Activia Properties Inc.
FP24 Ended November 2023 Financial Results
Q&A Session Summary

Date: Thursday, January 18, 2024 (Telephone Conference)

Q1 : Net utilities expenses are expected to have a negative impact of about 260 yen DPU. Do you plan to pass the expenses on your tenants so that we can expect future improvement in DPU? And if so, when can we see the effects and to what extent are they incorporated into the latest forecasts?

A1 : Our tenants are already bearing a reasonable level of the utilities expenses, and considering the long-term relationship with them, we believe we need time to ask them to bear further burden.

The net utilities expenses are incorporated in the forecasts for the 25th and 26th fiscal periods based on the actual performance plus a slight buffer, and a slight buffer is also added to the target for the time-being of 8,700 yen. As I mentioned earlier, in consideration of the long-term relationship with our tenants, we believe that it will take some time before we are able to pass on further those expenses.

Q2 : Regarding the unit buyback you announced this time, we believe it was an appropriate decision at the current investment unit price. If you were to continue to carry out unit buybacks in the future, what would be an acceptable range for LTV? Do you think that literally up to 50% is acceptable?

A2 : We would like to pay attention to the LTV level as an unit buyback leads rise in LTV as you pointed out. The LTV at the end of the period under review was 46%-level, while we expect it will turn into 47%-level when the unit buyback would have been completed. We have set an upper limit of 50%, but the 47%-level is a guideline. Given the current environment, we may exceed this level slightly in some cases, but we would like to keep the 47%-level. We need to consider other measures to ensure that we do not simply increase LTV by the unit buyback. One is the handling of borrowings. Since we have a very good relationship with lenders, we would like to consider the LTV level while having discussions with them.

Q3 : As for the trend in Tokyo office rent, uptrend continued in market rents in the greater Shibuya area and the rent gap has returned to zero according to the supporting material. If rent income is also expected to increase in the future, has the office environment become such favorable that we can expect not only an improvement in occupancy rates but also internal growth through higher rents?

A3 : As you pointed out, overall Tokyo market is recovering, and there is a very strong need for office space in Shibuya in particular, and we are seeing an increasing number of cases of rent growth through rent revisions and tenant replacements in our portfolio properties. Compared to other areas, demand is reasonably strong in Shibuya, and even if there occur cancellations, the downtime is relatively short. Under these circumstances, we believe we have now a certain degree of bargaining power in setting rents. While the situation varies depending on the property or space, the overall situation is relatively favorable for landlords. In Shibuya, the balance between supply and demand is very good compared to other areas, and we believe that rents can be expected to rise to a certain degree.

Q4 : With regard to external growth, you mentioned you would build up earnings through property acquisitions in the future. In light of the current rental market and other factors, what asset types do you intend to invest in intensively in the future? I suppose there is also the perspective of geographic similarity of API's portfolio to that of the sponsor. Though, what asset types, if any, do you have a preference for in the future, such as office or hotel?

A4 : Our acquisition policy with a focus on urban retail properties and Tokyo office buildings has remained basically unchanged. Looking ahead, we have a very large number of class A buildings in the sponsor pipeline, and we believe that these will become one of our targets. On the other hand, considering the overall portfolio earnings yield, we would like to target other properties as well. Specifically, we are considering the possibility of acquiring offices in suburban areas where the balance between supply and demand is stable, as well as suburban retail properties that are located not necessarily in the city center, as we believe that the balance between supply and demand is very important for retail properties as well. We consider acquiring such properties as we reevaluate the significant contribution that our Activia Account properties have made to date to the stability and profitability of the portfolio. We would like to focus on the area and the quality of the property as well, rather than simply looking for yield.

Q5 : You announced an unit buyback this time, but what is the main reason, if any, why you did not make early repayment of borrowings? The new target EPU level has been set with the rise in interest rates as one reason, so why not the repayment of borrowings?

A5 : Considering the LTV level and future interest rate trends, repayment of borrowings is an option that can be taken, and we always consider it when conducting an unit buyback. We believe that repayment of borrowings would become an urgent necessity in the event of a sharp rise in interest rates as in the U.S. Though, in Japan, there is still a certain spread, so we made the decision of unit buyback with the understanding that there are certain risks. So far, we have been considering how we should utilize our cash on hand, and prioritize it as follows; (i) property acquisition if we can acquire appropriate properties, (ii) unit buyback depending on the level of unit price, and (iii) repayment of borrowings depending on the trend of interest rates. The order has not changed yet. However, from the perspective of external growth potential, we believe that repayment of borrowings is an option that can be taken and should be done carefully in the context of relationships with lenders.

Q6 : You mentioned earlier that you are considering acquiring properties in suburban areas. Is it correct to think that the number of Activia Account properties in the API's portfolio will relatively increase?

A6 : These properties will fall into the Activia Account category certainly, so I think AA will increase. However, since we also consider Tokyo offices and urban retail facilities, which are in the sponsor's pipeline, to be targets for acquisition, the ratio of AA will increase a little rather than a large increase.

Q7 : The NAV per unit should improve with the unit buyback, but will the unrealized losses of DECKS Tokyo Beach and Q plaza HARAJUKU, which are negative factors of NAV itself, grow any larger?

A7 : Q plaza HARAJUKU has been leased up, and for DECKS Tokyo Beach, although the lease-up has not yet been made, leasing has been progressing steadily since last year, and negative factors have been reduced considerably. Although there is a possibility that both properties will experience negative factors such as investment in repairs and the impact of utilities expenses, which could occur in other properties, we believe we got through the most difficult time. With the significantly increasing number of visitors to the facility, the situation of DECKS is becoming favorable, partly due to the impact of inbound tourists, so we do not expect a major deterioration from this point on. The repair investment plan is reviewed every fiscal period, and we will make a comprehensive judgment while carrying out necessary works.

Q8 : Are there hotels in the sponsor pipeline? A hotel has opened in COCONO SUSUKINO, the sponsor's most recently developed property in Sapporo, and will such hotels and other properties also be targeted for acquisition?

A8 : Hotels have been making steady performances in our portfolio, and we are interested in hotel assets. Our sponsor is also involved in hotel development, and we believe it could be a potential acquisition target for API in the future. However, while hotels are attractive as they can be expected to have upside potential, such as a further influx of inbound tourists, they are highly volatile assets that can be extremely difficult to manage when conditions deteriorate. From this perspective, hotels are an important candidate for future acquisitions, but we would acquire them after carefully examining the location and demand in the area rather than just adding them more to our portfolio.

Q9 : Do you plan to increase the number of ready-to-use offices in your portfolio? Is there room for rent growth by introducing them?

A9 : Currently, API has ready-to-use offices in the greater Shibuya area. Many of the tenants in the area are growing companies, and the ready-to-use office meet their needs very well. It can be possible that we provide them in Shibuya and Ebisu in the future, but on the other hand, the demand in Shibuya is becoming stronger and there are cases where ready-to-use office is not necessarily required. We may try in Gotanda, for example, as there have potential demand for ready-to-use offices. We would like to continue keeping a balance with regular office space and the ready-to-use offices.

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