

Summary of Q&A Session of the Financial Results Briefing for the 21st Period
(ended December 2016)

This material is a summary of the Q&A session of financial results briefings for the 21st period ended December 2016, held on February 17, 2017, having the questions raised from participants as "Q" and answers from Japan Excellent Asset Management as "A." This material has been amended and revised for your better understanding.

< Q1 >

When do you expect to achieve the medium-term target of Distribution per unit of 2,800 yen?

< A1 >

The outlook for the distribution target of 2,800 yen has not changed from what we presented a year ago. So we expect to achieve it within two to three years as we initially explained. If things go more favorably, we may reach the target earlier, but we are currently projecting within three years from one year ago. Although this depends on the changes in the environment and other factors, we believe it will not deviate much from the initial forecast.

< Q2 >

What measures have you taken to prevent departure of large tenants?

< A2 >

Preventive measures for departure all come down to continuing steady efforts. Property management companies or JEI work to communicate with tenants on a regular basis to enhance their satisfaction level. We have been trying to prevent departures with such communication and value-added renovations.

< Q3 >

Does the forecast for the 23rd period ending December 2017 factor in the income from lease-up after tenant departure of Shiba 2-chome Building?

< A3 >

There currently are many inquiries on Shiba 2-chome Building, to say 29 inquiries so far. As negotiations are ongoing, it is hard to provide details, but we are amidst one-on-one talks on specific terms with a party and the negotiation is nearing an end. As to revenue and expenses, we have assumed sufficient downtime and are projecting a free rent period which is a little longer than the average 2.7 months in the 21st period.

< Q4 >

JEI's portfolio has a ratio of large-scale properties at 77% and a ratio of investment in central Tokyo at over 50%. Will many of them be affected by the large supply of large properties in 2018 and onward?

< A4 >

It is true that JEI's portfolio includes many large properties and properties in central Tokyo. However, the average rent of these properties is around 20,500 yen per tsubo, and there are few properties that will be completely competing with the properties to be supplied in the future. Thus we do not think it is likely that JEI's portfolio will be significantly impacted.

< Q5 >

To what extent have you and the sponsor discussed the BIZCORE series, the properties developed by a sponsor?

< A5 >

The sponsor is also considering making BIZCORE a series, and if the size and timing become suitable in the process of portfolio management of the sponsor, they will obviously be contacting JEI. We are hoping to include them in our portfolio.

< Q6 >

What are the reasons behind the increase of the amount of rent decrease in the 21st period ended December 2016 compared with the forecast shown at the previous financial results briefing? And why do you also assume due amount of rent decrease in the 22nd period ending June 2017?

< A6 >

The difference from the forecast is due to the unexpected request for rent decrease from a tenant occupying not a small floor area. I'm afraid we cannot disclose the tenant's name. As for the 22nd period too, we are assuming that there may be cases of rent decrease although we have not received any such request from any specific tenant.

< Q7 >

Concerning the outlook for future distribution, what would be the next target after achieving 2,730 yen, which is the assumed normalized basis after the lease-up of Shiba 2-chome Building?

< A7 >

We believe achieving 2,800 yen at an early stage is the first mission. Since distribution is expected to keep growing, if 2,800 yen is achieved, then the next target should ideally be 3,000 yen in the following two years or so. But it is no more than a projection at the moment. However, we do not want to carry out operations that would stall or decrease distributions.

< Q8 >

What is the leasing status of AKASAKA INTERCITY AIR, which is developed by a sponsor and scheduled for completion in August?

< A8 >

I cannot recall in details, but a sponsor has received many inquiries from companies including those with names in katakana (non-Japanese companies). I was informed that there are more serious inquiries in recent days.

< Q9 >

Concerning the BIZCORE series, the properties developed by a sponsor, it is possible a transferred old property may come back to the REIT, after being transformed to BIZCORE?

< A9 >

Considering the concept of the BIZCORE series, which is "medium size/high grade," not all the properties transferred would turn into BIZCORE, but properties such as Shintomicho Building and No. 44 Kowa Building may suit the concept of the BIZCORE series. Then in the future, we may see circulation of assets in which the sponsor buys back such properties and turns them into BIZCORE, and we acquire them again.

< Q10 >

Concerning the remaining 70 yen to be increased from the assumed normalized basis of 2,730 yen to the distribution target of 2,800 yen, what is the breakdown of the distribution among external growth, internal growth and financial strategy?

< A10 >

When considering 2,730 yen as the base, out of the remaining 70 yen, around 60 to 70 yen would be from financial strategy in the 24th and 25th periods and 40 to 50 yen from internal growth. But this cannot be asserted since there may be new changes in the external environment.

< Q11 >

The sponsors are engaged in various development cases and appear to be in need of cash. What would be the pace of property acquisition going forward?

< A11 >

We have not had any concrete discussions yet. There is around 30 billion yen in the pipelines of the sponsors at present. That is 20 billion yen in the Tokyo metropolitan area and 10 billion yen for regional areas, but we had discussed only one case in detail. I cannot promise how fast we can conclude the deal, but we would like to acquire the properties at an early stage to continue with our steady growth.