

**Activia Properties Inc.**  
**FP21 Ended May 2022**  
**Q&A Session Summary**

**Date: Friday, July 15, 2022 (Telephone Conference)**

**Q1 : In the office leasing, you're struggling with Shiodome and Shinagawa area, and on the other hand things are going well with the greater Shibuya area. How do you understand those differences; does it come from area characteristics, or size of properties?**

A1 : We recognize that the difference is largely attributable to the area characteristics. In the greater Shibuya area, the market vacancy rate declined, and it was reflected in the occupancy improvement of our properties. When we watch the tenant trends, the area enjoys new demand generating from not only tech companies and start-ups that have been present until now, but also other sectors. The Shinagawa and Shiodome area, on the other hand, has a demand/supply balance less favorable, as for example, there are abundant competitive buildings in the area. Besides, the size of areas also affects: small areas require less effort to be leased up than large areas, for which it takes longer time. In addition, tenant demand for large areas has not recovered yet.

**Q2 : Regarding the asset replacement strategy that you will continue, what is the type of properties to be disposed? Please tell if you have ideas on asset type, size or other factors.**

A2 : For the properties to be disposed, in global terms, we will continue to use the criteria of profitability, building age and competitiveness, while assessing each property rather than adhering to a particular asset type such as retail or office. We determined to dispose the two assets because the assessment of conditions those are facing found that those may require a certain amount of time to improve the profitability or make further growth. Regarding the size of asset, one guide should be several billions of yen, though it may vary depending on circumstances.

**Q3 : The DPU target has been raised to 9,300 yen this time. Can it go up further or lower on the contrary? Please tell, for example, if there are any specific thresholds for occupancy rate to raise the target DPU or DPU level to accumulate internal reserves.**

A3 : At the public offering last year, we expected to achieve a minimum stabilized DPU of 9,200 yen based on the assumption that the current portfolio would make continually stable performance. The operational circumstances altered after that and the current profitability is on downtrend. With that said, we have an outlook on 9,300 yen as a result of a series of measures toward improvement of unitholder value such as asset replacement, buyback and cancellation of units. For the near term, it should be achievable through utilizing the capital gain from disposition of Luogo Shiodome and continued asset replacements as it will take more time to complete the leasing of Shiodome and Shinagawa and come back on track toward a stable organic growth. As for internal reserves, the principle is to secure a certain amount for a mid-to-long term. And at present, we are at the stage to accumulate it in order to cover the mid-to-long term risk, even though a part of them may be used to make up for deficiencies to be 9,300 yen when DPU from organic performance resulted to be 9,270 yen, for instance.

**Q4 : The forecast DPU for the May 2023 period is 9,350 yen. Do you have any intention or background for the increment from the preceding period? If the minimum DPU target is 9,300 yen, reserve the 50 yen can be an option.**

A4 : DPU of 9,300 yen was certainly an option, though we preferred unitholder return as the office occupancy excluding the Shiodome and Shinagawa Higashi is expected to improve from the May 2023 period and the capital gains is larger than originally expected.

**Q5 : You are struggling with Shiodome Building, and what is your plan of future leasing conditions? Will lower further the rent level and extend free-rent period, etc.? Please tell the probability of the forecast occupancy rates as well.**

A5 : Certainly, it is taking time to lease up the areas, and we should be flexible about rent and free-rent period as the surrounding competitor buildings are also faced a similar situation. After six months of leasing activities, we received a positive feedback for a certain level of rent, so that will be a benchmark for further leasing. The profitability will decline due to lowered rent

and extended free-rent period, and we will make it up with asset replacements. If I make an additional statement on the leasing status of Shiodome Building, we were finalizing lease contracts with some candidates who sought to relocate in a larger area, though finally those determined not to do so. Even though we failed to conclude contracts with them, we once again recognized the demands for the building as the candidates highly appreciated it. That allowed us to be confident about new leases to be completed if we take some time.

**Q6 : Your strategy on retail properties is to conduct renewals and other measures capturing the changing trend of market. Do you intend to take those measures to improve the profitability or prevent it from further deterioration? Please tell how the profitability will change compared to before those renewals or pre-covid.**

A6 : The retail portfolio is quite stable as its major part is comprised of long-term contracts and fixed rents. We aim to shift to offer the value of spaces that the visitors spend time in, instead of just for shopping. The revenue is expected to maintain the same level or slightly decrease. Though, we plan to secure other sources of revenue independent from tenant sales, which should work positively when people come back and the economy recovers. The forecasts incorporate conservative assumptions though the impact from the shift will not be significant as the overall retail portfolio is stable.

**Q7 : You newly invited a small-scale wedding venue in DECKS Tokyo Beach. How is the sales status of the tenant? What is the background of the invitation of that kind of wedding operator and how their businesses in general are going? I hardly know what the small-scale wedding venue is like. The number of weddings and honeymoons seems recovering under the impact of Covid slightly reduced.**

A7 : We don't have a clear picture of its sales performance yet as they have just moved into our property, though the current operation seems quite well. After the Covid outbreak, any wedding gatherings were postponed, though the demand for celebrating in some form has been accumulating. That can also explain the current favorable operation of Kobe Kyu Kyoryuchi 25Bankan. The change in wedding trends is also important to note. In addition to the traditional banquet style, people also tend to have a smaller-scale ceremony, and the tenant is capturing those new demands. Such other small-scale wedding venues have existed in the Odaiba area, and among all, our facility with a view of the Rainbow Bridge is highly

appreciated by our tenant. Under these circumstances, we believe we can expect a stable sale of the tenant.

**Q8 : You booked sales-linked rent for the hotel in Kobe Kyu Kyoryuchi 25Bankan. How is the operating status of the property compared to DECKS Tokyo Beach?**

A8 : Despite hotel sales in general deteriorated after the Covid outbreak, Kobe has been enjoying solid sales performance as it is constantly used by domestic customers even during the pandemic. The sales-linked rent revenue was generated with an occupancy rate gradually recovered in 2021 after a downturn due to Covid. It was largely attributable to the recovered demand for wedding as it accounts a large part of the tenant sales in the property. The occupancy rate of Kobe this year is outperforming that of 2021, and we can expect to a continual stable demand. The hotel operator is also confident, which allowed us to renew the contract for a long term.

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