NIPPON REIT Investment Corporation（NRT）

Main Q&A (Summary) at the Fiscal Period Ended June 2025 (26th Period)

Date and Time：16:30~17:05, August 18, 2025 (Monday)

Presenter：SBI REIT Advisors Co., Ltd.　 Yasushi Iwasa, President & CEO

*Questions are presented in sequential order.

Q1: **It was reported that the pace of asset replacement in the past was faster than expected. Do you plan to slow down replacement going forward?**

(Answer)

The reasons for property replacement being faster than our initial assumptions include good sales conditions that were a result of successful sales activities and our ability to allocate proceeds from the sale of a property to the purchase of a new property thanks to established purchasing pipelines. As a result, we were able to steadily replace properties.

While DPU remains steady thanks to the progress in property replacement, EPU will temporarily decline (excluding gains or losses on the sale of property) and we will replace properties at an appropriate pace while paying attention to the stability of our EPU.

Q2: **You plan to purchase recently built properties and implement strategic added-value renovations using depreciation effects, but there will be a time lag. Will you consider financing the strategic added-value renovations differently from property purchases in the future?**

(Answer)

We present a cyclical model in which the purchase of recently built properties in asset replacement activities reduces the age of our buildings. This increases depreciation and generates free cash that is used for strategic added-value renovations. However, the expenditures for planned repairs to maintain property functions, in principle, are within the range of depreciation. While we may finance value-adding investments, asset replacement is currently in progress and funds from sales have been secured. In light of these conditions and economic rationality, we will allocate an amount equivalent to the book value from the proceeds from the sale of assets to the purchase of new assets and also allocate a part of these proceeds to strategic value-adding investments, thereby increasing the quality of our asset portfolio.

Q3: **What is the short-term potential of the added-value renovations of properties held? What information and ideas do you have about this?**

(Answer)

In the 26th period, we invested 101 million yen in strategic value-adding investments and increased our NOI by 22 million yen. In and after the 27th period, we expect a NOI effect of 61 million yen due to the expenditure of 414 million yen. It is expected that a total investment of 515 million yen per year will raise NOI by 83 million yen and generate return on invested capital (ROIC) of approximately 16%, suggesting that this is a level which can be expected to be adequately economically rational.

In addition to the value-adding investments already announced, we assume that we will invest a total of approximately six billion yen in projects that are currently in the planning stage. We plan to implement these investments gradually while examining the current supply and demand environment looking toward, and we aim to steadily increase NOI by 50 million yen annually. This is our target regarding the growth achieved through these activities.

Q4: **What is the demand trend that you expect to result from the addition of the Tokyo economic sphere to the areas where you are intensively investing in offices? Do you think that Saitama City offers better conditions than other cities such as Yokohama, Makuhari, and Tachikawa?**

(Answer)

The current office vacancy rate in Tokyo 5 wards is 2.5%. At the same time, it is a low 1% in Saitama City, where the supply-and-demand balance is tighter than in Tokyo 5 wards. In particular, demand in the area around Omiya Station remains strong and large companies' need to open branches is also high. However, there are no plans for new supply in this area, and the supply-and-demand balance is expected to remain tight. Due to the tight supply-demand conditions around Omiya Station, demand is partially shifting to Saitama Shintoshin and Urawa.

An example of rent revision in the past include the Omiya Center Building, in which rent was raised 35% through tenant replacement and 13% through the revision of rents in existing contracts. Both increases were high, and the largest increase in the amount of rents for a building was achieved.
An example of our efforts to expand into major regional cities is our beginning to invest in the office market in Sapporo. The rent gap of the acquired property is -12%, large enough for the city to be positioned as a promising area for investment where future internal growth is expected.

Q5: **EPU growth is temporarily slowing down due to the depreciation of newly acquired property. When will growth begin in earnest? If asset replacement continues, will the increase of EPU be delayed, and will it remain low, like in the 26th period?**
(Answer)
We have built a cyclical investment model, in which the purchase of recently built properties through asset replacement activities increases depreciation, resulting in free cash that is used for strategic value-adding investments. While the statement of profit and loss in this model indicates a temporary, short-term decrease of profit, we expect medium- to long-term earning power to increase through strategic value-adding investments. In fact, based on NOI, the added-value effect of our cyclical investment model in the 26th period was 22 million yen per year. Projects planned for the future are expected to generate 61 million yen per year, which indicates the effect will be steady. A time lag of one or two periods is expected to occur until the revision of rents through property replacement actually begins to impact profit. Because hurried sales may have a temporary negative impact, we will systematically replace assets while carefully determining the pace for doing so.

Q6: **The increase in housing rents after their revision seems smaller than for offices. What are your future prospects regarding this matter?**
(Answer)
At the time of tenant replacement, rents changed 3.1%, which is short of the level for office properties, despite an increase from the previous period. At the same time, rents changed 0.7% at the time of tenancy renewal, which is also a year-on-year increase and a growth rate of approximately 1.5 fold.
Residential properties acquired during the 26th period are generally located in the Tokyo economic sphere, selected based on large rent gaps, and internal growth is expected. In

contrast, we are in the process of selling our residential properties in regional cities, and we expect that our portfolio composition will continue to grow in the future.

Q7：**The book value of properties sold and the prices of properties acquired in the asset replacement activities are reported to be generally the same amount. How will you use leverage? Your report says that the upper limit is the first half of the market value LTV. Will you not use leverage for the time being?**

(Answer)

If it is assumed that we will replace assets, the room for increasing leverage is limited since LTV basically does not fluctuate. However, we are also considering one of the financial options of acquiring real estate through pipelines, utilizing leverage.

To give you an idea of market value LTV in the acquisition of a property valued at around 20 billion yen, for example, using leverage will enable the market value LTV to be above 41%. When calculated based on book value, LTV remains generally around 51% but exceeding 50%. We think that it can be lowered to the 50% level through subsequent operations.