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Financial Conditions

Japan Real Estate Investment Corporation

Performance Review

for Fiscal Period Ended September 30, 2018

November 15, 2018

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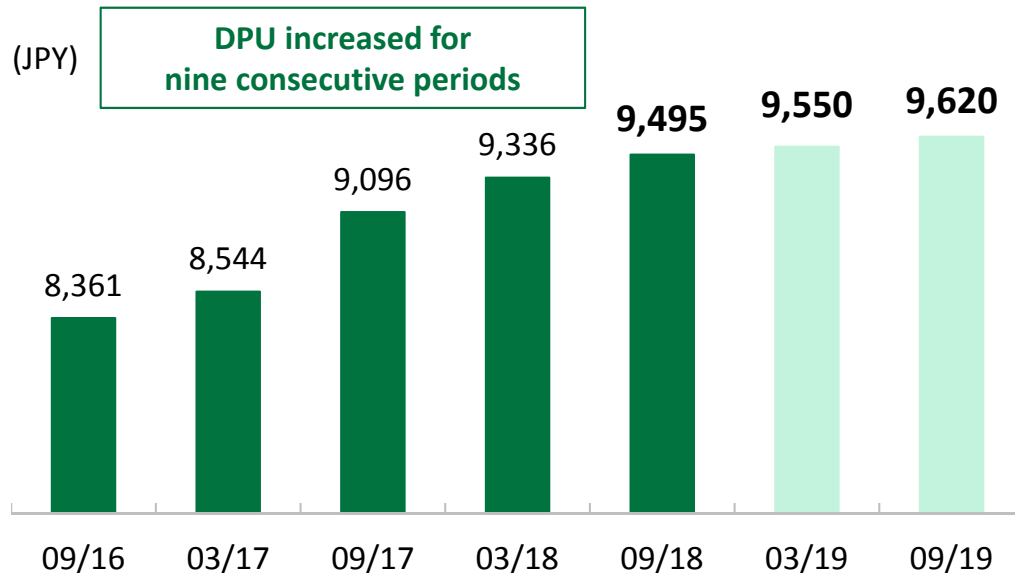
Summary (Financial Results for Sep. 2018 period)

DPU

JPY 9,495

(vs. Mar. 2018 period: **+JPY 159 +1.7%**)

(vs. forecast announced in May 2018:
+JPY 355 +3.9%)



Internal Growth

- Portfolio occupancy rate at the end of Sep. 2018
▶ **99.2%**
- Net increase in rent by rent revision
▶ **+JPY 15 million per month**
- Net increase in rent by tenant turnover
▶ **+JPY 4 million per month**

External Growth

- Acquisition **Shinjuku Front Tower**
▶ **JPY 25,025 million in total**
- Partial disposal **Lit City Building (retail units)**
▶ **JPY 650 million in total**
(Disposition price)

Financial Strategy

- Decrease in interest expenses (vs. Mar. 2018 period)
▶ **-JPY 59 million**
- Average interest rate
▶ **0.56%**
(vs. Mar. 2018 period: ↓0.02pt)

Summary (The 11th Public Offering)

Outline of PO

Type of the issuance	Domestic offering
Number of units of issuance	75,900 units (Public offering: 69,000 units, O.A. : 6,900 units)
Price (Offering price)	JPY 533,120 per unit
Value (Paid in amount)	JPY 516,800 per unit
Total issue value	JPY 39,225,120,000 (Including Third-Party Allocation)
Resolution date of the issuance	28 March 2018
Price determination date	9 April 2018
Payment date	16 April 2018 *Third-Party Allocation: 9 May 2018

Before and After PO

	30 September 2017	After the PO
Total acquisition price	JPY 955 billion	JPY 1.152 trillion
Average building age	18.0 years	16.9 years
LTV	41.4%	40.5%

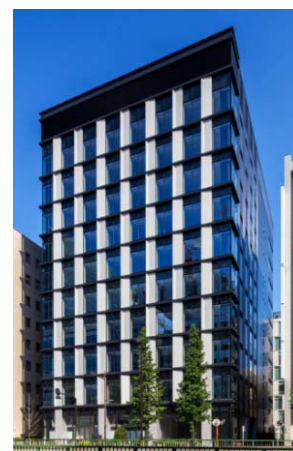
Use of funds

Acquisitions JPY **68 billion** in total

- Acquired 3 competitive properties located in Tokyo central 5 wards -

	Front Place Nihonbashi	Shinjuku Eastside Square	Shinjuku Front Tower
Location	Chuo-ku, Tokyo	Shinjuku-ku, Tokyo	Shinjuku-ku, Tokyo
Completion	2014	2012	2011
Acquisition	19 January 2018	30 March 2018	17 April 2018
Price	JPY 17.5 bn.	JPY 25.4 bn.	JPY 25.0 bn.
NOI yield	3.5%	4.2%	4.0%

※NOI is our estimate when stabilized.



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Financial Results for Sep. 2018 period

vs. Mar. 2018 period Actual

(In millions of JPY)

	Actual Mar. 2018 period	Changes	Actual Sep. 2018 period
Operating revenues	31,955	+1,111	33,066
Leasing	31,816	+979	32,795
Gain on sale	138	+132	270
Operating expenses	18,358	+128	18,487
Operating profit	13,596	+982	14,578
Profit	12,291	+982	13,273
Reserve	67	+53	120
Total Dividends	12,223	+928	13,152
DPU	JPY 9,336	+JPY 159	JPY 9,495

Reason for changes

■ Operating revenues

- Acquired / disposed properties +816M
- Existing properties
 - Rent +201M
 - Utilities +71M
 - Cash receipt in lieu of reinstatement cost -97M
- Gain on sale +132M
(Contribution to dividends is +45M because part of the gain has been reserved)

■ Operating expenses

- Acquired / disposed properties -14M
- Existing properties
 - Property management -120M
 - Utilities +265M
 - Repair -155M
 - Land and building taxes +150M

■ Non-operating expenses

- Interest expenses -59M
- Public Offering expenses +61M

Financial Results for Sep. 2018 period

vs. Forecasts

(In millions of JPY)

	Forecast announced in Mar. 2018 period	Changes	Actual Sep. 2018 period
Operating revenues	32,630	+436	33,066
Leasing	32,630	+165	32,795
Gain on sale	—	+270	270
Operating expenses	18,700	-212	18,487
Operating profit	13,930	+648	14,578
Profit	12,660	+613	13,273
Reserve	0	+120	120
Total Dividends	12,660	+492	13,152
DPU	JPY 9,140	+JPY 355	JPY 9,495

Reason for changes

■ Operating revenues

- Existing properties
 - Rent +61M
 - Utilities +51M
 - Cash receipt in lieu of reinstatement cost +36M
- Gain on sale +270M
(Contribution to dividends is +81M because part of the gain has been reserved)

■ Operating expenses

- Existing properties
 - Property management -20M
 - Utilities -56M
 - Repair -166M

■ Non-operating expenses

- Interest expenses -19M

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Performance Forecast for Mar. 2019 period

vs. Sep. 2018 period Actual

(In millions of JPY)

	Actual Sep. 2018 period	Changes	Forecast Mar. 2019 period
Operating revenues	33,066	-236	32,830
Leasing	32,795	+34	32,830
Gain on sale	270	-270	—
Operating expenses	18,487	-17	18,470
Operating profit	14,578	-228	14,350
Profit	13,273	-43	13,230
Reserve	120	-120	0
Total Dividends	13,152	+77	13,230
DPU	JPY 9,495	+JPY 55	JPY 9,550

Reason for changes

■ Operating revenues

- Existing properties
 - Rent +24M
- Gain on sale -270M
(Impact on dividends is -81M because part of the gain has been reserved)

■ Operating expenses

- Existing properties -22M

■ Non-operating expenses

- Interest expenses -60M
- Public Offering expenses -61M

Performance Forecast for Sep. 2019 period

vs. Mar. 2019 period Forecast

(In millions of JPY)

	Forecast Mar. 2019 period	Changes	Forecast Sep. 2019 period
Operating revenues	32,830	+360	33,190
Leasing	32,830	+360	33,190
Gain on sale	—	—	—
Operating expenses	18,470	+270	18,740
Operating profit	14,350	+100	14,450
Profit	13,230	+90	13,320
DPU	JPY 9,550	+JPY 70	JPY 9,620

Reason for changes

■ **Operating revenues**

Rent +370M

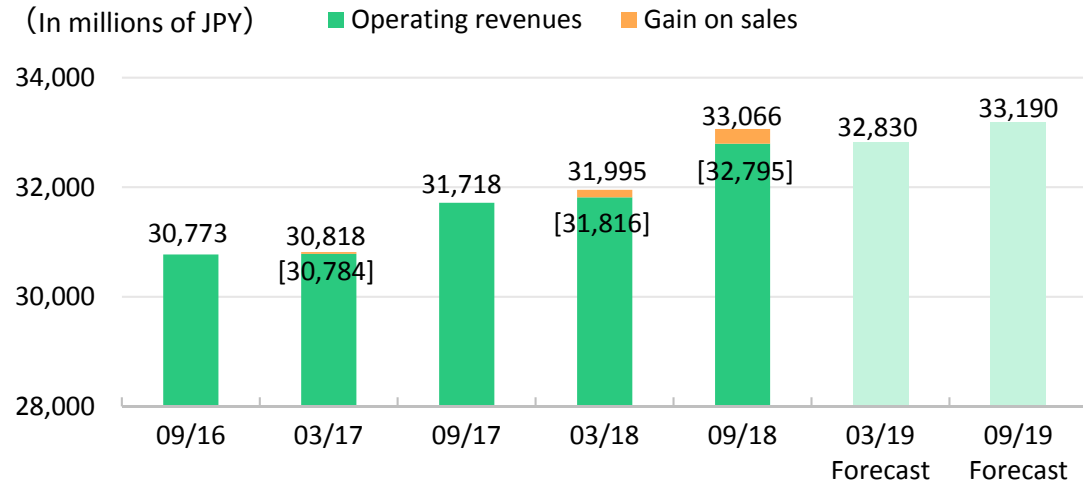
■ **Operating expenses**

Land and building taxes on properties acquired in 2018 +140M

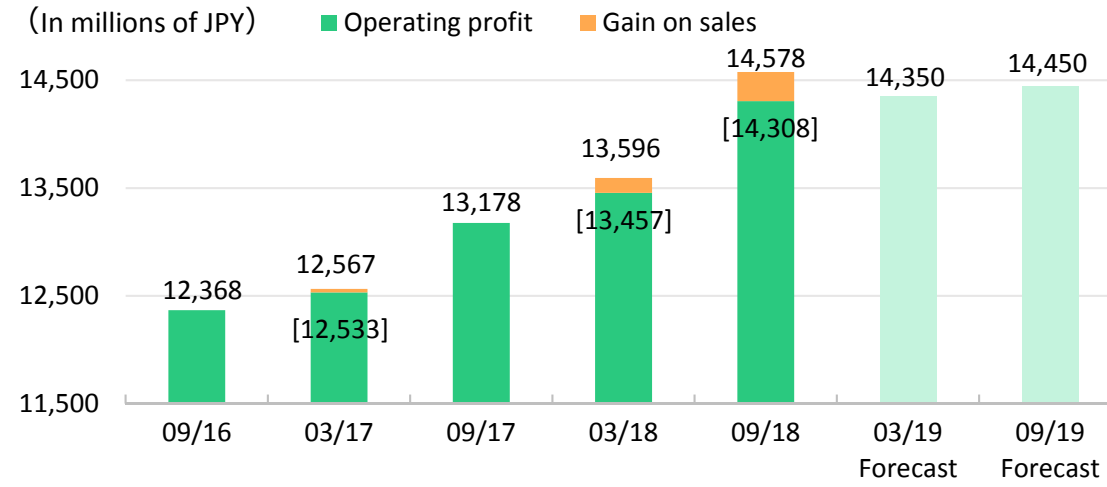
Land and building taxes on existing properties +90M

Summary of Performance Indices

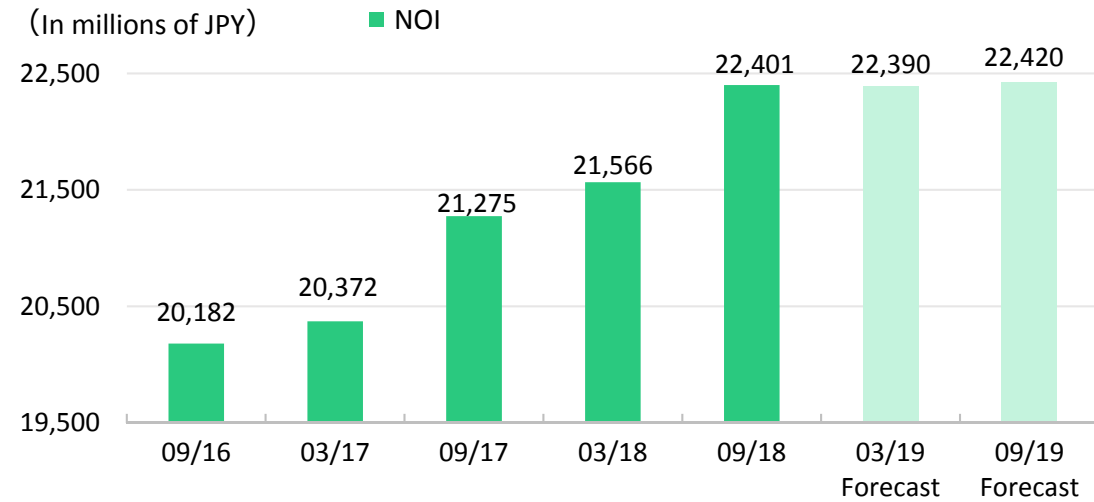
〈Operating revenues〉



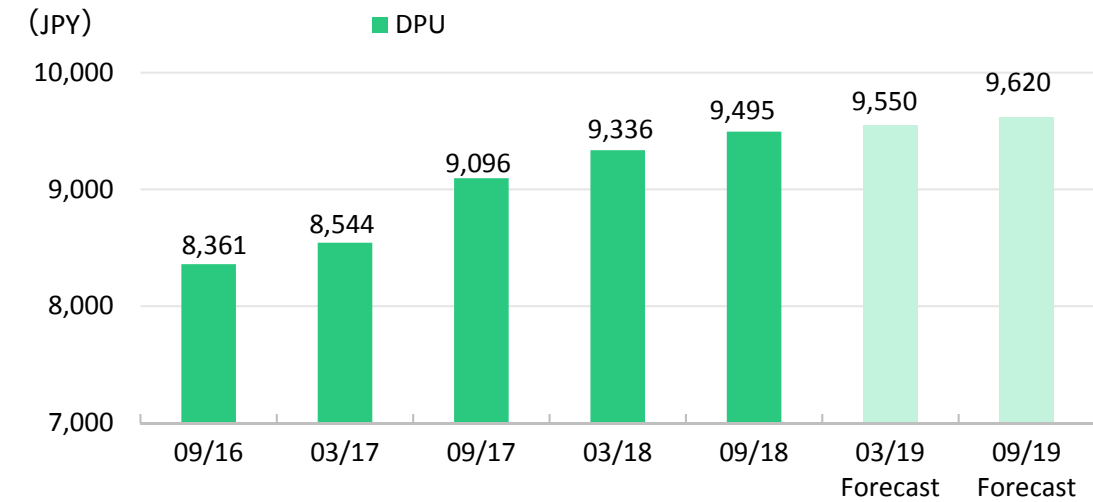
〈Operating profit〉



〈NOI〉



〈DPU〉

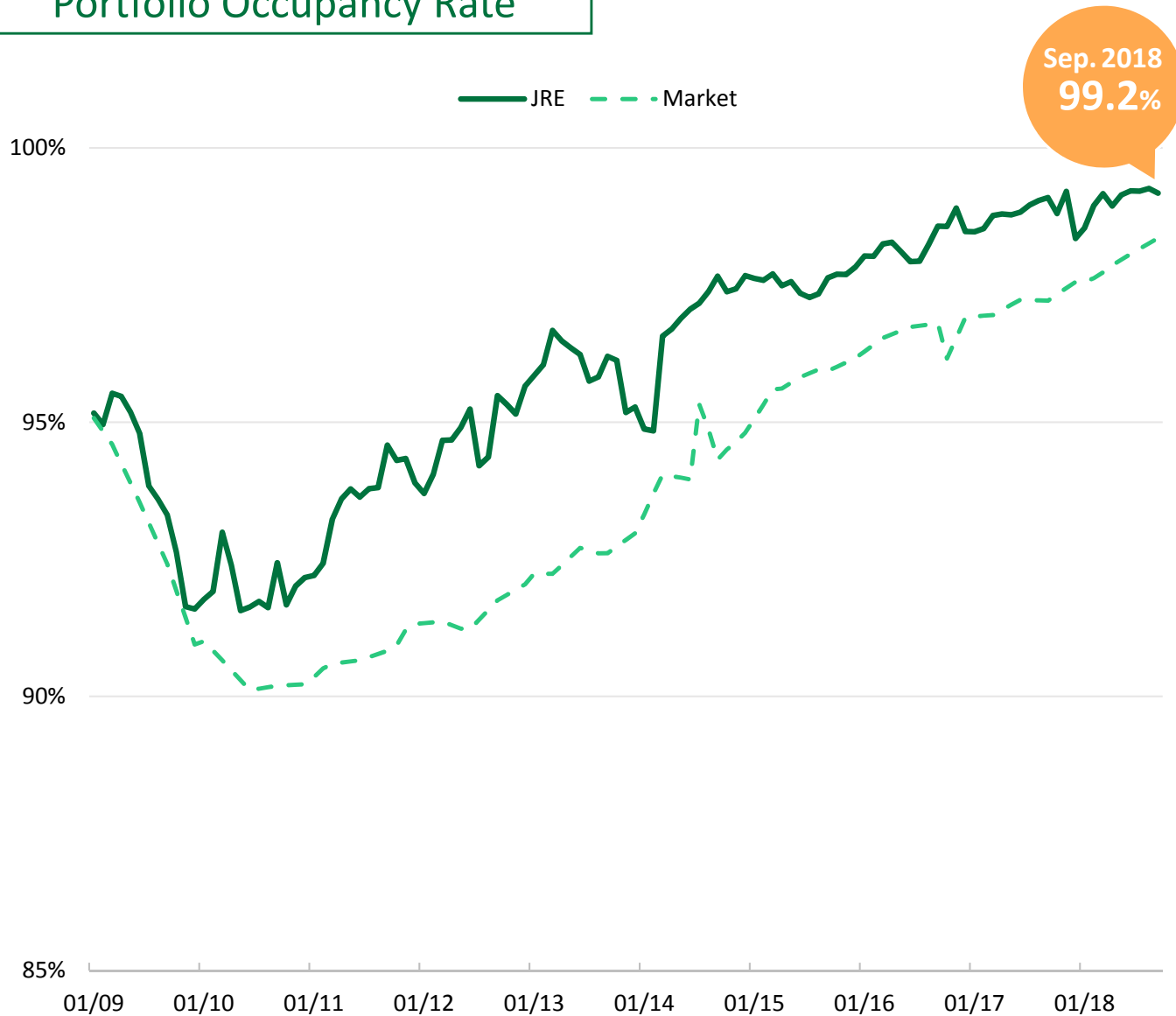


※ Amounts in [] do not include gain on sales

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Internal Growth

Portfolio Occupancy Rate



- JRE's occupancy rate always exceeds market occupancy rate
- 99.2% occupancy rate was **the highest** since IPO in 2001
- Estimated occupancy rate at the end of Mar. 2019 is **99.3%**

※Source: CBRE

Net Increase of Monthly Contract Rent

Monthly contract rent as of 30 September 2018

JPY 4,816 million

(Increase from Mar. 2018 period: **+JPY 118million +2.5%**)

External Growth

+JPY 98 million

Property Acquisition: **+102**

Property Disposal: **-3**

Internal Growth

+JPY 19 million

Tenant Turnover: **+4**
(Leased +125 Returned -121)

Rent Revision: **+15**
(Increase +15 Decrease -0.4)

Monthly contract rent as of 31 March 2018

JPY 4,697 million

- Net rent revision has been positive for seven consecutive periods

Market Rent of the Portfolio reported by CBRE

Number of properties with the market rent increased
in the last 6 months

36 out of **62** properties

Tokyo Central 5 Wards

15 out of 27 properties Average Increase rate **1.8%**

Other Tokyo 18 Wards

3 out of 7 properties Average Increase rate **2.3%**

Other Areas

18 out of 28 properties Average Increase rate **3.9%**

■ Market rent continues moderate increase

■ No property sees decline in market rent

■ Previous 6 months

Total: 32 out of 61 properties

Tokyo central 5 wards: 15 out of 26 properties

Increase rate 2.3%

Other Tokyo 18 wards: 3 out of 7 properties

Increase rate 1.4%

Other areas: 14 out of 28 properties

Increase rate 2.6%

※ Of the 69 properties held in total by JRE as of 30 September 2018, 62 properties (excluding properties such as single-tenant properties) are subject to the comparison.

Rent Gap

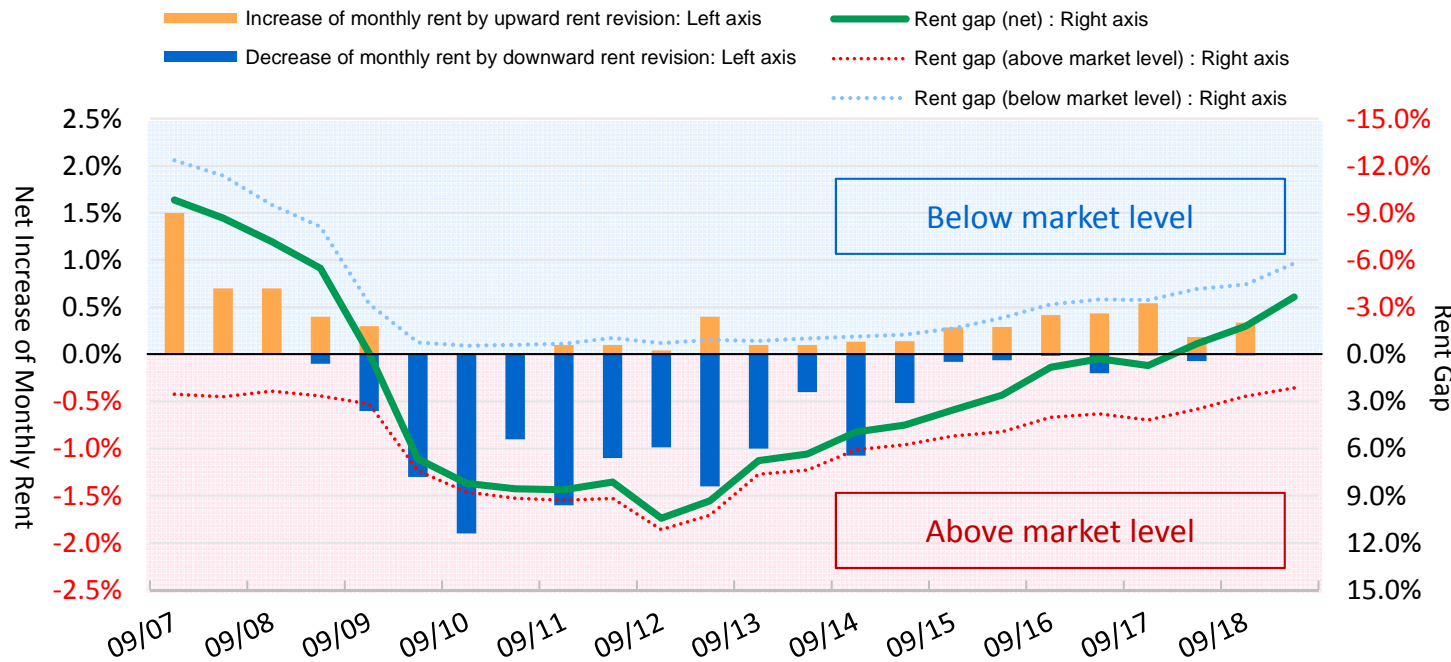
Rent gap of overall portfolio

-JPY 176 million

-3.7% (Below market level)

- Rent gap favourably widened by increase in market rent.
- Upward rent revision is expected to continue.

Rent Gap



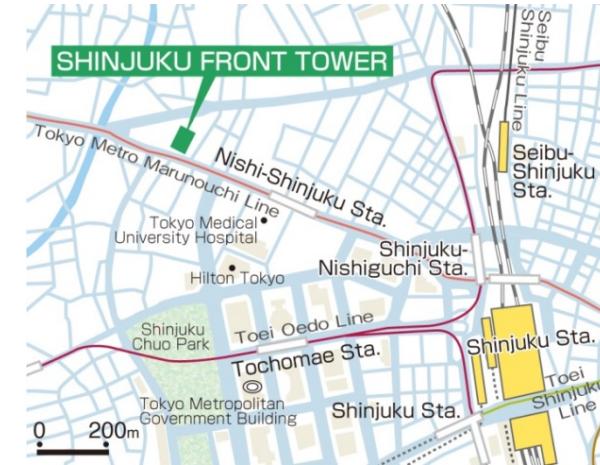
※Excluding lease agreements in which revenues are fixed more than 1 year from the beginning of each period under fixed-term lease agreement.

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External Growth

Acquisition of Shinjuku Front Tower

- Details of the property
 - Location: **2-21-1, Kita-Shinjuku, Shinjuku-ku, Tokyo**
 - Building: **Above ground: 35 floors**
 - Total floor area **92,092m²** (Entire building)
 - Leasable floor area **15,705m²** (27.24798% share)
 - Completion: **August 2011**
- Acquisition price **JPY 25,025 million**
(Share of ownership: 27.24798%)
- Date of acquisition **17 April 2018**
- Estimated NOI **JPY 1,006 million per year** (NOI yield 4.0%)
- Seller **Mitsubishi Estate Co., Ltd.**



Disposal of Lit City Building (retail units)

- Details of the property
 - Location: **15-1 Ekimoto-machi, Kita-ku, Okayama City, Okayama Prefecture**
 - Completion: **June 2005**
- Disposal price **JPY 650 million**
- Book value **JPY 370 million**
- Date of disposal **28 September 2018**
- JRE continues to have the ownership of the office part (the 3rd through 7th floor) of the building.



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Appraisal Values

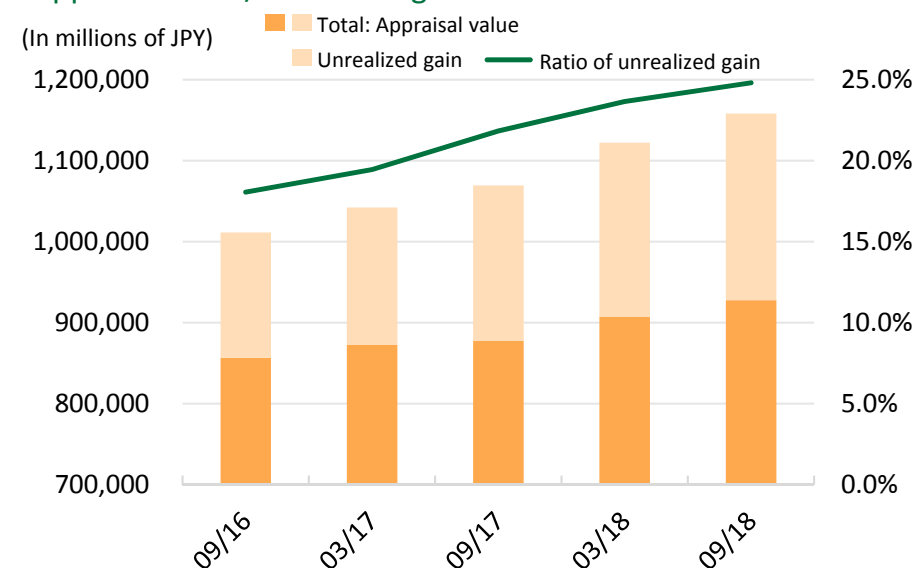
Summary of Appraisal Values

(In millions of JPY)

	Mar. 2018	Changes	Sep. 2018
Appraisal value	1,122,210	+35,930	1,158,140
Unrealized gain	214,632	+15,598	230,231
Ratio of unrealized gain	23.6%	+1.2pt	24.8%
NAV per unit	JPY 523,432	+JPY 11,655	JPY 535,088

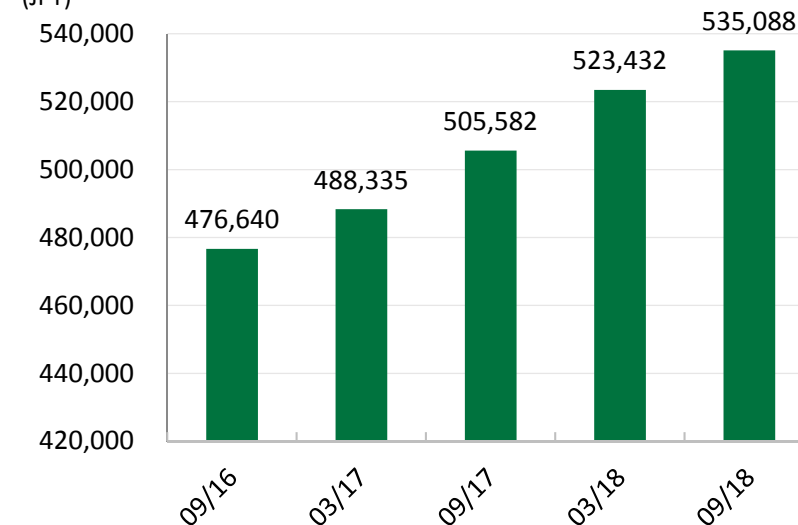
〈Appraisal value/unrealized gain〉

(In millions of JPY)



〈NAV per unit〉

(JPY)



Financial Conditions

Debt and LTV

(In millions of JPY)

	Mar. 2018	Changes	Sep. 2018
Debt Balance	403,993	-19,500	384,493
LTV (Book value basis)	43.2%	-3.0pt	40.2%
LTV (Market value basis)	36.0%	-2.8pt	33.2%

※ Market value based LTV is calculated by appraisal value.

- LTV has been reduced to 40.2%.
- JRE maintains financial strength allowing procure funds flexibly.

Average Interest Rate and Maturity

(In millions of JPY)

	Balance	Average interest rate	Average maturity
Short-term loans	21,500	0.11%	0.68 years
Long-term loans (Variable interest)	22,000	0.03%	4.36 years
Current portion of long-term loans (Fixed interest) and Investment corporation bonds	25,000	0.61%	0.63 years
Long-term loans (Fixed interest) and Investment corporation bonds	315,993	0.63%	4.75 years
Total interest-bearing debt	384,493	0.56%	4.24 years

Recent borrowings

Lender **Mizuho Bank**
 Amount of loan **JPY 7,000 million**
 Interest rate **0.1027%**
 (1M. JPY Tibor + 4bp as of the end of Oct. 2018)
 Borrowing period **1 years**
 Start of loan period **29 August 2018**

Lender **MUFG Bank**
 Amount of loan **JPY 10,000 million**
 Interest rate **0.2544% (Fix)**
 Borrowing period **6.5 years**
 Start of loan period **1 June 2018**

Lender **Sumitomo Mitsui Trust Bank**
 Amount of loan **JPY 3,000 million**
 Interest rate **0.32% (Fix)**
 Borrowing period **7 years**
 Start of loan period **31 August 2018**

Corporate Investment Bonds (Green Bonds)

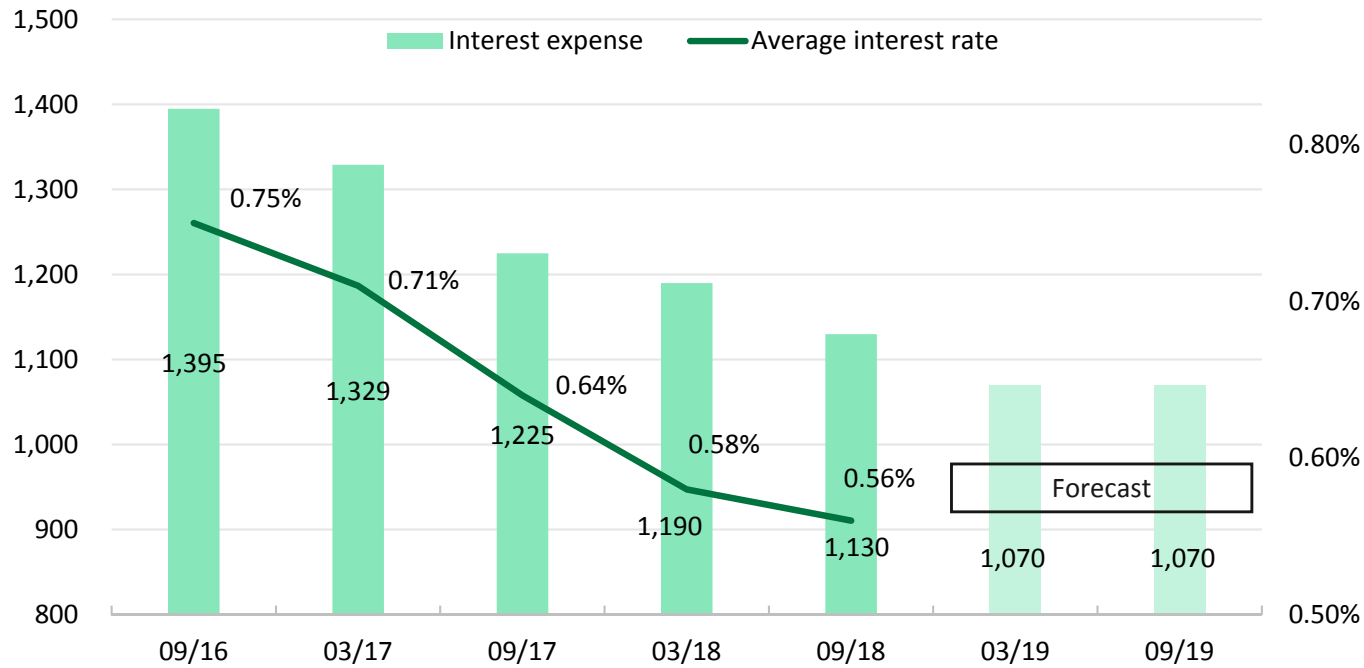
Total amount **JPY 10,000 million**
 Interest rate **0.23%**
 Maturity **5 years**
 Issue date **1 November 2018**

Joint Managing Underwriters

Mizuho Securities
Mitsubishi UFJ Morgan Stanley Securities
SMBC Nikko Securities

Interest Expense

(In millions of JPY)



JRE's Credit Ratings

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

■ Maintain highest rating in J-REIT

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Topics : ESG

External Evaluation and Certifications

2018 GRESB Rating

GRESB Rating

“5 Star” (the highest rating)

GRESB Public Disclosure

“A” (the highest rating)



Points highly evaluated

- Information disclosure regarding sustainability on our website
- Continuous efforts for energy conservation
- The first J-REIT obtaining third-party assurance on energy consumption, greenhouse gas emissions and water usage data
- Increase the number of green building - certified properties
- Enhancement of a cooperative relationship with tenants (e.g., promoting green lease programme and conducting tenant satisfaction surveys)

Obtained Third-party Assurance

The first J-REIT obtaining assurance from a third-party organization (Ernst & Young ShinNihon LLC) on “Environmental Performance Data” disclosed on JRE’s website.

	FY 2014	FY 2015	FY 2016	FY 2017	% Change (vs FY2014)	
Electricity Use	Total (MWh)	188,343	188,486	203,004	203,952	9.45%
	Intensity (MWh/m²)	0.163	0.155	0.159	0.154	-5.60%
Fuel Use	Total (MWh)	32,862	30,554	32,117	34,135	3.76%
	Intensity (MWh/m²)	0.029	0.025	0.025	0.026	-10.49%
Other heat consumption (*)	Total (MWh)	28,769	24,923	32,548	35,241	4.62%
	Intensity (MWh/m²)	0.025	0.020	0.026	0.024	-8.78%
Total	Total (MWh)	248,144	253,967	265,558	270,158	8.13%
	Intensity (MWh/m²)	0.217	0.210	0.210	0.209	-6.74%
Water	Total (t)	807,580	895,414	985,441	978,083	7.43%
	Intensity (t/m²)	0.703	0.739	0.763	0.756	-7.35%
Total CO2 emissions (Scope 1 & 2)	Total (t-CO2e)	105,386	105,989	107,945	112,416	10.90%
	Intensity (t-CO2e/m²)	0.092	0.087	0.084	0.087	-4.35%
Scope 1	Total (t-CO2e)	6,348	5,895	6,154	6,504	2.45%
	Intensity (t-CO2e/m²)	0.056	0.049	0.048	0.050	-11.64%
Scope 2	Total (t-CO2e)	99,038	100,104	101,791	105,912	11.44%
	Intensity (t-CO2e/m²)	0.087	0.083	0.079	0.083	-3.89%

International Initiatives

Signatory to international initiatives

Japan Real Estate Asset Management (JRE-AM), which is JRE's asset management company, has become a signatory to the international initiatives below and participated in UNGC based on the idea that asset management considering ESG is essential to the sustainable growth of the asset value.

United Nation's Principles for Responsible Investment (PRI)

Signatory of:



Became signatory in August 2018

United Nations Environment Programme Finance Initiative (UNEP FI)



Became signatory in August 2018

United Nations Global Compact (UNGC)



Became Signatory in April 2018*

*Mitsubishi Estate Co., Ltd., JRE-AM's parent company became a signatory of the UNGC. Accordingly, JRE-AM has participated in this initiative as a member of Mitsubishi Estate Group.

JRE-AM also joins various discussions hosted by international initiatives such as the PRI Japan Network Property Working Group, the UNEP FI Property Working Group and the GRESB Benchmark Committee.

Additional Acquisitions of Green Building Certifications

DBJ Green Building Certifications

Properties with exceptionally high environmental and social awareness



Tokyo Opera City Building
(Shinjuku-ku, Tokyo)



TIXTOWER UENO
(Taito-ku, Tokyo)



Queen's Tower A
(Yokohama, Kanagawa Prefecture)



Higashi Nibancho Square
(Sendai, Miyagi Prefecture)

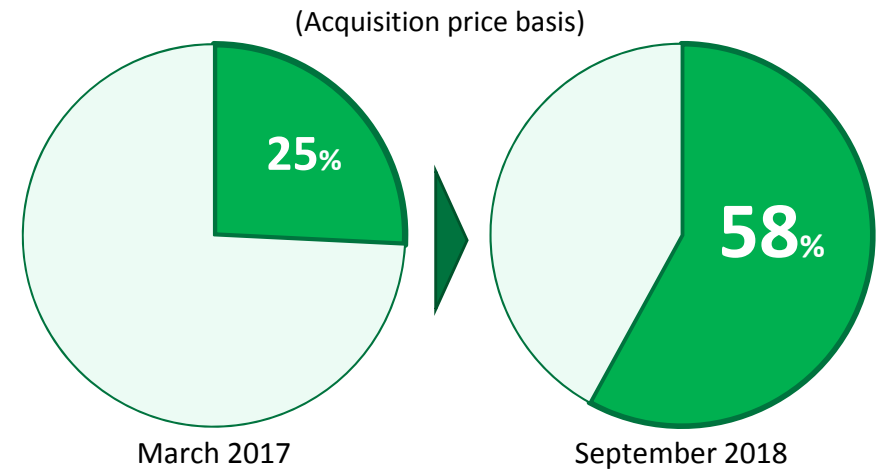


Nagoya Hirokoji Place
(Nagoya, Aichi Prefecture)

Number of properties with DBJ Green Building Certifications



Green building - certified properties in the portfolio



Green Bond

Summary of Green Bonds

Issue date	1 November 2018
Total amount	JPY 10 billion
Maturity	5 years
Interest rate	0.23%
Credit ratings	AA (R&I)
Use of proceeds	<ul style="list-style-type: none"> • Refurbishments of Shiba 2Chome Daimon Building • Repayment of loan for acquiring Akasaka Park Building • Prepayment of loan for acquiring Shijo Karasuma Center Building

Green Bond Framework

JRE will promote “**Positive Impact**” by ESG investments such as refurbishment works to conserve energy, improve tenant satisfaction and receive better green building certifications.

Criteria for Eligible Green Projects

Refurbishments

- More than 10% reduction in CO2 emissions or energy consumption
- More than 10% reduction in water consumption
- More than one level of star/rank improvement in the green building certifications listed below

Acquisition

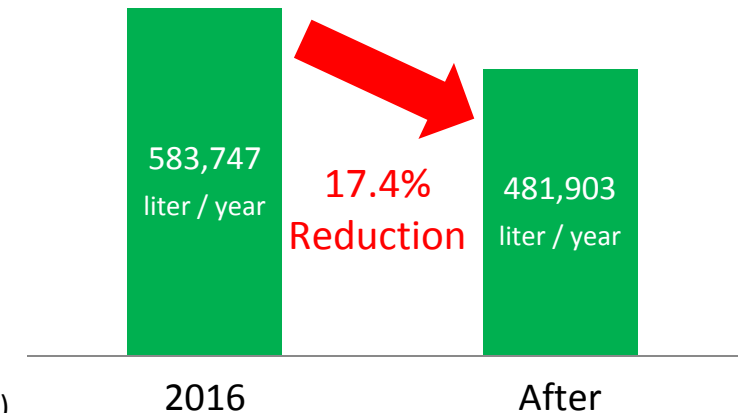
- 3, 4 or 5 Stars under the DBJ Green Building Certification
- 3, 4 or 5 Stars under BELS
- B+, A or S Rank under CASBEE

Refurbishments of Shiba 2Chome Daimon Building



- Highly efficient air conditioning and LED lighting
- Improve work environment for tenant satisfaction (ex. expand and upgrade common spaces)
- Consideration for the health and well-being of tenants' employees (ex. relaxation space, greening)
- Value Enhancement with ESG conscious design

Energy reduction of entire building resulting from installing highly efficient air conditioning



*Electricity and gas consumption are converted to the crude oil consumption.



Great shot! What a distance!
The against-wind with property taxes
doesn't really matter.

Look, I bought a brand-new driver.
Easy to hit a long ball.
Technology advances faster than you may think.
Just as office buildings keep changing.

If you make use of the latest technology,
your score could be even better.

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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 (JRE-AM) 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.