

## **Q&A from IR Presentation (IR Meeting for FY2021-2Q)**

### **< Capital Policy / Shareholders Rerun >**

Q: Dividends has been reduced because the payout ratio was not changed from FY2020. On the other hand, peer companies tend to maintain the amount of dividends. We find that economic climate has become more predictable compared to the situation in May. Do you plan to make any changes in directions on shareholders return?

A: In regards to shareholders return, we are constantly seeking ways to enhance shareholder value by considering various factors. We are indeed aware of the trend of peer companies. Under the Long-Term Management Plan, we adopted flexible capital policy including the considerable amount of share buybacks and also explained the possibility of changes in shareholders return under strict economic climate. Unfortunately, it just happened at the first year of the Long-Term Management Plan. We'd like to continue our discussion on shareholders return from medium to long term perspectives.

Q: I believe that, at the beginning of FY 2021, it was difficult to determine where to allocate capitals, such as investment, shareholders return and suppression of debt, within strategic allocation. What is your plan now?

A: There are no big changes in that situation from the beginning. There is a concern for revival of the spread of the coronavirus, therefore, capital allocation needs to be carefully considered.

### **< Office Building Business >**

Q: It was reported that MUFG Bank, Ltd. will relocate and reduce its office. What do you think how office demands will change over the next few years?

A: It is said that relocation of MUFG Bank, Ltd. has been under discussion for a long time and not a sudden issue to come up due to the coronavirus.

We expect that employees' workstyles will be highly flexible over the next few years. Under such environment, center office becomes more important to be the core of innovation creation, inter-industry exchange, and strategic decision making through development and succession of original corporate culture and DNA.

Q: You have been putting the focus on more compact product, called "TELECUBE". What is your plan for co-working spaces, such as share offices and satellite offices?

A: "TELECUBE" is a highly flexible product which can be installed at office entrances and train stations. In regards to co-working spaces, since tenants' needs are extremely varied, we plan to

promote them according to each need.

Q: What is the growth driver under difficult office market environment?

A: In regards to offices, there are many tenants with rent under the market level at the moment, therefore, we think there will be a room for increasing rent. In addition, through the introduction of new functions and area management, we'd like to grow by increasing value for the whole area. Other than office business, we will continue to focus on non-asset business and international business as indicated in growth strategy in the Long-Term Management Plan.

Q: Do you think office spaces will be bipolarized between those chosen and not chosen by tenants? What are your thoughts on this matter?

A: I think it's possible. We'd like to develop office spaces chosen as tenants' core offices by focusing on areas which are suitable for such purpose, such as Marunouchi and other hub cities.

Q: If the idea of the center office mentioned in your IR presentation p.10 permeates, do you think the floor area per tenant decreases but the number of tenants increases instead, thus demands for Marunouchi area will stay still?

A: Yes, you are absolutely right. We'd like to establish positive cycle that reduction on floor area makes it more accessible for companies, which haven't been interested in Marunouchi area, to move in, thus leads further concentration of companies.

Q: The comment had made that it would take some time for office leasing. Could you explain why?

A: It seems that each tenant company is currently at the stage of discussing the role of own offices, therefore, requires more time for reaching decisions. As employees' workstyles vary, some companies require employees to come to the office every day, but others prefer working from home as much as possible.

Q: Are there any possibilities that vacancy rates will increase more than expected as a result of leasing cancellations while leasing is not processing well?

A: Core functions of major companies are located in Marunouchi, thus we are not expecting a series of cancelations to be happened.

#### < Real Estate Market & Property Sales >

Q: You have sold of ownership interests in the Otemachi Park Building in March. Do you plan to sell properties in Marunouchi in order for realizing unrealized gains?

- A: Not just for Marunouchi area, we have been discussing selling properties in order for efficiency improvement in other areas too. The land of Otemachi Park Building was acquired fairly recently, but others which we have been holding for a long time have lower book value, thus generate a lot of cash out with higher tax upon selling them. We do not assume extreme expansion of balance sheet and would like to consider the timing and volume of asset sales from the point of view of balance sheet control.
- Q: Otemachi Park Building was sold to overseas pension-based fund. Have you considered to sell properties to domestic pension funds?
- A: Domestic pension funds can be buyers, however, we'd like to make appropriate decisions by taking various types of buyers into considerations.
- Q: I understand that for FY2021 you have been focusing on investment in real estate, not to do share buybacks so far, for preparing forthcoming buyers' market. However, at the moment, there are no fire sale of properties in market. What are key indicators for you in order to monitor current market condition and make an assessment?
- A: Situations vary in each asset. Funds continue to flow into assets with stable cash flow, such as office buildings, logistic facilities and rental apartments. On the other hand, cash flow in hotels and retail properties is affected by the market and it is likely that condition is coming closer to favorable for buying for some parts. We will assess the market and make judgement for bidding with appropriate price by monitoring the number of properties we could acquire as well as other bidders' prices.
- Q: You explained that you would prepare for the forthcoming market favorable for buying mentioned in your IR presentation p.35, however, I understand that the market still has been favorable for selling. Do you think you are reluctant in selling properties than last year due to the preparation for the buying market?
- A: No, it's not like that at all. We need to communicate with buyers and, regardless of outcomes, we have been discussing the property sales in both overseas and Japan.
- Q: There has been a series of news on selling corporate real estate, but your company is not listed as a buyer. Does it mean that your bids have not been successful yet or you have not making any bids?

A: I'm afraid I should refrain from commenting on individual bid, but I can say that we've examining all information and making judgements.

Q: JRE is setting forth a policy that actively pursuing property replacement. Are there any possibilities that you will purchase and redevelop their assets?

A: Recently, we are employing a scheme that we purchase old buildings in Minami-Shinjyuku and Shibuya and then grant priority negotiation rights to JRE. By doing so, we came to establish ideal relationship as a sponsor and REIT. It's possible to continue to employ the same scheme.

**<Residential Business>**

Q: Do you plan to give importance on promoting detached house development?

A: Mitsubishi Estate Home, one of our group companies, had developed air controlling system called "AERO TECH" as its strength, but has also successfully developed highly functioned new system influenced by the coronavirus. In addition, it's also trying to develop new products in response to various needs, including launching own brand for custom home which is highly flexible in designing with new construction method.

Q: Could you give us an update on land bank for condominiums?

A: It has been very challenging to purchase for the last few years. We'd like to diverse a way to do so including increasing exclusive 1-1 transactions.

Q: Have advertising expenses been decreasing due to the impact of the coronavirus in sales of condominiums?

A: Even though the amount of advertising expenses depends on properties, broadly speaking, it's not the case at the moment.

Q: Do you think factors, such as wage decline and deterioration of employment, will influence on condominium business?

A: The market for condominium is expected to be shrinking. However, we believe it's possible to save our profit opportunities by providing properties that meet the needs and thus increasing market share.

**< International Business >**

Q: The impact of the coronavirus is more serious in Europe and U.S. and it seems that more people are working from home and offices are relocated from city centers to suburbs. I understand that

your business there will stay still for the time being. However, do you think there are some risks that office spaces become unnecessary more in Europe and U.S. from medium to long term perspectives?

A: In Europe and U.S., we own offices mainly in places where companies locate their center offices and equivalent to Marunouchi in Japan, such as London and New York. It is expected that center offices continue to take responsibilities for management and value creation functions. Therefore, even though tenants may change, we don't think that demands for center offices will fade.

Q: The data has been announced that rent proposal for buildings is decreasing by 20-30% in New York. If we won't change perspectives on city areas, it could be said that the market is favorable for buying. What is your opinion on this?

A: That can't be said for sure. It depends on situations for each property.

#### < Development and Investment Strategies >

Q: Your business focuses on Marunouchi area. What are your perspectives and strategies for other areas, such as Ikebukuro and Shibuya?

A: In Ikebukuro, we have Sunshine City managed by one of our Group companies, where has been loved by local people and numbers of visitors had been grown every year before the spared of the coronavirus. Toshima Ward announces "arts and culture" as its city concept, so we'd like to contribute to vitalize the city through measures, including projects around station area, in accordance with such concept.

Tokyu Group has been playing major role in development of Shibuya. In regards to Shibuya Cross Tower we own, we plan to manage it with keen eyes on its role in Shibuya area. For other areas where our know-hows can be utilized, we will discuss strategies accordingly.

Q: How much progress has been made in regards to Yurakucho redevelopment?

A: Not only about Yurakucho, but we'd like to discuss projects in order to increase value around Tokyo station in alliance with surrounding areas, such as Yaesu and Nihonbashi. I believe that redevelopment of Tokyo station area will contribute to enhance Tokyo's international competitiveness.

Q: Do you have any plans to develop new assets, such as data centers?

A: The development of data centers is currently under consideration. We are also promoting plans for redevelopment of hospitals in Sapporo. We'd like to work on various types of assets.

**< Others >**

Q: Do you think there will be any areas that new business opportunities emerge as a result of the coronavirus?

A: Results have gradually been achieved in regards to automation and efficiency of management through technology. It's possible to establish flow to take orders from outside as we accumulate more results. In addition, in regards to measures for sanitation, safety and security, needs for these have been increasing in overseers due to the coronavirus. Thus I think these measures already implemented in Japan can be extended to overseas. We'd like to work on it in a speedy and timely manner.

Q: It is planned that profit contributions to be achieved in late 2020s in Non-asset Business, where profit growth is expected in the Long-Term Management Plan. Are there any possibilities that the timing of profit contributions will be achieved earlier as a result of making progress on discussions for each field due to the coronavirus?

A: I can't deny the possibility, but we are still in the stage of sowing the seeds of business in many fields. We'd like to continue to examine each business as we closely monitor people's lifestyle after corona.

Q: In the Long-Term Management Plan, "transformational improvements to the business portfolio's efficiency and market resilience" is clearly stated. What do you think that future outlook for hotel business will be?

A: As overall population in Japan decreases, it's vital to come up with the way to vitalize inbound demands as well as movement of people within Japan in order to promote positive economic cycle. For instance, there are not many high-grade hotels in Japan yet, therefore, we'd like to attract inbound visitors by opening such hotels in cooperation with luxury hotel operators in the world. Moreover, compared with hotels in overseers, there are many hotels that rate per room is cheaper despite high quality services. In response to this, we'd like to make an effort to improve profitability in the industry as a whole after corona.