

Nippon Accommodations Fund Inc.
28th Period (September 2019 - February 2020) Investor Presentation
Q&A

Q It was explained that the current situation in tenant leasing has not changed in relation to the spread of novel coronavirus (COVID-19) infections, but was there any change from last year in terms of the tenant turnover rate during the March and April busy season? Also, what do you consider will be the likely future impact from the spread of infections?

A The number of contract cancellations during the work transfer season in February and March was the same as a normal year, and the contracts for March were also good. In the future, however, backfilling may take some time due to a number of factors, such as people refraining from going out and the shortened business hours at brokerages. Conversely, if the movements of people are delayed and fewer contracts cancelled, renewal fees can be received without giving rise to downtime, so there is also a positive aspect in terms of short-term earnings. In either event, the spread of infections is not expected to have a significant impact from the earnings point of view.

Q Is it possible that tenant needs will change in the future, such as demanding larger rooms due to working from home becoming more widespread?

A Since it is assumed that dual-income households will work from home at the same time, more people may want to increase the number of rooms from, for example, a studio rental apartment to a one-bedroom apartment with a living/dining room and a separate kitchen.

Q We are hearing that apartment vendors are receiving requests from tenants for grace periods from rent payments. Could you please say whether there are moves for grace periods from rent payments from tenants in NAF-owned rental apartments and the reasons for those moves?

A As of the present time, no requests for rent reductions or payment extensions have been made to us. It may be because there are not many tenants whose income has decreased sharply because our tenants are mainly company employees and professionals. If we assume that possibility exists, it would be more likely to be someone who is running their own business and living in a high-rent unit whose business has declined, in which case he or she might choose to cancel the contract rather than requesting a rent reduction or a payment extension.

Q Are rent hikes at the time of renewal driven by the special characteristics of individual properties or by trends?

A We request a rent hike at the time of renewal should there be a certain level of deviation when compared with the asking rent. Since market prices have been rising overall, however, the number of tenants from whom we are requesting rent hikes is rising. The rate of acceptance does not change greatly.

Q You think that there will be a slowdown in the real estate market, including in development, due to the impact of the spread of novel coronavirus (COVID-19) infections. I would, however, like to hear about the prospects with regard to the development of your sponsors' rental apartments and the pace of NAF's property acquisitions.

A At the present time, we are unable to provide a straight prediction. Be it a site being purchased for development or a rental property, both players—the sellers and the buyers—are exercising caution, so we are likely to be in a situation where we are unable to get a feel for the market. If it were only due to this that the market were so volatile, I think we would be cautious at first, and would be able to gain a new feel for the market once again.

Q According to these latest results for changes in rents at the time of renewal, will the opportunities for future internal growth see a trend change, a shift from tenant turnovers to renewals?

A I think the trend of an increasing number of units that have their rents hiked at the time of renewal will continue, but bearing in mind the prolongation of the impact of novel coronavirus (COVID-19), we are carefully monitoring the pace of the rent increases.

Q In the event that the spread of novel coronavirus (COVID-19) infections is prolonged, will there be a change in the NAF acquisition strategy (especially with regard to hotels)? Although players are exercising caution in the market, is there caution in terms of both cash flow and cap rates?

A The residential rental market is NAF's main investment area but, other than that, the policy of keeping the investment ratio at 10% or less, with a focus on long-term fixed rents, remains unchanged. Assuming that the effects of novel coronavirus (COVID-19) will be prolonged, we have no great intention of aggressively acquiring hotels. The attitude of the market players is that the situation will probably be different, even with regard to aspects of fund procurement, and that—in terms of investment decisions—caution is thought prudent from various points of view, including as occupancy rate, rent forecasts and cap rate adequacy.

Q Please provide a breakdown of the factors that contributed to the 126 yen decrease under Others in the 29th Period Forecast (on page 23 of the investor presentation materials).

A These include (1) diminished insurance income in the 28th Period; (2) consumption tax (in the 28th Period, the difference from when the tax rate was 10% for five months and, in the 29th Period, an increase in purchase tax that could not be deducted due to increased costs incurred in the busy season); and (3) facility operating cost increases.

Q With regard to property acquisitions from sponsors, I think that, in recent years, there have been cases in which properties were not readily being passed to NAF due to external players offering bullish prices. Under such market conditions, if the external players' willingness to buy were to recede, does NAF think it would become easier to buy properties from sponsors? What are your thoughts on that?

A The current situation is that sponsors are not selling properties externally. At the present time we are not talking to sponsors individually, but we expect that price targets will be easier to compare and adjust in the future.

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