

Nomura Real Estate Holdings, Inc.

Briefing session of FY19/3 financial results and Mid- to Long-term Business Plan,  
held on April 26, 2019

Q&A Summary

Q. The acquisition volume of land for residential development in FY19/3 decreased compared to the past few years. Under the new Mid- to Long-term business plan, how would the company recover and expand investments in residential development?

A. The land acquisition market was competitive in FY19/3. Under such an environment, we did not pursue the business volume with unprofitable project acquisition. Therefore, the number of acquisition was decreased. This policy will not change in the future. We aim to achieve stable growth through participation in redevelopment and urban type compact towns utilizing our group's strengths. In addition to that, we try to expand our residential business domain to such as higher price range market in the central Tokyo area, prime locations of regional core cities as compact city concept, and overseas business.

Q. As for the business portfolio under the Mid- to Long-term business plan, the ratio of property sales business is planned to be higher than leasing business. What is the background of this decision?

A. The decision is based on our idea to emphasize asset and capital efficiency. We will improve our portfolio balance and control our total asset volume not to be too large with flexible property replacement.

Q. I understand that REITs managed under the group are the main exit of the property development business in the Commercial Real Estate Business Unit. In case the REIT market condition changes in the future, could the company keep the expansion of asset turnover?

A. Our group has been managing not only a listed REIT and a private REIT but also private funds. We have the expertise to create various fund products fitting the characteristics of each property, so there are multiple options. More precisely, if the market condition gets worse tentatively, selling properties in the short term is not the necessary option. We can choose an option to continue holding the properties and manage the balance sheet under a long term perspective for nine years.

Q. In Phase 1 of the new Mid- to Long-term Business plan, the policy of shareholder returns with a total return ratio of 40 to 50% is regarded as a considerably high level among major real estate developers in Japan. How will the level of return be determined between the range?

A. Combining stable dividend growth and flexible acquisitions of treasury shares, we will make a judgment based on a total return ratio of about 40 to 50%.

Q. What is the perspective about the business environment in the office and residential market in the new Mid- to Long-term business plan?

A. As for the residential market in Japan, given the aging and declining of population, it is difficult to expect significant growth. On the other hand, as customer's lifestyles and priorities have been changing, we can get opportunities to grow profits by responding to a wide range of customer needs. As for the overseas residential market, we will expand our business in ASEAN countries where continuous market growth is expected. As for the office market, stable demand is expected in the mid to long term basis. In addition, we believe that recent social changes such as the reform of working styles will create new demand for office such as shared offices.

Q. In the Commercial Real Estate Business Unit, why is the business profit target in FY22/3 lower than the FY19/3 result?

A. This is due to conservative estimates of the volume of property development sales in the Commercial Real Estate Business Unit.

Q. The company set new target as "Business profit" this time. Will there be a larger gap between operating profit and business profit in the future?

A. Although the amount is not large at this time, as for overseas business, there may be an increase in the share of profit (loss) of entities accounted for using the equity method. That is affected by accounting standards that vary by countries and projects. Also, the amortization of intangible assets is assumed to arise associated with corporate acquisitions undertaken by each business unit.

Q. What level does the company expect in the future for the number of housing units sold?

A. 5,100 units are forecast to be sold in FY20/3. In FY21/3, the same level of business volume is expected. As several redevelopment projects are scheduled to be completed in and after FY22/3, we expect to increase the business volume a little more then.

Q. I understand that the company has been focusing on the area alongside the Chuo line in terms of residential development. Will the company continue to adopt the same policy?

A. Although the Chuo line is one of the most important business areas, we have supplied many residences alongside other lines and areas as well. We also promote not only in the Tokyo metropolitan area but also in regional core cities.

Q. In the Commercial Real Estate Business Unit, will the volume of property sales in FY20/3 increase, compared to that in FY19/3?

A. We will decide which property to sell considering the market condition, but the sales volume is expected to increase in FY20/3 compared with FY19/3.

Q. Please specify properties transferred to inventories from non-current assets in FY19/3 and show us the detailed breakdown. And how the company classifies the coming properties in the future as for sale or for long-term hold?

A. Several properties valued about 70 billion yen in total has been transferred. We would like to refrain from disclosing specific details. Properties originally developed for sale, such as PMO, will be counted as inventories, while large-scale mixed-use development projects will be counted as non-current assets. This is the basic policy as up to FY19/3, but we will consider it flexibly.

Q. In the Property Brokerage & CRE Business Unit, while the company failed to meet its earnings forecast for FY19/3, it plans to increase profits for FY20/3. Are there any changes in the strategy or the business plan?

A. Looking at our result of the volume and the number of transactions, we believe that the fundamental market situation has been growing over a long period of time. We can expect the steady growth in our business through such as business collaboration with Nomura Securities and other financial institutions.

Q. Considering the relationship with your parent company, is there any possibility that the management will consider performing MBO during a nine-year period?

A. I would like to refrain from making any comments on such a question. We will continue to put efforts to maximize the value of the Nomura Real Estate Group.