

真面目に、地道に、堅実に

Serious Steady Solid



Nippon REIT Investment Corporation
**Supplementary Material Regarding
“ Transfer and Acquisition of Assets”**

September 15, 2017

Overview of Acquired and Transferred Assets As Announced Today

《Annually》 (please refer to Page 3)
Analyses of all the assets in the portfolio as part of Mid- and Long-term Strategy

《From December 2015 to April 2017》

Building up of pipeline by use of bridge funds (please refer to page 5)

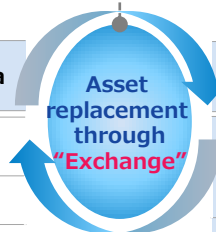
Acquisition from third parties based on negotiations



《September 2017》
Sale of properties at the “timing of selling”, based on the analyses
Improvement in the quality of the portfolio by exercising right to first negotiation that were obtained at the “timing of buying”



Property name	Homat Horizon Building	Sannomiya First Building	Splendid Namba
Location	Chiyoda ward, Tokyo	Chuo ward, Kobe	Naniwa ward, Osaka
Asset type	Office	Office	Residence
Total floor area	8,143.02m ²	5,019.79m ²	8,031.78m ²
Completion (Building age)	Aug. 1987 (30.1 years)	Nov. 1993 (23.9 years)	Jan. 2015 (2.7 years)
Scheduled acquisition price (A)	¥6,705mn	¥1,390mn	¥3,502mn
Scheduled acquisition price after the reduction (B)	¥6,436mn	¥1,387mn	¥3,368mn
Appraisal value (As of Sep. 1, 2017)	¥6,800mn	¥1,490mn	¥3,570mn
Balance (B)- (A)	▲¥269mn	▲¥3mn	▲¥133mn
Appraisal NOI Yield ⁽¹⁾	4.2% (4.4%)	6.2% (6.3%)	5.1% (5.3%)
Estimated NOI yield ⁽²⁾	4.4% (4.5%)	6.2% (6.2%)	5.0% (5.1%)
Occupancy rate ⁽³⁾	100.0%	96.6%	94.8%
Number of tenants ⁽³⁾	15	34	237



Property name	GreenOak Okachimachi	JS Progres Building
Location	Taito ward, Tokyo	Ota ward, Tokyo
Asset type	Office	Office
Total floor area	4,296.39m ²	17,868.72m ²
Completion (Building age)	Jan. 1977 (40.7 years)	Apr. 1993 (24.4 years)
Scheduled transfer price (C)	¥3,650mn	¥6,350mn
Assumed book value (D)	¥3,450mn	¥5,398mn
Appraisal value (As of June 30, 2017)	¥3,010mn	¥5,250mn
Balance (C)- (D)	¥199mn	¥951mn
Appraisal NOI Yield ⁽⁴⁾	4.4% (4.0%)	5.3% (4.4%)
Estimated NOI yield ⁽⁵⁾	4.1% (3.8%)	4.1% (3.4%)
Occupancy rate ⁽³⁾	100.0%	100.0%
Number of tenants ⁽³⁾	5	9

- Notes
1. Calculated based on NOI stated in the appraisal report as of Sep. 1, 2017, and rounded to one decimal place.
 2. Calculated based on cash flow for the year from Jan. 1, 2018 to Dec. 31, 2018 that is estimated by NIPPON REIT, and rounded to one decimal place.
 3. As of end of July 2017.
 4. Calculated based on NOI stated in the appraisal report as of June 30, 2017, and rounded to one decimal place.
 5. “NOI Yield” is calculated by Annualized NOI / Acquisition Price, using annualized NOIs of respective properties and rounded to one decimal place. The same applies hereafter.

Execution of Asset Replacement Using Bridge Funds-based Pipeline, based on Future Plans for Medium- and Long-term Management

《Concept of the Asset Replacement》

1

Enhance and upgrade portfolio

- Raise the ratio of properties in six central wards
- Incorporate younger properties into the portfolio
- Acquire high-yield offices located in the three metropolitan areas in which strong demand continues

2

Demonstrate a timely investment by recording gains on transfer (¥780mn) of properties

3

Look for a way to return gains on transfer in a manner that contributes to medium- and long-term improvement in unitholder value

《Effects of the Asset Replacement》

① Enhanced portfolio

《Ratio of properties in central six wards》	(Before exchange) 66.8%	➡	(After exchange) 69.4%
《Average building age》	(Before exchange) *As of Sep. 28, 2017 24.8 years	➡	(After exchange) *As of Sep. 28, 2017 24.3 years
《Unrealized gains/losses》	(Before exchange) *As of Jun. 30, 2017 +¥16.5bn	➡	(After exchange) ⁽¹⁾ +¥17.5bn

② Rise in DPU

《11 th fiscal period ending in December 2017》	Increase by 10.8% from gains on sale compared to the forecast for 11 th fiscal period (As of Aug. 17, 2017) ¥8,224	➡	(As of Sep. 15, 2017) ¥9,111
《12 th fiscal period ending in June 2018》	Increase by 1.5% based on improvement in property yields compared to the forecast for 12 th fiscal period ¥8,100	➡	¥8,225

③ Reduction in book value

《Gains on transfer》	Reduction of ¥400mn out of ¥780mn, and allocation of ¥380mn to dividend resources for the 11 th fiscal period ending in December 2017
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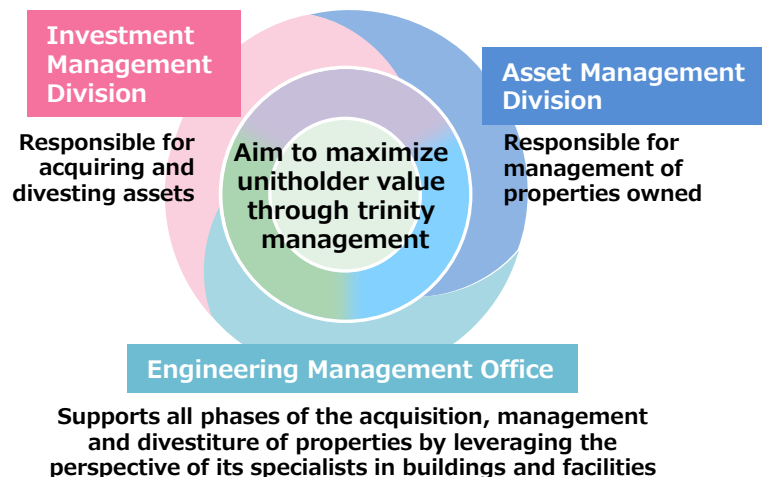
Achieve two targets in a balanced manner: Medium- and long-term improvement in unitholder value and increase in distributions paid for existing unitholders

《Acquisition prices of three properties》	(Before reduction) ¥11,597mn	➡	(After reduction) ¥11,191mn
《Appraisal NOI yield》 ⁽²⁾	4.7%	➡	4.9%
Rise in appraisal NOI yield of properties acquired by recording reduced book value			

Notes

1. Calculated, regarding the three properties to be acquired on Sep. 28, 2017, based on the appraisal value and estimated book value as of Sep. 1, 2017 (in the latter case, book value estimated as of the scheduled delivery date calculated by the Asset Management Company based on the book value at the end of the 10th fiscal period (ended in June 2017), capital expenditure planned by the scheduled delivery date and estimated depreciation (the same shall apply hereinafter.)), while regarding other properties based on the appraisal value and book value as of June 30, 2017.
2. Calculated based on NOI stated in the appraisal report as of Sep. 1, 2017 and rounded to one decimal place.

《Maximization of Unitholder Value through Trinity Management and Mid- and Long-term Strategy》



Drawing-up and Executing Mid- and Long-term Strategy (Tiering-PJ)

Investment Management Division, Asset Management Division and Engineering Management Office work together to analyze each property in terms of profitability, liquidity and Characteristics. The Project is intended to maintain and improve the value of the portfolio, by drawing up a plan of portfolio management from a mid- and long-term viewpoint

Profitability

- Verify potential for medium- to long-term profitability and competitiveness in properties

Liquidity

- Verify liquidity in the real estate transaction market from a medium- to long-term perspective (area, location, form of ownership, age of building, scale, demand trends, etc.)

Property Characteristics

- Analyze track record (downtime, ease of leasing, etc.)
- Verify operational risk points and area potential (redevelopment, trends of office concentration, etc.)

《Backgrounds of Asset Replacement》

- Nippon REIT recognizes that replacing assets at the correct time is essential to maintain and improve the portfolio competitiveness from the medium- to long-term perspective, while it is trying to expand the asset size and improve asset value through its characteristic “trinity” management system

- Nippon REIT determined to sell the two properties to be transfer (GreenOak Okachimachi, JS Progres Building) at this timing to maximize the unitholder's value based on analysis which we conduct as a part of our Mid- and Long-term Strategy.

- All the three properties to be acquired (Homat Horizon Building, Splendid Namba and Sannomiya First Building) match the investment policy of Nippon REIT and are considered as assets that contribute to an improvement of the competitiveness of its portfolio over medium- and long-term, from perspectives of profitability, tenant diversification, growth potential and building age

- Use of the “exchanging scheme” in the asset replacement enables Nippon REIT to both “Improve unitholder value in the medium- and long-term” and “increase distributions paid for existing unitholders” in a well-balanced manner
- Distributions for the period ending in December 2017 will increase as a part of gains on transfer is allocated to distributions
- Recording of reduced book value of gains on transfer will “reduce acquisition prices” and increase future distributions
- Unitholder value will be improved as unrealized gains
- Portfolio competitiveness will be enhanced (ratio of properties located in central six wards, building age, profitability, etc.)

Effects of Asset Replacement

		Portfolio as of end of 10 th Fiscal Period (ended in Jun 2017)		Properties to be transferred		Properties to be acquired		Portfolio after acquisition/transfer
Portfolio	Number of properties	65 properties		2 properties		3 properties		66 properties
	Total asset size (Acquisition prices)	¥204.8bn		¥8.6bn		¥11.5bn		¥207.7bn
	Total appraisal value ⁽¹⁾	¥224.0bn		¥8.2bn		¥11.8bn		¥227.6bn
	Appraisal NOI yield ⁽¹⁾	4.9%	−	4.9%	+	4.7%	=	4.9%
	Average building age	24.8 years (As of Sep. 28, 2017)		30.6 years (As of Sep. 28, 2017)		21.8 years (As of Sep. 28, 2017)		24.3 years (As of Sep. 28, 2017)
	Ratio of properties located in central six wards	66.8%						69.5%
Unitholder value	Distribution per unit (11 th Period Forecast)	¥8,224 (Released on Aug. 17, 2017)						¥9,111 (Released on Sep. 15, 2017)
	Distribution per unit (12 th Period Forecast)	¥8,100 (Released on Aug. 17, 2017)						¥8,225 (Released on Sep. 15, 2017)
	NAV per unit ⁽²⁾	¥329,491						¥332,100 (As of Sep. 30, 2017)
	Unrealized gains/losses ⁽³⁾	¥16.5bn		▲¥0.6bn		¥0.4bn		¥17.5bn

Notes

- Portfolio as of end of 10th fiscal period and Properties to be transferred are calculated based on appraisal value as of June 30, 2017, while Properties to be acquired based on appraisal value as of Sep. 1, 2017
- "NAV per unit" is calculated based on the formula: (Net assets+ Total appraisal value – Total book value) ÷ Number of outstanding units; however, NAV per unit in "Portfolio after acquisition/transfer" is calculated based on Properties to be acquired represented by estimated book value.
- Portfolio as of end of 10th fiscal period and Properties to be transferred are calculated based on appraisal value and book value as of June 30, 2017, while Properties to be acquired based on appraisal value as of Sep. 1, 2017 and estimated book value as of the acquisition date of respective properties.

Summary of Assets Held by Bridge Funds under Investment Corporation

Assets to be acquired
in the asset replacement

	Nicolas Capital 6	Nicolas Capital 9	Nicolas Capital 8	Nicolas Capital 10	Total
Aggregate first negotiation prices	¥11,597mn	¥4,090mn	¥6,835mn	¥7,234mn	¥29,756mn
Aggregate appraisal value (appraisal NOI yield)	¥11,700mn	¥4,090mn	¥6,950mn	¥7,276mn	¥30,016mn
Equity investment amount	¥220mn	¥100mn	¥500mn	¥50mn	¥870mn
Deadline of the first negotiation	Feb. 28, 2018	Feb. 28, 2018	Dec. 31, 2017	Mar. 29, 2019	
Number of real-estate backed properties	3	3	4	5	15

Potential rearrangement of bridge funds is considered

Rearrangement of bridge funds is intended to extend the deadline of first negotiation, in order to build sufficient pipeline in preparation for acquisitions at a proper timing.

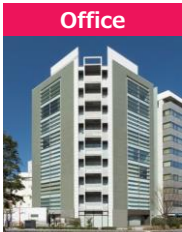
Aggregate first negotiation prices of properties held by bridge funds except Nicolas Capital 6

¥18,159mn



Residence

Residence Edogawabashi
(Shinjuku ward, Tokyo)



Office

Yusen Higashi-Nihonbashi
Ekimae Building
(Chuo ward, Tokyo)




Residence

Zephyros Minami Horie
(Nishi ward, Osaka)



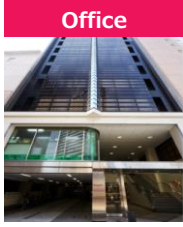
Office

SC Sakaisujihonmachi
Building (Chuo ward, Osaka)



Office

DIA Building Meieki
(Nakamura ward, Nagoya)



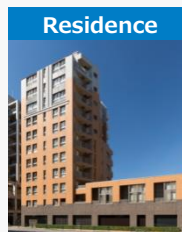
Office

Alte Building Higobashi
(Nishi ward, Osaka)




Office

Hiroo ON Building
(Shibuya ward, Tokyo)



Residence

(Tentative) Residence Hiroo
(Minato ward, Tokyo)



Residence

Merveille Senszoku
(Ota ward, Tokyo)




Residence

Splendid Shin-Osaka III
(Higashi-Yodogawa ward, Osaka)



Residence

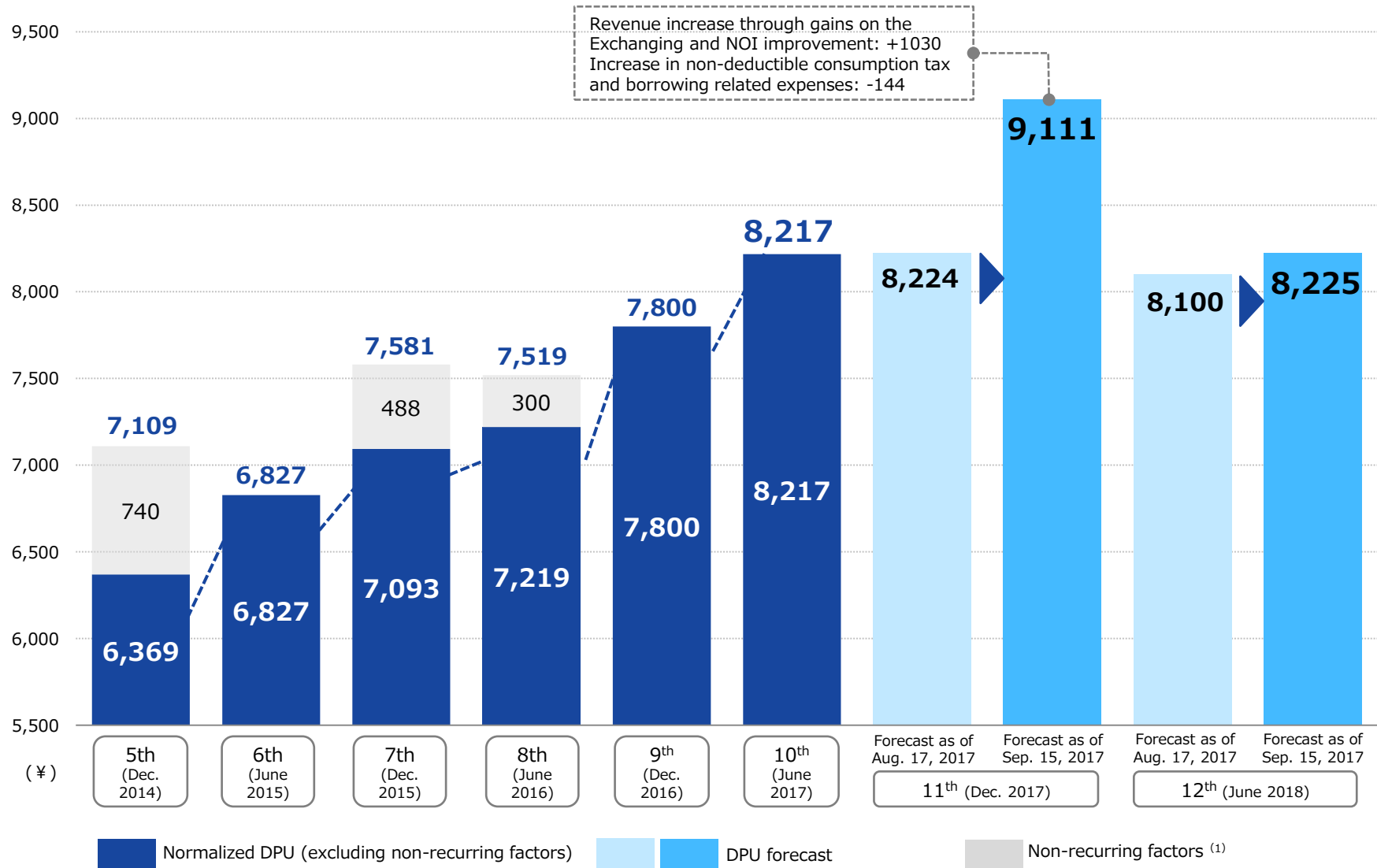
Chalmant Fuji Osakajo
Minami
(Chuo ward, Osaka)



Residence

Piacere Fuminosato
(Abeno ward, Osaka)

《DPU Transition》



Note
1. 5th Period: real estate tax capitalized (per unit), 7th Period: Real estate tax capitalized – expenses related to public offering (per unit), 8th Period: Consumption tax settlement difference (per unit)

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