

Sumitomo Forestry Group
Conference Call with Analysts and Institutional Investors on Global Housing,
Construction and Real Estate Business – Q&A

Time and date: 4:00 – 5:00 p.m. on Tuesday, June 20, 2023

Answers: Sumitomo Forestry Co., Ltd.

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Q

Could you tell us the order status in April and May for the single-family home business in the United States? Also, you mentioned that demand is flowing into the new housing market because there are fewer properties in circulation in the existing homes market due to high interest rates. Hypothetically, if mortgage rates in the United States were to fall and circulation volume in the existing homes market were to recover in the future, how do you think this will impact the new housing market?

A

Following the first quarter, orders in April and May remain strong and are trending at a higher level than in the same period last year. With regard to the impact of interest rates, if mortgage rates were to fall, affordability would increase and make it easier for consumers to purchase homes. Housing demand in the United States is steady; overall, even if interest rates were to fall and more properties were to enter the existing homes market, demand in the new housing market is still expected to remain strong.

Q

With regard to the real estate development business in the United States, could you tell us about the contract situation and market conditions for property sales in the current fiscal year?

A

While the financial markets are in an extremely tight situation, the occupancy of rental properties has remained very stable and the market for rental properties is not performing badly. Sumitomo Forestry's real estate development business in the United States is expanding with a focus on the Sun Belt, where population growth is high. Customers who hesitate to purchase new housing sometimes move into rental properties temporarily, so the occupancy status for rental properties is progressing as planned. As for the sales contract situation, there are properties for which contracts have already been signed and which we expect to be sold in the second half of the year.

Going forward, even if there were properties whose sale timing is delayed from the planned timing, we believe that we will be able to cover it to some extent with rental income, since the rental market is strong. We will assess the appropriate timing and carry out property sales accordingly.

Q

During the FY12/2023 1Q results briefing, you mentioned that it is necessary to start construction on more than 2,000 units in 2Q (April to June) in order to achieve the sales plan for the current fiscal year. Could you tell us about the current status of construction starts?

A

As sales performance is strong, the number of construction starts is also increasing steadily. We are progressing at a pace to adequately cover the 2,000 units of construction starts needed to achieve our sales target for this fiscal year.

Q

The single-family homes business in the United States expects to be able to achieve sales of 9,000 units in the current fiscal year. What is the sales outlook for next fiscal year, taking into consideration construction capacity and other factors?

A

As the outlook remains uncertain, we cannot say for certain that we will be able to achieve the sales plan for this fiscal year. However, based on the assumption that the situation continues as present, we believe we are at an adequate level for achieving the plan. For the next fiscal year, we established a sales target of 16,000 units for single-family homes in the United States under our Medium-term Management Plan. We have set our sights very high in this plan, and while I am unable to provide an outlook as it is still too early, we aim to achieve the target while proceeding with measures such as reducing construction time.

Q

Due to the fall in timber prices, income ratio is expected to rise further going forward, up from 14.9% in 1Q. What is the outlook for the second half of this fiscal year and the next fiscal year?

A

With regard to income ratio, the fall in timber prices, among other factors, is expected to have a certain effect in reducing costs. However, there are also factors that will increase costs, such as the provision of incentives to promote sales. As for sale prices, some, but not all, areas are raising prices. While there are differences between the respective market environments, we do not think that income ratio, as a whole, is likely to move significantly in the negative direction going forward.

Q

On June 16, 2023, Sumitomo Forestry submitted a shelf registration statement for corporate bonds with a maximum issuance amount of 100 billion yen. What do you anticipate using the funds for?

A

We plan to invest approximately 300 billion yen over a three-year period, according to the Medium-term Management Plan, so we are procuring funds flexibly with a view to putting that plan into action.

Q

Mortgage rates in the United States have remained high and currently exceed 6%. According to some local reports, builders are offering incentives to reduce the real interest rate to about 5% for customers. What is the

situation like for Sumitomo Forestry?

A

To promote sales, Sumitomo Forestry offers various incentives including price discounts and additional options. As an example, we have cooperated with a financial institution to offer an incentive (buydown) in which the builder covers a part of the interest burden for a fixed period of time. The buydown terms vary depending on the customer, but one of the methods is to fix the interest rate at 4.5% for the first year, 5.5% for the second year, and 6% for the third year, for example.

Q

I understand that the housing market in the United States is seasonal, and that it performs relatively better from January to June each year. Based on the current financial conditions, what is the outlook for the future from the perspective of Sumitomo Forestry?

A

In previous years, the summer season begins at the start of June in the United States. As people go on holidays or take days off, the pace of visits to model homes declines, so the number of orders tends to fall gradually. While there are still uncertain aspects this year, including the weather conditions, orders for June have been moving at a pace that is not significantly different from the pace of orders up till May.

Q

How does the head office monitor the local subsidiaries?

A

When a company becomes a company of the Sumitomo Forestry Group, we put effort into ensuring that they understand the numerous governance rules (p.36 of the briefing materials) from before the acquisition is completed, such as the various administrative authority regulations.

All financial information is managed on a monthly basis and shared with all stakeholders, including the head office. With regard to real estate risk management, checks on the inventories held by each company are conducted in all communities every quarter. Hypothetically, if any problems arise, we ensure that we are always able to obtain the necessary information, such as area, amount, and number of units. Furthermore, the maximum amount for the yearly acquisition quota of real estate for sale is determined when formulating the budget.

Q

With regard to communication with the management teams of the subsidiaries, what kind of human resources do you appoint as Japanese expatriates in the overseas subsidiaries?

A

Rather than employing and assigning external management experts, Sumitomo Forestry is involved from the acquisition stage, and where possible, personnel from our Company who understand the situation at the company to be acquired are posted there. We communicate with the local management team regularly, and information on the management situation is shared in a timely manner.

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