Kenedix Office Investment Corporation

28th Fiscal Period Results (Ended April 2019)

June 13, 2019

(Ticker Symbol 8972)

KENEDIX
Office Investment Corporation

Summary of Presentation

Kenedix Real Estate Fund Management, Inc.

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Section 1

28th fiscal period (2019/4) management highlights and future initiatives

28th fiscal period (2019/4) management highlights and future initiatives

External Growth

AUM		Portfolio NOI yield after depreciation		Borrowing capacity for acquisition (in the case of LTV 45% limit)	
415.8 bn yen	Continue strategic asset reshuffle and selective investment	After property acquisition (estimate) **3.8%**	Improve the profitability through the acquisition of Chofu Center Building in the 29th fiscal period	After property acquisition (estimate) **Approx. 23.0 bn yen**	Securement of flexibility for selective investment

Future initiatives

- Aim for further growth through selective investment by utilizing borrowing capacity for acquisition
- Enhance the portfolio quality through continuous asset reshuffle
- Continuous, close attention to changes in the demand for office locations due to changes in work styles

Internal Growth

Occupancy rate		Unit rent increase rate upon tenant turnover		Increase in rent upon rent revision (Total monthly rent for 28th fiscal period)	
99.2%	The occupancy rate remained high with the strong tenant demands	**20.3%**	Increased unit rent due to move-out of large tenant and strategic leasing activities	**9.0 mn yen**	Accumulated rent increase as a result of proactive upward rent negotiations

Future initiatives

- Continuous rise in unit rent by maintaining high occupancy rate and tenant turnover
- Decrease in rent gap through proactive upward rent negotiations
- Property management responding to changes in work styles and advanced information and telecommunications technology

Financial Strategy

Interest-beaning debt average interest rate		LTV		Correspondent financial institutions	
1.04%	Reduce financial cost through refinancing	After property acquisition (estimate) **42.1%**	Issued KDO's first green bonds	After property acquisition **15 institutions**	New borrowings from life insurance company and set up of a commitment line with three megabanks

Future initiatives

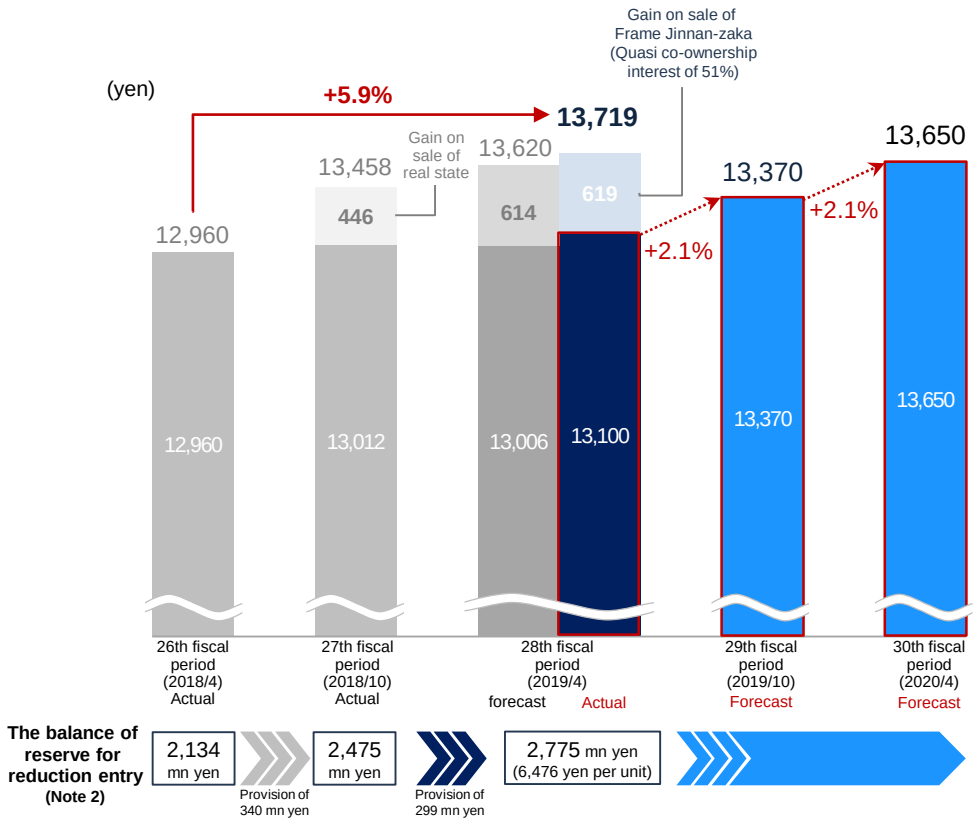
- Reduce financial costs continuously through diversifying financing methods and borrowing periods
- Raise funds through direct financing by using green bonds, etc.
- Maintain stable financial management with a target LTV of 45%

Dividend and reserve for reduction entry

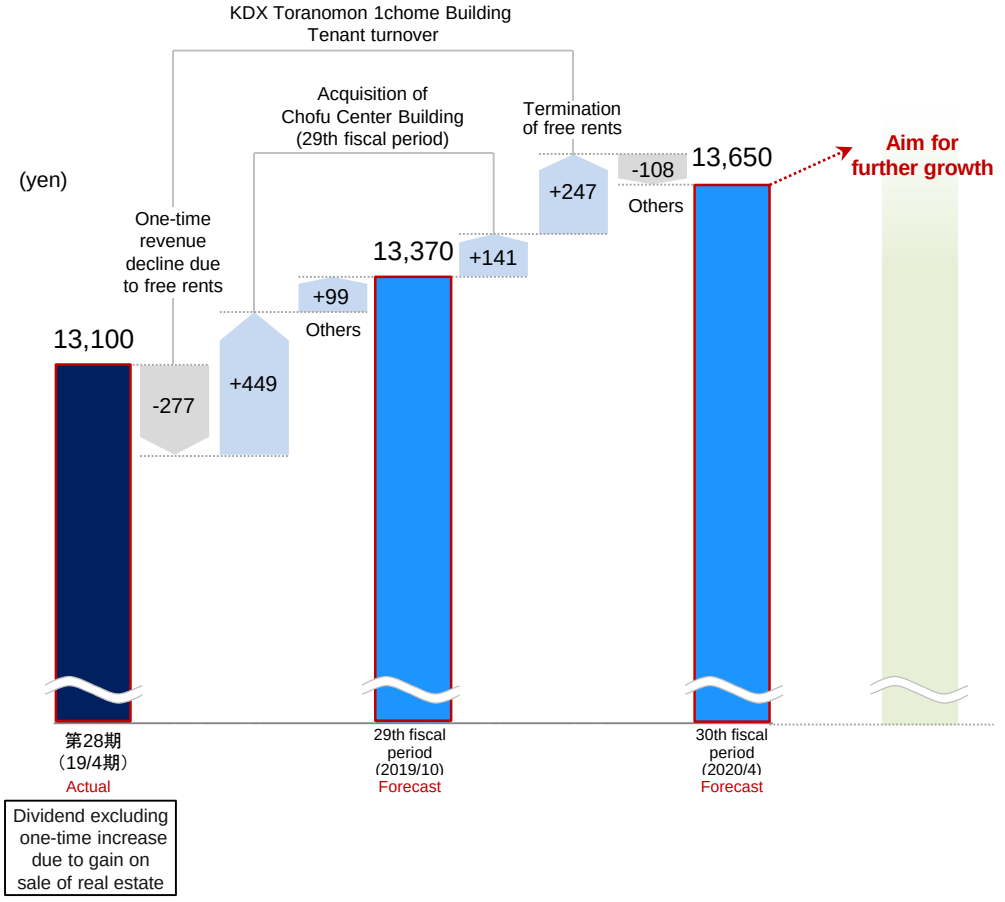
Raised dividend by approx. 5.9% year over year in the 28th fiscal period (2019/4), and further accumulated reserve for reduction entry
Normalized dividend steadily grew and achieved the target of 13,200 yen. Aim for further growth

DPU history (Note 1)

・Expect growth of 4% per annum or more based on dividend of 13,100 yen for 28th fiscal period excluding one-time increase due to gain on sale of real estate



Main factors for increase in forecasted DPU (Note 1)



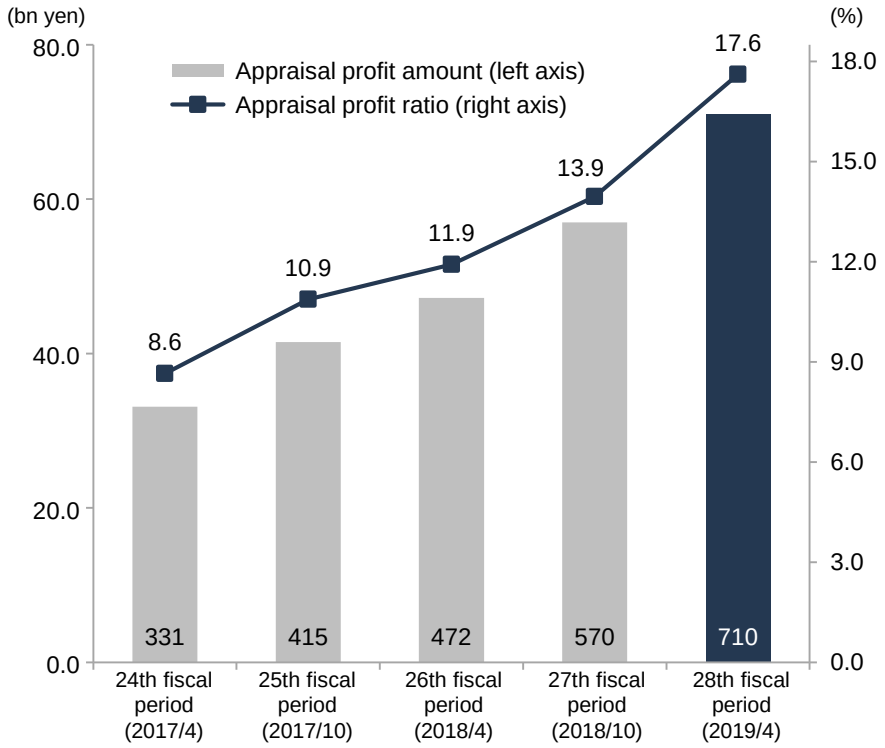
Note 1: Figures per unit are calculated based on the number of investment units issued and outstanding as of the end of each fiscal period. The same applies hereinafter
Note 2: The balance of reserve for reduction entry is calculated by either adding provision of reserve for reduction entry or subtracting reversal of reserve for reduction entry stated on Basis for Calculating Cash Distribution for the relevant fiscal period to/from the balance of reserve for reduction entry on the balance sheet as of the end of the relevant fiscal periods

Portfolio appraisal profit and NAV per unit

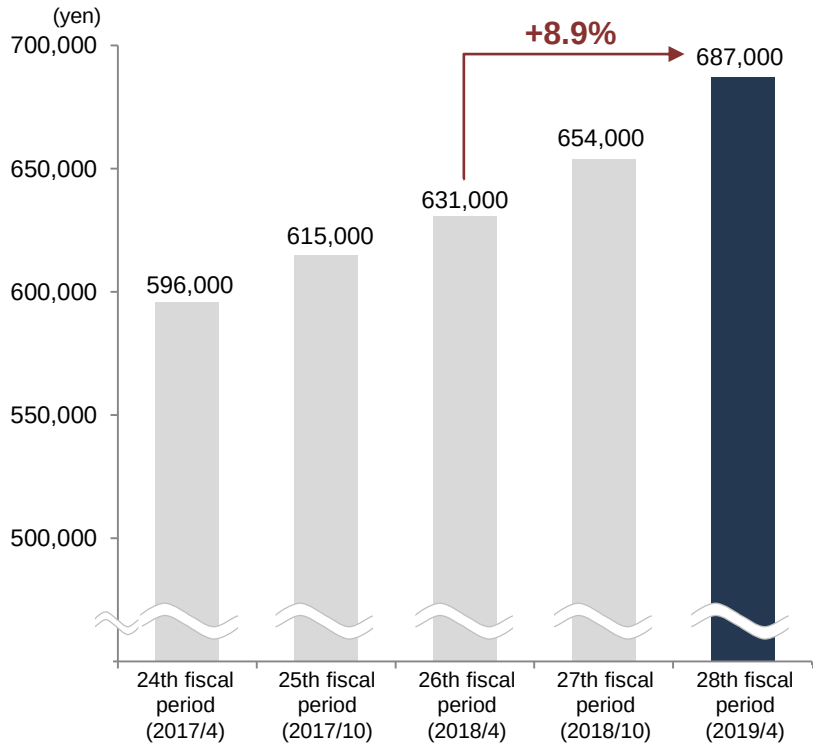
Appraisal profit expanded to 71.0 billion yen due to an increase in appraisal value and continuous asset reshuffle
Raised NAV per unit by 8.9% year over year

Changes in portfolio appraisal profit amount and ratio (Note 1)

- Both appraisal profit amount and ratio reached a record high since listing at the end of the 28th fiscal period (2019/4)



Changes in NAV per unit (Note 2)



Note 1: Appraisal profit amount is calculated by subtracting book values from appraisal values for all properties owned as of the end of relevant fiscal periods
In addition, appraisal profit ratio is calculated by dividing appraisal profit amount by book value as of the end of relevant fiscal periods (rounded to the first decimal place)
Note 2: NAV per unit is truncated to the nearest thousand yen after subtracting the amount of DPU

Section 2

28th fiscal period (2019/4) results,
29th fiscal period (2019/10) earning forecasts and
30th fiscal period (2020/4) earning forecasts

Outline of 28th fiscal period (2019/4) financial results

Further increased revenues from the existing properties, and also improved rental NOI
Booked gain on sale same as previous fiscal period, contributing to growth of dividends and further accumulated reserve for reduction entry

28th fiscal period (2019/4) actual

(mn yen)

	27th fiscal period (2018/10) Actual	28th fiscal period (2019/4) Forecast (announced on Dec. 12, 2018)	**28th fiscal period (2019/4) Actual**	28th (actual) vs 27th (actual) Difference	28th (actual) vs 28th (forecast) Difference
	A	B	**C**	C-A	C-B
Operating revenue	15,420	15,246	**15,212**	1 -208	1 -34
Operating expense	8,271	8,099	**8,039**	2 -232	2 -59
Operating income	7,148	7,147	**7,172**	+24	+25
Ordinary income	6,109	6,137	**6,179**	+70	+42
Net income	6,107	6,136	**6,178**	+70	+42
DPU (yen)	13,458	13,620	**13,719**	+261	+99
Provision (+)/reversal (-) of reserve for reduction entry	+340	+299	**+299**	-	-
Gain/loss on sale of real estate	532	563	**565**	3 +32	+1
Rental NOI	10,055	10,073	**10,084**	+29	+11
Interest expense, etc.	998	974	**957**	4 -40	-16

Comparison against 27th fiscal period (2018/10) actual

1 Decrease in operating revenue **-208 mn yen**

- Increase in revenue from existing properties +65 mn yen
- Decrease in revenue from utility expense due to seasonal and other factors -200 mn yen
- Decrease in operating revenue of Senri LSC Bldg. Hall -39 mn yen
- Decrease in dividend income -34 mn yen

2 Decrease in operating expense **-232 mn yen**

- Decrease in repair/maintenance expense -165 mn yen
- Decrease in utility expense due to seasonal and other factors -119 mn yen
- Increase in brokerage fees +42 mn yen

3 Booking and disappearance of gain on sale of real estate **+32 mn yen**

4 Reduction in interest expense, etc. **-40 mn yen**

Comparison against 28th fiscal period (2019/4) forecasts

1 Decrease in operating revenue **-34 mn yen**

- Increase in revenue from existing properties +35 mn yen
- Decrease in revenue from utility expense due to seasonal and other factors -68 mn yen

2 Decrease in operating expense **-59 mn yen**

- Decrease in repair/maintenance expense -18 mn yen
- Decrease in utility expense due to seasonal and other factors -41 mn yen

Outline of 29th (2019/10) and 30th (2020/4) fiscal periods earnings forecasts

Expect rental NOI to steadily increase thanks to contribution of property acquisition while expect decline in revenue and income due to disappearance of gain on sale
Boost up rental NOI through gradual resolution of temporary revenue decline from tenant turnover

29th (2019/10) and 30th (2020/4) fiscal periods forecasts (mn yen)

	28th fiscal period (2019/4) Actual	29th fiscal period (2019/10) Forecast	**30th fiscal period (2020/4) Forecast**	29th (forecast) vs 28th (actual) Difference	30th (forecast) vs 29th (forecast) Difference
	A	B	**C**	B-A	C-B
Operating revenue	15,212	**15,048**	**15,099**	① -164	① +50
Operating expense	8,039	**8,324**	**8,260**	② +285	② -64
Operating income	7,172	**6,723**	**6,839**	-449	+115
Ordinary income	6,179	**5,730**	**5,850**	-449	+119
Net income	6,178	**5,729**	**5,849**	-449	+119
DPU (yen)	13,719	**13,370**	**13,650**	-349	+280
Provision (+)/reversal (-) of reserve for reduction entry	+299	**-**	**-**	-	-
Gain/loss on sale of real estate	565	**-**	**-**	③ -565	-
Rental NOI	10,084	**10,188**	**10,362**	+104	+173
Interest expense, etc.	957	**978**	**973**	+20	-4

Comparison between 28th fiscal period (2019/4) actual and 29th fiscal period (2019/10) forecasts

① Decrease in operating revenue -164 mn yen

- Decrease in revenue from existing properties (due to free rent period for large tenants, etc.) -48 mn yen
- Revenue contribution of an acquired property in 29th fiscal period +224 mn yen
- Increase in revenue from utility expense due to seasonal and other factors +218 mn yen

② Increase in operating expense +285 mn yen

- Increase in utility expense due to seasonal and other factors +223 mn yen
- Increase in taxes (the property acquired in 27th fiscal period, etc.) +41 mn yen

③ Disappearance of gain on sale of real estate -565 mn yen

Comparison between 29th fiscal period (2019/10) forecasts and 30th fiscal period (2020/4) forecasts

① Increase in operating revenue +50 mn yen

- Revenue contribution of an acquired property in 29th fiscal period +70 mn yen
- Increase in revenue from an existing property (revenue contribution of large tenants, etc.) +139 mn yen
- Decrease in revenue from utility expense due to seasonal and other factors -139 mn yen

② Decrease in operating expense -64 mn yen

- Decrease in utility expense due to seasonal and other factors -98 mn yen

Memo

Section 3

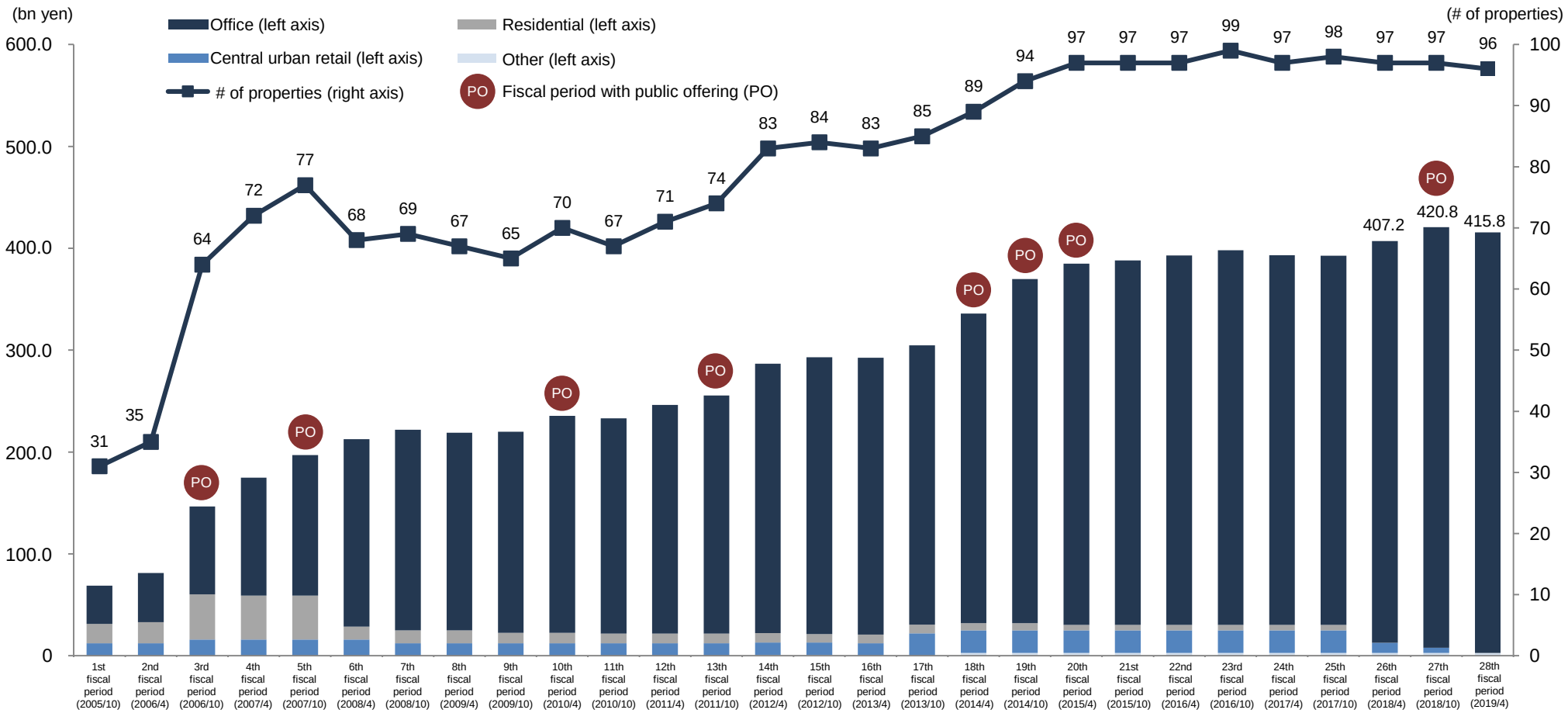
Portfolio overview

Portfolio growth and changes in the number of properties

Continue selective investment and asset reshuffle with improvement of the portfolio quality in mind

Aim for further growth by keeping an eye on real estate market trends while firmly maintaining investment criteria

Portfolio growth (based on total acquisition price) and the number of properties (Note 1) (Note 2)



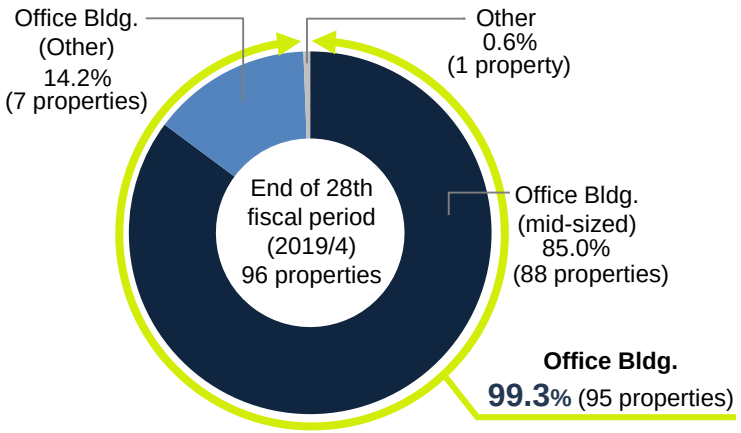
Note 1: The amount and the number of properties are shown as of the end of each fiscal period. Figures are truncated to the nearest 0.1 billion yen. Figures in this material are truncated to the nearest unit unless otherwise stated

Note 2: Classification by use of owned properties has been changed from the 26th fiscal period (2018/4) due to changes in the management guideline on December 1, 2017. The same applies hereinafter

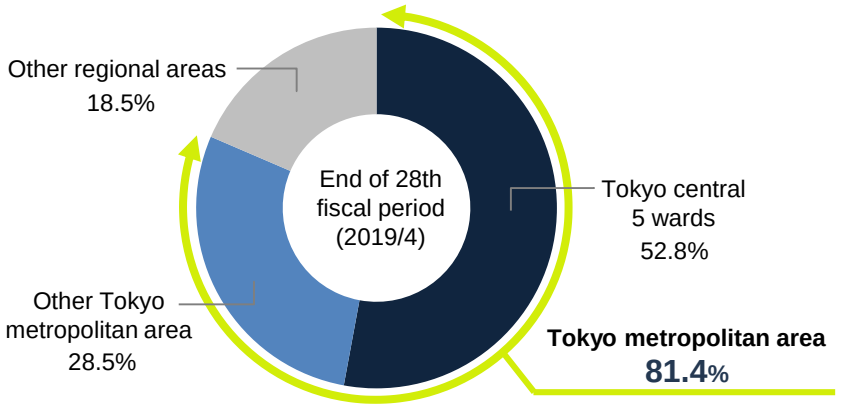
Portfolio diversification

Portfolio mainly consisted of mid-sized office buildings with advanced tenant diversification
Plan to maintain approx. 80% investment ratio in the Tokyo metropolitan area

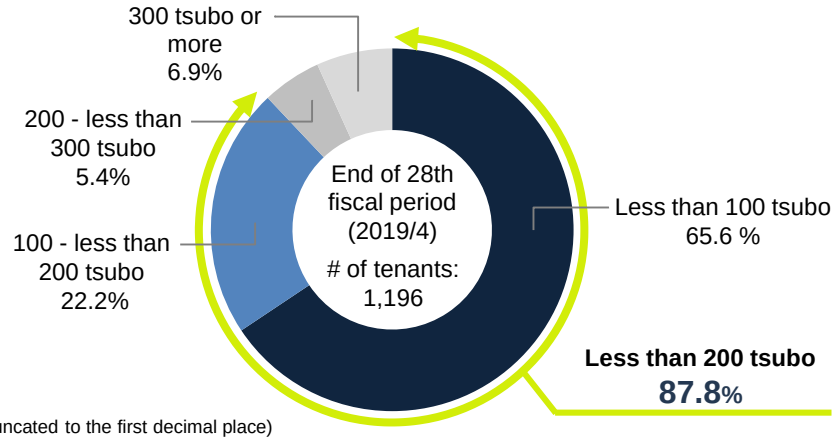
Breakdown by asset type (Note 1)



Breakdown by region (Note 2)



Breakdown of the number of tenants by leased floor area (Note 3)



Note 1: Portfolio breakdown by asset type based on acquisition price (truncated to the first decimal place)
Note 2: Portfolio breakdown by region based on acquisition price (truncated to the first decimal place)
Note 3: Based on the number of tenants in each office building. Tenants leasing more than one property are counted as 1 tenant for each building without aggregating by name-base

Memo

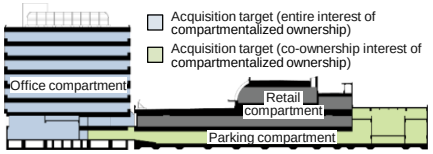
Section 4

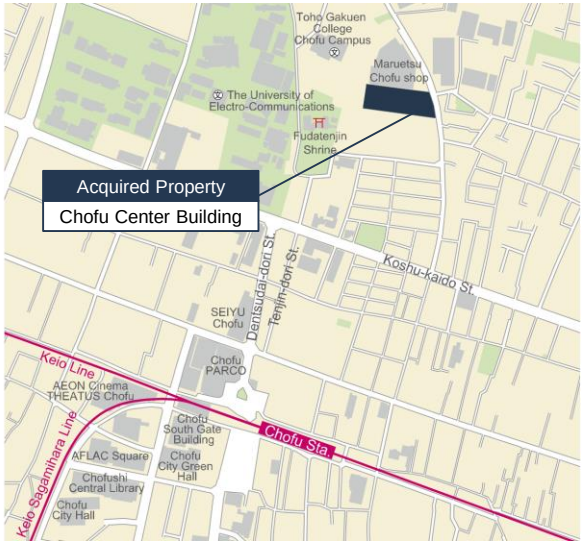
External growth

Acquired Property in the 29th fiscal period (2019/10)

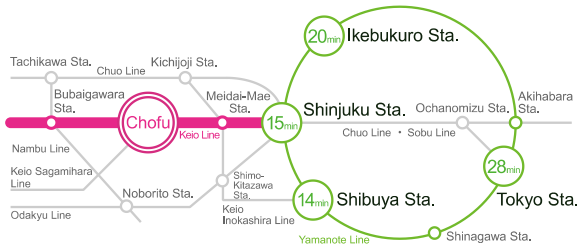
Improve portfolio quality and profitability through negotiated transaction supported by the sponsor
Acquired the office building that can meet diverse tenant needs to increase the depth of the portfolio

Chofu Center Building (Acquired on June 14, 2019)





Acquisition price	8,700 mn yen
Appraisal value	9,920 mn yen (As of April 1, 2019)
NOI yield (estimate) (Note 1)	4.8%
NOI yield after depreciation (estimate) (Note 2)	4.3%
Appraisal NOI yield (Note 3)	5.5%
Total floor area (Note 4)	31,536.86 m^2
Completion date (Note 5)	January,1995
Occupancy rate	100% (As of May 31, 2019)



Reasons for acquisition

- An office building located about nine minutes walk from “Chofu” Station which has good access to major stations in Tokyo and is located in a district where there are many commercial facilities, and adjacent to the residential area that meets the needs for close placement of residence and workplace
- Located on the Musashino Plateau, which is relatively resistant to earthquake, and equipped with emergency power generators which enables operation for 72 hours, having the possibility to meet the demand of tenants for BCP
- Highly convenient for tenants frequently using vehicles in the course of business as located close to the Chuo Expressway “Chofu IC” and equipped with parking space for 51 vehicles
- Acquired at a lower price, approx. 12% lower than the appraisal value, through information provision by Kenedix, the sponsor

Effects from the acquisition

DPU growth (Note 6)

Mid term estimate
+390 yen per period

Appraisal profit expansion (Note 7)

Appraisal upon acquisition
+1.2 bn yen

Improvement of Portfolio NOI yield after depreciation (Note 8)

End of the 28th fiscal period (2019/4)	After acquisition (estimate)
3.7%	3.8%

Note 1: Calculated by dividing estimated NOI after excluding extraordinary factors calculated by the Asset Management Company for the year of acquisition by acquisition price (The figure is rounded to the first decimal place. For yields, the same applies hereinafter).
Note 2: Calculated by dividing estimated NOI after depreciation (estimated NOI – estimated depreciation expenses) by acquisition price
Note 3: Calculated by dividing annualized net operating income (based on the direct capitalization method described in the appraisal report as of April 1, 2019) by acquisition price
Note 4: Total floor area for the whole building is shown. The Property is comprised of total of 3 compartments of office, parking and retail shop & pool, and KDO acquires 61.17% of co-ownership interest in the Property’s land, compartmentalized ownership of the entire office compartment, and 20.37% of co-ownership interest in compartmentalized ownership of parking compartment. Total occupied area of the office compartment is 18,015.20m^2
Note 5: Completion date of compartmentalized ownership building of office compartment is shown.
Note 6: Calculated by subtracting estimated financial cost for debt borrowed to acquire property (3.0 billion yen) from the estimated NOI after depreciation of acquired property, then dividing that by the total number of investment units issued as of the end of the 28th fiscal period (2019/4) (truncated to the nearest ten yen)
Note 7: Difference between the appraisal value of the acquired property as of April 1, 2019 and the acquisition price is shown
Note 8: Calculated based on portfolio NOI yield after depreciation and acquisition price as of the end of the 28th fiscal period (2019/4) adding the Property’s estimated NOI after depreciation and acquisition price, respectively

Office buildings demand in major suburban cities

Focus on a corporate response and impact on office building market associated with changes in social environment
Pay close attention to changes in office building demand in major suburban cities as well as the future progress of polarized rental market in the Tokyo metropolitan area

Demand changes of office buildings that the Asset Management Company thinks of

Changes in social environment

Decline in working population due to falling birthrate	Emergence of the millennial generation Penetration of the work style reform	Advanced technologies
↓	↓	↓
Labor force participation by women and the elderly	Ensuring work-life balance	Popularization of mobile work and RPA (Note 2)

The demand for office buildings in major suburban cities (Note 1) meeting the changes in social environment may rise

- Workplace near home
- High traffic convenience
- Good living convenience and highly bustling area

Features of office buildings in major suburban cities

Overview of Chofu City where the acquired property is located (Note 3)

Population trends
216 thousand persons (2005) → 229 thousand persons (2015) (+6.0%)
(Tokyo (excluding central 5 wards): +8.1%)

Changes in the number of employees
75 thousand persons (2006) → 79 thousand persons (2014) (+5.3%)
(5 regional urban cities (Note 4): +7.1%)

Number of incoming and outgoing passengers at the nearest station
114 thousand persons (2008) → 119 thousand persons (2017) (+4.4%)

Number of major office buildings supplied
since 2004 1 building

Owned properties and their overview in major suburban cities (Note 1)

	Location Nearest station	Population of the property's location (ten thousand persons) 2005	2015	(Increase rate)	Number of incoming and outgoing passengers at the nearest station (ten thousand persons) 2008	2017	(Increase rate)	Number of major office buildings supplied (from 2004)	Properties owned occupancy rate End of 18th FP	End of 23th FP	End of 28th FP
1	Omiya-ku, Saitama Omiya Station	10.6	11.3	(+6.9%)	47.8	68.7	(+43.7%)	4	100%	100%	100%
2	Tachikawa Tachikawa Station	17.2	17.6	(+2.2%)	30.5	33.1	(+8.3%)	1	100%	100%	100%
3	Fuchu Fuchu Station	24.5	26.0	(+6.0%)	8.6	8.8	(+1.7%)	1	97.6%	85.2%	97.2%
4	Nakahara-ku, Kawasaki Musashi-Kosugi Station	21.0	24.7	(+17.6%)	37.5	46.4	(+23.7%)	2	95.9%	100%	100%
5	Funabashi Funabashi Station	56.9	62.2	(+9.3%)	27.1	27.6	(+1.8%)	1	100%	100%	100%

Note 1: "Major suburban cities" in this material refer to municipalities in the vicinity of the 23 wards of Tokyo where the Investment Corporation owns properties in the Tokyo Metropolitan and 3 prefectures and a certain office area is formed
Note 2: RPA is an abbreviation for Robotic Process Automation and is a technology that automates business processes on computers on behalf of people
Note 3: The sources of each data are as follows. Population trends: Statistics Bureau, MIC "Population Census"; Changes in the number of employees: Statistics Bureau, MIC "Economic Census"; Number of incoming and outgoing passengers at the nearest station: MLTI "City Planning Survey"; Number of major office buildings supplied: CBRE Report
Note 4: Sapporo City, Sendai City, Nagoya City, Osaka City, and Fukuoka City

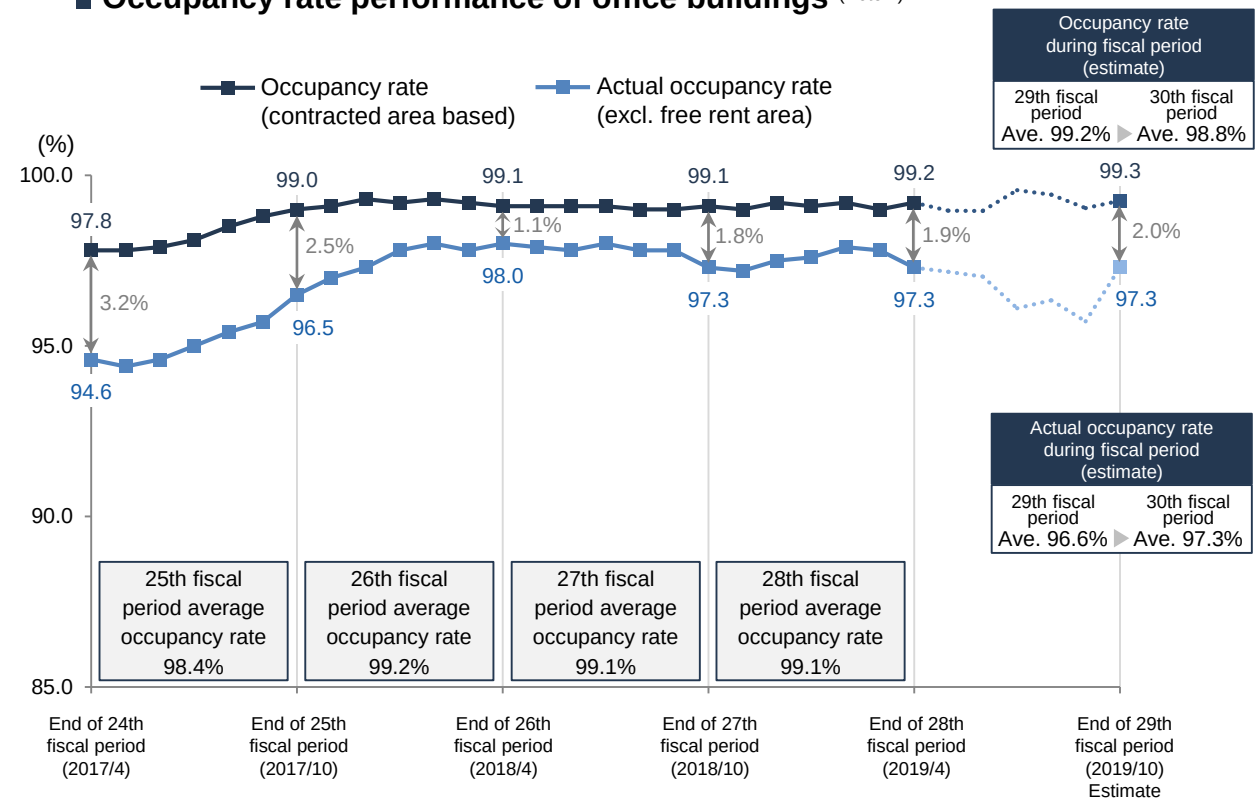
Section 5

Internal growth

Changes in occupancy and turnover ratio for office buildings

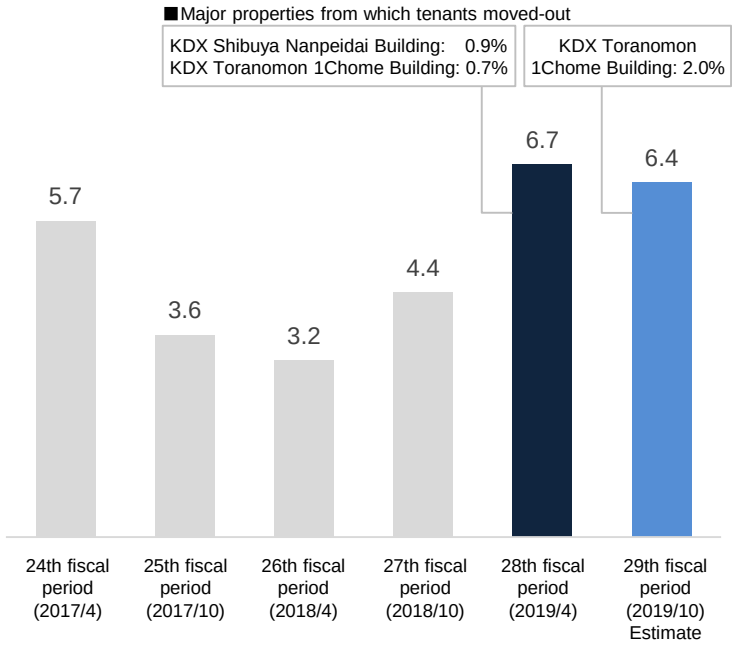
The occupancy rate remained high with the strong tenant demand
Despite increasing turnover ratio mainly due to move-out of the tenant occupying the whole property, achieved steady progress in filing vacancies

Occupancy rate performance of office buildings (Note 1)



Turnover ratio (annualized) of office buildings (Note 2) (Note 3)

- New tenants have been already determined for more than 80% of move-out areas in 28th fiscal period (2019/4)



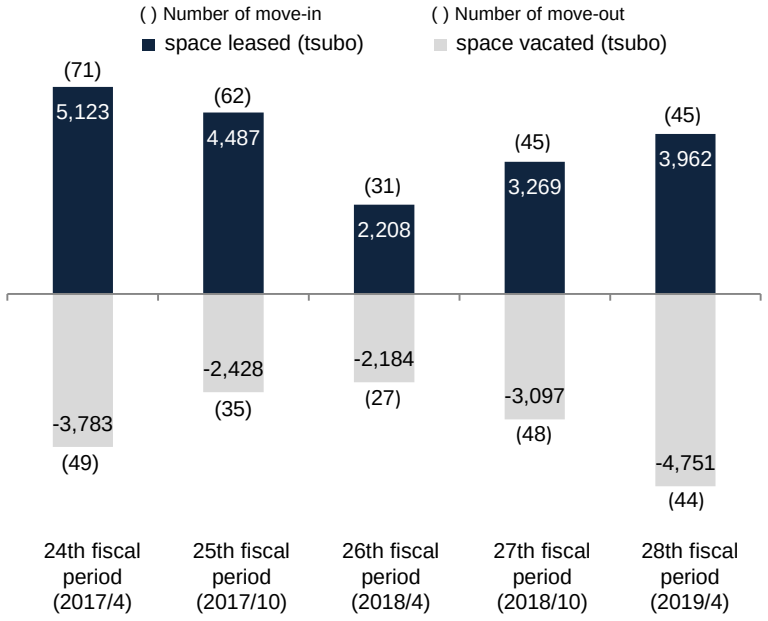
Note 1: Occupancy rate (contracted area based) is calculated by dividing contract based leased area by leasable area, and actual occupancy rate (excl. free rent area) is calculated by subtracting free rent area from leased area then dividing that area by leasable area. The figures are rounded to the first decimal place. Average occupancy rate of office buildings during each fiscal period is a simple average of month-end occupancy rates of owned office buildings during each period. The estimated average occupancy rate for the 29th fiscal period (2019/10) and the 30th fiscal period (2020/4) is the figure that is used as part of the assumptions for the earnings forecasts
Note 2: Turnover ratio is calculated and annualized as follows: (Total leased area of the end-tenants who cancelled their lease agreements during the six-months period from the beginning to the end of each period) / (Average leasable area of all office buildings owned by KDO as of each month-end during the relevant period) x 2. Figures are rounded to the first decimal place
Note 3: Estimate for the 29th fiscal period (2019/10) is based on the cancellation notice, etc. received by May 31, 2019

Trends in move-ins/outs and rent changes upon tenant turnover for office buildings

Steady progress in filling vacancies backed by a favorable rental property market
Continue to raise rent revenue due to free rent period reduction and rise in unit rent

Changes in main indices of tenant move-ins/outs

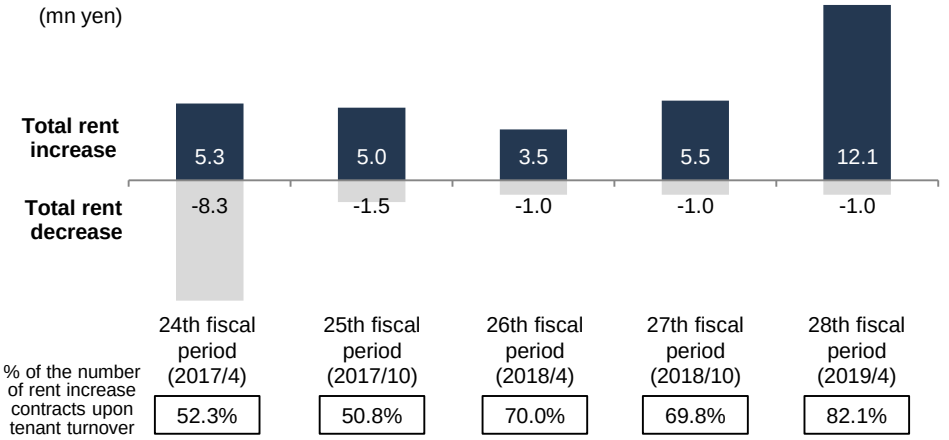
Tenant move-in and move-out areas and the number of tenants (Note 1)



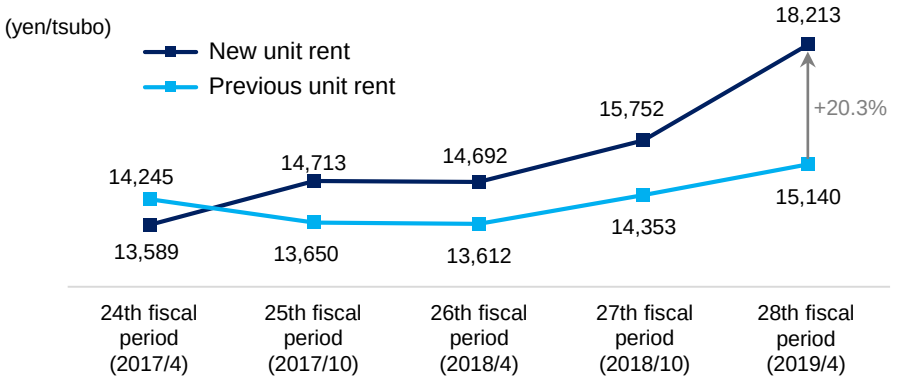
FR period (# of month) (Note 2)

	24th fiscal period (2017/4)	25th fiscal period (2017/10)	26th fiscal period (2018/4)	27th fiscal period (2018/10)	28th fiscal period (2019/4)	excluding the impact of KDX Tranomon 1chome Building
Tokyo Central 5 wards	4.3	3.6	3.6	2.4	1.9	1.2
Tokyo Metropolitan area (excluding Tokyo central 5 wards)	3.2	2.7	2.8	3.3	2.7	
Other regional areas	4.6	2.7	2.5	1.7	0.9	

Changes in monthly rent upon tenant turnover (Note 3)



Changes in unit rent upon tenant turnover (Note 4)



Note 1: The number of tenants and leased area are calculated based on floor. In case that an end-tenant move-out from/move-in to multiple floors, the number is counted by floor
Note 2: Rent-free period refers to a period from the start date of contract until the start date of contracted full rent. Above figures are monthly average and are expressed in terms of month by dividing by 30 days (truncated to the first decimal place). The analysis is based on office floors on the 2nd floor or above and excludes buildings that were newly acquired during the relevant fiscal periods
Note 3: Total amount of increases/decreases in monthly rent before and after rent revision for each fiscal period is respectively aggregated for the spaces where the rents paid by new tenants and by previous tenants can be compared
Note 4: New unit rent is an average unit rent calculated based on aggregated rents and areas for the spaces where rents paid by new tenants and by previous tenants can be compared for each fiscal period of “Tenant move-in and move-out areas and the number of tenants”. Previous unit rent is an average unit price calculated based on aggregated previous rent units and areas for the spaces where new rent units are calculated

Leasing strategy to support internal growth

Aim to increase rent revenue by raising unit rent through tenant turnover
Respond to changes in work style of office workers and capture new needs for coworking space etc.

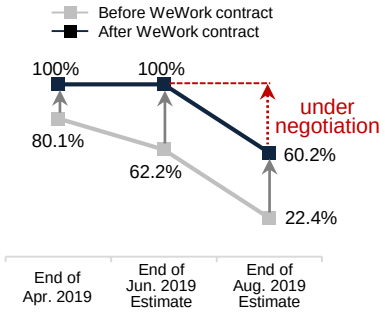
Tenant turnover at KDX Toranomon 1chome Building

■Tenant occupancy
(as of the end of April 2019)

11F	197.08	since Jul. 1, 2019 WeWork
10F	246.13	
9F	246.13	Under negotiation with candidate tenants (vacant from Aug. 31, 2019)
8F	246.13	
7F	246.13	Occupied
6F	246.13	Under negotiation with candidate tenants (vacant from Aug. 31, 2019)
5F	246.13	
4F	246.13	since Apr. 26, 2019 WeWork
3F	246.13	
2F	246.13	Occupied
1F	61.82	Occupied

*Leasable area (tsubo)

■Occupancy rate
(Based on leased area)



Received cancellation notice from several tenants	• Continued to negotiate with several tenants whose rents were below the market level, but not reached an agreement • Sequentially received cancellation notice from the above tenants after September 2018, and expected occupancy rate to fall 22.4% as of the end of August 2019
Seek for new tenants	• Began negotiations with WeWork to obtain a contract in the process of seeking for tenants with an eye on the needs from coworking space aimed at raising new unit rent
3・4F/10・11F (Move-out on Mar. 31 and Jun. 30, 2019) ▼ **Move-in of WeWork**	• Concluded a long-term fixed lease agreement with unit rent 38.5% higher than the previous tenant on the conditions to bear part of move-in construction work expenses and provide a certain free rent period
5・6F/8・9F (Move-out on Aug. 31, 2019) ▼ **Under negotiation with candidate tenants**	• Currently continue negotiations to recover occupancy rate early and raise unit rent

Tenant turnover at KDX Shibuya Nanpeidai Building

- The tenant occupying the whole building decided to move to newly-built property
- Contracted with new tenant to lease the whole building without vacancy period and free rent period given the rarity of vacancy in the Shibuya area
- New contracted unit rent is higher than the estimated unit rent at the time of acquisition of the Property in August 2017 by approx. 10%

Increase rate due to tenant turnover (Note)	Appraisal value increase rate
+20.9%	Period over period: 28th fiscal period (2019/4) +2.4%

Note: Calculated by dividing a difference between new and previous rents by previous rent (rounded to the first decimal place)

Response to the demand for coworking space and satellite office

- Flexibly capture the demand for coworking space and satellite office which are increasing the presence as influential tenant of office buildings in recent years, and respond to changes in social environment such as workstyle reform and telework development

wework

PLACE FOR ZXY WORK ZXY

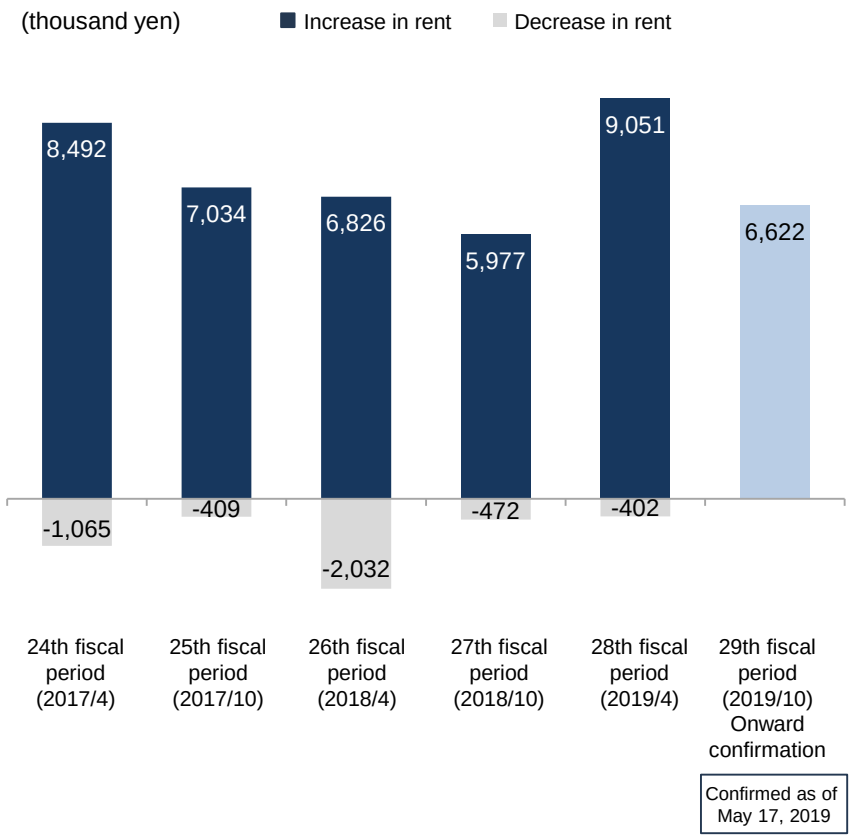
©WeWork (ref.：WeWork Marunouchi Kitaguchi)

©XYMAX Corporation (ref.：ZXY Mitaka)

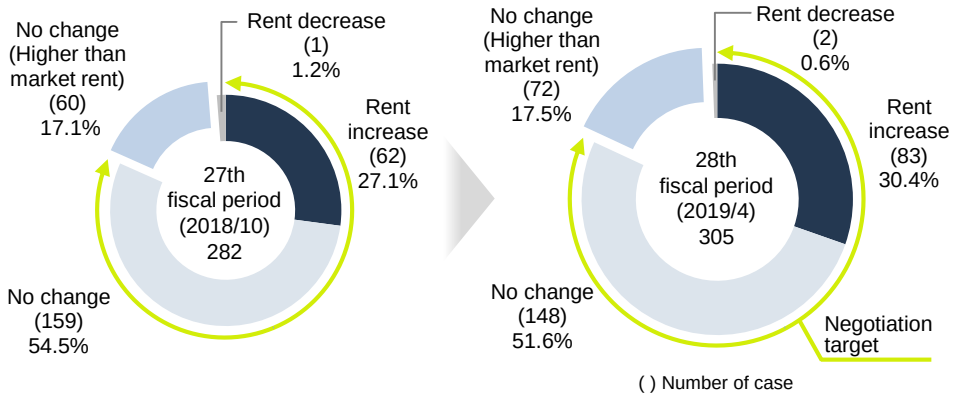
Status of rent revisions with existing tenants

Further acheived upward rent revision and had a certain prospect for increase in rent revenues in and after the next fiscal period
Delivered steady results through negotiations on rent revisions based on detailed tenant analysis

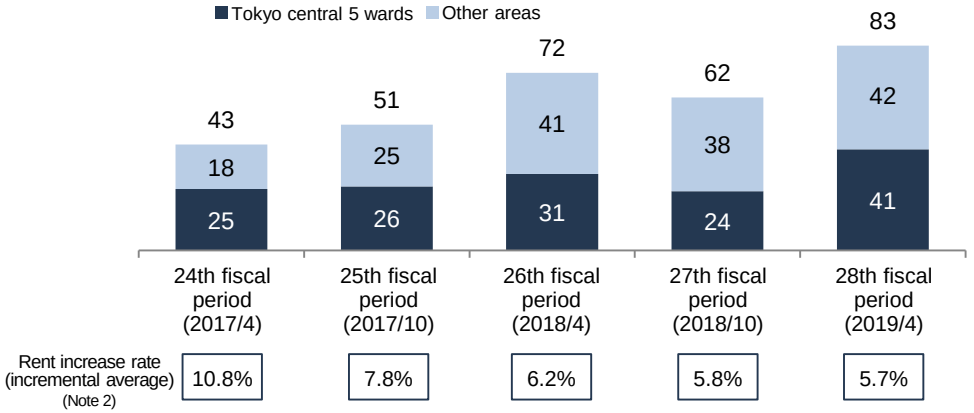
Changes in rent upon rent revisions (based on monthly rent) (Note 1)



Status of rent revisions (based on leased floor area)



Changes in the number of rent increase contracts and rent increase rate

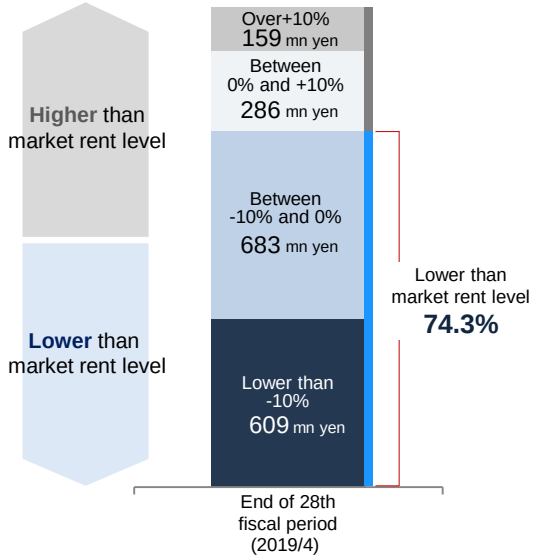


Note 1: Difference in monthly rent before and after rent revision in each fiscal period is calculated by aggregating the change amount per contract in each fiscal period (rounded to the nearest thousand yen)
Note 2: Rent increase rate is calculated by dividing the sum of increase in monthly rent by the sum of monthly rent before revision (rounded to the first decimal place)

Rent gap of KDO office buildings

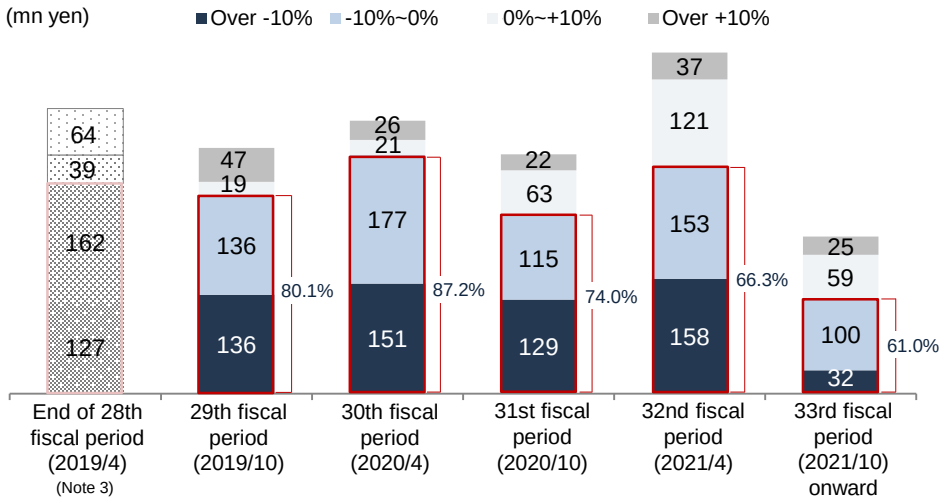
Market rent continued to rise and rent gap also remained at the high level
The negative balance of average rent gap is gradually reaching the largest level

Breakdown of rent gaps (based on monthly rent) (Note 1)



Breakdown of rent gaps by rent revision schedule

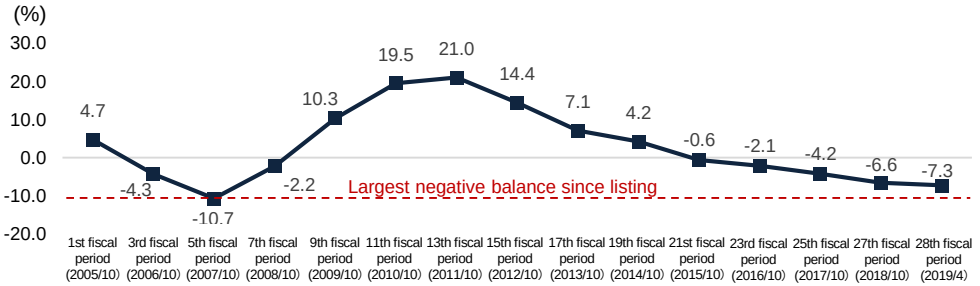
(as of the end of the 28th fiscal period (2019/4), based on monthly rent) (Note 1) (Note 2)



Number of owned properties with increased market rent and period-over-period unit rent increase rate

	End of 26th fiscal period (2018/4) → End of 27th fiscal period (2018/10)	End of 27th fiscal period (2018/10) → End of 28th fiscal period (2019/4)
Tokyo central 5 wards	28 / 47 properties (+3.2%)	23 / 48 properties (+3.1%)
Tokyo Metropolitan Area	11 / 29 properties (+4.6%)	15 / 29 properties (+4.3%)
Other Regional Area	11 / 18 properties (+5.0%)	9 / 18 properties (+5.6%)

Historical average rent gaps (Note 3)

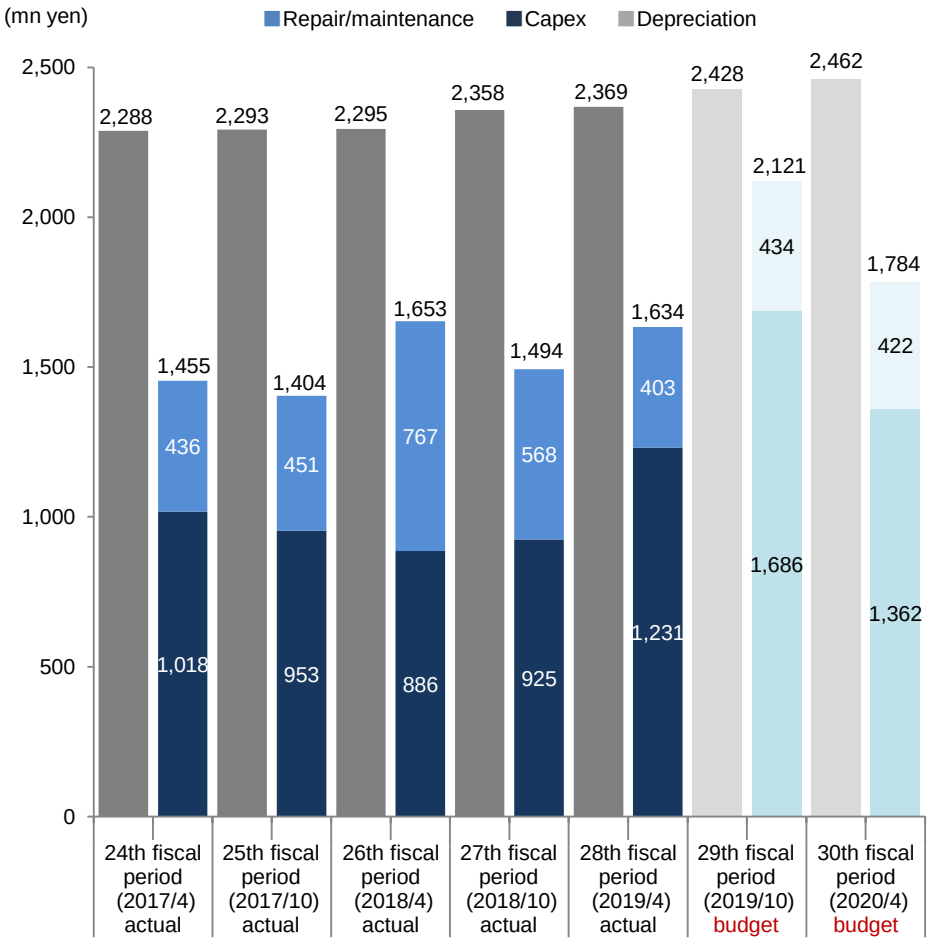


Note 1: A new contracted rent (standard floor) for each property estimated by CBRE as of the end of each fiscal period is deemed the market rent; the gap between the contracted rent for each tenant as of the end of the fiscal period and the market rent is recognized as a rent gap. No gap is classified into "Between 0% and +10%"
Note 2: Regarding the office buildings owned by KDO as of the end of the 28th fiscal period (2019/4), distribution of the rent gaps between the contracted rent for each tenant and the market rent estimated by CBRE as of the end of the 28th fiscal period (2019/4) by the timing of rent revisions for each tenant. The rents equal to market rents are classified into "Between 0% and +10%"
Note 3: Calculated as the weighted average, based on leasable floor area, of the gap rate between the average contracted rent of the standard floor for the office buildings owned by KDO as of the end of each fiscal period and the market rent for each property estimated by CBRE at the time of appraisal

Construction expense (actual/budget)

Strategically allocate funds to value-upgrading works currently in order to improve the property profitability
Aim for significant increase in rent revenue in the future by booking one-time tenant move-in construction work budget in the 29th fiscal period (2019/10)

Changes in depreciation and construction expense (actual/budget)



Repair/renovation work budget for 29th fiscal period (2019/10) (Note)

Items	Description of works	Estimated amount (mn yen)	Percentage of total expense (%)
Value-upgrading works	tenant and common areas	754	35.6%
Replacement works	Air-conditioning facilities	202	9.5%
	Other major facilities	465	21.9%
Eco-friendly works (Installation of LED lightings, etc.)		117	5.5%
Outer wall repair		182	8.6%
Maintenance/repair works		403	19.0%

29th fiscal period (2019/10) total	Percentage to depreciation expense (%)
2,121	87.4%

Note: Figures are approximate estimates as of the date in which repair plan was prepared

Properties to undergo major repair/renovation in 29th fiscal period (2019/10)

- Value-upgrading works (renovation of tenant areas, common areas, restrooms, etc.):
  KDX Toranomon 1chome Building, KDX Sakura-dori Building, KDX Sapporo Kitaguchi Building, KDX Nakameguro Building
- Replacement works of air-conditioning facilities:
  Senri Life Science Center Building, Pentel Building
- Outer wall repair
  KDX Ebisu Building, KDX Sapporo Kitaguchi Building, Senri Life Science Center Building, KDX Yoyogi Building, KDX Hakata-Minami Building, KDX Nakameguro Building

Initiatives for improving profitability

Aim for improving property competitiveness and tenant satisfaction through strategic value-upgrading works
Seek to raise properties profitability by continuously reducing cost as well

Renovation of common areas of KDX Shinjuku Building

- 25 years have passed since the completion, and unrenovated common areas became deteriorated and obsolete
- Considered it possible to raise rent by renovation because of high potential competitiveness
- Renovated rest rooms, elevator hall, etc. to recover and improved the profitability

Before

After

Return on investment (Note 1)
13.6%

Renovation of tenant area on the first basement floor of KDX Utsunomiya Building

- The restaurant on the first basement floor moved out at the end of February 2019 due to decrease in sales
- Despite expectations for long-term vacancy on the back of difficulty in re-attraction of tenants for store use due to changes in the market environment, attracted rental conference rooms through strategic usage change
- Realized improvement of current tenant convenience and revival of profitaility

Before

After

Return on investment (Note 2)
15.7%

Response based on the CS survey

Renovation of air-conditioning facilities at KDX Ikebukuro West Building

- Renovated air-conditioning facilities of the whole building to resolve frequent defects due to aging and improved tenant satisfaction

Renovation of elevators at KDX Okachimachi Building

- Together with renovation for preventive maintenance, renovated elevator interior including display board to improve aesthetics

Addition of smoking room at KDX Ginza East Building

- Partially renovated trash area and added smoking room to separate smoking areas within the building

Replacement works of security systems at KDX Nakano-Sakaue Building

- Replaced the existing securities system using magnetic cards with one using contact-free IC cards to enhance conveniences for tenants

Continuous efforts for reduction in electricity cost (Note 3)

- Regularly made contract reviews of electricity cost that account for major ratio in property management expense
- Reduced the electricity charges by approx. 76 million yen per fiscal period in total through a contract reviews from the 26th (2018/4) to the 28th (2019/4) fiscal periods
- Lowering electricity charges through competitive bidding involving multiple companies is expected to further reduce electricity costs after switching power companies scheduled for October 2019

Outlook for reduction of electricity cost after the switching in Oct. 2019	Properties reviewed	Reduced amount (estimate)
	42 properties	Approx. 51 mn yen/period

Note 1: Calculated the whole building's rent increase per year based on the gap between unit rent of the office area as an appraisal value as of the end of the 27th fiscal period (2018/10) which is after the completion of construction work and that as of the end of the 26th fiscal period (2018/4) which is before the start of construction work and divided by construction expense (rounded to the first decimal place)
Note 2: Calculated the whole building's rent increase per year based on the gap between unit rent of the tenant moved in after construction work and that of the tenant moved out before constriction work and divided by construction expense (rounded to the first decimal place)
Note 3: The gap between actual electricity charges over the past year and the electricity charges where the contract terms after review are applied to the electricity usage over the same period

End-tenants of KDO office buildings

The largest tenant occupies 2.4% of total leased floor area and each of tenants other than the top 5 occupies less than 1.0%

A highly diversified tenant base with the top 10 tenants occupying around 10% of the total leased floor area

List of top end-tenants for office buildings

(as of the end of the 28th fiscal period (2019/4))

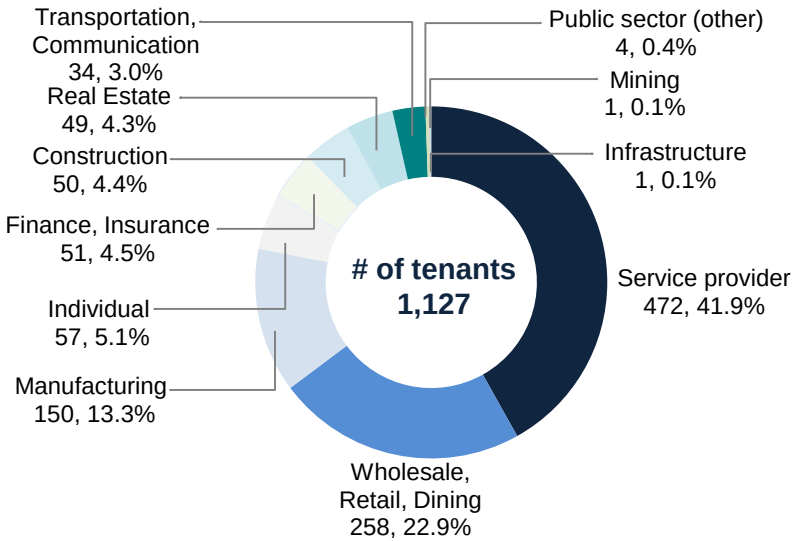
	Tenant name	Leased area (tsubo)	% share of leased floor area (Note1)	Name of property
1	Mitsubishi Heavy Industries, Ltd.	3,408.4	2.4%	Mitsubishijuko Yokohama Bldg.
2	Tenant A (wholesale, retail and dining)	1,550.8	1.1%	KDX Kawasaki-Emimae Hon-cho Bldg.
3	Tenant B (service provider)	1,469.2	1.0%	KDX Musashi-Kosugi Bldg. KDX Hiroshima Bldg.
4	ADK Creative One Inc.	1,427.8	1.0%	KDX Toranomon 1 chome Bldg.
5	JASTEC Co., Ltd.	1,304.6	0.9%	KDX Takanawadai Bldg.
6	Yokohama City	1,237.7	0.9%	Mitsubishijuko Yokohama Bldg. KDX Yokohama Kannai Bldg.
7	Customer relation telemarketing, CO,LTD	1,201.3	0.9%	KDX Higashi Umeda Bldg.
8	Tenant C (service provider)	1,080.1	0.8%	KDX Musashi-Kosugi Bldg.
9	Medical Corporation DOYUKAI	1,022.4	0.7%	Koishikawa TG Bldg.
10	Tenant D (wholesale, retail and dining)	912.2	0.6%	Harajuku F.F. Bldg.
	Total	14,614.5	10.4%	

Average rent for office buildings by area (Note 2)

	24th fiscal period (2017/4)	26th fiscal period (2018/4)	28th fiscal period (2019/4)
Tokyo metropolitan area	15,100 yen	15,700 yen	16,300 yen (+200 yen period over period)
Japan	14,300 yen	14,800 yen	15,300 yen (+100 yen period over period)

Tenant diversification by type of business

(based on # of tenants) (Note 3)



Note 1: Leased area of each end-tenant against total leased floor area of KDO portfolio as of the end of the 28th fiscal period (2019/4) (rounded to the first decimal place)
Note 2: Average rent is calculated by dividing total amount of contracted rents of office buildings for each area by the total leased floor area (rounded down to the nearest hundred yen)
Note 3: The chart shows the breakdown of tenants by type of business based on the total number of tenants in office portfolio (aggregated by name-base) as of the end of the 28th fiscal period (2019/4) (rounded to the first decimal place)

Section 6

Efforts for ESG

Efforts for ESG ①

Efforts for Environment

GRESB Real Estate Assessment

- Acquired "Green Star" rating for 7 consecutive years as a result of our efforts for improving sustainability performance
- Earned the next highest-rated “4 Stars” in GRESB rating
- Participated from 2011 as the first J-REIT participant

DBJ Green Building Certification

- Acquired new certifications for four properties including KDX Ochanomizu Building in the 28th fiscal period, and improved from “two stars” to “three stars” for four properties, including KDO Ikebukuro Building, mainly due to renovation of common areas
- A total of 24 properties in our portfolio were awarded DBJ Green Building Certification, including KDX Toranomon 1chome Bldg. which earned the highest-rated “five stars”

Certification for CASBEE for Real Estate

- ARK Mori Bldg., KDX Toranomon 1chome Bldg. KDX Karasuma Bldg., KDX Kobayashi-Doshomachi Bldg. and KDX Shinjuku Bldg. were ranked S, the highest rating, by CASBEE

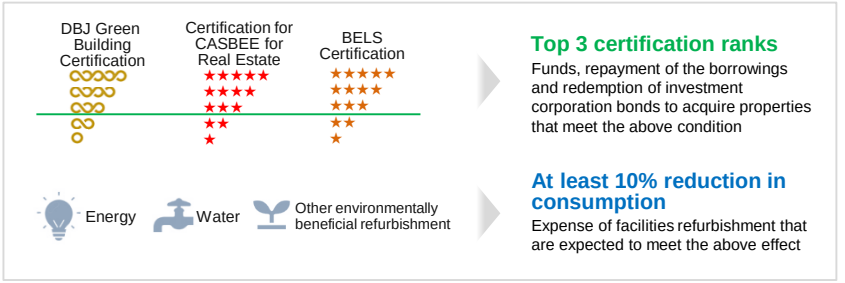
BELS Certification

- In October 2014, KDX Musashi-Kosugi Bldg. was awarded a BELS Certification (three stars) for the first time in history as a J-REIT owned property
- In April 2016, KDX Iidabashi Square was awarded a BELS Certification (three stars)

Issuance of green bonds

- Issued KDO’s first green bonds in February 2019 with an aim for committed efforts to improve sustainability and further contribution to development of the domestic green bond market by offering opportunities to the universe of investors who take active stance towards ESG investment
- Obtained the third-party evaluation from Sustainalytics and “Green 1” from Japan Credit Rating Agency, Ltd. (“JCR”), the highest evaluation in its “JCR Green Bond Evaluation”

Use of proceeds of green bonds



Outline of Tenth Series Unsecured Investment Corporation Bonds (Green Bonds)

Issue date	February 15, 2019
Total issue amount	2.0 billion yen
Maturity	5 years
Interest rate	0.390% per annum
Use of proceeds	Repayment of the borrowings made to acquire KDX Kobayashi-Doshomachi Building and KDX Toranomon 1chome Building, awarded “three stars” and “five stars,” respectively, of DBJ Green Building Certification

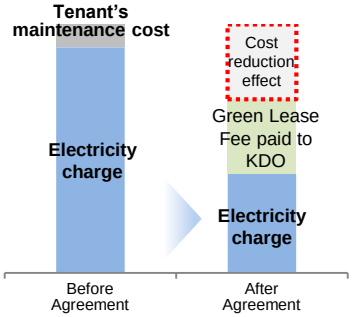
Efforts for ESG ②

Efforts for Social

Execution of green lease agreement

- Green lease agreement has a structure where KDO made LED lighting installation works for a tenant office space at the expense of KDO and a certain ratio of a reduced amount of electricity charges, etc. is paid back from tenant in return
- Concluded with 28 tenants in 6 properties since June 2015 as it allows both KDO and tenants to share economic merit and reduce environmental burden

Structure of green lease (image)



Distribution of emergency action manual handbook

- Published a pocket-sized, portable emergency action manual handbook and distributed to tenants
- Contain various helpful information in an emergency across 17 pages, such as response to major earthquake, emergency relief activities, and how to use AED

Sponsor's signing on to the Principles for Responsible Investment ("PRI") supported by the United Nations

- Kenedix, Inc., the parent company of the Asset Management Company, became a signatory to "the Principles for Responsible Investment (PRI)" supported by the United Nations
- The Investment Corporation and the Asset Management Company share the Kenedix Group's philosophy, promote sustainability initiatives and aim for compatibility between sustainable growth and social responsibility under the commitment to responsible investment

Signatory of:

PRI Principles for Responsible Investment

Efforts for Governance

Asset management fee structure of the Asset Management Company

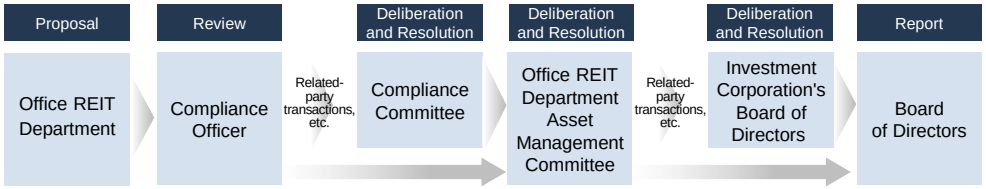
- Changed the asset management fee structure of Asset Management Fees I through III in the 27th fiscal period to further enhance the linkage between the asset management fees and unitholder profits

Asset Management Fee I	Total assets x 0.13%
Asset Management Fee II	Distribution per unit (Note 1) x 23,000
Asset Management Fee III	Increase in distribution per unit (Note 2) x Number of outstanding investment units x 10%
Acquisition Commission	Acquisition price x 0.5% (0.25% for acquisition from related parties)
Sale Commission	Sale price x 0.5% at a maximum

Note 1: Calculated by dividing the pre-tax income before deducting Asset Management Fees II and III by the number of outstanding investment units as of the end of the relevant fiscal period. In case there is a loss carried forward, the loss is deducted from the pre-tax income
Note 2: Obtained by subtracting simple average of DPU for the most recent 4 fiscal periods from DPU. If the amount subtracted does not exceed zero, Asset Management Fee III shall be zero

Decision-making process with transparency and check-and-balance system

- The Asset Management Company creates management guidelines of KDO, and sets forth basic investment management guidelines, including investment policy, related party transaction rules, distribution policy and disclosure policy, regarding the asset management of KDO
- Furthermore, as set forth in the management guidelines, the Asset Management Company creates asset management plans, etc. (including medium-term business plans and annual business plans as well as asset management plans) and makes decision of property acquisition, according to investment policy set forth in the management guidelines and related party transaction rules
- The decision-making flow for establishing and revising the management guidelines and asset management plans, etc. and that pertaining to acquisition and sale of assets are shown below



Memo

Section 6

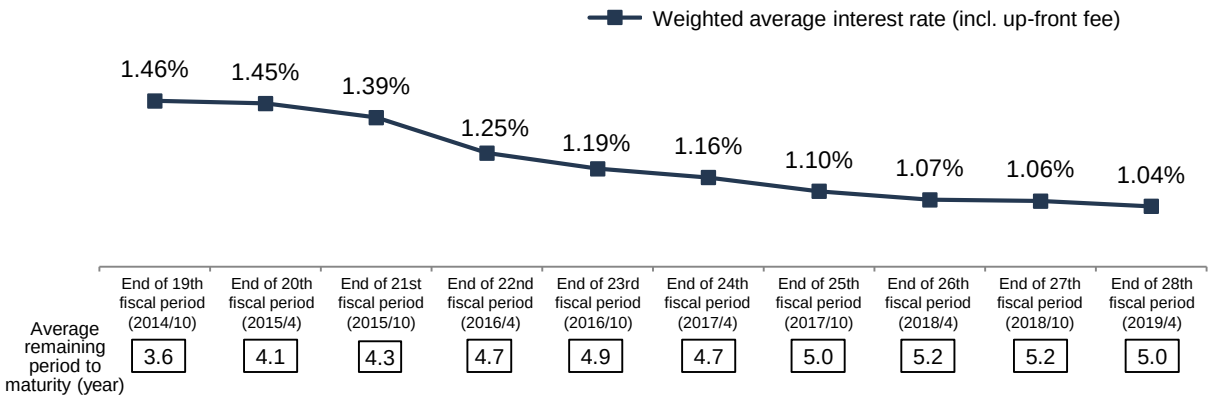
Financial strategy

Status of debt financing

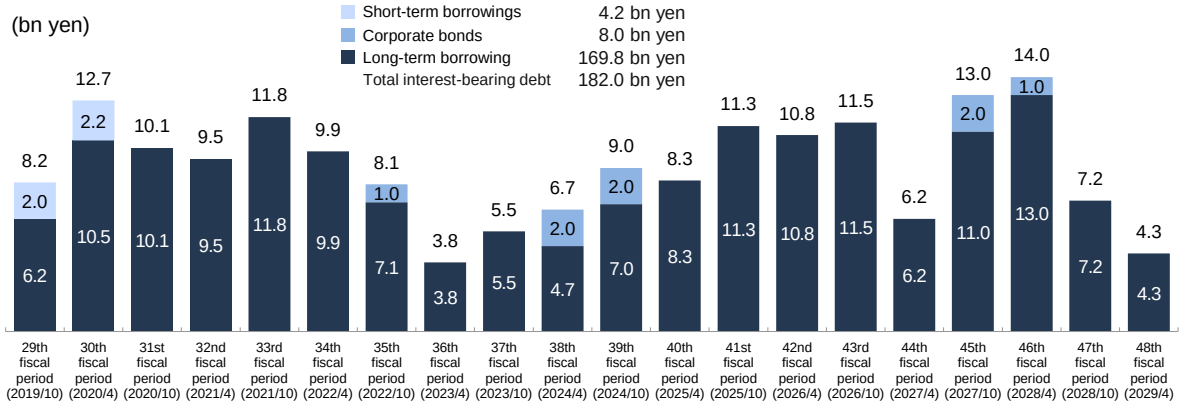
Decrease financial cost at refinancing while paying attention to the trend of interest rate and balancing borrowing period

Seek to reduce refinancing risk through strategic diversification of debt maturities

Average interest rate and remaining period to maturity (Note 1)



Balance of interest-bearing debt by maturity



Refinance record for the 28th fiscal period (2019/4) (Total amount of 10.0 bn yen) (Note 2)

- Reduced financial cost through refinancing and extended borrowing period

	Conditions before refinancing	Conditions after refinancing
Average interest rate	0.98%	**0.60%**
Average borrowing period	3.9 years	**4.9 years**

- Long-term borrowings account for 4.3 bn yen in the refinance (average interest rate of 0.94%, average borrowing period of 10.0 years)

Interest-bearing debt by maturity (excl. short-term borrowings)

	29th fiscal period (2019/10)	30th fiscal period (2020/4)	31st fiscal period (2020/10)	32nd fiscal period (2021/4)
Balance of debt maturing	6.2 bn yen	10.5 bn yen	10.1 bn yen	9.5 bn yen
Average financial cost	0.97%	0.94%	1.06%	1.24%

Major indices related to financial stability

Ratio of fixed interest rate (Note 3)	Status of credit rating (JCR)
96.6%	**AA- (stable)**

Note 1: Average interest rate and borrowing period are the weighted average based on the balance of debt outstanding as of the end of each fiscal period (with the average interest rate rounded to the second decimal place and the average borrowing period rounded to the first decimal place)

Note 2: Average interest rate and borrowing period are the weighted average of the interest rate of borrowings (incl. up-front fee) and borrowing period based on the balance of borrowings, respectively (with the average interest rate rounded to the second decimal place and the average borrowing period rounded to the first decimal place). Total borrowings that reached maturity in the 28th fiscal period (2019/4) amount to 11.5 bn yen, of which 1.5 bn yen was repaid by cash on hand including the portion of proceeds of the 10th unsecured investment corporation bonds

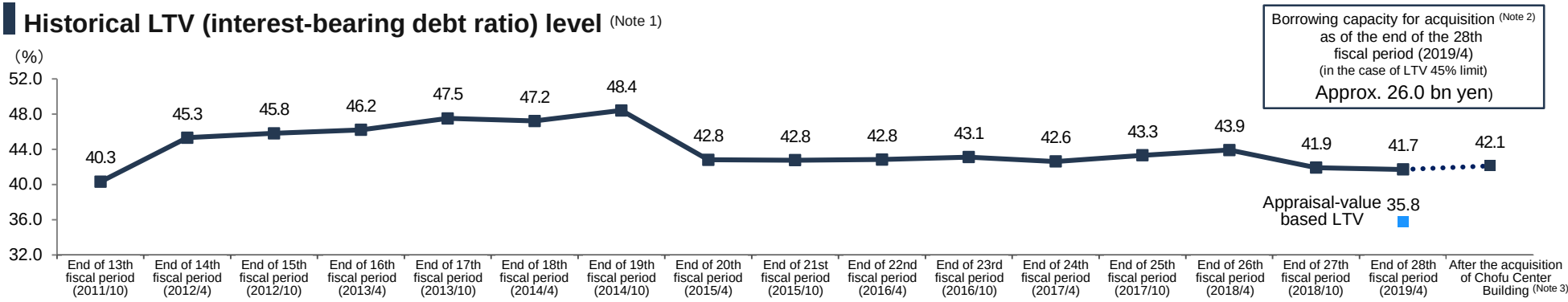
Note 3: Includes the borrowings with floating interest rate fixed by interest rate swap (rounded to the first decimal place)

Historical changes in LTV and status of interest-bearing debt financing

Maintain stable financial base by keeping LTV at a conservative level with a target of 45%

Newly executed a commitment line agreement with three megabanks as flexible financing methods against future funding needs

Historical LTV (interest-bearing debt ratio) level (Note 1)



Note 1: Interest-bearing debt ratio (LTV) is calculated by dividing the balance of interest-bearing debt by the amount of total assets as of the end of each fiscal period. Appraisal-value based LTV is calculated by dividing the balance of interest-bearing debt by the sum of the amount of total assets and appraisal profit/loss of owned properties as of the end of each fiscal period (rounded to the first decimal place)
Note 2: Estimated borrowing amount of debt which can be additionally procured from financial institutions or new issuance of investment corporation bonds for property acquisition by new debt financing, assuming that the LTV can be increased to a certain value
Note 3: LTV after the acquisition of Chofu Center Building on June 14, 2019 is calculated by dividing the sum of the balance of interest-bearing debt as of the end of the 28th fiscal period (2019/4) and the borrowing amount at the time of acquisition (3.0 billion yen) by total assets after the acquisition (estimates)

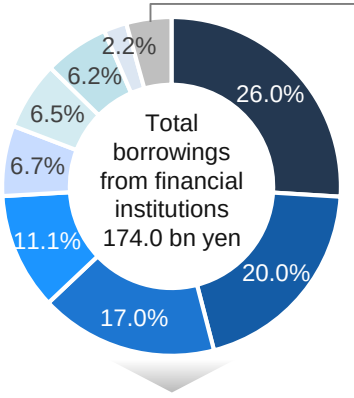
Investment corporation bonds issued as of the end of the 28th fiscal period (2019/4) (total of 8.0 bn yen)

Corporate bonds	Issued period	Issued amount	Interest rate	Term
6th bonds	2014/7	2.0 bn yen	1.18%	10 years
7th bonds	2016/4	1.0 bn yen	0.90%	12 years
8th bonds	2017/7	1.0 bn yen	0.26%	5 years
9th bonds	2017/7	2.0 bn yen	0.64%	10 years
10th bonds (green bonds)	2019/2	2.0 bn yen	0.39%	5 years

Outline of the commitment line agreement (executed on May 31, 2019)

Maximum amount	6.0 bn yen
Contract period	June 3, 2019 to April 30, 2020
Use of proceeds	Acquisition of assets, Repayment of the existing borrowings and redemption of investment corporation bonds
Contract type	Syndication-type commitment line
Counterparty	Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd., Mizuho Bank, Ltd.

Outstanding borrowings by financial institutions as of the end of the 28th fiscal period (2019/4)



Upon the acquisition of Chofu Center Building

Newly borrowed 1.0 bn yen from Sumitomo Life Insurance Company	Total borrowings (including 2.0 bn yen from other banks)	Financial institutions
	177.0 bn yen	**15**

14 lending financial institutions

Sumitomo Mitsui Banking	45,200 mn yen	26.0%
MUFG Bank	34,800 mn yen	20.0%
Development Bank of Japan	29,550 mn yen	17.0%
Sumitomo Mitsui Trust Bank	19,400 mn yen	11.1%
Mizuho Bank	11,700 mn yen	6.7%
Aozora Bank	11,350 mn yen	6.5%
Resona Bank	10,750 mn yen	6.2%
Mizuho Trust & Banking	3,800 mn yen	2.2%
The Bank of Fukuoka	2,500 mn yen	1.4%
The Nishi-Nippon City Bank	1,700 mn yen	1.0%
The Hiroshima Bank	1,000 mn yen	0.6%
The 77 Bank	1,000 mn yen	0.6%
Higashi-Nippon Bank	800 mn yen	0.5%
The Mie Bank	500 mn yen	0.3%

Memo

Memo

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