Mitsui Fudosan Co., Ltd.

FY2016 Analyst Meeting Q&A Summary

Q. Please talk about your investment strategy for the retail facilities business going forward, including your view on the potential for opening more domestic properties.

A. As we have done to date, we typically acquire land with the aim of opening 2 to 3 properties a year. We have also made good progress in acquiring business opportunities overseas. Based on this, we believe that we should generally be able to maintain the pace of opening 2 to 3 new domestic and international properties a year in FY2018 and beyond.

With regard to opening new properties domestically, I believe the potential for opening new outlet malls is limited given that there are already many such properties across Japan. However, I believe there is still more room to grow the Lalaport shopping center format. That said, given the expected decline in the domestic population, we recognize that there may be regions where the catchment area populations will decline in future. Hence, while we will continue to acquire land, we will be disciplined in selecting locations.

Q. As of the end of March 2017, the US accounted for 61% of your overseas assets. Please talk about your policies for the overseas business going forward, including whether you will focus on a particular region or asset type.

A. As a consequence of BREXIT in the UK and geopolitical tensions with China, initially triggered by the Senkaku Island issue, the proportion of investments in the US has risen, reflecting the stability, scale and high market liquidity in the US.

In Southeast Asia, we are investing in the residential business, focusing currently on Bangkok, and in the retail facilities business, in Kuala Lumpur, Taiwan and China. We believe we can expand into new cities and countries for both these businesses. In terms of asset types, last fiscal year we won our first condominium project in the US. In Taiwan, we acquired our first directly operated hotel project in Southeast Asia. We are also considering expanding our logistics facilities business into Southeast Asia going forward. We aim to continue to increase the proportion of our business we do overseas, while broadening our exposure regionally and in terms of asset types.

Q. You are on track for largely achieving your three-year medium-term plan (FY2015-2017) target for investments in Real Property for Sale. Please discuss the outlook for the level of investments going forward, broken out into Property Sales to Individuals and Property Sales to Investors.

A. Competition to acquire land continues to rise, on the back of low funding rates and an active investment market. Given this situation, we are being very selective about land bank acquisitions for residential properties, rather than focusing too heavily on the number of units acquired. As such, our investments over the three-year period are likely to fall short of our initial targets.

However, in investments for Property Sales to Investors, we have been successfully able to acquire land for a wide variety of asset types, such as logistics facilities, by using a number of different approaches. As a result, we expect to be able to achieve our initial target for overall investments in Real Property for Sale.

We are slightly cautious on investments. We are operating on the assumption that there may be situations where we might need to slow down our investment activity. However, we continue to invest selectively in superior projects, while closely monitoring market trends.

Q. Please discuss your view of your capital strategy as it relates to Mitsui Home.

A. In order to respond to the diverse and changing needs and requirements of our residential customers, we established the Homes and Lifestyle Promotion Division in April 2017. We believe the role of residential businesses going forward will be to provide homes and lifestyles to our customers. The Homes and Lifestyle Promotion Division will take on a central role in enhancing profitability. I believe that there is a need to clarify the position and role of Mitsui Home within this framework. I will refrain from commenting on our capital policy as it relates to a subsidiary.

Q. While you are on track to achieving your medium-term business plan 'Innovation 2017 Stage 2' operating income target in FY2017, you are well short of achieving the medium-term target for Other*. Please explain why.

** For the purposes of the medium-term plan, Other is a combination of the Mitsui Home and Other segments and the eliminations/corporate line item*

A. One reason is because the residential subsidiary responsible for the custom home and reform businesses is behind plan. However, we aim to grow orders through collaboration between the group companies involved in the residential business, under the leadership of the Homes and Lifestyle Promotion Division.

Also, SG&A is up relative to our initial plan. The major reasons for this are: promotional expenses related to the Tokyo Olympic and Paralympic Games; expenses related to new businesses; and spending on IoT and other systems developments. We consider these to be advance investments for future growth.

Q. Ahead of your next medium-term business plan, are there new asset types or businesses that you are considering?

A. The development of new businesses is very important in allowing the Group to achieve sustainable profit growth. We have already launched new initiatives such as the WORKSTYLING shared office business targeting corporates, and serviced residences for the elderly. However, we will continue to look at various types of new opportunities.

Q. Are you not concerned given the impending increase in new supply for the office market? Also, what is your view on the need to restrict new supply?

A. We are aware that new office supply in central Tokyo will increase. However, relative to the past, we do not expect the increases to be excessive. Also, given the strong current leasing conditions, we think supply-demand should remain stable in the near term.

However, given subsequent plans for numerous new office completions, and the fact that we are headed into a phase where the city center will mature further, we do think that the easing of controls in future should focus on stimulating demand, rather than easing supply-side constraints by granting higher plot ratios.

Q. What do you consider to be your competitive advantages in the logistics facilities business?

A. As a major real estate developer, we develop properties in a broad array of asset types. Our ability to secure approvals and authorizations for developments is a significant strength. Also, there are commonalities in land acquisition for retail facilities and logistics facilities, so we have access to a wider pool of information on potential land bank opportunities. On top of this, we have 3,000 corporate tenants in our office business and 2,300 tenants in our retail facilities business. This network of relationships is a major strength on the leasing side. Additionally, in the five years since we started our logistics business, we have been able to develop strong relationships with 3PL players, enhancing our leasing capabilities.

Q. Please discuss the outlook for the profitability of the logistics facilities business.

A. We do not assume current cap rate levels in acquiring land, but are consistently looking at future market conditions. We think it is also important to lease at high rent levels in order to lock in yields. Logistics operators are struggling with major shortages in human resources. We provide a wide range of functionalities and services to support our tenants' efforts to secure a work force. Also, our facilities are equipped with technologies that enhance productivity. Initiatives such as these help us to achieve better profitability.

Q. Please explain the outlook for the profitability of the Leasing business after FY2018.

A. FY2018 will benefit from a full-year contribution from the Hibiya Project, which completes in FY2017. In addition, there will be contributions from the opening of new retail facilities and the completion of 55 Hudson Yards Project in the US. At the same time, we will also be incurring initial expenses related to the completion of new offices such as the Nihonbashi 2nd District Redevelopment Project (C Block), the TGMM Shibaura Project (Tower A) and the Nihonbashi Muromachi 3rd District Redevelopment Project. As a result, we expect the overall trend in profit improvement will be gradual.

Q. Please discuss the growth prospects for the domestic residential business.

A. Given the highly competitive environment for acquiring land, we are focused on profitability and are not stretching to build our land bank. We expect a lower number of residential units in FY2018 than in FY2017. This potentially means that the profit generated from the Property Sales to Individuals business will decline. However, we remain firmly committed to continuing to focus on profitability and have no intention to change our policy of investing selectively. As a consequence, the number of units sold could vary substantially from year to year in the future.

Q. In response to the increase in new office supply, I think existing office properties will need to be either converted or rebuilt. Please explain your initiatives in this area.

A. We have already undertaken many projects where we acquired and took down office properties upon the expiration of master leases and built condominiums in their place. More recently, there have been cases where we have changed the intended purpose of a project from office to hotel during the development phase. In responding to the increase in office supply, I think it will be important to continue to consider other applications for projects where the locations are suboptimal for an office property. We have also been able to enhance the functionality of the mixed use projects we develop by combining office space with retail, residential and hotel functionalities, rather than simply increasing office space. This contributes to higher added value. It also allows us to better manage our own risks in the event of significant increases in office supply.

Q. In April you launched the WORKSTYLING shared office business. Many players outside of Japan are also expanding in the shared office business. Is it possible that these players could try to expand in Japan? Can you explain your initiatives in this area going forward, as well?

A. Our shared office business is targeted at corporates, for the use of their employees. Our services have some distinctive features. For instance, our shared offices have conference rooms that employees can use for conference calls with their head offices; employees can also access their corporate attendance systems, allowing them clock in and out at WORKSTYLING properties. It is possible that some of the overseas shared office service providers could expand in the domestic market. We think differentiation will be the key. We will use customer evaluations of the various offerings to give us a better understanding of our strengths and weaknesses.

Q. On your overseas business, please explain your strategy for the China business.

A. We opened Shanjing Outlet Plaza-Ningbo in 2011. We are currently preparing to open LaLaport Shanghai Jinqiao in 2020. In China, consumption remains solid for commodity product price bands. We would be open to considering promising opportunities that would allow us to tap into this segment of the market.

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