This document was prepared based on statements made at the earnings announcement meeting held on November 16, 2018 (Friday) and should not be construed as a solicitation for investment in the Investment Corporation. Moreover, please understand that we shall not be held liable for omissions and errors of data and phrases used in this document. Furthermore, opinions and forecasts indicated in this document are the Investment Corporation's judgments as of the time this document was prepared. No assurances or promises can be given regarding the accuracy and certainty of this information, and it can be modified without prior notice.

Main Q&A at the 25th Fiscal Period Earnings Announcement

Date and Time: 14:00-15:00, November 16, 2018 (Friday)
Presenter: Akira Yamanouchi / President and Representative Director
Daiwa Real Estate Asset Management Co. Ltd.
*Questions are presented in sequential order.

Q1 Given differences in type and operation, a merger with Nippon Healthcare Investment Corporation under the umbrella of the same management company was originally explained to have no merits. Have your thoughts changed after the merger?

(Answer)

There have been no changes (in the policy), neither from before nor after the merger

Q2 Does the promotion of property replacement mean a shift from local areas to Tokyo?

(Answer)

Not necessarily. We position Osaka and Nagoya as core cities from a long-term perspective. Rent will also be on an upward trend in Fukuoka. Currently, the competition in Osaka is harsh, but we will select properties for which an upside can be expected as each area has unique characteristics. With regard to properties in areas other than core cities, we take into account the risks from a long-term perspective and consider measures including sales for property replacement even when properties can be managed at a high yield.

Q3 How do you forecast the price and cap rate in the rental residential market? Are there any differences between listed REITs and private REITs?

(Answer)

We believe it is highly likely that the cap rate of residential properties will further decrease.

There will be no significant change in the capital costs of private REITs and the purchasing power will not increase rapidly, but the current purchasing power is recognized to be strong enough. In addition, the implied cap rate of some listed REITs decreased to the 3% range. As for global funds, some players recognize Japanese rental residences as the core among all core properties.

Taking such into consideration, there will be no factors behind an increase in cap rate for a while.

Q4 The percentage change in the total amount of monthly rent upon tenant turnover remains negative. Why?

(Answer)

There are several factors, but rent increase in the residential market is led by properties having a particularly large unit size located in central Tokyo. Although JRH achieved nationwide dispersion, growth is rather slow as the percentage of the 23 wards of Tokyo remains at around 40% of the portfolio. In addition, while we do not attribute the stagnant rent increase to aging properties, there are some cases in which rents decrease when tenants who had been occupying properties from before the global financial crisis, which account for 10 to 20% of all tenants, move out.

However, our management policy is to focus on operation. We will place utmost importance on the maintenance of occupancy rate without changing the policy and prioritize the maximization of cash flow for six months.

Our strategy to increase the occupancy rate and maximize the six-month cash flow is appropriate since residential properties have a high turnover rate unlike office buildings.

Q5 How should we make judgments if JRH would acquire properties whose completion year is an even number and JRH's order of priority is subordinate to DPR in the measure to prevent conflicts of interest (page 35 in the financial results material)?

(Answer)

As indicated in page 35 in the material, there may be designations by the seller. Also, private REITs may not acquire properties due to the difference in investment policy. In addition, private REITs may not implement local projects as only a small number of private REITs can invest in local areas.

Q6 Why is the ratio of overseas investors high?

(Answer)

The global offering conducted in May 2015 became a springboard for the increase in the number of overseas investors. JRH is probably the only residential REIT that made an offering in North America. In addition, there is a possibility that JRH was evaluated as inexpensive as overseas investors emphasize a sense of inexpensiveness.

We continuously conduct IR activities for overseas investors to maintain our relations with them.

Q7 What do you think of the future management policy for properties whose rents are on a downward trend?

(Answer)

Basically, the rent of rental residences will decrease due to aging. However, there are no problems in properties whose decline rate in NOI is lower than that in depreciation as the yield based on book value can be maintained. We will consider selling properties of which a high book yield cannot be maintained after depreciation, but we have already sold properties that needed to be sold immediately.

Q8 Will focusing more on rent increase rather than occupancy rate lead to rent increase?

(Answer)

Not all rents will increase, but we believe that some properties let their rents remain positive even when offsetting the increase in income by rent increase against the decrease in income due to downtime, and we manage each property by adopting different strategies.

We strive to increase to the maximum extent the rent of properties whose rents are increasing, but also aim to achieve both the reduction of downtime and rent increase, so there is no change in our policy to maximize overall income. We believe that the ratio of properties whose rents cannot be raised despite our efforts is approximately below 1%.

Q9 You continue to set external growth as a target, but do you think effective investment can be executed?

(Answer)

Despite harsh competition, we expect to see a sufficient number of properties that can be acquired at an NOI yield of around 4.5% if careful sourcing of projects can be implemented.

Q10 Although the profitability of existing properties is improving as a result of cost reduction, does this practice bring about any negative effects?

(Answer)

Although we strive to reduce costs, we regard the management status as favorable. We conduct appropriate management at reasonable cost and no negative effects have been seen. Unnecessary costs are believed not to accrue as we conduct transparent transactions without relying on specific business operators.