

Main Q&As Regarding the Financial Results of NTT UD REIT Investment Corporation for the 41st Fiscal Period

Date and time: June 16, 2023 (Friday) at 11:30 a.m. (Teleconference)

Speaker: Yutaka Torigoe, President and CEO,

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- Q. With regard to the assumption of office occupancy rate, the forecast provided in the Earnings Presentation for the 41st Fiscal Period has remained at around 95%. Are you sensing there are signs of bottoming out? Furthermore, we would like to ask whether the premise of the earnings forecast implies that there is unmistakably uncertainty in the office market.
- A. The occupancy rate assumptions displayed on page 25 of the presentation incorporate the move-outs and move-ins that are currently confirmed for our office properties. With regard to the outlook, we are aware that our portfolio is currently in a lull. While this is certainly not an ideal situation, the oversupply that has been a concern does not have a significant impact in our portfolio at this point in time given the presence of different asset classes. We have basically succeeded in managing our portfolio in a stable manner. While the data on page 25 of the presentation does not reflect a number of re-tenants which will serve as an upward swing factor going forward, the impact of secondary vacancies on the oversupply does exist to a degree. As you noted, taking the uncertainty into account, we are estimating it will remain at around 95%.
- Q. Regarding external growth of office buildings, the pursuit of yield is mentioned in the earnings presentation video, and it was likewise illustrated in the chart on page 5 of the earnings presentation. I understand that you intend to acquire properties in the second quadrant in the upper left section of the chart. When purchasing high-yield properties such as the newly acquired Urbannet Nakano Building, for instance, do you intend to pursue acquisitions while taking into consideration the possibility of future redevelopment by the sponsor or a wide range of options after acquisition? We would also like to ask you about “business risk reduction” in particular, as you Mr. Torigoe, President and CEO, mentioned it in the previous edition as well.
- A. As you mentioned, the newly acquired Urbannet Nakano Building is included in the upper left quadrant of the chart on page 5. However, we have acquired many of the properties shown in the lower right quadrant, such as Shinagawa Season Terrace, Otemachi Financial City Grand Cube, and Urbannet Uchisaiwaicho Building. This enabled us to raise the quality of the properties in our portfolio, but at the same time, it placed a burden on the yield. This led to our decision to acquire Urbannet Nakano Building. With regard to external growth, the plan is to continue acquiring properties. This includes properties shown in the upper left quadrant. To avoid undue bias toward the properties in the upper left quadrant, however, we also intend to continue acquiring properties in the lower right quadrant, while giving consideration to the status of the overall portfolio and risks.

- Q. Please share your thoughts on property acquisitions and the future composition of the portfolio. In the earnings presentation video, you stated that, in the interest of ensuring portfolio stability, you would continue to maintain a 7:3 ratio of office to residential properties. The recent property acquisitions were office buildings, however, and there appear to be primarily office buildings in the pipeline. The portfolio composition should not change significantly in case of property replacement, but will office buildings comprise a larger proportion of the portfolio as the asset size expands? Or will you also acquire residential properties from external sources?
- A. Our basic policy is to maintain a portfolio balance of 70% office buildings and 30% residential. Meanwhile, as you pointed out, the portfolio of our sponsor, NTT Urban Development Corporation is focused on office buildings. And, while it is true that offices currently dominate the discussion, the discussion is not exclusively about offices, as there are also residential properties in the NTT Group pipeline. The reality, nevertheless, is that office buildings will remain the focus of acquisition for the time being, so the proportion accounted for by office buildings may increase to a certain extent in the short term.
- Q. Concerning residential rents, the rate of rent fluctuation at the time of tenant turnover was +7.6% in the 41st fiscal period, which gives the impression of an acceleration compared with the previous period. Please share with us your outlook with regard to residential rents. We would also like to hear your views on whether the rent is being obtained due to a rent gap or because market rents were already on the rise.
- A. The current residential rent situation is positive, with a significant upside trend, particularly with regard to tenant turnover. Single type units, which had been struggling, are recovering. And we continue to be able to implement rent increases for wide type units, which have been strong. We believe the reason for this is the sustained strength of the market overall. As has been widely reported, movement has become aggressive with regard to the population inflow to Tokyo, and our view is that this influx is leading to increasing residential needs. As such, we expect this trend to continue for the foreseeable future.

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