# Kenedix Retail REIT Corporation

Financial Results

for the 6th Financial Period ended March 31, 2018

May 18, 2018

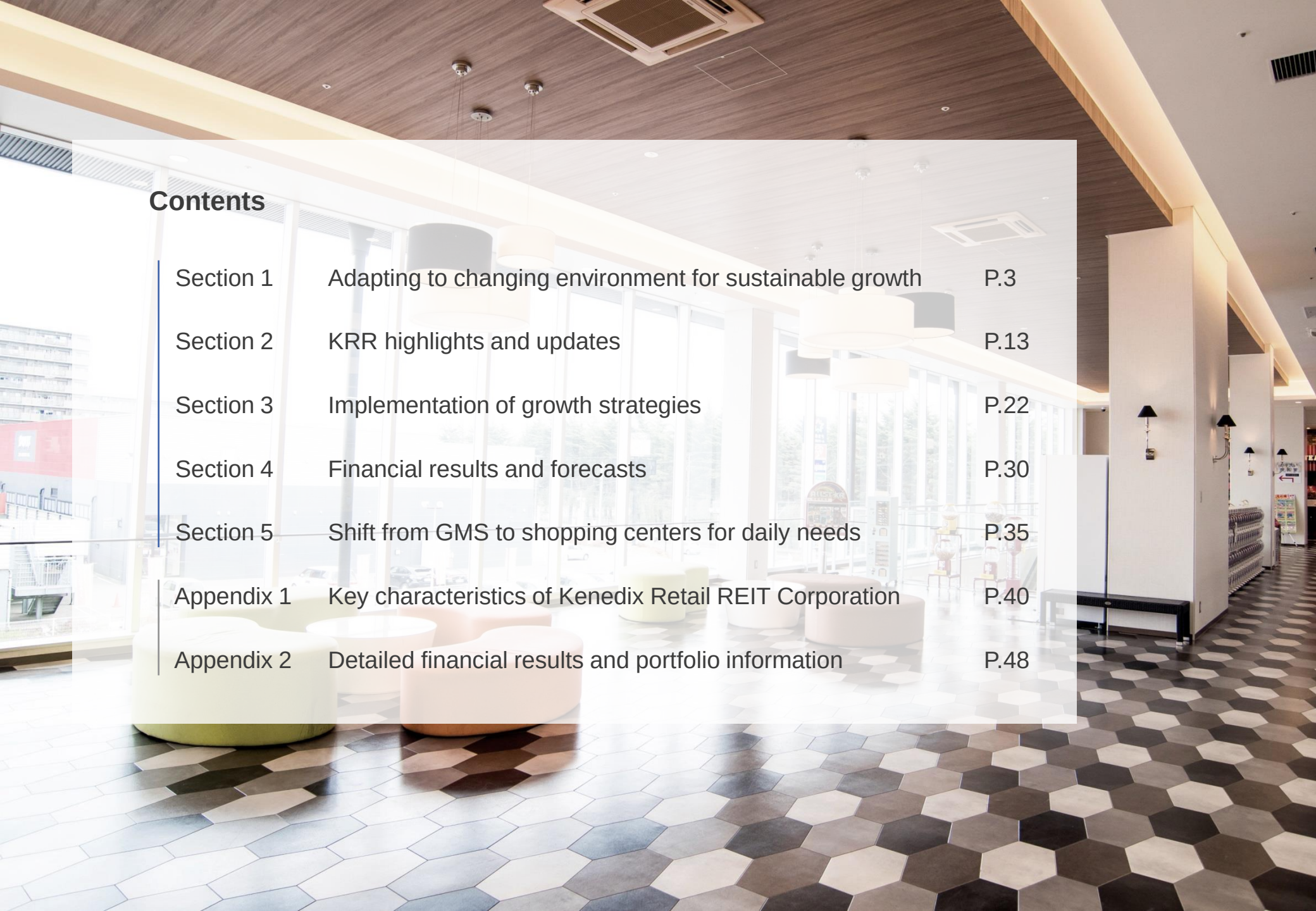
KENEDIX

Retail REIT Corporation



Yumemachi Narashinodai Mall

Kenedix Real Estate Fund Management, Inc.



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# Adapting to changing environment for sustainable growth

Security Code
3453



# KRR highlights for three years since the IPO

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## Growth backed by solid operation and portfolio stability

| High occupancy rate | Stable tenant performance | Stabilized DPU growth |
|---|---|---|
| Average since listing **99.6%** | Exceeding **100%** (YoY) for **6** consecutive periods | **+36.0%** |

## Evaluation on stability of shopping centers for daily needs

| Expansion of market capitalization | Improvement in credit rating |
|---|---|
| **Inclusion in global index** | **A → A+** |

Note 1: Occupancy rate is an average from February 2015 to March 2018.
Note 2: Change in stabilized distribution per unit from February 2015 to May 2018 is shown.
Note 3: "Global index" indicates FTSE EPRA/NAREIT Global Real Estate Index Series.
Note 4: "Credit rating" indicates the credit rating granted by Japan Credit Rating Agency, Ltd.

# KRR's sustainable growth cycle

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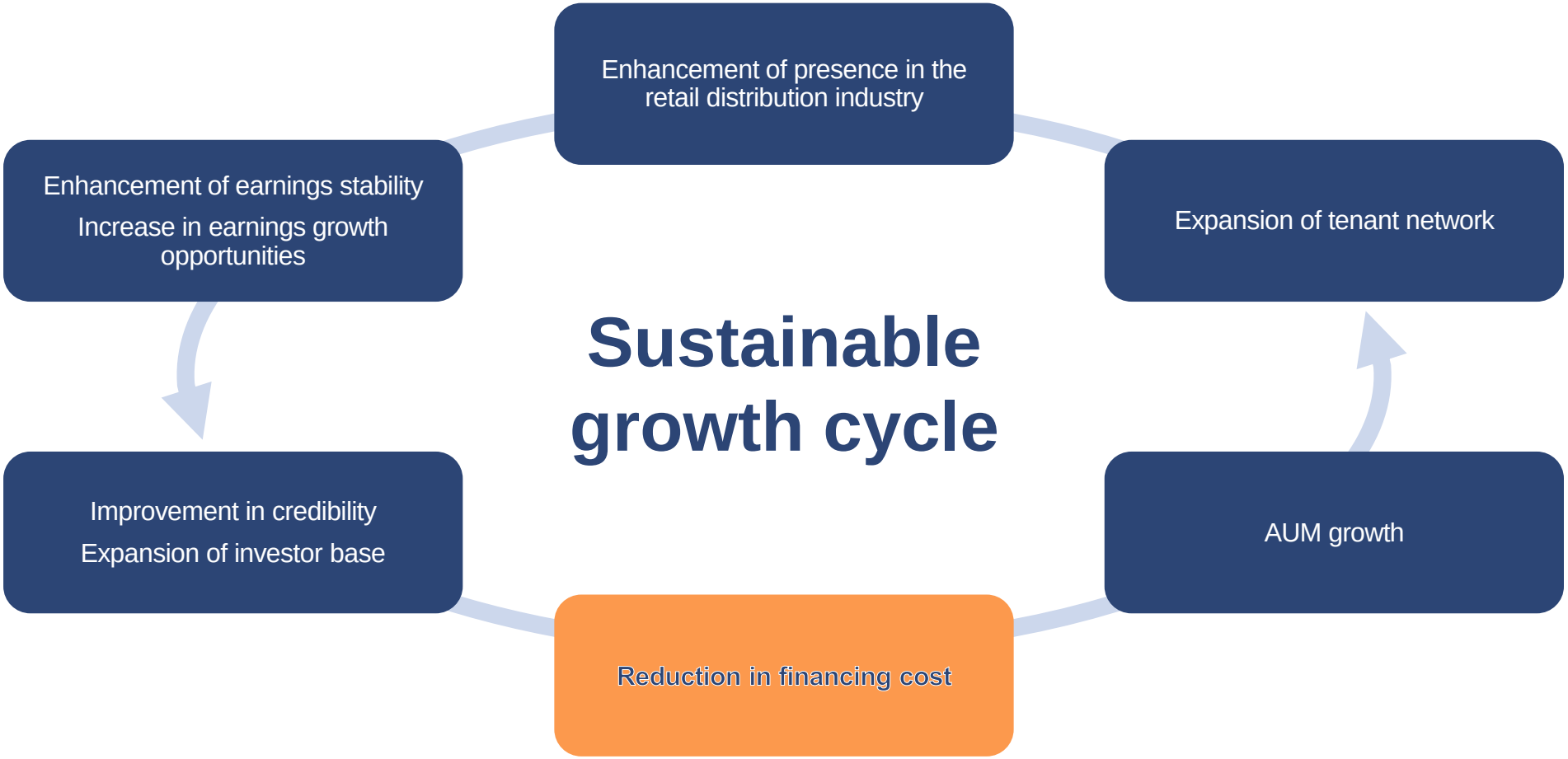


**KRR must solve issues toward higher valuation of investment unit**

# Evolving in response to changing business environment

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## Evolving in response to changing business environment

### Alleviate concerns on retail properties in the J-REIT market

**Alleviate excessive concern on e-commerce penetration**

- Inclusion of logistics facilities as investment criteria

**Alleviate the wide gap in concerns over certain properties**

- Disposition of properties (portfolio quality improvement)

### Asset management focusing more on DPU and NAV growth

- Replacement of properties with low NOI yield after depreciation
- New asset management fee structure
- Framework for unit buyback

Note: The inclusion in logistics facilities as investment criteria and the change in the asset management fee structure by KRR will take effect upon approval of the changes to the Articles of Incorporation by the Second General Meeting of Unitholders to be held on June 15, 2018. The same shall apply hereinafter.

# Retail and logistics facilities in supply chains

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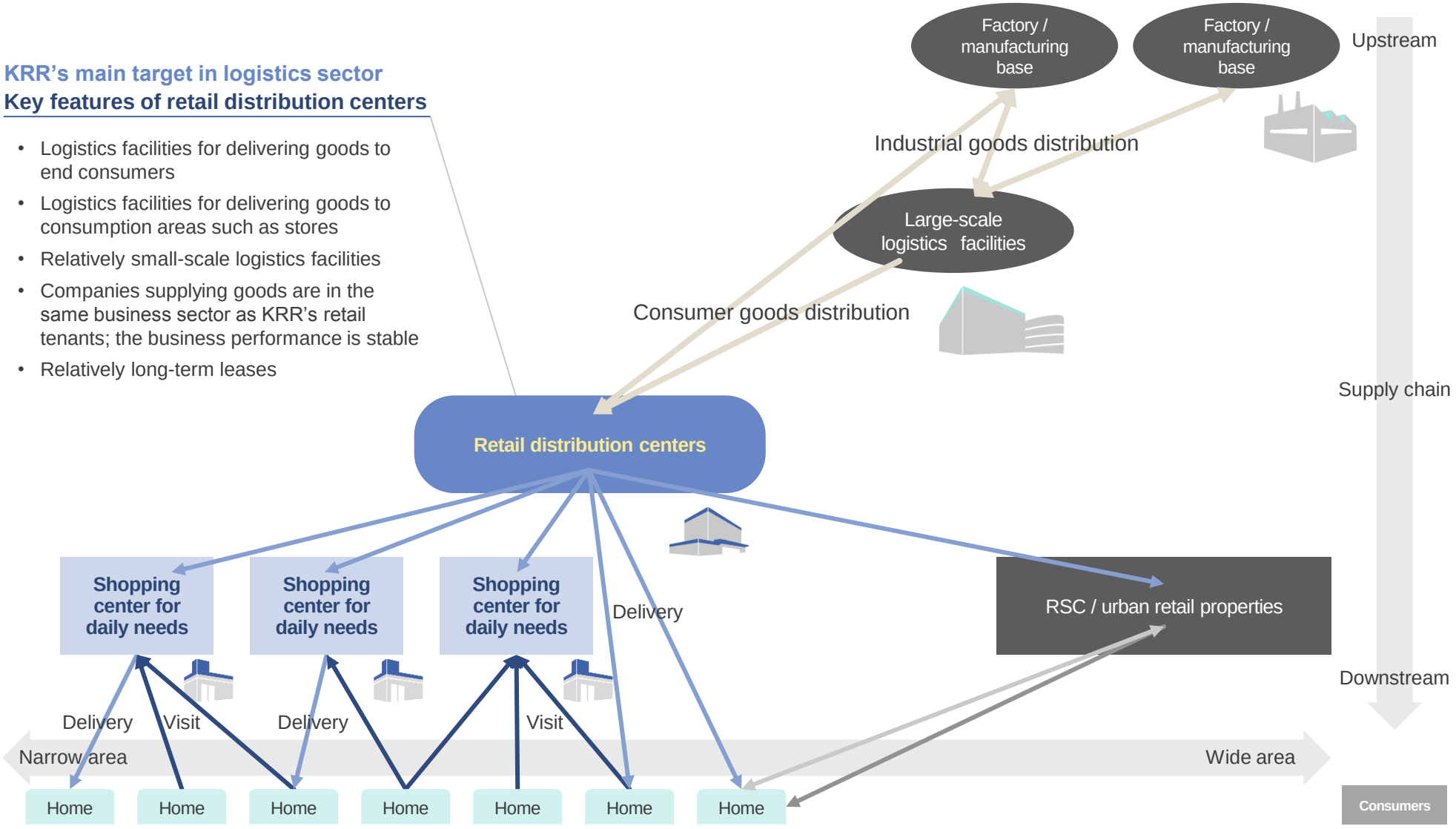
## KRR's main target in logistics sector
## Key features of retail distribution centers

- Logistics facilities for delivering goods to end consumers
- Logistics facilities for delivering goods to consumption areas such as stores
- Relatively small-scale logistics facilities
- Companies supplying goods are in the same business sector as KRR's retail tenants; the business performance is stable
- Relatively long-term leases




Note: The above shows key features and concept of logistics facilities in which KRR makes an investment. However, not all logistics facilities acquired by KRR are expected to have the above features.

# Integration of functions of retail and logistics facilities

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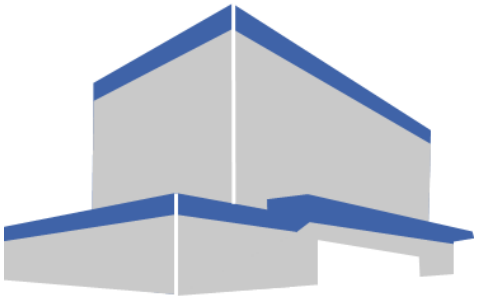

Deliver from retail facilities to home

Purchase at retail facilities

Receive at retail facilities

Online orders

**5.4%**
Online share

Deliver from logistics facilities to home

# Background on investment in logistics facilities

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## Diversified consumer behavior

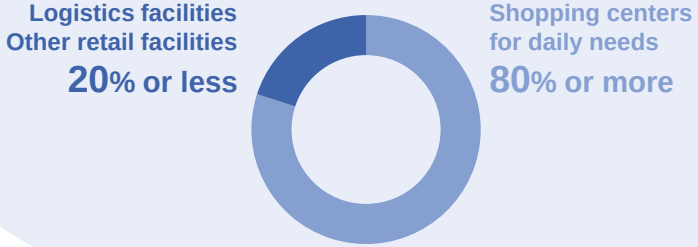
- E-commerce penetration
- Shift from “goods” to “experiences/services”
- Focus on fresh products
- High frequency of purchasing
- Diversified ways to receive goods

## Sophisticated flow of goods

- Frequent small deliveries
- Shorter lead time
- Last-mile issues
- Needs for distribution bases close to consumption areas
- Delivery of goods from stores

**Lowered barrier between retail and logistics facilities**

**Investment in logistics facilities**




**Shift from GMS to shopping centers for daily needs**

**Opportunities to acquire newly developed logistics facilities**

## Management expertise / sponsor support

- Leasing services utilizing retail tenant network
- Understanding off-balance needs of tenants
- Development and management track-record of logistics facilities by the Kenedix Group, including involvement in Japan Logistics Fund, Inc.
- Potential conversion of retail facilities to logistics use

# Change of fee structure to provide further incentives to enhance unitholder value

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## Revision of asset management fee rates and establishment of new fees

Revise to increase the linkage between the asset management fee and unitholder interests

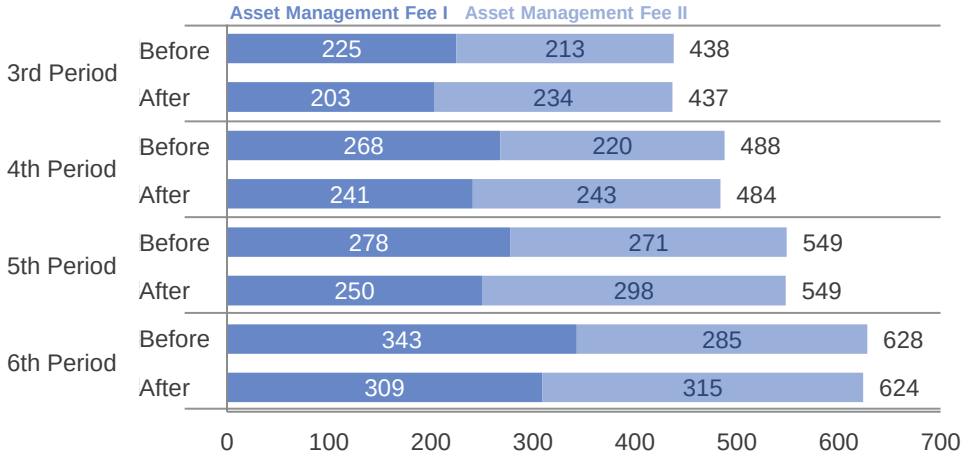
Establish investment unit performance fee to provide an incentive for the asset manager to focus on the investment unit price

Establish merger fee and revise the acquisition fee

| Asset Management Fee I | Asset Management Fee II | Investment Unit Performance Fee |
|---|---|---|
| Total assets x 0.3% (annual rate) ▼ **Total assets x 0.27% (annual rate)** | Net income x DPU x 0.0012% ▼ **Net income x DPU x 0.0013%** | New **KRR's excess return x Market capitalization x 0.1%** |

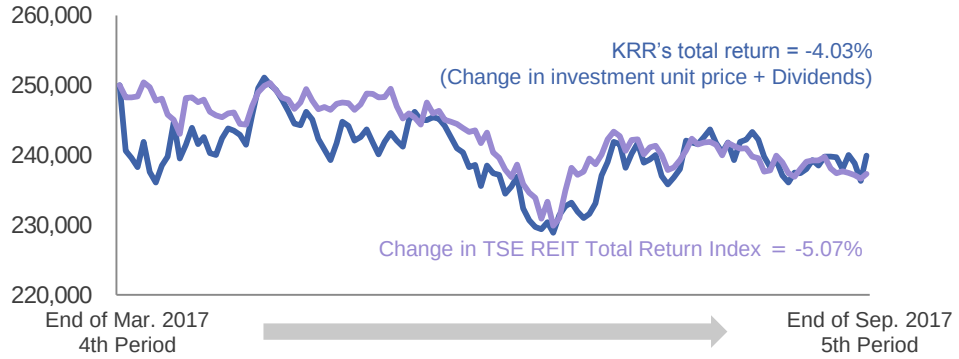
| Acquisition Fee | Disposition Fee | Merger Fee |
|---|---|---|
| **Acquisition price x 1.0%** (including acquisition of buildings through expansion or reconstruction) Addition | **Disposition price x 0.5%** | New **Appraisal value of assets to be succeeded x 1.0% (maximum)** |

## Asset management fee estimates retroactively calculated based on new rates (JPY mn)




## Calculation method and the investment unit performance fee estimate

Investment unit performance fee = KRR's excess return x Market cap as of the end of the 4th period x 0.1%
= 1.04% x JPY 105,612 mn x 0.1%
**= JPY 1,097,071**
*Zero when KRR's investment unit underperforms



# Sensitivity on unit buyback

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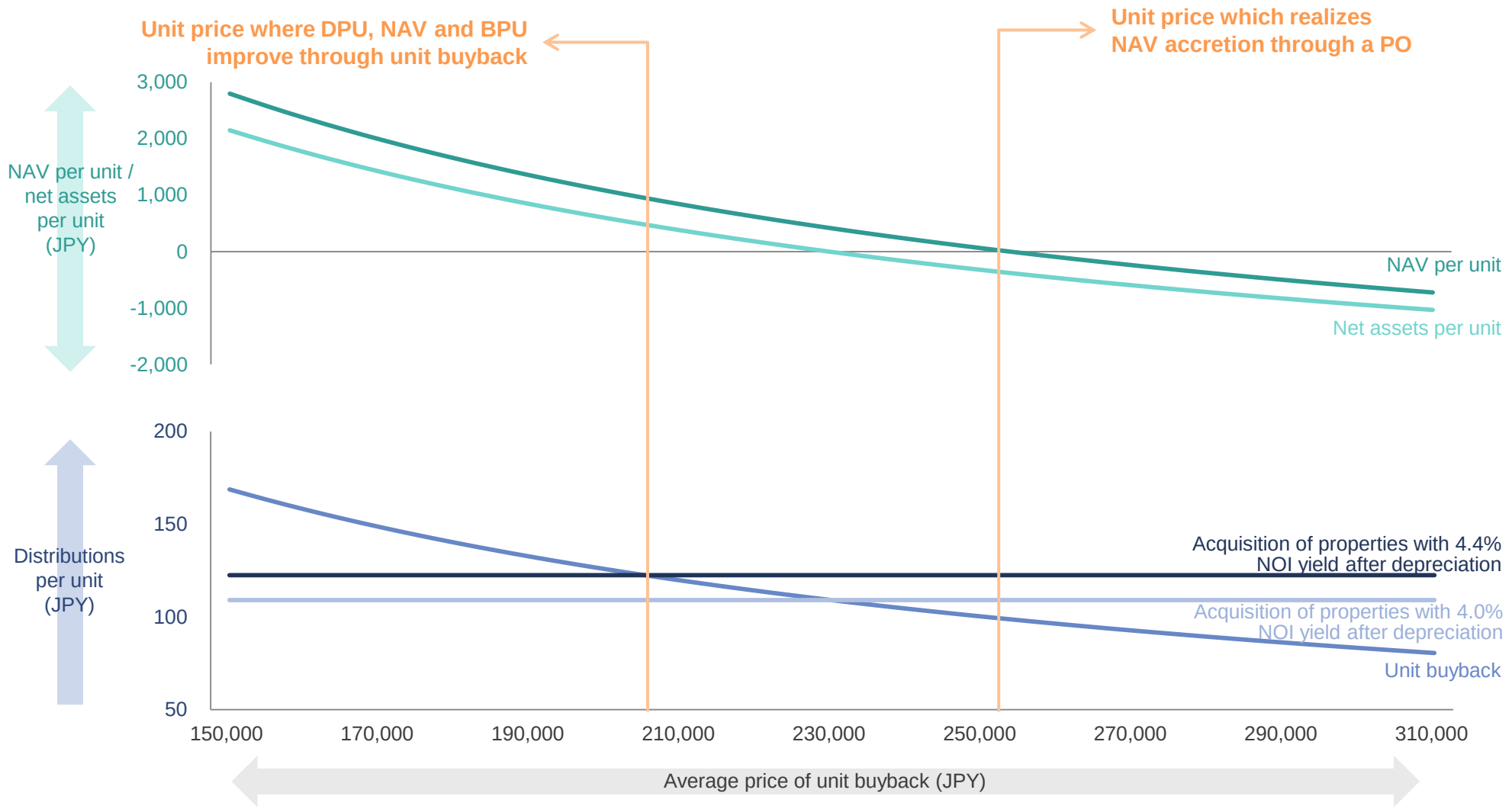
## Sensitivity on unit buyback

(Assuming that JPY 2.0 billion is used for unit buyback)




Note 1: Difference between accumulated depreciation (JPY 3,810 million) and accumulated capital expenditure (JPY 1,700 million) is JPY 2,110 million.
Note 2: Acquisition of properties reflects increase in LTV as a result of unit buyback.

Memo

02

# KRR highlights and updates

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# Summary



**Key points of the 6th fiscal period ended March 31, 2018**

- Maintaining high occupancy rate and continuously stable tenant sales
- Full-period contribution of the properties acquired in the 5th fiscal period to continued DPU growth
- Acquisition of Ozeki Tokiwadai located in one of the most densely populated retail trade areas in Tokyo

**Key points of the 7th fiscal period ending September 30, 2018**

- Offsetting temporary decrease in NOI due to renovations at MONA Shin-Urayasu by gain on sale
- Decrease in NOI resulting from expensing property-related taxes on the properties acquired in the 5th fiscal period
- Contribution of property acquisitions in the 6th and the 7th fiscal periods to DPU growth
- Conversion to long-term fixed-rate debts by issuing investment corporation bonds and refinancing

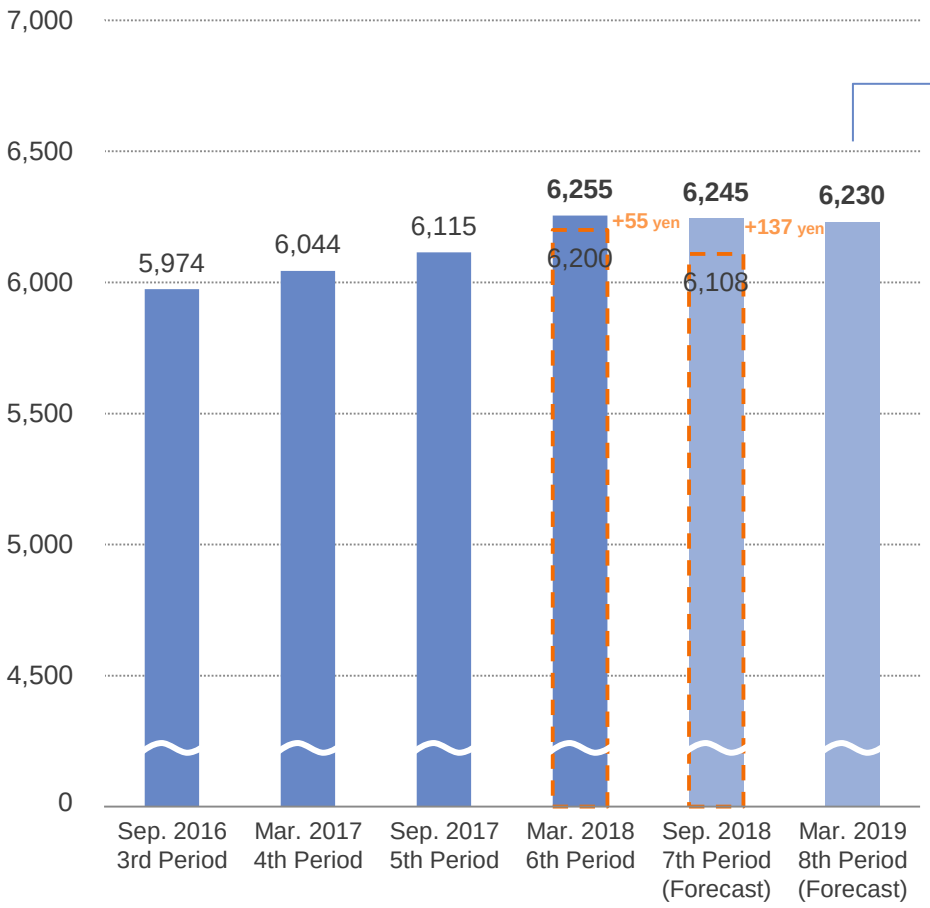
**Key points of the 8th fiscal period ending March 31, 2019**

- Increase in NOI as a result of completion of renovations at MONA Shin-Urayasu
- Full-period contribution of the properties acquired in the 6th and the 7th fiscal periods to DPU growth
- Temporary increase in expenses (restoring cost) at Fululu Garden Yachiyo

# Distribution per unit

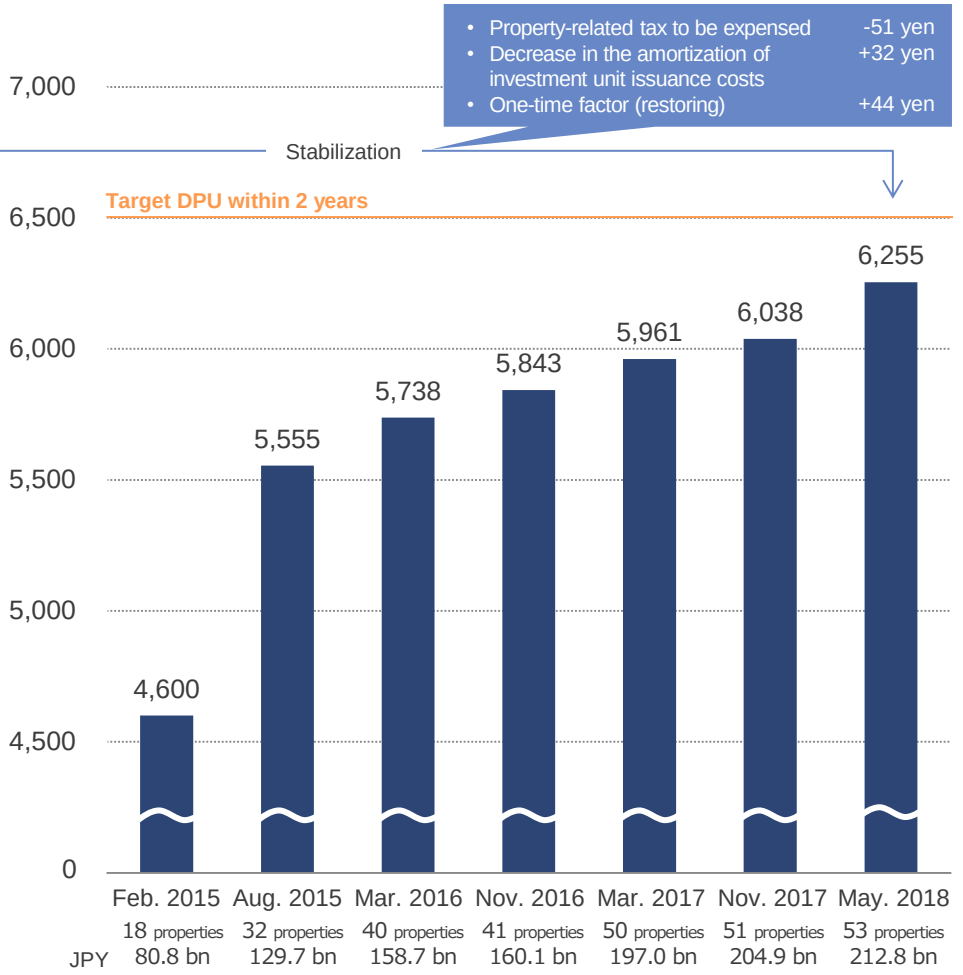
## Distribution per unit (JPY)

(The boxes in orange lines indicate the forecasts as of Nov. 14, 2017)



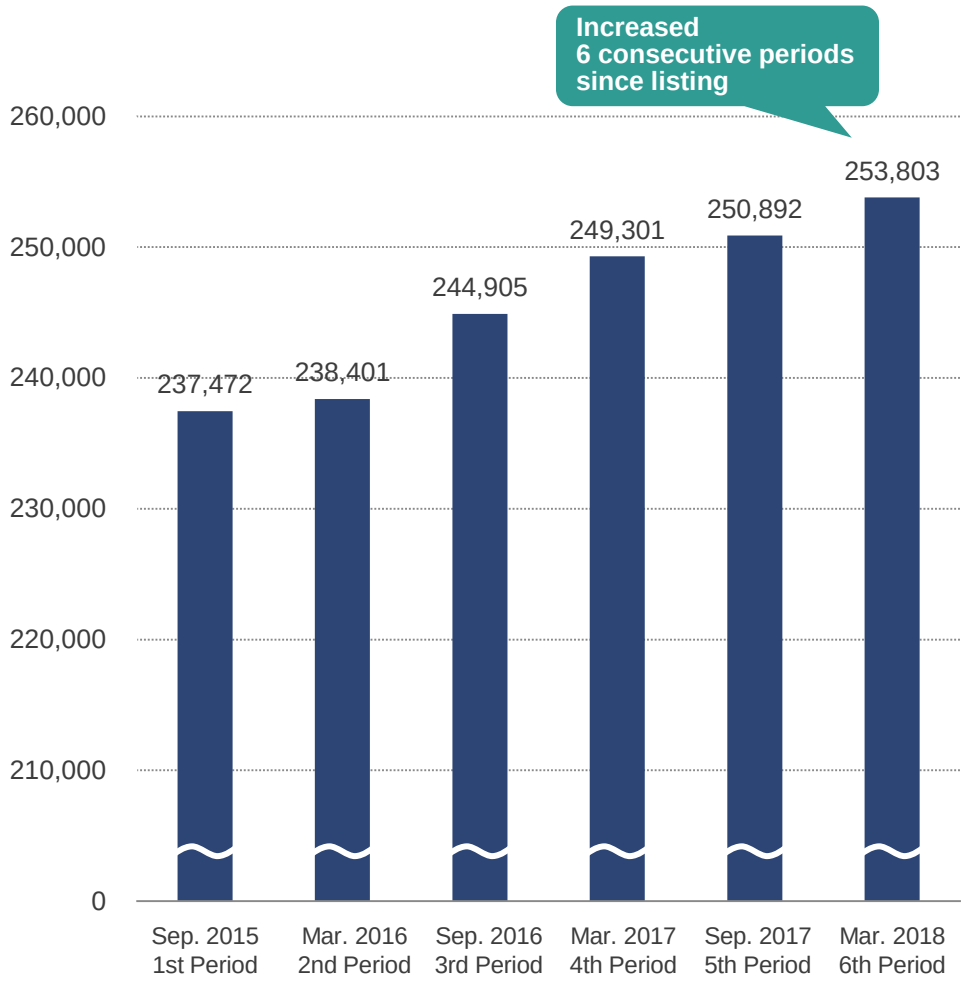

## Stabilized distribution per unit (JPY)

(Assuming that property-related taxes were expensed, and excluding one-time factors such as gain on sale of property)

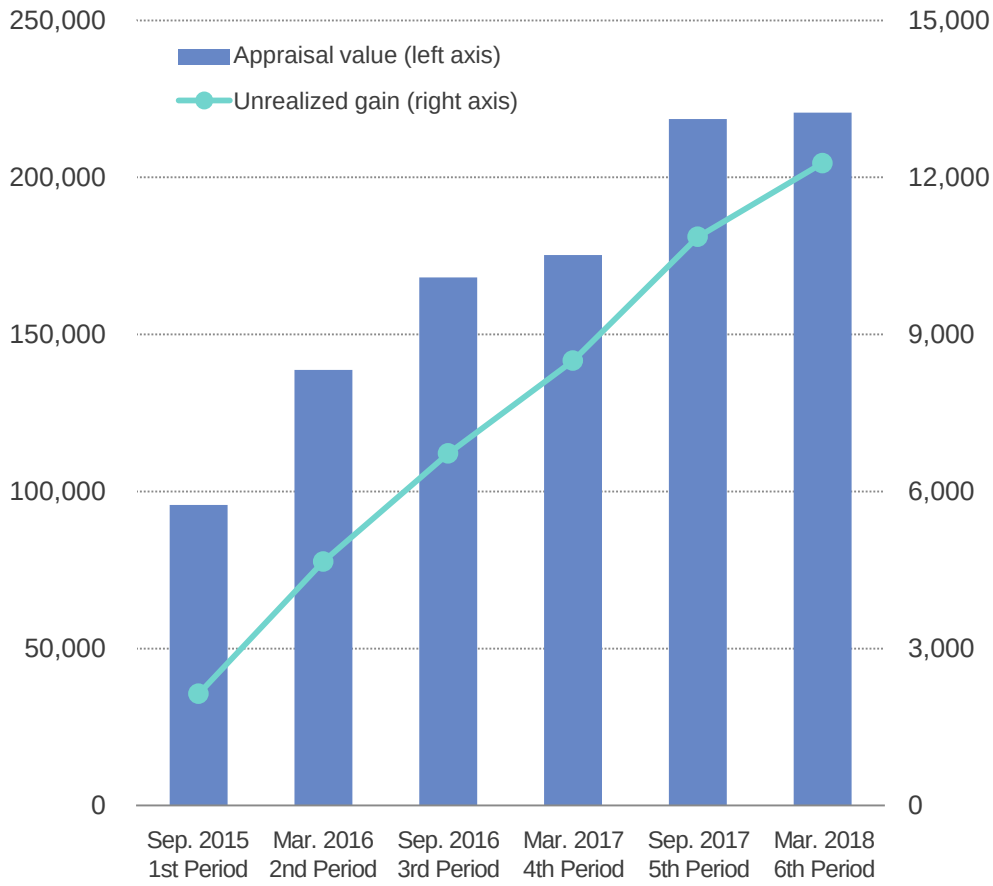


# NAV per unit and appraisal value

## NAV per unit (JPY)




## Appraisal value and unrealized gain (JPY mn)




Note: NAV per unit at the end of each fiscal period = (net assets + unrealized appraisal gains/losses on the entire portfolio at the end of each fiscal period) / (total number of investment units issued at the end of each fiscal period)

# Portfolio summary

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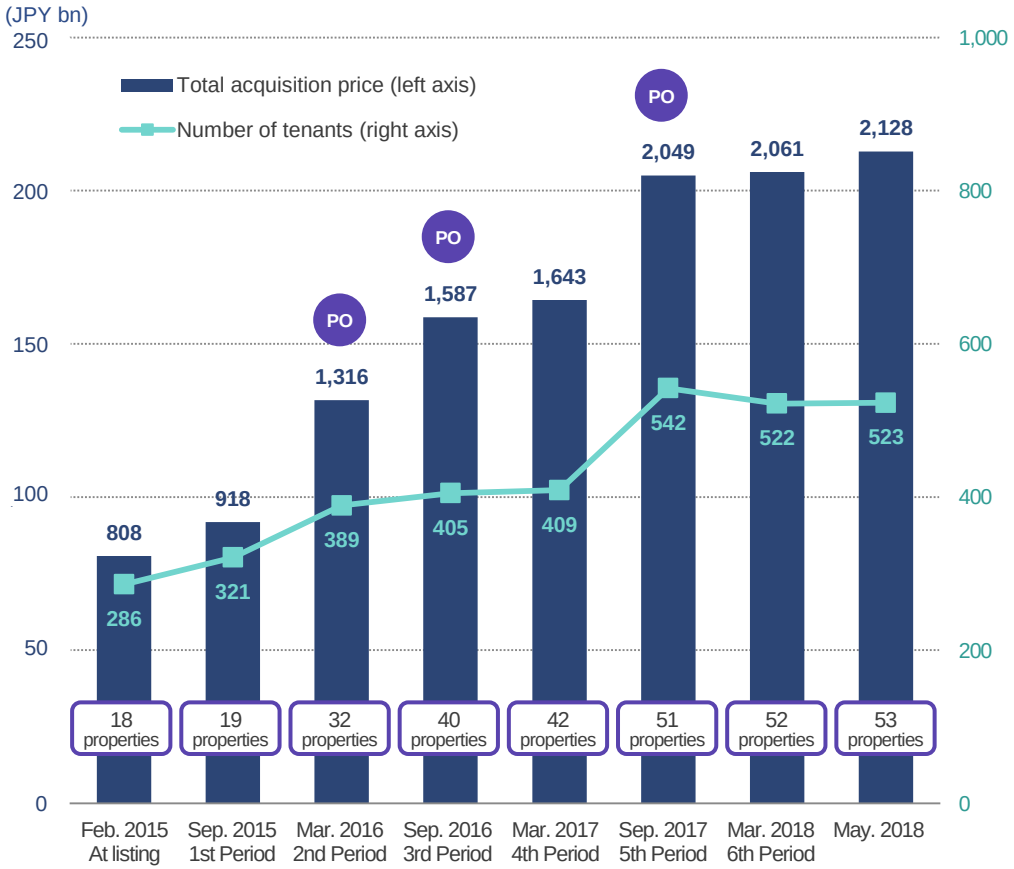
## Appraisal value, NOI yield, occupancy rate

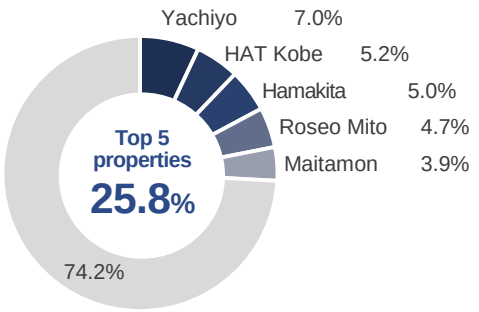
| Total appraisal value | Appraisal NOI yield | NOI yield after depreciation | Occupancy rate |
|---|---|---|---|
| JPY 228.4 bn | 5.3% | 4.4% | 99.5% |

## AUM, number of tenants, number of properties

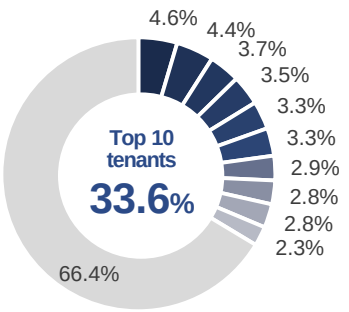



## Characteristics of KRR portfolio

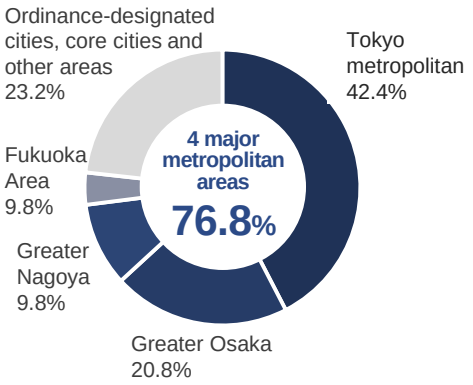
### Top 5 properties (by acquisition price)



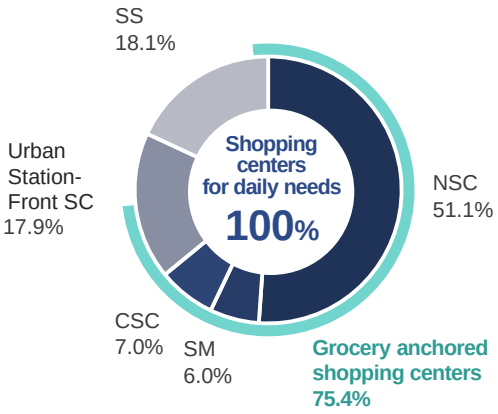

### Top 10 tenants (by annual fixed rent)




### Location




### Types of retail property




Note 1: "Appraisal value", "NOI yield", "Occupancy rate" and other figures on portfolio are as of Mar. 31, 2018, for the 53 properties acquired by May 31, 2018.
Note 2: "Appraisal NOI Yield" is calculated by dividing appraisal NOI from the latest appraisal reports by acquisition price. "NOI yield after depreciation" is based on the forecast for the fiscal period ended Sep. 30, 2018.
Note 3: "Occupancy rate" and "number of tenants" at listing are figures as of Sep. 30, 2014.

# Leasing overview (1)

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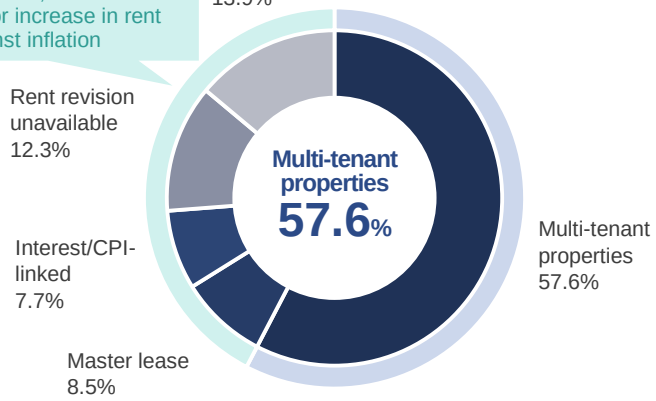
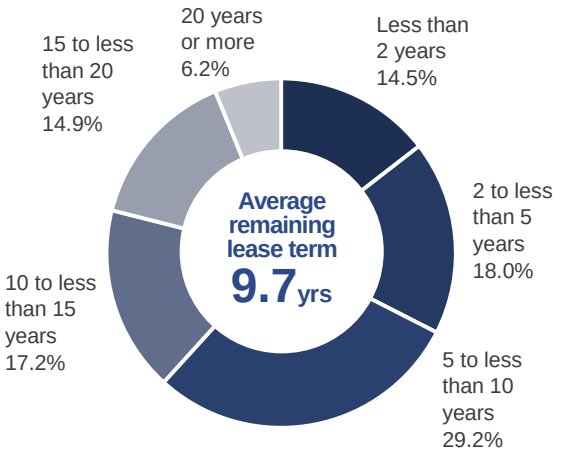
## Multi-tenant properties (by acquisition prices)

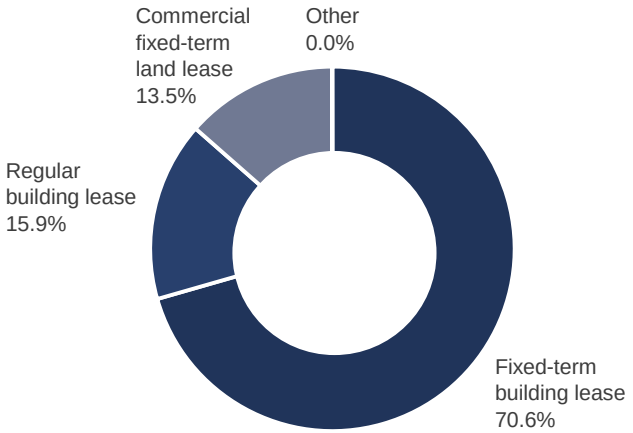
There are various rent types even with single tenant properties. Most are long-term leases, and some have potential for increase in rent and hedge against inflation



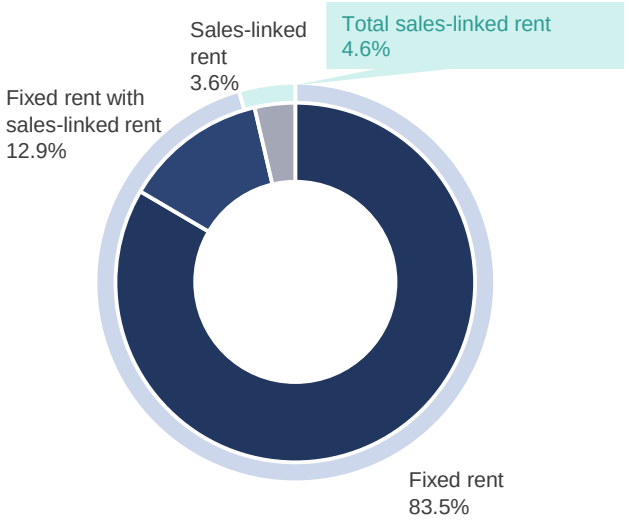

## Remaining lease term (by annual fixed rent)




## Lease contract type (by annual fixed rent)




## Rent type(Sep. 2017-Mar. 2018)




Note 1: The figures are as of Mar. 31, 2018, based on the 53 properties acquired by May 31, 2018. The figures of "Rent type" is for the 6th fiscal period based on the 52 properties acquired by Mar. 31, 2018.
Note 2: Based on the contractual rent determined in the lease contract, including regular building leases.
Note 3: "Master lease" indicates tenants where the lessee does not occupy and subleases to a retailer. "Interest/CPI-linked" indicates tenants whose rent contract renews accordingly to the interest rate or CPI.

# Leasing overview (2)

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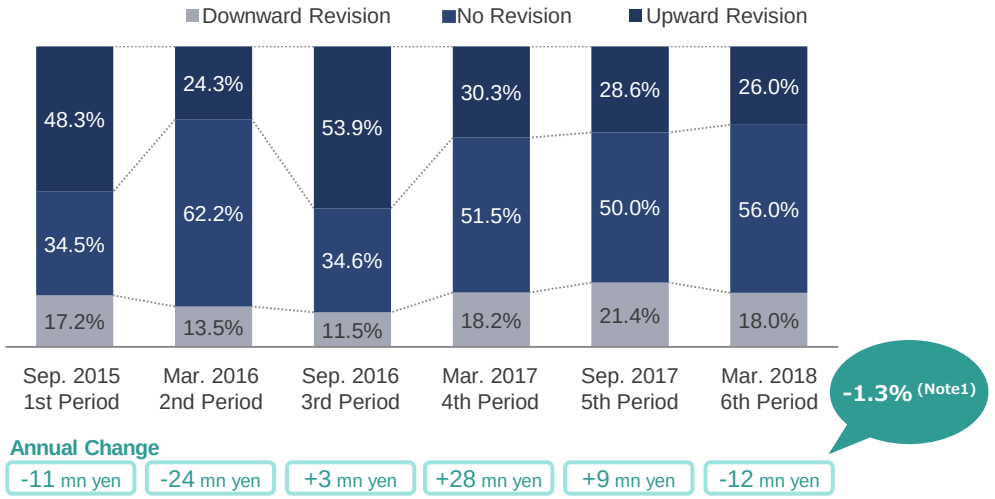
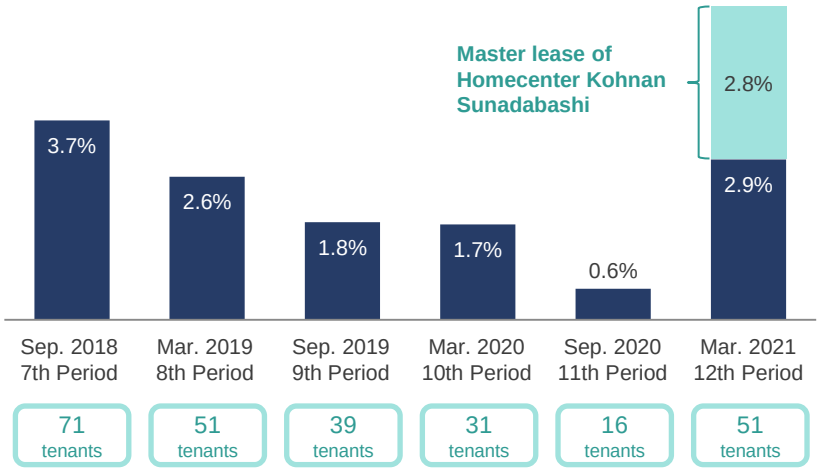
## Rent Revisions (based on number of revisions)

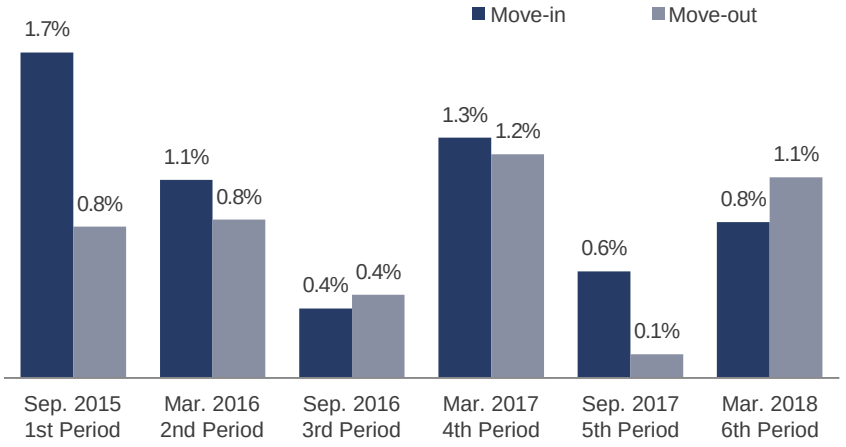



## Lease expiry (by annual fixed rent)

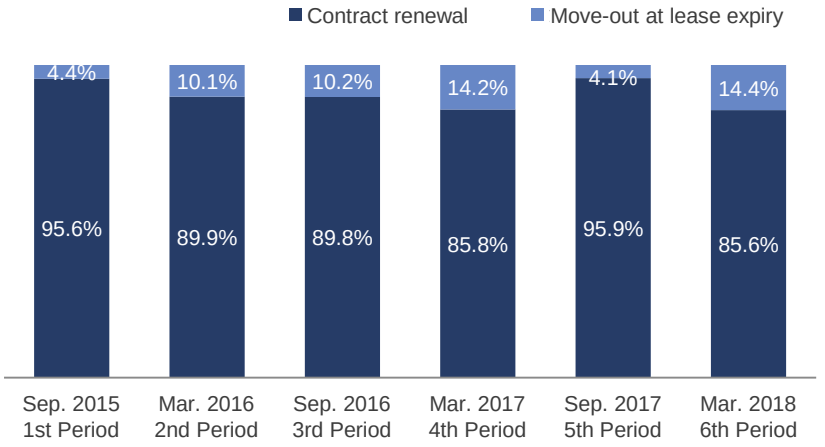
# of tenants and % of lease expiry in each period (Note2)




## Tenant move-in and move-out (Note 3)




## Contract renewals at lease expiry in each period (Note 3)




Note 1: Based on the rent including common area charges before revision of the tenants subject to rent revision.
Note 2: Based on the contractual rent determined in the lease contract, including regular building leases, for properties owned as of Mar. 31, 2018.
Note 3: Based on the rent revenue of the last month of each fiscal period.

# Tenants supported by consumers are less affected by e-commerce

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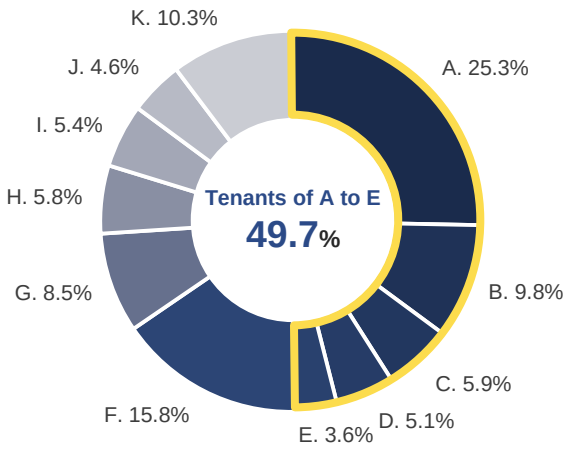
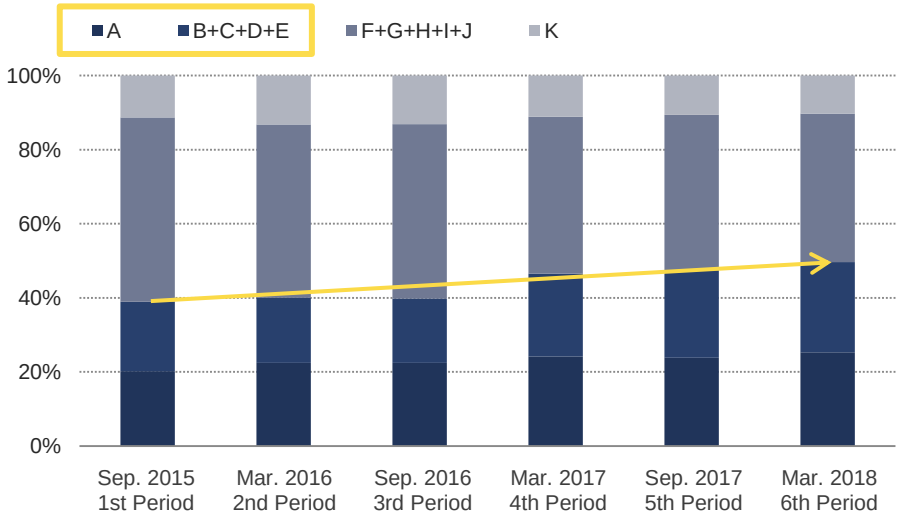
## Percentage of tenant category (based on rents)



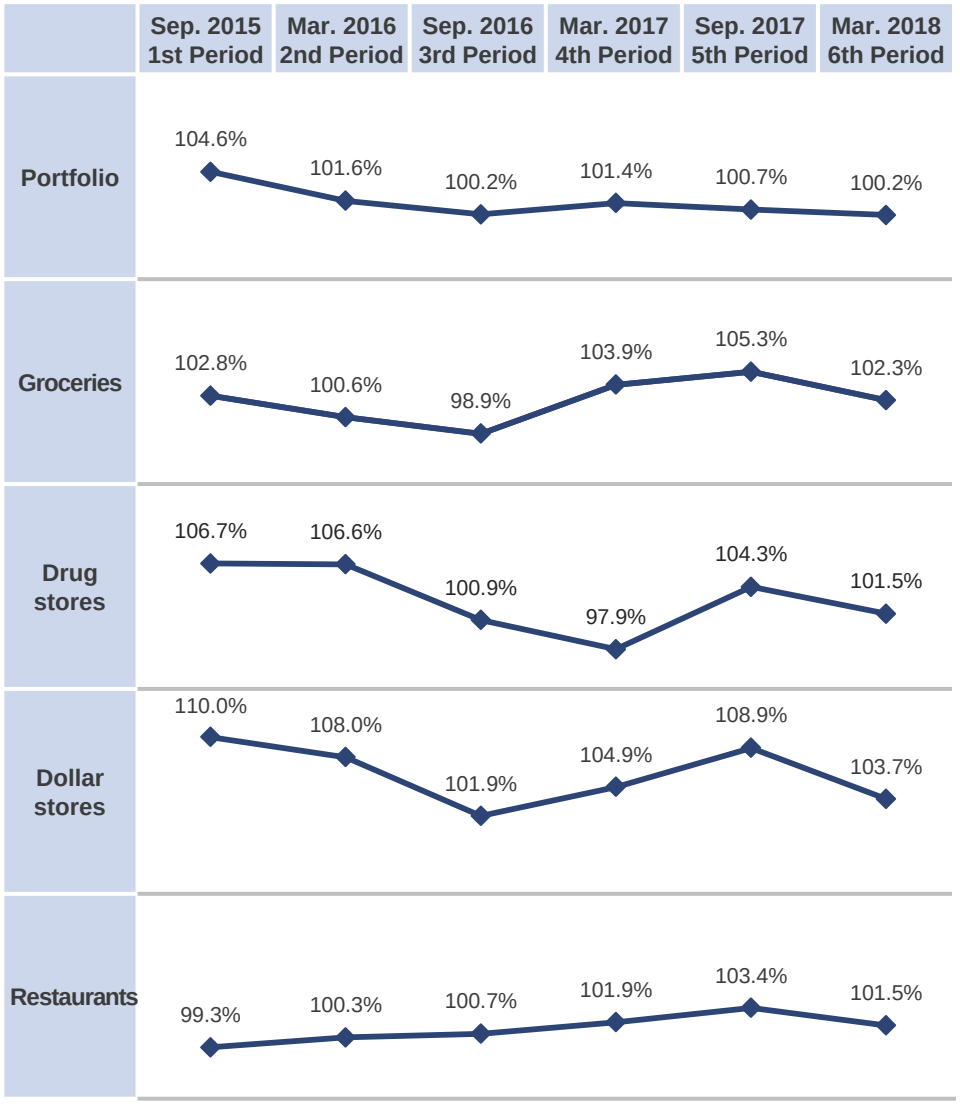

Tenants less affected by e-commerce

| | | |
|---|---|---|
| A. | Groceries & Costco | 25.3% |
| B. | Service businesses | 9.8% |
| C. | Health clubs | 5.9% |
| D. | Amusement | 5.1% |
| E. | Restaurants | 3.6% |
| F. | Other retailers | 15.8% |
| G. | Home & garden | 8.5% |
| H. | Clothing | 5.8% |
| I. | Consumer electronics | 5.4% |
| J. | GMS | 4.6% |
| K. | Others | 10.3% |

## Changes in percentage of tenant category (based on rents)




## Changes in sales of categories (YoY)(Note2)




Note 1: “Costco” refers to Costco Wholesale.
Note 2: Based on the sales figures available to KRR. The sales of each category take into account the effect of difference in days of the weekends in each period, but those of portfolio do not take into account.

# Financial highlights

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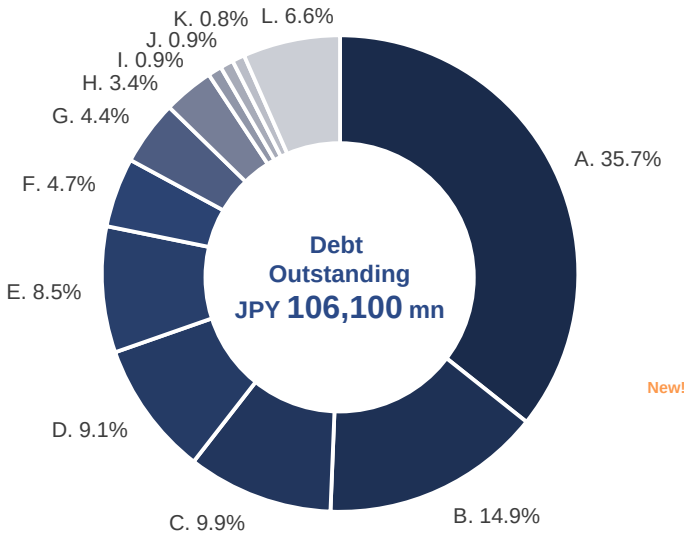
## Financial highlights

| | 5th Period(Note 1) | 6th Period(Note 2) |
|---|---|---|
| Average interest rate | 0.96% | 1.00% |
| Average remaining years to maturity | 4.9 yrs | 5.2 yrs |
| Long-term debt ratio | 87.6% | 96.1% |
| Fixed interest debt ratio | 87.6% | 92.0% |
| LTV | 42.6% | 44.5% |

## Credit rating and commitment lines

| Credit Rating (JCR) | Commitment credit lines |
|---|---|
| A+ (Stable) | JPY 20 bn |

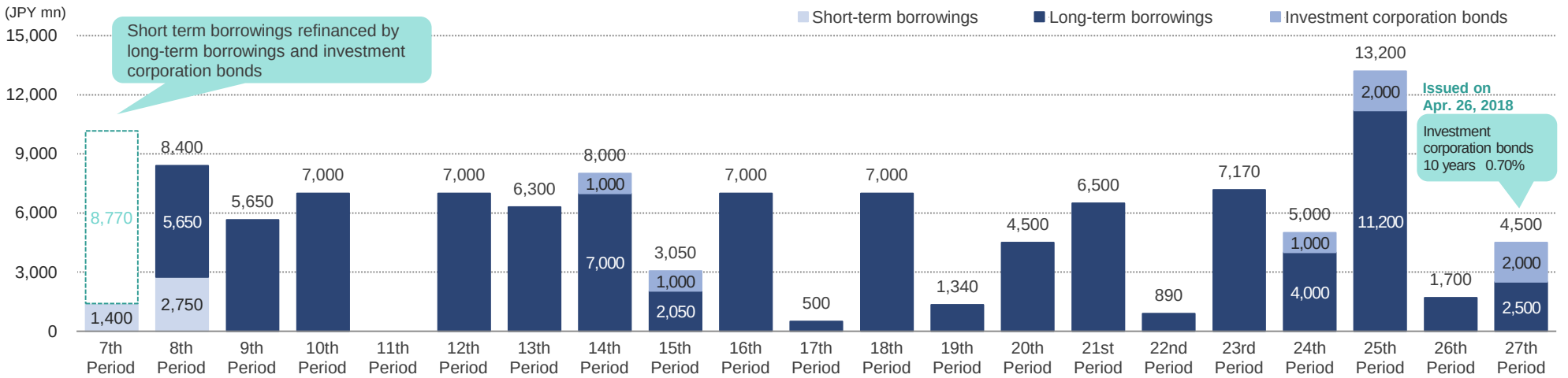
## Breakdown of debt outstanding by lender and investment corporation bonds (Note2)




| | | Balance (JPY mn) |
|---|---|---|
| A | Sumitomo Mitsui Banking Corporation | 37,870 |
| B | MUFG Bank, Ltd. | 15,860 |
| C | Development Bank of Japan Inc. | 10,490 |
| D | Mizuho Bank, Ltd. | 9,670 |
| E | Sumitomo Mitsui Trust Bank, Ltd. | 9,070 |
| F | Resona Bank, Ltd. | 5,000 |
| G | Mizuho Trust & Banking Co., Ltd. | 4,650 |
| H | Aozora Bank, Ltd. | 3,640 |
| New! I | The Bank of Fukuoka, Ltd.* | 1,000 |
| J | The Musashino Bank, Ltd. | 950 |
| K | The Gunma Bank, Ltd. | 900 |
| L | Investment corporation bonds | 7,000 |

*First borrowings from The Bank of Fukuoka scheduled on May 31, 2018

## Maturities of interest-bearing debts (Note2)




Note 1: Based on the figures after the refinance on Oct. 3, 2017.
Note 2: Based on the figures after the prepayment of the borrowings on May 31, 2018. The average interest rate is as of after the borrowings on Apr. 27, 2018.

03

# Implementation of growth strategies

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# Strong support from the Kenedix Group and Alliance Companies

Kenedix Retail REIT Corporation ("KRR")

**Asset Management**

**Property Management**

Kenedix Real Estate Fund Management, Inc. ("KFM")

| Sponsor | Alliance companies | | | |
|---|---|---|---|---|
| Kenedix, Inc | Sumitomo Mitsui Finance and Leasing Co., Ltd. | Nippon Commercial Development Co., Ltd | P&D Consulting Co., Ltd | ITOCHU Corporation |
| Pipeline support | Pipeline support | | | |
| Warehousing | Warehousing | | | |
| Leasing | | Leasing | | |
| Property Management | | | Property Management | |
| Environmentally-friendly technology/knowhow | | | Evaluation/ advisory on operations | |
| Personnel support | Personnel support | | | |
| Right to use trademarks | | | | |

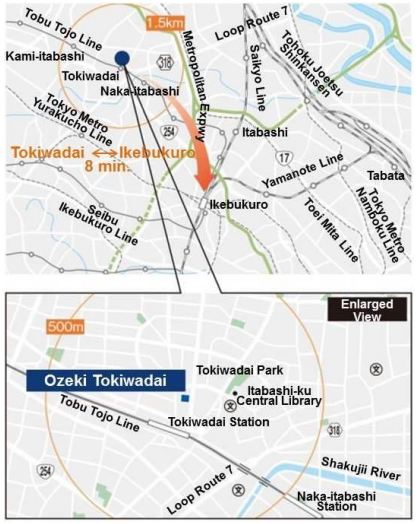
Note: Kenedix, Inc., the asset manager of the retail property development fund jointly created by ITOCHU Corporation ("Kenedix – ITOCHU Fund"), agrees to provide preferential access to potential acquisition opportunities regarding the fund, to KRR and KFM.

# Acquisition and disposition

## Acquisition of Ozeki Tokiwadai

A grocery supermarket located in one of the most densely populated retail trade areas in Tokyo, with 64 thousand residents within a one-kilometer radius

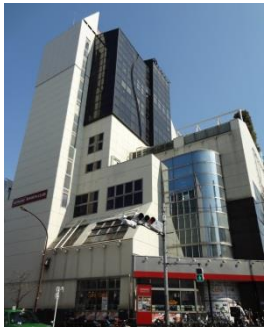



| | |
|---|---|
| Acquisition price | JPY 1,263 mn |
| Location | Itabashi-ku, Tokyo |
| Appraisal value | JPY 1,340 mn |
| Appraisal NOI | 4.6% |

## Acquisition of Konami Sports Club Shibuya

A large health club with a wide range of facilities in a densely populated area of central Tokyo





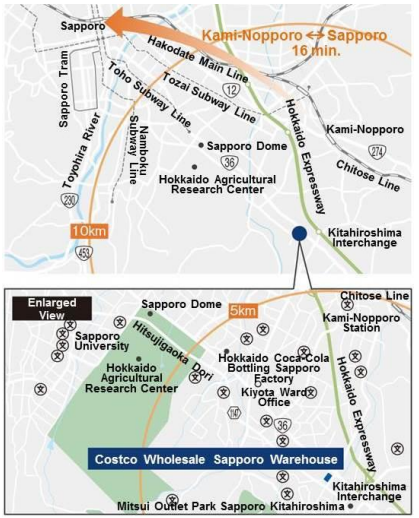



| | |
|---|---|
| Acquisition price | JPY 3,400 mn |
| Location | Shibuya-ku, Tokyo |
| Appraisal value | JPY 3,430 mn |
| Appraisal NOI | 4.0% |

## Acquisition of Costco Wholesale Sapporo Warehouse

The only Costco warehouse in Hokkaido, covering Sapporo metropolitan area as its trade area

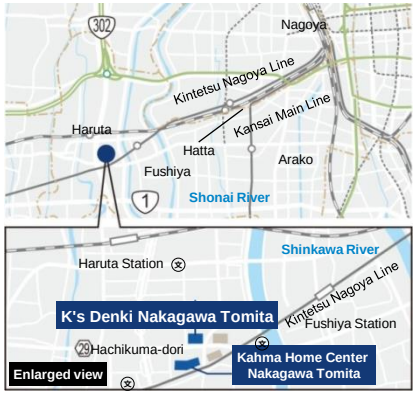



| | |
|---|---|
| Acquisition price | JPY 4,210 mn |
| Location | Sapporo, Hokkaido |
| Appraisal value | JPY 4,390 mn |
| Appraisal NOI | 4.8% |

## Disposition of K's Denki Nakagawa Tomita (Land)




| | | | |
|---|---|---|---|
| Location | Nagoya, Aichi | Disposition price | JPY 1,128 mn |
| Disposition date | April 27, 2018 | Book value | JPY 907 mn |
| Acquisition date | February 10, 2015 | Appraisal value | JPY 1,010 mn |

# Pipelines of Sponsor and Alliance Companies

KENEDIX Retail REIT Corporation

## Apita Terrace Yokohama Tsunashima

Location: Yokohama, Kanagawa
(opened in Mar. 2018)




| Land area | 18,300.01m² | GFA | 44,562.53m² |
|---|---|---|---|

## Development Project in Fukuoka

Location: Fukuoka, Fukuoka
(expected to open in spring 2020)




| Land area | 3,471.00m² | GFA | TBD |
|---|---|---|---|

## Unicus Urawamisono (Land)

Location: Saitama, Saitama
(opened in Mar. 2017)




| Land area | 3,533.59m² | GFA | --- |
|---|---|---|---|

## Across Plaza Urayasu Higashino (Land)

Location: Urayasu, Chiba
(opened in Dec. 2017)




| Land area | 6,229.00m² | GFA | --- |
|---|---|---|---|

## Development Project in Nagoya (Land)

Location: Nagoya, Aichi
(expected to open in Jan. 2019)




| Land area | 13,480.42m² | GFA | --- |
|---|---|---|---|

Note 1: The illustrations above are completion images based on design drawings and may differ from the actual buildings after completion.
Note 2: These are the properties which are developed by Kenedix, Inc. or owned by Alliance Companies and confirmed by both our Alliance Companies and Kenedix Retail REIT as the properties that meet our investment criteria.
As of May 18, 2018, KRR has no plans to acquire these properties and there is no guarantee that it can acquire these properties in the future.
Note 3: Land area and GFA are based on data available to KFM and may differ from the actual figures.

# Active management strategies

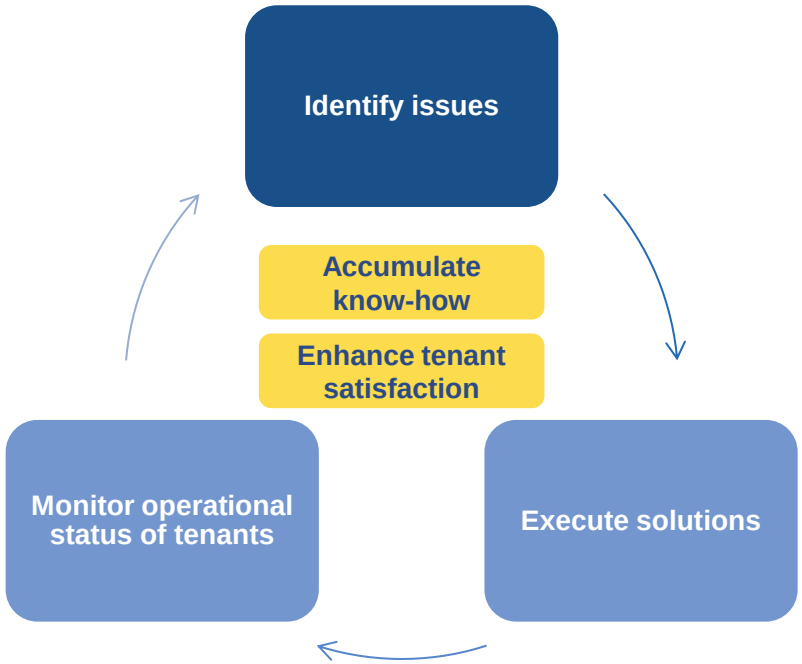
KENEDIX
Retail REIT Corporation

## Value added “one-stop” asset management and property management services

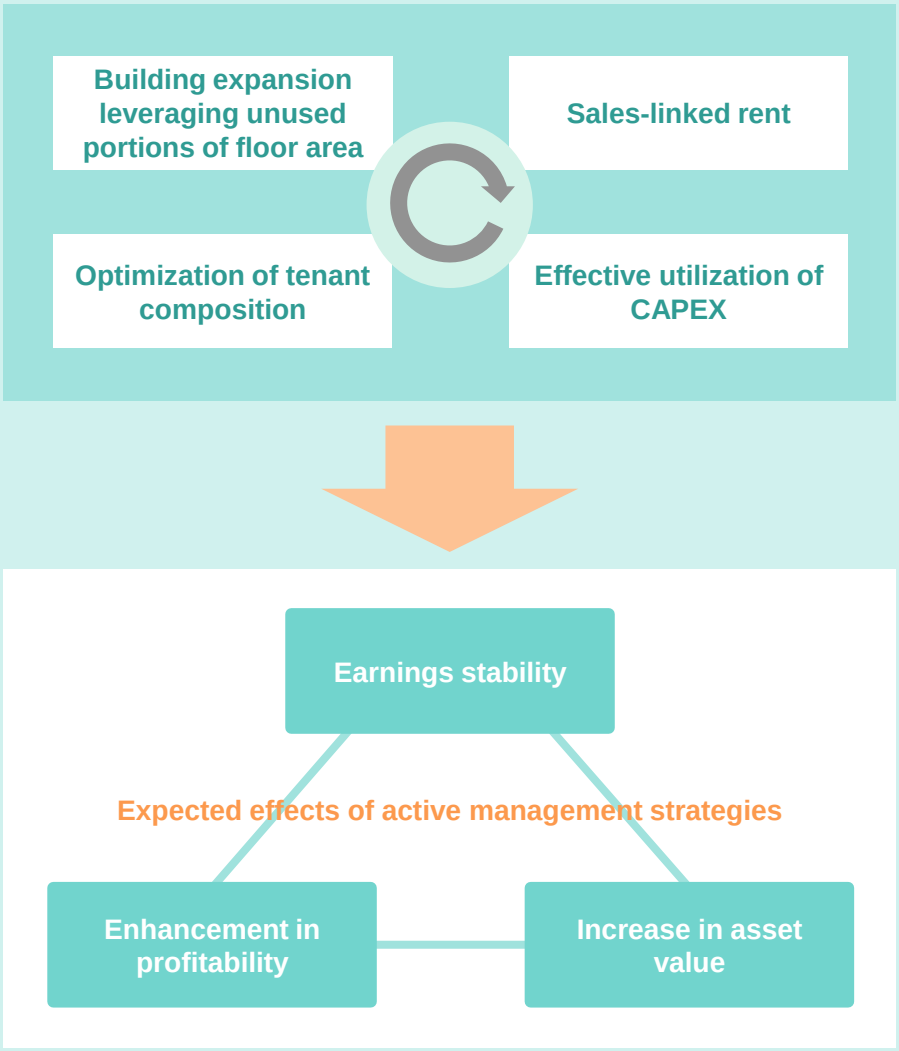
**Asset management services**
Build and manage a stable/consistent portfolio

Strengthened collaboration

**Property management services**
Interact directly with tenants




## Seek internal growth through property management



# Renewal project at MONA Shin-Urayasu

## Objective of the 2nd phase of the renewal project

### Increase attractiveness

- Replacements and relocations of tenants at lease expiry
- Change of floor layout

### Improve access to each shop

- Renewal of signboards and floor maps

### Strengthen image of the property

- Improve access to each shop through renewal of signboards and floor maps
- Change the designs of floors, walls and roofs
- Install LED lightings
- Install automatic doors

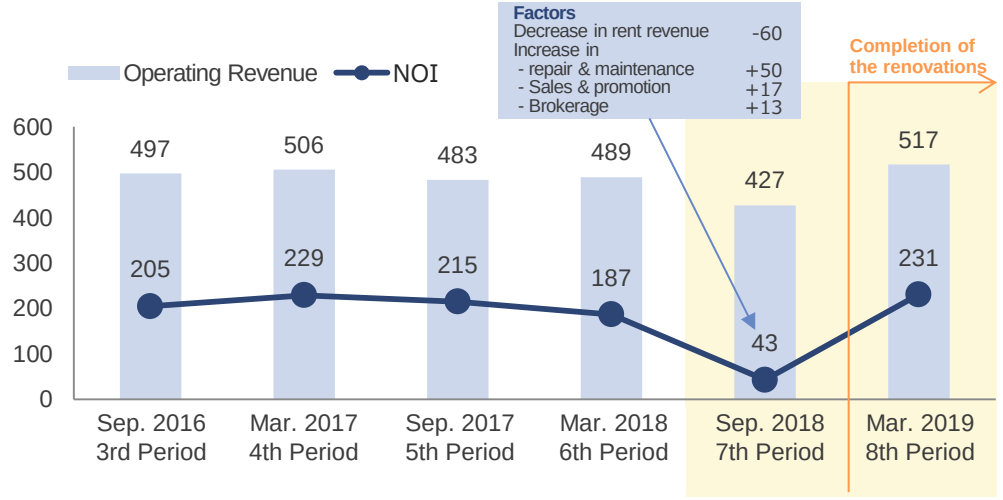
## Estimated renovation cost and planned schedule

| | |
|---|---|
| **Estimated renovation cost** | JPY 340 mn (planned) |

| | |
|---|---|
| **Apr. 2018** | Start of the renovations |
| **Sep. 2018** | Completion of the renovations |
| **Oct. 2018** | Reopening |

Note: Estimated renovation cost increased since the time of decision-making.

## Estimate of revenue and NOI after the renovation (mn yen)




## Conceptual drawings after the 2nd phase of the project

### 2nd floor (in front of escalator)

**Before**



**After**(Note)

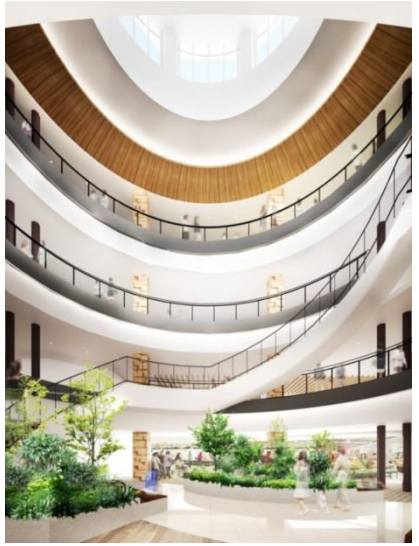


### Spiral court on the 1st floor

**Before**



**After**(Note)



Note: The illustration above is a completion image based on design drawings and may differ from the actual buildings after completion.

# ESG (Environmental, Social, and Governance) initiatives

## Environmental Initiatives

### Installation of LED lighting

**T-21** Prime Square Jiyugaoka



**O-4** Blumer HAT Kobe



**T-1** Fululu Garden Yachiyo

**T-2** MONA Shin-Urayasu

**T-3** Passaggio Nishiarai

**T-5** Unicus Ina

**O-5** Carino Esaka

**R-4** Ashico Town Ashikaga

### Greening of facilities

**O-1** Blumer Maitamon (Entrance)



**T-2** MONA Shin-Urayasu (Rooftop)



### Performance

| | FY2015 | FY2016 |
|---|---|---|
| Energy intensity (kl) | 0.05174 | 0.04863 |
| Energy intensity (MJ) | 1,981 | 1,862 |
| YonY performance (%) | 96.5 | 94.0 |

Note: Energy intensity is calculated by dividing total energy use equivalent to crude oil (kl/year) by total occupancy fllor area (m2/year) and also converted into MJ per m2/year.

## Social Initiatives

### Encouraging greater community interactions

Making efforts to enliven local communities by holding community-participating events at our properties




Summer Festival (Unicus Ina)



Kamisato Farmer's Market (Unicus Kamisato)

### Examples of other CSR activities



Installation of AEDs (Fululu Yachiyo)



Supporting Japan Association for UNHCR(MONA Shin-Urayasu)

©UNHCR

### Cooperation with local communities

Agreed with Yoshikawa City to provide part of Unicus Yoshikawa as a temporary shelter in case of a disaster such as floods




Agreed with Yachiyo Police Station to provide coupons to the elderly who voluntarily returned their driver's license




### Green lease agreements

Entered into green lease agreements with some of the tenants
(Green lease is an agreement specifying that property owners and tenants shall cooperate to reduce environmental burden)

### Tenant satisfaction survey

Conducted tenant satisfaction surveys in some of our properties

# Recognitions and certifications on ESG

KENEDIX Retail REIT Corporation

## Acquired "Green Star" in GRESB Real Estate Assessment for the second consecutive year

GRESB 2017

Participated in the GRESB Real Estate Assessment in 2017, following the first participation in 2016

Awarded "Green Star" as it received high evaluation on both "implementation and measurement" and "management and policy"

Earned "Three Star GRESB Rating," which is relative indication of the global performance

**About GRESB**

An annual benchmark assessment which measures environmental, social, and governance (ESG) considerations in the real estate sector

Established in 2009 primarily by major European pension fund groups, which led the Principles for Responsible Investment (PRI)

66 investor members have used GRESB to select and dialogue with investment targets (as of Sep. 6, 2017)

850 listed and unlisted real estate companies and funds worldwide participated in 2017 GRESB Real Estate Assessment

**Kenedix Real Estate Fund Management, Inc. joined the GRESB Company & Fund Members in 2017**

## Acquired DBJ Green Building Certifications

Certified properties: 14 properties (35.9%), Total certified floor area: 432,817.34m$^2$ (63.8%)

| Properties with outstanding environmental & social awareness | Properties with excellent environmental & social awareness | Properties with high environmental & social awareness |
|---|---|---|
| DBJ Green Building 2017 | DBJ Green Building 2017 | DBJ Green Building 2017 |
| T-2 MONA Shin-Urayasu | T-4 Daikanyama Address Dixsept | T-5 Unicus Ina |
|  |  | T-19 Yumemachi Narashinodai Mall |
| | | T-20 Kawamachi Yahagi Mall |
| | | O-5 Carino Esaka |
| | | R-10 Sun Street Hamakita |
| DBJ Green Building 2016 | DBJ Green Building 2016 | DBJ Green Building 2016 |
| T-1 Fululu Garden Yachiyo | O-4 Blumer HAT Kobe | T-3 Passaggio Nishiarai |
|  | R-1 Roseo Mito | T-7 Unicus Yoshikawa |
| | R-4 Ashico Town Ashikaga | O-1 Blumer Maitamon |

Note: The percentage of total certified floor area is the ratio of the total floor area of DBJ Green Building certified buildings and the total floor area of KRR's portfolio (678,269.50m$^2$)(partial ownership and mutual ownership properties are calculated according to their ownership ratio). Furthermore, the total number of certifiable properties is 39 properties out of 52 properties owned as of Mar. 31 2018, excluding 13 land-only properties.

04

# Financial results and forecasts

Security Code
3453



# Summary of statements of income and retained earnings (JPY mn)

KENEDIX Retail REIT Corporation

| | Sep. 2017 | Mar. 2018 | | Changes | | Remarks on changes from forecasts |
|---|---|---|---|---|---|---|
| | 5th Period Actual (A) | 6th Period Forecast (B) | 6th Period Actual (C) | C - A | C - B | |
| Rent revenue – real estate | 6,637 | 6,962 | 6,991 | +354 | +28 | Shin-Urayasu (sales-linked rent, etc) +10, HAT Kobe (rent renewal, etc) +5, Hamakita (leasing progress) +5, Tokiwadai +8 |
| Other lease business revenue | 1,160 | 1,076 | 1,134 | -25 | +58 | Yachiyo (restoring and penalty revenues) +27, Nishiarai (other) +5, Daikanyama (parking) +3, Esaka (penalty) +14, Hamakita (other) +2 |
| Dividends income | 5 | - | - | -5 | - | |
| **Operating revenues** | **7,803** | **8,039** | **8,126** | **+322** | **+87** | |
| Property related expenses (excl. depreciation) | 2,583 | 2,642 | 2,684 | +101 | +41 | Yachiyo (restoring)+12, Shin-Urayasu (restoring)+38, Other properties (restoring) -19, Ashikaga (promotion) -4, Yachiyo (restoring) +12 |
| NOI | **5,214** | **5,396** | **5,441** | **+227** | **+45** | Utility charge imbursement (net) +5 |
| Depreciation | 885 | 927 | 925 | +39 | -2 | |
| **NOI after depreciation** | **4,329** | **4,469** | **4,516** | **+187** | **+47** | |
| Other operating expenses | 668 | 738 | 748 | +79 | +9 | Management Fee II +7 |
| **Operating income** | **3,666** | **3,730** | **3,768** | **+102** | **+37** | |
| Non-operating income | 0 | 0 | 1 | +1 | +1 | |
| Non-operating expenses | 557 | 586 | 589 | +32 | +3 | Increase in interest expenses & financing-related expenses due to acquisition of Ozeki Tokiwadai |
| **Ordinary income** | **3,108** | **3,143** | **3,179** | **+71** | **+36** | |
| **Net income** | **3,104** | **3,142** | **3,175** | **+71** | **+32** | |
| **DPU (JPY)** | **6,115** | **6,200** | **6,255** | **+140** | **+55** | |

# Financial forecasts: 7th and 8th fiscal periods (JPY mn)

KENEDIX Retail REIT Corporation

| Key financial information | Mar. 2018 6th Period (Actual) | Sep. 2018 7th Period (Forecast) | Changes | Sep. 2018 7th Period (Forecast) | Mar. 2019 8th Period (Forecast) | Changes |
|---|---|---|---|---|---|---|
| **Operating revenues** | **8,126** | **8,463** | **+337** | **8,463** | **8,217** | **-245** |
| Operating expenses | 4,358 | 4,683 | +324 | 4,683 | 4,461 | -221 |
| **Operating income** | **3,768** | **3,780** | **+12** | **3,780** | **3,756** | **-24** |
| Non-operating expenses | 589 | 614 | +24 | 614 | 597 | -16 |
| Interest expenses & financing-related expenses | 500 | 546 | +46 | 546 | 553 | +6 |
| Amortization of investment unit issuance costs | 84 | 61 | -22 | 61 | 38 | -23 |
| **Ordinary income** | **3,179** | **3,166** | **-12** | **3,166** | **3,158** | **-7** |
| **Net income** | **3,175** | **3,165** | **-9** | **3,165** | **3,157** | **-7** |
| **DPU** | **6,255** | **6,245** | **-10** | **6,245** | **6,230** | **-15** |

Incl. gain on sales 214 mn

Offsetting decrease in NOI due to renovation at MONA Shin-Urayasu

| Related key indicator | Mar. 2018 6th Period (Actual) | Sep. 2018 7th Period (Forecast) | Changes | Sep. 2018 7th Period (Forecast) | Mar. 2019 8th Period (Forecast) | Changes |
|---|---|---|---|---|---|---|
| **NOI** | **5,441** | **5,285** | **-156** | **5,285** | **5,472** | **+186** |
| NOI yield (%) | 5.3% | 5.0% | --- | 5.0% | 5.1% | --- |
| Depreciation | 925 | 965 | +40 | 965 | 973 | +7 |
| NOI after depreciation | 4,516 | 4,320 | -196 | 4,320 | 4,499 | +179 |
| NOI yield after depreciation (%) | 4.4% | 4.1% | --- | 4.1% | 4.2% | --- |
| FFO | 4,194 | 3,987 | -206 | 3,987 | 4,178 | +191 |
| CAPEX | 263 | 907 | +643 | 907 | 1,354 | +446 |
| **LTV (%)** | **42.9%** | **44.5%** | **---** | **44.5%** | **44.5%** | **---** |

Note : FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

# Summary of earnings performance of the individual properties (JPY mn)

KENEDIX Retail REIT Corporation

| | Assets acquired in | 5th FP (Actual) | 6th FP (Actual) | 7th FP (Forecast) | 8th FP (Forecast) | Remarks |
|---|---|---|---|---|---|---|
| Rent revenue-real estate (excl. sales-linked rent) | Existing | 5,339 | 5,375 | 5,333 | 5,371 | 7th FP (PoP): Shin-Urayasu-27, HAT Kobe+19, K's Nakagawa-22, Yachiyo-6, Daikanyama+5, Nagatsuta-5, Maitamon-5<br>8th FP (PoP): Shin-Urayasu+61, Yachiyo-9, HAT Kobe-8, Maitamon+4, Nagatsuta-5, K's Nakagawa-3 |
| | 5th Period | 1,019 | 1,324 | 1,315 | 1,312 | 7th FP (PoP): Obu-12, Hamakita+2<br>8th FP (PoP): Obu-6, Hamakita+4 |
| | 6th/7th Period | - | 8 | 183 | 233 | |
| Sales-linked rent | Existing | 264 | 266 | 201 | 215 | 7th FP (PoP): Shin-Urayasu (occupied)-27, HAT Kobe (changed to fixed rent)-21, Yachiyo (occupied)-10<br>8th FP (PoP): HATKobe-20, Yachiyo-12, Shin-Urayasu-8, Maitamon-5, Ashikaga-2, Esaka-1 |
| | 5th Period | 14 | 16 | 18 | 21 | 7th FP (PoP): Obu+10, Hamakita-5<br>8th FP (PoP): Obu+6, Hamakita-1 |
| | 6th/7th Period | - | - | - | - | |
| Utility charge reimbursement | Existing | 543 | 468 | 547 | 467 | No significant change by considering seasonality |
| | 5th Period | 118 | 149 | 165 | 144 | 7th FP (YoY): Obu+36, Hamakita+6, Narashinodai+4<br>8th FP (YoY): Yahagi-2, Hamakita-1 |
| | 6th/7th Period | - | - | - | - | |
| Penalty restoring reimbursement | Existing | 18 | 45 | 42 | 0 | 7th FP: Yachiyo14, Esaka14, Shin-Urayasu1, Nagatsuta5 |
| | 5th Period | 2 | 2 | - | - | |
| | 6th/7th Period | - | - | - | - | |
| Other revenues | Existing | 413 | 414 | 388 | 397 | |
| | 5th Period | 63 | 54 | 54 | 52 | |
| | 6th/7th Period | - | 0 | 0 | 0 | |
| **Rental and other operating revenues** | Existing | **6,579** | **6,569** | **6,512** | **6,452** | |
| | 5th Period | **1,218** | **1,547** | **1,553** | **1,531** | |
| | 6th/7th Period | **-** | **8** | **183** | **234** | |

Note: "Existing" refers to properties acquired before the end of 4th FP

# Summary of earnings performance of the individual properties (JPY mn)

KENEDIX Retail REIT Corporation

| | | Assets acquired in | 5th FP (Actual) | 6th FP (Actual) | 7th FP (Forecast) | 8th FP (Forecast) | Remarks |
|---|---|---|---|---|---|---|---|
| | PM fees facility management fees | Existing | 707 | 705 | 703 | 698 | |
| | | 5th Period | 101 | 141 | 136 | 139 | |
| | | 6th/7th Period | - | 0 | 5 | 6 | |
| | Utilities | Existing | 540 | 456 | 528 | 455 | 7th FP (YoY): Maitamon-9, Esaka-4, Ashikaga-3, HAT Kobe-2, Yachiyo+2, Nishiarai+2, Daikanyama+2<br>8th FP (YoY): No major change compared to 6th Period |
| | | 5th Period | 109 | 140 | 151 | 140 | 7th FP (YoY): Obu (operation days)+34, Hamakita+5, Yahagi+1, Narashinodai+1<br>8th FP (YoY): No major change when compared to 6th period |
| | | 6th/7th Period | - | - | - | - | |
| | Taxes | Existing | 563 | 563 | 575 | 573 | 7th FP (PoP): Tax for Moriya expensed+11 |
| | | 5th Period | 0 | 0 | 115 | 115 | |
| | | 6th/7th Period | - | 0 | 0 | 0 | Tax to be expensedfor 9th Period and after |
| | Repairs and maintenance (incl. restoring) | Existing | 175 | 216 | 245 | 182 | May be subject to change |
| | | 5th Period | 13 | 43 | 42 | 31 | May be subject to change |
| | | 6th/7th Period | - | - | 2 | 2 | May be subject to change |
| | Others | Existing | 301 | 323 | 355 | 308 | Promotion fees are: 166 (5th FP), 178 (6th FP), 199 (7th FP), 179 (8th FP) |
| | | 5th Period | 70 | 92 | 96 | 88 | Promotion fees are: 17 (5th FP), 27 (6th FP), 32 (7th FP), 26 (8th FP) |
| | | 6th/7th Period | - | 0 | 6 | 1 | 7th FP: Shibuya (blueprint draw-up)+5 |
| | **Property-related expenses (excl. depreciation)** | Existing | **2,288** | **2,265** | **2,407** | **2,219** | |
| | | 5th Period | **295** | **418** | **542** | **515** | |
| | | 6th/7th Period | **-** | **0** | **14** | **10** | |
| | **NOI** | Existing | **4,290** | **4,304** | **4,105** | **4,233** | |
| | | 5th Period | **923** | **1,129** | **1,011** | **1,015** | |
| | | 6th/7th Period | **-** | **7** | **169** | **223** | |

Note: “Existing” refers to properties acquired before the end of 4th FP

05

# Shift from GMS to shopping centers for daily needs



Security Code
3453

# Investments focusing on shopping center for daily needs

KENEDIX
Retail REIT Corporation

## “Daily / Neighborhood” type

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

## “Weekend / Destination” type

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

**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 | 3-10km |
| **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**

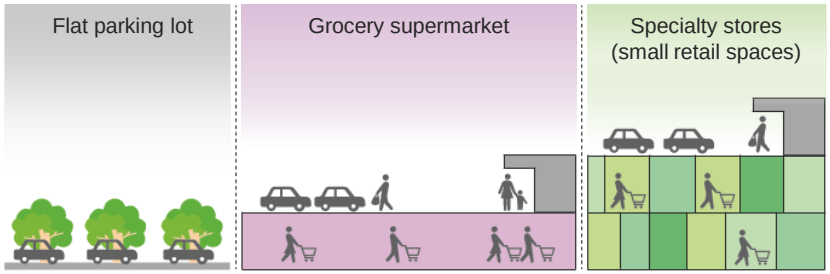
**Urban retail properties featuring**

**High-end brand shops**

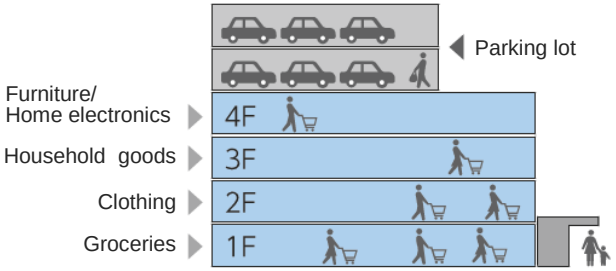
# Advantages of shopping centers for daily needs over GMS

KENEDIX Retail REIT Corporation

## Typical shopping center for daily needs




## Typical stand-alone GMS

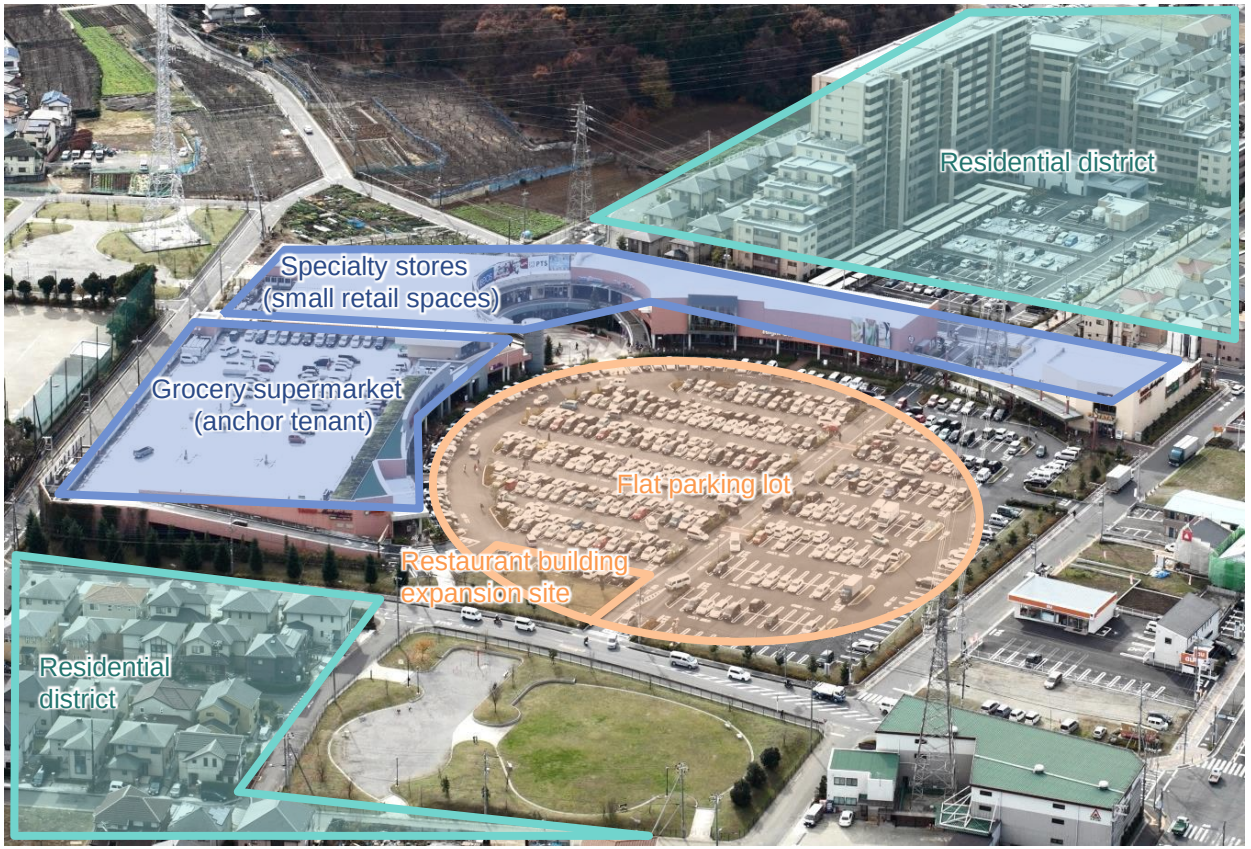



| Facilities of shopping center for daily needs | VS | Facilities of stand-alone GMS |
|---|---|---|
| Small to Medium | Retail trade area | Medium to Large |
| High (low-rise building) | Ease of getting around | Low (high-rise building) |
| Large flat parking lot | Parking lot | Multilevel parking lot |
| Grocery supermarket + Specialty stores | Tenants | GMS stand-alone |

| Real estate value of shopping center for daily needs | VS | Real estate value of stand-alone GMS |
|---|---|---|
| Potential rental upside upon tenant replacement or contract renewal | Upside potential | Limited frequency of upward rent revisions |
| Property expansion leveraging underutilized space | | |
| Relatively easy | Tenant replacement | Relatively difficult |
| Expanding market share | Potential for investment | A number of stand-alone GMSs owned by real-estate funds exited the market |

# Primary characteristics of shopping centers for daily needs






## Location
Located within residential areas of a metropolitan commuter district

- Retail trade area population
  - ・1km radius: 9,600 people
  - ・3km radius: 60,000 people
  - ・5km radius: 244,000 people

## Tenants
Providing primarily daily necessities

- Housing Yaoko (anchor tenant) and a group of specialty stores (non-anchor tenants)



An anchor tenant with strong ability to attract customers



A group of specialty stores selected to satisfy the various needs of local residents (including clothing stores, drug stores, restaurants, a discount retailer and a dentist)

## Facilities
Capacity to accommodate frequent customer visits and provide revenue upside potential

- Flat parking lot to accommodate approximately 480 vehicles
- Constructed a restaurant building on underutilized space


Expansion building

| | |
|---|---|
| Expansion building | Restaurant building |
| Acquisition date | Jan. 16, 2017 |
| GFA | 397.98 $m^2$ |
| Total construction cost | JPY 91 mn |

# Retail market trends: GMS vs. Specialty stores

KENEDIX
Retail REIT Corporation

## Buying goods at GMS

**2007** (JPY bn)

| | Type of store | Sales |
|---|---|---|
| 1 | Supermarket | 12,961.0 |
| 2 | GMS | 8,602.1 |
| 3 | Department store | 8,283.1 |
| 4 | Convenience store | 7,413.9 |
| 5 | Other retailers | 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

**2017** (JPY bn)

| | Type of store | Sales | Change |
|---|---|---|---|
| 1 | Supermarket | 15,944.6 | +23.0% |
| 2 | Convenience store | 10,435.3 | +40.8% |
| 3 | Drug store | 7,569.9 | +105.0% |
| 4 | GMS | 7,185.6 | **-16.5%** |
| 5 | Other retailers | 7,097.4 | +23.6% |
| 6 | Department store | 6,047.2 | **-27.0%** |
| 7 | Clothing | 5,275.9 | +66.0% |
| 8 | Consumer electronics | 5,251.4 | -8.2% |
| 9 | Home and garden | 3,522.2 | +24.2% |
| 10 | Consumers' co-operative | 2,471.0 | -0.6% |

Source: Data regarding Japanese retailer earning results are based on magazine “Diamond Chain Store” dated Sep. 15, 2016 and Sep. 15, 2017.

## Disclaimer

The contents in this document are provided solely for informational purposes and not intended for the purpose of soliciting investment in, or as a recommendation to purchase or sell, any specific products.

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Unless otherwise explicitly stated, the figures such as percentage, ratio, and year(s) are rounded off to largest decimal place shown in this document, the amount of money such as JPY, Japanese Yen, is truncated at the one tenth of the number shown in this document.

## Abbreviation of property name

| Property name | Abbreviation | Property name | Abbreviation | Property name | Abbreviation |
|---|---|---|---|---|---|
| Fululu Garden Yachiyo | Yachiyo | Yumemachi Narashinodai Mall | Narashinodai | K's Denki Nakagawa Tomita (Land) | K's Nakagawa |
| MONA Shin-Urayasu | Shin-Urayasu | Kawamachi Yahagi Mall | Yahagi | Homecenter Kohnan Sunadabashi | Sunadabashi |
| Passaggio Nishiarai | Nishiarai | Prime Square Jiyugaoka | Jiyugaoka | K's Denki Shin-Moriyama (Land) | Shin-Moriyama |
| Daikanyama Address Dixsept | Daikanyama | Round1 Ichikawa-Onitaka | Ichikawa | Resora Obu Shopping Terrace | Obu |
| Unicus Ina | Ina | Ozeki Tokiwadai | Tokiwadai | Sunny Noma | Noma |
| Yorktown Kita-Kaname | Kita-Kaname | Konami Sports Club Shibuya | Shibuya | Round1 Stadium Hakata-Hanmichibashi | Hakata |
| Unicus Yoshikawa | Yoshikawa | Blumer Maitamon | Maitamon | Kurume-Nishi Shopping Center | Kurume |
| Sports Club Renaissance Fujimidai | Fujimidai | Life Takadono (Land) | Takadono | Roseo Mito | Mito |
| Super Viva Home Iwatsuki (Land) | Iwatsuki | Piago Kahma Home Center Omihachiman | Omihachiman | K's Denki Aomori Honten | K's Aomori |
| K's Denki Shonan-Fujisawa (Land) | Fujisawa | Blumer HAT Kobe | HAT Kobe | Super Sports Xebio Aomori-Chuo | Xebio Aomori |
| Unicus Kamisato (Land) | Kamisato | Carino Esaka | Esaka | Ashico Town Ashikaga | Ashikaga |
| Unicus Konosu (Land) | Konosu | COMBOX Komyoike | Komyoike | Yorktown Shinden-Higashi | Shinden-Higashi |
| Inageya Yokohama Minamihonjuku (Land) | Minamihonjuku | Hankyu Oasis Hirakatadeguchi | Hirakata | Kasumi Technopark Sakura | Kasumi Sakura |
| Gourmet City Chiba-Chuo | Chiba | Welcia Kishiwadakamori (Land) | Kishiwada | Solala Plaza | Solala |
| Nakamachidai Tokyu Store | Nakamachidai | Life Nishi-Tengachaya | Tengachaya | P-1 Plaza Tenno | P-1 |
| Central Wellness Club Nagatsuta Minamidai | Nagatsuta | Million Town Tsukaguchi (Land) | Tsukaguchi | Seiyu Rakuichi Moriya (Land) | Moriya |
| Life Kameido | Kameido | Kahma Home Center Nakagawa Tomita (Land) | Kahma Nakagawa | Sun Street Hamakita | Hamakita |
| Totsuka-Fukaya Shopping Center (Land) | Totsuka | Valor Ichinomiya-Nishi | Ichinomiya | Costco Wholesale Sapporo Warehouse | Sapporo |

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