Mitsui Fudosan

2Q FY2015 Analyst Meeting Q&A

Q: Please explain the expected impact of the faulty condominiums located in Yokohama on earnings and the expected timing of recognition. Can you also discuss the impact, if any, on current condominium sales?
A: The basic framework we have proposed to all the owners of condominiums is for a full rebuilding of all units and buildings. We have only just begun discussions but we aim to achieve an early agreement. At this point, it is still too early to attempt to objectively assess the anticipated expense. Similarly, on the impact on current sales activity for new condominiums, we do not as yet have sufficient data that would allow us to comment meaningfully.

Q: How much of a profit contribution are you expecting from the overseas condominium business in FY2018, the final year of Innovation 2017 Stage II?
A: Up to the end of 2Q FY2015, we posted profits from Singapore TID, as well as the residential business in Indonesia. The contribution to consolidated profits is still relatively limited, as it is still only a small part of the residential business and typical unit prices are lower than in Japan. However, given the steady increase in the number of development projects, we would expect to see a certain level of profit contribution in March 2018.

Q: I feel the real estate market is overheated but how do you view the market? Do you have plans to accelerate asset sales from FY2016 in light of the potential risk that the market is at the peak?
A: In Property Sales to Investors business, we recognize that continuing to hold property for too long in anticipation of short-term market appreciation or rising rent levels has its risks. We are constantly monitoring the market very closely. We feel it is important to make steady progress in selling properties within a defined timeframe, particularly those properties where yields react strongly to market moves.

Q: With regard to the accounting treatment related to the condominiums located in Yokohama, is it possible that you will provision at an early stage once you have the agreement of the condominium owners and have made progress in your discussions with your auditors? Can you also comment on whether you think it is possible that the authorities will impose administrative disciplinary action?

A: Accounting treatment will be in compliance with accounting standards and relevant laws and ordinances, based on discussions going forward with our auditors. On the issue of potential administrative action, it is not for us to comment on what the authorities might or might not choose to do.

Q: You have many new office projects slated for completion in 2018 and 2019, when office supply levels are expected to be very high. Are you not concerned about prospects for leasing? If the heavy supply leads to market disruption, what sort of measures would you take?
A: We are not concerned about the leasing of these new projects. We already have a dedicated sales team in place for the leasing of our new projects and have started strategic sales activities targeting corporates we have identified as potential tenants. For some of these projects, landowners are planning to occupy a significant proportion of floor space. Additionally, given the staggered timing of our completions, we believe we offer tenants a broader range of choices. For the Hibiya Project and others, we have already had multiple inquiries.

Q: How much profit do you expect to generate from the logistics facilities business in the current fiscal year?
A: Profits from currently operational properties are already included in Leasing segment profits but are still small. The impact on segment profits is minimal at this time.

Q: In the US and UK markets, you have investment plans for both fixed assets as well as property for sale. What is your underlying policy for investments in these markets?
A: Basically, residential projects are primarily investments in property for sale, and office and mixed developments are fixed asset investments. However, even with long-term holdings, due consideration is given to exit liquidity at the time of investment.

Q: Can you provide more information about the Property Sales to Investors business, such as what type of assets were sold and what type of investors were buying?
A: In terms of asset class, we sold properties in all of the asset types we are involved in, including office, retail and residential properties. There was a broad variety of buyers, including J-REITs, domestic corporates and foreign players.