

Japan Retail Fund Investment Corporation
August 2017 (31st) Period Analyst Meeting
Q&A Session Summary

Date: October 18, 2017

In the Analyst Meeting Q&A session, three participants put forward a total of ten questions. They have been grouped under the titles “Repurchase of own investment units” and “Internal growth strategy,” based on the content of the questions.

Repurchase of own investment units

Q1: Regarding the repurchase of own investment units, will this continue in the future, or is it a one-off action? Also, how do you make decisions regarding its implementation?

A1 : We do not intend to conduct such acquisition on a continuous basis. We will judge what will lead to the improvement of investor value, whether it is the repurchase of own investment units or property acquisition, taking into account the investment unit price, property price and state of cash at hand.

Q2: Does this mean that the repurchase of own investment units is conducted as a signal to the market that the investment unit price is relatively undervalued?

A2: Under the present condition where investment unit prices are relatively undervalued, we would not have repurchased own investment units only because of bad performance. On the other hand, in the current real estate market where there are few opportunities to acquire properties which are high in both quality and profitability, we decided that repurchasing own investment units will lead to an increase in investor value rather than rushing to acquire properties.

Q3: If the investment unit price becomes even cheaper, will you conduct additional repurchase of own investment units?

A3: If the real estate market continues in its present condition, there is a possibility that repurchase of own investment units will be chosen as one of the options.

Q4: Please explain why you set the own investment unit price at JPY 10 billion.

A4: From the perspective of market impact, we set the amount by setting a repurchase rate of 2% level as a guide based on the time base bringing participation rate of approximately 10% per day. Furthermore, we have cash reserves even after repurchasing own investment units.

Q5: According to the press release, the number of units to be repurchased is to vary depending on the unit price level, liquidity and market trends. What is the thinking behind deciding the investment unit price level in the repurchase of own investment units?

A5: We believe that there is too much of a gap between the current implied cap rate of JRF and the appropriate yield for the JRF portfolio, which holds a lot of highly liquid urban properties. We do not take the approach considering NAV, but rather our point is that a slightly lower implied cap rate would be acceptable from the viewpoint of implied cap rate. The current investment unit price is slightly below NAV, but more than that, we have determined that the investment unit price is too low compared to the property valuation.

Q6: After conducting repurchase of own investment units, paying distributions, and undertaking large-scale renewals with the JPY 58.8 billion of cash at hand, will there still be cash reserves remaining? Is our assumption correct that there still is a leeway even after this JPY 10 billion repurchase of own investment units?

A6: Cash at hand will remain even after the JPY 10 billion repurchase of own investment units. Out of the outstanding cash a little under JPY 60 billion, we separately manage distribution payment and future costs for large-scale renewals, and we will allot the remaining free cash for the cost to repurchase own investment units. Regular CAPEX and repair and maintenance expenses are basically considered to be covered with depreciation expenses for each period, but we will reserve separate cash on hand in preparation for irregular expenses. We presently have some leeway on free cash, and assume that approximately JPY 5 to 10 billion will remain even after the repurchase of own investment units.

Internal growth strategy

Q7: Is our understanding correct that the rents for urban properties are on an upward trend? Also, is it correct to assume that there is not much impact of e-commerce on suburban properties?

A7: There is no doubt that the rent for urban property is on an upward trend. There is little impact on suburban property from e-commerce, but there are certain tenants which have been negotiating repeatedly for rent reduction.

Q8: What is your opinion regarding the failure of Nara Family to meet its budget--is it due to factors specific to the property, or to regional factors? Also do you think that disposition is a possible option, or do you think that recovery is possible?

A8: We believe that the reason for the failure to meet the budget was due to factors specific to the property. However, as we assume that Nara Family is the largest retail property in Nara, we are not thinking of its disposition. In a large-scale renewal conducted in such situation, our strategy was to change the target customer strata, but it seems that the message to the target group was weak, and we are thinking over this point. Currently, the department in charge is attempting to rebuild the sales promotion and advertisement, and in this way, we believe that recovery is possible.

Q9: Please let me know the total investment amount of the contemplated large-scale renewal on page 21 of the Period Results material.

A9: Although the amounts are not fixed, the rough estimates are in the JPY 5 billion range for Kawasaki Le FRONT, JPY 1 to 2 billion for mozo wonder city, JPY 0.5 to 1 billion for Abiko Shopping Plaza, and in an even smaller scale for Gyre.

Q10: While we expect the disposition of property is undertaken on a continuous basis, are there any specific disposition currently under consideration?

A10: There are three properties we need to deal with in terms of property valuation, although their yield is high. With respect to these properties, we would like to consider their disposition. As we are currently shifting the structure of our portfolio to urban properties, if there are opportunities to acquire suitable urban properties, we will replace them with such urban properties. Accordingly, we will continue to dispose and replace properties.

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