

Mitsui Fudosan Co., Ltd.

1H FY2023 Analyst Meeting Q&A Summary

Q. How are you thinking about Mitsui Fudosan's portfolio strategy going forward?

Please discuss how Mitsui Fudosan will balance capital efficiency and profit growth. Also, how do you think the operating profit breakdown of 40% from the holding and leasing business, 40% from the development and sales business, and 20% from the management business will change based in this portfolio strategy?

A. Our basic thinking about the business in Japan has been that Mitsui Fudosan would continue to own assets in areas such as Nihonbashi where we are actively involved in neighborhood creation, generating leasing profits by elevating added value.

However, if Mitsui Fudosan would be able to maintain its involvement in raising the added value of neighborhoods and assets even after properties are sold, then I think we don't necessarily need to be overly focused on ownership. I believe that all of our assets without exception should be assessed, including the possibility of a sale, based on the cost of ownership and capital efficiency.

I don't expect the operating income split between holding and leasing, development and sales, and management to change significantly. Although there will be progress on asset turnover, we expect to generate leasing profits as we develop new properties in the future.

Q. Mitsui Fudosan is now guiding for its fiscal year-end vacancy rate to improve to the mid-2% level. Please comment on how you aim to raise office rent levels going forward.

A. Given that we must also address increased costs, such as construction expenses, going forward, we must consider raising rent levels to grow operating revenues and, as a consequence, net profits.

Japan has experienced a prolonged period of deflation but, recently, prices in many categories have been rising. As the economy transitions toward healthy inflation accompanied by steady and continuous wage increases, we will continue to work hard to ensure that tenants appreciate the superiority and high added value of our properties in the form of rents.

Q. Do you believe the ROE target of 8% is achievable? Also, do you expect it will be possible to raise the ROE target going forward?

A. While we are in an environment where interest rates and costs such as construction expenses are rising, I believe we will be able to achieve an ROE of 8% by around 2025 through continuous asset turnover and other measures, which will grow operating revenues and increase net profits.

While we aren't satisfied with 8% as an ultimate goal, we also believe it is important to take a balanced approach in contributing to the building of a sustainable society and the creation of social and economic value. Therefore, I believe it is necessary to take a medium- to long-term perspective in advancing measures to boost ROE.

Mitsui Fudosan's initiatives to generate social value are linked to enhancing our competitiveness in the future, which will be reflected in economic value. Over the medium- to long-term, I believe this will lead to further improvements in ROE.

Q. On the outlook for office rent levels going forward, how are you thinking about the relationship between future market demand and supply?

A. Office rent levels have tended to be influenced by new supply and demand conditions. However, in future, I believe what will be important is generating new demand, rather than competing for existing, finite demand.

On this point, we have established associations such as LINK-J in the life science industry and CROSS-U targeting the space business industry. Through our efforts to create sites and communities, we have supported the generation of new demand in a wide range of industries. We will continue to contribute to strengthening Japan's industries through a broad range of initiatives.

Q. Are you considering disclosing a numerical target for the life science business in the next management vision?

A. Mitsui Fudosan is involved in 5 major asset classes: office, retail facilities, residential, logistics facilities and hotels. With regard to the life science field, I first intend to create a framework to support expansion of scale and asset securitization, which would then enable us to disclose quantitative targets for life sciences as a 6th asset class in the medium- to long-term.

Q. Profits from asset disposals have remained flat at around the 100 billion yen level over the last few years. Going forward, as you accelerate asset turnover, are you considering raising this level?

A. We will examine all of our assets, tangible assets, real property for sale and investment securities, from the perspective of balance sheet control. By stepping up asset turnover, we aim to maintain and improve the generation of profits from the sale of property on a sustainable basis over time.

Q. How are you thinking about the future direction of shareholder returns and the total payout ratio?

A. Mitsui Fudosan will continue to further enhance its stable and consistent shareholder returns by growing net profits, which is the source of funds for shareholder returns. On the total payout ratio, we will consider the optimal balance of growth, efficiency and returns while also taking into account conditions such as profit and capital growth.

Q. Will Mitsui Fudosan be able to maintain and further elevate its competitive advantage in mixed-use development?

A. Mitsui Fudosan provides mixed-use, high spec, young office properties in favorable locations. Combined with a wide variety of substantial intangible services, our properties are highly rated by corporate managements and their employees. Mitsui Fudosan is successfully differentiating itself from its peers with its strong property capabilities and a broad range of services: I believe our properties are highly competitive.

That said, we live in an age where the world and our customers' needs are changing dramatically. We recognize that simply continuing to provide the current range of services would make it difficult to maintain our advantage over the medium- to long-term. We will continue to devote significant effort to creating new services.