

Japan Real Estate Investment Corporation

The Period ended September 2016 Performance Review Q&A
(held on November 18, 2016)

Japan Real Estate Asset Management Co., Ltd.

This Q&A is a summary of the Q&A session of Japan Real Estate Investment Corporation's performance review for the period ended September 2016. "Q" represents a question raised by participants and "A" represents an answer provided by Japan Real Estate Asset Management Co., Ltd.

The Q & A below is partly touched up for your convenience.

The video of the latest performance review is also available on the home page of our website.

Q1: Is there any specific industries or areas, etc. where growth of office space demand can be expected in the future?

A1: Although external factors such as events in overseas may influence the Japanese economy, we recognize that the performance of the Japanese corporations and demand of office space is strong in overall. To give an example, demand from IT and service industry is especially strong, and there are some cases where we are unable to meet tenant's needs for additional floor space.

Q2: To what extent do you expect an internal growth from revised rent and tenant turnover after Mar. '17 period?

A2: We estimated our future internal growth to be lower than the Sep. '16 period actual as we only included increased rent revision that is fixed. However, we expect to maintain the same level as in Sep. '16 period unless the upward trend of market rent is reversed. It is not appropriate to comment on tenant turnover, as turnover figures fluctuate depending on the area of the property where newly leased and returned space occurs.

Q3: How long do you consider the recent trend of rent increase to continue?

A3: We expect that the trend will continue for about one year. However, the rent gap is currently almost zero and our portfolio's rent is coupled with the market rent, thus, we will need to observe the movement of the rent after the arrival of large supply of new properties.

Q4: How do you predict the influence of the large supply after 2018 on the office market?

A4: Due to the increase of supply for S class and A class buildings in Tokyo central area, we predict that the vacancy rate will increase to a certain extent and may pressure the market rent to decline, however, we do not assume the rent level to decline significantly.

Q5: Regarding the illustration on page 30 of the performance review, what do you mean to "earn our score" before the large supply arrives? Do you mean to aggressively promote internal growth or to defensively promote by negotiating with large tenants to enter into re-contracts in advance?

A5: It means both. It is not easy to negotiate with large tenants for re-contracts, however, we would like to firmly implement measures against large supply.

- Q6: How do you predict upside and downside scenario for your performance? As one of the upside scenario, do you consider to move toward the achievement of acquiring S class properties in Marunouchi?
- A6: As we are committed to take the high road as in the past, we believe that our performance forecast will not significantly differ under the current market condition. We would like to continue our efforts to acquire S class buildings.
- Q7: Regarding property acquisition, approximately how many properties in total are under detailed review? In addition, are there changes in target yield for acquisition?
- A7: If we sum up all of the properties that are under detailed review it will add up to tens-of-billions-of-yen, however, we decided not to disclose the total amount as property information and consideration status fluctuate day by day.
Concerning target yield, we have not changed the target. Although expected yield has declined in theory due to decline of capital costs and interest costs, we have not changed our policy to carefully select and invest in properties that provide a competitive edge over medium to long term.
- Q8: In regards to the seller of the properties under review, where do these increasing players attribute? On the other hand, are there approaches increasing from the players to request in buying the properties owned by JRE?
- A8: Attribution varies, however, recent examples show that domestic players are increasing. We sometime receive requests to sell the properties, however, we will begin our consideration if it matches our selling target.
- Q9: Do you consider to lower the LTV to a cruising level at an early stage, which is below 40% level?
- A9: Although we may implement repayment of loans as a part of cash management, LTV (market value basis) is below 40% level. Therefore, we do not consider the need to lower the LTV immediately.
- Q10: Regarding appraisal values in Tokyo central areas, what are the factors that contribute to the decline of assessed CF in certain properties when comparing with the previous period?
- A10: The main factors are caused by the review to future repairing expenses and capital expenditure along with the update of engineering reports. Future repairing expenses and capital expenditure may increase or decrease depending on the update of engineering reports.