CRE Logistics REIT

CRE Logistics REIT, Inc.

Announcement of Financial Results for the 17th Fiscal Period (Ended December 31, 2024)

February 17, 2025

Event Summary

[Company Name]	CRE Logistics REIT, Inc.
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[Event Type]	Earnings Announcement
[Event Name]	Announcement of Financial Results for the 17th Fiscal Period (Ended December 31, 2024)
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[Venue Size]	
[Participants]	
[Number of Speakers]	1
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[Analyst Names]*	Mikio Namiki — Okasan Securities
	Kouki Ozawa — SBI Securities
	Yosuke Ohata — Mizuho 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: Ladies and gentlemen, thank you for your patience. It is now time to commence the 17th financial results briefing session for the fiscal period ended December 2024 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 CRE Logistics REIT.

Today, Tsuyoshi Ito, President of CRE REIT Advisers, Inc., will make an explanation, followed by a Q&A session. The flow will be for everyone to indicate their willingness to ask questions and to speak.

The event will be live-streamed, and we ask for your understanding that the communication environment may be unstable at times. If you are attending by telephone, please also refer to the financial results presentation materials available on the CRE Logistics REIT website.

Now, Mr. Ito will explain the situation to you.

Ito: My name is Ito of CRE REIT Advisers, Inc. Thank you very much for watching today's financial results briefing for the 17th fiscal period of CRE Logistics REIT. A full seven years have passed since CRE Logistics REIT was listed in February 2018.

In recent years, the J-REIT market has been generally weak, and the investment unit price of CRE Logistics REIT has remained low. Today, I would like to explain the management issues that the Company needs to address, as well as the management indicators and targets that we have newly set.

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 based on book value	(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. For properties with quasi-co-ownership interests, calculations are based on the figures equivalent to the quasi-co-ownership interests of each property.

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First, see page one, table of contents.

I would like to focus today's explanation on the operational highlights of Chapter 1.

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1. Highlights

Summary

I will now begin my explanation of the operational highlights in Chapter 1.

See summary on page three.

First, we have set a new target of 7% ROE to improve capital efficiency. In order to achieve this goal, we believe it is necessary to increase our income from the rental business, improve profitability through the sale and replacement of properties, and further improve capital efficiency through the acquisition of our own investment units.

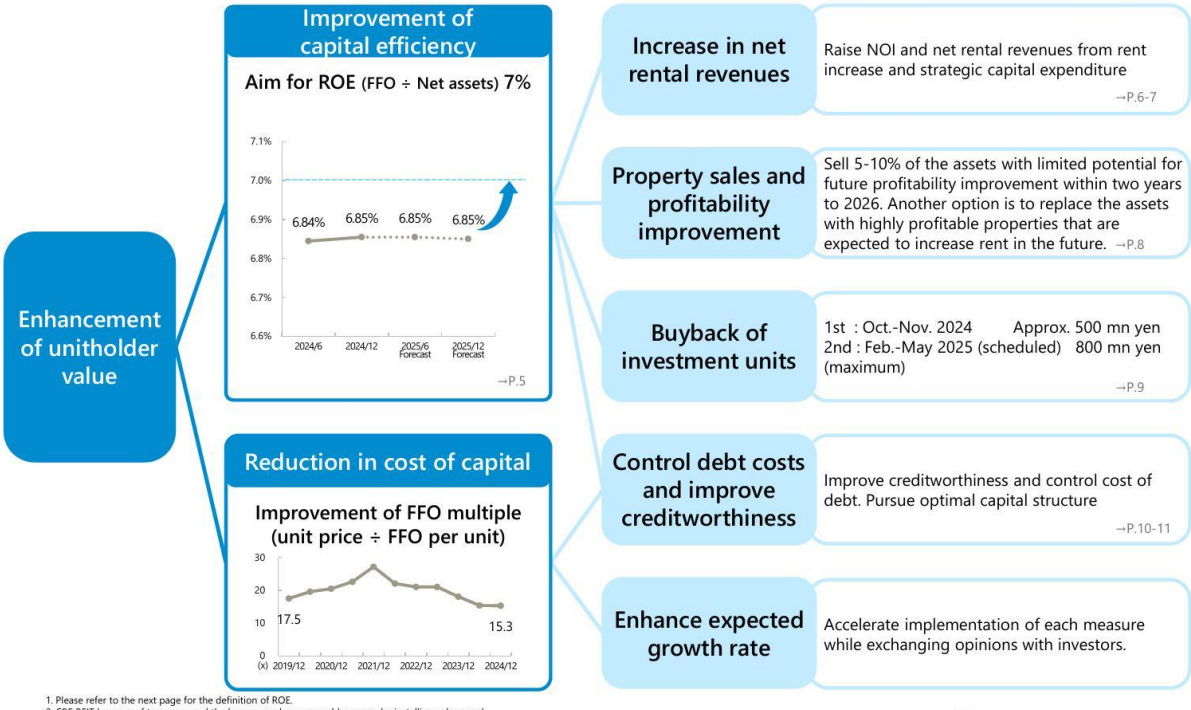
Second, we announced today that we will conduct the second acquisition of our own investment units by using the proceeds from the sale of the property. As explained at the financial results meeting for the 16th fiscal period held in August last year, we announced today the second acquisition of our own investment units, following the first acquisition in October last year, by using funds from the sale of LogiSquare Kuki II over the three fiscal periods from the 17th fiscal period, and cash in hand from depreciation expenses that accumulate each fiscal period. We will consider implementing this program on an ongoing basis.

Third, NOI for the entire portfolio is expected to exceed the level prior to the sale of the property due to rent increases and strategic capital expenditures.

Increased rents and strategic capital expenditures have increased NOI for the entire portfolio, and the increasing cost of debt since the start of inflation in 2022 has been compensated for by increasing income from rental operations.

Details will be explained on page four and thereafter.

Management with Conscious of Cost of Capital



1. Please refer to the next page for the definition of ROE.
2. CRE REIT leases roof top space and the lessees produce renewable energy by installing solar panels.

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See page four. We will carry out various measures to operate with an awareness of the cost of capital.

First, as management issues to be addressed by the Fund, we will first raise ROE, FFO divided by net assets , to the 7% level in the short term. To achieve this, NOI and rental income/loss must be raised through rent increases and strategic capital expenditures. In addition, we will sell off 5% to 10% of our assets and properties with limited future profitability growth over a two-year period through 2026.

One option is to replace the asset with a property that is highly profitable and can be expected to increase rents in the future.

As described in the press release, we have conducted the second acquisition of our own investment units for the second time, as announced today, following the first acquisition in October last year, with the aim of further improving capital efficiency. We will continue to seek to acquire our own investment units and improve capital efficiency.

The price of CRE Logistics REIT's investment units has remained at a low level in recent years. We believe this is due to the fact that the level of FFO multiples has remained low. The FFO multiple is equivalent to the PER of a business company. This low level means that the capital market's expected growth rate for the Fund has remained low. We intend to steadily implement each measure and steadily solve the management issues that we need to address, while promoting the exchange of opinions with investors.

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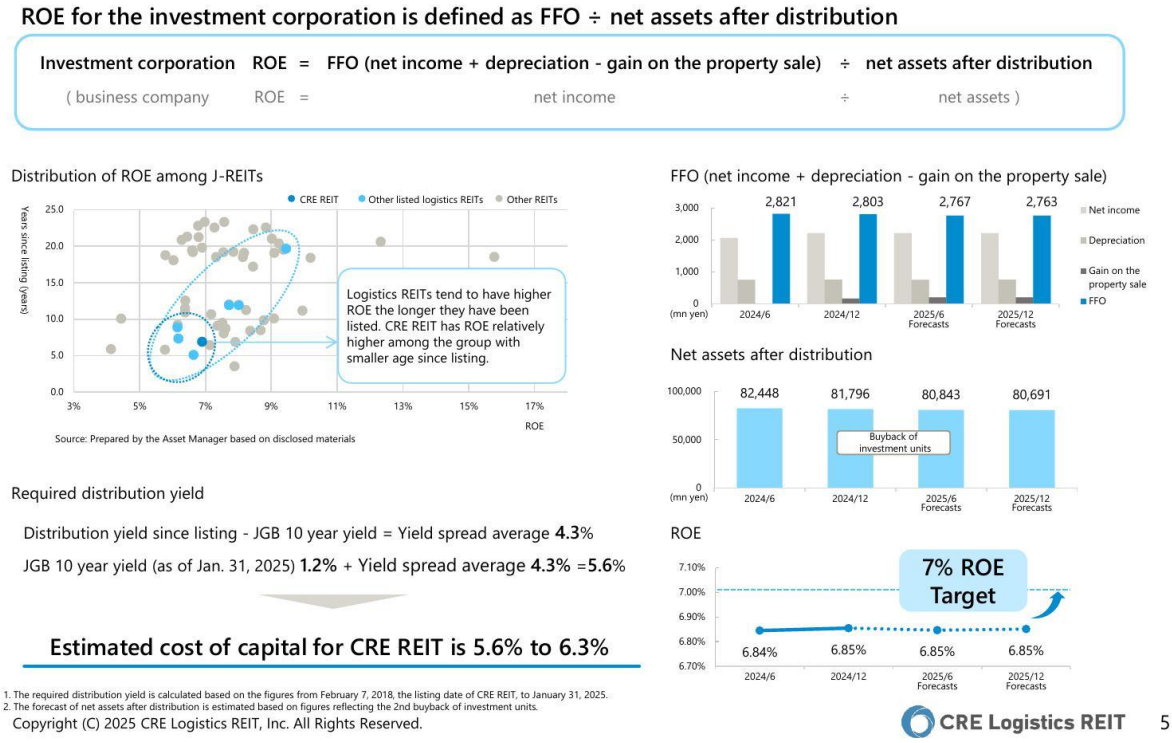
1. Highlights

Set 7% ROE with Target to Improve Capital Efficiency



Continued on page five. In order to improve capital efficiency, we have set a new target of 7% ROE.

As shown in the upper row, ROE, a management indicator to be addressed by the Fund, is defined as FFO divided by net assets. The reason why I brought FFO into the numerator is that, after all, as a real estate fund, we can only hold finite real estate, and we cannot continue to sell real estate forever. Rather, we considered the ability to generate recurring cash flow from the portfolio, net income plus depreciation, to be our numerator.

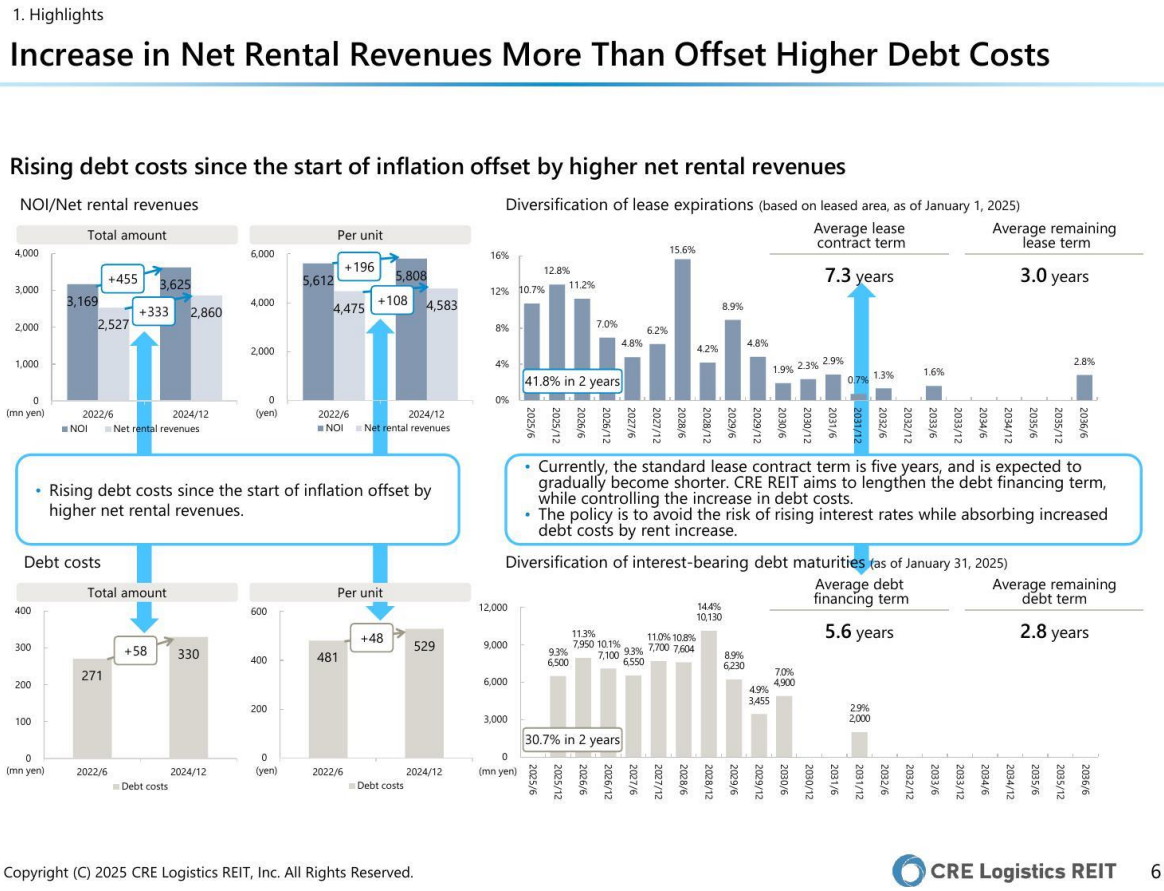
We then adopted net assets as the denominator. Net assets are the equity investment funds received from the capital market, so what kind of return will be generated on the equity investment funds? Do we give back? In order to address this issue, we have adopted net assets as the denominator.

As indicated in the lower left-hand corner of the page, the estimated cost of capital for the Fund is 5.6% to 6.3%. The yield spread, which is the average of the distribution yield and the yield on the risk-free rate, as 10-year government bond, over the seven years since listing, has been 4.3%.

This expected distribution yield includes the period immediately after listing, when no property tax and city planning tax was incurred on owned assets, and the period after the sale of LogiSquare Chitose in 2022, when the Company sold LogiSquare Chitose and realized a significant increase in dividends. In other words, the forecasted distribution yield includes the period when the distribution yield was increased, but the forecasted distribution yield is adopted conservatively including these factors.

The yield on 10-year government bonds was 1.2% as of the end of January, but we have estimated that the estimated cost of capital for the Fund is 5.6% to 6.3%, considering that the yield on 10-year government bonds will rise to 2% in the medium to long term.

The right side of the page shows the ROE of CRE Logistics REIT in recent years, which has generally been 6.8% to 6.9%. First, we hope to raise this level to 7% as soon as possible.



Continued on page six. The increase in income from rental operations outweighs the increase in debt costs.

The increase in the cost of debt since the start of inflation in Japanese society after 2022 has been covered by the increase in income from rental operations.

As the bar graph in the upper left corner of the page shows, from the period ended June 30, 2022 to the period ended December 31, 2024, the Fund's income from rental business increased by about JPY330 million in value, or about JPY108 per unit. This covers the increase in debt cost on both cases.

The top right corner of the page shows the dispersion of lease expiration dates. Bottom right of the page shows the dispersion of interest-bearing debt maturities. As shown on the right, the average remaining maturities of both assets and liabilities are 3 and 2.8 years, respectively, and the durations of assets and liabilities are generally consistent for ALM management purposes.

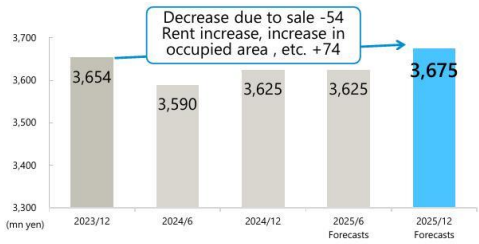
As more lease contracts are set to expire in the next two years, we will continue to increase rental income by raising rents appropriately.

1. Highlights

Increase in NOI From Rent Increase and Strategic Capital Expenditure

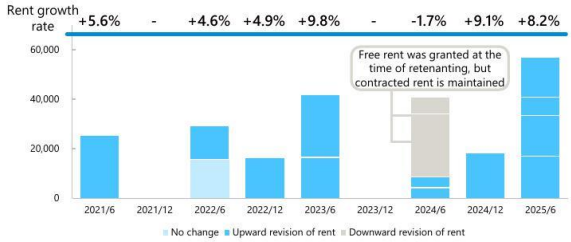
NOI exceeded the level before the property sale

Trend in NOI



High rent growth except for the FP 2024/6

Lease expiration floor area



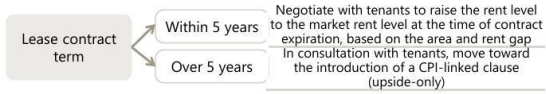
Increase NOI by installing air conditioning and LED at the expense of CRE REIT

Capital Expenditure (actual and planned)

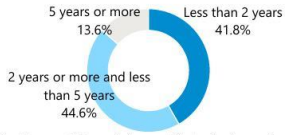
	(1) Air conditioning	(2) LED	(3) Air conditioning
Investment amount	94 mn yen	17 mn yen	106 mn yen
Increase in NOI	11 mn yen	2 mn yen	12 mn yen
NOI yield	12.6%	11.6%	11.7%
NOI yield after depreciation	4.9%	4.8%	4.9%
Completion of construction	Aug. 2024	Apr. 2025 (scheduled)	July 2025 (scheduled)

Flexible operations including introduction of CPI-linked clauses

Lease contract term



Remaining lease term (based on leased area, as of January 1, 2025)



1. As the period ended 2023/12 was before the expensing of property taxes and city planning taxes on 2 properties acquired in the 14FP, the amount of actual NOI minus the amount of property taxes and city planning taxes on 2 properties acquired in the 14FP is shown.
2. Lease expiration floor area does not include short-term contracts.
3. The rent growth rate is the average of the growth rate of the actual rent (including common service charges) after taking into account the actual reduction of rent due to the granting free rent, etc. Short-term contracts and those prior to the conclusion of a contract or agreement are not included.
4. One of the increases in FP 2023/6 was excluded from the calculation of the rent growth rate because the rent was higher than the market rent due to individual circumstances with the tenant.
5. One of the decrease in FP 2024/6 is shown in contrast to the contract prior to the contract in Note 4 to eliminate the effect of the contract in Note 4.

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Continued on page seven. Portfolio NOI has increased due to rent increases and strategic capital expenditures.

As the bar graph on the upper left shows, as explained at the 16th fiscal period financial results meeting held last August, CRE Logistics REIT's portfolio NOI for the fiscal period ended December 31, 2023 was approximately JPY3.65 billion, which temporarily decreased significantly due to a large-lot tenant moving out in April 2024.

In addition, the NOI of Kuki II has been stripped from the portfolio NOI due to the phased sale of LogiSquare Kuki II in installments from the fiscal period ended December 31, 2024 onward. However, during that period, the portfolio NOI of the remaining 20 properties is expected to be higher than the portfolio NOI of the 21 properties prior to the sale of the properties, due in part to rent increase revisions and increased occupancy.

As for the strategic capital expenditure shown in the lower left corner of the page, last August, we only introduced (1) the NOI increase associated with the installation of air-conditioning. These efforts over the past six months have enabled us to increase the NOI by (2) installing LEDs and (3) installing air conditioning. We will continue to achieve appropriate rent increases when lease contracts expire.

We have also explained that our policy is to flexibly implement the CPI-linked clause. In particular, lease agreements of five years or less. Recently, we have seen an increase in three- and four-year contracts, and for such contracts, we intend to achieve rent levels that firmly catch up with inflation by raising rents at the expiration of the contract at the appropriate time.

On the other hand, for long-term lease contracts exceeding five years, we will introduce clauses that allow rent increases linked to the CPI every five years or every certain number of years, because if the rent is fixed and the contract is signed for a long period of time, the contract will be defeated by inflation. Most recently, in concluding a 20-year lease agreement, the Company set a clause to increase the rent every five years.

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1. Highlights

Approach to Property Sales and Replacement

Intends to sell 5-10% of the assets within two years to 2026 and use the sale proceeds to buyback investment units, repay borrowings, and acquire properties.

Policy for selection of property for sale
5-10% of the assets

- Properties with limited potential for future profitability improvement, or properties with potential for profitability improvement but which will take time to realize.
- Properties that can reduce concentration risks such as area and lease expiration dates through sales.

The sale proceeds (equivalent to book value) will be considered for use based on the investment unit price, LTV level, etc.

Gain on sale

Buyback of investment units
Continuously buyback investment units in accordance with the investment unit price

Repayment of borrowings
Consideration based on LTV level

Acquisition of properties
Another option is to replace the assets with highly profitable properties that are expected to increase rent in the future

Return as distribution

LogiSquare Kuki II (announced on August 16, 2024)

LogiSquare Kuki II had the longest remaining lease term of 7.7 years as of the end of June 2024, and was sold because it will take time to realize rent increase.

	Date of sale	The sale proceeds (equivalent to book value)
1st	Dec. 2024	573 mn yen
2nd	Jan. 2025	668 mn yen
3rd	July 2025 (scheduled)	663 mn yen

Use flexibly along with cash in hand that accumulates every fiscal period

1st buyback of investment units	Oct.-Nov. 2024	Approx. 500 mn yen
Repayment of borrowings	Jan. 2025	700 mn yen
2nd buyback of investment units	Feb.-May 2025 (scheduled)	800 mn yen
		TBD

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Continued on page eight. We will explain our approach to the sale or replacement of properties.

The plan is to sell 5% to 10% of the asset size, specifically JPY8 billion to JPY16 billion, in the two years through 2026, and use the proceeds to acquire our own investment units, repay borrowings, or acquire alternative properties.

As indicated in the box on the left side of the page, what properties will be selected for sale? Those with limited future profitability improvement. Specifically, properties with less of a rent increase room. Or a property that has the potential to improve profitability, but will take time to realize. We believe that properties with long-term leases with limited opportunities for rent increases will be targeted.

Since all of the properties owned by the CRE Logistics REIT have unrealized gains, the sale of the properties will result in the recording of gains on sales. Gains on these sales will be returned to unitholders as distributions. Funds equivalent to the book value will then remain in hand, and the acquisition of our own investment units will be implemented to improve capital efficiency. Alternatively, the Company could repay borrowings in order to maintain financial health. Since we have entered a world with interest rates, we believe that reducing the principal amount of borrowings will have the effect of reducing the increase in interest expense.

If we continue to sell properties, NOI, the basic strength of our portfolio, will shrink rapidly. Therefore, we believe that replacing assets with properties that are highly profitable and can be expected to increase rents in the future is an option. In any case, we will consider the use of the funds flexibly, considering the overall J-REIT market situation and the level of CRE Logistics REIT's investment unit price.

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As stated on the bottom of the page, as I explained in August last year, LogiSquare Kuki II will be sold in installments over the three fiscal periods from the 17th fiscal period to the 19th fiscal period, and we expect to be able to utilize cash in hand of approximately JPY3.4 billion during these three fiscal periods.

Of this amount, I have explained that about JPY1 billion will be paid out as returns to unitholders each fiscal period. As I explained in the lower right-hand corner of page eight, we acquired first our own investment units in October last year, amounting to approximately JPY500 million, and in January this year, JPY700 million was used to repay borrowings. And today, we announced that we would conduct JPY800 million for the second acquisition of our own investment units. A total of JPY2 billion will be returned to unitholders in the 17th and 18th fiscal periods.

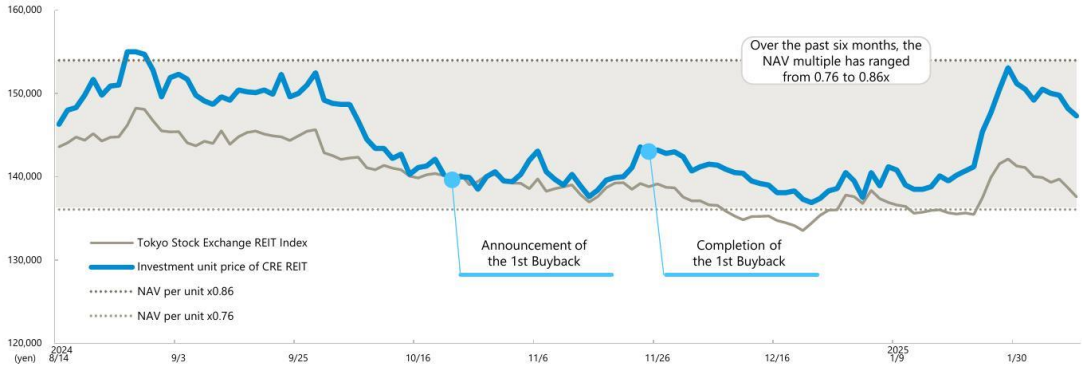
1. Highlights

Continuous Buyback of Investment Units

Conduct the 2nd buyback on a scale exceeding the 1st buyback of investment units, based on current unit price conditions

	Acquisition period	Total acquisition amount	Total acquisition number	Ratio of total investment units issued
1st	Oct. 23, 2024-Nov. 26, 2024	Approx. 500 mn yen	3,560 units	0.6%
Announced today 2nd	**Feb. 18, 2025 to May 30, 2025 (planned)**	**800 mn yen (maximum)**	**7,000 units (maximum)**	**1.1% (maximum)**

Trend in investment unit price (closing price) (as of February 10, 2025)



1. Trends in the closing price of the Tokyo Stock Exchange REIT Index at Tokyo Stock Exchange, Inc. (hereinafter "TSE") show trends in relativized figures on the assumption that the closing price of the TSE REIT Index on the October 22, 2024, when the 1st buyback of investment units was announced, is the same as the closing price of CRE REIT' investment unit.

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Continued on page nine. The Company will continue to acquire its own investment units.

As I have just explained, a total of JPY1.3 billion will be disbursed for the first installment last October and the second installment announced today. As shown in the chart, the acquisition of our own investment units, once implemented, does not fundamentally raise the unit price. In the event of weak unit price levels, the Company will continue to consider.

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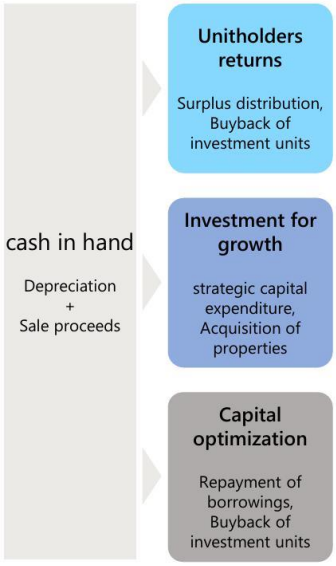
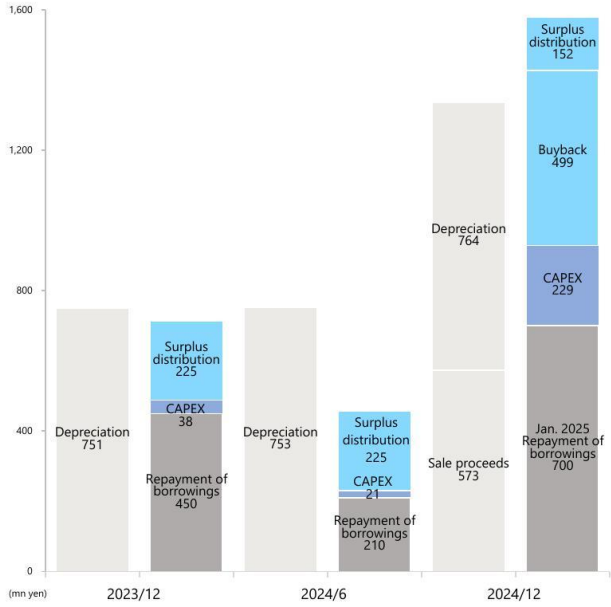
Efficient Cash Management

Policy on use of cash in hand



Efficient Cash Management



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Continued on page 10. We will promote efficient cash management.

As illustrated on the left side of the page, cash in hand is composed of the portion accumulated through depreciation and the portion equivalent to book value from the sale of properties. This will be disbursed a good balance between returns to unitholders, investment for growth, and capital optimization.

On the right side of the page, we show how the funds in hand used in the last three fiscal periods. In the most recent fiscal period, ended December 31, 2024, the Company was able to pay out a large amount of funds because it had accumulated funds in hand from the sale of its 30% equity interest in Kuki II. Specifically, as shown in the bar chart, we believe that we have achieved a good balance in the use of funds, including returns to unitholders, investment in growth, capital optimization, and financial soundness.

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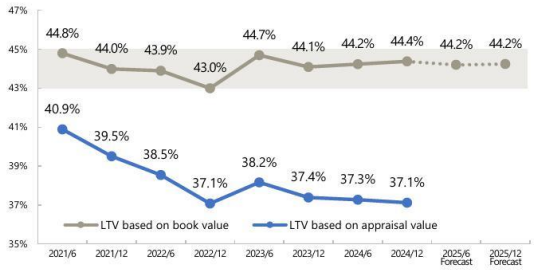
Control Debt Costs and Ensure Financial Stability

Promote debt costs control and financial stability

Ratio of long-term debt	Ratio of fixed interest debt	Average borrowing interest rate
100.0%	81.8%	0.848%
LTV based on appraisal value	**Credit ratings (R&I)**	**Credit ratings (JCR)**
37.1%	A (Stable)	A+ (Stable)

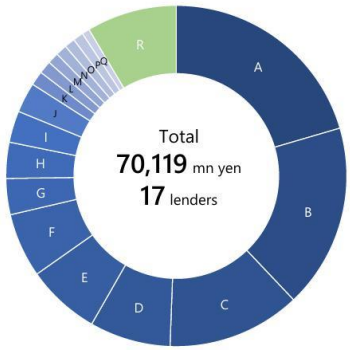
1. LTV based on appraisal value is as of December 31, 2024, others are as of January 31, 2025.

Operate LTV based on book value at 43-45%



Diversify interest-bearing debt sources

Breakdown of interest-bearing debt sources (as of January 31, 2025)



A	Sumitomo Mitsui Banking Corporation	20.5%	J	The Bank of Fukuoka, Ltd.	2.9%
B	Mizuho Bank, Ltd.	17.5%	K	The Hyakujushi Bank, Ltd.	1.4%
C	Development Bank of Japan Inc.	12.7%	L	The Yamaguchi Bank, Ltd.	1.2%
D	Resona Bank, Limited	7.7%	M	The Shizuoka Bank, Ltd.	1.1%
E	MUFG Bank, Ltd.	7.0%	N	The Yamanashi Chuo Bank, Ltd.	1.1%
F	Sumitomo Mitsui Trust Bank, Limited	6.1%	O	JAPAN POST BANK Co., Ltd.	1.0%
G	SBI Shinsei Bank, Limited	3.4%	P	The Chiba Bank, Ltd.	1.0%
H	The Nishi-Nippon City Bank, Ltd.	3.4%	Q	The Bank of Toyama, Ltd.	0.7%
I	Aozora Bank, Ltd.	3.0%	R	Green bond	8.6%

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Continued on page 11. I would like to explain our financial operations.

As the chart on the lower left shows, LTV on total assets, LTV based on book value, have been stable in the range of 43% to 45% in recent years, and we intend to maintain this standard in the future as well.

And for appraisal-based LTV, market value LTV, appraisal-based LTVs have continued to decrease as the appraisal values of assets held by CRE Logistics REIT have continued to rise, and at times have been used to repay interest-bearing debt. We will continue our efforts to ensure stable financial management.

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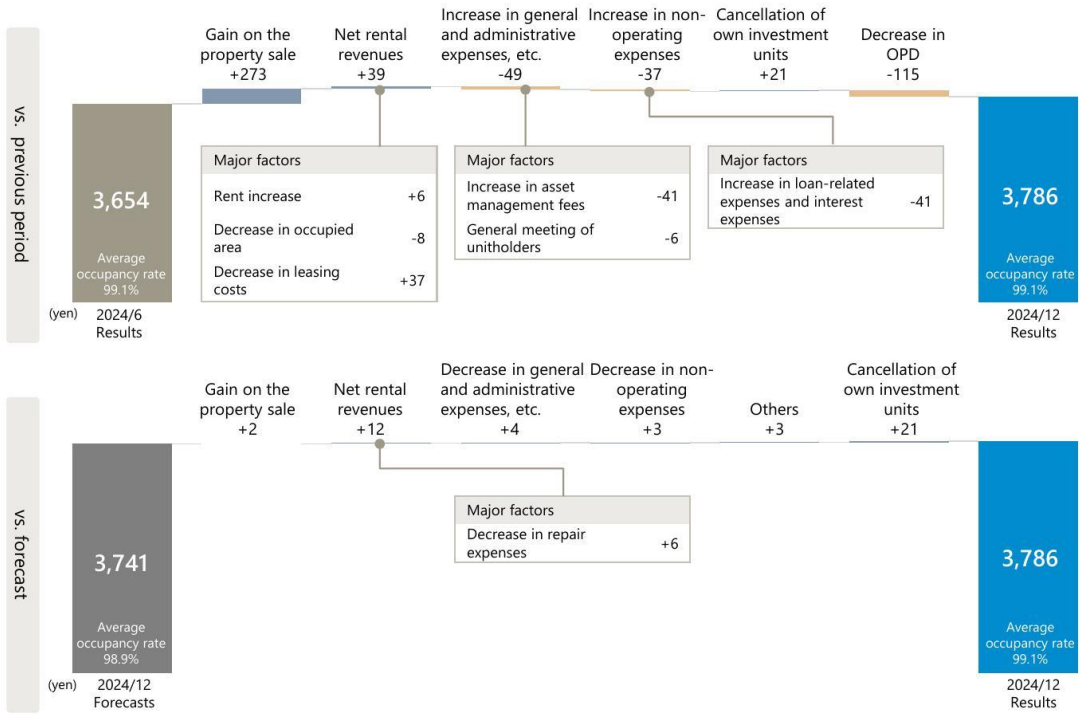

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Continued on page 12. We would like to provide you with an explanation of our distribution results for the fiscal period ended December 31, 2024.

The upper row shows the comparison with the fiscal period ended June 30, 2024. First, we sold our 30% interest in LogiSquare Kuki II, which created the effect of increased dividends from the gain on sale. Due in part to rent increases and other initiatives, income from the leasing business was also positive, producing the effect of increased dividends. Since the asset management fee structure of the Fund has elements that are linked to business performance, the increase in asset management fees, as factors for decreased dividends have occurred.

Due to rising market interest rates, interest expense increased with each refinancing, which was also a factor in the dividend decrease. Due in part to the effect of the first acquisition of our own investment units and subsequent cancellation, the number of investment units decreased and distributions per unit increased. In the three fiscal periods in which gains on sales are recorded, we explained that distributions in excess of earnings would be reduced to an amount equivalent to 20% of depreciation expenses, instead of the usual 30%, and this is the reason for the decrease in dividends.

As a result of these efforts, we were able to raise the dividend for the fiscal period ended December 31, 2024 to JPY3,786, an increase of JPY132 compared to the fiscal period ended June 30, 2024.

The lower line shows the comparison with the budget, but there are no major changes. As a result of appropriate cost control, repair and maintenance costs were reduced, and the rental business income generated an increase in the dividend factor. In addition, the first acquisition of our own investment units and subsequent cancellation generated a dividend increase of JPY21, resulting in a JPY45 increase in the dividend compared to the forecast.

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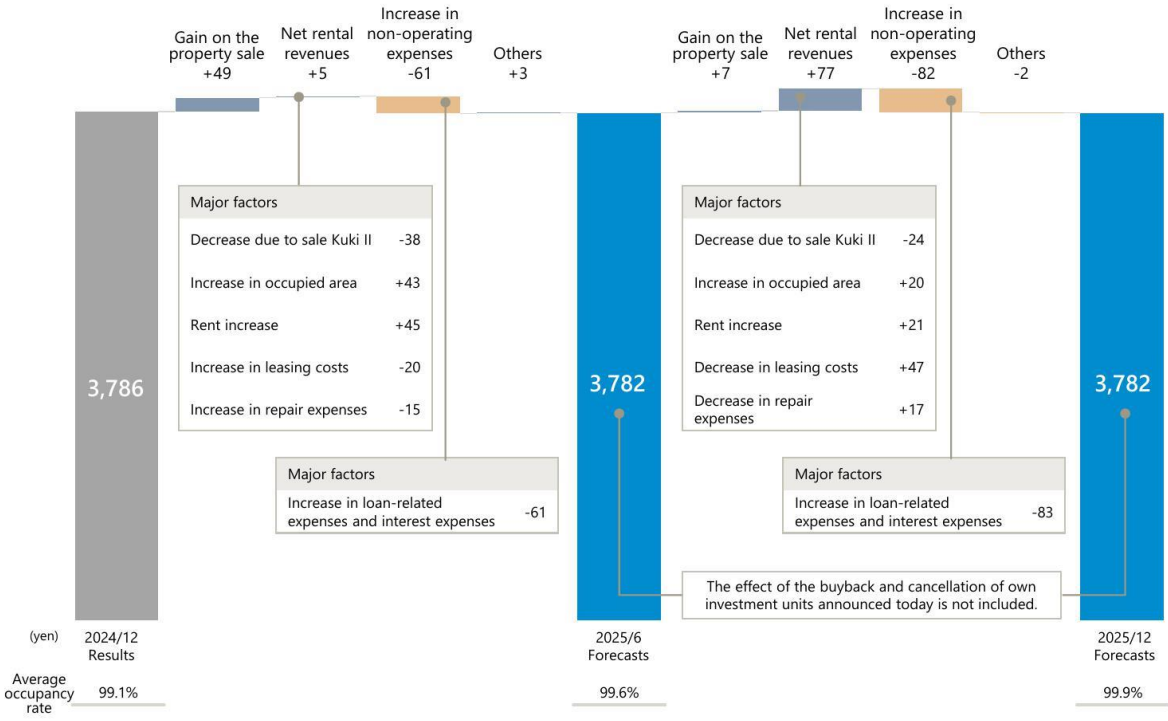

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Finally, I would like to explain the expected distributions. Please turn to page 13.

We have announced our distribution forecast for the fiscal period ending June 30, 2025 at the same level of JPY3,782 that we announced in August last year. And today, the Company has just announced a distribution forecast of JPY3,782 for the fiscal period ending December 31, 2025. As noted in the speech bubbles, the effects of the second acquisition of own investment units announced today and the subsequent cancellation have not been incorporated into these earnings forecasts.

First, the forecast for the fiscal period ending June 30, 2025 is compared with the actual results for the fiscal period ended December 31, 2024. In this period, 35% interest in LogiSquare Kuki II has already been executed. We will sell an additional 5% interest compared to the previous period, which will create the effect of an increase in dividends.

Since we have completed the sale of 65% interest in LogiSquare Kuki II in the cumulative total up to this point, the sale has resulted in a loss of rental business income. Income from rental operations remained positive, partly due to an increase in occupancy and upward revision of rents.

Since market interest rates are expected to rise as a result of refinancing, an increase in interest expenses will result in a reduction in dividends, and we have set our previous forecast for the fiscal period ending June 30, 2025 at JPY3,782, as previously announced.

And this is a comparison between the forecast for the period ending December 31, 2025 and the forecast for the period ending June 30, 2025. In both periods, we will sell our 35% interest in LogiSquare Kuki II, so the effect of increased or decreased dividends due to the gain on the sale is small. And as a result of the sale of the last 35% of Kuki II, there will be a loss of profit or loss from the rental business as a result of the sale, but

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the effect of increased occupancy and upward revision of rents has resulted in a large positive profit or loss from the rental business.

On the other hand, if interest expenses continue to increase, we expect them to continue to rise, so we also expect a large factor in the decrease in dividends due to the increase in interest expenses.

As a result, for the fiscal period ending December 31, 2025, we have announced a new forecast of JPY3,782, the same level as the fiscal period ended June 30, 2024.

This concludes my explanation.

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

Question & Answer

Moderator [M]: Okay, we will now go to the Q&A session.

Does anyone have any questions? Mr. Namiki, please ask your question.

Namiki [Q]: I am Namiki from Okasan Securities. Thank you very much for all your help. Now I would like to ask you a few questions.

I think that this briefing material was very focused on distribution. In particular, the 7% ROE target, I believe there are other REITs that have also set ROE as a target. In other areas, I think there was also the cost of capital, but in the area of ROE, the targets were set in the same way as for business companies, so to speak. I understand that you have set the ROE target at 7%, which is close to the past transition, but I would like to know why you set the target at 7% and what is the background behind this. This is the first point.

Second point. Is it on page four, or is it on page eight? You will also be working on the sale of properties in the future. I think you are quite aggressive about this one as well. As Mr. Ito mentioned, you are looking at an asset size of 5% to 10% and a sale price of JPY8 billion to JPY16 billion. Your portfolio is very new property, so I feel that it is a waste. The value has certainly increased, so I would think that a sale would be easy to come by. This is the 5% to 10%. How was the decision made? I would like to know the background on this as well. This is the second point.

The third point is the cash management part. I have a lot of overlap with the previous questions, but I would like to talk about unitholder return, investment for growth, and capital optimization. I think this is something that other REITs are doing as well. I know that some of this may be unitholder return, but where do you think, you would like to place the greatest emphasis?

And in the area of growth investment, the sponcer, CRE, seems to have a lot going on. I think there is a joint effort with CRE, or TOB, or something like that, but I think it is a bit of a set-up. I think you said that you agree, but I'm not sure if that doesn't change the way you and CRE are going about that growth in the future. Whether it can possibly be strengthened and solidified. I would like to know more about that. These are the three points above. Thank you for your cooperation.

Ito [A]: Yes, I understand. I would like to respond to your questions in this order.

First of all, I explained earlier in the meeting why we set the definition of ROE in terms of FFO divided by net assets. Mr. Namiki has just asked us why the 7% level was set.

Generally, it is often said that the ROE of business companies should exceed 8% or 10%, but J-REITs do not actively utilize financial leverage as much as business companies do.

The average leverage level of J-REITs is in the low 40% range, which is lower than that of business companies, making it more difficult to generate ROE. We believe that we must first raise this level based on past results, of course, so we are considering a 7% level as a first step.

And then, in the numerator, we have FFO, an index that does not consider gains on the sale of real estate, and I said that if the property were sold, it would be at the 5% to 10% level I mentioned earlier. The average unrealized profit ratio of the Fund is about 20%, so if we add these gains on sales, it will probably be additional 8%, and I think that is a very sufficient level.

Since we have adopted recurring cash generation as the numerator of our index, we consider this to be the level of return on E, which is 7%. We have no intention of doing so, but if the leverage level is raised to 55% or 60%, the ROE will naturally increase by an additional amount. If I were to say in comparison to business companies, I would imagine that we would be working on how much ROE we can achieve when making such assumptions. As I mentioned earlier, we basically do not intend to manage our finances in this way, so for the time being, we hope to achieve this 7% level in the short term.

And your second question. Why 5% to 10% on the sale of a property? First, when we sold Kuki II six months ago, the asset had a book value of roughly JPY1.9 billion and a market value of JPY2.5 billion.

As for why this property was chosen, we believe that if we sell too large a property, the portfolio NOI, which is the basic strength of the portfolio, will be stripped away too much, and it will be difficult to recover. Therefore, I explained that we chose rather small properties so that even if Kuki II is sold, we can maintain or even increase the portfolio NOI by raising rents of the remaining 20 properties.

However, with the current declining inflow of investment capital into the J-REIT market, we are in an environment where there is a glut of capital, so we thought it necessary to expand the scale of our operations and absorb more capital from the market than before.

On the other hand, if we sell 20% or 30% of the asset scale of the properties, as I mentioned at the time of Kuki II, we will not be able to reduce or balance the portfolio NOI. We are considering a 5% to 10% asset ratio as a first step.

Hopefully, even if we sell a property or reduce the size of our portfolio by replacing it with a more profitable property or raising the rent of the remaining property, we will be able to maintain or aim to add to the portfolio NOI, even with this sale of Kuki II. We intend to make efforts to achieve the same goal of increasing portfolio NOI through the sale of Kuki II.

And the third point. Cash management. Which of the three uses of these funds is most important to you? In the past, the most important efforts to return profits to unitholders and to invest in growth were acquiring assets through public offerings, increasing dividends through external growth, and returning profits to unitholders through these efforts when the stock price was normal. We recognize that we are not free to increase capital through public offerings at this time and that the market environment is not conducive to aggressive external growth. We believe that the phrase "capital optimization" is becoming increasingly important from this perspective.

On the other hand, this does not mean that we should neglect returns to unitholders and investment for growth. From this perspective, the past two years have seen the addition of this theme of capital optimization to the two previous important themes. We recognize the need to balance the three themes. Therefore, it is a very difficult question to decide which is best, but I recognize that capital optimization is becoming increasingly important in the current business environment.

Finally, you also asked about the TOB of CRE by Sumitomo Mitsui Finance and Leasing and SMFL Mirai Partners. We are currently in the middle of the TOB period and have not yet determined whether the TOB for CRE will be completed or not. I cannot make any definitive statements in this regard at this time, but there is no doubt that the amount of funds available will increase.

We also assume that this will probably lead to an upgrade in sponsor credits.

The availability of funds means that there are more options for future expansion of the pipeline and the use of bridge financing schemes. I am aware that the current business environment is increasingly focused on

capital optimization rather than pursuing external growth through aggressive asset acquisition, so I wonder if an increase in the amount of available funds is not necessarily directly related to this. It is very unfortunate.

However, we expect that the market environment will eventually return to normal at this time in the future, so we need to prepare for this by increasing the amount of funds available. In preparation for such a situation, we would like to maintain good communication with the new sponsors, SMFL Mirai Partners and Sumitomo Mitsui Finance and Leasing Group, and once the TOB is officially concluded, we would like to implement specific measures to prepare for such a situation. We have provided our response to the above.

Namiki [M]: Thank you very much for your detailed explanation. Thank you very much.

Moderator [M]: Thank you very much for your question, Mr. Namiki. Next, Mr. Ozawa, please speak.

Ozawa [Q]: My name is Ozawa from SBI Securities. Thank you for your cooperation. Two points from me.

The first point, on page seven, is an increase in NOI to keep up with rising debt. In particular, the rent revision is expected to be as high as 8.2% this fiscal period, as in the previous fiscal year. In a sense, is this mainly due to a large rent gap or the special circumstances of the tenants you mentioned?

And conversely, will it go to a level quite similar to this in the next fiscal period ending December 31, 2025 and beyond? Or is it slightly too good to be 8% or 9% of the fiscal period ending June 2025 and the previous period ended December 2024? The first point is that I asked for an image of this area and a sense of standards.

Secondly, I think it may be difficult to talk about the sponsor's TOB or MBO since you are in the middle of the process. In the first place, it may say something properly, but in the pipeline with sponsors, for example, I think there were exclusive negotiation rights, but does it mean that that area will continue for a while yet, like a deadline?

Or, if the sponsor were to go private, would there be a page in the sponsor's materials that often talked about the status of pipeline leasing, or would that be gone? It's a little sad. I don't know. Or your company might be involved? Could you explain that as well?

Although this is a general comment, there was no particular change in the leasing situation for the logistics market on sponsors, and I got the impression that they had already decided on properties quite far in the future, so there is no particular concern in this area. Even if you decide on leasing, I think it will take some time until you are in the REIT. I would like to ask you again about the leasing environment. Thank you.

Ito [A]: Yes, sir. I would like to respond to your questions in this order.

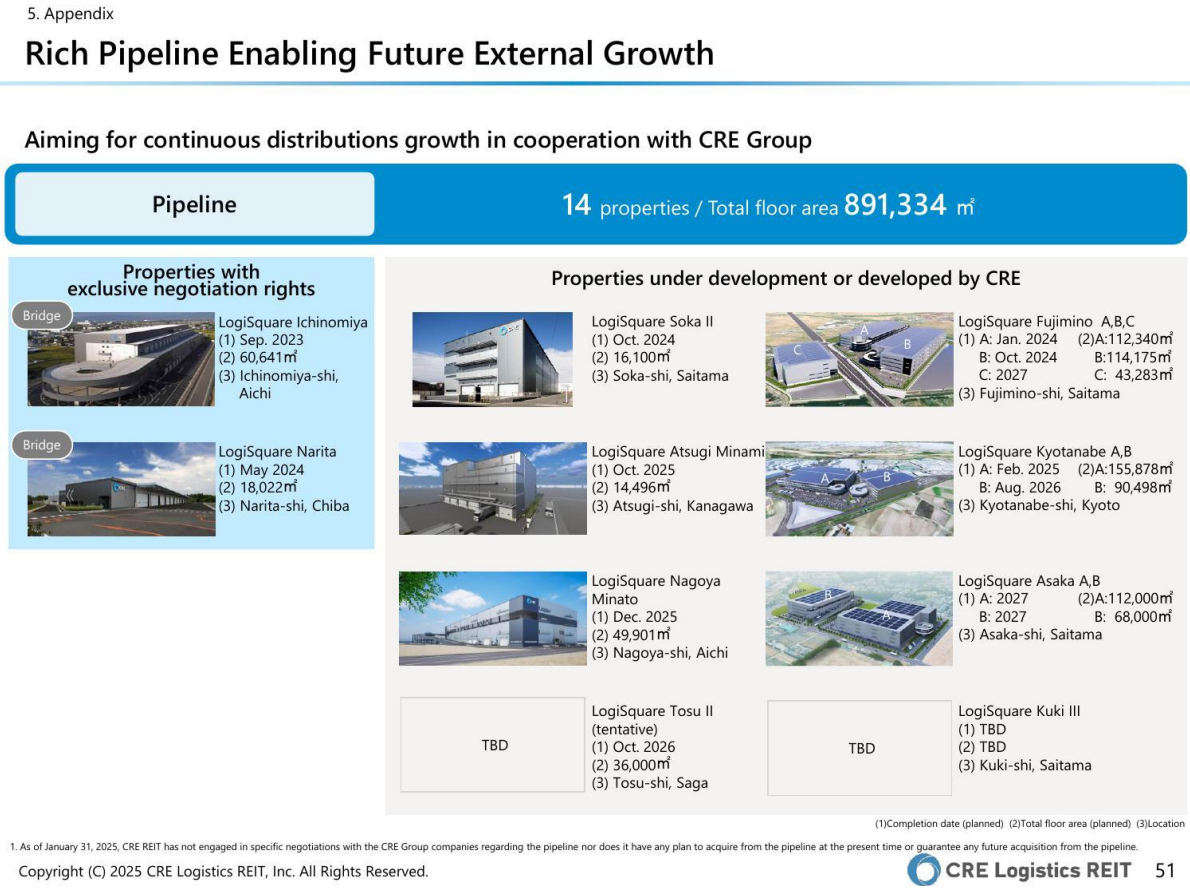
First, in terms of rent increases and rising debt costs, yes, we were able to realize large rent increases in the period ending June 30, 2025 and the period ended December 31, 2024 before that. There are no special factors for tenants. As for us, we go with the market rent without hesitation. We proceeded with negotiations to raise the rent.

Tenants of logistics facilities are professionals in the logistics market, so they have a common understanding of each other's market rent levels. In this sense, it is difficult to cut corners in negotiations, but on the other hand, it is also difficult for tenants to have a gap in their perception of the current market price in the surrounding area,

The tenants also have their own income and expenditures to consider, and we were able to close the rent gap by carefully negotiating with them.

We believe that we have done well in a sense in the last two terms, 9.1% and 8.2%. We are not optimistic that this 8% or 9% level of rent increases can be achieved all the way into the future. Assuming that there is generally a lease agreement of about five years, and that market rent growth is about 1% per year, or a little over 1% per year, a rent increase of 5% to 7%, plus an additional 5% to 7%, can be realized. For our part, we think it is pretty close to a passing grade. In that sense, we think that 8% and 9% were rather good performances.

And the second point. TOB for CRE is currently underway. You asked if there is a time limit on the pipeline's exclusive negotiating rights.



Just to the left on page 51, LogiSquare Ichinomiya and then LogiSquare Narita. Last summer, we established a bridge financing facility with a three-year timeframe.

However, our exclusive negotiating rights themselves do not have an expiration date, so we can keep them in the bridge financing scheme for three years after CRE sold the property and until CRE Logistics REIT acquires it. As for your question about what we will do after three years, we will take some kind of action, such as preparing another bridge financing scheme or extending the bridge financing scheme, but again, there is no expiration date set for our exclusive negotiating rights themselves.

And how will the leasing status of developed properties be disclosed after CRE goes private? We apologize. I am not aware of CRE's current stance on disclosure. To be honest, though, I don't know. I would like to make sure that we communicate well. I think it would be difficult for us to disclose the leasingstatus of developed properties, but I would like to follow up on how CRE will disseminate information.

And the last question you asked, is there any change in the leasing situation? Although the vacancy rate in the Tokyo metropolitan area seems to have remained high at the moment, I believe that it is quite individualized.

Rooms that are not filled are hard to fill. The vacancy has remained unfilled. On the other hand, the properties that are being filled continue to operate at full capacity all the time. Even though the market vacancy rate is 10%, it does not mean that all properties have 10% vacancies; properties that are filled are 100% occupied, and those that are not filled are not being filled.

In this context, CRE leasing has been taking a little longer than in the past, although this has been the case for the past two or three years. We have received reports that leasing is steadily progressing. Therefore, I do not feel that there has been a significant change in the tide.

And fortunately, there are not many properties developed by CRE that are not filled for any length of time. Although it is taking a little longer than in the past, we believe that we have been able to ensure full operation. In this sense, we see no change in the tide and market rents continue to grow. We have provided our response to the above.

Ozawa [M]: Yes, I understand very well. Thank you very much.

Moderator [M]: Thank you very much for your question, Mr. Ozawa. Now, Mr. Ohata, please.

Ohata [Q]: I am Ohata from Mizuho Securities. I would like to ask two questions.

First, the outlook for future profits. Regarding guidance. Looking at the larger picture, the increase in interest expense is more than the growth in income from rental operations. However, if there is no reduction in revenue from the sold property, it looks to me like it would be the same. In light of this, I wonder if it is necessary to set a higher NOI growth target for the future. How do you see the NOI growth target, or FFO, which your company uses as an indicator, and how do you see this growth target? I would like to ask the first point in this regard.

The second point concerns the supply-demand environment in the logistics facilities market in general. The supply is expected to slow down a bit, and with the recent rise in construction costs, there is a possibility that the supply will decrease even further in the future. What do you think about this? As supply is squeezed by rising construction costs, I wonder if there is any possibility that this will lead to higher rents. Please answer the second point regarding these areas.

Ito [A]: Yes, I understand. I would like to respond in this order.

First of all, regarding the profit forecast, I understand that your question is not about the amount itself, such as ROE of 7%, but rather about the forecast for the amount itself, or how the target for the amount is set.

First, page six. In terms of actual rental business profit/loss, we have achieved such an increase from the June 2022 period to the December 2024 period. And then page five. FFO and net income are included in this bar graph, and they have remained roughly around JPY2.8 billion.

Then, during this period, we have rather compressed E. Just net assets after distribution, which means that the CRE Logistics REIT has been making distributions in excess of earnings on an ongoing basis. In the previous fiscal period and the current fiscal period, we have continued to reduce E by acquiring our own investment units, and I believe this is the reason why ROE has remained at approximately 6.8% to 6.9%.

In the short term, we believe that we need to raise the base for net income and FFO to JPY2.8 billion plus in the future through rent increases and strategic capital expenditures. If the net assets are JPY80 billion, the 7% level would require FFO of JPY2.8 billion per period, or JPY5.6 billion per year, which I believe is the short-term target.

In the medium to long term, if we want to increase the amount of JPY2.76 billion to JPY2.8 billion in the short term, we will have to increase it by 1% to 2% per year to achieve this goal. So it is a bit more of a growth rate than a concrete actual amount. The growth rate of FFO is to first raise this JPY2.76 billion to JPY2.8 billion in the short term, a 1% to 2% increase. And we believe that maintaining that pace thereafter is the first and minimum thing we must work on.

And secondly, we have received a question regarding the general supply and demand environment. As you are aware, supply is expected to decrease in the future due to rising construction costs. The supply in 2025 will be about 700,000 tsubo. In terms of area, we estimate that it will be 2.2 million square meters to 2.3 million square meters.

The large supply, that has been created in 2022 and 2023. Since it has taken time to fill vacancies caused by oversupply, no major tightening of supply and demand has occurred. We continue to have new construction that continues to fill underutilized floors.

However, beyond that point, we still expect supply to decrease further, so we believe there will be a period when supply and demand will tighten again, and vacancy rates will begin to fall. And by that time, we will probably see a definite increase in rents.

Logistics companies are now actively working to raise prices for shippers, and if they do not do so, they will not be able to raise the salaries of their drivers. We believe that we can follow this trend and raise the rents of high-quality facilities in line with their value, and we intend to proceed with these negotiations.

We believe that supply and demand will tighten in late 2025 to 2026, but we will first wait for the oversupply floor created in the years 2022 and 2023 to be filled, and then such a tighter phase will emerge. We have provided our response to the above.

Ohata [M]: Yes, thank you.

Ito [M]: Thank you very much.

Moderator [M]: Thank you very much for your question, Mr. Ohata. Does anyone have any other questions?

Now that it appears that we have received all of your questions, we will conclude today's briefing.

Thank you very much for your participation today.

[END]

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