

# Guidelines for Utilizing REITs to Promote Supply of Health Care Facilities

Established on May 15, 2014

## 1. Purpose

The purpose of these Guidelines is to provide for the basic principles in order for an investment trust management company (investment trust management company and asset management company as defined in Article 2, Paragraphs 11 and 21 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951)) to appropriately perform their business according to the “Special Provisions for Health Care Facilities” as defined in Article 24-5 of the Rules on Real Estate Investment Trusts (REIT) and Real Estate Investment Corporations.

## 2. Basic Principle

(1) Measures for obtaining necessary information from the Operators when investing in Health Care Facilities in consideration of actual conditions, etc. pertinent to the Operator

Since Health Care Facilities are assets for which special knowledge and expertise are required for their operation, when an investment management company invests in such Facilities as an asset for real estate investment trusts, it is necessary for the management company to conduct an appropriate business evaluation of the Operator, such as their business capability and stability of management according to the operational nature of the Health Care Facilities as part of the asset evaluation process.

Information to be collected and acquired by the management company from the Operator may, for example, include the following listed in (a) to (e):

- a. Information on reasons for departure of the residents, operating expenses, breakdown and trend thereof, marketing structure, the situation on acquiring new residents, etc. in order to understand the marketing capability of the Operator and profitability of the facilities,
- b. Information on the number of staff by occupation, changes in the number of full-time and part-time staff, status of employees’ qualifications, turnover rate, etc. in order to understand the staffing structure,
- c. Reference materials and information related to care plans and care records, incident accident reports, administrative audit (inspections), various manuals, etc. in order to check the status of care provision and compliance,
- d. Financial and accounting item statements for the past several years to check the financial condition of the Operator and/or the guarantor of the lease contract guaranteeing the rent payment, and
- e. Information on the Operator’s efforts to absorb opinions for improving the satisfaction level of their residents and the status of implementing a third-party evaluation.

When the investment management company tries to collect the above information from the Operator, such Operator may encounter the following issues:

- The system for providing timely information has not been established.

- Since there is a lot of highly confidential information, including sensitive personal information, etc. involved in operating Health Care Facilities, there exist concerns for external leakage of information, as well as psychological resistance to such information disclosure.
- Lack of understanding on the part of the Operator for the reasons why the management company requires such information, purposes for which such information is to be used, and so on.

Therefore, the management company may take the following actions in consideration of such circumstances.

- (i) Share understanding with the Operator regarding the necessary information and purpose of information obtained and so on by giving clear explanation to the Operator about such necessity of information, reasons why such information is needed, purposes for which such information is used, etc. from the management company.
  - (ii) Despite the existence of required data at the hands of the Operator, if such data is not organized systematically or can't be provided in a timely manner, the investment management company shall support the Operator in maintaining and organizing such data in order to obtain the necessary information.
  - (iii) With respect to highly confidential information such as specific individual data, and strategies, methods, and actual conditions concerned with the management of the relevant facilities, the issue can be addressed by concluding a confidentiality agreement with the Operator or using aggregate data in order to prevent such information from being leaked outside.
  - (iv) If it is still difficult to obtain reference materials or data from the Operator even after the measures described in (i) through (iii) above are taken, it is recommended to take a flexible approach in line with the actual circumstances of the Operator, such as conducting interviews and on-site inspections.
- (2) Provision of information to facility users and other measures to ensure that the inclusion of Health Care Facilities as investment targets for the REIT, etc., does not cause anxiety among facility users.
- If an investment management company invests in Health Care Facilities through the REIT, etc., the users of the facilities are likely to have the following concerns:
- Whether they can use the relevant facilities consistently and continuously
  - Level of services provided by an Operator may be downgraded for the benefit of the concerned REIT, etc., and
  - The rent to be paid by the Operator to such REIT, etc. may be raised, resulting in higher fees for residents and/or the users of the facilities' services.

In order to dispel such concerns and anxieties, it is advisable that the management company should encourage the Operator to provide information and explanations to the users of the facilities regarding the following matters, and that the management company themselves in cooperation with the Operator provides such information and explanations to the users as much as possible.

- (i) Structure and characteristics of the relevant REIT, etc. and relationship among such REIT, the Operator,

and users of the facilities

- (ii) Investment policy of the REIT, etc. that aims at a stable long-term ownership, and appropriate maintenance and management of the facilities, etc. to be provided under such policy
- (iii) Fact that they are managed under the policy of investing in Health Care Facilities, thus unlikely to be converted for other purposes
- (iv) Information on past investment records and sponsors
- (v) Efforts by such REIT, etc. to monitor the quality of Operator services, etc.

Furthermore, it is advisable that the following points should be stipulated as clearly as possible in the lease agreement, etc. to be concluded between the REIT, etc. and the Operator. In particular, it is recommended that the investment management company shall periodically check with the Operator whether the facilities conform to or comply with the related laws and administrative guidance related to Health Care Facilities.

- (i) The Operator shall conform to and comply with, applicable laws, regulations, and administrative guidance with regard to the conditions of the Health Care Facilities subject to the investment by the REIT, user fees to be paid to the Operator by the users of such facilities, and the contents of contracts between the users thereof and the Operator.
  - (ii) Details of services to be provided by the Operator to the users of the facilities.
  - (iii) Details of maintenance, repairs, etc. of the buildings to be conducted by the REIT, etc. that owns the Health Care Facilities concerned.
  - (iv) Terms and conditions concerned with discharge or cancellation of the lease agreement, or change of the rent.
- (3) Disclosure to investors of circumstances specific to Health Care Facilities in addition to general disclosure items

For the Health Care Facilities as well as other assets that have been invested by the REIT, etc., disclosure is required for the benefit of investors as to information on the general disclosure items, including the present conditions of land and structures, and rights thereto (location, area, age, etc.), profit and distribution estimates, etc. at the same level as other assets.

In addition to the above, for Health Care Facilities disclosure is required for the benefit of investors as to information regarding the Operator, business evaluation, legislative revisions, etc.

Accordingly, the investment management company may disclose to the investors the following matters in consideration of the circumstances specific to the Health Care Facilities:

- Information on change of Operator
- Summary of the Operator's business and information on their marketing capability (business status of the Operator, etc.)
- Risk information related to legislative revisions, and degree of the Operator's dependence on long-term care insurance premiums for their income
- Summary information on the real estate appraisal pursuant to the operation of the relevant Health Care business
- Summary of current lease (occupancy rate, etc.) and details of lease contract (contract period,

provision regarding rent revision, etc.) between the REIT, etc. and the Operator concerned

- Operating status of facilities in which the REIT, etc. invest (operating profit before depreciation, etc. for all or individual properties held in such REITs)
- Information concerned with the residents (number of residents, occupancy rate, lump sum deposit amount, monthly management fee, etc.)
- Information on investment policies, investment systems (investment schemes), etc. for Health Care Facilities by the relevant REIT, etc.
- Presence or absence of a backup Operator
- Versatility of properties
- Information on implementation of business due diligence, etc.

Since some of the information is highly confidential or specialized, this may cause the Operator anxiety and psychological resistance to disclosing such information to investors as it is. Under such circumstance, from the viewpoint of facilitating disclosure to investors, the investment manager shall take necessary measures such as the following in order to disclose information on the Operator and the operational status of the Aged Care facilities:

- To disclose information on multiple facilities collectively.
- With respect to highly confidential and delicate information that is difficult to disclose individually, reference information shall be disclosed, including an indicator, index, ratio, and others that indicate the Operator's ability to pay rents, etc.
- Highly specialized information shall be processed into information easy to understand for investors prior to disclosure.

#### (4) Others

When applying the "Special Provisions on Health Care Facilities" set forth in Article 24-5 of the Rules on Real Estate Investment Trusts and Real Estate Investment Corporations and these Guidelines, if the ratio of invested amount in Health Care Facilities to total assets of such REIT, etc. is low with limited effects thereto, appropriate response may be taken in accordance with such ratio and the degree of influence.

#### Supplementary Provision

The Guidelines shall come into effect on May 15, 2014.

Provided, however, that for any REIT or investment corporation whose accounting period or business year has commenced prior to such effective date, the amended provisions shall apply from the commencement date of the following accounting period or business year.