Activia Properties Inc.
FP25 Ended May 2024 Financial Results
Q&A Session Summary

Date: Friday, July 19, 2024 (Telephone Conference)

Q1: There was a comment that the LTV ratio has been rising and there are restrictions on the scale of unit buyback. We believe that a combination of asset disposition and repayment of borrowings can be implemented without raising the LTV ratio, but what is your view? How much of a constraint is the level of LTV?

A1: Unit buyback combined with asset disposition has already been implemented in the previous fiscal period, and we believe it will continue to be a potential approach. Meanwhile, with the performance of properties improving, it is becoming more difficult to strike a balance between asset disposition and unit buyback, and care must be taken with decisions on which properties to sell, and in this context, the timing of unit buyback is also a crucial point.
With regard to constraints on LTV, 47% is a historically high level, and we are cautious about raising it any higher. This would make implementation in combination with repayment of borrowings an option. In such cases, implementation should be determined based on whether unit buybacks or asset replacement would be more effective. We intend to maintain the current LTV level of 47%, while considering unit buyback in the process.

Q2: I would like to confirm whether progress has been made in improving utilities income/expenses.

A2: We have been asking tenants about raising prices and have received a certain degree of understanding. However, it is our feeling that we have raised the price by a reasonable amount, and the current situation is that further price hikes may have a negative impact. If utilities income/expenses deteriorate further, we will continue to consider asking for a certain level of contribution. We are unable to comment on any specific progress at this time.

Q3: Regarding replacement rents for office properties, is it safe to assume that the negative impact of properties with vacancies will disappear and that they will have a positive impact in the future?

A3: Due to higher market rents, positive revisions and replacements are expected to increase in the future. The rate of rent increase is expected to be positive in the next fiscal period, and we also believe it will be positive to some extent beyond that. Regarding the portfolio's rent gap, existing rents are below market rents, so, the rental income is becoming more likely to be positive. Looking overall, although there are still some tenants whose rents are higher than market rents, not every tenant requires to reduce them to the market rent. Furthermore, those "negative" gaps might disappear if market rents continue to increase amid the recovery. As a result, we will have fewer concerns about future rent decreases than ever before. We expect those factors provide positive effects for the portfolio and be a major driver of internal growth.

Q4: You have set a DPU level of 8,700 yen this time and set a target to achieve the level by the fiscal period ending November 30, 2026 in terms of stabilized EPU. To what extent will you be able to approach this level through internal growth of existing properties, or will you combine asset acquisition, unit buyback, etc. to cover any shortfalls? What items and how much of them do you think are necessary and feasible to achieve the level of 8,700 yen?

A4: We recognize that the percentage of internal growth will be higher. We expect to see rent increases and ancillary income increase to a certain degree in the future, and hope to bring the level close to 8,700 yen through internal growth. However, there is a certain amount of risk that internal growth alone will not reach that level, and we therefore believe it is possible to add something extra by promoting external growth initiatives as well. Basically, we are aiming for 8,700 yen by focusing on internal growth, with something extra to ensure we reach this level.

Q5: Both retail properties and hotel properties are recovering steadily, but are retail properties also benefiting from the recovery in inbound tourism? We would like to know if there are any trends regarding the percentage of inbound sales.

A5: Inbound tourism has also had a significant impact in retail properties. In particular, there has been an increase in inbound sales in Tokyu Plaza Omotesando "Omokado", which has contributed significantly to sales. Before COVID-19, about mid-10% of Omokado's sales were from inbound business, but this has now increased to mid-20%, and the growth in sales in street-level stores is particularly significant. Other properties have also seen an increase in the number of inbound visitors, which has positively contributed to various revenues such as parking revenue as well as sales.

Q6: In the acquisition criteria on page 24 of the financial results presentation, there is a discussion of future conversion to other uses, but is there anything you can tell us, such as the specifics of what is currently envisioned?

A6: In terms of what kind of properties we will acquire in the future, I mentioned that we would like to acquire not only urban properties but also suburban retail properties, and properties such as Mizonokuchi, Nakamozu, and Sagamihara have been generating very stable income, and Mizonokuchi is performing well due to rent growth through tenant replacement.

Meanwhile, we recognize that suburban retail properties present risks, and in the past, when e-commerce developed, suburban retail properties were often converted to logistics properties or to other uses. Even under such circumstances, our sponsor is pursuing development in a wide range of areas and believes that if suburban retail properties can be converted into better facilities in the future, this will have a positive impact on the property value. For example, Mizonokuchi and Sagamihara, which we own, could also be considered as suitable locations for logistics, so various options could be considered in the future. We believe that the strength of our sponsor as a developer can be used to change the quality of properties in response to changes in the area's environment. If properties have the potential to be converted into more appealing facilities in the future, they may be included in our targets for acquisition, which is why they have been mentioned in the presentation materials.

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