



Mori Hills REIT Investment Corporation

Results of the 27th Fiscal Period ended January 31, 2020

Presentation Material

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<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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Asset Management Company : Mori Building Investment Management Co., Ltd.
(Registered as a financial instruments business, Kanto Local Finance Bureau registration no. 408
Member of The Investment Trusts Association, Japan)

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1. Executive summary

Financial summary 27th period (Jan. 2020)

- Operating revenue: 9,631 million yen, operating income: 6,026 million yen, net income: 5,406 million yen **Increased revenue and income period-over-period**
- DPU: 2,883 yen (+1.2% from 26th period) **Increasing for 19 consecutive fiscal periods**
- DPU increased by +2.2% over previous year, continuing steady rate of growth
- NAV per unit increased by +8.2% over previous year, increasing steadily

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 100% and residential 96.2%.
Steady internal growth due to rent revision and replacement
- Office rent gap ratio decreased from $\Delta 6.5\%$ in 26th period to $\Delta 6.2\%$ in 27th period

Financial management

- Maintained the target level by book value basis LTV 45.7%, appraisal value basis LTV 38.2%, remaining duration of debt 4.6 years
- Fixed interest rate ratio at the end of the period was 88.2%

2. Investment highlights



2-2 Financial results

	26th period	27th period		27th period
	Jul. 31, 2019	Jan. 31, 2020		Jan. 31, 2020
	Actual	Actual	Difference	Forecasted
Operating Highlights (million yen)				
Operating revenue	9,561	9,631	+ 69	9,616
Rent revenues	9,323	9,377	+ 53	9,362
Other operating revenues	237	253	+ 15	253
Operating expenses	3,589	3,605	+ 15	3,630
Expenses related to properties	3,225	3,224	△ 1	3,270
SG&A	364	380	+ 16	359
Operating income	5,971	6,026	+ 54	5,986
Non-operating income	1	1	△ 0	0
Non-operating expenses	627	619	△ 7	621
Ordinary income	5,346	5,407	+ 61	5,365
Net income	5,344	5,406	+ 61	5,364
Total dividends	5,343	5,405	+ 61	5,362
DPU				
Total units outstanding (units)	1,874,960	1,874,960	—	1,874,960
DPU (yen)	2,850	2,883	+ 33	2,860
Other Indices (million yen)				
Profit on real estate rental	6,336	6,407	+ 70	6,345
Depreciation	1,057	1,034	△ 23	1,036
NOI	7,394	7,441	+ 47	7,382
NOI yield	3.8%	3.8%	△ 0.0PT	3.7%
Acquisition price (weighted average based on the number of operating days during the period) (Note)	390,690	390,690	—	390,690

Increase/decrease factor (26th – 27th)

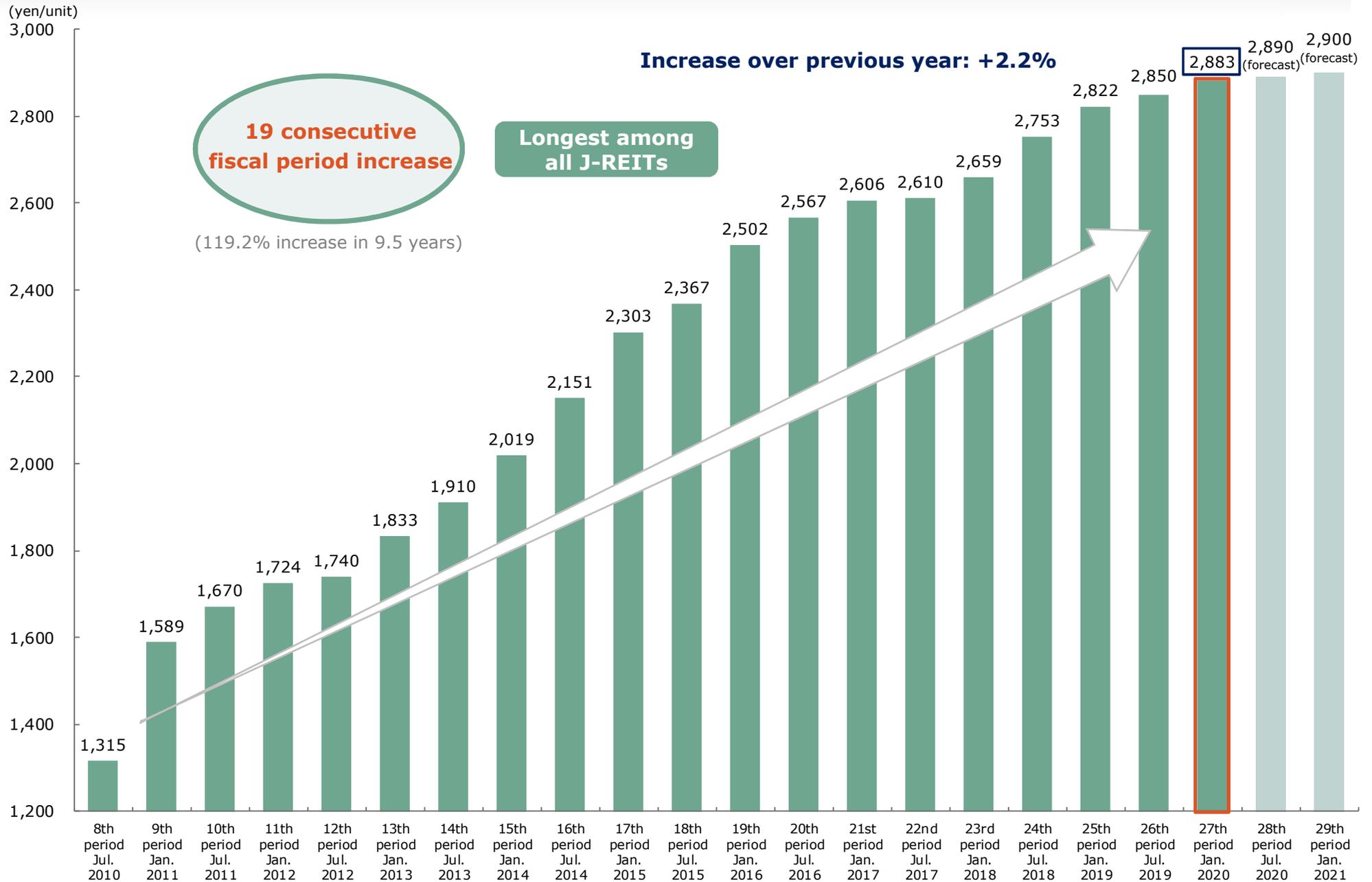
- **Operating revenue (+69 mn yen)**
 - Rent revision of land (Laforet Harajuku) +25
 - Office operating revenue (Pass-through) +21
 - Utilities and other revenue +19
- **Operating expenses (+15 mn yen)**
 - Property taxes for properties acquired in 24th and 25th period +31
 - Property management fee +21
 - Property taxes for existing properties +15
 - Utilities +10
 - Maintenance and repairs △56
- **Non-operating expenses (△7 mn yen)**
 - Interest expenses, etc. △6

Increase/decrease factor for 27th period (Forecasted - Actual)

- **Operating income (+40 mn yen)**
 - Office (Pass-through) +41

(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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19 consecutive fiscal period increase

Increase over previous year: **+2.2%**

(119.2% increase in 9.5 years)

PBR	▶	1.7x
Implied cap rate	▶	2.8%

[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

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18 consecutive fiscal period increase

Increase over previous year: **+8.2%**

(132.1% increase in 9 years)

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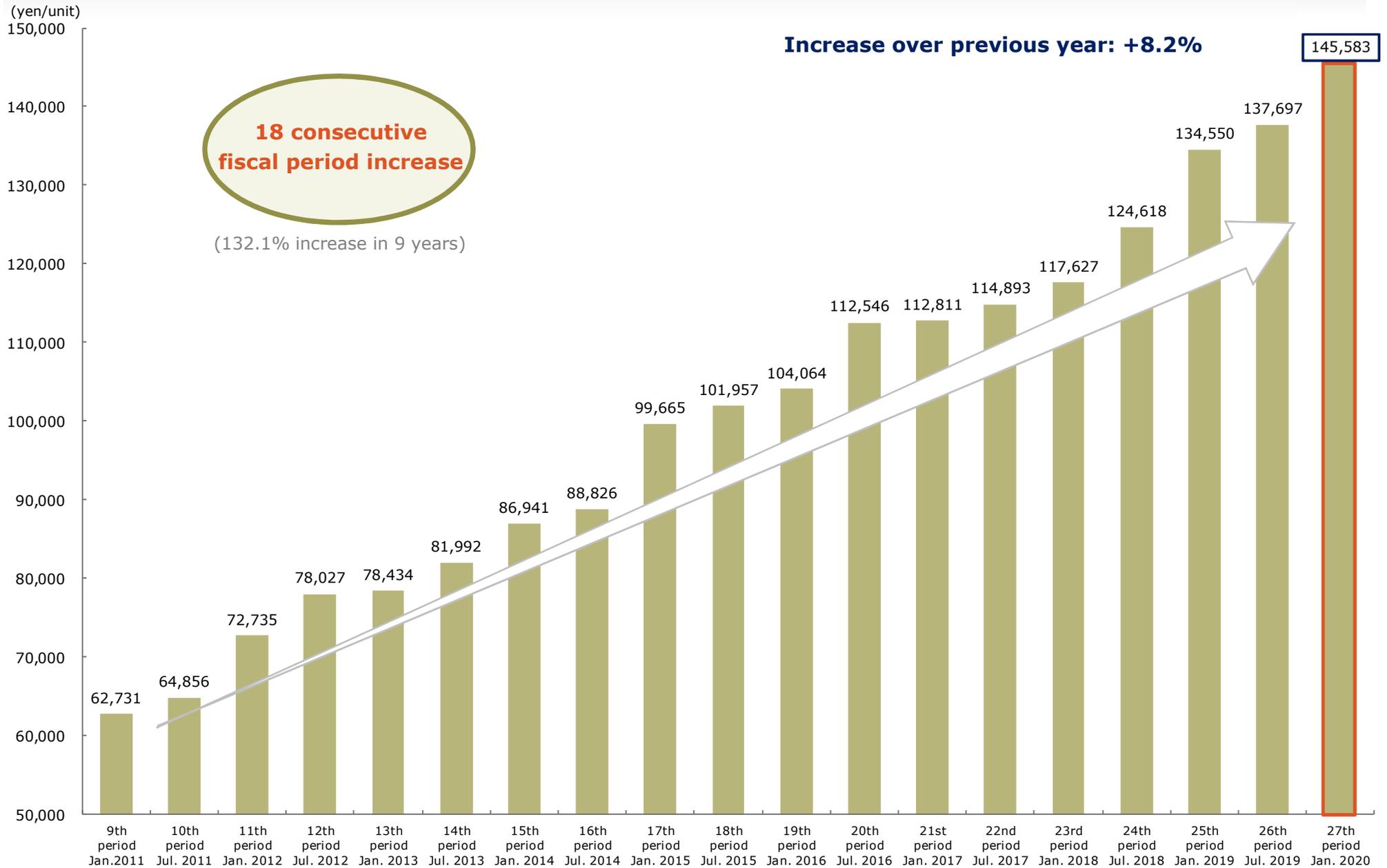
[Factors for NAV increase]

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 27th fiscal period (January 31, 2020).

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

	27th period	28th period		29th period
	Jan. 31, 2020	Jul. 31, 2020		Jan. 31, 2021
	Actual	Forecast	Difference	Forecast
Operating Highlights (million yen)				
Operating revenue	9,631	9,621	△ 9	9,645
Rent revenues	9,377	9,386	+ 9	9,389
Other operating revenues	253	235	△ 18	256
Operating expenses	3,605	3,606	+ 0	3,615
Expenses related to properties	3,224	3,265	+ 41	3,297
SG&A	380	340	△ 40	317
Operating income	6,026	6,015	△ 10	6,029
Non-operating income	1	1	+ 0	1
Non-operating expenses	619	596	△ 22	591
Ordinary income	5,407	5,420	+ 12	5,439
Net income	5,406	5,419	+ 12	5,437
Total dividends	5,405	5,418	+ 13	5,437
DPU				
Total units outstanding (units)	1,874,960	1,874,960	—	1,874,960
DPU (yen)	2,883	2,890	+ 7	2,900
Other Indices (million yen)				
Profit on real estate rental	6,407	6,356	△ 51	6,347
Depreciation	1,034	1,044	+ 10	1,041
NOI	7,441	7,400	△ 40	7,389
NOI yield	3.8%	3.8%	0.0PT	3.8%
Acquisition price (weighted average based on the number of operating days during the period)	390,690	390,690	—	390,690

Increase/decrease factor (27th – 28th)

- **Operating revenue (△9 mn yen)**
 - Full period contribution of rent revision of land (Laforet Harajuku) +12
 - Cancellation penalty +11
 - Utilities and other revenue △30
- **Operating expenses (△1 mn yen)**
 - Property management fee +17
 - Property taxes for existing properties +15
 - Other operating expenses △21
 - Utilities △16
- **Non-operating expenses (△22 mn yen)**
 - Interest expenses, etc. △22

Increase/decrease factor (28th – 29th)

- **Operating revenue (+23 mn yen)**
 - Utilities and other revenue +31
- **Operating expenses (+9 mn yen)**
 - Utilities +18
 - Property taxes for existing properties +15
 - Leasing fee +14
 - Asset management fee △26
 - Maintenance and repairs △11

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

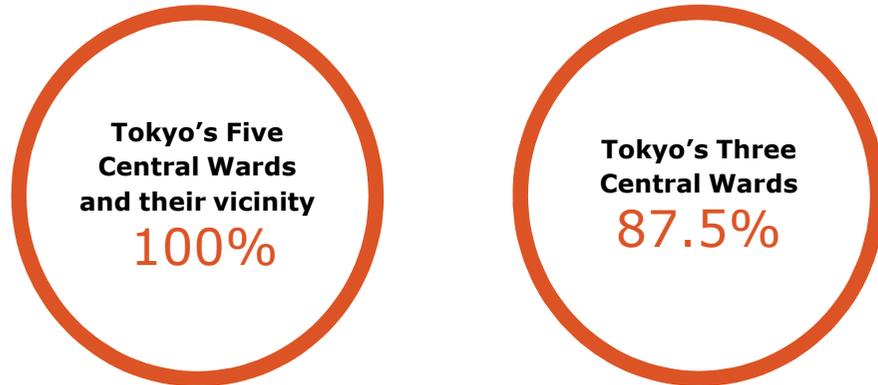
Creating added value

Area management, peripheral development and renovation

Value creation

2-8 (1) Location

Highest property percentage in Central Tokyo among J-REITs

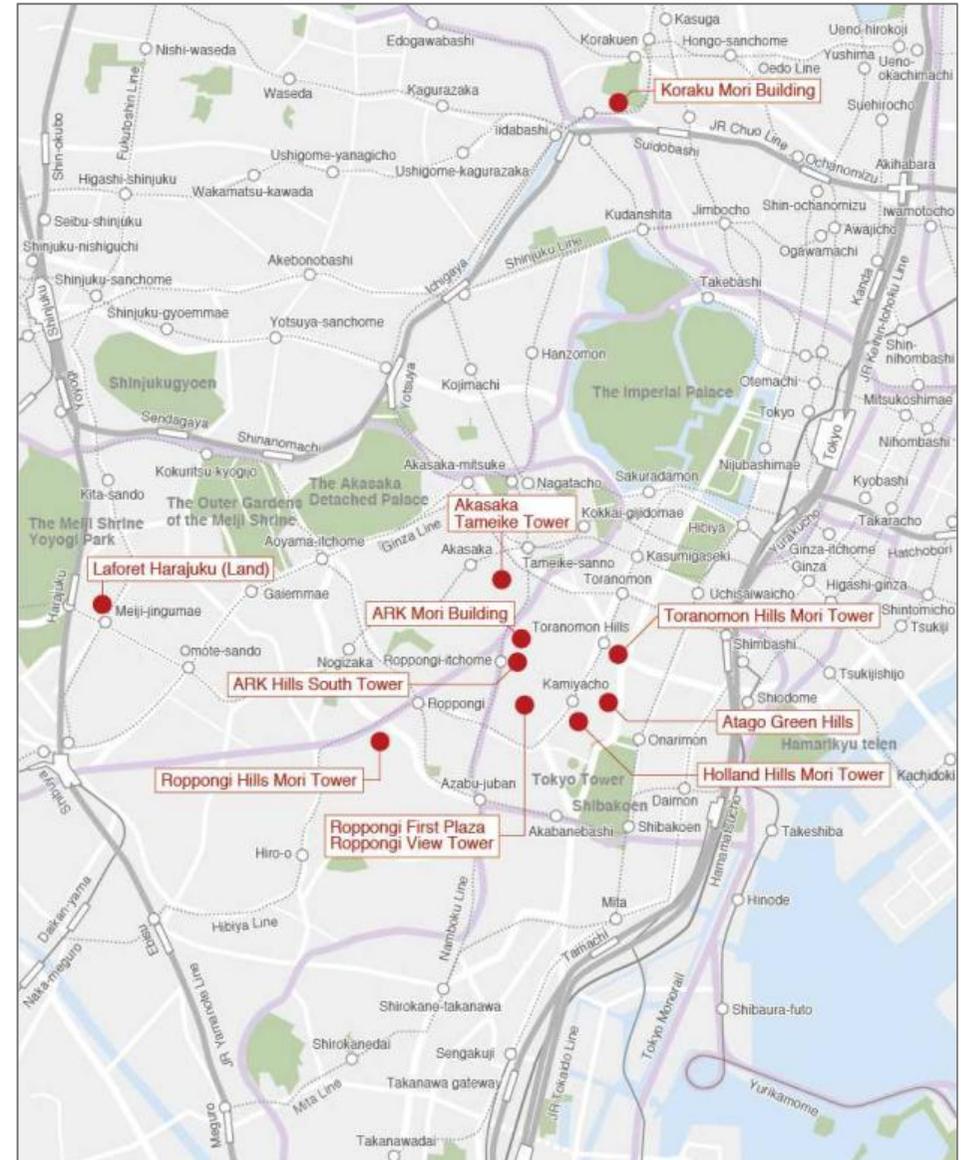


(Note) The ratios represent proportion of acquisition price to total acquisition price.

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



HILLS REIT

Focusing investment in premium area

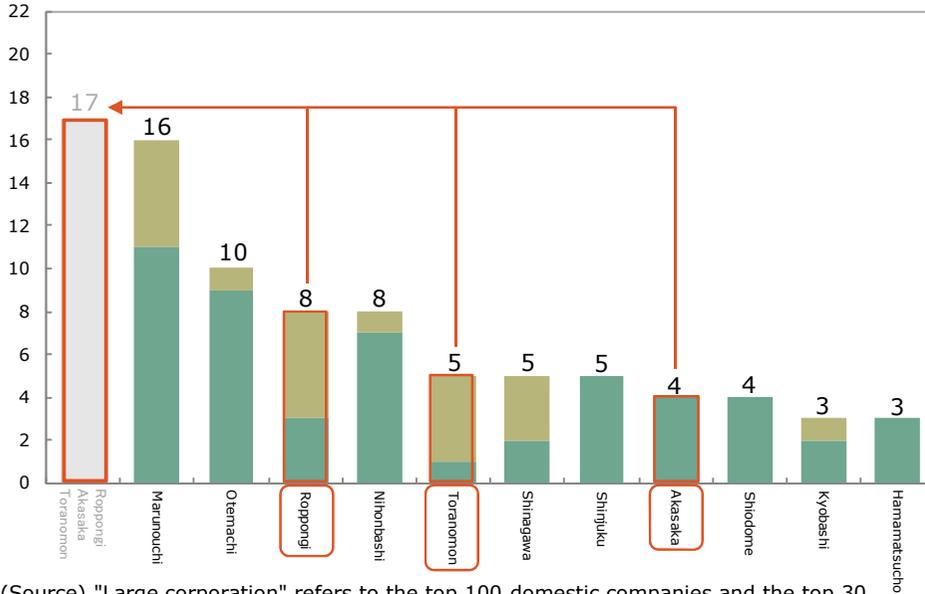
1. Global large corporate cluster in central Tokyo



2. IT and venture company cluster in central Tokyo

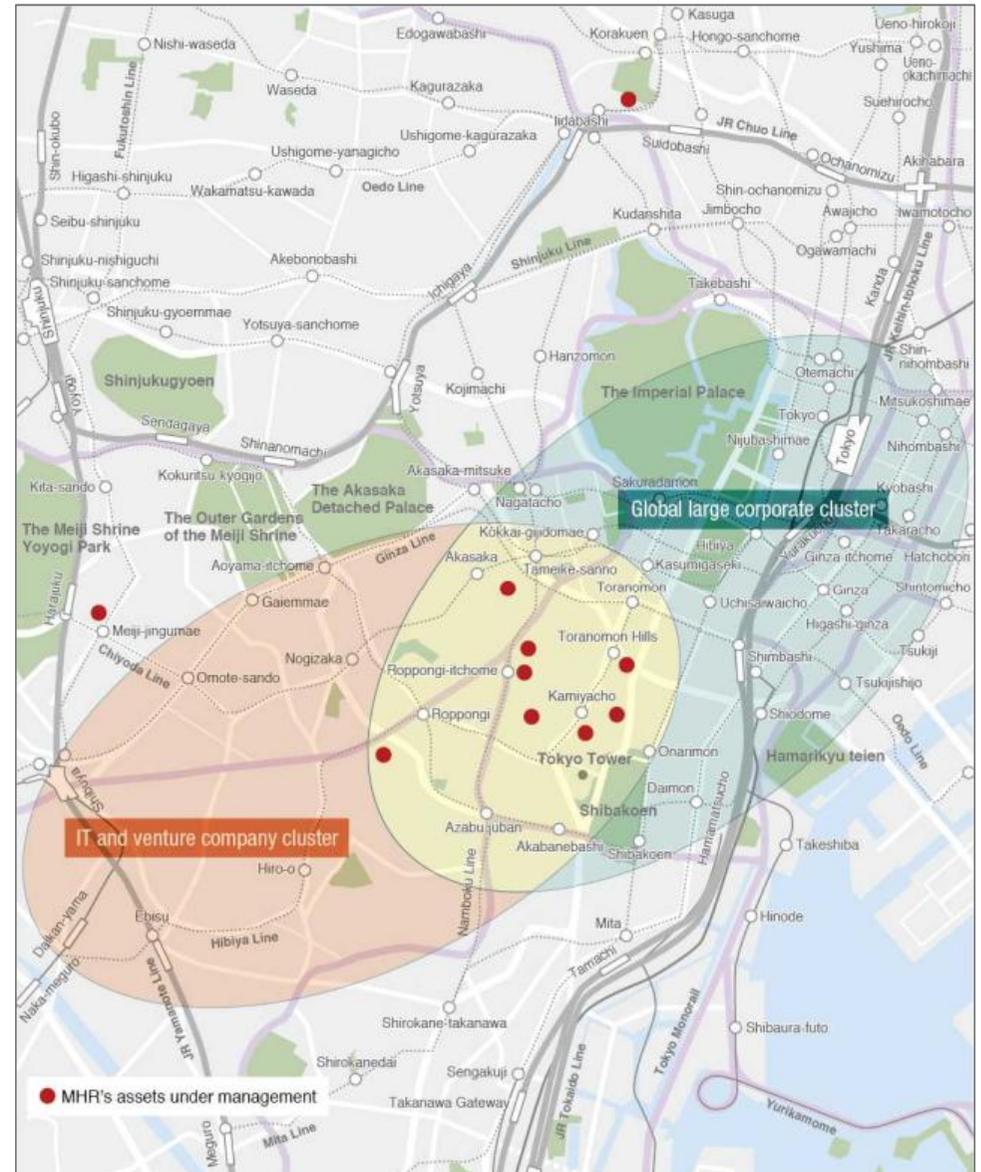
Large corporate headquarters in central Tokyo

(company) Foreign company Domestic company



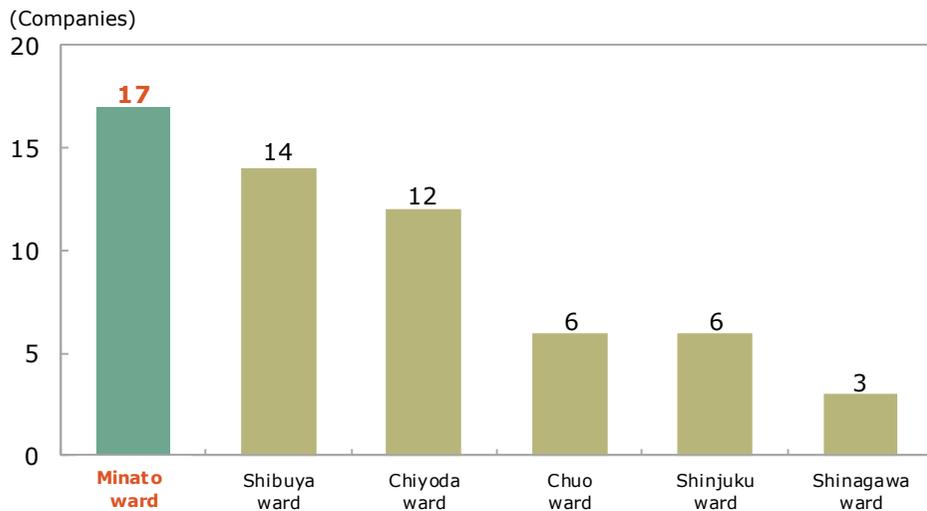
(Source) "Large corporation" refers to the top 100 domestic companies and the top 30 foreign companies based on market capitalization. Prepared by the Asset Manager based on market capitalization data as of July 31, 2019 by Refinitiv and publicly available information for the headquarters' locations.

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



2-10 (1) Location

Head office location of IPO companies (2019)



(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 2019 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	AirTrip
NVIDIA	NHN JAPAN	Enigmo
Baidu	UUUM	Gunosy
Expedia	RPA Holdings	KLab
Nexon	ZIGExN	kaonavi

(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

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	758,203㎡	Connected to Roppongi Station	215	Grand Hyatt Tokyo (NAGOMI SPA AND FITNESS)	Mori Art Museum Tokyo City View TOHO Cinemas	Academyhills Ropponngi Hills Club	○	○	28.5%
Toranomon Hills (After total project completion)	793,585㎡	Connected to Toranomon Hills Station	Not fixed (approx. 8,000 tsubo)	Andaz Tokyo (AO SPA AND CLUB)	-	Toranomon Hills Forum	○	○	30.3%
ARK Hills	310,979㎡	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 quality 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.

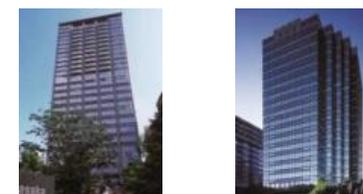
※ In acquisition price base by excluding Laforet Harajuku (Land)

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)



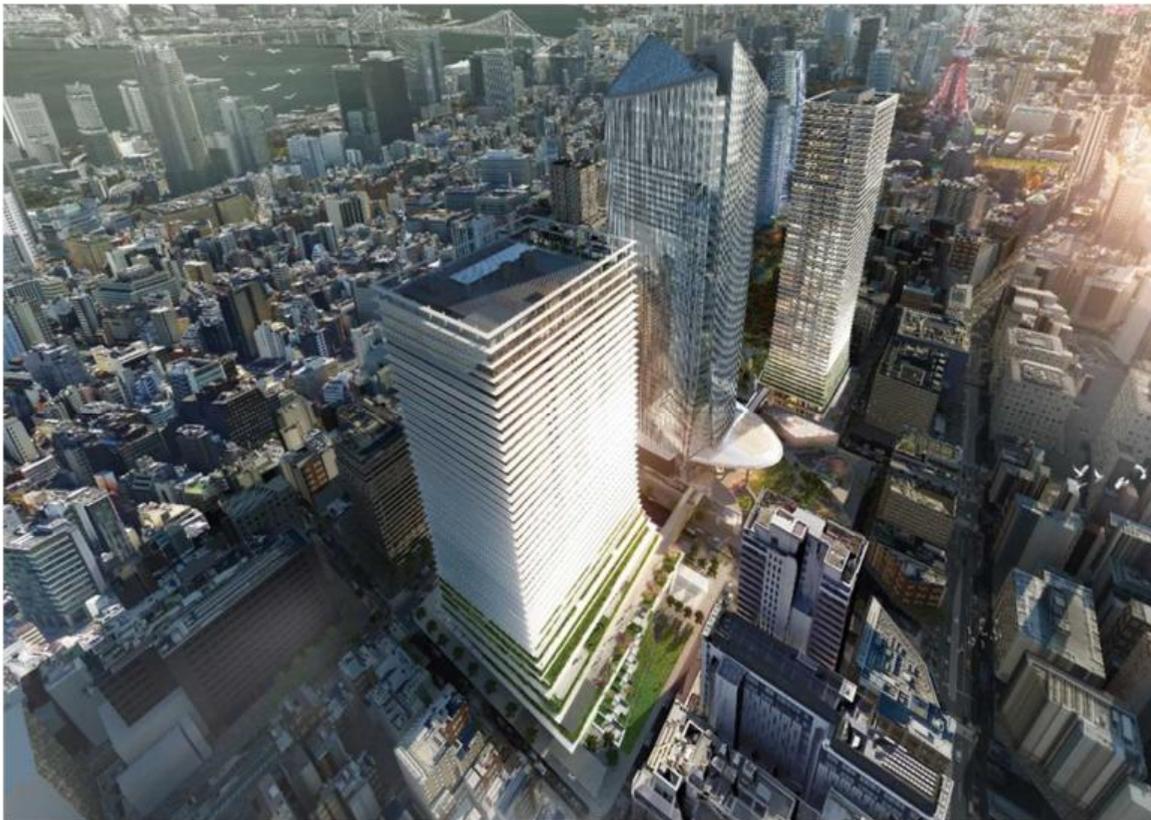
Shintora-Dori CORE (Completed Sep. 2018)



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 10,000m²
- "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 (Completion Jan. 2020)



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 96,000m², and retail facility area of approximately 7,600m².
- The tower is directly connected to the new Toranomon Hills station on the Hibiya subway line as well as the existing Toranomon station on the Ginza subway. A bus terminal is located 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.
- Offices occupy 32 floors from the 5th floor to the 36th floor with the standard rentable floor area of 3,000 m². Refreshment corners are provided in the common area on each floor aimed at promoting communication.



<Retail>

From the first basement floor to the 3rd floor, commercial spaces with a total of 58 restaurants and stores will support global lifestyles. The 3rd floor will house Toranomon Yokocho, a landmark dining facility featuring offerings from famous stores from all over Tokyo.



<Innovation center>

On the 4th floor will be a large membership-based incubation center "ARCH," which was established especially to support large enterprises' internal business reforms and new business creation. It boasts around 3,800 m² of office work space and aims to become a base for Japan's unique innovation ecosystem.

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



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

- Large central square of approx. 6,000m² 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 860,400m², with 213,900m² 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 "Toranomon-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 6,000m² central square.



Creating community and innovation through the Area Management by sponsor

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 such as "Our Parks" are held in the open spaces, Oval Plaza and Atrium, where a 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 sponsor

ARK 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.



HAB-YU platform
(ARK Hills South Tower)

Co-creation platform HAB-YU platform

HAB-YU, operated jointly with the Fujitsu Group, is a platform for co-creation. It aims to create new value by bringing together the issues, ideas and technologies from people "Human", region "Area", and company "Business" (= HAB) and forging ties ("yu") among them in a variety of ways.

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



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

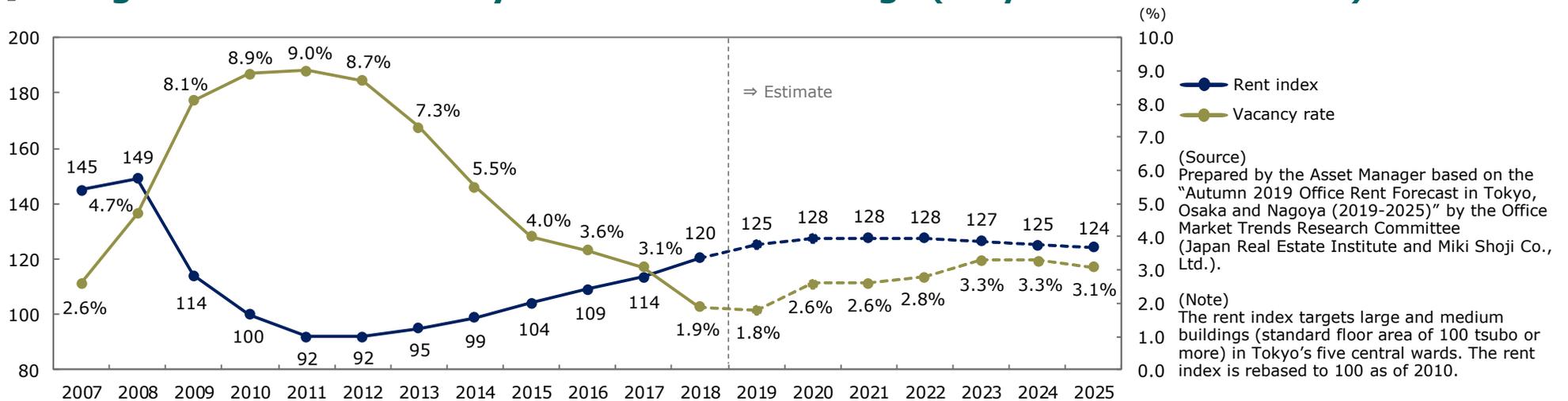
Closely watching the acquisition price level as property acquisition competitions are overheated

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

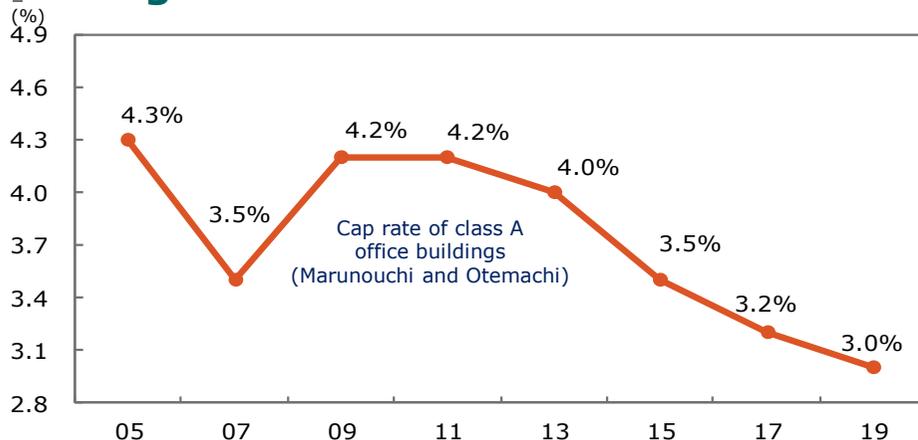
External growth policy

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

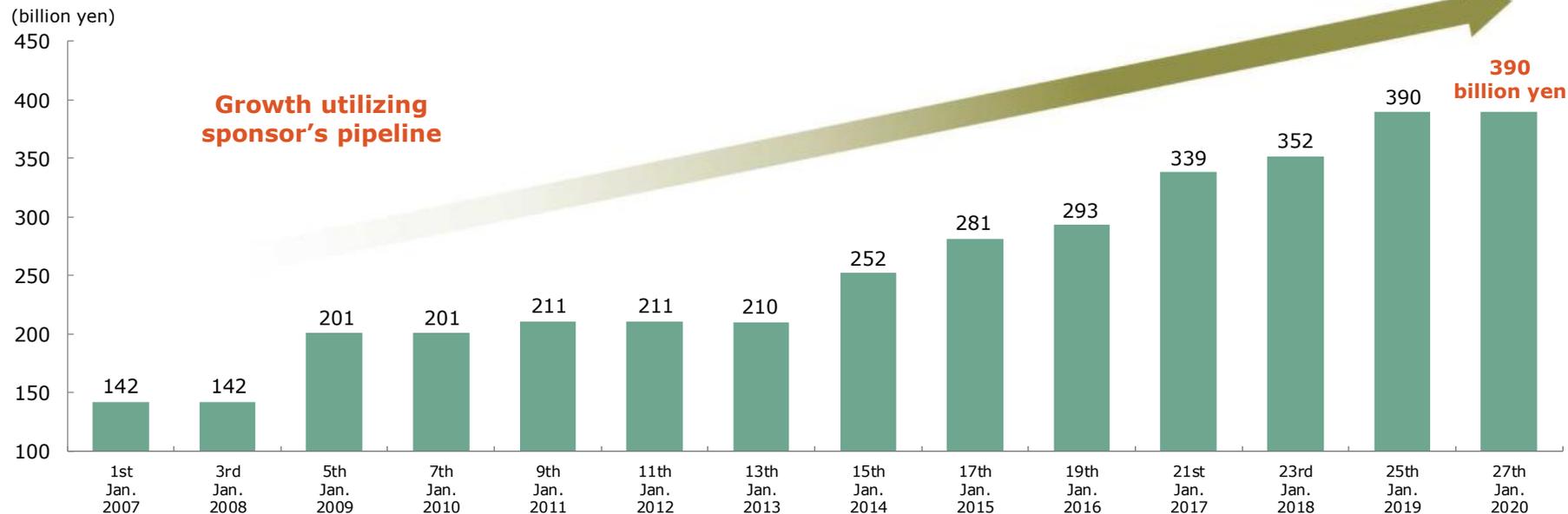
Total assets:
2.0 trillion yen
(as of the end of March)

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

MHR has "preferential negotiation rights"

2-19 External growth

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



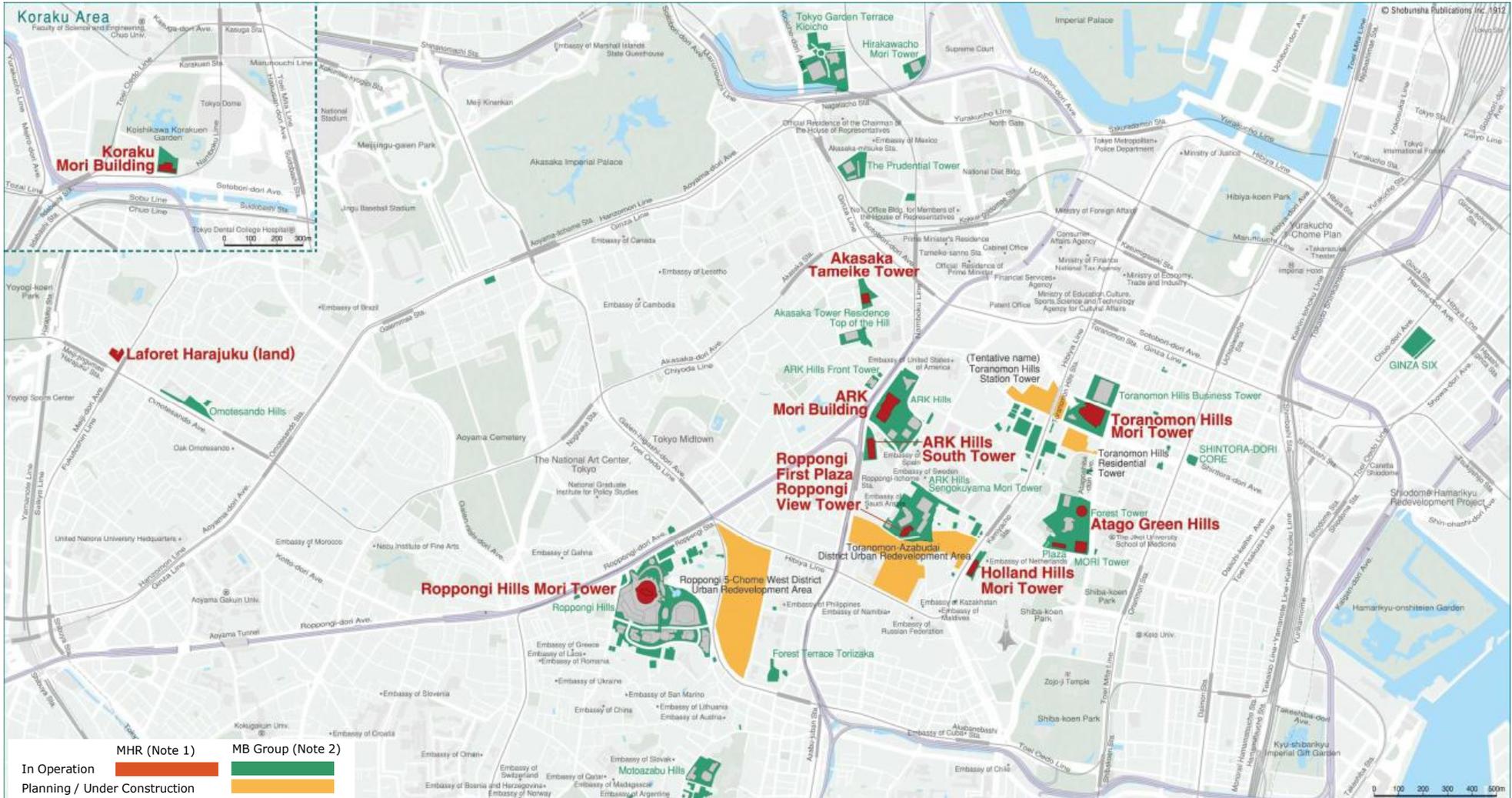
Acquisition price	4,570 million yen
Appraisal value	5,260 million yen
Location	Minato-ku, Tokyo

	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 2020."

(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

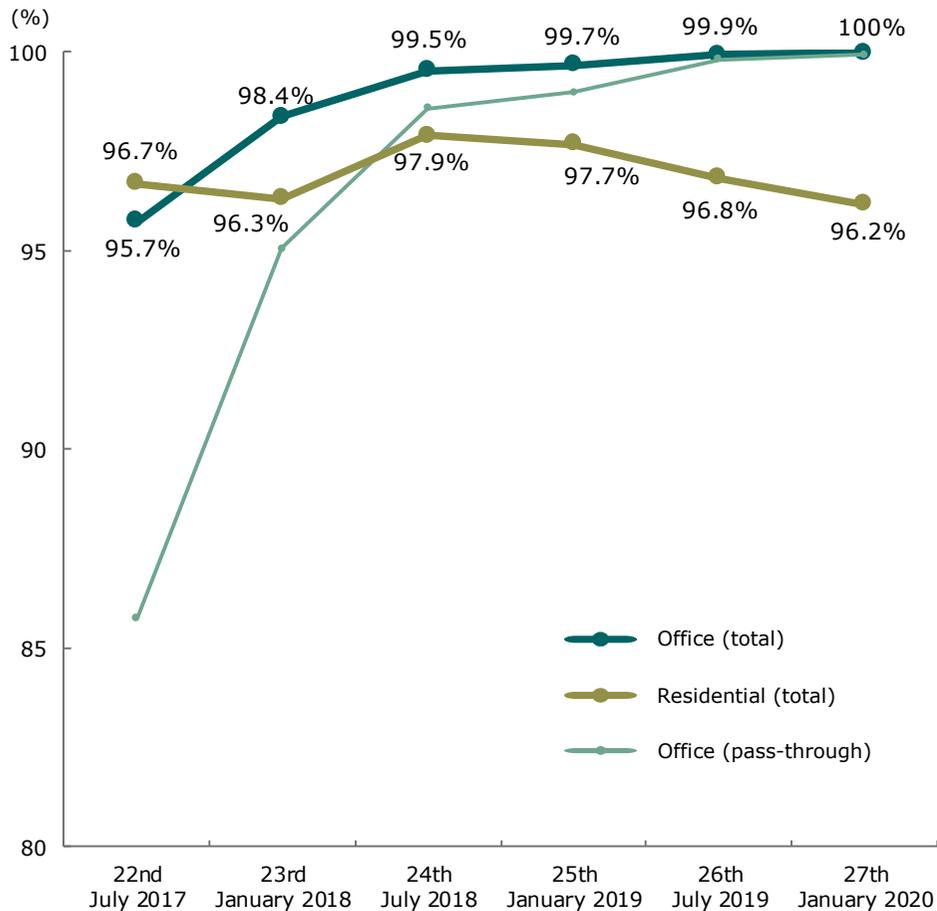
Central Tokyo office rents forecast to continue moderate rise, but close attention to be paid to demand trends

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

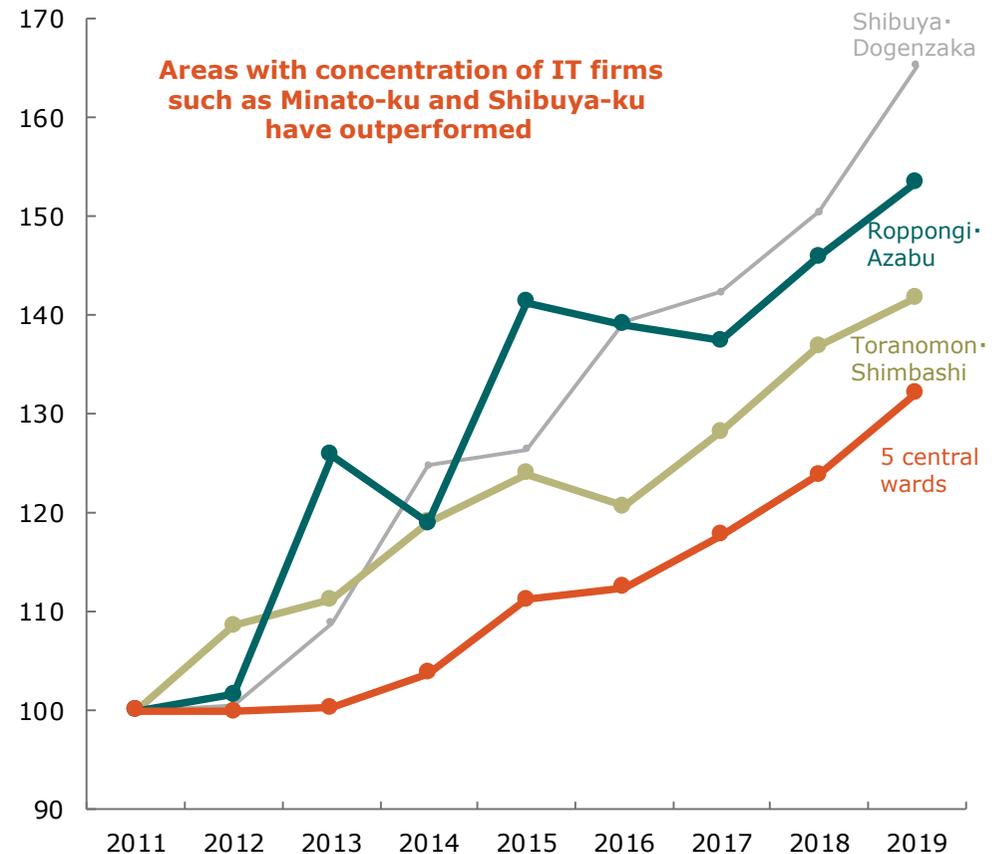
Internal growth policy

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.

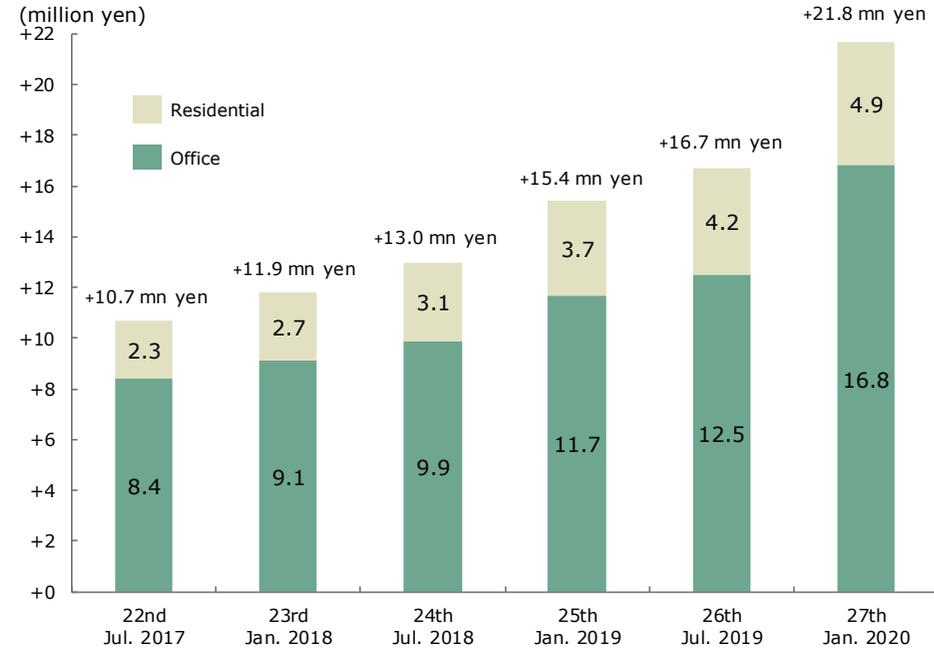
(Note) The average of asking rent (including common area revenue) that targets a large scale building with a standard floor area of 200 tsubo or more is rebased to 100 as of 2011.

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

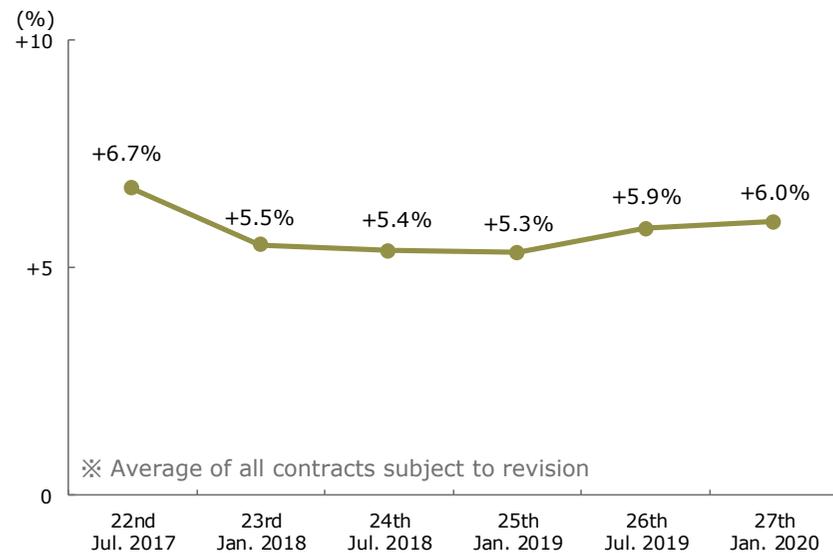
Rent revision rate (Office)



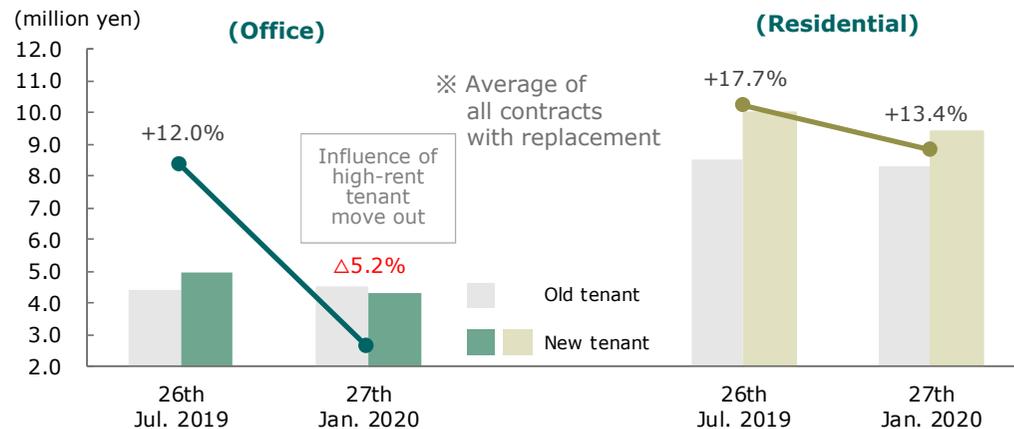
Net impact of rent revisions accumulated since 22nd period (Monthly rent basis)



Rent revision rate (Residential)

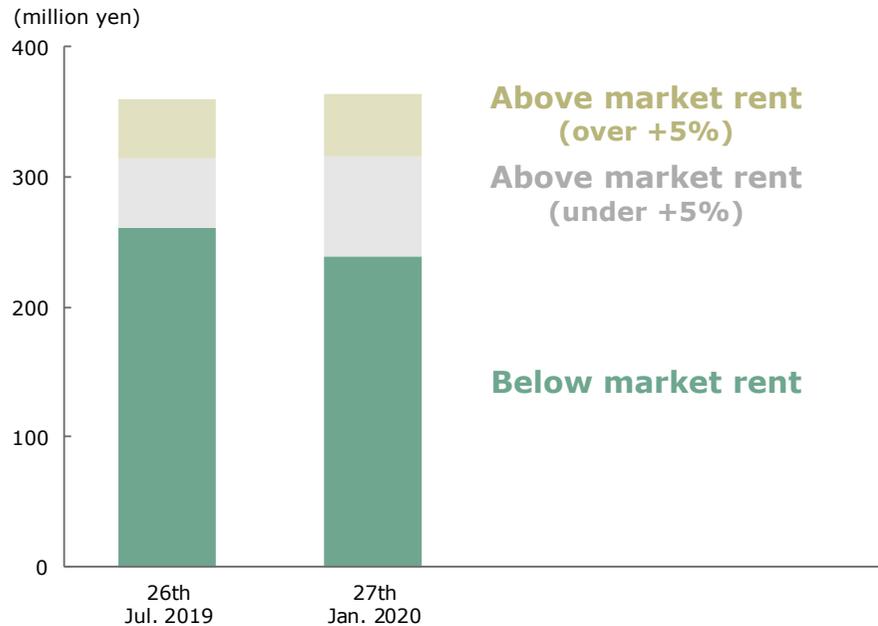


Net impact on increase/decrease of tenant replacement (Monthly rent basis)

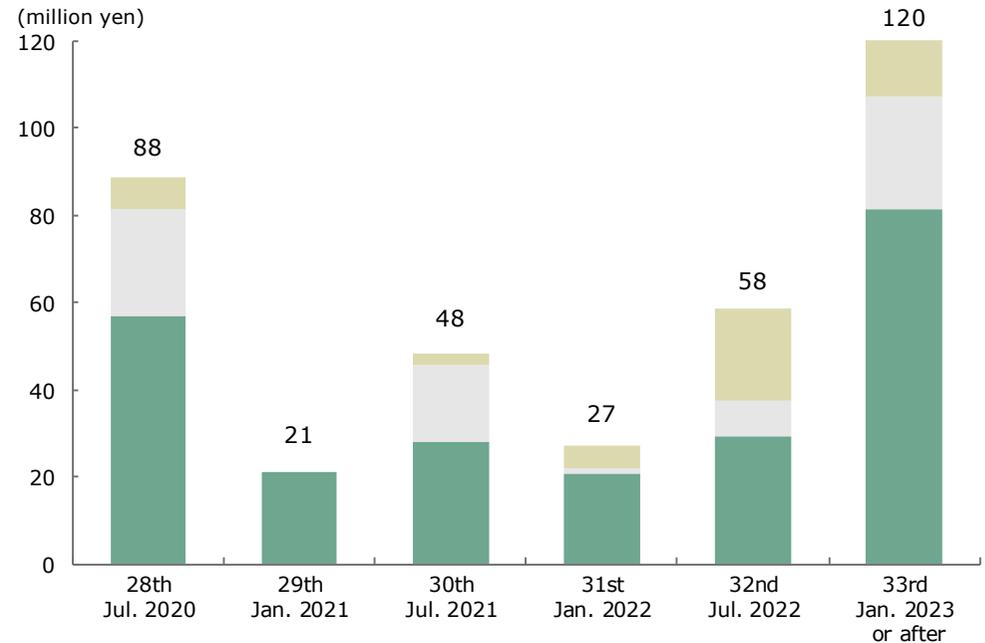


Comparison with office market rent (pass-through type)

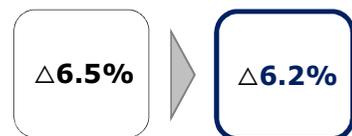
Rent gap (Total monthly rent)



Rent gap by revision (Total monthly rent)



Rate of rent gap



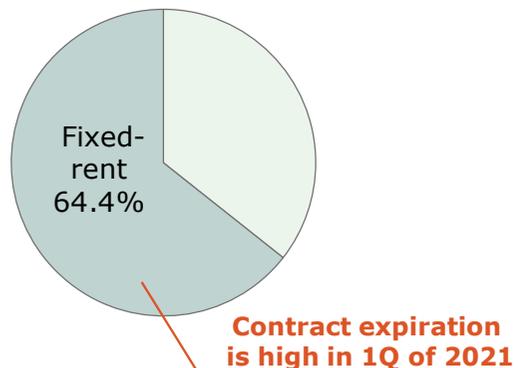
This indicates that contracts have not reached market rent levels and have room for upside

- 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 shrank 0.3% period-over-period and MHR continues to promote internal growth

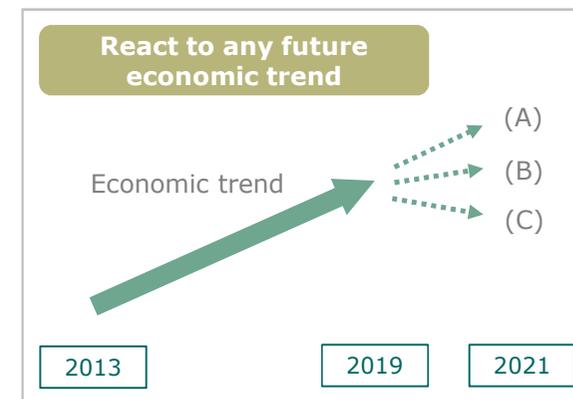
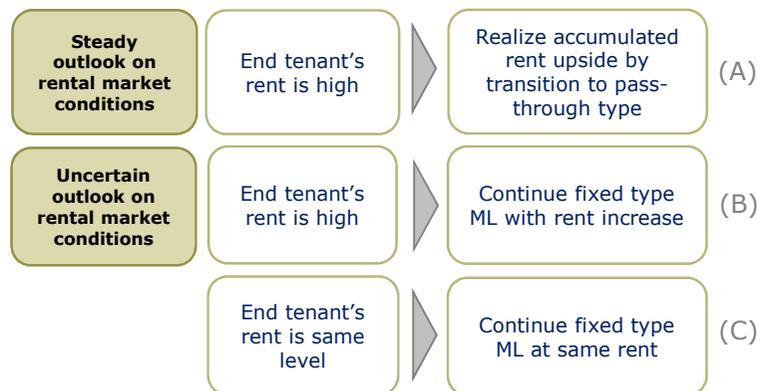
(Note 1) Market rent is based on the report by CBRE K.K.
 (Note 2) Rent gap = Total tenants' rent ÷ "Total market rent" - 1
 (Note 3) Figures reflect move outs of end tenants confirmed as of January 31, 2020

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 ²)	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	31.1%	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	14.3%	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	10.7%	Office, residential & retail	29,667.58	Master lessee	—	—	168.7	—	Apr. 2022
Toranomon Hills Mori Tower (approx. 6.9% of entire property)	129.2	8.2%	Part of 28th to 35th floors	12,209.08	MHR	—	—	129.2	—	Jul. 2022
Total	1,013.8	64.4%				49.2 (4.9%)	510.7 (50.4%)	297.9 (29.4%)	155.8 (15.4%)	

2-25 Financial management

Business environment recognition

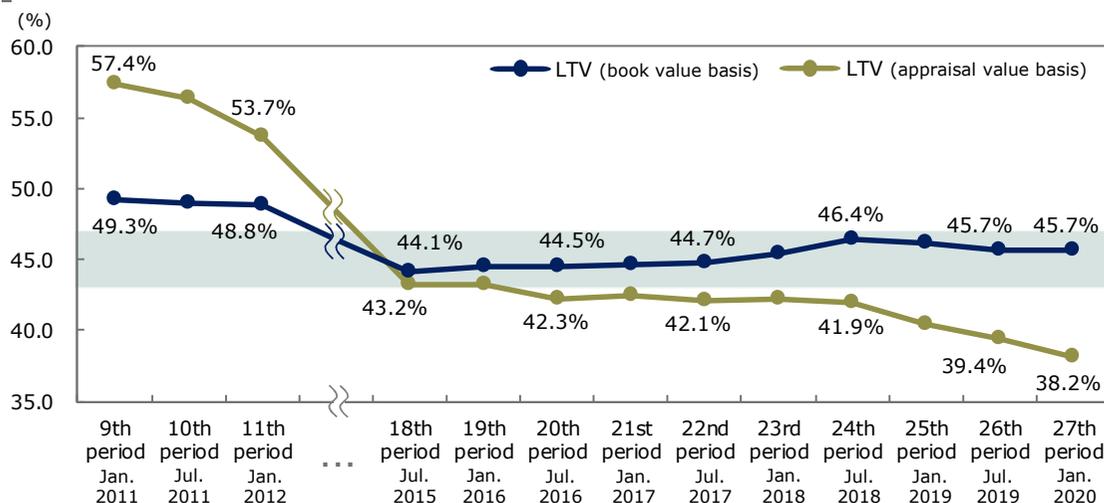
Interest rates are expected to remain low considering monetary policies and assuming rise over the medium to long term

(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



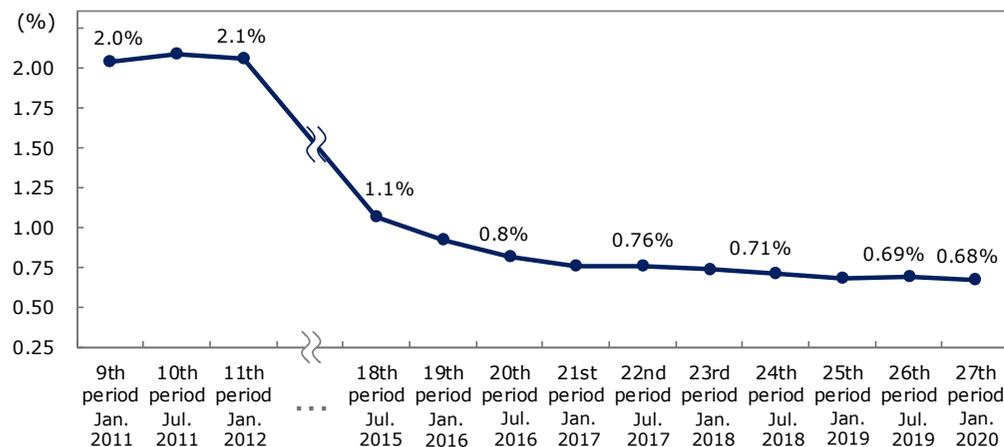
Overview of debt financing

	End of 26th period Jul. 31, 2019	End of 27th period Jan. 31, 2020
Debt Balance	179,222 mn yen	179,222 mn yen
LTV (book value basis) ^(Note 1)	45.7%	45.7%
LTV (appraisal value basis) ^(Note 2)	39.4%	38.2%
Avg. remaining duration	4.4 years	4.6 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)

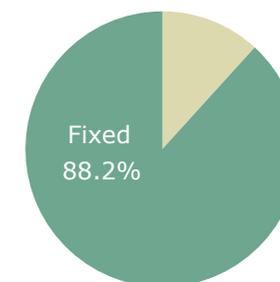


Long-term debt ratio / Fixed rate ratio

<Long-term debt ratio>

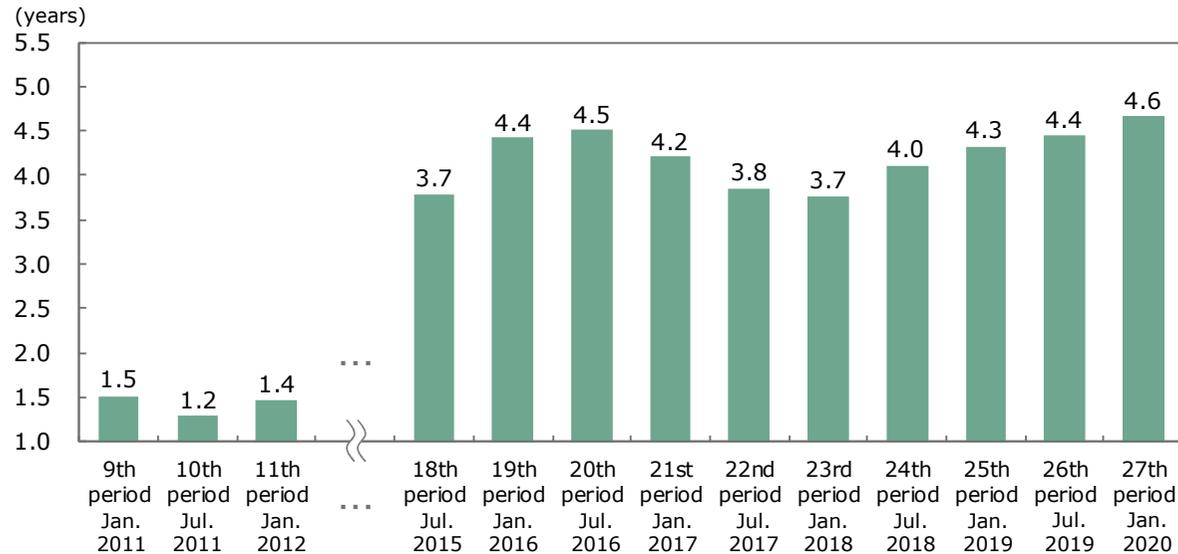


<Fixed rate ratio>



(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

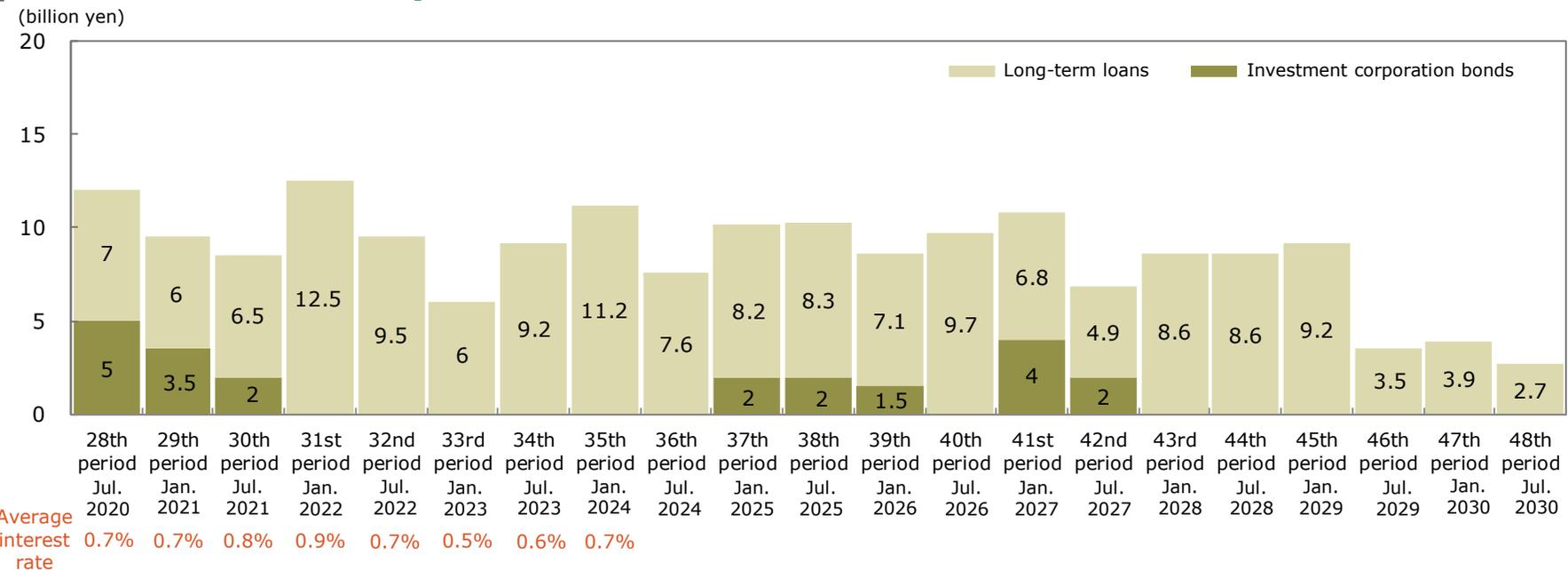


Rating

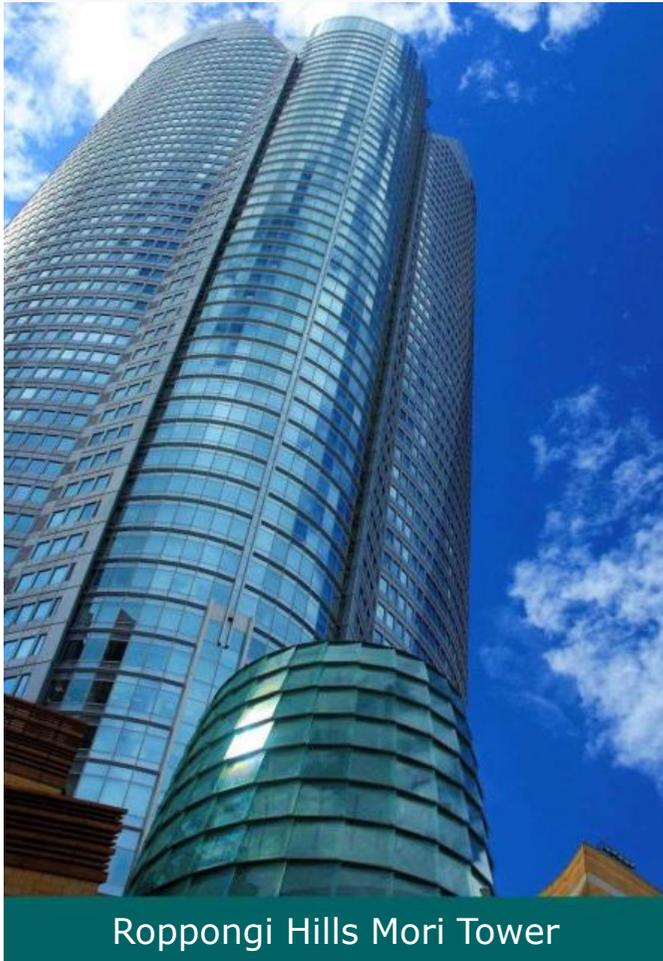
Japan Credit Rating (JCR)

Long-term issuer rating:
AA (Stable)

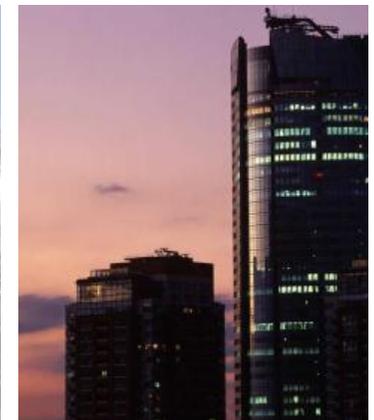
Overview of maturity (As of January 31, 2020)



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



Roppongi Hills Mori Tower



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 4,500m²), 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, 16 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 6,000m².

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 3,300m²) 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.



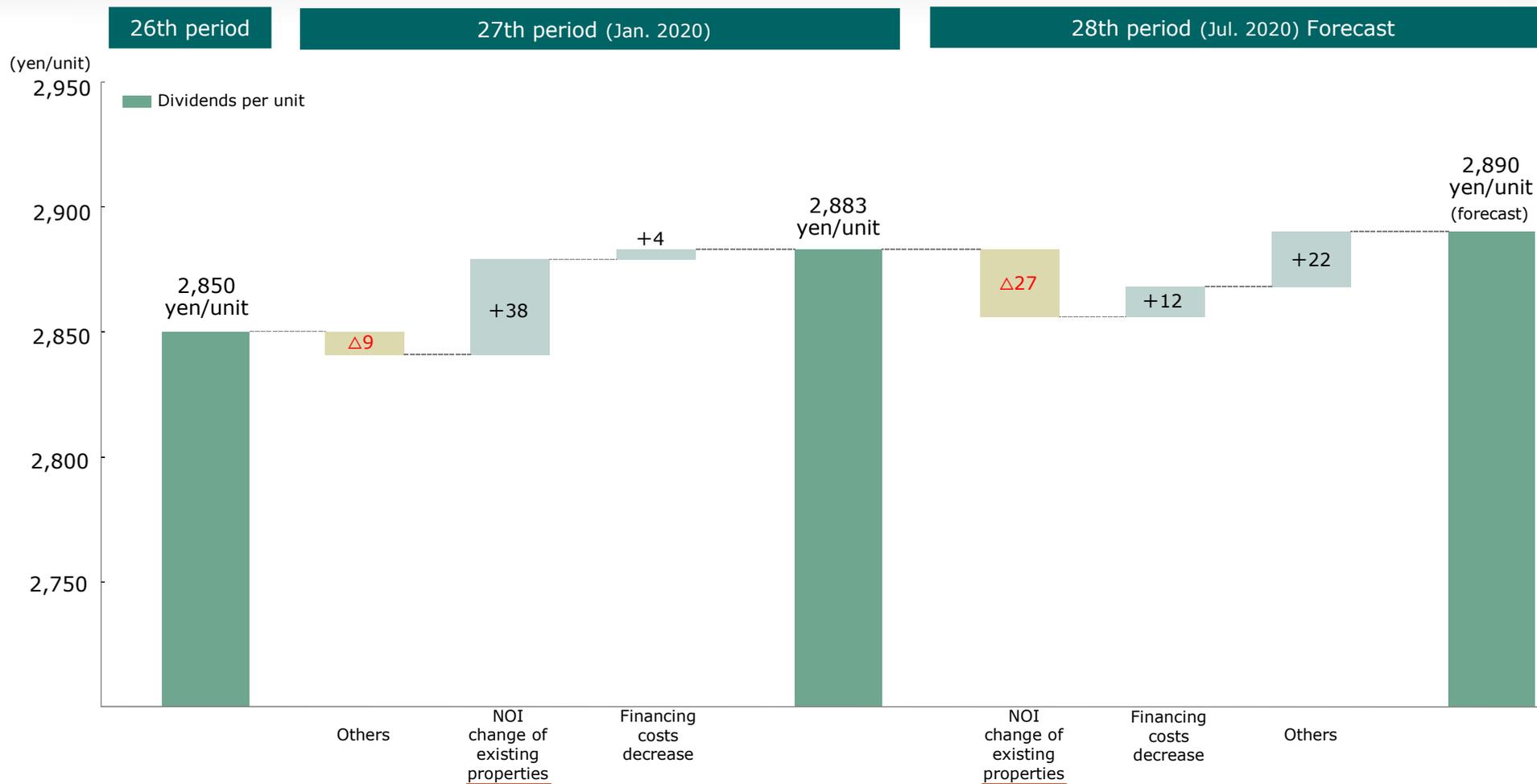
Evolving as an International Urban Center and a Global Business Hub

Upon completion of Toranomon Hills Business Tower, Toranomon Hills Residential Tower 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 800,000m² 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:

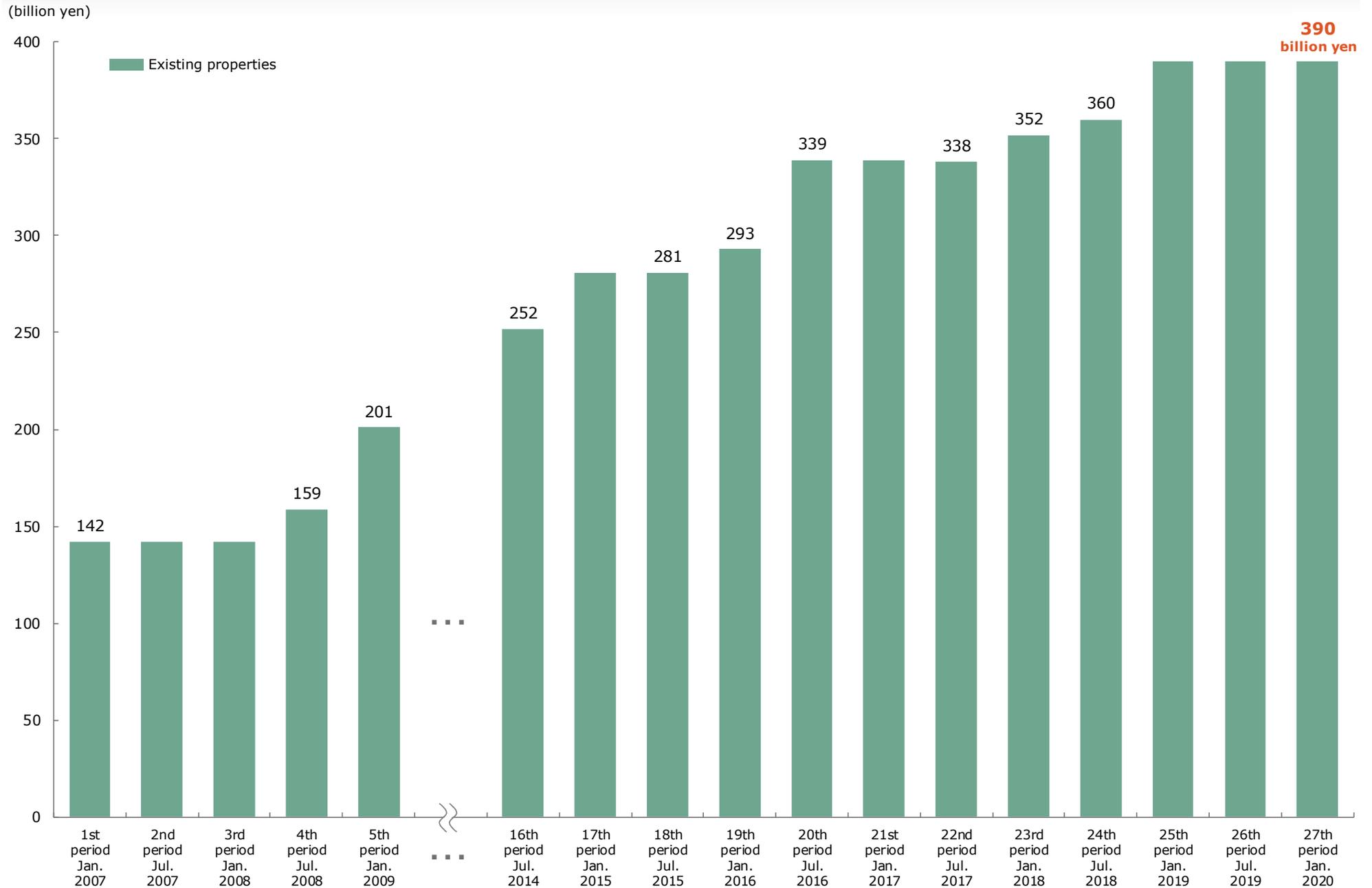
+ Decrease in maintenance and repairs	+30
+ Rent revision of land (Laforet Harajuku)	+14
+ Rent revenue of office (Pass-through)	+12
+ Decrease in depreciation	+12
- Property taxes for properties acquired in 24th and 25th period recorded as expense (equivalent to 3 months)	△18
- Increase in property management fee	△12

Major factors behind change in NOI from existing properties:

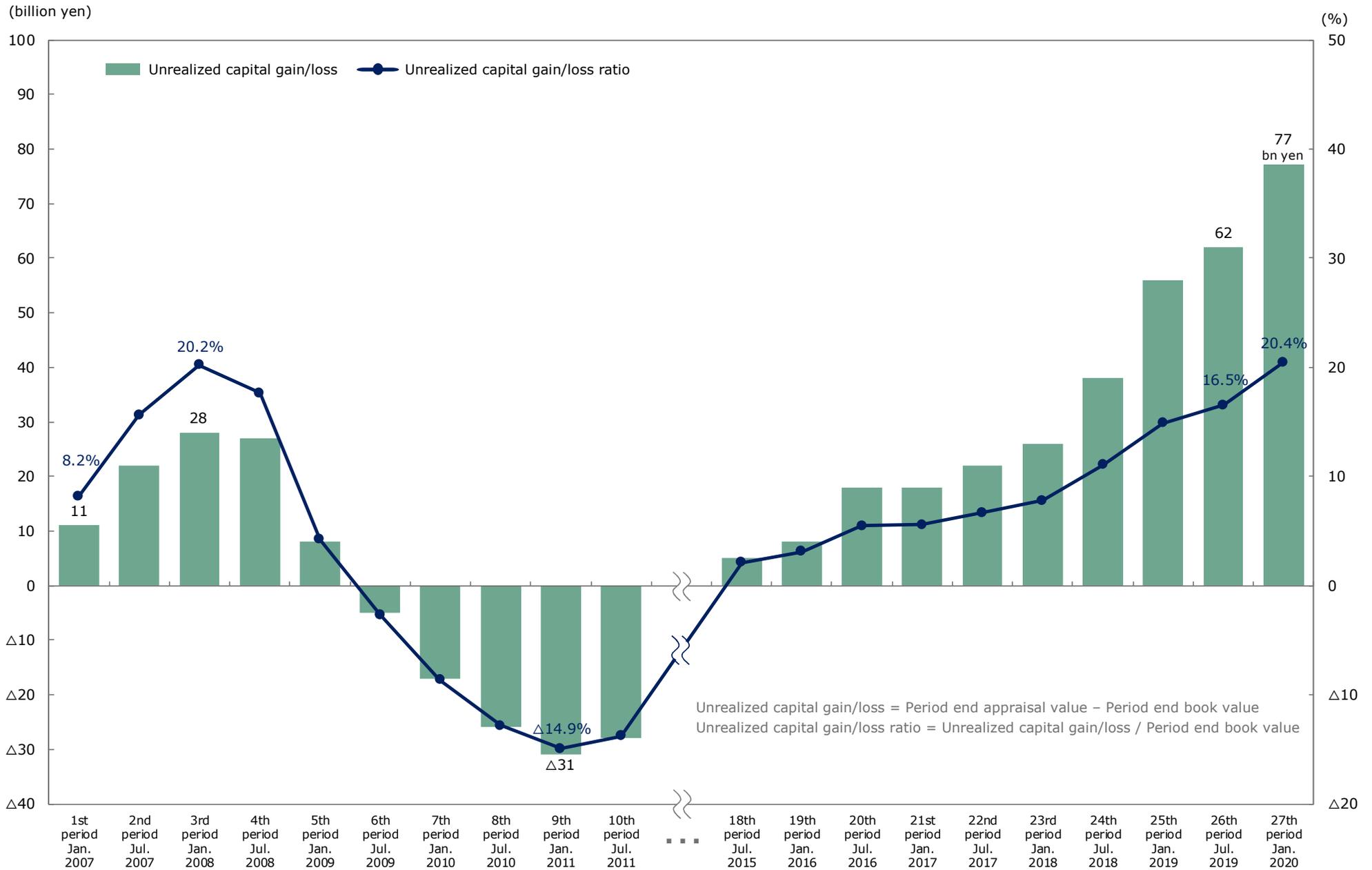
+ Full period contribution of rent revision of land (Laforet Harajuku)	+7
- Increase in property management fee	△9
- Increase in property taxes for existing properties	△8
- Utilities and other revenue (net)	△7
- Increase in maintenance and repairs	△5
- Increase in depreciation	△5

(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

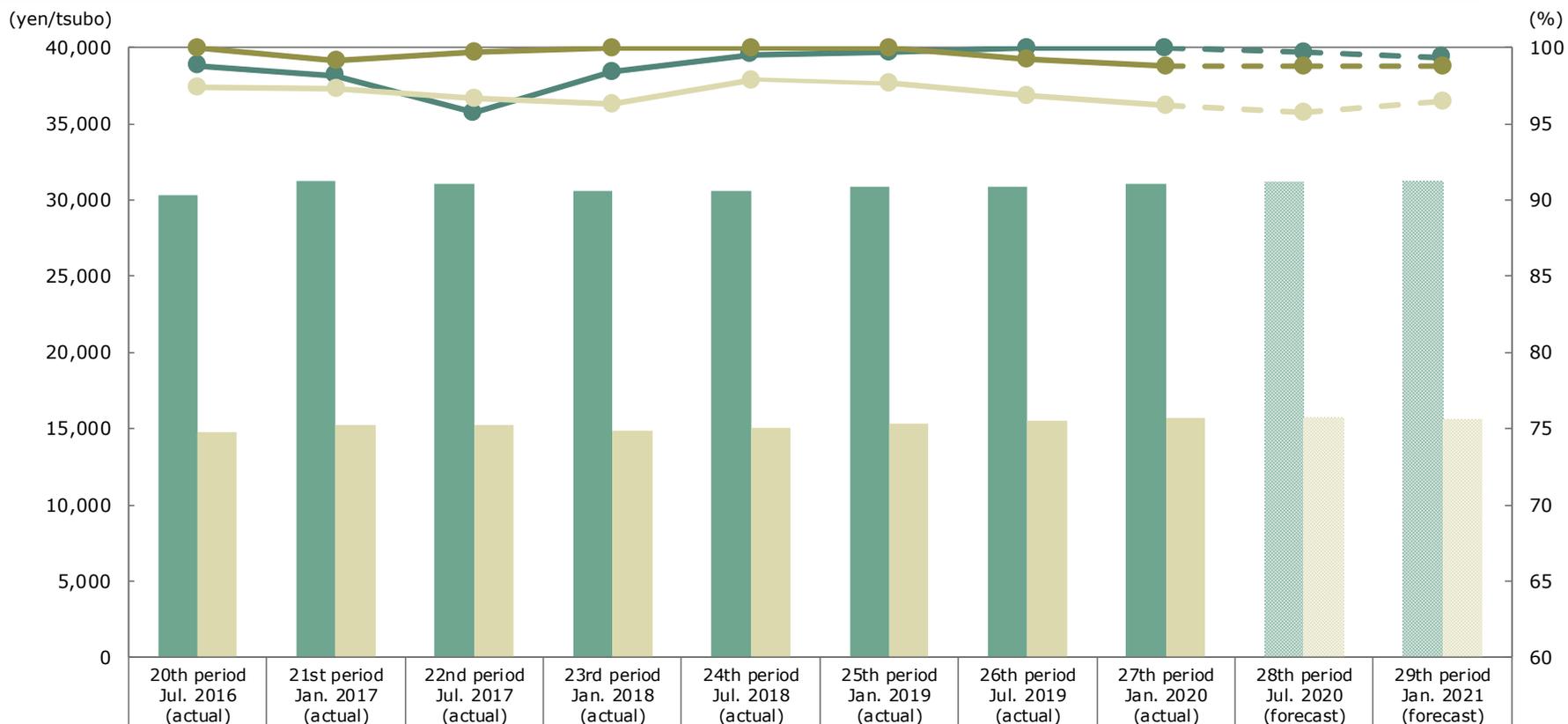
(million yen)

Principal use	Property name	Property No.	Acquisition price	Book value	As of end of 26th period July. 31, 2019		As of end of 27th period Jan. 31, 2020				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	111,723	143,300	3.0%	148,100	2.9%	2.6%	3.1%	4,800	3.3%	36,376
	ARK Mori Building	O-1	62,480	61,518	61,800	3.3%	63,700	3.2%	2.9%	3.4%	1,900	3.1%	2,181
	Koraku Mori Building	O-4	27,200	24,708	25,400	3.5%	26,200	3.4%	3.0%	3.7%	800	3.1%	1,491
	Akasaka Tameike Tower	O-6	43,930	41,629	32,800	3.3%	34,100	3.2%	2.9%	3.4%	1,300	4.0%	△ 7,529
	Atago Green Hills	O-7	42,090	40,258	45,700	3.5%	46,900	3.4%	2.9%	3.6%	1,200	2.6%	6,641
	ARK Hills South Tower	O-8	19,150	18,748	24,700	3.1%	25,100	3.0%	2.8%	3.2%	400	1.6%	6,351
	Toranomon Hills Mori Tower	O-9	36,210	35,973	43,200	2.7%	44,800	2.6%	2.3%	2.8%	1,600	3.7%	8,826
	Holland Hills Mori Tower	O-10	16,330	16,261	20,700	3.3%	21,700	3.2%	2.8%	3.4%	1,000	4.8%	5,438
Sub total			362,770	350,822	397,600	—	410,600	—	—	—	13,000	3.3%	59,777
Residential	Roppongi First Plaza	R-3	2,100	2,235	2,440	4.0%	2,530	3.9%	3.7%	4.1%	90	3.7%	294
	Roppongi View Tower	R-4	4,000	4,094	3,010	4.1%	3,200	4.0%	3.8%	4.2%	190	6.3%	△ 894
Sub total			6,100	6,329	5,450	—	5,730	—	—	—	280	5.1%	△ 599
Retail and others	Laforet Harajuku (Land) (Note 2)	S-1	21,820	22,074	39,900	3.9%	40,400	—	3.8%	—	500	1.3%	18,325
	Sub total			21,820	22,074	39,900	—	40,400	—	—	—	500	1.3%
Total			390,690	379,226	442,950	—	456,730	—	—	—	13,780	3.1%	77,503

(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 26th period shows the discount rate used in the DCF analysis.

3-5 Changes in the rent and occupancy rates

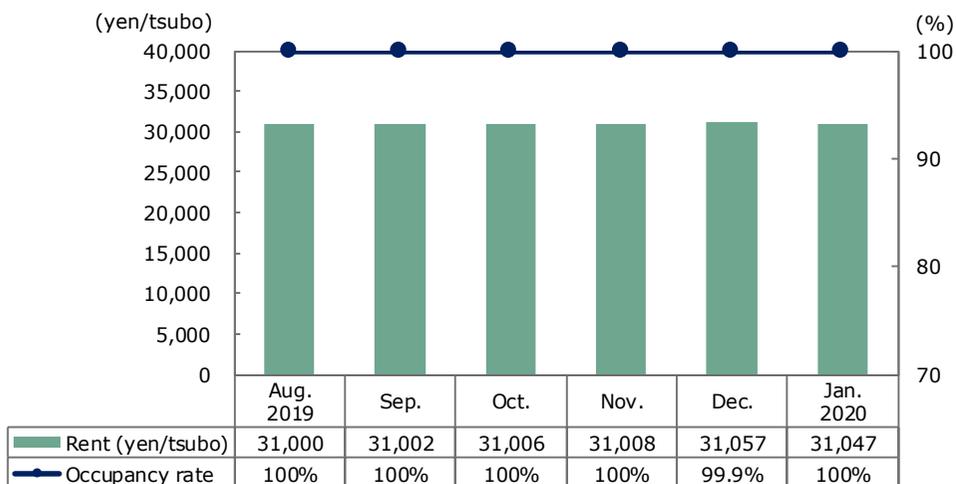


Office rent (yen/tsubo)	30,306	31,281	31,069	30,642	30,629	30,842	30,924	31,020	31,135	31,226
Residential rent (yen/tsubo)	14,750	15,272	15,278	14,858	15,095	15,302	15,498	15,698	15,703	15,634
Office occupancy	98.8%	98.2%	95.7%	98.4%	99.5%	99.7%	99.9%	100%	99.7%	99.4%
Residential occupancy	97.4%	97.3%	96.7%	96.3%	97.9%	97.7%	96.8%	96.2%	95.8%	96.5%
Retail occupancy	100%	99.2%	99.7%	100%	100%	100%	99.2%	98.8%	98.8%	98.8%

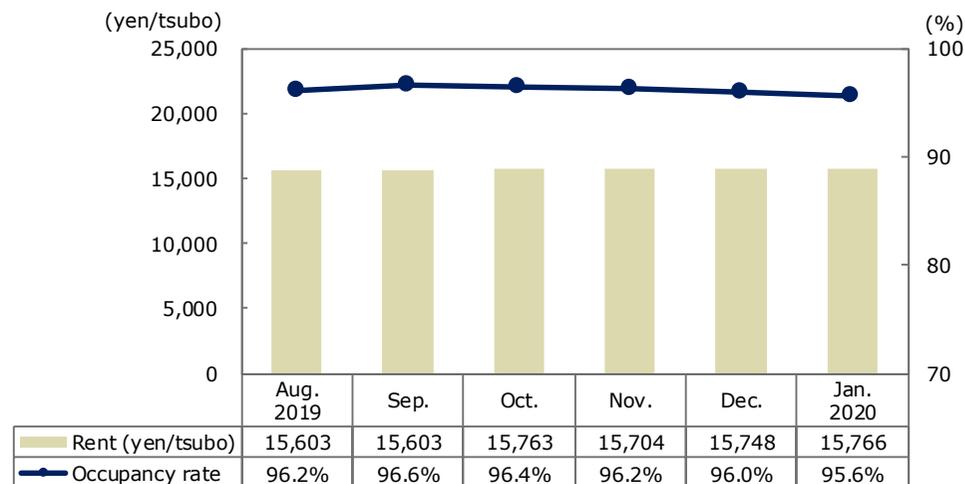
(Note) The above rents and occupancy rates indicate the average rent and the average occupancy rate during relevant fiscal periods.

3-6 Tenant status by month and major tenants

Office: Rent and occupancy rate



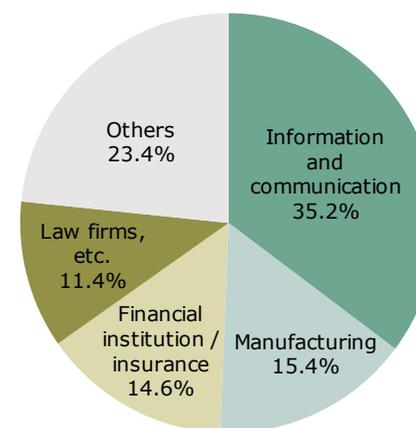
Residential: Rent and occupancy rate



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 Toranomom Hills Mori Tower	109,845.73 ㎡	63.4%
Mylan Seiyaku Ltd.	Holland Hills Mori Tower	3,458.53 ㎡	2.0%
Mitsubishi UFJ Research and Consulting Co.,Ltd.	Holland Hills Mori Tower	3,352.77 ㎡	1.9%
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		121,905.99 ㎡	70.3%

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 January 31, 2020.

(Note 1) As for fixed rent master lease, ratios are based on monthly rents of tenants who are actually using the floor areas as of January 31, 2020. It is multiplied by the relevant percentage of ownership for each property.
 (Note 2) Business types are classified by the Asset Manager.

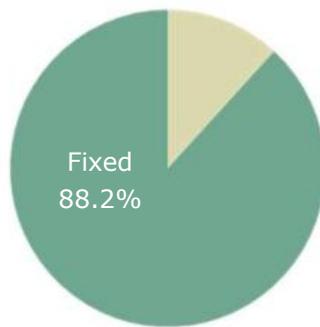
3-7 Financial overview (As of January 31, 2020)

Long-term debt ratio/Fixed rate ratio

<Long-term debt ratio>



<Fixed rate ratio>



Major financial indicator

	End of 26th period Jul. 31, 2019	End of 27th period Jan. 31, 2020
Debt balance	179,222 mn yen	179,222 mn yen
Long-term loan	157,222 mn yen	157,222 mn yen
Investment corporation bonds	22,000 mn yen	22,000 mn yen
LTV (Book value basis) ^(Note 1)	45.7%	45.7%
LTV (Appraisal value basis) ^(Note 2)	39.4%	38.2%
DSCR ^(Note 3)	15.4x	15.5x
Avg. remaining duration	4.4 years	4.6 years
Weighted avg. interest rate	0.50%	0.49%

(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.	28,498 mn yen	18.1%
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%
The Nishi-Nippon City Bank, Ltd.	2,300 mn yen	1.5%
Aozora Bank, Ltd.	1,000 mn yen	0.6%
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%
The Chugoku Bank, Limited.	1,000 mn yen	0.6%
Total borrowings	157,222 mn yen	100%
Investment corporation bonds	22,000 mn yen	
Total interest-bearing debt	179,222 mn yen	

3-8 Debt status (As of January 31, 2020)

Debt

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
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
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	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
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

Lender	Balance (mn yen)	Rate of interest	Borrowing date	Maturity date
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	0.17%	2019/5/31	2026/5/31
The Norinchukin Bank	3,000	0.27%	2019/5/31	2026/5/31
Sumitomo Mitsui Banking Corporation	1,144	0.40%	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
Mizuho Bank, Ltd.	1,000	0.20%	2019/8/30	2025/8/31
The Chugoku Bank, Limited.	1,000	0.22%	2019/8/30	2026/8/31
Resona Bank, Limited.	2,500	0.32%	2019/8/30	2029/8/31
Sumitomo Mitsui Trust Bank, Limited	1,000	0.22%	2019/11/29	2024/11/30
The Norinchukin Bank	600	0.29%	2019/11/29	2026/5/31
MUFG Bank, Ltd.	2,200	0.22%	2019/11/29	2026/11/30
Mizuho Bank, Ltd.	1,100	0.29%	2019/11/29	2027/5/31
Shinsei Bank, Limited	900	0.37%	2019/11/29	2027/11/30
Sumitomo Mitsui Banking Corporation	1,600	0.41%	2019/11/29	2028/5/31
The Bank of Fukuoka	2,000	0.27%	2019/11/29	2028/11/30
Development Bank of Japan Inc.	2,000	0.42%	2019/11/29	2028/11/30
Total	157,222			

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

Investment corporation bonds

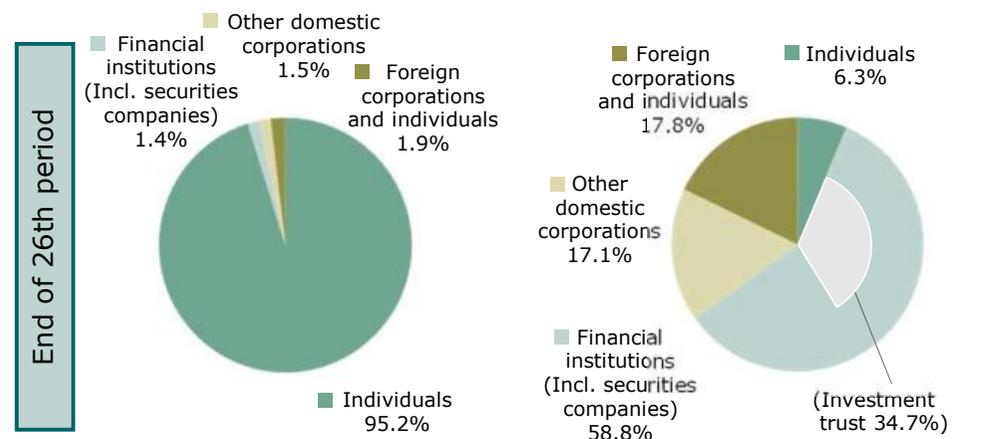
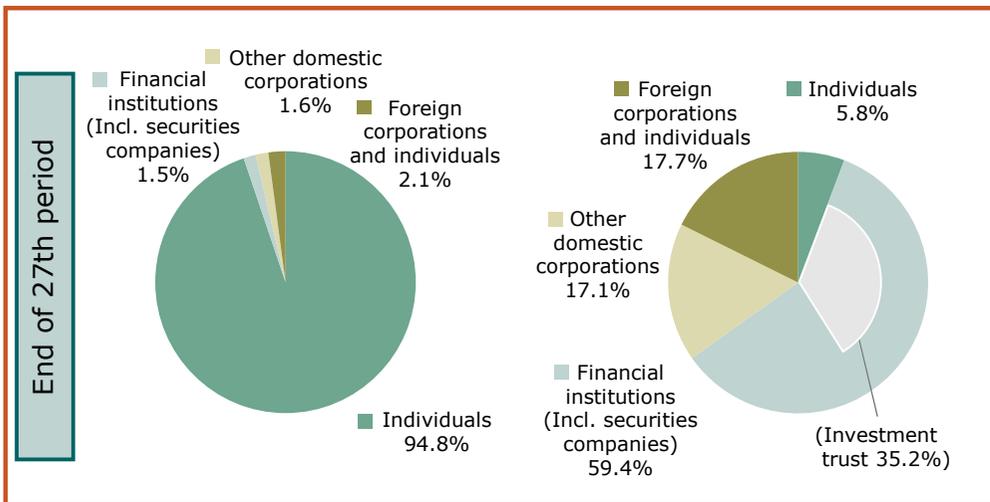
Bond	Amount (mn yen)	Rate of Interest	Payment date	Maturity date
9th Series Unsecured Corporation Bond (7 years)	2,000	1.26%	2013/5/24	2020/5/22
11th Series Unsecured Corporation Bond (7 years)	2,000	0.69%	2014/2/24	2021/2/24
12th Series Unsecured Corporation Bond (10 years)	2,000	0.87%	2014/11/27	2024/11/27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

3-9 Unitholders breakdown (As of January 31, 2020)

Unitholders breakdown

<Number of unitholders>

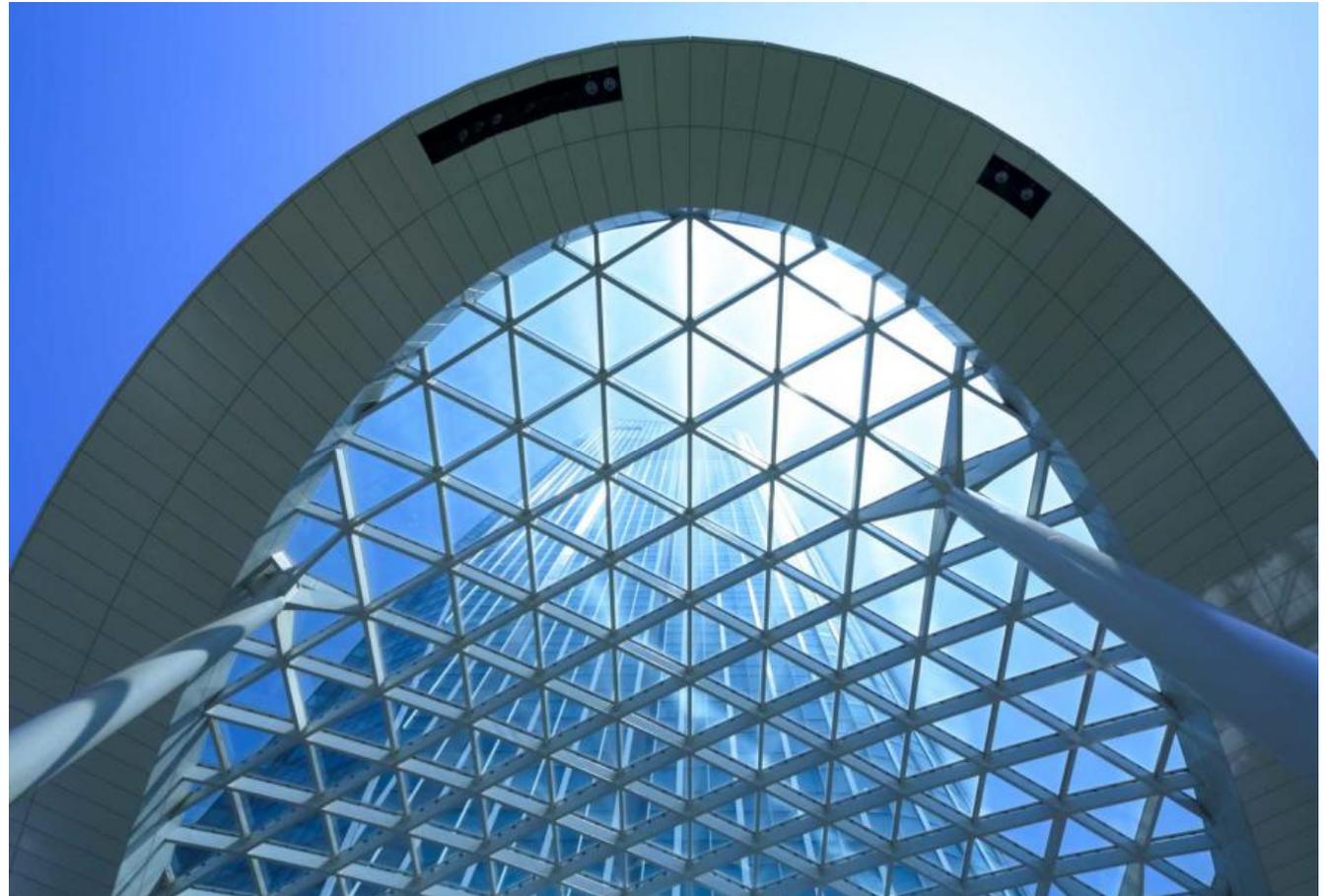
<Number of investment units>



Top 10 unitholders

Rank	Name	Number of units held	Ratio
1	Japan Trustee Services Bank, Ltd. (Trust account)	403,210	21.5%
2	Mori Building Co., Ltd.	281,272	15.0%
3	The Master Trust Bank of Japan, Ltd. (Trust account)	260,263	13.9%
4	The Nomura Trust & Banking Co., Ltd. (Investment trust account)	78,819	4.2%
5	Trust & Custody Services Bank, Ltd. (Securities investment trust account)	53,904	2.9%
6	STATE STREET BANK WEST CLIENT - TREATY 505234	22,268	1.2%
7	JAPAN SECURITIES FINANCE CO., LTD.	20,395	1.1%
8	Trust & Custody Services Bank, Ltd. (Money trust taxable account)	18,995	1.0%
9	Shikoku Railway Company	16,620	0.9%
10	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	15,759	0.8%
Total of top 10 unitholders		1,171,505	62.5%

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



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): 2.6% in 2020 → 2.6% in 2021
 - ⇒ Rent index (forecast): 128 in 2020 → 128 in 2021
- 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 Apr. 2019 → 3.0% in Oct. 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: $\Delta 0.155\%$ (February 28, 2020)
 - ⇒ Core CPI: $+0.8\%$ (January 2020)
- In the December 2019 preliminary business conditions composite index, the leading index was at 91.6 (+0.8 PT increase from previous month) and the coincident index was at 94.1 ($\Delta 0.6$ PT decrease from previous month). Trend continues to weaken, especially as the leading indicators have deteriorated. Statistical surveys show that there continues to be an issue of wage increases.
- Investors across the world have become more interested in ESG and the amount of funds directed to companies with high ESG evaluation is on the rise.

- Global business sentiment is showing signs of decline, attention should be paid to future trends.
- 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.
- Inflow of funds to companies with high ESG ratings is expected to increase further in the future.

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

MHR's Medium- to Long-Term Vision

The best portfolio quality

By focusing on premium properties in central Tokyo developed by the sponsor while acquiring select properties from third properties at opportune timing, MHR seeks to expand and diversify the portfolio while maintaining high quality.

The highest ESG assessment

By making positive social and environmental contributions, MHR will position itself to benefit to from the long-term trend of funds flowing into companies with high ESG ratings and build competitiveness as an investment corporation.

Dividend-driven Management

By aiming for a continuous improvement of dividends and NAV per unit, and developing the culture, policies and systems necessary to realize the vision, MHR will continue to foster the trust of unitholders.

Optimal REIT investment

4-3 MHR's policy/strategy

External growth policy

- Target premium properties in Central Tokyo and aim for annual external growth of approximately 30 billion yen by best utilizing sponsors' pipeline. (Set target yield at the mid 3% range or higher for NOI-based yield and around 3.0% or higher for after-depreciation-based yield.)
- By acquiring select properties from third properties at opportune timing while focusing on premium properties in central Tokyo developed by the sponsor, MHR seeks to expand and diversify the portfolio while maintaining high quality.
- 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. As to the fixed rent master leases, make the most appropriate judgement comprehensively taking into account various situations upon contract renewal.
- 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

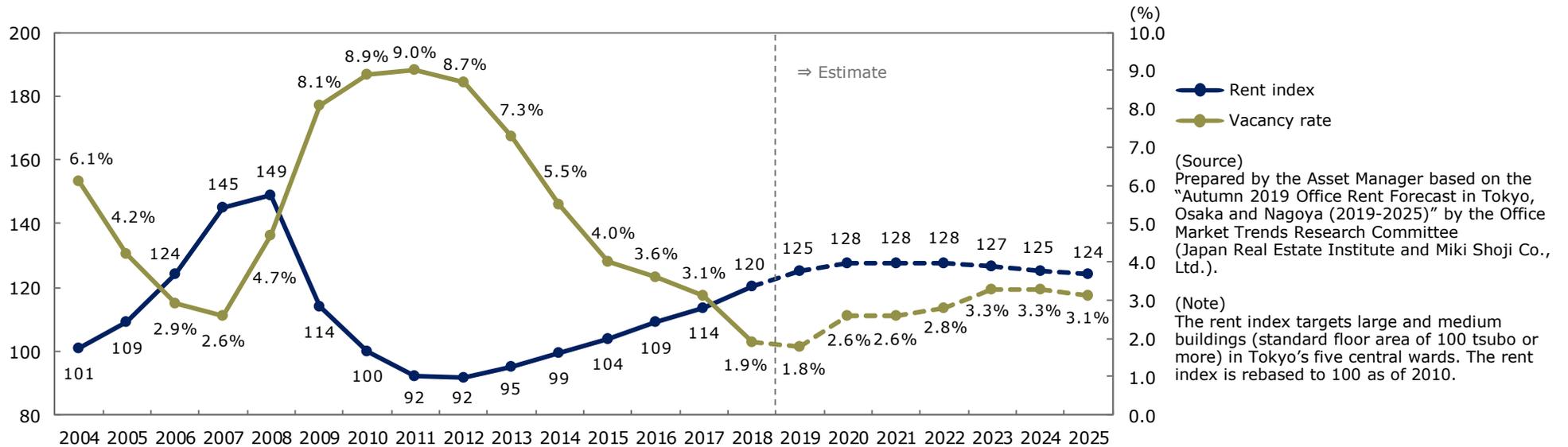
- Set the current LTV level (book value basis: in the mid 40% range; appraisal value basis: in the upper 30% range) as the target in order to secure property acquisition capacity while maintaining a durable position for times of economic slowdown.
- Target average remaining duration of debt of 4 years 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.

ESG policy

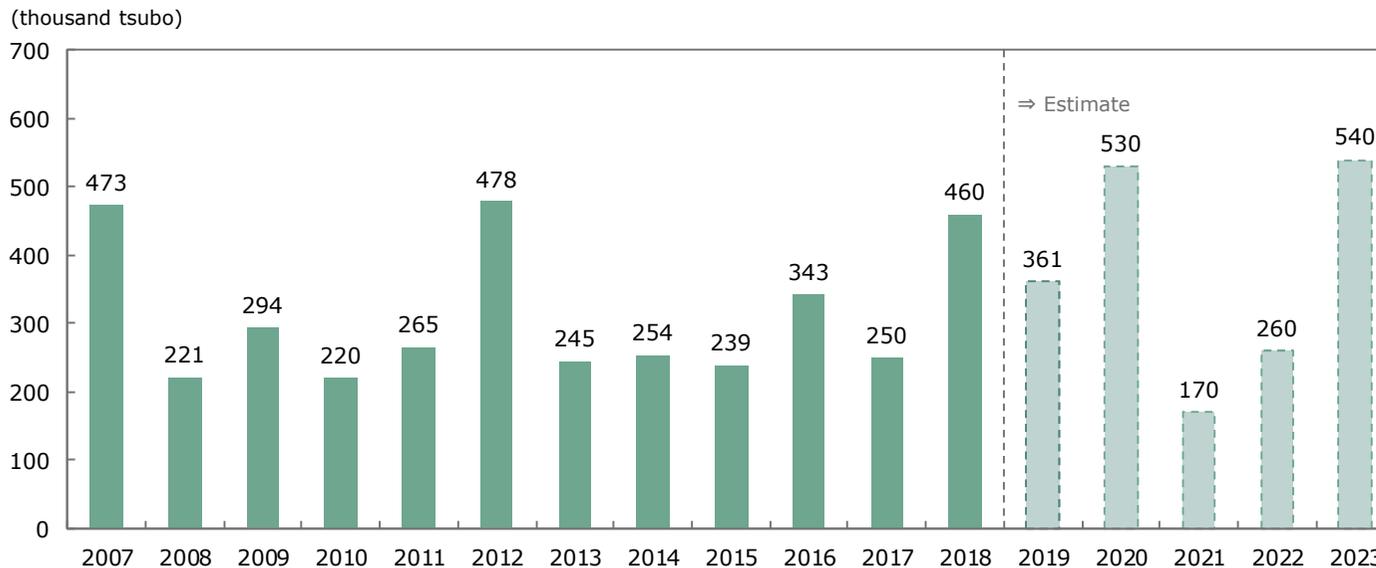
- Contribute to the improvement of various social and environmental issues by positioning ESG initiatives as an integral part of management policy, and steadily implement them in actual management operations leading to improved ESG ratings and stronger competitiveness.
- Implement proactive information disclosure through publication of ESG reports organizing various policies and efforts.

4-4 Market-related information (1)

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

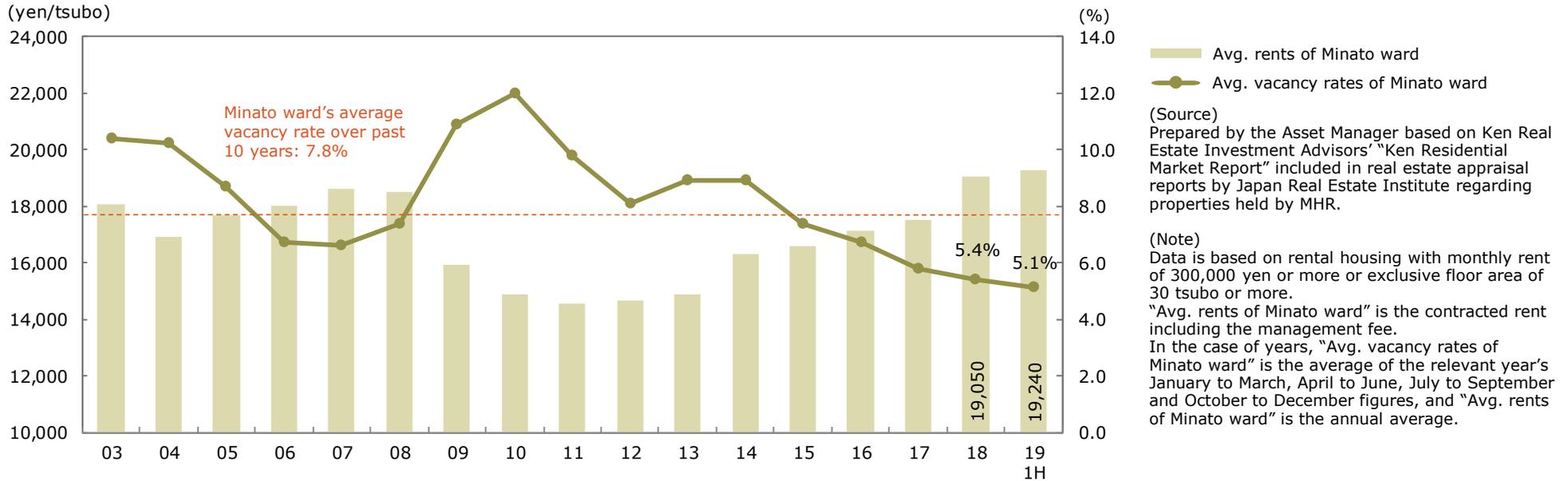


New supply of office buildings (Tokyo's five central wards)

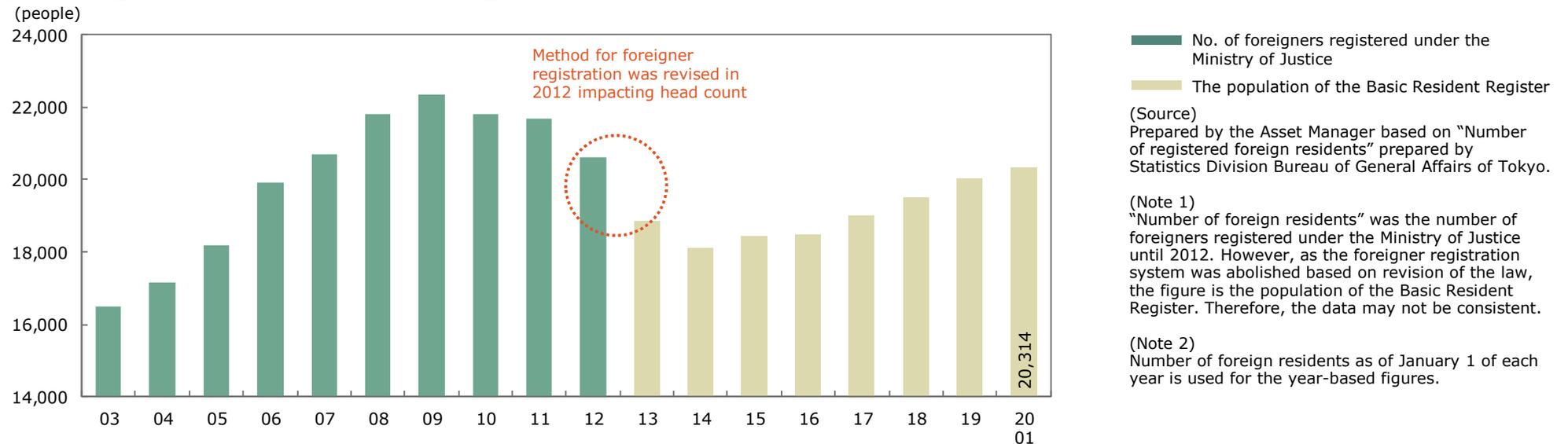


4-5 Market-related information (2)

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

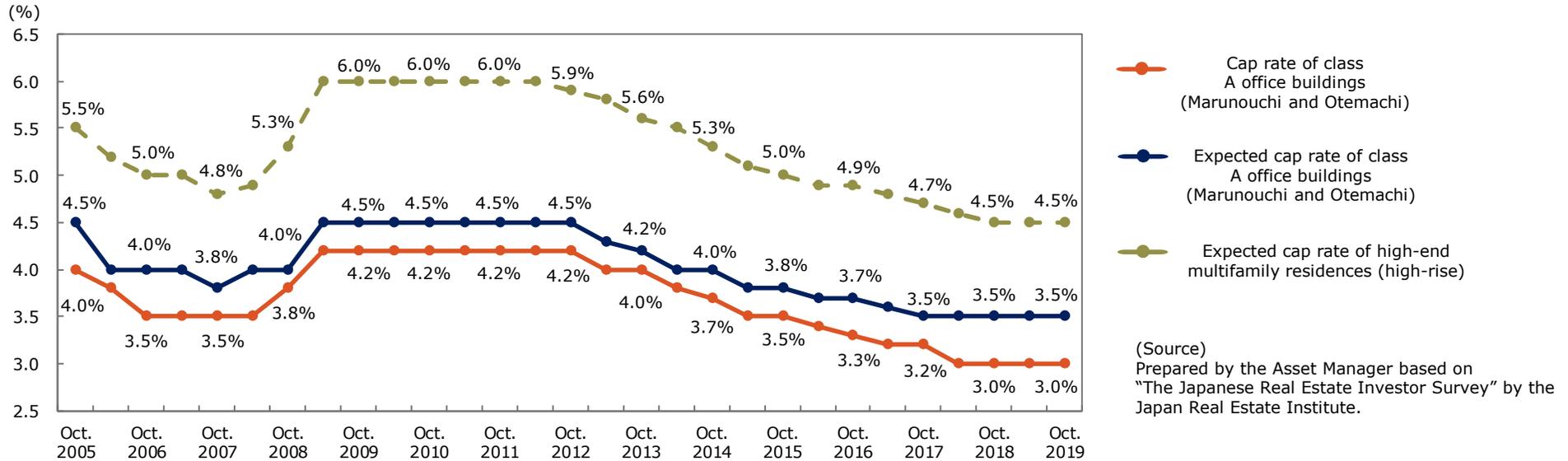


Change in number of foreign residents in Minato ward

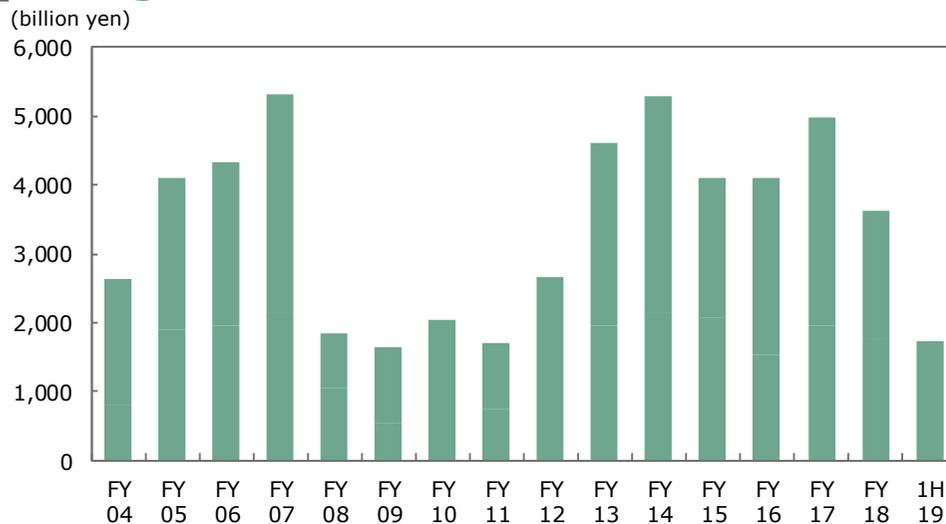


4-6 Market-related information (3)

Change in return on real estate investment

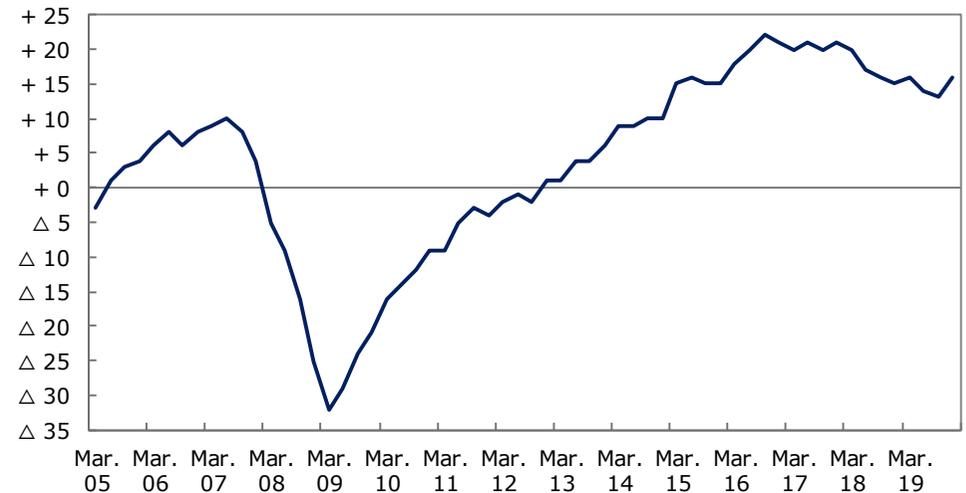


Change in real estate transaction amount



(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.

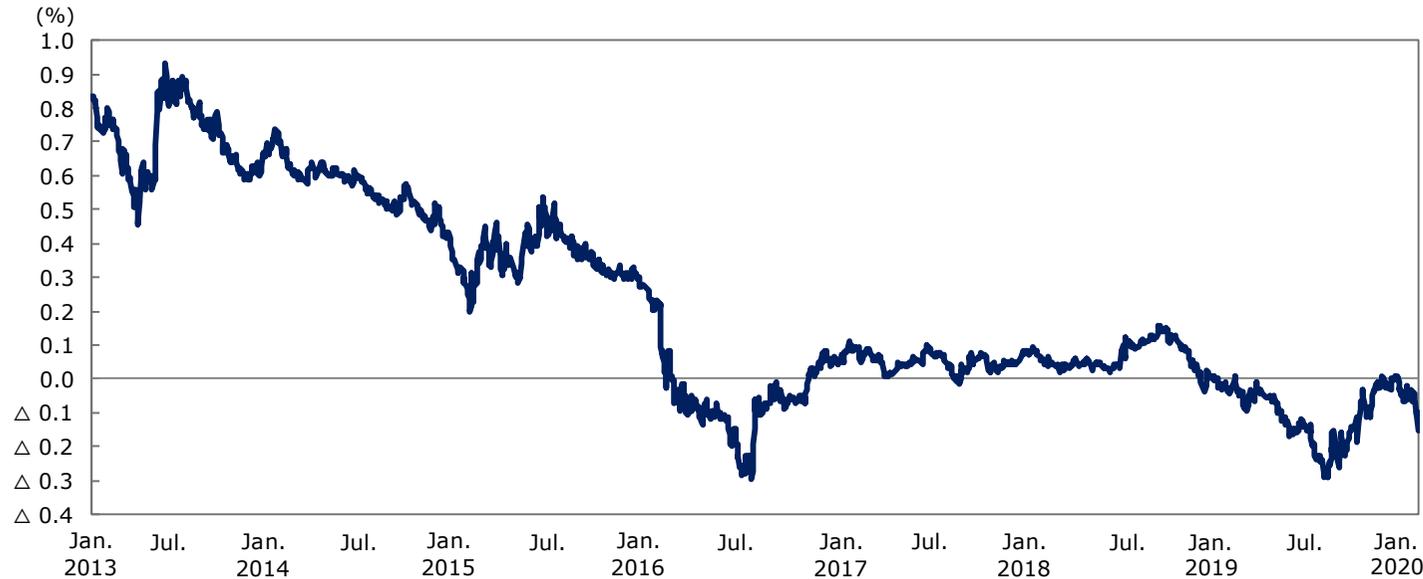
Lending attitude DI (Real estate industry)



(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.

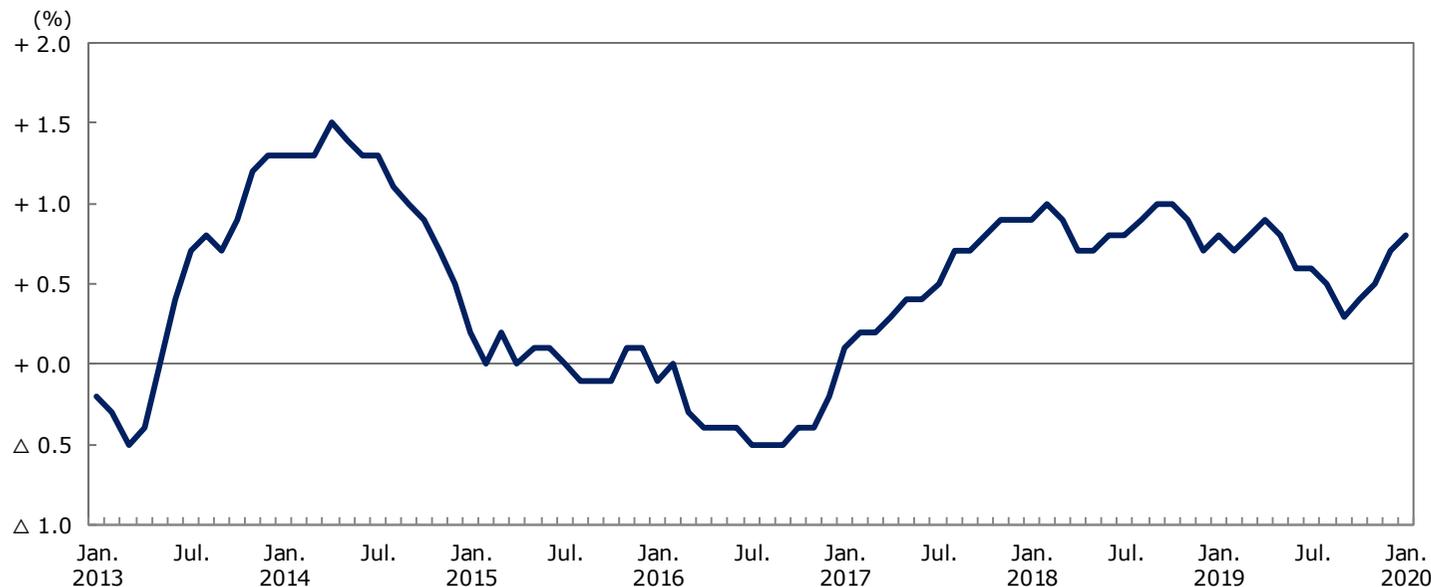
4-7 Market-related information (4)

Change in 10-year bond interest rates



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

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



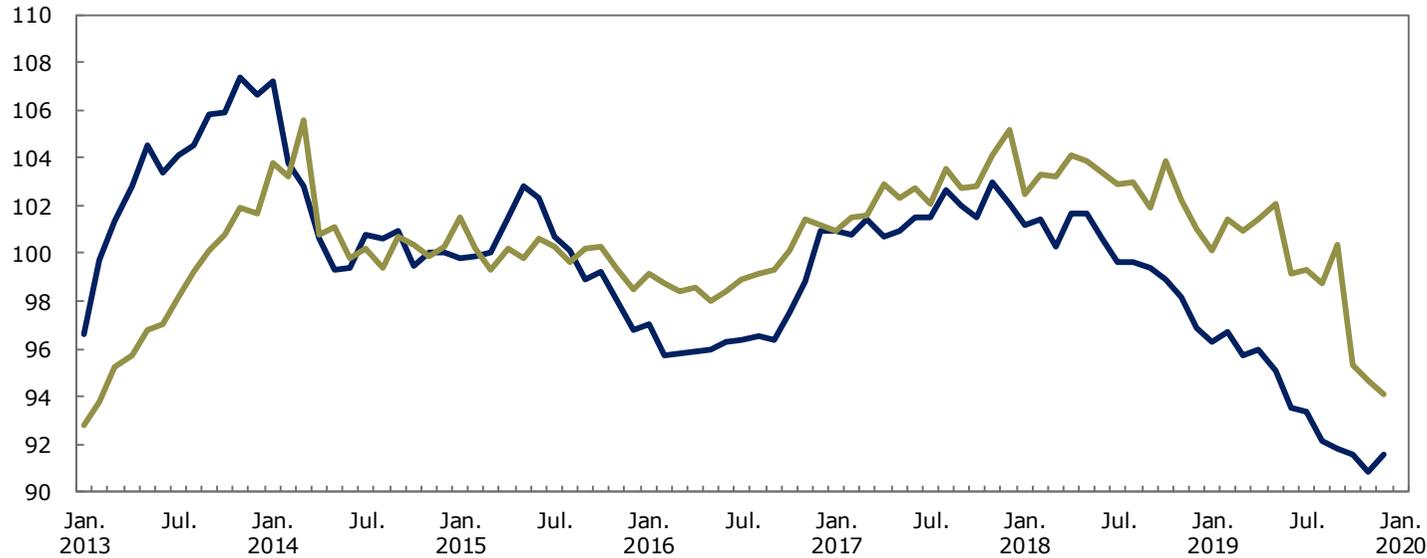
Based on figures excluding the direct effects of the consumption tax rate increase

(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").

4-8 Market-related information (5)

Business conditions composite index

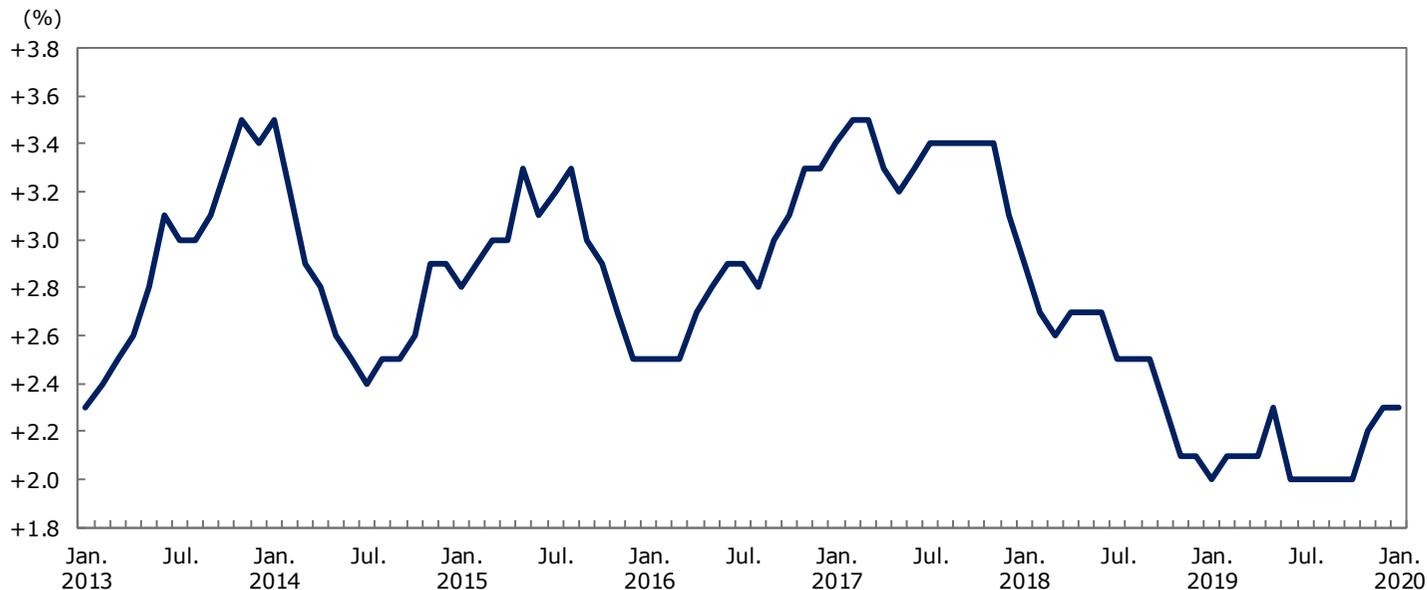


● Leading index
● Coincident index

(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.

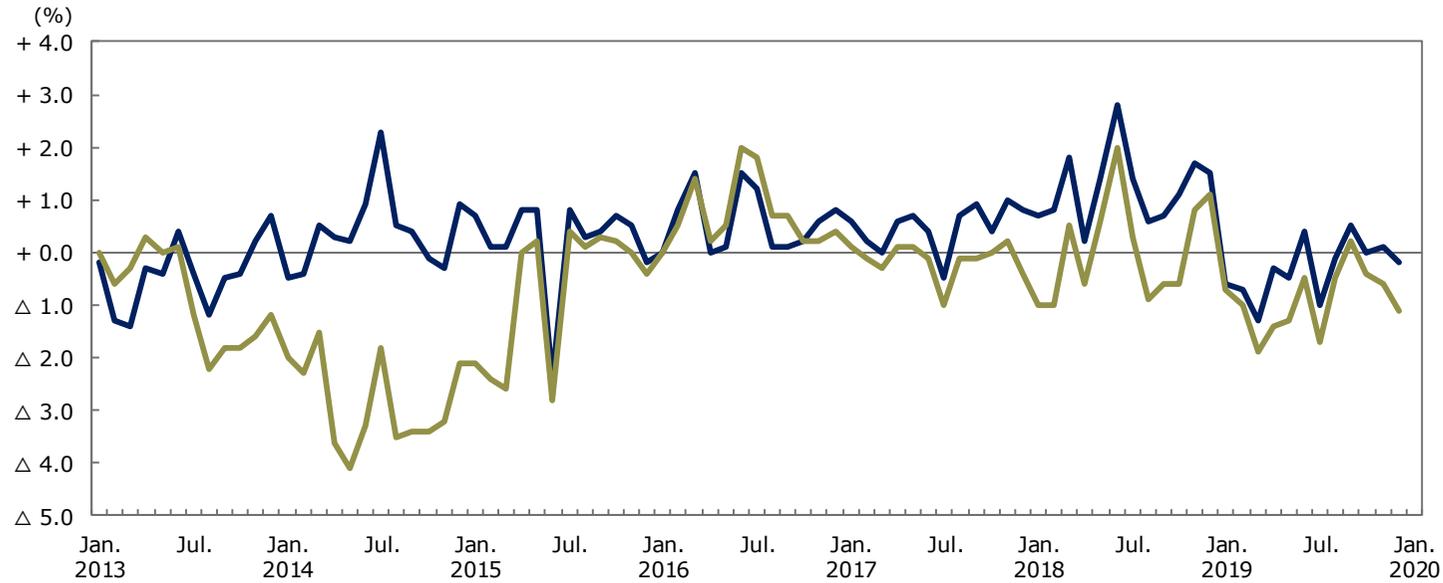
Money stock (M3: year-on-year comparison)



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

4-9 Market-related information (6)

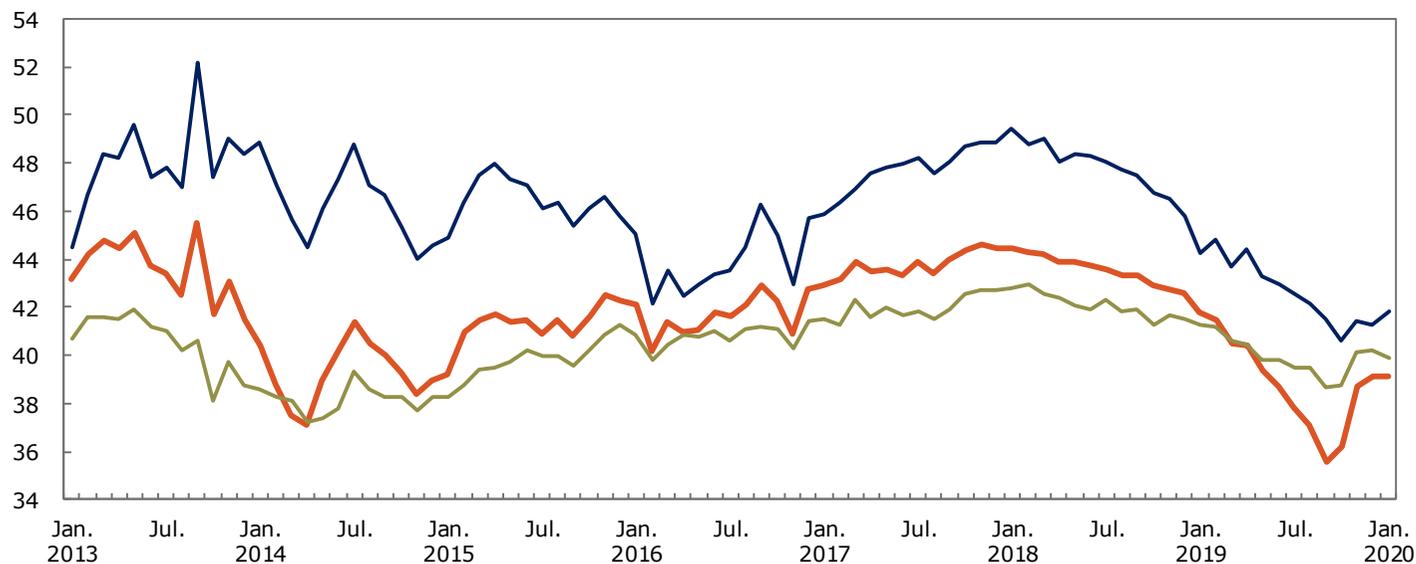
Total cash earnings (Year-on-year comparison)



● 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.