

**Activia Properties Inc.**  
**FP19 Ended May 2021**  
**Q&A Session Summary**

**Date: Wednesday, July 14, 2021 (Telephone Conference)**

**Q1 : For Shiodome Building, you achieved to back fill the vacated area of 1,300 tsubo without any downtime. Although, you will have another tenant departure at the end of next June. What is the leasing strategy, and have you had a good response so far?**

A1 : On July 1st, we announced that NTT Communications would leave the property one year later. The co-ownership interest that we hold in this property is 35%, though the tenant is the major one in our offices, and the leased area accounts for 2.5% of the total portfolio. As for the leasing strategy, it would be not realistic to backfill all the area by one tenant, so we would like to fully leverage our knowhow and mix the methods such as leasing several one or more entire floors to tenants, or divide the area into several sections, etc. The Mitsubishi Estate Group, which is the major owner of the property, had been the main leasing company, but this time our group has also earnestly participated in leasing. So, we will pay our greatest effort in leasing based on the strategy mentioned above. The strength of this building is that even though being over 10 years old, the specifications are not inferior to others, as it has a pillar-free space of over 1,000 tsubo and the floor shape is very easy to use. In addition, the nearest Hamamatsucho Station has good access to Haneda and Tokyo, and in the surrounding area, there is Tokyo Port City Takeshiba, which was recently developed by the sponsor, and the rebuilding of the World Trade Center Building is under planning. Those aspects will increase the recognition of the area as a major office area in the future. Also, a pedestrian deck directly connected to the station has been constructed. I would like to take advantage of these positive features for leasing. Recently, an area of 3.5 floors which is scheduled to be vacant was successfully backfilled by a new tenant under favorable conditions and without downtime. The departure of NTT Communications may affect our business performance from the fiscal period ending November 2022 (FP22), so I will continue working on leasing for the next six months and factor in the outcome to the next business forecast.

**Q2 : I would like to understand your asset reshuffle strategy. You recently sold the hotel in Akasaka and acquired an office property in Tamachi. What is your policy in terms of asset class? Please let us know if you have already in mind to focus on selling hotels and acquiring offices, or owning a hotel that is expected to recover to the growth trajectory at an early stage with an eye on post COVID-19?**

A2 : We have recently conducted an asset reshuffle, and we would like to continue working on them. The three key points for selecting property to be sold are (1) profitability, (2) building age, and (3) competitiveness. The property will be picked up and reshuffle will be conducted depending on whether or not it corresponds to these criteria. On the other hand, the point for the property to be acquired is that future internal growth can be expected. The offices in the greater Shibuya area and the south side of the Yamanote line will be the main candidates, as our focused areas are not changed. The reshuffle of Akasaka and Tamachi is positioned as the first project of the "asset-recycling model", of which we have recently defined the term with the sponsor. We would like to continue to work on this "asset-recycling model" with our sponsor, and the sponsor is now considering API's properties to utilize in their medium-term management plan which is going to be set up. If we pick up the properties that can be redeveloped, those that have the potential to be redeveloped, and those that have the advantage of being rebuilt independently, about half of our properties are listed. Although some of them may take time, we believe that we can demonstrate the strength of being sponsored by a developer, by continuing to work on the "asset-recycling model".

**Q3 : I would like you to make an additional explanation on the trend in the market value of each asset class. The disposition price of Tokyu Plaza Akasaka was below the appraisal value at the end of the previous fiscal period. Does that mean that the hotel price is falling? Are the prices of offices and retail properties also falling or not?**

A3 : Looking at the overall market, the transaction is sluggish. However, with regard to offices, the competition for acquisition continues to be extremely fierce once buildings are on sale, and the price and cap are almost at the same level of those before pandemic. For retail properties and hotels, cash flow is not stable, though firstly there are few listed for sale as the seller's expectation is high. So, it is difficult to mention the market view. Under such circumstances, Tokyu Plaza Akasaka has a lower appraisal value compared to the previous period, and the disposition was conducted based on the lower appraisal value. This was because it became clear that, for the contract renewal with Tokyu Hotels, a considerable rent

reduction was expected. This was reflected in the appraisal value for the fiscal period ended May 2021 (FP19). If I go into detail, in October last year, Tokyu Hotels requested a rent reduction. At that time, due to the effects of GoTo Travel, etc., the hotel was on a recovery trend, so we decided that it was not necessary to respond to the rent reduction request, and we were looking for sale to a third party and operator change. However, from the end of the last year to the beginning of this year, the infection spread of COVID-19 worsened, and due to the influence of the subsequent state of emergency, Tokyu Hotels said once to quit the operator. It may not be easy to change the operator of such a large hotel, so we asked the sponsor to conduct an asset reshuffle, and they decided to replace with an office with a view to redevelopment of hotel. The new appraisal value of 10.8 billion yen is based on the assumption that it will return to the original rent in about two years, including the sales-linked rent portion. For us, there is still a possibility that the premise will worsen further in the future, so we decided to sell it in consideration of risks.

**Q4 : With the “asset-recycling model”, the interaction with the sponsor will become even more intense in the future? It might be the sponsor side that bears the (re)development risk, but is there any change in how to divide the risk and return at two sides? How do you think about the sponsor’s engagement to API, will you just acquire and dispose of properties from and to them, or are you taking certain (re)development risks at your side?**

A4 : From the perspective of whether the seller and the buyer can feel the benefits of the transaction, rather than just buying and selling, it may be effective to evaluate the property from the developer's perspective with a view to redevelopment. Considering the market situation where simple transaction is difficult, the engagement of the sponsor may become stronger, and the importance of schemes utilizing funds such as REITs is increasing in their medium-term management plan, too. However, I think the scheme does not permit API to bear the (re)development risk. Of course, there should be a return on (re)development risk, but it is not so good for REIT products that the volatility becomes too large when viewed in chronological order. Having said that, there might be a possibility of participating. For example, if the cash flow of the property to be redeveloped is stable, API will own the property until the redevelopment plan starts, and then when the redevelopment becomes realistic, it will be sold back to the sponsor. It has not been materialized yet, though we are exchanging information related to such plans with the sponsor.

**Q5 : Regarding the rent gap, the market is becoming cautious and the rent gap is shrinking. You mentioned that the rent per tsubo-aware strategy can be implemented even in this environment, though is it underpinned by some fact?**

A5 : The rent gap is narrowing due to the synergistic effect of market rent adjustments and our rent increase track record at rent revisions. For offices, we would like to prioritize the level of rent per tsubo while firmly implementing internal growth. In addition, in the fiscal period under review, we achieved the largest rent increase amount at tenant replacement ever. The rent was steadily increased, and this was supported by the tenant needs to relocate to good locations, such as near stations. I would like to continue taking upside for similar properties. However, some offices are a little far from the station or have certain vacant spaces and competitors in the vicinity, so it is difficult to increase the rent there. In other cases, we are flexibly responding to rent revision negotiations with tenants with consideration of maintaining occupancy. Therefore, we will firmly aim to increase rent for those with a large rent gap and those with a low difficulty of tenant replacement. To achieve stable growth, an explicit approach is required. I think it is a chance to show off our capability.

**Q6 : Regarding the trend in the office occupancy rate at the end of the fiscal period, the previous guidance predicted that on cash basis it would recover to 97.4% at the end of the period ending November 2021 (FP20), but this time it is estimated to be 95.0%, down about 2.5pt. On the other hand, the forecast for the fiscal period ending May 2022 (FP21) is a significant recovery of 98.3%. Is this based on contracts that you have already made or on expectation?**

A6 : From what I actually feel of the market, in the past few months, occupancy has been increasing and decreasing, and it takes time for companies to make decisions to move in due to economic uncertainty. This time's occupancy expectation reflects that the recovery of the occupancy on cash basis is delayed from the previous forecast. As for the market outlook, from this winter to next spring, if the occupancy returns by conducting measures such as lowering the rent for the areas with poor conditions where leasing goes sluggish, the market will recover to a solid level by next spring. Since we expect to do so, the recovery has been delayed for about half a year from the previous forecast. It reflects the fact that the strength and weakness of each area and property are becoming clear, and that the large areas such of

from 200 to 300 tsubo are more severe compared to the areas of 100 tsubo or less. On the other hand, the demand is active from tenants looking for better location. They seek to relocate in better location even if the new area is smaller than before as they should cost cut at the same time. We can receive the demands from those tenants. Even though the large lot is tough overall, we have made a contract with a lot of over 300 tsubo at Ebisu Prime Square. I think it is important to aim for recovery toward next spring, so this time we have this outlook.

**Q7 : The occupancy will recover from 95.0% to 98.3%, and what are the proportions of those already contracted and those expected?**

A7 : At the moment, there are not so many contracts that have been concluded, and there are many prospects. However, as it is clear which properties are struggling and which are enjoying, so I think that how to resolve the problem of the properties suffering is also visible to some extent.

**Q8 : Sales in DECKS Tokyo Beach and Tokyu Plaza Omotesando Harajuku seem to have fallen recently. What do you think about the current situation and future outlook of the end tenant's ability to pay rent and the occupancy rate?**

A8 : Sales at those two facilities are certainly struggling. As an individual factor, for Tokyu Plaza Omotesando Harajuku, we lost American Eagle Outfitters which had been operating two years ago, and for Odaiba, inbound demand has disappeared. It is difficult to improve sales under such circumstances. In terms of eviction and occupancy rate, there are about 40-50 evictions mainly of small tenants, and most of them are small and medium-sized food and beverage tenants. Although the impact on our business performance is not significant, it is a very important factor for the vitality of commercial facilities. So we would like to tackle backfilling as an immediate issue.

**Q9 : Regarding the appraisal value, certain, mainly retail properties, lowered valuation from the previous period. For Tokyu Plaza Omotesando, cap rate change etc., may be a factor for lower appraisal value, but this is based on a transient factor of COVID-19 or reflecting the current trend in rent per tsubo, etc.?**

A9 : This time, cap rate is the main factor for the lowered appraisal values of Omotesando and Akasaka. For both properties, cash flow was reviewed as those had rent reduction. The cap rate of Akasaka has been raised as in the previous fiscal period, partly due to cash flow reviewed following hotel rent reductions. Other than that, the appraisal value is slightly lowered due to NOI fluctuations for the properties whose cash flow was affected by rent reductions. For these properties, the key is whether or not sales will return steadily.

**Q10 : Regarding the DPU forecast, the biggest factor of the decrease for the fiscal period ending November 2021 (FP20) is the financial cost of 161 yen. Is it okay to understand that this is a conservative assumption as in the previous fiscal period?**

A10 : We are incorporating interest rate buffers in our earnings forecasts this time, too. The buffer is equivalent to 161 yen for the November 2021 (FP20) forecast and 192 yen for the May 2022 (FP21) forecast. There is no change in the supportive stance of lenders. The spread is slightly widened in the recent borrowings, but in any case, it does not have a significant impact on our business performance.

**Q11 : Regarding the successor tenant of American Eagle Outfitters, you mentioned that it was a "long-term stable contract". What about the rent level?**

A11 : We have achieved some rent improvement, so we take it positively.

**Q12 : The breakdown of the COVID-19 impact on the forecast DPU was disclosed until the last time. Please tell us the breakdown of the COVID-19 impact at this time.**

A12 : On page 5 of the financial results presentation material, the main factors of COVID-19 impact, such as the facility shutdowns, temporary rent reductions, and downtime, are listed. On the page 6, the COVID-19 impact includes the sales-linked at hotels, etc., so some numbers do not match those on the previous page. As mentioned on page 5, the impact of the temporary rent reduction was significant in the fiscal period ended November 2020 (FP20), but this has gradually settled down. The number of downtimes is still large, but it has decreased in the fiscal period ending May 2022 (FP21). This is because it reflects improved office occupancy, even though the retail will take some time to recover.

**Q13 : If the sales-linked rent at hotels before COVID-19 level is added to the number on P5, will it be close to the number on P6, then?**

A13 : You're right.

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