**Activia Properties Inc.**
**FP23 Ended May 2023 Financial Results**
**Q&A Session Summary**

**Date: Thursday, July 20, 2023 (Telephone Conference)**

**Q1 : While you maintain the lower limit target of 9,300 yen for DPU, the forecast EPU for the fiscal year ending May 2024 is 8,017 yen. How do you plan to make up this difference?**

A1 : One of the reasons for this difference is the impact of free rent periods at the office properties that we backfilled this time, so occupancy on a rent-accrual basis has not reached 100%. Another factor is that, in terms of expenses, we have been accelerating investment in repairs and maintenance to improve tenant satisfaction, which contributes to value enhancement.

When these factors level out, the EPU will improve, but there is still some gap to 9,300 yen. We expect to approach the target level by increasing revenues by leveraging rent gap, increasing advertising revenue and continued asset replacements, etc. It will take some time to reach that level, so for the time being, we will keep the strategy to use capital gain generated by asset replacement.

**Q2 : I think that some of your future measures, such as asset replacement, are not yet concrete. But is there any trigger to lower the minimum DPU target of 9,300 yen in the future? Or do you think the 9,300 yen can be maintained for the time being?**

A2 : Since we intend to continue asset replacement, we believe that we will be able to achieve the 9,300-yen level for the time being, while utilizing capital gain.

One of the more difficult situations could be, for example, an unexpectedly large interest-rate hike, but since the timing for refinancing will not come all at once, it will not be an immediate major impact.

There are concerns about further cost increases as a downside risk factor, such as utilities costs in addition to soaring labor costs, but these have been covered to some extent through negotiations with tenants.

By taking such initiative, we will continue to work for the target of 9,300 yen on a stabilized basis.

**Q3 : The status of office leasing is disclosed until the fiscal period ending May 2024, but could you give us some outlook on the figures beyond that? And I believe the supply-demand balance for tenants is weak in Shinagawa and Gotanda area in particular. Please tell us if there will be any change in your investment policy for these areas.**

A3 : Although there are uncertainties about the future, we expect that for A-PLACE Shinagawa East, the occupancy rate on rent-accrual basis will reach nearly 100% by the fiscal period ending November 2024, and the property will make a full-scale contribution to earnings from the fiscal period ending May 2025 onwards. As for the Shinagawa and Gotanda areas, both are somewhat soft, but we believe that the situation is different in the two areas. In Shinagawa, the vacancy rate remains high and the area competes with broader areas than Gotanda, so we should carefully consider investment in the area. On the other hand, in Gotanda, we believe that the performance varies for the characteristics and the location of each property, so we may invest in the area while keeping a close eye on the market.

**Q4 : Regarding DECKS Tokyo Beach, while the occupancy rate can be expected to increase as the number of visitors is recovering, the unrealized loss of the asset is increasing. I would like to know your perspective on how you recover the asset value and how long it will take.**

A4 : The property is in the process of recovery as we are taking steps to restore it to the pre-Covid situation. At present, the property is heavily cost-burdened, as it requires capital investment especially due to the building age. Since it is closely related to customer satisfaction, we will make appropriately capital investments and reduce future expenditures to improve NCF. Inbound tourists have finally begun to return, and we expect the surrounding area to be revitalized. We would like to restore value of the property while improving profitability.

**Q5 : I understand that you will continue to achieve the minimum DPU target while realizing capital gains through asset replacements. But I think, at the replacement, the difference between the yield of acquired asset and the yield of disposed asset is important. With regard to the recent replacement of Kasumigaseki Tokyu Building and Tokyu Plaza Ginza (Land), the NOI yield was 2.5% for the Ginza land, and the acquisition yield was 3.5% for the Kasumigaseki Building, which was a good spread.**
**But I wonder if such a spread will be obtained in the future. Could you tell if you have any target ranges?**

A5 : Tokyu Plaza Ginza (Land) had a reasonably low yield due in part to the property characteristics, and not many of our current assets have such a low yield. But in future, the yields of some properties might be declining, even if capital investment will be implemented.

Therefore, we would like to select properties for replacement based on future risk rather than current yields. Yields of properties to be sold would be in the mid to high 2% range, and properties to be acquired will be with yields in the mid 3% range or slightly higher.

It is obvious that a larger yield spread is better, so we will acquire properties with an eye on yield, but at the same time, we will continue to carefully scrutinize the quality of the properties as before.

**Q6 : How much do you expect EPU to increase from the forecast of 8,017 yen for the fiscal period ending May 2024, when the occupancy of the properties that had vacancies such as A-PLACE Shinagawa Higashi stabilizes ?**

A6 : For the fiscal period after May 2024, there are still uncertainties, including rent growth upside. One major factor on the downward pressure on the forecasted EPU for May 2024 is the capital investment expenses that we factored into. The forecasted EPU includes also a buffer for utilities expenses. Therefore, after Shinagawa Higashi stabilizes, we should closely examine how to manage the cost. In addition to the cost control, we continue to conduct asset replacements to achieve the 9,300 yen.

**Q7 : How long do you think the downward trend in office rents will continue, given the large supply of new office space comes in 2025?**

A7 : We will have to keep a close watch on the large amounts of supply. Within our portfolio, the properties in Shiodome and Shinagawa areas should be affected relatively significantly. On the other hand, as we were able to contract leases before the large amounts of supply, we believe that we can maintain the current leases for the time being. For other areas such as Shibuya, Ebisu, and Gotanda, the impact of the large supply will be limited. We are positive for those areas as the areas have been relatively strong recently and rents are rising. In terms of offices in general, overseas markets are in a difficult situation, but in Japan, especially in the regional areas, the market is relatively strong. We believe that as corporate performances improve, rents will cease to decline and turn to uptrend. There is also the possibility of secondary vacancies due to the large supply, so our policy is to operate on the assumption that both are possible.

**Q8 : As for DECKS Tokyo Beach, while the property is quite busy especially in the kids playground, the facility is old and requires a fair amount of expenses. What kind of measures do you have in mind, to improve the profitability, such as replacing tenants,?**

A8 : The number of visitors to DECKS Tokyo Beach has returned and is close to the pre-Covid level. It is important to control costs while inviting tenants that offer a variety of experiences in addition to shops, taking advantage of the characteristics of the property which include that there are many facilities where guests can enjoy on-site experiences. Although one-off capital investment expenses will be required, our policy is to operate the facility in a way that will increase its value in the future.

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