Japan Prime Realty Investment Corporation

December 2020 (38th) Period Analyst Meeting

〔Date: February 17, 2021〕

[Q&A Session Summary]

Q. For the fiscal period ending December 31, 2021, you plan to pay DPU of 7,550 yen but if your operating results are better than anticipated, will you distribute the planned reversal of internal reserves on top or will you reduce the reversal of internal reserves and keep DPU at 7,550 yen?

A. Our forecasts of financial results for the fiscal period ending December 31, 2021 are conservative estimates but if our operating results are better than anticipated, we plan to adjust the reversal of internal reserves and keep DPU at 7,550 yen.

Q. While you plan to reverse internal reserves in the fiscal period ending December 31, 2021, you intend to internally reserve all gains on sale of real estate, causing DPU to fall in the fiscal period ending June 30, 2021. Why are you not planning to use internal reserves in the fiscal period ending June 30, 2021?

A. We decided to internally reserve all gains on sales of real estate on the basis that we plan to increase DPU for the fiscal period ending June 30, 2021 by 50 yen from the DPU forecast of 7,500 yen announced at the time of our previous results announcement and that this will help stabilize JPR's performance in the medium to long run. Moreover, in the fiscal period ending June 30, 2021, we expect to be able to operate more or less as previously anticipated and so do not plan to reverse internal reserves, whereas in the fiscal period ending December 31, 2021, DPU is expected to fall temporarily because the impact of move-outs by large tenants will last longer than anticipated and so we decided to use internal reserves to make up for this.

Q. Could you give details of move-outs and rent reductions for other commercial facilities besides restaurants and bars?

A. During the previous state of emergency, we granted rent reductions to the retail tenants of commercial buildings which were completely shut on the judgment of the owner as well as to restaurant and bar tenants. Under the

latest state of emergency, restaurants and bars have been mainly affected, with shorter opening hours and so forth, while retail tenants have continued to operate almost as normal and so we do not plan to grant them rent reductions. However, if necessary in the future, we may hold consultations with individual stores and grant them rent reductions depending on their individual circumstances, including the risk of them moving out.

Q. The percentage of tenants which have accepted an upward revision in rent is around 30%. What led to the tenants accepting these upward revisions in rent?

A. The rent gap is negative 3.2% and the rents for around 46% of the total leased area are less than market rents. In collaboration with the PM, we get tenants with low rents to accept rent increases by negotiating an upward revision in rent, carefully explaining market conditions in the surrounding area to them. However, in the current environment, we negotiated with emphasis on maintaining relations with tenants in the medium and long run and so the percentage of upwards revisions in rent fell to 33%, but we also managed to renew contracts with the remaining 66% based on same terms and conditions. Already in the fiscal period ending June 30, 2021, we have achieved upward revisions in rent and rent increases on tenant replacement.

Q. The property taxes and city planning taxes will now be reevaluated from 2022. What impact will this have on DPU?

A. The postponement of revaluation will cause expenses to fall by around 100 million yen both in the fiscal period ending June 30, 2021 and in the fiscal period ending December 31, 2021 and if revaluation is conducted as planned in 2022, this will cause expenses to rise by around 100 million yen in the fiscal period ending June 30, 2022. As for the impact on financial results from the fiscal period ending June 30, 2022, we are likely to be able to offset the increases in property taxes and city planning taxes with cost reductions, progress in leasing activities and external growth, and we believe that our results will bottom out in the fiscal period ending December 31, 2021.

Q. In terms of your property acquisitions strategy, are there any features you attach particular importance to in the office properties you prioritize for investment, for instance, property location, size, sense of cap rate?

A. Otemachi Financial City, which we recently acquired, was acquired based on

consideration of features such as its very rare location in Otemachi, its future stability and building age. We have always adopted a policy of investing in carefully selected prime properties but moving forward, in a post-COVID environment, we intend to attach more importance than ever before to location and building spec.

Q. Could you give details of the status of the pipeline for property acquisitions from parties other than your main sponsor Tokyo Tatemono? In the materials used for the previous results announcement, the pipeline for acquisitions from Tokyo Tatemono included the office building Sendai Kakyoin Terrace. Why was this property absent from the pipeline this time?

A. Last year, we acquired Sencity Building in Chiba from the Taisei Group and plan to continue acquiring properties from parties other than our main sponsor Tokyo Tatemono when the opportunity arises but we expect that most of our acquisitions will be from our main sponsor Tokyo Tatemono. Otemachi Financial City, JPR Shinsaibashi West and JPR Kojimachi Building acquired from Tokyo Tatemono are all real estate for long-term ownership which Tokyo Tatemono reclassified as real estate for sale from noncurrent assets. Since Tokyo Tatemono looks set to continue reclassifying properties like this in the future, we intend to mainly acquire these kinds of properties moving forward. We considered acquiring Sendai Kakyoin Terrace but decided not to go ahead based on a comprehensive assessment of variety of factors including the price, growth potential and market conditions.

Q. You are pushing ahead with the replacement of portfolio assets which will lead to improvement in portfolio quality. Do you intend to continue replacing portfolio assets? Could you give details of the criteria for sold properties, if any?

A. We intend to continue replacing portfolio assets. As for the criteria for sold properties, we take into consideration factors such as the building age, market conditions and the income and expenditure outlook but we consider sale on the precondition that NOI exceeding that of the sold property can be maintained through a property acquisition.

Q. What is the background to the establishment of a new division for ESG? Will you accelerate the replacement of properties with room for improvement in energy efficiency? And what is your policy on the use of renewable energy?

A. We have always actively implemented sustainability initiatives but last year we took further steps such as participating in the CDP's climate change program and re-determining material issues, and we also achieved the highest GRESB rating for a second year running and were assigned a rating of 'A' by MSCI ESG. Since such operations have now become fairly time consuming and costly, we set up a specialist division to implement the PDCA cycle, step up our ESG initiatives and further improve our external ratings. Regarding energy performance, instead of selling those properties with room for improvement in energy efficiency, we intend to seek to improve energy performance based on expert advice, through improvements in terms of facilities such as the installation of LED lighting and through operational improvements. As for renewable energy, since renewable energy currently costs more than regular energy, we intend to incorporate renewable energy based on an assessment of availability and costs. In the past, we attached importance to cost when reviewing our electricity suppliers but moving forward we will also attach importance to the renewable energy rate.

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