Mitsui Fudosan

FY2015 Analyst Meeting Q&A Summary

Q. In the “Innovation 2017 Stage II” mid-term business plan, your FY2017 OP target is ¥245 billion. By segment, you project the contribution from the Others category (includes Mitsui Home and Other segments and the Eliminations or Corporate line) to be a loss of ¥5 billion. However, your FY2016 guidance is for an operating loss of ¥23bil. Why is progress toward the mid-term target lagging here?
A. In addition to the increased advertising and promotional spend related to being a Gold Partner of the Tokyo 2020 Olympic and Paralympic Games, the sized-based business tax rose. As well, profits at some of our group companies are lagging, although we should see improved progress going forward at our hotel business on new property openings. We have plans to increase the number of hotel rooms we operate to 10,000 by 2020.

Q. In the mid-term plan you target an ROA of 5% in FY2017. Can you discuss the ROA outlook for FY2018 and beyond?
A. Our strategy is to strive for a good balance between holding, trading and managing properties. We believe 5% is the appropriate level for our business strategy. As a real estate developer, we do not think that selling central urban properties with high asset values or reducing our holdings in assets to be developed which represent investments that will support future profit growth for the sake of boosting ROA is the correct approach. Therefore, while we continue to aim for an improved ROA, we will do so while also enhancing the quality of the assets we own and growing profits in a sustainable manner.

Q. In the Property for Sale to Individuals business, what are your expectations for growth in the medium- to long-term?
A. Going forward, as Japan’s population begins to decline in earnest, we are not overly optimistic about unit volume growth in the residential business. However, given Japanese consumers’ strong preference for new builds and the diversification of buyers, we do expect there will continue to be certain level of demand for housing. We are focused on initiatives to enhance our ability to maintain stable profit levels in the Property for Sale to Individuals business. In addition, as we pursue further profit growth, we are also revisiting the structure of the Mitsui Fudosan Group’s residential business on an ongoing basis, as we take a more holistic approach to addressing the broader residential market, ranging from new builds, secondary market distribution and renovations to custom built homes.

Q. As you focus on growing your overseas business, what do you think are your strengths relative to local competitors? Also, would you consider acquiring local players as you localize your operations?

A. International developers' operations are typically more concentrated, focusing on either specific asset classes, such as offices or retail facilities, or functional lines, such as development, asset management or leasing. As a comprehensive real estate developer, our strength is that we have products or capabilities that our international partners lack.
Our significant accumulated expertise also makes us a very good judge of real estate with a deep understanding of potential business risks. We are able to move more quickly than local institutional investors, allowing us to make investments at an earlier stage of development.
In addition, we understand that the ability to leverage our extensive expertise and know-how in retail facilities has been a key benefit for our local partners in Southeast Asia and has allowed us to build very strong relationships.
With regard to further localizing our international subsidiaries, our local staff have significant networks as well as a deep understanding of the local culture and business practices. This is a major strength for us in doing business. As we expand our overseas business, we are always looking at potential M&A targets that might enhance our local capabilities in the US, Europe and Asia.

Q. The office market is expected to see significant new supply come on line from 2018. Can you discuss leasing market conditions for your new projects? Also, some have suggested that concerns about a potential oversupply are one reason why near-term rent increases in office properties are weak. What is your view on the outlook for office rents going forward?
A. For the projects that are currently in leasing, the feedback in terms of tenant appetite has been positive. We are aware new office supply will pick up from 2018, but of the properties coming on line at that time, the new supply includes floor space that is already spoken for by the owner. There is also floor space that is being taken off line as a result of redevelopment projects. Not all of the floor space coming on line after 2018 represents a net add.
The anticipated increase in new supply may be a factor contributing to near-term weakness in rent increases, but we believe that it also reflects the lack of a strong, broad-based recovery in office demand. In order to boost office demand significantly, we would need to see a robust recovery in the Japanese economy, as well as initiatives like improved success in attracting international tenants as Tokyo becomes more internationalized, or the development of new industries that create new demand for floor space. Our response to such issues is already reflected in various initiatives we have launched in Nihonbashi, including the Nihonbashi Life Science Concept.

Q. For the hotel business, your target is to have 10,000 rooms by 2020. What level of income contribution do you expect when you have achieved your room target?
A. We have two business models for our hotel business: one in which we own the property and the other in which we sublease and operate the property. Therefore, a doubling of rooms does not imply a doubling in income but we expect we should be able to grow our domestic hotel business to an OP scale of more than ¥10 billion.

Q. Related to the faulty installation at a condominium complex located in Yokohama, can you talk about the possibility that you may need to either bear or temporarily cover a portion of the related expenses?
A. As we have stated in the Factbook, at this stage, it is our intention to pursue claims for compensation based on studies implemented to clarify the causes of the defect as well as remedial costs with the construction company and other relevant parties. However, as the efforts to determine the cause of the faulty installation are ongoing, we cannot make further comment at this time.

Q. As a part of your corporate governance initiatives, you have established a Nomination Advisory Committee and a Compensation Advisory Committee. Can you talk about why you chose not to adopt a committee governance structure?
A. We believe that the process of explaining our proposals and the reasons behind them to external board members or experts in our new Nomination Advisory and Compensation Advisory Committees will provide sufficient transparency and soundness to proceedings. However, we are constantly looking at ways to enhance our governance structure, so what we have chosen to do this time around does not imply that there is no room for change in the future.

Q. Based on your mid-term plan capex targets (3 years), your FY2017 domestic capex will be around ¥240 billion, up from your typical annual investment level. Can you discuss the likelihood of fully executing on this amount, including the impact of investments in the existing pipeline? Can you also update us on the progress you have made versus your cost recovery target?
A. Of the planned FY2016 domestic and overseas capex of ¥230 billion, about 30% is new investments, so the vast majority will be allocated to existing projects. Similarly, the majority of FY2017 domestic capex is for existing projects. We are expecting to make significant investments. On cost recovery, we plan to sell the residential properties included in the UK BBC Television Centre redevelopment project as well as some office and other assets in the US and Europe.

Q. Of the overseas assets you plan to sell, are you expecting to sell to overseas investors or would you also consider selling to JREITs which would then benefit domestic investors?
A. To date, we have sold multiple overseas assets to local developers and investors but going forward, we think that JREITs and other Japanese investors could well be buyers for such assets.

Q. You are proceeding with a number of projects in the Nihonbashi area. As you create the neighborhood, are you envisioning developments that combine work and residential space? Also, given the potential for other players to undertake redevelopment projects in the Nihonbashi area, how do you go about maintaining a unified concept for the overall neighborhood?

A. Our strategy for creating neighborhoods in the Nihonbashi area can be split into one strategy for the core Nihonbashi area and another for the surrounding greater Nihonbashi area. Our concept for greater Nihonbashi is to develop a neighborhood that incorporates not only residential functionality but longstay, residential hotels and office space suitable for creatives. There are many players developing property in the Nihonbashi area, but we believe that they will enjoy synergies from our developments. We aim to collaborate and coexist with such players as we develop the Nihonbashi area.