



# Mori Hills REIT Investment Corporation

Results of the 23rd Fiscal Period ended January 31, 2018

Presentation Material

March 19, 2018



TSE Code: 3234

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

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

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

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<b>1. Executive summary</b>	3	<b>3. Operation highlights</b>	29
<b>2. Investment highlights</b>	4	Factors that led to changes in dividends per unit	
Unit price performance	5	from the previous fiscal period	30
Financial results	6	Change in assets under management	31
Overview of new acquisitions (Scheduled as of March 1, 2018)	7	Change in unrealized capital gain/loss	32
Forecasts	10	Appraisal value	33
Dividends per unit growth record	11	Change in the rent and occupancy rates	34
Increase in appraisal NAV per unit	12	Overview of fixed rent master lease properties	35
Overview of portfolio	13	Tenant status by month and tenants with large leased space	36
External growth	16	Financial overview (as of January 31, 2018)	37
Internal growth	19	Debt status (as of January 31, 2018)	38
Financial management	21	Unitholders breakdown (as of January 31, 2018)	39
MHR's representative property	23	<b>4. Business environment recognition &amp; MHR's policy/strategy</b>	40
Competitive strength of Central Tokyo	27	Business environment recognition	41
		MHR's policy/strategy	42
		Market-related information	43
		<b>5. Appendix</b>	49

## 23rd period (Jan. 2018)

- **Operating revenue: 8,495 million yen, operating income: 5,287 million yen, net income: 4,655 million yen** Increased revenue and decreased income period-over-period (Effect of the absence of profit on disposition)
- **Acquired Toranomon Hills Mori Tower for 5,070 million yen and Holland Hills Mori Tower for 9,330 million yen as of August 2017**
- **DPU: 2,659 yen (+49 yen from 22nd period)** Increasing for 15 consecutive fiscal periods

## After 24th period (Jul. 2018)

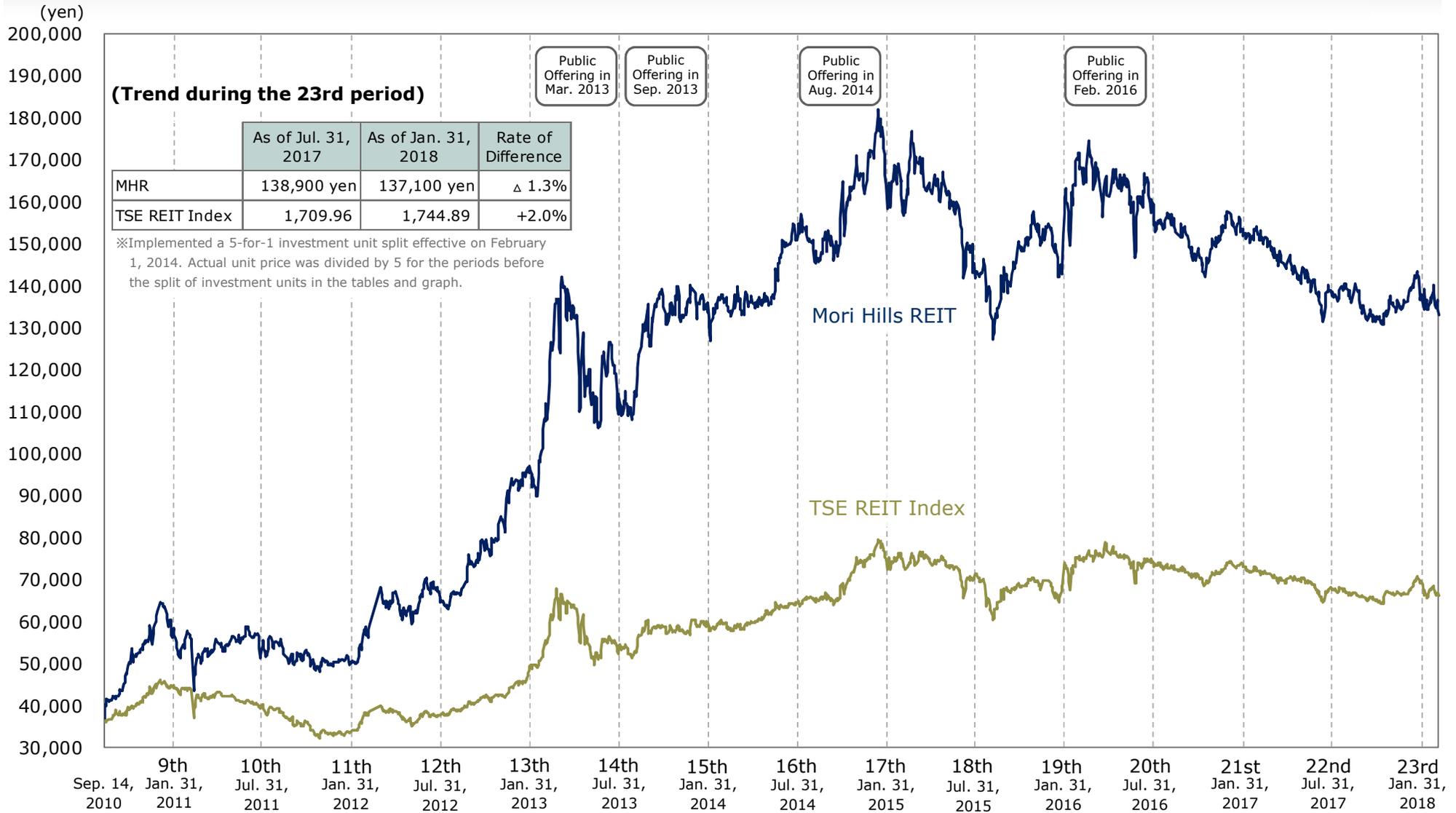
- **Additional acquisition of Toranomon Hills Mori Tower for 5,070 million yen and Holland Hills Mori Tower for 2,430 million yen as of March 2018**
- **DPU (forecast): 2,720 yen (24th period), 2,750 yen (25th period)**  
Forecasted increase for 17 consecutive fiscal periods
- **Sponsor is planning various large-scale redevelopments therefore the property pipeline continues to be substantial**
- **Aims to successively improve dividend and NAV per unit while maintaining the highest level of portfolio quality**

## 2. Investment highlights

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# 2-1 Unit price performance



**Market value**

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

**232 bn yen**  
(Mar. 9, 2018)

(Note 1) Unless otherwise stated in this document, all amounts are rounded down below the unit and all fractions and areas are rounded up below the decimal point.  
 (Note 2) TSE REIT Index is adjusted as of the 8<sup>th</sup> period result announcement (Sep. 14, 2010) and shows the relative performance vs. MHR's unit price performance.

## 2-2 Financial results

	22nd period	23rd period		23rd period
	Jul. 31, 2017	Jan. 31, 2018		Jan. 31, 2018
	Actual	Actual	Difference	Forecasted
<b>Operating Highlights (million yen)</b>				
Operating revenue	8,491	8,495	+ 3	8,492
Rent revenues	7,853	8,284	+ 431	8,271
Other operating revenues	225	211	△ 14	221
Gain on sales of real estate properties	413	—	△ 413	—
Operating expenses	3,096	3,208	+ 112	3,236
Expenses related to properties	2,788	2,910	+ 121	2,934
SG&A	307	298	△ 9	301
Operating income	5,395	5,287	△ 108	5,256
Non-operating income	0	1	+ 0	1
Non-operating expenses	640	631	△ 8	634
Ordinary income	4,756	4,657	△ 99	4,622
Net income	4,755	4,655	△ 99	4,621
Reserve for reduction entry	186	—	△ 186	—
Total dividends	4,569	4,654	+ 85	4,621
<b>DPU</b>				
Total units outstanding (units)	1,750,640	1,750,640	—	1,750,640
DPU (yen)	2,610	2,659	+ 49	2,640
<b>Other Indices (million yen)</b>				
Profit on real estate rental	5,289	5,585	+ 295	5,557
Depreciation	1,000	1,032	+ 32	1,034
NOI	6,290	6,617	+ 327	6,592
NOI yield	3.7%	3.7%	△ 0.0PT	3.7%
Acquisition price (weighted average based on the number of operating days during the period) (Note)	339,847	352,550	+ 12,702	352,550

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

#### • Operating revenue (+3 mn yen)

- Property acquisition in 23rd period	+410
- Office (Pass-through)	+113
- Profit on disposition and rent revenue of Moto-Azabu Hills	△471
- Full period contribution of "fixed rent ML" revision in 22nd period	△49

#### • Operating expenses (+112 mn yen)

- Property acquisition in 23rd period	+121
- Property taxes for property acquired in 20th period	+44
- Expenses related to properties of Moto-Azabu Hills	△24
- Leasing fee	△22

#### • Non-operating expenses (△8 mn yen)

- Interest expenses, etc. (New borrowings in 23 <sup>rd</sup> period)	+17
- Amortization of investment unit issuance cost	△27

### Increase/decrease factor for 23rd period (Forecasted - Actual)

#### • Operating income (+30 mn yen)

- Increase in rent and common area revenue	+11
- Decrease in maintenance and repairs	+10

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

# 2-3 Overview of new acquisitions (Acquired as of March 1, 2018)

## Toranomon Hills Mori Tower (Additional acquisition)



### Acquisition price

**5,070** mn yen

### Appraisal value

**5,610** mn yen

### NOI yield

**3.4%**

Property Number	O-9
Location (Residential indication)	23-1, Toranomon 1-chome, Minato-ku, Tokyo
Construction date	May 2014
Total number of floors	52 floors above ground, 5 floors below ground
Gross floor area	241,581.95 m <sup>2</sup>
Portions of acquisition	7% quasi-co-ownership interest in trust beneficial interests

### Earthquake PML

**0.50%**

Total acquired: 14% quasi-co-ownership interest including past acquisition

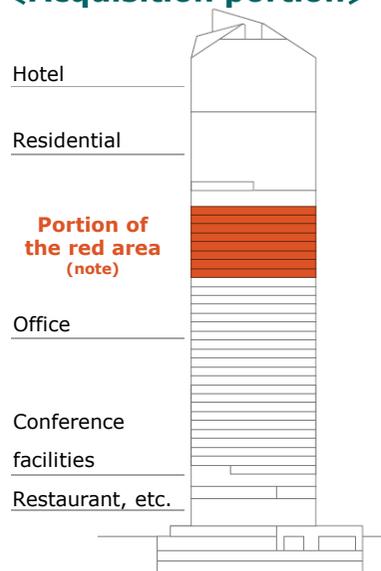
### 1. Super high rise tower - Tokyo's new landmark

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

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

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

### <Acquisition portion>



(Note) MHR acquired the trust beneficial interests in 87.95% co-ownership interest in compartmentalized ownership of the 28-35th floors

## Holland Hills Mori Tower (Additional acquisition)



### Acquisition price

**2,430** mn yen

### Appraisal value

**2,770** mn yen

### NOI yield

**4.3%**

Property Number	O-10
Location	11-2, Toranomon 5-chome, Minato-ku, Tokyo
Construction date	January 2005
Total number of floors	24 floors above ground, 2 floors below ground
Gross floor area	35,076.12 m <sup>2</sup>
Portions of acquisition	15% quasi-co-ownership interest in trust beneficial interests

### Earthquake PML

**0.85%**

Total acquired: 72% quasi-co-ownership interest including past acquisition

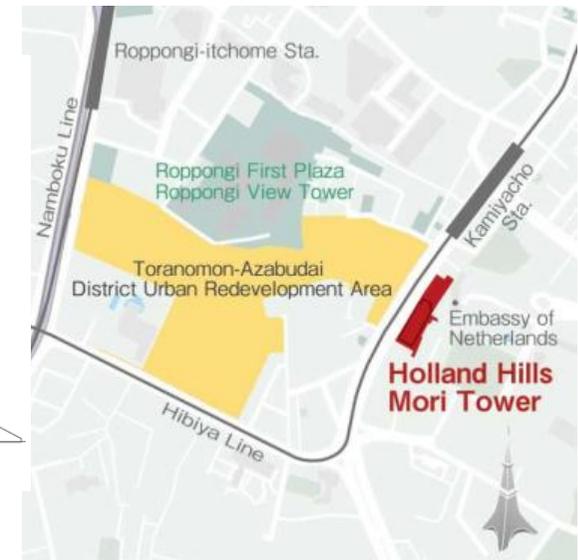
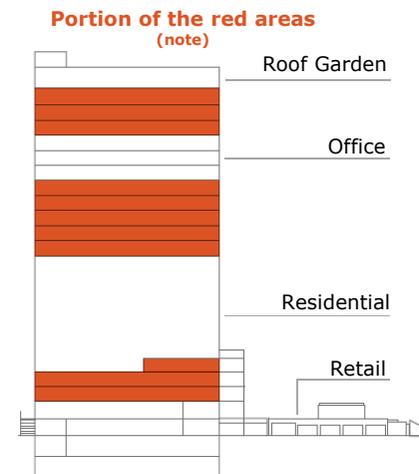
### 1. High rise tower integrating the greenery of the Embassy of the Netherlands

- Tower complex consisting of office, residences and retail with excellent quake-resistance.
- Office area is located on the upper floors (14th to 24th floors) and offers a business space with excellent views and a sense of openness.
- Landmarks representing Tokyo such as Tokyo Tower and Roppongi Hills can be viewed from the roof garden 100 meters above the ground.

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

- An excellent location within a 1-minute walk from Tokyo Metro Hibiya Line Kamiyacho Station.
- As a result of a number of redevelopment projects currently in progress around the building, the Toranomon area has begun to rapidly evolve into an international urban center.

### <Acquisition portion>



(Note) MHR acquired the trust beneficial interests in compartmentalized ownership of the 3rd, 4th, part of 5th, 14-18th and 22-24th floors .

# 2-5 Overview of new acquisitions

## Outline of transactions

		Acquired as of August 1, 2017 (A)	Acquired as of March 1, 2018 (B)	(A) + (B)	
Toranomon Hills Mori Tower	Acquisition price	5,070 million yen	5,070 million yen	10,140 million yen	<div style="border: 1px solid orange; border-radius: 15px; padding: 5px;">                     Total acquired area                      Approx. 3.4% of                      office area                      Approx. 1.9% of total                 </div>
	NOI yield	3.4%	3.4%	3.4%	
	NOI	172 million yen	173 million yen	345 million yen	
	Total leasable floor area	1,709.27m <sup>2</sup>	1,709.27m <sup>2</sup>	3,418.54m <sup>2</sup>	
		+	+		
Holland Hills Mori Tower	Acquisition price	9,330 million yen	2,430 million yen	11,760 million yen	<div style="border: 1px solid orange; border-radius: 15px; padding: 5px;">                     Total acquired area                      Approx. 55.5% of                      office area                      Approx. 34.9% of total                 </div>
	NOI yield	4.3%	4.3%	4.3%	
	NOI	401 million yen	104 million yen	505 million yen	
	Total leasable floor area	5,794.07m <sup>2</sup>	1,524.76m <sup>2</sup>	7,318.83m <sup>2</sup>	
		▼	▼		
Total	Acquisition price	14,400 million yen	7,500 million yen		
	NOI yield	3.9%	3.7%		
	NOI	574 million yen	277 million yen		

# 2-6 Forecasts

	23rd period Jan. 31, 2018	24th period Jul. 31, 2018		25th period Jan. 31, 2019
	Actual	Forecast	Difference	Forecast

## Operating Highlights (million yen)

Operating revenue	8,495	8,721	+ 225	8,759
Rent revenues	8,284	8,507	+ 222	8,537
Other operating revenues	211	214	+ 3	222
Operating expenses	3,208	3,341	+ 132	3,340
Expenses related to properties	2,910	3,032	+ 121	3,012
SG&A	298	309	+ 11	327
Operating income	5,287	5,379	+ 92	5,419
Non-operating income	1	2	+ 0	1
Non-operating expenses	631	618	Δ 12	604
Ordinary income	4,657	4,763	+ 106	4,815
Net income	4,655	4,762	+ 106	4,814
Total dividends	4,654	4,761	+ 106	4,814

## DPU

Total units outstanding (units)	1,750,640	1,750,640	—	1,750,640
DPU (yen)	2,659	2,720	+ 61	2,750

## Other Indices (million yen)

Profit on real estate rental	5,585	5,688	+ 103	5,747
Depreciation	1,032	1,039	+ 7	1,017
NOI	6,617	6,728	+ 111	6,764
NOI yield	3.7%	3.8%	0.1PT	3.7%
Acquisition price (weighted average based on the number of operating days during the period)	352,550	358,889	+ 6,339	360,050

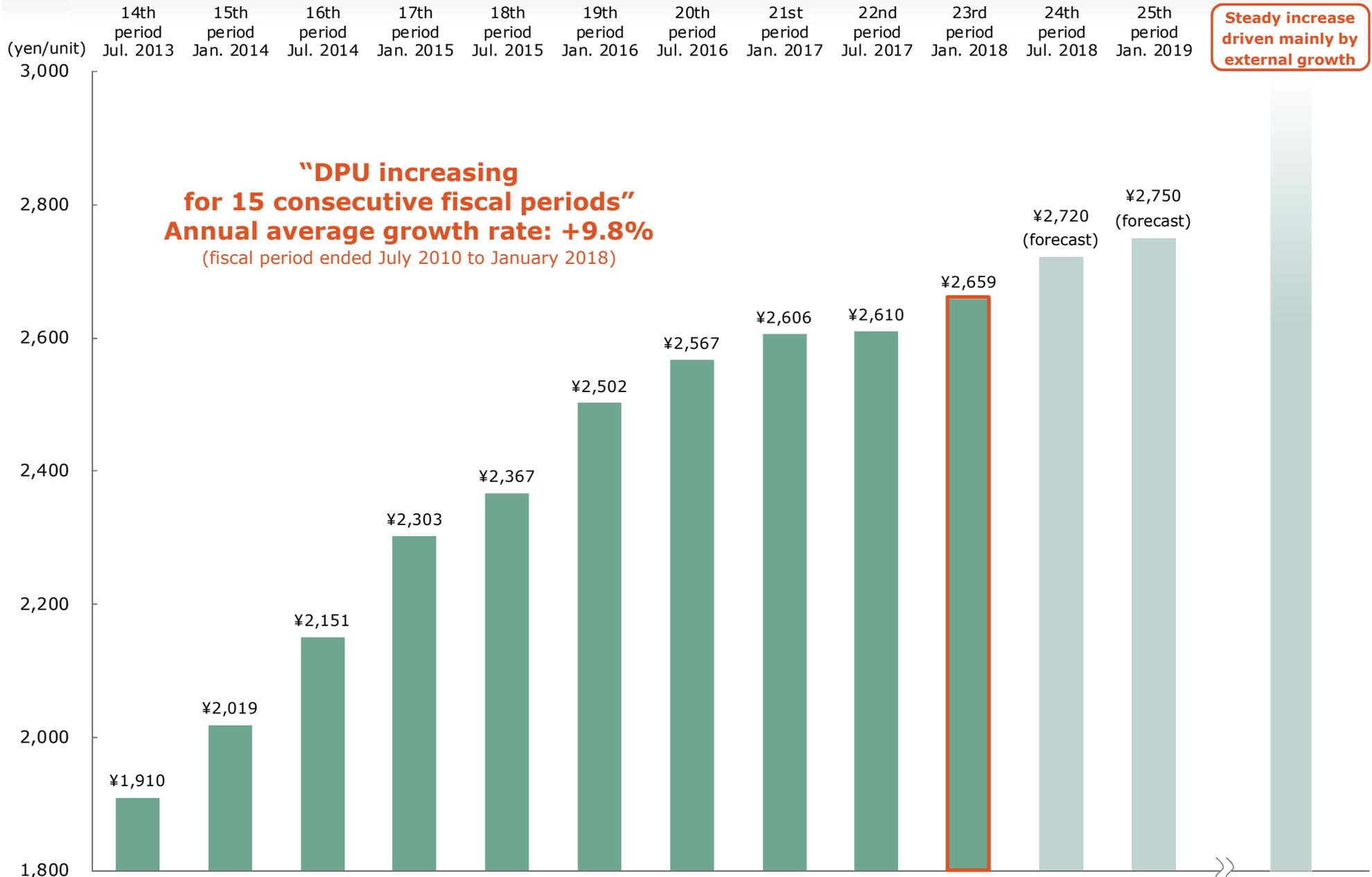
### Increase/decrease factor (23rd – 24th)

- **Operating revenue (+225 mn yen)**
  - Property acquisition in 24th period +158
  - Office (Pass-through) +59
- **Operating expenses (+132 mn yen)**
  - Property acquisition in 24th period +48
  - Maintenance and repairs +46
  - Property taxes for existing properties +17
  - Property taxes for properties acquired in 23rd period +14
- **Non-operating expenses (Δ12 mn yen)**
  - Interest expenses, etc.  
(New borrowings in 24th period) +16
  - Interest expenses, etc. (Current borrowings) Δ20
  - Amortization of investment unit issuance cost Δ8

### Increase/decrease factor (24th – 25th)

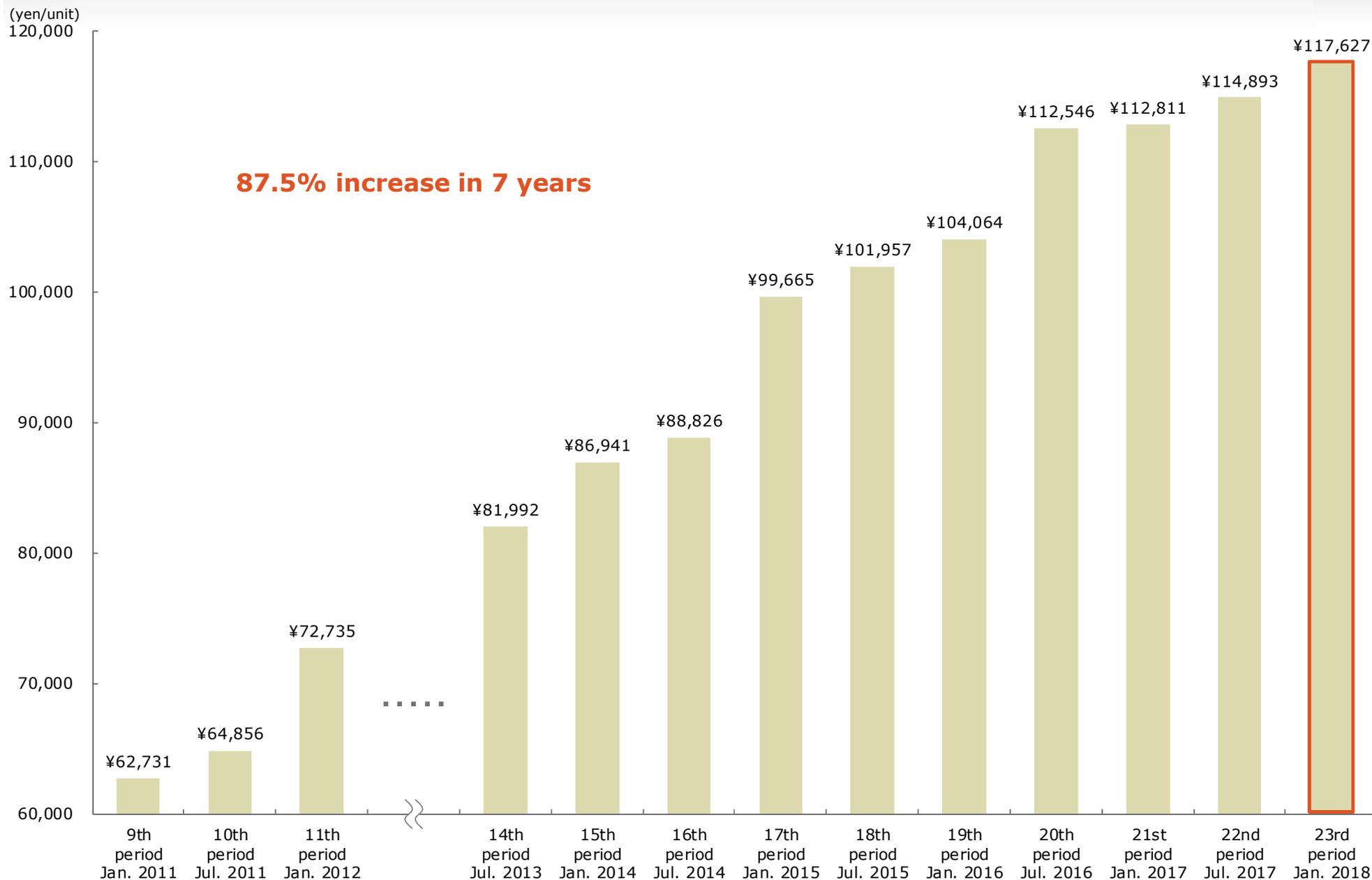
- **Operating revenue (+38 mn yen)**
  - Office (Pass-through) +23
  - Full period contribution of property acquisition in 24th period +17
- **Operating expenses (Δ1 mn yen)**
  - Property taxes for existing properties +17
  - Property taxes for property acquisition in 23rd period +14
  - Full period contribution of property acquisition in 24th period +5
  - Maintenance and repairs Δ32
- **Non-operating expenses (Δ13 mn yen)**
  - Interest expenses, etc. (Current borrowings) Δ10

# 2-7 Dividends per unit growth record



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

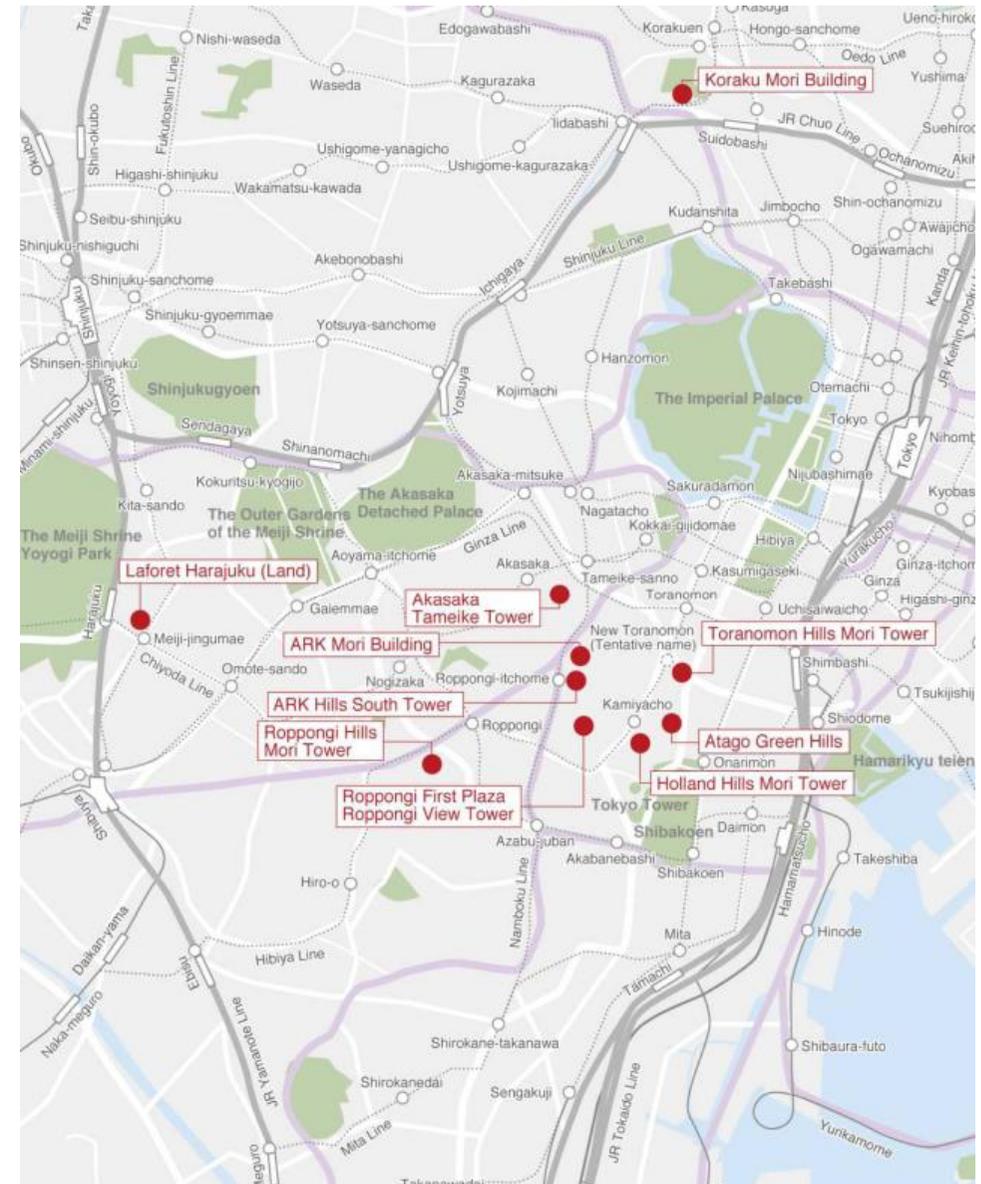
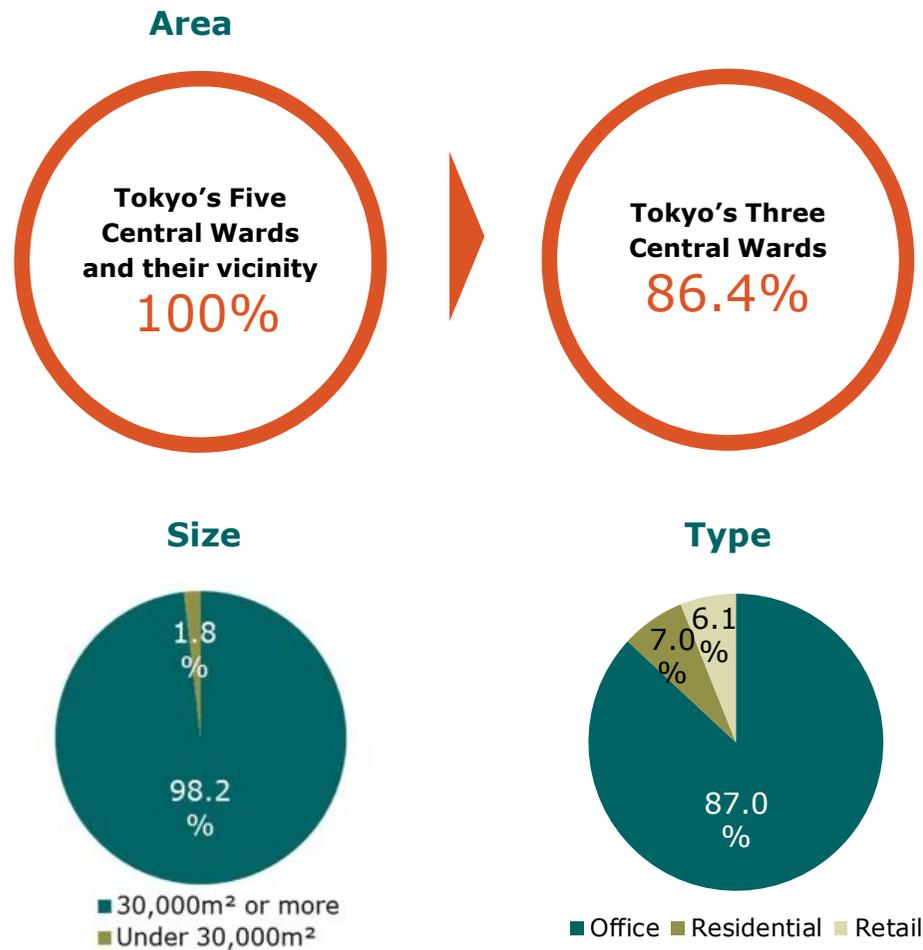
# 2-8 Increase in appraisal NAV per unit



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

# 2-9 Overview of portfolio (1) Location

## No. 1 property percentage in Central Tokyo



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

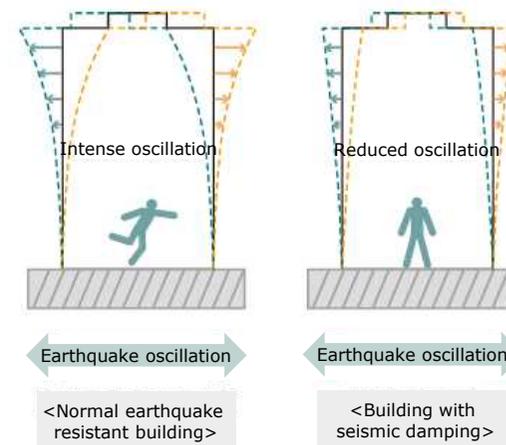
## Pursue No. 1 earthquake-resistance capability

**Lowest portfolio  
PML of all listed  
J-REITs**  
**0.97%**

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

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

### Seismic damping

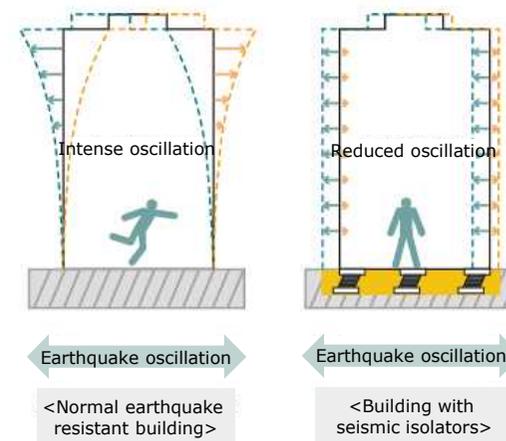


Seismic damping reduces earthquake magnitude of oscillation by approx. 20%



Viscous seismic damping wall

### Seismic isolators



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



Seismic isolators

## Pursue No. 1 environmental performance

Highest ratings in green building certifications  
**70.1%**

CASBEE for Market Promotion: Rank S



Roppongi Hills Mori Tower



ARK Mori Building



Atago Green Hills (Mori Tower)

CASBEE for Buildings (New Construction): Rank S



Toranomon Hills Mori Tower

DBJ Green Buildings Certification: Five stars



ARK Hills South Tower

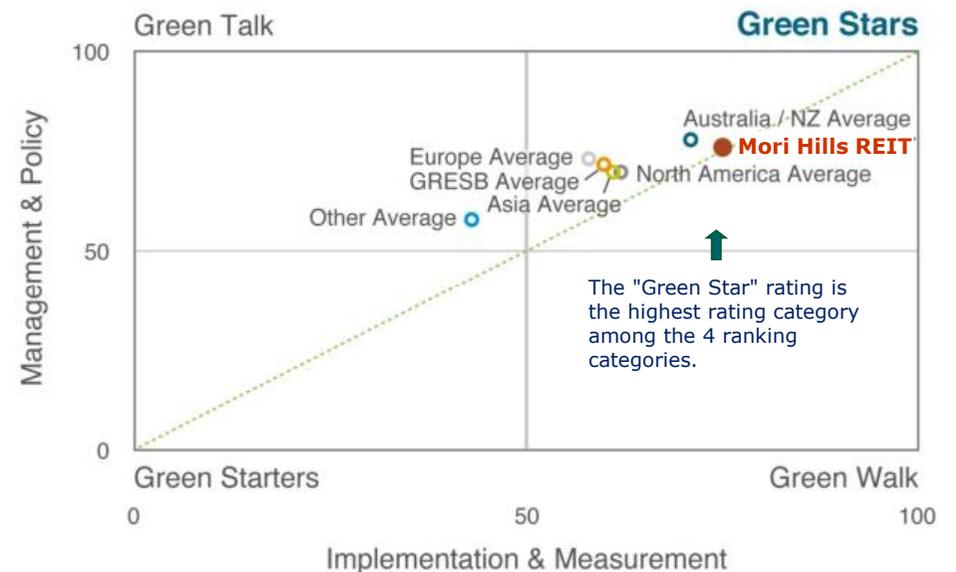
## <Acquired GRESB Green Star Rating>

In the 2017 GRESB Survey, MHR received a Green Star rating for the sixth consecutive year. In addition, MHR received 4 Stars in the GRESB Rating (Note).



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

## GRESB Four-Quadrant Model Scores by Region



(Source) Prepared by the Asset Manager based on the "2017 GRESB Report" of the Global Real Estate Sustainability Benchmark (GRESB).  
(Note) The comparative assessment of the overall score was initially introduced in 2016. It is a global ranking utilizing a five-star scale ("5 Stars" as the highest rank).

# 2-12 External growth

**Business environment recognition**

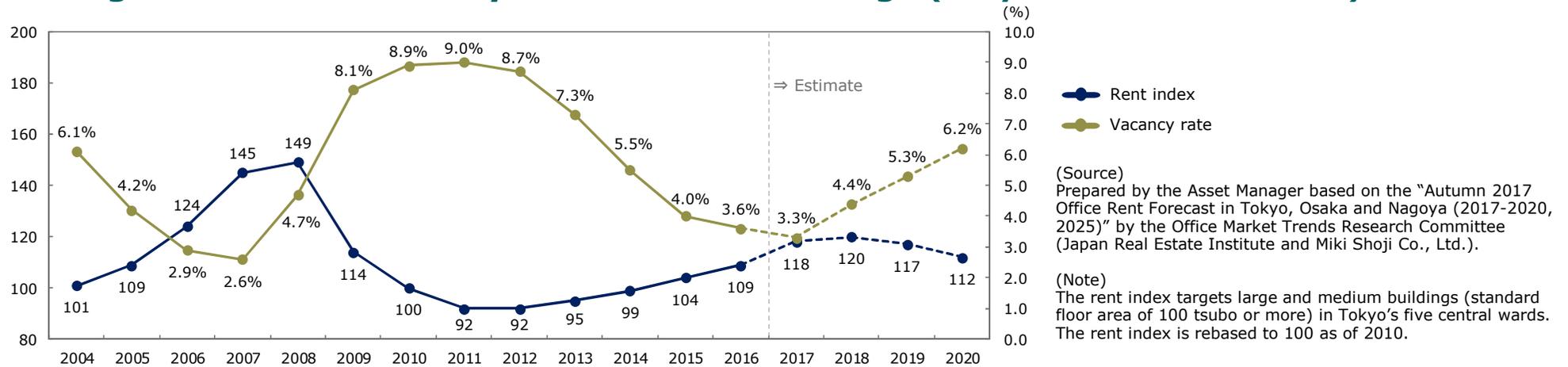
Closely watching the acquisition price level as property acquisition competitions are overheated

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

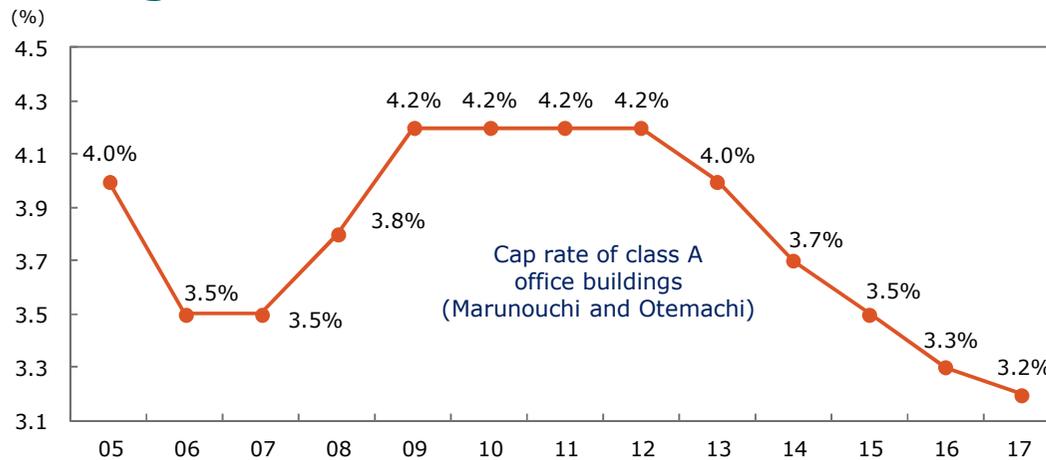
**External growth policy**

Focus on external growth utilizing sponsors' abundant property pipeline

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



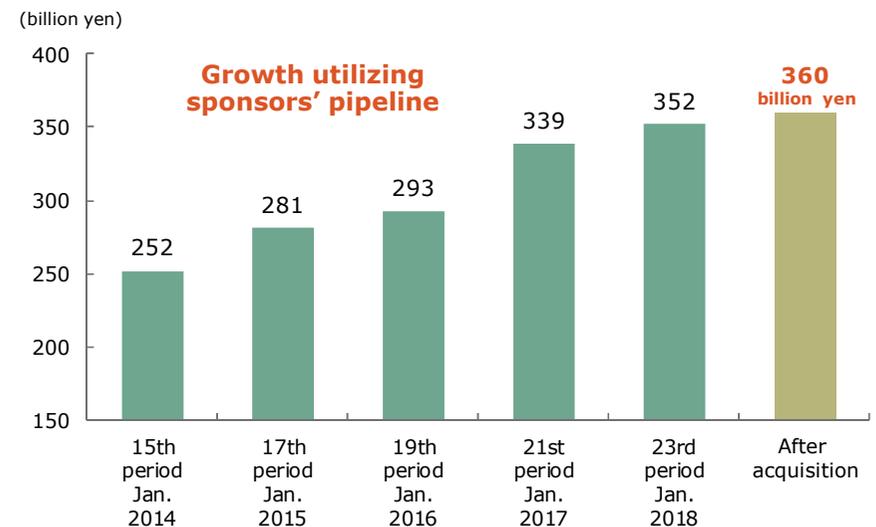
## Change in return on real estate investment



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

(Note) Figures reflect the time of survey as of October each year.

## Change in assets under management



# 2-13 External growth

## Mori Building's extensive property pipeline

Total assets:  
**1.9 trillion yen**  
(as of the end of March 2017)

Number of properties under management:  
**97 buildings**  
(as of April 2017)

MHR has "preferential negotiation rights" (Note)

## Properties owned by Mori Building Group

- 1** Roppongi Hills (Partly owned by MHR)
- 2** Toranomon Hills (Partly owned by MHR)
- 3** ARK Hills (Partly owned by MHR)



〈Office/Residential/Retail, etc.〉



〈Office/Residential/Hotel, etc.〉



〈Office/Residential/Retail, etc.〉

- 4** Atago Green Hills (Partly owned by MHR)
- 5** Holland Hills (Partly owned by MHR)



〈Office/Residential/Retail〉



〈Office/Residential/Retail〉

- 6** Omotesando Hills



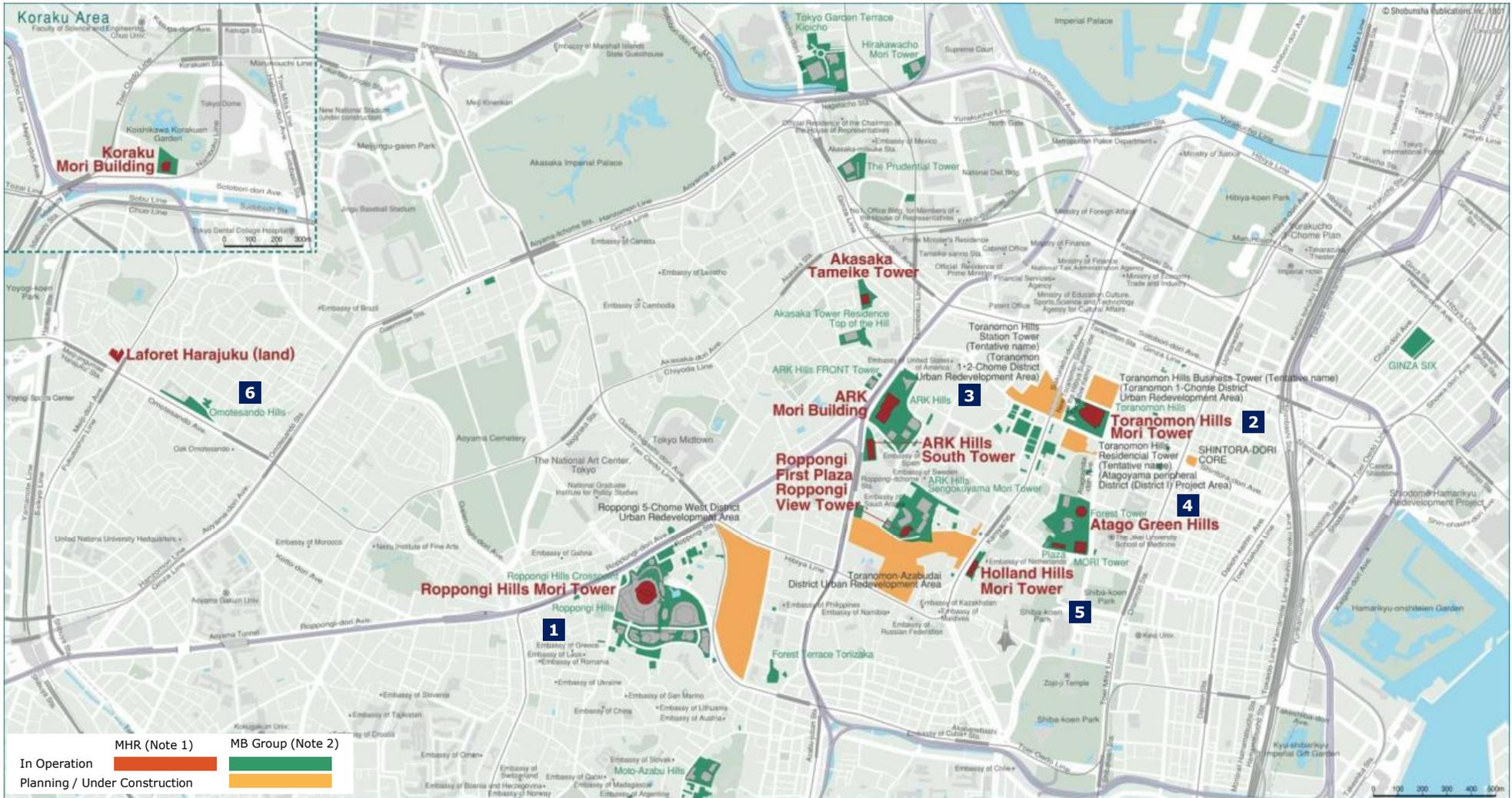
〈Retail/Residential〉

(Note) Some exceptions included.

## Recent redevelopment projects (Toranomon Hills area)



## 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 2018."

(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.

# 2-15 Internal growth

**Business environment recognition**

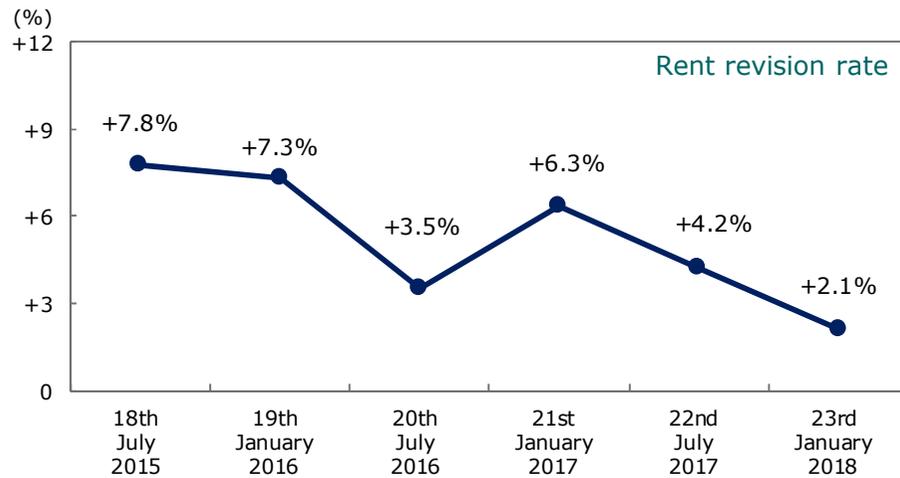
Central Tokyo office rents forecast to continue moderate rise, but as supply increases, the rate of rent increase likely to moderate

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

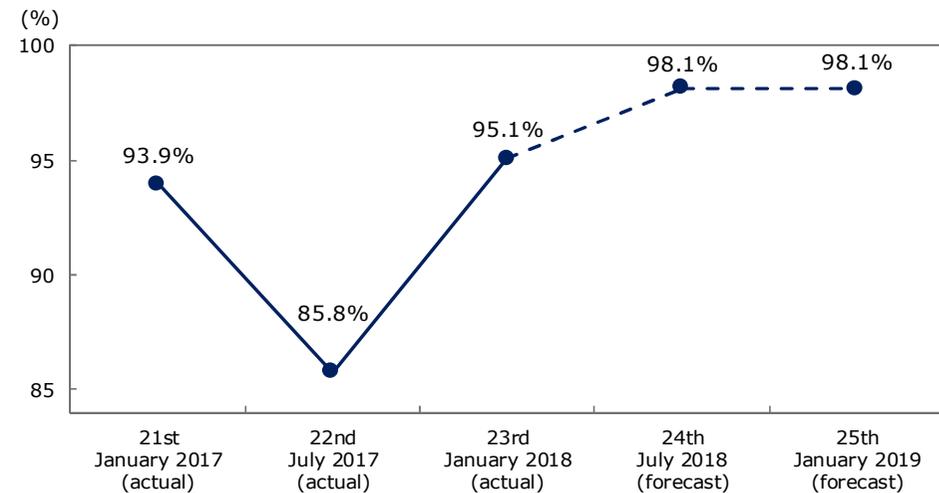
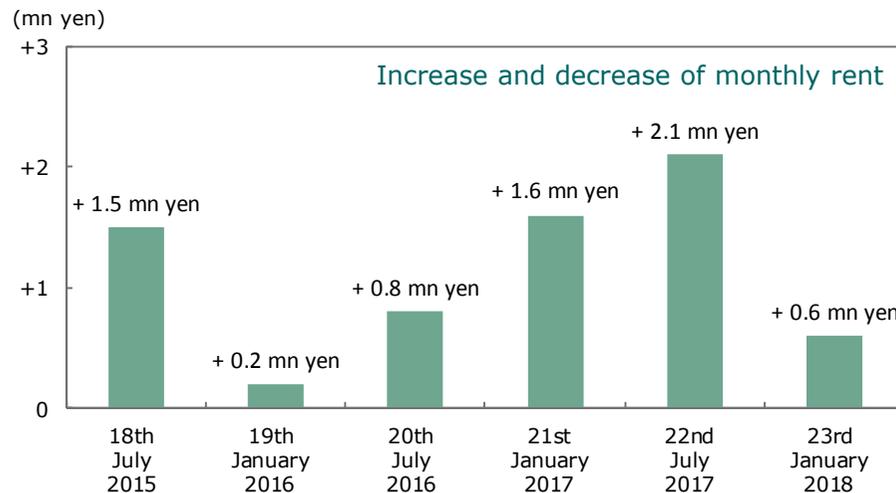
**Internal growth policy**

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

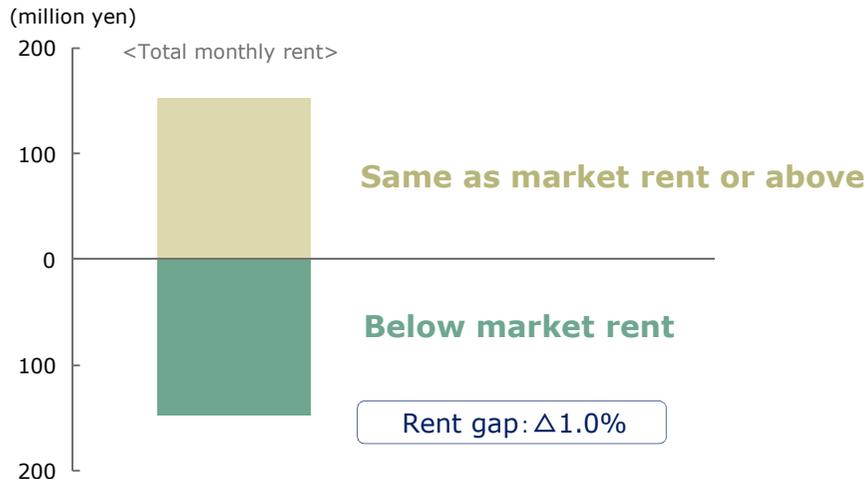
## Result of office tenants' rent revision (pass-through)



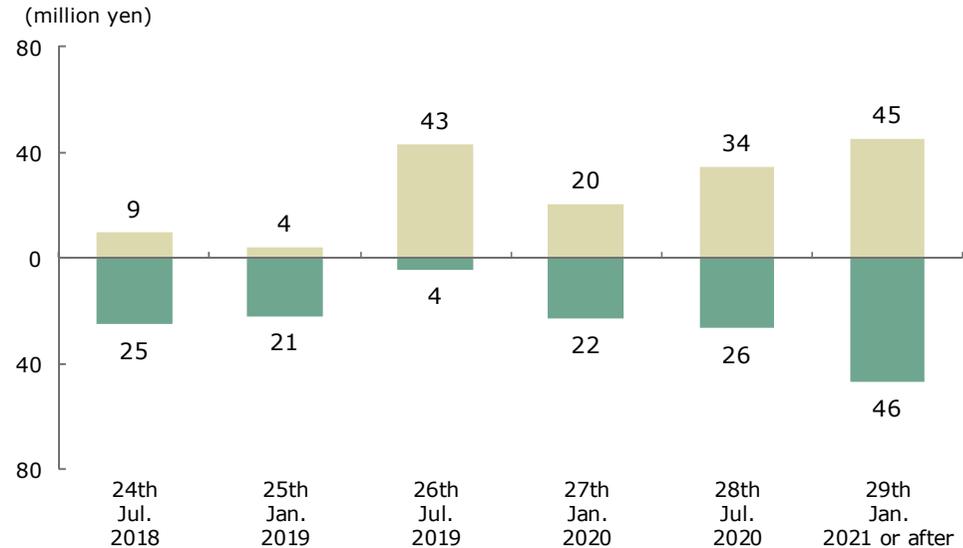
## Trend of office's occupancy rate (pass-through)



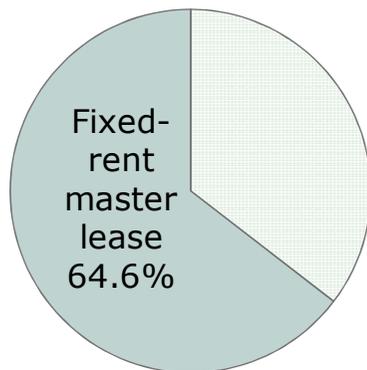
## Comparison with office market rent (pass-through)



(Note 1) Market rent is based on the report by Sanko Estate Co., Ltd.  
 (Note 2) Rent gap = Total tenants' rent ÷ "Total market rent" - 1  
 (Note 3) Figures reflect the acquisition as of March 1, 2018, and move outs of end tenants confirmed as of January 31, 2018.



## Ratio of fixed rent master lease (After new acquisitions)



Tenant diversification of pass-through type properties has been accomplished

Largest tenant's floor area ratio is 1.7%

● Defensive positioning with fixed type ML in preparation for large office supply increase

● Constant and steady internal growth of pass-through type properties

Well balanced internal growth scheme

# 2-17 Financial management

**Business environment recognition**

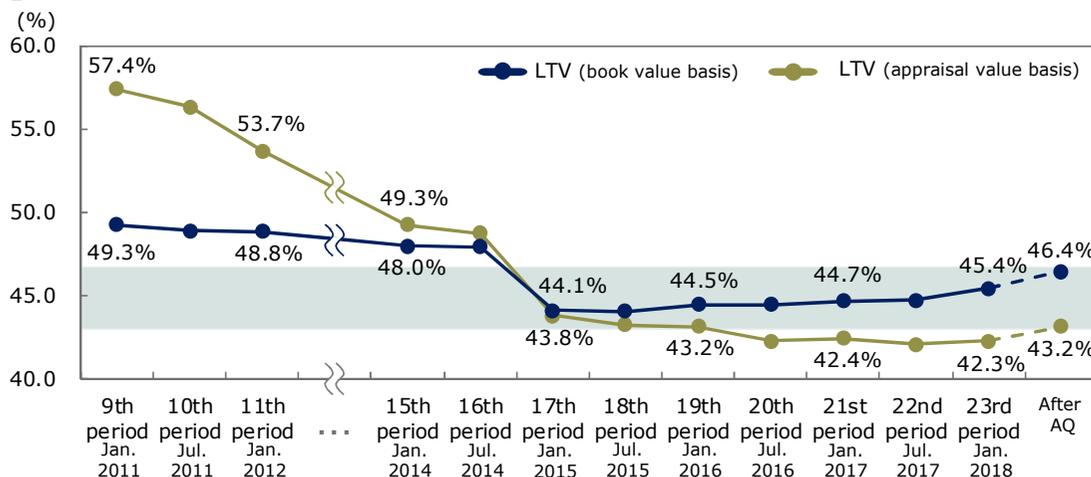
Interest rate level is expected to remain low considering economic conditions and monetary policies

(Note) Please refer to "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



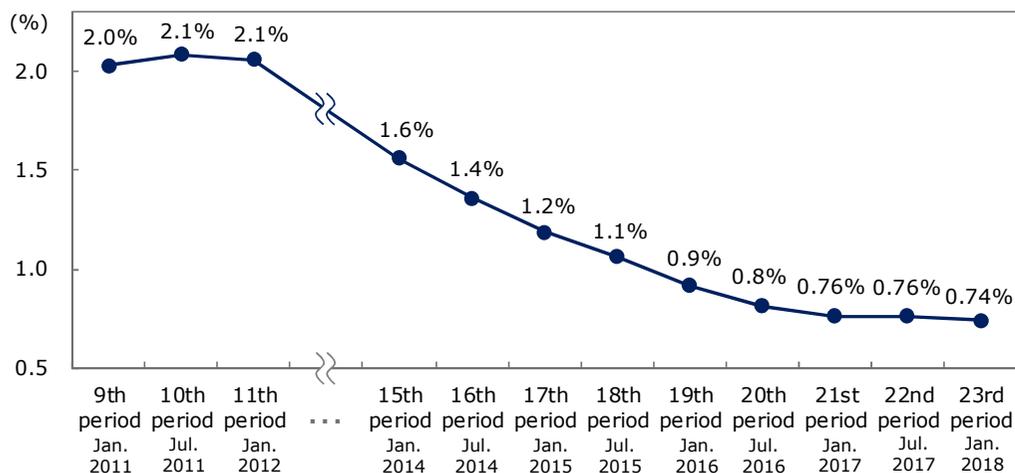
## Overview of debt financing

	End of 22nd period Jul. 31, 2017	End of 23rd period Jan. 31, 2018
Debt Balance	156,022 mn yen	161,222 mn yen
LTV (book value basis) <sup>(Note 1)</sup>	44.7%	45.4%
LTV (appraisal value basis) <sup>(Note 2)</sup>	42.1%	42.3%
Avg. remaining duration	3.8 years	3.7 years

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

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

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

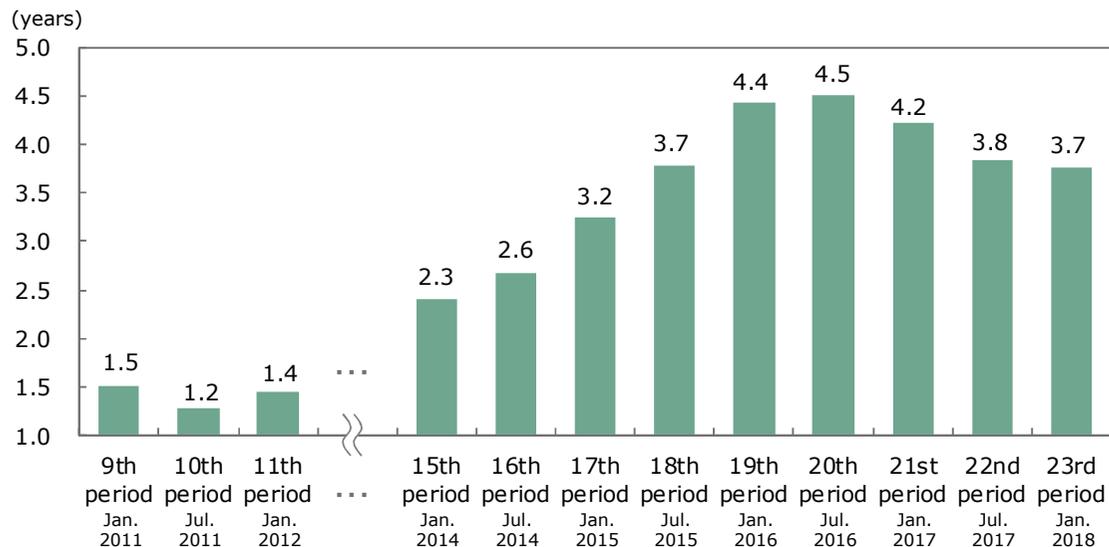


## Issuance status of investment corporation bonds

Issue Date	Amount	Maturity	Rate of Interest
Jan. 2017	2,000 mn yen	10 years	0.49%
Jun. 2017	2,000 mn yen	10 years	0.50%

(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

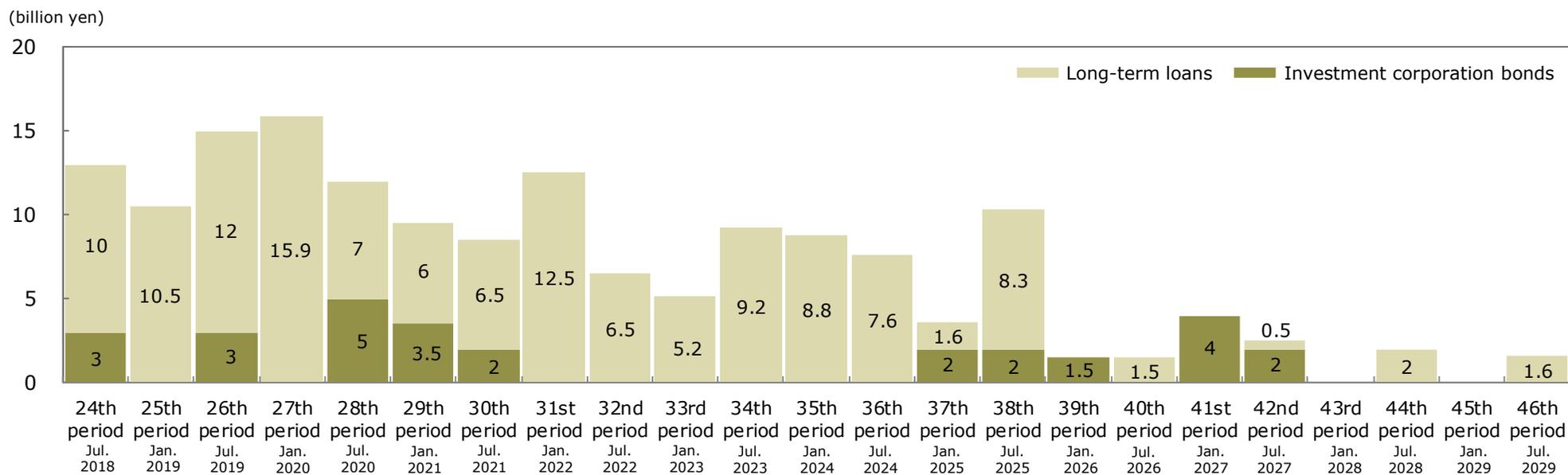


## Rating

Japan Credit Rating (JCR)

Long-term issuer rating:  
AA (Stable)

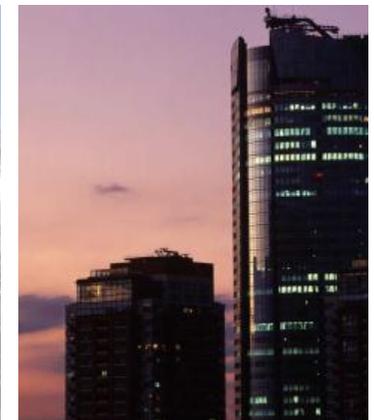
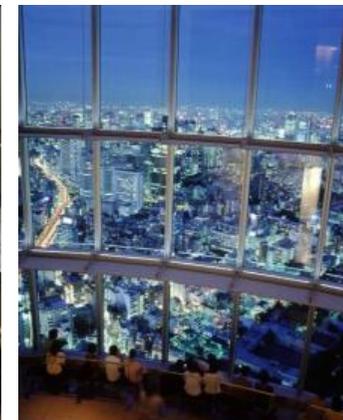
## Overview of maturity (as of January 31, 2018)



Average interest rate

1.1%	1.1%	0.6%	0.7%	0.7%	0.7%	0.8%	0.9%	1.0%
------	------	------	------	------	------	------	------	------

# 2-19 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.

## 2-21 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.



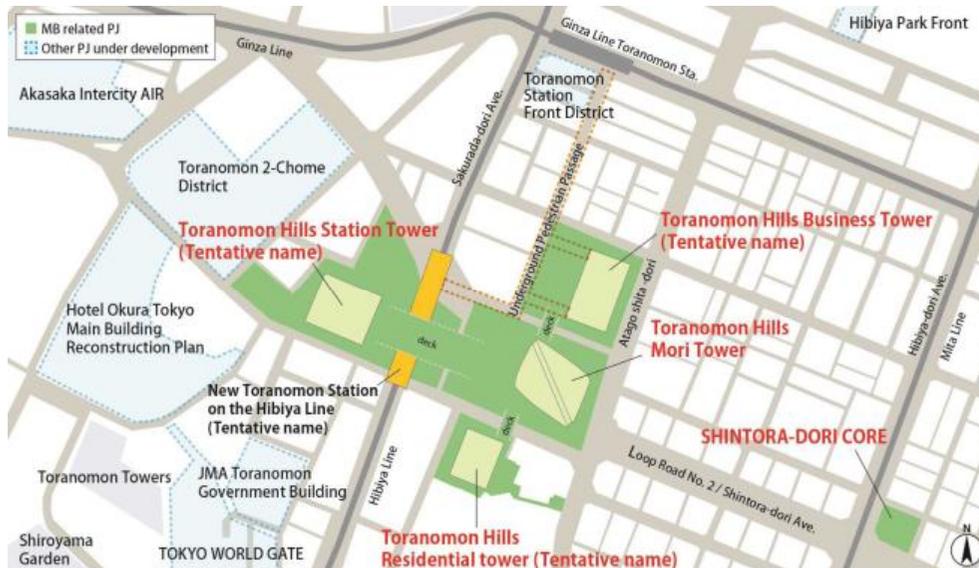
## Retail Shops and Restaurants

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.



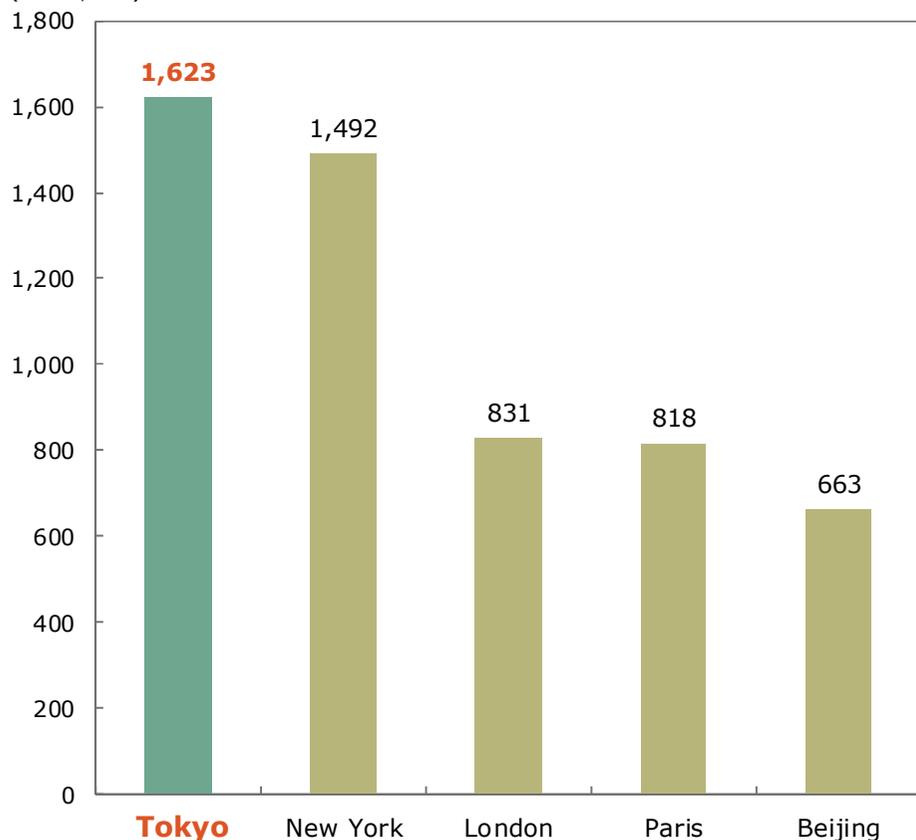
## Evolving as an International Urban Center and a Global Business Hub

Upon completion of Toranomon Hills Business Tower (Tentative name), 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.

# 2-23 Competitive strength of Central Tokyo

## GDP of major metropolitan areas

(billion, PPP)



(Source) Prepared by the Asset Manager based on "REDEFINING GLOBAL CITIES" published by the Brookings Institution.

(Note) For each metropolitan area, the nominal GDP of 2015 is stated.

## Population of urban concentration areas

(in thousands)

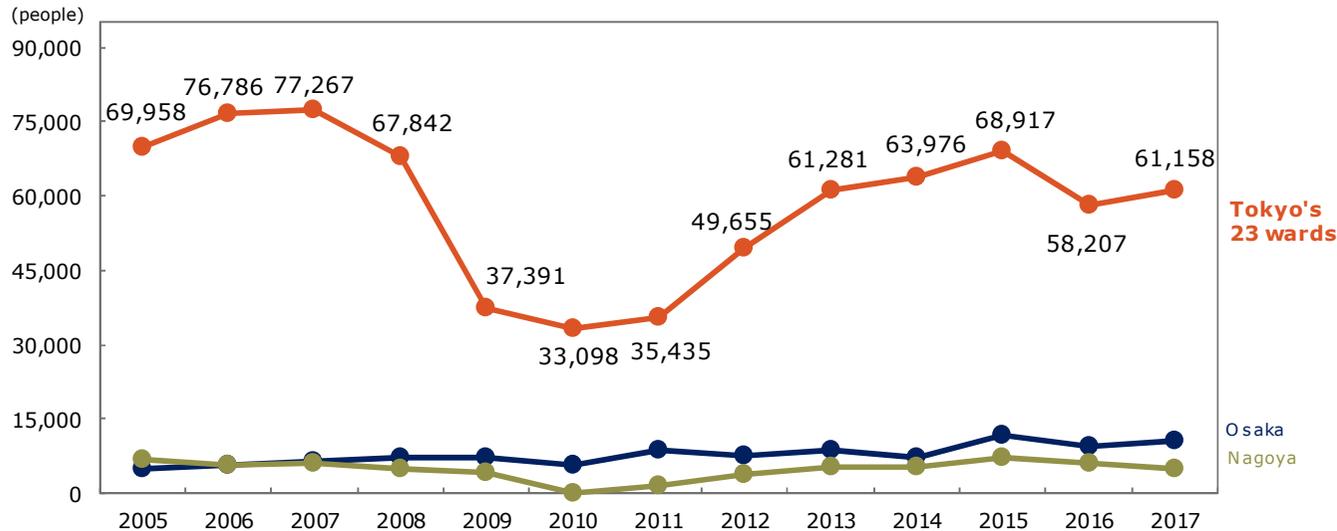
2016			2030		
Rank	Urban concentration area	Population	Rank	Urban concentration area	Population
1	Tokyo (Japan)	38,140	1	Tokyo (Japan)	37,190
2	Delhi (India)	26,454	2	Delhi (India)	36,060
3	Shanghai (China)	24,484	3	Shanghai (China)	30,751
4	Mumbai (India)	21,357	4	Mumbai (India)	27,797
5	São Paulo (Brazil)	21,297	5	Beijing (China)	27,706
6	Beijing (China)	21,240	6	Dhaka (Bangladesh)	27,374
7	Mexico City (Mexico)	21,157	7	Karachi (Pakistan)	24,838
8	Osaka (Japan)	20,337	8	Cairo (Egypt)	24,502
9	Cairo (Egypt)	19,128	9	Lagos (Nigeria)	24,239
10	New York (USA)	18,604	10	Mexico City (Mexico)	23,865

(Source) Prepared by the Asset Manager based on "The World's Cities in 2016" by the the Department of Economic and Social Affairs of the United Nations.

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

# 2-24 Competitive strength of Central Tokyo

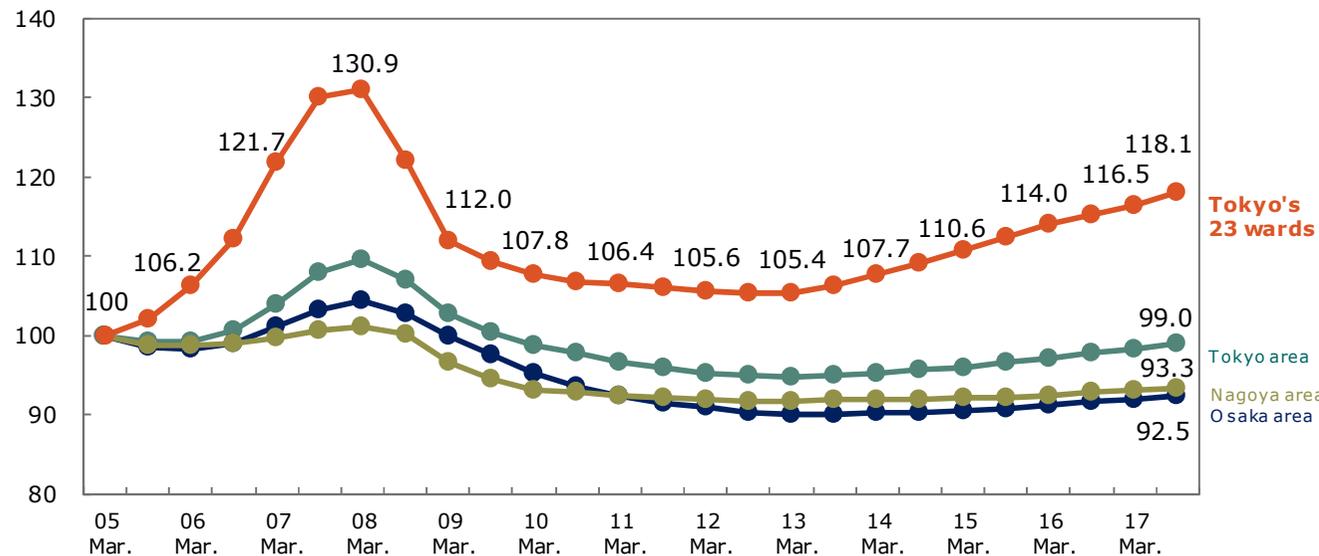
## Trend of net migration



- Tokyo's 23 wards have experienced net population growth for 21 consecutive years since 1997, indicating a high level of consistent net population growth even in comparison with the other major cities in Japan.

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

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



- Land price level of central Tokyo has consistently surpassed the level of March 2005, showing a clear difference from those of other metropolitan areas in Japan that have been on a declining trend.

- However, since investment should be made carefully after asset values have surged, we intend to exercise prudence concerning investment prices.

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

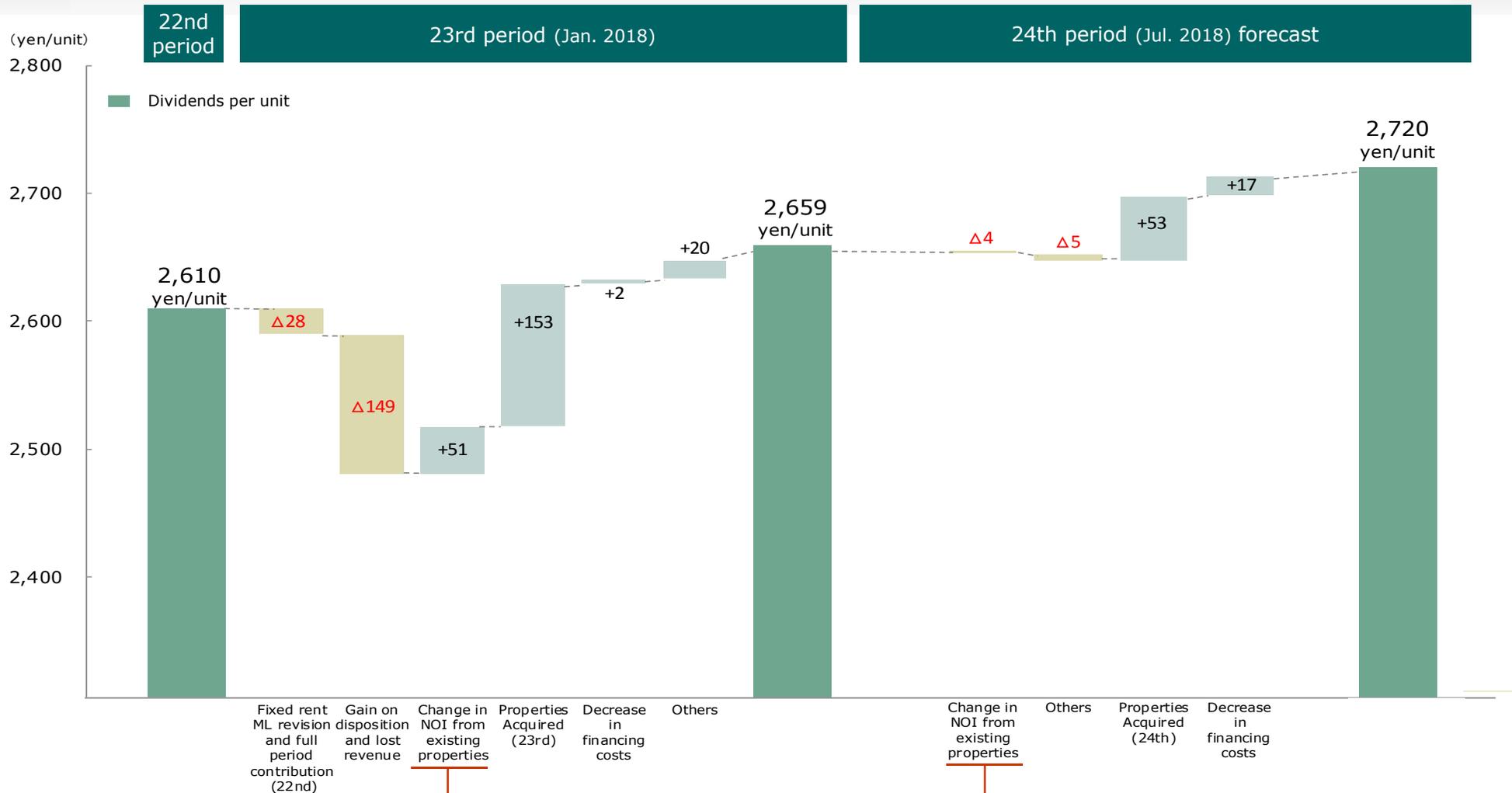
### 3. Operation highlights

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# 3-1

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



Major factors behind change in NOI from existing properties:

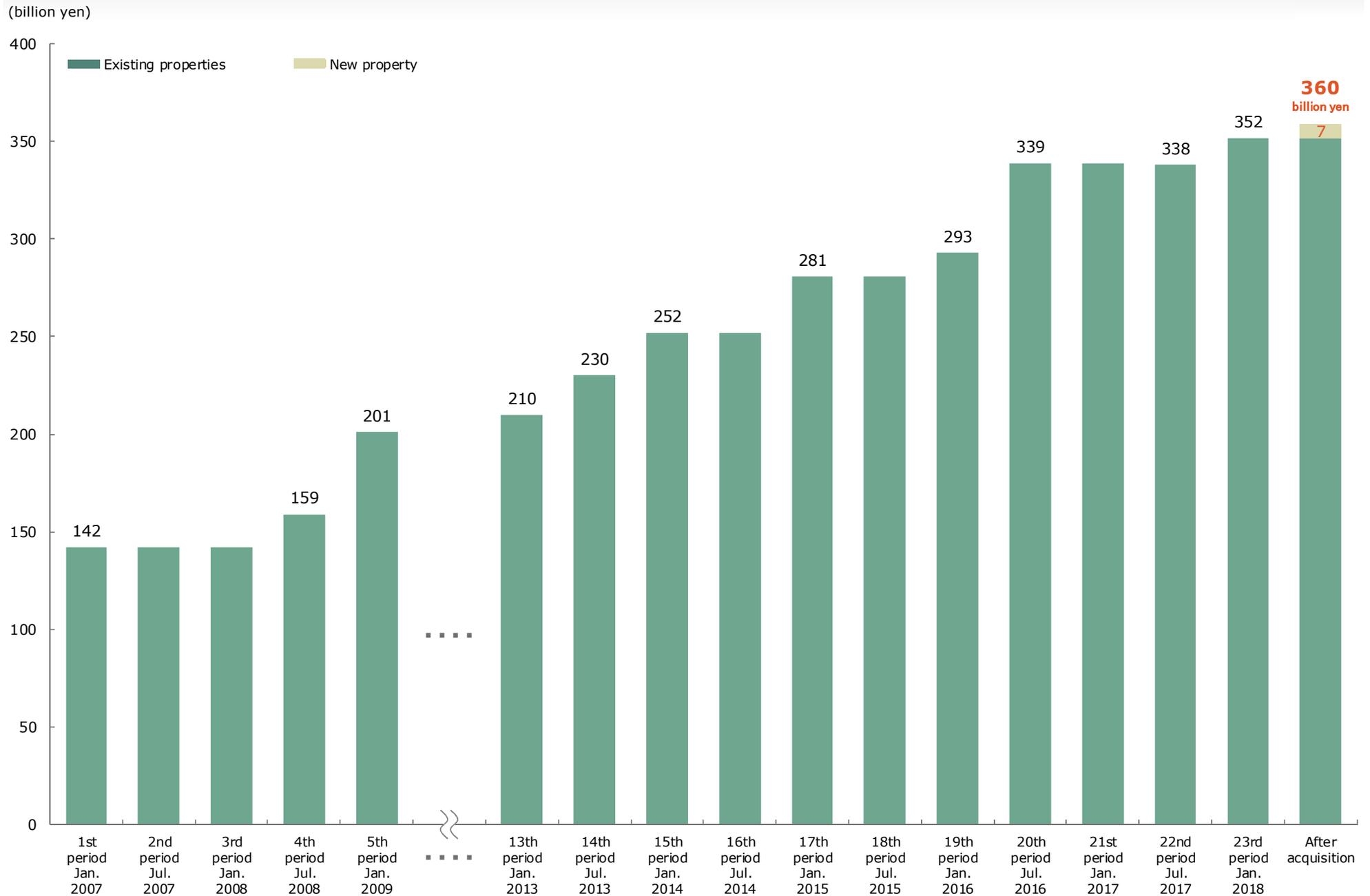
+ Net tenant lease activities and upward rent revision at ARK Hills South Tower	+60
+ Net tenant lease activities and upward rent revision at Akasaka Tameike Tower	+26
- Property taxes for properties acquired in 20th period recorded as expense (equivalent to 3 months)	$\Delta 26$
- Net tenant lease activities and upward rent revision at Koraku Mori Building	$\Delta 5$
- Net tenant lease activities and rent revision at residential pass-through property	$\Delta 4$

Major factors behind change in NOI from existing properties:

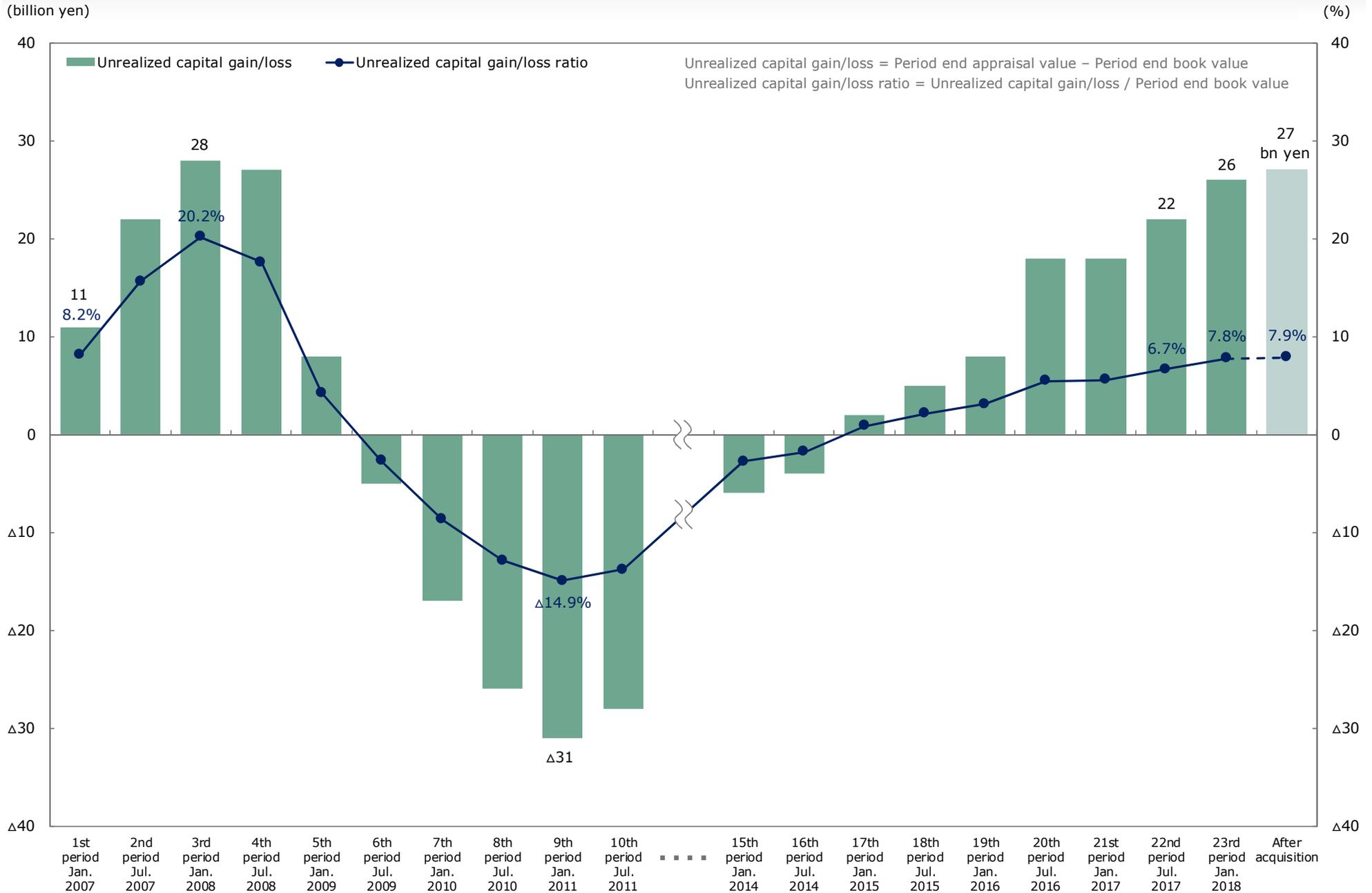
+ Net tenant lease activities and upward rent revision at ARK Hills South Tower	+32
+ Net tenant lease activities and rent revision at residential pass-through property	+7
+ Net tenant lease activities and upward rent revision at Koraku Mori Building	+4
- Increase in maintenance and repairs	$\Delta 26$
- Increase of property taxes for existing properties	$\Delta 10$
- Property taxes for properties acquired in 23rd period recorded as expense	$\Delta 8$

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

# 3-2 Change in assets under management



# 3-3 Change in unrealized capital gain/loss



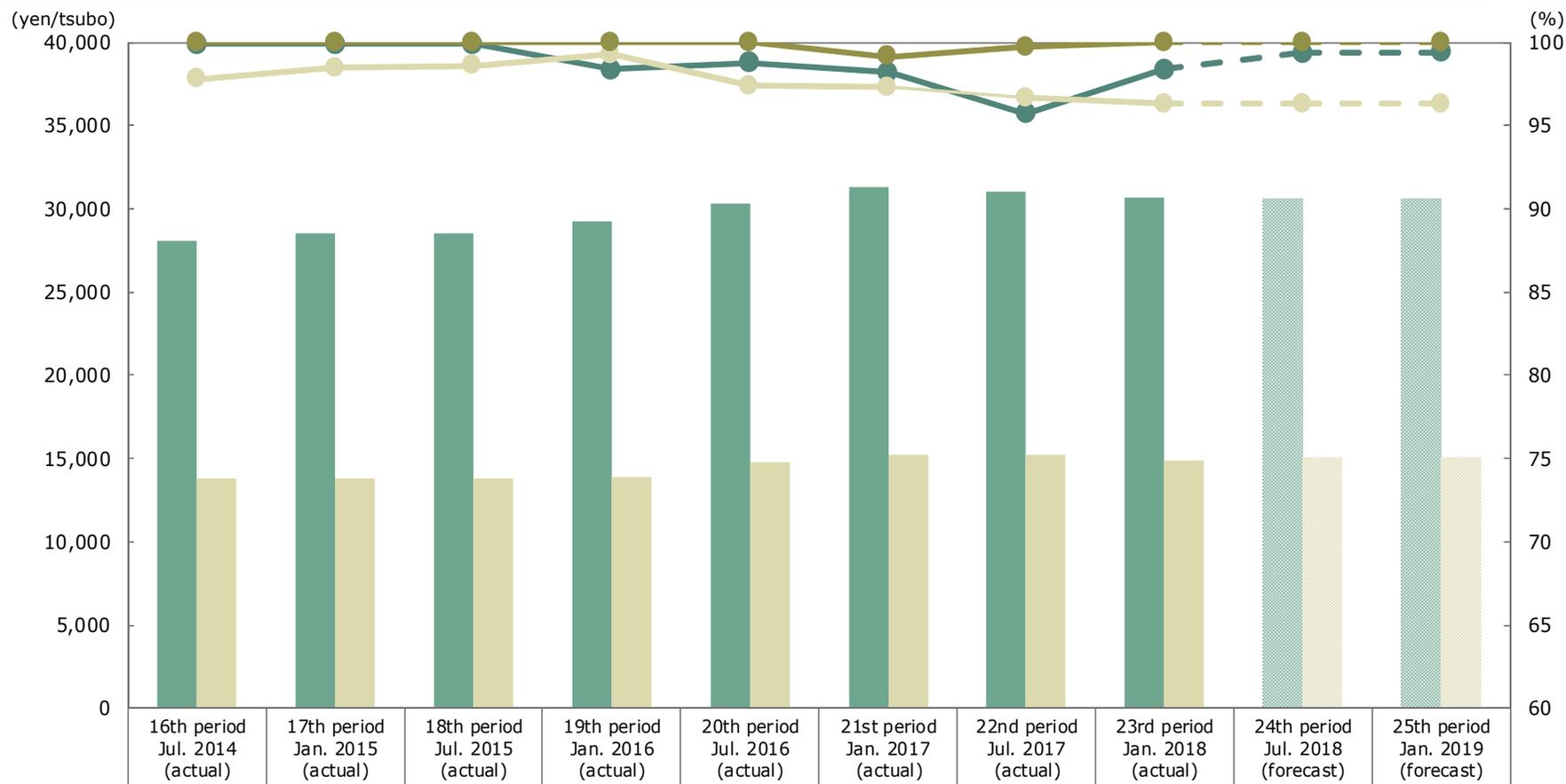
# 3-4 Appraisal value

(million yen)													
Principal use	Property name	Property No.	Acquisition price	Book value	As of end of 22nd period Jul. 31, 2017		As of end of 23rd period Jan. 31, 2018				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	112,901	134,900	3.3%	134,800	3.3%	3.0%	3.5%	Δ 100	Δ 0.1%	21,898
	ARK Mori Building	O-1	62,480	61,543	57,400	3.6%	57,900	3.6%	3.3%	3.8%	500	0.9%	Δ 3,643
	Koraku Mori Building	O-4	27,200	24,965	23,400	3.8%	23,400	3.8%	3.4%	4.1%	0	0.0%	Δ 1,565
	Akasaka Tameike Tower	O-6	43,930	41,942	30,100	3.6%	30,100	3.6%	3.3%	3.8%	0	0.0%	Δ 11,842
	Atago Green Hills	O-7	42,090	40,688	43,300	3.8%	42,700	3.8%	3.3%	4.0%	Δ 600	Δ 1.4%	2,011
	ARK Hills South Tower	O-8	19,150	18,918	23,600	3.3%	24,400	3.2%	3.0%	3.4%	800	3.4%	5,481
	Toranomon Hills Mori Tower	O-9	5,070	5,074	–	–	5,607	3.0%	2.7%	3.2%	5,607	–	532
	Holland Hills Mori Tower	O-10	9,330	9,356	–	–	10,659	3.6%	3.2%	3.8%	10,659	–	1,302
Sub total			324,630	315,388	312,700	–	329,566	–	–	–	16,866	5.4%	14,177
Residential	Roppongi First Plaza	R-3	2,100	2,255	2,000	4.3%	2,060	4.3%	4.1%	4.5%	60	3.0%	Δ 195
	Roppongi View Tower	R-4	4,000	4,005	2,690	4.4%	2,720	4.4%	4.2%	4.6%	30	1.1%	Δ 1,285
	Sub total			6,100	6,261	4,690	–	4,780	–	–	–	90	1.9%
Retail and others	Laforet Harajuku (Land) (Note 2)	S-1	21,820	22,074	34,700	4.2%	36,100	–	4.1%	–	1,400	4.0%	14,025
	Sub total			21,820	22,074	34,700	–	36,100	–	–	–	1,400	4.0%
Total			352,550	343,724	352,090	–	370,446	–	–	–	18,356	5.2%	26,721

(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 22nd period shows the discount rate used in the DCF analysis.

# 3-5 Changes in the rent and occupancy rates



Office rent (yen/tsubo)	28,119	28,482	28,536	29,253	30,306	31,281	31,069	30,642	30,586	30,627
Residential rent (yen/tsubo)	13,763	13,782	13,765	13,894	14,750	15,272	15,278	14,858	15,050	15,047
Office occupancy (%)	100%	99.9%	100%	98.4%	98.8%	98.2%	95.7%	98.4%	99.4%	99.4%
Residential occupancy (%)	97.8%	98.5%	98.6%	99.3%	97.4%	97.3%	96.7%	96.3%	96.3%	96.3%
Retail occupancy (%)	100%	100%	100%	100%	100%	99.2%	99.7%	100%	100%	100%

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

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

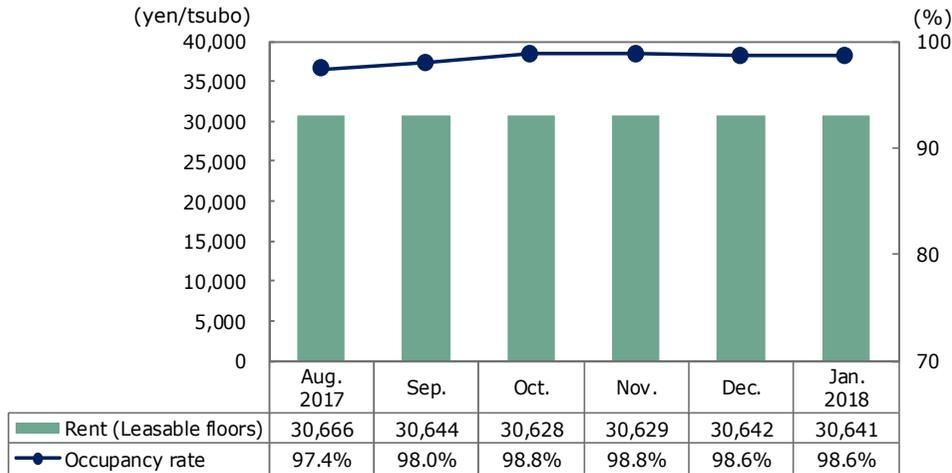
### Overview of fixed rent master lease properties by the sponsor

Property name	Total monthly rent (mn yen)	% of portfolio total rent (Note)	Breakdown of property	Leased floor area (m <sup>2</sup> )	Monthly rent (mn yen)	Payer of the management association fee	Next rent revision	Expiration of the lease agreement
Roppongi Hills Mori Tower (10 floors)	490.5	34.4%	23rd & 24th	8,993.45	114.6	MHR	—	Jul. 2021
			19th & 22nd	8,609.47	95.0			Sep. 2023
			20th	3,879.19	42.8			Jul. 2019
			28th	4,460.13	49.2			Sep. 2020
			25th	4,156.66	45.8			Jan. 2021
			26th, 27th & 29th	12,942.64	142.9			Mar. 2021
ARK Mori Building (8 floors + DHC)	225.2	15.8%	13th/12th & 22nd	7,952.55	77.9	MHR	—	Jan. 2021
			23rd & 25th	5,742.95	55.5			Jan. 2021
			4th, 15th & 24th	7,680.52	73.8			Jan. 2021
			DHC	3,212.41	17.9	Master lessee	Mar. 2023	
Atago Green Hills (approx. 32.9% of entire property)	168.7	11.8%	Office, residential & retail	29,667.58	168.7	Master lessee	—	Apr. 2022
Toranomon Hills Mori Tower (approx. 1.9% of entire property)	36.1	2.5%	Part of 28th to 35th floors	3,418.54	36.1	MHR	—	Jul. 2022
<b>Total</b>	<b>920.7</b>	<b>64.6%</b>						

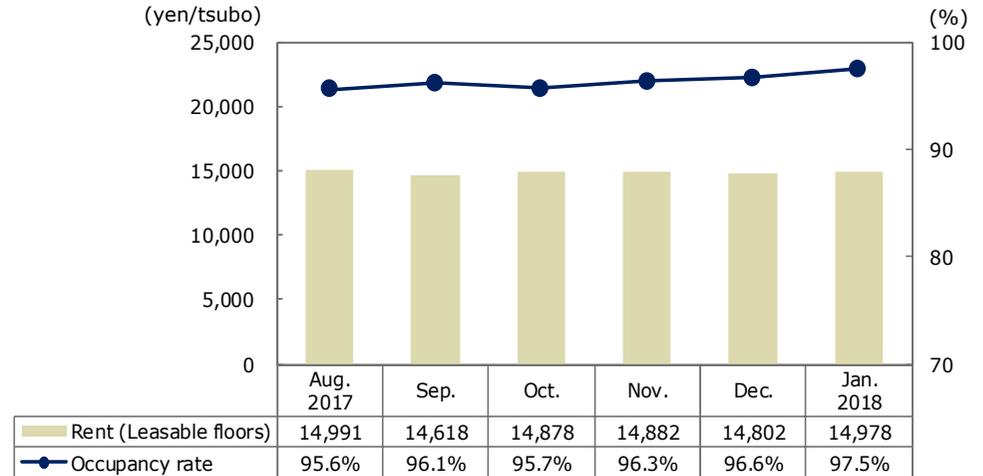
(Note) Figures reflect the acquisition as of March 1, 2018.

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

## Office: Rent and occupancy rate



## Residential: Rent and occupancy rate



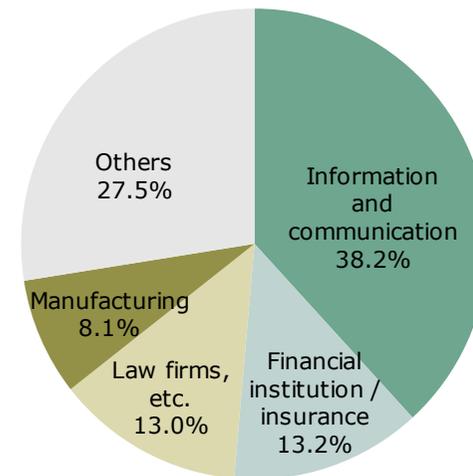
## Top 5 tenants

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	99,345.92 m <sup>2</sup>	63.1%
Syowa Leasing Co., Ltd.	Koraku Mori Building	2,683.90 m <sup>2</sup>	1.7%
Mori Building Ryutsu System Co., Ltd.	Laforet Harajuku (Land)	2,565.06 m <sup>2</sup>	1.6%
ITOCHU Techno-Solutions Corporation	Koraku Mori Building	2,116.88 m <sup>2</sup>	1.3%
Japan Worker's Credit Fund Association	Koraku Mori Building	1,971.36 m <sup>2</sup>	1.3%
Total of top 5 tenants		108,683.12 m <sup>2</sup>	69.0%

(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, 2018.

## Tenant Contribution by Industry Type-Office



(Note 1) As for fixed rent master lease, ratios are based on monthly rents of tenants who are actually using the floor areas as of January 31, 2018.

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

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

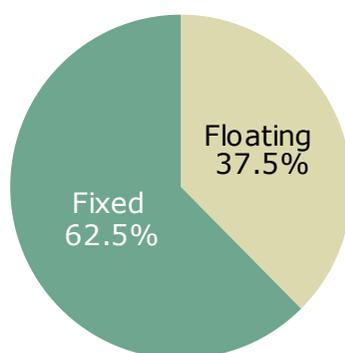
# 3-8 Financial overview (As of January 31, 2018)

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

<Long and short-term debt ratio>



<Fixed rate ratio>



## Major financial indicator

	End of 22nd period Jul. 31, 2017	End of 23rd period Jan. 31, 2018
Debt balance	156,022 mn yen	161,222 mn yen
Long-term loan	126,022 mn yen	133,222 mn yen
Investment corporation bonds	30,000 mn yen	28,000 mn yen
LTV (Book value basis) (Note 1)	44.7%	45.4%
LTV (Appraisal value basis) (Note 2)	42.1%	42.3%
DSCR (Note 3)	15.1x	14.5x
Avg. remaining duration	3.8 years	3.7 years
Weighted avg. interest rate	0.53%	0.52%

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

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

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

## Outstanding balances

Lenders	Balance	Ratio
Mizuho Bank, Ltd.	20,298 mn yen	15.2%
Sumitomo Mitsui Banking Corporation	19,675 mn yen	14.8%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,198 mn yen	14.4%
Mitsubishi UFJ Trust and Banking Corporation	19,198 mn yen	14.4%
Sumitomo Mitsui Trust Bank, Limited	17,423 mn yen	13.1%
The Norinchukin Bank	6,200 mn yen	4.7%
The Bank of Fukuoka	6,000 mn yen	4.5%
Development Bank of Japan Inc.	5,950 mn yen	4.5%
Resona Bank, Limited.	5,130 mn yen	3.9%
Aozora Bank, Ltd.	4,250 mn yen	3.2%
Shinsei Bank, Limited	3,400 mn yen	2.6%
Mizuho Trust & Banking Co., Ltd.	2,500 mn yen	1.9%
The Hiroshima Bank, Ltd.	1,000 mn yen	0.8%
Oita Bank Co. Ltd.	1,000 mn yen	0.8%
Shinkin Central Bank	1,000 mn yen	0.8%
The Nishi-Nippon City Bank, Ltd.	1,000 mn yen	0.8%
<b>Total borrowings</b>	<b>133,222 mn yen</b>	<b>100%</b>
Investment corporation bonds	28,000 mn yen	
<b>Total interest-bearing debt</b>	<b>161,222 mn yen</b>	

# 3-9 Debt status (As of January 31, 2018)

## Debt

Lender	Balance (mm yen)	Rate of interest	Borrowing date	Maturity date
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan, Inc., Aozora Bank, Ltd. Mizuho Trust & Banking Co., Ltd.	10,000	0.84% (Note)	2013/3/29	2018/3/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Aozora Bank, Ltd. Development Bank of Japan Inc., The Norinchukin Bank The Bank of Fukuoka, Resona Bank, Limited., Shinsei Bank, Limited, Mizuho Trust & Banking Co., Ltd.	10,500	0.78% (Note)	2013/9/30	2018/9/30
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation	1,000	0.36%	2013/11/29	2019/5/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan Inc., The Norinchukin Bank, The Bank of Fukuoka, Shinsei Bank, Limited	11,400	0.41%	2013/11/29	2019/11/30
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation The Norinchukin Bank, The Bank of Fukuoka	11,000	0.31%	2014/5/30	2019/5/31
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation	2,022	0.36%	2014/5/30	2020/5/31
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Resona Bank, Limited.	5,000	0.38% (Note)	2014/8/1	2020/5/31
Aozora Bank, Ltd.	2,000	0.31%	2014/8/29	2019/8/31
Resona Bank, Limited.	2,500	0.31%	2014/8/29	2019/8/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,000	0.62% (Note)	2014/11/28	2020/11/30
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.75% (Note)	2014/11/28	2021/11/30
Development Bank of Japan Inc.	1,700	0.80%	2015/3/27	2023/3/27
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.57% (Note)	2015/5/29	2021/5/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	6,500	0.70% (Note)	2015/5/29	2022/5/31
Mizuho Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Banking Corporation	6,000	0.49% (Note)	2015/8/31	2021/8/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	2,500	0.65% (Note)	2015/9/16	2023/8/31

Lender	Balance (mm yen)	Rate of interest	Borrowing date	Maturity date
Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,200	0.50% (Note)	2015/11/30	2022/11/30
Mizuho Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited, Shinsei Bank, Limited	6,300	0.62% (Note)	2015/11/30	2023/11/30
Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Norinchukin Bank, Resona Bank, Limited. Shinsei Bank, Limited, The Hiroshima Bank, Ltd. Mizuho Trust & Banking Co., Ltd.	7,500	0.26%	2016/3/31	2023/3/31
Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited Development Bank of Japan, Inc.	7,100	0.31%	2016/3/31	2024/3/31
Mizuho Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation Sumitomo Mitsui Trust Bank, Limited	7,200	0.31%	2016/3/31	2025/3/31
Shinkin Central Bank	1,000	0.18%	2016/3/31	2022/9/30
The Norinchukin Bank	500	0.21%	2017/8/1	2024/7/31
Sumitomo Mitsui Banking Corporation	1,100	0.26%	2017/8/1	2025/7/31
Sumitomo Mitsui Trust Bank, Limited	1,000	0.26%	2017/8/1	2026/7/31
The Bank of Fukuoka	500	0.26%	2017/8/1	2026/7/31
Resona Bank, Limited.	500	0.31%	2017/8/1	2027/7/31
Sumitomo Mitsui Trust Bank, Limited	2,000	0.31%	2017/8/1	2028/7/31
Mizuho Bank, Ltd.	1,100	0.36%	2017/8/1	2029/7/31
Mizuho Trust & Banking Co., Ltd.	500	0.36%	2017/8/1	2029/7/31
Oita Bank Co. Ltd.	1,000	0.23%	2017/11/30	2022/11/30
The Norinchukin Bank	600	0.31%	2017/11/30	2024/11/30
The Nishi-Nippon City Bank, Ltd.	1,000	0.31%	2017/11/30	2024/11/30
<b>Total</b>	<b>133,222</b>			

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

## Investment corporation bonds

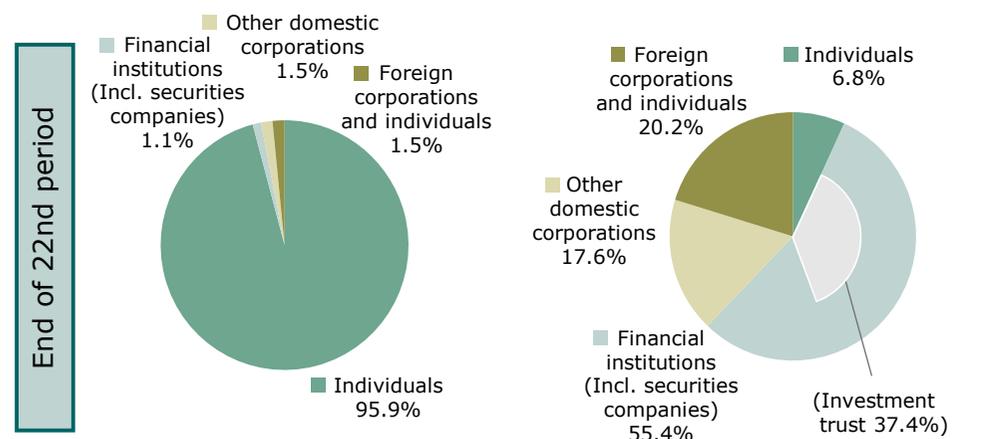
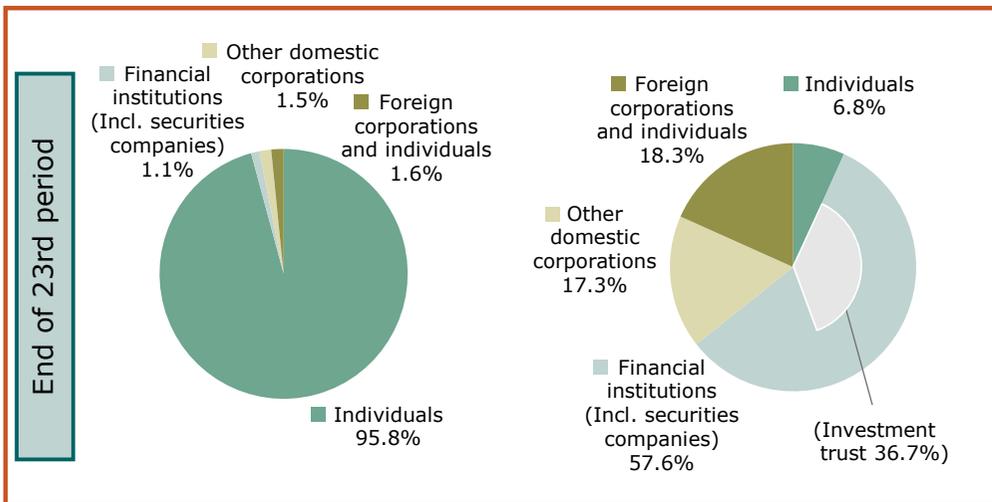
Bond	Amount (mm yen)	Rate of Interest	Payment date	Maturity date
8th Series Unsecured Corporation Bond (5 years)	3,000	0.85%	2013/5/24	2018/5/24
9th Series Unsecured Corporation Bond (7 years)	2,000	1.26%	2013/5/24	2020/5/22
10th Series Unsecured Corporation Bond (5 years)	3,000	0.41%	2014/2/24	2019/2/22
11th Series Unsecured Corporation Bond (7 years)	2,000	0.69%	2014/2/24	2021/2/24
12th Series Unsecured Corporation Bond (10 years)	2,000	0.87%	2014/11/27	2024/11/27
13th Series Unsecured Corporation Bond (5 years)	3,000	0.32%	2015/5/26	2020/5/26
14th Series Unsecured Corporation Bond (10 years)	2,000	0.82%	2015/5/26	2025/5/26
15th Series Unsecured Corporation Bond (5 years)	3,500	0.38%	2015/11/26	2020/11/26
16th Series Unsecured Corporation Bond (10 years)	1,500	0.89%	2015/11/26	2025/11/26
17th Series Unsecured Corporation Bond (10 years)	2,000	0.34%	2016/8/30	2026/8/28
18th Series Unsecured Corporation Bond (10 years)	2,000	0.49%	2017/1/31	2027/1/29
19th Series Unsecured Corporation Bond (10 years)	2,000	0.50%	2017/6/30	2027/6/30
<b>Total</b>	<b>28,000</b>			

# 3-10 Unitholders breakdown (As of January 31, 2018)

## Unitholders breakdown

<Number of unitholders>

<Number of investment units>

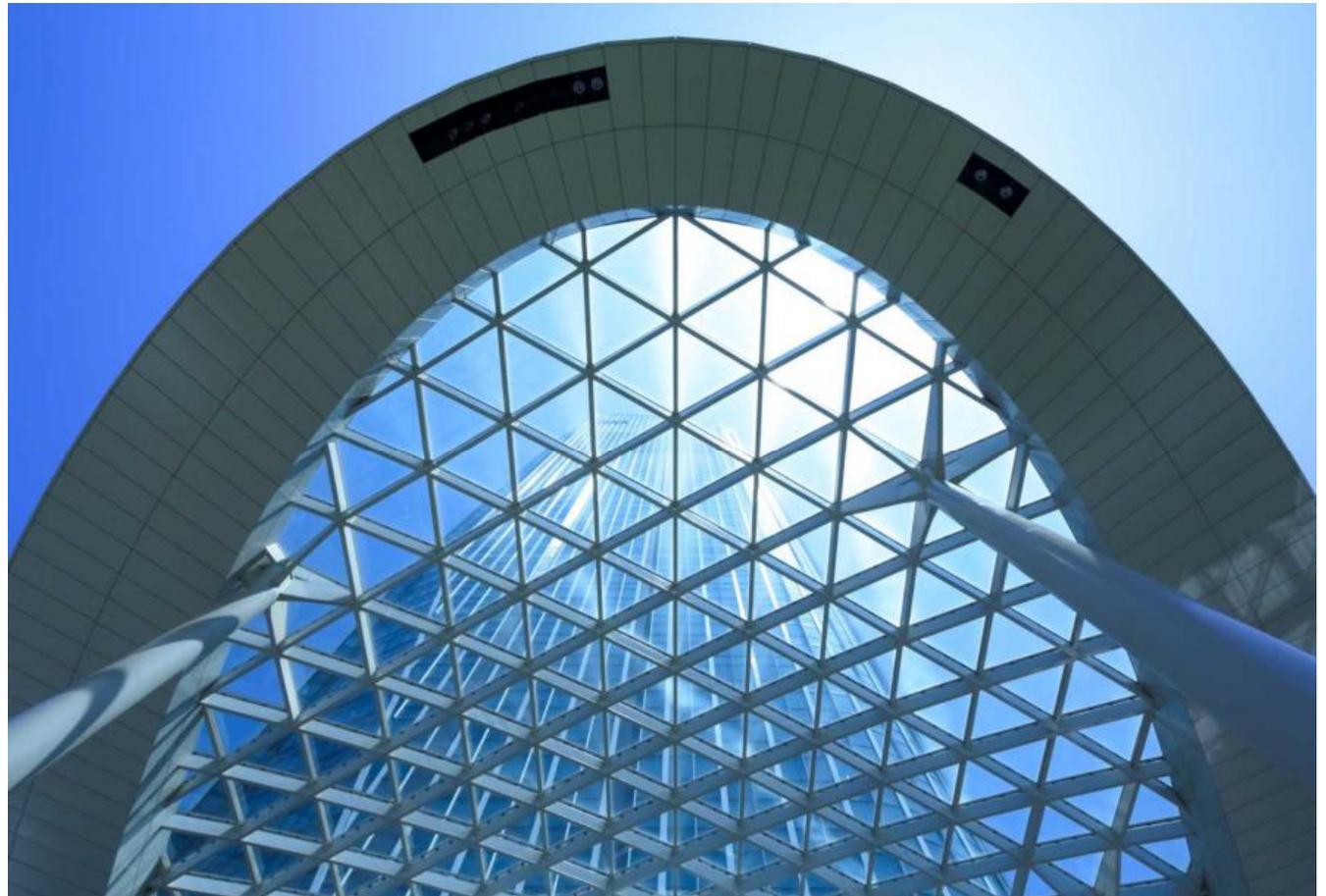


## Top 10 unitholders

Rank	Name	Number of units held	Ratio
1	Japan Trustee Services Bank, Ltd. (Trust account)	377,591	21.6%
2	Mori Building Co., Ltd.	262,772	15.0%
3	The Master Trust Bank of Japan, Ltd. (Trust account)	223,923	12.8%
4	The Nomura Trust & Banking Co., Ltd. (Investment trust account)	76,300	4.4%
5	Trust & Custody Services Bank, Ltd. (Securities investment trust account)	72,502	4.1%
6	STATE STREET BANK AND TRUST COMPANY 505012	27,609	1.6%
7	THE BANK OF NEW YORK 133970	27,415	1.6%
8	STATE STREET BANK-WEST PENSION FUND CLIENTS-EXEMPT 505233	26,134	1.5%
9	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	24,111	1.4%
10	JP MORGAN CHASE BANK 385632	20,086	1.1%
Total of top 10 unitholders		1,138,443	65.0%

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

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## Real estate market / Lending attitude

- Low vacancy rates and gradual increase of rents of office buildings in central Tokyo is ongoing.  
(Forecast of Office Market Trends Research Committee for Tokyo's five central wards)
  - ⇒ Vacancy rate (forecast): 3.3% in 2017 → 4.4% in 2018
  - ⇒ Rent index (forecast): 118 in 2017 → 120 in 2018
- Although cap rates remain at historically low levels, the rate of decrease seems more moderate.  
(Japan Real Estate Institute's "The Japanese Real Estate Investor Survey")
  - ⇒ Class A buildings in Marunouchi  
Cap rate: 3.2% in April 2017 → 3.2% in October 2017
- Lending attitude toward the real estate industry continues to be highly positive.

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

## Interest rate trends / Macro environment

- Long-term interest rates remain low due to the monetary easing policy and the core CPI rate of increase is at a low level.
  - ⇒ 10-year bond rates: 0.045% (February 28, 2018)
  - ⇒ Core CPI: +0.9% (January 2018)
- In the January 2018 preliminary business conditions composite index, the leading index was at 104.8 (1.8 PT decrease from previous month) and the coincident index was at 114.0 (5.7 PT decrease from previous month). The trend over the past year has been positive, but the January figures are down.
- The growth of money stock is limited.  
The issue of wage increases can be seen from the consumer confidence survey and the monthly labor survey. Future trends will be scrutinized.

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

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

## 4-2 MHR's policy/strategy

### External growth policy

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

### Internal growth policy

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

### Financial management policy

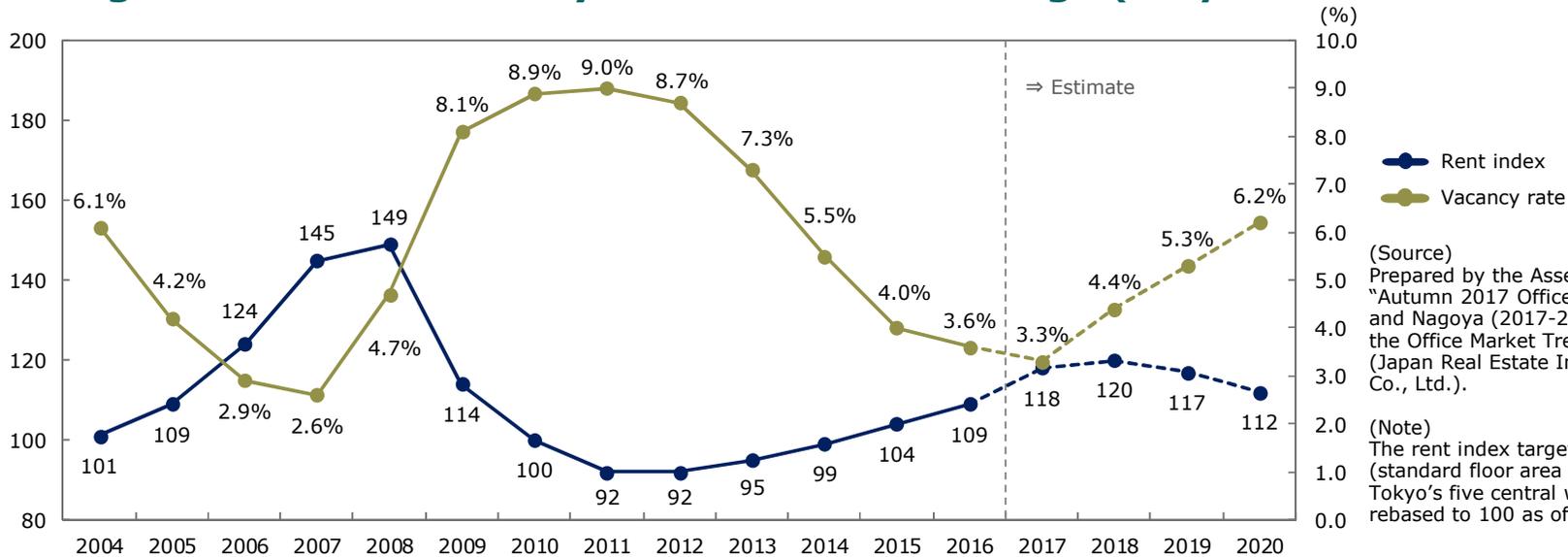
- Target LTV (book value basis) in the mid 40% range (though it may temporarily exceed the target level as necessary) in order to secure property acquisition capacity while maintaining a durable position for times of economic slowdown.
- Target average remaining duration of debt of 4 years or longer,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

### Policy regarding the entire investment corporation

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

# 4-3 Market-related information (1)

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

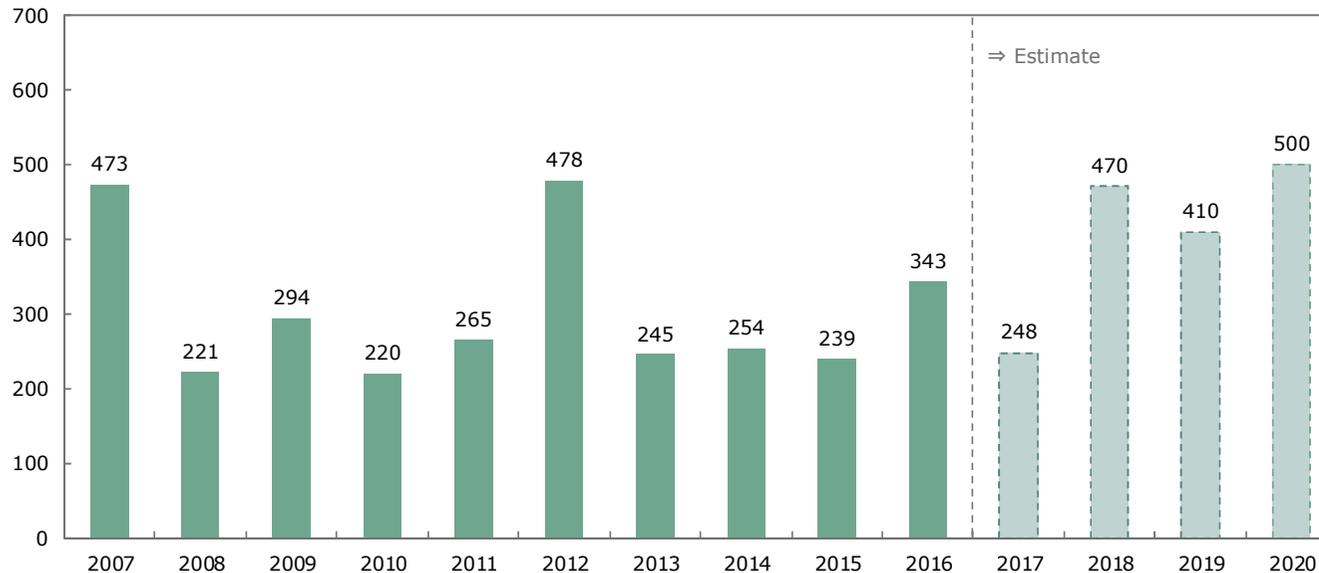


(Source)  
 Prepared by the Asset Manager based on the "Autumn 2017 Office Rent Forecast in Tokyo, Osaka and Nagoya (2017-2020, 2025)" by the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.).

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

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

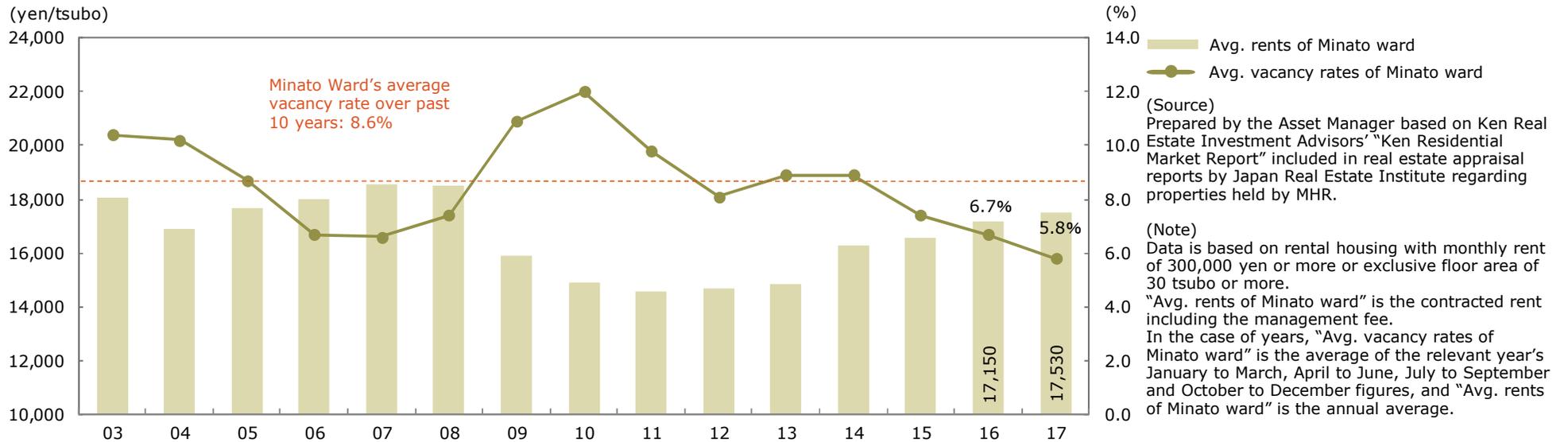
(thousand/tsubo)



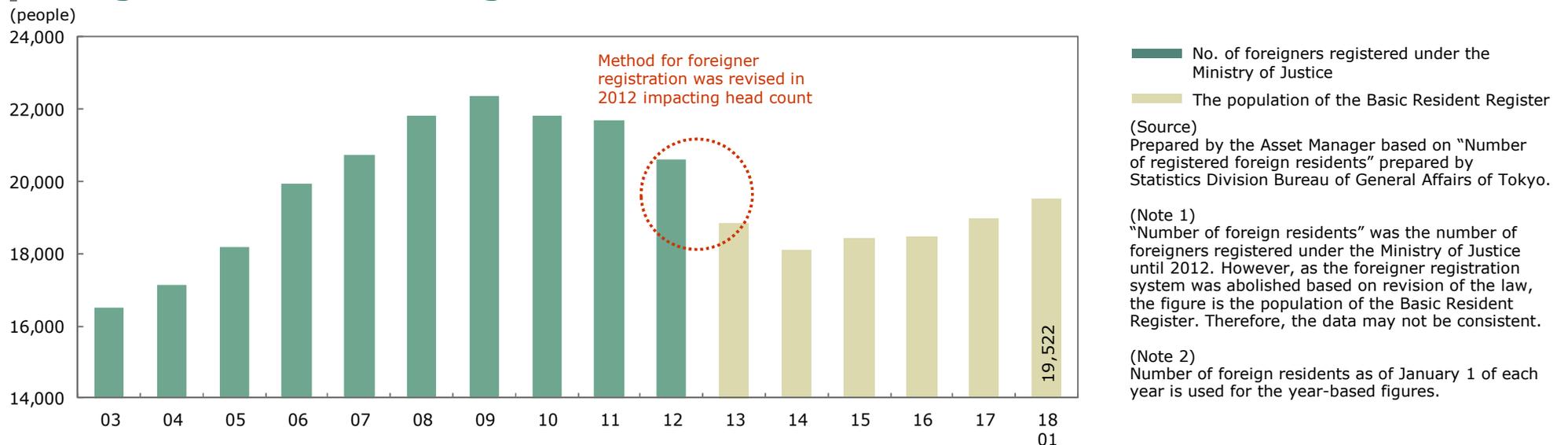
(Source)  
 Prepared by the Asset Manager based on the "Autumn 2017 Office Rent Forecast in Tokyo, Osaka and Nagoya (2017-2020, 2025)" by the Office Market Trends Research Committee (Japan Real Estate Institute and Miki Shoji Co., Ltd.).

# 4-4 Market-related information (2)

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

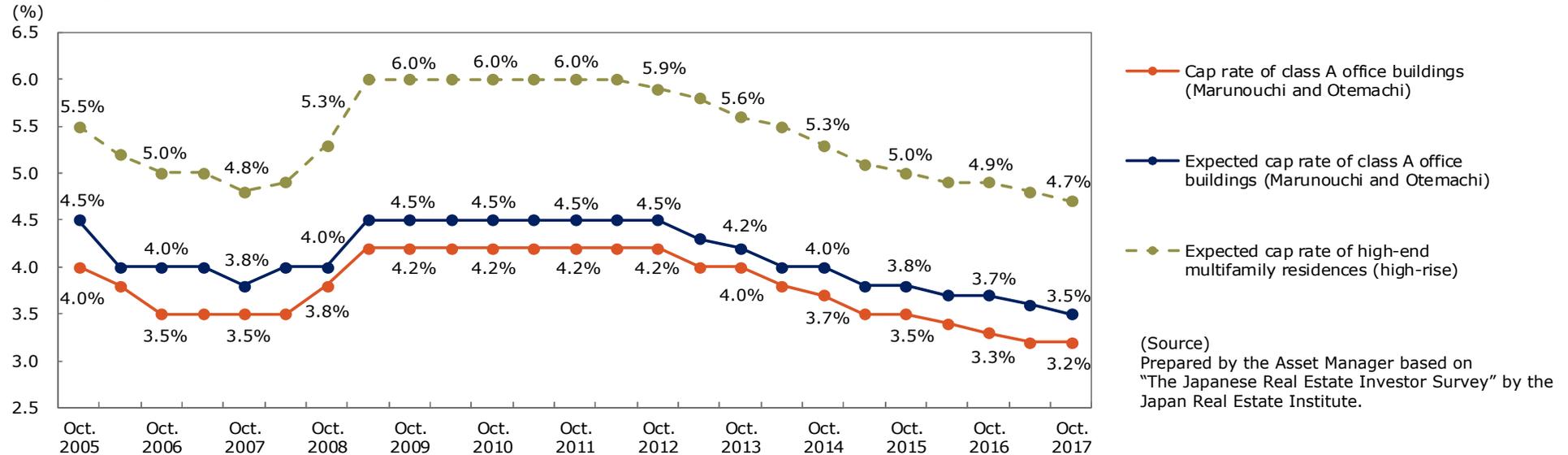


## Change in number of foreign residents in Minato ward

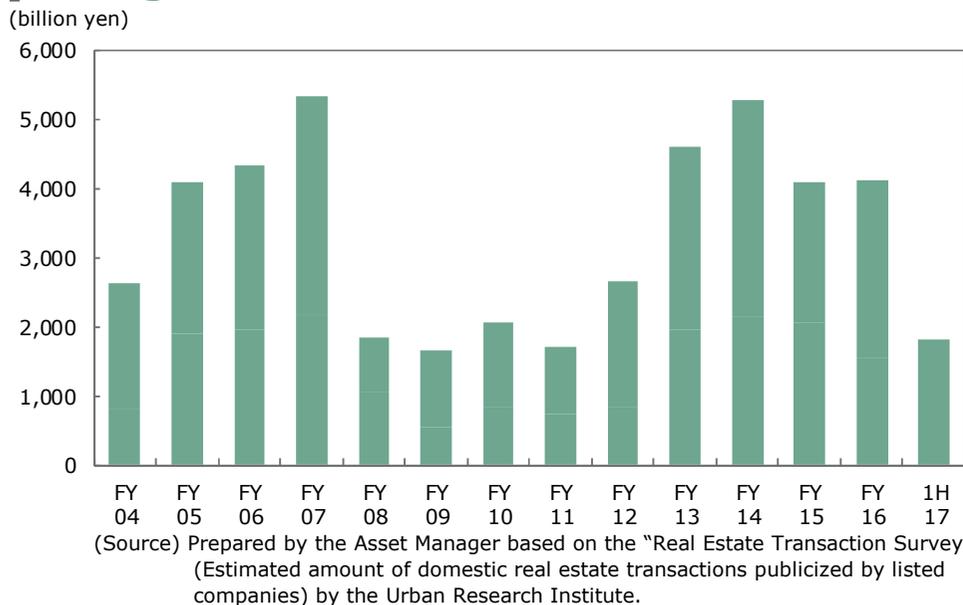


# 4-5 Market-related information (3)

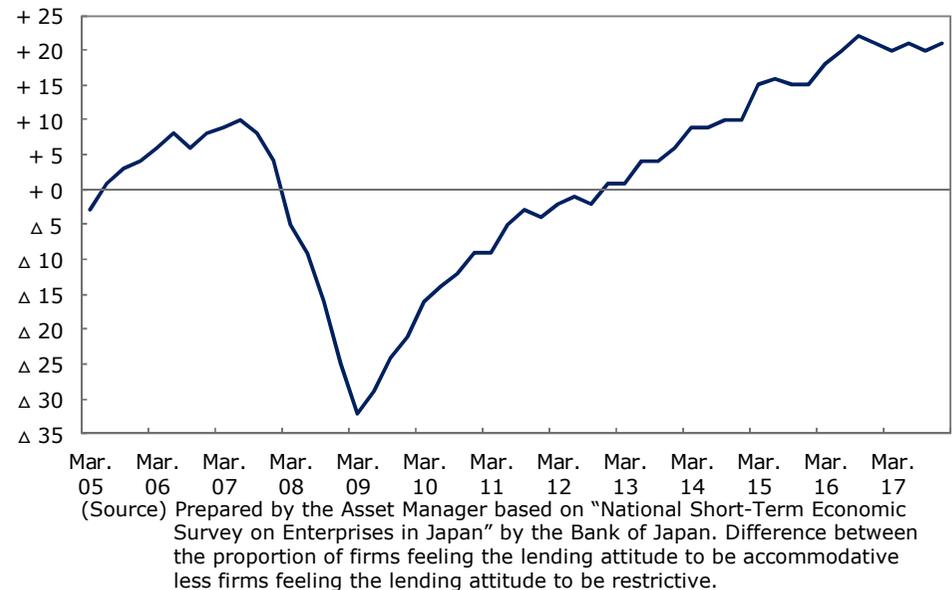
## Change in return on real estate investment



## Change in real estate transaction amount

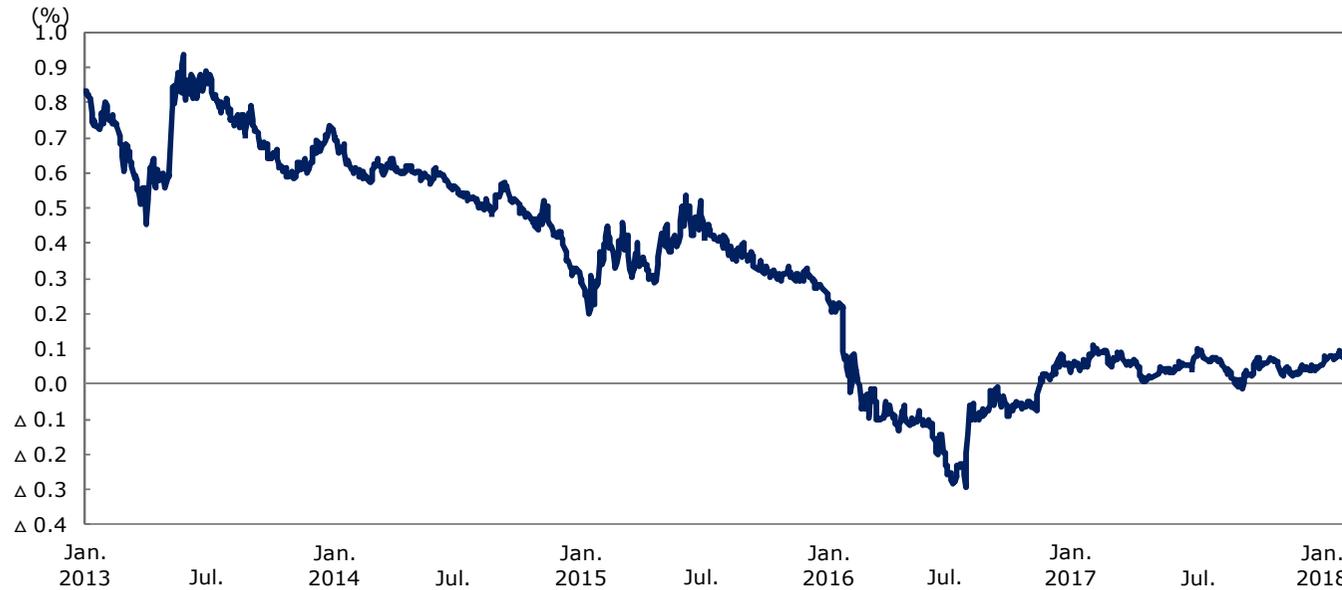


## Lending attitude DI (real estate industry)



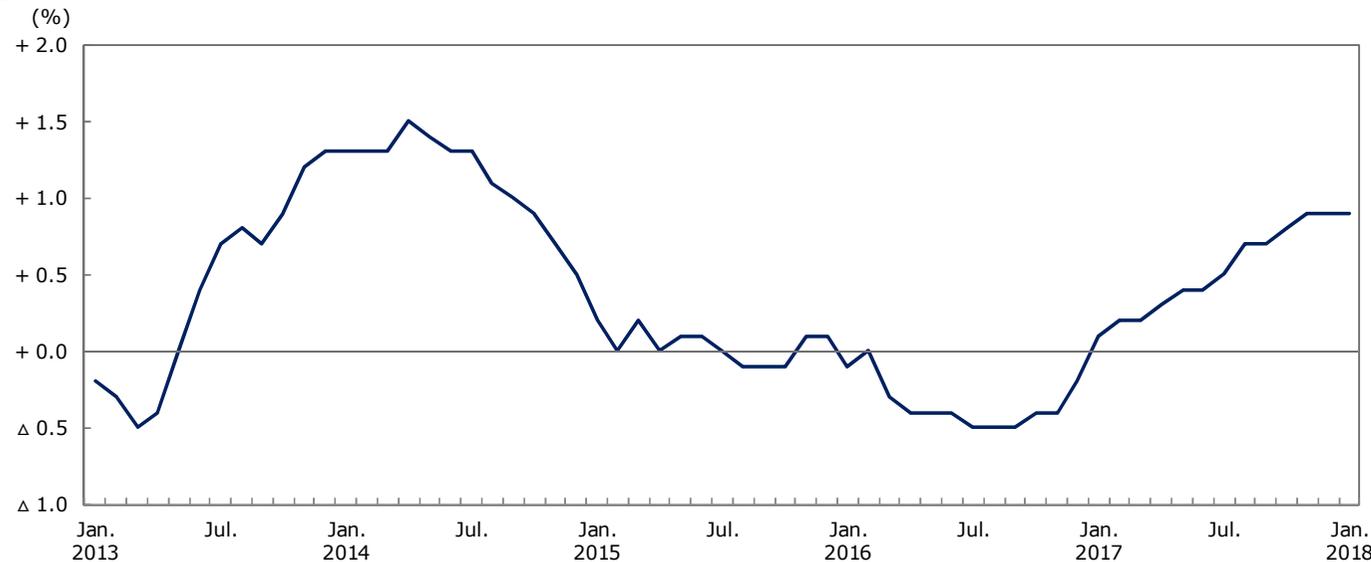
# 4-6 Market-related information (4)

## Change in 10-year bond interest rates



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

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



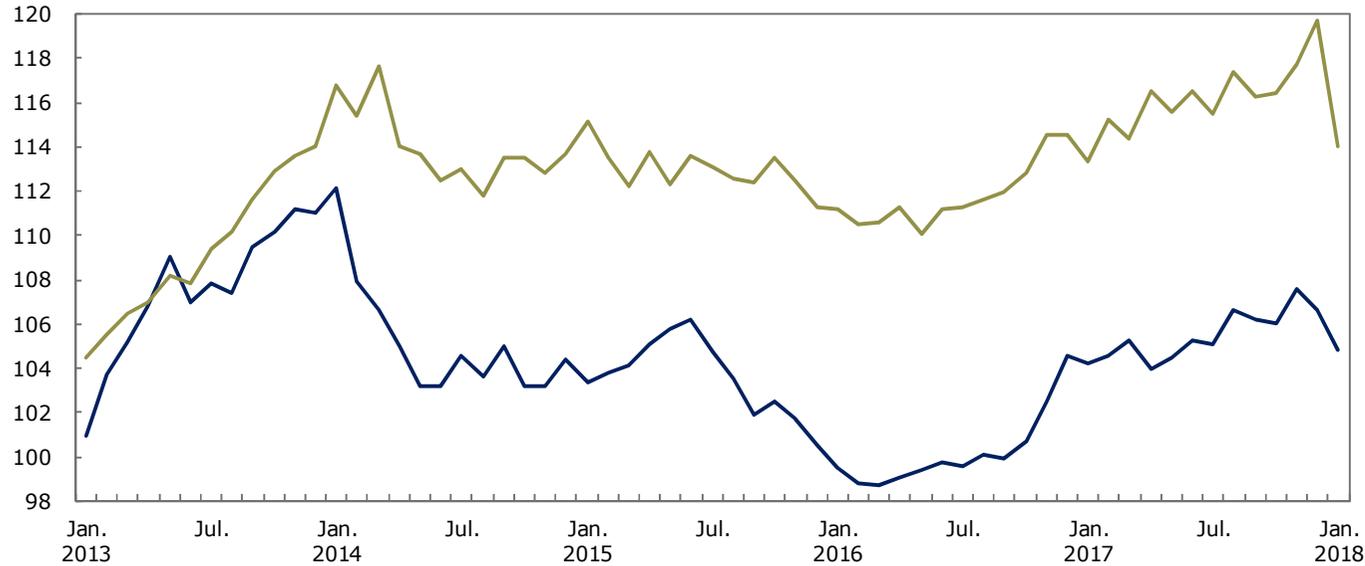
Based on figures excluding the direct effects of the consumption tax rate increase

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

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

# 4-7 Market-related information (5)

## Business conditions composite index



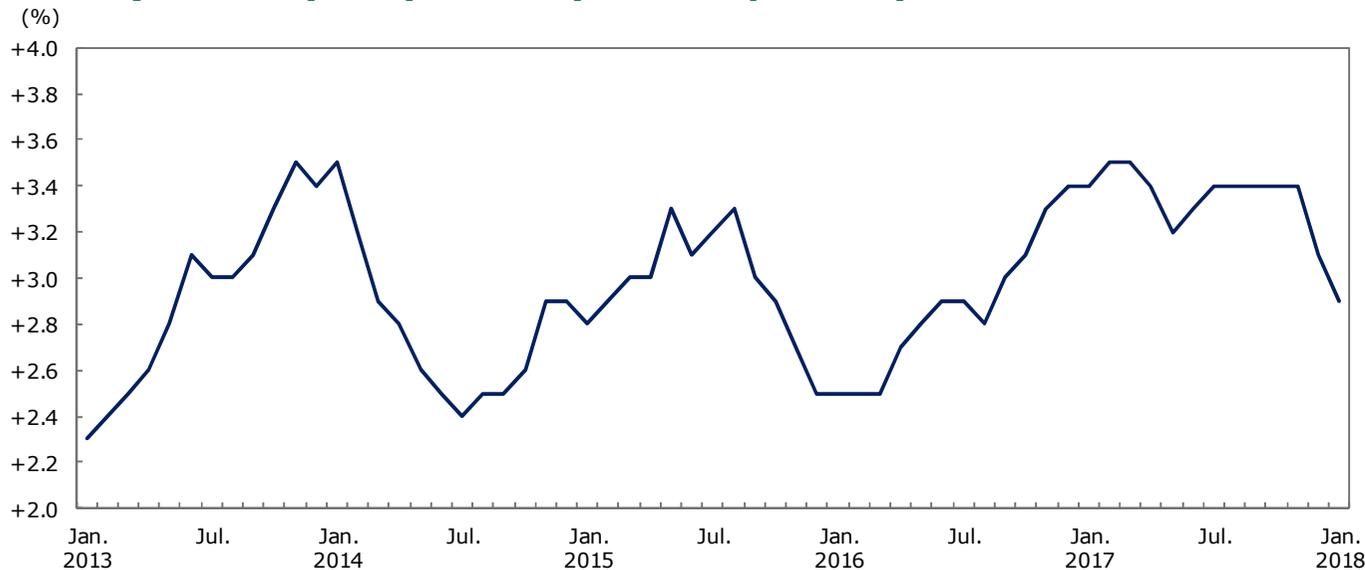
January 2018 figures are based on preliminary data

- Leading index
- Coincident index

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

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

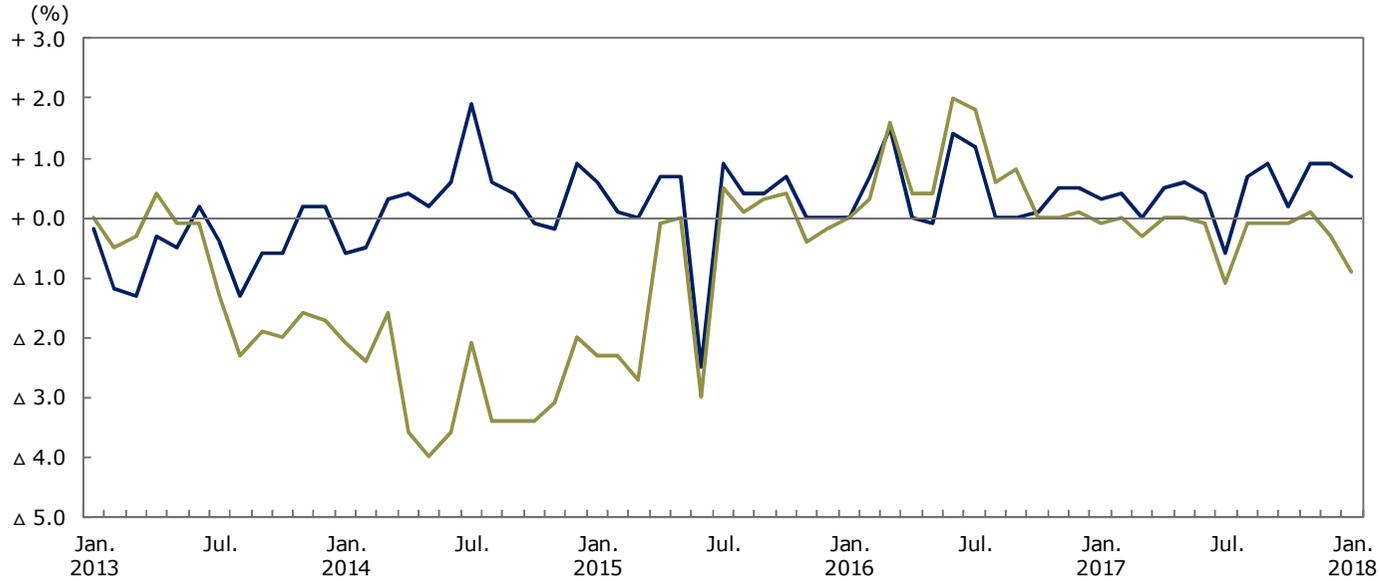
## Money stock (M3: year-on-year comparison)



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

# 4-8 Market-related information (6)

## Total cash earnings

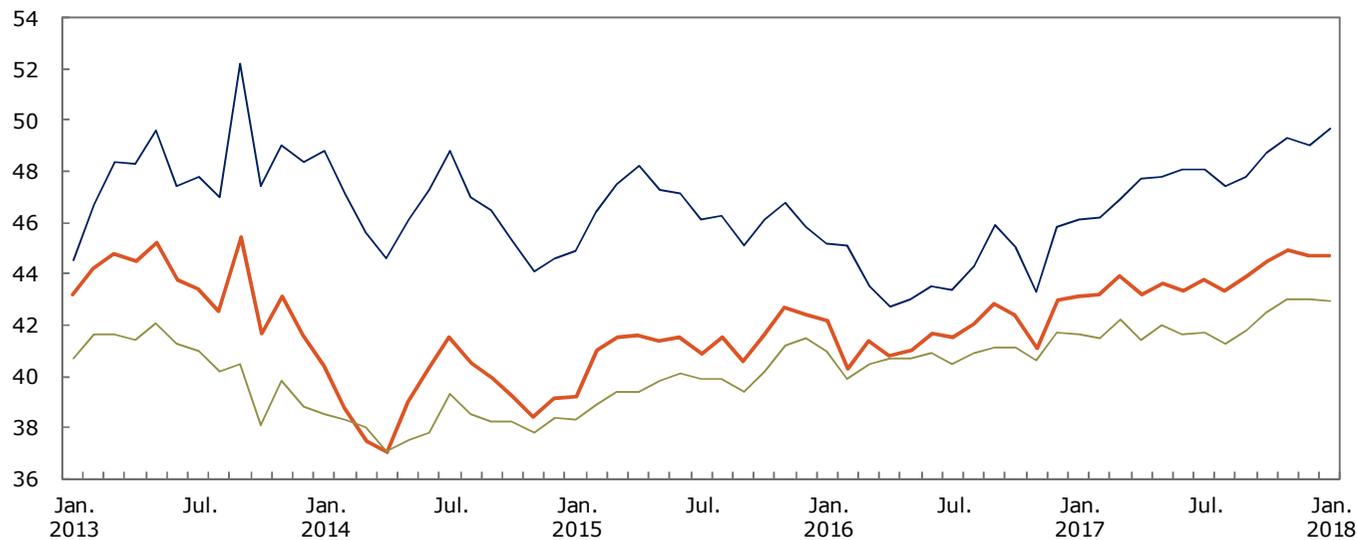


January 2018 figures are based on preliminary data

- 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.