

Mitsui Fudosan
2Q FY2016 Analyst Meeting Q&A Summary

Q. Office supply is expected to increase between 2018 and 2020. This could potentially lead to higher vacancy rates at existing properties, if tenants choose to move to new properties. How do you propose to address this issue?

A. We have begun to take a solutions-based approach in dealing with our corporate tenants. Our aim is to help our corporate clients find solutions to their management challenges, going beyond simply providing them with floor space. In June of this year, we established Life Science Innovation Network Japan (LINK-J), in the Nihonbashi area. LINK-J has hosted a wide variety of events that have created networking and technological exchange opportunities for our life science tenants. We continue to develop initiatives to deepen our relationships with our more than 3,000 corporate tenants.

Q. Under your Medium-term Business Plan 'Innovation 2017 Stage II' you are targeting an operating loss for the Others* businesses of ¥5 billion in the final year. Your forecast for FY2016 is -¥23 billion. Can you provide color about the outlook?

*Others refers to the combined total of the Mitsui Home segment, the Other segment, and Eliminations or Corporate.

A. The divergence is primarily the result of differences between our initial assumptions for expenses when the plan was created, and current conditions. At the same time, however, our Leasing, Property Sales and Management segments have been making solid progress relative to the plan. The Hotel business is also doing very well. We will continue to execute on our plan initiatives for these businesses. We will have more specific comments on the outlook when we announce our FY2017 forecasts.

Q. In your Medium-term Business Plan, you state your aim for the Overseas business to be the development of portfolio that captures both stability and growth. Can you explain what you mean by stability and growth here?

A. We are referring to the US and Europe, where the markets are stable and experience less volatility relative to Asia, and Asia, where prospects for economic growth are promising.

Q. Please talk about your policy on share buybacks.

A. At this time, we maintain our dividend payout ratio target of 25%. Our first priority is to allocate retained earnings to new investments. We do consider shareholder returns

to be very important. We are constantly reassessing our shareholder returns policy, in light of our performance, as well as equity and general market conditions.

Q. Can you provide an update on your venture co-creation business '31VENTURES'?

A. We have established office space for ventures in multiple properties, starting with the Nihonbashi area, as well as Kasumigaseki, Makuhari and Kashiwa-no-ha. We are still in the early stages of developing initiatives to co-create new growth companies and business domains, but we have seen a gradual increase in venture tenants and participants in our venture-related activities. We have also taken stakes in some of our venture tenants as well.

Q. We have seen instances of existing domestic office properties being converted into residential or other types of properties. Can you discuss your initiatives in this area?

A. We have already been proposing residential conversions as a solution for property owners of older, smaller scale sub-leased properties when lease contracts mature.

Q. Can you talk about your initiatives to raise rents for existing office tenants?

A. As market rents have risen, the gap between existing rents and market rents has continued to widen. We will continue to negotiate for higher rent levels with existing tenants.

Q. Can you talk about the outlook for property sales in FY2017 for the Property Sales to Investors business?

A. We do not believe in opportunistically selling prime assets that would contribute meaningfully to our future growth. What I will say is that there will be properties that we sell to J-REITs and external customers, and we will do so at appropriate prices.

Q. Please describe the current status of leasing efforts for the properties slated for completion in FY2018 and beyond. Are you not worried about increased supply depressing asking rents on new properties?

A. Overall progress on leasing, starting with the Hibiya Project which will be completed in early 2018, followed by the Nihonbashi 2-chome and Nihonbashi Muromachi 3rd District Projects, has been good. We will remain focused on leasing up our properties at favorable terms and conditions, without lowering our rents below our initial assumptions.

Q. Would you consider increasing the number of residential units to be sold in FY2017 in order to lock in profits for the Property Sales to Individuals business?

A. It is difficult to control the handover timing for properties in the Property Sales to Individuals business. We expect the number of reported units for the next fiscal year to be down YoY.

Q. There are concerns that extended lead times in selling residential properties could push up costs. Please discuss the outlook for profit margins in this business.

A. Margins on our condominium properties in central Tokyo and the bayside area remain high. For suburban properties, although some are taking longer to sell, we continue to be able to lock in relatively stable margins.

Q. Please talk about how you control risk in your overseas business?

A. The hurdle rates we apply in our overseas businesses are higher than those for our domestic business, as we factor in interest rate differences and country risk. In addition, we are very selective about location and accessibility in investing in overseas properties, regardless of whether it is the US, Europe or Asia. We believe this gives us a significant built-in buffer for profitability.

Q. What is your view for supply trends in the UK office market?

A. Similar to the domestic market, construction starts are correlated to the economic backdrop. Given the increased uncertainty on the back of Brexit at this time, we think the number of new developments is likely to be limited.

Q. Can you talk about the leasing situation for Tokyo Midtown, in the wake of plans by a large tenant to move out?

A. We are making good progress but we do think it may be challenging to fully fill the floor space vacated by this tenant by the end of March 2017. This is why we think there is a possibility that our Tokyo Metropolitan office vacancy rate will rise temporarily at the end of the current fiscal year.

Q. With regard to the faulty installation at a condominium complex in Yokohama, can you discuss your thoughts on the issue of compensation for the costs (estimated at ¥39 billion) you will incur for remedial action?

A. We have outlined our basic thinking in the statement on Contingent Liabilities, as shown on page 14 of the Factbook.