

Nippon Accomodations Fund Inc.
27th Period (March 2019 - August 2019) Investor Presentation
Q&A

- Q Operating rents continue to increase at the time of tenant turnover. Is the gap between operating rents and market rents still widening? While the average rent per tsubo has increased 0.75% compared with the previous period for the portfolio as a whole, it follows that the gap would widen in the event that market rents continue to rise. What are your thoughts?
- A There are subtle differences between the definitions announced by each management company. Accordingly, we do not disclose details of rent gap data. While we believe the rate of rent change at the time of tenant turnover is closest to the current rent gap, rents in new rental agreements have risen steadily over the last few years. When looking at the foreseeable future, we anticipate trends in the average rent per tsubo for the portfolio including tenant turnover will continue to increase around 1 to 1.5% annually.
- Q Turning to the status of rental apartment development by your sponsor, Mitsui Fudosan Co., Ltd., and taking into consideration this level of rent increase, together with the weak nature of sales due to the high price of condominiums, are there moves toward accelerating the pace of pipeline rotation and rental apartment development?
- A Not being the sponsor, we are unable to comment with any authority. Speaking purely from an intuitive standpoint, we believe that Mitsui Fudosan is adopting a case-by-case approach focusing mainly on applications that exhibit high commercial viability and profitability based on site information as opposed to actively pursuing development. Amid the exchange of information, we do not sense that the sponsor is shifting from condominiums to rental apartments all at once or undertaking developments after determining specific weights or priorities.
- Q It would appear that you are looking at a prolonged period of tight supply and demand in the rental apartment market for the next two years. What scenarios are you looking at for conditions in the rental apartment market to change? For example, a downturn in the economy or an increase in supply.
- A We believe that an increase in supply will play a principal role. A downturn in the economy can also be considered a factor. Against the backdrop of a shortage of labor, and with the limited nature of the 20s to 30s demographic, which comprises a large portion of the tenants of the properties held, conditions may however change should unemployment rates for this demographic increase and rents plateau. At this stage, there is no sense that either of these scenarios will eventuate.

Q The fact that supply has not increased has been identified as one reason for the tight rental apartment market especially in Tokyo. What then do you see as factors that could lead to an increase in supply in the future?

A From an economic principle perspective, improving the profitability of rental apartment development through upswings in rent and increasing the supply of properties can be expected to help balance supply and demand. Having said this, the current stock of sites for sale is limited to begin with because of a variety of factors including low interest rates. All in all, we believe that overall economic trends are important.

Q Looking at the rental apartment market, what are your thoughts on the appropriate levels of income and rents in general as well as changes and trends?

A From an assessment criteria perspective, we have set rent at a range within 25 to 30% of annual income. Currently, lease contracts are executed on an individual lessee basis. Engaging in a more detailed analysis is difficult because of the lack of dual income and working family household annual income data.

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