



# 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/>

This document has been prepared by Mori Hills REIT Investment Corporation (“MHR”) for informational purposes only and should not be construed as an offer of any transactions or the solicitation of an offer of any transactions. Please inquire with the various securities companies concerning the purchase of MHR investment units.

This document’s content includes forward-looking statements about business performance; however, no guarantees are implied concerning future business performance. Although the data and opinions contained in this document are derived from what we believe are reliable and accurate sources, we do not guarantee their accuracy or completeness. The contents contained herein may change or cease to exist without prior notice. Regardless of the purpose, any reproduction and/or use of this document in any shape or form without the prior written consent from MHR is prohibited.

This document contains charts, data, etc. that were prepared by Mori Building Investment Management Co., Ltd. (hereafter, the “Asset Manager”) based on charts, data, indicators, etc. released by third parties. Furthermore, this document includes statements based on analyses, judgments, and other observations concerning such matters by the asset manager as of the date of preparation.

<b>1. Executive summary</b>	3	<b>3. Operation highlights</b>	35
<b>2. Investment highlights</b>	4	Factors that led to changes in dividends per unit from the previous fiscal period	36
Unit price performance	5	Change in assets under management	37
Financial results	6	Change in unrealized capital gain/loss	38
Dividends per unit growth record	7	Appraisal value	39
Continuous growth through “positive cycle”	8	Change in the rent and occupancy rates	40
Increase in appraisal NAV per unit	9	Tenant status by month and major tenants	41
Forecasts	10	Financial overview (as of July 31, 2019)	42
Highest Property Portfolio among all J-REITs	11	Debt status (as of July 31, 2019)	43
External growth	22	Unitholders breakdown (as of July 31, 2019)	44
Internal growth	25	<b>4. Business environment recognition &amp; MHR’s policy/strategy</b>	45
Financial management	29	Business environment recognition	46
MHR’s representative property	31	MHR’s policy/strategy	47
		Market-related information	48
		<b>5. Appendix</b>	54

# 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

---





## 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)

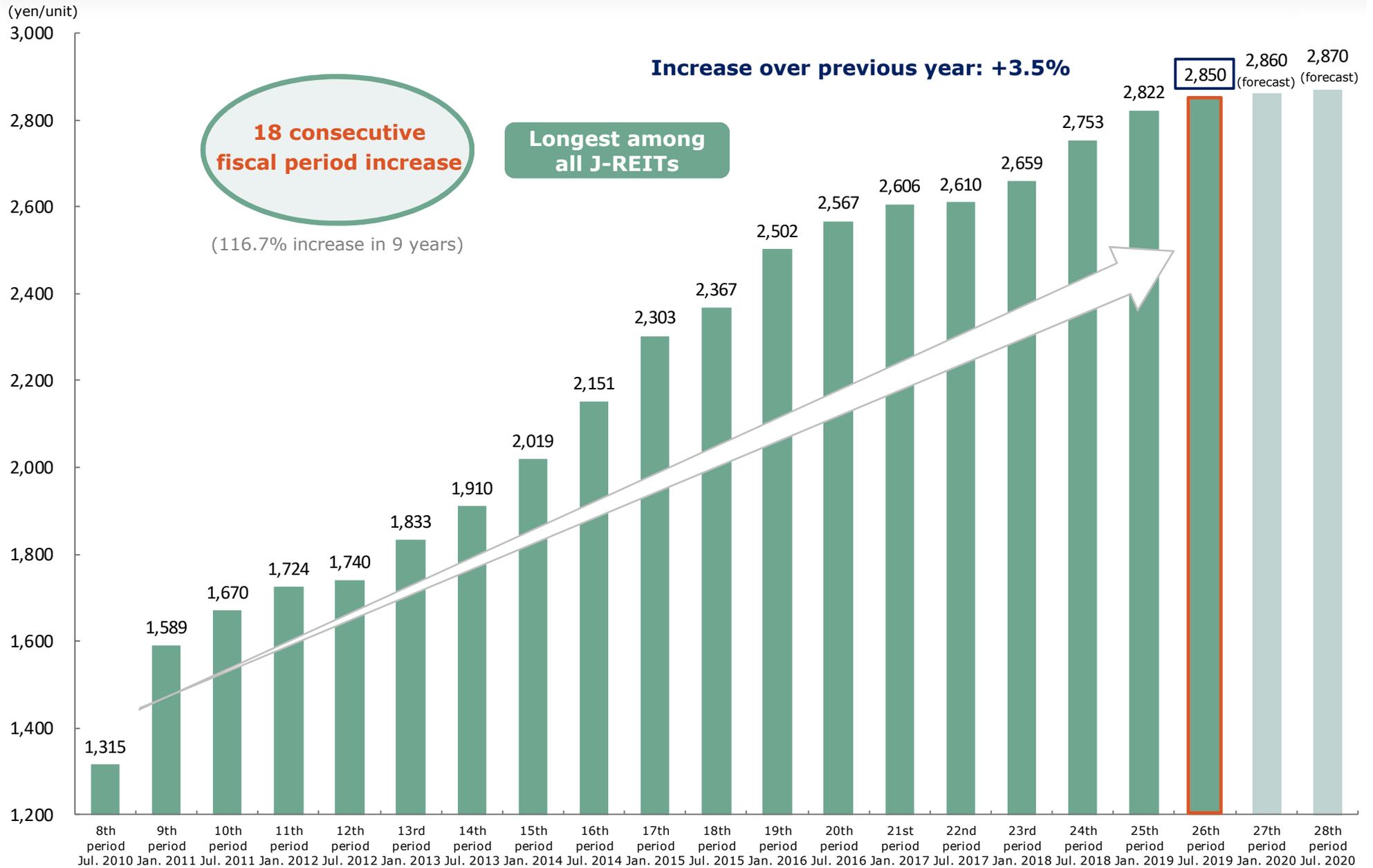
- **Operating revenue (+137 mn yen)**
  - Property acquisition in 25th period +123
  - Office operating revenue (Pass-through) +31
  - Utilities and other revenue △20
- **Operating expenses (+111 mn yen)**
  - Maintenance and repairs +55
  - Property acquisition in 25th period +47
  - Property taxes 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

page  
7

**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**

### NAV per unit

page  
9

**17 consecutive fiscal period increase**

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

(119.5% increase in 8.5 years)

NAV per unit	▶	1.2x
--------------	---	------

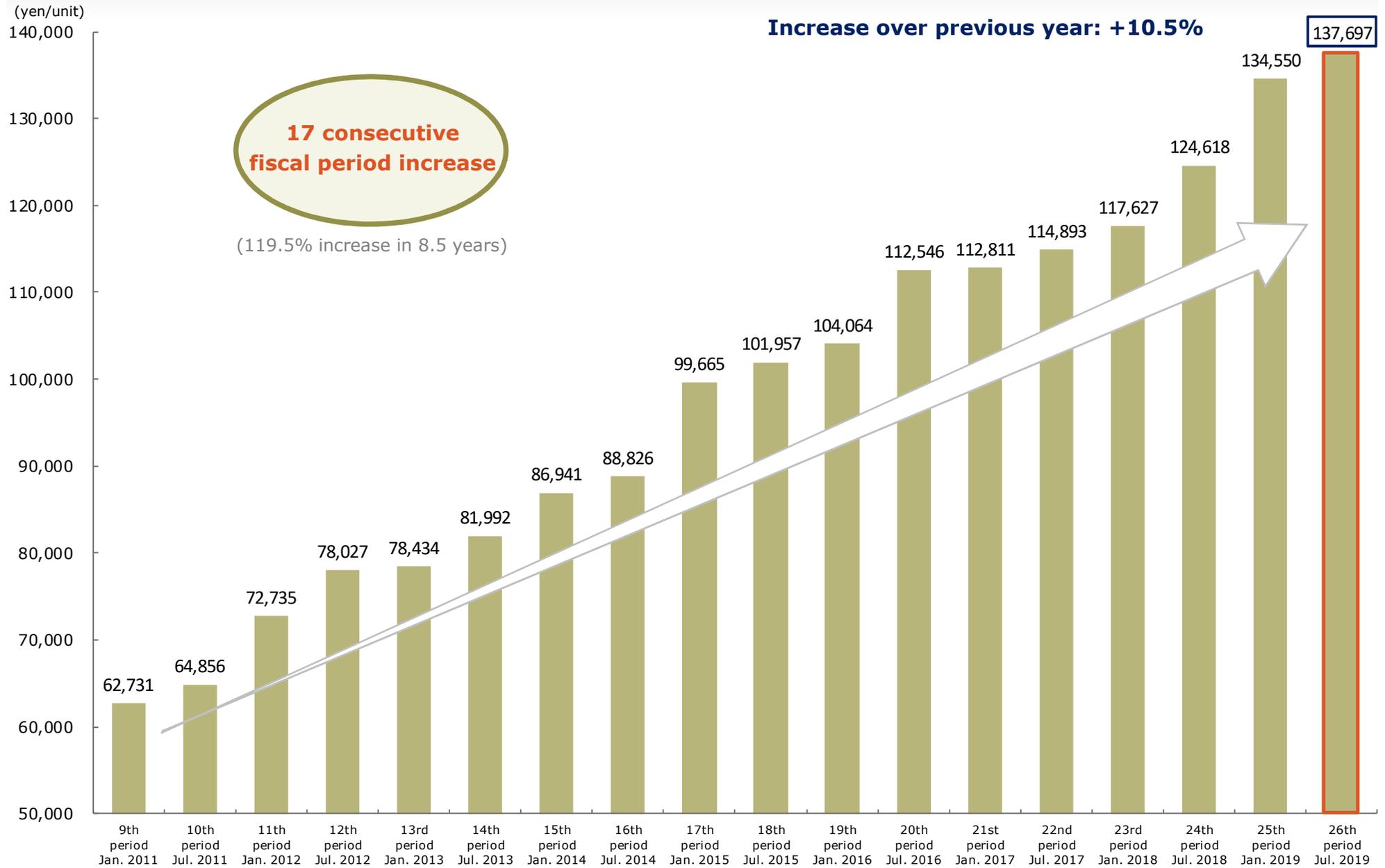
#### [Factors for NAV increase]

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



(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	Forecast

## Operating Highlights (million yen)

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

## DPU

Total units outstanding (units)	1,874,960	1,874,960	—	1,874,960
DPU (yen)	2,850	2,860	+ 10	2,870

### 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

## Other Indices (million yen)

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

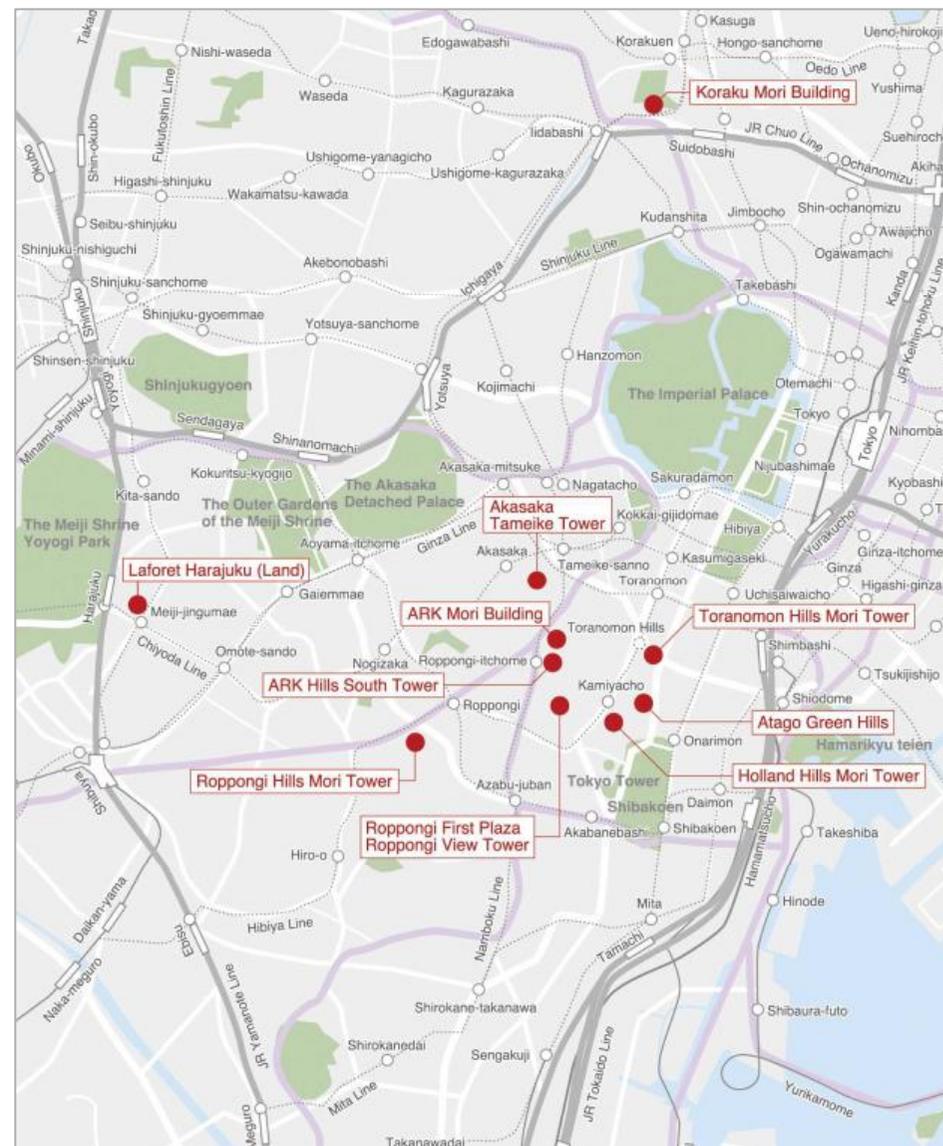


(Note) The ratios represent proportion of acquisition price to total acquisition price.

## 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%
<b>Tokyo</b>	<b>13,515,000</b>	<b>13,606,000</b>	<b>+0.7%</b>
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

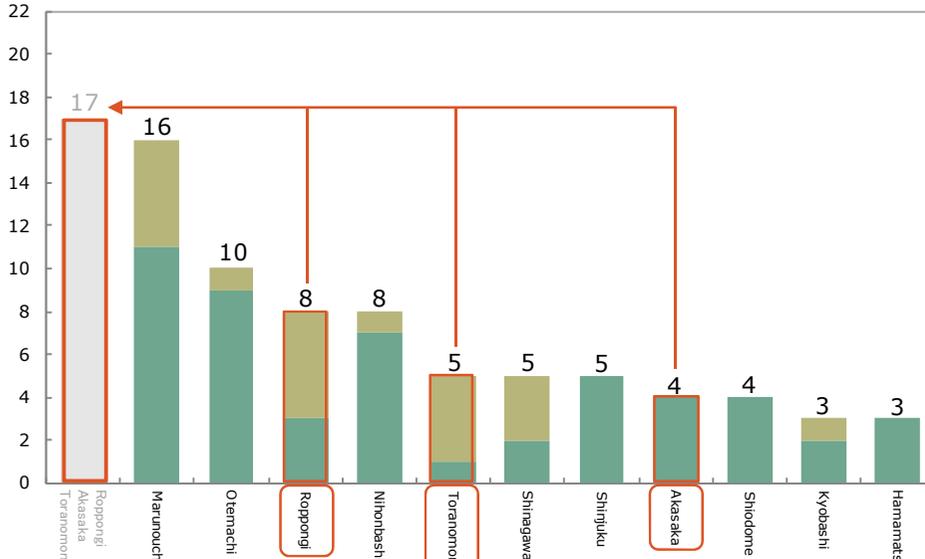
1. Global large corporate cluster in central Tokyo



2. IT and venture company cluster in central Tokyo

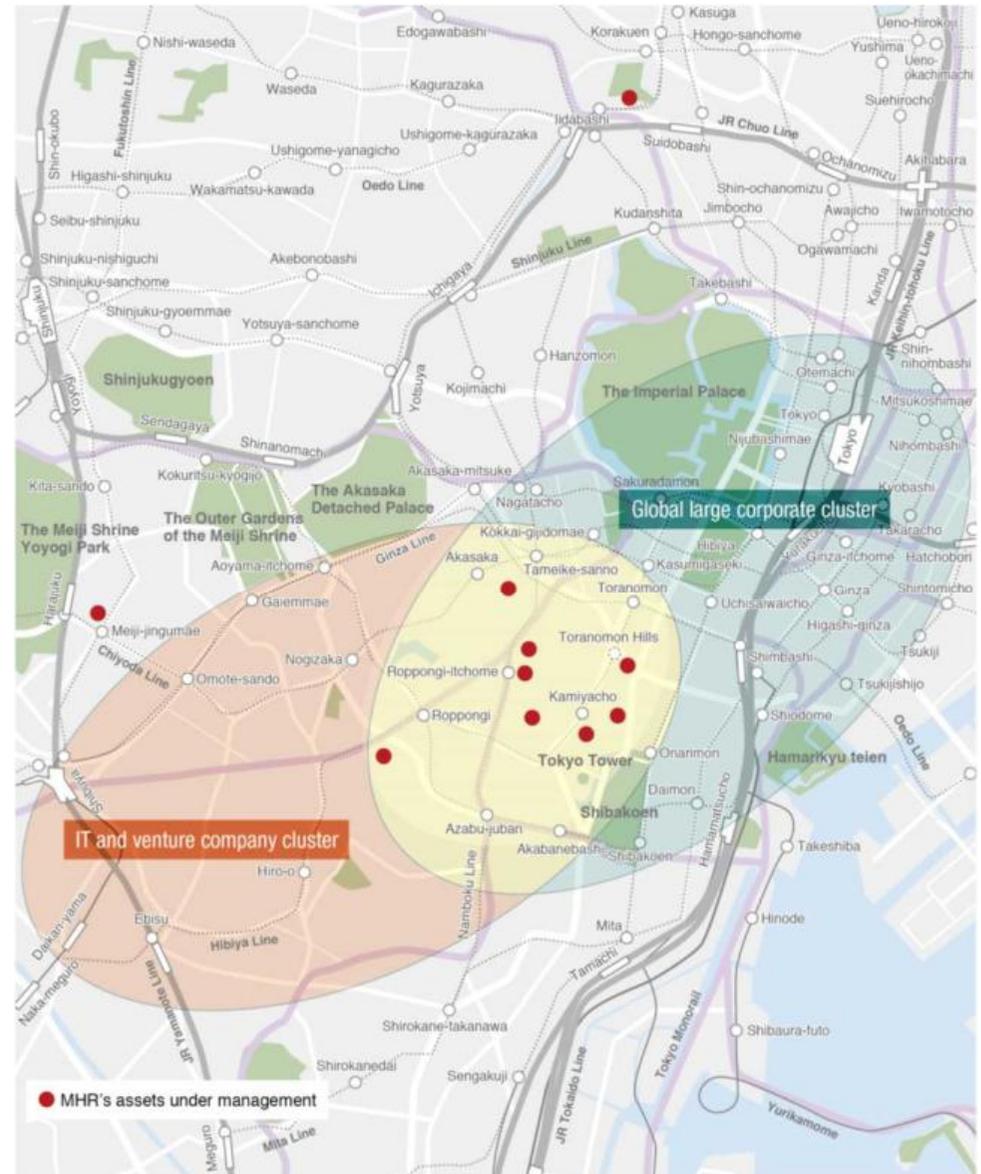
## Large corporate headquarters in central Tokyo

(company) ■ Foreign company ■ Domestic company



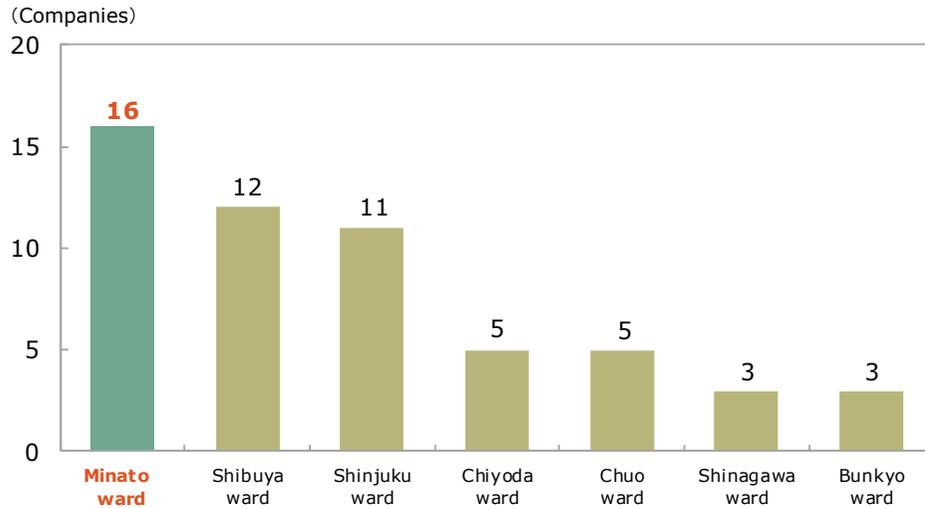
(Source) "Large corporation" refers to the top 100 domestic companies and the top 30 foreign companies based on market capitalization. Prepared by the Asset Manager based on market capitalization data as of July 31, 2019 by Refinitiv and publicly available information for the headquarters' locations.

## 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

### Change in required office space

- Space to promote interaction
- Enhanced facilities with excellent environment
- Corporate cluster that promotes growth

Need for truly “high-grade properties in central Tokyo” rises further

### Expansion of satellite offices Increase in remote work

Need for truly “high-grade properties in central Tokyo” remains unchanged

## 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



# 2-13 (3) Value creation

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



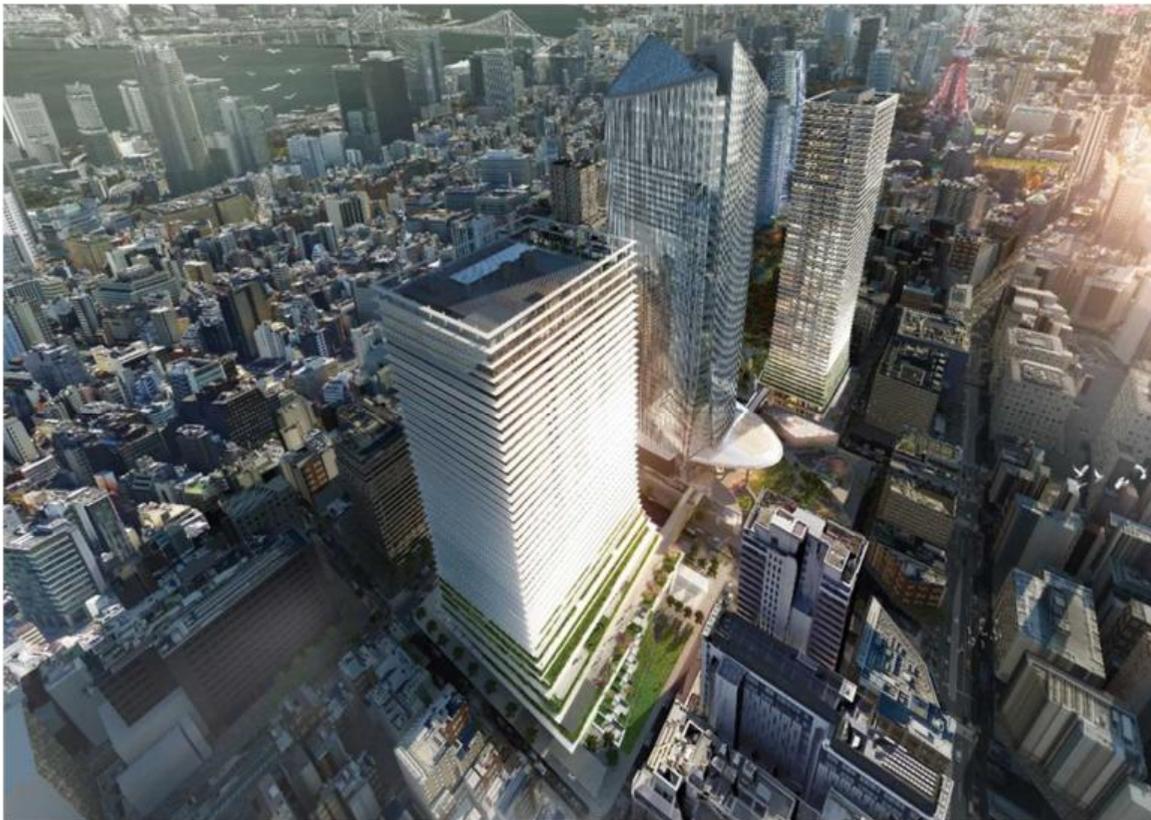
## Shintora-Dori CORE (Completed Sep. 2018)



### 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**

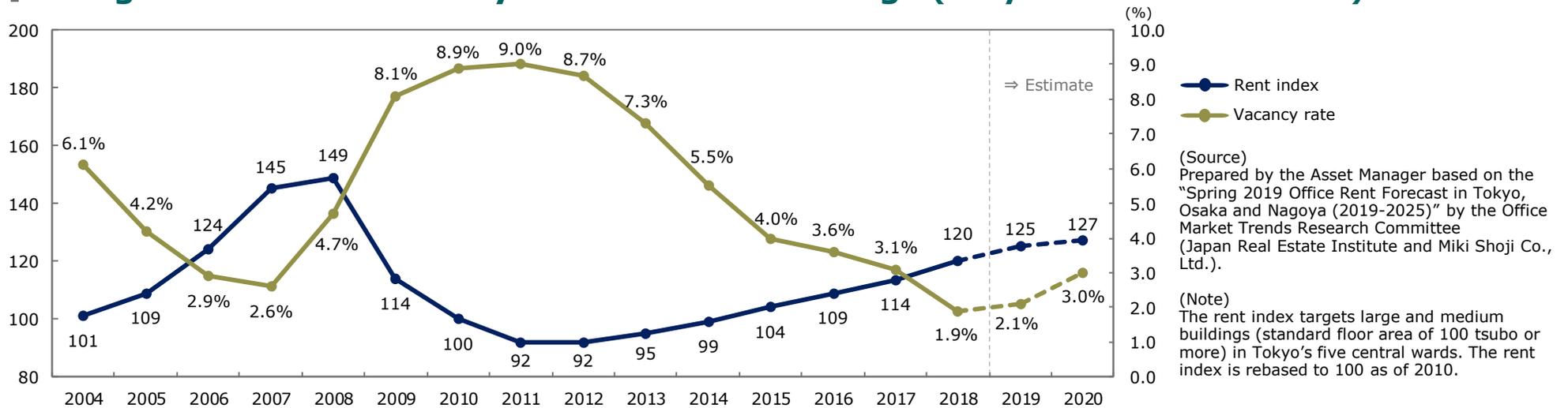
Closely watching the acquisition price level as property acquisition competitions are overheated

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

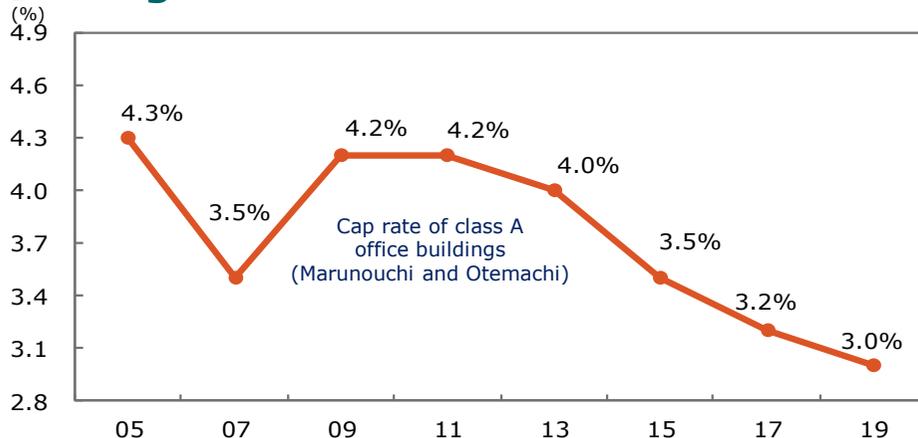
**External growth policy**

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



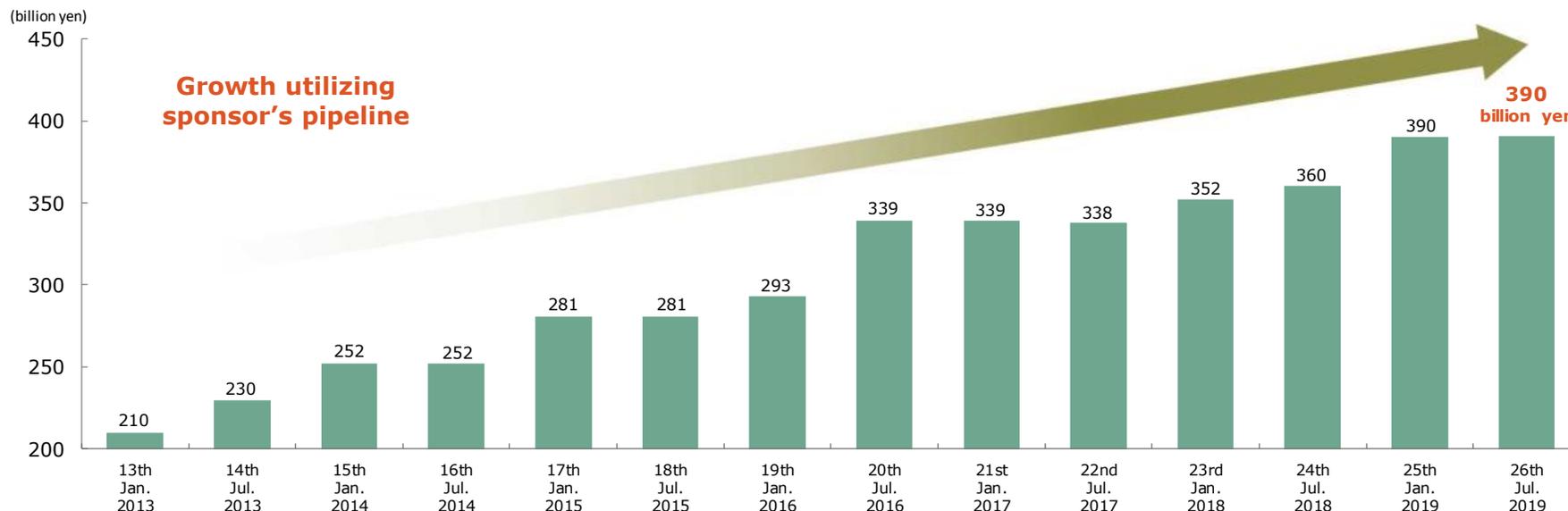
## Mori Building's extensive property pipeline

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)

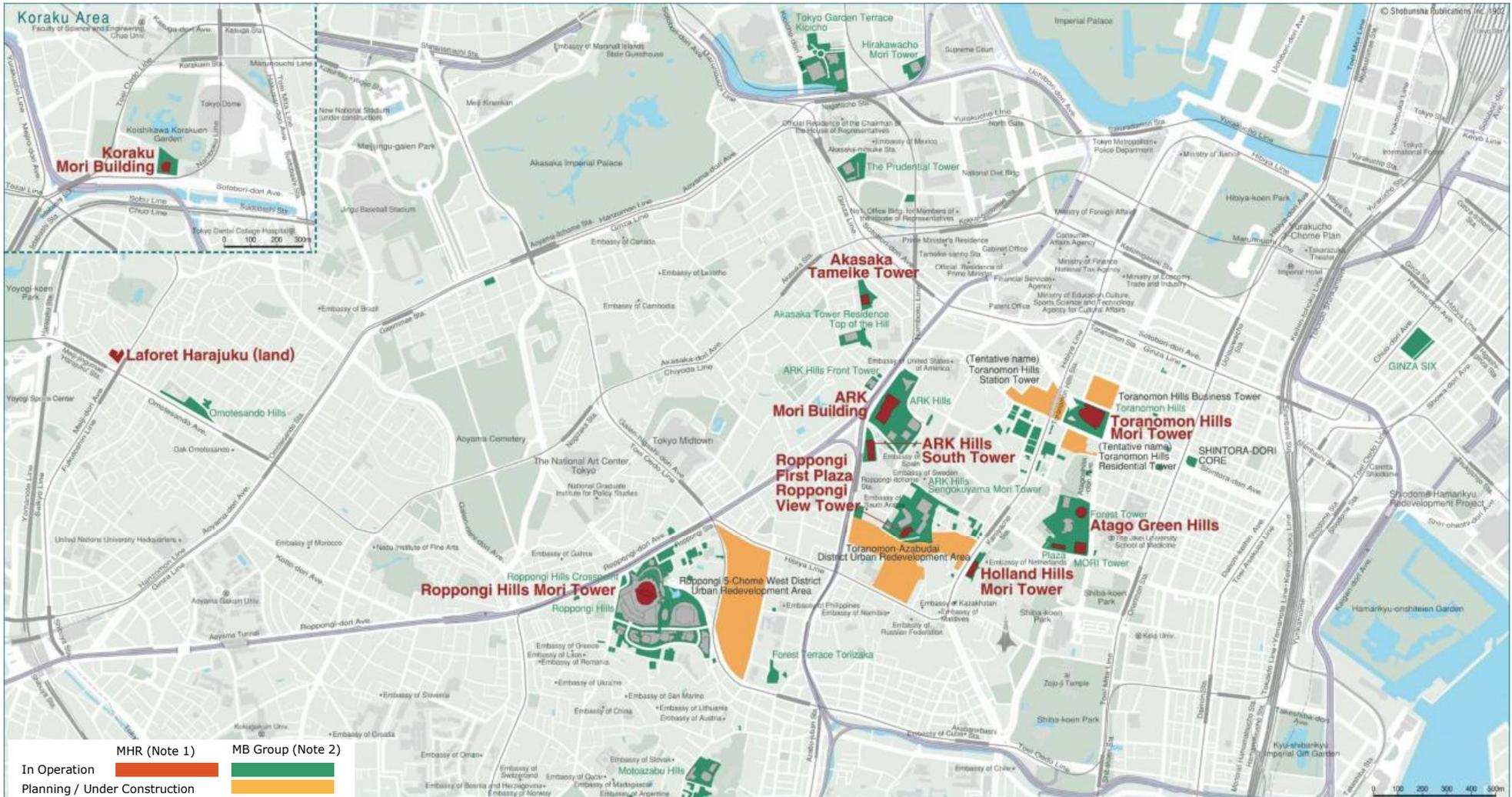
Toranomon Hills Mori Tower	Holland Hills Mori Tower
	
Acquisition price 26,070 million yen	Acquisition price 4,570 million yen
Appraisal value 28,830 million yen	Appraisal value 5,260 million yen
Location Minato-ku, Tokyo	Location Minato-ku, Tokyo

	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**

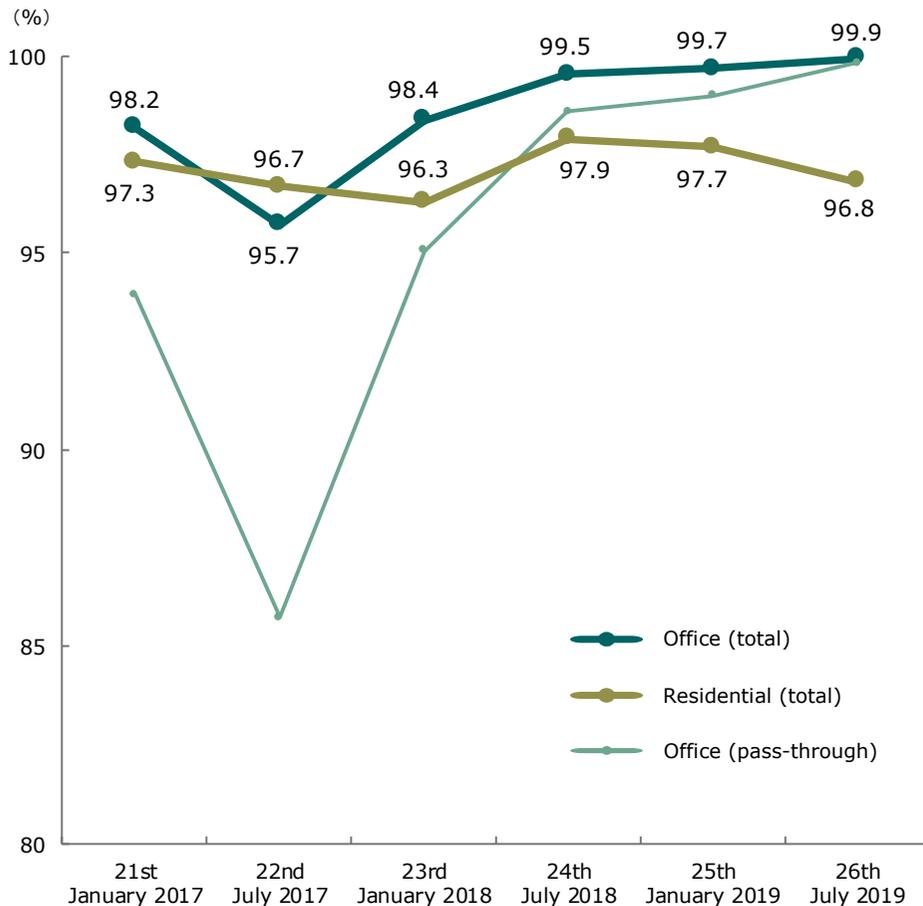
Central Tokyo office rents forecast to continue moderate rise, but close attention to be paid to demand trends

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

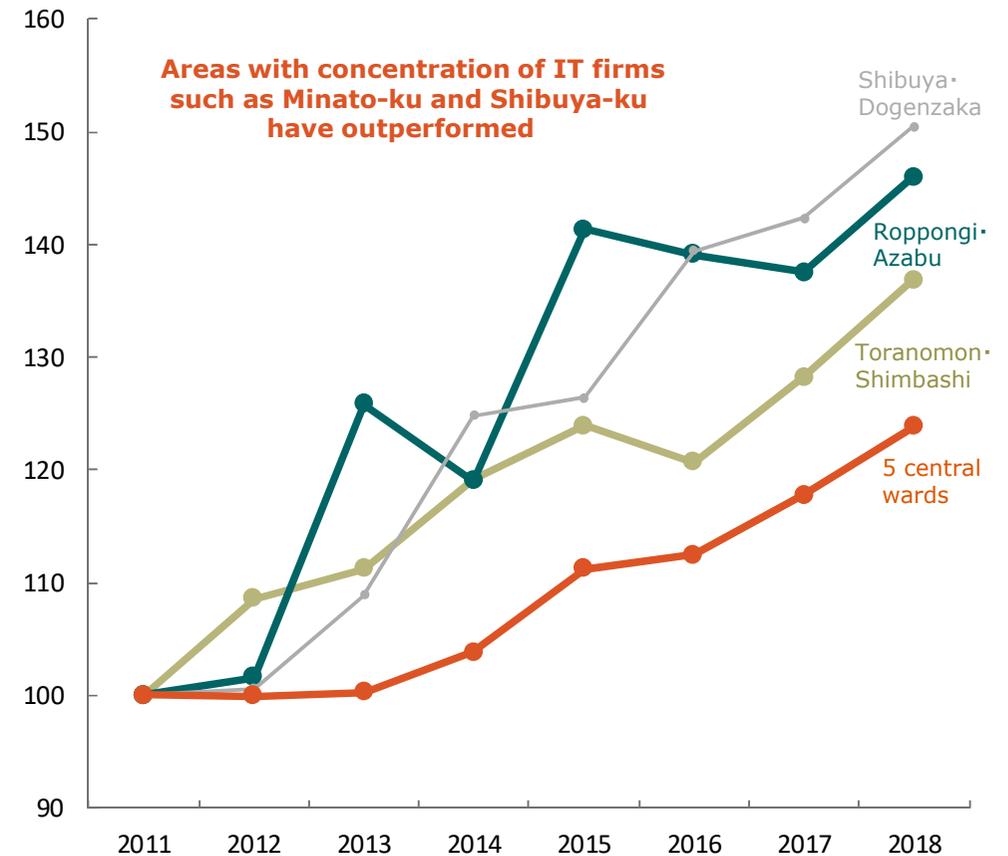
**Internal growth policy**

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

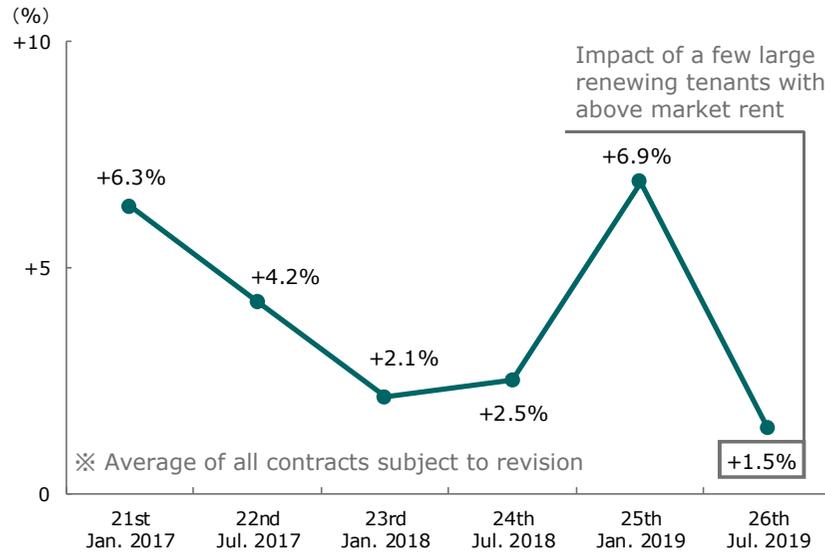


(Source) Prepared by the Asset Manager based on "Office Market Report" by Sanko Estate Co., Ltd.

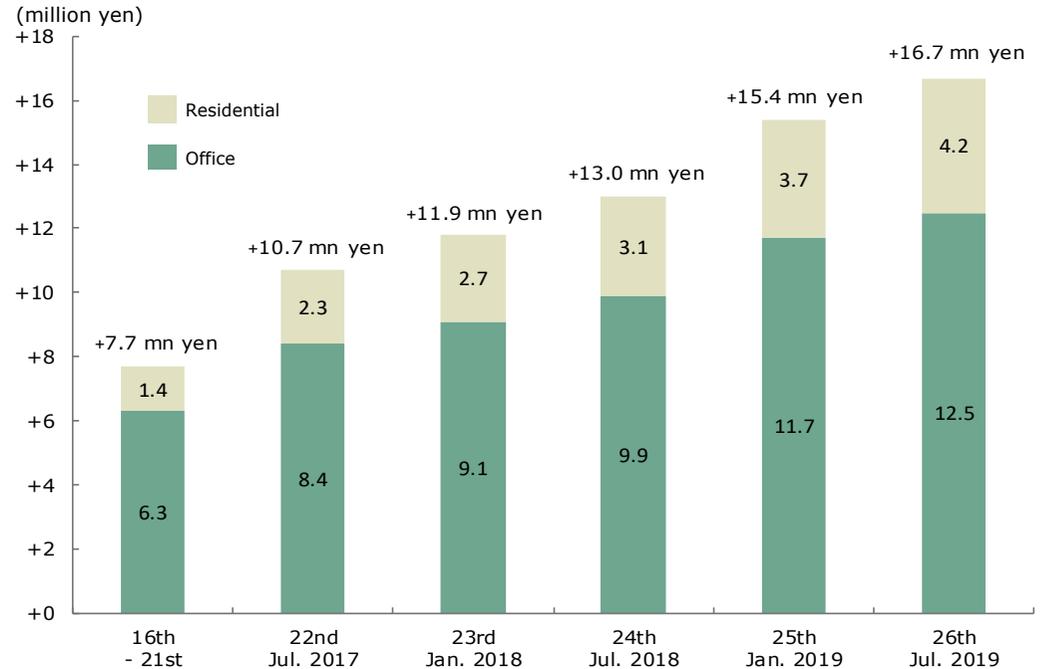
(Note) The average of asking rent (including common area revenue) that targets a large scale building with a standard floor area of 200 tsubo or more is rebased to 100 as of 2011.

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

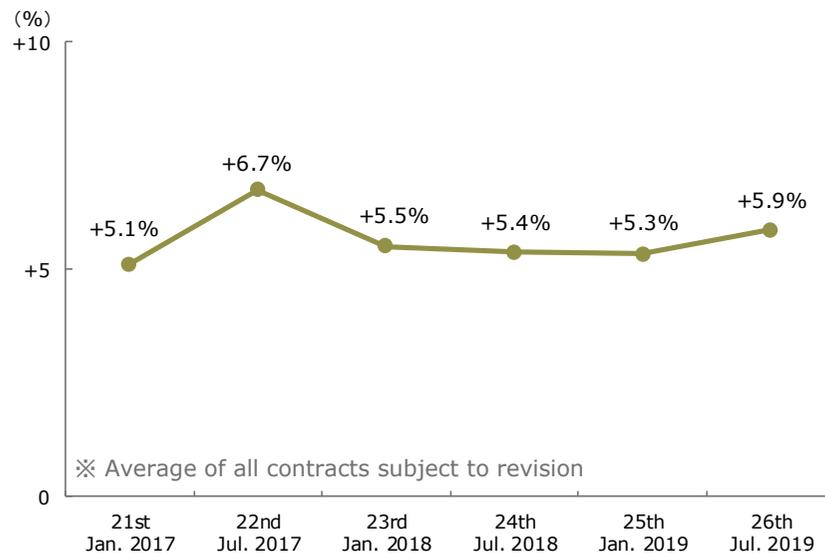
### Rent revision rate (office)



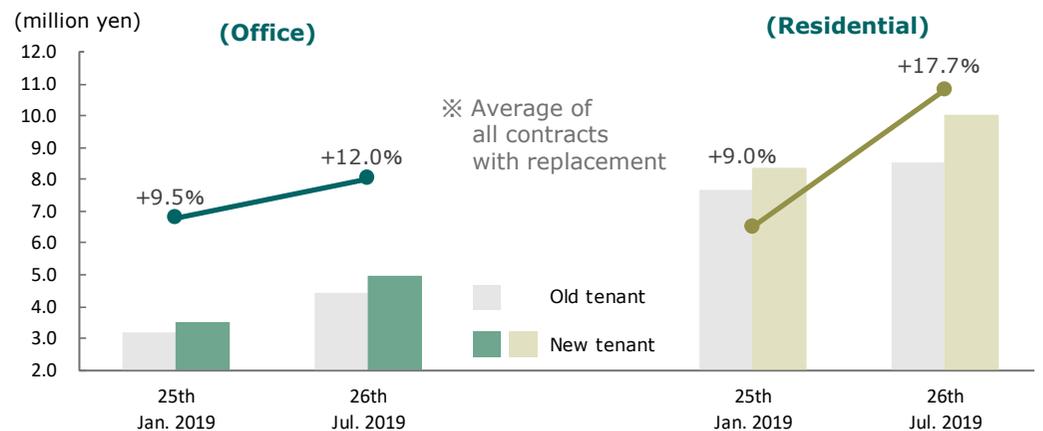
### Net impact of rent revisions accumulated since 16th period (monthly rent basis)



### Rent revision rate (residential)

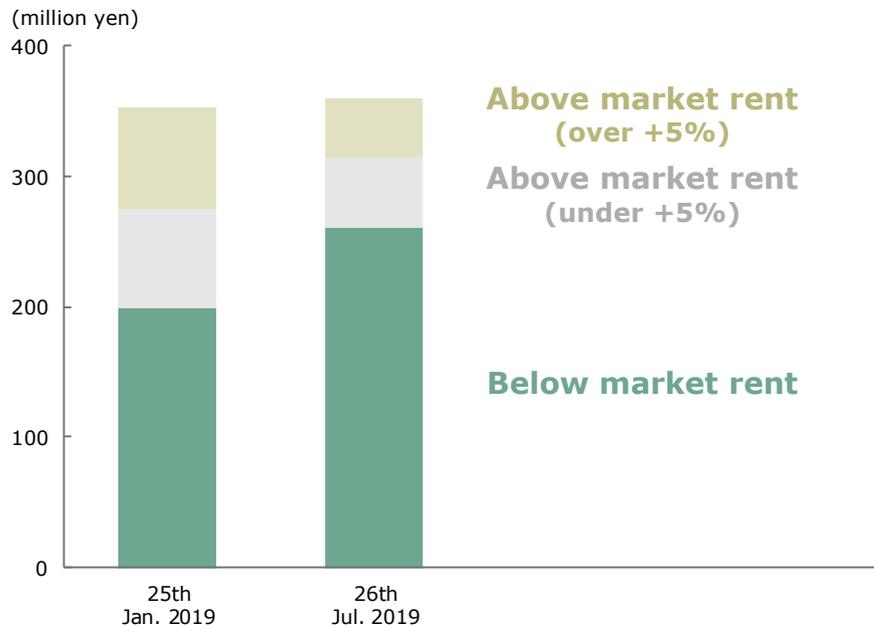


### Net impact on increase/decrease of tenant replacement (Monthly rent basis)

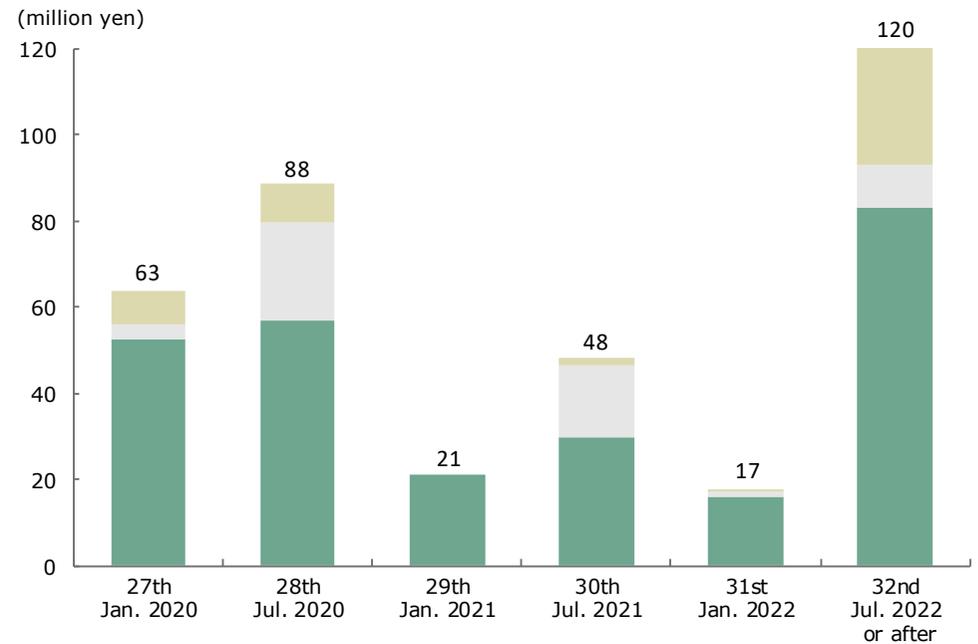


## Comparison with office market rent (pass-through type)

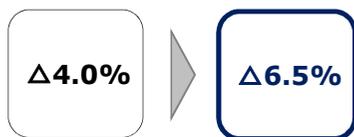
### Rent gap (Total monthly rent)



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



### Rate of rent gap



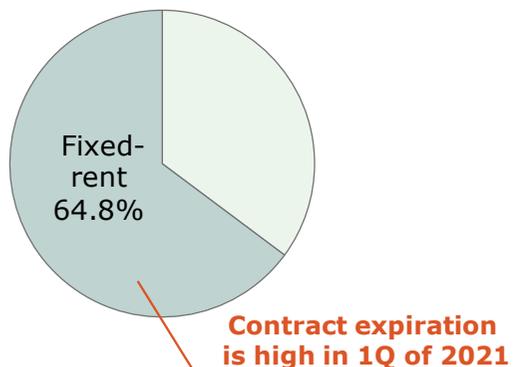
This indicates that contracts have not reached market rent levels and have room for upside

- 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

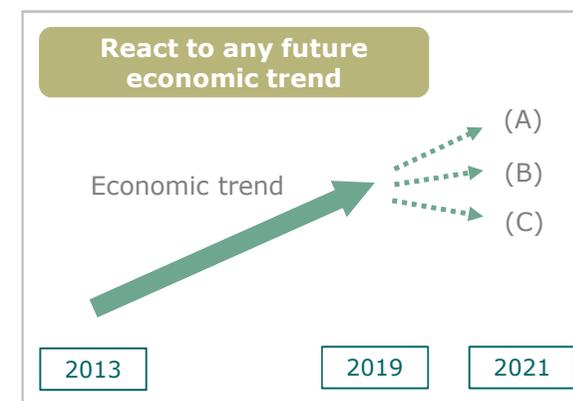
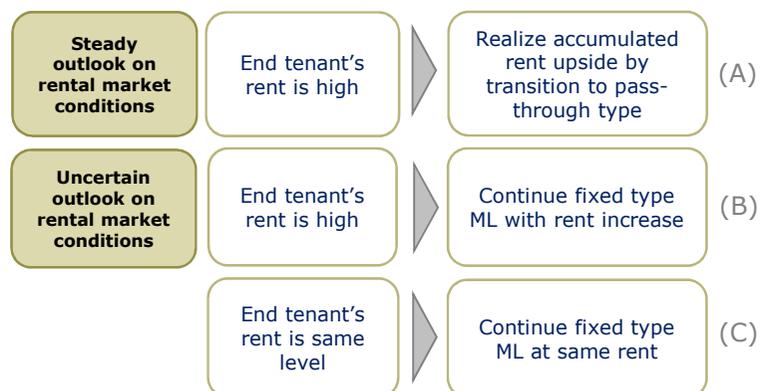
(Note 1) Market rent is based on the report by CBRE K.K.  
 (Note 2) Rent gap = Total tenants' rent ÷ "Total market rent" - 1  
 (Note 3) Figures reflect move outs of end tenants confirmed as of July 31, 2019.

## 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**

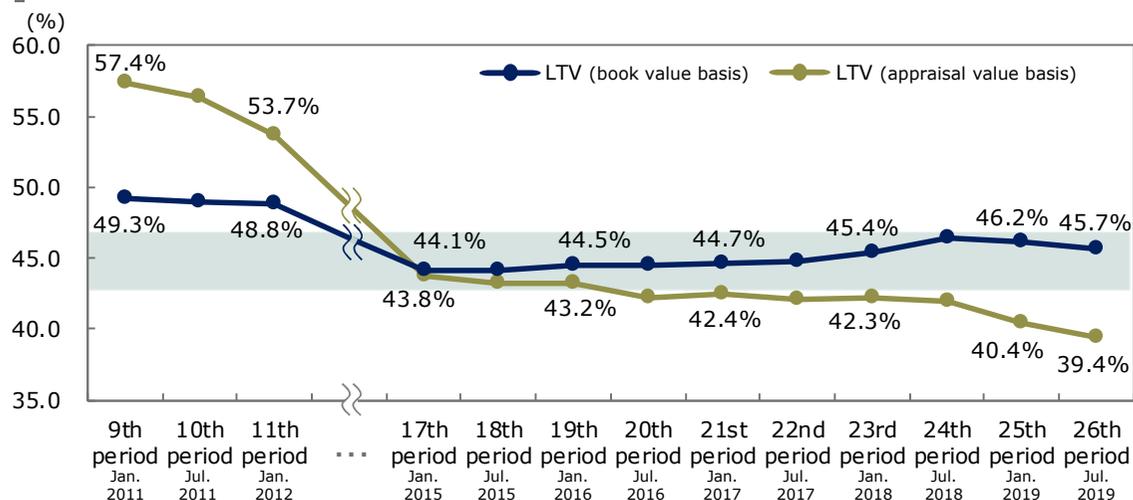
Interest rates are expected to remain low considering monetary policies and assuming rise over the medium to long term

(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



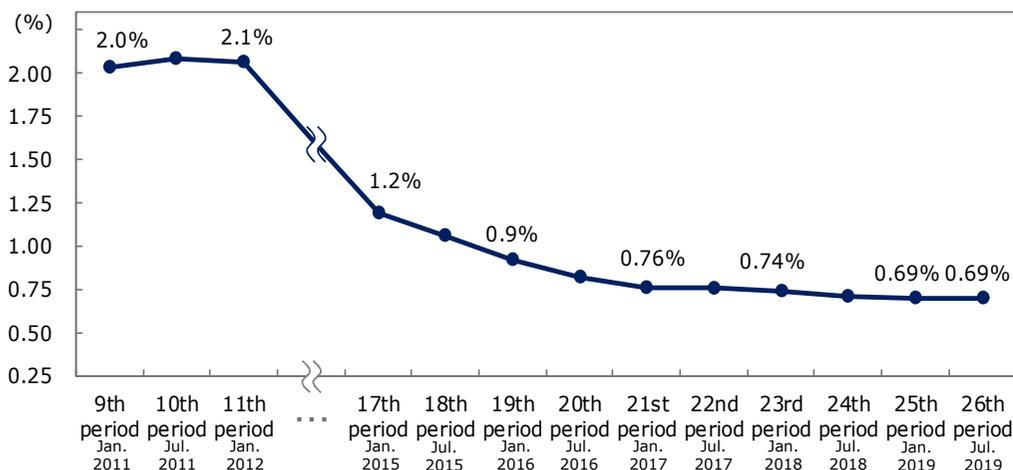
## Overview of debt financing

	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].

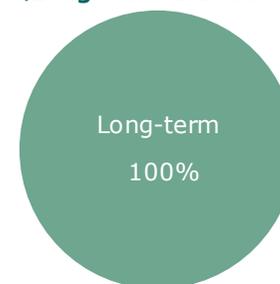
(Note 2) LTV (appraisal value basis) is calculated as [Interest-bearing debt / Appraisal value based total assets (Total assets + Total appraisal value - Total book value)].

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

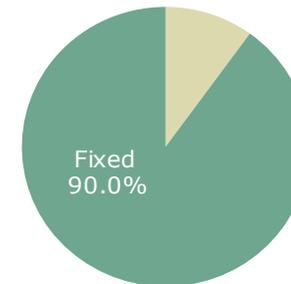


## Long-term debt ratio / Fixed rate ratio

<Long-term debt ratio>

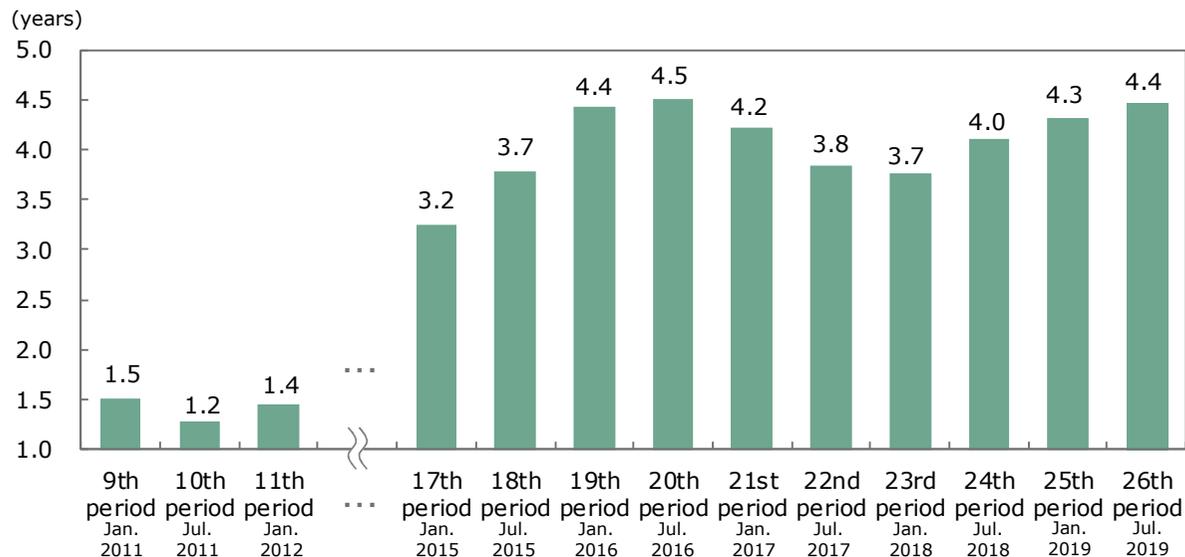


<Fixed rate ratio>



(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

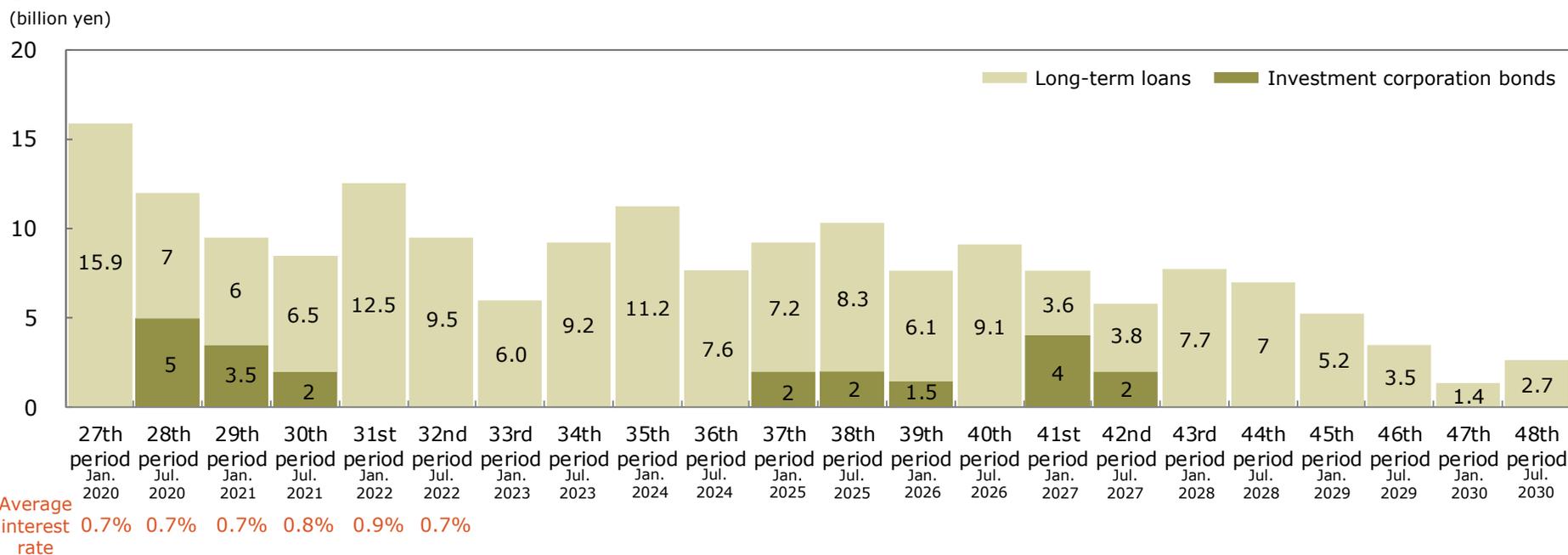


## Rating

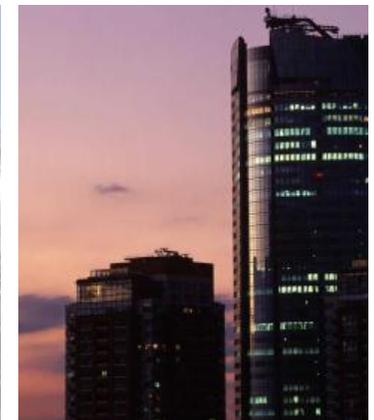
Japan Credit Rating (JCR)

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

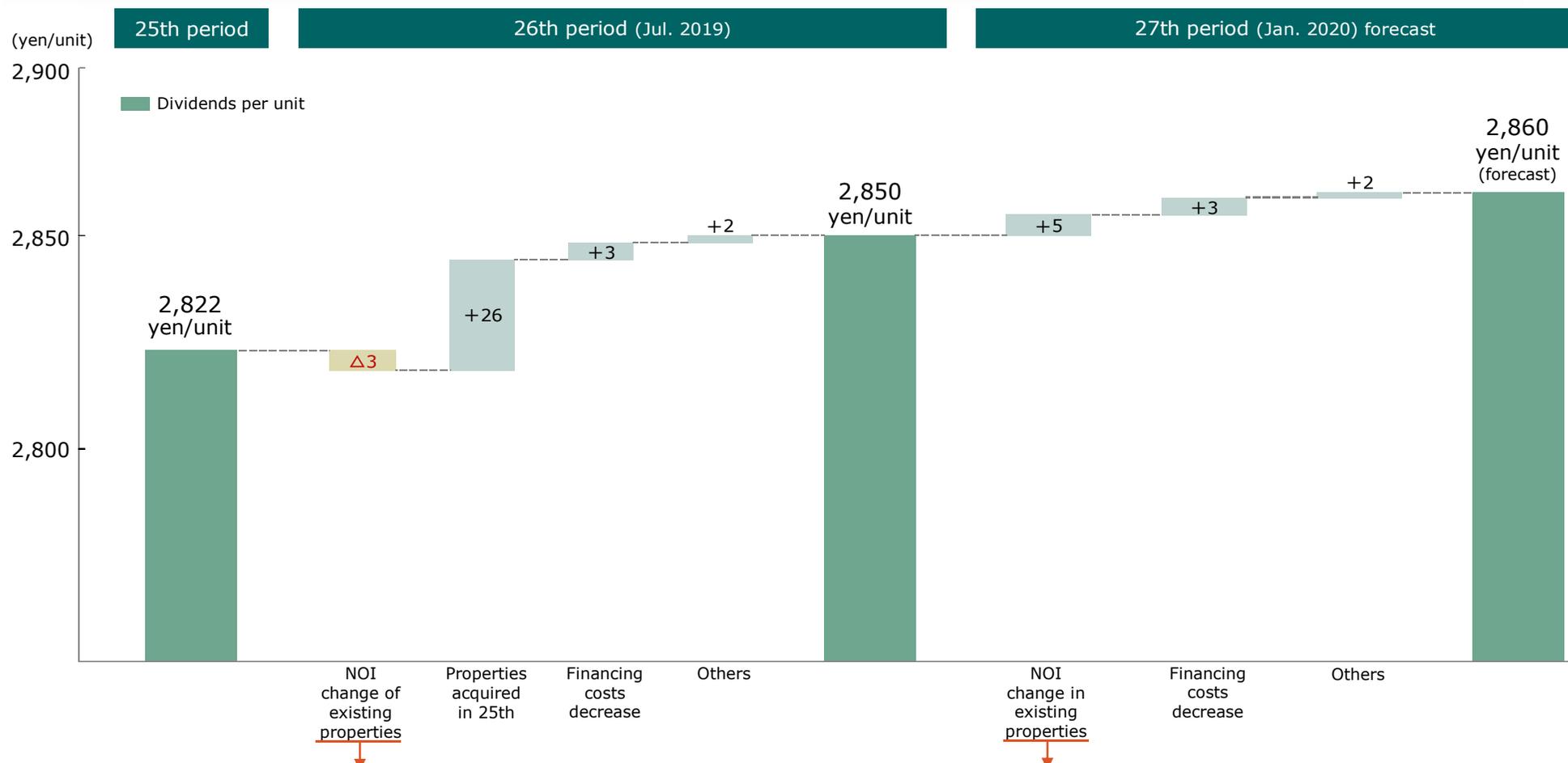
Upon completion of Toranomon Hills Business Tower, Toranomon Hills Residential Tower (Tentative name) and the currently planned Toranomon Hills Station Tower (Tentative name), the total area of the Toranomon Hills complex including Toranomon Hills Mori Tower will reach about 7.5 hectares and about 800,000m<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

---



# 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:**

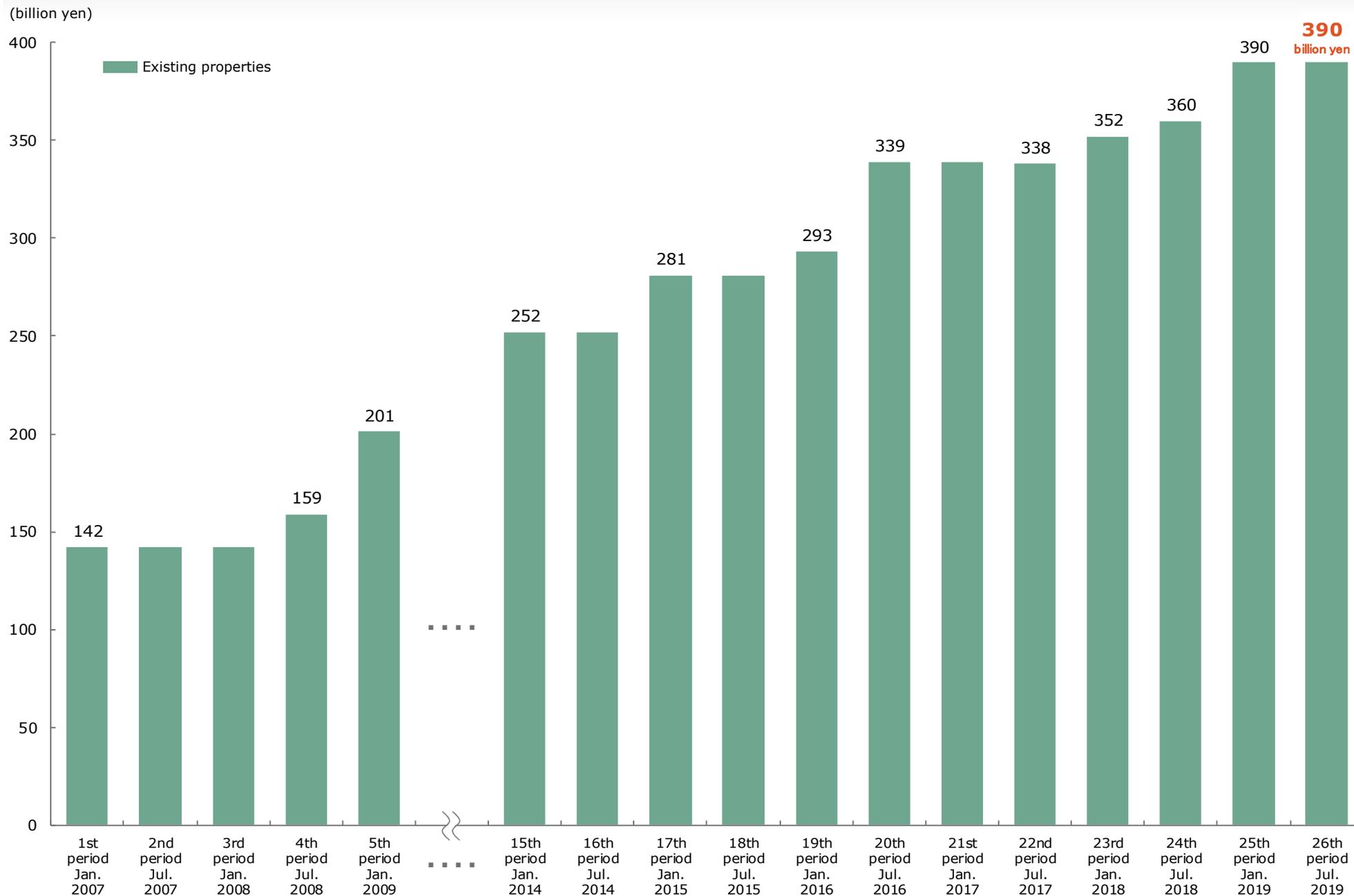
+ Decrease in depreciation	+19
+ Rent revenue of office (Pass-through)	+17
- Increase in maintenance and repairs	△30
- Increase in property taxes for existing properties	△9
- Property taxes for properties acquired in 24th period recorded as expense (equivalent to 3 months)	△4

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

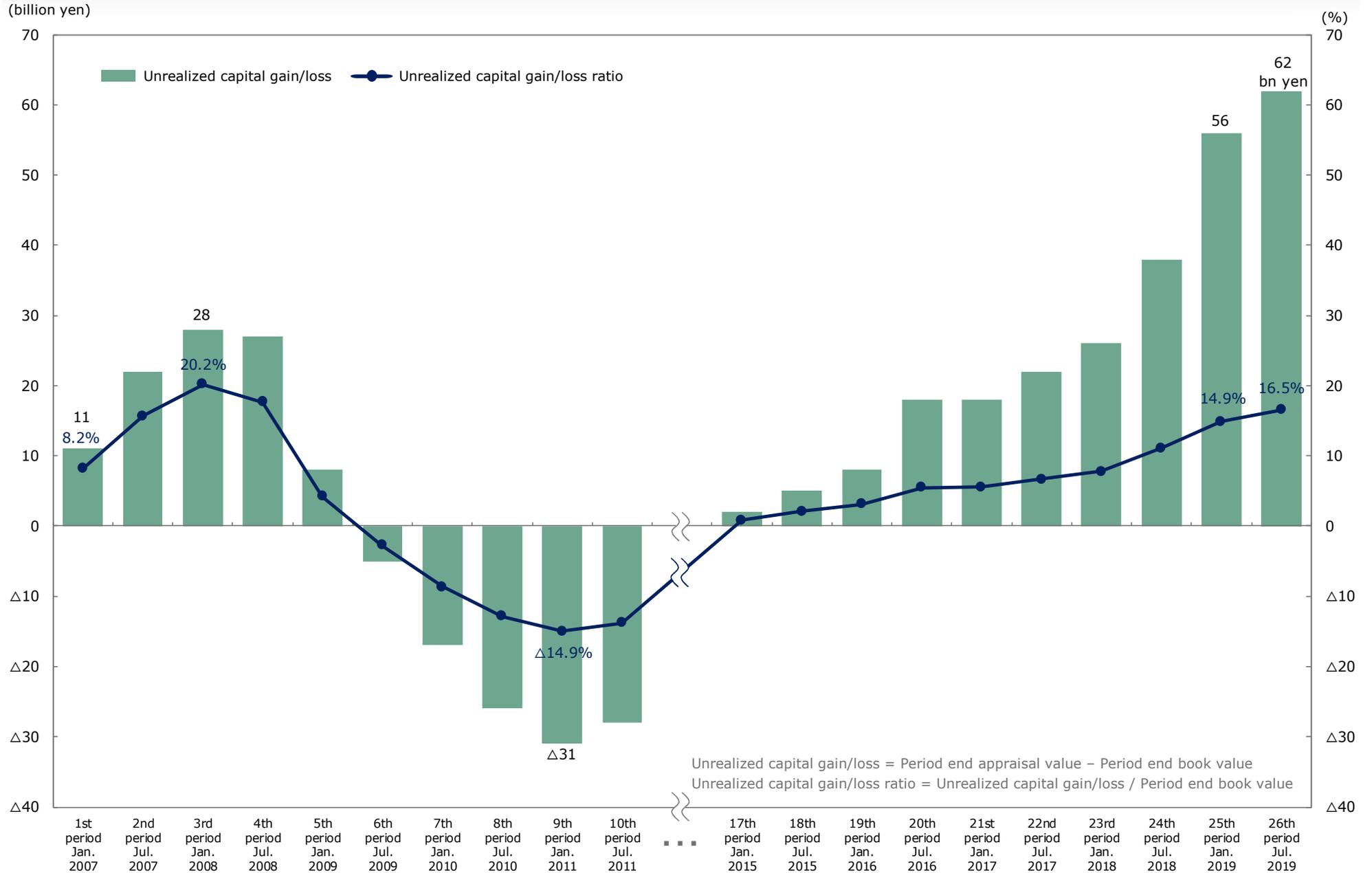
+ Rent revision of land (Laforet Harajuku)	+14
+ Decrease in depreciation	+11
+ Rent revenue of office (Pass-through)	+9
+ Decrease in maintenance and repairs	+7
- Property taxes for properties acquired in 24th and 25th period recorded as expense (equivalent to 3 months)	△18
- Increase in property management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

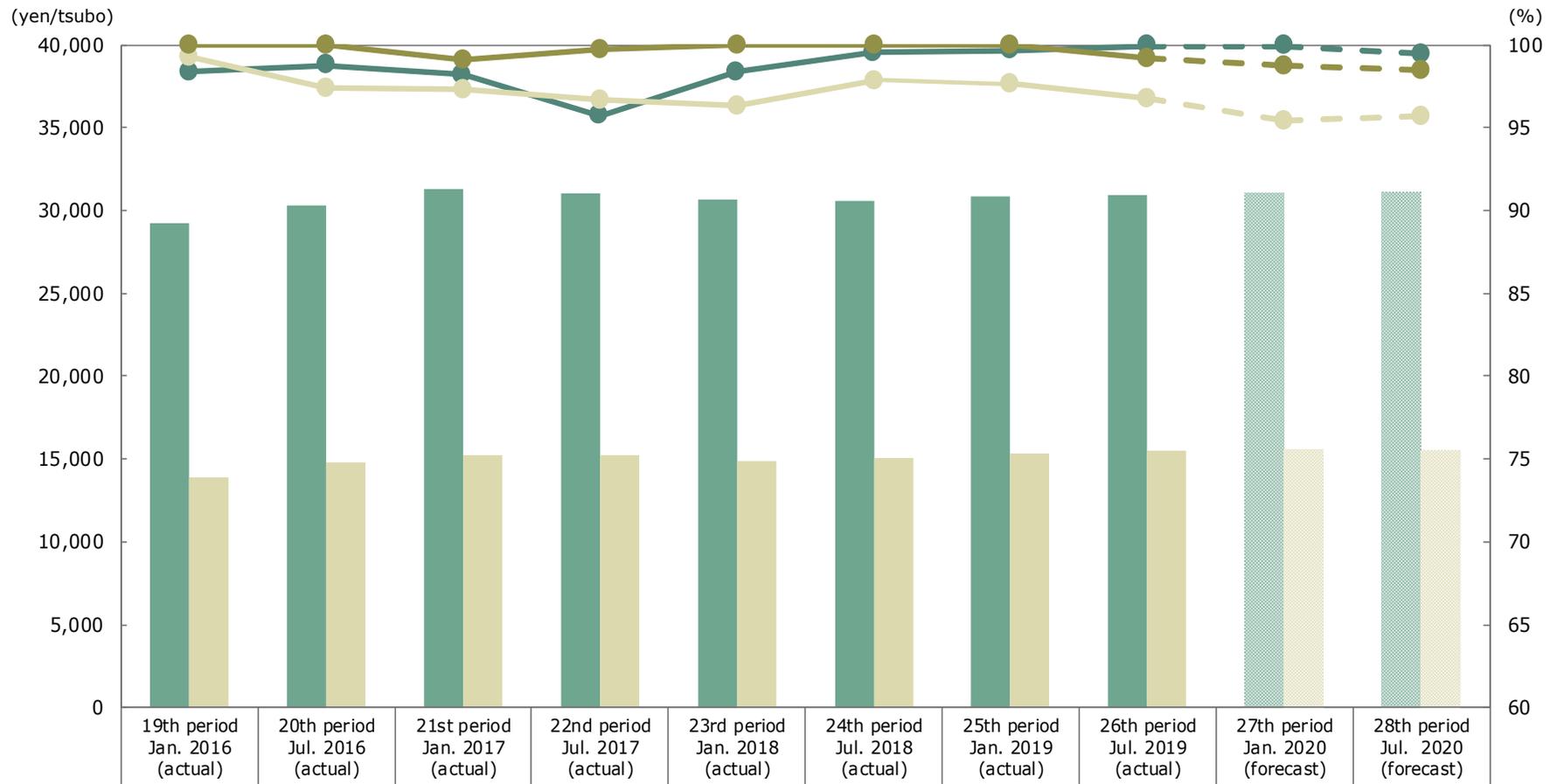
(million yen)

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.

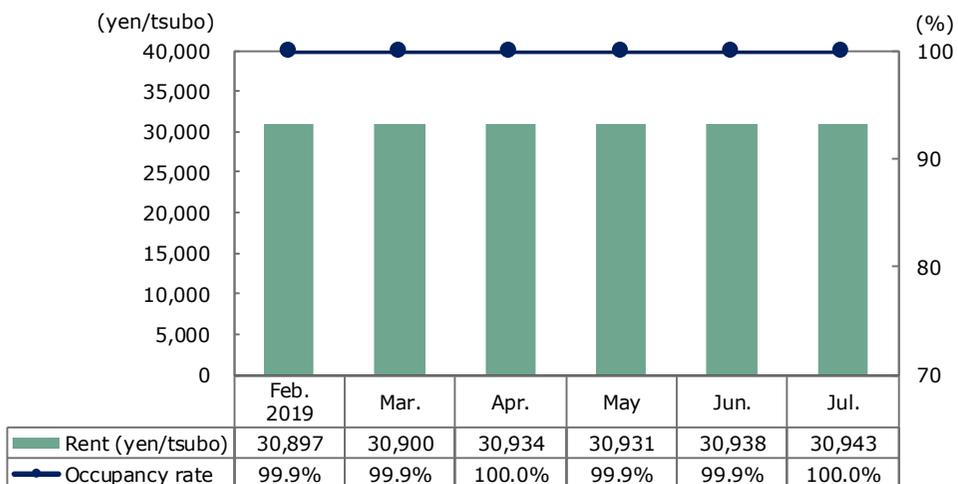
# 3-5 Changes in the rent and occupancy rates



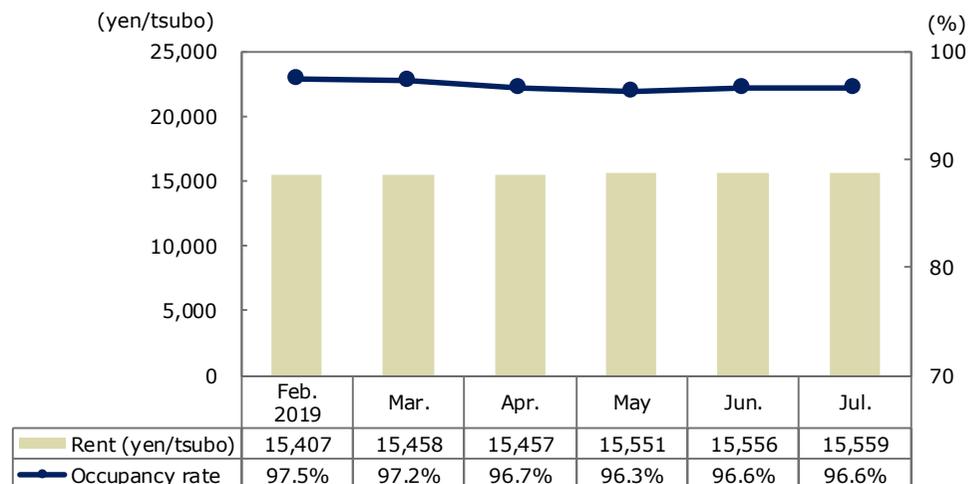
(Note) The above rents and occupancy rates indicate the average rent and the average occupancy rate during relevant fiscal periods.

# 3-6 Tenant status by month and major tenants

## Office: Rent and occupancy rate



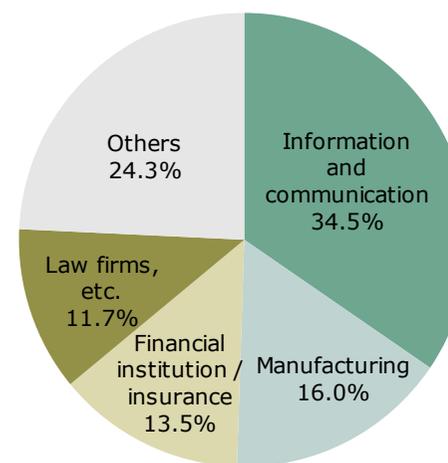
## Residential: Rent and occupancy rate



## 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%
<b>Total of top 5 tenants</b>		<b>121,748.83 ㎡</b>	<b>70.1%</b>

## Tenant Contribution by Industry Type-Office



(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.

(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.

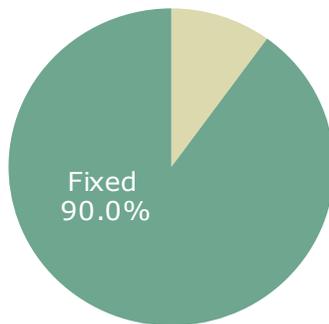
# 3-7 Financial overview (As of July 31, 2019)

## Long-term debt ratio/Fixed rate ratio

<Long-term debt ratio>



<Fixed rate ratio>



## 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].

## 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>	

# 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
Development Bank of Japan Inc.	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. Mizuho Bank, Ltd., Sumitomo Mitsui Trust 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

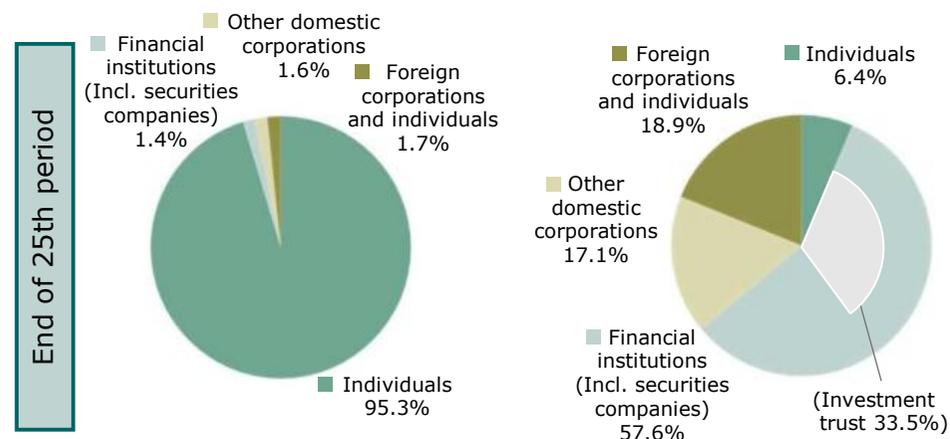
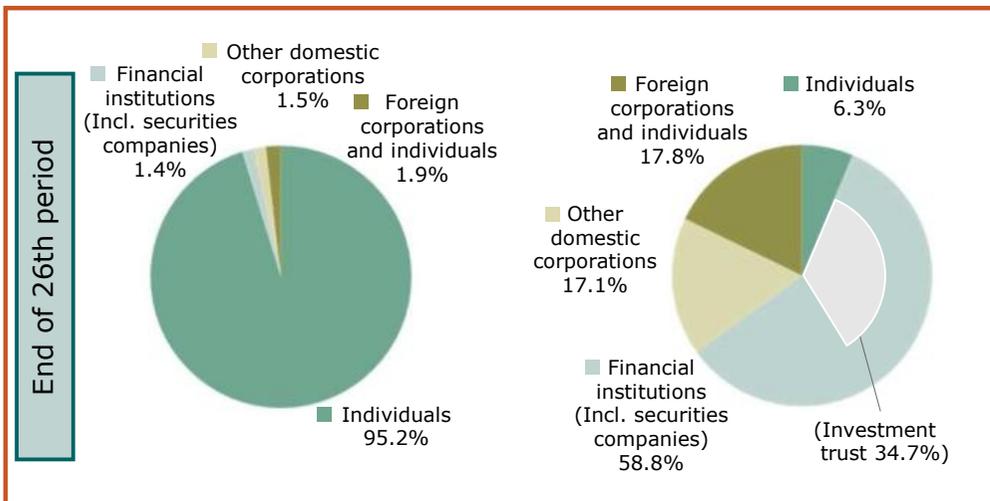
Bond	Amount (mn yen)	Rate of Interest	Payment date	Maturity date
9th Series Unsecured Corporation Bond (7 years)	2,000	1.26%	2013/5/24	2020/5/22
11th Series Unsecured Corporation Bond (7 years)	2,000	0.69%	2014/2/24	2021/2/24
12th Series Unsecured Corporation Bond (10 years)	2,000	0.87%	2014/11/27	2024/11/27
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

---



# 4-1 Business environment recognition

## 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

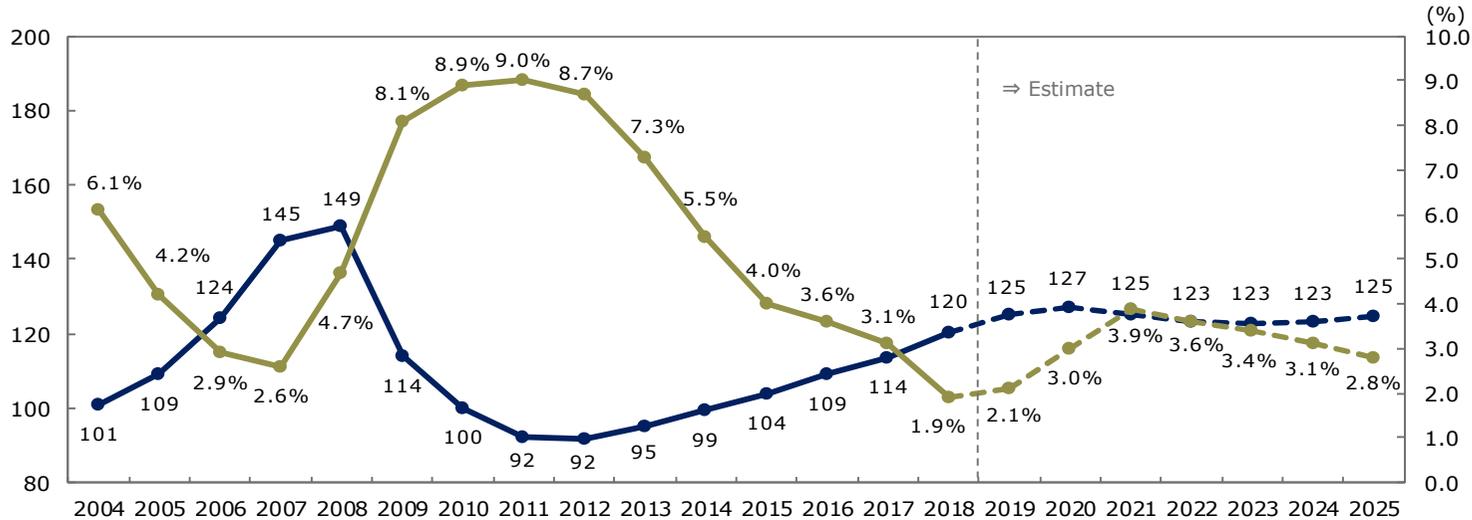
- Target LTV (book value basis) in the mid 40% range (though it may temporarily exceed the target level as necessary) in order to secure property acquisition capacity while maintaining a durable position for times of economic slowdown.
- Target average remaining duration of debt of 4 years or longer, 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)

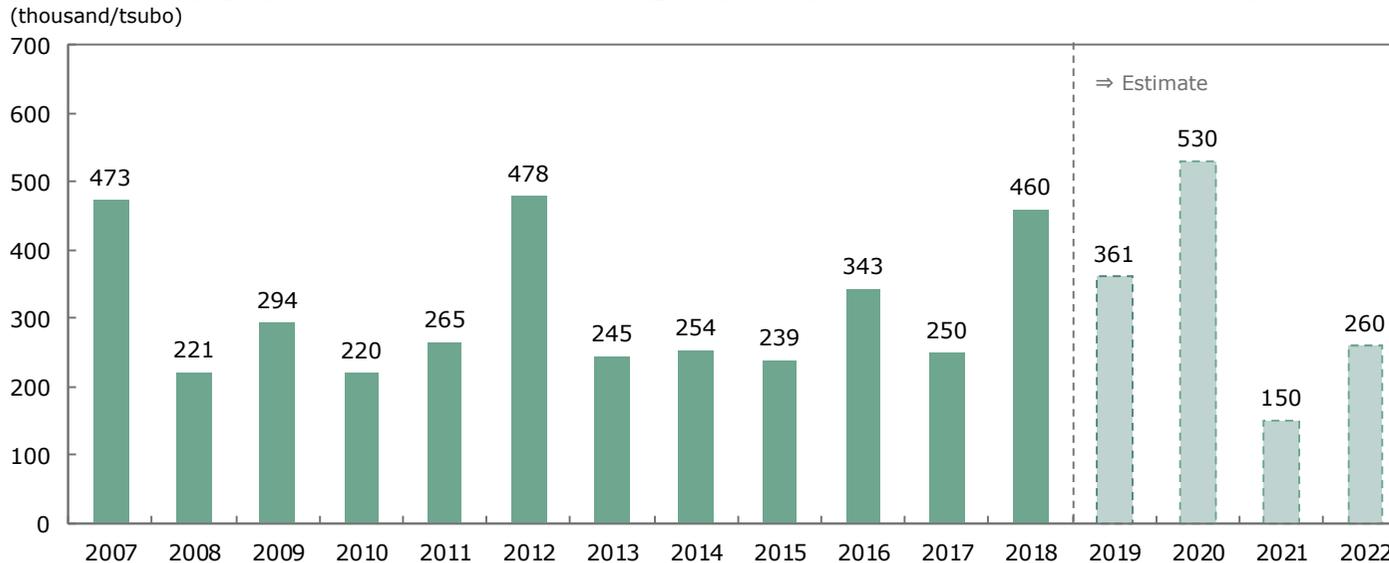
## Change in rent and vacancy rate of office buildings (Tokyo's five central wards)



(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.

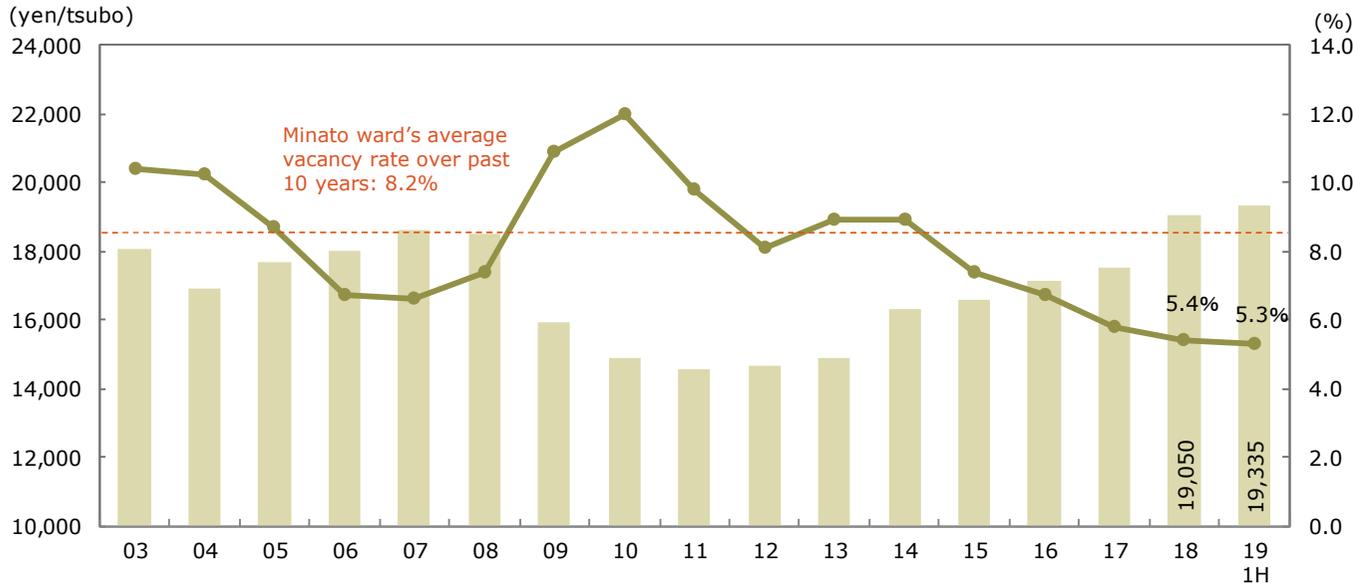
## New supply of office buildings (Tokyo's five central wards)



(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)

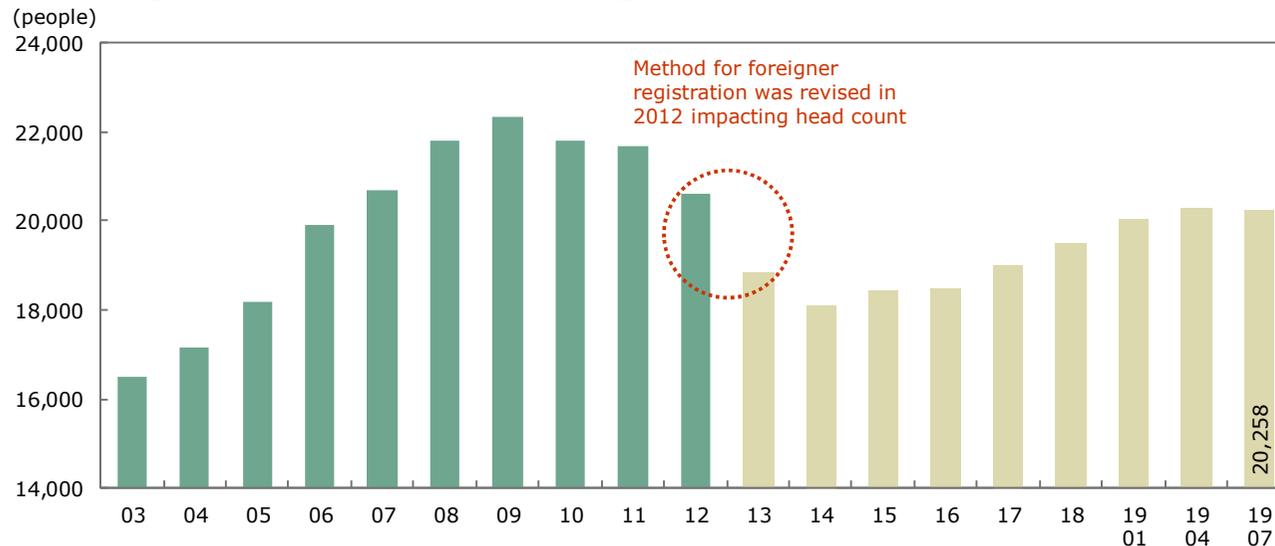


■ Avg. rents of Minato ward  
● Avg. vacancy rates of Minato ward

(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

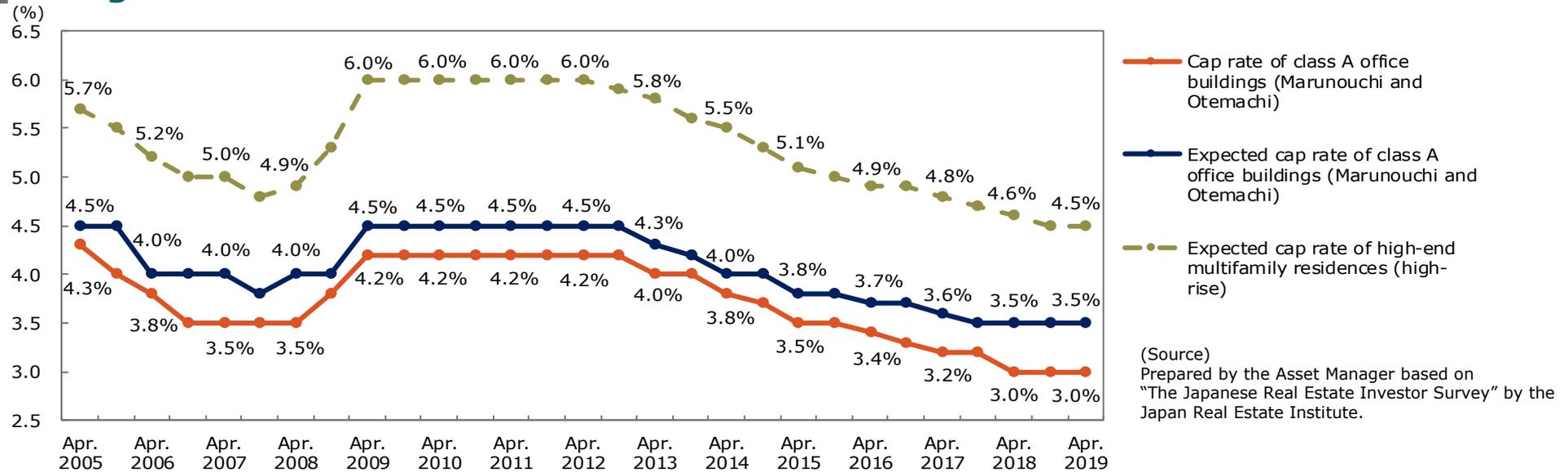
(Source)  
Prepared by the Asset Manager based on "Number of registered foreign residents" prepared by Statistics Division Bureau of General Affairs of Tokyo.

(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.

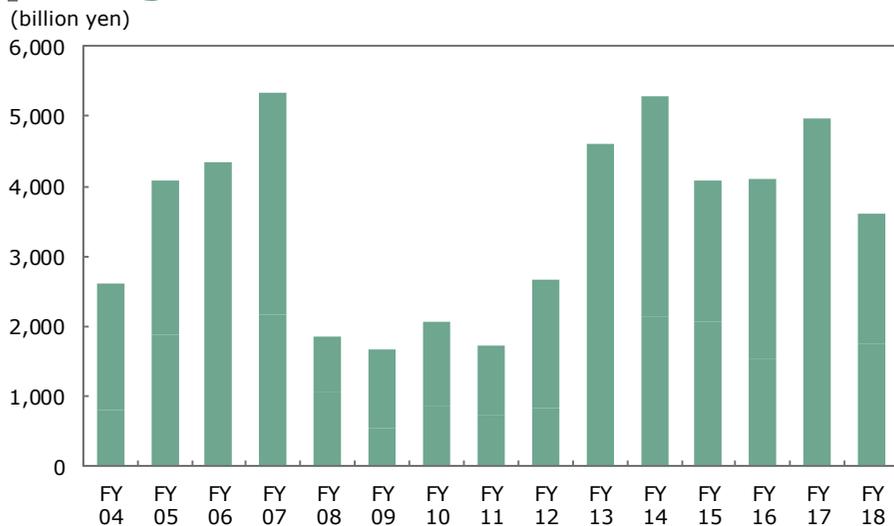
(Note 2)  
Number of foreign residents as of January 1 of each year is used for the year-based figures.

# 4-5 Market-related information (3)

## Change in return on real estate investment

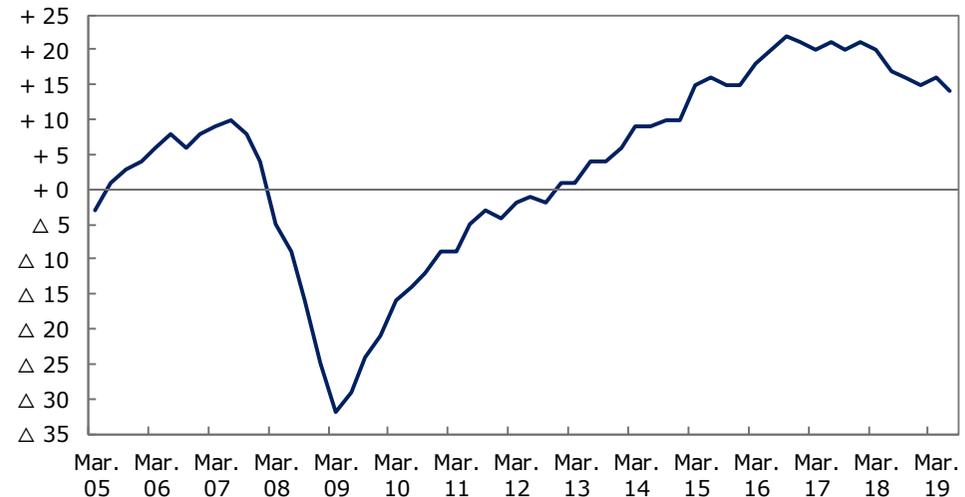


## Change in real estate transaction amount



(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.

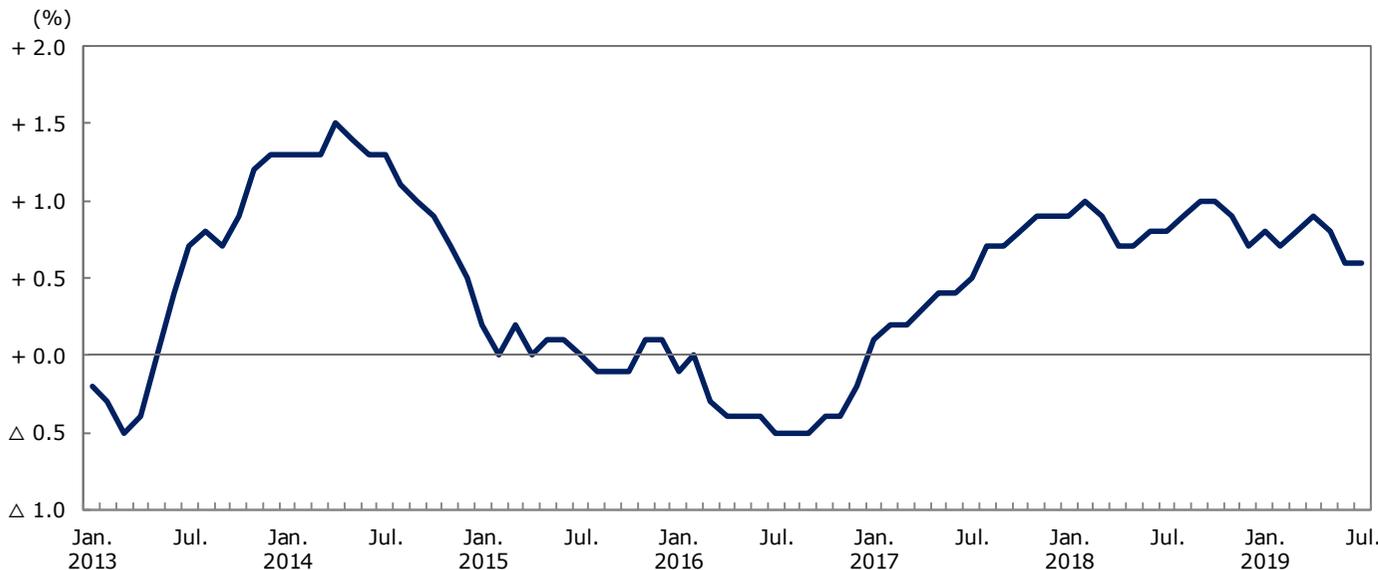
# 4-6 Market-related information (4)

## Change in 10-year bond interest rates



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

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



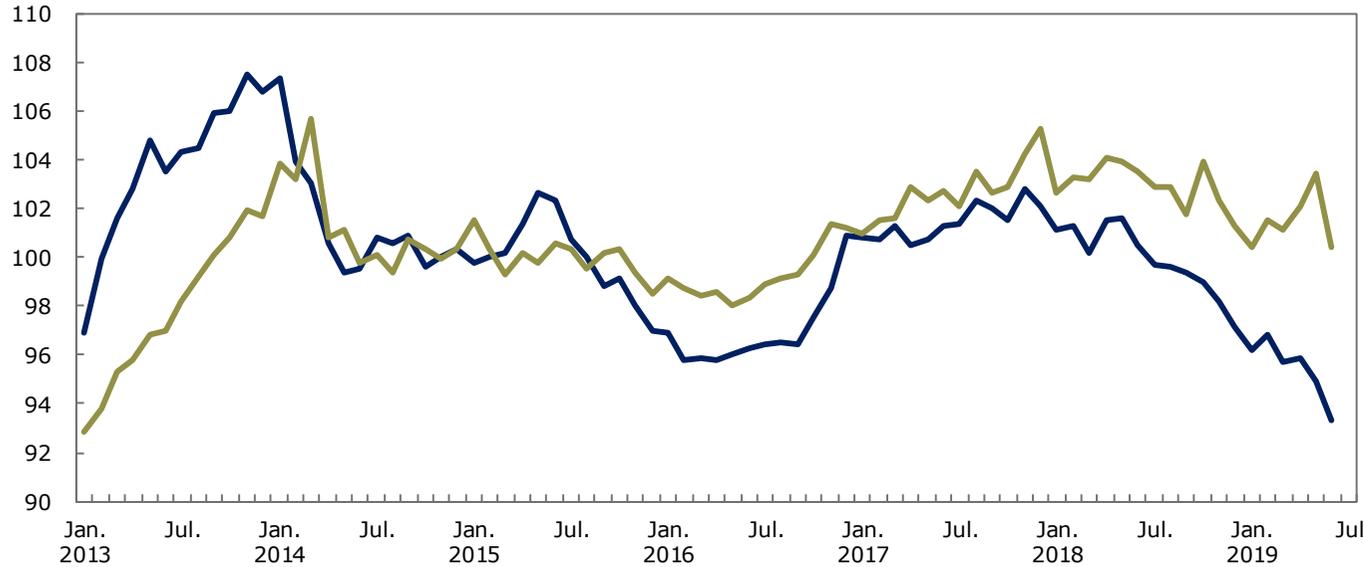
Based on figures excluding the direct effects of the consumption tax rate increase

(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

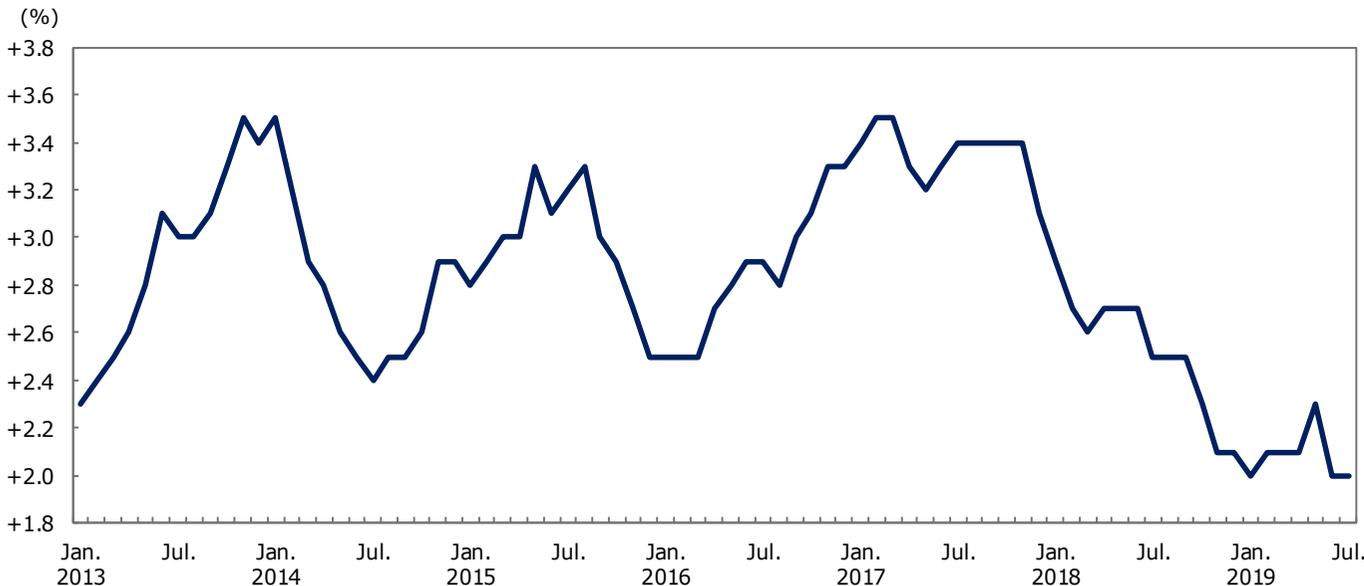


● Leading index  
● Coincident index

(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.

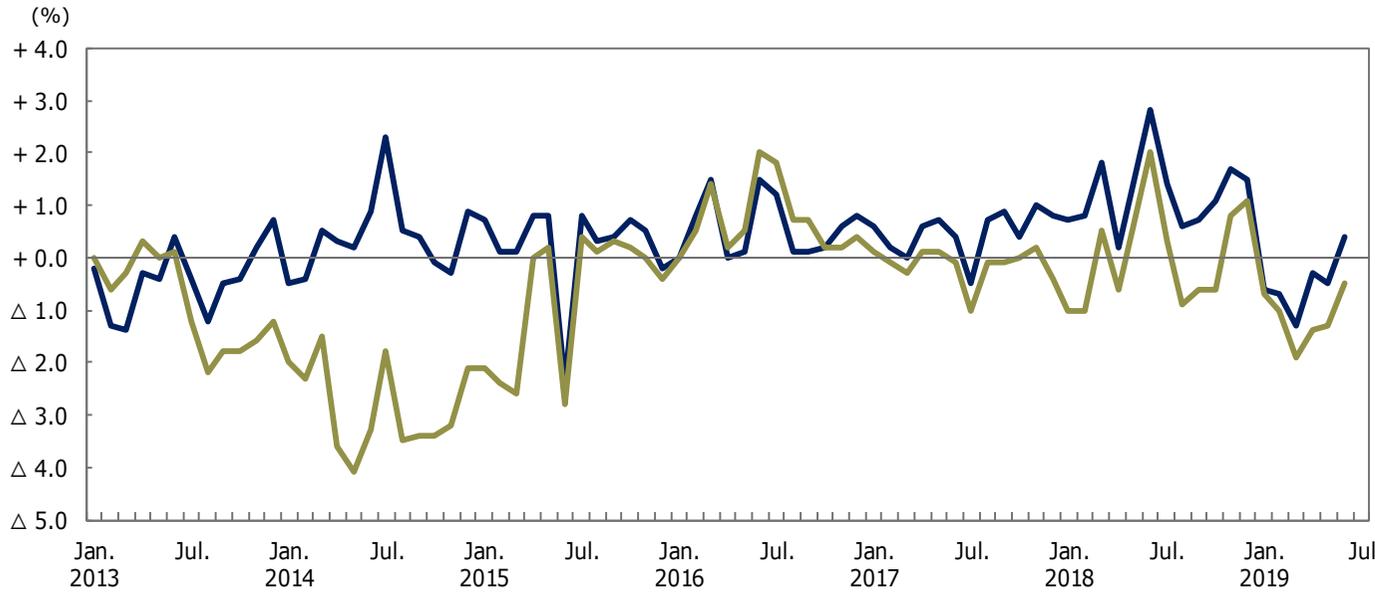
## Money stock (M3: year-on-year comparison)



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

# 4-8 Market-related information (6)

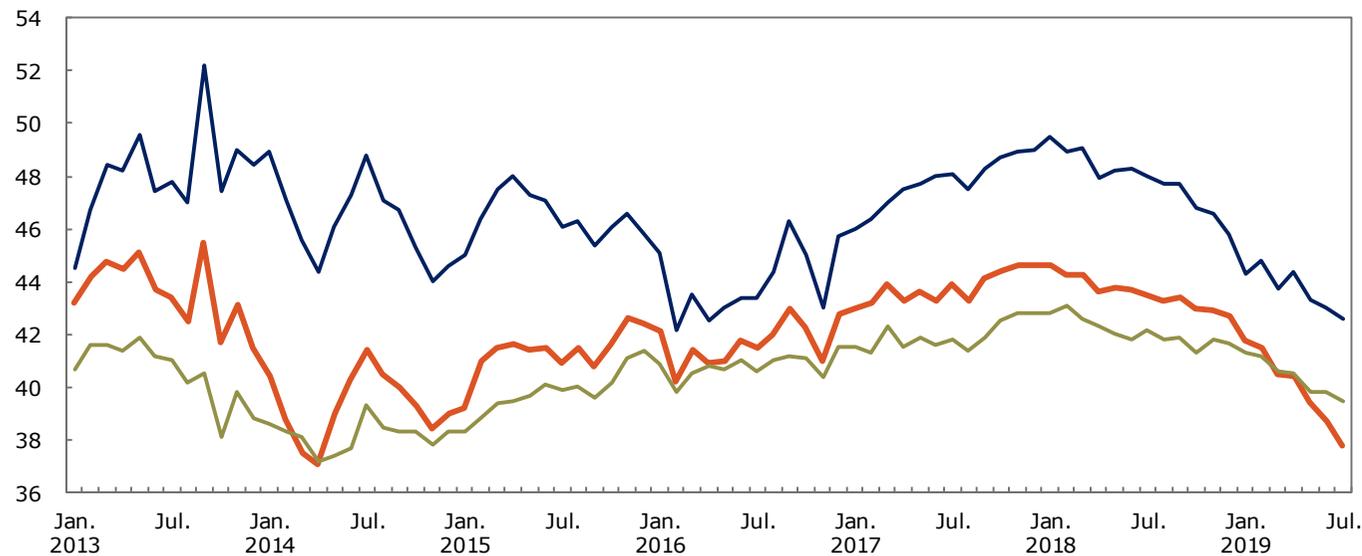
## Total cash earnings (year-on-year comparison)



● Nominal  
● Real

(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



● Employment  
● Consumer confidence index  
● Income growth

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