Summary of Results Briefing

Let us now begin the results briefing for the Japan Prime Realty Investment Corporation's 38th fiscal period ended December 2020.
My name is Yoshihiro Jozaki and I am the President and CEO of Tokyo Realty Investment Management, Inc., the asset management company. Thank you for attending our presentation today.

First, I would like to take this opportunity to express my condolences to those who have lost a friend or family member to COVID-19, and my heartfelt sympathies to all those who have suffered from this illness and their families. I also wish to extend my heartfelt respect and deep gratitude to the essential workers and medical professionals providing medical treatment every day in this difficult situation.

Now, let me begin my presentation.
Please look at page 5.

This slide shows the summary of financial results for the 38th fiscal period ended December 2020 and operating forecasts.
Strong results were posted for the 38th fiscal period, slightly higher than the forecast, but unfortunately, we expect a fall in distributions in the fiscal periods ending June 2021 and December 2021, given that several large cancellations are anticipated.

First, please look at the column highlighted in blue. This shows the results for the 38th fiscal period.
Operating revenue was 17,129 million yen, up 766 million yen from the previous period, operating income was 8,533 million yen, up 519 million yen, and net income was 7,839 million yen, up 562 million yen. These figures include a 414 million yen gain on sale of real estate because we sold part of JPR Hakata Building at the end of last year. The full amount of the gain on sale was internally reserved, and distribution per unit came to 7,750 yen, an increase of 155 yen from the previous period.
Distribution per unit was slightly higher than the forecast thanks partly to progress in rent revisions exceeding expectations.

Columns highlighted in red are forecasts for future periods.
Speaking about the fiscal period ending June 2021 and comparing it with the forecast we announced, we have forecast distribution per unit to be 7,550 yen, 50 yen higher than the previously announced figure, because the increase of the tax base of land due to the revision of land value which is the basis of property tax and city planning tax is expected to be postponed one year, and this will become a significant positive factor. On the other hand, we expect that rents for bar and restaurant tenants will be reduced in association with the declaration of a second state of emergency.
The figures for this period also include a 784 million yen gain on sale associated with the sale of JPR Hakata Building, but we plan to internally reserve its full amount, as we did in the previous period.
For the fiscal period ending December 2021, financial results are expected to be lower than the previous period, given that cancellations are increasing, in addition to slower-than-expected leasing due to the declaration of a second state of emergency. However, we expect that leasing will begin to progress in 2022 and thereafter and that financial results will also improve. Therefore, we plan to maintain distribution per unit at 7,550 yen by using internal reserves to make up for a temporary fall in distributions during this period.
I will provide a supplementary explanation on page 6.

I will explain the financial results for the 38th fiscal period and forecasts for the next two periods, using factors for changes in distributions.

In the 38th period, distribution per unit increased 155 yen, to 7,750 yen.
Regarding the factors for the increase, internal growth was a positive factor of 132 yen, and the upward revision of rents made steady progress, which made up for a fall in occupancy rates. Although rents were reduced for large commercial tenants, as I mentioned in the previous results briefing, a fall in expenses for COVID-19 measures and the contribution of the full-period occupancy of the Sencity Building, etc. as external growth resulted in the increase in distributions. Regarding the gain on sale of JPR Hakata Building, the full amount was internally reserved.

For the fiscal period ending June 2021, we plan to pay out a distribution per unit of 7,550 yen, a decrease of 200 yen from the 38th period.
One of the factors for the decrease is that move-in/move-out will make a significant negative contribution in internal growth due to overall delays in leasing because of the impact of COVID-19.
In addition, in the Rise Arena Building, which is included in "Move-out of large tenant," the filling of vacancies is about half done, and this is expected to become a factor decreasing revenues by 188 yen because its contribution to revenues will be made mainly in the next period and thereafter.
As for the COVID-19 measures, we expect that expenses will be on par with the previous period. In addition, the contribution of Otemachi Financial City as external growth will not be enough to make up for the fall in occupancy rates. Therefore, we expect that distribution per unit will decrease.
Regarding the gain on sale of JPR Hakata Building, we will internally reserve the full amount.

For the fiscal period ending December 2021, we plan to pay out a distribution per unit of 7,550 yen, the same amount as in the previous period.
A factor for this is our cautious view on progress in leasing based on our projection that COVID-19 will continue to impact us this year. As a result, internal growth is expected to become a factor in the decrease of revenues by 206 yen overall due to the net negative impact of move-in/move-out, and income per unit is also expected to decline.
For this period, the distribution could deviate above the forecast due to progress in leasing and external growth, but if the distribution falls below 7,550 yen, we will use internal reserves to maintain it at 7,550 yen.
I will explain our policy on the reversal of internal reserves later.

Next, take a look at page 8.

I will talk about the impact of COVID-19.
A major direct impact of COVID-19 is the temporary reduction of rents for commercial tenants who have refrained voluntarily from doing business associated with the declaration of a state of emergency. However, because the impact on leasing has been increasing along with the prolongation of the epidemic, I will provide an explanation, including about this factor.

The situation of the temporary reduction of rents is shown in the upper left table.
The impact of the temporary reduction due to the declaration of the state of emergency last Spring is stated in "Total amount of responding" for the fiscal periods ended June 2020 and December 2020, but it was 400 million yen less than the forecast in the fiscal period ended December 2020.
For the fiscal period ending June 2021, we expect that the impact associated with the declaration of the state of emergency this year will be 45 million yen. Basically, we expect a temporary reduction for bars and restaurants which will be strongly affected by the government requests for businesses to voluntary refrain from activities.
In addition, good progress is also being made in the collection of rent in arrears from tenants who took payment holidays.

The graphs on the right side show the status of cancellations and the status of leasing.
The upper right shows there were 30 cancellations in the fiscal period ended December 2020, about 6,400 m^2, smaller than the historical average, but cancellations will increase to 50 with an area of

about 18,100 m^2 in the fiscal period ending June 2021. However, if we exclude the three properties whose cancellations were suggested before COVID-19, the Rise Arena Building, the Kawasaki Dice Building and Tokyo Square Garden, the cancelled area will be about 9,800 m^2, which is almost the same as the historical average for cancelled area.

The status of leasing is shown on the lower right graph.
Although a certain amount of demand exists because companies are currently maintaining a wait-and-see attitude due to COVID-19, the absolute amount has declined from the level before COVID-19. In this environment, a rent-free period of two to three months is frequently proposed to tenants signing a new contract, and the vacancy period is also on the rise.
The figures for the fiscal period ending June 2021 in the graph show that the rent start downtime is increasing, reflecting an increase in free rents. The contract start downtime is also expected to increase because the rise in the vacancy period will be reflected going forward.
However, given the current market environment, it is difficult to see free rents increasing from the present level, and we therefore expect that the vacancy period will gradually shorten if the impact of COVID-19 diminishes due to the increase of vaccinations.

Please look at page 9.

I will explain the status of the office market and the future outlook assumed by JPR.

I think that you already understand the situation in the fiscal period ended December 2020. So, I will talk mainly about the future outlook on the right side of the table.
Regarding economic trends, we think that the COVID-19 pandemic will continue with peaks and valleys, but its impact on society will diminish as vaccination becomes widespread, and companies will gradually become able to take forward-looking action on investments.
We expect that the office leasing market will begin turning up in the first half of 2022 because the market normally recovers half a year or a year after a change in the investment trends of companies. However, we think that the recovery will be moderate because a large supply of office buildings is scheduled in central Tokyo in 2023.
We expect that the deterioration of the vacancy rate and the rent level will also clam down gradually, given that cancellations are unlikely to increase further because the economy is expected to recover this year. However, because the market will not return to the lessee-dominated situation before COVID-19 for some time to come, we think that management taking into consideration the leasing period and losses such as free rents will be necessary.

We have also summarized the effects of remote work in the table at the bottom.
There is reference data on the next page. If you look at the pie chart in the middle of the upper row, you will see that office downsizing due to the adoption of remote work is limited to some companies. As the graph in the middle of the lower row shows, problems in remote work, such as declining productivity, have also been identified. Therefore, many companies are expected to go back to a working system centered on going to the office if the impact of COVID-19 declines. However, given that companies that experienced COVID-19 are expected to promote BCP and workstyle reforms more strongly, buildings in good locations and with high specifications that are able to respond to new tenant needs are expected to be preferred.

Now, please look at page 11.

Based on this environmental outlook, I will talk about JPR's growth strategies.

Regarding internal growth, even though the office property leasing market, which remained strong in the past, has changed, it has never been a pessimistic situation. Therefore, we think that it is possible to continue to proceed with the upward rent revision particularly for tenants with a negative rent gap.
We will make efforts to maintain or increase rental revenue even if only slightly by making up for

the decline in revenues caused by the longer downtime as much as possible.

External growth will be a main growth driver in the future.
We will seek to acquire prime office buildings on an ongoing basis because we can continue to expect property contributions from Tokyo Tatemono. However, we will refrain from acquiring retail properties and hotels for the time being.
Given that the average age of our portfolio is more than 20 years, we need to consider improving the quality of the portfolio by replacing the properties. Although there are no properties we have to move quickly to sell in the near term, we will work to realize unrealized gains by actively considering asset replacement while paying attention to a fall in NOI through sale, because the for-sale property market continues to be firm.

In terms of costs, we will maintain our policy of strictly controlling repairs and value enhancement investments for the time being. We will also continue to work on the reduction of administrative costs by reviewing electricity supply contracts.

As a strategy for stabilizing distributions, we will partially review our policy for the handling of internal reserves.

When we achieved high rent growth, we were able to offset the decline in rental revenues caused by the moving out of a large number of tenants. However, if a series of tenants move out in the present environment, distributions could significantly decline temporarily until the vacancies are filled. If this sort of temporary greater-than-anticipated decline in distributions is expected, we will use internal reserves to stabilize distributions.

Next, look at page 12.

This page shows our medium-term target.

Regarding that medium-term target, we will maintain the distribution target of 7,800 yen that we previously established, by continuing to carry out operations designed to grow distributions.

Distributions will dip in the fiscal periods ending June 2021 and December 2021, given that there will be several large cancellations in the fiscal period ending June 2021 as the impact of COVID-19 continues, but we will aim to quickly achieve the medium-term target by enabling occupancy to recover through the quick filling of vacancies and by backfilling distributions through external growth.
Once again, for the fiscal period ending December 2021, we will use internal reserves to secure the 7,550 yen per unit distribution because distributions are expected to decline more than anticipated due to a temporary fall in the occupancy rate.

Now, please turn to page 15.

From here, I will explain the operational status. First, I will discuss the occupancy status.

Please look at the graph, "Occupancy rate and move-ins/move-outs," in the upper left.
In the fiscal period ended December 2020, the average occupancy rate based on concluded contracts remained high at 99.4%, thanks to greater progress in the filling of vacancies than assumed at the time of the previous announcement.
For the fiscal period ending June 2021, the occupancy rate based on concluded contracts is expected to fall to 98%, given that there are many cancellations, although the filling of 7,500 m2 of vacancies has been completed as of this moment. We will continue to work on the filling of more vacancies by focusing on leasing properties, particularly those listed on the next page.
For the fiscal period ending December 2021, the occupancy rate based on concluded contracts is likely to remain at 98%, although this is not shown in the graph.

The lower right graph of the average rent free period shows that the rent free period remained low at 1.2 months in the fiscal period ended December 2020, and downtime was also short.
For the fiscal period ending June 2021, the rent free period is expected to be around three months and remain almost the same in the next fiscal period and thereafter.

Please look at "Major move-ins/move-outs" in the upper right. In the JPR Sendagaya Building, the Shibadaimon Center Building and the JPR Shinsaibashi West, where there were large cancellations in the fiscal period ended December 2020, the filling of vacancies has already been completed.
On the next page, the properties where we are focusing on leasing due to large vacancies in the fiscal period ending June 2021 are listed.

Look at page 16.

I will explain the current situation at properties where we are taking steps to particularly strengthen leasing.

In the Rise Arena Building, a tenant who had leased the whole building moved out at the end of January 2021.
About a half of the vacancies have been filled with an upward rent revision by April 2021, but our leasing activities temporarily stopped due to the COVID-19 pandemic, and some potential tenants are thinking about moving out or are slow in their consideration of leasing.
We will proceed with leasing activities, with the aim of concluding a contract for the remaining vacancies on all floors by the end of the year.
In the Kawasaki Dice Building, a tenant who had suggested moving out before COVID-19 moved out at the end of February 2021, and one floor will be vacant.
We are proceeding with leasing activities mainly for tenants who will improve the ability to draw customers for the whole building, with the aim of signing contracts in the second half of this year.
In Tokyo Square Garden, a tenant leasing 2.5 floors will cancel the contract by the end of May 2021.
Leasing is delayed due to COVID-19, but given the inquiries we have received, I think that it will not take much time to fill the vacancy.
Because JPR's equity interest is about 8%, the impact of the vacancy on our business performance will be limited.
In the JPR Harajuku Building, tenants moved out of one office floor and one store on the first floor at the end of January 2021.
The store vacancy has already been filled, and we aim to sign a contract for the remaining vacancy around this summer.

Now, please look at page 17.

Look at the upper left graph for rent revisions.
As I explained in the previous results briefing, we reduced rents for large commercial tenants in the fiscal period ended December 2020. As a result, overall contracted rents declined.
Regarding rent revisions, we had assumed an upward revision of about 8 million yen including replacement at the time of the previous explanation. However, we succeeded in adding some more upward revisions to reach a total of 11.3 million, including 7.6 million yen due to upward revisions and 3.6 million yen due to an increase in replacements.
The total amount of upward revisions was smaller than the previous period, but this is because the area subject to rent renewal was small in the fiscal period ended December 2020. Compared with the fiscal period ended December 2018 which had a similar-sized area subject to rent renewal, we achieved upward revisions of the same level. The rate of upward revision was 6.7%, maintaining a similar revision rate as those in last few years.
Next, look at the upper right graph. This shows the percentages of tenants who renewed contracts with upward revisions, no revision or downward revisions in the period. Although the percentage of upward revisions declined in the fiscal period ended December 2020 due to COVID-19, about 30% of tenants consented to upward revisions even in this environment. Rents were left unchanged

for most of other tenants, and the number of downward revisions was small, indicating that the underlying trend was still an upward revision.

The lower right graph shows the status of the rent gap.
There is still a negative rent gap of more than 3% although it is smaller than the previous period. Particularly for the dark blue portion in the graph, we recognize that it is quite possible to revise rents upward.
Negotiations for upward revision are difficult because the COVID-19 pandemic has persisted, but we will continue to work for upward rent revisions, mainly for tenants with a rent gap.

Now, take a look at page 18.

I will explain retail properties.
Look at the upper right graph.
The occupancy rate of 99% is expected to be maintained in the fiscal period ending June 2021, despite the cancellation of one floor and the several cancellations of bars and restaurants in the Kawasaki Dice Building.
We think that, as the owner, a certain amount of support is necessary for bar and restaurant tenants whose business is sluggish due to COVID-19, but as the lower right graph shows, the ratio of bar and restaurant tenants to retail tenants is small at about 3%. Therefore, their impact on our business performance is limited. We hope that sales will recover in bar and restaurant tenants as the COVID-19 situation improves following the progress in vaccination.

Look at page 19.

I will explain our external growth strategy.

This page summarizes the properties we recently acquired. We have acquired properties in a balanced fashion with a focus on offices in Tokyo using the sponsor pipeline.
We have been able to stably acquire properties for the last two years, partly because Tokyo Tatemono began focusing on the sale of the properties that it owned, including those for investors.
It seems that we can continue to count on property contributions from Tokyo Tatemono given its medium-term plan. Therefore, we will work to raise the DPU level through continuous property acquisition. In December 2020, we replaced the JPR Hakata Building with Otemachi Financial City in our asset portfolio. We will consider asset replacement at the same time as asset acquisition, with the aim of rejuvenating our portfolio and realizing unrealized gains.

On page 20, the overview of the asset replacement we conducted the other day is described.

If you look at the lower right table, you will see that the ratio of offices in Tokyo and the building age has improved. Retained earnings after the asset replacement will also increase to 1,880 million yen.

Next, look at page 21.

I will explain the Tokyo Tatemono pipeline, which is the main sponsor.

As the table in the middle of the left side shows, the Tokyo Tatemono pipeline has mainly of two kinds of properties, properties reclassified as real estate for sale from noncurrent assets for long-term ownership, and properties developed as property for investors.
The table at the bottom includes some of properties for investors, but the completion of the offices is still quite a long way off.
Properties reclassified from noncurrent assets for the last two years include the JPR Kojimachi Building, JPR Shinsaibashi West and the recently acquired Otemachi Financial City, and they constitute the main pipeline.

Given that Tokyo Tatemono seems to have a policy of reclassifying noncurrent assets into real estate for sale when appropriate in the process of reviewing its portfolio, we think that we can continue to count on asset acquisition from them.

Next, look at page 22.

We continue to manage our finances conservatively.
Look at "Debt procurement results in the 38th fiscal period" in the upper left.
The average maturity is 9.2 years, and the average debt interest rate is 0.54%. This suggests that we have succeeded in satisfying both the prolonging of repayment dates and the reduction of debt costs.
Look at the change in LTV in the lower right.
LTV after the recent asset replacement is 40.6%, and the debts acquisition capacity calculated based on an LTV of 45% is 39.1 billion yen.
Free cash is posted in the margin of "Diversification Status of Repayment Dates" in the upper right.
Because we have ample free cash, we will consider using part of it to acquire properties in the future.
As we have sufficient debt acquisition capacity even without relying on equity raised by a capital increase through public offering, we will continue to actively work on acquiring office buildings.

Next, look at page 24.

Lastly, I will explain our initiatives for sustainability. This page shows only the broad categories. So, if you would like more information, please refer to page 43 and thereafter.

As typified by the government's announcement of the target of carbon neutrality by 2050, environmental issues have become increasingly important in Japan. JPR has been actively promoting its initiatives for ESG and for two consecutive years, including the fiscal period ended December 2020, has acquired the “5 Stars” ranking that is the highest in the GRESB Real Estate Assessment. In addition, JPR has begin to participate in the CDP’s Climate Change Program.
As future initiatives, we are reviewing materiality and setting a target for 2030, in addition to bolstering our internal systems, including the establishment of a department specialized in ESG. We will continue to aspire and promote our ESG activities.

That concludes my presentation.

On a final note, I once again hope that the COVID-19 pandemic will end so that we are able to quickly return to our normal everyday lives.

However, even after the end of COVID-19, there may still be changes in behavioral patterns and workstyles, and we must invest in real estate tailored to these changes in the environment that will occur in the future.
JPR seeks to maintain a stable portfolio by redoubling our efforts to continuously communicate with tenants and strengthen initiatives that will lead to new growth strategies.

Thank you for your attention during this long presentation.