

Message from the President

We will continue sustainable value creation, going beyond the bounds of physical structures to propose and create new lifestyles and address social issues.

■ The Value Provided by Tokyu Fudosan Holdings

Applying Our “Challenging DNA” to the Creation of Solutions for Social Issues

The Tokyu Fudosan Holdings Group originated as the Den-en Toshi Company established by the industrialist Eiichi Shibusawa and others in 1918. In response to the deteriorating housing situation in central Tokyo due to population concentration, the company brought in Western ideas for high-quality urban development, and developed the community of Den-en Chofu based on the garden city concept, which combined the merits of nature and cities. Ever since, the Group has conducted its businesses based on a strong commitment to creating solutions for social issues, driven by its corporate DNA of taking on new challenges, which we call “Challenging DNA.”

I often explain the evolution of the Group’s business to investors by dividing it into four stages. The first stage was during Japan’s rapid economic growth period, which was accompanied by a worsening housing shortage. Through the development of large-scale new towns, we supplied housing in quantity while simultaneously pursuing quality in urban development.

The second stage came after the period of rapid growth ended and people began to seek spiritual enrichment. We were quick to grasp the changes in society, and developed a resort business to provide ways to enjoy leisure time, and the Tokyu Hands segment, which offers a wide variety of DIY products and information. In addition to urban development, we expanded our business scope to real estate-related fields, such as property management and real estate agents businesses, thus building the foundations for our current business operations.

The third stage was the period following the collapse of the bubble economy, when the value of real estate was called into question. We broadened our earnings model by dividing real estate into properties for ownership and properties for use. A representative example is Tokyu Harvest Club, a chain of membership resort hotels that was launched in 1988 and is celebrating its 30th anniversary this year. This was also the period when we began securitization of real estate, and the real estate business became more dynamic. By utilizing securitization plans, we achieved significant growth in the leasing business, and shifted the center of our earnings platform to the Urban Development segment.

The fourth stage is the present, when competition among cities around the world is intensifying and the urban functions of Tokyo are once again being questioned. The roles that the real estate industry is expected to play are also changing significantly as lifestyles and values diversify and the needs of city dwellers become more fragmented. It is with that perspective that we are conducting diverse urban development using our unique approach, based on our recognition that we need to propose new home, work and play styles. The redevelopment of Shibuya that we have been conducting as part of the Tokyu Group compiles all the elements of the ideal community development concept that we have pursued for the last 100 years. (See Feature 1 on page 22.)

Value Creation Generated by Dialogue with Customers

Our businesses have flexibly evolved to adapt to changing times, but the strengths we have cultivated over the years can be distilled down to three: our corporate culture, organization and business foundations.

Our corporate culture is “a culture that passes on and leverages our Challenging DNA.” The flexibility to accept unprecedented challenges permeates the Tokyu Fudosan

Holdings Group, and the passing on of that flexibility is supported by management that emphasizes the meaningfulness of work. Tokyu Hands, which was created as a new business segment in 1976, is symbolic of that spirit of challenge.

The strength of our organization is our “expertise and Group structure that produce unique businesses.” We shifted to a holding company structure in 2013, creating a flat, flexible organization.



Yuji Okuma

Yuji Okuma
President and Representative Director
Tokyu Fudosan Holdings Corporation

The more than 100 Group companies that conduct unique businesses, and the approximately 20,000 Group employees, combine their capabilities through collaborative business under a unified Group strategy.

The strength of our business foundations is our “diverse assets and customers.” Under the reliable and trusted Tokyu brand, we own an exceptionally wide range of assets, including office buildings, commercial facilities, housing, hotels, resorts and fitness clubs, and provide services for people at every stage of life, from children to senior citizens.

■ Medium- and Long-Term Management Plan “Value Frontier 2020: To Become a Corporate Group That Continues to Create Value”

Stage 2 of the Medium- and Long-Term Management Plan Makes a Solid Start

In fiscal 2014, we announced “Value Frontier 2020: To Become a Corporate Group That Continues to Create Value,” our first medium- and long-term management plan since adopting the holding company structure. The second half of the plan period (stage 2) began in fiscal 2017.

For stage 2, we developed a strategy based on the materialities we identified and determined as priority issues for the Group, and formulated the four-year 2017-2020 Medium-Term Management Plan. The plan is centered on three growth strategies that will connect the Group’s combined strengths to the creation of solutions for social issues: 1) Urban development that proposes new lifestyles; 2) Expansion of the scope of

These three strengths are the driving force of our business operations, and the source of the value the Group provides in addressing social issues. Five years have passed since we shifted to a holding company structure, but I still believe that the diversity and uniqueness of our Group are outcomes of our dialogue with customers. From our abundant points of contact with customers, we are able to gain insight into their needs first-hand, and will fully leverage that advantage to continue providing value that goes beyond the bounds of physical structures.

cyclical reinvestment business; and 3) Reinforcing stock utilization. (See “Medium-Term Management Plan Based on Materialities” on page 14.)

Our financial targets for fiscal 2020, the final year of the plan, are operating profit of ¥93 billion, profit attributable to owners of parent of ¥42 billion, a debt/equity ratio of approximately 2.3 times and a debt/EBITDA ratio of approximately 10 times. In fiscal 2017, the first year, revenue and profit both surpassed the levels of the previous fiscal year and of the plan. Operating profit reached ¥77.5 billion, exceeding the plan by ¥4 billion. We thus got off to a solid start toward achieving the targets for fiscal 2020.

Continuing to Strategically Evolve Our Various Businesses

Next, I will explain our initiatives since the beginning of fiscal 2017, and their results.

Advancement of the Greater Shibuya Area Concept

In growth strategy 1, “urban development that proposes new lifestyles,” leasing of office buildings in the redevelopment of Shibuya proceeded faster than planned. Redevelopment projects to solve the shortage of quality office buildings in Shibuya are progressing steadily.

An acquisition of commercial facilities via a joint investment with Norges Bank, which operates one of the world’s largest government pension funds, contributed to the expansion of our associated assets in the greater Shibuya area. (See Feature 1 on page 22.)

Development of “Life Story Towns”

To promote interaction among generations and lifestyle continuity from one generation to the next, which is a pillar of growth strategy 1, construction of the Setagaya Nakamachi Project has been completed. This project is aimed at creating solutions for social issues related to daily life, such as childcare and the aging of the population through the development of a complex containing senior housing and condominiums for sale. In the Tokaichiba Project, the second phase, we are aiming to develop

a sustainable urban community where everyone can continue to live in comfort throughout their lives. (See Feature 2 on page 26.)

“Life Story Town” is the name we have given to our business of urban development that proposes new lifestyles shaped by housing. We have decided on the first four phases of such development, including the complex developments mentioned above. Based on the concept, “A new story for each lifestyle,” we will address social issues such as diversification of lifestyles and the desire for healthier living.

Investment in Renewable Energy Business

In growth strategy 2, “expansion of the scope of cyclical reinvestment business,” investment in the renewable energy business is outpacing our expectations. The Group now owns and operates 32 solar power and wind power generation facilities nationwide, including facilities under development. We are also cooperating with solar energy operators in solar sharing, which shares solar energy between agriculture and power generation. The renewable energy business is expected to grow significantly as demand for clean energy rises, and we plan to develop it into the third pillar of our asset management business alongside office buildings/commercial facilities and rental housing. (See Feature 3 on page 27.)

Reinforcing Businesses That Utilize Real Estate Stock

In growth strategy 3, “reinforcing stock utilization,” we have made growth in the Property Management segment and Real Estate Agents segment a fundamental strategy, based on the shift in the external environment from a flow economy to a stock economy. Tokyu Community Corporation established a renovation subsidiary, Tokyu Re•design Corporation, in 2017. All of the renovation business of the Tokyu Fudosan Holdings Group will be concentrated at this subsidiary, which will strengthen the business by conducting redesign to generate high added value.

Tokyu Livable, Inc. has launched GRANTACT, a real estate sales agent brand for high-grade condominiums in Minato-ku and Shibuya-ku. In addition, Tokyu Housing Lease Corporation is focusing on meeting the needs of wealthy residents of central Tokyo, including establishing a sales center specifically for high-end inner-city rental housing.

Growth of the Wellness Segment

In the Wellness segment, we are strengthening the hotel business to meet inbound demand (demand from visitors to Japan), where strong growth is expected. For example, we are expanding the number of Tokyu Stay urban-style hotels, which we are also steadily opening in cities other than Tokyo.

In addition, we are carrying out business expansion, such as the 2018 opening of resort hotels in Karuizawa and Okinawa in partnership with a foreign hotel brand. We intend to grow the Wellness segment into a new core business by 2020.

Steadily Executing Large-Scale Developments and Strengthening Our Financial Position

Gross investment over the four years of the medium-term management plan will be ¥1.23 trillion. In the development of Shibuya, the Nampeidai Project (tentative name) and the Dogenzaka 1-chome Shibuya Station Front Redevelopment Project are scheduled to be completed in 2019. In addition, the Takeshiba District Development Project (tentative name) will open in 2020. As these large-scale projects move forward on schedule, we will carry out investment and recovery through cyclical reinvestment in wide-ranging domains including office buildings and commercial facilities, rental housing, infrastructure and industry, and hotels and resorts.



Synergy with National Students Information Center

We are taking steps to realize synergy at National Students Information Center, Co., Ltd., which the Group acquired in 2016. For example, we are developing student residences in the Residential segment, and Nasic I Support Co., Ltd., a subsidiary of the National Students Information Center, opened the “Scoutship” website for intern placement. The site uses artificial intelligence co-developed with Tokyu Land Corporation subsidiary Ewel, Inc.

We plan to create further synergy with the Group’s various businesses for schools and students, who are new customers. (See “Synergy among Our Businesses” on page 37.)

The debt/equity ratio, a measure of financial soundness, was 2.6 times at the end of fiscal 2017, essentially the same as a year earlier, as the increase in interest-bearing debt for new investments was offset by an increase in shareholders’ equity. I recognize that strengthening our financial position is a priority issue for management in order to ensure the Group’s stable growth. We will steadily improve the debt/equity ratio to approximately 2.3 times, our target for the final year of the plan.

Deepening Dialogue with Shareholders and Investors

In our dividend policy, we seek to maintain stable dividends, and have set a dividend payout ratio target of 25% or higher.

We are returning the growth in profit mentioned in the medium-term management plan to shareholders, and in fiscal 2017 we increased the dividend for the fifth consecutive fiscal year. Given the favorable market conditions, we anticipate revenue and profit growth again in fiscal 2018, and are planning a sixth consecutive dividend increase.

The Company has introduced a stock-based compensation program for officers. The objective is to raise awareness regarding enhancement of corporate value over the medium to long term by having officers share the benefits and risks of changes in the Company’s stock price with shareholders. We plan to further deepen dialogue with shareholders and investors through company briefings and other events to build long-term ties and mutual trust.

Achieving Sustainable Growth with ESG Management

From the beginning, we have conducted our business with the creation of solutions for social issues in mind. One might say that we are a group that recognized ESG (environmental, social and governance) initiatives as a business strategy even before ESG investing became a focus of interest. Tokyu Land Corporation established a Basic Policy regarding the environment in 1998, and we undertook environmental initiatives early on. Today, we are promoting ESG management across the Group, guided by our Group CSR Vision: “We will work on creating solutions for social issues through our business activities and in the process enhance the satisfaction of stakeholders.”

In the medium-term management plan, ESG management is positioned as an initiative to reinforce the management foundations that support our growth strategies. We have formulated four themes from the perspective of ESG – environment, work-style reform, social needs, and corporate

governance – and are working toward achieving targets for each theme by fiscal 2020. (See “Reinforcing the Management Foundations That Support Growth Strategies” on page 29.)

In corporate governance, we are working to enhance the governance system based on our belief that it is important to increase management efficiency and build a sound, transparent management structure. The number of independent outside directors was increased to four in June 2018, comprising approximately 30% of the Board of Directors.

We consider environmental and social issues, such as conservation of energy through reduction of CO₂ emissions and the active involvement of women in the workplace, to be as important as financial matters, and strengthened management of such issues in the past year. Going forward, we will firmly maintain our stance of addressing social issues as a Group and achieve sustainable growth by thoroughly implementing ESG management.

Promoting the Health and Vitality of Each and Every Employee

As I often say, the source of the Tokyu Fudosan Holding Group’s value creation is unquestionably its human resources. The fact that our people generate value leads to the creation of new concepts and lifestyles beyond the bounds of physical structures, and is the reason we are able to create solutions for social issues through our businesses.

Recently, ESG has taken on greater importance in capital markets, and attention is also being focused on the value of human capital. These are ideas that we have long embraced. For example, Tokyu Land Corporation had a corporate culture of providing the same opportunities to both men and women even before Japan’s Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment went into effect, and we have actively taken measures to improve workplace environments and enhance our human resource development programs.

Our Group companies continue to carry out progressive initiatives. Tokyu Community Corporation and Tokyu Livable, Inc. received the highest level of *Eruboshi* certification, which is granted by the Ministry of Health, Labour and Welfare to recognize companies with excellent performance in promoting the active involvement of female employees. Tokyu Livable, Inc. placed 24th in the Best Workplaces 2018 ranking* compiled by Great Place to Work® Institute Japan. In health management, eight Tokyu Fudosan Holding Group companies were recognized as “White 500” companies in 2018 for their outstanding health and productivity management. We will continue to foster workplaces that promote employee health and vitality to ensure that the Group remains a supportive and meaningful place to work. (See “Work Style Reforms” on page 38.)

* The world’s largest employee attitudes survey, conducted by Great Place to Work® Institute Japan and covering more than 5 million employees at 7,000 companies in 50 countries



The Value Creation Story of Tokyu Fudosan Holdings

Pursuing Group Synergy for Sustainable Value Creation

In the five years since we shifted to a holding company structure, we have achieved notable results, including the reorganization of overlapping businesses. On the other hand, we recognize that there are Group management issues that still need to be addressed. For example, I think we still have room for improvement in personnel exchanges and creation of synergy within the Group. We need an environment for quickly creating value not just from the growth of individual companies, but from collaboration and co-creation in the Group as a whole. Going forward, we plan to accelerate efforts to create both tangible and intangible mechanisms to maximize synergy among businesses.

Enterprises that have a broad business scope like our Group has are sometimes at risk of being subject to a “conglomerate discount,” but I think having a business portfolio that can respond flexibly to changes in social issues and the external environment is, instead, effective for the Group’s long-term sustainable growth. To gain the understanding of investors and shareholders regarding this point, I carefully explain it as the spokesperson, and I intend to demonstrate it by achieving further management successes.

Leveraging Diversity to Create Value beyond the Bounds of Physical Structures

Looking at the Japanese real estate market, it is evident that the balance of supply and demand will inevitably shift to oversupply due to demographic changes resulting from the low birthrate and aging of the population. The risk that the value of real estate may decline in the medium to long term is more or less understood by stakeholders.

If that is the case, providing value that goes beyond the bounds of physical structures will become even more important. Our “Challenging DNA,” which originated with the development of Den-en Chofu, has expanded our revenue model from development and sale to include property management, real estate agents businesses, leasing, operation, and real estate asset management. Having gone through these transitions in our business development, we now have diverse assets and customers, which enable us to propose value that goes beyond the bounds of physical structures.

I believe the key to finding future business opportunities will be diversity. Recently, we have been carrying out measures for

diversity in connection with work style reform, but the diversity I am talking about refers not just to employees but to all stakeholders, including customers. In a society where values are diversifying, needs are also becoming fragmented, and in some situations we may no longer be able to meet them with existing business techniques. Previously, we largely practiced an “in-Group” approach because we could draw on the Group’s broad business scope, but we are now actively pursuing new collaborative initiatives with partners from outside the Group that have diverse knowledge and expertise. In Shibuya, for example, we have joined forces with a global venture capital firm to develop a startup support program, as well as other measures to create new industries. The greater Shibuya area incorporates various urban functions and attracts many different kinds of people. It is an area where the word “diversity” is truly apt. By combining new home, work and play styles, we hope to realize urban development that takes full advantage of Shibuya’s diversity.

Opening Up a New Era with Future-Oriented Management That Does Not Fear Change

One thing I have always valued is future-oriented management that does not fear change. Twenty years ago, the start of securitization dramatically changed the real estate business model. Ten years ago, the operating environment of the real estate business underwent another major change due to the global financial crisis. Having experienced such sweeping change in the industry structure over 10-year spans, what can we expect in the years ahead? We always look at changes in the environment with a long-term perspective, and will strive to continue creating value that society and customers need.

Discussions are currently under way on the Tokyu Fudosan Holding Group’s approach to the Sustainable Development Goals (SDGs) adopted at the U.N. Summit in 2015. If we can coordinate our new value creation with these development goals, we will be able to achieve further evolution.

Using the Group’s strengths as the driving force, we will steadily carry out the medium-term management plan to make our vision a reality through the creation of value for customers and society. My job is to advance our value creation story and pave the way for the next era. Through sustainable value creation, we will meet the expectations of our shareholders and investors.