Summary of Q&A Session of the Financial Results Briefing for the 23rd Period
(ended December 2017)

This material is a summary of the Q&A session of financial results briefings for the 23rd period ended December 2017, held on February 16, 2018, with questions from participants labeled as “Q” and answers from Japan Excellent Asset Management labeled as “A.” This material has been amended and revised for your better understanding.

<Q1>

Will the LTV level decrease in the future?

<A1>

Yes, it will. With the operation conducted this time, LTV decreased 43.4%. We would like to conduct operations by further reducing the LTV level. However, we will not only adhere to LTV level, but also consider the equity financing market, distribution level, etc. in a comprehensive manner.

<Q2>

Why is it that the rate of upward rent revisions will decrease in the 25th period ending December 2018?

<A2>

Upward rent revisions will decrease because the 25th period ending December 2018 happens to be a period during which only a small number of leasing contracts are renewed. The average contract period of JEI is 2.3 years and leasing contracts for about 25% of leasable space will be renewed each period on average. Leasing contracts for 37% of leasable space will be renewed in the 24th period ending June 2018 while leasing contracts for only about 11.5% of leasable space will be renewed in the 25th period ending December 2018, which is far below the average.

<Q3>

Will you continue to conduct asset replacement in the future? If so, what kind of effect do you expect to gain?

<A3>

The sale at this time was conducted because an unexpectedly high price was presented. We would like to continue conducting similar asset replacements in the future. The purpose of asset replacement is to improve financial structure, portfolio profitability and such. We would like to conduct acquisition and sale of assets at the same time in principle and replace assets without a long interval between sale and purchase even when assets cannot be replaced at the same time.

<Q4>

Are you aiming to achieve distributions of 2,800 yen without the use of internal reserves?

<A4>

We are aiming to achieve distributions of 2,800 yen without the use of internal reserves. By our calculation, distribution will reach 2,800 yen over the next two periods if we work to increase it by about 50 yen per period through internal growth and financial strategy. Furthermore, there is also room for increase through external growth.

<Q5>

You explained that distribution will increase by 70 yen when the LTV level increases to 45% but what is the underlying assumption of the yield upon asset acquisition? Also, what kind of assert are you considering acquiring?

<A5>

The assumption behind the increase in distribution by 70 yen is the acquisition of assets worth 8 billion yen at a yield which is the same as that of the current portfolio (NOI yield: 4.8%, yield after depreciation: 3.4%).

We are currently considering acquiring assets valued at about 20 billion yen, most of which are assets owned by sponsors or those brokered by sponsors. Since the yield of assets in Tokyo is low, we would like to secure profitability by acquiring other assets and achieve a yield at the same level as that of the current portfolio.

<Q6>

According to the presentation material (p.16), unit rent is likely to remain flat from the 24th period ending June 2018 to the 25th period ending December 2018. What are the reasons behind this trend?

<A6>

This is because few leasing contracts will be renewed in the 25th period ending December 2018 and a conservative forecast of rent decrease is reflected. We expect that an increasing trend of rent will continue until the first half of 2019 and believe that steady growth will continue at least until the 26th period ending June 2019.

<Q7>

Are the alternative assets of the assets sold at this time (Akasaka Garden City and No.44 Kowa Building) worth 8 billion yen with an LTV of 45%? We believe that assets acquisitions involving equity financing are different from asset replacements but do you have any promising assets?

<A7>

The sale was made by assuming replacement with a candidate asset for acquisition worth about 20 billion yen. As for Akasaka Garden City, it was sold prior to the acquisition due partially to the timing of sale and acquisition being adjusted with the buyer. However, the asset was sold as it was certain that the asset which would replace the asset sold would be acquired.

We are assuming various cases in asset acquisition. We may acquire assets by at first using borrowings, depending on the size and yield of the acquired asset, or conduct acquisitions involving equity, depending on the equity financing environment. We would like to flexibly decide the level of LTV not by adhering to a level of 45% but by considering distribution level, etc. as well.