Summary of Q&As at Analyst Meeting (Telephone Meeting) for the Fiscal Period Ended July 2023 (FP 40) Held on September 15, 2023

[Q&A]

<Questioner A>

(Q: A-1) I would like to know your stance on replacing properties in the future.

(A: A-1) Because we have finished replacing the properties that were candidates for selling (those with unrealized loss), our stance is that we are not actively looking to sell properties. However, we would consider replacing properties if superior candidate properties for acquisition in terms of improving profitability and returning unrealized gain were available.

(Q: A-2) In the fiscal period ending July 2024 (FP 42), you project that the gap between the office occupancy rate after deduction of free-rent area and the occupancy rate based on contracted area will be mostly closed. In 2025 and beyond, is it possible that there will be upward revision of rents?

(A: A-2) I believe we are in a situation where upward revision of rents is possible for offices in the Shibuya area. Shibuya is a location where there is high demand from IT, game app developers, certain apparel companies, and other enterprises for venues where creative talent can interact and venues for employing exceptional talent, and with the environment in the surrounding area also recovering to the pre-pandemic level, we are seeing the strength of this area. Compared to newly constructed buildings, there is healthy demand for existing buildings, as they can accommodate demand for extra floor area and furnished offices in order to limit initial investment. We therefore view it as an environment with the potential for upward revision.

<Questioner B>

(Q: B-1) Due to proceeds from the sale of Tokyo Nissan Taito Building, you have around 5.8 billion yen available for acquisitions. If you were to acquire new properties with these funds, I would like to know whether it would raise the distribution floor of 3,400 yen or whether there would be no change in the level because new properties are already included in the 3,400-yen floor.

(A: B-1) The distribution floor of 3,400 yen is based on the actual performance level of 3,250 yen for last year's portfolio, factoring in the recovery in occupancy and reversal of reserve for reduction entry, to which we have added 150 yen for the worsening of the difference in utilities income and expenses. We forecast a decrease of 80 to 90 yen per unit due to the sale of Tokyo Nissan Taito Building, but we plan to make up this amount by acquiring new properties using the 5.8 billion yen in sale proceeds and borrowings.

(Q: B-2) As of the fiscal period ending July 2024 (FP 42), the difference between the EPS and DPU will be around 600 yen. I would like to know your basic view on the distribution floor: will this difference be closed by posting gains on sale of real estate, etc., or is it possible that DPU will be brought down to the actual performance level?

(A: B-2) The EPS decrease in the fiscal period ending July 2024 (FP 42) is for reasons that include special factors such as an increase in repair and maintenance expenses due to the execution of work at the owner's expense at QFRONT in conjunction with renovation work by the tenant TSUTAYA, so it is possible that the EPS will recover to the previous level. In the event that it should fall below 3,400 yen due to unexpected circumstances, we will maintain the distribution level at 3,400 yen or higher by means of reversal of reserve for reduction entry.

<Questioner C>

(Q: C-1) You forecast that the occupancy rate will remain at 100%. I would like to know the current tenant situation.

(A: C-1) Due to the recovery in tenant performance, existing tenant move-out needs are decreasing. In addition, in the event that move-outs do occur, given the strength of our properties' locations, we should be able to fill vacancies with no downtime due to factors such as the need of other existing tenants to expand floor area, which will allow us to maintain high occupancy.

(Q: C-2) Could you share your view on the environmental changes that would lead you to change to a strategy other than property replacement aimed at growing asset size in the future?

(A: C-2) To date, we have continued to replace properties while leveraging cash on hand and borrowings, but we recognize that our current P/NAV is not at a suitable level for further growing asset size through a public offering or the like. The upcoming medium-term management plan to be announced by our sponsor will include substantial financing needs, which may be expected to lead to a situation that requires cooperation with our REIT. This position will be assessed, and we will move forward with growing asset size when we have improved the P/NAV level.

<Questioner D>

(Q: D-1) In the fiscal period ending July 2024 (FP 42), TSUTAYA in QFRONT will undergo renovation work. I would like to know the extent to which this work will impact the appraisal value and rent.

(A: D-1) The renovation work will be executed based on the tenant's wishes, and rent will be charged even during the period when it is closed, so there will be no impact on income and expenses. We have signed a contract with the tenant stipulating that the rent will be increased by 5% every three years, and while expenses will increase temporarily due to the posting of repair and maintenance expenses, there will be no impact in the long term. Based on the execution of work to upgrade the facilities, the NCF will improve due to a future decrease in long-term repair expenses. Therefore, our view is that the appraisal value will increase.

(Q: D-2) Regarding the status of the appraisal value indicated on page 22 of the financial results presentation, I would like to know the background to the decrease in the NCF for 28 properties.

(A: D-2) The main factors in the NCF decrease are increases in property taxes and utilities expenses.

<Questioner E>

(Q: E-1) Aoyama Oval Building has an unrealized loss, and the NCF decrease could be viewed as the reason for this. I would like to know about the recovery forecast for the next fiscal period and beyond.

(A: E-1) The reason for the decrease in the appraisal value of Aoyama Oval Building is a decrease in the NCF due to a decrease in rental income caused by tenant move-outs and increases in property taxes and utilities expenses. Going forward, some tenant move-outs are expected from the fiscal period ending January 2025 (FP 43) onward, but for the time being, there will no major impact.