

## Q&A at IR meeting about Real Estate Business

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Presenters:

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Hiroaki Murata	General Manager, Housing & Urban Development Business Dept.
Akihito Nakamoto	General Manager, Strategic Real Estate Business Dept.

### ■ Real Estate Business (Respondent : Higashino)

#### Overview / Macro Environment of Real Estate Business

#### **What is the characteristic of Sumitomo Corporation's real estate business compared with other trading companies?**

We believe that we have strengths in balanced portfolio and development capabilities cultivated in about 100 years since our establishment, while some companies take real estate business as part of investment financial products.

#### **How do you look at the macro environment of the real estate business?**

Focused on the interest rate environment is necessary and we would like to respond to environmental changes with various financing. Regarding the cosmopolitan area, we think investments in real estate will continue to be steady after the Olympic Games held in 2020.

#### Results

#### **How do you think about the financial efficiency and stability of each business line? And, how will you expand businesses that are considered to be low in stability, such as logistics facilities?**

Regarding ROA, office building business is about 2%, housing development and sales business is about 4 to 5%, BTS and logistics business is about 5 to 6%. In office building business, there are strong demands in the three central wards (Chuo-ku, Chiyoda-ku, Minato-ku) especially, and we expect that the profit level will not be fluctuated greatly from now on. Meanwhile, housing development and sales business is affected by the market situation. And BTS and logistics facilities business are affected by investors' motivation for investment and the interest rate / exchange rate environment. Therefore, we would like to secure an ROA of 3.5% or more throughout the real estate business keeping a balance between the two categories.

As there is a few high-quality logistic facilities at present, demand of high-quality facilities are increasing

due to expansion of customers who are not satisfied with conventional warehouses and development of EC projects. Therefore, we see that there is a room for further growth in the future. We will select projects focusing on future development of traffic network and employee access when developing new projects.

**What is the composition ratio of stable profit by leasing type and gains on value realization in the profit image of FY2019? And, which is important for you about expanding asset size and improving ROA?**

We hope to earn about 50 to 60% of the profit of the real estate business by leasing business lines which have stable business base such as office buildings and retail facilities. Regarding business models of housing development and sales, BTS, logistics facilities businesses, obtain capital gains by selling after developing, which account for the majority of the profit.

We believe that we can expand our assets to 650.0 billion yen keeping our current portfolio, and we want to balance the asset size and efficiency.

**When will logistic facilities business and the fund business in the U.S. contribute to profit?**

Speaking of the image, the logistic facilities are developed and sold in about 3 years from land acquisition, we plan profit contribution from projects undertaken at present mainly after FY2018. Also, regarding the fund business in the U.S., it plans to contribute to profits after FY2018.

Investment Plan

**Which regions and business lines will you plan to invest in the future? And, please tell me about the risk management of the owned assets.**

We plan to raise the overseas asset ratio to 20%, which is about 10% of total assets at present.

We have dispatched around 20 people to Osaka, and we regard it as an area that we continue to focus on, while 80% of our domestic businesses are in Tokyo. In Osaka, there are various possibilities such as Expo and IR (integrated resort), we will explore opportunities to utilize knowledge and know-how which we have as real estate company and integrated trading company. Regarding other districts, there are no staff members who are stationed, and we do not have enough information collecting ability or market view, but we want to actively work if there are good projects and partners.

Although it is a low-interest environment at present, we will manage risks by selecting and limiting businesses holding assets, simultaneously concentrating on areas with low volatility and where we are good at.

**Which region will you invest in overseas? And, please tell me about overseas fund business activities and business risk in China.**

The main targets are U.S. / Southeast Asia / China / India. We have been operating in Asia since the 1970s and in U.S. since the 1980s. We will focus on areas we have track records by utilizing accumulation of knowledge and connections, although human resources and funds are limited.

We plan to expand overseas ratio of total assets to 20% and 70% plan to invest in U.S., which foreign investor like us is easy to understand indicators and to invest.

We are considering to organize the fund of the office building business for Japanese investors who are willing to invest in real estate in U.S. although it does not have knowledge and know-how.

In China, real estate demands are different by cities, but we are promoting housing development for real demands in Shanghai and other areas, and we will continue our activities in first- or second-class cities with strong demand such as Shanghai.

**What are the points to keep in mind when developing real estate business in U.S?**

There are many large cities in U.S., and the cycle of the real estate market situation is different by cities. We have ranked by cities considering the quantitative and qualitative aspect, and we are working on the project while paying attention to market conditions. In addition, as partners who collaborate are also important, we firmly identify the qualities of our partners and promote our businesses by utilizing our connection cultivated.

**Please let me know your cash flow plan toward the target amount of assets held, 650 billion yen. And, as you cash out considerably in fiscal 2016, how do you correspond if you have good investment opportunities in 2017?**

We will build up assets according to our medium-term management plan, but the major principle is to plunge funds collected by ourselves into the next our business. Real estate business is also one of core businesses of our company, and we want to act aggressively after discussing with business unit / company if there are good projects.

**Strategy of each business line**

Please let me know the size, schedule and return image of PREX series which is development and sales business.

PREX series are office buildings with an effective floor of about 2,500 to 3,500m<sup>2</sup> (800 to 1,000 tsubo). They are installed on the site of about 400 to 500m<sup>2</sup> (120 to 150 tsubo). The image of sold amount per building is around 4 billion yen. As the schedule, design member is nearly same and the concept is solid, so it is possible to design quickly. And scale of building is easy to manage schedule. The project cost is about 20 billion yen for the total of 7 existing and under development. We aim to return about 5% ROA while making funds more efficient through collaboration with leasing companies.

**Please tell me your concrete plan about increasing the earnings ratio of fund business.**

Our group's Asset Under Management (AUM) is about 300 billion yen at present time. We plan to make growth up to 550 billion yen. Generally, other than increased amount of 250 billion yen, about 100 billion yen is a private REIT, 100 billion yen is logistics facilities under development by us, consists of assets held by other funds managed our group. We would like to raise the profit ratio of fund business by increasing the superior assets.

**What measures do you take in development projects against the shortage of staffs in logistics facilities?**

We are selecting locations considering not only accessing from main road, but also employee's commute such as distance from nearest stations as for our PJ. And other, we have measures such as commuter's buses from the nearest station.

■ Building & Overseas Real Estate Business Dept. (Respondent: Shiraishi)

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**Please tell me the image of investment amount in Kanda area in the assets held in 2020.**

We will refrain from explaining concrete figures. But the Takebashi Building is relatively inexpensive as book value because it has taken over assets which we owned as headquarters buildings as operating assets. Regarding the development of Tokyo Denki University's site, it is expected that it needs a normal cost to promote development because land and construction cost should be charged at the market price. The redevelopment of Mitoshiro-cho is dependent on how much the reserved floor part will be borne in the process of redevelopment in the future, although the book value of Mitoshiro building is inexpensive.

**What is the reason that the gross leasing floor do not increase from 2010? And, please let me know your direction of gross leasing floor after 2020.**

We formulated our office building strategy of medium- and long-term holding in Kanda district in around 2010. We are promoting the development of 2-chome, Kandanishiki-cho project (tentative name) along the strategy. It does not immediately contribute to the gross leasing floor since the start of development because it is large scale. We expect to expand to 2020 including redevelopment of Mitoshiro building. In addition, some projects are currently under consideration, and we believe that the gross leasing floor can be expanded after 2020.

**How do you think about the value of Harumi Triton Square after Sumitomo Corporation relocates?**

Regarding Harumi Triton Square, we do not hold assets and we conduct sublease business about 100,000m<sup>2</sup>(30,000 tsubo) at present. After we relocate, it is a continuation policy for the sublease business, and the owner accepts our policy because of we led development of Harumi Triton Square from early stage. As we are already promoting leasing at present, there is a lot of inquiries because of rarity with a scale of 2,000m<sup>2</sup> (600 tsubo) per one floor near the center of the metropolitan in market. We would like to try to maintain the asset value of Harumi Triton Square by rebuilding the subleasing business in less than two years until we relocate.

- Retail Facilities Dept. (Respondent: Niki)

**What risks are there in retail facilities business?**

Generally speaking, it cannot be denied that the volatility of retail facilities is high, and there is a risk of mistaking the prospects at the early stage of investment. However, once it starts to operate, rents income can make stable earnings even if there is up and down movement of sales by mixing fixed rent and sales commission rent. The exchange of tenants is intense compared with the office building, but the risk is regarded as middle.

**When do you realize the value of retail facilities through asset replacement?**

The growth of retail facilities will slow down at certain timing, because the consumption amounts in area are limited despite of the competition for market share. We think that it is timing for value realization when we establish and stabilize a certain position in area.

**What is the strength of retail facilities by Sumitomo Corporation?**

Regarding Terrace Mall Shonan, it is a joint project with Fujisawa City, etc., and it is a blockade arrangement project of 26 ha. This case is seen as a good model in Japan, it is our great strength as an achievement, especially in viewpoint of cooperation with the administration. Regarding GINZA SIX, we believe that utilize the know-how of major retailers in other retail facilities by building a tenant network with them.

**Please tell me about the profitability of Terrace Mall Shonan and GINZA SIX.**

Terrace Mall Shonan creates profits with investment income and remuneration through asset management as a fund business with Singaporean. We can't disclose detailed figures, but profitability is high. Regarding GINZA SIX, we see the profitability is high although it is not in operation yet.

**Please let me know the concept of Terrace Mall Shonan and the plan of new development of the Terrace series.**

Terrace Mall Shonan has been considered as a multilateral facility since the early stage. We don't include an anchor tenant such as GMS (General Merchandise Store: a large supermarket that comprehensively handles items necessary for everyday life), but we provide a function of GMS by combining relatively small specialty shops. This operation is gained a good reputation. Regarding the series expansion, it is currently in the promoting stage, and we are focusing in several large cities.

**What are the total assets sizes of the Retail Facilities Department? And, please tell me about span of asset replacement?**

It is around 10% of the total assets we have in real estate business. We will judge the replacement of assets taking into consideration the balance with new projects, but we expect to see two or three facilities replacing in around five years.

**How do you manage the impairment risks of retail facilities?**

We pay attention to the setting of the trade area. We think that risks leading to large impairment are limited, because we open retail facility where certain population density exists by considering approach by car and walking.

**How do you think the new facility's trends of major competitors?**

Some of our major competitors have almost completed their facilities opening, and we see that they will shift to improvements in quality in the domestic market and focus on overseas opening.

**Do the sales of existing facilities grow compared with the previous year?**

In FY2015, the average of our facilities increased a year-on-year in sales. Although sales of apparel related have declined, we continue to increase sales over the previous year due to continuous renewal based on consumer demand.

**Do you consider expanding overseas business?**

Retail facilities business is directly connected with consumers, and we think that we cannot proceed with investment unless we can grasp the purchasing behavior of customers. We would like to accumulate knowledge over the medium to long term in three to four years.

- Housing & Urban Development Business Dept. (Respondent: Murata)

**How do you look at the land acquisition environment at present?**

The land acquisition environment is severe. But our strength is to be able to collaborate with major developers who have currently increased market share in the metropolitan area, and we have superiority to other developers. We would like to acquire lands on a steady basis, mainly by negotiated transaction since there is a tendency for the acquisition price to high by bid. We have other strong business lines such as office building. There is a strategy to avoid high value grip when the environment is severe, on the other hand, to actively land aiming at opportunities that each company's willingness to acquire has declined.

**Do you see how the selling price is going to change regarding housing market situation?**

We don't see that high price will continue because it has risen to the point of limit at present. Meanwhile, we expect that properties close to the station, redeveloped properties and in brand areas will continue to be strong, and we think that the winning / losing of properties will progress.

- Strategic Real Estate Business Dept. (Respondent: Nakamoto)

**How do you utilize the know-how you acquired from the Akanehama Logistics Center in other projects?**

The know-how we acquired from this facility is mainly stocked in SHOP Channel, SGL (Sumisho Global Logistics), etc. as tenants. We are shared their knowledge and know-how about the facility planning and utilize it to new projects.

**Please tell me about the future view of business which Strategic Real Estate Business Department operates.**

In current financial market, we see the situation that there is pretty few opportunity for investors to invest their money, specifically in Real Estate field , as one investment target , property supply has not caught up with the demand of the financial market. Investors expect us to supply the high-quality properties because we have strength as general Real Estate developer. In our department, we plan to expand fund business with the properties developed by us as main assets, through supplying high-quality properties from our development business of Real Estate for investment.

**What kind of customer will you try to approach at the time of leasing in logistic facilities business in the future?**

We promote leasing by utilizing the connections that our group has, such as logistics companies (the 3rd party logistics) including “SGL”, EC operators including “Shop Channel” and retailers like “Summit Store”.

**How do you create profit from logistics facilities business like Akanehama logistics center?**

We gain profit on sale (profit on development) by selling property to the fund organized by Sumisho Realty Management. Then, we also expect to gain investment profit from its fund (we partly invest), and profit from Asset Management business by SRM. Furthermore, Sumitomo Corporation gain profit from operating businesses in our facilities by SGL, Shop Channel etc.