

Japan Metropolitan Fund Investment Corporation

February 2023 (42nd) Period Q&A Session

Q&A Session Summary

Date: Thursday, April 20, 2023

In the Q&A Session, five participants put forward a total of eleven questions. The questions and answers have been grouped under the titles “External Growth”, “Internal Growth”, “Financial Forecasts” and “Appraisal” based on the details of the questions.

【External Growth】

- Q1. : As asset replacement is almost halfway through, the focus of disposition is expected to remain on retail properties. Have any changes occurred in the retail property trading market? Is demand from buyers remaining strong enough to enable JMF to dispose of properties at or above their appraised values and secure gains on disposal?
- A1. : No major changes have occurred in the market, and buyers of retail properties still exist in the market. JMF’s disposal targets are suburban retail properties and urban retail properties with low profitability. Although the attributes of these properties are different, they have their respective buyers, enabling us to dispose of properties at or above appraised values and secure gains on disposal. Regarding suburban retail properties, in addition to buyers who focus on their profitability, there are developers who may consider purchasing them as properties for future development. Thus, there are various types of buyers for each property.
- Q2. : The yield after depreciation of properties subject to disposition is around 3%, while the average NOI yield after depreciation of properties acquired after the merger is 3.2%. It appears that there is not much spread, but what are your thoughts on this? Also, what was the level of NOI yield after depreciation of the disposed assets totaling 87.5 billion yen?
- A2. : The NOI yield after depreciation of the disposed assets totaling 87.5 billion yen was the mid 3% range. Although properties with a relatively high NOI yield after depreciation were sold first, the properties already disposed include those sold in anticipation of the tenants moving out and decline of rent in the future. This is probably the reason why there appears to be not much spread. The yield at completion of replacement is assumed to be around 3%.
- Q3. : As part of asset replacements, there has been active investment in residential properties. Will acquisition continue to be centered on residential properties? As the business conditions for properties for other uses are improving, will the acquisition of such properties also be considered?
- A3. : We purchased a certain number of residential properties in the previous period and this period, and will continue to actively consider the acquisition of residential properties and mixed-use properties, which are a strength of JMF. In addition to residential properties, we have recently acquired a mixed-use property located in Nakano-ku, Tokyo, and will continue to focus on the acquisition of residential and mixed-use properties going forward.

- Q4. : I would like to confirm again what effects can be expected on JMF's portfolio from the acquisition of residential properties that is currently being advanced. It seems the acquisition of residential properties has progressed as a result of a certain level of knowledge about residential properties being accumulated through private REIT investment. Are you planning to achieve stability or growth as an effect on the portfolio? While some of the acquired residential properties have an NOI yield after depreciation in the low 3% range, it does not appear that growth in rent is factored in. So please explain how the acquisition of residential properties will affect the portfolio, in other words, their advantages.
- A4. : Residential property initiatives started from scratch after JMF's shift to a diversified REIT, and we intend to increase the share of residential properties in the portfolio to a certain extent. We would also like to focus on mixed-use properties, which are a strength of JMF, and consider residential use to be one of the indispensable uses for mixed-use properties. To expand initiatives for mixed-use properties, we would like to further enhance our knowledge and expertise in residential properties. As residential use can contribute to investors in terms of profitability as well, we will continue to actively work on mixed-use properties including residential use, not just on properties exclusively for residential use.
- Q5. : Will there be any environmental changes in terms of M&A, such as an absorption-type merger in other REITs, and changes in collaboration with sponsor, KKR?
- A5. : As we did before the sponsor change, even after the change of sponsor to KKR, we will continue to approach companies and funds that hold real estate, while capitalizing on KJRM's strengths. A department specializing in collaboration with KKR and CRE was set up within the Investment Division established in January 2023, and it is considering new deals in collaboration with KKR. We will continue to work hard so that we can report achievements.

【Internal Growth】

- Q6. : How do you describe the recent sales status and business conditions of retail properties compared to the pre-COVID situation in 2019?
- A6. : Over the past half year, rent increases associated with the recovery of sales have become noticeable, especially in retail properties. As described in Page 13 of the investor presentation, sales at large multi-tenant properties have remained firm year on year, and sales are even higher than the level of 2019 at most of the properties. Besides the 11 properties shown on the page, sales at urban roadside stores are also recovering. Customer traffic has increased in the central areas in particular as inbound customers, in addition to Japanese persons, have been returning since last autumn. This has helped push up tenant sales, albeit depending on the type of business, and as a result has generated a favorable cycle that provides good effects on rents.
- Q7. : Regarding the leasing of G-Bldg. Shinsaibashi 03, what is the assumed rent level compared to the level for the previous tenant? Also, is the rent level for urban retail properties the same as or higher than the pre-COVID level?
- A7. : As the negotiations are currently at the critical stage, we would like to refrain from disclosing

the details of the rent level of G-Bldg. Shinsaibashi 03, but we are negotiating with parties from several types of businesses. The number of people visiting the Shinsaibashi area is recovering, and we will choose a new tenant at a rent level that compares with the previous level. At present, we are raising recognition by the opening of pop-up stores that attract public attention.

As for the rent levels of urban retail properties, market rent did not decline almost at all for properties in prime locations, such as those facing Ginza Chuo-dori, Omotesando, and Midodori, even during the COVID-19 pandemic, and it is currently trending upward. With inbound demand starting to show signs of recovery, it appears that tenants are accelerating store openings in good locations. This trend is not limited to the urban center area. Sales are steadily increasing in large-scale facilities, such as mozo wonder city and KAWASAKI Le FRONT, and we have been able to negotiate toward a significant hike in rent for some properties.

Q8. : With regard to Twin 21's OBP Panasonic Tower, solutions to the leasing of plots to be vacated (approx. 6,000 tsubo) are in sight. Please explain the attributes of potential tenants and the background to the relocations.

A8. : As negotiations are currently ongoing, the attributes cannot be disclosed, but multiple companies are asking for a relatively large plot. The environment in the OBP area and the rent level compared to that of Umeda, which is not very far from the area, are viewed as advantages.

Q9. : Regarding Twin 21's MID Tower, in financial forecasts, are all rooms assumed to be vacant after the tenant vacates at the end of May 2023? Or is rent factored in as there will be no downtime?

A9. : Rent is factored in for both 43rd and 44th periods. Of the plot of approximately 600 tsubo, 90% is scheduled to be occupied with higher rent. After the tenant replacement, rent is expected to increase steadily for MID Tower, not just OBP Tower.

【Financial Forecasts】

Q10. : Although it seems that EPU and DPU are trending firm, what factors will be needed to increase DPU to the 2,300 yen level from the August 2024 (45th) period onwards? Is the biggest point the progress of leasing in Twin 21?

A10. : First, regarding the 43rd and 44th periods, fixed and revenue-based rents can be increased under the current environment, especially for retail properties, so we will increase our period revenue through higher rents while at the same time securing additional gains on disposal. In this way, we will be able to achieve results exceeding the financial forecasts.

We aim to bring the replacement of the remaining 100 billion yen of assets within reach in less than two years. Our major direction is to increase EPU excluding gains on disposal to 2,250 yen in the course of the replacement. With regard to the direction after the replacement, as we are currently raising awareness of growth after the completion of asset replacement, and we intend to achieve external growth while conducting capital increase.

【Appraisal】

Q11. : Regarding changes in appraised values, while the cap rates of many properties have declined, it

seems that their appraised values have not risen very much. Please explain what is behind this.
Is it an effect from utilities costs?

A11. : We periodically obtain the latest Engineering Report (ER) for certain properties, and the small rise in appraised values for multiple properties is due to increased repair expenses. For some properties, it is due to a decline in rent.

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