

Nippon Accommodations Fund Inc.
34th Period (September 2022 – February 2023) Investor Presentation
Q&A

Q What is your outlook for rent change rates at tenant turnover and key money collection rates for single type units?

A Although it is reassuring that rent change rates at tenant turnover for single type units have recovered to a point that allows for a positive outlook for the 35th period, given the extremely large market, we do not anticipate a dramatic acceleration in the degree of recovery going forward. Assuming that the gradual recovery in the economy continues, we are expecting a slow upturn in rents for single type units. The key money collection rate*, which stood at around 50% of monthly rent during the COVID-19 pandemic, has since recovered to around 60% of monthly rent.

* (Supplementary information) The key money collection rate here refers to the aggregate of all four categories. The key money collection rate for single type units has trended around 30% of monthly rent since the COVID-19 pandemic.

Q What are your thoughts on the changes in the ratio of foreign national tenants at Okawabata Apartment Communities prior to and after the COVID-19 pandemic?

A For the most part, the ratio of foreign national tenants at all properties held is low at around two to three percent. Since the ratio of foreign national tenants has not risen significantly following the lifting of entry restrictions, we believe it is unlikely to increase to any great extent in the future.

Q As far as external growth is concerned, while commenting on the Fund's ample project pipeline, capital markets remain in a somewhat unstable position. When acquiring properties, do you believe that external growth geared toward increasing shareholder value is still possible, or is it best to wait for capital markets to stabilize, in light of expected cap rates and capital costs?

A Capital markets continue to confront head winds. Current conditions suggest the overheated cap rate remains unchecked. We believe that the environment is not conducive to external growth, for example, when considering a capital increase. When acquiring properties, we must also fully consider the implied cap rate and make judgements based on the overall environment. Although it will depend on the form that the Bank of Japan's financial policy takes going forward, we intend to maintain a stance that allows us to take action at any time, under the assumption that opportunities for acquiring properties may arise due to changes in the relationship between interest rate trends and cap rates.

Q Although you mentioned that rent momentum has improved with respect to internal

growth, what is the gap between unit rents and market rents (the rent gap)?

A We have not officially disclosed rent gap figures. Since rent change rates at tenant turnover during the 34th Period increased 3.5%, however, we believe the rent gap is up around 2%.

Q From an internal growth perspective, what stage has the recovery in market rents reached at this point? Has the recovery from the COVID-19 pandemic reached its final stage, or do you foresee the market rising to and surpassing pre-COVID-19 pandemic levels?

A Trends in supply and demand prior to the COVID-19 pandemic mirrored the immediately preceding extremely tight stage. We believe that market rents will shortly enter a more favorable and virtuous cycle.

Q What is the Fund's stance on property acquisitions? Did the Fund forgo making any acquisitions during the previous period because it is currently difficult to purchase properties? Or was the sponsor side unwilling to sell? Can you explain your understanding regarding whether the Fund was unable to purchase properties despite wanting to do so, or if the environment was not conducive to acquisition?

A In addition to the sponsor side being poorly positioned to demand further profit accumulation amid the robust conditions experienced by the subdivision business targeting private owners, we found it difficult to secure property sales offers. Despite a small number of sales offers, we were unable to acquire properties in certain cases because the cap rate stood at a level that was beyond our reach. From our viewpoint, we indeed were looking to purchase, but were unable to do so. As far as the acquisition of properties is concerned, while maintaining the consistent stance of seizing opportunities, including from third parties, the terms and conditions were not right during the previous period.

Q Although the rental market remains strong in the large and family type unit categories, what is your outlook for large and family type unit rents in the current environment where rents are reaching a fairly high level.

A There are few large and family type units on the rental apartment market, so their rarity remains high. If we also consider the likelihood that the movement of people will expand further, we believe this rarity will remain steady. This is why we intend to increase rents while continuing to maintain the current level of rent change rates at tenant turnover.

Q What is the Fund's current stance on its sales strategy?

A The current portfolio does not contain any properties that we feel present concerns for the future or that may have a negative impact on the Fund's distribution per unit. Even

so, today is a good time to sell, so we feel there is potential to dispose of properties held as part of the replacement of assets at the time of property acquisition. Having said this, we do not intend to actively sell properties for the purpose of increasing distribution per unit.

Q Although the results for rent change rates at tenant turnover by area showed a decrease of 0.9% in other major cities besides Tokyo, what are your thoughts for each city?

A Over the previous period, excluding the busy spring leasing season, rent change rates at tenant turnover tended to be sluggish for properties in other major cities besides Tokyo, which depend significantly on demand from transferees in the spring. By city, although we do not consider the oversupply in Nagoya to have been resolved, Sapporo and Fukuoka remain firm. Based on the aforementioned, we see investigating the potential for property acquisition in these cities as an option.

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