

Main Q&As Regarding Premier Investment Corporation's Financial Results for the 36th Fiscal Period

Date and time: December 17, 2020 (Thursday) 11:30 (teleconference)

Speaker: Tomoyoshi Kosugi, President and CEO of Premier REIT Advisors Co., Ltd.

Q. As for residential, you indicated that the occupancy rate will hit bottom in the fiscal period ending April 2021, so we would like you to explain unit rent. How much is newly advertised rent compared with that in 2019, and how much did it decrease from that before COVID-19?

A. The trend has changed from the past when rents increased overall, and there is now polarization between properties that have received favorable market evaluation and can be occupied even at high rent levels and properties that are recovering their occupancy rates by flexibly setting conditions. While some properties have been able to increase their rent by nearly 10% through rent revision upon replacement, single-room properties in central Tokyo have tended to see long downtime due to needs for wider spaces as tenants spend more time at home.

However, this presents no concerns in terms of operation as it has been confirmed that there is demand even for such properties if rents are revised to an appropriate level, so we believe that the total rent increase will be restrained.

Q. Regarding the public offering environment, the volatility of distributions is quite high, but do you prioritize certain items such as price or volume when increasing capital?

The NOI yield of the property replaced this period is considerably lower than that of existing properties partially due to its high quality. Therefore, we would like to confirm the criteria of your judgments regarding capital costs.

A. As for distributions, volatility increased partially due to the lump-sum recording of gain on sale of properties and became difficult to understand.

We will continue to consider replacement transactions centering on assets of relatively high quality among the properties owned by NTT Urban Development, and we assume that maintaining balance between the expected distribution yield and investment yield will be difficult.

We would like to carefully procure capital with an aim of letting a wide range of unitholders make purchases based on the capital cost level sought by the market.

Q. Regarding the earnings outlook for Shinagawa Season Terrace that will be newly acquired, some companies have officially announced that their offices will be halved with the adoption of remote work, so how do you forecast the operation and rent level of this building for the time being based also on such trend?

A. Shinagawa Season Terrace received a cancellation notice from the tenant on the top floor at the end of October 2021. Including this case, we are aware that there is a potential risk of reduction of office space due to the introduction of remote work, but on the other hand, we have confirmed that there are considerable needs for move-ins, and we do not assume long-term vacancies.

As of now, the occupancy rate of the property is 100%, and although there are some spaces where tenants are scheduled to move out, demand from those including the tenants of the NTT Group is being captured, and needs for move-ins are high. Therefore, we believe that the risk of a continuous decrease in occupancy rate is low.

Q. You recently mentioned the relocation of the head office of a large tenant occupying Sphere Tower Tennozu. We would like to know about future risk of move-outs.

A. Said large tenant has accepted a certain rent increase and the renewal of their contract has been determined. We have heard that they intend to occupy the property for as long as possible, and we have no particular concerns.

Q. As for offices, you said that while the sponsor group company will move out of Urbannet Gotanda NN Building in March, a downtime of three months at properties including Urbannet Gotanda NN Building and Ueno Tosei Building is expected. However, is it possible to lease up the vacated sections with a downtime of about three months including other properties? Moreover, we would like to ask about the response regarding such things including the overall leasing outlook.

A. Overall leasing for offices remains uncertain over the short term. Despite work-style reform and changes in economic trends, there are definitely potential needs for relocation, but to be honest, it is very difficult to predict the period.

We think it is necessary to grant free rent for several months, and in addition to the downtime of three months, we believe that such period will become the cash-flow-based vacancy period as of now.

Q. In the previous earnings presentation on June 2020, you said that large-scale property acquisitions and expansion of asset size should be viewed over the long term (about 5 years to 10 years). And considering the organizational restructuring at the asset management company as pressed this time, do you think that a significant expansion of asset size is certainly about to be achieved, or there is not significant affect as only half a year has passed?

A. There is no change in our intent to expand the size of the REIT within the sponsor group and use it in the management of the balance sheet of the entire group.

Because a system enabling a new asset management company to undertake the fund function of NTT Urban Development has been developed, we would like to focus also on investments in the group's core assets.

As a change over the past six months, projects such as the acquisition of Shinagawa Season Terrace this time have been embodied, and we feel that a sense of reality regarding the expansion of asset size has increased.

- Q. Is there a specific prospect of lease up for the residential property where the serviced apartment company will move out this time?
- A. The cancellation of the sublease is an event caused by the extremely severe environment of the serviced apartment business itself, and is not impacted by the change in sponsorship. As a future arrangement, we are considering the use of corporate housing including that of the sponsor group, and we believe that there will be a certain prospect of lease up if conditions are set flexibly.
- Q. There are many NTT Group tenants at PIC, so is not the cancellation of lease contracts at offices increasing due to the promotion of remote work?
- A. There are various industries within the NTT Group, and there are cases where the commuting rate decreases to between 20%-30% as a result of progress in remote work in business fields with a high affinity for remote work such as systems development.
A typical example is the move-out at Urbannet Gotanda NN Building.
On the other hand, we believe that demand will not unilaterally decrease as there are conversely requests for floor expansion due to requests for securing social distance, etc. in labor-intensive business fields such as call centers and clerical work.
- Q. We would like to know why you decided to acquire Shinagawa Season Terrace from a third party instead of purchasing it from the sponsor's ownership interest as well as about the exchange involving Urbannet Kojimachi Building.
- A. As for Shinagawa Season Terrace, the contract was concluded as the seller showed its intent to sell the property by assuming mutual transaction and wished to acquire Urbannet Kojimachi Building.
We wanted to avoid a temporary increase in gain on sale, but decided to conduct the transaction upon judging that we should seize a rare opportunity for acquiring the property.
- Q. Please tell us your specific measures for maximizing unitholder interest through organizational restructuring.
- A. The management system that will undertake all the fund function of NTT Urban Development Group, the sponsor, has been established, and we believe that the unification of information transmission will contribute to the expansion of property acquisition opportunities.
- Q. Please tell us your specific thoughts for aiming to achieve 5 Stars in the GRESB Real Estate Assessment.
- A. As a sponsor, NTT UD intend to develop properties with excellent environmental performance that receive high evaluation in ESG, and we believe that the acquisition of such high-grade properties will lead to improvement in GRESB assessment.
In addition, we are considering the issuance of green bonds, and also plan to expand green leasing and organize information disclosure.