

Investor Presentation for the 24th Fiscal Period Ended February 2018 held on April 20, 2018
Major Questions and Answers (summary)

Q. 1

How do you envision the future growth of DPU?

Ans. 1

We explained that we would like to increase distribution per unit (DPU) by 100 yen or more when conducting public offering following the merger in September 2016. Until now, property acquisitions have progressed steadily and DPU forecast on an ongoing basis has increased by approximately 200 yen with the public offering in 2017 and by approximately 180 yen with the public offering conducted recently in 2018, leading to a growth in DPU beyond our target. In the recent public offering, we used cash on hand for property acquisitions. Our intention is to raise DPU by implementing property acquisitions while continuing to effectively utilize cash on hand obtained from depreciation, which amounts to approximately 7 billion yen per year.

Q. 2

Monthly rent for residential properties at the time of tenant replacement has increased, but can the same be said for at the time of contract renewal? In addition, can it be considered that there has been a decline in cancellation rates resulting from increases in monthly rent at the time of tenant replacement?

Ans. 2

Although it is difficult to raise monthly rent at the time of contract renewal for residential properties, we are making efforts to have tenants agree to pay contract renewal fees. As for tenant replacement, there were around 1,000 cases during the same period last year, but the number has decreased to around 800 cases during the fiscal period ended February 2018. We believe that more tenants are choosing to continue their occupancy without leaving as the number of high-quality rental properties in the market is small and rent is on an increasing trend, leading to a decline in the number of relocations.

Q. 3

Given abundance in the sponsor pipeline, what is your view on the pace of property acquisitions going forward?

Ans. 3

We have acquired 193.1 billion yen worth of property over approximately 18 months following the merger in September 2016 and achieved external growth beyond our target. However, our policy of targeting acquisition of 50 to 60 billion yen per year will not change. As for multi-tenant type logistics properties, we are aiming to acquire around 1 property per year by taking portfolio balance into consideration as they are large properties.

Q. 4

How is the market environment surrounding retail properties? Are there any concerns stemming from the expansion of e-commerce?

Ans. 4

Many of the retail properties we own have food supermarkets as their core, and we believe that the fear of them being replaced by e-commerce soon is minimal. Furthermore, the contract type is basically a sublease agreement, so downside risk appears to be low. Sublease agreements have also been concluded for FOLEO Hakata and FOLEO Otsu Ichiriyama which we acquired recently.

Q. 5

Will the coming consumption tax hike have any impact on DPU?

Ans. 5

We believe there will be negative impacts to a certain extent, but the taxable sales ratio is on an increasing trend as the ratio of properties other than residential facilities such as logistics facilities is increasing, thus we do not anticipate the impact of the consumption tax hike to be significant.

Q. 6

Assuming there are two logistics facilities that are similar in each aspect aside from contract type, what difference will cap rate have if one facility has a multi-tenant contract and the other a BTS contract?

Ans. 6

We believe that the cap rate will basically remain the same for either, regardless of the type of contract.

Q. 7

I am under the impression that Daiwa House excels at developing BTS logistics facilities, but it is the development of multi-tenant logistics facilities that is increasing. What is the strength of Daiwa House Group in operating multi-tenant logistics facilities? Are there any tenants who you were able to conclude agreements with because of your status as a member of the Daiwa House Group?

Ans. 7

Of the logistics facilities Daiwa House develops, 70-80% are BTS, while 20-30% are multi-tenant. Based on the thinking that logistics facility operation will change drastically in the future due to the issue of labor shortage, Daiwa House is devising solutions to introduce robots and AI. Many of the tenants in multi-tenant properties are the same as those in BTS properties and Daiwa House has built sufficient relationships with them.

Q. 8

Please tell me the present occupancy status of multi-tenant logistics facilities in Daiwa House Group's pipeline. How long does it take for a multi-tenant logistics facility to realize an occupancy rate of 100% after its completion?

Ans. 8

The present occupancy rates of DPL Sagami-hara and DPL Yokohama Daikoku are 100%, and that of DPL Kawasaki Yakou, DPL Ichikawa, DPL Iwate Kitakami, DPL Sendai Port and DPL Sendai Nagamachi are at 95%, 70%, 75%, 25% and 100%, respectively. Although achieving an occupancy rate of 100% at the completion of DPL is the target, it seems that presently there are many cases where the occupancy rate is raised to 100% about 1 year following completion.