

Nomura Real Estate Master Fund, Inc. (NMF)

Questions and Answers Teleconference for the 17th Fiscal Period Ended February 29, 2024

Summary of Questions and Answers

Q.1

You explained that you will sell offices worth around 30 billion yen for which inflation measures are difficult to take, but in terms of asset management status, it appears that you have succeeded in maintaining high occupancy rates and increasing rents. How do you see the office sector as a whole?

A.1

With regard to the office sector, we recognize that along with increase in demand, rents have hit bottom and started to rise, and we think internal growth can be expected going forward. Of our office properties, the sale candidate properties worth around 30 billion yen are those that have shown low sensitivity and slow increase in cash flows even as rents are rising, and for which CapEx and other payments are likely to increase in the future.

Q.2

Would you share your thoughts concerning the purchase of own investment units?

A.2

We have not conducted it yet, but it is under consideration at all times as an effective capital policy. We recognize that the current valuation level is low. Although we cannot state here whether we will purchase own investment units or not, we will make a decision as we take into account the market environment, developments in properties including replacement trends, and cash on hand, without which purchase cannot be made flexibly.

Q.3

I have a question regarding the PMO series in the office sector. The rent change rate for the series appears to be on a recovery trend at -3.7% compared to the previous fiscal period. Does this mean that recently built offices with high gross rents can be considered an asset class that may turn on the offensive?

A.3

We consider the leasing environment for PMO to be recovering. Medium- to smaller-sized properties, in particular, boast high occupancy rates and also show recovery in rent levels. Thus, asset managers see growing momentum for a future turnaround and increase.

Q.4

The proportion of residences achieving rent increase at renewals has been rising significantly, and the rate of change is also at the historically high level of +0.9%. Would you share your outlook on the future and response?

A.4

As is the case with other REITs, a tailwind is blowing for the residential sector, and we expect this upward momentum will continue for various reasons. The rate of rent increase at renewals is still 0.9%, but it is on an upward trend compared to previous levels. We believe that this trend will continue for the time being as the payment abilities of individuals will increase going forward as companies implement wage hikes. We will undertake aggressive operation to achieve internal growth.

Q.5

Regarding the leasing of NMF Shibuya Koen-dori Building, as a major apparel company is scheduled to move in, this leasing represents a conversion case. What will be the return on CapEx investment from the increased rents on a ROI basis?

A.5

For NMF Shibuya Koen-dori Building, rents have slightly increased through tenant replacement, and as the leased section has basically no interior decoration, the costs for interior design will be borne by the tenants. On the other hand, NMF has borne the approximately 200 million yen associated with changing its property type as a section used as an office into a store. This is a highly efficient investment compared to the leasing of the section as an office.

Q.6

In the retail sector, do you intend to promote the introduction of sales-linked rent into the re-tenancy case for the NMF Shibuya Koen-dori Building, Nakaza Cuidaore Building, and other cases?

A.6

It is expected that a high level of fixed rent can be maintained for both the NMF Shibuya Koen-dori Building and Nakaza Cuidaore Building, and we have not set sales-linked rent for these two properties. On the other hand, as tenant sales are expanding at Universal CityWalk Osaka, we are implementing operations there that aim for an increase in sales-linked rent through the introduction of such rent and changes to the rent rate, occurrence standards, and other conditions.

Q.7

What is the impact of UDS becoming a subsidiary of the sponsor? Is there anything expected to contribute to increasing the value of your commercial facilities?

A.7

UDS has been a member of our Group since April. As the company boasts high design and planning capabilities, we would like to collaborate with them as necessary.