

Japan Retail Fund Investment Corporation
February 2017 (30th) Period Analyst Meeting
Q&A Session Summary

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

■ Medium-Term Targets

Q1. JRF has identified an asset size target of 1 trillion yen. Based on your track record of purchasing properties at a cost of roughly 70 billion yen each year, it would appear that you will reach this target in around two years. At what pace do you expect to achieve the target?

A1. Based on our performance to date, we are indeed on track to achieve our target in two years. However, just to be on the safe side, we are looking at between two to three years.

Q2. From an investment target perspective, your goal is to build a portfolio that is split evenly between urban and suburban retail centers. What change if any do you see in the makeup of the portfolio after achieving this goal?

A2. As far as urban retail centers are concerned, we look to facilities that require a high degree of retail facility management skill. This is traditionally the domain of retail and commercial property developers. In order to lift the share of urban retail centers as a percentage of the portfolio as a whole, the management company would need to play a more dominant role. We do acknowledge that urban retail centers offer room for an upside, together with a high degree of management freedom. The issue at hand is whether the management company has the necessary skills. With this in mind, we have identified the initial goal of a 50:50 split between urban and suburban retail centers. Amid an increase in the share of urban retail centers in the short term, however, and as far as the status of operations is concerned, we believe that management is more than capable of taking on the task. Taking the aforementioned into consideration, we will therefore look to increase the share of urban retail centers in the future. Should the opportunity arise, we would also like to acquire large-scale retail malls that are the largest class in their area. On this basis, the shares of "A," "C," and "D" category properties will increase. While this does not mean that we will refrain from purchasing "B" category properties, given their limited nature the share of "B" category properties is expected to remain small.

■ External Growth Strategy

Q3. JRF has to date expanded the size of its assets by acquiring properties located largely in the Ginza(Tokyo), Aoyama(Tokyo), Shinsaibashi(Osaka), and other areas. Tell us about your acquisition policy in other cities including for example Fukuoka, Sapporo, and Nagoya.

A3. We recently acquired a property in Fukuoka. As far as other cities are concerned, we would like to invest in assets in cities that attract large number of tourists including Kyoto and Sapporo. Meanwhile, we do recognize the need to closely monitor conditions in regional cities where populations can be expected to decline in the future.

Q4. Large-scale shopping malls are not included in the bubble chart on page 12 of the February 2017 30th period results presentation materials. Can we assume from this that there are no such properties that you consider to be a problem?

A4. There are no properties of any particular concern at this time.

Q5. JRF has completed the sale of properties that required drastic measures. While the early replacement of assets, including the three properties in the third quadrant and the two properties in the second quadrant of the bubble chart on page 12 of the presentation materials, as well as properties with a certain degree of substitutability that run the risk of a downturn in substitutability due to changes in the market environment, could be considered the better option when endeavoring to enhance investors' value in light of medium- to long-term risks, is it safe to say that any issues have been settled with the disposition of properties?

A5. We do not anticipate any major change in the positioning of properties across each quadrant of the bubble chart. While there may be some change as a result of shifts in population demographics, modes of transportation, and the unexpected opening of competing stores, we will pay close and constant attention to ongoing trends in order to take the necessary measures to address any change at the time it occurs. In actual fact, the management company periodically conducts valuations of each facility. We will consider the sale of the three properties in the third quadrant as opportunities arise. Currently, we are enjoying high levels of profitability. In considering the sale of properties, it is important that we assess the best way to manage this high profitability. However, recognizing that there are no properties that require urgent attention, we will take out time when contemplating the best course of action.

Q6. Just the other day we saw the purchase and sale of properties between office building REITs. Is there any possibility that JRF undertake the purchase and sale of a property with another REIT sometime in the future?

A6. The purchase and sale of properties between REITs is not something that we would necessarily refute. While strategies regarding the acquisition of properties as well as policies in connection with the structure of each portfolio differ between REITs and the unique characteristics of each REIT depending on the transaction provide investors with clearly defined investment options, we do not have a problem with the purchase and sale of properties between REITs.

■ Internal Growth Strategy

Q7. Tell us about the status of leasing activities following the decision by OLD NAVY to vacate G-Bldg. Kichijoji 01(Tokyo).

A7. We are currently negotiating with a potential replacement tenant. Financial results forecasts are based on the assumption that this tenant will take up space in the property.

Q8. Trends in year-on-year monthly sales at suburban retail properties are presented on page 42 of the Financial Results presentation materials appendix. While benchmark figures are trending below 100% over the short term, JRF suburban-type properties are running above 100%. What are the reasons behind these trends? Can you also tell us the reasons behind robust GYRE results from 2017?

A8. Renewals undertaken to date are a major factor behind robust sales at JRF suburban-type properties over the short term. These strong trends are especially marked at KAMISHIN PLAZA (Osaka) where year-on-year sales continue to grow at between 20 and 30%. Successful steps have been taken to capture inbound demand at GYRE (Tokyo). These favorable trends are not limited to tenants who engage in product sales. Tenants engaged in the provision of services as well as restaurants are also exhibiting robust trends. We are seeing similar trends at La Porte Aoyama (Tokyo) which is located in the immediate surrounding area.

■ Other

Q9. What are your thoughts on the impact of changes in the way people work on consumption as well as retail properties?

A9. There is no doubt that consumption increases in line with an upswing in the number of holidays. An increase in leisure time can also be expected to boost consumption. Meanwhile, incomes decline with a drop in overtime. While it is difficult to accurately read trends in consumption patterns, we tend to think that purchases will increase.

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