

Japan Prime Realty Investment Corporation

June 2018(33<sup>rd</sup>) Period Analyst Meeting  
[Q&A Session Summary]  
[Date :August 20,2018]

Q. Please describe future trends in rent increases. Is there a possibility of rents flattening out or turning up?

A. For the 34<sup>th</sup> fiscal period, we have set a target rent and base rent of up 2.3% and 2.5% from the level of the previous period, respectively, and assume that such increases are achievable. Looking at each property, the target rent has been increased by 10 to 15% in this period in some buildings. In addition, rents have just been raised in regional areas and the outskirts of Tokyo, and we expect them to continue to rise gradually, going forward.

Q. With regard to the policy of property acquisition, do you feel that there is no need to be too aggressive in acquisition (acquisition at high prices) for the time being?

A. As you have pointed out, we will continue with our policy of selective investments going forward, while at the same time assessing the appropriateness of areas and prices.

Q. Am I correct in understanding that you will make investments in hotels to the extent that such investments do not exceed the proportion of investments in retail properties, to avoid such risks as fluctuations in rents.

A. As you have pointed out, as part of investments in urban retail properties, we will examine the possibility of investing to a weighting of 10 to 30%.

Q. You are expecting that external growth will contribute to an additional distribution of 200 yen in the medium term plan. Has there been any change in the timing and scale of property purchases or the probability of acquisition, among other factors, recently?

A. There has been no particular development recently. For guidance only, we have acquired FUNDES Suidobashi for a price of 3,250 million yen and with the NOI yield of 4.3%. We believe that this increase is achievable if we continue to acquire FUNDES Jimbocho and FUNDES Ueno, the construction of which has been completed, from the same perspective.

Q. Please tell me the average rate increases in the ratio of change in upward revision

presented on page 8 of the presentation material.

A. It is nearly 6.5% for the first time, between 6.5% and 7% for the second time, and over 12% for third time. However, the increase for the third time may be attributable to separate reasons because there are not many cases for the third time.

Q. There is a difference between the gap in rents and the gap in actual rents presented on the same 8<sup>th</sup> page. Does this mean that JPR has set a target rate that is higher than the market rent?

A. We set a target rent (based on which gaps in actual rents are calculated) that is close to the upper limit of the market rents range offered by intermediary companies after assessing buildings individually. It is impossible to fill all gaps in rents with increases. Even so, we succeeded in raising rents for 56% of tenants in the fiscal period ended June 2018, surpassing base rent.

Q. It appears that you are increasingly dependent on Tokyo Tatemono, your main sponsor, for the acquisition of properties. Is this attributable to timing-related factors such as the difficulty of making acquisitions from external sources under the current market environment or a change in the business model of the Tokyo Tatemono Group?

A. Obviously, timing-related issues are important factors. We are not looking at acquiring properties too aggressively from external sources because the market is becoming overheated. In addition, we think that alliances with the sponsors will be more important for future growth.

Q. Is it possible to acquire hotels with the cap rate higher than that for urban retail properties?

A. We are considering the possibility of including hotels as an asset type. From our perspective, the yield of FUNDES Suidobashi is a good reference. However, yields cannot be decided across the board based on the use of properties. Factors such as location are important as well. At any rate, we will consider the possibility of including them as an asset that contributes to the stabilization of the overall portfolio.