

**Japan Retail Fund Investment Corporation**  
**February 2020 (36th) Period Q&A Session Telephone Conference**  
**Q&A Session Summary**

Date: Tuesday, April 14, 2020

In the Q&A Session Telephone Conference, four participants put forward a total of nine questions. All of the questions were about the impact of the novel coronavirus (COVID-19), and they have been grouped under the titles “Rent,” “Acquisition,” and “Others” based on the content of the questions.

**【Rent】**

- Q1.: My impression is that Japan Retail Fund (“JRF”) forecast that the fixed rent portion of revenue will not decrease significantly. How did you make your assumptions and calculations?
- A1.: The forecasts for the August 2020 (37th) period and the February 2021 (38th) period announced this time along with financial results were made by incorporating the impact of COVID-19 to some degree. In the August 2020 (37th) period, we forecast expenses of 800 million yen for responding to COVID-19, and we believe this amount will be able to compensate for a substantial portion of the expected decrease in rent revenue. On the other hand, this figure was calculated before a state of emergency was declared. Accordingly, while not much time has passed since the declaration, it is difficult to reasonably measure the scale of the impact following the declaration. However, even if there is an impact of more than 800 million yen, as JRF has a reserve balance of approximately 7 billion yen, we believe we will be able to respond by using these ample reserves.
- Q2.: The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) recently requested industry organizations to accept rent reductions and exemptions. Does JRF have any plans, for example, for approaching relevant government agencies through an industry organization, for tax reductions or exemptions? Or are there any initiatives you have already started working on?
- A2.: The Association for Real Estate Securitization (ARES), to which JRF belongs, is not an industry organization that has received a request for rent reductions and exemptions directly from MLIT, but it has launched a COVID-19 response task force, collected information, and started discussing how to respond. The most easy-to-understand example would be implementing a property tax exemption and using the exempted tax payment for exempting and reducing rent, which is an initiative taken by the government of Singapore. We would like to approach relevant government agencies in some way.

【Acquisition】

- Q3.: With regard to the property acquisition environment, JRF states that the number of properties under consideration is currently increasing. Do you intend to maintain the property acquisition stance adopted so far or slow the pace of acquisition until the impact of COVID-19 subsides?
- A3.: The number of properties under consideration is currently surging, and information on more than 20 properties, worth approximately 120 billion yen, has been accumulated. This is believed to have been driven by needs among some real estate owners to turn their properties into cash or to sell properties toward the end of their fiscal year. With regard to investment targets, we will keep our strategy unchanged and, in principle, continue to invest in “Core assets” that constitute urban type assets. As there is uncertainty under the environment where COVID-19 infection is spreading, we will consider acquisition while carefully looking at the impact of the spreading of infection on tenants and changes in cash flow by area. Meanwhile, because this kind of environment may provide us with opportunities to acquire high quality properties at reasonable prices, we will maintain a good balance in considering acquisition so that we can take advantage of opportunities that arise while proceeding with careful consideration.
- Q4.: With regard to acquisition, JRF states “Calculate prices taking into account the impact of COVID-19” on page 12 of the Analyst Meeting Materials. If the impact of COVID-19 persists, do you intend to take cash flow risk or factor in a rise in the cap rate when proceeding with acquisition?
- A4.: We will proceed with acquisition, looking at both cash flow and the cap rate. With regard to cash flow, we believe that it is important to have a medium- to long-term perspective rather than reflecting the current situation. As to cap rates, although the real estate market has been trending downward lately, cap rates have not yet shown any signs of significant change. Going forward, we will probably have to pay closer attention to cap rates while checking transaction cases. Generally, when the trend of cap rates changes, the speed of change is faster in suburban areas than urban areas and we consider that it is important to pay close attention to such a point when acquiring properties.
- Q5.: JRF states there will be no changes from its strategy of focusing on urban type assets even under the impact of COVID-19, but do you have any thoughts of shifting your focus to properties tied closely to everyday life, such as Residential Station type properties?
- A5.: In light of the environment surrounding Japan’s retailers, as long as the perspective of population concentration in urban areas and railway-centered society remains unchanged, we will continue with our strategy of focusing on urban type properties. We position three Core asset types of Prime, Major Station, and Residential Station as our acquisition targets, and we would like to acquire these three types of assets in a balanced manner rather than shifting our focus particularly to Residential Station.

【Others】

- Q6.: Please explain JRF's outlook on the impact of rent reductions and exemptions on appraisal value. Does JRF forecast that the recent request for rent reductions and exemptions will directly affect the appraisal values of your properties for the August 2020 (37th) period or there will be no major impact as cash flow in the long term will be taken into account?
- A6.: With regard to impact on the appraisal values of our properties when exempting and reducing rent, cash flow will certainly deteriorate in the short term due to rent reductions and exemptions. However, as appraisal values are likely to be calculated using long-term cash flow, we forecast that there will be no major impact.
- Q7.: On page 6 of the Analyst Meeting Materials, debt repayment is cited as a JRF policy on how to use free cash. What kind of financial environment is JRF assuming by citing an environment where free cash is used for repaying debt? Also, are there any changes to banks' lending stance toward commercial properties?
- A7.: As stated on page 6, we will use free cash mainly for acquisition of properties. Debt repayment is assumed in case changes occur in the spreads of financial institutions under an uncertain environment. So far, there have been no changes to financial institutions' lending stance.
- Q8.: In the environment where infection with COVID-19 is spreading, what type of property, what areas and sectors are relatively resistant or susceptible to the impact of COVID-19, or will possibly become a risk in the future?
- A8.: Impact on the current portfolio is indicated on page 3 of the Analyst Meeting Materials. Since the spread of infection with COVID-19, people nationwide have been refraining from unnecessary and non-urgent outings, and consumer appetite for expensive goods has declined due to a sense of uncertainty about the economic outlook. The number of inbound tourists started to fall sharply in around February, and few foreign group tourists are now entering Japan. The impact of these trends varies according to the sector in which JRF's tenants operate. Groceries and household goods—daily necessities—have been selling well, with sales of groceries, in particular, standing at more than 100% of the previous year's level. On the other hand, as people have been refraining from unnecessary and non-urgent outings, sales in the fashion, entertainment, and restaurant sectors have fallen significantly. Sales from JRF's representative properties in February and March are indicated on the right side of page 3 of the Analyst Meeting Materials. In Prime properties, sales in fashion and restaurant tenants trended downward, while properties handling daily necessities in residential areas saw their sales increase year-on-year, even in March.

Q9.: Please explain about the current situation and future outlook regarding the closing of portfolio properties.

A9.: JRF voluntarily closed some of its properties on March 28-29 and April 4-5, and this was our response prior to the declaration of a state of emergency. After the declaration of a state of emergency on April 7, a request for temporary closure of business started to be issued to some commercial properties and tenants where many people gather. Specifically, facilities subject to the closure request were announced in detail by the Tokyo metropolitan government on April 10 and the Osaka prefectural government on April 13, and based on these announcements, some commercial properties in Japan are gradually starting to close. Following the declaration of a state of emergency, JRF has also started to close some of its portfolio properties. Response to the closure request differs, depending on whether the property is a multi-tenant type property (property where JRF has signed contracts directly with multiple tenants) or a master lease type property (property where JRF has signed a contract with the master lessee only). In principle, if the entire property is leased, including in the case of a master lease property, the tenant decides on responses to be implemented, such as the reduction of business hours and the closure of some sub-tenants. On the other hand, in the case of multi-tenant type properties, JRF responds to the closure request in collaboration with the tenants. In the seven prefectures for which a state of emergency has been declared, JRF currently holds nearly 30 multi-tenant type properties with a floor space of 1,000 square meters or more that are subject to the closure request. However, as tenants closely connected to everyday life (supermarkets, 100 yen shops, household goods shops, etc.) are out of the scope of the closure request, not all tenants of the approximately 30 properties are closing their businesses. Meanwhile, even in cases where the entire property is leased, including in cases of master lease properties, some tenants are suspending their businesses at their discretion. These measures have been implemented since the end of last week in response to requests issued by various prefectures.

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Asset Management Company: Mitsubishi Corp.-UBS Realty Inc.

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