SEKISUI HOUSE REIT, INC.

June 16, 2023

Sekisui House Reit, Inc.
Fiscal Period Ended April 2023 17th Financial Results Briefing Script and Q&A Summary

Date and time: Friday, June 16, 2023 5:00pm-6:00pm

Financial Results Briefing Script

Opening Remarks

Hello everyone. My name is Abe from Sekisui House Management. Thank you for participating in today's 17th Financial Results Briefing for the Fiscal Period Ended April 2023. I will now go into details of our financial results. Please turn to page 1 of the presentation.

Pg. 3 Operational Highlights and Future Initiatives

First, the distribution per unit (DPU) for the 17th fiscal period ended April 30, 2023 was 1,781 JPY, an increase of 67 JPY from the previous period and from the original guidance.

The DPU forecast for the 18th fiscal period ending October 31, 2023 and the 19th fiscal period ending April 30, 2024 are 1,895 JPY and 1,794 JPY, respectively. Factors that cause fluctuations in distributions, etc., will be explained later.

This time, we have included the long-term EPU in red below them. We have newly defined this long-term EPU and will continue to announce the amount. In connection with the 2018 merger, SHR set aside negative goodwill and other tax discrepancies that arose as RTA (reserve for temporary difference adjustments), which have been reversed and distributed every fiscal period since then. The reversal of RTA has been completed in the 17th fiscal period, and from the next fiscal period onward, the tax burden due to the tax discrepancy will be avoided by distributing ATA (allowance for temporary difference adjustment), which is a part of the deduction for capital surplus.

The long-term EPU is defined as earnings per unit, which is calculated by deducting from net income the gain on disposition that occurred, and the asset management fee related to the gain on disposition and adding the ATA to it. From now on, SHR uses this as the EPU on an earnings basis, excluding gains on sales.

Please see the succeeding table.

First, in terms of internal growth, the occupancy rate of office buildings at the end of the period was 93.6%, deteriorating by 0.3 points due to the move-out at Akasaka Garden City and the time required to backfill two office buildings in the Tokyo area. We will explain the status of leasing to date and our future plans later.

As for residences, the occupancy rate at the end of the period was 97.2%, maintaining the 97% level, and the occupancy rate for single-type residences in the 23 wards of Tokyo recovered to 96%. The rate of change in rent at the time of new contracts for all residential properties recovered to a positive 1.8%.

The market and environment in Tokyo continued to improve with a population inflow and an increase in the active job openings-to-applicants ratio, resulting in a strong recovery of single types in Tokyo 23 wards and continued strong occupancy in major cities nationwide. We will continue to maintain and sustain high occupancy rates and increase rents and acquisition of non-refundable deposit to improve earnings.

In the area of external growth, as announced during the period, we have concluded an agreement to dispose of Gotenyama SH Building, which is leased to one tenant, over 10 fiscal periods. Details are explained on the next page. While recording a gain on the disposition of this property for the next 10 fiscal periods, we will acquire properties, mainly the Prime Maison series residential condominiums, from the sponsor pipeline to maintain and expand profitability and asset scale, and we will also actively seek acquisition opportunities from outside parties to continue our asset replacement activities. I will explain the financials and ESG part later as well, so please continue on to page four.

Pg. 4 Disposition of Gotenyama SH Building

Here is a summary of the disposition of Gotenyama SH Building announced on March 29 of this year. The property is leased by one company, TIS, which is the current tenant. Although SHR has been conducting stable management under long-term lease contracts to date, we recognized that there is a risk of vacancy eight years from now when the current lease agreement expires. Under such circumstances, we were approached by TIS about their interest in acquiring the property, and we have been negotiating the disposition price and method.

As a result, taking into consideration the current office leasing market conditions and the soaring real estate sales market, we were able to reach an agreement to dispose of the property in equal installments over a period of five years and 10 fiscal periods and have decided to dispose of the property for the purpose of improving the profitability of the portfolio while enjoying the effect of raising distributions over the next 10 fiscal periods.

The impact of the disposition on the DPU for each period is shown in the lower right-hand corner of the table. We will dispose of 10% of the property each fiscal period, starting at the end of the 18th fiscal period, and will record a gain on the disposition of the property, but conversely, the NOI of the property will decrease as we dispose of 10% of the property each fiscal period.

We intend to make good use of the proceeds from the disposition and continue to acquire new assets, centering on the Prime Maison series from our sponsor pipeline, to improve the profitability of our portfolio in the future.

Pg. 5 Distribution Policy & Replacement Strategy

On to page five. As I defined the long-term EPU in my opening explanation, we would like to first maintain the 1,800 JPY level as the DPU as the future distribution level, and we would like to recover, or rather, aim to recover 1,500 JPY for the long-term EPU.

While stabilizing distributions with the gain on the disposition of Gotenyama SH Building as explained earlier, we would like to promote external growth by acquiring properties that firmly utilize our sponsor pipeline and by actively acquiring external properties in order to maintain and expand the profitability and asset size of our portfolio. In addition, in light of market trends, we would like to consider buybacks as necessary.

Pg. 6 Analysis of Change Factors of DPU (Results)

Then, see page six. The following is an explanation of the financial results for the 17th fiscal period ended April 30, 2023 on the basis of units per investment unit and the factors that caused changes from the previous fiscal period.

First, as shown in the center of the document, the gain on the sale of The Ritz-Carlton, Kyoto, which was recorded in the previous fiscal period, has been removed, resulting in a negative 162 JPY. In terms of real estate property-related operating income on the left, by asset, first, office buildings posted a negative 29 JPY, due to a decrease in rent revenue from Garden City Shinagawa Gotenyama and Akasaka Garden City, a decrease in utilities revenue, and an increase in utilities expenses. For residences, the positive 45 JPY is due to the full-period contribution of the property acquired in the 16th fiscal period and the increase in rent revenue from the existing property itself. In addition, the NOI portion of The Ritz-Carlton, Kyoto, which was sold, has decreased, resulting in a negative 14 JPY. In total, real estate property-related operating income was a positive 2 JPY.

SG&A expenses increased by 30 JPY mainly due to a decrease in asset management fees, which increased as a result of increased income from The Ritz-Carlton, Kyoto, which was disposed of in the previous period, and a decrease in taxes and other public charges. Then, after the reversal of retained earnings and the addition of RTA and ATA, the DPU for the 17th fiscal period was 1,781 JPY, an increase of 67 JPY from the previous fiscal period.

On the next page, we have included the P/P change in total amount, the change from the announced forecast, and the factors behind the change, which we hope you will review later.

Pg. 8 Analysis of Change Factors of DPU (Forecast)

Now, please proceed to page eight. Here are the forecasts for the 18th fiscal period ending October 31, 2023, and then for the 19th fiscal period ending April 30, 2024.

In the 18th fiscal period, office buildings are expected to be negative 28 JPY due to the prolonged period of unoccupied lots, while residential properties are expected to see an increase in property tax, city planning tax, and repair expenses, resulting in a negative 43 JPY figure for these items. This is a negative 55 JPY. We expect a gain on the disposition of Gotenyama SH Building from the first settlement to be a positive 232 JPY, resulting in a forecast of 1,895 JPY, an increase of 114 JPY from the 17th fiscal period.

In the 19th fiscal period, we expect a total of negative 58 JPY for office buildings due to decreases in rent revenue and utilities revenue, additional leasing expenses, etc., as well as decreases in rent revenue and NOI of Gotenyama SH Building due to the disposition of 10% of its equity, and negative 3 JPY for residences. As a result, overall real estate property-related operating income is expected to be negative 61 JPY. We expect an increase of 243 JPY per unit from the 18th fiscal period due to the gain from the disposition of Gotenyama SH Building and a decrease of 45 JPY per unit due to SG&A expenses and other factors, resulting in a distribution forecast of 1,794 JPY per unit. Although we expect a decrease of 101 JPY from the 18th fiscal period forecast, we intend to increase the amount to maintain the 1,800 JPY level through future property acquisitions and management efforts.

Pg. 11 Office Building: Portfolio Status

Now, please proceed to page 11. From here, I will explain the status and strategies of the internal growth portion for each asset class.

First, office building. The results for the 17th fiscal period are shown in the red frame. The overall occupancy rate was 93.6%, down 0.3% from the previous period due to the vacancy at Akasaka Garden City. Below that, the area and number of leases are listed in the renewal results and trends in leases section. Please note that the one vacated section and one newly leased section in the 17th fiscal period are the same section, which is due to a change of contractor at Garden City Shinagawa Gotenyama. The actual new contract in the 17th fiscal period was one 777-square meter contract at Akasaka Garden City.

Pg. 12 Office Building: Operation Status (1) (GC Shinagawa Gotenyama)

Next, I would like to explain the situation of Garden City Shinagawa Gotenyama and Akasaka Garden City, where vacant lots are available.

This is the operational status of Garden City Shinagawa Gotenyama. As for this building, for the 17th fiscal period, a new floor space reduction of 1,253.90 square meters occurred as of April 30, bringing the total vacancy to 7,220.12 square meters at this time. We continue to promote and strengthen leasing activities, and although the number of viewings has increased and some companies have begun to give us concrete consideration, we are still negotiating tough as conditions at competing buildings continue to ease.

We are expecting new contracts from specific companies to be considered after the 18th fiscal period, but as already announced, 13,126.72 square meters is scheduled to be vacated by the end of July 2024 next year by a large tenant, so a major issue is how much can be backfilled in the remaining one year or so. We will continue to make every effort to backfill the parcel.

Pg. 13 Office Building: Operation Status (2) (Akasaka GC)

Now, the next page will be Akasaka Garden City.

There were three vacancies and a reduction in floor space in the 17th fiscal period, and we concluded one new contract. 437.62 square meters is now vacant, and the available floor space as of the end of the 17th fiscal period is 2,740.26 square meters. We expect to sign new contracts and increase the floor space in the building during the 18th fiscal period, and after subtracting these floor spaces, the total floor space available for the building at this time is 1,412.13 square meters.

We have also seen an increase in viewings, and more and more cases are leading to specific negotiations on terms and conditions. We will continue to negotiate with companies that have high feasibility of signing contracts and aim to return to 100% occupancy by the end of the 19th fiscal period.

Pg. 14 Office Building: Operation Status (3)

Next is page 14. Here we show the operation status of the Osaka and Nagoya areas and Gotenyama SH Building. We continue to maintain a 100% occupancy rate. As mentioned earlier, as for Gotenyama SH Building, as of the end of the 18th fiscal period, we will dispose of 10% of the equity in the building each fiscal period, but the occupancy rate will continue to be 100%. In Osaka, the over-supply in new large-scale properties is expected, and we believe that the rental market is beginning to weaken, but there are no major concerns at this time regarding the three properties we own.

Pg. 15 Office Building: Rent Status

We are updating the status of rent revisions and rent gaps here. As a result of the rent revision in the 17th fiscal period, we maintained rents for 80% of all tenants, but reduced rents for 20%, resulting in a total rent change of negative 1.1%.

The middle and lower rows show the rent gap in the Tokyo and Osaka areas, which has not changed as a trend in the current period. The rent gap is positive 23.9% in the Tokyo area and negative 13% in the Osaka area. In the Tokyo area, we will continue to focus on occupancy rates through early backfilling, assuming rent reductions, and in the Osaka area, we will focus on increasing rent as much as possible while still emphasizing occupancy.

Pg. 16 Office Building: Market Trends

This page shows average rents and vacancy rates in the Tokyo business districts and Osaka business districts. I think you are all aware of the trends, so I hope you will take a look at it later.

Pg. 17 Office Building: Looking Back on FP 17

The next page shows office properties in Tokyo. See page 17.

In light of the situation to date, we have once again summarized the issues, policies, and measures for office buildings, albeit briefly.

We recognize that a major issue is that the two properties we own in the Tokyo area are about a 10-minute walk from the nearest station. In addition, the COVID-19 pandemic has led to the spread of hybrid work styles, and the resulting changes in work styles are still ongoing. Also, there is a possible loosening of the supply-demand balance due to the completion of large office buildings in central Tokyo from this year onward, resulting in a large supply. We recognize that these factors have continued since the previous fiscal period. Garden City Shinagawa Gotenyama, which is facing particularly difficult conditions, acquired S rank in the Certification for CASBEE Wellness Office. This certification evaluates the well-being, health, and safety of tenant employees, as well as the availability of operational management and medical services.

We hope to promote leasing by being recognized in a number of areas, including safety and security robustness, and we also hope to promote various other uses of common areas to improve the satisfaction of existing tenants and lead to a recovery in performance.

Pg. 18 Office Building: Thoughts Regarding GC Shinagawa Gotenyama

This shows the assessment of Garden City Shinagawa Gotenyama, which is facing particularly difficult conditions.

Environmental recognition is as described. In this environment, the number of previews has been gradually increasing since February of this year, and some companies are requesting more than 1,000 tsubo. However, terms and conditions are difficult due to the leasing situation in the surrounding area, and we need to continue to lower the rent level and grant a certain level of free rent.

Based on these assumptions, we will see how far we can go in backfilling the property, and while promoting backfilling as a future prospect, we will also consider disposing of the property, depending on the leasing situation, given that occupancy will further deteriorate with the vacancy of a major tenant in July 2024.

Pg. 19 Office Building: Countermeasures for Elevated Electricity Prices

Here, I would like to explain the situation in office buildings with regard to skyrocketing electricity rates. As you can see in the upper left graph, utilities expenses have exceeded utilities revenue through the most recent financial results and forecast for the fiscal period ending April 30, 2024.
The table at the bottom left summarizes the impact of the change on DPU, which was negative 12 JPY for the 16th fiscal period and negative 7 JPY for the 17th fiscal period, compared to the previous period. The 18th fiscal period forecast also projects a negative 8 JPY compared to the previous fiscal period, and we expect this impact to diminish in the 19th fiscal period.

We have been requesting tenants who had been billed under the fixed unit price method to change to the variable unit price method, which includes fluctuations such as fuel adjustment costs. As of the end of the 16th fiscal period, based on rental floor space, the number of tenants paying only by the fixed-price billing method, which was about 26% at the end of the 16th fiscal period, was reduced to about 5% as a percentage of the total floor area at the end of the current fiscal period. We will continue to request and negotiate in the same manner.

Pg. 20 Residential: Portfolio Status

This shows residential status. First, let me discuss the occupancy rate.

In the residential portfolio, the average occupancy rate for the 17th fiscal period was 97.1% and recovered to 97.2% at the end of April. The occupancy rate for single types in Tokyo 23 wards also recovered to 96% as of the end of April. Tokyo continues to see a strong population inflow and an increase in the active job openings-to-applicants ratio. We believe that the return to single types in Tokyo 23 wards, which experienced a sharp drop in demand after the COVID-19 pandemic, is also becoming more pronounced, and we feel that if this recovery continues, we are in a situation where we can expect a continued recovery in the Tokyo 23 wards housing market.

Pg. 21 Residential: Rent Trends

This page describes rent trends for new and renewal contracts.

First, the rent fluctuation rate for new contracts in the upper left-hand corner was an overall positive 1.8%, exceeding 1% for the first time in two and a half years. As for the renewal contracts on the right side, the situation remains positive, although only slightly. The rate of change in rents for single-type properties in Tokyo 23 wards, on the left side of the middle row, has also increased from negative to positive 0.4% in the previous period, showing a steady recovery along with an increase in occupancy rates.

At the bottom left, the acquisition rate of non-refundable deposit has also exceeded 50%, at 53.8%, and we intend to further increase profitability in the future.

Pg. 22 Residential: Market Trends

Here, we have included the data we mentioned earlier that show the population inflow and the active job openings-to-applicants ratio in Tokyo 23 wards for your reference.

Pg. 23 Residential: Looking Back on FP 17 & Future Initiatives

Here is a brief written description of the current condition and future plans for residential properties, where we are recovering. Reflecting on the developments and changes made in this period, we would like to revise our KPI settings to improve comfort and profitability in the future.

First of all, we would like to implement measures tailored to the location and the target group, including increasing the value of the property, which will lead to an increase in rent at the time of replacement. Some properties may undergo slightly more extensive renovations to further improve comfort and firmly establish their superiority over surrounding competitive properties, thereby increasing their selection, which will also increase rents. In addition, we will implement measures to reduce administrative costs, which are conversely rising, in various areas.

We will balance everything in a timely manner and strengthen cooperation with each PM company and other stakeholders to improve brand strength and profitability.

Pg. 24 Residential: Value Enhancing Initiatives

On the next page, we hope you will find examples of value-up work we have performed this period. In some cases, we have been able to reduce downtime and increase rents at the same time by increasing the value of the property, and we will continue to do so in a planned manner.

Pg. 25 Hotel: Operation Status

The following pages briefly describe hotels. As you know, profitability of hotels is steadily recovering, partly due to the recovery of inbound demand. Currently, we only own The St. Regis Osaka, which is under a fixed-rent master lease agreement, so we will continue to receive stable revenue from this property.

Pg. 27 Asset Acquisition/Disposition Policy

Please continue to page 27. I will be talking about external growth. As in the previous period, the following is a brief summary of our future plans for acquiring and disposing of assets.

We will consider acquisitions with a focus on residential properties with high stability and will also consider medium-scale office buildings in excellent locations that are recognized for their stability. With regard to hotels, we hope to be able to consider those in the sponsor pipeline that have terms and conditions that fit our acquisition criteria.

Conversely, with regard to dispositions, we will systematically dispose of properties whose earnings performance is expected to decline, aiming to maintain and improve distributions while improving the quality of the portfolio in the future through asset replacement.

From a medium to long term perspective, we will review our investment policy for office buildings if we determine that a recovery in occupancy cannot be expected in the foreseeable future, and we will consider disposing of the properties as necessary.

As a comprehensive REIT, we will implement asset replacement by taking advantage of our superiority, and from a medium- to long-term perspective, we will manage our properties to increase unitholder value, while also considering a review of the investment ratio target for the portfolio.

P28 Sekisui House Group Sponsor Support/Strengths

The next page shows sponsor support. The total value of the pipeline is approximately 240 billion JPY. Of this amount, 150 billion JPY is for office buildings, etc., and 90 billion JPY is for residences. Of the major developments on the right, 12 properties in the Prime Maison series of rental condominiums have already been completed.

In addition, on the left side of the name of the property, we have included the ZEH mark, which is the first time we have included it. For properties with this mark, they are constructed as ZEH condominiums. We expect that the acquisition of ZEH condominiums will contribute to our goal of net-zero GHG emission reductions.

In addition, although not included in the total amount of this pipeline, we will continue to have opportunities to acquire properties from Sekisui House Real Estate Companies, and we will strive to achieve solid external growth by utilizing these sponsor pipelines.

Pg. 29 Trends of Appraisal Value

This shows appraisal value.

The total appraisal value at the end of the 17th fiscal period was 650.5 billion JPY, although there was no replacement of properties. The increase was mainly due to lower cap rates at residences. Unrealized gains amounted to 112.5 billion JPY, an increase of 9.1 billion JPY from the previous period.

Pg. 30 DPU and NAV Per Unit

Here you will find the distribution per unit and NAV. Mainly due to the increase in unrealized gains, NAV per unit at the end of the 17th fiscal period was 90,921 JPY, an increase of about 1,830 JPY from the previous period.

Pg. 32 Financial Situation (1)

We will now move on to the financials, so please continue to page 32. SHR's financial base remains stable. The average funding rate was 0.58%, about 2 basis points higher than at the end of the 16th fiscal period.

The table on the right shows the most recent financing results, in order from the most recent to the least recent, all of which have been implemented as green finance, and the interest rates have been slightly reduced.

The LTV on total assets at the end of the current period was 45.4%. If we were to acquire properties within the limit of up to 47%, we would have about 18 billion JPY in excess capacity. We will continue to maintain relationships with each of our lenders to take advantage of our good credit and maintain a stable financial base.

Pg. 35 ESG: Decarbonization Initiatives

Now, please proceed to page 35. Finally, I would like to introduce ESG.

First, I would like to discuss the establishment of new GHG reduction targets and the SBTi validation. The details of the GHG emission reduction targets are as described. In addition, we have obtained SBTi validation, which is shown on the right side, for our GHG emission reduction targets.

The lower section states that our Hirokoji Garden Avenue has switched to electricity derived from renewable energy sources by installing Sekisui House Owner Denki. The Sekisui House Group purchases surplus electricity from owners of houses with solar power generation systems built by Sekisui House after the so-called power purchase period, or FIT period, has expired. We expect that there will be many more buildings with expired FIT periods in the future, and we hope that SHR will make further use of them.

Pg. 36 ESG: Acquisition Status of Green Certification

The next page shows the status of green certifications in the portfolio. The acquisition rate has progressed from 64.9% in the previous period to 78.9% at the end of this period. We had set a KPI to exceed 70% by March of this year, and we have achieved this goal. We intend to continue and maintain more than 70%, which is one of our materialities.

Pg. 37 ESG: External Certifications, etc.

The next page is the last and shows external certifications. On the upper left, in May of this year, we were awarded an AA ESG rating by MSCI. Also, below left, we have been selected as a constituent of the FTSE4Good Index. We believe that both of these are the results of the ESG initiatives that SHR has been working on and that these initiatives have been highly evaluated. We will continue to boldly take up the challenge of achieving new goals.

Closing Remarks

That is all I have to say.

In the current fiscal period, there are still vacant plots in office buildings located in Tokyo, and progress in backfilling them with new contracts is still difficult. The recovery of housing has been very encouraging for us. Although we are in a rapidly changing environment, we will continue to strive to maximize unitholder value by cooperating with our sponsor group and extensively examining new directions and measures in order to achieve results in recovering, maintaining, and improving the profitability of the entire portfolio.

Thank you for your continued support. That is all for today's explanation. Thank you for your attention.

Q&A Summary

Q1: Regarding the occupancy assumption for Garden City Shinagawa Gotenyama and Akasaka Garden City, which is going up very much for the fiscal period ending April 30, 2024. I believe that this is an effort target, but you set the target in a similar way last time. Can you give us a sense of comparison with the last time?

I understand that you have received some viewing inquiries. However, there is still another year to go, as the tenant in Garden City Shinagawa Gotenyama will be moving out in July 2024. Could you please comment on those aspects as well?

A1: In terms of the difference from six months ago, as I mentioned earlier in my explanation, the situation was that the only actual contract signed in the past six months was for 777 square meters in Akasaka Garden City, which was a very difficult and disappointing result. Since February, we have received a steady increase in the number of inquiries and viewings, and it is a fact that some of these companies have become strong candidates.

First of all, as for Akasaka Garden City, we have not yet signed any contracts by the end of the 17th fiscal period, but in terms of the 18th fiscal period, we have contracts for 1.3 additional floors and new contracts, and there are also companies that have made inquiries and are considering new contracts. We would like to reach 100% by the end of the 19th fiscal period, which is the end of April next year.

On the other hand, we are aware that Garden City Shinagawa Gotenyama is still in a more difficult situation, and we have been receiving viewings of this property, and there are more opportunities for board members to view the property. However, the conditions are even more difficult to negotiate than those at Akasaka Garden City, and we are currently in the process of leasing, struggling to decide how far we should go.

However, we are still receiving a very high-grade evaluation for the building, and we believe that this could be the catalyst for the final selection. When we consider the new vacancies, which are a little under 4,000 tsubo and will be filled in July next year, we always keep in mind the average rent in the building, how much it will cost, how quickly it will be filled, and how long it will take to bring the vacancies back to 95% of the level. We are very distressed about the results and the resulting performance of Garden City Shinagawa Gotenyama on distributions in the overall portfolio so that is why we are also considering disposition.

Q2: I have the impression that the number of ZEH homes in the residential portfolio is increasing and the cost of construction is increasing. Regarding the hurdle rate for the acquisition of the so-called Prime Maison series, for example, do you use the implied cap rate of the portfolio? Or, for example, there is the idea of procuring the Gotenyama SH Building by disposing of it for 70 billion JPY, backed by a yield of a little less than 3% on the surface and maybe 2.6% after depreciation. Could you please explain about the hurdle rate for acquiring residences, and also the pace of acquisition?

A2: The number of ZEH in the Prime Maison series in the pipeline has been increasing, as sponsors have been actively working on them. We believe that the sponsor will naturally assume that these will be sold to SHR, so the first thing we want to do is to make a firm commitment to them.

As for the cost, as you are aware, we have to increase the insulation performance and install additional equipment to make ZEH, so one of the issues for ZEH properties is how to cover the cost increase with the rent. In terms of the cap on actual acquisitions, while some areas are currently trading at surface yields of less than 3%, SHR, as an investment corporation, is determined to maintain a yield of more than 3% after depreciation. We believe that this depends on the contents of the property. We would like to evaluate each property properly and negotiate the price with the sponsor.

Q3: In light of the current trading market, if you were to sell the Garden City Shinagawa Gotenyama building, as you mentioned earlier, would you be able to sell it at a high price in a manner similar to Gotenyama SH Building, or was the recent sale at a high price itself special?

A3: In the case of selling the Garden City Shinagawa Gotenyama building, considering the market situation, I believe there is a great deal of uncertainty as to whether it can be sold like the Gotenyama SH Building recently announced. As for the trading market, it has been soaring or rather bustling since last year, and the cap has been tightening rather than widening.

As for residences, I believe that the market is not yet to the point of loosening up, as I see 10 basis points in the REIT's appraisal and another tightening. However, as you are aware, the market for office buildings is as you know. It is also a fact that some business companies and investors are taking a cautious stance toward acquisitions. I think one of the key points is what kind of evaluation will be made based on the contents of the rent rolls we are currently under.

However, we do not believe that the sense of cap will be widened significantly, so we are wondering how we can negotiate that. I think the appropriate answer is that there is still a sense of uncertainty. Regarding the Gotenyama SH Building you mentioned, it will be sold in 10 installments. This is a slightly different perspective as we have negotiated this one in accordance with the tenant's request.

Q4: While the residential pipeline is about 90 billion JPY, I had the impression that you were actively considering buying back The Ritz-Carlton, Kyoto as I recall, last time and the time before. However, from what I have just heard in your explanation, it seems that the tone of The Ritz-Carlton, Kyoto has been less aggressive than in the past. Has the tone actually changed, or are you going to change to a more aggressive stance? I would like to ask whether you are more or less certain about the possibility of acquiring not only residence, but also hotels.

A4: Regarding the hotel, rather than talking about the residential acquisition pipeline, I said that we would acquire any property in the sponsor's pipeline that fits our acquisition target. However, as I have explained since the time of the sale of The Ritz-Carlton, Kyoto, we have preferential negotiating rights, so there is no change in our mindset and desire to acquire The Ritz-Carlton, Kyoto if the opportunity arises at the appropriate time.

However, since we acquire and repurchase REIT when they are profitable, we believe that there may be a variety of timing for such acquisitions and repurchases. We would like to actively consider other hotels and other properties in the sponsor pipeline that can be acquired from the perspective of our REIT.

Q5: In your earnings forecast, long-term EPU is increasing net for the current and next fiscal periods. On the other hand, when looking at the DPU, the fluctuation in ATA is quite large, and the distribution for the fiscal period ending April 2024 is slightly reduced, but with regard to the forecast of ATA disbursements, specifically, and this is the content of the tax accounting discrepancy portion, the percentage of change is large, so I see the DPU being quite fluctuated by this. I would appreciate your comments on how the ATA portion of the change will play out in the future, as far as you can see right now.

A5: The difference between ATA for 18th and 19th fiscal periods is that the brokerage fee associated with the sale of the Gotenyama SH Building will be fully expensed in the 18th fiscal period. However, about 900 million JPY will be disbursed as ATA, as it does not fall under taxation. The return of this amount will be negative for about 100 million JPY in the 19th fiscal period and thereafter, so the amount of ATA in the 19th fiscal period and thereafter should be considered to be the same as shown here for a while.

Therefore, only in the 18th fiscal period, the amount equivalent to the fee is expensed, but on the other hand, the ATA will return 900 million JPY, so I hope you understand that the increase in distributions resulting from this sale of SH will be stable to a certain degree and in a certain amount for all 10 periods.

Q6: Page eight states that the ATA will be 38 JPY per unit for the fiscal period ending April 30, 2024. Am I correct in understanding that the ATA is expected to remain at around 38 JPY, barring any major tax accounting discrepancies or other factors in the future with respect to the intermediary of the sale of the property?

A6: Yes. I think it is safe to recognize that the amount for the 19th fiscal period will not change much until the sale of this Gotenyama SH Building is completed, since the amount incurred in the 18th fiscal period for this building will be added back one period at a time from the difference in depreciation expense incurred at the time of the merger.

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