

Highlights of Major Real Estate Companies' Financial Results for Fiscal Year Ended March 2021

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 2021 (FY2020) and earnings forecasts for FY2021 of Japan's 5 major real estate 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 (according to Miki Shoji) in the Tokyo business district (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya wards) was 5.65% at the end of April 2021, increasing since it bottomed out at 1.49% at the end of February 2020 due to the expansion of COVID-19 pandemic impact. The average rent has also been declining, peaking at 23,014 yen per *tsubo* (approximately 3.3 square meters) at the end of July 2020, and dropped to 21,415 yen per *tsubo* at the end of April 2021. According to the Survey of Large-scale Office Building Market in Tokyo's 23 Wards (according to Mori Building Co., Ltd., released on May 25, 2020), the amount of new office supply is expected to be 540,000 square meters in both 2021 and 2022. Compared to the historical average (1986-2019) of 1.03 million square meters per year, this is a fairly low level of supply, and the deterioration in the supply-demand balance due to supply factors is not expected to be seen. However, in 2023, the supply is expected to be 1.43 million square meters, much higher than the historical average. As the expansion of COVID-19 pandemic does not seem to be coming to an end and medium-term office demand may change due to the development of telework and other factors, it will be necessary to closely monitor the trends in the supply-demand balance in 2023 and beyond.

The number of condominiums sold in the Tokyo metropolitan area in 2020 (according to Real Estate Economic Institute Co., Ltd., "REEI") was 27,228 units (down 12.8% from the previous year). In the first half of the year (January to June 2020), the number of condominiums sold decreased significantly to 7,497 units (down 44.2% year-on-year) as a result of being forced to refrain from sales activities such as suspending model rooms due to the COVID-19 pandemic expansion. However, in the second half of the year (July to December 2020), the number recovered to 19,739 (up 10.9% year-on-year). The first-month contract rate averaged 66.0% per month (62.6% in the previous year). This is the fifth consecutive year that the rate has fallen below 70.0%, which is considered to be the benchmark for strong sales, but it was an improvement from the previous year. The number of units in inventory for sales at the end of December 2020 was 8,905, down from 9,095 at the end of the same month last year. According to REEI, the number of new units sold in 2021 is expected to reach 32,000 (up 17.5% from the previous year). In addition to high-rise and large-scale properties, REEI expects demand to grow in the suburbs as telework progresses.

2. Financial Results

Total net sales of the 5 companies in FY2020 were 5.6 trillion yen (down 4.1% year-on-year) and their total operating income was 780 billion yen (down 14.9% year-on-year). The operating income had increased for 8 years in a row and reached a record high for 5 years in a row until FY2019, but FY2020 saw a complete reversal with the decline of income caused by the COVID-19 pandemic. By business segment, both core real estate leasing business and real estate sales business saw their profits decline, and performance of businesses other than real estate business, such as hotel operations, also deteriorated.

On an individual company basis, all 5 companies decreased their operating income. However, the extent of the decline in the income varied among the companies due to differences in their business portfolios. While Mitsui Fudosan and TFHD saw their income decline by more than 20% year-on-year due to slump in commercial facilities and hotels, which were greatly affected by the COVID-19 pandemic, Mitsubishi Estate and Sumitomo Realty & Development, which have office leasing business

in central Tokyo as their core business and enjoyed relatively solid performance in this business, and NREHD, which has favorable residential sales business accounting for a large part of the business portfolio, saw their profits decline by only single digits.

Financial structure improved. Total equity ratio of the 5 companies at the end of FY2020 was 29.9% (28.9% at the end of FY2019), and D/E ratio was 1.70x (1.74x). Although interest-bearing debt increased due to high levels of investment, net income and valuation difference on available-for-sale securities contributed to the increase in equity capital. Unrealized gains on rental and other real estate totaled 11.0 trillion yen for the 5 companies in total (10.7 trillion yen). Although the pace of increase has slowed down, FY2020 was the 9th consecutive year of the increase and the financial buffer continues increasing.

Looking at individual companies, Mitsui Fudosan, Sumitomo Realty & Development, as well as TFHD, which implemented hybrid financing, all improved their equity ratio and D/E ratio. On the other hand, NREHD saw a slight deterioration in both its equity ratio and D/E ratio.

3. Highlights for Rating

Total net sales of the 5 major real estate companies are expected to increase to 6.1 trillion yen (up 8.8% year-on-year) and operating income to 860 billion yen (up 10.3% year-on-year) in FY2021. The net sales will be at a record high level, and operating income, although not at the highest level, will be second only to the peak of 916.3 billion yen in FY2019 and 870.9 billion yen in FY2018. In general, office building leasing and residential sales business are expected to remain firm, and the hotel business and other businesses, which were severely affected, are also expected to bottom out.

On an individual company basis, all 5 companies are expected to post higher profits. JCR will continue to monitor the COVID-19 pandemic impact. In particular, JCR will be watching recovery of performance for Mitsui Fudosan and TFHD, whose profits significantly declined in the previous fiscal year.

JCR will also pay attention to whether they can maintain their financial structure. In FY2020, they showed signs of improvement even under the COVID-19 pandemic impact. Investment is expected to be high not only in Japan but also overseas. Depending on the status of investment recovery, their financial structure may deteriorate. JCR will continue to monitor whether there will be any changes in disciplines and management policies for each company.

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(Chart 1) Financial Data of Major Real Estate Companies

(JPY 100 mn, %, times)

	Nomura Real Estate Holdings (3231)				Tokyu Fudosan Holdings (3289)				Mitsui Fudosan (8801)			
	A/Stable				A/Stable				AA/Stable			
	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Est.)	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Est.)	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Est.)
Net Sales	6,685	6,764	5,806	6,800	9,018	9,631	9,077	10,400	18,611	19,056	20,075	21,500
Operating Income (Profit Margin)	791 11.8	819 12.1	763 13.1	770 11.3	802 8.9	793 8.2	565 6.2	800 7.7	2,621 14.1	2,801 14.7	2,037 10.1	2,300 10.7
Ordinary Income (Profit Margin)	693 10.4	730 10.8	659 11.4	725 10.7	707 7.8	674 7.0	465 5.1	665 6.4	2,541 13.7	2,585 13.6	1,688 8.4	2,050 9.5
Net Income (Profit Margin)	458 6.9	488 7.2	421 7.3	495 7.3	374 4.1	386 4.0	216 2.4	300 2.9	1,686 9.1	1,839 9.7	1,295 6.5	1,600 7.4
EBITDA (vs. Net Sales)	984 14.7	1,019 15.1	965 16.6		1,110 12.3	1,177 12.2	1,026 11.3		3,483 18.7	3,798 19.9	3,088 15.4	
Operating Cash Flow	899	566	▲ 635		445	▲ 66	1,004		2,167	870	1,878	
Investing Cash Flow	▲ 466	▲ 304	▲ 557		▲ 603	▲ 1,472	▲ 1,160		▲ 3,888	▲ 5,328	▲ 1,310	
Fee Cash Flow	433	262	▲ 1,192		▲ 158	▲ 1,538	▲ 156		▲ 1,721	▲ 4,458	568	
Financing Cash Flow	137	▲ 668	1,123		1,390	650	1,083		2,312	4,677	▲ 665	
Total Assets	17,594	18,012	19,213		24,052	24,873	26,522		68,027	73,953	77,419	
Equity Capital	5,792	6,026	6,358		5,614	5,832	6,466		23,425	24,086	25,558	
Interest-bearing Debt	8,615	8,175	9,560		12,898	13,610	14,287		29,066	34,811	36,234	
Interest-bearing Debt/EBITDA	8.76	8.02	9.91		11.62	11.56	13.92		8.35	9.17	11.73	
D/E Ratio	1.49	1.36	1.50		2.30	2.33	2.21		1.24	1.45	1.42	
Equity Ratio	32.9	33.5	33.1		23.3	23.4	24.4		34.4	32.6	33.0	

	Mitsubishi Estate (8802)				Sumitomo Realty & Development (8830)			
	AA+p/Stable				A+/Positive			
	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Est.)	FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Est.)
Net Sales	12,632	13,021	12,705	13,260	10,132	10,135	9,174	9,200
Operating Income (Profit Margin)	2,291 18.1	2,407 18.5	2,243 17.7	2,450 18.5	2,204 21.8	2,343 23.1	2,192 23.9	2,280 24.8
Ordinary Income (Profit Margin)	2,065 16.3	2,195 16.9	2,109 16.6	2,200 16.6	2,042 20.2	2,205 21.8	2,099 22.9	2,210 24.0
Net Income (Profit Margin)	1,346 10.7	1,484 11.4	1,356 10.7	1,420 10.7	1,308 12.9	1,409 13.9	1,413 15.4	1,500 16.3
EBITDA (vs. Net Sales)	3,170 25.1	3,304 25.4	3,334 26.2		2,767 27.3	2,949 29.1	2,888 31.5	
Operating Cash Flow	3,459	3,417	2,074		2,600	2,304	2,259	
Investing Cash Flow	▲ 2,710	▲ 2,774	▲ 2,973		▲ 2,092	▲ 2,901	▲ 3,366	
Fee Cash Flow	749	643	▲ 899		508	▲ 597	▲ 1,107	
Financing Cash Flow	▲ 1,924	▲ 288	504		▲ 1,460	826	1,020	
Total Assets	57,741	58,582	60,725		51,274	53,176	56,736	
Equity Capital	17,706	17,344	18,519		12,081	12,949	15,030	
Interest-bearing Debt	23,150	24,278	26,240		33,427	34,409	35,612	
Interest-bearing Debt/EBITDA	7.30	7.35	7.87		12.08	11.67	12.33	
D/E Ratio	1.31	1.40	1.42		2.77	2.66	2.37	
Equity Ratio	30.7	29.6	30.5		23.6	24.4	26.5	

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

Notes

1. Net income: Net income attributable to owners of parent
2. Estimates are taken from each company's announcement.
3. Figures for NREHD and TFHD are those after consideration of equity content of subordinated bonds and subordinated loan.

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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