

For Translation Purposes Only

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MHR Announces Partial Transfer of Trust Beneficiary Interest in Domestic Real Estate
(Laforet Harajuku (Land): Partial Transfer)

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

1. Overview of Transfer

Property name	Laforet Harajuku (Land)	
Asset to be transferred	Trust beneficiary interest (Note 1) (7% quasi co-ownership interest)	Trust beneficiary interest (Note 1) (7% quasi co-ownership interest)
Book value	1,545 million yen (Note 2)	1,545 million yen (Note 2)
Transfer price	2,898 million yen (Note 3)	2,898 million yen (Note 3)
Gain (loss) on transfer	1,347 million yen (Note 4)	1,345 million yen (Note 4)
Sales agreement date	March 17, 2022	
Anticipated transfer date	July 1, 2022	December 1, 2022
Buyer	Mori Building Co., Ltd.	

(Note 1) MHR plans to transfer trust beneficiary interest in ownership of land (land of Laforet Harajuku; hereinafter the “Property”) to which fixed-term business-use leasehold rights are attached for the purpose of owning retail and other facilities. However, MHR will continue to hold the remaining 86% of the quasi co-ownership interest in the trust beneficiary interest.

(Note 2) Book value indicates the estimate of the book value of the property as of the anticipated transfer date based on the book value as of January 31, 2022. The same shall apply hereinafter.

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

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

(Note 5) In conjunction with the transfer of the quasi co-ownership interest in the trust beneficiary interest related to the Property, MHR plans to conclude an agreement with the buyer and trustee and plans to agree that written approval from the buyer is necessary if MHR would like to transfer the quasi co-ownership interest it holds.

2. Reason for the Transfer

The Property is land with fixed-term business-use leasehold rights and when the agreement related to the establishment of the leasehold rights terminates in September 2030, as a general rule, the agreement will not be renewed. Because the agreement stipulates that the building is to be removed and the land returned, MHR must conduct a transfer or take other measures in the future. In addition, considering the share of the entire portfolio represented by the Property, there will be a relatively large decrease in rent income after the transfer, and the harm that this will cause to stable dividends is an issue.

MHR conducted a comprehensive review of trends in the economic environment and real estate market conditions, the impact of the transfer on the portfolio, etc. while taking into account the current asset management status. As a result, MHR has determined that maintaining and increasing the rent income of the entire portfolio, by splitting and transferring a small portion of the Property while using the special tax treatment for property replacement of specified assets and returning a portion of the gain from the transfer as dividends while retaining a portion as internal reserves to utilize for acquiring new properties, will contribute to improving the interests of unitholders.

The sponsor Mori Building Co., Ltd., which will be the buyer, is able to acquire the split portion of the ownership interest while becoming a property pipeline for new acquisitions, which is the policy that will be implemented concurrently with the transfer. In addition, Mori Building has an excellent track record in many development projects in Japan and overseas, including Laforet Harajuku, which is the building on the Property. As a future option, MHR may also transfer all of its ownership interest and participate with a minority interest in future redevelopment led by Mori Building.

3. Details of the Asset to be Transferred

Details of the asset to be transferred		
Property name	Laforet Harajuku (Land)	
Type of specified asset	Trust beneficiary interest ((1): 7% quasi co-ownership interest (transfer on July 1, 2022) and (2): 7% quasi co-ownership interest (transfer on December 1, 2022))	
Trustee	Sumitomo Mitsui Trust Bank, Limited	
Trust establishment period	From July 1, 2022 to July 31, 2042 (anticipated)	
Location (Residential indication)	1-11-6 Jingumae, Shibuya-ku, Tokyo	
Area (Note 1)	2,565.06 m ²	
Form of ownership	Ownership	
Book value	(1): 1,545 million yen (2): 1,545 million yen	
Transfer price	(1): 2,898 million yen (2): 2,898 million yen	
Gain (loss) on transfer	(1): 1,347 million yen (2): 1,345 million yen	
Appraisal	Appraiser	Japan Real Estate Institute
	Appraisal value (Note 2)	5,796 million yen (Appraisal date: January 31, 2022)
Anticipated Transfer date	(1): July 1, 2022 (2): December 1, 2022	
Content of lease (As of March 17, 2022)		
Lessee	Mori Bldg. Ryutsu System Co., Ltd.	
Type of agreement	Fixed-term business-use land lease agreement	
Term of agreement	From September 15, 2010 to September 14, 2030 (20 years)	

Gross rent income (annual rent) (Note 3)	186,984,000 yen
Deposits/Guarantees	None
Total leasable floor area (Note 4)	359.11 m ²
Total leased floor area (Note 5)	359.11 m ²
Other special consideration	None

(Note 1) Area is the area of the entire site as indicated in the real estate registry.

(Note 2) The appraisal value represents the figure for the 14% quasi co-ownership interest in the trust beneficiary interest.

(Note 3) The gross rent income (annual rent) represents the figure obtained by multiplying the monthly rent indicated in the rent review memorandum related to the agreement for establishing the fixed-term business-use leasehold rights by the 14% quasi co-ownership interest in the trust beneficiary interest, rounding down the amount below the unit and multiplying that amount by 12.

(Note 4) The total leasable floor area represents the figure obtained by multiplying the floor area deemed leasable to the lessee by the 14% quasi co-ownership interest in the trust beneficiary interest, rounded to the second decimal place.

(Note 5) The total leased floor area represents the figure obtained by multiplying the floor area leased to the lessee by the 14% quasi co-ownership interest in the trust beneficiary interest, rounded to the second decimal place.

4. Items Concerning Forward Commitments, etc.

The purchase agreements concerning the Transfer are forward commitments, etc. (i.e. a postdated purchase agreements where the execution is scheduled over one month ahead of the payment and delivery of the property, and other similar agreements), as provided in “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.” Under the purchase agreements, when the purpose of the purchase agreements cannot be fulfilled due to a breach of the purchase agreements by a party, the non-breaching party may cancel the purchase agreements related to each quasi co-ownership interest in the trust beneficiary interest upon notice if each delivery has not been executed.

However, because MHR is the seller under the purchase agreements and there are no concerns about financing risks, etc. related to execution of the purchase agreements, the likelihood of MHR’s financial conditions being significantly impacted is low.

5. Profile of Buyer

Name	Mori Building Co., Ltd.
Location	6-10-1 Roppongi, Minato-ku, Tokyo
Representative	President and CEO, Shingo Tsuji
Scope of business	General developer
Capital	79,500 million yen (as of September 30, 2021)
Established	June 2, 1959
Major shareholder	Morikiyo Co., Ltd. etc. (as of September 30, 2021)
Net assets	429,906 million yen (as of September 30, 2021)
Total assets	1,870,438 million yen (as of September 30, 2021)
Relationship with MHR or Asset Manager (as of March 17, 2022)	
Capital relationship	Mori Building is a major unitholder (15.0% stake) of MHR. Mori Building is also the wholly owning parent company (100% stake) of the Asset Manager, and thus constitutes a related party, etc. as defined in the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, includes subsequent revision) (hereinafter the “Investment Trust Act”).

Personnel relationship	One director and one auditor of the Asset Manager are sent from this company.
Business relationship	Mori Building has executed a support agreement and information provision agreement with MHR and the Asset Manager and an advisory business consignment agreement with the Asset Manager, and provides support, etc. in connection with property acquisitions, etc. In addition, Mori Building has executed a brand license agreement with MHR and grants the license to use the brand name “Mori Hills REIT” and the “m” mark. Furthermore, as for assets MHR owns in the form of trust beneficiary interest, Mori Building has executed a building lease agreement (so-called master lease agreement) with a trustee, and leases the entire property as a master lessee. The company also executed a property management agreement and conducts property management of the property.
Application of status as a related party	Mori Building falls under the category of other related party of MHR. In addition, it is a parent company of the Asset Manager.

6. Profile of Broker

Not applicable.

7. Transaction with Related Parties, etc.

A transaction with a related party, etc. will occur with the Transfer.

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

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

Lump sum payment upon delivery

Regarding the proceeds from the transfer, MHR plans to allocate a portion for dividends and retain a portion as internal reserves.

9. Date of Transfer

Asset to be transferred	Trust beneficiary interest ((1): 7% quasi co-ownership interest)	Trust beneficiary interest ((2): 7% quasi co-ownership interest)
Date of decision of transfer	March 17, 2022	
Date of execution of transfer agreement	March 17, 2022	
Payment receipt date	July 1, 2022 (anticipated)	December 1, 2022 (anticipated)
Delivery date	July 1, 2022 (anticipated)	December 1, 2022 (anticipated)

10. Future Prospect

For the forecast of business results, please refer to the press release “Financial Report for the Thirty-First Fiscal Period ended January 31, 2022” separately announced today.

11. Summary of Appraisal Report

Property name	Laforet Harajuku (Land)
Appraisal value	5,796,000 thousand yen
Appraiser	Japan Real Estate Institute
Appraisal date	January 31, 2022

(thousand yen)

Items	Contents (Note)	Summaries, etc.
Price	5,796,000	Price based on the discounted cash flow method (hereinafter the “DCF method”) is used because the Property is land to which fixed-term business-use leasehold rights are attached and, as a general rule, the agreement will not be renewed when it terminates.
Price based on the DCF method	5,796,000	—
Operating profit	186,984	—
Possible total revenue	186,984	Recorded the rent income based on the current agreements.
Vacancies, etc. loss , etc.	0	Not recorded because the fixed-term business-use land lease agreement is a long-term agreement, and taking into consideration the prohibition on early terminations, creditworthiness of lessees, etc.
Operating costs	27,952	—
Maintenance costs	0	Not recorded because there are no maintenance costs.
Utilities	0	Not recorded because there are no costs for utilities.
Maintenance and repairs	0	Not recorded because there are no costs for maintenance and repairs.
PM fee	93	Recorded by taking into consideration such factors as the fee rate of similar real estate and the factors specific to the subject real estate.
Tenant recruitment costs, etc.	0	Not recorded because there are no tenant recruitment costs, etc.
Property taxes	27,858	Recorded by taking into consideration documents related to property taxes, contents of burden adjustment measures, etc.
Insurance premium	0	Not recorded because there are no insurance premiums.
Other expenses	0	There are no expenses otherwise to record.
Operating net income	159,031	—
Investment income of lump sum	0	Investment income is not recorded because there are no lump sums that have the characteristics of deposits.
Capital expenditures	0	Not recorded because there are no capital expenditures.
Net return	159,031	—

	Discount rate	3.8%	Appraised by taking the standard cap rate and adding/subtracting the spread attributable to the location conditions and other conditions, and taking into consideration such factors as the market cap rate based on disclosed J-REIT data and the market cap rate for similar real estate.
	Price based on the percentage method	5,964,000	—
	Land price	6,622,000	—
	Land percentage	90%	—
	Other matters considered in the appraisal by the appraiser	Price that faithfully reproduced the price formation process from an income perspective was determined to be more persuasive, and this price is used while referencing the price based on the percentage method.	

(Note) For the appraisal value related to the trust beneficiary interest in ownership of the land of Laforet Harajuku, the figure corresponding to the 14% quasi co-ownership interest rounded down below the unit, which MHR plans to transfer, is indicated. For the profit and cost items related to the price based on the DCF method, the figures represent the figures for the first year of the analysis period using the DCF method.

[Attachments]

Attachment : Portfolio List Post Asset Transfer

- MHR's website address is <https://www.mori-hills-reit.co.jp/en/>

[Attachment] Portfolio List Post Asset Transfer (Note 1)

Principal use	Geographic area	Property number	Property name	Acquisition date	Acquisition price (millions of yen)	Investment ratio (%) (Note 2)		
Office Buildings	Tokyo's central five wards and their vicinity	O-0	Roppongi Hills Mori Tower	March 23, 2010 August 1, 2011 October 1, 2013 August 1, 2014 September 16, 2015 February 1, 2016 April 1, 2016	115,380	28.3		
		O-1	ARK Mori Building	March 22, 2006 March 28, 2008 September 30, 2008 March 23, 2010 March 18, 2011 August 1, 2011 April 1, 2013	62,480	15.3		
		O-4	Koraku Mori Building	April 13, 2006	27,200	6.7		
		O-6	Akasaka Tameike Tower	September 30, 2008 March 18, 2011	43,930	10.8		
		O-7	Atago Green Hills	May 1, 2012 April 1, 2013	42,090	10.3		
		O-8	ARK Hills South Tower	August 1, 2014	19,150	4.7		
		O-9	Toranomon Hills Mori Tower	August 1, 2017 March 1, 2018 September 3, 2018 September 1, 2020 August 2, 2021	56,300	13.8		
		O-10	Holland Hills Mori Tower	August 1, 2017 March 1, 2018 September 3, 2018	16,330	4.0		
		Subtotal					382,860	93.9
		Residential Properties	Tokyo's central five wards and their vicinity	R-3	Roppongi First Plaza	April 13, 2006	2,100	0.5
R-4	Roppongi View Tower			March 22, 2006 April 13, 2006	4,000	1.0		
Subtotal					6,100	1.5		
Retail and Other Facilities	Tokyo's central five wards and their vicinity	S-1	Laforet Harajuku (Land)	September 15, 2010	18,765	4.6		
		Subtotal					18,765	4.6
Portfolio total					407,725	100.0		

(Note 1) The table represents the portfolio list after the asset transfers to be conducted on July 1, 2022 and December 1, 2022.

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