MIRAI Corporation
Q&A from result announcement for fiscal period ended April 2023
(The 14th fiscal period)

Date of the result announcement: June 15, 2023 (Thursday) *Held online

Q1.
Variable rents for hotels are considered to be one of the major growth drivers. How much of this is expected to be generated in the current forecasts? Also, as Smile Hotel Naha City Resort is no longer provided as an accommodation for COVID-19 patients, what level of variable rent can we expect after it returns to normal operations?
A1.
While the fiscal period ending October 31, 2023 (15th period) includes one month of Naha being used as the COVID-19 accommodation facility in May, the guidance is based on the assumption that variable rents will be approximately 30% of pre-COVID-19 level for the fiscal period ending April 30, 2024 (16th period) following the cessation of usage as COVID-19 accommodation. We understand that this may seem a little too low, but Naha has not yet accumulated enough track record since it resumed normal operations, so we must be conservative in our assumptions.
On the other hand, the number of tourists to Okinawa as a whole has recovered to about 70% of pre-COVID-19 record high level in FY2022, and with the hurdles for overseas travel being high due to inflation and foreign exchange rate issues, we expect that occupancy rates and RevPAR levels will exceed previous levels. Since no operating costs were incurred during the period when the property was offered as a COVID-19 accommodation, variable rents relative to RevPAR levels were higher than before COVID-19, but with the operator showing strong enthusiasm, we hope to achieve a level comparable to the previous level.

Q2.
What is the reason for keeping the retained earnings, even at the expense of corporate taxes, and what is the policy for its future use?

A2.
Since MRAI was listed in 2016, the tax-free retained earnings available to REITs listed earlier were not available to us and we thought that the lack of options for stabilizing distributions per unit (DPU) was an issue. While this may not be necessary if the J-REIT market is growing steadily, this decision was made because there are many concerns for growth, such as rising costs due to inflation and uncertainty in the office market, and therefore a measure to stabilize DPU in the future is necessary. In making the decision, we carefully analyzed precedents, and we believe that the results of DPU of 1,305 yen and retained earnings of 136 million yen should be supported because of the return to the unitholders with solid upside for this fiscal period.
The future utilization policy is all about stabilizing DPU, but it also intended to be used for future growth, such as covering temporary dilution at the time of public offerings.

Q3.

The Bank of Japan's policy meeting is being held today, and what is the policy for dealing with large-scale refinancing that is coming amid concerns about future interest rate hikes? Is there any recent change in the lending attitude of financial institutions?

A3.

As stated on page 12 of the IR material, total of 15.5 billion yen in refinancing is planned within 2023, and considering the current AUM of MIRAI, we recognize that this is an important issue that needs to be addressed while being mindful of economic terms and conditions. In May, we visited the financial institutions we do business with and interviewed them about their lending attitudes. Generally, there has been no change in their attitude toward financing for real estate, and we do not believe that there is any concern that economic terms and conditions will deteriorate rapidly so long as our relationship with the financial institutions and our policy of selective investment for new acquisitions are maintained.

Large-scale refinancing is a syndicated loan arranged by the main and sub-main lenders, with whom we have good communication, including daily information exchange, and we intend to start discussions as soon as possible in light of interest rate trends. Some financial institutions, such as The Juhachi-Shinwa Bank, with whom we started new transactions when we refinanced last November, and Fukuoka Bank, from whom we are borrowing for the first time in several years, have both shown supportive attitude, and we would like to aim for smooth refinancing while also aiming for the secondary effect of diversifying financing sources.

Q4.

You mentioned that you are focusing on mid-sized offices in regional core cities in the future external growth strategy. What kind of properties in what areas are you targeting?

A4.

In addition to past acquisitions of office properties in major regional cities such as Sendai, Nagoya, and Hiroshima, we would like to consider acquiring offices in ordinance-designated cities in the future. When considering acquisitions, particular attention should be paid to cities with a solid industrial base, such as the presence of major manufacturers, and offices that are positioned as winners in the area. Looking at regional office properties, we feel that in many cases there are clear winners and losers in terms of property management and operation. In areas with a solid industrial base, the winning properties are expected to enjoy stable operation supported by solid tenant demand. Also, some owners place priority on occupancy, so there are many properties with room for rent increases. A further point is that the supply of new properties is extremely limited compared to large cities. We would like to pick up these properties carefully.

(End)

*In addition to questions from investors, FAQs (frequently asked questions) prepared by the asset manager may also be included.