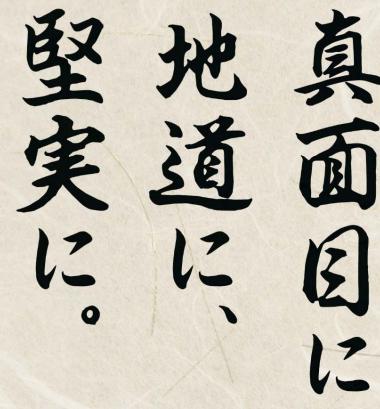
NIPPON REIT Investment Corporation
Supplementary Material Regarding
"Transfer and Acquisition of Assets"

October 27, 2020





## **Overview and Effects of the Assets Replacement**

**NIPPON REIT** 

#### Properties Subject to be Transferred / Acquired

# 3 properties ¥9.3 bn Transfer







Mejiro NT Building

Mitsui Woody Building

#### Asset Replace-

# Acquisition

13 properties ¥13.7 bn











• UNIZO Kandasudacho • REID-C 2-chome Building

Megurohudomae

The square

Tsukiji Front

 Hatchobori River Gate











I 'arte Nakatsu

City hills Andoji

 Hermitage Shin-sakae

• Sun • Meiekiminami • Tenjinhigashi Building Residence



DeLCCS

KASAI





 Serenite Shin- Mullion Josai Osaka

Office

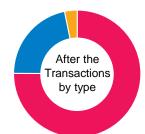
- Residence
- Retail
- Additional acquisitions
- Acquisition from the pipeline (Bridge fund)

#### • Effects on Portfolio

#### ◆ Improvement of portfolio quality

	Portfolio as of the end of the 16th Period (Jun. 2020)	Portfolio after the Transactions (as of Nov.20, 2020)
Number of properties	90 properties	100 properties
Acquisition price	¥249.2 bn	¥255.4 bn
Total appraisal value	¥297.1 bn	¥303.1 bn
NOI yield (before depreciation)	5.2 %	5.2 %
NOI yield (after depreciation)	4.4 %	4.4 %
Average building age (As of the end of Oct. 2020)	25.9 Year	25.3 Year

《Changes in asset type》	Before the Transactions	After the Transactions
	(Based on acquisition price)	
<ul><li>Office</li></ul>	77.1%	75.1%
■ Residence	18.8%	21.7%
■ Retail	4.1%	3.2%



《Changes in area》 (Office)	Before the Transactions (Based on	After the Transactions acquisition price)
■ 6 central wards of Tokyo	69.2%	71.5%
<ul><li>23 wards of Tokyo (excluding the 6 central wards)</li></ul>	13.6%	10.8%
<ul><li>3 major metropolitan areas (excluding 23 wards of Tokyo)</li></ul>	17.1%	17.7%
Certain Ordinance-Designated and other cities	0%	0%



#### ◆ Return to unitholders

Distribute ¥1,317mn of gain on the transfer, forecast DPU for the 17th period increased by ¥2,786

1. "6 central wards of Tokyo" refers to Chiyoda, Chuo, Minato, Shinjuku, Shibuya and Shinagawa Wards. "Three major metropolitan area" refers to the three Major Metropolitan Areas (i.e. Greater Tokyo area (Tokyo, Kanagawa, Chiba and Saitama), Osaka economic bloc (Osaka, Kyoto and Hyogo) and Nagoya economic bloc (Aichi, Gifu and Mie)). "Certain ordinance-designated and other cities" refers to the ordinance-designated cities located in areas other than "Three major metropolitan areas" (i.e. Sapporo, Sendai, Niigata, Shizuoka, Hamamatsu, Okayama, Hiroshima, Fukuoka, Kitakyushu and Kumamoto) and prefectural capitals. The same applies hereafter.

# Background and Aims of the Assets Replacement and the Policy for the Future



#### Background of Asset Replacement

- ✓ NIPPON REIT has been executing Portfolio Refining Strategy prioritizing asset replacement based on result of Tiering Project
- ✓ We are executing timely asset replacement as an initiative with an eye on the future and considering of changes in the real estate market and the needs of tenants triggered by the COVID-19.
- ✓ We will plan asset replacement as part of the Portfolio Refining Strategy continuously.

《Summary of Tiering Project》

① Analyze properties in terms of 3 points of view and then classify them into any of Tier1, 2 or 3

#### **Profitability**

# Examine profitability potential in the medium-and long term

- Rent gap
- Other growth potential

#### Liquidity

# Examine liquidity into the real estate market

- · Area, Location
- Type of rights
- · Age, Scale
- · Supply/demand trend, etc.

# Property Characteristics

Examine risks related to management through analysis of track record

- Downtime
- · leasing difficulty, etc.

#### **Examine area potential**

Rental market trend

Tier1

Continue to own in medium to long term

Tier2

Continuously consider the asset management with an eye to reconstruction or redevelopment

Tier3

Develop a scenario of better replacement for the premise in terms of 3 points of view

- ② Develop 3-5 years management strategy according to the classification
  - ◆Consider and execute efficient CAPEX plan
  - ◆Anticipate the proper timing of asset replacement by sensing market trend
- 3 Execute strategic and efficient asset management
- ◆Review the asset classification through periodic verification

#### Aims of Asset Replacement and Future Policy

1st asset replacement

#### (Transfer) 2 properties ¥10 bn (Acquisition) 3 properties ¥11.5 bn

- ◆ Improvement of portfolio quality
- Achieve two targets of return to unitholders in a balanced manner by using asset exchange schemes

2nd asset replacement

#### (Transfer) 2 properties ¥7.2 bn (Acquisition) 5 properties ¥7.7 bn

- ◆ Improvement of portfolio quality
- ◆ Return to unitholders
- ◆ Stock-based redevelopment scheme

#### (Transfer) 3 properties ¥9.3 bn (Acquisition) 13 properties ¥13.7 bn

### ◆ Improvement of portfolio quality

- ♦ Increase the 6 central wards ratio of office and the residential ratio

  Strengthening competitiveness and stability
- ◆ Lower average building age younger

Achieved to lower average building age (systematic optimization of capital expenditures) and improve liquidity of the portfolio by exchanging properties over 30 years old building and younger properties

replacement

3rd asset

Stabilizing cash flow

Expect future cash flow growth of the portfolio by exchanging for properties with growth potential

## ◆ Return to unitholders

- Realize unrealized gains on offices located in surrounding areas of central wards of Tokyo of which internal growth potential is now becoming less and tends to be affected by susceptibility to market changes
- ◆ Distribute ¥1,317 mn of gain on the transfer in the 17th period

Future asset replacement policy

- Aim to improve portfolio quality and return to unitholders by realizing unrealized gains in a timely manner through continuous asset replacement
- ◆ As we will not miss "time to sell" of the property, we may advance the sale of the targeted asset for the sake of the future of "time to buy"

Tier3 properties etc.



Pipeline and additional acquisitions, etc.

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