

Japan Retail Fund Investment Corporation
August 2019 (35th) Period Analyst Meeting
Q&A Session Summary

Date: Wednesday, October 16, 2019

In the Analyst Meeting Q&A Session, three participants put forward a total of nine questions. They have been grouped under the titles "Growth Strategy (Asset Replacement, medium-term targets for DPU) and "Internal growth" based on the content of the questions.

【Growth Strategy】

- Q1. : Japan Retail Fund ("JRF") has recorded gains on sales when selling properties. On the other hand, looking at examples from other REITs, some have sold properties at prices substantially below their appraisal values or recorded losses on sales. JRF has been able to sell properties at prices that exceed their appraisal values or significantly exceed their book values, and I would like to know what lies behind this difference. For example, is this due to location, or other factors? I would also like to know if you are confident that this trend will continue.
- A1. : JRF has sold multiple properties in the past, and at present, we are also effectively proceeding with asset replacement of approximately 100 billion yen and successfully recording massive gains on sales of properties. This is because our properties, including commercial properties we owned in the past, have a certain level of competitiveness, and we believe that investment with a focus on location including substitutability of land, which we have engaged in since long before, is the reason why we have been able to earn solid gains even on sales of suburban commercial properties. Some of the suburban properties we sold in the past were acquired by developers from the viewpoint that they could hold them as income properties for the time being and develop them for other purposes in the future. These cases indicate that we will be able to conduct sales on favorable terms.
- Q2. : With regard to the remaining 50 billion yen worth of property sales for asset replacement, is has been negotiating with potential purchasers. How far have the negotiations on sales prices progressed? Are the sales prices roughly set at this point?
- A2. : We plan to sell the remaining 50 billion yen worth of properties after more progress has been made on property acquisition. Therefore, we are currently engaged in prior negotiations with potential purchasers. As the environment remains favorable for sales, we believe sales can be carried out as planned.
- Q3. : While JRF is talking about sales preceding acquisition, I would like to ask about the property acquisition environment. Is it still moderate compared to the environments for other asset classes, or very harsh?
- A3. : The overall acquisition environment is harsh in terms of competition. Meanwhile, with regard to commercial properties, especially properties with a large number of tenants or

properties with some vacancies, the capability of managing facilities becomes important. As not all players can acquire multi-type commercial facilities, we think that there are acquisition opportunities capitalizing on asset management capabilities in commercial properties compared to other asset classes.

- Q4. : A medium-term target of 4,900 to 5,000 yen was announced this time for normalized DPU. When coming up with this target figure, to what extent does JRF assume the ongoing asset replacement strategy of 100 billion yen will be completed?
- A4. : As shown on page 6 of the Analyst Meeting Materials, gains on sales are scheduled to be recorded in the August 2020 (37th) period, and net income/unit excluding gains/losses on sales, etc. will be 4,262 yen. As leasing for KAWASAKI Le FRONT is almost complete at this point, it is almost certain that the 138 yen effect of completion of the KAWASAKI Le FRONT renewal will be achieved in the following February 2021 (38th) period. With regard to the 216 yen effect of asset replacement, sales have reached approximately 50 billion yen while acquisitions have amounted to approximately 10 billion yen. Since sales have preceded acquisitions, periodic income has declined, but we think that property acquisition can catch up by the February 2021 (38th) period. Due to this, we believe we will be able to achieve a DPU of 4,600 yen-plus in the February 2021 (38th) period. Possible growth drivers from the February 2021 (38th) period onwards are as stated on the right side of page 6 of the Analyst Meeting Materials, and we will proceed with our efforts to implement these measures. Again, we are working to achieve a DPU of 4,600 yen plus something in the February 2021 (38th) period, and if downtime should occur due to a delay in acquisition, the 216 yen effect will be generated by dipping into reserves.

【Internal growth】

- Q5. : Page 14 of the Analyst Meeting Materials refers to the possibility of the rent gap of 5.8% boosting DPU by 214 yen. In what time span does JRF think this can be achieved? Or does JRF think this can be achieved? Also, while JRF has recently implemented a 10% rent hike, I would like to know if further hikes can be anticipated.
- A5. : With regard to commercial facilities located in central urban areas, tenant sales have been solid for the past several years and store opening demand remain strong. Under such an environment, lessors have an advantage when negotiating on rent at the time of rent revision, and we feel that this trend will continue going forward. The rent increase/decrease rate in the August 2019 (35th) period was plus 3.4%, slightly lower than those in the past. However, in the February 2020 (36th) period, for which we are currently negotiating rent revisions, we forecast a rent increase/decrease rate of plus 10% or higher and believe that lessors will continue to have an advantage in negotiations going forward.
- Q6. : JRF forecasts resolving the rent gap as internal growth. Does the forecast incorporate downside risks to Secondary core and Sub assets?
- A6. : Four or five years ago, we started selling suburban properties with a risk of lower profitability, and we think downside risks to the Secondary core and Sub assets currently

held by JRF are low because sales from these assets are solid and they are competitive properties. The sales performance of portfolio assets is shown on page 16 of the Analyst Meeting Material Appendix. The data indicates that sales from properties owned by JRF have been solid compared to the nationwide average represented by the Current Survey of Commerce, and we think there is no concern regarding the operational status of our properties.

- Q7. : With regard to the sales performance of portfolio assets shown on page 16 of the Analyst Meeting Material Appendix, sales from JRF's portfolio properties have been strong, especially after March 2019, in comparison with the nationwide average represented by the Current Survey of Commerce. What is the reason for this? Also, does JRF expect that its assets will continue to outperform the nationwide average?
- A7. : Sales from JRF's portfolio properties remain solid compared to the nationwide average, irrespective of whether they are Core, Secondary core, or Sub assets. We believe this is owing to the fact that we have raised the quality and competitiveness of our portfolio over a long period of time through asset replacement and tenant replacement that leverages our asset management capability. We would like to continue maintaining a portfolio structure that helps us retain competitiveness. To this end, we will focus on thorough operations, including strengthening tenant relations, engaging in dialogue with various tenants, and urging competitive tenants to choose our properties, thereby boosting the competitiveness of our properties. JRF has established an internal leasing team and steadily raised the competitiveness of properties by operating properties while accumulating expertise in leasing and renewal.
- Q8. : It was previously considered that the risk to suburban retail properties was large, but due to the recent bankruptcy of a major U.S. department store, the noticeable increase in vacancies in the central New York area, and other factors, concern seems to be growing over the risk of falling rent in prime areas of urban centers. While JRF sees room for growth in DPU by resolving the rent gap over the next four years until the August 2023 (43rd) period, what is JRF's view on the risk of falling rent in Prime assets?
- A8. : Some media have recently reported that new tenants are difficult to find after tenants left the first floors of office buildings in central Manhattan in New York City and that rents for new tenants are set lower. However, looking at Japan's prime area market, tenants' sales are still extremely firm and there are even tenants waiting for opportunities to open stores. Rent in prime areas of Tokyo and Osaka is also significantly lower than that in New York and Hong Kong, and we assume that events occurring in the United States are attributable to the high rent levels. Rent levels in major cities worldwide is shown on the left side of page 13 of the Retail Properties Market Data. As you can see, rent levels in Hong Kong and New York are extremely high compared to those in other cities, and we believe that there is still room for rent increases in Tokyo and Osaka, as appropriate rent levels are being maintained.
- Q9. : It was announced that JRF does not plan to carry out large-scale renewals for the time

being. However, JRF has intensively implemented large-scale renewal plans in the past several years and I have the impression that while owning a large number of properties, JRF is constantly carrying out large-scale renewal at some of its properties. Is there any risk that not implementing large-scale renewals for the time being will lead to future decline in the competitiveness of JRF's properties?

- A9. : It is difficult to define large-scale renewal, but JRF defines it as making major alterations to a property as a whole so that it will align with the direction of operations sought by JRF, including changing movement flows and re-dividing lots. We implemented large-scale renewals in the past, such as in Nara Family and mozo wonder city, and we are also carrying out a major renewal in KAWASAKI Le FRONT at present. As major works have been implemented for these properties, including the change of movement flows and the re-dividing of lots, to align them with JRF's operational direction, a large amount of investment has been made. The specifications of the properties that undergo such major renewal align with JRF's operational direction. Therefore, we will focus on retaining the novelty of these commercial properties mainly through tenant replacement and other maintenance work.

Disclaimer

- This material may contain information such as data on future performance, plans, management targets, and strategies. Such descriptions with regard to the future are based on current hypotheses and assumptions about future events and trends in the business environment, but these hypotheses and assumptions are not necessarily correct. As such, actual results may vary significantly due to various factors.
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Asset Management Company: Mitsubishi Corp.-UBS Realty Inc.

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