

December 2021 (40th) Period Analyst Meeting

[Date: Thursday, February 17, 2022]

[Q&A Session Summary]

- Q. You said you intend to raise the minimum level (floor) for future distributions (DPU) from 7,550 yen. Give further details, including the conditions for raising the minimum level.
- A. We announced DPU of 7,550 yen as the minimum level based on the assumption of reversal of retained earning because DPU for the December '22 period was expected to drop below our assumed "cruising" distribution of 7,550 yen due to move-outs by large tenants. DPU for the June '22 period and the December '22 period is now expected to be a record-equaling 7,750 yen, due to a gain on transfer of property. From the June '23 period onwards, when there will no longer be any gain on sale of property, even if the occupancy rate has not recovered and distributions have not returned to the cruising level, we still hope to set a minimum level exceeding our previous cruising level of 7,550 yen by drawing on our ample retained earnings.
- Q. You explained that office demand has grown since last October. Explain the features of this demand.
- A. After the state of emergency was lifted, companies that had refrained from opening a new office or relocating to another office started making moves and progress was also made in leasing activities for Rise Arena Building. Tenants are also being found externally for some favorably located large properties at which, a short time ago, any vacancies that occurred would have been filled by existing tenants expanding their office space, suggesting that strongly performing companies are not only relocating to larger offices but also relocating for other reasons such as moving to a better location.
- Q. There will be a comparatively high level of move-outs in the June '22 period. Give details of the move-outs you envisage in the December '22 period and the level of rent on tenant replacement when the vacant space is filled.
- A. In the June '22 period, there will be considerable move-outs at a number of

properties such as Olinas Tower and Omiya Prime East. However, in all cases, vacancies are being filled on the basis of the same level of rent or a higher level of rent. In the December '22 period, we expect a major move-out at Gotanda First Building though the timing has yet to be decided, but no other major move-outs are planned. The occupancy rate on a concluded contract basis hit bottom in the December '21 period and is expected to recover from the June '22 period onwards. We assume that the occupancy rate on a rent basis will recover despite lagging slightly behind the occupancy rate on a concluded contract basis due to the impact of rent-free periods.

Q. Explain the current status and outlook for Tokyo Square Garden.

A. We have not mentioned Tokyo Square Garden as a property requiring priority action this time because its impact on earnings is minor given that JPR's ownership interest is around 8%. Currently, we are seeing some changes in the tenants of office space, but any vacancies created when major tenants move out are being filled. Restaurant space has also all been filled thanks to the building's advantage of being directly connected to the station.

Q. The rent gap is unchanged from the preceding period and yet appears to have narrowed for existing properties. Does this reflect the impact of newly acquired properties?

A. The rent gap for the portfolio as a whole is unchanged from the preceding period because a narrowing of the rent gap for existing properties was offset by a fairly large rent gap at newly acquired properties.

Q. The pace of property acquisitions has increased in recent years. Why is this?

A. This can be largely attributed to the impact of the Medium-Term Business Plan of Tokyo Tatemono, which is the main sponsor, in terms of expanding property sales and strengthening fund business, as well as JPR's positioning of external growth as the main growth driver. The property market continues to show strong levels of activity and the acquisition environment is challenging. However, given that our LTV is still low and we also have sufficient acquisition capacity, we intend to step up the annual pace of property acquisitions, whilst remaining vigorously selective about investments.

Q. Will Tokyo Tatemono's pipeline continue to be the focus for property acquisition?

- A. We expect that acquisitions from Tokyo Tatemono will make up the bulk of our acquisitions but we will also acquire properties from other sponsors and make use of preferential negotiating rights in regard to co-owned properties when acquiring properties.
- Q. You will no doubt focus on office properties but what are your plans in regard to the acquisition of retail properties and hotels?
- A. We will consider acquisitions based on a careful assessment of a range of factors including the COVID-19 situation and, in the case of hotels, the status of recovery of inbound demand.