

Japan Retail Fund Investment Corporation

August 2016 (29th) 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 tenants-related issues. The following is a summary of the main questions raised and answers provided.

■ Medium-Term Targets

Q1. JRF has put forward 4,500 yen as its medium-term DPU target. Are you on track to achieve this target as initially planned?

A1. Yes, we do believe that our efforts to secure a DPU of 4,500 yen over the medium term are progressing according to plans. However, with roughly 38 billion yen remaining in replacement proceeds based on our asset replacement strategy, the potential does exist to bring the timing forward depending on when we apply these replacement funds. At the same time, we remain confident in our ability to achieve a DPU of 4,500 yen without utilizing these replacement proceeds. As far as our strategy toward replacement properties is concerned, rather than rush into the acquisition of assets, we adopt a stringent screening approach while closely monitoring trends in the market.

Q2. To what extent are internal growth and efforts to reduce financial costs having an effect on JRF's ability to achieve a DPU of 4,500 yen?

A2. The reduction of financial costs through the refinancing of debt totaling 127.7 billion over six periods alone is having a considerable impact. Should the current interest rate environment continue into the future, we believe that we can achieve our DPU target even by just reducing financial costs. Having said this, we are looking at internal growth and efforts to reduce financial costs to have an equal impact.

■ External Growth Strategy

Q3. JRF has a track record of acquiring properties to the value of 70 billion yen each year. While recognizing the impact of real estate market conditions, acquisitions as of October 2016 stands at around 21 billion yen. What are your thoughts on future external growth?

A3. There are only a limited number of retail properties coming onto the market for sale. Given the current financial environment, and the relative ease with which debt can be refinanced, we are

seeing instances where sellers call off a particular sale when the sales price fails to meet their requirements. Despite replacement proceeds with a low hurdle rate, we will not acquire just any property, but maintain a stringent screening process in order to focus on prime assets. Looking at the perspective of sellers, and the favorable conditions for property sales, we believe the potential exists for large-scale asset purchase opportunities to emerge.

Q4. Turning to an item in a newspaper report the other day, do you believe that the decline in the CAP rate in the Tokyo metropolitan area centering on Ginza has bottomed out?

A4. We believe that trends in urban property CAP rates are stagnant. We expect this will continue for the immediate future.

Q5. As far as your acquisition strategy is concerned, are you looking to invest in properties overseas?

A5. Overseas properties are potential investment targets based on JRF's Investment Management Guidelines and Asset Management Plan. However, we are not currently contemplating the acquisition of overseas assets. Our overall concept is to acquire properties that we then manage as operational assets. In the future, should we look at potential investment, we will most likely focus on markets in which Japanese tenants have an understanding of the region including Hawaii, Guam, Taiwan, and South Korea.

Q6. Current assets as of the end of February 2016 28th and August 2016 29th periods stood at 4.2 billion yen and 36.6 billion yen, respectively, with an increase in cash on hand. Will you utilize these funds for external growth purposes or will you repay outstanding debt?

A6. In principle, we would like to utilize these funds to acquire properties.

■ Tenant-related Issues

Q7. From a medium-term perspective, do you believe that structural reforms undertaken by the general business retail sector (AEON, Ito-Yokado) provide JRF with an opportunity to expand profits? What are your thoughts?

A7. We recognize that there are properties that would provide an opportunity to expand profits in the event that tenants vacate, and then again those that would not. For those properties in our portfolio that fall into the latter category and are a cause for concern, we believe that steps to undertake their sale have for the most part been completed. As a result, we do not believe that there are any major problems with the properties that we continue to hold. However, turning to properties in the third quadrant of the risk analysis matrix ("Properties to re-consider the ownership and necessary means" in the matrix that runs across the bottom half of page 6 of JRF's presentation materials), we will consider implementing drastic measures at a time when real estate market conditions are robust for properties where the risks are high when tenants

decide to vacate.

Q8. Is the extraordinary loss attributable to the lump sum payment of past rent in the August 2016 29th period a one-off event? Are there any other similar instances at the present moment?

A8. The extraordinary loss incurred in this instance relates to an issue that has been under negotiation for some time. There are no other properties currently under the same or similar negotiation. As a result, we do not envisage any other incidence of a reduction in rent that will force us to post an extraordinary loss.

Q9. Amid such factors as the downturn in inbound demand as well as changes in the retail market environment, what is the outlook for urban-type property rent growth?

A9. The increase in rents has settled for the moment. However, compared with the levels recorded two years ago, rents remain high. Rents are generally negotiated at the time of each contract renewal. Should the current market environment continue into the future, we can see the potential for the ongoing upward revision of rents.

■ Internal Growth Strategy

Q10. After completing work on such relatively large-scale renovations as mozo wonder city and Nara Family, will the impact of internal growth revenue shrink, or do you see the effects just becoming more moderate?

A10. As the volume of large-scale renovation work declines, we anticipate the impact of renovations to also shrink. Looking ahead, we believe that increases in rent at urban-type properties will contribute to internal growth.

Q11. Have profits improved more than expected as a result of the renovation of properties over these past 1-2 years? Can you elaborate?

A11. While the number of customers visiting mozo wonder city has fallen compared with two years ago, sales have increased. This reflects the upswing in average spending per customer as initially planned. Owing mainly to a drop in the number of customers compared with initial forecasts, the increase in NOI currently stands at 9.8%, which is slightly lower than the initial projection of 10.9%. Results at Oyama Yuen Harvest Walk are roughly in line with plans. At this stage, we only have yearly performance data for the aforementioned two properties. Looking at KAMISHIN PLAZA, where renovations have only recently been completed, the vast majority of tenants are of the fixed rent type. As a result, we are confident in our ability to secure revenues in line with plans. As you know, we worked diligently when finding a replacement for the main supermarket tenant. Since opening, sales trends have been robust.

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