Nippon Accommodations Fund Inc.

36th Period (September 2023 – February 2024) Investor Presentation

Q&A

Q Can you tell us about your external growth policy? Although the sponsor has already announced its long-term management policy, were there any changes in the property supply stance?

A The part of the long-term vision involving NAF indicates that our sponsor is targeting asset recovery via around ¥2 trillion in sales through FY2026, but we are not presently aware of any specific figures for the period covering the current and upcoming fiscal years. We intend to speak with the sponsor about business plans for the current fiscal year in due course. The sponsor is, however, actively engaged in asset recovery, and seeks to control its balance sheet, so we increasingly anticipate the potential to acquire properties from the sponsor.

Q Amid the robust trend of rising rents at tenant turnover, the ratio of units for which rent has increased at renewal also rose to reach 15.8% during the 36th period. Do you feel progress has been made toward a ratio of 20%? And is the mood in the industry leaning toward higher rents at the time of renewal?

A We feel progress has been made in that the peak leasing season this year also proceeded smoothly. We typically begin discussing renewal with tenants about six months before the end of their lease agreements, so we expect to see the percentage change in rent at renewal expand over the current period and into the upcoming period, during which the results of renewal discussions are actually reflected. We believe that the way in which tenants accept higher rents at renewal is more important than the mood of the industry in this respect. With houses for sale only available at higher prices, tenants are struggling to shift into home ownership, meaning there is high demand for rental housing. Amid rising rents, the cost of moving as compared to the cost of renewing rental agreements and staying in place seems to be bolstering the ratio of tenants choosing to renew their leases to some degree. As the trend toward rising rents takes hold throughout the market, we feel the mood among tenants to accept higher rents will improve. As a result, we feel the industry will also come to focus on renewals.

Q Is there room for further expansion in the percent change in new rent at tenant turnover?

A As far as the outlook for new rents rising going forward is concerned, we feel progress will also be made during the busy season from March to April during the current 37th period as well. The rent change at tenant turnover during the 36th period was 5.6%, yet our outlook is for at least some growth over the previous period.

Q Distribution per unit for the February 2024 period was ¥11,459 while the expected distribution per unit for the February 2025 period a year from now is ¥11,210. Even if distribution per unit comes in slightly above expected levels, the February 2025 period will likely stay at the same level as the February 2024 period. Is this because costs and interest rates will increase even as rents rise so that distribution per unit a year from now will remain even with the current level?

A Although we have always taken a somewhat conservative view of performance expectations that includes interest rates, operational costs, rent change at tenant turnover, and churn rate, for example, if these factors improve more than expected, we might be able to lift the results for the 38th period to the level of the 36th period. At the current forecast stage, however, we do not assume an upswing in these factors. Although we do expect leeway in interest rates and costs, in practice, we aim to increase distribution per unit by pursuing cost savings, improved occupancy rates, and a greater degree of rent change at tenant turnover and renewal.

Q Can you tell us about NAF's interest-bearing debt costs? Looking at the repayment schedule for interest-bearing debt going froward, for a time starting in the February 2025 period, interest rates on debt to be repaid will decline significantly. Will this lead to a change in your procurement policy? Although future increases in interest costs are unavoidable, do you feel you can still maintain growth in distribution per unit?

A We are aware that we are now entering the refinancing stage for the low-interest debt we acquired in the past. In light of the outlook for higher future interest rates, however, we will not blindly focus on long-term fixed interest rate loans, but will instead combine long-term and short-term borrowing periods, as well as incorporate variable interest rate loans, in an effort to ensure procurement costs do not increase noticeably. Based on our simple estimates, even a conservative outlook shows rental income growing at 1% annually. Amid the outlook for higher future interest rates, however, if we procure refinancing for all debt at about 1.5% in the future, an annual top line growth rate of 1% will serve to cancel out the higher interest rate costs, as long as we do not assume changes in costs besides interest rates. In practice, if we can procure refinancing at a lower cost than this estimate, we feel we can further improve distribution per unit.

Q With rising rents on a solid footing, will your policy be to focus on internal growth over property acquisitions, or do you intend to purchase available properties? Please tell us about your property acquisition appetite.

A We do not intend to proceed based solely on internal growth. And we will maintain our policy whereby we acquire properties that will help strengthen our portfolio and increase distribution per unit. We are aware, however, that the real estate acquisition market remains in a heated state, which means we will be careful about acquiring properties. On the other hand, we also intend to steadily achieve internal growth.

Q Can you tell us about the types of acquired properties? Whereas you acquired hotels in the previous period, do you now intend to focus on acquiring properties in the Park Axis Series from the sponsor pipeline, or do you intend to continue acquiring hotels, for example?

A As described during the presentation, the sponsor pipeline is abundant and accumulating each year. We could rely on the sponsor pipeline if we simply wanted to acquire any property, but given the strength of the condominium business, it is difficult to acquire these properties from the sponsor side at the present time. We also feel that it will become increasingly difficult to acquire these properties from the market, so we intend to capture opportunities by acquiring properties from outside through two-way transactions of NAF's properties, for example. In terms of the portfolio, hotels and other hospitality facilities, including those acquired during the previous period, account for 5.7% of acquisitions, yet on an investment basis, the portfolio can tolerate up to 10%, which is why we intend to acquire any properties that are judged to help strengthen the portfolio. In either case, we have not changed our policy regarding external growth, and will actively acquire properties given the opportunity.

Q Do you foresee rising repair and other operational costs in addition to debt costs?

A We are currently advancing renewal investments in a systematic manner in order to maintain and improve asset value, and although repair costs are rising slightly, this increase is not excessive at the present time. Despite regularly incurring repair and restoration costs, the totals amount to ¥500 to 600 million per period, meaning the overall impact of an increase of a few percent would be limited. We will conduct regular asset maintenance in order to avoid sudden occurrences of major repair costs going forward, while at the same time working to curb costs through discussions with suppliers.

Q Although rents are rising steadily, do you take a different stance on rents depending on the attributes of your tenants, for example foreign national tenants or corporate lease-holder tenants who have a high tolerance for rising rents as a part of their efforts to enhance employee benefits or treatment?

A Although around 40% of portfolio tenants are leases under corporate names, most corporations do not enter batch lease agreements. Instead, in most cases, individual employees basically choose their own properties after which their company signs the lease agreement, so we do not take a different stance depending on whether the agreement is made by a company or individual. The ratio of foreign national portfolio tenants is around 5%, so only has a small overall impact, and we do not expect rents to increase for reasons of nationality. It is our understanding that rents are rising due to tight market supply and demand.

Q Do you sense any changes in the case of companies entering into agreements after employees choose a room, for example companies increasing the upper limit on rents as policy?

A At the present time, we do not sense any changes in rental regulations or increases in upper rent limits on the company side. Although this is just my personal opinion, any company looking to revise these conditions would have to discuss this move with its labor union. And I do not see any movement toward companies going this far to make revisions, and this is not a current trend based solely on what I have heard.

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