

Activia Properties Inc.
FP20 Ended November 2021
Q&A Session Summary

Date: Tuesday, January 18, 2022 (Telephone Conference)

Q1 : I would like to ask about the asset disposition you factored into the forecast for the period ending November 2022. Is the objective of the asset disposition to maintain the portfolio profitability which is a little suffering, or do you have already some properties in your mind that you prefer to dispose of?

And as for the internal reserve you conducted for the period under review, please let us know your plan about when to use it or if you are going to accumulate the reserve.

A1 : As you pointed out, generally there are two effects that we can expect from asset disposition. And our principle objective is to replace with new assets one or more properties that are actually suffering deteriorated profitability and/or are hard for us to anticipate growth, to improve the overall portfolio profitability for the mid- to long-term, which we consider important.

This time we committed to pay out at a minimum ¥9,200 in DPU for the coming fiscal periods. We assume a certain amount of capital gain on the sale of property for the fiscal period ending November 2022, though, as I said earlier, our priority is to improve the profitability of our overall portfolio through asset replacement. Then, if we will earn some capital gain, that will be used to support DPU.

As for the internal reserve, we do not plan to use it for the fiscal period ending November 2022. We had kept from that method till now due to tax burden, though, this time we decided to adopt it as other J-REITs having conducted cash reserve had received good feedback for their financial stability. We will therefore keep a certain amount of reserve to secure a stable level of DPU rather than use it. As we emphasize the future stability above all, we will gradually accumulate the reserve with considering tax impact, for example when there is a significant fluctuation in the amount of revenue with a capital gain on the sale of property.

Q2 : In your presentation, you showed the rent growth that you've achieved for the period under review. Haven't you had the rent reduction during the period?

A2 : We had a small number of rent reduction cases at tenant replacement. Even though overall rent level is increasing, we predict that more cases of rent reduction will be identified in the future due to downside pressure of rent. Asset replacement is therefore an effective method to take.

Q3 : Have you received a good response in the leasing activities for the Shimbashi and Shiodome area? Please let me know also about the timeline to backfill the spaces.

A3 : Shiodome Building is highly appreciated for its specification and we receive well feedback. Discussions with some prospective tenants are proceeding, even though they tend to take time before reaching a decision as there are other leasing spaces in some competitor buildings in the surrounding area. We haven't assumed revenue from that spaces for the forecast for the fiscal period ending November 2022, though if the spaces will have been backfilled, that is an upside. We will therefore work diligently to early resolve the issue.

For the Shimbashi area also, we are receiving queries for the spaces. Though, in addition to that there are several competitors in the area, the area itself is one of a wide array of choices in the areas surroundings for prospects, they take time for decision making, not as for the Ebisu area. That said, things are progressing.

Q4 : As for the office market in Minato ward, do you think that the occupancy rate on contract basis will improve if you ease the leasing conditions, for example by offering free-rent period? Also, please tell me how to understand the office supply scheduled in 2023. Even though those brand-new buildings will not compete directly with your properties in terms of specifications, will there be any impact in the mid- to long-term?

A4 : In Minato ward, we are struggling in leasing as there are a large number of competitors and prospective tenants don't need to make a prompt decision. That said, we started to identify that some of them became more active. Our competitors should also gradually shift to condition easing, and we think that there will be more leasing outcome in the months ahead. As for the new supply in 2023, we don't think that those buildings will directly compete with ours since the rent level is quite different. Though, we will pay a close attention to the market trend. We can say that the important factor is whether the specification of the space meets requirement of each tenant or not.

Q5 : BOJ raised fiscal 2022 consumer price outlook today. You mentioned in the presentation that you secured a stable revenue from retail properties, though is the consumer price increase taken into consideration in the lease contracts? Especially for the land of Tokyu Plaza Ginza, is the rent linked to the CPI?

A5 : Lease term for retail tenants is generally longer than office tenants. And lease contracts vary depending on how much risks each of tenant and owner can afford to take for that long period. We think that there can be two types of retail properties; one which can enjoy a stable revenue under any kind of market environment, and the other which can flexibly adapt to upside linked to tenant sales and the price increase. Actually, the proportion of sales-linked rent is very small in overall rent revenue, though it is a future upside. Our hotel performance is showing a sign of recovery, and sales-linked rent will possibly be generated in coming months. We will therefore decide to choose either stability or upside potential depending on the characteristics of each property upon negotiation with tenants. As for Tokyu Plaza Ginza, the rent is fixed and not linked to CPI.

Q6 : Regarding your commitment to a minimum DPU of ¥9,200, how long is it for? Do you plan to review the commitment at a certain timing?

A6 : We will not drop the commitment before the end of 2023 as the impact of the vacation in Shiodome Building can possibly remain until the fiscal period ending November 2023. Though we are determined to work to achieve above ¥9,200 at an early timing by conducting asset replacement and paying continued effort in leasing activities. The market could be further weakened due to the massive supply of offices in 2023, although we think that we can maintain the DPU level of ¥9,200. Therefore, the commitment will be maintained until the end of the fiscal period ending November 2023.

Q7 : What was the occupancy rate on cash basis for the period under review? Please let us know also for the forecasted periods.

A7 : The occupancy rate on cash basis at the end of November 2021 was 95.1%. For the forecasted periods, we expect 93.2% for the period ending May 2022 and 93.3% for the period ending November 2022. It will remain at a lower 90% partially due to the impact of Shiodome

Building.

Q8 : In connection with the tenant sales in Tokyu Plaza Omotesando Harajuku and DECKS Tokyo Beach that you explained in your presentation, is there further vacation risk in view of the tenant capacity to bear the rent? If the sales remain at 50% of the pre-COVID level, tenants can still afford the rent, or is there possibility that they leave?

A8 : For Tokyu Plaza Omotesando Harajuku, the three street-level store tenants comprise 80% of sales. Their sales are not recovered, though they play a key role in their brands in the marketing perspective. Also, we have contracted for a long term with the tenants, so their sales performance will not significantly affect our management. On the other hand, the tenants in the middle floors are suffering due to the impact of COVID. We are therefore looking into tenant replacement. As for DECKS Tokyo Beach, a large portion of sales was originally coming from inbound tourists. The tenants having depended heavily on sales from foreign tourists are now suffering. We are planning to replace them and some discussions with prospective tenants are already started. We will continue to work for further stability by inviting tenants capturing domestic demand.

Q9 : The unit's discount to NAV continues for the time being. What will be the trigger for you to conduct a unit buyback?

A9 : Unit buyback is one of the ways to use efficiently the cash in hand. Generally, cash in hand are used for asset acquisition and unit buyback comes next to it. Though, given the current market price, unit buyback is an option that we can take. We are not yet at the stage to announce when and how to proceed it, though it remains an option, so does external growth.

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