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Highlights of Five Major Real Estate Companies' Financial Results for Fiscal Year Ended March 2022

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of Japan's five major real estate companies (collectively, the "Companies"): Nomura Real Estate Holdings, Inc. ("NREHD"), Tokyu Fudosan Holdings Corporation ("TFHD"), Mitsui Fudosan Co., Ltd. ("Mitsui Fudosan"), Mitsubishi Estate Company, Limited ("Mitsubishi Estate") and Sumitomo Realty & Development Co., Ltd. ("Sumitomo Realty & Development").

1. Industry Trend

The average office vacancy rate in the Tokyo business district (Chiyoda, Chuo, Minato, Shinjuku and Shibuya wards) as of the end of April 2022 was 6.38%, according to Miki Shoji. After hitting bottom at 1.49% at the end of February 2020 due to the COVID-19 pandemic, it kept rising up to the end of October 2021 to reach as high as 6.47% and has been staying high at around 6.2% to 6.4% since November 2021. The average rent remains on a downtrend, falling to 20,328 yen per *tsubo* (approximately 3.3 square meters) at the end of April 2022 from its peak at 23,014 yen per *tsubo* as of the end of July 2020. According to the Survey of Large-scale Office Building Market in Tokyo's 23 Wards released on May 27, 2021 by Mori Building Co., Ltd., new supply volume was predicted at 610,000 square meters for 2021 and 490,000 square meters for 2022, which is quite low compared to the historic average for 1986 through 2020 of 1.05 million square meters per year; however, it is expected to improve in 2023 to 1.45 million square meters, far exceeding this historic average. Given changes in office demand, including the penetration of teleworking amid the COVID crisis, trends in supply-demand balance from 2023 onward should be closely watched.

The number of condominiums supplied in the Tokyo metropolitan area in 2021, according to Real Estate Economic Institute Co., Ltd. ("REEI"), increased 23.5% over the year to 33,636 units, topping 30,000 units for the first time in two years. While the first half of 2020 was drastically affected by the COVID-19 pandemic, as indicated by the inevitable voluntary suspension of sales activities including the temporary closure of showrooms, demand started picking up in the second half, remaining robust into 2021. The first-month contract rate averaged 73.3% per month, as opposed to 66.0% for the previous year, going above the benchmark for strong sales of 70.0%. On the other hand, the number of units in inventory at the end of December 2021 decreased from 8,905 a year before to 6,848. REEI projects new supply volume for 2022 to be 34,000 units, up 1.1% from 2021, as it predicts that the popularity of condominiums in central Tokyo will become even more prominent while demand will keep growing in suburbs amid the COVID crisis.

2. Financial Results

Both net sales and operating income of the Companies combined improved in FY2021 to 6.0 trillion yen and 932.6 billion yen with a 7.2% and 19.6% year-on-year growth, respectively. Having declined in FY2020 due to the COVID crisis, they not only bounced back but marked new highs since FY2019. By segment, even though businesses other than real estate have yet to fully recover because of the COVID crisis, including hotel operations, growth in overall performance was driven by core businesses like real estate leasing and sales.

Looking at the Companies individually, all five companies attained higher operating income. In particular, NREHD, TFHD and Mitsubishi Estate renewed their highs. Though falling short of the record high, the income grew by as much as 20.2% from the previous year for Mitsui Fudosan. For Sumitomo Realty & Development, it improved 6.7% in FY2021 after falling a bit in FY2020.

Financial structure continued to improve. Equity ratio of the Companies combined was 30.9% as of the end of FY2021, as opposed to 29.9% a year before, and D/E ratio was 1.58x, versus 1.70x. While interest-bearing debt increased due to high levels of investment, equity capital built up with the accumulation of net income and so forth. Unrealized gains on rental and other real estate properties amounted to 11.6 trillion yen for the Companies combined, increasing for the tenth consecutive year from 11.0 trillion yen at the previous year-end, indicating a steady increase in financial buffer.

Looking at the Companies individually, both equity ratio and D/E ratio improved for four companies other than NREHD; equity ratio remained flat for NREHD.

3. Highlights for Rating

Both net sales and operating income of the Companies combined are expected to increase for two years in a row in FY2022 to 6.2 trillion yen and roughly 1 trillion yen, up 3.7% and 8.5% from the previous year, respectively. Condominium sales and property sales to investors, as well as office building leasing, are projected to remain firm.

There are a few concerns about business performance. In addition to the steady conclusion of condominium sales contracts, property sales to investors are also robust. For office building leasing, too, although vacancy rates are higher than the pre-COVID levels, they are nevertheless at decent levels and remain firm; therefore, JCR views it unlikely that they will decline in the short term. That said, from the medium-term perspective, the structure of office demand may change because of the COVID crisis, and thus close attention must be paid to the status of tenant leasing, etc.

Attention will also be paid to whether the financial structure will be maintained. The financial structure has been consistently tending to improve even in the midst of the COVID crisis. Meanwhile, high levels of investment is expected both at home and abroad, which suggests that the financial structure may weaken, depending on the status of fund recovery. JCR will continue monitoring individual companies' financial targets and management policies to see if there are any changes.

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(Chart 1) Financial Results of Five Major Real Estate Companies

(JPY 100 mn, %)

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary Income	YOY Change	Net Income*	YOY Change
NREHD (3231)	FY2020	5,806	▲ 14.2	763	▲ 6.8	659	▲ 9.7	422	▲ 13.7
	FY2021	6,450	11.1	912	19.5	825	25.2	553	31.1
	FY2022F	6,800	5.4	905	▲ 0.8	850	3.0	570	3.1
TFHD (3289)	FY2020	9,077	▲ 5.8	565	▲ 28.7	466	▲ 31.0	217	▲ 43.9
	FY2021	9,890	9.0	838	48.3	728	56.4	351	62.1
	FY2022F	10,000	1.1	900	7.4	760	4.3	370	5.3
Mitsui Fudosan (8801)	FY2020	20,075	5.3	2,037	▲ 27.4	1,688	▲ 34.7	1,295	▲ 29.6
	FY2021	21,008	4.6	2,449	20.2	2,249	33.2	1,769	36.6
	FY2022F	22,000	4.7	3,000	22.5	2,600	15.6	1,900	7.4
Mitsubishi Estate (8802)	FY2020	12,075	▲ 7.3	2,243	▲ 6.8	2,109	▲ 3.9	1,356	▲ 8.6
	FY2021	13,494	11.8	2,789	24.3	2,537	20.3	1,551	14.4
	FY2022F	14,160	4.9	2,910	4.3	2,710	6.8	1,650	6.3
Sumitomo Realty & Development (8830)	FY2020	9,174	▲ 9.5	2,192	▲ 6.4	2,099	▲ 4.8	1,413	0.3
	FY2021	9,394	2.4	2,338	6.7	2,251	7.2	1,504	6.4
	FY2022F	9,500	1.1	2,400	2.6	2,350	4.4	1,600	6.3
Total	FY2020	56,207	▲ 4.1	7,800	▲ 14.9	7,021	▲ 16.3	4,703	▲ 16.1
	FY2021	60,236	7.2	9,326	19.6	8,591	22.4	5,729	21.8
	FY2022F	62,460	3.7	10,115	8.5	9,270	7.9	6,090	6.3

* Net income attributable to owners of parent

Source: Prepared by JCR based on financial materials of above companies

(Chart 2) Financial Structure of Five Major Real Estate Companies

(JPY 100 mn, times)

		Equity Capital	Interest-bearing Debt (IBD)	D/E Ratio	EBITDA	IBD / EBITDA	Operating Cash Flow	Investing Cash Flow
NREHD (3231)	FY2019	5,501	8,722	1.6	1,019	8.6	566	▲ 304
	FY2020	5,833	10,106	1.7	965	10.5	▲ 635	▲ 557
	FY2021	6,187	10,227	1.7	1,104	9.3	527	▲ 462
TFHD (3289)	FY2019	5,832	13,810	2.4	1,177	11.7	▲ 66	▲ 1,472
	FY2020	5,966	15,011	2.5	1,026	14.6	1,004	▲ 1,160
	FY2021	6,317	14,217	2.3	1,330	10.7	764	▲ 317
Mitsui Fudosan (8801)	FY2019	24,086	34,964	1.5	3,798	9.2	870	▲ 5,328
	FY2020	25,558	36,417	1.4	3,088	11.8	1,878	▲ 1,310
	FY2021	27,964	36,672	1.3	3,638	10.1	2,714	▲ 2,100
Mitsubishi Estate (8802)	FY2019	17,344	24,298	1.4	3,365	7.2	3,417	▲ 2,774
	FY2020	18,519	25,261	1.4	3,334	7.6	2,074	▲ 2,973
	FY2021	20,032	27,368	1.4	3,785	7.2	2,800	▲ 3,137
Sumitomo Realty & Development (8830)	FY2019	12,949	34,418	2.7	2,949	11.7	2,304	▲ 2,901
	FY2020	15,030	35,620	2.4	2,888	12.3	2,259	▲ 3,366
	FY2021	16,340	35,599	2.2	3,073	11.6	1,929	▲ 2,099
Total	FY2019	65,712	116,212	1.8	12,308	9.4	7,091	▲ 12,779
	FY2020	70,906	122,415	1.7	11,301	10.8	6,580	▲ 9,366
	FY2021	76,840	124,083	1.6	12,930	9.6	8,734	▲ 8,115

Note: Figures for NREHD, TFHD and Mitsubishi Estate are those before consideration of equity content of subordinated bonds and subordinated loans.

Source: Prepared by JCR based on financial materials of above companies

<Reference>

Issuer: Nomura Real Estate Holdings, Inc.

Long-term Issuer Rating: A Outlook: Stable

Issuer: Tokyu Fudosan Holdings Corporation

Long-term Issuer Rating: A Outlook: Stable

Issuer: Mitsui Fudosan Co., Ltd.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Mitsubishi Estate Company, Limited

Long-term Issuer Rating: AA+p Outlook: Stable

Issuer: Sumitomo Realty & Development Co., Ltd.

Long-term Issuer Rating: AA- Outlook: Stable

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