

Main Q&As Regarding the Financial Results of NTT UD REIT Investment Corporation for the 38th Fiscal Period

Date and time: December 16, 2021 (Thursday) at 10:00 a.m. (teleconference)

Speaker: Tomoyoshi Kosugi, President and CEO, NTT Urban Development Asset Management Corporation

- Q. Regarding the outlook of the office market conditions, you anticipate that the occupancy rate will increase in the 39th and 40th fiscal periods, as shown in "Occupancy Rate Assumptions" on page 31. Please tell me how confident you are about the recovery of the occupancy rate. You said that it is taking more time than anticipated to fill vacancies at certain properties, but how keen are you about achieving it? Also, with regard to the rent-free period, it may be possible that rent per unit will practically decrease if the rent-free period is 6 months or more when considering the account closing cycle of a REIT. I would like to know your view about rent per unit.
- A. In terms of the occupancy rate of office buildings, we said at the financial results briefing session for the previous fiscal period that it is assumed the rate will recover to an ordinary level by the end of the 39th fiscal period. At present, we estimate that it will be around 94%. This is because the filling of vacated spaces at Urbannet Gotanda NN Building (hereinafter, "Gotanda NN") has not been confirmed. For the moment, however, we feel that demand is returning as the number of inquiries is increasing. If we can fill such vacancies, we may therefore expect the occupancy rate to recover more quickly than assumed. As for the rent-free period, the number of cases where we offer around 6 months is increasing in our ongoing leasing activities. This may lead to the cash-flow-based occupancy rate becoming lower than the contract-based occupancy rate in the 39th fiscal period. However, there will be good prospects for filling certain vacated spaces within the 39th fiscal period. Accordingly, we do not assume that a long rent-free period will be the norm in the 40th fiscal period and thereafter, and we have no worry about the level of rent per unit dropping significantly.
- Q. For residential properties, your assumption for occupancy rate for the coming periods including the busy season is 95.2%, which is almost flat. Do you see no need to anticipate a drop in rent per unit going forward albeit the amount per unit varying, as NUD's properties have not only single-type units, which are common, but also higher-grade units? I would like to ask for your opinion particularly about properties with narrower units and about areas where the market conditions are loose. On the other hand, have properties with higher gross rent performed better than you assumed? I would also like to know about the outlook and rent per unit for these properties going forward.
- A. As you pointed out, rent levels vary by property, and we assume that we will lower advertised rent for single-type-unit properties with inferior conditions and continue to raise rent upon tenant replacement for premium properties. On average, therefore, we believe that we can mostly maintain the present levels down the road.

Q. Is the progress (pace) in leasing of office properties dependent on the decision making by the NTT Group? For Gotanda NN, I would like to ask if you will focus on its leasing at your own initiative or place priority on the Group's decision.

A. Regarding the leasing of Gotanda NN, we currently see the number of inquiries increasing. Because of this, even if it turns out that the NTT Group companies with which we are negotiating will not move in, we believe it can be fully recovered with demand from outside the Group, instead of finding other Group companies. For properties other than Gotanda NN, a major move-out occurred at Shinagawa Season Terrace, for which we have also received a notice of a move-out scheduled for next summer from a moderately large section. However, leasing of the building is doing well, and succeeding tenants have been mostly fixed with almost no downtime. Other than these, we have no particular concern or large movements.

Q. In terms of external growth (property acquisition), you conducted property replacement to acquire a property from the sponsor using funds procured through public offering, which you conducted for the first time in six and a half years. Do you see yourself continuing to have such opportunities for acquisition? Also, as acquisition from the sponsor may be focused on office buildings, will the ratio of office buildings in your portfolio increase?

A. For external growth, we lowered the LTV through the public offering. We will not miss opportunities to acquire properties generated by the sponsor pipeline, not necessarily sticking to fund procurement through public offering. We have deals to negotiate, not only for office buildings but also residential properties. Under the current market conditions, residential properties are also difficult to acquire from external sources, and we may explore the possibility of acquiring them from within the sponsor pipeline. Accordingly, please note that we will not be acquiring office buildings only.

Q. Will the pace at which you acquire properties be accelerated in the future?

A. It depends on the time of comparison, but there are multiple properties in the pipeline that are of the same class as Tokyo Opera City Building which we acquired upon the public offering. Thus, we anticipate that we can obtain equivalent properties at a pace of, say, one or two per year in the current (39th) fiscal period and thereafter.

Q. Regarding leasing of office buildings, you have explained that there are multiple inquiries for Gotanda NN and the conclusion of a lease agreement for Shinagawa Season Terrace. Can you tell me the attributes of the tenants moving in if they are characteristic? For example, we have a positive topic from Miki Shoji indicating that the vacancy rate has turned to decrease, and it appears that improvement is particularly significant in the 5 central wards of Tokyo, and especially so in Shibuya Ward. Before the COVID-19 pandemic, Gotanda was dubbed as "Gotanda Valley" and saw a stream of incoming demand overflowing from Shibuya. I wonder if IT-related companies are again moving in now?

A. The move-out from Shinagawa Season Terrace was relatively large and was featured in media articles, etc. However, I would like for it to be understood that there is no need for concern. As for the attributes of inquiring parties, the tenants who have come back to the Shibuya area are all IT-related companies similar to those that were there before. For Gotanda NN, we are continuing leasing activities mainly for

the Group companies, but as far as we see, the tenants that have decided to move in as well as the inquiring parties from outside the Group are not necessarily IT-related companies and there is variety among business type. The property has a floor space of an appropriate size, and I think it has started to give the impression that the rent level itself is appropriate (affordable) as well. It also indicates that the brokerage network has become functional gradually and is attracting a wide range of relocation demand.

Q. Regarding leasing of office buildings, I have an impression that a large supply is scheduled for this year and that there is a concern that existing tenants will move out. Can you explain how you work to retain tenants upon contract expiration going forward and how you negotiate?

A. Approximately one-third of the tenants housed in our properties are NTT Group companies, and they have already settled investigation of relocation for the time being. We have received no notice of cancellation (move-outs) that indicate an intention to move to new buildings. As for the tenants outside the Group, we assume there will be certain move-ins and move-outs, but for the moment we are not negotiating with them in any special manner so as to retain them.

Q. My personal feeling is that there is growing demand for spaces of 100 to 200 tsubos, but what is your perception about demand?

A. As we promote leasing activities for not only Gotanda NN but also other properties, our impression is that there is an increasing number of cases where tenants are considering when they should relocate, looking at a size of around 100 to 200 tsubos and the affordability of properties. As such, we feel that demand for this class is coming back a bit.

Q. In mid-November, The Nikkei carried an article explaining that NTT will sell real estate totaling 40 billion yen. Do I understand correctly that this is related to the explanation you gave that NUD expects to acquire properties in the manner of one or two a year?

A. I have read the article. We cannot discuss it, including the monetary amount of 40 billion yen, as we were not interviewed directly. As a direction, however, the entire Group is making various attempts to lighten its balance sheets. I think that, as part of those efforts, separating real estate properties is a movement understood throughout the Group and is not limited to NTT Urban Development, our sponsor. If properties are sold, they may not necessarily come to our REIT. I believe, however, that properties of a certain size will continue to be included in the sponsor pipeline going forward.

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