

**Sumitomo Forestry Group**  
**FY12/2025 Second Quarter Financial Results**  
**Conference Call with Analysts and Institutional Investors – Q&A**

Time and date: 13:00 – 14:30, Friday, August 8, 2025

Answers:

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**Q**

Could you tell us about the background to the reduction from the dividend forecast announced at the beginning of the fiscal year? While the dividend has been set at the minimum level in line with the dividend policy announced in the Medium-Term Management Plan, I would like to know the discussions that led to this, such as additional sales of strategically-held shares, financial soundness, and the outlook for recovery in the U.S. housing business next fiscal year.

**A**

Under the dividend policy for the period of the Medium-Term Management Plan, we established an in-principle payout ratio of 30% or higher, and set a minimum annual dividend of 50 yen (150 yen on a pre-stock split basis). We have decided on the dividend amount for FY12/2025 after discussions on various factors, including our view that the turmoil in the U.S. market will continue through the current fiscal year, and the need to maintain financial discipline with an equity ratio of 40% or higher and a net D/E ratio of around 0.7 times. Funding dividends through the sale of strategically-held shares will be difficult to achieve immediately due to negotiations with counterparties and timing considerations, but we will continue to review the reduction of such shareholdings.

This time, due to a downward revision in net income from the initial plan, the dividend has been set at the minimum level. However, we made the final decision with the intention of clearly indicating that in the event of an upswing in income going forward, we will apply the dividend payout ratio policy of 30% or higher and increase the dividend accordingly.

**Q**

Could you tell us more about the outlook for demand in the U.S. housing market? Based on your previous explanations, there appears to be a certain number of housing buyers due to a supply-demand gap that includes factors such as the growing population of millennials. Have there been any changes to this premise? For example, are there any structural changes in housing demand,

such as a shift in aspiration from home purchases to rentals, or changes in attitudes toward moving homes due to changes in life stage?

**A**

In the U.S., due to the prolonged underbuilding situation following the “Lehman shock” financial crisis, it is estimated that 1.6 to 1.7 million housing starts, including single-family homes and multi-family housing, will be needed yearly to cope with the housing demand. There is currently a shortage of 4 to 6 million units, and unless the country is affected by a severe financial crisis or war, this housing demand situation is unlikely to change in the long term. However, economic uncertainty surrounding tariff negotiations since the Trump administration took office, the sharp rise in housing prices after the COVID-19 pandemic, and persistently high interest rates close to 7%, among other factors, are worsening affordability and causing psychological anxiety, leading to a challenging situation for the U.S. housing market.

Triggers to stimulate the recovery of the housing market include the stabilization of policy interest rates and 10-year government bond yields. A second trigger would be the assessment of continued stability in the U.S. economy, but this is expected to take some time. In light of this situation, the number of single-family homes to be delivered in the U.S. in FY12/2025 has been reduced from the initial plan, and consolidated recurring income has been revised to 170 billion yen.

Regarding changes in lifestyle, it is said that the cycle of moving homes has lengthened over the past two years due to a decline in the number of pre-owned homes available in the market caused by the lock-in effect. While we expect the fundamentals of demand for single-family homes to remain strong, demand for rental housing is also increasing to a certain degree. We are also expanding our real estate business in the U.S. to achieve a scale of housing starts on 4,500 units of multi-family housing annually through two developers, therefore we will respond to housing demand both by single-family homes business and by real estate business.

**Q**

Regarding the downward revision of the forecast for recurring income in the full-year plan for the U.S. housing business, it is believed that this is due to the expectation that mortgage rates will remain at around 7% through the end of the year. If mortgage rates fall to the low 6% range, is there a possibility that business performance could improve?

**A**

In 2023, traffic (number of visitors to model homes) improved and demand recovered rapidly as mortgage rates returned to the low 6% range. We view the decline in mortgage rates to the low 6% range as one of the turning points for demand recovery. On the other hand, 30-year fixed mortgage rates are not only influenced by the Federal Reserve's interest policy but also by long-term government bond yields and inflation expectations, making them highly unpredictable.

Moreover, competition in the housing market for first-time home buyers is currently intensifying, with major builders shifting strategies to reduce profit margins in order to secure sales volumes. Amid these challenging market conditions, we will avoid getting caught up in price competition, but advance sales strategies tailored to each area of business. In addition to promoting sales by granting incentives proactively and making price adjustments, we will focus on securing profit margins by carefully controlling the pace of housing starts and monitoring absorption rates\* for each community.

\*Absorption rate is an indicator that shows the pace at which properties on the market are being sold within a specific timeframe in the housing market.

Q

According to your explanations, in the U.S. housing business, housing starts are being curtailed in line with sales conditions, but no revisions were made to the performance plans for the next fiscal year and beyond. If housing demand recovers, will the curtailment of housing starts affect the achievement of performance plans for next year?

A

Based on the balance between population, number of households, and number of housing units, it is estimated that the U.S. housing market will need about 1.6 million housing starts annually, including single-family homes and multi-family housing. Of these, approximately 1 million single-family homes are needed every year. Currently, the annual number of new housing starts in the U.S. remains at a low level, making it possible to procure timber and other construction materials as well as secure construction labor at relatively affordable prices. Against the backdrop of this market trend, we will strive to manage inventory appropriately so that we can capture the opportunity to expand sales when the market recovers, while also implementing measures to strengthen sales to prevent the accumulation of non-moving inventory over the long term.

Q

Could you explain the reasons and background behind the decline in the recurring income to net sales ratio for the U.S. single-family homes business from 15.2% in the first half of the fiscal year to around 11% in the second half?

A

Sumitomo Forestry conducts detailed analyses, by area, of each branch and market conditions of our U.S. builder group companies. While profit margins are stable in markets such as Maryland on the East Coast, in some communities in Texas, recurring income to net sales ratio has declined to the 6 to 7% range due to competition with major builders that are actively using incentives such as discounts to keep up their sales volumes. Taking the average of the situation across the whole

of the U.S., recurring income to net sales ratio is expected to fall to the 11% range in the second half. Meanwhile, our Group company Bloomfield purchases and develops land from the ground up, allowing them to add land development profits on top of housing sales profits. This demonstrates how each of our group builders is implementing their own strategies, resulting in differences in recurring income to net sales ratio within our Group.

Q

Please tell us about the recent trends regarding potential demand in the U.S. housing market, such as an increase in visitors to model homes or, conversely, an increase in the number of customers adopting a wait-and-see attitude.

A

There is still no information regarding improvements in the housing market, such as an increase in the number of visitors to model homes in the U.S. or the discontinuation of incentives such as rate buy-downs. However, with negotiations on additional tariffs in the U.S. gradually reaching their conclusion, we believe that discussions on support measures for housing acquisition will progress going forward. For example, measures such as capital gains tax concessions for home sales, subsidies for home purchases, and the development of government-owned forests into residential land could serve as catalysts to unlock potential housing demand.

Q

Regarding the 13% year-on-year decrease in orders received in the FY12/2025 Q2 in the U.S. housing business, what is the assessment of orders received and the reasons for the decrease? For example, did the number of orders still decrease year on year despite granting incentives proactively, or is the order level at an acceptable level given the challenging market conditions?

A

In preparation for the spring season, we had been building up a portfolio of spec homes since the end of last year. However, with the continued wait-and-see attitude due to interest rates falling less than expected, we focused on selling spec homes in the FY12/2025 Q2. As a result, pre-sales orders did not progress, causing a year-on-year decrease of 13% in the number of orders received. For the full year, we expect to secure orders for 10,000 to 11,000 units, but we will need to work on building this up in the third and fourth quarters. Regarding profitability, spec homes have a profit margin that is around 3% lower than pre-sale homes. In the second half of FY12/2025, we expect recurring income to net sales ratio to decline to 11.7% as we proceed with the sale of our spec home inventory.

Overall, the recurring income of major U.S. builders for FY12/2025 is expected to drop by an average of more than 25% compared to FY12/2024. The recurring income of our U.S. single-

family homes business for FY12/2025 is expected to decline by 24.8% year on year, including the impact of a stronger yen. We believe that we are faring relatively well considering the challenging circumstances in terms of securing profits.

Q

Could you tell us about the downward revision of results for the U.S. real estate business, including the number of properties expected to be sold in the current fiscal year, the status of real estate investment balances, the possibility of losses due to delays in sales, and the levels of rent and occupancy rates?

A

The number of property sales in the U.S. real estate business for FY12/2025 was revised from 20 at the beginning of the fiscal year, to 9. However, the projects continue to progress, and we are steadily accumulating properties that will be sources of income. When the capital market normalizes and investors are able to procure financing easily, we expect to be able to sell properties at healthy prices. Although there is a risk of impairment for some commercial facilities, we believe that multi-family housing is in a stable condition with robust occupancy rates.

A

The number of commercialized projects increased from 80 at the end of FY12/2024 to 91 at the end of FY12/2025 Q2. Total assets of the four companies under real estate business in the U.S. increased from 342.1 billion yen at the end of FY12/2024 to 346.8 billion yen at the end of FY12/2025 Q2.

Regarding occupancy rates, in the case of multi-family housing, once the occupancy rate exceeds 90%, the property is considered to be in stable operation and we begin to consider the timing for sale with our partners. Currently, there are 6 properties that have achieved stable operation, and 12 properties that have not yet reached stable operation. As for the number of properties by year of starting rental and the average occupancy rate, there are 6 properties that commenced rental prior to 2023 with an occupancy rate of 86%, 6 properties that commenced rental in 2024 with an occupancy rate of 55%, and 3 properties that commenced rental in 2025 with an occupancy rate of 25%.

In the U.S. real estate market, construction was started on many properties during the COVID-19 pandemic when interest rates were low, and supply is expected to peak this fiscal year, with occupancy rates expected to improve going forward.

Q

Regarding the number of orders received for single-family homes in the U.S. market, with an aim of receiving orders for 10,000 to 11,000 units for the current fiscal year, it is estimated that you

will need to receive orders of 800 units per month on the average in the second half of the fiscal year. Please provide us with the order status for July if the data is available. Additionally, considering the current order status, selling about 5,500 units in the second half seems to be a challenging target, but the profit margin for the second half appears to be at a conservative level. Could you provide further details on the thinking behind these figures?

**A**

The number of orders received in July was about 760 units. To achieve the full-year target, we need to receive orders for average of 800 to 900 units per month from August and after. While we anticipate a turning point to come due to factors such as mortgage rates, we expect the market recovery to take around one year. As a result, we have revised downward our full-year recurring income forecast for the U.S. housing business. Furthermore, we consider it important, as part of our sales strategy, to utilize approximately 3,800 spec home units that have been completed or are under construction. However, effective incentives are necessary to sell spec homes, which could reduce the profit margin by about 3%. This is one of the factors contributing to the downward revision of the full-year profit margin forecast. In the second half, we will focus on balancing sales trends and inventory turnover rates while working to secure profit margins.

**Q**

You have explained that the housing market on the East Coast, such as in Maryland, is stable, but do you expect the sales environment to deteriorate in other areas in the future? Taking the trends in the pre-owned housing market into account, is there a risk that prices for new homes will decline in the future?

**A**

We are constantly monitoring indicators related to the housing market, including loan forbearance (payment deferral), delinquency (late payments), and foreclosure (asset seizure). These indicators remain at a low level (healthy level), and no warning signs related to lending have emerged. Additionally, while the number of pre-owned homes available on the market is currently on the rise, prices have not declined significantly. Therefore, we do not anticipate a situation whereby a large number of pre-owned homes to suddenly flood the market, causing a collapse in sales prices and in turn impacting the sale prices of new homes.

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