CRE Logistics REIT, Inc.

Announcement of Financial Results for the 16th Fiscal Period (Ended June 30, 2024)

August 16, 2024

Event Summary

[Company Name]	CRE Logistics REIT, Inc.
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[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Announcement of Financial Results for the 16th Fiscal Period (Ended June 30, 2024)
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[Venue Size]	
[Participants]	
[Number of Speakers]	1

	Tsuyoshi Ito	President
[Analyst Names]*	Hiroshi Torii	SMBC Nikko Securities
	Yosuke Ohata	Mizuho Securities
	Kouki Ozawa	SBI SECURITIES

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Thank you very much for your patience. This is the announcement of financial results for the 16th fiscal period of CRE Logistics REIT, Inc.

Thank you very much for taking time out of your busy schedule to join us today. We would also like to express our sincere appreciation for your ongoing support for the management of the fund.

Today, we will have an explanation from Tsuyoshi Ito, President of CRE REIT Advisers, Inc., followed by a question-and-answer session. We will ask you to indicate your intention to ask a question, unmute you, and then ask you to speak up. The event will be live-streamed, and we ask for your patience in the event that the communication environment may be unstable at times.

For those attending by telephone, please also refer to the financial results presentation materials available on our website.

Now Mr. Ito will begin his explanation.

Ito: My name is Ito of CRE REIT Advisers. Thank you very much for watching today's earnings presentation of CRE Logistics REIT.

The fund was able to close its 16th fiscal period at the end of June. We would like to express our deepest gratitude to everyone involved for their support.

Prior to the explanation, I would like to report one point. A large typhoon approached the Kanto area today, but no damage has occurred to facilities owned by the fund at this time.

I will now begin my explanation in accordance with the materials on the screen.

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Glossary

Term	Definition
Appraisal value	The appraisal value or an investigated value as of the end of the period is stated based on the Certificate of Incorporation of CRE REIT and the Regulation on Accountings of Investment Corporations (Cabinet Office Order No.47 of 2006 including subsequent revisions)
Unrealized gains	(Appraisal value) - (Book value) as of the end of the period
LTV	(Outstanding balance of interest-bearing debt) / (Total Assets)
LTV based on appraisal value	(Outstanding balance of interest-bearing debt) / (Total assets + Unrealized gains)
NAV	Net assets + Unrealized gains - Total amount of distributions
NAV per unit	(Net assets + Unrealized gains - Total amount of distributions) / Total number of investment units outstanding
Acquisition price	The purchase agreement price for each of the trust beneficiary rights stated in the sales agreement and does not include national and local consumption taxes or sales commission and other expenses that are incurred in the acquisition
NOI yield	Ratio of actual NOI of the portfolio assets to their acquisition price
Appraisal NOI yield	Ratio of the appraisal NOI of each asset to the acquisition price of each asset (based on the relevant real estate appraisal report with valuation dated as of the end of the period)
Occupancy ratio	The ratio of the leased area to the leasable area
CRE	CRE, INC.
CRE Group	CRE, INC. and its subsidiaries and affiliates

- This material is not a disclosure material under the Financial Instruments and Exchange Act, the Act on Investment Trusts and Investment Corporations or the Securities Listing Regulations of the Tokyo Stock Exchange.
- The purpose of this material is to provide information and not to offer, solicit the purchase of or sell certain products. When you make an investment, please do so at your own discretion and risk.
- The market price of investment securities of CRE REIT will be affected by the demand and supply of investors at an exchange and will fluctuate under the influence of the interest rate environment, economic conditions, the real estate market conditions and other factors surrounding the market. Accordingly, the investment securities may possibly not be sold at a higher price than the acquisition price, and investors could suffer a loss as a result.
- The investment securities of CRE REIT need to be purchased and sold through a securities company with which you undertake business. At that time, please read the contents of the document provided before concluding the contract (or a prospectus) carefully.
- While this material contains forward-looking statements and results forecasts, these statements do not guarantee the future results and financial conditions of CRE REIT.
- Unless otherwise noted, in this material, monetary amounts and energy amounts are rounded down to the nearest indicated unit, and areas, numbers of years and ratios are rounded off to the nearest indicated unit. Any average or ratio pertaining to assets is the weighted average based on the acquisition price, unless otherwise noted.

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See table of contents on page one.

The fund has resolved and disclosed various measures today, and I would like to explain the purpose of these measures in chapter one, highlights.

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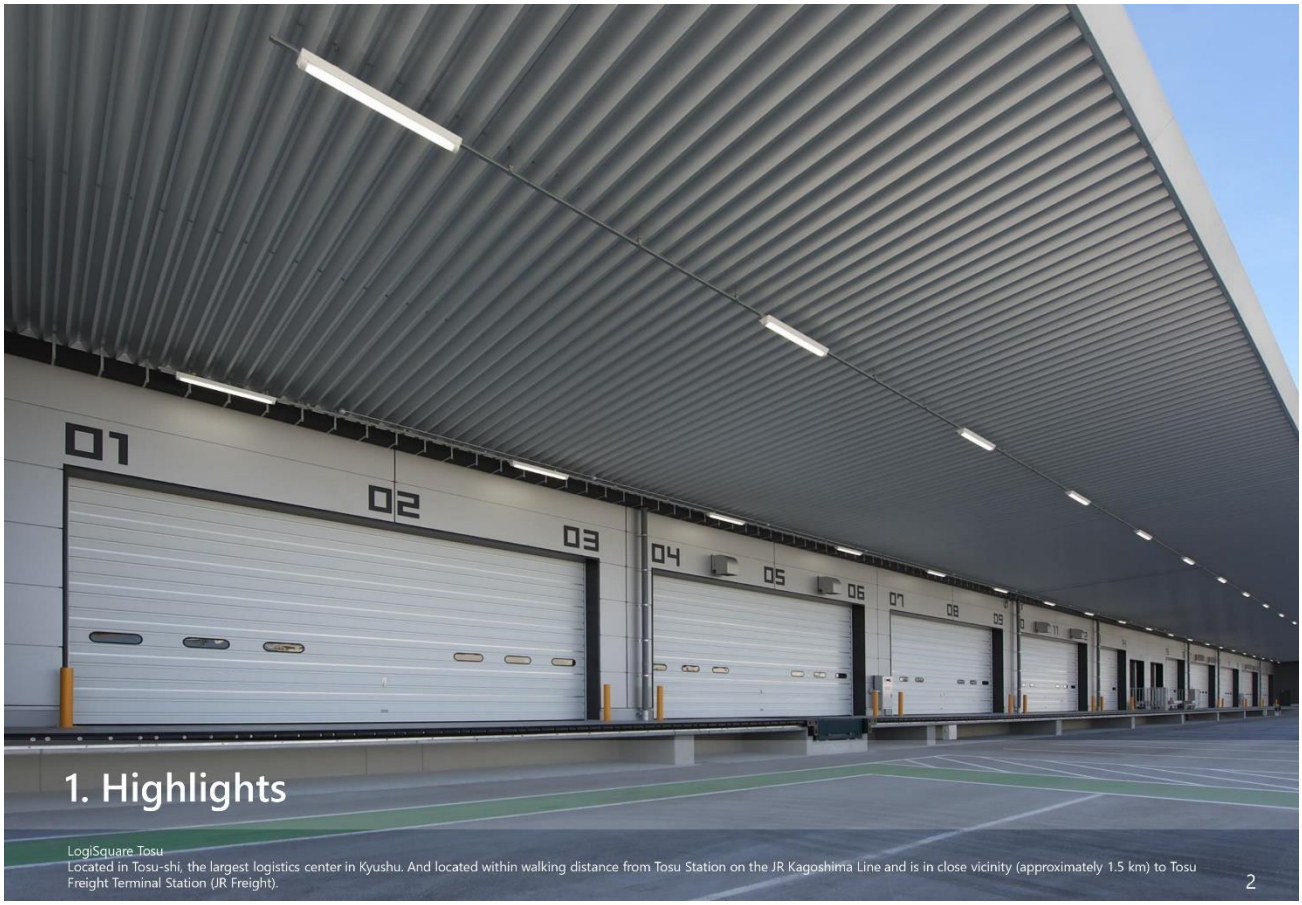


I will now begin on page two with an explanation of chapter one, highlights.

1. Highlights

Summary

Please see the summary on page three.

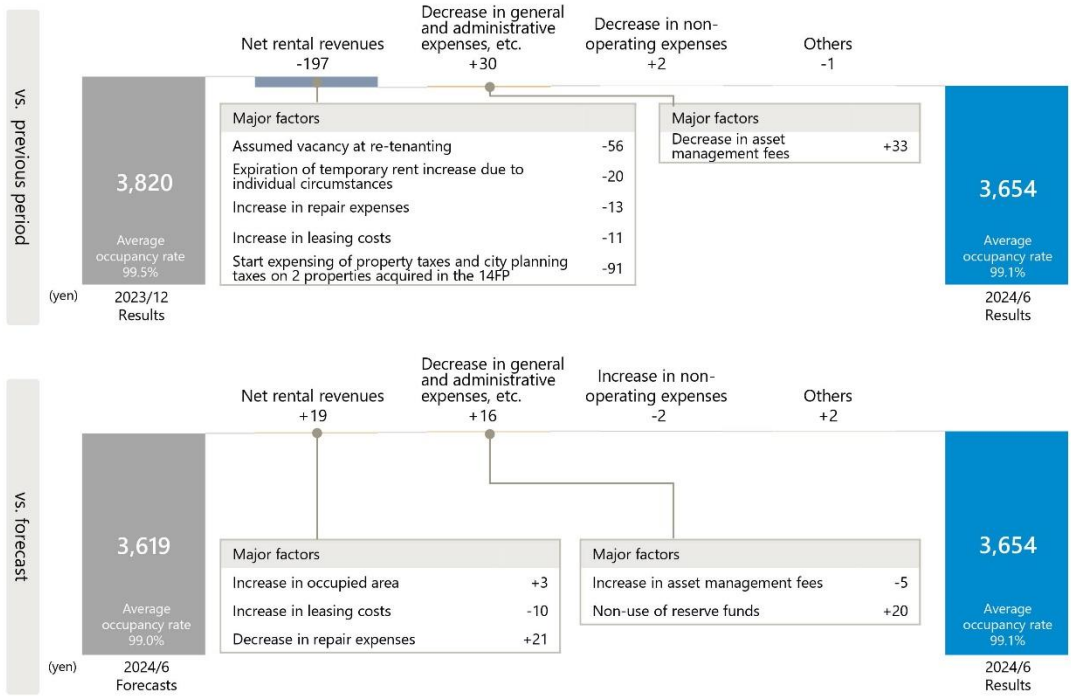
First, we resolved to sell LogiSquare Kuki II in order to realize unrealized gains and secure the necessary funds to implement future measures. This is the second building that the fund has resolved to sell since its listing. Gain on sale of JPY570 million will be returned to unitholders over three fiscal periods from the current fiscal period, to the fiscal period after next. The fund intends to flexibly utilize approximately JPY1.9 billion, which is equivalent to the book value of the property, together with cash in hand equivalent to depreciation expenses that accumulate every fiscal period, for returns to unitholders, property acquisitions, and other purposes.

Second, we reiterate our clear sponsor commitment. CRE, the sponsor of the fund, disclosed today that it will acquire additional investment units of the fund. In addition, bridge schemes have been formed for the two pipeline properties to ensure a three-year management period.

Third, NOI for the entire portfolio is on an increasing trend due to a recovery in occupancy rates and rent increases. At LogiSquare Sayama Hidaka, one tenant moved out, leaving a vacancy, but early leasing activities were successful in attracting a tenant ahead of schedule. Portfolio NOI continues to increase due to rent increases at other facilities and strategic capital expenditures.

1. Highlights

DPU Results for FP 2024/6



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I would now like to explain the distribution results starting on page four.

The upper half of the chart shows the comparison with the fiscal period ended December 31, 2023.

In the net rental revenues, there was a factor for a decrease in dividends. The most significant factor in the decrease was the expense of property tax and city planning tax for the two properties acquired in the 14th fiscal period, LogiSquare Shiroi and LogiSquare Hirakata, which are listed at the bottom of the main factors section.

This is something that always occurs with the acquisition of a property, and although there is no cost burden of property tax and city planning tax in 2023 when the property is acquired, the following year, i.e. from January 1 of this year, there is a burden of property tax and city planning tax by the fund.

The second major factor is vacancy at the time of re-tenanting. Specifically, at LogiSquare Sayama Hidaka, one tenant moved out at the end of April, resulting in a certain amount of vacancy in May and June.

Third, there is the stripping out of temporary rent increases due to individual circumstances. At one of our facilities, a tenant who had been renting at a premium to market rent was able to successfully vacate at the end of March after two contract extensions. Since April 1, we were able to attract a new tenant without any downtime, and the rent under the lease agreement with the new tenant is comparable to the market rent, which is a factor that reduces the rent and reduces the dividend compared to the previous market rent, which was relatively higher than the previous rent.

Since the asset management fee structure of the fund has elements that are linked to the level of profits of the investment corporation, these factors for the decrease in dividends causes the decreases in asset management fees, or the factors for the increase in dividends.

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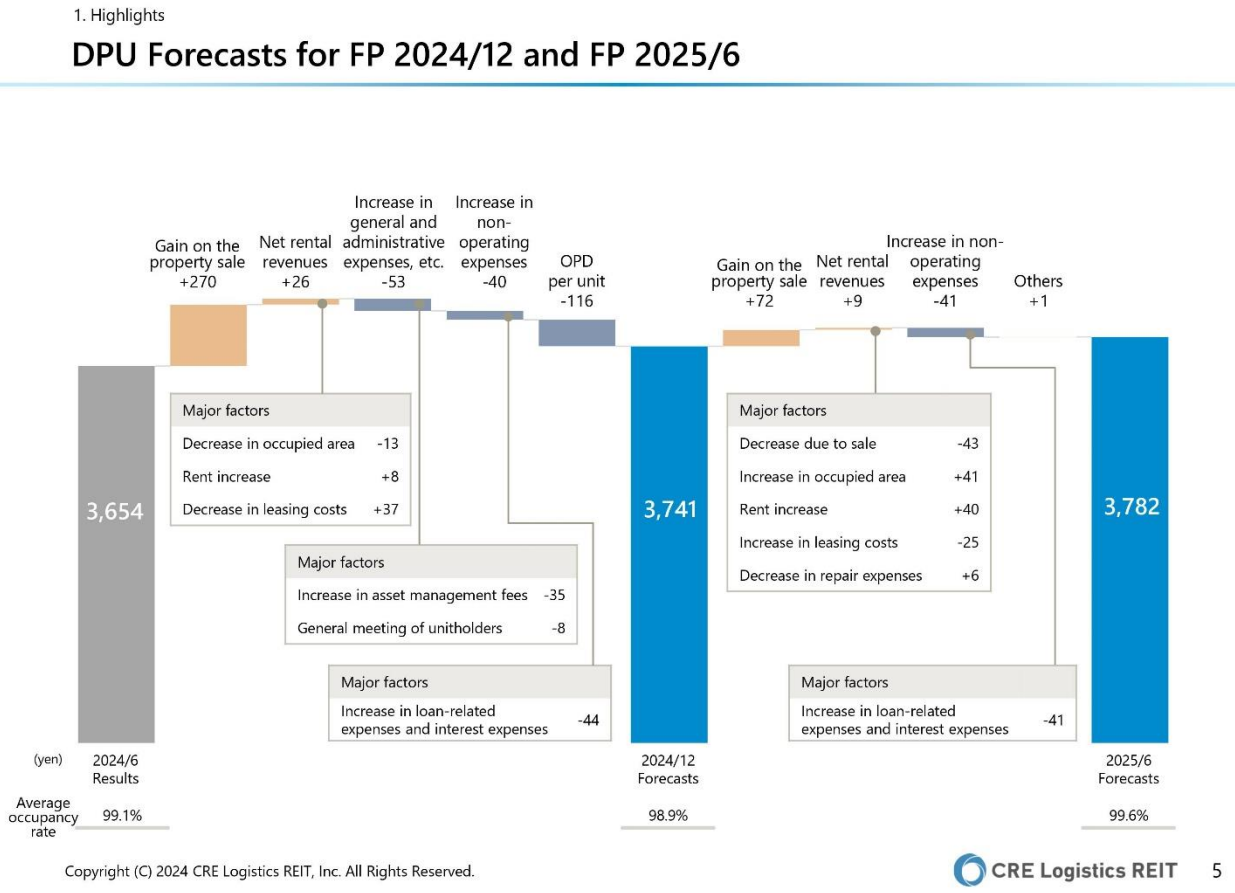
As a result, for the fiscal period ended June 30, 2024, we reduced the dividend by JPY166, compared to the fiscal period ended December 31, 2023, to JPY3,654.

The bottom half of page four shows the comparison to the budget.

With regard to LogiSquare Sayama Hidaka, we succeeded in attracting tenants ahead of schedule, which led to an increase in occupancy, a factor that increased dividends. However, as a result of attracting tenants ahead of schedule, brokerage fees, or leasing costs, were incurred ahead of schedule, which also led to a decrease in dividends.

As a result of appropriate cost control, repair expenses were lower than planned, and most of the reserve funds that had been set aside for precautionary purposes were unused. As a result, the Company landed at JPY3,654, an increase of JPY35 compared to the earnings forecast.



Next, on page five, I would like to explain the forecasted cash distribution.

We have revised our forecast for the fiscal period ending December 31, 2024 upward by JPY87 from the JPY3,654 we disclosed six months ago. The largest factor in the comparison for the period ended June 30, 2024 was the sale of properties. The sale of a 30% interest in LogiSquare Kuki II generated an increase in dividends.

In terms of profit and loss from the leasing business, steady progress in leasing and rent increases, as well as a temporary decrease in leasing costs, have enabled us to firmly secure an increase in dividends. The upward revision of operating results is reflected in an increase in management fees and dividend reduction factors, as well as an increase in interest expenses as a result of refinancing, reflecting higher market interest rate.

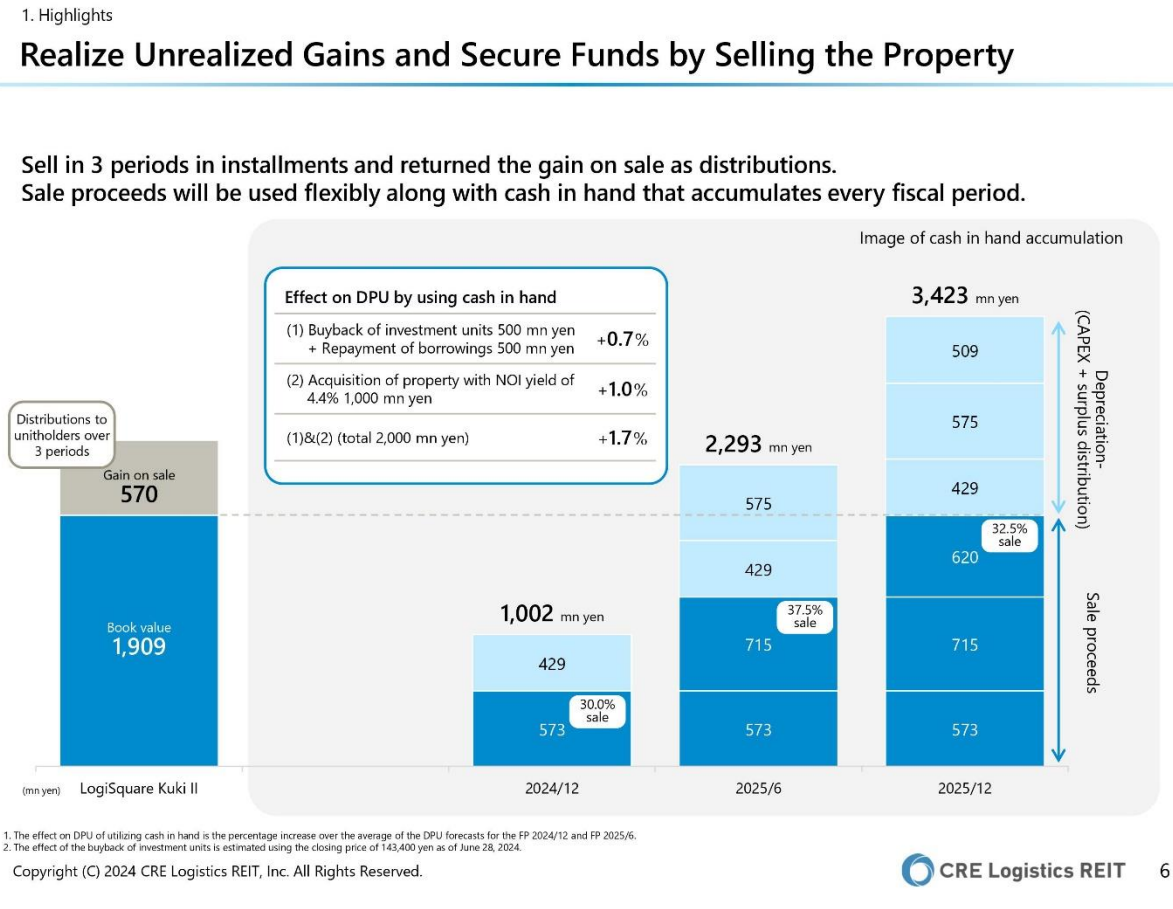
Finally, with regard to distributions in excess of earnings, the fund has been paying out an amount equivalent to 30% of depreciation expenses as a return to unitholders. However, in the three fiscal periods in which gains on sales are recorded, priority will be given to building up the cash reserves necessary to implement future measures, and distributions in excess of earnings will be reduced to an amount equivalent to 20% of depreciation expenses.

As a result, for the fiscal period ending December 31, 2024, we are again announcing our earnings forecast of JPY3,741, an increase of JPY87 compared to the fiscal period ended June 30, 2024.

The first factor for dividend increase in the fiscal period ending June 30, 2025 is the sale of 37.5% interest in LogiSquare Kuki II, which creates an additional factor for dividend increase, in addition to the sale of 30% interest in the fiscal period ending December 31, 2024. Cumulatively, 67.5% of Kuki II will be sold, which will result in a decrease in NOI and a reduction in dividends due to the sale.

On the other hand, increased occupancy at LogiSquare Sayama Hidaka and higher rents at other facilities continued to produce an increase in income from rental operations. Since the maturity of long-term debt will arrive in January 2025, we have factored in a considerable increase in interest expenses due to refinancing and expect to see a reduction in dividends.

As a result, we have announced a new earnings forecast for the fiscal period ending June 30, 2025, increasing the dividend by another JPY41, to JPY3,782.



Continued on page six, we will realize unrealized gains from the sale of properties and secure the necessary cash reserves for future measures.

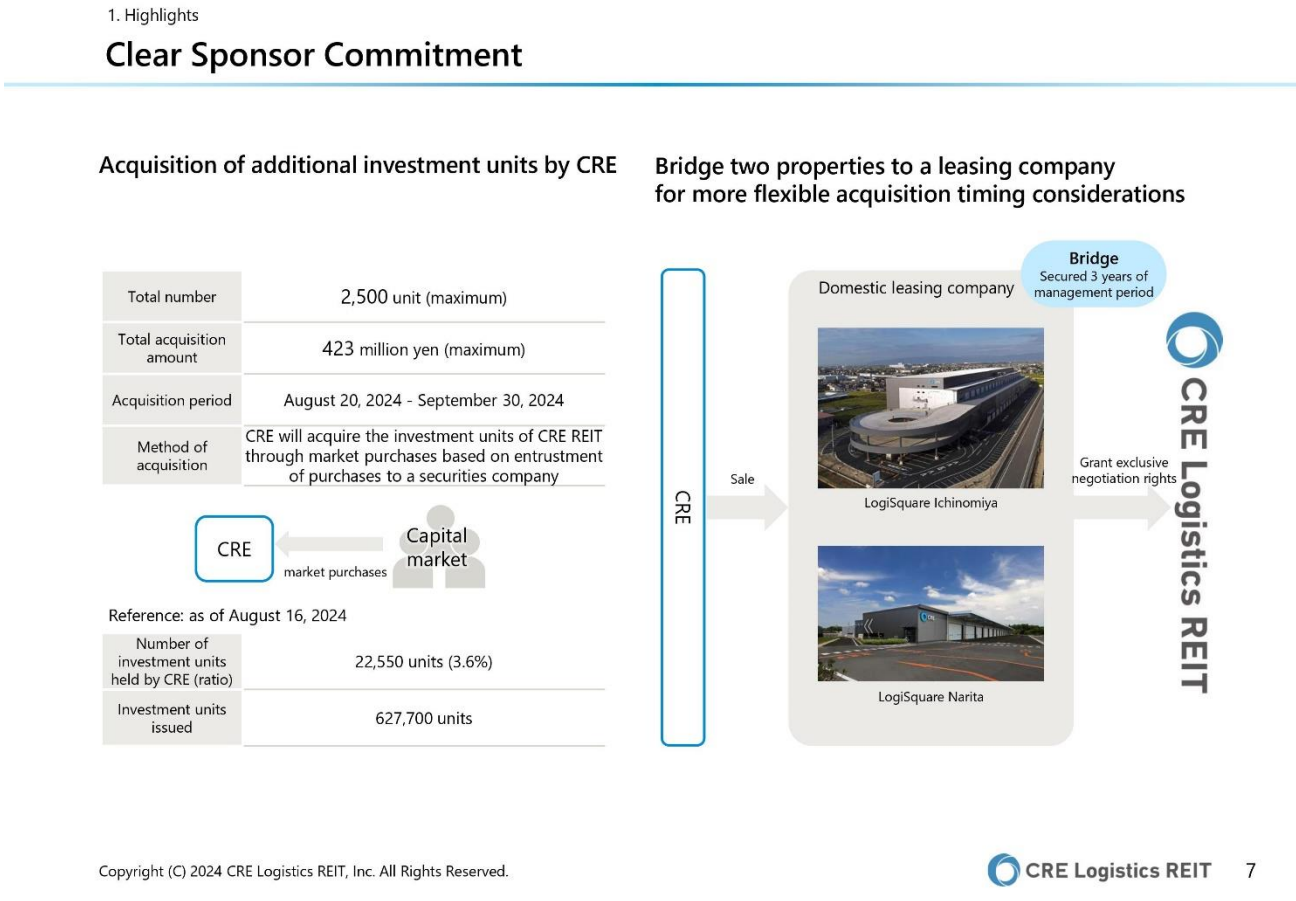
The leftmost bar graph illustrates the book value and gain on sale of LogiSquare Kuki II.

As for Kuki II, as indicated in the bar graph on the right, 30%, 37.5%, and 32.5% will be sold sequentially from this fiscal period onward. The gain on sale will be distributed to unitholders as a dividend each time it is received.

Apart from these items, the fund has recorded depreciation expenses of approximately JPY760 million per fiscal period. As for distributions in excess of earnings, as explained earlier, in the three fiscal periods in which gains on sales are recorded, they will be reduced to an amount equivalent to 20% of depreciation expenses. Since the facilities owned by the fund consist of recently constructed facilities, only a limited amount of capital expenditures will be incurred.

As a result, the accumulation of cash in hand, which is commensurate with depreciation and amortization, is expected to build up sequentially as shown in the light-blue bar graph. Over the three fiscal periods through December 31, 2025, we expect to accumulate approximately JPY3.4 billion in cash reserves, in addition to the cash reserves we currently have, and we will carefully consider how to utilize this cash.

The effect of the DPU, if the measures were implemented with the expenditure of JPY1 billion, is shown on the left side, in the blue box.



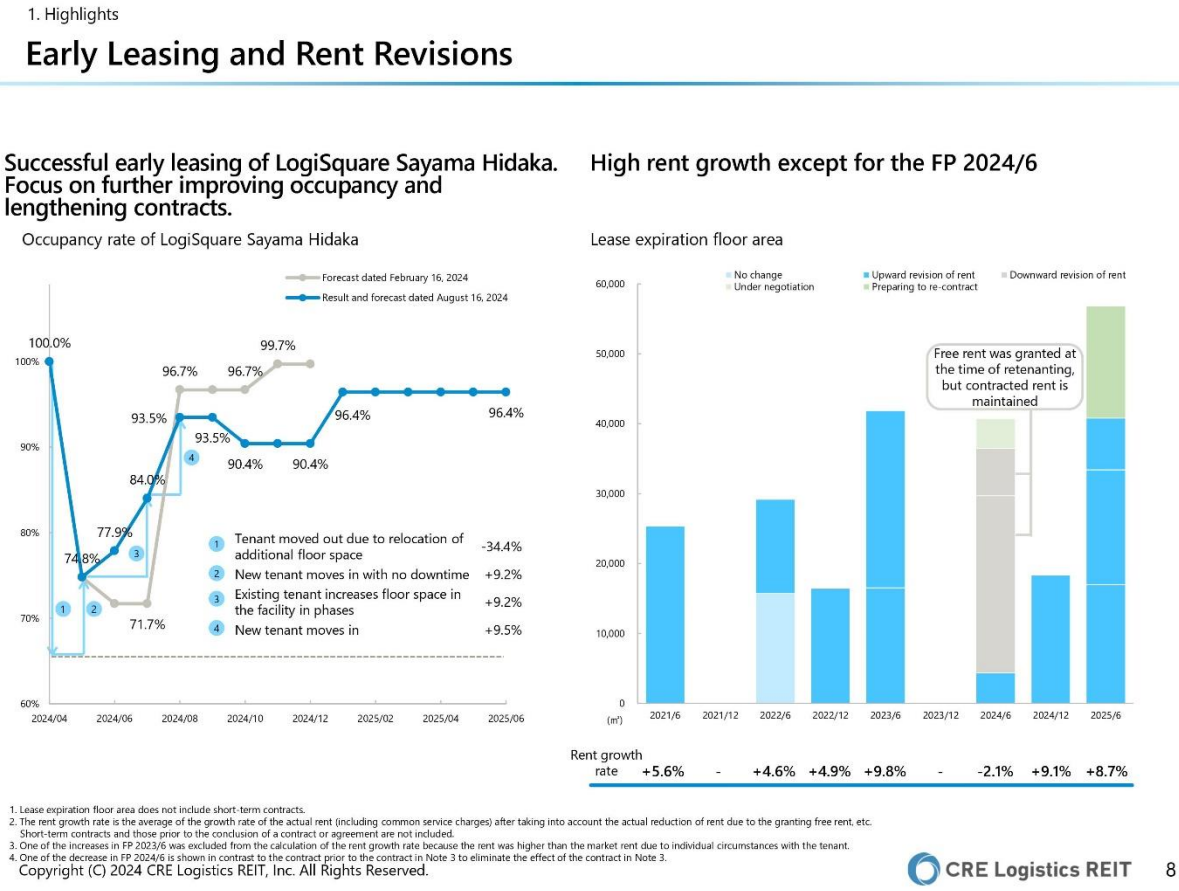
Continued on page seven, we reiterate our clear sponsor commitment.

As disclosed today, CRE, the sponsor, will acquire additional investment units of the fund. We expect that purchases will begin in order from next week onward.

As indicated on the right side of this page, we previously held preferential negotiation rights for LogiSquare Ichinomiya. Furthermore, we have received preferential negotiation rights for LogiSquare Narita, which was completed at the end of May, and tenants moved in and lease contracts started on June 1. The bridge scheme

for Ichinomiya was formed in July and for Narita, in September, as announced today, and a three-year management period was secured.

We will consider acquiring these two properties at the appropriate time and in the appropriate manner, based on changes in the market environment, and the results of conversations and communications with institutional investors,.



Continuing on page eight, I will explain about early leasing and rent revisions.

As shown on the left side of the page, with regard to LogiSquare Sayama Hidaka, the tenant that had occupied the 7,400 tsubo floor moved to another facility and moved out at the end of April due to an increase in cargo volume.

Due to the vacancy of 7,400 tsubo, the occupancy rate of Sayama Hidaka was expected to fall to about 65%, as stated in 1, but as stated in 2, we were able to limit the decline in occupancy rate to about 75% without any downtime, namely as a result of attracting a new tenant on May 1 in one of the parcels.

Since June, as noted in 3, existing tenants have increased floor space in the building in response to increased cargo volume, and as a result, the occupancy rate at Sayama Hidaka has recovered to 84% as of the end of June, the end of the most recent fiscal period. Since the beginning of this fiscal period, we have attracted a new tenant for one more parcel on August 1, bringing the current occupancy rate of Sayama Hidaka to 93.5%, with only one parcel, approximately 1,400 tsubo, remaining vacant.

As for the remaining parcels, we have received concrete inquiries from major logistics companies, and we will complete rent negotiations as soon as possible in order to return the occupancy rate of Sayama Hidaka to 100%, or in other words, to 100% of the entire portfolio.

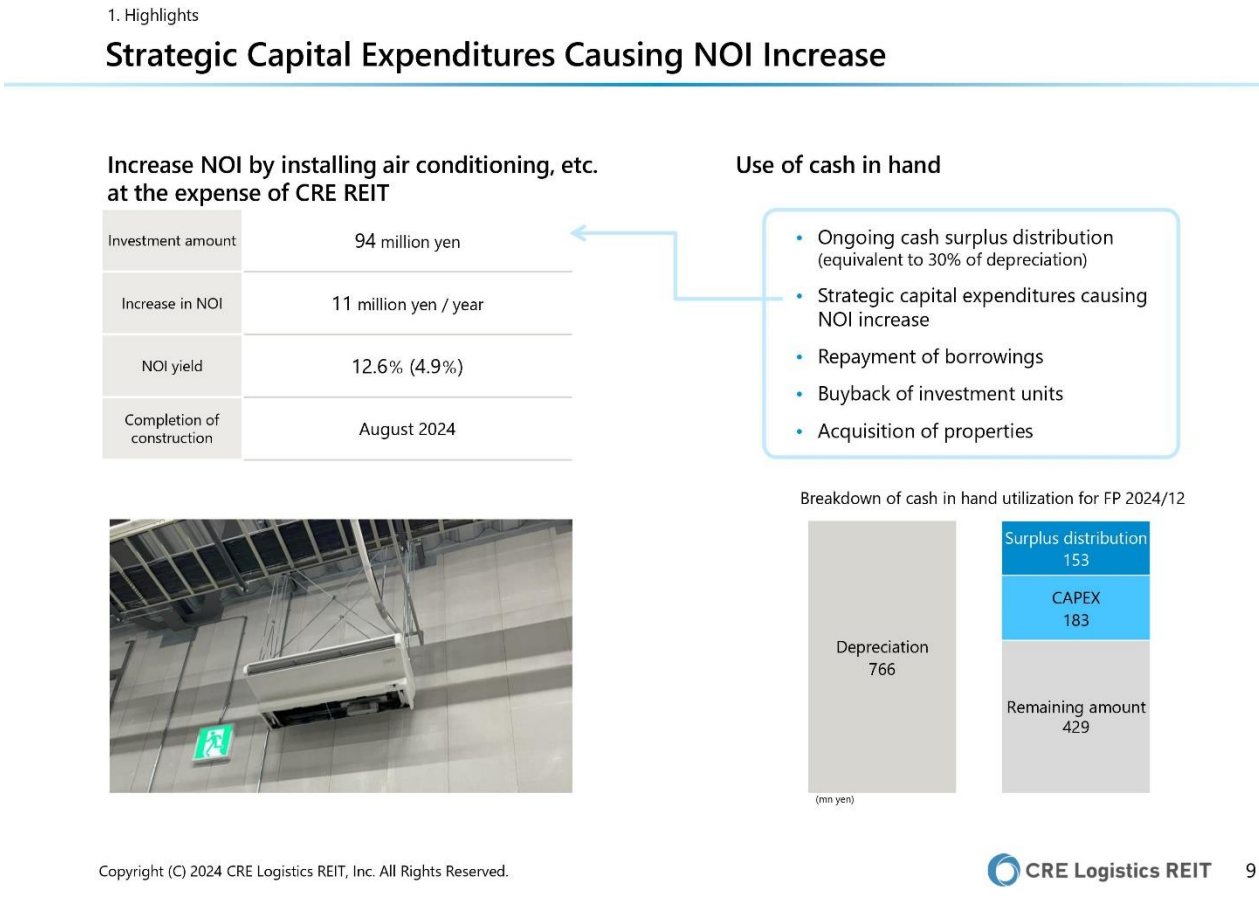
As shown on the right side of the page, we have achieved high rent increase rates. In the fiscal period ended June 30, 2024, the most recent fiscal period, several lease contracts expired. The gray-highlighted bars indicate that free rent was given to tenants when attracting new tenants, but rents under the old and new lease contracts were maintained.

The fund records an average rent for lease agreements that include free rent. In that sense, it is a reduction in the renewed rent, but the nominal rent remains unchanged.

In addition, the light-green bar graph at the very top of the June 2024 period, this is one of the last vacant parcels in Sayama Hidaka, which we introduced earlier.

In the fiscal period ending December 31, 2024, one lease contract will expire, and a new lease contract has already been signed with no free rent, no downtime, and a 9.1% rent increase. In the fiscal period ending June 30, 2025, four lease contracts will expire. For three of them, we have already exchanged written agreements on terms and conditions involving rent increases.

For the remaining one, the green bar graph at the very top, the existing tenant wishes to continue to use the facility, and after six months of negotiations for an increase in rent, an agreement has already been reached on a verbal basis on the increased rent and a new lease agreement has also been finalized. The tenant company is currently in the process of approving the internal approval process and expects to conclude the document by the end of the month.



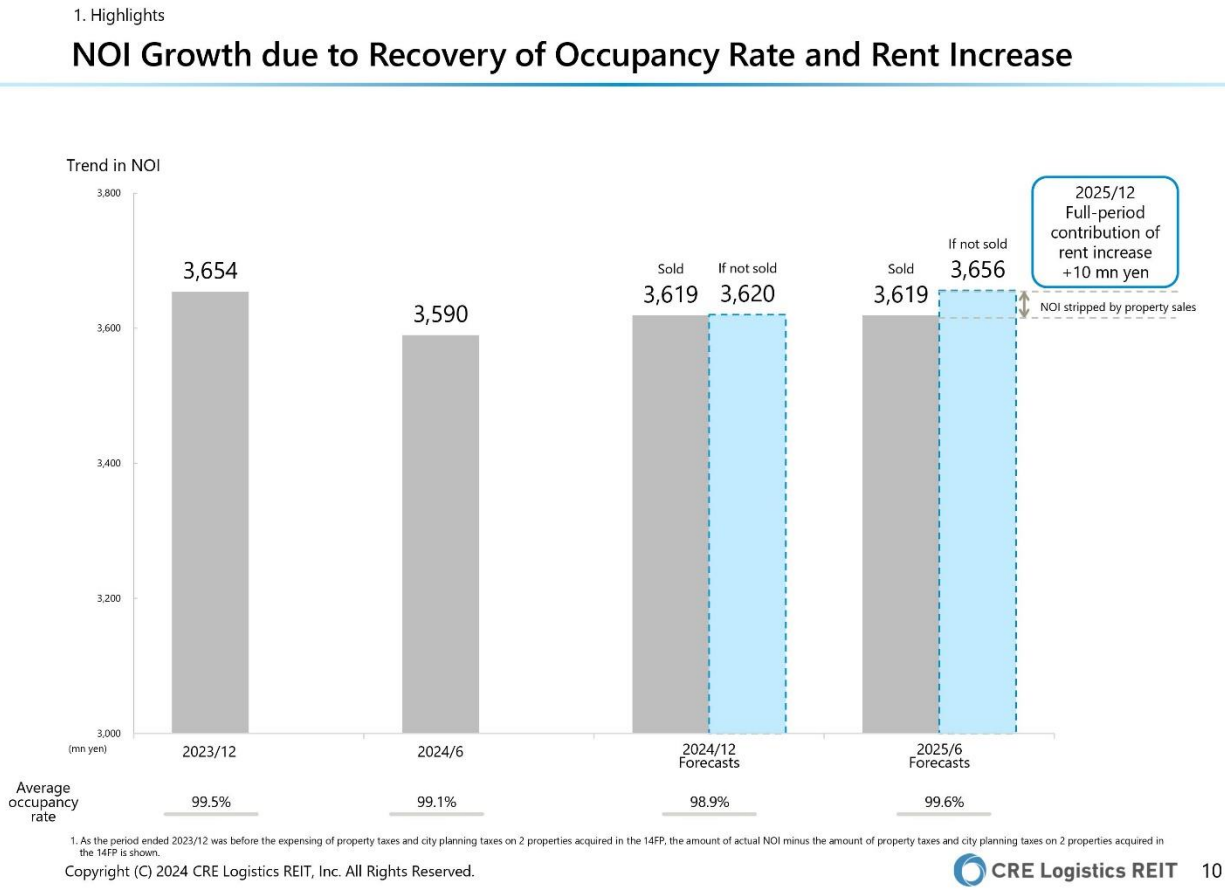
Continuing on page nine, I would like to present some specific examples of strategic capital expenditures.

The blue frame in the upper right corner of page nine is an excerpt from page 13 of the 15th fiscal period financial results presentation.

Specifically, at LogiSquare Hirakata, we received a request from a tenant to install an air-conditioning system, with the aim of improving the working environment in warehouse. The fund is willing to accept such requests because we will strengthen tenant relations and also enhance tenants' adherence to the facility.

We have invested JPY94 million to install air-conditioning equipment, but we cannot afford not to see a return on this investment. After carefully explaining to the tenant companies and obtaining their full understanding that depreciation and its maintenance costs would be incurred if the tenants themselves installed air-conditioning equipment, we secured JPY11 million per year in rent additions and NOI increases, and a 12.6% investment yield.

We have received several such requests for other facilities as well, and we intend to continue to actively respond to these requests as a measure to strengthen tenant relations.



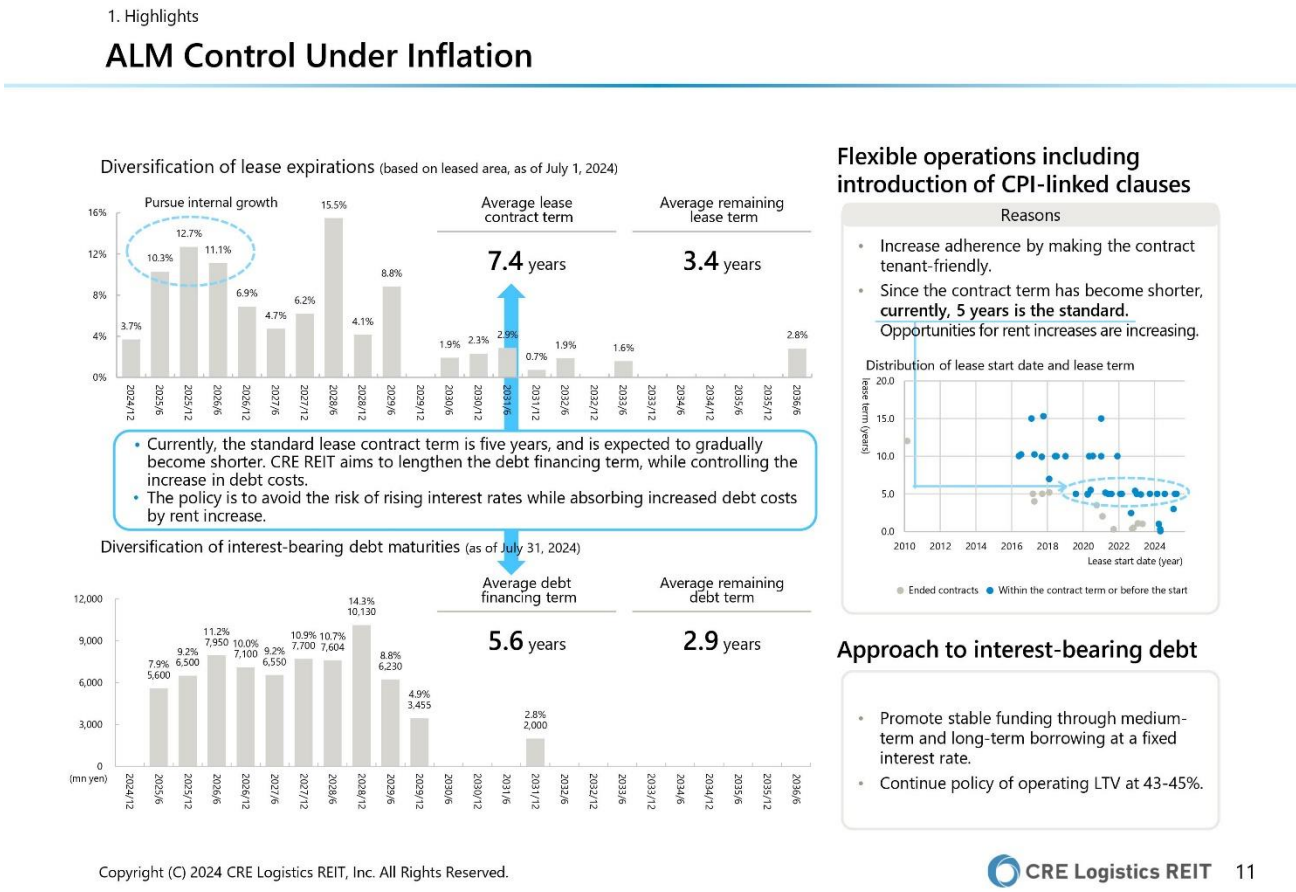
Continued on page 10, NOI for the entire portfolio is on an increasing trend due to a recovery in occupancy rates and rent increases.

The NOI of the fund's portfolio temporarily decreased significantly to JPY3,590 million in the period ended June 30, 2024. The factor is due to a tenant moving out of Sayama Hidaka. However, tenant leasing for Sayama Hidaka is progressing smoothly, and we have succeeded in attracting tenants partially ahead of schedule.

If LogiSquare Kuki II had not been sold and 21 properties had been continuously held and managed, the NOI recovery would have accumulated to JPY3,656 million in the fiscal period ending June 30, 2025, as shown in the dotted blue bar graph. However, in reality, we have resolved to sell LogiSquare Kuki II, and as shown in the gray bar graph, the recovery of NOI is expected to be limited to JPY3,619 million at first.

In addition, four lease contracts will be revised in the fiscal period ending June 30, 2025, and the lease contracts will be revised to increase the rent sequentially during the fiscal period. These four contracts will contribute to the full period for six months, from July 1 to December 31, 2025, and we expect to accumulate an additional JPY10 million in benefits.

Going forward, we intend to further continue the upward trend in NOI through strategic capital expenditures, as described on page nine, or through increased rent revision on lease agreements that will expire in due course at other facilities.



Continuing on page 11, we will try to keep ALM controls in line with inflation.

Since the area of lease contracts that will expire or the amount of debt repayment varies in each fiscal period, the increase in rent may not necessarily exceed the increase in debt cost in all the period, but overall, the increase in debt cost is expected to be absorbed by the increase in rent.

The average lease contract term for facilities owned by the fund is 7.4 years, which is longer than the average debt term. However, as indicated in the blue box, the current standard lease contract for logistics facilities is about five years, then the average lease term is expected to gradually become shorter.

Going forward, we will work to match the duration of our assets and liabilities as closely as possible to accommodate both inflation and deflation.

Based on the premise that the increase in NOI from higher rents can fully absorb the increase in interest expenses and debt costs, we will not unnecessarily reduce debt costs through variable borrowings, but will firmly avoid the risk of rising interest rates and in principle, promote long-term borrowings at fixed interest rates.

1. Highlights

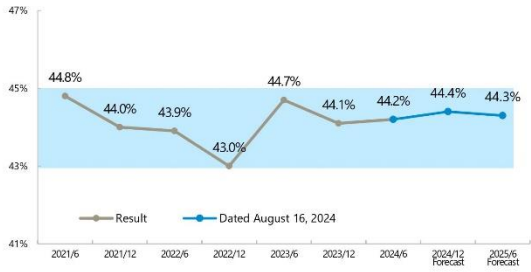
Control Debt Costs and Ensure Financial Stability

Promote debt cost control and financial stability

Ratio of long-term debt	Ratio of fixed interest debt	Average borrowing interest rate
100.0%	82.0%	0.711%
LTV based on appraisal value	**Credit ratings (R&I)**	**Credit ratings (JCR)**
37.3%	A (Stable)	A+ (Stable)

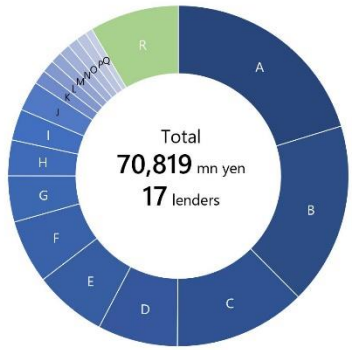
1. LTV based on appraisal value is as of June 30, 2024, others are as of July 31, 2024.

Operate LTV at 43-45%



Diversify interest-bearing debt sources

Breakdown of interest-bearing debt sources (as of July 31, 2024)



A	Sumitomo Mitsui Banking Corporation	20.3%	J	The Bank of Fukuoka, Ltd.	2.8%
B	Mizuho Bank, Ltd.	17.3%	K	The Hyakujushi Bank, Ltd.	1.3%
C	Development Bank of Japan Inc.	12.5%	L	The Yamaguchi Bank, Ltd.	1.2%
D	Resona Bank, Limited	7.6%	M	The Shizuoka Bank, Ltd.	1.1%
E	MUFG Bank, Ltd.	6.9%	N	The Yamanashi Chuo Bank, Ltd.	1.1%
F	Sumitomo Mitsui Trust Bank, Limited	6.0%	O	JAPAN POST BANK Co., Ltd.	1.0%
G	The Nishi-Nippon City Bank, Ltd.	4.4%	P	The Chiba Bank, Ltd.	1.0%
H	SBI Shinsei Bank, Limited	3.4%	Q	The Bank of Toyama, Ltd.	0.7%
I	Aozora Bank, Ltd.	3.0%	R	Green bond	8.5%

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Please refer to page 12.

As shown in the pie chart, the fund's current interest-bearing debt is approximately JPY70.8 billion. Assuming a 0.5% increase in the interest rate on interest expense in the future, interest expense would increase by approximately JPY350 million. Since the annual rental income of the fund is approximately JPY9 billion, if we can increase the rent by 4%, the increase in interest expense will be secured. As we mentioned on page eight, we believe that a 4% rent increase is well within our ability to achieve this goal, based on past performance and future projections.

As for LTV management, we will continue to target 43% to 45%, the same as in the past.

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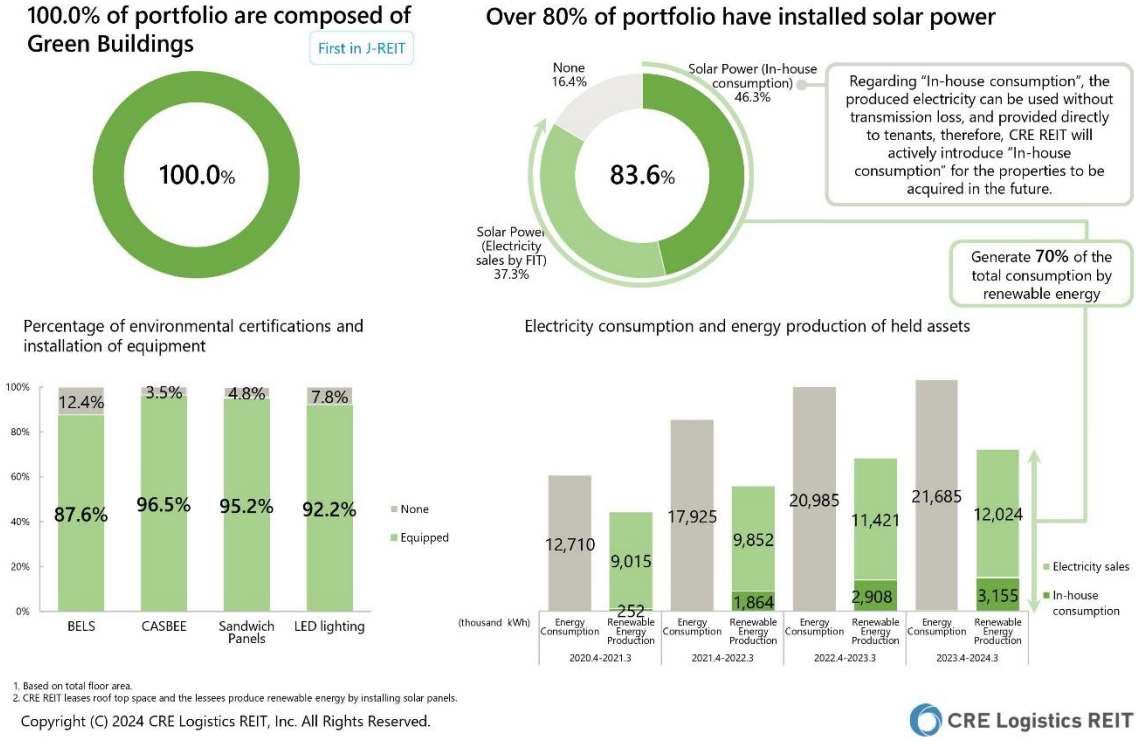
Promoting ESG Efforts – Environment (1)



1. Based on total floor area.
2. CRE REIT leases roof top space and the lessees produce renewable energy by installing solar panels.

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Finally, from page 13 onward, we will explain our ESG initiatives.

As shown in the pie chart on the upper right, the fund has been actively introducing solar power generation, and the two most recently acquired properties, LogiSquare Shiroi and Hirakata, also have this self-consumption scheme in place.

As the bar graph on the lower right shows, we generate renewables equivalent to 70% of the total electricity use in our portfolio.

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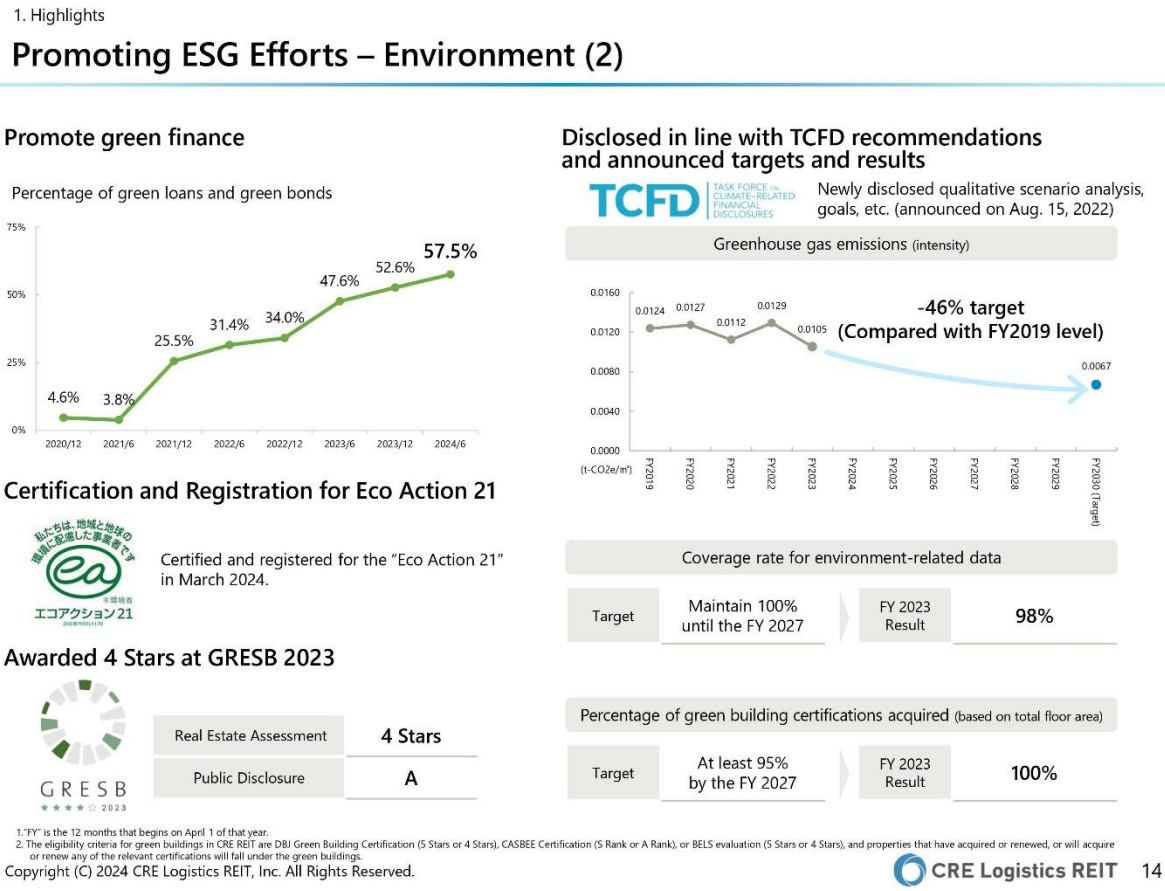


As you can see on the upper left of page 14, all of our facilities are green buildings, so the percentage of green financing is gradually increasing as we refinance all of our normal loans to green loans when they come due.

In addition, as shown in the upper right corner, we were able to show a decrease in greenhouse gas emissions on a per-unit basis in the most recent fiscal year. We will continue to move forward, one step at a time, toward achieving our long-term goal for FY2030.

This concludes my explanation.

If you have any questions or comments, please do not hesitate to contact us.

Question & Answer

Moderator [M]: We will now move on to the question-and-answer session.

We have now received questions from two people.

First of all, Mr. Torii, please ask your question.

Torii [Q]: This is Torii from SMBC Nikko Securities. Thank you. I would like to ask you two questions.

This time, you've announced the sale of a property, but on the other hand, could you tell us how you plan to use the proceeds from this sale or how you intend to utilize them going forward? I would like to hear from you if you have a plan on how you plan to use the sale proceeds to boost profitability, whether it be property acquisition, debt repayment, or acquisition of your own investment units.

Secondly, and this is related to the above, I think the sponsor has announced that it will acquire a maximum of 0.4% of the investment units. I would like to ask you about the background of the acquisition of investment units by the sponsor, not the direct effect on the profitability per unit of the acquisition of its own investment units, but the background of the acquisition by the sponsor, not the acquisition of its own investment units.

These are my two questions.

Ito [A]: Thanks. We will respond to your questions in order.

First, regarding how the funds from the sale of the property will be used, as you can see on page six, we will hold one-on-one meetings with institutional investors next week as part of our IR activities for financial results, so we will carefully explain the aims of our measures and receive their opinions. We would like to make a final decision after carefully assessing what measures the capital market requires.

In any case, we obtained cash by selling the profitable LogiSquare Kuki II, but cash does not generate returns from interest on deposits alone, so we must be sure to utilize it for some measure that will lead to an increase in DPU.

As shown on page six, we now have the financial resources and backing to implement measures of JPY1 billion per fiscal period, and we will use this to make decisions on acquisition of our own investment units and properties and we will be sure to capture the positive effects of the DPU.

First, after exchanging opinions with institutional investors, which will begin next week, we would like to make a careful decision since the funds are limited and precious.

The second point, this means the acquisition of additional investment units by CRE, as to why the acquisition is separate from the acquisition of the company's own investment units, we have heard that after discussions with CRE, the sponsor has decided that the current unit price of the fund is undervalued and that the acquisition is the right level to be made.

In addition, given the current environment, we have been offered the decision to acquire additional investment units from the perspective of further strengthening our sponsor commitment and clearly communicating our stance toward CRE Logistics Fund Investment Corporation as a sponsor in an easy-to-understand manner.

Regarding this matter, it is purely a decision based on CRE. From the perspective of the investment corporation, of course, we are in a position that welcomes additional acquisitions. Therefore, we have been working in collaboration with the sponsor to carefully consider this.

This does not mean that we will decide not to purchase our own investment units, and we will make the appropriate decision as an investment corporation on our own.

That is all from me.

Torii [M]: Thank you very much.

Moderator [M]: Thank you for your questions.

The next person, please.

Ohata [Q]: This is Ohata from Mizuho Securities. I have two questions.

This question somewhat ties into the previous one, but it also involves the sponsor's perspective from CRE. If possible, could you provide some comments on this? Specifically, could you explain what concrete benefits there are from an increased sponsor commitment?

There have been other cases recently, for example, where a sponsor has given up managing your company and is seeking to merge with another REIT, but I am not sure if it is our understanding that increased commitment is not an option in the immediate future.

As for other developments, if you make a commitment at a discount but the evaluation continues to be unfavorable, for example, you may seek a way to delist the company, or something like that. I would like to ask the first point in this regard.

The second point is about the logistics facilities and rental market in the Tokyo metropolitan area. I am not sure if it is correct to say that your company's view remains the same, in that vacancies will gradually decline as supply peaks out starting in 2024. I get the impression that the business aspect is a bit weak for the vacancy rate to come down, but at what pace and at what timing do you expect the vacancy rate to come down in the future? Please give explanations regarding this area.

Ito [A]: Thank you. We will respond to your questions in order.

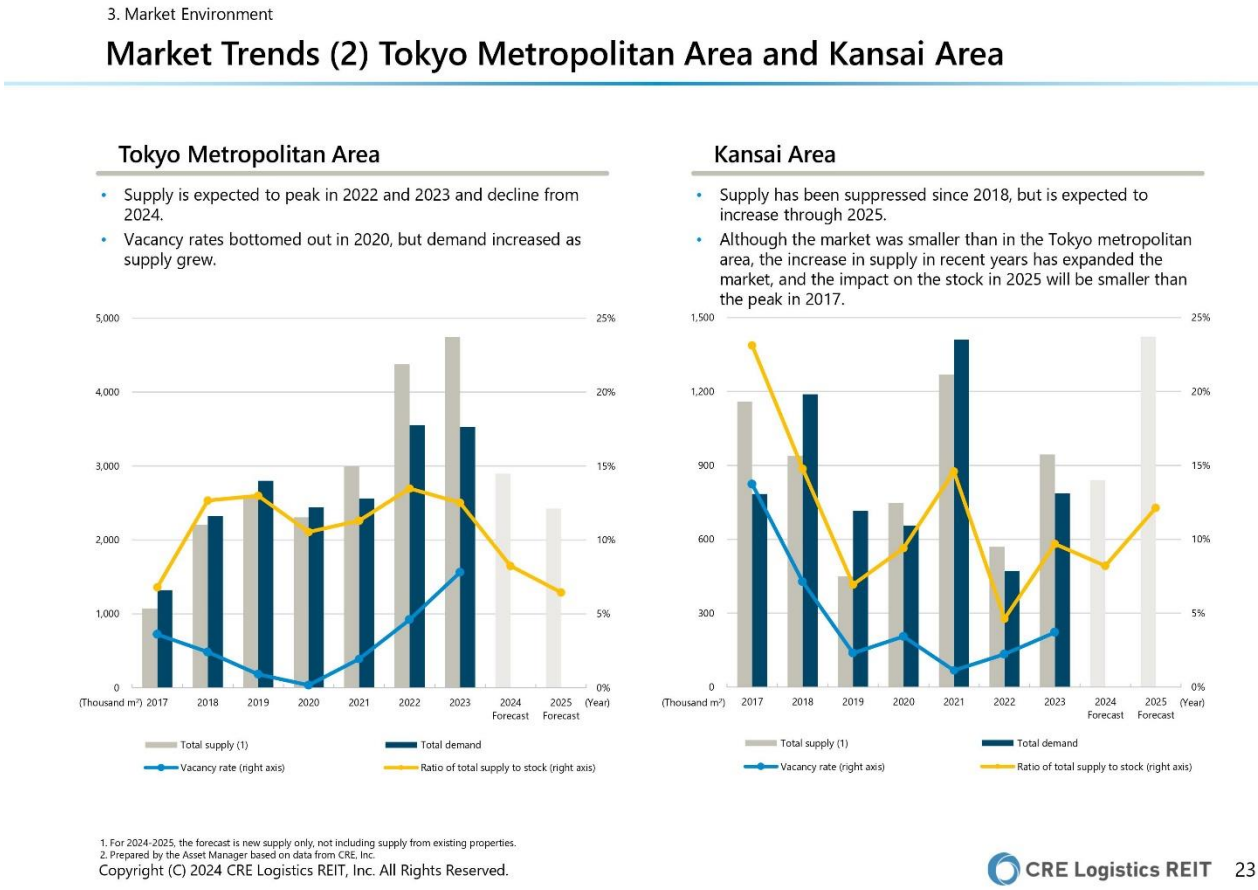
First, regarding the benefits of strengthening our commitment, it's true that even if the sponsor makes additional acquisitions, it doesn't necessarily mean an increase in DPU, and there may be concerns about CRE acting unilaterally. However, I've heard that the sponsor made the decision for the additional acquisition, purely because the current investment unit price is undervalued. The sponsor also wants to clearly demonstrate its continued commitment to the healthy growth of the investment corporation moving forward.

In addition, the recovery of our investment unit price will lead to the implementation of future public offerings and property acquisitions, which in turn will enable us to sell CRE's development properties in a healthy manner. Of course, CRE is also considering this cannot realize soon through additional acquisitions with this amount , but we wanted to make our commitment in an easy-to-understand manner, in order to take the first step toward this goal.

Additionally, there was a recent case of a merger between logistics REITs. With the strengthened commitment, regarding if this means that CRE intends to continue operating independently without exploring mergers or considering delisting, I can confirm that, as of now, we are not considering delisting or similar actions. We will

continue to make every effort we can and continue our efforts to recover the unit price, and return the fund to a healthy state, first of all.

Regarding mergers and similar actions, there is nothing specific that we can mention at this time. However, considering the recent case, there is a possibility that something could happen in the capital market. As for us, we will, of course, continue to monitor such developments closely. As we have consistently stated, our position remains that we should openly consider any decisions that could lead to maximizing unitholder value. Strengthening the sponsor's commitment does not exclude this approach. We intend to maintain a neutral stance, continuing to make diligent efforts and remaining open to discussions moving forward.



Your second question regarding market conditions, as shown on page 23 of the document, first of all, in 2022 and 2023, there was a large-scale new supply of more than 1,100,000 tsubo in the Tokyo metropolitan area, but this has already peaked out. With the skyrocketing cost of construction, developers may be forced to exercise caution in developing new facilities.

On the other hand, tenant demand is very strong. The dark-blue bar graph shows the total demand, which actually exceeded 1,000,000 tsubo for the first time in two years, but tenant demand remained at the same level.

As for what is happening now, tenant demand is currently moving toward new supply that was not filled in 2022 and 2023. Therefore, pre-leasing of newly developed properties in 2024 is being delayed. Tenants are still moving toward newer buildings that can be previewed and have been completed in the last year or two, and are deciding to move in.

We often hear comments that the vacancy rate is not coming down, and that it has remained high, but we believe that what is happening now is that newly developed facilities are forced to set asking rents that are

relatively higher than market rents because of the construction costs. As long as they maintain that higher asking rent for the newly developed facilities, we see that it will be difficult to fill the space.

From the perspective of the fund, which holds an existing portfolio, it is relatively easy to leverage the asking rents and proceed with rent increase negotiations. Even if facilities with high asking rents do not fill up easily, as long as the rent is set appropriately, they will be occupied. Therefore, we are not too concerned about the vacancy rate not decreasing due to these high asking rent facilities remaining unoccupied.

There is absolutely no prospect of construction costs coming down in the future, so I suspect that this situation will continue for a bit. While tenant demand is strong, new supply will decrease, and we expect supply and demand to tighten in the future.

That is all from me.

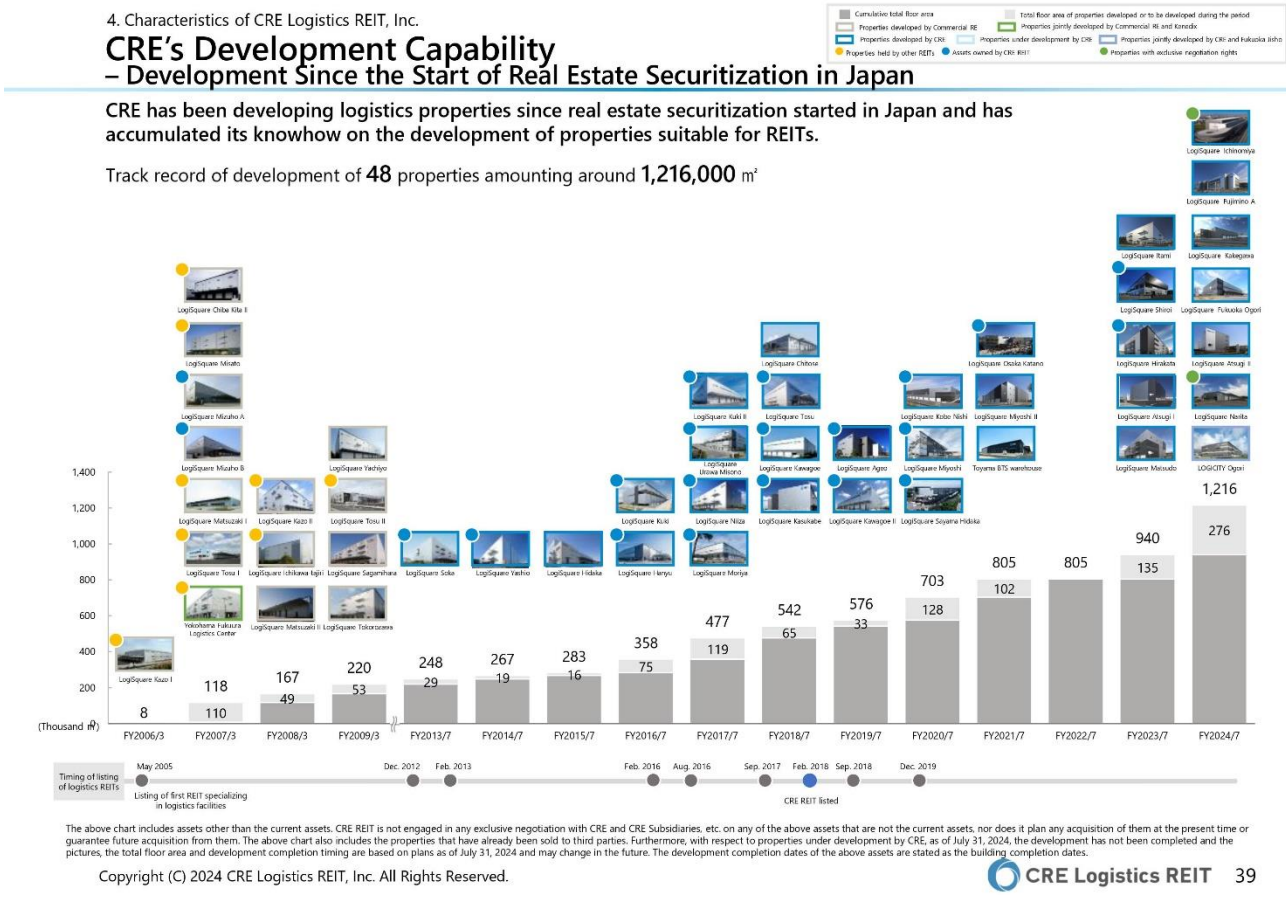
Ohata [M]: Thank you very much.

Ito [M]: Thank you.

Moderator [M]: Next, Mr. Ozawa, please go ahead.

Ozawa [Q]: My name is Ozawa from SBI SECURITIES. I would like to ask you two questions.

The first point is that there are two properties in the form of bridges this time around, and I wonder what the yield perspective will be in this area. I know it's strange to say that it's from a yield perspective, but there is a three-year investment period, and basically, at some point, the book value will decrease due to depreciation, et cetera. I'm wondering if there is much difference from the past. I'm sorry, I understand that it depends on the circumstances, such as how much they were purchased by the leasing company, but I would like to know if you can give us some sense of the yield from your perspective.



The second point is about the sponsor's pipeline. As seen on page 39 of the materials, there are recent updates, and the sponsor is currently executing a midterm plan. Last year, the midterm plan was revised upward, and they are also developing several large-scale properties. It seems like the number of properties is steadily increasing. Although CRE Logistics REIT is not currently in a position to make continuous purchases through PO, the sponsor still needs to generate capital gains to achieve the targets of their midterm plan. While the current situation involves a bridge scheme from a leasing company, I wonder if the leasing company still has the capacity to continue providing such bridge financing.

Since it is up to the sponsor to decide, it may be possible to sell the developed properties to an outside party. I would like to ask about how the sponsors will digest these areas, which may be something you would ask the sponsors, but I would like to ask about how we should look at this, including the bridge's extra capacity. Thank you.

Ito [A]: Thanks. We will respond to your questions in order.

First, regarding the yield perspective of the two properties involved in the bridge scheme and the outlook over the next three years, both properties are expected to have yields in the low 4% range. The Ichinomiya property has a slightly lower yield but is rated higher in terms of quality. On the other hand, the Narita property has a somewhat higher yield perspective. For now, both properties are included in the bridge scheme, with yields in the low 4% range.

As Mr. Ozawa mentioned earlier, as the period of time goes on, the book value can be lowered a little, in other words, the yield will increase. For us, we got a long adjustment period of three years, so the further ahead we go, the more it will go up as a yield a little bit. In this context, we will carefully assess changes in the market

environment and proceed with careful consideration of the acquisition. If it stays in the low to mid-4% range over the next three years, it will be easier for me to acquire it.

The second point is how to sell and exit the CRE development properties and this arrangement as a sponsor. First of all, we can clearly state that the fund holds preferential negotiating rights for these two properties.

Of course, the sponsor, the private fund management company, and ourselves, are exchanging information and sharing information on the market environment, et cetera, and are carefully working on the arrangements, but we have received a report that a separate initiative to establish a private fund has started.

Fortunately, institutional investors' appetite for investment in logistics facilities has not yet been impaired at all, so it is relatively easy to raise equity capital for high-quality logistics facilities developed by CRE.

As for the fund, hopefully, we will continue to acquire such high-quality facilities to generate the effect of increased distributions, but as Mr. Ozawa pointed out, the current market environment makes it difficult to acquire assets through public offerings. We recognize that, in this environment, our first priority should be to incorporate the assets into private funds and to realize the sale of CRE properties. Therefore, we believe that the first thing we can do is to make an effort to recover the investment unit price and restore the condition to a level that will allow us to carry out a public offering.

In response to your question, we have been informed of CRE's policy to sell the property through the formation of a private fund and for the Group to expand AUM, whether through private placement or public offering, and to make a solid contribution to the consolidated management.

I have responded to your two questions.

Ozawa [M]: I understand. Thank you.

Ito [M]: Thank you.

Moderator [M]: Does anyone have any questions?

It appears that all questions have been answered, so we will conclude today's briefing.

Thank you very much for joining us today.

Ito [M]: Thank you.

Moderator [M]: See you.

[END]

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