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Financial Conditions



Japan Real Estate Investment Corporation

Performance Review

for Fiscal Period Ended September 30, 2017

November 15, 2017

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Summary (Financial Results for Sep. 2017 period)

DPU

9,096 yen

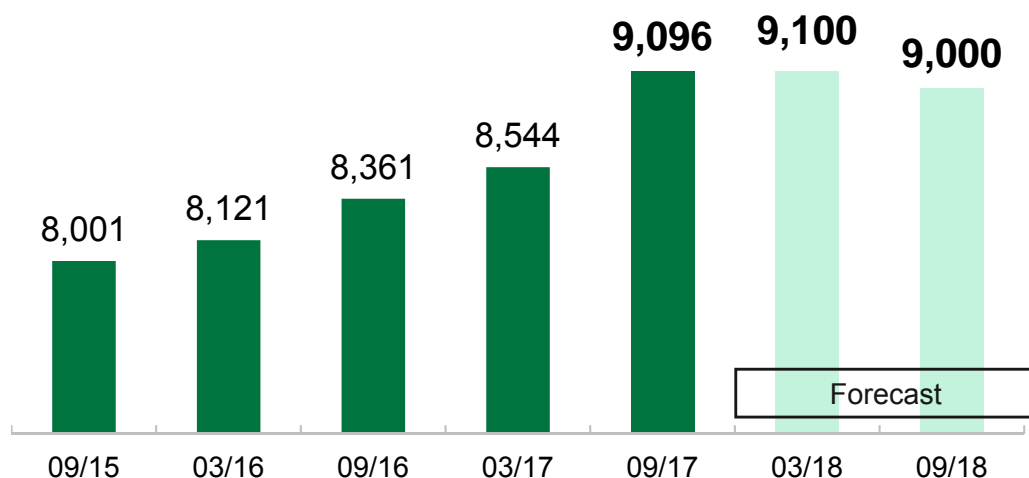
(vs. Mar. 2017 period: **+552 yen +6.5%**)

(vs. forecast announced in May 2017:

+286 yen +3.2%)

〈Trend of DPU〉

(yen)



Internal Growth

- Occupancy rate at the end of Sep. 2017 period **99.1%**
(highest since its IPO in 2001)
- Net increase in rent due to rent revision Monthly rent basis **+¥24 million**
- Net increase in rent due to tenant turnover Monthly rent basis **+¥11 million**

External Growth

- Additional Acquisition Shiodome Building **¥10,530 million**

Financial Strategy

- Interest-bearing debt at the end of Sep. 2017 period **¥375,500 million**
(vs. Mar. 2017 period: +¥6,500 million)
- Average interest rate **0.64%**
(vs. Mar. 2017 period: ↓0.07pt)

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Financial Results for Sep. 2017 period

vs. Mar. 2017 period Actual

(In millions of yen)

	Actual Mar. 2017 period	Changes	Actual Sep. 2017 period
Operating revenues	30,818	+899	31,718
Operating expenses	18,251	+288	18,539
Operating profit	12,567	+611	13,178
Ordinary profit	11,197	+723	11,921
Profit	11,186	+723	11,909
DPU	8,544 yen	+552 yen	9,096 yen

Main factors affecting increase and decrease

■ Operating revenues

Acquired and disposed properties	+390M
Existing properties	
Rent	+370M
Utilities and other revenues	+172M
Gain on sales of real estate properties	-33M

■ Operating expenses

Acquired and disposed properties	+118M
Existing properties	
Property management expenses	-132M
Utilities expenses	+205M
Property and other taxes	-1M
Repairing expenses	-98M
Depreciation	-36M

■ Non-operating expenses

Interest expenses	-104M
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Financial Results for Sep. 2017 period

vs. Forecasts

(In millions of yen)

	Forecast announced in May 2017	Changes	Actual Sep. 2017 period
Operating revenues	31,590	+128	31,718
Operating expenses	18,740	-200	18,539
Operating profit	12,840	+338	13,178
Ordinary profit	11,550	+371	11,921
Profit	11,540	+369	11,909
DPU	8,810 yen	+286 yen	9,096 yen

Main factors affecting increase and decrease

■ Operating revenues

Additional property acquisitions	+36M
Buildings (Other)	
Rent	+69M
Utilities and other revenues	+32M

■ Operating expenses

Additional property acquisitions	+11M
Buildings (Other)	
Property management expenses	+54M
Utilities expenses	-249M
Property and other taxes	-2M
Repairing expenses	-32M
Depreciation	+10M

■ Non-operating expenses

Interest expenses	-24M
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Performance Forecast for Mar. 2018 period

vs. Sep. 2017 period Actual

(In millions of yen)

	Actual Sep. 2017 period	Changes	Forecast Mar. 2018 period
Operating revenues	31,718	+1	31,720
Operating expenses	18,539	+0	18,540
Operating profit	13,178	+1	13,180
Ordinary profit	11,921	-1	11,920
Profit	11,909	+0	11,910
DPU	9,096 yen	+4 yen	9,100 yen

Main factors affecting increase and decrease

■ **Operating revenues**

Acquired properties	+173M
Existing properties	
Rent	-19M
Utilities and other revenues	-162M

■ **Operating expenses**

Acquired properties	+58M
Existing properties	-77M

■ **Non-operating expenses**

Interest expenses	-25M
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Performance Forecast for Sep. 2018 period

vs. Mar. 2018 period Forecast

(In millions of yen)

	Forecast Mar. 2018 period	Changes	Forecast Sep. 2018 period
Operating revenues	31,720	+40	31,760
Operating expenses	18,540	+210	18,750
Operating profit	13,180	-170	13,010
Ordinary profit	11,920	-130	11,790
Profit	11,910	-130	11,780
DPU	9,100 yen	-100 yen	9,000 yen

Main factors affecting increase and decrease

■ **Operating revenues**

Rent	+70M
Utilities and other revenues	-30M

■ **Operating expenses**

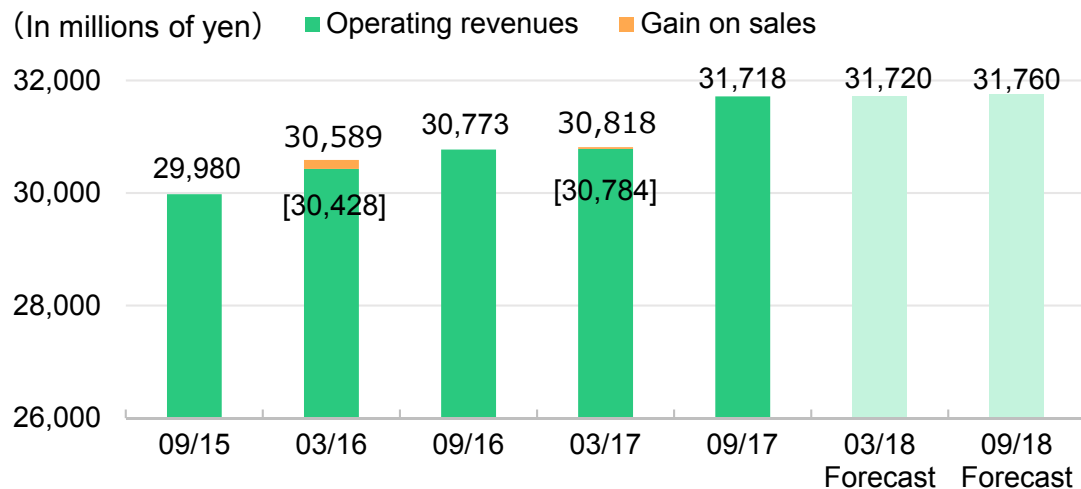
Property-related expenses	+230M
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■ **Non-operating expenses**

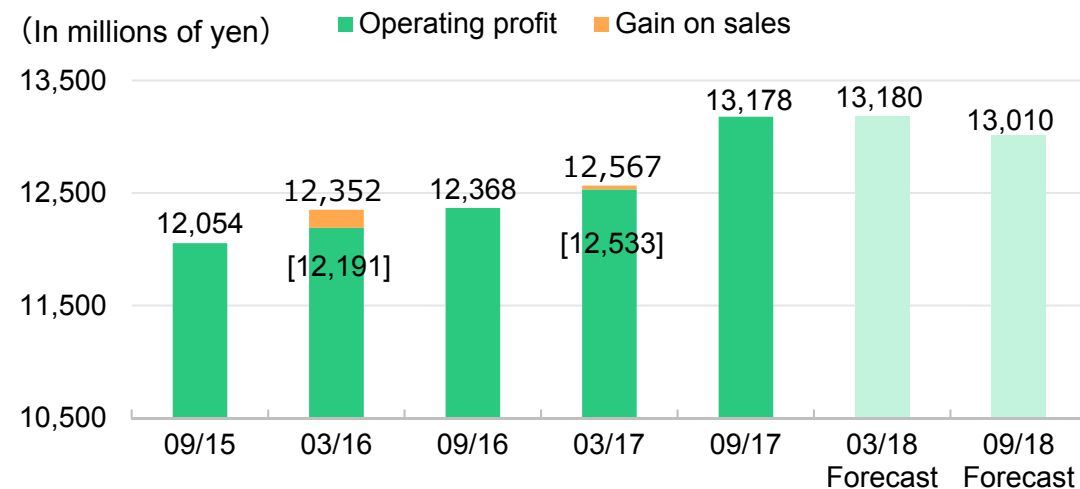
Interest expenses	-20M
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Summary of Performance Indices

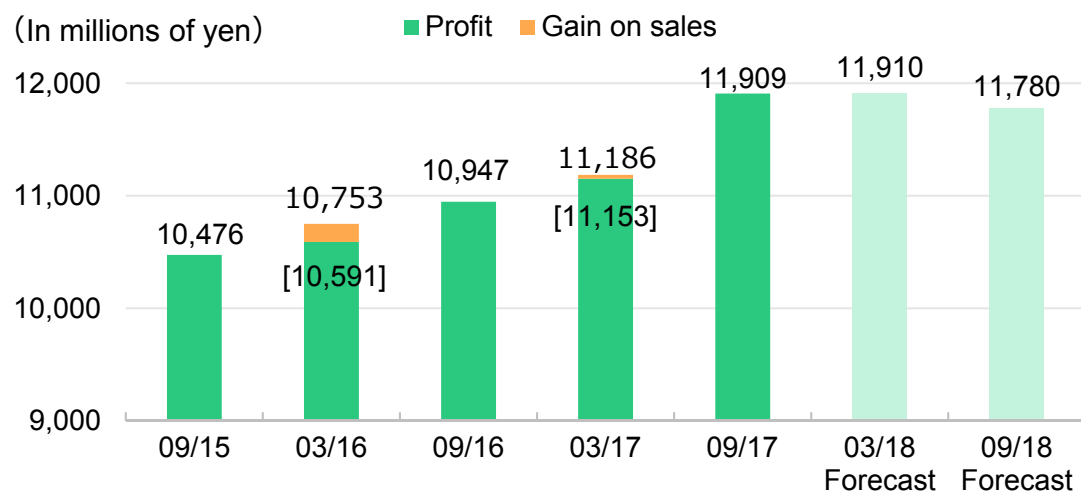
〈Trend of operating revenues〉



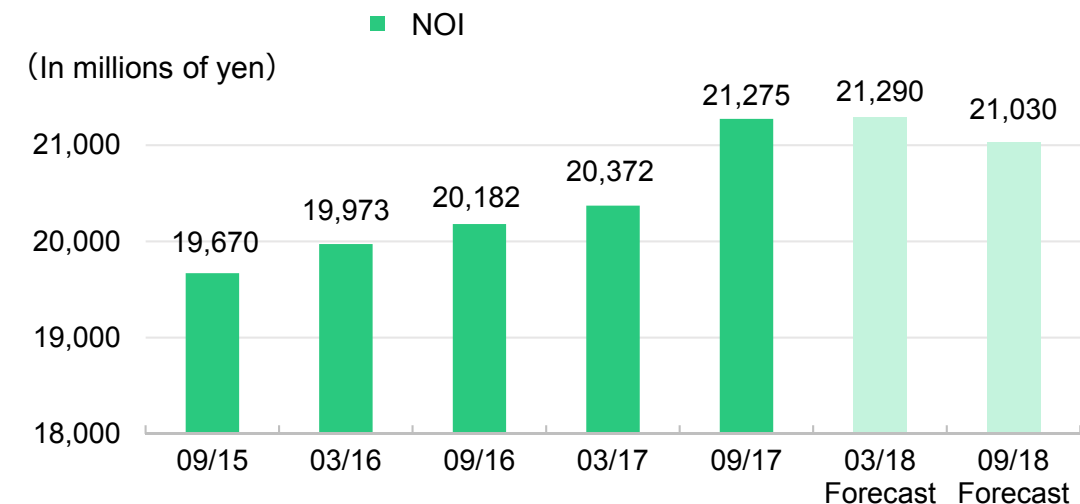
〈Trend of operating profit〉



〈Trend of profit〉



〈Trend of NOI〉

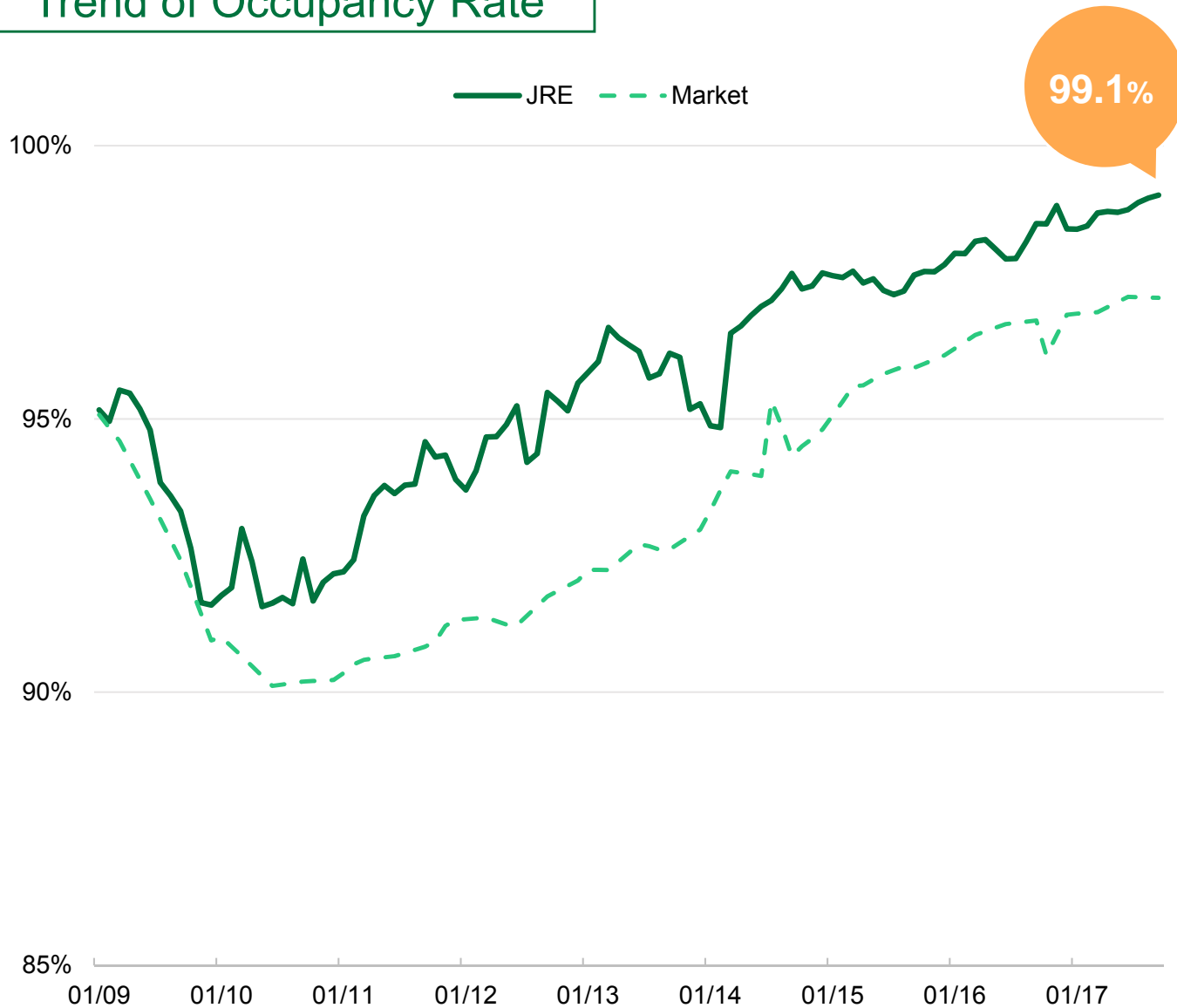


※ Amounts in [] do not include gain on sales

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Internal Growth

Trend of 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 Sep. 2017 period **exceeded the previous period (98.8% as of Mar. 2017 period)** which was the highest since its IPO in 2001
- Estimated occupancy rate of the portfolio for the end of Mar. 2018 period is **98.8%**

※Source: CBRE

Internal Growth

Net Increase of Monthly Contract Rent

Monthly contract rent as of the end of Sep. 2017 period

¥4,752 million

(Increase from Mar. 2017 period: **+¥74 million+1.6%**)

External Growth
+¥38 million

Internal Growth
+¥36 million

Tenant Turnover: **+11**
(Leased +99 Returned -87)

Rent Revision: **+24**
(Increase +25 Decrease -0.4)

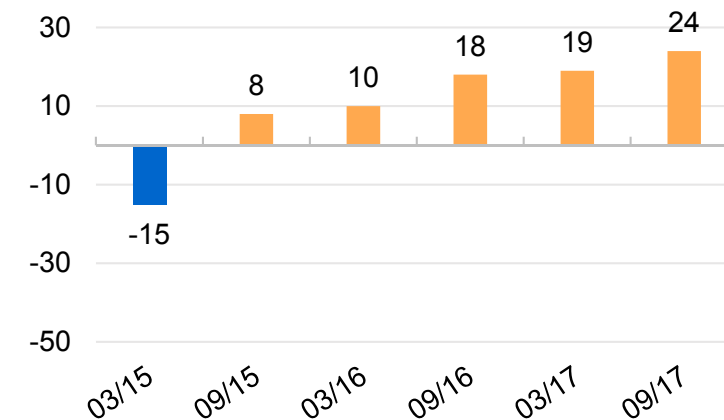
Monthly contract rent as of the end of Mar. 2017 period

¥4,678 million

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

〈Trend of rent revision (net change)〉

(In millions of yen)



Internal Growth

Assessed Rent of the Portfolio

Properties with assessed rent increased from the preceding six months

42 / 61 properties

Tokyo Central 3 Wards

13 / 18 properties Increase rate of **1.9%**

Other Tokyo 20 Wards

10 / 15 properties Increase rate of **2.6%**

Other Areas

19 / 28 properties Increase rate of **3.8%**

■ Both properties with increase in assessed rent and increase rate have exceeded the previous period, and is continuing its moderate increase.

■ Zero properties with decline in assessed rent.

■ Actual for the Previous period

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%

※ Of the 68 properties held in total by JRE as of September 30, 2017, 61 properties which are comparable with the assessed rent for the preceding six months (excluding properties in unusual situations, including single-tenant leased properties) are subject to the comparison.

Internal Growth

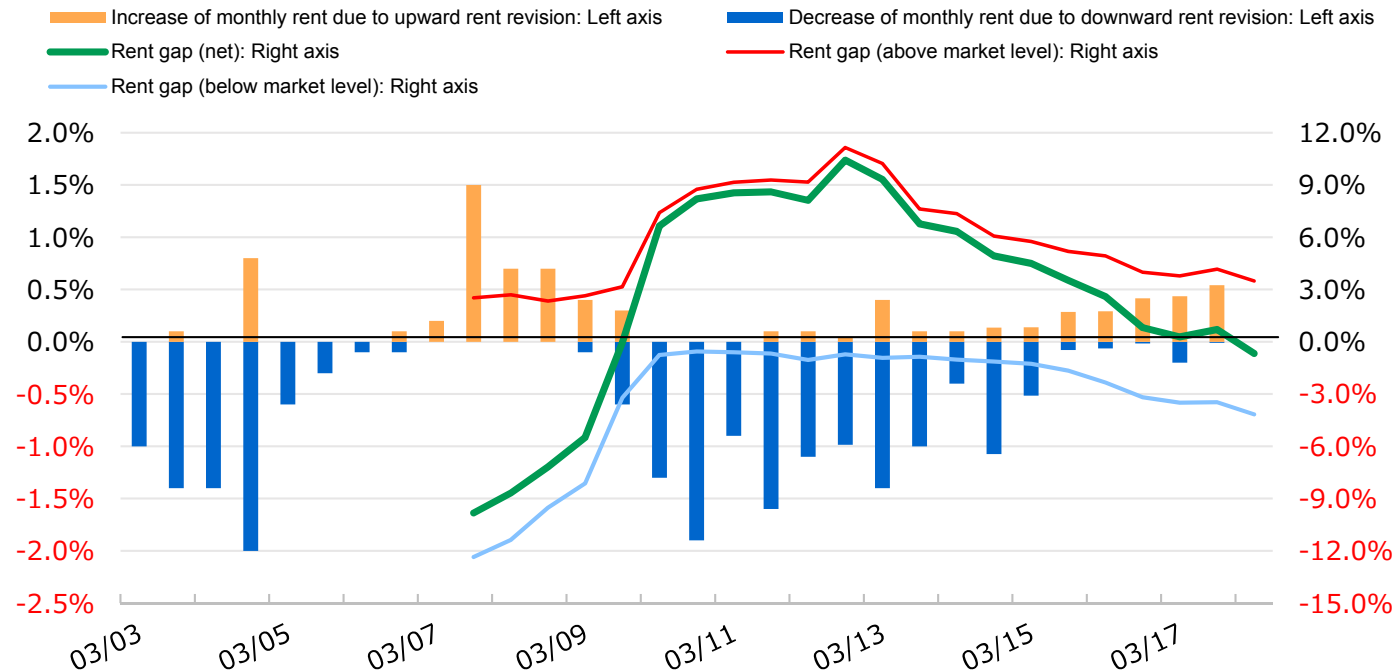
Rent Gap

Rent gap of overall portfolio

-¥32 million

(Gap Ratio: **-0.7%**)

Trend of Rent Gap



- Market rent exceeded the rent of overall portfolio due to increase in assessed rent.
- Upward rent revision was smoothly in progress during Sep. 2017 period and is expected to continue.

※Aggregated calculation excluding lease agreements in which revenues are fixed more than 1 year from the beginning of each period due to fixed-term lease agreement, etc.

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External Growth

Additional acquisition of Shiodome Building

■ Details of the property

Location: **1-2-20, 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**

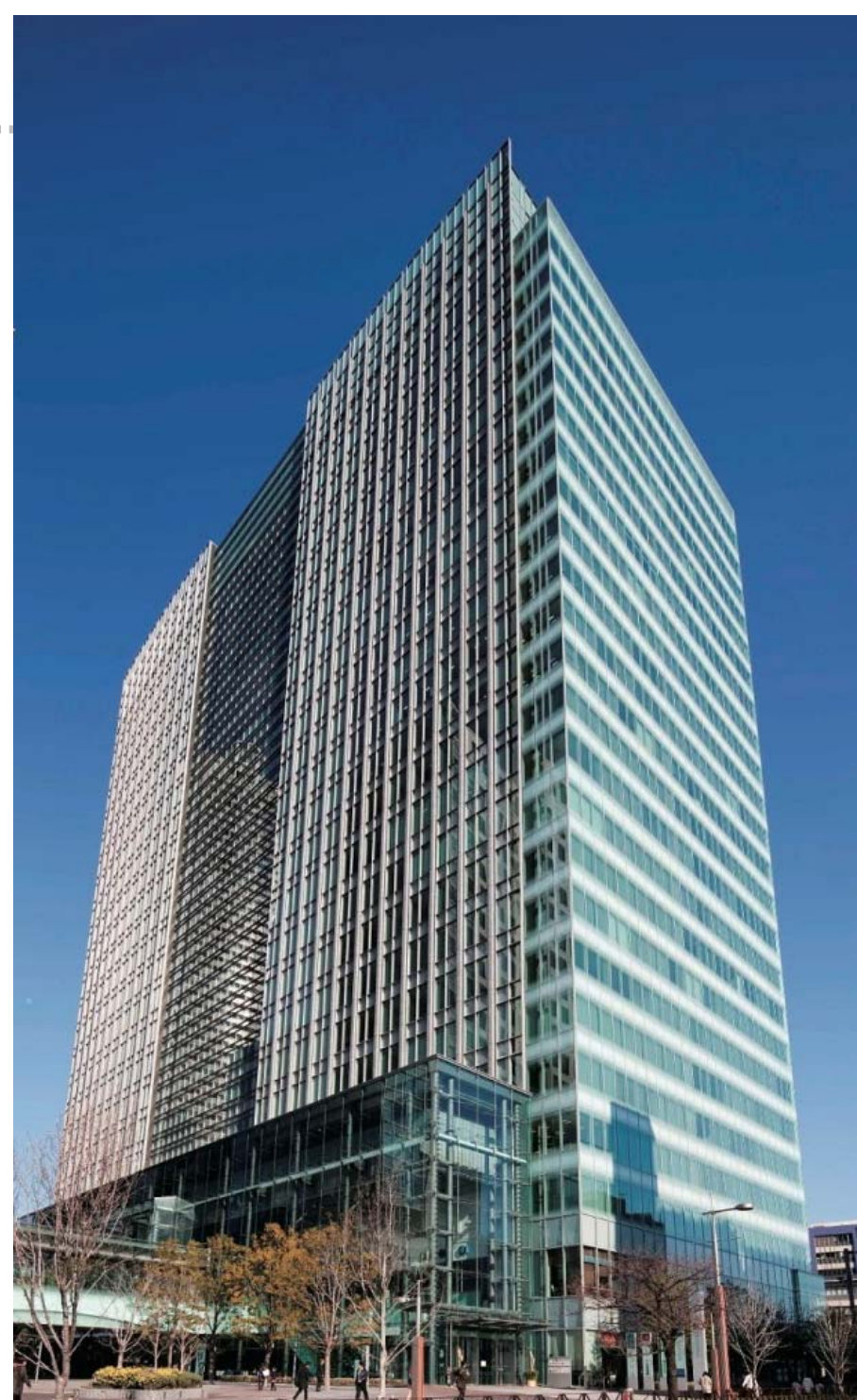
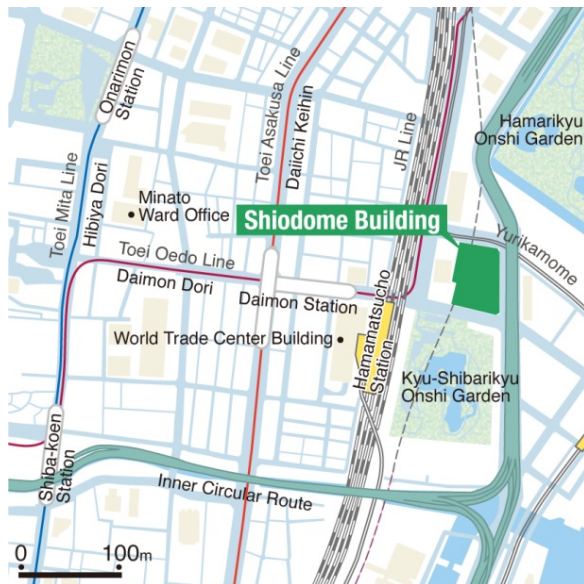
■ Acquisition price **¥10,530 million**

(Acquired additional 5% of the entire building/JRE's share: 50%→55%)

■ Date of acquisition **September 1, 2017**

■ Estimated NOI **¥368 million per year** (NOI yield **3.5%**)

■ Seller **Mitsui & Co. Real Estate Ltd.**



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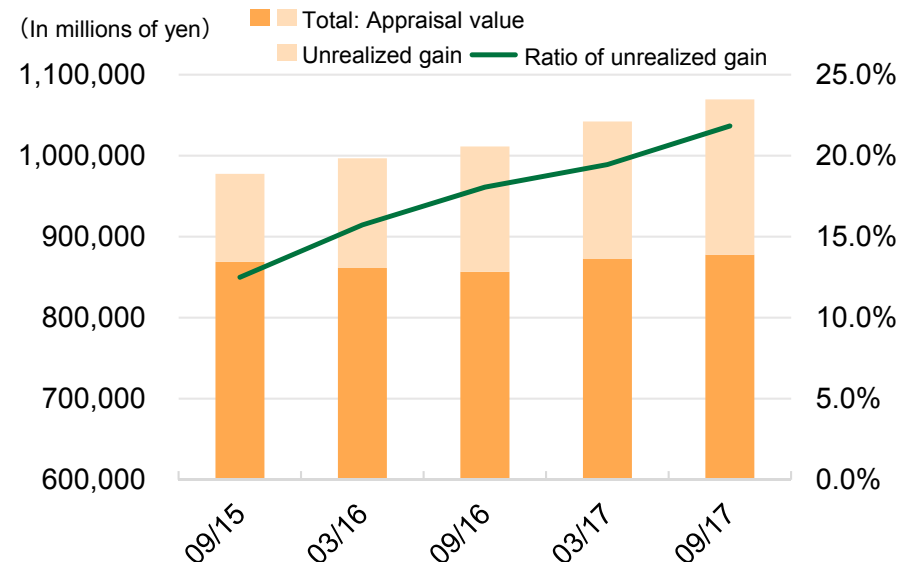
Appraisal Values

Summary of Appraisal Values

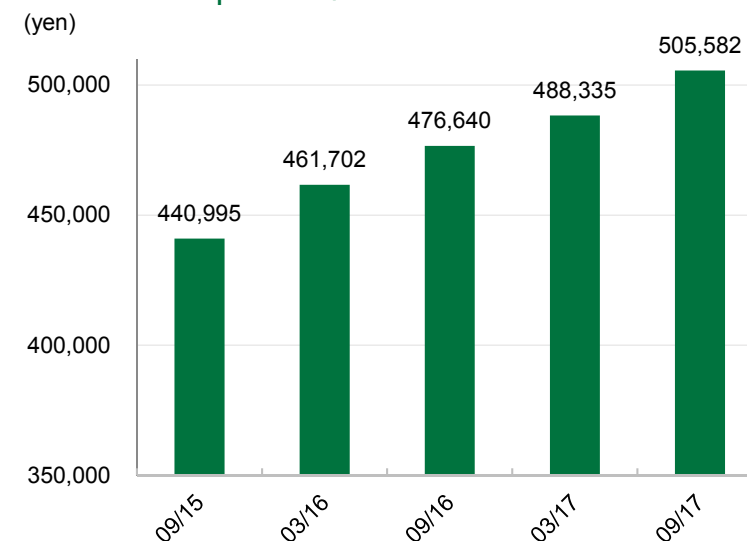
(In millions of yen)

	End of Mar. 2017 period	Changes	End of Sep. 2017 period
Appraisal value	1,042,319	+27,161	1,069,480
Unrealized gain	169,784	+21,858	191,642
Ratio of unrealized gain	19.5%	+2.4pt	21.8%
NAV per unit	488,335 yen	+17,247 yen	505,582 yen

〈Trend of appraisal value/unrealized gain〉



〈Trend of NAV per unit〉



Financial Conditions

Summary of Debts

(In millions of yen)

	End of Mar. 2017 period	Changes	End of Sep. 2017 period
Balance of interest-bearing debt	369,000	+6,500	375,500
LTV (Book value basis)	41.1%	+0.3pt	41.4%
LTV (Market value basis)	34.5%	-0.4pt	34.2%

※ 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 Sep. 2017 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 Conditions

Average Interest Rate and Maturity

(In millions of yen)

	Balance	Average interest rate	Average maturity
Short-term loans	34,500	0.07%	0.44 years
Long-term Loans (Variable interest)	17,000	0.05%	5.03 years
Current portion of long-term loans (Fixed interest), Investment corporation bonds	46,000	0.89%	0.63 years
Long-term loans (Fixed interest), Investment corporation bonds	278,000	0.70%	4.87 years
Total interest-bearing debt	375,500	0.64%	3.95 years

Recent borrowings

Lender	The Norinchukin Bank
Amount of loan	¥5,000 million
Interest rate	0.24% (Fix)
Borrowing period	7 years
Start of loan period	September 1, 2017
Lender	The Bank of Fukuoka, Ltd.
Amount of loan	¥1,500 million
Interest rate	0.1325% (Fix)
Borrowing period	4 years
Start of loan period	August 31, 2017
Lender	Shinkin Central Bank, Resona Bank, Limited
Amount of loan	¥2,000 million (Total)
Interest rate	0.07%
(1M. JPY Tibor + 4bp as of the end of Oct. 2017)	
Borrowing period	1 year
Start of loan period	September 1, 2017

■ Issuance of USD-denominated investment corporation bonds (private placement)

Amount of issuance	USD26,500,000
Interest rate	3.02% (USD)

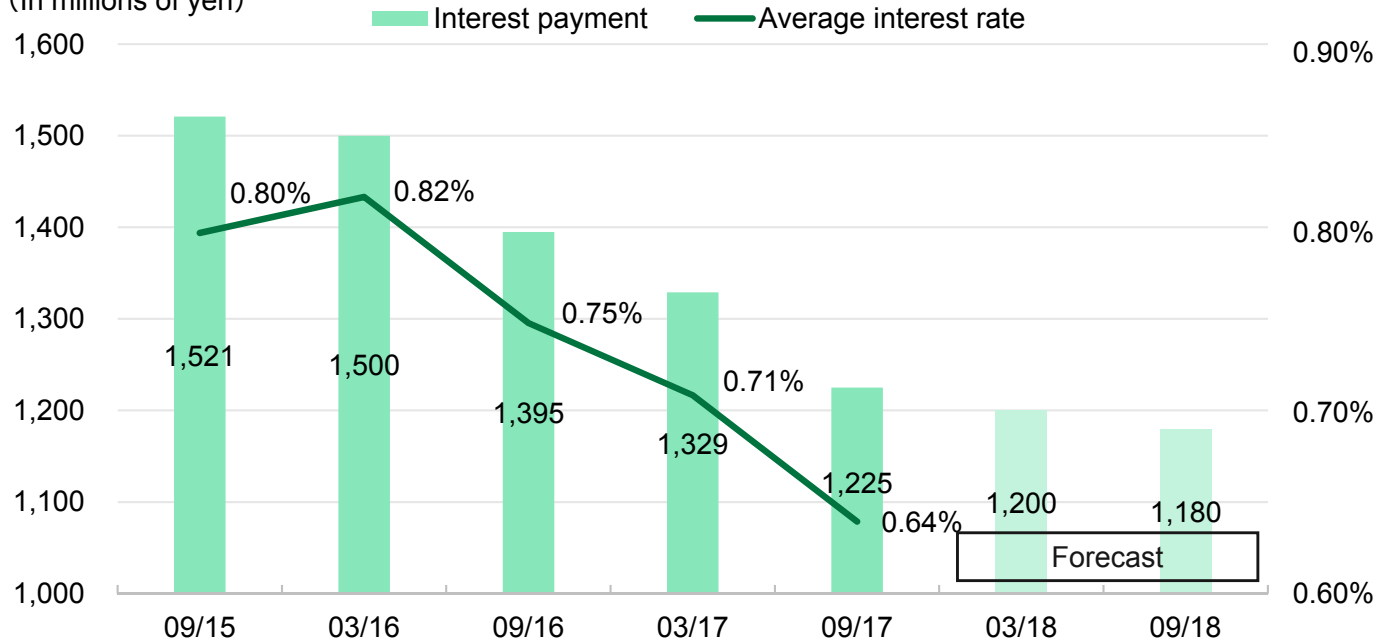
Due to currency swap, funds/interest rates are:
approx. **¥2,993 million / 0.2788%**
(JPY fixed interest)

Term	10 years
Date of issuance	October 26, 2017
Placement Agent/FA	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Financial Conditions

Trend of Interest Payment

(In millions of yen)



■ Gradual decline of interest payment is expected after Sep. 2017 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

A large cloud of office supply is fading away.
I will use a longer club to hit against the wind of
property tax raise.



Opposing wind is temporarily blowing against the unit price but the market for leased office space continues to be strong. Let's continue to concentrate on our course management in this hole, avoiding waves of high priced properties.

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.