KENEDIX
Retail REIT Corporation

Translation of Japanese Original

December 26, 2019

To All Concerned Parties

REIT Issuer:
Kenedix Retail REIT Corporation
Representative: Akihiro Asano, Executive Director
(Securities Code: 3453)

Asset Manager:
Kenedix Real Estate Fund Management, Inc.
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Notice Concerning Construction of a New Building (Property Expansion) at Yokohama Kamigo Distribution Center

Kenedix Retail REIT Corporation ("KRR") announced today that Kenedix Real Estate Fund Management, Inc. ("the Asset Manager"), the asset manager for KRR, has decided to build a new building ("the New Building") through construction (property expansion) at Yokohama Kamigo Distribution Center ("the Property"), an existing property of KRR. Regarding the acquisition of the Property, please refer to the press release "Notice Concerning Acquisition of Property (Yokohama Kamigo Distribution Center)" dated March 12, 2019.

1. Outline of the acquisition through construction

(1)	Property name:	Yokohama Kamigo Distribution Center (L-4) Restaurant Building
(2)	Location:	1292-1, Shodo, Kamigocho Sakae-ku, Yokohama, Kanagawa
(3)	Type of specified asset:	Real estate (Note 1)
(4)	Use:	Retail
(5)	Zoning:	Category I residential area
(6)	Expected gross floor area:	349.26 m^2 (Note 2)
(7)	Expected structure/no. of floors:	S-structure / 1 above-ground floor
(8)	Expected construction costs:	Approximately 123 million yen (Note 3)
(9)	Construction funds:	Cash on hand (Note 4)
(10)	Construction company:	Tekken
(11)	Schedule:	Please refer to Item 4. Schedule for details
(12)	Assumed increase in NOI (Note 5):	Approximately 17 million yen
(13)	Assumed NOI yield: (assumed increase in NOI to construction costs)	Approximately 13.9%
(14)	Expected completion date: (acquisition date)	Late September 2020

Note:
1. KRR will acquire the New Building as real estate and additionally entrust the building to the trustee on the same date.
2. Gross floor area shown is the figure indicated on the construction confirmation certificate. Construction plan and other matters related to the New Building construction may change and accordingly gross floor area may increase or decrease.
3. Expected construction cost is an assumed figure as of the date of this material. Construction plan and other matters related to the New Building construction may change and accordingly construction cost may increase or decrease.
4. The settlement method and date for the construction are to be decided.
5. Assumed increase in NOI is calculated as follows: assumed operating revenue minus assumed operating expenses (excluding depreciation) of the New Building; however, special items for the first year are excluded, and maintenance expenses, taxes and dues, insurance premium, etc. are included in expenses; as for operating revenue, since the lease contract with the tenant includes a step-up clause for the rent, average rent for the lease term is used for the

calculation. Assumed operating revenue is calculated based on the expected construction plan. Furthermore, construction costs may change as indicated in note 3 above. Accordingly, assumed NOI may increase or decrease, and assumed increase in NOI is not guaranteed.

2. Reason for construction

Through this construction, KRR seeks to enhance profitability and grow its asset value by property expansion on the underutilized space (Note) of existing properties, which is one of KRR's internal growth strategies.

Yokohama Kamigo Distribution Center is a retail distribution center located within a residential district in southern Yokohama. Currently, only the distribution center of Sagawa Express Co., Ltd., a major courier company, is located at the Property. In addition to the fact that there is the underutilized space of existing property, KRR has confirmed the demand for the opening of a new store when a new building is built on the site of the property. KRR has concluded a lease contract with a prospective tenant, which becomes effective upon the construction of the New Building. Accordingly, KRR has decided to expand the building.

Internal growth is expected from the property expansion as assumed NOI yield of the New Building (assumed increase in NOI of the Property to the construction costs) is approximately 13.9%.

Note: "Underutilized space" is floor-area ratio as determined according to the Building Standards Act, etc. multiplied by the land area minus the actual gross floor area of building to land area.

3. Transactions with related parties

Not applicable

4. Expected Schedule

December 26, 2019	Execution of contract for the transfer of status and rights in relation to the construction of the New Building
Early February 2020	Construction starts
Late September 2020	Completion and transfer of the New Building

5. Future outlook

The impact of the construction of the New Building on the financial results is minimal, and there are no changes to the forecasts of financial results of KRR published in the "Financial Report for the Fiscal Period Ended September 30, 2019 (REIT) (April 1, 2019 to September 30, 2019)" dated November 15, 2019.

6. Summary of real estate investigation report for the Property after the property expansion

(The numbers are in yen unless otherwise noted)

Summary of real estate investigation report			
Appraisal value	974,000,000 yen		
Appraiser	The Tanizawa Sōgō Appraisal Co., Ltd.		
Date of appraisal	February 1, 2019		
Item		Content	Basis
Income capitalization approach value		974,000,000 yen	Calculated by the DCF method, with the results verified using the direct-capitalization method
Value based on direct capitalization method		992,000,000 yen	Calculated by dividing the stabilized NCF by the cap rate
(1)	Gross operating revenue	Undisclosed	
	Effective gross operating revenue	Undisclosed	
	Loss from vacancy, etc.	0 yen	Calculated based on the occupancy rate level that is expected to remain stable over the medium term
(2)	Operating expenses	Undisclosed	
	Maintenance expenses	0 yen	
	Utility expenses	0yen	None on assumption that the expenses are borne by the tenant
	Repair expenses	Undisclosed	
	PM fees	2,980,000 yen	Calculated based on anticipated PM fees for the property and the PM fee rates for comparable properties

		Tenant recruit expenses, etc.	0 yen	None assuming long-term tenancy
		Taxes and dues	Undisclosed	
		Insurance premium	Undisclosed	
		Other expenses	Undisclosed	
	(3)	Net operating income (NOI= (1)-(2))	45,563,044 yen	
	(4)	Profit from security deposits	256,000 yen	Calculated on assumption that the investment yield is 1.0%
	(5)	Capital expenditure	1,201,000 yen	The average annual renovation expenses described in the engineering report plus CM fees
	(6)	Net cash flow (NCF=(3)+(4)-(5))	44,618,044 yen	
	(7)	Cap rate	4.5%	Calculated based on overall evaluation of the location, building specifications and contract terms of the property
Value based on DCF method			966,000,000 yen	
		Discount rate	[1st to 2nd year] 4.5% [3rd to 11th year] 4.6%	Calculated based on transactions of comparable properties and by taking into account the uniqueness of real estate properties as financial assets in terms of investment yield
		Terminal cap rate	4.7%	Calculated by taking into account the characteristics of the NCF used for the capitalization rate and future uncertainties/ liquidity/ marketability of the property
Value based on cost method			986,000,000 yen	
	Ratio of land		75.0%	
	Ratio of building		25.0%	
Adjustments in estimated value and considerations taken into account in determining appraisal value	The property is a distribution center and its land located approx. 3.1kmsouth of Konandai Station on JR Negishi Line, and 2.8km northwest of Asahina IC of Yokohama-Yokosuka Road along Prefectural Route 23. The property is facing a major road and close to highway interchange, providing easy access to Tokyo Metropolitan area. The distribution facility has relatively suitable size and grade. There also is a surplus land, and profitability may be enhanced by constructing an extra building on the surplus land.			

(Note) Figures used in the direct capitalization method include information that KRR has not obtained consent from the lessee for its disclosure. Such information or figures that can make calculation of such information are not disclosed in (1) and (2) above.

Attached materials

Reference material. Perspective drawing of the New Building

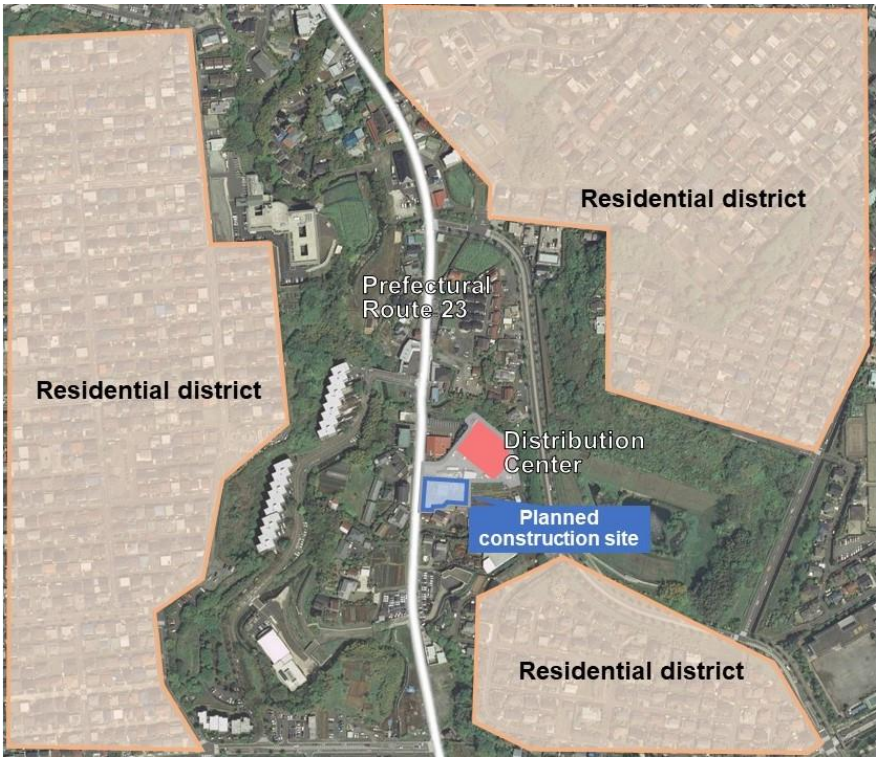
KRR website address: https://www.krr-reit.com/en/

This notice is the English translation of the Japanese announcement on December 26, 2019. However, no assurance or warranties are given for the completeness or accuracy of this English translation.

Reference material. Perspective drawing of the New Building



(Note) The illustration above may differ from the actual building after completion.



(Note) Aerial photograph provided by Geospatial Information Authority of Japan