Nippon Accommodations Fund Inc.
30th Period (September 2020 – February 2021) Investor Presentation
Q&A

Q What is the impact of the recent excessive out-migration trend from Tokyo on the portfolio, and what will be the impact if the trend turns back to an excess of in-migration?

A It could be said that an impact was felt in terms of supply and demand easing and the occupancy rate trending downward. However, as outlined in the investor presentation materials, instances where tenants that have cancelled their contracts are relocating outside Tokyo are limited. As such, the Investment Corporation's portfolio is not being affected to any major degree.

Q What is your future investment policy for suburban and family-type properties?

A There are no plans to focus investment on suburban and family-type properties. Supply of these types of rental apartment is low, making investment difficult. Single-type properties in central Tokyo with inherent strengths also continue to exhibit high occupancy rates and rising rents. Accordingly, we will adopt a more stringent approach toward identifying properties even in central Tokyo. In addition, a combination with more spacious units is preferable, rather than comprising all studio-type.

Q I hear that competition to acquire housing is getting fierce. What is the status of property acquisition opportunities?

A Even with the COVID-19 environment, in fact, perhaps it was recognized as an opportunity, new players entering the market is making competition for the acquisition of properties increasingly fierce. While lowering our LTV following the public offering last year, we have not been able to acquire any properties from external sources. We believe this will continue for the foreseeable future with external growth centered on the sponsor pipeline.

Q The occupancy rate of residential REITs in general has shown a recovery of late. Have any moves been made to drastically relax rental terms and conditions?

A Tenant demand was expected to recover after lifting of the state of emergency in April last year. Rents were adjusted due to the lack of sufficient inquiries. In making adjustments, rents were restored to the levels recorded from 2017 to 2018, prior to the period of accelerated increase. Should supply and demand recover again in the future, we believe it will be possible to set high rents based on the strength of products.

Q There appears to have been a slight movement of people to the suburbs in the other 20 wards. Is this a temporary or structural trend?

A The number of suburban and family-type rental apartments is limited, and condominiums for sale are also increasing in price. With only a slight current shift to the suburbs, we do not believe the trend will become structural.

Q While the rate of rent increase at the time of tenant turnover for single-type properties is +0.1%, is there a possibility that it will fall further? In light of the trend in rent increase rates at the time of tenant turnover and the number of turnover years, do you see the current level, which is about the same as the rate of change three years ago, as the point where rents bottom out?

A While the supply of single-type rental apartments is high, there is also a considerable depth of demand. We do not expect market conditions will deteriorate to any significant degree in the future. The Investment Corporation's portfolio is competitive. Accordingly, we believe that the range would be small even if rents were to fall further. With an upswing in tenants applying to take up space at rent levels after adjusting asking rents, we anticipate current rent levels will continue for the foreseeable future provided that economic and employment conditions situation do not worsen in the future.

Q While the pace of external growth is increasing, what is your outlook for the future?

A Despite the pace of external growth increasing since last year due to the sponsor's intention to sell properties, we do not see any major change in trends this year. Looking ahead, we will consider external growth opportunities after also confirming the sponsor's policy for FY2021. We expect external growth will be at the same pace as last year.

Q Occupancy rates are recovering. As far as areas and types are concerned, where is this recovery occurring?

A There are no notable characteristics in terms of such aspects as area or type in connection with operations under the COVID-19 environment. We have taken steps to increase occupancy rates while adjusting rents to match demand. While there are no properties where tenant demand does not exist even after adjusting rents, we believe the strength of demand by area and type is indicated by the rate of tenant turnover fluctuation.

Q The balance between supply and demand has eased since last summer. What are your thoughts on the background behind this trend?

A I would have to say that I am not entirely sure. To use an analogy, however, conditions around 2019 were much like a tightly packed box. When the box was shaken, the contents did not move. At that time, when notices of cancellation were issued, applications to move in were received even when there were no vacancies and space could not be inspected prior to the tenant moving out. Going back to the analogy, if one or two items are removed from the box, the remaining contents suddenly become more flexible. In this instance, I am not sure what this first item was. It could have been a cancellation related to COVID-19, or it could have been the return of space by a company. In any case, demand, which had stood at a maximum, eased as tenants increasingly enjoyed more room to select a property from a rent, size, location, or other perspective, which in turn led to tenant mobility.

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