

For Translation Purposes Only

Real Estate Investment Fund Issuer:
Mori Hills REIT Investment Corporation
(Securities Code: 3234)
1-12-32 Akasaka, Minato-ku, Tokyo
Hideyuki Isobe, Executive Director

Asset Manager:
Mori Building Investment Management Co., Ltd.
Hideyuki Isobe, President & CEO
Inquiries: Ryosuke Kanazawa
General Manager, Planning Department
TEL: +81-3-6234-3234

MHR Announces Asset Transfer
(Moto-Azabu Hills: Transfer)

Mori Hills REIT Investment Corporation (hereafter “MHR”) announced today that Mori Building Investment Management Co., Ltd. (hereafter the “Asset Manager”), the asset management company for MHR, has determined the asset transfer (hereafter, the “Transfer”) described below.

1. Overview of Transfer

Property name	Moto-Azabu Hills
Asset to be transferred	Real estate (Note 1)
Book value	1,608 million yen (Note 2)
Transfer price	2,030 million yen (Note 3)
Gain (loss) on transfer	411 million yen (Note 4)
Sales agreement date	March 17, 2017
Anticipated Transfer date	July 31, 2017
Buyer	Mori Building Co., Ltd

(Note 1) As of the date of this document, MHR holds the property as a trust beneficial interests with Sumitomo Mitsui Trust Bank, Limited as the trust fiduciary. In the Transfer, the trust asset is to be transferred by instructing the trust fiduciary to transfer such to the buyer.

(Note 2) Book value indicates the estimate of the book value of the property as of the anticipated transfer date based on the book value as of January 31, 2017. The same shall apply hereafter.

(Note 3) The transfer price does not include transfer-related costs, consumption taxes and other expenses. The same shall apply hereinafter.

(Note 4) The gain (loss) on transfer represents the amount obtained by deducting the book value and transfer-related costs from the transfer price above. The same shall apply hereafter.

2. Reason for the Transfer

MHR decided on the Transfer as a result of comprehensive review of trends of economic environment and real estate market conditions, impact of the Transfer on the portfolio, etc. while taking into account the current asset management status.

3. Details of the Asset to be transferred

Property name		Moto-Azabu Hills				
Location (Residential address)		1-3-1, -2, -3, Moto-Azabu, Minato-ku, Tokyo				
Use		Residence and Storage, etc. (Note 3)				
Area (Note 1)	Land	12,199.65 m ² (Note 4)				
	Building	54,006.76 m ² (Note 5)				
Structure (Note 2)		Steel-framed, steel-framed reinforced concrete, and reinforced concrete structure, 29 floors above ground and 4 floors below ground				
Construction completion (Note 2)		May 2002 and September 2002				
Form of ownership	Land	Ownership				
	Building	Compartmentalized ownership				
Book value		1,608 million yen				
Transfer price		2,030 million yen				
Gain (loss) on transfer		411 million yen				
Appraisal	Appraiser	Japan Real Estate Institute				
	Appraisal value	2,030 million yen (Appraisal date: January 31, 2017)				
Anticipated Transfer date		July 31, 2017				
Content of lease (as of January 31, 2017) (Note 6)						
Total number of end tenants		6				
Gross rent income (annual rent)		113,256,720 yen				
Deposits/Guarantees		41,400,000 yen				
Total leasable floor area (Note 7)		1,325.30 m ²				
Total leased floor area (Note 7)		1,152.24 m ²				
Change in Occupancy rate		End of January 2015 100.0%	End of July 2015 82.8%	End of January 2016 100.0%	End of July 2016 100.0%	End of January 2017 86.9%
Other special consideration		None				

(Note 1) Area (land) is the area of the entire site, and Area (building) is the total floor area of the entire building, as indicated in the real estate registry.

(Note 2) The property is a single establishment in the real estate registry, but according to the Building Standards Act, it consists of three establishments, which are: Forest Tower (SRC B3F/29F), Forest Terrace East (RC B1F/6F) and Forest Terrace West (RC B1F/5F). The completion of construction for the respective buildings was in May 2002 for Forest Tower and Forest Terrace East, and September 2002 for Forest Terrace West.

(Note 3) The breakdown of the number of sections owned by MHR before the Transfer by use is as follows: Residents: 7; storage area: 1.

(Note 4) Site area owned by MHR before the Transfer, in the real estate registry, is approximately 475.61m² and the land use right interest ratio is approximately 3.9%.

(Note 5) The exclusive floor area owned by MHR before the Transfer, as indicated in the real estate registry, is 1,250.15m², and the exclusive floor area interest ratio is approximately 3.2%.

(Note 6) A building lease agreement has been concluded with Mori Building Co., Ltd., and the leasing scheme is a pass-through master lease. Contents of the lease describes the summary of leasing to the end tenant.

(Note 7) Total leasable floor area indicates the floor area deemed leasable to end tenants. Total leased floor area indicates contracted floor area stated in the lease agreement concluded with the end tenant. Total leasable floor area and total leased floor area do not include storage, parking lots, mechanical rooms, etc.

4. Profile of Buyer

Name	Mori Building Co., Ltd.
Location	6-10-1 Roppongi, Minato-ku, Tokyo
Representative	President and CEO, Shingo Tsuji
Scope of business	General developer
Capital	67,000 million yen (as of March 31, 2016)
Established	June 2, 1959
Major shareholder	Morikiyo Co., Ltd. etc. (as of March 31, 2016)
Net assets	314,580 million yen (as of March 31, 2016)
Total assets	1,363,474 million yen (as of March 31, 2016)
Relationship with MHR or Asset Manager (as of March 17, 2017)	
Capital relationship	Mori Building is a major unitholder (15.0% stake) of MHR. Mori Building is also the wholly owning parent company (100% stake) of the Asset Manager, and thus constitutes a related party, etc. as defined in the Investment Trusts Act.
Personnel relationship	One of the officers and employees of the Asset Manager is seconded from Mori Building.
Business relationship	Mori Building has executed a support agreement and information provision agreement with MHR and the Asset Manager and an advisory business consignment agreement with the Asset Manager, and provides support, etc. in connection with property acquisitions, etc. In addition, Mori Building has executed a brand license agreement with MHR and grants the license to use the brand name "Mori Hills REIT" and the "m" mark. Furthermore, as for assets MHR owns in the form of trust beneficial interests, Mori Building has executed a building lease agreement (so-called master lease agreement) with a trustee, and leases the entire property as a master lessee. The company also executed a property management agreement and conducts property management of the property.
Application of status as a related party	Mori Building falls under the category of other related party of MHR. In addition, it is a parent company of the Asset Manager.

5. Profile of Broker

Not applicable.

6. Transaction with Interested Parties, etc.

A transaction with an interested party, etc. will occur with the Transfer.

Accordingly, to comply with applicable laws and regulations and with the asset management agreement as well as to prevent the interests of MHR from being negatively impacted with respect to the transfer price and other terms and conditions, the Asset Manager has taken steps pursuant to the Related Parties Transaction Guidelines.

Transfer of the Asset	The Buyer constitutes a related party, etc. of the Asset Manager and the Transfer constitutes a transaction with a related party, etc. as defined in the Investment Trusts Act. In accordance with the provisions of the Investment Trusts Act, the Asset Manager will deliver a written notice to MHR.
-----------------------	---

7. Payment Method

Lump sum payment upon delivery

MHR plans to use the proceeds from the Transfer in part of the funds for the acquisition of Toranomom Hills Mori Tower and Holland Hills Mori Tower (hereafter, the “Acquisition Assets to be Acquired”) separately announced today.

(Note) For details, please refer to “MHR Announces Asset Acquisitions and Lease (Toranomom Hills Mori Tower: New Acquisition) (Holland Hills Mori Tower: New Acquisition)” separately announced today.

8. Date of Transfer

Date of decision of Transfer	March 17, 2017
Date of execution of Transfer agreement	March 17, 2017
Payment receipt date	July 31, 2017 (anticipated)
Delivery date	July 31, 2017 (anticipated)

9. Future Prospect

For the forecast of business results, please refer to the press release “Financial Report for the Twenty-First Fiscal Period ended January 31, 2017” separately announced today.

10. Summary of Appraisal Report

Property name	Moto-Azabu Hills
Appraisal value	2,030,000 thousand yen
Appraiser	Japan Real Estate Institute
Appraisal date	January 31, 2017

(thousand yen)

Items	Contents	Summaries, etc.
Price	2,030,000	Estimated by correlation of the price based on the direct capitalization method with the price based on the DCF method
Price based on the direct capitalization method	2,030,000	—
Operating profit	113,969	—
Possible total revenue	119,862	Recorded by estimating the level of unit rent stably collectable over the medium to long term, based on the average rent, etc. stated in the current lease agreements, the level of new rents, etc. and attributes of current lessees, etc.
Vacancies, etc. loss, etc.	5,893	Recorded vacancies, etc. loss by estimating the level of occupancy rate stable over the medium to long term.
Operating costs	33,421	—
Maintenance costs and PM fee	20,245 (Note)	Recorded maintenance costs by reference to historical data and the maintenance costs of similar real estate, and taking into consideration the factors specific to the subject real estate. Recorded PM fee by taking into consideration the fee rate based on contract terms, the fee rate of similar real estate, etc.
Utilities	0	There are no utilities to record.
Maintenance and repairs	1,667	Recorded by taking into consideration historical data, the level of expenses of similar real estate and the annual average amount of repair and renovation expenses in the engineering report.
Tenant recruitment costs, etc.	2,142	Recorded by taking into consideration the annual average tenant turnover, occupancy rates, etc.
Property taxes	4,205	Recorded based on documents related to property taxes
Insurance premium	260	Recorded by taking into consideration the insurance premium based on the agreement, the insurance premium of similar buildings, etc.
Other expenses	4,902	Recorded sundry management expenses based on the agreement.
Operating net income	80,548	—
Investment income of lump sum	401	Appraised investment income at a rate of return on investment of 1.0%

	Capital expenditures	1,630	Appraised by assuming that an average amount is set aside every fiscal period, and taking into account such factors as the level of capital expenditures of similar real estate, the building age and the annual average amount of repair and renovation expenses in the engineering report
	Net return	79,319	—
	Cap rate	3.9%	Appraised by taking the standard cap rate and adding/subtracting the spread attributable to the location conditions, building conditions and other conditions, and taking into account such factors as future uncertainties and the market cap rate for similar real estate
	Price based on the DCF method	2,020,000	—
	Discount rate	3.5%	Appraised by reference to such factors as the investment cap rate of similar real estate, and comprehensively taking into account such factors as the factors specific to the subject real estate
	Terminal cap rate	4.1%	Appraised by reference to such factors as the market cap rate of similar real estate, and comprehensively taking into account such factors as future trends in the investment cap rate
	Cumulative price	1,570,000	—
	Land ratio	74.8%	—
	Building ratio	25.2%	—
	Other matters considered in the appraisal by the appraiser	None	

(Note) Consent to disclose itemized PM fee amounts has not been obtained from the PM consignee. Moreover, disclosure of itemized PM fee amounts of the property may affect other transactions the PM consignee undertakes and pose a problem to the entrustment of efficient PM responsibilities based on maintenance and management policy for investment real estate of MHR, and eventually may damage the interests of unitholders. For these reasons, maintenance costs and PM fee are indicated as a sum total.

[Attachments]

Attachment: Portfolio List Post Asset Transfer and Acquisition Assets to be Acquired

- This press release was distributed to the Kabuto Club (the press club of the Tokyo Stock Exchange), the Ministry of Land, Infrastructure, Transport and Tourism Press Club, and the Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications.
- MHR website: <http://www.mori-hills-reit.co.jp/>

[Attachment] Portfolio List Post Asset Transfer and Acquisition of Assets to be Acquired (Note1)

Principal use	Geographic area	Property number	Property name	(Anticipated) Acquisition date	(Anticipated) Acquisition price (millions of yen)	Investment ratio (%) (Note 2)
Office Buildings	Tokyo's central five wards and their vicinity	O-0	Roppongi Hills Mori Tower	March 23, 2010 August 1, 2011 October 1, 2013 August 1, 2014 September 16, 2015 February 1, 2016 April 1, 2016	115,380	32.7
		O-1	ARK Mori Building	March 22, 2006 March 28, 2008 September 30, 2008 March 23, 2010 March 18, 2011 August 1, 2011 April 1, 2013	62,480	17.7
		O-4	Koraku Mori Building	April 13, 2006	27,200	7.7
		O-6	Akasaka Tameike Tower	September 30, 2008 March 18, 2011	43,930	12.5
		O-7	Atago Green Hills	May 1, 2012 April 1, 2013	42,090	11.9
		O-8	ARK Hills South Tower	August 1, 2014	19,150	5.4
		O-9	Toranomon Hills Mori Tower	August 1, 2017 (anticipated)	5,070 (anticipated)	1.4
		O-10	Holland Hills Mori Tower	August 1, 2017 (anticipated)	9,330 (anticipated)	2.6
		Sub total				
Residential Properties	Tokyo's central five wards and their vicinity	R-3	Roppongi First Plaza	April 13, 2006	2,100	0.6
		R-4	Roppongi View Tower	March 22, 2006 April 13, 2006	4,000	1.1
Sub total					6,100	1.7
Retail and Other Facilities	Tokyo's central five wards and their vicinity	S-1	Laforet Harajuku (Land)	September 15, 2010	21,820	6.2
Sub total					21,820	6.2
Portfolio total					352,550	100.0

(Note 1) The table represents the portfolio list after the asset transfer (Moto-Azabu Hills) to be conducted on July 31, 2017 and the asset acquisitions (Toranomom Hills Mori Tower: new acquisition) (Holland Hills Mori Tower: new acquisition) to be conducted on August 1, 2017.

(Note 2) Figures in the investment ratio are the ratios of respective acquisition prices to the portfolio total, and have been rounded to the first decimal place.