

Japan Retail Fund Investment Corporation
August 2018 (33rd) Period Analyst Meeting
Q&A Session Summary

Date: October 16, 2018

In the Analyst Meeting Q&A session, three participants put forward a total of eight questions. They have been grouped under the titles “New Medium-term Strategy,” “Internal Growth” and “Others” based on the content of the questions.

New Medium-term Strategy

Q1.: Please discuss the assumed time frame for execution of the asset replacement measures of about 100 billion yen from Sub assets to Core assets, including the procedure, and whether Sub assets will be sold with some prospect of acquiring Core assets to replace them.

A1.: The real estate market environment has been favorable for selling assets, and we will seize the timing and execute the measures. We assume about three years as the timeframe, since this asset replacement is a part of the mid-term targets. Regarding the replacement procedure, it is best to acquire Core assets immediately after we sell Sub assets. However, even if we sell Sub assets long before the acquisition process starts, we think it is possible to manage decreases in revenues and provide stable dividends by utilizing the sale proceeds, and thus, this scenario of selling Sub assets first is possible.

Q2.: You explained that the sale proceeds by Sub assets will be used to acquire Core assets or repurchase of JRF’s own investment units. Regarding repurchase of own investment units, at the analyst meeting for the previous period, you made a comment while evaluating the results that the discount to NAV had been small. Have you changed your thinking about repurchase of own investment units?

A2.: No, we have not changed our thinking on this. As we explained at the analyst meeting for the previous period, we may execute repurchase of own investment units if we have free cash, the investment unit price is relatively low, and there are no assets under consideration for acquisition.

Going forward, we may sell assets with a high NOI yield after depreciation while promoting asset replacement measures and will give top priority to acquiring assets with the same yield levels. However, if there is no opportunity to acquire such assets and the investment unit price is relatively low, we may use the proceeds from the sale of Sub assets to repurchase own investment units.

Q3.: Please discuss the acquisition environment of Core assets. It is said that there are available properties, but I would like to know details of the acquisition environment. For example, you can acquire a property easily when the competition is mild due to the limited number of players acquiring commercial facilities, when it is a negotiated transaction instead of bidding, or in other cases.

- A3.: Properties worth about 50 billion yen are on the pipeline list at hand, including Prime assets. There are fewer players in the commercial facility market compared to the office and residential property markets, and JRF is one of the largest players in the market; thus, we have more deals that are directly brought by owners of commercial facilities, some of which are negotiated transactions. We will leverage such opportunities and promote acquiring Core assets.
- Q4.: You provided explanations with a focus on locational advantages and management abilities. Please share your thoughts about how you utilize management abilities to increase revenue other than rents, if you have any thoughts on this, even vaguely.
- A4.: We have three pillars of management abilities: (1) Tenant Relationships, (2) Creation of Atmosphere, and (3) Promotion. Among these, we put priority on Tenant Relationships. We have established relationships with about 1,000 tenants and will further strengthen these relationships. We also have a team in the organization specializing in leasing and contract renewal. We will expand Tenant Relationships by further strengthening the team. As we explained in the Rizap case, we will also strengthen horizontal deployment activities where we lease our properties to attractive tenants who are already under a lease for our other property. Furthermore, as a way of future commercial facilities, we expect that the need for new styles of shops will increase, such as opening short-term pop-up shop, rather than opening a shop for a long time span such as five or 10 years. Therefore, we also plan to acquire and manage properties suitable for pop-up shops and then develop new Tenant Relationships where we can deploy the tenants horizontally to our other properties.

Internal Growth

- Q5.: Rent subject to revision of Core assets (Prime/Major Station) in the next one to two years is half the amount compared to the August 2018 (33rd) period. How much increase is expected? Do you expect the same level of increase in monthly rent as in the 32nd and 33rd periods?
- A5.: In the four most recent periods, the increase rates for the two most recent periods are higher. While the number of contract renewals will continue to fluctuate going forward, the need to open stores by urban retail tenants remains strong, and thus, we would like to seek the same level of rent increase as in the most recent two periods. If the rent gap of 7% is completely filled, this will have the effect of raising the distribution per unit by 200 yen or more, so we will strive to fill the gap promptly.
- Q6.: It is stated that the rent gap is 7%. Please let me know the areas with large rent gaps.
- A6.: By area, rent gaps are large in the prime areas. Market rents in prime areas have been rising in the past few years and some lease contracts were signed before the increase in rents, and accordingly, properties with such contracts have a rent gap. The areas where we successfully increased rents are mainly prime areas.

Others

Q7.: For KAWASAKI Le FRONT, I understand that you confirmed more than 95% of tenant leases have strong intention to open sites. Please advise what the actual tenant leasing status was. Was tenant intent stronger than you expected? Or was it just as expected?

A7.: Regarding the intention of tenant opening, there was more demand than we expected. Thanks to its location, in front of Kawasaki station, which is a large terminal station in the Tokyo metropolitan area, a wide range of tenants had an interest in the property. Concerning the 9th floor and 10th floor section, which is an entertainment zone affecting the competitiveness of the facility, we selected an aquarium as an attractive tenant after interviewing several candidates with the intention of opening sites, which led to strong demand for renting in KAWASAKI Le FRONT as a whole.

Q8.: At the analyst meeting for the previous period, you announced that you would conduct a renewal project at mozo wonder city, and I would like to know the current status of the property, specifically, tenant and sales trends.

A8.: This renewal project for mozo wonder city includes multiple phases for re-opening of the facility. We plan to conduct the first openings in mid-September, the second in mid-November, and the third next spring. Due to this arrangement, the property is currently not in full operation, with no stable earnings. A competing facility, LaLaport NAGOYA minato AQUUS, opened in mid-September, but sales at mozo wonder city have fallen only several percent and the decrease is within the range of assumptions. Given the location, commercial environment, and tenant composition of mozo wonder city, the facility is highly competitive with other competing facilities and we expect sales to recover over time.

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