

Summary of Q&A Session at the Financial Results Briefing for the 34th Period (Ended June 2023)

Q. Does the DPU target of 2,600 yen for the 36th Period incorporate the downside risks for occupancy rate and rent? Or is it based on the current capacity? Also, the EPU only for rental operations for the next year is expected to be below 2,600 yen. Considering the occupancy rate and utilities net income, what is your view on the outlook?

A. The 2,600 yen DPU target was calculated based on the current business plan incorporating the foreseeable environment with conservative assumptions for downtime and free rent period, as well as the effect of new acquisitions and the latest property replacements. Regarding utilities expenses, we have embarked on cost reduction, such as passing through the electricity bill to the tenants, and the resulting revenue improvement is reflected in the performance forecasts to some degree.

Q. DPU management is to reflect the revenues/expenses for each fiscal period from the 36th Period. What is the policy for the treatment of internal reserves and gain on sales?

A. We changed our DPU payment policy to reflect the revenues and expenses, but our stance to aim for stable DPU management has not changed. We expect to meet the target level with the revision, but we will maintain flexible operations as necessary, including on internal reserves. When we had a minimum target for distributions, gains from sales were used to support the DPU. Going forward, the primary purpose of property replacements will be to improve investment yields and portfolio quality.

Q. Regarding the forecast departures for the 36th Period, what are the types and locations of buildings with expected tenant departure? In addition, what is the leasing outlook if tenants depart?

A. We expect departure for approximately 3,446 tsubo, conservatively aggregating tenants that may depart and dummy data. Currently confirmed departure is for about 180 tsubo, and we believe the figure should be around 500 tsubo, even including tenants with concerns about departure. The 3,446 tsubo figure includes tenants whose intentions are unclear and a considerable buffer, and it is difficult to forecast the actual level of departure. Properties with anticipated tenant departures are buildings in metropolitan and surrounding areas, and refilling should not be difficult even in the case of a departure.

Q. Assuming the contracted occupancy rate for the 36th Period to be around 96%, when do you think the occupancy rate will bottom out on a cash flow basis?

A. The occupancy rate bottomed out on a cash flow basis in the 33rd Period. It is expected to improve between the 34th and 35th Periods, then slightly decrease in the 36th Period under a conservative scenario. However, we expect the departure ratio to settle, and the occupancy rate on a cash flow basis should gradually converge with the period-end contracted occupancy rate.

Q. Can we deem the Kowa Kawasaki Nishiguchi Building to be the last of the properties that can threaten sustainable revenue? Or is it a topic that is constantly being discussed? If you are having discussions, what perspectives do you focus on, such as areas or tenants?

A. This is a topic the management constantly discusses from a risk management perspective, and we focus on the location and the age of the building. We transferred the Kowa Kawasaki Nishiguchi Building, which reminded us just how much risk is involved with large, single-tenant properties. We do not have any properties with risks that could materialize at this point, but we believe it is necessary to always be prepared.

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