REIT REPORT

XYMAX REIT Investment Corporation

3488

Tokyo Stock Exchange REIT

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Summary

As the REIT of the real estate management major the XYMAX Group, aims to increase the distribution through progressing a growth strategy

1. A major strength is the support it receives from the XYMAX Group, a real estate management major

XYMAX REIT Investment Corporation <3488> (hereafter, also “the REIT”) is a member of the XYMAX Group, which is centered on XYMAX Corporation (not listed), and it is a comprehensive-type REIT that invests in real estate such as offices, retail facilities, and hotels, primarily in Tokyo’s 23 wards and surrounding prefectures. The REIT aims to draw-out the value of real estate to the greatest possible extent and to maximize investor value by appropriate portfolio management that utilizes the XYMAX Group’s real estate knowledge and expertise. All of the actual asset management is consigned to XYMAX REAL ESTATE INVESTMENT ADVISORS Corporation, and a strength is the various types of support it can receive from the Group.

2. In the FY2/21 results, revenue and income declined, but income still exceeded the most recent forecast

In the FY2/21 results, revenue and income declined in the situation of the deterioration of the economic environment due to the novel coronavirus pandemic (hereafter, COVID-19), with operating revenue of ¥1,293mn (down 5.2% compared to FY8/20) and operating income of ¥716mn (down 7.2%). However, operating income was 2.6% above the most recent forecast. This was mainly due to unrealized budgeted leasing costs (pushed back to FY2/21) and decreases in restoration costs compared to the forecast in operating costs, despite temporary exemption and reduction of office rent and decrease in hotel rent compared to forecast in operating revenue to respond to the impact of COVID-19. Excluding the decline in hotel rents, the impact of COVID-19 has been limited, and the occupancy rate of the portfolio as a whole has been maintained at the high level of 98.9%. Due to the above, the distribution per unit of ¥2,911 (down ¥331) was ¥89 above the most recent forecast. In the financial condition, total assets’ LTV is low at 34.0%, and the REIT’s capacity for borrowing up to 50% is approximately ¥12bn, which means it can flexibly acquire properties in the future.

3. The FY8/21 and FY2/22 forecasts are based on conservative assumptions

The forecasts for FY8/21 are operating revenue of ¥1,291mn (down 0.1% compared to FY2/21) and operating income of ¥676mn (down 5.5%). In operating revenue, office rental rent is expected to decrease, while in operating costs, leasing costs pushed back from FY2/21 are forecast to rise. Conversely, the forecasts for FY2/22 are operating revenue of ¥1,321mn (up 2.3% compared to FY8/21) and operating income of ¥706mn (up 4.3%). The main factors behind the increases in revenue and income will be that in operating revenue, rent revenue will rise alongside the reinstatement of hotels’ fixed rents and also that in operating costs, leasing costs will normalize. Due to the above, the forecast distribution per unit is ¥2,788 (down ¥123 compared to FY2/21) in FY8/21 and ¥2,867 (up ¥79 compared to FY8/21) in FY2/22. But these results forecasts have been set founded on conservative assumptions based on the harsh management environment of the COVID-19 pandemic, and the distributions are highly likely to exceed the forecasts if the business environment improves.

4. Aims to improve investor value through external growth from offices, retail facilities, etc.

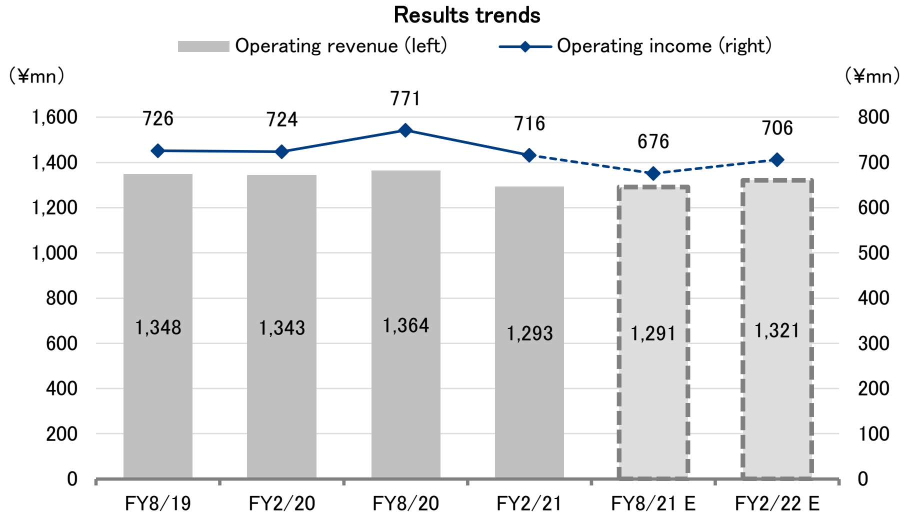
As the external growth strategy for the future, based on the sponsor-support contract, the REIT ascertains needs for sales of real estate it can acquire from the XYMAX Group's customer base, which it aims to lead to opportunities for it to acquire properties. In the offices growth strategy, its policy is to acquire properties that are mainly located in Tokyo's eight central wards and the central areas of Nagoya, Osaka, and Fukuoka; that are near to stations within a range of around five minutes' walk from the nearest station; that have a rent unit price per tsubo (a Japanese unit of area equal to approximately 3.31 sq. meters) in a range of ¥10,000 to ¥20,000; and that are appealing to renters. For retail facilities, the plan is to acquire properties with a focus on those whose tenant rent revenue is stable and whose property prices are inexpensive. For hotels, it plans to acquire properties located in areas that have excellent access to transport hubs and in areas where the number of overseas visitors to Japan is expected to increase. However, at the current time recovering earnings can be said to be the top priority issue. Also, a notable feature of the REIT is that it is actively working on ESG initiatives, including acquiring environmental certification and implementing environmental and energy-saving measures and promoting the efficient use of energy in the properties it owns.

5. Alongside the strengthening of external growth, investors' evaluation is expected to improve

The price of the REIT's investment unit declined sharply in March 2020 due to concerns about a global economic recession because of COVID-19, but it recovered after that. However, compared to the rise of the Tokyo Stock Exchange's (TSE) REIT Index, the recovery of REIT has been only moderate. This is thought to stem from factors such as small market capitalization and low liquidity. As a result, recently, the REIT's NAV multiple was 0.78 times, which is significantly below the average of comprehensive-type REIT of 1.04, and there is a strong sense of it being undervalued. Its policy going forward is to strengthen the external growth strategy, and as investors' understanding of this deepens, at FISCO we think that attention will come to be focused on it from providing a distribution yield at an appealing level.

Key Points

- A comprehensive-type REIT that invests in offices, retail facilities, hotels, etc., mainly in Tokyo's 23 wards and surrounding prefectures, and a major strength is the support it receives from the XYMAX Group
- In FY2/21, revenue and income declined, but operating income was higher than the most recent forecast. Excluding the decline in hotel rents, the impact of COVID-19 has been limited. The distribution per unit was ¥2,911, also above the most recent forecast. Total assets' LTV is low and it will be able to flexibly acquire properties in the future.
- The forecasts are for revenue and income to decline in FY8/21, but for revenue and income to increase in FY2/22. The forecast distribution per unit is ¥2,788 in FY8/21 and ¥2,867 in FY2/22. But the forecasts are based on conservative assumptions, and the distributions could exceed the forecasts if the COVID-19 pandemic settles down and the business environment improves.
- As the external growth strategies, for offices it acquires properties in the major metropolitan areas that are near to stations, with inexpensive rental unit prices, and that are appealing to renters. For retail facilities, it acquires properties with stable tenant rent revenue and inexpensive property prices. For hotels, it aims to acquire properties with excellent transport access and for which overseas visitors to Japan are expected to increase. But at the current time, it is prioritizing recovering earnings. It also actively conducts initiatives for ESG.
- The recovery of the REIT's investment unit price has been moderate compared to the market average. But as investors come to understand its policy of strengthening the external growth strategies, it seems attention will focus on it from providing an appealing distribution yield.



Source: Prepared by FISCO from the REIT's financial results

Features and competitive advantages

Utilizes the XYMAX Group's knowledge and expertise to the greatest possible extent

1. The REIT's framework

The REIT is a member of the XYMAX Group, which is centered on XYMAX Corporation (not listed), and it is a comprehensive-type REIT that invests in real estate such as offices, retail facilities, and hotels, primarily in Tokyo's 23 wards and surrounding prefectures. It was established in September 2017 and then in February 2018, it was listed on the Tokyo Stock Exchange's Real Estate Investment Trust (J-REIT) market. Its basic philosophy is to aim to draw-out the value of real estate to the greatest possible extent and to maximize investor value by appropriate portfolio management that utilizes the knowledge and expertise in real estate possessed by the XYMAX Group.

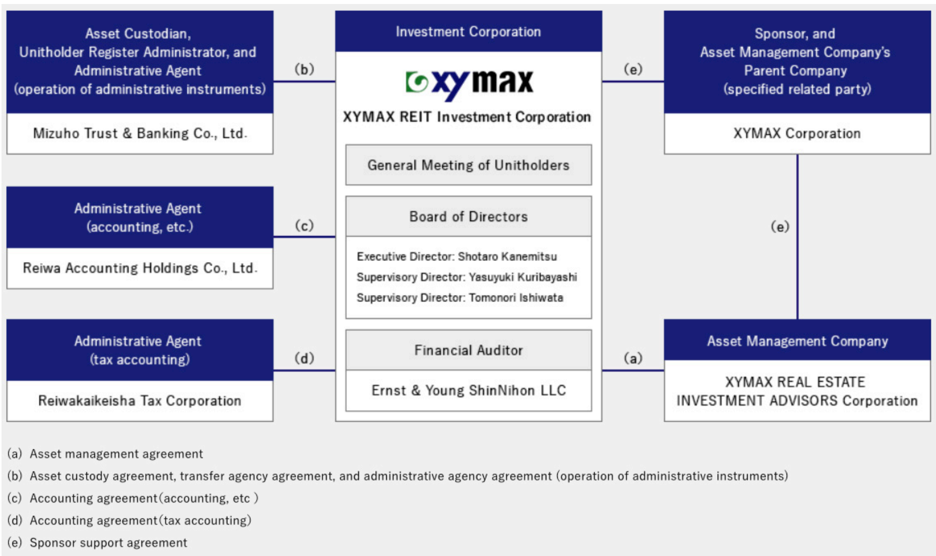
The XYMAX Group's name is derived from the aim of "maximizing the relationship between the unknown number of X (customers) and Y (the Group)." The XYMAX Group conducts businesses including an office property management business, a retail property management business, an asset management business, and a hotels-related business, and its features are as follows. First, it has "Japan's prominent real estate management record." Specifically, its real estate management record: 965 buildings and a total floor area of approximately 5mn tsubo, its entrustment records by J-REIT investment corporation other than the REIT: 30 companies and 186 properties, its human resources: real estate management, 2,022 people, leasing, 66 people, CRE (corporate real estate) related business, 67 people, etc. Next, it conducts "real estate management utilizing accumulated various data and development of new businesses applying expertise and know-how." Specifically, data of real estate management: contracted rent data, 39,779 buildings / 128,747 cases, asking rent data, 56,237 buildings / 32,798 cases, construction work data, 154,621 cases, and it is developing the membership satellite office business "ZXY" and its own hotel brand "Karaksa Hotels," etc. Moreover, it has "a track record of real estate sales and mediation that utilizes its strong customer base." Its real estate owner relations have reached approximately 320 companies, and its track record of real estate sales and mediation is 345 buildings with a total value of approximately ¥580bn (cumulative total from April 1, 2010, to March 31, 2021).

In such ways, the XYMAX Group is one of the leading real estate management groups. In real estate investment, which is generally said to be middle-risk middle-return, it is considered that the real estate management capabilities possessed by the Group are essential in order to stably acquire earnings in the medium- to long-term.

The REIT aims to draw-out to the greatest possible extent the value of real estate and to maximize investor value through appropriate portfolio management that utilizes the XYMAX Group's real estate knowledge and expertise. All of the actual asset management is consigned to XYMAX REAL ESTATE INVESTMENT ADVISORS, and a strength is the various types of support it can receive from the Group.

The REIT, which utilizes this support to the greatest possible extent, is aiming to progress a steady growth strategy.

The REIT's framework



Source: Reprinted from the REIT's website

2. The REIT's strengths

The REIT aims to maximize investor value by utilizing the knowledge and expertise of its sponsor, the XYMAX Group, in terms of the following "3 strengths."

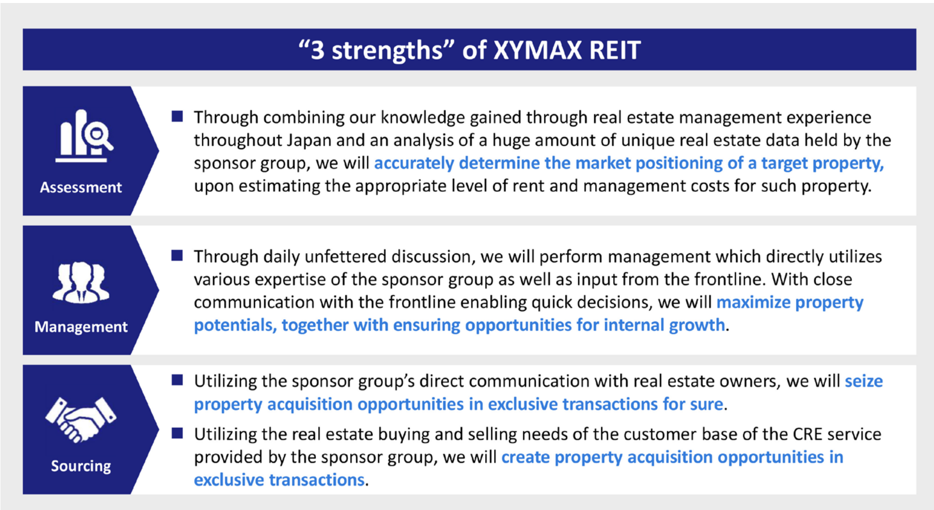
The first is "assessment." Through combining the knowledge gained through real estate management experience throughout Japan and an analysis of a huge amount of unique real estate data held by the sponsor group, the REIT can accurately determine the market positioning of a target property, upon estimating the appropriate level of rent and management costs for such property.

Second is "management." Through daily unfettered discussion, the REIT can perform management which directly utilizes various expertise of the sponsor group as well as input from the frontline. With close communication with the frontline enabling quick decisions, the REIT can maximize property potentials, together with ensuring opportunities for internal growth.

Third is "sourcing." Utilizing the sponsor group's direct communication with real estate owners, the REIT can seize property acquisition opportunities in exclusive transactions for sure. In addition, by utilizing the real estate buying and selling needs of the customer base of the CRE service provided by the sponsor group, the REIT can create property acquisition opportunities in exclusive transactions.

By fully wielding these "three strengths," it seems that the REIT is able to continuously realize steady growth.

The REIT's strengths



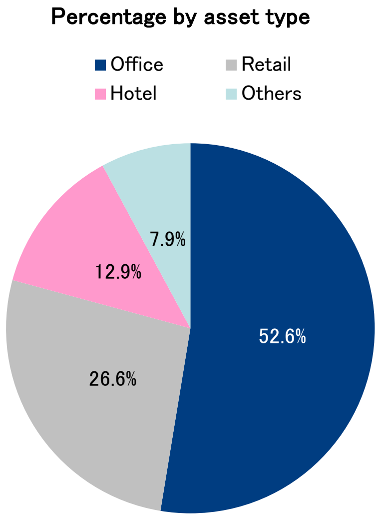
Source: The REIT's results briefing materials

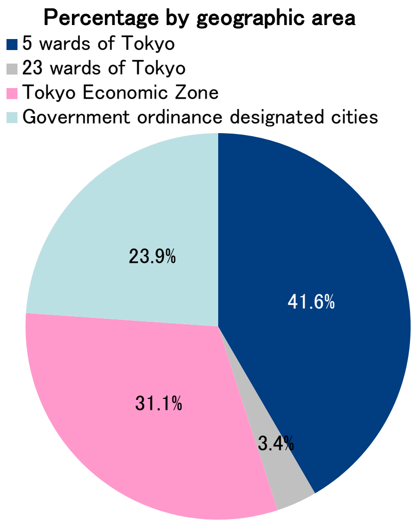
3. Portfolio

According to usage, the REIT invests mainly in offices, retail facilities, and hotels, and also according to geographic area, it concentrates investments in metropolitan areas, particularly Tokyo, and in ordinance-designated cities. The stable occupancy rates through strategically diversifying the portfolio have become the source of earnings.

At the end of FY2/21, the breakdown of the REIT's portfolio by usage (based on acquisition prices) was 52.6% for hotels (7 buildings), 26.6% for retail facilities (4 buildings), 12.9% for hotels (1 building), and 7.9% for others (residential, 1 building). Also, the breakdown by geographic area was 41.6% for Tokyo's five central wards (Chiyoda Ward, Chuo Ward, Minato Ward, Shinjuku Ward, and Shibuya Ward), 3.4% for the rest of Tokyo's 23 wards, 31.1% for the Tokyo Economic Zone (Metropolitan Tokyo other than the 23 wards, Kanagawa Prefecture, Saitama Prefecture, and Chiba Prefecture) and 23.9% for ordinance-designated cities.

In this way, the REIT has invested 92.1% in offices, retail facilities, and hotels that it has positioned as its main assets. It has also invested 76.1% in the Tokyo area (the total of Tokyo's 5 city center wards and other 23 wards, and the Tokyo Economic Zone). For offices, 76.9% are within 3 minutes of the nearest station and for retail facilities, 79.5% are next to a station, and in such ways, it also sufficiently considers the location. It can be said to be building a portfolio able to purse both profitability and stability by investing with a good balance of usage for properties in excellent locations in which are concentrated people and companies.





Source: Prepared by FISCO from the REIT's materials

Results trends

Although revenue and income declined, income was above the most recent forecast

1. Overview of Business Performance for FY2/21

In the REIT's FY2/21 (6th fiscal period) results, revenue and income declined, with operating revenue of ¥1,293mn (down 5.2% compared to FY8/20), operating income of ¥716mn (down 7.2%), ordinary income of ¥651mn (down 10.2%), and net income of ¥650mn (down 10.2%). However, compared to the most recent forecast announced in January 2021, operating income was 2.6% higher than forecast. This was mainly due to unrealized budgeted leasing costs (pushed back to FY2/21) and decreases in restoration costs compared to the forecast in operating costs, despite temporary exemption and reduction of office rent and decrease in hotel rent compared to forecast in operating revenue to respond to the impact of COVID-19. Excluding the decline in hotel rent, the impact of COVID-19 has been limited. REITs are exempted from corporate tax if they pay more than 90% of net income before taxes as the distribution, and therefore net income and ordinary income are at about the same level.

As a result, net income per unit declined ¥330 compared to FY8/20, so the distribution per unit also fell by ¥331 to ¥2,911. However, this was ¥89 above the most recent forecast of ¥2,822 per unit. The occupancy rate for the portfolio as a whole was 98.9%, which although is a decline of 0.3pt compared to FY8/20, was maintained at a high level. By asset type, the occupancy rates of retail buildings and hotels were maintained at 100%, while that of others (residences) also rose to 99.0%. Conversely, although the occupancy rate of offices was originally high, it declined to 96.5% because of the trend for leasing periods to be made longer. Also, NOI yield (also referred to as actual yield; actual rent revenue / acquisition price) was 5.7%, declining 0.3pt compared to FY8/20, but it continues to be maintained at a high level. Due to tenant replacements and contract revisions at the time of contract renewals, over the 6 fiscal years from FY8/18 to FY2/21, it realized earnings growth of monthly income of ¥10.84mn. As a result of the continuous increase in the rent revenue amount, it is eliminating the gap between the appraisal rental unit price and rent revenue. This can be said to be a result of its tenacious negotiations with tenants.

Results for FY2/21 (6th FP)
Business Performance

(¥mn)

	FY8/20 Results	FY2/21 Results	Change compared to previous fiscal period		FY2/21 The latest forecast	Compared to the most recent forecast	
			Amount	%		Amount	%
Operating revenue	1,364	1,293	-71	-5.2%	1,300	-7	-0.5%
Operating income	771	716	-55	-7.2%	698	18	2.6%
Ordinary income	725	651	-73	-10.2%	631	19	3.2%
Net income	724	650	-73	-10.2%	630	19	3.2%
Net income per unit (yen)	3,241	2,911	-330	-10.2%	-	-	-
Distribution per unit (yen)	3,242	2,911	-331	-10.2%	2,822	89	3.2%
Occupancy rates	99.2%	98.9%	-0.3pt	-	-	-	-
NOI yield	6.0%	5.7%	-0.3pt	-	-	-	-
Number of issued investment units	223,400	223,400	-	-	-14,914	-14,914	-

Note: The most recent forecasts are the revised forecasts announced on January 5, 2021
Source: Prepared by FISCO from the REIT's financial results summary report and financial briefing materials

2. Financial Position

The FY2/21 financial position is total assets of ¥37,636mn (up 2.5% from the end of the previous fiscal period), net assets of ¥23,236mn (down 0.3%), and interest-bearing debt of ¥12,780mn (up 9.4%).

Interest-bearing debt's average interest rate fell by 0.026pt from the end of previous fiscal period to 0.598%, but the fixed rate ratio increased 2.4pt to 89.0% and the average remaining borrowing period rose 8 months to 2 years 5 months, so the REIT's financial stability has increased through refinancing. The parties it borrows from are diverse, but are mainly the sponsor and the megabanks and regional banks with which it has financial transaction relations, and it is building a stable lender formation. Also, total assets' LTV (Loan to Value: the ratio of the loan amount to the real estate price) is low at 34.0%, and its borrowing capacity up to 50% is approximately ¥12bn, which means it can flexibly acquire properties in the future.

FY2/21 (6th period)
Financial Position

(¥mn)

	FY8/20 Actual results	FY2/21 Actual results	Change compared to previous fiscal period	
			Amount	%
Net assets	36,716	37,636	919	2.5%
Total assets	23,310	23,236	-73	-0.3%
Non-operating expenses	11,680	12,780	1,100	9.4%
Average interest rate	0.624%	0.598%	-0.026pt	-
Fixed rate ratio	86.6%	89.0%	+2.4pt	-
Average remaining borrowing period	dummy	dummy	dummy	-
Total assets' LTV	31.8%	34.0%	2.2pt	-

Source: Prepared by FISCO from the REIT's financial results summary report and financial briefing materials

Outlook

The forecasts are conservative

The REIT has set results forecasts that incorporate a decline in earnings within a certain range based on factors including the trend toward making office leasing periods longer and the uncertainty about the business results of hotels because of the impact of COVID-19.

Specifically, for the FY8/21 (7th fiscal period) results, it is forecasting declines in revenue and income with operating revenue of ¥1,291mn (down 0.1% compared to FY2/21), operating income of ¥676mn (down 5.5%), ordinary income of ¥623mn (down 4.2%), and net income of ¥622mn (down 4.2%). Office rent is expected to decrease in operating revenue, while leasing costs are forecast to increase due to costs carried-over from the previous period in operating costs. In the hotel business, it has adopted a variable rent revenue method that is linked to monthly GOP (Gross Operating Profit) in FY2/21 in consideration of the severe economic environment due to COVID-19.

Also, for the FY2/22 (8th fiscal period), the REIT is forecasting increases in revenue and income with operating revenue of ¥1,321mn (up 2.3% compared to FY8/21), operating income of ¥706mn (up 4.3%), ordinary income of ¥641mn (up 2.8%), and net income of ¥640mn (up 2.8%). For operating revenue, rent revenue will increase alongside the reinstatement of fixed rents for hotels, while in operating costs also, leasing costs will normalize, and these will be the main factors behind the increases in income and revenue.

As a result of the above, the forecast distribution per unit is ¥2,788 in FY8/21 (down ¥123 compared to FY2/21) and ¥2,867 in FY8/22 (up ¥79 compared to FY8/21).

However, the REIT has set the results forecasts founded on conservative assumptions based on the currently harsh management environment of the COVID-19 pandemic. Therefore, it can be considered that the distributions are highly likely to exceed the forecasts if the business environment improves as the COVID-19 pandemic settles-down in the future.

FY8/21 (7th fiscal period) / FY2/22 (8th fiscal period)
Earnings Forecasts

(¥mn)

	FY2/21 Actual results	FY8/21 Forecast	Change from the previous fiscal period		FY2/22 Forecast	Change compared to previous fiscal period	
			Amount	%		Amount	%
Operating revenue	1,293	1,291	-2	-0.1%	1,321	30	2.3%
Operating income	716	676	-40	-5.5%	706	30	4.3%
Ordinary income	651	623	-28	-4.2%	641	18	2.8%
Net income	650	622	-28	-4.2%	640	18	2.8%
Distribution per unit (yen)	2,911	2,788	-123	-4.2%	2,867	79	2.8%

Source: Prepared by FISCO from the REIT's financial results summary report and financial briefing materials

Growth Strategy

Aims to improve investor value by improving cruise DPU through external growth centered on offices, retail facilities, etc.

1. The future management growth strategy

The REIT's growth strategy for FY8/21 (7th fiscal period) and FY2/22 (8th fiscal period) are thought to be as follows.

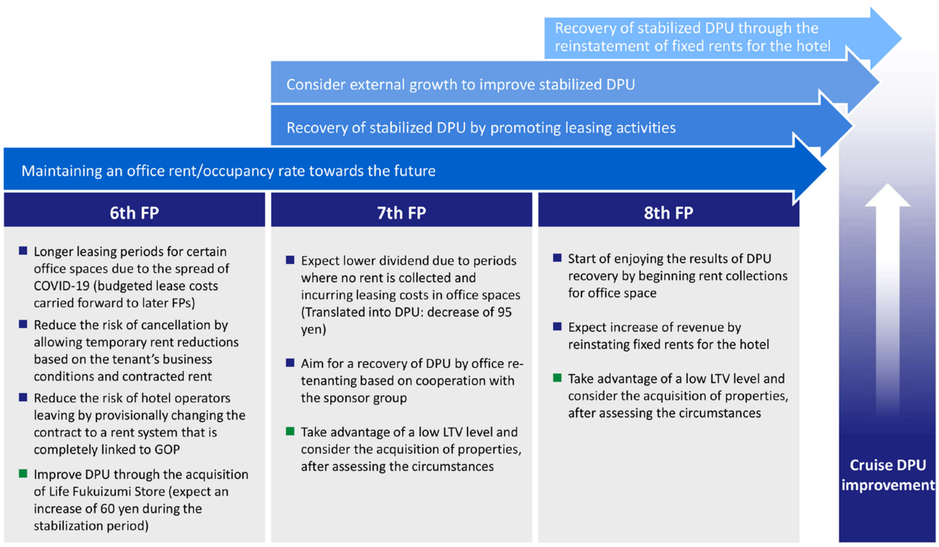
Specifically, although the DPU (distribution per unit) is currently decreasing due to the impact of COVID-19, the REIT is aiming to raise investor value in the future through improving the cruise DPU by recovering earnings from office properties and external growth (growth through new real estate acquisitions). The same as up to the present time, it will maintain a good balance between office rent and occupancy rates with an eye to the future, and based on this, going forward it is aiming to not only recover DPU through promoting leasing, but also looking to improve it through external growth. Moreover, the outlook for FY2/22 and onwards is for DPU to recover alongside the reinstatement of hotel's fixed rents.

As an external growth strategy, based on the sponsor-support contract, the REIT ascertains needs for buying and selling of real estate acquired from the XYMAX Group's customer base with the intention of leading to opportunities for property acquisition. The XYMAX Group provides a one-stop real estate strategy management service, from the planning of the real estate strategy and consulting through to practical services based on this. The REIT ascertains the real estate buying and selling needs of the Group's customer and matches them to its own real estate buying and selling needs, with the aim of creating a win-win situation for both parties. Its policy is to accumulate a pipeline while accurately identifying potential, at the same time as also continuing to firmly maintain yield of a certain level.

As an internal growth strategy, XYMAX Group provides its knowledge and expertise on various type of real estate management to the REIT. With this, the REIT conducts stable and efficient management that utilizes aspects such as the Group's real estate management knowledge and expertise, database, management system and management experience in private placement funds.

The REIT implements a financial strategy that puts emphasis on stability and soundness and provides flexibility in financing while taking into consideration securing stable earnings in the medium- to long-term and steadily growing the scale of management assets. With the low level of LTV in the background, its policy is to continue to strategically utilize its borrowing capacity, and also to coordinate with the sponsor's group and to continue to deepen lender relations.

The management growth strategies in the future



Source: The REIT's results briefing materials

2. The offices growth strategy

For the REIT, offices constitute the largest asset in its portfolio and is the business it will focus on going forward

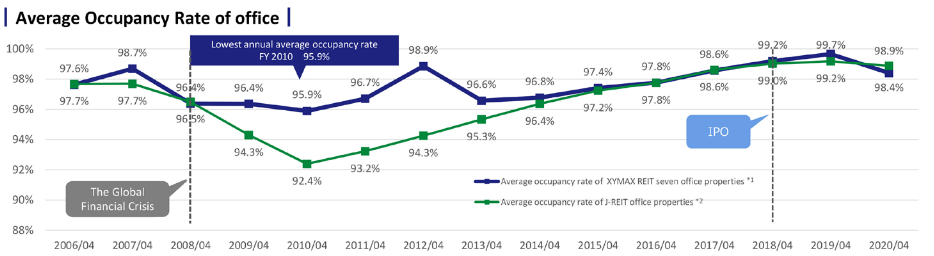
According to analysis by the XYMAX REAL ESTATE INSTITUTE Corporation, in the offices market environment, remote working has increased due to COVID-19, but the disadvantages of it have also been seen, including difficulties in communication and in conducting management, such as for operations and evaluations. In this situation, it seems that the function of offices as places to gather people and functions are being reconfirmed. Moreover, in terms of the rate of employees attending the office after the COVID-19 pandemic has settled down (the post-corona period), the percentage of companies in the 50% range is the highest, but for SMEs, in contrast to large-scale companies, the percentage considering 100% office attendance is growing.

Also, on analyzing the distribution of the number of completed office rental contracts in Tokyo's 23 wards in the rental market from the past until the present time, we see that there are strong tenant needs for a unit price per tsubo in the range of around ¥10,000 to ¥20,000, and also that the vacancy rates of properties within 5 minutes' walk of the nearest train station are low compared to properties that are more than 5 minutes' away. Conversely, the supply of new medium- and small-scale office buildings is limited, and it is thought that this scarcity will increase in the future. Looking at the trend in newly contracted rent according to office scale, compared to large-scale buildings, the rental-revenue volatility of medium- and small-scale buildings is low, indicating that they generate highly stable earnings.

Office needs are changing due to the deterioration of the economic environment caused by COVID-19 and the changes to the ways of using offices. But it is considered that the offices owned by the REIT, which demonstrate its strengths of having "excellent locations" and "high quality management," will have a competitive advantage in the post-corona period. In fact, on looking at the trend in the average occupancy rates of the offices owned by the REIT, a point worth noting is that while the occupancy rates of offices owned by other J-REIT declined after the Lehman Brothers Shock, the offices owned by the REIT have consistently maintained high occupancy rates.

Competitive advantages of the REIT's offices

✓ Good location	**3–5 minute walk to the nearest station** that is easy to access, suitable for consolidation of head office functions as a "place of gathering", etc.
✓ High quality of management	**Providing a safe and secure office environment** through meticulous management based on PM know-how and flexible responses to diversifying tenant demands.
✓ Potential for Suburban Satellite Offices	Respond to the expanding satellite office needs in the suburbs to eliminate the gap between offices and homes (Tokyo Metropolitan Area Offices/Hachioji).

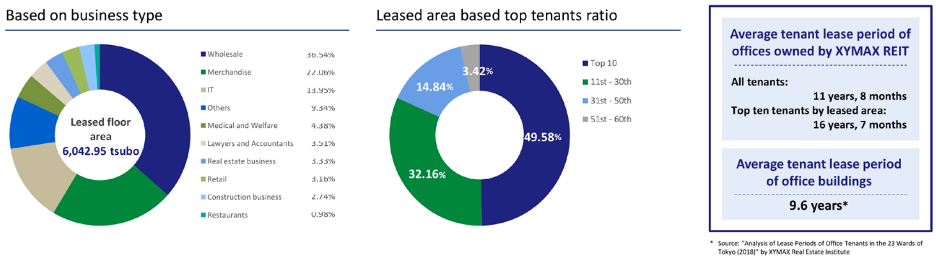


*1 Average occupancy rate of the seven office properties in each FP.
*2 Average occupancy rate of the J-REITs for office properties in each FP.

Source: The REIT's results briefing materials

At the end of FY2/21, the REIT owned 7 offices and had 70 tenants, and on a rent revenue basis, offices constituted 50.95% of the total portfolio. Looking at the distribution of the 60 tenants after excluding obligated residences (for businesses that build and develop office buildings and other buildings above a certain scale, multiple-dwelling residential buildings with a certain number of required units or more depending on the development), there is little bias toward a certain industry among the tenants. Also, the leasing period of the top 10 companies in terms of rented floor space has reached 16 years and 7 months, which is higher than the average for all the tenants in the offices owned by the REIT of 11 years and 8 months, and also higher than the average leasing period for the buildings in Tokyo's 23 wards announced in the "Analysis of Lease Periods of Office Tenants in the 23 Wards of Tokyo (2018)" by XYMAX Real Estate Institute, of 9.6 years. This shows that the REIT's tenants are highly attached to their properties and are also highly satisfied with the quality of management.

Office tenant diversification (60 office tenants, based on rent revenue)



Source: The REIT's results briefing materials

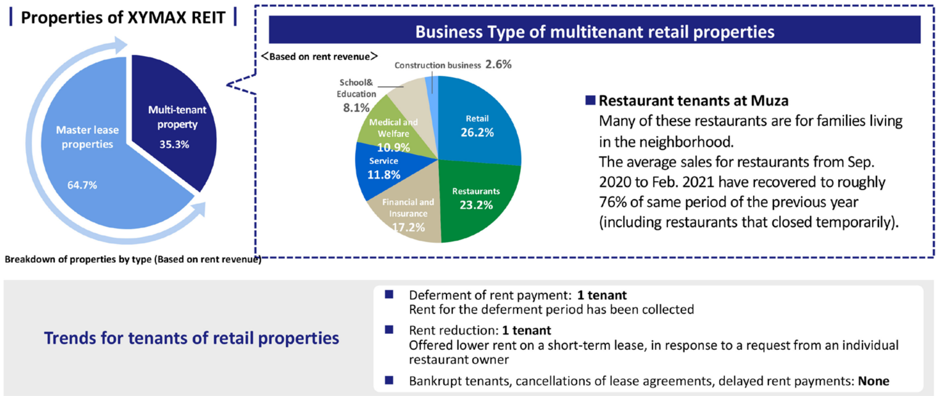
As measures to prevent the spread of the novel coronavirus, the REIT is taking countermeasures to make offices safer and more secure through concerted management and operating know-how. Specifically, it is implementing anti-infection measures including application of virus disinfectants in all office properties and installing alcohol-based disinfectants and foot pedal stands in common areas. Also, the sponsor's group is implementing proposals for all building owners for "offices in the with-corona period," including alcohol disinfectant stands, antivirus wallpapers, and antibacterial filters.

3. The retail facilities growth strategy

According to an analysis by the XYMAX REAL ESTATE INSTITUTE, in the retail facilities market, the desire to visit restaurants and related establishments in the food and drinks industry has declined greatly due to COVID-19 and business withdrawals are clearly occurring. Conversely, the changes in other industries, including in the retail (food) and entertainment industries, have been small, and the impact on the retail sector as a whole has been limited. Also, consumers' behaviors and values are changing, and nesting (stay-at-home) consumption will continue to increase and teleworking will grow in the future as well. For this reason, items such as the increase in stores in the suburbs will account for a higher proportion. In these ways, we are seeing changes to consumers' needs, and retail facilities located in the suburbs are expected to perform strongly.

In this sort of environment, the impact of COVID-19 infections on the four retail facilities owned by the REIT has been extremely small, and as basically all tenants have fixed rental contracts, they are stably generating rent revenue. Also, all of the retail facilities that it owns are located in the suburbs of major metropolitan areas where the business conditions of tenants are forecast to be strong. Single tenant properties rented to stores that rent that entire building and to master lease businesses provide 64.7% of total rent revenue. Also, Muza, a multi-tenant-type retail facility that provides 35.3% of rent revenue, includes food and drink tenants, but it also has many family stores targeting the neighboring residential area and their sales are recovering. Purpose-visit type tenants at Muza, which provide 30% of total rents, have captured the needs of the surrounding residential area. However, the REIT's policy is to focus on sales trends in order to continue to ascertain tenants' business conditions.

The REIT's retail facilities



Source: The REIT's results briefing materials

4. Growth strategy in the hotel business

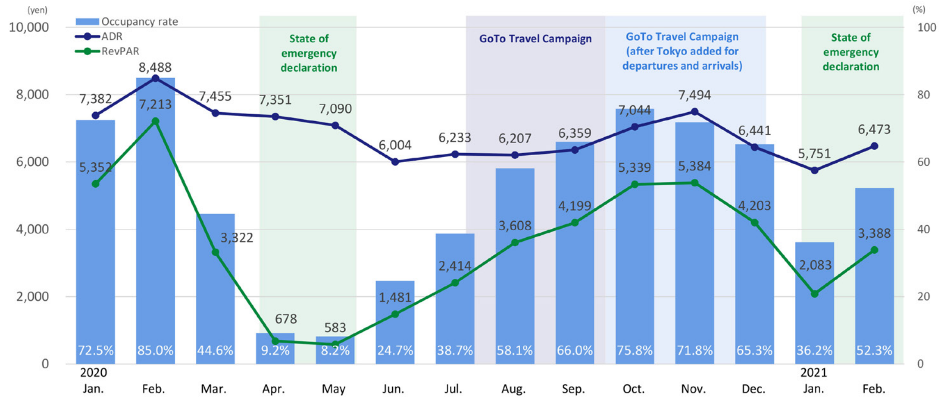
In the hotel business, the REIT owns only 1 property, a hotel in Sendai in an excellent location only 4 minutes' walk from JR Sendai Station. However, it is currently being greatly impacted by COVID-19, and it is the business field that is suffering the most during the pandemic.

Specifically, in September 2020 against the backdrop of the "evaporation" of demand, the REIT received a request for a rent exemption from the operator, and in January 2021, they agreed to change the rent conditions. In March 2021, the operator petitioned the Tokyo District Court to begin civil rehabilitation (bankruptcy protection) proceedings and the decision to begin these proceedings was made. However, as it is a property in an excellent location that generates earnings, the operator has offered to continue with the lease agreement, and the plan is to continue with the agreed contract conditions in the future also.

The details of the revised conditions are as follows. Up to August 2021 in consideration of COVID-19, they will adopt a completely variable rent system linked to monthly GOP (Gross Operating Profit). However, the fixed rent system will be reinstated from September 2021, and also a system will be adopted to enable variable rent to be received when GOP exceeds a certain amount. Moreover, from September 2022, the fixed monthly rent will increase by ¥0.5mn and the aim is to recover the amount lost due to the exemption within the period of the completely variable rent system.

Looking at how the results of Hotel Vista Sendai have trended, in February 2021 following the second declaration of a state of emergency, the occupancy rate, ADR (Average Daily Rate: average daily rate per room for which sales are actually made) and RevPAR (Revenue Per Available Room: the average unit price for all rooms available for sales) were recovering. But currently, the pandemic is once again spreading and we cannot be optimistic about the present situation. Hotel Vista Sendai is originally a property with a high occupancy rate, so the REIT's policy is to focus on the developments in the tenant's civil rehabilitation proceedings and how hotel room sales trend, and also on the appropriateness of hotel management costs.

Actual Results of Hotel Vista Sendai



Source: The REIT's results briefing materials

5. Points to focus on for the external growth strategies

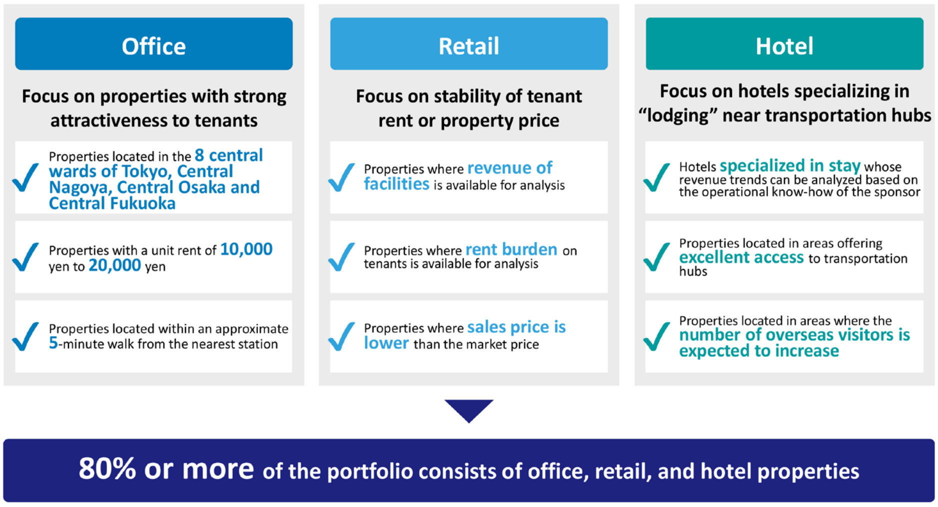
Based on the above-described current conditions, the REIT has established the following strategies according to the asset type. Specifically, on considering that the strength of tenant needs is an important factor in ascertaining the earnings potential of real estate, it is aiming to build a highly profitable portfolio by taking comprehensive decisions by asset type for the following points. Also, going forward, the plan is for offices, retail facilities, and hotels to constitute more than 80% of the portfolio.

First, as the growth strategy for offices, it is focusing on real estate that has strong appeal for tenants. Specifically, its policy is to continue to acquire properties that are appealing to renters located in Tokyo's 8 central wards, and in the centers of Nagoya, Osaka, and Fukuoka; that are within 5 minutes' walk of the nearest station; and with a rental unit price of ¥10,000 to ¥20,000 per tsubo.

Next, as the growth strategy for retail facilities in the future, it is focusing on properties whose tenant rent revenue is stable and whose prices are inexpensive. Specifically, its plan is to acquire properties for which it can analyze the ratio of tenant rent to facilities sales, and that are relatively inexpensive compared to market prices.

For the growth strategy for hotels in the future, it intends to focus on accommodation specialized-type hotels located at transport hubs. Accommodation specialized-type hotels can be analyzed based on the sponsor's management expertise. The plan is to acquire properties in areas where demand is forecast to be strong, such as areas with excellent access to transport hubs and areas in which visitors to Japan from overseas are expected to increase. But at the current time, its policy is to focus on recovering demand for stays at hotels.

Points to focus on for the external growth strategies by asset type



Source: The REIT's results briefing materials

The REIT is investigating properties to acquire in the future in accordance with the focus points by asset type and its portfolio strategy. Also, its policy is to continue sourcing activities to determine the fundamental value of the target properties, with an awareness of the balance between DPU growth and financial soundness. When acquiring a property, it will maximize the use of the XYMAX Group strengths of assessment and sourcing, and assume the investment that is made after assessing the inherent profitability of the property. Also, as the REIT's LTV level is low, it can choose to acquire properties flexibly through borrowing based on the trends in the prices of investment units. Currently, it is investigating acquisitions including of offices in Tokyo's 5 central wards, offices in Tokyo's 23 wards, other properties (a dormitory, a building rented to 1 company), offices in regional government-ordinance designated cities, and hotels (accommodation specialized-type) in regional core cities.

6. Initiatives for ESG

The REIT is also actively conducting initiatives for ESG (Environment, Social, Governance).

In the Environment field, among the properties it owns, 7 properties have acquired certification for CASBEE (Comprehensive Assessment System for Built Environment Efficiency, a tool from the Institute for Building Environment and Energy Conservation) and BELS (Building house Energy efficiency Labelling System). In particular, it has acquired the highest evaluation of an A rank for CASBEE, and going forward also, it plans to promote environmental and energy-saving measures and to improve the efficiency of energy use at its properties.

Status of acquisitions of environmental certification

Source: The REIT's results briefing materials

In the Social field, the REIT is progressing initiatives for tenants and for regional communities (such as installing elevator emergency storage boxes and introducing disaster-support vendors). In addition, it is implementing initiatives including that XYMAX REAL ESTATE INVESTMENT ADVISORS has signed-up to the 21st Century Financial Behavior Principles and that it is promoting paperless workplaces, supporting employees' acquisitions of qualifications, and respecting diversity. Also, the sponsor's group is working to develop real estate business human resources through the Karakusa Real Estate School.

In the field of governance, the REIT establishes a decision-making process for XYMAX REAL ESTATE INVESTMENT ADVISORS for those items that will greatly affect investor profits through a committee that includes external committee members, with the aim of securing profits for investors. Other initiatives include conducting compliance education and investment by the sponsor in the REIT (the sponsor realizes an improvement of investor value by matching the REIT's ownership of investment units to investors' interests).
In recent years, ESG investment, of investment that analyzes companies from an ESG viewpoint, has been increasing, mainly in Europe and the United States. The global ESG investment amount grew from US$18.2trn in 2014 to US$30.7trn in 2018. In Japan, ESG investment lags behind that of Europe and the United States, but by 2018 it had reached US$2.1trn and its share of the global amount has risen rapidly to 7.1%. In the context of the trend for the global expansion of ESG investment, it can be said that there remains plenty of room for it to grow in Japan as well. In this sense, the REIT's active initiatives for ESG are worthy of attention.

Benchmarking

The evaluation of investors is expected to improve alongside the strengthening of external growth

As its policy to return profits to investors, the REIT pays a high-level distribution twice a year, for each half year. The FY2/21 distribution per unit (does not include a distribution in excess of earnings) was ¥2,911, which was ¥89 above the most recent forecast of ¥2,822. Also, the forecasts are ¥2,788 for FY8/21 and ¥2,867 for FY2/22. The distribution forecasts incorporate factors such as the decline in hotel revenue due to COVID-19 and that office leasing periods are becoming longer. So temporarily the forecast is for the distribution to decline, but the aim is to recover it to a cruising-level distribution at an early stage. However, because the REIT's forecasts are based on conservative assumptions, it is thought that the distributions could be higher than forecast if the management environment improves more than anticipated as the COVID-19 pandemic settles down.

Looking at the trend in the REIT's investment unit price, in March 2020 it rapidly declined due to the strengthening of concerns about a global economic recession because of COVID-19, but it subsequently recovered. However, compared to the rise of the TSE's REIT Index, this recovery has been only moderate. This is thought to stem from factors such as small market capitalization and low liquidity. As a result, recently the REIT's NAV multiple (investment unit price /net assets per unit) was 0.78 times, which is significantly below the average of comprehensive-type REITs of 1.04, and there is a strong sense of it being undervalued. Conversely, the distribution yield was 5.00%, greatly above the average of 4.27%. The REIT's policy going forward is to strengthen the external growth strategy through acquiring the properties it is currently investigating. As investors' understanding of this strategy deepens and in the situation at the current time, in which the low interest rates are forecast to continue, at FISCO we think that attention will come to be focused on it from providing a distribution yield at an appealing level.

In addition, since FY8/31 the REIT has changed to an asset management remuneration system in order to contribute to improving investor profits. Specifically, for management remuneration during the fiscal period, the percentage of remuneration linked to management performance has been raised from 30% to 50%, while for capital gains remuneration also, the plan is to change to results-based remuneration generated only at the time when capital gains are generated. At FISCO, we think this management policy that prioritizes investor profits will be highly evaluated by investors.

Comparison of the various comprehensive-type REIT indexes

Security code	Investment corporation	Investment unit price on April 23, 2021 (¥)	Investment unit price compared to previous day	Distribution yield (%)	NAV per unit (¥)	NAV multiple	Market cap. (¥mn)	Balance (unit)	Fiscal period (month)
3488	XYMAX REIT	113,000	0.18%	5.00	144,672	0.78	25,244	837	2/8
3278	Kenedix Residential Next Investment Corporation	224,000	1.27%	3.66	183,808	1.22	223,078	3,009	1/7
3279	Activia Properties Inc.	490,000	-0.71%	3.79	453,435	1.08	377,900	3,247	5/11
3295	Hulic Reit, Inc.	171,900	0.88%	4.07	175,555	0.98	232,237	3,351	2/8
3296	NIPPON REIT Investment Corporation	428,000	0.71%	4.52	381,396	1.12	192,570	1,222	6/12
3309	Sekisui House Reit, Inc.	92,400	-	3.54	82,897	1.11	396,273	13,450	4/10
3451	Tosei Reit Investment Corporation	138,100	-	5.18	136,969	1.01	47,024	1,696	4/10
3453	Kenedix Retail REIT Corporation	269,000	-1.07%	5.26	253,630	1.06	156,014	4,651	3/9
3462	Nomura Real Estate Master Fund, Inc.	170,300	-0.35%	3.80	164,909	1.03	802,999	10,785	2/8
3468	Star Asia Investment Corporation	55,800	0.72%	5.22	51,716	1.08	93,431	3,003	1/7
3470	marimo Regional REIT, Inc.	128,200	0.94%	5.37	137,271	0.93	19,574	262	6/12
3476	MIRAI Corporation	49,800	-0.60%	4.98	49,411	1.01	82,780	5,970	4/10
3492	Takara Leben Real Estate Investment Corporation	115,500	0.43%	5.19	111,183	1.04	53,419	1,086	2/8
8953	Japan Metropolitan Fund Investment Corporation	103,500	0.58%	4.38	110,668	0.94	723,371	26,235	2/8
8954	ORIX Real Estate Corporation	190,000	-2.01%	3.58	184,055	1.03	524,400	13,645	2/8
8955	Japan Prime Realty Investment Corporation	432,500	-0.12%	3.49	371,564	1.16	414,443	2,876	6/12
8957	TOKYU REIT, Inc.	184,000	1.71%	3.70	196,577	0.94	179,878	1,563	1/7
8960	United Urban Investment Corporation	160,800	1.26%	3.87	157,922	1.02	501,429	8,290	5/11
8961	MORI TRUST Sogo Reit, Inc.	154,500	0.52%	4.35	144,095	1.07	203,940	2,195	3/9
8966	Heiwa Real Estate Co., Ltd.	160,000	1.01%	3.50	126,440	1.27	159,989	1,373	5/11
8968	Fukuoka REIT Corporation	176,500	1.50%	3.97	171,995	1.03	140,494	1,384	2/8
8977	Hankyu Hanshin REIT, Inc.	150,200	0.40%	3.95	163,814	0.92	104,419	1,592	5/11
8984	Daiwa House REIT Investment Corporation	296,300	1.44%	3.90	272,916	1.09	650,675	6,934	2/8

Source: Prepared by FISCO from the Real Estate Investment Trust Data Portal

FISCO

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