Script of Results Briefing for the Fiscal Period Ended December 31, 2022

My name is Yoshihiro Jozaki and I am the President and CEO of Tokyo Realty Investment Management, Inc.
Thank you for attending today's results briefing for the Japan Prime Realty Investment Corporation's 42nd fiscal period ended December 2022.
Let me now move on to my presentation.

First, please turn to page 5.
This shows financial results for the December 2022 fiscal period and operating forecasts for the next two fiscal periods.

Financial results for the December 2022 fiscal period were operating revenue of 18,739 million yen, operating income of 9,273 million yen, and net income of 8,469 million yen, with distribution per unit of 7,750 yen, as previously forecast.

For the June 2023 fiscal period, we forecast operating revenue of 18,101 million yen, operating income of 8,760 million yen, and net income of 7,990 million yen, with distribution per unit of 7,600 yen, as previously forecast.
For the December 2023 fiscal period, we forecast distribution per unit of 7,600 yen, the same amount as the previous period, through utilizing retained earnings, despite the absence of gain on transfer of property.

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Here, I will explain the financial results for the December 2022 fiscal period and forecasts for the next two periods, using factors for changes in distributions per unit.

Starting with the overall outlook, rental revenue is expected to remain stable due to recovery in the occupancy rate, despite delays in finding tenants for certain properties. We have addressed the deterioration in the balance of utilities caused by rising energy price by revising the arrangement for charging tenants. As a result, adjusted EPU, which is distribution excluding factors such as capital gains, is expected to recover after hitting bottom in the June 2023 fiscal period.

In the December 2022 fiscal period, deterioration in the utilities expense balance and the absence of revenue from transferred property was offset by an increase in rental revenue due to the elimination of free rent periods and the recording of cancellation penalties, and as a result, adjusted EPU was 7,441 yen, an increase of 41 yen from the previous period and DPU was 7,750 yen due to the recording of a gain on transfer of property.
We held part of the gain on transfer of property in reserve as retained earnings to stabilize future distributions.

In the June 2023 fiscal period, we forecast adjusted EPU of 7,170 yen, reflecting the absence of cancellation penalties recorded the previous period and an increase in fixed property tax in addition to the continued impact of rising energy prices; however, DPU is expected to be 7,600 yen due to the recording of a gain on transfer of property.
As in the previous period, we are likely to hold part of the gain on transfer of property in reserve.

In the December 2023 fiscal period, rent and common charge will increase due to progress with leasing activities and we also expect improvement in the balance of utilities as a result of revision of the electricity bill charging arrangement. As a result, we forecast adjusted EPU of 7,250 yen, an increase of 80 yen from the previous period, and we expect to ensure the minimum DPU of 7,600 yen by utilizing retained earnings.

Please move on to page 8.

I will now explain JPR’s growth strategies.
The bottom part of the slide shows the three basic strengths of JPR.
These are, starting from the left, a diversified robust portfolio focused on favorably located office properties in Tokyo; a high level of operational capability through collaboration with sponsors; and a commitment to sustainability.
We will leverage these strengths, aiming for improvement in unitholder value through stable distributions resulting from continuous external growth, effective asset replacement, and the utilization of gain on transfer and retained earnings.

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I will now discuss our DPU strategy.
JPR has set an immediate target for adjusted EPU of 7,600 yen.

We initially expected to achieve this target in around 2 years; however, achievement may be slightly delayed due to the impact of rising energy prices and other factors. We will aim for early achievement through recovery of occupancy and external growth, but in the meantime will use our abundant retained earnings to ensure a stable level of distributions, with 7,600 yen as the minimum distribution.

Please move on to page 10.

This page explains our perception of the market environment.
The outlook for the office market remains uncertain due to the COVID-19 pandemic which has dragged on over the past few years and more recent events such as the impact of the invasion of Ukraine. Nonetheless, the vacancy shows a tendency to remain mostly flat, partly due to a certain degree of recovery in demand.
This year, there is unlikely to be any major deterioration in market conditions, with concern over the impact of concentrated supply of large-scale office buildings quelled by expectations for further recovery in demand as a result of the full reopening of the economy.

The property sales market still seems overheated, with demand among investors remaining strong.
JPR's policy of focusing on acquiring office buildings in Tokyo through sponsor pipelines remains unchanged; however, we will also consider acquiring well-located properties in major regional cities as well as urban commercial facilities, including hotels which we have previously refrained from considering, based on an assessment of the conditions of individual properties.

As for the financing environment, long-term interest rates have risen under the impact of monetary policy tightening in Europe and the United States and the BOJ's revision of its yield curve control policy. However, we believe that the short-term impact of this will be negligible thanks to JPR's longstanding efforts to lengthen maturities and diversify repayment dates.

Please move on to page 11.

Here, let me explain the features of JPR's portfolio.
JPR has built a diversified, robust portfolio, with a focus on excellently located office buildings in Tokyo.
In 2023 and 2025, there will be concentrated supply of S-Class office buildings mainly in

central Tokyo; however, with S-Class office buildings making up 6.1% of JPR's portfolio and properties in the rent zones between 15,000 yen and less than 30,000 yen, which are in highest demand, accounting for 74.5% of the portfolio, JPR's portfolio is unlikely to be directly impacted by the new supply.
Furthermore, in addition to the portfolio's well-balanced regional diversification, over 70% of portfolio properties are located within a 3-minute walk of the nearest station, allowing JPR to tap into demand for better located office space.

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No individual property accounts for more than 10% of total portfolio investment and our portfolio mostly consists of properties in which our investment ratio is 3% or less. What is more, through tenant replacement, the number of office tenants with occupancy of 1% or more has been reduced to only one.
Our low concentration risk i.e. dependence on a specific building or a large tenant is also one of the factors that enables us to maintain stable occupancy.

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From here, I will explain the operational status.
First, I will discuss the occupancy status.
The occupancy rate based on concluded contracts was 97.0% in the December 2022 fiscal period, reflecting moveouts by tenants of Gotanda First Bldg. sold at the end of the year, but is expected to improve to 97.3% in the June 2023 fiscal period. The occupancy rate based on generated rents is recovering gradually after hitting bottom in the June 2022 fiscal period.

As for the status of move-ins and move-outs, as shown in the chart in the bottom right corner, cancellations by large tenants are also easing up and move-out spaces show a downward trend. We will continue filling up vacant space focusing on properties requiring priority action.

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I will now explain the rent situation.
As shown in the chart in the top left hand corner, the extent of downward rent revision has barely changed over the past few periods and yet there has been a net decrease in rent due to less frequent upward revision both for existing tenants and on tenant replacement.

However, rent was revised downward for only three out of a total of 124 contracts and we succeeded in renewing most contracts without any change in rent.
The gap in rents is +1.4% and we intend to approach rent revision negotiations with tenants based on a careful assessment of individual circumstances.

Please move onto page 15.

I will now explain leasing activities for properties requiring priority action.
The top row shows properties for which we are stepping up leasing activities.

The occupancy rate of Olinas Tower dropped to 77.9% after the moveout of a large tenant in March last year. We filled 70% of the vacant space without downtime and the occupancy rate recovered to 92.5% for a time; however, taking new cancellation notices into consideration, we expect the occupancy rate in March this year to be 85.2%. In the surrounding area, competing properties have lowered their asking rents and the property has also switched to a strategy of prioritizing occupancy. Since the start of the year, inquiries have also increased and we are focusing on quickly finding tenants for the property as a top priority.

The occupancy rate of Shinjuku Square Tower keeps going up and down despite some move-ins and overall there has only been only slight improvement. Although the building is a slight distance from the station, we will seek to fill the space quickly by stressing the high grade and cost-efficiency of the building.

At JPR Harajuku Building, a total of five floors will become vacant through to April this year due to cancellations by multiple tenants; however, two of these floors have already been filled. This building is a highly competitive property located on Meiji-Dori Avenue and large-scale renovation of the common-use areas has also been carried out towards the end of last year. We will fill the vacant spaces by tapping into the strong demand in the Shibuya and Harajuku districts.

At the bottom are the properties where progress on leasing activities has been made.
At JPR Omiya Building, a large tenant occupying five floors/1,200 tsubo moved out in April last year. After filling two of the vacant floors as entire floors, we then switched to leasing activities allowing the subdivision of floors to meet the needs of the tenants in these districts and found a further five tenants. As a result, the occupancy rate on a concluded contract basis recovered to 96.5%.

We have now also received an application for the one remaining vacant space.

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I will now explain the utilities expense situation.
JPR has also been severely impacted by deterioration in the balance due mainly to electricity bills, reflecting rising energy prices.
The chart in the bottom left hand corner shows the electricity bill components and changes in the composition.
The size of the increase in expenses is mostly attributable to fuel adjustment charges; however, as shown in the pie chart on the right, we have already taken action to address the sharp rise in fuel adjustment charges by switching mostly from fixed unit price bills, which used to account for around 40% of all bills, to an arrangement combining fixed unit price and variable unit price, from autumn last year.

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I will explain retail properties.

JPR's retail properties are all situated in very busy areas and most contracts with tenants are long-term contracts with fixed rents. We have also maintained occupancy at the high level of 99.7% and retail properties are positioned as important assets which help stabilize the portfolio.
As shown in the chart in the top right hand corner, the sales of commercial tenants which were affected by COVID-19 have also been recovering steadily recently.

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I will now explain our asset replacement since December last year.
As shown on the left side of the page, we have carried out asset replacement transactions involving Tokyo Tatemono and Yasuda Real Estate, both of which are sponsors. The transferred properties are both properties struggling to secure stable revenue, for example, at Gotanda First Bldg., a large tenant which was leasing all of the office space has moved out, and by replacing these properties with favorably located properties in central Tokyo and major regional cities including Shinjuku Center Bldg., we have improved the quality and profitability of the portfolio.

In addition, we have appropriated some of the gain on transfer of JPR Crest Takebashi Bldg. for distributions and have held some of this gain in reserve as retained earnings, thereby helping to ensure the stability of future distributions.

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This page shows the results of recent acquisitions and asset replacement.
JPR focuses on acquiring office buildings in Tokyo, taking full advantage of the sponsor pipeline and also continuously replaces assets with the aim of improving portfolio quality.
Property transfers are carried out on the assumption of asset replacement, in principle, and we select properties based upon consideration of individual circumstances including building age and future profitability.

Look at page 24.

I will now explain our external growth strategy.
The Medium-Term Business Plan for fiscal years 2020 through 2024 of Tokyo Tatemono, our main sponsor, sets out the intention to strengthen fund business and expand the sale of properties to investors.
Over the past few years, JPR's assets have grown at an increasingly fast pace thanks to sponsor support. In actual fact, since 2020, we have made acquisitions of 84.5 billion yen and the net increase in assets after subtraction of transfers is 57.5 billion yen, far exceeding growth prior to 2020.

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The Tokyo Tatemono pipeline consists mainly of two kinds of properties: properties reclassified as real estate for sale from noncurrent assets for long-term ownership, and properties developed or acquired in the assumption of sale.
JPR has acquired from among the properties reclassified from noncurrent assets flagship properties such as Otemachi Financial City North Tower and Grand Front Osaka, and from among the properties developed on the assumption of sale, we have acquired properties such as the FUNDES series.
JPR will continue utilizing sponsor pipelines to actively acquire properties in the future and will also push ahead with asset replacement in parallel, to improve the quality of our portfolio and realize unrealized gains.

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I will now explain our financial strategy.
During the December 2022 fiscal period, we procured funding of 8.0 billion yen in total, with an average maturity of 6.3 years.
LTV has been kept at the low level of 40.0% and debt acquisition capacity calculated based on a maximum LTV of 45% is approximately 46.0 billion yen.

Since last year, domestic interest rates have been rising and future developments are attracting attention; however, the impact will be negligible in the short term thanks to JPR's longstanding efforts to lengthen maturities and diversify repayment dates in addition to the low LTV.
The policy going forward is to also focus on the utilization of medium-term maturities from the viewpoint of reducing debt financing costs, whilst at the same time maintaining healthy finances.

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Lastly, I will explain our initiatives for sustainability.

In recent years, calls for sustainability initiatives have grown stronger and stronger. JPR and TRIM were among the first in the industry to launch initiatives and have become even more proactive over the past few years.
As a result, we have also received high ratings from GRESB, MSCI and other third-party rating agencies and in the fiscal period under review our CDP score was also upgraded to A-.

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Regarding the reduction of GHG emissions, we formulated a plan setting net zero as our 2050 goal and a 2030 interim target of reducing GHG emissions by 46.2% compared with 2019, and we submitted this plan to SBTi in November last year.
These are by no means easy targets to achieve but we will focus on achieving them through a combination of measures.

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On the corporate governance front, to coincide with the restructuring carried out in February this year, we tightened up the decision-making process and strengthened corporate governance by externally recruiting a real estate appraiser as a special member of the body which makes decisions on property acquisitions, etc.
We will continue focusing on further ensuring sound management as a trusted investment corporation.

That concludes my presentation.

In the office market, there is concern over the large-scale supply of office space; however, luckily JPR has not had any large cancellations and has also revised the arrangement used to charge tenants for electricity bills after gaining the understanding of tenants.
JPR intends to enhance unitholder value through a combination of internal growth achieved by continuing to deal appropriately and flexibly with various issues and filling vacant space at properties which require priority action and external growth achieved through utilization of the pipeline of Tokyo Tatemono, which is JPR's sponsor.
We look forward to your continued support.