

# Kenedix Retail REIT Corporation

## Financial Result

for the 8th Financial Period ended March 31, 2019



May 17, 2019



**KENEDIX**  
Retail REIT Corporation



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Adapting to changing environment for sustainable growth

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## Progress of measures for sustainable growth

**Inclusion of  
distribution centers  
as investment criteria**



**Asset reshuffle**  
Portfolio quality and  
yield improvement



**New asset management  
fee structure**



**Framework for unit buyback**



Alleviate concerns on retail properties  
in the J-REIT market

Asset management focusing even  
more on DPU and NAV growth

**AUM growth**

**Reduction in financing cost**

**Improvement in credit  
Expansion of investor base**

**Sustainable growth cycle**

**Expansion of tenant network**

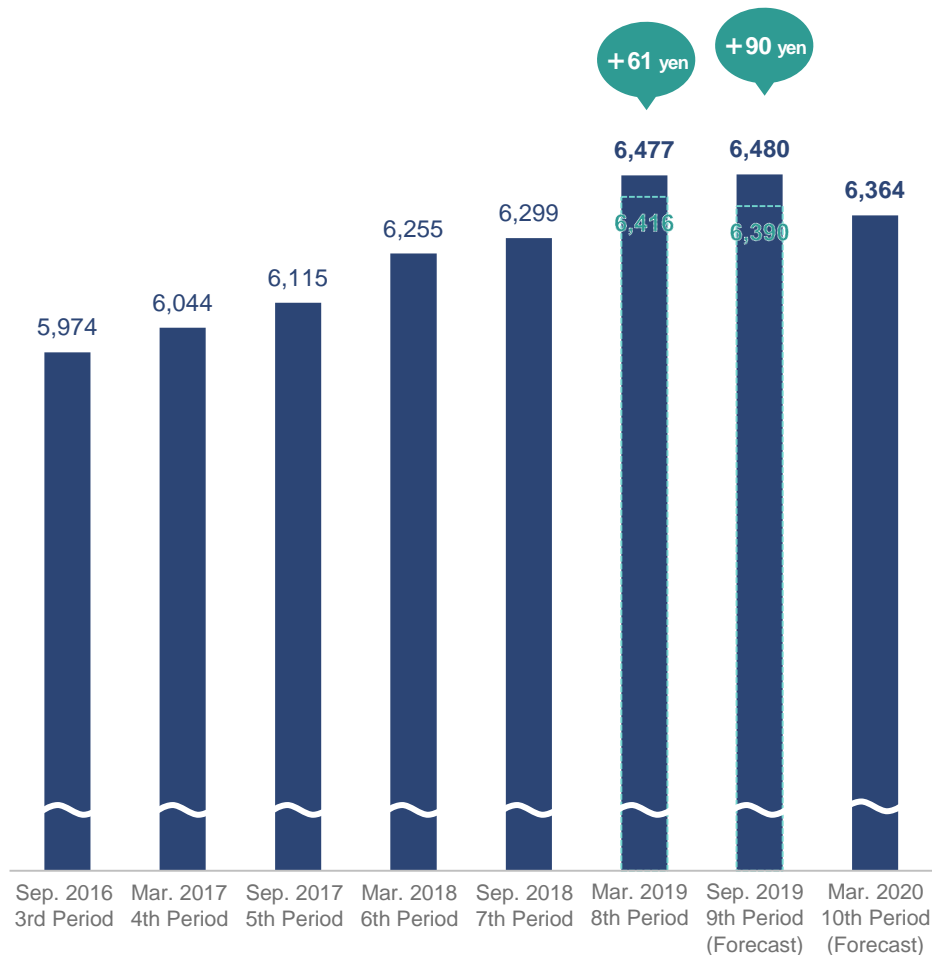
**Enhancement of presence in the  
retail distribution industry**

**Enhancement of earnings stability  
Increase in earnings growth  
opportunities**

# Distribution per unit

## Distribution per unit (JPY)

(The boxes in light sea green lines indicate the forecasts as of Nov. 15, 2018)



### Key points of the 8th fiscal period ended March 31, 2019

- DPU increase from the [gain on sale](#) of Solala Plaza and Gourmet City Chiba-Chuo
- Increase in NOI as a result of [completion of renovations](#) at MONA Shin-Urayasu
- [Full-period contribution](#) of the properties acquired in the 7th fiscal period to DPU growth
- Decrease in expenses compared to forecast as a result of postponed restoration work at Fululu Garden Yachiyo

### Key points of the 9th fiscal period ending September 30, 2019

- DPU increase from the [gain on sale](#) of Solala Plaza
- Increase in NOI as a result of [acquisition](#) of retail distribution centers
- Decrease in NOI due to [disposition](#) of Solala Plaza
- Decrease in NOI resulting from [expensing property taxes](#) on the properties acquired in the 6th and the 7th fiscal period

### Key points of the 10th fiscal period ending March 31, 2020

- DPU increase from the [gain on sale](#) of Welcia Kishiwadakamori (Land)
- [Full-period contribution](#) of the properties acquired in the 9th fiscal period to DPU growth
- Decrease in NOI due to [disposition](#) of Welcia Kishiwadakamori (Land)

\*For details of the increase and decrease in gain on sale, please refer to p.29.

### Stabilized distribution per unit (JPY)

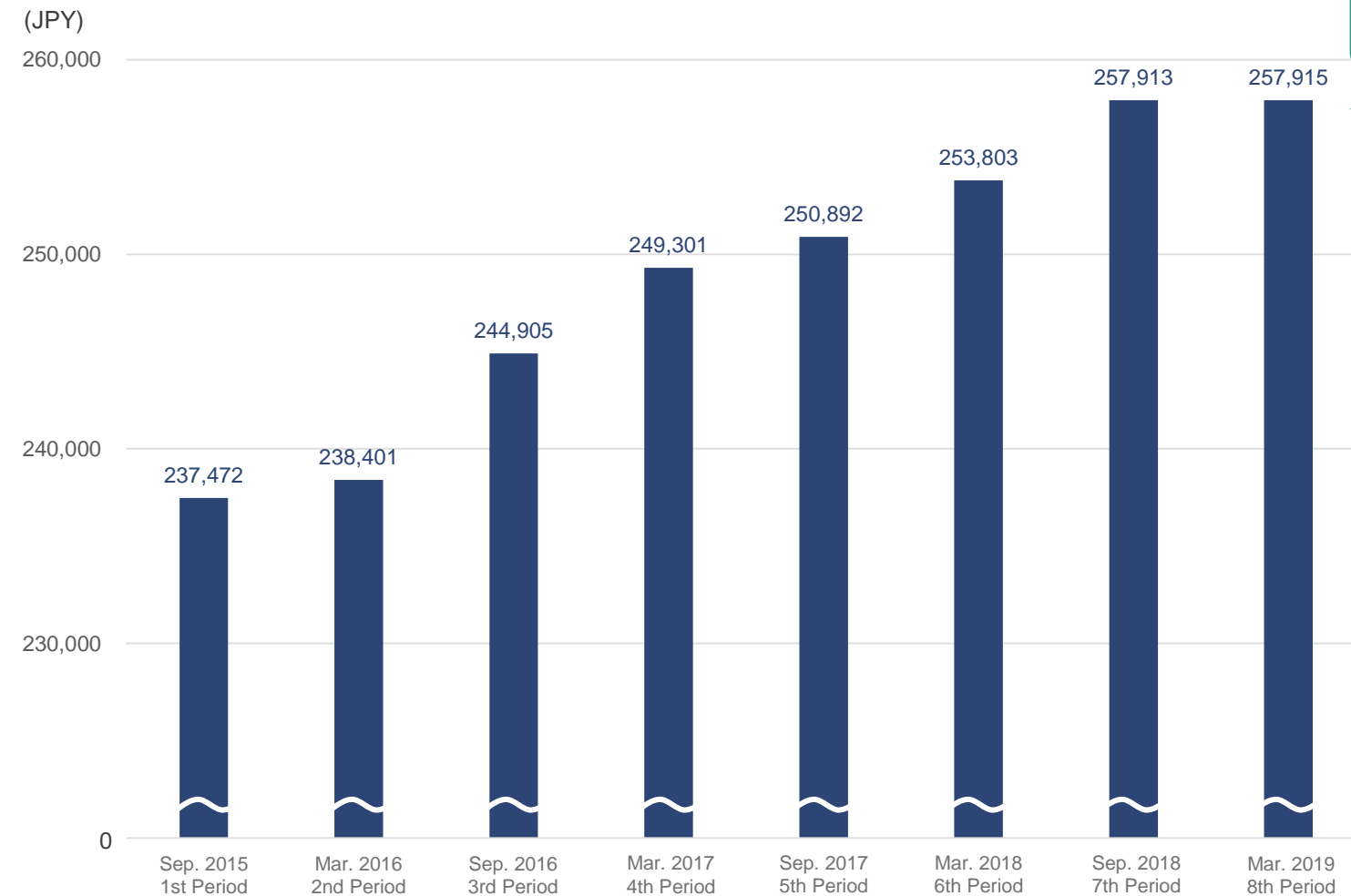
(Assuming that property-related taxes were expensed, and excluding one-time factors such as gain on sale of property)



Note: The dates above indicate the dates of financial announcements. The number of properties and the price indicate those used for the forecasts.

# NAV per unit and unrealized gain

## NAV per unit (JPY)



Unrealized gain	JPY 2,130 mn	JPY 4,657 mn	JPY 6,720 mn	JPY 8,493 mn	JPY 10,861 mn	JPY 12,270 mn	JPY 14,213 mn	JPY 14,438 mn
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Note: NAV per unit at the end of each fiscal period = (net assets + unrealized appraisal gains/losses on the entire portfolio at the end of each fiscal period) / (total number of investment units issued at the end of each fiscal period)

## Acquisition assets



**Zama Distribution Center**



**Oppama Distribution Center**



**Musashi Ranzan  
Distribution Center**



**Yokohama Kamigo  
Distribution Center**

Acquisition price	JPY 1,400 mn	JPY 1,300 mn	JPY 3,879 mn	JPY 790 mn
Appraisal value	JPY 1,640 mn	JPY 1,570 mn	JPY 4,000 mn	JPY 840 mn
Appraisal NOI yield	6.0 %	6.5 %	5.7 %	5.0 % (Note 2)
NOI yield after depr.	5.1 %	5.1 %	3.8 %	4.3 % (Note 2)

Acquisition price  
JPY 7,369mn



**NOI**  
**NOI after depr.** + 92 mn yen  
**Gain on sale** + 86 mn yen  
474 mn yen



Disposition price (planned)  
JPY 7,340mn

## Disposition assets (planned)



**Solala Plaza**



**Gourmet City Chiba-Chuo**



**Welcia Kishiwadakamori  
(Land)**

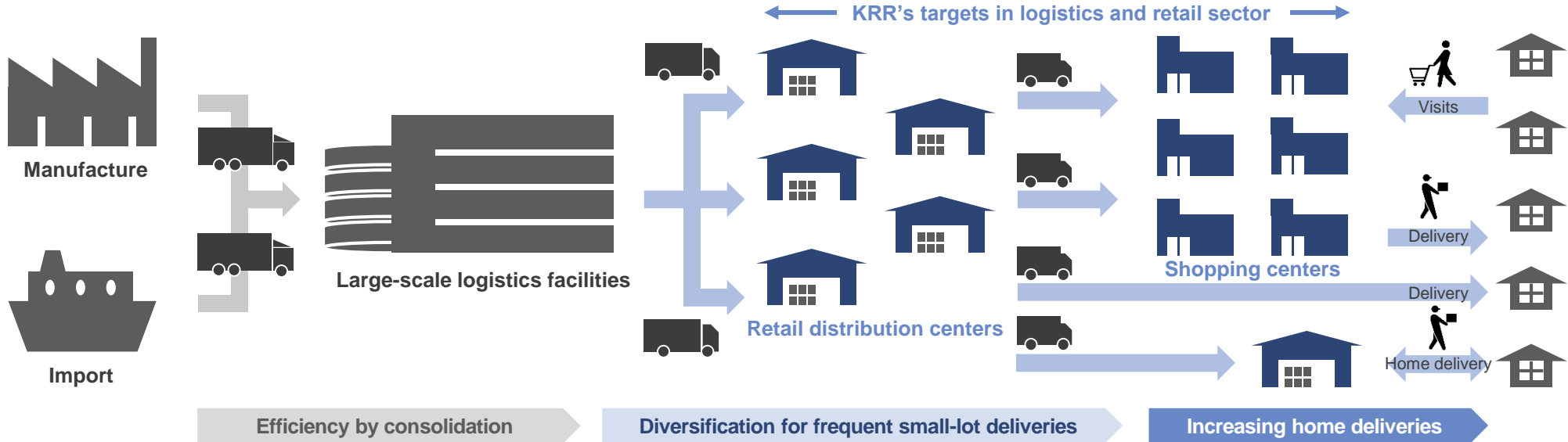
Disposition price (planned)	JPY 5,980 mn	JPY 800 mn	JPY 560 mn
Appraisal value	JPY 5,960 mn	JPY 792 mn	JPY 488 mn
Appraisal NOI yield	5.0 %	5.7 %	4.5 %
NOI yield after depr.	3.5 %	2.1 %	4.5 %

Note 1: Appraisal value is as of March 31, 2019 except as of February 1, 2019 for Yokohama Kamigo Distribution Center and September 30, 2018 for Solala Plaza and Gourmet City Chiba-Chuo.

Note 2: Assumed NOI yield after the assumed property expansion including the operating revenues from the new building is shown for Yokohama Kamigo Distribution Center.



## Retail and logistics facilities in supply chains



## Shopping centers adapting to changing environment

### Receive at shopping centers



### Deliver from shopping centers to home



### Logistics and retail within same property



02

## KRR highlights and updates

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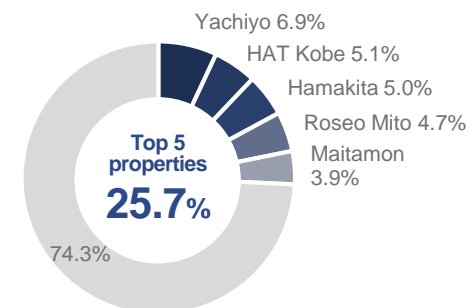
## Characteristics of KRR portfolio

Total appraisal value	Appraisal NOI yield	NOI yield after depreciation	Occupancy rate	4 major metropolitan areas	Shopping centers for daily needs	Grocery anchored shopping centers
JPY 230.9 bn	5.3%	4.4%	99.2%	79.5%	96.6%	77.8%

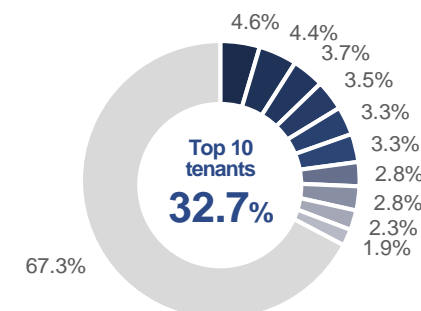
## AUM, number of tenants, number of properties



## Top 5 properties (by acquisition price)



## Top 10 tenants (by annual fixed rent)



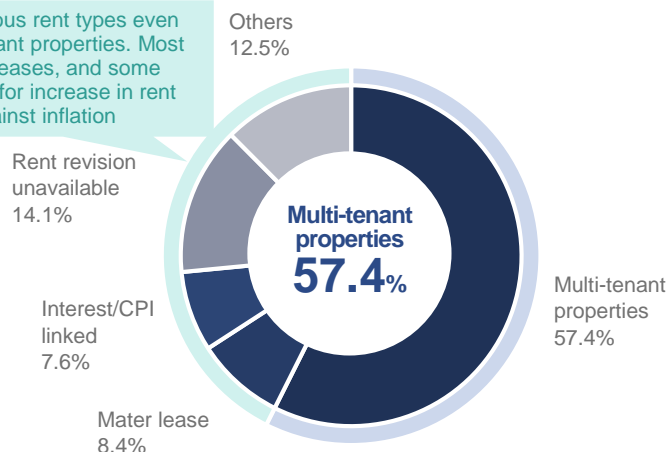
Note 1: "Appraisal value", "NOI yield", "Occupancy rate" and other figures on portfolio are as of Mar. 31, 2019, for the 55 properties acquired by the date of this material.

Note 2: "Appraisal NOI Yield" is calculated by dividing appraisal NOI from the latest appraisal reports by acquisition price. "NOI yield after depreciation" is based on the forecast for the fiscal period ending Sep. 30, 2019.

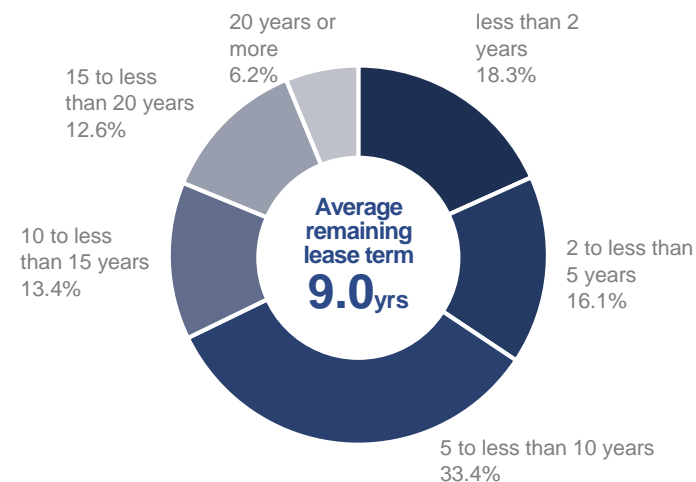
Note 3: "Number of tenants" at listing is figure as of Sep. 30, 2014.

### Multi-tenant properties (by acquisition prices)

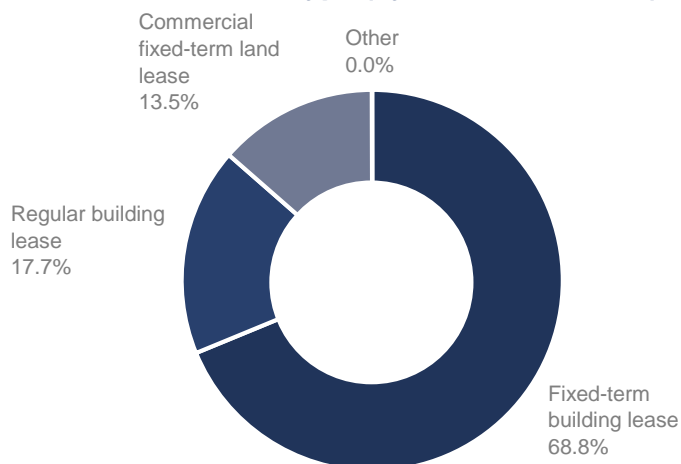
There are various rent types even with single tenant properties. Most are long-term leases, and some have potential for increase in rent and hedge against inflation



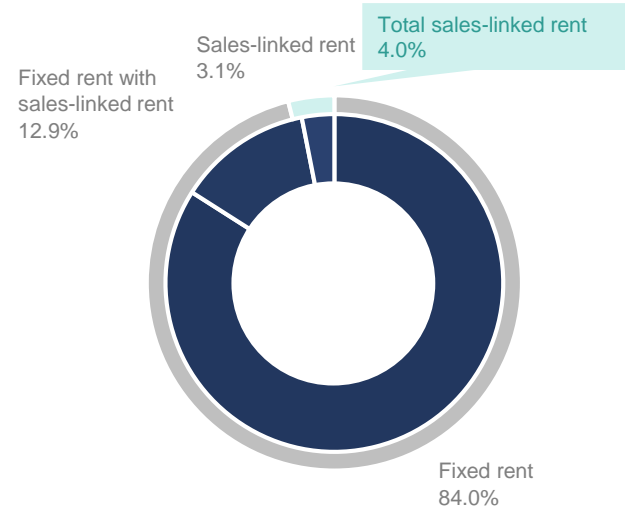
### Remaining lease term (by annual fixed rent)



### Lease contract type (by annual fixed rent)



### Rent type (Oct. 2018 to Mar. 2019)



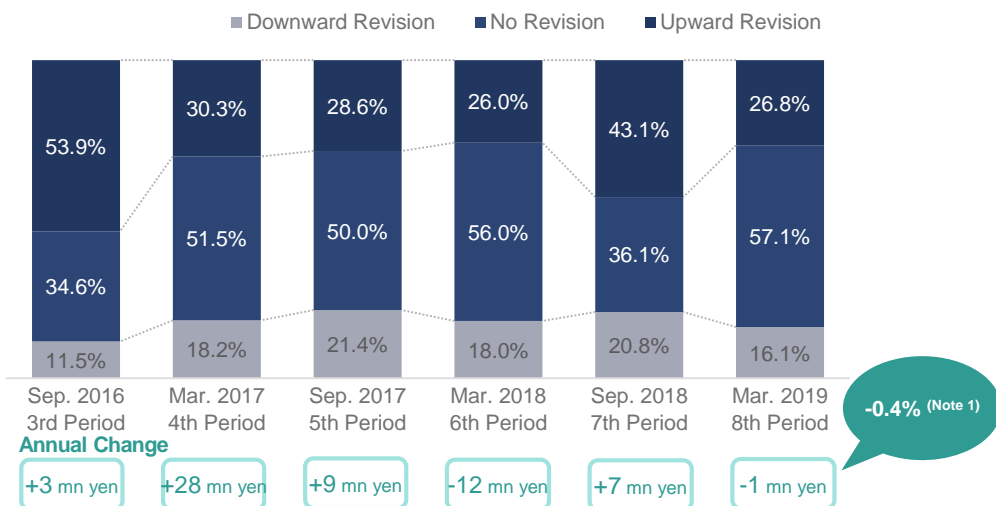
Note 1: The figures are as of Mar. 31, 2019, based on the 55 properties acquired by April 30, 2019. The figures of "Rent type" is for the 8th fiscal period based on the 53 properties acquired by Mar. 31, 2019.

Note 2: Based on the contractual rent determined in the lease contract, including regular building leases.

Note 3: "Master lease" indicates tenants where the lessee does not occupy and subleases to a retailer. "Interest/CPI-linked" indicates tenants whose rent contract renews accordingly to the interest rate or CPI.

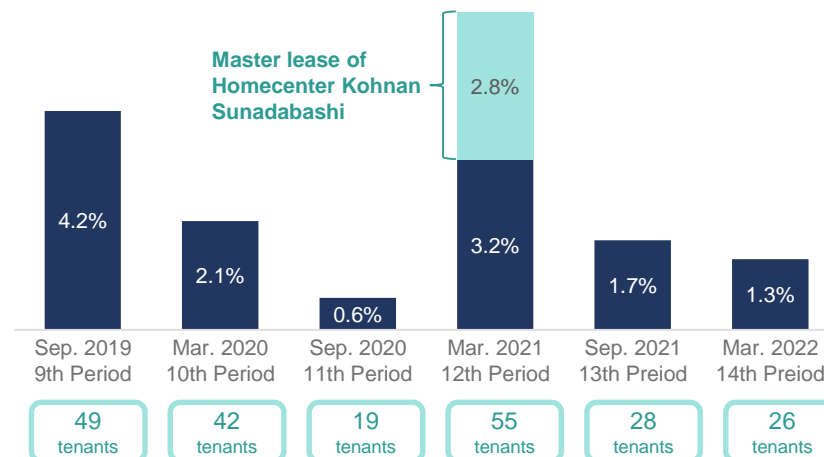
## Leasing overview (2)

## Rent revisions (based on number of revisions)

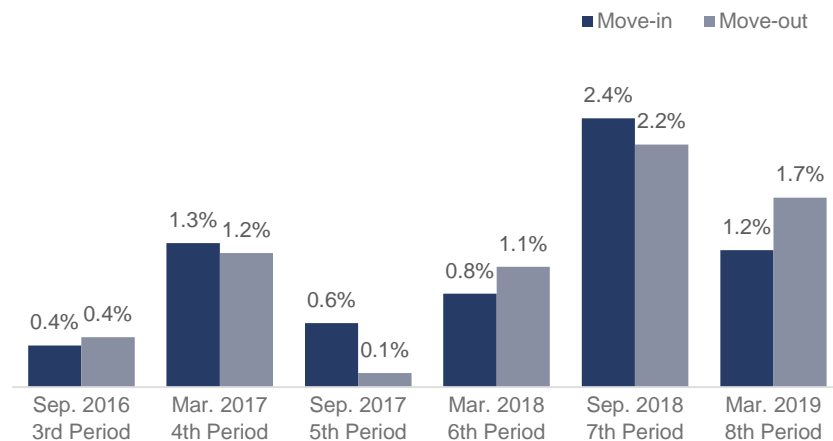


## Lease expiry (by annual fixed rent)

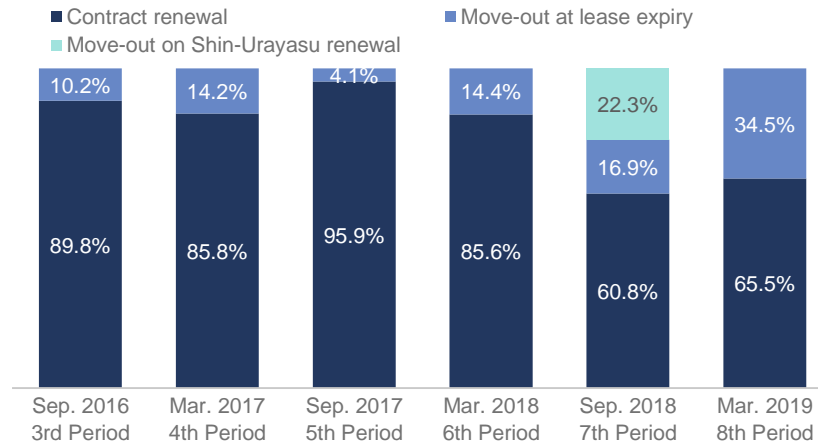
# of tenants and % of lease expiry in each period (Note 2)



## Tenant move-in and move-out (Note 3)



## Contract renewals at lease expiry in each period (Note 3)



Note 1: Based on the rent including common area charges before revision of the tenants subject to rent revision.

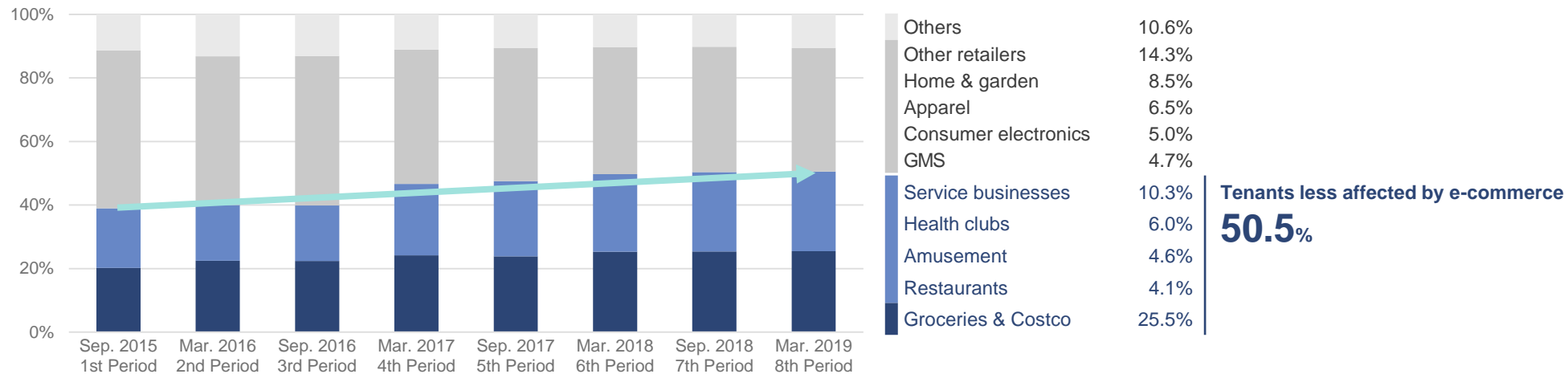
Note 2: Based on the contractual rent determined in the lease contract, including regular building leases, for properties owned as of Mar. 31, 2019.

Note 3: Based on the rent revenue of the last month of each fiscal period.

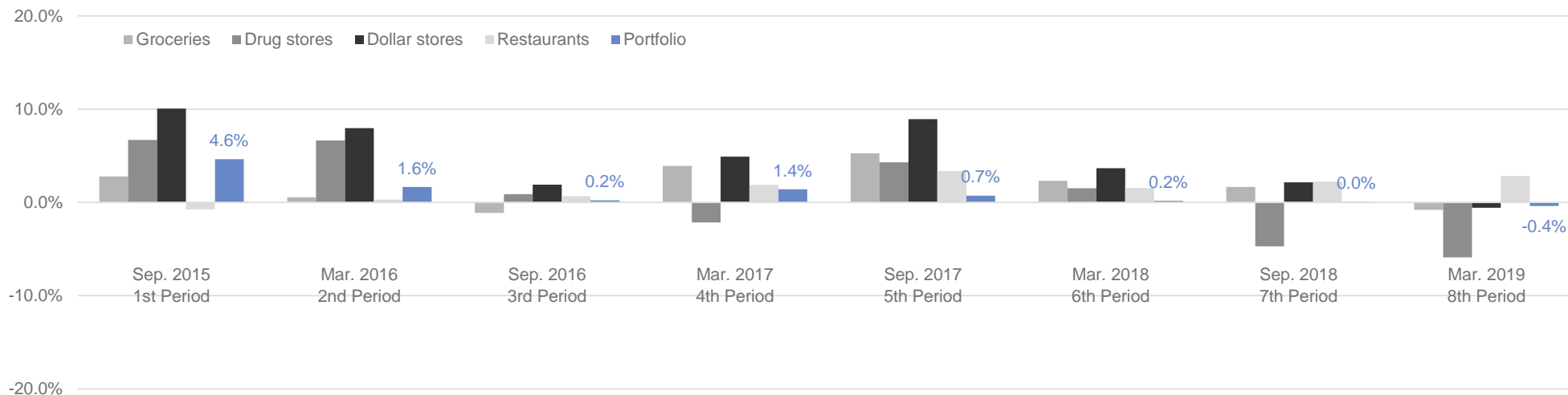


# Tenants supported by consumers

## Changes in percentage of tenant category (based on rents)



## Changes in sales of categories (YoY)<sup>(Note2)</sup>



Note 1: This page shows the tenant composition of 52 retail properties that KRR owns as of March 31, 2019.

Note 2: "Costco" refers to Costco Wholesale.

Note 3: Based on the sales figures available to KRR. The sales of each category take into account the effect of difference in days of the weekends in each period, but those of portfolio do not take into account.

## Financial highlights (1)

## Financial highlights

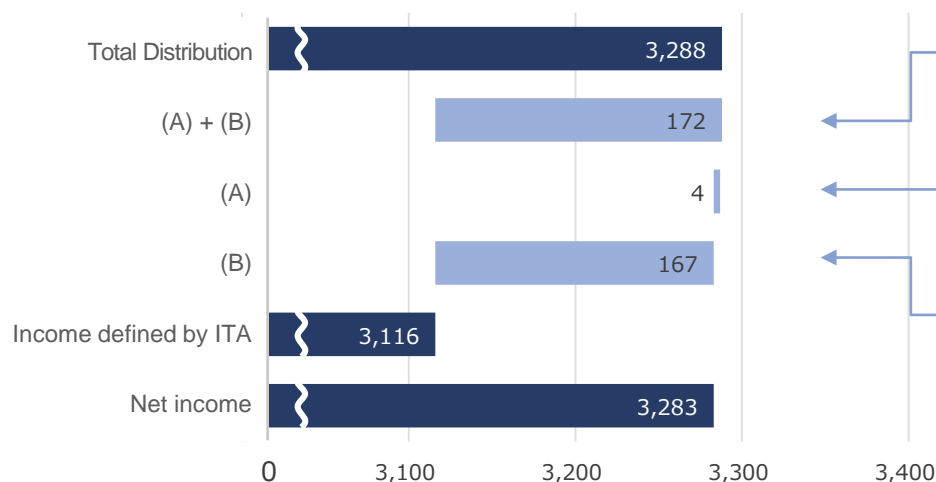
	7th Period	8th Period
Long-term debt ratio (Note)	96.7%	96.7%
Fixed interest debt ratio	92.7%	92.7%
LTV	44.5%	44.6%

## Credit rating

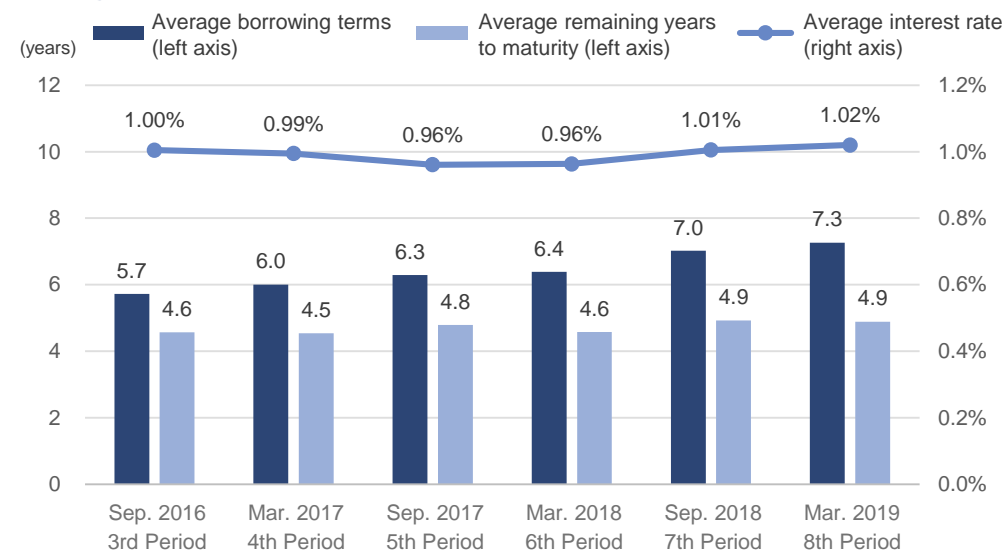
 Long-term issuer rating  
 (Japan Credit Rating Agency, Ltd.)

**A+ (Stable)**

## Distribution in excess of retained earnings (JPY mn)



## Average remaining years to maturity, borrowing terms and interest rate



## Summary of distributions in excess of retained earnings

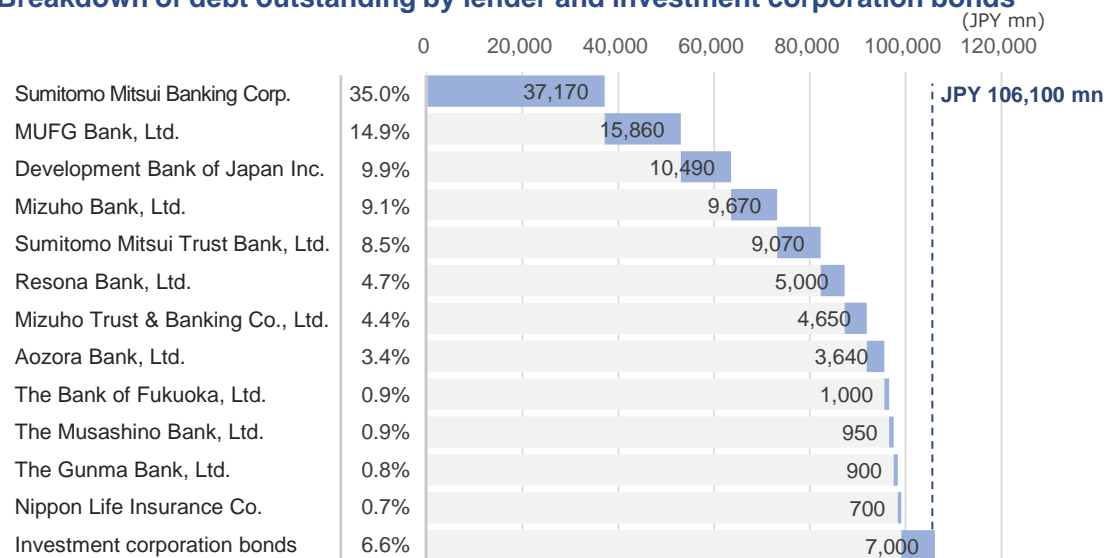
As Japanese tax law changes, distributions in excess of retained earnings that are accounted as allowance for temporary difference adjustment ("ATA") enables cash distributions to be treated as profits distribution and deductible for tax purpose.

## A: Japanese GAAP vs. Japanese tax law

The items in association with certain transaction in relation to the property, Sunny Noma, cause temporary difference between the treatment in Japanese GAAP and Japanese tax law. **As a result, taxable income before distribution was larger than net income.**

## B: Net income vs. income in accordance with Investment Trust Act

The item deducted from net asset in association with some of interest swap transaction causes difference between net income and income defined by Investment Trust Act ("ITA"). **As a result, Net income was larger than income defined by ITA.**

**Breakdown of debt outstanding by lender and investment corporation bonds**

**Commitment credit lines (as of April 1, 2019)**

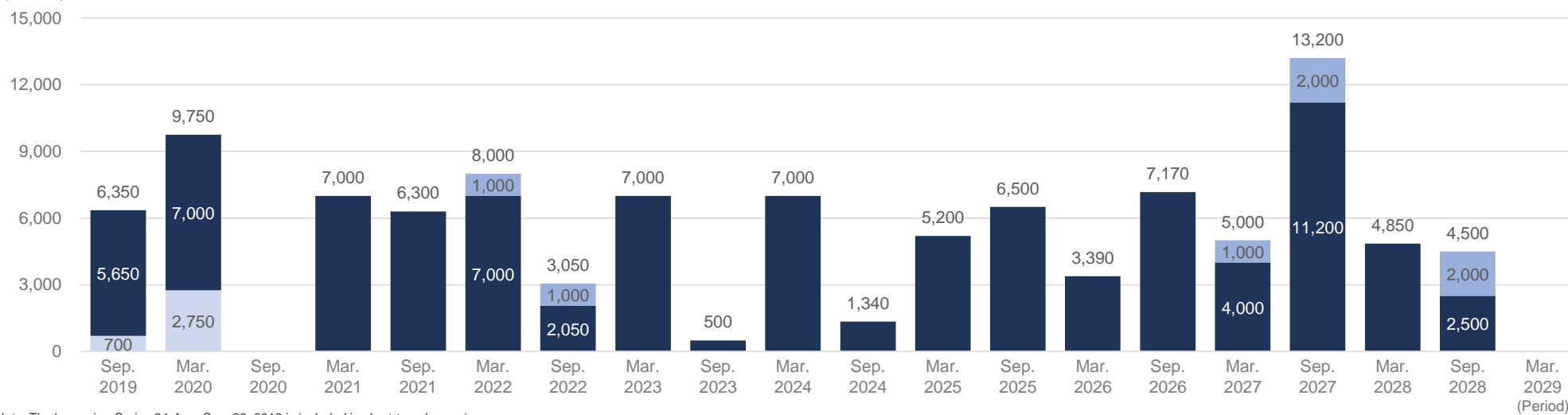
Counterparty	Limit of maximum amount	End of contract term
Sumitomo Mitsui Banking Corp.	JPY 1,000 mn	March 31, 2020
Mizuho Bank, Ltd.	JPY 1,000 mn	March 31, 2021
MUFG Bank, Ltd.	JPY 1,000 mn	March 31, 2020

**Investment corporation bonds**

Bond	Amount of Issuance	Rate	Issuance date	Term
1st series	JPY 1,000 mn	0.20 %	Oct. 2016	5 yrs.
2nd series	JPY 1,000 mn	0.60 %	Oct. 2016	10 yrs.
3rd series	JPY 1,000 mn	0.32 %	Aug. 2017	5 yrs.
4th series	JPY 2,000 mn	0.70 %	Aug. 2017	10 yrs.
5th series	JPY 2,000 mn	0.70 %	Apr. 2018	10 yrs.

**Maturities of interest-bearing debts (Note)**

(JPY mn)



Note: The borrowing Series 24-A on Sep. 28, 2018 is included in short-term borrowings.

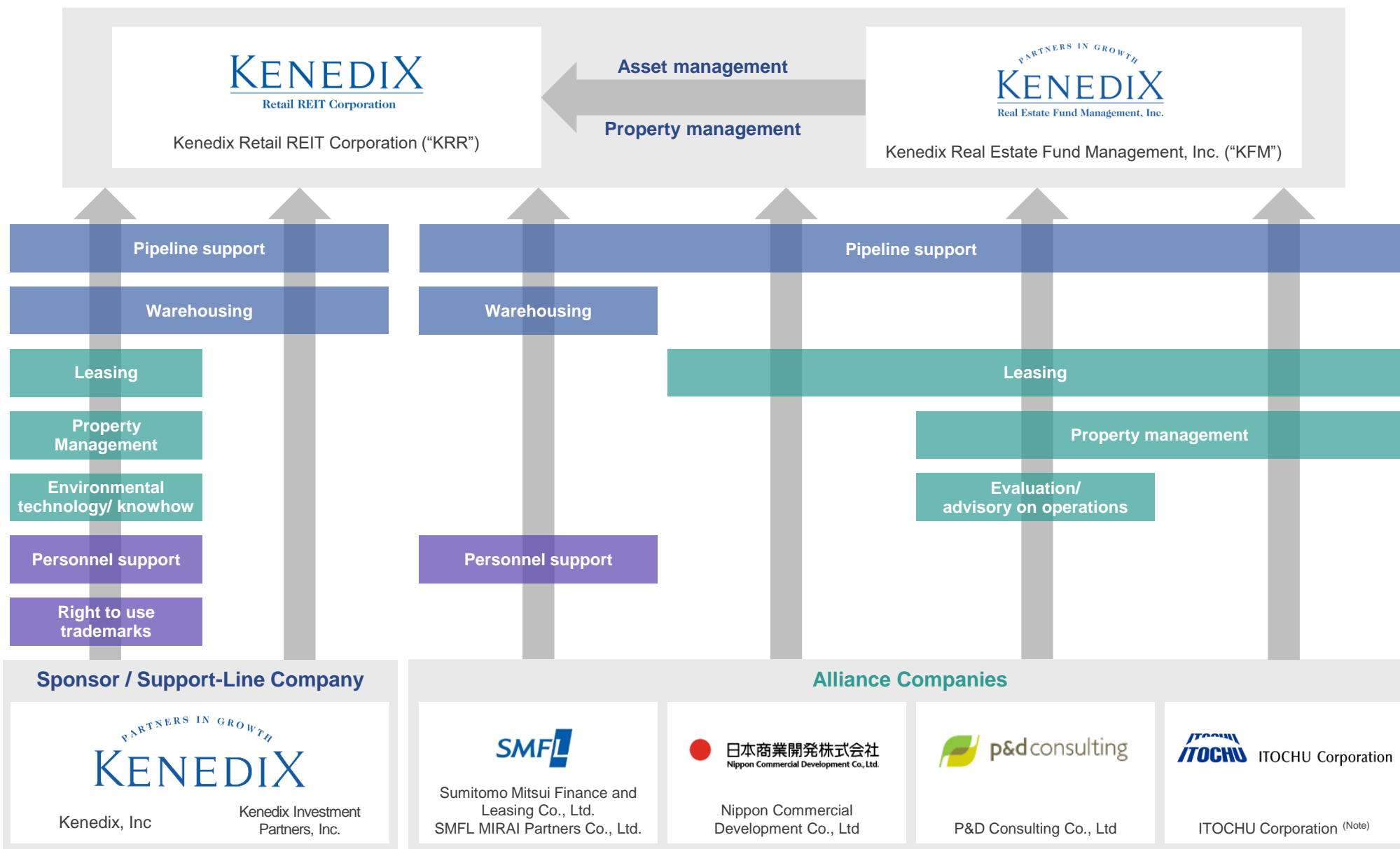
03

## Implementation of growth strategies

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# Strong support from the Kenedix Group and Alliance Companies



Note: Kenedix, Inc., the asset manager of the retail property development fund jointly created by ITOCHU Corporation ("Kenedix – ITOCHU Fund"), agrees to provide preferential access to potential acquisition opportunities regarding the fund, to KRR and KFM.



## Acquisitions since the 8th fiscal period

## Zama Distribution Center



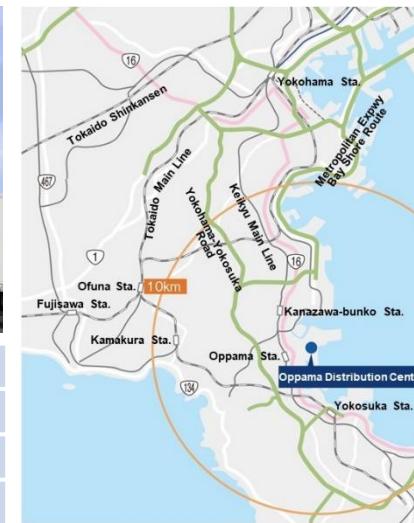
Acquisition price	JPY 1,400 mn
Location	Zama, Kanagawa
Appraisal value	JPY 1,640 mn
Appraisal NOI yield	6.0%



## Oppama Distribution Center



Acquisition price	JPY 1,300 mn
Location	Yokosuka, Kanagawa
Appraisal value	JPY 1,570 mn
Appraisal NOI yield	6.5%



## Musashi Ranzan Distribution Center



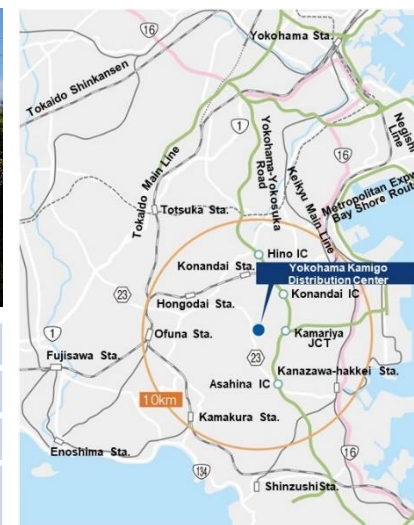
Acquisition price	JPY 3,879 mn
Location	Hiki-gun, Saitama
Appraisal value	JPY 4,000 mn
Appraisal NOI yield	5.7%



## Yokohama Kamigo Distribution Center



Acquisition price	JPY 790 mn
Location	Yokohama, Kanagawa
Appraisal value	JPY 849 mn (Note)
Appraisal NOI yield	5.0% (Note)



Note: Based on appraisal report dated February 1, 2019.

## Dispositions since the 8th fiscal period

## Solala Plaza



Location	Sendai, Miyagi	
Disposition price	JPY 5,980 mn	
Book value	JPY 5,595 mn	
Buyer	GK KRF80 (Kenedix's SPC)	
Disposition date	December 21, 2018 (49% quasi co-ownership interests)	April 5, 2019 (51% quasi co-ownership interests)
Acquisition date	April 21, 2016	

## Gourmet City Chiba-Chuo



Location	Chiba, Chiba
Disposition price	JPY 800 mn
Book value	JPY 741 mn
Buyer	Undisclosed
Disposition date	March 5, 2019
Acquisition date	October 2, 2015

## Welcia Kishiwadakamori (Land)



Location	Kishiwada, Osaka
Disposition price	JPY 560 mn
Book value	JPY 497 mn
Buyer	Nippon Commercial Development Co., Ltd.
Disposition date	October 31, 2019
Acquisition date	October 2, 2015

Note: "Book value" is as of September 30, 2018 for Solala Plaza and Gourmet City Chiba-Chuo, and as of March 31, 2019 for Welcia Kishiwadakamori (Land).



# Pipelines from Sponsor and Alliance Companies

## Apita Terrace Yokohama Tsunashima

Location: Yokohama, Kanagawa  
(opened in March 2018)



Development

Kenedix-ITOCHU Fund

Land  
area18,300.01m<sup>2</sup>

GFA

44,562.53m<sup>2</sup>

## Development Project in Fukuoka

Location: Fukuoka, Fukuoka  
(expected to open in spring 2021)



Development

Kenedix

Land  
area3,471.00m<sup>2</sup>

GFA

TBD

## Across Plaza Urayasu Higashino (Land)

Location: Urayasu, Chiba  
(opened in December 2017)



Development

Alliance Company (NCD/SMFL)

Land  
area6,229.00m<sup>2</sup>

GFA

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## Valor Nakashidanmi (Land)

Location: Nagoya, Aichi  
(opened in April 2019)



Development

Alliance Company (ITOCHU)

Land  
area13,480.42m<sup>2</sup>

GFA

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## Chofu Center Building (Retail)

Location: Nagoya, Aichi



Kenedix (Brokerage)

Land  
area13,265.06m<sup>2</sup>

GFA

18,961.61m<sup>2</sup>

## Gyoda Distribution Center

Location: Gyoda, Saitama



Kenedix

Land  
area24,382.98m<sup>2</sup>

GFA

21,961.16m<sup>2</sup>

Note 1: The illustrations above are completion images based on design drawings and may differ from the actual buildings after completion.

Note 2: These are the properties which are developed by Kenedix, Inc. or owned by Alliance Companies and confirmed by both our Alliance Companies and KRR as the properties that meet KRR's investment criteria.

As of the date of this material, KRR has not decided to acquire these properties and there is no guarantee that it can acquire these properties in the future.

Note 3: Land area and GFA are based on data available to KFM and may differ from the actual figures.

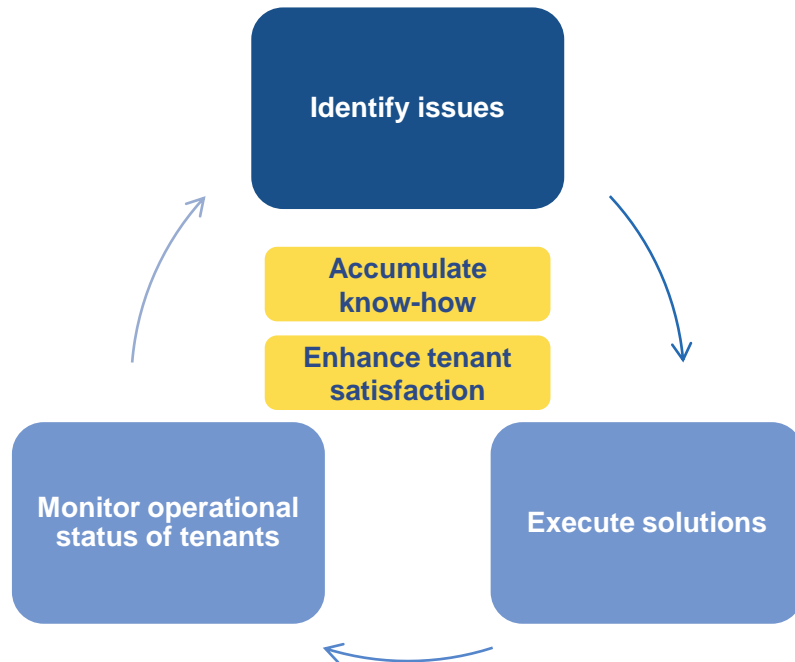
# Active management strategies

## Value added “one-stop” asset management and property management services

**Asset management services**  
Build and manage a stable/consistent portfolio

Strengthened collaboration

**Property management services**  
Interact directly with tenants



## Seek internal growth through property management

Building expansion  
leveraging unused  
portions of floor area

Sales-linked rent

Optimization of tenant  
composition

Effective utilization of  
CAPEX



Earnings stability

Expected effects of active management strategies

Enhancement in  
profitability

Increase in asset  
value

## Examples of internal growth



MONA  
Shin-Urayasu



Passaggio  
Nishiarai



Unicus Ina



Blumer Maitamon



Blumer HAT Kobe



Roseo Mito



Ashico Town  
Ashikaga



Yokohama Kamigo  
Distribution Center



### Property expansion



(Note)



### Renewal



### Tenant reshuffling



### Cost cut in BM



### Reducing utility cost





# Recognitions and certifications on ESG

## Awarded “Green Star” in GRESB Real Estate Assessment for the third consecutive year



Participated in the GRESB Real Estate Assessment in 2018 consecutively from the first participation in 2016

Awarded “Green Star” as KRR received high evaluation on both “implementation and measurement” and “management and policy”

Earned “Three Star GRESB Rating,” which is relative indication of the global performance

Kenedix Real Estate Fund Management, Inc. has joined the GRESB Company & Fund Members in 2017

## Acquired DBJ Green Building Certifications

Certified properties: 15 properties (36.6%), Total certified floor area: 456,910.77m<sup>2</sup> (62.8%)

### Properties with outstanding environmental & social awareness



Fululu Garden Yachiyo



MONA Shin-Urayasu



Blumer Maitamon **Update!**

### Properties with excellent environmental & social awareness



Passaggio Nishiarai



Daikanyama Address Dixsept

Unicus Yoshikawa **Update!**

Blumer HAT Kobe

Roseo Mito

Ashico Town Ashikaga

### Properties with high environmental & social awareness



Unicus Ina

Yumemachi Narashinodai Mall

Kawamachi Yahagi Mall

Carino Esaka

Resora Obu Shopping Terrace

Sun Street Hamakita

## Environmental Considerations Rating from Sumitomo Mitsui Banking Corporation **New!**

Awarded an “A” grade from Sumitomo Mitsui Banking Corporation in recognition of its commitment to environmental initiatives in asset management, based on SMBC Environmental Considerations Lending Program.

## MUFG ESG Rating Certificate for J-REIT supported by JCR **New!**

Awarded the highest rank of “S” in “MUFG ESG Rating Certificate for J-REIT supported by JCR” by Mitsubishi UFJ Research and Consulting Co., Ltd.

## Signing of PRI by Kenedix, Inc. **New!**

Signatory of:



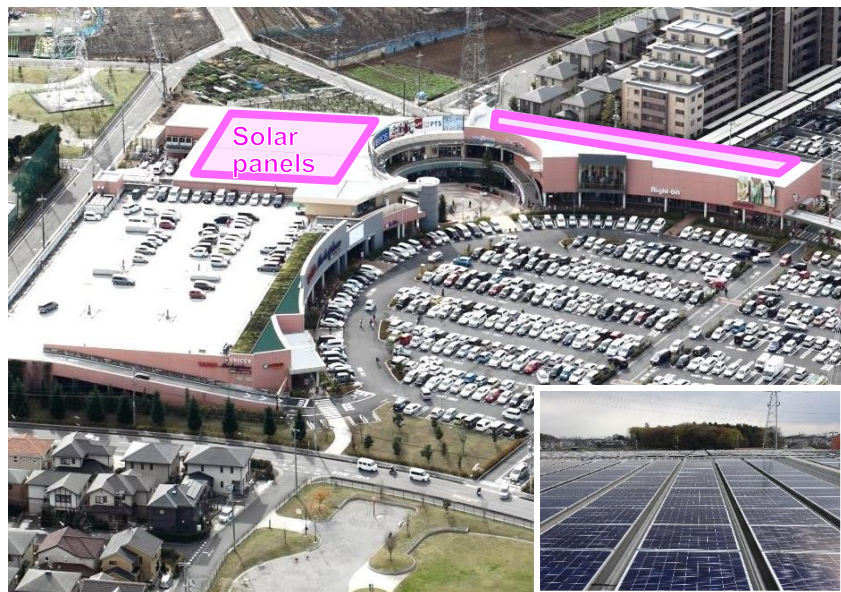
Kenedix, Inc. became a signatory to the United Nations Principles for Responsible Investment (“PRI”) in April 2019.

KRR and the Asset Manager promote sustainability initiatives through the practice of PRI as members of the Kenedix Group.

Note: The percentage of total certified floor area is the ratio of the total floor area of DBJ Green Building certified buildings and the total floor area of KRR's portfolio (727,870.92m<sup>2</sup>) (partial ownership and co-ownership properties are calculated according to their ownership ratio). Furthermore, the total number of certifiable properties is 41 properties out of 53 properties owned as of Mar. 31 2019, excluding 12 land-only properties.

### Installation of solar panels

#### Planned installation spaces



#### Profitability

NOI yield (Note 1)

**7.0%**

NOI increase (Note 2)

**JPY 4.2 mn**

Investment

**JPY 61 mn**

#### Energy saving/ BCP (Note 2)

Cooling of the SC by the installation and air conditioning load reduction

Expected reduction in demand **87kW**

BCP through use of electricity from the solar panels in cases of blackouts

#### CO2 reduction (Note 2)

Annual CO2 reduction

**164,235kg** = **11,731 Cedar trees**

### Cooperation with local communities

Agreed with Ina Town to provide part of facility as a temporary shelter in case of a disaster



### Greening of facilities

Awarded Green Award of Saitama Pref.



### Community-participating events

Making efforts to enliven local communities (Summer Festival)



Note 1: Based on the rent from the power supplier and assumed extra rent from the tenant based on the green lease, divided by the investment to install the solar panels.

Note 2: Based on the assumption by the power supplier.

### The Kenedix Group's strong commitment to J-REITs

Because of the importance of the J-REIT business to the Kenedix Group, KRR's sound growth is in line with Kenedix's interests

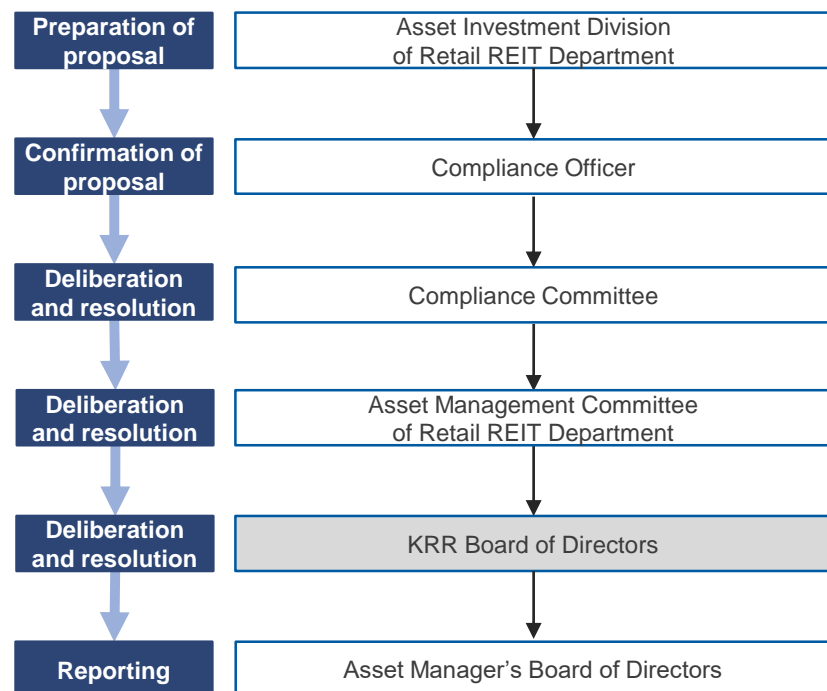


### Investment in KRR by Kenedix, Inc.

(as of March 31, 2019)

Number of units owned <b>5,750 units</b>	Ownership <b>1.1%</b>
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### Decision-making process for acquisition and sale of properties (Note 1)



Note 1: Transactions within the scope of insignificance criteria are excluded from the decision-making process above.

Note 2: Including acquisition of buildings through expansion or reconstruction.

### Unitholder value-linked management fee structure

Introduction of fee structure to provide incentives to enhance unitholder value

		Method for calculation	
		Subject of calculation	Rates
Asset management fee	I	Total assets	0.27% (annual rate)
	II	Net income × DPU	0.0013%
Investment unit performance fee		KRR's excess return × Market capitalization	0.1%
Acquisition fee (Note 2)		Acquisition price	1.0%
Disposition fee		Disposition price	0.5%
Merger fee		Appraisal value of assets to be succeeded	1.0% (maximum)

### Investment unit performance fee calculation for 8th FP

#### (1) KRR's excess return against TSE REIT Total Return Index (Sep. 30, 2018 to Mar. 31, 2019)

KRR's total return: 13.76%

TSE REIT Total Return Index: 9.61%

⇒ KRR's excess return: 4.15%

#### (2) KRR's market capitalization at Sep. 28, 2019

243,300 yen × 507,700 units ÷ 123,523 mn yen

#### (3) Expected investment unit performance fee expensed during 9th FP

$\frac{4.15\%}{(1)} \times \frac{123,523 \text{ mn yen}}{(2)} \times 0.1\% \div 5,123 \text{ thousand yen}$

04

## Financial results and forecasts

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# Summary of statements of income and retained earnings (JPY mn)

	Sep. 2018	Mar. 2019		Changes		Remarks on changes from forecasts
	7th Period Actual (A)	8th Period Forecast (B)	8th Period Actual (C)	C - A	C - B	
Rent revenue – real estate	7,066	7,109	7,068	+1	-41	Fixed rate: Tenant leave (Obu) -19, Late moving-in (Daikanyama) -5, Sales-linked rent (HAT Kobe, Yachiyo, etc.) -12
Other lease business revenue	1,298	1,123	1,128	-169	+4	Reversal of security deposit equivalent to rent (Obu) +37, Utility income -30, Parking (Daikanyama) -6
Gains on sale	212	175	218	+5	+42	
<b>Operating revenues</b>	<b>8,577</b>	<b>8,409</b>	<b>8,415</b>	<b>-161</b>	<b>+5</b>	
Property related expenses (excl. depreciation)	3,012	2,780	2,742	-269	-37	Repairs and maintenance (Maitamon, etc.) -20, Restoring (Yachiyo) -27
NOI	<b>5,352</b>	<b>5,453</b>	<b>5,454</b>	<b>+101</b>	<b>+0</b>	
Depreciation	971	985	990	+19	+5	
<b>NOI after depreciation</b>	<b>4,380</b>	<b>4,467</b>	<b>4,463</b>	<b>+82</b>	<b>-4</b>	
Other operating expenses	775	788	796	+21	+7	
<b>Operating income</b>	<b>3,816</b>	<b>3,854</b>	<b>3,884</b>	<b>+67</b>	<b>+30</b>	
Non-operating income	0	0	1	+1	+1	
Non-operating expenses	615	600	601	-13	+0	
<b>Ordinary income</b>	<b>3,201</b>	<b>3,253</b>	<b>3,284</b>	<b>+83</b>	<b>+31</b>	
<b>Net income</b>	<b>3,197</b>	<b>3,252</b>	<b>3,283</b>	<b>+85</b>	<b>+31</b>	
<b>DPU (JPY)</b>	<b>6,299</b>	<b>6,416</b>	<b>6,477</b>	<b>+178</b>	<b>+61</b>	



# Financial forecasts: 9th and 10th fiscal periods (JPY mn)

Key financial information	Mar. 2019 8th Period (Actual)	Sep. 2019 9th Period (Forecast)	Changes
<b>Operating revenues</b>	<b>8,415</b>	<b>8,586</b>	<b>+171</b>
Gain on sales of real estate	218	200	-17
Operating expenses	4,530	4,710	+180
<b>Operating income</b>	<b>3,884</b>	<b>3,876</b>	<b>-8</b>
Non-operating expenses	601	590	-11
Interest expenses & financing-related expenses	557	566	+8
Amortization of investment unit issuance costs	38	19	-19
<b>Ordinary income</b>	<b>3,284</b>	<b>3,285</b>	<b>+1</b>
<b>Net income</b>	<b>3,283</b>	<b>3,284</b>	<b>+1</b>
<b>DPU</b>	<b>6,477</b>	<b>6,480</b>	<b>+3</b>

Sep. 2019 9th Period (Forecast)	Mar. 2020 10th Period (Forecast)	Changes
<b>8,586</b>	<b>8,298</b>	<b>-287</b>
200	56	-144
4,710	4,488	-221
<b>3,876</b>	<b>3,809</b>	<b>-66</b>
590	583	-7
566	583	-2
19	19	---
<b>3,285</b>	<b>3,226</b>	<b>-58</b>
<b>3,284</b>	<b>3,226</b>	<b>-58</b>
<b>6,480</b>	<b>6,364</b>	<b>-116</b>

Related key indicator	Mar. 2019 8th Period (Actual)	Sep. 2019 9th Period (Forecast)	Changes
<b>NOI</b>	<b>5,454</b>	<b>5,484</b>	<b>+30</b>
NOI yield (%)	5.1%	5.1%	---
Depreciation	990	1,012	+22
NOI after depreciation	4,463	4,471	+8
NOI yield after depreciation (%)	4.2%	4.2%	---
FFO	4,105	4,125	+19
CAPEX	500	873	+372
<b>LTV (%)</b>	<b>44.6%</b>	<b>44.5%</b>	<b>---</b>

Sep. 2019 9th Period (Forecast)	Mar. 2020 10th Period (Forecast)	Changes
<b>5,484</b>	<b>5,542</b>	<b>+58</b>
5.1%	5.2%	---
1,012	1,011	-1
4,471	4,531	+59
4.2%	4.2%	---
4,125	4,204	+78
873	797	-75
<b>44.5%</b>	<b>44.5%</b>	<b>---</b>

Note : FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

# Revenues and expenses of ten assets with sales-linked rent (JPY mn)

## Forecast

Period	Yachiyo		Shin-Urayasu		Nishiarai		Daikanyama		Maitamon		HAT Kobe		Esaka		Obu		Ashikaga		Hamakita	
	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th
Rent (fixed)	533	552	326	328	203	210	183	185	351	355	326	318	151	150	186	202	176	177	432	431
Rent (sales-linked)	61	64	37	35	13	13	6	5	15	17	26	28	44	42	14	14	8	9	6	6
Utility charge reimbursement	76	69	47	42	42	37	36	31	104	82	85	70	34	32	51	45	72	55	73	63
Penalty restoring reimbursement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	70	0	0	0
Other revenues	28	28	103	106	65	59	53	53	28	27	35	33	77	76	15	14	8	7	23	24
<b>Revenues</b>	<b>700</b>	<b>715</b>	<b>514</b>	<b>512</b>	<b>324</b>	<b>321</b>	<b>278</b>	<b>276</b>	<b>499</b>	<b>482</b>	<b>474</b>	<b>451</b>	<b>308</b>	<b>300</b>	<b>267</b>	<b>276</b>	<b>336</b>	<b>249</b>	<b>536</b>	<b>525</b>
PM fees	141	144	78	76	48	46	53	53	64	61	67	65	45	42	37	38	40	41	70	68
Utilities	76	65	68	62	47	43	42	36	73	62	71	58	40	30	52	48	72	63	57	51
Taxes	69	69	22	22	35	35	12	12	41	41	47	47	24	24	26	26	24	24	25	25
Repairs and maintenance	62	32	20	10	4	4	8	2	20	2	3	17	45	3	9	9	52	32	22	4
Others	44	42	59	64	32	31	37	40	26	23	21	20	3	2	21	13	10	10	71	69
<b>Expenses</b>	<b>395</b>	<b>354</b>	<b>249</b>	<b>236</b>	<b>168</b>	<b>159</b>	<b>154</b>	<b>144</b>	<b>226</b>	<b>192</b>	<b>211</b>	<b>210</b>	<b>159</b>	<b>104</b>	<b>147</b>	<b>135</b>	<b>200</b>	<b>171</b>	<b>247</b>	<b>218</b>
<b>NOI</b>	<b>304</b>	<b>360</b>	<b>264</b>	<b>276</b>	<b>156</b>	<b>161</b>	<b>124</b>	<b>132</b>	<b>273</b>	<b>290</b>	<b>262</b>	<b>240</b>	<b>148</b>	<b>196</b>	<b>119</b>	<b>140</b>	<b>135</b>	<b>78</b>	<b>288</b>	<b>306</b>

## Actual

Period	Yachiyo		Shin-Urayasu		Nishiarai		Daikanyama		Maitamon		HAT Kobe		Esaka		Obu		Ashikaga		Hamakita	
	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th
Rent (fixed)	546	534	268	324	197	191	180	177	343	343	332	326	154	153	230	205	200	199	431	434
Rent (sales-linked)	64	65	42	38	13	14	6	5	17	18	18	25	46	43	12	14	8	8	6	6
Utility charge reimbursement	80	64	39	41	43	32	32	28	106	78	84	68	33	28	54	43	69	59	67	60
Penalty restoring reimbursement	14	3	29	0	0	0	2	6	0	0	51	0	0	0	0	0	0	0	0	0
Other revenues	29	31	91	111	67	62	57	48	34	35	42	34	77	77	20	54	8	9	28	25
<b>Revenues</b>	<b>736</b>	<b>699</b>	<b>471</b>	<b>514</b>	<b>321</b>	<b>301</b>	<b>279</b>	<b>267</b>	<b>502</b>	<b>475</b>	<b>529</b>	<b>455</b>	<b>311</b>	<b>302</b>	<b>317</b>	<b>318</b>	<b>286</b>	<b>276</b>	<b>533</b>	<b>526</b>
PM fees	141	143	84	79	47	47	52	52	62	61	68	69	42	41	38	39	40	39	66	68
Utilities	73	66	60	63	44	38	38	33	79	64	77	56	40	30	52	45	64	59	51	47
Taxes	69	69	22	23	35	35	12	12	41	41	47	47	24	24	26	26	24	24	25	25
Repairs and maintenance	43	33	135	7	3	3	5	7	17	10	17	10	7	3	19	4	11	6	15	11
Others	48	50	111	71	41	34	35	47	38	22	22	27	3	3	16	22	11	9	73	68
<b>Expenses</b>	<b>378</b>	<b>364</b>	<b>414</b>	<b>245</b>	<b>171</b>	<b>159</b>	<b>144</b>	<b>153</b>	<b>239</b>	<b>201</b>	<b>234</b>	<b>211</b>	<b>118</b>	<b>103</b>	<b>153</b>	<b>139</b>	<b>153</b>	<b>140</b>	<b>232</b>	<b>222</b>
<b>NOI</b>	<b>358</b>	<b>334</b>	<b>56</b>	<b>269</b>	<b>150</b>	<b>142</b>	<b>135</b>	<b>114</b>	<b>262</b>	<b>274</b>	<b>295</b>	<b>244</b>	<b>193</b>	<b>199</b>	<b>163</b>	<b>179</b>	<b>133</b>	<b>136</b>	<b>301</b>	<b>303</b>

# Revenues and expenses of assets without sales-linked rent (JPY mn)

## Forecast

Period	Existing properties				Properties acquired since 7th period				Disposed/ disposing properties			
	Multi-tenant properties		Single-tenant properties		Multi-tenant properties		Single-tenant properties		Multi-tenant properties		Single-tenant properties	
	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th	9th	10th
Rent (fixed)	1,330	1,336	2,210	2,210	0	0	462	466	0	0	15	1
Rent (sales-linked)	0	0	0	0	0	0	0	0	0	0	0	0
Utility charge reimbursement	89	80	15	12	0	0	0	0	0	0	0	0
Penalty restoring reimbursement	0	0	0	0	0	0	0	0	0	0	0	0
Other revenues	21	21	0	0	0	0	0	0	0	0	0	0
<b>Revenues</b>	<b>1,441</b>	<b>1,439</b>	<b>2,226</b>	<b>2,223</b>	<b>0</b>	<b>0</b>	<b>463</b>	<b>466</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>1</b>
PM fees	94	93	52	52	0	0	10	10	0	0	1	0
Utilities	89	81	15	12	0	0	0	0	0	0	0	0
Taxes	128	128	208	208	0	0	27	27	0	0	5	1
Repairs and maintenance	31	48	11	31	0	0	12	20	0	0	0	0
Others	28	29	19	19	0	0	2	4	0	0	0	0
<b>Expenses</b>	<b>373</b>	<b>381</b>	<b>308</b>	<b>325</b>	<b>0</b>	<b>0</b>	<b>53</b>	<b>62</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>1</b>
<b>NOI</b>	<b>1,068</b>	<b>1,057</b>	<b>1,918</b>	<b>1,898</b>	<b>0</b>	<b>0</b>	<b>409</b>	<b>403</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>-0</b>

## Actual

Period	Existing properties				Properties acquired since 7th period				Disposed/ disposing properties			
	Multi-tenant properties		Single-tenant properties		Multi-tenant properties		Single-tenant properties		Multi-tenant properties		Single-tenant properties	
	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th	7th	8th
Rent (fixed)	1,332	1,329	2,206	2,210	0	0	151	207	0	0	253	189
Rent (sales-linked)	0	0	0	0	0	0	0	0	0	0	0	0
Utility charge reimbursement	84	77	15	13	0	0	0	0	0	0	0	0
Penalty restoring reimbursement	5	0	0	0	0	0	0	0	0	0	0	0
Other revenues	24	22	0	7	0	0	0	0	0	0	0	0
<b>Revenues</b>	<b>1,446</b>	<b>1,430</b>	<b>2,222</b>	<b>2,230</b>	<b>0</b>	<b>0</b>	<b>151</b>	<b>207</b>	<b>0</b>	<b>0</b>	<b>253</b>	<b>189</b>
PM fees	92	92	52	52	0	0	2	3	0	0	53	40
Utilities	84	79	15	13	0	0	0	0	0	0	0	0
Taxes	128	128	205	205	0	0	0	0	0	0	23	23
Repairs and maintenance	31	24	28	20	0	0	1	52	0	0	0	3
Others	27	28	19	19	0	0	0	11	0	0	1	1
<b>Expenses</b>	<b>364</b>	<b>352</b>	<b>322</b>	<b>312</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>67</b>	<b>0</b>	<b>0</b>	<b>79</b>	<b>69</b>
<b>NOI</b>	<b>1,081</b>	<b>1,077</b>	<b>1,900</b>	<b>1,918</b>	<b>0</b>	<b>0</b>	<b>146</b>	<b>140</b>	<b>0</b>	<b>0</b>	<b>173</b>	<b>120</b>

Note: "Existing properties" refer to properties acquired by the end of 6th FP, excluding disposed/ disposing properties.

05

Shift from GMS to shopping centers for daily needs

Security Code  
3453



# Investments focusing on shopping center for daily needs

## “Daily / Neighborhood” type

Our focus: Neighborhood, community and other shopping centers for daily needs

## “Weekend / Destination” type

The majority of portfolio properties of preceding listed retail-focused J-REITs

**Small**

Trade area

**Large**

**High**

Frequency of customer visits

**Low**

Property types		Characteristics	Trade area
<b>NSC</b>	Neighborhood Shopping Centers	Shopping centers with a supermarket as an anchor or core tenant	3-5km
<b>SM</b>	Supermarkets	Stand-alone stores that primarily provide groceries	3km
<b>CSC</b>	Community Shopping Centers	Larger Shopping centers than NSC, with a supermarket as an anchor or core tenant	5-10km
<b>Urban Station-Front</b>		Shopping centers in the immediate vicinity of an urban public transportation station	3-10km
<b>SS</b>	Specialty Stores	Specialty stores such as drug stores, convenience stores, health clubs or electronic appliance stores	1-10km

### Large-scale suburban retail properties

**RSC (Regional Shopping Center)**

**GMS (General Merchandise Store)**

Stand-alone GMS is excluded from our investment criteria

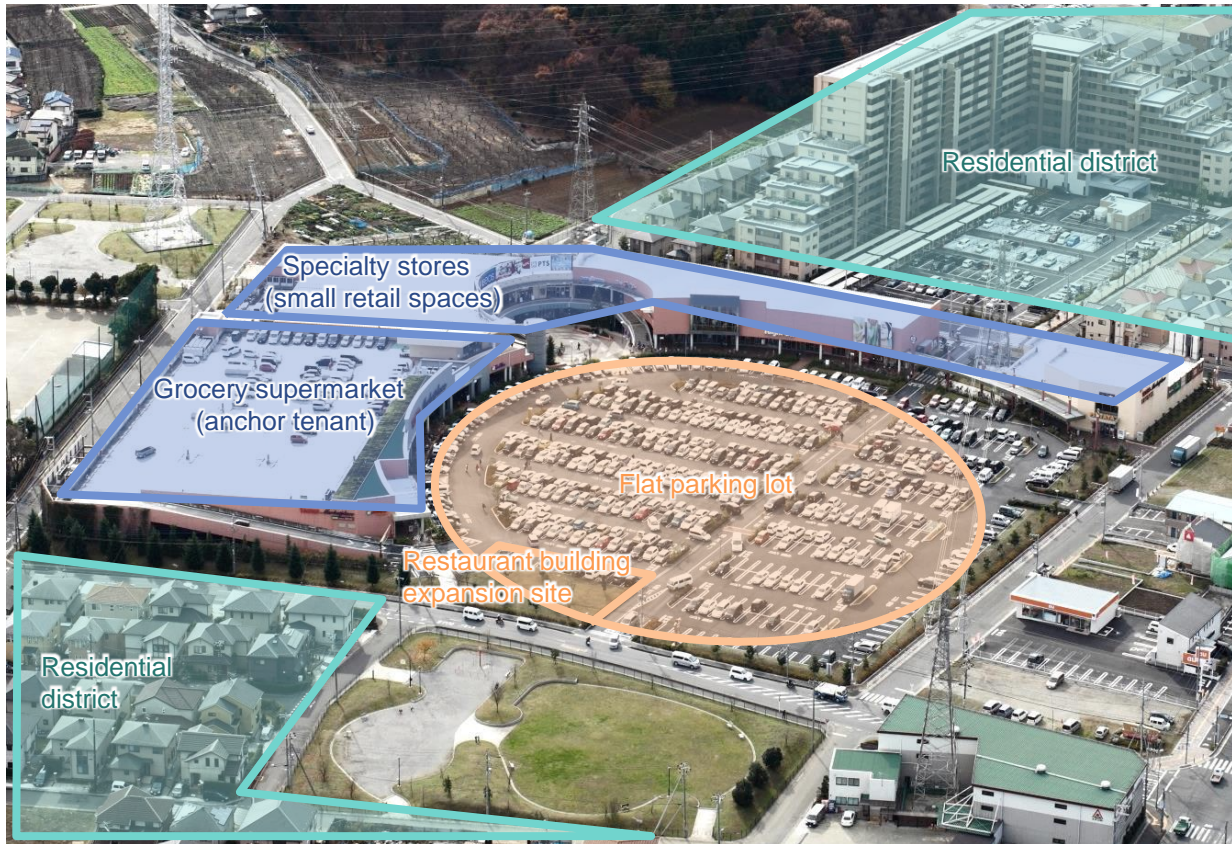
**Outlet malls**

### Urban retail properties featuring

**High-end brand shops**



# Primary characteristics of shopping centers for daily needs



**Location** Located within residential areas of a metropolitan commuter district

- Retail trade area population
  - 1km radius: 10,000 people
  - 3km radius: 62,000 people
  - 5km radius: 247,000 people

**Tenants** Providing primarily daily necessities

- Housing Yaoko, a grocery supermarket, as the anchor tenant and a group of specialty stores



**Facilities** Capacity to accommodate frequent customer visits and provide revenue upside potential

- Flat parking lot to accommodate approximately 480 vehicles
- Constructed a restaurant building on underutilized space



Expansion building	Restaurant building
Acquisition date	Jan. 16, 2017
GFA	397.98 m <sup>2</sup>
Total construction cost	JPY 91 mn



## Retail market trends: GMS vs. Specialty stores

## Buying goods at GMS

**2007**

(JPY bn)

	Type of store	Sales
1	Supermarket	12,961.0
2	GMS	8,602.1
3	Department store	8,283.1
4	Convenience store	7,413.9
5	Other retailers	5,743.7
6	Consumer electronics	5,719.1
7	Drug store	3,692.2
8	Apparel	3,177.7
9	Home and garden	2,835.6
10	Consumers' co-operative	2,487.0

## Buying goods at specialty stores

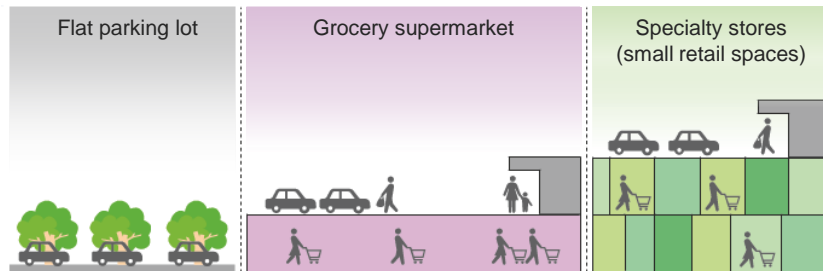
**2018**

(JPY bn)

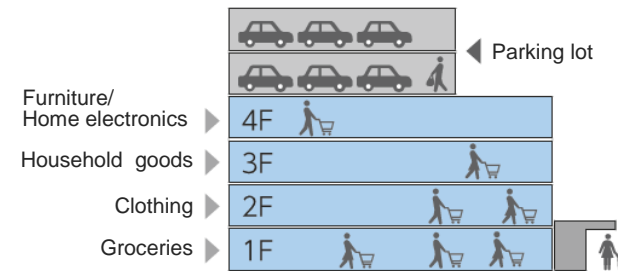
	Type of store	Sales	Change
1	Supermarket	16,300.8	+25.8%
2	Convenience store	10,661.5	+43.8%
3	Drug store	8,106.0	+119.5%
4	Other retailers	7,412.7	+29.1%
5	GMS	7,147.5	-16.9%
6	Department store	6,003.6	-27.5%
7	Apparel	5,531.1	+74.1%
8	Consumer electronics	5,392.6	-5.7%
9	Home and garden	3,446.8	+21.6%
10	Consumers' co-operative	2,453.5	-1.3%

# Advantages of shopping centers for daily needs over GMS

## Typical shopping center for daily needs



## Typical stand-alone GMS



### Facilities of shopping center for daily needs

VS

### Facilities of stand-alone GMS

Small to Medium

Retail trade area

Medium to Large

High (low-rise building)

Ease of getting around

Low (high-rise building)

Large flat parking lot

Parking lot

Multilevel parking lot

Grocery supermarket + Specialty stores

Tenants

GMS stand-alone

### Real estate value of shopping center for daily needs

VS

### Real estate value of stand-alone GMS

Potential rental upside upon tenant replacement or contract renewal

Upside potential

Limited frequency of upward rent revisions

Property expansion leveraging underutilized space

Relatively easy

Tenant replacement

Relatively difficult

Expanding market share

Potential for investment

A number of stand-alone GMSs owned by real-estate funds exited the market

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Abbreviation of property name

Property name	Abbreviation	Property name	Abbreviation	Property name	Abbreviation
Fululu Garden Yachiyo	Yachiyo	Prime Square Jiyugaoka	Jiyugaoka	Sunny Noma	Noma
MONA Shin-Urayasu	Shin-Urayasu	Round1 Ichikawa-Onitaka	Ichikawa	Round1 Stadium Hakata-Hanmichibashi	Hakata
Passaggio Nishiarai	Nishiarai	Ozeki Tokiwadai	Tokiwadai	Kurume-Nishi Shopping Center	Kurume
Daikanyama Address Dixsept	Daikanyama	Konami Sports Club Shibuya	Shibuya	Roseo Mito	Mito
Unicus Ina	Ina	Blumer Maitamon	Maitamon	K's Denki Aomori Honten	K's Aomori
Yorktown Kita-Kaname	Kita-Kaname	Life Takadono (Land)	Takadono	Super Sports Xebio Aomori-Chuo	Xebio Aomori
Unicus Yoshikawa	Yoshikawa	DCM Kahma MEGA Don Quijote UNY Omihachiman	Omihachiman	Ashico Town Ashikaga	Ashikaga
Sports Club Renaissance Fujimidai	Fujimidai	Blumer HAT Kobe	HAT Kobe	Yorktown Shinden-Higashi	Shinden-Higashi
Super Viva Home Iwatsuki (Land)	Iwatsuki	Carino Esaka	Esaka	Kasumi Technopark Sakura	Kasumi Sakura
K's Denki Shonan-Fujisawa (Land)	Fujisawa	COMBOX Komyoike	Komyoike	Solala Plaza	Solala
Unicus Kamisato (Land)	Kamisato	Hankyu Oasis Hirakatadeguchi	Hirakata	P-1 Plaza Tenno	P-1
Unicus Konosu (Land)	Konosu	Welcia Kishiwadakamori (Land)	Kishiwada	Seiyu Rakuichi Moriya (Land)	Moriya
Inageya Yokohama Minamihonjuku (Land)	Minamihonjuku	Life Nishi-Tengachaya	Tengachaya	Sun Street Hamakita	Hamakita
Gourmet City Chiba-Chuo	Chiba	Million Town Tsukaguchi (Land)	Tsukaguchi	Costco Wholesale Sapporo Warehouse	Sapporo
Nakamachidai Tokyu Store	Nakamachidai	DCM Kahma Nakagawa Tomita (Land)	Kahma Nakagawa	Zama Distribution Center	Zama
Central Wellness Club Nagatsuta Minamidai	Nagatsuta	Valor Ichinomiya-Nishi	Ichinomiya	Oppama Distribution Center	Oppama
Life Kameido	Kameido	K's Denki Nakagawa Tomita (Land)	K's Nakagawa	Musashi Ranzan Distribution Center	Ranzan
Totsuka-Fukaya Shopping Center (Land)	Totsuka	Homecenter Kohnan Sunadabashi	Sunadabashi	Yokohama Kamigo Distribution Center	Kamigo
Yumemachi Narashinodai Mall	Narashinodai	K's Denki Shin-Moriyama (Land)	Shin-Moriyama		
Kawamachi Yahagi Mall	Yahagi	Resora Obu Shopping Terrace	Obu		

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