

Mitsui Fudosan Co., Ltd.
1H FY2025 Analyst Meeting Q&A Summary

Q. Please talk about your commitment to the early achievement of the FY2026 targets of an ROE of 8.5% and business income of 440 billion yen, as set out in the Long-term Vision & INNOVATION 2030. Also, please discuss the outlook for achieving the ROE target around FY2030 of 10%.

A. This fiscal year, the initiatives laid out in & INNOVATION 2030, such as decoupling from the market, have started to bear fruit. This has been reflected in the solid profit growth in each of our businesses.

Also, under our policy of maintaining a good balance between growth, efficiency and shareholder returns, we have been able to not only grow profits, the numerator, but make progress on controlling equity, the denominator, through our objectives of divesting investment securities and achieving a shareholder return ratio of 50% or higher. As a result, we have revised up our FY2025 target for ROE from our initial target of a low 8% level to a mid-8% level.

Mitsui Fudosan is highly motivated to achieve our FY2026 targets of an ROE of 8.5% and business income of 440 billion yen ahead of plan. While there are multiple factors that impact ROE, if we look at the numerator, profits, there are businesses like office leasing and property sales, where the contracts which determine revenues and profits are largely already completed. However, the retail facilities' leasing business and the facility operations business, consisting of hotels and Tokyo Dome, could be possible factors of variance going forward.

With these businesses, we will take advantage of external tailwinds, such as continued strong inbound demand into the 2H and consumer trends influenced by macroeconomic and business conditions, and aim to overshoot our earnings targets. These factors will also support us in our efforts to achieve our ROE target early.

With regard to our target for around FY2030 of an ROE of 10%, we recognize this is a challenging objective for a real estate company like ourselves which holds many in-development and central urban assets. Although it will not be easy to achieve, as it is our stated target we will, of course, strive to achieve it.

Given the strongly diverging trends between Japan and the overseas markets in the volatile post-pandemic world, our focus in the next few years will be to generate stable profits from our domestic business, while setting our sights on generating annual overseas business income of around 100 billion yen in the late 2020s to 2030.

Furthermore, by fully leveraging our domestic pipeline, we propose to both grow profits and enhance asset efficiency; we aim to achieve the ROE target.

Q. On office rents, you indicated that top rent levels of 100,000 yen per tsubo per month were coming into view. Is this a level that you envision for special cases that will only apply to a limited number of special blocks within newly built properties or, will this level spillover broadly to existing properties?

A. The 100,000 yen per tsubo per month rent level has yet to materialize. However, given that lease contracts for the Yaesu 2-chome Central District project, which is in a highly convenient prime location and is a leading-edge mixed-use development with a large-scale floor plate, are progressing at higher rent levels than neighboring competing properties, I believe it is possible to posit such a development. I believe that it is getting closer to becoming reality.

Q. This fiscal year, you have decided on a share repurchase program in 2Q, earlier in the fiscal year than has been typical. Based on this, the projected total payout ratio is 56.6%. Please comment on your policy for share repurchases and the total payout ratio in FY2026 and beyond.

A. This fiscal year, we are making very favorable progress on contracts for the Property Sales business. Based on the increased probability of achieving our full-year forecasts as of 2Q, we made a decision earlier in year than previously to implement the 57 billion yen share repurchase program.

In addition, with regard to the 45 billion yen share repurchase program announced in February for FY2024 shareholder returns, we have had some inquiries on the slow progress. We will complete this program by its end date of January 31, 2026. Taking this into account, this fiscal year we have committed to repurchasing a combined total of 100 billion yen.

For the FY2026 total payout ratio and share repurchases, our basic policy as set out in & INNOVATION 2030 is for a total payout ratio of 50% or higher. Based on this policy, we will also take into consideration investments and cost recovery, earnings progress, share price conditions and ROE to decide on a fitting level of returns as appropriate.

Q. You have said that you aim to achieve annual profits of around 100 billion yen in the Overseas business in the period between the late 2020s to 2030. How are you aiming to grow profits in the overseas Leasing and Property Sales segments from current levels?

A. For Leasing, the overseas business is already stably generating profits of just under 30% of the overall Leasing segment profits, or slightly less than 50 billion yen, driven mainly by the 3 flagship US properties in New York, 50 Hudson Yards, 55 Hudson Yards and 1251 Avenue of the Americas.

On top of this base of 50 billion yen, going forward we expect incremental contributions from leasing profits to be generated by new properties coming on line. In addition, while it is subject to a recovery in the transaction market, progress on sales of residential properties and property sales to investors should allow us to generate total overseas profits of around 100 billion yen.

Q. For growth investments, which regions and areas are you targeting for new investments?

A. Reflecting our comprehensive capability, Mitsui Fudosan has access to a wide array of profit-generating opportunities in a diverse range of domestic and overseas regions, assets and business models.

Currently, reflecting changes in the post-pandemic world, the domestic businesses are supporting the overseas businesses, but if the environment improves, I believe that we could see a turn in our overseas business in the near future. As such, I aim to grow both our domestic and overseas businesses.

Within the overseas business, the US is an important investment target, given its continued preeminent position in both the world economy and real estate transactions. Our view of China is that the market environment requires careful consideration; for the moment our involvement is limited. For other countries in Asia, we are capitalizing on our ability to create added value in assets such as retail facilities and residential properties. We will continue to be involved in these markets given our expectation that they will keep growing.

Q. Please comment on how you are thinking about domestic investments given surging construction costs.

A. We are factoring in a number of factors, including a certain level of increases in construction costs and the related impact on construction lead times, in making investment decisions on new domestic projects.

We are also considering approaches such as the renovation of existing properties, as was done with LaLa Terrace Kawaguchi, which opened this year.

Against the backdrop of rising construction costs, we note that timing is also a factor in our decision-making, as reflected in actions such as the sale of Otemachi Building Nagoya Station Front and the partial sale of office floor space at Yaesu 2-chome Central District project to Honda Motor.

Q. Can you comment on the likelihood of further losses in the Overseas business in future?

A. Compared to the domestic business, the overseas markets have been more volatile. Reflecting this, there is a broad range of potential unexpected developments, such as the risk of economic fluctuations, that we must take into account in executing our business.

In particular, in terms of changes in the post-pandemic world, there has been a significant divergence between conditions in Japan and overseas, especially the US. This has manifested itself in trends such as persistently high interest rates and the continuation of work-from-home, which we had not anticipated.

Against this backdrop, Mitsui Fudosan chose to move decisively in thoroughly reviewing our property holdings and recycling inefficient assets, taking advantage of the strong domestic conditions to build a more robust portfolio.

Given that we have more than 3 trillion yen in total assets overseas, we do recognize that it will be difficult to achieve a perfect batting average. That said, our overall assets stand at 10 trillion yen and we have access to a wide range of domestic and overseas profit-generating opportunities. I believe Mitsui Fudosan is a company that can achieve new record high profits even if we were to incur some losses on individual properties.

Q. Please comment on your exit strategies for overseas properties.

A. In the US, cap rates overall have remained elevated but for rental residential properties mainly in the Sun Belt area which generate stable cash flows, there have been multiple transactions in the 4%-plus range, confirming the high level of liquidity in this asset class.

Going forward, as cap rates decline on the back of falling interest rates, we expect to see a resumption of real estate transactions in other areas and a return to normal conditions.

In this environment, although we don't dismiss choices such as setting up a fund or REIT, or M&A, we think we can identify sufficient buyers.

Q. Much attention is now focused on the 17 areas targeted by the new government's growth strategies. Please talk about your initiatives under the third path in life sciences, space and semiconductors.

A. In the 3 domains you highlighted, we view ourselves as a platformer, building sites and communities.

Of our initiatives, with life sciences which was the first area we targeted, we have been able to become part of the inner circle of the industry. This has given us the ability to deeply understand industry issues; the Lab and Office business was specifically set up as a solution to an issue. We not only provide support as a platformer but are aiming to build businesses where we participate as a direct player in these industries.

Near term, we have started considering the development of a Japanese-style science park in the Kumamoto area, in collaboration with semiconductor-related companies and research institutes. Going forward, with the support of government measures based on the new government's growth policies, we also aim to identify new business opportunities similar to the Lab and Office business for the space and semiconductor industries.

Q. Please discuss how you propose to achieve the FY2026 target of 210 billion yen in profits for the Property Sales segment, split out into Property Sales to Domestic Individuals and Property Sales to Investors.

A. We expect FY2026 profits for the domestic residential property sales business will exceed FY2023 (49.7 billion yen) by a factor of several 10s of percentage points.

The near term rise in interest rates has not led to changes in the Japanese real estate transaction market, reflecting the stable property cash flows and expectations for rising rents. Appetite to acquire property by institutional investors and others remains strong.

Reflecting this, we already have contracts in place for properties that are capable of generating several 10s of billions of yen in profits in the Property Sales to Investors business.

I believe that we will be able to achieve a profit level in excess of 100 billion yen in the next fiscal year.

Q. Please describe progress on incorporating CPI-linked clauses in office rents.

A. From July of this year, in principle, we will be incorporating CPI-linked rent clauses when leases are being renewed.

On contracts with new corporate tenants, we have been able to incorporate a CPI-linked rent clause in all contracts completed since we made our decision.

Also, in renewing expiring contracts with existing corporate tenants, we will first negotiate for higher rents that reflect the added value of our property and services. After the new higher base level is set, rents, in principle, will change every year in line with the cost of living.