



# Results of Operations

for the Fiscal Year Ended December 31, 2014

March 2015  
Kenedix, Inc.



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## 1. 2014 Results Highlights and Outlook



# Summary of 2014 Consolidated Income Statement

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## Results of Operations for 2014

### Summary of Consolidated Income Statement

(Millions of Yen)

	2013 Full year	2014 Full year	YoY Change
Revenue	22,456	26,212	3,756
Gross Operating Income	11,077	13,519	2,441
Operating Income	6,914	8,147	1,232
Non-operating Income	275	697	422
Non-operating Expenses	-2,312	-2,438	-126
<b>Ordinary Income</b>	<b>4,878</b>	<b>6,406</b>	<b>1,528</b>
Extraordinary Income	146	3,669	3,522
Extraordinary Loss	-2,291	-6,146	-3,854
<b>Income before Income Taxes</b>	<b>2,734</b>	<b>3,930</b>	<b>1,195</b>
Income Taxes	-718	1,572*	2,291
Minority Interests	-29	-658	-629
<b>Net Income</b>	<b>1,985</b>	<b>4,844</b>	<b>2,858</b>

\* An effect on tax-effect accounting was approx. ¥2.2 billion.  
(including deferred tax assets, etc.)

## 2014 Dividend

**Pay a dividend of ¥3 per share**

### Segment Information

(Millions of Yen)

	2013 Full year	2014 Full year	YoY Change
<b>Gross Operating Income</b>	<b>11,077</b>	<b>13,519</b>	<b>2,441</b>
<b>a. Asset Management Business</b>	<b>5,708</b>	<b>6,365</b>	<b>656</b>
Acquisition Fee	1,638	1,118	-520
Asset Management Fee	2,952	3,369	417
Incentive Fee	61	686	625
Disposition Fee	223	648	425
Other Fees	832	542	-290
<b>b. Real Estate Investment Business</b>	<b>2,418</b>	<b>3,069</b>	<b>650</b>
Rental Revenue	490	592	102
Gain on Sales of Properties	946	1,232	286
Dividend Income from Investment in TK	-41	764	805
Others	1,023	480	-543
<b>c. Real Estate Leasing Business</b>	<b>2,949</b>	<b>4,084</b>	<b>1,134</b>
Rental Revenue	2,841	3,771	930
Others	108	312	204

Resuming dividend payments for FY 2014 was a priority of the previous 2013/2014 medium-term management plan

# 2015 Forecast for Revenue, Earnings and Dividend



## Earnings Forecast for 2015

### Consolidated Forecast

(Millions of Yen)

	2014 Results	2015 Forecast	Change
Revenue	26,212	21,600	-4,612
Gross Operating Income	13,519	13,500	-19
(4) SG&A expenses	-5,371	-6,000	-628
Operating Income	8,147	7,500	-647
Non-operating Income	697	600	-97
Non-operating Expenses	-2,438	-1,400	1,038
Ordinary Income	6,406	6,700	293
Extraordinary Income	3,669	3,500	-169
Extraordinary Loss	-6,146	-2,800	3,346
Income before Income taxes	3,930	7,400	3,469
Income Taxes	1,572	-900	-2,472
Minority Interests	-658	-500	158
Net Income	4,844	6,000	1,155
ROE	6.5%	7.7%	↗ 18.4%
EPS (Yen)	18.2	22.6	↗ 24.1%
Base Earnings* (Millions of yen)	1,307	2,700	↗ 106.5%
Dividend per Share (Yen)	3	4	↗ 33.3%

\* Base Earnings are gross operating income from the (1) Asset Management Business and (2) Real Estate Related Business less (4) selling, general and administrative expenses.

## Dividend Forecast for 2015

**Plan to pay a dividend of ¥4 per share**

\* Kenedix does not plan to pay an interim dividend.

### Outlook by Segment

(Millions of Yen)

	2014 Results	2015 Forecast	Change
Gross Operating Income	13,519	13,500	-19
(1) Asset Management Business	5,844	7,500	1,655
Acquisition Fee	1,102	2,000	897
Asset Management Fee	2,864	3,400	535
Incentive Fee	686	950	263
Disposition Fee	648	700	51
Other Fees	542	450	-92
(2) Real Estate Related Business	834	1,200	365
Property Management Fee	521	800	278
Master Lease Revenue, etc.	312	400	87
(3) Real Estate Investment Business	6,840	4,800	-2,040
Rental Revenue	4,363	1,950	-2,413
Gain on Sales of Properties	1,232	750	-482
Dividend Income from Investment in TK	1,287	1,750	462
Others	-42	350	392

### Change in Business Segments

- Business segments have been changed based on the current “Kenedix business domain.”

### New Business Segments

- (1) Asset Management Business: Asset management operations
- (2) Real Estate Related Business: Property management and master lease operations
- (3) Real Estate Investment Business: Operations of the former Real Estate Investment Business and Real Estate Leasing Business segments

\* Figures for the new business segments have not been audited and are provided solely for reference. These figures may be revised.

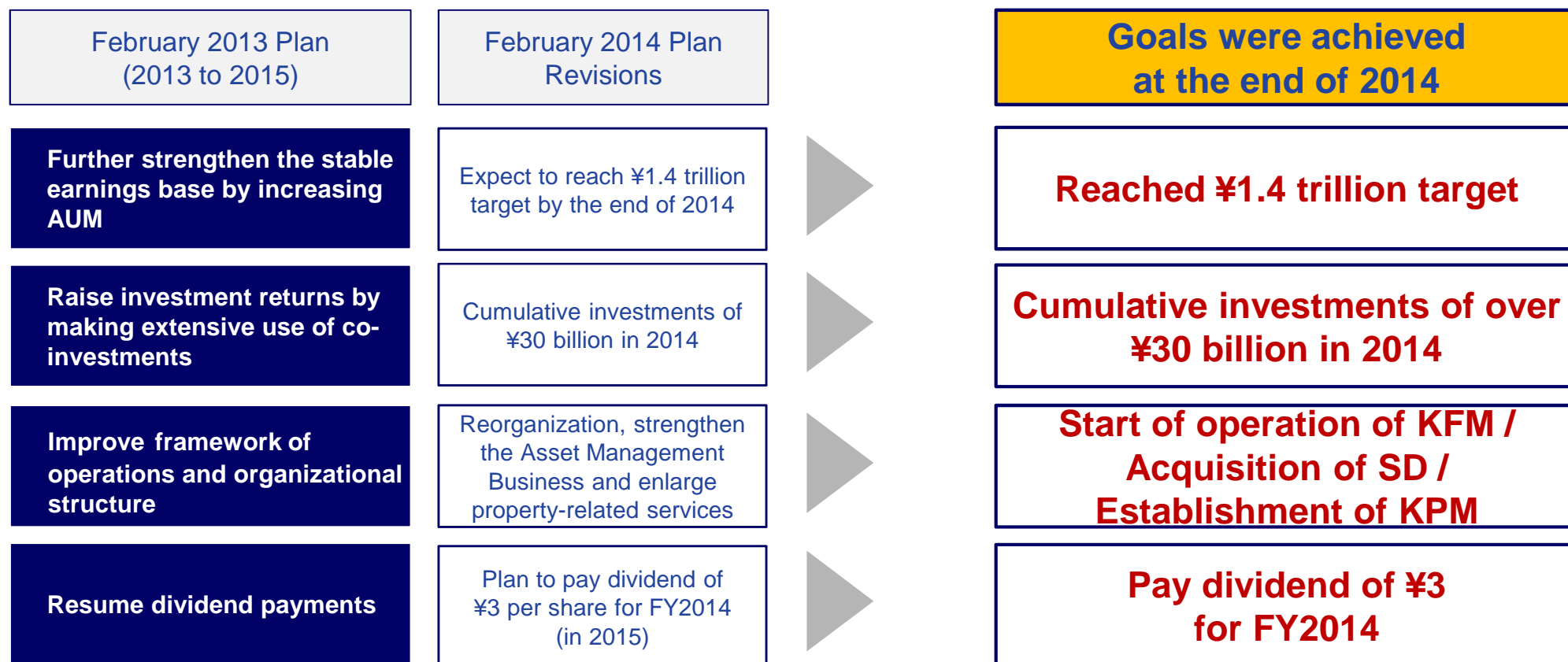


## 2. New Medium-term Management Plan



# Previous Medium-term Management Plan (2013-14) (Announced in February 2013)

- The goals of the February 2013 management plan were achieved one year early.
- Kenedix has advanced to a new stage of growth with investments using the proceeds of the September 2013 stock offering and quickly restructuring the real estate portfolio as Japan's real estate market recovered.





# Overview of New Medium-term Management Plan (2015 to 2017)

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## Partners in Growth 2017

**Increase stable earnings**

Base Earnings\*<sup>1</sup>: **¥4 billion**  
(FY2017)

**Improve capital efficiency**

3-year average ROE\*<sup>2</sup>: **8.0%**

\*1: Base Earnings are gross operating income from the Asset Management Business and Real Estate Related Business less selling, general and administrative expenses.

\*2: 3-year average ROE is the return on equity in each year which is calculated by dividing net income by the average of equity at the beginning and end of each year.

These two targets do not incorporate the effects of goodwill resulting from acquisitions.

### Basic policies

(1) Increase stable earnings  
mainly through growth of  
the Asset Management  
Business

(2) Expand the Real Estate  
Investment Business  
primarily by using co-  
investments

(3) Achieve the proper  
balance between  
financial soundness and  
shareholder distributions

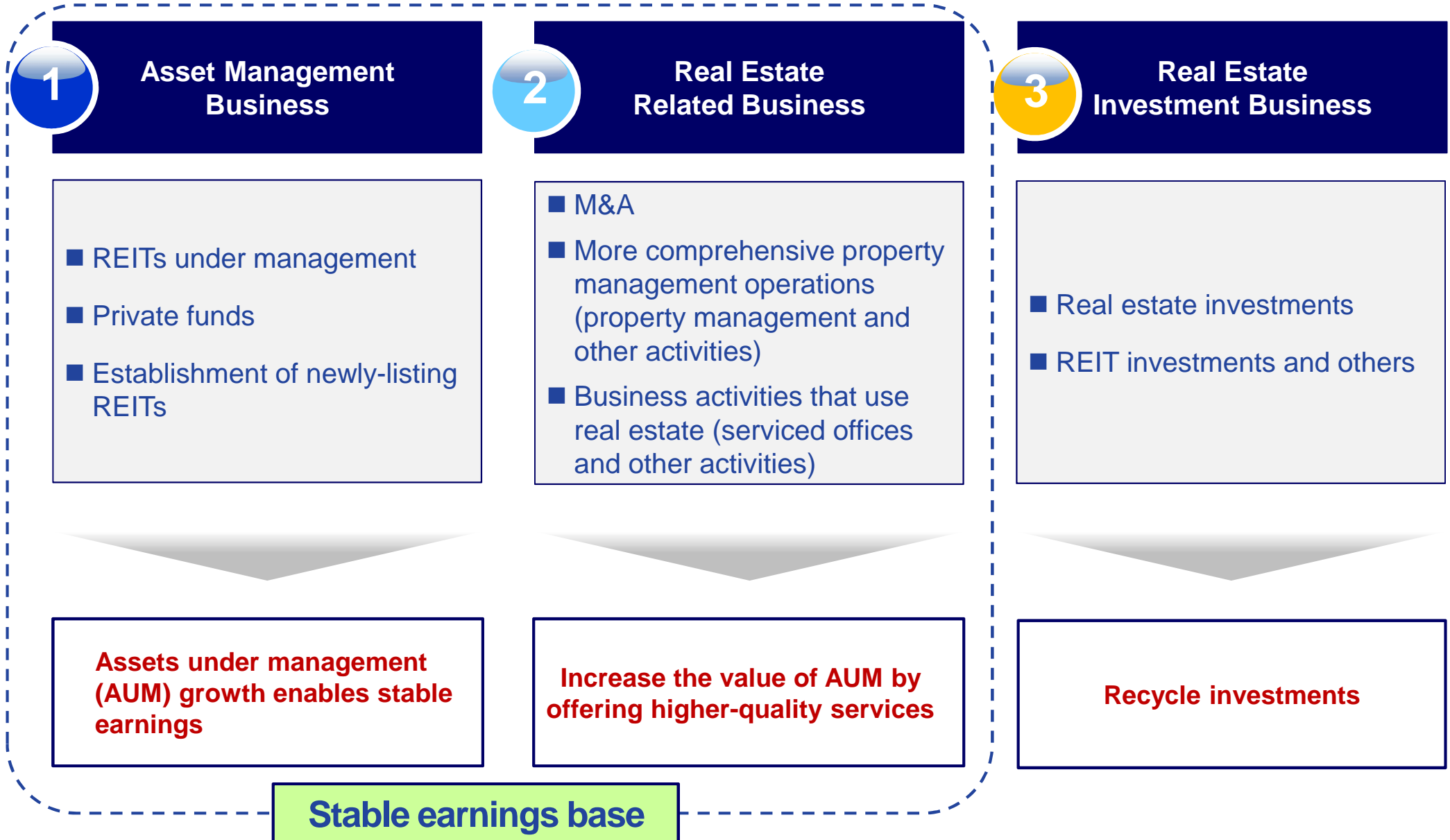


## 3. Our Business

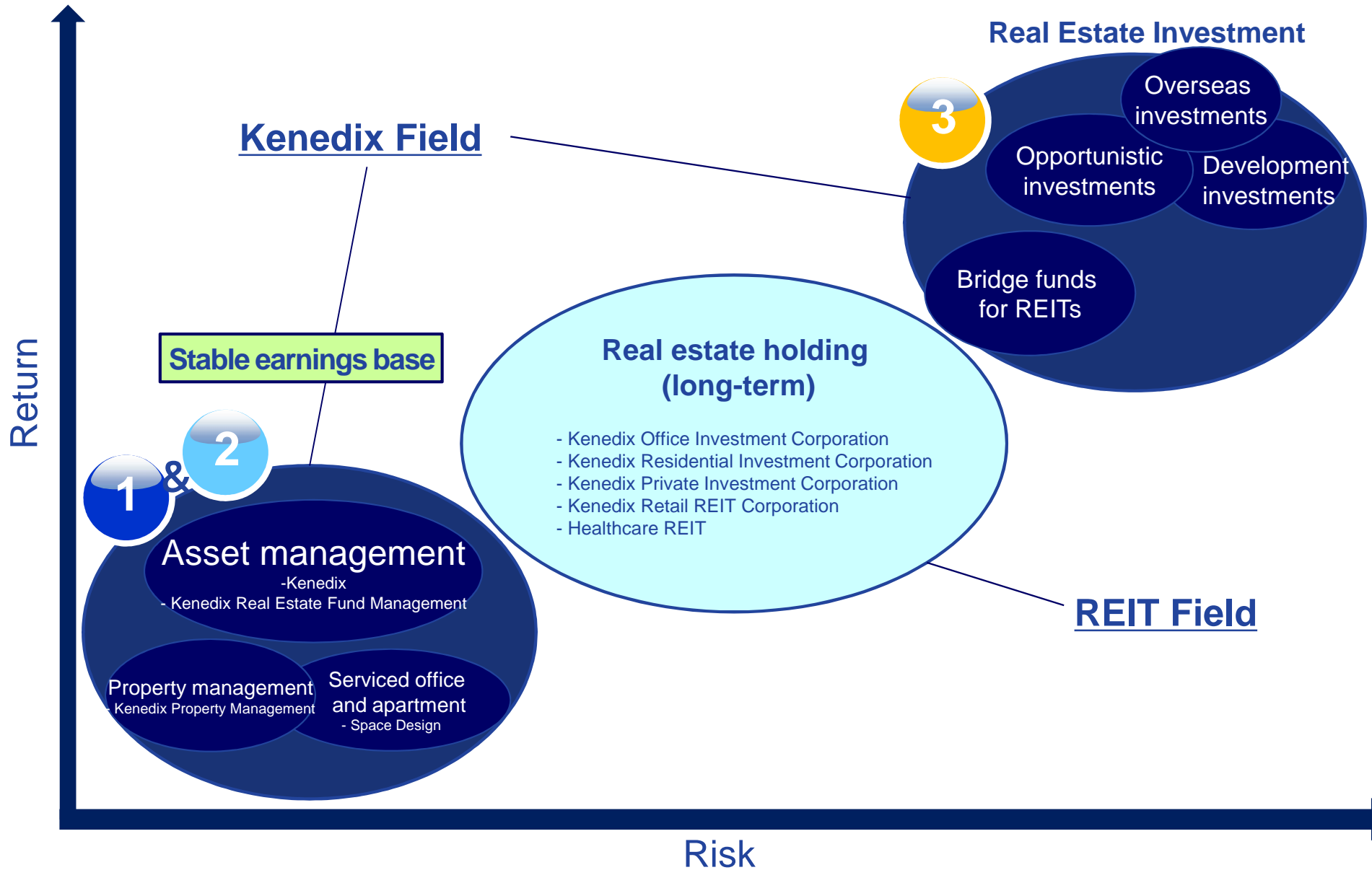
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# The Kenedix Business Structure



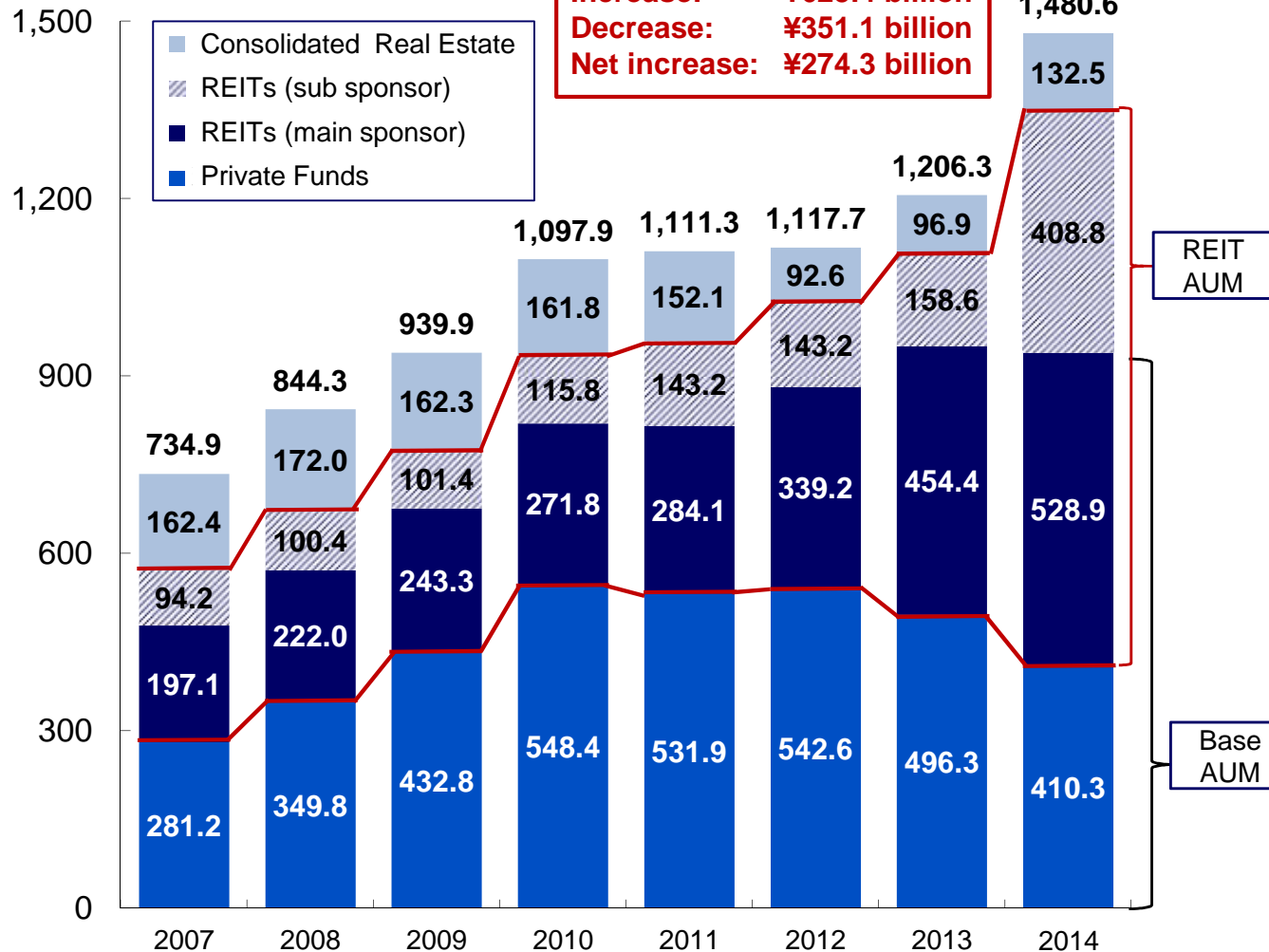
# The Kenedix Business Domain



# Assets Under Management (AUM)

## Growth of AUM (as of Dec. 31, 2014)

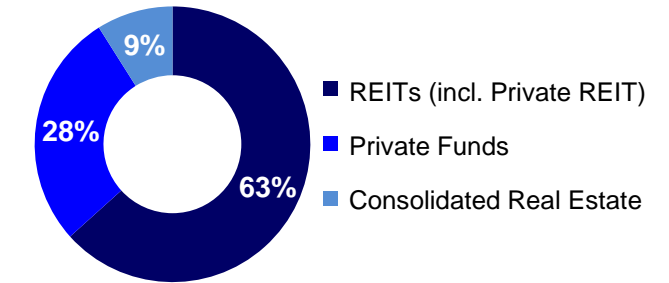
(Billions of Yen)



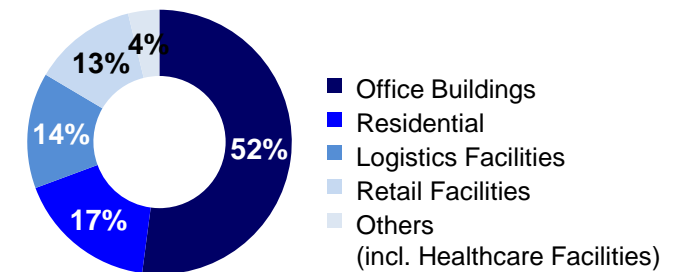
**End-Dec 2014 AUM**  
**Increase: ¥625.4 billion**  
**Decrease: ¥351.1 billion**  
**Net increase: ¥274.3 billion**

## Breakdown of AUM (as of Dec. 31, 2014)

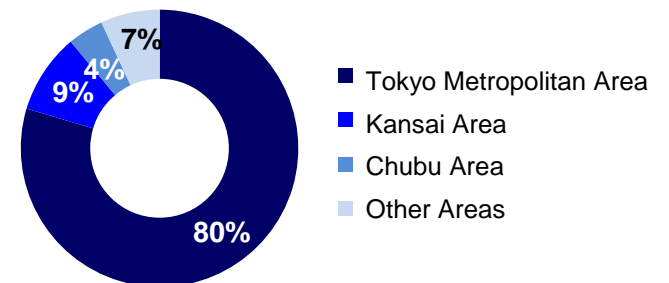
### Client Investors



### Property Category

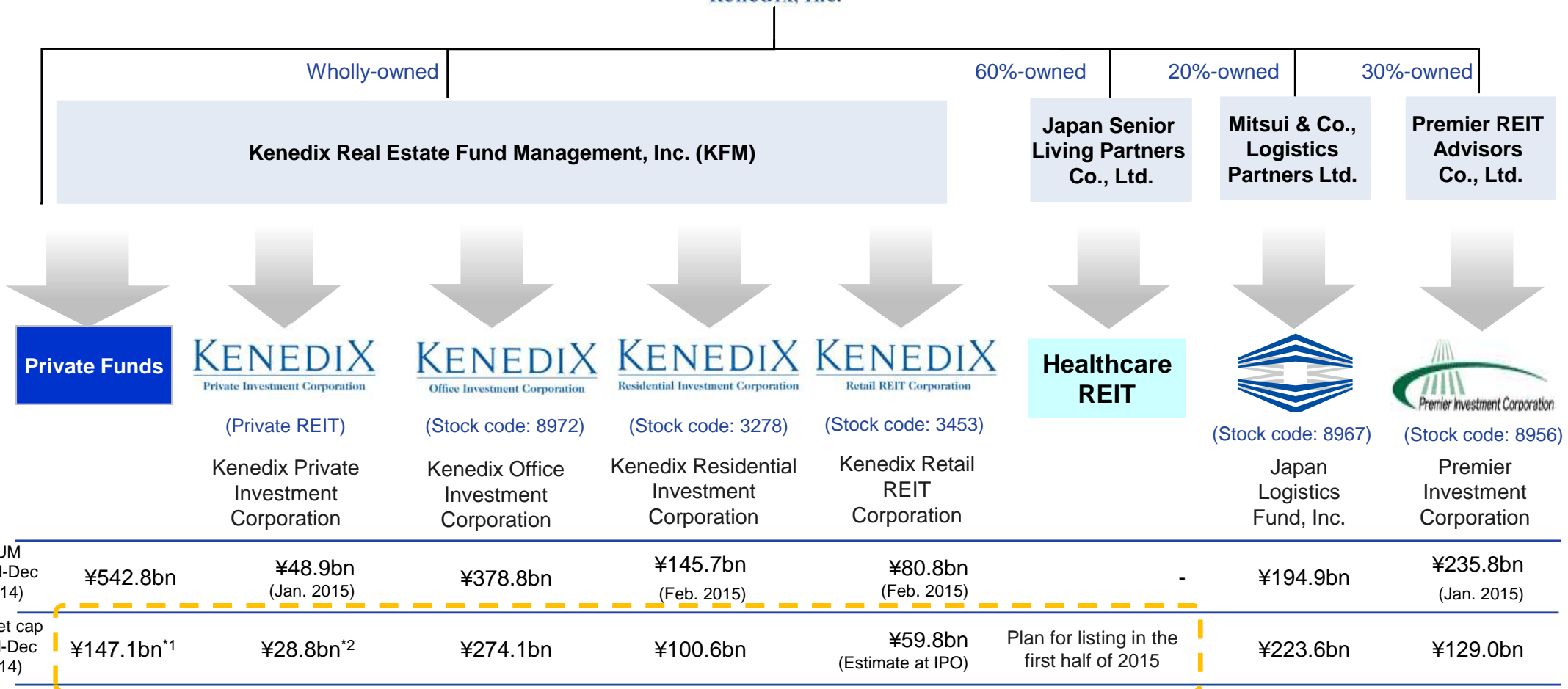


### Geographic Coverage



• AUM includes properties held by REITs (Kenedix Office Investment Corporation, Kenedix Residential Investment Corporation, Kenedix Private Investment Corporation, Japan Logistics Fund, Inc. and Premier Investment Corporation) who are managed by Kenedix affiliates.

# Asset Management Business of the Kenedix Group



\*1: Market capitalization of Kenedix, Inc.

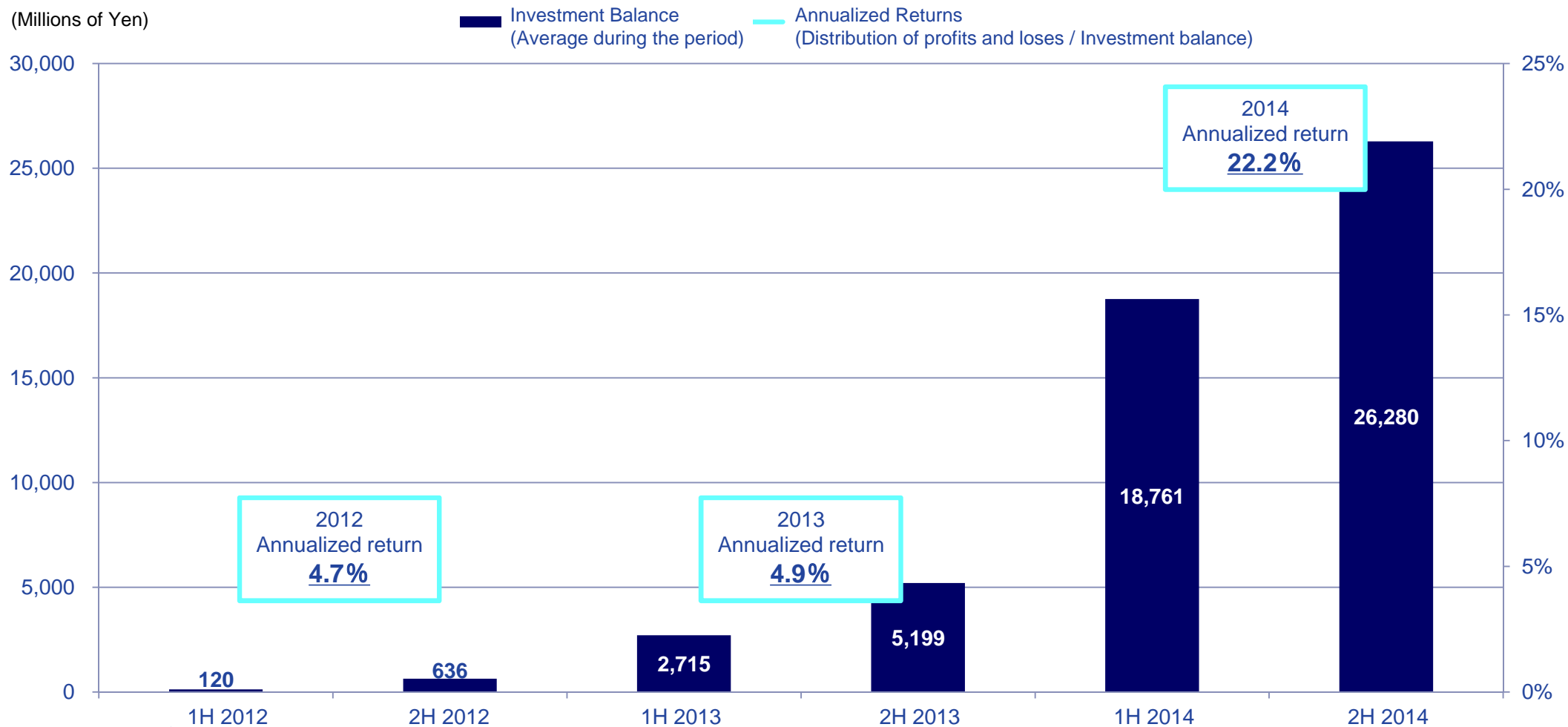
\*2: Investment units issued multiplied by NAV because this is a privately owned company

**Kenedix Group market cap: ¥610.4 billion**

• Total of market caps of Kenedix and REITs that are managed by the Kenedix Group (Excluding Japan Logistics Fund, Inc. and Premier Investment Corporation)

# Returns on Real Estate Investments (after 2012)

## Actual Results of Real Estate Investments (January 2012 to December 2014)



\* Breakdown of new investments since 2012 (excl. additional investments etc. in development projects and others) by each period

\* The investment balance derives from a simple average of month-end principal balances by each period

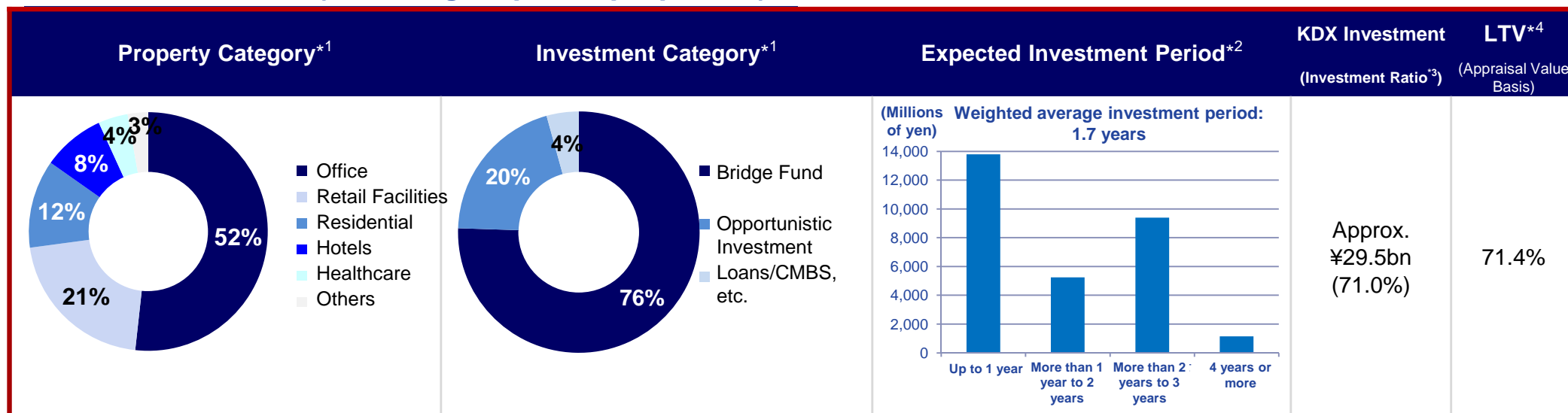
\* Annualized return = Annual distribution of profits and losses / Average investment balance during the period



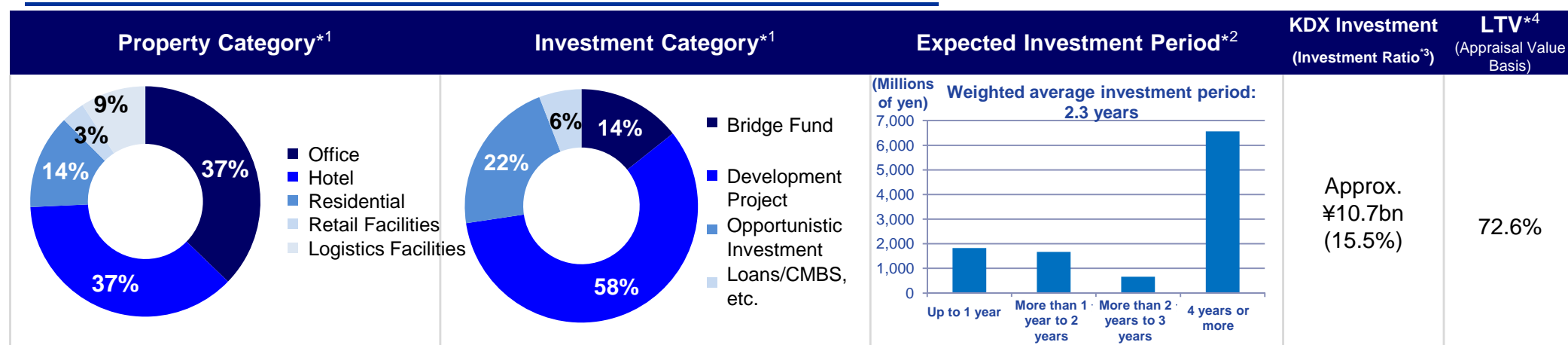
# Real Estate Investments (after 2012) : Overview by Investment Timing



## Investments in 2014 (including disposed properties)



## Investments in 2012 and 2013 (including disposed properties)



\*1: Composition of Kenedix investments (initial investments) divided by property and investment categories.

\*2: Investment period expected at the time of investment (actual results are adopted for exited projects)

\*3: Kenedix investments as a share of the total investment for each project (excluding loans/CMBS/additional investments for past vintage)

\*4: Ratio of loans for each project to the appraised value of the corresponding underlying assets (excluding loans/CMBS/real estate development projects)

# Investment Exposure

**End 2014**  
Investment Exposure (total)  
**Approx. ¥73.6 billion**

Uninvested funds  
Approx. ¥7.0bn

Approx.  
¥61.0bn

\* Excludes externally-raised non-recourse loans used for individual projects

Approx. ¥12.6bn

**2015**  
New Investments (cumulative)  
**Up to ¥35.0 billion**

Uninvested funds  
Approx. ¥7.0bn

Expected amount from real estate investments  
Approx. ¥28.0bn

- Investment exposure will not exceed the shareholders' equity
- Advancing from the investment build-up phase to **the investment recycling phase**

■ Real Estate Investments (Japan and overseas)

■ REIT Investments/ Business Investments

**End 2015 Estimates**  
Investment Exposure (total)  
**Approx. ¥80.6 billion**

Approx.  
¥65.0bn

\* Excludes externally-raised non-recourse loans used for individual projects

Approx. ¥15.6bn

Approx. ¥73.6bn

# New Investments in 2015

■ Budget for new investments in 2015: **¥35.0 billion (cumulative)**

<u>Main Investment Categories</u>	<u>Concept</u>	<u>Expected Return</u>	<u>2015 Expected Investments</u>
<b><u>Real estate investments</u></b>	<ul style="list-style-type: none"> <li>❑ Bridge funds for REITs</li> <li>❑ Investment in real estate core funds</li> <li>❑ Investment in real estate development projects (mainly retail facilities and healthcare facilities)</li> <li>❑ Real estate mezzanine loans</li> <li>❑ Real estate opportunistic investments</li> </ul>	Average of about 10% for all real estate investments	About ¥32.0 billion
<b><u>REIT/Fund investments and others</u></b>	<ul style="list-style-type: none"> <li>❑ Investment in REIT investment units, etc.</li> </ul>	Average of about 5%	About ¥3.0 billion
<b><u>Business investments /Overseas investments</u></b>	<ul style="list-style-type: none"> <li>❑ Strategic investments to property-related service business</li> <li>❑ Investments to strengthen, expand or capture synergies for Kenedix businesses</li> <li>❑ Minority investments in overseas real estate</li> </ul>		About ¥3.0 billion



# Mission Statement and Long-term Vision

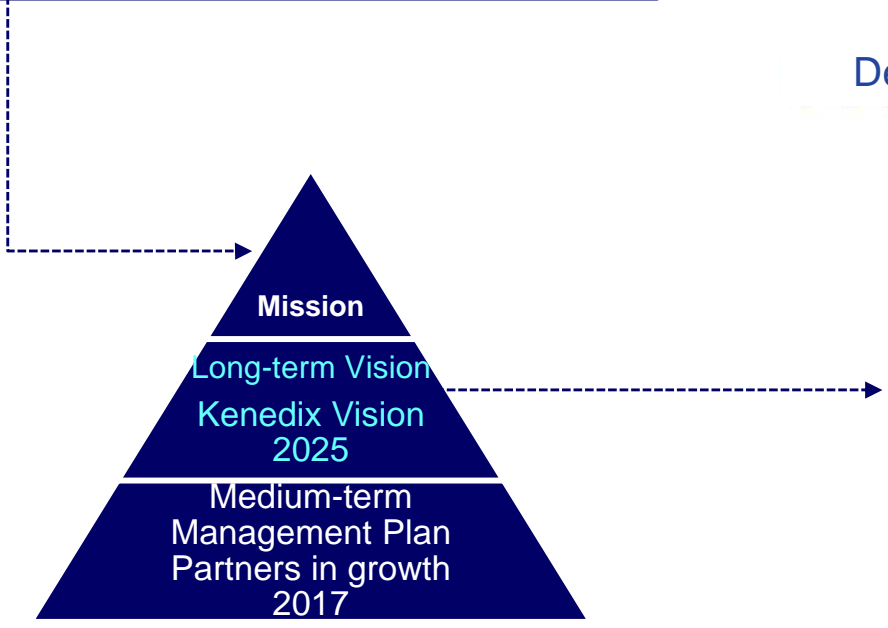
## ■ Mission Statement

**Kenedix is dedicated to realizing the full potential of real estate**

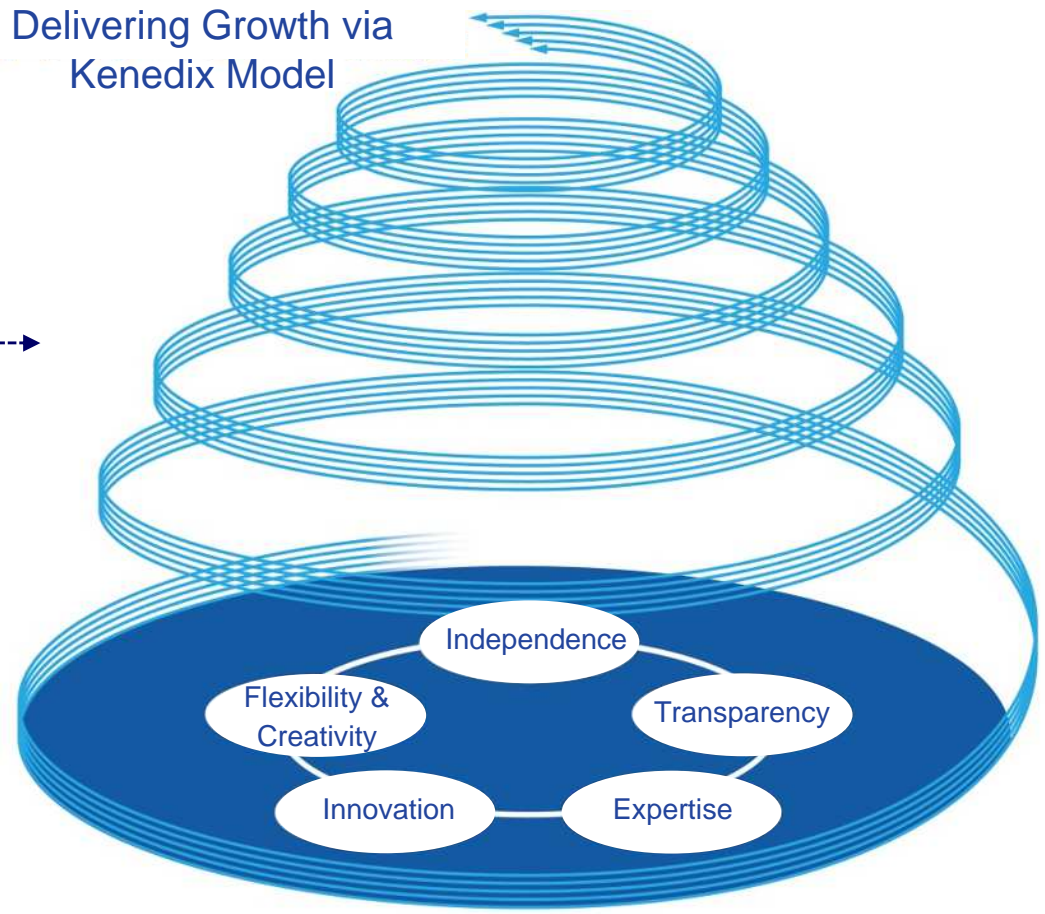
## ■ Long-term Vision

**Kenedix Vision 2025:  
Delivering Growth via the Kenedix Model**  
Goals for 2025 are AUM of ¥4 trillion, Kenedix Group market cap of ¥2 trillion and an ROE of 15%

·The Kenedix Group market cap includes the market value of REITs where Kenedix serves as the main sponsor.



Delivering Growth via  
Kenedix Model



# The Kenedix Model



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## What is the Kenedix model?

Kenedix does not own real estate directly.  
Properties are held by funds that are established and managed by the Kenedix Group.

### ■ Asset Management Business :

Kenedix constantly provides client investors with high-grade investment opportunities and does not own real estate itself. Kenedix creates funds that match the needs of each client. For example, there are funds for midsize office buildings, rental residential property, retail facilities for daily needs, healthcare facilities and other types of properties. By managing these assets in a manner ideally suited to each property category, Kenedix performs asset management with a high level of transparency.

### ■ Real Estate Related Business :

Kenedix manages and operates real estate with the goal of increasing the value of funds managed by Kenedix Group companies. Kenedix is constantly upgrading property management and other skills for real estate owned by Kenedix Group REITs. Kenedix is a source of highly specialized services that benefit from economies of scale. Another goal is gaining more know-how involving the management of serviced offices and other operational assets.

### ■ Real Estate Investment Business :

Kenedix co-invests with client investors in funds managed by Kenedix Group companies. With these investors Kenedix constantly works hard to realize the highest possible returns for these funds.

## Appendix

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# Major Initiatives of New Medium-term Management Plan



## Partners in Growth 2017

### **(1) Increase stable earnings mainly through growth of the Asset Management Business**

- Use asset management expertise to expand AUM in many categories
- Add new categories of AUM, such as health care and infrastructure
- Offer more non-asset real estate services and provide services that raise the value of AUM
- Expand overseas operations by forming ties with new investors, making more overseas investments and other activities
- Further strengthen administrative operations, the foundation for improving asset management skills and the quality of services

### **(2) Expand the Real Estate Investment Business primarily by using co-investments**

- Make co-investments with client investors
- Make investments that contribute to the growth of Kenedix businesses (with emphasis on investments in retail and healthcare facilities)
- Upgrade monitoring and risk management for the investment portfolio
- Proactively allocate funds anticipating market changes in advance

### **(3) Achieve the proper balance between financial soundness and shareholder distributions**

- Hold non-consolidated debt to a suitable level for financial soundness
  - Maintain the proper balance between real estate investments and shareholders' equity
  - Pay a dividend every year based on Base Earnings
  - Increase retained earnings in preparation for flexible shareholder distribution
- ◀ (1) Asset Management Business } Stable earnings (Base Earnings)  
◀ (2) Real Estate Related Business }  
◀ (3) Real Estate Investment Business — Earnings highly vulnerable to changes in the operating environment

# REIT Growth (2014 to early 2015)

<b>Kenedix Office Investment Corporation</b>	<ul style="list-style-type: none"> <li>■ Proceeds from stock offerings in May and November 2014: about ¥38.1 billion</li> <li>■ Total assets: increased to ¥378.8 billion (at the end of December 2014)</li> </ul>
<b>Kenedix Residential Investment Corporation</b>	<ul style="list-style-type: none"> <li>■ Proceeds from stock offerings in July 2014 and January 2015: about ¥30.5 billion</li> <li>■ Total assets: increased to ¥145.7 billion (at the end of January 2015)</li> </ul>
<b>Kenedix Private Investment Corporation (Private REIT)</b>	<ul style="list-style-type: none"> <li>■ Proceeds from stock offerings in March 2014 and January 2015: ¥27.0 billion</li> <li>■ Total assets: increased to ¥48.9 billion (at the end of January 2015)</li> <li>■ Client investors: Major financial institutions 13%, regional financial institutions 56%, pension funds 7%, and business corporations 24%.</li> </ul>
<b>Kenedix Retail REIT Corporation</b>	<ul style="list-style-type: none"> <li>■ IPO in February 2015 with assets of ¥80.8 billion (proceeds from IPO: about ¥56.4 billion)</li> <li>■ <u>Kenedix, Sumitomo Mitsui Finance and Leasing Company, Nippon Commercial Development and P&amp;D Consulting</u> signed a basic agreement concerning the REIT business.</li> </ul>
<b>Healthcare REIT</b>	<ul style="list-style-type: none"> <li>■ Japan Senior Living Partners Co., Ltd. was established to function as a REIT asset management company in preparation for the establishment of a listed healthcare REIT.</li> <li>■ Capital contribution ratios are <u>60% from Kenedix, 20% from Haseko, and 5% each from Mitsubishi UFJ Trust and Banking, the LIXIL Group, Sompo Japan and Shinsei Bank.</u></li> <li>■ Goal is an IPO in the first half of 2015</li> </ul>
<b>Japan Logistics Fund, Inc.</b>	<ul style="list-style-type: none"> <li>■ Purchased two properties from Kenedix in 2014 (closing of sales contracts)</li> <li>■ Total assets: about ¥194.9 billion (at the end of December 2014)</li> </ul>
<b>Premier Investment Corporation</b>	<ul style="list-style-type: none"> <li>■ Fund procurement by public offering in January 2015: about ¥26.3 billion</li> <li>■ Total assets: increased to ¥235.8 billion (at the end of January 2015)</li> </ul>



# Fee Structure

- Fee income from asset management is a medium- to long-term source of stable earnings
- A source of earnings from establishing funds and selling properties

Fee Structure	Fees
<b>Asset management</b> (Remuneration for managing assets)	Fixed percentage of <u>purchase cost of each fund's portfolio assets</u> for each period → Asset management fee
<b>Acquisition of properties</b> (Remuneration for providing investment opportunities)	Fixed percentage of <u>the purchase cost of portfolio assets</u> when a property is acquired → Acquisition fee
<b>Sales of properties</b> (Remuneration for selling properties)	Fixed percentage of <u>the proceeds</u> when a portfolio asset is sold → Disposition fee
<b>Incentive fee</b>	Fixed percentage of <u>earnings above the target</u> when a portfolio asset is sold → Incentive fee
<b>Other fees</b>	Brokerage fee, consulting fee, etc.

# New Investments in 2014

<u>Main Investment Categories</u>	<u>Concept</u>	<u>Expected Return</u>	<u>2014 Investments (cumulative)</u>
<b><u>Real estate investments</u></b>	<ul style="list-style-type: none"> <li>❑ Real estate opportunistic investments</li> <li>❑ Investment in real estate development projects</li> <li>❑ Bridge funds for REITs</li> <li>❑ Real estate non-recourse loans, bonds, CMBS, etc.</li> </ul>	Average of about 10%	About ¥32.9 billion*1
<b><u>REIT/Fund investments and others</u></b>	<ul style="list-style-type: none"> <li>❑ Investment in REIT investment units</li> <li>❑ Investment in debt funds, etc.</li> </ul>	Average of about 5%	About ¥10.7 billion
<b><u>Business investments</u></b>	<ul style="list-style-type: none"> <li>❑ Strategic investments to property-related service business</li> <li>❑ Investments to strengthen, expand or capture synergies for Kenedix businesses</li> </ul>		



**New investments in 2014 (cumulative)**  
**About ¥43.6 billion\*1**

\*1: The limit for new investments in 2014: ¥52.0 billion (cumulative)

# Major Real Estate Investments 1/3

## Real Estate Investments (January 2012 – December 2013)

Date	Property Category	Investment Category	Location	Asset Size <sup>*1</sup>	KDX Investment	KDX Share	Fund Exit	Expected IRR	Expected Multiple
(1) Jul. 2012-	Logistics Facility	Development Project	Saitama	Small-scale	Approx. ¥0.16bn		5% Done	<b>25%</b>	<b>x1.21</b>
(2) Dec. 2012	Office (Shinsei Bank's Former Headquarters Building)	Development Project	Minato-ku, Tokyo	Large-scale	(Not disclosed)	(Not disclosed)	-	6%	x1.75
(3) Dec. 2012-	Hotel, etc.	Development Project (additional investment)	Minato-ku, Tokyo	Medium-scale	Approx. ¥3.96bn	100%	-	(Redevelop)	(Redevelop)
(4) Mar. 2013	Logistics Facility	Bridge Fund	Yokohama, Kanagawa	Medium-scale	Approx. ¥0.2bn	Approx. 4%	Done	<b>29%</b>	<b>x1.14</b>
(5) Mar. 2013	Office	Opportunistic	Sendai, Miyagi	Medium-scale	Approx. ¥0.2bn	Approx. 7%	-	25%	x1.75
(6) Mar. 2013	Office	CMBS	Tokyo	Large-scale	Approx. ¥0.04bn		- Done	<b>2,130%</b>	<b>x1.81</b>
(7) Apr. 2013-	Logistics Facility	Development Project	Sagamihara, Kanagawa	Medium-scale	Approx. ¥0.32bn		5% -	14%	x1.19
(8) Apr. 2013	Office	Opportunistic	Minato-ku, Tokyo	Large-scale	Approx. ¥0.56bn	Approx. 6%	-	15%	x1.98
(9) May 2013	Office	Bridge Fund	Minato-ku, Tokyo	Small-scale	Approx. ¥0.21bn	Approx. 52%	Done	<b>15%</b>	<b>x1.10</b>
(10) May 2013	Office	CMBS	Tokyo	Large-scale	Approx. ¥0.18bn		- Done	<b>66%</b>	<b>x1.46</b>
(11) Jul. 2013	Residential (4 properties)	Bridge Fund	Tokyo	Large-scale	Approx. ¥1.12bn <sup>*2</sup>	Approx. 74% <sup>*2</sup>	Done	<b>13%</b> <sup>*3</sup>	<b>x1.10</b> <sup>*3</sup>
(12) Jul. 2013	Office	Opportunistic	Kawasaki, Kanagawa	Medium-scale	Approx. ¥1.19bn <sup>*2</sup>	100% <sup>*2</sup>	Done	<b>758%</b>	<b>x2.99</b>
(13) Sep. 2013	Residential (3 properties)	Opportunistic	Chiba, Osaka	Small-scale	Approx. ¥0.06bn		5% -	17%	x1.32
(14) Sep. 2013-	Logistics Facility	Development Project	Koto-ku, Tokyo	Large-scale	Approx. ¥0.3bn		3% -	7%	x1.20
(15) Nov. 2013	Retail Facility	Mezzanine Loan	Tokyo	Small-scale	Approx. ¥0.3bn		- -	8%	x1.40

\*1: Asset size is based on acquisition cost; development cost for development projects. Small-scale: under ¥5bn Medium-scale: ¥5bn-¥10bn Large-scale: over ¥10bn

\*2: Kenedix investment and share before the partial sale of interests. For (11) and (12), sold ¥0.5bn each.

\*3: Actual figures as of the end of January 2015 including final distributions

# Major Real Estate Investments 2/3

## Real Estate Investments (January-June 2014)

Date	Property Category	Investment Category	Location	Asset Size <sup>*1</sup>	KDX Investment	KDX Share	Fund Exit	Expected IRR	Expected Multiple
(1) Feb. 2014	Office, Land, etc.	Opportunistic	Tokyo, etc.	Small-scale	Approx. ¥1.66bn	80%	Done	<b>25%</b>	<b>x1.19</b>
(2) Feb. 2014	Residential (many) Office	Bonds Loans	Nationwide Osaka	Large-scale Large-scale	Approx. ¥0.3bn Approx. ¥0.01bn	Approx. 99% Approx. 99%	Done	<b>467%</b> <b>392%</b>	<b>x3.22</b> <b>x1.81</b>
(3) Feb. and Mar. 2014	Residential (4 properties)	Bridge Fund	Tokyo, Kanagawa, Fukuoka, Shiga	Medium-scale	Approx. ¥1.5bn <sup>*2</sup>	Approx. 72%	Done	13%	x1.07
(4) Mar. 2014	Office	Opportunistic	Shibuya-ku, Tokyo	Small-scale	Approx. ¥0.64bn	35%	-	14%	x1.31
(5) Mar. 2014	Office (65% of trust beneficial interests) <sup>*3</sup>	Bridge Fund	Koto-ku, Tokyo	Large-scale	Approx. ¥6.62bn <sup>*4</sup>	100%	-	8%	x1.21
(6) Mar. 2014	Office (50% of trust beneficial interests)	Bridge Fund	Minato-ku, Tokyo	Large-scale	Approx. ¥2.77bn <sup>*5</sup>	100%	-	9%	x1.29
(7) Mar. 2014	Retail Facility	Bridge Fund	Shibuya-ku, Tokyo	Medium-scale	Approx. ¥1.2bn	100%	-	9%	x1.24
(8) Mar. 2014	Retail Facility	Bridge Fund	Chiba	Medium-scale	Approx. ¥1.35bn	100%	-	16%	x1.43
(9) Mar. 2014	Office (5 properties)	Mezzanine Loan	Tokyo, Kanagawa	Large-scale	Approx. ¥0.75bn	-	-	10%	x1.08
(10) Mar. 2014	Office (59% of trust beneficial interests)	Opportunistic	Shinjuku-ku, Tokyo	Large-scale	Approx. ¥1.14bn	Approx. 28%	-	13%	x1.70
(11) Mar. 2014	Residential (2 properties)	Opportunistic	Tokyo, Saitama	Small-scale	Approx. ¥0.48bn	100%	-	11%	x1.12

\*1: Asset size is based on acquisition cost; development cost for development projects. Small-scale: under ¥5bn Medium-scale: ¥5bn-¥10bn Large-scale: over ¥10bn

\*2: Kenedix investment and share are before the redemption or sale of part (¥0.9bn) of the Kenedix interest due to the participation of another investor.

\*3: Sold 25% of the 65% interest held by Kenedix to Kenedix Office Investment Corporation (KDO) in May 2014. After the sale, the share of investment was as follows: Kenedix subsidiary 40%, KDO 25%, KPI 35%.

\*4: After the sales of 25% interest in investment, the balance of Kenedix investment was about ¥5.5bn.

\*5: Acquired loans in January 2014; Thereafter the loans were recovered in full along with the transfer of the property to a fund, transfer to a fund investment account already completed.

Note: In addition to the above, additional investments etc. have been made in currently owned properties and development projects.

# Major Real Estate Investments 3/3

## Real Estate Investments (July-December 2014)

Date	Property Category	Investment Category	Location	Asset Size <sup>*1</sup>	KDX Investment	KDX Share	Fund Exit	Expected IRR	Expected Multiple
(1) Jul. 2014	Residential (3 properties)	Bridge Fund	Tokyo	Medium-scale	Approx. ¥0.26bn <sup>*2</sup>	Approx. 19% <sup>*2</sup>	-	8%	x1.13
(2) Jul. 2014	Office	Opportunistic	Kanagawa	Small-scale	Approx. ¥0.23bn	Approx. 22%	-	Over 30%	x1.23
(3) Jul. 2014	Retail Facility	Bridge Fund	Shiga	Small-scale	Approx. ¥0.06bn	10%	-	Over 30%	x1.25
(4) Aug. 2014	Office	Bridge Fund	Aichi	Small-scale	Approx. ¥1.40bn	100%	-	Over 30%	x1.30
(5) Aug. 2014	Retail Facility	Bridge Fund	Hyogo	Medium-scale	Approx. ¥1.47bn	100%	-	Over 30%	x1.18
(6) Sep. 2014	Hotel (50% of trust beneficial interests)	Bridge Fund	Chiba	Large-scale	Approx. ¥2.5bn	100%	-	11%	x1.07
(7) Sep. 2014	Retail Facility	Bridge Fund	Chiba	Large-scale	Approx. ¥1.94bn	50%	-	Over 30%	x1.15
(8) Sep. 2014	Healthcare	Bridge Fund	Nakano-ku, Tokyo	Small-scale	Approx. ¥0.37bn	Approx. 71%	-	10%	x1.08
(9) Oct. 2014	Healthcare	Bridge Fund	Hyogo	Small-scale	Approx. ¥0.27bn	100%	-	11%	x1.08
(10) Oct. 2014	Retail Facility (8 properties)	Loans, etc.	Nationwide	Large-scale	Approx. ¥0.21bn	Approx. 59%	-	Over 30%	x2.13
(11) Oct. 2014	Residential	Opportunistic	Setagaya-ku, Tokyo	Small-scale	Approx. ¥0.98bn	100%	-	8%	x1.08
(12) Dec. 2014	Land, etc.	Opportunistic	Chuo-ku, Koto-ku, Tokyo	Small-scale	Approx. ¥0.82bn	100%	-	13%	x1.06
(13) Dec. 2014	Healthcare	Bridge Fund	Tama, Tokyo	Small-scale	Approx. ¥0.54bn	100%	-	11%	x1.06

\*1: Asset size is based on acquisition cost; development cost for development projects. Small-scale: under ¥5bn Medium-scale: ¥5bn-¥10bn Large-scale: over ¥10bn

\*2: Kenedix investment and share are before the redemption of part (¥0.25bn) of the Kenedix interest due to the participation of another investor.

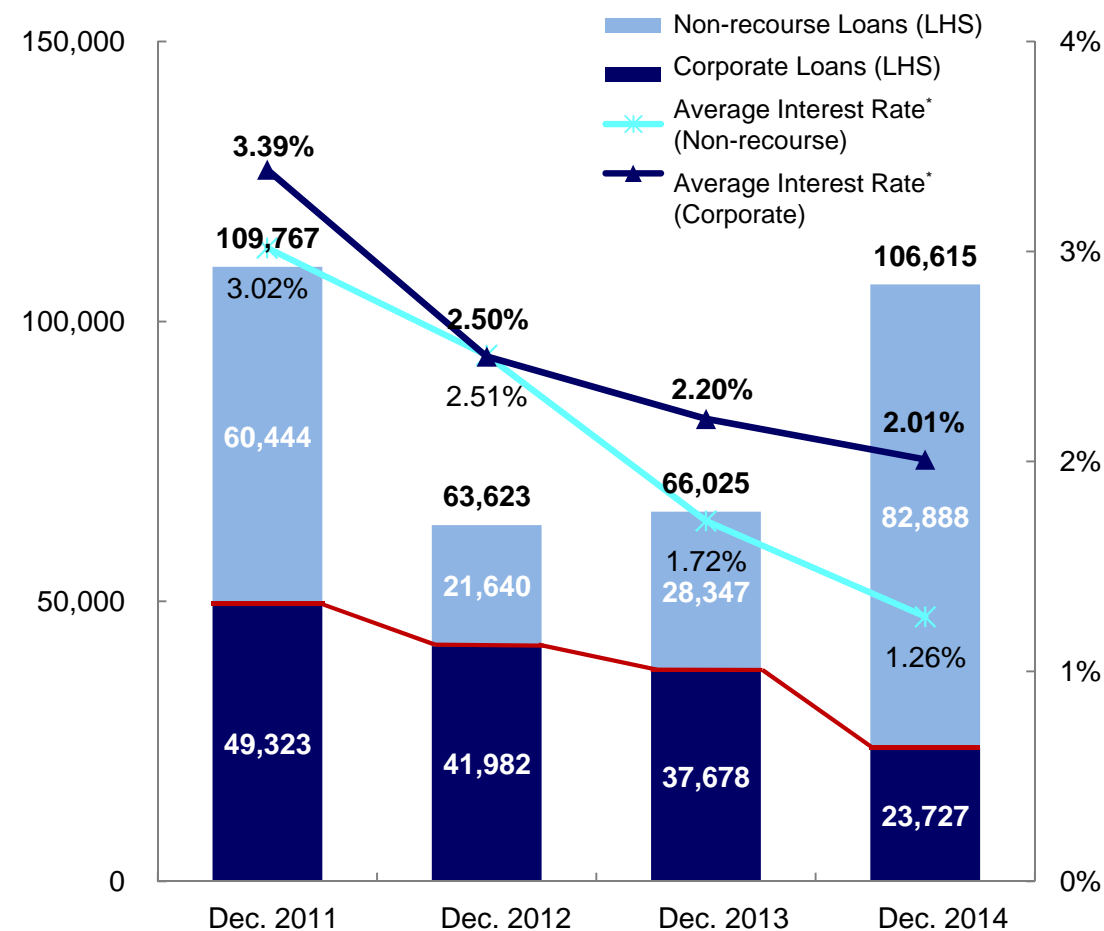
# Summary of Consolidated Balance Sheet (End 2014) **KENEDIX**

(Millions of Yen, unless otherwise stated)	End-Dec 2012	End-Dec 2013	End-Dec 2014
<b>Total Assets</b>	<b>126,270</b>	<b>148,398</b>	<b>203,268</b>
<b>Net Assets</b> (of which Minority Interests)	<b>56,071</b> <b>(5,247)</b>	<b>74,341</b> <b>(3,028)</b>	<b>85,351</b> <b>(8,035)</b>
<b>Equity Ratio*</b>	<b>40.2%</b>	<b>48.0%</b>	<b>38.0%</b>
<b>Interest-bearing Debt</b> (of which Non-recourse Loans)	<b>63,623</b> <b>(21,640)</b>	<b>66,025</b> <b>(28,347)</b>	<b>106,615</b> <b>(82,888)</b>
<b>Cash and Deposits</b>	<b>13,813</b>	<b>25,795</b>	<b>28,546</b>
<b>Debt Equity Ratio</b>	<b>1.25x</b>	<b>0.93x</b>	<b>1.38x</b>

\* "Equity Ratio" = ("Net Assets" – "Minority Interests") / "Total Assets"

## Loan Balance and Average Interest Rate

(Millions of Yen)



\* Average interest rate is the principal-weighted average for loans remaining at the end of each period.

# Summary of Consolidated Real Estate

## Inventories (Millions of Yen)

Asset Balance (Total Book Value)	Office	Residential				Others	Total
End-Dec 2012	-	-				9,953	9,953
<b>End-Dec 2014</b> (Consolidated assets at End-Dec 2012)	<b>5,174</b> (-)	<b>6,939</b> (-)				- (-)	<b>12,114</b> (-)

Sold to KDO  
on Jan. 9, 2015

Sold to KDR  
on Feb. 5, 2015

## Fixed Assets (Millions of Yen)

Asset Balance (Total Book Value)	Office	Residential	Retail Facility	Senior Healthcare	Redevelopment Project	Others	Total
End-Dec 2012	37,132	10,605	19,308	3,827	9,435	451	80,760
<b>End-Dec 2014</b> (Consolidated assets at End-Dec 2012)	<b>41,147</b> (5,006)	<b>8,610</b> (2,579)	<b>32,098</b> (12,519)	<b>4,833</b> (1,144)	<b>12,684*</b> (12,684)	<b>22,210</b> (-)	<b>121,585</b> (33,933)

Toyosu Grandsquare (40%), etc.

Three properties  
were sold

MONA Shinurayasu,  
Daikanyama Address,  
Blumer Maitamon,  
Roseo Mito, etc.

These four properties  
(¥29,109mn) are sold to  
KRR on Feb. 10, 2015

\* Includes land leasehold  
and constructions in  
progress

Tokyo Bay Maihama Hotel Club Resort  
(50%), etc.  
A 25% interest of this property was sold.

Reference: Total latent gains/losses on consolidated real estate

End-Dec 2012: -¥6.4 billion  
End-Dec 2013: -¥1.9 billion  
End-Dec 2014: +¥3.2 billion  
(of which latent gains: approx. ¥6.1 billion,  
latent losses: approx. ¥2.8 billion)

# Kenedix Non-consolidated Balance Sheet

PARTNERS IN GROWTH  
KENEDIX

## Reference: KDX Non-consolidated Balance Sheet (End-Dec 2014)

Total Assets: ¥102.8 billion

**Current Assets: ¥20.4bn**  
(Cash and deposits: ¥15.5bn)

**Fixed Assets: ¥82.4bn**  
(Investment securities: ¥79.3bn)

**Current Liabilities: ¥12.5bn**  
(Short-term borrowings: ¥4.6bn)  
(Long-term borrowings-due within one year:  
¥6.4bn)

**Long-term Liabilities:  
¥12.1bn**  
(Long-term borrowings: ¥11.4bn)

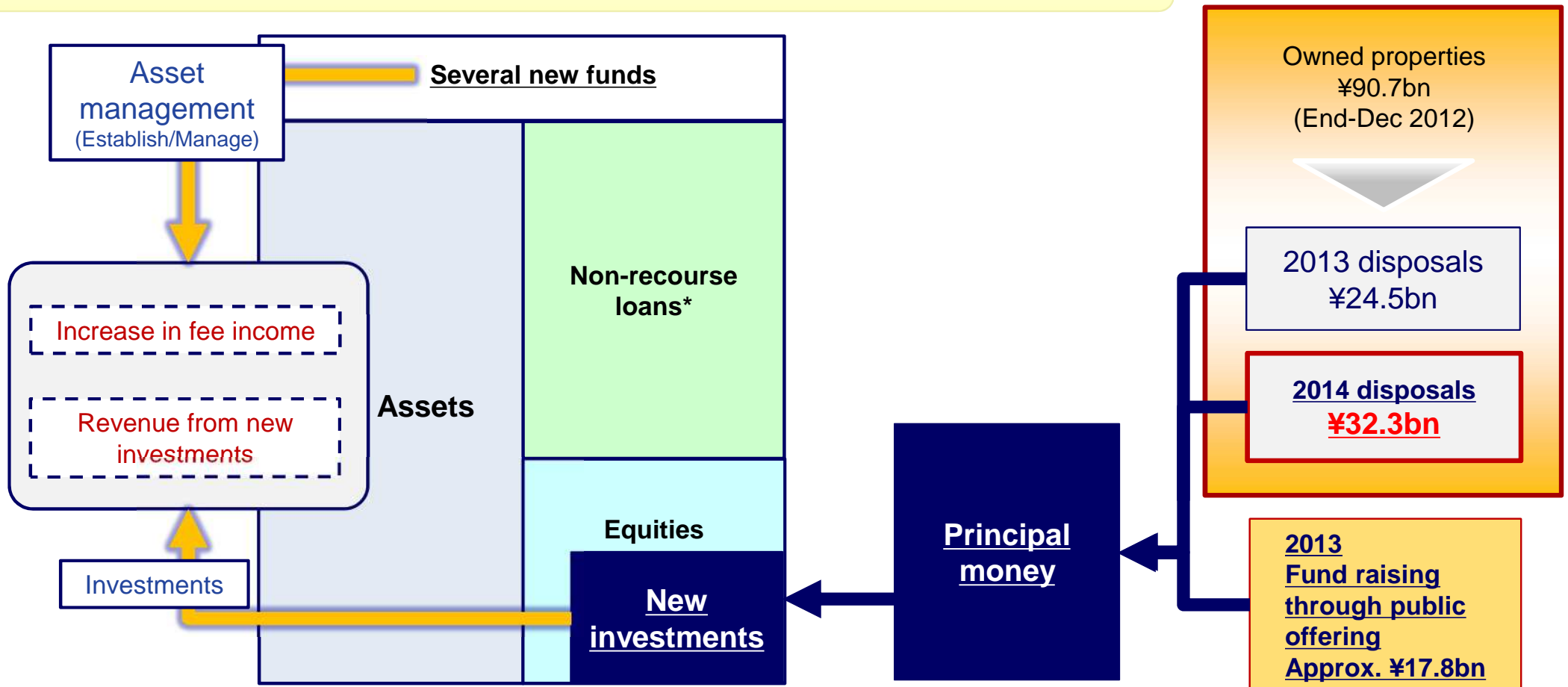
**Net Assets: ¥78.2bn**  
(Shareholders' equity: ¥77.1bn)

- Equity is almost 80% of total assets
- The non-consolidated equity ratio is approx. 75.9%
- A simple and sound balance sheet



# Activities in 2013 and 2014

- Increased the pace of the reshuffling of owned properties
- Used proceeds from property sales and stock offerings to make new investments



\*Note: Non-recourse loan This loan is a financing method that restricts sources of funds available for repayments. Usually, cash flows from the asset being financed are used for repayments and there is no obligation to make repayments that exceed these cash flows.

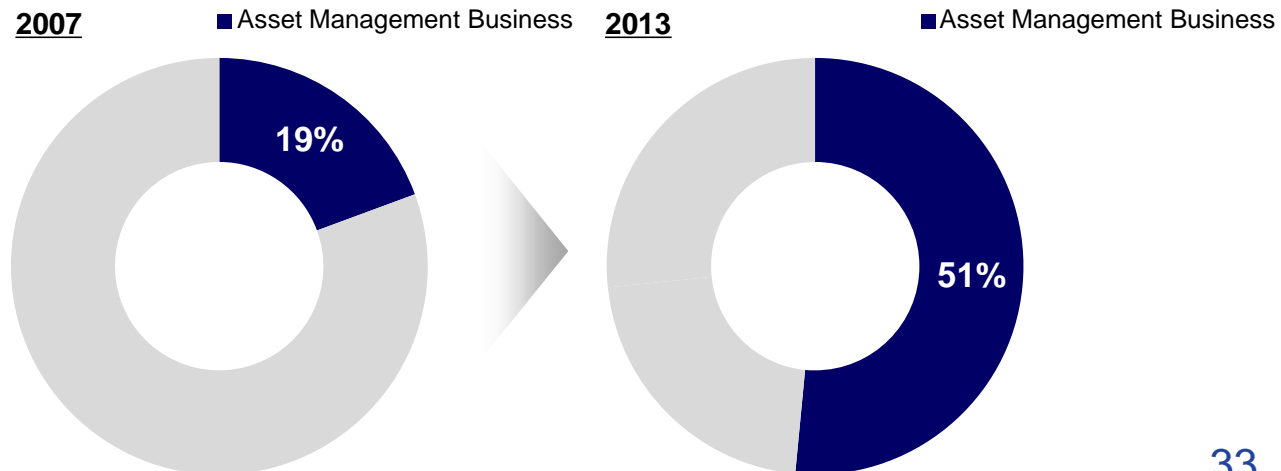
# Reference: Comparison to Past Business Activities



<u>Item</u>	<u>2007</u>	<u>2013</u>
Real estate investment environment	<ul style="list-style-type: none"> <li>Increasingly heated competition with many companies to acquire properties</li> </ul>	<ul style="list-style-type: none"> <li>A reasonable competitive environment for purchasing properties due to the elimination of many competitors after the start of the global financial crisis</li> </ul>
Kenedix investment schemes	<ul style="list-style-type: none"> <li>100% ownership by Kenedix</li> <li>Properties developed by Kenedix alone</li> </ul>	<ul style="list-style-type: none"> <li>Mainly co-investments with other investors</li> </ul>
Kenedix's composition of loans	<ul style="list-style-type: none"> <li>Funds procured mainly by using corporate loans</li> </ul>	<ul style="list-style-type: none"> <li>Funds procured mainly by using non-recourse loans</li> </ul>

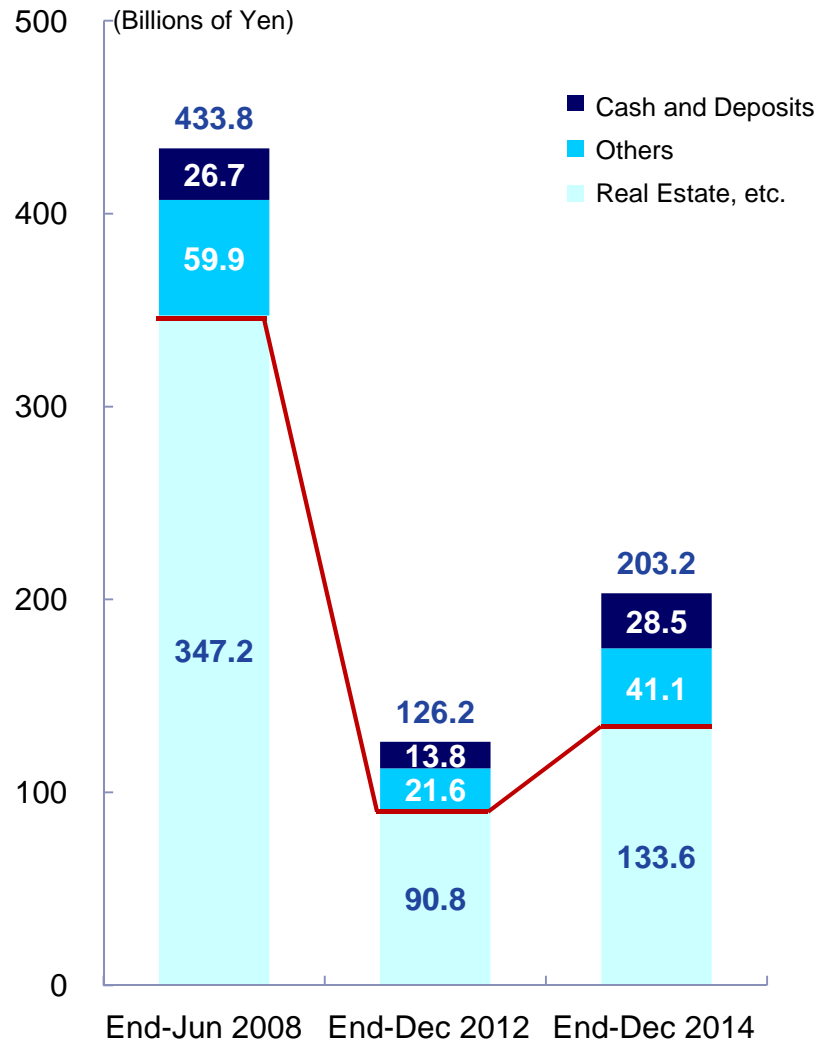
## Change in Gross Operating Income

- In 2007, capital gains from sales of properties were the primary source of earnings
- In 2013, half of earnings came from the asset management business, which is a consistent source of earnings

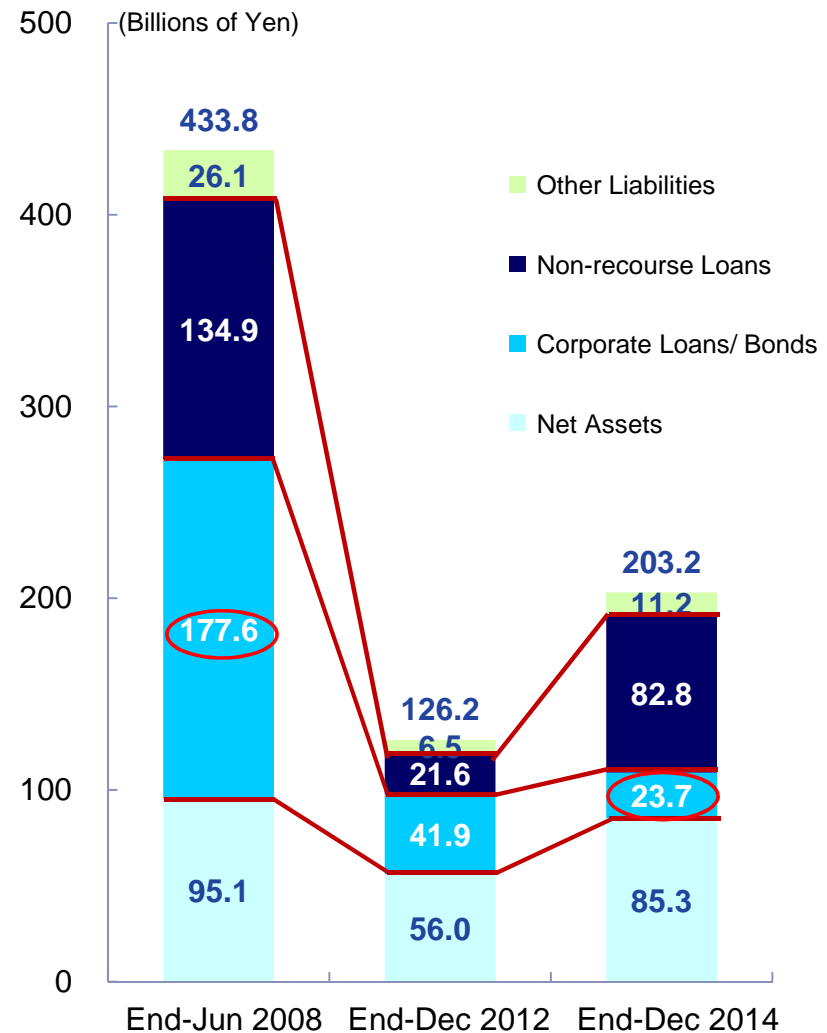


# Reference: Comparison to Past Balance Sheet Items

## KDX Assets



## KDX Liabilities and Net Assets



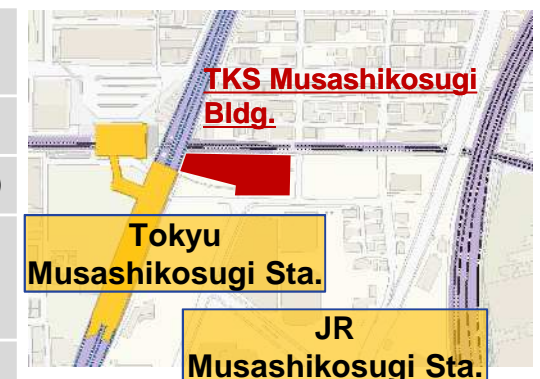
# Case 1: TKS Musashikosugi Building

- Purchased this low-occupancy building in July 2013 (¥8.8 billion)
- By focusing on leasing activities, **occupancy rate rose from 17% to 86%**
- Sold to J-REIT in March 2014 (¥12 billion)

- Contributed to the growth of a J-REIT (Kenedix Office Investment Corporation)
- Providing asset management services for this building gives Kenedix a medium- to long-term source of stable asset management fees from this J-REIT



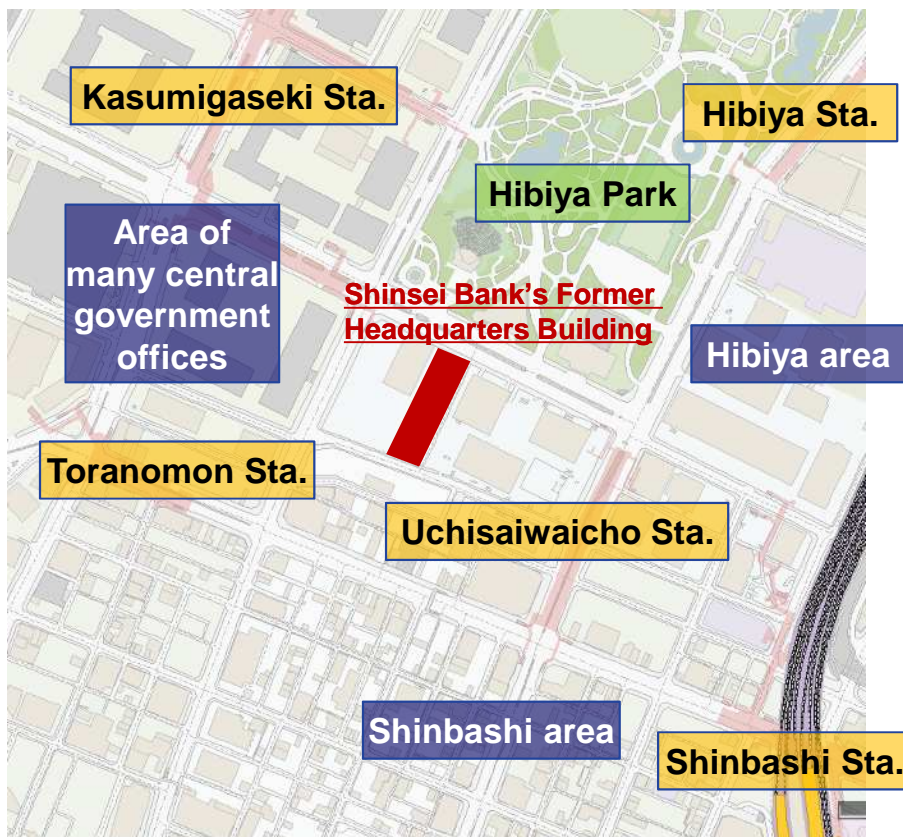
Address	Nakahara-ku, Kawasaki-shi, Kanagawa
Completion	May 2013
Usage	Offices (partially retail spaces)
Structure and scale	Steel frame structure; one underground floor and eleven above-ground floors
Site area	3,210.09m <sup>2</sup>
Floor area	16,094.14m <sup>2</sup>



# Case 2: Redevelopment Project of Shinsei Bank's Former Headquarters Building in Uchisaiwaicho



- This property was purchased through a SPC in December 2012 as a joint project of Kenedix, Tokyu Land Corporation and Development Bank of Japan Inc.
- The property occupies one of the few sites adjacent to Hibiya Park and is also near the Kasumigaseki area
- Aim to help revitalize this district of central Tokyo as well as increase the value of the property through rebuilding



## Profile of Redevelopment (including plans)

Address	Uchisaiwaicho, Chiyoda-ku, Tokyo
Usage (planned)	Offices (partially retail spaces)
Structure and scale (planned)	S/SRC structure with two underground floors and twenty above-ground floors
Site area	5,998.50m <sup>2</sup>
Floor area (planned)	Approx. 57,500m <sup>2</sup>
Completion (planned)	2017



(Photos as of February 2015)

# Expand Property-related Services



## For reinforcement of Space Design operations



- Seek expansion of serviced office (SO) business in greater Tokyo (especially in business district centering on those along the Ginza Line)
- Provide effective services to startup companies and utilize synergies with KDX

## Establishment of Kenedix Property Management (KPM)



- Addition of KPM's property management and building management businesses to our asset management business enables provision of high quality services to tenants
- Enhances tenant satisfaction and improves occupancy rates, thereby boosting profitability
- Increases value of assets held and managed

## Kenedix Group Business Portfolio

	Asset management	Office building management	Brokerage	Leasing brokerage	Operator
Private Fund (advisory)	KDX	KPM			SD
Private Fund (discretionary)	KFM				
KDO					
KPI					
KDR					
KRR					
JLF	MLP				
Senior Healthcare REIT	JSLP				

**Expanding businesses involving property-related services**

# New Vectors for Growth

PARTNERS IN GROWTH  
KENEDIX

## ■ Cooperation with NTT Urban Development Corporation (November 2014)

- (1) Joint activities for fund operations (including REITs)
- (2) Joint participation in real estate development projects
- (3) Creating and enlarging business opportunities by sharing information
- (4) Other joint activities for businesses and operations that will yield benefits for the two companies or their subsidiaries and affiliates

- As part of this cooperation, Kenedix purchased a 30% equity interest in Premier REIT Advisors Co., Ltd. (PRA), an asset management company of Premier Investment Corporation.



## ■ Establishment of the Business Development Department (October 2014)

- This department was established for the purpose of starting new types of investment funds.
  - Targets opportunities for funds in the infrastructure, energy and other sectors that differ from current real estate investment funds
  - One goal is to attract more inbound investments from overseas investors

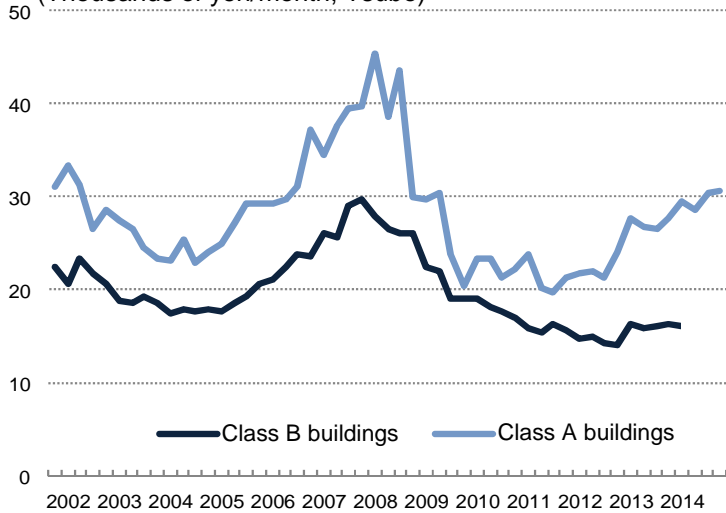
## ■ International business growth

- Started operation of Singapore Representative Office (January 2015)
- Established Aisa Hotel & Residence Pte. Ltd., an operating company for extended-stay hotels and residential properties in the ASEAN region (November 2014)

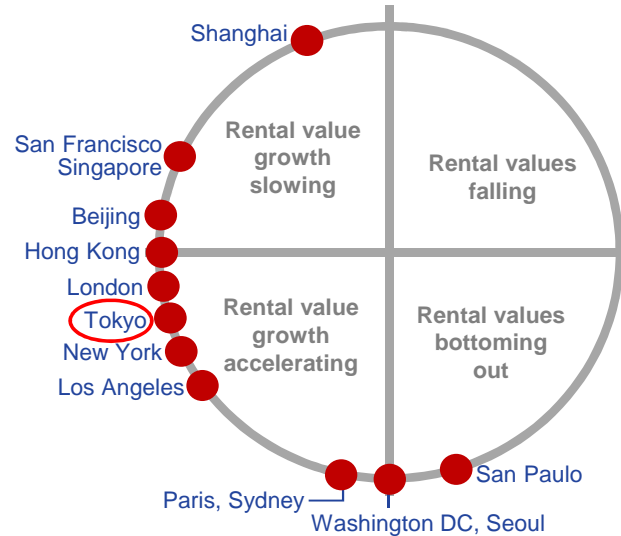
# The Office Building Market

## Average Leasing Rate (Tokyo)

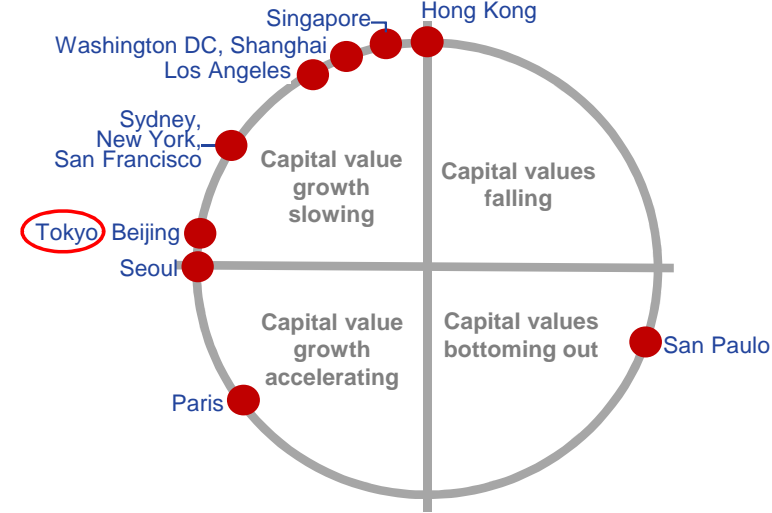
(Thousands of yen/month, Tsubo)



## Prime Offices –Rental Clock (2014 Q4)



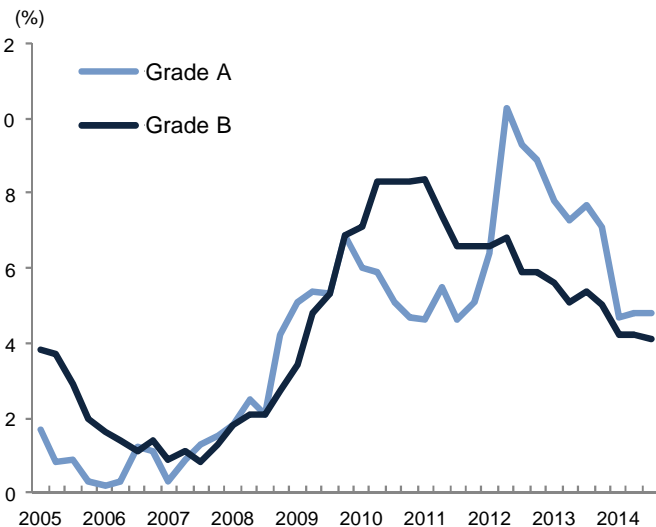
## Prime Offices –Capital Value Clock (2014 Q4)



Source: Prepared by Kenedix based on data of Sanko Estate Co., Ltd.

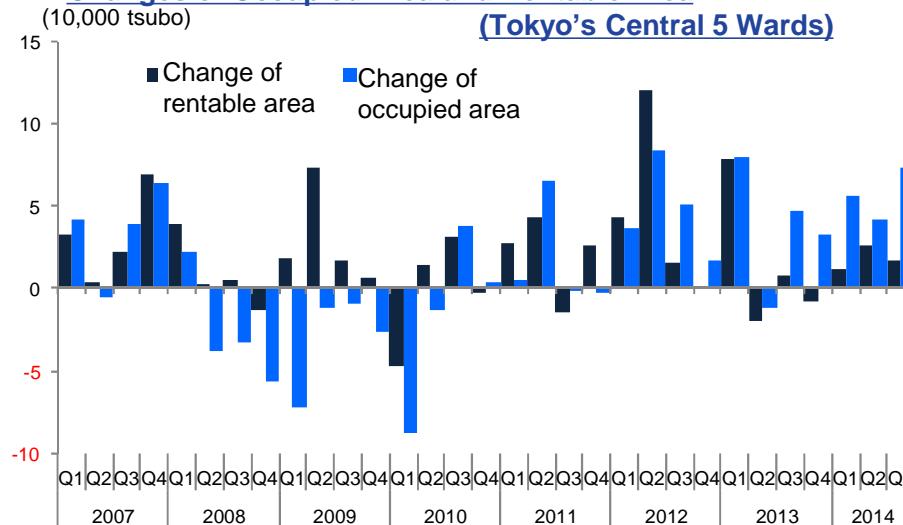
Note: Based on rents and notional capital values for Grade A office buildings Source: JLL

## Average Vacancy Rate (Tokyo 23 Wards)



Source: CBRE

## Changes of Occupied Area and Rentable Area (Tokyo's Central 5 Wards)



Source: Prepared by Kenedix based on data of Miki Shoji co., Ltd.

## The Office Building Stock as of January 2014

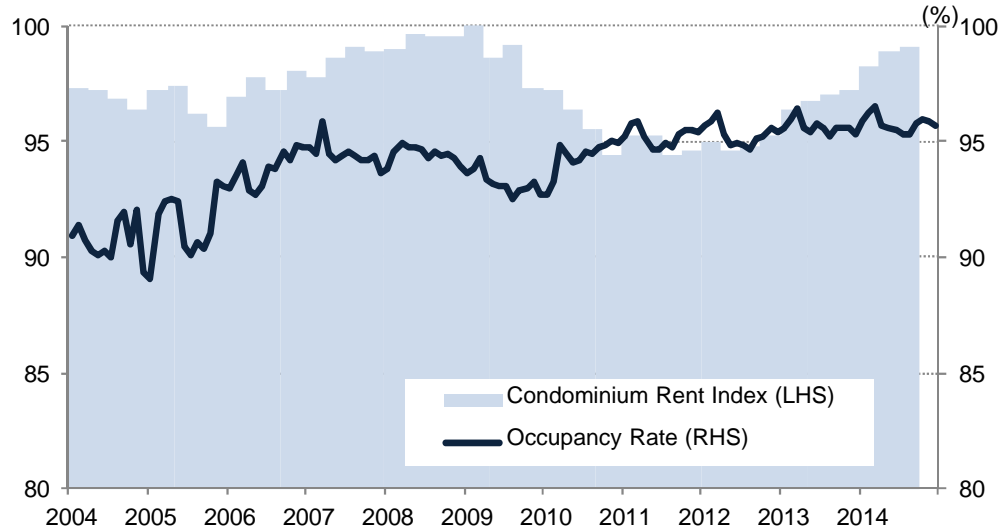
	Total office bldg. space (10,000 m <sup>2</sup> )	Pct. of space completed before 1981
Tokyo 23-ward	6,394	26%
Osaka	1,591	34%
Nagoya	587	33%
Fukuoka	357	42%

Note: Based on the floor area Source: Japan Real Estate Institute



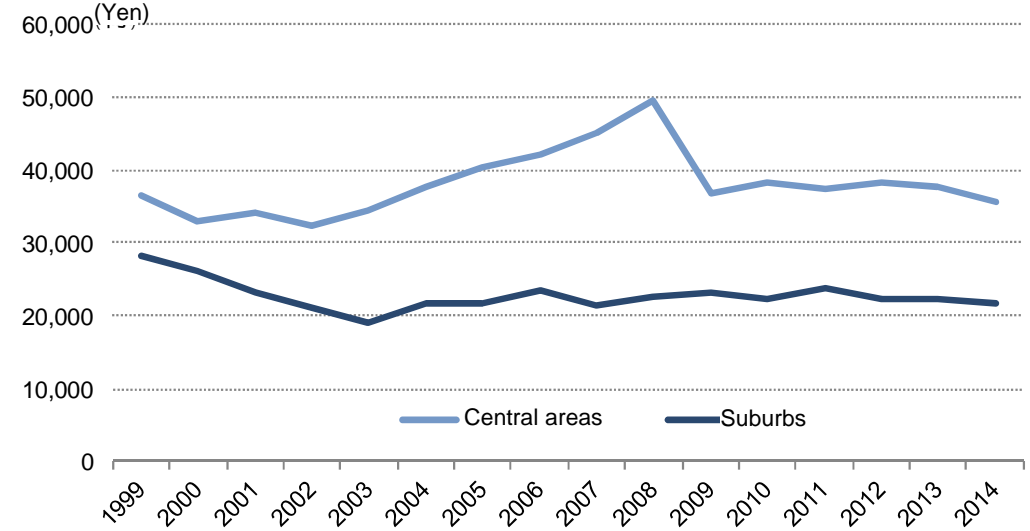
# The Residential, Logistics, Retail and Healthcare Markets **KENEDIX**

## Residential Property Occupancy Rates and Rents



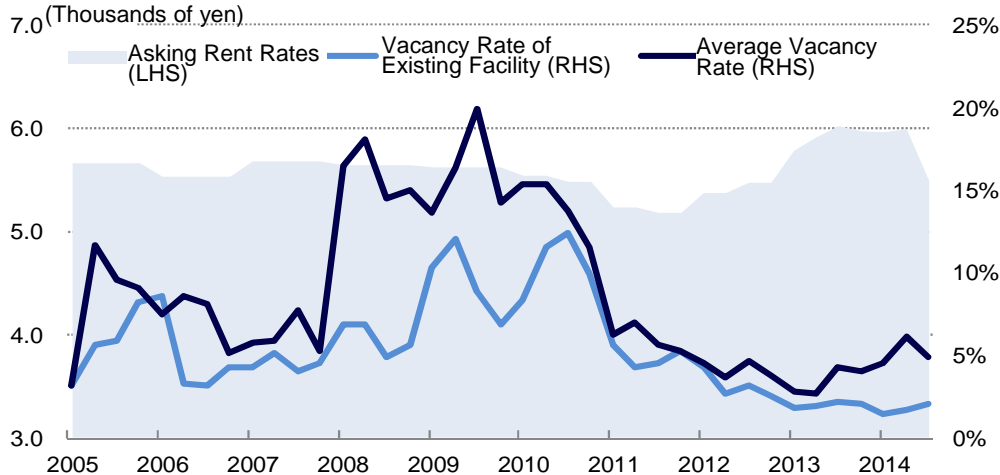
Note: The condominium rent index is for single-type condominiums (Chain-linked Index; 20091Q =100)  
 Source: Prepared by Kenedix based on public announcements by J-REITs and Condominium Rent Index (At Home Co., Ltd. and Sumitomo Mitsui Trust Research Institute Co., Ltd.)

## Shopping Center Goods Sales Rents (14 Major Cities)



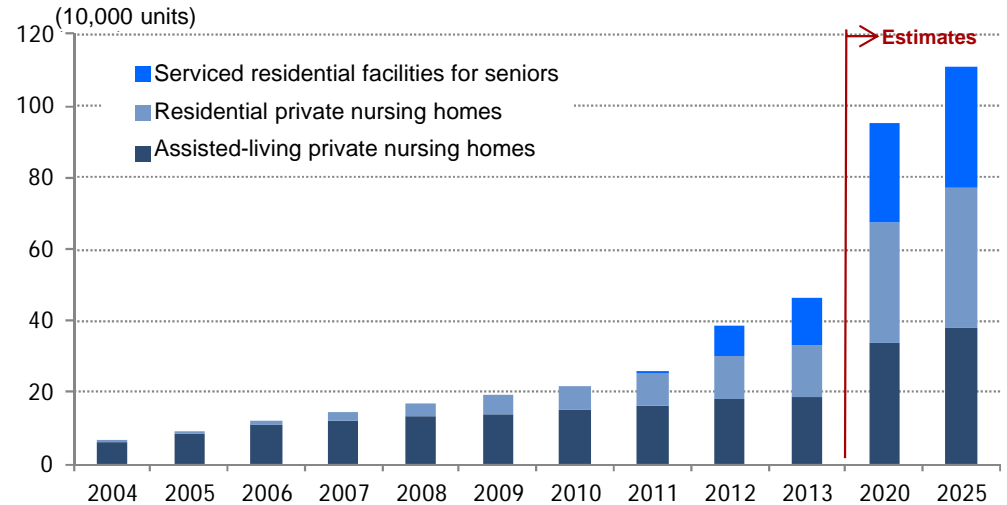
Source: Japan Council of Shopping Centers

## Vacancy Rate of Logistics Facilities and Average Asking Rent



Note: Vacancy rate is for large-scale multi-tenant logistics facilities in greater Tokyo and average asking rent is for medium- and large scale logistics facilities in Tokyo  
 Source: CBRE

## Number of Rooms in Senior Healthcare Facilities, and Future Estimates



Source: "Housing Facilities for Seniors, Nationwide Data" (Tamura Planning and Operating Co., Ltd.)

# (Addition) Unsecured Working Capital Financing



## Objectives

1. Strengthen fund procurement capacity for realizing Kenedix Vision 2025
2. Improve profitability by utilizing leverage appropriate for stable earnings
3. Reinforce financial position by stable access to funding not susceptible to real estate market fluctuations and sale of properties

## Description

In February-March 2015, Kenedix has borrowed funds to finance investments in REITs, etc. for further expansion of the Asset Management Business. Stable cash flow from this business, etc. shall be the source of funds for repayment.

	Present fund procurement	Prior fund procurement (for reference)	
Total amount procured	¥20 billion	¥11.7 billion	
Average repayment period	4.5 years (3,4,5,7 years)	1.7 years	Extension of repayment period and decentralization
Average interest rate	1.4% (fixed)	2.2% (variable)**	Locking in interest rate
Number of lenders	12*	4	Diversification
Collateral	Unsecured	Secured**	Transition to unsecured loans

\* Share in the ¥600 billion (approximate) borrowing (end-2014 AUM basis): 70%

\*\* Partially fixed interest rate loans and partially unsecured loans

# Stock Information (as of December 31, 2014)

PARTNERS IN GROWTH  
KENEDIX

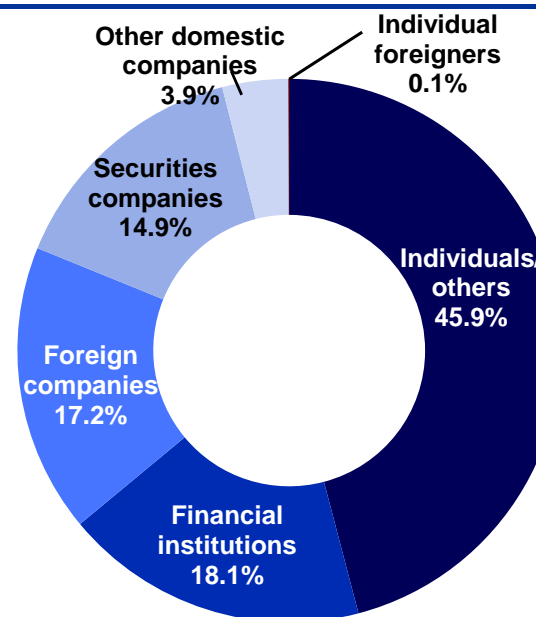
## ■ Shares Issued and Shareholders

Total number of authorized shares:	350,000,000
Total number of shares outstanding:	265,658,200
Number of shareholders:	52,625

## ■ Major Shareholders (Top 5)

Name of Shareholders	Shares held	Shareholding (%)
State Street Bank And Trust Company	11,670,654	4.39
Japan Trustee Services Bank, Ltd. (Trust Account)	10,164,600	3.82
Japan Securities Finance Co., Ltd.	7,468,100	2.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,371,400	2.77
SBI Securities Co., Ltd.	7,297,800	2.74

## ■ Distribution of Shares in Terms of Category of Holders



Number of shareholders	
Individuals/others	51,944
Financial institutions	32
Foreign companies	158
Securities companies	60
Other domestic companies	357
Individual foreigners	74
<b>Total</b>	<b>52,625</b>

Note: The category "Individuals/others" includes shares in the name of Japan Securities Depository Center, Inc.

## ■ Reference: Market Capitalization

	(Billions of Yen)
Kenedix, Inc.	147.1
Kenedix Office Investment Corporation	274.1
Kenedix Residential Investment Corporation	100.6
Japan Logistics Fund, Inc.	223.6
Premier Investment Corporation	129.0

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