Investor Presentation for the 25th Fiscal Period Ended August 2018 held on October 18, 2018

Major Questions and Answers (summary)

Q. 1

Monthly rent for residential properties at the time of tenant replacement has further increased. Is this trend likely to continue going forward?

Ans. 1

Monthly rent increase was realized for properties located mainly in the Greater Tokyo area, and more specifically in central Tokyo. With the pace of population inflow to central Tokyo being greater than that of the increase in supply of rental properties, lessors continue to hold an advantage. Given that rent levels have only recovered by around one-third from the bottom following the drastic fall due to the global financial crisis, we believe there is still room for increase in the future.

Q. 2

Will there be any impact from the consumption tax hike from 8% to 10% planned for October 2019?

Ans. 2

We estimate a negative impact equivalent to about 19 yen of distribution per unit (DPU) for the fiscal period ending February 2020, and about 23 yen for the fiscal period ending August 2020 when the impact will be felt throughout the fiscal period.

Q. 3

What will be your policy on property disposition for the future?

Ans. 3

We have not drawn up any specific policy on timing and scale of property disposition. However, we do evaluate NOI, improvement in profitability due to capital investment, etc. for each property every fiscal period, and consider disposition of properties that are anticipated to face difficulty in operation.

Q. 4

In order to increase DPU, which do you prioritize when conducting public offering, the cap rate of each property for acquisition or the overall size of acquisition?

Ans. 4

Concerning properties in Tokyo such as those in the pipeline, it may be difficult to acquire at the same NOI yield as that of the existing portfolio. We would like to acquire properties that will contribute to the growth of distribution while taking into account not only NOI yield but also NOI yield after depreciation.

Q. 5

What is your view on acquisition of retail properties?

Ans. 5

As to retail properties, we intend to choose as candidates sponsor group properties that can expect stable operation with rent-guaranteed type sublease agreements, and to acquire among them those with acceptable cap rates.

Q. 6

Has there been any change in the policy for disposition of sponsor properties?

Ans. 6

The sponsor has set a plan to sell 100 billion yen of properties annually, totaling 300 billion yen in the 3-year period of the Medium-Term Management Plan which ends this fiscal year. Our willingness to acquire around 50 to 60 billion yen of properties out of the annual 100 billion yen of properties has not changed. While the sponsor plans to announce a new Medium-Term Management Plan next fiscal year, we intend to acquire properties with acceptable cap rates rather than push ourselves, and thus properties with cap rates that are not acceptable to us may be sold to outside parties.

Q. 7

Concerning the investment ratio of retail properties, is there any policy that includes disposition of portfolio properties?

Ans. 7

We have heard of talks on future redevelopment of aging retail facilities eyed by the sponsor, and would like to discuss acquisition of such properties in the future as well. Although we may replace properties, we are not planning to intentionally lower the investment ratio of retail properties.

Q. 8

What is the future policy, including your view on the investment ratio, considering the market environment of logistics properties?

Ans. 8

Although the investment unit price of the logistics sector is somewhat sagging, we do not think the fundamentals of logistics properties are equally bad. Most of the logistics properties DHR owns are BTS type with long-term, fixed-rent lease agreements, while also boasting a 100% occupancy rate. The sponsor has not changed its policy to press ahead with development at the ratio of 7:3 for BTS type: Multi-tenant type, and thus DHR is expected to acquire properties according to the ratio as well.

Q. 9

Some REITs have slowed the pace of their property acquisition. Is there a possibility that you as well would slow your pace depending on the environment?

Ans. 9

Of the 41 properties we acquired after the merger, 40 are from the sponsor group pipeline. Going forward, we will continue to acquire properties that satisfy DHR's criteria while also receiving support from the sponsor. Depending on the circumstances, we may not be able to achieve the asset acquisition target.

Q. 10

Do you intend to proactively increase rent for residential properties?

Ans. 10

DHR owns a little over 10,000 residential properties and roughly 25% of those properties are under sublease agreements, meaning no changes in rent. For the remaining 75% or so, we will seek rent increase through property management companies and brokers. Properties that saw decrease in rent are found mostly in regional areas, and how to reduce the margin of decrease will be a challenge we face going forward.

Q. 11

Do you also negotiate for rent increase upon contract renewal for multi-tenant type logistics properties?

Ans. 11

As to DPL Misato acquired last year, we increased the rent upon contract renewal albeit slightly, and extended the lease term from 2 years to 5 years. We will continue to seek rent increase upon contract renewal going forward.