Nippon Accomodations Fund Inc.
26th Period (September 2018 - February 2019) Investor Presentation
Q&A

Q Rents are increasing at an accelerated pace at the time of tenant turnover and the occupancy rate is also high. Is there a chance that the tenant turnover rate will fall in the future with longer periods of occupancy? Can we also expect that the standard occupancy period (tenant turnover rate) will remain the same and that rents will increase at the time of tenant turnover in the future?

A The average occupancy period for our portfolio is approximately four years, so the change in rent at the time of tenant turnover can be considered as the change in rent from four years ago. We feel that this rate of change will remain unchanged for the time being. Although the number of tenant turnovers has fallen slightly, according to an occupancy survey, the reasons for leaving in approximately 60% of cases were due to life events like work transfers and marriage. On this basis, we do not feel that the occupancy period will increase significantly in the future. Considering the costs associated with such factors as vacancy periods due to tenant turnover, restoration, and advertising, we feel that renewals will be positive from an earnings perspective for the foreseeable future.

Q There is a strong tendency for rents to increase in the 23 ward area of Tokyo while rents outside this area are flat. Should we assume that current conditions for rental apartments in Tokyo differ from those in other cities?

A We believe that the difference between Tokyo and other major cities is the depth of the market. We feel that other major cities will see their market conditions soften if they have a large supply of rental apartments. Accordingly, we believe the difference with Tokyo is the ease with which the markets are affected by new property supply trends.

Q In light of the growing number of properties developed and owned by sponsors on the one hand and the continued overheating of the current real estate investment market on the other, please tell us about your future property acquisition policy.

A We are looking to buy from the sponsor pipeline if there are attractive properties in the CBD with a yield falling into the same lower 4% range of properties acquired in this instance. However, given the robust results exhibited by sponsors, there is little incentive to sell a large number of units. Taking the aforementioned into consideration, we will look to purchase properties within our target range whenever possible through skilled negotiations.

Q Based on the rate of rent increase at the time of tenant turnover by category, single-type units grew slightly compared with the previous period. Do you consider this to be a new trend? If so, what are the underlying factors that have contributed to this trend?

A It is likely that this trend is a result of the overall market's relationship between demand and supply. There is an extremely high number of studio rental apartments, so even older properties, for example, can compete in some cases if they are highly convenient. This situation has helped to keep rents from increasing in the single-type category thus far. Overall tight demand and supply, however, has pushed up the rate of rent increase.

Q It also seems as though rents in other major cities are improving. Please tell us about your future outlook.

A Our portfolio does not include many properties in other major cities. Given the significant impact and difficulties that can arise from for example a new supply of competing properties nearby, we believe that in overall terms future rents will strengthen in cities with a low supply of new units. That said, the percentage of properties in other cities to our portfolio as a whole is small, so this trend is not expected to drive up overall income.

Q What is your outlook for rental apartment cap rates? Higher rents also continue to push down appraisal value cap rates. Is there a chance that the cap rate will fall further in the future?

A We feel that the declining trend in cap rates will continue. Although the unrealized profit of owned properties will increase, it will become more difficult to acquire new properties. On this basis, acquisition will require increasingly careful selection.

Q The rate of rent increase is especially high for large-type properties. It would appear that the higher the rent the larger the rate of increase. What are the reasons behind this trend?

A We feel that strong corporate sector results and a good economy are increasing the number of those with the resources to pay higher rents. This is in turn helping to increase rents for large-type units with a high total rent. As for family-type units, we believe that the increasing cost of condominiums will drive more people to choose rental apartments for the time being.

Q For the most part, the change in rent during contract renewals is mostly flat. However, the ratio where rents are increasing even at the time of renewal is climbing for other residential property REITs. What are the reasons for the predominantly flat rate of change and what is your policy going forward?

A In the case of Park Axis, in particular, the high number of new properties has kept the rent gap low. If tenants leave due to unnecessary demands for higher rents, however, this would result in a period of vacancy and restoration costs. Our policy in the case of units that exhibit a gap with market rents is to request rent increases within a reasonable scope. We feel that this stance is slightly different from that of other companies.

Q The direct capitalization rate on the appraisal values of properties owned as of the end of the period is 4.17%. Dividing the overall portfolio NOI for the most recent period by the appraisal value results in a rate of just over 4.6%. Does this indicate that rents on an appraisal value basis are lower than actual rents?

A More than rents, one of the likely reasons for this difference with yield rates is that occupancy rates are set lower than actual levels. (*)

Q The average rent per tsubo in the portfolio increased 1.2% compared with the previous year, but the Apartment Rent Index (Tokyo 23 wards) indicates an increase of 3.0% between the fourth quarter of 2017 and the fourth quarter of 2018. This seems to show a rent gap of two percentage points with the market rent. Please explain your interpretation of this rent gap.

A The rent in new rental agreements for the overall market is increasing as indicated by the Apartment Rent Index. Although it appears as though the rent gap is slowly increasing, we hope to catch up by increasing rents during the tenant turnover that generally occurs once every four years.

※ NCF is used for income when calculating the direct capitalization rate on appraisal value of properties owned at the end of the period. Moreover, Medical Home Granda Sangen Jaya (land with leasehold interest), Shibaura Island Air Tower, and Park Cube Nishigahara Stage are not included in the calculation. The appraisal value calculated using the direct capitalization method adopts normalized income recognized as being stable over the mid- to long-term. These differences are likely the reason for the difference in the rate mentioned in this question.

REIT Management Company: Mitsui Fudosan Accommodations Fund Management Co., Ltd.
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