Japan Prime Realty Investment Corporation

December 2018 (34th) Period Analyst Meeting [Q&A Session Summary]

〔Date: February 19, 2019〕

Q. The rate of increase in rents in the current period was high, exceeding the gap in rents. Will rents continue to rise at this rate? Please give your forecast.

A. Since increases in ongoing rent are still not keeping pace with increases in market rent and the gap in rents is widening, we expect to be able to raise rents for buildings with especially good locations and specifications for the time being.

Q. Regarding property acquisitions, from JPR's perspective, is the sponsor's need to sell properties greater than before?

A. Since the balance of real estate for sale appears to be higher than before, we expect that properties may be sold sooner or later, but we do not know the sponsor's policy at present. However, there are still not many properties that JPR could readily acquire. When it comes to hotels, for example, occupancy and operating status need to be assessed for one or two years after their completion regardless of acquisition with the long-term fixed rent and, similarly for office properties, it takes some considerable time after completion until office properties start to operate stably. Given that the sponsor's business also appears to expanding gradually, we also expect to see an increase in the sponsor's need to sell properties in the future.

Q. Regarding property acquisitions in the future, which will you attach more importance to-enhancement of portfolio quality through replacement or expansion in assets size?

A. Basically, we want to try to increase asset size. We will investigate replacement if there are any properties that are likely to become less competitive in a market downturn. However, this does not apply at present given that JPR's properties are generally competitive within the areas in which they are located.

Q. Please give a sense of the size of sponsor pipelines and external pipelines.

A. According to the business results presentation of Tokyo Tatemono, one of the sponsors, in the commercial properties business segment, the balance of real estate for sale has risen to around 85 billion yen. However, this also includes logistics facilities and other properties that are not considered to be JPR's investment targets. In the future, JPR will continue making acquisitions within the operational policy limits of 70% for office properties and 30% for retail properties and will, therefore, not increase the ratio of retail properties, including urban hotels currently being investigated as investment targets, beyond this limit.

Q. Please explain your policy on sales.

A. Properties corresponding to areas with the potential for redevelopment, such as Fukuoka Building sold in 2017, may become candidates for replacement. Our policy on properties that are in danger of becoming less competitive over the medium and long term is to choose whether to make additional investment or to sell them. However, when it comes to the existing portfolio properties, we are seeking to renovate them all by making additional investments and there are no properties that need to be sold and have lost their competitive advantage in the market.

Q. The appraisal value of 39 properties increased. Roughly how many properties saw an increase in their appraisal value due to an increase in rent?

A. Some of the 39 properties increased in value because of a review of the cap rate and some increased in value due to an increase in rent. Approximately half saw an increase in their appraisal value as a result of an increase in rent.

Q. Regarding the increase in the dividend to 7,500 yen due to external growth on page 33, is this based on the assumption of acquisition funded through borrowing?

A. The dividend forecast for the December 2019 period is 7,380 yen, which is 120 yen short of 7,500 yen. If we purchased a 10-billion-yen property with a yield after depreciation of 3.5%, this would have the effect of increasing the dividend by around 190 yen. We could, therefore, still achieve a dividend of 7,500 yen without spending as much as 10 billion yen when internal growth is added. Given that we currently have a low LTV of 40%, acquisition funded by borrowing is the most likely scenario.

Q. The unrealized loss on Shinjuku Center Building is quite big. In the Shinjuku area, cases where properties are sold at a price higher than their appraisal value can be seen here and there. In the future, do you plan to let the unrealized loss improve naturally or do you have another plan such as sale?

A. Shinjuku property market conditions are quite good at the moment and the unrealized loss has improved from around 40% to around 25%. Our policy is to keep hold of

Shinjuku Center Building because it is also a core building.

Q. What is the purpose of describing the medium-term DPU target as 7,500 yen, consisting of DPU of 7,300 yen through internal growth and financial strategy plus enhancement with external growth?

A. When initially set, the target was DPU of 7,500 yen through a combination of internal growth, financial strategy and external growth. However, partly due to changes in the external acquisition environment, in the presentation for the December 2017 period, we switched to the presentation of two separate targets, separating external growth from internal growth and financial strategy. We adopted the latest description in the sense of indicating the approach for the June 2019 period, which is the goal. We are currently examining our next growth strategy and target.

Q. What kind of assumptions do you make about the rents of retail properties in your financial results and operating forecast? Are there any properties for which you have factored in a decrease in rents?

A. JPR’s retail properties are in excellent locations and are highly competitive and we, therefore, assume that rents will remain at their current level. Since some tenants request a decrease in rent each time they renew their contract due to their business results, we have forecast the maximum estimated decrease in retail property rents for some rent decrease estimates for the June 2019 period. Generally speaking, rents have increased at some properties and are expected to decrease at others and, therefore, our overall impression is that, on balance, rents will remain at their current level.