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# Main Q&As at Financial Results Briefing for the Fiscal Period Ended April 2015 (2nd Fiscal Period) of Nippon Healthcare Investment Corporation

## Date and Time: June 22, 2015 (Monday) 15:30 – 16:30

Presenter: Akira Yamanouchi, President and Representative Director, Daiwa Real Estate Asset Management Co., Ltd.
*Questions are listed according to the order they were asked.

**Q1. What is the reason for the increase in rent-paying capacity by 0.1 since the time of the listing?**

(Answer)

The main factor is the improvement in occupancy rate. Other factors include the effect of cost reduction such as employment costs.

**Q2. How do you assess the negative impact of revision to nursing care fees?**

(Answer)

Although operators are making management efforts in the wake of the revision, rent-paying capacity is expected to decrease by around 0.1 if the revision of nursing care fees is fully applied to the results of the 2nd fiscal period. Therefore, I believe the impact will be limited.

**Q3. How do you perceive the current property acquisition situation and what is your standpoint on cap rates?**

(Answer)

We will not make any changes to the initial portfolio size target of 100 billion yen in three years. However, there are actually many candidate properties that do not pass due diligence, and it is likely that it will take more than three years to achieve the target.

As to the cap rate, the standpoint in the current market is 4.5% to 5.5% for cities and 5.5% to 6.5% for regional areas.

**Q4. What are the specific advantages with regard to the independence of operators?**

(Answer)

There are two major advantages to having specific operators as partners. The first is that it enables us to acquire the properties owned by the operator. The second is that we can obtain the operational know-how of the operator. However, since the number of properties owned by a specific operator is limited and each operator tends to have "its own ways," there are both advantages and disadvantages.

The advantage of not having specific operators is that we can keep the same distance from various operators. As a result, the level of information disclosure of operators has been extremely high. As for operational know-how, we believe it is well taken care of with the cooperation of AIP Healthcare Japan, which has extensive consulting experience.

**Q5. Is the property with 1.2 times or less rent-paying capacity in a deficit? If so, are you not concerned about their management?**

(Answer)

We are not concerned as they are currently in the black. The operator of the property operates many other properties other than the one in the portfolio and has a sufficient operation track record.

The name of the property and the operator are not disclosed as we have not obtained their consent, but we are in continuous communication with the operator and thus have no particular concerns.

**Q6. With LTV, there are strategies such as aiming for growth by further exercising leverage and creating acquisition capacity by utilizing high investment unit prices. How do you view LTV?**
(Answer)
In principle, we intend to acquire properties with the maximum level of LTV at 60% while securing acquisition capacity.

If asked to choose between utilization of LTV and expansion of acquisition capacity through capital increase to place more importance on achieving future growth, our intention is to conduct balanced management while considering a certain level of equity financing, rather than exercising leverage to the maximum level.

On the other hand, it is possible that the market will start accepting higher leverage compared to that of other asset classes as the stability of healthcare assets becomes more recognized due to the accumulation of a track record.

**Q7. What are your projections for the cap rates of the properties recently acquired, which are lower than that of properties acquired at the time of listing?**
(Answer)
It probably was difficult for appraisers to evaluate fee-based homes for the elderly which we acquired at the time of listing as we were the first healthcare REIT to be listed. With the listing of other REITs dealing in the same asset class, etc. since then, the evaluation of healthcare REITs seems to have settled down.

Although there may be a slight decline in cap rates considering recent transactions, we do not expect that it will continue to decrease consistently going forward.

**Q8. What levels do you consider to be safe for the Proportion of Nursing Care Fee and Proportion of One-Time Entrance Fee Amortization Income on page 8 of the presentation materials?**
(Answer)
It is difficult to say what is safer, the portion paid by the public or by the residents. Since the average proportion of nursing care fee of fee-based homes for the elderly is said to be 60%, we do not think that NHI’s portfolio is excessively dependent on nursing care fees. Properties in NHI’s portfolio are mainly of medium- to low- priced facilities, thus they are closer to the safety net or social infrastructure in nature. We believe that the Ministry of Health, Labour and Welfare is carefully revising nursing care fees giving due consideration to the management environment of operators and that they will not push to the level where many operators become unable to continue operation.

Our current portfolio centers on medium- to low- priced facilities. However, we are also willing to consider high-priced properties including hospitals, if there are any favorable candidates.

**Q9. The guidelines for acquisition of hospitals are to be announced by the Ministry of Land, Infrastructure, Transport and Tourism on July 1. What target prices or cap rates do you have for hospitals and are there any hospitals currently under consideration?**
(Answer)
There are some properties we have been discussing, but such discussions have not progressed far enough to provide our perspectives on prices or cap rates.

We believe that even if the cap rate is lower than that of fee-based homes for the elderly, there are hospitals we can present as long as they have been steadily operated over the long-term in the

community they are located.

**Q10. Although the management environment for operators is becoming harsher with the surge of employment costs, etc., are there any positive factors in terms of the macro environment?**

(Answer)

No, I don’t think there are any major positive factors. But operators are making improvements and are responding on their own.

**Q11. Cap rates for healthcare facilities used to be evaluated as the cap rates of residential properties + 100bp. How are they evaluated by appraisers presently and what aspects are evaluated other than the actual asset?**

(Answer)

Appraisers seem to have shifted their standpoint from evaluating on the basis of cap rates of residential properties +X to evaluating in terms of how long the asset can continue paying a fixed rent by analyzing the area and the market environment. They seem to evaluate assets based on whether they can be operated over the long-term regardless of the operator, while taking into account their location, customer targeting and other factors.

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