MIRAI Corporation
Q&A from result announcement for fiscal period ended October 2024
(The 17th fiscal period)

Date of the result announcement: December 18, 2024 (Wednesday) *Held online

Q1.

On page 9 of the presentation material, there is a reference to the conversion of other asset classes into hotels. Is the possibility of actually carrying out such conversions increasing?

A1.

Due to the recent rise in construction costs, development of budget hotels, which was once very active, has become unprofitable, and the supply to the market has become limited. The current project under a bridge fund is a plan to convert a retail asset in a location suitable for a hotel into a hotel, and the hotel operator has already been selected, so it is positioned as a future acquisition pipeline.

Q2.

Are there any particular attributes of the succeeding tenants to the large tenant who is to partially move out of Shinjuku Eastside Square?

A2.

As stated on page 13 of the financial results briefing materials, a large tenant that occupies 36.8% of the total floor space of Shinjuku Eastside Square is scheduled to vacate a 21.4% portion of the property in July 2025. More than half of the areas to be vacated already have succeeding tenants secured, and the occupancy rate for the entire property is expected to reach over 90%. We are also in negotiations with several promising candidates for the remaining spaces, and expect to fill them up quickly. With the clear recovery in the occupancy rate of central Tokyo offices lately and the prospect of rising rents, we believe that there is a trend for tenants to sign contracts as early as possible.

Since a large amount of free rent has been granted for the existing tenant, the actual rent will increase in the contracts with the succeeding tenants, and an improvement in profitability is expected.

Although there are no particularly notable attributes of the succeeding tenants, some tenants have local connection to the Higashi-Shinjuku area, such as those expanding their floor space within the building or companies in neighboring area expanding their offices, etc. Furthermore, there is also demand from companies that have their headquarters in central Tokyo. The rent per tsubo for this property is in the mid-20,000 yen range, which is still reasonable in the area and we believe that is why the backfilling is progressing smoothly.

Q3.

Does being mindful of the implied cap rate upon acquisition mean that the management will be more conscious of the investment unit price?

A3.

In the past public offerings, MIRAI has acquired assets with yields that exceed the implied cap rate with the aim of increasing distributions after acquisition. Naturally, in future asset replacements, we will also conduct transactions that will grow distributions, and we will also consider distributing disposition gains.

Q4.

I hear that Smile Hotel Hakata Ekimae is seeing strong inbound demand, particularly from South Korea, but what are your thoughts on the impact of the current political situation in South Korea?

A4.

The president being pro-American and pro-Japanese is thought to be one of the factors boosting inbound demand from South Korea. The number of guests from South Korea staying at the hotel in November 2024 remained high, and there has been no impact from the political turmoil so far. In addition, there is also inbound tourists from countries other than South Korea, such as China and Taiwan, so even if inbound tourism from South Korea were to decline, we expect that the shortfall to be offset to a certain extent. In any case, we do not expect the short-term impact to be significant, but we will continue to monitor the trends and impact on Japan-Korea relations over the medium to long term.

Q5.

Please explain the details of the "Historical DPU" on page 22 of the presentation material.

A5.

For the 18th fiscal period (ending April 2025), the main positive factor is an increase in office rents at Shinagawa Seaside Parktower, etc., while the main negative factors are a decrease in retail rents due to the seasonality of Mi-Nara, etc., and a decrease in rents at Tokyo Front Terrace.

For the 19th fiscal period (ending October 2025), the main positive factors are an increase in office rents due to the elimination of free rent and rent holidays at Tokyo Front Terrace, etc., and an increase in retail rents due to the seasonality of Mi-Nara, etc., while the main negative factors are a decrease in hotel rents at Smile Hotel Kyoto Karasumagojo and a deterioration in the net utilities expenses at Kawasaki Tech Center, etc., due to seasonality.

Q6.
What do you think about the situation where the discount to NAV for J-REITs as a whole, including MIRAI, continues to be quite deep? Are there any measures being taken to resolve this?

A6.
We think that not only MIRAI but also J-REITs as a whole are oversold. On the other hand, we are also aware that there are no catalysts for actively purchasing J-REITs in the face of the expected interest rate hikes by the Bank of Japan. The response we should take in this environment is to achieve internal growth at all costs. Specifically, we will focus on increasing office rents, ensure that we capture the upside of variable rents by improving occupancy rates at hotels, and raise the profitability of MIRAI's portfolio through asset replacements, thereby achieving internal growth.
In addition, we think that the investment units buyback should be considered as an option for future initiatives to eliminate the NAV discount.

(End)

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