KENEDIX
Retail REIT Corporation

Translation of Japanese Original

October 22, 2020

To All Concerned Parties

REIT Issuer:
Kenedix Retail REIT Corporation
Representative: Moyuru Watanabe, Executive Director
(Securities Code: 3453)

Asset Manager:
Kenedix Real Estate Fund Management, Inc.
Representative: Masahiko Tajima, President & CEO
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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. This is the second property expansion at the Property, following the completion of the restaurant building ("the Restaurant Building") on September 29, 2020.

1. Outline of the acquisition through construction

(1)	Property name:	Yokohama Kamigo Distribution Center (L-4) Employee Lounge Building
(2)	Location:	1292-1, Shodo, Kamigocho Sakae-ku, Yokohama, Kanagawa
(3)	Type of specified asset:	Real estate (Note 1)
(4)	Use:	Warehouse
(5)	Zoning:	Category I residential area
(6)	Expected gross floor area:	25.79 m^2 (Note 2)
(7)	Expected structure/no. of floors:	S-structure / 1 above-ground floor
(8)	Expected construction costs:	Approximately 9.1 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 1.1 million yen
(13)	Assumed NOI yield: (assumed increase in NOI to construction costs)	Approximately 12.5%
(14)	Expected completion date: (acquisition date)	Late February 2021

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. 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 1) 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, the distribution center of Sagawa Express Co., Ltd., a major courier company, and the Restaurant Building scheduled to open in December 2020, are located at the Property. In addition to the unutilized capacity of the property, the decision of this expansion was made at the request of Sagawa Express, with the aim of contributing to improving the satisfaction of the tenant's employees. In addition, KRR aim to contribute to the environment by installing a rainwater tank in conjunction with this extension and recycling the stored rainwater.

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 12.5%.

Note 1: "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.

Note 2: Assumed operating revenue is calculated based on the expected construction plan. Furthermore, construction costs may change. Accordingly, assumed NOI may increase or decrease, and assumed increase in NOI is not guaranteed.

3. Transactions with related parties

Not applicable

4. Expected Schedule

October 22, 2020	Decision for the construction of the New Building (property expansion)
Early December 2020	Construction starts
Late February 2021	Completion and transfer of the New Building

5. Future outlook

There are no changes to the forecasts of fiscal periods ending September 30, 2020 and March 31, 2021 as the impact on the Additional Acquisition is minimal.

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

Summary of real estate investigation report			
Appraisal value	996,000,000 yen		
Appraiser	The Tanizawa Sōgō Appraisal Co., Ltd.		
Date of appraisal	October 15, 2020		
Item		Content	Basis
Income capitalization approach value		990,000,000 yen	Calculated by the DCF method, with the results verified using the direct-capitalization method
Value based on direct capitalization method		1,010,000000 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	2,997,023 yen	Calculated based on current PM fees for the property
	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))	46,458,883 yen	
	(4)	Profit from security deposits	262,000 yen	Calculated on assumption that the investment yield is 1.0%
	(5)	Capital expenditure	1,227,000 yen	The average annual renovation expenses described in the engineering report plus CM fees
	(6)	Net cash flow (NCF=(3)+(4)-(5))	45,493,883 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			990,000,000 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			979,000,000 yen	
	Ratio of land		75.1%	
	Ratio of building		4.9%	
Adjustments in estimated value and considerations taken into account in determining appraisal value		None		

(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.

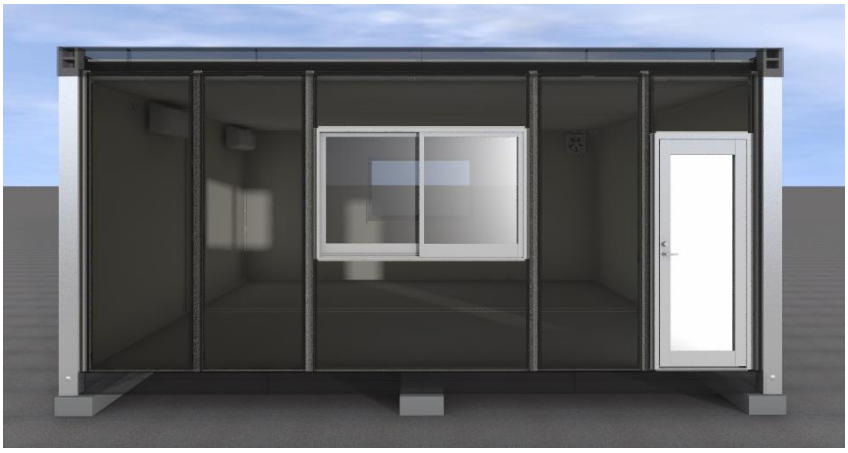
Attached materials

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 October 22, 2020. 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