Japan Retail Fund Investment Corporation / MCUBS MidCity Investment Corporation

Joint Q&A Session on the Merger

Summary of Q&As

Date: August 31, 2020 (Monday)

During the joint Q&A session on the Merger, we received a total of 11 questions from 5 participants.

Q１：Going forward, will the portfolio consist of mainly retail properties and that office and other asset types will make up a less significant portion, or will the portfolio consist of mainly retail and office properties? Given that the asset management company manages Industrial and Infrastructure Fund ("IIF") as well, what are your thoughts on management of logistics and industrial properties?

A１：We plan to reduce the ratio of retail properties from 70% post-merger to 50%. In addition, we plan to acquire office, mixed-use and residential properties with the aim of optimizing the portfolio asset type composition. As for logistics and industrial properties, we do not intend to acquire them as these are investment targets of IIF. However, there is a possibility that we will accommodate some tenants to use space in retail properties located near stations in residential areas as distribution centers.

Q２：As for the portfolio strategy going forward, do you plan to utilize the 45 billion yen of negative goodwill to focus on asset disposition / asset replacement with the aim of improving quality of the portfolio, or do you plan to pay out negative goodwill and focus on expansion of asset size?

A２：We plan to simultaneously implement the 4 short to mid-term growth strategies as outlined on P.19 of the Investor Presentation for the Merger ("the Presentation"), which are "asset replacement", "acquisition with cash on hand and borrowings", "distribution of disposition gains" and "reduction in debt cost". In other words, we plan to achieve both the improvement in quality of portfolio through asset replacement and asset size expansion. We believe that we will be able to maintain the level of distributions per unit ("DPU") paid using the negative goodwill arising as a result of the Merger, even if we implement an asset replacement whereby some downtime is expected due to the asset disposition preceding the asset acquisition.

Q３：Do you plan to increase the level of DPU by utilizing the negative goodwill, while establishing the minimum level?

A３：As the amount of negative goodwill is not finalized and that there is still time until the effective date of the Merger, we will consider revising our DPU growth target. We aim that the forecast DPU of 2,286 yen (post-investment unit split) will be the minimum level.

Q 4 ：Is the forecast DPU of 2,286 yen for the fiscal period ending August 31, 2021 be stabilized?

A 4 ：Please consider it as stabilized DPU.

Q 5 ：Please explain your plans with regards to the 4 growth strategies outlined on P.19 of the Presentation (such as amount, order, etc.).

A 5 ：Approximately 150 billion yen of assets will be subject to asset replacement; based on the assumption to dispose of properties at around 3.3% NOI yield post-depreciation and acquire properties at 3.6% NOI yield post-depreciation, with 30bps improvement in the profitability, we expect an increase in DPU of around 30 yen. In addition, if we acquire properties at around 3.3% NOI yield post-depreciation using 30 billion yen of cash on hand and 25 billion yen of remaining borrowing capacity to reach LTV of 45%, we expect an increase in DPU of around 100 yen. As for the reduction in debt cost, if we refinance the 120 billion yen of debt due for maturity in the 5 fiscal periods post-merger at interest rate of 0.7%, reducing the interest rate from the current level of 1.1%, we expect an increase in DPU of around 25 yen. Combining the three strategies, there is a potential upside in DPU of around 165 yen.

Q 6 ：How much lower will the value of properties to be succeeded from MCUBS MidCity Investment Corporation (“MMI”) be compared to the most recent appraisal value as of the end of June 2020?

A 6 ：The value of properties to be succeeded from MMI will depend on the appraisal value as of the end of February 2021, but that value will not be finalized until late March to early April 2021. Hotel properties are the most likely asset type to be affected, and given the current trends, there is a possibility that cap rate will increase by around 10bps and that the value of properties will fall.

Q 7 ：You mentioned that you plan to reduce the ratio of retail properties from 70% to 50% - please outline the detailed strategy for each asset type. For example, as for retail properties, you have made progress in asset replacement by disposing of suburban retail properties and acquiring urban retail properties, but is your plan to still dispose of suburban retail properties such as shopping centers, or to dispose of properties located in urban areas with declining occupancy rate due to the tenant composition that is dependent on inbound demand. Do you plan to invest in hotel properties if the inbound demand recovers, or do you plan to put a hold on acquisition of hotel properties?

A 7 ：We plan to continue the asset strategy whereby we dispose of suburban retail properties and acquire urban retail properties as already implemented by Japan Retail Fund Investment Corporation ("JRF"). In addition, some large shopping centers with low NOI yields that were not previously subject to disposition may now be considered for disposition. Moreover, even among urban retail properties, those located off the high street and with low profitability will be subject for disposition. As for hotels, although it is the hardest-hit asset type due to the reduction in inbound demand and business demand, we will consider acquisition if the property can be subsequently be used as retail or office space in the future. We will consider those located in favorable locations and those with fixed-rents and with high creditworthiness of tenants.

Q 8 ：Do you plan to acquire properties that are located in urban areas and that could potentially be used as office and residential properties?

A 8 ：Your understanding is correct.

Q 9 ：What is the reason as to why you intend to acquire retail properties only located along the high street.

A 9 ：We will not only invest in retail properties along the high streets but also in urban retail properties located in urban area and retail properties located in residential areas where people gather such as near stations that JRF used to invest in. However, as we plan to reduce the ratio of retail properties to 50% in the mid-term, we will dispose of properties with low profitability regardless of whether they are suburban or urban retail properties. As such, we aim to reduce the ratio of retail properties by implementing both dispositions and acquisitions.

Q１０：What is the reason as to why you are potentially including satellite office properties in your investment targets?

A１０：We are seeing ongoing changes in work style in offices. Currently, larger corporations have increasingly incorporated working-from-home and remote work and we believe that this work style will penetrate further in the next six to twelve months. We plan to flexibly adapt to these ongoing changes, although we believe that there will be further changes such as use of satellite offices and co-working spaces. As for satellite offices, we do not believe that they will replace urban office properties to become the main office type, but that they will serve as a complementary function to urban office properties. We expect such satellite office properties to be located in close proximity to urban in the three major metropolitan areas, such as Ikebukuro, Shinjuku, Shibuya or further from the urban such as Kichijoji, Tachikawa and Sangenjaya. However, considering the size of the overall portfolio, our investments in satellite office properties will not have that much of an impact.

Q１１：Have you considered a J-REIT merger before? What is the reason for deciding on this Merger at this time? Please explain the background for making such a decision.

A１１：Although the impact of COVID-19 is one of the reasons for the Merger, we initially began with a discussion the state of the real estate market in 2030 given the advancing changes in environment due to digitalization , etc. At the time, we came to a conclusion that the changes due to digitalization, etc. will occur at a moderate pace. However, we have seen changes in work style due to the impact of COVID-19, employees are required to work from home, or work in co-working space and satellite offices for those who cannot easily work from home. As for retail, we have seen rapid increase in use of e-commerce due to the fact that people find it more difficult to go out shopping. Given the above changes, we came to a conclusion that we should proceed with the Merger that we previously planned at this timing when the surrounding environment is rapidly changing. Additional reasons for the Merger are further growth opportunities due to the expansion of investment targets, increased stability due to the increase in asset size and the negative goodwill that will arise as a result of the Merger (at the current level of investment unit prices).

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