

Nomura Real Estate Holdings, Inc.
Briefing session of the FY24/3 financial results (held April 25, 2024)
Q&A Summary

[Shareholder returns]

Q. What were your aims in introducing DOE? Also, is there a possibility of acquisition of treasury shares or a dividend increase in FY25/3?

A. Based on the policy of placing more priority on dividends in shareholder returns, we have introduced DOE with the intention of enhancing stability of dividend payments. In addition, DOE is also an indicator representing ROE multiplied by the dividend payout ratio, and we wanted to display our management attitude that is conscious of the cost of capital by showing how much we will pay out in relation to profit. For FY25/3, while we have forecasted a dividend payout ratio of 40.7% at the beginning of the fiscal year, our target of total return ratio is set at 40%-50%, so we may implement additional shareholder returns, according to the progress of financial performance.

Q. In the financial results presentation material, an uncertain business environment was stated as a background for the introduction of DOE. Please explain specifically what kind of uncertainty you feel in the business environment.

A. We do not perceive any significant changes in the business environment currently, but we described the business environment as uncertain in consideration of factors such as the recent rise in geopolitical risks.

Q. If you implement additional shareholder returns in FY25/3, which do you prioritize: acquisition of treasury shares or dividend increases?

A. Although we are not rejecting acquisition of treasury shares, we are placing priority on dividend payments. We will select the best option for shareholder returns while keeping an eye on the situation

[Residential Development Business Unit]

Q. As for the business model of the hotel business, which do you target: income gains from operations, or capital gains through sales of properties? In addition, how much contribution by the hotel business is expected for FY25/3?

A. We will obtain income gains and capital gains in a balanced way. Of business profit from Residential Development Business Unit in FY25/3, approximately 3 billion yen should be attributable to the hotel business. Roughly 1 billion yen of that is due to the addition of UDS to the Group.

Q. You have set a goal of doubling the number of hotel rooms. What type of hotels are you planning to add? What are your investment criteria at the time of investment?

A. UDS is involved in hotels not only in urban areas but also in regional areas and resort hotels. We also would like to broaden our business beyond urban areas. Our investment criteria are the same level as those of NOHGA HOTEL, an existing hotel under operation.

Q. How do you view the rise in construction costs for housing sales?

A. Construction of the properties to be recorded in FY25/3 started before the rise in construction costs, so the impact will be limited. We assume that the impact will be felt from FY26/3 onward, but in the budget we expect to be able to cover the construction cost increase and achieve a gross profit ratio of around 20%, which meets our investment criteria.

[Commercial Real Estate Business Unit]

Q. Please explain the current status of leasing in the Shibaura Project.

A. The current tenant acceptance rate is about 70%. The special nature of the location, right in front of Tokyo Bay, has been highly evaluated, and the leasing is going well.

Q. Is the Shibaura Project impacting the increase in unrealized profit? What are your projections for the rise in construction costs for the N tower in the Shibaura Project?

A. Part of the increase in unrealized profit includes the impact of the Shibaura Project. The Shibaura Project consists of the development of the S tower and the N tower. While the order for construction work for the S tower was placed in an amount at the level before construction costs rose significantly, the N tower is currently under discussion with the general contractor. Although we have no choice but to accept the rise in construction costs for the N tower in the future, we will consider the total profitability of the S tower and the N tower, rather than looking at them separately.

Q. Please tell us about the current state of the office market in general.

A. With regard to our properties, for example, for the PMO, we signed the largest volume of new contracts in our history in the previous fiscal year. The occupancy rate of H¹O is over 90%, except for properties that were just completed. The leasing in the Shibaura Project is also going well. I believe that we can expect to see an increase in new rents in the medium to long term as well.

Q. In terms of acquiring land for retail facilities, what kind of properties did you acquire in FY24/3?

A. We acquired land for the development of GEMS and MEFULL each in central Tokyo. There was a slight slowdown in the retail sector due to the COVID-19 pandemic, but we will accelerate development from now on.

[Overseas Business Unit]

Q. What is the current state of sales in Vietnam?

A. Ecopark in Vietnam, for which finishing work was delayed in FY24/3, is expected to be booked in FY25/3 with no issues. In the third phase of the Grand Park project, in addition to a slight delay in recovery of the pace of sales, the timing of recording was delayed for some units for which contracts have already been signed. This is because, in terms of local sales strategy, we have provided an option for customers to be able to choose the timing of the delivery of their units. The exercise of the option by some customers has made an impact.

Q. What is the risk of impairment losses in Overseas Business?

A. There is no serious concern at present. Regarding Lothbury in the U.K., entire intangible assets, etc. were impaired in FY24/3, so there is no concern about this going forward.

[Property sale business]

Q. It looks like you will be able to achieve 8% annual profit growth rate over the three years of Phase I of the Mid- to Long-term Business Plan, but if we focus on only FY25/3, the growth rate looks weak at about 3%. Is this due to the slowdown in the real estate transaction market? What level of profit are you projecting for this fiscal year?

A. We are not looking for profit growth in a single fiscal year, but rather 8% growth over the medium term, so please know that our profit target for FY25/3 is sufficiently high. In FY24/3, Residential Development Business Unit recorded 7.5 billion yen in gross profit from property for sales, and Commercial Real Estate Business Unit recorded 36.2 billion yen, and we expect the same level of profit in FY25/3.

Q. In the past, I recall that you had announced that you were aiming for profit from property for sales in Commercial Real Estate Business Unit of about 40 billion yen in FY25/3. What is your current policy?

A. The sales market is firm. In the Mid- to Long-term Business Plan, we have indicated our policy of aiming for profit from property for sales in Commercial Real Estate Business Unit of the 40 billion yen level in each period in and after Phase II. Going forward, our basic stance is to think of profit from property for sales in Residential Development Business Unit and Commercial Real Estate Business Unit in terms of total value, and examine the balance by business unit each fiscal period.

Q. What will be the timing of quarterly recording of housing sales and property sales in FY25/3?

A. As for housing sales, we expect that quarterly recording will continue to be evenly distributed, following the previous fiscal year. As for property sales, since private REIT is the main destination for sales, sales are made in accordance with the fiscal year end of the private REIT. In addition, although there are some uncertainties regarding the timing of the establishment of private funds, they are not expected to be significantly skewed.

Q. What is the environment for property sales? With interest rates rising, REITs have little capacity to buy, private funds are having difficulty attracting funds, and foreign investors are hesitant to make additional investments in Japan because of the exchange rate situation. Please tell us about the actual situation.

A. Demand from institutional investors, including corporate pension funds and life/non-life insurers, is strong. Our perception is that sales of properties remain robust.

[Others]

Q. What has caused the increase in unrealized profit?

A. The increase in unrealized profit is attributable to progress in depreciation, an increase in the appraisal value of properties under development reflecting progress in the business and rising rents, etc.

Q. What is the status of investments in preparation for Phase II?

A. In Phase I, we made progress of about 900 billion yen in 2 years through FY24/3. We expect to invest about 650 billion yen in FY25/3 including the Shibaura Project, which is expected to put the total over 1.5 trillion yen. Although both investment and recovery are less than those at the time of formulating the plan, net investment is on track at approximately 500 billion yen. Furthermore, as for the amount of decided investments, we have secured about 800 billion yen for Residential Development Business Unit and about 600 billion yen for Commercial Real Estate Business Unit over the past two years, which have reached a sufficient level, including Overseas Business Unit. Going forward, amid the rise in construction costs, we hope to increase the added value of new investment projects and secure profits from Phase II onward.