Analyst Meeting Q&A

For FY March 2015, and the Medium-term Business Plan

Q. In Japan, there could be some obstacles in continuing future growth, such as the decline in population and the number of households, as well as the aging society. As top management, please talk about Mitsui Fudosan's strategies (growth areas, how to allocate management resources, etc.) in achieving the 245 billion yen operating income target for FY March 2018, and to realize sustainable profit growth in the future ahead.
A. The Japanese market and society will see material population decline in the future. Although this should not make us too pessimistic, we must acknowledge that we cannot be overly optimistic about volume growth. Under these circumstances, we must create new value to contribute what we can to volume growth, while also focusing on the qualitative change in our customers, and creating new markets ourselves. For example, in the office business, we will stimulate demand for office space by creating environments suitable for foreign companies, while working on life science, as well as creating new industries through measures such as fostering venture companies. In the housing business, if we can think from a "service industry" perspective to offer better lives to customers, there is still a lot of room for demand creation, and we believe we can create new markets. As for globalization, we are not doing this because we are concerned about the future of Japan. It's because we think further globalization is important if we are to achieve sustainable profit growth, instead of confining ourselves to Japan, where volume growth is limited. Going forward, we would like to raise the overseas income contribution ratio further from the current 12% target.

Q. I'd like to know how your investment plan over the next 3 years is going to contribute to future profit growth. Could you share with us the benchmarks you use, such as the hurdle rate, for domestic capex as well as the investments in Real Property for Sale?
A. The benchmark we use for our return on investments is around 5% for offices we own in central locations, around 8% for suburban retail facilities for which we own the land, and around 12% when the land is on a fixed-term lease. (NOI yield on a non-leveraged basis) The returns depend on conditions in the acquisition market, as well as on each property.

Q. For your investments overseas, what will be the breakdown between the Western markets and Asia? Could you also tell us the hurdle rates you use for overseas investments?
A. In terms of investment amount, we are thinking of investing 80% in the West, and around 20% in Asia. In the West, we will have more "fixed assets" type investments, where we hold on to the properties, whereas in Asia, most of the investments will be in the Real Property for Sale business, such as Property Sales to Individuals. We set the hurdle rates higher overseas than we do in Japan.

Q. What kind of growth curve do you foresee for your Leasing income in FY March 2019 onwards?
A. For the office leasing business, we have numerous projects that will be completed in FY March 2019 and onwards. The profits from these projects will accumulate and contribute. Meanwhile, for retail facilities, most of the currently ongoing projects will be completed in the next 3 years. While we expect strong growth in leasing income in the 3 years leading to 2017, as well as the next 3 years, in terms of the future even further ahead, things will depend on market conditions at the time, as well as whether we can secure future business opportunities or not. Please also see our voluntary IR disclosure for information such as the floor areas of our development projects.

Q. One of your growth strategies is "Evolving the Office Building Business". So far, you have been working on various initiatives, such as setting up the Venture Co-creation Department. Any results so far?
A. We are currently supporting multiple companies in various ways, including Mirai Co., Ltd., which runs a plant factory in Kashiwa-no-ha, as well as CREW SYSTEMS, INC., which develops security cameras. We have just taken the first step in creating a virtuous cycle, in which we regenerate industries, help found new companies, and with these companies hiring people, new demand for office floor space being created. It is still too early to talk about quantitative results.

Q. While there are concerns about new office supply having a negative impact on your leasing, there probably will be some existing offices which can achieve higher value if rebuilt into condos, etc. What are your thoughts?

A. While there will be new supply of offices, there also is a considerable amount of office floor space that is expected to decline, from rebuilding etc. Also, some of the new offices that will be developed have already secured tenants, including tenant companies that want to relocate their headquarters into the new buildings, so there are no concerns for our leasing activities. The demand for offices will concentrate on those with high BCP functions in central locations. As a result, office buildings in the surrounding areas could be pushed out of the market. However, we have a track record of converting offices that we were involved in into residential properties for sale. In other words, we already have actual experience in these conversions.

Q. Mitsui Home's profit growth has historically lagged behind your other business segments. Are you not thinking of strengthening your involvement in Mitsui Home by making it a full subsidiary?
A. We believe we need to further clarify the positioning of Mitsui Home, as we continue to work on our housing business. We can expect synergies between high-spec order-made homes and high-grade condos, in areas like interior and design. We will maximize Group-wide synergies, such as pursuing further economies of scale in joint procurement of materials, and sharing expertise in making houses more "smart", and thereby improve profitability. I will refrain from talking about our capital policy.

Q. The D/E ratio in FY March 2018 is expected to be around 1.3 times, which is lower than the 1.6 times in FY March 2014, before the public offering. What is your outlook on FY March 2019 and onwards?
A. We will continue to invest in FY March 2019 and onwards, so the D/E ratio could go up. However, it also depends on conditions in the land acquisition market.

Q. Please tell us your thoughts on M&A, of real estate companies or related companies.
A. There is a chance that we will acquire certain functions, if expertise from sectors other than real estate is necessary in us adding value to our neighborhood-creation activities. Looking abroad, we already have acquired a stake in a U.K. fee developer. There is a fair chance that we will conduct M&A to acquire certain functions which complement our existing skills and expertise. There is also a fair chance that we will acquire companies, as part of our property acquisition initiatives, not only in Japan but overseas as well, as we expand our overseas profits with speed.