



Kenedix Retail REIT Corporation  
Financial Results  
for the 2nd Financial Period  
ended Mar. 2016  
May 20, 2016

**KENEDIX**  
Retail REIT Corporation



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## Section 1

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Increasing importance of shopping centers for daily needs

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# Investments focusing on shopping center for daily needs

**"Daily / Neighborhood" type**

**VS**

**"Weekend / Destination" type**

**Small**



**Large**

**High**



**Low**

**Our focus: Neighborhood, community and other shopping centers for daily needs**

Property types		Characteristics	Trade area
<b>NSC</b>	Neighborhood Shopping Centers	Shopping centers with a supermarket as an anchor or core tenant	3~5km
<b>SM</b>	Supermarkets	Stand-alone stores that primarily provide groceries	3km
<b>CSC</b>	Community Shopping Centers	Larger Shopping centers than NSC, with a supermarket as an anchor or core tenant	5~10km
<b>Urban Station-Front</b>		Shopping centers in the immediate vicinity of an urban public transportation station	3~5km
<b>SS</b>	Specialty Stores	Specialty stores such as drug stores, convenience stores, health clubs or electronic appliance stores	1~10km

**The majority of portfolio properties of other listed retail-focused J-REITs**

**Large-scale suburban retail properties**

**RSC (Regional Shopping Center)**

**GMS (General Merchandise Store)**

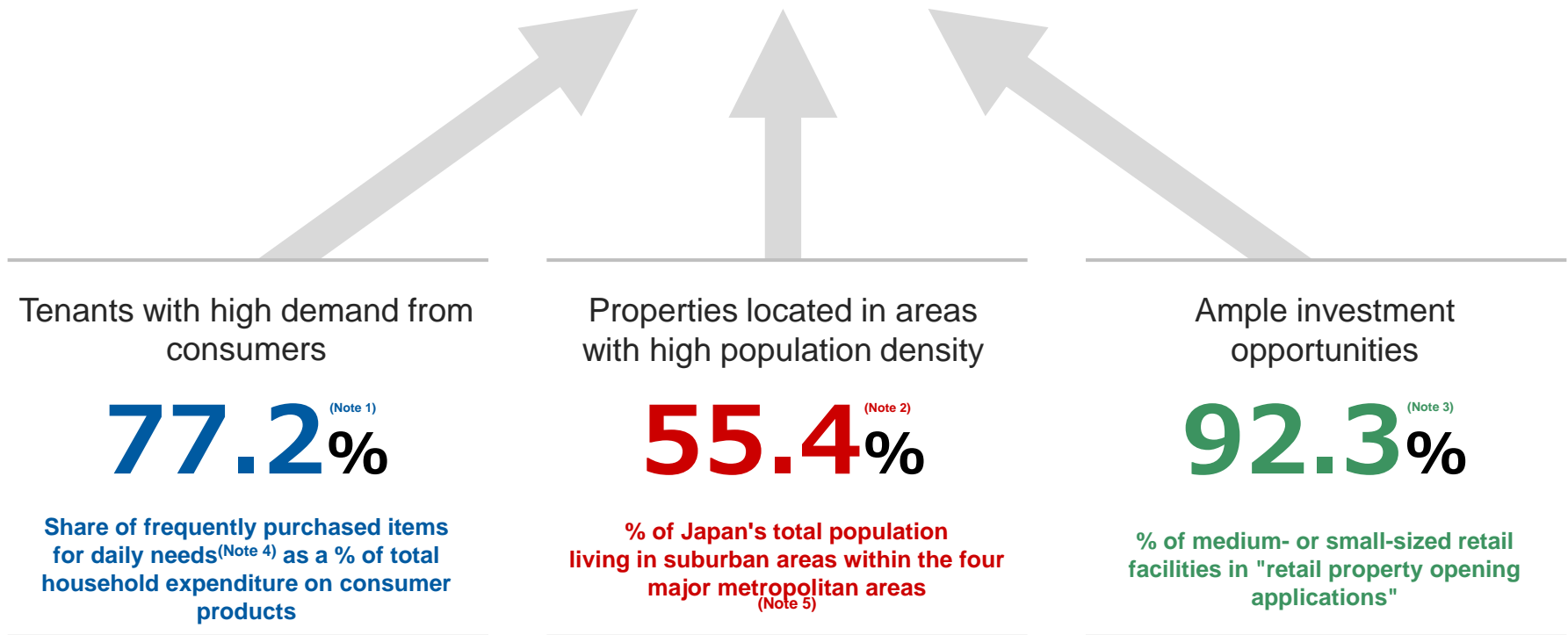
*Stand-alone GMS is excluded from our investment criteria*

**Outlet malls**

**Urban retail properties featuring**

**High-end brand shops**

## Ample investment opportunities in shopping centers for daily needs



Note 1: The share of frequently purchased items for daily needs as a % of total household expenditure on consumer products according to a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2014.

Note 2: % of Japan's total population living in suburban areas within the four major metropolitan areas, according to a survey conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications in 2015 based on preliminary census data.

Note 3: % of applications submitted to develop new retail properties with a total floor area of 10,000 m<sup>2</sup> or less from 2005 to 2014.

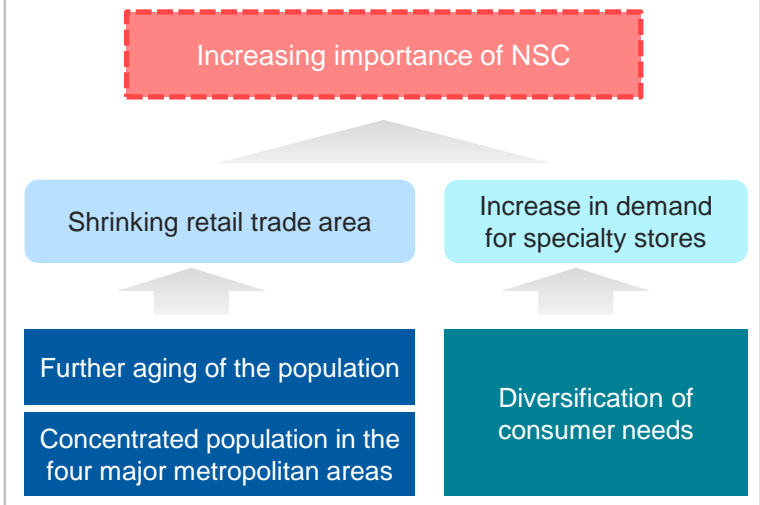
Note 4: "Frequently purchased items for daily needs" refers to items that can be selected quickly, such as convenience foods and household commodities.

Note 5: "Suburban areas within the four major metropolitan areas" refers to the four major metropolitan areas excluding Tokyo (Chiyoda ward, Chuo ward, Minato ward, Shinjuku ward and Shibuya ward), Osaka (Kita-ku, Chuo-ku, Fukushima-ku, Nishi-ku, Naniwa-ku and Tennoji-ku) and Nagoya (Nishi-ku, Naka-ku and Nakamura-ku).

# Increasing importance of shopping centers for daily needs

Increase in market share of specialty supermarkets and decrease in market share of GMS (General Merchandise Stores)

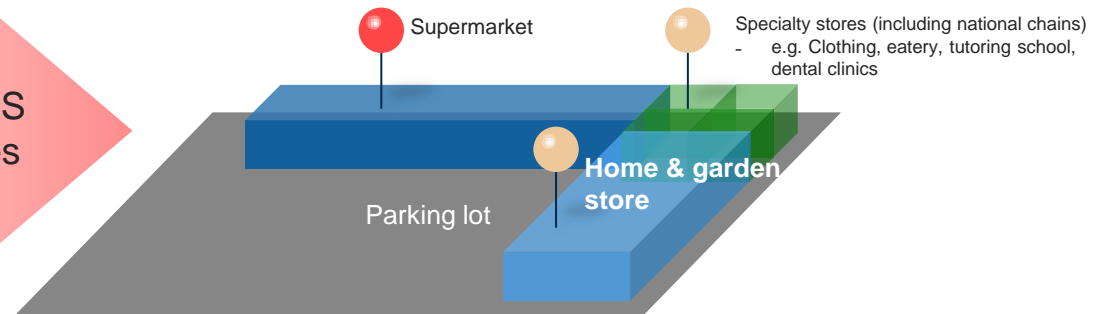
## Background for increasing importance of NSC



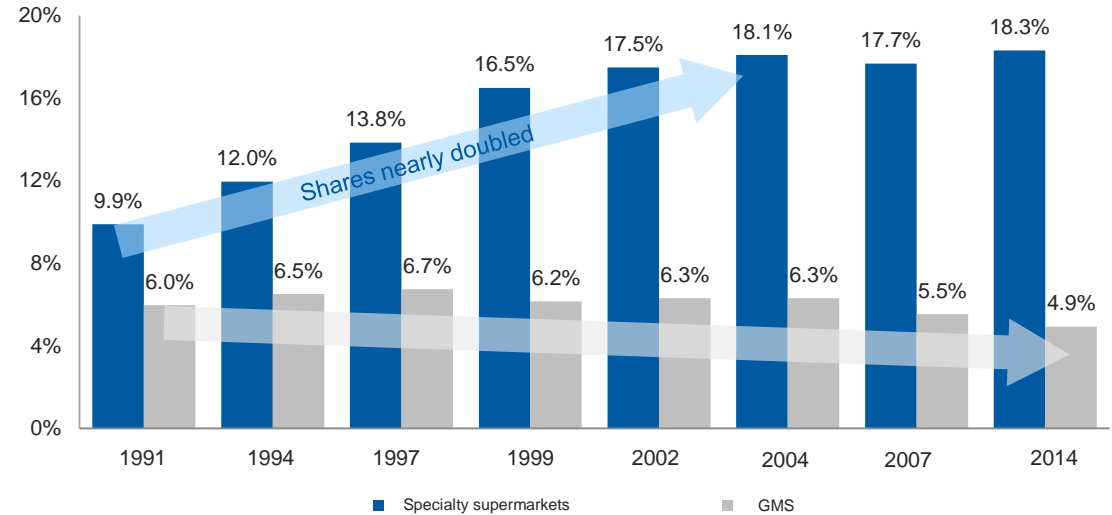
## Typical GMS



Shifting from GMS to specialty stores



## Shares of specialty supermarkets and GMS in retail sector



Source: Ministry of Economy, Trade and Industry

## Typical NSC

**Check!** Reason why NSCs are supported from consumers → See next page

# Convenient shopping experience at shopping centers for daily needs

**Large ground parking lot**



**Low-rise facility**



**Easy access by foot or bicycle**



Buying behavior of elderly residents in Tokyo (1)  
**Frequent shoppers**

Consumers who go shopping **"almost daily"** or **"3 to 4 times a week"**

**50.0%**

Buying behavior of elderly residents in Tokyo (2)  
**Preference for supermarkets**

Consumers who identify **supermarkets** as "most frequently used type of retail property for purchasing groceries"

**69.4%**

Buying behavior of elderly residents in Tokyo (3)  
**Access by foot or bicycle**

Consumers who travel to "most frequently used retail properties" **by foot or bicycle**

**72.7%**

Source: Bureau of Industrial and Labor Affairs of the Tokyo Metropolitan Government "Reports on shopping trends of the elderly" (Dec. 2011)



## Section 2

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Financial results for the fiscal period ended Mar. 31, 2016

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# Investment summary since the previous financial announcement

## External growth

- **Acquired 8 shopping centers for daily needs**
  - Total acquisition price of JPY28.6 bn and a total appraisal value of JPY29.7 bn
    - 7 properties acquired in April 2016
    - 1 property flexibly acquired in the 2nd financial period
- Average appraisal NOI yield: 5.2%
- Properties located in four major metropolitan areas / ordinance-designated cities
- Selective acquisitions under a relatively favorable acquisition environment, with emphasis on:
  - Demographics and high population density in the subject retail trade areas
  - Traffic convenience and locational advantages
  - Tenant mix highly attractive to customers

## Internal growth

- **Proactively promote internal growth**
  - Property expansions on underutilized space
    - Property expansion completed at Roseo Mito
    - New!** Property expansion at Unicus Ina has been decided
  - Optimization of tenant mix
    - Rents unchanged or raised in 86.5% of all rent revisions for this fiscal year
  - Trend of tenants' revenue
    - Revenue growth against last year: Average of 102%
  - Effective utilization of CAPEX
    - NOI improved by the installation of LED lighting and other cost saving measures

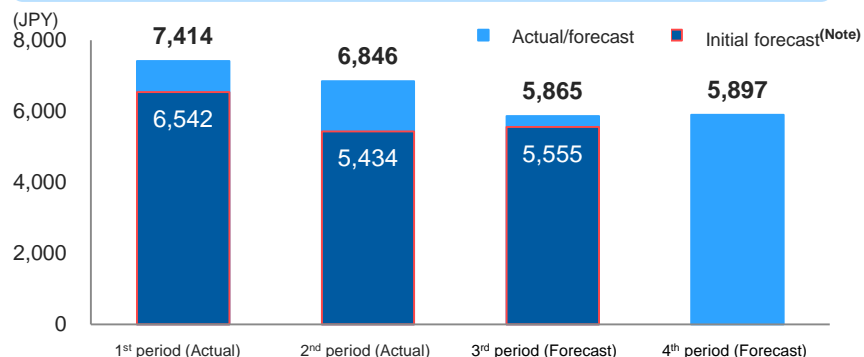
## Financial strategies

- **Further strengthen our financial position**
  - Follow-on equity offering closed in April 2016
    - Issued 67,200 new investment units (incl. OA)
  - New borrowings on April 21 and 22, 2016
    - Average maturity after the borrowings: 4.9 years
    - Average interest rate after the borrowings: 1.01%
    - ※ After deducting the expected prepayment of JPY800 mn due on May 31, 2016

	Before PO	After PO
LTV	42.7%	42.5%
Acquisition capacity	JPY5.5bn	JPY7.7bn

※The amount assuming a LTV of 45% and the prepayment of the borrowings due on May 31, 2016

## DPU



**Stabilized DPU**  
assuming that  
property-related taxes  
are expensed

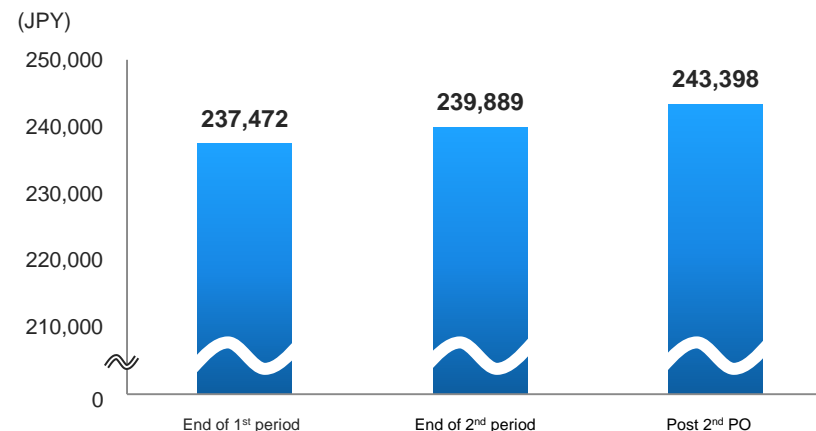
Upon IPO  
JPY4,600

Upon 1<sup>st</sup> PO  
JPY5,555

Upon 2<sup>nd</sup> PO  
JPY5,738

Note: Initial forecast represents the DPU estimate for each financial period stated in the material which we first announced earnings estimation after our listing

## NAV per unit



NAV per unit at the end of each financial period = (NAV + appraisal gains/losses on the entire portfolio at the end of each financial period) ÷ (total number of investment units issued at the end of each financial period)

NAV per unit after the second PO = (NAV at the end of the 2nd financial period + the amount paid in relation to the issuance of new investment units, which was resolved on March 31, 2016 + appraisal gains/losses on the entire portfolio as of April 30, 2016) ÷ total number of investment units issued as of May 19, 2016 (same for below)

# Summary of Balance Sheets

## Balance Sheets

	1 <sup>st</sup> period	2 <sup>nd</sup> period	Change	
	(JPY mn)	(JPY mn)	(JPY mn)	(%)
<b>Current assets</b>	<b>14,043</b>	<b>14,960</b>	<b>917</b>	<b>6.5%</b>
Total property, plant and equipment, net	93,404	133,488	40,083	42.9%
Intangible assets	173	530	357	205.8%
Investments and other assets	558	753	195	34.9%
<b>Non-current assets</b>	<b>94,136</b>	<b>134,772</b>	<b>40,636</b>	<b>43.2%</b>
<b>Deferred assets</b>	<b>202</b>	<b>276</b>	<b>74</b>	<b>36.7%</b>
<b>Total assets</b>	<b>108,382</b>	<b>150,009</b>	<b>41,627</b>	<b>38.4%</b>
Current liabilities	3,476	8,283	4,807	138.3%
Non-current liabilities	45,115	61,690	16,575	36.7%
<b>Total liabilities</b>	<b>48,591</b>	<b>69,974</b>	<b>21,382</b>	<b>44.0%</b>
<b>Total net assets</b>	<b>59,790</b>	<b>80,034</b>	<b>20,244</b>	<b>33.9%</b>
<b>LTV (%)</b>	<b>40.6%</b>	<b>42.7%</b>	<b>---</b>	<b>---</b>

(JPY mn)

### Factors in change of current assets

1. Increase in cash and deposits in trust due to increase in tenant lease hold and deposits in trust	+2,511
2. Decrease in consumption taxes receivable	-1,561
3. Others	-33

### Factors in change of non-current assets

1. Increase in PP&E due to acquisition of assets	+40,083
2. Increase in intangible assets due to increase in leasehold right in trust attributable to acquisition of assets	+357
3. Increase in long-term prepaid expenses due to payment of upfront fee related to debt financing	+164
4. Others	+30

### Factors in change of deferred assets

1. Increase in investment unit issuance costs related to 1 <sup>st</sup> PO	+79
2. Other (amortization of organization costs)	-5

### Factors in change of current liabilities

1. Increase in short-term loans payable due to acquisition of assets in connection with 1 <sup>st</sup> PO	+4,500
2. Other	+307

### Factors in change of non-current liabilities

1. Increase in long-term loans payable due to acquisition of assets in connection with 1 <sup>st</sup> PO	+14,650
2. Increase in tenant lease hold and deposits in trust due to acquisition of assets	+1,910
3. Other	+14

### Factors in change of net assets

1. Increase in unitholder's capital due to 1 <sup>st</sup> PO	+19,749
2. Increase in unappropriated retained earnings	+494

# Summary of Statements of Income and Retained Earnings

## Statements of Income and Retained Earnings (JPY mn)

	1 <sup>st</sup> period		2 <sup>nd</sup> period		Changes	
	Actual	Forecast	Actual	From 1 <sup>st</sup> period	From Forecast	
Rent revenue – real estate	4,128	4,593	4,656	+528	+62	
Other lease business revenue	975	929	884	-90	-44	
<b>Operating revenues</b>	<b>5,103</b>	<b>5,522</b>	<b>5,541</b>	<b>+437</b>	<b>+18</b>	
Property related expenses (excluding depreciation)	1,685	1,736	1,669	-15	-66	
<b>NOI</b>	<b>3,417</b>	<b>3,786</b>	<b>3,871</b>	<b>+453</b>	<b>+84</b>	
Depreciation	560	555	565	+4	+10	
<b>NOI after depreciation</b>	<b>2,856</b>	<b>3,231</b>	<b>3,305</b>	<b>+448</b>	<b>+73</b>	
Other operating expenses	393	462	479	+85	+16	
<b>Operating income</b>	<b>2,463</b>	<b>2,769</b>	<b>2,826</b>	<b>+362</b>	<b>+56</b>	
Non-operating income	1	0	1	+0	+1	
Non-operating expenses	524	426	398	-125	-27	
<b>Ordinary income</b>	<b>1,939</b>	<b>2,343</b>	<b>2,428</b>	<b>+489</b>	<b>+85</b>	
<b>Net income</b>	<b>1,933</b>	<b>2,342</b>	<b>2,427</b>	<b>+494</b>	<b>+85</b>	
<b>DPU (JPY)</b>	<b>7,414</b>	<b>6,605</b>	<b>6,846</b>	<b>-568</b>	<b>+241</b>	

### Factors for changes from forecast

#### Increase in revenue/profit due to acquisition of Life Nishi-Tengachaya on Jan. 21, 2016

Operating revenues		(JPY mn)
Operating revenues from Life Nishi-Tengachaya		+17
Shorter down-time than expected		+45
Utility charge reimbursement		-37
Others		-7
Operating expenses		
Operating expenses for Life Nishi-Tengachaya		+3
Utilities		-70
Repairs and maintenance		+50
Others		-23
Non-operating expenses		
Interest expenses and financing-related expenses		-1
Amortization of investment unit issuance costs		-2

### Factors for changes from 1<sup>st</sup> period

#### Increase in revenue/profit due to acquisition of 14 properties acquired in 2<sup>nd</sup> period, in spite of decrease in operating days from 233 days in 1<sup>st</sup> period to 183 days in 2<sup>nd</sup> period

NOI		(JPY mn)
19 properties acquired in 1 <sup>st</sup> period		-637
14 properties acquired in 2 <sup>nd</sup> period		+1,090
Depreciation		
19 properties acquired in 1 <sup>st</sup> period		-114
14 properties acquired in 2 <sup>nd</sup> period		+119
Non-operating expenses		
Arrangement fee related to debt financing		-180
Amortization of investment unit issuance costs		+15

Note: The Forecasts shown above are based on assumptions in the "Financial Report for the Fiscal Period Ended September 30, 2015 (REIT) (October 3, 2014 to September 30, 2015)"

# Financial forecasts: 3rd fiscal period (Sep. 2016)

	2 <sup>nd</sup> Period (Mar. 2016) (Actual)	3 <sup>rd</sup> Period (Sep. 2016) (Forecast)	Changes
<b>Key financial information (JPY mn)</b>			
<b>Operating revenues</b>	<b>5,541</b>	<b>6,392</b>	<b>+851</b>
Operating expenses	2,715	3,449	+734
(Major operating expense)			
Depreciation	565	711	+145
<b>Operating income</b>	<b>2,826</b>	<b>2,943</b>	<b>+117</b>
Non-operating expenses	398	468	+69
(Major non-operating expense)			
Financing-related expenses (incl. interest expenses)	334	383	+48
Amortization of investment unit issuance costs & organization costs	64	84	+20
<b>Ordinary income</b>	<b>2,428</b>	<b>2,475</b>	<b>+46</b>
<b>Net income</b>	<b>2,427</b>	<b>2,472</b>	<b>+44</b>

<b>Related key indicator (JPY mn)</b>			
<b>NOI</b>	<b>3,871</b>	<b>4,192</b>	<b>+321</b>
NOI yield (%) <sup>(Note1)</sup>	5.9%	5.4%	---
<b>NOI after depreciation</b>	<b>3,305</b>	<b>3,480</b>	<b>+175</b>
NOI yield after depreciation (%) <sup>(Note1)</sup>	5.1%	4.5%	---
<b>FFO<sup>(Note2)</sup></b>	<b>3,058</b>	<b>3,268</b>	<b>+210</b>
<b>LTV</b>	<b>42.7%</b>	<b>42.5%</b>	<b>---</b>

Note1: Property taxes for the properties owned in the 2<sup>nd</sup> period were not expensed in the 2<sup>nd</sup> fiscal periods, nor are those for properties acquired in 2016 expensed in the 3<sup>rd</sup> fiscal period.

Note2: FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property

## Factors for changes from previous period (JPY mn)

<b>Operating revenues</b>	
Existing assets	... +84
New assets acquired in 3 <sup>rd</sup> fiscal period	... +767
<b>Operating expenses</b>	
Property taxes (existing assets)	... +483
Property-related expenses (new assets)	... +211
Others	... +40

## Breakdown of operating income (JPY mn)

### Operating revenues (A)

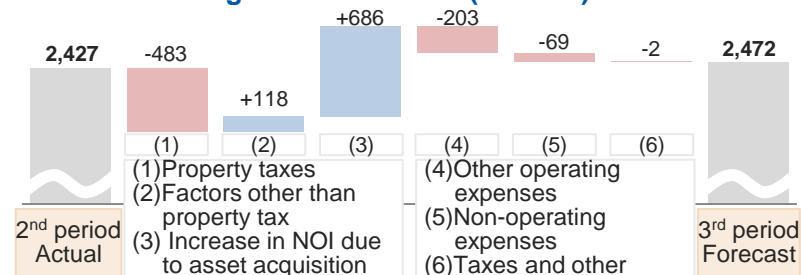
Rent revenue – real estate	... 5,406
Utility charge reimbursement	... 568
Other revenues	... 417

### Property-related expenses (B) (excl. depreciation)

PM fees / facility management fees	... 683
Utilities	... 592
Taxes	... 483
Repairs and maintenance	... 131
Sales and promotion	... 178
Others	... 130

**NOI (A-B)** ... **4,192**

## Factors for changes in net income (JPY mn)



# Financial forecasts: 4th fiscal period (Mar. 2017)

	3 <sup>rd</sup> Period (Sep. 2016) (Forecast)	4 <sup>th</sup> Period (Mar. 2017) (Forecast)	Changes
<b>Key financial information (JPY mn)</b>			
<b>Operating revenues</b>	<b>6,392</b>	<b>6,365</b>	<b>-27</b>
Operating expenses	3,449	3,407	-42
(Major operating expense)			
Depreciation	711	715	+4
<b>Operating income</b>	<b>2,943</b>	<b>2,957</b>	<b>+14</b>
Non-operating expenses	468	470	+1
(Major non-operating expense)			
Financing-related expenses(incl. interest expenses)	383	384	+1
Amortization of investment unit issuance costs & organization costs	84	84	0
<b>Ordinary income</b>	<b>2,475</b>	<b>2,488</b>	<b>+13</b>
<b>Net income</b>	<b>2,472</b>	<b>2,485</b>	<b>+13</b>
<b>Related key indicator (JPY mn)</b>			
<b>NOI</b>	<b>4,192</b>	<b>4,248</b>	<b>+56</b>
NOI yield (%) <sup>(Note1)</sup>	5.4%	5.4%	---
<b>NOI after depreciation</b>	<b>3,480</b>	<b>3,532</b>	<b>+51</b>
NOI yield after depreciation(%) <sup>(Note1)</sup>	4.5%	4.4%	---
<b>FFO<sup>(Note2)</sup></b>	<b>3,268</b>	<b>3,286</b>	<b>+17</b>
<b>LTV</b>	<b>42.5%</b>	<b>42.5%</b>	<b>---</b>

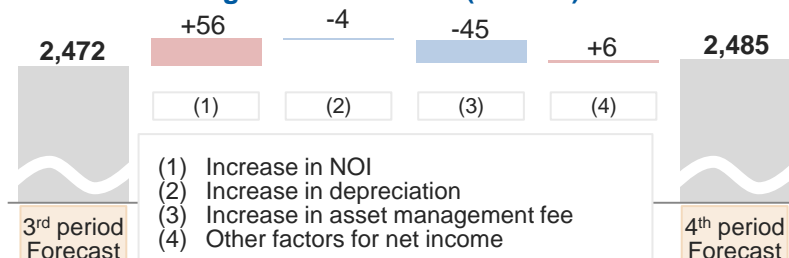
## Factors for changes from previous period (JPY mn)

<b>Operating revenues</b>		
Increase in rent revenue-real estate	...	+80
Decrease in utility charge reimbursement	...	-82
Others	...	-24
<b>Operating expenses</b>		
Decrease in utilities	...	-67
Decrease in repairs and maintenance	...	-42
Increase in sales and promotion	...	+12
Others	...	+14

## Breakdown of operating income (JPY mn)

<b>Operating revenues (A)</b>		
Rent revenue – real estate	...	5,486
Utility charge reimbursement	...	485
Other revenues	...	393
<b>Property-related expenses (B)(excl. depreciation)</b>		
PM fees / facility management fees	...	692
Utilities	...	524
Taxes	...	483
Repairs and maintenance	...	89
Sales and promotion	...	191
Others	...	136
<b>NOI (A-B)</b>	...	<b>4,248</b>

## Factors for changes in net income (JPY mn)



Note1: Property taxes for the 8 properties acquired in 2016 are not expected to be expensed in the 3<sup>rd</sup> and 4<sup>th</sup> fiscal periods.

Note2: FFO = Net income + Depreciation + Amortization - Gain on sale of property + Loss on sale of property



## Section 3-1

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Implementation of growth strategy (External growth)

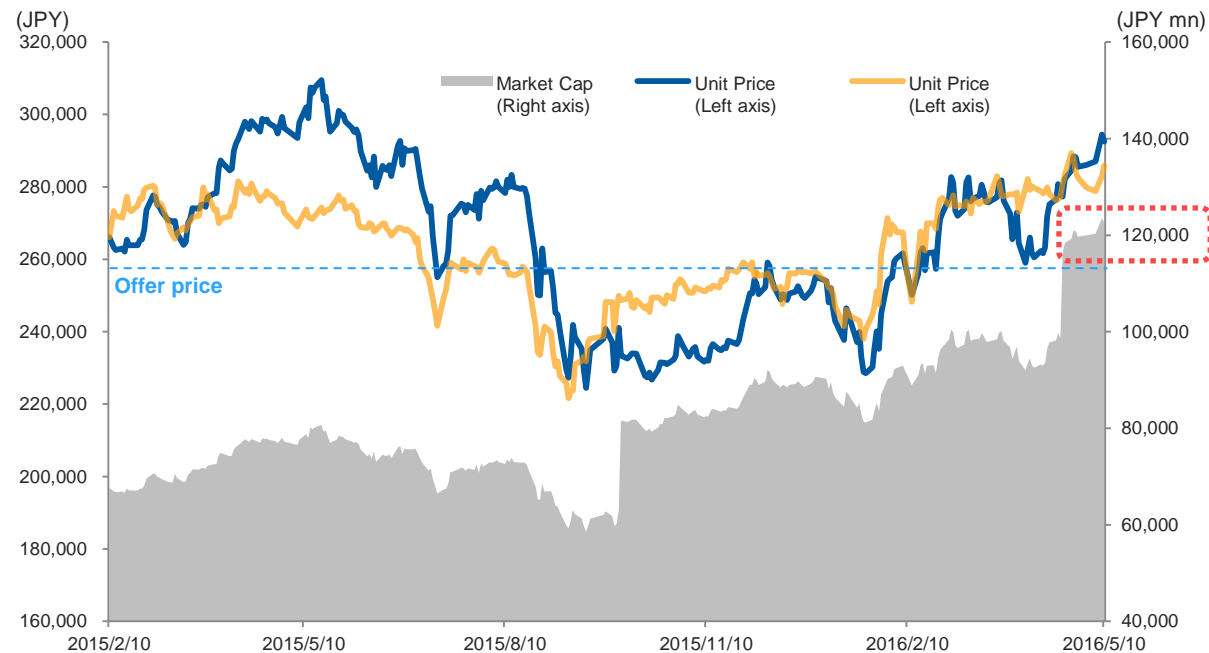
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# Summary of 2<sup>nd</sup> Public Offering (PO)

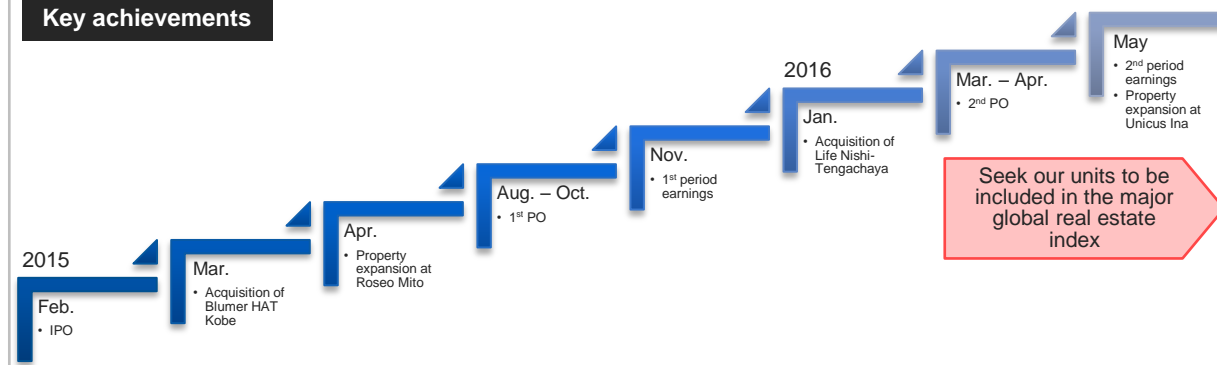
## Summary of 2<sup>nd</sup> PO

Offering structure	Global offering Japanese and international (Reg.S+144A)	
Offering size	Japanese:	JPY 8,149 mn
	International:	JPY 8,280 mn
	Over-allotment (OA):	JPY 821 mn
Number of units Issued	67,200 units (including OA 3,200 units) Japanese: 31,744 units International: 32,256 units	
Total number of units outstanding (after 2 <sup>nd</sup> PO)	422,450 units	
Offer price	JPY 256,717	
Net proceeds	JPY 16,649 mn	
Launch date	March 31, 2016	
Pricing date	April 13, 2016	
Application period	April 14 – April 15, 2016	
Payment date	April 20, 2016	

## Unit price since IPO (Feb 10, 2015 ~ May 10, 2016)



## Key achievements



# Our portfolio after acquisition of new properties

	At listing (Feb. 10, 2015)	End of the 1 <sup>st</sup> period (Sep. 30, 2015)	End of the 2 <sup>nd</sup> period (Mar. 31, 2016)	After acquisition of new properties
<b>Improving portfolio profitability and stability</b>				
Number of properties	18	19	33	40
Total acquisition price (JPY bn)	80.8	91.8	131.6	158.7
Total appraisal value (JPY bn)	82.3	95.7	138.6	166.7
Portfolio appraisal NOI yield <sup>(Note 1)</sup>	5.5%	5.4%	5.4%	5.4%
NOI yield after depreciation <sup>(Note 1)</sup>	4.3%	4.3%	4.4%	4.4%
Weighted average occupancy rate <sup>(Note 2)</sup>	98.6%	99.6%	99.6%	99.7%
Number of tenants <sup>(Note 2)</sup>	286	321	389	403
% of properties in the four major metropolitan areas	85.1%	86.9%	84.3 %	80.8%
Weight of the top 10 tenants <sup>(Note 2)</sup>	45.0%	40.3%	39.5%	37.5%
<b>Leveraging acquisition capacity and increase in NAV</b>				
LTV <sup>(Note 3)</sup>	33.4%	40.6%	42.7%	42.5%
NAV per unit <sup>(Note 4)</sup>	227,886	237,472	239,889	243,398

Note 1: "Appraisal NOI yield" refers to the annual net operating income assumed by the appraiser of the relevant property for the direct capitalization analysis in the latest appraisal reports at the acquisition date. "NOI yield after depreciation" based on the forecast for fiscal period ending September 30, 2016.

Note 2: The figures at listing are as of September 30, 2014 and those after acquisition of new properties are as of March 31, 2016.

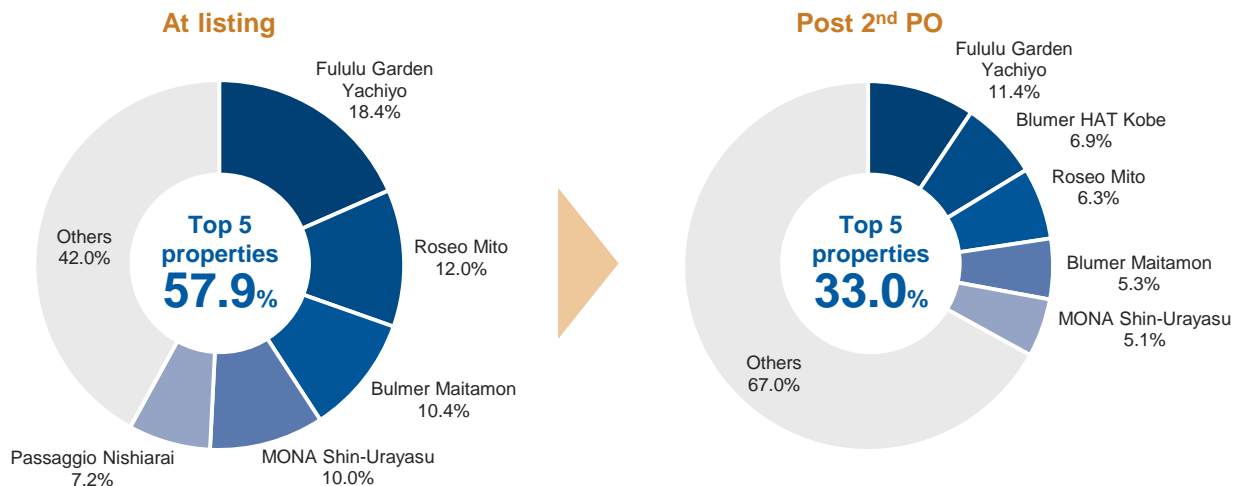
Note 3: "LTV" refers to "loan-to-value ratio", which is calculated as the ratio of the total amount of short-term debt, long-term debt, corporate bonds and tenant leasehold and security deposits (net amounts reserved for return of tenant leasehold and security deposits) divided by total assets as of the end of the previous fiscal period minus amounts reserved for return of tenant leasehold and security deposits. (same for below)

Note 4: NAV per unit at listing = (Unitholder's equity + unrealized profit / loss of the portfolio at listing)/(Number of units outstanding as of February 10, 2015).

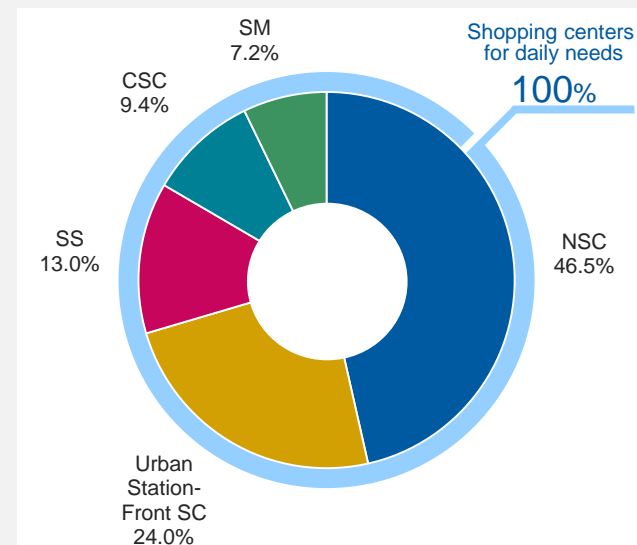


# Characteristics of our portfolio

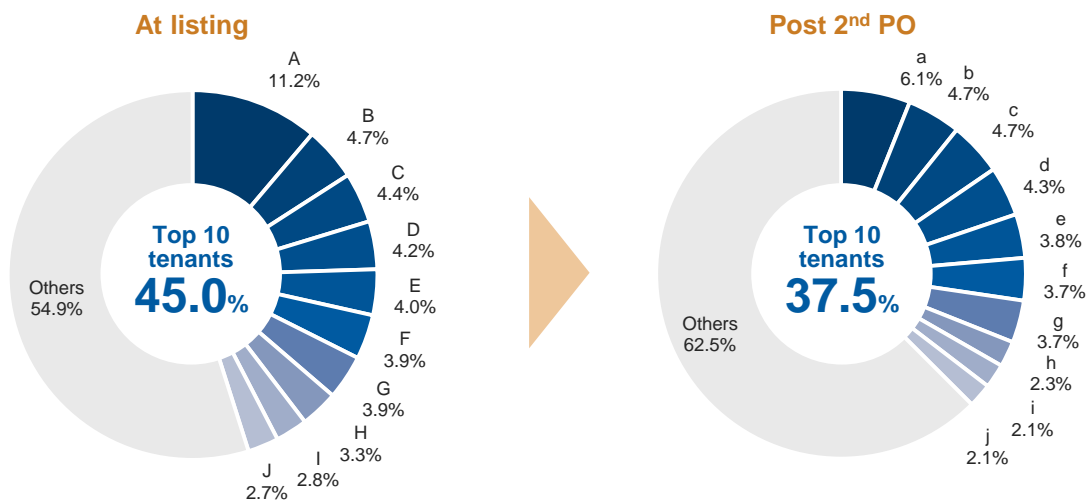
## Changes in property distribution (by acquisition price)



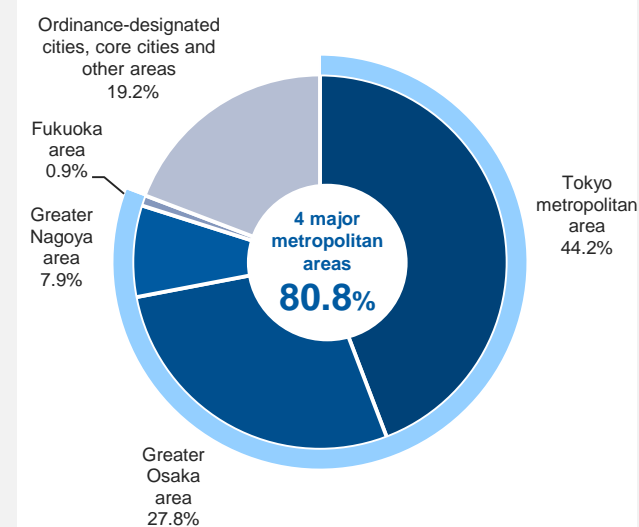
## Location (by acquisition price)



## Changes in share of top 10 tenants (by annual fixed rent)



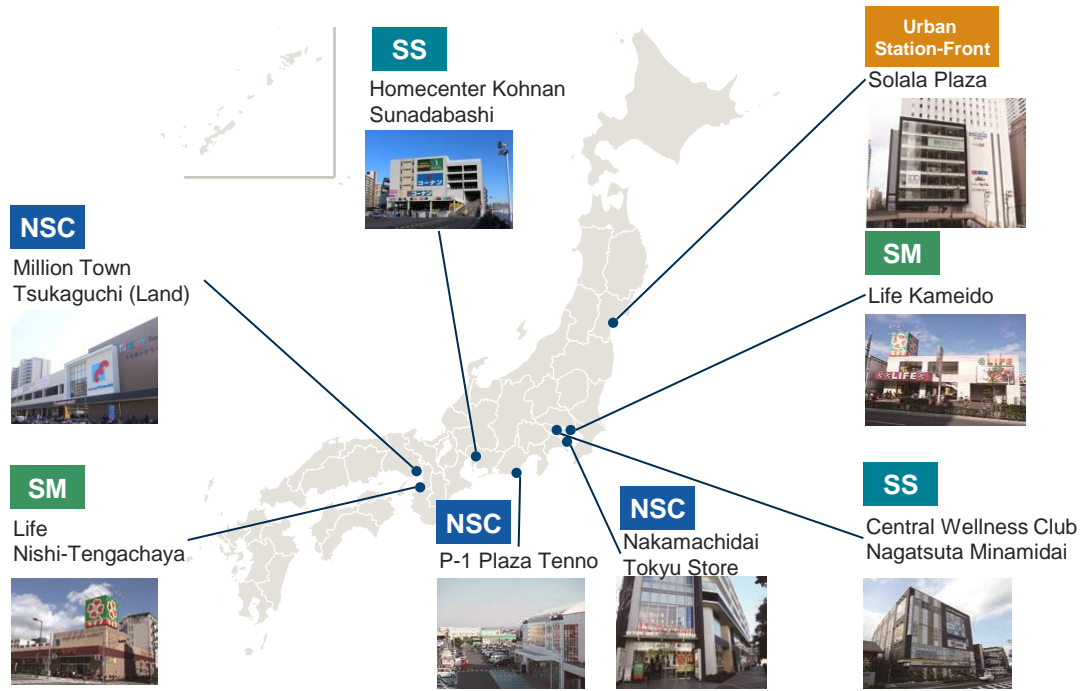
## Types of retail property (by acquisition price)



Note 1: The figures are as of March 31, 2016 for the 40 properties acquired by the date of this material.

# Properties acquired in connection with 2<sup>nd</sup> PO

- 1 Located in the four major metropolitan areas or ordinance-designated cities**
  - Located in the four major metropolitan areas or ordinance-designated cities with relatively stable demographics
- 2 Retail trade areas that benefit from increases in population**
  - Densely populated retail trade areas with a large consumer base
  - Potential for high population growth from nearby large-scale housing development projects and "new town" developments
- 3 Highly accessible properties**
  - Easily accessible by foot, bicycle or car due to the properties' proximity to main roads, direct accessibility from stations and large parking areas
- 4 Tenant mix attractive to customers**
  - Quality tenants offering a diverse range of goods and services closely tied to daily life



**Properties located in the four major metropolitan areas or ordinance-designated cities** 100%

**Retail trade population growth rate** +4.7%<sup>(Note 1)</sup>

**Within 30 minutes from the nearest station to major stations** 86.0%<sup>(Note 2)</sup>

Portfolio Map: Click URL below  
<http://www.krr-reit.com/en/portfolio/index.html>



Note 1: Population growth rate from 2005 to 2010 within a 1 km radius of properties acquired in connection with 2<sup>nd</sup> PO  
 Note 2: Ratio of properties within 30 minutes from the nearest station to major stations among 8 properties in connection with 2<sup>nd</sup> PO by acquisition price

# Properties acquired in connection with 2<sup>nd</sup> PO

Total acquisition price		Total appraisal value			Average appraisal NOI yield		# of properties		Acquisitions from Sponsor and Alliance Companies			Acquisitions from Asset Manager's network		
JPY <b>28.6</b> bn		JPY <b>29.7</b> bn			<b>5.2%</b>		<b>8</b>		<b>4/8</b>			<b>4/8</b>		
Properties	Acquisition price (JPY)	Appraisal value (JPY)	Appraisal NOI yield	Location	Core tenant	Acquisition channels	Properties	Acquisition price (JPY)	Appraisal value (JPY)	Appraisal NOI yield	Location	Core tenant	Acquisition channels	
<b>T-15</b> Nakamachidai Tokyu Store 	3,360 mn	3,780 mn	5.4%	Tokyo metropolitan area (18 min to Yokohama)	Tokyu Store Corporation	Asset Manager's network	<b>O-10</b> Million Town Tsukaguchi (Land) 	3,723 mn	3,730 mn	4.6%	Greater Osaka area (13 min to Osaka)	Mandai Co., Ltd.	Alliance Companies	
<b>T-16</b> Central Wellness Club Nagatsuta Minamidai 	1,724 mn	1,880 mn	5.7%	Tokyo metropolitan area (29 min to Shibuya)	Central Sports Co., Ltd.	Asset Manager's network	<b>N-4</b> Homecenter Kohnan Sunadabashi 	7,140 mn	7,220 mn	5.2%	Greater Nagoya area (24 min to Nagoya)	Kohnan Shoji Co., Ltd.	Sponsor	
<b>T-17</b> Life Kameido 	1,450 mn	1,500 mn	4.5%	Tokyo metropolitan area (12 min to Tokyo)	Life Corporation	Sponsor	<b>R-7</b> Solala Plaza 	5,720 mn	5,740 mn	5.0%	Ordinance-designated cities (3 min to Sendai)	Otsuka Kagu, Ltd.	Sponsor	
<b>O-9</b> Nishi-Tengachaya (Acquired in Jan. 2016) 	1,505 mn	1,620 mn	5.2%	Greater Osaka area (16 min to Osaka)	Life Corporation	Asset Manager's network	<b>R-8</b> P-1 Plaza Tenno 	4,010 mn	4,230 mn	5.7%	Ordinance-designated cities	Kyorindo Co., Ltd.	Asset Manager's network	

# Selective acquisition and pipeline

### Sponsor pipeline

- Capitalize on acquisition opportunities through the Kenedix Group platform

Provides solutions for disposition of properties

**Seller**

Acquisition

**KENEDIX** Kenedix, Inc. → **KENEDIX** Retail REIT Corporation

**Life Kameido**

### Alliance Company pipeline

- The 4th property acquisition originated by Nippon Commercial Development
- Leverage the warehousing function of Sumitomo Mitsui Finance and Leasing

Acquisition

**SMFL** → **KENEDIX** Retail REIT Corporation

**Million Town Tsukaguchi (Land)**

日本商業開発株式会社  
Nippon Commercial Development Co., Ltd.

### Asset Manager's network

- Acquire properties through direct negotiations and leveraging the Asset Manager's own proprietary network

Leverage the Asset Manager's own proprietary network

**Seller**

Acquisition

**KENEDIX** Real Estate Fund Management, Inc. → **KENEDIX** Retail REIT Corporation

**Life Nishi-Tengachaya**

Examples of Various acquisition methods in connection with 2<sup>nd</sup> PO

### Sponsor intend to develop shopping center for daily needs



The drawings above do not indicate the number of properties or appearance of properties under development.

### Examples of properties owned by our Alliance Companies

**Royal Home Center Totsuka-Fukaya (Land)**  
Location: Yokohama, Kanagawa



**Yorkmart Totsuka-Fukayacho (Land)**  
Location: Yokohama, Kanagawa



**Unicus Urawamisono**  
Location: Saitama, Saitama



These are the properties the underlying land of which are owned by Alliance Companies, and confirmed by both the Alliance Companies and Kenedix Retail REIT as the properties that meet our investment criteria. As of May 20, 2016, we have no plans to acquire these properties and there is no guarantee that we can acquire these properties in the future. We may acquire only the underlying land of these properties. The illustration of Unicus Urawamisono above is a completion image based on design drawings and may differ from the actual building after completion.

Example of pipeline for potential acquisition opportunities

# Our growth roadmap

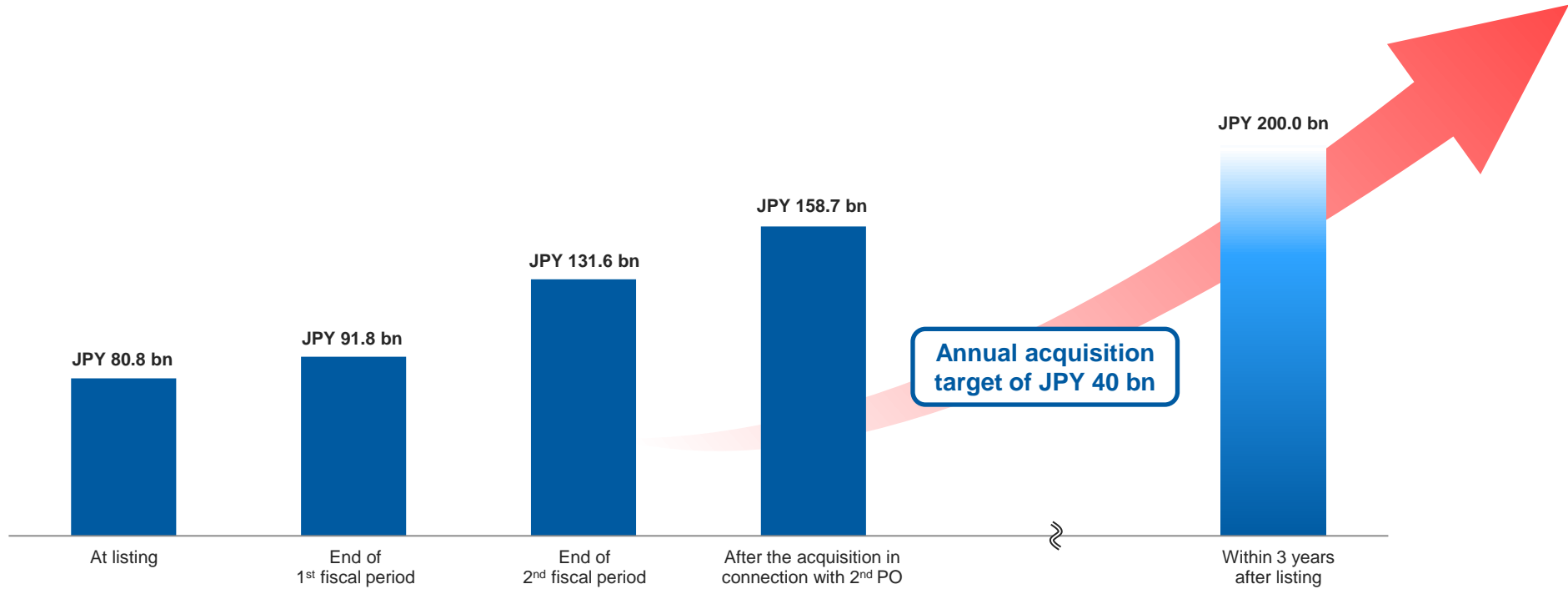
## AUM(Note)

Target AUM of JPY200.0 bn within 3 years after the listing



## Purpose

Achieve steady DPU growth  
Enhance portfolio stability  
Improve in liquidity of investment units



### Abundant external growth opportunities

- Size of acquisition universe
- Increasing proportion of our investment target among domestic retail facilities



### Promotion of external growth strategies

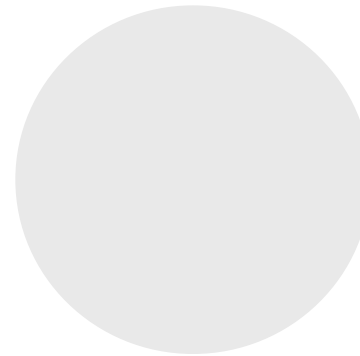
- Solid pipelines from sponsor and alliance companies
- Diverse acquisition routes and methods
- Selective investments by professionals

Note: "AUM" represents the total acquisition price of all properties in the portfolio.



## Section 3-2

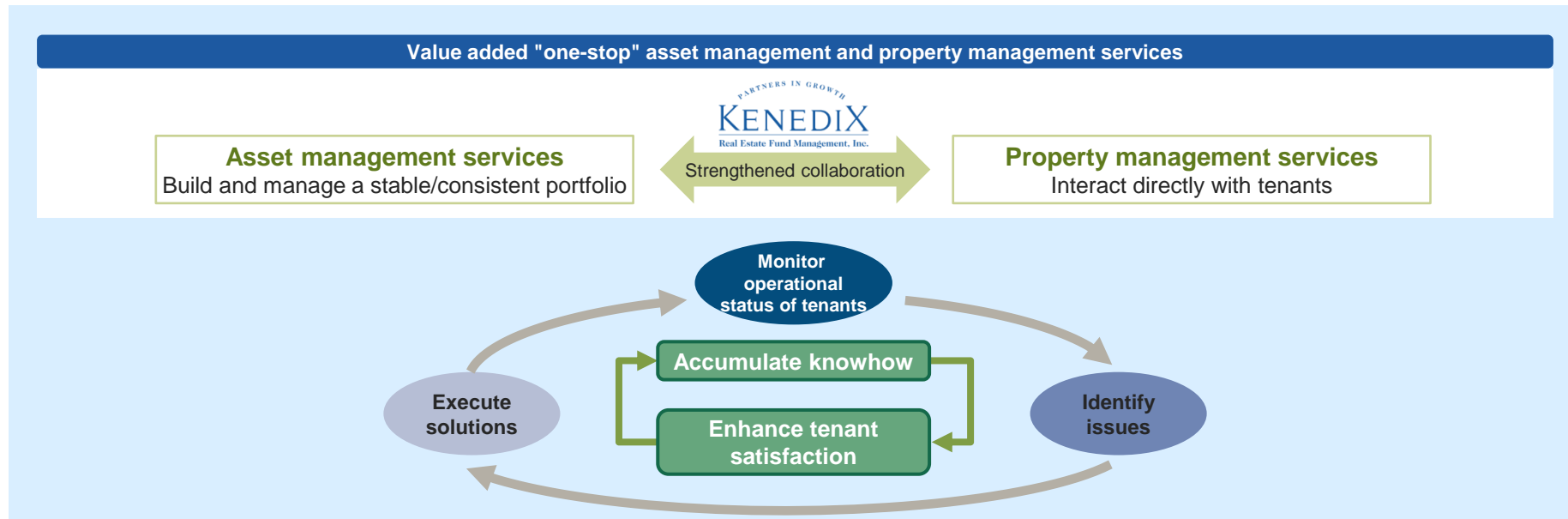
Implementation of growth strategies  
(Internal growth/Financial strategies)



**KENEDIX**

# Active management strategies

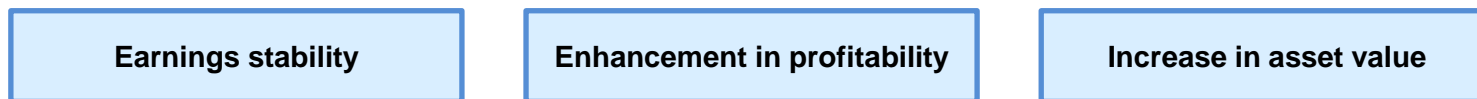
## Value added "one-stop" asset management and property management services



## Seek internal growth through property management



Expected effects of active management strategies



# Enhance profitability and asset value by property expansion

## Criteria for building expansion



Potential expansion projects

Expertise of the Sponsor and Alliance Companies in retail facilities

## Completed property expansion of Roseo Mito (completed in Nov. 2015)

### Highlight of the property expansion

NOI yield (ROI) **11%**

NOI yield (ROI) is calculated by NOI (deducting assumed annual operating expenses (excluding depreciation) from assumed annual operating revenue of the New building) divided by construction cost

### Summary of the property expansion

	Before the property expansion	New building	After the property expansion
Total leasable area	45,654.67 m <sup>2</sup> +	2,641.48 m <sup>2</sup>	48,296.15 m <sup>2</sup>
Acquisition price	JPY9,675 mn +	JPY371 mn	JPY10,046 mn
Appraisal value	JPY9,780 mn		JPY10,700 mn
Appraisal NOI	JPY554 mn		JPY595 mn
Appraisal NOI yield	5.7%		5.9%

Before the property expansion



After the property expansion



After the opening





# Property expansion (restaurant building) planned at Unicus Ina

## Overview of the property expansion

### Improve profitability

# 12%

NOI yield (return on investment)

Calculated using the following formula:  
 Estimated increase in NOI (Estimated annual rent from the new restaurant building - Estimated annual expenses excluding depreciation) / Total construction cost

Estimated increase in NOI

# 12.9 mn

Total construction cost

# 107 mn

### Enhance asset value

# +240 mn

Increase in Appraisal value

Difference between the appraisal value of Unicus Ina (as of March 31, 2016) and its appraisal value assuming the completion of the property expansion, both of which are provided by Japan Real Estate Institute

Appraisal value

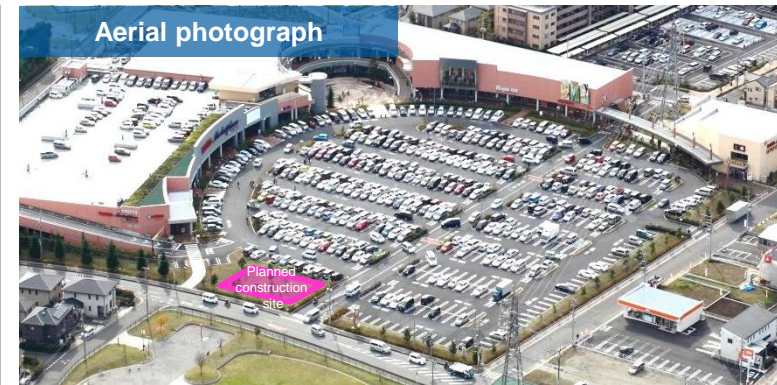
# 4,420 mn

Appraisal value

# 4,660 mn

(JPY)

### Aerial photograph



### Planned construction site



### Schedule (planned)(Note 1)

Late July, 2016:  
Application for building approval

Mid-September, 2016:  
Begin building construction

Mid-January, 2017:  
Completion & delivery of building

### Rendering(Note 2)



### Rendering(Note 2)



Note 1: We cannot guarantee that the building extension will be completed as scheduled; the construction may be cancelled or delayed in the future

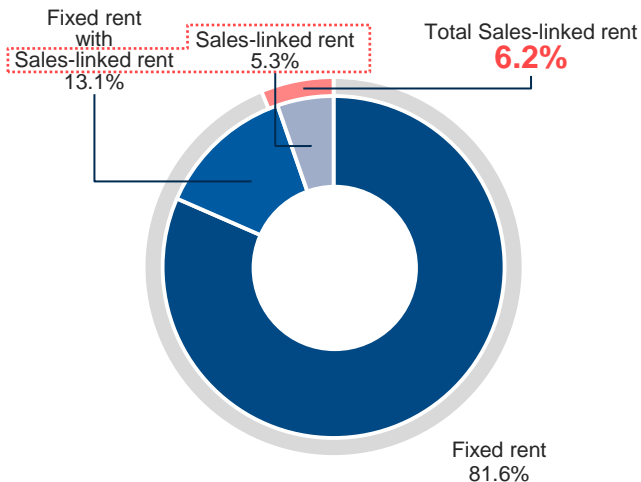
Note 2: This rendering may differ from the actual building to be completed

Note 3: Please see for details "Notice Concerning Construction of a New Building (Property Expansion) at Unicus Ina" dated May 19, 2016

# Leasing overview

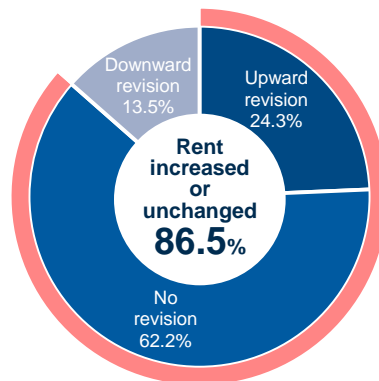
## Rent type (fixed / sales-linked rent)

Based on actual rent (Oct. 2015 - Mar. 2016)

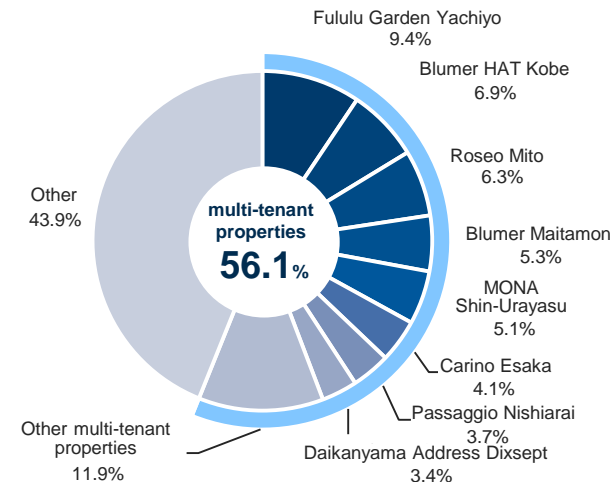


## Rent revisions (based on number of revisions)

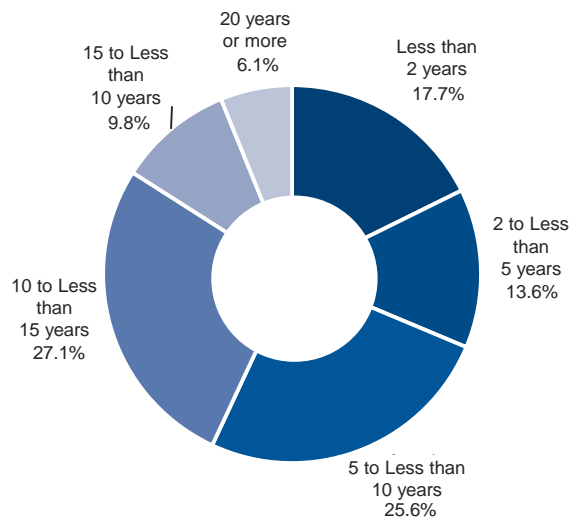
(October 1, 2015 – March 31, 2016)



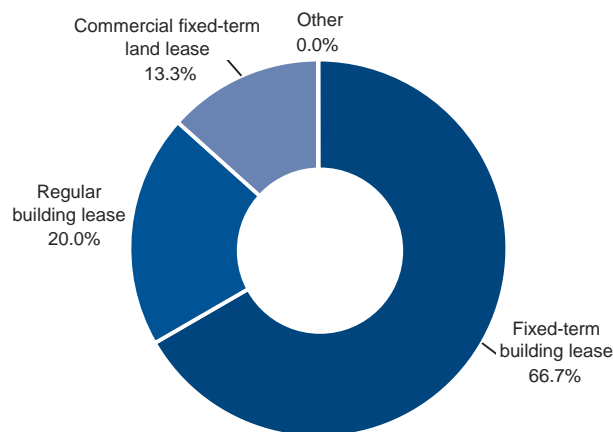
## Weight of multi-tenant properties (based on acquisition prices)



## Remaining lease term (by annual fixed rent)

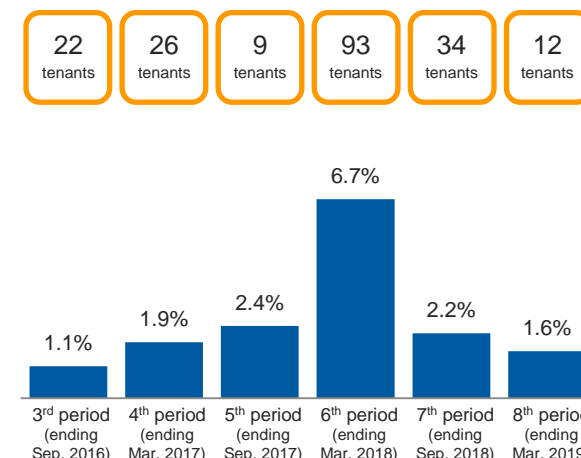


## Lease contract type (by annual fixed rent)



## Lease expiry (by annual fixed rent)

# of tenants and % of lease expiry in each period<sup>(Note 1)</sup>

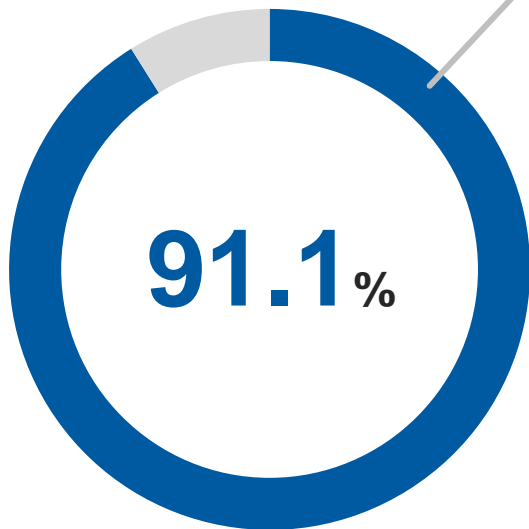


Note 1: Based on the contractual rent determined in the lease contract, including regular building leases.

Note 1: The figures are as of March 31, 2016 for the 40 properties acquired by the date of this material.

# E-commerce resistance

## Percentage of tenants with e-commerce resistant business (by annual fixed rent)



### Tenants that are thought to obtain high needs for customers to visit their physical retail stores

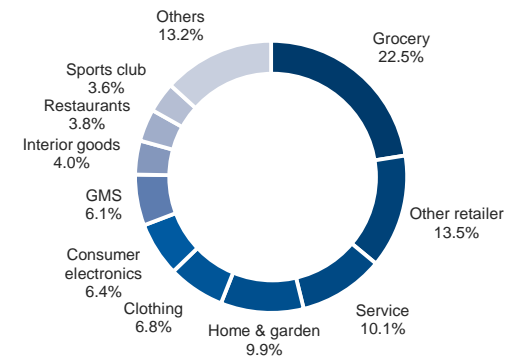
a: Businesses difficult to replace by e-commerce <sup>(Note 1)</sup>	17.6%
b: Businesses where customers show preference for purchasing products at physical stores <sup>(Note 2)</sup>	51.0%
c: Master lessees whose sub-lessees primarily operate businesses falling under category a and b	12.8%
d: Businesses that require physical visits to stores or handle products that consumers highly desire to evaluate in person <sup>(Note 3)</sup>	8.9%

Note 1: "a" refers to businesses including medical services, hair salons, photography studios, for-profit schools and study centers, leisure facilities, restaurants and health clubs that cannot be replaced by e-commerce.

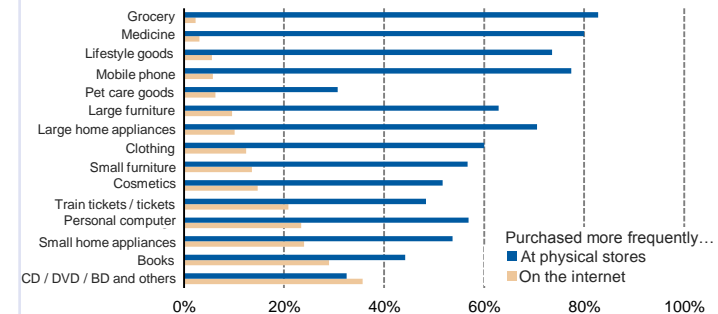
Note 2: "b" refers to businesses where 50% or more of the respondents to the survey conducted by the Ministry of Internal Affairs and Communications titled "Product types for online shopping or physical stores" indicated their preference for purchasing products at a physical store and where 15% or fewer indicated their preference for purchasing such products on the internet.

Note 3: "d" refers to businesses that require physical visits to stores or handle products that consumers highly desire to evaluate in person (sporting goods, prescription eyewear, second-hand products, shoes, musical instruments and interior products).

### Percentage of tenants' category (based on rents)

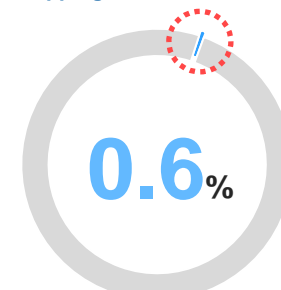


### Consumers' preference: physical stores VS. online shopping



Source: WHITE PAPER Information and Communications in Japan by Ministry of Internal Affairs and Communications

### Low % of online shopping attributed to total expenditure on groceries



Source: "National Survey of Family Income and Expenditure 2014" by Ministry of Internal Affairs and Communications Bureau of Statistics

# Effective utilization of CAPEX

## Blumer HAT Kobe: Replacing floor materials, renewing signs and restrooms



## Fululu Garden Yachiyo and Blumer HAT Kobe: Installation of LED lighting



- Installation of LED lighting to reduce utility cost and environmental load
- Completed at Fululu Garden Yachiyo and Blumer HAT Kobe, after completion at Passagio Nishiarae in 1<sup>st</sup> period



Fululu Garden Yachiyo



Blumer HAT Kobe

## Blumer Maitamon: Replacing to wax-free floor materials (reducing BM cost)



## Ashico Town Ashikaga: Installation of escalators for opening of cinemas

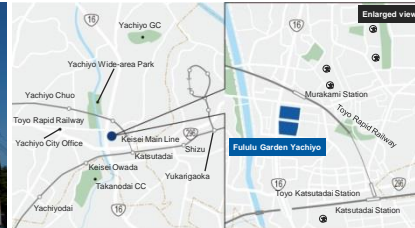


# Operating highlights ~ Fululu Garden Yachiyo

**CSC** Community Shopping Center

## Fululu Garden Yachiyo

A CSC easily accessible by both cars and trains, located in an area with population growth



<b>Acquisition price</b>	JPY14,848 mn
<b>Location</b>	Yachiyo, Chiba
<b>GFA</b>	(1) 50,960.84 m <sup>2</sup> (2) 65,698.32 m <sup>2</sup>
<b>Core tenant</b>	Ito-Yokado Co., Ltd.
<b>Appraisal NOI</b>	JPY760 mn
<b>Appraisal NOI yield</b>	5.1%



### Local & retail trade area



Source: Aerial photographs Geospatial Information Authority of Japan

#### Access

- About 45 minutes to "Otemachi" station from the nearest "Murakami" station
- Facing National Route 16
- Shuttle bus service available from "Katsutadai" station

#### Population

- Within a 5km radius: 335,000 people (up 1.5% from 2005 to 2010)
- Within a 3km radius: 160,000 people (up 2.3% from 2005 to 2010)
- Yachiyo City: 195,000 people (up 3.3% from 2010 to 2015)

#### Competitive environment

- GMS "Izumiyu" on the north of the "Murakami" station will close in early June

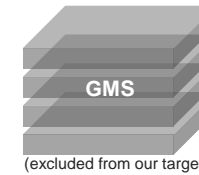
#### Number of visitors

- Stable at 600,000 per month on average

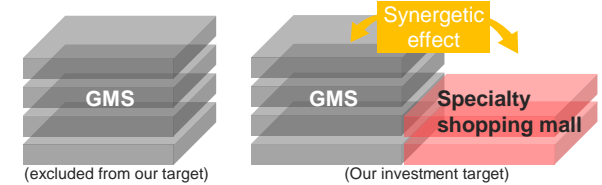
### GMS vs. CSC

- Stand alone GMS fall outside KRR's investment targets
- CSC, consisted of specialty stores and GMS, is included as KRR's investment targets
- RSC larger than CSCs is also our investment targets (up to 20% of the entire portfolio)

#### GMS



#### CSC/ RSC



### Tenants' credibility

Nearly 85% of the tenants are listed companies or members of listed corporate groups (on a rent income basis)



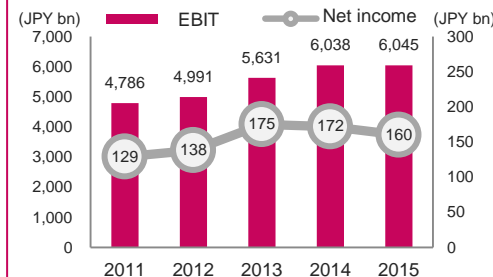
### Performance of core tenants (listed companies)

Company name	Sales	Net income
Xebio HD	210,672	2,084
Fast Retailing	1,681,781	110,027
Aoki HD	183,805	10,185
Honeys	59,020	1,948
Regal Corporation	36,030	1,336

Source: Compiled based on each company's disclosure materials  
Note: Legal status suffixes, such as Co., Ltd., are omitted

### Ito-Yokado

#### Seven & i HD



#### Seven & i HD group companies in the property

- Ito-Yokado: Core tenant
- Akachan Honpo: Tenant in the specialty store building
- Mall SC Development: Sub-PM for the entire property

#### Operating performance of Ito-Yokado Yachiyo

- Ranks in top 30% of all Ito-Yokado stores in terms of annual sales
- Sales have been growing since the store manager was given more authority and the product mix was optimized to better meet the needs of local area customers
- Low occupancy cost ratio: approx. 5% (Occupancy cost ratio: rents divided by sales)

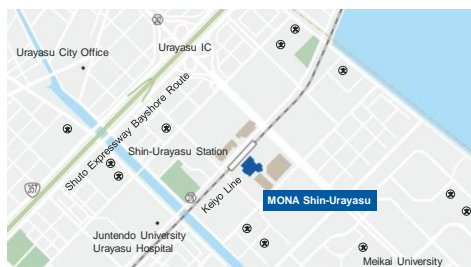
#### Online supermarket

- Operating an online supermarket where products ordered online are delivered to customers from the Ito-Yokado store in this property
- Customers can also receive products they ordered online at any of the 10 Seven Eleven shops in the neighborhood
- Ito-Yokado is reported to represent nearly half of the entire online supermarket market, which size is approx. JPY100 bn

# Operating highlights ~ MONA Shin-Urayasu

Urban Station-Front

## MONA Shin-Urayasu



Acquisition price	JPY8,063 mn
Location	Urayasu, Chiba
Land area <sup>(Note)</sup>	15,875.86 m <sup>2</sup>
GFA <sup>(Note)</sup>	76,767.24 m <sup>2</sup>
Core tenant	Undisclosed
Appraisal NOI	JPY495 mn
Appraisal NOI yield	6.1%

Note: Although the property is subject to sectional ownership, the total land area and GFA for the entire building are stated

### Location & retail trade area



Source: Aerial photographs Geospatial Information Authority of Japan

#### Access

- About 20 minutes to "Tokyo" station from the nearest "Shin-Urayasu" station
- The property is connected directly to the station via a pedestrian walkway
- Shin-Urayasu station has a daily passenger traffic of over 58,000 people on average
- Tokyo Disney Report is located in Maihama, one station west of Shin-Urayasu station

#### Population

- Within a 5km radius: 509,000 people (up 3.9% from 2005 to 2010)
- Within a 3km radius: 205,000 people (up 5.3% from 2005 to 2010)
- Urayasu City: 164,000 people (down 0.5% from 2010 to 2015)

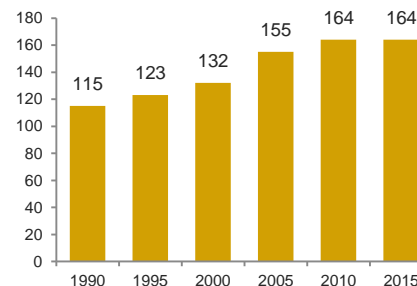
#### Competitive environment

- AEON Shin-Urayasu (Shoppers Plaza Shin-Urayasu) is located on the south-east of "Shin-Urayasu" station

### Growth opportunities

#### Retail trade area Steadily growing population

- Population in Urayasu City, where the property is located, had grown until 2010 and has remained stable level since then

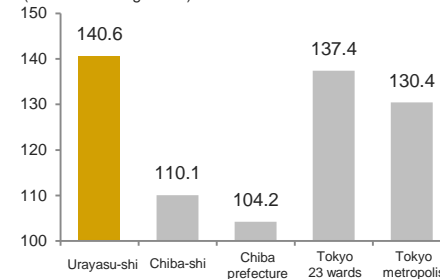


Source: 2015 National Census (preliminary report) (Ministry of Internal Affairs and Communications)

#### Retail trade area Higher average income

- The average income in Urayasu City exceeds that in 23 wards of Tokyo

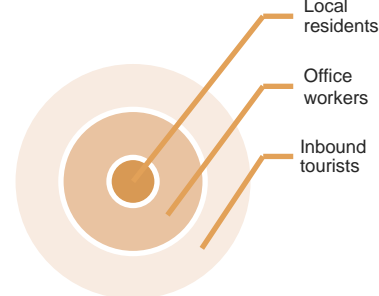
(National average=100)



Source: Survey of Taxation for each City/Town/Village by Ministry of Internal Affairs and Communications (2015)

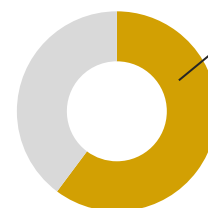
#### Growth potential

#### Tenants meeting the needs of broad customer base



- Tenants include retailers offering convenience goods, including a grocery supermarket and a drugstore
- Provided with highly useful public spaces which can be used for various events
- Financial institution tenants (6 tenants), which help attract heavy traffic into the property
- Restaurant tenants can drive demand from office workers on their way home as well as travelers staying in hotels close to the train station
- A 100-yen shop, a drugstore and sundries stores that are highly popular among foreigners help attract demand from inbound tourists

#### Leasing maturity



**60.2%**

Proportion of the tenants whose fixed-term lease contracts will mature by the 6<sup>th</sup> financial period (ending March 2018)

We seek to achieve cost saving and improved tenant satisfaction through effective utilization of CAPEX in a timely manner upon the maturity of each lease contract, and pursue rental upside upon contract renewal or tenant replacement by optimizing our tenant mix to better meet the needs in the retail trade area

# CSR and environmental initiatives

## We proactively participate in local-community-enlivening activities and take environmental initiatives

### Establishment of “Environmental Policies”

#### Environmental Policies

The officers and employees of Kenedix Real Estate Fund Management, Inc. (“KFM”) will undertake investment management operations in accordance with the following environmental policies.

#### 1. Compliance with Environmental Laws and Regulations

KFM will promote environment-friendly investment management operations by adhering to environmental laws and regulations.

#### 2. Promotion of Energy Conservation Measures

KFM will systematically advance energy conservation measures at its managed properties, maintaining a strong awareness of the importance of natural and energy resources.

#### 3. Reduction of Environmental Burden

KFM will undertake initiatives to reduce CO2 and waste emissions as well as promote recycling at its managed properties, underscoring its commitment to alleviating its environmental burden. In addition, KFM will take sufficient care when handling harmful substances and environmental pollutants.

#### 4. Disclosure of Environmental Information

KFM will work to disclose necessary information to a variety of concerned parties, including investors, tenants and business partners, in such areas as its environmental policies and measures.

#### 5. Environmental Education

KFM will take steps to improve the environmental consciousness of its officers and employees through internal education.

### Environmental initiatives

We utilized CAPEX to reduce environmental load such as installation of LED lighting



Passaggio Nishiaraei



Blumer HAT Kobe



Fululu Garden Yachiyo

### CSR initiatives

We agreed to provide part of Unicus Yoshikawa as a temporary gathering area in cases of disaster such as floods



Signing of agreement



Unicus Yoshikawa (aerial photo)

### Rating on our environmental initiatives

The following properties have been awarded the “DBJ Green Building Certification” for their environmental initiatives



**T-1** Fululu Garden Yachiyo

**T-2** MONA Shin-Urayasu



**O-1** Blumer Maitamon

**T-5** Unicus Ina

**T-7** Unicus Yoshikawa

### Help enliven local communities

We seek to enhance the medium to long term asset value of our retail properties by attracting tenants engaged in service businesses and holding local events at our properties to enliven the local community



Yoshikawa Marche  
(Unicus Yoshikawa)



Roseo Festival  
(Roseo Mito)

# Financial highlights

## Summary of interest-bearing debt

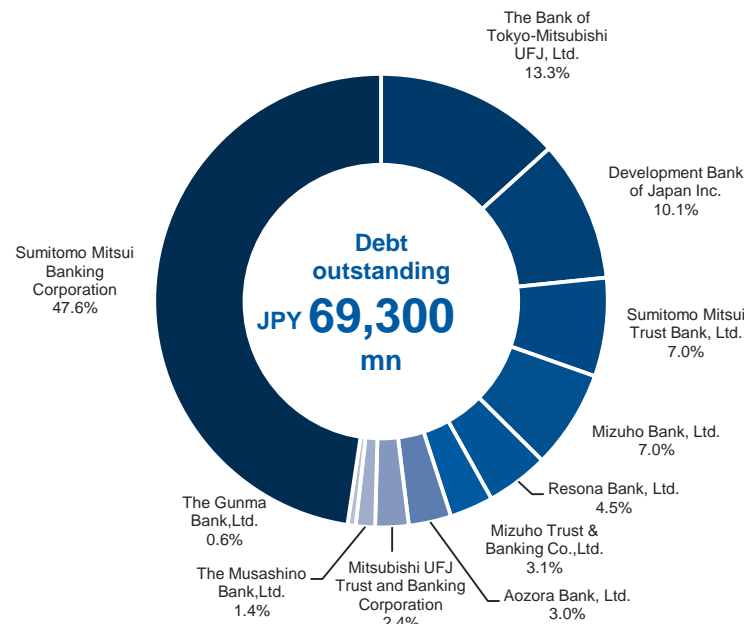
- Conducted debt financing with consideration of the balance between borrowing costs and maturities
- Realized steady growth while maintaining financial health through adequate management of LTV
- Extended maturities and increased the proportion of fixed-interest debt

	At listing (Feb. 10, 2015)	1 <sup>st</sup> period (Sep. 30, 2015)	2 <sup>nd</sup> period (Mar. 31, 2016)	New loans (Note1)	Post 2 <sup>nd</sup> PO (May 31, 2016)
Total debt outstanding (JPY mn)	28,172.5	38,350.0	57,500.0	11,800.0	69,300.0
Long-term debt ratio	88.2%	94.8%	88.7%	52.8%	82.6%
Fixed-interest debt ratio	88.2%	94.8%	88.7%	52.8%	82.6%
Average debt cost <sup>(Note2)</sup>	---	1.07%	1.05%	---	1.01%
Average years to debt repayment dates	5.0 years	5.5 years	5.1 years	4.8 years	4.9 years
Number of lenders	11	11	11	5	11
LTV	---	40.6%	42.7%	---	42.5%

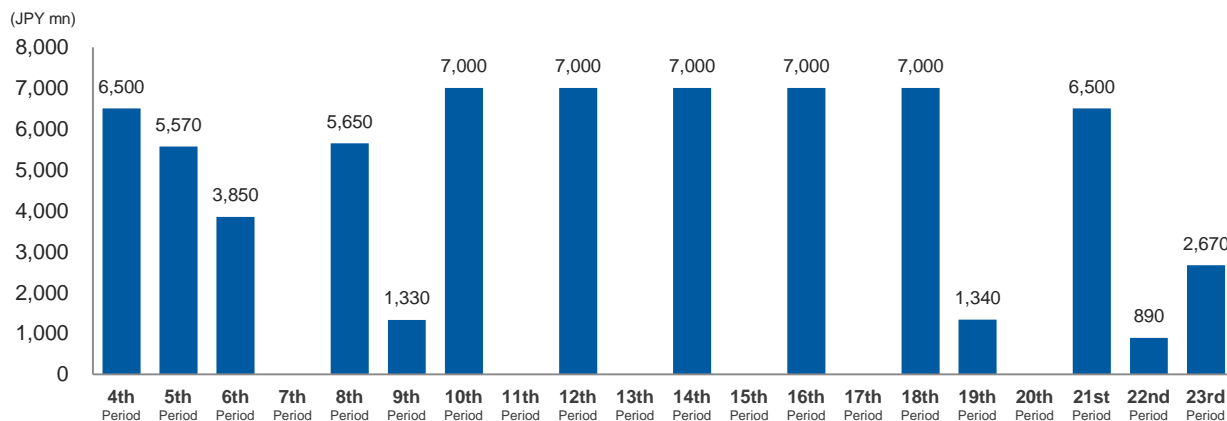
Note 1: New debt excludes the amount of 800 million yen that is anticipated to be prepaid on May 31, 2016.

Note 2: "Average debt cost" is calculated as the weighted average interest of debt with upfront cost included, based on the amount outstanding. For variable-interest debt, the debt cost is calculated using the interest rate fixed through interest swap. In the case that there is no interest swap, TIBOR rate for each specific date above is adapted in the calculation.

## Breakdown of debt outstanding by lender (After prepayment on May 31, 2016)



## Staggered maturities of interest-bearing debts (After prepayment on May 31, 2016)



## Optimum use of security/guarantee deposits

Total amount of security/guarantee deposits (as of Mar. 31, 2016) **JPY10.6bn**  
 (Amount kept as cash for deposit repayment) **JPY7.1bn**

Post 2<sup>nd</sup> PO **JPY11.7bn**  
 (Amount kept as cash for deposit repayment) **JPY8.1bn**

## Rating (JCR)

(Long-term issuer rating as of Mar. 31, 2016)  
 Japan Credit Rating Agency, Ltd. (JCR) **A**



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Unless otherwise explicitly stated, the figures such as percentage, ratio, and year(s) are rounded off to largest decimal place shown in this document, the amount of money such as JPY, Japanese Yen, is truncated at the one tenth of the number shown in this document.