MIRAI Corporation

Q&A from result announcement for fiscal period ended April 2020

(the 8th fiscal period)

*The 8th fiscal period financial results briefing was canceled to prevent the spread of COVID-19. However, MIRAI Corporation (hereinafter "MIRAI") and Mitsui Bussan & IDERA Partners Co., Ltd., the asset management company of MIRAI (hereinafter referred to as "we") will post the questions and answers that frequently occurred during interviews with analysts and investors as reference information.

Q1.

What is the impact of COVID-19 on the properties after the financial results announcement (June 15) of MIRAI?

A1.

As the economy has been returning to normal due to the lifting of the state of emergency, it is an impression that the consultation regarding rent payment from tenants has come to an end. On the other hand, we are not optimistic about the risk of the arrival of the second wave, so we are trying to understand the situation through close communication with the tenants of hotels and shop-visit type retail properties.

Q2.

What are your thoughts on the impact of the expansion and constancy of telework on office demand?

A2.

There are only a few requests to move out tenants at MIRAI's office properties, which is limited. Even if some companies introduce telework in the future, we believe that existing office use and telework will coexist, and we do not expect that the cancellation of offices will increase significantly. Rather, there are cases where they are considering increasing the floor space to ensure the distance between employees, which can be a trade-off for such needs. On the other hand, the demand for satellite/serviced offices is likely to be even stronger such as Hotel WBF Yodoyabashi-Minami, which is scheduled to be converted to a "ready-to-use serviced office", as introductions are steadily progressing in industries and business categories suitable for telework.

Q3.

How much office leasing is recovering after the lifting of the state of emergency? In addition, do you think that internal growth from rent increase and tenant replacement can be achieved at the same pace as before?

A3.

Although it is not completely back to the situation before COVID-19, the rent increase negotiations and new leasing activities have resumed while looking at the market and tenant conditions, and it seems that has recovered about 70%.

MIRAI's main office properties still have a certain level of rent gap, and we will continue to pursue opportunities for internal growth.

Q4.

Any retail properties have been affected by COVID-19?

A4.

Mi-Nara, which has been shutting down most of the stores due to the business closure request under the state of emergency, and THINGS Aoyama, where many of weddings have been postponed, are particularly affected. However, customer traffic is recovering gradually following the resumption of operation in May and restaurants and ROUND 1 STADIUM are also on recovery trend at Mi-Nara. Furthermore, wedding cancellations at THINGS Aoyama are also rare, and the number of reservations has increased for autumn onwards when COVID-19 is expected to converge.

Q5.

What is the occupancy status and future outlook for hotels?

A5.

Although it varies depending on the region, the occupancy rate during the period of the state of emergency is about 20 to 30% on average. Properties with a high inbound ratio had a particularly large impact, but some properties that the demand for business travel was the main factor, maintained a certain occupancy rate in rural areas where the number of people infected with COVID-19 was relatively small. We believe that it will take some time for inbound demand to return, but with the increase in movement across prefectural boundaries due to the lifting of the state of emergency, it is expected that properties that focus on business travel will recover relatively quickly.

Q6.

Estimated rent after the conversion of Hotel WBF Yodoyabashi-Minami is higher than ordinary offices, but is it at a reasonable level?

A6.

Generally, the average rent per tsubo (monthly) of a serviced office is about three times that of ordinary offices. The current estimated rent is also at a reasonable standard given the office rents around Yodoyabashi and associated services. On the other hand, in terms of the rent per user, it is still lower than major shared offices/serviced offices that are already operating in central Osaka. Considering that it has a relatively large space, we believe that cost-competitiveness is high.

Q7.

Is it possible to achieve 90% expected occupancy rate after the conversion?

A7.

A preliminary survey analyzed that the supply-demand balance of satellite/serviced offices in Osaka is tighter than in Tokyo. The occupancy rate of the surrounding facilities is also high, and the rent is lower than the major competitors as mentioned above, so we consider the level can be achieved sufficiently. Additionally, we believe that the needs for satellite/serviced offices may increase post COVID-19.

Q8.

Could you tell us the specific details of MIRAI Revitalization Plan 2 (further renewal of Mi-Nara)?

A8.

As the asset management company, Mitsui Bussan & IDERA Partners Co., Ltd., strengthened their involvement in facility operations last year, the activity at the facility has improved even though the rent from end tenants has not reached the minimum guaranteed level. This Revitalization Plan aims to review the tenant composition of merchandise stores, services, food and beverages, boldly replace unprofitable tenants, and incorporate new expertise on facility management through collaboration with third parties.

Q9.

Regarding the portfolio reconstruction, have you decided which properties will be candidates for asset allocations or acquisition/disposition after the change?

A9.

We have temporarily suspended new hotel acquisitions at the moment. We are considering making it more aggressive toward medium-sized offices with rent gaps, retail properties such as supermarkets and home improvement centers where solid demand was confirmed even during the stay-at-home period, and logistics properties and land assets with highly defensive properties, but we haven’t decided a specific asset allocation ratio. Although no decisions have been made on candidate properties for disposition, we have picked up some candidates after comparing the entire portfolio yield and the individual properties yield. The properties under consideration for acquisition are medium-sized offices and land assets valued around 15 billion yen.