

Japan Retail Fund Investment Corporation

February 2016 (28th) Period Analyst Meeting

Q&A Session Summary

Four participants put forward a total of 11 questions covering such wide-ranging topics as JRF's medium-term targets, external growth as well as internal growth strategies, and other issues. The following is a summary of the main questions raised and answers provided.

■ Medium-Term Targets

Q1. Looking at page 3 of the presentation materials, JRF plans to increase the scale of its assets and DPU to 1 trillion yen and 4,500 yen, respectively. Can we assume that by continuing to acquire new properties with an average aggregate acquisition price of roughly 70 billion yen each year and implementing an asset replacement strategy, you will achieve these targets in around two to three years? In addition, what factors will drive growth in JRF's DPU going forward?

A1. Our ability to achieve an asset scale of 1 trillion yen will depend on how smoothly we can acquire new properties under the current real estate market environment. While we would like to reach the 1 trillion yen target around three years from now, we cannot exclude the possibility that it will take up to seven or eight years. As far as our DPU target is concerned, growth will come mainly from internal growth (an improvement in the profitability of existing properties) as well as JRF's financial strategy (a reduction mainly in debt costs) as opposed to external growth (the acquisition of new properties). It is also important to note that an increase in JRF's distributions may not be linked to an upswing in asset scale.

■ External Growth Strategy

Q2. JRF has recently focused on the acquisition of urban properties. Recognizing the past losses on the sale of urban properties in Sapporo and Fukuoka, what differences can we draw between these recent and past acquisitions?

A2. When acquiring real estate, JRF places the utmost importance on determining any difference between the subject property's existing rent and market levels. Our ability to accurately identify this difference substantially mitigates the risk of a greater than expected downturn in rental revenue. While acknowledging fluctuations in property prices and appraisal values, we are unlikely to see any major discrepancy between the acquisition price of a property and its market value when that property is managed at an appropriate rent level. Based on past

experiences, we therefore make it a point to properly grasp market rent levels when looking to acquire new properties.

Q3. Is there any change in JRF's view toward CAP rates with respect to the acquisition of properties as a result of the decline in debt costs attributable to the negative interest rate environment?

A3. In undertaking a public offering, there is no change to our property composition policy. We will continue to target the acquisition of new properties with a total average NOI yield after depreciation that exceeds the average NOI yield after depreciation of our current existing portfolio of 3.7%. Accordingly, JRF is making every effort to acquire new properties without lowering yield levels. Having said this, however, we will adopt a cautious approach toward the acquisition of future properties. Taking into consideration the potential for a downturn in yields as a result of the increasingly competitive environment, and difficulties in identifying candidate properties that meet the necessary conditions, we will carefully consider whether to acquire properties with a yield that falls below 3.7% or adopt a wait-and-see approach.

Q4. JRF has continued to acquire properties with an average aggregate acquisition price of roughly 70 billion yen each year. Will you maintain this pace going forward?

A4. We plan to maintain this pace. (Our reply to Q3 also applies.)

Q5. Following JRF's asset replacement strategy, steps were taken to dispose of multiple AEON properties. Do you plan to again undertake the large-scale disposal of multiple properties in the future?

A5. We will consider the sale of individual properties as well as sets of two or more properties going forward. Taking into account the current market environment and difficulties in acquiring new properties, we will, however, place considerable importance on striking a balance when it comes to asset replacement proposals.

Q6. What are your thoughts on the current real estate market? Are we seeing changes in acquisition demand and prices as new competitors enter the market and the effects of the negative interest rate environment take hold?

A6. Unlike office and other properties, the entry of new competitors and the negative interest rate environment does not seem to be having that much of an effect on prices with respect to the purchase and sale of retail properties.

■ Internal growth strategy

Q7. Plans are in place for large-scale renewals currently being undertaken at such properties as Nara Family and Bic Camera Tachikawa to be completed during the February 2017 (30th) period. Can we assume that the full period contributions of these renewals will have a tangible effect on distributions from the August 2017 (31st) period?

A7. We are anticipating a positive impact on sales and other favorable flow-on effects from the large-scale renewal projects mentioned. At the same time, we do expect new plans will also emerge and also draw your attention to renovations that are currently in progress and yet to be completed. Taking each of these factors into considerations, we cannot at this stage definitely confirm that substantial results will emerge from the August 2017 (31st) period.

Q8. Looking at the diagram on page 13 of the presentation materials, there seems to be no change in large-scale renewals and other projects from six months ago. Can you tell us if there are any other behind the scenes projects? Also, what are the reasons for the slight postponement in renovations at Abiko Shopping Plaza?

A8. While there are no new projects currently in the pipeline, the ratio of fixed-term lease contracts has risen to 58%. As a result, we believe that instances of tenant replacement at the time of contract renewal and renewal plans will also increase. As far as a change in the schedule for Abiko Shopping Plaza renewal is concerned, initial plans were to undertake a renewal during the next lease agreement expiration concentration period. In order to further increase the effects of large-scale property renewal, the decision was made to strategically postpone renewal activities until the following lease contract expiration concentration period thereafter and to expand the scope of renovations.

Q9. Details of rent increases at urban properties are outlined on page 16 of the presentation materials. What are the reasons for the increase? Is it because tenant sales improved, or does it reflect an overall upswing in market rents?

A9. While there are a number of reasons for the increase in rent levels, the most prominent would be the growing interest from overseas brands to open new stores in Tokyo. As indicated in the comparative analysis with other major cities around the world presented on page 10 of the presentation materials appendix, there is a growing number of tenants seeking to either open new stores or expand the scale of their existing operations in such locations as Ginza and Omotesando. This is in turn helping to lift the rents of new tenants above existing rent levels and drive up the rents of existing tenants.

■ Others

Q10. While the media has reported that Ito-Yokado intends to close 40 stores, you have advised that JRF is yet to receive any such notification with respect to the properties that it holds. What is your policy toward Ito-Yokado properties going forward? At this stage, it would appear that AEON has no plans to close and vacate stores. As far as AEON's renovation plans are concerned, however, can you foresee any request for capital expenditure assistance? If such a request is received, what will be your response?

A10. Sales at certain properties are firm and not so strong at other properties. While we cannot therefore provide a blanket answer, we will consider our response on an individual property basis.

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