Mitsui Fudosan Co., Ltd.

1H FY2022 Analyst Meeting Q&A Summary

Q. Mitsui Fudosan is involved in U.S. West Coast office projects. Please provide an update on leasing progress.

A. We are participating in a U.S. West Coast project, Mission Rock, which is currently under development. The project consists of multiple buildings, but leasing on the one building that has been completed is virtually done. As with our office projects on the East Coast, we are proactively focused on leasing activity, showcasing the advantages of newly built, mixed-use properties to prospective tenants.

Q. What is the outlook for potential disposals of overseas projects currently under development? When considering potential buyers, does that include the possible acquisition of a U.S. REIT as a buyer of such properties?

A. Mitsui Fudosan aims to achieve consolidated operating income of around 350 billion yen to be achieved around 2025, of which approximately 30% is to come from the overseas business. We expect the U.S. business to be central to achieving this target. In the U.S., we are making solid progress on our pipeline with numerous development projects, including asset classes such as rental residential properties. As the pipeline progresses, we will enter a phase where we expect to undertake a steady flow of property sales. On the possibility of doing M&A, we do not limit ourselves to U.S. REITs: we are open to considering a broad range of opportunities.

Q. Interest rates in the U.S. have risen very sharply. How you are thinking about risk factors related to the disposal of overseas properties? Also, in light of the emergence of various risk factors, please comment on the outlook for property sales to domestic and overseas investors.

A. We believe it is necessary to monitor the rise in US interest rates, as well as the impact on cap rates. We are in frequent communication with our local subsidiary. Interest rates represent only one of a number of factors that impact real estate cap rates. We believe it is necessary to take a comprehensive view of a variety of factors in addition to interest rates, including inflation, increases in rent levels, and the supply-demand balance. To date, we have developed our business by maintaining a good balance in terms of regions, asset classes and other factors. We believe that we can continue to sustainably generate operating income in excess of 100 billion every year in Property Sales to Investors through sales to domestic and overseas investors.

Q. Please talk about Mitsui Fudosan's current office leasing situation.

A. When we look at new leases and cancellations for existing offices, new leases significantly outweighed cancellations in 1H FY2022 compared to the last 2 years of the pandemic. In other words, while we made significant progress in signing new leases, near term the cancellations triggered by the pandemic have subsided. The situation for rent levels is relatively stable. While downward rent revisions have been limited, there are properties where we have been able to achieve positive rent growth in lease signings.

Q. What level of operating income are you aiming to achieve at Tokyo Dome in future?

A. After the end of last year's baseball season, we undertook renovations at the Tokyo Dome Stadium. The renovations included a full refurbishment of the suite area and the premium lounge, as well as the creation of new group seating. Response has been very positive: there is currently a waiting list for the premium areas. Given this, we plan to further expand group seating during this off season. Also, from November, we are planning to return to full capacity operations for concerts held at Tokyo Dome; we believe operations are gradually returning to pre-COVID-19 conditions. On the back of these factors, we aim to exceed the operating income levels generated prior to the pandemic by Tokyo Dome (approximately 11 - 12 billion yen) going forward.

Q. You described the Hotel & Resorts business as steadily recovering, in line with your initial assumptions. Do you think there is room for upside given the lifting of the restrictions on the number of travelers entering Japan from overseas?

A. Occupancy rates for the Lodging-focused hotels, which had been depressed by the pandemic, are currently back up to around 80%. ADRs have also been improving sequentially on a monthly basis, and have risen further since October on the back of the easing of border restrictions. Near term, reservation flow for both hotel and resort properties has been solid as well, contributing to a sense of a strong recovery.

Q. With regard to balance sheet control, previously you had indicated that you were generally aiming for total assets of 8 trillion yen and interest-bearing debt of 4 trillion yen. Reflecting the recent depreciation of the yen, do you intend to revise these levels? Or, would you choose to maintain these levels by opting to sell more assets? Please comment on the direction of your strategy going forward.

A. The total asset and interest-bearing debt levels you have alluded to are levels that have been set from a medium- to long-term perspective so we do not plan to change direction. While foreign exchange rates are an external factor beyond our control, for items we can control through our own efforts, we will maintain a focus on efficiency in managing our business.

Q. Please talk about how you are thinking about your office strategy for the next few years.

A. We assume that work styles will not revert to pre-pandemic conditions but even if it is possible to work remotely, we believe the key to success will be to provide office spaces that will make workers want to come into the office. For both hard and soft elements, we will focus on providing the market with office spaces perceived to have superiority from the customers' perspective.

Q. Please discuss the earnings outlook and future prospects for the Work Styling business.

A. Work Styling (corporate shared office business) has expanded to around 150 locations. Going forward, the pace of new openings is likely to moderate, which will limit initial opening costs. Supported by growth in membership and improvements to occupancy rates, the business is firmly on track for achieving profitability. Work Styling is positioned as business that is complementary to base type offices; our aim is to grow this business in tandem with growth in fixed location offices. As such, we expect it to generate a certain level of profits.

Q. Please comment on when you expect unrealized gains to be realized on 50 Hudson Yards.

A. The plan is to newly recognize the unrealized gains on 50 Hudson Yards as a part of the rental property line item next spring when we close the books for the full year.

Q. For office leasing, I believe showing a property to prospective tenants after completion can create opportunities to achieve higher rent levels. Please share your view on this.

A. Viewing a property after completion allows prospective tenants to see the actual views and ancillary facilities. This additional input can support the decision-making process; it is certainly possible that such factors could contribute to improving the customers' assessment of the property. For instance, at 50 Hudson Yards, prospective tenants are now viewing the actual property. By confirming the view and specs, we have been able to sign contracts at rent levels well above our initial expectations. The completion of Tokyo Midtown Yaesu will allow us to demonstrate the broad array of mixed-use functionalities, which will help tenants develop an image of what the property will be like after moving in. Also, we believe allowing customers to experience the superior qualities of the property will contribute to progress on leases.

Q. I believe you are making good progress toward the VISION2025 targets but please share with us what management is discussing currently in terms of the earnings growth outlook.

A. In addition to the profit contribution of Leasing segment profits from 50 Hudson Yards and Tokyo Midtown Yaesu, in terms of the outlook for earnings, management is aiming for sustainable profit growth on the back of further profit growth at the overseas business and a solid recovery from the pandemic at the Hotel & Resorts and the Tokyo Dome businesses.

Q. Please comment on where you see room for further growth in the next fiscal year and potential factors for variance by segment.

A. The Leasing segment should see a positive benefit from the full-term operation of 50 Hudson Yards and progress in leasing the remaining floor space. Tokyo Midtown Yaesu should also begin to make a positive contribution as well.

For the Property Sales segment, as stated, we expect to generate more than 100 billion yen in operating income in Property Sales to Investors and Individuals (Overseas) on a sustainable basis.

For the Property Sales to Individuals (Domestic) business, we expect condominium unit levels to be somewhere in the low to mid-3,000s, chiefly in central urban large-scale redevelopment and high-end projects.

The Management segment's performance is currently strong. For next fiscal year, we will be monitoring market conditions in trying to determine a profit target.

For the Other segment, we will need to continue to monitor materials' price trends given the impact on the New Construction under Consignment business, but we would expect to see a recovery from the pandemic at the Hotel & Resorts business and Tokyo Dome.

Q. What is the outlook for financial leverage going forward?

A. Our target for financial leverage has been a D/E ratio of between 1.2x to 1.5x. Near term, the D/E ratio is 1.46x; we would not expect to see a major change from this level at the end of the fiscal year. Mitsui Fudosan believes the source of our medium- to long-term growth is the acquisition of investment opportunities in a wide range of regions and asset classes. As such, we will focus on maintaining an appropriate level of leverage in managing our finances.

Q. Your stated target under VISION2025 is to generate 30% of consolidated operating income around 2025 from the overseas business. Please talk about your view of the probability of achieving this target.

A. Mitsui Fudosan has multiple superior projects in its development pipeline both domestically and overseas. Going forward, these projects will complete and begin operations, driving future profit growth. As such, we believe that our target of consolidated operating income of 350 billion yen around 2025, of which 30% will derive from the overseas business, is achievable.

Q. Can you comment on whether you are seeing signs of change in the investment environment in the overseas markets?

A. Currently, we do not think there has been a significant change from previous trends and we note that the scale of the U.S. market is very large. In each of the areas of the East and West Coasts and the Sunbelt, we continue to monitor market trends very closely to capture superior investment opportunities across a broad range of asset classes.