

December 2019 (36th) Period Analyst Meeting

[Date: March 12, 2020]

[Q&A Session Summary]

- Q. What impact will the Covid-19 coronavirus outbreak have on office rents and vacancy rates?
- A. The sectors most affected by Covid-19 are the hotel and food service sectors, and some of JPR's tenants in the food service industry are experiencing a slight fall in sales. As for offices, although leasing staff and tenants are not able to visit each other, this does not prevent negotiations for upward rent revisions. Moving forward, we intend to monitor the impact of deterioration in tenant earnings caused by Covid-19.
- Q. What impact will the Covid-19 outbreak have on the borrowing environment and property acquisition environment?
- A. So far, the outbreak has had no impact whatsoever on the borrowing environment. As for the property acquisition environment, we expect the outbreak to have hardly any impact on the acquisition of office properties. However, there may be an increase in people wanting to sell hotels and commercial facilities because of the potential risks and buyers may want higher cap rates for such properties.
- Q. In your forecasts for the fiscal periods ending June 2020 and December 2020, have the upward rent revisions for existing properties already been finalized? Or to what extent are they estimates?
- A. The upward revision amount for the fiscal period ending June 2020 is the final figure. Some of the upward revisions for the fiscal period ending December 2020 are estimates but we have added a buffer by making deductions for possible vacancies.
- Q. You said that some retail commercial facilities have been affected by Covid-19. Is there the possibility that income generated by some commercial facilities will fall in the future due to rent holidays or other measures?
- A. Measures such as rent holidays have not come up for discussion as yet, but we expect such measures to come up in the future because some of our tenants in the food service industry are financially vulnerable.

- Q. Regarding your area strategy for external growth, do you intend to shift your focus to the suburbs as an area for office acquisitions in the future?
- A. The property in Chiba was acquired from an affiliate of our sponsor Taisei Corporation on the grounds that it was attractive as a base in the Chiba area. Given that competitive buildings like this property are limited in the suburbs, we do not intend to shift our focus to the suburbs. Our policy of acquiring offices primarily in Tokyo remains unchanged.
- Q. Regarding the after-depreciation yields of Minami Semba Bldg. and Sencity Bldg., according to the press release announcing acquisition of Sencity Bldg., the average after-depreciation yield for the 10-year period following acquisition is 3.9%, but the actual figure is 4.8%. What is the reason for this difference?
- A. The after-depreciation yield of Minami Semba Bldg. is 3.9% according to the press release (average after-depreciation yield for the 10-year period following acquisition), 4.2% on an appraisal basis, and the actual figure is 3.7%. One of the reasons for this difference is the difference in occupancy rate, which is set at 95% in the press release, 96% on an appraisal basis and 99.9% actually. Another reason is the difference in repair and maintenance expenses. The press release figure is a more conservative estimate than the appraisal figure and the actual figure estimates expenses to be even higher due to recent costs. Similarly, in the case of Sencity Bldg., the discrepancy arises from differences in estimates of the occupancy rate and repair and maintenance expenses.
- Q. Your main sponsor, Tokyo Tatemono anticipates sales to REITs in its medium-term management plan. Can JPR change its external growth strategy itself?
- A. JPR conducts operations independently and JPR also makes judgments on individual property acquisitions. With respect to office properties and urban-type commercial facilities, we do not think that there is any need to delay our schedule. We will, however, be more cautious when it comes to hotels and rigorously select investments.

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