Kenedix Office Investment Corporation

Presentation of Financial Results for the Fiscal Period Ended April 30, 2022 Conference Call

(Q&A Session)

(Held on June 15, 2022)

Q&A Session Summary

Q1. You say you assume that the occupancy rate will remain at the 97% level. Has tenant demand changed in any way recently?

A1. In the fiscal period ending October 31, 2022, there will be a disproportionate number of tenants moving out at the end of the period in September and October, making it difficult to fill the vacancies during the period and we assume that the occupancy rate will fall. However, tenant demand remains firm, bolstered by needs for larger offices and with the level of market activity also remaining high, there are no major changes.

Q2. What is the outlook for the turnover ratio?

A2. In the fiscal period ending October 31, 2022, we expect a turnover rate of 4.0%, reflecting multiple moveouts due to office consolidation or other reasons. While it is difficult to predict the future, our forecast for the fiscal period ending April 30, 2023, will be also based on the assumption of a turnover rate of roughly the same level. However, we intend to continue reliably filling vacancies as before.

Q3. What is your thoughts on the level of asking rents for properties with low occupancy?

A3. When setting rents, we are mindful of ensuring that asking rents are on the same level or higher than market rent levels.

Q4. You say that free rent periods have grown longer. Surely rental revenue will be reduced accordingly during the initial contract period?

A4. The duration of an initial contract with a tenant is usually two years but if we grant a free rent period, we add the free rent period onto this, making the initial contract period longer and still receive rent for two years.

Also if the tenant cancels the contract during the initial contract period, the tenant must pay rent for the free rent period as a penalty charge for contract cancellation.

Q5. Is it taking longer to fill vacancies?

A5. The strength of tenant demand varies depending on location and the size of the area being offered and comparatively large spaces in coastal locations, etc. have become harder to fill but otherwise vacancies are sometimes filled straight away and demand remains strong.

In the case of office space which has been vacant for a long period, we endeavor to quickly improve the occupancy rate based on an agile and flexible leasing strategy, for example, further granting rent free periods or making spaces smaller by subdividing them.

Q6. Previously your policy was to prioritize property acquisitions over acquisitions of your own investment units, right? What is the background to the recent decision to acquire your own investment units?

A6. Given that the recent level of the investment unit price and the P/NAV ratio are even lower than before, we judged based on comprehensive consideration that acquiring our own investment units would help improve unitholder value in the medium and long term including improving net income per unit and DPU and improving the P/NAV ratios.

Q7. Will you consider acquiring your own investment units again if conditions making it difficult to reshuffle assets and acquire properties persist?

A7. Our policy is to respond flexibly based on comprehensive consideration of a range of factors including real estate market and equity market conditions, the investment unit price, the interest-bearing debt ratio (LTV) and the level of our cash position at the time.

If a property that meets our requirements comes onto the market, we will consider acquiring it and, together with gains on the sale of real estate through the reshuffle of assets, we will consider the repayment of loans and the acquisition of our own investment units. Through a combination of various initiatives such as these, we intend to bring about improvement in unitholder value.

Q8. What is your outlook for appraisal value, which is a factor behind the increase in NAV per unit?

A8. Mainly due to the increase in appraisal value, NAV per unit has also risen. However, given that there is still a gap between the cap rate used for appraisal value and the actual market cap rate, we believe that even in a situation where rising long-term interest rates made investors slightly more wary of the risk of an increase in the cap rate, it is still highly unlikely that the appraisal value would fall suddenly and unrealized profit would drop sharply.

Q9. What is your outlook for the level of LTV?

A9. Assuming acquisition of our own investment units and assuming that we fund the planned acquisition of Edobashi Building on June 30 entirely with loans, we estimate that LTV will be above 45%. Our policy of aiming for an LTV of around 45% remains unchanged, but looking at the level of KDO’s LTV in the past, property acquisitions and other factors have pushed LTV temporarily above 45% in the past.

Given that JCR recently upgraded our issuer credit rating from AA- (positive) to AA (stable) and that our sponsor Kenedix has also formed a capital alliance with Sumitomo Mitsui Finance and Leasing Company, Limited, there is also no change in the fact that the framework of support we will receive from financial institutions remains strong.

Moving forward, we intend to continue controlling the level of LTV in our asset management operations, taking factors such as the status of the pipeline and equity market and changes in our cash position into consideration.