SEKISUI HOUSE REIT, INC.

Sekisui House Reit, Inc.

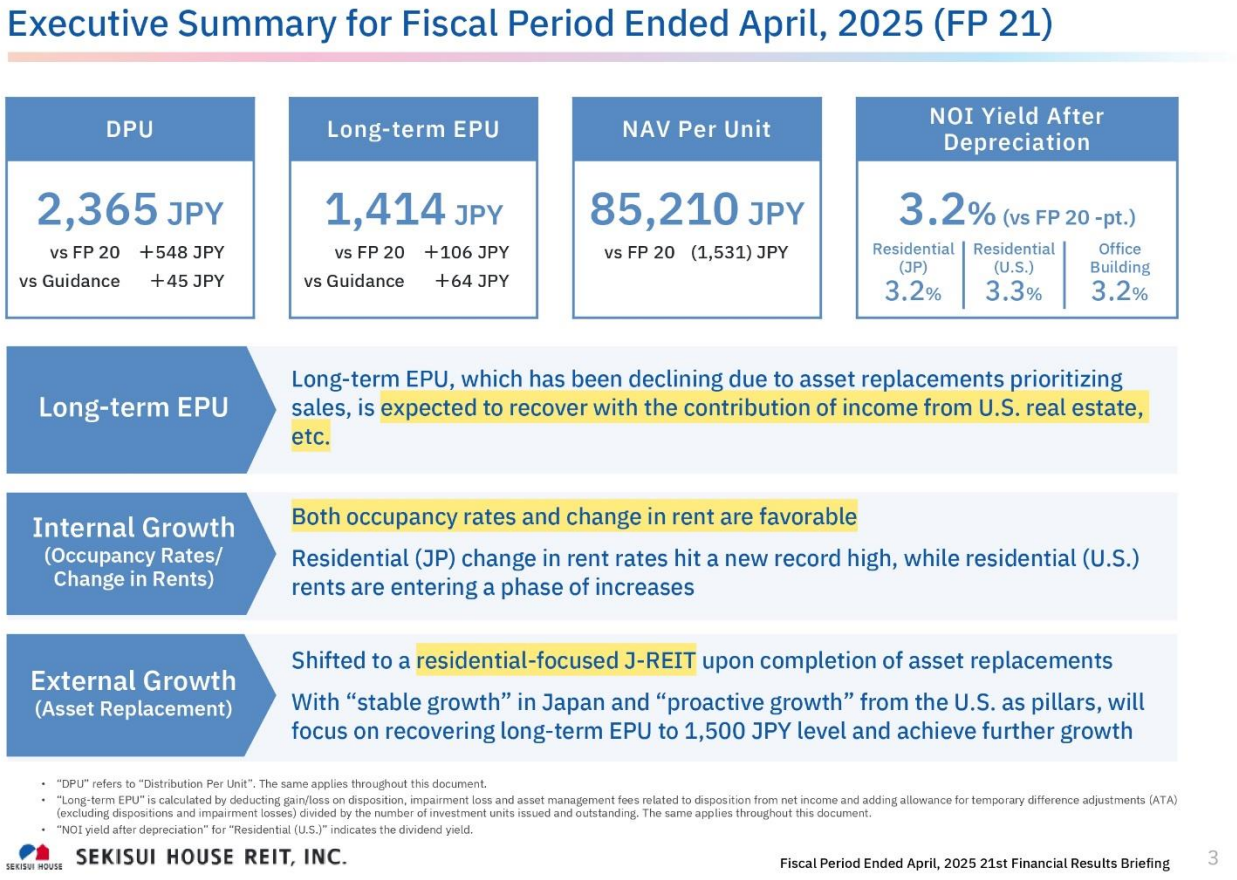
Financial Results Briefing for the 21st Fiscal Period

June 13, 2025

Event Summary

[Number of Speakers] 5

Toshimitsu Fujiwara	President and Chief Executive Officer
Atsuhiro Kida	Senior Executive Director, General Affairs Department and Accounting Department
Nobuyoshi Sato	Senior Executive Director, Investor Relations Department and Finance Department
Sadaaki Takeuchi	Senior Executive Director, General Manager Investment Operations Division
Kimiyoshi Otani	Senior Executive Director, ESG Promotion Department



Fujiwara: Hello, everyone. Thank you for participating in the SHR financial results briefing for the 21st fiscal period today. My name is Fujiwara from Sekisui House Asset Management. I was appointed President and Chief Executive Officer this April. Thank you very much. Now, I would like to start the financial results briefing.

See page three. The DPU for this FP was JPY2,365, an increase of JPY548 from the previous FP and an increase of JPY45 from the publicly announced forecast.

The long-term EPU was JPY1,414, an increase of JPY106 from the previous FP and an increase of JPY64 from the publicly announced forecast. NAV per unit decreased by JPY1,531 from the previous FP to JPY85,210. The main reason for this was the recording of a valuation loss due to the appreciation of the yen at the end of the FP in connection with the forward exchange contract for the additional acquisition of City Ridge.

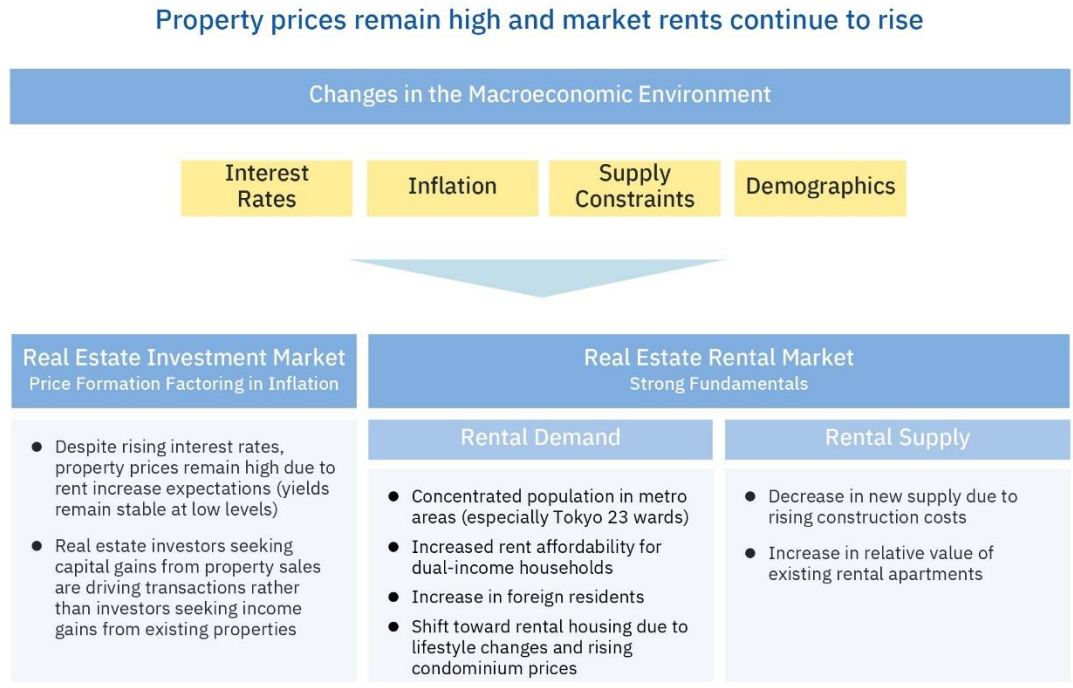
I will summarize the three highlights of operations for this FP.

First, the long-term EPU temporarily decreased due to asset replacement with a focus on sales, which involved selling large office properties that had lost their competitiveness. However, it is expected to recover with the contribution of earnings from replacement assets, including US real estate.

Second, the residential portfolio continued to perform well in both occupancy rates and change in rent, further accelerating the momentum of internal growth.

Third, through large-scale asset replacement, we transformed into a residential-focused J-REIT. We will focus on stable growth in Japan and aggressive growth in the US as pillars, aiming to restore the long-term EPU to the JPY1,500 level and further growth beyond that.

Future Growth Strategy/Policy (1): Environment Recognition

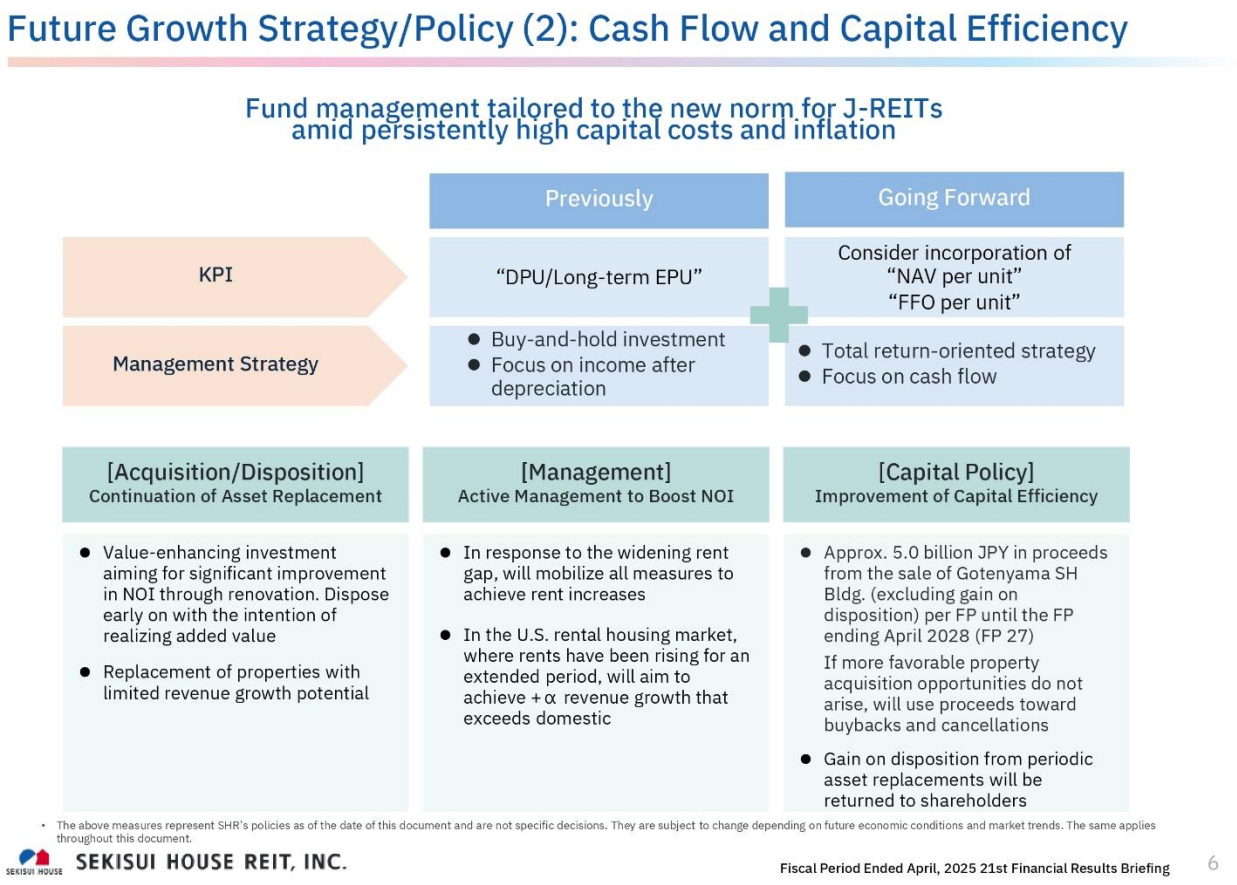


See page five. Regarding future asset management policies, as the macro environment surrounding SHR changes significantly, the same methods as before are no longer applicable, and we believe that a re-evaluation in response to environmental changes is necessary.

What kind of environmental changes are we talking about? The stabilization of a world with interest rates and inflation has already had various effects on the real estate market. In addition, supply constraints are surfacing everywhere, and changes in demographics cannot be ignored.

In the real estate investment market, despite rising interest rates, real estate prices remain high. We believe this is nothing more than a reflection of expectations for rising rents, meaning that prices are being formed with inflation factored in.

In the real estate rental market, with new supply trending downward, and against the backdrop of demographics such as population concentration in major urban centers, increased rent-bearing capacity of dual-income households, and an increase in foreign residents, the fundamentals of rental supply and demand are likely to remain strong for the time being.



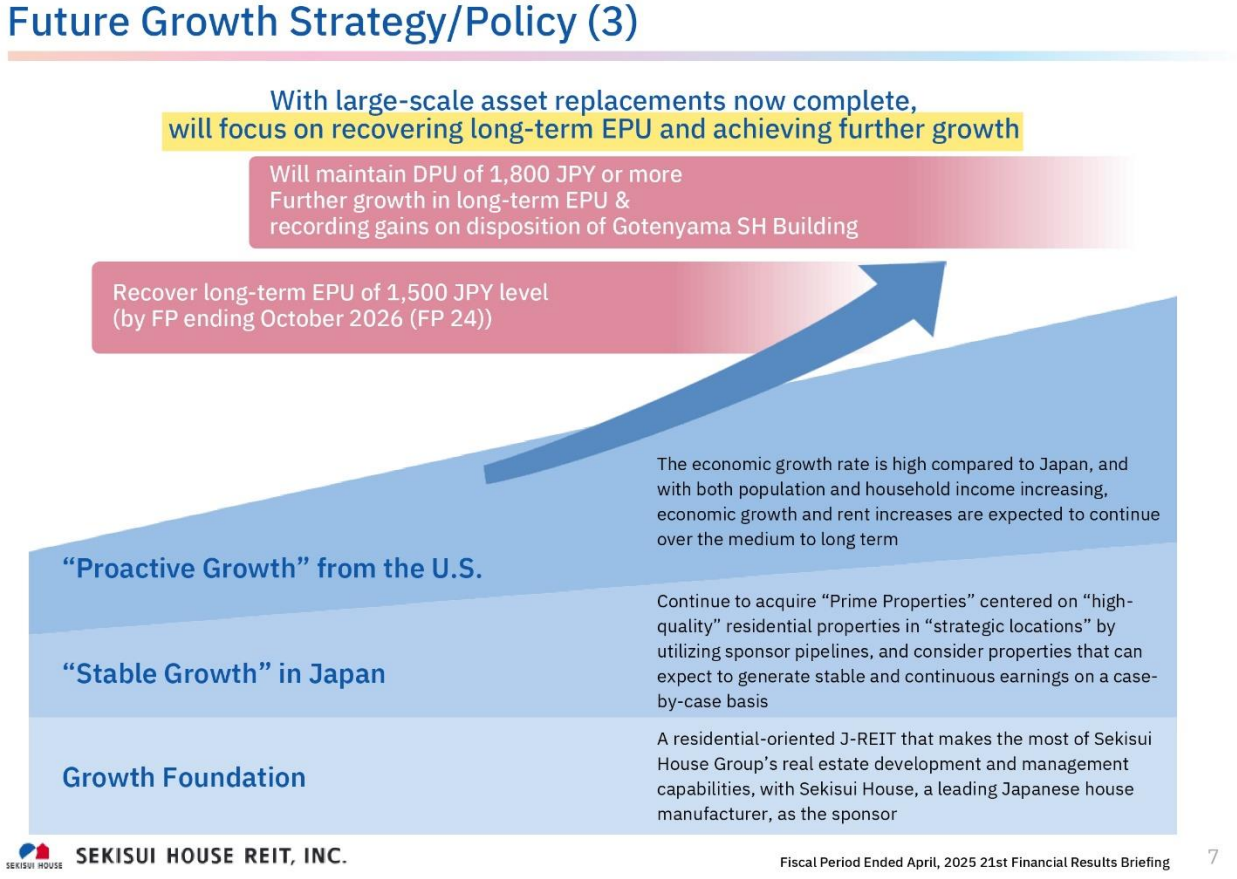
See page six. The J-REIT market, which started as a middle-risk, middle-return income product in the deflationary era, now faces a new normal of high capital costs and an inflationary environment. As symbolized by the various KPIs being proposed by both asset management companies like us and investors, there is an impression that our focus has not yet been fully established.

Our investment behavior until now has been long-term investment based on buy and hold, focusing on profit after depreciation. Especially in the residential sector, under the premise that rents lack growth but are stable, we have prioritized the NOI yield after depreciation at the time of acquisition.

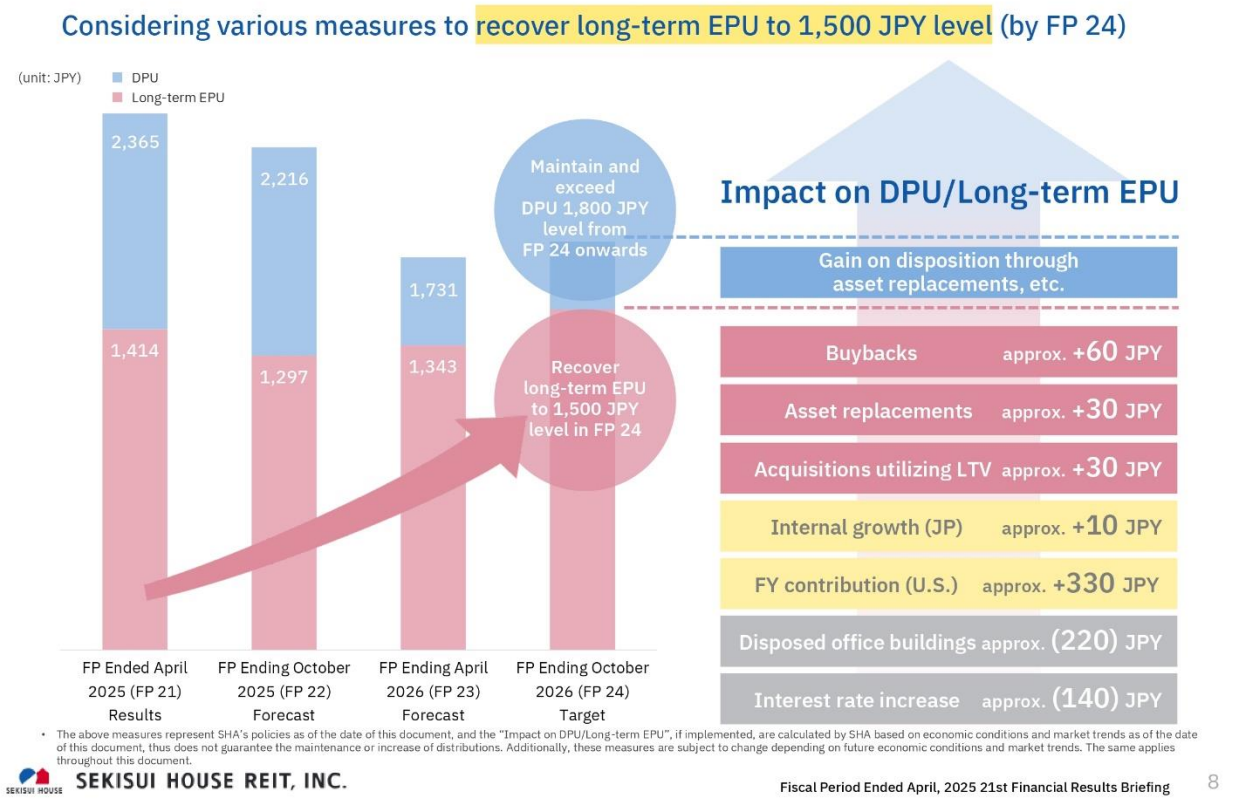
In such an environment, attention was focused on extending the long-term EPU through external growth via public offerings as a KPI. On the other hand, in the new normal environment, as capital constraints become stronger, capital efficiency is being emphasized more than ever. The realization of unrealized capital gains/losses through property sales and the strengthening of unitholder returns through buybacks are already becoming established. We believe that we are required to shift our focus towards achieving returns that exceed the cost of capital with a total return orientation.

In line with such capital policies, it is also essential to improve the profitability of assets, that is, the left side of the balance sheet. Therefore, we would like to emphasize investment behavior that focuses on cash flow growth, which is the driver of real estate value.

Furthermore, we believe it is necessary to also look at FFO per unit as an appropriate KPI for this.



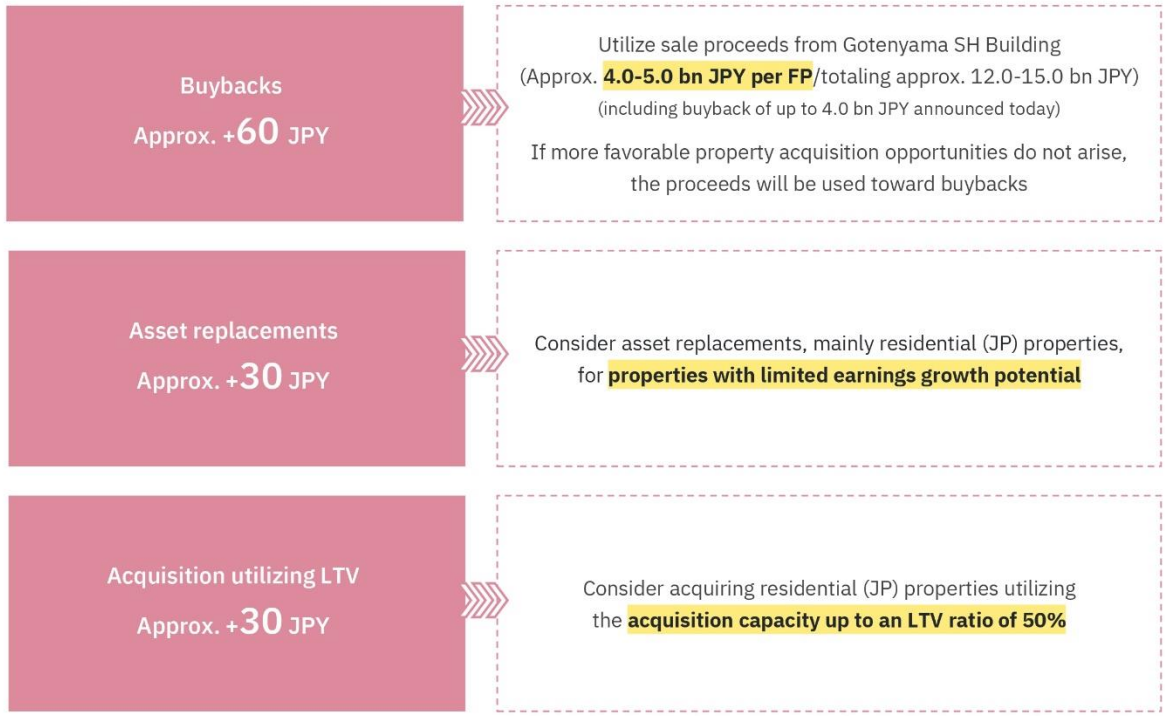
Page seven. Transformation in response to environmental changes is essential, but the investment philosophy of SHR, with Sekisui House as its sponsor, remains unchanged. We will continue to maximize the real estate development and operational capabilities of Sekisui House and focus on growth through stable growth in Japan and proactive growth in the US.



Page eight. Regarding the goal of restoring the long-term EPU to JPY1,500 by FP ending October 2026 (FP 24), the long-term EPU is projected to be JPY1,297 in FP 22 and JPY1,343 in FP 23. Although these are financial forecasts and somewhat conservative and firm figures, there is no doubt that JPY1,500 in FP 24 is an ambitious goal.

So, we have examined again how this can be accomplished. First, rising interest rates will drag us down by about JPY140. However, in addition to the replacement effect, where the proceeds from the sale of office buildings are used to acquire US residences, serving as the driving force, we believe it is achievable if we mobilize all resources including domestic internal growth, buybacks, asset replacement, and new property acquisitions utilizing LTV.

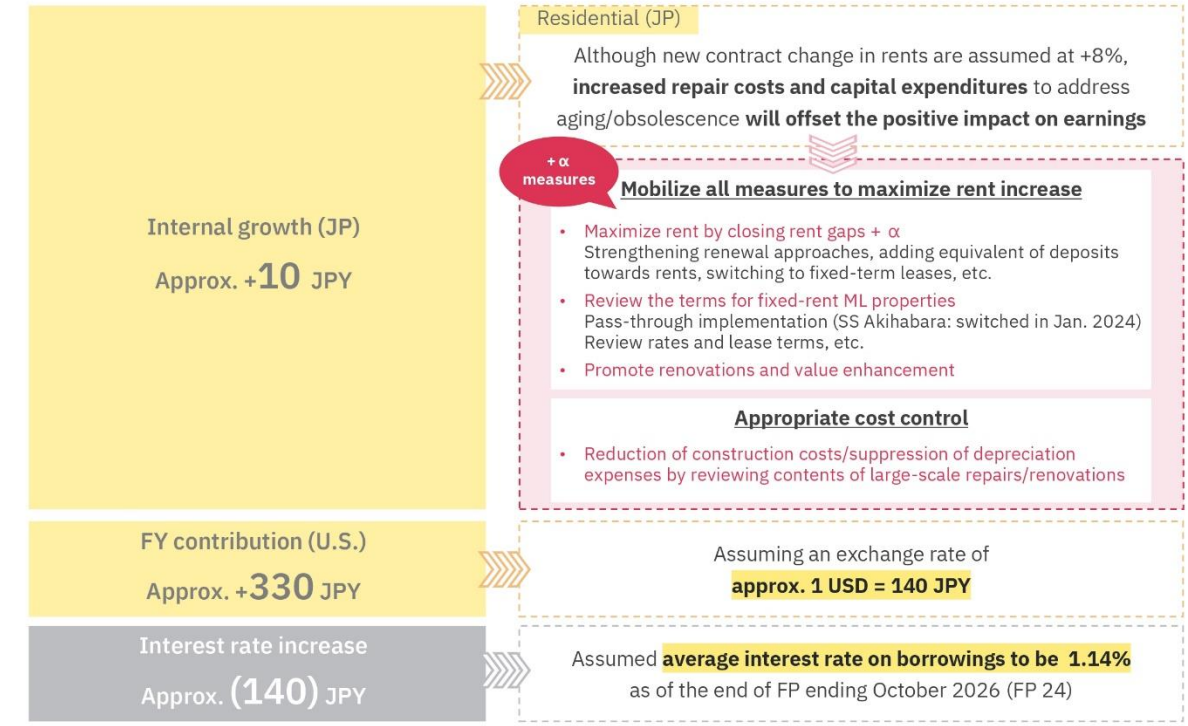
Future Growth Strategy/Policy (5)



Page nine. Buybacks can push up the long-term EPU by about JPY60. The Gotenyama SH Building has been sold in installments over 10 periods, and the proceeds from these sales amount to JPY4 billion to JPY5 billion per period, totaling JPY12 billion to JPY15 billion by FP 24. This assumes that these proceeds will be invested in buybacks.

Property acquisitions through asset replacement and LTV utilization each have an effect of about JPY30. Although the investment environment dictates that acquisition yields cannot be exceptionally high, we will focus on acquiring properties that offer returns exceeding the cost of capital, from the perspective of total return, by carefully assessing the potential for cash flow growth.

Future Growth Strategy/Policy (6)



Please turn to page 10.

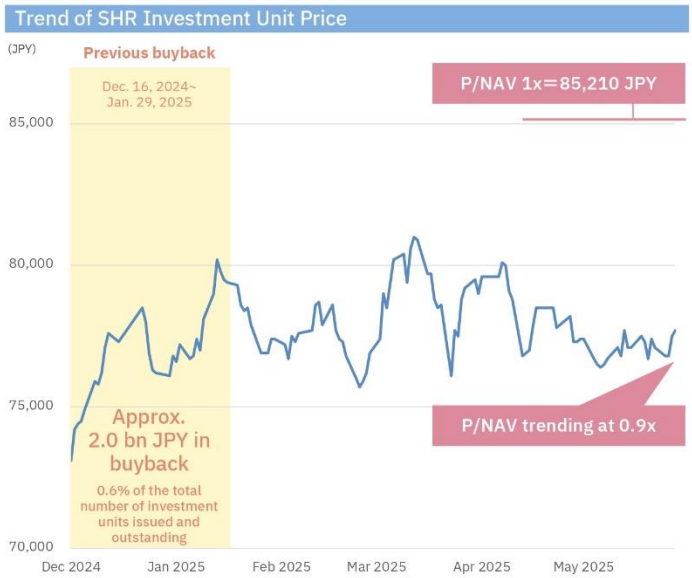
Regarding internal growth, we anticipate an increase of about JPY10, assuming a change in rent of 8% at the time of replacement. This might seem a bit unsatisfactory. While cash flow will steadily increase due to rising rents, the burden of depreciation for capital expenditures acts as a drag, making it difficult to translate into profit after depreciation. As reiterated, we will focus on initiatives that prioritize growing cash flow, which is the driver of real estate value.

As measures to realize upside in rent, we will further strengthen our approach to increasing rent at contract renewals, adding an equivalent of deposits to rent, switching from ordinary leases to fixed-term leases, or implementing pass-through implementation for fixed-rent ML properties. We will also include initiatives that have been difficult to undertake until now.

Acquisition of Own Investment Units (During FP 22)

Decided on a third buyback

Will continue to use partial proceeds from Gotenyama SH Building disposition towards buybacks if there are no other favorable property acquisition opportunities in the future



Decided on Buyback of up to 4.0 Billion JPY

(1.2% of the total number of investment units issued and outstanding)

Impact on DPU Forecast (Estimated Value)

FP Ending October 2025 (FP 22) Forecast	+22 JPY
FP Ending April 2026 (FP 23) Forecast	+19 JPY

- The acquisition period for the buyback decided is from June 16, 2025 to September 30, 2025. For details, please refer to the "Notice Concerning Investment Units Buyback Program" announced separately today.
- "Impact on DPU Forecast (estimated value)" and "the total number of investment units issued and outstanding" are based on the DPU forecast prior to the buyback as stated in the "Financial Report for the Fiscal Period Ended April 30, 2025" announced separately today, and assuming that SHR acquired the maximum number of investment units (51,880 units) at SHR's investment unit's closing price of 77,100 JPY as of May 30, 2025, and that all acquired investment units are to be canceled during the fiscal period ending October 31, 2025 (FP 22). This may vary depending on the actual total number of investment units acquired and the total acquisition price.
- Depending on the level of the investment unit price of SHR, liquidity, market trends, etc., the total number of investment units acquired and the total amount of the acquisition price of the investment units may not reach the maximum, or there may be no acquisition at all.

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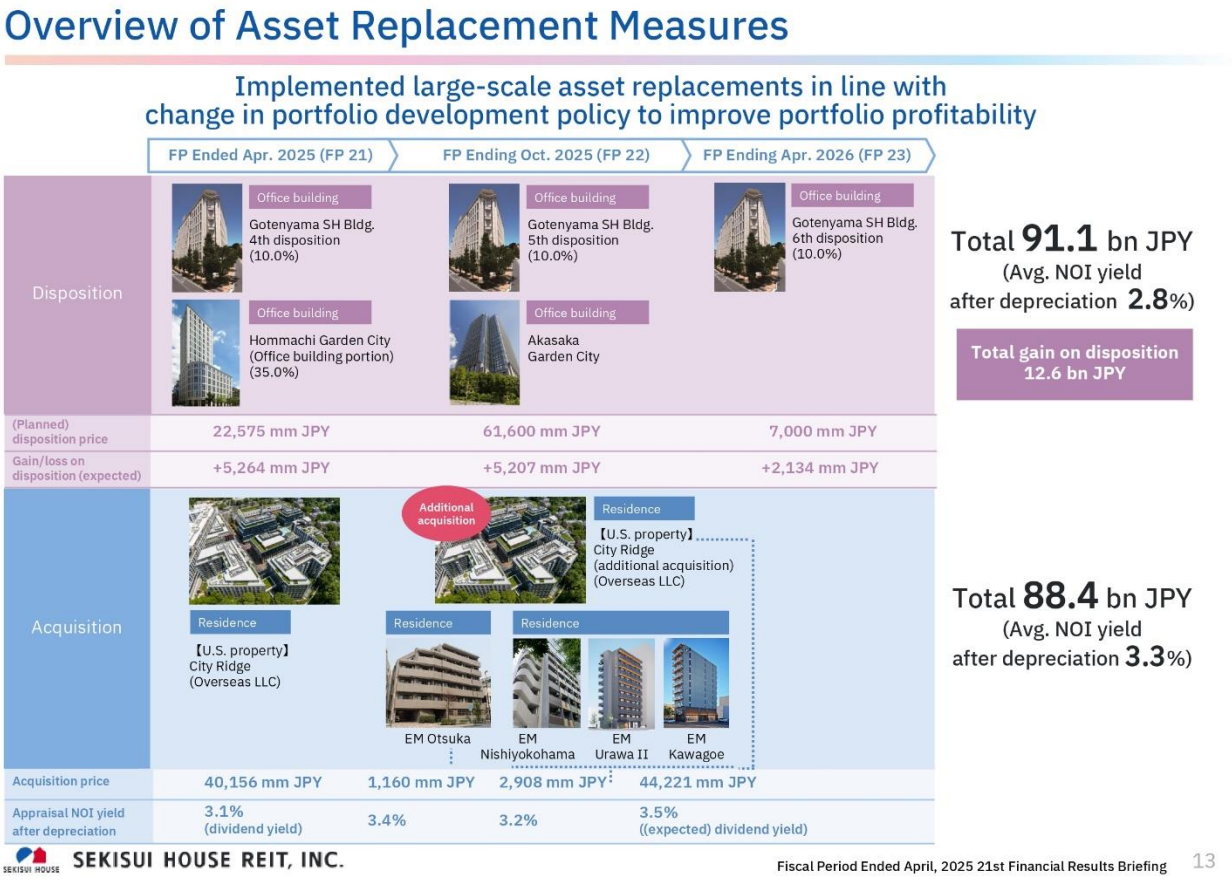
Please turn to page 12. Today, following the previous FP, we decided on the third buyback. This time, we plan to acquire JPY4 billion, using the proceeds from the sale of the Gotenyama SH Building as the source.

This is expected to have an additional upward effect of approximately JPY20 on the financial forecast announced this time.



Page 13. Asset replacement for the current FP 21 and the next two FPs.

We will proceed with asset transfers of JPY91.1 billion and asset acquisitions of JPY88.4 billion. Through this, we will return JPY12.6 billion in transfer gains to unitholders and improve profitability by acquiring assets with an average NOI yield after depreciation of 3.3% against asset transfers with an average NOI yield after depreciation of 2.8%.

Residential (U.S.): Overview of Acquired Assets

Capturing continued growth in the U.S. economy through the acquisition of U.S. real estate

The Ivey on Boren
(Acquired May 2024)

City Ridge
(Acquired November 2024)

City Ridge (Additional Acquisition)
(Acquired June 2025)

Acquisition price	51,479 mm JPY (328 mm USD)	40,156 mm JPY (279 mm USD)
Dividend yield (JPY base) (FP 21)	3.5%	3.1%
Unrealized capital gains/losses	(4,080) mm JPY	+92 mm JPY
DPU (FP 21)	139 JPY (approx. 4 months)	30 JPY (approx. 1.25 months)
(Expected) Full contribution DPU per FP	180 JPY	150 JPY

Acquisition price	44,221 mm JPY (299 mm USD)
(Expected) Appraisal NOI yield (JPY base)	4.9%
(Expected) Dividend yield (JPY base)	3.5%
(Expected) Full contribution DPU per FP	165 JPY

- The exchange rate used for "(Expected) Full-year DPU" is the rate of 1 USD = 142.57 JPY.

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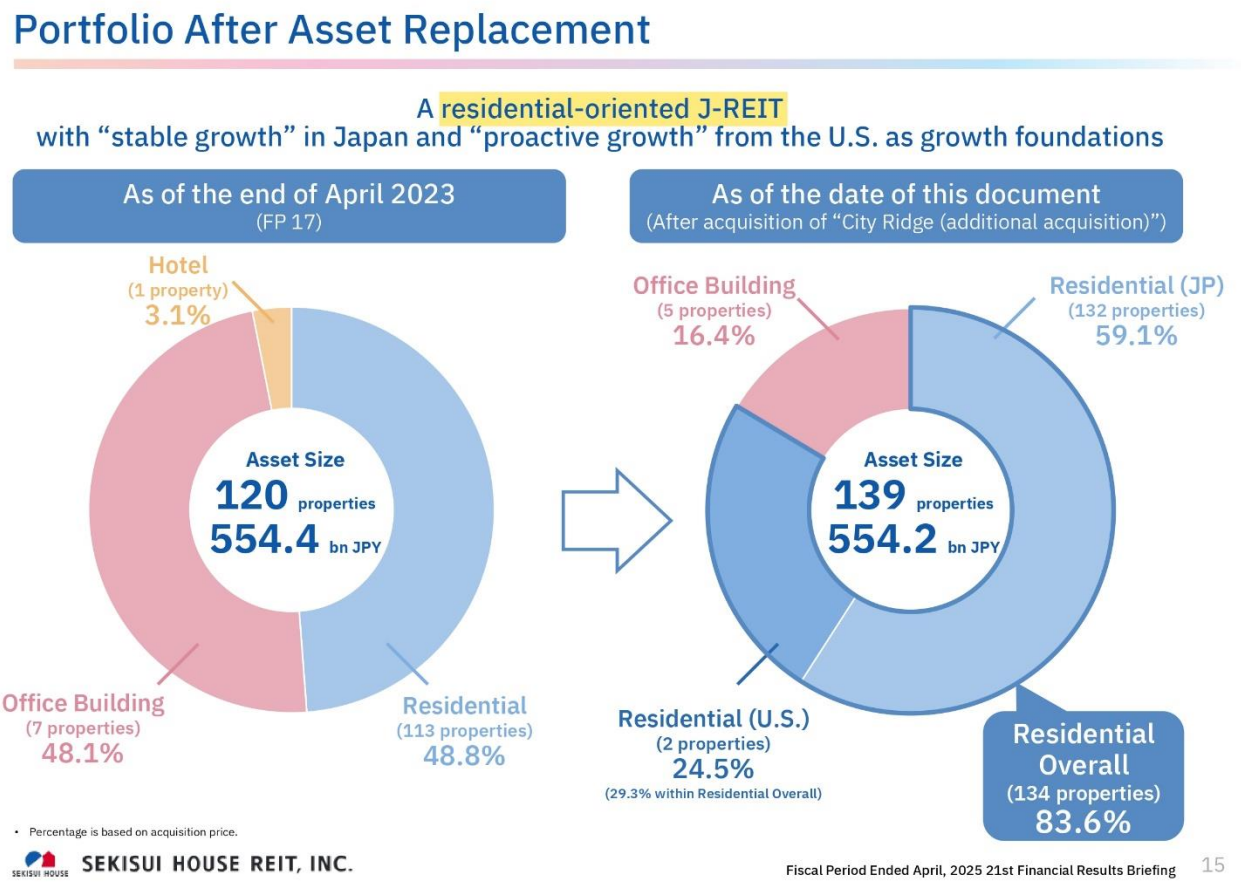
Next, page 14. Status of US real estate.

Although The Ivey on Boren, hereinafter referred to as Ivey, and the initial acquisition of City Ridge, which were acquired last year, have not yet reached a full 6 month contribution due to the difference in the fiscal year-end with the local SPC, their contribution to earnings in this FP was 3.5% for Ivey and 3.1% for City Ridge in terms of yen-based dividend yield.

For City Ridge, we have a three-year rent guarantee from the month following the acquisition date. However, for this FP, the guarantee did not apply to the prorated rent for the acquired month for a 1.25-month operating period, resulting in a figure of 3.1%. On a long-term basis, it is expected to have a 3.5% dividend yield, similar to the additional acquisition of City Ridge.

Regarding unrealized capital gains/losses, while the appraised value of Ivey increased by 0.7% in dollar terms, approximately USD2.4 million, the appreciation of the yen resulted in an unrealized loss of approximately JPY4 billion.



Page 15. Looking at the portfolio composition, through a series of large-scale asset replacements, the residential ratio has increased to 83.6%, making us a residential-focused REIT. Our direction is to specialize in residential properties, but the remaining office properties are all attractive in terms of yield and have stable operational status, so there is no rush to sell them.

Sekisui House Group Sponsor Support

Total value of residential pipelines are approximately 90.0 billion JPY; all located within Tokyo 23 wards and are all ZEH properties with excellent environmental performance

Developments of Sekisui House's Main Residential Properties


PM Kiyosumishirakawa (Koto-ku, Tokyo)

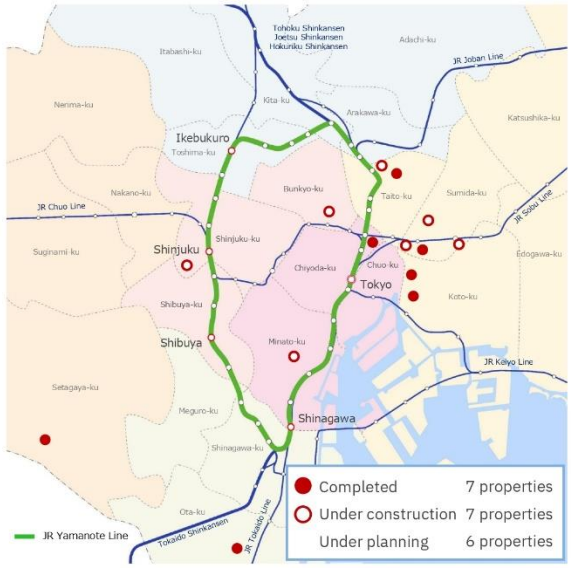

PM Kamata (Ota-ku, Tokyo)


PM Nihonbashibakurocho (Chuo-ku, Tokyo)


PM Iriya (Taito-ku, Tokyo)


PM Yoga Kinutakoen (Setagaya-ku, Tokyo)


PM Kiyosumi Riverfront (Koto-ku, Tokyo)

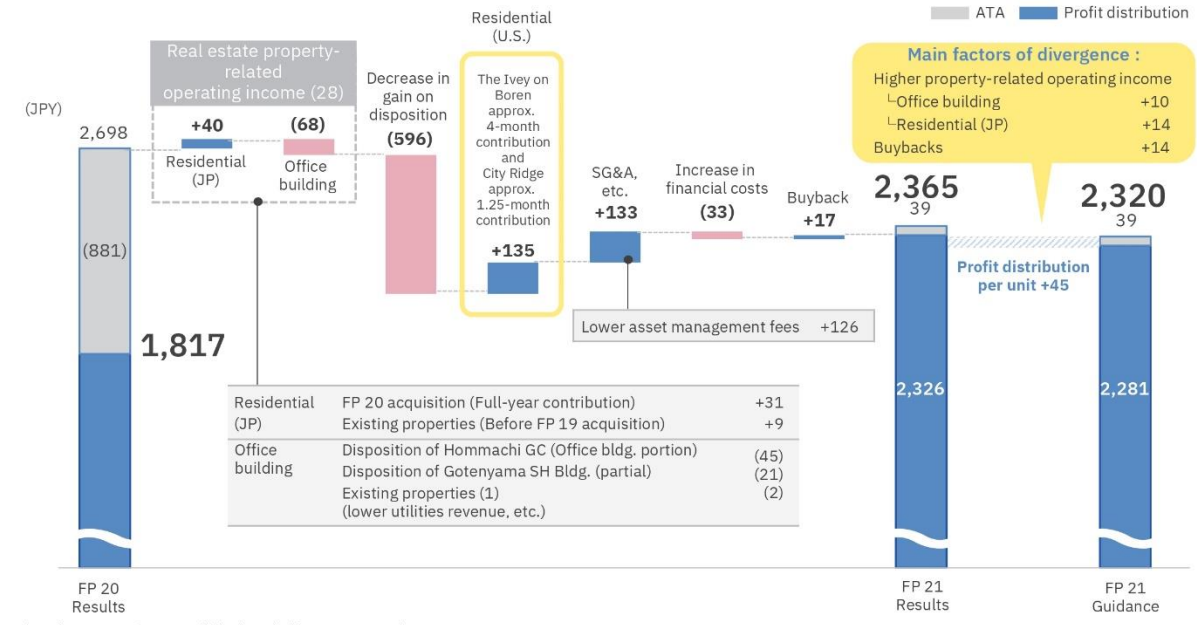


- As of the date of this document, SHR has no specific plans to acquire the unacquired assets described on this page and acquisition by SHR is not obligated nor guaranteed.
- "ZEH" stands for ZEH-M Oriented which refers to "condominiums that aim to realize significant energy savings while maintaining 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".

Page 16. The total amount of the residential pipeline developed by the sponsor is JPY90 billion, all of which are ZEH properties with excellent environmental performance located in the 23 wards of Tokyo. Seven of these properties have already been completed, so SHR would like to consider them if acquisition opportunities arise.

Analysis of Change Factors of DPU (Results)

Although real estate property-related operating income decreased due to the disposition of office buildings, full-year contribution of acquired residences in FP 20, increase in residential (U.S.) dividends and buyback had a positive impact



- The exchange rate used to convert dividends received from overseas LLCs is 1 USD = 152.13 JPY.
- "Existing properties (1)" within the "Office building" refers to the properties owned as of the end of FP 21 excluding "Gotenyama SH Bldg.".

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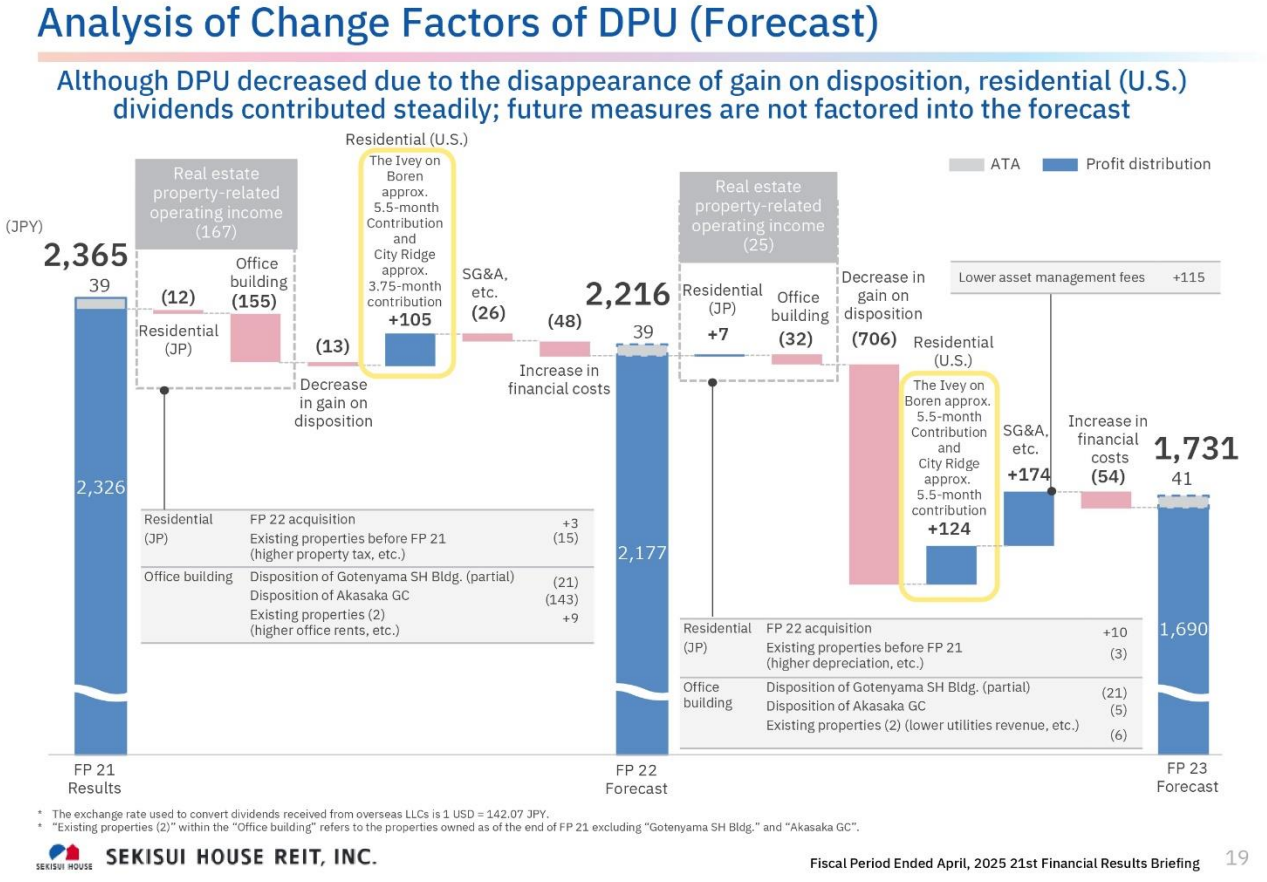
Please turn to page 18. This is about the factors of change in DPU from the previous FP.

First, regarding JPY1,817 for the previous FP 20, a tax-accounting discrepancy of JPY922 occurred in FP 19 due to the recording of impairment losses from the partial transfer of Shinagawa Gotenyama, resulting in a JPY881 reversal of ATA. However, this will be eliminated in the current FP. On the other hand, the decrease in the gain on the transfer of Hommachi Garden City is negative JPY596. Therefore, in terms of actual transfer gains, there will be an increase of JPY326, which is the difference between these two figures.

Next, looking at real estate property-related operating income in Japan, residential properties increased by JPY40 due to internal growth and full-period contribution from newly acquired properties, while office properties decreased by JPY68 due to property transfers, resulting in a total decrease of JPY28.

US residences saw an increase of JPY135 due to the contribution of earnings from Ivey for four months and the initial acquisition of City Ridge for 1.25 months, as the contribution period increased.

As a result of these factors, covering a JPY33 decrease due to increased financing costs and with a JPY17 push-up from buybacks, the DPU for FP 21 increased by JPY548 from the previous FP to JPY2,365.



Please turn to page 19. Next, the financial forecasts for FP ending October 2025 (FP 22) and FP ending April 2026 (FP 23).

The DPU for FP 22 is forecasted to be JPY2,216, a decrease of JPY149 from FP 21. Looking at the factors, for real estate property-related operating income in Japan, residential properties will decrease by JPY12 due to factors such as an increase in property tax for existing properties, and a further decrease of JPY155 due to office transfers, totaling a decrease of JPY167. For the two US properties, Ivey will contribute earnings for 5.5 months and City Ridge for 3.75 months, resulting in an increase of JPY105, but they will not yet reach a full six-month contribution. Furthermore, there will be an impact of JPY48 from increased financing costs, and as a result, the total is expected to be JPY2,216, a decrease of JPY149.

For FP 23, the DPU is forecasted to be JPY1,731, a decrease of JPY485 from FP 22, mainly due to a JPY706 decrease in transfer gains. Other factors include a JPY25 decrease in real estate property-related operating income in Japan due to office transfers. On the other hand, the two overseas properties will see a JPY120 increase from 5.5 months of earnings contribution. SG&A expenses will see a positive JPY174 due to factors such as a decrease in asset management fees, while increased financing costs will result in a negative JPY54.

Residential (JP): Operational Results (1)

- "Market rent per tsubo" and "SHR rent per tsubo" are calculated based on the residential properties owned as of the end of the fiscal period, excluding residential properties subject to a fixed-rent master lease, single building leases and commercial/office spaces.
- "Rent gap" is the difference in percentage between contract rents with the end tenant and the market rents (estimated new lease rents assessed by Style Act Co., Ltd.) as of the end of each fiscal period.
- All indicators related to residential (JP) are calculated using monthly rent including utilities. The same applies throughout this document.

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Please turn to page 21. Domestic operating results.

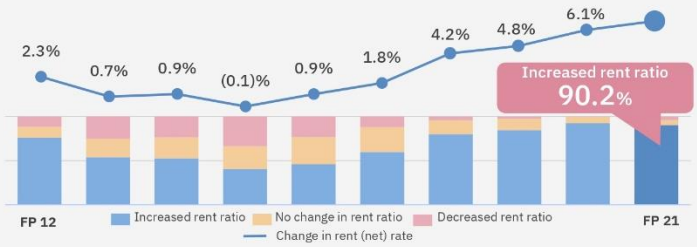
The operating status of domestic residences shows that the average occupancy rate per FP remained stable at a high level of 96.9%. The average rent has steadily increased due to rent increases, but the market rent level has risen even more, leading to an expanding rent gap. We believe that an environment where rent increases can still be targeted will continue.

Residential (JP): Operational Results (2)

Reached record highs in change in rent rate for both new and renewed contracts

Rent Trend in New Contract

Continued increase in change in rents; aiming for further increases



+6.8%
(vs. FP 20 +0.7 pt.)
Monthly Rent +10,642 thousand JPY

Tokyo 23 Wards	Single Type
+7.0% (vs. FP 20 +0.8 pt.)	+5.9% (vs. FP 20 +1.9 pt.)

Rent Trend in Renewal Contract

Increased rent ratio rose to 46.2%; will continue proactive rent increases

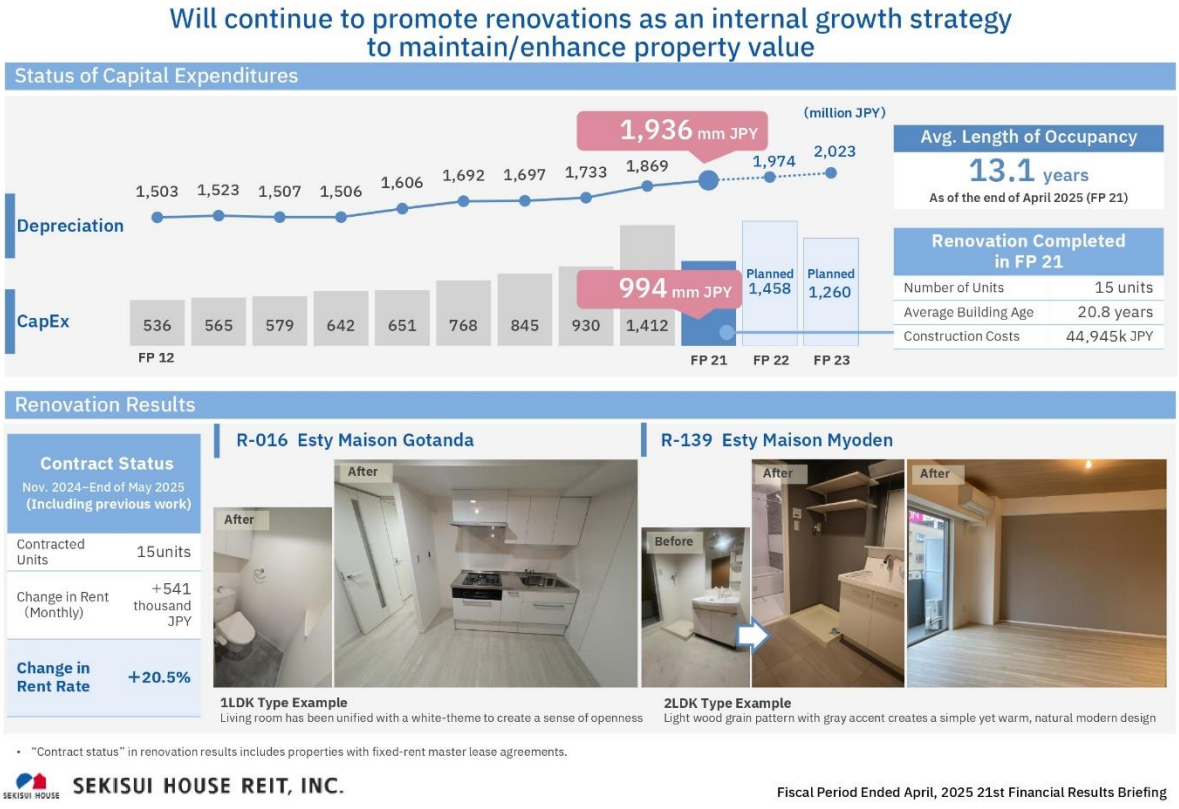
+1.6%
(vs. FP 20 +0.6 pt.)
Monthly Rent +3,246 thousand JPY

Tokyo 23 Wards	Single type
+1.8% (vs. FP 20 +0.6 pt.)	+1.3% (vs. FP 20 +0.6 pt.)

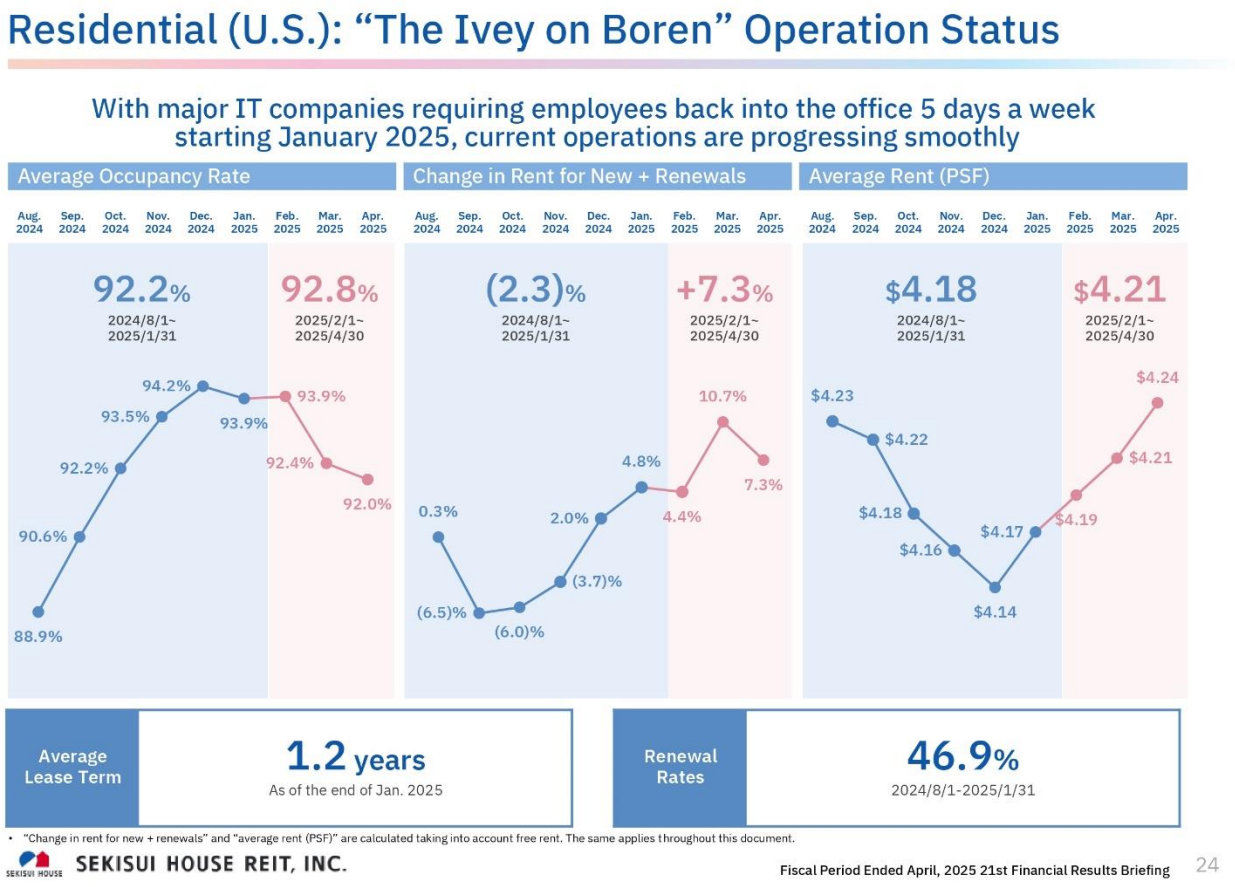
・ For the definitions of "Single type" and other room types, please refer to p. 46.

Page 22. Looking more closely at the change in rent, the change in rent at the time of new contracts was 6.8%, accelerating from 6.1% in the previous FP. The change in rent at renewal also increased from 1% in the previous FP to 1.6% in the current FP. Thanks to intensified efforts in renewal negotiations, the percentage of rent increase cases has risen to 46.2%.

Residential (JP): Operational Results (3)



Page 23. Regarding capital expenditures, renovation work on exclusive areas has a high investment effect, and recent results show that an average rent increase of 20.5% has been achieved after renovation. As an additional measure for internal growth, we will continue to promote renovation work, targeting approximately 70 units each FP.

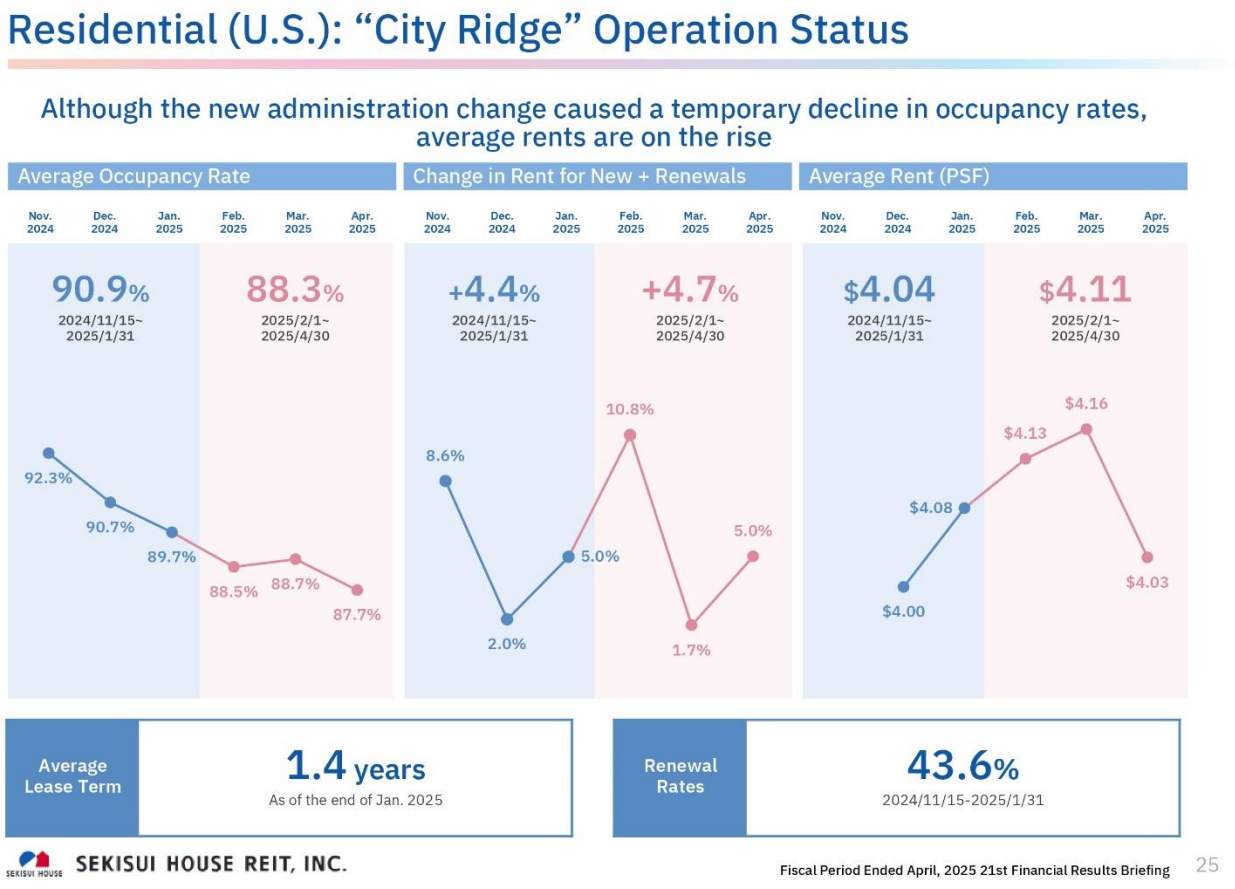


Please turn to page 24. This is the operational status of Ivey, located in downtown Seattle.

In the previous financial results briefing, we discussed that both occupancy rates and the change in rent were sluggish due to competition with nearby new properties, but that this would be a temporary slowdown. Since then, vacancy absorption has progressed throughout the market, and from the beginning of this year, a local major IT company has mandated five-day in-office work, leading to a return of population to the city center. The rental supply and demand situation has become quite tight.

Currently, occupancy rates are showing a slight downward trend. This is due to an accident in March where a connection in the hot water pipe within the building broke, causing water leakage in 36 units, and repair work such as replacing flooring and walls in some of those units is affecting the rates. We plan to complete the construction and proceed with the leasing by the summer, which is the peak season. The costs of the repair work and revenue loss due to vacancies will be covered by property insurance.

The change in rent has reached the high single digits to nearly double digits, and as a result, the average rent continues to increase. By the way, a change in rent in the high single digits to around double digits may seem not much different from domestic residences. However, the significant difference is that for domestic residences, this change in rent is for an average occupancy period of 4.1 years, whereas in the US, all contracts are equivalent to what are called fixed-term leases in Japan, and the change in rent is for an average contract period of 1.2 years.



Page 25. This is City Ridge in Washington DC.

Since its acquisition last November, the track record has not yet stabilized, and unfortunately, occupancy rates have not met expectations, while conversely, the change in rent has started better than expected.

Washington DC, being the seat of the federal government, tends to see active population movement and higher move-in/move-out rates during changes in administration. This time, that trend is particularly pronounced due to the uncertainty caused by the new administration's rapid succession of policies.

At City Ridge, the turnover rate of residents who are sensitive to rent burden has increased, temporarily stressing occupancy rates. However, recent leasing activities have seen an increase in inquiries from people who were waiting for employment stability to become clearer, and occupancy rates are expected to recover as we head into the busy summer season.

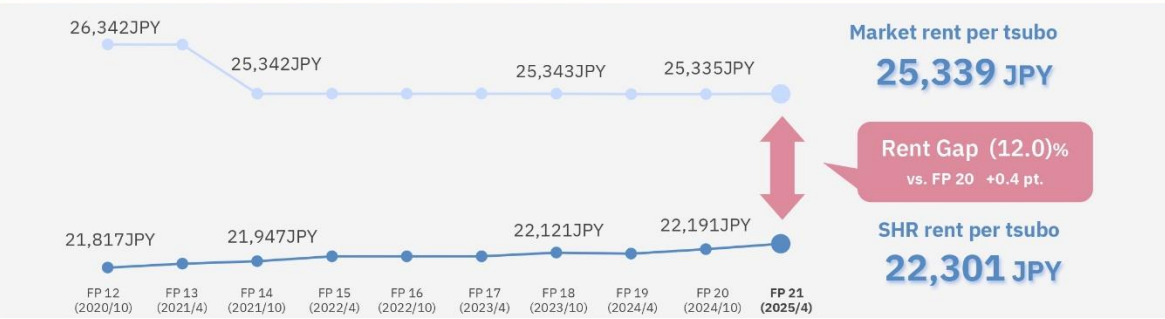
Office Building: Operation Status

Expecting further improvement of rent gaps
through increased revisions in renewal/re-contracting for FP 22

Operation Results

Avg. Occupancy Rate	Avg. Rent	Change in Rent Rate	NOI Yield
99.1%	22,228 JPY / Tsubo	+7.4%	4.4%
vs. FP 20 — pt.	vs. FP 20 +82 JPY/Tsubo	vs. FP 20 +4.7 pt.	after depreciation 3.5%

Osaka Area Rent Gap (Hommachi Minami GC / HK Yodoyabashi GA)



- "Avg. Occupancy Rate", "Avg. Rent", "Change in Rent Rate", "NOI Yield" and "NOI Yield After Depreciation" are based on the four office buildings owned by SHR, "Hommachi Minami Garden City", "HK Yodoyabashi Garden Avenue", "Hirokoji Garden Avenue" and "Shinjuku Hirose Building". The figures for "Akasaka Garden City" and "Gotenyama SH Building" for which disposition agreements have been concluded as of the end of the fiscal period ended April 2025 (FP 21) are not included.
- "Rent gap" is the difference in percentage between contract rents with the end tenant and the market rents (estimated new lease rents assessed by CBRE) as of the end of each fiscal period.

Please turn to page 26. This is about offices.

The office portfolio also maintains a high occupancy rate of 99.1% and has achieved a change in rent of 7.4%, indicating a smooth operating status. There is still a rent gap of 12%, so we will strive to realize an upside in rent through future renewals and re-contracts.

Financial Situation

Policy to maintain fixed interest rate debt ratio of 80% or more and an average period remaining to maturity of 3-4 years

Financial Indicators

as of the end of April 2025 (FP 21)

Total Interest-Bearing Liabilities	Average Interest Rate	Fixed Interest Rate Debt Ratio	Long term Debt Ratio	Average Period Remaining to Maturity
271.4 bn JPY (vs. FP 20 +14.2 bn JPY)	0.78% (vs. FP 20 +0.09pt.)	84.4% (vs. FP 20 (4.3) pt.)	93.2% (vs. FP 20 (4.8) pt.)	3.6 years (vs. FP 20 —)

LTV

Target range for total assets: 45~50%
Acquisition capacity up to 50%: Approx. 35.0 bn JPY

Total asset basis	Appraisal basis
47.0% (vs. FP 20 +1.7 pt.)	40.6% (vs. FP 20 +1.7 pt.)

Credit ratings (Issuer ratings)

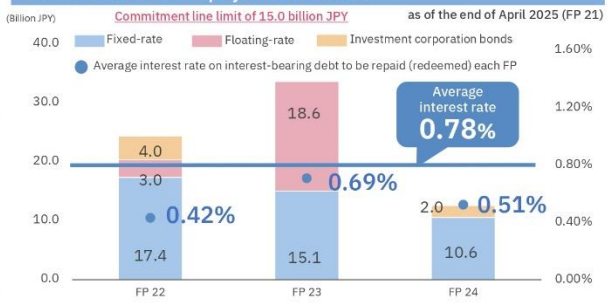
JCR	R&I
AA (Stable)	AA- (Stable)

Financial Results

as of the end of April 2025 (FP 21)

	Interest rate	Amount	Average Interest Rate	Average Borrowing Period
Procurement	Fixed-rate	22.8 bn JPY	1.41%	7.4 years
	Floating-rate	15.3 bn JPY	0.79%	0.9 years
	Total	**38.1** bn JPY	**1.16%**	**4.8 years**
Repayment	Interest rate	Amount	Average Interest Rate	Average Borrowing Period
	Fixed-rate	21.8 bn JPY	0.86%	7.5 years
	Floating-rate	2.1 bn JPY	0.76%	1.0 years
	Total	**23.9** bn JPY	**0.85%**	**6.9 years**

Diversification of Repayment Deadlines



SEKISUI HOUSE REIT, INC.

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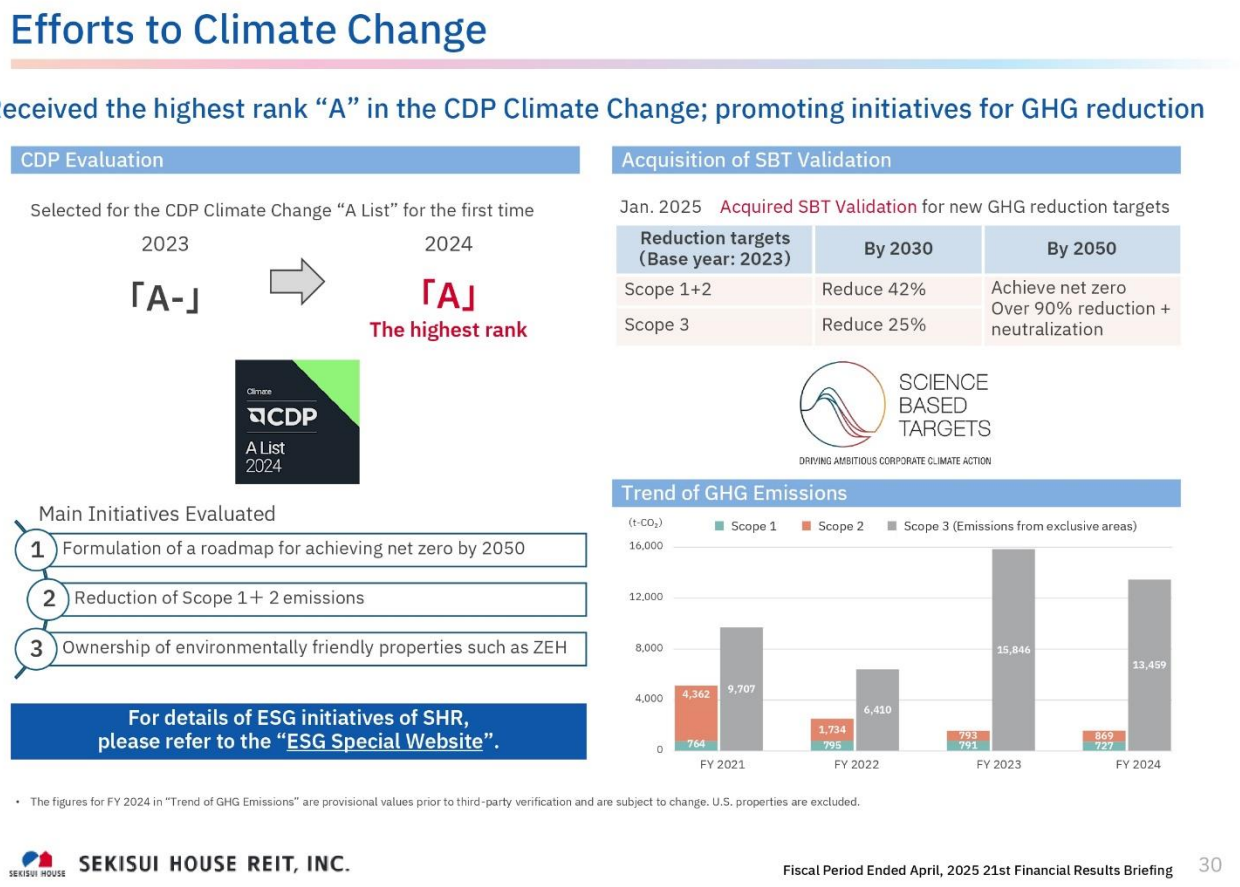
Please turn to page 28. Regarding the financial situation.

The average interest rate for our borrowings was 0.78% at the end of this FP, an increase of 9 basis points from the previous FP. A gradual increase in interest rates continues, and the pattern of rising interest rates with each refinancing will persist for the time being. Even in such an environment, we prioritize ensuring financial soundness by maintaining a fixed-rate ratio of over 80% and an average remaining period of three to four years.

The LTV level is 47% on a total asset basis. We believe this is a relatively comfortable level for a residential-focused portfolio, and we will continue to operate within the 45% to 50% range in the future.



Please turn to page 30. Regarding ESG.

SHR has been actively working on climate change initiatives, and in February, our GHG emission reduction efforts were recognized, resulting in the highest A score in the CDP Climate Change program and our first selection to the CDP Climate Change A List.

Regarding GHG reduction targets, in addition to Scope 1 and Scope 2, Scope 3 is also included. We established medium-term targets for 2030 with 2023 as the base year and a long-term net-zero target last year, and this time, we obtained SBT certification for these reduction targets.

Furthermore, actual emission values show that we have steadily reduced Scope 1 and 2 emissions through the introduction of renewable energy. On the other hand, Scope 3 emissions have increased from FY2023 as a result of progress in acquiring data on energy consumption in residential exclusive areas. The challenge is how to reduce this Scope 3, and we will continue our efforts to achieve our GHG reduction targets.

Finally, having completed large-scale asset replacement, we are now in a phase where we can accelerate growth as a residential-focused REIT. This will be realized through investment management adapted to the new normal. We intend to meet the expectations of our unitholders by steadily executing the various measures explained today. We appreciate your continued support.

Thank you for your attention.

Question & Answer

[Q]: First, regarding US residential properties. It seems that Boren's situation is due to special factors, or the reasons you just mentioned, so I think this is an individual factor. However, regarding City Ridge, is this an issue specific to this property only, or are the occupancy rates in the surrounding areas also in a similar situation? Also, you mentioned that you would like to improve occupancy rates by this summer, but is the situation similar for surrounding properties? I would like to know if City Ridge's issue is an individual factor or a regional factor, so if you could elaborate a bit more on that, I would appreciate it.

My second question is about domestic residential properties. Regarding the future growth targets you just mentioned, you assumed an internal growth of about JPY10 for domestic properties and an 8% increase in rent, but you also said that cost increases would offset this. Is this 8% rent increase based on the 7.8% rent gap that currently exists in domestic residential properties?

If so, and given that the average age of residential properties is four years, if we consider that the people who will be moving in are those who moved in four years ago, for example, the average rent for your residential properties in FP ending April 2021 was below JPY12,000. Therefore, it feels like the rent for those people could be more than 15% higher compared to the current market. I was hoping for a rent increase of around 15% rather than 8%, so I was wondering what your actual outlook is on this.

Fujiwara [A]: First, regarding the occupancy of City Ridge in Washington DC, whether it is a market factor or an individual factor, the conclusion is that both factors are at play.

As I explained earlier, during a change in administration, there is a personnel turnover every year, so occupancy and move-in/move-out rates tend to be quite high. However, we have heard from local sources that the turnover rate is higher than usual this time due to the Trump administration.

However, for the PM company that manages our properties locally, which manages about 10,000 units in Washington DC, their portfolio occupancy rate has only decreased by 0.8% compared to the same period last year, maintaining over 93% occupancy. Therefore, the recent decline in our property's occupancy rate is not solely due to market factors, but also due to other specific factors.

What are those specific factors? When this property was new, the average lease-up contract period was about 15 to 16 months. Initially, as a new property, we offered generous incentives such as eight weeks of free rent to promote move-ins. As those residents reach the end of their contracts and consider re-contracting, and given the current economic uncertainties affecting their ability to bear rent, an increasing number of residents are moving out. As a result, the move-out rate for our property is currently a bit higher compared to other properties.

In any case, a combination of these two factors is contributing to the current situation. However, inquiries from current tenants and the number of viewings are starting to increase. Since June, and throughout the summer, which is the busy season in the US as the new school year starts in September, people who were waiting and seeing in the overall market, including for our properties, are starting to move, so we are hopeful for a recovery in occupancy.

Regarding the second point about domestic residences, your point that the 8% increase is based on a rent gap of approximately 7.8% is correct, and we have set that as our target. However, it is true that contracts from four years ago may have a slightly larger rent gap, and currently, rent increases are reaching levels exceeding 10%.

What do you think about the 15%, Mr. Takeuchi?

Takeuchi [A]: I don't know if we can reach 15%, but as Mr. Fujiwara just mentioned, our current actual performance is already 9%, and for new listings alone, it exceeds 10%. Whether we can ultimately reach 15% depends on cancellations at that time, but we intend to work hard to achieve as much upside as possible.

[Q]: First, regarding asset replacement. You emphasized the realization of unrealized capital gains/losses and mentioned the risk of increased CapEx earlier. In that case, I believe you will need to continue asset replacement in the future. I thought the office properties were mostly dealt with, but in terms of asset turnover, for example, what percentage of AUM do you consider appropriate to turn over? Ultimately, I believe residential properties also age, so taking that into account, please tell us if you have any thoughts on what percentage you are aiming for in asset replacement in the future.

My second question is that I heard that focusing on FFO and cash flow is 1 option for future KPIs. If that's the case, I think the driver of renewal rents becomes more important. This is because we can still capture top-line revenue compared to costs.

Given that the proportion of rent increase cases is quite close to the majority this time, is the pace of increase in the renewal change in rent likely to accelerate further? What is your outlook on that? Also, regarding the background of the increase in this proportion of cases, did you provide incentives to PM companies for their proposals, or was it a result of the macro environment? Please elaborate on these points.

Fujiwara [A]: First, regarding asset replacement. As you pointed out, for properties that have reached a certain age, we aim to leverage CapEx, or additional capital expenditures, to boost competitiveness and increase rent. However, the additional investment will be depreciated over 7 or 12 years, so even if the rent increases by more than 10%, the bottom line, or profit after depreciation, is difficult to increase.

On the other hand, does that mean we would forego such investments? No, that's not the case. As I mentioned, we prioritize cash flow, so we want to increase rent and cash flow. And in response, the value of the property will also increase. Ultimately, in accounting terms, that would mean an increase in unrealized capital gains/losses, but this part often tends not to be immediately evaluated in the market. If that's the case, then investment actions to realize those unrealized capital gains/losses will also be necessary. I believe that is correct.

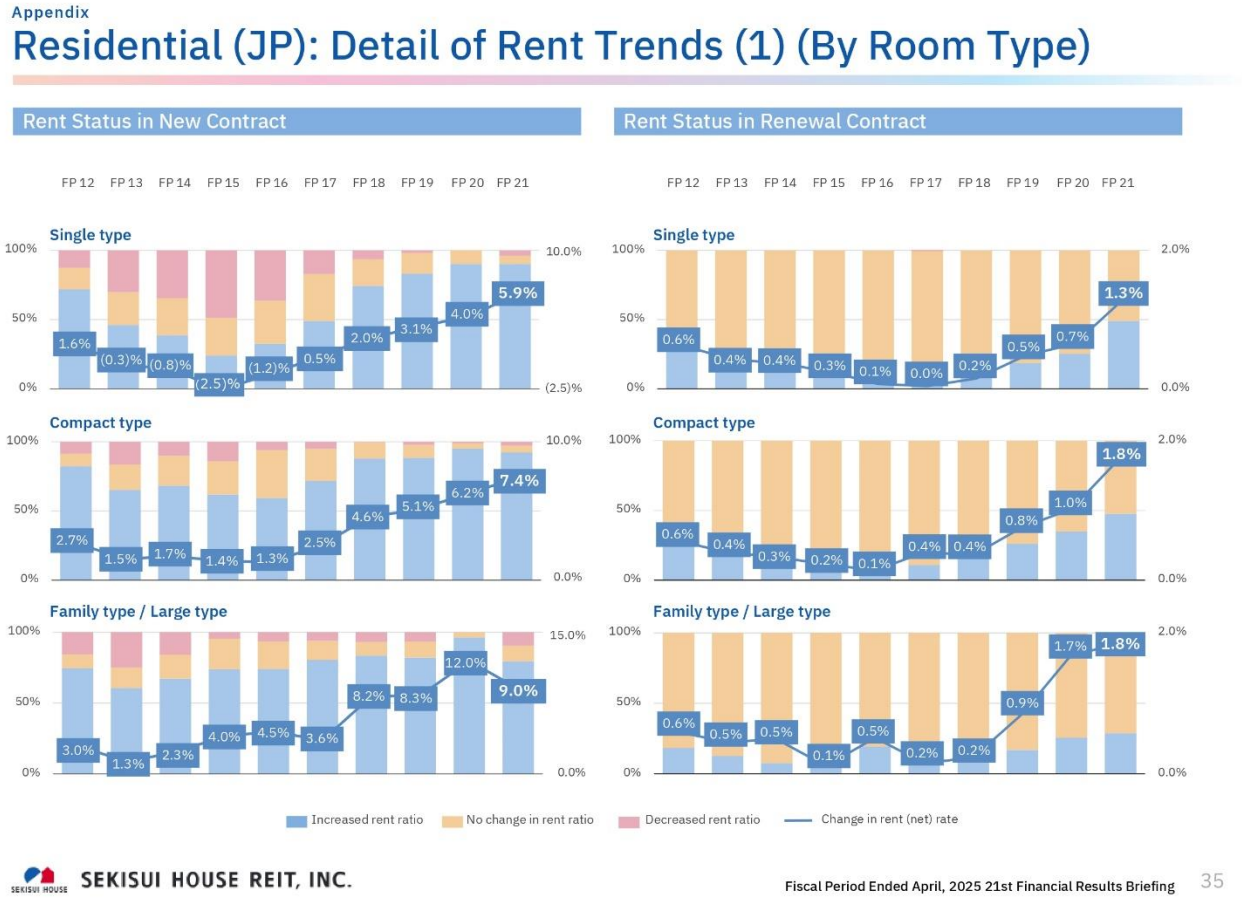
However, at present, while I am aware that other companies are presenting turnover targets or amounts, we have not yet delved into such detailed consideration. Going forward, as we materialize these asset management strategies, we will further consider what kind of targets to set in relation to financial figures.

Next, regarding the second point about the number of renewal cases. The renewal rate is 85.8%, so no matter how hard we try with new contracts, if we do not achieve rent increases in this renewal portion, cash flow will not grow, as you correctly pointed out. That is precisely why we have been focusing on this for the past two FPs. This time, the 1.6% increase in the number of cases is 46%. For this, we have also increased the rate of proposing rent increases compared to before, and the acceptance rate from tenants has also increased.

To be specific, in the previous FP, we proposed to about 40% of tenants and received acceptance from about 60%. This time, we proposed to over 60% of tenants and received acceptance from over 70%. For this, we are not providing any special incentives to PM companies, so I believe this is due to the efforts of the on-site teams.

This initiative is also mentioned in the long-term EPU JPY1,500 menu, but I believe there is still room for improvement. This is about further strengthening the approach at the time of renewal.

It seems that until now, the rent presented at renewal was somewhat gentle, or perhaps it was a matter of finding a compromise. However, considering market conditions, we might try to be a bit more assertive, or incorporate the equivalent of deposits into the rent to achieve rent increases. By pursuing such initiatives, although we wrote JPY10 in the previous slide, I believe there is an upside of an additional JPY10 to JPY15 if we proceed with these efforts.



[Q]: I am also curious about renewals, and on page 35 of the presentation materials, you have the situation by type. For family large properties, for example, the proportion of rent increase cases is milder than other asset types, while the net change in rent is relatively high. Could you please elaborate on these intricacies?

Takeuchi [A]: There's still a bit more to it, but as I mentioned earlier, it also depends on the pre-rent situation at the time of move-out and the number of cancellations, so it's not always a significant increase every time. And then, there's always this renewal part.

So, when we initially decide on the renewal rent, there's a slight lag with the rent gap, and there's also a follow-up nature where the market rises again after we've made our proposal. We are also trying to set market rents for a slightly longer term this time to capture appropriate rents, and we intend to strengthen our efforts in this area.

[Q]: My first question is about cash allocation. You mentioned that if there are no more favorable property acquisition opportunities for the proceeds from the sale of Gotenyama SH Building, you will proceed with buybacks. How do you determine which is more favorable? Also, in your previous explanations, you stated that you would conduct buybacks if the P/NAV ratio continued to fall below 0.9x. Do you still maintain that approach? Could you please provide an additional explanation on the quantitative judgment criteria for cash allocation?

My second question is about domestic residential property income. According to the financial forecast, the total for the next two FPs will be slightly negative. My impression is that while both new and renewal rents are increasing, profits are not growing much. Could you please explain what this means? Also, since you explained that residential properties are growth assets in the mid-to-long term, there might have been a lack of attractiveness in terms of profit growth. Could you please explain how this will change in the future?

Fujiwara [A]: First, regarding the acquisition of cash allocation buybacks, I believe we have conveyed the message that if the stock price continues to fall below 0.9x P/NAV for an extended period, we would not hesitate to proceed with buybacks.

This time, we decided on a JPY4 billion buyback at around 0.9x. However, as I mentioned in my earlier explanation about capital constraints, cash has become more valuable than ever, so I believe it is important to choose the most effective use of that cash, or the method that has the highest impact on DPU and EPU.

As professionals in real estate investment, it would be very embarrassing if we couldn't find favorable investment opportunities. Therefore, we want to devise and execute acquisitions and investments that have a greater effect than buybacks. As an indicator, we will prioritize the impact on DPU and EPU when considering which option is better.

Regarding your second point that the bottom line is disappointing despite the rent increases, you are absolutely right. One of the major reasons why the bottom line is not growing much despite the growth in top-line rent is the increase in depreciation expenses. This is because as properties age to a certain extent, updating facilities leads to an increased burden of depreciation expenses, which is closely related to the age of the property.

Therefore, as I mentioned earlier, we prioritize cash flow and CapEx. Even for older properties, given the current environment of increasing supply constraints, new construction is not increasing easily, so I believe that properties of a certain age will increase in relative value in the future. We plan to spend CapEx appropriately to strengthen competitiveness and increase rent.

On the other hand, capital expenditures also lead to further increases in depreciation. Therefore, it is important how investors evaluate the unrealized capital gains/losses, the added value created by the property. If it is difficult to evaluate as unrealized capital gains/losses, then we will also need to realize them through sales.

Simply put, even if we achieve an 8% or even 10% rent increase, the current environment or revenue structure does not allow the bottom line to grow directly.

Therefore, we want to emphasize how much FFO, on a cash basis, is increasing, and also realize unrealized capital gains/losses on properties to return them as capital gains, which is part of a total return approach. We will continue to pay close attention to this.

Asset replacement will continue to occur regularly in the future in relation to the age of the properties, so I believe that capital gains will also be generated consistently in the future under such management.

[Q]: As an additional question, regarding your second point, even if the bottom line does not increase, assuming it is due to issues with CapEx and depreciation, can we assume that AFFO will increase?

Fujiwara [A]: Yes, that's right. We assume that not only FFO but also AFFO will naturally increase. We would like to make such investments.

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