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Main Q&As of Medium-term Business Plan (FY2025-FY2027)

January 17, 2025

Q. While the 10% ROE set as a quantitative target is higher than the 8-10% in the previous medium-term business plan, I expect the ROE to increase further given the accelerated asset turnover. Is there a possibility of exceeding 10%?

A. We have set ROE as a target with the utmost emphasis on capital efficiency. Going forward, we intend to challenge the 10% level or even higher. Our initial goal during the current medium-term plan period is to achieve a 10% ROE on an ongoing basis.

Q. With regard to shareholder returns, you mentioned that payout ratio will be raised to 40% by FY2027. What is the reasoning behind not setting it to 40% from FY2025?

A. In the previous medium-term plan, we set the payout ratio at 30% or higher and raised it in stages based on actual results. In the current medium-term plan, we will continue to sustainably elevate the payout ratio.

Q. You mentioned that non-current asset sales and cross-shareholdings sales are totaled at ¥130.0 billion or more (based on sale price) in the quantitative target. What is the breakdown?

A. Looking at the ratio of value of properties sold, we assume that non-current asset sales will account for the majority of sales.

Q. I believe you have sold non-current assets in the past. How does the policy of the current medium-term plan differ from the past? Will large-scale redevelopments like the Yaesu Project also be targeted for sales?

A. In the current medium-term plan, we aim to accelerate non-current asset sales more than ever before and realize latent profits, thereby ensuring profit growth and greater capital efficiency. The positioning and implementation of non-current asset sales as one of our targets makes a difference from the past. As for large-scale redevelopment, there are currently no plans for sales, but going forward, we will consider utilizing third-party capital through strategic share-outs and other measures from the medium- to long-term perspectives.

Q. What is behind setting the cross-shareholdings sales target at 10% or less of net assets? Is there a possibility of cross-shareholdings being sold at a level much lower than 10%?

A. After reviewing the significance of each shareholding, we estimated the scope and amount of expected sales. Based on the results and other factors, we believe that a target of 10% or less of net assets is appropriate.

Q. Is there a quantitative picture of the asset type diversification shown on page 11 of the presentation materials?

A. We have not set a ratio for each asset type. We will review hotels, logistics properties, for-rent condominiums and other assets on a property-by-property basis, and consider selectively holding properties with good yields and growth potential for the long term.

Q. How much will large-scale redevelopment contribute to the business profit target of ¥120.0 billion for 2030 in the long-term vision? What is the reason for the decrease in leasing proportion of the business profit for 2030, as shown on page 12 of the presentation materials?

A. We expect the Yaesu Project to contribute to profits as of 2030. The Gofukubashi

Project, for example, is scheduled for completion by then, but large-scale development projects are not expected to contribute to profits until slightly after 2030. Looking at the profit proportion for 2030, our initial assumption included profit contributions from the completion and operation of several large-scale redevelopment projects. In addition, though had planned to proceed with the acquisition of new assets assumed to be held for the long term, we have revised the assumptions, and the proportion of leasing is now expected to decrease.

Q. Regarding the cash allocation on page 14 of the presentation materials, the amount of gross investment is to be increased significantly, but how will this be achieved? Will the hurdle rate be lowered?

A. Fundamentally, we believe that the estimated amount of gross investment we have set forth is fully achievable as we continue our ongoing efforts to intensify acquisitions for each asset type along the lines of what we have accomplished to date. For example, in the logistics property sector, where we were late to the market, we have been building up our stock, while selling off properties to date. In the retail facility sector, we are expanding our business domain by developing neighborhood shopping centers (NSCs). Our current medium-term plan is to accelerate investment in overseas businesses, mainly in advanced countries. By strengthening human resources, we aim to seize further investment opportunities, and we do not anticipate lowering the hurdle rate.

Q. If gross investment does not proceed as expected, there will likely be excess cash. How will this excess cash be used?

A. Aside from whether the investment progresses as expected, the recovery of the investment is another variable factor. While the current favorable real estate trade market continues, and even if the recovery amount is lower than that estimated in the current medium-term plan, there is a possibility of securing the targeted profit. To this end, we will assess the progress of net investments while focusing on seizing investment opportunities that will contribute to future profit growth and enhanced corporate value.

Q. Regarding the rise in interest rates, to what extent have you factored it into the current medium-term-plan period? Is it possible to expect that rent increases will be higher than the rise in interest rates?

A. While we assume that the long-term interest rates in Japan are unlikely to rise significantly in the future, we have factored in a buffer of several tens of basis points from the current level of long-term interest rates. In terms of price levels, including rents, we will aim for a rate of increase that exceeds the rate of rise in interest rates, in response to the inflationary trend.

Q. With regard to large-scale redevelopment, you previously explained that the estimated investment amount for the seven projects would be ¥700.0 billion or more. Has there been any change since then?

A. There have been no significant changes to the current outlook.

Q. Please tell us about the rent revision status and the negotiation policy for office building tenants.

A. In FY2024, we were able to proceed with rent increases. By aligning with rising prices, we have made a smooth start. In light of price increases and market conditions, we will continue aiming to acquire appropriate rents from FY2025.

Q. Am I correct in understanding that your for-sale condominium business will continue to focus on the central Tokyo area? Rising construction costs are likely to make it more difficult to secure appropriate profits. What is your outlook for the future?

A. Going forward, while we will continue to focus on the central Tokyo area, we will also seek business opportunities in major regional cities in anticipation of market changes.

Although some projects are expected to have lower profit margins than expected due to the impact of rising construction costs, we are confident in our profit targets given its continued strong sales performance and the cost reserves we plan to set aside for estimated profits in the current medium-term plan.

Q. Could I confirm your policy on an exit strategy for logistics properties?

A. As outlined on page 23 of the presentation materials, we will continue to consider the listing of a new REIT, while broadly exploring options including private funds and property sales to external parties. There is a possibility that we may consider external sales to third parties, depending on the properties and contract terms.

Q. You mentioned aiming for overseas businesses to account for about 10% of the company's total profits in 2030. What is your assumption as of FY2027? When can stable profits be expected?

A. As of FY2027, we will be in the investment expansion phase, and the profit level is expected to be negative. After that, we aim to achieve profitability, earning about 10% of the company's total profit from overseas businesses after FY2030.

Q. For overseas businesses, will you continue to focus on joint ventures with minor investments, or will you seek to expand your business by taking a major share?

A. In overseas businesses, we believe it is essential to work with partner companies that have excellent development capabilities and creditworthiness. In addition to existing partners, we will also explore and build relationships with new partner companies.