SEKISUI HOUSE REIT, INC.

December 19, 2022

Sekisui House Reit, Inc.
Fiscal Period Ended October 2022 16th Financial Results Briefing Script and Q&A Summary

Date and time: Friday, December 16, 2022 3:30pm-4:30pm

<u>Financial Results Briefing Script</u>

Opening Remarks

Hello everyone. My name is Abe from Sekisui House Management. Thank you for participating in today's 16th Financial Results Briefing for the Fiscal Period Ended October 2022. I will now go into details of our financial results. Please turn to page 1 of the presentation.

Pg. 1 Operational Highlights and Future Initiatives

This page is regarding our operational highlights and future initiatives, where we summarize the results for this fiscal period ended October 2022 from the perspectives of internal growth, external growth, finance and ESG, as well as our current environment recognition and future policies and strategies.

Firstly, regarding our distributions per unit – DPU for FP 16 (fiscal period ended October 2022) is 1,714 JPY per unit, an increase of 16 JPY from the previous fiscal period and an increase of 26 JPY from the original guidance. DPU for FP 17 (ending April 2023) and FP 18 (ending October 2023) are expected to be 1,714 JPY and 1,681 JPY, respectively. We will explain the factors behind the changes in DPU later.

Next, in terms of internal growth, the occupancy rate for office buildings at the end of this fiscal period was 93.9%, which decreased from the end of the previous fiscal period due to vacancies at Garden City Shinagawa Gotenyama and the backfilling of the 2 Tokyo office buildings taking time. Although we believe that vacancy due to COVID-19 has somewhat subsided, the return to office has been slow due to the infiltration of hybrid work between remote and in office work. As for our future policy, we will focus on further strengthening our leasing measures with the aim of rapid backfilling.

The occupancy rate at the end of the period for residentials was 97.1%, of which 95.3% were single-type occupancy in Tokyo's 23 wards, and the rate of change in rent at the time of new contracts recovered to positive 0.9%. The market environment has improved due to population inflows into Tokyo and an increase in the active job openings-to-applicants ratio, resulting in single-type of Tokyo's 23 wards to show recovery. Our future policy is to increase revenue by increasing rents and acquiring non-refundable deposit, while continuing to maintain our focus on occupancy rates.

On to hotel. With the disposition of The Ritz-Carlton, Kyoto in August, we currently own just The St.

Regis Osaka hotel. Since The St. Regis Osaka is a fixed-rent master lease agreement, our earnings are stable. In terms of the environment for hotels, while inbound demand from overseas is on a recovery trend due to the weak yen in addition to the significant easing of border measures, we believe that demand remains unstable due to the rise of the 8th COVID-19 wave in Japan and infections on the rise. Our policy as of now is to continue to secure stable earnings through fixed rent.

As for external growth, as announced in the previous fiscal period, we replacement measures were taken and we disposed of one hotel property, acquired two residential properties, and invested in silent partnership equity interests. Although the real estate transaction market continues to be overheated, our policy is to continue asset replacement mainly for residential properties, while seeking opportunities for external acquisitions as well as through our sponsor pipeline.

For finance, we acquired and cancelled investment units for the first time as SHR. In addition, ESG has set a new long term goal of achieving carbon neutrality by FY 2050.

Please turn to page 2.

Pg. 2 Asset Replacement: Overview (FP 16 Results)

Here we once again summarized the details of the asset replacement carried out in the fiscal period ended October 2022.

Due to the determination that revenue from variable rent cannot be expected for some time, SHR disposed of The Ritz-Carlton, Kyoto, which had declined in profitability with a NOI yield of 1.2% after depreciation and recorded a gain on disposition of 710 million JPY. Utilizing the proceeds of this transfer, we acquired 2 residential properties that is expected to generate stable earnings - Prime Maison EGOTANOMORI, which includes SHR's first senior housing facility, and Prime Maison Waseda dori, for 12.7 billion JPY. We also acquired and cancelled investment units and acquired silent partnership equity interests to implement measures aimed at maintaining and improving unitholder value.

Please turn to the next page.

Pg. 3 Asset Replacement: Acquisition/Completion of the Buyback

This page is regarding the buyback, or the acquisition and cancellation of our investment units. The total number of investment units acquired was 49,651 units, and the total acquisition price was just under 4 billion JPY, as indicated. The total number of investment units issued after the cancellation is 4,381,482 units, which boosted DPU by 19 JPY.

During the buyback period, SHR's investment unit price increased by 12.2%, and although there was a gap in performance with the Tokyo Stock Exchange REIT Index from the beginning of the year, the gap narrowed, and the trend recovered to the same level as that of the Tokyo Stock Exchange REIT Index. We intend to continue to consider buybacks as necessary in consideration of market trends.

On to page 4.

Pg. 4 Asset Replacement: Silent Partnership Equity Interests

This page explains the acquisition of silent partnership equity interests. In order to secure future growth potential, we acquired the preferential negotiation rights for the unacquired portion of the environmentally friendly office building, Akasaka Garden City, on August 1. Of the total investment of 3.88 billion JPY, SHR invested 480 million JPY, which is equivalent to 12.4% of the total investment. After confirming the recovery and stability of the office market, we will consider acquisition.

Please go to the next page.

Pg. 5 Analysis of Change Factors of DPU (Results)

Here we would like to explain the factors behind the changes from the previous fiscal period to the current fiscal period ended October 2022 on a per investment unit basis. First, as stated in the center of the presentation, the disposition of The Ritz-Carlton, Kyoto resulted in a positive 162 JPY, which was a major factor behind the increase in income for FP 16. On the other hand, the real estate property-related operating income shown on the left-hand side shows the details by asset type: office building are at negative 40 JPY mainly due to the decrease in lower rent revenue caused by the vacancies occurred at Garden City Shinagawa Gotenyama; residentials at a positive 44 JPY due to full-year operation of properties acquired in both FP 15 and FP 16; and hotel was at negative 17 JPY with the decrease in NOI due to the disposition of The Ritz-Carlton, Kyoto. Combined, the real estate property-related operating income came to negative 13 JPY.

SG&A (selling, general and administrative) expenses increased by 44 JPY, mainly due to an increase in asset management fees in connection to the disposition of the Ritz-Carlton, Kyoto along with an increase in taxes and public charges. In turn, this resulted in a decrease in retained earnings of 108 JPY and a gain of 19 JPY regarding the buyback. As a result, DPU for FP 16 increased by 16 JPY from the previous fiscal period to 1,714 JPY. Please reference the following page which contains period-on-period changes, comparison to former guidance, along with the analysis of change in factors. on a gross basis.

Pg. 7 Analysis of Change Factors of DPU (Forecast)

On to page 7. This page details the forecasts for the fiscal period ending April 2023 (FP 17) and October 2023 (FP 18). For FP 17, we forecast a negative 162 JPY due to the disappearance of the gain on disposition of The Ritz-Carlton, Kyoto, and a negative 47 JPY due to the prolonged period of vacancy in office buildings, but a positive 196 JPY due to the increase in reversal of internal reserves, etc., resulting in the same DPU as FP 16 of 1,714 JPY.

As for FP 18, we plan to dispose of properties in order to improve the profitability and qualitative aspects of the portfolio, and the gain on disposition is expected to generate a positive 98 JPY. By asset, we expect a negative 21 JPY for office buildings and a negative 34 JPY for residentials, resulting in the total real estate property-related operating income to be a negative 55 JPY. As a result of these factors, DPU is expected to be 1,681 JPY, which is 33 JPY less than the forecast for FP 17. Nonetheless, we will aim to increase distributions to maintain the level of around 1700 JPY through future investment efforts.

Please turn to page 10.

Pg. 10 Office Building: Portfolio Status

The "Internal Growth" section explains the status and strategy of each asset class held by SHR with respect to internal growth.

First, we would like to start with our office building portfolio.
The status of our office building portfolio as a whole is shown here, with the current FP 16 results shown in the red frame. The overall occupancy rate was 93.9%, down 4.0% from the previous fiscal period, mainly due to a decline in occupancy at Garden City Shinagawa Gotenyama. Renewal and leasing trends are shown on the bottom half of the page. Both the vacancy and space returned for FP 16 were that of Garden City Shinagawa Gotenyama. Unfortunately, there were no new leases for this period.

Next, we would like to go into detail for Garden City Shinagawa Gotenyama, where vacancies occurred, and Akasaka Garden City. Please turn to the next page.

Pg. 11 Office Building: Operation Status (1) (GC Shinagawa Gotenyama)

This page details the operation status of Garden City Shinagawa Gotenyama.

For this fiscal period, there was a vacancy of 2,093.49 square meters and a reduction of floor space for 3,345.81 square meters, bringing the total vacancy at the end of FP 16 to 5,966.22 square meters. Although we continued to implement leasing measures to refill these vacant spaces, the continued easing of conditions by competitor buildings and the insufficient number of inquiries resulted in a sluggish recovery.

For the fiscal period ending April 2023 (FP 17), we will continue to see a reduction of 1,253.90 square meters; yet, with future leasing we are presuming occupancy rates to recover to 96.7% by the end of FP 18. However, as announced on November 30, a large tenant is scheduled to vacate 13,126.72 square meters with the expiration of the contract on January 2024. This vacancy will result in another decline in occupancy for the fiscal period ending April 2024 (FP 19). We will continue to do our utmost to quickly backfill these vacant floors.

Please turn to the next page.

Pg. 12 Office Building: Operation Status (2) (Akasaka GC)

As for Akasaka Garden City, there were no vacancies or reductions of office space in FP 16, but there were no new leases as well. We executed an open house for FP 16, where a total of 47 companies participated in the viewing. And although daily viewings have increased, no new leasing contracts have been concluded as of yet. The results from the post-viewing surveys confirm that the conditions offered were generally in-line with viewer needs; however, it seems that it will take a bit more time for potential tenants to actually come to a conclusion.

In FP 17, a vacancy of 1,214.62 square meters is expected, but by FP 19 we presume a full recovery to 100% occupancy.

Pg. 13 Office Building: Operation Status (3)

On page 13, we explain the operating status of the Osaka area, Nagoya area, and Gotenyama SH Building. There are no current concerns, and the occupancy rate continues to be 100%, thus we will omit further details.

On to the next page.

Pg. 14 Office Building: Rent Status

On this page, we describe the status of rents and rent gap. During FP 16, the rate of rent change was a minus 1.3%, with 78.6% of the total rent revision unchanged, and 21.4% decreasing in rent. The middle and bottom graphs show the rent gap in the Tokyo and Osaka areas, of which both trends have not changed in the past year. In the Tokyo area, the rent gap was a positive 21.3%, while the Osaka area resulted in a rent gap of negative 13.0%. With these results in mind, we will continue considering rent reductions in the Tokyo area to emphasize occupancy rates, while in the Osaka area, continue efforts to increase rents.

Please turn to the next page.

Pg. 15 Office Building: Market Trends

This page provides information on average rents and vacancy rates in the Tokyo and Osaka business district. Due to the effects of COVID-19, a rise in vacancy rates mainly in the Tokyo business area in turn resulted in average rents to decline; however, the vacancy rate has remained stagnant as of recent and the decline in average rents has also slowed down. In light of this market situation, we will explain our future internal growth strategy on the next page.

Pg. 16 Office Building: Future Initiatives

Based on these conditions, we have summarized the challenges, policies and countermeasures we plan to take for the office building portfolio.

Challenges include the long distance from the nearest station (roughly a 10-minute walk) for office buildings in the Tokyo area, changes in office needs accompanying new work styles due to the infiltration of hybrid work related to the effects of COVID-19, and the relaxing of supply and demand due to the over-supply of office buildings in central Tokyo from 2023 onwards.

In response to these issues, our utmost priority will be to promote and strengthen leasing. In addition to this, we will strengthen the circulation of property information through the introduction of VR tours and the implementation of open house viewings, and work to increase the number of opportunities for potential tenants to actually view our properties. At the same time, we will strive to reduce the initial costs upon occupancy and reduce the burden of security deposits using guarantor companies, and other initiatives that will lead to the conclusion of contracts.
Separately, we also consider it important to make efforts to improve the well-being of office workers. Specifically, for Garden City Shinagawa Gotenyama, we are working to acquire "S Rank", which is the highest rank for CASBEE Wellness Office Evaluation Certification. This certification is used to evaluate whether the building is equipped with health, safety, operation management, and medical services that will contribute to the well-being of the employees of tenants working in the building. We believe that we can be commended in a number of items, including safety and security resilience, at Garden City Shinagawa Gotenyama.

Although the office building sector struggles, we will take on the challenge of promoting leasing by appealing to the high grade of our buildings, including superior environmental performance, which we consider to be our strength.

Please turn to the next page.

Pg. 17 Residential: Portfolio Status

From here we will go into our residential portfolio. As for our residential portfolio, the average occupancy rate for FP 16 remained stable at the 96% level, and recovered to 97.1% as of the end of October. The occupancy rate of single-type rooms in Tokyo's 23 wards has also shown recovery to the 95% level as of the end of October. Tokyo is experiencing a population influx from and around the Kanto region, and the active job openings-to-applicants ratio is also on the rise. Based on these factors, we believe that we can expect further population growth which would lead to a full-fledged recovery in Tokyo's 23 wards residential market in time for the busy season next spring.

Please turn to the next page.

Pg. 18 Residential: Rent Trends

On this page details the rent trends of new and renewed contracts. Firstly, the change in rent rate at the time of new contracts as shown on the upper-left graph has shown a recovery to positive 0.9%, and renewal contracts on the right also remained positive. Although the change in rent rate for single-type of Tokyo 23 wards shown on the center-left is in negative territory, you can see that it has bottomed out as of the previous fiscal period and showing an upward trend.

Please turn to the next page.

Pg. 19 Residential: Market Trends

This page provides data on the movement of the residential market of Tokyo's 23 wards. The graph on the upper-left shows that Tokyo's population remained positive in the cumulative period from January to October 2022. In addition, as shown in the upper-right, the ratio of jobs-to-applicants is on an upward trend, and the overall residential market is expected to recover further in the future.

Please turn to the next page.

Pg. 20 Residential: Future Initiatives

Here we summarize the challenges, policies, and countermeasures of the residential portfolio. Challenges include the weakening demand of single-type rooms, which makes up the majority of our residential portfolio, which in turn has kept rents flat, in addition to the effects of increased costs, which include an increase in electricity charges due to soaring fuel prices.

In terms of future policies and countermeasures, we intend to aggressively increase rents, as strong demand has been confirmed for family-type and large-type rooms. As for single-type rooms, we recognize the need to implement value-increasing measures that lead to selection. For such value-increasing measures, we will carry out large-scale repairs such as renewal of the common areas and interior upgrades of exclusive areas to combat building maturity and overall maintenance. In addition to these measures, we will minimize loss of profit opportunity by shortening the construction period for restoration work and differentiate ourselves by introducing various facilities.

Please turn to page 22.

Pg. 22 Hotel: Operation Status

On to hotels. As of October 11, inbound travel demand from overseas is showing recovery due to the drastic relaxation of border entry measures in addition to the effects of the weak yen. Although the number of foreign visitors to Japan was 490 thousand in October, roughly 2.5 times that of the previous month, as shown on the graph at the bottom, compared to pre COVID-19 results in 2019, the recovery rate is still around 20%.

As for the fiscal period ended October 2022 (FP 16), we disposed of The Ritz-Carlton, Kyoto upon determination that revenue from variable rent cannot be expected for some time due to the effects of COVID-19. As a result of this disposition to our sponsor, Sekisui House, we continue to retain preferential negotiation rights for this hotel, and will consider reacquisition once travel demand has recovered and stable earnings can be obtained. Regarding The St. Regis Osaka, which we currently hold, we intend to continue possession as revenues are stable under fixed rent master lease agreements.

Next, we will go into detail about external growth.

Pg. 24 Future Distribution Policy
This page describes our future distribution policies and strategies. In order to maintain and improve stable and continuous distributions, our medium to long term policy includes raising performance based DPU from an internal growth perspective including early leasing of vacant office building lots and rent increases for residentials, strengthening and expanding our earnings base through asset acquisitions utilizing acquisition capacity and public offerings, and recording gain on dispositions via asset replacement aimed at improving portfolio quality.

Given that there will be no reversal of internal reserves from the fiscal period ending October 2023 (FP 18), the disposition of properties is assumed for FP 18 as shown on the bottom half of the page. This disposition is expected to have a positive impact on DPU of 255 JPY in line with our policy to maintain DPU of around 1,700 JPY. Going forward, SHR will continue to use unrealized gains to raise distributions to around 1,700 JPY.

Please turn to the next page.

Pg. 25 Asset Acquisition/Disposition Policy
Here we summarize our policy when considering acquisitions and/or dispositions of assets in the future.

In the short to medium term, we intend to consider acquisitions primarily for residential properties with relatively high-performance stability, and dispose of properties that are expected to experience a decline in earnings performance. In this way, we intend to implement asset replacements and utilize unrealized gains to maintain distributions while improving the quality of our overall portfolio.

From a medium to long term perspective, we will continue to consider properties that are expected to contribute to stable and continuous earnings as targets for acquisition, while reviewing our investment policy for "office buildings" if we believe that a recovery in occupancy is unlikely for the foreseeable future and consider disposition as necessary.

We will implement asset replacement by leveraging our superiority as a "diversified" REIT, and from a medium to long term perspective, will invest in order to increase unitholder value, and review our investment ratio target for our portfolio accordingly.

On to sponsor support.

P26 Sekisui House Group Sponsor Support/Strengths

On page 26 we list the main developments of our sponsor, Sekisui House. The total amount of our pipeline is approximately 240 billion JPY. Of the main developments on the right, there are eight residential properties that have been completed in the Prime Maison series of rental condominiums. These properties can be considered for acquisition in the near future.

There are also opportunities to acquire properties from Sekisui House real estate companies, which are not included in the total pipeline value. To date, the number of properties acquired from Sekisui House real estate companies is 16 properties.

The real estate transaction market continues to soar, and although it is likely that acquisitions will center on our sponsor pipeline, we will continue to seek opportunities for acquisition from third parties and pursue external growth opportunities.

Pg. 27 Trends of Appraisal Value

On to appraisal value. The total appraisal value at the end of FP 16 was 643 billion JPY, which decreased from the previous fiscal period due to the impact of the disposition of one hotel property. However, looking only at our existing properties, the appraisal value has increased, mainly due to the decline in cap rate for overall residential properties. Unrealized capital gains have increased to 103.3 billion JPY, and we believe that we will be able to consider measures to utilize these unrealized capital gains in accordance with our operational status.

Please turn to the next page.

Pg. 28 DPU and NAV Per Unit

This page details DPU and changes in NAV. NAV per unit at the end of FP 16 was 89,088 JPY, an increase of 1,279 JPY from the previous fiscal period, mainly due to an increase in unrealized capital gains.

On to finance. Please turn to the next page.

Pg. 30 Financial Situation (1)

Our financial base continues to remain stable. LTV as of the end of this fiscal period was 45.2%, and provided that if this was to increase to 47%, the remaining acquisition capacity is still around 19.1 billion JPY. Our policy is to continue to leverage favorable credits to maintain a stable and solid financial base.

Please turn to page 33.

Pg. 33 ESG Topic (1) Environmental Initiatives

Here we will explain the main activities related to ESG. SHR has recently established a new long term target of achieving carbon neutrality by FY 2050 regarding CO_2 emissions for the overall portfolio. In FY 2021, we were able to reduce CO_2 emissions intensity to 25% of the FY 2018 level, which we consider the base year. At present, we are making steady progress toward our medium term target of a 50% reduction by FY 2030 with initiatives such as switching to electricity plans derived from renewable energy. As a long term target, we have decided on achieving carbon neutrality and will accelerate our efforts to reduce CO_2 emissions.

With regards to switching electricity plans derived from renewable energy, we implemented the switch at Garden City Shinagawa Gotenyama in September 2022 which results in three of our office buildings completing the switch. In addition, the switch to renewable energy was completed in the common areas of 106 residential properties.

In addition, we are focusing on the acquisition of Green Certifications as well. The acquisition status of Green Certifications of our overall portfolio is 64.9% as of today. For one of our materialities, “investing in real estate with excellent environmental performance”, we have set a target (KPI) of acquiring Green Certification for more than 70% of our portfolio by the end of FY 2022, and are on track to achieve this.

Pg. 34 ESG Topic (2) Disclosure Based on TCFD

Please turn to page 34.

In July 2020, SHAM has pledged its support with TCFD recommendations and has been disclosing climate-related information. In line with the TCFD framework, please refer to the main content of "Governance," "Strategy," "Risk Management," and "Indicators and Targets."

Pg. 35 ESG Topic (2) Disclosure Based on TCFD (Strategy/Financial Impact)

Please turn to page 35.

For this fiscal period, we have quantitatively analyzed the financial impact of risks and opportunities associated with climate change in relation to SHR. The impact amount is calculated using the parameters under certain conditions and does not take into account the probability of an event occurring. Therefore, the impact of the amount will not necessarily be actualized. Nevertheless, we believe that it is important to quantitatively recognize risks and consider and implement necessary measures, and that countermeasures against such risks will become a business opportunity, which will lead to the differentiation of SHR.

Please turn to the next page.

Pg. 36 ESG Topic (2) Disclosure Based on TCFD (Stretegy/CRREM)

Also for the first time, we analyzed the transition risks associated with climate-change using CRREM. CRREM is a pathway for reducing GHG emissions that is consistent with the 2°C and 1.5°C targets of

the Paris Agreement. This tool enables visualization of the transition risks of individual portfolios by comparing with the pathways.
We analyzed our office buildings, but due to their high environmental performance and the fact that we are switching to renewable energy, we are currently below the pathways, keeping us in in the clear of the Paris Agreement target. However, if we look ahead to 2050, we will need to make further efforts to reduce CO_2 emissions. We will continue to consider countermeasures by utilizing these scientific analyses.

Pg. 37 ESG Topic (3) Green Finance
The following page explains our new Green Finance Framework. In addition to the Green Bond Framework already formulated, SHR has formulated a new Green Finance Framework. Today, as a third-party assessment of the framework, we have received the highest rating of the Green Finance Framework Evaluation.
In the future, SHR will implement green loans and issue green bonds based on this framework, thereby stimulating demand from investors with a significant interest in ESG. We will continue to focus on expanding the investor base and advancing external growth to enhance unitholder value.

Today, we have newly established a special ESG website, and we have also disclosed our ESG Report for FY 2022 (the English version will be made available by the end of December). We hope that this report will help you deepen your understanding of our ESG initiatives.

Closing Remarks
This is the end of my explanation.
There is currently vacancies in the Tokyo office buildings, and as the occupancy rate drops, it is becoming difficult to backfill with new leasing contracts. We anticipate that the business environment will continue to undergo major changes in the future; however, we will continue to work with our sponsor group to verify a wide range of new directions and measures, and will continue to strive to maximize unitholder value. We look forward to your continued support.
Thank you for your time.

Q&A Summary

Q1: As mentioned on pg. 11 and 12 of the Fiscal Period Ended October, 2022 16th Financial Results Briefing, I would like to ask about the occupancy forecasts for Garden City Shinagawa Gotenyama and Akasaka Garden City. You have mentioned that the occupancy rate for Garden City Shinagawa Gotenyama will recover from September to October 2023, and that Akasaka Garden City is expected to improve from next spring onward, but is this forecast based on some prospect of recovery foreseen, or rather is it just an effort target?

A1: The 2 Tokyo area office buildings, Garden City Shinagawa Gotenyama and Akasaka Garden City, both have vacancies which are taking time to backfill. The forecasts for FP 17 and 18 for each of the properties are efforts targets, in response to your question. We are currently negotiating with some tenants who have concrete plans, but we are not yet at the stage where we can make a clear announcement.
The question is how quickly and at what rent level we will be able to recover in the market environment. These two properties account for a significant portion of our portfolio, so it will be very important to see how they fare. At the same time, we must also examine how to maintain DPU (distribution per unit) at around 1,700 JPY. As I mentioned in my presentation, if the performance of these buildings does not recover over the medium to long term, we will have no choice but to start considering the replacement of these assets, including disposing of them.

Q2: Regarding the future distribution policy mentioned on pg. 24, it states that you will maintain the 1,700 JPY level, but as you explained earlier, there will be no retained earnings in the fiscal period ending April 2023. You also mentioned that the ATA (allowance for temporary difference adjustments) will be utilized as a distribution in excess of earnings, but how much of the ATA can be used?

A2: On pg. 24 on the upper-right table, the amount corresponding to discrepancies between tax and accounting reporting is listed as 940 million JPY for FP 18. Of this amount, the portion related to the disposition is slightly less than 700 million JPY, and the amount corresponding to discrepancies between tax and accounting reporting, which is mainly the accounting and tax differences in depreciation expenses, for FP 18 is roughly the same level as FP 17 of around 250 million JPY. Beyond FP 18, we expect the amount to continue to be between 250 million JPY and 300 million JPY.

Q3: It was mentioned earlier that the policy is to maintain DPU levels of around 1,700 JPY. While many other REITs in the industry state that their policy may change depending on if the external environment changes dramatically, does Sekisui House Reit, Inc. intend to maintain the 1,700 JPY level as long as possible by replacing office buildings, etc., or will you review the level once again in the event of a large asset replacement (including that of office buildings)?

A3: As for our dividend policy, with the aim to prioritize stability, we state our intention to maintain this distribution level of 1,700 JPY. However, if this is to be maintained amid declining operating income, it will be a question of whether to use gains on dispositions or to allocate the ATA by appropriating the amount corresponding to discrepancies between tax and accounting reporting. The ability base will be determined by how the level of rent and how quickly we can backfill the current vacancies in Akasaka Garden City and Garden City Shinagawa Gotenyama.

Currently, ATA will continue to be in the range of 250 million to 300 million JPY, but even if we were to achieve 100% occupancy, DPU will reach 1,600 JPY or less.

We will continue to replace properties on an ongoing basis, and although it remains to be seen what will happen to the market, we will work to maintain the 1,700 JPY level by making full use of unrealized gains.

However, if we undergo a major (asset) shuffle, the entire portfolio base will change, so there is a possibility that we will replace the basic DPU or EPU (earnings per unit) targets at that time.

We cannot promise whether or not we will continue to say that we will continue to maintain 1,700 JPY six months or a year from now with respect to this situation, but in the current environment, our first priority is to stabilize DPU.

Q4: Regarding the rising electricity bill, you have mentioned that this topic is an issue for residentials, but there is no mention of such challenges for office buildings. Is it not necessary to take countermeasures against rising electricity costs for office buildings? Also, what measures including collecting from tenants or changing contracts are being considered for your overall portfolio?

A4: The increase in electricity cost for the entire portfolio for FP 16 was about 26% compared to the previous period. We had originally assumed a 30% increase over the previous period, thus we can say that the costs have increased to about that projected level. We expect further increases in the future. For office buildings, there are two properties that will not show a large increase compared to the previous period due to the type of contract, but we included in our forecasts a cost increase of roughly 120% to 145% after careful examination of each property.

As for residential properties, we have been switching 106 properties to renewable energy since January, but we are still negotiating for an increase in this area, including the basic contract. In FP 16, it increased by 24% compared to the same period of the last year, and for FP 17 and 18, we estimate an average increase of about 40% compared to the same period of the last year. As a result, we have set the DPU at 1,710 JPY and 1,681 JPY.

As for countermeasures, if we are demanded a price increase, we have no choice but to negotiate to suppress the increase as much as possible. We are aware that even if we consider a switch in power companies, there are no new companies. Thus, we strongly request volume discounts and select a company that can keep costs as low as possible.

As for residential properties, it is only the common area, so we would have to request an increase in utilities and rent from the tenants. However, I believe that will be difficult considering the competitiveness of the property.

For each office building, some of the fuel adjustment costs can be passed on to tenants and some cannot, so the situation differs from building to building and tenant to tenant. We believe that we have no choice but to continue billing as long as possible with their understanding of these circumstances.

Q5: Regarding the medium to long term review of your portfolio, if you were to dispose of an office building, would it be possible to acquire a replacement property of equivalent size?

A5: As a policy, I explained that the office building sector will be considered for replacement, but since the size, acquisition price, book value, and appraisal value of each property are very large within the portfolio, we recognize that if we dispose of the properties all at once as you mentioned, problems related to the replacement properties will surely arise.
We believe that it is necessary to discuss with the sponsor group about the properties to be acquired for replacement and make adjustments so that the total amount of assets does not decrease significantly.
In addition to the pipeline, we will also strive to secure properties that have potential, such as properties from outside sources, in various ways, including preferential investments in bridge funds.