Summary of Q&A Session

Japan Real Estate Investment Corporation/

Performance Review for the Period ended September 2023 (held on 16 November 2023)

Japan Real Estate Asset Management Co., Ltd.

<Q> The dividend has been increasing consecutively for the last 19 periods. How important is it for you to continue to raise dividend payments? Given the fact that your dividend forecasts for the next couple of periods are below the last actual payout, how do you see the possibility of paying a dividend that is above your forecast and what is the level of payouts that you feel comfortable going forward?

<A> As we always say, we believe it is important to be a "stable dividend payer." However, there is still a gap between the DPU and the EPU that we think should be normal. That is why we thought it to be natural that our DPU forecasts should be somewhat closer to the level of EPU especially for the period ending September 2024 because there is much uncertainty. As we explained before, the real estate market remains robust enough to allow us to continue to be a stable dividend payer given the possibility of posting some gains on sale of properties.

<Q> The high level of gains on sale is being posted consecutively due to the three-part disposition of Harumi Front. Do you intend to keep selling properties to post similar gains until the level of EPU recovers?

<A> We will stick to the current property-replacement strategy going forward and it is important to note that we don't always sell a property just to have a gain on sale. That said, however, in the constant process of buying and selling properties, the possibility of a gain on sale is obviously one of the criteria for making decisions. Therefore, it is likely that we will continue to post gains on sale going forward. In making decisions on whether we sell properties or not, we believe it is important that we consider the timing and the size of a property acquisition to have a right balance.

<Q> The outlook of the occupancy rate for the period ending March 2024 is likely to stay unchanged at 96.5 percent. Please let us know if there is a level of the occupancy rate that you think should be normal going forward.

<A> We think that the appropriate level of the occupancy rate should be around 97 percent today if we want to maximize the total rent revenue of our entire portfolio. Given that the leasing market is recovering, we may raise this appropriate level of occupancy rate even higher.

<Q> What is your outlook for the per-unit rent in the near future?

<A> We expect that the per-unit rent will be likely to rise generally with only a limited supply of new office buildings in 2024 in the recovering market, while it is important to note that the rent gap and/or the supply and demand situation vary depending on a property and/or area. We will negotiate aggressively to achieve a higher per-unit rent if the conditions and/or contract terms of the buildings or tenants allow us to do so.

<Q> A large supply of new office buildings is expected in Osaka in 2024. Do you anticipate any large displacement in your properties located in Osaka?

<A> No, we don't anticipate any large displacement in any of our properties including in Osaka in 2024.

<Q> How will you control your costs going forward especially in order to maximize NOI?

<A> With respect to energy costs, we have been asking our tenants to change the type of electricity contract and as a result almost 95 percent of the variable portion of the electricity bill is passed through to the tenants, meaning that an increase in energy prices is now passed on to the tenants. Repair expenses will be likely to remain elevated due in part to higher labor cost, so we are going to scrutinize what and how to repair and whether a repair is absolutely necessary in order to control costs more effectively.

<Q> You talked about a possible real estate market correction. Are you going to adjust your yield target for future acquisitions?

<A> Although interest rates are rising, we are not yet observing any signs of an increase in cap rates. Given the current robustness of the real estate market in Japan, we want to acquire new properties in the metropolitan Tokyo area as well as in other regional cities where we can expect relatively high yields. Whether we can maintain the the current levels of yield is also one of the criteria.

<Q> The acquisitions during the last period were not from your sponsor. Can we expect any acquisition from your sponsor going forward?

<A> We know that our sponsor will dispose some of their properties, so we think there are opportunities for us to acquire them going forward.

<Q> You mentioned that you would need to evaluate the property's profitability from the viewpoint of CAPEX required in the future in selecting which property to dispose. As construction and repair costs are increasing, what is your opinion about owning old properties?

<A> Office buildings are increasingly chosen for their quality, i.e. grade, location, etc., and this is true in many markets around the world. We believe that costs to upgrade or renovate are a heavy but temporary burden, and we intend to invest more as long as the improvement in profitability is warranted.

<Q> How are you going to control borrowing costs as the interest rates are rising?

<A> The long-term interest rates have already gone up significantly and the short-term rates are also expected to rise in the wake of the end of BoJ's negative interest rates. So, we have to expect that borrowing costs will increase going forward. We did, however, put our borrowing costs under control in the last period by borrowing for a short term or at variable rates for a long term. We will monitor the interest rates and remain flexible in terms of how to raise funds.

<Q> When it comes to the appraisal value, it seems that the appraised cash flow is dwindling in many of your properties. Why is that?

<A> The main reason for that is that the increase in utilities expenses was reflected in the latest appraisal. The appraisal company told us that it began to reflect the increase in utilities expenses in the latest appraisal because fuel prices in the market settled down recently.