MIRAI Corporation (3476)

Strong rent revenue growth driven by Hotel

7 July 2025

Share price: ¥44,300 **Market cap: ¥84.5bn**

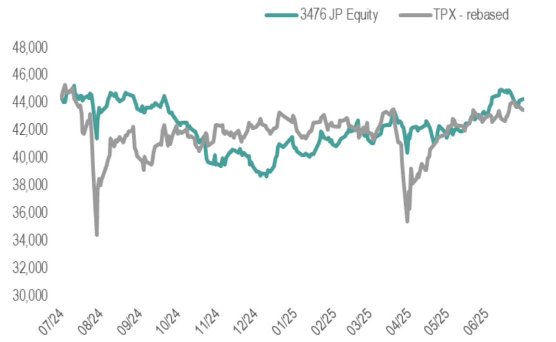
FP4/25 results update

- **Favourable market environments –** FP4/25 results arrived with stronger NOI growth than the company's guidance on the back of the robust performance of Hotel, and one-off income from penalties imposed on tenants. Furthermore, there were capital gains from sales of properties. As such, DPU came in at ¥1,357, higher than the guided DPU of ¥1,300. Hotel's continued robust performance was driven by accelerating inbound demand as well as the conversion of tenancy contracts from fixed rent to variable rent to capture the upside, which MIRAI proactively carried out when they changed hotel operators. Its credit rating was upgraded to AA- with a stable outlook from A+ by JCR (Japan Credit Rating Agency). A new medium-term plan (FP10/25-FP4/28) projects DPU of ¥1,350 and AUM of ¥250bn (no specific timeline was set for this target).

Hotel and Office will lead the way

- **Positive trajectory continues –** We believe the company will be able to maintain high NOI margins with stringent cost control, with an improvement in the expense ratio between FY10/25 and FY10/27. We remain bullish on operating revenue and NOI expansion in the medium-to-long term, leading to higher DPU, reflecting an increase in variable rent in the hotel sector driven by growing inbound demand, the termination of free rent periods and rent holidays in office and certain commercial properties, and the strategy of replacing low-yield properties with high-yield assets.

- **Valuations** – On our revised estimates, the shares are trading on P/NAV FY10/26 of 0.72x and a dividend yield of 5.9%.



Source: Bloomberg

Price Performance	YTD	1M	3M	12M
Abs (%)	+8.6	+2.1	+9.7	-0.1
Rel (%)	+7.5	+0.5	-10.7	+2.5

Company sector

REITS-Diversified
Office REITs (GICS)

Stock data	
Price (¥)	44,300
Mkt cap (¥bn)	84.5
Mkt cap ($m)	582.7
52-week range (¥)	38,650-45,300
Shares O/S (m)	1.9
Average daily value ($m)	1.4
Free float (%)	99.0
Foreign shareholding (%)	14.6
Ticker	3476
Exchange	Tokyo Stock Exchange
Net Debt/Equity (x)	1.0
FFO leverage (x)	13.8
BBG BUY | HOLD | SELL	0 | 0 | 0

Source: Bloomberg

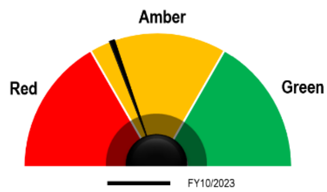
Year-end	FY10/23	FY10/24	FY10/25E	FY10/26E	FY10/27E
Operating revenue (¥bn)	12.05	12.09	12.72	13.40	14.11
NOI (¥bn)	7.43	8.18	8.52	8.98	9.45
NP (¥bn)	4.60	4.64	4.88	5.14	5.42
EPU (¥)	2,597	2,434	2,559	2,696	2,840
DPU (¥)	2,520	2,407	2,487	2,621	2,760
Sales growth YoY (%)	+10.2	+0.3	+5.2	+5.4	+5.3
NOI growth YoY (%)	-0.1	+10.1	+4.2	+5.4	+5.3
NP growth YoY (%)	+0.7	+0.9	+5.1	+5.4	+5.3
EPU growth YoY (%)	+0.7	-6.3	+5.1	+5.4	+5.3
DPU growth YoY (%)	-2.3	-4.5	+3.3	+5.4	+5.3
P/NAV (x)	0.84	0.75	0.74	0.72	0.67
PER(x)	17.1	18.2	17.3	16.4	15.6
Distribution yield (%)	5.7	5.4	5.6	5.9	6.2
AFFO yield (%)	6.6	7.2	7.0	7.4	7.9
FFO/Unit	3,149	3,260	3,109	3,276	3,450
FFO payout (%)	80.0	73.8	80.0	80.0	80.0
AFFO payout (%)	80.0	73.8	80.0	80.0	80.0

Source: Company, Astris Advisory (estimates)

Business Overview

MIRAI Corporation is a mid-sized, diversified J-REIT jointly owned by Mitsui & Co. and IDERA Capital Partners.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	N/A
Refinitiv	N/A
S&P Global	1.0
Bloomberg	1.28
CDP	N/A

Next events

FP10/25 results December 2025

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This report has been commissioned and paid for by the company

Recent results

FP4/25 NOI exceeded the company's expectations primarily due to strong performance of Hotel

Key financials

(¥bn)	16th FP 4/24	18th FP 4/25	YoY (%)	18th FP 4/25 Guidance	19th FP 10/25 Guidance	20th FP 4/26 Guidance
Operating revenue	**5.89**	**8.42**	**+43.0**	**8.36**	**5.86**	**5.75**
Real estate expenses	1.89	4.15	+119.4	4.16	1.70	1.47
Net operating income (NOI)	**3.99**	**4.27**	**+6.8**	**4.20**	**4.16**	**4.28**
Other expenses - total	1.75	1.69	-3.2	1.72	1.85	1.88
Net income	**2.24**	**2.57**	**+14.6**	**2.48**	**2.31**	**2.40**
DPU	1,150	1,357	+18.0	1,300	1,210	1,260
FFO payout ratio (%)	72.7	77.0		75.8	74.9	75.2

Source: Company

Guidance projects Office to lead revenue growth, whilst Retail remains stagnant, reflecting the sale of Shibuya World East Building and Mi Nara

Per business segment

(¥bn)	16th FP 4/24	18th FP 4/25	YoY (%)	18th FP 4/25 Guidance	19th FP 10/25 Guidance	20th FP 4/26 Guidance
Operating revenue	**5.89**	**8.42**	**+43.0**	**8.36**	**5.86**	**5.75**
Lease business revenue						
Office	2.38	2.45	+2.9	2.45	2.60	2.58
Retail	1.25	1.07	-14.2	1.07	0.80	0.81
Hotel	0.85	1.08	+27.2	1.06	1.01	1.10
Residential	0.07	0.07	-	0.07	0.07	0.07
Others	0.45	0.46	+0.2	0.46	0.46	0.46
Other lease business revenue	0.89	0.90	+1.8	0.88	0.92	0.75

Source: Company

Key highlights

FP4/25 results arrived with stronger NOI growth than the company's guidance because of the robust performance of Hotel, and one-off income from penalties imposed on tenants. In addition, there were capital gains from sales of properties. As such, DPU came in at ¥1,357, higher than the guided DPU of ¥1,300.

Hotel's continued robust performance was driven by accelerating inbound demand and the conversion of tenancy contracts to variable rent to capture the upside, which MIRAI carried out when they changed hotel operators for two properties in March. Including these two, five properties have been on variable rents.

It is notable that the expense ratio further declined to 29.2% (FP4/24 32.2%, FP10/25 32.5%), which was primarily associated with the sale of commercial properties. The company expects the expense ratio to remain below 30% in FP10/25 and FP4/26, benefiting from the improved cost structure of its portfolio post Mi Nara's divestiture.

Operating revenue grew strongly (+43.0% YoY), reflecting capital gains from the sales of properties totalling approx. ¥2.4bn. As this one-off impact unwinds, the company projects operating revenue to normalise to more sustainable levels in FP10/25 and FP4/26. Moreover, a one-off repair fee is expected to be incurred for Daiwa Roynet Hotel Akita as they changed the hotel operator, increasing costs in FP10/25. As a result, the company estimates DPU will drop to ¥1,210 temporarily in FP10/25, followed by a recovery to ¥1,260 in FP4/26, which is higher than the ¥1,150 and ¥1,257 seen in FP4/24 and FP10/24 respectively when DPU was not affected by extraordinary items including sales of properties. DPU was inflated to ¥1,357 in FP4/25 because of extraordinary income including the sale of properties, but it would have been ¥1,254 without the one-off effects.

MIRAI's credit rating was upgraded to AA- with a stable outlook from A+ by JCR (Japan Credit Rating Agency), taking into account its asset management capability, financial stablity, and quality improvement of its portfolio as a result of portfolio reconstruction efforts.

The following are highlights by asset type:

- **Office – Optimistic market outlook**

  The occupancy rates for larger offices, including Shinagawa Seaside Parktower continued to recover. On the other hand, that of Tokyo Front Terrance temporarily declined to 91% due to departing tenants, but it is expected to recover soon on the back of a positive operating environment for office buildings. In other words, MIRAI has already filled some of the vacant office spaces. The company appears confident that it will be able to fill the rest of the vacancy without issues. Despite initial concerns about excessive supply of large office buildings in 2025, the occupancy rates and rents for offices have risen, reflecting strong demand in the market. As such, MIRAI successfully hiked rents for 36.6% of the offices subject to lease renewal in its portfolio (based on rentable floor areas) by +3.3% HoH. It is worth noting that the rent hike was mostly driven by MI Terrace Nagoya Fushimi, a mid-sized office building, which is located outside of Tokyo. Rent hikes in Tokyo are yet to be recorded. Therefore, there is room for rent hikes for offices in Tokyo, considering the strong demand which has been lowering vacancy rates despite more supply of new properties than normal years in central Tokyo and the limited office supply compared to the historical average in 2026.

- **Commercial properties – Positive momentum continues, but weaker operating revenue is expected after selling Shibuya World East Building and Mi Nara**

  In prime locations, there was mounting upward pressure on rents due to strong demand. Nevertheless, MIRAI expects a decline in operating revenue for Commercial properties in FP10/25. This is because of the sale of Shibuya World East Building and Mi Nara. Whilst it will have a negative impact on the operating revenue, the divestiture of the shopping mall will have a positive impact on the expense ratio and overall NOI yield after depreciation, given that Mi Nara used to incur much higher costs than other properties that MIRAI manages. As such, the sale of the property will have a positive impact on DPU going forward.

- **Hotels – Strategic conversion to variable rent contracts**

  MIRAI has proactively and successfully converted rent contracts from a fixed type to a variable type to capture the upside on rent revenue when it changed hotel operators. As of FP4/25, five hotel properties out of a total of 15 operate on variable rent contracts and three of them have upside rent contracts tied to hotel gross operating profit (GOP). By the end of 2027, three other hotel properties will have their fixed-type contracts expire, offering potential opportunities for MIRAI to convert them to variable contracts. Hotel is expected to remain a key growth driver going forward, combining such proactive efforts with a robust market trend in Hotel supported by accelerating inbound demand and limited supply of new hotels due to increasing construction costs.

MIRAI released a medium-term plan (FP10/25-FP4/28) with the following targets:

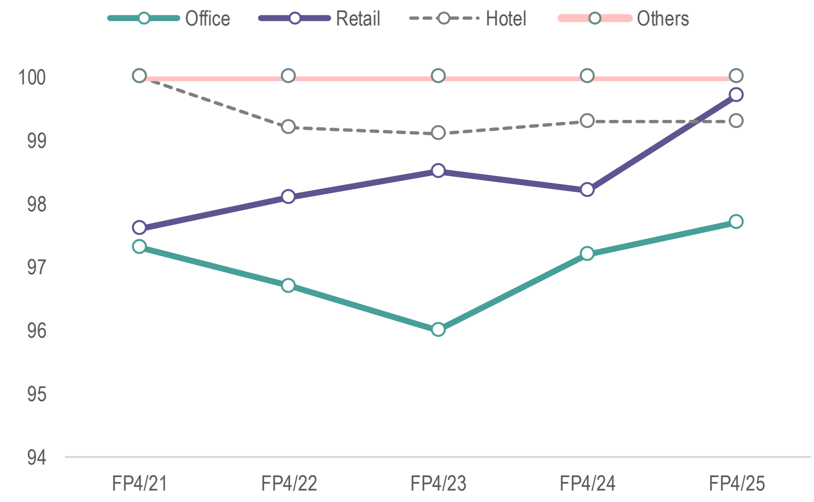
- DPU of ¥1,350 (+2% CAGR or higher compared to FP4/25)
- AUM of ¥250bn (no specific timeline was set for this target)

MIRAI aims to achieve these targets through both organic (i.e. continued improvement of portfolio quality through portfolio reconstruction and rent hikes) and non-organic growth (i.e. repurchase of its own investment units and utilisation of retained earnings). MIRAI will aim to achieve a credit rating upgrade from A to A+ on R&I's standard during the medium-term plan as well.

As for the previous medium-term plan (FP10/22-FP4/25), the compamy met DPU (¥1,300 plan, ¥1,357 actual) and NAV (¥53,000 plan, ¥53,560 actual) targets, whilst it fell short of its AUM target (¥200bn plan, ¥177.9bn actual).

Occupancy rates have recovered for Office driven by strong demand and for Retail as a result of sale of Mi Nara

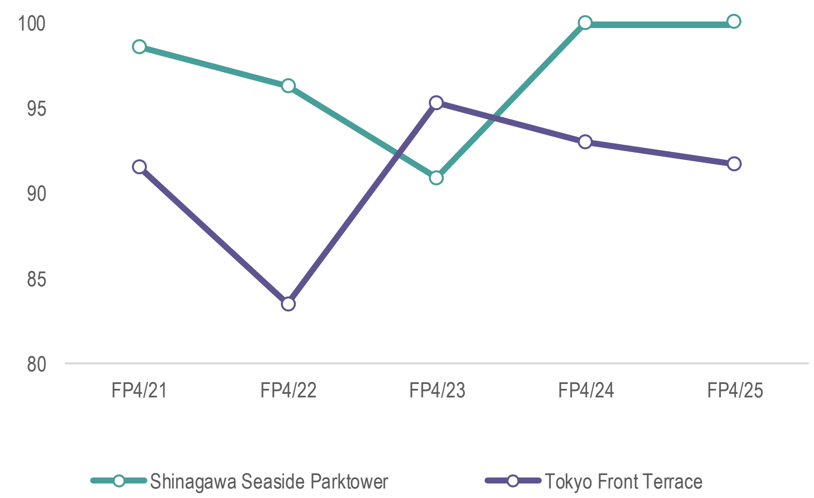
Occupancy rates by asset type (%)



Source: Company

The occupancy rate of Shinagawa Seaside Parktower remained high due to strong demand, whilst that of Tokyo Front Terrance declined temporarily, but is expected to recover in the near term

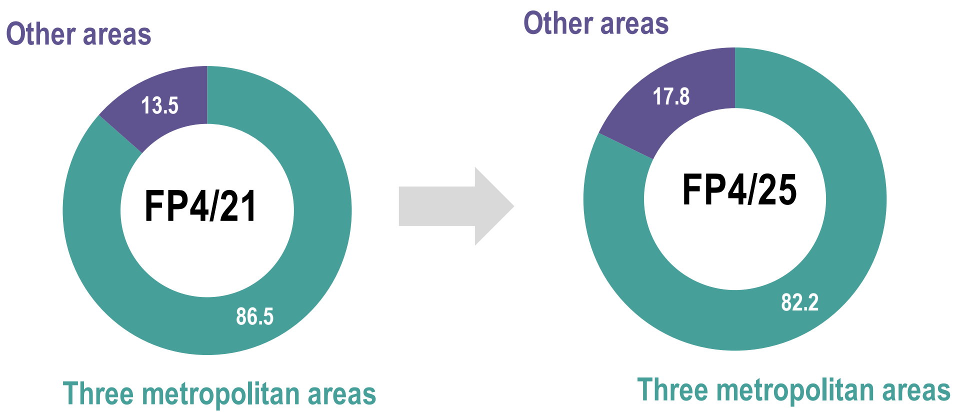
Occupancy rates of MIRAI's larger office buildings (%)



Source: Company
Notes: The occupancy rates in the Shinagawa Seaside and Tennozu areas were computed based on Astris' estimates.

MIRAI's portfolio is benefiting from geographical diversification

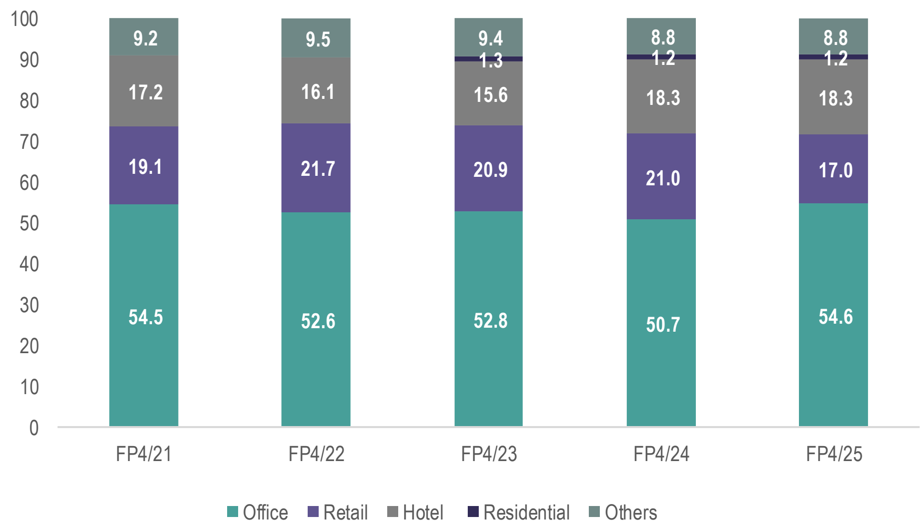
MIRAI's portfolio by location (%)



Source: Company

Portfolio weighting shifted to Office through the acquisition of two new properties, whilst that of Retail declined due to the sale of Shibuya World East Building and Mi Nara

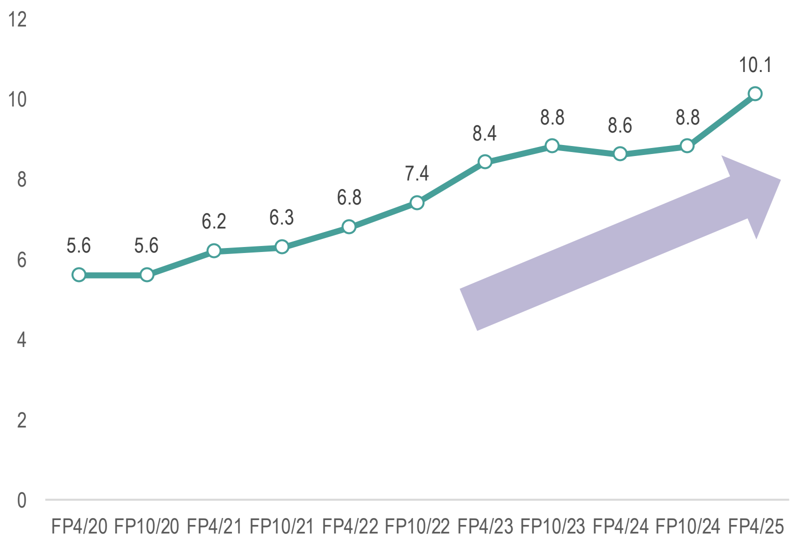
MIRAI's portfolio by asset type (%)



Source: Company

Unrealized gain margins significantly improved, reflecting portfolio reconstruction efforts

Unrealized gain margins (%)



Source: Company

Astris earnings estimates and key assumptions

Our key earnings forecasts are as follows:

Astris Advisory earnings estimates

Year-end	FY10/25E	FY10/26E	FY10/27E
Revenue (¥bn)	**12.72**	**13.40**	**14.11**
YoY (%)	+5.2	+5.4	+5.3
NOI (¥bn)	**8.52**	**8.98**	**9.45**
YoY (%)	+4.2	+5.4	+5.3
NOI Margin (%)	67.0	67.0	67.0
NP (¥bn)	**4.88**	**5.14**	**5.42**
YoY (%)	+5.1	+5.4	+5.3
EPU (¥)	**2,559**	**2,696**	**2,840**
YoY (%)	+5.1	+5.4	+5.3
DPU (¥)	**2,487**	**2,621**	**2,760**
YoY (%)	+3.3	+5.4	+5.3

Source: Astris Advisory

The core assumptions for our estimates are as follows:

- **Revenue growth –** mid-single-digit revenue growth expectations in FY10/25-FY10/27. We believe internal growth from office operations will be the most important driver for growth, given that more than 50% of the portfolio is offices.
- **Profitability –** NOI margin will remain at a high level with effective expense control
- **DPU –** We believe DPU will expand primarily through internal growth combined with external growth.

Summary

MIRAI Corporation ("MIRAI") is a **diversified J-REIT jointly sponsored by Mitsui & Co. (8031) and IDERA Capital Management (majority owned by the Fosun Group (0656 HK)).** Almost half of the assets consist of B-class office properties in three metropolitan areas (Tokyo, Osaka, and Nagoya), which have limited supply and will face a smaller risk of rental reductions than the larger A-class office buildings.

The four largest B-class office buildings with more than ¥10bn acquisition prices make up 36% of the portfolio as of the end of April 2025. The rest of the properties are smaller with acquisition prices below ¥10bn. The variations in size and property type provide asset diversification.

More than 80% of the portfolio comprises properties in major metropolitan areas in Tokyo, Osaka, and Nagoya. The company plans to expand AUM to ¥250bn during the current medium-term plan, which will bring more diversification to the portfolio. Five properties have been added in FP4/24 through the fifth PO as part of a post-COVID reversal. There was limited AUM expansion during the pandemic when the market was stagnant because the company's focus was more on portfolio reconstruction to enhance the stability of the portfolio rather than the expansion of assets.

As part of its external growth strategy, MIRAI will focus on properties that can benefit from structural changes, such as domestic inflation and further improvement in inbound demand from overseas, rather than being confined to investment ratios by asset type alone. Specifically, this may involve introducing variable rents in hotels, including those with expiring fixed-rent contracts, as well as considering urban commercial facilities that are more likely to benefit from inflation, commerical facilities whose rents are linked to sales and mid-sized offices, in which MIRAI has expertise, and a track record in rasing rents. Furthermore, there is an expectation that opportunities for external growth through M&A, backed by the creditworthiness of sponsor Mitsui & Co., will also be pursued.

Major Japanese credit agency JCR assigned an AA- credit rating in March 2025. The reasons include the improvement in portfolio quality through strategic property reconstruction, the high occupancy rates of its properties, and financial stability. It is expected MIRAI will be able to tap into regional financial institutions that invest in J-REITs, but only those with credit ratings of AA or higher. Rating and Investment Information, Inc. (R&I) upgraded its rating outlook in July 2024 from "Stable" to "Positive" under the long-term issuer rating of A.

The company has embarked on a medium-term strategy (FP10/25-FP4/28) based on the following:

- **DPU: ¥1,350 (vs. ¥1,357 or ¥1,254 without the one-off effect in FP4/25)**
- **AUM: ¥250bn (no specific timeline was set for this target)**

Astris Advisory estimates MIRAI Corporation will drive medium-term growth via the following factors:

- **Closing the Office Rent Gap** - With offices accounting for over 50% of the portfolio, the elimination of rent gaps through rent increases at the time of lease renewals and tenant replacements is expected to be the primary growth driver.

- **Termination of free rent periods and rent holidays –** One of the drivers for internal growth in our view as more than 50% of the portfolio consists of offices and some commercial facilities that will benefit from the termination of free rent periods (a period of rent exemption after occupancy begins), which were offered to tenants after COVID-19 and rent holidays (a period of rent exemption during a certain period of the contract term) in future.
- **Increasing variable rent for hotels –** A shift towards tenancy contracts with variable rents for hotels will expand NOI and DPU on the back of increasing inbound demand from overseas, a strong appetite for domestic travel, and domestic inflation.
- **Improving profitability through portfolio reconstruction –** MIRAI holds a pipeline of 4 highly profitable properties with significant potential for internal growth, worth a total of about ¥17bn (as of FP4/25), which exceeds the average yield of the existing portfolio. The company plans to enhance portfolio profitability by selling low-yield properties or those with limited potential for future rent increases, and replacing them with these pipeline properties.

The Tokyo office market faced concerns over the impact of a significant supply of new S and A-class office spaces in 2025. However, these concerns have proven unfounded, as both occupancy rates and rental prices have remained stable and are currently showing signs of improvement. Meanwhile, medium-sized offices, a strong area for MIRAI, continued to see limited new supply, resulting in steady occupancy rates and rents. Profitability has also improved across MIRAI's managed properties. Based on this operational performance, MIRAI plans to continue focusing on the acquisition of medium-sized offices.

Company description

Overview

MIRAI is a diversified J-REIT jointly sponsored by Mitsui & Co. and IDERA Capital Management. Listing on the Tokyo Stock Exchange in 2016, it was added to the FTSE/EPRA Nareit Global Index in 2021. Its investment fund is classified as a diversified REIT with more than **54% invested in offices, 17% in retail, and about 18% in hotels** as of the end of April 2025. Regionally, the focus has been on three metropolitan areas (Tokyo, Osaka, and Nagoya) with high population concentrations. Properties in these areas make up more than 80% of the portfolio. **Most properties are classified as B-class,** which is defined as buildings older than 15 years and below 30,000 m^2 in size. Unlike A-class offices, which target a smaller number of large domestic and foreign corporations, it is relatively easier for B-class office buildings to maintain more stable occupancy rates and more sustainable cash flows over time because of a broader tenant base and limited new supply.

Assets under management totalled ¥177.9bn as of the end of April 2025, with an appraisal value of ¥197.7bn and an occupancy rate of 99.1%. Appraisal NOI yield (based on appraisal value) is 4.7%, whilst NOI yield after depreciation is 3.8% based on purchase value.

A key competitive strength lies in credit enhancement opportunities backed by Mitsui & Co.'s creditworthiness. The credit rating by JCR is already AA-, which could further expand the investment universe to include local financial institutions that can only invest in J-REITs above an AA credit rating.

Timeline summary

Key dates	Details
November 2015	Establishment of MIRAI Corporation by Mitsui & Co. & IDERA Partners
December 2016	**IPO**
May 2018	**1st PO (public offering)**
October 2018	**2nd PO**
July 2019	Attempt to rescue Sakura Sogo REIT Investment as a white knight from Star Asia Group's TOB. The acquisition would have expanded MIRAI's AUM above ¥200bn, facilitating inclusion into a global index. This was the first TOB in the J-REIT sector.
August 2019	The attempt of the white knight fell short. Sakura Sogo was acquired by Star Asia in the end.
December 2019	**3rd PO**
December 2021	**Inclusion into the FTSE/EPRA Nareit Global Index**
December 2021	**4th PO**
November 2023	**5th PO**
February 2024	**JCR improved MIRAI's outlook from stable to positive on an A+ credit rating**
July 2024	**R&I has upgraded its issuer rating outlook from stable to positive under the long-term issuer rating of A.**
March 2025	**JCR has upgraded its issuer rating from A+ to AA- with a stable outlook.**

Source: Company

Financial Summary

Income statement (¥bn)	FY 10/23	FY 10/24	FY 10/25E	FY 10/26E	FY 10/27E
Operating revenue	**12.05**	**12.09**	**12.72**	**13.40**	**14.11**
Real estate expenses	4.00	3.91	4.20	4.42	4.66
Net operating income (NOI)	**7.43**	**8.18**	**8.52**	**8.98**	**9.45**
NOI margin (%)	61.6	67.7	67.0	67.0	67.0
Depreciation expense	1.39	1.58	1.46	1.54	1.62
Other expenses	1.43	1.96	2.18	2.29	2.42
Net income	**4.60**	**4.64**	**4.88**	**5.14**	**5.42**
Sales growth YoY (%)	+10.2	+0.3	+5.2	+5.4	+5.3
NOI growth YoY (%)	-0.1	+10.1	+4.2	+5.4	+5.3
NP growth YoY (%)	+0.7	+0.9	+5.1	+5.4	+5.3
EPU growth YoY (%)	+0.7	-6.3	+4.5	+5.4	+5.3
DPU growth YoY (%)	-2.3	-4.5	+3.3	+5.4	+5.3

Cash flow statement (¥bn)	FY 10/23	FY 10/24	FY 10/25E	FY 10/26E	FY 10/27E
FFO	5.37	6.22	5.93	6.25	6.58
Capital expenditure	(11.22)	(13.76)	(7.63)	(10.72)	(4.23)
Cash from investing	**(11.13)**	**(13.28)**	**(7.63)**	**(10.72)**	**(4.23)**
Dividends paid	(4.64)	(4.35)	(4.74)	(5.00)	(5.26)
Cash from financing	**(3.14)**	**7.58**	**0.75**	**3.00**	**(2.26)**
Net cash flow	**(1.49)**	**0.69**	**(0.34)**	**0.69**	**0.57**
Free cash flow	1.56	(7.37)	(1.10)	(2.31)	2.83
EBITDA	6.68	6.83	7.44	7.68	8.09

Balance sheet (¥bn)	FY 10/23	FY 10/24	FY 10/25E	FY 10/26E	FY 10/27E
Real estate portfolio	164.67	167.80	174.03	180.45	187.56
Cash and cash equivalents	4.51	3.00	3.52	2.63	5.25
Accounts &notes receivable	0.26	0.26	0.27	0.28	0.31
Other long-term assets	0.72	1.05	1.05	1.05	1.05
Restricted assets	2.63	2.64	2.64	2.64	2.64
Total assets	**172.79**	**174.75**	**181.52**	**187.06**	**196.82**
Accounts payables	0.71	0.74	0.96	0.99	1.04
Short-term liabilities and deposits	7.06	7.00	7.50	8.00	9.70
Unsecured debt	84.00	85.50	91.38	96.04	103.86
Secured debt	0.00	0.00	00.00	00.00	0.00
Other long-term liabilities	0.00	0.12	0.12	0.12	0.12
Total liabilities	**91.76**	**93.35**	**99.88**	**105.14**	**114.72**
Minority interest	0.00	0.00	0.00	0.00	0.00
Shareholder equity	81.03	81.39	81.63	81.92	82.10
Total equity	81.03	81.39	81.63	81.92	82.10
Total liabilities & equity	**172.79**	**174.75**	**181.52**	**187.06**	**196.82**

Key metrics	FY 10/23	FY 10/24	FY 10/25E	FY 10/26E	FY 10/27E
P/NAV (x)	0.84	0.75	0.74	0.72	0.67
P/E (x)	17.1	18.2	17.3	16.4	15.6
Dividend yield (%)	5.7	5.4	5.6	5.9	6.2
AFFO yield (%)	6.6	7.2	7.0	7.4	7.9
EPU	2,597	2,434	2,559	2,696	2,840
DPU	2,520	2,407	2,487	2,621	2,760
FFO Payout ratio (%)	80.0	73.8	80.0	80.0	80.0
AFFO Payout ratio (%)	80.0	73.8	80.0	80.0	80.0
FFO per unit	3,149	3,260	3,109	3,276	3,450

Source: Company, Astris Advisory (estimates)

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