Commercial Properties Business

Opportunities

- Increasing office demand for securing talent, improving productivity, and fostering innovation
- Increased leasing revenues due to inflation and tightening supply and demand for highly functional office space in prime locations.
- Remarkable advances in AI and technology, rapid expansion of the e-commerce market, and the reevaluation of supply chains
- Increasing need for the integration of urban functions such as inbound tourism, MICE, and cultural exchanges
- Societal demands for decarbonization, renewable energy, resource recycling, and improved resilience

Threats

- Intensifying competition between global cities and economic areas
- Soaring construction, management, and labor costs driven by labor shortages, inflation, and heightening geopolitical risks, as well as longer construction timelines
- Rising real estate cap rates due to higher interest rates and stricter selection of properties based on asset type and area
- Increased risks of climate change and natural disasters

Strengths

- Our ability to execute large-scale redevelopment projects, including TOFROM, and know-how gained from projects with local communities and rights holders over the long term
- Urban development initiatives that increase area value, including the YNK area
- A highly competitive office building portfolio
- Track record in development, leasing, and operations across a wide range of asset types
- A wide array of information sources, including financial institutions and long-standing business partners, in addition to the Group network
- Development of high-value-added buildings that incorporate environmental performance, well-being, BCP, etc.

Strategic Direction

- We will steadily advance large-scale redevelopment projects, focusing on the YNK area, to enhance urban functions and maximize area value.
- For existing office buildings, we will strengthen our stable revenue base by improving operations, renovations, and services in response to changing tenant needs, as well as by increasing rents in light of inflation and market trends.
- By combining office buildings as the core with other assets such as logistics properties, hotels, and retail facilities, we will improve profitability and risk tolerance through portfolio diversification and asset turnover.
- We aim to improve investment recovery and capital efficiency of properties for sale to investors by taking into account market conditions and investor needs, and by increasing real estate value through development and management.
- We consider environmental performance, well-being, resilience, and DX as important elements of a building's value, and promote value co-creation with tenants, the community, and partners.

Value Provided to Stakeholders

- For tenant companies, we will provide high-quality office and mixed-use facilities that help improve employee well-being, encourage interactions, foster innovation, and comply with BCP requirements.
- For local communities, we will contribute to the improvement of vibrancy, accessibility, disaster resilience, and international competitiveness through urban development that incorporates transportation, commercial, cultural, and exchange functions.
- For the environment and society, we will promote building development and operation that contributes to energy conservation, utilization of renewable energy, decarbonization, resource recycling, and improved resilience.
- For shareholders and investors, we aim to achieve both profit growth and improved capital efficiency by increasing stable rental income, strengthening the portfolio through asset turnover, and accelerating the recovery of investments.

Pursuing profitability that exceeds the cost of capital through maximization of area value and balance sheet controls

Akira Izumi
Representative Director, Executive Vice President and Executive Officer

In our Commercial Properties Business, we recognize that improving the profitability of lease properties, including office buildings, is our top issue, given the rising cost of capital due to increasing interest rates. Currently, there is growing demand for high-value-added office spaces located in prime locations in order to secure talent, improve productivity, and foster innovation within companies. Tokyo Tatemono possesses excellent assets and development pipelines, mainly in Tokyo's five central wards, and is focusing on area management, including the YNK area, to enhance competitiveness. We believe that promoting urban development that appeals to office workers will attract strong demand and increase the retention rate of tenants. In addition to increasing the added value and services of individual buildings, we aim to achieve rental growth beyond the market average through these initiatives.

Steadily carrying out our redevelopment projects already underway following appropriate cost controls is also a crucial challenge. We are implementing highly profitable projects that can absorb rising construction costs in highly competitive areas, including around Tokyo Station. Overall, these projects are proceeding smoothly, with construction recently commencing on the Kita-Aoyama 3-chome project.* Furthermore, we aim to optimize our asset portfolio through the strategic use of third-party capital and property sales based on factors such as area, age of the building, and level of involvement. We also aim to generate returns that exceed the cost of capital by flexibly implementing growth investments and promoting asset turnover. Going forward, we will continue to accurately identify market trends, such as inflation and rising interest rates, while strengthening our stable revenue base and improving capital efficiency.

* Official name: Kita-Aoyama 3-Chome Area Type 1 Urban Redevelopment Project

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