REIT REPORT

Star Asia Investment Corporation

3468

Tokyo Stock Exchange REIT

30-May-2018

FISCO Ltd. Analyst

Hideo Kakuta

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Conducts active management as a comprehensive REIT and aims to maximize unitholders' interests
Less than two years after being listed, implemented its second capital increase through a public offering and expanded its asset scale
The cash distribution at the end of the 4th fiscal period was higher than expected

1. Overview

Star Asia Investment Corporation <3468> (hereafter, also "the REIT") is the REIT of the Star Asia Group, which is an independent real estate investment group (described below). It was established in December 2015 and was listed on the Tokyo Stock Exchange REIT Market in April 2016. It has two fiscal periods a year (ending in January and July), and at the end of January 2018, the REIT completed the 4th fiscal period (the six months from August 2017 to January 2018) and announced the details of its financial statements in the middle of March 2018. At the start of the 4th fiscal period, it sold properties and also focused on internal growth (described below), and as a result, the cash distribution per unit was ¥4,077. At the same time, it announced the forecasted investment conditions for the 5th fiscal period (ending July 2018) and the 6th fiscal period (ending January 2019), with the forecasted cash distributions per unit being ¥2,750 and ¥2,804, respectively. From the 5th fiscal period onward, the REIT intends to conduct active management that will contribute to improving the cash distribution per unit as it aims to maximize unitholders' interests.

2. Business description

The REIT, which follows the principle of "unitholders' interests first," is a comprehensive REIT that is utilizing the accumulated expertise and abundant management track record of the Star Asia Group to manage its assets. It is characterized by its four management policies, which are as follows: 1) Prioritized, focused investment in the Tokyo area, 2) Gaining income stability and growth through the diversification of asset types, 3) Investment primarily in medium-sized assets, 4) Conducting active management that is not bound by existing concepts as its management style. It recently implemented the second capital increase through a public offering (announced in January 2018) and together with borrowing, it used the funds to acquire 6 properties (total cost: ¥10.7bn) at the start of the 5th fiscal period (beginning of February 2018), and thereby expanded its portfolio to ¥86.0bn (total acquisition price) and 29 properties.

(1) Investment focused on the Tokyo area
Among the 29 properties, 22 are located in the Tokyo area, and the percentage of total properties in this area has reached 80.1% (acquisition-price basis). For the properties outside of the Tokyo area, many of them are also highly liquid properties close to stations in major cities.

(2) Diversification of asset types
Assets with a focus on growth, such as offices (30.8%) and hotels (12.7%), make up 43.4% of total assets, and the remaining 56.6% are residences (20.6%) and logistics facilities (36.0%) with a focus on stability.

(3) Investing primarily in medium-sized assets
The average purchase price of its 29 properties is ¥2.97bn, and it aims to thoroughly disperse risk through investing in highly liquid medium-sized properties.

(4) Conducting active management that is not bound by existing concepts

As typical examples of this, it has replaced assets twice so far, and it was the first listed REIT to invest in mezzanine loan debt.

Going forward, the focus points for investment will be as follows.

For external growth (the expansion of investment assets), the goal at the present time is to reach an asset scale of ¥200bn by 2020, and it is aiming to achieve this goal by utilizing to the greatest possible extent its sponsor support (such as utilizing the information on sales of properties acquired by the sponsor group and acquiring properties managed by the sponsor group), and acquiring information on properties from the asset management company's independent network.

For internal growth (such as expanding revenue and reducing costs), the focus point differs depending on the asset type. For offices, the main point is eliminating the rent gap. At the end of the 3rd fiscal period, the rent gap was 6.8%, but by the end of the 4th fiscal period, it had been reduced to 5.2% and it is being steadily eliminated, and the REIT intends to focus on eliminating the rent gap even more in the future. For logistics facilities, it will renegotiate rental contracts and related matters according to the situation of each tenant. For the two tenants whose rental contracts end in the current fiscal period (the 5th fiscal period), it has renegotiated contracts with increased rent. For residences, the REIT achieved an increase in the occupancy rate during the 4th fiscal period, and it will work to maintain the improved occupancy rate in the future.

3. Results trends

In FY1/18 (the 4th fiscal period), the results were strong and about the same as in the previous fiscal period. Operating revenue was ¥3,194mn, operating income was ¥2,051mn, ordinary income was ¥1,876mn, and net income was ¥1,802mn. Similar to the 3rd fiscal period, operating revenue was boosted by the sale of real estate (gain on sale: ¥771mn). For offices, the occupancy rate at the end of the period was high, at 99.7%, and the rent gap improved, which contributed to revenue surpassing the forecast. For residences, the occupancy rate improved significantly, from the initial rate of 93.8% (end of August 2017) to the period-end rate of 97.1% (end of January 2018). Also, in the 4th fiscal period, the gain on sale of real estate was dispersed among unitholders, boosting the cash distribution per unit to the high level of ¥4,077, which was ¥38 above the previously announced cash distribution forecast. The REIT retained ¥113mn as internal reserves, which it plans to utilize in the future to stabilize cash distributions.

The forecasts for FY7/18 (the 5th fiscal period) are operating revenue of ¥2,751mn (down ¥443mn from the previous period), operating income of ¥1,504mn (down ¥547mn), ordinary income of ¥1,231mn (down ¥645mn), net income of ¥1,230mn (down ¥572mn), and cash distribution per unit of ¥2,750 (down ¥1,327). So it seems like the results in the 5th fiscal period will decline, but this is due to the recording of a gain on the sale of real estate of ¥771mn in the previous period, and rather we should focus on the growth in rental income, which is the foundation of the REIT's results, by ¥325mn. In terms of the reasons for the growth in rental income, the effects of the acquisition of assets from the capital increase through a public offering will be large. In January 2018, the REIT conducted its second capital increase through a public offering, and then in February, it acquired six properties for ¥10.7bn. The acquisitions of these six properties at the start of the 5th fiscal period will contribute to income. Among these six acquired properties, three are logistics facilities, two are residences, and one is an office, and from the REIT's perspective, the increase in assets was in a form that primarily focuses on stability.

4. Growth strategy

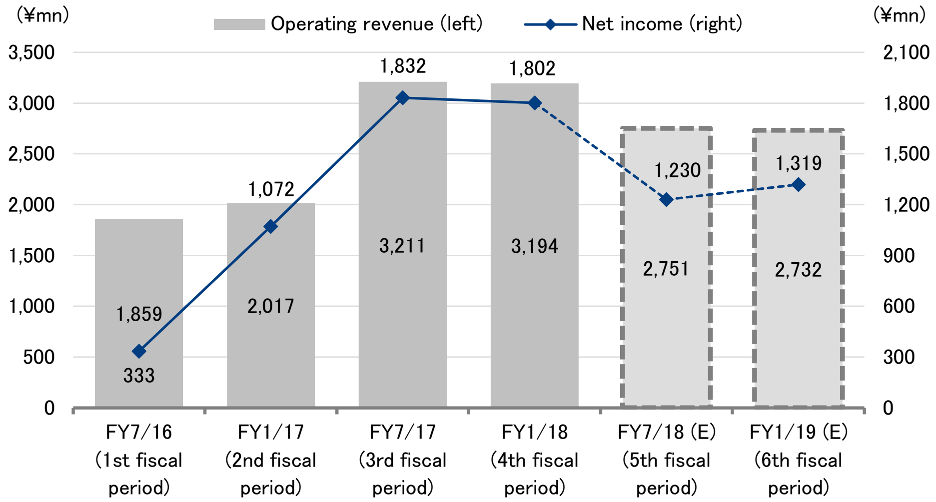
The REIT is aiming for an asset scale of ¥200bn by 2020. The main source of assets will be the provision of properties from the Star Asia Group that is extending its business line (business domain). The Star Asia Group has advanced into the development, management and administration of operational assets. One example of this is its business of student-only residences targeting overseas students, which is conducted by GSA Star Asia K.K. and funded in part by the GSA (Global Student Accommodation) Group, which conducts a global business for the management and administration of student-only residences. Against the backdrop of the Japanese government's promotion of the Top Global University Project and Go Global Japan Project, the Star Asia Group is assuming that the number of overseas students will increase in the future and that the need for international-standard, student-only residences will also grow. Based on these assumptions, the Group decided to work together with the GSA Group to develop a business in this field. HAKUSAN HOUSE (364 beds, completed in February 2018), which was newly constructed in Hakusan, Bunkyo Ward, Tokyo, is the first international-standard, student-only residence project. The REIT has acquired the preferential negotiation rights for HAKUSAN HOUSE for the 18 months from its completion, and if it incorporates it into its portfolio, it will be developed as a new asset type. In addition, as it has up until now, the Star Asia Group continues to invest in special situations, and at the end of September 2017, its investment assets were worth ¥55.1bn, based on their appraisal value. If these real-estate properties under management by this Group match the REIT's investment criteria for real estate to be acquired in the future, then they will become targets for consideration for acquisition. It is said that the sponsor plays a large role in external growth, and for the REIT, there is the advantage that it can utilize the evolution of its sponsor, the Star Asia Group, for its own growth.

Another point to focus on is that Satoshi Obara has been appointed as the new Director and CIO. Mr. Obara has extensive experience in real estate investment and management at Morgan Stanley Capital K.K., and he also has the experience of playing a central role in the investment management of a listed REIT, so he was invited to fill this position so that the REIT could acquire his skills and network. In addition to sponsor support, it is expected that project discovery will be accelerated through the strengthening of the REIT's independent network.

Key Points

- Is conducting active management that is not bound by existing concepts and aiming to maximize unitholders' interests. Its approach to building a portfolio is to focus on the Tokyo area, diversify asset types, and accumulate medium-sized assets.
- Is accelerating growth based on the support of the Star Asia Group that is extending its business line (business domain). The Star Asia Group is producing internally and enhancing property administration, management, and development functions, and it is entering into the new business domain of the development, administration, and management of operational assets.
- In the two years since it was listed, it has conducted two capital increases through public offerings and expanded its assets to ¥86bn. It is aiming for an asset scale of ¥200bn by 2020 based on the Star Asia Group's Special Situations Fund's investment assets and newly acquired properties, as well as the newly developed projects that are exemplified by its student-only residences.

Results trends



Source: Prepared by FISCO from the REIT's financial results

Overview

Conducts active management with the aim of maximizing unitholders' interest Is making steady progress for internal growth, including by eliminating the rent gap and improving occupancy rates Its external growth strategy is to incorporate the evolution of the Star Asia Group

1. The REIT's management style, investment policy, and asset portfolio

The REIT's distinctive management style is to conduct active management through investigating and implementing measures that can be expected to contribute to the maximization of unitholders' interests without being bound by existing concepts and precedents. Since it was listed, it has implemented many measures to maximize unitholders' interests, with prime examples being that it has replaced properties on two occasions, with goals including strengthening the portfolio and obtaining gains on sales, and also that it was the first listed investment corporation to invest in mezzanine loan debt. Going forward also, the REIT will continue to conduct active management with the aim of maximizing unitholders' interests.

<Investment policies and asset portfolio>

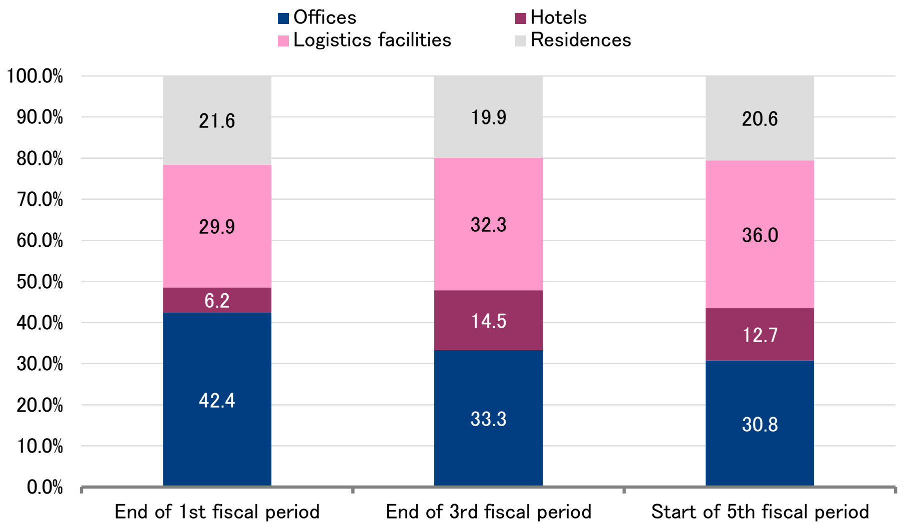
(1) Investment focused on the Tokyo area

The REIT's policy is to invest more than 70% on investment assets in the Tokyo area, on an acquisition-price basis. This is because the population density is high in the Tokyo area and it is the center of economic activities in Japan, so the needs for real estate for a variety of purposes are high and stable income can be expected. After the acquisition of an additional 6 properties (for a portfolio of 29 properties in total with a total acquisition price of ¥86bn) at the start of the 5th fiscal period (beginning of February 2018), the percentage of properties located in the Tokyo area had reached 80.1%. The areas being targeted for investment outside the Tokyo area include Osaka, Nagoya, Fukuoka, Sapporo, and other government-ordinance designated cities, and the REIT's policy is to invest through strictly selecting properties in each of these areas. Currently, the portfolio contains five Osaka properties and two Fukuoka properties.

(2) Diversification of asset types

The asset types that the REIT targets for investment are offices, commercial facilities, residences, logistics facilities and hotels, seeing as, its portfolio becomes resistant to the effects of changes to the economic environment and it can expect stable income by incorporating multiple asset types. Currently, the portfolio does not include commercial facilities, but it is pursuing a portfolio that has both income growth potential and stability based on the principle that the percentage of each asset type shall not exceed 50% of the total. From the REIT's perspective, within the currently incorporated assets, offices and hotels are assets that focus on income growth and logistics facilities and residences are assets that focus on income stability. As of the beginning of February 2018, the assets that focus on growth, such as offices (30.8%) and hotels (12.7%), constituted 43.4% of total assets, and the assets that focus on stability, such as residences (20.6%) and logistics facilities (36.0%), constituted 56.6%. Going forward, the REIT will aim to build a portfolio that incorporates both stability and growth, while also paying attention to maintaining a balance by incorporating assets of each type.

Percentages of total assets by asset type



Source: Prepared by FISCO from the REIT's results briefing materials

(3) Investing primarily in medium-sized assets

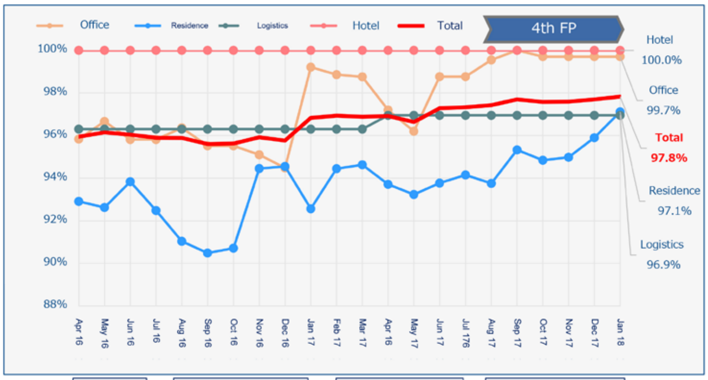
The REIT aims to secure the flexibility of its portfolio by focusing on highly liquid medium-sized assets with strong turnover and minimize the impact of tenant departures and rent reductions on portfolio income. As of the beginning of February 2018, the average acquisition price of the 29 properties it owns was ¥2.97bn, and we can see that it is practicing its investment policy from the fact that all of its properties cost less than ¥10bn. Although the characteristics are somewhat different for each asset type, the REIT's basic strategy is to aim to thoroughly disperse risk by building a portfolio that is focused on medium-sized assets that will be (can be) occupied by multiple tenants. Going forward also, it intends to continue to invest primarily in medium-sized assets.

2. Results for internal growth and the strategy for the future

The REIT is actively working to achieve internal growth (such as by increasing income and reducing costs), and the points of focus differ for each asset type. The main point for offices is eliminating the rent gap (the difference between the monthly contract rent amount at properties owned by the REIT compared to similar properties in the surrounding area). Many of the office buildings it manages have tenants whose rental contracts are lower than the rent in the surrounding area (72.0% as of the end of the 4th fiscal period), and it is working to eliminate this gap. At the end of the 3rd fiscal period, the rent gap was 6.8%, but by the end of the 4th fiscal period it had been reduced to 5.2% and it is being steadily eliminated, and the REIT intends to focus on further eliminating the gap in the future. For logistics facilities, it will renegotiate rental contracts and related matters according to the situation of each tenant. For the two tenants whose rental contracts end in the current fiscal period (the 5th fiscal period), it has renegotiated contracts with increased rent. Going forward also, it plans to increase rent as much as possible, taking into consideration factors such as rent in the areas surrounding the properties it owns, the conditions of buildings, and the levels of tenant satisfaction. For residences, the REIT achieved an increase in the occupancy rate during the 4th fiscal period, and it will work to maintain the improved occupancy rate in the future. In the investment management company, the Investment Management Division has recruited two personnel (in January 2018) who are very familiar with property administration and management, and it is planning to implement measures toward internal growth that are tailored to the features of each property even more than in the past. Also, in the Star Asia Group, in July 2017 the Construction Management Department was established, and the REIT is able to constantly receive advice from the sponsor group to contribute to maintaining and improving the values of properties, and it can be expected to provide even more support than before for tasks such as for the creation of capital expenditure and major renovation plans for the properties that the REIT is considering acquiring, renewal construction work that is highly appealing to tenants at the properties that it owns, and the formulation of more strategic renovation plans.

Trends in occupancy rates

Period-end occupancy rate: 97.8% Portfolio occupancy rate steadily increased as a result of leasing activities in collaboration with leasing agents based on leasing strategies which take into account the features of each property.



[Total]
The occupancy rate as of the end of the 4th FP is 97.8%, the highest since the launch of the Investment Corporation

[Office]
Maintained a level above 99%

[Residence]
Successfully increased the occupancy rate
From 94.2% at the end of 3rd FP to 97.1% at the end of 4th FP

[Logistics facility]
Occupancy is stable as many of the tenants have concluded fixed-term building lease contracts

[Hotel]
Occupancy is 100% with full lease to the hotel operator

	1st FP	2nd FP	3rd FP(24property※)	4th FP(23property)
Office	95.8%	99.2%	98.8%	99.7%
Residence	92.5%	92.6%	94.2%	97.1%
Logistics	96.3%	96.3%	96.9%	96.9%
Hotel	100.0%	100.0%	100.0%	100.0%
Total	95.9%	96.8%	97.3%	97.8%

*End of 3rd FP includes 1 office property (Oak Minami-Azabu) sold on August 1, 2017.

Source: The REIT's results briefing materials

3. External growth trajectory and strategy for the future

Since it was listed in April 2016, the REIT has replaced assets on 2 occasions, and through the assets it acquired from the 2 capital increases through public offerings, it has expanded the asset scale from ¥61.4bn (acquisition-price basis) at the time it was listed to ¥86bn. Looking to the future, it is aiming to achieve an asset scale of ¥200bn by 2020 through acquiring properties, mainly from the Star Asia Group that is extending its business line (business domain), and also through accelerating project discovery by strengthening the REIT’s independent network (including by appointing a new CIO).

Initiatives for growth

	Main initiatives
Internal growth strategy	Eliminating the rent gap in the offices portfolio
	Negotiating rent increases at logistics facilities
	Stabilizing occupancy rates at residences (strengthening competitiveness through renovation work, etc.)
	Maintaining and improving the ability to appeal to tenants through appropriate capital expenditure and renovations (utilizing sponsor support)
	Enhancing asset management functions –> Increasing by 2 the number of Investment Management Division personnel
External growth strategy	Expanding the properties pipeline from the Star Asia Group that is expanding its business line
	Further utilizing the warehousing function of the sponsor group
	Discovering projects by strengthening the management company’s independent network –> newly appointing the Director and CIO
	Continuously investing in mezzanine loan debt
	Examining asset replacements
Financial strategy	Continuously examining acquiring a rating
	Fixing the payment interest rate to hedge the risk of interest-rate fluctuations –> Was set on March 16, 2018
	Appointed a new lender

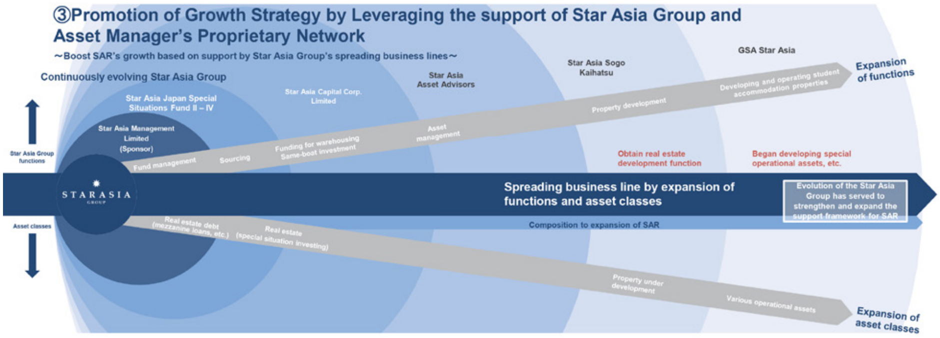
Source: Prepared by FISCO from the REIT's results briefing materials

4. Expansion of the Star Asia Group's business line (business domain) and support for the REIT

The Star Asia Group was established by Malcolm F. MacLean IV and Taro Masuyama, and started investing in 2007. It is a real estate investment group comprised of the funds resulting from the investment decisions taken by both men, the investment management company, and the assets receiving investments. It mainly manages the funds from investors who seek long-term investment, such as overseas university funds, foundations and pension funds, by investing in assets related to real estate, etc. in Japan and other Asian countries. Currently, it is not investing in assets other than in Japan and it has been continuously accumulating a track record of investing in the Japanese real estate market. One of the features that differentiates it from other real estate investors is that in addition to direct investment in real estate of various asset types, it invests flexibly in real estate through multiple approaches, including via bond and stock investments. When searching for investment projects, it makes full use of the wide range of relationships that the Star Asia Group has in the financial and real estate markets. Its investments have surpassed a total of ¥322bn (as of the end of September 2017).

The Star Asia Group started from investing in real estate-related debt before shifting its focus to investing in actual real estate in response to the conditions in the real estate market. Currently, it is engaged in investing activities for the Special Situations Fund IV. At the end of September 2017, its investment-assets balance, based on the appraisal values of its properties, was ¥55.1bn. Its investment ratio in the Tokyo area is high, and it is also diversifying asset types while focusing on offices. For these properties, there is a system in place in which the REIT is able to examine an acquisition through a sponsor-support agreement, which can be said to be an important element that will support the REIT's external growth in the future. In addition, the Star Asia Group is aiming to enhance its functions to incorporate real estate-related functions within the Group and to diversify the asset classes that are its investment targets. In terms of the enhancement of functions, this has mainly entailed bringing into the Group Star Asia Asset Advisors Co., Ltd., in order to internally produce real estate management functions, and Star Asia Sogo Kaihatsu Co., Ltd., to add development functions. Various benefits can be expected from this in the future, such as acquiring information on properties from Star Asia Asset Advisors and for examining the acquisitions of the development properties handled by Star Asia Sogo Kaihatsu. Moreover, in order to diversify the asset classes targeted for investment, the Star Asia Group has also started investing in operational assets. An example of this is the previously mentioned collaboration with the GSA Group to invest in the development of HAKUSAN HOUSE. HAKUSAN HOUSE is a student-only residence completed in February 2018 in Hakusan, Bunkyo Ward, Tokyo, and it has 175 rooms and 364 beds. It can be said to be an international-standard, student-only residence the like of which has never been seen before in Japan, offering a concierge service, holding events for residents and incorporating various shared areas such as a shared kitchen, dining areas and a multipurpose room. Going forward, the main role will be played by GSA Star Asia K.K., which is jointly funded by the Star Asia Group and the GSA Group, and the plan is continue to provide similar student-only residences with the goal of ultimately providing 20,000 beds. As previously stated, the REIT acquired the preferential negotiation rights to HAKUSAN HOUSE for the 18 months after its completion, and it is expected to be incorporated into the REIT.

The Star Asia Group’s growth strategy



Source: The REIT's results briefing materials

Executed an agreement on preferential negotiation right of HAKUSAN HOUSE (student accommodation property)

HAKUSAN HOUSE (Rendering)

completion:Feb. 2018 Total beds: 364
Student accommodation property providing a shared space and concierge service for exchange students from overseas and Japanese students

Source: The REIT’s results briefing materials

Results trends

In the 3rd and 4th fiscal periods, the gain on sales following the replacement of assets was returned to unitholders as cash distributions

1. Results trends up to FY1/18 (4th fiscal period)

In FY1/18 (the 4th fiscal period), operating revenue was ¥3,194mn, operating income was ¥2,051mn, ordinary income was ¥1,876mn, and net income was ¥1,802mn, so the results were strong and about the same as in the previous fiscal period. Operating revenue grew due to a gain on sale of ¥771mn recorded from the sale of real estate, the same as in the 3rd fiscal period. For rental income, the ratio of office rent is large. Because there were changes to the percentages of each asset type in the portfolio, the replacement of assets, and the acquisition of additional properties, there were significant increases in rent from logistics facilities, hotels, and residences. For offices, during the 4th fiscal period, the occupancy rate was maintained at the high level of above 99.6%, and also progress was made in eliminating the rent gap. In residences, the occupancy rate improved remarkably. Also, in the 4th fiscal period, the gain on sale following the sale of real estate was returned to unitholders as a cash distribution, so the cash distribution per unit was at the high level of ¥4,077, which was ¥38 higher than the previously announced cash distribution forecast.

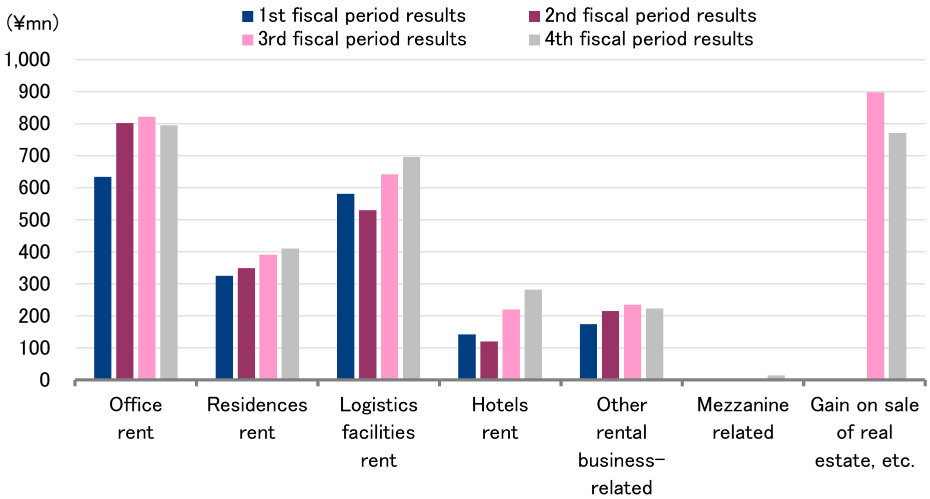
Results trends

FY1/18 (the 4th fiscal period) results and previous results

	FY7/16 (1st fiscal period) results (¥mn)	FY1/17 (2nd fiscal period) results (¥mn)	FY7/17 (3rd fiscal period) results (¥mn)	FY1/18 (4th fiscal period)		
				Results (¥mn)	Composition ratio	Change compared to previous period (¥mn)
Operating revenue	1,859	2,017	3,211	3,194	100.0%	-17
Operating income	1,147	1,190	2,098	2,051	64.2%	-46
Ordinary income	335	1,073	1,833	1,876	58.7%	43
Net income	333	1,072	1,832	1,802	56.4%	-30
Cash distribution per unit (¥)	892	3,112	4,423	4,077		

Source: Prepared by FISCO from REIT materials

Operating revenue by segment



Source: Prepared by FISCO from the REIT's results briefing materials

There remains room for internal growth from the 5th fiscal period onward, including from eliminating the rent gap in offices, and re-negotiating contracts with increased rent for logistics facilities' tenants

2. FY7/18 (5th fiscal period) and FY1/19 (6th fiscal period) forecasts

The forecasts for FY7/18 (5th fiscal period) are for operating revenue of ¥2,751mn (down ¥443mn from the previous period), operating income of ¥1,504mn (down ¥547mn), ordinary income of ¥1,231mn (down ¥645mn), net income of ¥1,230mn (down ¥572mn), and cash distribution per unit of ¥2,750 (down ¥1,327).

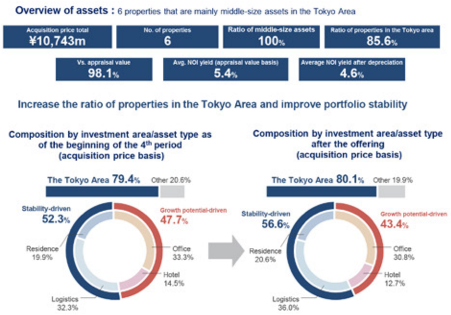
It might seem that the earnings in FY7/18 (the 5th fiscal period) will decline, but this is because a gain on sale of ¥771mn was recorded and distributed in the previous fiscal period, and rather we should focus on the growth in rental income, which is the foundation of the results, to ¥325mn. In terms of the reasons for the growth in rental income, the effects of the acquisition of assets from the capital increase through a public offering will be large. In January 2018, the REIT conducted its second public offering and it used the funds it raised to acquire 6 properties for ¥10.7bn in early February, which expanded the assets portfolio to 29 properties with a total acquisition price of ¥86bn. Among the 6 properties acquired, 3 are logistics facilities, 2 are residences, and 1 is an office, and from the REIT's perspective, the increase in assets was in a form that primarily focuses on stability. After the second public offering, the assets' unrealized gain (the difference between the appraisal price and the acquisition price) was ¥6.8bn, so it is possible that the unrealized gain will be realized in the future through the transfer of assets held.

FY7/18 (5th fiscal period) and FY1/19 (6th fiscal period) forecasts

	FY1/18 (4th fiscal period) results (¥mn)	FY7/18 (5th fiscal period)		FY1/19 (6th fiscal period)	
		Forecast (¥mn)	Change compared to previous fiscal period (¥mn)	Forecast (¥mn)	Change compared to previous fiscal period (¥mn)
Operating revenue	3,194	2,751	-443	2,732	-19
Of which, rent income	2,408	2,733	342	2,713	-19
Of which, mezzanine	14	18	4	18	-
Of which, gain on sale	771	-	-771	-	-
Operating income	2,051	1,504	-547	1,497	-7
Ordinary income	1,876	1,231	-645	1,320	89
Net income	1,802	1,230	-572	1,319	89
Cash distribution per unit (¥)	4,077	2,750	-1,327	2,804	54

Source: Prepared by FISCO from REIT materials

Overview of the acquisition of assets from the second capital increase through a public offering



Source: The REIT's results briefing materials

Total asset-based LTV (interest-bearing debt ÷ total assets) 45.5%, diversification of bank formation

3. Financial position

At the end of January 2018 (end of the 4th fiscal period), total assets were ¥82,154mn. The majority was property, plant and equipment, and the changes compared to the end of the previous fiscal period were negligible.

Liabilities were ¥40,284mn. Within the liabilities, the percentage of long-term loans payable is high and the long-term liability ratio is 100%. The total asset-based LTV (interest-bearing debt ÷ total assets; LTV: loan to value) is 45.5%, successfully maintaining firm control between 45% and 50%, which is the target.

The REIT's lenders are a co-financing group arranged by Sumitomo Mitsui Banking Corporation (Sumitomo Mitsui Financial Group <8316>) and Mizuho Bank, Ltd. (Mizuho Financial Group <8411>). In addition to these two banks, the participants are Sumitomo Mitsui Trust Bank, Limited, Mitsubishi UFJ Trust and Banking Corporation, Aozora Bank, Ltd. <8304>, Shinsei Bank, Limited <8303>, and Resona Bank, Limited (Resona Holdings <8308>), which is a lineup that gives a feeling of stability. In the current fiscal period, it also began transactions with The Bank of Fukuoka, Ltd. (Fukuoka Financial Group <8354>), with the aim of further diversifying fund raising. The REIT is aiming to expand its asset scale while maintaining its financial soundness, and financially there are no causes for concern.

Simplified balance sheet and management indicators

(¥mn)

	End of FY7/17	End of FY1/18	Change
Current assets	5,261	4,961	-300
(Cash and deposits)	1,598	1,667	68
(Cash and deposits in trust)	3,239	3,153	-85
Non-current assets	78,348	77,193	-1,154
(Property, plant and equipment)	74,697	72,829	-1,867
Total assets	83,609	82,154	-1,454
Current liabilities	9,796	8,437	-1,359
Non-current liabilities	31,919	31,846	-73
Total liabilities	41,716	40,284	-1,432
Net assets	41,892	41,870	-21
Total liabilities and net assets	83,609	82,154	-1,454
<Stability>			
Current ratio (current assets ÷ current liabilities)	53.7%	58.8%	
Long-term liability ratio (long-term liabilities ÷ total liabilities)	100.0%	100.0%	
Total asset-based LTV (interest-bearing debt ÷ total assets)	46.3%	45.5%	
Equity ratio (equity ÷total assets)	50.1%	51.0%	

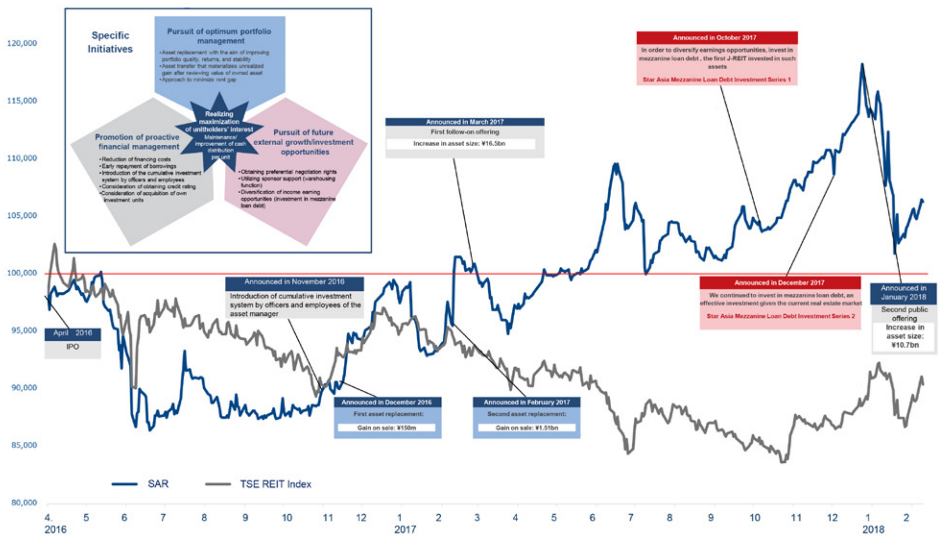
Source: Prepared by FISCO from REIT materials

Benchmarks

Appeals to investors through conducting active management that aims to maximize unitholders' interests
The investment unit price has greatly outperformed the TSE REIT Index

The REIT's appeal includes that it conducts active management that aims to maximize unitholders' interests. Through implementing various types of measures to maximize unitholders' interests, including replacing assets and being the first listed REIT to invest in mezzanine loan debt, in the past year the REIT's investment unit price has greatly outperformed the TSE REIT Index (from a comparison of the trend in the REIT's investment unit price since it was listed and the trend in the TSE REIT Index). In the future, when the asset scale exceeds ¥100bn from the acquisition of properties alongside the equity financing, the stability of the portfolio and the liquidity of the investment unit will improve. It also has in sight acquiring a rating and inclusion in a global index.

Continuously implementing measures that aim to maximize unitholders' interests



(Note) The above indicates relative change of the Index between April 20, 2016 and December 28, 2017, setting the closing index of 1,887.75 on April 20, 2016, as equal to the closing price of ¥98,300 per unit of the SAR investment unit.

Source: The REIT's results briefing materials

Disclaimer