

**Nomura Real Estate Holdings, Inc.**

**Briefing session of the FY24/3 2Q financial results held on October 26th, 2023**

**Q&A Summary**

**Q. Can you give a breakdown of the extraordinary losses related to your UK investment management subsidiary Lothbury? And what is your plan in the futures?**

A. We recorded extraordinary losses of 6.3 billion yen as of the second quarter. Of the amount, 5.4 billion yen is related to Lothbury, and the other losses are related to rebuilding in Shibaura and Fukuoka. When we invested in Lothbury in 2018, we recorded intangible assets and goodwill associated with the company in BS and the entire value was impaired this time. This was due to an increase in cancellation requests from investors over the past six months. We are also engaged in the office building renovation business in the U.K., and as in Japan, we are advancing our business with a dual focus on real estate development and investment management. Lothbury is also involved in this development, and that relationship will continue. We will consider forming a new real estate fund as we proceed with the development.

**Q. How much will the AUM of Lothbury decrease?**

A. The majority of the AUM are expected to be canceled. We will refund the money to investors along with the sale of properties depending on the timing of the cancellation date. However, we would like to refrain from giving an answer on the outlook for the AUM at the end of this fiscal year. Lothbury stopped responding to cancellation requests from investors in May 2023, and refunds have been restricted for approximately one year. The sale of properties will proceed within that time frame. We do not anticipate a sudden and significant decrease in the AUM.

**Q. With regards to investor refunds related to Lothbury, is there any agreement that you will contribute the funds to cover the portion of refunds that cannot be handled through the sale of properties?**

A. We will not put money into the funds to cover investor cancellations.

**Q. Given the impact of rising interest rates, has there been any change in the willingness of institutional investors to invest in the private REIT and private funds?**

A. Although there has certainly been some impact from rising interest rates, there is strong demand for private REIT and private funds, and investors continue to have excess demand in equity financing. We will keep a close eye on how interest rates will affect the willingness to invest.

**Q. To what extent do you expect interest rates to rise in the Mid- to Long-term Business Plan? If the long-term interest rate would be 1.5%, would there be a need to revise the plan? Is there a possibility that you may change your investment allocation or financial strategy in the future in response to rising interest rates?**

A. While it is true there is some impact on procurement interest rates, the impact is limited as we are promoting long-term fixed rates and diversifying our lenders, and the annual refinancing amount is tens of billions of yen. Assuming roughly 100 billion yen in annual refinancing and roughly 100 billion yen in annual new borrowing over the next several years, a total of approximately 200 billion yen per year will need to be procured. If interest rates were to rise by 1%, interest payments would increase by approximately 2 billion yen, but this amount could be absorbed if the profit growth outlined in the Mid- to Long-term Business Plan is realized. We are already working on diversifying lenders, sustainable finance, and other measures to control interest costs. We also believe that the upgrade in our credit rating in August will have a positive effect on controlling costs going forward.

**Q. When will the impact of rising construction costs begin to affect projects to be completed? How do you plan to respond to the increase?**

A. Around 70% of the housing to be sold in FY26/3 and almost all properties for sale in the Commercial Real Estate Business Unit excluding logistics facilities to be completed in FY26/3 have already been contracted with general contractors, so we believe that the major impact will be felt for properties to be completed in FY27/3 and beyond. In terms of logistics facilities, the construction period is generally short and there are fewer projects that have already been contracted than in other sectors. We are taking measures to address rising construction costs, including taking a conservative view of business planning when acquiring land. While some may be concerned that this will make it more difficult to acquire land, we believe we can secure land that meets profitability by utilizing a variety of methods.

**Q. In terms of domestic housing sales, have there been any changes in demand trends caused by rising sale prices?**

A. 90% of mortgage loan users are using floating rates, and customer demand for housing should remain strong based on the assumption that floating rates will not move significantly. Also, assuming a customer has a loan of 70 million yen, a 0.1% increase in an interest rate would only change the customer's monthly payment by a few thousand yen, so the impact would not be substantial.

**Q. With regard to condominiums that are currently released for sale, have you been able to pass on higher construction costs in sale prices?**

A. We are able to pass on costs without major obstacles because many of construction contracts of the properties currently released for sale were ordered before the rapid increase in construction costs from 2022 and we also put the high prices based on the property development with high competitiveness.

**Q. You made progress in acquiring land for housing sales in the second quarter. Can you give an overview of those projects?**

A. We have been able to acquire large-scale land rezoning projects and urban redevelopment and reconstruction projects, which are our specialty. The projects are expected to be profitable even after taking rising construction costs into account.

**Q. While you recorded extraordinary losses that you did not anticipate at the beginning of the fiscal year, you have not changed your financial result forecast. Are you going to expand sales of property for sales?**

A. We plan to achieve our financial result forecast through the sale of property for sales in the Commercial Real Estate Business Unit, as well as by realizing unrealized gain on non-current assets and increased profit in the Residential Development Business Unit.

**Q. What is the status of demand for offices, including the Shibaura PJ and PMO? And what is the outlook for the future?**

A. Vacancy rates are gradually improving, and rents are almost in line with projections. The S tower of the Shibaura PJ will be completed in February 2025 and leasing is going well, with contracts

being signed at expected rents. With regard to PMO, tenant activities are becoming more active caused by their demands for additional floor space.

**Q. You acquired land for a logistics facility in the second quarter. Did the acquisition price meet your profitability expectations?**

A. Logistics facilities are currently centered in the Tokyo metropolitan area, but tenant needs are increasing in areas outside of this area due to the so-called “2024 problem” related to truck drivers. The lands we acquired were such projects, and we were able to expect enough profitability after factoring in rising construction costs.

**Q. You acquired land for a retail facility for the first time in several years. What kind of project is it?**

A. We can’t give a specific name, but we acquired land in a rare location in the center of Toyo. We expect the facility to be occupied by tenants of service industries. We believe that the situation for commercial tenants, including the restaurants, is on a recovery trend and that we will be able to continue to acquire land going forward.

**Q. The Overseas Business Unit posted business loss of 0.4 billion yen as of the second quarter. What is the outlook for the third quarter and beyond?**

A. We expect to achieve business profit of 5 billion yen this fiscal year, mainly due to the recording of housing sales projects in Vietnam. On the other hand, the sales schedule has been somewhat delayed due to cooling customer sentiment as mortgage rates rose to levels in excess of 10% from 2022 to the early 2023. We assume that this may lead to a revision of the recording period. However, mortgage rates have recently fallen, and sales are on a recovery trend.

**Q. Are you making progress in acquiring new projects in the Overseas Business?**

A. We have several projects, including those under consideration, and will continue to expand investments mainly in the Philippines, Vietnam, and Thailand. Outside of Asia, we are developing office buildings in London and rental housing in the United States. We would like you to understand that the characteristics of the Overseas Business are such that there is a great deal of volatility in the timing of acquisition of land and profit recognition.

**Q. Can you explain the reasons behind the decline in sales in the wholesale business?**

A. The decline was due to a rebound from the recording of a large project in the same period of the previous fiscal year.

**Q. You announced an acquisition of treasury shares of 7 billion yen. Why is the amount smaller than the 9.5 billion yen in the previous fiscal year? And why is the total return ratio forecast lower than last year's 47.6%? Is there a possibility of additional shareholder returns in the future?**

A. We have the policy that total return ratio is 40-50% for the period of Phase I of the Mid- to Long-term Business Plan, and we decided the shareholder returns based on the policy. Despite the extraordinary losses incurred, we decided to acquire treasury shares this time because we now have a clear expectation that we can achieve the financial result forecast announced at the beginning of the fiscal year. In the previous fiscal year, we decided to increase the amount of acquisition of treasury shares due to the significant decline in our stock price when the third quarter financial results were announced. We may consider additional shareholder returns depending on progress going forward.

**Q. What is your current assessment of the effect of the acquisition of additional NMF investment units?**

A. The price of NMF investment units has outperformed the REIT index since the decision of the acquisition of additional units, so we are evaluating it positively to a certain extent. NMF is a major buyer of our development properties, and we intend to continue strengthening the value chain.