

JAPAN REAL ESTATE INVESTMENT CORPORATION



- 01 Summary
- 02 Financial Results
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- 04 Internal Growth
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- 06 Financial Condition
- 07 Appraisal Values



Performance Review

for Fiscal Period Ended March 31, 2017

May 16, 2017

Looking back six months ago



Six months ago,

- The new president carefully hit his tee shot to the center of the fairway
- A trend of leasing market was showing a tailwind
- A cloud of large office supply appeared faraway causing JRE to pay close attention to the future trend

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Summary (Financial Results for Mar. '17 Period)

Dividend Per Unit

8,544 yen

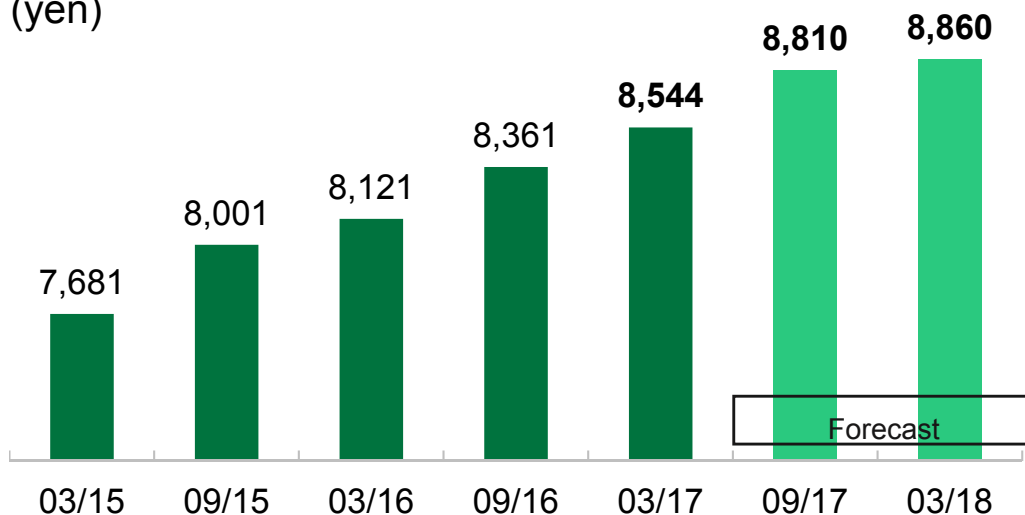
(vs. Sep. '16 Period: **+183 yen +2.2%**)

(vs. forecast announced in November 2016:

+84 yen +1.0%)

< Trend of dividend per unit >

(yen)



Internal Growth

- Occupancy rate at the end of Mar. '17 Period **98.8%**
(vs. Sep. '16 Period: +0.1pt)
- Net increase in rent due to rent revision Monthly rent basis **+¥19 million**
(vs. Sep. '16 Period: +¥1 million)
- Net increase in rent due to tenant turnover Monthly rent basis **+¥19 million**
(vs. Sep. '16 Period: -¥5 million)

External Growth

- New Acquisition Kanazawa Kamitsutsumicho Building / Tamachi Front Building
 - Additional Acquisition Shiodome Building
 - Additional Acquisition from exchange Shinjuku Eastside Square
* Transferred Genki Medical Plaza (Iidabashi)
- Acquired 4 properties**
Total of ¥26,100 million

Financial Strategy

- Interest-bearing debt at the end of Mar. '17 Period **¥369,000 million**
(vs. Sep. '16 Period: +¥12,650 million)
- Average interest rate **0.71%**
(vs. Sep. '16 Period: ↓0.04pt)

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Financial Results for Mar. '17 Period

vs. Sep. '16 Period Actual

(In millions of yen)

	Actual Sep. '16 Period	Changes	Actual Mar. '17 Period
Operating revenues	30,773	+ 44	30,818
Operating profit	12,368	+ 198	12,567
Ordinary profit	10,958	+ 238	11,197
Profit	10,947	+ 239	11,186
Dividend per unit	8,361 yen	+ 183 yen	8,544 yen

Main factors affecting increase and decrease

■ Operating revenues

Rent from existing properties, etc.	+216M
Rent from acquired and transferred properties, etc.	+102M
Utilities and other revenues	-307M
Gain on sales of real estate properties	+33M

■ Operating profit

Existing properties	+144M
4 acquired properties, 1 transferred property	+19M
Gain on sales of real estate properties	+33M

■ Ordinary profit

Decrease of interest payment	+65M
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Financial Results for Mar. '17 Period

vs. Forecasts

(In millions of yen)

	Forecast announced in November 2016	Changes	Actual Mar. '17 Period
Operating revenues	30,720	+ 98	30,818
Operating profit	12,490	+ 77	12,567
Ordinary profit	11,080	+ 117	11,197
Profit	11,070	+ 116	11,186
Dividend per unit	8,460 yen	+ 84 yen	8,544 yen

Main factors affecting increase and decrease

■ Operating revenues

Increase of property-related revenues due to progress in leasing and upward rent revision, etc. that exceeded our assumption +64M

Gain on sales of real estate properties +33M

■ Ordinary profit

Decrease of interest payment +30M

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Performance Forecast for Sep. '17 Period

vs. Mar. '17 Period Actual

(In millions of yen)

	Actual Mar. '17 Period	Changes	Forecast Sep. '17 Period
Operating revenues	30,818	+771	31,590
Operating profit	12,567	+272	12,840
Ordinary profit	11,197	+352	11,550
Profit	11,186	+353	11,540
Dividend per unit	8,544 yen	+266 yen	8,810 yen

Main factors affecting increase and decrease

- **Increase in rent from the existing properties and increase in utilities revenues, etc.**

Operating revenues +452M
- **Acquired properties during Mar. '17 Period operating full term**

Operating revenues +352M
- **Increase of operating expenses due to increase in utilities expenses, etc.**

Operating profit -488M
- **Decrease due to reactionary fall of gain on sales of real estate properties**

Operating revenues and operating profit -33M
- **Decrease of interest payment**

Ordinary profit +79M

Performance Forecast for Mar. '18 Period

vs. Sep. '17 Period Forecast

(In millions of yen)

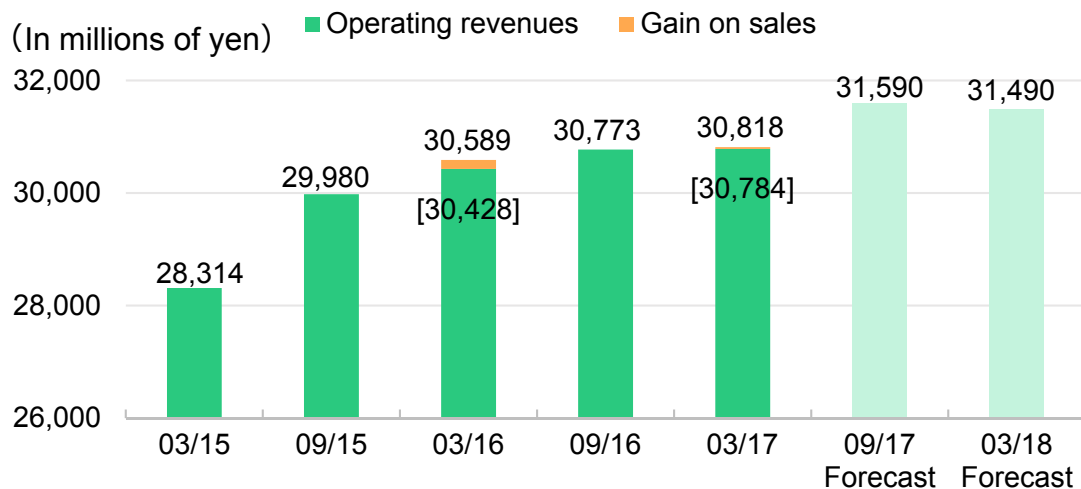
	Forecast Sep. '17 Period	Changes	Forecast Mar. '18 Period
Operating revenues	31,590	-100	31,490
Operating profit	12,840	+ 40	12,880
Ordinary profit	11,550	+ 60	11,610
Profit	11,540	+ 60	11,600
Dividend per unit	8,810 yen	+ 50 yen	8,860 yen

Main factors affecting increase and decrease

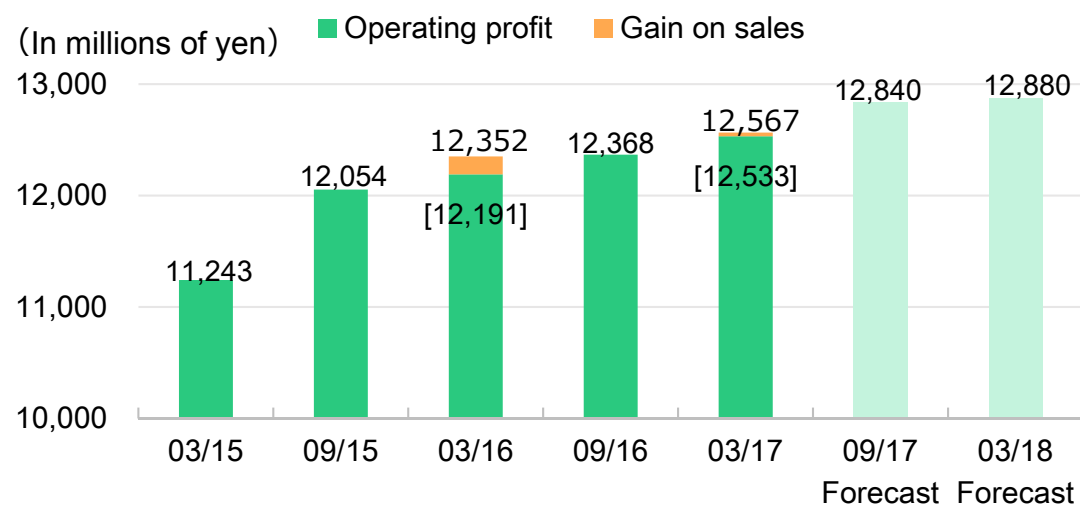
- **Marginal rise in rent, etc. due to conservative estimation of occupancy rate**
- **Decrease of revenue due to factors other than rent such as decrease in utilities revenues, etc.**
 - Operating revenues -100M
- **Decrease of operating expenses due to decrease in utilities expenses, etc.**
 - Operating profit + 140M
- **Decrease of interest payment**
 - Ordinary profit + 30M

Summary of Performance Indices

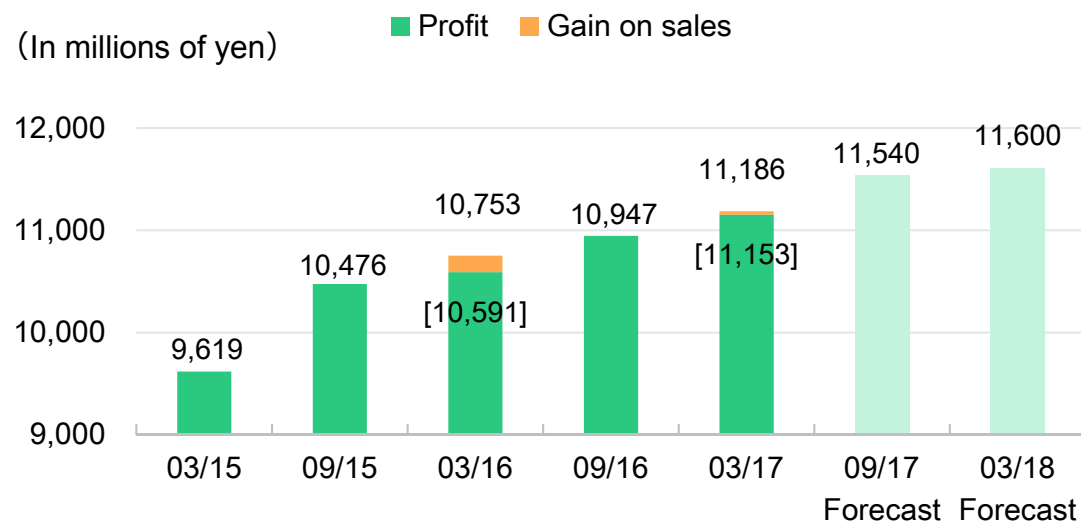
〈 Trend of operating revenues 〉



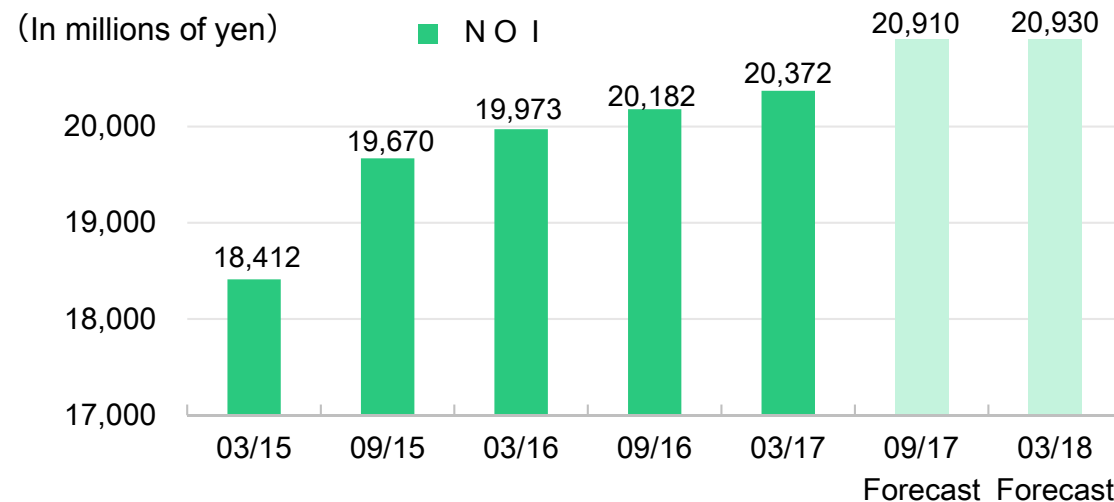
〈 Trend of operating profit 〉



〈 Trend of profit 〉



〈 Trend of NOI 〉

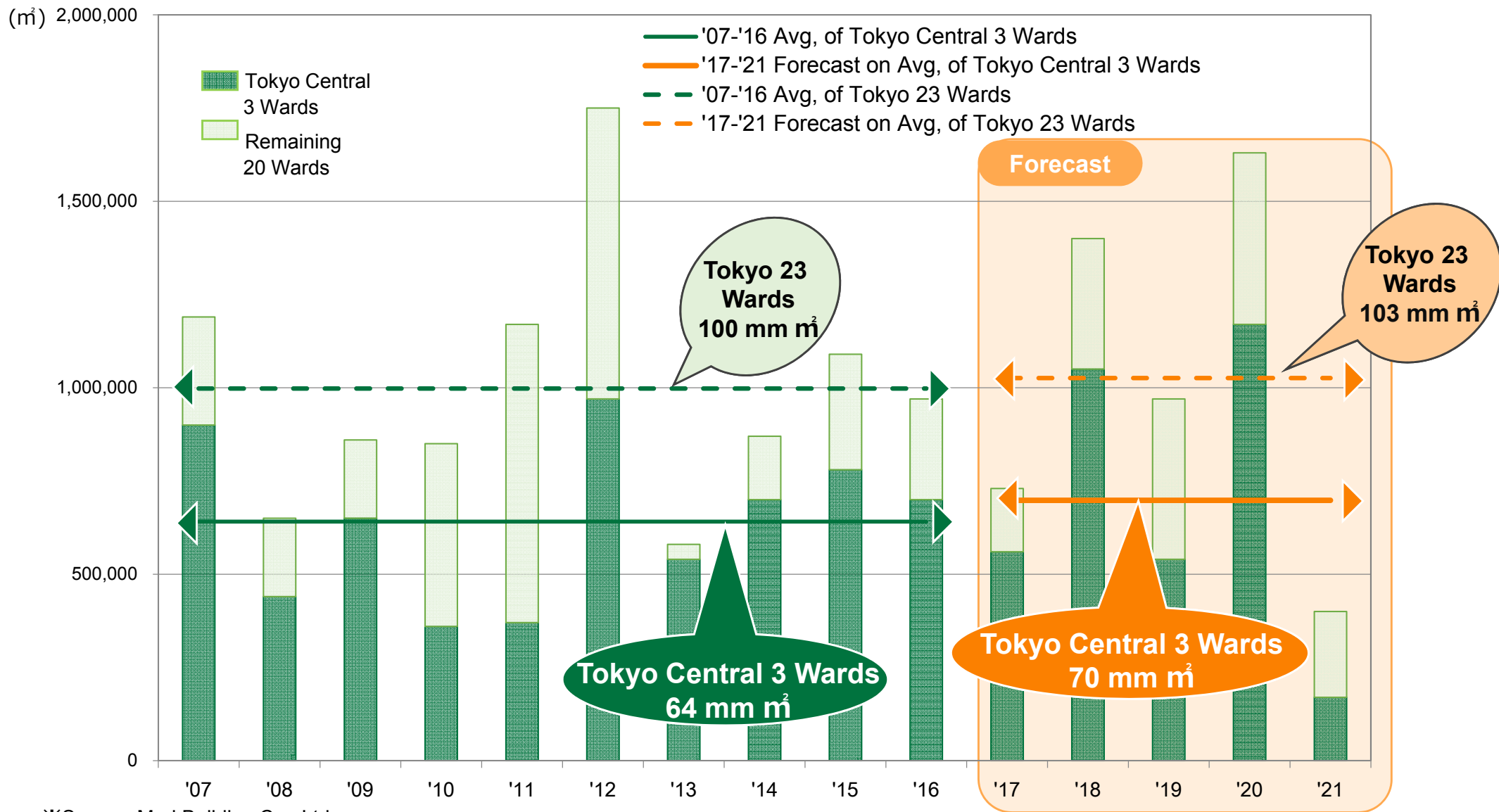


※Amounts in [] do not include gain on sales

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Internal Growth

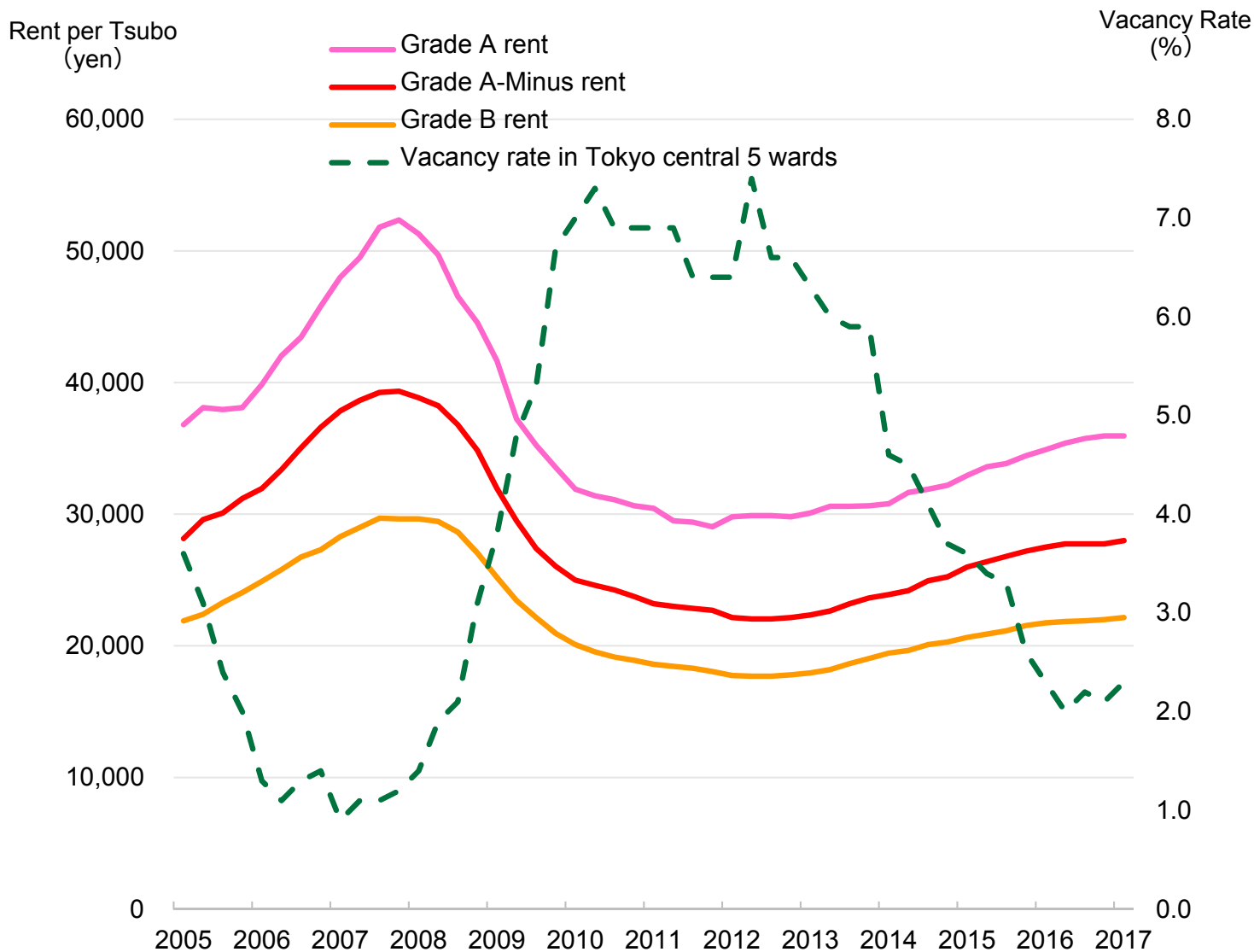
Trend of supply for office building



※Source: Mori Building Co., Ltd.
 ※Aggregate calculation of floor area

Internal Growth

Leasing Market Conditions



2017 1Q

Estimated contract rent:

Grade A rent: 35,950 yen / tsubo

Grade A-Minus rent:

28,000 yen / tsubo

Grade B rent: 22,150 yen / tsubo

Vacancy rate in Tokyo central 5 wards:

2.3%

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

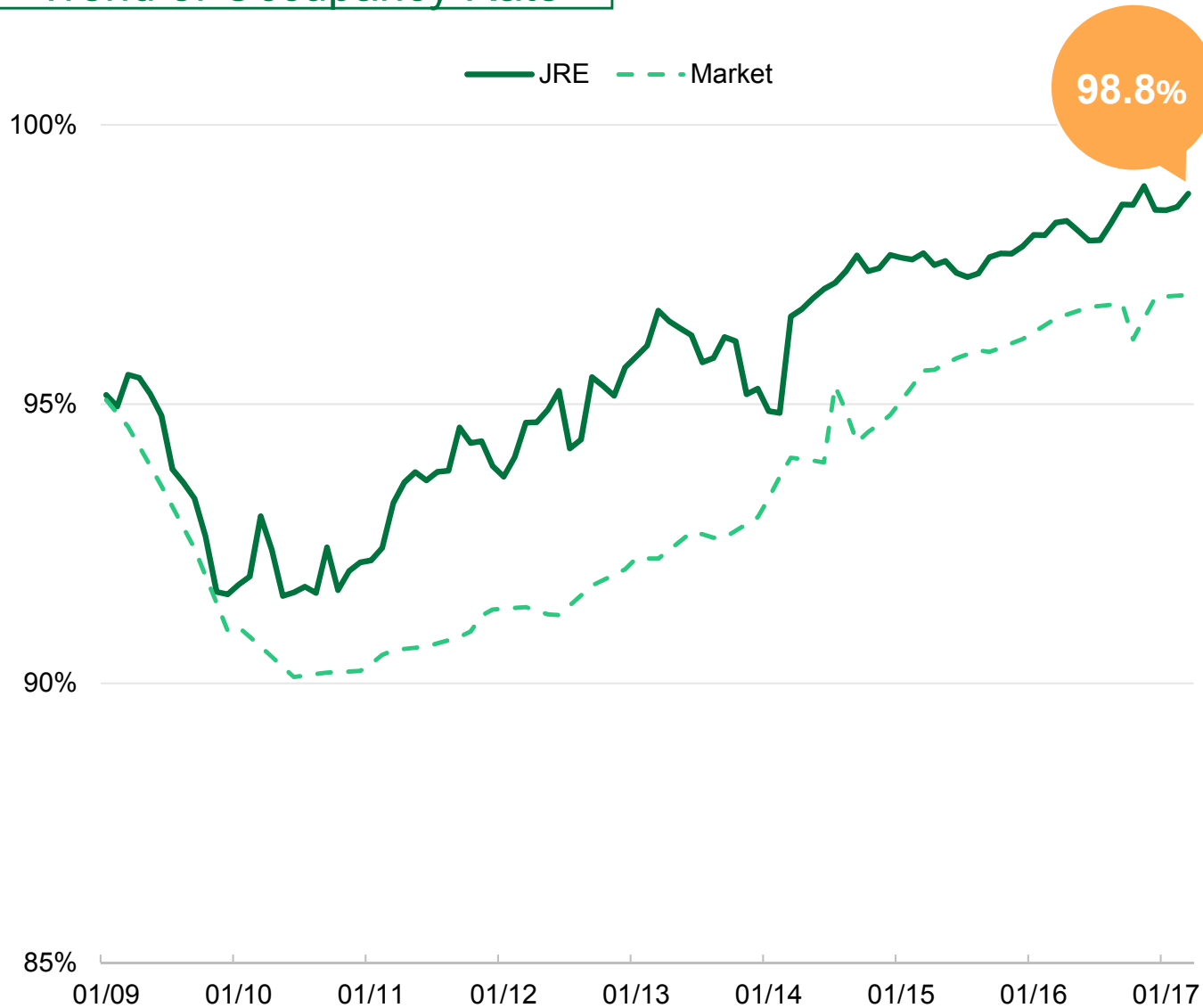
※Data of Tokyo central 5 wards from Mar. 2005- Mar. 2017

※(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
- Occupancy rate as of the end of Mar. '17 period is **the best as end of the period since its IPO in 2001**
- Estimated occupancy rate of the portfolio for the end of Sep. '17 Period is **98.8%**

※Source: CBRE

Internal Growth

Assessed Rent of the Portfolio

Properties with assessed rent increased from the preceding six months

21 / 60 properties

Tokyo Central 3 Wards

8 / 18 properties Increase rate of **1.0%**

Other Tokyo 20 Wards

5 / 15 properties Increase rate of **1.2%**

Other Areas

8 / 27 properties Increase rate of **1.9%**

- Assessed rent of the portfolio is continuing its moderate increase. And zero properties with assessed rent declined.

- Actual for the Previous period
25/60 properties
Tokyo central 3 wards: 11/18 properties
Increase rate of 1.7%
Other Tokyo 20 wards: 6/15 properties
Increase rate of 1.1%
Other areas: 8/27 properties
Increase rate of 1.3%

※ Of the 68 properties owned by JRE as of the end of March 2017, 60 properties which are comparable with the assessed rent for the preceding six months (excluding properties with special factors such as lease for whole tower) are subject to the comparison.

Internal Growth

Net Increase of Monthly Contract Rent

Monthly contract rent as of the end of Mar. '17 Period

4,678 million yen

(Increase from Sep. '16 Period: **+¥104 million +2.3%**)

External Growth

+¥73 million

Internal Growth

+¥39 million

Tenant Turnover: **+19**
(Leased +87 Returned -67)

Rent Revision: **+19**
(Increase +19 Decrease -0.2)

Other Decrease

-¥8 million

※Decrease of contract rent due to termination of Phase 2 rent which was established in order to collect owner expenditure portion of tenant joinery work costs.

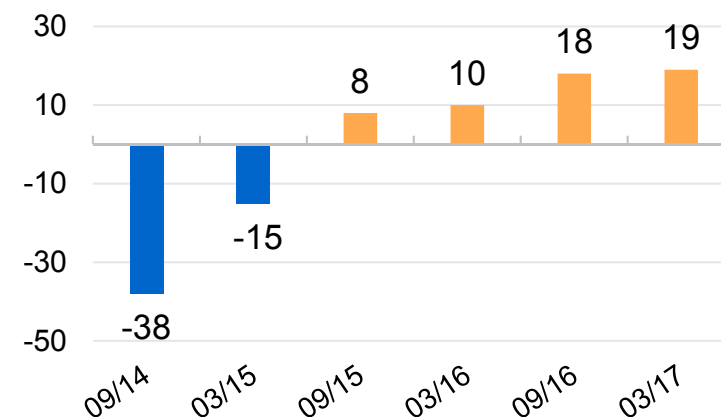
Monthly contract rent as of the end of Sep. '16 Period

¥4,574 million

■ Rent revision has moved upward for **four consecutive periods**

〈Trend of rent revision (net change)〉

(In millions of yen)



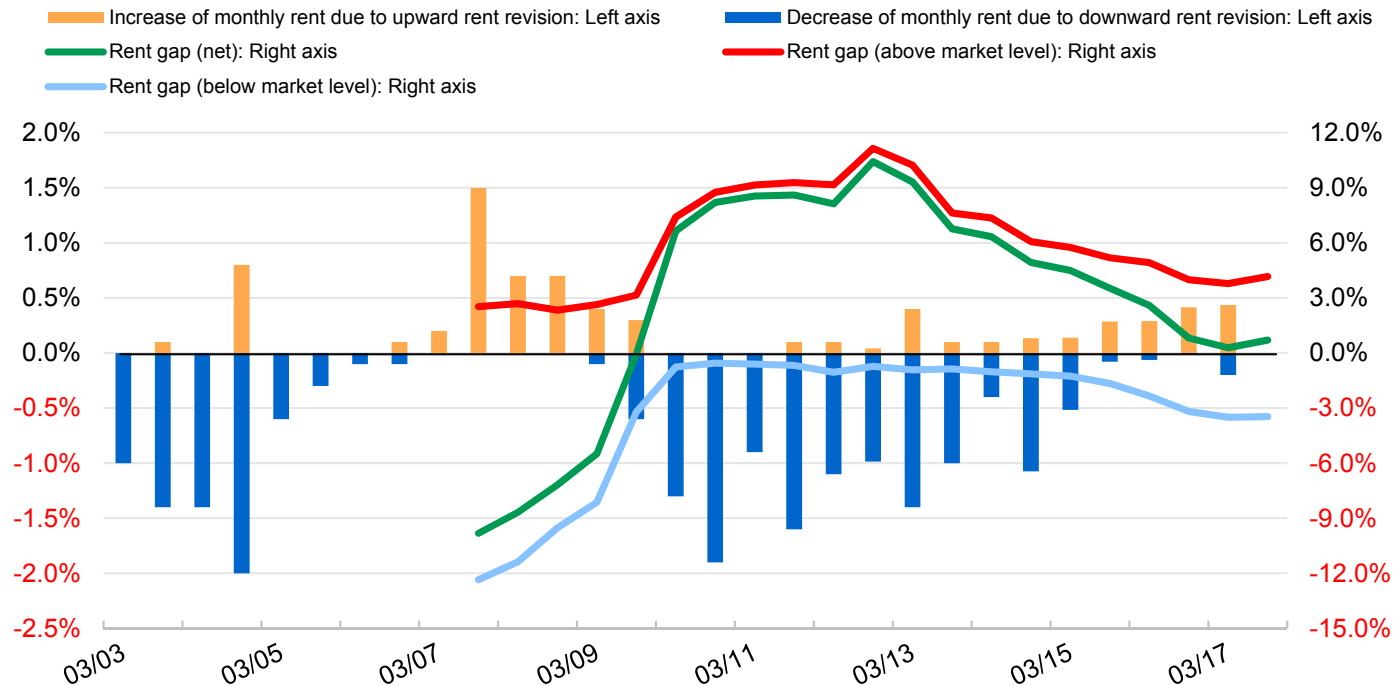
Internal Growth

Rent Gap

Rent gap of overall portfolio

+ ¥32 million
(Gap Ratio: **+0.7%**)

Trend of Rent Gap



- Upward rent revision is smoothly in progress due to rent gap remaining at a low level.
- Downward rent revision (9 million yen) for Mar. '17 period is largely due to special factors (please see P.16)

※Aggregated calculation excluding fixed revenues of more than 1 year as from the beginning of each period due to regular lease agreement, etc.

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External Growth

Acquisition of Kanazawa Kamitsutsumicho Building

■ Details of the property

Location: **1-15 Kamitsutsumicho, Kanazawa City, Ishikawa Prefecture**

Building: **Above ground 11 floors**

Total floor area/Total leasable floor area: **9,619m² / 7,206m²**

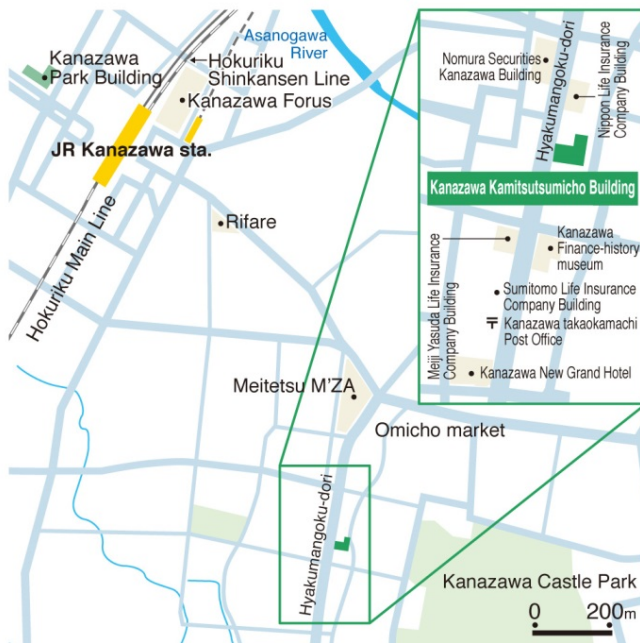
Completion date: **August 2009**

■ Acquisition price **¥2,780 million**

■ Date of acquisition **October 3, 2016**

■ Estimated NOI **¥178 million per year (NOI yield 6.4%)**

■ Seller **Shimizu Corporation**



External Growth

Acquisition of Tamachi Front Building

■ Details of the property

Location: **13-2, 4 Chome, Shiba, Minato-ku, Tokyo**

Building: **Above ground: 9 floors Below ground: 1 floor**

Total floor area/Total leasable floor area: **5,747m² / 3,792m²**

Completion date: **July 2014**

■ Acquisition price **¥6,210 million**

■ Date of acquisition **March 30, 2017**

■ Estimated NOI **¥242 million per year (NOI yield 3.9%)**

■ Seller **Shiba Yon Development Specific Purpose Company (TMK)**
(Invested by Mitsubishi Estate Co., Ltd.)



External Growth

Additional acquisition of Shiodome Building

■ Details of the property

Location: **2-20, 1 Chome, Kaigan, Minato-ku, Tokyo**

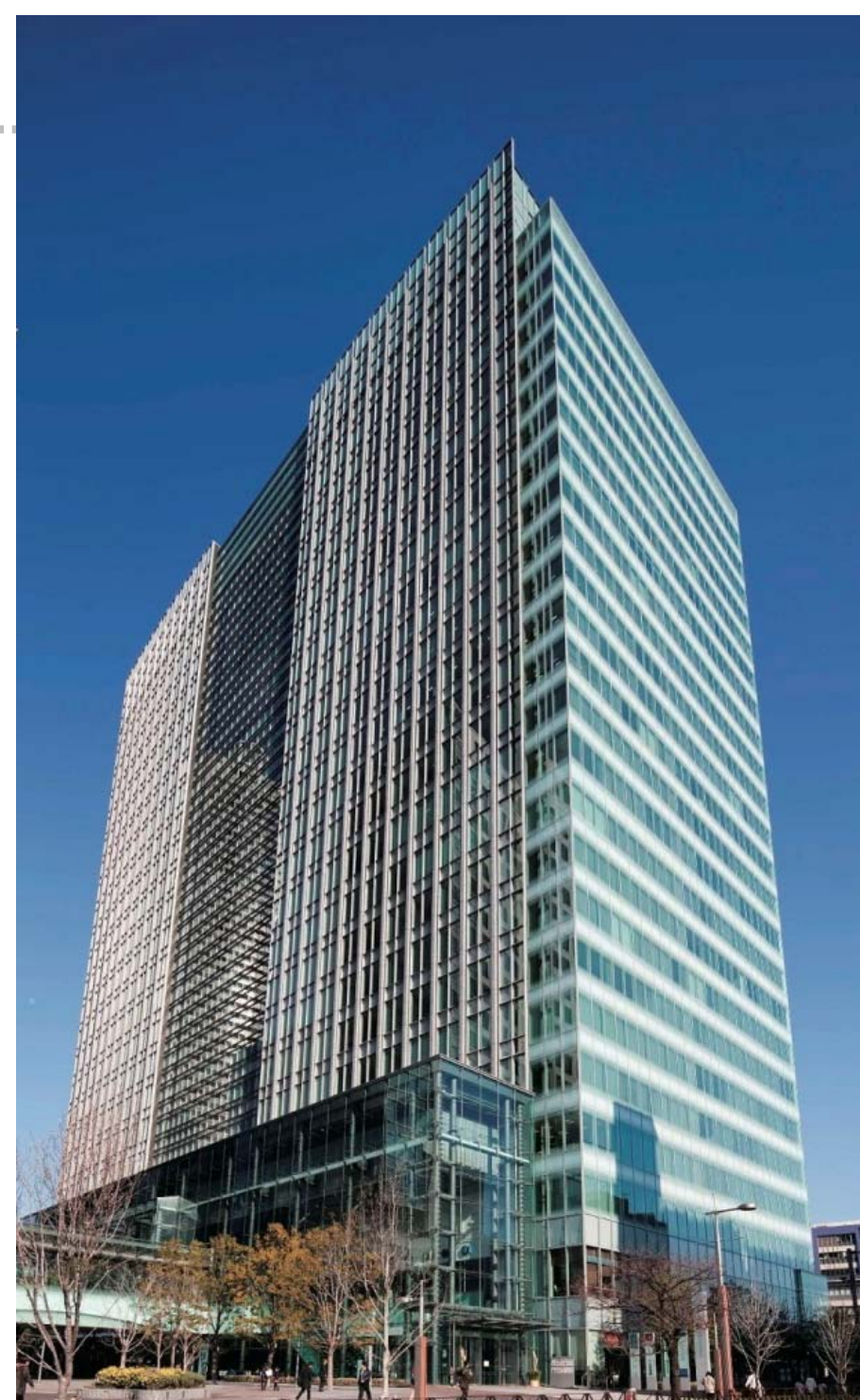
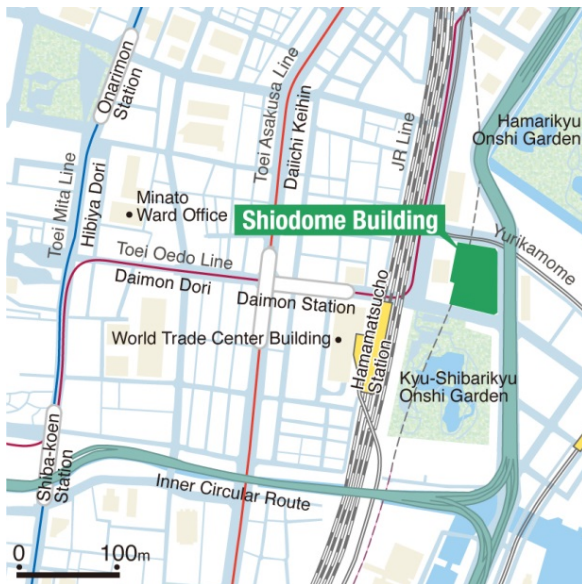
Building: **Above ground: 24 floors Below ground: 2 floors**

Total floor area **115,930m²** (Entire building)

Total leasable floor area **4,019m²** (Additional acquisition)

Completion date: **December 2007**

- Acquisition price **¥10,450 million**
(Acquired additional 5% of the entire building / JRE's share: 45%→50%)
- Date of acquisition **March 30, 2017**
- Estimated NOI **¥378 million per year** (NOI yield **3.6%**)
- Seller **Mitsui & Co. Real Estate Ltd.**

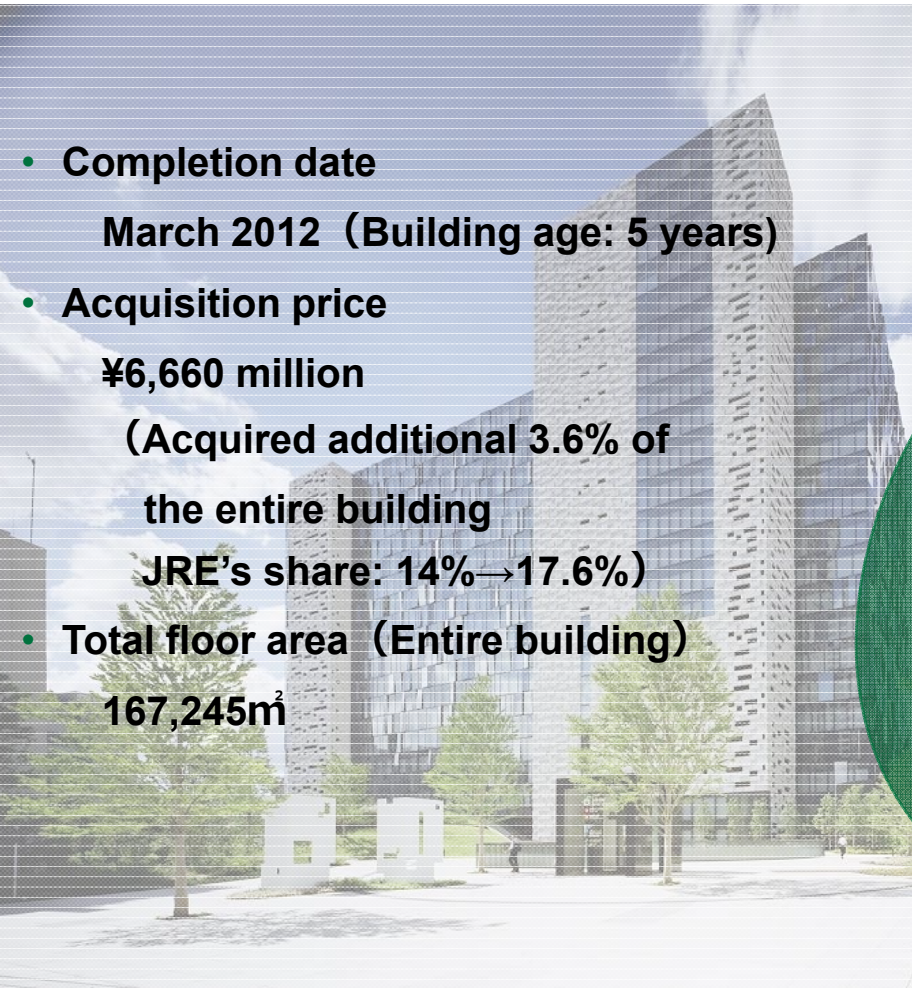


External Growth

Exchange of Properties with the Sponsor

<Shinjuku Eastside Square>

Acquired property



- **Completion date**
March 2012 (Building age: 5 years)
- **Acquisition price**
¥6,660 million
(Acquired additional 3.6% of the entire building
JRE's share: 14%→17.6%)
- **Total floor area (Entire building)**
167,245m²



Exchange

- **Completion date**
 - ▶ September 1985 (Building age: 31 years)
- **Transfer price / Book value**
 - ▶ ¥6,890 million / ¥4,776 million
- **Total floor area**
 - ▶ 6,722 m²



<Genki Medical Plaza> (Iidabashi)

Transferred property

- Advanced depreciation accounting of the land of the Property to be exchanged is made and capital gain is deferred
- ¥33 million of capital gain is recorded net of land and building



External Growth

Additional acquisition of Shinjuku Eastside Square (from Exchange)

■ Details of the property

Location: **27-30, 6 Chome, Shinjuku, Shinjuku-ku, Tokyo**

Building: **Above ground: 20 floors, Below ground: 2 floors**

Total floor area **167,245m²** (entire building)

Total leasable floor area **4,208m²** (additional acquisition)

Completion date: **March 2012**

■ Acquisition price **¥6,660 million**

(Acquired additional 3.6% of the entire building / JRE's share: 14%→17.6%)

■ Date of acquisition **January 25, 2017**

■ Estimated NOI **¥288 million per year (NOI yield 4.3%)**

■ Seller **Mitsubishi Estate Co., Ltd.**



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Financial Condition

Summary of Debts

(In millions of yen)

	End of Sep. '16 Period	Changes	End of Mar. '17 Period
Balance of interest-bearing debt	356,350	+12,650	369,000
LTV (Book value basis)	40.3%	+0.8pt	41.1%
LTV (Market value basis)	34.3%	+0.2pt	34.5%

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

- Total interest-bearing debts increased due to acquisition of properties during Mar. '17 period
- Continue to maintain flexible framework when procuring funds against a background of good portfolios even after implementing fund procurement due to property acquisition

Financial Condition

Average Interest Rate and Maturity

	(In millions of yen)		
	Balance	Average interest rate	Average maturity
Short-term loans	36,000	0.07%	0.59 years
Current portion of long-term loans	46,500	0.96%	0.46 years
Long-term loans/ Investment corporation bonds	286,500	0.75%	4.85 years
Total interest-bearing debt	369,000	0.71%	3.88 years

Recent borrowings

Lender **Shinkin Central Bank**
 Amount of loan **¥5,000 million**
 Interest rate **0.36% (fix)**
 Borrowing period **9 years**
 Start of loan period **March 30, 2017**

Lender **Mitsubishi UFJ Trust and Banking Corporation**
 Amount of loan **¥5,000 million**
 Interest rate **0.09593%**
 (3M.EUR/Yen Libor + 7bp as of the end of Apr. 2017)
 Borrowing period **4 years**
 Start of loan period **April 4, 2017**

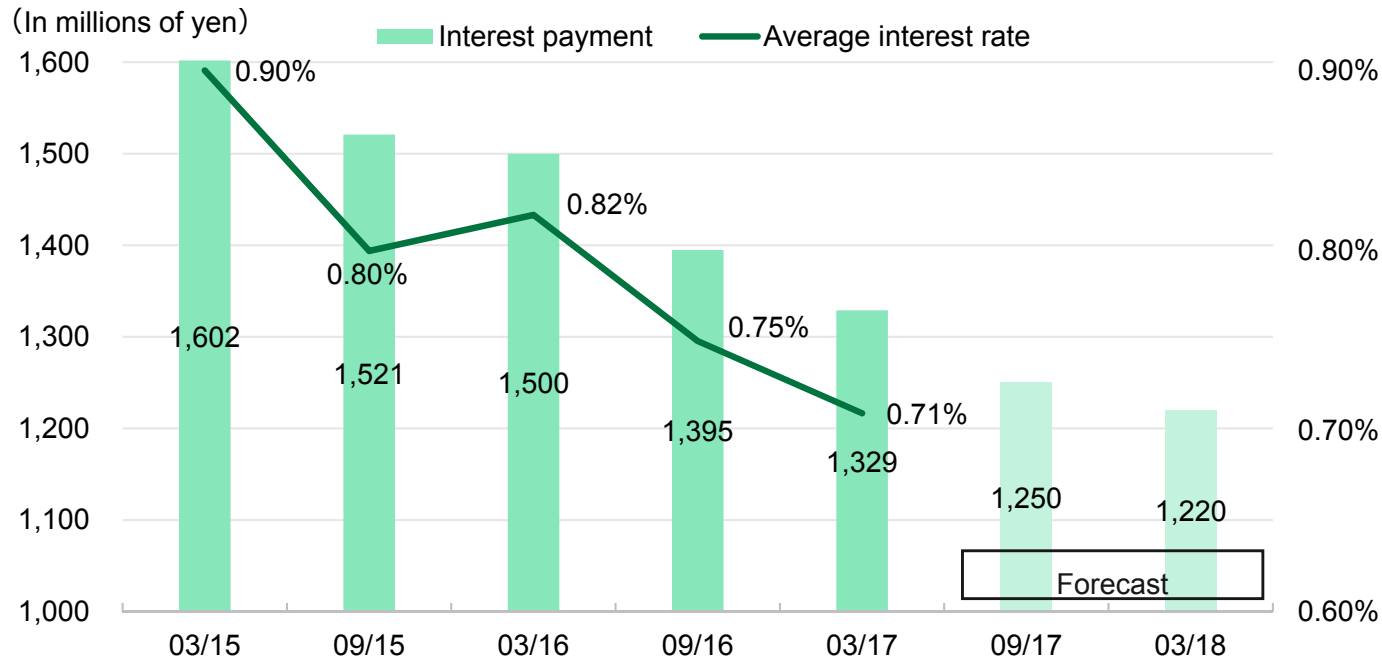
Lender **Mizuho Bank, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd.**
 Amount of loan **¥9,000 million (Total)**
 Interest rate **0.07%**
 (1M.Yen Tibor + 4bp as of the end of Apr. 2017)
 Borrowing period **1 year**
 Start of loan period **April 3, 2017**

Issuance of Private placement bonds with DBJ Green Building Certification (first attempt by J-REIT)

Amount of Issuance **¥10 billion**
 Interest rate **0.3975%**
 Term **10 years**
 Date of Issuance **March 30, 2017**

Financial Condition

Trend of Interest Payment



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

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

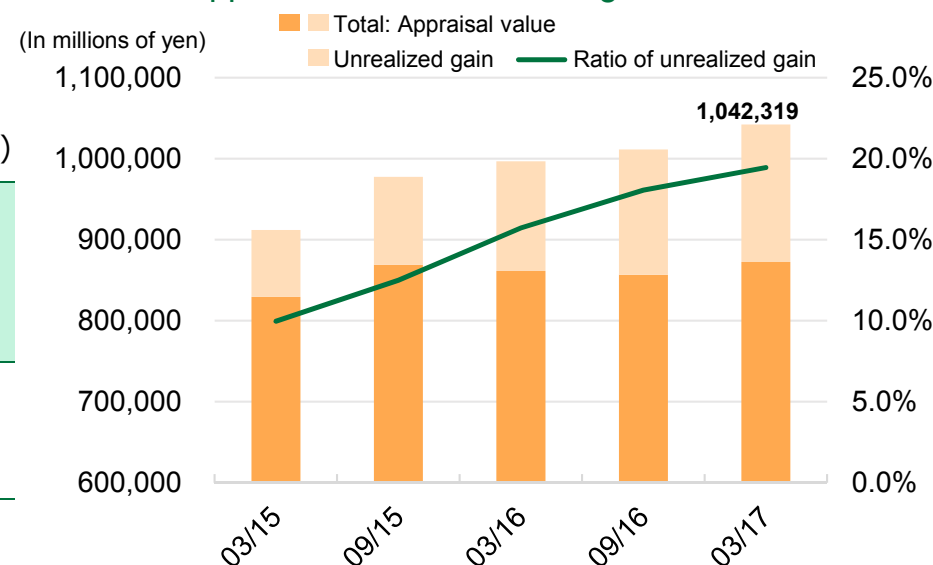
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Appraisal Values

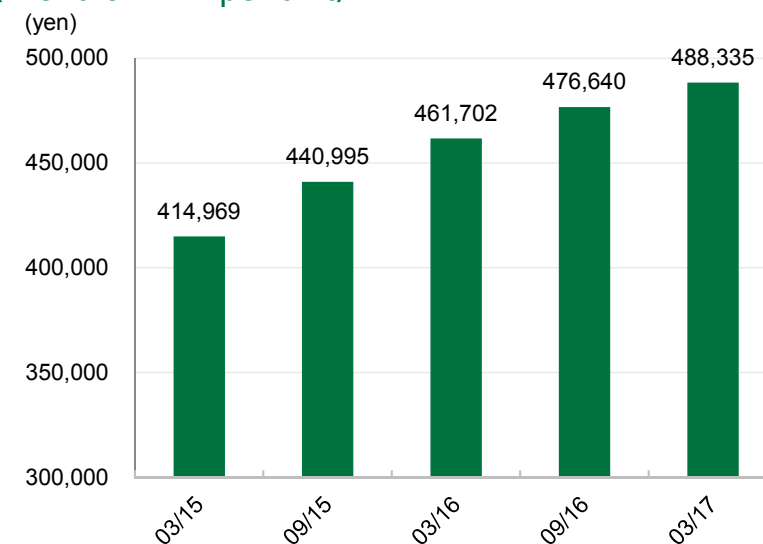
Summary of Appraisal Values

	End of Sep. '16 Period	Changes	End of Mar. '17 Period
			(In millions of yen)
Appraisal value	1,011,368	+ 30,951	1,042,319
Unrealized gain	154,710	+ 15,073	169,784
Ratio of unrealized gain	18.1%	+1.4pt	19.5%
NAV per unit	476,640 yen	+11,695 yen	488,335 yen

〈Trend of appraisal value/unrealized gain〉



〈Trend of NAV per unit〉



Trend of leasing market continues a tailwind.
In the sea of investment market, waves of high priced properties
come and go. I will drive safely and draw a ball from the right to
the left to avoid the dangerous sea.



Excellent shot!! It's flying well along with the effect of external
growth. A cloud of large office supply is slowly approaching,
but it shouldn't bring a heavy storm. Let's keep smart and
concentrate on our course management.

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. JRE shall assume no obligation to update or further disclose data regarding these forecasts after the date of this presentation.