

November 8, 2024

To whom it may concern:

Company:	Sumitomo Realty & Development Co., Ltd.
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Securities code:	8830 (TSE Prime Market)
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Steadily Advancing the “Management Strategy for Sustainable Growth”

Since last year, we have announced our basic management policy twice based on the new business environment shaped by the end of the COVID-19 pandemic and the launch of large-scale projects both in Japan and abroad. We appreciate the active inquiries and feedback from investors both domestically and internationally.

We hereby further explain our policy to stakeholders, including investors, to foster a better understanding of our aim for steady long-term sustainable growth, rather than transient surprises. Additionally, as we establish the Tenth Medium-term Management Plan starting this coming spring, we would like to explain the areas that we intend to focus on and strengthen.

The summary is as follows. The details are provided on the following pages.

1. Going forward, by continually and objectively evaluating our operational assets, which are expected to steadily increase both domestically and internationally, we will flexibly explore the best ways to utilize them for sustainable growth, including whether to retain or replace these assets.
2. In order to ensure sustainable profit growth in our business, we will also continually assess the significance of holding shares and leverage the unrealized gains from those for diverse ways such as financing for business structural reforms, additional investments in human capital, and preparation for rising interest rates.
3. In order to pursue opportunities for business growth in the existing housing market, which is expected to expand in the future, in addition to the new housing construction business, we will establish a new group management structure on two key points: (1) Integrating the remodeling business with the new construction business to share expertise and improve productivity, exploring approaches unique to the stock era; and (2) Incorporating the strengthening of a customer-oriented real estate brokerage business, exemplified by our STEP Auctions.

1. Strategy for utilizing operational assets including buildings for lease

The following is the composition of leasing and other real estate properties held as of the end of March 2024.

Figure 1.

	Fair value	Book value	Unrealized gain
Operational buildings	¥7.4 trillion	¥3.5 trillion	¥3.9 trillion
Others	¥1.0 trillion	¥0.9 trillion	¥0.1 trillion
TOTAL	¥8.4 trillion	¥4.4 trillion	¥4.0 trillion

The investment yield of our operational buildings has reached 7.3%, significantly exceeding the average yield of JREITs, which serve as a standard for expected returns and appraisal values for income-producing properties.

Figure 2. Comparison of the investment yields for office buildings within Tokyo's 23 wards

Sumitomo Realty's operational buildings	7.34%
JREIT average	3.17%

For the past half-century, we have focused our investments on the development of office buildings in central Tokyo. We have not merely invested capital but have also diligently worked towards the creation of added value. Combined with the recent decline in transaction yields, this dedication has resulted in substantial unrealized gains.

Selling operational buildings can generate significant profits temporarily, but it also means losing leasing income in subsequent years. Even if we reinvest the proceeds from the sale into the development of other operational buildings to maintain leasing income, the reinvestment funds decrease due to taxation, resulting in a reduced scale of development and leasing income. Therefore, we believe that asset sales aligned with growth should be kept within the extent of the expected increase of leasing income from assets to be developed in the future.

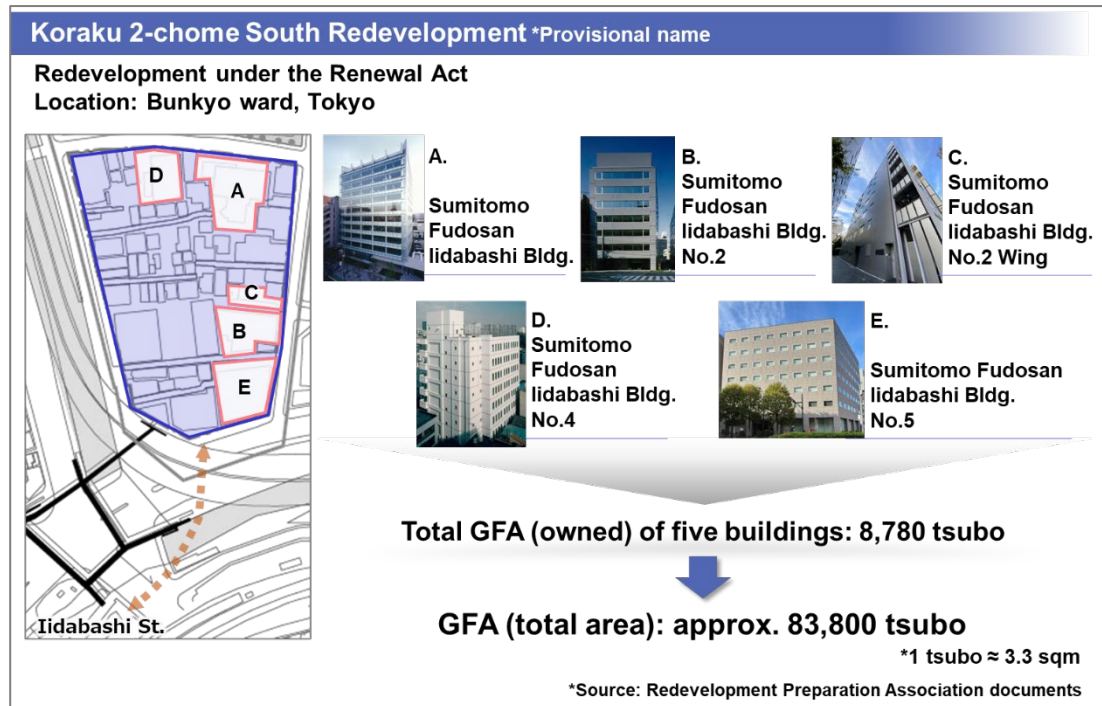
We are currently promoting development plans with a total gross floor area of 1 million tsubo (*1 tsubo \approx 3.3 m²), with 600,000 tsubo in central Tokyo and 400,000 tsubo in central Mumbai, India. As a result, our current portfolio of operational assets with a gross floor area of 1.6 million tsubo will significantly expand both domestically and internationally in the future, enabling us to implement asset replacement without hindering the growth of our leasing business.

Regarding asset replacement, we will consider factors such as the rarity of location and scale of individual properties, and the profitability driven by high yields from holding assets. Not limited to simple sales, we will flexibly explore the most effective ways to utilize assets. This includes further redevelopment of already redeveloped sites with scale expansion, exchanging assets or engaging in mutual sales to acquire development sites, and selling after rebuilding with a change in the buildings' purpose.

We strive to enhance corporate value by aiming at both improved asset efficiency and sustainable growth.

Figure 3. Examples of buildings with retained ownership following value enhancement

An example of further integrated redevelopment of five existing buildings in collaboration with the local community



Examples of further redevelopment of already redeveloped sites through the acquisition of nearby lands

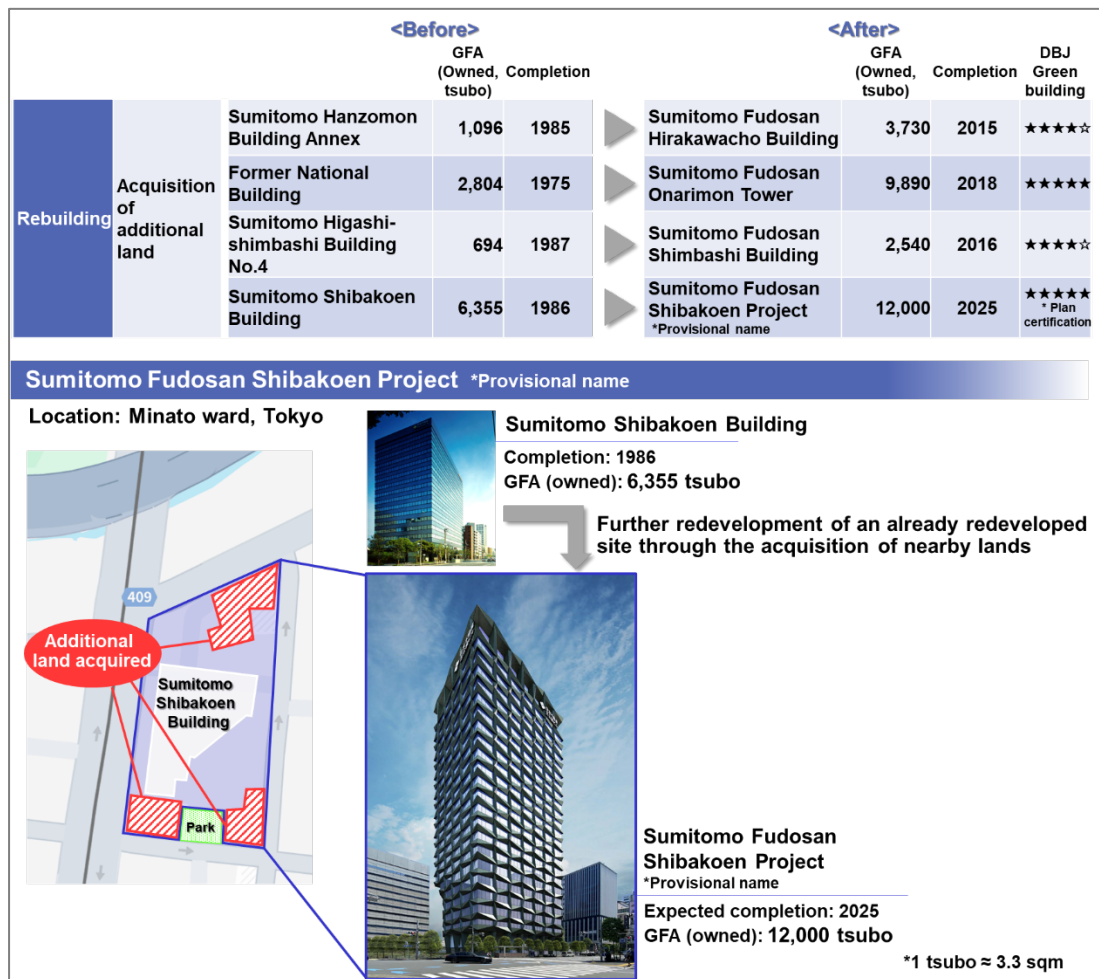


Figure 4. Examples of sales after changing the buildings' purpose

◆ Office buildings converted/rebuilt to condominiums and sold		
Name	Completion	Total number of units
City House Shinagawa South	2020	66
Central Residence Gaien Nishi-dori	2014	60


◆ Condominiums for sale converted into rental apartments to sell the entire building		
Property with 97 units in Shinjuku ward	Property with 95 units in Arakawa ward	Property with 96 units in Chuo ward

etc.

Examples of office buildings converted/rebuilt to condominiums and sold

(Before)


Sumitomo Fudosan Higashi-shinagawa Building



Location: Shinagawa ward, Tokyo
Completion: 1991
GFA: 1,293 tsubo

(After) *1 tsubo ≈ 3.3 sqm


City House Shinagawa South



Completion: 2020
Total No. of units: 66 units
No. of floor: 18 above ground

(Before)


Sumitomo Gaien Building



Location: Shinjuku ward, Tokyo
Completion: 1987
GFA: 1,449 tsubo

(After) *1 tsubo ≈ 3.3 sqm

Central Residence Gaien Nishi-dori



Completion: 2014
Total No. of units: 60 units
No. of floor: 10 above ground

2. Strategy for leveraging listed stocks we hold

As of the end of September 2024, the listed stocks held by our company are as follows.

Figure 5.

	Number of stocks	Fair value	Book value
Stocks held for pure investment purposes	3	¥44.5 billion	¥13.3 billion
Stocks held for specific investment purposes	205	¥597.0 billion	¥250.8 billion
TOTAL	208	¥641.5 billion	¥264.2 billion

In a similar way to the leasing assets, we will periodically review the significance of our held stocks. For stocks whose significance for holding has diminished, we will actively leverage the unrealized gains to strengthen our sustainable growth.

(1) Funds for growth investment

We will allocate these funds to investments necessary for ensuring our sustainable growth, such as digital transformation in systems development and proactive investments in human capital.

(2) Offsetting of extraordinary losses

In the real estate industry, a certain amount of extraordinary losses, primarily due to demolition and disposals, occurs each year. Starting from the previous fiscal year, we have offset these losses with gains from the sale of stocks. This approach allows the increase in ordinary profit to directly contribute to an increase in net income.

(3) Preparation for rising interest rates

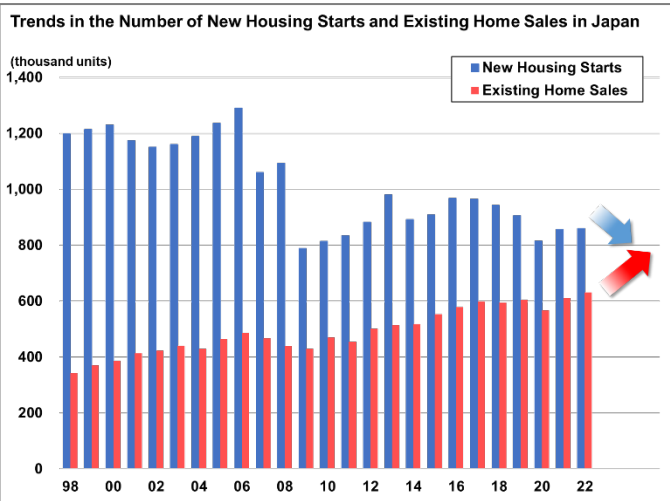
In July, the Bank of Japan raised the policy interest rate to approximately 0.25%. In our outlook released in May of last year, we estimated the impact of rising interest rates on our performance to be about 2 billion yen annually. In the medium to long term, there is even a possibility that as the Japanese economy continues to expand steadily, a proper inflation rate will become the norm, leading to further rate increases. Generally, office buildings have a high inflation hedge function, and the increase in rent will eventually cover the rise in interest payments. However, if the increase in interest payments precedes this, it could lead to a deterioration in non-operating income/expenses and temporarily obstruct sustainable growth. From the Tenth Medium-term Management Plan onward, in addition to extraordinary losses, we will offset non-operating losses as well by applying gains from stock sales. As a result, the impact of interest rate increases on our performance will be neutralized, allowing the increase in operating income to directly contribute to an increase in net income.

We anticipate that the unrealized gains on the stocks, which can be sold with the consent of our cross-shareholding partners, will amount to approximately 100 billion yen by the end of the next medium-term management plan. We view this as a substantial resource that can also be leveraged to support the continuation and enhancement of our progressive dividend policy.

3. Strengthening business in the existing housing market

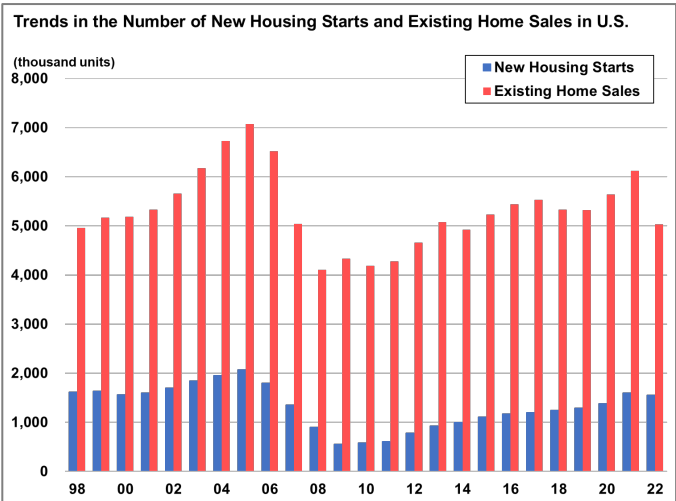
In recent years, the quality of houses in Japan has improved in areas such as earthquake resistance and thermal insulation, leading to a longer lifespan. As a result, with proper renovations, they can be used for extended periods. This has become widely accepted among consumers as evidenced by the increasing number of brokerage transactions of existing houses. Additionally, from the perspective of reducing environmental impact, it has become an era where society as a whole should promote this trend.

Figure 6.



Source: Ministry of Land, Infrastructure, Transport and Tourism, “Housing Starts Statistics” (New housing starts), and the Association of Real Estate Agents of Japan, “Estimated Trading Volume of Existing Houses in the Market by Region” (Existing home sales)

Figure 7.



Source: U.S. Census Bureau, “New Residential Construction” (New housing starts), and National Association of REALTORS, “Existing Home Sales” (Existing home sales)

For this promising market of existing houses, the key segments for our company are (1) Construction and (2) Brokerage. While we anticipate both segments will achieve record-high profits for fiscal 2024, we are implementing a new group management structure, as outlined below, to further strengthen these two segments and pursue opportunities for significant business growth associated with the housing stock.

(1) Establishment of Sumitomo Fudosan Housing Co., Ltd. and business transfer

We will establish a new wholly-owned subsidiary, and on April 1 of next year, we will transfer and integrate both Shinchiku Sokkurisan Remodeling Business and Custom Homes Business into this subsidiary.

* Please refer to the “Announcement on the Transfer (Spin-off) of the Housing Construction Business to Our Wholly-owned Subsidiary through a Company Split (Simplified Absorption-type Company Split)” released on November 8, 2024.

a. Aiming to achieve a 50% increase in sales to 300 billion yen at an early stage by deepening business integration

In many housing renovation companies, both large and small, the focus is on small-scale projects centered around the replacement of residential equipment. In contrast, our main brand, Shinchiku Sokkurisan remodeling, is characterized by a full remodeling system that includes seismic reinforcement and thermal insulation improvements, making it highly compatible with new construction. The newly established company will operate on a scale of conducting 10,000 constructions annually nationwide, becoming an unprecedented company in Japan that merges new construction with large-scale renovations. As we expand our business opportunities, we aim to comprehensively deepen the integration of our operations, including the standardization of items between these two businesses such as residential equipment, materials, designs, and logistics. In this way, we strive for significant growth.

b. Standardizing the construction system between the two businesses and promote co-prosperity with each business partner

The housing business requires a wide range of business partners, such as master carpenters, responsible for construction, and equipment suppliers. Until now, both businesses have maintained their own construction systems. However, in our new company, we plan to re-establish a shared foundation for construction standards and work procedures, and widely conduct training and share them with our partners. This approach will enable mutual sharing of construction capabilities between new construction and renovation, and preventing fluctuations in our partners’ work volume due to seasonal, regional, or order-related factors. Through these efforts, we aim for co-prosperity and coexistence with our partners.

c. Strengthening our human capital framework by creating a flexible personnel system and increasing human capital investment

Until now, we have aimed to expand and grow this segment by hiring mid-career professionals with expertise and experience. However, with an anticipated shortage of personnel, we need to pivot and diversify our workforce by incorporating new graduates to achieve further growth and expansion. Rather than being one of the segments within the headquarters, which primarily focuses on leasing and sales businesses, this segment should be transformed into an independent company that can flexibly develop its personnel systems, with the aim of strengthening the human capital framework and expanding the business operations.

(2) Changing the company name of Sumitomo Real Estate Sales Co., Ltd. to Sumitomo Fudosan Step Co., Ltd.

Sumitomo Real Estate Sales Co., Ltd. will change its company name to “Sumitomo Fudosan Step Co., Ltd.” effective April 1 next year. The company was originally established in 1975 as an entity responsible for selling Sumitomo Realty’s condominiums and residential lots, and its name was derived from this role. However, since Sumitomo Realty now directly handles condominium sales and the company has transitioned into a specialized real estate brokerage, its current name no longer accurately reflects its business.

The company is currently implementing various initiatives: (1) Making a complete transition from analog advertising, which focuses on flyer inserts and direct mail based on registered information, to digital advertising; (2) introducing ‘STEP Auctions,’ a transparent system for finding buyers for properties; and (3) promoting thorough visualization of business operation through digital transformation to create a robust framework that leaves no room for doubt, ensuring that customer interests are safeguarded from harmful practices where real estate agents restrict property information sharing for their own benefit. Additionally, the company is engaged in structural reforms without any sacred taboos, including (4) reforming the HR and compensation systems and (5) reorganizing the brokerage office network.

As we celebrate the company’s 50th anniversary next year, we have decided to incorporate the “STEP” brand, widely known as “Sumifu no Chukai STEP (Sumitomo Realty’s Brokerage STEP),” into the new company name. This reflects our desire to “aim to be a company that helps our customers step up their lives through fair and transparent real estate transactions.”

* Please refer to the “Announcement on the Name Change of Our Subsidiary, Sumitomo Real Estate Sales Co., Ltd.” released on November 8, 2024.

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