Mitsui Fudosan Co., Ltd.

Q&A Summary from CEO Meeting Held May 26, 2025

Q. Would you consider acquiring local real estate companies as a way of growing the Overseas business?

A. The assets we have built up in each region now generate bedrock leasing income, which has developed into the growth driver of our Overseas Business. Our key properties on the US East Coast are 50 Hudson Yards, 55 Hudson Yards and 1251 Avenue of the Americas. A flight to quality is intensifying the polarization in the US office market. Occupancy rates and rent levels at 50 Hudson Yards and 55 Hudson Yards remain at high levels. Despite its building age, 1251 Avenue of the Americas continues to be an office property of choice, reflecting our commitment to making the necessary investments to keep the property competitive. These 3 flagship properties are prime examples of successful investments, with combined unrealized gains of roughly 900 billion yen.

In the US Sun Belt area, while we have seen corporate agglomeration and population inflow, interest rates have been rising from the pandemic onward. This made it difficult to secure new construction loans for commercial real estate. From several years ago, we had anticipated that supply of rental residential properties would decline from FY2025 onward.

Given this backdrop, our strategy was to leverage our financial capacity, a key strength, to agilely invest our own funds to cherry-pick superior central urban properties in cities where prospects for growth are promising. Based on this strategy, we have been able to lock in prime business opportunities at favorable terms.

In fact, at Maple Terrace which was launched in Dallas last fiscal year, the pace of leasing was faster than we assumed, supported by the slowdown in market supply, as expected. We continue to make progress on leasing, with rents also running above our initial expectations.

The scale of US rental residential properties is large, with leasing typically taking 2 to 3 years to complete. While, profit contribution may take time as a result, we have also confirmed near term transactions in rental residential properties, which generate stable cash flows, in the 4%-plus range. We are confident that these properties will contribute to our profits in future.

Mitsui Fudosan America, which has long been headed by an American CEO, is seeing a significant increase in information flow on properties, reflecting its growing recognition in the US as the developer of Hudson Yards and Mission Rock.

Given current conditions, our basic approach will be to maintain our current structure as we aim to further grow and expand our Overseas business.

Q. Under Vision 2025, your target was to have Overseas business generate 30% of total consolidated business income. Given your aim to develop and evolve the Overseas business as stated in & Innovation 2030, what is your future target for Overseas business income?

A. Currently, the assets of the Overseas business account for around roughly 30% of total outstanding assets. Going forward, we aim to grow profits further by stepping up the asset turnover ratio while maintaining the proportion of overseas business assets to the total. We plan to grow the proportion of business income generated in the Overseas business but in line with the proportion of Overseas assets. We project profits from our domestic business to also grow at the same time, so we expect the proportion of business income from the Overseas business to trend at around the 30% level.

Q. Please discuss the impact of rising construction costs and your countermeasures.

A. We view initiatives to respond to surging construction costs or lengthening construction periods as a key issue for our business. Currently, none of our redevelopment projects have been subject to cancellation. We already have construction contracts in place for virtually all of the large-scale office projects expected to complete during the period from FY2025 to FY2028 and condominium projects expected to be delivered up to the end of FY2026. We are also making solid progress with construction starts for condominium projects expected to hand over in FY2027. As such, we expect the impact to be limited.

Going forward, we will focus on leveraging our know-how to mitigate the risk of rising construction costs, appropriately controlling costs by expanding leasable floor space and through value engineering measures to reduce costs without changing physical appearance or functionality.

From the perspective of passing along higher costs, we will not only focus on mixed-use developments but also on providing added value in the form of multiple intangible services and initiatives aimed at building communities. Through this, we will create offices that are the choice of both managements and workers: offices people want to work in, in cities they want to visit. Making progress on decoupling from the market will allow us to translate this added value into higher rents. We continue to negotiate with our office tenants and, in principle, we aim to achieve positive rent reversions on all properties.

With regard to condominiums for sale, we believe there is still room to raise prices for central urban properties further given rising wages. Mitsui Fudosan has plans to supply more central urban properties going forward. We will pursue selling prices that reflect the added value of our properties, by capturing the firm demand from not only wealthy households, such as high net worth individuals and corporate executives, but also tapping into latent demand to upgrade driven by the high price of homes in the secondary market and from power couples.

In this way, we will focus on controlling the rise in construction costs while also aiming to grow our topline, either through higher rents or by passing on rising costs through higher selling prices. We aim to manage our businesses by enhancing our performance.

Reference: Investors Meeting Presentation (Financial Results for FY2024), pp. 4-6, pp. 10-18

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Q. How would Mitsui Fudosan's office business be impacted if the rise in construction costs forces peers to delay or cancel their projects?

A. If projects managed by our peers are pushed out or canceled, it would boost the relative value of existing offices, theoretically opening the door to higher rents.

That said, rents would not go up across the board for all offices. Recently we have seen an increase in corporate managements that no longer consider office space a cost but an investment, reflecting a focus on human capital. Going forward, we believe there will be an intensification of market polarization in terms of factors such as location, specifications and services. We expect the market will favor neighborhoods and offices that are highly competitive and provide added value considered worthy of investment.

We have a deep understanding of the nature of each of our tenants' businesses. In conducting our business we are always aware of what we can do to support our tenants in providing added value.

Every year, Mori Building announces its Survey of Office Needs. Over the last few years, the Nihonbashi area has been ranked the most desirable neighborhood for new office space. With regard to office asking rent levels, while there has been almost no change in areas such as Marunouchi and Otemachi, the Nihonbashi area has recorded a significant increase over the last 15 years. We have a clear sense that the added value we have created in our neighborhoods and offices through our development efforts over many years is being recognized.

By successfully decoupling from the market through our group's accumulated comprehensive capabilities in planning, development and operation and our ability to propose solutions, we expect the added value we create will continue to be appropriately recognized. By capturing this through price increases, we are confident that we can maximize our profitability.

Reference: Investors Meeting Presentation (Financial Results for FY2024), p. 12
InvestorsMeetingPresentation2505e

Reference: Mori Building Co., Ltd., 2024 Survey of Office Needs in Tokyo's Core 23 Cities, p. 4
2024 Survey of Office Needs in Tokyo’s Core 23 Cities

Q. You indicated that leasing has been completed for an office building slated for completion in FY2028. Please discuss how you think about leasing terms and conditions for office tenants and the timing of signings in an environment where rents are rising.

A. We aim to sign leases for each individual project at a time appropriate for the property. However, for a lengthy redevelopment project, if the terms and conditions are favorable, we may choose to sign the contract early.

Q. Taking into account the rising interest rate trend, please describe the outlook for the domestic real estate market and the impact on your business.

A. Near term, rising interest rates have had no impact on the transaction market. Japan was the earliest market globally to return workers to their offices following the pandemic, resulting in low vacancy rates and stable cash flows for each asset. Given this, when investing globally, the Japanese market must be included in core investments. For Asia in particular, it is not an exaggeration to say that it is impossible to have an investment strategy that excludes Japan, and especially Tokyo. Japan is a very important market. We are not that concerned about the real estate market going forward.

Mitsui Fudosan is focused on solidly locking in positive rent reversions and higher rent levels when bringing on new tenants, which will allow us to absorb the upward pressure on cap rates as a result of higher interest rates. We will implement measures to ensure that rising interest rates do not have a major impact on our property sales profits and unrealized gains.

Q. Please comment on the business strategy for the Sports & Entertainment business as it relates to large-scale redevelopments going forward.

A. We believe that there is a strong complementarity between retail and sports & entertainment. For instance, our retail facilities incorporate facilities such as a sports park that includes an athletics track, 3x3 basketball courts and tennis courts at LaLaport Fukuoka, and a skateboard park and bouldering facilities at Rayard Miyashita Park. At these facilities, visitors can work out and meet athletes in person, elevating the experience beyond simply shopping. Our facilities have focused on providing opportunities for real experiences where people interact, connect and share emotional experiences.

Furthermore, through the acquisition of Tokyo Dome in 2021, we have been able to acquire Tokyo Dome's broad operational capabilities related to managing sporting events, live concerts and amusement park facilities.

We believe that there are still significant synergies we can enjoy given the strong complementarity of retail and sports & entertainment, for instance selling concert and sporting event tickets through the Mitsui Shopping Park membership program or other collaborations, or getting into the entertainment business, such as concert management.

In our redevelopment projects going forward, we will capitalize on the Mitsui Fudosan Group's know-how to tap into synergies with other asset classes such retail, as we aim to further develop the Sports & Entertainment business.

Q. Please discuss the area strategy for the arena business.

A. We are considering business opportunities in not only urban centers but regional cities as well. There are many possibilities but, basically, we would like to consider opportunities in proximity to our retail facilities where there would be synergistic effects and opportunities for collaboration.

Q. Is there a possibility that you could acquire a listed company to strengthen the Entertainment business?

A. Under the third business strategy path we highlighted in the Long-term Vision & Innovation 2030, last year we established an Innovation Promoting Division to collect information related to M&A and to support other divisions' M&A initiatives. This has led to an increase in discussions related to M&A.

Rather than trying to develop skills internally from scratch, I think that M&A can be meaningful as a way of buying time through the acquisition of a company with those skills. Even in multilayered industries such as the entertainment industry, I am open to considering opportunities that would be attractive for us.

Q. Please discuss your strategy going forward for revitalizing and enhancing the value of retail facilities, such as LaLaTerrace Kawaguchi.

A. LaLaTerrace Kawaguchi is a project where we were able to preserve the legacy of the past while reducing construction expenses by 20% through renovation compared to a conventional rebuilding project. This was a highly attractive development which allowed us to generate added value.

We think there are many properties that could potentially be made more attractive through similar developments that tap into our know-how. We are currently seeing inquiries about such development projects. Given the recent trends in construction costs and the need for better environmental performance, I believe that the business of revitalizing and enhancing value for retail facilities will be important going forward.