

## Highlights of Five Major Real Estate Companies' Financial Results for Fiscal Year Ended March 2023

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 2023 (FY2022) and earnings forecasts for FY2023 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) was 6.11% at the end of April 2023, according to Miki Shoji. Due to expansion of COVID-19, it kept rising as high as 6.47% at the end of October 2021 after hitting the bottom at 1.49% at the end of February 2020. Since November 2021, it has been staying in 6% range. On the other hand, the average rent remains on a downtrend, falling to 19,896 yen per *tsubo* (approximately 3.3 square meters) at the end of April 2023 from its peak at 23,014 yen per *tsubo* at the end of July 2020. According to the Survey of Large-scale Office Building Market in Tokyo's 23 Wards released on May 25, 2023 by Mori Building Co., Ltd., new supply volume was 480,000 square meters for 2022, which is quite low compared to the historic average for 1986 through 2022 of 1.02 million square meters per year. For 2023, the supply volume is predicted to be 1.26 million square meters, far exceeding this historic average; however, it remains around annual average of 930,000 square meters based on the five-year period for 2023 through 2027. JCR will closely watch how the balance between supply-demand changes for 2023 and beyond since significance of offices is also re-acknowledged as places providing opportunities for workers to communicate while teleworking penetrating into the society due to the COVID crisis.

The number of condominiums supplied in the Tokyo metropolitan area for 2022, according to Real Estate Economic Institute Co., Ltd. ("REEI"), decreased 12.1% over the year to 29,569 units, went below 30,000 units for the first time since 2020 when the impact of COVID crisis was the strongest. Supply seemed to be held down due to a sense of uncertainty over the constructions such as material procurement. Sales unit prices continued to rise affected by soaring construction costs and others; however, the first-month contract rate was averaged 70.4% per month, remained above 70.0%, which is the benchmark determining strong or weak sales. REEI predicts new supply volume for 2023 to be 32,000 units, up 8.2% over the year because demand will be driven by large-scale and high-rise condominiums in Tokyo's 23 wards while demand for those in suburbs will keep growing due to the COVID crisis.

### 2. Financial Results

Both net sales and operating income of the Companies combined increased for FY2022 to 6.24 trillion yen and 1.05 trillion yen with a 3.7% and 12.9% year-on-year growth, respectively. Not only reporting a sales increase and double-digit earnings growth following the previous fiscal year, both marked new highs for two consecutive fiscal years. By segment, core businesses such as real estate leasing and sales have driven expansion overall performance in addition to recovery of businesses other than real estate, including hotel operations, which had been strongly affected by the COVID crisis.

Looking at the Companies individually, all five companies attained higher operating income, and they also renewed their respective record-highs. Degree of profit increase was large for the two companies, TFHD, up 31.7% over the year, and Mitsui Fudosan, up 24.7% over the year. Furthermore, the four companies, NREHD, TFHD, Mitsubishi Estate and Sumitomo Realty & Development, renewed their highs for two fiscal years in a row.

Financial structure is stable. At the end of FY2022, D/E ratio of the Companies combined was 1.64x, versus 1.62x a year before. Interest-bearing debt largely increased due to high levels of investment; however, accumulation of net income and so forth contributed building up of equity capital. Unrealized gains on rental and other real estate properties amounted to 12.1 trillion yen (11.6 trillion yen at the end of the previous fiscal year) for the Companies combined, increasing for the eleventh consecutive year, indicating a steady increase in financial buffer.

Looking at the Companies individually, although D/E ratio improved for the two companies, TFHD and Mitsubishi Estate, that of NREHD, Mitsui Fudosan, Sumitomo Realty & Development slightly deteriorated.

### 3. Highlights for Rating

Both net sales and operating income of the Companies combined are expected to increase for three fiscal years in a row for FY2023 to 6.6 trillion yen, up 5.8% from the previous fiscal year, and 1.06 trillion yen, 1.0% 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 over the business performance. Office building leasing is expected to remain steady. Vacancy rates are higher than pre-COVID levels but not at levels give a rise of concern, remaining stable. Sales contracts concluded for condominiums are making a steady progress at the beginning of the fiscal year and property sales to investors are also robust. In addition to rising interest rates worldwide, a sense of uncertainty is increasingly strong for the future including concern over the economic downturn; therefore, the impact on the real estate market in Japan should need to be closely watched.

Attention is being paid to whether the financial structure can be maintained. The financial structure showed a tendency for improvement to date; however, high levels of investment is expected both at home and abroad. Due to this, financial structure may deteriorate depending on the status of recovering funds invested. JCR will continue monitoring individual companies' financial targets and management policies to see if there are any changes.

Mikiya Kubota, Takeshi Rikawa

(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)	FY2021	6,450	11.1	912	19.5	826	25.2	553	31.1
	FY2022	6,547	1.5	996	9.2	941	14.0	645	16.6
	FY2023F	7,500	14.6	1,030	3.4	940	(0.1)	650	0.7
TFHD (3289)	FY2021	9,890	9.0	838	48.3	728	56.4	351	62.1
	FY2022	10,058	1.7	1,104	31.7	996	36.7	482	37.3
	FY2023F	11,200	11.4	1,120	1.4	1,005	0.9	620	28.6
Mitsui Fudosan (8801)	FY2021	21,009	4.6	2,450	20.2	2,249	33.2	1,770	36.6
	FY2022	22,691	8.0	3,054	24.7	2,654	18.0	1,970	11.3
	FY2023F	23,000	1.4	3,300	8.1	2,450	(7.7)	2,100	6.6
Mitsubishi Estate (8802)	FY2021	13,495	11.8	2,790	24.3	2,537	20.3	1,552	14.4
	FY2022	13,778	2.1	2,967	6.4	2,718	7.1	1,653	6.6
	FY2023F	14,690	6.6	2,640	(11.0)	2,320	(14.6)	1,660	0.4
Sumitomo Realty & Development (8830)	FY2021	9,394	2.4	2,339	6.7	2,251	7.2	1,505	6.4
	FY2022	9,399	0.1	2,413	3.2	2,367	5.1	1,619	7.6
	FY2023F	9,700	3.2	2,550	5.7	2,500	5.6	1,750	8.1
Total	FY2021	60,239	7.2	9,329	19.6	8,592	22.4	5,731	21.8
	FY2022	62,474	3.7	10,534	12.9	9,675	12.6	6,370	11.2
	FY2023F	66,090	5.8	10,640	1.0	9,215	(4.8)	6,780	6.4

\* 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)	FY2020	5,833	10,106	1.73	965	10.47	(635)	(557)
	FY2021	6,187	10,247	1.66	1,104	9.28	527	(462)
	FY2022	6,533	11,215	1.72	1,203	9.32	(428)	(628)
TFHD (3289)	FY2020	5,966	15,011	2.52	1,026	14.63	1,004	(1,160)
	FY2021	6,317	14,427	2.28	1,330	10.85	764	(317)
	FY2022	6,846	14,829	2.17	1,606	9.23	947	(1,200)
Mitsui Fudosan (8801)	FY2020	25,558	36,417	1.42	3,088	11.79	1,878	(1,310)
	FY2021	27,964	37,131	1.33	3,638	10.21	2,714	(2,100)
	FY2022	29,007	40,485	1.40	4,391	9.22	2,977	(4,220)
Mitsubishi Estate (8802)	FY2020	18,519	25,261	1.36	3,334	7.58	2,074	(2,973)
	FY2021	20,032	27,386	1.37	3,810	7.19	2,800	(3,137)
	FY2022	21,575	28,702	1.33	3,987	7.20	2,699	(3,120)
Sumitomo Realty & Development (8830)	FY2020	15,030	35,620	2.37	2,888	12.33	2,259	(3,366)
	FY2021	16,340	35,605	2.18	3,073	11.59	1,929	(2,099)
	FY2022	17,993	39,380	2.19	3,219	12.23	1,651	(4,897)
Total	FY2020	70,906	122,415	1.73	11,301	10.83	6,580	(9,366)
	FY2021	76,840	124,796	1.62	12,955	9.63	8,734	(8,115)
	FY2022	81,954	134,611	1.64	14,406	9.34	7,846	(14,065)

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: Positive

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+ Outlook: Stable

Issuer: Sumitomo Realty & Development Co., Ltd.

Long-term Issuer Rating: AA- Outlook: Positive

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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