

Japan Retail Fund Investment Corporation
August 2020 (37th) Period Q&A Session Telephone Conference
Q&A Session Summary

Date: Monday, October 19, 2020

In the Q&A Session Telephone Conference, three participants put forward a total of seven questions. The questions and answers have been grouped under the titles “Portfolio Trend,” “Merger-related Topics” and “Other Topics” based on the details of the questions.

【Portfolio Trends】

- Q1. : The average sales of JRF’s entire portfolio have recovered to about 85% of the previous year’s results. To what level do you think sales should return so that rents can be collected in a stable manner on a short- to medium-term basis?
- A1. : We see the present sales level as passable for collecting contractual tenant rents. But we think that further recovery of sales will be required if the average sales levels will be maintained for the next one to two years.
- Q2. : I would like to know the status of sales in September and October. For example, is there a sense of a delayed recovery in sales and are there any signs of a recovery in sales in prime areas and areas in front of terminal railway stations?
- A2. : Consumption by the Japanese people is steadily recovering, and the general upward consumption trend is being maintained despite the relative fall in September to below last-year’s level following last-year’s surge in demand immediately before the consumption tax rate hike. Specifically, properties in urban midtown areas, for example GYRE in the Omotesando area and La Porte Aoyama, achieved steep sales recoveries in September and October. Moreover, sales from properties in the environs and suburbs of some cities, such as Nara Family, Oyama Yuen Harvest Walk and mozo Wonder City, have made rapid recoveries since the state of emergency was lifted in June. Our impression is that people have finally resumed frequenting facilities in the urban midtowns. Since new styles of living and working in the presence of COVID-19 are being generally adopted and established, and since the “Go To” and “Go To Eat” campaigns were launched, people are returning to restaurants and bars at night, pushing economic values upward.

【Merger-related Topics】

- Q3. : Would you please explain again the portfolio strategy after the merger?
- A3. : We see the three to five years following the merger as a period for constructing the company’s short- to medium-term growth bases. During this period, portfolio asset replacement will be conducted as a major strategic measure. With the merger, commercial facilities will represent about 70% of the portfolio. This ratio will be lowered in three to five years to 50%. We will sell the suburban shopping malls that JRF has targeted for asset replacement and urban low-profit properties for which yields are not expected to recover. Such asset replacement should

lower the ratio of commercial facilities to a 50% level. The remaining 50% of the portfolio will consist of mixed-use facilities, offices and rental housing.

Q4. : I have some questions about the portfolio asset replacement after the merger. Will the office properties held by MCUBS MidCity Investment Corporation (MMI) until the merger be subject to asset replacement? If so, what types of properties will be subject to asset replacement?

A4. : Basically, asset replacement will not target the office portfolio held by MMI. MMI's assets will be obtained at market value as of March 1, 2021, the effective date of the merger agreement, and will be reassessed. Since it is possible to reassess the book values of MMI's low-profitability properties to market value, their profitability may increase as the book values will decrease relatively. For this reason, on a short-term basis, we have no plans to target the office portfolio for asset replacement.

Q5. : Will any major properties be purchased or sold before the date of effect of the merger with MMI?

A5. : JRF's ongoing sale of a suburban property may be completed before the date of effect of the merger. It is also possible that some other properties will be acquired to offset sales.

【Other Topics】

Q6. : The explanatory document on account settlement includes on page 15 a description of "downtime due to cancellation of contracts by some tenants" as a consequence of the impact of COVID-19 during the fiscal period ending on February 28, 2021 (38th fiscal period). Would you please explain this more precisely?

A6. : That downtime was additional downtime occurring because of the initial conservative estimate of possible downtime required for tenant leasing.

Q7. : I would like to know more about the trends of market rents and tenant requests for rent reduction.

A7. : Market rents are listed in the Appendix on page 38. The general trend of market rents has leveled off, except for major commercial areas such as the Shinsaibashi area where inbound consumption has a large impact. Recent revisions of tenant rents are indicated on page 22 of the explanatory document on account settlement. As you can see, the revisions were completed without lowering the amounts. This was because of two factors. One was that the tenants of properties with good locational conditions were willing to adhere to the current contracts without requesting rent reductions. The second factor was that not a few inquiries have been made regarding some stagnant-sales rental spaces since June by tenant candidates who were willing to consider such blocks in a new environment affected by COVID-19 while seeing it as a good business opportunity. Levels of contractual rents similar to those observed before the outbreak of the COVID-19 infection were secured. These two factors contributed to maintaining contractual rents at similar levels before and after the outbreak.

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

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