Mitsui Fudosan Co., Ltd.

FY2024 Analyst Meeting Q&A Summary

Q. With regard to the FY2026 business income, net profit and ROE targets set out in Long-term Vision & Innovation 2030, please comment on the likelihood of achieving and your confidence in your ability to achieve these targets, as well as your thoughts about exceeding these targets.

A. I am strongly confident that we will reach each of our FY2026 numerical targets. We have achieved awareness amongst all group employees of our strategy to decouple from the markets as set out in & Innovation 2030, and are making firm progress in changing mindsets to focus on reflecting the added value we create in our prices.

As a result, supported by the tailwind of a near term market environment that is stronger than we had expected when formulating & Innovation 2030, it is possible that we could exceed our numerical targets for the Management and Facility Operations segments. For the Leasing and Property Sales segments, we have successfully raised office rents and condominium prices.

At the same time, there are growing pains specific to the real estate business, such as a temporary dip in profits when new properties are completed and start operations, in the form of initial opening costs and depreciation expenses. In FY2025 and FY2026, there are a number of rental residential properties to be completed in the US Sun Belt where we will incur such expenses. However, despite factoring in such increased expenses, overall, we are making steady progress toward achieving our & Innovation 2030 targets.

That said, forecasting is challenging given the impact of the trade and tariff policies of the Trump administration, so our immediate focus will be to firmly achieve the FY2026 targets set out in & Innovation 2030.

With regard to ROE, at the beginning of FY2024 we had projected a mid-7% level for the end of FY2024, but backed by strong profit growth ROE improved to 8%. For FY2025, supported by profit growth and other factors, we expect ROE to improve to a low-8% level. We remain focused on achieving our FY2026 target of 8.5% or higher. In our aim to exceed this level, we will concentrate on growing profits, the numerator for ROE, while maintaining a good balance between growth, efficiency and returns, and also on controlling net assets, the denominator for ROE, by continuing to flexibly buy back shares and maintaining a total payout ratio each fiscal year of 50% or higher.

Q. You explained that you expect to incur some losses again in the Overseas business in FY2025, following losses posted in FY2024. Is there a possibility that you might change your policies and strategies for the Overseas business?

A. As you have suggested, we have factored in a certain level of losses as a risk buffer within our earnings forecast for this fiscal year. The magnitude of pandemic impact varies for specific properties and areas but, with regard to rental residential properties on the US West Coast, changes in behavior have meant that progress on return-to-office has been slow. Interest rates and cap rates, which we had expected to moderate at some point, have remained persistently high. Given this, we chose to factor in a certain level of losses as a risk buffer related to asset turnover for this fiscal year as well. That said, we believe this is a phenomenon that specifically reflects the impact of the pandemic.

For the Overseas business as a whole progress remains steady. Of our total assets of 10 trillion yen, overseas assets account for approximately 3 trillion yen, of which around 2 trillion yen is assets in the US. Of this, East Coast office assets, such as 50 Hudson Yards, 55 Hudson Yards and 1251 Avenue of the Americas account for roughly 1 trillion yen. These 3 flagship properties are carrying roughly 900 billion yen in unrealized gains and, in my view, are an example of some of the most successful real estate investments in the world.

As well, given declining birth rates and population ageing in Japan, tapping into the dynamism of overseas markets is an important management theme for Mitsui Fudosan. In particular, given that the US real estate investment market accounts for half of global real estate investments, I believe it is a market that we must engage in to achieve sustainable growth. For these reasons, our policy of taking a long-term perspective in developing our Overseas business remains unchanged.

Going forward, we will continue to closely monitor financial and transaction market conditions while making smart decisions about the timing of sales and acquisitions on a global basis to realize profits.

Q. Given the outlook for inflation, do you expect to be able to achieve rent increases in the office leasing business in excess of rising costs resulting from factors such as higher interest rates or construction costs?

In particular, given the expected earnings uncertainty for some sectors in your tenant base as a result of the Trump administration's US tariff policy, do you think you can maintain the current pace of positive rent reversions?

A. While we believe it is important to take a long-term perspective on our relationships with tenants in our office leasing business, we are pursuing rent increases that reflect the added value that Mitsui Fudosan creates, including programs that support health and productivity management or services such as Work Styling.

Of negotiations conducted in FY2024, more than 80% of our tenants with expiring leases in the Greater Tokyo area agreed to higher rent levels. We note that in many cases for the remaining slightly less than 20% of tenants there were highly specific reasons for why rent increases were not achieved, such as office tenants in properties that are slated to be rebuilt or retail tenants occupying lower floors. As such, basically, we have been able to agree to higher rent levels with almost all of our tenants.

There is an increasing number of tenants that have agreed to rent hikes of more than 10 to 15%. If we look back at 1H and 2H of FY2024, both the number of tenants agreeing to higher rents and the magnitude of rent increases was higher in 2H. In principle, going forward, we aim to negotiate and achieve a high level of rent increases with all tenants.

On the expense side, there are issues of rising costs as a result of inflation and other factors, but we will focus on minimizing the impact through improved and more sophisticated operational efficiencies.

Currently, there has been no impact on our business from US tariff policy. It is possible that a deterioration in the earnings of office tenants could lead to a decline in rental revenue, but given that Mitsui Fudosan has 3,000 corporate tenants across diverse sectors and does not have a particularly high exposure to exporters, and also the strong demand for our properties, which are high spec buildings in superior locations, we do not expect a significant impact.

(Reference) Breakdown of Mitsui Fudosan's office tenants

AnalystMeetingPresentation2311e.pdf （See P.7）

Q. Please comment on your thoughts about implementing measures that would be a positive surprise for the share price, such as an update to the Long-term Vision or the announcement of a share buyback at a time other than the end of a fiscal year.

A. I am always aware of our share price but with regard to boosting it, I believe our immediate objective should be to achieve our numerical goals by managing our business with a thorough focus on growth, efficiency and returns, as outlined in & Innovation 2030, starting with our profit targets, and growth and efficiency metrics.

In & Innovation 2030, our stated target for our total payout return ratio is 50% or more in each fiscal year. Given our policy to implement buybacks on a flexible and continuous basis, as we focus on elevating, improving and strengthening each of growth, efficiency and returns, we are considering taking more dynamic action as necessary while comprehensively considering factors such as operating environment, success in acquiring investment opportunities, share price level and financial soundness.

Q. Do you view the trend in EPS growth (FY2024 result: +13.7%/p.a.; FY2025 forecast: CAGR of approx. +9.6%) as progressing in line with the & Innovation 2030 targets? I would also like to confirm that you are not aiming for annual net income growth of 8% for each fiscal year.

A. Mitsui Fudosan operates a diverse range of businesses; many different things can happen in any given year. As such, the pace of profit growth for each fiscal year is typically subject to a certain degree of variance. This is why the growth metric of EPS growth in & Innovation 2030, is set at a 3-year CAGR of 8% or more for the period from FY2024 to FY2026, based on the FY2023 EPS forecast of 78.5 yen.

If we look at the near term trend for EPS growth (FY2024 result: +13.7%/p.a.; FY2025 forecast: CAGR of approx. +9.6%), I believe we are making steady progress toward this target.

I note that our stated target is a CAGR of 8% or higher: we are very aware of the 'or higher' and will continue to focus on achieving higher growth going forward.

Q. Please provide an image of the specific kind of properties you mean when you talk about not making any distinction between fixed assets and real property for sale when considering property disposals.

A. We stated that there would be no sacred cows in selecting properties for disposal under & Innovation 2030: our policy is to undertake asset turnover to reflect our asset and area strategies, without making any distinction based on location and building age. Based on this policy, we are looking at not only real property for sale but also fixed assets in considering asset turnover. Therefore, we looked at central urban S-class properties including properties in Nihonbashi and our flagship properties overseas as a part of the process.

For FY2025, we are projecting 80 billion yen in profits from the Property Sales to Investors and Overseas Individuals subsegment through asset turnover, targeting the totality of our fixed assets and real property for sale, and contracts accounting for around 80% are already in place.

Q. I believe you are assuming a decline in investment opportunities in the future, due to the impact of elevated construction costs over a prolonged period of time. How do you plan to address this? Also, if new domestic office supply shrinks over time, will it be possible to achieve further increases in rent levels for existing offices?

A. Mitsui Fudosan does not expect to cancel projects we are currently developing because of the impact of surging construction costs. However, we have seen reports of instances where projects have been delayed or cancelled due to higher construction costs, so I do think there is a possibility that supply of offices and residential properties for sale could decline in future.

I do view the higher construction costs for projects which will start construction in future as a major challenge for our business. Obviously we will negotiate costs with the general contractors, but we will look at many different initiatives, such design changes aimed at improving the leasable floor space ratio or value engineering proposals, as well as considering a better design or construction framework.

Recently, we have received expressions of interest from counterparties such as corporates and institutional investors to acquire partial stakes in our large-scale neighborhood creation redevelopment projects. There may be instances where we could consider selling a partial stake at an early stage or other arrangements to counterparties that understand our value creation capabilities.

Also, with regard to redevelopment projects, I intend to work together with the authorities to ensure that individual landowners and others that have devoted a long period of time in considering a project do not miss the opportunity to complete a development as the result of a temporary surge in construction costs.

With regard to existing offices, you are correct that it could theoretically lead to a possible rise in relative value and rent levels.