Financial Results Briefing for the 35th Fiscal Year (Ended December 31, 2023): Q&A Session Summary

Q. Are you prepared to continue acquiring own investment units going forward? Also, the LTV ratio will rise to nearly 45 percent after a series of measures are taken. Will a figure like this become an obstacle? You said you will tap into money received from the sale of the property, and I wonder if you intend to make acquisition on a larger scale.

A. We considered acquiring own investment units when we sold this property, and decided on this scale based on cash on hands, the LTV ratio, and how much EPU will be improved, among other factors. We plan to continue replacing properties in order to improve the quality of our portfolio. We also plan to continue acquiring own investment units as a way of using funds from sales if we decide that will be in the best interest of investors, considering all factors including whether there are any properties to choose from for acquisition, the prices of investment units, interest rates, and the financial landscape.

As for the LTV ratio, we consider around 47 percent to be the upper limit. The operation this time controlled the level of the LTV ratio by acquiring own investment units and repaying debts at the same time. We intend to continue acquisition of own investment units while maintaining a balance.

As for the amount, we will make each decision considering all factors, including cash on hands, remaining funds for acquisitions, and how much EPU will be improved. This intention does not mean we deny the possibility of large-scale acquisition of own investment units.

Q. With regard to external growth, how do you plan to fill the gap between the timing of sale the sponsor prefers and the timing of purchase the REIT prefers? What do you plan to do if returns on the property the sponsor tries to sell are lower than the REIT's capital costs?

A. We will discuss when to purchase the property with the sponsor to decide on the best timing for both parties.

As for returns, given that the properties developed by the sponsor are in a prime location in the heart of the city, it is true that the purchase is a tough choice in terms of profitability. However, in the medium- to long-term, the properties are competitive in light of the prestige attached to the area, location, and specifications. We will work to improve returns by raising the rent.

Q. Given the current office market conditions, raising the rent is probably not easy. Do you have any ideas in mind how you will do that, such as raising the average rent on the properties in your portfolio by a certain percent a year?

A. Although momentum is considerably changing, some properties are highly competitive and others are not. We can negotiate an increase in the rents on highly competitive properties, while we have not reached that point with other properties. In the meantime, we plan to negotiate for higher rents on those highly competitive properties, keeping watch for any change in the situation.

We intend to work on setting clear targets of increases in rents. We will need to discuss how the overall returns on the portfolio should be produced, and at the same time we will work to identify the profitability of each property. If the profitability of a property will likely improve, we will focus on raising the rent; if not, we will have to consider selling the property.

Q. You said that you expect a major tenant to move out during the fiscal year ending December 31, 2024. Do you plan to refill the floors after the tenant moves out by having the unit occupied? Or do you plan to pursue the rent increase when refilling, given that the area of this tenant's departure will be only 2 percent or so of our portfolio?

A. To refill the floors in case the tenant moves out, we have already talked to some potential tenants. As it turned out, we have a longer list of potential tenants than we initially expected. The rent paid by the current tenant that might be moving out is lower than the market level, yet we will likely agree with a new tenant on a rent at or higher than the market level.

Q. Many of the properties in the regions seem to have been built a long time ago. Would you tell us how you intend to yield returns when you buy and sell the properties. For example, do you plan to achieve growth by buying properties in the city center, such as the BIZCORE Series, while selling regional properties? Do you plan to base your decisions on returns after depreciation, rather than apparent returns?

A. We intend to retain aged properties in the regions if they yield high returns, and plan to buy more if we have opportunities in order to maintain the overall returns on the portfolio.

Q. You said that you had sold JEI Hongo Building at a high price, although the property provides low returns. Does the current portfolio still have other properties that can be sold high?

A. We were able to sell high not just JEI Hongo Building, but the properties in Sengoku and Shirokanedai. That was because, in addition to their proximity to train/subway stations, these properties had the advantage of being in prestigious residential areas, even though those areas may not be prime locations for office buildings.

We have been selling properties that would yield profit on sale in order to keep distributions level. From now on, we plan to select properties to sell based on the age of the property, locational advantages, and profitability, which means that the quality of properties for sale may change.

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