Summary of Q&A Session of the Financial Results Briefing for the 25th Period (ended December 2018)

<Q1>

According to your presentation, Japan Excellent Inc. (JEI) will continue to focus on asset replacement. Could you describe your property acquisition process in more detail?

<A1>

There is about 25 billion yen of properties in the pipeline, of which 20 billion yen were acquired from the sponsor in both Tokyo and regional cities, and 5 billion yen are properties from third parties. While the sponsor properties are large-scale buildings that are relatively new, because it is difficult to acquire relatively new properties from third parties, we expect to acquire properties with a strong track record and high profitability.

We make acquisition decisions upon comprehensively considering the impact it could have on distributions or LTV levels, while being aware of our existing portfolio's NOI yield, yield after depreciation, and implied cap rates. Striving for property acquisitions that contribute to improving unitholder value, we ensure that the average portfolio yield is not pressed down by relatively new property acquisitions in central Tokyo by supplementing these acquisitions with profitable property acquisitions in regional cities.

<Q2>

The performance forecasts showed that the ongoing distribution target of 2,800 yen per unit will be met, but what is the next distribution target?

<A2>

Although we have not established a numeric target, we plan to steadily increase it from the 2,800 yen per unit level on an ongoing basis. As the specific amount of increase will be determined by various factors such as equity financing and LTV levels, at the present stage, we will conduct operations to steadily increase distributions compared to the previous period.

<Q3>

What is the outlook for future LTV levels?

<A3>

Although LTV levels could temporarily surpass 45% depending on the timing of property acquisitions and equity financing, we try to keep it below 45%. Upon considering distribution levels and the quality of property acquisitions and equity financing, we hope to operate between 40 to 45% as a basic rule, and will strive to lower it little by little in the medium to long term.

<Q4>

What is the outlook of the cap rate and what is the future sales policy for properties with unrealized losses?

<A4>

We do not expect cap rates to peak out in either Tokyo or regional cities. Supported by the forecasts that strong internal growth and low interest rates will continue, it is thought that the likelihood that caprates would turn to rise is low.

Although we currently own five properties with unrealized losses, around two of for which unrealized losses are expected to be eliminated even if cap rates do not rise due to rises in market value with rising rents and falling book value with depreciation. Under these circumstances, asset replacements will likely be conducted for properties whose unrealized losses will remain even with rising rents, old properties constructed over 40 years ago, and properties with a lack of profitability.