



# Mori Hills REIT Investment Corporation

Results of the 21st Fiscal Period ended January 31, 2017

Presentation Material

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<http://www.mori-hills-reit.co.jp/en/>

(Asset Manager) Mori Building Investment Management Co., Ltd.

<http://www.morifund.co.jp/en/>

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## 21<sup>st</sup> period (Jan. 2017)

- **Operating revenue 8,248 million yen, operating income 5,207 million yen, net income 4,562 million yen** **Increased revenue and income period-over-period**
- **DPU: 2,606 yen (+39 yen from 20<sup>th</sup> period)** **Increasing for 13 consecutive fiscal periods**
- **NAV/unit: 112,811 yen (+265 yen from 20<sup>th</sup> period)** **79.8% increase in 6 years**

## After 22<sup>nd</sup> period (Jul. 2017)

- **Scheduled to acquire Toranomori Hills Mori Tower for 5,070 million yen and Holland Hills Mori Tower for 9,330 million yen (As of August 1st)**
- **Scheduled to dispose of Moto-Azabu Hills for 2,030 million yen (As of July 31th)**  
**Estimated profit on disposition +410 million yen (Part of profit will be allocated to provision of reserve for reduction entry)**
- **DPU (forecast): 2,610 yen (22<sup>nd</sup> period), 2,630 yen (23<sup>rd</sup> period)**
- **Progress in leasing the large-scale vacancy (11 floors) of ARK Hills South Tower**  
**About 4 floors left**

## 2. Investment highlights

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## 2-2 Financial results

20th period Jul. 31, 2016	21st period Jan. 31, 2017		21st period Jan. 31, 2017
Actual (Note 1)	Actual	Difference	Forecasted

### Operating Highlights (million yen)

Operating revenue	7,760	8,248	+ 488	8,235
Rent revenues	7,638	8,056	+ 417	8,029
Other operating revenues	122	192	+ 70	206
Operating expenses	2,600	3,041	+ 440	3,040
Expenses related to properties	2,295	2,696	+ 400	2,730
SG&A	304	344	+ 39	310
Operating income	5,160	5,207	+ 47	5,195
Non-operating income	3	2	Δ 1	1
Non-operating expenses	648	643	Δ 5	643
Ordinary income	4,514	4,566	+ 51	4,552
Net income	4,507	4,562	+ 54	4,551

### DPU

Total units outstanding (units)	1,750,640	1,750,640	—	1,750,640
DPU (yen)	2,567	2,606	+ 39	2,600

### Other Indices (million yen)

Profit on real estate rental	5,464	5,552	+ 87	5,505
Depreciation	966	994	+ 28	996
NOI	6,431	6,546	+ 115	6,502
NOI yield	3.9%	3.8%	Δ 0.1PT	3.8%
Acquisition price (weighted average based on the number of operating days during the period) (Note 2)	328,350	339,856	+ 11,505	339,856

### Increase/decrease factor (20th - 21st)

#### • Operating revenue (+488 mn yen)

- Full period contribution of property acquisition in 20th period +285
- "Fixed rent ML" revision/change (21st period) +187
- Full period contribution of "Fixed rent ML" revision/change (20th period) +33

#### • Operating expenses (440 mn yen)

- Full period contribution of property acquisition in 20th period +83
- "Fixed rent ML" revision/change (21st period) +261
- Full period contribution of "Fixed rent ML" revision/change (20th period) +58
- Asset management fee +24

#### • Non-operating expenses (Δ5 mn yen)

- Interest expenses, etc. (Full period contribution of new borrowings in 20th period) +9
- Amortization of investment corporation bonds issuance cost +3
- Interest expenses, etc. (Existing borrowings) Δ18

### Increase/decrease factor for 21st period (Forecasted - Actual)

#### • Operating income (+12 mn yen)

- Residence (Pass-through) +36
- Office (Pass-through) +9
- Asset management fee Δ24

(Note 1) As the accounting policy for rent revenues was changed in the 21st period, rent revenues for the 20th period increased 19 million yen after retrospective application.

(Note 2) If properties are acquired during the period, the acquisition price is the weighted average based on the number of operating days.

# 2-3 Overview of new acquisitions (Scheduled as of August 1, 2017)

## Toranomon Hills Mori Tower (Approx. 1.7% of the office area, approx. 1.0% of the total)



### Acquisition price

**5,070** mn yen

### Appraisal value

**5,440** mn yen

### NOI yield

**3.4%**

Property Number	O-9
Location (Residential indication)	23-1, Toranomon 1-chome, Minato-ku, Tokyo
Construction date	May 2014
Total number of floors	52 floors above ground, 5 floors below ground
Gross floor area	241,581.95 m <sup>2</sup>
Portions of acquisition	(Note)

### Earthquake PML

**0.50%**

(Note) 7% quasi-co-ownership interest in trust beneficial interests in the co-ownership (87.95%) of compartmentalized ownership for the 28th to the 35th floors

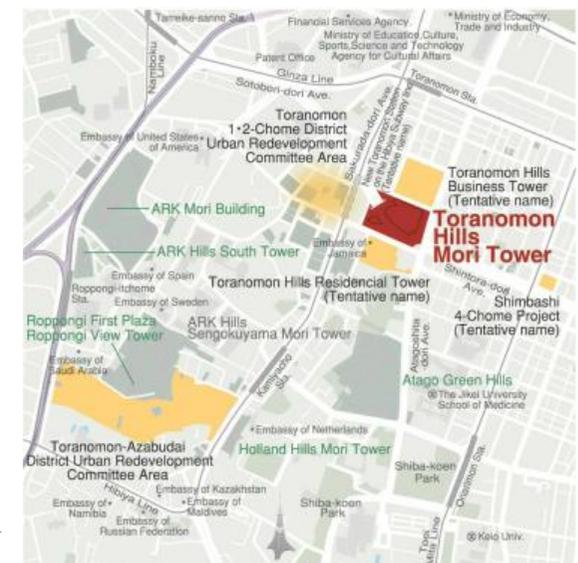
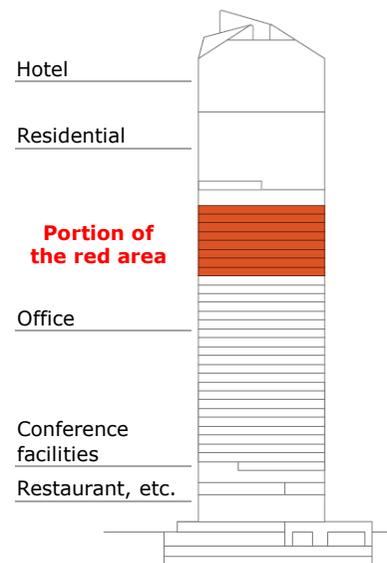
### 1. Super high rise tower - Tokyo's new landmark

- Quake-resistance structure with 52 floors and 247 meters above ground.
- High-specification offices with a broad floor plate of approx. 1,000 tsubo, international-standard conference facilities, Japan's first Andaz hotel "the Andaz Tokyo", retail facilities and residences.

### 2. Located in the center of the Toranomon area where further development is expected

- Six stations and 11 routes are nearby. With the expected completion of "New Toranomon Station (tentative name)" on the Tokyo Metro Hibiya subway line, further improvements in convenience will be realized.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

### <Acquisition portion>



## Luxury-grade office environments and ample facilities

- Office spaces occupy the 30 stories of the building that run from the 6th to the 35th floors. Standard floors have offices for lease at an average size of approx. 1,000 tsubo, providing flexible workspaces with a ceiling height of 2.8 meters.
- The building has three types of high seismic capacities and boasts an emergency power generator – a measure that ensures business services can resume under any conditions.
- CASBEE has awarded the building the highest rank "S".

## Biodiversity-conscious open spaces

In the open space of about 6,000 m<sup>2</sup>, there is the "Oval Plaza" garden that serves as an oasis in the city with the comfortable sound of a stream, and the "Step Garden" with greenery that provides an enjoyable seasonal atmosphere, that together form a rich urban space where people can gather.



## Andaz Tokyo

Hyatt's boutique lifestyle hotel is tailored to the individual. Andaz means "Personal Style" in Hindi, helping guests to know their surroundings more intimately and leave feeling like a local.



Main Dining on the 51<sup>st</sup> floor  
"Andaz Tavern"



47<sup>th</sup> to 50<sup>th</sup> floor guest rooms offer panoramic Tokyo views

## Toranomon Hills Forum

The Toranomon Hills Forum conference center includes three open-plan halls and meeting rooms and can be combined to host a variety of international conferences and symposia. The three halls can accommodate up to 2,000 people.



"Main Hall" with  
7.2 meter ceiling height



"Hall A" provides brightness  
and a sense of openness

# 2-5 Overview of new acquisitions (Scheduled as of August 1, 2017)

## Holland Hills Mori Tower (Approx. 44.0% of the office area, approx. 27.6% of the total)



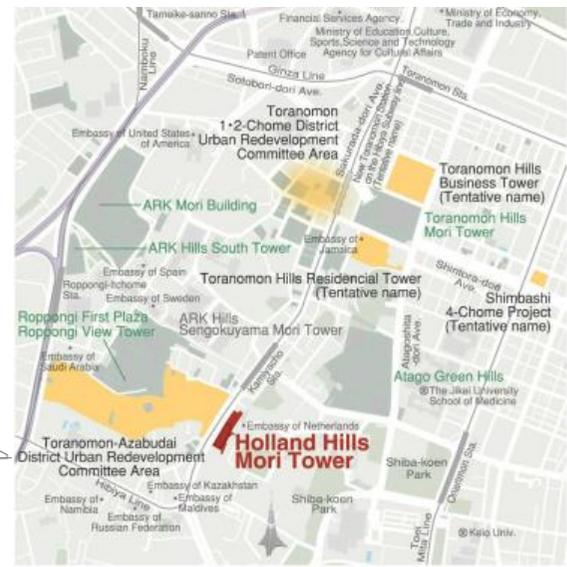
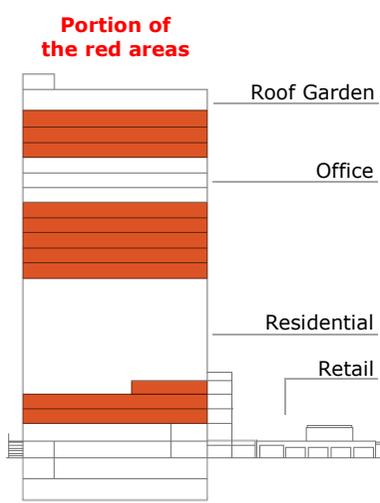
<b>Acquisition price</b>	<b>Appraisal value</b>	<b>NOI yield</b>
<b>9,330 mn yen</b>	<b>10,430 mn yen</b>	<b>4.3%</b>

Property Number	O-10
Location (Residential indication)	11-2, Toranomon 5-chome, Minato-ku, Tokyo
Construction date	January 2005
Total number of floors	24 floors above ground, 2 floors below ground
Gross floor area	35,076.12 m <sup>2</sup>
Portions of acquisition	(Note)

<b>Earthquake PML</b>
<b>0.85%</b>

- High rise tower integrating the greenery of the Embassy of the Netherlands
  - Tower complex consisting of office, residences and retail with excellent quake-resistance.
  - Office area is located on the upper floors (14th to 24th floors) and offers a business space with excellent views and a sense of openness.
  - Landmarks representing Tokyo such as Tokyo Tower and Roppongi Hills can be viewed from the roof garden 100 meters above the ground.
- Located in the Toranomon area where further development is expected
  - An excellent location within a 1-minute walk from Tokyo Metro Hibiya Line Kamiyacho Station.
  - As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

### <Acquisition portion>



(Note) 57% quasi-co-ownership interest in trust beneficial interests in compartmentalized ownership for the 3rd and 4th floors; part of 5th floor, 14-18th floors and 22-24th floors.

# 2-6 Forecasts

21st period Jan. 31, 2017	22nd period Jul. 31, 2017		23rd period Jan. 31, 2018
Actual	Forecast	Difference	Forecast

## Operating Highlights (million yen)

Operating revenue	8,248	8,491	+ 242	8,476
Rent revenues	8,056	7,838	Δ 217	8,249
Other operating revenues	192	241	+ 49	226
Gain on sales of real estate properties	—	411	+ 411	—
Operating expenses	3,041	3,186	+ 145	3,236
Expenses related to properties	2,696	2,877	+ 180	2,938
SG&A	344	308	Δ 35	297
Operating income	5,207	5,305	+ 97	5,240
Non-operating income	2	0	Δ 1	1
Non-operating expenses	643	640	Δ 3	636
Ordinary income	4,566	4,666	+ 99	4,605
Net income	4,562	4,664	+ 102	4,604
Provision of reserve for reduction entry	—	95	+ 95	—
Total dividends	4,562	4,569	+ 7	4,604

## DPU

Total units outstanding (units)	1,750,640	1,750,640	—	1,750,640
DPU (yen)	2,606	2,610	+ 4	2,630

## Other Indices (million yen)

Profit on real estate rental	5,552	5,202	Δ 349	5,537
Depreciation	994	1,006	+ 11	1,041
NOI	6,546	6,209	Δ 337	6,579
NOI yield	3.8%	3.7%	Δ 0.1PT	3.7%
Acquisition price (weighted average based on the number of operating days during the period)	339,856	339,847	Δ 9	352,550

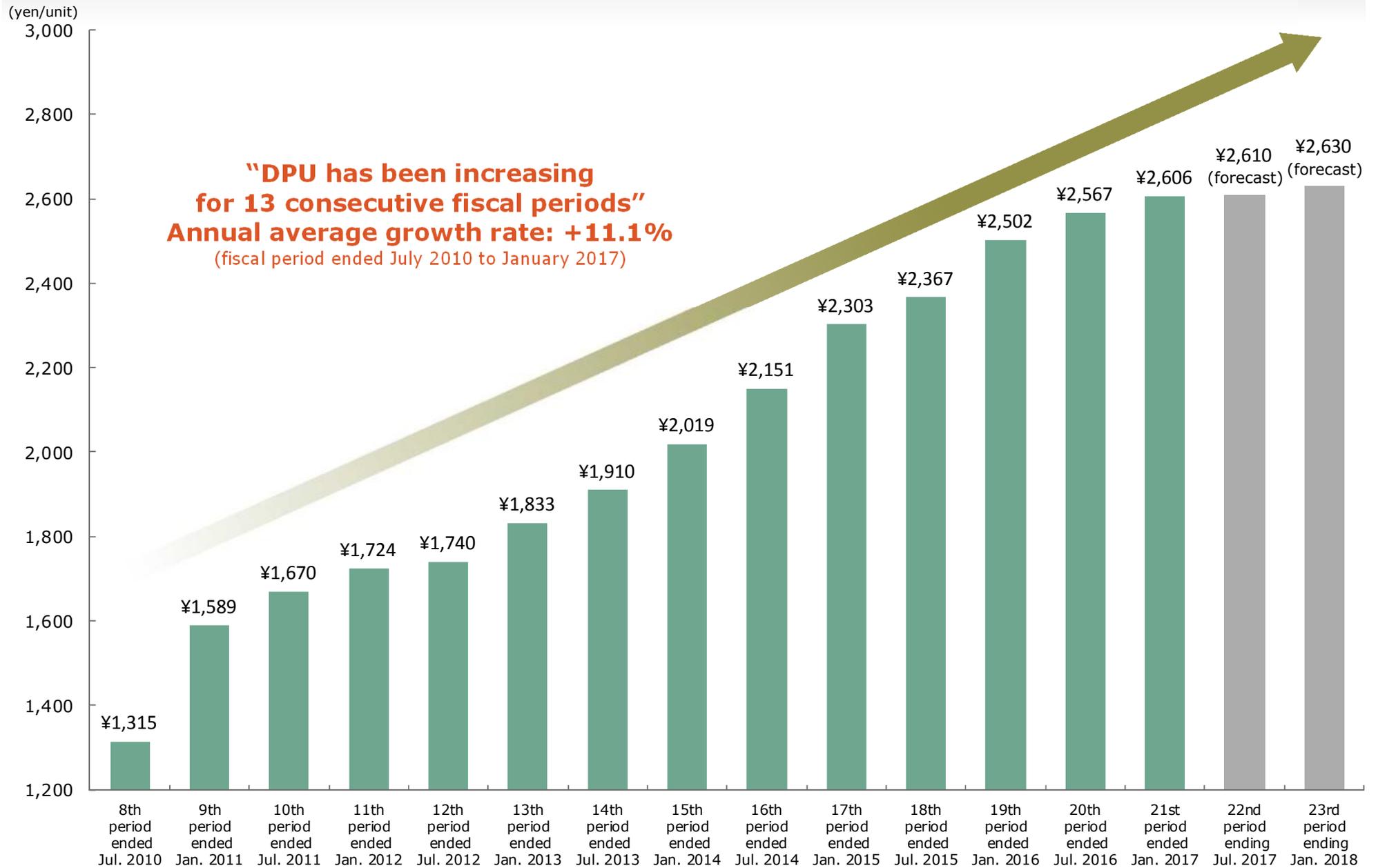
### Increase/decrease factor (21st - 22nd)

<b>•Operating revenue (+242 mn yen)</b>	
- Profit on disposition of Moto-Azabu Hills	+411
- Office (Pass-through)	Δ115
- "Fixed rent ML" revision in 22nd period	Δ49
<b>•Operating expenses (+145 mn yen)</b>	
- Maintenance and repairs	+79
- Property taxes for property acquired in 20th period	+44
- Leasing fee	+35
<b>•Non-operating expenses (Δ3 mn yen)</b>	
- Interest on investment corporation bonds	+6
- Interest expenses, etc.	Δ9

### Increase/decrease factor (22nd - 23rd)

<b>•Operating revenue (Δ14 mn yen)</b>	
- Property acquisition in 23rd period	+408
- Office (Pass-through)	+93
- Profit on disposition and rent revenue of Moto-Azabu Hills	Δ472
- Full period contribution of "fixed rent ML" revision in 22nd period	Δ49
<b>•Operating expenses (+49 mn yen)</b>	
- Property acquisition in 23rd period	+136
- Property taxes for property acquired in 20th period	+44
- Maintenance and repairs	Δ70
- Rent revenue of Moto-Azabu Hills	Δ27
- Leasing fee	Δ24
<b>•Non-operating expenses (Δ3 mn yen)</b>	
- Interest expenses, etc.	
(New borrowings in 23rd period)	+24
- Amortization of investment unit issuance cost	Δ27

# 2-7 Dividends per unit growth record



※ Implemented a 5-for-1 investment unit split effective on February 1, 2014.  
 Actual dividends per unit was divided by 5 for the periods before the split of investment units in the graph.

# 2-8 Increase in appraisal NAV per unit

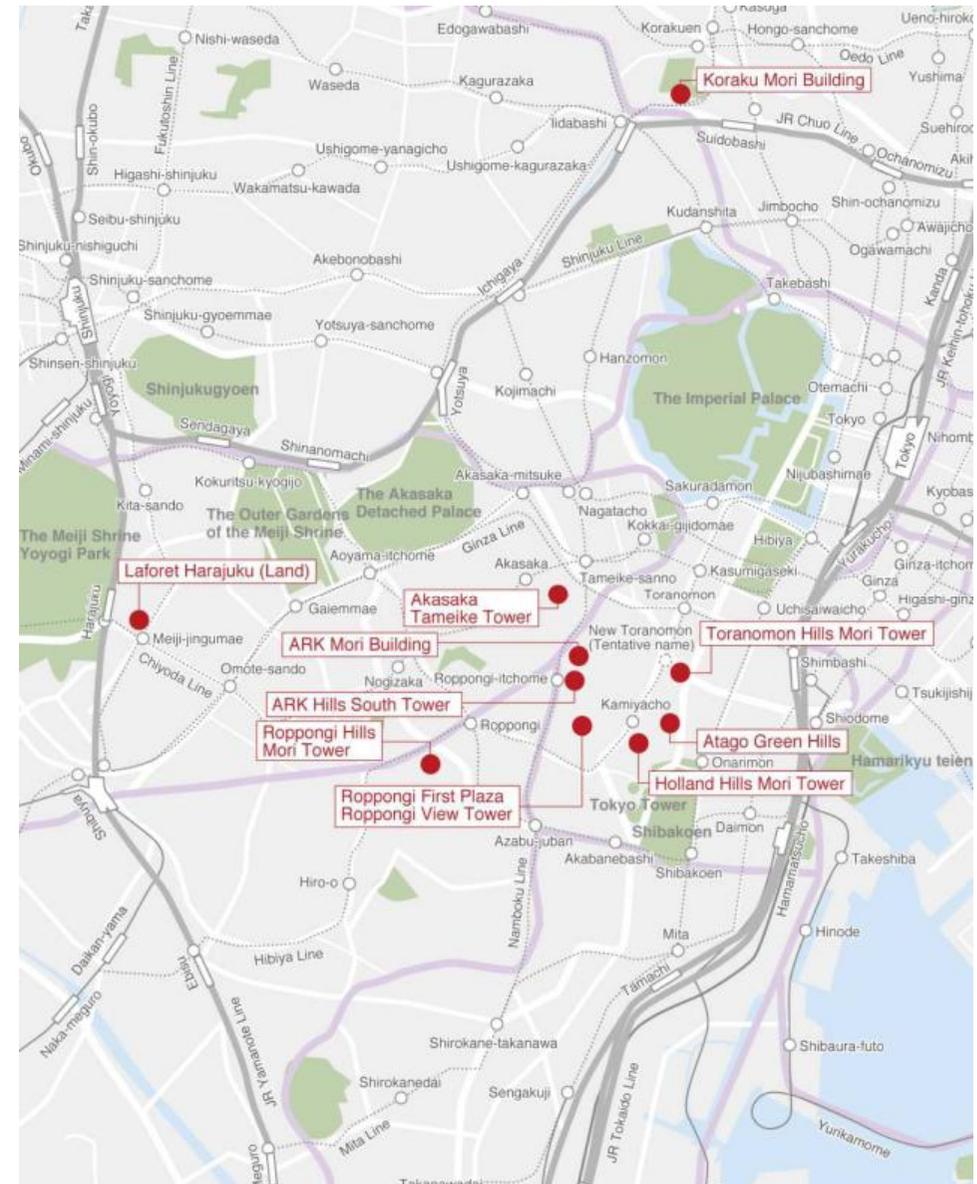
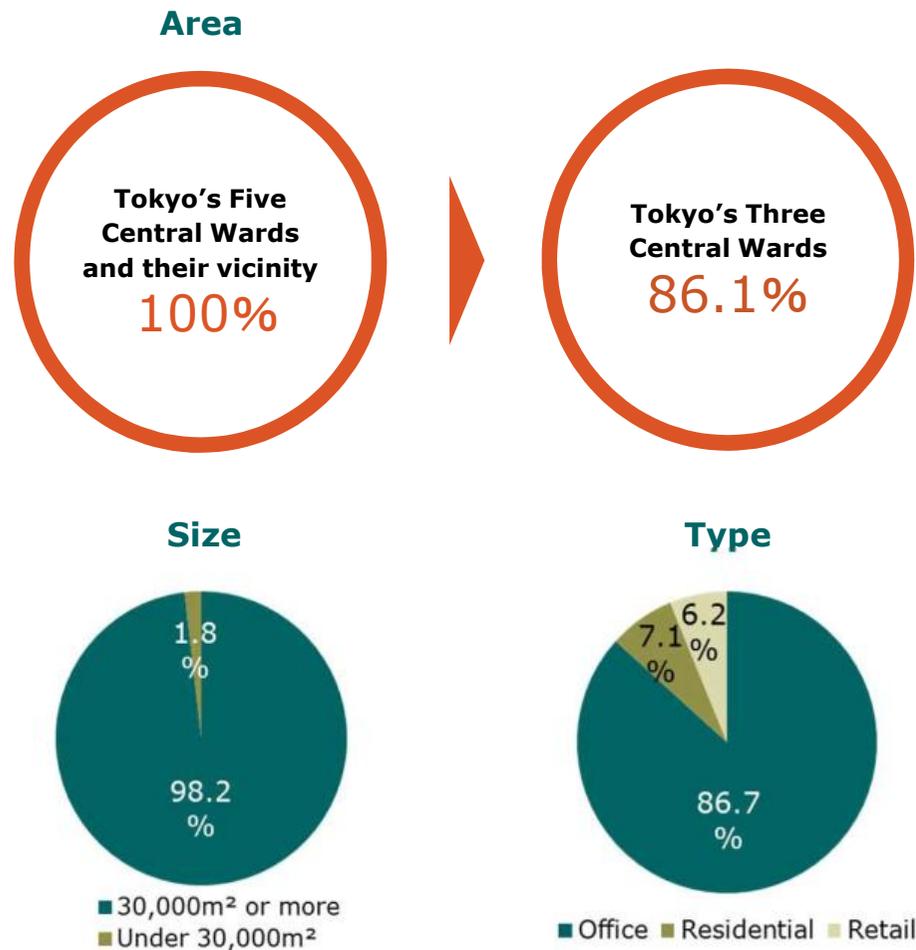


※ Implemented a 5-for-1 investment unit split effective on February 1, 2014.  
 Actual NAV was divided by 5 for the periods before the split of investment units in the graph.

# 2-9 Invest in premium properties in Central Tokyo

## (1) Location

### No. 1 property percentage in Central Tokyo (Total assets after new acquisitions: 352.5 bn yen)



(Note 1) The ratios represent proportion of acquisition price to total acquisition price.  
 (Note 2) Chart showing "Size" does not include Laforet Harajuku (Land).  
 (Note 3) For calculation of breakdown by type, acquisition price for Akasaka Tameike Tower and Atago Green Hills are divided into offices and residences.

# 2-10 Invest in premium properties in Central Tokyo

## (2) Earthquake-resistance capability

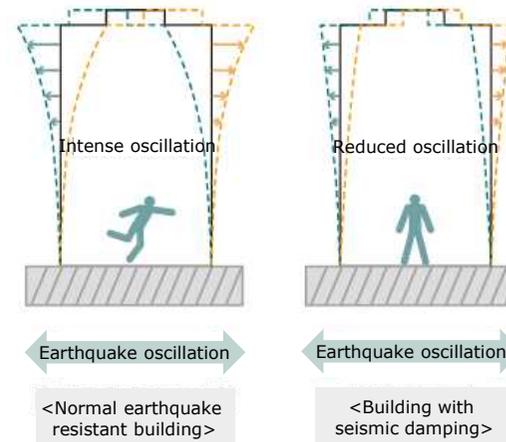
### Pursue No. 1 earthquake-resistance capability (Total assets after new acquisitions)

**Lowest portfolio  
PML of all listed  
J-REITs**  
0.98%

※ PML refers to the probable maximum loss ratio expected to result from an earthquake. A smaller figure indicates superiority in earthquake-resistance.

Property name		Type	PML	Earthquake-resistant feature
Roppongi Hills Mori Tower		Office	0.59%	Seismic damping
ARK Mori Building			0.78%	Seismic damping
Koraku Mori Building			0.73%	Seismic damping
ARK Hills South Tower			1.56%	Seismic damping
Toranomori Hills Mori Tower			0.50%	Seismic damping
Holland Hills Mori Tower			0.85%	Seismic damping
Akasaka Tameike Tower		Office (Partly residential)	1.79%	Seismic damping
Atago Green Hills	MORI Tower		2.35%	Seismic damping
	Forest Tower		2.34%	Seismic damping
Plaza		5.94%	—	
Roppongi First Plaza		Residential	2.20%	—
Roppongi View Tower			2.20%	—

#### Seismic damping

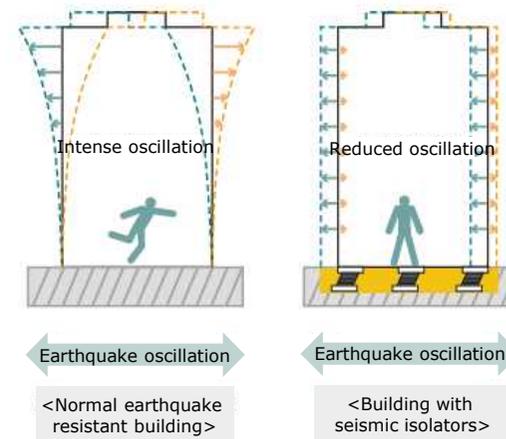


Seismic damping reduces earthquake magnitude of oscillation by approx. 20%



Viscous seismic damping wall

#### Seismic isolators



Seismic isolators reduce the magnitude of oscillation to approx. 1/2 or 1/3 especially in case of large earthquakes



Seismic isolators

# 2-11 Invest in premium properties in Central Tokyo

## (3) Environmental performance

### Pursue No. 1 environmental performance (Total assets after new acquisitions)



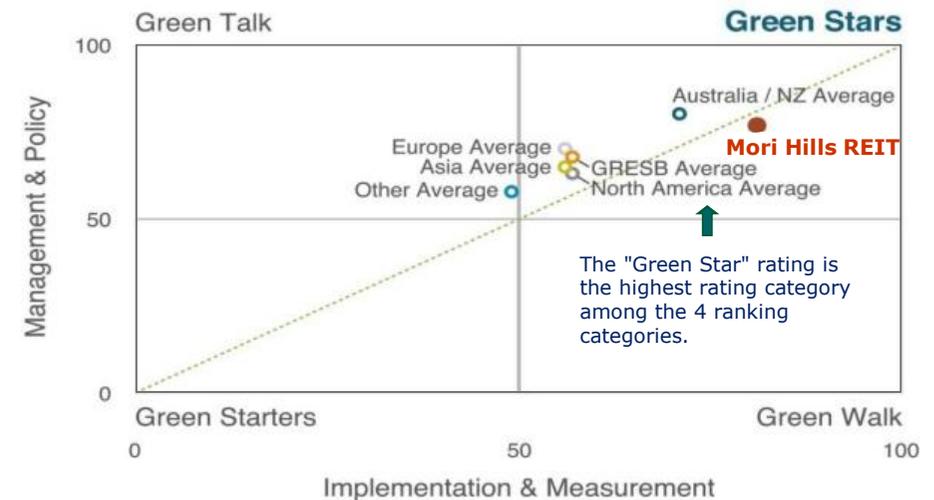
#### <Acquired GRESB Green Star Rating>

In the 2016 GRESB Survey, MHR received a Green Star rating for the fifth consecutive year, and earned a score that ranks it No. 1 out of the participants investing mainly in offices in Japan. In addition, MHR received 5 Stars in the GRESB Rating (note).



GRESB is a benchmark that measures the sustainability performance of real estate companies and real estate management institutions based on an annual questionnaire survey conducted by the GRESB foundation, composed primarily of European pension fund groups.

#### GRESB Four-Quadrant Model Scores by Region



(Source) Prepared by the Asset Manager based on the "2016 GRESB Report" of the Global Real Estate Sustainability Benchmark (GRESB).

(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" as the highest rank).

#### CASBEE for Market Promotion: Rank S



Roppongi Hills Mori Tower



ARK Mori Building



Atago Green Hills (Mori Tower)

#### CASBEE for Buildings (New Construction): Rank S



Toranomon Hills Mori Tower

#### DBJ Green Buildings Certification: Five stars



ARK Hills South Tower

# 2-12 External growth

**Business environment recognition**

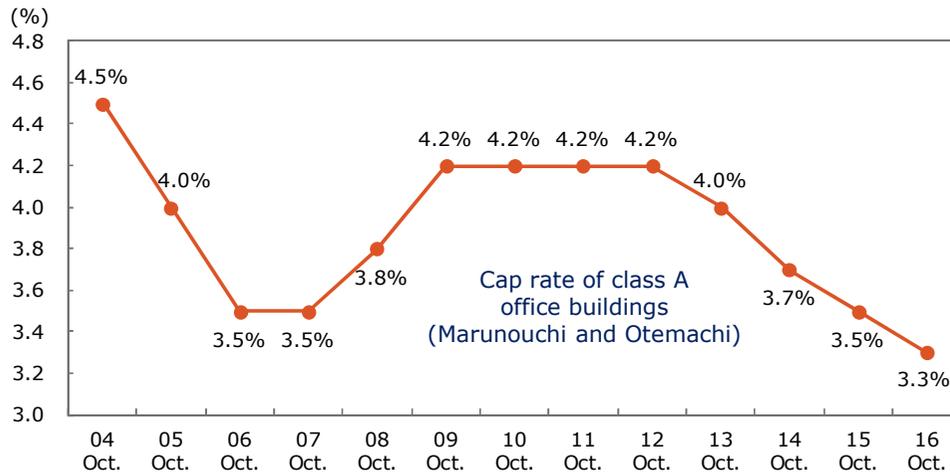
Closely watching the acquisition price level as property acquisition competitions are overheated

(Note) Please refer to "4. Business environment recognition and MHR's policy/strategy" for details.

**External growth policy**

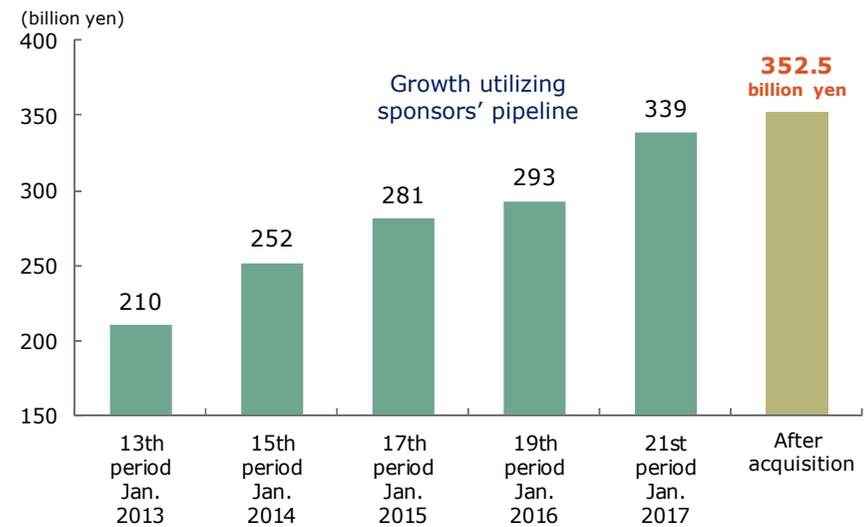
Focus on external growth utilizing sponsors' abundant property pipeline

## Change in return on real estate investment

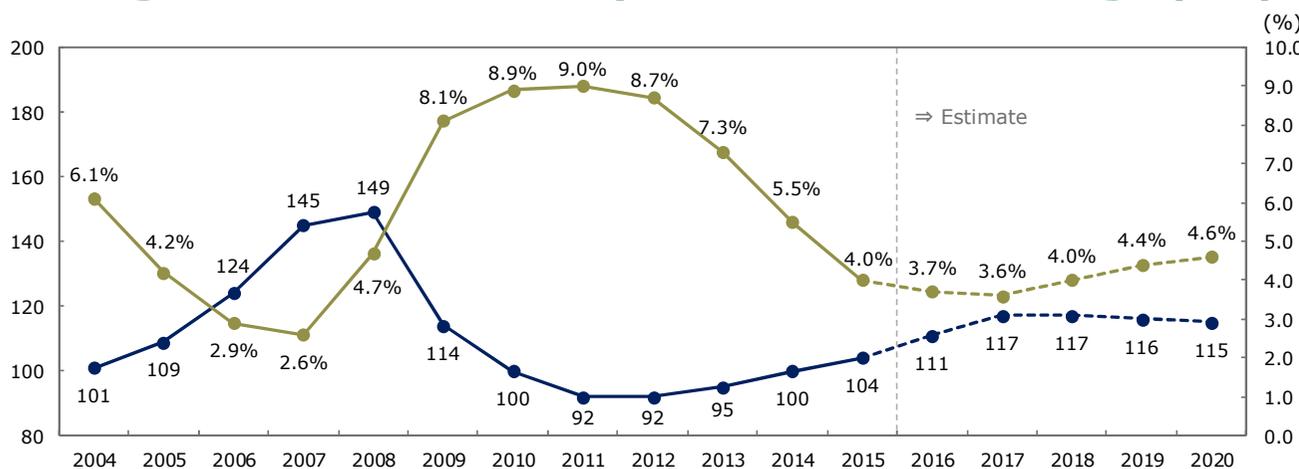


(Source) Prepared by the Asset Manager based on "The Japanese Real Estate Investor Survey" by the Japan Real Estate Institute.

## Change in assets under management



## Change in rent and vacancy rate of office buildings (Tokyo's five central wards)



(Source) Prepared by the Asset Manager based on the "Autumn 2016 Office Rent Forecast in Tokyo, Osaka and Nagoya (2016-2020, 2025)" by the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.).

(Note) The rent index targets large and medium buildings (standard floor area of 100 tsubo or more) in Tokyo's five central wards. The rent index is rebased to 100 as of 2010.

# 2-13 External growth

## Mori Building's extensive property pipeline

- Total assets:  
1.8 trillion yen (as of March 31, 2016)
- Number of properties under management:  
108 buildings (as of April, 2016)



MHR has "preferential negotiation rights" <sup>(Note 1)</sup>

## Recent redevelopment projects (Toranomon Hills area)

### A Toranomon Hills Business Tower (Tentative name)



- a) Approx. 10,100m<sup>2</sup>
- b) Approx. 173,000m<sup>2</sup>
- c) Office/Retail/Business support facility/Parking
- d) Toranomon 1-chome District Urban Redevelopment Association (Note 2)
- e) December 2019 (Anticipated)

### B Toranomon Hills Residential Tower (Tentative name)



- a) Approx. 6,530m<sup>2</sup>
- b) Approx. 121,000m<sup>2</sup>
- c) Residential/Retail/Parenting support facility/SPA and others
- d) Mori Building Co., Ltd.
- e) April 2020 (Anticipated)

a) Land area b) Total floor area c) Uses d) Operator e) Completion date

(Note 1) Some exceptions included.

(Note 2) Mori Building Co., Ltd. is participating in the project as one of participating consortium members.

## Properties owned by Mori Building Group

### 1 Roppongi Hills (Partly owned by MHR)



〈Office/Residential/Retail, etc.〉

### 2 Toranomon Hills (To be partly owned by MHR)



〈Office/Residential/Hotel, etc.〉

### 3 ARK Hills (Partly owned by MHR)



〈Office/Residential/Retail, etc.〉

### 4 Atago Green Hills (Partly owned by MHR)



〈Office/Residential/Retail〉

### 5 Holland Hills (To be partly owned by MHR)



〈Office/Residential/Retail〉

### 6 Roppongi Hills Crosspoint



〈Office/Retail/Residential〉

### 7 Forest Terrace Toriizaka



〈Residential〉

### 8 Omotesando Hills



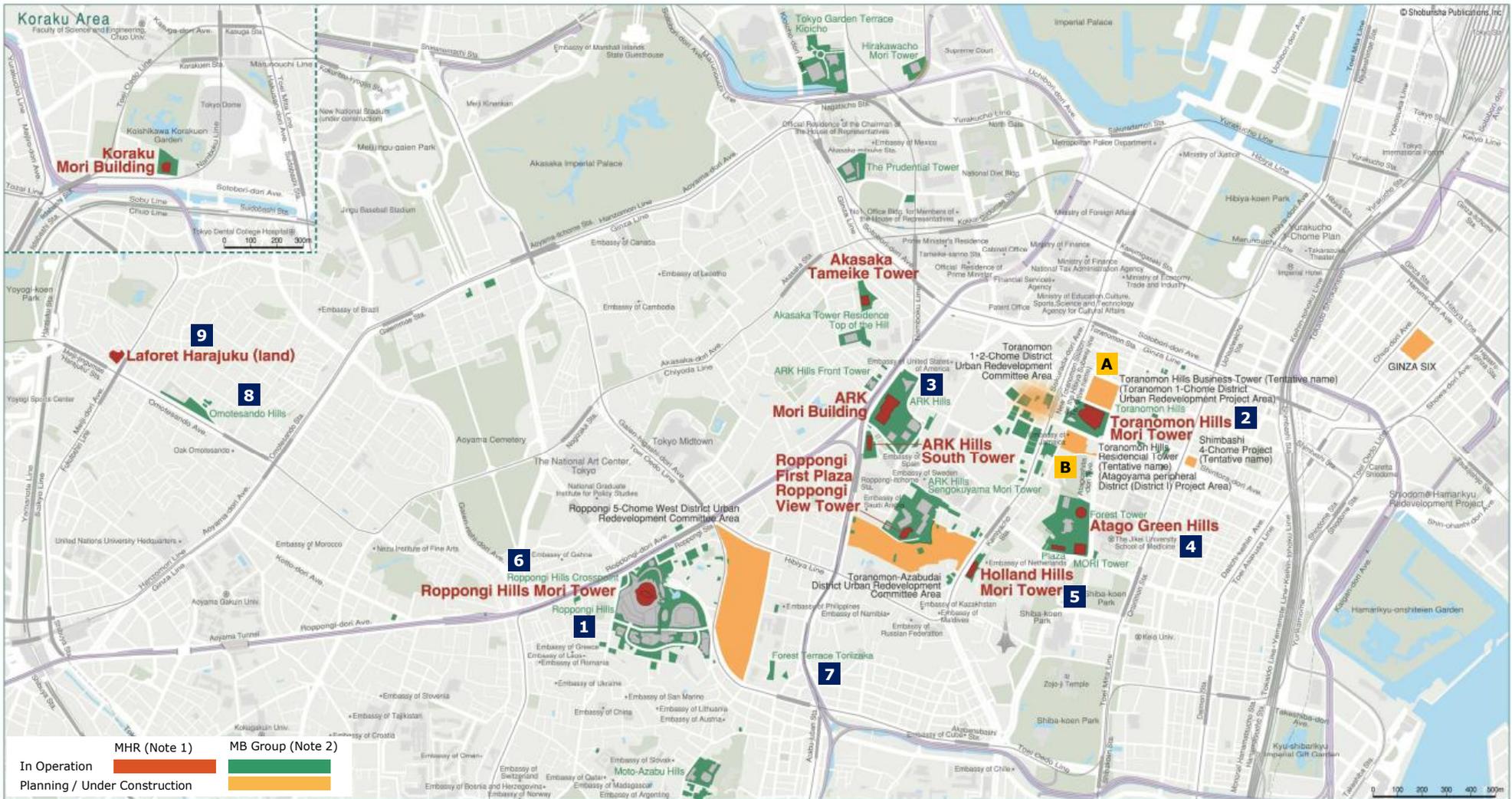
〈Retail/Residential〉

### 9 Laforet Harajuku (Land owned by MHR)



〈Retail〉

## Mori Building Group's involvement



(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map Mori Building Map/Home Route Support Map 2017."

(Note 1) Some of the properties have been partially acquired and held by MHR. Alternatively, the properties scheduled to acquire as of August 1, 2017 are also included.

(Note 2) Properties are developed, owned, managed and planned for development by Mori Building Group, and there are no properties currently anticipated to be acquired by MHR.

# 2-15 Internal growth

**Business environment recognition**

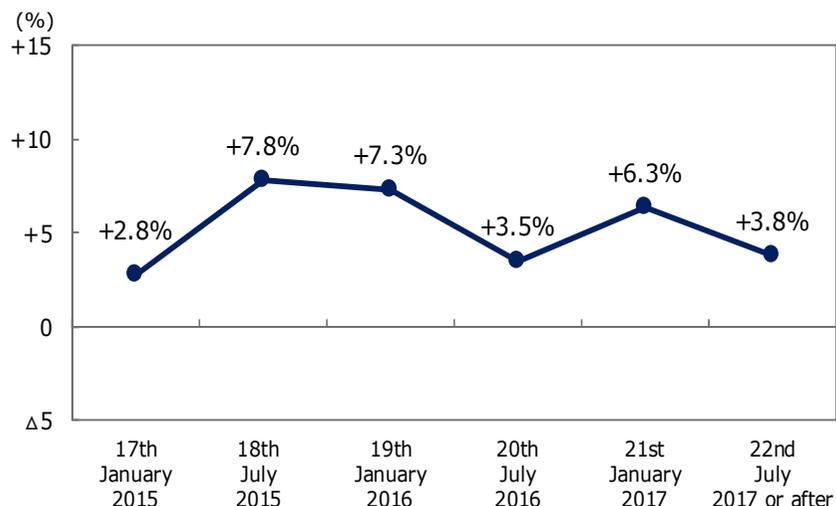
Central Tokyo office rents forecast to continue moderate rise, but as supply increases, the rate of rent increase likely to moderate

(Note) Please refer to "4. Business environment recognition and MHR's policy/strategy" for details.

**Internal growth policy**

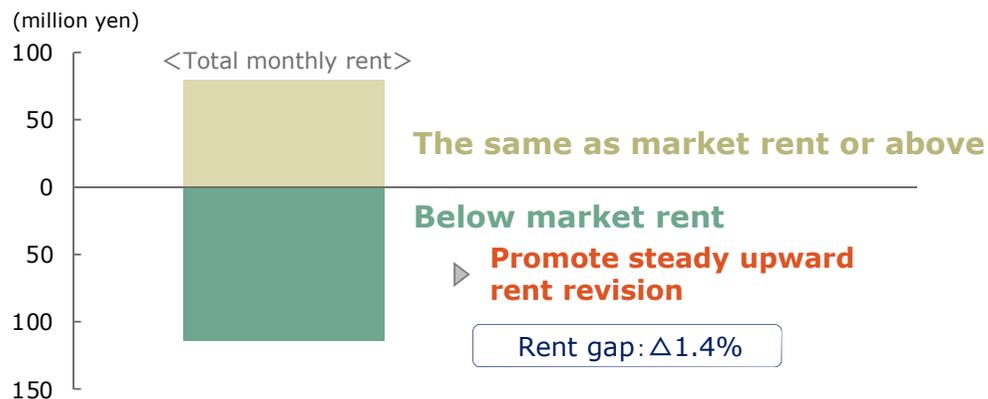
Maintain stability of cash flow through fixed rent master leases, while achieving revenue growth with pass-through type leases

## Result of office tenants' rent revision (pass-through)



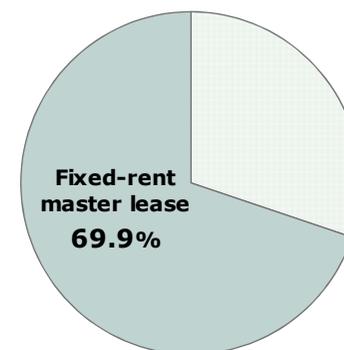
	Monthly rent prior to rent change	Monthly rent after rent change	Increase/decrease in monthly rent	Rate of revision
17th (ended Jan. 2015)	21.0 mn yen	21.6 mn yen	+0.5 mn yen	+ 2.8%
18th (ended Jul. 2015)	19.8 mn yen	21.4 mn yen	+1.5 mn yen	+ 7.8%
19th (ended Jan. 2016)	2.8 mn yen	3.1 mn yen	+0.2 mn yen	+ 7.3%
20th (ended Jul. 2016)	23.7 mn yen	24.6 mn yen	+0.8 mn yen	+ 3.5%
21st (ended Jan. 2017)	26.2 mn yen	27.9 mn yen	+1.6 mn yen	+ 6.3%
22nd (ending Jul. 2017) or after	59.1 mn yen	61.3 mn yen	+2.2 mn yen	+ 3.8%

## Comparison with office market rent (pass-through)



(Note 1) Market rent is based on the report by Sanko Estate Co., Ltd.  
 (Note 2) Rent gap = Total tenants' rent ÷ "Total market rent" - 1  
 (Note 3) The figures reflect move outs of end tenants confirmed as of January 31, 2017.

## Ratio of fixed rent master lease (July 2017)



(Note 1) Figures reflect the rent revision of Atago Green Hills, the disposition of Moto-Azabu Hills.  
 (Note 2) The figures reflect move outs of end tenants confirmed as of January 31, 2017.

# 2-16 Internal growth

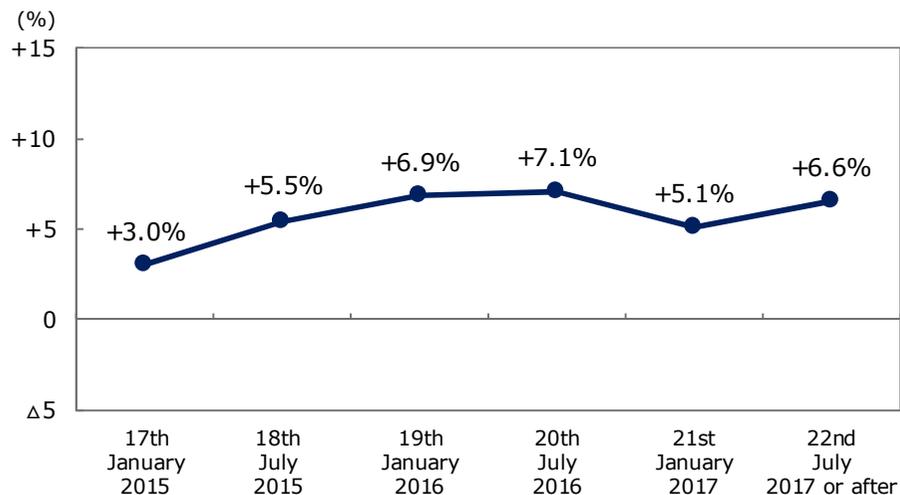
## Breakdown of monthly rent revenue and agreement renewal timing

(million yen)

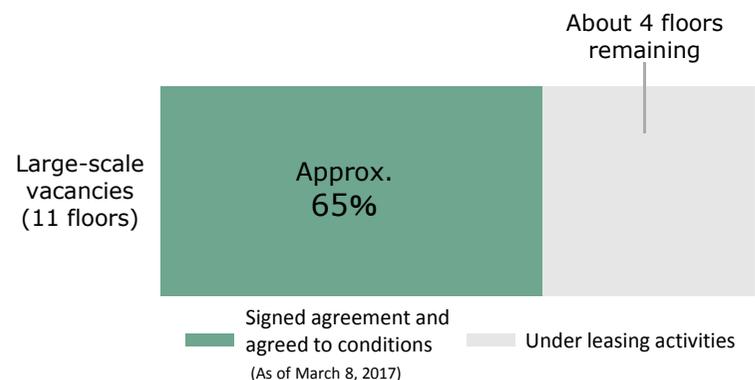
Tenant	Type of lease contract	Total rent per month	Ratio	Agreement renewal timing				
				22nd period	23rd period	24th period	25th period	26th period-
Office	Limited term	184.8	14.4%	51.2	29.2	35.2	4.3	64.6
	Traditional	833.0	64.9%	124.7	—	—	105.0	603.3
	<b>Total</b>	<b>1,017.9</b>	<b>79.4%</b>	<b>176.0</b>	<b>29.2</b>	<b>35.2</b>	<b>109.3</b>	<b>667.9</b>
Residential	Limited term	66.6	5.2%	9.4	11.7	5.7	16.3	23.3
	Traditional	54.9	4.3%	53.2	1.6	—	—	—
	<b>Total</b>	<b>121.5</b>	<b>9.5%</b>	<b>62.7</b>	<b>13.4</b>	<b>5.7</b>	<b>16.3</b>	<b>23.3</b>
Retail	Limited term (Land)	104.9	8.2%	—	—	—	—	104.9
	Traditional	17.9	1.4%	—	—	17.9	—	—
	<b>Total</b>	<b>122.8</b>	<b>9.6%</b>	<b>—</b>	<b>—</b>	<b>17.9</b>	<b>—</b>	<b>104.9</b>
<b>Sub total</b>		<b>1,262.3</b>	<b>98.4%</b>	<b>238.7</b>	<b>42.6</b>	<b>59.0</b>	<b>125.6</b>	<b>796.2</b>
Retail, parking and others		20.4	1.6%					
<b>Total</b>		<b>1,282.7</b>	<b>100.0%</b>					

(Note) Figures reflect the disposition of Moto-Azabu Hills and move outs of end tenants confirmed as of January 31, 2017.

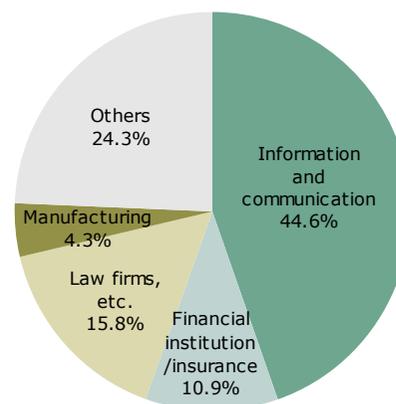
## Result of residential tenants' rent revision (pass-through)



## Status in leasing the large-scale vacancies at ARK Hills South Tower



## Tenant Contribution by Industry Type-Office



(Note 1) As for fixed rent master lease, ratios are based on monthly rents of tenants who are actually using the floor areas as of January 31, 2017.

As for properties jointly owned with third parties, ratios are calculated by multiplying by co-ownership interest.

(Note 2) Business types are classified by the Asset Manager.

# 2-17 Financial management

**Business environment recognition**

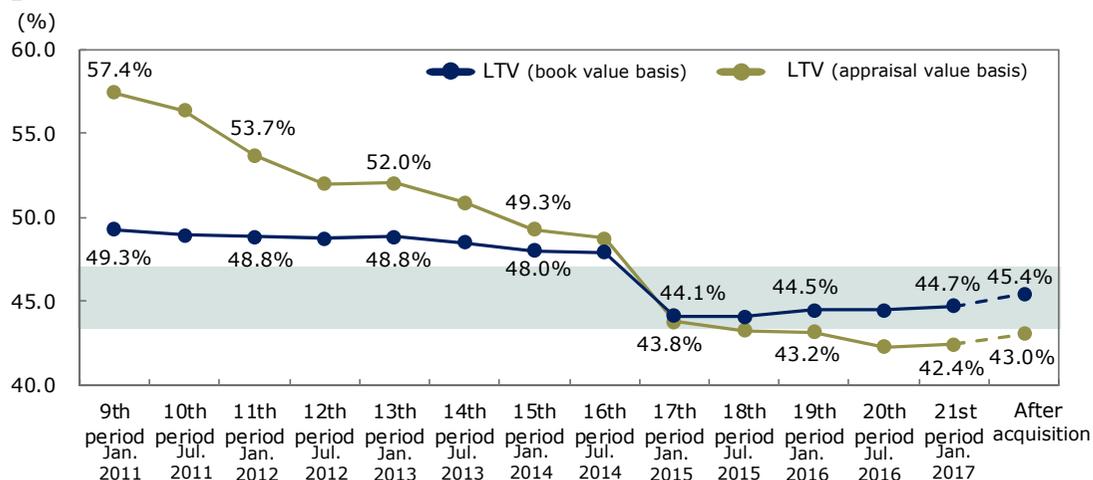
Interest rate level is expected to remain low considering economic conditions and monetary policies

(Note) Please refer to “4. Business environment recognition and MHR’s policy/strategy” for details.

**Financial management policy**

Move to lower interest rates targeting mid 40% range LTV (book value basis) and 4 years or longer average remaining duration of debt

## Reduction in LTV



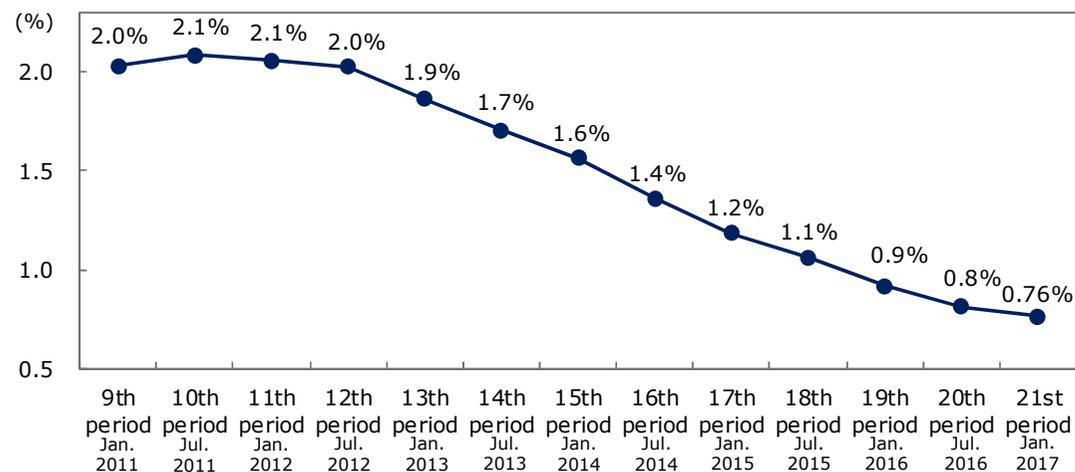
## Overview of debt financing

	End of 20th period Jul. 31, 2016	End of 21st period Jan. 31, 2017
Debt Balance	154,000 mn yen	156,000 mn yen
LTV (book value basis) <sup>(Note 1)</sup>	44.5%	44.7%
LTV (appraisal value basis) <sup>(Note 2)</sup>	42.3%	42.4%
Avg. remaining duration	4.5 years	4.2 years

(Note 1) LTV (book value basis) is calculated as [Interest bearing debt / Total assets].

(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

## Reduction in average interest rate (including borrowing expenses)

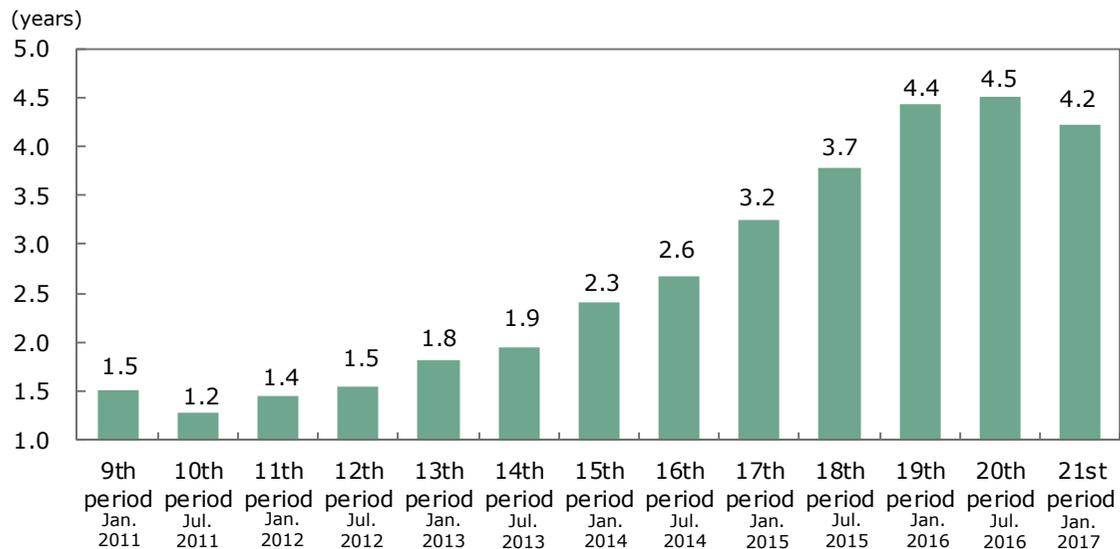


## Issuance status of investment corporation bonds

Issue Date	Amount	Maturity	Rate of Interest
Aug. 2016	2,000 mn yen	10 years	0.34%
Jan. 2017	2,000 mn yen	10 years	0.49%

(Note) Total interest-bearing debt cost is calculated as [(interest expenses + interest expenses on investment corporation bonds + borrowing expenses + amortization of investment corporation bond issuance costs) × 365 ÷ operating days during each period ÷ average interest-bearing debt balance during each period].

## Extension in remaining duration of debt

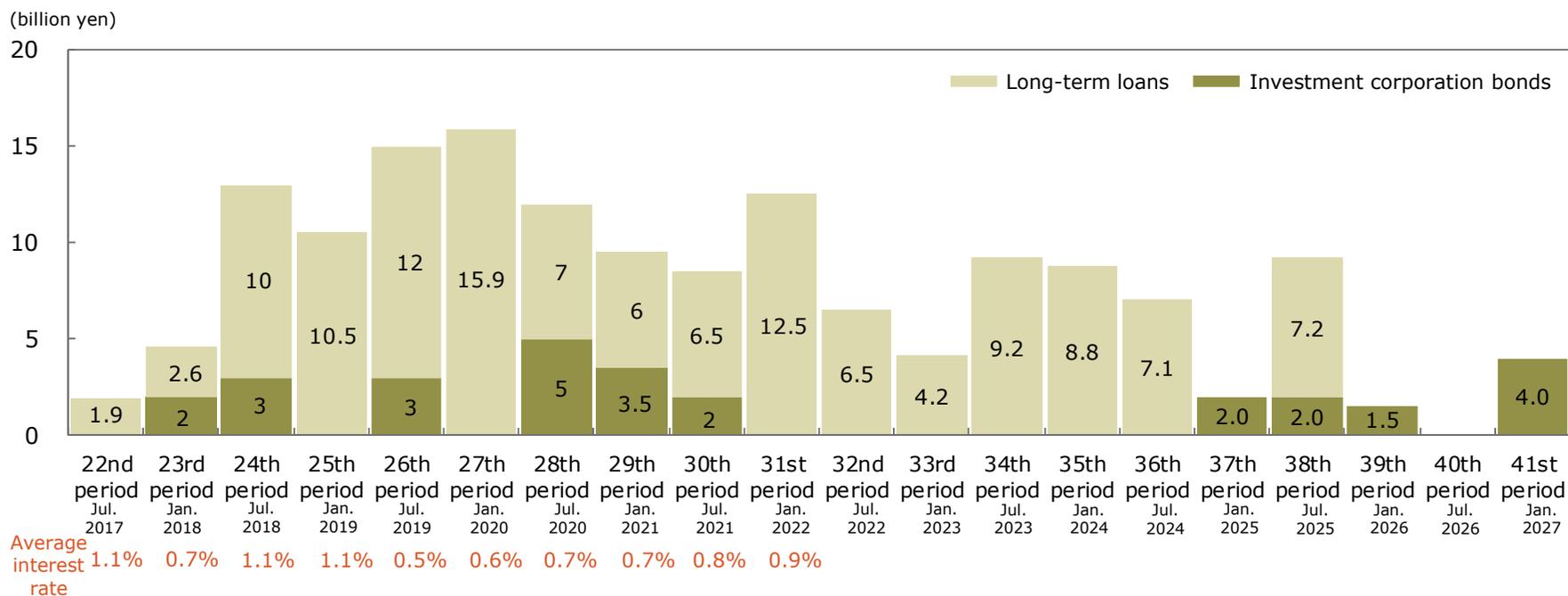


## Rating

Japan Credit Rating (JCR)

Long-term issuer rating:  
AA- (Positive)

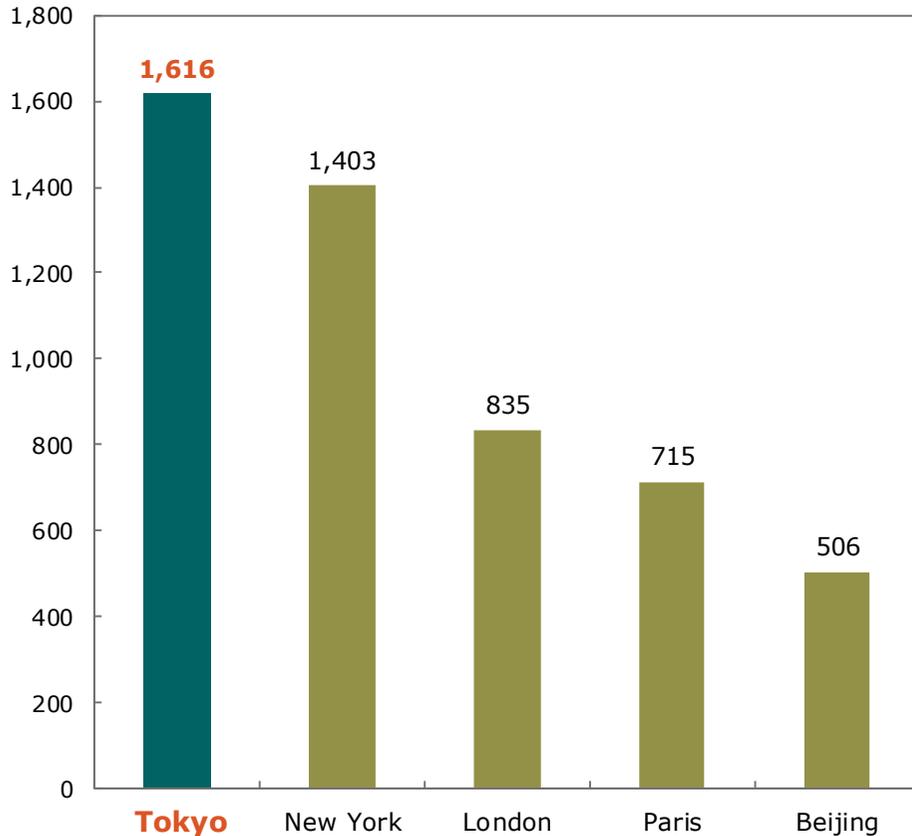
## Overview of maturity (as of January 31, 2017)



# 2-19 Competitive strength of Central Tokyo

## GDP of major metropolitan areas

(billion, PPP)



(Source) Prepared by the Asset Manager based on "Global Metro Monitor 2014" published by the Brookings Institution

## Population of urban concentration areas

(in thousands)

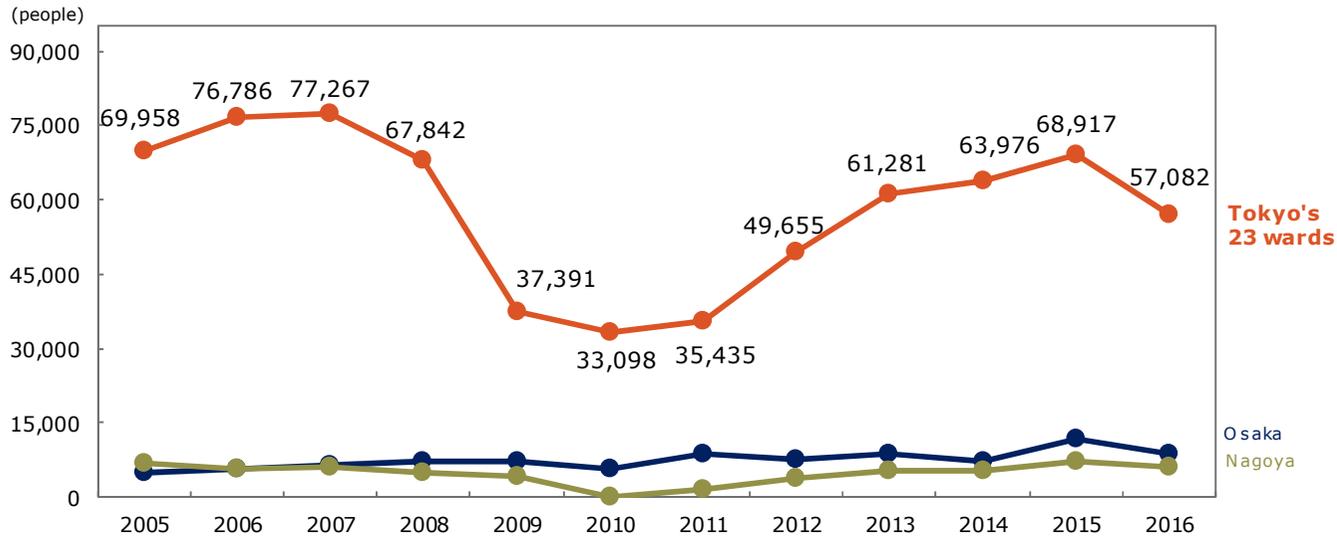
2014			2030		
Rank	Urban concentration area	Population	Rank	Urban concentration area	Population
1	Tokyo (Japan)	37,833	1	Tokyo (Japan)	37,190
2	Delhi (India)	24,953	2	Delhi (India)	36,060
3	Shanghai (China)	22,991	3	Shanghai (China)	30,751
4	Mexico City (Mexico)	20,843	4	Mumbai (India)	27,797
5	São Paulo (Brazil)	20,831	5	Beijing (China)	27,706
6	Mumbai (India)	20,741	6	Dhaka (Bangladesh)	27,374
7	Osaka (Japan)	20,123	7	Karachi (Pakistan)	24,838
8	Beijing (China)	19,520	8	Cairo (Egypt)	24,502
9	New York (USA)	18,591	9	Lagos (Nigeria)	24,239
10	Cairo (Egypt)	18,419	10	Mexico City (Mexico)	23,865

(Source) Prepared by the Asset Manager based on "World Urbanization Prospects: The 2014 Revision" by the Population Division of the Department of Economic and Social Affairs of the United Nations.

- In a comparison of GDP among the world's metropolitan areas, Tokyo outperformed New York and London to rank as the world's largest.
- In terms of the world's urban population, Tokyo is projected to maintain its rank as the world's largest metropolitan area.

# 2-20 Competitive strength of Central Tokyo

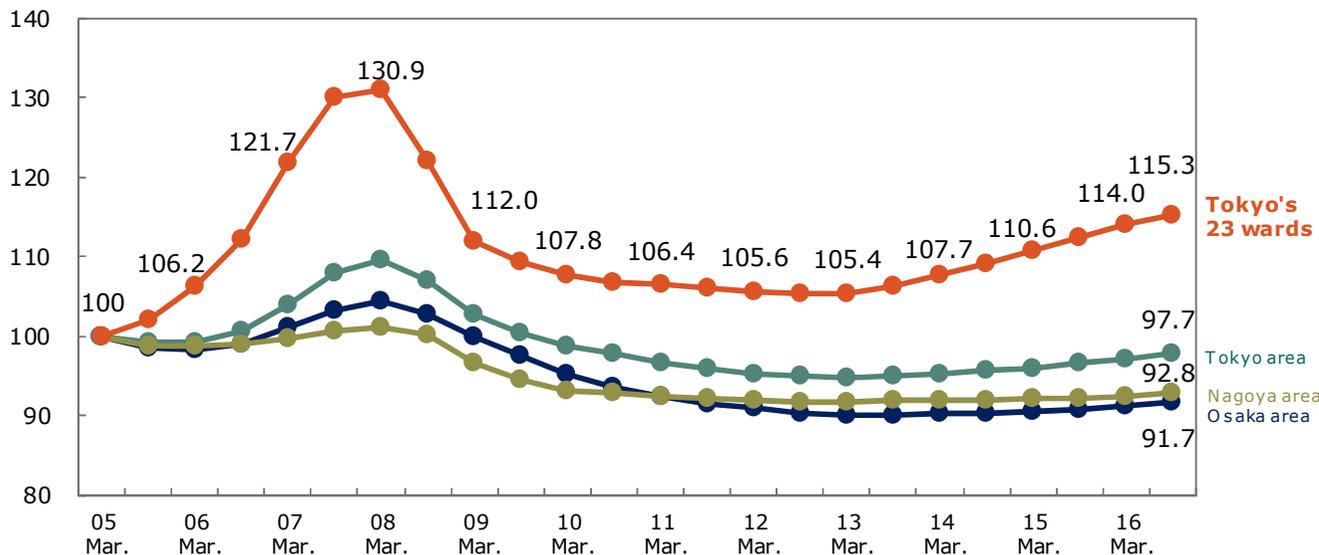
## Trend of net migration



- Tokyo's 23 wards have experienced net population growth for 20 consecutive years since 1997, indicating a high level of consistent net population growth even in comparison with the other major cities in Japan.

(Source) Prepared by the Asset Manager based on "Report on Internal Migration in Japan" by the Statistics Bureau, the Ministry of Internal Affairs and Communications.

## Trend of urban land price index (average of all uses)



- Land price level of central Tokyo has consistently surpassed the level of March 2005, showing a clear difference from those of other metropolitan areas in Japan that have been on a declining trend.
- However, since investment should be made carefully after asset values have surged, we intend to exercise prudence concerning investment prices.

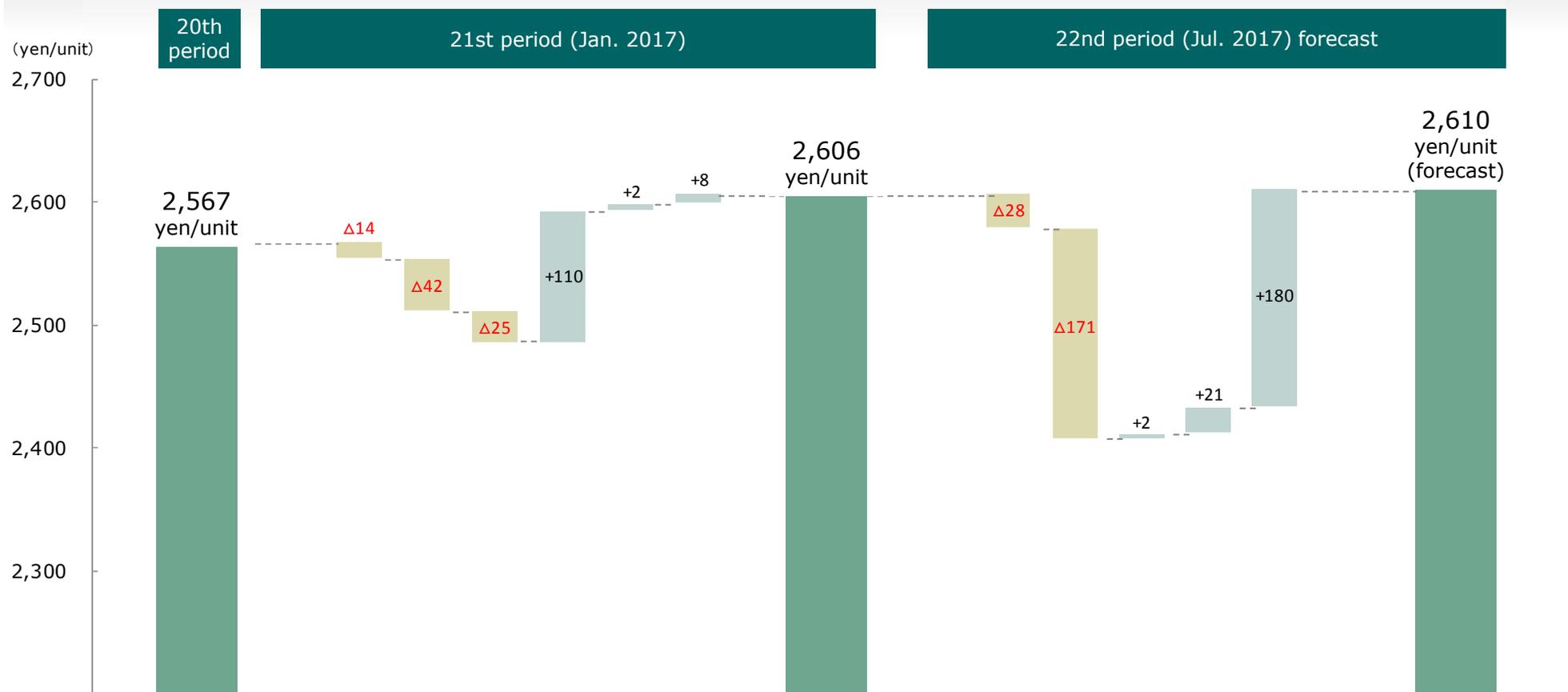
(Source) Prepared by the Asset Manager based on "Urban Land Price Index" by the Japan Real Estate Institute.

### 3. Operation highlights

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# 3-1 Factors that led to changes in dividend per unit from the previous fiscal period



Fixed rent ML revision /change /change full period (21st) contribution (20th)

Fixed rent ML revision /change /change full period (21st) contribution (20th)

Others

Full period contribution of prop. acquired (20th)

Change in NOI from existing properties

Decrease in financing costs

Fixed rent ML revision (22nd) contribution

Change in NOI from existing properties

Decrease in financing costs

Others

Gain on disposition

### Major factors behind change in NOI from existing properties:

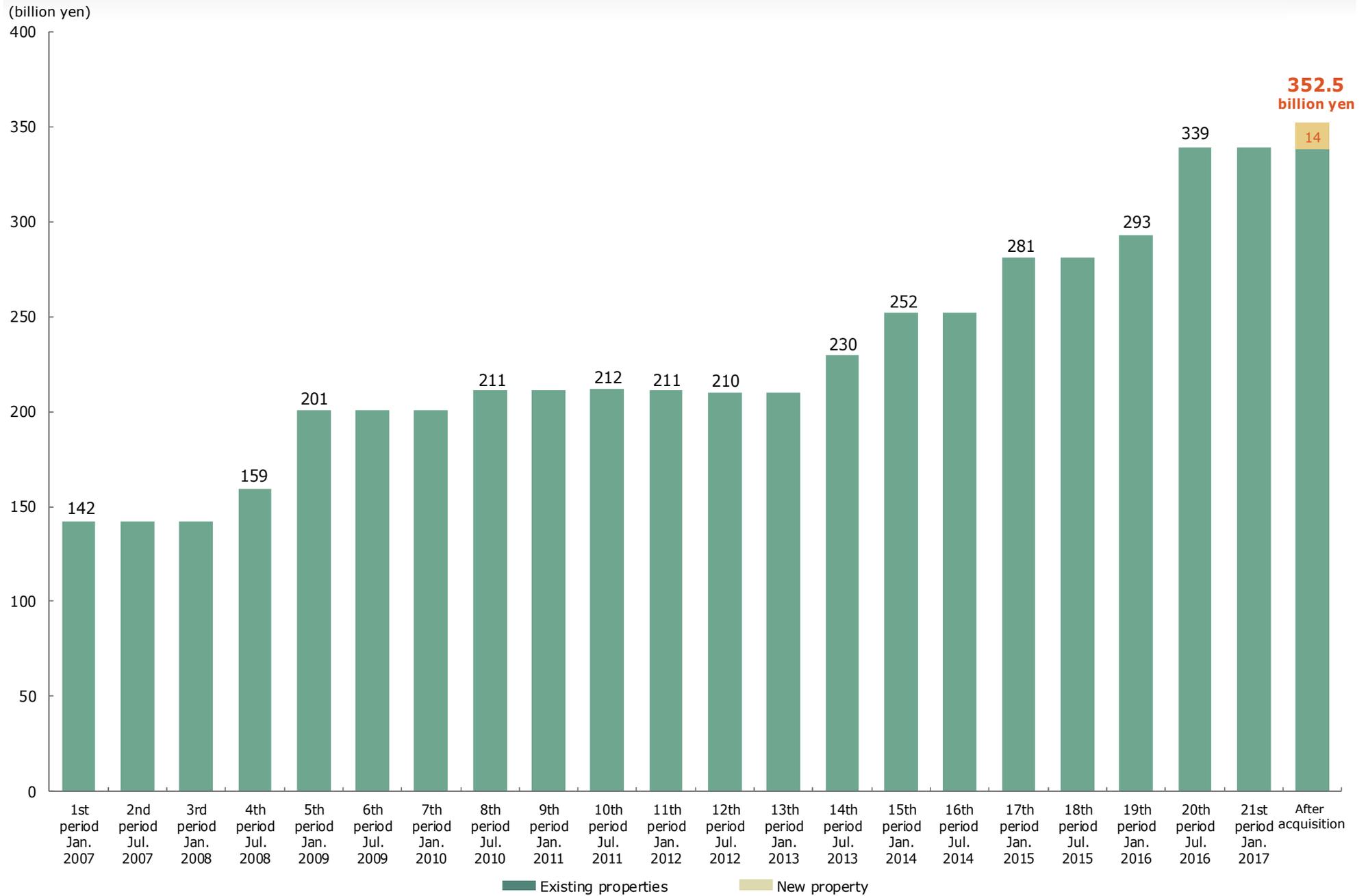
+ Net tenant lease activities and upward rent revision at Koraku Mori Building	+13
+ Decrease in depreciation and amortization	+8
+ Upward land rent revision at Laforet Harajuku (Land)	+6
+ Net tenant lease activities and upward rent revision at Roppongi View Tower	+5
- Net tenant lease activities and upward rent revision at ARK Hills South Tower	Δ23
- Property taxes for properties acquired in 19th period recorded as expense (equivalent to 3 months)	Δ7

### Major factors behind change in NOI from existing properties:

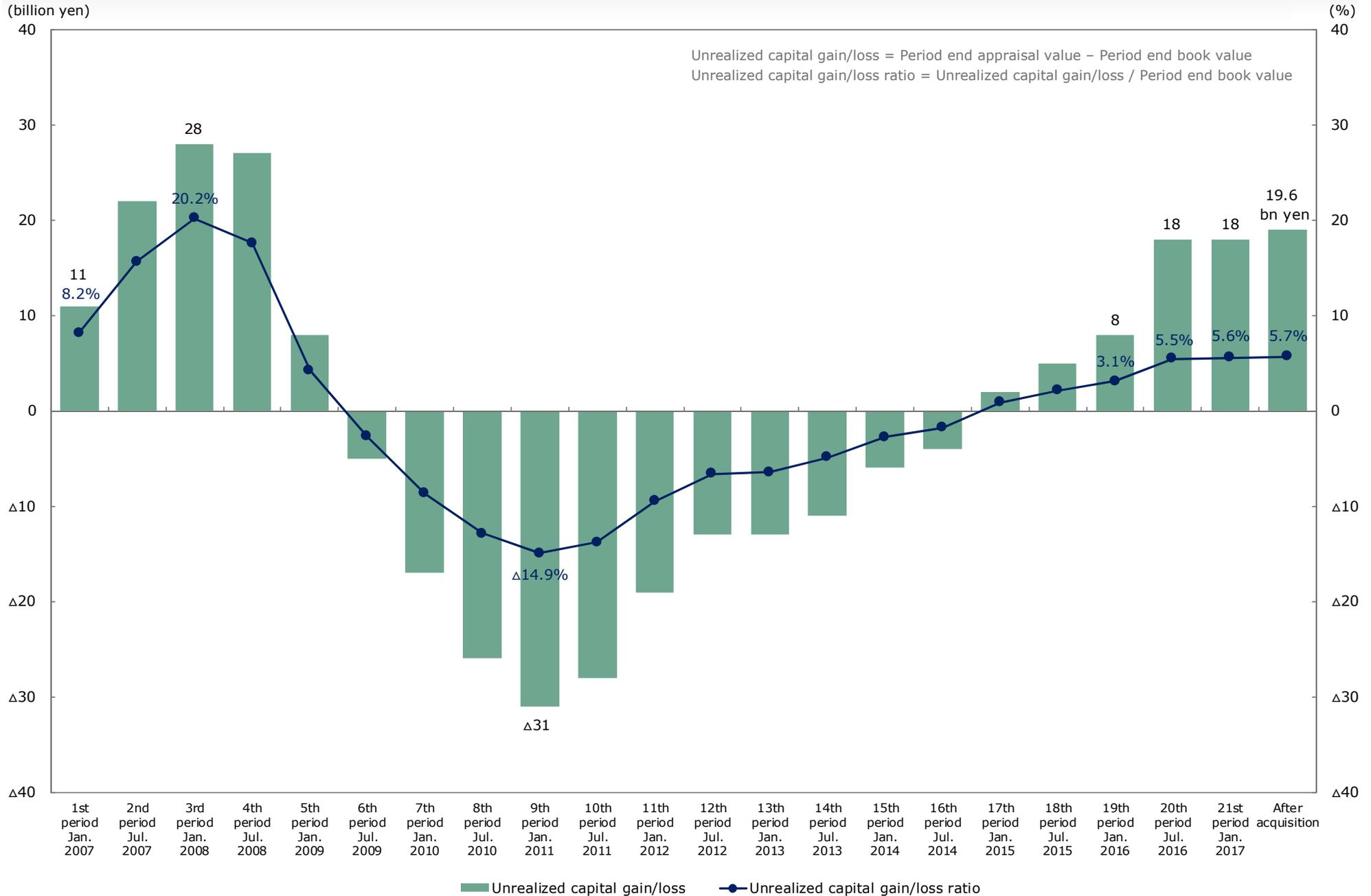
+ Net tenant lease activities and upward rent revision at Koraku Mori Building	+30
- Net tenant lease activities and upward rent revision at ARK Hills South Tower	Δ90
- Increase in maintenance and repairs	Δ46
- Net tenant lease activities and upward rent revision at Akasaka Tameike Tower	Δ30
- Property taxes for properties acquired in 20th period recorded as expense (equivalent to 3 months)	Δ26
- Increase in depreciation and amortization	Δ7

(Note) Factors that led to change are arrived at by dividing the change from the previous fiscal period by 1,750,640 units and indicated as an approximate figure in yen.

# 3-2 Change in assets under management



# 3-3 Change in unrealized capital gain/loss



# 3-4 Appraisal value

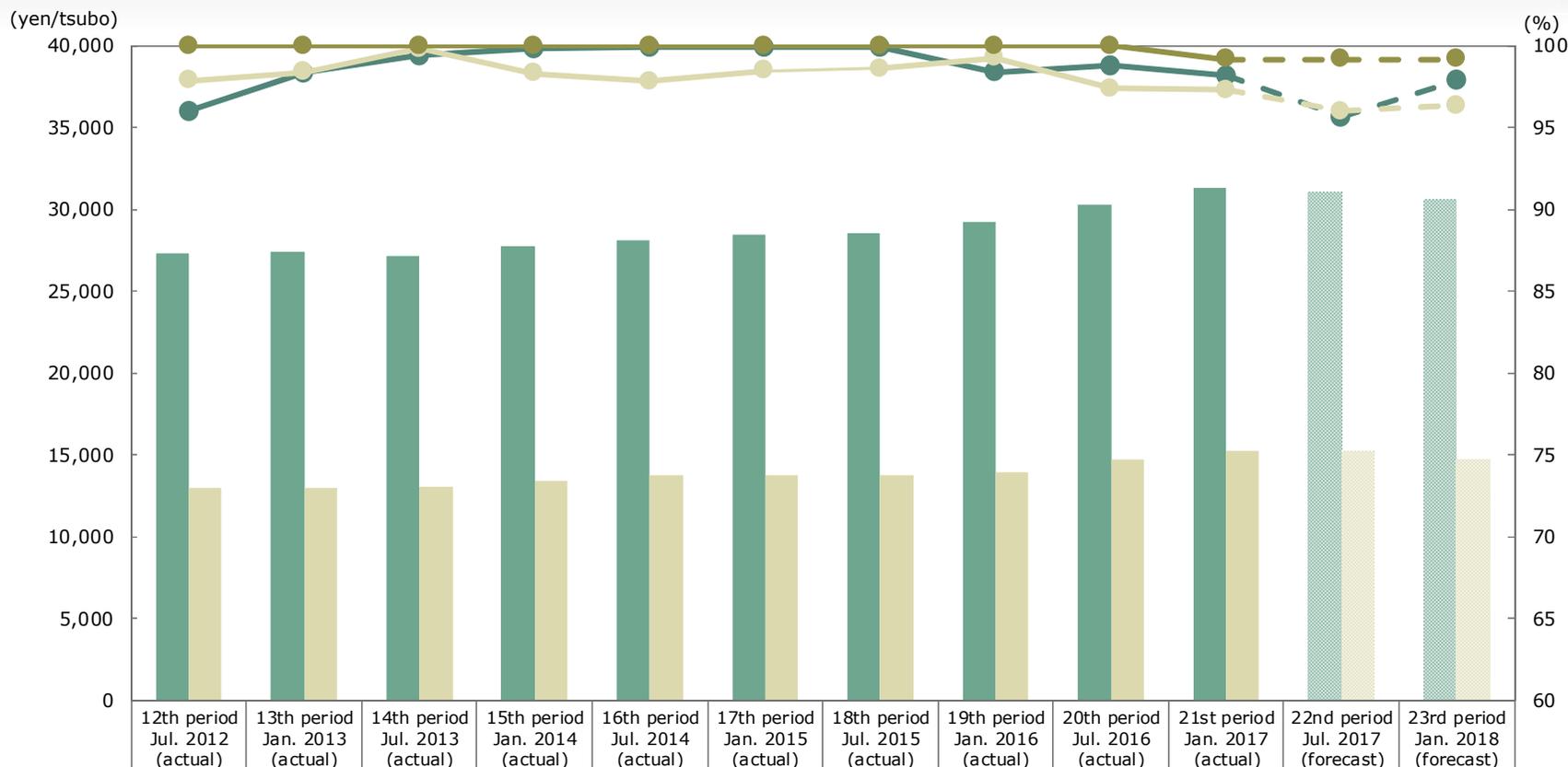
(million yen)

Principal use	Property name	Property No.	Acquisition price	Book value	As of end of 19th period Jan. 31, 2016		As of end of 20th period Jul. 31, 2016				Difference (B) - (A)	Difference (B)/(A) - 1	Unrealized capital gain (B)-book value
					(A) Appraisal value	Yield (direct capitalization method)	(B) Appraisal value	Yield (direct capitalization method)	Discount rate (DCF)	Terminal yield (DCF)			
Office	Roppongi Hills Mori Tower	O-0	115,380	113,638	134,300	3.4%	134,900	3.3%	3.0%	3.5%	600	0.4%	21,261
	ARK Mori Building	O-1	62,480	61,624	57,000	3.7%	57,500	3.6%	3.3%	3.8%	500	0.9%	△ 4,124
	Koraku Mori Building	O-4	27,200	25,031	23,400	4.0%	23,700	3.9%	3.5%	4.2%	300	1.3%	△ 1,331
	Akasaka Tameike Tower	O-6	43,930	42,090	28,800	3.8%	29,500	3.7%	3.4%	3.9%	700	2.4%	△ 12,590
	Atago Green Hills	O-7	42,090	41,010	45,800	4.1%	42,300	3.9%	3.4%	4.1%	△ 3,500	△ 7.6%	1,289
	ARK Hills South Tower	O-8	19,150	19,003	22,900	3.5%	23,100	3.4%	3.2%	3.6%	200	0.9%	4,096
Sub total			310,230	302,398	312,200	—	311,000	—	—	—	△ 1,200	△ 0.4%	8,601
Residential	Moto-Azabu Hills	R-1	1,706	1,615	1,990	4.0%	2,030	3.9%	3.5%	4.1%	40	2.0%	414
	Roppongi First Plaza	R-3	2,100	2,276	1,790	4.5%	1,870	4.4%	4.2%	4.6%	80	4.5%	△ 406
	Roppongi View Tower	R-4	4,000	3,974	2,610	4.6%	2,610	4.5%	4.3%	4.7%	0	0.0%	△ 1,364
Sub total			7,806	7,866	6,390	—	6,510	—	—	—	120	1.9%	△ 1,356
Retail and others	Laforet Harajuku (Land) (Note 2)	S-1	21,820	22,074	32,600	4.3%	33,400	—	4.3%	—	800	2.5%	11,325
Sub total			21,820	22,074	32,600	—	33,400	—	—	—	800	2.5%	11,325
Total			339,856	332,339	351,190	—	350,910	—	—	—	△ 280	△ 0.1%	18,570

(Note 1) "Appraisal values" at the end of each fiscal period are based on the Ordinance Concerning Calculation of Investment Corporations, asset valuation methods and standards defined in the Articles of Incorporation of the Company and rules defined by the Investment Trust Association. Figures in the property appraisal reports created by Japan Real Estate Institute are indicated for properties other than ARK Hills South Tower and figures in the property appraisal report created by Daiwa Real Estate Appraisal Co., Ltd. are indicated for ARK Hills South Tower, respectively.

(Note 2) For Laforet Harajuku (Land), value in the "Yield (direct capitalization method)" column for the 20th period shows the discount rate used in the DCF analysis.

# 3-5 Changes in the rent and occupancy rates



	12th period Jul. 2012 (actual)	13th period Jan. 2013 (actual)	14th period Jul. 2013 (actual)	15th period Jan. 2014 (actual)	16th period Jul. 2014 (actual)	17th period Jan. 2015 (actual)	18th period Jul. 2015 (actual)	19th period Jan. 2016 (actual)	20th period Jul. 2016 (actual)	21st period Jan. 2017 (actual)	22nd period Jul. 2017 (forecast)	23rd period Jan. 2018 (forecast)
Office rent (yen/tsubo)	27,323	27,440	27,116	27,788	28,119	28,482	28,536	29,253	30,306	31,281	31,076	30,669
Residential rent (yen/tsubo)	12,957	12,944	13,105	13,432	13,763	13,782	13,765	13,894	14,750	15,272	15,248	14,728
Office occupancy (%)	96.0%	98.3%	99.4%	99.8%	100%	99.9%	100%	98.4%	98.8%	98.2%	95.7%	97.9%
Residential occupancy (%)	97.9%	98.4%	99.8%	98.3%	97.8%	98.5%	98.6%	99.3%	97.4%	97.3%	96.0%	96.3%
Retail occupancy (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	99.2%	99.2%	99.2%

(Reference: Actual results in 11th period and before)

	1st period Jan. 2007 (actual)	2nd period Jul. 2007 (actual)	3rd period Jan. 2008 (actual)	4th period Jul. 2008 (actual)	5th period Jan. 2009 (actual)	6th period Jul. 2009 (actual)	7th period Jan. 2010 (actual)	8th period Jul. 2010 (actual)	9th period Jan. 2011 (actual)	10th period Jul. 2011 (actual)	11th period Jan. 2012 (actual)
Office rent (yen/tsubo)	31,450	32,068	32,462	33,648	34,118	34,725	34,554	33,187	31,901	29,555	27,314
Residential rent (yen/tsubo)	20,625	20,674	20,964	21,157	21,234	20,664	19,658	18,959	17,648	15,492	12,833
Office occupancy (%)	99.9%	100%	99.1%	97.4%	98.1%	97.8%	93.7%	92.7%	88.9%	89.6%	95.3%
Residential occupancy (%)	94.4%	93.4%	93.1%	94.2%	93.5%	89.6%	90.1%	91.5%	93.8%	96.7%	97.2%
Retail occupancy (%)	—	—	—	—	—	—	—	—	100%	100%	100%

(Note) The above rents and occupancy rates indicate the average rent and the average occupancy rate during relevant fiscal periods.

## 3-6 Overview of fixed rent master lease properties

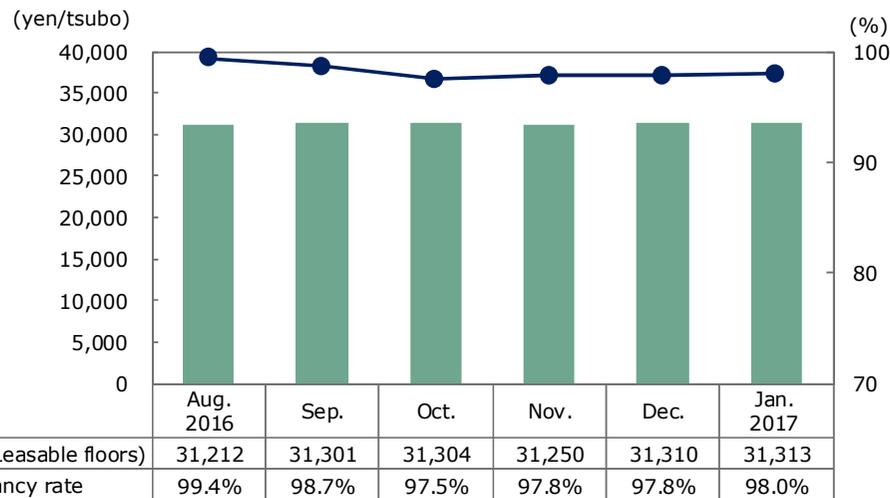
### Overview of fixed rent master lease properties by the sponsor

Property name	Total monthly rent (mn yen)	% of portfolio total rent (Note)	Breakdown of property	Leased floor area (㎡)	Monthly rent (mn yen)	Payer of the management association fee	Next rent revision	Expiration of the lease agreement
Roppongi Hills Mori Tower (10 floors)	490.5	38.7%	23rd & 24th	8,993.45	114.6	MHR	—	Jul. 2021
			19th & 22nd	8,609.47	95.0			Sep. 2018
			20th	3,879.19	42.8			Jul. 2019
			28th	4,460.13	49.2			Sep. 2020
			25th	4,156.66	45.8			Jan. 2021
			26th & 27th & 29th	12,942.64	142.9			Mar. 2021
ARK Mori Building (8 floors + DHC)	225.2	17.8%	13th / 12th & 22nd	7,952.55	77.9	MHR	—	Jan. 2021
			23rd & 25th	5,742.95	55.5			Jan. 2021
			4th & 15th & 24th	7,680.52	73.8			Jan. 2021
			DHC	3,212.41	17.9	Master lessee	Apr. 2018	Mar. 2023
Atago Green Hills (approx. 32.9% of entire property)	168.7	13.3%	Office/residential /retail	29,667.58	168.7	Master lessee	—	Apr. 2022
<b>Total</b>	<b>884.5</b>	<b>69.9%</b>						

(Note) Figures reflect the rent revision of Atago Green Hills, the disposition of Moto-Azabu Hills and the move outs of end tenants confirmed as of January 31, 2017.

# 3-7 Tenant status by month and tenants with large leased space

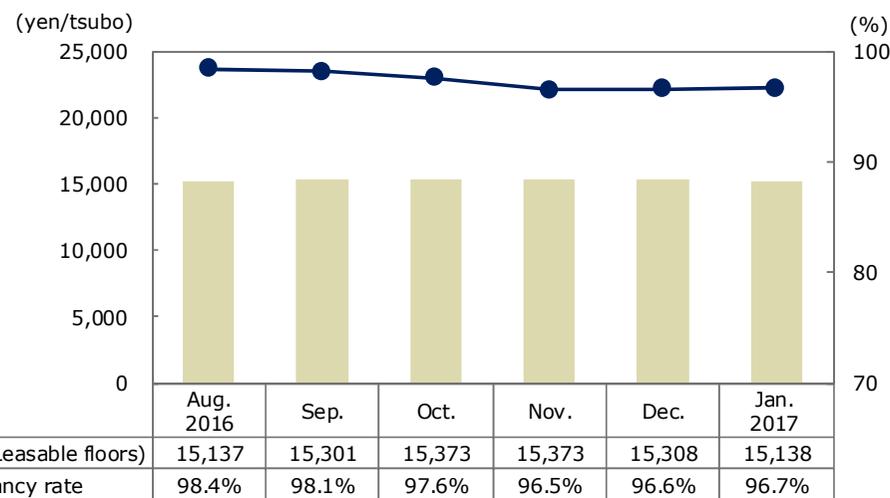
## Office: Rent and occupancy rate



## Top 5 tenants

End tenants	Property name	Leased space (Note 1)	Ratio
Mori Building Co., Ltd.	Roppongi Hills Mori Tower ARK Mori Building Koraku Mori Building Atago Green Hills ARK Hills South Tower	97,636.65 m <sup>2</sup>	65.0%
Yahoo Japan Corporation (Note 2)	ARK Hills South Tower	3,841.53 m <sup>2</sup>	2.6%
Syowa Leasing Co., Ltd.	Koraku Mori Building	2,683.90 m <sup>2</sup>	1.8%
Mori Building Ryutsu System Co., Ltd.	Laforet Harajuku (Land)	2,565.06 m <sup>2</sup>	1.7%
ITOCHU Techno-Solutions Corporation	Koraku Mori Building	2,116.88 m <sup>2</sup>	1.4%
Total of top 5 tenants		108,844.02 m <sup>2</sup>	72.4%

## Residential: Rent and occupancy rate



(Note 1) "Leased space" is the lease area stated in the lease contract with the end tenant. Leased space for co-owned properties is calculated by multiplying by the relevant percentage of co-ownership interest.  
 (Note 2) Tenant vacated part of leased space as of January 31, 2017.

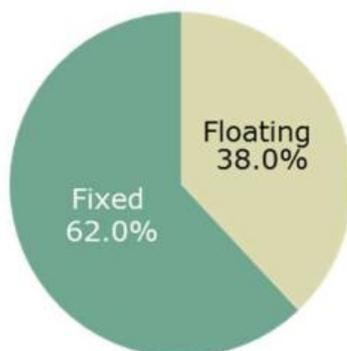
# 3-8 Financial overview (As of January 31, 2017)

## Long and short-term debt ratio/ Fixed rate ratio

<Long and short-term debt ratio>



<Fixed rate ratio>



## Major financial indicator

	End of 20th period July 31, 2016	End of 21st period Jan. 31, 2017
Debt balance	154,000 mn yen	156,000 mn yen
Long-term loan	130,000 mn yen	128,000 mn yen
Investment corporation bonds	24,000 mn yen	28,000 mn yen
LTV (Book value basis) (Note 1)	44.5%	44.7%
LTV (Appraisal value basis) (Note 2)	42.3%	42.4%
DSCR (Note 3)	14.2x	14.5x
Avg. remaining duration	4.5 years	4.2 years
Weighted avg. interest rate	0.54%	0.53%

(Note 1) LTV (Book value basis) is calculated as [Interest bearing debt/Total assets].

(Note 2) LTV (Appraisal value basis) is calculated as [Interest-bearing debt/Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

(Note 3) DSCR is calculated as [Net income before interest expenses + Depreciation/Interest expenses].

## Outstanding balances

Lenders	Balance	Ratio
Mizuho Bank, Ltd.	19,198 mn yen	15.0%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,198 mn yen	15.0%
Mitsubishi UFJ Trust and Banking Corporation	19,198 mn yen	15.0%
Sumitomo Mitsui Banking Corporation	18,575 mn yen	14.5%
Sumitomo Mitsui Trust Bank, Limited	16,401 mn yen	12.8%
Development Bank of Japan Inc.	5,950 mn yen	4.6%
The Norinchukin Bank	5,700 mn yen	4.5%
The Bank of Fukuoka	5,500 mn yen	4.3%
Resona Bank, Limited.	4,630 mn yen	3.6%
Aozora Bank, Ltd.	4,250 mn yen	3.3%
Shinsei Bank, Limited	3,400 mn yen	2.7%
The Hiroshima Bank, Ltd.	2,000 mn yen	1.6%
Mizuho Trust & Banking Co., Ltd.	2,000 mn yen	1.6%
Oita Bank Co. Ltd.	1,000 mn yen	0.8%
Shinkin Central Bank	1,000 mn yen	0.8%
<b>Total borrowings</b>	<b>128,000 mn yen</b>	<b>100%</b>
Investment corporation bonds	28,000 mn yen	
<b>Total interest-bearing debt</b>	<b>156,000 mn yen</b>	

# 3-9 Debt status (As of January 31, 2017)

## Debt

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan, Inc., Aozora Bank, Ltd. Mizuho Trust & Banking Co., Ltd.	10,000	0.84% (Note)	2013/3/29	2018/3/31
Sumitomo Mitsui Trust Bank, Limited	1,978	0.75% (Note)	2013/5/31	2017/5/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Aozora Bank, Ltd. Development Bank of Japan Inc., The Norinchukin Bank The Bank of Fukuoka, Resona Bank, Limited., Shinsei Bank, Limited, Mizuho Trust & Banking Co., Ltd.	10,500	0.78% (Note)	2013/9/30	2018/9/30
The Norinchukin Bank, The Hiroshima Bank, Ltd. Oita Bank Co. Ltd.	2,600	0.28%	2013/11/29	2017/11/30
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation	1,000	0.33%	2013/11/29	2019/5/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan Inc., The Norinchukin Bank, The Bank of Fukuoka, Shinsei Bank, Limited	11,400	0.38%	2013/11/29	2019/11/30
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation The Norinchukin Bank, The Bank of Fukuoka	11,000	0.28%	2014/5/30	2019/5/31
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation	2,022	0.33%	2014/5/30	2020/5/31
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Resona Bank, Limited.	5,000	0.33%	2014/8/1	2020/5/31
Aozora Bank, Ltd.	2,000	0.28%	2014/8/29	2019/8/31
Resona Bank, Limited.	2,500	0.28%	2014/8/29	2019/8/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,000	0.62% (Note)	2014/11/28	2020/11/30
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.75% (Note)	2014/11/28	2021/11/30
Development Bank of Japan Inc.	1,700	0.80%	2015/3/27	2023/3/27
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.57% (Note)	2015/5/29	2021/5/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.70% (Note)	2015/5/29	2022/5/31

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation	6,000	0.49% (Note)	2015/8/31	2021/8/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	2,500	0.65% (Note)	2015/9/16	2023/8/31
Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,200	0.50% (Note)	2015/11/30	2022/11/30
Mizuho Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Shinsei Bank, Limited	6,300	0.62% (Note)	2015/11/30	2023/11/30
Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Norinchukin Bank, Resona Bank, Limited. Shinsei Bank, Limited, The Hiroshima Bank, Ltd. Mizuho Trust & Banking Co., Ltd.	7,500	0.23%	2016/3/31	2023/3/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan, Inc. The Bank of Fukuoka, Aozora Bank, Ltd.	7,100	0.28%	2016/3/31	2024/3/31
Mizuho Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	7,200	0.28%	2016/3/31	2025/3/31
Shinkin Central Bank	1,000	0.18%	2016/3/31	2022/9/30
<b>Total</b>	<b>128,000</b>			

(Note) The interest rates above are the interest rates actually fixed following the conclusion of an interest swap agreement.

## Investment corporation bonds

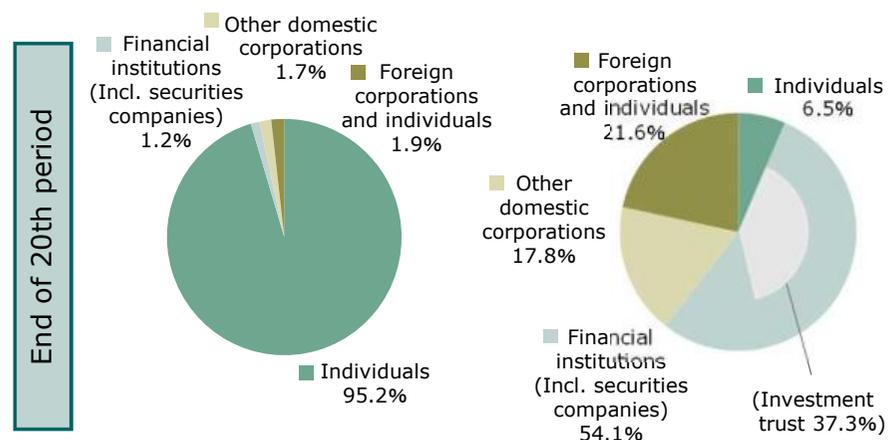
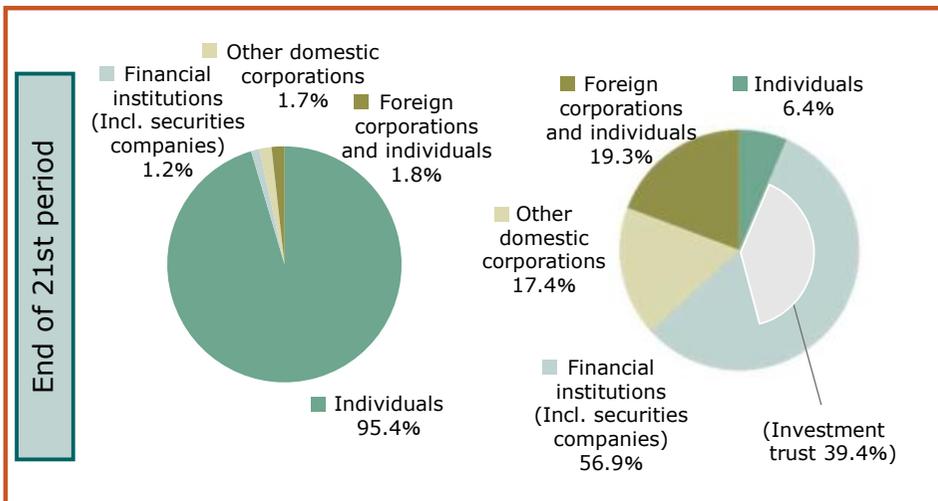
Bond	Amount (mn yen)	Rate of Interest	Payment date	Maturity date
7th Series Unsecured Corporation Bond (5 years)	2,000	0.97%	2012/11/28	2017/11/28
8th Series Unsecured Corporation Bond (5 years)	3,000	0.85%	2013/5/24	2018/5/24
9th Series Unsecured Corporation Bond (7 years)	2,000	1.26%	2013/5/24	2020/5/22
10th Series Unsecured Corporation Bond (5 years)	3,000	0.41%	2014/2/24	2019/2/22
11th Series Unsecured Corporation Bond (7 years)	2,000	0.69%	2014/2/24	2021/2/24
12th Series Unsecured Corporation Bond (10 years)	2,000	0.87%	2014/11/27	2024/11/27
13th Series Unsecured Corporation Bond (5 years)	3,000	0.32%	2015/5/26	2020/5/26
14th Series Unsecured Corporation Bond (10 years)	2,000	0.82%	2015/5/26	2025/5/26
15th Series Unsecured Corporation Bond (5 years)	3,500	0.38%	2015/11/26	2020/11/26
16th Series Unsecured Corporation Bond (10 years)	1,500	0.89%	2015/11/26	2025/11/26
17th Series Unsecured Corporation Bond (10 years)	2,000	0.34%	2016/8/30	2026/8/28
18th Series Unsecured Corporation Bond (10 years)	2,000	0.49%	2017/1/31	2027/1/29
<b>Total</b>	<b>28,000</b>			

# 3-10 Unitholders breakdown (As of January 31, 2017)

## Unitholders breakdown

<Number of unitholders>

<Number of investment units>

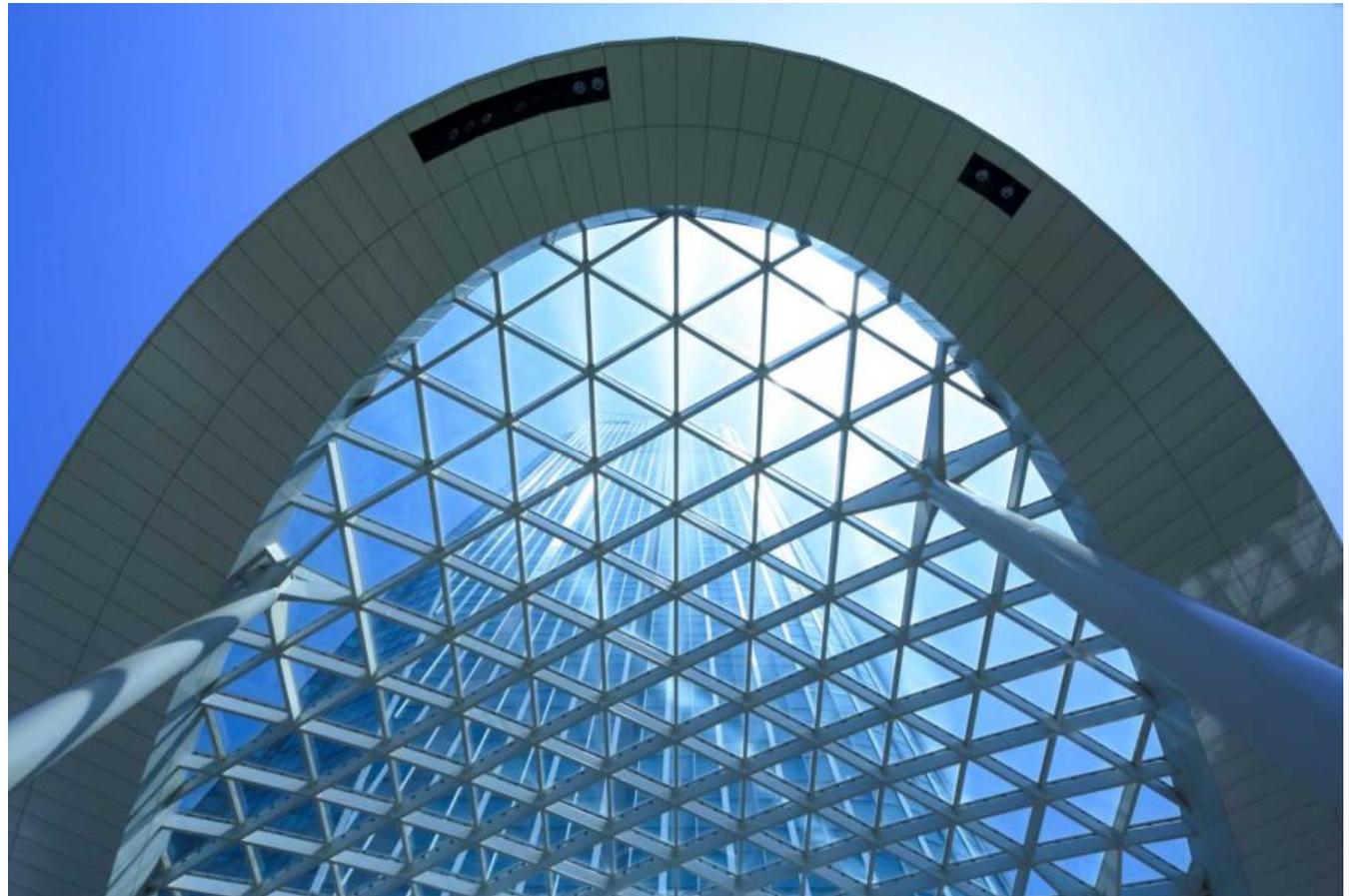


## Top 10 unitholders

Rank	Name	Number of units held	Ratio
1	Japan Trustee Service Bank (Trust account)	416,799	23.8%
2	Mori Building Co., Ltd.	262,772	15.0%
3	Trust & Custody Service Bank of Japan, Ltd. (Securities investment trust account)	150,356	8.6%
4	The Master Trust Bank of Japan, Ltd. (Trust account)	145,225	8.3%
5	The Nomura Trust & Banking Co., Ltd. (Investment trust account)	64,745	3.7%
6	STATE STREET BANK AND TRUST COMPANY 505012	27,919	1.6%
7	Nomura Securities Co.,Ltd. Proprietary account	27,070	1.5%
8	STATE STREET BANK-WEST PENSION FUND CLIENTS-EXEMPT 505233	18,636	1.1%
9	THE BANK OF NEW YORK MELLON SA/NV 10	18,370	1.0%
10	JP MORGAN CHASE BANK 385632	17,857	1.0%
Total of top 10 unitholders		1,149,749	65.7%

## **4. Business environment recognition & MHR's policy/strategy**

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## Real estate market / Lending attitude

- Low vacancy rates and gradual increase of rents of office buildings in central Tokyo is ongoing.  
(Forecast of Office Market Trends Research Committee for Tokyo's five central wards)
  - ⇒ Vacancy rate (forecast): 3.7% in 2016 → 4.0% in 2018
  - ⇒ Rent index (forecast): 111 in 2016 → 117 in 2018
- Although cap rates remain at historically low levels, the rate of decrease seems more moderate.  
(Japan Real Estate Institute's "The Japanese Real Estate Investor Survey")
  - ⇒ Class A buildings in Marunouchi  
Cap rate: 3.4% in April 2016 → 3.3% in October 2016
- Lending attitude toward the real estate industry continues to be highly positive.

- Rents of office buildings in central Tokyo are forecast to continue moderate rise for the time being, but as the supply increases, the rate of rent increase may gradually moderate.
- Cap rates remain at low levels and sufficient attention is required for acquisition pricing.

## Interest rate trends / Macro environment

- Long-term interest rates remain low due to the monetary easing policy and the core CPI rate of increase is at a low level.
  - ⇒ 10-year bond rates: +0.050% (February 28, 2017)
  - ⇒ Core CPI: +0.1% (January 2017)
- In the July 2016 preliminary business conditions composite index, the leading index was at 105.5 (0.6 PT increase from previous month) and the coincident index was at 114.9 (0.7 PT decrease from previous month). There seems to be an improvement trend before and after the US presidential election.
- The growth of money stock is limited.  
The issue of wage increases can be seen from the consumer confidence survey and the monthly labor survey. Future trends will be scrutinized.

- There seems to be an improvement trend in the global business sentiment, but caution should be exercised as there are also instability factors.
- Interest rate level is expected to remain low for the time being partially due to the introduction of the yield curve control policy by the Bank of Japan.

Continues to "MHR's policy/strategy" on the next page

# 4-2 MHR's policy/strategy

## External growth policy

- Target premium properties in Central Tokyo and aim for annual external growth of 30 billion to 50 billion yen by best utilizing sponsors' pipeline. (Set target yield at the upper 3% range for NOI-based yield and 3.0% or higher for after-depreciation-based yield.)
- Focus on portfolio size expansion in order to further enhance stability and liquidity as an investment corporation while also considering disposition depending on conditions.

## Internal growth policy

- Steadily achieve the revision of pass-through type properties with rent increases while maintaining the ratio of the fixed rent master leases at current level.
- Properly implement office property repairs as necessary and conduct value-enhancement renovation for residential properties if such is judged to be cost-effective (there are no office properties that require large-scale renewal in terms of building age or competitiveness).

## Financial management policy

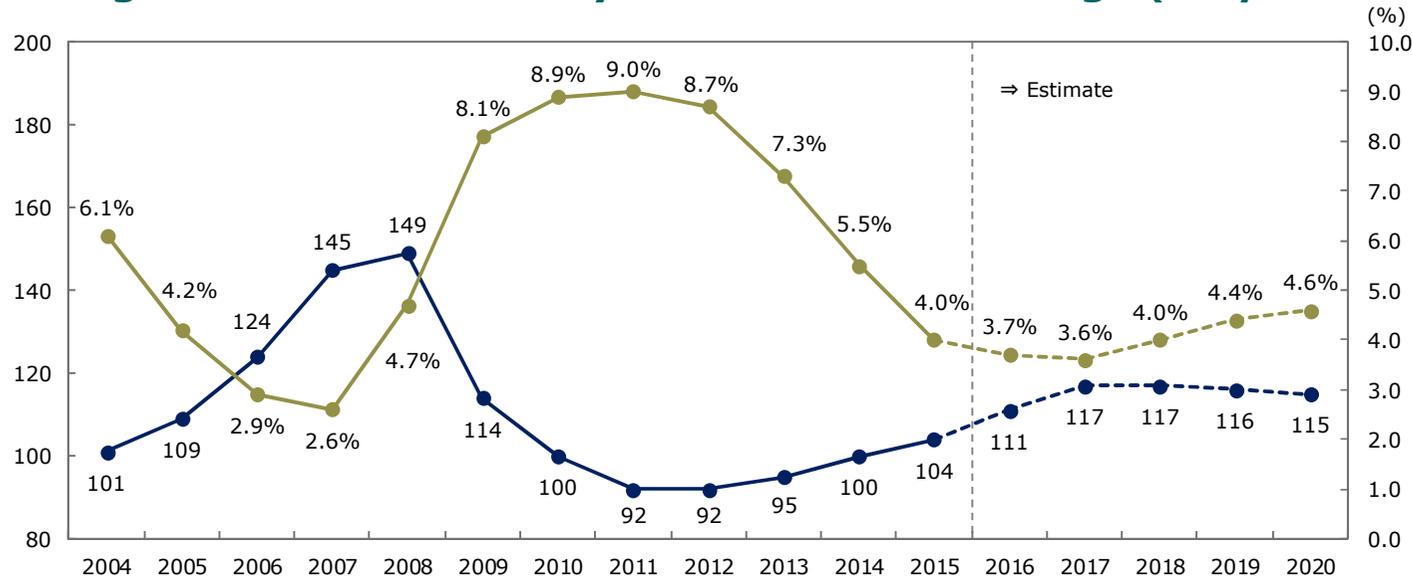
- Target LTV (book value basis) in the mid 40% range (though it may temporarily exceed the target level as necessary) in order to secure property acquisition capacity while maintaining a durable position for times of economic slowdown.
- Target average remaining duration of debt of 4 years or longer, and gradually increase the fixed rate ratio at the appropriate timing.
- Seek to raise ROA by utilizing free cash for property acquisition rather than reserving it more than necessary.

## Policy regarding the entire investment corporation

- **Promote portfolio size expansion while maintaining an asset quality level that is one of the best in the industry and aim for continuous improvement of dividends and NAV per unit**

# 4-3 Market-related information (1)

## Change in rent and vacancy rate of office buildings (Tokyo's five central wards)

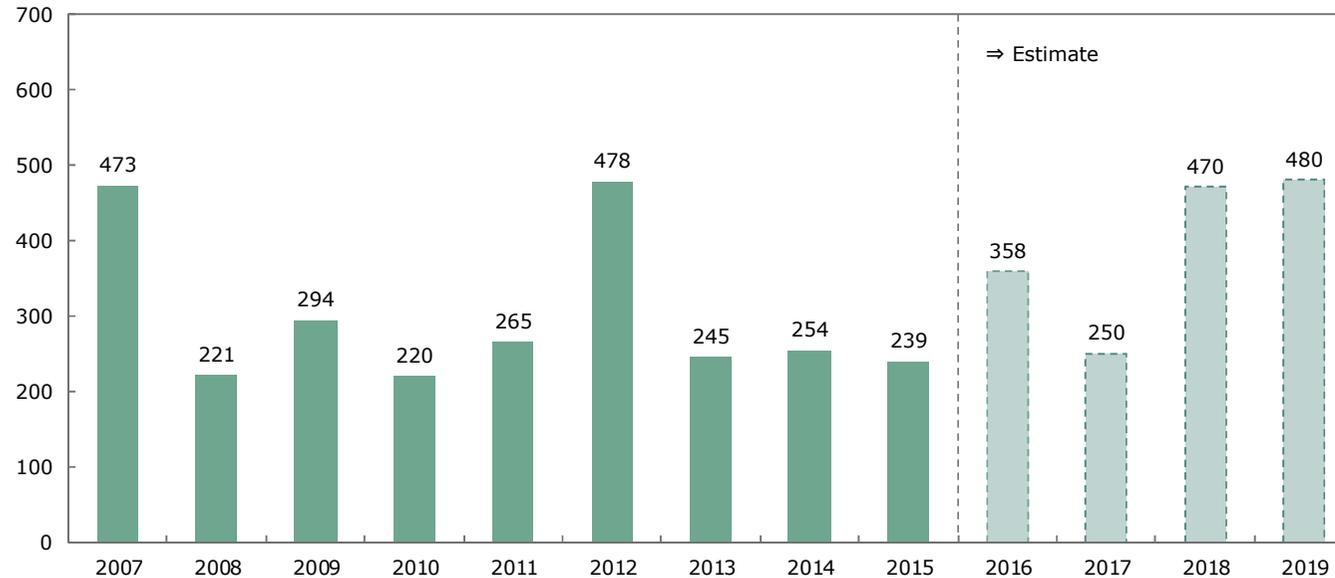


(Source)  
Prepared by the Asset Manager based on the "Autumn2016 Office Rent Forecast in Tokyo, Osaka and Nagoya (2016-2020, 2025)" by the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.).

(Note)  
The rent index targets large and medium buildings (standard floor area of 100 tsubo or more) in Tokyo's five central wards. The rent index is rebased to 100 as of 2010.

## New supply space for office buildings (Tokyo's five central wards)

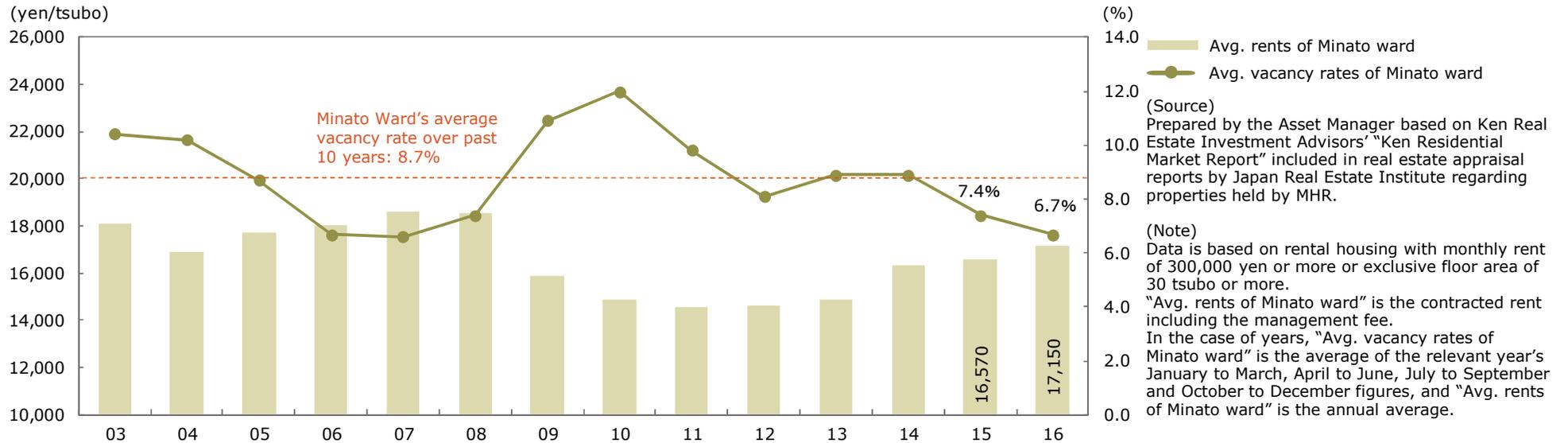
(thousand/tsubo)



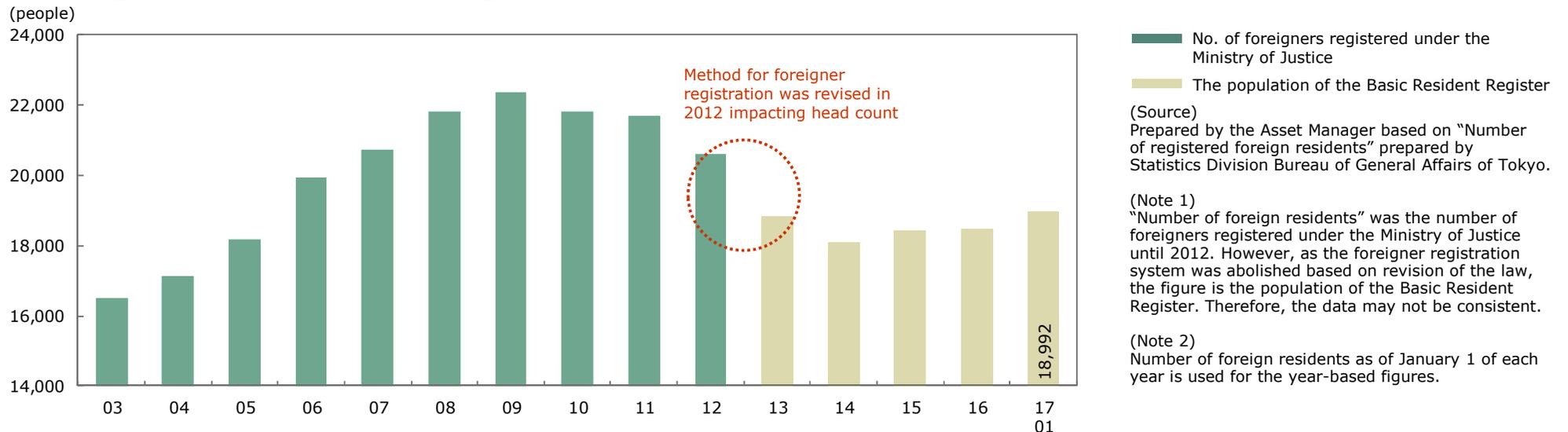
(Source)  
Prepared by the Asset Manager based on the "Autumn 2016 Office Rent Forecast in Tokyo, Osaka and Nagoya (2016-2020, 2025)" by the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.).

# 4-4 Market-related information (2)

## Change in rents and vacancy rates of luxury housing (Minato ward)

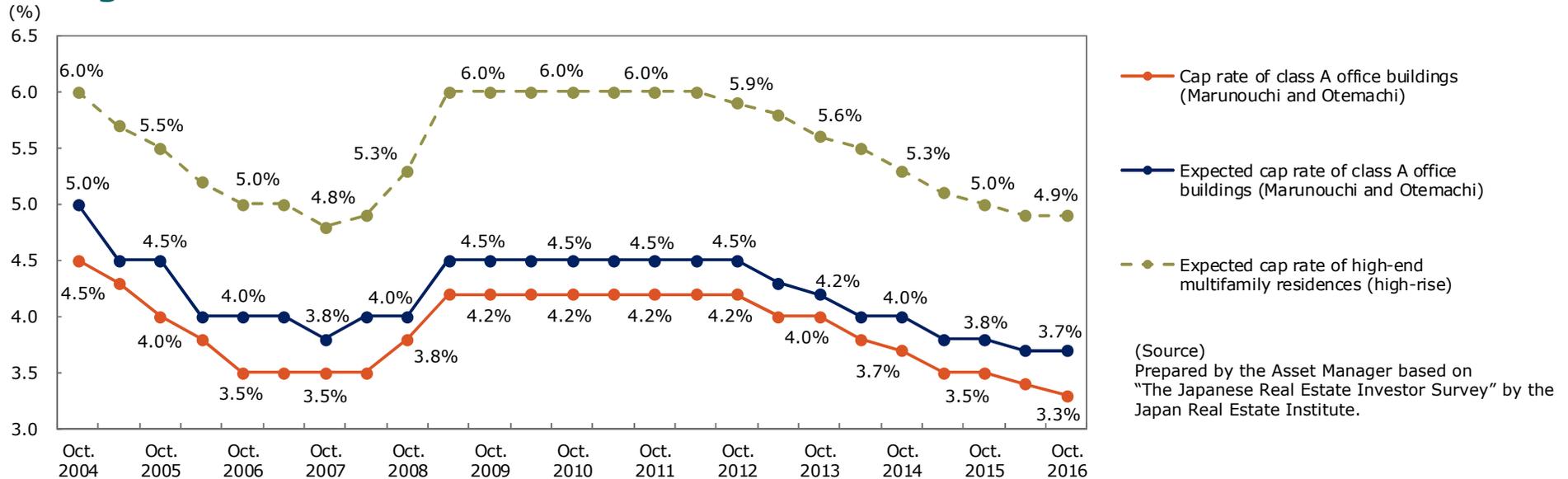


## Change in number of foreign residents in Minato ward

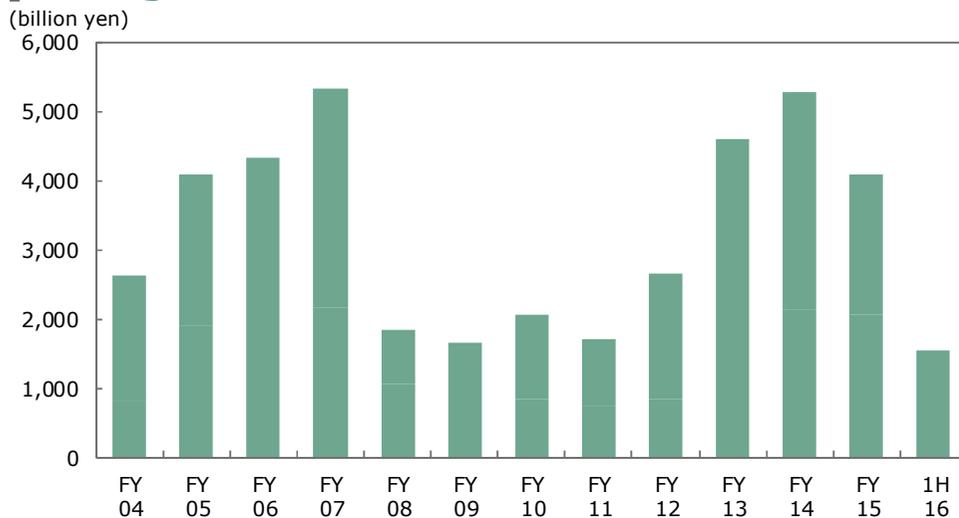


# 4-5 Market-related information (3)

## Change in return on real estate investment

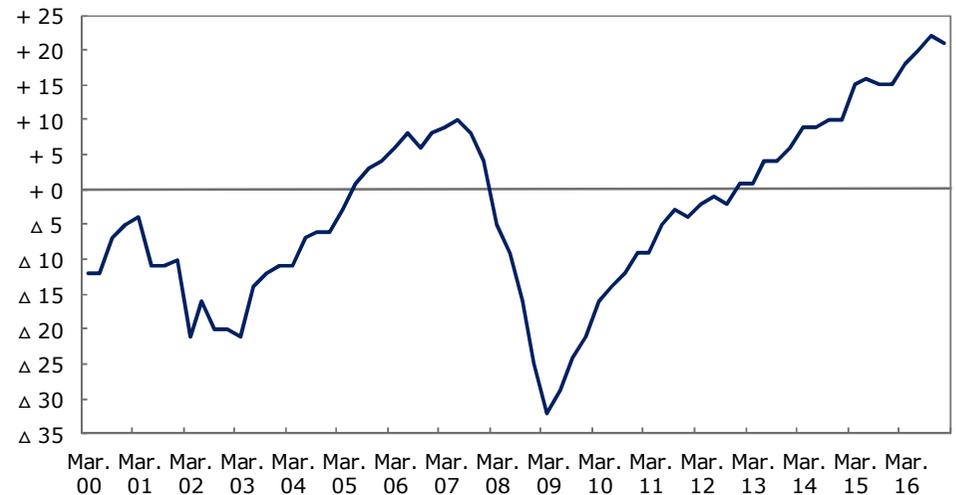


## Change in real estate transaction amount



(Source) Prepared by the Asset Manager based on the "Real Estate Transaction Survey" (Estimated amount of domestic real estate transactions publicized by listed companies) by the Urban Research Institute.

## Lending attitude DI (real estate industry)



(Source) Prepared by the Asset Manager based on "National Short-Term Economic Survey on Enterprises in Japan" by the Bank of Japan. Difference between the proportion of firms feeling the lending attitude to be accommodative less firms feeling the lending attitude to be restrictive.

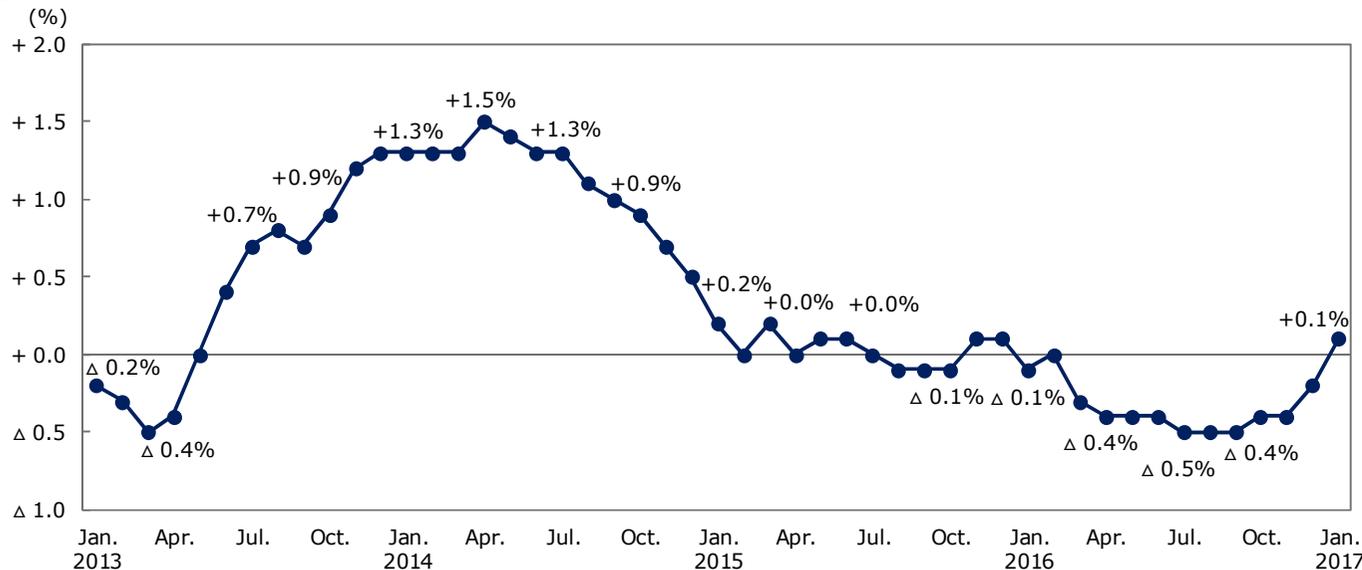
# 4-6 Market-related information (4)

## Change in 10-year bond interest rates



(Source)  
Prepared by the Asset Manager based on Thomson Reuters.

## Change in core CPI (year-on-year comparison)



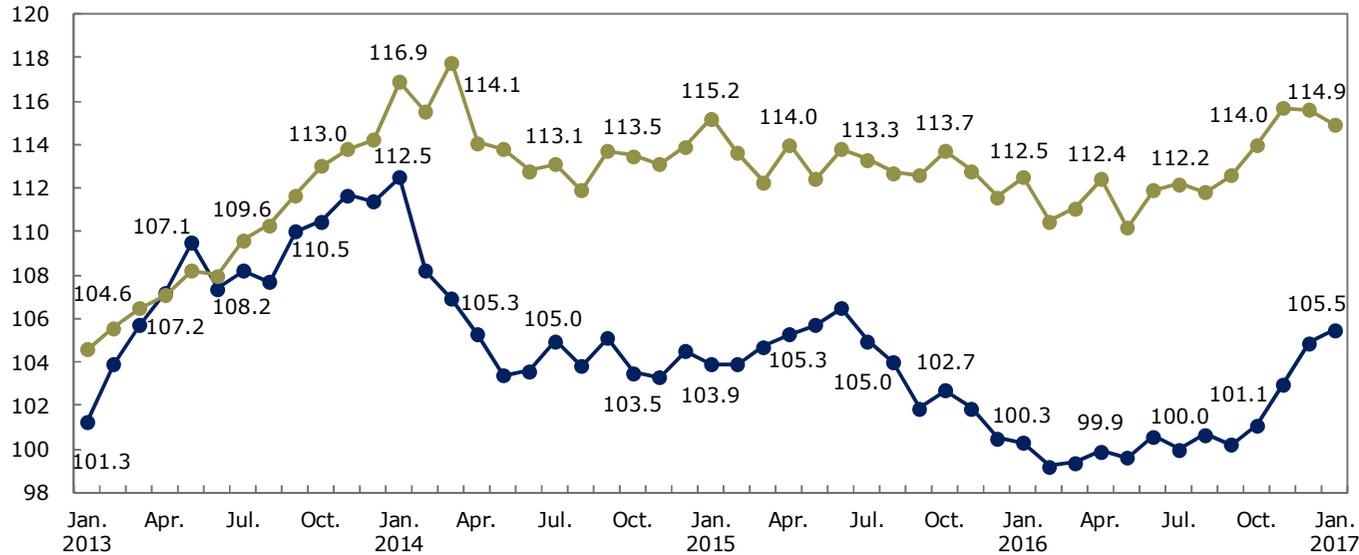
Based on figures excluding the direct effects of the consumption tax rate increase

(Source)  
Prepared by the Asset Manager based on "Consumer Price Index" by Statistic Bureau, Ministry of Internal Affairs and Communications and "Economic Statistics Monthly" by the Bank of Japan.

(Note)  
Figures from April 2014 to April 2015 are derived on "the basis of excluding the direct impact of the consumption tax rate increase" (Bank of Japan's "Economic Statistics Monthly").

# 4-7 Market-related information (5)

## Business conditions composite index



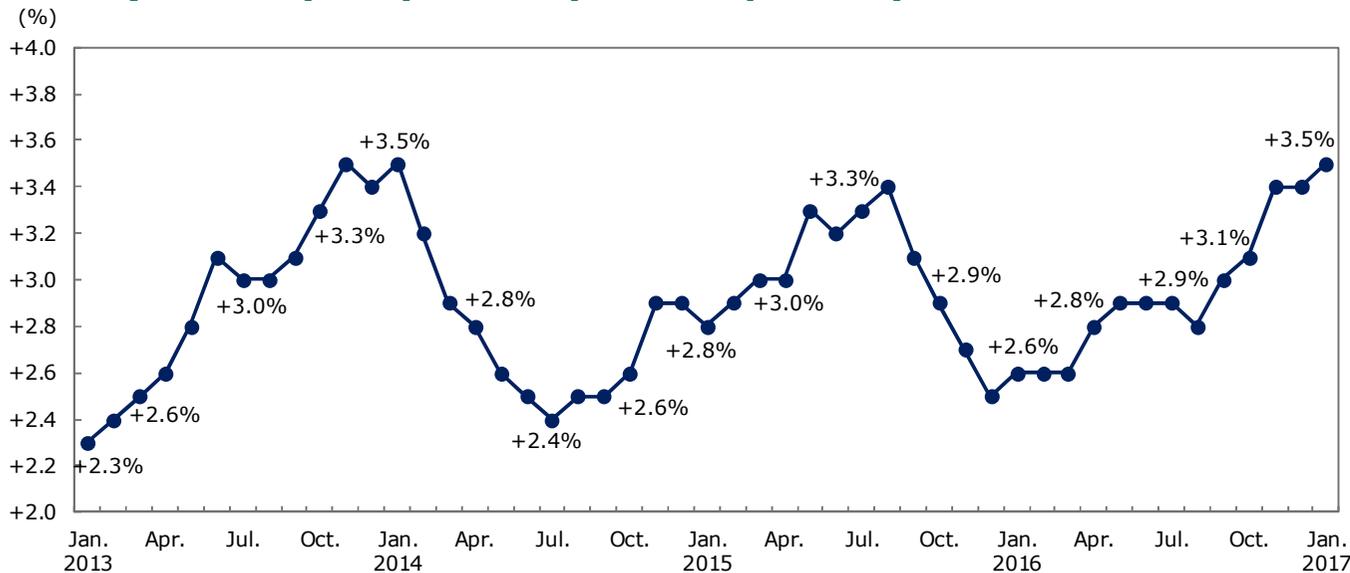
January 2017 figures are based on preliminary data

● Leading index  
● Coincident index

(Source)  
 Prepared by the Asset Manager based on the "Business Conditions Composite Index" by the Cabinet Office.

(Note)  
 The index is rebased to 100 as of 2010.

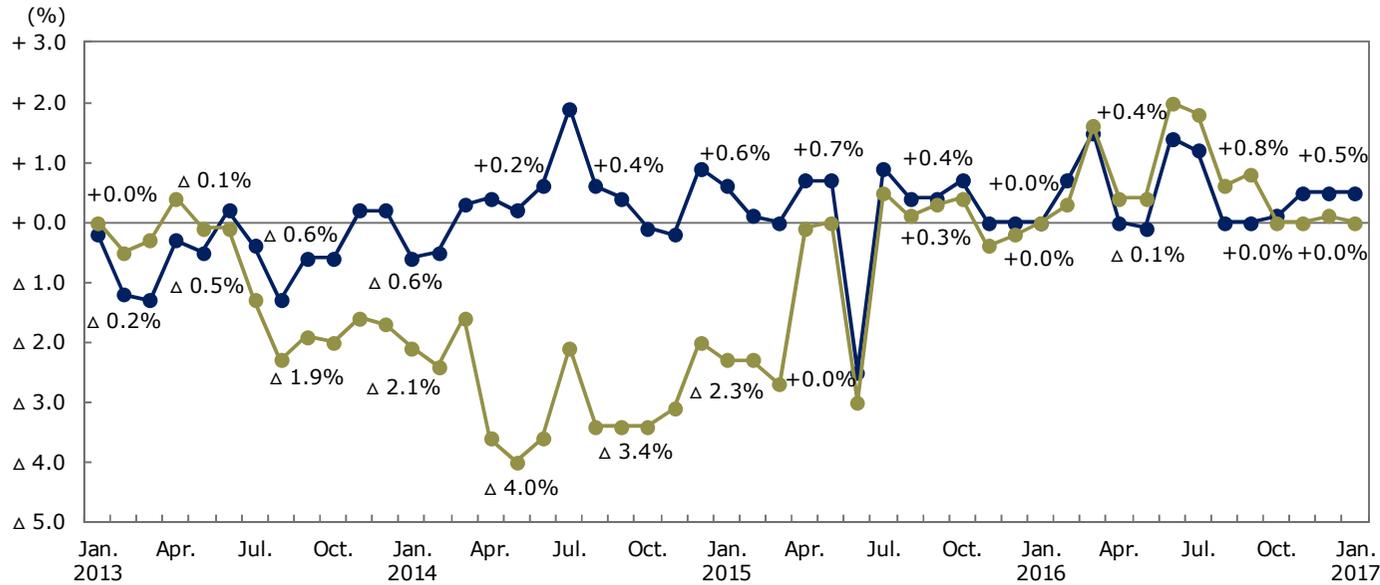
## Money stock (M3: year-on-year comparison)



(Source)  
 Prepared by the Asset Manager based on "Money Stock Statistics" by the Bank of Japan.

# 4-8 Market-related information (6)

## Total cash earnings



January 2017 figures are based on preliminary data

## Consumer confidence survey

