cash allocation, the management allocation, which serves as an opportunity fund, is stated to be ¥125.0 billion in the supplementary material. Last year, ¥42.0 billion was already used for the additional investment in India. Taking this into account, is it correct to understand that the remaining amount is ¥83.0 billion?

A: With regard to cash allocation, we are continuing to explore how best to present it in a way that is easy to understand both internally and externally. At the beginning of the previous fiscal year, we disclosed our three-year cash allocation under the medium-term management plan for the first time. The figure shown in the supplementary material reflects our current outlook, and the management allocation currently stands at ¥125.0 billion.

Q: Regarding your financial leverage, the debt-to-equity ratio for the previous fiscal year was 1.6 times, and I believe the Company has received strong credit ratings. Could you tell us whether you have any target level in mind?

A: First of all, our management policy is “sustainable growth.” We will steadily complete a total of 1.1 million tsubo of projects, comprising 600,000 tsubo in Tokyo and 500,000 tsubo in India. In addition, as we now have a clear outlook that the cash flow we generate will be sufficient to fund investments for these projects from the 10th Plan onward, we have raised the pace of dividend increases, and also conducted share repurchases last fiscal year. That said, further investment will be necessary to achieve sustainable growth beyond that. We do not necessarily view the current environment as favorable for new investments. However, although we have not set a numerical target, we believe it is important to maintain a certain level of financial flexibility in anticipation of more attractive opportunities that may eventually arise.

Q: Regarding your revolving business model and utilization of non-prime assets, we understand that their contribution to earnings is likely to start from the next medium-term management plan. Could you provide any updates?

A: We are currently continuing to acquire new properties that will contribute to our revolving business, while also carefully reviewing our non-prime assets. For non-prime assets in particular, we are not only considering simple sales, but also actively taking steps to maximize their value by leveraging our strengths as a developer—for example, by acquiring adjacent land and redeveloping properties on a combined site. We will disclose progress in further detail as it becomes more concrete.

Q: As your revolving business begins to operate at full scale, could you once again share your view on establishing a REIT or similar structure?

A: While we cannot comment on matters too far into the future, our current view is that we do not see particular benefits in utilizing a REIT structure. As for potential buyers, for example, we believe it would be appropriate to sell properties to the buyer who offers the highest price through a bidding process. Some may argue that establishing and operating a REIT would allow us to earn investment management income and management fees. However, as we currently manage more than 1.5 million tsubo of office buildings in-house, we believe our focus should be on building management, also to strengthen profitability.

Q: With regard to ROE, based on the earnings forecast for the current fiscal year, ROE appears likely to decline slightly. How do you view this?

A: As we have explained before, we do not set ROE as a numerical management target, although we do recognize it as a very important indicator in managing our business. One reason for that is that ROE is calculated as net income divided by shareholders' equity, and can therefore be improved by reducing the denominator—shareholders' equity—through measures such as share repurchases, even without increasing net income. On the other hand, our basic stance is that steadily increasing net income－the numerator－is important for enhancing corporate value. In fact, our adjusted ROE exceeds 10% and is on an upward trend. Going forward, we will continue to aim to maintain and improve ROE by increasing net income, which is the numerator of the ROE calculation.