Japan Prime Realty Investment Corporation

June 2019 (35th) Period Analyst Meeting
[Q&A Session Summary]

〔Date: August 19, 2019〕

Q. Do you sense any changes in the momentum of increases in office rent and demand for offices?

A. Market rent is rising steadily, and the gap between market rent and ongoing rent is expanding. We expect that the negative gap in rents will continue to expand for some time to come. Companies moving to JPR's buildings for improving locations or expanding offices need to employ excellent human resources to compete and are looking for good buildings. We expect that we will be able to raise the rents on buildings with good locations and specifications for some time to come.

Q. Are there any differences in momentum among different office rent brackets?

A. The rate of revision is high in Fukuoka, Osaka, and other cities outside the Tokyo area. It is rising also in Shin-Yokohama and Kawaguchi. In terms of earnings, high-rent buildings in the center of Tokyo, particularly Harajuku and Shinjuku, are relatively good and are making a greater contribution.

Q. You said that capital expenditures will peak in the June 2020 period. What is your forecast after that?

A. We expected that capital expenditures would be 1.89 billion yen in the June 2019 period, but actual capital expenditures were 1.32 billion yen because some capital expenditures were carried forward due to an adjustment of tenants. At present, we expect that capital expenditures will be about 1.8 billion yen in the December 2020 period and will fall after that. In principle, we want to control capital expenditures within the amount of depreciation.

Q. Please explain the positions of urban retail properties and urban hotels in your portfolio.

A. We basically position urban retail properties as assets for stable revenue. Properties, including the FUNDES Series, are multi-tenant buildings where contracts are medium-term contracts. We expect an upside at some properties when contracts are renewed.

The contracts for the hotels are long-term contracts. The term of contract is ten years or more. In principle, we position the hotels as assets for stable revenue.

Q. The RevPAR of urban hotels is weak. How do you plan to differentiate yourself by acquiring hotels?
A. The hotels that the main sponsor is developing are favorably located and have specifications that enable us to compete. The hotel market is weak partly due to sharply rising prices, and we believe that the market will grow in the medium to long term. We will carefully select hotels to acquire for about two years, closely watching occupancy rates.

Q. Please explain the reasonableness of the selling price of Tokyo Tatemono Kyobashi Bldg.
A. The building is old, and the maintenance cost was increasing. We decided to sell it, taking rebuilding into consideration. The building is on leased land, and that has been considered in determining the price. In the trading of properties with Tokyo Tatemono, we have acquired properties at prices lower than the appraisal value and have sold properties at prices higher than the appraisal value. We determine terms and conditions, taking the overall balance into consideration.

Q. How high a yield after depreciation do you expect when you acquire office buildings, retail properties, and hotels in the 23 wards of Tokyo?
A. We cannot give you any specific number because the yield differs depending on properties' locations and specifications, among other factors. The yield on office buildings in particular varies depending on the area and the potential for upward rent revisions, among other attributes. Among retail properties, we purchased FUNDES Suidobashi at 3.5% and subsequently bought FUNDES Ueno at 3.3%. We will make a decision based on individual properties' competitiveness, among other factors. The same is true for hotels that we plan to acquire. We will conduct case studies and other studies.

Q. You did not purchase FUNDES Jimbocho from Tokyo Tatemono. Please describe the background.
A. They, of course, offered the purchase of the property to JPR. However, there was a gap between the offered price and the price we wanted, and we did not acquire the property.

Q. Please explain your policy on LTV in external growth.
A. We will control LTV between 40% and 45%. If LTV is 45%, the maximum rate, our

acquisition capacity is around 30 billion yen. We will consider a capital increase through a public offering depending on the price of a property that we will acquire to achieve sufficient acquisition capacity.

Q. Your medium-term DPU target is 7,800 yen. When will you reach the target?

A. If rents and common charges increase 1% annually, DPU is expected to rise approximately 70 yen every period. If we take only internal growth into consideration, we will reach the target in two or three years from the June 2020 period, when DPU is estimated at 7,500 yen. We expect also external growth and wish to achieve the target as early as possible.

Q. Why did you change your asset management fee structure?

A. We have changed the fixed fee to the asset-linked fee. The rate is close to the lower limit of the range of rates in general. We have expanded the portion of cash distribution-linked fees to reinforce incentives to increase distributions. We have changed the asset management fee structure to make the necessary investment, including an investment in systems and human resources, and achieve further growth in keeping with the sophistication of REIT management. We want to build on our strengths and improve our status in the REIT industry. Our new rate of asset management fees is still lower than the average in the REIT industry.