

For Translation Purposes Only

Real Estate Investment Fund Issuer:
Mori Hills REIT Investment Corporation
(Securities Code: 3234)
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Hideyuki Isobe, Executive Director

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MHR Announces Asset Acquisitions
(Toranomom Hills Mori Tower: Additional Acquisition)
(Holland Hills Mori Tower: Additional Acquisition)

Mori Hills REIT Investment Corporation (hereafter “MHR”) announced today that Mori Building Investment Management Co., Ltd. (hereafter the “Asset Manager”), the asset management company for MHR, has determined to undertake the asset acquisitions described below.

1. Overview of Acquisitions and Lease

Property name	Toranomon Hills Mori Tower	Holland Hills Mori Tower
Assets to be acquired	Trust beneficial interests (Note 1)	Trust beneficial interests (Note 2)
Anticipated acquisition price	5,070 million yen (Note 3)	2,430 million yen (Note 3)
Appraisal value	5,614 million yen	2,775 million yen
Sales agreement date	September 14, 2017	
Acquisition date	March 1, 2018 (anticipated)	
Seller	Mori Building Co., Ltd.	
Acquisition financing	Borrowings and cash on hand (anticipated)	
Lessee	Mori Building Co., Ltd. (Note 4)	

(Note 1) MHR plans to acquire the trust beneficial interests in 87.95% co-ownership interest in compartmentalized ownership of the 28-35th floors and the co-ownership interest in the land use rights. MHR plans to acquire an additional 7% quasi co-ownership interest of the trust beneficial interests and will hold 14% together with the 7% already acquired. The remaining 86% of the quasi co-ownership interest in the trust beneficial interests is to be acquired by Mori Building Co., Ltd.

(Note 2) MHR plans to acquire the trust beneficial interests in compartmentalized ownership of the 3-4th, part of 5th, 14-18th and 22-24th floors and the co-ownership interest in the land use rights. MHR plans to acquire an additional 15% quasi co-ownership interest in the trust beneficial interests and will hold 72%, together with the 57% already acquired. The remaining 28% of the quasi co-ownership interest in the trust beneficial interests is to be acquired by Mori Building Co., Ltd.

(Note 3) The indicated anticipated acquisitions price does not include acquisition-related costs, consumption taxes and other expenses.

(Note 4) Please refer to “3. Details of the Assets to be Acquired and Lease” for leasing terms and conditions, and other details.

2. Reason for the Acquisitions and Lease

MHR decided on the additional acquisition of the two properties (hereafter the “Acquisitions”) in order to further improve profitability and stability while maintaining a focus on acquiring premium properties (Note 1) located in central Tokyo as the core of the portfolio. The Acquisitions is expected to enhance the portfolio size and increase dividends per unit.

This Acquisition is an additional acquisition of the quasi co-ownership interest of the trust beneficial interest, and there are no changes in the details and conditions, etc. of the lease with Mori Building Co., Ltd. as master lessee (Toranomom Hills Mori Tower: fixed-rent master lease (Note 2), Holland Hills Mori Tower: pass-through type lease).

(Note 1) “Premium properties” are defined in the management guidelines stipulated by the Asset Manager as office buildings, residential properties or retail and other facilities (retail or other use) located in the central five wards of Tokyo (Minato, Chiyoda, Chuo, Shinjuku and Shibuya) and their vicinity that are able to maintain competitive advantage in the future in terms of quality, size, specifications, etc. The same shall apply hereafter.

(Note 2) A master lease scheme is a scheme in which the trustee or MHR leases a property to the master lessee (sublessor) and the master lessee subleases it to an end tenant (sublessee). A fixed-rent master lease scheme is one type of master lease scheme in which the master lessee pays a fixed amount regardless of the amount paid by the sublessee to the master lessee.

Furthermore, MHR particularly values the following points when deciding on the acquisitions.

(1) Toranomom Hills Mori Tower

The property is a super high rise multi-use tower with 52 floors above ground and 5 floors below ground and 247 meters in height. It is a premium property comprised of offices with top-level specifications, world-class conference facilities, Japan’s first Andaz Tokyo hotel, retail facilities, residences and others.

Toranomom Hills, completed in 2014, is a super high rise multi-use tower constructed by Mori Building Co., Ltd. being a specified constructor under the urban redevelopment project executed by the Tokyo metropolitan government. It utilized a breakthrough system that allowed for the construction of an architectural structure above roads and was constructed integrally with the construction of Ring Road No.2. It is a symbolic project of urban development under public-private partnership.

The property is located within walking distance of Toranomom Station on the Tokyo Metro Ginza Line and Kamiyacho Station on the Tokyo Metro Hibiya Line, and boasts excellent access to the administrative district in Kasumigaseki as well as major business districts in Tokyo such as Marunouchi, Hibiya and Ginza. Furthermore, in the surrounding areas, in addition to several ongoing large-scale redevelopment projects, a nearby new station on the Tokyo Metro Hibiya Line is scheduled to start service in 2020. Thus the area is believed to further develop as an international business/ exchange base.

The property’s office floors from the 6th to 35th floors are designed by placing their core functions at the center. Each standard floor provides a non-pillared large space with leasable floor area (Note) of approximately 3,400m² (approximately 1,000 tsubo) and a ceiling height (Note) of 2.8 m, offering a highly flexible and pleasant work environment.

Furthermore, the property is capable of strongly supporting stable and continuous business activities of tenants during disasters with not only a high level of earthquake resistance employing three kinds of vibration control devices (brake dampers, oil dampers and unbonded braces), but also with a well to be used at the time of earthquake disasters, warehouse for emergency supplies and such, while electricity can be supplied from power generating facilities with a dual backup system.

MHR has decided on the acquisition since the property is, as described above, a super high rise multi-use tower with top-level facilities and is believed to continue possessing superior competitiveness going forward as a new landmark representing Tokyo along with advancement of redevelopment and construction of infrastructures in the vicinity.

(Note) “Standard floor leasable area” refers to leasable floor area on a standard floor (a floor with standard layout pattern) and “standard floor ceiling height” refers to a height from the floor to the ceiling in a leasing space on the standard floor. The same applies hereafter.

(2) Holland Hills Mori Tower

The property is a super high rise multi-use tower with 24 floors above ground and 2 floors below ground and 100 meters in height, and is a premium property mainly used as office and residence.

Holland Hills Mori Tower completed in 2005 is a project realized with effective utilization of unused plot of the adjacent Shiba Water Supply Location of Bureau of Waterworks Tokyo Metropolitan Government under the joint project of Mori Building Co., Ltd. and Bureau of Waterworks Tokyo Metropolitan Government. Landscape with a row of abundant greenery from the Embassy of Netherlands is maintained by placing new plants in the open space created through consolidation and verticalization of existing buildings.

The property is located approximately one-minute from Kamiyacho Station on the Tokyo Metro Hibiya Line and also has Toranomom Station on the Tokyo Metro Ginza Line within walking distance, as well as boasting excellent access not only to the administrative district in Kasumigaseki but also to the major business districts in Tokyo such as Marunouchi, Hibiya and Ginza. Furthermore, in the surrounding areas, several large-scale redevelopment projects are underway and transport convenience is expected to further improve with the construction of pedestrian networks in tandem with those redevelopments. For this and other reasons, the area is believed to further develop as an international business/ exchange base while also providing a livable environment.

The property’s office floors from the 14th to 24th, 3rd to 4th and part of 5th are designed by placing their core functions at the side. Each standard floor provides a regular-shaped, non-pillared large space with leasable area of approximately 1,040m² (approximately 314 tsubo) and a ceiling height of 2.8 m, offering a highly flexible and pleasant work environment. In addition, the rooftop garden at 100m above the ground allows a panoramic view of Tokyo Tower, Roppongi Hills and other landmarks representing Tokyo.

Furthermore, equipped with excellent earthquake resistance with combination of CFT pillars and vibration control devices (viscous vibration dampers), security based on a contactless IC card key system and other features, the property offers a cutting-edge work environment to meet the diversifying needs of tenants.

MHR has decided on the acquisition since the property is, as described above, a super high rise multi-use tower with excellent transport convenience and is believed to continue possessing superior competitiveness going forward along with advancement of redevelopment and construction of infrastructures in the vicinity.

3. Details of the Assets to be Acquired and Lease

(1) Toranomom Hills Mori Tower

Details of the Asset to be Acquired		
Property name		Toranomon Hills Mori Tower
Type of specified asset		Trust beneficial interests (87.95% of co- ownership of the 28th to 35th floors) (7% of quasi co-ownership interest)
Trustee		Mitsubishi UFJ Trust and Banking Corporation
Trust establishment period		From June 26, 2014 to July 31, 2037
Location (Residential indication)		1-23-1 Toranomom, Minato-ku, Tokyo
Use		Offices, Shops, Hotel, Residences
Area (Note 1)	Land	17,068.95m ²
	Building	241,581.95m ²
Structure		Steel-framed and steel-framed reinforced concrete structure with flat roof, 52 floors above ground and 5 floors below ground
Construction completion		May 2014
Designer		Nihon Sekkei, Inc.
Contractor		Obayashi Corporation
Building verification agency		Tokyo Metropolitan Government
Form of ownership	Land	Ownership (Note 2)
	Building	Compartmentalized ownership (Note 3)
Anticipated acquisition price		5,070 million yen
Acquisition date		March 1, 2018 (anticipated)
Appraisal	Appraiser	Japan Real Estate Institute
	Appraisal value	5,614 million yen (Appraisal date: August 1, 2017)
PML (Note 4)		0.50%
Collateral		None
Property manager		Mori Building Co., Ltd.
Content of lease (As of July 31, 2017)		
Lessee (Note 5)		Mori Building Co., Ltd.
Type of agreement		Regular building lease agreement
Term of agreement		From August 1, 2017 to July 31, 2022
Gross rent income (annual rent) (Note 6)		217,162,812 yen
Deposits/ Guarantees (Note 7)		180,969,014 yen
Total leasable floor area (Note 8)		1,709.27m ²
Total leased floor area (Note 9)		1,709.27m ²
Other special consideration		Transfer of Quasi Co-Ownership Interest to a third party requires the written approval of Mori Building Co., Ltd.

- (Note 1) Area (land) is the area of the entire site, and area (building) is the total floor area of the entire building, as indicated in the real estate registry. The same shall apply hereafter.
- (Note 2) As for land, land use rights for the property are established. The site area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire equivalent to the ratio of interest in the building is approximately 303.30m² (approximately 1.8%). Also, the site area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire equivalent to the ratio of interest in the building will be approximately 606.60m² (approximately 3.6%) after this acquisition.
- (Note 3) The exclusive floor area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire as indicated in the real estate registry is approximately 1,709.68m² (approximately 1.0%). Also, the exclusive floor area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire as indicated in the real estate registry will be approximately 3,419.37m² (approximately 1.9%) after this acquisition.
- (Note 4) PML is the probable maximum loss that a property will experience over the next 50 years (useful life for buildings in general), due to a large-scale earthquake (event of a scale expected to occur with a 10% probability in the next 50 years). This PML is typically the estimated total cost associated with restoring a property damaged in connection with such an earthquake event to its condition prior to that event, expressed as a percentage of the replacement cost associated with that property. Such estimated total cost includes direct damages from earthquakes taking into account factors such as historical frequencies and magnitudes of earthquake events, building construction, site soils and site distances to known fault lines, however does not include estimates for secondary damage from items such as fires after earthquake events. PML figures are reported from Sompō Risk Management & Health Care Inc. as of August 18, 2017.
- (Note 5) With regard to the property, MHR will outsource building lease operations to Mori Building Co., Ltd. and shall receive a fixed amount of rent from the company, regardless of the rent amount paid by end tenants. Due to this, Mori Building Co., Ltd. is treated as the end tenant in the Acquisition.
- (Note 6) The gross rent income (annual income) represents the figure obtained by multiplying the monthly consideration for granting leasing rights described in the agreement to entirely change the co-owned property usage agreement and property management operation agreement by the 7% quasi co-ownership interest rounded down below the unit and multiplying that amount by 12.
- (Note 7) Deposits/ Guarantees represents the figure obtained by multiplying the amount of deposits described in the agreement to entirely change the co-owned property usage agreement and property management operation agreement by the 7% quasi co-ownership interest rounded down below the unit.
- (Note 8) Total leasable floor area represents the figure obtained by multiplying the floor area deemed leasable to the lessee by the 7% quasi co-ownership interest.
- (Note 9) Total leased floor area represents the figure obtained by multiplying the floor area leased to the lessee by the 7% quasi co-ownership interest. Total leasable floor area and total leased floor area do not include storage, parking lots, mechanical rooms, etc.

(2) Holland Hills Mori Tower

Details of the Asset to be Acquired			
Property name		Holland Hills Mori Tower	
Type of specified asset		Trust beneficial interests (3-4th, part of 5th, 14-18th and 22-24th floors) (15% of quasi co-ownership interest)	
Trustee		Sumitomo Mitsui Trust Bank, Limited	
Trust establishment period		From August 1, 2017 to July 31, 2032	
Location (Residential indication)		5-11-2 Toranomom, Minato-ku, Tokyo	
Use		Offices, Shops, Residences	
Area	Land	3,487.61m ²	
	Building	35,076.12m ²	
Structure		Steel-framed, steel-framed reinforced concrete and reinforced concrete structure with flat roof, 24 floors above ground and 2 floors below ground	
Construction completion		January 2005	
Designer		Yamashita Sekkei, Inc.	
Contractor		Obayashi Corporation	
Building verification agency		Tokyo Metropolitan Government	
Form of ownership	Land	Ownership (Note 1)	
	Building	Compartmentalized ownership (Note 2)	
Anticipated acquisition price		2,430 million yen	
Acquisition date		March 1, 2018 (anticipated)	
Appraisal	Appraiser	Japan Real Estate Institute	
	Appraisal value	2,775 million yen (Appraisal date: August 1, 2017)	
PML		0.85%	
Collateral		None	
Property manager		Mori Building Co., Ltd.	
Content of lease (as of July 31, 2017)			
Total number of end tenants		24	
Gross rent income (annual rent) (Note 3)		153,636,242 yen	
Deposits/ Guarantees (Note 4)		135,327,169 yen	
Total leasable floor area (Note 5)		1,524.76m ²	
Total leased floor area (Note 6)		1,524.76m ²	
Change in occupancy rates	End of July 2015	End of July 2016	End of July 2017
	100.0%	89.7%	100.0%

Other special consideration	<p>For the transfer of quasi co-ownership interest of the trust beneficial interests to a third party (excluding disposition to Mori Building Co., Ltd.), consent of other compartmentalized owner is required. In addition, with regard to the transfer of trust property (excluding the transfer to MHR as a result of the termination of the trust contract), approval of the other classification owner is required.</p> <p>Regarding a part of the outdoor advertisement installed at the property, advertisement permission has not been obtained. The seller is currently applying for permission to Minato-ku at its responsibility and expense.</p>
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(Note 1) Ownership for the land where the property is located is subdivided into the addresses of 5-124-1 Toranomom; 3-803-3 Shibakoem and 3-802-2 Shibakoem; and 1-224-28 Azabudai, and MHR plans to acquire the trust beneficial interests in co-ownership interest of 5-124-1 Toranomom and 3-803-3 Shibakoem. The site area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire equivalent to the ratio of interest in the building is approximately 286.64m² (approximately 9.4%). Also, the site area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire equivalent to the ratio of interest in the building is approximately 1,375.89m² (approximately 45.3%) after this acquisition.

(Note 2) The exclusive floor area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire as indicated in the real estate registry is approximately 1,552.35m² (approximately 7.3%). Also, the exclusive floor area corresponding to the quasi co-ownership interest in the trust beneficial interests that MHR plans to acquire as indicated in the real estate registry is approximately 7,451.30m² (approximately 34.9%) after this acquisition.

(Note 3) The gross rent income (annual income) represents the figure obtained by multiplying the combined amount of the monthly rents described in the lease agreements with the end tenants and the proceeds for monthly common expenses (excluding income from parking lots, utilities and other sources. Free rent, etc. are disregarded.) by 12, and multiplying that amount by the 15% co-ownership interest rounded down below the unit.

(Note 4) Deposits/ Guarantees represent the figure obtained by multiplying the amount of deposits described in the lease agreements with the end tenants by the 15% quasi co-ownership interest rounded down below the unit.

(Note 5) Total leasable floor area represents the figure obtained by multiplying the floor area deemed leasable to the end tenants by the 15% quasi co-ownership interest.

(Note 6) Total leased floor area represents the figure obtained by multiplying the contracted floor area described in the lease agreements with the end tenants by the 15% quasi co-ownership interest. Total leasable floor area and total leased floor area do not include storage, parking lots, mechanical rooms, etc.

(3) Items Concerning Forward Commitments, etc.

The purchase agreement concerning the Acquisitions is a forward commitment, etc. (i.e. a postdated sale agreement where the execution is scheduled over one month ahead of the payment and delivery of the property, and other similar agreements), as provided in “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.”. Under the purchase agreement, when the purpose of the purchase agreement cannot be fulfilled due to a breach of the purchase agreement by a party, the non-breaching party may cancel the purchase agreement upon notice if the delivery has not been executed.

However, under the purchase agreement, MHR’s payment of the purchase price is subject to MHR completing the financial arrangements necessary to pay the purchase price. Hence, if MHR is not able to complete the financing necessary to pay the purchase price, MHR shall not be obliged to make the payment. In addition, there are no penalty provisions or payments of security deposits.

Consequently, even in cases where forward commitments are unable to be fulfilled due to failure to complete financial arrangements, the likelihood of MHR’s financial conditions being significantly impacted is low.

4. Profile of Seller and Lessee

Name	Mori Building Co., Ltd.
Location	6-10-1 Roppongi, Minato-ku, Tokyo
Representative	President and CEO, Shingo Tsuji
Scope of business	General developer
Capital	67,000 million yen (as of March 31, 2017)
Established	June 2, 1959
Major shareholder	Morikiyo Co., Ltd. etc. (as of March 31, 2017)
Net assets	310,911 million yen (as of March 31, 2017)
Total assets	1,447,170 million yen (as of March 31, 2017)
Relationship with MHR or Asset Manager (as of September 14, 2017)	
Capital relationship	Mori Building is a major unitholder (15.0% stake) of MHR. Mori Building is also the wholly owning parent company (100% stake) of the Asset Manager, and thus constitutes a related party, etc. as defined in the Investment Trust Act.
Personnel relationship	One of the officers and employees of the Asset Manager is seconded from Mori Building.
Business relationship	Mori Building has executed a support agreement and information provision agreement with MHR and the Asset Manager and an advisory business consignment agreement with the Asset Manager, and provides support, etc. in connection with property acquisitions, etc. In addition, Mori Building has executed a brand license agreement with MHR and grants the license to use the brand name “Mori Hills REIT” and the “m” mark. Furthermore, as for assets MHR owns in the form of trust beneficial interests, Mori Building has executed a building lease agreement (so-called master lease agreement) with a trustee, and leases the entire property as a master lessee. The company also executed a property management agreement and conducts property management of the property.
Application of status as a related party	Mori Building falls under the category of other related party of MHR. In addition, it is a parent company of the Asset Manager.

5. Status of Titleholders, etc. of the Properties

(1) Toranomom Hills Mori Tower

Property name (location)	Toranomom Hills Mori Tower (1-23-1 Toranomom, Minato-ku, Tokyo)	
Status of titleholders, etc. to the Property	Prior titleholder	Titleholder before the prior titleholder
Name of company	Mori Building Co., Ltd.	–
Relationship with party having a particular vested interest	Refer to “4. Profile of Seller and Lessee” above	–
Acquisition background and reason, etc.	Newly constructed in May 2014	–
Acquisition price	–	–
Acquisition timing	Newly constructed in May 2014	–

(2) Holland Hills Mori Tower

Property name (location)	Holland Hills Mori Tower (5-11-2 Toranomom, Minato-ku, Tokyo)	
Status of titleholders, etc. to the Property	Prior titleholder	Titleholder before the prior titleholder
Name of company	Mori Building Co., Ltd.	–
Relationship with party having a particular vested interest	Refer to “4. Profile of Seller and Lessee” above	–
Acquisition background and reason, etc.	Newly constructed in January 2005	–
Acquisition price	–	–
Acquisition timing	Newly constructed in January 2005	–

6. Profile of Broker

Not applicable.

7. Transaction with Related Parties, etc.

A transaction with a related party, etc. will occur with the Acquisitions.

Accordingly, to comply with applicable laws and regulations and with the asset management agreement, as well as to prevent the interests of MHR from being negatively impacted with respect to the anticipated acquisition price and other terms and conditions, the Asset Manager has taken steps pursuant to the Related Parties Transaction Guidelines.

Acquisition of the Assets	The Seller constitutes a related party, etc. of the Asset Manager and the Acquisitions constitute a transaction with a related party, etc. as defined in the Investment Trusts Act. In accordance with provisions of the Investment Trusts Act, the Asset Manager will deliver a written notice to MHR.
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8. Payment Method

Lump sum payment upon delivery

As for the property acquisitions, MHR plans to use borrowings and cash on hand.

9. Date of Acquisitions and Lease

Assets to be acquired	Trust beneficial interests (Toranomom Hills Mori Tower/ Holland Hills Mori Tower)
Date of decision of acquisitions and lease	September 14, 2017
Date of execution of acquisitions and lease agreement	September 14, 2017
Payment date	March 1, 2018 (anticipated)
Delivery date	March 1, 2018 (anticipated)

10. Future Prospect

For the forecast of business results, please refer to the press release "Financial Report for the Twenty-Second Fiscal Period ended July 31, 2017" announced released today.

11. Summary of Appraisal Report

Property name	Toranomon Hills Mori Tower
Appraisal value	5,614,000 thousand yen
Appraiser	Japan Real Estate Institute
Appraisal date	August 1, 2017

(thousand yen)

Items	Contents (Note)	Summaries, etc.
Price	5,614,000	Estimated by correlation of the price based on the direct capitalization method with the price based on the DCF method.
Price based on the direct capitalization method	5,719,000	—
Operating profit	217,162	—
Possible total revenue	217,162	Recorded by taking into account the consideration for granting leasing rights based on the current agreements, the level of end tenants' rents, vacancy risks, etc.
Vacancies, etc. loss, etc.	0	Not recorded as the current agreements are judged to continue.
Operating costs	46,565	—
Maintenance costs	27,147	Recorded annual maintenance cost.
Utilities	0	Not recorded because utilities are not to be borne by the subject co-ownership interest holder.
Maintenance and repairs	0	Not recorded because maintenance and repairs are not to be borne by the subject co-ownership interest holder.
PM fee	168	Recorded by reference to such factors as the fee rate based on contract terms and conditions, and taking into consideration such factors as the fee rate of similar real estate and the factors specific to the subject real estate.
Tenant recruitment costs, etc.	0	Not recorded because tenant recruitment costs, etc. are not to be borne by the subject co-ownership interest holder.
Property taxes	18,928	Recorded based on the standard taxable amount in property taxes documents, etc.
Insurance premium	321	Recorded by taking into consideration such factors as the insurance premium based on insurance contracts and the insurance rate of the subject building and similar buildings.
Other expenses	0	Not recorded because other expenses are not to be borne by the subject co-ownership interest holder.
Operating net income	170,597	—
Investment income of lump sum	1,809	Appraised investment income at a rate of return on investment of 1.0%.

	Capital expenditures	868	Appraised by assuming that an average amount is set aside every fiscal period, and taking into account such factors as the level of capital expenditures of similar real estate, the building age and the annual average amount of repair and renovation expenses in the engineering report.
	Net return	171,539	—
	Cap rate	3.0%	Appraised by taking the standard cap rate and adding/ subtracting the spread attributable to the location conditions, building conditions and other conditions, and taking into account such factors as future uncertainties and the market cap rate for similar real estate.
	Price based on the DCF method	5,502,000	—
	Discount rate	2.7%	Appraised by reference to the investment cap rates in transactions of similar real estate, and comprehensively taking into account such factors as the factors specific to the subject real estate.
	Terminal cap rate	3.2%	Appraised by reference to such factors as the market cap rate of similar real estate, and comprehensively taking into account such factors as future trends in the investment cap rate.
	Cumulative price	4,900,000	—
	Land ratio	74.8%	—
	Building ratio	25.2%	—
	Other matters considered in the appraisal by the appraiser	None	

(Note) Based on the figures in the appraisal report for trust beneficial interests in the co-ownership interest in compartmentalized ownership of the 28th to 35th floors (87.95%) and co-ownership interest in the land use rights, the figures corresponding to the 7% quasi co-ownership interest rounded down below the unit, which MHR plans to acquire, are indicated.

Property name	Holland Hills Mori Tower
Appraisal value	2,775,000 thousand yen
Appraiser	Japan Real Estate Institute
Appraisal date	August 1, 2017

(thousand yen)

Items	Contents (Note 1)	Summaries, etc.
Price	2,775,000	Estimated by correlation of the price based on the direct capitalization method with the price based on the DCF method.
Price based on the direct capitalization method	2,805,000	—
Operating profit	157,234	—
Possible total revenue	165,343	Recorded by estimating the level of unit rent, etc. stably collectable over the medium to long term, based on the average rent, etc. stated in the current lease agreements, the level of new rents, etc. and attributes of current lessees, etc.
Vacancies, etc. loss, etc.	8,109	Recorded vacancies, etc. loss by estimating the level of occupancy rate stable over the medium to long term.
Operating costs	52,389	—
Maintenance costs and PM fee	32,360 (Note 2)	Recorded maintenance costs by reference to the maintenance costs of similar real estate, and taking into consideration the factors specific to the subject real estate. Recorded PM fee by taking into consideration the fee rate based on the contract terms, the fee rate of similar estate and the factors specific to the subject real estate, etc.
Utilities	5,350	Recorded by reference to similar real estate, and taking into consideration occupancy rates, etc.
Maintenance and repairs	2,145	Recorded by reference to historical data, and taking into consideration the future property management plans, the level of expenses of similar real estate and the annual average amount of repair and renovation expenses in the engineering report.
Tenant recruitment costs, etc.	1,226	Recorded the annual average estimated based on the assumed turnover period of the lessees.
Property taxes	11,019	Recorded by taking into account the standard taxable amount, contents of burden adjustment measures, etc.
Insurance premium	287	Recorded by taking into consideration the insurance premium based on the agreements, the insurance premium of similar buildings, etc.
Other expenses	0	There are no expenses otherwise to record.

	Operating net income	104,844	—
	Investment income of lump sum	1,291	Appraised investment income at a rate of return on investment of 1.0%.
	Capital expenditures	5,004	Appraised by assuming that an average amount is set aside every fiscal period, and taking into account such factors as the level of capital expenditures of similar real estate, the building age and the annual average amount of repair and renovation expenses in the engineering report.
	Net return	101,132	—
	Cap rate	3.6%	Appraised by taking the standard cap rate and adding/ subtracting the spread attributable to the location conditions, building conditions and other conditions, and taking into account such factors as future uncertainties and the market cap rate for similar real estate.
	Price based on the DCF method	2,745,000	—
	Discount rate	3.2%	Appraised by reference to the investment cap rates in transactions of similar real estate, and comprehensively taking into account such factors as the factors specific to the subject real estate.
	Terminal cap rate	3.8%	Appraised by reference to such factors as the market cap rate of similar real estate, and comprehensively taking into account such factors as future trends in the investment cap rate.
	Cumulative price	2,685,000	—
	Land ratio	80.7%	—
	Building ratio	19.3%	—
	Other matters considered in the appraisal by the appraiser	None	

(Note 1) Based on the figures in the appraisal report for trust beneficial interests in the compartmentalized ownership of the 3-4th, part of 5th, 14th-18th and 22-24th floors and co-ownership interest in the land, the figures corresponding to the 15% quasi co-ownership interest rounded down below the unit, which MHR plans to acquire, are indicated.

(Note 2) Consent to disclose itemized PM fee amounts have not been obtained from the PM consignee. Furthermore, disclosure of itemized PM fee amounts of the property may affect other transactions the PM consignee undertakes and pose a problem to the entrustment of efficient PM responsibilities based on maintenance and management policy for investment real estate of MHR, and eventually may damage the interests of unitholders. For these reasons, maintenance costs and PM fee are indicated as a sum total.

[Attachments]

Attachment 1: Income and Expenditure Projections

Attachment 2: Portfolio List Post Asset Acquisitions

Attachment 3: Map of the Properties

Attachment 4: Photos of the Properties

- This press release was distributed to the Kabuto Club (the press club of the Tokyo Stock Exchange), the Ministry of Land, Infrastructure, Transport and Tourism Press Club, and the Ministry of Land, Infrastructure, Transport and Tourism Press Club for Construction Publications.
- MHR website: <http://www.mori-hills-reit.co.jp/en/>

[Attachment 1] Income and Expenditure Projections

(thousand yen)

	Toranomon Hills Mori Tower	Holland Hills Mori Tower	Total
(1) Projected property income	217,162	157,082	374,245
(2) Projected property expenses	43,957	52,330	96,288
(3) Projected NOI ((1)-(2))	173,205	104,752	277,957
(4) Projected NOI yield ((3)/ anticipated acquisition price)	3.4%	4.3%	3.7%
(5) Depreciation and amortization	29,827	14,042	43,870
(6) Operating profit ((3)-(5))	143,377	90,709	234,086
(7) Yield after depreciation ((6)/ anticipated acquisition price)	2.8%	3.7%	3.1%

(Note 1) The figures above are annual income and expenditure after excluding factors specific to the fiscal year of acquisition and take into account property taxes, and are not forecasted figures for the next fiscal period.

(Note 2) The average maintenance and repair costs per annum for the next 15 years based on the engineering report dated August 18, 2017 by Tokyo Bldg-Tech Center Co., Ltd., is 1,239 thousand yen for Toranomon Hills Mori Tower and 6,679 thousand yen for Holland Hills Mori Tower.

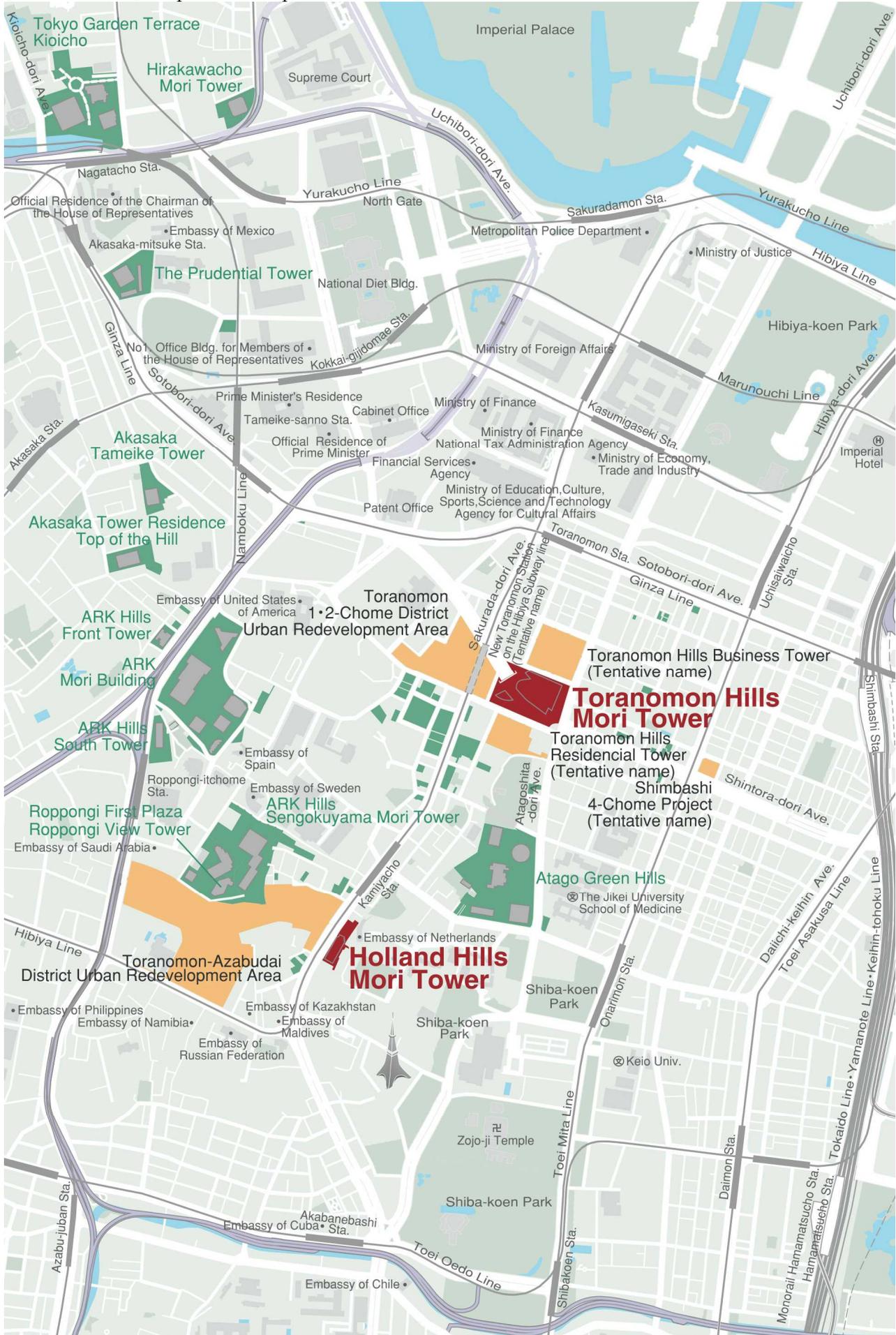
[Attachment 2] Portfolio List Post Asset Acquisitions (Note 1)

Principal use	Geographic area	Property number	Property name	(Anticipated) Acquisition date	(Anticipated) Acquisition price (millions of yen)	Investment ratio (%) (Note 2)
Office Buildings	Tokyo's central five wards and their vicinity	O-0	Roppongi Hills Mori Tower	March 23, 2010 August 1, 2011 October 1, 2013 August 1, 2014 September 16, 2015 February 1, 2016 April 1, 2016	115,380	32.0
		O-1	ARK Mori Building	March 22, 2006 March 28, 2008 September 30, 2008 March 23, 2010 March 18, 2011 August 1, 2011 April 1, 2013	62,480	17.4
		O-4	Koraku Mori Building	April 13, 2006	27,200	7.6
		O-6	Akasaka Tameike Tower	September 30, 2008 March 18, 2011	43,930	12.2
		O-7	Atago Green Hills	May 1, 2012 April 1, 2013	42,090	11.7
		O-8	ARK Hills South Tower	August 1, 2014	19,150	5.3
		O-9	Toranomon Hills Mori Tower	August 1, 2017 March 1, 2018 (anticipated)	10,140	2.8
		O-10	Holland Hills Mori Tower	August 1, 2017 March 1, 2018 (anticipated)	11,760	3.3
		Sub total				
Residential Properties	Tokyo's central five wards and their vicinity	R-3	Roppongi First Plaza	April 13, 2006	2,100	0.6
		R-4	Roppongi View Tower	March 22, 2006 April 13, 2006	4,000	1.1
Sub total					6,100	1.7
Retail and Other Facilities	Tokyo's central five wards and their vicinity	S-1	Laforet Harajuku (Land)	September 15, 2010	21,820	6.1
Sub total					21,820	6.1
Portfolio total					360,050	100.0

(Note 1) The table represents the portfolio list after the asset acquisitions (Toranomom Hills Mori Tower: 5,070 million yen, Holland Hills Mori Tower: 2,430 million yen) to be conducted on March 1, 2018. Also, anticipated acquisition price includes appointed acquisition price.

(Note 2) Figures in the investment ratio are the ratios of respective acquisition price to the portfolio total, and have been rounded to the first decimal place.

[Attachment 3] Map of the Properties

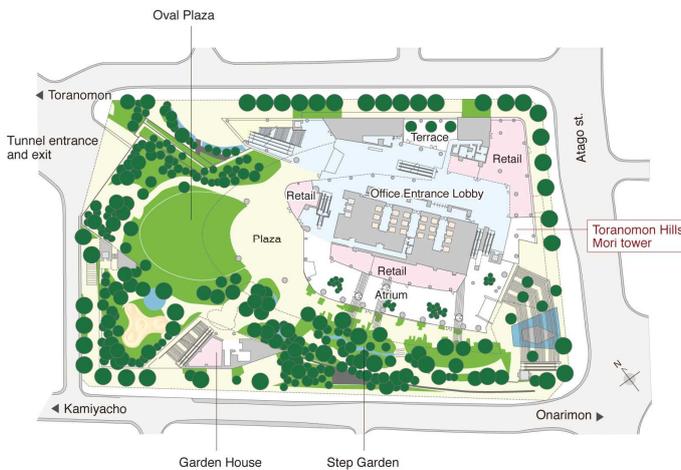


[Attachment 4] Photos of the Properties

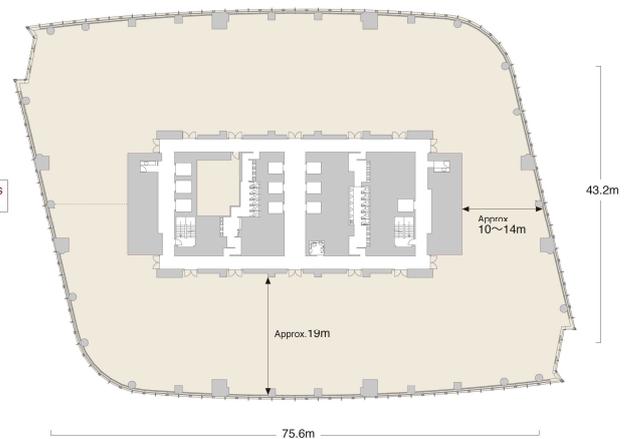
[Toranomom Hills Mori Tower]



Building Layout



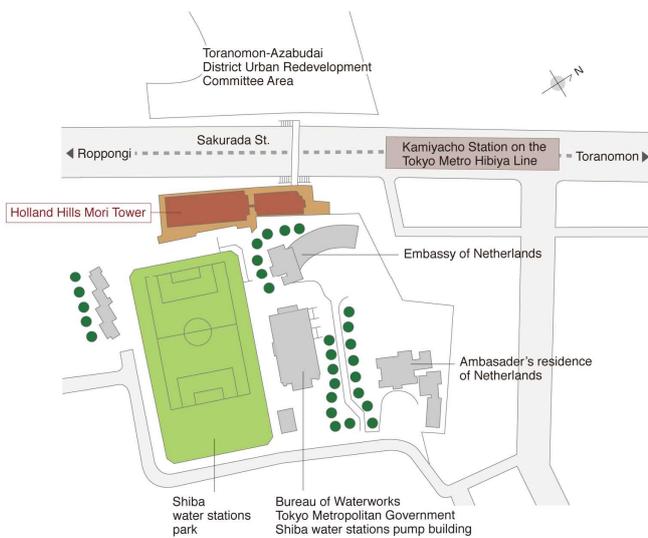
Cross-sectional Diagram of the Standard Floor



[Holland Hills Mori Tower]



Building Layout



Cross-sectional Diagram of the Standard Floor

