CRE Logistics REIT

CRE Logistics REIT, Inc.

Announcement of Financial Results for the 15th Fiscal Period (Ended December 31, 2023)

February 16, 2024

Event Summary

[Company Name]	CRE Logistics REIT, Inc.	
[Company ID]	3487-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Announcement of Financial Results for the 15th Fiscal Period (Ended December 31, 2023)	
[Fiscal Period]	The 15th Fiscal Period (July 2023 to December 2023)	
[Date]	February 16, 2024	
[Number of Pages]	33	
[Time]	16:00 – 17:00 (Total: 60 minutes, Presentation: 26 minutes, Q&A: 34 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	1	
	Tsuyoshi Ito	President
[Analyst Names]*	Hiroshi Torii	SMBC Nikko Securities
	Kohei Omura	Nomura Securities
	Yosuke Ohata	Mizuho Securities
	Mikio Namiki	Okasan 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

Ito: I am Ito of CRE REIT Advisors. Thank you very much for watching today's financial results briefing for the 15th fiscal period of CRE Logistics REIT, Inc., (CRE REIT).

CRE REIT was able to close its 15th fiscal period without delay at the end of December 2023. We would like to express our deepest gratitude to everyone involved for their support.

Today, I would like to present my explanation along with the materials on the screen, and then proceed to the Q&A session.

We will now begin our explanation.

Contents

Contents

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

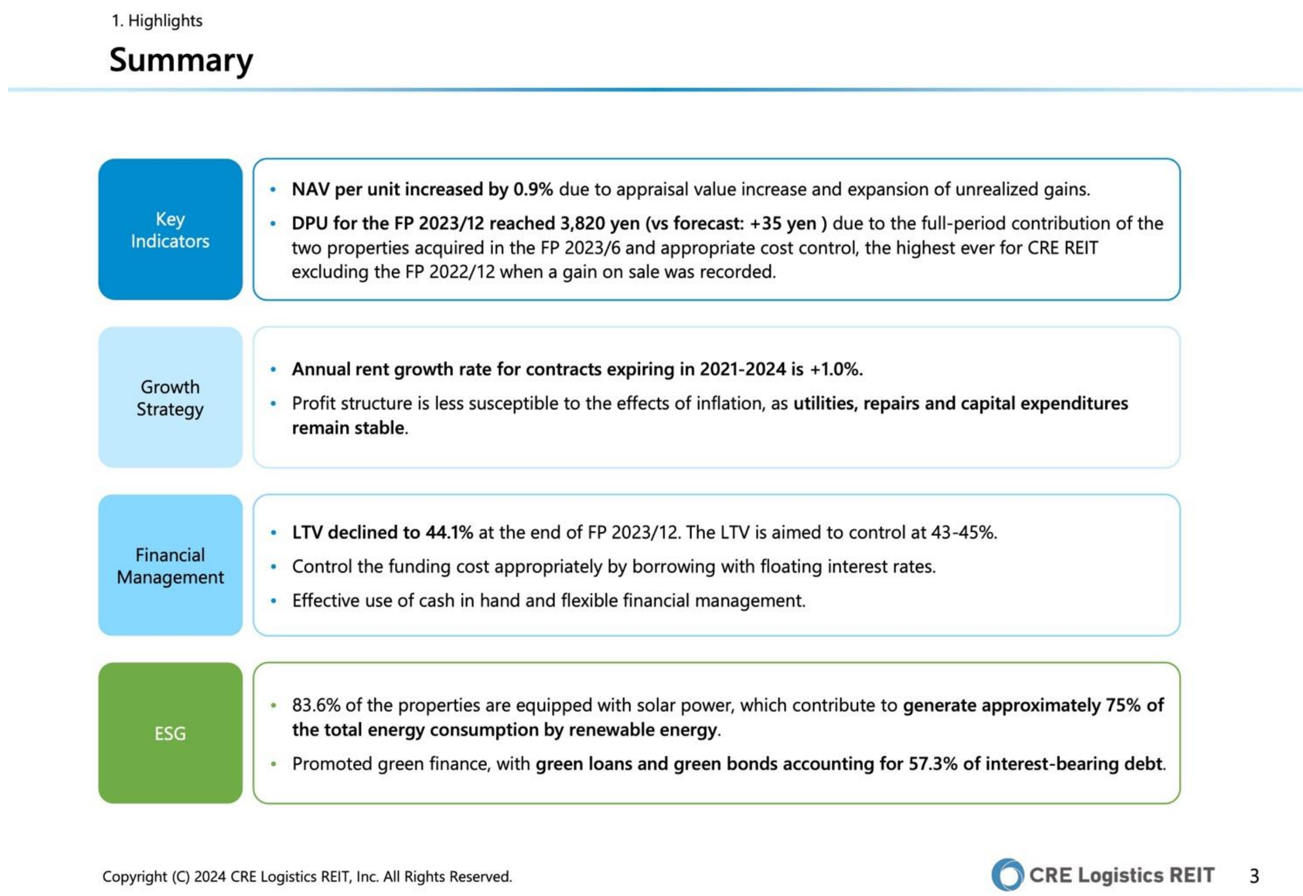
- This material is not a disclosure material under the Financial Instruments and Exchange Act, the Act on Investment Trusts and Investment Corporations or the Securities Listing Regulations of the Tokyo Stock Exchange.
- The purpose of this material is to provide information and not to offer, solicit 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.

CRE Logistics REIT 1

See page one, the table of contents.

After explaining the operational highlights as the first part, I will explain our clear growth strategy as the second part. After that, in the fourth part, market environment, I would like to briefly explain the outlook for the supply-demand environment in the Tokyo metropolitan area, which is of particular interest to you.

I will now explain the operational highlights starting on page two.



The summary is shown on page three.

Regarding the first key indicators, NAV per unit increased by 0.9% because appraisal value increased from the end of June 2023 and unrealized gains are expanded.

DPU for the fiscal period ended December 2023 reached JPY3,820, a record high for CRE REIT, excluding the fiscal period ended December 2022 when a gain on sale was recorded, due to the full-period contribution of the two properties acquired in the fiscal period ended June 2023 and appropriate cost control.

In relation to the growth strategy, the annual rent growth rate for lease contracts expiring in 2021 to 2024 is a positive 1%, which is steadily leading to internal growth.

The portfolio of CRE REIT has a revenue and expenditure structure that is less susceptible to the effects of inflation, and utilities, repairs and capital expenditures have remained stable.

Regarding the third point, financial management, we continue to follow the same policy as in the past.

Loan to value fell to 44.1% as of the end of December, and we intend to continue to manage it at 43% to 45%.

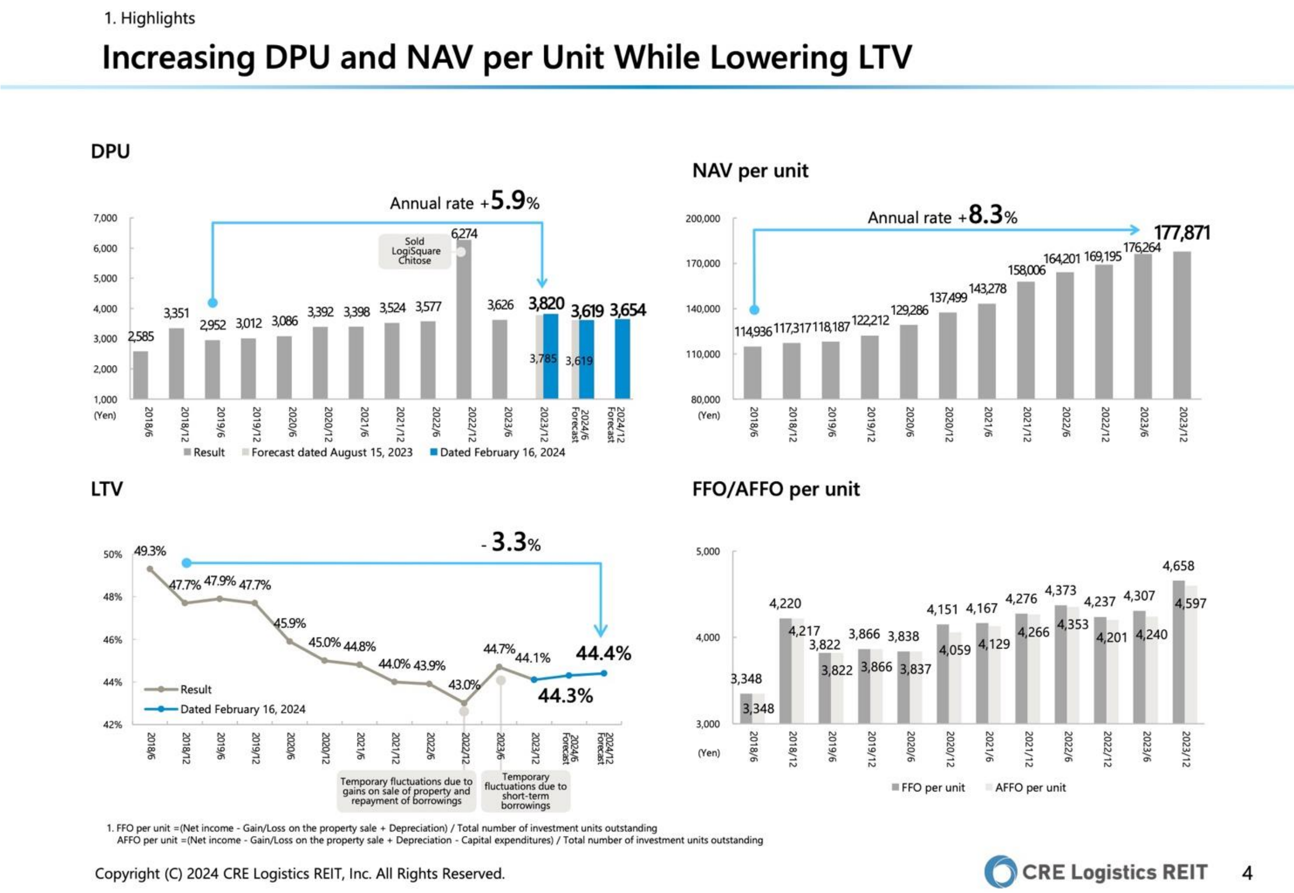
In response to rising market interest rates, we introduced floating interest rates for some of its borrowings to appropriately control the funding cost.

We are flexible in its financial management while making effective use of cash in hand.

ESG was addressed with further reinforcement.

Over 80% of our properties are equipped with solar power generation, generating 75% of the total electricity used by the portfolio by renewable energy.

We are also actively promoting green finance, with green loans and green bonds now accounting for more than 57% of our interest-bearing debt.

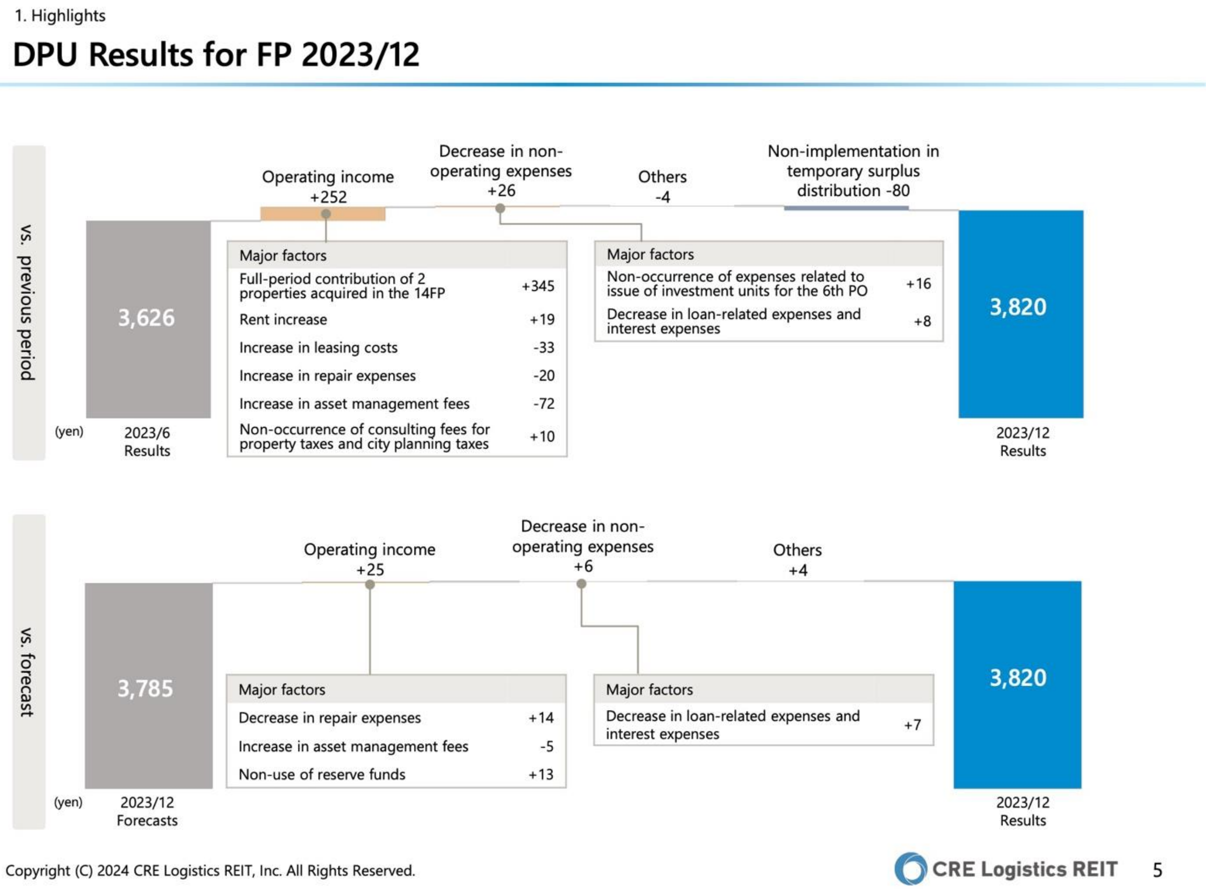


Page four.

Regarding DPU in the upper left-hand corner, as explained earlier, in the fiscal period ended December 2022, we recorded a gain on the sale of one property and paid a large distribution amount, but excluding that special period, the distribution for the fiscal period ended December 2023 was the highest level ever for CRE REIT, recording a distribution of JPY3,820.

Today, we announced a new forecast for the fiscal period ending December 2024, the breakdown of which will be explained in more detail later.

Loan to value temporarily increased at the end of June 2023 due to the acquisition of a building in connection with a public offering in the fiscal period ended June 2023 and short-term borrowing to cover the consumption tax on the acquired building. However, the ratio was reduced to an appropriate level of 44.1% as of December 2023, as a result of the repayment of the borrowings by utilizing the consumption tax refund and cash in hand in the fiscal period ended December 2023. Going forward, we will continue to operate within this 43% to 45% range.



On page five, I would like to explain the DPU results compared to the previous period and to the budget.

The top half of page five shows the comparison with the fiscal period ended June 2023.

As stated in the major factors section, first of all, the two properties acquired in the 14th fiscal period, specifically in April 2023, made a full-period contribution, which had a positive effect. While there was a positive effect from the rent increase, there was an increase in repair expenses, resulting in a negative factor.

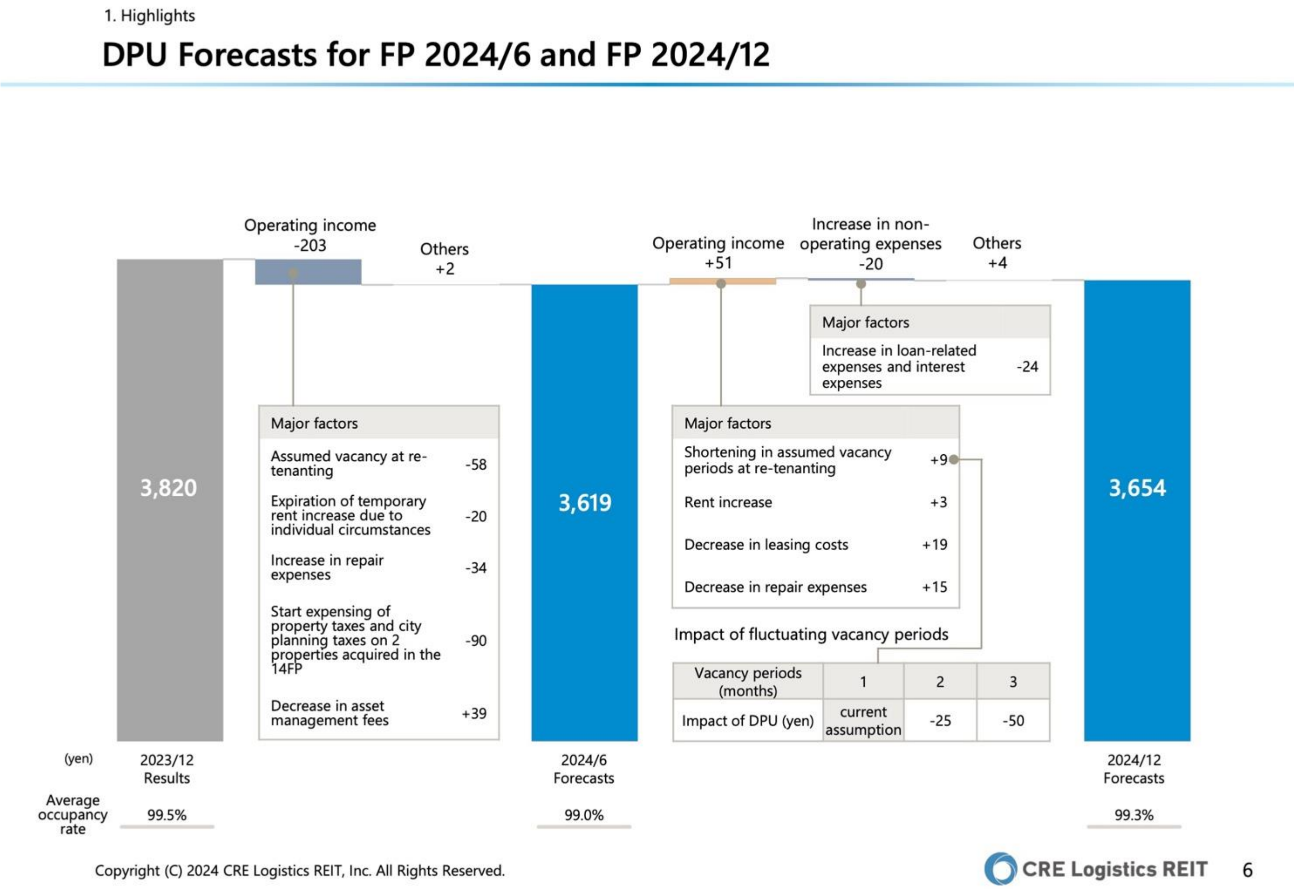
Since we have introduced an asset management fee structure that is linked to performance, the positive effect I mentioned earlier was very large, and this has had a negative impact in the form of increased asset management fees and expenses.

As a result, for the fiscal period ended December 2023, we increased DPU by JPY194 compared to the fiscal period ended June 2023.

The bottom half of the page shows the comparison with the budget. There are three main points.

First, in cooperation with the sponsor, we managed the property appropriately, which had the positive effect of reducing repair expenses below the planned level. In addition, a reserve fund was recorded, but was not used as a result, so this was also a positive factor.

As for non-operating expenses, as a result of appropriate communication with financial institutions, we were able to reduce loan-related expenses and interest expenses, resulting in a JPY35 increase compared to the budget.



Please refer to page six for an explanation of the DPU forecast.

We have reiterated our operating results forecast for the fiscal period ending June 2024 at JPY3,619, the same level as that announced in August.

In the current period, one tenant is expected to move out due to the expiration of the lease contract, and since the tenant will move out at the end of April, to be safe, we assume vacancy both in May and June, which is a negative factor.

In addition, since this January 1, we have started expensing of property taxes and city planning taxes for two properties acquired last April. This negative impact has also occurred, and as a result of these factors, we have announced a DPU forecast of JPY3,619 for the fiscal period ending June 2024, as I mentioned earlier.

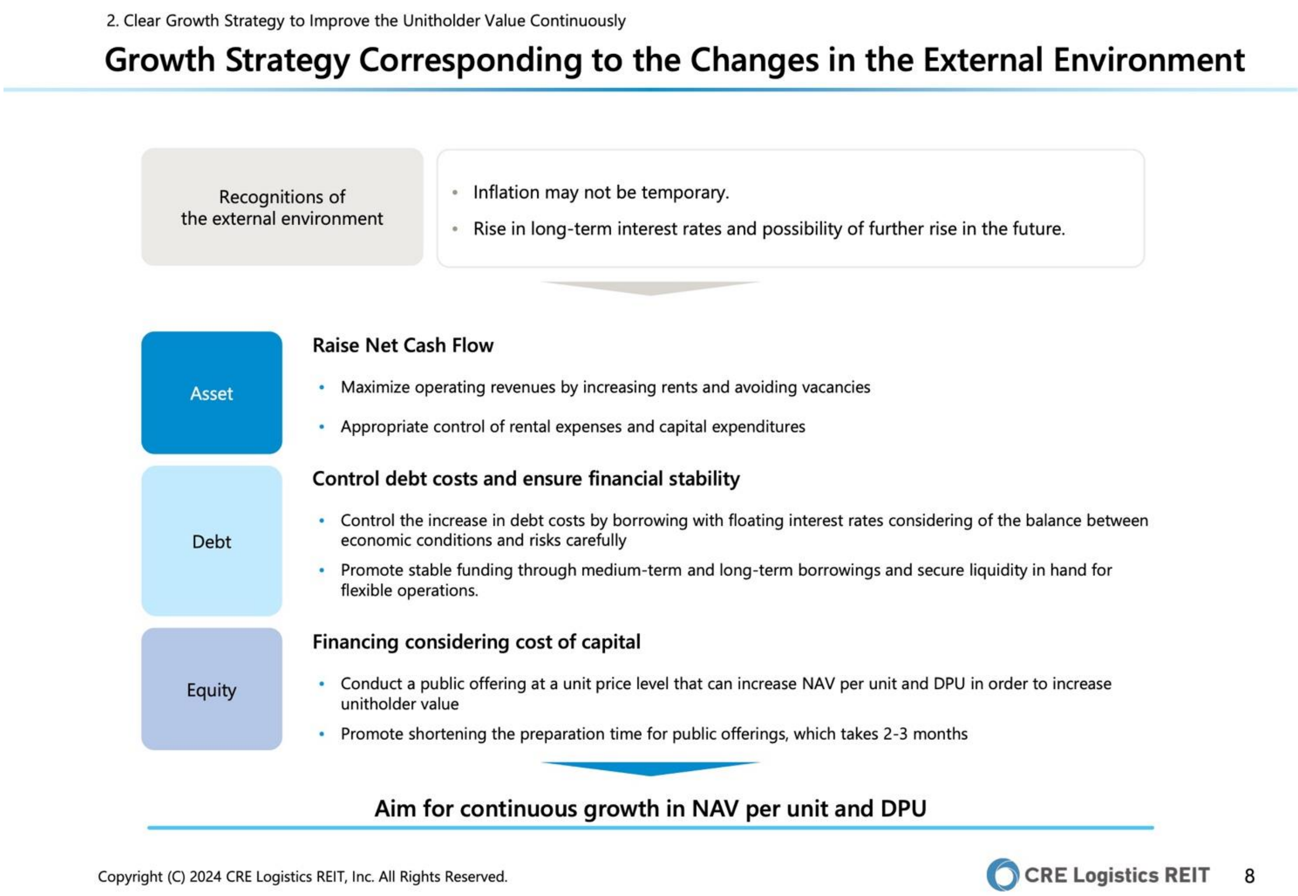
Then, the forecast for the fiscal period ending December 2024, we made a new announcement today.

Leasing activities are progressing smoothly with respect to the re-tenanting of floors, and we have assumed a shorter vacancy period for the fiscal period ending December 2024 compared to the fiscal period ending June 2024, so we expect this to be a positive factor.

Non-operating expenses are expected to have a negative impact, based on the assumption that interest expenses will increase with each refinancing due to rising market interest rates.

Based on the assumption that leasing activities and re-tenanting will proceed smoothly as a result of these activities, we have announced a DPU forecast of JPY3,654 for the fiscal period ending December 2024, an increase of JPY35 compared to the fiscal period ending June 2024.

Now, starting on page seven, I will explain our clear growth strategy to improve the unitholder value continuously.



The growth strategy corresponding to the changes in the external environment on page eight has not changed significantly from what we announced six months ago.

We continue to be aware of the possibility that inflation may not be temporary and the possibility of the rise in long-term interest rates and of further rise in the future, as we stated in August.

In terms of asset and debt, we will continue to pursue growth strategies, such as raising net cash flow, reducing debt costs, and ensuring financial stability.

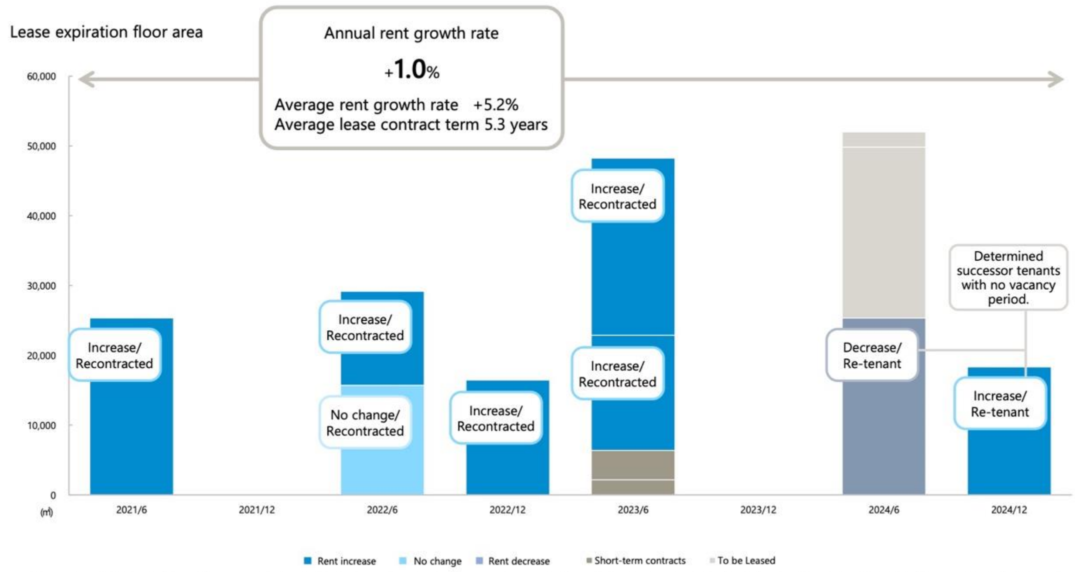
In relation to equity, we wrote as financing considering cost of capital, and of course this approach has not changed, but we recognize that given the current level of unit prices, it is extremely difficult to implement a new public offering. In preparation for these opportunities to come, we will focus on operations linked to the internal growth for the time being.

2. Clear Growth Strategy to Improve the Unitholder Value Continuously

Raise NCF (1) Maximize Operating Revenues

Asset

Steady rent increases on expiring contracts



1. Increase/decrease in rent is determined by rental revenue per fiscal period due to changes in rent and common area charges after the expiration of contracts made (calculated based on the actual rent after taking into account actual reductions due to granting free rent, etc.)
2. One of the rent 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 current tenant. In addition, short-term contracts and those under leasing activities are not taken into account.
3. Rent decrease in FP 2024/6 is due to individual circumstances with the current tenant, who is scheduled to move out after the expiration of the contract with a higher-than-market rent, and as a result of concluding a contract with the successor tenant at the same rent level as the market rent.

CRE Logistics REIT 9

Page nine.

With respect to maximizing operating revenues, this bar graph shows the responses to rent increase revisions or re-tenanting for each of the lease contracts that expired between 2021 and 2024.

On average, the annual rent growth rate was positive 1%, which led to steady internal growth.

In the current fiscal period ending June 2024, several lease contracts will expire.

First, regarding the decrease/re-tenant contract highlighted in dark gray, the current tenant has been in the property for the past year under a temporary condition, with a contract with a higher-than-market rent. Since the tenant finally decided to move out at the end of March, we immediately searched for a successor tenant with no vacancy period and have already concluded a lease contract with terms comparable to market rent.

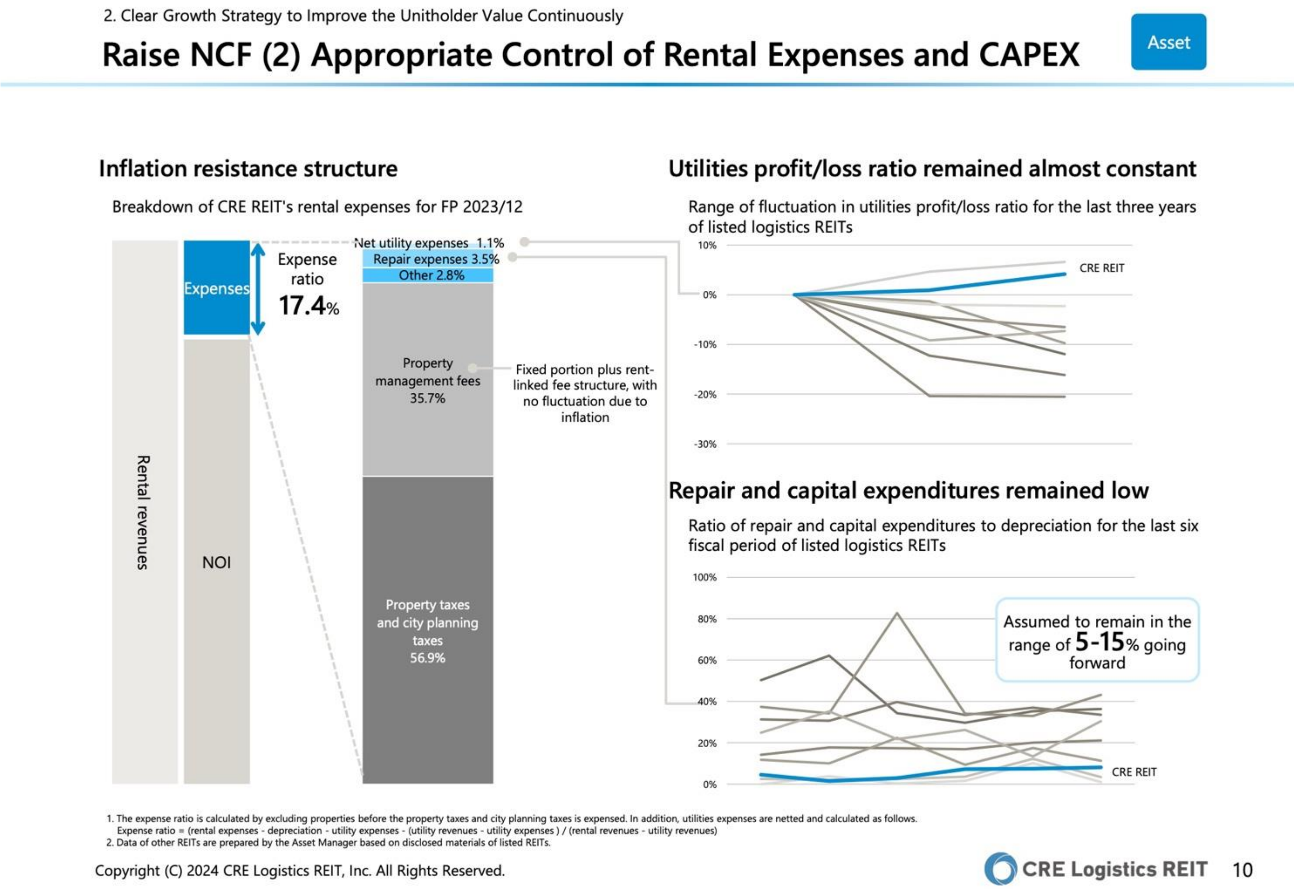
The current tenant's lease term is relatively high compared to market rents, so the rent will be reduced in comparison, but we evaluate this as a smooth completion of our re-tenanting activities.

And in the contracts that are highlighted in light gray in the upper part of the bar chart, there are contracts also expiring. There are five lots in all, and one of them will continue to be used by the current tenant. We have reached an agreement on terms and conditions on a verbal basis, so we are on track.

We have received several applications for the remaining four lots, and we are making a counteroffer for further improvement of the conditions for the remaining tens of yen.

The tenants are aware that market rents are rising and are negotiating to move in at a discount of even JPY1, while we are trying to lease for even as high as JPY1 based on the rising market rents. This last struggle has led to the negotiation of lease terms of a few tens of yen.

We will complete negotiations on lease terms as soon as possible and make final arrangements to bring the vacancy to occupancy as soon as possible.

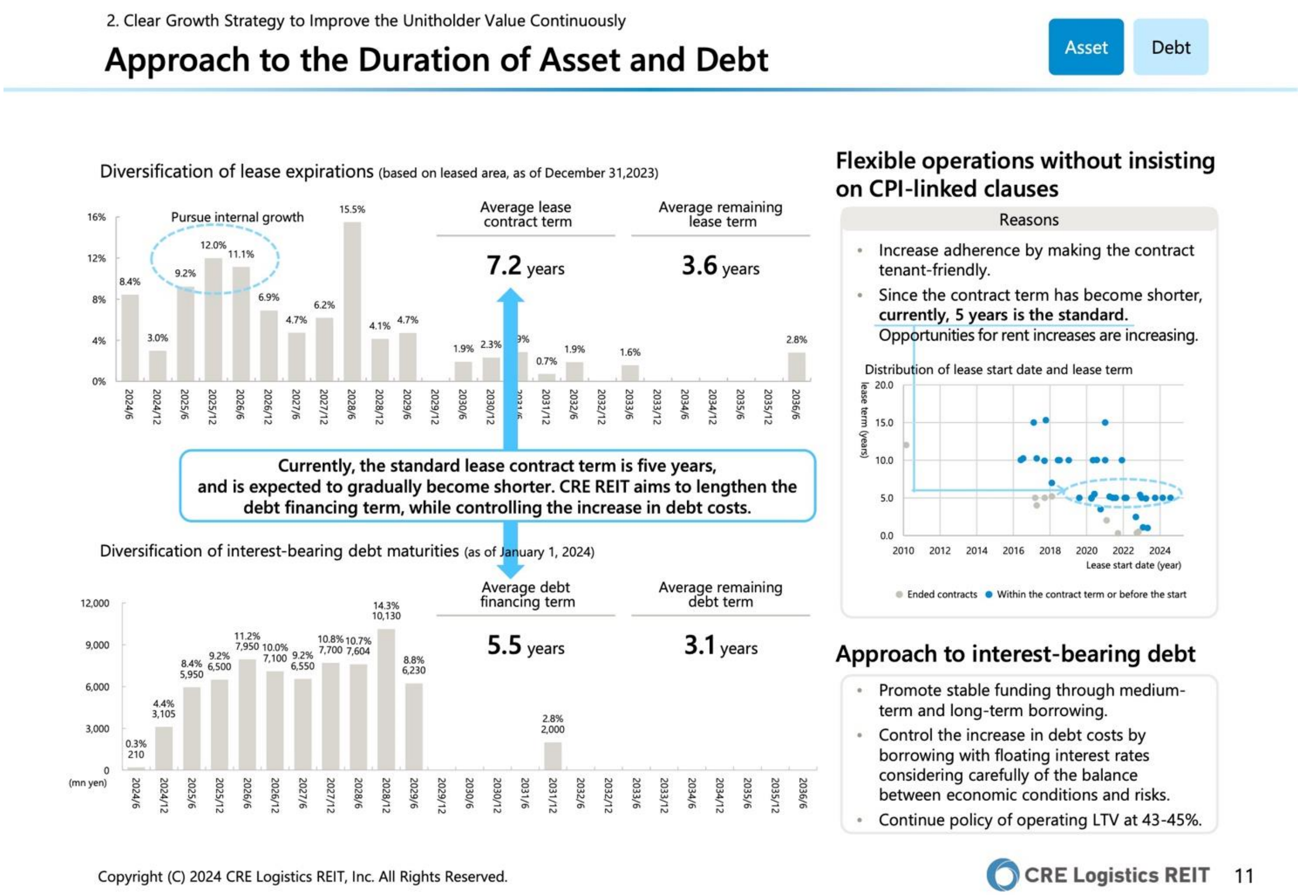


On page 10, I would like to explain appropriate cost control.

As the bar graph on the left shows, our portfolio has an inflation resistance structure, and the majority of our expenses are property taxes and city planning taxes and property management fees, which are not directly affected by inflation.

Net utility expenses and repair expenses, which are subject to inflation, account for only a very small percentage of expenses, and the utilities profit/loss ratio has remained stable and constant, as indicated by the line graph in the upper right corner.

The ratio of repair and capital expenditures to depreciation has been generally low in the past and is expected to remain in the range of 5% to 15% in the future.

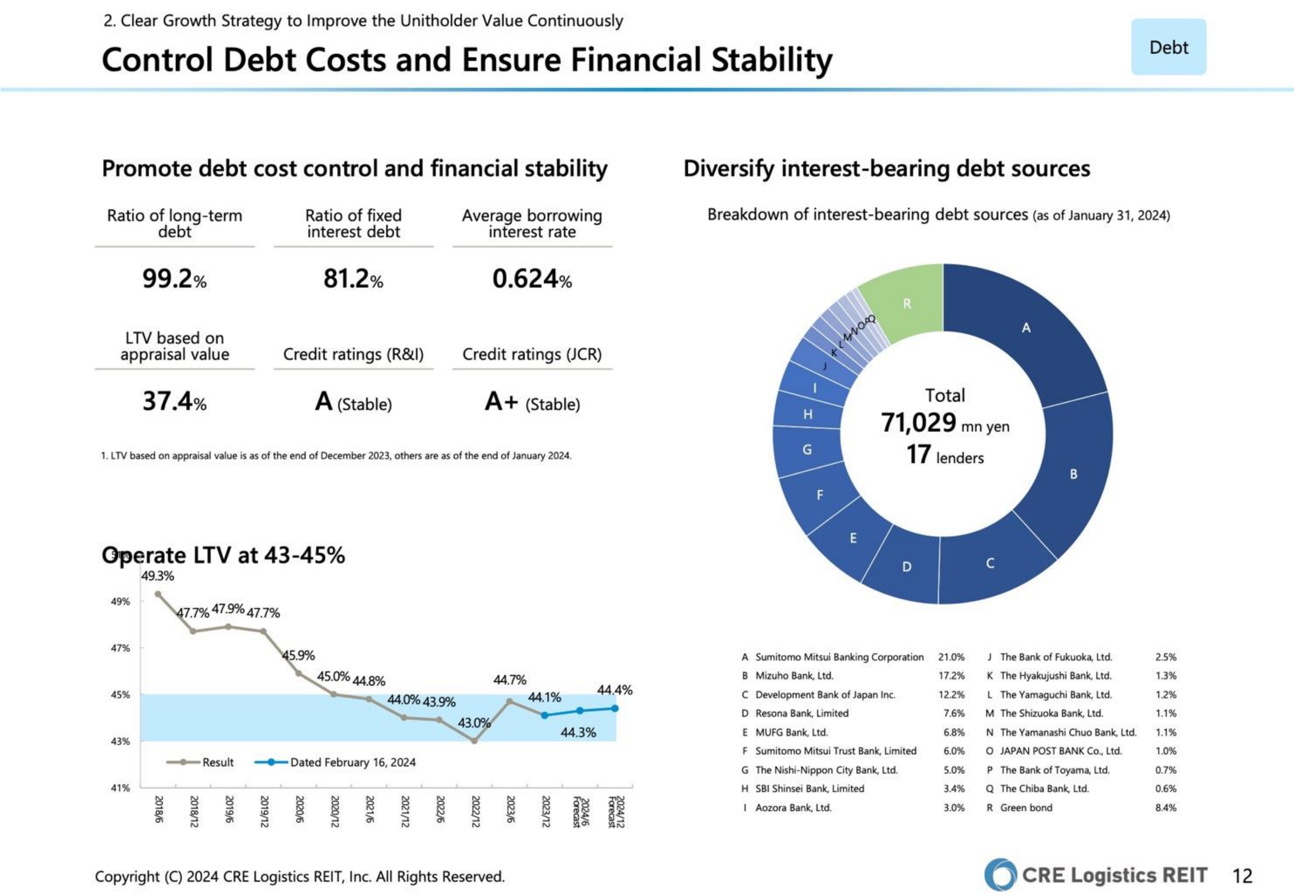


On page 11, I would like to explain our approach to the duration of asset and debt, or so-called ALM management.

As noted in the diversification of lease expirations in the upper row, the average lease contract term signed by CRE REIT is 7.2 years, and as introduced in the graph in the upper right corner, five years is currently the standard lease contract term for logistics facilities.

As noted in the diversification of interest-bearing debt maturities in the lower row, the average debt financing term is 5.5 years for CRE REIT, and we will continue to operate with awareness to match this asset-side and debt-side duration as closely as possible.

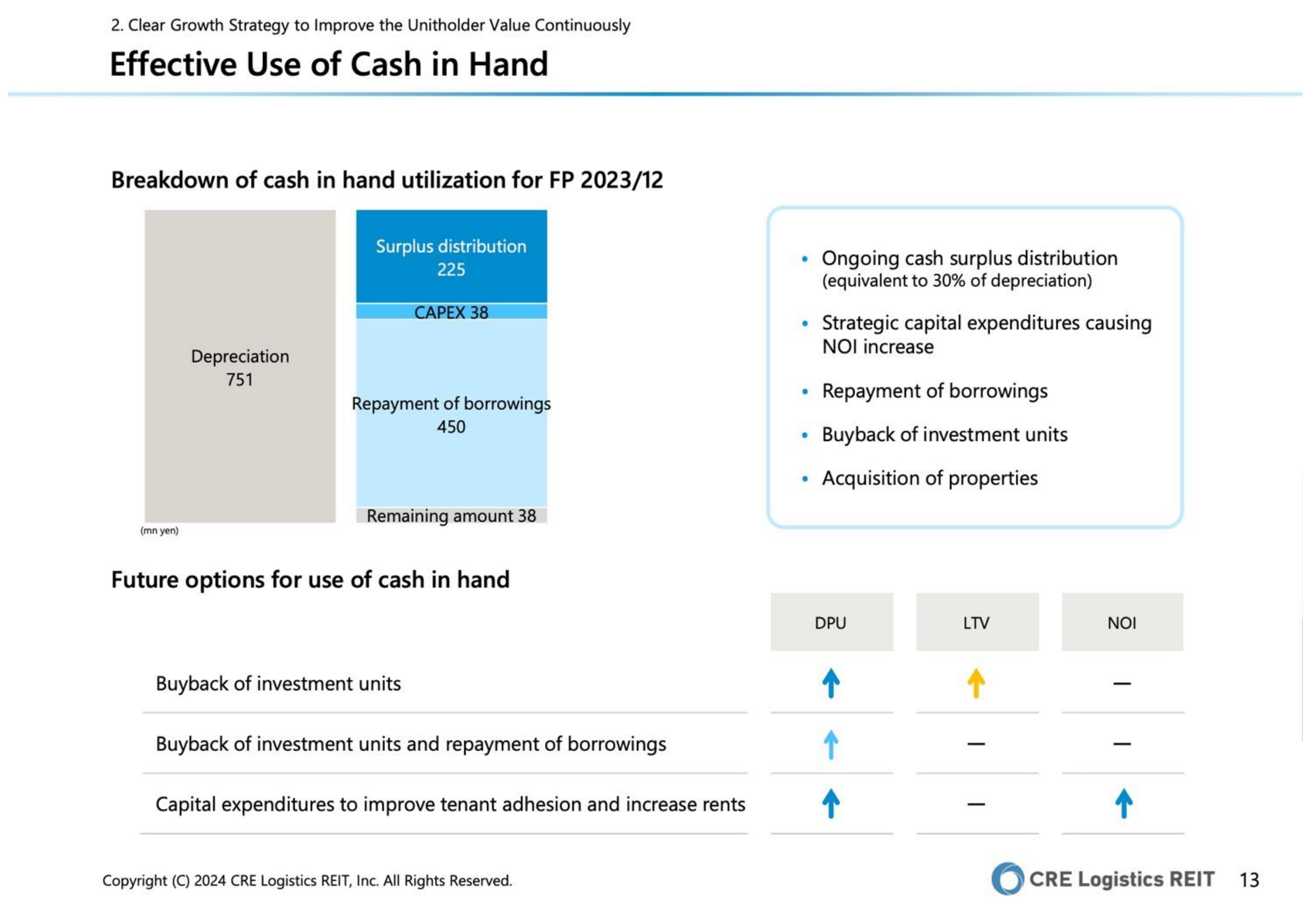
As indicated by the dotted line in the upper left corner, many leased spaces will expire between 2025 and 2026, and CRE REIT will pursue internal growth by firmly raising rents in light of rising market rents.



Page 12.

Financial operations continue to be carried out without major changes from the past.

As shown in the table above left, the ratio of fixed interest debt is currently around 81%, and in light of the risk of interest rate rises in the future, we do not expect to increase the floating interest ratio any further. Going forward, we plan to maintain a fixed interest ratio of approximately 80% and a floating interest ratio of approximately 20%.



On page 13, I would like to explain the use of cash in hand.

CRE REIT's income and expenditure structure is such that out of the free cash flow equivalent to depreciation expenses, excluding cash surplus distribution, cash basically accumulates in hand.

As the bar graph on the upper left shows, in the fiscal period ended December 2023, funds were generally used for property acquisitions made in connection with the public offering in the fiscal period ended June 2023, and the associated borrowings corresponding to the building consumption taxes were repaid with consumption tax refunds and cash in hand.

Looking ahead, we expect that the amount allocated to repayment of borrowings shown in this bar chart will accumulate as cash in hand.

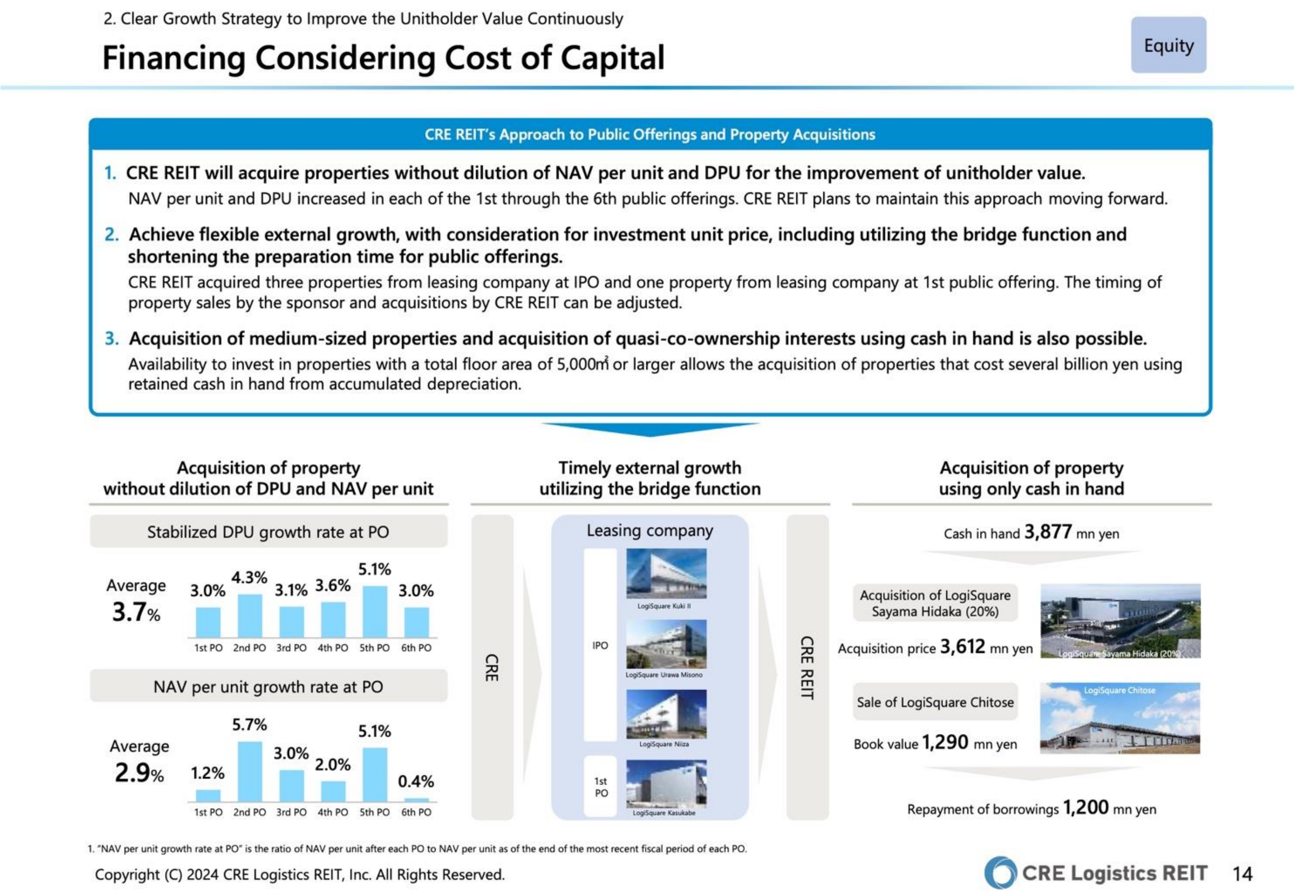
The use of cash in hand is as indicated in the blue box in the upper right-hand corner.

First, we will continue cash surplus distribution on an ongoing basis. In recent years, we have received many requests from tenants to install air conditioning systems and replace LEDs in order to improve the working environment for their employees in the warehouse.

CRE REIT believes it is necessary to respond positively to such requests from the perspective of building relationships with tenants and improving the working environment for employees at tenant companies.

However, as long as we invest funds in such capital expenditures, we cannot afford not to receive a return, so we will communicate with our tenants to ensure a solid return on this investment and implement capital expenditures causing higher NOI and DPU growth.

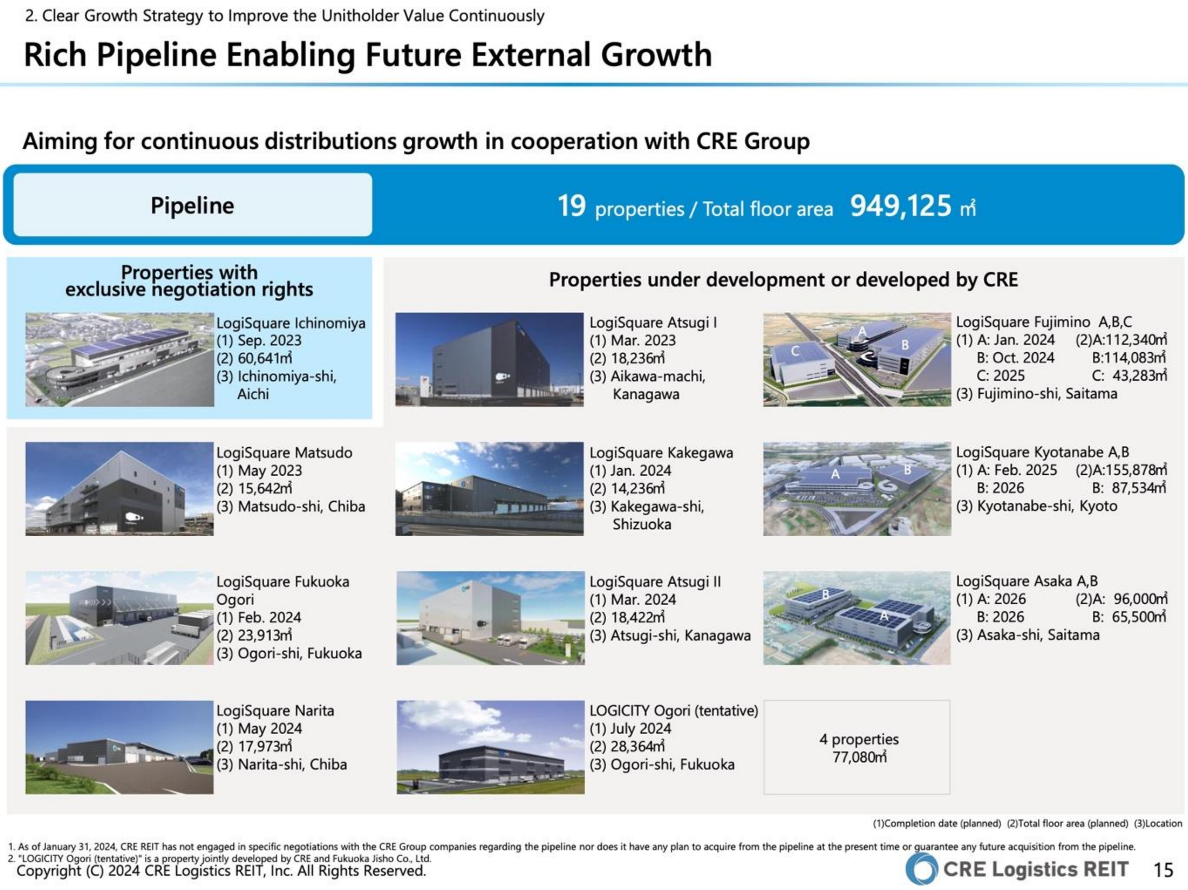
If surplus funds are still available, we would like to carefully consider options such as a system that allows for more flexible financial management through repayment of borrowings or increasing capital efficiency through the buyback of investment units.



Page 14.

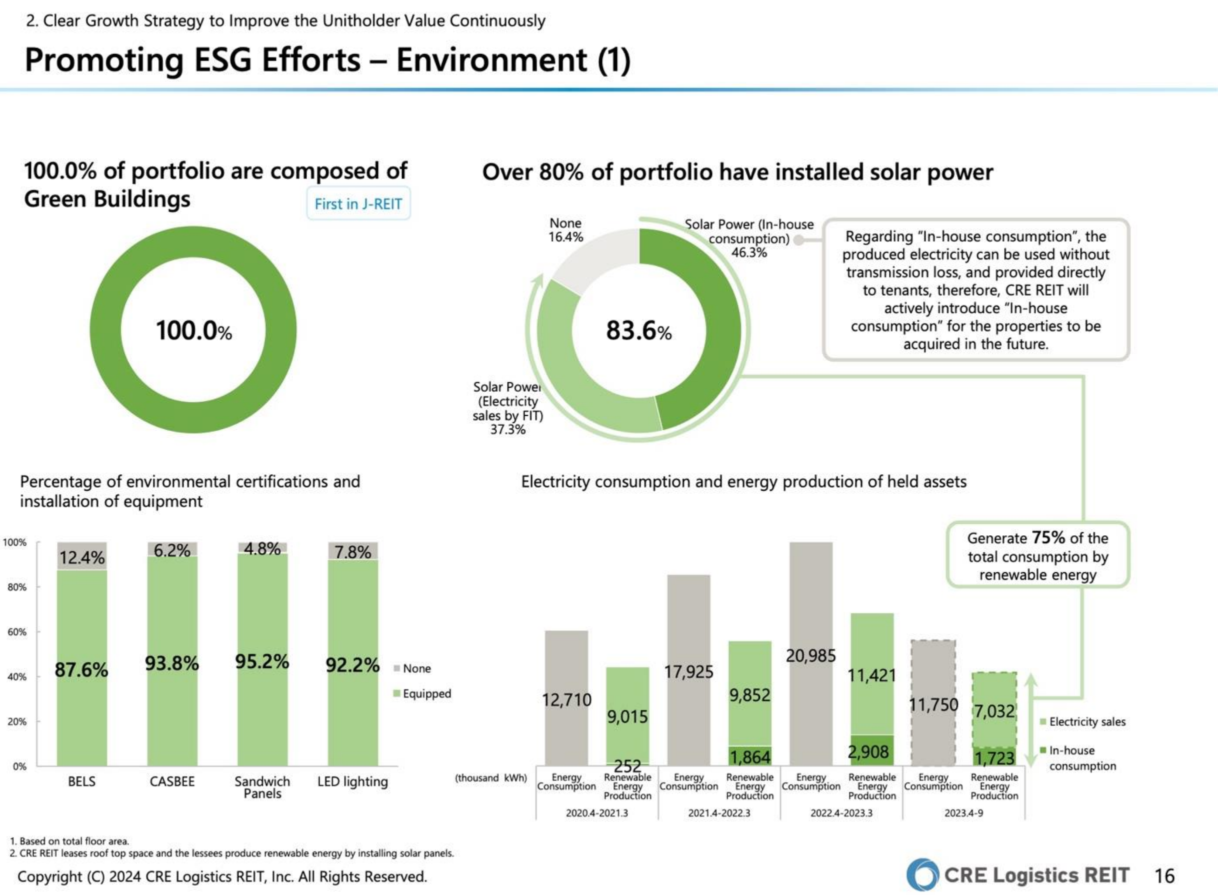
In terms of financing considering the cost of capital, the approach to property acquisitions shown in the blue box has not changed at all since the listing of CRE REIT.

As I mentioned earlier, considering the current level of investment unit prices, we believe it will be extremely difficult to conduct a public offering, and we will continue to focus firmly on internal growth in preparation for the coming timing.



On page 15, we introduce the pipeline.

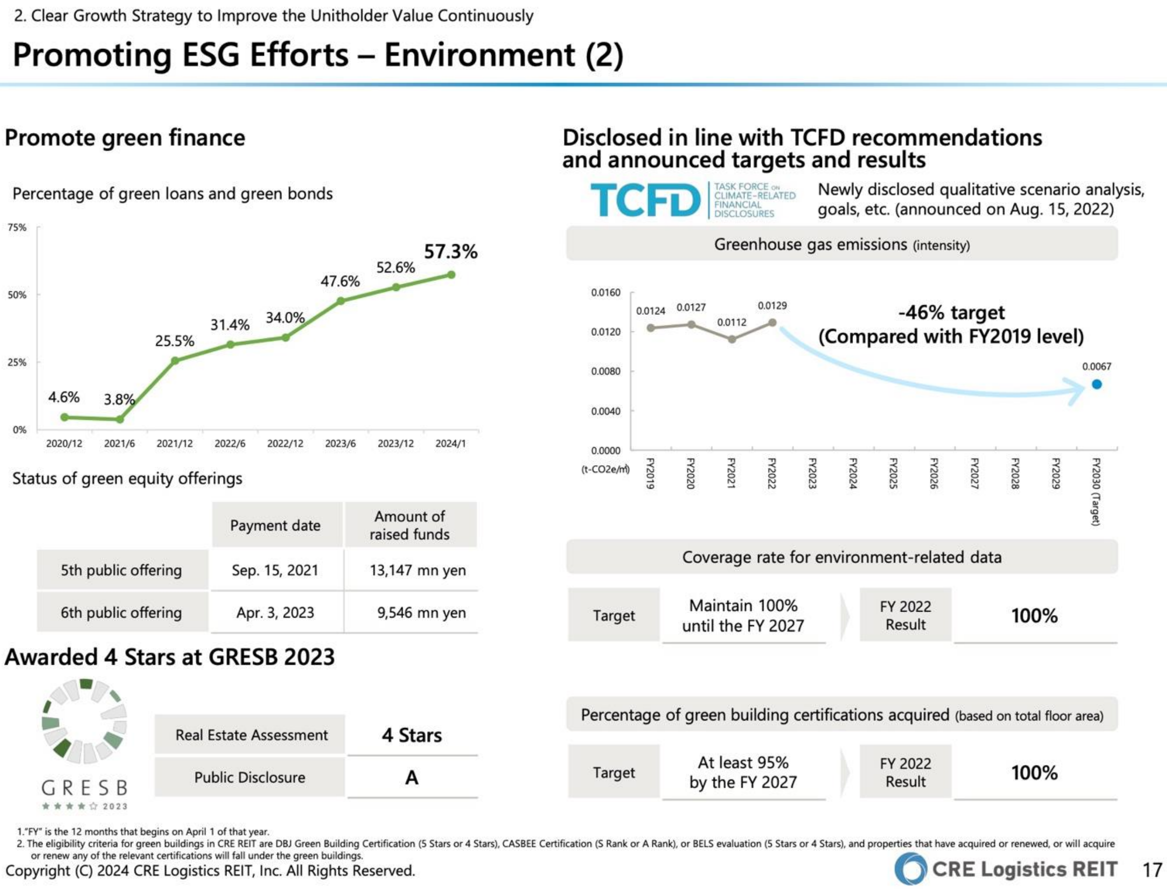
The sponsor, CRE, Inc. (CRE), has reported that it has been able to procure good quality development sites at relatively reasonable prices. We have received reports that pre-leasing is progressing extremely well, so we believe that we have a sufficient pipeline for future external growth, but we will first focus on operations for the internal growth.



Next, I would like to introduce our ESG initiatives.

As the pie chart on the upper right shows, more than 80% of the properties we own have installed solar power generation, and in particular, the percentage of in-house consumption schemes, shown in dark green, is increasing rapidly.

LogiSquare Shiroi and LogiSquare Hirakata, which were acquired in April last year, also started to use solar power generation on November 2023, so we expect the ratio of this in-house consumption scheme to increase further.



Page 17.

As for green finance, since 100% of the properties we own have obtained green building certifications, we are now pushing ahead with our efforts to switch to green loans every time we refinance, even if it is a conventional loan, in terms of loans tied to these facilities. Therefore, the percentage is increasing every year.

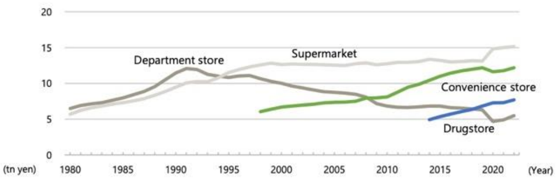
Regarding the disclosure in line with the TCFD and the announcement of targets and results in the upper right corner, we were able to reduce greenhouse gas emissions in H1 of FY2023 compared to the previous year's results. Six months from now, in August, we expect to be able to add the results for the full year of FY2023 to this line graph, and we will make every effort to report a steady reduction.

I would now like to conclude with a brief explanation of the market environment. See page 22 onward.

The Background of Solid Demand for Rental Logistics Facilities (1)

1. Market size expansion of convenience stores and drugstores

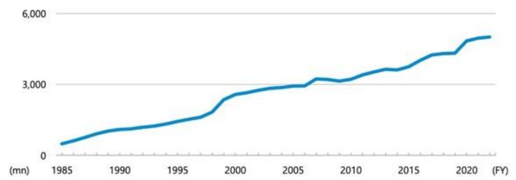
- Convenience stores and drugstores are open for long hours and have small storage capabilities, requiring multiple small-lot shipments per day.
- The increase in the number of smaller stores and shorter delivery times led to optimization of distribution channels and streamlining and efficiency of logistics.



Source: Prepared by the Asset Manager based on Dynamic Statistics of Commerce by the Ministry of Economy, Trade and Industry

2. Internet shopping flourishes

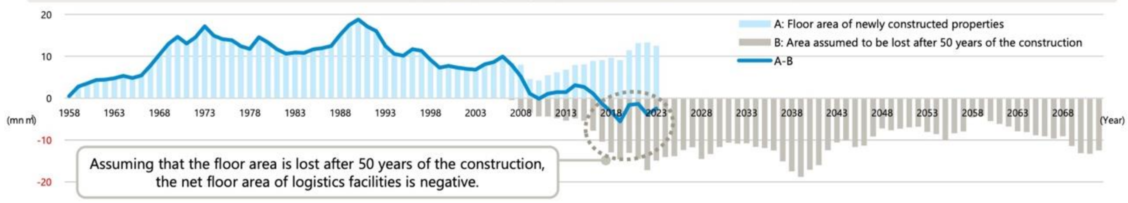
- The number of deliveries to individual customers has increased due to the growing popularity of Internet shopping.
- In addition to the traditional storage function, logistics facilities are now also required to be able to collect and deliver goods for frequent shipment and distribution processing, such as packaging and wrapping.



Source: Prepared by the Asset Manager based on Delivery Service Record by the Ministry of Land, Infrastructure, Transport and Tourism

3. Aging logistics facilities

- Construction of new warehouses peaked during the period of high economic growth and the economic bubble, and the facilities built in those periods, which are now 40-50 years old are considered to have reached the end of their service lives.
- Assuming that the floor area of properties over 50 years old, which is considered the life span of a logistics facility, has been lost, the net floor area of logistics facilities has turned negative since 2017.



Source: Prepared by the Asset Manager based on the Japan Construction Starts Report by the Ministry of Land, Infrastructure, Transport and Tourism and the Statistical Yearbook of Construction by the Ministry of Construction

We believe that the fundamentals of logistics real estate remain strong. Of course, we are seeing an expansion of vacancies and an increase in the vacancy rate, especially in the Tokyo metropolitan area, but this is not due to a decline in demand. Demand from tenants continues to be extremely strong, but at some point, in 2022 and 2023, there was too much new supply.

In particular, regarding the aging logistics facilities as indicated in number three, a large number of logistics warehouses built during the period of rapid economic growth are 40 to 50 years old, and their specifications are not up to current usage, so many logistics facilities are being scrapped.

Considering such negative supply, we expect the supply to be within such a range that it can be well absorbed.

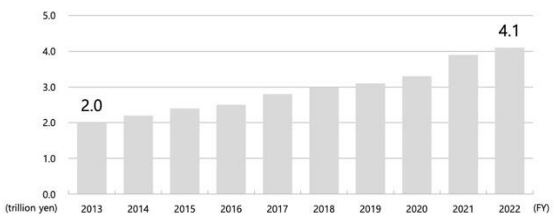
4. Market Environment

The Background of Solid Demand for Rental Logistics Facilities (2)

4. Market size expansion of third-party logistics (3PL)

- The market for 3PL is growing as companies are increasingly outsourcing their logistic operation comprehensively.

3PL market size

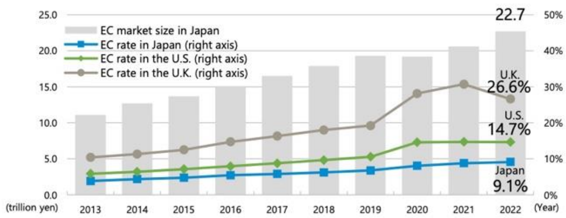


Source: Prepared by the Asset Manager based on "The monthly Logistics Business September 2023" issued by Rhinos Publications, Inc.

5. Room for expansion of e-commerce (EC) market size

- While the EC market is expanding year by year, the EC rate in Japan is low compared with the U.S. and U.K. and there is still much room for expansion.

BtoC EC market size in Japan

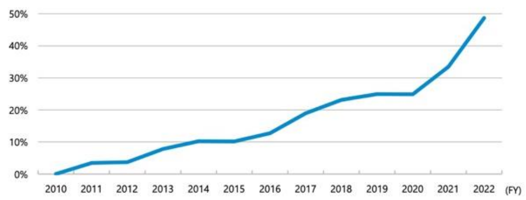


Source: Prepared by the Asset Manager based on Market Research on E-commerce by the Ministry of Economy, Trade and Industry, and data of the United States Census Bureau (U.S.) and Office for National Statistics (U.K.).
Note: The ratio of the EC market size to the amount of all commercial transactions (the commercial transaction market size). The EC rate in Japan refers to the value in the field of product sales.

6. Increase in business inventories

- Business inventories have increased after the 2011 Great East Japan Earthquake and the coronavirus pandemic.

Business Inventory Trends

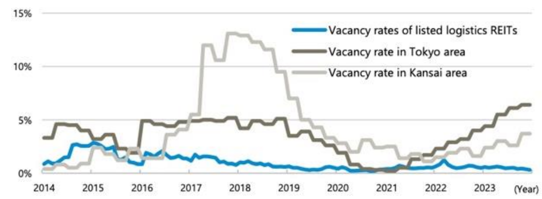


Source: Prepared by the Asset Manager based on "Financial Statements Statistics of Corporations by Industry" issued by Ministry of Finance, indexed based on FY 2010.

Reference: Vacancy rates of listed logistics REITs

- Vacancy rates of listed logistics REITs have remained stable and low compared to the overall market.

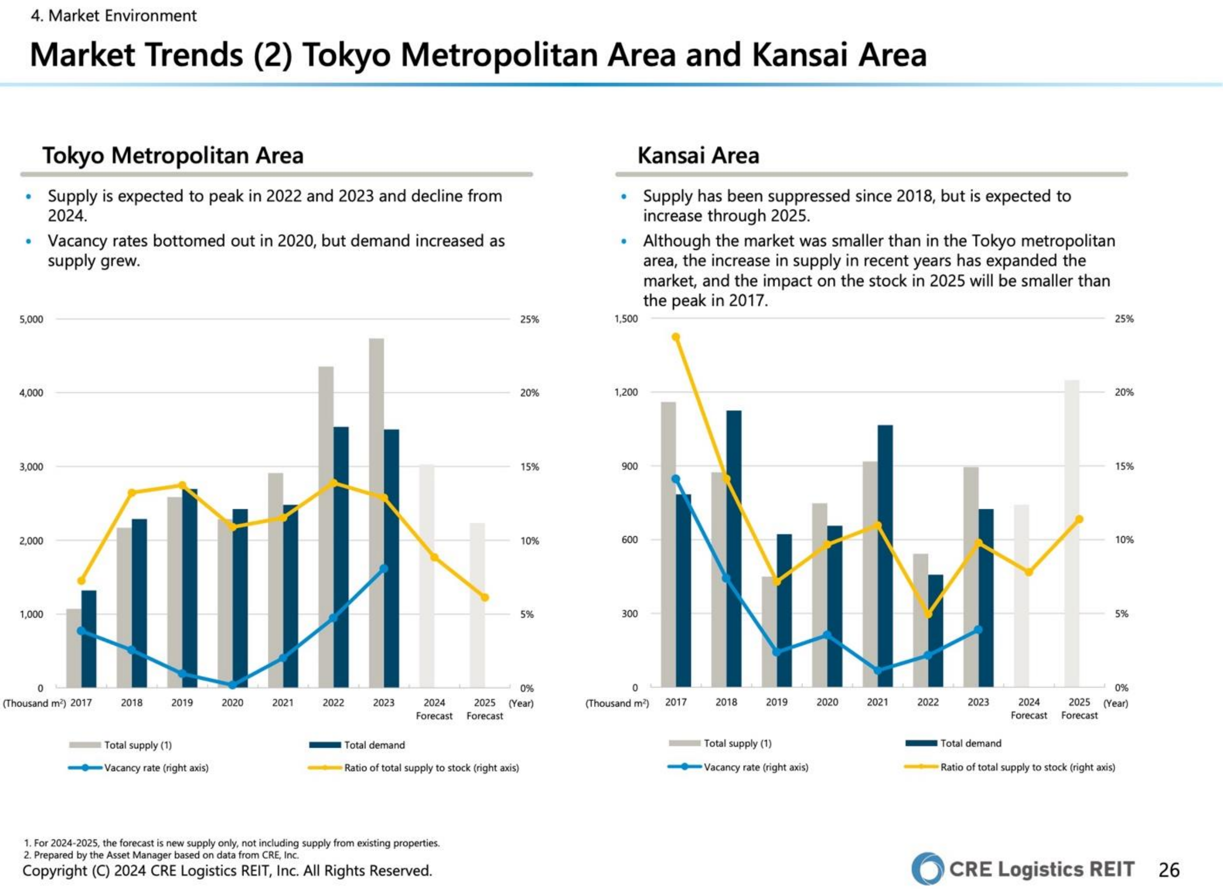
Vacancy rate of listed logistics REITs vs. Market vacancy rate



Source: Prepared by the Asset Manager based on websites of listed logistics REITs and "Industrial Market Research October 2023" of K.K. Ichigo Real Estate Service.

CRE Logistics REIT 24

In addition, as shown on page 24, number six, in light of the Great East Japan Earthquake and the spread of COVID-19, the supply chain has experienced frequent disruptions, and there is a growing trend in the manufacturing industry to shift to just in case rather than just in time, and to carry more and more appropriate inventory. Demand for quality logistics facilities to store this increased inventory has been very strong.



Next, see page 26.

We have posted the supply-demand balance for the Tokyo metropolitan area and the Kansai area, and I would like to briefly explain the outlook for supply and demand, particularly for the Tokyo metropolitan area.

First, this bar graph shows supply in gray and demand in dark indigo.

Total demand exceeded 1 million tsubo for the first time in 2022, reaching 1.07 million tsubo. And last year, it reached 1.06 million tsubo, exceeding 1 million tsubo for the second consecutive year.

On the other hand, the factors contributing to the increase in vacancies are new supply in excess of demand, which began in 2021. In particular, there was 1.14 million tsubo of new supply in 2022 and 1.21 million tsubo in 2023, so no matter how strong tenant demand is, there are still vacancies.

We estimate that there will be a new supply of approximately 0.9 million tsubo in 2024 and a little over 0.6 million tsubo in 2025, but if tenant demand remains strong, we expect that these supplies will be fully absorbed, and the current vacancies will also be absorbed. In other words, we expect the vacancy rate to peak out sooner or later.

To reiterate, the fundamentals of logistics real estate are strong and tenant demand has not declined in any way, so we expect to be able to achieve a solid rent increase in line with the trend of rising market rents.

That concludes my explanation.

We appreciate any questions or comments you may have.

Question & Answer

Moderator [M]: We will now begin the Q&A session.

We have just received two raised hands. First, Mr. Torii, please wait while we unmute you.

Torii [Q]: I am Torii of SMBC Nikko Securities. I would like to ask you two questions.

First, I have the impression that we do not have to worry so much about the earning forecast for the fiscal period ending December 2024, since you have assumed that leasing would be slightly positive as the leasing is progressing well. However, as far as you can tell us, I would like to ask you whether you are just saying that things are going smoothly or whether you have already made a decision with a definite time frame in mind.

Second, while the pipeline for property acquisitions has been building up considerably, you are aware that it would be difficult to increase capital at the current unit price. Regarding the timing of property acquisitions, are you flexible with bridge funds, etc., and don't we need to consider any particular risk of being rushed from the seller's side? I would like to confirm this once again.

Ito [A]: I understand. I would like to respond in turn.

Regarding the first point, leasing progress, we assume that the floor space will be filled steadily, as the average occupancy rate and other factors are shown in the financial results.

As I mentioned earlier in my explanation, we have received multiple application forms, but we would like to lease the property for as high as possible, even if only by JPY1. Of course, tenants want to lease as low as possible, even if only by JPY1, so they submit applications with relatively lower than market rents. We are making a firm counteroffer to lease at the highest possible price. We are in this kind of status.

Currently, we are on the verge of thousands or hundreds of yen. We are now in the final stages of negotiations for a JPY10 unit within the JPY100 range, and although we are tempted to make a concession to the tenants and make a decision, we are determined to hold our ground and raise the price even by JPY10. We are now at the stage of final negotiations.

If a legal binding agreement had been reached in writing, this bar chart could be shown in a slightly different color, but we are thinking of holding out a little longer, so we are not too worried about re-tenanting. We would like to proceed with the final details firmly.

And then, regarding the pipeline. As you can see on page 15, although we have a fairly rich pipeline, we believe that it is extremely difficult to acquire them at this time, so we have already begun structuring a bridge scheme for properties with exclusive negotiation rights.

Since the sponsor closes its books in July, they have publicly announced which properties they will sell in the fiscal year ending July 2024, but we will firmly coordinate the timing of our acquisition. We have already begun structuring a bridge scheme to avoid being forced into a situation where we are forced to make a purchase under pressure from the seller, CRE, the sponsor.

That is all for the answers to two questions.

Torii [M]: Thank you.

Ito [M]: Thank you.

Moderator [M]: Thank you very much, Mr. Torii.

Do you have any other questions?

Now, Mr. Namiki, please wait a moment while we unmute you.

Namiki [Q]: I am Namiki of Okasan Securities. Thank you for all your help. I have a few questions.

The first question. In your response earlier, you mentioned that there are negotiations with the tenants, and in the end, they are in units of JPY10. As for negotiations, you probably have quite a bit of know-how, so I don't think we need to think about that too much. In the course of various negotiations, for a JPY10 unit, were there some tenants who ran away when the price was too high, in the past? Or is such a thing possible in the future? I would like you to talk a little more about the skill of negotiation.

Second, on page six, in the forecast for the fiscal period ending June 2024, the second item of the major factors of operating income says, expiration of temporary rent increase due to individual circumstances, which dropped the amount by about JPY20. What is the reason for this?

These are the two points. Thank you.

Ito [A]: I understand.

First, regarding the case where we demand too much and the tenants run away, I think that before that, the tenants would offer an upper limit that they can no longer afford.

For example, there may be a situation where, after thousands or hundreds of yen, we negotiate between JPY30 and JPY50, and if there is an alarm that JPY50 can no longer be paid, it may be possible that we keep asking for JPY50 and then they will give up.

For us, of course, the impact of an empty warehouse is significant. So if the tenants cannot accept the last few tens of yen, we may consider trying to encourage them to move in, and if we can create an environment in which multiple tenants are bidding for the space, we may be able to tell other tenants to take over the space, for example. Of course, it depends on the situation.

We believe that it is not very likely to happen that a negotiation will suddenly become forfeit unintentionally due to an obsession with the last JPY20 or JPY30.

Therefore, as I mentioned earlier, we believe that the best negotiating environment would be to manage to have multiple tenants compete with each other.

In the current leasing activities and re-tenanting, the tenant considered the lease, but in the end, they dropped out for reasons other than rent conditions after detailed design of the warehouse specifications with the consignor company because of difficulties in installing material handling systems. Of course, we have experienced such a case in the past six months or a year, but there have been no cases so far where we have missed out in terms of numbers.

The second point is the expiration due to individual circumstances for the fiscal period ending June 2024. In the fiscal period ending June 2024, a tenant who had been under a contract with a higher-than-market rent for only one year will move out at the end of March.

I showed you a bar chart earlier showing that the average rent increase between 2021 and 2024 is positive 1%. It is on page nine. The contract shown as decrease/re-tenant is the contract where the tenant will move out at the end of March 2024.

As for this one, the tenant has moved in since 2017, and we have extended the deadline twice in the past when the promise of moving out has not been kept. Regarding the last year, we have a history of having agreed to a one-year extension under the condition that the rent would be about 10% higher than the market rent.

The tenant who had been renting the property at a rent about 10% higher than the market rent for the past year, albeit temporarily, will finally move out at the end of March 2024, and the new tenant has agreed to terms comparable to the market rent from April 1, 2024.

This impact is indicated by the expiration of temporary rent increase due to individual circumstances after April 1 on page six, which Mr. Namiki mentioned earlier. We have listed this as a negative factor.

That is all for the answers to two questions.

Namiki [M]: Thank you. I understood very well. So, what you mentioned earlier was reflected here. Thank you very much.

Moderator [M]: Thank you very much, Mr. Namiki.

Mr. Omura, please wait a while as we will unmute you.

Omura [Q]: I am Omura of Nomura Securities. I have two questions.

First, I think you have pointed out the market perspective. Looking at the recent financial results of listed companies, the number of B2C and B2B tenants handled has been slightly decreasing in some cases, but is it correct to say that tenant demand is still strong?

Second, on the latter page, there is a section titled use of cash in hand. Does this mean priorities? Do you see them as parallel options? Also, since the structure is designed to accumulate cash in hand, should we take this as a message that there are options that can be taken if push comes to shove? Please explain this in a little more detail.

Ito [A]: Thank you. I will respond to your questions in turn.

Regarding tenant demand, it is true that the growth of parcel delivery services is declining, and that the growth of e-commerce is also slower than during the COVID-19 pandemic.

However, in the B2B sector, the demand from the increase in corporate inventories mentioned earlier is very pronounced. In addition, logistics companies are also facing the 2024 problem, and we recognize that there is a growing need for a more densely populated base layout.

The CRE marketing team is tracking tenant demand figures in a very neutral manner, but we believe that tenant demand will continue to be strong because of the steady accumulation of actual results.

However, what is very characteristic of the current situation is that there are many vacancies in newer properties completed in 2022 and 2023, and rather than pre-leasing for development properties, we believe that demand is quite concentrated in new vacancies that are less than one or two years old.

Therefore, demand tends to gravitate toward this area, and tenant companies are more likely to consider moving in if they can actually inspect the inside of the warehouse, take actual measurements, and formulate various plans. As a result of demands heading that way, I think the pre-leasing of new development projects has been delayed a little.

However, this is not because demand itself is declining. I wonder if the trend is that the demand is not for floors under development, but for floors that have been completed but have not yet been filled, that are less than one or two years old. We are watching this with great interest.

Data is compiled every three months, and we will follow up on these figures every three months to ensure that we are not experiencing a decline in demand.

Regarding the second point, the use of cash in hand, shown in the upper right-hand corner, are they indicating priorities? I think you bring up a good point.

Regarding the first point, ongoing cash surplus distribution, since the listing, CRE REIT has been continuously making such distributions, so basically, if nothing happens, we will make such distributions. We believe that this is indeed a high priority.

As for the second point, capital expenditure based on requests from tenants, we basically do not refuse such requests unless there is a serious problem, based on the premise of building a relationship with tenants and ensuring that they can use our facilities more comfortably.

Of course, as I explained earlier, our basic premise is that we must secure a return on our capital expenditure if we are going to pay for it, and we would not accept a request to pay only for capital expenditure without a return. However, as we believe that it is a world of give and take for the tenant side, too, it is necessary to respond to such requests.

Below that, we have not set any particular order of priority for repayment of borrowings and buyback of investment units, although we believe that acquisition of properties is not so practical. Depending on the situation at that time, if interest rates rise and finance becomes tighter from here on, we will have to change the way we deal with banks from now on, and we will try to manage our finances flexibly in that regard.

We will also consider the buyback of investment units in a flexible manner, as our decision on whether or not to do so will depend on the level of the unit price.

That is all for the answers to your questions.

Omura [M]: I understand very well. Thank you very much.

Moderator [M]: Thank you very much, Mr. Omura.

Now, Mr. Ohata, please wait while we unmute you.

Ohata [Q]: I am Ohata from Mizuho Securities.

I would like to ask about your perception of stock prices. The investment unit price fell below the NAV about six months ago, and at today's closing price, it is more than 17% below the NAV, which is also below the average for J-REITs and logistics REITs. What do you think are the causes of this and how do you accept the evaluation? Please tell us your thoughts on what is effective for raising stock prices.

The current low stock price level is not necessarily an accurate reflection of fundamentals or your company's management capabilities, and I think there are headwinds from supply and demand and the external environment. That said, it's a reality. In this context, I would like you to reiterate your basic policy on what to do to raise the investment unit price in the current environment. Thank you.

Ito [A]: I understand.

I think this is a very difficult question to answer in terms of cause and evaluation, but first, our sponsor is steadily building up its pipeline, and I imagine that there is some concern from the market that CRE REIT may execute a somewhat unreasonable public offering in order to digest these assets.

In addition, we are very open in disclosing the status of our leases, so we have also announced publicly that a certain amount of floor space will be generated in this fiscal period ending June 2024. In light of the recent rise in vacancy rates in the Tokyo metropolitan area, I wonder if there is a possibility that they are concerned that this re-tenanting may not go well.

In this regard, we believe that we have no choice but to show our actual results, and we need to show that we will re-tenant as soon as possible and return the occupancy rate to 100% once again.

And from here on, for the time being, we will focus firmly on internal operations. As I mentioned in my explanation, I believe that the first thing we can do is to firmly raise rents and achieve internal growth.

Fortunately, many lease contracts will expire in 2025, and we are currently negotiating rent increases for a total of five tenants, four of which will expire, and one of which is a long-term 10-year contract whose timing of conflicting with rent review clause is coming up. We have reached an agreement on rent increases for three of these tenants, and we intend to proceed with a legal binding written agreement as soon as possible.

For the remaining two tenants, the tenants are aware that market rents are rising, but their stance is to keep the rent increases as low as possible, and we are continuing negotiations to raise rents as much as possible. We would like to reach an agreement on a larger rent increase as much as possible.

We will announce the results of negotiations toward the 2025 lease contract deadline at the appropriate time so that we can show that we have achieved solid internal growth. We would like to work hard on this point.

In addition, as for raising the investment unit price, unfortunately, the external growth is difficult at the current investment unit price level, so what we can do when the investment price is low is to buyback investment units.

In this regard, as I mentioned earlier on page 13, when acquiring own investment units or making capital expenditures that will generate returns, we would like to consider and compare the benefits of each of these, such as DPU growth and LTV. We would like to find more efficient ways to use the funds and implement initiatives that will contribute to raising the investment unit price.

Again, in terms of what we can do first, we will re-tenant as soon as possible, then we will show you the results of the 2025 rent increase. And with regard to surplus cash, it will be carefully considered and implemented after a comparative study whether to use it for capital expenditures that will generate returns, or to buyback own units at a lower unit price. We believe that we should do these things.

That is all for the answers to your questions.

Ohata [M]: Thank you.

Ito [M]: Thank you.

Moderator [M]: Thank you very much, Mr. Ohata.

Then, Mr. Kuroki, please wait while I unmute you now.

Kuroki [Q]: Thanks for your help. I am Kuroki from Mitsubishi UFJ Asset Management Co., Ltd. I would like to ask two questions.

One is about the pipeline on page 15. This time, there is a story that LogiSquare Ichinomiya will be moved to the bridge. Looking at the previous document, I think LogiSquare Fukuoka Ogori and LogiSquare Kakegawa were also covered, but this time, although they are in the picture, they are not in the category of properties with exclusive negotiation rights. Could you explain further the process behind this?

In addition, President Ito said that for the time being you would focus on operations for the internal growth. In this context, as shown on page 9, if the annual rent growth rate of positive 1% is set as the standard, and by focusing on internal operations, in the past there was talk that you would like to increase DPU to this extent while keeping PO in mind. When it comes to focusing on internal growth, what level of DPU growth would be one benchmark or guide? Since interest rates are also rising, I would like to know if this 1% simply means that even if the top line increases, it will fall quickly to the bottom line as well. Thank you.

Ito [A]: I understand. I will respond to your questions in turn.

First, let me address the first point about the pipeline. As Mr. Kuroki just pointed out, in the documents we prepared six months ago, LogiSquare Kakegawa and LogiSquare Fukuoka Ogori were shaded as properties with exclusive negotiation rights.

We have recently held discussions with the sponsor, and although they have announced that they plan to sell these two properties in the fiscal year ending July 2024, we recognize that it would be difficult for CRE REIT to acquire them under the current circumstances. We have again held discussions with the sponsor, and they have stated that they would like to conduct appropriate sales activities as a sponsor. Since they are also a publicly listed company, considering that they are willing to sell at a higher price, we are willing to return the exclusive negotiating rights as long as we are not currently in a position to purchase the properties. So, we have returned them.

Then, as to why we left LogiSquare Ichinomiya, we thought that it would not be very desirable for CRE REIT to have no properties with exclusive negotiation rights. We have firmly secured this LogiSquare Ichinomiya because we would like one property with exclusive negotiation rights, not zero, to remain, in order to leave a chance to acquire it in the future, after we have arranged a REIT-led bridge scheme at our own initiative, and appropriately adjusted the timing of acquisition as CRE REIT.

This property was completed last September and has been 100% occupied by two listed companies since October 1, so we are confident that this facility will be highly rated in terms of property stability. The property was left to the REIT so that it can be properly included in the bridge scheme and utilized as a source of future growth.

Second, we will focus on operations for the internal growth, then how much DPU growth can be achieved through internal growth? As you mentioned in your comment, it is very true that it would be a little difficult to answer the question depending on the interest rate. As an increase in interest payments due to a rise in interest rates will conversely have a negative effect on internal growth, this is a bit difficult to read. However, fortunately, many of the floors will reach their lease expiration dates in 2025 and 2026, which will provide opportunities for rent increases and internal growth.

For my part, I would like to create DPU growth of about 1% per fiscal period through this rent increase. This is, of course, in addition to absorbing the increase in interest expenses. Therefore, if we can achieve 1% in one fiscal period, we would like to challenge about 2% per year. To this end, we intend to proceed with rent increase negotiations without compromise.

In the future, when unit prices recover or the capital market becomes more tolerant of REITs' public offerings, we will keep in mind how much external growth we can add to this.

That is all for the answers to your questions.

Kuroki [M]: Thank you very much.

Ito [M]: Thank you.

Moderator [M]: Thank you very much, Mr. Kuroki.

Now, Mr. Ozawa, please wait while we unmute you.

Ozawa [Q]: I am Ozawa of SBI Securities. I just have one question since you have already asked quite a few.

Regarding the last question from Mr. Kuroki, the pipeline on page 15, the sponsor is planning to sell five properties by the end of the current fiscal year ending July 2024, and I think you mentioned earlier about returning the exclusive negotiating rights.

Basically, if it is a sponsor, they have a private REIT or something like that, so I don't know if it is there or not, but I think five properties will be sold to a private REIT or something. However, the properties that have already gone there will be sold at a higher price by the sponsor, so unlike the bridge, they will not be included. But on the other hand, in the fiscal year ending July 2025, the sponsor plans to sell six properties, according to the latest data, so if the unit price returns by that time, should we look at it in such a way that different properties, not the ones that were returned, will be included again?

I guess it's a little hard to estimate because it's so far in the future, but should I understand it like, realistically the properties that are returned are hard to get in, and the properties after that may come in, depending on the investment units?

Ito [A]: Thank you. I would like to respond to your question.

Based on the points that Mr. Ozawa just pointed out, we have negotiated with them. First, how would LogiSquare Kakegawa and LogiSquare Fukuoka Ogori be sold, to a private fund or to a completely third party? This is up to the sponsor, so as long as the REIT has returned the exclusive negotiating rights, it has no say in the matter with CRE.

However, in principle, as you have just pointed out, we recognize that once the properties are sold, the chances of acquiring them as a REIT become much smaller.

And even when we waive our exclusive negotiating rights, we had obtained exclusive negotiating rights after expressing our intention as a REIT to purchase these two properties at what price, so we have basically agreed with the sponsor that they will not sell the properties at a lower price.

On the flip side, they will probably sell them for a higher price than we can afford, so our chances of acquiring them are much smaller in that regard.

And as a follow-up, we received a comment with the phrase, even so, there are many pipelines after 2025. That's exactly the case as well. As CRE REIT, we have such a rich pipeline. It is not that we will not be able to develop our growth strategy without LogiSquare Kakegawa and LogiSquare Fukuoka Ogori. Even if we abandon these two properties, we have an abundant pipeline that will be completed in 2025, 2026, and beyond, so we hope to be able to realize our growth strategy with other properties.

Of course, if the market does not recover in 2025, we will start formulating our growth strategy after 2026 again from the pipeline.

That is all for the answers to your questions.

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

Ito [M]: Thank you.

Moderator [M]: Thank you, Mr. Ozawa.

Do you have any other questions?

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

Thank you very much for your participation today.

Ito [M]: Thank you.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia’s event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company’s most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia’s content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia’s content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.