

Nippon Accommodations Fund Inc.
32nd Period (September 2021 – February 2022) Investor Presentation
Q&A

Q Although rent fluctuation at the time of tenant turnover for single units further declined to minus 4% following the 31st Period, turnover of tenants who entered into contracts when rents were high has increased, which would appear to relax the downward pressure on rent fluctuation. What is NAF's future outlook for single unit rents?

A As a general trend, approximately two-thirds of tenants at our rental apartments turnover four years after their contract period begins. Therefore, turnover of tenants who entered into contracts when rents were high has already passed its peak for single units as well, which indicates that turnover rent fluctuation has likely bottomed out. However, we feel some time will still be required before we see a full transition from this bottom to rent recovery.

Q As the new president, please tell us about your policy regarding property acquisitions and the disposition of NAF-owned properties when aiming to grow distribution.

A Although the sponsor pipeline has steadily accumulated, amid today's overheated property trade, there is no question that it will be difficult for us to acquire properties in a way that meets our conditions. Conversely, the overheated market also presents a good opportunity for us to secure unrealized profits. As we search out potential within the market, we will manage the REIT by also including dispositions that contribute to increasing the distribution as one option.

Q We are aware that J-REITs tended to prioritize occupancy rates during the second half of 2021, for example by loosening solicitation conditions. Considering that the busy season for leasing this year proceeded smoothly, particularly during March, however, does it appear that tenant demand has firmly recovered?

A Although the peak period during the busy season this year fell backward from January and February to March and beyond, leasing trends remained robust. If this strong trend continues with supply and demand remaining solid, we feel occupancy rates and rents

will reflect this to a similar degree.

Q According to NAF's past explanations, the pipeline is building, so you commented to the effect that you wanted to accelerate external growth. Based on your explanation this time around, however, it seems you have changed this strategy slightly.

A Although we have not changed our policy of aggressively engaging in external growth with a focus on acquisitions from the sponsor pipeline, amid today's extremely overheated market, there is a risk that acquiring expensive properties and properties with slim yields will fail to contribute to growth in distributions. Accordingly, we intend to carefully consider external growth with our sights on new acquisitions in addition to property turnover.

Q Although you have gradually expanded the number of renovated units in Okawabata Apartment Communities, do you plan to continue increasing the number going forward? Can you also tell us about the return on renovation investments?

A At 15 units, the number of units renovated during the 32nd Period was higher than usual, but we generally aim to renovate at a pace of 10 units per period at most. We also aim to achieve a rate of return on investment of at least 5%, which we have sufficiently cleared based on our past track record.

Q Please tell us about your policy regarding hospitality facility acquisitions.

A Amid the current economic environment, we have not found any hotels that meet the conditions for consideration. And good conditions for dormitories and corporate housing also remain elusive. We do hope to aggressively acquire hospitality facilities as a valuable opportunity for external growth if we find any properties that meet our required conditions.

Q Under the 33rd and 34th Period forecasts, you foresee a 50% rent reduction as a result of supporting the operator of Chisun Hotel Hiroshima. Will this measure come to an end during the 34th Period?

A We concluded a rent reduction for Chisun Hotel Hiroshima for one year starting at the outset of the 33rd Period and closing at the end of the 34th Period. So, the impact on distributions will only last through the 34th Period.

Q You commented that NAF will aim for external growth that contributes to distributions. What, if any, is your policy on acquisition yields?

A Our perspective on acquisition yields has always been based on a lower limit of 4% flat. However, we will also consider urban properties at the 3% yield level within the realm of possibility if the property can be expected to see future rent growth.

Q In terms of internal growth, are there any differences in the balance in NAF's rent and occupancy rate priorities by category and area?

A Since profits are only gained through occupancy, we will maintain a policy of prioritizing occupancy rates. In terms of actual management, we make detailed adjustments based on the conditions of individual properties, rather than by category or area.

Q Although demographics in the Tokyo 23 Ward area have been improving recently, how will this impact the Investment Corporation?

A If we assume an end to the tendency toward net out-migration from the Tokyo 23 Ward area, in which our portfolio is focused, this would be a positive for the Investment Corporation. We expect this would have a beneficial impact, particularly on single and compact units.

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