

Mitsui Fudosan Co., Ltd.
FY2022 Analyst Meeting Q&A Summary

Q. Are there initiatives you are implementing or challenges you face in aiming to achieve higher rent levels than your peers, in reflection of the location and specs of your office properties, which would be a driving force to improve ROA and ROE?

A. Mitsui Fudosan has consistently focused on how best to differentiate its properties and engender competitive superiority. Specifically, by considering Mixed-use development for central Tokyo from a neighborhood perspective, rather than simply developing office buildings, we have been able to improve the quality of our portfolio over time. As well, we provide solutions to office operational issues encountered by our tenants in the form of intangible services that are uniquely our own, such as WORK STYLING, & WELL, &BIZ consulting and green power.

These initiatives tie into the creation of a wide array of added value: our tenants truly feel that it is essential to be in these properties and it creates new demand. By creating added value in this way, we aim to create a virtuous cycle which will drive an improvement in ROA and ROE.

Q. CEO Ueda, please discuss your view of ROE.

A. ROE is an important KPI. I understand that thinking about how to maintain and improve ROE to be a material issue. Given the risk of rising interest rates, Mitsui Fudosan does not intend to unnecessarily increase leverage simply for the purpose of raising ROE. Our approach is to boost the bottom line (net income) through efforts to grow the topline (operating revenue). This will improve ROE, in tandem with a higher ROA.

In addition, Mitsui Fudosan holds a significant amount of low-risk central Tokyo assets and has strengths in creating added value for our assets. As a result, our risk resilience in times of market disruption is high and returns are stable.

By continuing to communicate this message to the market, we aim to lower our cost of capital in the future.

I believe it is important to widen the spread between ROE and the cost of capital through such initiatives.

Q. I understand U.S. real estate market conditions are very tough. Please discuss the status of your U.S. business.

A. First, our office business is concentrated mainly on the East Coast, such as Hudson Yards in New York. Similar to Japan, we expect increasing polarization in the office leasing market going forward.

For prime location, high-spec offices such as our 50 Hudson Yards property we are seeing relatively strong inquiry levels. We have seen some tenants consolidating office space at 50 Hudson Yards where previously their employees had been scattered across a number of other properties. For West Coast offices, there are some properties where leasing is tough but the West Coast represents less than 10% of our U.S. assets, so I don't believe the impact will be that large. For rental residential properties, leasing is strong, chiefly in the Sun Belt which continues to report population growth. Trends in occupancy rates are also firm.

On the real estate transaction market, overall, we are taking a wait-and-see approach, although we understand that there have been transactions in asset classes such as logistics facilities, rental residential and lab & office. Mitsui Fudosan will continue with its activities, monitoring inquiry levels by area and asset class.

Q. I believe that office supply is outstripping demand because developers have taken advantage of the Urban Regeneration Special Measures Act to undertake large-scale redevelopment projects with high floor area ratios (FAR). Please comment on what you think is the appropriate approach to this

law for the industry going forward.

- A. For redevelopment, I think it is necessary to consider the balance between demand and supply. I believe Mitsui Fudosan's developments are providing added value for the wider area encompassing Yaesu and Nihonbashi, and as such, have been able to successfully capture demand.

With regard to the provision to ease FAR under the Urban Regeneration Special Measures Act, the Act doesn't just enable a higher FAR, as it comes with requirements to develop the environment as well. I feel that there is a wide range of views on the law depending on whether you look at it from the perspective of a developer or a government authority.

Given this, I believe there are urban planning issues, including the balance of supply and demand for office properties, which must be jointly considered by parties such as governmental authorities, developers and perhaps third-party groups with an interest in neighborhood creation.

- Q. What is the planned time frame for formulating the next Long-Term Vision and when do you expect to disclose it?
- A. I believe the possibility of achieving the VISION2025 operating income target earlier than projected is already coming into view, if we combine expected gains on the sale of tangible assets (extraordinary profits) to the FY2023 operating income target of 330 billion yen. That said, ROE, which is a measure of capital efficiency, is still short of the target. I believe tackling improvements to ROE is a major issue.

Given these conditions, I would like to announce the next Long-Term Vision next year but as we are in the midst of transitioning from the COVID-19 recovery phase to an era of change, we want to be thorough in our discussions, including such items as determining which year is the appropriate target year.

- Q. Please talk about the significance and economic benefits of the LINK-J initiative.
- A. Since establishing LINK-J in 2016, it has developed into a large community, with many new members from the pharmaceutical industry and academia related to the medical field. There is a direct economic benefit for Mitsui Fudosan, with members of this community becoming tenants of our life science properties, from which we generate rent revenues. There are 15 life science properties in Nihonbashi alone and 1 in Osaka.

Also, based on the need for wet lab space as indicated by the community, we have launched a business for a new asset class of rental labs, with locations in Kasai, Shinkiba and Kashiwa-no-ha. Mitsui Fudosan has been able to actualize new demand by providing wet lab space; we are making firm progress on leasing.

In addition, in recognition and in support of our activities, we have been able to welcome new tenants to Nihonbashi from industries other than life sciences.

Therefore, there have already been direct and indirect economic benefits. However, to drive open innovation in the life science field, providing physical assets is not enough: it is essential to be integrated into the community. It is the LINK-J community that has supported Mitsui Fudosan's efforts in the asset class of life science buildings and labs, which cannot be replicated by our peers.

- Q. How do you propose to address the fact that Mitsui Fudosan's PBR is below 1x? Also, the scale of the balance sheet has expanded beyond the levels you had stated in the past of total assets of 8 trillion yen and interest-bearing debt of 4 trillion yen. How do you intend to advance balance sheet control and raise asset and capital efficiency?

- A. To address the current sub-1x level of the PBR, I believe it is important to

execute on the following 3 things to boost the share price. 1) Maintain and enhance growth; 2) Improve capital efficiency; and 3) Expand shareholder returns.

On maintaining and enhancing growth, within our business model of Holding & Leasing, Development & Sales and Management, I think it is important to do both of the following: show stable and continuous growth in profits from both Leasing and Property Sales, and increase Management profits by securing management business after the sale of assets. As well, with the Hotel & Resorts and Tokyo Dome businesses which were temporarily impacted by the pandemic, I aim to show a growth trajectory by successfully capturing the rebound in inbound travelers and increased demand to go out.

Next, under improving capital efficiency, I aim to improve efficiency by promoting balance sheet control through asset turnover. In addition, Mitsui Fudosan holds a significant amount of low-risk central Tokyo assets and has strengths in creating added value for our assets. As a result, our risk resilience in times of market disruption is high and returns are stable. By continuing to communicate this message to the market, we aim to lower our cost of capital in the future.

Finally, on shareholder returns, in the next Long-Term Vision, while maintaining our policy of improving dividends over time, I would like to consider how to implement share buybacks in a stable and continuous manner while also maintaining flexibility.

Q. Please comment on how you think about the level of the total shareholder returns in the future.

A. I don't view the current shareholder return policy as being set in stone. Thinking about how we approach shareholder returns going forward will be a key point for the next Long-Term Vision. We aim to develop our policy based on engagement with investors and serious internal discussion.

Q. Please talk about how you propose to increase profits as a platformer focused on neighborhood creation, for instance through such initiatives as the life science business.

A. Supporting ecosystems and communities that surround start-ups in the fields of life science and space which are active in the neighborhood allows us to create branding for the neighborhood. This then creates a sense that companies in related areas need to be based in the neighborhood. Our aim is to create a model that will boost rent levels on office and other properties as a result.

Furthermore, we, as developers, believe that by commercializing new needs and ideas that emerge from the community, we can create opportunities for mid- to long-term profit generation going forward.