COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange Prime Market

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Index

Summary

Record high profit in FY11/23 due to significant increase in sales and profit (excluding net income). Smooth progress was made on strategic investments aimed at growing the Group's assets

1. Company profile

Samty Co., Ltd. <3244> (hereinafter, also "the Company") is a comprehensive real estate company that operates not only in the Kansai region and Tokyo metropolitan area but in major cities nationwide. It features a business structure that balances growth and stability as well as a business model that handles all aspects of the property business, with a Real Estate Development Business (including development and sales of rental apartments*1 and hotels) and Real Estate Leasing Business (including owning rental apartments), as well as being involved in the Hotel Business and other related operations. Moreover, it entered the J-REIT business*2 in 2015, and it has prepared a structure for further business expansion as it has continued to achieve high growth over the past few years through expansion of its area of operations and aggressive investment.

*1 "rental apartments" and "residential properties" used in this report are synonymous.
*2 Samty Residential Investment Corporation <3459> (hereinafter, "SRR"), was established in March 2015 and listed on the Tokyo Stock Exchange (TSE) J-REIT market. In November 2021, the Company established a hotel specialized REIT, Samty Japan Hotel Investment Corporation, with the goal of listing it on the stock exchange.

Under the medium-term management plan, Samty Toughening Plan (post-COVID version) (hereinafter, "medium-term management plan (post-COVID version)") announced in January 2021, the Company is aiming to achieve sustainable growth under the changing business environment going forward by switching to an asset-holding type of business and strengthening the Overseas Business, as well as taking initiatives in the hotel business from a long-term perspective. Despite uncertainty in the external environment due to factors such as inflation and speculation about changes in the Bank of Japan's monetary policy, the Company's rental apartments are resilient to the effects of the business climate and are performing strongly. It is also advancing strategic investment (acquisition of development sites and income properties) at a fast pace. Furthermore, its residential condominium business in Vietnam is performing strongly and the Hotel Business, which has felt the effects of the COVID-19 pandemic over the last few years, is performing strongly due to the recovery of inbound travel to Japan. This indicates the Company is making smooth progress both in terms of business performance and strategy.

On January 24, 2024, the Group made the decision to transition to a holding company structure with the purpose of bolstering governance, becoming more agile through quick decision-making, improving Group management efficiency, and developing future management leaders (transition will become effective on June 3, 2024). Also, with respect to the fiscal year-end, the Company changed its fiscal year-end from November 30 to December 31 beginning in 2024, in order to align with the international standard and increase operating efficiency.

2. Business results for FY11/23

In FY11/23, net sales increased 54.6% YoY to ¥198,660mn, operating profit increased 38.7% to ¥19,533mn, ordinary profit increased 9.8% to ¥15,854mn, and profit attributable to owners of parent ("net income") decreased 5.2% to ¥10,306mn, as the Company reported a significant increase in sales and profits, and set record highs for profits (excluding net income). Net sales increased greatly due to the growth in the Real Estate Development Business and the Real Estate Solution Business driven by proactive property sales, expansion in the Overseas Business, and the improvement in the performance of the Hotel Business. For income gains (net sales-basis), which is a key focus, the recovery in the Hotel Business resulted in steady growth. In terms of profit, there was a considerable increase in operating profit, due to the growth of the Real Estate Development Business, the Real Estate Solution Business, and the Overseas Business. Additionally, in the Hotel Business, which has felt the effects of the pandemic over the last few years, profitability improved due to factors including increases in occupancy and room rates. Strategic investment targeting growth in Group assets progressed at a fast pace, and the Company smoothly built up a development pipeline.

3. FY12/24 forecasts

In its earnings forecast for FY12/24, the Company is forecasting net sales of ¥205,000mn, up 3.2% YoY, operating profit of ¥21,000mn, up 7.5%, ordinary profit of ¥13,900mn, down 12.3%, and net income of ¥11,400mn, up 10.6%. Net sales growth is expected to be driven by growth in the Real Estate Solution Business through the sale of income properties and growth in the Hotel Business, accompanying further recovery in domestic tourism as well as inbound demand. In terms of profit, a significant improvement in profitability (turning profitable) in the Hotel Business is expected, along with other developments.

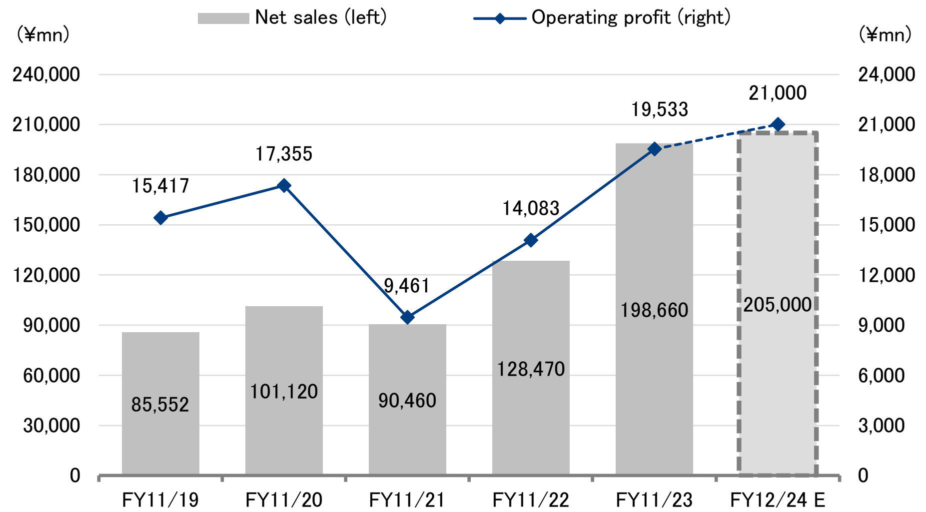
4. Medium-term management plan, Samty Toughening Plan (post-COVID version) overview

In the five-year medium-term management plan (post-COVID version), announced in January 2021, the Company's basic policies are (1) Switch to asset-holding type of business (expansion of income gains), (2) Efforts toward listing of a hotel REIT, (3) Strategic investments in regional metropolitan areas, and (4) Building a profit base in Overseas Business. The five-year investment plan is for approximately ¥750.0bn and the results targets for the plan's final fiscal year (FY12/25) are net sales at a level of ¥220.0bn, operating profit of at least ¥35.0bn, ROE at a level of 15.0%, ROA at a level of 7.0%, and an equity ratio of at least 30.0%. In particular, the Company intends to expand Group's assets (including REIT) to a scale of ¥1tn and switch to an earnings structure in which 50% of operating profit is from income gains (leasing income, etc.), and 15% of operating profit is from the Overseas Business.

Key Points

- In FY11/23, in addition to proactive property sales, the expansion of the Overseas Business and the upturn in the Hotel Business led to a significant increase in both sales and profit, and the Company posted record profit (excluding net income)
- Fast-pace progress on strategic investments aimed at growing the Group's assets
- In FY12/24, expecting a large increase in profit and a turn to profitability in the Hotel Business, along with other positive developments
- Under the medium-term management plan (post-COVID version), the Company aims to achieve sustainable growth through a switch to an asset-holding type of business (expansion of income gains) and strengthening of the Overseas Business, as well as initiatives with a long-term perspective in the Hotel Business

Results trends



Source: Prepared by FISCO from the Company's financial results

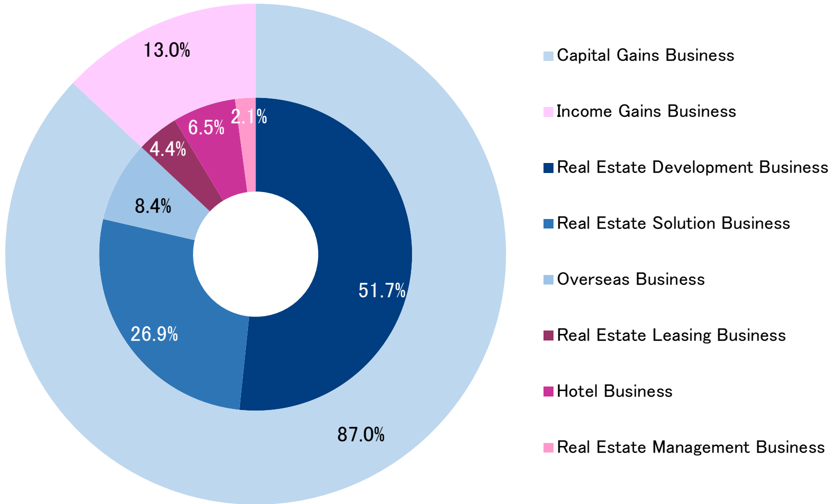
Company profile

Business structure that balances growth and stability. Aims to expand growth and stable earnings through the capital gains and income gains businesses

1. Business overview

The Company's business segments are 1) Real Estate Development Business, 2) Real Estate Solution Business, 3) Overseas Business, 4) Real Estate Leasing Business, 5) Hotel Business, and 6) Real Estate Management Business. The Company further groups segments 1)-3) as the capital gains business and segments 4)-6) as the income gains business, and with the switch to the asset-holding type of business, aims to expand the income gains businesses as a stable source of earnings.

FY11/23 sales (adjusted) composition by business segment



Source: Prepared by FISCO from the Company's financial results

Also, in March 2015, the Company established SRR, which was listed on the TSE J-REIT market in June of the same year. The Samty Group plays the role of SRR's sponsor (supplying it with properties) and is responsible for subsequent asset management and other operations. SRR continues to steadily expand and currently owns 180 properties with a combined value of ¥163.9bn (as of November 30, 2023). In November 2021, the Company established a hotel specialized REIT, and is moving ahead with preparations to list it on the stock exchange.

For its sales bases, in addition to its Osaka Head Office / Osaka Sales Department (Yodogawa-ku)*1, it has the Tokyo Head Office / Tokyo Sales Department (Chiyoda-ku)*2, Sapporo Branch (Chuo-ku), Nagoya Branch (Nakamura-ku), Hiroshima Branch (Naka-ku), and Fukuoka Branch (Hakata-ku) and it is establishing a nationwide system centered on the major regional cities.

*1 Houses the Kobe Sales Office.
*2 Operates the East Kanto and North Kanto offices under the Tokyo Sales Department, and there are totally four offices in the Tokyo metropolitan area (Tokyo Sales Department, East Kanto Office, North Kanto Office and Yokohama Sales Office).

As of the end of FY11/23, the Samty Group is comprised of the Company and 26 consolidated subsidiaries, one equity-method affiliate*, and one unconsolidated subsidiary (SAMTY Japan Hotel REIT), and includes 18 SPC and general incorporated associations that were established or received investment in connection with schemes to acquire, own, and develop land, properties, and trust beneficiary rights. The main consolidated subsidiaries include Samty Asset Management Co., Ltd. (asset management, etc.), Samty Hotel Management Co., Ltd. (hotel management, etc.), Samty Property Management Co., Ltd. (property management, etc.) and SAMTY ASIA INVESTMENTS PTE. LTD. (its Singapore subsidiary). On January 24, 2024, the Group made the decision to transition to a holding company structure with the purpose of bolstering governance, becoming more agile through quick decision-making, improving Group management efficiency, and developing future management leaders (transition will become effective on June 3, 2024).

* Wealth Management, Inc. <3772> (WM), which has strengths in hotel renovation and development. On May 25, 2021 the Company entered into a capital and business alliance, with the aim of collaborating on the hotel development projects and so forth. WM has become an equity-method affiliate.

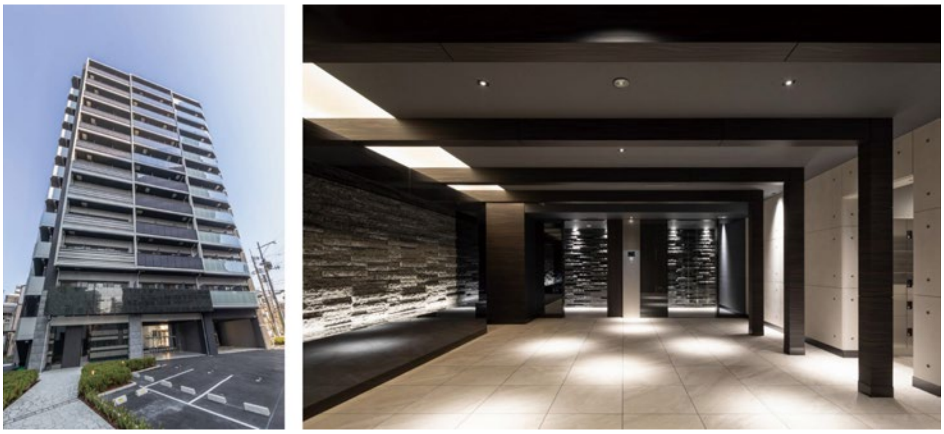
2. Overview of each business

(1) Real Estate Development Business

In the Real Estate Development Business, the Company is involved in 1) planning, development, and sales of the Samty brand S-RESIDENCE series (rental apartments) and 2) planning, development and sales of hotels and offices (hereinafter "hotels and other").

The core 1) S-RESIDENCE series of rental apartments are based on the concepts and design needs in each area and targeted to people living alone and dual-income couples with no children, as they feature spacious entrances and inside hallways, and have sophisticated designs and a high level of comfort. The Company has granted SRR preferential negotiating rights, and primarily supplies properties to SRR. Given the market trend of robust acquisitions mainly by overseas funds, the Company intends to agilely and flexibly develop business taking into account individual properties and market trends, while focusing on the concept of promoting ownership after development.

S-RESIDENCE series



Source: The materials supplied by the Company

In 2) "hotels and other," the Company will primarily supply properties to the hotel REIT, which is preparing to list on the stock exchange, through planning and development of the in-house brand S-PERIA series of hotels and joint business with foreign hotel chains, also contributing to the expansion of the Hotel Business.

(2) Real Estate Solution Business

In the Real Estate Solution Business, the Company engages in the acquisition, renovation, and sales of income properties. The Company aims to improve occupancy rates by utilizing its leasing capabilities and expertise for income properties and upgrading properties through renovating facilities, which generates earnings over the period of ownership. The Company's objectives are to secure earnings while the properties are owned and ultimately to capture gains on sales by selling them as investment properties to SRR, real estate funds, and business companies. Furthermore, the Company also carries out warehousing* for SRR. During the ownership period, rental income is recorded in the Real Estate Leasing Business.

* Acquiring properties to incorporate into a REIT.

(3) Overseas Business

The Company conducts investment and residential condominium business overseas. In 2016 the Company invested in a real estate company (development and leasing business) in Ho Chi Minh City through a fund. Since 2020, the Company has been conducting THE SAKURA Project*2, a residential condominium project in the western part of Hanoi started jointly with VINHOMES JOINT STOCK COMPANY (hereinafter "VHM")*1, the largest real estate developer in Vietnam, and the Company began work on its second residential condominium project, THE STAR Project in Ho Chi Minh City, Vietnam (details discussed below)

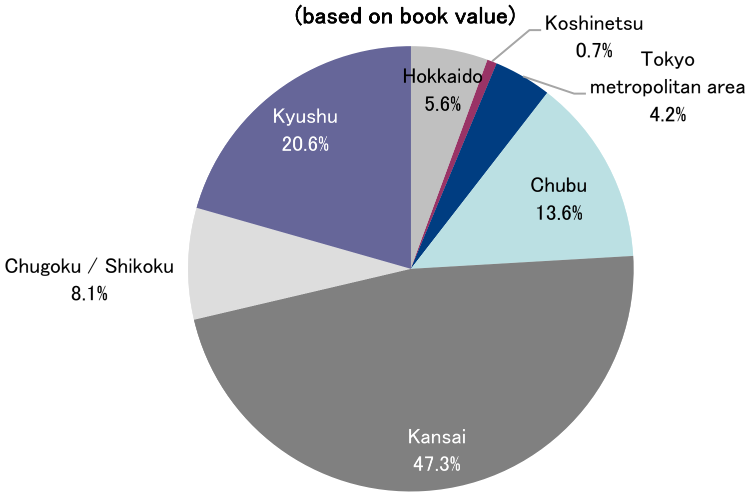
*1 VHM was founded in 2008 and is a core company within Vingroup, which is Vietnam's largest corporate conglomerate. Among real estate companies in Vietnam, it ranks first for sales, profits, and market capitalization.

*2 Participating in a residential condominium project for four buildings (total of 3,620 units) out of the total of 58 buildings in VinHomes Smart City.

(4) Real Estate Leasing Business

The Company leases condominiums, office buildings and commercial facilities. It owns around 152 properties nationwide (inventory assets, non-current assets), centered on the Kansai region, Tokyo metropolitan area and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. It also conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. In particular, the Company has a high percentage of condominiums that are largely unaffected by economic fluctuations and utilizes its leasing expertise to realize stable occupancy rates around 95% when averaged over the year. The scale of the real estate it owns amounts to around ¥148.6bn (book value) (all results are as of the end of FY11/23).

Distribution of assets owned by areas for FY11/23
(based on book value)



Source: Prepared by FISCO from the Company's financial results briefing materials

(5) Hotel Business

In the Hotel Business, the Company engages in leasing and operation of 21 hotels (as of the end of FY11/23), including 12 hotels developed by the Company. The purpose of this business is to expand the assets of the hotel REIT, which is preparing to list on the stock market, and to build up earnings.

Hotels in which the Company participates

Area	Hotel name	No. of rooms	Remarks
Tokyo metropolitan area	Center Hotel Tokyo	108	Operated
	Hotel Sunshine Utsunomiya	160	Operated
	S-PERIA INN Nihombashi Hakozaki	114	Developed and Operated
	Mercure Tokyo Haneda Airport	363	Developed
Chubu	Mercure Hida Takayama	161	Developed
	Ibis Styles Nagoya	284	Developed
Kansai	Amano Hashidate Hotel (including Auberge)	86	Owned
	GOZAN	21	Owned
	S-PERIA INN Osaka Hommachi	125	Developed and Operated
	S-PERIA HOTEL Kyoto	165	Developed and Operated
	Mercure Kyoto Station	225	Developed
	Agora Kyoto Karasuma	140	Developed
	Agora Kyoto Shijo	80	Developed
	Aloft Osaka Dojima	305	Owned
	Oakwood Hotel Kyoto Oike	120	Developed and Owned
	Hotel the Pavone (NESTA RESORT KOBE)	109	Operated
Chugoku	NEST HOTEL Hiroshima Hatchobori	126	Owned
	NEST HOTEL Hiroshima Station	84	Owned
Kyushu	S-PERIA HOTEL Hakata	287	Developed and Operated
	S-PERIA HOTEL Fukuoka Nakasu	87	Developed and Operated
	S-PERIA HOTEL Nagasaki	155	Operated
Total	21 hotels	3,305 rooms	

Source: Prepared by FISCO from the Company's financial results briefing materials

(6) Real Estate Management Business

In the Real Estate Management Business, the Company manages residential properties, office buildings, and commercial facilities. Specifically, Samty Asset Management Co., Ltd. undertakes commissioned operation and management services as an asset manager and receives operating fees (asset management ("AM") fees), while also conducting residential properties management, construction, and renovation, etc., through its subsidiary Samty Property Management. The balance of assets under management ("AUM") is ¥382.7bn (as of the end of January 2023)*. In addition, the number of units under management is 30,646 units (as of the end of FY11/23), mainly for SRR, and increasing steadily.

* Total figure for SRR and private placements for hotel REIT formation.

3. Features

(1) A superior business model

A feature of the Company's business model is that every phase of the property business, including the development of income properties, sales, property management, and fund operation such as REITs, is conducted seamlessly within the Group, and by connecting these respective functions, it creates value (a value chain) that is unique to the Company. In particular, it utilizes its sophisticated leasing expertise, which it has cultivated in the Real Estate Leasing Business, in the Real Estate Development Business and Real Estate Solution Business. In addition to improving the value of income properties, this has positive effects on its superiority in purchasing land, relationships of trust with customers and negotiating power with buyers.

The Company also has a competitive advantage in its business model, centered on SRR. While SRR will become a stable supply destination, the expansion of the after-sales fee business (commissioned asset management (AM) operations and contract property management ("PM") operations) can be expected to become a stable source of revenue in the future. Moreover, the addition of the hotel REIT will strengthen and enhance the business foundation even further.

(2) Profit structure as a strength

The Company has responded flexibly to changes in its business environment by balancing accelerated growth in its Real Estate Development Business, Real Estate Solution Business and Overseas Business (capital gains business) with stable income from its Real Estate Leasing Business, Hotel Business and Real Estate Management Business (income gains business). From FY11/21, as new strategic initiatives in the situation after coronavirus, it is aiming to maximize income gains by growing the Group's total asset scale and strengthening acquisitions of leasing income and fee income and it is working to build a more stable earnings foundation. In addition, its ability to withstand periods of recession is strengthened by the fact that it minimizes fixed costs by not having an in-house sales team and instead utilizing external resources. One of the reasons its results deteriorated comparatively little amid financial crises up to the present time (such as following the collapse of the bubble economy and from the impact of the 2008 global financial crisis) is due to support from its Real Estate Leasing Business and minimizing fixed costs.

(3) Status of human capital

The consolidated number of employees (excluding non-permanent employees) as of the end of FY11/23 increased significantly to 844 (up 139 from the end of the previous fiscal year). The Company is aiming to dramatically increase the headcount ahead of business expansion by constantly recruiting new graduates and proactively hiring mid-career employees with immediate capabilities. In particular, the opening of sales offices nationwide also appears to have a positive impact on securing talent through local hiring and increased brand strength. The Company has long declared its goal of "realizing a company that values people," and it has focused on increasing employee engagement (this will be stated again in the "Basic Policy on Sustainability" below). Going forward, the Company will remain committed to increasing its corporate value by continuing to utilize the enthusiasm and abilities of each team member, increasing retention rates and contributing to local employment, and enhancing the creativity of each team member in their work. Also, as a part of advancing human capital management, the Company decided to increase base salaries (by 7% on average) and raise starting salaries from April 2024.

4. History

The Company was established in December 1982 in Higashiyodogawa-ku, Osaka, as Samty Development Co., Ltd. (changed to current company name in June 2005). It initially started from consignment sales of condominiums, but subsequently it steadily accumulated results in areas such as sales of entire condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of studio-type condominiums for investment, in March 2005, it launched sales of its S-RESIDENCE series of rental apartments, which spurred on its business expansion. In July 2007, it was listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market) (merged with the TSE JASDAQ in 2010), and moved to First Section of the TSE in October 2015, then moved to the TSE Prime Market in April 2022 as a result of the TSE market reorganization.

Next, to further expand and disperse its business throughout different regions, it opened branch offices in Tokyo in February 2011, in Fukuoka in June 2012, in Sapporo in May 2015, in Nagoya in March 2016, and in Hiroshima in December 2019, and it steadily expanded the regions in which it does business.

The Company is actively broadening its business scope. In August 2006, it acquired the shares of Suntoa Co., Ltd. (currently, Samty Hotel Management Co.,Ltd.), which owns and manages business hotels, to enter the hotel business. In December 2011, it established Samty Kanri Co., Ltd. (currently, Samty Property Management Co.,Ltd.) to enter the property management business; in November 2012, it made SUN Asset Management Co., Ltd. (currently, Samty Asset Management Co.,Ltd.) a wholly owned subsidiary to enter the asset management business; and in June 2015, SRR was listed on the TSE J-REIT market. In such ways, it established a system for growth to accelerate in the future. In May 2019, it concluded a capital and business alliance agreement with Daiwa Securities Group <8601>, and collaboration is moving ahead in such ways as formation of hotel REIT, overseas development and crowdfunding.

Since 2020, the Company has been participating in THE SAKURA Project, a residential condominium project in the western part of Hanoi started jointly with VHM, the largest real estate developer in Vietnam, which has established the full-scale operation of the Overseas Business.

From June 3, 2024, the Group plans to switch to a holding company structure with the purpose of bolstering governance, becoming more agile through quick decision-making, improving Group management efficiency, and developing future management leaders.

Results trends

Posted record-high profits (excluding net income) due to significant increases in sales and profit in FY11/23. Fast-pace progress on strategic investments including the development pipeline

1. Overview of FY11/23 results

In FY11/23, net sales increased 54.6% YoY to ¥198,660mn, operating profit increased 38.7% to ¥19,533mn, ordinary profit increased 9.8% to ¥15,854mn, and net income decreased 5.2% to ¥10,306mn, as the Company reported a significant increase in sales and profits, and set record highs for profits (excluding net income).

Net sales increased greatly due to the growth in the Real Estate Development Business and the Real Estate Solution Business, driven by proactive property sales, expansion in the Overseas Business, and the improvement in the performance of the Hotel Business. For income gains (net sales-basis), which is a key focus, the recovery in the Hotel Business resulted and other factors resulted in a 40.7% increase YoY to ¥28,399mn.

In terms of profit, there was a considerable increase in operating profit, due to the growth of the Real Estate Development Business, the Real Estate Solution Business, and the Overseas Business. Additionally, in the Hotel Business, which has felt the effects of the pandemic over the last few years, profitability improved due to factors including increases in occupancy rates and room prices. Meanwhile, non-operating profit declined YoY due to the drop in foreign exchange gains*1. The only profit line to decline was net income, and this was due to one-time factors*2.

*1 A decline in foreign exchange gains related to the Overseas Business (foreign-denominated assets). In FY11/22, there was a large foreign exchange gain (¥5.7bn) due to the impact of the dramatic depreciation of the yen, but there was a recoil decline in this in FY11/23, leading to a YoY drop in non-operating profit.

*2 The reason was the posting of special investigation expenses (approximately ¥0.9bn) relating to suspicions of improper accounting treatment (judgment of the scope of consolidation) announced in January 2023, but this matter has been settled (for details, please refer to the FISCO report issued on October 12, 2023).

With respect to acquisitions targeting future growth, in FY11/23 the Company acquired 99 development sites for about ¥39.8bn, and acquired 53 income properties for about ¥32.5bn. Regarding the development sites, the Company has added those scheduled for settlement in FY12/24, and combined with the development sites acquired in FY11/23, the Company is generally making progress as planned. Meanwhile, looking at income properties, based on stubbornly high property prices and other factors, the Company will invest more selectively in properties while further bolstering its acquisition activity.

Regarding the Company's financial condition, total assets were roughly flat compared to the end of the previous fiscal year at ¥413,429mn, as the acquisition of development sites and income properties was offset by proactive sales of properties. Meanwhile, shareholders' equity increased by 6.9% from the end of previous fiscal year to ¥105,544mn, so the equity ratio improved to 25.5% (compared to 23.9% at the end of the previous fiscal year). Interest-bearing debt (excluding bonds with stock acquisition rights) decreased by 0.9% to ¥265,450mn, so the Company appears to have tightened up its financial situation.

FY11/23 results

(¥mn)

	FY11/22		FY11/23		YoY	
	Results	% of net sales (profit margin)	Results	% of net sales (profit margin)	Amount	% of change
Net sales	128,470		198,660		70,190	54.6%
Real Estate Development Business	73,488	57.2%	102,627	51.7%	29,138	39.7%
Real Estate Solution Business	28,656	22.3%	53,523	26.9%	24,867	86.8%
Overseas Business	7,463	5.8%	16,640	8.4%	9,176	122.9%
Real Estate Leasing Business	8,704	6.8%	8,679	4.4%	-24	-0.3%
Hotel Business	6,293	4.9%	13,020	6.6%	6,727	106.9%
Real Estate Management Business	5,193	4.0%	6,700	3.4%	1,506	29.0%
Adjustment	-1,330	-	-2,532	-	-1,201	-
Cost of sales	101,304	78.9%	162,567	81.8%	61,263	60.5%
SG&A expenses	13,081	10.2%	16,558	8.3%	3,477	26.6%
Operating profit	14,083	11.0%	19,533	9.8%	5,450	38.7%
Real Estate Development Business	15,637	21.3%	16,193	15.8%	555	3.6%
Real Estate Solution Business	3,928	13.7%	6,554	12.2%	2,626	66.8%
Overseas Business	-593	-	1,237	7.4%	1,831	-
Real Estate Leasing Business	4,168	47.9%	4,020	46.3%	-147	-3.5%
Hotel Business	-2,742	-	-1,086	-	1,655	-
Real Estate Management Business	775	14.9%	476	7.1%	-299	-38.6%
Adjustment	-7,090	-	-7,861	-	-771	-
Non-operating profit	6,012	-	1,691	-	-4,321	-71.9%
Non-operating expenses	5,654	-	5,371	-	-283	-5.0%
Ordinary profit	14,441	11.2%	15,854	8.0%	1,413	9.8%
Extraordinary income	80	-	750	-	670	-
Extraordinary loss	12	-	1,045	-	1,033	-
Profit attributable to owners of parent	10,866	8.5%	10,306	5.2%	-560	-5.2%

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Financial position at the end of FY11/23

(¥mn)

	End of FY11/22	End of FY11/23	YoY	
			Amount	% of change
Current assets	289,904	317,771	27,866	9.6%
Cash and deposits	46,002	45,285	-717	-1.6%
Real estate for sale	114,623	122,117	7,494	6.5%
Real estate for sale in process	122,065	130,096	8,031	6.6%
Non-current assets	123,581	95,578	-28,003	-22.7%
Property and equipment	90,435	53,577	-36,858	-40.8%
Intangible assets	414	459	44	10.6%
Investments and other assets	32,731	41,541	8,810	26.9%
Total assets	413,594	413,429	-164	-0.0%
Current liabilities	89,543	115,255	25,712	28.7%
Short-term borrowings	30,468	12,689	-17,778	-58.3%
Current portion of long-term borrowings*1	40,565	83,132	42,567	104.9%
Non-current liabilities	213,656	187,060	-26,595	-12.4%
Long-term borrowings*2	208,914	181,628	-27,286	-13.1%
Net assets	110,395	111,114	718	0.7%
Total liabilities and net assets	413,594	413,429	-164	-0.0%
Interest-bearing debt	267,948	265,450	-2,498	-0.9%
Shareholders' equity	98,771	105,544	6,773	6.9%
Equity ratio	23.9%	25.5%	1.6%	-

*1 Current portion of long-term borrowings includes current portion of non-recourse long-term borrowings and current portion of bonds payable
*2 Long-term borrowings includes bonds payable, bonds with stock acquisition rights, and non-recourse long-term borrowings
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

The results for each business are as follows.

(1) Real Estate Development Business

Net sales rose 39.7% YoY to ¥102,627mn, and segment profit rose 3.6% to ¥16,193mn, as both sales and profit increased. The sale of residential properties (63 properties*1) and hotels and others (three properties), totaling 66 properties (compared to 54 in the previous fiscal year) resulted in the significant increase in sales. Meanwhile, concerning profits, the segment operating profit margin declined to 15.8% (versus 21.3% in the previous fiscal year) due to factors including the slight strengthening of the cap rate*2 and the fact that there was an increase in costs as there were many sales to external entities (besides SRR), despite the increase in profit accompanying the increase in sales.

*1 Of which, four properties were supplied to SRR

*2 This is the expected yield from a real estate investment (= net income from rents, etc./property price). A rise in the cap rate leads to a decline in property prices. However, despite the fact that cap rates are a bit high as they are linked to long-term interest rates, at the present time there is no large movement and the cap rates are low in general.

(2) Real Estate Solution Business

Net sales increased 86.8% YoY to ¥53,523mn, and segment profit rose 66.8% to ¥6,554mn, resulting in a large increase in both sales and profit. The Company sold 60 income properties (compared to 37 in the previous fiscal year), which contributed to the growth in performance.

(3) Overseas Business

Net sales rose 122.9% YoY to ¥16,640mn, and segment profit was ¥1,237mn (compared to a loss of ¥593mn in FY11/23), as both expanded greatly, and the Company moved into the black. The sales situation for THE SAKURA Project (four buildings), a residential condominium project in Hanoi, Vietnam, was steady, as properties were delivered and sales revenues were recorded. The forecast for when all units in this project are sold is for net sales of around ¥40.7bn and profit of around ¥5.7bn, as the Company is continuing to work toward the successful completion of its first overseas residential condominium project. In addition, following the strong performance of this project, the Company began work on its second residential condominium project, “THE STAR Project” in Ho Chi Minh City, Vietnam (details discussed below).

(4) Real Estate Leasing Business

Net sales decreased 0.3% YoY to ¥8,679mn, and segment profit decreased 3.5% to ¥4,020mn, resulting in a YoY decrease in both sales and profit. Impacted by the proactive sales of properties, both sales and profits declined only slightly YoY, but as of the end of FY11/23, assets owned centering on residential properties totaled 152 properties (160 properties at the end of FY11/22), while occupancy rates of residential properties were around 93%, remaining solid. Additionally, the Company is working to raise the rents of its rental apartments as a measure to combat recent inflation.*

* Regarding rents, the Company is raising rents when there are changes in tenants, and it has so far increased rents for 1,206 units of the applicable units (1,986 units) (average rent increase of 4.6%). Asking rents for newly constructed properties developed by the Company are also increasing. The Company is raising rents both for owned and developed properties.

(5) Hotel Business

Net sales increased 106.9% YoY to ¥13,020mn, and there was segment loss of ¥1,086mn (loss of ¥2,742mn in the previous fiscal year), representing a considerable improvement in the extent of losses due to a significant increase in sales. Occupancy and room rates are both recovering for the Company's owned and operated hotels, as a result of measures to support travel implemented across Japan and a recovery in inbound travel, and this contributed to the shoring up of business performance. In terms of profits, the increase in sales resulted in an improvement in the loss extent, despite the fact that the Company is dealing with impacts (upfront costs) until the newly opened hotels* are in full operation.

* Mercure Tokyo Haneda Airport (363 guest rooms), a hotel developed by the Company which opened in November 2023, etc.

(6) Real Estate Management Business

Sales increased and profits decreased as net sales rose 29.0% YoY to ¥6,700mn, and segment profit decreased 38.6% to ¥476mn. Increased sales partly reflect an expansion in AUM (assets under management) including SRR, and growth in the number of units under management by PM. AUM (as of the end of January 2023) was at ¥382.7bn and the number of units under management (as of the end of November 2023) was 30,646 units. As discussed below, there are more than 10,000 units of properties in the Company's development pipeline, so steady growth is expected in the future. Profit, meanwhile, decreased due to an increase in expenses accompanying the growth in the scale of the business, such as the development of offices nationwide.

2. Development plan (pipeline) situation

In development of residential properties (S-RESIDENCE), the Company completed construction of 53 buildings (3,586 units). Furthermore, in terms of buildings to be completed from FY12/24 onward, the Company is proceeding with development of a total of 209 buildings (approx. 13,500 units) in cities nationwide, planning completion of 74 buildings in FY12/24, 102 buildings in FY12/25 and 33 buildings in FY12/26 (including those being acquired), and has managed to steadily build up the development pipeline with a view to expanding its assets. Meanwhile, in hotel and office developments, the Company is currently developing six hotels* and seven offices.

* Of these, two buildings (Six Senses Kyoto, Banyan Tree Higashiyama Kyoto) are scheduled to open in 2024.

3. Summary of FY11/23

To summarize FY11/23, as the overheating over the past few years in the real estate market began to settle down a bit, the Company sold properties generally as it planned to, and posted record high business performance, both of which can be lauded. Meanwhile, partly due to the proactive sale of properties, there has been a slight struggle in growth of Group assets, but based on the fact that the Company has smoothly built up a development pipeline via strategic investment, at this point there is no need for concern about the Company falling behind its forecasts. The start of the second project in the Overseas Business and the fact that profitability in the Hotel Business has come into sight are both positive developments. In particular, the recovery in the performance of the Hotel Business will provide support toward the listing of a hotel REIT, and this leads to positive expectations. If there were something to be concerned about, it is the acquisition environment, in which income properties remain stubbornly high in price. The Company is in a situation in which difficult judgments are required based on cap rates and real estate market prices, so it is necessary to continue to keep a watch on developments going forward.

Topics

Starting with the Overseas Business, collaboration with partners in different fields is dynamic

1. Start of second condominium project in Vietnam

Following the THE SAKURA Project, a condominium project in Hanoi, Vietnam, the Company started its second condominium project THE STAR Project in Ho Chi Minh City, Vietnam. As with the first project, the Company plans to develop a total of four condominium buildings (1,954 units and 56 stores) in collaboration with VHM, Vietnam's largest real estate developer. The project is located in a large-scale development area (272 ha) in Grand Park in the northern part of Ho Chi Minh City, and it will include not only residences but also schools, hospitals, supermarkets, shopping malls, office buildings, and a large park. Sales are scheduled to begin in July 2024, with completion and delivery scheduled for early 2026.

2. Investment in JUNGLIA, a new theme park in Northern Okinawa

The Company invested in JUNGLIA, a new theme park in northern Okinawa scheduled to open in 2025. The main aim is to prioritize the development of an official hotel and housing for employees in collaboration with Japan Entertainment Corporation, which develops and operates theme parks. The Company looks to not only contribute to inbound demand and the tourism industry, but also contribute to the development of local communities in various ways, such as by creating attractions that take advantage of the local characteristics and by creating jobs.

3. Opening of Mercure Tokyo Haneda Airport

Mercure Tokyo Haneda Airport (363 guest rooms)*1, a hotel developed by the Company, opened on November 26, 2023. This is the fourth hotel*2 that the Company has opened in partnership with Accor of France, which operates hotels under the Mercure brand.

*1 The hotel's design concept is TOKYO ECLECTIC, a fusion of pieces of old-fashioned Tokyo and the Tokyo of the future. The hotel incorporates elements of traditional Japanese handicrafts and the European essence of the Mercure brand, giving it both a new, and a nostalgic feel. The hotel also incorporates objects inspired by Japan's electronic products and its subculture, such as manga and anime. When you step into the hotel, you will find a space that evokes Tokyo's past and future (FISCO excerpt from Company materials).

*2 The others are Mercure Kyoto Station, Ibis Styles Nagoya, and Mercure Hida Takayama.

Earnings outlook

For FY12/24, the Company expects a large increase in sales and a turn to profitability in the Hotel Business

1. FY12/24 forecasts

In its earnings forecast for FY12/24, in which the fiscal year-end will change*, the Company is forecasting net sales of ¥205,000mn, up 3.2% YoY, operating profit of ¥21,000mn, up 7.5%, ordinary profit of ¥13,900mn, down 12.3%, and net income of ¥11,400mn, up 10.6%.

* From FY12/24, the Company's fiscal year end will change from November 30 to December 31. As a result, FY12/24 will be an irregular fiscal year

Net sales growth is expected to be driven by growth in the Real Estate Solution Business through the sale of income properties and growth in the Hotel Business. The sales plan is to sell 55 properties in the Real Estate Development Business (down 11 properties from the previous fiscal year) and 88 properties (increase by 28 properties from the previous fiscal year) in the Real Estate Solution Business. For income gains (net sales basis) which is a key focus, the Company is forecasting a 32.4% increase YoY to ¥37,600mn due to growth in the Hotel Business and the Real Estate Management Business.

In terms of profit, growth in the Real Estate Solution Business and significant improvement in profitability (turning profitable) in the Hotel Business will contribute to shoring up profit. Meanwhile, the decline in ordinary profit is expected to be due to the impact of foreign exchange gains/losses.

In regard to activities, the Company will continue to focus on acquiring development sites and income properties while also advancing preparations for the listing of a hotel REIT.

FY12/24 forecast

(¥mn)

	FY11/23		FY12/24		YoY	
	Results	% of net sales (profit margin)	Forecast	% of net sales (profit margin)	Amount	% of change
Net sales	198,660		205,000		6,340	3.2%
Real Estate Development Business	102,627	51.7%	74,000	36.1%	-28,627	-27.9%
Real Estate Solution Business	53,523	26.9%	78,000	38.0%	24,477	45.7%
Overseas Business	16,640	8.4%	17,000	8.3%	360	2.2%
Real Estate Leasing Business	8,679	4.4%	7,300	3.6%	-1,379	-15.9%
Hotel Business	13,020	6.6%	21,700	10.6%	8,680	66.7%
Real Estate Management Business	6,700	3.4%	8,600	4.2%	1,900	28.4%
Adjustment	-2,532	-	-1,600	-	932	-
Operating profit	19,533	9.8%	21,000	10.2%	1,467	7.5%
Real Estate Development Business	16,193	15.8%	11,611	15.7%	-4,582	-28.3%
Real Estate Solution Business	6,554	12.2%	11,101	14.2%	4,547	69.4%
Overseas Business	1,237	7.4%	1,669	9.8%	432	34.9%
Real Estate Leasing Business	4,020	46.3%	3,240	44.4%	-780	-19.4%
Hotel Business	-1,086	-	576	2.7%	1,662	-
Real Estate Management Business	476	7.1%	514	6.0%	38	8.0%
Adjustment	-7,861	-	-7,711	-	150	-
Ordinary profit	15,854	8.0%	13,900	6.8%	-1,954	-12.3%
Profit attributable to owners of parent	10,306	5.2%	11,400	5.6%	1,094	10.6%

Note: From FY2024, the fiscal year end will change from November 30 to December 31
Source: Prepared by FISCO from the Company's financial results briefing materials

2. FISCO's opinion

At FISCO, we think that the Company's business performance forecasts are reasonable, and believe that it is fully possible that the Company will achieve its forecasts. Naturally, we will need to monitor the impact of factors such as changes to the Bank of Japan's monetary policy (and rising cap rates accompanying this) on real estate prices, as well as any potential downturn in the profitability of owned assets due to inflation. Still, at present we do not see major downside risks, as the stable cashflows offered by residential properties means investment appetite is reliable, the inflow of funding into the market, including from overseas funds, means that market prices are steady, and the Company is working to raise the rents of its rental apartments as a measure to combat recent inflation. Meanwhile, in regard to the acquisition of development sites and income properties, the prices of income properties remain high, making acquisition and investment decisions difficult, but it seems that the Company will take a cautious stance based on the careful assessment of profitability while also leaning slightly more toward the acquisition of development sites. Also, in the Hotel Business, in which occupancy rates are recovering and room rates are higher than pre-pandemic levels, we will watch developments toward the listing of a hotel REIT.

Progress on medium-term management plan, Samty Toughening Plan (post-COVID version)

Policy of aiming to grow stable earnings through switching to asset-holding type of business

1. Overview of medium-term management plan

Looking at the impact of the COVID-19 pandemic and future changes in the business environment, in January 2021 the Company released a new five-year medium-term management plan (post-COVID version). The plan's four basic policies are as follows: 1) Switch to an asset-holding type of business; 2) Efforts toward listing of a hotel REIT; 3) Strategic investments in regional metropolitan areas; and 4) Building a profit base in the Overseas Business.

(1) Switch to an asset-holding type of business

The Company revised its strategy to aim to expand income gains (rental income, etc.) by holding properties, while taking into consideration the particular characteristics of individual real estate properties and market developments.

(2) Efforts toward listing of a hotel REIT

The Japanese government is firmly implementing policies to realize a tourism nation, and in this situation, in order to capture the recovery of demand after the COVID-19 pandemic has settled down and to ascertain movements in the industry reorganization, the Company will continue to aim to strengthen the earnings capabilities of existing hotels, while continuing measures toward listing a hotel REIT (established in November, 2021). Also, by continuing to carefully select and invest in development projects in the future, it is expected to contribute to the accumulation of REIT assets from a medium- to long-term perspective.

(3) Strategic investments in regional metropolitan areas

The Company will continue to increase investment in regional metropolitan areas nationwide, while monitoring demand. Going forward, it will accelerate the pace of development and aim to increase stable leasing income by holding properties for a certain period of time after they are completed.

(4) Building a profit base in Overseas Business

Using the opportunity provided by the joint business with VHM in Vietnam, the strategy is to utilize the experience that the Samty Group has cultivated over many years to capture residential demand alongside the economic growth of ASEAN countries and the increases in the populations of cities. This business has been positioned as the growth driver of the future. In particular, with regards to Vietnam, where economic growth is remarkable, the Company's policy is to mitigate development risk and benefit from the local tax rates through collaboration with a leading local developer. As mentioned above, sales for THE SAKURA Project, a residential condominium project in the western part of Hanoi, are progressing smoothly and the Company has also started activity on THE STAR Project, its second condominium project, in Ho Chi Minh City.

2. Investment plan

The five-year investment plan (FY11/21 to FY12/25) is for approximately ¥750.0bn. Breaking this down, ¥300.0bn will be for residential property development, ¥120.0bn for hotel and office building development, and ¥250.0bn to acquire income properties, while ¥80.0bn will be allocated to the Overseas Business, which is a new theme. Also, through switching to asset-holding type of business and the growth of the SRR and hotel REIT, the Company's policy is to increase the Group's assets to ¥1tn (¥500.0bn for total assets on a consolidated basis) by FY12/25. The cumulative investment amount (for three years) up until now is about ¥658.3bn (progress rate of 87.8%), and is progressing smoothly. Meanwhile, as of the end of FY11/23, the Group's assets are ¥576.1bn, and appear to be moving sideways, but given the development pipeline status and the hotel REIT listing, etc., reaching the goal is fully possible.

Investment plan (five year) progress

(Unit: ¥bn)

Investment field	Target amount	Investment amount (cumulative)	Progress rate
Residential property development	300.0	307.2	102.4%
Hotel/office building development	120.0	121.0	100.9%
Income property acquisition	250.0	156.2	62.5%
Overseas Business	80.0	73.7	92.2%
Total	750.0	658.3	87.8%

Source: Prepared by FISCO from the Company's financial results briefing materials

3. Results targets

The results targets for the plan's final fiscal year of FY12/25* are for net sales at a level of ¥220.0bn (of which, ¥45.0bn from leasing income, etc.), operating profit of at least ¥35.0bn, ROE at a level of 15.0%, ROA at a level of 7.0%, and an equity ratio of at least 30.0%. Also, by converting the revenue structure, the percentage of operating profit provided by income gains (leasing income, etc.) will be increased to 50% (around 15% using FY11/20 as a reference fiscal year), while the percentage from Overseas Business is forecast to be 15%. In other words, the Company will shift the focus of the income model from the conventional domestic capital gains (development profits, etc.) to income gains (leasing income, etc.), which are stable sources of income, and acquire capital gains overseas as a new growth driver.

* The final fiscal year is FY12/25 due to the change in the Company's fiscal year-end, but there are no changes to the results targets

Status of progress on KPIs in the medium-term management plan (post-covid version)

	FY11/20 Result	FY11/21 Result	FY11/22 Result	FY11/23 Result	FY12/24 Result	FY12/25 Numerical target
Net sales	¥101.1bn	¥90.4bn	¥128.4bn	¥198.6bn	¥205.0bn	¥220.0bn level
(of which, leasing income, etc.)	(¥12.1bn)	(¥13.8bn)	(¥18.8bn)	(¥25.8bn)	(¥37.6bn)	(¥45.0bn)
Operating profit	¥17.3bn	¥9.4bn	¥14.0bn	¥19.5bn	¥21.0bn	At least ¥35.0bn
ROE	14.3%	11.6%	11.1%	10.0%	-	15.0% level
ROA	7.4%	3.2%	3.7%	4.7%	-	7% level
Equity ratio	30.7%	27.0%	23.9%	25.5%	-	30.0% level or higher

Note: ROA = operating profit ÷ total assets (average of the balances at the beginning and end of the fiscal year)
Source: Prepared by FISCO from the Company's financial results briefing materials

4. Points of attention for FISCO analysts

At FISCO, we view the switch to an accumulation-type revenue model and overseas business development as strategies that make sense in order to further expand business and realize sustainable growth going forward, and we view the Company as being in the midst of a period of transformation toward its next stage. However, in advancing the conversion of the revenue structure, as it is conceivable that for the time being it will prioritize accumulating assets held (reducing sales of properties), to evaluate the strategic progress made, it would seem appropriate to focus on the pace of expansion of assets held and the growth of income gains (leasing income, etc.) rather than net sales.

We can also expect potential for the Overseas Business (Vietnam) through the collaboration with a leading local developer. Using the opportunity of the first project, the key points will be how the Company will utilize the expertise it has cultivated up to the present time and its speedy management decision-making, and how it will connect this to further development. In this way, the fact that the second project has gotten underway is a major point to focus on in looking at future potential. We view the Company's collaboration with an influential partner in the hotel business as a strategy that signifies a new direction. In particular, there are expectations of the possibility of value co-creation that combines both soft* and hard aspects, such as the development of luxury hotels with strong brand power and ability to attract customers. Based on this, from a medium- to long-term perspective, we will be focusing on: (1) developments toward the strengthening of the hotel business, including the listing of the hotel REIT and alliances with other companies (foreign-capital operators, etc.); (2) progress made in strategic investment in regional metropolitan areas; (3) the movements and future development of Overseas Business (Vietnam); and (4) the possibilities of new value creation through collaboration with partners.

* For example, this includes investments in the theme park business which has a high level of affinity with the hotel business (Nesta Resort Kobe, a major resort facility and the new theme park JUNGLIA in northern Okinawa).

Sustainability initiatives

Working toward environmentally-friendly residential property development by concluding green loans and acquiring BELS certification

1. Sustainability Basic Policy

The Company has established four basic policies for sustainability, which are “environmental consideration,” “coexistence with local communities,” “being a company that values people,” and “thoroughness of corporate morals,” and it is enhancing its sustainability management with the aim of contributing to the solution of social issues through business activities.

2. Main initiatives

(1) Enhancing sustainability-related disclosure

The Company identifies important issues (materiality) based on the two axes of “impact on society and the environment” and “impact on business,” as well as risks and opportunities associated with climate change, and publishes them on the sustainability section of its website. In addition, information regarding human capital, including human resource development policies and workplace environment improvement policies, is posted on the sustainability section of its website in addition to being disclosed in the Annual Securities Report. The Company will continue to enhance information disclosure going forward.

(2) Conclusion of green loans

In January 2023, the Company procured ¥2.7bn by concluding a syndicated green loan* with THE SHIGA BANK, LTD. <8366> and two other banks. In March 2023, it procured ¥0.38bn in funds by concluding a green loan with The Hokkaido Bank, Ltd., for the purpose of investing in land purchase and construction to advance the S-RESIDENCE Kotoni Ekimae project, an eco-friendly residence property developed in Nishi-ku, Sapporo City. Going forward, the Company will continue to consider borrowing funds with green loans, as it bolsters its sustainability perspective in financing.

* A green loan is a loan used to raise the funds required for a project aimed at improving environmental issues. The use of the funds is limited to the applicable project, and transparency is ensured through the tracking and management of funds and post-borrowing reporting.

(3) Acquisition of BELS certification for developed properties

In FY11/23 4Q, the Company acquired BELS certification*, a system for labeling a building’s energy-saving performance, for a total of seven S-RESIDENCE properties under development. To date, the Company has acquired BELS certification for a total of 19 properties. Going forward, the Company will continue to promote the development of environmentally-friendly properties.

* Building-Housing Energy-Efficiency Labeling System: A labeling system for the energy saving performance of buildings based on the Assessment Guideline for Indication of Energy Saving Capabilities of Non-residential Buildings (2013) released by the Ministry of Land, Infrastructure, Transport and Tourism in October 2013. It aims to ensure the accurate assessment and labeling of the energy saving performance of non-residential buildings by a third-party organization.

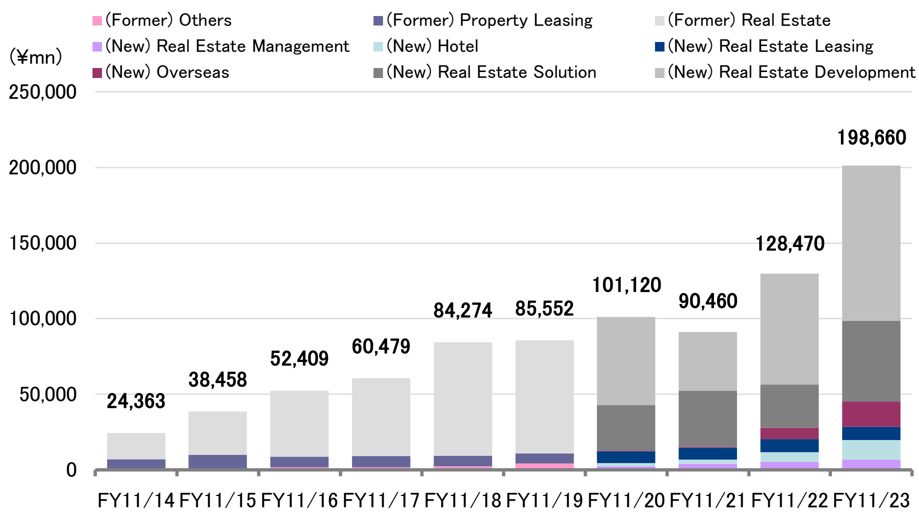
Results trends

Substantial growth in the Real Estate Business amid a strong real estate market and success in proactive investment

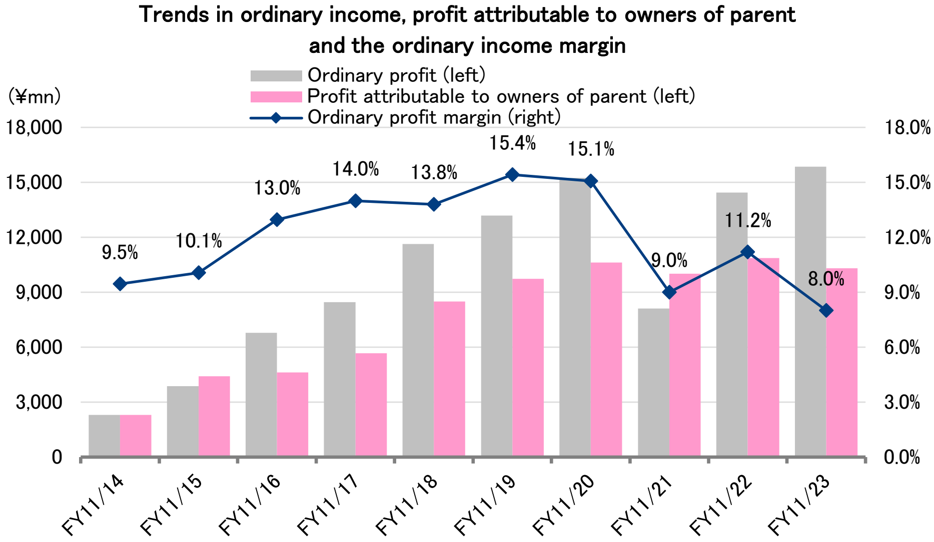
Looking back on the Company's results, after it listed on the Osaka Stock Exchange Hercules market (merged with the TSE JASDAQ in 2010) in FY11/07, it was immediately impacted by the 2008 global financial crisis and results trended at a low level for a period of time. The major contraction of the Real Estate Business due to the credit tightening by financial institutions had a particularly adverse impact on its results. However, the points we should focus on are that results in the Real Estate Leasing Business have trended stably even under a severe industry environment, which has supported the results of the Company as a whole. The fact that it does not have its own in-house sales team and has minimized fixed costs has also had a positive effect, and it can be highly evaluated on the point that it has secured profits in every fiscal year except FY11/08, when it recorded a net loss due to declaring impairment losses.

Since FY11/13, the Real Estate Business has greatly recovered due to the change in financial institutions' stance toward financing, which has occurred against the backdrop of the recovery of the domestic economy and monetary easing, and the Company's results have been steadily expanding. In particular, the Company has achieved a significant expansion in business over the past few years, aided by the establishment of a business model centered on SRR which listed on the stock market in June 2015, as well as increased demand from overseas investors. Despite a temporary decrease in sales associated with a change of business model in FY11/21, in FY11/22 the Company achieved a significant V-shaped recovery, reaching a new record high in sales. Furthermore, in terms of profit and loss, the ordinary profit margin has improved year by year thanks to progress in the highly-profitable Real Estate Development Business. Despite the deterioration in profitability in the Hotel Business from FY11/21 due to the impact of the COVID-19 pandemic, ordinary profit is currently on a recovery track, and FY11/23 ordinary profit was a record high.

Trends in net sales (by business)



Note: Excluding internal sales. New segment classification applies from FY11/20 onward
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

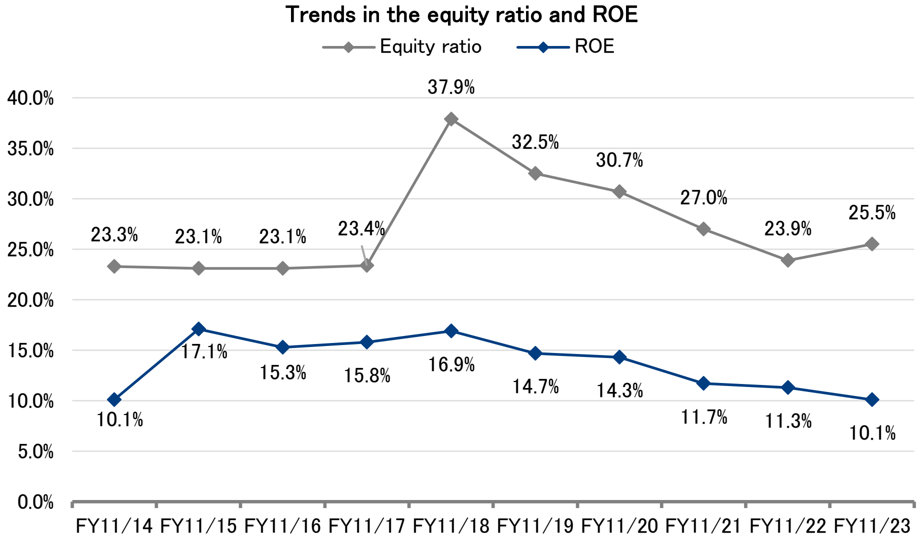


Source: Prepared by FISCO from the Company's financial results

Although the equity ratio increased to 27.9% in FY11/13 following the implementation of a capital increase through a public offering (approximately ¥2.0bn), it has been at a level of around 23% since FY11/14 due to the Company's active accumulation of assets and other factors. However, through actions including issuing new shares (approximately ¥15.0bn) through a rights offering* in October 2018 and disposing of treasury shares (approximately ¥2.7bn) in May 2019 following the capital and business alliance with the Daiwa Securities Group, along with the Daiwa Securities Group's conversion of convertible bonds (¥10.0bn) in 2021, the Company has secured a reasonably high equity ratio despite growing its assets.

* The Company issued new shares by allotment of stock acquisition rights without consideration to existing shareholders.

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. Even from FY11/21 onward when profit margins declined, it maintained a level above 10.0%.



Source: Prepared by FISCO from the Company's financial results

Industry environment

Residential property development has been performing strong even amid the pandemic.
Hotel occupancy and room rates are trending upward as inbound travel recovers

1. J-REIT market

The J-REIT market will have a significant impact on the Company's growth strategy going forward. As of the end of December 2023, the market capitalization of the J-REIT market was around ¥15,411.7bn (down 2.7% from the end of the previous fiscal year), and there were 58 J-REITs listed. Looking back, although there was a phase in which the market was temporarily weak due to the impact of tightening credit and related factors following the 2008 global financial crisis, the market has been growing since 2012 thanks to the recovery of the domestic economy and the effects of prolonged monetary easing, along with other factors. However, since the start of 2020, concerns about overall economic stagnation due to the coronavirus pandemic and other factors resulted in a large decline in the market centered on hotels and commercial facilities, but residential properties and distribution centers, etc., which are largely unaffected by economic fluctuations, have remained firm.

The TSE REIT index trended firmly due to a robust domestic real estate market (rising rents, etc.). In particular, investment appetite for J-REITs from domestic and overseas institutional investors remains vibrant because they generate yield and have relatively stable cash flow against a backdrop of the monetary easing policy by the Bank of Japan (BOJ) and healthy office demand up to now. Due to the impact of the coronavirus pandemic, investment saw a temporary significant decline in March 2020, but recovered in 2021 to record high pre-coronavirus levels. However, the market has softened somewhat recently due to interest rate hikes by foreign central banks, weakening investor sentiment, and speculation of a monetary policy revision by the BOJ.

Trends in the TSE REIT index

Source: Prepared by FISCO from various materials

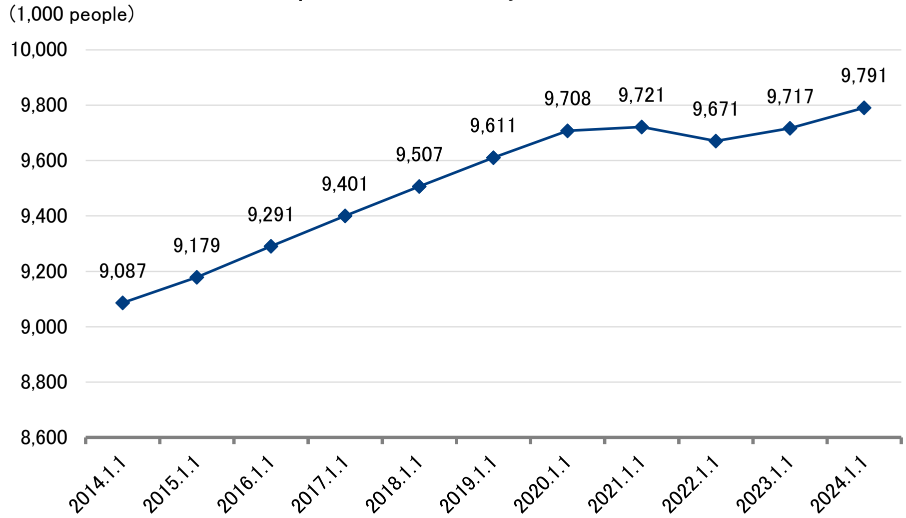
2. Residential properties (rental apartments)

The market for rental apartments is strong, supported by robust demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government's Bureau of General Affairs, the population of Tokyo's 23 wards, which accounts for most of the region to which the Company supplies properties, has continued to increase against the backdrop of a net increase in people moving to Tokyo.*1 In particular, there has been a noticeable increase in the number of single-person households, including among the young, which is occurring in the context of later marriages and the increase in the divorce rate, and it is thought that this will also support lease demand for studio-type apartments in the future. This trend can also be seen not only in Osaka and Nagoya, but also in regional metropolitan areas such as Fukuoka and Sapporo, and although the population of Japan is declining, on the other hand the population is becoming increasingly concentrated in cities. Also, recently there has been a trend of rising demand for small-size apartments that are suitable for working from home. The background for this is the stable growth in average rent levels and occupancy rates in Japan's five largest cities*2, as well as the fact that this market has been strong amid the coronavirus pandemic. Meanwhile, on the investor side, there has been a high level of inquiries from overseas investment funds and other investors for buying entire buildings in Tokyo's prime locations.

*1 After 2020, when the coronavirus pandemic came into full swing, the excess of people moving into central Tokyo came to a halt, and although the population declined in 2021 for the first time in 26 years, it reverted to an increase in 2022, and the decline can be viewed as a transitory factor.

*2 Tokyo (23 wards), Osaka, Nagoya, Sapporo, Fukuoka.

Population trend in Tokyo's 23 wards



Source: Prepared by FISCO based on materials issued by the Tokyo Metropolitan Government's Bureau of General Affairs

3. Hotels and office buildings

Looking at hotels, prior to the coronavirus pandemic, hotel occupancy rates were high against a backdrop of increasing inbound demand. Since 2020, hotel occupancy rates have remained low due to the prolonged impact of the coronavirus pandemic, but as the coronavirus pandemic has calmed down, occupancy rates and room rates have been on an upward trend due to national travel support and a recovery in inbound tourism. The selection of players looking ahead to the post-coronavirus period has already begun, and it is believed that momentum for capturing business opportunities will increase going forward. In office building development as well, despite the need to pay attention to the impact of changes in work styles (such as wider use of remote work and satellite offices), regional metropolitan areas where the Company develops properties face severe office shortages and this suggests that sufficient business opportunities exist.

Returns to shareholders

The Company plans to pay ¥94 per share for the FY12/24 dividend, a YoY increase of ¥4 per share

The Company is aware that returning profits to shareholders is one of its most important management issues. Its policy is to pay dividends that reflect its business results and are based on a comprehensive consideration of its future business plans and financial condition.

Regarding the annual dividend amount for FY11/23, the Company paid a dividend of ¥90 per share (a ¥39 interim dividend and ¥51 year-end dividend). For FY12/24, the Company plans to pay an annual dividend of ¥94 per share (a ¥43 interim dividend and ¥51 year-end dividend), a YoY increase of ¥4 per share. At FISCO, we think there is considerable room for the dividend to be increased in the future based on profit growth.

Disclaimer

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