Investor Presentation for the 36th Fiscal Period Ended February 2024

Held on April 17, 2024

Major Questions and Answers (Summary)

Q. 1

With regard to the investment unit buyback and property replacement announced yesterday, especially the investment unit buyback, has your thought changed over the last several months? Given the recent investment unit price trend, are you now prioritizing improving per-unit profitability by the investment unit buyback and property replacement over expanding asset size?

Ans. 1

We have achieved growth both in asset size and DPU through property acquisitions accompanying public offerings in the past. However, raising funds by public offering is becoming more challenging given the recent market environment and the unit price trend compared to NAV per unit. In such an environment, around the end of last year, we shifted the focus of our growth strategy and came to judge that the investment unit buyback, in addition to property replacement utilizing the sponsor pipeline, would contribute to improvement of unitholder value. We had to be sensitive about the timing of announcement, however, while dealing with such information as property acquisitions and dispositions. Going forward, we will consider and implement flexible and various measures depending on the market environment.

Q. 2

Some hotel properties with upside earnings potential have been added to the pipeline. Will you aim to further expand earnings by acquiring these hotel properties on top of stable earnings you have achieved?

Ans. 2

Concerning hotel properties, in addition to external growth, internal growth is being strengthened with an increase in variable rents. Two hotel properties developed by the sponsor group, one of which was Daiwa Roynet Hotel and the other was MIMARU, were added to the pipeline as the potential acquisition candidates.

Q. 3

It came out as a positive surprise that you shifted the focus to property replacement and internal growth and decided implementation of investment unit buyback. This time, why are you selling the properties to the sponsor rather than a third party? Is it because you had to respect the relationships with the tenants?

Ans. 3

We asked the sponsor first about their interest in the three logistics properties for sale, as the sponsor has the right of first look stated in the pipeline support agreement. We also conducted hearings with third parties and received an opinion that sale of D Project Kaminokawa at an appraisal value may be challenging. The value chain of Daiwa House Group worked very well this time, and we find it quite positive that we are selling all of the three properties at each appraisal value to the sponsor.

Q. 4

Is the investment unit buyback a continuing initiative? Is it likely that the size of the buyback will scale up?

Ans. 4

One of the factors for the decision is that the unit price has trended below 0.8x to NAV per unit. Going forward, we would like to make timely decisions by appropriately judging various factors including the market conditions. We have not set specific target for the size of the buyback. We may utilize cash on hand while keeping the LTV ratio at around 45%.

Q. 5

Rent growth of +2.5% at tenant replacement for residential properties may not look as compelling as the growth at other residential REITs. Is the rent growth likely to accelerate?

Ans. 5

The growth of monthly rent at tenant replacement for residential properties was +2.5% in total. Rents in such areas as Nagoya and Sendai were weak and lowered the average. We see this weak trend in some local areas as an agenda for the future. As for the residential properties in central Tokyo, we are performing upgrade work proactively and pursuing further growth in rents. For example, more than +13% or +14% growth in rents was achieved for the large-scale residential properties in Takanawa and Shinagawa after the upgrade work was performed.

Q. 6

Is there any possibility of selling some of the residential properties in local areas?

Ans. 6

While we may consider selling the properties for which we cannot expect rent growth in the future, there is none under such consideration at this time.

Q. 7

Following the property replacement, the investment ratio of multi-tenant type logistics properties, which tend to have shorter period of lease agreements and thus are expected for more internal growth potential, will increase. Is the property replacement aimed at shortening the lease agreement periods is a feasible option to consider?

Ans. 7

As for the logistics properties, we have been able to increase rents at the timing of contract renewal for the tenants of multi-tenant type properties. We have periodic rent revision clauses for the tenants of BTS type properties, and yet it continues to be difficult to actually increase rents at such timing. Going forward, acquisition candidates for the property replacement are more likely the multi-tenant type properties which are more versatile like DPL Urayasu III we acquired March this year.

Q. 8

The sponsor sold the subsidiary which runs resort hotels to a third party and also sold part of the equity holdings in Cosmos Initia which runs MIMARU apartment hotels to Kyoritsu Maintenance, while continuing to develop Daiwa Roynet business hotels aggressively. With such change in the sponsor's strategy on hotels in mind, is it ok to say that there is no negative impact on the sponsor support related to the hotel properties? Or, can we expect by any chance the properties developed by Kyoritsu Maintenance will be added to the pipeline in the future?

Ans. 8

Our pipeline support agreement with Cosmos Initia is still intact. Cosmos Initia will speak to us first when they intend to sell the properties. We also hear that the sponsor continues to develop Daiwa Roynet Hotels, and we hope to look for opportunities to acquire such properties.