

Japan Metropolitan Fund Investment Corporation

August 2021 (39th) Period Q&A Session

Q&A Session Summary

Date: Monday, October 18, 2021

In the Q&A Session, three participants put forward a total of eight questions. The questions and answers have been grouped under the titles “Asset Replacement and Growth Investment,” “Management of Current Portfolio” and “Distribution,” based on the details of the questions.

【Asset Replacement and Growth Investment】

- Q1. : I would like to ask a question regarding a recent case of acquisition. JMF acquired JMF-Residence Gakugeidaigaku at a yield of little more than 3%. Does JMF consider that acquisition at this yield level is appropriate in light of the recent residential trading market, or that future rent hikes can be anticipated? Or does JMF consider that this yield level is fine as the yield after depreciation has improved relative to yields on properties disposed of in the course of asset replacement?
- A1. : We believe we have been able to steadily acquire properties even under the tough acquisition environment in the residential trading market. With regard to JMF-Residence Gakugeidaigaku, it is located in a prime site, and we were able to keep the acquisition price well low, at 91% of the appraisal value. Moreover, we have assumed rent lower than market rent levels, so we think we will be able to raise the rent over the medium to long term. JMF-Bldg. Hiroo 01 is also located in a prime site, and we believe it is an excellent property that contributes to stability. Regarding the retail area on the lower floors, as rents for tenants with whom contracts have been signed are 7 to 8% lower than market rent levels, we consider we will be able to increase rents to some extent. For these reasons, we decided to acquire both properties, factoring in some room for rent hikes.
- Q2. : JMF has almost achieved roughly half of its target of conducting 200 billion yen worth of asset replacement in three to five years, and I feel the pace is extremely fast. What is the reason for that?
- A2. : Even before the merger, the former Japan Retail Fund Investment Corporation and MCUBS MidCity Investment Corporation had constantly acquired properties worth 70 to 80 billion yen per year. This was due to long years of experience and relationships nurtured at the acquisition department of our asset management company. For future transactions, we have accumulated candidate properties worth approximately 200 billion yen on the short list and 450 billion yen on the long list and have continued negotiations on a daily basis. We will continue to approach a variety of companies that hold real estate.
- Q3. : As to the acquisition of investment units of private REITs, please explain the purposes of this initiative in terms of people, goods, or money, if any, other than the purpose of expanding residential assets.
- A3. : The first purpose is to increase our residential exposure by not only acquiring residences

directly but also undertaking a variety of initiatives, including an indirect method as taken this time. The second purpose is to take advantage of the high distribution yield on private REITs, which stands at more than 4%. We consider investment in private REITs is beneficial to investors in terms of investment returns. The third purpose is to further increase our investment knowledge in strengthening our initiatives for residences as a general REIT by collaborating with developers specializing in residences. For the above purposes, we are working on this initiative.

- Q4. : Some people say that there has recently been a headwind against urban retail properties. What are JMF's thoughts on the acquisition of urban retail properties in the future?
- A4. : In reducing the proportion of retail facilities to 50%, we have good chances of acquiring urban retail properties in prime locations while selling properties, especially suburban retail. Drawing on our knowledge and strengths in retail properties that have been developed to date, we also aim to appropriately acquire mixed-use properties for retail and other purposes, like JMF-Bldg. Hiroo 01, the acquisition of which we announced in this fiscal period.

【Management of Current Portfolio】

- Q5. : According to page 10 of the “Investor Presentation,” the impact of COVID-19 on total rent revenue was low, at 0.3%. Please explain the factors and tenant state that contributed to the low level of revenue decline.
- A5. : We factored in a conservative downtime in our business performance forecasts for the 40th and 41st periods. However, we are currently strengthening leasing and aiming to lease all units in the target properties as early as possible. Page 16 of the “Investor Presentation” shows major properties with large expected downtime, but there are around 100 lots not shown on this page, primarily small lots, which tenants have left in the past year, and we have managed to find new tenants for 70-80% of those lots. As some tenants are accelerating their efforts to open new shops even amid the COVID-19 pandemic, we will target such tenants and lease our properties. Specifically, we will target service, furniture, sundry, personal fitness, and other businesses. An increasing number of people are changing their room environments and investing in themselves as they stay home due to the COVID-19, and there is a strong need for opening shops among tenants who can appeal to such people. In addition, as we have become a general REIT, we have embarked on leasing aimed at turning retail lots into mixed-use properties by adding some office tenants.
- Q6. : I think many tenants have become aware of the risk associated with fixed rents amid the COVID-19 pandemic. However, page 1 of the “Investor Presentation” shows that CBRE anticipates increase in rent at Ginza high streets starting in the third quarter of 2022. Is this anticipation based on strong sales of luxury brands even amid the COVID-19 pandemic?
- A6. : Our perception of property management at high streets is that certain tenants see the current environment as providing opportunities to open shops in prime locations and they are actively looking for such opportunities even amid the COVID-19 pandemic. For example, after Hermes moved out from G-Bldg. Midotsuji 01, we started leasing activities for the lot. It turned

out that, shortly thereafter, we were able to find a luxury tenant as a new tenant for the lot. As newspapers and other media report high-end products, such as jewelry, are selling well, sales at luxury brands are strong, and they are actively seeking opportunities to open shops in better locations. We believe these trends are reflected in CBRE's market forecast report.

- Q7. : Page 20 of the "Investor Presentation" describes the introduction of a property point app and an EC platform. Room for expansion of these DX-related systems may be limited for JMF compared to major developers and retail companies that operate multiple stores. What are JMF's thoughts on cost-effectiveness?
- A7. : Starting with mozo wonder city, we have introduced a property point app that leads to the enhancement of customer services and started using an EC site that utilizes tenants' in-store inventories. The number of members for the facility app is increasing steadily, showing the effects of the app as a tool for customer analysis and sales promotion. With regard to costs, we have incurred certain costs from development and other work. However, the increase in costs is not significant given that the facility app has enabled us to conduct sales promotion directly to customers, shifting from existing sales promotion methods centered on hands-on media, such as flyers.

【Distribution】

- Q8. : The current EPU is around 10% lower than the current DPU of 2,250 yen. To increase EPU by more than 10% in the future, does JMF intend to continue with its existing strategies, such as asset replacement and reduction of debt cost? Or does JMF need to further accumulate assets in addition to continuation of such strategies to achieve the target?
- A8. : EPU is projected to be around 200 yen lower than DPU in the next two fiscal periods. As we forecast that COVID-19 may continue to have a significant impact going forward, we have formulated a budget that factors in this impact. In our budget, we have factored in an impact of about 1 billion yen per fiscal period, which consists of a buffer for decline in revenue due to the effects of COVID-19 and downtime for large lots (700 million yen per fiscal period). Accordingly, if we conduct leasing activities and can eliminate downtime at an early stage, and also if the COVID-19 pandemic subsides to a certain extent going forward, we consider we will not need to use the buffer we have factored in for the expected decrease in revenue. Through this, we will first seek to return EPU to the DPU level. In addition, to further increase our profit from that point, we will also seek to acquire additional properties by using free cash, improve NOI after depreciation through asset replacement, and reduce costs during refinancing. Through these measures, we aim to increase our distribution level.

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Asset Management Company: Mitsubishi Corp.- UBS Realty Inc.

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