Generating ROE That Surpasses Cost of Capital and Enhancing Growth Strategies

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Assessment of FY2025 Performance and Confidence in Ahead-of-Schedule Accomplishment of Medium-Term Business Plan Targets

Since assuming the position of CFO of Tokyo Tatemono in January 2025, I have had the opportunity to engage in communication with numerous investors. In my previous position as the general manager of the Corporate Planning Department, I played a role in formulating Medium-Term Business Plan (FY2025–2027). My interactions with investors allowed me to gain direct feedback in relation to this plan and also made me understand how the drop in our stock price seen immediately after the announcement of that plan was a reflection of the high level of growth that the market expects from us. Since the announcement of the plan, everyone at Tokyo Tatemono has been working diligently to accomplish the plan's targets ahead of schedule. I would thus like to take a moment to look back at our performance in fiscal 2025.

Message from the CFO

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In fiscal 2025, we set new records for operating revenue, operating profit, business profit, and ordinary profit. Particularly noteworthy was the year-on-year increase of more than 20% in operating profit. Overall, the real estate market is enjoying favorable conditions. In this market, Tokyo Tatemono was able to achieve these impressive increases in performance through the growth in leasing revenue supported by its high-quality asset portfolio and a rise in gross profit seen in conjunction with higher profit margins for property sales to investors. The growth in leasing revenues was underscored by the rising rent rates for office and other buildings that stemmed from inflation. This trend gives us high expectations for ongoing growth in leasing revenues. As for property sales to investors, we seek to maximize profit by stocking diverse assets and selling assets that are in high demand at the given time. This, along with our land acquisition strategy for avoiding competition, contributed to the higher performance.

The performance guideline figures for fiscal 2026 include expenses associated with the completion of construction of TOFROM YAESU, but these expenses are slated to be offset by increases in sales and gross profit from sales of property to investors. We therefore project levels of operating revenue, operating profit, business profit, and ordinary profit in fiscal 2026 that surpass fiscal 2025's level to set new records. Furthermore, we expect to be able to achieve certain quantitative targets defined in the medium-term business plan a year ahead of schedule.

Quantitative Targets of Current Medium-Term Business Plan and FY2026 Forecast (Billion yen)

	Forecasts for FY2026	Targets of Current Medium-Term Management Plan (FY2027)
Business profit	102.0	95.0
Payout ratio	40.2%	40%
Profit attributable to owners of parent	63.0	60.0
EPS (Yen)	303.46	Approx. 290

We are currently facing an increasingly opaque operating environment due to factors such as interest rate increases and rising geopolitical risks. The interest rate increases not only threaten to drive up the amount of interest we have to pay; there is also concern that this factor will impact the Company's business through reductions in the desire to purchase for-sale condominiums attributable to higher housing loan interest rates as well as through increases to cap rates accompanying shrinking spreads. However, the short-term impacts of these factors are expected to be limited, and I still have the utmost confidence in our ability to achieve our performance forecasts for fiscal 2026.

Impacts of Interest Rate Increases on FY2026 Performance and Current Conditions

Increases in interest payments	• Limitation of impact by use of borrowings with long-term fixed interest rates • Projected increase in interest payments incorporated into performance guideline figures
Reductions in desire to purchase for-sale condominiums attributable to housing loan interest rate increases	• No change in purchasing trends at this point in time • Progress of 80% in contracts for FY2026 (As of March 31, 2026)
Declines in real estate prices due to rising real estate cap rates	• No change in transaction trends or prices • Anticipated growth surpassing increases in interest rates for certain assets

Nevertheless, we recognize that these trends will likely impact Tokyo Tatemono in the medium to long term. Accordingly, we are implementing measures to mitigate these impacts through portfolio strategies, balance sheet management, and cash allocation.

Message from the CFO

Portfolio Strategies for Achieving ROE Surpassing Cost of Capital

In the face of rising interest rates, Tokyo Tatemono is pressed to generate returns that surpass cost of capital. Increases to our risk-free rate of return will necessarily drive up weighted average cost of capital. Accordingly, we must pursue even greater increases in profitability and efficiency in order to further heighten ROE and other indicators.

From the perspective of profitability, we will seek to bolster reliable revenue streams through rent rate revisions in the leasing field. At the same time, we will seek to improve earnings levels by increasing our value via enhancements to the marketability of our properties during the development phase. This will be done based on the assumption that construction expenses will increase going forward. In addition, we will strive to increase the value of areas themselves through urban development and redevelopment in order to build foundations for generating high and ongoing earnings.

Meanwhile, efficiency will be pursued by positioning property sales to investors as a growth driver to improve turnover rates while practicing balanced asset portfolio management. Recently, logistics properties have been coming to represent a larger portion of our portfolio. For this reason, we will step up investment in hotel buildings and other properties to diversify our asset portfolio and increase our resilience to market changes. We will also look to make investment and sales decisions in a manner that is in tune with the times to maximize gains on sales and expand our earnings opportunities.

Tokyo Tatemono will continue to be involved in assets for which we can expect long-term growth as well as in the YNK area. We thereby aim to secure assets with the potential to contribute to increases in value that surpass market growth rates in order to continuously increase the overall quality of our portfolio. Meanwhile, we will look to sell other assets at the ideal timing to sell non-current or other assets to convert unrealized gains into gains on sales and consequently accelerate improvements in asset efficiency.

Through these efforts, we aim to simultaneously grow reliable earnings and improve asset efficiency in order to develop a portfolio that will allow us to generate ongoing returns even amid rising cost of capital. Furthermore, we will practice flexible asset replacement based on the assumption that the market will continue to change with the goal of achieving higher-quality and more-reproducible growth while continuously improving corporate value.

Financing Strategies for Optimizing Cost of Capital While Maintaining Financial Discipline

Tokyo Tatemono seeks to improve profitability and efficiency through the aforementioned portfolio strategies. At the same time, we will implement funding strategies aimed at optimizing cost of capital while maintaining financial discipline to support these efforts. We have defined the financial guidelines of a debt-to-equity ratio of approximately 2.4 times and an interest-bearing debt/EBITDA multiple of approximately 12 times. The Company will continue efforts to control finances within the scope of these indicators out of consideration for the balance between capital efficiency and financial soundness. By conducting financing with a focus on borrowings based on the idea of bolstering equity capital through consistent profit growth, we will build a stable financial foundation while preventing excessive dependence on leverage.

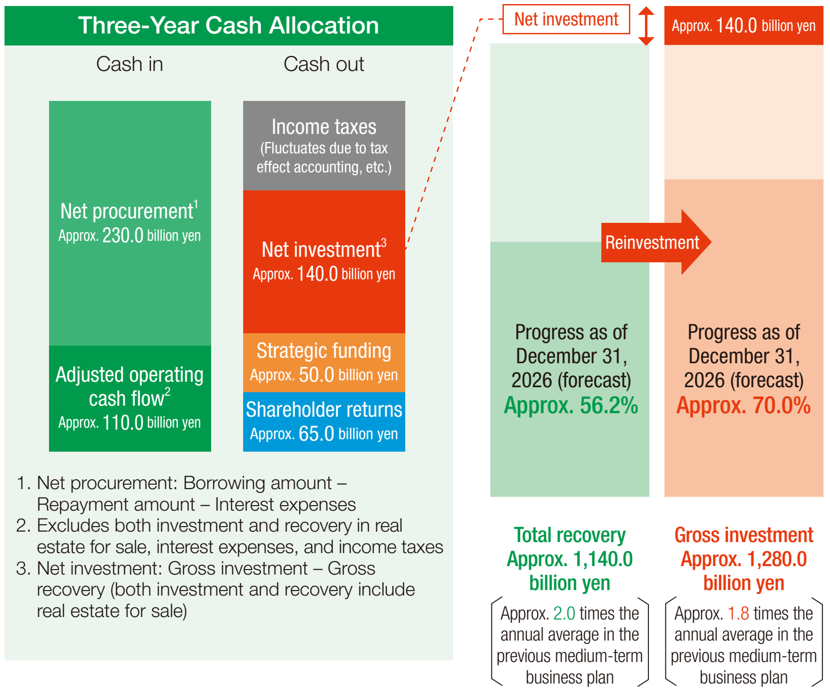
Our basic policy with regard to debt will be to utilize long-term borrowings with fixed interest rates to strengthen our resilience to interest rate increase risks. We do not foresee any significant changes to this policy, especially considering that we are currently engaged in large-scale development projects and other ventures that will require substantial amounts of time. We will, however, be looking to increase our flexibility with regard to the mix of fixed and variable interest rate borrowings and borrowing periods in response to changes in interest rate trends. Possibilities including additional issuances of corporate bonds are also being examined as we seek to build the ideal capital structure. Tokyo Tatemono's rental asset portfolio includes a lot of properties in prime urban locations, and these assets allow us to generate reliable cash flows. Moreover, our urban development and redevelopment projects are being utilized as the foundation for efforts to stabilize earnings and heighten the creditworthiness of our assets. We have thereby managed to provide a backing to the creditworthiness that supports financing. This strength is expected to enable us to limit financing costs and secure reliable financing.

As a result of these efforts, Japan Credit Rating Agency upgraded our long-term issuer rating from A to A+ (Stable) in May 2026. We believe that this rating upgrade reflects the institution's positive evaluation of our stable earnings foundations and ongoing financial discipline. The new rating will also be an important asset for future financing activities that will help us limit costs and diversify financing methods. Going forward, we will focus on our balance sheet in its entirety to strategically combine debt and equity based on our stable earnings foundations. We thereby aim to exercise appropriate control over cost of capital and build the financial base we need to conduct steady growth investments.

Message from the CFO

Cash Allocation Approach for Improving Capital Efficiency

I believe that our ability to achieve ongoing improvements in corporate value will hinge on our capacity to allocate the cash we have generated to areas boasting high capital efficiency in an ideal and disciplined manner. Given operating environment changes such as rising interest rates and construction costs, it will be crucial for the Company to exercise rigorous and exhaustive yet balanced control throughout the cycle of capital recycling, investment, and shareholder returns.



1. Net procurement: Borrowing amount – Repayment amount – Interest expenses
2. Excludes both investment and recovery in real estate for sale, interest expenses, and income taxes
3. Net investment: Gross investment – Gross recovery (both investment and recovery include real estate for sale)

1. Capital Recycling: Acceleration of Asset Turnover and Transformation of Unrealized Gains into Gains on Sales

From the perspective of capital recycling, property sales to investors will be a central part of our efforts as we seek to generate cash through asset turnover. In fiscal 2026, we expect to be able to conduct property sales in levels that are among the largest seen in Tokyo Tatemono's history. These sales will be focused on hotel buildings and will be a key factor behind achieving our earnings forecasts. We have not witnessed any significant changes in cap rates due to the influxes of capital into Japan's real estate market as a result of the increase in buyers and the expectations for future growth. In addition, Tokyo Tatemono's development assets are praised for their high marketability, and it is our understanding that favorable conditions will continue in the market for property sales. However, we also recognize an issue in that we have not been increasing the amount of recovery despite the fact that we continue to see the high profit margins that were also present in fiscal 2025. Going forward, we will remain mindful of the balance between profit levels and capital recycling amounts as we seek to improve our capacity to reliably generate cash.

We will also systematically recycle capital from investments in non-current assets and cross-shareholdings. The Company plans to conduct aggregate property sales amounting to 130.0 billion yen by 2027. By selling assets to transform unrealized gains into gains on sales, we will look to improve capital efficiency. As for cross-shareholdings, we will continue to sell holdings as we work toward achieving our target of reducing cross-shareholdings to less than 10% of consolidated net assets by the end of fiscal 2027, despite the external factor that is stock price increases affecting the ratio of holdings to net assets. The cash generated in this manner will primarily be directed toward growth investments.

Breakdown of gross investment

1. Large-scale redevelopment	200.0 billion yen		
2. Asset-turnover businesses	970.0 billion yen	For-sale condominium business	340.0 billion yen
		Property sales to investors business	520.0 billion yen
		Overseas business	110.0 billion yen
3. Other businesses	110.0 billion yen		

Breakdown of total recovery (Sales price basis)

1. Asset-turnover businesses	1,010.0 billion yen
2. Non-current asset sales Cross-shareholding sales	130.0 billion yen

Message from the CFO

2. Investment: Growth Investments Based on Trust and Rigorous Screening

Smooth progress was made in investments in fiscal 2025, and our investment plan for fiscal 2026 is also moving along steadily. In recent years, we have been seeing a rise in properties for which a significant amount of time is required to organize projects. This trend is delaying the timing at which these projects generate cash. Regardless, as we have amassed a portfolio of quality properties, this situation does not present any concerns for the profits to be produced over the medium to long term. The recent increases in interest rates, however, do present a need to possibly rethink the hurdle rates used in investment decisions to ensure that investment returns are appropriate given the cost of capital.

Competition for acquiring land is intensifying. Nevertheless, Tokyo Tatemono maintains its stance toward rigorously screening investments, as opposed to focusing on price competition through bids. Real estate is incredibly expensive, making it an important asset for sellers. Accordingly, price is not the only thing that sellers focus on when thinking about transactions; they also pay strong consideration to whether a potential buyer is trustworthy and will be able to actually complete payments. There are some cases in which buyers can have an impact on the seller's future business relationships. In these cases, trust can be a major factor influencing decisions. We have been fostering our corporate culture based on our corporate philosophy of "Trust beyond the era." Moreover, Tokyo Tatemono has a strong team of people who have built trust over years of faithfully engaging with individual projects. We have also been focusing on the cultivation of human resources specializing in land acquisition. Our human capital has thus become a part of the foundation that underpins our ability to acquire quality properties in a reproducible manner, even when faced with competition.

Overseas businesses, meanwhile, will be positioned as a growth driver under the next business plan. We have thus been transforming our strategies in these businesses. We understand the seriousness of the losses posted in conjunction with the recording of an allowance for doubtful accounts in our Chinese operations in fiscal 2025. In response to these losses, we have been undertaking a clear shift toward developed countries with low country risks and transparent regulatory and taxation systems. The U.S. and Australia would be examples of such countries. We are currently making progress in acquiring high-quality projects in these countries. Looking ahead, we plan to accelerate disciplined investments focused on developed countries.

3. Shareholder Returns: Enhancement of Returns in Conjunction with Profit Growth

Tokyo Tatemono has continued to enhance shareholder returns with a focus on dividends through stable and ongoing profit growth. We do not intend to change this shareholder returns policy. Given the projection that the profit targets of the current medium-term business plan will be met ahead of schedule in fiscal 2026, we also aim to accomplish our target for the payout ratio of 40% ahead of schedule. Meanwhile, we will adopt a flexible approach toward share buybacks, taking into account factors such as our share price, business environment, and financial position. We understand the importance of further enhancing shareholder returns going forward. The Company will thus continue to increase dividend payments while considering the balance with growth investments for improving corporate value.

Message from the CFO

Utilization of Strategic Funding

We have established a strategic funding bracket within the cash allocation plan that I described earlier. This strategic funding will be utilized to flexibly and proactively pursue growth opportunities. As we proceed to grow existing businesses, we will also look to diversify our earnings opportunities through the exploration of new fields. The Company thereby aims to improve corporate value over the medium to long term.

Growth of our service field operations will be of crucial importance to future earnings growth and capital efficiency improvements. Our fund business, in particular, is anticipated to generate consistent fee revenues through increases in AUM. This business is thus expected to contribute to both reliable earnings and capital efficiency. While this does not apply only to the services field, it will be vital for us to pursue inorganic growth, through alliances, M&A activities, and other means, alongside organic growth if we are to accelerate future earnings growth. The strategic funding bracket will be used proactively in the pursuit of such inorganic growth.

As one example of these efforts, strategic funding was utilized to commence a capital and business alliance with Star Mica Holdings Co., Ltd. in May 2026. By combining our brand power and planning capabilities in regard to new for-sale condominiums with Star Mica's high-level expertise pertaining to pre-owned condominium sales, we will aggressively promote synergies in the growing area of housing stock renovations. In this manner, the strategic funding bracket will be used to ensure that we have the flexibility needed to take advantage of such new growth opportunities. These funds will be mobilized based on investment decisions made emphasizing cost of capital with financial discipline as one of our foremost concerns. Through an approach of both developing existing businesses and growing operations in new fields, Tokyo Tatemono will diversify its earnings opportunities, improve capital efficiency, and thereby achieve ongoing improvements in corporate value.

Message to Our Stakeholders

In fiscal 2025, I engaged in a lot of communication with shareholders, investors, and various other stakeholders. The direct exchanges of opinion I took part in with numerous individuals after becoming CFO really deepened my understanding of the high level of anticipation directed toward Tokyo Tatemono as well as the issues perceived with regard to our capital efficiency and growth potential. I also came to realize how the rising interest rates are directing greater attention toward cost of capital and how engagement with the capital market will be more important than ever going forward. I want to be sincere in how I approach the external perspectives gained through such engagement. By reflecting these perspectives in management, I believe we can increase the accuracy of decision-making and thereby drive improvements in corporate value over the medium to long term.

The next medium-term business plan is in the process of formulation. This will be the fourth plan I have taken part in developing since I became involved in corporate planning. The first time I helped draft a plan was in 2014. Compared to this time, Tokyo Tatemono's operating profit has grown more than threefold. This realization makes it apparent just how much we have grown. At the same time, I recognize that the expectations levied at us by the capital market increase with each coming year. Living up to these expectations will require management to place even more emphasis on the quality and speed of our growth. In this manner, discussions for developing the next medium-term business plan have begun. Regardless of the targets we end up including in this plan, we will endeavor to illustrate our stance toward steadily advancing initiatives in a way that is uniquely Tokyo Tatemono and ensuring that we accomplish our goals. Going forward, I am committed to continuously incorporating into management the advice gained through engagement in order to make our improvements to corporate value more robust and sustainable. I hope we can look forward to your ongoing understanding and support.