

Japan Real Estate Investment Corporation

Performance Review

for Fiscal Period Ended September 30, 2016

November 16, 2016

Message from President & CEO

I would like to express our sincere appreciation that JRE Investment Corporation successfully marked its 15th anniversary on September 2016 with your support. We look forward to your continued patronage.

Japan Real Estate Asset Management Co., Ltd.
Naoki Umeda, President & CEO



001	Summary
002	Financial Results for Sep. '16 Period
003	Performance Forecasts for Mar. and Sep. '17 Period
004	Internal Growth
005	External Growth
006	Appraisal Values
007	Financial Condition

Summary (Financial Results for Sep. '16 Period)

Dividend Per Unit

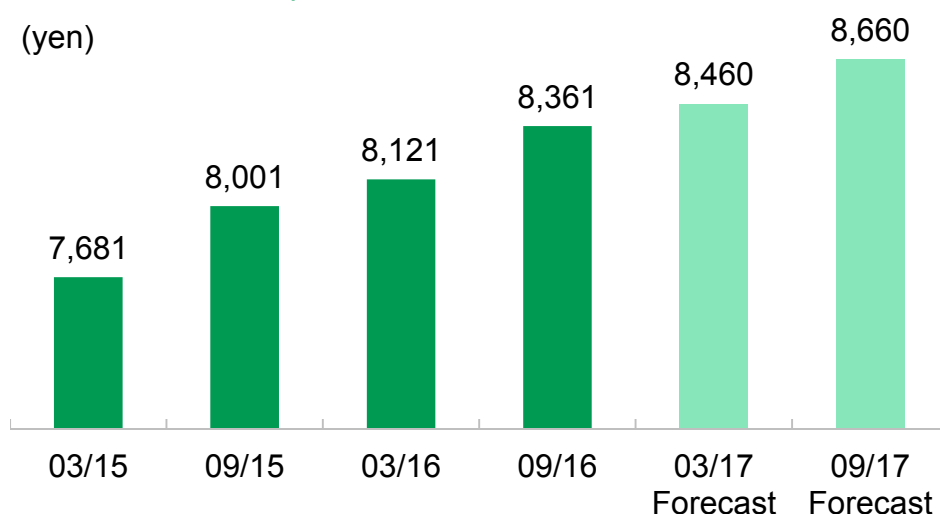
8,361 yen

(vs. Mar. '16 Period: **+240 yen +3.0%**)

(vs. forecast announced in May 2016:
+111 yen +1.3%)

〈Trend of dividend per unit〉

(yen)



Internal Growth

- Occupancy rate at the end of Sep. '16 Period **98.7%**
(vs. Mar. '16 Period: +0.4pt)
- Net increase in rent due to rent revision Monthly rent basis **+¥18 million**
(vs. Mar. '16 Period: +¥8 million)
- Net increase in rent due to tenant turnover Monthly rent basis **+¥24 million**
(vs. Mar. '16 Period: +¥19 million)

External Growth

- Additional acquisition of Nishiki Park Building **¥175 million**
- Acquisition policy **No Change**

Financial Strategy

- Interest-bearing debt at the end of Sep. '16 Period **¥356,350 million**
(vs. Mar. '16 Period: - ¥7,050 million)
- Average interest rate **0.75%**
(vs. Mar. '16 Period: ↓ 0.07 pt)

Summary (Performance Forecast for Mar. and Sep. '17 Period)

Forecast of dividend for Mar. '17 Period

8,460 yen

(vs. Mar. '16 Period: **+99 yen**)

(vs. forecast announced in May 2016:
+100 yen)

Forecast of dividend for Sep. '17 Period

8,660 yen

(vs. Mar. '17 Period: **+200 yen**)

Internal Growth

- Net change in monthly rent due to rent revision

Mar. '17 Period

▶ **Expect a positive growth for four consecutive periods**

External Growth

- Kanazawa Kamitsutsumicho Building

Acquisition on
October 3, 2016

▶ **Contribute to revenue from Mar. '17 Period**

Financial Strategy

- Continuing low interest rate

Interest payment

▶ **Gradually decreasing by refinance**

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Financial Results for Sep. '16 Period

vs. Mar. '16 Period Actual

(In millions of yen)

	Actual Mar. '16 Period	Changes	Actual Sep. '16 Period
Operating revenues	30,589	+ 184	30,773
(Property-related revenues among operating revenues)	30,428	+ 345	30,773
Operating income	12,352	+ 16	12,368
Ordinary income	10,816	+ 142	10,958
Profit	10,753	+ 194	10,947
Dividend per unit	8,121 yen	+ 240 yen	8,361 yen

■ Main factors affecting increase and decrease

- **Increase of revenue and income from the existing properties**
(Progress in leasing, rent revision, etc.)
 - ▶ Operating revenues + 552M
 - ▶ Operating income + 271M
- **Decrease due to reactionary fall of gain on sales of real estate properties, etc.**
 - ▶ Operating revenues and operating income - 161M
- **Decrease of revenue and income due to the sales of properties**
 - ▶ Operating revenues - 218M
 - ▶ Operating income - 81M
- **Decrease of interest payment**
 - ▶ Ordinary income + 105M

Financial Results for Sep. '16 Period

vs. Forecasts

(In millions of yen)

	Forecast announced in May 2016	Changes	Actual Sep. '16 Period
Operating revenues	30,560	+ 213	30,773
Operating income	12,280	+ 88	12,368
Ordinary income	10,810	+ 148	10,958
Profit	10,800	+ 147	10,947
Dividend per unit	8,250 yen	+ 111 yen	8,361 yen

■ Main factors affecting increase and decrease

- **Progress in leasing and upward rent revision that exceeded our assumption and increase of utilities revenues, etc.**
 - ▶ Operating revenues + 213M
- **Increase of property-related expenses due to increase of repairing expenses, etc.**
 - ▶ Operating income - 71M
- **Decrease of interest payment**
 - ▶ Ordinary income + 34M

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Performance Forecast for Mar. '17 Period

vs. Sep. '16 Period Actual

(In millions of yen)

	Actual Sep. '16 Period	Changes	Forecast Mar. '17 Period
Operating revenues	30,773	- 53	30,720
Operating income	12,368	+121	12,490
Ordinary income	10,958	+121	11,080
Profit	10,947	+122	11,070
Dividend per unit	8,361 yen	+ 99 yen	8,460 yen

■ Main factors affecting increase and decrease

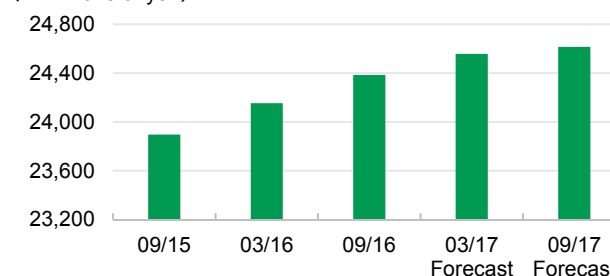
• Decrease in utilities revenues due to seasonal causes

- ▶ Operating revenues (existing properties) - 183M

※ Rent of the existing properties have increased

<Changes in rent for properties held constantly from the beginning of Sep. '15 Period>

(In millions of yen)



• Decrease of property-related expenses due to decrease of utilities expenses from seasonal causes, etc.

- ▶ Operating income (existing properties) + 231M

• Acquisition of Kanazawa Kamitsutsumicho Building

- ▶ Operating revenues + 120M
- ▶ Operating income + 30M

• Decrease of interest payment

- ▶ Ordinary income + 35M

Performance Forecast for Sep. '17 Period

vs. Mar. '17 Period Forecast

(In millions of yen)

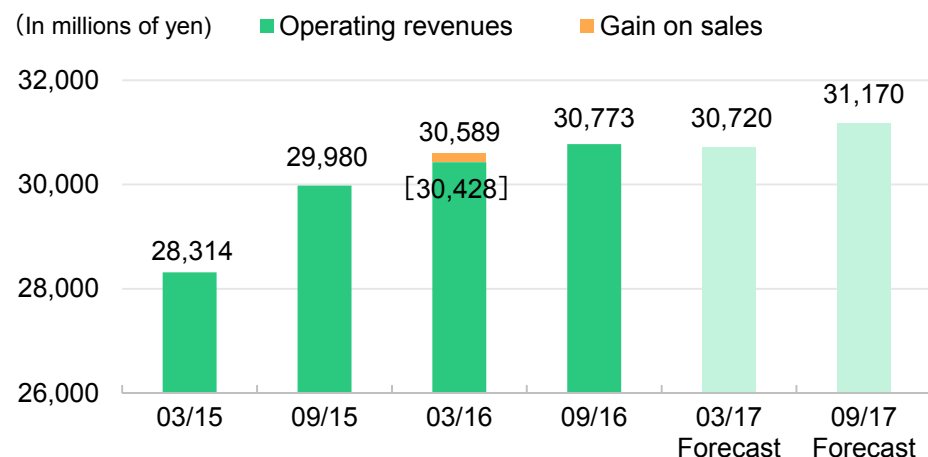
	Forecast Mar. '17 Period	Changes	Forecast Sep. '17 Period
Operating revenues	30,720	+450	31,170
Operating income	12,490	+240	12,730
Ordinary income	11,080	+270	11,350
Profit	11,070	+270	11,340
Dividend per unit	8,460 yen	+200 yen	8,660 yen

■ Main factors affecting increase and decrease

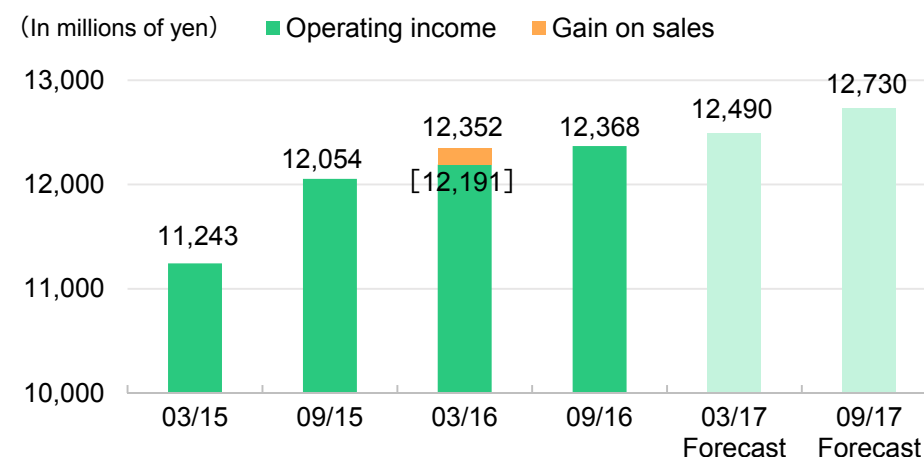
- **Progress in leasing, upward rent revision and increase of utilities revenue due to seasonal causes**
 - ▶ Operating revenues + 450M
- **Increase of property-related expenses due to increase of utilities expenses from seasonal causes , etc.**
 - ▶ Operating income - 340M
- **Decrease of depreciation**
 - ▶ Operating income + 70M
- **Decrease of interest payment**
 - ▶ Ordinary income + 20M

Summary of Performance Indices

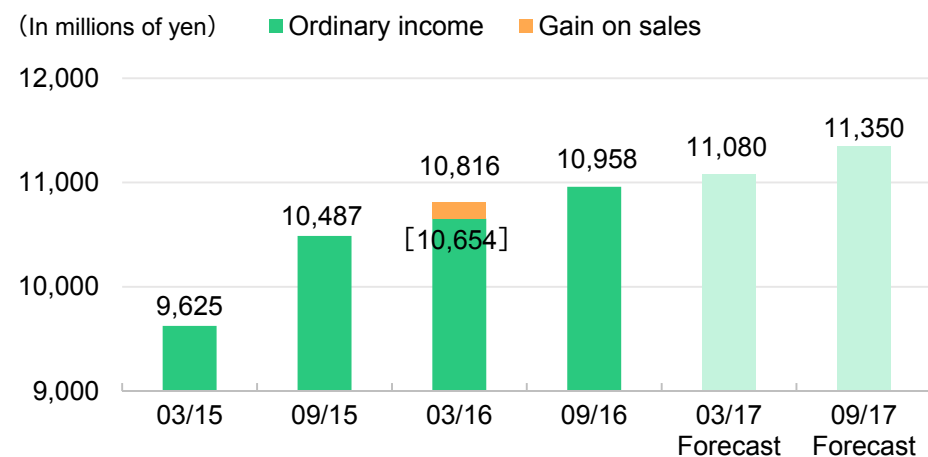
〈Trend of operating revenues〉



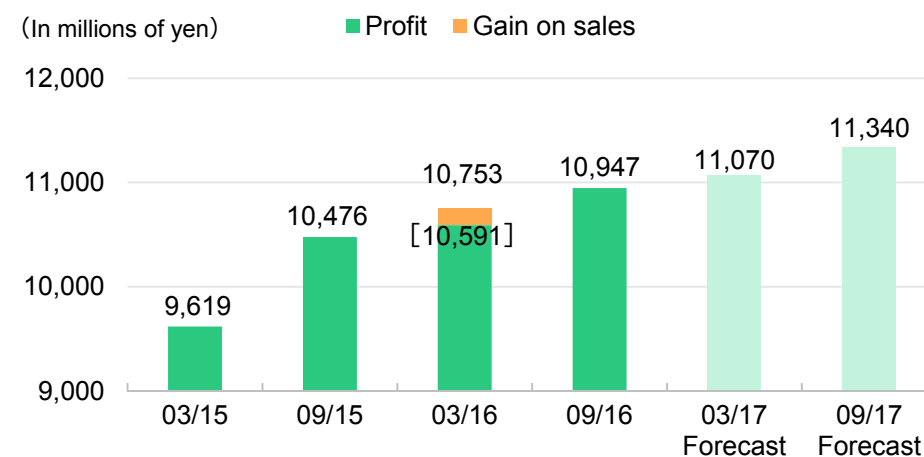
〈Trend of operating income〉



〈Trend of ordinary income〉



〈Trend of profit〉

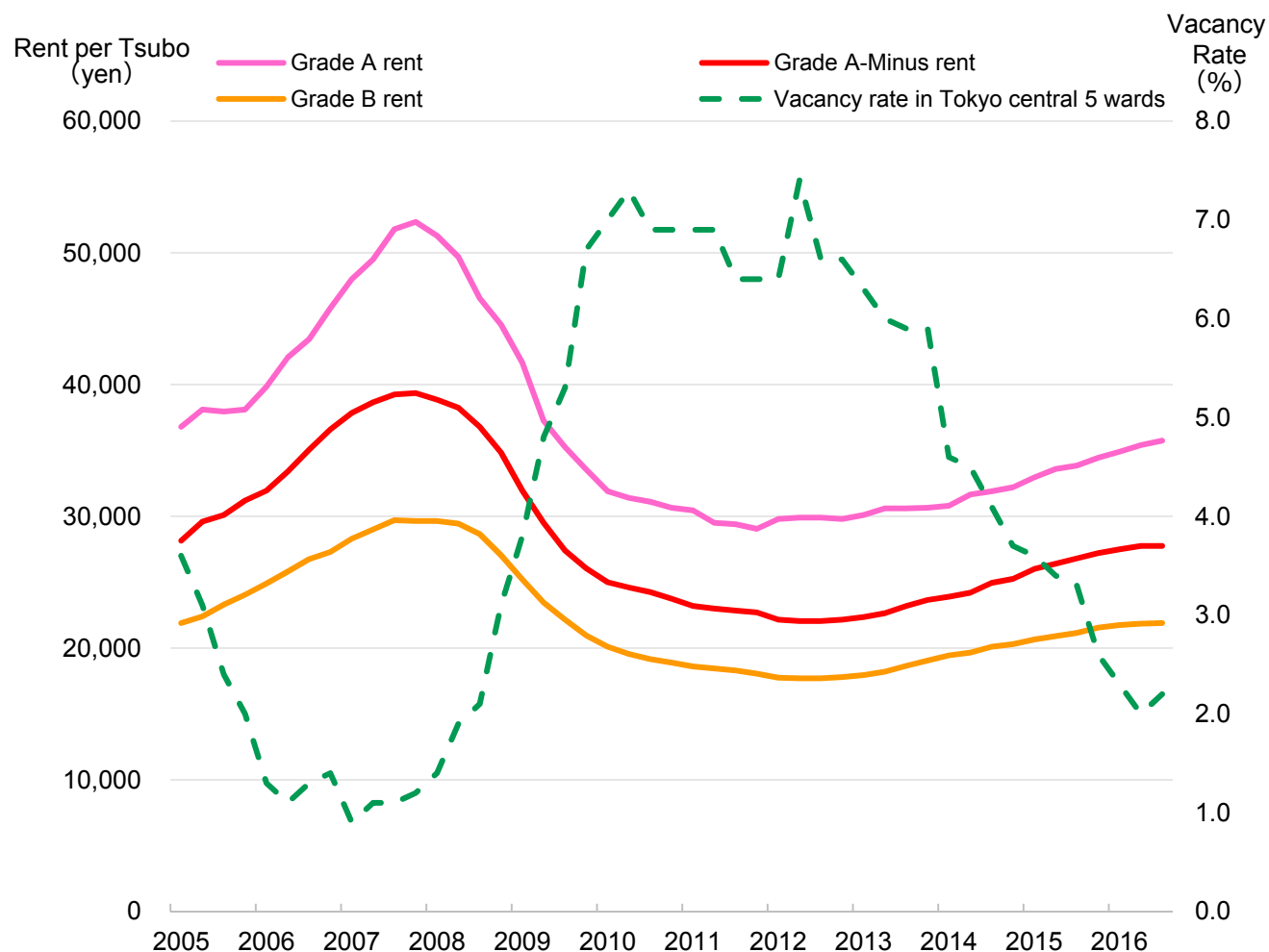


※Amounts in [] do not include influences from gain on sales

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Internal Growth

Leasing Market Conditions



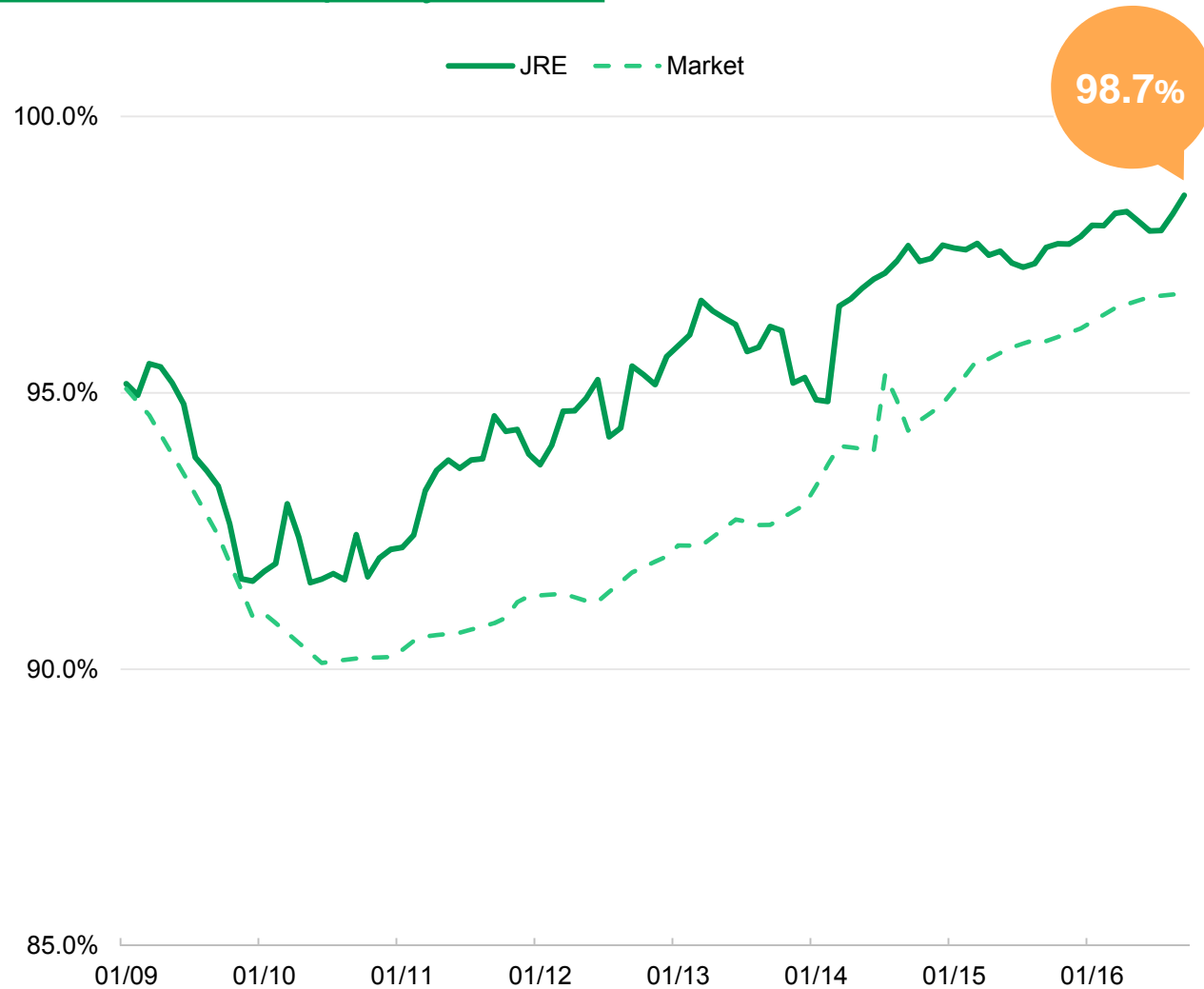
■ Market for leased office space in Tokyo is strong due to low level in supply and steady demand

■ At present, influence from the expected increase in supply after 2018 is not seen

※Data of Tokyo central 5 wards from Mar. 2005- Sep. 2016
 ※(Left axis) Estimated contract rent (Right axis) Vacancy Rate
 ※Source: CBRE

Internal Growth

Trend of Occupancy Rate



- JRE's occupancy rate shows stable trend at a high level which exceeds market occupancy rate
- Estimated occupancy rate of the portfolio for the end of Mar. '17 Period is **98.5%**

※Source: CBRE

Internal Growth

Market Rent of the Portfolio

Properties with assessed rent increased from the preceding six months

25 / 60 properties
(↓14 properties)

Tokyo Central 3 Wards

- Rent increased
11 / 18 properties
(↓3 properties)
- Rent increase ratio out of total 18 properties
1.7%
(↓1.0 pt)

Tokyo 23 Wards(*1)

- Rent increased
6 / 15 properties
(↓6 properties)
- Rent Increase ratio out of total 15 properties
1.1%
(↓1.7 pt)

Other Areas

- Rent increased
8 / 27 properties
(↓5 properties)
- Rent increase ratio out of 27 properties
1.3%
(↓1.4 pt)

- Market rent are continuing its increase
- Rent of certain properties have slowed down after showing continuous increase until the previous period

(*1) excluding Tokyo Central 3 Wards

(*2) () are figures changed from the preceding six months

Internal Growth

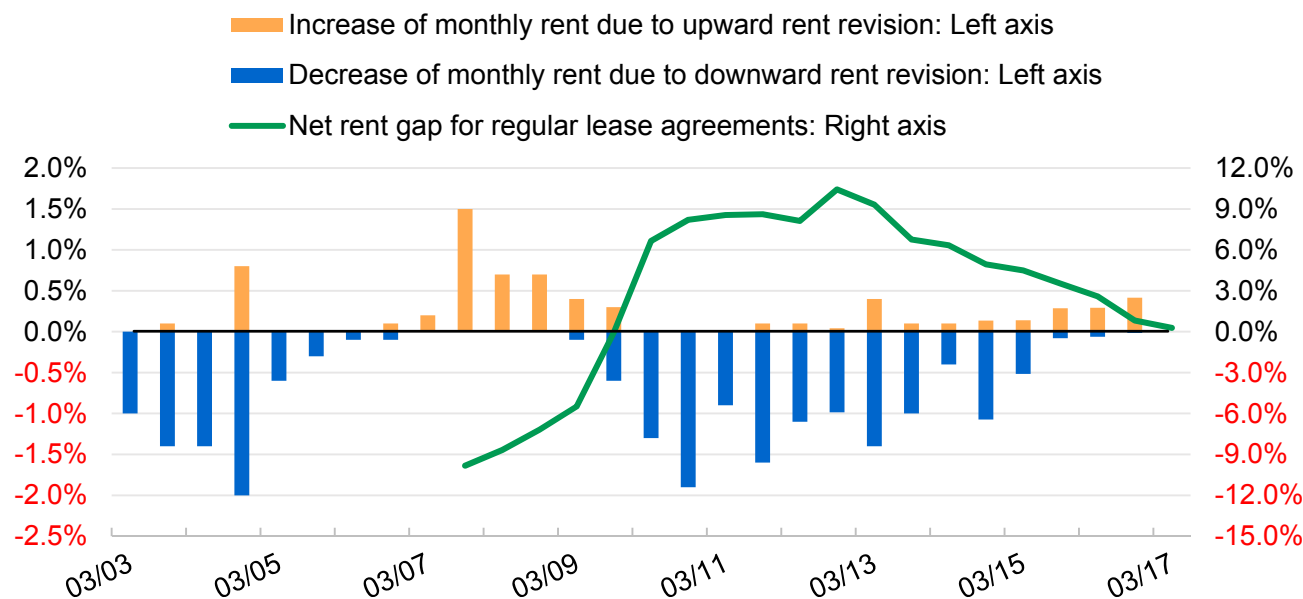
Rent Gap

Rent gap of overall portfolio

+¥12 million
(Gap ratio: **+0.3%**)

- Upward rent revision is smoothly in progress due to decrease of rent gap

Trend of Rent Gap



Internal Growth

Net Increase of Monthly Contract Rent

Monthly contract rent as of the end of Sep. '16 Period

¥4,574 million

(Increase from Mar. '16 Period: **+¥44 million +1.0%**)

External
Growth

+¥1 million

Internal
Growth

+¥43 million

- Rent Revision ▶ **+18**
(Increase +19 Decrease - 0.6)
- Tenant Turnover ▶ **+24**
(Leased +111 Returned - 87)

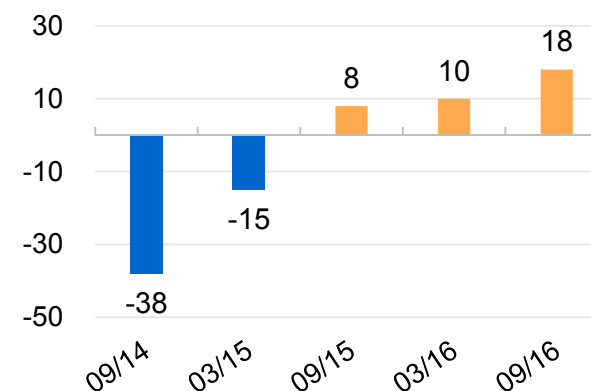
Monthly contract rent as of the end of Mar. '16 Period

¥4,529 million

- Rent revision has moved upward for **three consecutive periods**
Range of increase tend to widen as well

〈Trend of rent revision (net change)〉

(In millions of yen)



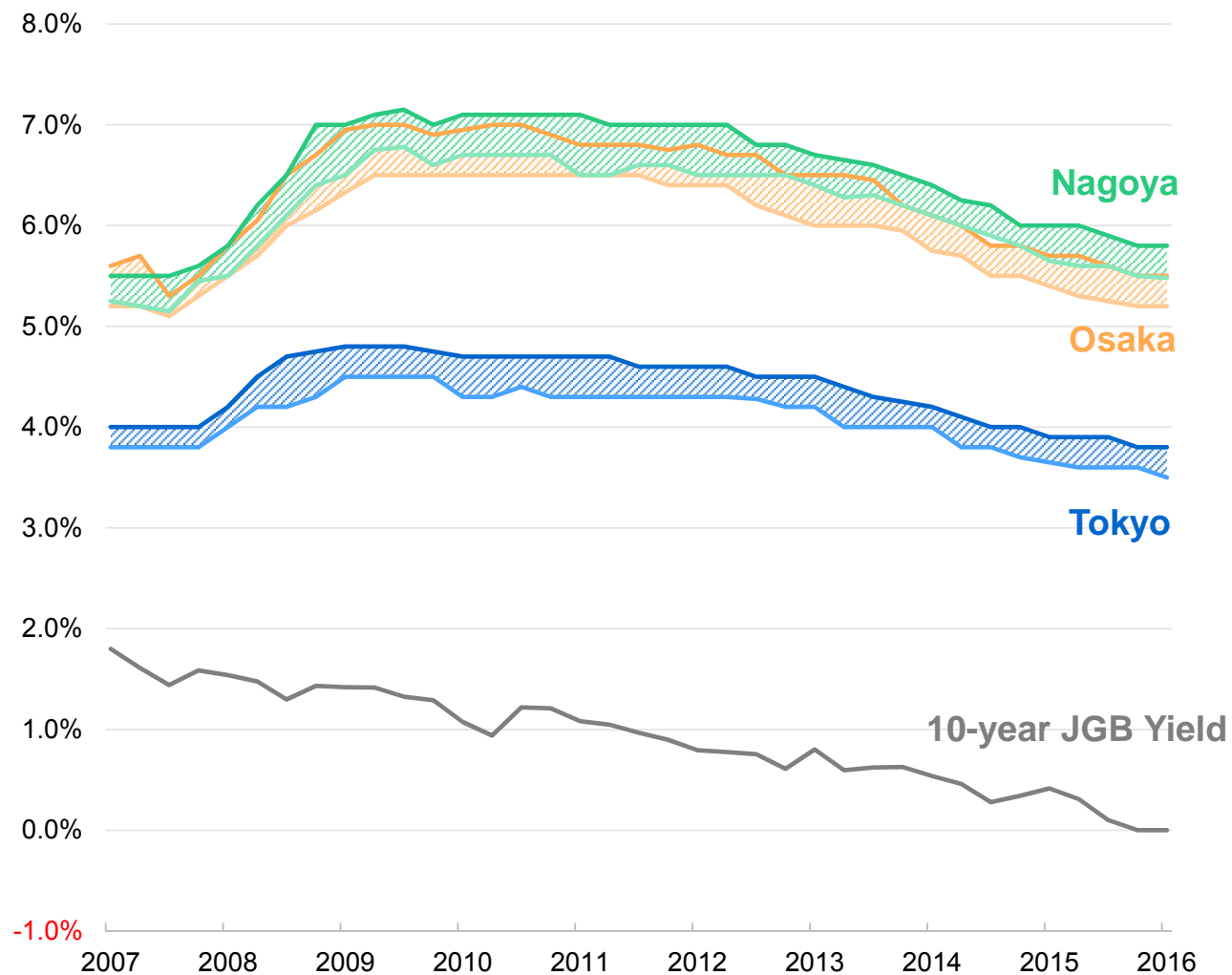
- Increase from tenant turnover has expanded as well due to progress of leasing in Tokyo 23 Wards

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External Growth

Investment Market for Real Estate

〈Trend of expected yield by each area〉



- Expected yield of investors continue to decline and intensifying competition continue in the investment market
- Shortage of desirable properties in Tokyo 23 Wards

※ Source: CBRE, bloomberg ※ Expected yield of investors are shown as upper or lower limits of each area

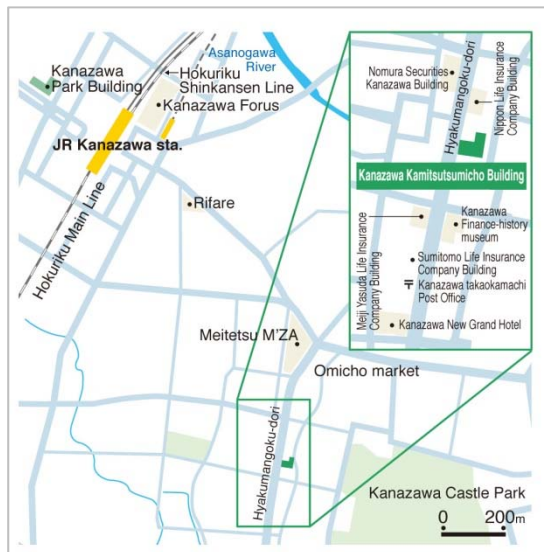
External Growth

Kanazawa Kamitsutsumicho Building

<Exterior appearance>



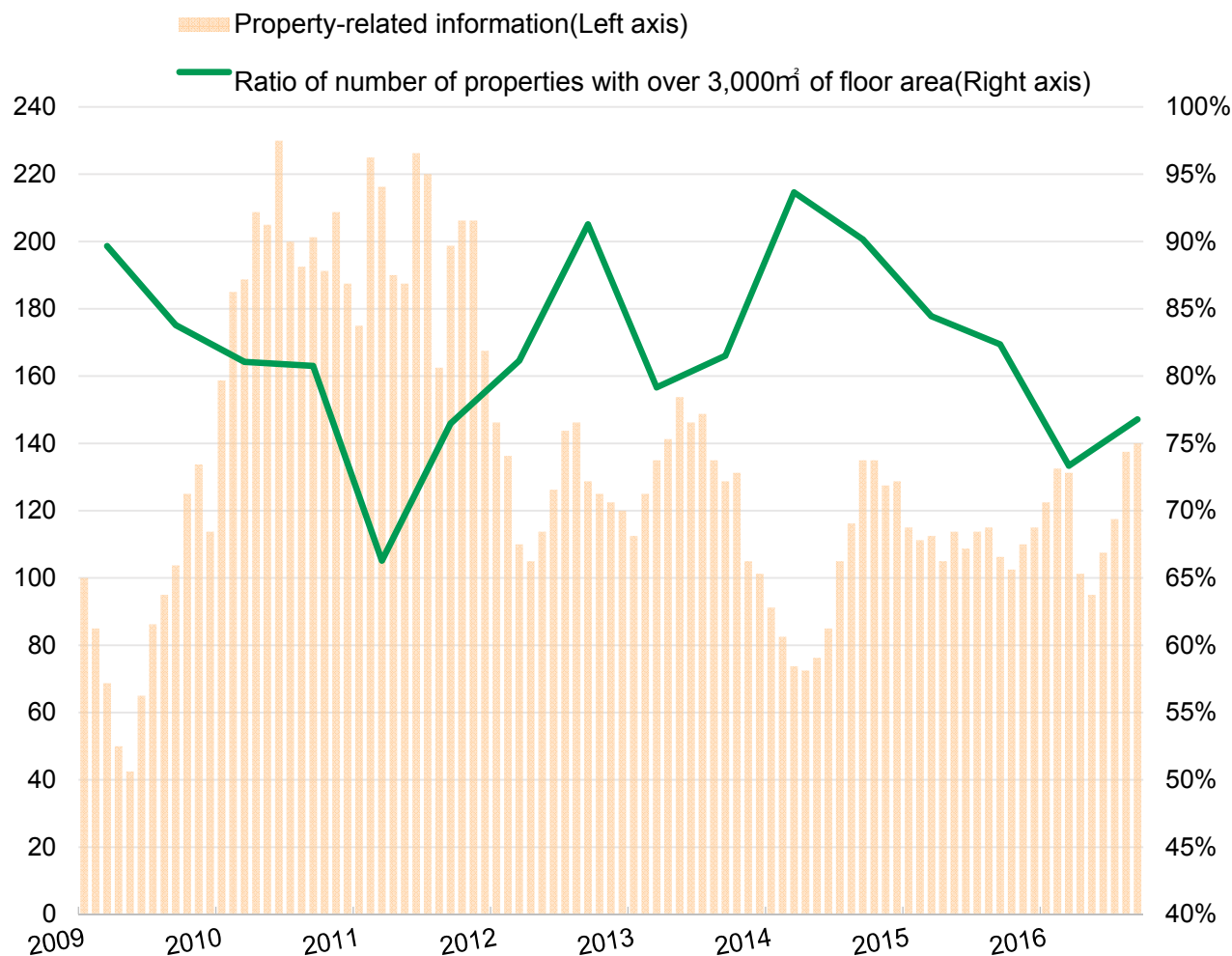
<Map>



- Location
**1-15 Kamitsutsumicho,
Kanazawa City, Ishikawa Prefecture**
- Acquisition price
¥2,780 million
- Date of acquisition
October 3, 2016
- Completion date
August 2009
- Total leasable space
7,206㎡
- Estimated NOI
¥178 million per year
(NOI yield **6.4%**)
(Under normal leasing operation)
- Appraisal value
¥2,960 million
(as of September 1, 2016)
- Seller
Shimizu Corporation

External Growth

Trend of Property Information



※ Property-related Information:

An index calculated by obtaining the moving average of for the amount of property-related information obtained over the past six months and assigning that moving average as of January 2009 as 100

■ Acquisition policy

- Acquire properties among Tokyo metropolitan area and other major cities in a balanced manner
- Continue to consider acquiring properties of the Sponsors as well
- Carefully select and invest in only competitive and desirable properties

- Continue to consider replacement of the properties and aim to improve competitiveness of the portfolio

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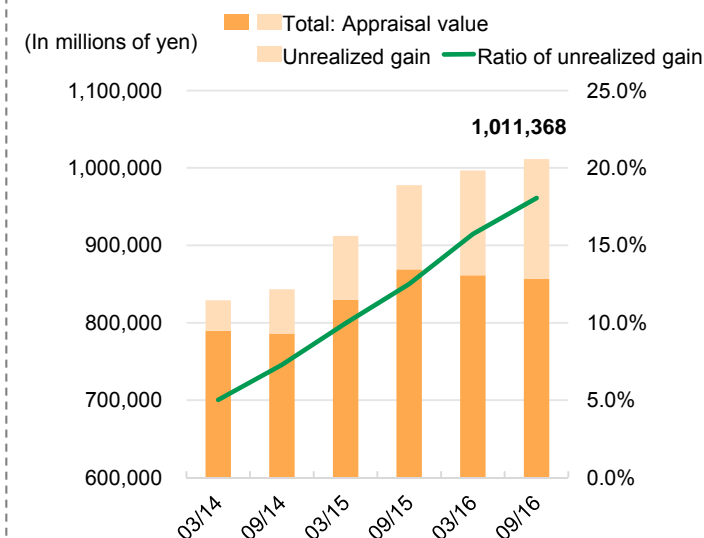
Appraisal Values

Summary of Appraisal Values

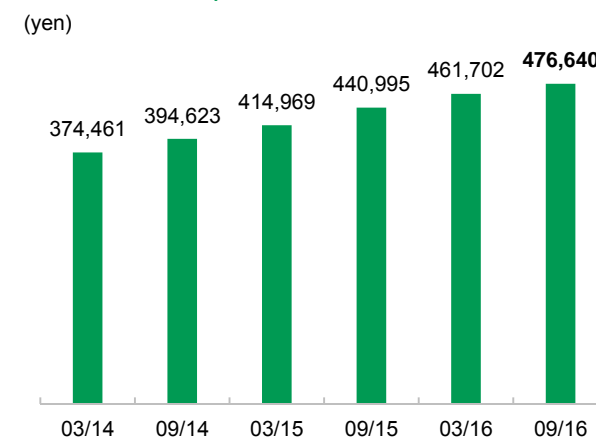
(In millions of yen)

	End of Mar. '16 Period	Changes (Of which, increase due to acquisition)	End of Sep. '16 Period
Appraisal value	996,828	+14,540 (+246)	1,011,368
Unrealized gain	135,467	+19,242 (+20)	154,710
Ratio of unrealized gain	15.7%	↑ 2.4pt	18.1%
Upward appraisal value	57/68 properties	↓ 3 properties	54/68 properties
Downward appraisal value	1/68 properties	↑ 2 properties	3/68 properties
Downward CAP rate	58/68 properties	↓ 5 properties	53/68 properties
Upward assessed CF	43/68 properties	↑ 2 properties	45/68 properties

〈Trend of appraisal value/unrealized gain〉



〈Trend of NAV per unit〉

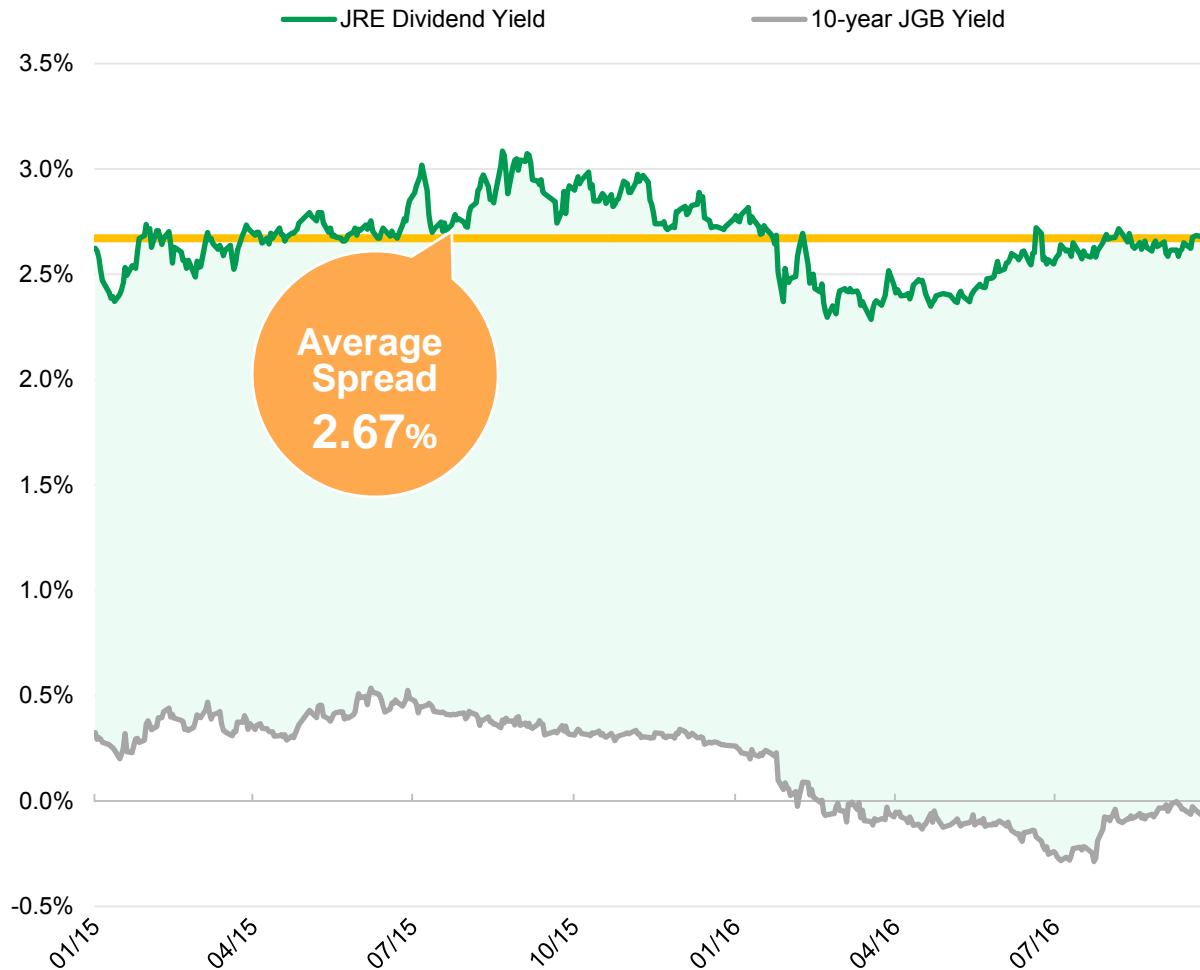


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Financial Condition

Condition of Financial Market

〈JRE Dividend Yield Spread〉



- Movement of long-term interest rate is currently stable
- Lenders' attitude continue to be positive
- Unit price performance is at a level where public offering which exceeds the net asset value per unit is possible

※ Average spread is the average of daily data after April 2002
※ Source: bloomberg

Financial Condition

Summary of Debts

(In millions of yen)

	End of Mar. '16 Period	Changes	End of Sep. '16 Period
Balance of interest-bearing debt	363,400	- 7,050	356,350
LTV (Book value basis)	40.8%	↓ 0.5pt	40.3%
LTV (Market value basis)	35.4%	↓ 1.1pt	34.3%

- Improve cash efficiency by repaying interest-bearing debt via cash reserves
- Maintain flexible framework when procuring funds

※ Market value based LTV is calculated by adding unrealized gain to the EOP total assets

Debt Capacity

- Up to LTV 45%



¥75,063 million

Financial Condition

Average Interest Rate and Maturity

(In millions of yen)

	Balance	Average interest rate	Average maturity
Short-term loans	45,700	0.07%	0.41 years
Current portion of long-term loans	42,850	1.10%	0.57 years
Long-term loans/ Investment corporation bonds	267,800	0.81%	4.55 years
Total interest-bearing debt	356,350	0.75%	3.54 years

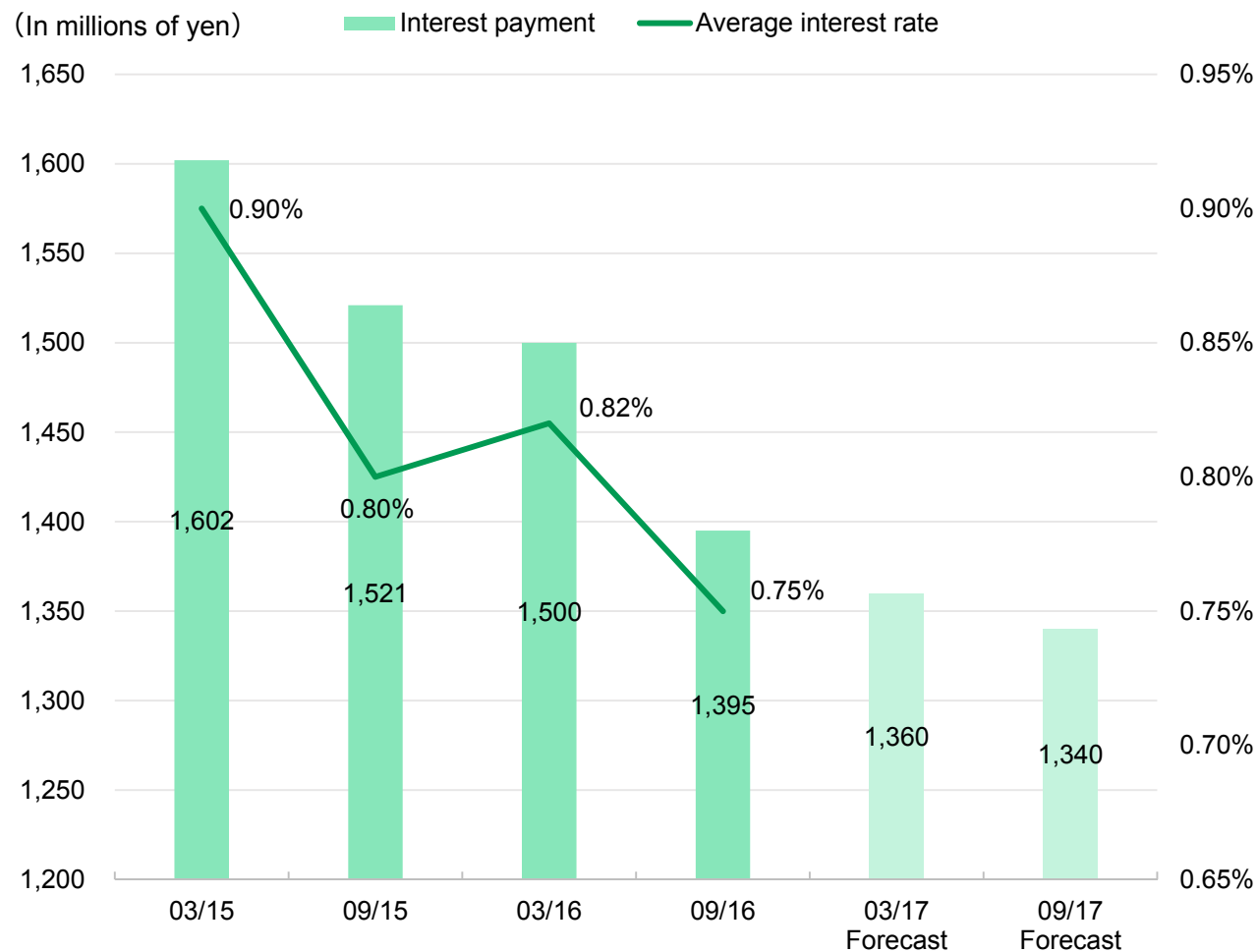
Recent borrowings

- Lender **Mitsubishi UFJ Trust and Banking Corp.**
- Amount of loan **¥3,000 million**
- Interest rate **0.24% (fix)**
- Borrowing period **10 years**
- Start of loan period **October 31, 2016**

-
- Lender **Shinsei Bank, Ltd.
Shinkin Central Bank
Resona Bank, Ltd.**
 - Amount of loan **¥4,000 million (total)**
 - Interest rate **0.0718%**
(1M.Tibor + 4bp as of the end of Sep. 2016)
 - Borrowing period **1 year**
 - Start of loan period **September 1, 2016**

Financial Condition

Trend of Interest Payment



■ Gradual decline of interest payment is expected after Mar. '17 Period

Financial Condition

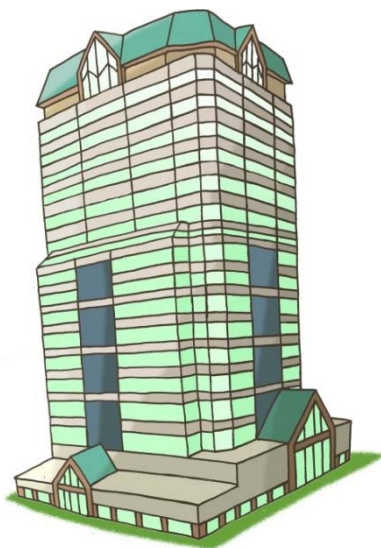
JRE's Credit Ratings

	Rating	Outlook
S & P	A+	Stable
Moody's	A1	Stable
R & I	AA	Stable

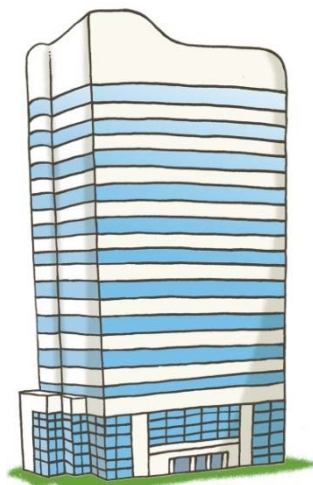
- Maintain highest rating in J-REIT under conservative financial operations

Great shot! It's right in the middle of the fairway.
Trend of leasing market is slowly following.
Let's make the second shot as a chance for birdie.

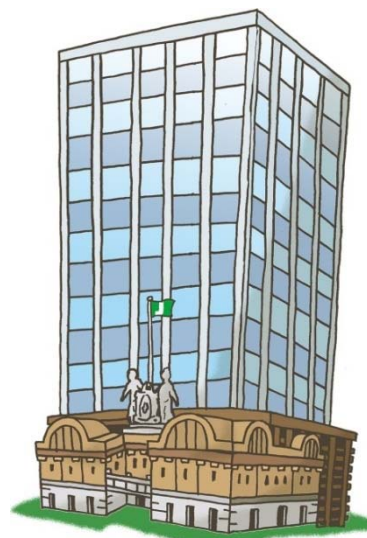
There is a cloud of large supply faraway.
I don't know if that will come closer,
but let's earn our score while we can!



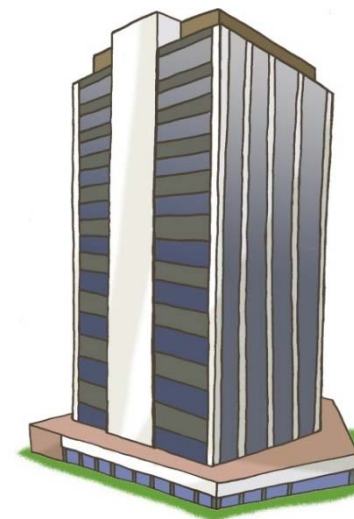
Akasaka Park Building



Queen's Tower A



Mitsubishi UFJ Trust and
Banking Building



Shibuya Cross Tower

<Disclaimer concerning Forecasts>

This presentation contains information regarding forecasts based on the plans and outlook of Japan Real Estate Investment Corporation (JRE).

All data contained herein, other than those that describe current or historical data, are based on such forecasts.

These forecasts are based on the assumptions, judgment, and data currently available from Japan Real Estate Asset Management (J-Rea) and JRE. These data may contain known and unknown risks, uncertainty, and other factors not accounted for. The forecasts herein may be affected by known and unknown risks, uncertainty, or other factors, particularly with respect to JRE's internal and external growth and profitability-per-unit targets.

The aforementioned risks, uncertainty, and other factors may result in significantly different results regarding JRE's future performance, management, and financial data implicitly or explicitly presented herein.

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