Main Q&As at Financial Results Briefing for the Fiscal Period Ended October 2016 (5th Fiscal Period) of Nippon Healthcare Investment Corporation

Date and Time: December 22, 2016 (Thursday) 15:30-16:15

Presenter: Akira Yamanouchi, President and Representative Director, Daiwa Real Estate Asset Management Co. Ltd.

*Questions are presented in sequential order.

Q1. What are the reasons behind monthly rents of the four Alpha Living properties being lower than those in the 4th fiscal period? (p.17 of the presentation materials)

(Answer)

The lowering of operation/management fees and raising of rents in the 4th and 5th fiscal periods resulted in the overall decline in the monthly rents (comprised of rent, operation/management fee and meals) of the four properties. As we unified amounts for operation/management fees, which operators receive from residents, for all facilities, monthly rents of some facilities have come to be lower than before. However, adjustments such as changing the billing system for "daily assistance service fee," which constitutes part of a facility's income, from fixed rate to pay-per-use (although not included in the monthly rents) are being made so that the operators will not experience a decrease in overall facility income. Needless to say, there is no change in the rent amounts that the REIT receives from the operators.

Q2. The rent-paying capacity pie chart on p.19 of the presentation materials shows an increase of "1.2x or less" in the ratio compared with that of the 4th fiscal period. Why?

(Answer)

The main reason is believed to be the two Minna-no-ie properties acquired in the 3rd fiscal period and the four Alpha Living properties acquired in the 4th fiscal period, which were included in the portfolio when the facilities had opened not so long ago and were in a state where their occupancy rates had yet to rise. However, since the normal rent-paying capacity estimated by an appraisal company assumes an average of 1.7 times, the unimproved occupancy rate is likely to be only temporary. It is not the case that we have been acquiring structurally problematic properties, such as those with improved occupancy rates and yet, are unprofitable, and face demands for rent reductions as a result.

Q3. What are your views on the possibility of M&A between REITs?

(Answer)

As to the effects of M&A, expansion of asset size can be considered as a positive factor for unitholders, but it is not likely to lead to a significant reduction of management costs. However, we intend to positively consider an M&A if it will bring benefits to unitholders.

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