Kenedix Office Investment Corporation
Presentation of Financial Results for the Fiscal Period Ended October 31, 2022
Conference Call (Q&A Session)
(Held on December 15, 2022)
Q&A Session Summary

Q1. Please share your thoughts about the leasing environment, including your level of confidence with respect to capturing re-tenanting demand for KDX Kawasaki-Ekimae Hon-cho Building after the tenant who occupied the whole building moved out.

A1. As shown in page 13 of the presentation material, the turnover ratio, which temporarily rose to 4.1% in the fiscal period ended October 31, 2022, is expected to decline to 3.7% in the fiscal period ending April 30, 2023 (including approximately 1% attributable to the move-out at KDX Kawasaki-Ekimae Hon-cho Building). Given the fact that more than 70% of tenants moved in for the purpose of floor expansion during the period ended October 31, 2022, we think that the occupancy rate will be maintained, if we continue to capture brisk demand for floor expansion among small and medium enterprises. As shown specifically by the examples on page 18, Higashi-Kayabacho Yuraku Building and KDX Chofu Building, which were the leasing focus properties for the fiscal period ended October 31, 2022, among other buildings, reflect the results that we achieved. With respect to KDX Kawasaki-Ekimae Hon-cho Building, all of which will be vacant, we will work on a range of measures that contribute to the enhancement of unitholders' value, such as conducting flexible leasing activities while also paying attention to the conditions of the surrounding area.

Q2. Looking at the expected balance of utility expenses for the fiscal period ending October 31, 2023, is it correct to understand that you are assuming that progress will be made to some extent in the implementation of electricity pass-through (switching to a cost-linked billing method) to tenants?

A2. If things go as expected, we are assuming that the pass-through will be applied to most tenants at the end of the fiscal period ending October 31, 2023.

Q3. Will you continue to consider acquiring own investment units going forward, if you have cash on hand? Please share your thoughts from the perspectives of the current investment unit prices, the ratio of investment unit price to NAV per unit (P/NAV), and the environment surrounding property transactions.

A3. The current P/NAV is approximately 0.8 times, which we consider a low level. When asset reshuffling going forward, there may be cases where sellouts take place first. We will allocate cash on hand obtained from sellouts for the acquisition of properties if properties that satisfy our conditions are available. Having said that, given the continuing difficult environment for property acquisitions, we will work on initiatives that lead to enhancing unitholders' value, such as the acquisition of own investment units, depending on the level of investment unit prices, among other factors.

Q4. What are your assumptions with respect to future trends in differences between contracted area-based occupancy rate and actual occupancy rates excluding free rent areas?

A4. If move-outs remain around 4%, we expect that the differences will continue to be at the same level as the fiscal period ended October 31, 2022. What is important for the time being is to maintain a high level of contract-based occupancy rates while simultaneously paying attention to the large quantity of office floors expected to be available in 2023. With this in mind, we are hoping to maintain the current level of 97 to 98%.

Q5. You assume that the move-out rate will decrease slightly in the fiscal period ending April 30, 2023. Does this reflect any changes such as the prolonged lead time for contracts in leasing-related activities?

A5. We don't feel that the lead time is getting longer. Vacancies in some properties are filled promptly due mainly to floor expansion in the building, while other properties require a certain amount of time. This is the same as before.

Q6. In conjunction with the balance of reserve of reduction entry, you have said that you will use the portion provided in the fiscal period ended April 30, 2021 and thereafter to maintain a stable distribution per unit (DPU) for the time being. If there is any change in your stance, please share it.

A6. There is no change in our stance. We may however consider changing our stance in the future if we feel certain about robustness in internal or external growth and succeed in raising profit levels.

Q7. What is the background behind free rent periods getting shorter in the five central wards of Tokyo and other regional areas?

A7. During the fiscal period ended October 31, 2022, free rent periods in the five central wards and other regional areas became shorter while those in other Tokyo metropolitan area grew longer. Despite that, we don't think any changes occurred to the business environment compared to the previous period. If a move-out takes place in a property that is relatively easy to lease, a contract is reached even without providing a long rent-free period. Otherwise, a rather long period is provided. There is no change in this trend. The results for the current fiscal period reflect the average periods provided.

Q8. Regarding electricity charges, what is the level of increase you are assuming?

A8. It is pretty difficult to forecast future electricity rates. Given a range of uncertain factors such as higher rates set by power companies and an increase in fuel adjustment fees due to higher energy costs, our stance is to make estimates that are neither too optimistic nor too conservative.