



# Mori Hills REIT Investment Corporation

Results of the 26th Fiscal Period ended July 31, 2019

Presentation Material

September 17, 2019



TSE Code: 3234

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

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

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

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# 1. Executive summary

## Financial summary 26<sup>th</sup> period (Jul. 2019)

- Operating revenue: 9,561 million yen, operating income: 5,971 million yen, net income: 5,344 million yen **Increased revenue and income period-over-period**
- DPU: 2,850 yen (+1.0% from 25<sup>th</sup> period) **Increasing for 18 consecutive fiscal periods**
- DPU increased by +3.5% over previous year, continuing steady rate of growth
- NAV per unit increased by +10.5% over previous year, among largest increase for all J-REITs

## External growth

- Possible to acquire premium properties in central Tokyo without a competitive bidding process by utilizing the abundant sponsor pipeline
- Further improvement in asset value of MHR's properties are expected due to development by sponsor in surrounding area

## Internal growth

- Occupancy ratio continued to be strong, office 99.9% and residential 96.8%.  
Steady internal growth due to rent revision and replacement
- Office rent gap ratio increased from  $\Delta 4.0\%$  in 25<sup>th</sup> period to  $\Delta 6.5\%$  in 26<sup>th</sup> period

## Financial management

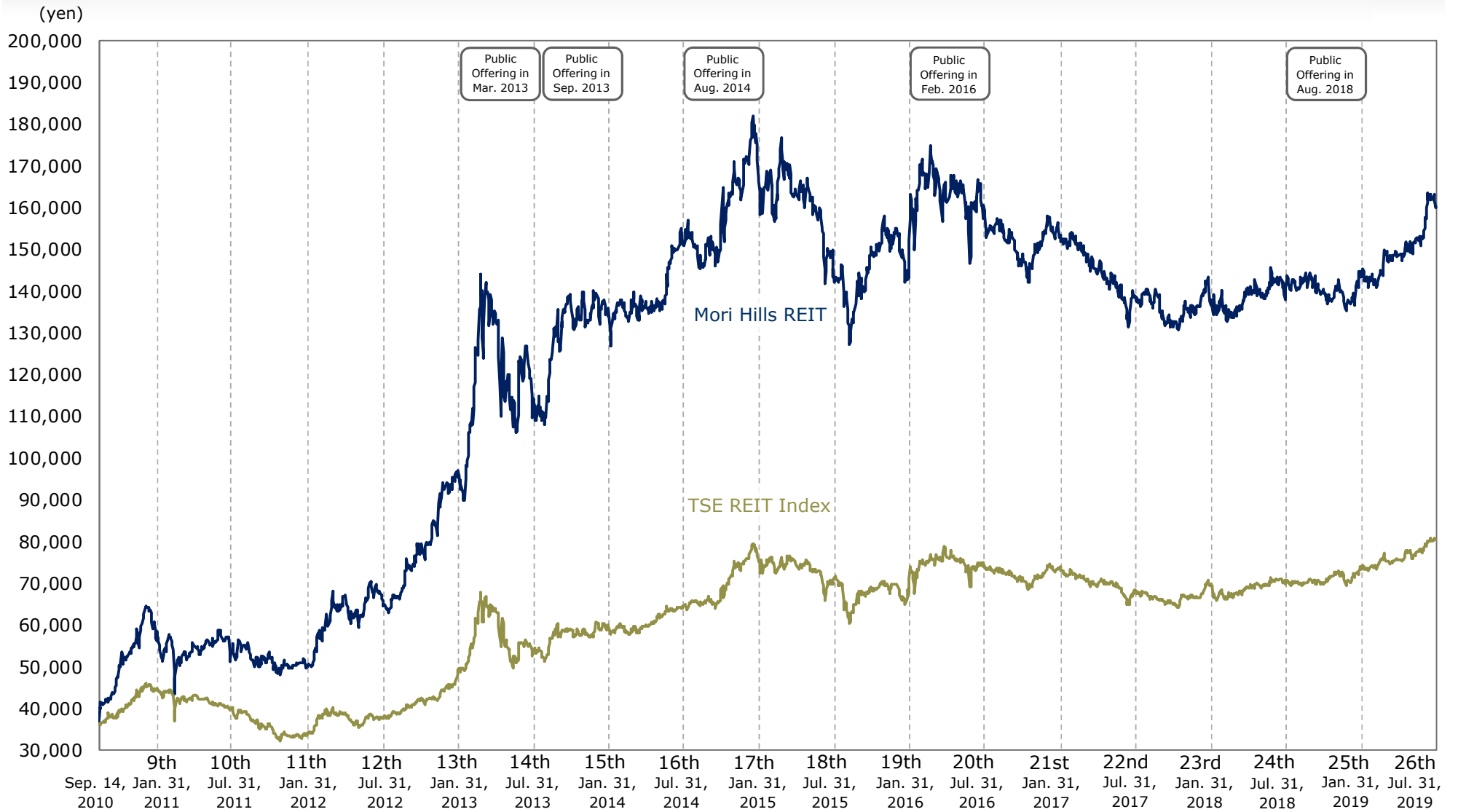
- Maintained the target level by book value basis LTV 45.7%, appraisal value basis LTV 39.4%, remaining duration of debt 4.4 years
- Fixed interest rate ratio at the end of the period was 90.0% and was raised to 94.6% after the end of the period by taking into account the decline in interest rates

## 2. Investment highlights

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# 2-1 Unit price performance



**Market value**

**41.9 bn yen**  
(Sep. 14, 2010)

**300 bn yen**  
(Jul. 31, 2019)

(Note 1) Unless otherwise stated in this document, all amounts are rounded down below the unit and all fractions and areas are rounded up below the decimal point.

(Note 2) TSE REIT Index is adjusted as of the 8<sup>th</sup> period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

## 2-2 Financial results

	25th period	26th period		26th period
	Jan. 31, 2019	Jul. 31, 2019		Jul. 31, 2019
	Actual	Actual	Difference	Forecasted
<b>Operating Highlights (million yen)</b>				
Operating revenue	9,423	9,561	+ 137	9,538
Rent revenues	9,170	9,323	+ 153	9,300
Other operating revenues	253	237	△ 15	238
Operating expenses	3,477	3,589	+ 111	3,604
Expenses related to properties	3,131	3,225	+ 94	3,257
SG&A	346	364	+ 17	347
Operating income	5,945	5,971	+ 25	5,934
Non-operating income	1	1	+ 0	1
Non-operating expenses	653	627	△ 25	629
Ordinary income	5,293	5,346	+ 52	5,307
Net income	5,292	5,344	+ 52	5,306
Total dividends	5,291	5,343	+ 52	5,306
<b>DPU</b>				
Total units outstanding (units)	1,874,960	1,874,960	—	1,874,960
DPU (yen)	2,822	2,850	+ 28	2,830
<b>Other Indices (million yen)</b>				
Profit on real estate rental	6,292	6,336	+ 43	6,281
Depreciation	1,074	1,057	△ 16	1,063
NOI	7,367	7,394	+ 26	7,345
NOI yield	3.8%	3.8%	0.0PT	3.8%
Acquisition price (weighted average based on the number of operating days during the period) (Note)	385,194	390,690	+ 5,495	390,690

### Increase/decrease factor (25th – 26th)

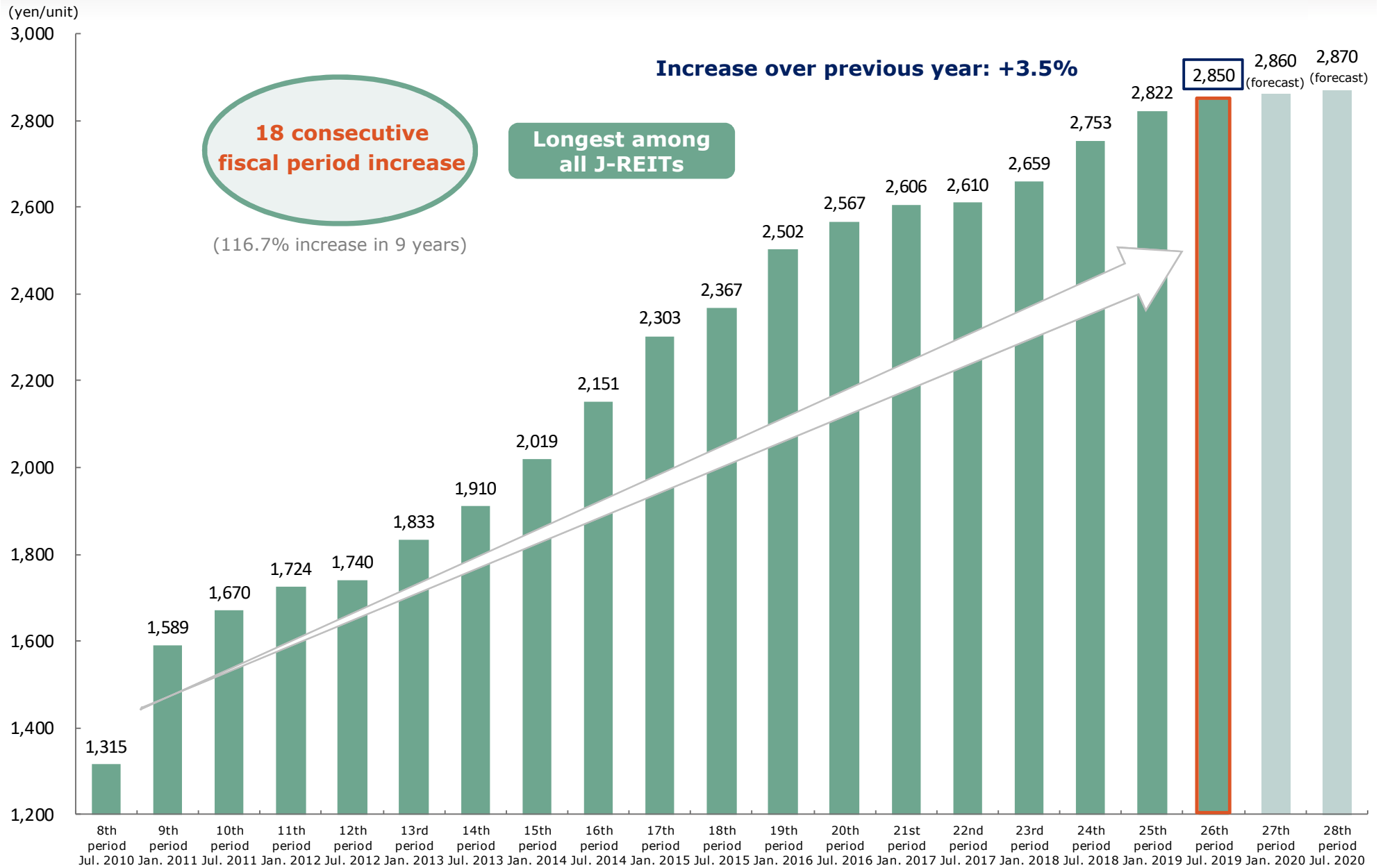
- **Operating revenue (+137 mn yen)**
  - Property acquisition in 25th period +123
  - Office operating revenue (Pass-through) +31
  - Utilities and other revenue △20
- **Operating expenses (+111 mn yen)**
  - Maintenance and repairs +55
  - Property acquisition in 25th period +47
  - Property taxes for properties acquired in 24th and 25th +31
  - Property taxes for existing properties +16
  - Depreciation of existing properties △35
  - Utilities △18
- **Non-operating expenses (△25 mn yen)**
  - Amortization of investment unit issuance cost △21
  - Interest on investment corporate bonds △6

### Increase/decrease factor for 26th period (Forecasted - Actual)

- **Operating income (+37 mn yen)**
  - Residential (Pass-through) +24
  - Office (Pass-through) +21
  - Asset management fee △20

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

# 2-3 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.



# 2-4 Continuous growth through "positive cycle"

## Continuous growth of "Dividends and NAV per unit" through "positive cycle"

- Public offering at premium level + New acquisition at discount to appraisal value + High-grade properties in central Tokyo -

### Dividends per unit

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### NAV per unit

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#### 18 consecutive fiscal period increase

Increase over previous year: **+3.5%**

(116.7% increase in 9 years)

PBR	▶	1.5x
Implied cap rate	▶	3.1%

#### [Most recent NOI yield at acquisition]

Toranomon Hills	▶	3.4%
Holland Hills	▶	4.3%

**Continuous growth driven by external growth, financial cost reduction and internal growth**

#### 17 consecutive fiscal period increase

Increase over previous year: **+10.5%**

(119.5% increase in 8.5 years)

NAV per unit	▶	1.2x
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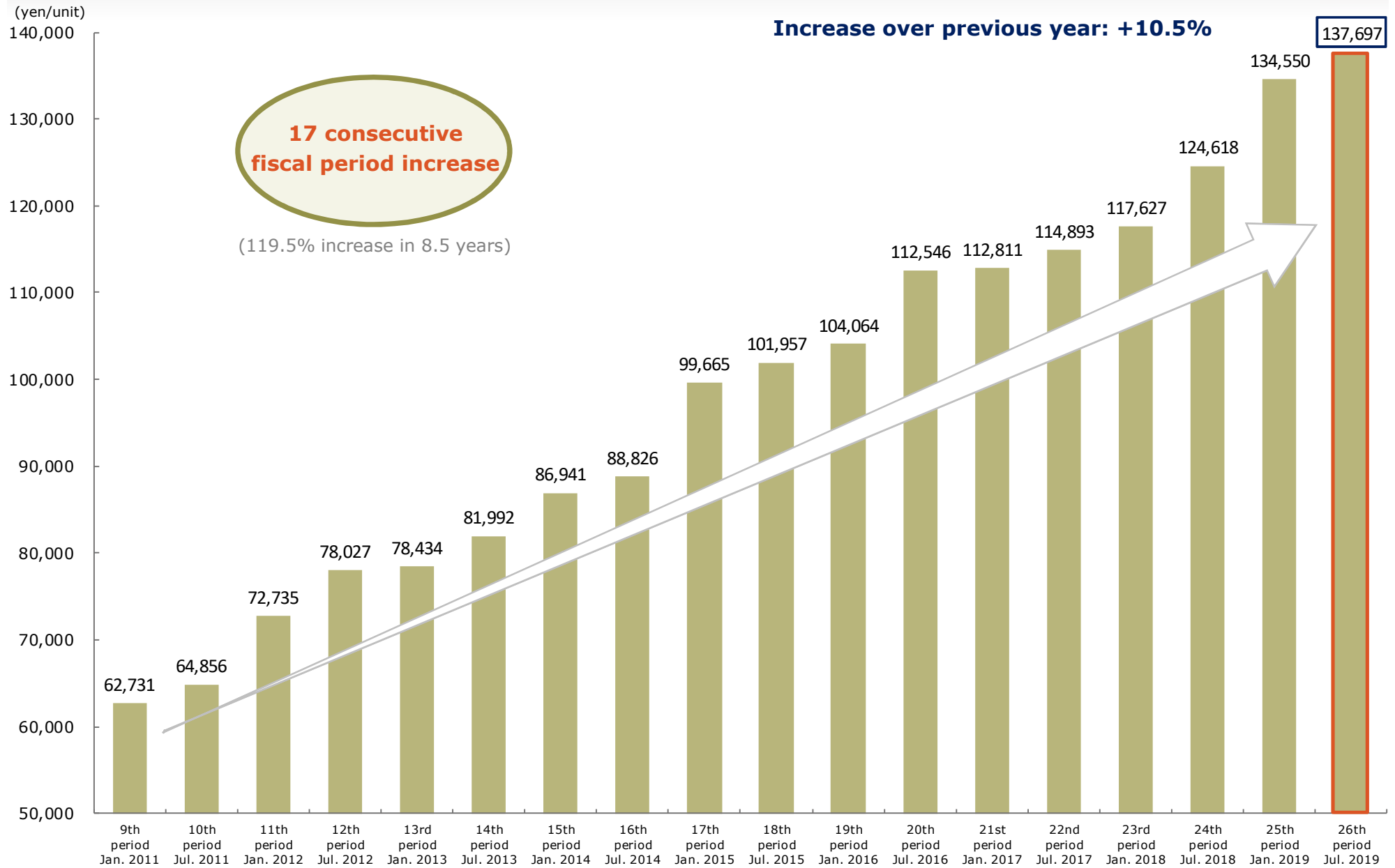
#### [Factors for NAV increase]

1. Public offering at premium level
2. New acquisition at discount to appraisal value
3. Increased unrealized capital gain on properties

Continuous growth through "positive cycle"

(Note) Financial indicators on this page are calculated based on the figures as of the end of the 26th fiscal period (July 31, 2019).

# 2-5 Increase in appraisal NAV per unit



※ 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.

# 2-6 Forecasts

26th period Jul. 31, 2019	27th period Jan. 31, 2020	28th period Jul. 31, 2020
Actual	Forecast	Difference

## Operating Highlights (million yen)

	26th period Jul. 31, 2019	27th period Jan. 31, 2020	Difference	28th period Jul. 31, 2020
Operating revenue	9,561	9,616	+ 54	9,577
Rent revenues	9,323	9,362	+ 38	9,356
Other operating revenues	237	253	+ 15	221
Operating expenses	3,589	3,630	+ 40	3,594
Expenses related to properties	3,225	3,270	+ 45	3,255
SG&A	364	359	△ 5	338
Operating income	5,971	5,986	+ 14	5,983
Non-operating income	1	0	△ 1	1
Non-operating expenses	627	621	△ 5	602
Ordinary income	5,346	5,365	+ 18	5,382
Net income	5,344	5,364	+ 19	5,381
Total dividends	5,343	5,362	+ 18	5,381

### Increase/decrease factor (26th – 27th)

- **Operating revenue (+54 mn yen)**
  - Rent revision of land (Laforet Harajuku) +25
  - Utilities and other revenue +21
  - Office operating revenue (Pass-through) +16
- **Operating expenses (+40 mn yen)**
  - Property taxes for properties acquired in 24th and 25th period +31
  - Property management fee +21
  - Property taxes for existing properties +15
  - Utilities +12
  - Depreciation of existing properties △21
  - Maintenance and repairs △13

### Increase/decrease factor (27th – 28th)

- **Operating revenue (△38 mn yen)**
  - Full period contribution of rent revision of land (Laforet Harajuku) +12
  - Utilities and other revenue △32
  - Office operating revenue (Pass-through) △16
- **Operating expenses (△35 mn yen)**
  - Property taxes for existing properties +15
  - Maintenance and repairs △44
  - Utilities △14
- **Non-operating expenses (△19 mn yen)**
  - Interest expenses, etc. △19

## DPU

	26th period Jul. 31, 2019	27th period Jan. 31, 2020	Difference	28th period Jul. 31, 2020
Total units outstanding (units)	1,874,960	1,874,960	—	1,874,960
DPU (yen)	2,850	2,860	+ 10	2,870

## Other Indices (million yen)

	26th period Jul. 31, 2019	27th period Jan. 31, 2020	Difference	28th period Jul. 31, 2020
Profit on real estate rental	6,336	6,345	+ 9	6,321
Depreciation	1,057	1,036	△ 21	1,048
NOI	7,394	7,382	△ 12	7,369
NOI yield	3.8%	3.7%	△ 0.1PT	3.8%
Acquisition price (weighted average based on the number of operating days during the period)	390,690	390,690	—	390,690

## Investment strategy based on long-term perspective

### (1) Responding to demographics

Responding to the declining population and change of working style

### Investment in central Tokyo

“Global large corporate cluster”  
x “IT and venture company cluster”

**Location**

### (2) Responding to economic trends and disasters

Responding to tenant demand during economic downturns and to disasters

### Investing in high-quality assets

Property with excellent facilities, earthquake resistance and environmental performance

**Quality of assets**

### (3) Addressing aging assets

Responding to asset value decline due to aging

### “Positive aging” by creating added value

Area management, peripheral development and renovation

**Value creation**

# 2-8 (1) Location

## Highest property percentage in Central Tokyo among J-REITs

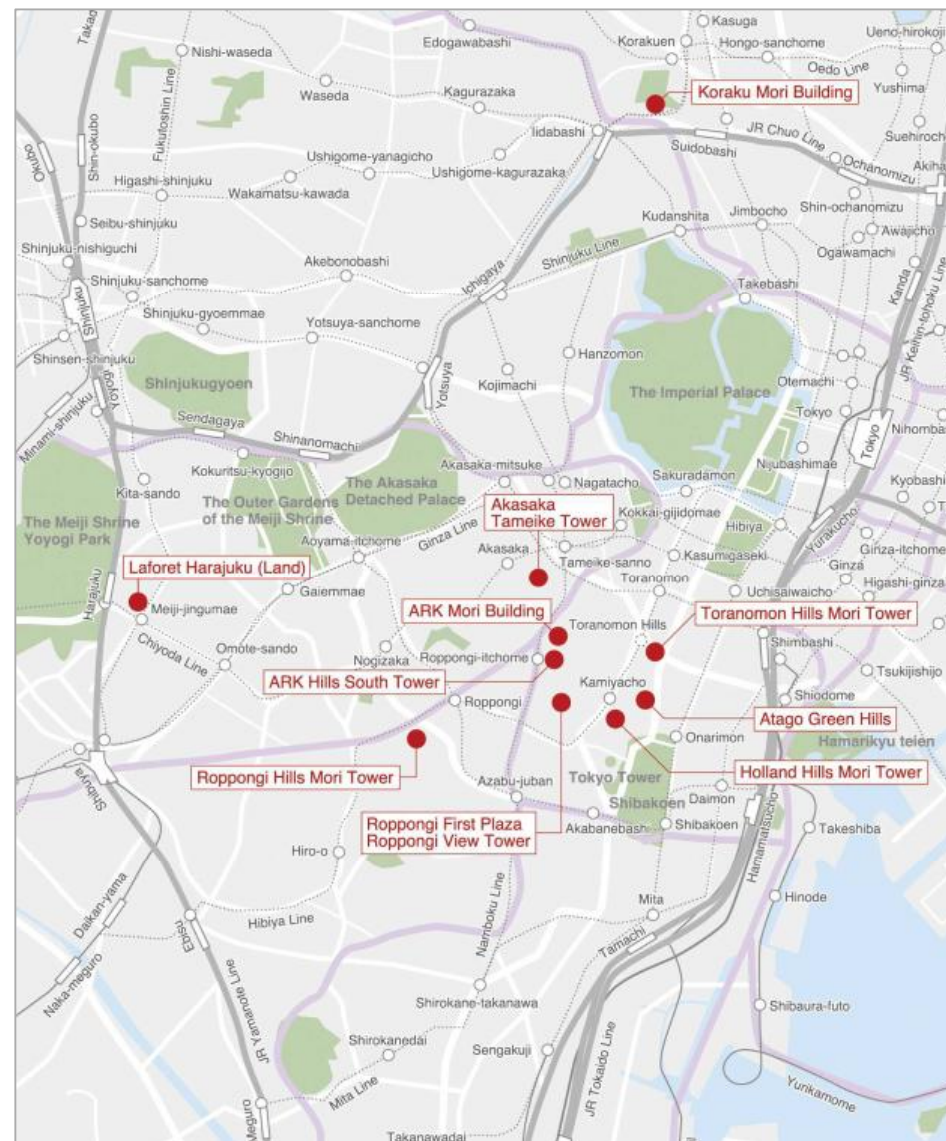


(Note) The ratios represent proportion of acquisition price to total acquisition price.

## Estimated population in central Tokyo

Area	Population in 2015	Estimated population in 2045	Change
3 central wards in Tokyo	442,000	594,000	+34.3%
5 central wards in Tokyo	1,000,000	1,175,000	+17.5%
Tokyo	13,515,000	13,606,000	+0.7%
Osaka	8,839,000	7,335,000	△ 17.0%
Aichi	7,483,000	6,899,000	△ 7.8%
Nationwide	127,094,000	106,421,000	△ 16.3%

(Source) Prepared by the Asset Manager based on the "Regional Population Projections for Japan (estimated in 2018)" by the National Institute of Population and Social Security Research.



# 2-9 (1) Location

## Focusing investment in premium area

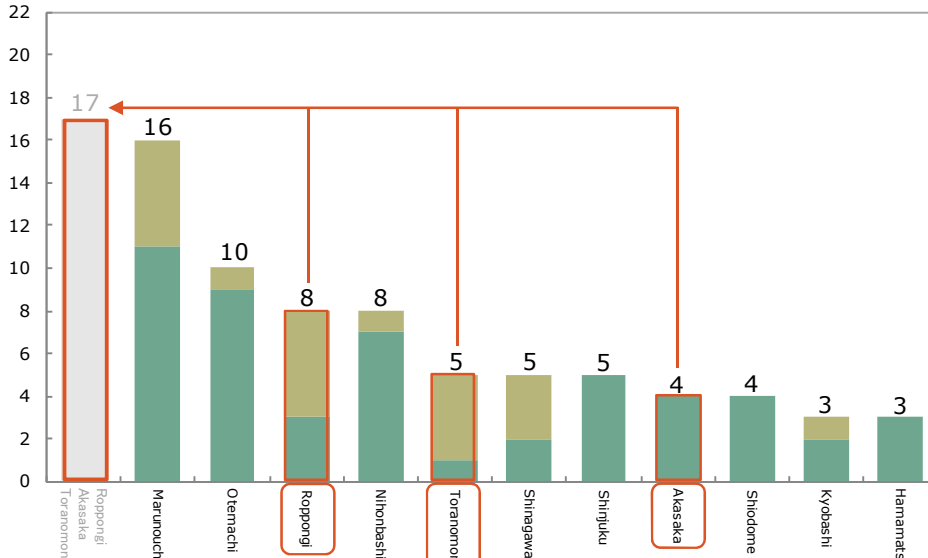
1. Global large corporate cluster in central Tokyo



2. IT and venture company cluster in central Tokyo

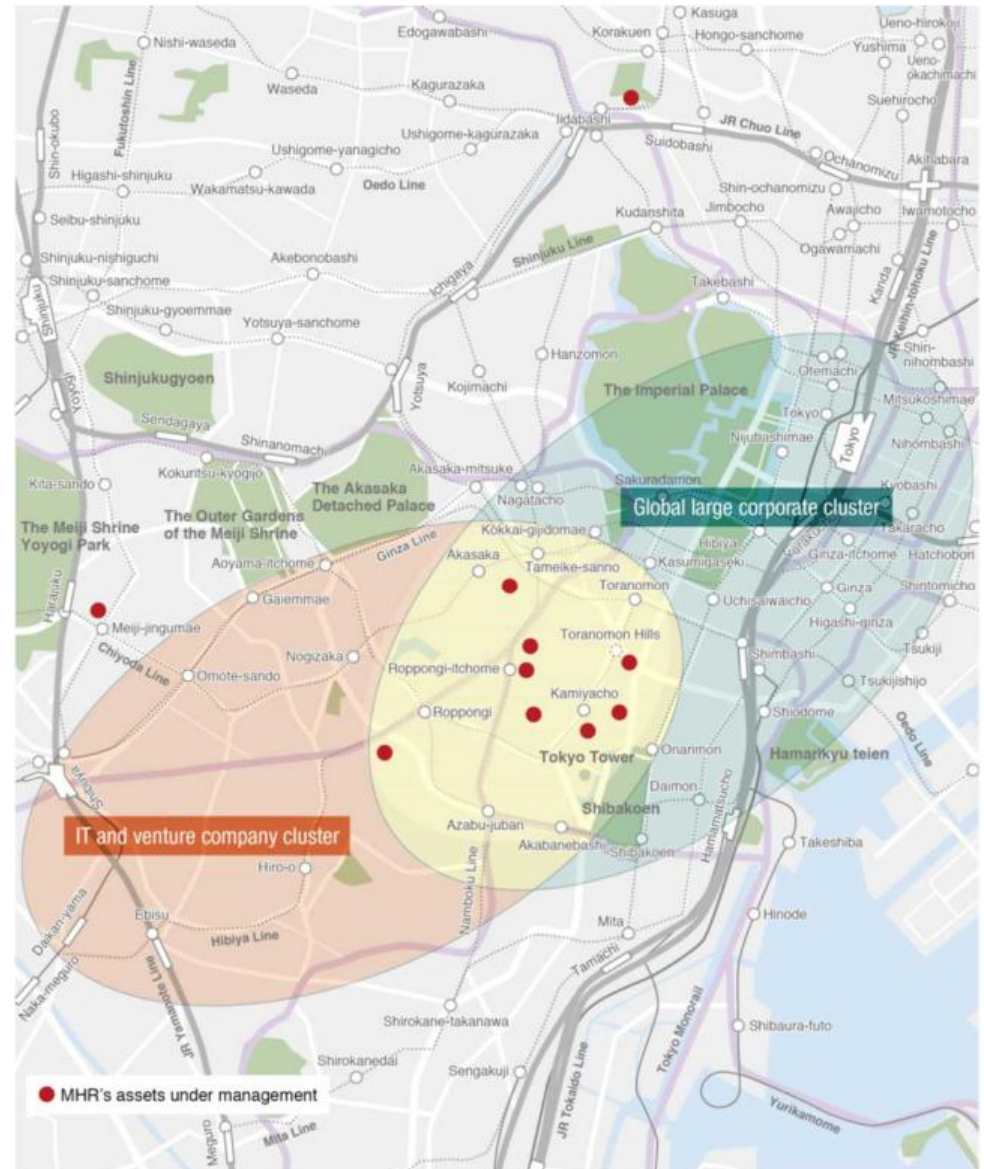
## Large corporate headquarters in central Tokyo

(company) ■ Foreign company ■ Domestic company



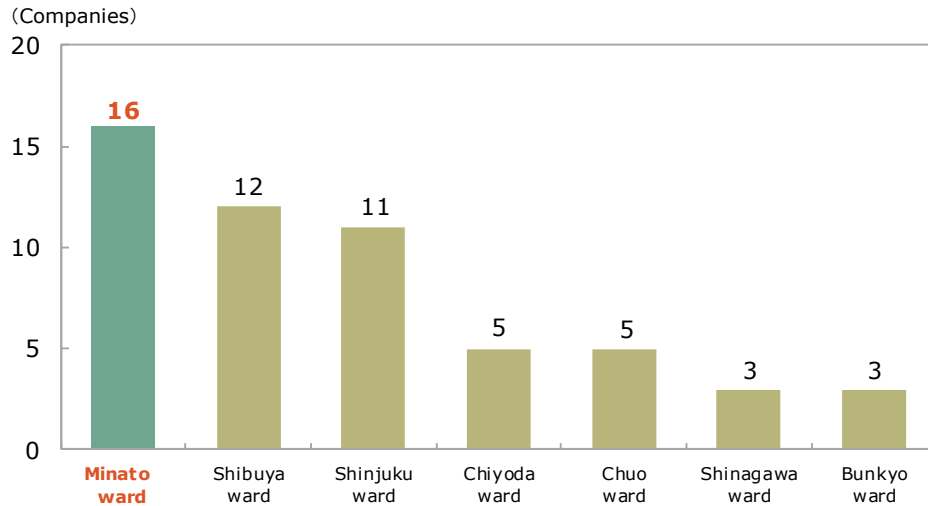
(Source) "Large corporation" refers to the top 100 domestic companies and the top 30 foreign companies based on market capitalization. Prepared by the Asset Manager based on market capitalization data as of July 31, 2019 by Refinitiv and publicly available information for the headquarters' locations.

## Overlapping zone of global large corporate with IT and venture companies in central Tokyo



# 2-10 (1) Location

## Head office location of IPO companies (2018)



(Source) Prepared by the Asset Manager based on the Securities Registration Statement (at the time of IPO) of companies newly listed in Japanese Market (TOKYO PRO Market excluded) from January to December 2018 those head offices are located in Tokyo.

## IT firms located in Minato ward

Apple	m3	Monex Group
Facebook	Oracle Japan	OpenDoor
Microsoft	SBI Holdings	Uzabase
Tencent	Mercari	Money Forward
Cisco Systems	GREE	ValueCommerce
Netflix	HEROZ	istyle
Softbank	Bengo4.com	Evolable Asia
NVIDIA	NHN JAPAN	Enigmo
Baidu	UUUM	Gunosy
Expedia	RPA Holdings	Itokuro
Nexon	ZIGExN	KLab

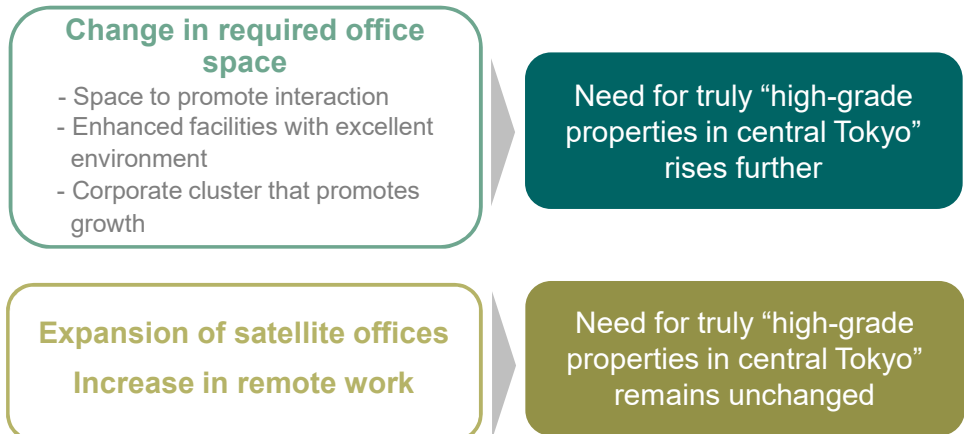
(Note) Prepared by the Asset Manager based on the disclosed data etc. as of July 31, 2019.

## Venture capitalists located in Minato ward

NVCC	B Dash Ventures
SBI Investment	Itochu Technology Ventures
JAFCO	Sony Innovation Fund
WiL	Dentsu Innovation Partners
NTT DOCOMO Ventures	Hakuhodo DY Ventures
Incubate Fund	TBS Innovation Partners
STRIVE	Fuji Startup Ventures
Eight Roads Ventures Japan	ORIX Capital
Infinity Ventures	Monex Ventures

(Note) Prepared by the Asset Manager based on the disclosed data etc. as of July 31, 2019.

## Consideration of work style change



# 2-11 (2) Quality of assets

## High-grade properties with extensive facilities

### <Overview and facilities of representative properties>

Property name	Gross floor area	Access from the nearest station	Number of shops & restaurants	Hotel (spa)	Cultural facility Observatory	Conference	Share office	Residential	Green coverage of the site
Roppongi Hills	758,208㎡	Connected to Roppongi Station	215	Grand Hyatt Tokyo (NAGOMI SPA AND FITNESS)	Mori Art Museum Tokyo City View TOHO Cinemas	Academyhills Roppongi Hills Club	○	○	28.5%
Toranomon Hills (After total project completion)	791,460㎡	Connected to Toranomon Hills Station	Not fixed (approx. 8,000 tsubo)	Andaz Tokyo (AO SPA AND CLUB)	-	Toranomon Hills Forum	○	○	30.3%
ARK Hills	310,745㎡	2-minute walk from Roppongi 1-chome Station	56	ANA InterContinental (THANN SANCTUARY SPA AKASAKA)	Suntory Hall	ARK Hills Club	○	○	43.2%
Atago Green Hills	151,106㎡	3-minute walk from Onarimon Station	21	-	-	-	○	○	51.7%

(Source) Prepared by the Asset Manager based on disclosed materials as of July 31, 2019.

(Note 1) Describes the outline of the entire areas and facilities including properties owned by MHR.

(Note 2) "Connected" under the "Access from the nearest station" describes the possible direct connection by concourse etc..





## Earthquake-resistant feature



Best among all J-REITs

## Environmental performance



Highest among all J-REITs

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

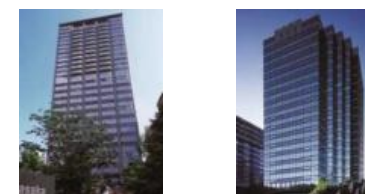
※ In acquisition price base by excluding Laforet Harajuku (Land)

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
Toranomom 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%	—

### CASBEE for Existing Buildings: Rank S



### CASBEE for Existing Buildings : Rank A



### DBJ Green Building Certification: Four stars



## Developments around MHR's properties (Toranomon Hills area)



## Shintora-Dori CORE (Completed Sep. 2018)



### Mixed use Tower located at the center of future grand boulevard in Tokyo

- A 15-story mixed use tower with commercial facilities with a total rental floor area of approximately 10,000m<sup>2</sup>
- “THE CORE KITCHEN/SPACE” cafe located on the 1st floor which faces the Shintora-Dori creates a new community with on site “Community Manager” and the event space attracts diverse people to exchange and disseminate new ideas.
- Incubation offices with shared lounges and meeting rooms are located on the 3rd floor and start-ups expanding into Japan from overseas and venture companies have moved in.

## Toranomon Hills Business Tower (projected completion Dec. 2019)



### An international-standard, large-scale office building with an innovation center

- Business Tower is a 36-story office tower, featuring international-standard, large-scale office space of approximately 94,000m<sup>2</sup>, and retail facility area of approximately 6,300m<sup>2</sup>.
- The tower is directly connected to “Toranomon Hills” Station of the Hibiya subway line as well as the existing Toranomon station. A bus terminal is planned to be established on the first floor to function as a “Gateway to Tokyo” via various bus lines including the BRT (Bus Rapid Transit) connecting city center and waterfront areas, and via airport limousine buses.
- At the 2020 Tokyo Olympics and Paralympics, the bus terminal will serve as a transportation hub for athletes and spectators, connecting to the athletes’ villages in the Harumi area as well as to all of the stadiums and arenas in the city center and waterfront area.



### <Retail>

A retail area of approx. 6,300m<sup>2</sup> located through B1 to the 3rd floor is equipped with a high-quality supermarkets, large-scale dining facilities and stores to support the daily lives of the global citizens in the Toranomon Hills area to live, work and gather.



### <Innovation center>

An innovation center of approx. 3,000m<sup>2</sup> located on the 4th floor serves as a networking site where entrepreneurs and junior staff to executives of large companies can work together. This center aims to support the creation of new businesses to foster innovation.

### Development around MHR's properties (Toranomom-Azabudai Project: projected completion Mar. 2023)



#### The future version of "Hills" boasts an astonishing scale and impact

- Large central square of approx. 6,000m<sup>2</sup> is set in the center of the city and various city functions such as offices, residences, hotel, an international school, retail facilities and cultural facilities will be tightly integrated.
- Total floor area will be 860,400m<sup>2</sup>, with 213,900m<sup>2</sup> of office space, approx. 1,400 residential units. Approx. 20,000 office workers and 25-30 million people per year are expected to visit.
- The main tower will soar 64 stories and 330m in height. Offices in the main tower, the West Tower and Podium Building will encourage free and creative work.

#### "Modern Urban Village", a city-within-a-city full of greenery and connects people

- The core concept of the "Toranomom-Azabudai Project" is a "Modern Urban Village," a unique neighborhood that will combine the sophistication of a megalopolis with the intimacy of a small village. It will be a completely new city like no other in the world. It will cover an area of approx. 8.1 ha and will feature extensive greenery totaling approx. 2.4 ha including a 6,000m<sup>2</sup> central square.



## Creating community and innovation through the Area Management by sponsors

### Toranomon Hills Area



Thursday Gathering  
(Toranomon Hills Mori Tower)

#### Partnership with world's largest innovation center

"Thursday Gathering" by Cambridge Innovation Center promotes exchanges between entrepreneurs, investors, business managers of large companies and students to support the creation of new innovations.



ELLE Cinema Night  
(Toranomon Hills Mori Tower)

#### Events "OUR PARKS"

Various events e.g. "Our Parks" are held in the open spaces, Oval Plaza and Atrium, where vast lawn spreads out. It creates a third place for community and activates the area of Toranomon.



Design Academy  
(Shintora-Dori CORE)

#### Collaboration with Royal College of Art

"Design Academy" in collaboration with the Royal College of Art, provides educational programs to spur creation of new industries with an environmental focus and world-class learning and interacting opportunities.



Traveling stand  
(Shintora-Dori)

#### Enjoy the charm of Japanese Market

Dining facility "Touring stand" is installed on the road for the first time in Tokyo. There are sales of gourmet cuisine using seasonal ingredients from around Japan and various workshops to experience community activities.

## Creating community and innovation through the Area Management by sponsors

### ARK Hills Area



©WeWork

**wework**

(ARK Hills South Tower)

#### Japan's First WeWork

Two open-floors connected by inner stairs that encourage people from a variety of industries from startups to large companies to meet and collaborate.

### Roppongi Hills Area



(c) Roppongi Art Night Execution Committee

Roppongi Art Night  
(Roppongi Mori Tower)

#### Art Festival representing Tokyo

Tokyo-based art festival "Roppongi Art Night" integrates the art and the city to improve the cultural image of Roppongi and create a pioneering model of urban development in Tokyo.

### Atago Green Hills Area



KaleidWorks  
(ARK Mori Building)

#### Workplace where venture capital gathers

"KaleidWorks" consists of an office area where independent venture capitalists representing Japan are located and a lounge area. People who want to innovate in a wide range of fields can interact on common grounds in shared spaces.



Ignition Lab MIRAI  
(Atago Green Hills (Mori Tower))

#### Support creation of next-generation business model

"Ignition Lab MIRAI" is an interactive space jointly operated with Silicon Valley based VC, WiL. Innovators from a variety of large companies gather to create and operationalize new business models.

# 2-18 External growth

**Business environment recognition**

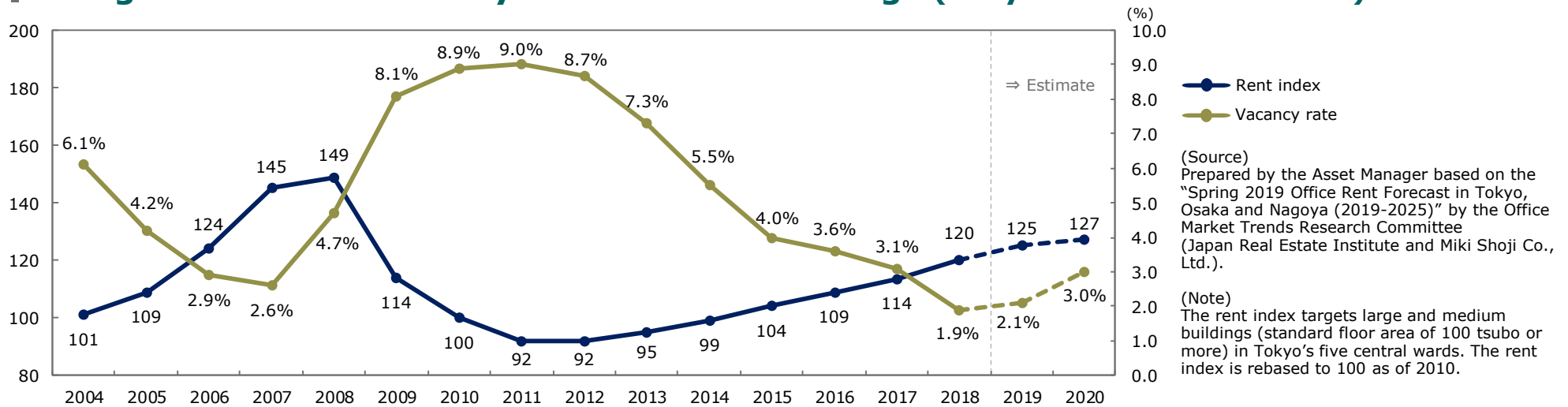
Closely watching the acquisition price level as property acquisition competitions are overheated

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

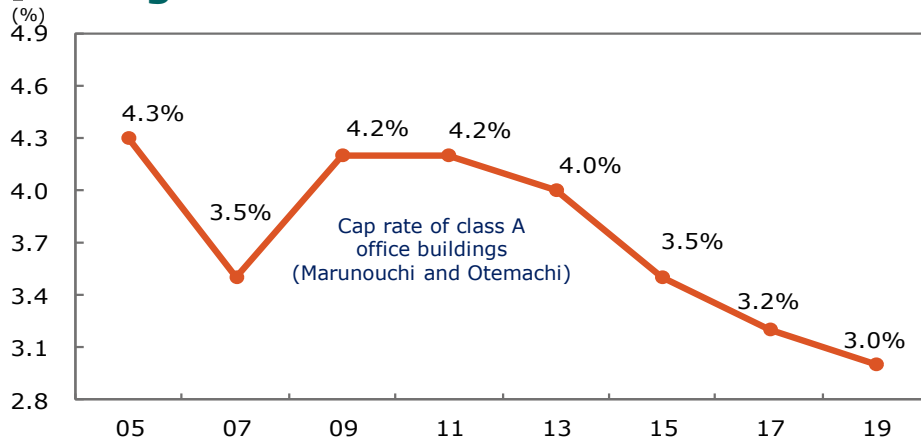
**External growth policy**

Proceed with external growth utilizing sponsors' abundant property pipeline

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



## Change in return on real estate investment



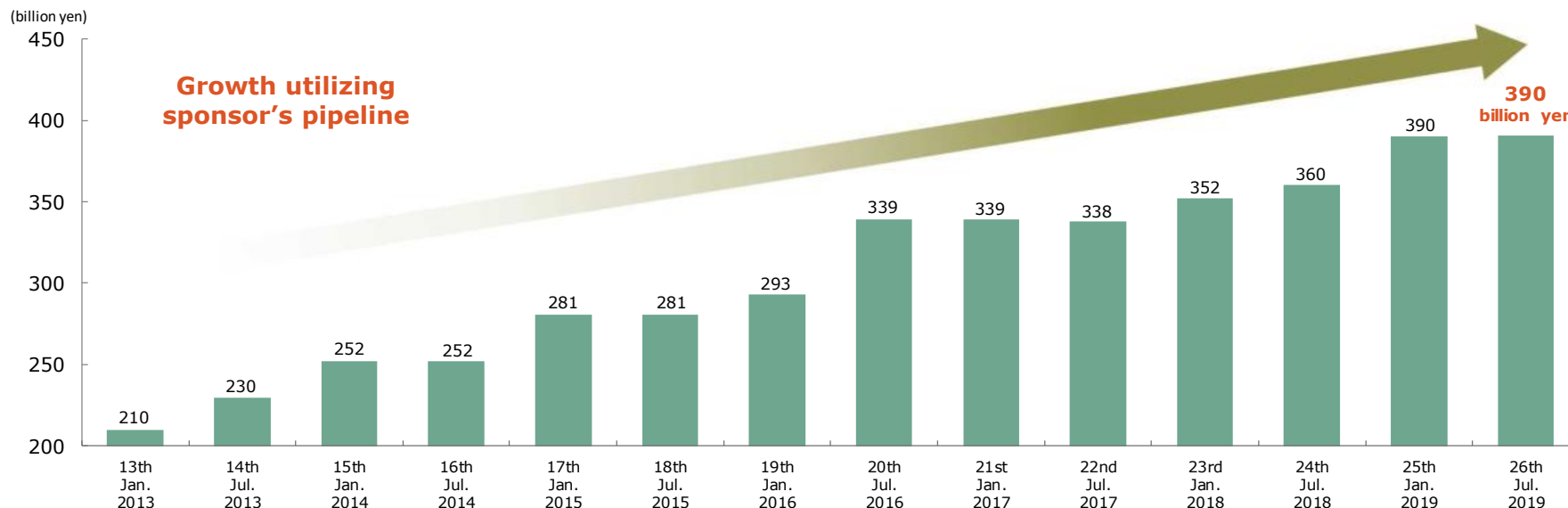
## Mori Building's extensive property pipeline

Total assets:  
**2.0 trillion yen**  
(as of the end of March)

Number of properties under management: **96 buildings**  
(as of April 1, 2019)

MHR has "preferential negotiation rights"

## Trend in assets under management (based on acquisition price)



## Acquired premium properties in central Tokyo lower than appraisal values (Acquired as of September 3, 2018)

Toranomon Hills Mori Tower



Acquisition price	26,070 million yen
Appraisal value	28,830 million yen
Location	Minato-ku, Tokyo

Holland Hills Mori Tower



Acquisition price	4,570 million yen
Appraisal value	5,260 million yen
Location	Minato-ku, Tokyo

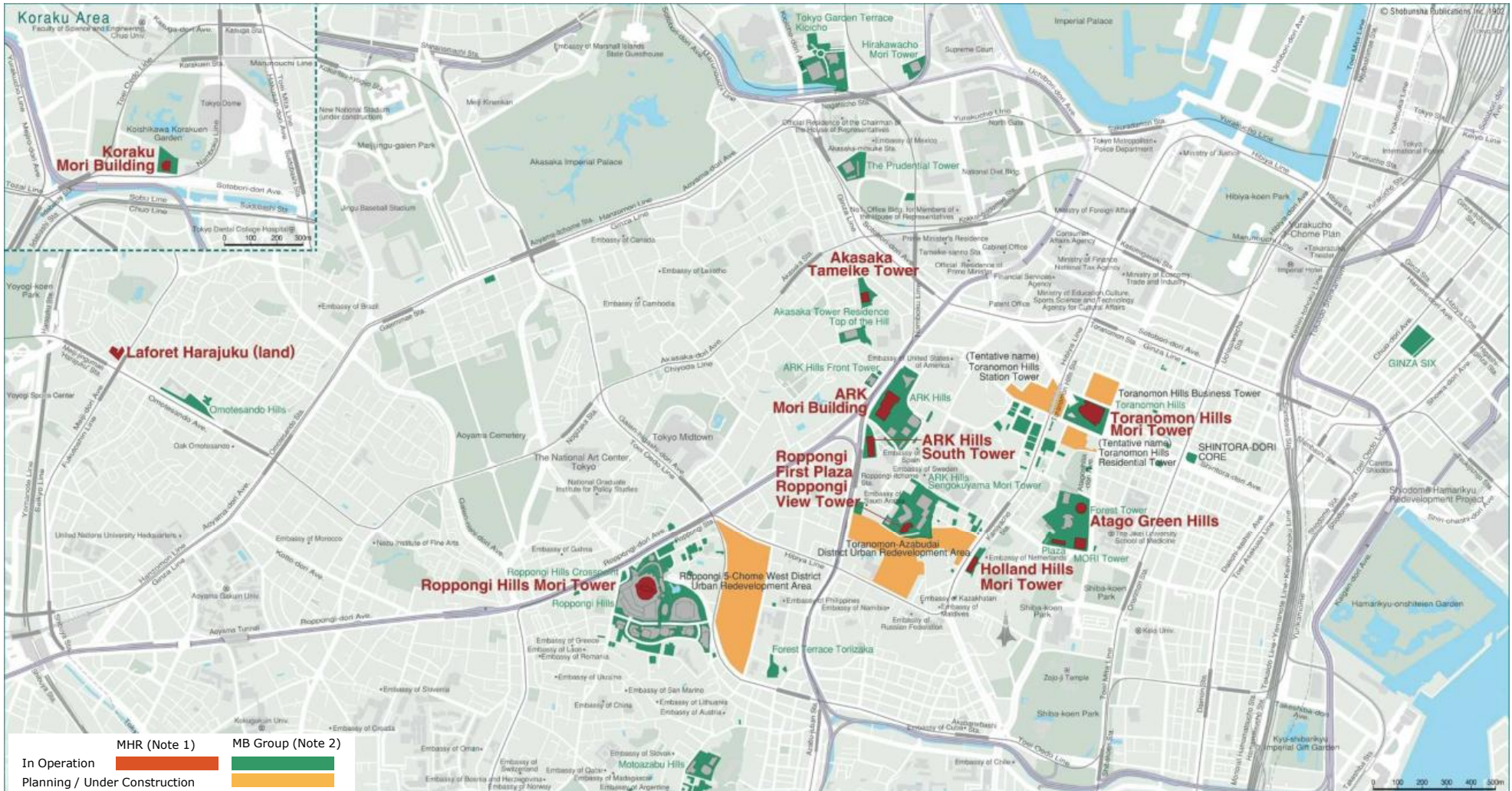
	Toranomon Hills Mori Tower	Holland Hills Mori Tower	Recent office acquisition by listed REITs (Note 1)
Discount of acquisition price to appraisal value (Note 2)	△9.6%	△13.2%	△4.4%
Building age	4.3 years	13.6 years	21.3 years
PML	0.50%	0.85%	5.18%

(Note 1) Average based on information of acquisitions disclosed (41 properties excluding acquisitions at IPO) from January to July 2018.

(Note 2) Discount of acquisition price to appraisal value = (Acquisition price - appraisal value) / appraisal value



## 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 2019."

(Note 1) Some of the properties have been partially acquired and held by MHR.

(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.

# 2-21 Internal growth

**Business environment recognition**

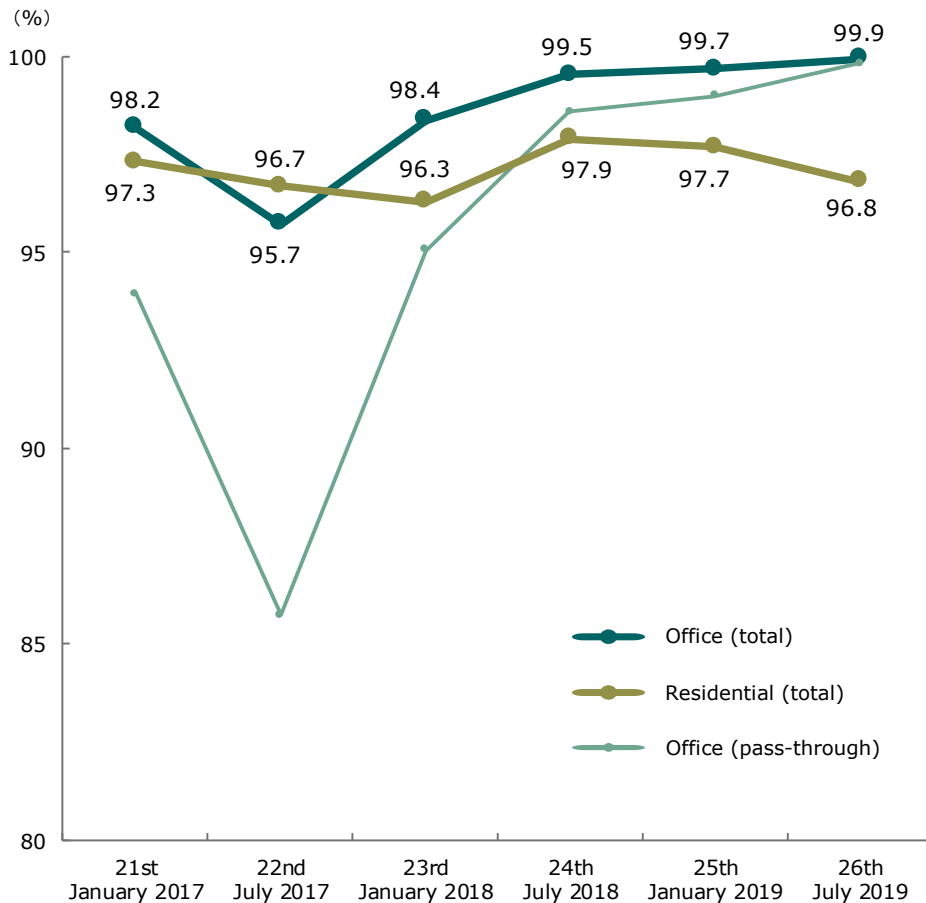
Central Tokyo office rents forecast to continue moderate rise, but close attention to be paid to demand trends

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

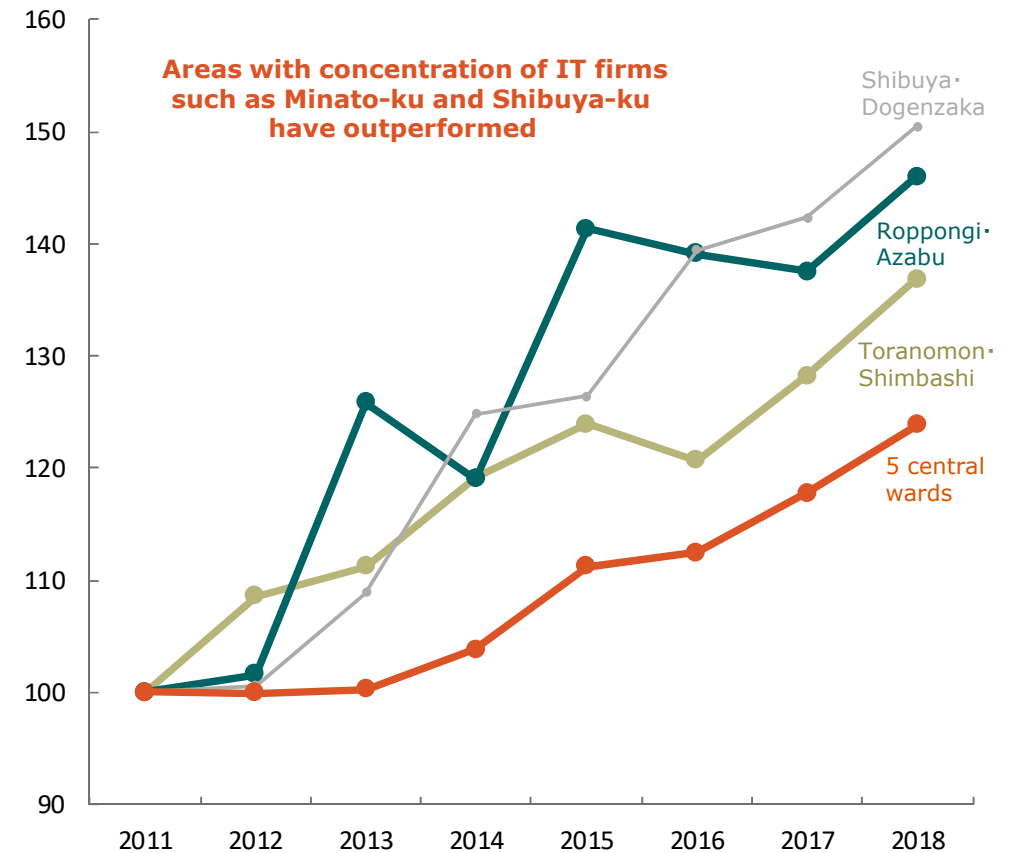
**Internal growth policy**

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

## Trend in occupancy rates



## Trend in asking rent

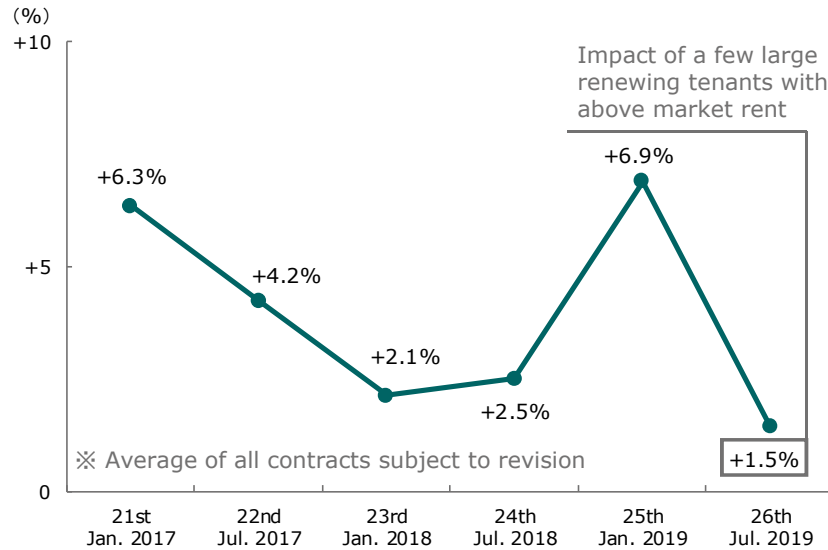


(Source) Prepared by the Asset Manager based on "Office Market Report" by Sanko Estate Co., Ltd.

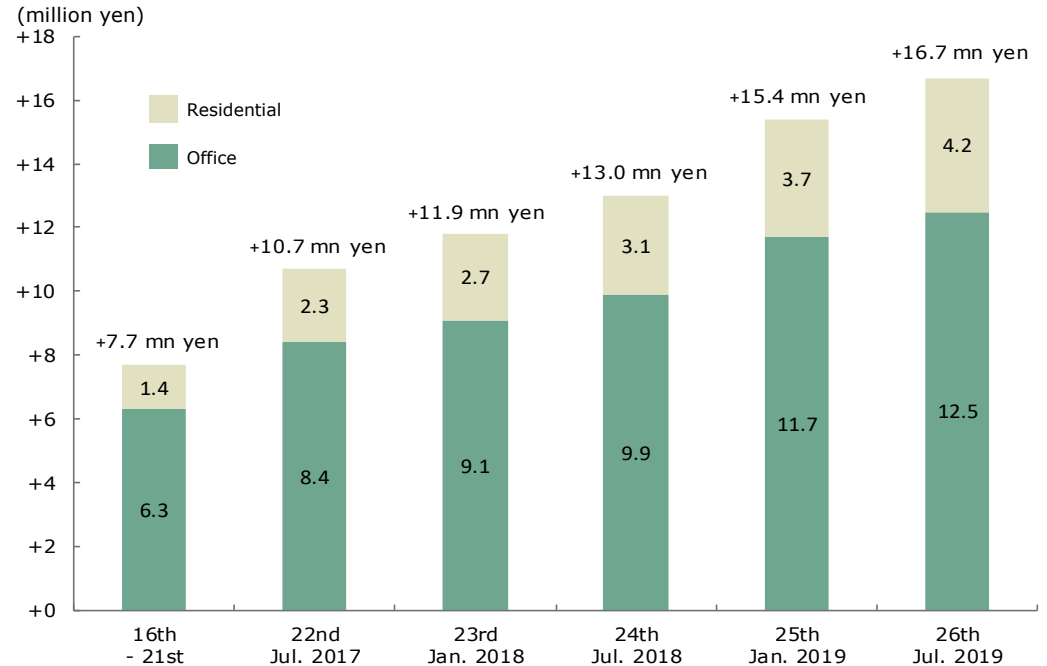
(Note) The average of asking rent (including common area revenue) that targets a large scale building with a standard floor area of 200 tsubo or more is rebased to 100 as of 2011.

## Result of rent revision and tenant replacement (pass-through type)

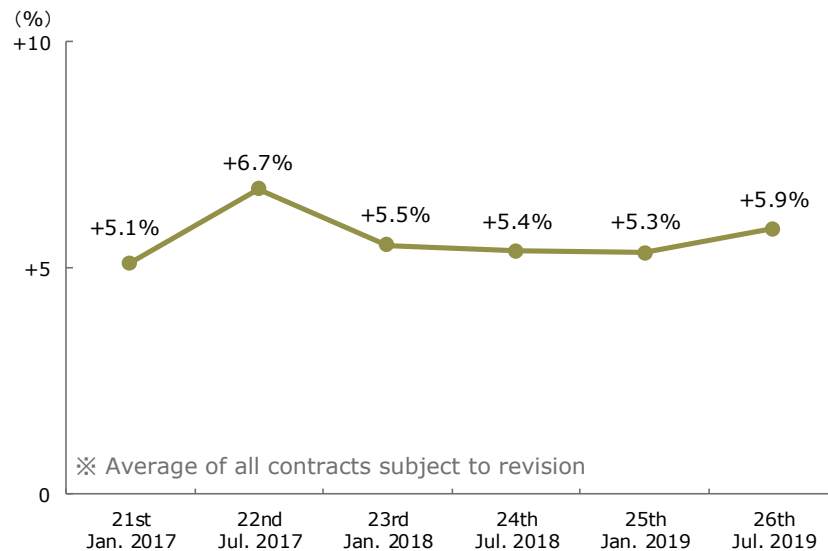
### Rent revision rate (office)



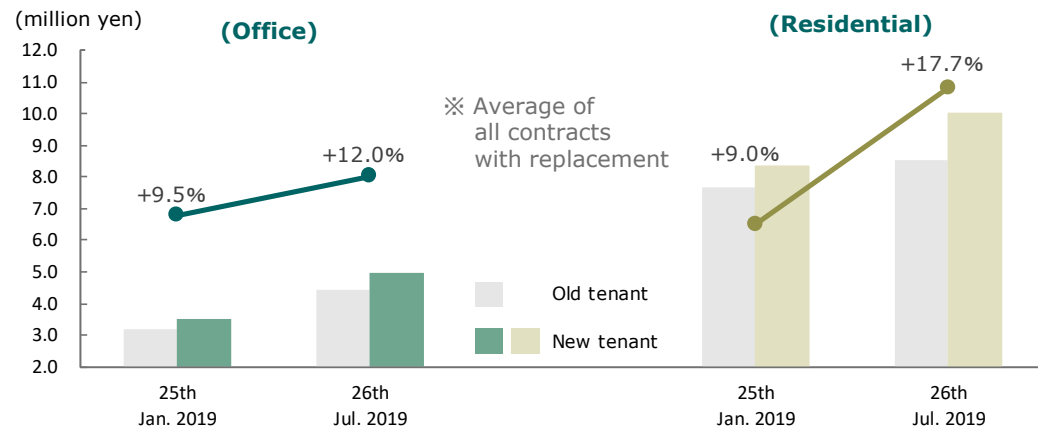
### Net impact of rent revisions accumulated since 16th period (monthly rent basis)



### Rent revision rate (residential)

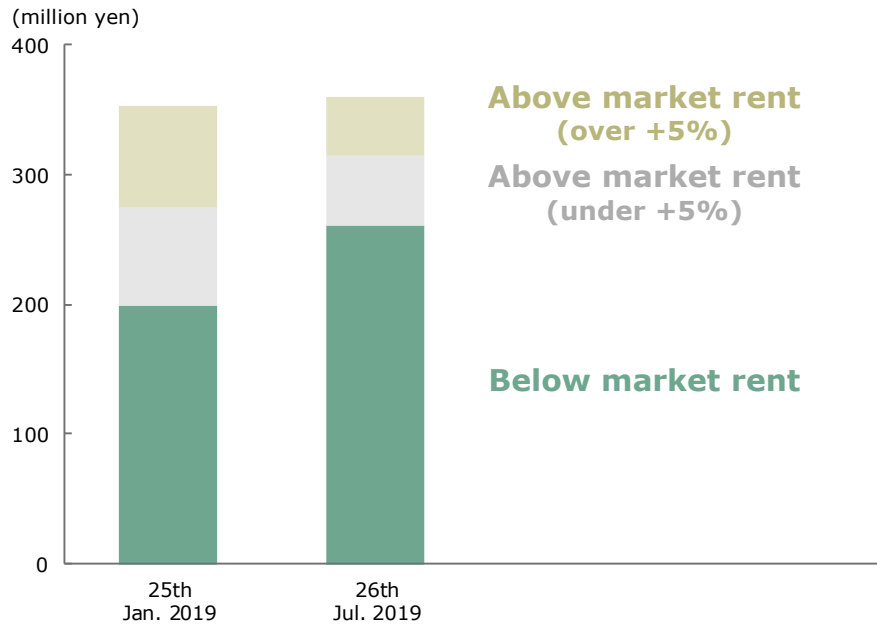


### Net impact on increase/decrease of tenant replacement (Monthly rent basis)

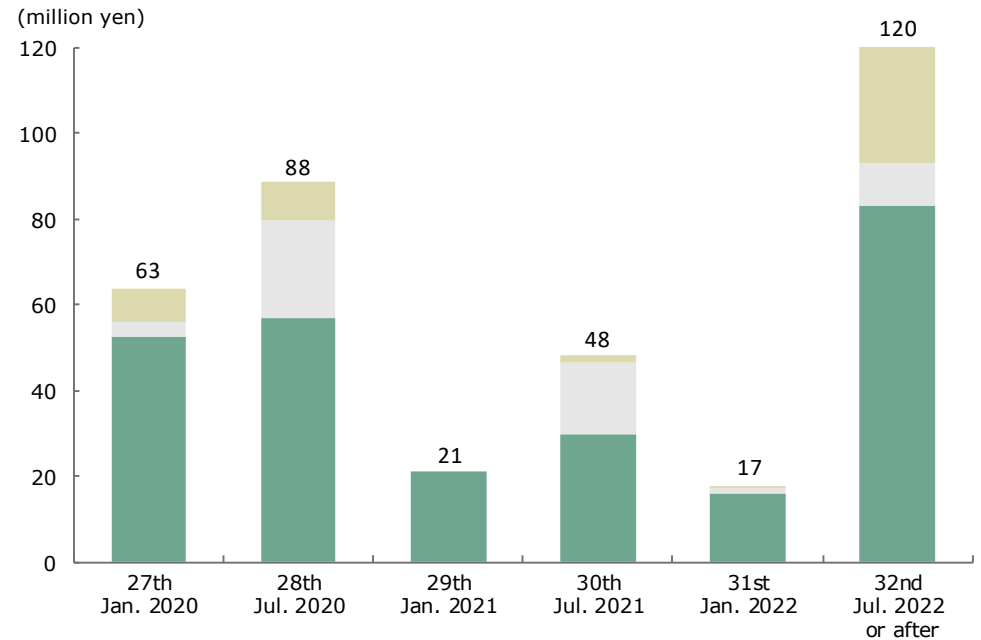


## Comparison with office market rent (pass-through type)

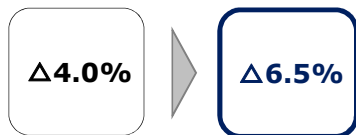
### Rent gap (Total monthly rent)



### Rent gap by revision (Total monthly rent)



### Rate of rent gap



This indicates that contracts have not reached market rent levels and have room for upside

- Occupancy rate remained at high level due to vigorous office demand
- Rents have increased steadily in the area where MHR's properties are located and rent revisions have progressively increased
- Rent gap of MHR's properties are expanding period-over-period and MHR continues to promote internal growth

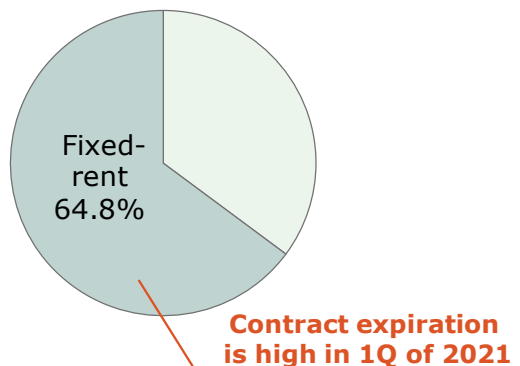
(Note 1) Market rent is based on the report by CBRE K.K.

(Note 2) Rent gap = Total tenants' rent ÷ "Total market rent" - 1

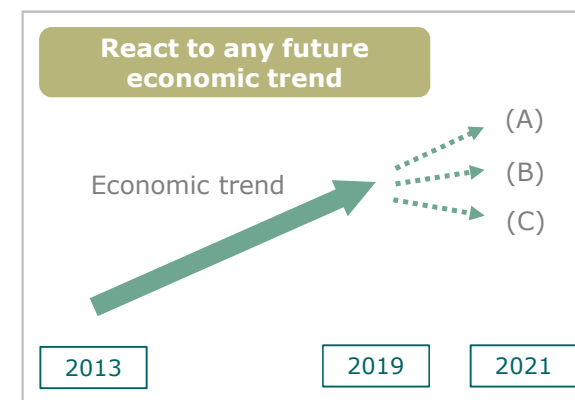
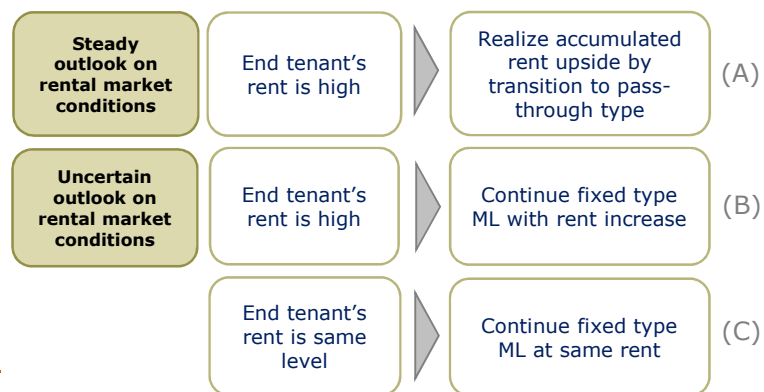
(Note 3) Figures reflect move outs of end tenants confirmed as of July 31, 2019.

## Overview of fixed rent master lease

### Ratio of fixed rent master lease



### Concept of contract expiration



### Monthly rent by contract expiration

Property name	Total monthly rent (mn yen)	% of portfolio total rent	Breakdown of property	Leased floor area (m <sup>2</sup> )	Payer of management associated fee	Monthly rent by contract expiration (mn yen)				Expiration of the lease agreement
						2020	2021	2022	2023 or after	
Roppongi Hills Mori Tower (10 floors)	490.5	31.4%	23rd & 24th	8,993.45	MHR	—	114.6	—	—	Jul. 2021
			19th & 22nd	8,609.47		—	—	—	95.0	Sep. 2023
			20th	3,879.19		—	—	—	42.8	Jul. 2024
			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	14.4%	13th/12th & 22nd	7,952.55	MHR	—	77.9	—	—	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	Master lessee	—	—	—	17.9	Mar. 2023
Atago Green Hills (approx. 32.9% of entire property)	168.7	10.8%	Office, residential & retail	29,667.58	Master lessee	—	—	168.7	—	Apr. 2022
Toranomon Hills Mori Tower (approx. 6.9% of entire property)	129.2	8.3%	Part of 28th to 35th floors	12,209.08	MHR	—	—	129.2	—	Jul. 2022
<b>Total</b>	<b>1,013.8</b>	<b>64.9%</b>				<b>49.2</b> (4.9%)	<b>510.7</b> (50.4%)	<b>297.9</b> (29.4%)	<b>155.8</b> (15.4%)	

# 2-25 Financial management

**Business environment recognition**

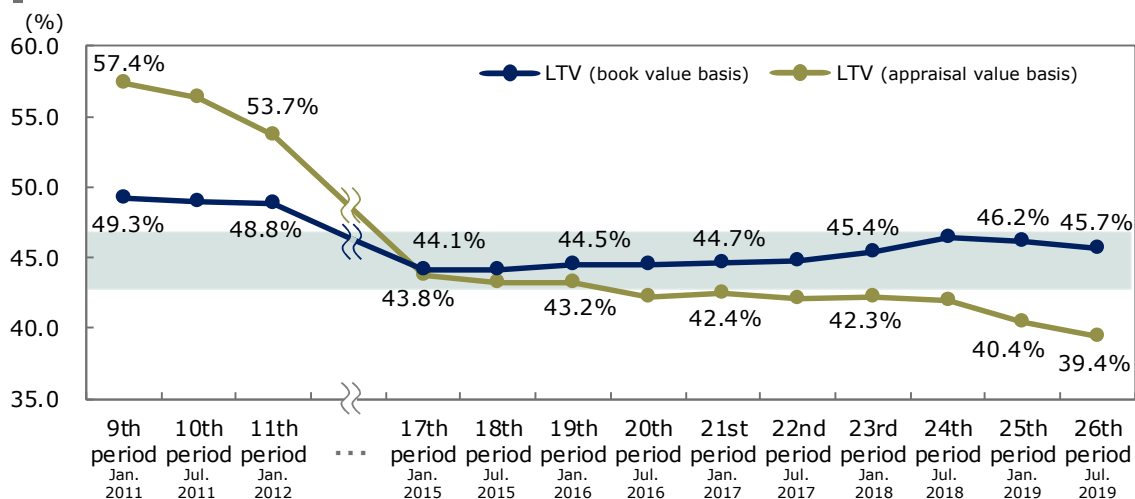
Interest rates are expected to remain low considering monetary policies and assuming rise over the medium to long term

(Note) Please refer to "Section 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



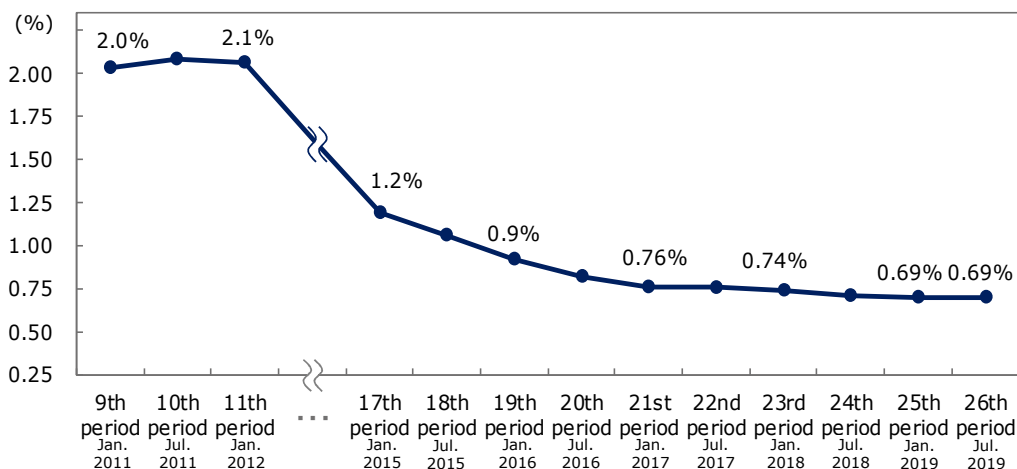
## Overview of debt financing

	End of 25th period Jan. 31, 2019	End of 26th period Jul. 31, 2019
Debt Balance	182,222 mn yen	179,222 mn yen
LTV (book value basis) <sup>(Note 1)</sup>	46.2%	45.7%
LTV (appraisal value basis) <sup>(Note 2)</sup>	40.4%	39.4%
Avg. remaining duration	4.3 years	4.4 years

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

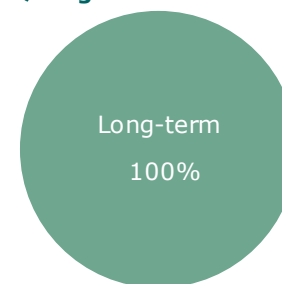
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

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

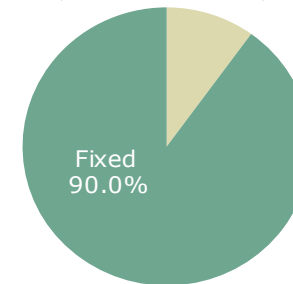


## Long-term debt ratio / Fixed rate ratio

<Long-term debt ratio>

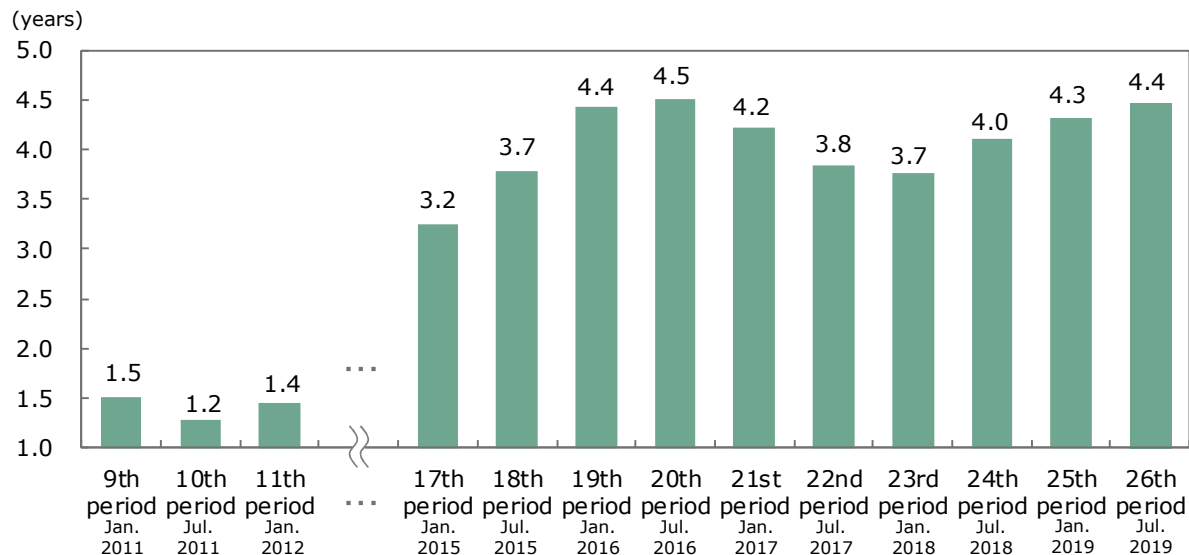


<Fixed rate ratio>



(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

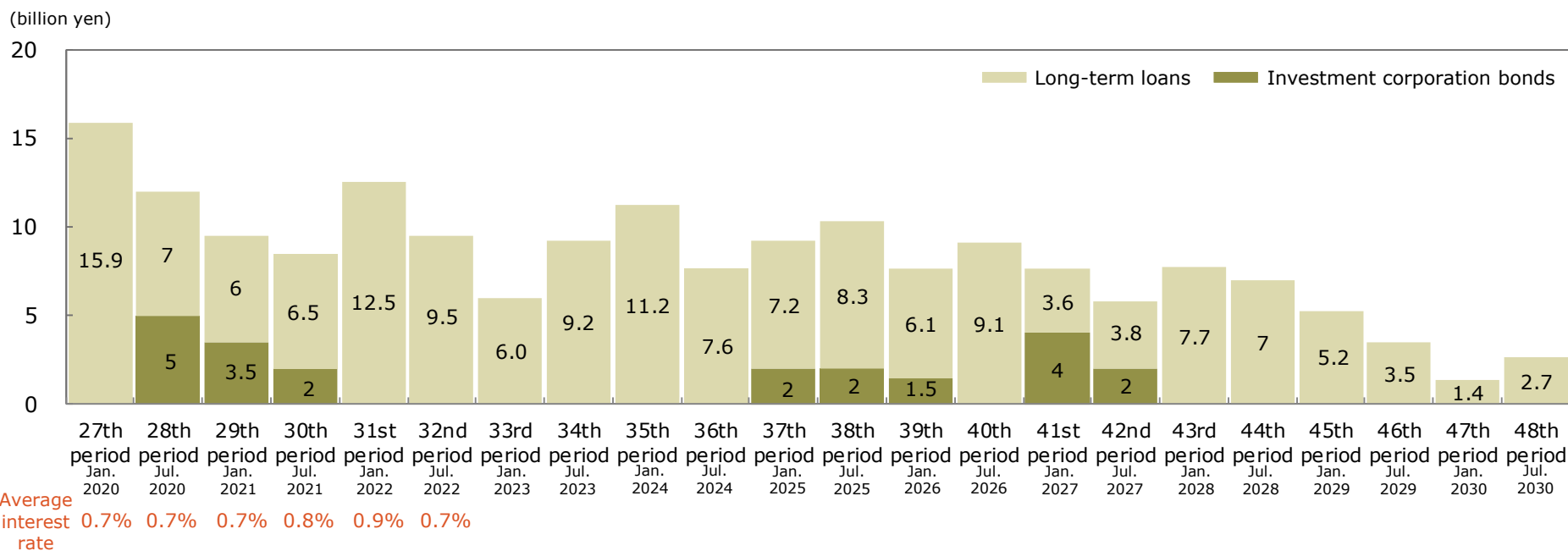


## Rating

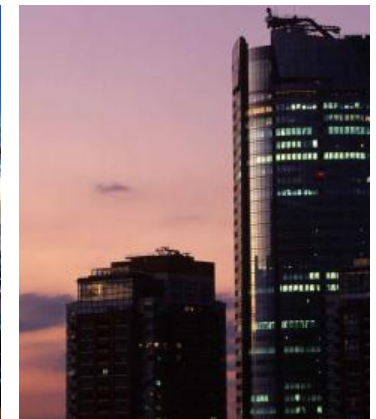
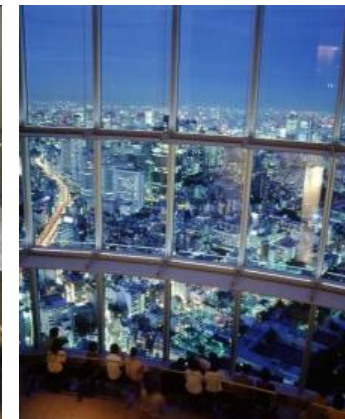
Japan Credit Rating (JCR)

Long-term issuer rating:  
AA (Stable)

## Overview of maturity (as of July 31, 2019)



# 2-27 MHR's representative property (1) Roppongi Hills



## Roppongi Hills

Since its opening in 2003 as Japan's largest ever urban redevelopment at about 11.6 hectares, more than 40 million people have visited Roppongi Hills each year from all over the world. As this community has matured, Roppongi Hills has only multiplied its global magnetic attraction. Japan real estate development had been limited by an economic perspective until Mori Building revolutionized the concept by creating a community where humanity, culture, interaction and vision toward the next era is born.

## Office

## Roppongi Hills Mori Tower

Roppongi Hills Mori Tower is the main tower of Roppongi Hills and is 54 floors above ground and 238 meters high and has established itself as a landmark of Tokyo. Offices located from the 8th floor to the 48th floor boast floor plates of about 1,360 tsubo (about 4,500m<sup>2</sup>), among the largest floor areas of skyscrapers in Japan. It is a state-of-the-art office building with an ultra high-speed network, outstanding earthquake resistance performance and thorough security.





## Residence Roppongi Hills Residence

In Roppongi Hills where international cultural is fostered and people come to interact, Mori Building designed these residences with the comfort of the people as a top priority, to provide the template for a “new life overflowing with affluence and warmth”.



## Retail Shops and Restaurants

Retail facilities are comprised of more than 200 “only one” shops and restaurants divided into four areas with different concepts. There are many shops on the lower floors of the buildings and on the street so visitors can enjoy shopping, eating and drinking while walking around the open spaces that are full of greenery.



## Hotel Grand Hyatt Tokyo

Grand Hyatt Tokyo offers a dynamic city space featuring 10 highly distinctive restaurants and bars, 387 guestrooms designed for the highest level of relaxation, 13 banquet facilities and much more. The wide range of facilities inside the hotel and in Roppongi Hills enable guests to enjoy leisurely time at the hotel to the fullest extent.



## Cinema TOHO Cinemas Roppongi Hills

One of the top cinema complexes in Japan, TOHO offers nine movie screens, a variety of daily show times and facilities with unprecedented comfort and functions. These theaters ushered in a whole new culture of movie going in Roppongi.



## Museum Mori Art Museum

“The world’s nearest art museum to the sky”, the museum collaborates with a network of highly respected international art museums to create a space to appreciate the world’s top modern art. It is open until 10 pm during exhibitions to welcome visitors after work or dinner.



## Stable Supply of Power from the Independent Power Station

Roppongi Hills uses its own energy plant (a specially designated power supply business facility) to supply electrical power to the area. Because this plant uses city gas (medium pressure gas) as the fuel, it is not affected by power restrictions on the use of electricity and is able to provide an extremely stable supply of electricity. The use of a power supply with triple redundant safety allows the building to construct a power supply system with high reliability.

# 2-28 MHR's representative property (2) Toranomon Hills



Toranomon Hills Mori Tower



## Toranomon Hills

Toranomon Hills is located in the "Special Zone for Asian Headquarters" where Tokyo Metropolitan Government seeks to attract foreign companies. This building is Tokyo's new landmark and consists of Japan's first Andaz hotel "Andaz Tokyo", high-specification offices, a high class residential area with outstanding views where hotel services are available, international-standard conference facilities and commercial facilities to supports various urban functions, along with an open space of about 6,000m<sup>2</sup>.

## Office

## Toranomon Hills Mori Tower

Offices occupy the 6th to the 35th floors of "Toranomon Hills Mori Tower", a super high rise tower with 52 floors rising 247 meters above ground with a gross floor area of 30,000 tsubo. Standard rent floors' average size are about 1,000 tsubo (about 3,300m<sup>2</sup>) with a ceiling height of 2.8 meters and they provide flexible and comfortable workspaces without pillars. Six transit stations and 11 lines are nearby and provide access to Haneda Airport which makes this building an optimal global business base.



## Residence Toranomon Hills Residence

Pleasant views of central Tokyo such as Tokyo Tower, Rainbow Bridge, Tokyo Sky Tree and the open green space of the Imperial Palace can be viewed from residences located on the 37th to 46th floors. Hotel services in cooperation with Andaz Tokyo are available.



## Retail Shops and Restaurants

With the concept of "Communication Hub", restaurants are designed to provide international cuisine that satisfy customers from Japan and overseas. Various people such as office workers, conference attendees and hotel guests gather in this space uniquely designed to facilitate communication.



## Hotel Andaz Tokyo

Hyatt's boutique lifestyle hotel "Andaz Tokyo" is Japan's first Andaz. Andaz means "personal style" in Hindi. The hotel values the individuality of the area and incorporates the charm of the land into design and its' service.



## Evolving as an International Urban Center and a Global Business Hub

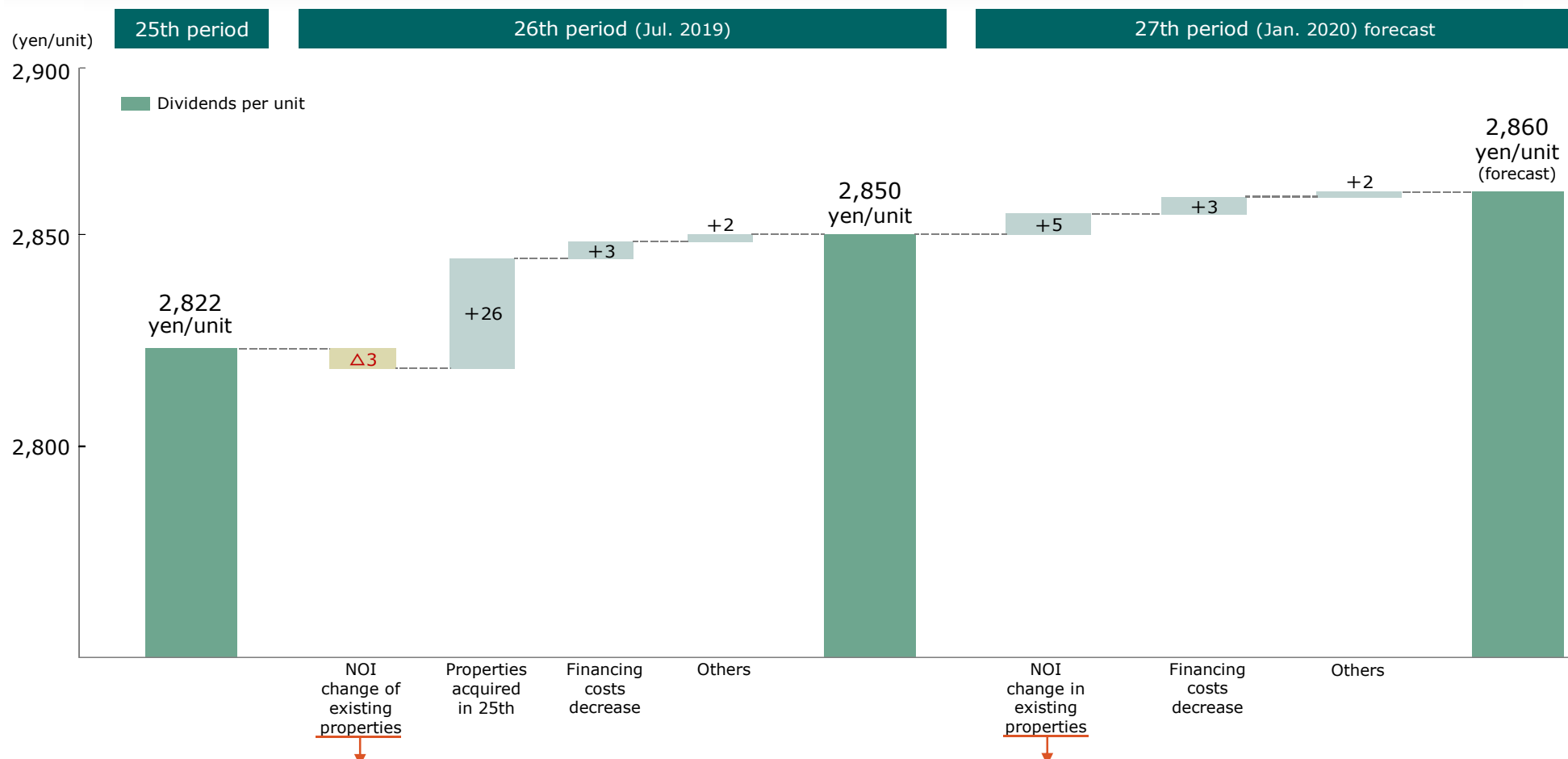
Upon completion of Toranomon Hills Business Tower, Toranomon Hills Residential Tower (Tentative name) and the currently planned Toranomon Hills Station Tower (Tentative name), the total area of the Toranomon Hills complex including Toranomon Hills Mori Tower will reach about 7.5 hectares and about 800,000m<sup>2</sup> of the total floor space. The area will evolve into a true "international urban center and a global business hub" with integrated functions such as international standard offices, residences, hotels, retail facilities and transportation infrastructure.

### 3. Operation highlights

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



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

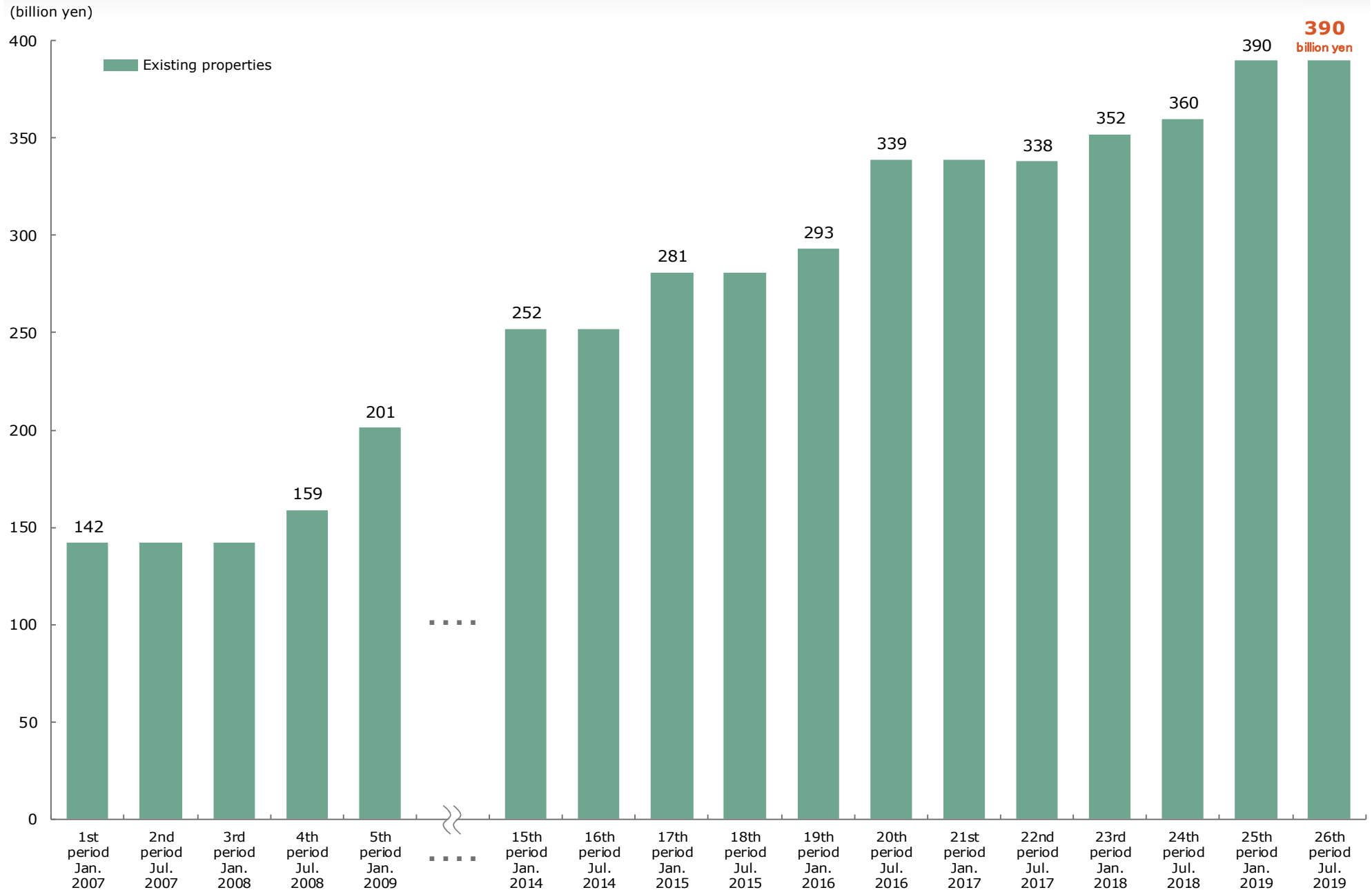
+ Decrease in depreciation	+19
+ Rent revenue of office (Pass-through)	+17
- Increase in maintenance and repairs	△30
- Increase in property taxes for existing properties	△9
- Property taxes for properties acquired in 24th period recorded as expense (equivalent to 3 months)	△4

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

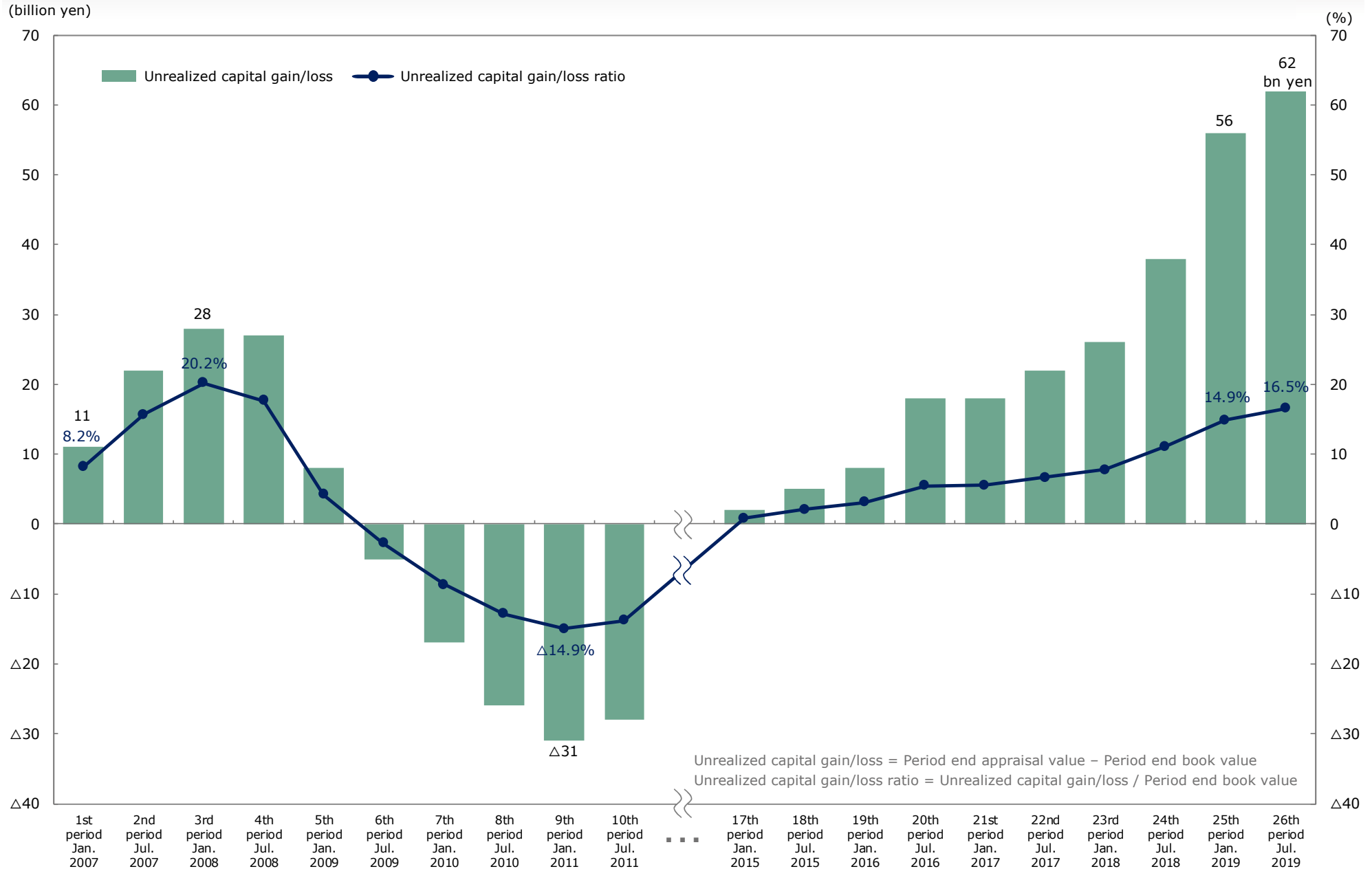
+ Rent revision of land (Laforet Harajuku)	+14
+ Decrease in depreciation	+11
+ Rent revenue of office (Pass-through)	+9
+ Decrease in maintenance and repairs	+7
- Property taxes for properties acquired in 24th and 25th period recorded as expense (equivalent to 3 months)	△18
- Increase in property management fee	△11
- Increase in property taxes for existing properties	△8

(Note) Factors that led to change are arrived at by dividing the change from the previous fiscal period by 1,874,960 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)

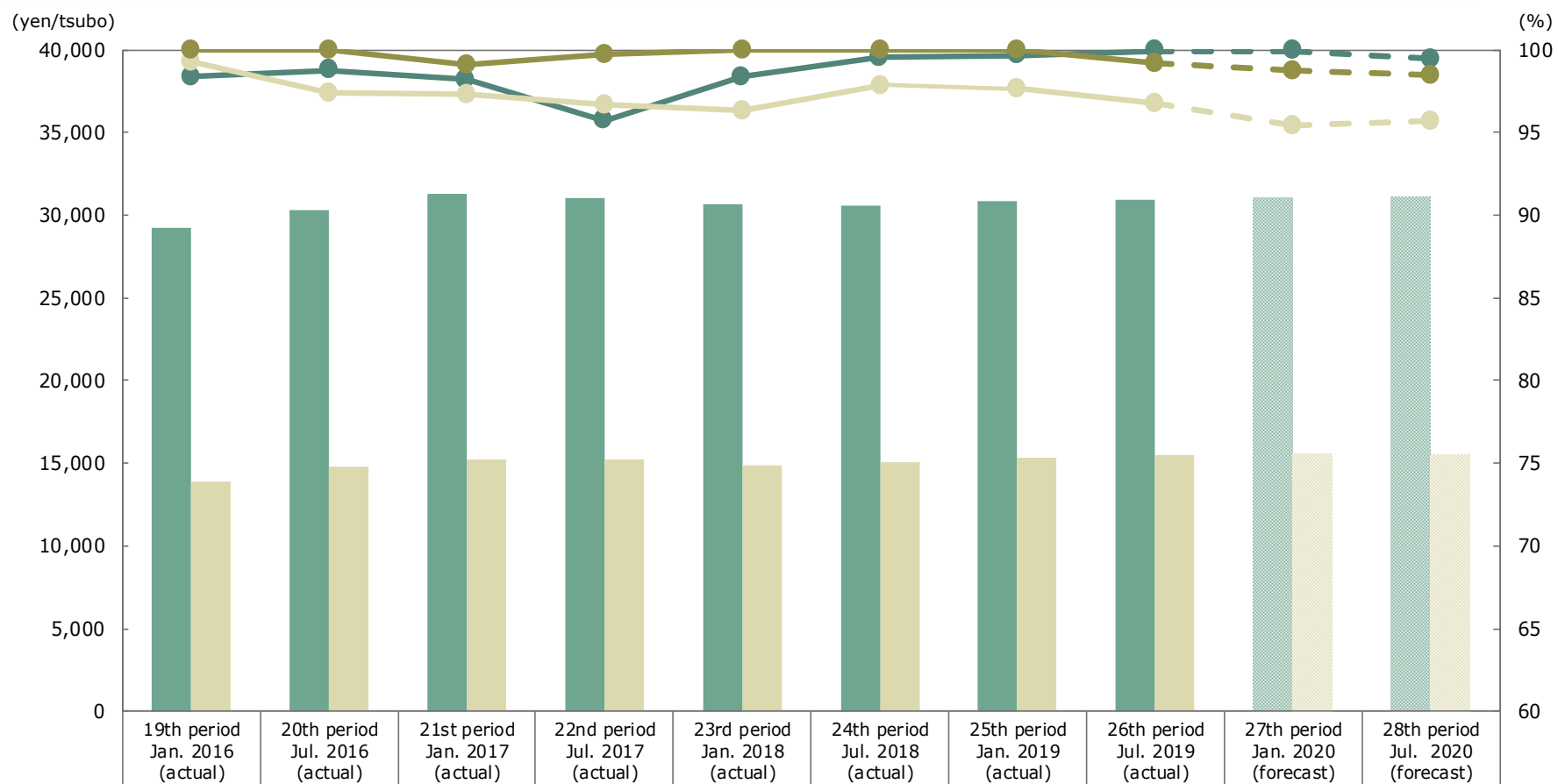
Principal use	Property name	Property No.	Acquisition price	Book value	As of end of 25th period Jan. 31, 2019		As of end of 26th period July. 31, 2019				Difference (B)–(A)	Difference (B)/(A)–1	Unrealized capital gain (B)-book value
					(A) Appraisal value (Note 1)	Yield (Direct capitalization method)	(B) Appraisal value (Note 1)	Yield (Direct capitalization method)	Discount rate (DCF)	Terminal yield (DCF)			
Office	Roppongi Hills Mori Tower	O-0	115,380	112,049	142,800	3.1%	143,300	3.0%	2.7%	3.2%	500	0.4%	31,250
	ARK Mori Building	O-1	62,480	61,548	61,100	3.4%	61,800	3.3%	3.0%	3.5%	700	1.1%	251
	Koraku Mori Building	O-4	27,200	24,791	24,600	3.6%	25,400	3.5%	3.1%	3.8%	800	3.3%	608
	Akasaka Tameike Tower	O-6	43,930	41,747	32,000	3.4%	32,800	3.3%	3.0%	3.5%	800	2.5%	△ 8,947
	Atago Green Hills	O-7	42,090	40,408	44,900	3.6%	45,700	3.5%	3.0%	3.7%	800	1.8%	5,291
	ARK Hills South Tower	O-8	19,150	18,789	24,500	3.2%	24,700	3.1%	2.9%	3.3%	200	0.8%	5,910
	Toranomon Hills Mori Tower	O-9	36,210	36,074	42,850	2.8%	43,200	2.7%	2.4%	2.9%	350	0.8%	7,125
	Holland Hills Mori Tower	O-10	16,330	16,303	20,000	3.4%	20,700	3.3%	2.9%	3.5%	700	3.5%	4,396
Sub total			362,770	351,713	392,750	–	397,600	–	–	–	4,850	1.2%	45,886
Residential	Roppongi First Plaza	R-3	2,100	2,240	2,340	4.1%	2,440	4.0%	3.8%	4.2%	100	4.3%	199
	Roppongi View Tower	R-4	4,000	4,082	2,940	4.2%	3,010	4.1%	3.9%	4.3%	70	2.4%	△ 1,072
	Sub total			6,100	6,322	5,280	–	5,450	–	–	–	170	3.2%
Retail and others	Laforet Harajuku (Land) (Note 2)	S-1	21,820	22,074	39,200	3.9%	39,900	–	3.9%	–	700	1.8%	17,825
	Sub total			21,820	22,074	39,200	–	39,900	–	–	–	700	6.1%
Total			390,690	380,110	437,230	–	442,950	–	–	–	5,720	1.3%	62,839

(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 25th period shows the discount rate used in the DCF analysis.



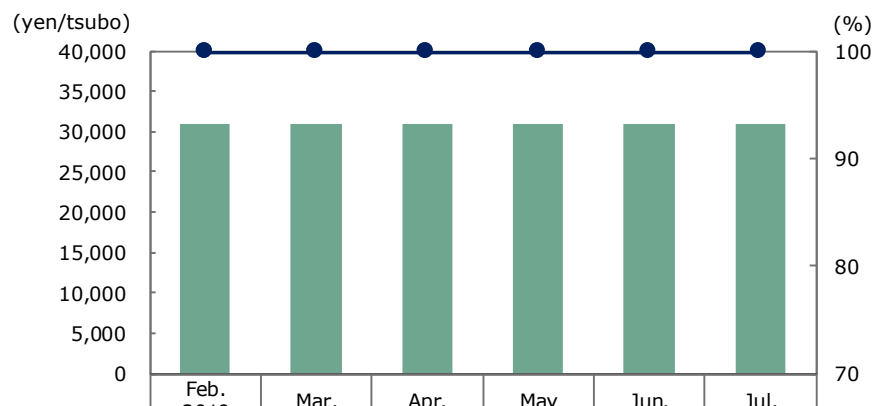
# 3-5 Changes in the rent and occupancy rates



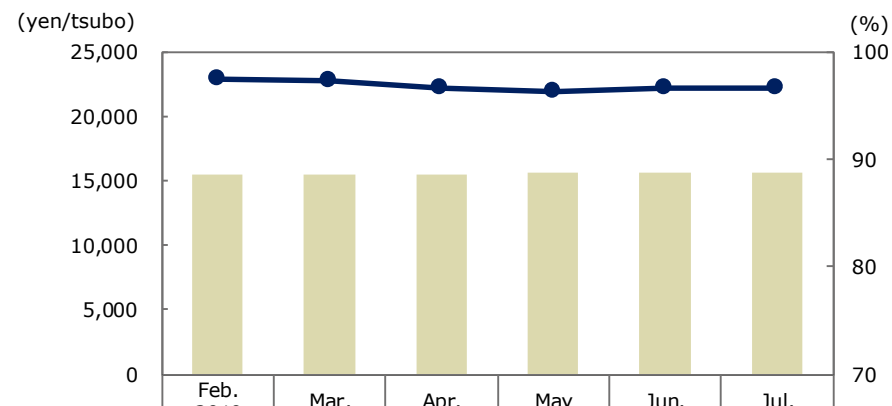
(Note) The above rents and occupancy rates indicate the average rent and the average occupancy rate during relevant fiscal periods.

# 3-6 Tenant status by month and major tenants

## Office: Rent and occupancy rate



## Residential: Rent and occupancy rate



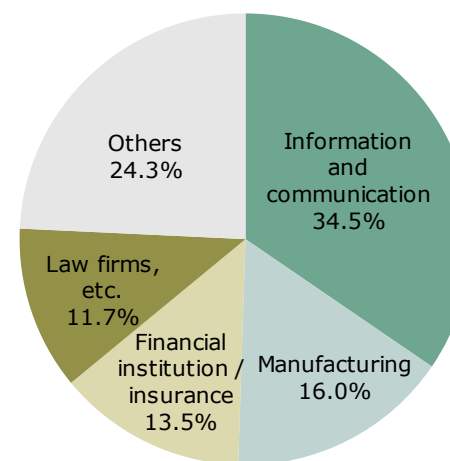
## Top 5 tenants

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 Toranomon Hills Mori Tower	109,845.73 ㎡	63.3%
Mylan Seiyaku Ltd.	Holland Hills Mori Tower	3,458.53 ㎡	2.0%
Mitsubishi UFJ Research and Consulting Co.,Ltd.	Holland Hills Mori Tower	3,195.61 ㎡	1.8%
Showa Leasing Co., Ltd.	Koraku Mori Building	2,683.90 ㎡	1.5%
Mori Building Ryutsu System Co., Ltd.	Laforet Harajuku (Land)	2,565.06 ㎡	1.5%
Total of top 5 tenants		121,748.83 ㎡	70.1%

(Note 1) Leased space is the lease area stated in the lease contract with the end tenant. It is multiplied by the relevant percentage of ownership for each properties.

(Note 2) This indicates the figures as of July 31, 2019.

## 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 July 31, 2019.

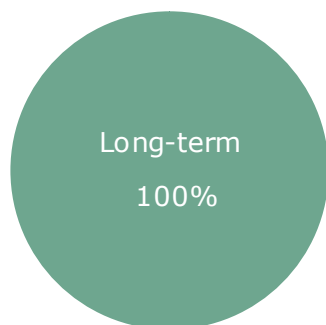
It is multiplied by the relevant percentage of ownership for each property.

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

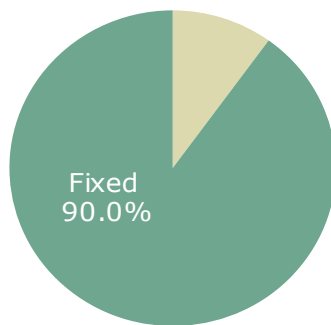
# 3-7 Financial overview (As of July 31, 2019)

## Long-term debt ratio/Fixed rate ratio

<Long-term debt ratio>



<Fixed rate ratio>



## Outstanding balances

Lenders	Balance	Ratio
MUFG Bank, Ltd.	42,296 mn yen	26.9%
Mizuho Bank, Ltd.	27,498 mn yen	17.5%
Sumitomo Mitsui Banking Corporation	23,025 mn yen	14.6%
Sumitomo Mitsui Trust Bank, Limited	20,923 mn yen	13.3%
The Bank of Fukuoka	7,300 mn yen	4.6%
The Norinchukin Bank	7,000 mn yen	4.5%
Resona Bank, Limited.	6,430 mn yen	4.1%
Development Bank of Japan Inc.	5,950 mn yen	3.8%
Shinsei Bank, Limited	4,700 mn yen	3.0%
Mizuho Trust & Banking Co., Ltd.	3,800 mn yen	2.4%
Aozora Bank, Ltd.	3,000 mn yen	1.9%
The Nishi-Nippon City Bank, Ltd.	2,300 mn yen	1.5%
The Hiroshima Bank, Ltd.	1,000 mn yen	0.6%
Oita Bank Co. Ltd.	1,000 mn yen	0.6%
Shinkin Central Bank	1,000 mn yen	0.6%
<b>Total borrowings</b>	<b>157,222 mn yen</b>	<b>100%</b>
Investment corporation bonds	22,000 mn yen	
<b>Total interest-bearing debt</b>	<b>179,222 mn yen</b>	

## Major financial indicator

	End of 25th period Jan. 31, 2019	End of 26th period Jul. 31, 2019
Debt balance	182,222 mn yen	179,222 mn yen
Long-term loan	157,222 mn yen	157,222 mn yen
Investment corporation bonds	25,000 mn yen	22,000 mn yen
LTV (Book value basis) <sup>(Note 1)</sup>	46.2%	45.7%
LTV (Appraisal value basis) <sup>(Note 2)</sup>	40.4%	39.4%
DSCR <sup>(Note 3)</sup>	15.6x	15.4x
Avg. remaining duration	4.3 years	4.4 years
Weighted avg. interest rate	0.50%	0.50%

(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].

# 3-8 Debt status (As of July 31, 2019)

## Debt

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited The Bank of Fukuoka, The Norinchukin Bank, Development Bank of Japan Inc., Shinsei Bank, Limited	11,400	0.44%	2013/11/29	2019/11/30
Mizuho Bank, Ltd., MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation	2,022	0.40%	2014/5/30	2020/5/31
Mizuho Bank, Ltd., MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited Resona Bank, Limited.	5,000	0.38%	2014/8/1	2020/5/31
Aozora Bank, Ltd.	2,000	0.32%	2014/8/29	2019/8/31
Resona Bank, Limited.	2,500	0.32%	2014/8/29	2019/8/31
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited	6,000	0.62%	2014/11/28	2020/11/30
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan Inc.	6,500	0.75%	2014/11/28	2021/11/30
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited	1,700	0.80%	2015/3/27	2023/3/27
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited	6,500	0.57%	2015/5/29	2021/5/31
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited	6,500	0.70%	2015/5/29	2022/5/31
Mizuho Bank, Ltd., MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation	6,000	0.49%	2015/8/31	2021/8/31
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited	2,500	0.65%	2015/9/16	2023/8/31
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited Shinsei Bank, Limited	3,200	0.50%	2015/11/30	2022/11/30
MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited Shinsei Bank, Limited	6,300	0.62%	2015/11/30	2023/11/30
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. The Norinchukin Bank, Resona Bank, Limited. Shinsei Bank, Limited, Mizuho Trust & Banking Co., Ltd. The Hiroshima Bank, Ltd.	7,500	0.33%	2016/3/31	2023/3/31
Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited The Bank of Fukuoka, Development Bank of Japan, Inc. Aozora Bank, Ltd.	7,100	0.41%	2016/3/31	2024/3/31
MUFG Bank, Ltd., Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited	7,200	0.50%	2016/3/31	2025/3/31
Shinkin Central Bank	1,000	0.18%	2016/3/31	2022/9/30
The Norinchukin Bank	500	0.37%	2017/8/1	2024/7/31
Sumitomo Mitsui Banking Corporation	1,100	0.47%	2017/8/1	2025/7/31
Sumitomo Mitsui Trust Bank, Limited	1,000	0.52%	2017/8/1	2026/7/31
The Bank of Fukuoka	500	0.52%	2017/8/1	2026/7/31
Resona Bank, Limited.	500	0.61%	2017/8/1	2027/7/31
Sumitomo Mitsui Trust Bank, Limited	2,000	0.48%	2017/8/1	2028/7/31
Mizuho Bank, Ltd.	1,100	0.58%	2017/8/1	2029/7/31
Mizuho Trust & Banking Co., Ltd.	500	0.58%	2017/8/1	2029/7/31
Oita Bank Co. Ltd.	1,000	0.23%	2017/11/30	2022/11/30
The Norinchukin Bank	600	0.49%	2017/11/30	2024/11/30

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
The Nishi-Nippon City Bank, Ltd.	1,000	0.49%	2017/11/30	2024/11/30
The Bank of Fukuoka	500	0.47%	2018/2/28	2025/8/31
Resona Bank, Limited.	500	0.47%	2018/2/28	2025/8/31
Mizuho Trust & Banking Co., Ltd.	1,500	0.47%	2018/2/28	2025/8/31
Shinsei Bank, Limited	500	0.54%	2018/2/28	2025/8/31
The Nishi-Nippon City Bank, Ltd.	500	0.54%	2018/2/28	2025/8/31
Sumitomo Mitsui Banking Corporation	2,650	0.55%	2018/2/28	2026/2/28
Sumitomo Mitsui Trust Bank, Limited	2,600	0.58%	2018/2/28	2027/2/28
Development Bank of Japan Inc.	750	0.64%	2018/2/28	2027/2/28
MUFG Bank, Ltd.	4,700	0.41%	2018/2/28	2027/8/31
Mizuho Bank, Ltd.	2,700	0.60%	2018/2/28	2030/2/28
Mizuho Bank, Ltd.	3,000	0.19%	2018/5/23	2022/5/23
The Nishi-Nippon City Bank, Ltd.	800	0.26%	2018/8/31	2022/8/31
Sumitomo Mitsui Trust Bank, Limited	2,400	0.33%	2018/8/31	2023/8/31
Mizuho Bank, Ltd.	3,000	0.43%	2018/8/31	2024/8/31
The Bank of Fukuoka	1,300	0.38%	2018/8/31	2024/8/31
The Norinchukin Bank	1,300	0.43%	2018/8/31	2024/8/31
Shinsei Bank, Limited	1,300	0.52%	2018/8/31	2025/8/31
Mizuho Trust & Banking Co., Ltd.	1,300	0.47%	2018/8/31	2025/8/31
Sumitomo Mitsui Banking Corporation	3,600	0.56%	2018/8/31	2026/8/31
Sumitomo Mitsui Trust Bank, Limited	1,400	0.67%	2018/8/31	2027/8/31
Development Bank of Japan Inc.	500	0.67%	2018/8/31	2027/8/31
MUFG Bank, Ltd.	5,000	0.43%	2018/8/31	2028/2/29
Resona Bank, Limited.	1,300	0.48%	2018/8/31	2028/8/31
Mizuho Bank, Ltd.	1,400	0.42%	2018/8/31	2029/8/31
The Bank of Fukuoka	2,000	0.22%	2019/5/31	2026/5/31
The Norinchukin Bank	3,000	0.32%	2019/5/31	2026/5/31
Sumitomo Mitsui Banking Corporation	1,144	0.41%	2019/5/31	2027/11/30
MUFG Bank, Ltd.	3,904	0.29%	2019/5/31	2028/11/30
Mizuho Bank, Ltd.	1,952	0.42%	2019/5/31	2029/5/31
<b>Total</b>	<b>157,222</b>			

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

## Investment corporation bonds

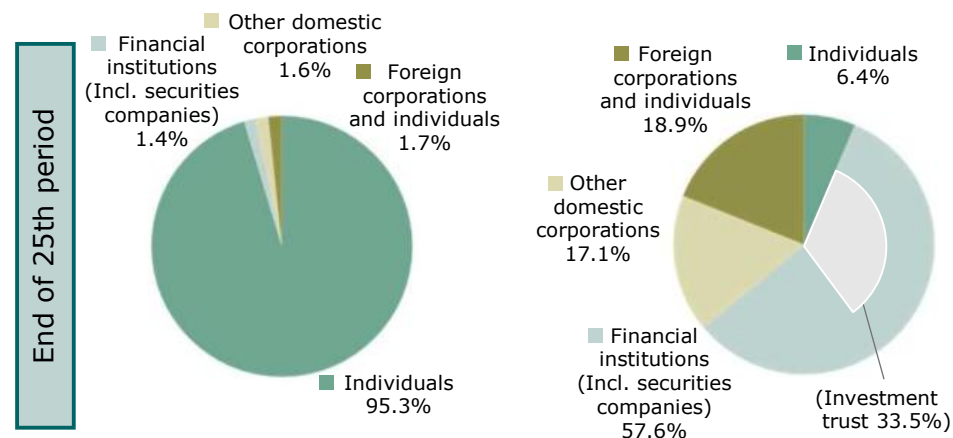
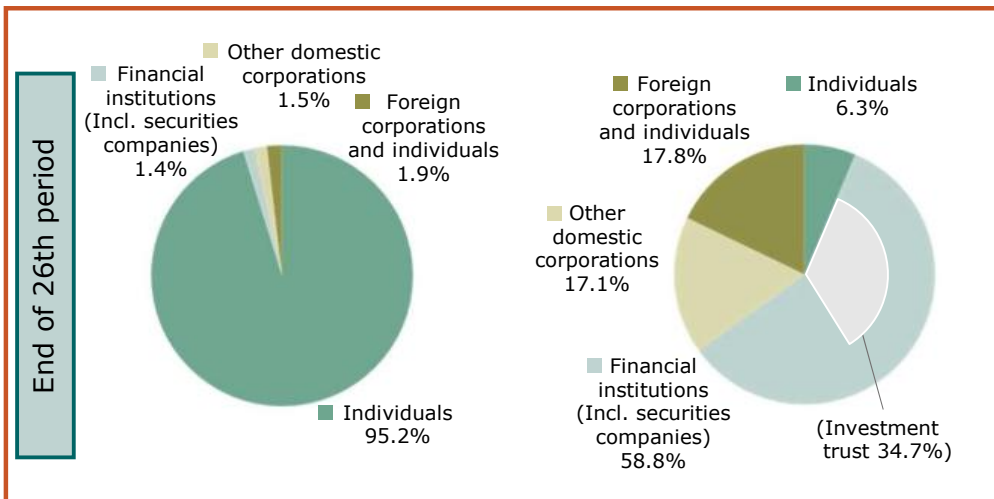
Bond	Amount (mn yen)	Rate of Interest	Payment date	Maturity date
9th Series Unsecured Corporation Bond (7 years)	2,000	1.26%	2013/5/24	2020/5/22
11th Series Unsecured Corporation Bond (7 years)	2,000	0.69%	2014/2/24	2021/2/24
12th Series Unsecured Corporation Bond (10 years)	2,000	0.87%	2014/11/27	2024/11/27
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
19th Series Unsecured Corporation Bond (10 years)	2,000	0.50%	2017/6/30	2027/6/30
<b>Total</b>	<b>22,000</b>			

# 3-9 Unitholders breakdown (As of July 31, 2019)

## Unitholders breakdown

<Number of unitholders>

<Number of investment units>



## Top 10 unitholders

Rank	Name	Number of units held	Ratio
1	Japan Trustee Services Bank, Ltd. (Trust account)	434,418	23.2%
2	Mori Building Co., Ltd.	281,272	15.0%
3	The Master Trust Bank of Japan, Ltd. (Trust account)	224,900	12.0%
4	The Nomura Trust & Banking Co., Ltd. (Investment trust account)	73,300	3.9%
5	Trust & Custody Services Bank, Ltd. (Securities investment trust account)	49,250	2.6%
6	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	24,741	1.3%
7	STATE STREET BANK WEST CLIENT - TREATY 505234	20,835	1.1%
8	Trust & Custody Services Bank, Ltd. (Money trust taxable account)	18,054	1.0%
9	JAPAN SECURITIES FINANCE CO., LTD.	16,632	0.9%
10	Shikoku Railway Company	16,620	0.9%
Total of top 10 unitholders		1,160,022	61.9%

## 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): 2.1% in 2019 → 3.0% in 2020
  - ⇒ Rent index (forecast): 125 in 2019 → 127 in 2020
- 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: 3.0% in Oct. 2018 → 3.0% in Apr. 2019
- Lending attitude toward the real estate industry continues to be highly positive.

- Rents of office buildings in central Tokyo are expected to continue moderate rise for the time being, but the rate of increase may gradually become moderate depending on business sentiment.
- 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:  $\Delta 0.28\%$  (August 30, 2019)
  - ⇒ Core CPI:  $+0.6\%$  (July 2019)
- In the June 2019 preliminary business conditions composite index, the leading index was at 93.3 (1.6 PT decrease from previous month) and the coincident index was at 100.4 (3.0 PT decrease from previous month). Trends is starting to weaken, especially the leading indicators become deteriorated.
- 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.

- Global business sentiment is partly showing signs of decline, attention should be paid to future trends.
- Given the Bank of Japan's monetary policy, the interest rate level is expected to remain low for a while, but it is necessary to assume an interest rate rise in the medium to long term.

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.

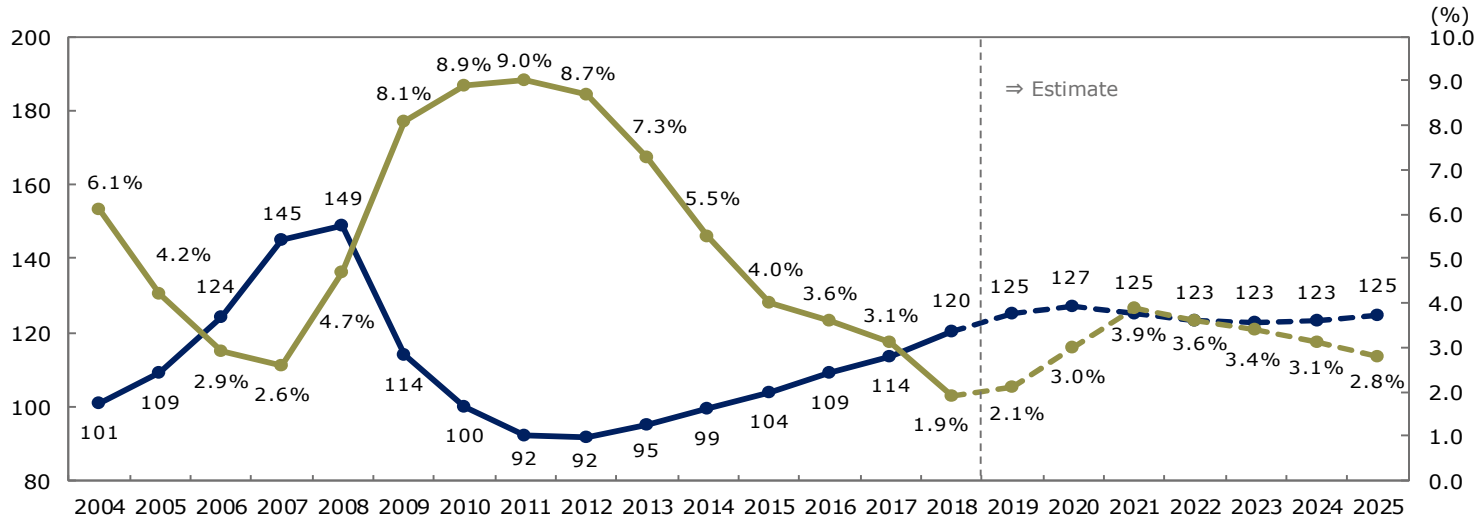
## Policy regarding the entire investment corporation

- **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)

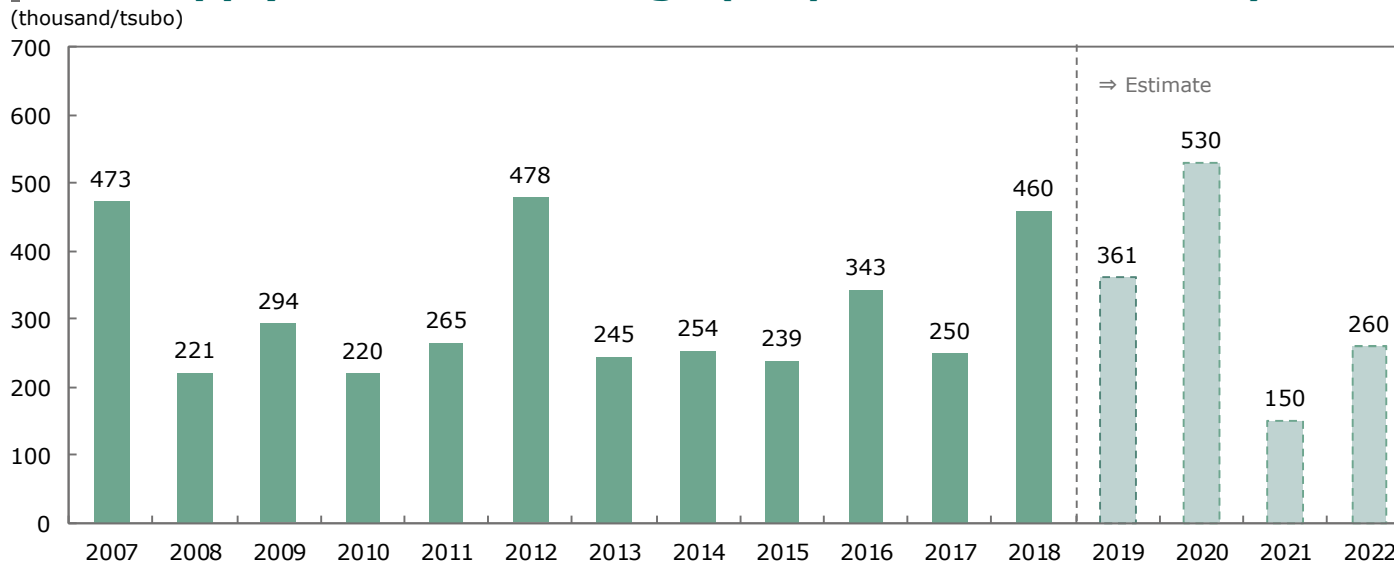
## Change in rent and vacancy rate of office buildings (Tokyo's five central wards)



(Source)  
Prepared by the Asset Manager based on the "Spring 2019 Office Rent Forecast in Tokyo, Osaka and Nagoya (2019-2025)" 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.

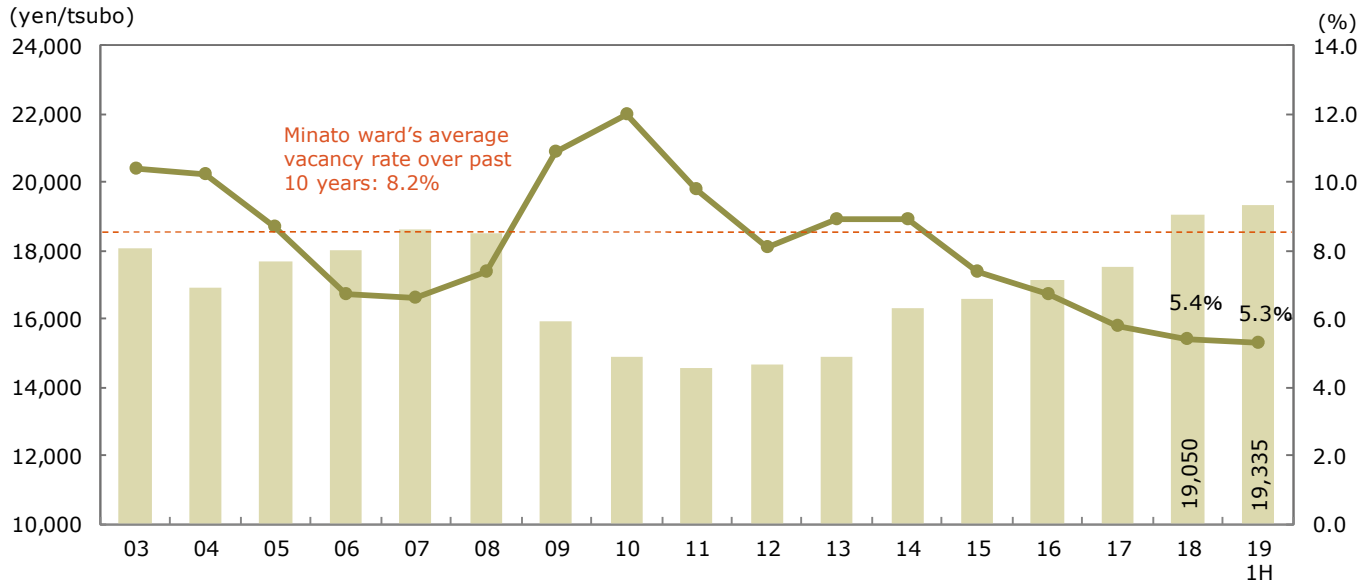
## New supply of office buildings (Tokyo's five central wards)



(Source)  
Prepared by the Asset Manager based on the "Spring 2019 Office Rent Forecast in Tokyo, Osaka and Nagoya (2019-2025)" 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)

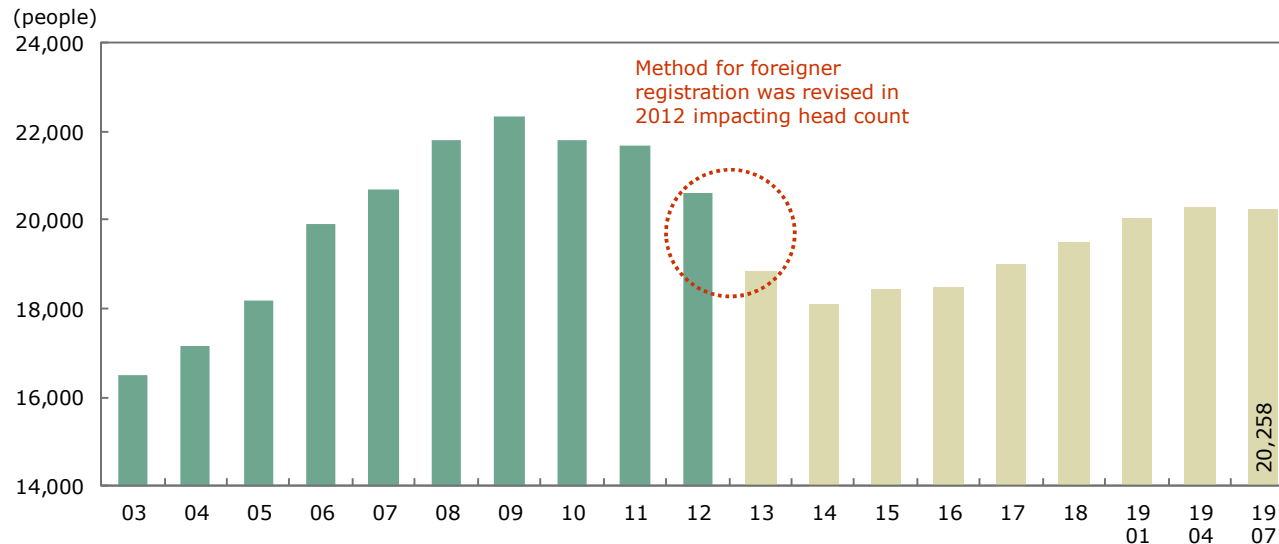


■ Avg. rents of Minato ward  
● Avg. vacancy rates of Minato ward

(Source)  
 Prepared by the Asset Manager based on Ken Real Estate Investment Advisors' "Ken Residential Market Report" included in real estate appraisal reports by Japan Real Estate Institute regarding properties held by MHR.

(Note)  
 Data is based on rental housing with monthly rent of 300,000 yen or more or exclusive floor area of 30 tsubo or more.  
 "Avg. rents of Minato ward" is the contracted rent including the management fee.  
 In the case of years, "Avg. vacancy rates of Minato ward" is the average of the relevant year's January to March, April to June, July to September and October to December figures, and "Avg. rents of Minato ward" is the annual average.

## Change in number of foreign residents in Minato ward



■ No. of foreigners registered under the Ministry of Justice  
■ The population of the Basic Resident Register

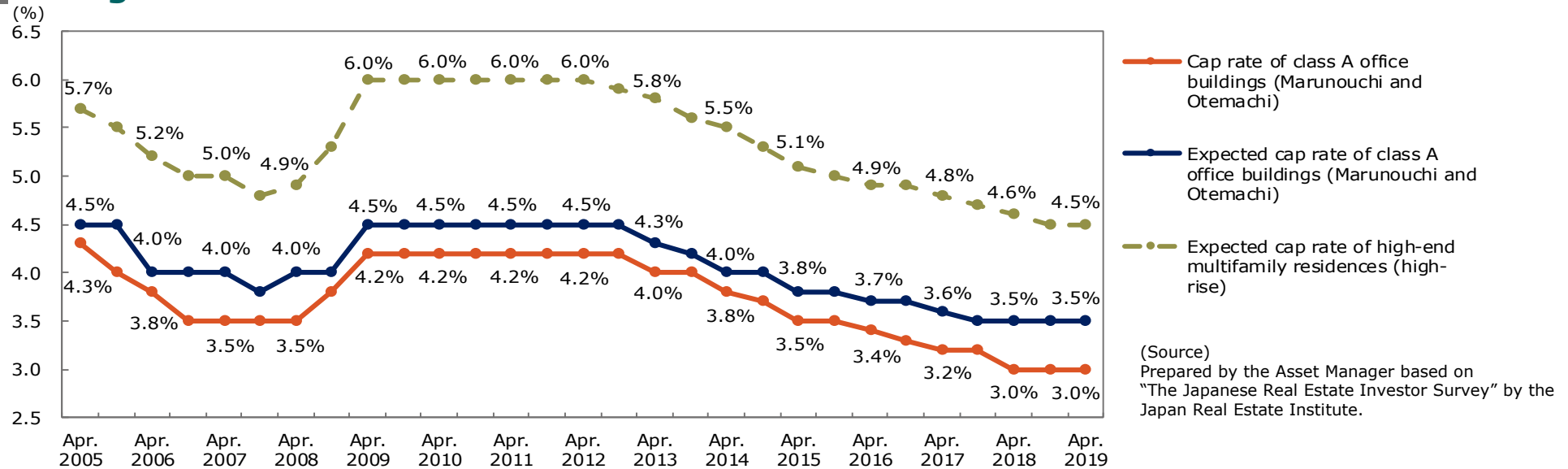
(Source)  
 Prepared by the Asset Manager based on "Number of registered foreign residents" prepared by Statistics Division Bureau of General Affairs of Tokyo.

(Note 1)  
 "Number of foreign residents" was the number of foreigners registered under the Ministry of Justice until 2012. However, as the foreigner registration system was abolished based on revision of the law, the figure is the population of the Basic Resident Register. Therefore, the data may not be consistent.

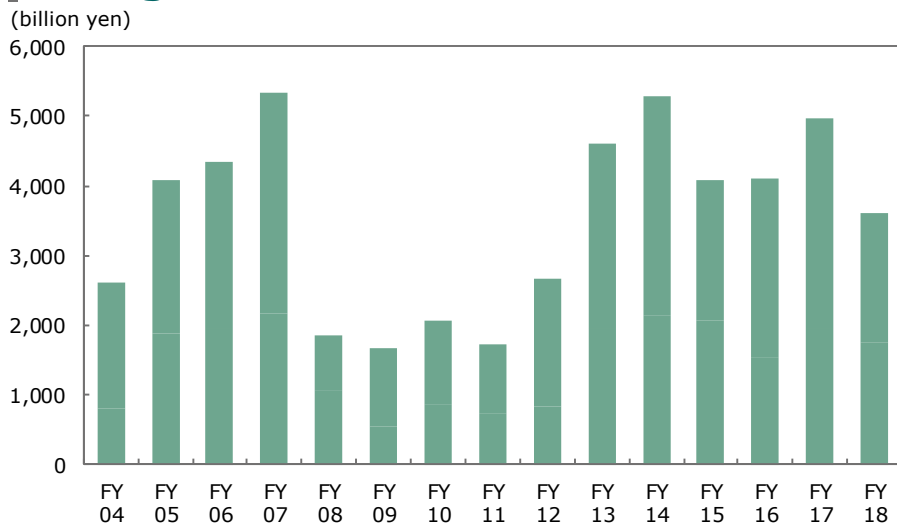
(Note 2)  
 Number of foreign residents as of January 1 of each year is used for the year-based figures.

# 4-5 Market-related information (3)

## Change in return on real estate investment

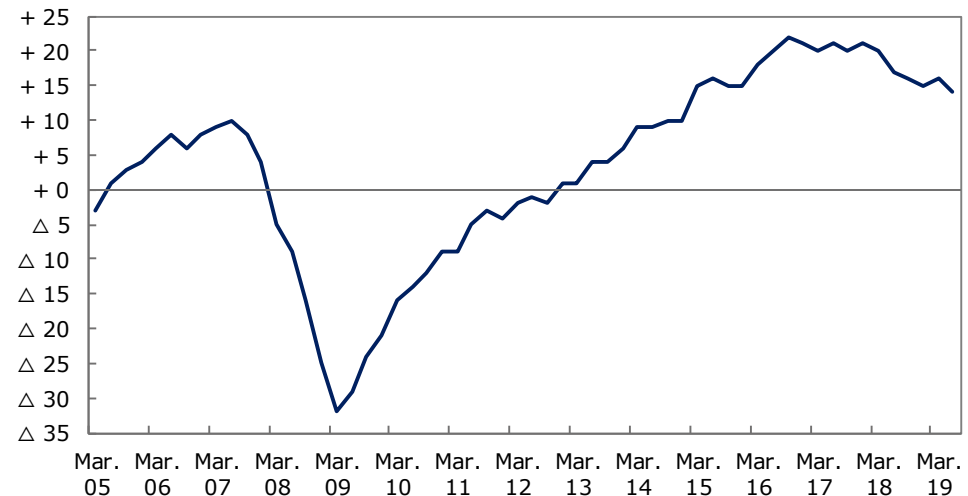


## Change in real estate transaction amount



(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.

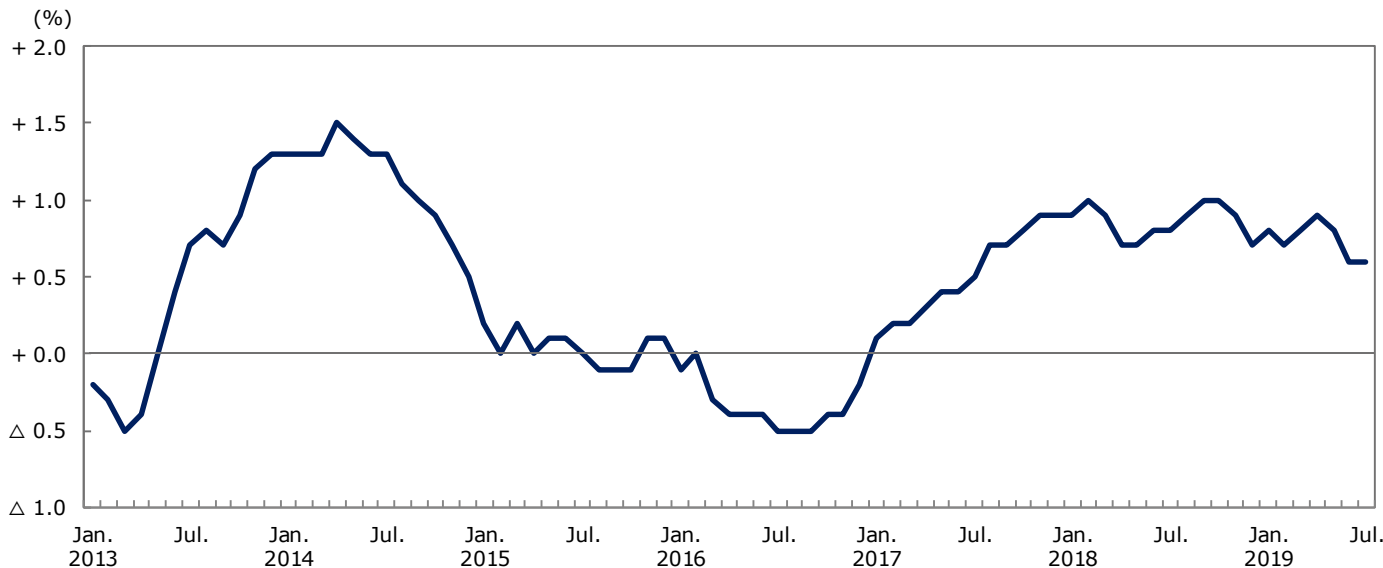
# 4-6 Market-related information (4)

## Change in 10-year bond interest rates



(Source)  
Prepared by the Asset Manager based on Refinitiv.

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



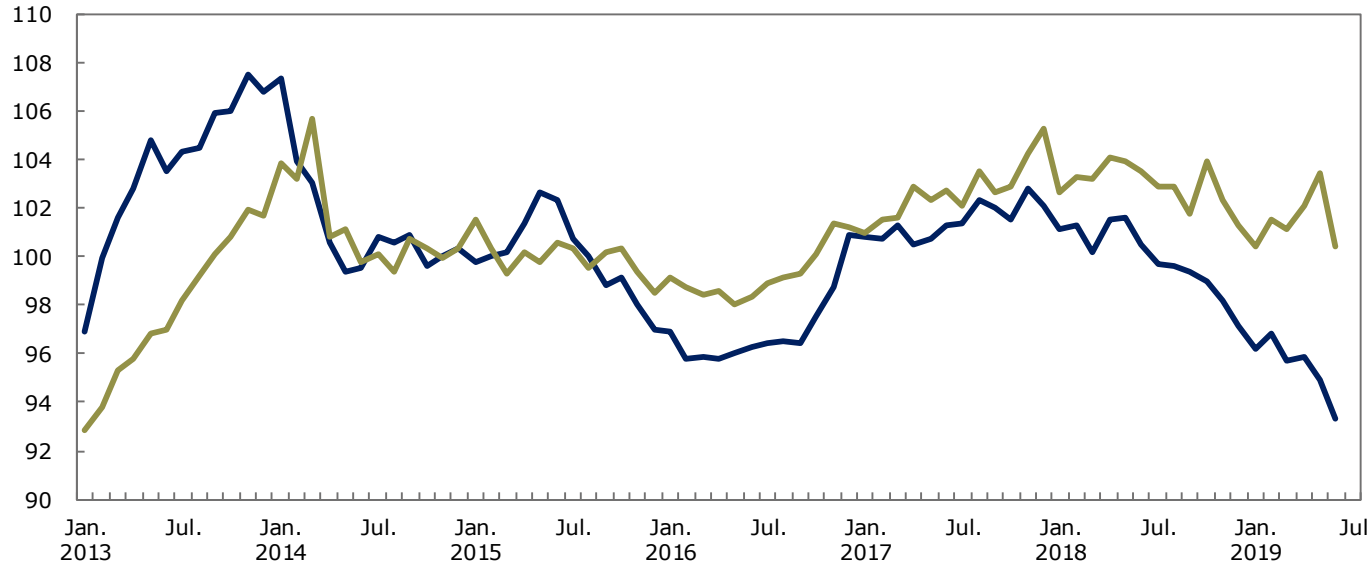
Based on figures excluding the direct effects of the consumption tax rate increase

(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

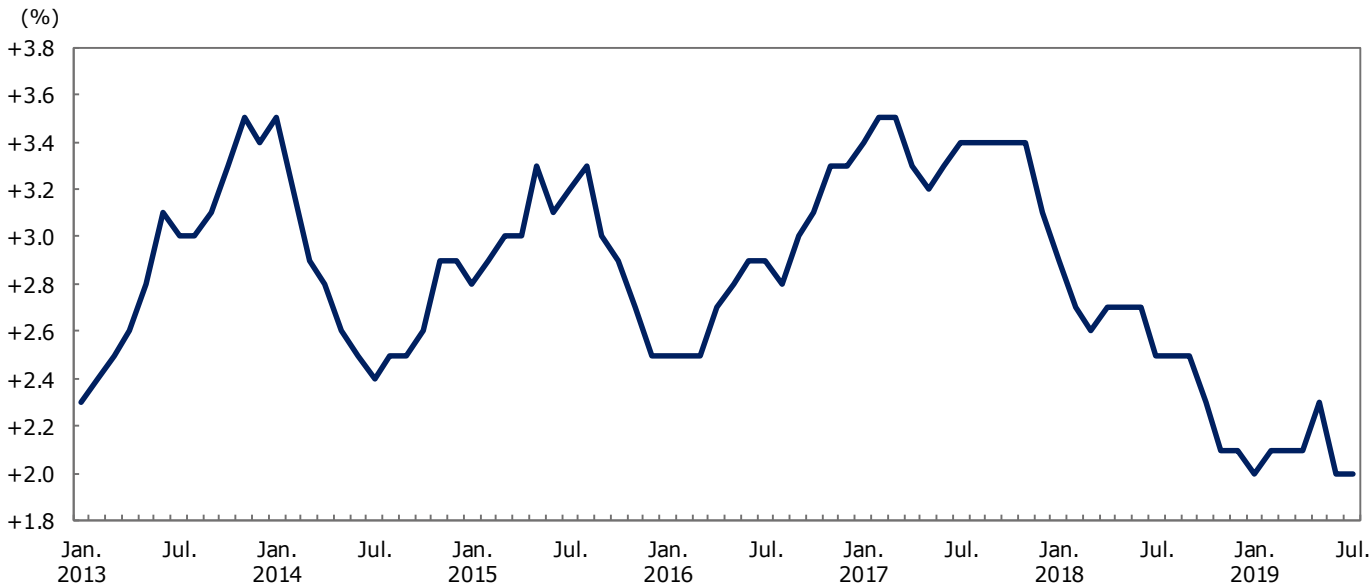


● Leading index  
● Coincident index

(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 2015.

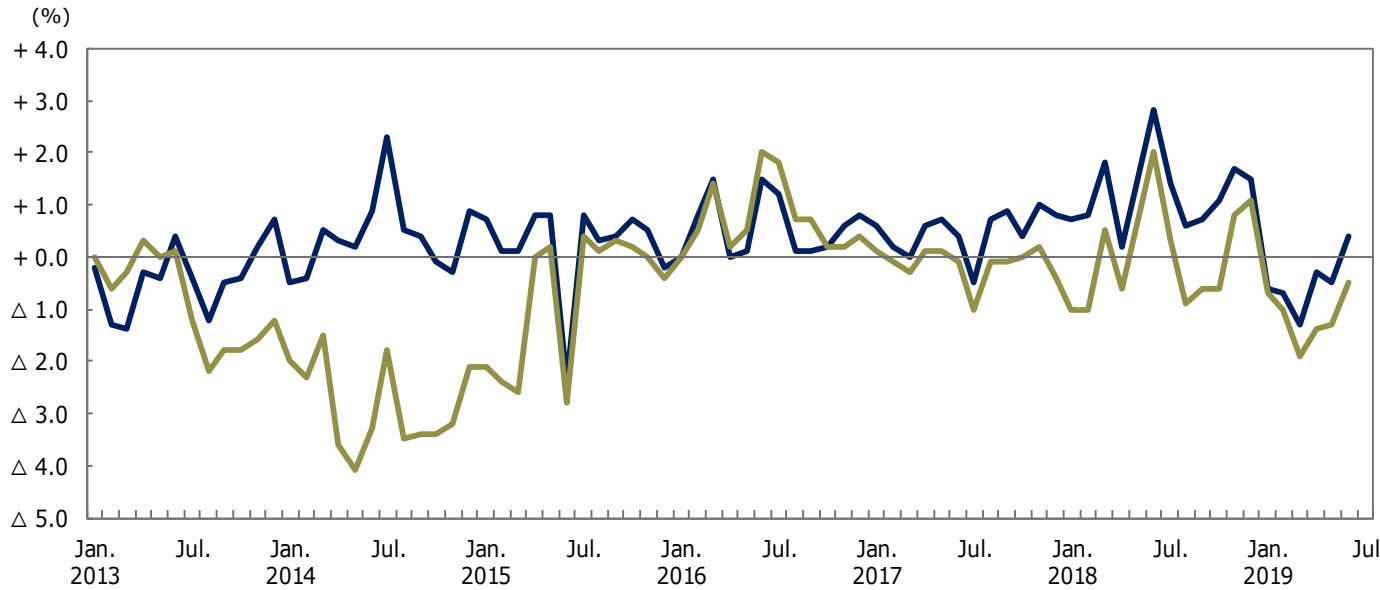
## Money stock (M3: year-on-year comparison)



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

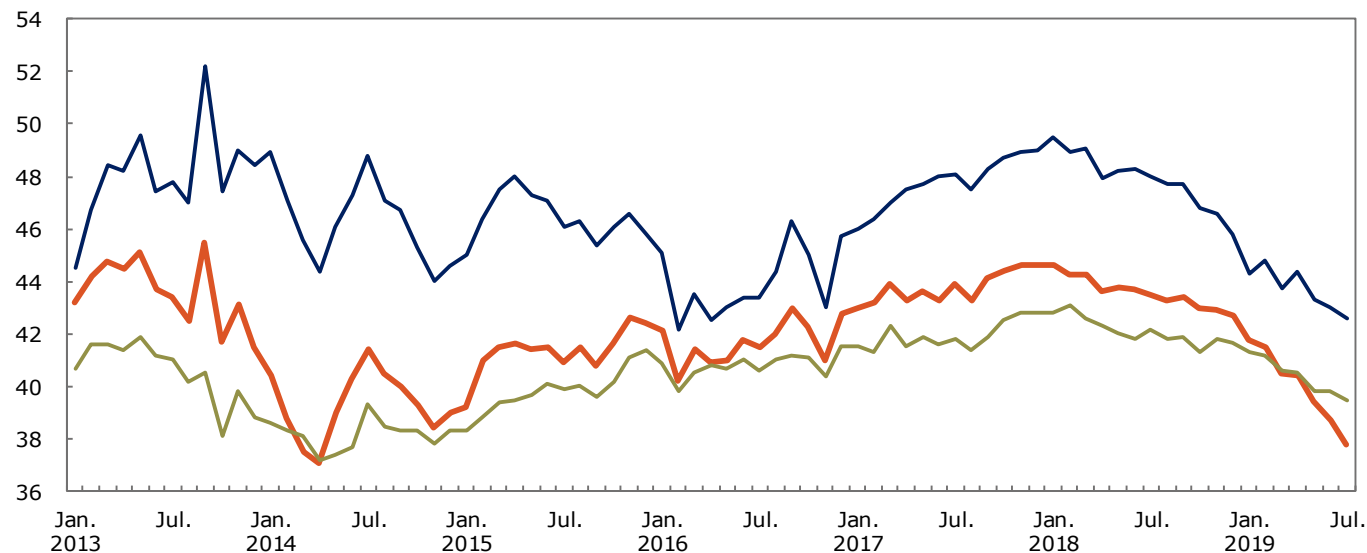
# 4-8 Market-related information (6)

## Total cash earnings (year-on-year comparison)



(Source)  
Prepared by the Asset Manager based on "Monthly Labour Survey (establishments with 5 or more employees)" by the Ministry of Health, Labour and Welfare.

## Consumer confidence survey



(Source)  
Prepared by the Asset Manager based on "Consumer Confidence Survey" by the Cabinet Office.

## 5. Appendix

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# 5-1 Financial highlights

Indices	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019	Calculation formula
Net income	5,292 mn yen	5,344 mn yen	
Depreciation and amortization	1,075 mn yen	1,058 mn yen	
CAPEX	237 mn yen	635 mn yen	
Total assets	394,539 mn yen	392,256 mn yen	
Total net assets	195,578 mn yen	195,336 mn yen	
Total net assets/unit (BPS)	104,310 yen	104,181 yen	Total net assets/Total units outstanding
Unit price (as of end of each period)	144,500 yen	160,300 yen	
Total units outstanding	1,874,960 units	1,874,960 units	
Total dividends	5,291 mn yen	5,343 mn yen	
Dividends/unit	2,822 yen	2,850 yen	
Dividend yield	3.9%	3.6%	Dividends per unit (annualized)/Unit price as of end of period
FFO	6,367 mn yen	6,402 mn yen	Net income + Depreciation and amortization - Gain or loss on sales of real estate properties
FFO/unit	3,396 yen	3,414 yen	FFO/Total units outstanding
Annualized	6,736 yen	6,886 yen	Based on a period of 365 days
FFO multiple	21.5x	23.3x	Unit price as of end of period/FFO per unit (annualized)
PER	25.8x	27.9x	Unit price as of end of period/Net income per unit (average during the periods, annualized)
PBR	1.4x	1.5x	Unit price as of end of period/Net assets per unit
ROA	1.4%	1.4%	Ordinary income/Average of total assets during the period
Annualized	2.8%	2.7%	Based on a period of 365 days
ROE	2.8%	2.7%	Net income/Average of total net assets during the period
Annualized	5.6%	5.5%	Based on a period of 365 days
NAV	252,276 mn yen	258,176 mn yen	Total net assets + Total appraisal value - Total book value - Total liabilities
NAV/unit	134,550 yen	137,697 yen	
NAV multiple	1.1x	1.2x	Unit price as of end of period/NAV per unit
Interest-bearing debt	182,222 mn yen	179,222 mn yen	
LTV (book value basis)	46.2%	45.7%	Interest-bearing debt/Total assets
LTV (appraisal value basis)	40.4%	39.4%	Interest-bearing debt/(Total assets + Total appraisal value - Total book value)
Operating days	184 days	181 days	



# 5-2 Balance sheet

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
<b>Assets</b>		
Current assets	12,879,664	11,021,912
Cash and deposits	5,431,643	3,923,970
Cash and deposits in trust	6,374,508	6,295,543
Other	1,073,511	802,398
Noncurrent assets	381,541,783	381,133,241
Property, plant and equipment	349,880,238	349,458,688
Intangible assets	30,652,121	30,651,335
Investments and other assets	1,009,423	1,023,217
Deferred assets	118,511	101,365
<b>Total assets</b>	<b>394,539,959</b>	<b>392,256,519</b>

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
<b>Liabilities</b>		
Current liabilities	32,756,858	30,265,364
Current portion of investment corporation bonds	3,000,000	5,000,000
Current portion of long-term loans payable	27,900,000	22,922,000
Other	1,856,858	2,343,364
Noncurrent liabilities	166,204,431	166,654,327
Investment corporation bonds	22,000,000	17,000,000
Long-term loans payable	129,322,000	134,300,000
Lease and guarantee deposited in trust	14,391,619	14,570,283
Other	490,812	784,044
<b>Total liabilities</b>	<b>198,961,290</b>	<b>196,919,691</b>
<b>Net assets</b>		
Unitholders' equity	196,067,964	196,121,658
Unitholders' capital, net	190,460,106	(Note) 190,285,734
Total surplus	5,607,858	5,835,924
Voluntary retained earnings	291,944	291,944
Unappropriated retained earnings	5,315,914	5,543,979
Valuation and translation adjustments	△ 489,295	△ 784,831
Deferred gains or losses on hedges	△ 489,295	△ 784,831
<b>Total net assets</b>	<b>195,578,668</b>	<b>195,336,827</b>
<b>Total liabilities and net assets</b>	<b>394,539,959</b>	<b>392,256,519</b>

(Note) Figure after deducting allowance for temporary difference adjustments.

# 5-3 Income statement

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019	
Operating revenue	9,423,895	9,561,876	
Rent revenues	9,170,318	9,323,944	Office 7,830,373 Residential 774,821 Retail 83,593 Land 629,400 Other rent revenue 5,756
Other operating revenues	253,577	237,931	
Operating expenses	3,477,948	3,589,931	
Expenses related to properties	3,131,002	3,225,332	
Asset management fee	245,488	260,906	
Directors' compensation	4,200	4,200	
Asset custody fee	9,058	9,863	
Administrative service fees	19,166	19,861	
Other operating expenses	69,031	69,767	
Operating income	5,945,947	5,971,944	
Non-operating income	1,204	1,985	
Interest income	51	58	
Gain on forfeiture of unclaimed dividends	1,128	979	
Other	24	947	
Non-operating expenses	653,502	627,646	
Interest expenses	363,550	375,336	
Interest expenses on investment corporation bonds	73,965	68,555	
Amortization of investment corporation bonds issuance cost	11,613	10,193	
Borrowing expenses	174,101	164,678	
Amortization of investment unit issuance cost	28,363	6,952	
Other	1,907	1,930	
Ordinary income	5,293,648	5,346,284	
Income before income taxes	5,293,648	5,346,284	
Net income	5,292,242	5,344,831	
Unappropriated retained earnings	5,315,914	5,543,979	

Office	7,830,373
Residential	774,821
Retail	83,593
Land	629,400
Other rent revenue	5,756
Parking revenue	59,861
Utilities and other revenue	175,152
Cancellation penalty	2,917
Property management fees	1,082,549
Property taxes	659,480
Utilities	142,229
Maintenance and repairs	117,152
Insurance premium	17,180
Custodian fees	5,950
Depreciation	1,057,798
Rent expenses	126,872
Other lease business expenses	16,118

# 5-4 Statement of cash flows/Retained earnings

## Statement of cash flows

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Net cash provided by (used in) operating activities	6,167,720	7,147,955
Income before income taxes	5,293,648	5,346,284
Depreciation and amortization	1,075,178	1,058,120
Amortization of investment corporation bonds issuance cost	11,613	10,193
Amortization of investment unit issuance cost	28,363	6,952
Interest income	△ 51	△ 58
Gain on forfeiture of unclaimed dividends	△ 1,128	△ 979
Interest expenses	437,515	443,892
Decrease (increase) in accounts receivable	△ 195,865	279,706
Increase (decrease) in accounts payable	△ 114,701	421,879
Increase (decrease) in accrued expenses	21,705	15,761
Increase (decrease) in advances received	115,157	△ 4,105
Decrease (increase) in prepaid expenses	△ 64,913	△ 20,520
Other, net	△ 333	41,479
Subtotal	6,606,189	7,598,606
Interest income received	51	58
Interest expenses paid	△ 437,495	△ 449,279
Income taxes paid	△ 1,024	△ 1,430

Net cash provided by (used in) investing activities	△ 29,578,166	△ 445,080
Purchase of property, plant and equipment in trust	△ 30,891,345	△ 620,364
Repayments of lease and guarantee deposited in trust	△ 24,574	△ 66,699
Proceeds from lease and guarantee deposited in trust	1,337,753	241,984

(thousand yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
Net cash provided by (used in) financing activities	25,467,966	△ 8,289,514
Proceeds from long-term loans payable	24,600,000	12,000,000
Repayments of long-term loans payable	△ 10,500,000	△ 12,000,000
Redemption of investment corporation bonds	—	△ 3,000,000
Proceeds from issuance of investment units	16,186,522	—
Dividends paid	△ 4,818,556	△ 5,289,514
Net increase (decrease) in cash and cash equivalents	2,057,520	△ 1,586,638
Cash and cash equivalents at beginning of the period	9,748,631	11,806,152
Cash and cash equivalents at the end of the period	11,806,152	10,219,514

## Retained earnings

(yen)

	25th period Period ended Jan. 31, 2019	26th period Period ended Jul. 31, 2019
I Unappropriated retained earnings	5,315,914,348	5,543,979,968
II Addition of dividends in excess of earnings	174,371,280	294,368,720
Allowance for temporary difference adjustments	174,371,280	294,368,720
III Amount of Dividends	5,291,137,120	5,343,636,000
Amount of dividends per unit	2,822	2,850
Dividends of earnings	5,116,765,840	5,049,267,280
Dividends of earnings per unit	2,729	2,693
Allowance for temporary difference adjustments	(Note) 174,371,280	(Note) 294,368,720
Dividends in excess of earnings per unit	93	157
(allowance for temporary difference adjustments)		
IV Retained earnings carried forward	199,148,508	494,712,688

(Note) Due to consideration of the impact of the items of deduction from net assets (deferred gains or losses on hedges).

# 5-5 Status of income and expenditures (1)

(thousand yen)

Property number	O-0			O-1			O-4			O-6		
Property name	Roppongi Hills Mori Tower			ARK Mori Building			Koraku Mori Building			Akasaka Tameike Tower		
Acquisition price	115,380,000			62,480,000			27,200,000			43,930,000		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	100%	100%	0.0PT	100%	100%	0.0PT	100%	99.4%	△ 0.6PT	99.0%	98.0%	△ 1.0PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	100%	100%	0.0PT	100%	99.6%	△ 0.4PT	96.8%	98.6%	1.8PT
Number of tenants	1	1	0	1	1	0	23	22	△ 1	143	141	△ 2
Rent revenues	2,943,450	2,943,450	—	1,351,486	1,351,486	—	648,400	652,669	4,268	755,277	782,237	26,959
Other operating revenues	—	—	—	—	—	—	100,445	90,364	△ 10,080	85,649	83,093	△ 2,556
Total property operating revenue	2,943,450	2,943,450	—	1,351,486	1,351,486	—	748,846	743,033	△ 5,812	840,927	865,330	24,402
Property management	412,351	412,351	—	167,795	167,795	—	61,268	68,904	7,635	166,741	160,883	△ 5,858
Property taxes (Note 1)	233,476	240,650	7,174	77,942	80,724	2,782	30,636	32,902	2,266	42,378	42,330	△ 47
Utilities	—	—	—	—	—	—	79,822	69,855	△ 9,967	32,722	29,679	△ 3,042
Maintenance and repairs	—	—	—	355	—	△ 355	5,895	5,221	△ 674	41,485	89,917	48,431
Insurance premium	4,179	4,083	△ 95	1,873	1,889	15	1,714	1,675	△ 39	2,134	2,084	△ 49
Depreciation (1)	392,638	352,789	△ 39,849	63,758	64,946	1,187	93,452	96,017	2,565	139,189	140,814	1,624
Other expenses (Note 2)	376	377	0	2,793	2,794	0	83,094	83,954	860	11,082	10,605	△ 476
Total property operating expenses	1,043,022	1,010,253	△ 32,769	314,519	318,150	3,631	355,884	358,532	2,647	435,734	476,315	40,581
Property operating income (2)	1,900,427	1,933,197	32,769	1,036,967	1,033,336	△ 3,631	392,961	384,501	△ 8,460	405,193	389,015	△ 16,178
NOI (3) ((1)+(2))	2,293,066	2,285,986	△ 7,079	1,100,726	1,098,282	△ 2,443	486,414	480,519	△ 5,894	544,382	529,829	△ 14,553
Annualized NOI	4,548,745	4,609,863	61,117	2,183,505	2,214,768	31,262	964,897	969,003	4,105	1,079,889	1,068,440	△ 11,449
Annualized NOI/ Acquisition price	3.9%	4.0%	0.1PT	3.5%	3.5%	0.1PT	3.5%	3.6%	0.0PT	2.5%	2.4%	△ 0.0PT
CAPEX (4)	—	173,176	173,176	57,027	47,086	△ 9,940	45,077	43,668	△ 1,408	39,884	109,503	69,618
NCF (3)-(4)	2,293,066	2,112,810	△ 180,255	1,043,698	1,051,195	7,497	441,336	436,850	△ 4,486	504,498	420,326	△ 84,171

(Note 1) For property tax, city planning tax and depreciable assets tax, MHR charges the amount of property taxes assessed and determined applicable to the fiscal period to expenses related to properties. Registered owners of properties in Japan as of January 1 are responsible for paying property taxes for the calendar year based on assessments by local governments. Therefore, registered owners who sold properties to MHR were liable for property taxes for the calendar year, including the period from the date of the acquisition by MHR until the end of the year. MHR reimbursed sellers of properties for the equivalent amount of property taxes and included the amount in the acquisition cost of real estate.

(Note 2) "Other expenses" denotes the sum of custodian fees, rent expenses, and other lease business expenses (residential property management costs, and other property-related miscellaneous expenses) in aggregate.

(Note 3) Property acquired during the relevant period. "Annualized NOI/ Acquisition price" was calculated by taking into consideration the changes in acquisition price during the relevant period.

"Annualized NOI" denotes the value which is based on the acquisition price as of the end of the relevant period.

# 5-6 Status of income and expenditures (2)

(thousand yen)

Property number	O-7			O-8			O-9			O-10		
Property name	Atago Green Hills			ARK Hills South Tower			Toranomori Hills Mori Tower			Holland Hills Mori Tower		
Acquisition price	42,090,000			19,150,000			36,210,000 (before acquisition 10,140,000)			16,330,000 (before acquisition 11,760,000)		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	100%	100%	0.0PT	98.3%	99.9%	1.6PT	100%	100%	0.0PT	100%	100%	0.0PT
Avg. Occupancy rate (during period)	100%	100%	0.0PT	98.3%	99.1%	0.8PT	100%	100%	0.0PT	100%	100%	0.0PT
Number of tenants	1	1	0	42	43	1	1	1	0	24	24	0
Rent revenues	1,012,320	1,012,320	—	472,458	480,659	8,200	676,307	775,581	99,274	495,055	516,131	21,076
Other operating revenues	—	—	—	35,814	31,746	△ 4,068	—	—	—	31,666	30,451	△ 1,215
Total property operating revenue	1,012,320	1,012,320	—	508,273	512,405	4,132	676,307	775,581	99,274	526,722	546,583	19,860
Property management	2,664	2,664	—	47,195	48,709	1,513	78,806	90,374	11,567	96,600	102,029	5,429
Property taxes (Note 1)	68,655	68,806	150	32,951	34,563	1,611	8,030	33,818	25,787	19,895	27,732	7,837
Utilities	—	—	—	36,692	32,097	△ 4,595	—	—	—	8,441	8,113	△ 327
Maintenance and repairs	—	—	—	3,001	3,799	797	—	—	—	1,617	6,925	5,308
Insurance premium	3,426	3,533	106	1,048	1,026	△ 22	1,104	1,267	162	946	1,047	101
Depreciation (1)	178,221	181,625	3,403	44,212	44,225	13	89,420	101,038	11,617	44,640	47,308	2,667
Other expenses (Note 2)	44,867	43,477	△ 1,389	978	2,941	1,963	63	71	7	202	209	7
Total property operating expenses	297,835	300,106	2,270	166,080	167,362	1,281	177,425	226,569	49,143	172,344	193,366	21,022
Property operating income (2)	714,484	712,213	△ 2,270	342,192	345,042	2,850	498,881	549,012	50,131	354,378	353,216	△ 1,161
NOI (3) ((1)+(2))	892,706	893,839	1,132	386,405	389,268	2,863	588,302	650,050	61,748	399,019	400,524	1,505
Annualized NOI	1,770,858	1,802,493	31,635	766,510	784,989	18,478	1,340,044	1,310,875	△ 29,169	833,359	807,687	△ 25,671
Annualized NOI/Acquisition price	4.2%	4.3%	0.1PT	4.0%	4.1%	0.1PT	3.7%	3.6%	△ 0.1PT	5.1%	4.9%	△ 0.2PT
CAPEX (4)	33,649	186,454	152,804	—	2,167	2,167	—	—	—	13,371	19,751	6,380
NCF (3)-(4)	859,056	707,385	△ 151,671	386,405	387,101	695	588,302	650,050	61,748	385,647	380,772	△ 4,874

# 5-7 Status of income and expenditures (3)

(thousand yen)

Property number	R-3			R-4			S-1			Portfolio total		
Property name	Roppongi First Plaza			Roppongi View Tower			Laforet Harajuku (Land)					
Acquisition price	2,100,000			4,000,000			21,820,000			390,690,000 (before acquisition 360,050,000)		
Period	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th Jan. 2019	26th Jul. 2019	Difference	25th (Note 3) Jan. 2019	26th Jul. 2019	Difference
Operation days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days	184 days	181 days	△ 3 days
Occupancy rate	92.9%	87.4%	△ 5.5PT	96.8%	95.1%	△ 1.7PT	100%	100%	0.0PT	99.6%	99.4%	△ 0.2PT
Avg. Occupancy rate (during period)	96.7%	87.8%	△ 8.9PT	94.9%	93.9%	△ 1.0PT	100%	100%	0.0PT	99.4%	99.4%	0.0PT
Number of tenants	39	37	△ 2	89	87	△ 2	1	1	0	365	359	△ 6
Rent revenues	85,648	78,796	△ 6,851	100,512	101,211	698	629,400	629,400	—	9,170,318	9,323,944	153,626
Other operating revenues	—	—	—	—	2,276	2,276	—	—	—	253,577	237,931	△ 15,645
Total property operating revenue	85,648	78,796	△ 6,851	100,512	103,487	2,975	629,400	629,400	—	9,423,895	9,561,876	137,981
Property management	14,892	13,165	△ 1,726	13,643	15,671	2,028	—	—	—	1,061,959	1,082,549	20,589
Property taxes (Note 1)	7,496	7,718	222	11,432	11,739	306	74,752	78,492	3,740	607,648	659,480	51,832
Utilities	1,302	1,326	24	1,098	1,156	57	—	—	—	160,080	142,229	△ 17,850
Maintenance and repairs	8,021	10,020	1,999	1,253	1,268	15	—	—	—	61,629	117,152	55,523
Insurance premium	235	230	△ 5	352	343	△ 8	—	—	—	17,014	17,180	165
Depreciation (1)	12,395	12,017	△ 378	16,859	17,015	155	—	—	—	1,074,791	1,057,798	△ 16,992
Other expenses (Note 2)	3,835	3,822	△ 12	585	686	100	—	—	—	147,879	148,941	1,061
Total property operating expenses	48,178	48,302	124	45,225	47,881	2,656	74,752	78,492	3,740	3,131,002	3,225,332	94,329
Property operating income (2)	37,470	30,494	△ 6,975	55,287	55,606	318	554,648	550,907	△ 3,740	6,292,892	6,336,544	43,651
NOI (3) ((1)+(2))	49,865	42,512	△ 7,353	72,147	72,621	474	554,648	550,907	△ 3,740	7,367,683	7,394,342	26,658
Annualized NOI	98,918	85,728	△ 13,189	143,118	146,447	3,328	1,100,252	1,110,946	10,693	14,823,744	14,911,243	87,498
Annualized NOI/Acquisition price	4.7%	4.1%	△ 0.6PT	3.6%	3.7%	0.1PT	5.0%	5.1%	0.1PT	3.8%	3.8%	0.0PT
CAPEX (4)	4,627	5,840	1,212	43,895	48,039	4,143	—	—	—	237,533	635,687	398,154
NCF (3)-(4)	45,238	36,671	△ 8,566	28,251	24,582	△ 3,669	554,648	550,907	△ 3,740	7,130,150	6,758,654	△ 371,495

# 5-8 Unit price performance since IPO

## Relative price performance (Since IPO - July 31, 2019)



(Source) Prepared by the Asset Manager based on Refinitiv.  
(Note) Rebased to 100 as per IPO price

## Unit price per period-end (closing price)

Accounting period	Unit price
1st (January 2007)	1,100,000 yen
2nd (July 2007)	1,080,000 yen
3rd (January 2008)	716,000 yen
4th (July 2008)	465,000 yen
5th (January 2009)	265,000 yen
6th (July 2009)	352,000 yen
7th (January 2010)	264,900 yen
8th (July 2010)	177,300 yen
9th (January 2011)	281,000 yen
10th (July 2011)	258,100 yen

Accounting period	Unit price
11th (January 2012)	252,200 yen
12th (July 2012)	330,500 yen
13th (January 2013)	485,000 yen
14th (July 2013)	548,000 yen
15th (January 2014)	135,900 yen
16th (July 2014)	151,100 yen
17th (January 2015)	166,600 yen
18th (July 2015)	145,300 yen
19th (January 2016)	152,100 yen
20th (July 2016)	160,500 yen

Accounting period	Unit price
21st (January 2017)	153,500 yen
22nd (July 2017)	138,900 yen
23rd (January 2018)	137,100 yen
24th (July 2018)	138,100 yen
25th (January 2019)	144,500 yen
26th (July 2019)	160,300 yen

### (Reference)

IPO Price (November 30, 2006) (Split adjusted)	750,000 yen (150,000 yen)
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High (May 8, 2007: in trade) (Split adjusted)	1,460,000 yen (292,000 yen)
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Low (August 12, 2010: in trade) (Split adjusted)	168,200 yen (33,640 yen)
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(Note) Implemented a 5-for-1 investment unit split on February 1, 2014 (effective date).

## Investments focusing on Premium Properties for development of urban-type portfolio

### Investments focusing on Premium Properties

Among properties that are located in Tokyo's five central wards and in surrounding areas, our investments mainly focus on "Premium Properties" that are able to maintain their competitiveness going forward based on their quality, size and specification.

Focus on Premium Properties
<p>Premium properties</p> <p><b>50%</b> or more</p> <p>〈Office buildings〉 〈Residential properties〉 〈Retail facilities〉</p>

#### Premium Properties

Type	Location	Scale
Office buildings	Tokyo's five central wards and their vicinity	Gross floor area of 10,000㎡ or more per building Standard leasable floor area of 1,000㎡ or more
Residential properties	Tokyo's five central wards and their vicinity (Primarily in the "three-A" area)	Gross floor area of 2,000㎡ or more per building
Retail facilities	〈Department stores, downtown shopping centers, large specialty stores & retail complexes, etc.〉	
	Flourishing areas of Tokyo's five central wards and their vicinity	Gross floor area of 10,000㎡ or more per building
	〈Street front luxury brand shops, etc.〉	
	Exclusive, well-known retail destinations such as Ginza area, Aoyama area, and Omotesando area	Gross floor area of 1,000㎡ or more per building

(Note 1) Tokyo's five central wards: Minato, Chiyoda, Chuo, Shinjuku and Shibuya ward

(Note 2) Three-A area: Akasaka and Roppongi area, Aoyama and Harajuku area and Azabu and Hiroo area

(Note 3) Ratios are based on the acquisition prices.

(Note 4) Tokyo Metropolitan Area: Tokyo Metropolis, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture

Office building focus
<p>Office building</p> <p><b>50%</b> or more</p>

Tokyo's five central wards focus
<p>Tokyo's five central wards and their vicinity</p> <p><b>50%</b> or more</p> <p>(Tokyo Metropolitan Area: 80% or more)</p>

Earthquake-resistance focus
<p>Investment focused on properties' earthquake resistance, the safety of the area, disaster countermeasures, etc.</p>



# 5-10 Sustainability initiatives

## Approach and System of Sustainability

Mori Hills REIT Investment Corporation (MHR) and Mori Building Investment Management Co., Ltd. (MIM) aim to contribute to the creation and development of cities by providing investment opportunities in high-quality urban assets to investors, as stated in the Basic Policy of MHR and Company Mission of MIM.

MHR and MIM aim to contribute to the realization of a sustainable society and maximization of unitholder value in the medium to long term by emphasizing ESG (Environment, Social and Governance) and investing in high-quality urban assets while striving to improve various environmental and social performance levels.

## Sustainability Promotion System

Operations connected to sustainability will be promoted primarily by the Sustainability Committee to be established by MIM. The Chairperson of the Committee shall be the President & CEO while all directors and some planning staff shall comprise the committee members. Various initiatives will be implemented based on the Sustainability Promotion Program which is established every fiscal year.

In principle, the Committee shall meet once a month and shall formulate policies and the Sustainability Promotion Program, monitor progress of programs, deliberate various suggestions from departments, etc. in light of social conditions and the operating status of MHR. The President & CEO approves the policies and promotion programs, constantly monitors the thorough promotion of sustainability, and establishes and maintains a sustainability promotion structure as a responsible party in promoting sustainability.

Moreover, sustainability-related efforts shall be reported on periodically to the Board of Directors of both MHR and MIM. Each Board oversees the status of initiatives for important issues related to ESG and the status of compliance and risk management.

## Initiatives Throughout the Entire Supply Chain

Promotion of sustainability operations, whether environmental or social, requires initiatives that involve the whole supply chain. We believe that joint initiatives with various stakeholders of aligned values are necessary.

By actively stimulating interactive communication with stakeholders such as tenants, local residents, property management companies and our sponsor Mori Building that provides the property pipeline, and aligning our values, we aim to contribute to the realization of a sustainable society.

## <Green Building Certification and External Assessment>

### ○ Green Building Certified Properties

Property Name	Type of Assessment	Rating
Roppongi Hills Mori Tower	CASBEE for Existing Buildings	Rank S
ARK Mori Building		Rank S
Koraku Mori Building		Rank A
Akasaka Tameike Tower		Rank A
Atago Green Hills MORI Tower		Rank S
ARK Hills South Tower	DBJ Green Building Certification	4 stars
Toranomon Hills Mori Tower	CASBEE for Existing Buildings	Rank S
Holland Hills Mori Tower		Rank S

(Certificates Coverage Ratio)

	Certified Properties	Portfolio Data	Ratio
In acquisition price	343.7 bn yen	368.8 bn yen	93.2%
In leasable floor area	143,592m <sup>2</sup>	172,136m <sup>2</sup>	83.4%
In number of properties	8 properties	10 properties	80.0%

※ Excluding Laforet Harajuku (Land)

### ○ GRESB Real Estate Rating



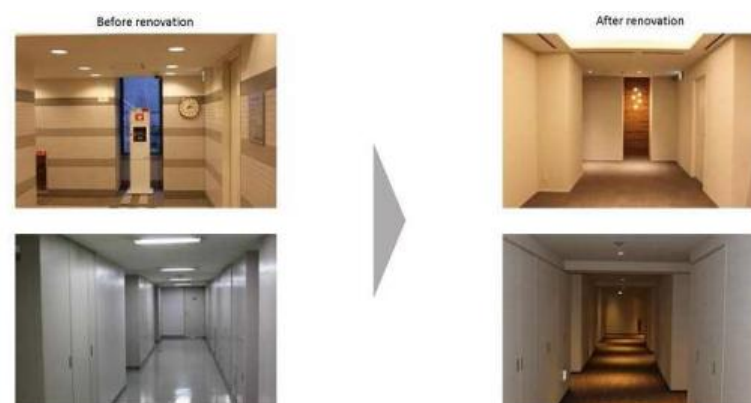
In the 2019 GRESB Survey, MHR received a **"Green Star"** rating for the eighth consecutive year, and **"received 4 Stars"** in the GRESB Rating.

## <Reduction of Environmental Loads>

### ○ Promotion of Energy-conservation

MHR promotes energy-conservation through initiatives such as replacement of LED lighting in common areas and repair work of air-conditioning. MHR also makes active efforts to reduce environmental loads through proper separation and disposal of waste.

(Roppongi View Tower: Renovation of common area with LED lighting)



### ○ Collaborating with Tenants

MHR holds an **"environmental countermeasure council"** once or twice a year depending on the office building. The council generates a report on the efforts to improve sustainability and raises awareness for power saving methods.

MHR also promotes environmental initiatives by communicating with tenants. MHR provides **"WEB cloud services"** as a tool to make tenants' energy usage visible, and offers helpful measures for tenants' energy conservation.

In addition to these efforts, MHR is further deepening relationships with tenants by introducing **"green leases"** which serve to align financial incentives and secure commitments from both parties. MHR is gradually expanding this approach since the introduction of the first green lease in ARK Hills South Tower.

## <Initiatives with Employees>

### ○ Talent Development

To cultivate human resources with flexible thinking and high ethical standards together with a high degree of expertise, mainly in real estate and finance, MHR introduces essential knowledge and skills through on-the-job-training (OJT) and conventional training to improve staff effectiveness, to clarify company issues and to constantly improve management methods. MHR conducts a semi-annual staff assessment program - "Personnel Assessment and Feedback" as a core component of our talent development strategy. MHR also subsidizes the expense for acquiring licenses and qualifications by public and private organizations necessary for work to improve employees' skills as professionals in the real estate fund business.

(Qualifications held by employees as of the end of August 2019)

- ARES Certified Master: 7
- Real Estate Appraiser: 3
- Real Estate Transaction Agent: 9
- Certified Building Administrator: 4
- Certified Public Accountant: 3
- Chartered Member of Securities Analysts Association of Japan: 1
- Certified Internal Auditor: 1

### ○ Employee Stock Ownership Plan (ESOP)

MHR established the "ESOP" by aligning interests of MHR's investors and MIM's employees aiming to improve unitholders' value over the medium to long term, and to improve welfare benefits for MIM's employees.

### ○ Promoting Women's Participation

MHR is aiming for a workplace environment where each employee can fully demonstrate their individuality and abilities and MHR is working on creating a pleasant working environment for women. A child-care leave system and flexible working hours are provided and MHR promotes active use of a short-time work system and paid holidays.

## <Initiatives with Tenants and Local Communities>

### ○ Tenant Satisfaction Surveys

MHR conducts "tenant satisfaction surveys" once every two years in office buildings and once a year in most residential properties.

The survey content starts with general matters such as location and image to matters related to facilities and other hard aspects as well as soft aspects such as management systems. The thoughts of the tenants are used as a reference in our property management.

### ○ Local Communities

MHR aim to foster a rich environment for the local community through various communication activities. In MHR's properties such as Roppongi Hills and ARK Hills, events and activities are held like the "Hills Marche" and "Hills Machi-Iku Project" in which local people can participate.



## <Initiatives with Investors>

### ○ All Japanese Listed Companies' Website Ranking

Nikko Investor Relations Co., Ltd. announces a valuation of websites of all listed companies by investigating the degree of information disclosure based on objective evaluation items from its unique perspective. MHR's website has received "Total Ranking: The Best Site" for the fourth consecutive years.



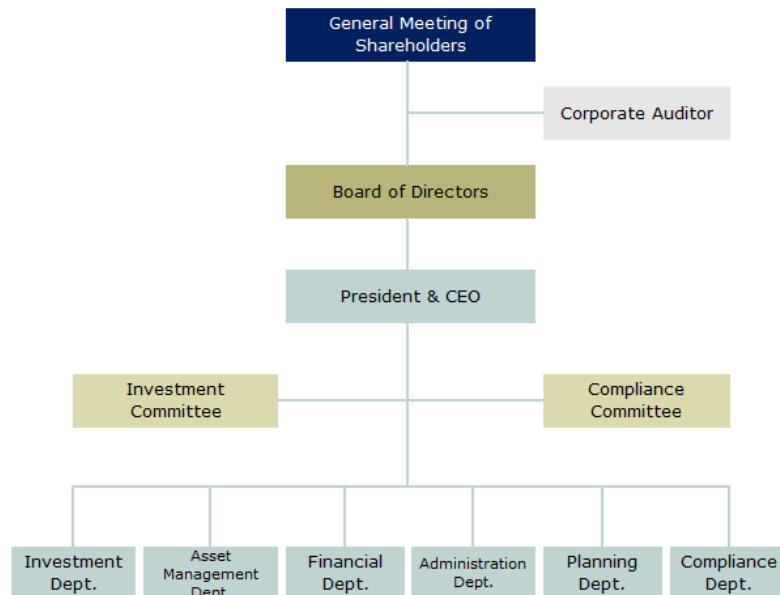
# 5-11 Sustainability initiatives: Governance

## <Corporate Governance>

MHR shall have at least one executive director and at least two supervisory directors (or, at least one more than the number of the executive directors), and the board of directors shall be comprised of the executive directors and supervisory directors. In addition to a general meeting of all unitholders, MHR's governance structure consists of one executive director, two supervisory directors, the board of directors and an accounting auditor, and entrusts its operation to the asset management company.

MIM is required to perform its business operations in good faith and with due care of a prudent manager for MHR in line with the purpose of the investment management business, and accordingly performs sincere asset investment and management pertaining to real estate properties based on an appropriate compliance structure and internal control structure in order for MHR to gain high trust from the securities market and investors.

(MIM's organization)

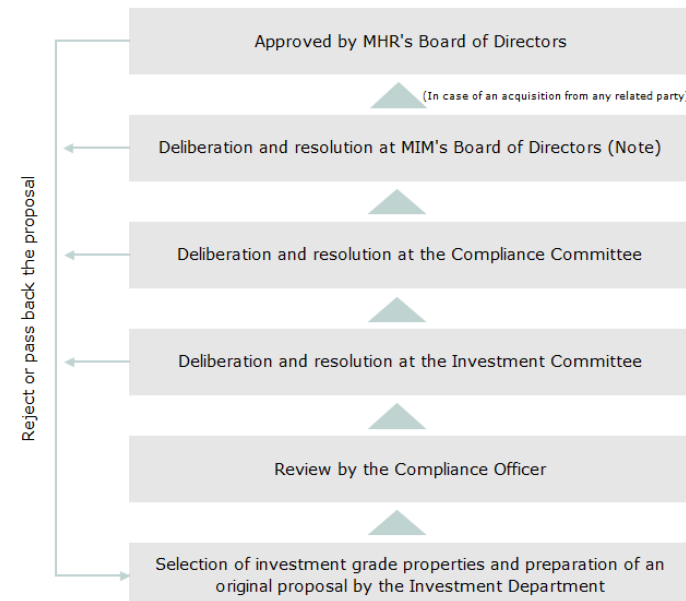


## <Compliance>

Compliance Department conducts inspections on legal compliance and confirms consistency with internal rules. MIM confirms whether there are any conflict of interest transactions with related parties. In this way, MIM is striving to ensure comprehensive internal control, while also striving to enhance its risk management structure as well as its effectiveness.

Furthermore, MIM has a set of internal rules (self-imposed regulations) which stipulate rules such as its Related Parties Transaction Guidelines. These Guidelines stipulate matters concerning transactions, etc. with related parties. Through MIM's compliance with these Guidelines, MIM has established a structure which ensures that the aforementioned transactions are managed appropriately and that MIM sufficiently executes the duty of care of a good manager and duty of loyalty to MHR.

(Process to counter transactions involving conflicts of interest)

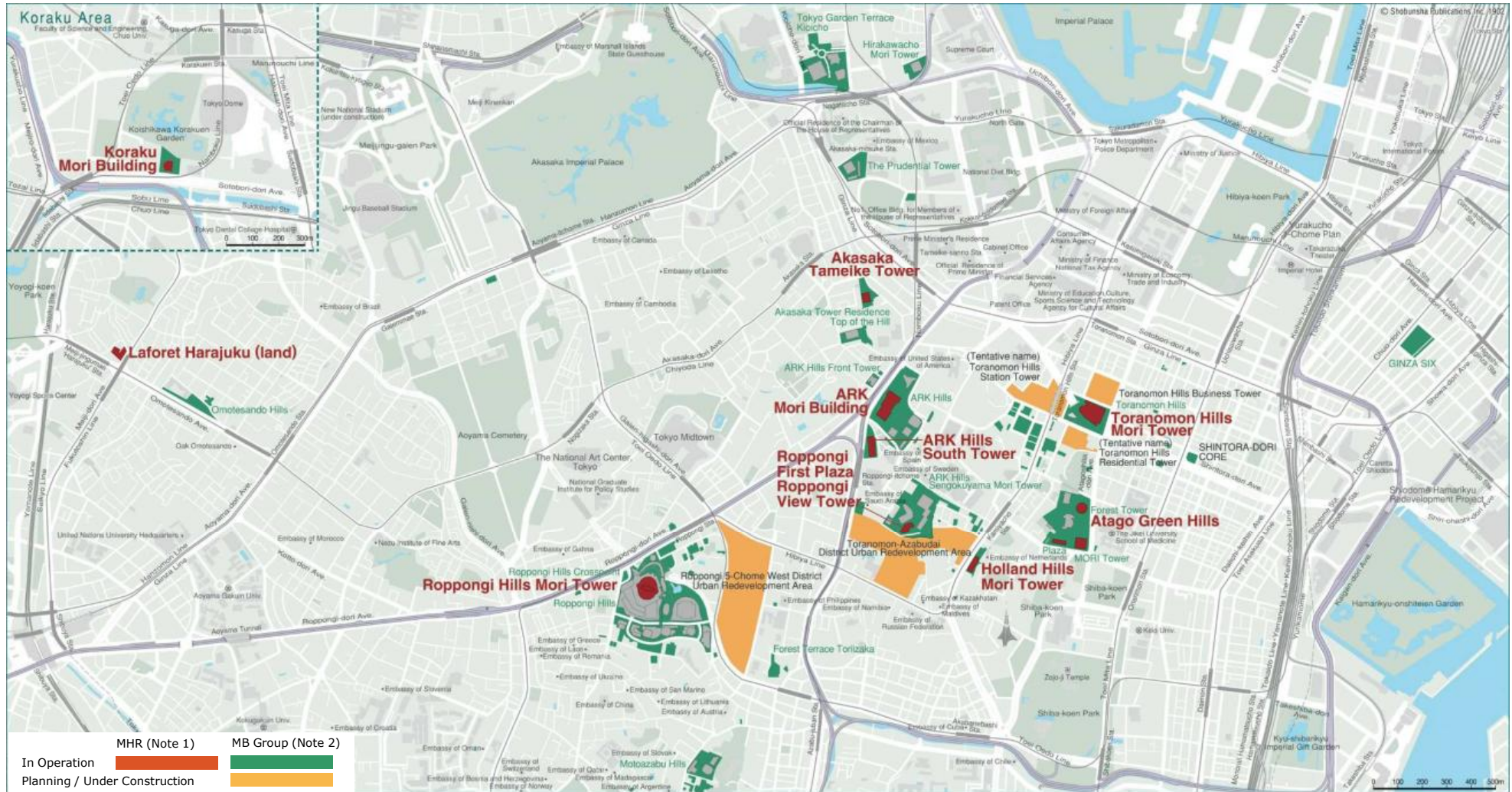


(Note) Director who are classified as a related party officer is not able to participate in the resolution when acquiring asset from a related party.

# 5-14 Portfolio map (As of July 31, 2019)



HILLS REIT













(Source) Prepared by the Asset Manager based on Mori Building's "Mori Building Handy Map Mori Building Map/Home Route Support Map 2019."

(Note 1) Some of the properties have been partially acquired and held by MHR.

(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.

# 5-15 Portfolio overview (As of July 31, 2019)

Type	Office building						Office building (Partly residential)				Residential		Retail	
Property name	Roppongi Hills Mori Tower	ARK Mori Building	Koraku Mori Building	ARK Hills South Tower	Toranomon Hills Mori Tower	Holland Hills Mori Tower	Akasaka Tameike Tower	Atago Green Hills			Roppongi First Plaza	Roppongi View Tower	Laforet Harajuku (Land)	
	O-0	O-1	O-4	O-8	O-9	O-10	O-6	MORI Tower	Forest Tower	Plaza	R-3	R-4	S-1	
Photo														
Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium	Premium			Premium	-	Premium	
Location	Roppongi, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Koraku, Bunkyo-ku, Tokyo	Roppongi, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Toranomon, Minato-ku, Tokyo	Akasaka, Minato-ku, Tokyo	Atago, Minato-ku, Tokyo		Toranomon, Minato-ku, Tokyo	Roppongi, Minato-ku, Tokyo		Jingumae, Shibuya-ku, Tokyo	
Completion	Apr. 2003	Mar. 1986 (Large-scale renovation in 2005)	Mar. 2000	Jul. 2013	May. 2014	Jan. 2005	Sep. 2000	Jul. 2001	Oct. 2001	Jul. 2001	Oct. 1993		-	
Building age	16 years 3 months	33 years 4 months	19 years 4 months	6 years 0 month	5 years 2 months	14 years 6 months	18 years 10 months	18 years 0 month	17 years 9 months	18 years 0 month	25 years 9 months		-	
Total number of floors	54 above ground, 6 below	37 above ground, 4 below	19 above ground, 6 below	20 above ground, 4 below	52 above ground, 5 below	24 above ground, 2 below	25 above ground, 2 below	42 above ground, 2 below	43 above ground, 4 below	2 above ground, 1 below	20 above ground, 1 below		-	
Gross floor area	approx. 442,150m <sup>2</sup>	approx. 177,486m <sup>2</sup>	approx. 46,154m <sup>2</sup>	approx. 53,043m <sup>2</sup>	approx. 241,581m <sup>2</sup>	approx. 35,076m <sup>2</sup>	approx. 46,971m <sup>2</sup>	approx. 85,266m <sup>2</sup>	approx. 60,815m <sup>2</sup>	approx. 2,083m <sup>2</sup>	approx. 22,906m <sup>2</sup>		-	
Ownership (Note 1)	Land	Co-ownership (approx. 17.7%)	Co-ownership (approx. 10.9%)	Leased	Co-ownership (approx. 25%)	Co-ownership (approx. 12.7%)	Co-ownership (approx. 62.9%)	Co-ownership (approx. 56.4%)	Co-ownership (approx. 28.8%)			Co-ownership (approx. 47%)	Co-ownership (approx. 46%)	Ownership
	Building	Compartmentalized ownership (approx. 13.6%)	Compartmentalized ownership (approx. 17.9%)	Compartmentalized ownership (approx. 57.9%)	Co-ownership (approx. 25%)	Co-ownership (approx. 6.9%)	Compartmentalized ownership (approx. 48.5%)	Compartmentalized ownership (approx. 65.5%)	Co-ownership (approx. 32.9%)			Compartmentalized ownership (approx. 46.4%)	Compartmentalized ownership (approx. 44.7%)	-
PML (Note 2)	0.59%	0.78%	0.73%	1.56%	0.50%	0.85%	1.79%	2.35%	2.34%	5.94%	2.20%	2.20%	-	
Earthquake-resistant feature (Note 3)	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	Seismic Damping	-	-	-	-
Acquisition price (mn yen)	115,380	62,480	27,200	19,150	36,210	16,330	43,930	42,090			2,100	4,000	21,820	
Occupancy rate (Note 4)	100%	100%	99.4%	99.9%	100%	100%	98.0%	100%			87.4%	95.1%	100%	

**Average building age**  
18.4 years (Note 5)

**Portfolio PML**  
0.93% (Note 2)

**Total acquisition price**  
390,690 mn yen

## 5-15 Portfolio overview (Note)

- (Note 1) "Type of ownership" denotes the type of rights held by MHR or the Trustee. "Ownership" stands for ownership, "Co-ownership" stands for the ownership of beneficiary interests, "Compartmentalized ownership" denotes ownership and the rights for exclusive use in or over parts of a building, and "Leased land" denotes Leasehold land. The land site of Atago Green Hills includes joint ownership in quasi-undivided interests of leasehold land and easement.
- (Note 2) This indicates the figure described in the "Report on evaluation of seismic PML for portfolio" dated June 4, 2018 by Sompoo Risk Management & Health Care Inc.
- (Note 3) ARK Mori Building adopts "slitwall" as an earthquake-resistant feature.
- (Note 4) "Occupancy rate" indicates the figures as of July 31, 2019.
- (Note 5) For calculation of the "Average building age" of Atago Green Hills, we have assumed that construction of the building was completed on July 30, 2001.