Mitsui Fudosan Co., Ltd.

1H FY2024 Analyst Meeting Q&A Summary

Q. While the domestic business is strong, you indicated that Mitsui Fudosan expects to incur some losses in the overseas business on sales of property and others. Will this have an impact on your ability to achieve the quantitative targets for the next fiscal year and beyond, as set out in the Long-Term Vision?

A. In formulating the Long-Term Vision '& Innovation 2030' and setting the quantitative targets for FY2026 and FY2030, we conducted multiple simulations, factoring in a certain level of risk buffer for each business, including the overseas business.

Also, Mitsui Fudosan has many sources of profit. This includes the growth of the Leasing business mainly in the domestic side, unrealized gains on Property Sales to Domestic Individuals and Property Sales to Investors, room for further growth in the Facility Operations business and gains on sales of investment securities. In other words, we have the financial wherewithal to respond to a certain level of over- or undershoots each fiscal year.

In the Long-Term Vision, Mitsui Fudosan set out quantitative targets for the 3-year period to ensure investors did not become unnecessarily concerned about short-term ups and downs in earnings. The losses this time have no impact on the quantitative targets of the Long-Term Vision. We continue to have strong confidence in our ability to achieve our numerical targets.

Mitsui Fudosan's comprehensive strength, our ability to generate profits across diverse asset areas regardless of economic or market volatility, makes it possible for us to achieve stable and continuous growth. Going forward, we hope that investors will take a long-term perspective in tracking our growth.

With regard to the losses we expect to incur in the overseas business this fiscal year, we reviewed our overall overseas portfolio from the perspective of investment efficiency. For those properties where future cash flow upside was limited for property-specific reasons, we felt the appropriate approach would be to pursue balance sheet control through asset recycling at an early stage rather than continuing to hold. The losses are the result of this decision. We believe these losses can be sufficiently offset by overshoots in both the domestic residential and domestic property sales to investors businesses. As such, we also have strong confidence in our ability to achieve this fiscal year's earnings forecasts.

Assets in North America account for roughly 2 trillion yen of Mitsui Fudosan's overall assets. Of this, roughly half (approximately 1 trillion yen) is accounted for by 50 Hudson Yards, 55 Hudson Yards and 1251 Avenue of the Americas, our 3 flagship properties located in New York. Profits from these properties are the core of overseas profits, and are backed by high occupancy rates and the long duration of tenant leases. In addition, these trophy properties carry unrealized gains of roughly 800 billion yen. In a polarizing market, we are firmly amongst the successful.

On top of this, to further grow profits, we are currently focused on rental residential properties for sale, mainly in the Sunbelt area. We will be cherry-picking superior properties in making investment decisions, leveraging our ability to access diverse sources of funding. If we look at the supply of rental residential properties in the Sunbelt area, while near term supply is high, we expect conditions to gradually stabilize going forward, partly because there have been projects by peers that were abandoned for reasons like the inability to lock in construction loans. Moreover, the rental residential properties developed by Mitsui Fudosan are in central urban locations, where growth is particularly strong, even within the high growth Sunbelt. Overall, near term leasing conditions are solid. Within the transaction market in the Sunbelt, there have been a number of instances where the cap rate on transactions for rental residential properties, which generate stable cash flows, was below 5%. Given this, we believe that Mitsui Fudosan's properties should solidly contribute to profits once occupancy has stabilized.

Going forward, if we look at individual properties, there could be some profit variance in either direction across our diverse domestic and overseas businesses. However for our overseas business as a whole, we believe we can generate profits sustainably over the long-term. As such, we hope that you will have a sense of comfort in monitoring our progress going forward.

Q. The Facility Operations segment appears very strong. Can we expect an overshoot of the 30 billion yen business income target for the full year?

A. The progress rates versus our business income forecasts were 57% and 65% for Management and Facility Operations respectively, with both segments showing trends stronger than our initial assumptions.

Within this, near term reservations for the domestic lodging-focused hotels, such as the Mitsui Garden hotels, are showing ADR and RevPAR both trending higher than last fiscal year. If these conditions persist, then I think there is a good possibility that we could exceed our full-year forecasts.

Q. Given the ongoing uncertainty about interest rates in Japan and overseas, how do you propose to achieve sustainable growth in the Property Sales to Investors business, which is likely to be impacted by interest rates? Please comment on your view of both the domestic and U.S. businesses.

A. While the Japanese real estate market is experiencing some economic fluctuation, I believe Japanese real estate is globally recognized as a core target for investment, given it generates stable investment returns, backed by a long history of stable leasing cash flow.

Against this backdrop, Mitsui Fudosan maintains a high level of involvement in properties sold to investors on an ongoing basis, through its Management business (operational management, asset management). Through in-depth engagement with tenants and investors, we have been able to achieve stable cash flows. As a result, Mitsui Fudosan's properties are held in high regard by investors. Given the strength of inquiries, we believe we can continue to achieve sustainable growth over time.

In the U.S., our basic approach has been to work with local developers. In selecting business partners, we look not only at the quality of properties, but other factors, such as the management and operations system for properties after completion, to confirm we have a strong affinity. Similar to our initiatives in Japan, we work with our business partners to maintain strong lines of communication with our tenants to achieve stable cash flow and, ultimately, high liquidity to support sustainable growth over time.

Q. Please explain why you are able to continue raising rents in your office business.

A. From our frontline sales all the way up to the management level, we have established relationships at multiple layers with both tenants and prospective tenant companies. As we showcased in the presentation, tenants perceive intangible services such as & well and & BIZ as added value; as a result, I believe we can win their understanding for rent increases as well.

Q. On the back of surging construction costs, there is a possibility that new supply in the office market could decline temporarily. Do you believe this could be an opportunity for Mitsui Fudosan to raise rents? Also, please share the measures you are implementing to mitigate surging construction costs for properties where you plan to start construction.

A. For existing properties, as you have alluded to in your question, I believe you could say that the value of our properties could rise on a relative basis.

For properties where we will be starting construction in future, we consider rising construction costs to be a major issue. We will obviously be negotiating with our contractors, but will also be looking at a number of other initiatives such as optimizing the design and construction framework, on top of layout design and other changes to enhance efficiency, and value engineering proposals.

Recently, as well, we have been approached by corporates and institutional investors with an interest in taking a partial stake in large-scale neighborhood creation-type redevelopment properties. There may be instances where we could implement measures such as selling partial stakes at an early stage to entities that understand our value creation capabilities. In this way, we will maintain and enhance our business performance, leveraging any and all measures to address rising construction costs.

Q. In a continuation from last fiscal year, you will be selling assets in the U.S. Please discuss the current U.S. real estate market and the condition of buyers. Also, how are you thinking about selling overseas assets in the next fiscal year and beyond?

A. In the U.S., real estate has an established position as an investment. I view it as a mature and deep market, with a diverse array of players. Even with the current state of the U.S. economy, which continues to experience persistently high interest rates, there are investors that view the current market, where competition is lower, as an opportune time to invest in real estate. Also, as favorable factors begin to emerge, such as a further improvement in the economy or a recovery in the lending environment, I believe it is entirely possible that the real estate market could rapidly shift into high gear.

We will continue to monitor the transaction market into the next fiscal year and beyond, to pinpoint the smart timing to sell. We note that with regard to U.S. rental residential properties, occupancy at completed properties where we have concluded leasing activity is stable. Our approach will be to patiently monitor transaction market conditions while enjoying income gains.

Q. Please discuss how revisions to lease accounting standards will impact the size of your balance sheet and ROA.

A. The new lease accounting standards have only just been disclosed. Currently, we are working with our auditors to understand the assumptions for determining the applicability of lease accounting.

While there will be a certain level of impact on our financial metrics, as a result of newly adding lease transactions related to domestic leasehold and rented properties to the balance sheet, I do not anticipate a significant impact on ROE. Going forward, we will engage deeply with investors, financial institutions and rating agencies on this issue.

Q. If there are delays to new investments as a result of the impact of surging construction costs, is there a possibility that you could allocate the resulting excess cash to shareholder returns?

A. Currently, the progress rate versus our initial projection for investments this fiscal year for real property for sale and tangible and intangible fixed assets is very solid at around 60%.

In addition, in our Long-Term Vision '& Innovation 2030', our stated shareholder return policy is a total payout ratio of 50% or higher (dividend payout of around 35%, share repurchases of 15% or higher). We have completed the 40 billion yen share buyback program implemented as a part of shareholder returns last fiscal year. In terms of shareholder returns in the form of share repurchases this fiscal year, we will take an agile and flexible approach, based on a comprehensive assessment of factors such as our financial situation and share price conditions.

Q. Please discuss whether you plan to replicate initiatives to raise retail facilities' GMV at other facilities through developments in neighboring areas, such as an arena, as exemplified by the development around LaLaport TOKYO-BAY in Funabashi, Chiba prefecture.

A. Initiatives such as the development of neighboring areas is not limited to LaLaport TOKYO-BAY. At recently opened facilities such as LaLaport SAKAI, LaLaport FUKUOKA, LaLaport KADOMA/MITSUI OUTLET PARK OSAKA KADOMA or MIYASHITA PARK, we have also leveraged collaborations with Sports and Entertainment to boost footfall and GMV. There is a strong affinity between retail and sports & entertainment. We believe that our strategy of having customers come to our facilities for not only shopping, but to enjoy sports or other events as well as shopping is having a favorable impact.

In addition, most recently at MITSUI OUTLET PARK MARINE PIA KOBE, we are expanding the grounds and are rebuilding the facilities to allow customers to also enjoy waterfront activities when we re-open (scheduled to open November 26, 2024).

Going forward, we will continue to promote initiatives that will contribute to growing shopping center sales through measures such as development, including the surrounding area, and further enhancing the value of our facilities.