

Japan Metropolitan Fund Investment Corporation

February 2025 (46th) Period Q&A Session

Summary

Date: Tuesday, April 22, 2025

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

【Strategy】

- Q1. : On page 7, you have set a target to increase NOI by approximately 10% with the aim of recovering and growing the investment unit price to a level that ensures a P/NAV above 1.0x. Results are solid, and it seems achievable if things continue this way, but I would like to ask what timeframe you have in mind for this?
- A1. : Regarding the 10% increase in NOI, as described on page 20, there are many internal growth opportunities expected between 2026 and 2028, so we are aiming to achieve this in about 3 to 4 years.
- Q2. : Regarding your action plan on page 7 for achieving investment unit price growth to a level that ensures a P/NAV above 1.0x, to reach a DPU of 3,000 yen, I understand that you expect to reach this through “1. Internal growth” and “2. Return of gain on sales”. I would like to ask if you consider “3. External growth” to be merely an option. Also, you mention utilizing LTV capacity for “3. External growth”, but how is LTV capacity currently being utilized?
- A2. : Basically, we consider external growth to be an option. Regarding the utilization of LTV, basically, it is not our intention to significantly increase LTV from the current level. We plan to manage operations with a current upper limit of LTV set at around 40% on an appraisal value basis.
- Q3. : You mention a policy of not significantly increasing the LTV level for property acquisitions. However, if the scale of property acquisitions is large, I think there is a possibility of equity financing. Considering the current pipeline status and the probability of acquisitions, is the necessity for equity financing significant? Also, my understanding is that the conventional approach in this case is that equity financing would be used for property acquisitions if it is possible to acquire properties yielding above the implied cap rate, at a discount to the appraised value, and in a way that NAV does not decrease. Is this understanding correct?
- A3. : Regarding the current pipeline of 90 billion yen, we are basically planning to make acquisitions through asset replacement and are not currently considering equity financing. Any implementation of equity financing would be considered based on the

conventional approach, that is, acquiring properties yielding above the implied cap rate, ensuring property acquisition leads to a solid increase in NAV, and carefully assessing the supply and demand environment for equity. As a point for review, we recognize that we did not adequately assess the supply and demand environment for equity in the previous public offering.

【Internal Growth】

- Q1. : Regarding the NOI growth target of 10% on page 7, I assume that retail and office properties will be the main contributors. What do you expect the contribution ratio by type of use of property to be?
- A1. : Regarding the breakdown of the 10% NOI growth target, we anticipate that 70–80% will come from retail properties, with the remainder being office and residential. This is because we have been able to increase rents at the time of contract renewals for retail properties, leading to a solid realization of NOI growth.
- Q2. : As described on page 14, you achieved a 7.8% increase in rent for the portfolio during this period. How long do you expect this level of increase to continue in the future?
- A2. : As described on page 20, given the opportunities for internal growth ahead, we believe we can maintain a similar pace for the time being as long as the inflationary environment continues. In particular, significant internal growth opportunities exist until 2028, so we hope to maintain this pace until around this time.

【External Growth】

- Q1. : Regarding property acquisitions, there was talk of focusing on CRE carve-out deals with the sponsor. Considering the feasibility of acquisitions through CRE carve-out deals, do you have any specific preferences for the type of use of the acquired properties? Also, could you tell us which types of use are most common in CRE carve-out deals?
- A1. : We believe that office and retail properties will be the main focus of CRE carve-outs, as ordinary corporations tend to hold fewer residential properties. Rather than prioritizing office or retail, our perspective is on which of these can be acquired through CRE carve-outs in a way that is more suitable for the current inflationary environment.
- Q2. : I would like to ask whether the rate of asset turnover could fluctuate with changes in the external environment. If the external environment or fundamentals change, will the rate of asset turnover also change, or is the objective to steadily build towards achieving the target gain on sales of 300 yen/unit? I would also like to hear any thoughts on reasons for changes in asset replacement.
- A2. : We believe that the speed of turnover for assets sold changes depending on the external environment. If the outlook for the selling environment becomes uncertain, we will accelerate sales. Our policy is to promote sales activities in accordance with the external environment.

- Q3. : I believe that opportunistic and value-add investors have a strong interest in the current real estate market. What risks do you see that could lead to a decrease in interest from opportunistic and value-add investors in the future? If the interest of opportunistic and value-add investors decreases, I would like to hear your thoughts on whether real estate transactions are secured to a certain extent because of the increase in investment opportunities for core and core-plus investors.
- A3. : When acquiring properties, opportunistic and value-add investors make acquisition decisions based on the expectation of future rent increases, so if momentum builds towards lower expectations of higher rents, their interest would likely decline. However, such a scenario would be a return to a deflationary environment, and in that case, I believe the interest of income-focused investors would increase. For this reason, we do not envisage an environment where real estate prices plunge, breaking through the market floor.

【Finance Strategy】

- Q1. : Regarding the balance of borrowing terms, JMF's contract term is 3.1 years for retail leases, while its average remaining borrowing period is 4.2 years. Do you envisage that either of these will shorten further in the future?
- A1. : For retail properties, since tenants carry out interior work before moving in, it is unlikely that they would vacate within 2–3 years, so we are basically looking at a contract term of about 5 years. Considering this 5-year base, we see the average remaining lease term for the entire retail portfolio to consequently be around 3 years. Regarding borrowing terms, our main focus has recently been on long-term fixed-rate borrowings. In a deflationary environment, we were refinancing with borrowing terms of 8–10 years, but currently, we are considering borrowing terms of 5–7 years. As a consequence, the remaining borrowing period has become slightly shorter, around 4 years, but we have no plans to make significant changes to our borrowing policy.

【Other】

- Q1. : You are anticipating CAPEX for maintenance of 7.2 billion yen in the February 2026 period. Is this a one-time event, or is it possible that such increases will continue in the future?
- A1. : Basically, it will be a one-time event. The renewal period for power receiving and transforming facilities for office and urban retail properties is approaching, so CAPEX is slightly inflated around the 48th and 49th periods. We do, however, anticipate that subsequent depreciation will be based on a standard level of CAPEX.

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