MIRAI Corporation
Q&A from result announcement for fiscal period ended October 2022
(The 13th fiscal period)

Date of the result announcement: December 19, 2022 (Monday) *Held online

Q1.
When will the Mid-term Management Plan target of 53,000 yen NAV per unit be achieved? Is there an estimated ratio between the contribution from the improvement in appraisal value of existing properties held and the contribution from unrealized gain from newly acquired properties?

A1.
MIRAI aims to achieve the target by 2025, as stated in the Mid-term Management Plan. While there is an expectation of increases in appraisal value due to a future decline in cap rates for existing properties, the immediate driver of NAV improvement is the implementation of asset replacement strategy, which involves disposition of assets with unrealized losses or small unrealized gains and acquisition of assets with unrealized gains. Following the first asset replacements (Disposition: Comfort Hotel Nagano and Orico Hakataeki Minami Building ⇔ Acquisition: MI Terrace Sendai Hirose-dori) executed from the 13th to the beginning of the 14th fiscal period, MIRAI is currently seeking further asset replacements that will enable NAV improvement.

Q2.
What is the estimated occupancy rate of Tokyo Front Terrace and BizMiiX Yodoyabashi for the fiscal period ending April 2023 (14th fiscal period) and October 2023 (15th fiscal period)?

A2.
Occupancy rate based on rent generated (average during the fiscal period) for Tokyo Front Terrace is 76.5% for the 14th fiscal period and 77.0% for the 15th fiscal period, and for BizMiiX Yodoyabashi is 82.1% for the 14th fiscal period and 95.6% for the 15th fiscal period.

Q3.

Is the forecast DPU of 1,100 yen for the fiscal period ending October 2023 a bottom? When will the Mid-term Management Plan's smart defense target of 1,300 yen be achieved?

A3.

The forecast conservatively incorporates the increase in utilities costs, and we aim for as much upside as possible from 1,100 yen as the bottom. In the previous result announcement, we had said that we expected to reach 1,300 yen by the end of 2023, but this is expected to be delayed to 2024, partly due to delays in improvement of office occupancy.

Q4.

What is the prospective yield on the bridge project worth 8 billion yen?

A4.

One guideline is a level close to the post-depreciation NOI yield of the existing portfolio (approximately just below 4%).

Q5.

What is the background behind the new tenant of Ise City Hotel Annex offering a higher rent than the existing tenant?

A5.

We understand that the most important reason is the attractive tourist resource of Ise Jingu Shrine. The new contract introduces a fixed rent that is higher than the existing tenant and a variable rent based on its performance. Since the new tenant, The COURT, is skilled in attracting inbound tourists, we are hopeful that the rebranding to EN HOTEL will generate upside by capturing tourism demand.

Q6.

What is the situation with the major game manufacturer, which is the main tenant of Shinjuku Eastside Square, and what is the impact on the business performance of MIRAI?

A6.

The contract has been extended to July 2027 at the recent renewal. The rent received from the tenant is about 2% of the portfolio, so the impact on MIRAI's performance is not significant. We are aware that there have been media reports that the tenant in question is planning to relocate, and we have also confirmed that some sort of consideration is being given to the matter from the conversations with the tenant. On the other hand, we have heard from other existing tenants who appreciate the convenience and building specs and wish to expand floor space, and we believe that even if relocation were to become a reality, it would be possible to re-lease the space.

Q7.

There is a trend among office REITs to pass-through utilities costs to tenants. Are there any plans to do the same for MIRAI?

A7.

The most significant factor behind the rise in utilities costs is the increase in fuel cost adjustments. In MIRAI's office assets, measures such as raising unit prices for tenants who are charged fixed electricity rates and pass-through of fuel cost adjustments have already been implemented during the 13th fiscal period. Although not incorporated in the forecasts, we intend to negotiate with tenants to share a portion of the increase in electricity cost for common areas. In addition, to save electricity, MIRAI plans to switch to LED lighting in Mi-Nara's common areas and renovate the heat source of Kawasaki Tech Center.

Q8.

LTV is at a high level compared to other REITs, and what will MIRAI do if the environment continues to make it difficult to implement public offerings?

Since there is no change in the policy of gradually lowering the LTV level in conjunction with public offerings, we will consider using part of the proceeds from the disposition of the assets to repay loan if it is difficult to conduct public offerings. It will be difficult to lower the LTV level all at once, but we intend to control it conservatively, taking into account the risk of rising interest rates.

Q9.

With regard to Kawasaki Tech Center, large vacancies at properties managed by other REITs are expected in the vicinity. What is the impact of this?

A9.

Kawasaki Tech Center is characterized by its relatively low rent and spec that allows for lab-like usage. The building has high security, twice the electrical capacity of normal offices, emergency generators that also covers private areas, a larger-than-normal floor loading capacity of 500 kg, a large 3-ton freight elevator, etc., and its occupancy rate is 100%. Currently leasing is underway for a space that is scheduled to be vacant, and the prospective tenant plans to use the property in a lab-like manner. The supply of such properties is very limited, and high occupancy can be maintained without being affected much by the conditions of surrounding properties.

(End)