December 18, 2025

Main Q&As Regarding the Financial Results of NTT UD REIT Investment Corporation for the 46th Fiscal Period

Date and time: December 18, 2025 (Thursday) at 11:30 a.m. (Teleconference)

Speaker: Yasutake Horinouchi, President & CEO, NTT Urban Development Asset Management Corporation

Q. Regarding the EPU growth target on pages 4 and 5 of the financial results presentation materials, to achieve an EPU of ¥3,100 by October 2028 (FP52), what level of rent increases are necessary? Additionally, what level of property acquisitions need to be accumulated? We would like to hear your current assessment. For example, is it achievable by maintaining the rent increase rate seen in this fiscal year's results, or is it necessary to accelerate it beyond current levels? Given that the current strategy has shifted to a "prioritize rent over occupancy rate" approach, we would like to hear your thoughts on this as well.

A. Regarding the breakdown of the ¥160 target per unit, we anticipate approximately two-thirds coming from internal growth and the remainder from external growth. For office rent within internal growth, our projections for the current forecast period (47th-48th fiscal years) and the following two periods are based on historical rent increase performance. While there is some uncertainty beyond that, we will strive to achieve growth. The basic approach for retail is similar, incorporating the value-up effects we've pursued over recent periods. In terms of whether to maintain the current pace or accelerate, we are stretching slightly. We believe that in an inflationary environment, we can determine prices by balancing our own intentions with the expected level of inflation. Therefore, we plan to shift our mindset slightly and drive growth. Simultaneously, we believe rigorous cost management is crucial. We've factored in increased depreciation expenses and aim to effectively control costs, building on the reductions achieved over the past few periods. However, rising interest rates are unavoidable. We've incorporated the cost increase exceeding ¥150 associated with refinancing and aim to achieve about two-thirds of our overall targets. For the remaining portion, such as external growth, we don't necessarily need to pursue the self-investment unit acquisitions set this time. We believe we can achieve it by accumulating property acquisitions like those announced this time.

Q. Regarding future external growth, what is the outlook for property acquisitions utilizing the sponsor pipeline? For example, do you have confidence in being able to steadily acquire Tokyo office properties? Alternatively, could you share your current thinking on what types of properties—in terms of asset class, location, etc.—you plan to acquire to drive external growth?

A. Sponsors, like other developers, are affected by soaring construction costs. For newly emerging sale candidates or turnover-type properties, our perspectives are diverging compared to before. Older properties can be challenging for our portfolio, and we are discussing this. As sponsors engage in various redevelopment projects, they cannot infinitely expand their balance sheets, so I believe our role remains unchanged.

Q. Regarding portfolio turnover, while there's mention of selling around 10% of the portfolio, I assume some of the proceeds will be used to acquire new properties. During this turnover process, could you share any outlook on how exposure by asset type and the ratio of NTT Group tenants might change?

A. As previously explained, we successfully sold three major problem properties by the 46th fiscal period, clearing the first tier of sale candidates. The second tier is limited, and only a third-tier list of potential sales remains. We will conduct a more detailed mapping and review of the portfolio's growth potential and business viability, considering factors like market changes, area characteristics, property obsolescence, and whether properties are positioned to increase rents through investments like renovations. We aim to do this at around 10% as a benchmark, so it doesn't necessarily mean selling off exactly 10%. Particularly in our case, the high proportion of properties within Tokyo's 23 wards is an advantage when considering future competition. Location is the most crucial factor for offices, so we want to carefully consider and identify replacement candidates. Regarding exposure by type, I understand this goes beyond just the ratio of retail to office properties and involves further segmentation. In that sense, we incorporate growth potential by examining factors like location and building age.

Q. For standard office leases, rent revisions contribute more significantly to internal growth. Could you explain any changes in your approach regarding the magnitude of upward revisions or the number of increases?

A. Regarding the NTT Group's occupancy ratio, some may consider 30% high. However, the NTT Group has around 1,000 subsidiaries spanning diverse sectors like finance, AI, SI, real estate, and logistics. Considering the group's depth and creditworthiness, we believe this achieves effective diversification. Regarding office rent increases, it was mentioned that ordinary leases have a greater impact. However, negotiating increases is often more challenging for ordinary leases than for fixed-term leases. Therefore, promoting fixed-term leases is one approach, and we are discussing this internally. In fact, we have converted some leases to fixed-term. For tenants on ordinary leases who are unwilling to accept rent increases, we are also proposing fixed-term leases as an option. For new buildings and S/A-class buildings, we will negotiate with a stronger focus on converting to fixed-term leases than before. For B-class buildings, converting to fixed-term leases is quite difficult given the attributes and creditworthiness of the tenants. However, since rent increases upon fixed-term lease expiration offer significant returns, we will manage this aspect more meticulously than before.

Q. Related to the second point, has there been any change in your stance toward rent negotiations with sponsor groups, and might there be a shift in the future? Could there be more assertive negotiations regarding unit price increases?

A. Regarding our negotiation stance, as mentioned previously, we do not differentiate between general tenants and NTT Group companies. While mutual trust plays a role, aspects like mutual support during difficult times are no different from our approach with general tenants. Regarding negotiations considering vacancy risk, this pertains to private REITs, but as a result of careful negotiations, some group companies have vacated. For listed REITs, the management company's stance remains unchanged.

Q. You mentioned the rent gap widened this time. Regarding portfolio factors that might delay narrowing this gap, could you explain specific circumstances where catch-up measures—such as the 30% group companies, tenant replacements, or expansion responses—are applicable?

A. Regarding the rent gap, both standard and fixed-term leases cannot raise rents until renewal timing arrives. There was a period when the over-rent ratio was high. Particularly with corporate tenants, the other party negotiates based on market levels, making it quite difficult to raise rents proactively looking ahead. Therefore, I believe the standard approach is to firmly pursue rent increases once the gap has grown to a certain extent. Regarding portfolio issues, regional properties face some challenges in raising rents due to differing inflation penetration patterns. Conversely, the limited new supply in these areas can be seen as contributing to market stability. In this context, the difference in bargaining power emerges from how we strategize to raise rents or accurately assess whether replacement tenants are available upon vacancies. Properties in regional areas aren't easy either, but for now, we're not facing situations where units remain completely vacant or where rent increases are entirely impossible. Therefore, there are no major portfolio-level issues. Furthermore, for buildings in the Tokyo metropolitan area, overall occupancy rates have risen significantly recently. Even when vacancies occur, discussions about expanding within the building arise quickly. At that point, negotiations naturally occur at market rent levels. While there's no denying risk when occupancy reaches this level, we view vacancies as opportunities and approach them accordingly.

Q. I recall periods in the past when tenants moved due to NTT Group reorganizations. With the upcoming completion of the NTT Building in Hibiya, it's anticipated that some NTT Group companies in Otemachi may relocate to Hibiya. Could you comment on whether this has little relevance to the REIT portfolio or if it has some impact?

A. We hope the NTT Hibiya Tower will be attractive as a building with a good location. While NTT Holdings announced its relocation, the number of employees involved is not large, and the floor space was decided because it serves as a symbol for the group. For other group companies, NTT Urban Development will handle leasing. It is clear they will occupy space at market rates, and since their rent levels differ, we don't anticipate much overlap with our building's tenants.

Q. Regarding renewal rents for residences, NUD has a relatively long average occupancy period of 6.1 years. Looking at the increase/decrease rate at renewal, the actual figure shows a slight decrease from the previous period at +0.7%. Can we expect solid growth here? I'd like to hear about your current initiatives and future outlook.

A. As you pointed out, we recognize that the pace appears somewhat slower. We understand that in the broader market, efforts are being made to actively negotiate primarily with tenants under-renting at renewal, and in some cases, even with those over-renting, provided the overpayment isn't excessive. We also pursued similar initiatives in the 46th fiscal period, achieving reasonable negotiation and acceptance rates. However, after internal discussions, we are considering adjusting our approach slightly. Ultimately, the most critical point is how much we can increase rents. We will carefully monitor the gap with market rents and collaborate with PM companies to make requests. Our mid-term plan does not factor in significant increases during lease renewals, so we see this as an area with room for growth. The key is adapting our thinking and approach in a world facing inflation.

Q. Regarding external growth, you mentioned expanding the single-source route. Could you elaborate on this?

A. This acquisition marks our first external property purchase in about seven years. In recent years, especially after our sponsor, NTT Urban Development, became a wholly-owned subsidiary of the NTT Group and the management companies merged, we had ample properties coming from the sponsor. Consequently, we didn't purchase externally. This led to a somewhat weakened external pipeline, prompting us to actively pursue it again. Additionally, while NTT Urban Development excels in office properties, its retail portfolio is relatively weaker. We believe retail offers greater flexibility in location selection compared to office properties. We restarted our external acquisition routes, believing this approach allows for rigorous selection even in the current challenging transaction environment. This process will help build our expertise and deepen our understanding of specific areas.

Q. You announced the acquisition of treasury investment units, citing volatility in the investment unit price. However, given that the recent NAV multiple has recovered to around 0.97, I'd like to ask about the background behind deciding on this treasury investment unit acquisition.

A. While we appreciate that NUD's share price has risen slightly today amid a broader market upturn, the rationale for this share repurchase stems from our previous announcement a year ago to buy back approximately 2% of shares. We only managed to acquire about half of that target, prompting us to set aside another allocation. The key factor is that the share price has become quite choppy, so we want to ensure we buy decisively when the timing is right. Regarding the broader context of how we are utilizing the proceeds from property sales, of the ¥8.5 billion previously disclosed, after deducting expenditures for property acquisitions and future dividend-related costs, we currently have ¥3 billion on hand. Additionally, the proceeds from sales in April next year will bring the total to ¥6 billion. The current trading market is challenging, and based on our implied cap rate, we cannot acquire properties without being highly selective. Therefore, with ¥6 billion in cash on hand, we determined it acceptable to use a portion for repurchasing our own investment units. While repurchasing our own units will limit the public offering to some extent, we considered this acceptable and set the parameters accordingly.

Q. I recall there was mention of targeting portfolio sales and value-up initiatives for around 10% of the portfolio. Regarding this, could you please tell us the timeframe you are considering for these sales and value-up activities?

A. As I mentioned earlier, we don't necessarily execute the sale of 10% of the portfolio. Instead, we identify approximately 10% of properties that we could potentially consider selling next, or those with challenges in terms of future growth potential. Given the current market conditions, particularly when property prices are overshooting, we want to sell if we can. To enable flexible decision-making, we are proceeding with approximately 10% as a guideline for preparation. Considering the relationship between useful life and age, one benchmark is to review the portfolio roughly every five years. We will also consider timing as unrealized gains or losses on properties may materialize.