

Announcement Concerning Reconstruction of G-Bldg. Jiyugaoka 01 Bldg B

Japan Retail Fund Investment Corporation (“JRF”) has decided to reconstruct its portfolio asset, G-Bldg. Jiyugaoka 01 Bldg B in Meguro-ku Tokyo (the “Property”), as described below.

1. Significance and Purpose of Reconstruction

The enhancement of value of existing properties by leveraging its SC (shopping center) management capabilities is one of the pillars of JRF’s portfolio growth strategy. The purpose of this reconstruction is to enhance profitability and value of the Property by implementing on-balance-sheet reconstruction (i.e. reconstruct properties owned while leaving them recorded on balance sheet) as part of JRF’s initiative to leverage its SC management capabilities.

Significance of Reconstruction

- **Redevelopment of existing Property planned by JRF**
- **JRF’s first time on-balance-sheet reconstruction of existing Property**
- **Increase in portfolio profitability**

• Redevelopment of existing Property planned by JRF

JRF redevelops the Property (Bldg B) to make it a new retail facility suitable for the Jiyugaoka area. Mitsubishi Corp.–UBS Realty Inc. (the “Asset Management Company”), JRF’s asset management company, has an in-house SC management team and engineering team that are capable of consistent management of the project from the project planning, concept planning of the new retail facility, leasing, construction management to cost control.

• JRF’s first time on-balance-sheet reconstruction of existing Property

This reconstruction is JRF’s first time on-balance-sheet reconstruction of its portfolio asset. By so doing, the outflow of profit accompanying the redevelopment can be prevented. While temporary expenses arising from the demolishment of the Property such as loss on disposal and removal cost, and revenue downtime during the reconstruction are expected, impact on dividend can be minimized by managing the expenses and the revenue downtime in JRF’s entire portfolio, asset size of which is expanding.

• Increase in portfolio profitability

JRF has already signed a lease reservation contract with a tenant who plans to rent the Property after the reconstruction. JRF expects that the reconstruction will contribute to increase in profitability of its portfolio.

【Purpose of reconstruction】

The Property is a retail facility located in an area, a five-minute walking distance from Jiyugaoka Station on the Tokyu Toyoko Line and Tokyu Oimachi Line, where many fashion tenants are concentrated, and the Property consists of Bldg A (formerly NEXT Building) and Bldg B (formerly Colline Building) .

JRF acquired the Property in March 2005 considering it would produce stable revenue in the mid- to long-term. JRF revisited its management policy with the timing of contract renewal of existing tenants in mind.

For the Property (Bldg B), with thorough consideration of impact on the portfolio from various options (e.g., renovate the existing property, sell the property to a third party), JRF concluded that the reconstruction of the Property will contribute to the enhancement of profitability and stability of the portfolio the most, mainly for the following reasons:

【Reason for reconstruction】

- Recently, new fashion and life-style tenants have opened stores in the area around the Property, and potential of the location of the Property as a commercial location is increasing.
- Bldg B is located on the corner and is highly visible from the front road, and therefore, it is possible to attract new competitive tenants by thoroughly reviewing the current compartment.
- The existing Bldg B uses only 194% of its designated floor area ratio (“FAR”) of 300%, and by reconstructing the Property it is possible to expand leasable space.
- More than 30 years have passed since Bldg B was built, and if JRF continues to manage it as it stands now, future repair and maintenance costs are expected to significantly increase due to the aging of the Property.

For the Property (Bldg A), full tenant replacement has been done. For further details, please see 3. (2) Effect on entire Property.

2. Overview of Reconstruction

(1) Planned schedule

Reconstruction approval	June 25, 2015
Demolish work & design orders	
Demolish work period	June 2015 – November 2015
Issuance of certificate of verification of building construction	November 2015
Construction order	November 2015
Construction period	December 2015 – November 2016
Lease contract signing date	September 2016
Completion date	November 2016
Store opening	November 2016

(2) Overview of new building

• Fireproof timber construction in consideration of reducing environmental load, design and advantage in leasing

In consideration of reducing environmental load, design and advantage in leasing, the primary structure of the 1st to the 3rd floor of the reconstructed building will be a fireproof timber construction.

A large-scale timber construction was considered difficult from the legal perspective; however, it has become feasible by enhancing the fire-resistance performance of the laminated wood to be used. JRF pursued not only the effect of reducing environmental load such as CO2 reduction but also advantages in leasing through unique design of showcasing the wood.

• Designed by high-profile architect office

JRF has decided to use Klein Dytham Architecture (major work: “Daikanyama T-SITE,” “Risonare Kobuchizawa (currently RISONARE Yatsugatake),” etc.) for architectural and basic design for the reconstruction. The Jiyugaoka area is active on environmentally-friendly urban development by promoting greening, etc. In consideration of this, for the new building JRF plans a unique design in the shape of a house with fully-glass-walled façade that shows the wooden construction so that the warmth of wood can be felt from outside. JRF also plans to adopt a highly versatile floor plan that allows single-tenant leasing or multi-tenant leasing.

Daiwa Odakyu Construction Co., Ltd. will be in charge of execution of the design and construction of this project. Additionally, with this reconstruction, JRF aims to obtain “CASBEE for Building (New Construction) (Comprehensive Assessment System for Built Environment Efficiency)” certification by implementing measures for reducing environmental load such as energy-saving, resource-saving and recycling.

(3) Overview of tenant

• Scheduled signing of long-term fixed-term lease contract of Bldg B

Based on selection from a pool of candidates by utilizing a wide variety of tenant relations of the Asset Management Company, JRF plans to lease the Bldg B to Cross Company Inc. that operates many fashion brands. In the new building, Cross Company Inc. plans to operate a shop that offers sundry goods, food and restaurant as well as clothing.

JRF signed a lease reservation contract with Cross Company Inc. on June 12, 2015, and both parties have agreed to sign a formal lease contract (fixed-term lease contract for 10 years) in September 2016 that starts after the scheduled delivery date of the new Property (November 2016).

3. Effect of reconstruction

(1) Effect of reconstruction

Estimated total expense	Expected increase in NOI	Expected increase in NOI / Estimated total expense
589 million yen	37 million yen	6.4%

Note 1: The estimated total expense includes construction cost, design cost and accompanying cost, dismantlement cost, etc.

Note 2: The expected increase in NOI is the difference between the sum of actual NOIs for the fiscal period ended August 2014 (the 25th

period) and the fiscal period ended February 2015 (the 26th period), and the expected yearly NOI for the initial year after the reconstruction is completed.

(2) Effect on entire Property

• NOI of the entire Property is expected to increase by 30%

The effect of Bldg B of the Property is as indicated in (1) above. For Bldg A, two tenants whose fixed-term lease contract expired in March 2015 were replaced with Baycrew's Co., Ltd. that operates specialty boutiques and cafés (contract effective in April 2015 with scheduled opening in August) in the 1st floor to the 3rd floor, and Hot Yoga Studio LAVA (contract effective April 2015 with opening in May) in the 1st basement. JRF aims to improve the value of the entire Property with tenant replacement of Bldg A and the reconstruction of Bldg B. After implementing these measures, NOI of the entire Property is expected to increase by 42 million yen which is up 30%, and NOI yield is expected to be 5.9% that is plus 0.7 points of the yield before the tenant replacement and the reconstruction.

【Effect on entire Property (Total of Bldg A and Bldg B)】

	Before	After (expected)	Increase/decrease
	Bldg A: Before tenant replacement Bldg B: Before reconstruction	Bldg A: After tenant replacement Bldg B: After reconstruction	
Acquisition price	2,700 million yen	3,103 million yen	+403 million yen
Rental revenue	178 million yen	221 million yen	+43 million yen (+24.2%)
Total leased area	1,762.87m ²	2,269.33 m ²	+506.46 m ²
Total leasable area	1,817.65 m ²	2,269.33 m ²	+451.68 m ²
NOI	140 million yen	182 million yen	+42 million yen (+30.0%)
NOI yield	5.2%	5.9%	+0.7 point
NOI yield after depreciation	4.1%	4.7%	+0.6 point
Appraisal value	3,399 million yen	4,250 million yen	+851 million yen (+25.3%)

(Note 1) "NOI yield" is calculated by dividing NOI by acquisition price and is rounded to the nearest second decimal place.

(Note 2) "NOI yield after depreciation" is calculated by dividing NOI excluding depreciation by acquisition price and is rounded to the nearest second decimal place

(Note 3) "Rent revenue" and "NOI" under column "Before" is the total of actual amounts for the fiscal period ended August 2014 (the 25th period) and the fiscal period ended February 2015 (the 26th period). "Acquisition price", "total leased area", "total leasable area" and "appraisal value" are the amounts as of the end of February 2015 (the end of the 26th period).

(Note 4) Of the figures under column "After (expected)" the "acquisition price" of "Bldg B after reconstruction" is the sum of the land price and the estimated construction cost (including construction and design costs, and excluding ancillary expenses such as taxes and demolition cost). "Rent revenue" and "NOI" of "Bldg B after reconstruction" are based on yearly revenue and expenditure that are based on the lease reservation contract.

(Note 5) "Appraisal value" under column "After (expected)" is the total of the appraisal value of Bldg A as of the end of February 2015 (the end of the 26th period) and the appraisal value of Bldg B after reconstruction (as of June 25, 2015).

4. Operational impact from reconstruction

(1) Temporary cost in connection with demolition

With the reconstruction, the temporary expense of 150 million yen that is the sum of demolition cost, etc. of 65 million yen for the fiscal period ended August 2015 (the 27th period) and the fiscal period ended February 2016 (the 28th period) combined, and loss on disposal of noncurrent asset of 85 million yen for the fiscal period ended August 2015 (the 27th period) is expected to be incurred.

(2) Future Outlook

As the effect of the reconstruction project is included in "Summary of Financial Results for the Six Months Ended February 28, 2015" dated April 13, 2015, under "Assumptions Underlying the Forecast of Operation for the Fiscal Period Ending August 31, 2015 (27th Fiscal Period: March 1, 2015 to August 31, 2015) and the Fiscal Period ending February 29, 2016 (28th Fiscal Period: September 1, 2015 to February

29, 2016)”, there will be only marginal impact on our performance forecasts for the fiscal period ending August 2015 (the 27th period: March 1, 2015– August 31, 2015) and for the fiscal period ending February 2016 (the 28th period: September 1, 2015 – February 29, 2016); therefore, our forecasts will remain unchanged.

5. Summary of Appraisal Report

【Bldg B】

Appraiser	Japan Real Estate Institute
Appraisal Value (Land and Building)	1,490 million yen
Value Date	June 25, 2015

Item	Value	Notes
Indicated value by income approach		
DC method	1,510 million yen	
Operating income	Not disclosed	Not disclosed as the tenant has not agreed to the disclosure of information.
Effective gross income	Not disclosed	
Losses from vacancy, etc.	0 yen	
Operational cost	11 million yen	
Maintenance and management fee	Not disclosed	As the disclosure of this information may negatively affect JRF's competitiveness and work to the detriment of unitholders, we have decided not to disclose the information, and include it under "other expenses."
Utility cost	0 yen	
Repair expenses	0 million yen	
Property manager fee	Not disclosed	As the disclosure of this information may negatively affect JRF's competitiveness and work to the detriment of unitholders, we have decided not to disclose the information, and include it under "other expenses."
Leasing cost	Not disclosed	
Property tax	8 million yen	
Insurance premium	Not disclosed	As the disclosure of this information may negatively affect JRF's competitiveness and work to the detriment of unitholders, we have decided not to disclose the information, and include it under "other expenses."
Other expenses	2 million yen	
Net operating income	62 million yen	
Operating profit on lump-sum payments	0 million yen	
Capital expenditure	1 million yen	
Net income	62 million yen	
Capitalization rate	4.1%	
DCF method	1,470 million yen	
Discount rate	3.9%	
Terminal capitalization rate	4.3%	
Indicated value by cost approach	1,370 million yen	
Land ratio	55.2%	
Building ratio	44.8%	
Other matters of consideration	N/A	

About JRF: JRF is the third listed Japanese Real Estate Investment Trust ("J-REIT") and the first J-REIT to focus exclusively on retail properties. As of the date of this release, JRF owns 89 properties containing approximately 3.1 million square meters of leasable space.

Please refer to our website at <http://www.jrf-reit.com/english/index.html> for further details.

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This translation is for informational purposes only, and the Japanese language release should be referred to as the original.

<Reference>

1) Overview of Property

	Bldg B (After reconstruction)	<Reference> Bldg A (After tenant replacement)
Location (address)	9-19, Jiyugaoka 2-chome, Meguro-Ku, Tokyo	9-17, Jiyugaoka 2-chome, Meguro-Ku, Tokyo
Acquisition date	March 28, 2005	March 28, 2005
Acquisition price	Not yet determined	2,100 million yen
Land price	489 million yen	1,372 million yen
Building price	Not yet determined	727 million yen
Land		
Area	284.56 m ²	555.78 m ²
Zoning	Neighborhood commercial district	Neighborhood commercial district
Type of possession	Ownership	Ownership
Building		
Structure / stories	Fireproof timber structure (1F - 3F), reinforced concrete structure (1 - 2 basement floors)	3 stories above ground and 1 basement floor, reinforced concrete and steel-reinforced concrete with deck roof and asphalt roofing
Completion date	November 2016 (scheduled)	March 7, 2005
Total floor area	838.11 m ² (before reconstruction: 521.68 m ²)	1,367.43 m ²
FAR / building-to-land ratio	300%/90%	274%/100%
Design	Daiwa Odakyu Construction Co., Ltd. (basic design: Klein Dytham Architecture)	SHIMIZU CORPORATION
Construction	Daiwa Odakyu Construction Co., Ltd. (planned)	SHIMIZU CORPORATION
Constructional inspector	Not yet determined	JAPAN ERI CO.,LTD.
PML	Not yet determined	3.3% Based on the earthquake risk analysis report jointly prepared by Engineering and Risk Services Corporation and OYO RMS Corporation.)
Tenant summary		
Number of tenant(s)	1 (Store by CROSS COMPANY INC.)	2 (Store by BAYCREW'S Co., Ltd., HOT YOGA STUDIO LAVA)
Annual rent	Not disclosed as the tenant has not agreed to the disclosure of information.	Not disclosed as the tenant has not agreed to the disclosure of information.
Tenant leasehold / security deposit		105 million yen
Total leased area	910.51 m ²	1,358.82 m ²
Total leasable area	910.51 m ²	1,358.82 m ²
Occupancy rate (based on leased area)	100.0%	100.0%
Period of contract	Scheduled contract start date: from November 2016 for 10 years	
Type of contract	Fixed-term lease contract	Fixed-term lease contract
Revision of rent	Not disclosed as the tenant has not agreed to the disclosure of information.	
Early termination		
Collateral conditions	N/A	N/A
Special notes	N/A	N/A

- Amounts of less than one million yen are rounded down, and percentages are rounded to the nearest second decimal place.
- "Location" represents the address of each property or the registered address of the building.
- "Acquisition date" is the initial acquisition date of the properties.
- "Land area" is based on descriptions in registry books.
- "Zoning" represents the classification of land by its use, stipulated in Section 1-1, Article 8 of the City Planning Act.
- "Structure / stories", "Completion date" and "Total floor area" of Bldg B after reconstruction are based on the contents in planned basic design as of today.
- "PML" of Bldg A after tenant replacement is the PML of Bldg A and Bldg B as one unit as of February 2015.
- The contents of "Tenant summary" for Bldg B after reconstructions are from the lease reservation contract.

2) Image and Map

【Before reconstruction】



【Image of Bldg B after reconstruction】



【Map】

