MIRAI Corporation
Q&A from result announcement for fiscal period ended April 2024
(The 16th fiscal period)

Date of the result announcement: June 19, 2024 (Wednesday) *Held online

Q1.

What is the reason for the increase in internal reserves and how do you plan to use it?

A1.

Firstly, it is assumed that distributions will be made on a net income (EPU) basis without reversal of internal reserves from the fiscal period ending October 31, 2024 (the 17th fiscal period) onward since a certain amount of internal reserves was secured through this increase. While we estimate expenses related to leasing business and finance costs somewhat conservatively in the face of rising interest rates and inflation, we expect they will be used to prepare for the risk of higher-than-expected increases of costs and to cover one-time DPU decreases, such as dilution and costs in the event of a public offering.

Q2.

Does the additional tax burden associated with internal reserves actually drain funds outward? Is there a specific risk that requires profits that should be returned to investors to be retained internally, despite incurring an additional tax burden?

A2.

The additional tax burden incurred is recorded as corporate tax, inhabitant tax, and enterprise tax, and there will be an outflow of funds upon payment of the tax. Rather than considering specific risks, we took into account the fact that as a real estate stock, investors generally view MIRAI as having a higher risk toward interest rate hikes, and that there are few options to retain internal reserves due to the timing of the IPO, and decided to increase internal reserves at this time based on comprehensive consideration including MIRAI's ability to pay the same amount of distributions as forecast DPU without having to draw down the internal reserves that was originally anticipated, as well as the level of additional tax burden and others.

Q3.

I think the main scenario for fixed rent hotels whose contracts are about to expire is to switch to variable rent, but how much room is there for switching to variable rent (including changing operators), including for properties to be considered for acquisition in the future?

A3.

As stated in the question, our policy for the renewal of fixed-rent hotel contracts in the future is to aim for either a large rent increase or a switch to variable rents that offer upside potential. We believe that there is ample room for switching to variable rents, as we plan to consult with multiple candidates, not limited to existing operators, while assessing their strengths and weaknesses in the target assets and geographical areas, and selecting those that we believe have high feasibility for their plan.

In the past, we have switched the operators of the hotel in Ise to The COURT under our sponsor IDERA Capital, and the hotels in Osaka and Kyoto to Smile Hotel, and we will continue to consider initiatives to maximize the appeal of each property.

Q4.

The Offices in the bay area is being backfilled. What is the rent level compared to the previous tenants?

A4.

Leasing for Shinagawa Seaside Parktower and Tokyo Front Terrace in Tennozu is progressing relatively smoothly, maintaining a high level of occupancy rate. Although there has been no significant decline in contractual unit rents, we have been proactive in leasing activities, taking into account vacancies and information on future vacancies in the surrounding area, and have been somewhat flexible in terms of free rent and rent holidays as a means of encouraging potential tenants to make decisions. There is a certain gap between the contractual rent and the actual rent, as indicated by the difference between the “Average Occupancy Rate” and the “Rent Generating Occupancy” in the graph on the right side of page 16 of the presentation material.

Going forward, MIRAI plans to achieve upside through free rent coming to an end and raising rents for tenants that have entered into fixed-term lease agreements with relatively low rents, although the number of such tenants is not large (i.e., re-signing existing tenants at higher rents or replacement with tenants that pay higher rents).

Q5.

A large availability for a building believed to be Shinjuku East Side Square is being advertised on an office leasing information site. I would like to know about the leasing policy for this property and the timing of the impact on business performance if vacancies were to occur.

A5.

Although we are unable to give a specific answer regarding the movements of a major tenant of Shinjuku East Side due to the relationship with the tenant and co-owners of the asset, we expect that the impact of the move-out will be felt beyond the fiscal period ending April 2025 (the 18th fiscal period), the period for which the earnings forecast has been announced this time.

With regard to leasing policy, discussions will be held with existing tenants that have indicated a desire for floor space expansion on a priority basis, and then consider attracting multiple tenants.

The Tokyo office market has largely survived the massive supply in 2023, and there are signs that occupancy and rents will recover to some extent this year. Supply in 2025 is expected to be similar to that of 2023, but we estimate the market will be able to weather the supply given the influx of workers to Tokyo. Since buildings to be supplied in the future are expected to be accompanied by higher rents to some extent, reflecting the recent rise in construction costs, MIRAI believes that offices in the mid-rent range (10,000-low 20,000s yen per tsubo), which is its main focus, will be relatively unaffected by the large supply of new buildings.

(End)

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