

Completion of an Additional Acquisition through the Reconstruction of G-Bldg. Jiyugaoka 01 Bldg B

Japan Retail Fund Investment Corporation (“JRF”) has completed an additional acquisition of G-Bldg. Jiyugaoka 01 (the “Property”) Bldg B in Meguro-ku Tokyo today after its reconstruction (the “Reconstruction”), as notified in “Announcement Concerning Reconstruction of G-Bldg. Jiyugaoka 01 Bldg B,” a news release dated June 25, 2015.

Besides, it is scheduled that the new shop of the tenant, which was invited along with the Reconstruction of the Property (Bldg B), will open their businesses beginning from November 16, 2016.

1. Overview of the Property (Bldg B) (Building)

In consideration of reducing environmental load, design, and advantages for leasing, JRF made the primary structure of the 1st to the 3rd floor of the reconstructed building a fireproof timber construction. We sought not only the effect of reducing environmental load, such as by cutting CO2 emissions, but also advantages for leasing by considering the needs of tenants who value the rarity and image represented by timber construction, among others.

In addition, as notified in “JRF Receives DBJ Green Building Certification for G-Bldg, Jiyugaoka 01,” a news release dated August 26, 2016, the Property (Bldg B) is the first commercial facility to receive development plan certification under the Development Bank of Japan’s DBJ Green Building Certification system, based on its evaluation that the Property (Bldg B) “actively employs the technique for a large-scale fireproof timber structure, which is expected to have an environmental effect by reducing CO2 emissions, while its wooden texture gives off a warm ambiance when seen from outside.”

Overview of the Property (Bldg B) (changes are indicated by underline)

	As of November 7, 2016	As of the date of the news release on June 25, 2015
Acquisition date	<u>November 7, 2016</u>	-
Estimated total expense (Note 1)	<u>579 million yen</u>	589 million yen
Acquisition funds	Cash on hand	-
Building		
Structure / stories	3 stories above <u>ground and 2 basement floors, alloy plating steel shingle roofing, timber/reinforced concrete structure</u>	Fireproof timber structure (1F - 3F), reinforced concrete structure (1 - 2 basement floors)
Completion date	<u>October 27, 2016</u>	November 2016 (scheduled)
Total floor area	<u>895.12 m²</u> (Before reconstruction: 521.68 m ²)	838.11 m ² (Before reconstruction: 521.68 m ²)
Design	<u>Fujita Corporation</u> (Note 2) (Basic design: Klein Dytham Architecture)	Daiwa Odakyu Construction Co., Ltd. (Basic design: Klein Dytham Architecture)
Construction	<u>Fujita Corporation</u>	Daiwa Odakyu Construction Co., Ltd. (planned)
Constructional inspector	<u>The Building Center of Japan</u>	Not yet determined
PML	<u>6.8%</u>	Not yet determined
Tenant summary		
Number of tenant(s)	1 (Store by <u>STRIPE INTERNATIONAL INC.</u> (Note 3))	1 (Store by CROSS COMPANY INC.)
Total leased area	<u>915.78 m²</u>	910.51 m ²
Total leasable area	<u>915.78 m²</u>	910.51 m ²
Period of contract	10 years from <u>November 7, 2016</u>	Scheduled contract start date: from November 2016 for 10 years

(Note 1) "Estimated total expense" includes construction cost, design cost and accompanying cost, dismantlement cost, etc.

(Note 2) Effective on October 1, 2015, Daiwa Odakyu Construction Co., Ltd. merged with Fujita Corporation (the surviving entity) through an absorption-type merger, and its company name was changed accordingly.

(Note 3) Effective on March 1, 2016, the company name was changed to "STRIPE INTERNATIONAL INC." from "CROSS COMPANY INC."

The Property (Bldg B) was acquired as a real property and was entrusted additionally on the transfer date of November 7, 2016.

2. Overview of Tenant

Concerning the new tenant, as notified through "Announcement Concerning Reconstruction of G-Bldg. Jiyugaoka 01 Bldg B," a news release dated June 25, 2015, JRF will lease the property collectively to Stripe International Inc., which operates numerous fashion brands, for a period of 10 years beginning from November 7, 2016.

In the Property (Bldg B), Stripe International Inc. will open a new lifestyle outlet named KOE HOUSE on November 16, 2016, a spin-off outlet of the global brand named KOE, which the company plans to expand to overseas markets.

3. Summary of Appraisal Report

【Bldg B (Building)】

Appraiser	Japan Real Estate Institute
Appraisal Value	700 million yen (Note 1)
Value Date	November 7, 2016

Item	Value	Notes
Indicated value by income approach	1,640 million yen	The entire value including land
DC method	1,660 million yen	The entire value including land
Operating income	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.
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	63 million yen	
Operating profit on lump-sum payments	0 million yen	
Capital expenditure	0 million yen	
Net income	63 million yen	
Capitalization rate	3.8%	
DCF method	1,610 million yen	The entire value including land
Discount rate	3.6%	
Terminal capitalization rate	4.0%	
Indicated value by cost approach	1,540 million yen	The entire value including land
Land ratio	57.3%	
Building ratio	42.7%	
Other matters of consideration	N/A	

(Note 1) Appraisal value for the building only and based on a condition that the building is attached to the underlying land and both the building and the land are owned by the same owner

4. Future Outlook

Because the impact of the Reconstruction is included in "Assumptions Underlying the Forecast of Operation" in the "Summary of Financial Results for the Six Months Ended August 31, 2016" announced in October 13, 2016, the impact of the Reconstruction on our revenue forecasts for the fiscal period ending February 2017 (the 30th period) and the fiscal period ending August 2017 (the 31st period) is marginal, and therefore, the forecasts for the both periods remain unchanged.

【Before Reconstruction】



【After Reconstruction】



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. 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>

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 redeveloped 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 utilized these functions.

• 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 could be prevented. While temporary expenses arising from the demolition of the Property (Bldg B) such as loss on disposal and removal cost, and revenue downtime during the reconstruction were expected, impact on dividend were 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 contract with the new tenant. 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) (before reconstruction).

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 Bldg B (formerly Colline Building) (before reconstruction), 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.
- Bldg B (formerly Colline Building) (before reconstruction) 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 (formerly Colline Building) (before reconstruction) 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.