

Implementation of Asset Replacement (Supplemental Data)

March 18, 2020

Hankyu Hanshin REIT, Inc.



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1 Portfolio Improvement

- Acquisition of an office building in central Tokyo [SHIBAURA RENASITE TOWER (equivalent of 10% co-ownership)]
- Acquisition of Highly stable urban retail facility [nanohana Ebisubashi (site)] and community-based retail facility [MANDAI Shimoshinjo Store] from sponsors

2 Countermeasures against Future Risk

- Strengthening of the portfolio structure [Kohnan Hiroshima Nakano-Higashi Store (site)]
- Accumulation of internal reserves [Hotel Gracery Tamachi]

3 Stabilization and Sustainable Improvement of Distribution

- Equalization of distributions by split transfer (Tamachi)
- Equalization of repair and capital expenditures reflecting asset replacement
- Reduction of borrowing costs through flexible financial strategies

Overview of Asset Replacement



	Transfer Property		Acquisition Property		
Property name	Kohnan Hiroshima Nakano-Higashi Store (site)	Hotel Gracery Tamachi	SHIBAURA RENASITE TOWER (equivalent of 10% co-ownership)	nanohana Ebisubashi (site)	MANDAI Shimoshinjo Store
Planned acquisition/transfer date	March 19, 2020	May 28, 2020 (eq. of 90% quasi co-ownership) August 28, 2020 (eq. of 10% quasi co-ownership)	May 28, 2020	March 31, 2020	March 31, 2020
Sales price (Consumption tax, etc. excluded)	1,926.8 mio yen	4,310 mio yen	3,475 mio yen	4,230 mio yen	674 mio yen
	6,236.8 mio yen		8,379 mio yen		
Book value (29th period end)	2,280 mio yen	3,531 mio yen	—	—	—
Appraisal value	1,880 mio yen	4,310 mio yen	3,510 mio yen	4,310 mio yen	704 mio yen
NOI yield (Note)	5.7%	4.4%	3.6%	3.5%	4.9%
Yield after depreciation (Note)	5.7%	2.8%	3.1%	3.5%	4.4%

(Note) For details of the calculation method of NOI yield and NOI yield after depreciation, see “Notice Concerning Acquisition of Domestic Real Estate, and Transfer of Domestic Real Estate Trust Beneficiary Interest and Domestic Real Estate” on the same date.

Funding policy

- New borrowing (long-term, fixed) of 1,500 million yen out of 3,000 million yen required funds in March 2020
- Own funds to be used for the remaining 1,500 million yen

Overview of 30th and 31st Fiscal Period Financial Forecasts



(Unit: millions of yen)

Item	Initial Forecast for 30th Fiscal Period (A) (Dec. 1, 2019 to May 31, 2020)	Forecast for 30th Fiscal Period (B) (Dec. 1, 2019 to May 31, 2020)	Change (B)-(A)	Initial Forecast for 31st Fiscal Period (C) (Jun. 1, 2020 to Nov. 30, 2020)	Forecast for 31st Fiscal Period (D) (Jun. 1, 2020 to Nov. 30, 2020)	Change (D)-(C)
Operation period (days)	183	183	—	183	183	—
Operating revenues	5,962	6,625	662	6,044	6,127	82
Operating income	2,567	2,788	221	2,544	2,607	63
Ordinary income	2,205	2,427	221	2,170	2,242	71
Net income	2,203	2,425	221	2,169	2,240	71
Reserve for tax purpose reduction entry	—	221	221	—	57	57
Total amount of distribution	2,203	2,203	—	2,169	2,182	13
Total number of outstanding investment units at end of fiscal period (units)	695,200	695,200	—	695,200	695,200	—
Distribution per unit (JPY)	3,170	3,170	—	3,120	3,140	20
FFO per unit (JPY)	4,640	4,586	- 54	4,612	4,575	- 37

(Reference) Forecast of main expenses□

Repair expenses	138	143	5	173	207	33
Tax and public dues	587	585	- 2	599	578	- 21
Depreciation	1,022	1,021	- 0	1,037	1,014	- 22
Interest expenses/borrowing related expenses	361	361	- 0	373	365	- 8

[Forecast for 30th Fiscal Period] Main change factors from initial forecast
(Unit: millions of yen)

- Loss on transfer from Hiroshima transfer -401
- Gain on transfer on Tamachi (eq. of 90%) transfer +659
- Increase in rental business profit due to asset replacement +5
(Hiroshima -25, Tamachi -1, Ebisubashi +25, Shimoshinjo +5, Shibaura +1)
- Increase in non-deductible consumption tax -21
- Impact of new coronavirus infection -3

[Forecast for 31st Fiscal Period] Main change factors from initial forecast
(Unit: millions of yen)

- Gain on transfer Tamachi (eq. of 10%) transfer +74
- Increase in rental business profit due to asset replacement +34
(Hiroshima -61, Tamachi -57, Ebisubashi +76, Shimoshinjo +17, Shibaura +61)
- Increase in Repair expense -33
- Decrease in Interest expenses and loan-related expenses +8
- Impact of new coronavirus infection -5

Forecast for 30th Fiscal Period
(ending May 2020)
Distribution per unit

JPY 3,170

Forecast for 31st Fiscal Period
(ending November 2020)
Distribution per unit

JPY 3,140

[Key preconditions]

- No change from 31 properties in assets under management (currently 30 properties with two transferred and three acquired)
- No change in the number of issued investment units of current 695,200 units till the end of the period (no additional investment units nor acquisition of own investment units)



● Portfolio profitability

	29th period end (ended Nov. 2019)		After the initiative
Average NOI yield (Note)	4.9%	➤	4.9%
Average NOI yield after depreciation (Note)	3.7%	➤	3.7%
Unrealized gain/loss (Note)	31.3 bio yen	➤	31.6 bio yen

● Financial stability

	29th period end (ended Nov. 2019)		After the initiative
LTV (Note)	39.3%	➤	39.6%
Interest-bearing debt ratio (Note)	43.6%	➤	44.1%

(Note) For details of the calculation method of “Average NOI yield” and “Average NOI yield after depreciation”, see “Notice Concerning Acquisition of Domestic Real Estate, and Transfer of Domestic Real Estate Trust Beneficiary Interest and Domestic Real Estate” on the same date. For details of the calculation method of “LTV” and “Interest-bearing debt ratio”, see page 10.



Overview of SHIBAURA RENASITE TOWER (equivalent of 10% co-ownership)

- High transportation convenience as 4-min walk from JR “Tamachi” Sta. and 7-min walk from “Mita” Sta. on Toei Subway.
- Various facilities to support living/working in the vicinity. Further development planned and higher value as office area expected.
- High layout efficiency. High spec office building, received CASBEE2017 "S Rank" and "Minato City Local Green City Development Award" (fiscal 2010).
- Due to mutual trading with Hotel Gracery Tamachi, acquire from transferee with preferential negotiation rights.



Land	Location	3-9-1 Shibaura, Minato-ku Tokyo
	Site area	321.67m ² (Note)
	Transportation	4 min walk from “Tamachi” Sta. on JR 7 min walk from “Mita” Sta. on Toei Subway
Building	Structure	Steel-frame, steel-frame reinforced concrete and concrete structure with flat roof / 19 floors with 2 underground floors
	Total floor area	2,680.87m ² (Note)
	Zone use	1,833.96m ² (Note)
	Parking	70 vehicles (62 mechanical, 8 flat)
	Month/year built	March 2009

(Note) Site area, Total floor area and Zone use are areas equivalent to the 10% co-ownership.





Overview of nanohana Ebisubashi (site)

- First urban retail facility in the “Osaka Minami” area of HHR.
- High transportation convenience as 5-min walk from a major terminal station, "Namba" Sta. connected by Hanshin Namba line, Osaka Metro, etc. via underground passages.
- “Osaka Minami”, one of the leading downtown areas in Japan, being developed along with growing inbound demand. The property is located in an area with special visibility.
- Healthcare and Cosmetics specialty Store - Tenant`s new business format.
- Acquired with sponsor`s support.



Location	2-4-5 Shinsaibashisuji, Chuo-ku, Osaka City
Site area	302.40m ²
Building Coverage / Floor Area Ratio	80% / 500%





Overview of MANDAI Shimoshinjo store

- Located along the railway of the Sponsor Group.
- Area with high percentage of people in their 20s and 30s, expected to continue to see development of large condominiums.
- Tenant, MANDAI Co., Ltd. is a leading supermarket in Kansai Region (The store is the fourth property owned by HHR).
- Renewed in June 2018.
- Acquired with sponsor`s support.

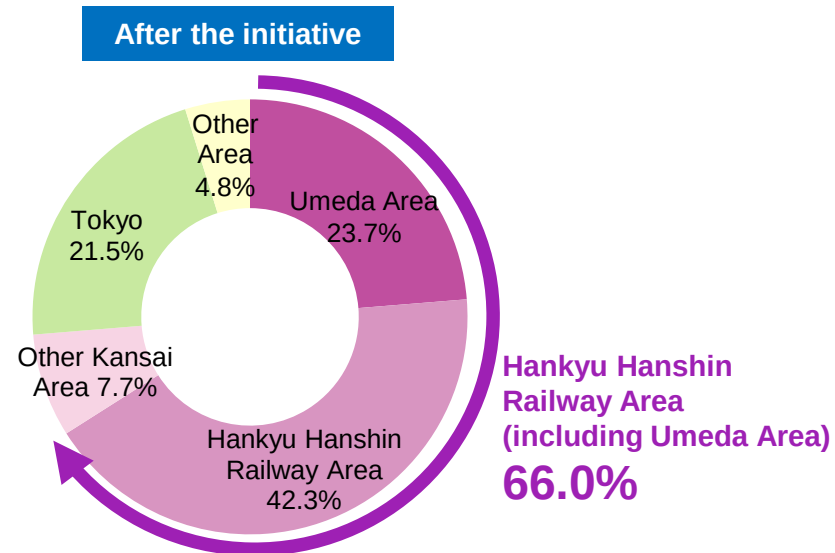
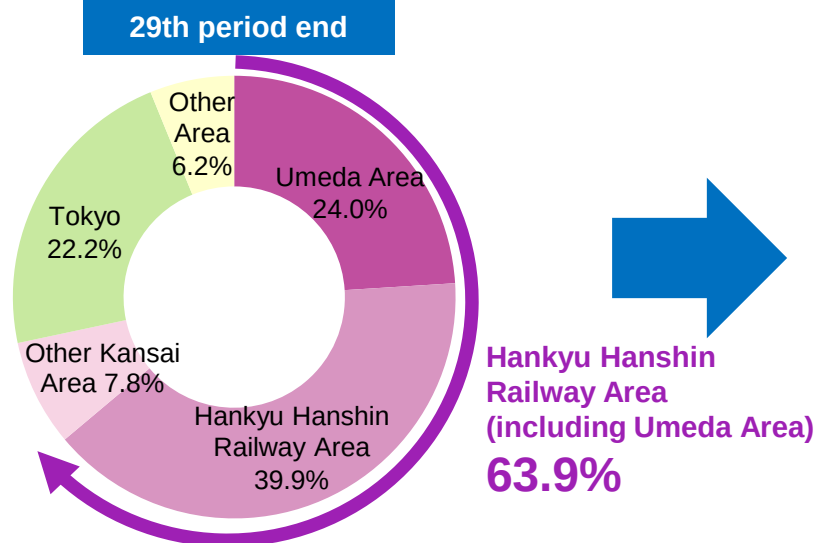
Location	3-10-22 Shimoshinjo, Higashiyodogawa-ku, Osaka City
Transportation	7 min walk from “Shimoshinjo” Sta. on Hankyu Senri Line
Structure	Steel frame structure with flat roof / 2 floors
Month/year built	December 1998
Site area	2,211.56m ²
Total floor area	1,550.65m ²

*This property may not meet some of the investment criteria for commercial facilities in the Investment Guidelines (in principle, the investment amount is above 1 billion yen and the total floor area should be more than 3,300 m²). However, the property can achieve higher yield than the average yield after depreciation of HHR's portfolio (3.7%), is a community-based retail facility with stable cash flows expected over the medium to long term and could contribute to stabilize the entire portfolio.

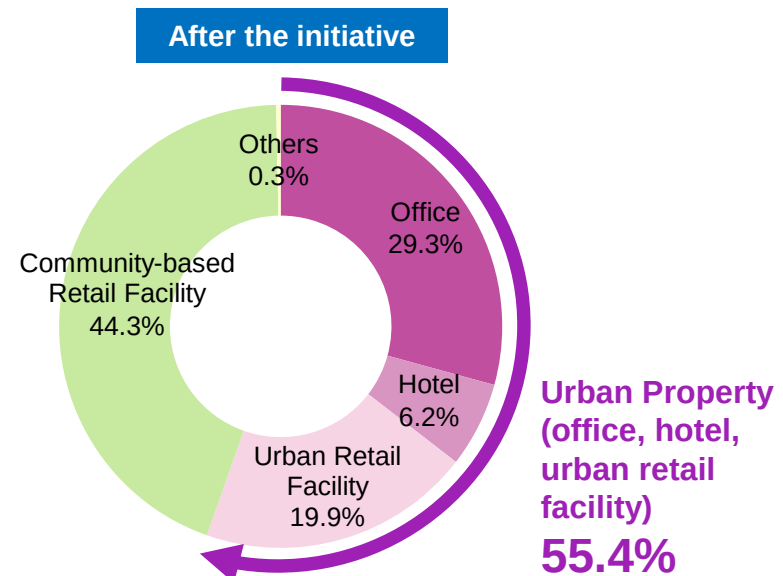
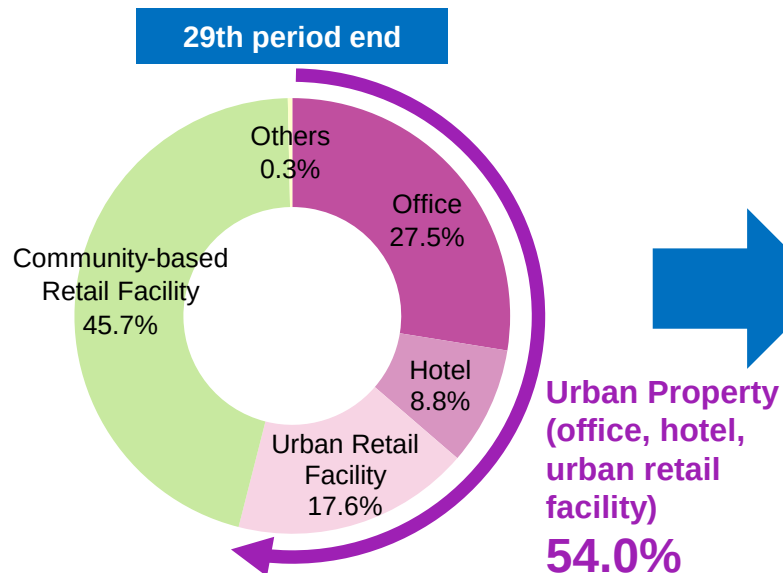




Change in area composition ratio



Progress in application diversification





$$\text{LTV} = \frac{\text{Amount of outstanding debts} + \text{Security deposits or guarantees} - \text{Matched money}}{\text{Total amount of assets} - \text{Matched money}}$$

$$\text{Interest-bearing debt ratio} = \frac{\text{Amount of outstanding debts}}{\text{Total amount of assets}}$$

- When corporate bonds have been issued, the amount of outstanding debts shall include the amount of outstanding bonds.
- Matched money refers to cash or deposits reserved in the trust account to guarantee the deposit and security money for the assets owned by Hankyu Hanshin REIT as the object of the trust beneficiary interests.
- The total amount of assets refers to the amount in the assets section of the most recent balance sheet for each period. However, with respect to tangible fixed assets, the difference between appraisal value and book value at the end of the fiscal period shall be added to or subtracted from the book value of the tangible fixed assets at the end of the fiscal period.

LTV and interest-bearing debt ratio after this initiative are calculated based on the following assumptions.

Regarding the amount of borrowings, the estimated amount of new borrowing to be executed (¥ 1,500 million) is added to the value at the end of the 29th fiscal period (ended November 2019).

Deposits and security deposits are calculated by adjusting the deposits and security deposits of the assets to be acquired and the assets to be transferred to the values as of the end of the 29th fiscal period (ended November 2019).

With regard to matched money, the amount to be reserved in the trust account of the amount of deposits and security deposits of assets to be acquired and assets to be transferred, and the value at the end of the 29th period (ended November 2019) are to be adjusted.

The total amount of assets is calculated by adjusting the difference between the appraisal value of the assets to be acquired, the assets to be transferred and the estimated amount to be recorded to the value as of the end of the 29th period (ended November 2019), and add expected capital expenditures (excluding assets to be acquired and assets to be transferred) during the 30th and 31st fiscal periods (¥ 1,342 million) and subtract expected depreciation expenses (¥ 2,000 million).