COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

29-Mar.-2022

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Index

Summary

In FY11/21, sales and profits decreased due to the switch to the asset-holding type of business model, but were within the expected range. Meanwhile, strategic investment for expanding assets proceeded rapidly

1. Company profile

Samty Co., Ltd. <3244> (hereafter, also "the Company") is a comprehensive real estate company that operates a nationwide business, centered on the Kansai region and Tokyo metropolitan area. 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 Business (including development and sales of large-scale leasing condominiums for real estate funds and hotels) and Real Estate Leasing Business (including owning leased condominiums), as well as being involved in hotel business and other related operations. Moreover, it entered the J-REIT business* 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. In April 2022, the Company has decided to shift to the Prime Market of the Tokyo Stock Exchange ("TSE") under the TSE's new market segment structure.

* Samty Residential Investment Corporation <3459> (hereafter, "SRR"), was established in March 2015 and listed on the 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 in FY11/22.

Due to the impact of the novel coronavirus pandemic, the hotel business continued to see harsh conditions for occupancy rates. However, leasing condominiums, which are not easily affected by economic fluctuations, are performing strongly, and the Company is rapidly moving forward with its strategic investments for the future (land procurement and acquisition of income properties). Furthermore, under the Samty Toughening Plan (post-COVID version), the medium-term management plan (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 model and strengthening the overseas business, as well as taking initiatives in the hotel business from a long-term perspective. To clearly show the progress it has made towards achieving these goals, the Company has changed its business segment classification.

2. Business results for FY11/21

In FY11/21, sales and profits decreased with the switch to an asset-holding type of business model but were within expectations. Net sales decreased 10.5% YoY to ¥90,460mn, operating income decreased 45.5% to ¥9,461mn, ordinary income decreased 46.8% to ¥8,105mn, and profit attributable to owners of parent decreased 5.7% to ¥10,012mn. Net sales reflected a decrease in sales in the Real Estate Development Business, which deliberately curbed property sales, but sales increased in all other businesses. In income gains (net sales basis), a particular focus, the Company made steady progress with an increase of 14.4% YoY to ¥14,578mn, offsetting the impact of low occupancy rates in the Hotel Business. In terms of profit and loss, profits decreased as downward pressure on earnings due to lower sales combined with a decrease in profits in the Hotel Business due to the impacts of coronavirus. On the other hand, the program of strategic investment for expanding the Group's assets is proceeding rapidly, and the development pipeline has also expanded steadily.

3. FY11/22 forecasts

In its earnings forecast for FY11/22, the Company is forecasting significant increases in sales and profits, with net sales of ¥140,000mn, up 54.8% YoY, operating income of ¥18,000mn, up 90.2%, ordinary income of ¥15,000mn, up 85.1%, and profit attributable to owners of parent of ¥10,200mn, up 1.9%. For net sales, all businesses are expected to grow, but particular contributions to overall net sales are envisaged from significant growth in the Overseas Business, which is stepping up the condominium sales business in Vietnam, and the Hotel Business, which is expecting a certain level of recovery assuming the coronavirus pandemic comes to an end. Moreover, in terms of income gains (net sales basis), which is a key focus, the Company is expecting significant growth of 54.3% YoY, to ¥22,500mn. In terms of profit and loss, an operating profit is expected to make strong gains as higher sales lift overall earnings and the Hotel Business moves out of loss and into profit.

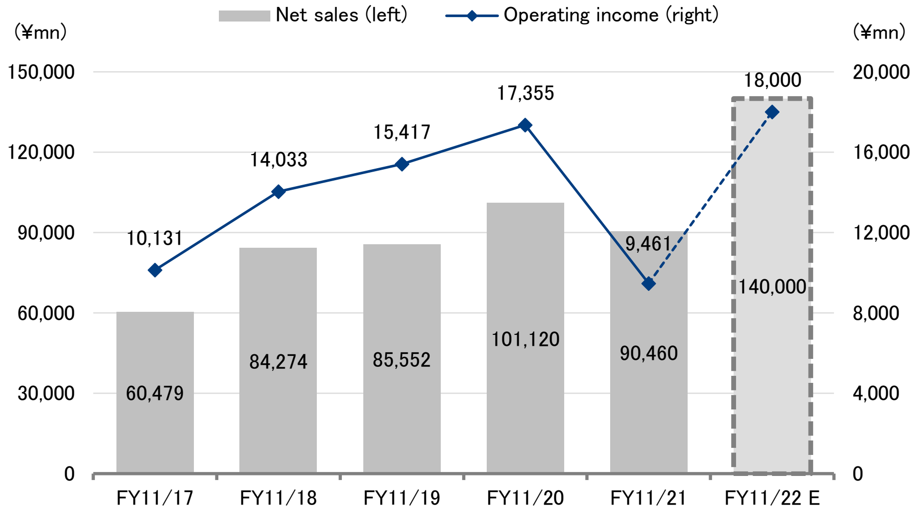
4. Medium-term management plan (post-COVID version) overview

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 (grow stable earnings), (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 ¥750bn and the results targets for the plan's final fiscal year (FY11/25) are net sales at a level of ¥220bn, operating income of at least ¥35bn, 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 assets (including REIT) to a scale of ¥1tn and switch to an earnings structure in which 50% of operating income is from income gains (leasing income, etc.), and 15% of operating income is from the overseas business.

Key Points

- In FY11/21, sales and profits decreased due to the switch to an asset-holding type of business model, but were within the expected range
- Meanwhile, strategic investments for expanding the Group's assets proceeded rapidly, and the development pipeline also expanded steadily
- For FY11/22, the Company expects strong increases in sales and profits due to significant growth in the Overseas Business and a certain level of recovery in the Hotel Business, assuming the coronavirus pandemic comes to an end
- 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

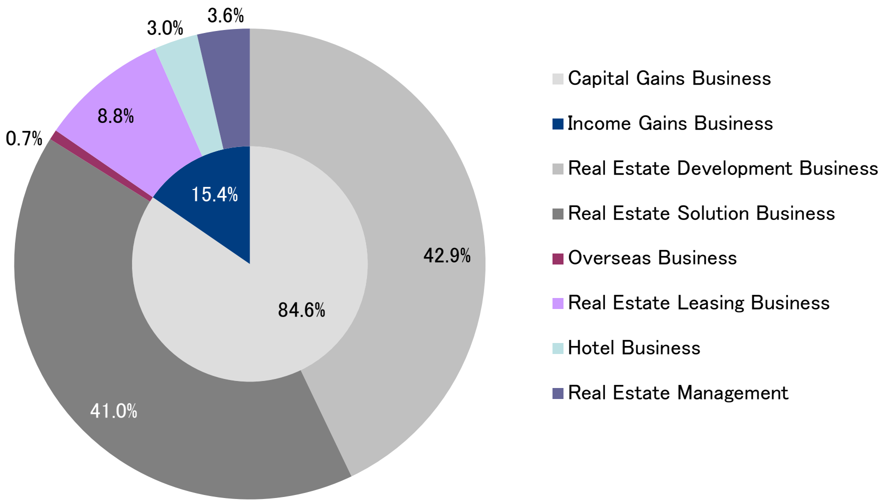
Company profile

Balanced business portfolio based on the Real Estate Business and Real Estate Leasing Business. Change to new business segment classification to reflect switch to an asset-holding type of business model

1. Business overview

The Company operates two main businesses: the Real Estate Business (development and sale of leasing condominiums and hotels for real estate funds, etc.) and the Real Estate Leasing Business (ownership of leasing condominiums, etc.), and is also involved in the Hotel Business. With the switch to an asset-holding type of business model under the medium-term management plan (post-COVID version) announced in January 2021, the Company changed its business segment classifications to clearly reflect progress towards this goal. The new segments are 1) Real Estate Development Business, 2) Real Estate Solution Business, 3) Overseas Business, 4) Real Estate Leasing Business, 5) the Hotel Business, and 6) Real Estate Management. 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 model, aims to expand the income gains businesses as a stable source of earnings.

Composition of net sales by business in FY 11/21 (Before adjustment)



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 159 properties with a combined value of ¥146.3bn (as of February 28, 2022). 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)*, it has branch offices in Tokyo Head Office / Tokyo Branch (Chiyoda-ku)*, 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.

* Houses the Kobe, Shinjuku and Yokohama sales offices.

As of the end of FY11/21, the Samty Group is comprised of the Company and 20 consolidated subsidiaries and 2 equity-method affiliates*, including 13 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 May 25, 2021 we entered into a capital and business alliance with Wealth Management, Inc. <3772> (WM), which has strengths in hotel renovation and development, with the aim of collaborating on the hotel development projects and so forth. WM has become an equity-method affiliate.

2. Overview of new business segment classification

(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 (leasing condominiums for real estate funds), 2) planning and development of studio-type condominiums for individual investors (hereinafter "investment unit sales in lots") and 3) planning, development and sales of hotels and offices (hereinafter "hotels and other").

The core S-RESIDENCE series of condominiums 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. Since FY11/20, the Company has dramatically expanded its development pipeline with a view to switching to the asset-holding type of business model. At the same time, its policy is to sell the units after holding them for a certain period (around three years), which also contributes to the expansion of the Real Estate Leasing Business.

S-RESIDENCE series

Source: The materials supplied by the Company

Furthermore, in 2) "investment unit sales in lots," the Company does not conduct sales itself, but wholesales (selling units or entire buildings) to sales companies. Through building a network with sales companies that have a sales track record in the business area and consulting with sales companies at the planning and development stages, it is able to supply properties that meet client (user) needs.

In 3) "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 profitable real estate. 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

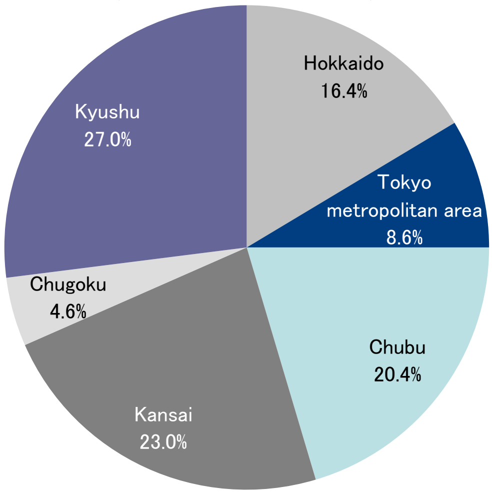
The Company conducts investment and residential condominium business overseas. In 2016 the Company invested in a real estate company (development and leasing business) in Ho Chi Minh through a fund. Since 2020, the Company has been conducting THE SAKURA PJ*1, a residential condominium project in the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

*1 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.
*2 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.

(4) Real Estate Leasing Business

The Company leases condominiums, office buildings and commercial facilities. This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. 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 high occupancy rates around 95% when averaged over the year. While the scale of the real estate it owns amounts to around ¥208.1bn (book value), this is divided into ¥108bn in inventory assets that it intends to eventually sell (real estate for sale) and ¥91bn in non-current assets that it intends to continue to own (all results are as of the end of FY11/21).

Distribution of assets owned by area for FY11/21 (based on total floor area)



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 18 hotels (as of the end of FY11/21), including 10 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

No.	Area	Hotel name	No. of rooms	Remarks
1	Tokyo metropolitan area	Center Hotel Tokyo	108	Owned
2	Kansai	Amano Hashidate Hotel (including Auberge)	86	Owned
3	Kanto	Hotel Sunshine Utsunomiya	160	
4	Kyushu	S-PERIA HOTEL Nagasaki	155	
5	Kansai	GOZAN HOTEL	21	Owned
6	Kyushu	S-PERIA HOTEL Hakata	287	Developed
7	Tokyo metropolitan area	S-PERIA INN Nihombashihakozaki	114	Developed
8	Kansai	S-PERIA INN Osaka Hommachi	125	Developed
9	Kansai	S-PERIA HOTEL Kyoto	165	Developed and Owned
10	Chugoku	NEST HOTEL Hiroshima Hatchobori	126	Owned
11	Chugoku	NEST HOTEL Hiroshima Station	84	Owned
12	Kansai	Mercure Kyoto Station	225	Developed
13	Chubu	Ibis Styles Nagoya	284	Developed and Owned
14	Kansai	Agora Kyoto Karasuma	140	Developed
15	Kansai	Agora Kyoto Shijo	80	Developed
16	Kansai	Aloft Osaka Dojima	305	Owned
17	Kyushu	S-PERIA Hotel Fukuoka Nakasu	87	Developed and Owned
18	Kansai	Oakwood Hotel Oike Kyoto	120	Developed and Owned
Total		18 hotels	2,672	

Note: In order of acquisition and development. As of the end of FY11/21
Source: Prepared by FISCO from Company news releases

(6) Real Estate Management Business

In the Real Estate Management Business, the Company manages condominiums, office buildings, and commercial facilities. Specifically, the Company undertakes commissioned operation and management services as an asset manager and receives commission income (asset management ("AM") fees), while also conducting condominium management, construction, and renovation, etc., through its subsidiary Samty Property Management. The balance of assets under management ("AUM") is ¥118.4bn for SRR and approximately ¥144bn for private placements associated with formation of the hotel REIT, for a total of ¥262.4bn (as of the end of January, 2021). In addition, the number of units under management is 17,858 units (end of November 2021), mainly for SRR.

3. Features

(1) A superior business model

A feature of the Company's business model is that every phase of the property business, including land purchases, development, leasing, operation, sales, and management, are 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 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 Business (capital gains business) with stable income from its Real Estate Leasing Business (income gains business). From FY11/21, as new strategic initiatives in the situation after coronavirus (the new normal), 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. 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 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 FY11/21 stood at 391 (up 120 YoY). 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. Breaking down the number of employees by business, the Real Estate Development Business has 49 employees, the Real Estate Solution Business 30, the Overseas Business 13, the Real Estate Leasing Business 17, the Hotel Business 101, the Real Estate Management Business 136, and companywide (corporate) employees' number 45. However, with a view to accumulating high-performing operating assets going forward, the Company has strengthened recruitment in the Real Estate Development Business and the Real Estate Solution Business, which conduct development and acquisition of properties, and its policy is to reinforce personnel for new business development in parallel with this. 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.

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). Centered on three people, Mr. Shigeru Moriyama (current chairman), Mr. Ichiro Matsushita, and Mr. Kiyoharu Taniguchi, it launched a real estate sales, leasing, and management business. 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 leasing properties for real estate funds, which spurred on its business expansion. In July 2007, it was listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market).

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), which owns and manages business hotels, to enter the hotel business; In December 2011, it established Samty Kanri Co., Ltd. (currently, Samty Property Management) to enter the property management business; in November 2012, it made SUN Asset Management Co., Ltd. (currently, Samty Asset Management) 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. Its listing was changed to the TSE First Section in October 2015. (It has decided to move to the Tokyo Stock Exchange Prime Market in April 2022). In May 2019, it concluded a capital and business alliance agreement with Daiwa Securities Group, and collaboration is moving ahead in such ways as formation of hotel REIT, overseas development and crowdfunding.

Results trends

In FY11/21, sales and profits decreased due to the switch to an asset-holding type of business model, but steady growth was achieved in income gains, which the Company emphasizes

1. Overview of FY11/21 results

In FY11/21, sales and profits decreased due to the switch to an asset-holding type of business model, but were within the expected range as net sales decreased 10.5% to ¥90,460mn, operating income decreased 45.5% to ¥9,461mn, ordinary income decreased 46.8% to ¥8,105mn, and profit attributable to owners of parent decreased 5.7% to ¥10,012mn. Meanwhile, profits finished below the revised forecast (announced September 30, 2021), mainly due to a revision of investment income.

Looking at net sales, due to the switch to an asset-holding type of business model, the Real Estate Development Business experienced a sharp decrease in sales as it deliberately curbed property sales. Nevertheless, it achieved its sales plan, and the result is within the expected range. On the other hand, business other than Real Estate Development Business all secured sales increases. In particular, income gains (net sales basis)*, which the Company emphasizes, grew steadily, increasing 14.4% YoY to ¥14,578mn (before adjustment), despite lackluster performance in the Hotel Business due to the impact of the coronavirus pandemic.

* The total net sales of the Real Estate Leasing Business, the Hotel Business, and the Real Estate Management Business.

In terms of profit and loss, profits decreased as downward pressure on earnings due to lower sales combined with a decrease in profits in the Hotel Business due to the impacts of coronavirus. The reason that profits were lower than the revised forecast (announced September 30, 2021) is because of a revision of investment income (gain on bargain purchase) associated with the acquisition of a hotel* through an SPC. It is therefore the result of a reevaluation of the accounting estimate amount and does not represent a downturn in recent business performance. The total amount of gain on bargain purchase after reevaluation of ¥4,307mn was recorded in extraordinary income.

* Aloft Osaka Dojima and “Shangri-La Hotel Kyoto Nijojo (provisional name) Plan.”

On the other hand, the Company was very successful concerning purchases that will lead to future growth, making healthy progress with the acquisition of 61 development sites (acquisition price of ¥28bn) *1 and 49 income properties (acquisition price of ¥42.1bn) *2, a result that exceeded planning.

*1 Including the acquired portion of hotel development land by the SPC (“Six Senses Kyoto” and “Shangri-La Hotel Kyoto Nijojo Plan” (provisional name)), the acquisition price exceeded the acquisition plan of ¥39.7bn.
*2 Including Aloft Osaka Dojima, which was acquired through the SPC, the acquisition price exceeds the acquisition plan of ¥48bn.

Regarding the Company’s financial condition, total assets grew significantly by 39.2% compared to the end of the previous fiscal year to ¥349,194mn. This was the result of suppressing sales of properties in line with the Company’s policy of switching to an asset-holding type of business, as well as proactively acquiring development sites and income properties. Meanwhile, shareholders’ equity increased 22.4% to ¥94,296mn, reflecting the conversion of convertible bonds (¥10bn) by Daiwa Securities Group Inc. <8601> and the accumulation of internal reserves, so the equity ratio fell slightly, but was maintained at 27.0% (compared to 30.7% at the end of the previous fiscal year). Moreover, interest-bearing debt increased considerably by 41.9% to ¥231,231mn, however the ratio of long-term debt is approximately 71%, so the Company appears to be maintaining financial stability even while expanding its assets. On the other hand, in measures of capital efficiency, ROE decreased to 11.6% (compared to 14.3% at the end of the previous fiscal year) and ROA to 3.2% (compared 7.4% at the end of the previous fiscal year), but both are expected to improve from FY11/22 onward.

FY11/21 results

(¥mn)

	FY11/20		FY11/21		Change	
	Results	% of net sales	Results	% of net sales	Amount	% of change
Net sales	101,120		90,460		-10,660	-10.5%
Real Estate Development Business	58,269	57.6%	38,863	43.0%	-19,405	-33.3%
Real Estate Solution Business	30,361	30.0%	37,128	41.0%	6,766	22.3%
Overseas Business	499	0.5%	595	0.7%	95	19.1%
Real Estate Leasing Business	7,787	7.7%	7,949	8.8%	162	2.1%
Hotel Business	2,089	2.1%	2,784	3.1%	695	33.3%
Real Estate Management Business	2,863	2.8%	3,845	4.3%	982	34.3%
Adjustment	-750	-	-707	-	43	-
Cost of sales	73,456	72.6%	72,606	80.3%	-850	-1.2%
SG&A expenses	10,308	10.2%	8,392	9.3%	-1,916	-18.6%
Operating income	17,355	17.2%	9,461	10.5%	-7,894	-45.5%
Real Estate Development Business	14,790	25.4%	9,863	25.4%	-4,926	-33.3%
Real Estate Solution Business	3,682	12.1%	3,042	8.2%	-640	-17.4%
Overseas Business	385	77.2%	298	50.1%	-87	-22.6%
Real Estate Leasing Business	4,109	52.8%	3,779	47.5%	-329	-8.0%
Hotel Business	-641	-30.7%	-2,596	-93.2%	-1,955	-
Real Estate Management Business	308	10.8%	550	14.3%	241	78.6%
Adjustment	-5,279	-	-5,475	-	-196	-
Non-operating income	139	0.1%	2,134	2.4%	1,995	-
Non-operating expenses	2,246	2.2%	3,491	3.9%	1,245	-
Ordinary income	15,247	15.1%	8,105	9.0%	-7,142	-46.8%
Extraordinary income	203	0.2%	4,307	4.8%	4,104	-
Extraordinary loss	108	0.1%	201	0.2%	93	-
Profit attributable to owners of parent	10,615	10.5%	10,012	11.1%	-603	-5.7%

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

Financial position at the end of FY11/21

(¥mn)

	End of FY11/20	End of FY11/21	Change	
			Amount	% of change
Current assets	158,608	225,094	66,486	41.9%
Cash and deposits	42,511	41,646	-865	-2.0%
Real estate for sale	58,265	107,875	49,610	85.1%
Real estate for sale under construction	42,512	71,075	28,562	67.2%
Non-current assets	92,255	124,048	31,792	34.5%
Property and equipment	71,938	91,306	19,367	26.9%
Intangible assets	143	426	282	197.9%
Investments and other assets	20,173	32,315	12,141	60.2%
Total assets	250,864	349,194	98,330	39.2%
Current liabilities	39,497	54,618	15,121	38.3%
Short-term borrowings	16,883	12,325	-4,558	-27.0%
Current portion of long-term debt	14,715	32,197	17,481	118.8%
Non-current liabilities	133,666	191,547	57,880	43.3%
Long-term debt	116,406	165,709	49,303	42.4%
Net assets	77,699	103,028	25,328	32.6%
Total liabilities and net assets	250,864	349,194	98,330	39.2%
Interest-bearing debt	163,005	231,231	68,226	41.9%
Shareholders' equity	77,028	94,296	17,269	22.4%
Equity ratio	30.7%	27.0%	-3.7pt	-

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 fell 33.3% YoY to ¥38,863mn, and segment profit fell 33.3% to ¥9,863mn. Lower sales and profits resulted from curbing property sales under a policy of switching to an asset-holding type of business model, but were within the expected range. The Company sold a total of 24 properties (compared to 28 properties in the previous fiscal year), comprised of 19 residential properties (including 5 sales to SRR), 2 properties for investment unit sales in lots, and three hotel and other properties*. In residential development, the Company completed 43 properties (2,700 units); and under a strategy of holding them for a certain period, the number of properties owned fiscal year-end increased to 25 (compared to 3 at the previous fiscal year-end), as the Company steadily expanded its assets. Furthermore, the Company also achieved results in building up its development pipeline with the acquisition of 61 development sites.

* In hotel development, the Company sold two hotels: the Agora Kyoto Karasuma and the Agora Kyoto Shijo.

(2) Real Estate Solution Business

Sales increased while profits decreased as net sales rose 22.3% YoY to ¥37,128mn, and segment profit decreased by 17.4% to ¥3,042mn. The Company supplied 21 leasing condominiums to SRR (compared to 17 in the previous fiscal year), and sold 33 properties in total, including office buildings (compared to 42 in the previous fiscal year). Although the profit margin decreased, it was in line with expectations.

(3) Overseas Business

Net sales rose 19.1% YoY to ¥595mn, and segment profit decreased by 22.6% to ¥298mn. The Company received returns from investments in a Ho Chi Minh-based real estate company (development and leasing business), in which it has been investing since the previous fiscal year through a fund. Furthermore, the Company plans to record profits from THE SAKURA PJ from FY11/22, and has already received applications for a total of 368 units (as of the end of January 2022) for the V8 building (684 units + 19 shop houses) which is currently being pre-sold.

(4) Real Estate Leasing Business

Sales increased while profits decreased as net sales rose 2.1% YoY to ¥7,949mn, and segment profit decreased 8.0% to ¥3,779mn. Although the Company achieved an increase in sales through expansion of assets held, the increase was only gradual due to the impact of the sale of multiple tenanted leasing condominiums at the previous fiscal year end, and profit declined.

(5) Hotel Business

Net sales increased 33.3% YoY to ¥2,784mn, but there was segment loss of ¥2,596mn (loss of ¥641mn in the previous fiscal year) as net sales increased and the amount of loss expanded. Net sales increased due to an increase in the number of owned and managed hotels to 18 hotels with the new opening or acquisition*1 of 5 hotels, while occupancy rates improved slightly YoY*2, securing the increase in net sales. In particular, occupancy rates increased to around 60% or more for October-December 2021, when the state of emergency declaration was lifted. On the other hand, in profits, the segment loss widened due to the impact of the state of emergency declaration in place for 80% or more of the consolidated accounting period, as well as the associated restriction on movement.

*1 Including the following in-house developments: Agora Kyoto Karasuma (sold), Agora Kyoto Shijo (sold), S-PERIA Hotel Fukuoka Nakasu, and Oakwood Hotel Kyoto Oike; and Aloft Osaka Dojima acquired through an SPC.
*2 The average occupancy rate (monthly) for FY11/20 was around 10%-50% (average around 30%); while for FY11/21 it was around 30%-70% (average around 45%).

(6) Real Estate Management Business

Sales and profits increased as net sales rose 34.3% YoY to ¥3,845mn, and segment profit increased 78.6% to ¥550mn. Results partly reflect an expansion in AUM with the expansion of SRR's assets and the formation of the hotel REIT and an expansion in number of units under management by PM. Both are expanding steadily with AUM (end of January 2022) at ¥262,402mn*1 (up 58.3% YoY), and the number of units under management (end of November 2021) at 17,858 units*2 (up 28.0% YoY).

*1 Of which, SRR accounts for ¥118,417mn and private (including sub-AM) ¥143,985mn.
*2 Of which, Samty assets accounts for 2,572 units, REIT PM 8,109 units, general owners 2,182 unites, and condominium management 4,995 units.

2. Development plan (pipeline) situation

In development of residential buildings (S-RESIDENCE), the Company achieved a new record high, completing construction of 43 buildings and retaining ownership of 25. Furthermore, in terms of buildings to be completed from FY11/22 onward, the Company is proceeding with development of a total of 146 buildings (10,353 units) in cities nationwide, planning completion of 59 buildings in FY11/22, 64 buildings in FY11/23, and 23 buildings in FY11/24*, and has managed to steadily build up the development pipeline with a view to expanding its assets. Meanwhile, in hotel and office developments, as mentioned above, the Company is currently developing six buildings, including four hotels and two offices.

* The Company is currently making purchases for FY 11/24 and thereafter, and is aiming to add even more properties.

3. Summary of FY11/21

To summarize FY11/21, the first fiscal year of the medium-term management plan, from the above, although the financial report figures have been temporarily stalled due to the switch to a different business model, it is important to bear in mind that the results are expected, and do not represent a deterioration in performance. Rather, the key points to focus on are the steady growth in income gains, which is emphasized through asset expansion, and the rapid progress in strategic investment. From this perspective, the Company can be said to have made a strong strategic start. Furthermore, while hotel occupancy rates continue to suffer under the coronavirus pandemic, the core pillar of nationwide leasing condominiums have maintained high occupancy rates, reconfirming that the Company has a stable revenue base. Furthermore, a strong start in collaboration with foreign operators and the overseas condominium sales business (Vietnam) is also a key achievement going forward.

Main topics

From a medium- to long-term perspective, started development of luxury hotels, which are experiencing a supply shortage in Japan

1. Movement aiming for hotel REIT listings

In November 2021, the Company established the hotel specialized REIT Samty Japan Hotel Investment Corporation and carried out various notifications (registration complete in late December, 2021) and has now completed preparation for listing it on the stock exchange. Hotel occupancy rates continue to suffer under the coronavirus pandemic, and the schedule for listing has been delayed; however, the Company aims to list during FY11/22 as it expects occupancy rates to recover as the coronavirus pandemic draws to an end, the GoTo Travel campaign is restarted, and overseas visitor numbers increase. Furthermore, when properties that can provide pipeline support for the REIT are included, such as 13 currently operating hotels, 5 hotels in development, and hotels expected from WM, etc., with which the Company has concluded business and capital alliance (granting priority negotiating rights), the REIT has already secured a scale of approximately ¥340bn.

2. Launch of development of luxury hotels

Japan currently has a shortage of luxury class hotels (the highest grade hotels offering luxury facilities and international standard hospitality), which has become an issue for the government's efforts to promote Japan as a tourism-oriented country. The Company's policy is to proactively embark on joint projects with foreign hotel chains based on the thinking that supplying high-quality hotels in regional areas would spark spending from high net-worth individuals and thereby serve to become a driver of regional economic revitalization. As part of this, the Company started work on the development of Six Senses Kyoto*1, which is one of IHG Hotels and Resorts brands, and "Shangri-La Kyoto Nijojo Project (provisional name)"*2.

*1 This will be the first expansion into Japan for the IHG top category hotel, which is similar to the InterContinental brand.
*2 This is the first expansion into Kansai for the five-start luxury hotel chain, which opened in Tokyo in 2009.

3. Formulation of Basic Policy on Sustainability

The Samty Group has set forth four important issues, which combine ESG indicators and disclosure items, as a guide for its sustainability. The policy reaffirms the basic policies that the Group has followed to date: "environmental consideration," "coexistence with local communities," "realization of companies that value people," and "strict implementation of corporate ethics," and is also based on the idea of contributing as a leader in solving social issues through business activities by enhancing sustainability management. In January 2022, a total of 11 S-RESIDENCE properties acquired the DBJ Green Building Certification* for real estate that is environmentally and socially conscious, an external evaluation of the results of the Company's initiatives through its business activities.

> * This system was established by the Development Bank of Japan in April 2011 with the goal of acting as a bridge between business operators and financial institutions and investors through the evaluation of socially and environmentally conscious real estate (Green Building). In addition to the environmental performance of buildings, it includes a comprehensive evaluation of various stakeholder responses, including disaster readiness and community consideration to evaluate and certify real estate that meets the demands of society and the economy.

4. New adoption for the JPX-Nikkei Index 400

On August 31, 2021, the Company was newly included as a constituent stock of the JPX-Nikkei Index 400*. The Company also continued to be adopted for the JPX-Nikkei Mid and Small Cap Index, of which it was already a constituent.

> * A stock index composed of "companies with high appeal for investors" selected by their scores on ROE, operating income, market capitalization, and qualitative elements.

Earnings outlook

For FY11/22, the Company forecasts significant increases in sales and profits through growth in all businesses. Significant growth in the Overseas Business and a certain level of recovery in the Hotel Business are expected

1. FY11/22 forecasts

For the FY11/22 results forecast, the Company expects for net sales ¥140,000mn (up 54.8% YoY), operating income ¥18,000mn (up 90.2%), ordinary income ¥15,000mn (up 85.1%), and profit attributable to owners of parent ¥10,200mn (up 1.9%), forecasting significant increases in net sales and income.

Net sales are forecast to grow in all businesses. Overall net sales growth is expected to see particular contributions from the Overseas Business, which is forecasting significant growth as it ramps up THE SAKURA PJ condominium project in Vietnam, and the Hotel Business, which is expected to see a certain level of recovery assuming that the coronavirus pandemic draws to a close (around 60% of the normal hotel occupancy rate). In terms of sales plans, the Company plans to sell 27 properties in the Real Estate Development Business and 24 properties in the Real Estate Solution Business, however, this includes several properties in the sale plan of the Real Estate Development Business to be supplied to the hotel REIT, which is currently preparing to list on the stock exchange. Moreover, the Company is forecasting significant growth in income gains (net sales basis), which the Company emphasizes, increasing 54.3% YoY to ¥22,500mn due to expansion in the scale of assets and a certain level of recovery in the Hotel Business.

On the profit and loss front, the Company is forecasting a significant increase in profit, as earnings are boosted by higher sales, while the ordinary income margin is also forecast to improve to 10.7% (compared to 9.0% in the previous fiscal year). The Hotel Business in particular is expected to move out of loss into profit due to a certain level of recovery in occupancy rates.

Also, for the investment plan, the Company plans to invest approximately ¥45bn in development sites and around ¥49.5bn in income properties, and its policy is to continue to conduct strategic investment toward growing the Group's assets.

FY11/22 forecast

(¥mn)

	FY11/21		FY11/22		Change	
	Results	% of net sales	Forecast	% of net sales	Amount	% of change
Net sales	90,460		140,000		49,540	54.8%
Real Estate Development Business	38,863	43.0%	47,000	33.6%	8,137	20.9%
Real Estate Solution Business	37,128	41.0%	53,600	38.3%	16,472	44.4%
Overseas Business	595	0.7%	18,500	13.2%	17,905	3,009%
Real Estate Leasing Business	7,949	8.8%	9,400	6.7%	1,451	18.3%
Hotel Business	2,784	3.1%	8,100	5.8%	5,316	190.9%
Real Estate Management Business	3,845	4.3%	5,000	3.6%	1,155	30.0%
Adjustment	-707	-	-1,600	-	-893	-
Operating income	9,461	10.5%	18,000	12.9%	8,539	90.2%
Real Estate Development Business	9,863	25.4%	11,000	23.4%	1,137	11.5%
Real Estate Solution Business	3,042	8.2%	6,000	11.2%	2,958	97.2%
Overseas Business	298	50.1%	500	2.7%	202	67.8%
Real Estate Leasing Business	3,779	47.5%	5,000	53.2%	1,221	32.3%
Hotel Business	-2,596	-93.2%	800	9.9%	3,396	-
Real Estate Management Business	550	14.3%	1,100	22.0%	550	100.0%
Adjustment	-5,475	-	-6,400	-	-925	-
Ordinary income	8,105	9.0%	15,000	10.7%	6,895	85.1%
Profit attributable to owners of parent	10,012	11.1%	10,200	7.3%	188	1.9%

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

2. FISCO's opinion

At FISCO, we see a need to continue looking carefully at coronavirus pandemic trends and their impact on hotel occupancy rates. However, the Company is making good progress on its investment plan and building up the development pipeline, and there is a rationality to its assumptions, namely the property sales plan and expansion of income gains (leasing income, etc.). We therefore consider the Company's earnings forecast to be sufficiently achievable. In the Hotel Business, for which the Company forecasts a certain level of recovery, the level of around 60% of the time when cruises were in operation seems a reasonable assumption given the status of improvement in occupancy rates for October-December 2021 and the restart of the GoTo Travel campaign. Naturally, if the coronavirus pandemic were not to wind down and the hotel occupancy rate continue at a low level, delaying the listing of the hotel REIT, then this would certainly put downward pressure on earnings. However, even if this were to happen, the Company should be judged dispassionately from a perspective of its medium-term growth potential. Moreover, trends in the Overseas Business as it ramps up the condominium business in Vietnam and progress on the investment strategy will also be key points to observe.

Progress on medium-term management plan (post-COVID version)

Policy of aiming to grow stable earnings through switching to asset-holding type of business. Over one third of the investment plan investments were made in the first fiscal year of the plan

1. Overview of medium-term management plan

Looking at the impacts of the coronavirus pandemic and future changes in the business environment, in January 2021 the Company released a new medium-term management plan (5-year plan) called the Samty Toughening Plan (post-COVID version). The plan's four basic policies are as follows: (1) Switch to 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 overseas business. Points (1) and (4) are particularly different from the previous policies. As an asset-holding type of developer, the Company has worked out a new direction of striving to stabilize revenue and launching overseas businesses as a future growth axis.

(1) Switch to asset-holding type of business

Up to the present time, in order to recoup investment income at an early stage and acquire cash flow, the Company has conducted its business by quickly selling completed properties. However, on considering a response to the revised consumption tax* and factors such as a favorable sentiment for rental unit fees and sales prices, it has reviewed its approach to obtaining the highest income gains (leasing income, etc.) possible by owning the properties for a period of three years in principle.

* Due to the revision to the consumption tax system in 2020, consumption tax for buildings can no longer be included in the payment of consumption tax for the year of acquisition. However, if the sale takes place within three years, including the acquisition and construction-transfer periods, it is possible to receive a tax benefit (partial refund of the tax payment). Therefore, in principle, the sale will be made within three years of completion.

(2) Efforts toward listing of a hotel REIT

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

(3) Strategic investments in regional metropolitan areas

The Company intends to 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 discussed above, although the impacts of the ongoing coronavirus pandemic are currently growing, once sales of some projects began, applications have been steadily growing, and the Company is confident in the future prospects.

2. Investment plan

The five-year investment plan (FY11/21 to FY11/25) is for approximately ¥750bn. Breaking this down, ¥300bn will be for residential development, ¥120bn for hotel and office building development, and ¥250bn to acquire income properties, while ¥80bn will be allocated to 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 (¥500bn for consolidated assets) by FY11/25. The total investment through FY11/21 was ¥288.7bn (progress rate of 38.5%), and Group assets grew ¥126.2bn from the end of the previous fiscal year to ¥495.5bn, almost half of the targeted amount, as investment got off to a solid start.

Investment plan (5 year) progress

(Unit: ¥bn)

Investment field	Investment plan target amount through FY11/25	As of FY11/21-end	
		Cumulative investment amount	Progress rate
Residential property development	300	103.9	34.7%
Hotel/office building development	120	67.4	56.2%
Income property acquisition	250	82.3	32.9%
Overseas business	80	35.0	43.8%
Total	750	Approximately 288.7	38.5%

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 FY11/25 are for net sales at a level of ¥220bn (of which, ¥45bn from leasing income, etc.), operating income of at least ¥35bn, 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 income provided by income gains (leasing income, etc.) will be increased to 50% (currently around 15%), 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.

Status of Progress on KPIs in the Medium-Term Management Plan (Post COVID Version)

	FY11/20 Results	FY11/21 Results	FY11/22 Plan	FY11/23 Numerical target	FY11/25 Numerical target
Net sales	¥101.1bn	¥90.4bn	¥140bn	¥170bn level	¥220bn level
(of which, rental income, etc.)	(¥12.1bn)	(¥13.8bn)	(¥20.9bn)	(¥35bn)	(¥45bn)
Operating income	¥17.3bn	¥9.4bn	¥18bn	At least ¥20bn	At least ¥35bn
ROE	14.3%	11.6%	11.9%	12.0% to 15.0% level	15.0% level
ROA	7.4%	3.2%	4.8%	6.0% to 7.0% level	7.0% level
Equity ratio	30.7%	27.0%	25.2%	27.0% to 30.0% level	30.0% or higher

Note: ROA = operating income ÷ 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

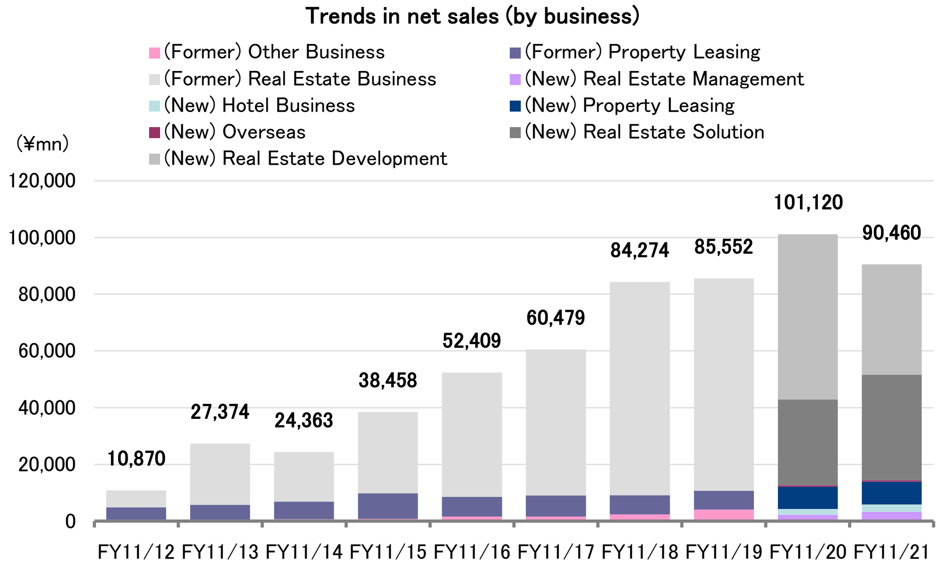
At FISCO, we view the switch to an accumulation-type revenue model and overseas business development as strategies that make sense in order to further expand business and realize sustainable growth going forward, and we view the Company as being in the midst of a period of transformation toward its next 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.). However, in principle, the plan is to sell properties within three years, so it is anticipated that net sales growth will recover after three years, at the latest. We can also expect potential for the overseas business (Vietnam) through the collaboration with a leading local developer. Using the opportunity of the current 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. 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 urban areas, and (3) the movements and future development of overseas business (Vietnam).

Results trends

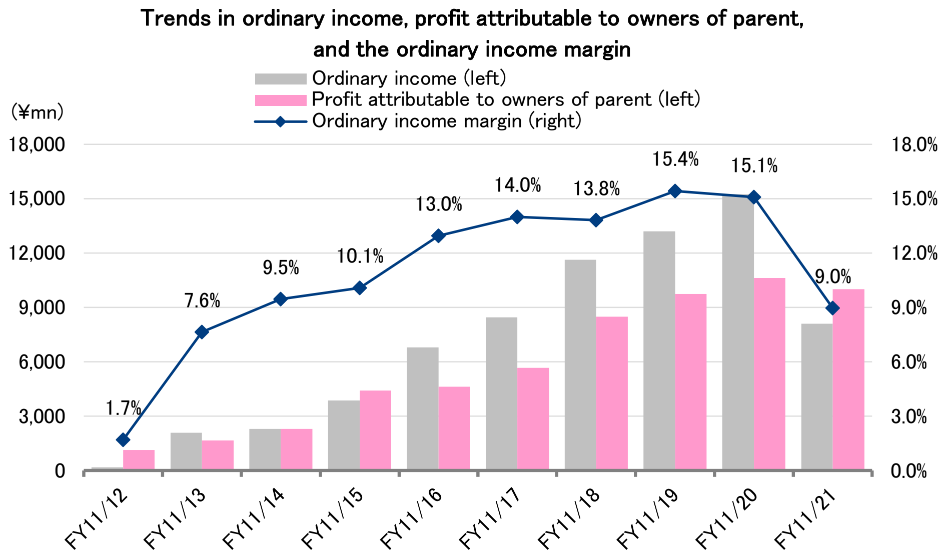
Substantial growth in the Real Estate Business amid strong real estate market

Looking back on the Company's results, immediately after it listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market) in FY 11/07, it was immediately impacted by the 2008 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 expect FY11/08, when it recorded a net loss due to declaring impairment.

Since FY11/13, the Real Estate Business has greatly recovered due to the change in financial institutions' attitude toward financing, which has occurred against the backdrop of the recovery of the domestic economy and monetary easing, and the Company's results have entered an expansion phase. 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, from FY11/22 the Company is forecasting a return to a growth trajectory. Furthermore, in terms of profit and loss, the ordinary income margin has been improving year by year thanks to progress in highly profitable development securitization (Real Estate Development Business). However, the ordinary income margin decreased to 9.0% in FY11/21, mainly due to widening losses in the Hotel Business caused by the impact of the coronavirus pandemic.



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



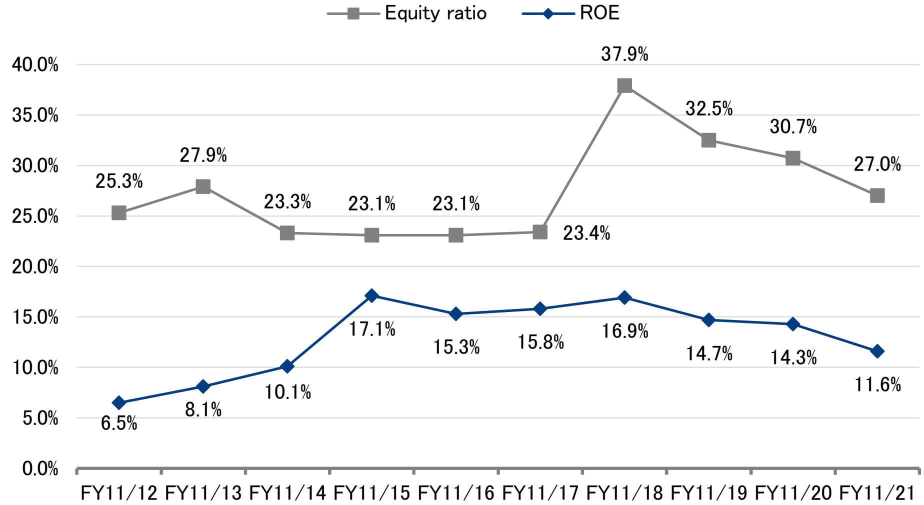
Source: Prepared by FISCO from the Company's financial results

Although the equity ratio increased to 27.9% in FY11/13 following the implementation of a capital increase through a public offering (approximately ¥2bn), 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, it moved in a positive direction as a result of issuing new shares (approximately ¥15bn) 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, and the Daiwa Securities Group's conversion of convertible bonds (¥10bn) in 2021, at the end of FY11/21, the Company was maintaining an equity ratio at the 27.0% level, while aiming to grow 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 in FY11/21 when profit margins declined, it maintained a level of 11.6%.

Trends in the equity ratio and ROE



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

Industry environment

Residential development has been performing strong even amid the coronavirus pandemic. For hotels, there is some selection of players looking ahead to the post-coronavirus period

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 2021, the market capitalization of the J-REIT market was around ¥16,995.7bn (+18.0% YoY), and there were 61 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 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 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. Also, the market has recently been recovering significantly based on expectations for the economy to normalize due to progress on vaccinations as well as the outlook for the low interest rate environment to continue, and 2021 has generally followed a trend of recovery and expansion.

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 sustained monetary easing policy by the Bank of Japan (BOJ) and healthy office demand up to now. Due to the impact of the coronavirus, investment saw a temporary significant decline in March 2020, but recovered in 2021 to record high pre-coronavirus levels. However, since the start of 2022, investment has been somewhat muted due to projected interest rate rise in the United States and the spread of the omicron variant in Japan, among other factors.

Trends in the TSE REIT index

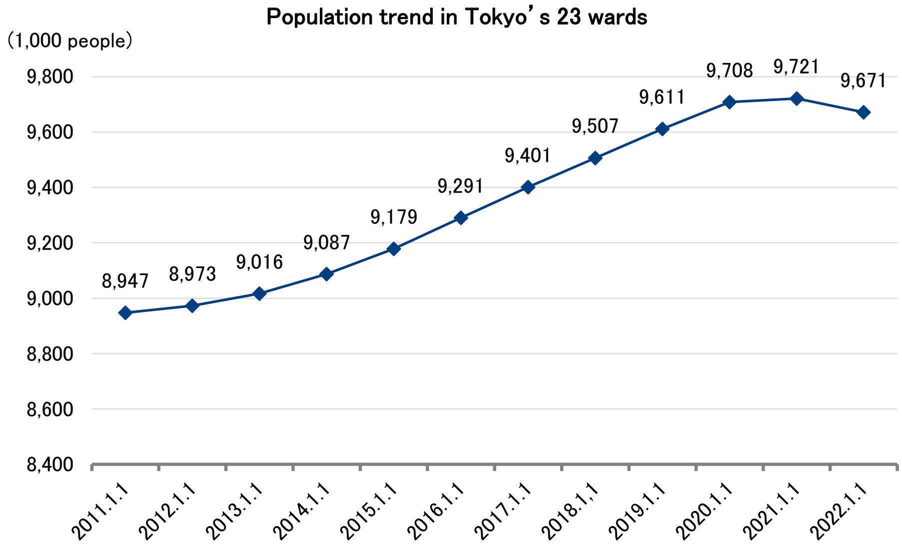
Source: Prepared by FISCO from various materials

2. Residential (rental condominiums)

The market for rental condominiums 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 condominiums 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 condominiums 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. Additionally, demand is increasing from individual investors in their 20s and 30s who are anxious about their futures in terms of their pensions and how they will live in old age, as well as from the elderly as an inheritance tax measure following the reduction in the basic exemption amount.

*1 However, since April 2020, when the coronavirus pandemic came into full swing, the monthly trends of inflows and outflows changed to an excess outflow as people postponed moving to Tokyo and working at home increased. As a result, at the end of December 2021, the population (of Tokyo's 23 wards) had switched to a decrease YoY. Though if looking to the medium to long term, the appeal of metropolitan Tokyo remains as high as before considering aspects such as employment opportunities and urban functions, and the opinion is that once the coronavirus pandemic settles down, this trend toward avoiding densely populated areas will also settle down.
*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. Recently, impacted by the coronavirus pandemic, hotel occupancy rates have been low, but looking over the medium to long term, occupancy rates are expected to recover as the number of vaccinated people increases and due to the Japanese government's tourism promotion strategy and structural supply-demand balance. 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), major regional urban areas where the Company develops properties face severe office shortages and this suggests that sufficient business opportunities exist.

Returns to shareholders

In FY11/21, the Company increased the dividend by ¥8 YoY to ¥90 per share. The Company plans to pay the same amount as the previous fiscal year for the FY11/22 dividend

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 FY11/21, the Company upwardly revised its initial forecast (fiscal year-end dividend), and paid a dividend of ¥90 per share (a ¥39 interim dividend and ¥51 year-end dividend), an increase of ¥8 per share YoY. The Company plans to pay the same amount for the annual dividend for FY11/22 as FY11/21. The Company targets a dividend payout ratio of around 30%, but at FISCO, we think there is considerable room for the dividend to be increased in the future based on profit growth.

FISCO

Disclaimer

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