SEKISUI HOUSE REIT, INC.

Fiscal Period Ended October 2023 18th Financial Results Briefing Script and Q&A Summary

Date and Time : Thursday, December 21, 2023 5:00pm-6:00pm

Event Summary

[Speakers]	Number of speakers : 5	
	Toru Abe	President and Representative Director
	Atsuhiro Kida	Director, in charge of Accounting Department and General Affairs Department
	Nobuyoshi Sato	Director, in charge of Investor Relations Department and Finance Department
	Kimiyoshi Otani	Director, in charge of ESG Promotion Department
	Sadaaki Takeuchi	Director and General Manager of Investment Operations Division

Operational Highlights and Future Initiatives

DPU (Long-term EPU)	FP 18 Results	FP 19 Forecast	FP 20 Forecast
	1,976 JPY (1,535 JPY) vs FP 17 +195 JPY, vs FP 18 Guidance +81 JPY	1,835 JPY (1,454 JPY)	1,732 JPY (1,345 JPY)

	Results	Environment Recognition	Policy & Strategy
External Growth	• FP 18 asset replacement └1st installment disposition (10%) of Gotenyama SH Bldg. completed └Disposed: 1 residential; Acquired: 1 residential • FP 19 (planned) asset replacement └2nd installment disposition (10%) of Gotenyama SH Bldg. planned └Acquire(d): 3 residentials, 1 office building	In the real estate transaction market, • **Office building**: Buyers are cautious as vacancy rates remain high for large offices • **Residential**: Although conditions continue to be overheated and the acquisition environment is arduous, opportunistic environment for property sale • **Hotel**: Recovery expectations are high and competition for acquisitions are intensifying	• Intend to dispose of GC Shinagawa Gotenyama in consideration of the current leasing situation • Changed portfolio development policy based on current office rental market conditions. The policy is to acquire mainly residentials by utilizing the sponsor pipeline
Internal Growth	■ Office Building	■ Office Building	■ Office Building
	• Occupancy rate at the end of FP: **94.4%** └GC Shinagawa Gotenyama: 84.3% (end of FP 17: 84.5%) └Akasaka GC: 93.5% (end of FP 17: 87.4%) • GC Shinagawa Gotenyama's appraisal value declined └66.7 billion yen (end of FP 17: 88.0 billion yen)	• Rents are still on a weak trend, but the decline in demand for office space in the Tokyo area has come to a halt • Concerns about the impact of large supply in Tokyo continues • Changes in demand due to diversification of work styles	• Aim to further increase the occupancy rate for Tokyo office buildings • For Osaka properties, will pay close attention to the large supply impact in 2024, while also considering negotiating rent increases that take into account the rent gap
	■ Residential	■ Residential	■ Residential
	• Occupancy rate at the end of FP: **97.3%** (Avg. occupancy rate during the period: 97.2%) • Change in rent rate at the time of new contract **+4.2%** (+2.4pt. from the previous period) └Single type in Tokyo 23 wards: +1.9% (+1.5pt. from the previous period)	• Excess population inflows to Tokyo 23 Wards is on the rise, and the gap in active job openings-to-applicants ratio between Tokyo and regional cities is also widening • Both occupancy and rent remain stable due to the active rental housing market	• Continue to focus on increasing rent upon tenant replacement • The policy is to strengthen value enhancing construction with the aim of further upside, and continue to implement cost reduction measures while maintaining quality
	■ Hotel	■ Hotel	■ Hotel
	• Occupancy rate at the end of FP: 100.0% └Fixed-rent master lease contract └Contract expiration date: May 18, 2024	• Although inbound travel demand is recovering due to the weaker yen, the number of Chinese tourists to Japan remains at about 30% compared to pre-COVID in 2019	• With the current master lease contract as the basis, will consider the contract contents upon renewal
Finance	• Refinance for FP 18 (borrowings/avg. borrowing period/avg. interest rate) Fixed interest rate borrowing: 14.8 bil yen/7.6 yrs/0.99% Floating interest rate borrowing: 9.4 bil yen/2.7 yrs/0.24% • LTV (total asset basis) as of end of FP: 45.2%	• Long-term interest rates have been on an upward trend since the Bank of Japan decided to further flexibly operate long-term and short-term interest rate operations in October 2023	• Aim for optimal balance between fixed-rates and floating-rates • Promote sustainability finance • Changed LTV policy (targeting 45-50% as cruising range)
ESG	• GHG emissions: down 50.7% compared to base year, medium term target achieved • Green certification acquisition rate: 82.8% • Selected for the first time as a constituent for DJSI Asia/Pacific	• Growing demand for medium to long term environmental considerations, such as efforts to combat climate change • Increased importance in ESG-related disclosure	• Working to resolve social issues through ESG conscious asset management • Promote initiatives to achieve net zero by 2050

* "Long-term EPU (net income per unit)" is calculated by deducting gain on disposition and asset management fees related to disposition from net income and adding allowance for temporary difference adjustments (ATA) (excluding dispositions) divided by the number of investment units issued and outstanding. The same applies hereinafter.
* "DPU" refers to "Distribution per Unit". The same applies hereinafter.

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Abe: Hello, everyone. I am Abe from Sekisui House Asset Management. Thank you very much for attending today's briefing on the financial results for the 18th fiscal period of SHR.

I will explain the details of the financial results.

First, please see page three of the document. Here are the operational highlights and future initiatives.

First, the distribution per unit for the 18th fiscal period ended October 2023 was 1,976 JPY, an increase of 195 JPY from the previous period and an increase of 81 JPY from the publicly announced forecast. The distribution per unit forecast for the 19th fiscal period ending April 2024 and the 20th fiscal period ending October 2024 are 1,835 JPY and 1,732 JPY, respectively.

The long-term EPU has been reported since the previous period as earnings per unit, which is calculated by deducting gain on disposition and asset management fees related to disposition from net income and adding ATA to it. The forecast has been a decrease mainly due to lower earnings from office buildings in Tokyo. We believe that drastic measures must be taken to restore this long-term EPU in the future.

Please see the table below.

First, regarding external growth, in terms of asset replacement, we have already signed a contract in the 18th fiscal period to dispose of Gotenyama SH Building over 10 fiscal periods, and the first installment disposition, 10%, has been completed. In addition, Sha Maison Stage Kanazawa Nishiizumi located in Kanazawa has also been sold due to deteriorating profitability, or rather, the lack of future expectations. The acquisition of one residential property, Esty Maison Noborito in Kawasaki City, was completed.

In the 19th fiscal period, the second installment disposition, 10%, in the Gotenyama SH Building is scheduled. We will acquire three residential properties and one office property in the 19th fiscal period, as announced today.

As for our future policy and strategy, first of all, we are currently having a very difficult time with leasing, thus we intend to dispose of Garden City Shinagawa Gotenyama. Based on this, we have decided to change our portfolio development policy in light of the current office leasing situation and market conditions. Our acquisition policy will be to use our sponsor pipeline to make residential properties our primary asset and to focus on residential properties.

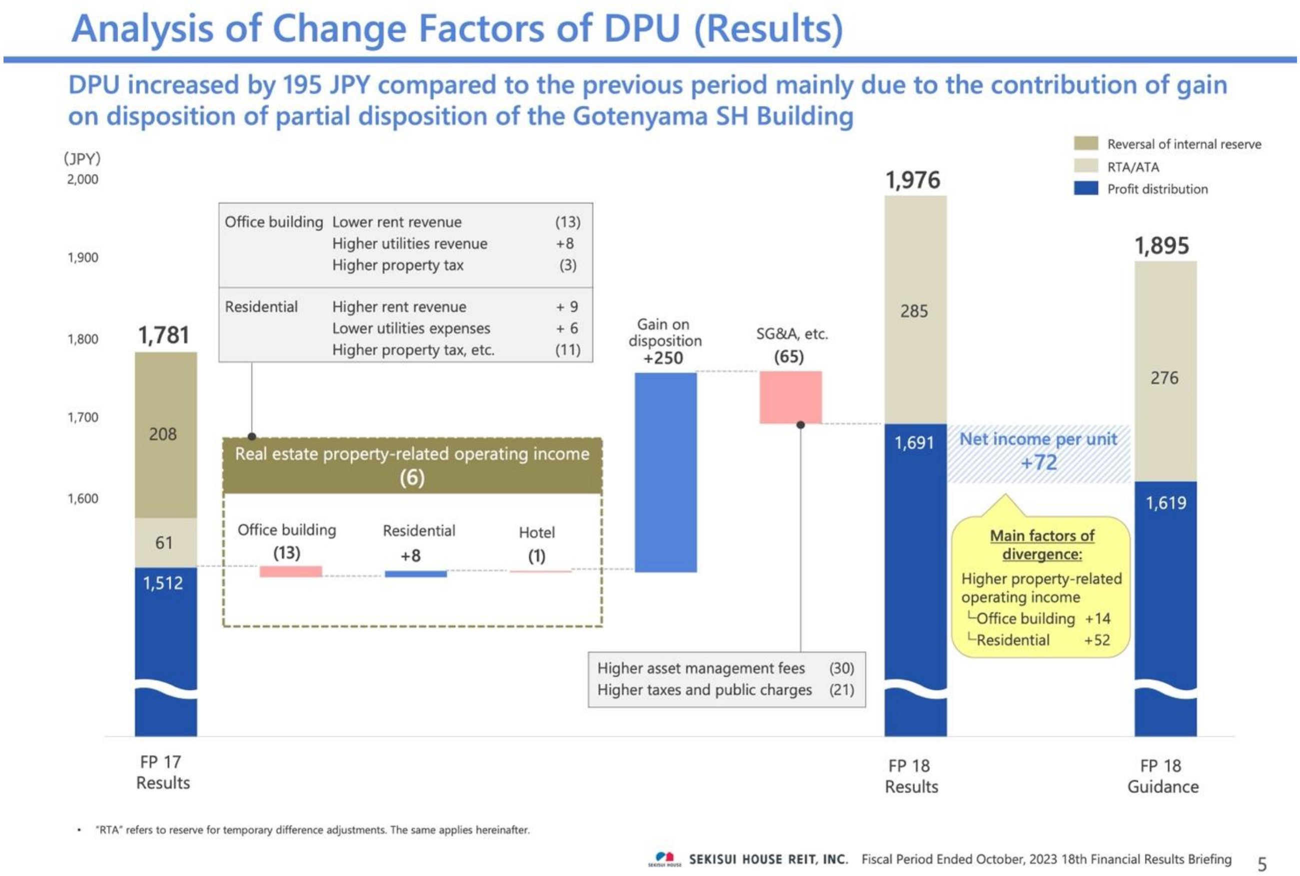
Next, regarding internal growth. First, in office buildings, the occupancy rate at the end of the period was 94.4%, up 0.8% from the end of the previous period. The occupancy rate at Akasaka Garden City recovered to 93.5% due to new contracts and floor space expansion, while at Garden City Shinagawa Gotenyama, there were two new contracts, but the occupancy rate remained almost unchanged. As for Garden City Shinagawa Gotenyama, its appraisal value dropped significantly to 66.7 billion JPY from 88 billion JPY at the end of the previous period.

Next, in terms of residences, occupancy rate was 97.3% at the end of the period. We continued to maintain a solid 97%, and the change in rent rate at the time of new contracts rose to a positive 4.2%. The single type in Tokyo 23 wards has also risen to a positive 1.9%, which means that we are entering a phase where we are moving from recovery to strong performance overall. The recovery of the single type in Tokyo 23 wards has been very strong, and occupancy in major cities across the country continues to be strong. We intend to maintain and sustain high occupancy rates while increasing rents and acquiring non-refundable deposit to improve earnings.

In terms of hotels, the St. Regis Osaka, which we currently own, has seen a return of inbound demand, and its performance is recovering. We would like to continue to consider the details of the contract after renewal while basing our decision on the continuation of the fixed master lease contract.

I will explain the financial part later.

Finally, on the topic of ESG, for the first time ever, we were selected as a constituent for DJSI Asia/Pacific.



Now please see page five.

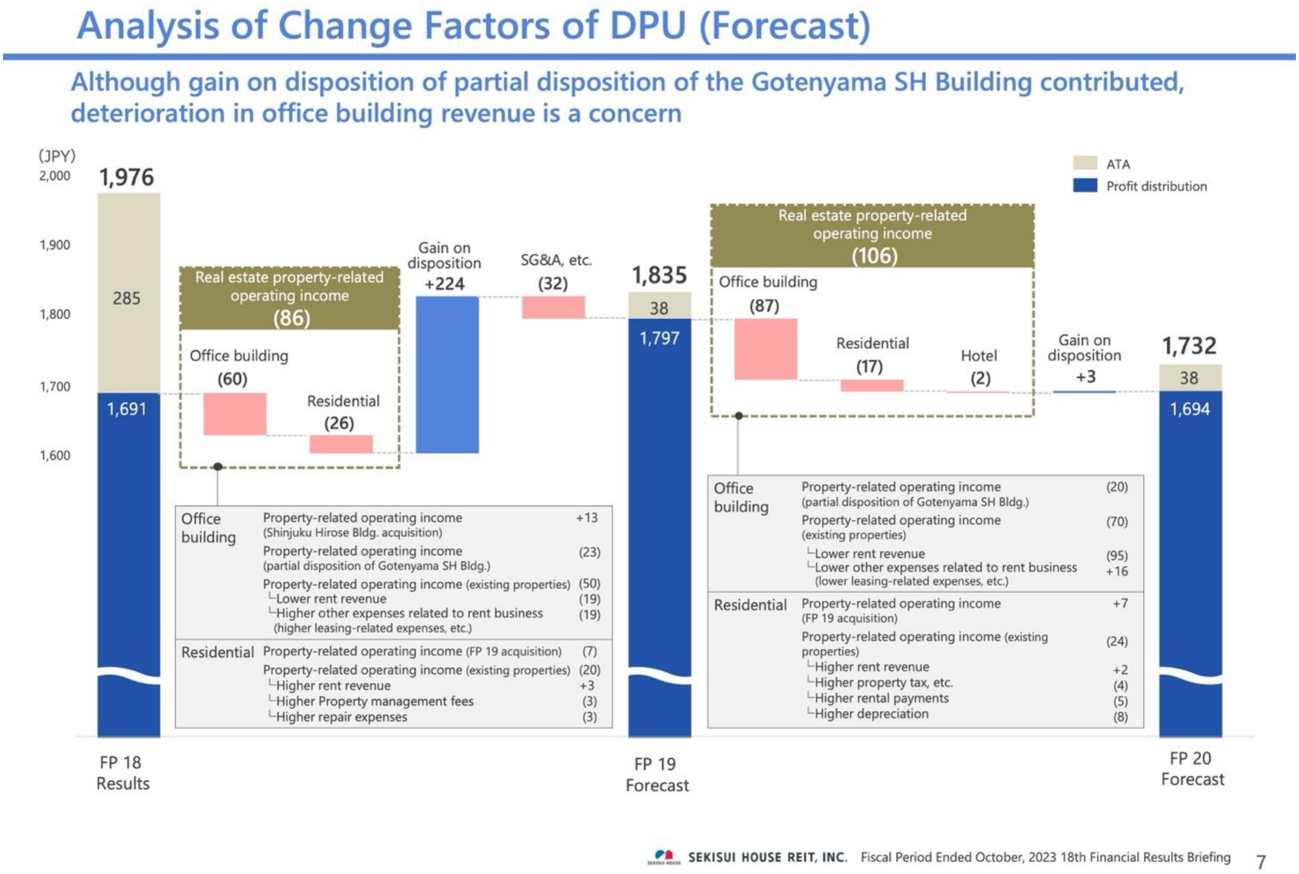
I will explain the financial results for the 18th fiscal period ended October 2023 and the factors behind the change from the previous period on a per unit basis.

First, as stated in the center of the document, the gain from the transfer of 10% interest in the Gotenyama SH Building and Sha Maison Stage Kanazawa Nishiizumi resulted in a positive 250 JPY.

On the left, as for real estate property-related operating income, office buildings posted a negative 13, mainly due to a decrease in rent revenue from Garden City Shinagawa Gotenyama and an increase in property tax and city planning tax. For residences, there was an increase in property tax and city planning tax, but this was offset by an increase in rent revenue due to higher rents, resulting in a positive 8 JPY. The hotels posted a negative 1 JPY. The total of these factors resulted in a negative 6 in real estate property-related operating income.

SG&A and other expenses were negative 65 JPY, mainly due to an increase in the asset management fee portion from the asset transfer that occurred in the current period and an increase in tax effects. As a result, the distribution per unit for the 18th fiscal period was 1,976 JPY, up 195 JPY from the previous period.

The next page shows the P/P change and the change from the announced forecast for each asset, and the factors behind the change, which we hope you will review later.



Now, please proceed to page seven, where you will find the forecasts for the 19th fiscal period ending April 2024 and the 20th fiscal period ending October 2024.

In the 19th fiscal period, the acquisition of Shinjuku Hirose Building announced today is expected to be positive 13 JPY, but the transfer of equity in Gotenyama SH Building reduced revenues, and the prolonged period of two unoccupied lots in Tokyo put downward pressure on revenues, resulting in a negative 60 JPY. For residences, we expect a negative 7 JPY for leasing-related expenses for three new properties to be acquired in the 19th fiscal period. Although revenue from existing properties is expected to increase, management fees and repair costs are expected to increase, resulting in a negative 20 JPY, for a total of negative 26 JPY.

In SG&A expenses, we expect an increase in asset management fees and interest expenses, resulting in a negative 32 JPY. We expect a gain of 224 JPY on the transfer of the second 10% portion of the Gotenyama SH Building, resulting in a forecast of 1,835 JPY, a negative 141 JPY compared to the 18th fiscal period.

For the following 20th fiscal period, the total is expected to be negative 87 JPY due to a decrease in rent revenues from office buildings and a decrease in rent revenues from the sale of the equity interest in the Gotenyama SH Building. For residences, we expect a contribution from properties acquired in the 19th fiscal period and higher rents from existing properties, but we expect a negative 17 JPY due to increases in property tax, city planning tax, land lease fees, and depreciation, resulting in a negative 106 JPY in real estate property-related operating income.

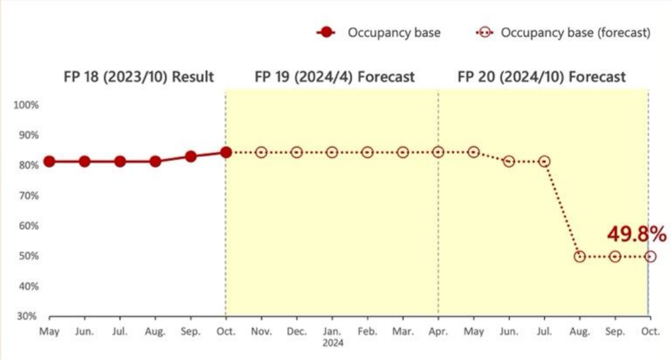
The portion of the gain on disposition of the Gotenyama SH Building is expected to be positive 3 JPY compared to the 19th fiscal period, and the distribution per unit is expected to be 1,732 JPY.

We intend to increase the ratio of highly stable residential properties by replacing properties in the future in an effort to bottom out.

Regarding GC Shinagawa Gotenyama

Trend in Occupancy-based Rates

- During FP 18, two new contracts were concluded; however, both occupancies were for small lots of less than 700㎡
- Due to the scheduled departure of a large tenant (13,126.72㎡) in July 2024, **occupancy rates are expected to fall below 50%**
- With the spread of telework triggered by COVID-19, there is a sense of uncertainty specifically regarding the future demand of large office buildings. Based on current leasing activities paired with oversupply concerns, the recovery of the property's occupancy rate is expected to take time



The Appraisal Value for FP 18

- Due to the decrease in appraisal NOI caused by the recent decline in rent levels for new contracts, the appraisal value (as of the end of Oct. 2023) decreased to 66.7 billion JPY, which is a 21.3 billion JPY decrease from the previous fiscal period. Additionally, **the book value fell 2.7 billion JPY to 69.4 billion JPY**

	As of the end of Apr. 2023	As of the end of Oct. 2023
Appraisal NOI	2,844 million JPY	2,148 million JPY
Capitalization Yield	3.1%	3.1%
Book Value	69,570 million JPY	69,408 million JPY
Appraisal Value	88,000 million JPY	66,700 million JPY

Long-term EPU is expected to decline medium to long term with continued ownership; thus, SHR intends for a property disposition

* The graph for "Trend in Occupancy-based Rates" does not include presumptions (or target-based occupancy).

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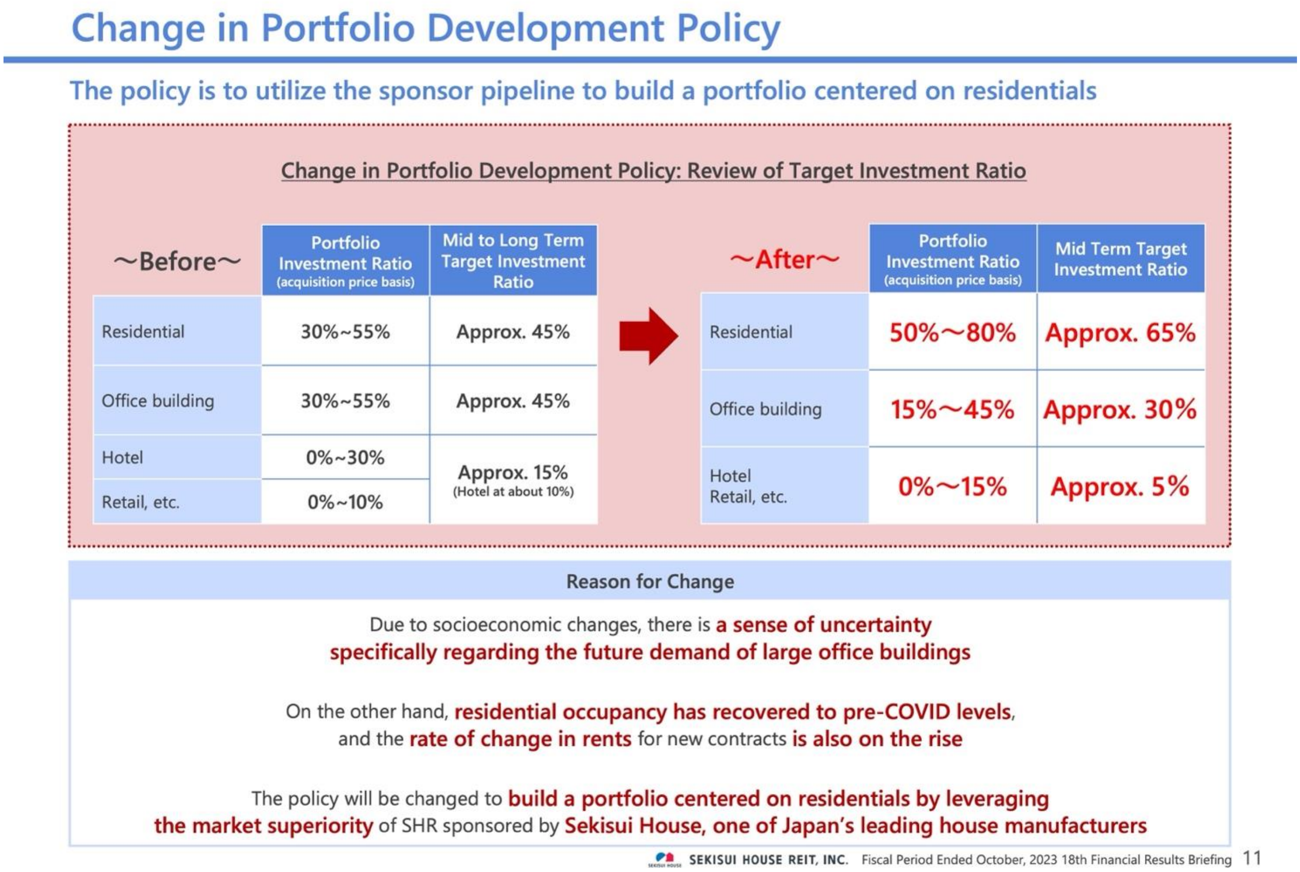
Now, please proceed to page 10. This is about external growth.

First, Garden City Shinagawa Gotenyama.

As for the occupancy rate, if there are no new contracts or floor space expansion, the occupancy rate is expected to fall below 50% because a major tenant is scheduled to vacate the building at the end of July next year, as announced. We are still leasing and expecting the occupancy rate to be slightly higher, but we anticipate very tight occupancy rates.

Regarding the appraisal value at the end of the period, based on the lower rent level in the new contract this time and at the same time the decline in asking rent and others in surrounding buildings, the appraisal value was 66.7 billion JPY, a decrease of 21.3 billion JPY from 88 billion JPY at the end of the previous period. This amount is 2.7 billion JPY less than the book value at the end of the period.

Since the continued ownership of this property may be a factor in pushing down the long-term EPU, basically we intend for a property disposition.



Change in Portfolio Development Policy

The policy is to utilize the sponsor pipeline to build a portfolio centered on residentials

Change in Portfolio Development Policy: Review of Target Investment Ratio

～Before～	Portfolio Investment Ratio (acquisition price basis)	Mid to Long Term Target Investment Ratio
Residential	30%~55%	Approx. 45%
Office building	30%~55%	Approx. 45%
Hotel	0%~30%	Approx. 15% (Hotel at about 10%)
Retail, etc.	0%~10%	

～After～	Portfolio Investment Ratio (acquisition price basis)	Mid Term Target Investment Ratio
Residential	50%～80%	Approx. 65%
Office building	15%～45%	Approx. 30%
Hotel Retail, etc.	0%～15%	Approx. 5%

Reason for Change

Due to socioeconomic changes, there is **a sense of uncertainty specifically regarding the future demand of large office buildings**

On the other hand, **residential occupancy has recovered to pre-COVID levels**, and the **rate of change in rents** for new contracts **is also on the rise**

The policy will be changed to **build a portfolio centered on residentials by leveraging the market superiority** of SHR sponsored by **Sekisui House, one of Japan's leading house manufacturers**

Then, see page 11. This is about the change in portfolio development policy.

The portfolio development policy had been set at around 45% for residential properties and 45% for office buildings, respectively, but this target has been changed to around 65% for residential properties and 30% for office buildings due to the uncertainties in the supply-demand balance for large office buildings, the recovery of residential properties to the pre-COVID level and the fact that the pandemic did not have the same impact as office buildings, and in addition, the sponsor pipeline continues to have a large number of properties in the residential pipeline.

We intend to build stability of income by developing our assets with a focus on residential properties, which is our sponsor group's strongest area of expertise.

Sekisui House Group Sponsor Support/Strengths

Pipeline Total	Approx. 250 billion JPY
Residentials	Approx. 100 billion JPY
Office Buildings, etc.	Approx. 150 billion JPY

No. of Completed Residentials	12 properties (1,090 units)
Total Floor Area of Completed Residentials	53,733.21㎡

Strengths of the Sponsor

1. Quality of "Prime Property"
   - Develops "high quality" office buildings, residentials, hotels and commercial properties, etc., located in "strategic locations", which is a priority investment target for SHR
   - Secure a pipeline of environmentally friendly properties through active development of ZEH properties
2. Support System
   - In addition to providing pipeline properties, provides real estate management know-how and redevelopment support of owned assets
   - Able to implement asset replacement based on good relations and also provides warehousing functions
3. Sekisui House Real Estate Companies (6 Companies)
   - Can secure preferential negotiation rights regarding the sale of domestic real estate owned and developed by 6 Sekisui House Real Estate Companies
   - Provides information on domestic real estate owned and developed by third parties (Sekisui House Real Estate Tokyo)
   - Opportunities to acquire residences in major cities nationwide
     └Number of properties acquired: 16 properties

Main Developments of Sekisui House

		Property Name (Including Temporary Name)	Location	Units (Planned)	Total Floor Area (㎡) (Planned)
Completed Residentials 12 properties (1,090 units)		Prime Maison Monzennakacho	Koto-ku,Tokyo	78	3,184.03
		Prime Maison Yushima	Bunkyo-ku, Tokyo	139	9,755.59
		Prime Maison Honancho	Nakano-ku, Tokyo	70	3,210.49
		Prime Maison Yokohama WEST	Yokohama-shi, Kanagawa	145	8,700.56
		Prime Maison Nakanosakaue	Nakano-ku, Tokyo	115	4,544.15
	ZEH	Prime Maison Morishita WEST	Koto-ku, Tokyo	144	7,061.54
	ZEH	Prime Maison Asakusa EAST	Sumida-ku, Tokyo	49	2,226.74
		Prime Maison Sakurashinmachi	Setagaya-ku, Tokyo	40	1,932.04
		Prime Maison Nishiwaseda	Shinjuku-ku, Tokyo	49	2,248.36
	ZEH	Prime Maison Kamata	Ota-ku, Tokyo	141	5,793.71
	ZEH	Prime Maison Nihonbashibakurocho	Chuo-ku, Tokyo	45	2,076.31
	ZEH	Prime Maison Kiyosumishirakawa	Koto-ku, Tokyo	75	2,999.69
Residentials Under Construction 7 properties (780 units)	ZEH	Prime Maison Iriya	Taito-ku, Tokyo	74	3,526.77
	ZEH	Prime Maison Yoga Kinutakoen	Setagaya-ku, Tokyo	122	6,303.39
	ZEH	Prime Maison Minamiazabu	Minato-ku, Tokyo	163	18,582.90
	ZEH	Prime Maison Chiba	Chiba-shi, Chiba	190	8,307.64
	ZEH	Prime Maison Kiyosumi	Koto-ku, Tokyo	42	1,459.00
	ZEH	Prime Maison Kinshicho	Sumida-ku, Tokyo	85	3,976.00
	ZEH	Prime Maison Nishishinjuku	Shinjuku-ku, Tokyo	104	4,344.00
Completed Office Buildings 1 property		Garden Cube Shibuya jinnan	Shibuya-ku, Tokyo	-	-
Completed Hotels 2 properties		The Apartment Bay Yokohama	Yokohama-shi, Kanagawa	-	-
		The Ritz-Carlton, Kyoto	Kyoto-shi, Kyoto	-	-

* As of the date of this document, SHR has no specific plans to acquire the unacquired assets described on this page. In addition, acquisition by SHR is not obligated nor guaranteed.
* ZEH stands for ZEH-M Oriented which refers to "condominiums that aim to realize significant energy savings while maintaining indoor environmental quality through the introduction of highly efficient facilities, as well as greatly improving insulation performance, etc. and reducing primary energy consumption by 20% or more throughout the condominium, including common areas".

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Next is the sponsor pipeline.

The total amount of the pipeline is approximately 250 billion JPY. Of this amount, approximately 100 billion JPY is for residences and 150 billion JPY is for offices and other facilities.

Of the major developments listed on the right, 12 properties in the Prime Maison series of rental condominiums have been completed and seven properties are under construction. In addition, the properties marked with ZEH to the left of the property name were built as ZEH condominiums, and we expect that future acquisitions will contribute to our GHG emission reduction and net-zero goals.

Moreover, although not included in the total amount of the pipeline, Sekisui House Real Estate companies are also continuing to develop residential properties, and we will leverage the sponsor pipeline to achieve external growth, including asset replacement.

Asset Replacement: Overview

Will mainly acquire residentials with expected medium to long term stability and growth by utilizing the proceeds from the disposition of Gotenyama SH Building

Disposition

Office Building (Tokyo 23 Wards)

By disposing of 10% of the quasi co-ownership interest every 6 months starting Oct. 31, 2023, **in equal installments over a period of five years and 10 fiscal periods**, a gain on disposition is expected; however, NOI is also expected to decline

Gontenyama SH Building

Appraisal NOI & Appraisal NOI Yield (20% installment disposition)

Appraisal NOI	411 million JPY
Appraisal NOI Yield	4.0%

Gain on Disposition (expected)	FP 18: 1,020 million JPY FP 19: 2,079 million JPY

Decrease in Asset Value (acquisition price basis/20% installment disposition)

FP 18 (Ended Oct. 2023)	5,150 million JPY
FP 19 (Ending Apr. 2024)	5,150 million JPY
Total	**10,300 million JPY**

Acquisition

3 Residentials & 1 Office Building (Tokyo 23 Wards)

Will acquire 3 residential properties and 1 medium-sized office building **to cover the decrease in NOI** of Gotenyama SH Building

Esty Maison Omori

Esty Maison Monzennakacho

Esty Maison Akabane II

Shinjuku Hirose Building

Appraisal NOI & Appraisal NOI Yield

Appraisal NOI	391 million JPY
Appraisal NOI Yield	3.5%

Increase in Asset Value (acquisition price basis)

3 Residentials	6,150 million JPY
1 Office Building	5,000 million JPY
Total	**11,150 million JPY**

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This is an overview of the asset replacement announced this time.

Starting from the fiscal period ended October 2023, we will transfer 10% of the equity in the Gotenyama SH Building each fiscal period. For the two transfers in October 2023 and April 2024, we have decided to purchase the four properties listed on the right side as asset replacement.

The four properties (to be) acquired are also listed on the next page.

Asset Replacement: Overview of (Planned) Acquisition Properties

Acquisition

3 Residentials & 1 Office Building (Tokyo 23 Wards)

Total (Planned) Acquisition Price: 11,150 million JPY   Appraisal NOI Yield: 3.5%




	Esty Maison Omori (Ota-ku, Tokyo)	Esty Maison Monzennakacho (Koto-ku, Tokyo)	Esty Maison Akabane II (Kita-ku, Tokyo)	Shinjuku Hirose Building (Shinjuku-ku, Tokyo)
(Planned) Acquisition Date	March 1, 2024	March 1, 2024	March 1, 2024	December 21, 2023
(Planned) Acquisition Price	3,600 million JPY	1,570 million JPY	980 million JPY	5,000 million JPY
Appraisal Value	4,000 million JPY	1,730 million JPY	1,130 million JPY	5,120 million JPY
Appraisal NOI Yield	3.6%	3.5%	3.7%	3.4%
(Planned) Completion Date	January 2024 (planned)	January 2023	April 2023	June 1985
Occupancy Rate (As of the end of Oct. 2023)	Under construction	Unoccupied	Unoccupied	100.0%
Reason/Policy for Acquisition	■ Newly built properties centered on single type rooms located in Tokyo 23 wards ■ Considered prime properties based on its location, comfort, safety, high building performance, and environmentally friendly initiatives, etc. ■ Although not yet occupied, will promptly begin leasing activities from today onwards, aiming to achieve early profitability by promoting occupancy towards the busy season in spring 2024			■ A medium-sized office building with high visibility facing the main street on a corner lot ■ Approximately a 5-minute walk from the nearest station

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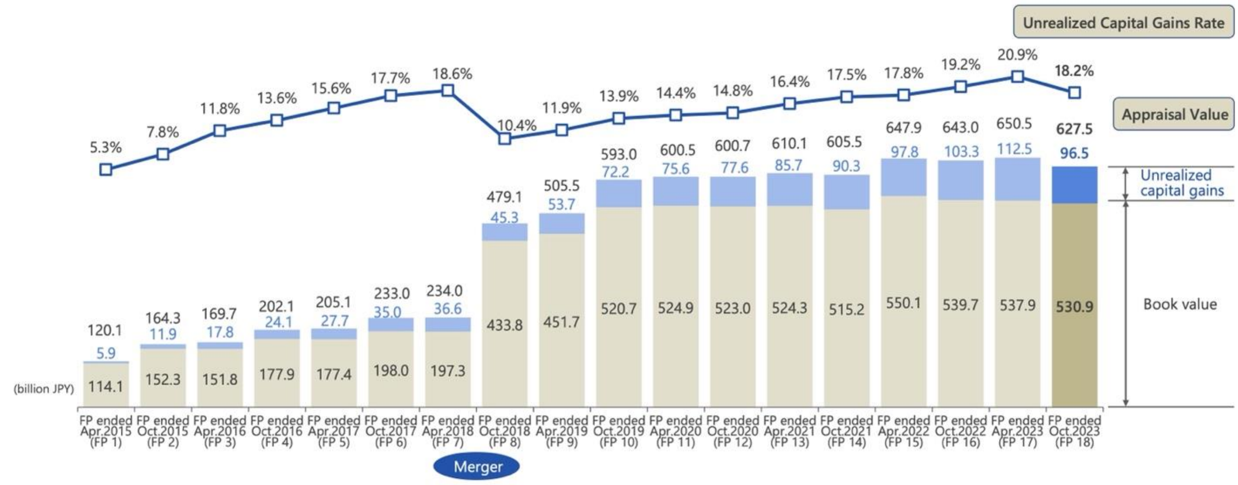
The three Esty Maison residential properties on the left are all newly built and unoccupied. From today onward, we will promptly start leasing the properties in order to make them profitable as early as possible from the scheduled delivery date in March.

On the right side, Shinjuku Hirose Building is a 38-year-old office building that has maintained high occupancy over the years, with the current core tenant having occupied the building since 1998. Although this is a topic for the future, we believe that the site has the potential to be reconstructed into an office building or even into a condominium.

Trends of Appraisal Value

Although appraisal value for residentials increased, decreased for GC Shinagawa Gotenyama; unrealized capital gains decreased by 16 billion JPY from the previous period to 96.5 billion JPY



Breakdown of appraisal value by asset type as of FP 18

	Office building		Residential		Hotel		Entire portfolio	
	FP 18 Result	vs. FP 17	FP 18 Result	vs. FP 17	FP 18 Result	vs. FP 17	FP 18 Result	vs. FP 17
Appraisal value	289.1 Billion JPY	(27.1) Billion JPY	321.6 Billion JPY	+4.2 Billion JPY	16.7 Billion JPY	(0.1) Billion JPY	627.5 Billion JPY	(23.0) Billion JPY
Average cap rate	3.3 %	− pt.	3.5 %	(0.1) pt.	3.6 %	− pt.	3.4 %	− pt.
Unrealized capital gains	37.9 Billion JPY	(21.5) Billion JPY	58.4 Billion JPY	+5.5 Billion JPY	0.1 Billion JPY	(0.0) Billion JPY	96.5 Billion JPY	(16.0) Billion JPY
Unrealized capital gains rate	15.1 %	(8.1) pt.	22.2 %	+2.2 pt.	0.7 %	(0.3) pt.	18.2 %	(2.7) pt.

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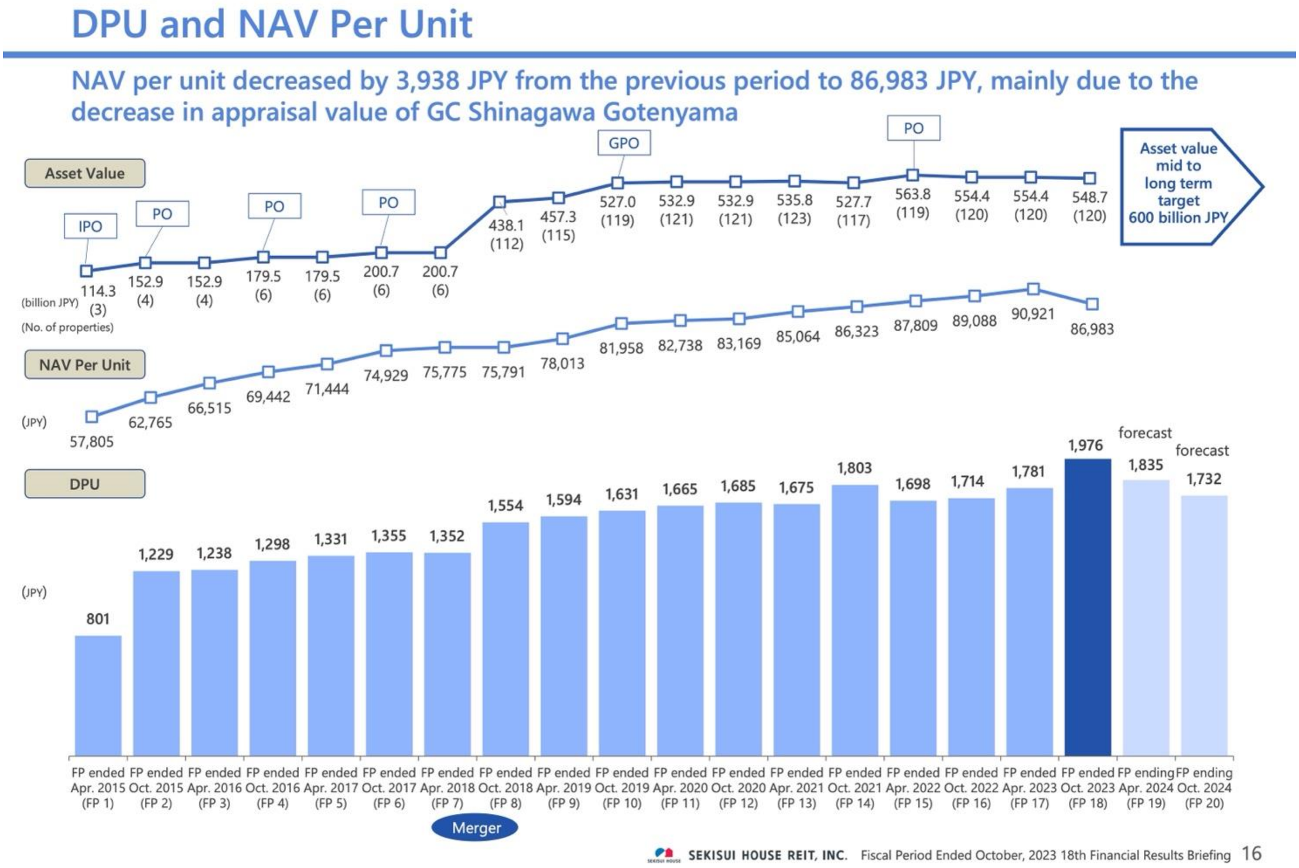
Trends of appraisal value.

The total appraisal value at the end of the 18th fiscal period was 627.5 billion JPY, as a result of the 21.3 billion JPY decrease in the Garden City Shinagawa Gotenyama, which we reported earlier, and the transfer of the interest in the Gotenyama SH Building and Sha Maison Stage Kanazawa Nishiizumi.

In residences, the appraisal value increased again this period, mainly due to a 0.1-point decrease in the cap rate.

Unrealized gains amounted to 96.5 billion JPY, down 16 billion JPY from the previous period.



This is the distribution per unit and NAV per unit.

The NAV per unit was 86,983 JPY, a decrease of 3,938 JPY from the previous period, due to a decrease in the appraisal value of Garden City Shinagawa Gotenyama.

Office Building: Portfolio Status

Portfolio list

(As of the end of Oct. 2023 (FP 18))

	Location	Acquisition Price (million JPY)	%	Leasable Area (㎡)	%	End Tenant Average Rent (JPY/Tsubo) End of FP 17	End of FP 18	End Tenant Occupancy Rate End of FP 17	End of FP 18
Garden City Shinagawa Gotenyama	Shinagawa-ku, Tokyo	71,950	13.1%	38,577.99	6.8%	26,035	25,763	84.5 %	84.3 %
Akasaka Garden City	Minato-ku, Tokyo	50,000	9.1%	21,735.42	3.8%	28,173	27,760	87.4 %	93.5 %
Hommachi Minami Garden City	Osaka-shi, Osaka	44,000	8.0%	29,657.53	5.2%	22,853	22,937	100.0 %	100.0 %
Hommachi Garden City (office portion)	Osaka-shi, Osaka	38,600	7.0%	17,006.94	3.0%	31,956	31,965	100.0 %	100.0 %
HK Yodoyabashi Garden Avenue	Osaka-shi, Osaka	4,400	0.8%	4,554.52	0.8%	17,950	17,950	100.0 %	100.0 %
Hirokoji Garden Avenue	Nagoya-shi, Aichi	6,350	1.2%	4,442.75	0.8%	23,583	23,552	100.0 %	100.0 %
Gotenyama SH Building	Shinagawa-ku, Tokyo	46,350	8.4%	17,999.97	3.2%	30,000	30,000	100.0 %	100.0 %
Office Building Portfolio Total		**261,650**	**47.7%**	**133,975.12**	**23.5%**	**26,652**	**26,499**	**93.6 %**	**94.4 %**
The Office Portion of Hommachi Garden City on a Fixed-Rent Master Lease						29,280	29,280	100.0 %	100.0 %
Office Building Portfolio Total (Fixed-Rent Master Lease Taken Into Consideration)						**26,294**	**26,138**	**93.6 %**	**94.4 %**

Renewal result and trends in leases (including existing tenants returning or adding spaces)

(As of the date of this document)
(cases)

	FP 16 (2022/10)	FP 17 (2023/4)	FP 18 (2023/10)	FP 19 (Forecast) (2024/4)	FP 20 (Forecast) (2024/10)	FP 21 (Forecast) (2025/4)
Sections Due for Renewal	6,847.83㎡ (7)	4,854.75㎡ (6)	17,303.50㎡ (8)	20,544.29㎡ (15)	46,047.67㎡ (13)	4,426.69㎡ (4)
Renewed	4,754.34㎡ (6)	3,640.13㎡ (4)	17,108.83㎡ (7)	18,317.57㎡ (13)	5,667.16㎡ (1)	− (−)
Vacated	(2,093.49)㎡ (1)	(14,341.34)㎡ (4)	(194.67)㎡ (1)	(1,154.92)㎡ (2)	(14,316.66)㎡ (2)	− (−)
Space Returned	(3,345.81)㎡ (1)	(1,253.90)㎡ (1)	− (−)	(1,071.80)㎡ (2)	− (−)	− (−)
New/Additional Lease	− (−)	13,903.72㎡ (2)	2,689.05㎡ (5)	2,265.70㎡ (4)	986.04㎡ (1)	− (−)
Change in Lease Area	(5,439.30)㎡	(1,691.52)㎡	+2,494.38㎡	+38.98㎡	(13,330.62)㎡	−
Rate of Rent Change	(1.3) %	(1.1) %	(4.1) %	−	−	−

* The existing fixed-rent master lease for the office portion of Hommachi Garden City expires May 18, 2024 (however the lease may be terminated before that date).
* "Acquisition price" and percentages for the "leasable area" are provided as percentages of the total portfolio.
* Figures for "Renewal result and trends in leases (including existing tenants returning or adding spaces)" excludes retail tenants of each office building. In addition, Hommachi Garden City (office portion), which is on a fixed-rent master lease, is listed as one tenant pursuant to a master lease contract.
* "FP 19 (forecast)", "FP 20 (forecast)" and "FP 21 (forecast)" are based on available information as of the date of this document and includes new or renewed lease agreements that have not yet been concluded along with figures for which notice to vacate have not yet been received and may change in the future.

Next, I will explain internal growth. Please proceed to page 18.

First of all, regarding the performance of the office building as a whole, the results at the end of the 18th fiscal period are circled in red.

The overall occupancy rate was 94.4%, up 0.8% from the previous period due to backfilling at Akasaka Garden City.

The bottom table shows renewal results and trends in leases. In the 18th fiscal period, there was one vacated lot, while there were five contracts for new and additional floor space. However, the rate of decrease in rent was significant at negative 4.1%.

Office Building: Operation Status (1) (GC Shinagawa Gotenyama)

Although multiple lots have been backfilled, large tenant will be vacating in July 2024

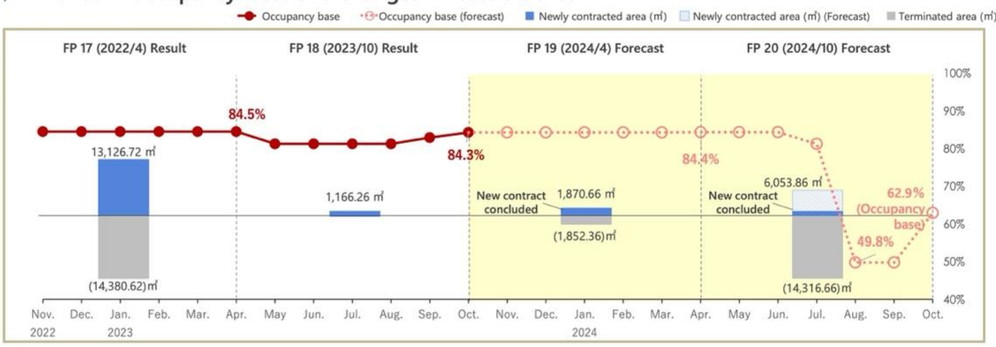
Shinagawa-ku, Tokyo

CASBEE

2022 S rank

CO2 Emissions Intensity: 0.0237 t-CO2/㎡ (FY 2022 Results)

Trends in occupancy rates and changes in leasable area



Details of change in leasable area

FP 18 (Ended Oct. 2023)	Presumption of FP 19 (Ending Apr. 2024) and onwards
As a result of continued promotion and strengthening of leasing, concluded 2 new contracts ■ Occupancies: 2 └1,166.26㎡ ■ Vacancies/reduction of floor space: None ■ Number of viewings of potential new tenants: 21 (+5 compared to FP 17) └Tenant industries include retail (wholesale) and IT, etc. desired floor space ranges from about 300 to 500 tsubo to over 1,000 tsubo ■ Status of vacancy as of the end of FP 18 └6,053.86㎡	**Concluded new contracts for FP 19 and FP 20, Occupancy rate will decline in FP 20 due to vacancy of large tenant** FP 19 (Ending Apr. 2024) ■ Occupancies/expansions: 2 └1,870.66㎡ **New contracts concluded** ■ Vacancies/reduction of floor space: 2 └(1,852.36)㎡ Confirmed FP 20 (Ending Oct. 2024) ■ Occupancies/expansions: 6,053.86㎡ Forecasted (of which 986.04㎡ is **newly contracted**) ■ Vacancies/reduction of floor space: (14,316.66)㎡ Confirmed

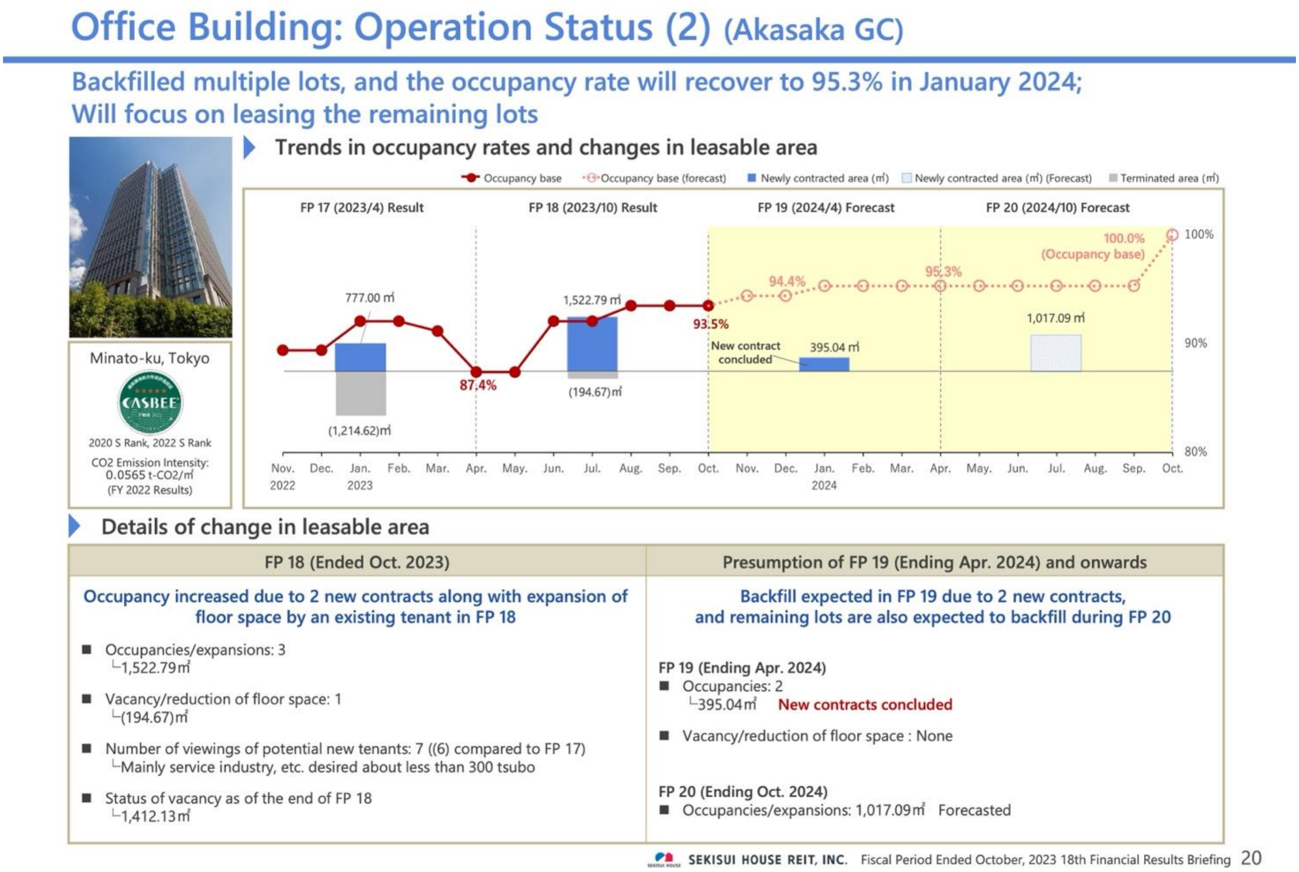
Next, I would like to delve a little deeper into the situation of Garden City Shinagawa Gotenyama and Akasaka Garden City, where vacant lots have occurred.

First is Garden City Shinagawa Gotenyama.

Two new lots of 1,166.26 square meters were contracted for this property in the 18th period. We have almost backfilled the decrease that occurred at the end of the previous period, and the total vacant lots at this time are 6,053.86 square meters.

In the 19th period, new contracts for two lots of 1,870.66 square meters have been concluded, while vacancies and reduction of two floor spaces of 1,852.36 square meters have already been confirmed.

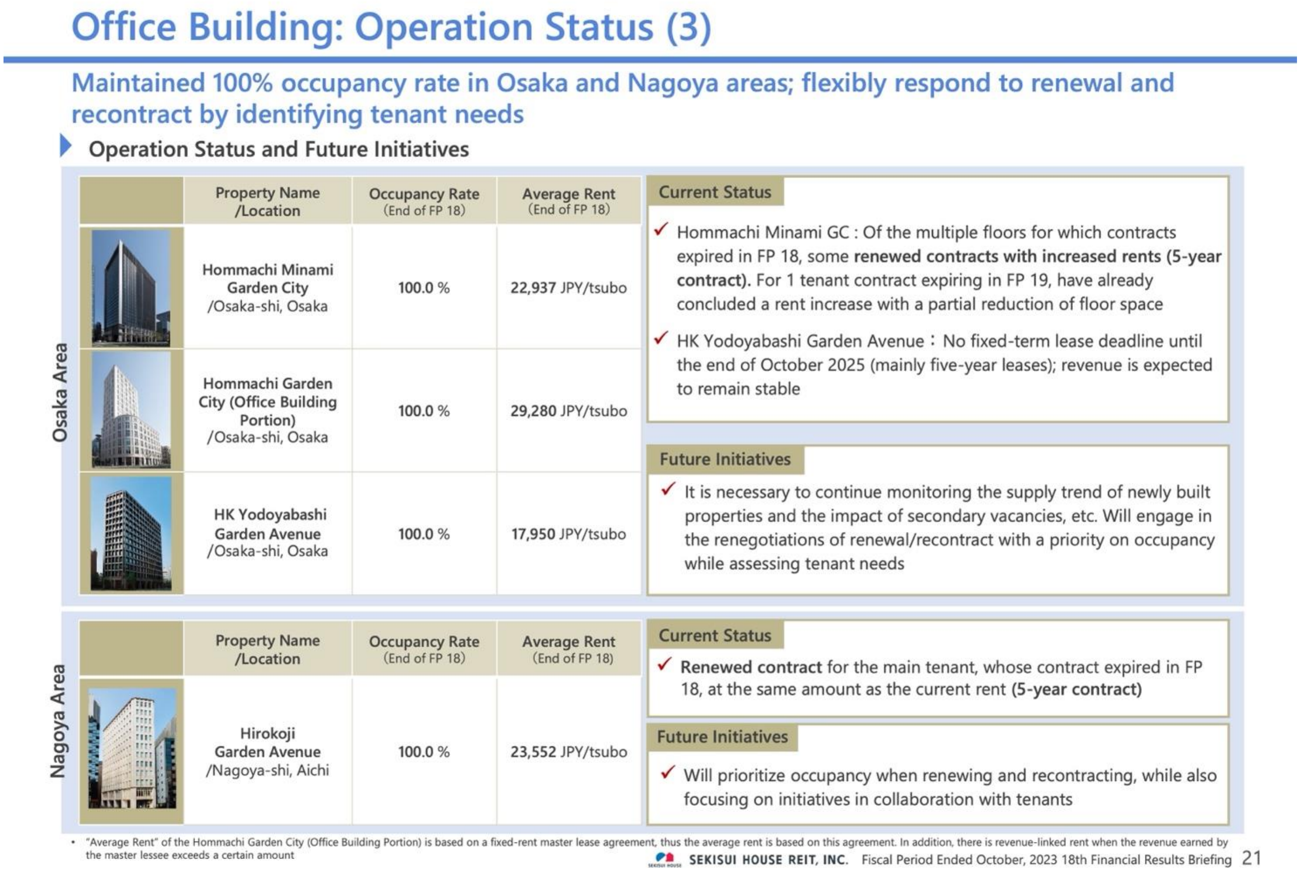
With regard to leasing, the number of inquiries and previews have both increased, leading to concrete negotiations. Although there is a trend toward slightly larger floor space being requested, we expect that it will take a considerable amount of time to backfill the space, including that of the large tenant who will vacate in July 2024.



Next is Akasaka Garden City.

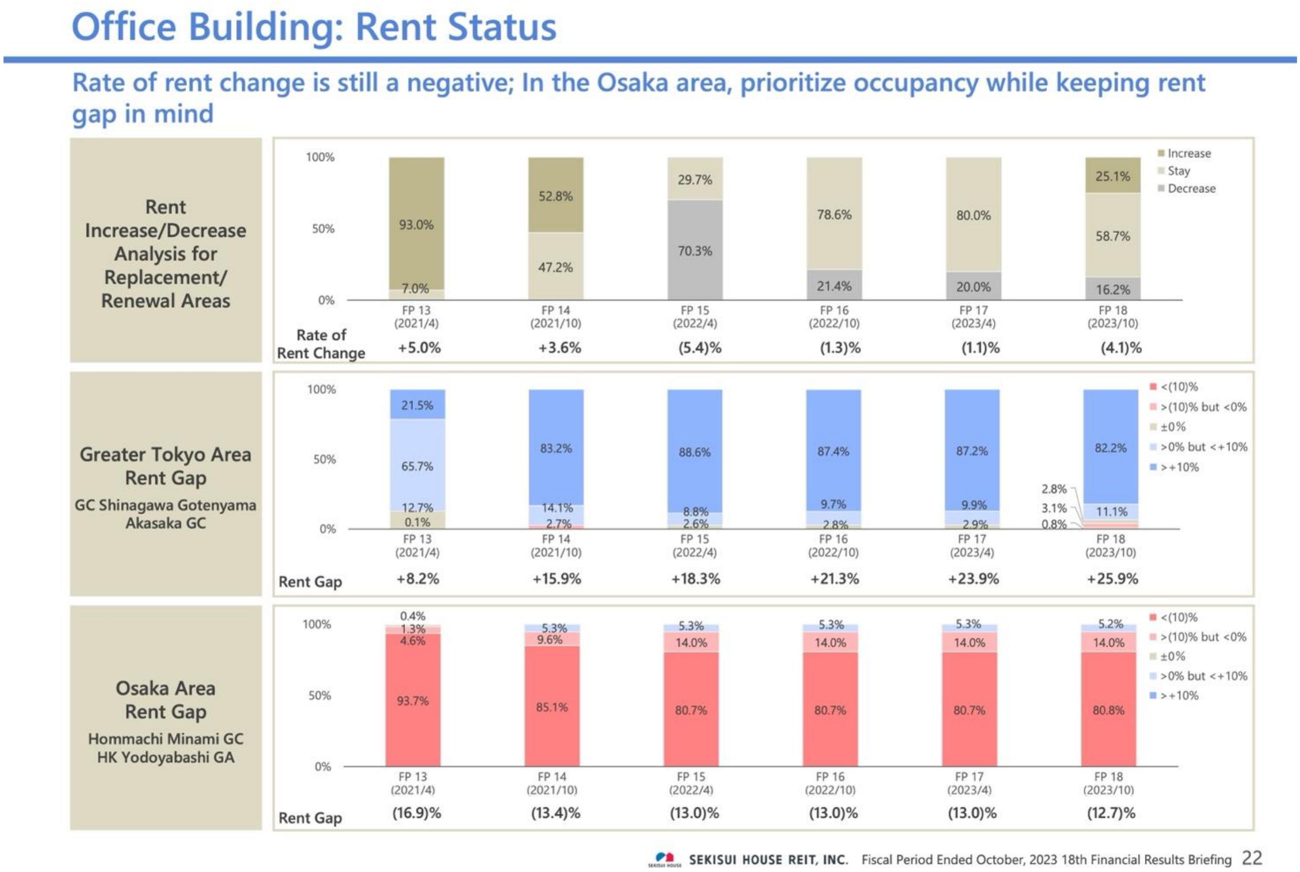
Although one tenant moved out during the 18th fiscal period, three new contracts were signed, resulting in an increase of 1,328.12 square meters in terms of increase/decrease, leaving a total vacancy of 1,412.13 square meters at the end of the 18th fiscal period.

Contracts for two lots of 395.04 square meters have been concluded in the 19th period, and the occupancy rate has recovered to the 95% level. We will continue to negotiate with highly concrete companies and aim to restore 100% operation as soon as possible.



Now, please see page 21. This page includes information on the operation status of other buildings owned in the Osaka and Nagoya areas. All continue to maintain 100% occupancy.

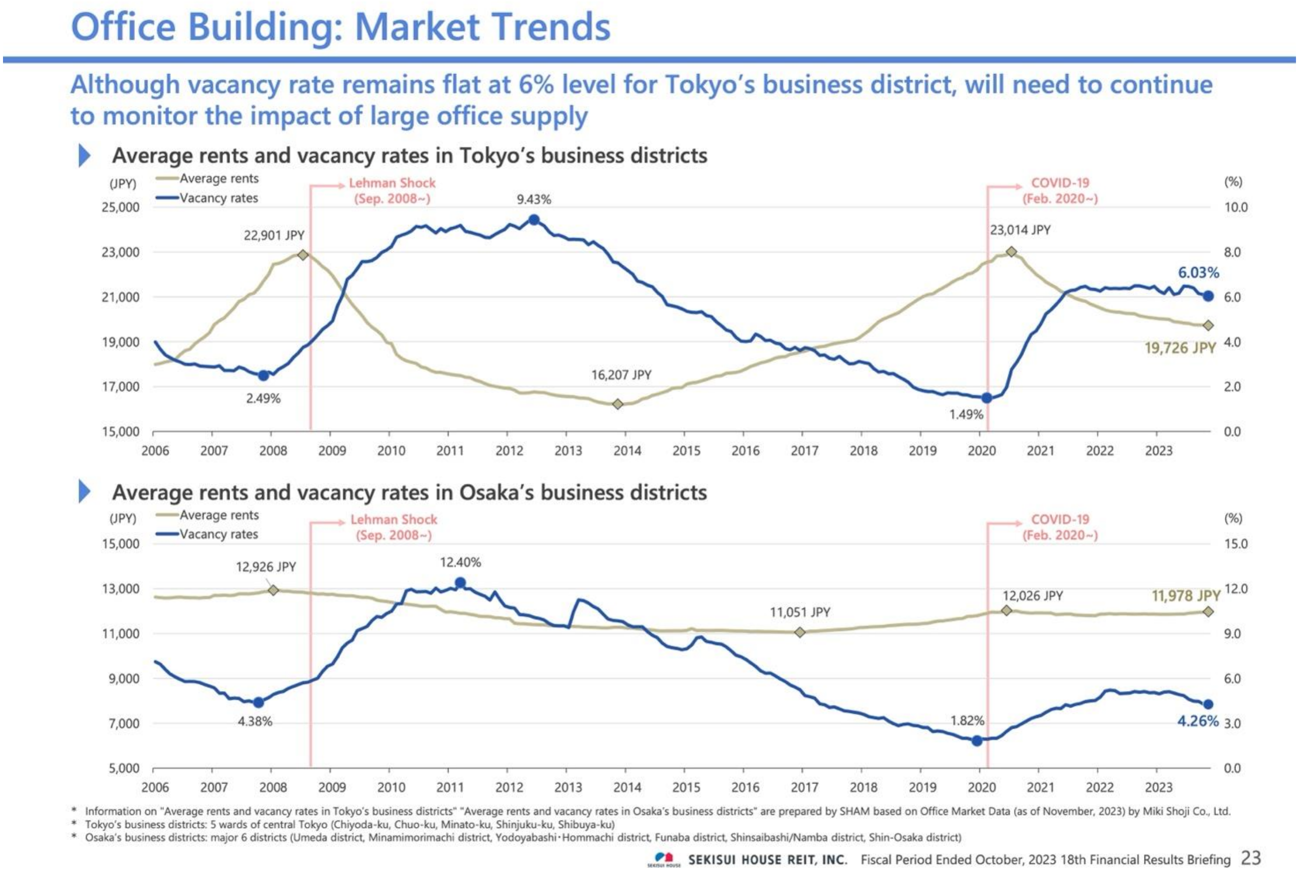
In Osaka, there are concerns that the rent market will weaken due to the continued supply of new large-scale properties. We will aim for stable management of the three properties we own while strengthening tenant relations.



Rent status.

This is the status of rent revisions and rent gaps. As a result of the rent revision in the 18th fiscal period, we maintained rents for 58.7% of all tenants, increased rents for 25.1%, and decreased for 16.2%. The rent change rate was a negative 4.1% due to the reduction in rent at Garden City Shinagawa Gotenyama.

The middle and lower rows show rent gaps in the Tokyo and Osaka areas, respectively, with no change in trend during the current period. In the Tokyo area, the rent gap is positive 25.9%, and in the Osaka area, negative 12.7%. In the Tokyo area, we will continue to focus on quickly backfilling and increasing occupancy rates with rent reductions in mind. In the Osaka area, we would like to focus on negotiating as much as possible for an increase while, of course, placing emphasis on occupancy.



This is the market trends for your reference.

In the Tokyo's business districts, vacancy rates have remained almost unchanged since 2021, and average rents, which have fallen, have declined only modestly.

As for the Osaka's business districts, vacancy rates have slightly decreased. Rents are also flat.

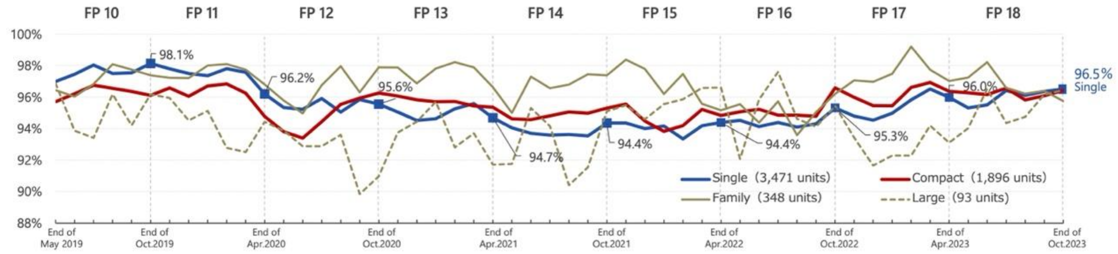
I will now explain about residential properties from the next page onward.

Residential: Portfolio Status

The average occupancy rate during the period remained high at 97.2%, and the single-type occupancy rate in Tokyo 23 wards also rose to 96.5% at the end of the period

Residential occupancy rate by area

Residential occupancy rate by room type in Tokyo 23 wards



* For the definitions of "Single type", "Compact type", "Family type", and "Large type", please refer to P.52.
* The number of units in Residential occupancy rate by room type in Tokyo 23 wards is as of the end of October 2023.

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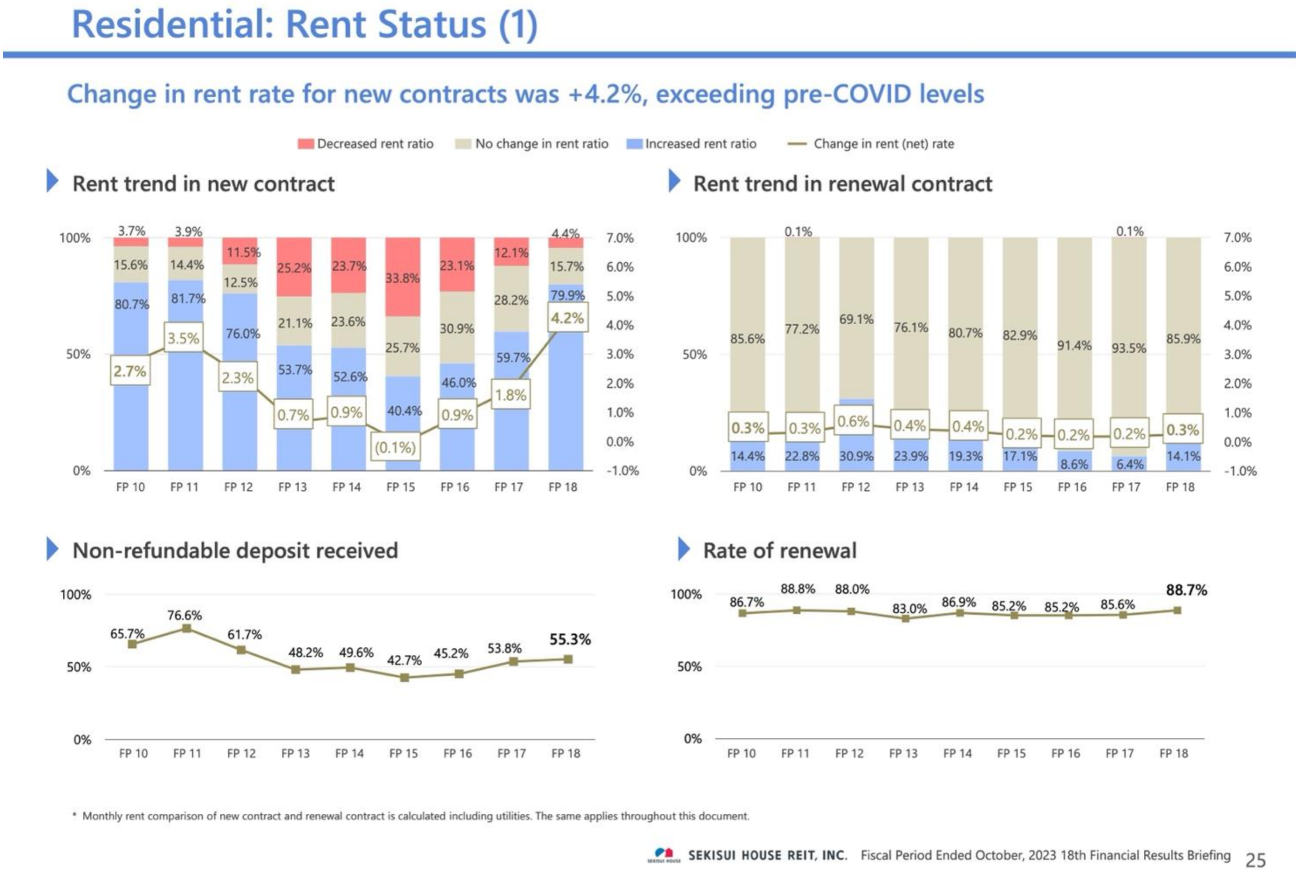
First, in terms of portfolio status, the average occupancy rate for the residential portfolio was 97.2% in the 18th fiscal period and recovered to 97.3% at the end of the fiscal period.

As for the occupancy rate of single type in Tokyo 23 wards, the lower graph shows that the occupancy rate has recovered to 96.5% as of the end of October.

As Tokyo continues to see a strong population inflow and an increase in the jobs-to-applicants ratio, we intend to further focus on improving occupancy rates and increasing rents in the Tokyo 23 wards.



See the next page. Rent status.

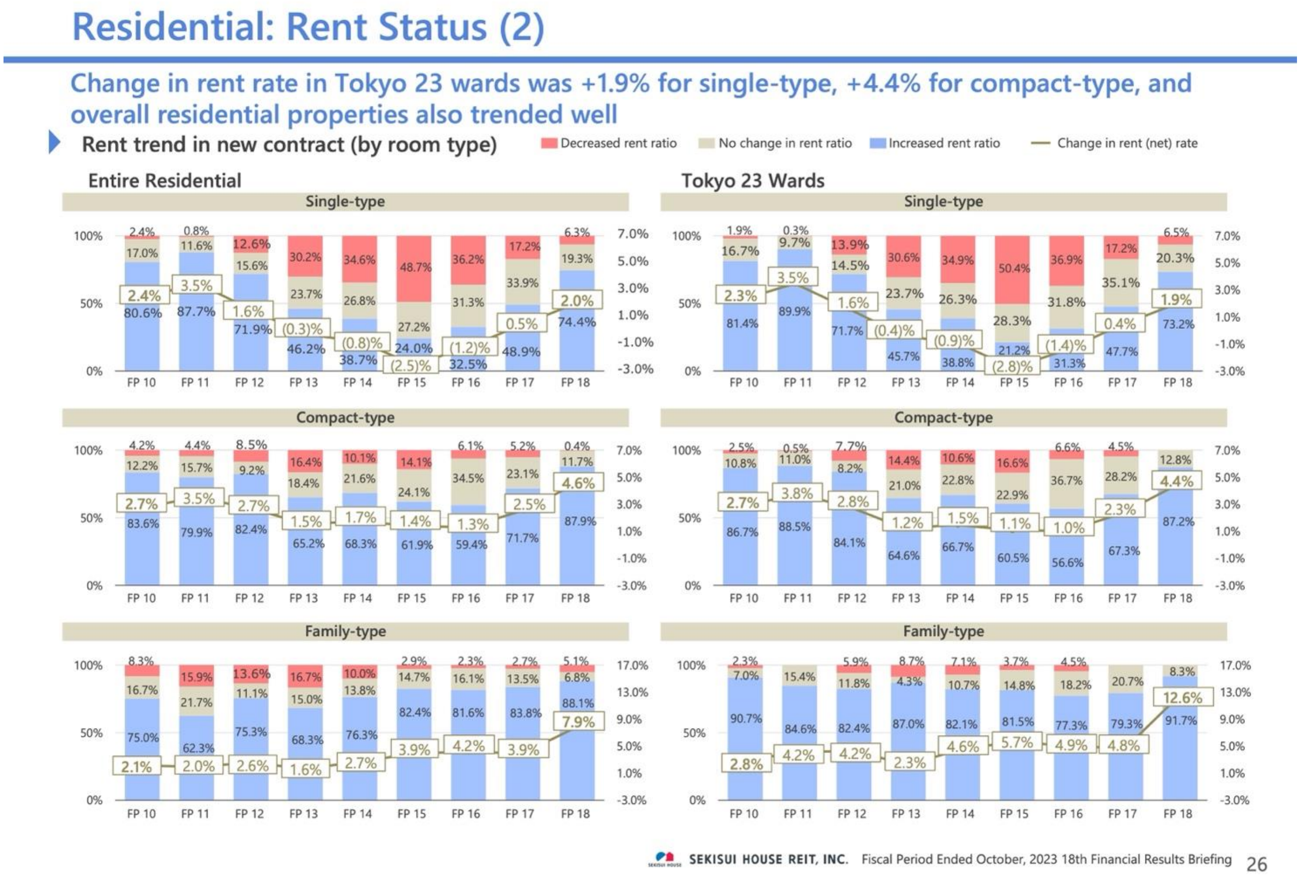
Rent trend in new contracts and in renewal contracts are shown here. On the left side, regarding the rent ratio in new contracts, the overall change in rent rate was a positive 4.2%, setting a new record for the percentage increase at the end of a fiscal period for SHR.

On the right side, in the renewal contracts, the renewal rate is 85.9%, and we maintain a positive figure, although only slightly, of 0.3% in the change in rent rate.

The acquisition rate of non-refundable deposit has also increased, albeit by 1.5 percentage points, from the previous period to over 55%.

The rate of renewal has increased to 88.7%.

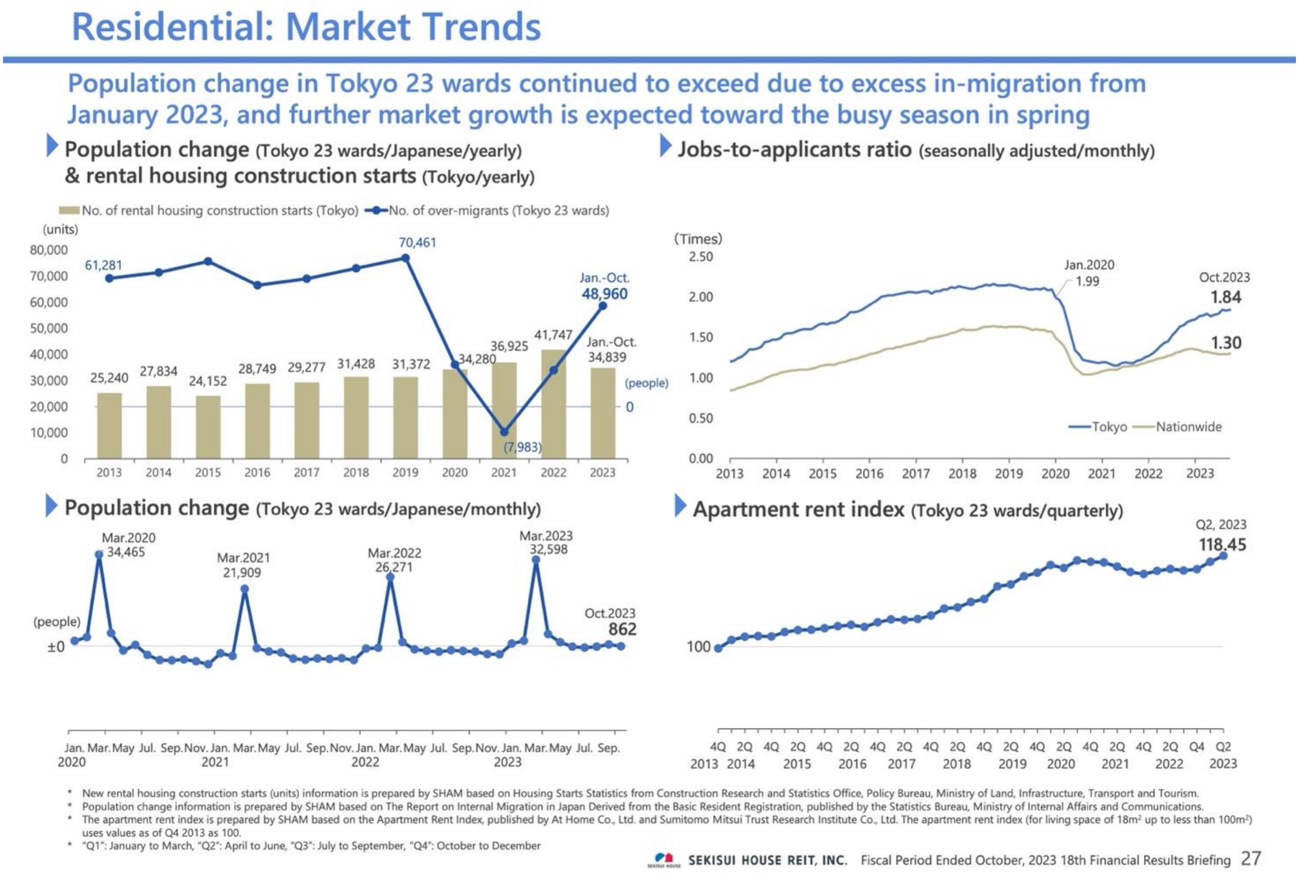
We will continue to make every effort to further increase earnings from residences.



On the next page, we have described the rent trend in new contracts by room type for the entire residence and for Tokyo 23 wards.

In both cases, the family type at the bottom of the table rose sharply, followed by the compact type in the middle.

The balance between supply and demand has a large impact, but the extent to which we are able to increase rents for single-type properties will be a major factor in our future growth, and we will work with each PM company to increase revenues by balancing occupancy rates and rent increases.



Here, we have included data showing the population inflow to the Tokyo 23 wards and the jobs-to-applicants ratio, which we discussed earlier, up to the most recent period for your reference.

The next page shows examples of value-enhancing construction work performed in the current fiscal period.

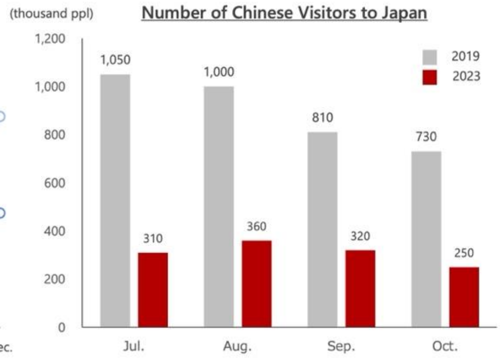
In order to increase rents, we believe that a certain amount of value enhancement is also necessary, and we would like to systematically and continuously implement these measures so that we can reduce downtime and increase rents at the same time.

Hotel: Operation Status

Inbound travel demand recovered to pre-COVID levels; The St. Regis Osaka's operation status is stable

Hotel market conditions (travel demand)

- The number of foreign visitors to Japan exceeded 2.5 million people in October 2023, recovering to the same level when compared to the same month in 2019 before COVID
- Meanwhile, the number of Chinese tourists visiting Japan in October 2023 was around 250 thousand, which is roughly 30% compared to the same month in 2019 before COVID



Operation status of hotel and future policy

- Although the St. Regis Osaka has not yet generated variable component revenue, its revenue remains stable due to the adoption of a fixed-rent master lease
- The renewal period of the master lease contract is scheduled to arrive in May 2024, and while the current contract will be the basis, will consider the contract contents upon renewal

* "Trends in the Number of Foreign Visitors to Japan" and "Number of Chinese Visitors to Japan" are created by SHAM based on the data "Number of foreign visitors to Japan (estimate for October 2023)" provided by the Japan National Tourism Organization (JNTO).

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Now, the operation status of the hotel.

Currently, we own one hotel, the St. Regis Osaka in Osaka, which is also experiencing stable operations thanks to continued inbound demand. However, the variable component revenue, which is paid on profits above a certain level, has not yet occurred at this time.

As you can see from the graph on the right side of the document, the number of Chinese visitors to Japan, looking at the last four months, is about 30% compared to 2019.

We have the current master lease agreement in place, but I think the key to the hotel's further improvement in the future will be the increase in the number of Chinese tourists. We would like to have a little hope here.

Financial Situation (1)

Conducted refinancing totaling 24.2 billion JPY to achieve an optimal balance between fixed-rate, floating-rate and borrowing period

Financial indicators

	As of the end of October 2023 (FP 18)	As of the end of April 2023 (FP 17)
Total interest-bearing liabilities	257.2 billion JPY	258.2 billion JPY
Long-term debt ratio	98.8%	100.0%
Fixed interest rate debt ratio	93.3%	95.0%
Average period remaining to maturity	3.6 years	3.5 years
Average interest rate	0.61%	0.58%
LTV (total asset basis)	45.2%	45.4%

Recent financial activities (FP 18 (from May 1, 2023 to Oct. 31, 2023))

	Borrowing Amount (Billion JPY)	Interest Rate	Drawdown Date	Borrowing Period (Years)
	4.0	Floating Base rate (JBA 1-month JPY TIBOR +0.170%)	May 31, 2023	1
Green Loan	2.0	1.040%	May 31, 2023	8.7
Green Loan	2.0	1.120%	May 31, 2023	9.5
Green Loan	4.8	0.875%	May 31, 2023	7
Green Loan	0.2	0.825%	May 31, 2023	7
Green Loan	0.6	0.875%	May 31, 2023	7
Green Loan	5.4	Floating Base rate (JBA 1-month JPY TIBOR +0.190%)	Aug. 31, 2023	4
Green Loan	3.6	1.035%	Aug. 31, 2023	7
Green Loan	0.4	0.985%	Aug. 31, 2023	7
Green Loan	1.0	1.120%	Aug. 31, 2023	8

Sustainability finance balance

(Billion JPY)

As of the end of October 2023 (FP 18)	As of the end of April 2023 (FP 17)
65.5	45.3

Credit ratings (Issuer ratings)

(As of the end of October 2023 (FP 18))

JCR	AA (Stable)
R&I	AA- (Stable)

Refinance in the fiscal period ended October 2023 (FP 18)

		Borrowing amount	Average interest rate	Average borrowing period
Repayment	Fixed-rate	20.2 billion JPY	0.41%	5.2 years
	Floating-rate	5 billion JPY	0.23%	1.8 years

		Borrowing amount	Average interest rate	Average borrowing period
Procurement	Fixed-rate	14.8 billion JPY	0.99%	7.6 years
	Floating-rate	9.4 billion JPY	0.24%	2.7 years

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Next, I will explain the finance. Please see page 31.

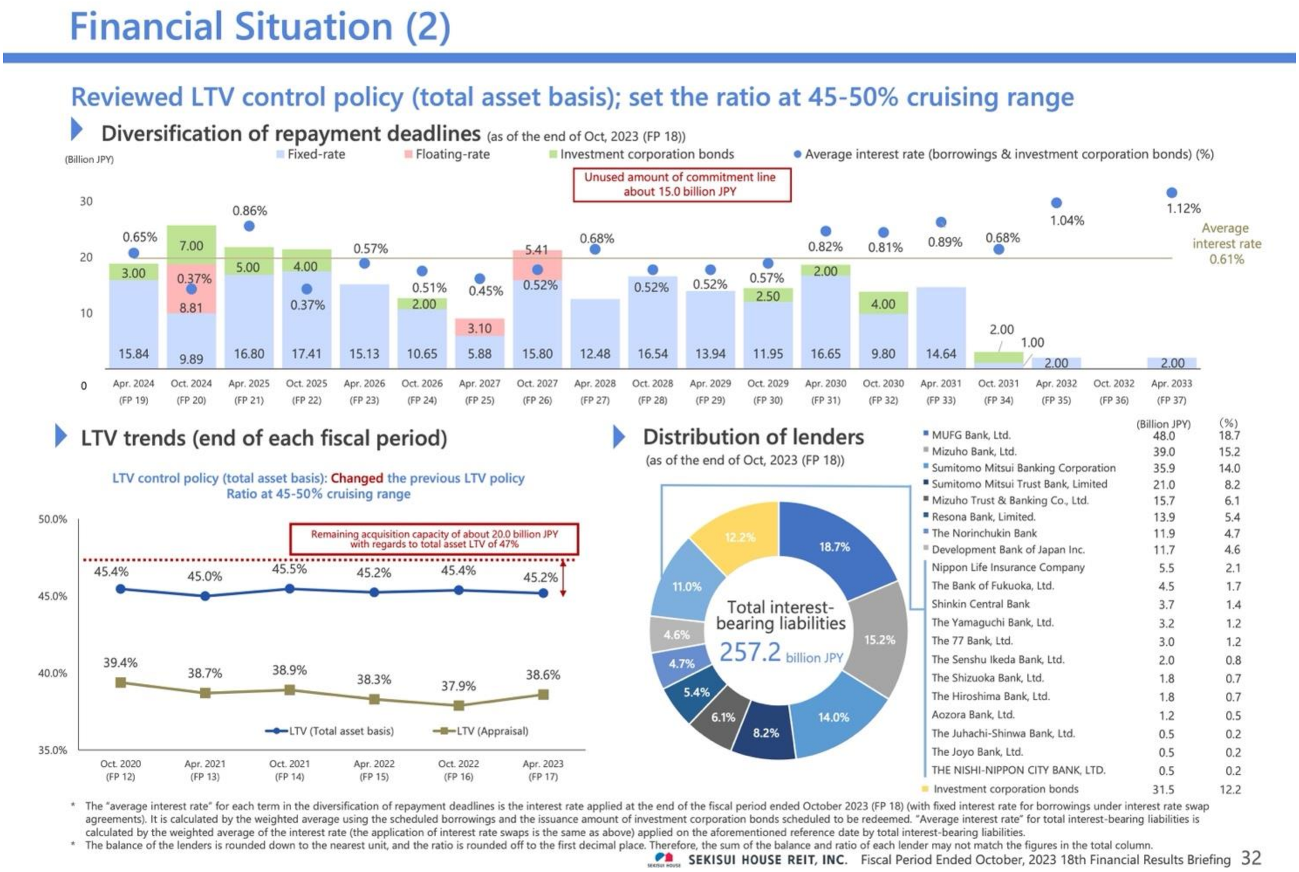
As you can see, the financial indicators are listed as of the end of the previous fiscal period and the end of the current fiscal period.

The average interest rate was 0.61%, 3 basis points higher than as of the end of the previous period.

The most recent financial activities are shown on the right. Basically, we have been implementing green finance, and we have been able to reduce the interest rates of borrowing, albeit slightly.

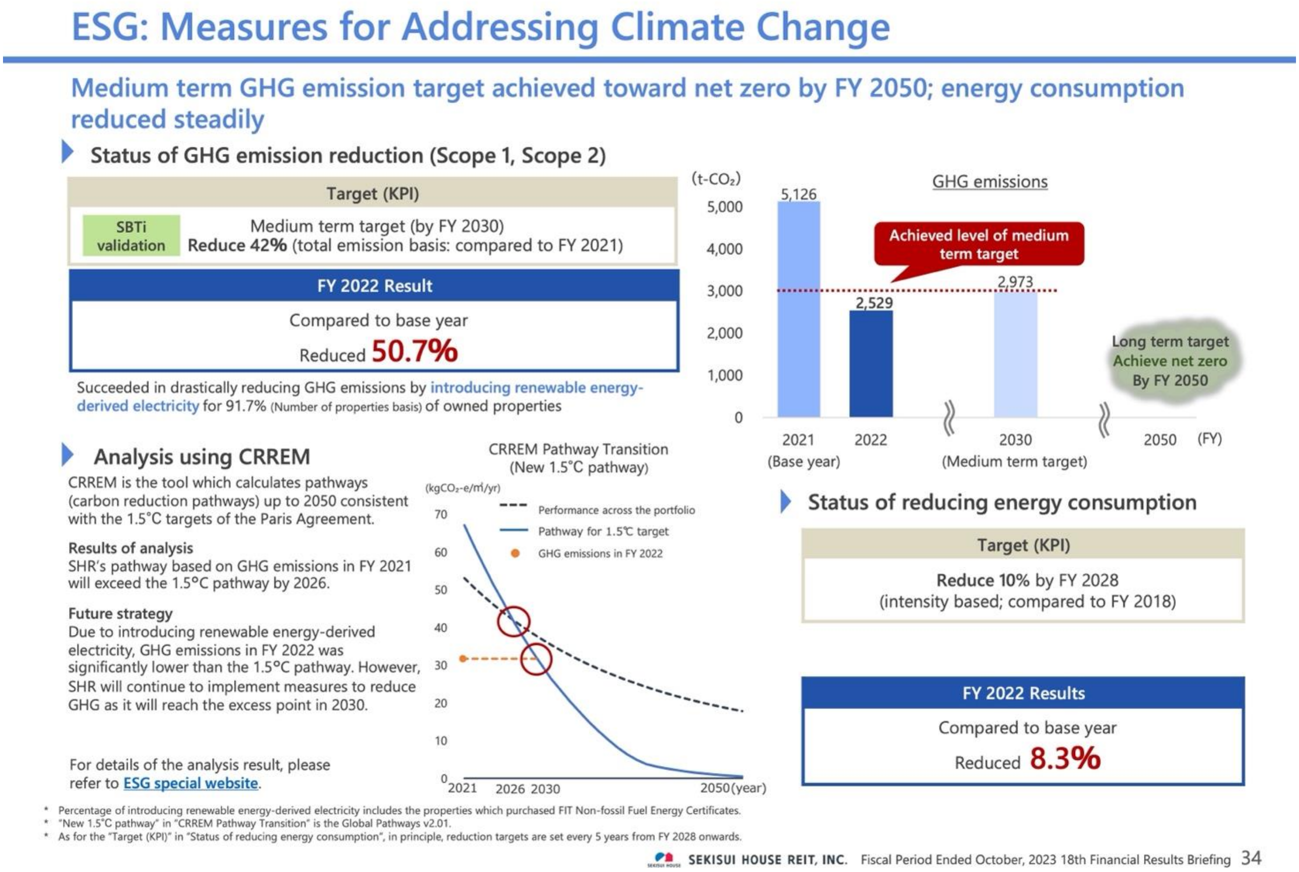
Although interest rates are expected to rise further in the future, we will continue to conduct our operations while taking measures to minimize cost increases as much as possible while also incorporating short-term borrowings and some floating rates.

The LTV on total assets at the end of the current period was 45.2%. If the ratio were to increase to 47%, the capacity to acquire properties would be approximately 20 billion JPY.



We have reviewed our LTV control policy this time, and we will operate setting the ratio at 45% to 50% cruising range.

It is assumed that future asset replacement will result in a larger proportion of more stable residential properties. However, we do not intend to raise LTV immediately, but rather aim to control it appropriately while also keeping an eye on rising costs.



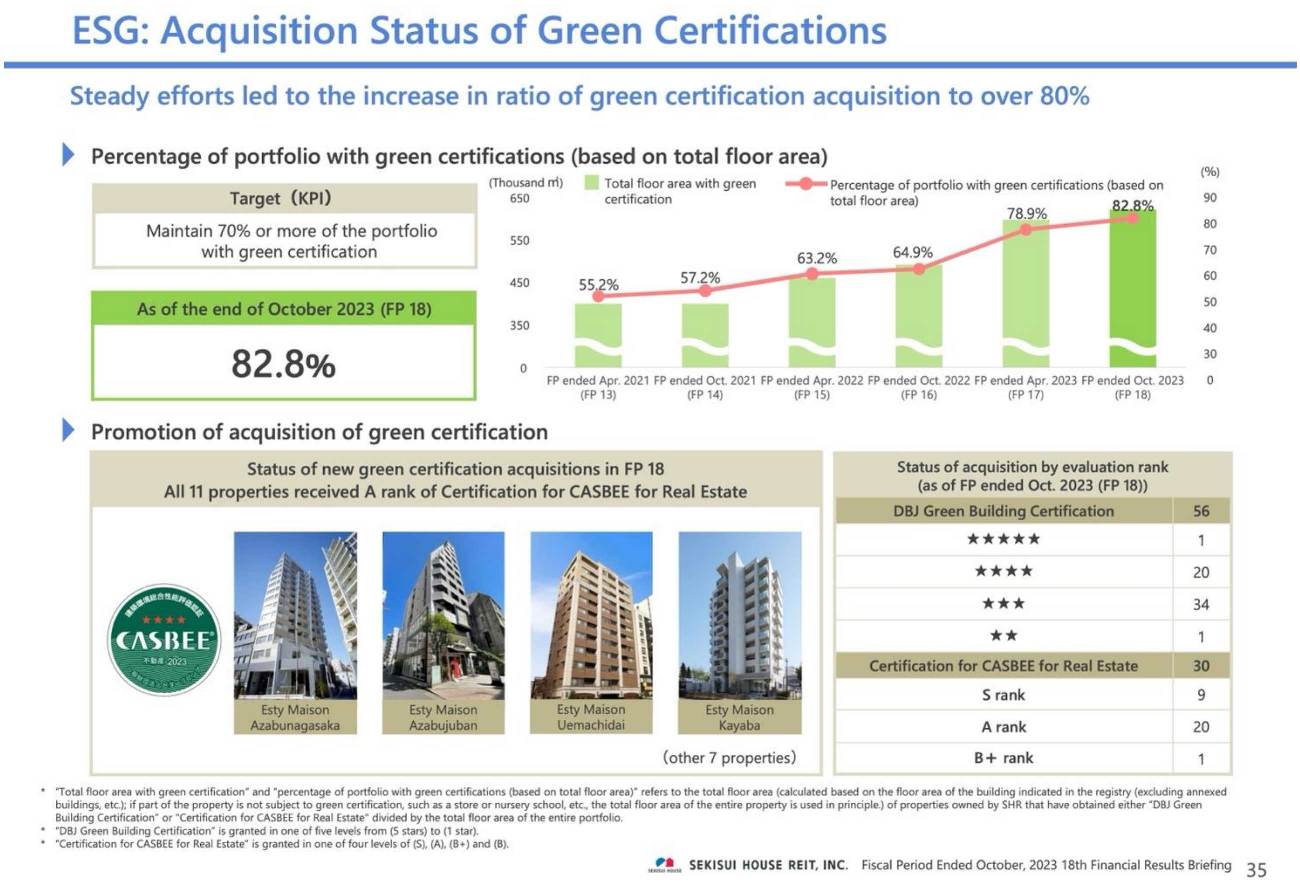
Finally, I would like to introduce ESG. See page 34.

Measures for addressing climate change. First, this is the status of GHG emission reduction.

We have reduced 50.7% compared to the mid-term goal of a 42% reduction by FY2030. In addition, as for the energy consumption shown in the lower right-hand corner, we have reduced 8.3% compared to the target of 10% by FY2028.

The analysis using CRREM, which is shown in the lower left-hand corner, was performed only on office buildings one year ago. This year, we have analyzed the portfolio as a whole. Therefore, many residential properties were included.

As a result, the target pathway has been replaced by a stricter curve than before, but we can see that the pathway will not be met unless further GHG emission reductions are made. The results of this analysis will be used to examine business strategies, including property renovations and sales, and to firmly establish a road map for achieving net zero.



The next page is about the acquisition status of green certifications in the portfolio.

The ratio has progressed from 78.9% at the end of the previous period to 82.8% at the end of this period. We will continue our efforts to achieve our target KPI of 70% or higher.

That is all I have to say.

As I have explained, leasing of Garden City Shinagawa Gotenyama has taken time, and earnings have deteriorated due to a drop in rent levels.

Meanwhile, the residences recovery has been very strong. In order to achieve the results of recovering, maintaining, and improving the profitability of the entire portfolio, including asset replacement, we will continue to cooperate with the sponsor group and strive to maximize value for our unitholders while also extensively examining new measures. We look forward to your continued support.

Thank you for your attention.

Question & Answer

[Q]: The first point is about the sale of Garden City Shinagawa Gotenyama. Could you give me an outlook on the accuracy and price range? I would also like to know what you think about the overall structure of the sale, including whether you will take any measures to deal with the possibility of a loss on the sale, based on the new appraisal.

The second point is about the portfolio development policy, which is to make residential properties the main asset in the future. I would like to know what kind of asset you consider residential properties to be and how you intend to invest in it. As in the past, is stability still the selling point of the asset? Or now rents are rising, and will you continue to develop the residential properties as a growth asset that can aggressively raise the unit rent price even if you have to take some risk? Please explain your thinking on the future.

Abe [A]: Regarding the first one, the sale of Garden City Shinagawa Gotenyama, we have already made a decision on the sale of the property and have already started the process. However, we understand that the asset value of the property is very large and that the current office market environment has made prospective buyers cautious.

So far, the appraisal has significantly dropped this time, and I believe that the rent level was the biggest factor here. At the level up to the previous period, there were vacancies, but the average rent in the building was still above 26,000 JPY. As we continue leasing in this context, the reality is that the rent is now around the 20,000 JPY level. This time, the assessed rent has been lowered to 22,000 JPY level, resulting in such a price.

We believe that each prospective buyer has his/her own point of view, including the future use of the property, etc. Therefore, we are certain that the amount of value assessed from continuous appraisal will be one of the guidelines.

If we were to proceed with the sale on that basis, as I mentioned earlier in my explanation, our book value at the end of this fiscal period is 69.4 billion JPY, which means that even if we were to sell at the appraisal value level, we would incur a loss on the transfer. My opinion at this point is that we should proceed even if that is the case, so we must take measures to mitigate the impact on unitholders as much as possible.

It is difficult to give specific details here, but we believe it is necessary to consider using the proceeds from the sale of another property, distribution in excess of earnings, and the purchase of our own investment units using the proceeds from the sale.

Second, regarding our policy on residential properties, after almost three years of the pandemic, there have been many changes in each of our assets. SHR has been managing three types of properties: residential, office building, and hotel. As a result, residential had less volatility. As I mentioned earlier in my introduction of the pipeline, the sponsor group's greatest strength is in the residential properties, and our first priority is to keep the ratio with low volatility.

As to your question about whether we are looking for stability or growth, we are currently in a very strong situation due to the impact of the pandemic, and the high growth potential is being discussed. We need to make sure that we grow this part even into next spring.

As a real estate investment trust, I always strongly believe in my operation that the first priority is to achieve stable distributions. As for residential properties, in addition to their growth potential, they must also be stable. Especially in the Japanese market, they have less volatility.

The rate of increase in good times may not be as large as in other countries, but we have experienced that the rate of decrease in bad times was also very small.

This is the reason why we decided to raise the ratio in residence to 65%.

[Q]: I have a major question regarding the Garden City Shinagawa Gotenyama sale policy. If you were to sell the property, because of the large amount of money involved, and if nothing is done, the long-term EPU would drop even more. The president mentioned earlier that you are going to increase the long-term EPU and also mentioned earlier that one of the things you are considering is to purchase your own investment units.

That said, I don't think that's enough. You mentioned earlier that in residential properties, there is about 100 billion JPY in the sponsor pipeline, so if you sell the Garden City Shinagawa Gotenyama, is there a possibility of a big deal like buying the entire 100 billion JPY?

Also, if you are going to elevate the long-term EPU, I believe that you need to ensure a solid yield as a cap rate, so what is the cap rate you are looking at for acquisitions? Is it about 3.5% or so as announced today, or do you want 4%?

Also, would you be willing to raise the loan-to-value accordingly, to raise it if it is 100 billion JPY? You mentioned earlier that the loan-to-value range is also elevated, so I would like to ask you about that part now.

Abe [A]: As you mentioned, if the sale goes through, it will bring in a significant amount of cash, so even though profitability is declining now, the EPU cannot be covered without properly compensating for the portion that is being earned, so I think the first thing to do is to make sure that we utilize the pipeline well.

Today, we announced the acquisition of three new residential properties from an outside source, and we are aware that the number of residential properties is small and the price of properties that have come on the market is very high. Taking that into account, first we would like to make a firm commitment to the sponsor pipeline, as ZEH properties are expected to appear across the board in the near future.

The cap rate will naturally vary depending on the location of the property and other factors, so if the property is located in the center of the Tokyo 23 wards, even if it is from a sponsor, the procurement cost will probably be quite high for the finish, and as we have always said, our policy is to maintain a yield of 3% on an acquisition price basis, which can be used for distributions after depreciation.

Of course, we would like to include properties that can generate a solid 4% on the surface, but this will be difficult to achieve in the city center for some time to come. Therefore, we would like to focus our attention on some of the regional cities, or rather, the cities where we have been holding properties.

Regarding loan-to-value, we have already had hearings and communication with the rating agencies, and they have assured us that there is no problem with the rating. However, this is also a story that will lead to increased costs, so we have been telling you that we would like to stabilize in the mid-45% range, but we would like to be a little more flexible and may be able to use up to 47% or 48%, depending on the situation. We do not intend to raise it unnecessarily.

We also believe that it is very important to keep and raise the ability per unit. We should work on measures that will bring this closer to reality after the sale is finalized, and we would like to explain this to you as we proceed with each case one by one.

[Q]: The first point is on page 29 of the 18th financial results briefing materials, where the St. Regis Osaka contract is up for renewal. Currently, before the contract is renewed, this variable component revenue has not yet accrued at this stage. Is this still quite far away? Currently, there is still a divergence, but how much more time will it take to generate revenue? If it gets closer, it will probably have some impact on future negotiations. I would like to ask for some additional information on the situation.

Secondly, there is an older building, Shinjuku Hirose Building, which is a bit different from the other buildings in this acquisition because it is not a residential property. What is the potential of this building? For example, it is relatively close to the redevelopment area, and I am sure that it will be in operation for a while, but for example, is there a possibility of a fairly high exit as a redevelopment seed site in years to come, or is there an unutilized current floor area ratio, etc.? I would like to ask you about the upside of this.

Abe [A]: First of all, as for the St. Regis Osaka's variable component revenue, occupancy and ADR are recovering well, but growth in other areas, such as non-accommodation areas, is not yet there. The variable component revenue portion, even when it was good, was 8 million JPY per term, so it is not that large, but we have not yet reached that level. Whether that part of the results will be available, we have been doing calculations based on the results of a one-year period, and as of this current time, we are not back to that situation.

In terms of the type of contract, we are not in a situation to be able to take that part of the contract in 2024. As I explained earlier in the materials, probably we will be able to take more profit mainly from group travelers from China, and the fact that they are coming back will lead to a very large potential.

Regarding the acquisition of the Shinjuku Hirose Building, it stands on the corner of Yotsuya 4-chome intersection and has very high visibility. Although it has not been the type that SHR would directly purchase, the transfer of the Gotenyama SH Building will continue intermittently in 10 installments, so we will have to acquire assets for that portion because otherwise our earnings will fall. Also, when we look at the current Tokyo office market after the pandemic to date, specializing in and concentrating our attention to large scale is still a very risky thing to do. We have first-hand experience with that. Therefore, this year, we have made it our policy to consider medium-scale buildings that can contribute to the operation, and we were fortunate enough to purchase this property.

I believe that the attraction is its location. Also, although we do not have a complete understanding of the building's age, we know that many tenants have been here for a very long time, and the current anchor tenant has been here since 1998. It is a place that has been used continuously, with some of the interior being tweaked in the most recent years. We believe that the building will continue to be occupied by tenants for some time to come, which was one of the factors that led to our decision to acquire the property.

In the explanation, I also talked about the potential for redevelopment in the future, and although there are quite a few old buildings in the surrounding area, we believe that demand for residential and small-scale office buildings can be expected as reconstruction progresses little by little.

In terms of whether the floor-area ratio is in excess or not, the site is not that large, so it would be difficult to reconstruct the property by adding more floor space, but we have done a thorough volume check in the case of rebuilding or, in essence, new construction at the acquisition stage. We have made the decision to purchase the land based on our judgment that it has the potential to be utilized in the future.

[Q]: First, although it may be difficult to express directly, since you mentioned that the Garden City Shinagawa Gotenyama property is already in the process of sale, could you give us some kind of indication of the deadline for this?

Second, regarding the DPU and EPU. Six months ago, I think the DPU was set at 1,800 and the EPU at 1,500, in the form of a target, or [inaudible]. Is this still alive today? Or the composition of this portfolio by use has been changed dynamically as a result, so once the 1,500 and 1,800 targets are withdrawn, and another goal will be discussed at a later date? This is the second point.

Abe [A]: Regarding the Garden City Shinagawa Gotenyama disposition, I must admit that we are not yet in a position to give you any specifics, including a deadline. Although we will gradually learn the level and timing of specific exchanges and negotiations, I am sorry to say that we are not in a position to tell you at this time.

Then, we are looking at 1,800 JPY and 1,500 JPY for the DPU and EPU. Although we did not include them again in this document, we would like to continue to target the EPU of 1,500 JPY and DPU of 1,800 JPY at this time.

While there would be a possibility that we will need to review this part of the plan as major asset replacements take place, basically, we would like to continue our policy of achieving the 1,500 JPY and 1,800 JPY targets, while weaving in the measures I mentioned earlier, with our eyes on the targets.

[END]

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