KENEDIX
Retail REIT Corporation



Kenedix Retail REIT Corporation

Financial Results for the 3rd Financial Period ended Sep. 2016

November 17, 2016

Virtual Property Tour of Unicus Yoshikawa →



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01 Increasing presence of SC for daily needs

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Security Code
3453

Investments focusing on shopping center for daily needs

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Our focus: Neighborhood, community and other shopping centers for daily needs

The majority of portfolio properties of other listed retail-focused J-REITs

"Daily / Neighborhood" type

"Weekend / Destination" type

Small ⟷ Trade area ⟷ **Large**

High ⟷ Frequency of customer visits ⟷ **Low**

Property types		Characteristics	Trade area
NSC	Neighborhood Shopping Centers	Shopping centers with a supermarket as an anchor or core tenant	3-5km
SM	Supermarkets	Stand-alone stores that primarily provide groceries	3km
CSC	Community Shopping Centers	Larger Shopping centers than NSC, with a supermarket as an anchor or core tenant	5-10km
Urban Station-Front		Shopping centers in the immediate vicinity of an urban public transportation station	3-5km
SS	Specialty Stores	Specialty stores such as drug stores, convenience stores, health clubs or electronic appliance stores	1-10km

Large-scale suburban retail properties

RSC (Regional Shopping Center**)**

GMS (General Merchandise Store**)**

Stand-alone GMS is excluded from our investment criteria

Outlet malls

Urban retail properties featuring

High-end brand shops

Ample investment opportunities
in shopping centers for daily needs

Tenants with high demand from consumers

77.2%

Share of frequently purchased items for daily needs(Note 4) as a % of total household expenditure on consumer products

Properties located in areas with high population density

55.4%

% of Japan's total population living in suburban areas within the four major metropolitan areas(Note 5)

Ample investment opportunities

92.3%

% of medium- or small-sized retail facilities in "retail property opening applications"

Note 1: The share of frequently purchased items for daily needs as a % of total household expenditure on consumer products according to a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2014.
Note 2: % of Japan's total population living in suburban areas within the four major metropolitan areas, according to a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2015 based on preliminary census data.
Note 3: % of applications submitted to develop new retail properties with a total floor area of 10,000 m^2 or less from 2005 to 2014.
Note 4: "Frequently purchased items for daily needs" refers to items that can be selected quickly, such as convenience foods and household commodities.
Note 5: "Suburban areas within the four major metropolitan areas" refers to the four major metropolitan areas excluding Tokyo (Chiyoda ward, Chuo ward, Minato ward, Shinjuku ward and Shibuya ward), Osaka (Kita-ku, Chuo-ku, Fukushima-ku, Nishi-ku, Naniwa-ku and Tennoji-ku) and Nagoya (Nishi-ku, Naka-ku and Nakamura-ku).

Trend in retail market and positioning of SC for daily needs

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Increasing in market share

Grocery
Specialty store
NSC

GMS
Department store

Limited exposure to e-commerce

Priority on quality of goods

Operational stability

Easy access

Frequent shopping

Purchase goods at specialty stores nearby

Purchase daily necessities at supermarkets nearby

Abundant product lines	Shopping center for quick shopping	Needs for taking products in hand
+	+	VS
Increased demand for specialty stores	Shrinking retail trade area	Emergence of e-commerce players
Diversified consumer needs	Further aging of population Population concentration in metropolitan areas	Penetration of the internet Rise of mobile shopping

Retail Market Trends: GMS vs. Specialty Store

Buying Goods at GMS

2007

(JPY bn)

	Type of Store	Sales
1	Super Market	12,961.0
2	GMS	8,602.1
3	Department Store	8,283.1
4	Convenience Store	7,413.9
5	Other Retailer	5,743.7
6	Consumer Electronics	5,719.1
7	Drug Store	3,692.2
8	Clothing	3,177.7
9	Home and Garden	2,835.6
10	Consumers' Co-operative	2,487.0

Buying Goods at Specialty Stores

2016

(JPY bn)

	Type of Store	Sales	Change
1	Super Market	15,517.4	+19.7%
2	Convenience Store	10,105.8	+36.6%
3	GMS	7,348.3	-14.6%
4	Drug Store	7,271.5	+96.9%
5	Other Retailer	7,143.6	24.4%
6	Department Store	6,223.4	-24.9%
7	Consumer Electronics	5,438.0	-4.9%
8	Clothing	5,223.9	+64.4%
9	Home and Garden	3,492.0	+23.1%
10	Consumers' Co-operative	2,360.3	-5.1%

Source: Data regarding Japanese retailer earning results based on magazine “Diamond Chain Store (September 15, 2016)”

Limited e-commerce penetration in daily needs market

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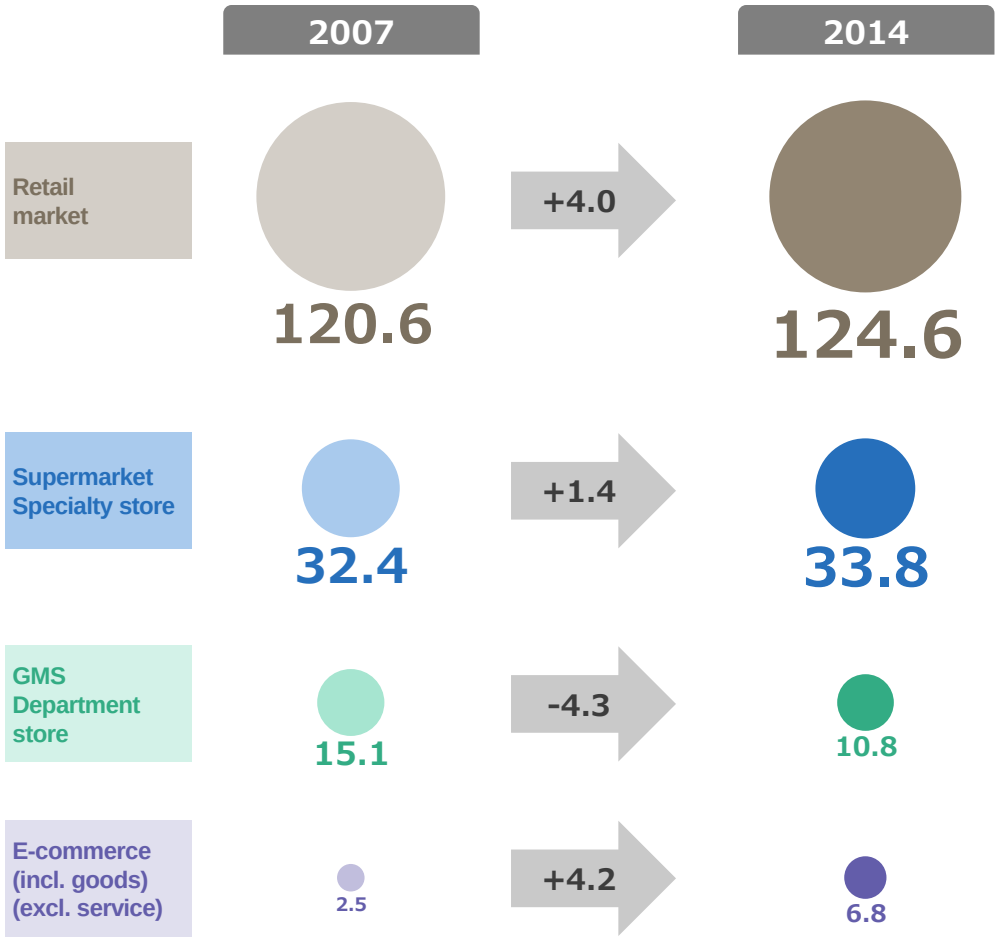
E-commerce market is still small compared to overall retail market

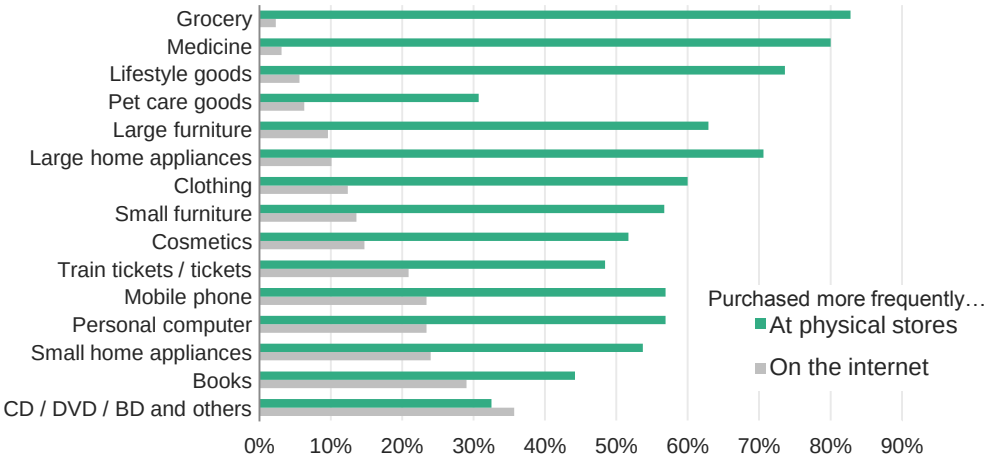
Market size comparison in types of stores (JPY trillion)



Source: Ministry of Economy, Trade, and Industry ("MITI")
"Retail market" is based on dynamic statistics on commerce. The figure is the sum of retailer's sales excluding from car seller.
"Super market/ Specialty store refers to the sum of specialty super market, convenience store, and drug store based on commerce census
"GMS/ Department store refers to the sum of GMS and department store based on commerce census .
"E-commerce in 2007" is based on market size of B to C e-commerce of retailer on the report regarding to research about national IT use in 2007
"E-commerce in 2014" is based on the market size of B to C e-commerce of goods seller on the report regarding to information and service infrastructure for national economy and society in 2015.

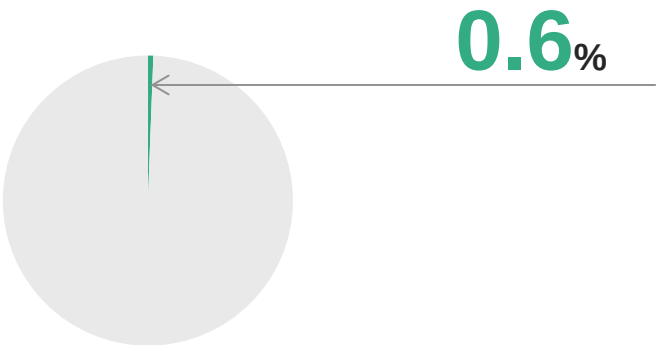
Tendency to purchase daily needs such as grocery in physical store

Consumers' preference: physical stores vs. online shopping



Source: White Paper Information and Communications in Japan by Ministry of Internal Affairs and Communications

Low % of online shopping attributed to total expenditure on groceries



Source: "National Survey of Family Income and Expenditure 2014" by Ministry of Internal Affairs and Communications Bureau of Statistics

Convenient shopping experience at shopping centers

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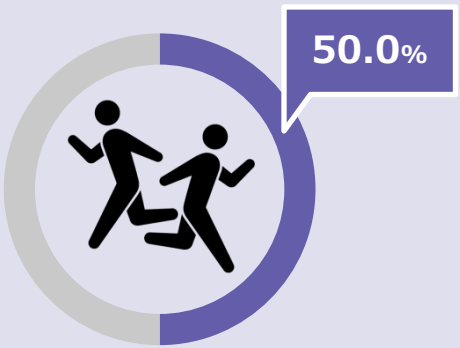
Buying behavior of elderly residents in Tokyo (1)
Frequent shoppers



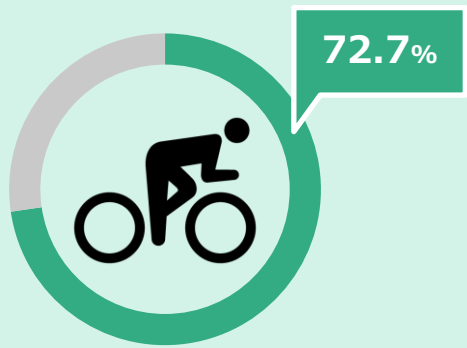
Consumers who go shopping "almost daily" or "3 to 4 times a week"

Buying behavior of elderly residents in Tokyo (2)
Preference for supermarkets



Consumers who identify supermarkets as "most frequently used type of retail property for purchasing groceries"

Buying behavior of elderly residents in Tokyo (3)
Access by foot or bicycle



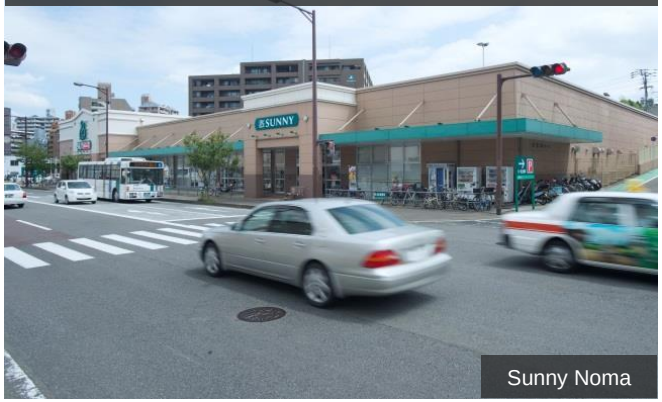
Consumers who travel to "most frequently used retail properties" by foot or bicycle

Large ground parking lot



Unicus Ina

Low-rise facility



Sunny Noma

Easy access by foot or bicycle



Life Kameido

Source: Bureau of Industrial and Labor Affairs of the Tokyo Metropolitan Government "Reports on shopping trends of the elderly" (Dec. 2011)

02

Financial results for the fiscal period ended Sep.30, 2016

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Investment summary since the previous earnings announcement (May 19, 2016)

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External Growth

NEW!
Alliance agreement with ITOCHU Corporation

NEW!
Acquisition of K's Denki Shin-Moriyama (Land)

Acquisition price: JPY 1,370 mn
Appraisal value: JPY 1,410 mn
Appraisal NOI yield (= after depreciation): 4.4%
Located in a high population growth area
Increasing population (5km radius +2.9%)

NEW!
Obtaining investment opportunities

Acquisition of silent partnership equity interest
Real estate in trust: Yumemachi Narashinodai Mall
Located in a high-population-growth area
Increasing population (5km radius +3.7%)

Internal Growth

Property expansions on underutilized space

Work in progress at Unicus Ina

Rent revisions for 3rd fiscal period

Unchanged or raised in 88.5% of all

Trend of tenants' revenue

Change from previous year: 100.2% in average

NEW!
Environmental initiatives

Awarded a "Green Star" Rating in GRESB Real Estate Assessment 2016

Received DBJ Green Building Certification for four properties

Financial Strategy

Market cap rose as shares outstanding increased

Included in FTSE EPRA/NAREIT Global Real Estate Index Series

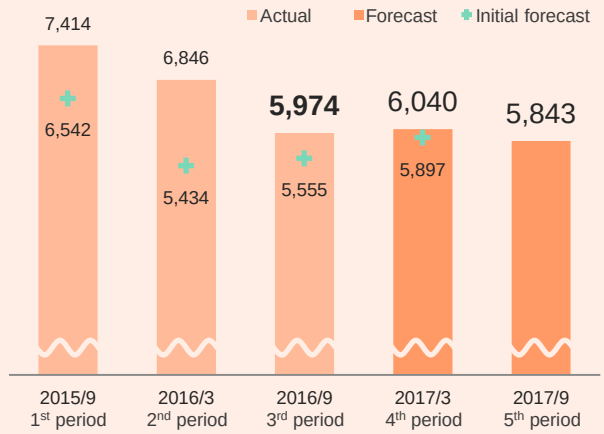
NEW!
Diversification of source of funding

Issuance of investment corporation bonds
Total JPY 2,000 mn
5 years: JPY 1,000 mn, interest rate 0.20%
10 years: JPY 1,000 mn, interest rate 0.60%

Strengthen the financial position

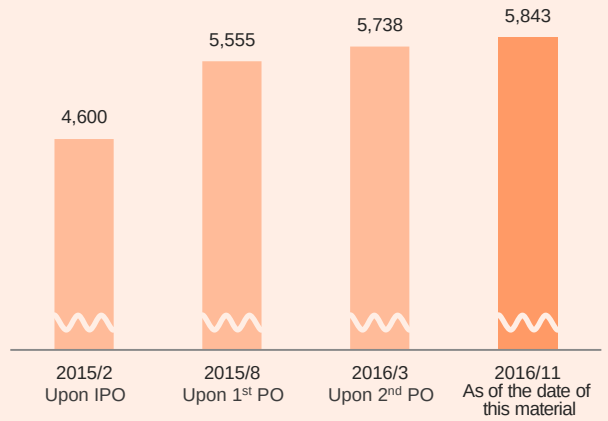
Average interest rate: 0.99% (as of Oct. 31, 2016)
LTV: 42.9% (Forecast as of Mar. 31, 2017)
Acquisition capacity (up to LTV45%): JPY 6.6 bn

Distribution Per Unit (JPY)

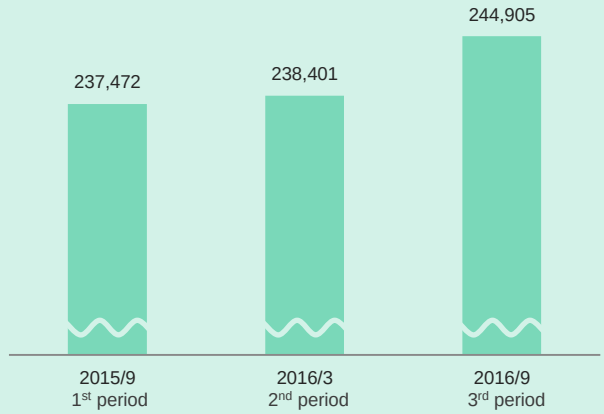


Stabilized DPU (JPY)

Assuming that property-related taxes are expensed



NAV per unit (JPY)



Note 1: "LTV" refers to "loan-to-value ratio", which is calculated as the ratio of the total amount of short-term debt, long-term debt, corporate bonds and tenant leasehold and security deposits (net amounts reserved for return of tenant leasehold and security deposits) divided by total assets as of the end of the previous fiscal period minus amounts reserved for return of tenant leasehold and security deposits. (same for below)
Note 2: NAV per unit at the end of each financial period = (NAV + appraisal gains/losses on the entire portfolio at the end of each financial period)/ (total number of investment units issued at the end of each financial period)
Note 3: Initial forecast represents the DPU estimate for each financial period stated in the material which we first announced earnings estimation after our listing

Summary of Balance Sheets (JPY mn)

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	Mar. 2016 2nd period	Sep. 2016 3rd period	Change JPY mn	Change %
Current assets	14,960	16,779	+1,819	+12.2%
Property, plant and equipment	133,488	160,918	+27,430	+20.5%
Intangible assets	530	526	-4	-0.8%
Investments and other assets	753	822	+68	+9.1%
Total Non-current assets	134,772	162,268	+27,495	+20.4%
Deferred assets	276	312	+35	+13.0%
Total assets	**150,009**	**179,360**	**+29,350**	**+19.6%**
Current liabilities	8,283	13,781	+5,497	+66.4%
Non-current liabilities	61,690	68,838	+7,148	+11.6%
Total liabilities	**69,974**	**82,620**	**+12,645**	**+18.1%**
Total net assets	**80,034**	**96,739**	**+16,705**	**+20.9%**
Total liabilities and net assets	**150,009**	**179,360**	**+29,350**	**+19.6%**
LTV	**42.7%**	**42.5%**	**---**	**---**

Factors in change of current assets (JPY mn)

1.	Increase in cash and deposits	+484
2.	Increase in cash and deposits in trust mainly due to increase in tenant lease hold and deposits in trust	+1,273
3.	Others	+60

Factors in change of non-current assets

1.	Increase in PP&E mainly due to acquisition of assets (net)	+27,430
2.	Increase in long-term prepaid expenses due to payment of upfront fee related to debt financing (net)	+68
3.	Others	-4

Factors in change of deferred assets

1.	Increase in investment unit issuance costs related to 2nd PO (net)	+40
2.	Other (amortization of organization costs)	-5

Factors in change of current liabilities

1.	Increase in short-term loans payable due to acquisition of assets in connection with 2nd PO	+5,570
2.	Other	-72

Factors in change of non-current liabilities

1.	Increase in long-term loans payable due to acquisition of assets in connection with 2nd PO	+6,230
2.	Increase in tenant lease hold and deposits in trust due to acquisition of assets	+885
3.	Other	+32

Factors in change of net assets

1.	Increase in unitholder's capital due to 2nd PO	+16,649
2.	Allowance for temporary difference adjustment	-4
3.	Increase in unappropriated retained earnings	+90
4.	Deferred gains or losses on hedges	-31

Summary of Statements of Income and Retained Earnings (JPY mn)

KENEDIX Retail REIT Corporation

	Mar. 2016	Sep. 2016		Changes	
	2nd period Actual (A)	3rd period Forecast (B)	3rd period Actual (C)	C - A	C - B
Rent revenue – real estate	4,656	5,406	5,405	+749	-0
Other lease business revenue	884	986	968	+83	-17
Operating revenues	**5,541**	**6,392**	**6,374**	**+833**	**-18**
Property related expenses (excl. depreciation)	1,669	2,200	2,146	+476	-54
NOI	**3,871**	**4,192**	**4,228**	**+357**	**+36**
Depreciation	565	711	714	+148	+2
NOI after depreciation	**3,305**	**3,480**	**3,513**	**+208**	**+33**
Other operating expenses	479	537	540	**+61**	**+3**
Operating income	**2,826**	**2,943**	**2,973**	**+147**	**+30**
Non-operating income	1	1	0	-1	-0
Non-operating expenses	398	468	454	+55	-14
Ordinary income	**2,428**	**2,475**	**2,519**	**+90**	**+44**
Net income	**2,427**	**2,472**	**2,518**	**+90**	**+46**
DPU (JPY)	**6,846**	**5,865**	**5,974**	**-872**	**+109**

Factors for changes from forecast

Operating revenues

Utility charge reimbursement Due to decline in electricity charges	-28
Others	+10

Operating expenses

Repairs and maintenance (incl. restoring)	+19
Utilities Due to cost-cut ting and decline in electricity charges	-69

Non-operating expenses

Interest expenses and financing-related expenses	-11
Amortization of investment unit issuance costs	-2

Factors for changes from 2nd period

NOI

32 properties acquired in 2015	-356
[Property taxes (expense) of the 32 properties	+482]
8 properties acquired in 2016	+713

Depreciation

32 properties acquired in 2015	+15
8 properties acquired in 2016	+132

Non-operating expenses

Interest expenses and financing-related expenses	+37
Amortization of investment unit issuance costs	+17

Financial forecasts: 4th fiscal period (Mar. 2017) (JPY mn)

KENEDIX Retail REIT Corporation

Key financial information	Sep. 2016 3rd period (Actual)	Mar. 2017 4th period (Forecast)	Changes
Operating revenues	**6,374**	**6,398**	**+24**
Operating expenses	3,400	3,390	-10
Operating income	**2,973**	**3,007**	**+34**
Non-operating expenses	454	460	+6
Interest expenses & financing-related expenses	372	378	+5
Amortization of investment unit issuance costs & organization costs	81	81	---
Ordinary income	**2,519**	**2,547**	**+27**
Net income	**2,518**	**2,546**	**+27**
DPU	**5,974**	**6,040**	**+66**

Related key indicator	Sep. 2016 3rd period (Actual)	Mar. 2017 4th period (Forecast)	Changes
NOI	**4,228**	**4,315**	**+87**
NOI yield (%)(Note1)	5.4%	5.4%	---
Depreciation	714	720	+5
NOI after depreciation	3,513	3,595	+81
NOI yield after depreciation (%)(Note1)	4.5%	4.5%	---
FFO(Note2)	3,315	3,350	+35
CAPEX	264	549	+284
LTV (%)	**42.5%**	**42.9%**	**---**

Note1: Property taxes for the properties acquired in 2016 is not expected to be expensed in the 4th fiscal period.
Note2: FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

Factors for changes from previous period (from 3rd period)

Operating revenues	
Rental revenue – real estate from properties acquired in Apr. 2016	+77
Rental revenue – real estate from properties acquired in Nov. 2016	+28
Utility charge reimbursement	-70
Others	-10
Operating expenses	
Utilities	-53
Repairs and maintenance (incl. restoring)	-31
Sales and promotion	+17
Asset management fee	+47
Others	+9
Operating income	**+34**

Breakdown of NOI (Net Operating Income)

Rental and other operating revenues (A)	
Rent revenue – real estate	5,520
Utility charge reimbursement	469
Other revenues	406
Property-related expenses (B) (excl. depreciation)	
PM fees / facility management fees	690
Utilities	469
Taxes	482
Repairs and maintenance (incl. restoring)	119
Sales and promotion	191
Others	127
NOI (A-B)	**4,315**

Financial forecasts: 5th fiscal period (Sep. 2017) (JPY mn)

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Key financial information	Mar. 2017 4th period (Forecast)	Sep. 2017 5th period (Forecast)	Changes
Operating revenues	**6,398**	**6,451**	**+52**
Operating expenses	3,390	3,525	+135
Operating income	**3,007**	**2,925**	**-82**
Non-operating expenses	460	461	+0
Interest expenses & financing-related expenses	378	378	+0
Amortization of investment unit issuance costs & organization costs	81	81	---
Ordinary income	**2,547**	**2,464**	**-82**
Net income	**2,546**	**2,463**	**-82**
DPU	**6,040**	**5,843**	**-197**

Related key indicator	Mar. 2017 4th period (Forecast)	Sep. 2017 5th period (Forecast)	Changes
NOI	**4,315**	**4,224**	**-90**
NOI yield (%)(Note1)	5.4%	5.3%	---
Depreciation	720	724	+4
NOI after depreciation	3,595	3,500	-95
NOI yield after depreciation (%)(Note1)	4.5%	4.4%	---
FFO(Note2)	3,350	3,272	-78
CAPEX	549	307	-241
LTV (%)	**42.9%**	**42.9%**	**---**

Note1: Property taxes for the properties acquired by Nov.17, 2016 is expected to be expensed in the 5th fiscal period.
Note2: FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

Factors for changes from previous period (from 4th period)

Operating revenues	
Rent revenue – real estate	-19
Parking space rental revenues	+13
Utility charge reimbursement	+73
Others	-14
Operating expenses	
Utilities	+52
Taxes	**+81**
Repairs and maintenance (incl. restoring)	+17
Sales and promotion	-17
Asset management fee	-11
Others	+12
Operating income	**-82**

Breakdown of NOI (Net Operating Income)

Rental and other operating revenues (A)	
Rent revenue – real estate	5,500
Utility charge reimbursement	542
Other revenues	402
Property-related expenses (B) (excl. depreciation)	
PM fees / facility management fees	690
Utilities	521
Taxes	563
Repairs and maintenance (incl. restoring)	136
Sales and promotion	174
Others	134
NOI (A-B)	**4,224**

Memo

03 Implementation of growth strategies (1 of 2) (External growth)

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ITOCHU Corporation joined Alliance Companies

KENEDIX Retail REIT Corporation

Kenedix Retail REIT Corporation (“KRR”)

Asset Management

Property Management

PARTNERS IN GROWTH KENEDIX Real Estate Fund Management, Inc.

Kenedix Real Estate Fund Management, Inc. (“KFM”)

NEW!

Sponsor	Alliance Companies			Alliance Companies
Pipeline support	Pipeline support			Pipeline support (Note)
Warehousing	Warehousing			• Preferential access to potential acquisition opportunities from Kenedix – ITOCHU fund • Information of potential acquisition opportunities from ITOCHU group
Leasing		Leasing		Leasing
Property Management			Property Management	Property Management
Environmentally-friendly technology/knowhow			Evaluation/advisory on operations	
Personnel support	Personnel support			
Right to use trademarks				
PARTNERS IN GROWTH KENEDIX Kenedix, Inc.	SMFL Sumitomo Mitsui Finance and Leasing Co., Ltd.	日本商業開発株式会社 Nippon Commercial Development Co., Ltd.	p&d consulting	ITOCHU Corporation
Kenedix, Inc.	Sumitomo Mitsui Finance and Leasing Co., Ltd.	Nippon Commercial Development Co., Ltd.	P&D Consulting Co., Ltd.	ITOCHU Corporation

Note: Kenedix, Inc., the asset manager of the retail property development fund jointly created by ITOCHU Corporation (“Kenedix – ITOCHU Fund”), agrees to provide preferential access to potential acquisition opportunities regarding the fund, to KRR and KFM.

Summary of KRR's portfolio

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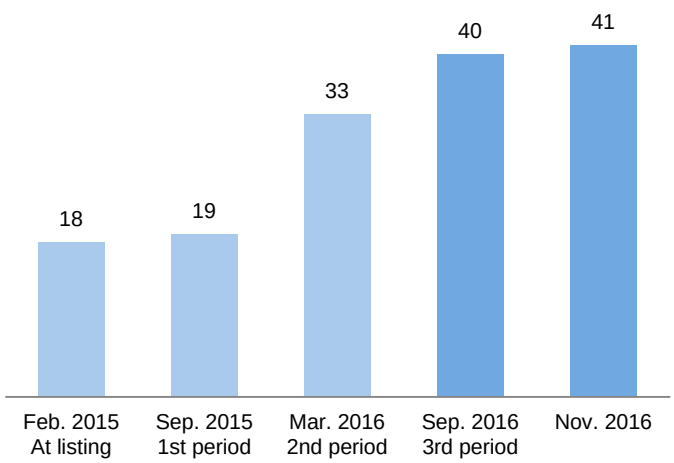
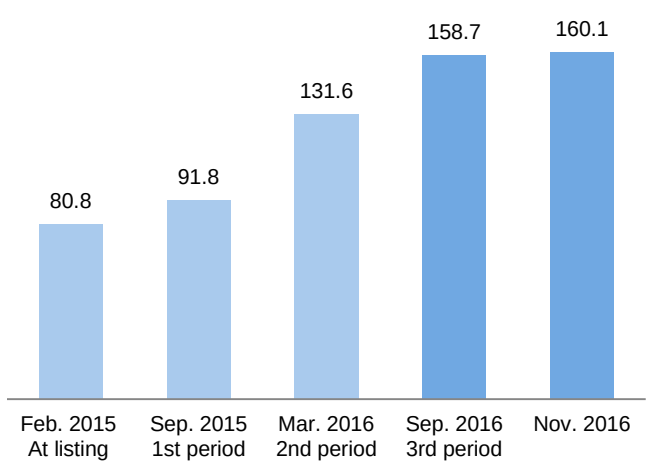
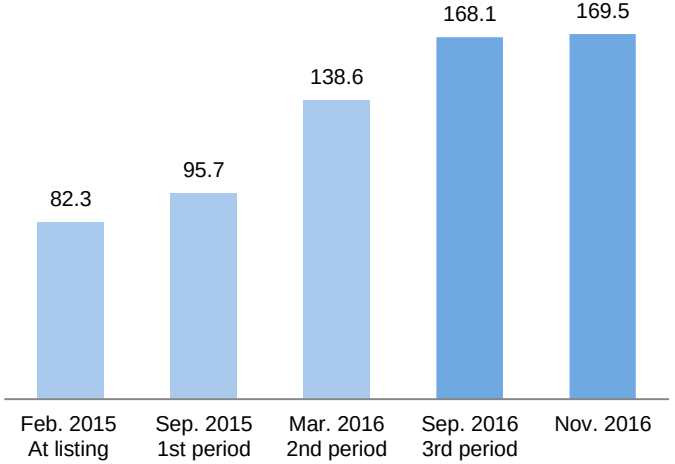
1 Number of properties



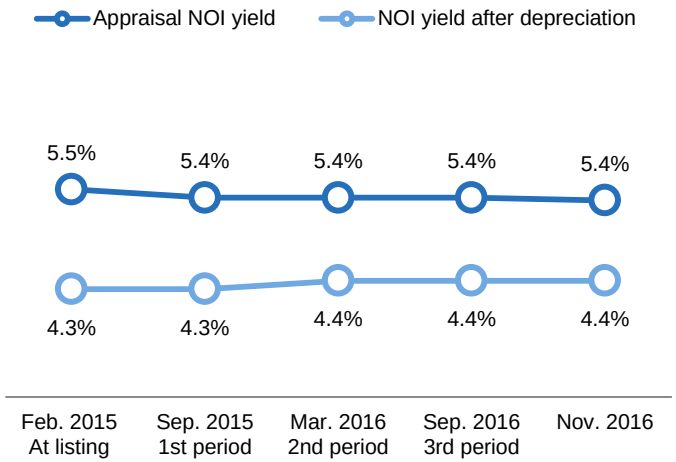
2 Total acquisition price (JPY bn)



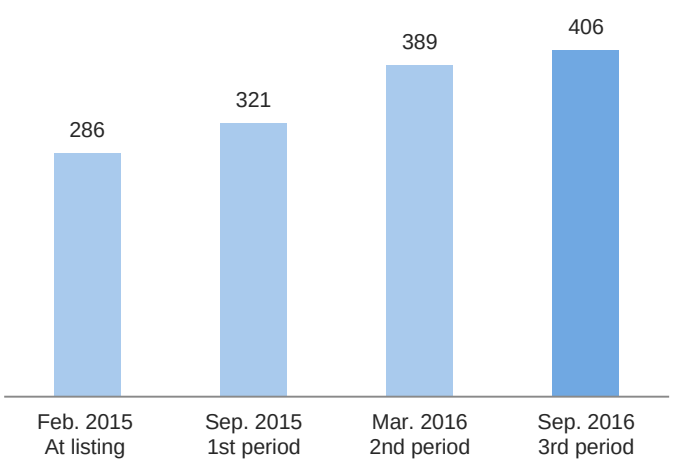
3 Total appraisal value (JPY bn)



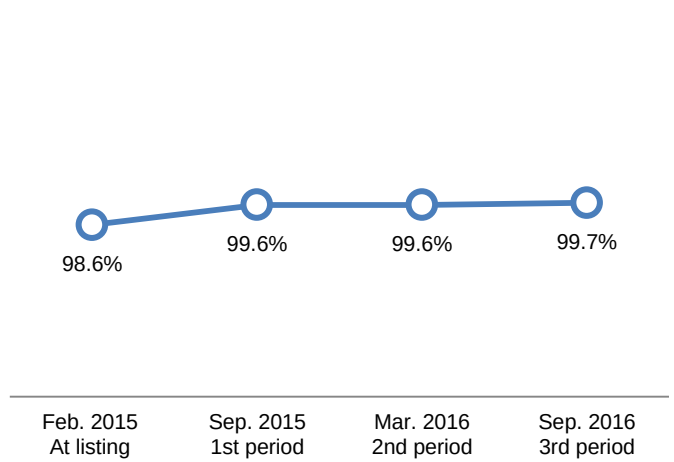
4 Portfolio appraisal NOI yield (Note1)



5 Number of tenants (Note2)



6 Weighted average occupancy rate (Note2)

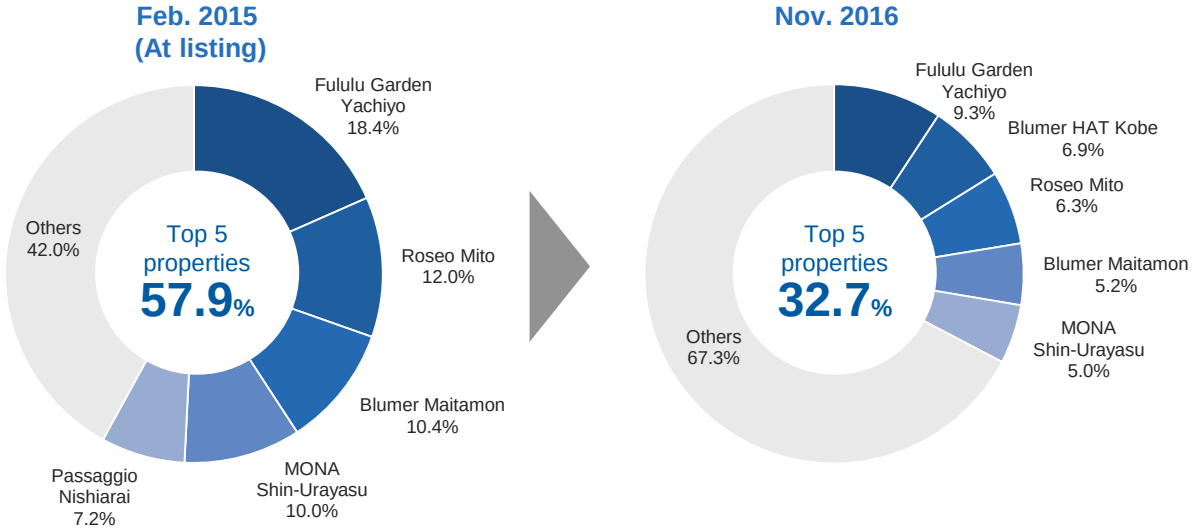


Note 1: "Appraisal NOI yield" refers to the annual net operating income assumed by the appraiser of the relevant property for the direct capitalization analysis in the latest appraisal reports at the acquisition date. "NOI yield after depreciation" based on the forecast for fiscal period ending September 30, 2016.
Note 2: The figures at listing are as of September 30, 2014 and those for Sep. 2016 include K's Denki Shin-Moriyama (Land)

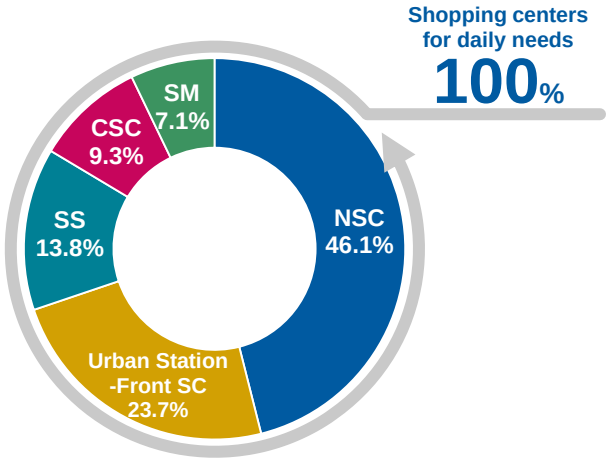
Characteristics of KRR's portfolio

KENEDIX Retail REIT Corporation

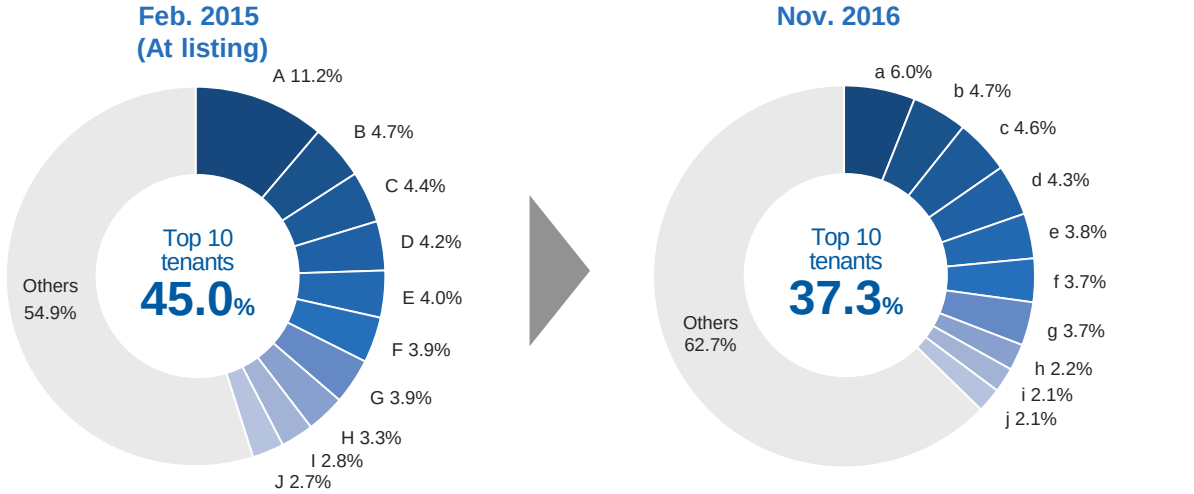
Changes in property distribution (by acquisition price)



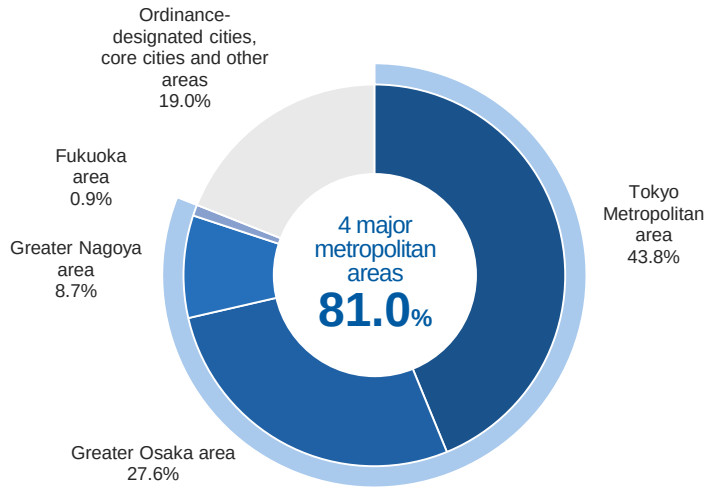
Types of retail property (by acquisition price)



Changes in share of top 10 tenants (by annual fixed rent)



Location (by acquisition price)



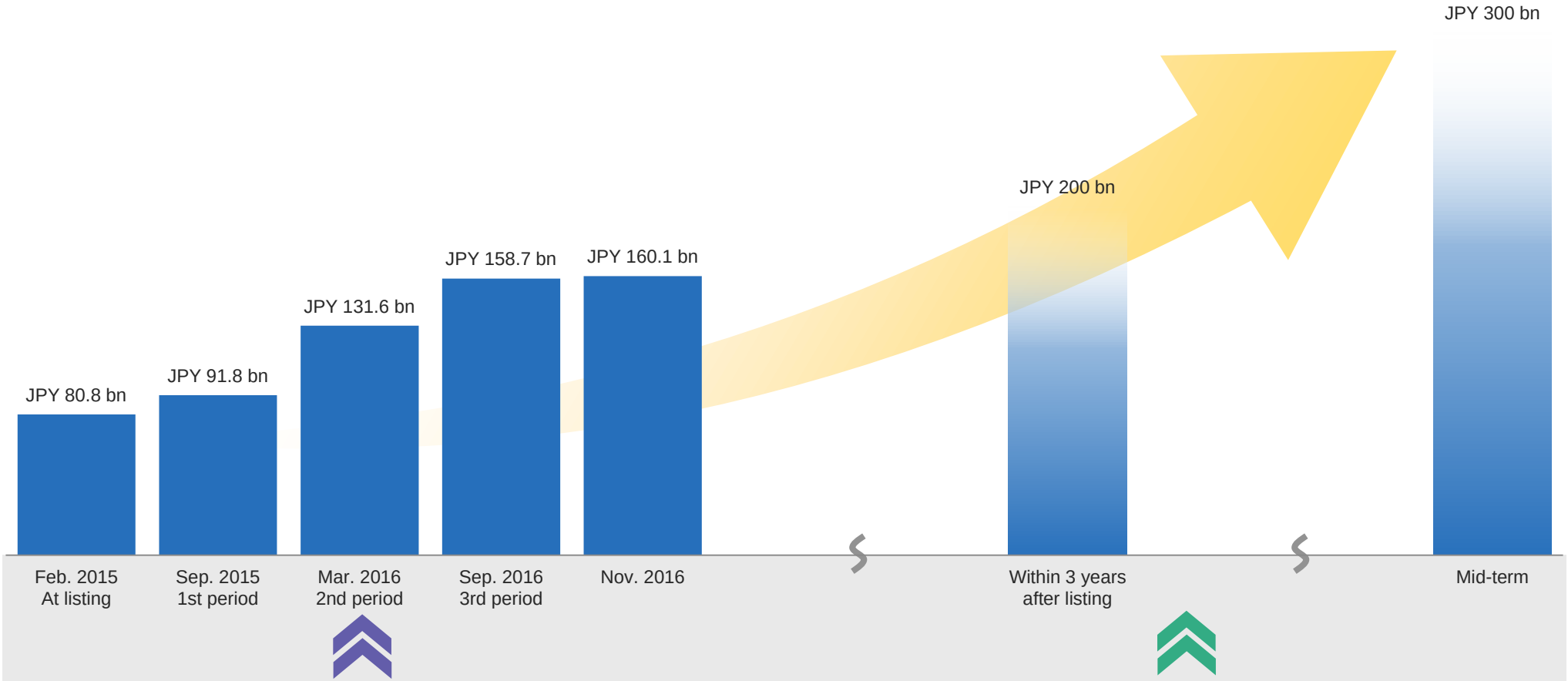
Note: The figures are as of September 30, 2016 for the properties acquired by the date of this material.

Growth roadmap

KENEDIX
Retail REIT Corporation

Purpose

- Achieve steady DPU growth
- Enhance portfolio stability
- Improve liquidity of investment units



Abundant external growth opportunities

- Size of acquisition universe
- Increasing proportion of our investment target among domestic retail facilities

Promotion of external growth strategies

- Increasing pipelines by development from sponsor and alliance companies
- Diverse acquisition channels and methods
- Selective investments by professionals

Note: "AUM" represents the total acquisition price of all properties in the portfolio.

Acquisition of K's Denki Shin-Moriyama (land)

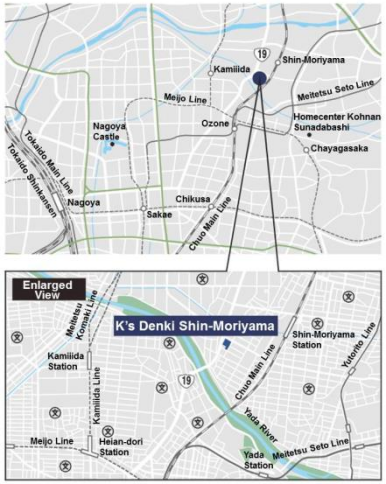
KENEDIX Retail REIT Corporation

SS Specialty Store

K's Denki Shin-Moriyama (Land)

Land on which an electronic retail store resides. Located in a high population growth area facing a trunk road with heavy car traffic with easy car access





Acquisition price	JPY1,370 mn
Location	Nagoya, Aichi
Land area	5,512.78m^2
GFA	-
Core tenant	Undisclosed
Appraisal NOI	JPY60 mn
Appraisal NOI yield	4.4%

Highlights

- The land for K's Denki Shin-Moriyama opened in Nov. 2013, facing National Route 19, an inter-regional trunk road
- National Route 19, a six-lane road (3 lanes on each side), is extremely busy with car traffic and lined with road-side grocery supermarkets and restaurants
- The store, surrounded by condominiums, retail stores and office buildings along the inter-regional trunk road, is easily accessible by car
- The property is expected to generate stable cash flows over a long term as the remaining period of the fixed-term land lease contract is longer than 15 years

Access to major station

Shin-Moriyama Station

JR Chuo Line — Approx. 15 minutes

Nagoya Station

Retail trade area population

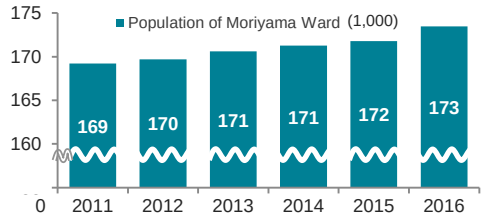
- Population has been increasing in all radii of the retail trade area

Trade area	Population (1000)	Change
1km	25	+0.9%
3km	239	+2.1%
5km	625	+2.9%

(Note) Based on 2005 and 2010 national census data

Location — A new store located along a major road in a retail trade area with high population growth

Trade area — High population growth potential



Source: Nagoya City Government (as of August 1 of each year)

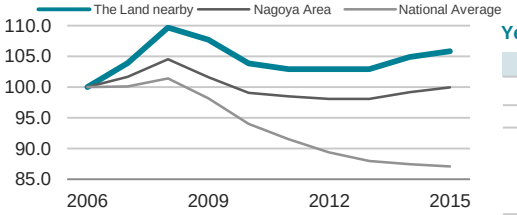
Access — Easily accessible location

- Located on the National Route 19, a major trunk road within the subject retail trade area
- Easily accessible by car with high visibility due to its location on a corner lot facing an intersection
- Easy to enter / exit from the parking as the property is facing roads on all four sides

Facilities — Land convertible to other uses

Landscape — Comparably new-built

Historical residential land prices (2006 figures=100)



Check! **Limited competition within the same retail trade area**

Year opened (vs. Competitors)

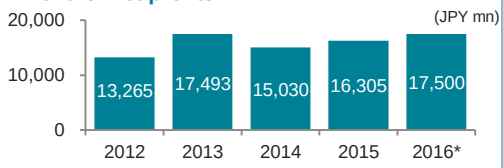
Trade area	Name of store	opened
	K's Denki Shin-Moriyama	**2013**
3km radius	Edion Mets Ozone Store	2002
5km radius	Edion Shonai-dori Miyuki Mall	1998
	Yamada Denki Tech Land Nagoya Chikusa	2012

K's Denki — K's Holdings, operating K's Denki stores across Japan

Competitiveness — Overview of K's Holdings Corporation

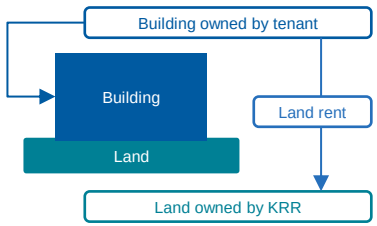
Business	Home electronics, etc.
Facilities	470 stores nationwide (as of May 2016)
Employees	13,739 (as of Mar. 2016)
Listing venue	Tokyo Stock Exchange
Revenue	JPY644.2 bn (consolidated , FY Mar. 2016)

Trend of net profits



∗ Earnings estimates

Reference: Benefits from investing in land-only properties



- Generation of long-term stable rents due to a decrease of vacancy risks because tenants will own buildings pursuant to fixed-term land lease agreements
- Stabilization of rent revenue as tenants will pay maintenance costs related to the buildings on such land
- Improvement of payout ratio as depreciation costs of buildings are borne by tenants
- Limited downside risk related to their asset value caused by external factors, such as fires

(Note) The above represents the benefits that KRR expect to enjoy by investing in land-only properties. KRR, however, neither guarantees nor promises that these benefits result from its investments in lands

Yumemachi Narashinodai Mall (bridge fund property)

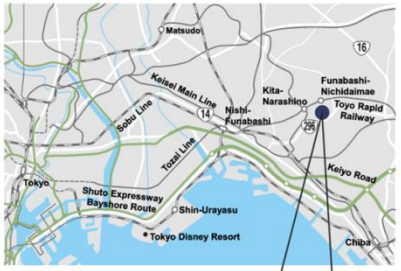
KENEDIX Retail REIT Corporation

NSC Neighborhood Shopping Center

Yumemachi Narashinodai Mall

A relatively new NSC located in a high-population-growth area with a highly competitive grocery supermarket as the core tenant (opened in April 2016)







Appraisal value	JPY2,530 mn as of October 1, 2016
Location	Funabashi, Chiba
Land area	16,633.58m²
GFA	(Main bldg.) 7,889.24m² (GU bldg.) 909.85 m²
Core tenant	Lopia Co., Ltd.
Appraisal NOI	JPY176 mn

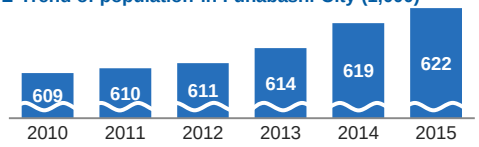
Access to major station

Otemachi Station
Toyo Rapid Railway Line
Nishi-Funabashi Station
Tokyo Metro Tozai Line
Funabashi-Nichidaimae Station
Approx. 35 minutes via through service

Location

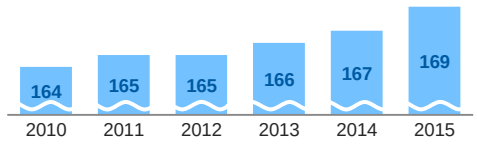
Retail trade area High population growth potential

■ Trend of population in Funabashi City (1,000)



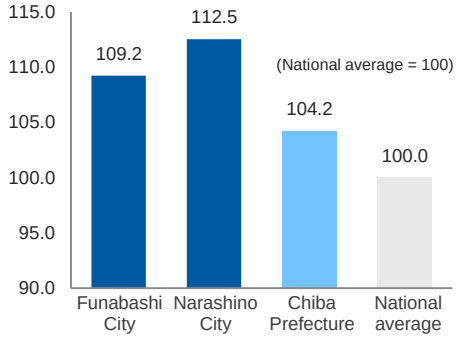
Source: Funabashi City Government "Residential Population" (as of October 1 of each year)

■ Trend of population in Narashino City (1,000)



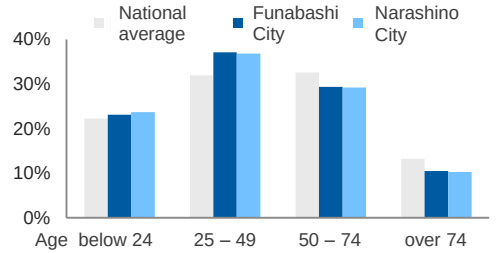
Source: Narashino City Government "Residential Population" (as of the end of September of each year)

Trade area High-income population



Source: Survey on municipal taxation 2015 (MIC)

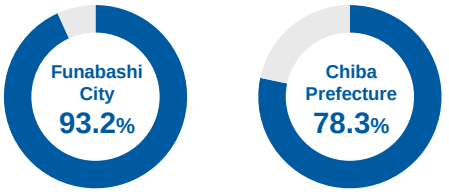
Trade area More younger households



Source: Statistics Bureau, Ministry of Internal Affairs and Communications (MIC) "National Population by Five-Year Age Group and by Sex"
Funabashi City "Population by Town and Age – by Each Age and Five-Year Age Group"
Narashino City "Population by Sex and Age Based on Resident Register"
(as of end of Mar.2016 for Narashino City and as of Apr.1, 2016 for others)

Shopping behavior Strong local demand

■ The proportion of consumers shopping groceries at local stores in Funabashi City, where the property resides, far exceeds the average of Chiba Prefecture



Source: Chiba Prefecture, Business Support Division "Retail Trade Areas in Chiba Prefecture (Research Report on Consumer Shopping Behavior 2012)"
Proportion of consumers shopping at local stores: Consumers shopping at local stores devided by # of Respondents

Highlights

- An NSC opened in April 2016 and housing Lopia, a grocery supermarket which is competitive especially in meat products and popular among consumers, as its core tenant. Other tenants include retailers such as home electronics, clothing and drug stores, and service outlets
- Located on the National Route 296 in the northeastern part of Funabashi City where the population has been growing rapidly
- Consists of a 2-story main building and a GU building
- Provided with a flat parking for 343 cars

Retail trade area population

- Population has been increasing in all radii of the subject retail trade area

Trade area	Population (1000)	Percentage change
1km	21	+7.7%
3km	215	+4.2%
5km	541	+3.7%

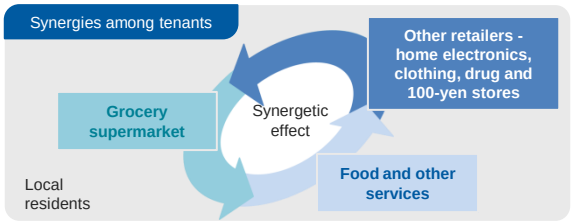
(Note) Based on 2005 and 2010 national census data

Tenant

Diversified tenant mix with a highly competitive grocery supermarket as the core

Attractiveness to consumers Tenant mix to satisfy diverse consumer needs

- A grocery supermarket with strength in meat products and highly popular among consumers
- Retailers (home electronics, drug, clothing and 100-yen stores)
- Service business store (a dental clinic and a laundry)



Pipelines (1 of 2): Pipeline expansion due to development

Example of properties under development by Kenedix

Kawamachi Yahagi Mall
Location: Chiba, Chiba (Expected to open in Spring 2017)



Supermarket
Location: Itabashi, Tokyo (Expected to open in Autumn 2017)



Development fund jointly created by Kenedix and ITOCHU ("Kenedix – ITOCHU Fund")

ITOCHU Corporation
- Land to be developed
- Retailer network
- Funding

KENEDIX Kenedix, Inc.
- Land to be developed
- Retailer network
- Funding

Kenedix – ITOCHU Fund

Preferential negotiation rights

KENEDIX Retail REIT Corporation

1st project
Location: Kanagawa Pref. (Expected to open in Autumn 2017)



Note: As of Nov. 17, 2016, we have no plans to acquire these properties and there is no guarantee that we can acquire these properties in the future. The illustrations above are completion images based on design drawings and may differ from the actual buildings after completion.

Pipelines (2 of 2): Alliance Company pipelines and real estate market

KENEDIX Retail REIT Corporation

Alliance Company pipeline

Totsuka-Fukaya Shopping Center (Land)
Location: Yokohama, Kanagawa





Round One
Location: Tokyo Metropolitan Area



Round One
Location: Fukuoka Area



Unicus Urawamisono (Land)
Location: Saitama, Saitama (Expected to open in Spring 2017)





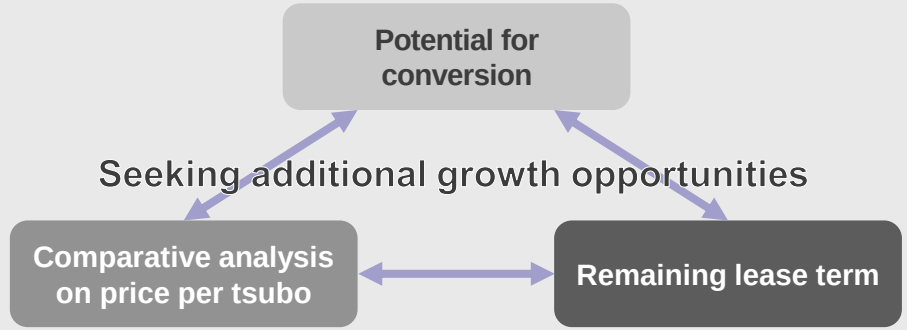
These are the properties which are owned by Alliance Companies, and confirmed by both the Alliance Companies and Kenedix Retail REIT as the properties that meet our investment criteria. As of Nov. 17, 2016, we have no plans to acquire these properties and there is no guarantee that we can acquire these properties in the future. We may acquire only the underlying land of these properties. The illustration of Unicus Urawamisono (Land) above is a completion image based on design drawings and may differ from the actual building after completion.

Asset Manager's network

Market Environment	Cap rate has begun to compress in accordance with higher evaluation to SC for daily needs in real estate market, while GMS is suffering from competition with specialty stores in retail market.
Counter-measure	In order to seek growth opportunities avoiding too much cap rate compression, Asset Manager's network is fully leveraged, and one-on-one negotiation such as sale-and-lease back transaction is expected to strengthen the network.

Investments in land

Strong demand from retailer	The majority of buildings on land-only properties held by J-REITs are retail facilities



Memo

03

Implementation of growth strategies (2 of 2)
(Internal growth/Financial strategy/Others)

証券コード
Security Code
3453

Active management strategies

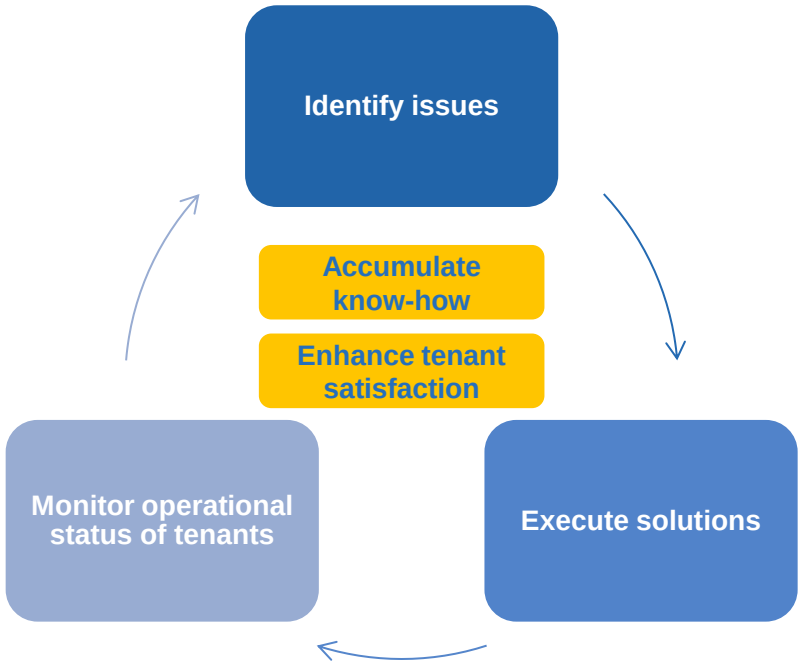
KENEDIX Retail REIT Corporation

Value added "one-stop" asset management and property management services

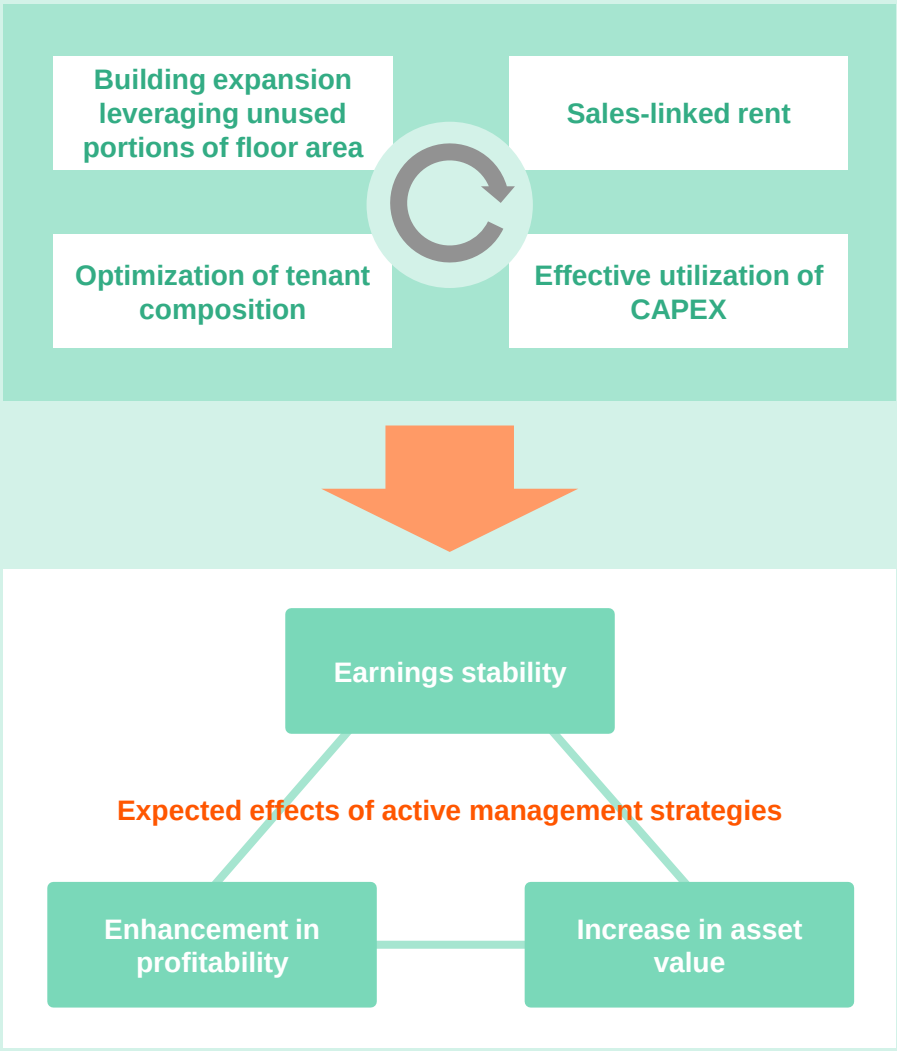
Asset management services
Build and manage a stable/consistent portfolio

Strengthened collaboration

Property management services
Interact directly with tenants



Seek internal growth through property management



Operating highlights - Roseo Mito

KENEDIX Retail REIT Corporation



Highlight of property

- An NSC with a supermarket and a home & garden store as its core tenants
- Facing a main road with convenient car-accessibility
- Located in an area with increasing population where families concentrate

trade area	Population change (2005-2010)
1km	115.1%
3km	105.3%
5km	105.0%

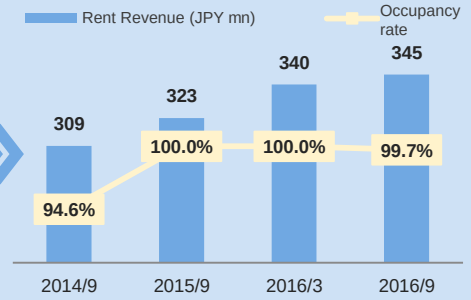
- Stronger tenant revenue according to our statistics:
  - FP ending Mar.2016: 128.0%
  - FP ending Sep.2016: 109.6%
- Other information on Roseo Mito

	Upon acquisition	As of Sep. 2016
GFA	45,654.67 m²	48,296.15 m²
Acquisition price	JPY 9,675 mn	JPY 10,046 mn
Appraisal value	JPY 9,780 mn	JPY 10,900 mn
Appraisal NOI	JPY 554 mn	JPY 596 mn
Appraisal NOI Yield	5.7%	5.9%

Leasing of a large space in Roseo Mito

- Departure of a sports good store occupying a large space due to the Earthquake in 2011
- Leased the vacated space to a bowling operator
- Bankruptcy of the bowling operator
- IPO of Kenedix Retail REIT Corporation
- Divided the space into two sections and leased to a sports goods store and a discount store

Historical rental revenues and occupancy

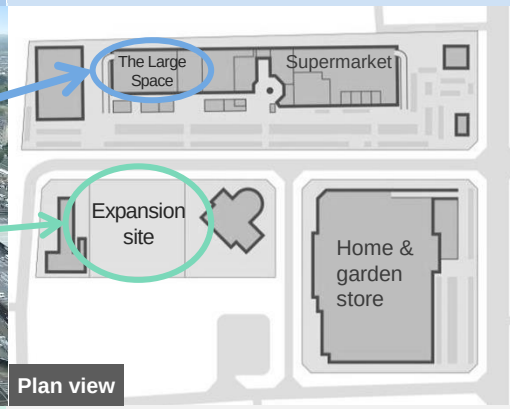


Awarded the "DBJ Green Building Certification"

DBJ Green Building 2016

Property with excellent environmental & Social awareness





Enliven local communities

Further strengthen our relationship with local community by increasing the frequency of Roseo Festival to twice a year



Property expansion (Secondhand shop building)

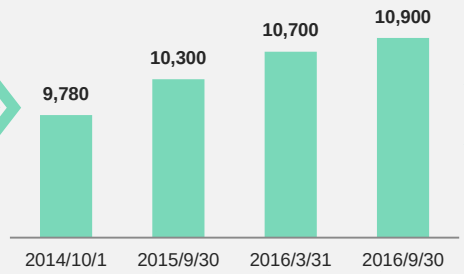
NOI yield (ROI)

11%

NOI yield (ROI) is calculated by NOI (deducting assumed annual operating expenses (excluding depreciation) from assumed annual operating revenue of the New building) divided by construction cost

Total leasable area	2,641.48 m²
Acquisition price	JPY 371 mn

Historical appraisal value (JPY mn)





Property expansion (restaurant building) planned at Unicus Ina

KENEDIX Retail REIT Corporation

Improve profitability(Note 1)

12%

NOI yield (return on investment)

Calculated using the following formula:
Estimated increase in NOI (Estimated annual rent from the new restaurant building - Estimated annual expenses excluding depreciation) /Total project cost

Estimated increase in NOI	Total construction cost
12 mn	90 mn

Enhance asset value(Note 1)

+240 mn

Increase in Appraisal value

Difference between the appraisal value of Unicus Ina (as of March 31, 2016) and its appraisal value assuming the completion of the property expansion, both of which are provided by Japan Real Estate Institute

Appraisal value (As of Mar 31, 2016)	Appraisal value (Assuming the completion of the property expansion)
4,420 mn	4,660 mn

Schedule (Note 2)

July 2016:
Application for building approval

September 2016:
Begin building construction

January 2017 (planned):
Completion & delivery of building

Planned construction site



Rendering (Note 3)



Rendering (Note 3)



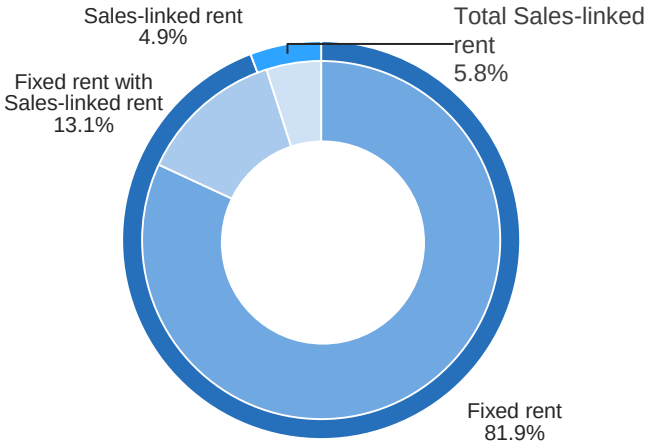
Note 1: These figures (except the total construction cost) are those at the time of the decision of property expansion, and may change, including total construction cost
Note 2: We cannot guarantee that the building extension will be completed as scheduled; the construction may be cancelled or delayed in the future
Note 3: This rendering may differ from the actual building to be completed

Leasing overview

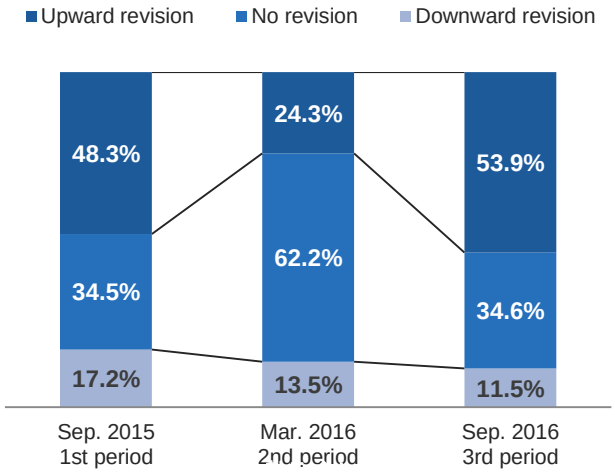
KENEDIX Retail REIT Corporation

Rent type (fixed/sales-linked rent)

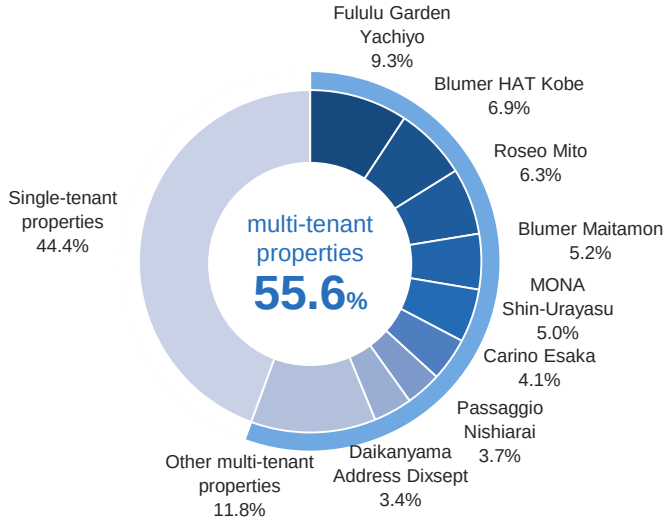
Based on actual rent (Apr. 2016 - Sep. 2016)



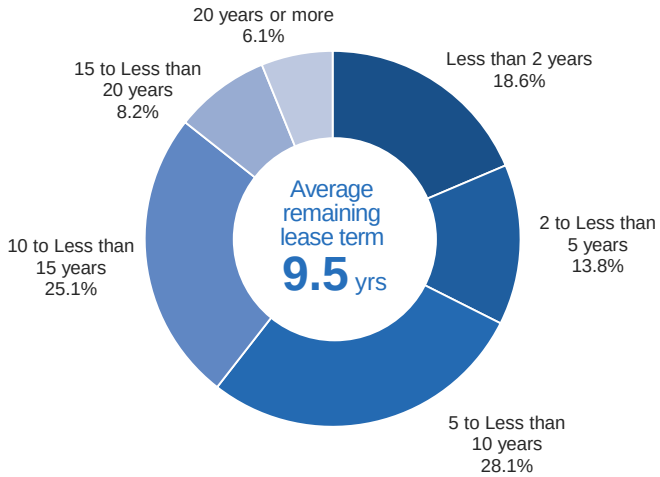
Rent revisions (based on number of revisions)



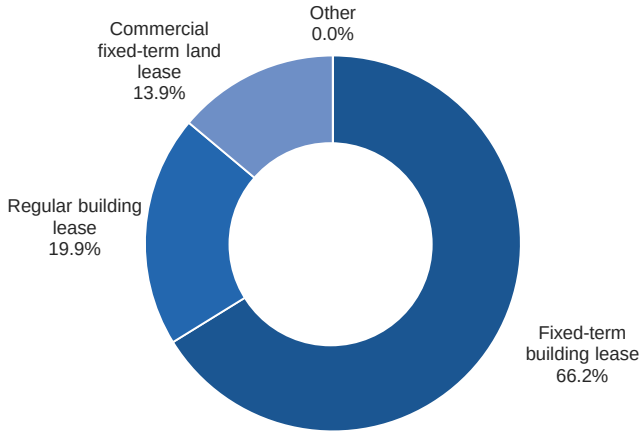
Multi-tenant properties (based on acquisition prices)



Remaining lease term (by annual fixed rent)

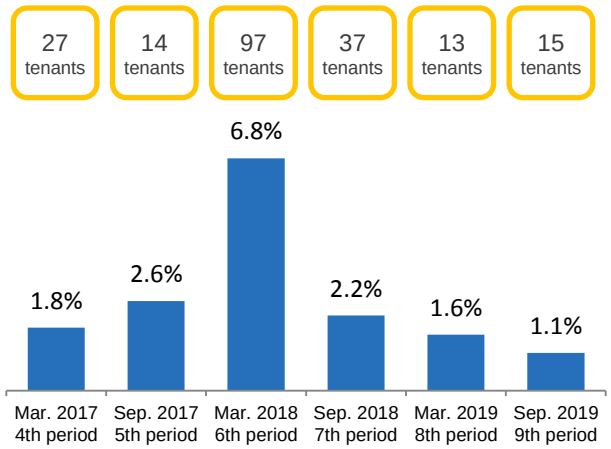


Lease contract type (by annual fixed rent)



Lease expiry (by annual fixed rent)

# of tenants and % of lease expiry in each period (Note2)

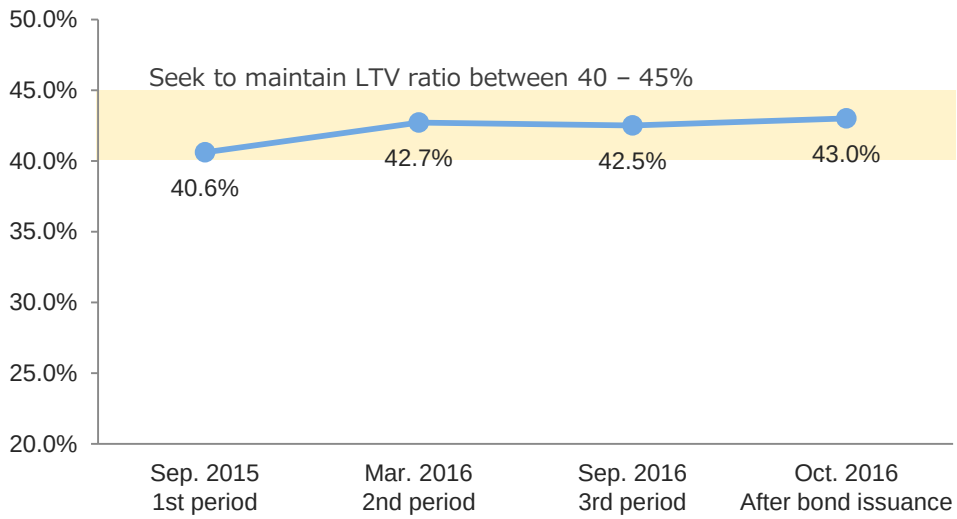


Note 1: The figures are as of September 30, 2016. The figures except rent type and rent revisions are based on the 41 properties acquired by the date of this material.
Note 2 : Based on the contractual rent determined in the lease contract, including regular building leases.

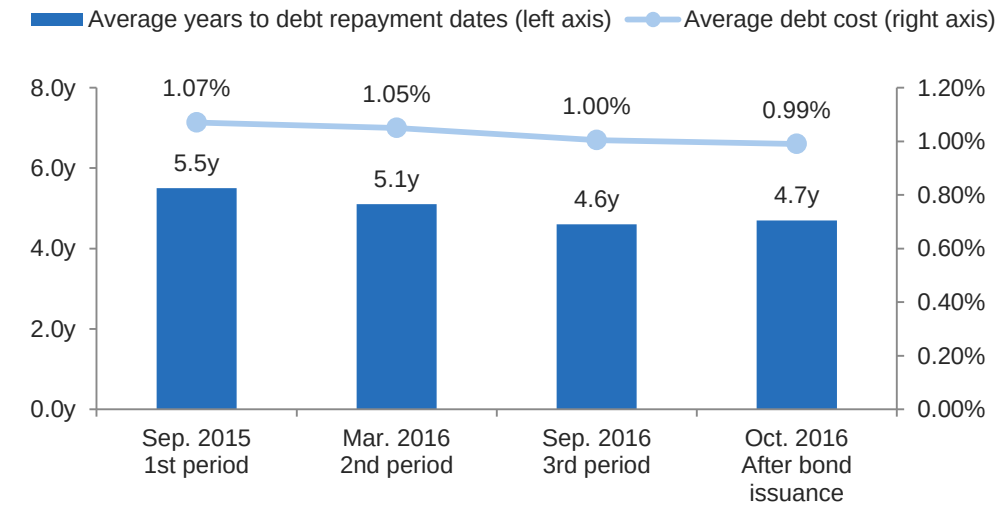
Financial key indicator and credit rating

KENEDIX Retail REIT Corporation

LTV



Average debt cost and average years to debt repayment dates



Note: "Average debt cost" is calculated as the weighted average interest of borrowings with upfront cost included and investment corporation bond, based on the amount outstanding. For floating interest debt hedged by interest swap, the debt cost is calculated using the interest rate fixed. For floating interest debt without interest swap, the cost is based on TIBOR rate on the day at the end of period.

Credit rating (JCR)

Credit rating agency	Japan Credit Rating Agency, Ltd.
Long-term issuer rating	A (Stable)

Summary of distributions in excess of retained earnings

Background and summary

As Japanese tax law changes, distributions in excess of retained earnings that are accounted as allowance for temporary difference adjustment ("ATA") enables cash distributions to be treated as profits distribution and deductible for tax purpose.

A: Japanese GAAP vs. Japanese tax law

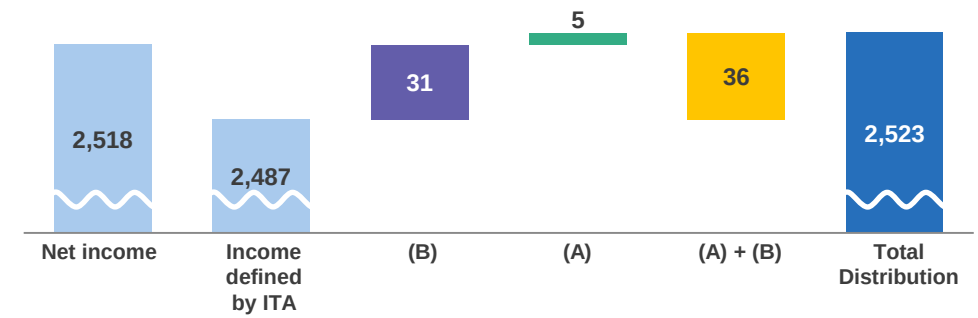
The items in association with certain transaction in relation to the property, Sunny Noma, cause temporary difference between the treatment in Japanese GAAP and Japanese tax law.
As a result, taxable income before distribution was larger than net income.

B: Net income vs. income in accordance with Investment Trust Act

The item deducted from net asset in association with some of interest swap transaction causes difference between net income and income defined by Investment Trust Act ("ITA").
As a result, Net income was larger than income defined by ITA.

NOTE:
This summary is translation of Japanese Original and describes Japanese tax implications. Please ask your own tax adviser regarding taxation of your jurisdiction.

Chart: Distribution in excess of retained earnings (JPY mn)



Debt outstanding, bond issuance, and security/guaranteed deposits

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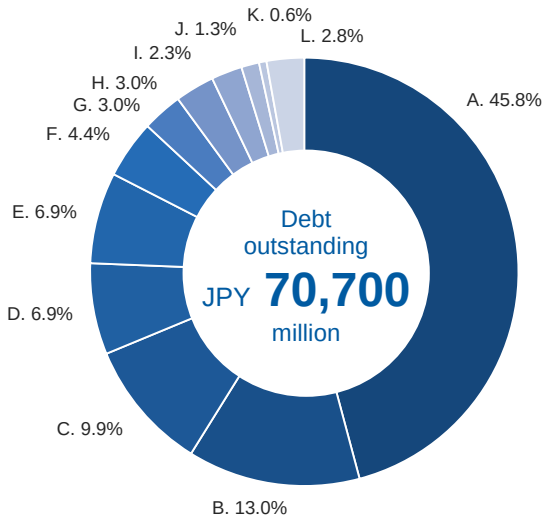
Breakdown of debt outstanding by lender and investment corporation bonds



(After prepayment on Oct. 31, 2016)

	Name of lender	Balance (JPY mn)
A	Sumitomo Mitsui Banking Corporation	32,410
B	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,210
C	Development Bank of Japan Inc.	6,990
D	Sumitomo Mitsui Trust Bank, Ltd.	4,870
E	Mizuho Bank, Ltd.	4,870
F	Resona Bank, Ltd.	3,100
G	Mizuho Trust & Banking Co.,Ltd.	2,150
H	Aozora Bank, Ltd.	2,100
I	Mitsubishi UFJ Trust and Banking Corporation	1,650
K	The Musashino Bank, Ltd.	950
J	The Gunma Bank, Ltd.	400
L	Investment corporation bonds	2,000

Issuance of investment corporation bonds

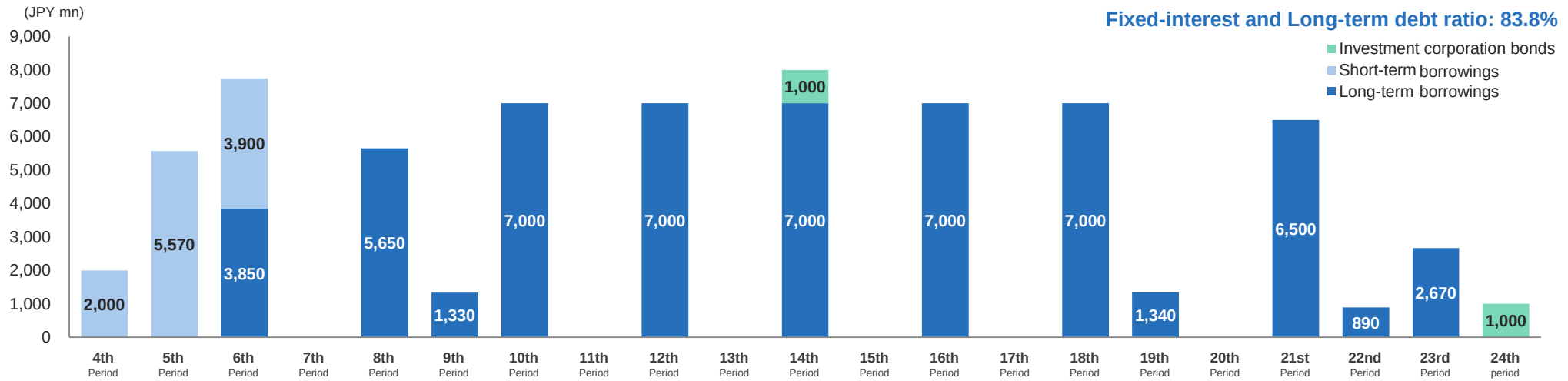
	Amount of issuance	Term	Interest rate
1st series	JPY 1,000 mn	5 years	0.20%
2nd series	JPY 1,000 mn	10 years	0.60%

Optimum use of security/guarantee deposits

Total amount of security/guarantee deposits	
(As of Sep. 30, 2016)	JPY 11.5 bn
(Amount kept as cash for deposit repayment)	JPY 7.9 bn
(As of Nov. 1, 2016) (note)	JPY 11.5 bn
(Amount kept as cash for deposit repayment)	JPY 7.9 bn

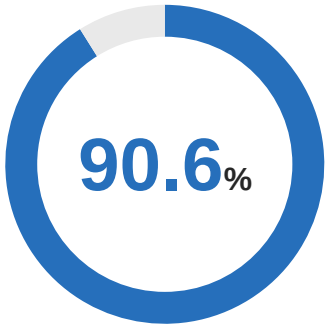
Note: Security/guarantee deposits as of Nov. 1, 2016 is sum of security/guarantee deposits as of Oct. 31, 2016 and security/guarantee deposits of K's Denki Shin-Moriyama (Land)

Staggered maturities of interest-bearing debts (After prepayment on Oct. 31, 2016)



E-commerce resistance

Tenants with e-commerce resistant business (by annual fixed rent)

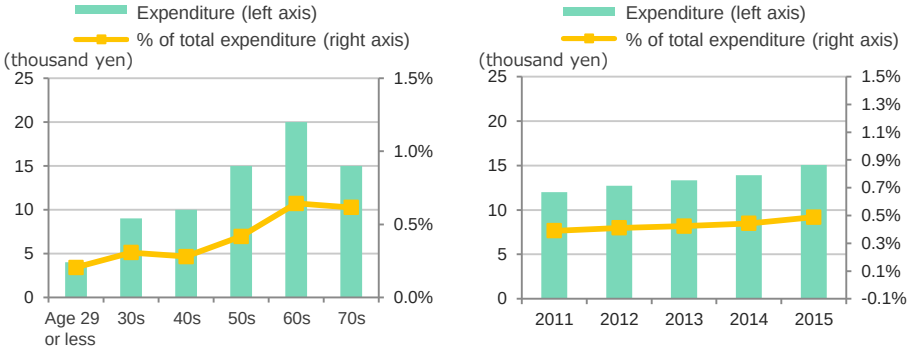


a.	Businesses difficult to replace by e-commerce (Note 1)	17.4%
b.	Businesses where customers show preference for purchasing products at physical stores (Note2)	50.7%
c.	Master lessees whose sub-lessees primarily operate businesses falling under category a and b	12.8%
d.	Businesses that require physical visits to stores or handle products that consumers highly desire to evaluate in person (Note 3)	9.7%

Trend to prioritize experiences/ services over goods

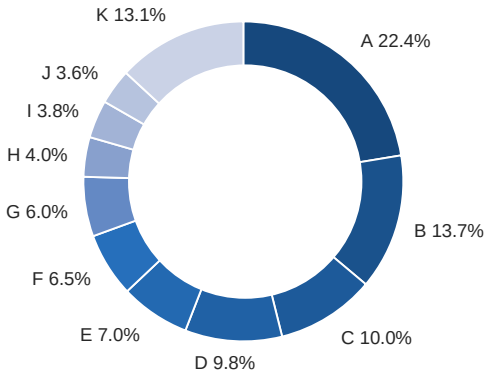
Seek to adapt trend to spend money on experiences or services rather than goods, as the number or elderly people, who are relatively free to spend time and/or money, are increasing.

Household expenditure on sporting facilities by age group and by year



Source: Ministry of Internal Affairs and Communications “Family Income and Expenditure Survey”

Percentage of tenants’ category (based on rents)



A	**Grocery**	---	**22.4%**
B	Other retailer	---	13.7%
C	**Service**	---	**10.0%**
D	Home & garden	---	9.8%
E	Consumer electronics	---	7.0%
F	Clothing	---	6.5%
G	GMS	---	6.0%
H	Interior goods	---	4.0%
I	**Restaurants**	---	**3.8%**
J	**Sports club**	---	**3.6%**
K	Others	---	13.1%

Example of each type of business

	Things	Services/ experiences
Daily	Example: • Grocery • Clothing • Medication/ Drug	Example: • Sports club/ Yoga • Cram school • Clinics • Restaurant/ Cafe • Karaoke/ Bowling
Destination	Example: • High-end brands • Jewelry • Car/ Motorcycle	Example: • Travel • Concert/ Live • Ceremonies

Note 1: "a" refers to businesses including medical services, hair salons, photography studios, for-profit schools and study centers, leisure facilities, restaurants and health clubs that cannot be replaced by e-commerce.
Note 2: “b” refers to businesses where 50% or more of the respondents to the survey conducted by the Ministry of Internal Affairs and Communications titled “Product types for online shopping or physical stores” indicated their preference for purchasing products at a physical store and where 15% or fewer indicated their preference for purchasing such products on the internet.
Note 3: “d” refers to businesses that require physical visits to stores or handle products that consumers highly desire to evaluate in person (sporting goods, prescription eyewear, second-hand products, shoes, musical instruments and interior products).

Online advertising and social media marketing

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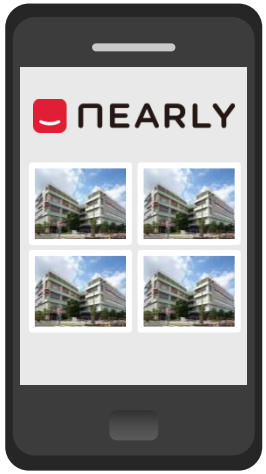
Introducing mobile app “LINE@” to Bulmer Maitamon and Fululu Garden Yachiyo



What’s in it for customers?
- Provide customers to good deals such as bargain sales
- Enable customers to communicate/ message with favorite store (tenant)

Why introducing the App?
- Intend to increase the number of repeat customers within radius of retail trade area

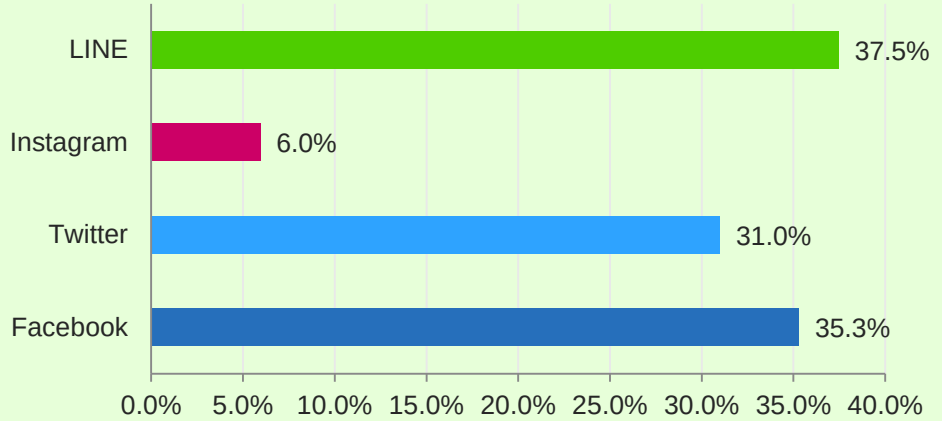
Introducing mobile app “NEARLY” to Passaggio Nishiarai



What’s in it for customers?
- Follow favorite stores and SCs
- When you get close to the stores or the SCs physically, it lets you know good deals

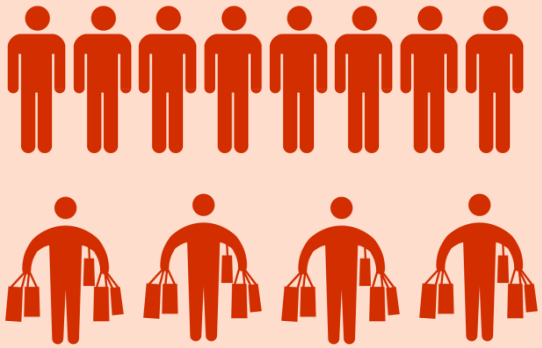
Why introducing the App?
- Push marketing within the trade area
- Improve conversion rate to purchase goods and services

LINE app is as popular app as Facebook in Japan



Source: Ministry of Internal Affairs and Communications “Research on ICT services and technology for solution to social issue (2015)”

A large number of visits to Passaggio Nishiarai due to its location between train station and residence area



Number of visitor
4.6 million

# of people purchased
1.9 million

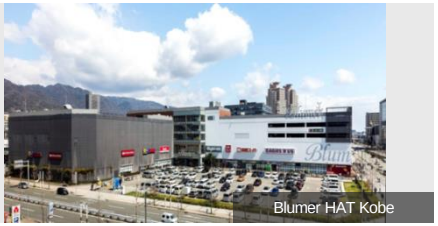
CSR and environmental initiatives

DBJ Green Building Certification

Received DBJ Green Building Certification for Blumer HAT Kobe, Roseo Mito, Ashiko Town Ashikaga, and Passaggio Nishiarai. Accordingly, the number of accumulated DBJ Green Building Certification became nine.

DBJ Green Building 2016

Properties with excellent environmental and social awareness


Blumer HAT Kobe


Roseo Mito


Ashiko Town Ashikaga

DBJ Green Building 2016

Properties with high environmental and social awareness


Passaggio Nishiarai

GRESB Real Estate Assessment 2016

GRESB 2016

Awarded a “Green Star” Rating at its first participation in 2016

Received high evaluation on both “implementation and measurement” and “management and policy”

Earned three star (out of five star)

Help enliven local communities

Seek to enhance the medium to long term asset value of our retail properties by attracting tenants engaged in service businesses and holding local events at our properties to enliven the local community.



Summer Festival at Uniscus Ina



Presentation day for lifelong education

CSR initiatives

We agreed to provide part of Unicus Yoshikawa as a temporary gathering area in cases of disaster such as floods.


Unicus Yoshikawa (aerial photo)



Signing of agreement

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Retail REIT Corporation

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