

February 9, 2017

To whom it may concern:

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Japan Real Estate Investment Corporation

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Notice of Proposal to Amend the Structure of Asset Management Fees

Japan Real Estate Investment Corporation (the “JRE”) announced today that it has resolved to propose the following amendments (the “amendments”) to the structure of the asset management fees (the “fee structure”) payable to Japan Real Estate Asset Management Co., Ltd., its asset management company, at the 10th General Unitholders’ Meeting on March 28, 2017, in order to align the fee structure more closely with unitholders’ interests.

1. JRE’s solid track record

- JRE’s assets under management have grown steadily since its IPO in 2001 as the first listed J-REIT, through proactive and sound investments.
- JRE recently swapped an older asset for a more competitive, newer asset. The transaction is an example of its effort to pursue not only the size of its assets, but the quality of its portfolio while maintaining and further expanding its revenue base. Consequently, JRE has achieved an increase in dividend per unit (the “DPU”) for five consecutive periods.
- JRE marked its 15th anniversary of its IPO and recognizes that it has entered a new phase to take to a higher level its business policy of providing stable dividends to unitholders.

2. The Proposed amendments

(1) Purpose of the amendments

- The current structure of the asset management fees is not linked to the mere size of its assets, but is linked only to the cash flows generated from the portfolio. In addition, it takes into account the increase and decrease of cash flows per investment unit.
- Within the J-REITs industry, JRE is currently the only J-REIT which adopts such a fee structure that focus exclusively on the cash flows “from the portfolio” and the cash flows “per investment unit” as opposed to the total assets. The proposed amendments will keep intact the basic principle above, placing the asset management company “aboard the same boat” with the unitholders.

- On that basis, the amendments are aimed to align the asset management company's incentives more closely with unitholders' interests and by doing so to further enhance the corporate value of JRE going forward.

(Note) There is no change on other fees related to the acquisition, disposition and merger.

(2) Outline of the amendments (please see the attached chart)

- To replace the indices used in the current fee structure that are linked to the cash flows “from the portfolio” and “per investment unit” with the following indices which are easy to understand and familiar to J-REITs unitholders as described below:

(a) NOI (Net Operating Income)

An index linked to the earnings capacity of the portfolio that will be the basis of corporate value of JRE and will lead to medium to long term growth.

(b) Distributable Amount

An index linked to profits that will be the source of dividends and will lead to consistent performance.

(c) DPU Growth

An index linked to stable DPU growth.

- In addition, by combining the indices (b) and (c) which are linked to dividends, a simplified fee structure is provided as follows:

<< **NOI-linked fee**>>

NOI x 4.0%

<< **Distribution-linked fee** >>

Distributable Amount x 2.5% x (DPU in the current period / Average DPU of the recent six periods)

(3) Impact of the amendments

- Within the current J-REITs industry, the average ratio of annual asset management fees to total assets (excluding acquisition and disposition fees) is approximately 0.4% while that of the JRE is approximately 0.2% under the current fee structure, which is at the lower end of the range. After the amendments, it is expected to stay at largely the same level.
- In addition, when applying the proposed fee structure to past results, asset management fees would have increased slightly, but the impact on dividends would have been marginal.
- No revision to the performance forecast will be made as described below in “3. Future outlook” and DPU is expected to maintain its upward trend.

3. Future outlook

- If the amendments are approved at the 10th General Unitholders' Meeting of JRE scheduled to be held on March 28, 2017, the new fee structure will be effective and be applicable from September 2017 period (from April 1, 2017 to September 30, 2017).
- Accordingly, there is no impact of the amendments on the JRE's performance for March 2017 period (from October 1, 2016 to March 31, 2017). In addition, as the impact on the performance for September 2017 period (from April 1, 2017 to September 30, 2017) is expected to be minor, no revision of the forecast for performance will be made.

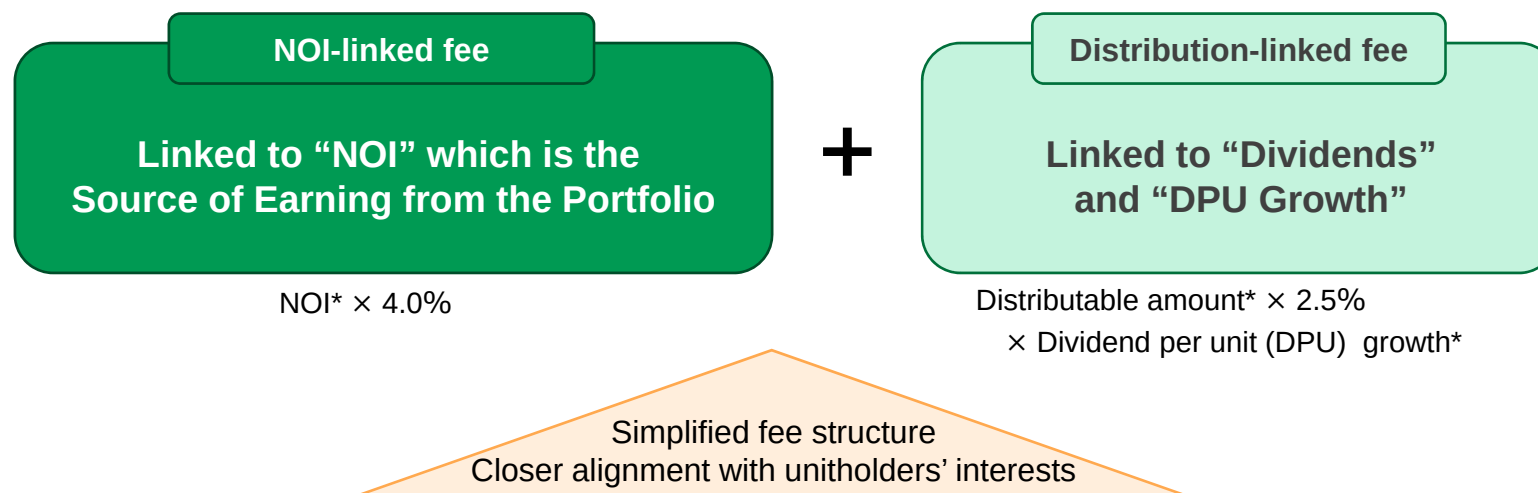
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Amendments to the Structure of Asset Management Fees

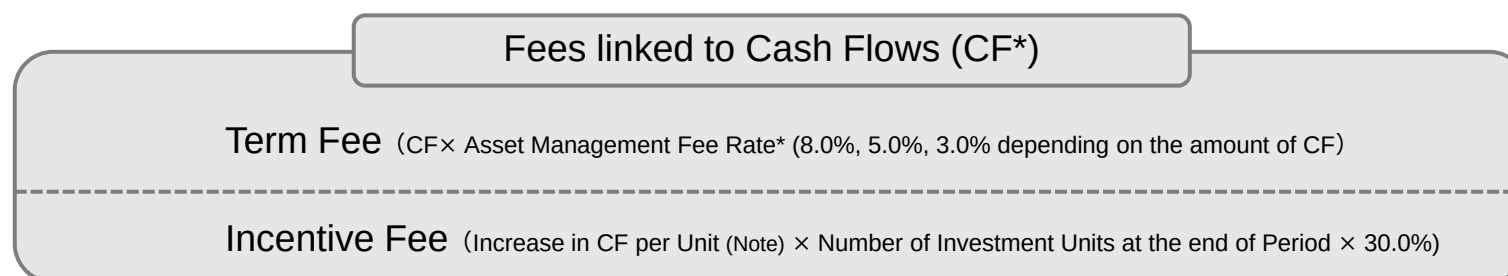
Outline of the Amendments

*For the Terms and Definitions, please see Page 3.

■ New Fee Structure



■ Current Fee Structure



(Note) Method of calculating the increase of CF per Unit (CF per Unit is calculated based on outstanding units as of the end of each period)

- (1) In case CF per Unit increased or is in the same amount as in the previous period for six consecutive periods and the CF per Unit in the current period has increased compared to that in the previous period
Calculation formula: $\text{CF per Unit in the current period} - \text{CF per Unit in the previous period}$
- (2) In case CF per Unit did not meet (1) above, but CF per Unit in the current period exceeds the average CF per Unit of the recent six periods and the CF per Unit in the current period has increased compared to that in the previous period
Calculation formula: $\text{CF per Unit in the current period} - \text{Average CF per Unit of the recent six periods}$

Amendments to the Structure of Asset Management Fees

Impact of the Amendments

- Maintain basic principles of the current fee structure based on
“earning capacity of the portfolio” and “unitholders’ interest per unit”
 - ⇒ **Simplified fee structure while the asset management company’s incentives are aligned more closely with unitholders’ interests**
 - NOI-linked fee
Commitment to long term growth of JRE’s portfolio and improvement of earning capacity
 - Distribution-linked fee
Commitment to stable DPU growth
- Impact to the performance forecast from the amendment
 - ⇒ **As impact is marginal, no revision of the performance forecast will be made**

Amendments to the Structure of Asset Management Fees

Terms and Definitions

■ New Fee Structure

- NOI
Property-related revenues – Property-related expenses (excluding depreciation expenses and loss on retirement of non-current assets)
- Distributable amount
Income before income taxes before deduction of NOI-linked fee and Distribution-linked fee, and non-deductible consumption taxes
(if any retained loss brought forward exists, an amount after supplementation of such amount)
- Dividend per unit (DPU) growth
 $\text{DPU in the current period} / \text{Average DPU of the recent six periods}$

■ Current Fee Structure

- CF
Income before income taxes + Depreciation expenses and the amortization of deferred assets
– Gain or loss on sales of the assets
- Asset Management Fee Rate (Term Fee)
8.0% is applied for the portion of the CF that is not more than 2.5 billion yen.
5.0% is applied for the portion of the CF that is more than 2.5 billion yen but not more than 4 billion yen.
3.0% is applied for the portion of the CF that is more than 4 billion yen.