



**SEKISUI HOUSE REIT, INC.**

4-15-1 Akasaka, Minato-ku, Tokyo

<http://sekisuihouse-reit.co.jp/en/>

## **Semi-Annual Report 7th Fiscal Period**

(from November 1, 2017 to April 30, 2018)



**SEKISUI HOUSE REIT, INC.**



# Creation of a highly stable “diversified REIT” and office buildings” as its core assets

Sekisui House Reit, Inc. merged with Sekisui House Residential Investment Corporation as of May 1, 2018. Asset size increased to 440.8 billion yen due to the merger, and SHR will aim for further growth by setting a medium-

## Corporate Philosophy of SHR

SHR shares a corporate philosophy with our sponsor, Sekisui House, and aims to “provide high-quality social capital” and “maximize unitholder value”

### 1 Creation of a highly stable “diversified REIT” having “residential properties and office buildings” planned and developed by Sekisui House as its core assets

- Sekisui House Residential Investment Corporation, which specializes in residential properties, and Sekisui House Reit, Inc., which focuses on fixed-rent type master lease agreements, merged and formed a **highly stable portfolio**.
- **Positioning residences and office buildings as the core assets of the portfolio**, SHR will also work to invest in hotels that are expected to achieve growth.
- **Setting prime properties** <sup>(Note)</sup> with the pillars of “strategic location” and “high quality” as **primary investment targets**, SHR will develop a high-quality portfolio.

### 2 Increase of varied growth opportunities by utilizing the integrated corporate strength of Sekisui House Group

- External growth potential will be enhanced by **increasing the asset size and expanding the usage type of investment target assets**.
- **Solid sponsor support will be utilized to maximum effects** from the perspectives of both growth and stability.
- At the same time with the merger, 6 residential properties assets were acquired from Sekisui House for 25.3 billion yen in total and 12 residential properties were sold to third parties for 16.4 billion yen in total, **achieving qualitative enhancement of the portfolio**.

### 3 Increase our market presence by increasing asset size

- After the merger, asset size grew to 440.8 billion yen, **increasing SHR’s presence in the J-REIT market**
- After the merger was announced, Japan Credit Rating Agency, Ltd. (JCR) changed the credit rating outlook for SHR **from AA- (Stable) to AA- (Positive)**

# having high-quality “residential properties

Corporation as of May 1, 2018. Asset size increased to 440.8 billion yen due to the merger, and SHR will aim for further growth by setting a medium-term asset size target of **600 billion yen**.



Garden City  
Shinagawa Gotenyama



Hommachi  
Garden City



Hommachi Minami  
Garden City

## Sekisui House Reit, Inc.

- Portfolio composed entirely of high-quality properties developed by Sekisui House
- Portfolio centered on relatively new office buildings and a hotel
- Mainly highly stable, fixed-rent type master lease agreements

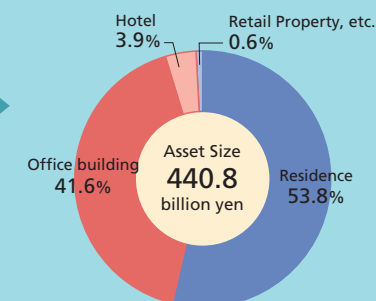
Merger

## Sekisui House Residential Investment Corporation

- High-quality properties developed by Sekisui House Group are the core of the portfolio
- Portfolio of relatively new and highly competitive residences primarily located near stations and in Greater Tokyo
- High and stable occupancy rate

## New Sekisui House Reit, Inc.

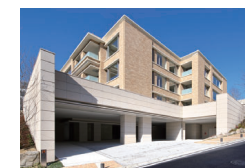
Diversified REIT centered on prime properties



Ratio of prime properties <sup>(Note)</sup> **90.0%**



Prime Maison  
Shirokanedai tower



Prime Maison  
Gotenyama West



Prime Maison  
Ginza East

(Note) “Prime properties” is the title given to high-quality residential properties and commercial properties standing in strategic locations (here and hereinafter). Ratio of prime properties indicates the ratio of properties that fall under prime properties within the owned assets calculated based on acquisition price. Please refer to page 5 for “strategic location,” “high-quality” and “prime properties.” Hamamatsu Plaza (retail property, etc.) is not included in the target of assessment of prime properties.

## Message to Our Unitholders

I would like to express our sincere gratitude for your continued and loyal patronage.

Since its listing on the Tokyo Stock Exchange Real Estate Investment Trust Section (the J-REIT market) on December 3, 2014, Sekisui House Reit, Inc. ("SHR") has steadily accumulated a track record and has settled its accounts for the 7th fiscal period (namely, the fiscal period ended April 2018). I, on behalf of SHR, would like to extend my heartfelt thanks to unitholders as this could not have been managed without your support.

I hereby report on the management status and financial results for the 7th fiscal period of SHR.

In terms of operations, SHR has concluded master lease agreements for 5 properties out of 6 properties (200.7 billion yen) SHR owns as of the end of this fiscal period and a long-term lease agreement for 1 property, achieving an occupancy rate of 100.0%.

In terms of debt, SHR executed refinancing in November 2017, thereby diversifying the dates for repayment of its debts and extending the terms of its debts, as well as promoting fixed interest rate debt. As a result, the management performance for the 7th fiscal period resulted in operating revenue of 4,655 million yen, operating income of 2,994 million yen, ordinary income of 2,622 million yen, and net income of 2,621 million yen, and the distribution per unit declared for the 7th fiscal period was 2,705 yen.

Furthermore, SHR merged with Sekisui House Residential Investment Corporation on May 1, 2018, making a new start as a highly stable diversified REIT having residential properties and office buildings as its core assets.

With the merger, the outlook for the long-term issuer rating obtained from Japan Credit Rating Agency, Ltd. (JCR) was changed from AA- (Stable) to AA- (Positive), and the asset size has expanded. These have led to the expectation of increasing SHR's presence in the J-REIT market.

In conducting investment primarily in prime properties; high-quality residential properties and commercial properties standing in strategic locations, and in promoting a growth strategy that takes full advantage of the real estate development and management capabilities and the like of Sekisui House, Ltd., the sponsor, SHR will aim to maximize unitholder value by securing stable earnings as well as steady growth of its investment assets in the medium to long term.

I ask for the continued support and encouragement of unitholders.



**Junichi Inoue**

Executive Director of Sekisui House Reit, Inc.  
President & Representative Director of  
Sekisui House Asset Management, Ltd.



## Performance highlights

### Distribution per unit

Distribution per unit (Actual)  
7th Fiscal Period Ended April 2018

**2,705 yen**

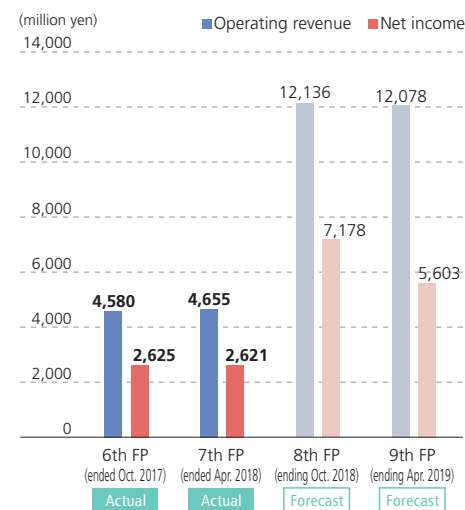
### Business results and distribution

	Before the Merger		After the Merger	
	6th FP (Actual) (ended Oct. 2017)	7th FP (Actual) (ended Apr. 2018)	8th FP (Forecast) (ending Oct. 2018) <sup>(Note 1)</sup>	9th FP (Forecast) (ending Apr. 2019) <sup>(Note 1)</sup>
Operating revenue (million yen)	4,580	<b>4,655</b>	12,136	12,078
Operating income (million yen)	2,987	<b>2,994</b>	5,570	6,346
Ordinary income (million yen)	2,626	<b>2,622</b>	4,878	5,604
Net income (million yen)	2,625	<b>2,621</b>	7,178	5,603
Distribution per unit (yen) <sup>(Note 2)</sup>	1,355 (2,710)	<b>1,352 (2,705)</b>	1,531 (3,062)	1,526 (3,052)

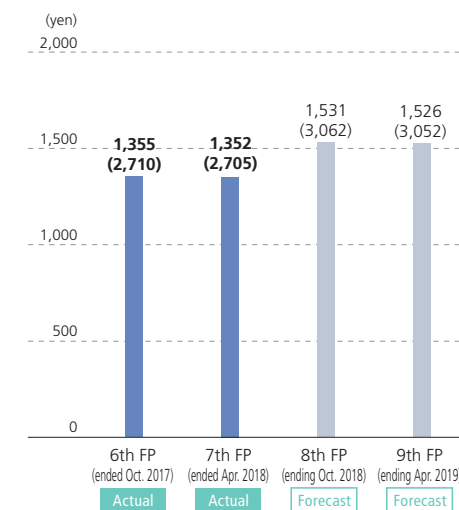
(Note 1) The respective figure for "8th FP (Forecast) (ending Oct. 2018)" and "9th FP (Forecast) (ending Apr. 2019)" are figures as of June 15, 2018 (the announcement date of business results) calculated based upon certain assumptions. Actual operating revenue, operating income, ordinary income, net income and distribution per unit may differ materially due to various factors. The above forecasts are not intended to be guarantees of business results or the actual amount of distribution.

(Note 2) SHR implemented a two-for-one split of investment units with May 1, 2018 as the effective date. In consideration of the impact of the split, distribution per unit for "7th FP (Actual) (ended Apr. 2018)" and earlier indicates figures are gained by dividing actual figures in brackets by two, and distribution per unit for "8th FP (Forecast) (ending Oct. 2018)" or later indicates figures are gained by multiplying forecast figure by two in brackets, respectively (fractions below 1 yen are rounded down. Here and hereinafter).

### Operating revenue/Net income



### Distribution per unit





## Overview of SHR after the merger

### Overview of portfolio

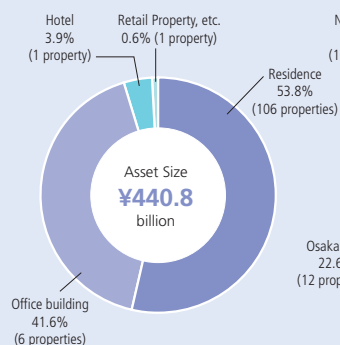
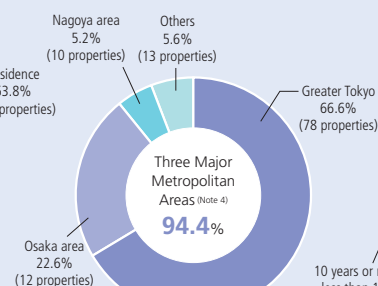
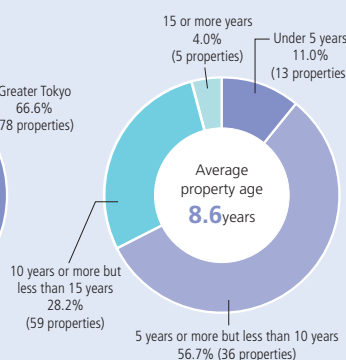
(as of June 15, 2018 (the announcement date of business results))

Number of owned properties **113** properties

Total appraisal value <sup>(Note 1)</sup> **476.0** billion yen

Aggregate acquisition price **440.8** billion yen

Occupancy rate   
 (as of the end of May 2018) **97.5%**

Usage Type Ratio <sup>(Note 2)</sup>Area Ratio <sup>(Note 2)</sup>Building Age Ratio <sup>(Note 2)(Note 3)</sup>

### Financial Base

LTV   
 (total asset basis) <sup>(Note 5)</sup> **43.1%**

Long-term debt ratio **100.0%**

Fixed interest rate debt ratio **91.3%**

### Credit Rating

With the following points recognized by JCR, the credit rating outlook was changed on March 30, 2018

- Stable operation can be expected even after the merger through utilization of the integrated corporate strength of the Sekisui House Group
- Enhancement of the portfolio and diversification of properties will be achieved through the expansion of asset size resulting from the merger

Rating agency	Before the change	After the change
JCR	AA- (Stable)	AA- (Positive)

(Note 1) "Total appraisal value" is based on the appraisal value as of the end of April 2018 for owned assets of SHR from before the merger and the assets succeeded from Sekisui House Residential Investment Corporation (excluding 12 properties sold on May 1, 2018), and the appraisal value as of April 1, 2018 for 6 properties acquired on May 1, 2018.

(Note 2) Usage type ratio of "Hommachi Garden City" is stated as if the respective building under sectional ownership of office building portion and hotel portion were separate buildings according to the usage type, and the entire property is calculated as one property for calculating the area ratio and building age ratio.

(Note 3) "Building age" indicates figures as of May 1, 2018. Weighted average of building age calculated on the basis of the acquisition price is stated for average property age (here and hereinafter).

(Note 4) The "Three Major Metropolitan Areas" are "Greater Tokyo", "Osaka Area" and "Nagoya Area" (here and hereinafter). The "Greater Tokyo" includes Tokyo, Kanagawa Prefecture, Chiba Prefecture, and Saitama Prefecture; the "Osaka Area" includes Osaka Prefecture, Kyoto Prefecture, Hyogo Prefecture, and Nara Prefecture; and the "Nagoya Area" includes Aichi Prefecture (here and hereinafter).

(Note 5) "LTV (total asset basis)" indicates ratio of interest-bearing liabilities to expected total assets after asset replacement implemented on May 1, 2018 (here and hereinafter).

## Strategies of SHR after the Merger

### Portfolio Development Policy

#### Investment Ratio by Usage Type

Build a portfolio with residential properties as bases and centers of human life and office buildings as business activity bases being the core assets. Promote investment in hotels that are expected to continue growing.

Asset Category	Usage Type	Examples of Specific Asset Types	Investment Ratio by Usage Type (acquisition price basis)	as of June 15, 2018, after the Merger (the announcement date of business results)	Investment ratio target by usage type upon achieving an asset size of 600 billion yen
Residential Properties	Core Assets Residence	Residences Student dormitories Company housing	30~55%	53.8%	Around 45%
		Office buildings Data centers	30~55%	41.6%	Around 45%
Commercial Properties	Hotel	Hotels Service apartments	0~30%	3.9%	Around 10%
		Retail properties Senior properties (Housing for the elderly with services, Fee-based homes for the aged, and Daycare centers)	0~10%	0.6%	Around 0-10%

#### Investment Ratio by Area and Asset Category

Priority investment areas are set in light of the characteristics of each asset category. Regarding overseas real estate investment, investment in residential properties and commercial properties will be allowed, but a cautious stance will be maintained for now.

Asset Category	Priority Investment Area	Investment Ratio by Area (acquisition price basis)	as of June 15, 2018, after the Merger (the announcement date of business results)
Residential Properties	Greater Tokyo	Not less than 70%	77.0%
Commercial Properties	Three Major Metropolitan Areas (Greater Tokyo, Osaka Area, Nagoya Area)	Not less than 80%	98.7%

### Investment strategy

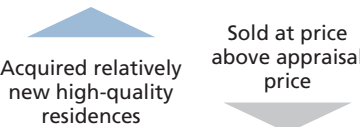
#### Prime properties with "strategic location" and "high quality" as pillars

SHR will continue to invest primarily in prime properties with the aim of enhancing the quality of the portfolio

Asset Category	Strategic Location	High Quality
Residential Properties	Locations suited for "bases for sustainable living" for residents	As residences, provide high-class fundamental functionality, such as comfort and safety, and give due consideration to the environment as a societal demand for making comprehensive determinations regarding buildings suited to neighborhoods and the like.
Commercial Properties	Locations suited for "sustainable bases of operation" of tenant companies	In addition to the functionality sought by tenant companies, give consideration to the environment as a societal demand for establishing specifications suitable for BCP sites to make comprehensive determinations regarding buildings suited to neighborhoods and the like.

## Asset Replacement Implemented Simultaneously with the Merger

### Realized enhancement of portfolio quality through asset replacement

Acquired properties (6 properties)		Sekisui House Reit, Inc.		Sold properties (12 properties)	
Total acquisition price	25.3 billion yen		Sold at price above appraisal price	Total sales price	16.4 billion yen
Total appraisal price <sup>(Note 1)</sup>	27.2 billion yen			Total appraisal price <sup>(Note 1)</sup>	15.8 billion yen
Appraisal NOI yield	Before depreciation 4.8% After depreciation 3.7%			Actual NOI yield of immediately preceding fiscal period <sup>(Note 2)</sup>	Before depreciation 4.4% After depreciation 2.7%
Percentage located in Greater Tokyo	100.0%			Percentage located in Greater Tokyo <sup>(Note 2)</sup>	51.7%
Average building age	4.5 years	Sekisui House		Third parties	Average building age <sup>(Note 2)</sup>

### Acquired properties

Property Name	Prime Maison Shirokanedai Tower	Prime Maison Otsuka	Prime Maison Asakusabashi
Photo of Properties			
Location	Shinagawa-ku, Tokyo	Toshima-ku, Tokyo	Taito-ku, Tokyo
Acquisition Price	7,950 million yen	3,700 million yen	1,680 million yen
Appraisal Value <sup>(Note 1)</sup>	8,570 million yen	3,970 million yen	1,800 million yen
Completion Date (Age)	May 20, 2016 (2.0 years)	Jan. 11, 2017 (1.3 years)	Oct. 7, 2016 (1.6 years)
Property Name	Prime Maison Daikanyama	Prime Maison Gotenyama West	Esty Maison Toyosu Residence <sup>(Note 3)</sup>
Photo of Properties			
Location	Meguro-ku, Tokyo	Shinagawa-ku, Tokyo	Koto-ku, Tokyo
Acquisition Price	2,520 million yen	3,400 million yen	6,050 million yen
Appraisal Value <sup>(Note 1)</sup>	2,730 million yen	3,680 million yen	6,460 million yen
Completion Date (Age)	Jan. 12, 2017 (1.3 years)	Jan. 18, 2011 (7.3 years)	Feb. 28, 2008 (10.2 years)

(Note 1) "Total appraisal price" of acquired properties indicates the figure as of April 1, 2018 and total appraisal price of sold properties indicates the figure as of the end of April 2018.

(Note 2) "Actual NOI yield of immediately preceding fiscal period", "Percentage located in Greater Tokyo" and "Average building age" of sold properties are calculated using the acquisition price of Sekisui House Residential Investment Corporation.

(Note 3) The property name of the "Esty Maison Toyosu Residence" is "Toyosu Residence" as of June 15, 2018 (the announcement date of business results), but there is a plan to change the property brand name to Esty Maison, and therefore, the name after the change is stated (here and hereafter).

## Pipeline with Sekisui House

### Enhance external growth opportunities by utilizing sponsor support

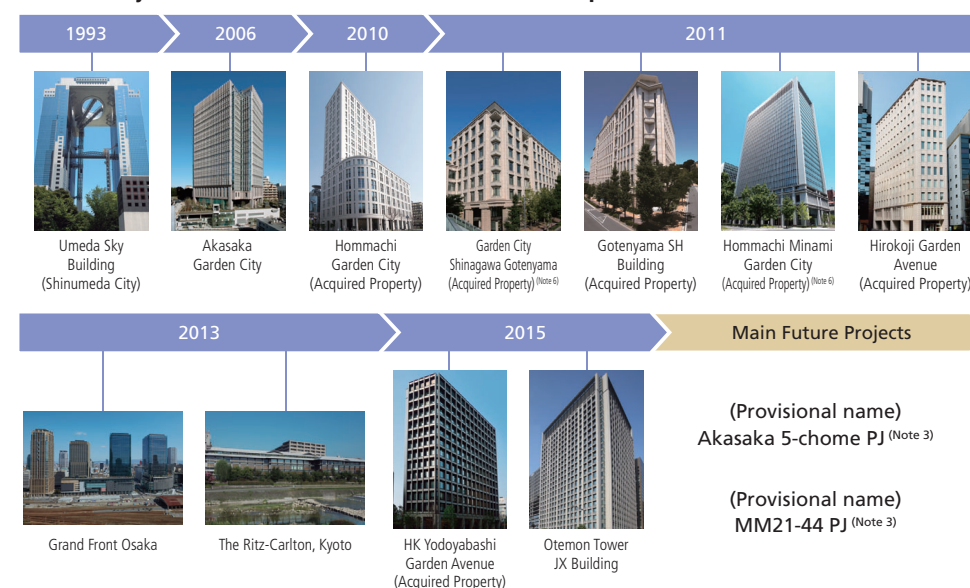
Prime Maison Planned and Developed by Sekisui House <sup>(Note 1)</sup> (as of June 15, 2018 (the announcement date of business results))

Completed Properties	Properties Under Construction <sup>(Note 2)</sup>	Planned Properties <sup>(Note 3)</sup>
2 properties / 85 units	7 properties / 1,038 units	5 properties (All in 23 Wards of Tokyo)
Prime Maison Mita Tsunamachi (Minato-ku, Tokyo)	(Provisional name) Prime Maison Egotanomori (Nakano-ku, Tokyo)	

### Office Buildings Developed by Sekisui House for which SHR has Preferential Negotiating Rights <sup>(Note 1)</sup>

Property Name	Location	Asset Type	Unacquired Floor Area Ratio <sup>(Note 4)</sup>
Garden City Shinagawa Gotenyama	Shinagawa-ku, Tokyo	Office building	19.0%
Hommachi Minami Garden City	Osaka-shi, Osaka	Office building	43.6%

### Main Projects in Sekisui House's Urban Redevelopment Business <sup>(Note 1), (Note 5)</sup>



(Note 1) As of June 15, 2018 (the announcement date of business results), there are no specific acquisition plans for the properties indicated as "Prime Maison Planned and Developed by Sekisui House", "Office Buildings Developed by Sekisui House for which SHR has Preferential Negotiating Rights" or "Main Projects in Sekisui House's Urban Redevelopment Business".

(Note 2) The images presented for "properties under construction" are images of the planned completed structures based on design drawings and the actual buildings may differ.

(Note 3) Projects currently under consideration by Sekisui House; subject to change or cancellation without notice.

(Note 4) The "unacquired floor area ratio" indicates the ratio of the unacquired floor area for which SHR has preferential negotiating rights to acquire the total exclusive-use floor area of the building.

(Note 5) The indicated properties include joint ventures with other companies and properties that have been sold.

(Note 6) SHR has acquired a portion and has preferential negotiating rights for the remain.

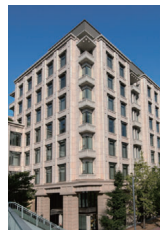


## Portfolio Map

## Major owned properties

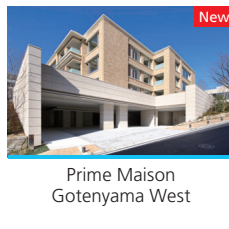
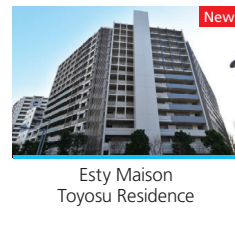
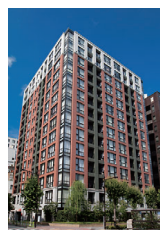
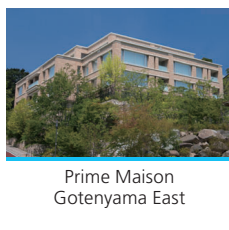
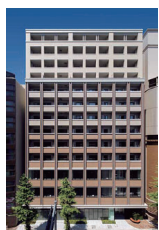
(as of June 15, 2018 (the announcement date of business results))

## Greater Tokyo

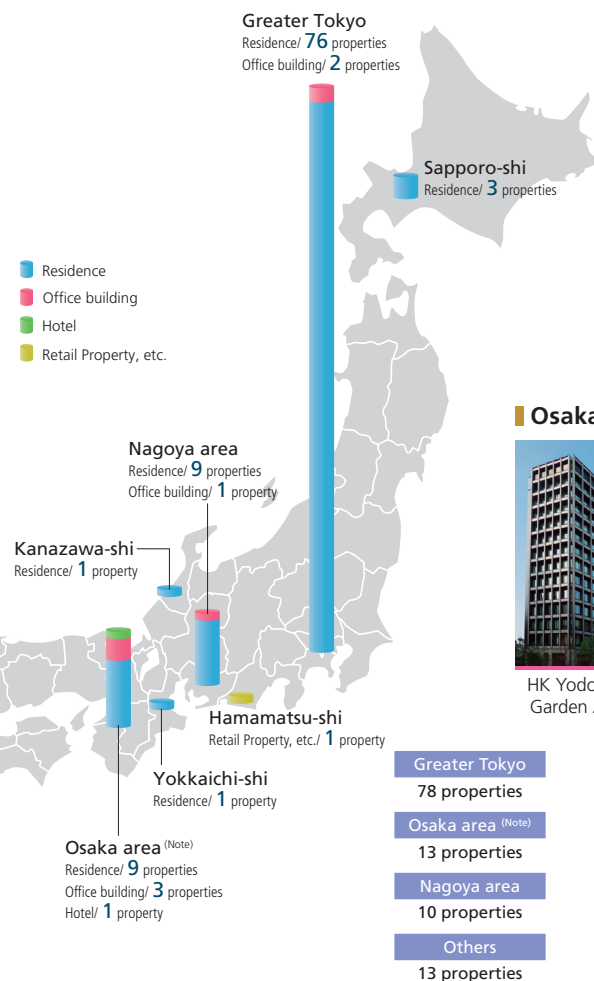
Garden City Shinagawa  
GotenyaGotenya SH  
BuildingPrime Maison  
Shirokanedai towerPrime Maison  
Otsuka

New Newly acquired properties

Residence  
Office building  
Hotel

Prime Maison  
AsakusabashiPrime Maison  
DaikanyamaPrime Maison  
Gotenya WestEsty Maison  
Toyosu ResidencePrime Maison  
Ginza EastPrime Maison  
ShinagawaPrime Maison  
Gotenya EastPrime Maison  
MusashinomoriPrime Maison  
EbisuPrime Maison  
Yokohama  
Nihon-odori

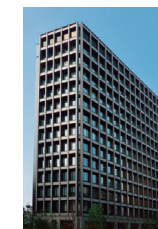
## Nagoya area

Hirokoji Garden  
AvenuePrime Maison  
HigashisakuraPrime Maison  
Gokiso

## Others (Sapporo-shi)

Prime Maison  
OdorikoenPrime Maison  
Minami 2-jo

## Osaka area

HK Yodoyabashi  
Garden AvenueHommachi Minami  
Garden CityHommachi  
Garden CityKOBE Women's  
Student HousingPrime Maison  
Yuhigaoka

## Others (Fukuoka-shi)

Prime Maison  
Central Park

MAST Hakata



Prime Maison Teriha

Esty Maison  
Kobe-sannomiyaPrime Maison  
Kitatanabe

(Note) "Hommachi Garden City" is calculated by treating the office building portion and hotel portion as one property, respectively.

## Stable and sound financial operations

### Debt finance

Total interest-bearing liabilities (billion yen)	197.9
LTV (total asset basis)	43.1%
Fixed interest rate debt ratio	91.3%
Long-term rate debt ratio	100.0%
Average financing interest rate <sup>(Note 1)</sup>	0.77%
Average remaining term of interest-bearing liabilities <sup>(Note 2)</sup> (years)	4.1

### Interest-bearing liabilities (as of June 15, 2018 (the announcement date of business results))

Financial institution	Balance (billion yen)	Percentage	Financial institution	Balance (billion yen)	Percentage
MUFG Bank, Ltd.	43.6	23.9%	Shinkin Central Bank	1.6	0.9%
Sumitomo Mitsui Banking Corporation	35.7	19.6%	The Senshu Ikeda Bank, Ltd.	1.3	0.7%
Mizuho Bank, Ltd.	31.7	17.4%	The Shizuoka Bank, Ltd.	1.3	0.7%
Sumitomo Mitsui Trust Bank, Limited	16.3	8.9%	The 77 Bank, Ltd.	1.3	0.7%
Mizuho Trust & Banking Co., Ltd.	12.2	6.7%	The Hiroshima Bank, Ltd.	1.3	0.7%
Resona Bank, Limited	10.5	5.8%	The Yamaguchi Bank, Ltd.	1.3	0.7%
Development Bank of Japan Inc.	10.4	5.7%	Loan Total	182.4	100.0%
The Norinchukin Bank	8.9	4.9%	Total Investment Corporation Bonds	15.5	—
The Bank of Fukuoka, Ltd.	2.4	1.3%	Total Interest-Bearing Liabilities	197.9	—
Aozora Bank, Ltd.	2.2	1.2%			

### Refinancing activities in 7th FP and after

#### 7th FP (November 2017)

	Long-term loan (floating)	Long-term loans (fixed) <sup>(Note 3)</sup>	Long-term loans (fixed) <sup>(Note 3)</sup>
Loan amount	14.0 billion yen	7.0 billion yen	7.0 billion yen
Financing term	3.0 years	4.6 years	5.5 years
Average financing interest rate <sup>(Note 1)</sup>	1M TIBOR +0.25%	0.35 %	0.41 %

#### 8th FP (May 2018)

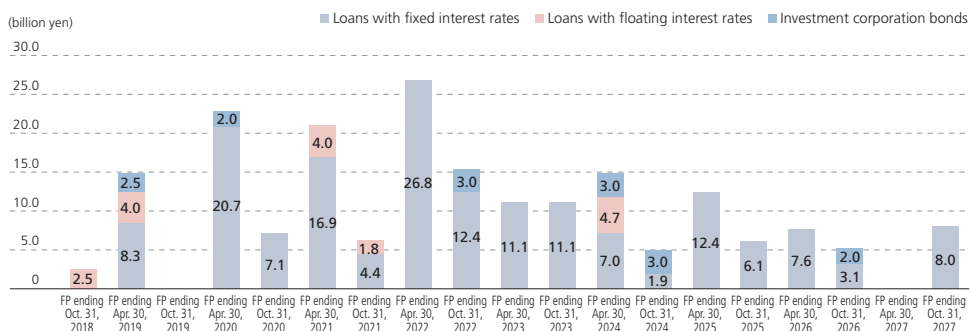
	Short-term loan (floating)	Long-term loans (fixed) <sup>(Note 3)</sup>
Loan amount	8.0 billion yen	8.0 billion yen
Financing term	1.0 years	9.3 years
Average financing interest rate <sup>(Note 1)</sup>	1M TIBOR +0.18%	0.76%

### Status of Commitment Line

Financial Institution	Credit Limit Agreement	Agreement Term
Mizuho Bank, Ltd., MUFG Bank, Ltd., Sumitomo Mitsui Banking Corporation	10.0 billion yen	November 1, 2017 to October 31, 2018

### Diversification of repayment dates

(as of June 15, 2018 (the announcement date of business results))



(Note 1) "Average financing interest rate" indicates a weighted average (annual) interest rate using the balance of interest-bearing liabilities. In respect of the interest rates of interest-bearing liabilities for which an interest rate swap was conducted, interest rates taking into account the effect of the interest rate swap are used.

(Note 2) "Average remaining term of interest-bearing liabilities" indicates the average remaining term from the respective date on which the average remaining term of interest-bearing liabilities was calculated to maturity dates thereof, weighted by the balance of the respective interest-bearing liabilities.

(Note 3) Including floating interest rate loans, the rates of which are fixed by interest rate swap transactions.

## ESG initiatives

### Received DBJ Green Building Certification for all of 6 properties acquired simultaneously with the merger

**4 Stars**

DBJ Green Building 2017 4 Stars

Prime Maison Shirokanedai tower

**3 Stars**

DBJ Green Building 2017 3 Stars

Prime Maison Gotenyama West

Prime Maison Daikanyama

Prime Maison Otsuka

Prime Maison Asakusabashi

Esty Maison Toyosu Residence

### Record of acquisition of DBJ Green Building Certification (as of June 15, 2018 (the announcement date of business results))

Acquired DBJ Green Building Certification for **38 properties of 113 owned properties, accounting for 55.0% of the portfolio (based on acquisition price)**



The DBJ Green Building Certification System recognizes outstanding properties that respond to the demands of the times. The system was established based on a proprietary scoring model developed by the Development Bank of Japan and serves to improve the environmental functionality of buildings while encouraging the prevalence of properties that demonstrate awareness of societal demands.

### Participation in the GRESB assessment

- GRESB assessment in FY2017
  - GRESB assessment: **Green Star**
  - GRESB rating: **3 Stars**
  - ESG Public Disclosure: **C** (global average)
  - Participation in the Health & well-being Module



- The asset management company became a GRESB member in June 2018.



GRESB Survey is an annual benchmark survey for environmental, social and governance ("ESG") considerations in the real estate sector, which was established primarily by major European pension fund groups.

### Reinforcement of governance catapulting on the merger

- **Newly established the Internal Control Promotion Department** which controls and supervises risk management, internal audit, legal affairs, etc.
- At the Investment Committee which plays an important role in the decision-making process, **increased the number of external committee members from one (a real estate appraiser) to two (a real estate appraiser and a lawyer).**

## Profile of SHR

### Overview

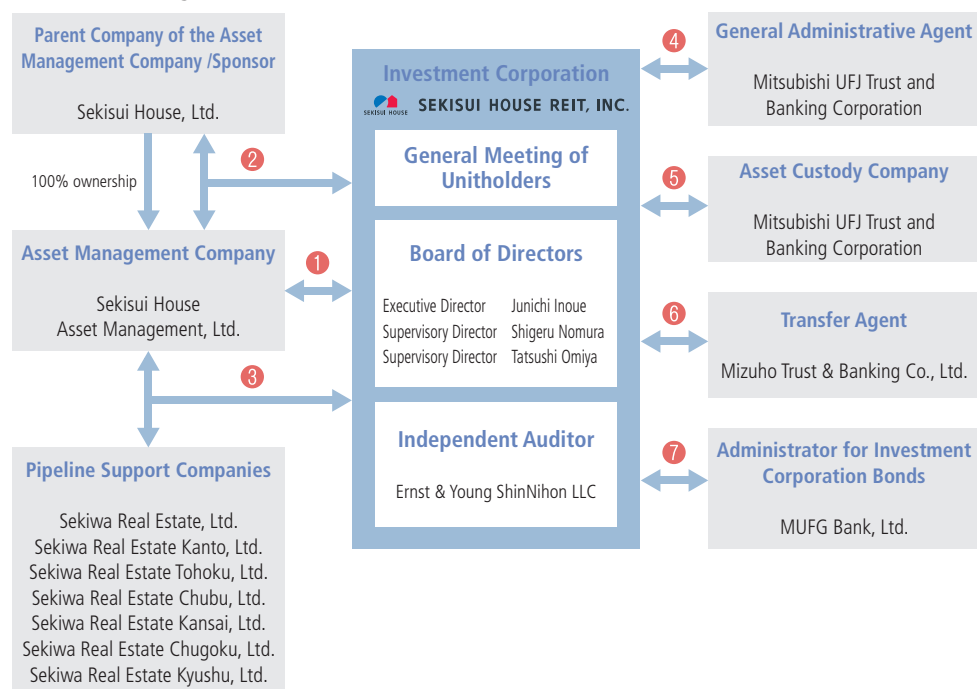
Name	Sekisui House Reit, Inc.
Representative	Junichi Inoue, Executive Director
Address	4-15-1 Akasaka, Minato-ku, Tokyo
Asset Management Company	Sekisui House Asset Management, Ltd.
Fiscal Period Ends	April and October of each year

### History

Sep. 8, 2014	Registration of incorporation under Article 166 of the Investment Trusts Act, and establishment of SHR
Sep. 18, 2014	Registered by the Prime Minister of Japan under Article 187 of the Investment Trusts Act (registration number 95, filed with the Director of the Kanto Local Finance Bureau)
Dec. 3, 2014	Listed on the Tokyo Stock Exchange Real Estate Investment Trust Securities Market (Securities Code: 3309)
May 1, 2018	Merged with Sekisui House Residential Investment Corporation through an absorption-type merger (For each investment unit of the dissolving corporation, 1.65 post-split investment units of the surviving corporation (SHR) were allocated.)

### Structure Diagram

(as of June 15, 2018 (the announcement date of business results))



- ① Asset Management Agreement ② Sponsor Support Agreement ③ Agreement on Preferential Negotiating Rights (etc.)  
 ④ General Administrative Agreement ⑤ Asset Custody Agreement ⑥ Administrative Agreement (Administration of Investment Units)  
 ⑦ Financial Agent Agreement

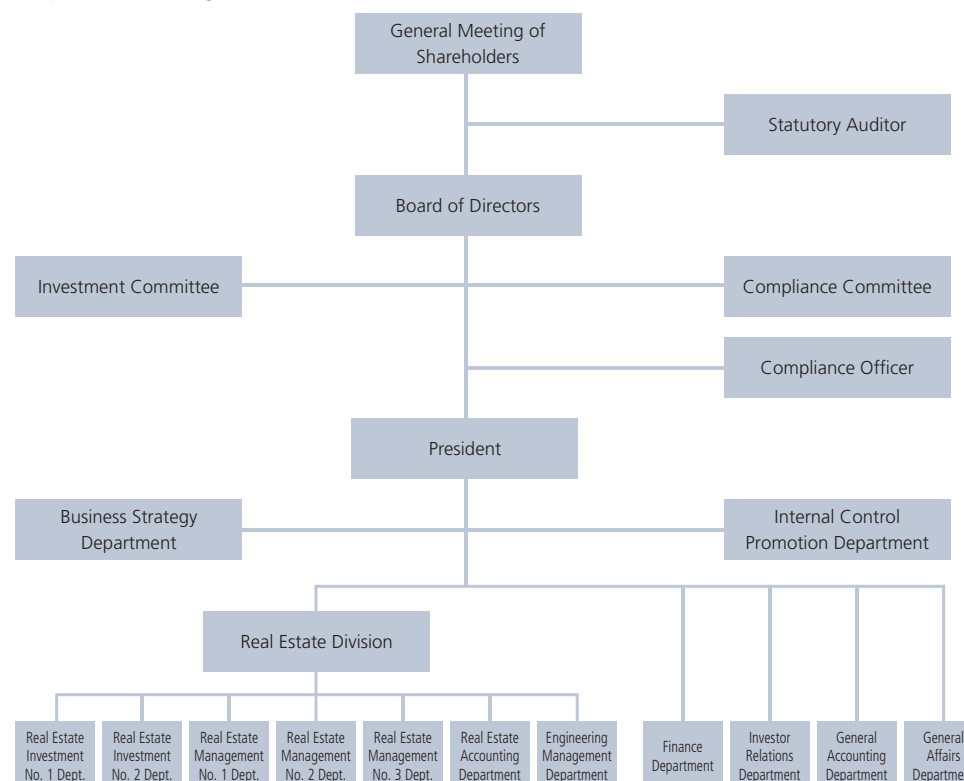
## Overview of Asset Management Company

### Overview

Corporate name	Sekisui House Asset Management, Ltd.
Representative	Junichi Inoue, President & Representative Director
Head office	4-15-1 Akasaka, Minato-ku, Tokyo
Capital	400 million yen
Shareholder	Sekisui House, Ltd. (100%)

Licenses and registration, etc.	Licensed for building lots and buildings transaction business License No.(1) 96411 issued by the Governor of Tokyo
	Certified as an entrustment-based agency License No.82 issued by the Minister of Land, Infrastructure, Transportation and Tourism
	Registered as a financial instruments business operator Registration (Kinsho) No.2791 issued by the Director of Kanto Local Finance Bureau

### Operational Organizational Structure





## Outline of asset management operation

### 1. Developments in Asset Management in the Fiscal Period under Review

#### (1) Brief History of the Investment Corporation

Sekisui House Reit, Inc. (“SHR”), that has as its sponsor Sekisui House, Ltd. (“Sekisui House”), one of the leading homebuilders in Japan with an established development and management track record also in the property development business, was established on September 8, 2014 and was listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange, Inc. (“Tokyo Stock Exchange”) on December 3, 2014 (securities code: 3309).

SHR's policy is to conduct asset management that seeks to secure stable earnings over the medium to long term and steady growth of its investment assets, mainly by investing in commercial properties (Note 1), in particular commercial properties which are situated in strategic locations or are of a high quality (referred to by SHR as prime properties) positioned as its core investment targets.

Based on the policy described above, SHR acquired three properties (with an aggregate acquisition price (Note 2) of 114,300 million yen) on December 3, 2014, the day it was listed, and thereafter began managing them. After acquiring a property (with an acquisition price of 38,600 million yen) on May 19, 2015, SHR acquired three additional properties (with an aggregate acquisition price of 26,650 million yen), one of which is an additional portion of a property part of which is already owned by SHR on May 24, 2016. Thereafter, on May 24, 2017, SHR acquired two additional properties (with an aggregate acquisition price of 21,200 million yen), both of which are additional portions of properties part of which are already owned by SHR. As of April 30, 2018 (the end of the fiscal period under review), SHR owns six properties (with an aggregate acquisition price of 200,750 million yen) as its investment assets.

(Note 1) “Commercial properties” refer to real estate mainly used for business purposes other than for residence, such as office buildings, retail properties and hotels. Residential properties include student dormitories, company housing and serviced housing for the elderly. In line with the Investment Corporation Merger (as defined in “2. Status of Capital Increase, etc.” later in this document. The same shall apply hereinafter.) described in “5. Significant Subsequent Events (4) Amendments to Articles of Incorporation and Asset Management Guidelines” later in this document, SHR amended its asset management guidelines to set prime properties, which refer to residential properties and commercial properties (both as defined in “4. Future Management Policy (2) Future Management Policy and Challenges to Address” later in this document. The same shall apply hereinafter.), as the core investment target, etc. on May 1, 2018.

(Note 2) “Acquisition price” is the sale and purchase price stated in the sale and purchase agreement for each of the owned assets (excluding consumption tax and local consumption tax, as well as commission and various other expenses: rounded down to the nearest million yen). The same shall apply hereinafter.

#### (2) Management Environment and Management Performance

##### a. Management Environment

During the fiscal period under review, the Japanese economy continued to mildly expand with positive circulation of income contributing to expenditure.

In the real estate transaction market, cap rates continue to remain low and high-quality properties remain in short supply despite the appetite for property acquisition continuing to be strong among investors in Japan and abroad due to the low level vacancy rate and the accommodative monetary policy.

As for the office leasing market, the demand remains firm backed by solid economic growth.

With regard to the environment surrounding retail properties, according to the Outlook for Economic Activity and Prices (April 2018) released by the Bank of Japan, private consumption has moderately increased albeit with some ups and downs against the backdrop of solid improvements in employment and income, and thus retail sales figures continue to be on an upward trend in general. Sales figures of department stores are picking up in general and sales of supermarkets and convenience stores continue to show a moderate upward trajectory albeit with some ups and downs.

Under such trends, demand for new store openings of drug stores, etc. has continued to be firm and rent has remained mostly unchanged at a high level.

The hotel market remains favorable with the number of foreign tourists visiting Japan still on the rise. During the period from January to March 2018, the number of foreign tourists to Japan totaled around 7.62 million, representing a 16.5% year-on-year increase.

##### b. Management Performance

The assets held by SHR as of the end of the fiscal period under review are six properties with an aggregate acquisition price of 200,750 million yen and total leasable area of 112,032.96m<sup>2</sup>. In addition, of the six properties, master lease agreements with Sekisui House as lessee have been executed for five properties and a long-term lease agreement with one tenant as lessee has been executed for one property, resulting in occupancy rate as of the end of the fiscal period under review of 100.0%.

#### (3) Overview of Fund Procurement

##### a. Borrowings

SHR has adopted it as its basic policy to conduct stable and sound financial operations in order to secure stable earnings over the medium to long term and enhance unitholder value. During the fiscal period under review, SHR refinanced loans with floating interest rates totaling 14,000 million yen due for repayment on November 30, 2017 with long-term loans in the same amount to diversify the repayment dates of its debts and extend the term of its debts, and also changed the interest rates of its debts to fixed rates through interest rate swap agreements, etc.

As a result, the fixed interest rate debt ratio against interest-bearing liabilities rose from 76.4% as of the end of the previous fiscal period to 93.0% as of the end of the fiscal period under review; and the balance of interest-bearing liabilities as of the end of the fiscal period under review stood at 84,400 million yen, unchanged from the previous fiscal period, and the ratio of total interest-bearing liabilities to total assets (“LTV (total assets basis)”) is 40.7%.

##### b. Credit Rating

With regard to the credit rating SHR has acquired from Japan Credit Rating Agency, Ltd. (JCR), rating outlook of long-term issuer rating has been changed from “stable” to “positive” on March 30, 2018 in light of the Investment Corporation Merger.

The following table sets forth the rating status as of the end of the fiscal period under review.

Credit Rating Agency	Rating Type
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating: AA- Rating outlook: Positive
Japan Credit Rating Agency, Ltd. (JCR)	Bond rating: AA-

#### (4) Overview of Business Performance and Distributions

Results in the fiscal period under review are operating revenue of 4,655 million yen, operating income of 2,994 million yen and ordinary income of 2,622 million yen, resulting in net income of 2,621 million yen. In addition, concerning distributions, the decision has been made to distribute the entire amount of unappropriated retained earnings (excluding the portion in respect of which distribution per investment unit is less than 1 yen), with the intention of having the maximum amount of distribution of earnings included in deductible expenses based on the application of special tax treatment for investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended)). As a result, the distribution per investment unit is 2,705 yen.

## 2. Status of Capital Increase, etc.

The following table sets forth the increase (/decrease) in unitholders' capital and the total number of investment units issued and outstanding since the establishment of SHR through to the end of the fiscal period under review.

SHR conducted an absorption-type merger ("Investment Corporation Merger"), whereby SHR would be the surviving corporation and Sekisui House Residential Investment Corporation ("SHI," and collectively with SHR, the "Two Investment Corporations") would be the dissolving corporation, effective May 1, 2018. Accordingly, the total number of SHR's investment units issued and outstanding became 3,762,091 on May 1, 2018. For details, please refer to "5. Significant Subsequent Events (1) Merger between SHR and SHI and (2) Split of Investment Units" later in this document.

Date	Event	Unitholders' capital (million yen)		Total number of investment units issued and outstanding (units)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
September 8, 2014	Private placement for incorporation	200	200	2,000	2,000	(Note 1)
December 2, 2014	Public offering	63,690	63,890	600,000	602,000	(Note 2)
December 24, 2014	Third-party allotment	3,184	67,074	30,000	632,000	(Note 3)
May 19, 2015	Public offering	19,673	86,748	154,200	786,200	(Note 4)
June 12, 2015	Third-party allotment	995	87,743	7,800	794,000	(Note 5)
May 24, 2016	Public offering	11,706	99,450	95,200	889,200	(Note 6)
June 21, 2016	Third-party allotment	590	100,040	4,800	894,000	(Note 7)
May 24, 2017	Public offering	9,661	109,702	71,400	965,400	(Note 8)
June 12, 2017	Third-party allotment	487	110,189	3,600	969,000	(Note 9)

(Note 1) New investment units were issued at an offer price of 100,000 yen per unit upon the establishment of SHR on September 8, 2014.

(Note 2) New investment units were issued at an offer price of 110,000 yen (with the issue price being 106,150 yen) per unit through a public offering to procure funds for the acquisition of new properties.

(Note 3) New investment units were issued at an issue price of 106,150 yen per unit by way of third-party allotment and proceeds thereof were intended to use to make part repayment of loans. Out of proceeds from the issuance of new investment units, a portion was allocated for partial repayment of loans and the remaining was allocated to fund part of the acquisition cost of a new property.

(Note 4) New investment units were issued at an offer price of 131,917 yen (with the issue price being 127,587 yen) per unit through a public offering to procure funds for the acquisition of a new property.

(Note 5) New investment units were issued at an issue price of 127,587 yen per unit by way of third-party allotment and proceeds thereof were intended to use to make part-repayment of loans or as part of future acquisition funds for specified assets.

(Note 6) New investment units were issued at an offer price of 127,140 yen (with the issue price being 122,967 yen) per unit through a public offering to procure funds for the acquisition of new properties.

(Note 7) New investment units were issued at an issue price of 122,967 yen per unit by way of third-party allotment and proceeds thereof were intended to use to make future part-repayment of loans or as part of future acquisition funds for specified assets.

(Note 8) New investment units were issued at an offer price of 139,912 yen (with the issue price being 135,320 yen) per unit through a public offering to procure funds for the acquisition of new properties.

(Note 9) New investment units were issued at an issue price of 135,320 yen per unit by way of third-party allotment, with the proceeds thereof intended to be used for the partial repayment of the short-term loans that had been taken up to finance the acquisition of the new properties.

(Note 10) SHR implemented a two-for-one split of investment units with April 30, 2018 as the record date and May 1, 2018 as the effective date. Furthermore, upon the Investment Corporation Merger, 1.65 SHR units following the investment unit split were allocated to every SHI unit on May 1, 2018 and 1,824,091 investment units were newly issued. As a result, the total number of investment units issued and outstanding now stands at 3,762,091. There is no change to unitholders' capital accompanying the above.

## [Changes in Market Price of Investment Securities]

The following table sets forth the fiscal period high and low (closing price) on the Tokyo Stock Exchange Real Estate Investment Trust Section on which SHR investment securities are listed.

Fiscal period	3rd fiscal period	4th fiscal period	5th fiscal period	6th fiscal period	7th fiscal period	
					Before the ex-rights date	On and after the ex-rights date
	From: Nov. 1, 2015 To: Apr. 30, 2016	From: May 1, 2016 To: Oct. 31, 2016	From: Nov. 1, 2016 To: Apr. 30, 2017	From: May 1, 2017 To: Oct. 31, 2017	From: Nov. 1, 2017 To: Apr. 24, 2018	From: Apr. 25, 2018 To: Apr. 30, 2018
High (yen)	133,500	157,900	153,900	146,400	149,100	70,500
Low (yen)	116,700	125,800	138,000	125,900	123,700	69,700

(Note) SHR implemented a two-for-one split of investment units with April 30, 2018 as the record date and May 1, 2018 as the effective date.

## 3. Performance of Distribution, etc.

Distribution per unit for the fiscal period under review (the 7th fiscal period) is 2,705 yen. The policy is to distribute almost the entire amount of unappropriated retained earnings with the intention of applying the special treatment of corporation tax under which the amount equivalent to distribution of earnings is deductible from the taxable income of investment corporations as deductible expenses (Article 67-15 of the Act on Special Measures Concerning Taxation).

Fiscal period	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016	4th fiscal period From: May 1, 2016 To: Oct. 31, 2016	5th fiscal period From: Nov. 1, 2016 To: Apr. 30, 2017	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017	7th fiscal period From: Nov. 1, 2017 To: Apr. 30, 2018
Total amount of unappropriated retained earnings (thousand yen)	1,967,034	2,321,003	2,381,018	2,626,016	2,621,502
Amount of accumulated earnings (thousand yen)	296	179	296	26	357
Total amount of cash distribution (thousand yen)	1,966,738	2,320,824	2,380,722	2,625,990	2,621,145
[Distribution per unit] (yen)	[2,477]	[2,596]	[2,663]	[2,710]	[2,705]
Total amount of distribution of earnings out of the total amount of cash distribution (thousand yen)	1,966,738	2,320,824	2,380,722	2,625,990	2,621,145
[Distribution of earnings per unit] (yen)	[2,477]	[2,596]	[2,663]	[2,710]	[2,705]
Total amount of refund of investment in capital out of the total amount of cash distribution (thousand yen)	—	—	—	—	—
[Amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]
Total distribution amount from reserve for temporary difference adjustments out of total amount of refund of investment in capital (thousand yen)	—	—	—	—	—
[Distribution amount from reserve for temporary difference adjustments per unit out of amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]
Total distribution amount from distribution reducing unitholders' capital for tax purpose out of total amount of refund of investment in capital (thousand yen)	—	—	—	—	—
[Distribution amount from distribution reducing unitholders' capital for tax purpose out of amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]

## 4. Future Management Policy

## (1) Future Trends Outlook

Looking ahead, the Japanese economy is expected to continue recovering moderately, supported partly by the effects of various economic policies, under circumstances where employment rates and income levels continue rising, according to the Monthly Economic Report (May 2018) released by the Cabinet Office. On the other hand, we have to be mindful of the impact of economic uncertainties overseas and fluctuations in global financial and capital markets.

As to the real estate market, the cap rate is likely to remain low for the time being.

In the office leasing market, although the impact of possible future mass supply in the Tokyo area requires close attention, firm demand, backed by sustained strong corporate earnings, is expected to continue, including in regional cities.

The hotel market will likely continue to see sustained high occupancy rates levels, supported by the expected increase in foreign tourists' numbers and firm domestic demand.

## (2) Future Management Policy and Challenges to Address

SHR will continue to focus on prime properties—high-quality residential properties (Note 1) and commercial properties (Note 2) situated in strategic locations—as its core investment targets among other main investment targets. By implementing growth strategies that take full advantage of the real estate development and operation capabilities and other strengths of Sekisui House, which has established an extensive track record of developing and operating residential properties and commercial properties, SHR will, through the support of its sponsor, seek to secure stable earnings over the medium to long term and steady growth of its investment assets and thereby aim to maximize unitholder value.

Meanwhile at Sekisui House Asset Management, Ltd. (the “Asset Management Company”) efforts to advance portfolio diversification by exploring investment opportunities which are seized through the Asset Management Company's own approach.

Concerning main investment target areas, SHR has set Greater Tokyo as the core investment area in Japan for residential properties, with a focus on the Tokyo 23 wards, which are believed to have a number of prime properties that offer locations accommodating residents' needs as well as excellent basic functions as a residence including comfort and safety etc. and are expected to see strong leasing demand and supplies of superior properties. In addition, SHR will invest in government designated cities and other major cities throughout Japan outside of Greater Tokyo as well as their surrounding commutable areas, where networks of Sekisui House and Sekiwa Real Estate companies (7 companies) (Note 3) can be fully utilized.

SHR has set the Three major metropolitan areas (Note 4) with Three large cities, namely the Tokyo 23 Wards, Osaka City and Nagoya City, all of which SHR has knowledge in the course of developments by Sekisui House, as the core investment areas in Japan for commercial properties, with a focus on the Three large cities, in which SHR can expect stable management against the backdrop of solidified demand resulting from being bases for tenant companies' business activities. In addition, major cities throughout Japan other than the Three major metropolitan areas are set as investment areas as well.

SHR has executed a sponsor support agreement with Sekisui House. This agreement provides for utilization of the urban redevelopment business track record and know-how of Sekisui House, allowing SHR to seek from Sekisui House property acquisition support for external growth (pipeline support). Specifically, such support will (a) grant to SHR preferential negotiation rights with regard to the sale of domestic real estate, etc. owned or developed by Sekisui House, (b) provide SHR with information on real estate, etc. owned or developed in Japan by third parties, (c) provide SHR with warehousing functions, and (d) provide SHR with support for the redevelopment of owned properties.

Furthermore, SHR has concluded agreements concerning preferential negotiating rights (and others) with the Sekiwa Real Estate companies (7 companies). Thus, particularly with residential properties, SHR will be able to receive support in acquiring properties for external growth, such as granting of preferential negotiating rights regarding sale of domestic real estate, etc. owned or developed by the Sekiwa Real Estate companies (7 companies).

Sekisui House and Sekiwa Real Estate Group (Note 5) possess (a) property management (“PM”) skills based on their relationship with tenants, (b) know-how as a real estate developer to maintain/improve real estate value through large-scale repair, renovation/value enhancement, redevelopment, etc., and (c) know-how on developing various types of master leasing businesses. SHR and the Asset Management Company can, by concluding a PM



services consignment agreement (“PM Agreement”) with Sekisui House and the sponsor support agreement, seek (a) PM services for commercial properties, and (b) in relation to management of owned assets for internal growth, (i) provision of technologies and know-how that contribute to the improvement of tenant satisfaction or other factors, including energy efficiency and eco-friendliness, that contribute to the renovation/value enhancement of properties, (ii) personnel support, including provision of know-how required for the operation of SHR, and (iii) support in areas such as negotiation of master lease agreements regarding commercial properties. Furthermore, Sekiwa Real Estate Group possesses PM skills, including tenant solicitation utilizing its nationwide network and know-how on PM services proven by an efficient management track record. SHR and the Asset Management Company will capitalize on the PM skills possessed by Sekiwa Real Estate Group by concluding a PM Agreement with Sekiwa Real Estate Group for residential properties.

By implementing growth strategies that take full advantage of the versatile support from Sekisui House and Sekiwa Real Estate Group for external growth and internal growth as described above, SHR will seek to secure stable earnings and steady growth of its investment assets and thereby aim to maximize unitholder value.

(Note 1) “Residential properties” refer to real estate whose principal use is residential (including furnished residences with appliances, which do not fall under school dormitories, company housing, or service apartments (\*1) (\*2)). The same shall apply hereinafter.

(Note 2) “Commercial properties” refer to real estate whose principal use is for office buildings, hotels (including service apartments) and retail properties, etc. (including housing for elderly with service, fee-based homes for the aged, and daycare centers (\*2)) and other non-residential business purposes. The same shall apply hereinafter.

(\*1) “Service apartments” refer to furnished residences with appliances where a dedicated operator provides certain services to users. The same shall apply hereinafter.

(\*2) Some service apartments and housing for elderly with service, fee-based homes for the aged, and daycare centers may fall under apartment house as defined in Building Standards Act (Act No. 201 of 1950 as amended). The same shall apply hereinafter.

(Note 3) “Sekiwa Real Estate companies (7 companies)” is a collective name for Sekiwa Real Estate, Ltd., Sekiwa Real Estate Kanto, Ltd. (“Sekiwa Real Estate Kanto”), Sekiwa Real Estate Tohoku, Ltd. (“Sekiwa Real Estate Tohoku”), Sekiwa Real Estate Chubu, Ltd. (“Sekiwa Real Estate Chubu”), Sekiwa Real Estate Kansai, Ltd. (“Sekiwa Real Estate Kansai”), Sekiwa Real Estate Chugoku, Ltd. (“Sekiwa Real Estate Chugoku”) and Sekiwa Real Estate Kyushu, Ltd. (“Sekiwa Real Estate Kyushu”), which are wholly-owned subsidiaries of Sekisui House, and are core companies of real estate unit of the Sekisui House Group (\*) operating nationwide. The same shall apply hereinafter.

(\*) “Sekisui House Group” refers to a group of companies comprised of Sekisui House and its consolidated subsidiaries and its affiliates accounted for by the equity method. The same shall apply hereinafter.

(Note 4) The “Three large cities” refer to the Tokyo 23 wards, Osaka City and Nagoya City. In addition, the “Three major metropolitan areas” refer to “Greater Tokyo,” the “Osaka area” and the “Nagoya area,” where “Greater Tokyo” refers to Tokyo, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture, the “Osaka area” refers to Osaka Prefecture, Kyoto Prefecture, Hyogo Prefecture and Nara Prefecture and the “Nagoya area” refers to Aichi Prefecture. The same shall apply hereinafter.

(Note 5) “Sekiwa Real Estate Group” refers to a group of companies comprised of Sekiwa Real Estate companies (7 companies) as the core, and of its subsidiaries and affiliates. The same shall apply hereinafter.

### (3) Financial Strategy

SHR has adopted as its policy the conduct of stable and sound financial operations in order to secure stable earnings over the medium to long term and enhance unitholder value. Specifically, the policy is to form strong and stable business relationships with leading domestic financial institutions, centering on megabanks, bolstered by the creditworthiness of the sponsor Sekisui House, and also to reduce refinancing risks and risks of fluctuations in interest rates by exploring the extension of borrowing periods and working to diversify dates for repayment, etc., while pursuing the optimum balance between fixed-rate and floating-rate debts.

In addition, LTV as of the effective date of Investment Corporation Merger was 43.1%, and around 45% is set as upper limit of LTV (total assets basis) for the time being after Investment Corporation Merger. SHR has the policy to keep LTV at conservative level with attention being paid to the maintenance of funding capacity.

SHR will work to diversify its sources for direct and indirect financing, such as by issuing investment corporation bonds and the like in consideration of the market environment, SHR’s financial standing, and other factors, as a whole, while striving to continue stable and sound financial operations.

### 5. Significant Subsequent Events

#### (1) Merger between SHR and SHI

SHR conducted the Investment Corporation Merger on May 1, 2018.

##### a. Purpose of the Investment Corporation Merger

SHR and SHI expect that the Investment Corporation Merger will bring (1) Creation of a highly stable diversified REIT having high-quality residential properties and office buildings as its core assets, (2) Increase of varied growth opportunities by utilizing the integrated corporate strength of the Sekisui House Group and (3) Greater market presence due to an increase in the scale of assets, among other effects.

Sekisui House, the sponsor of the Two Investment Corporations, strives for the creation of residences and environments rich in humanity, aiming to be a “company which is a living environment creator” contributing to building a society where everyone can live comfortably, and the Two Investment Corporations have always shared this corporate philosophy in carrying out their operations.

SHR, keeping in mind the philosophy of Sekisui House, will primarily target “residential properties” including residence and other assets, and “commercial properties,” including office buildings and hotels which fall under “High-Quality” Prime Properties situated in “Strategic Locations” and will pursue a growth strategy leveraging to the fullest the real estate development and management capabilities of the Sekisui House Group. In addition, it will strive to make it possible for its unitholders, tenants and all other stakeholders to move forward together while aiming to “provide high-quality social capital” and “maximization of unitholders value” through asset management seeking medium- and long-term income stability and a steady increase of investment assets.

##### b. Form of the Merger

Form of the Investment Corporation Merger was an absorption-type merger with SHR being the surviving corporation, and SHI was dissolved in the Investment Corporation Merger.

##### c. Merger Ratio

Upon the Investment Corporation Merger, SHR allocated and delivered 1.65 SHR investment units for every 1 SHI investment unit to the unitholders stated or recorded in the final unitholders register on April 30, 2018, which was the day prior to the effective date of the Investment Corporation Merger, (the “Unitholders Subject to Allocation”). Following the allocation, fractions of less than one investment unit arose in the number of investment units to be delivered to some of the Unitholders Subject to Allocation. Those fractional units of less than one unit are sold through market transactions, and the proceeds from the sales are delivered to the Unitholders Subject to Allocation as allocated fractional units in accordance with the fraction pursuant to the provisions of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended) (the “Investment Trust Act”) in July 2018.

##### d. Merger Consideration

In addition to the abovementioned investment units, SHR pays the Unitholders Subject to Allocation or the registered pledgees of investment units held equivalent to the cash distributions for the SHI’s final fiscal period, a merger consideration in the form of cash distribution for that same period (amount obtained by dividing the amount of SHI’s distributable income on April 30, 2018 by the number of issued SHI investment units on the same day (dropping any fractions of a yen)) in July 2018.

##### e. Unitholders’ Capital, etc.

The amounts of SHR’s unitholders’ capital and capital surplus increased upon the Investment Corporation Merger are as follows.

Unitholders’ capital	0 yen
Capital surplus	Amount obtained by subtracting the above unitholders’ capital from the amount of change in unitholders’ equity as defined in Article 22, paragraph 1 of the Ordinance on Accounting at Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended)

## (2) Split of Investment Units

SHR conducted a split of investment units (the “Investment Unit Split”) on May 1, 2018.

## a. Purpose of the Investment Unit Split

The Investment Corporation Merger was to be carried out through an absorption-type merger having SHR as the surviving corporation, and the merger ratio, before considering the Investment Unit Split, would be SHR 1: SHI 0.825. However, based on this merger ratio, 0.825 units of SHR would be allotted to every unit of SHI, which would mean that a number of SHI unitholders would receive less than one SHR unit. For this reason, in order to enable SHI unitholders to continue holding SHR units even after the Investment Corporation Merger, for the purpose of issuing 1 SHR unit or more to all SHI unitholders, the SHR units were split 2-for-1.

## b. Method of the Investment Unit Split

With April 30, 2018 as the record date, SHR investment units owned by the unitholders set forth or recorded in the final unitholder register on the day were split 2-for-1.

## c. Number of Investment Units Increased after the Investment Unit Split and the Investment Corporation Merger, etc.

Total number of outstanding units prior to the Investment Unit Split:	969,000 units
Increased number of units through the Investment Unit Split:	969,000 units
Total number of issued and outstanding units after the Investment Unit Split:	1,938,000 units
Number of investment units allotted to SHI investment units following the Investment Corporation Merger:	1,824,091 units
Total number of issued and outstanding units after the Investment Corporation Merger:	3,762,091 units
Number of authorized investment units after the Investment Unit Split (Note):	20,000,000 units

(Note) Since the total number of issued and outstanding units would increase in line with the Investment Unit Split, SHR has changed the number of authorized investment units from 10,000,000 units to 20,000,000 units contingent upon the Investment Corporation Merger taking effect. For figures of per-unit information assuming that the investment unit split was executed at the beginning of the fiscal period, please refer to “Financial Statements (6) Notes to Financial Statements 19. Per Unit Information” later in this document.

## (3) Merger of Asset Management Company and Change of Company Name

The Asset Management Company carried out an absorption-type merger, with the Asset Management Company being the surviving company and the former SHAM being the dissolving company, and changed its company name from “Sekisui House Investment Advisors, Ltd.” to “Sekisui House Asset Management, Ltd.,” effective as of May 1, 2018.

## (4) Amendments to Articles of Incorporation and Asset Management Guidelines

At the General Meeting of Unitholders held on March 27, 2018, amendments of the Articles of Incorporation to add residential properties to SHR's core investment targets along with its conventional targets of office buildings, retail properties, and hotels, as well as to add necessary provisions regarding new geographical areas for investment in residential properties, in conjunction with implementation of the Investment Corporation Merger, were approved. Part of amendments took effect on March 27, 2018 and the remaining part took effect on May 1, 2018, the effective date of the Investment Corporation Merger.

In addition, the Asset Management Company resolved, at its Board of Directors held on March 28, 2018, to make necessary changes to the asset management guidelines to respond to the expansion of SHR's investment assets and investment targets. The changes to the asset management guidelines also took effect on May 1, 2018, the effective date of the Investment Corporation Merger.

## (Reference Information)

## (1) Acquisition of Assets

SHR acquired trust beneficiary interests in real estate for the following 6 residential properties on May 1, 2018.

Property name	Location	Acquisition Price (Note 1) (million yen)	Acquisition Date	Seller
Prime Maison Shirokanedai Tower	Shinagawa-ku, Tokyo	7,950	May 1, 2018	Sekisui House, Ltd.
Prime Maison Otsuka	Toshima-ku, Tokyo	3,700		
Prime Maison Asakusabashi	Taito-ku, Tokyo	1,680		
Prime Maison Daikanyama	Meguro-ku, Tokyo	2,520		
Prime Maison Gotenyama West	Shinagawa-ku, Tokyo	3,400		
Esty Maison Toyosu Residence (Note 2)	Koto-ku, Tokyo	6,050		
Total Acquisition Price (Note 1)		25,300		

(Note 1) The “Acquisition Price” and “Total Acquisition Price” do not include acquisition expenses, fixed asset tax, city planning tax, consumption tax, and local consumption tax.

(Note 2) The property name of the “Esty Maison Toyosu Residence” is “Toyosu Residence” as of the date of this document, but its property name is scheduled to be changed with the brand name “Esty Maison” after publicizing the change to the residents for a certain period of time, so the property name after such change has been stated.

## (2) Sale of Assets

SHR sold trust beneficiary interests in real estate for the following 12 residential properties it succeeded upon the Investment Corporation Merger on May 1, 2018.

Property name	Location	Sale Price (million yen)	Sale Date	Purchaser
Esty Maison Machida	Machida-shi, Tokyo	Undisclosed (Note)	May 1, 2018	Undisclosed (Note)
Esty Maison Shinkawasaki	Saiwai-ku, Kawasaki-shi, Kanagawa			
Esty Maison Megurohoncho	Meguro-ku, Tokyo			
Esty Maison Joto	Joto-ku, Osaka-shi, Osaka			
Esty Maison Tenjinigashi I	Hakata-ku, Fukuoka-shi, Fukuoka			
Esty Maison Tenjinigashi II	Hakata-ku, Fukuoka-shi, Fukuoka			
Esty Maison Shijonishinotoin	Shimogyo-ku, Kyoto-shi, Kyoto			
Esty Maison Hachiojiminamino	Hachioji-shi, Tokyo			
Esty Maison Nishinakajima	Higashiyodogawa-ku, Osaka-shi, Osaka			
Esty Maison Kawaramachi	Chuo-ku, Osaka-shi, Osaka			
Esty Maison Shibaura	Minato-ku, Tokyo			
Esty Maison Tsutsujigaoka	Chofu-shi, Tokyo			
Total Sale Price (Note)		16,400		

(Note) Since neither the purchasers of the Sold Assets nor the investor who invests in the purchasers has given approval for disclosure, the sale price for individual properties and purchaser information will remain undisclosed. In addition, the “total sale price” does not include sale expenses, fixed asset tax, city planning tax, consumption tax, and local consumption tax.

## (3) Borrowing of Funds

SHR conducted the following short-term loans on May 1, 2018 to partly fund of its acquisition of the trust beneficiary interests in real estate stated in “(1) Acquisition of Assets” above, as well as related expenses. On

May 31, 2018, SHR conducted long-term loans in order to refinance the said short-terms loans through early repayment.

a. Outline of new borrowings and early repayment

Category	Lender	Loan amount (million yen)	Interest rate (Note 1) (Note 2)	Drawdown date	Initial repayment date	Early repayment date (Note 3)	Security
Short term	Loan syndicate with MUFG Bank, Ltd. (Note 4) and Mizuho Bank, Ltd. as arranger (Note 5)	8,000	Base rate (JBA 1-month Japanese Yen TIBOR) plus 0.180%	May 1, 2018	Apr. 30, 2019	May 31, 2018	Unsecured Unguaranteed

(Note 1) Borrowing expenses, etc. payable to the lender are not included.

(Note 2) The base rate applicable to the calculation period for the interest payable on an interest payment date was 0.05364%.

(Note 3) Although repayment date was April 30, 2019, the entire loan amount was repaid prior to the repayment date due to refinancing conducted on May 31, 2018.

(Note 4) The company name was changed from The Bank of Tokyo-Mitsubishi UFJ, Ltd. on April 1, 2018. The same shall apply hereinafter.

(Note 5) The loan syndicate comprises MUFG Bank, Ltd., Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation.

b. Outline of refinancing

Category	Lender	Loan amount (million yen)	Interest rate (Note 1)	Drawdown date	Borrowing method	Repayment date (Note 2)	Repayment method (Note 3)	Security
Long term	Loan syndicate with MUFG Bank, Ltd. and Mizuho Bank, Ltd. as arranger (Note 4)	6,100	Base rate (JBA 1-month Japanese Yen TIBOR) plus 0.460% (Note 5)	May 31, 2018	Borrowing based on the individual loan agreement dated May 29, 2018, with the lenders shown to the left as the loaner	August 31, 2027	Lump-sum repayment at maturity	Unsecured Unguaranteed
	MUFG Bank, Ltd.	1,900	0.700% (Note 6)					

(Note 1) Borrowing expenses, etc. payable to the lender are not included.

(Note 2) If the concerned date is not a business day, then the repayment date shall be the next business day, and if that next business day falls in the next calendar month, then it shall be the business day immediately preceding the concerned date.

(Note 3) During the period from the Borrowing's drawdown to the repayment date, SHR may make early repayment of loans, in whole or in part, if SHR gives prior written notice and other certain terms and conditions are met.

(Note 4) The loan syndicate comprises Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation.

(Note 5) The base rate applicable to the calculation period for the interest payable on an interest payment date shall be the one-month Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration two business days prior to the interest payment date immediately preceding the respective interest payment date. The base rate is subject to review every interest payment date. However, in cases where there is no rate corresponding to the interest calculation period, the base rate shall be the base rate corresponding to the concerned period calculated based on the method provided in the contract. The first interest payment date shall be the last day of June 2018, and subsequent interest payment dates shall be the last days of every month and the principal repayment date. However, if the concerned date is not a business day, then it shall be the next business day, and if that next business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date. The interest rate is substantially fixed at 0.783% by conclusion of the interest rate swap agreement.

(Note 6) The first interest payment date shall be the last day of August 2018, and subsequent interest payment dates shall be the last days of February and August of each year and the principal repayment date. However, if the concerned date is not a business day, then it shall be the next business day, and if that next business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.



## Outline of the Investment Corporation

### 1. Status of Capital

Fiscal period	As of the end of 3rd fiscal period (Apr. 30, 2016)	As of the end of 4th fiscal period (Oct. 31, 2016)	As of the end of 5th fiscal period (Apr. 30, 2017)	As of the end of 6th fiscal period (Oct. 31, 2017)	As of the end of 7th fiscal period (Apr. 30, 2018)
Total number of investment units authorized (units)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total number of investment units issued and outstanding (units)	794,000	894,000	894,000	969,000	969,000
Unitholders' capital (million yen)	87,743	100,040	100,040	110,189	110,189
Number of unitholders (persons)	16,545	13,749	12,449	14,490	12,958

### 2. Matters Concerning Investment Units

Of the unitholders as of the end of the fiscal period under review, the following are the top ten unitholders in terms of investment unitholding ratio.

Name	Number of units owned (units)	Percentage of owned units to total units issued and outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	262,107	27.05
The Master Trust Bank of Japan, Ltd. (Trust Account)	157,431	16.25
Sekisui House, Ltd.	65,200	6.73
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	48,212	4.98
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	25,359	2.62
STATE STREET BANK AND TRUST COMPANY 505012	16,218	1.67
The Hachijuni Bank, Ltd.	12,818	1.32
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	10,388	1.07
The Hokuriku Bank, Ltd.	10,098	1.04
STICHTING PENSIOENFONDS METAAL EN TECHNIEK	10,004	1.03
Total	617,835	63.76

(Note) Percentage of owned units to total units issued and outstanding is rounded to the nearest second decimal place.

### 3. Matters Concerning Directors, etc.

#### (1) Name of executive director, supervisory directors and independent auditor

The following table sets forth information on the executive director, supervisory directors and independent auditor of SHR as of the date of this document.

Position	Name	Key concurrently held position, etc.	Total amount of compensation for each position during period (thousand yen)
Executive Director	Junichi Inoue	President & Representative Director, Sekisui House Asset Management, Ltd.	—
Supervisory Director	Shigeru Nomura	Director, Shigeru Nomura Certified Public Accountant Office Outside Director, Eiken Chemical Co., Ltd. Member of Corporate Revitalization Committee, The Resolution and Collection Corporation (RCC)	1,800
	Tatsushi Omiya	Outside Director, QB Net Holdings Co., Ltd. Partner, City Law Offices	1,800
Independent Auditor	Ernst & Young ShinNihon LLC	—	9,000 (Note 2)

(Note 1) None of the executive director or supervisory directors owns SHR investment units in his own name or in the name of another person. In addition, supervisory directors may be officers of other corporations other than those stated above, but none of such corporations, including those stated above, has vested interest in SHR.

(Note 2) The total amount of compensation for the Independent Auditor, as stated above, is an approximation and includes compensation for auditing English financial statements.

#### (2) Policy for determining whether to dismiss or refuse the reappointment of independent auditor

Dismissal of the independent auditor is subject to consideration at a meeting of the board of directors of SHR in accordance with the provisions of the Investment Trust Act. Refusal of reappointment of the independent auditor is also subject to consideration at a meeting of the board of directors of SHR by taking into account the quality of audits, amount of audit fee and various other factors in a comprehensive manner.

### 4. Asset Management Company, Asset Custodian and Administrative Agents

The following table sets forth information on the asset management company, asset custodian and administrative agents of SHR as of the date of this document.

Entrustment category	Name
Asset Management Company	Sekisui House Asset Management, Ltd.
Asset Custodian	Mitsubishi UFJ Trust and Banking Corporation
Administrative Agent (Transfer Agent)	Mizuho Trust & Banking Co., Ltd.
Administrative Agent (Administrative Agent for Operation of Administrative Instruments)	Mitsubishi UFJ Trust and Banking Corporation
Administrative Agent (Administrative Agent for Investment Corporation Bonds)	MUFG Bank, Ltd.

## Condition of investment assets

### 1. Composition of Assets of the Investment Corporation

The following table sets forth the composition of assets of SHR as of the end of the fiscal period under review.

Type of asset	Geographical area, etc.	As of the end of 6th fiscal period (Oct. 31, 2017)		As of the end of 7th fiscal period (Apr. 30, 2018)	
		Total amount held (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)	Total amount held (million yen) (Note 1)	As a percentage of total assets (%) (Note 2)
Real estate in trust	Three major metropolitan areas	198,055	95.6	197,376	95.1
	Other areas	—	—	—	—
Total of real estate in trust		198,055	95.6	197,376	95.1
Deposits and other assets		9,086	4.4	10,073	4.9
Total amount of assets		207,142	100.0	207,450	100.0

(Note 1) “Total amount held” is the carrying amount (or, for real estate in trust, the depreciated book value) as of the end of the fiscal period under review, rounded down to the nearest million yen.

(Note 2) Figures under the heading “As a percentage of total assets” have been rounded to the nearest first decimal place.

(Note 3) SHR does not own any overseas real estate, etc. as of the end of the fiscal period under review.

### 2. Major Portfolio Assets

The following table sets forth an overview of the portfolio assets of SHR as of the end of the fiscal period under review.

Name of real estate, etc.	Book value at the end of period (million yen) (Note 1)	Leasable area (m <sup>2</sup> ) (Note 2)	Leased area (m <sup>2</sup> ) (Note 3)	Occupancy rate (%) (Note 4)	As a percentage of total property-related operating revenue (%) (Note 5)	Main use
Garden City Shinagawa Gotenyama (Note 6)	58,826	31,236.34	31,236.34	100.0	28.3	Office building
Gotenyama SH Building	50,583	19,999.97	19,999.97	100.0	23.4	Office building
Hommachi Minami Garden City	22,374	16,699.46	16,699.46	100.0	12.6	Office building
Hommachi Garden City (Note 7)	Office building portion					
	37,705	17,006.94	17,006.94	100.0	19.4	Office building
	Hotel portion					
	17,213	18,092.98	18,092.98	100.0	8.6	Hotel
HK Yodoyabashi Garden Avenue	4,368	4,554.52	4,554.52	100.0	3.2	Office building
Hirokoji Garden Avenue	6,304	4,442.75	4,442.75	100.0	4.4	Office building
Total	197,376	112,032.96	112,032.96	100.0	100.0	—

(Note 1) “Book value at end of period” refers to the depreciated book value of each property as of the end of the fiscal period under review, rounded down to the nearest million yen. As such, the sum total of the “Book value at the end of period” of each property may not match the figure indicated in the column for the total.

(Note 2) “Leasable area” refers to the floor area available for leasing based on the lease agreement or building drawing, etc. for each property that is valid as of the end of the fiscal period under review, rounded down to the second decimal place.

(Note 3) “Leased area” refers to the sum total of the leased area indicated in the respective lease agreements for each of the properties that are valid as of the end of the fiscal period under review (or, if a pass-through type master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the lease agreements with the respective end tenants concluded as of the end of the fiscal period under review).

(Note 4) “Occupancy rate” refers to the ratio of leased area to leasable area of each property as of the end of the fiscal period under review, rounded to the nearest first decimal place. The figure indicated in the total column is the occupancy rate of the entire portfolio, which is the ratio of total leased area of each property to total leasable area of each property, rounded to the nearest first decimal place.

(Note 5) Figures under the heading “As a percentage of total property-related operating revenue” indicate the ratio of property-related operating revenue of each property to total property-related operating revenue, rounded to the nearest first decimal place. As such, the sum total of the figures in respect of each property may not match the figure indicated in the column for the total. The same shall apply hereinafter.

(Note 6) SHR acquired sectional ownership rights to all of the exclusively-owned portions of the 4th, 7th and 8th floors and part of the exclusively-owned portions of the 2nd, 3rd and 6th floors of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 2,103,349/3,857,806 (or approximately 54.5%)) (the “1st portion acquired”), on December 3, 2014. Subsequently, SHR acquired sectional ownership rights to part of the exclusively-owned portions of the 2nd, 3rd, 5th and 6th floors of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 820,252/3,857,806 (or approximately 21.3%)) (the “2nd portion acquired”), on May 24, 2016. Further SHR acquired sectional ownership rights to part of the exclusively-owned portions of the 2nd floor and all of the exclusively-owned portions of the 9th floor of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 200,039/3,857,806 (or approximately 5.2%)) (the “3rd portion acquired”), on May 24, 2017.

(Note 7) SHR acquired sectional ownership rights to all of the exclusively-owned portions used as office and retail property in Hommachi Garden City, together with the accompanying right of site, on May 19, 2015 (“Hommachi Garden City (Office building portion)” or “Office building portion”). The ratio of the exclusively-owned area is approximately 52.7% of the exclusively-owned area of the entire building, and the ratio of right of site is 68,645/100,000 for the office portion and 1,104/100,000 for the retail portion, totaling 69,749/100,000 (or approximately 69.7%). SHR subsequently acquired sectional ownership rights to all of the exclusively-owned portions used as a hotel in Hommachi Garden City, together with the accompanying right of site, on May 24, 2017 (“Hommachi Garden City (Hotel portion)” or the “Hotel portion”). The ratio of the exclusively-owned area is approximately 47.3% of the exclusively-owned area of the entire building and the ratio of right of site is 30,251/100,000 (or approximately 30.3%). SHR owns sectional ownership rights and the accompanying rights of site, as well as the annex to the entire Hommachi Garden City building. Hommachi Garden City includes co-ownership interest in the common portion pursuant to the relevant bylaws (parking, management offices, etc.), but there is no accompanying ratio of right of site.

## 3. Details of Assets (Real Estate, etc.) in the Portfolio

The following table sets forth an overview of the assets held by SHR as of the end of the fiscal period under review.

Name of real estate, etc.	Location	Type of ownership	Book value at the end of period (million yen) (Note 1)	Estimated value at the end of period (million yen) (Note 2)
Garden City Shinagawa Gotenyama	6-7-29 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	58,826	71,300
Gotenyama SH Building	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	50,583	58,500
Hommachi Minami Garden City	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	22,374	29,100
Hommachi Garden City	3-6-4 Hommachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	Office building portion	
			37,705	44,700
			Hotel portion	
			17,213	17,700
HK Yodoyabashi Garden Avenue	4-3-9 Fushimimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	4,368	5,590
Hirokoji Garden Avenue	4-24-16, Meieki, Nakamura-ku, Nagoya-shi, Aichi	Real estate trust beneficiary interests	6,304	7,150
Total	—	—	197,376	234,040

(Note 1) "Book value at the end of period" refers to the book value after depreciation of each property as of the end of the fiscal period under review, rounded down to the nearest million yen. As such, the sum total of the figures in respect of each property may not match the figure indicated in the column for the total.

(Note 2) "Estimated value at the end of period" refers to the value stated in each real estate appraisal report (based on real estate appraisal reports prepared by Daiwa Real Estate Appraisal Co., Ltd., The Tanizawa Sōgō Appraisal Co., Ltd., Rich Appraisal Institute Co., Ltd. and Japan Real Estate Institute with the end of the fiscal period under review as the date of valuation), rounded down to the nearest million yen.

The following table sets forth the status of leasing of real estate, etc. held by SHR.

Name of real estate, etc.	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017				7th fiscal period From: Nov. 1, 2017 To: Apr. 30, 2018			
	Number of tenants [at the end of fiscal period] (Note 1)	Occupancy rate [at the end of fiscal period] (%) (Note 2)	Property-related operating revenue [during fiscal period] (million yen) (Note 3)	As a percentage of total property-related operating revenue (%)	Number of tenants [at the end of fiscal period] (Note 1)	Occupancy rate [at the end of fiscal period] (%) (Note 2)	Property-related operating revenue [during fiscal period] (million yen) (Note 3)	As a percentage of total property-related operating revenue (%)
Garden City Shinagawa Gotenyama	1	100.0	1,307	28.5	1	100.0	1,318	28.3
Gotenyama SH Building	1	100.0	1,088	23.8	1	100.0	1,088	23.4
Hommachi Minami Garden City	1	100.0	586	12.8	1	100.0	586	12.6
Hommachi Garden City	Office building portion							
	1	100.0	903	19.7	1	100.0	903	19.4
	Hotel portion							
	1	100.0	352	7.7	1	100.0	402	8.6
HK Yodoyabashi Garden Avenue	1(7)	100.0	151	3.3	1(7)	100.0	149	3.2
Hirokoji Garden Avenue	1(9)	100.0	189	4.1	1(8)	100.0	205	4.4
Total	2(16)	100.0	4,580	100.0	2(15)	100.0	4,655	100.0

(Note 1) "Number of tenants" refers to the sum total of the number of tenants under, and indicated in, the respective lease agreements for each property that are valid as of the end of each fiscal period (or, if a master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the number of lessees under the master lease agreement). If a pass-through type master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the number of end tenants for the property is indicated in parenthesis.

In the "Total" column, a tenant that leases spaces in multiple properties is counted as one. The sum total of the number of end tenants for properties where pass-through type master lease agreements that are valid as of the end of each fiscal period have been concluded is indicated in parenthesis.

(Note 2) "Occupancy rate" refers to the ratio of leased area to leasable area of each property as of the end of each fiscal period, rounded to the nearest first decimal place. The total column indicates the occupancy rate of the entire portfolio, which indicates the ratio of total leased area of each property to total leasable area of each property, rounded to the nearest first decimal place.

(Note 3) "Property-related operating revenue [during fiscal period]" refers to the sum total of property-related operating revenue in each fiscal period in respect of each property, rounded down to the nearest million yen. As such, the sum of "Property-related operating revenue [during fiscal period]" in respect of each property may not match the figure indicated in the column for the total.



4. Details of Renewable Energy Power Generation Facility, etc.  
Not applicable.

5. Details of Right to Operate Public Facility, etc.  
Not applicable.

6. Details of Investment Securities  
Not applicable.

7. Table of Status of Contract Amount, etc. and Fair Value of Specified Transactions

The following table sets forth the status of contract amount, etc. and fair value of specified transactions at SHR as of the end of the fiscal period under review.

Category	Type	Contract amount, etc. (thousand yen) (Note 1)		Fair value (thousand yen) (Note 2)
			Amount due after 1 year	
Transaction other than market transaction	Interest rate swap transaction (Under which floating interest rates are receivable and fixed interest rates are payable)	60,450,000	60,450,000	—

(Note 1) The contract amount, etc. of interest rate swap transactions is based on notional principal amounts.

(Note 2) The fair value is omitted because the transaction meets the criteria for special accounting under the Accounting Standards for Financial Instruments.

8. Status of Other Assets

Trust beneficiary interests with real estate as the main assets in trust are stated in “3. Details of Assets (Real Estate, etc.) in the Portfolio” above. As of the end of the fiscal period under review, there are no specified assets other than real estate, etc., asset-backed securities, etc. and infrastructure assets, etc. in the portfolio.

9. Status of Holding of Assets by Country and Region

As of the end of the fiscal period under review, there are no portfolio real estate, etc. in any other country or region besides Japan.

## Capital expenditures for property

1. Schedule of Capital Expenditures

The main capital expenditure amounts accompanying renovation work, etc. currently planned for assets held by SHR, is as follows. However, a portion of such amounts may ultimately be classified as expenses in the course of the accounting process.

Name of real estate, etc. (location)	Purpose	Scheduled period	Scheduled amount (million yen) (Note)		
			Total amount	Payment for the fiscal period under review	Amount already paid
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Upgrading of integrated watt meters	From: January 2019 To: March 2019	8	—	—
Hommachi Minami Garden City (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated watt meters	From: January 2019 To: January 2019	5	—	—
Hommachi Minami Garden City (Chuo-ku, Osaka-shi, Osaka)	Renovation of ventilation facility at smoking rooms for guests	From: March 2019 To: March 2019	4	—	—
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of battery for guide light	From: August 2018 To: September 2018	4	—	—

(Note) “Scheduled amount” refers to the amount arrived at by multiplying (i) the full amount required for the work by (ii) the ratio of SHR’s ownership in the real estate trust beneficiary interest.

2. Capital Expenditures During Period

An overview of capital expenditures conducted by SHR for its assets during the fiscal period under review is as set forth in the following table. Total capital expenditures during the fiscal period under review was 52 million yen and, together with 22 million yen of repair expenses charged to expenses in the fiscal period under review, work amounting to 75 million yen was implemented.

Name of real estate, etc. (location)	Purpose	Period	Payment amount (million yen)
Hommachi Garden City (Hotel portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated heat meters	From: November 2017 To: December 2017	8
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Upgrading of integrated watt meters	From: January 2018 To: February 2018	7
Hommachi Garden City (Office building portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated heat meters	From: November 2017 To: December 2017	6
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Maintenance of emergency power generators	From: March 2018 To: March 2018	4
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of battery for guide light	From: March 2018 To: March 2018	3
Hommachi Minami Garden City (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated watt meters	From: January 2018 To: January 2018	3
Other capital expenditures			18
Total			52

3. Cash Reserves for Long-Term Repair Plans

No cash was reserved for long-term repair plans as of the end of the fiscal period under review.

# Condition of expenses

Details of Expenses Pertaining to Management, etc.

Item	(Unit: thousand yen)	
	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017	7th fiscal period From: Nov. 1, 2017 To: Apr. 30, 2018
Asset management fee	359,562	370,434
Asset custody fee	3,526	3,786
Administrative service fees	11,485	12,732
Directors' compensations	3,600	3,600
Other expenses	36,614	47,548
Total	414,789	438,101

(Note) In respect to asset management fees, in addition to the amounts shown above, there are management fees for property acquisition (6th fiscal period: 31,800 thousand yen, 7th fiscal period: not applicable) included in the book value of real estate, etc.

Condition of investment transactions

1.

Status, etc. of Sale and Purchase of Real Estate, etc., Asset-Backed Securities, etc., Infrastructure Assets, etc. and Infrastructure-Related Assets  
Not applicable.
2.

Status, etc. in respect of Sale and Purchase of Other Assets  
Not applicable.  
Main assets other than the abovementioned real estate, etc., asset-backed securities, etc., infrastructure assets, etc. and infrastructure-related assets are essentially bank deposits or bank deposits within assets in trust.
3.

Investigation into Value, etc. of Specified Assets

(1)

Real Estate, etc. (Appraisal)  
Not applicable.

(2)

Others  
Concerning transactions requiring investigations into the value, etc. of specified assets pursuant to Article 201, Paragraph 2 of the Investment Trusts Act, Akasaka Audit LLC has conducted the investigations pursuant to Practical Guidelines for Specialized Operations 4460 “Practical Guidelines for Agreed-Upon Procedures Pertaining to Investigation into the Value, etc. of Specified Assets of Investment Trusts and Investment Corporations” published by the Japanese Institute of Certified Public Accountants, and SHR has been notified of the results of the investigations.  
The transactions subject to investigations in the fiscal period under review were two interest rate swap transactions. For the said transactions, investigations into the name of the counterparty to the transaction, the type of financial instrument or financial indicator involved, the transaction period and other matters concerning the content of the over-the-counter transaction of derivatives, etc. have been entrusted.
4.

Status of Transactions with Interested Persons, etc. (Note 1)

(1)

Status of Transactions  
Not applicable.

(2) Amount of Commission Fee, etc. (Note 2)

Category	Total amount of commission fee, etc. (A) (thousand yen)	Breakdown of transactions with interested persons, etc.		As a percentage of total amount (B/A) (%)
		Payee	Amount paid (B) (thousand yen)	
Management fee (Note 3)	30,742	Sekisui House, Ltd.	30,742	100.0

(Note 1) “Interested persons, etc.” refers to interested persons, etc. of the asset management company with which SHR has executed an asset management agreement as provided in Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations (Order for Enforcement No. 480 of 2000, as amended) and Article 26, Item 27 of the Rules on Investment Reports, etc. of Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

(Note 2) There are no payments for repair work, etc. for orders placed to interested persons, etc. during the fiscal period under review besides the commission fee, etc. indicated above.

(Note 3) “Management fee” has been rounded down to the nearest thousand yen.

5.

Status, etc. of Transactions with the Asset Management Company Pertaining to Business Operations of Concurrent Business Engaged in by the Asset Management Company  
There are no applicable transactions because as of the end of the fiscal period under review, the Asset Management Company does not concurrently engage in any type I financial instruments or type II financial instruments business (as defined in the Financial Instruments and Exchange Act (Act No. 25 of 1948, including

subsequent amendments)), building lots and buildings transaction business, or specified joint real estate ventures.



## Other information

### 1. Notice

#### (1) General Meeting of Unitholders

During the fiscal period under review, SHR held its Third General Meeting of Unitholders on March 27, 2018.

The following are the matters approved at the General Meeting of Unitholders.

Matters approved	Overview
Merger agreement with SHI	An absorption-type merger, whereby SHR would be the surviving corporation and SHI would be the dissolving corporation was approved.
Partial amendments to the Articles of Incorporation	<p>Partial amendments to the Articles of Incorporation were resolved as described below.</p> <p>(1) Since the total number of issued investment units will increase in conjunction with the Investment Unit Split, the total number of authorized investment units shall be increased accordingly in advance.</p> <p>(2) With regard to the provision that a general meeting of unitholders shall be convened on a certain day and without delay thereafter, since the terms of office of directors will change and in order to adjust to such change, the provision to the effect that a general meeting of unitholders of SHR shall be convened on July 1, 2018 and without delay thereafter, and subsequently shall be convened on July 1 and without delay thereafter every 2 years shall be amended to the effect that a general meeting of unitholders of SHR shall be convened on January 1, 2020 and without delay thereafter, and subsequently shall be convened on January 1 and without delay thereafter every 2 years, and the necessary provisions relating to the record date for general meetings of unitholders shall be changed.</p> <p>(3) In conjunction with implementation of the Investment Corporation Merger, residential properties shall be added to SHR's core investment targets along with its conventional targets of office buildings, retail properties, and hotels, and necessary provisions regarding new geographical areas for investment in residential properties shall be added.</p> <p>(4) Some investments by SHI, which is the counterparty to the Investment Corporation Merger, include assets that are not investment targets of SHR; accordingly, in conjunction with the Investment Corporation Merger, additions shall be made to SHR's target assets for investment.</p> <p>(5) While the roles and responsibilities of the accounting auditor are mounting, audit work is also likely to increase in conjunction with the expanded scope of investment assets resulting from the Investment Corporation Merger. In light of such, the maximum accounting auditor remuneration amount shall be raised from 20 million yen to 25 million yen to reflect an appropriate level.</p> <p>(6) In conjunction with the Investment Corporation Merger, the Asset Management Company conducted investigation and valuation of SHI's assets, negotiated with related persons, and performed other services for the purpose of implementation of the Investment Corporation Merger; accordingly, provisions relating to the Management Fee V (Merger Fee) shall be added to enable payment of appropriate consideration for the Asset Management Company's services.</p> <p>Further, it is expected that goodwill will arise in conjunction with the Investment Corporation Merger, and therefore, necessary provisions shall be added to clarify the handling of goodwill amortization and the like when calculating Management Fee I (Ongoing Operational and Management Fee I) and Management Fee II (Ongoing Operational and Management Fee II).</p> <p>Moreover, with regard to Management Fee II (Ongoing Operational and Management Fee II), necessary provisions shall be added regarding calculation of Management Fee II (Ongoing Operational and Management Fee II) to ensure that the impact on Management Fee II (Ongoing Operational and Management Fee II) would be neutral when SHR splits its investment units or implements a rights offering (issuance of new investment units through</p>

	<p>gratis allotment of investment unit acquisition rights to current unitholders and exercise of such rights).</p> <p>(7) Since the amendments described in (1), (3), and (5) above are to come into effect subject to the Investment Corporation Merger coming into effect, a provision to that effect shall be added as an appendix to the Articles of Incorporation.</p> <p>(8) In addition to the above, language shall be revised and wording shall be corrected to clarify the particulars of the provisions and article numbers shall be modified and other adjustments to the text shall be made.</p>
Appointment of 1 (one) executive director	<p>Junichi Inoue was appointed as executive director.</p> <p>His term of office will be 2 years from May 1, 2018.</p>
Appointment of 2 (two) substitute executive directors	<p>Osamu Minami and Nobuyoshi Sato were appointed as substitute executive directors.</p> <p>Their term of office will be from May 1, 2018 to the end of the above executive director's term of office.</p>
Appointment of 2 (two) supervisory directors	<p>Shigeru Nomura and Tatsushi Omiya were appointed as supervisory directors.</p> <p>Their term of office will be 2 years from May 1, 2018.</p>

## (2) Meeting of the Board of Directors of the Investment Corporation

In the fiscal period under review, regarding the matters, etc. provided in Items 2, 3, 5, 6 and 8 of Article 109, Paragraph 2 of the Investment Trusts Act, the followings describe matters approved at a meeting of the board of directors of SHR, as well as other matters deemed important.

Approval date	Matters approved	Overview
January 24, 2018	Conclusion of merger agreement	An absorption-type merger, whereby SHR would be the surviving corporation and SHI would be the dissolving corporation was concluded.
February 27, 2018	Conclusion of amendment agreement regarding asset management agreement	An amendment agreement regarding amendments to asset management fees whose condition precedent is approval of partial amendments to the Articles of Incorporation at SHR's Third General Meeting of Unitholders on March 27, 2018; and an amendment agreement regarding amendments to investment policy, etc. whose condition precedent is the Investment Corporation Merger taking effect, were concluded.

## 2. Handling of fractions of monetary amounts and percentage figures

Amounts have been rounded down and ratios have been rounded to the nearest specified unit unless otherwise indicated in this document.

## Financial Section (Audited)

## Contents

## Financial Statements

Balance Sheet	42
Statement of Income and Retained Earnings	44
Statement of Changes in Net Assets	45
Statement of Cash Distributions	46
Statement of Cash Flows	47
Notes to Financial Statements	48
Supplementary Schedules	60
Independent Auditor's Report	66

## 1. Financial Statements

## (1) Balance Sheet

	(Thousands of yen)	
	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	1,756,618	2,607,767
Cash and deposits in trust	6,518,376	7,005,235
Operating accounts receivable	19,330	18,804
Prepaid expenses	76,198	96,381
Deferred tax assets	7	21
Consumption taxes receivable	372,744	—
Other	—	133
<b>Total current assets</b>	<b>8,743,275</b>	<b>9,728,343</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings in trust	59,604,170	59,654,248
Accumulated depreciation	(3,399,530)	(4,121,631)
Buildings in trust, net	56,204,639	55,532,616
Structures in trust	683,807	684,357
Accumulated depreciation	(52,592)	(61,803)
Structures in trust, net	631,215	622,554
Machinery and equipment in trust	921	921
Accumulated depreciation	(58)	(93)
Machinery and equipment in trust, net	862	827
Tools, furniture and fixtures in trust	1,259	3,053
Accumulated depreciation	(447)	(638)
Tools, furniture and fixtures in trust, net	811	2,414
Land in trust	141,218,283	141,218,283
Total property, plant and equipment	198,055,813	197,376,695
Intangible assets		
Other	3,147	2,412
Total intangible assets	3,147	2,412
Investments and other assets		
Lease and guarantee deposits	20,181	20,181
Long-term prepaid expenses	227,164	246,911
Total investments and other assets	247,345	267,092
<b>Total non-current assets</b>	<b>198,306,306</b>	<b>197,646,200</b>
<b>Deferred assets</b>		
Investment corporation bond issuance costs	35,045	32,125
Investment unit issuance costs	57,907	43,523
<b>Total deferred assets</b>	<b>92,952</b>	<b>75,648</b>
<b>Total assets</b>	<b>207,142,534</b>	<b>207,450,193</b>

	(Thousands of yen)	
	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating accounts payable	172,924	143,489
Current portion of long-term loans payable	14,000,000	—
Accounts payable – other	402,587	414,997
Accrued expenses	82,238	91,512
Income taxes payable	743	1,048
Accrued consumption taxes	—	318,392
Other	—	0
<b>Total current liabilities</b>	<b>14,658,493</b>	<b>969,440</b>
<b>Non-current liabilities</b>		
Investment corporation bonds	5,000,000	5,000,000
Long-term loans payable	65,400,000	79,400,000
Tenant leasehold and security deposits in trust	9,268,730	9,269,955
<b>Total non-current liabilities</b>	<b>79,668,730</b>	<b>93,669,955</b>
<b>Total liabilities</b>	<b>94,327,223</b>	<b>94,639,396</b>
<b>Net assets</b>		
<b>Unitholders' equity</b>		
Unitholders' capital	110,189,294	110,189,294
Surplus		
Unappropriated retained earnings	2,626,016	2,621,502
Total surplus	2,626,016	2,621,502
<b>Total unitholders' equity</b>	<b>112,815,310</b>	<b>112,810,796</b>
<b>Total net assets (Note 4)</b>	<b>112,815,310</b>	<b>112,810,796</b>
<b>Total liabilities and net assets</b>	<b>207,142,534</b>	<b>207,450,193</b>

The accompanying notes are an integral part of these financial statements.

## (2) Statement of Income and Retained Earnings

	(Thousands of yen)	
	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
<b>Operating revenue</b>		
Rent revenue – real estate (Note 5)	4,550,426	4,629,845
Other lease business revenue (Note 5)	30,081	25,742
Total operating revenue	4,580,508	4,655,588
<b>Operating expenses</b>		
Expenses related to rent business (Note 5)	1,178,033	1,223,022
Asset management fee	359,562	370,434
Asset custody fee	3,526	3,786
Administrative service fees	11,485	12,732
Directors' compensations	3,600	3,600
Other operating expenses	36,614	47,548
Total operating expenses	1,592,823	1,661,123
<b>Operating income</b>	2,987,685	2,994,464
<b>Non-operating income</b>		
Interest income	46	39
Interest on refund	—	1,442
Total non-operating income	46	1,482
<b>Non-operating expenses</b>		
Interest expenses	293,464	296,306
Interest expenses on investment corporation bonds	5,568	6,959
Borrowing related expenses	43,160	52,322
Amortization of investment unit issuance costs	14,384	14,384
Amortization of investment corporation bond issuance costs	2,258	2,919
Other	2,416	537
Total non-operating expenses	361,252	373,430
<b>Ordinary income</b>	2,626,479	2,622,516
<b>Income before income taxes</b>	2,626,479	2,622,516
Income taxes – current	750	1,054
Income taxes – deferred	9	(14)
Total income taxes	759	1,039
<b>Net income</b>	2,625,719	2,621,476
<b>Retained earnings brought forward</b>	296	26
<b>Unappropriated retained earnings</b>	2,626,016	2,621,502

The accompanying notes are an integral part of these financial statements.

## (3) Statement of Changes in Net Assets

	(Thousands of yen)				
	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus Unappropriated retained earnings	Total surplus	Total unitholders' equity	
Balance at beginning of period	100,040,294	2,381,018	2,381,018	102,421,312	102,421,312
Changes of items during period					
Issuance of new investment units	10,149,000			10,149,000	10,149,000
Distribution from surplus		(2,380,722)	(2,380,722)	(2,380,722)	(2,380,722)
Net income		2,625,719	2,625,719	2,625,719	2,625,719
Total changes of items during period	10,149,000	244,997	244,997	10,393,997	10,393,997
Balance at end of period (Note 6)	110,189,294	2,626,016	2,626,016	112,815,310	112,815,310

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

	(Thousands of yen)				
	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus Unappropriated retained earnings	Total surplus	Total unitholders' equity	
Balance at beginning of period	110,189,294	2,626,016	2,626,016	112,815,310	112,815,310
Changes of items during period					
Distribution from surplus		(2,625,990)	(2,625,990)	(2,625,990)	(2,625,990)
Net income		2,621,476	2,621,476	2,621,476	2,621,476
Total changes of items during period	—	(4,513)	(4,513)	(4,513)	(4,513)
Balance at end of period (Note 6)	110,189,294	2,621,502	2,621,502	112,810,796	112,810,796

The accompanying notes are an integral part of these financial statements.



## (4) Statement of Cash Distributions

Item	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
I . Unappropriated retained earnings	2,626,016,489yen	2,621,502,992yen
II . Cash distributions	2,625,990,000yen	2,621,145,000yen
[Cash distributions per unit]	[2,710yen]	[2,705yen]
III . Retained earnings carried forward	26,489yen	357,992yen
Method of calculating amount of distribution	The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR. Based on such policy, SHR decided to pay out a distribution of earnings of 2,625,990,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (969,000 units) in an amount not in excess of unappropriated retained earnings for the period. SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.	The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR. Based on such policy, SHR decided to pay out a distribution of earnings of 2,621,145,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (969,000 units) in an amount not in excess of unappropriated retained earnings for the period. SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.

## (5) Statement of Cash Flows

	(Thousands of yen)	
	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
<b>Cash flows from operating activities</b>		
Income before income taxes	2,626,479	2,622,516
Depreciation and amortization	730,830	732,273
Amortization of investment corporation bond issuance costs	2,258	2,919
Amortization of investment unit issuance costs	14,384	14,384
Interest income	(46)	(39)
Interest expenses	299,032	303,266
Decrease (increase) in operating accounts receivable	(2,621)	526
Decrease (increase) in consumption taxes receivable	(372,744)	372,744
Decrease (increase) in prepaid expenses	8,324	(20,182)
Decrease (increase) in long-term prepaid expenses	12,698	(19,746)
Increase (decrease) in operating accounts payable	58,926	(43,839)
Increase (decrease) in accounts payable – other	28,855	11,768
Increase (decrease) in accrued consumption taxes	(284,571)	318,392
Other, net	11,350	(133)
Subtotal	3,133,158	4,294,850
Interest income received	46	39
Interest expenses paid	(295,964)	(293,992)
Income taxes paid	(945)	(749)
Net cash provided by operating activities	2,836,294	4,000,148
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment in trust	(21,377,917)	(38,016)
Proceeds from tenant leasehold and security deposits in trust	235,020	12,250
Repayments of tenant leasehold and security deposits in trust	—	(11,025)
Net cash provided by (used in) investing activities	(21,142,896)	(36,791)
<b>Cash flows from financing activities</b>		
Proceeds from short-term loans payable	7,600,000	—
Repayments of short-term loans payable	(7,600,000)	—
Proceeds from long-term loans payable	4,100,000	14,000,000
Repayments of long-term loans payable	—	(14,000,000)
Proceeds from issuance of investment corporation bond	2,980,150	—
Proceeds from issuance of investment units	10,104,734	—
Dividends paid	(2,381,007)	(2,625,348)
Net cash provided by (used in) financing activities	14,803,877	(2,625,348)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,502,724)</b>	<b>1,338,008</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>11,777,719</b>	<b>8,274,994</b>
<b>Cash and cash equivalents at end of period (Note 7)</b>	<b>8,274,994</b>	<b>9,613,003</b>

The accompanying notes are an integral part of these financial statements.

**(6) Notes to Financial Statements****1. Organization**

Sekisui House Reit, Inc. ("SHR") is a Japanese real estate investment corporation established in September 2014 under the Act on Investment Trusts and Investment Corporations of Japan (the "Investment Trust Act"). On December 3, 2014, SHR commenced its investment operations when it was listed on the Real Estate Investment Trust Securities Market of the Tokyo Stock Exchange, and it acquired three properties (total acquisition cost of ¥114.3 billion) on the same day. SHR is externally managed by a licensed asset management company, Sekisui House Investment Advisors, Ltd.

**2. Basis of Presentation**

SHR maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), including provisions set forth in the Financial Instruments and Exchange Act, the Investment Trust Act, the Companies Act and the related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are basically a translation of the financial statements of SHR, which were prepared in accordance with Japanese GAAP and were presented in its Securities Report filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the financial statements include certain information which might not be required under Japanese GAAP but is presented herein as additional information.

SHR's fiscal period is a six-month period, which ends at the end of April and October of each year. SHR does not prepare consolidated financial statements as it has no subsidiaries.

Unless otherwise specified, amounts have been rounded down to the nearest thousand yen in the accompanying financial statements and the notes thereto. As a result, the amounts shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

**3. Summary of Significant Accounting Policies**

1. Method of depreciation and amortization of non-current assets	<p>(1)Property, plant and equipment (including assets in trust) Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows:</p> <table> <tr> <td>Buildings</td><td>6-65 years</td></tr> <tr> <td>Structures</td><td>10-40 years</td></tr> <tr> <td>Machinery and equipment</td><td>10-18 years</td></tr> <tr> <td>Tools, furniture and fixtures</td><td>2-15 years</td></tr> </table> <p>(2)Intangible assets Intangible assets are amortized utilizing the straight-line method. (3)Long-term prepaid expenses Long-term prepaid expenses are amortized utilizing the straight-line method.</p>	Buildings	6-65 years	Structures	10-40 years	Machinery and equipment	10-18 years	Tools, furniture and fixtures	2-15 years
Buildings	6-65 years								
Structures	10-40 years								
Machinery and equipment	10-18 years								
Tools, furniture and fixtures	2-15 years								
2. Accounting for deferred assets	<p>(1) Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized utilizing the straight-line method over the redemption periods. (2) Investment unit issuance costs Investment unit issuance costs are amortized utilizing the straight-line method (over 3 years).</p>								
3. Standards for revenue and expense recognition	<p>Accounting for property taxes In accounting for property tax, city planning tax, depreciable asset tax, etc. on real estate, etc., of the tax amount assessed and determined, the amount corresponding to the applicable calculation period is expensed as expenses related to rent business. Reimbursement of property tax, paid to the seller upon the acquisition of real estate or trust beneficiary interests of real estate as assets in trust, is not recognized as expenses related to rent business in the corresponding fiscal period but included in the acquisition cost of the property. Property taxes capitalized as a part of the acquisition cost amounted to 78,845 thousand yen for the 6th fiscal period, and there were no property taxes capitalized for the 7th fiscal period.</p>								

4. Method of hedge accounting	<p>(1)Method of hedge accounting Deferral hedge accounting is applied. However, the special accounting treatment is applied to interest rate swaps that meet the criteria for the special accounting treatment. (2)Hedging instruments and hedged items Hedging instruments: Interest rate swap transactions Hedged items: Interest on loans (3)Hedging policy SHR conducts derivative transactions for the purpose of hedging the risks set forth in its Articles of Incorporation based on its basic risk management policy. (4)Method for assessing the effectiveness of hedging Interest rate swaps meet the criteria for the special accounting treatment and an assessment of the effectiveness is thus omitted.</p>
5. Scope of funds in the statement of cash flows	The funds (cash and cash equivalents) in the statement of cash flows consist of cash on hand and cash in trust; deposits that can be withdrawn at any time and deposits in trust; and short-term investments with a maturity of three months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of price fluctuation.
6. Other significant matters serving as basis for preparation of financial statements	<p>(1)Accounting for trust beneficiary interests of real estate, etc. as assets in trust Concerning trust beneficiary interests of real estate, etc. as assets in trust, all accounts of assets and liabilities within assets in trust as well as all accounts of revenue and expenses from the assets in trust are recognized in the relevant account items on the balance sheet and the statement of income and retained earnings. The following material items of the assets in trust recognized in the relevant account items are separately listed on the balance sheet.</p> <ol style="list-style-type: none"> <li>1) Cash and deposits in trust</li> <li>2) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust</li> <li>3) Tenant leasehold and security deposits in trust</li> </ol> <p>(2)Accounting for consumption tax, etc. Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>

**4. Notes to Balance Sheet**

\*1. Minimum net assets designated in Article 67-4 of the Investment Trust Act

(Thousands of yen)	
6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
50,000	50,000

**5. Notes to Statement of Income and Retained Earnings**

\*1. Breakdown of property-related operating revenue and expenses

(Thousands of yen)				
	6th Fiscal Period (From May 1, 2017 to October 31, 2017)		7th Fiscal Period (From November 1, 2017 to April 30, 2018)	
A. Property-related operating revenue				
Rent revenue – real estate				
Rental income	4,538,496		4,617,985	
Other	11,930	4,550,426	11,860	4,629,845
Other lease business revenue				
Utilities revenue	24,706		19,927	
Other	5,375	30,081	5,815	25,742
Total property-related operating revenue		4,580,508		4,655,588
B. Property-related operating expenses				
Expenses related to rent business				
Subcontract expenses	24,546		24,561	
Property management fees	26,177		30,742	
Trust fees	2,704		2,765	
Utilities expenses	20,595		19,172	
Property and other taxes	334,107		378,425	
Insurance expenses	6,291		5,950	
Repair expenses	28,342		22,728	
Depreciation	730,095		731,538	
Other expenses related to rent business	5,171	1,178,033	7,137	1,223,022
Total property-related operating expenses		1,178,033		1,223,022
C. Property-related operating income [A – B]		3,402,475		3,432,565

**6. Notes to Statement of Changes in Net Assets**

\*1. Total number of authorized investment units and total number of investment units issued

	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued	969,000 units	969,000 units

**7. Notes to Statement of Cash Flows**

\*1. Reconciliation of cash and cash equivalents at end of period to the corresponding balance sheet items

(Thousands of yen)		
	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
Cash and deposits	1,756,618	2,607,767
Cash and deposits in trust	6,518,376	7,005,235
Cash and cash equivalents	8,274,994	9,613,003

**8. Lease Transactions**

Operating lease transactions as lessor

Future minimum lease income

(Thousands of yen)		
	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
Due within 1 year	9,159,073	9,047,000
Due after 1 year	35,656,637	31,211,701
Total	44,815,711	40,258,702

**9. Financial Instruments**

1. Status of financial instruments

(1) Policy for financial instruments

Making it a policy to conduct stable and sound financial operations that would contribute to steady growth of its investment assets as well as efficient management and stability of management, SHR shall procure funds through borrowings or the issuance of investment corporation bonds for the purposes of utilizing such funds for the acquisition of assets, payments of repair expenses or distributions, operations of SHR, repayment of obligations or other.

For derivative transactions, the policy is that derivative transactions shall be limited to those for the purpose of hedging the risk of fluctuations in interest rates on liabilities and foreign currency risk in the case of overseas real estate investments, and that no speculative transactions shall be conducted.

(2) Description of financial instruments and associated risks, and risk management structure

The funds procured through borrowings shall be used mainly for the acquisition of investment assets and for repayment of loans.

The availability and terms and conditions of borrowings and the issuance of investment corporation bonds may be affected by SHR's financial creditworthiness, the interest rate situation and other factors, and there is thus no guarantee that funds can be procured at SHR's desired timing and terms and conditions. Furthermore, loans with floating interest rates are susceptible to subsequent market trends.

SHR manages and limits the liquidity risk and the risk of fluctuations in interest rates associated with such fund procurement by diversifying fund procurement sources and means and by maintaining the ratio of interest-bearing liabilities to total assets and the ratio of floating-rate loans to total loans at appropriate levels. Furthermore, for certain loans with floating interest rates, derivative transactions (interest rate swap transactions) are used as a hedging instrument for hedging the risk of fluctuations in interest rates based on rules that set forth the basic policy for handling derivative transactions and risk management.

(3) Supplementary explanation of matters concerning fair value of financial instruments

The fair value of financial instruments, aside from values based on market price, includes values based on reasonable calculations when there is no market price. As the calculations involve variable factors, there may be cases where the corresponding values will vary when different assumptions are adopted. In addition, the contract amounts of derivative transactions in "2. Matters concerning fair value of financial instruments" do not represent the market risk involved in the derivative transactions.

## 2. Matters concerning fair value of financial instruments

The following is the carrying amount and fair value of financial instruments as of October 31, 2017 and April 30, 2018, and the difference between them.

The following table does not include those for which fair value is recognized to be extremely difficult to determine (please refer to (Note 2)).

6th Fiscal Period (As of October 31, 2017)

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	1,756,618	1,756,618	—
(2) Cash and deposits in trust	6,518,376	6,518,376	—
Total assets	8,274,994	8,274,994	—
(3) Current portion of long-term loans payable	14,000,000	14,000,000	—
(4) Investment corporation bonds	5,000,000	4,980,500	(19,500)
(5) Long-term loans payable	65,400,000	66,990,706	1,590,706
Total liabilities	84,400,000	85,971,206	1,571,206
(6) Derivative transactions	—	—	—

7th Fiscal Period (As of April 30, 2018)

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	2,607,767	2,607,767	—
(2) Cash and deposits in trust	7,005,235	7,005,235	—
Total assets	9,613,003	9,613,003	—
(3) Investment corporation bonds	5,000,000	4,985,800	(14,200)
(4) Long-term loans payable	79,400,000	80,689,728	1,289,728
Total liabilities	84,400,000	85,675,528	1,275,528
(5) Derivative transactions	—	—	—

(Note 1) Method of calculating the fair value of financial instruments

## (1) Cash and deposits and (2) Cash and deposits in trust

As these are settled within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

## (3) Investment corporation bonds

The fair value of investment corporation bonds are based on the quoted market price.

## (4) Long-term loans payable

As the long-term loans payable with floating interest rates reflect interest rate changes within a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value (provided, however, that for long-term loans payable with floating interest rates that qualify for the special accounting treatment of interest rate swaps (please refer to “11. Derivative Transactions”), the fair value is based on the method of calculation in which the sum total amount of principal and interest accounted for with the interest rate swap is discounted by the rate assumed in the event of a similar new drawdown). In addition, for those with fixed interest rates, the fair value is based on the method of calculation in which the sum total amount of principal and interest is discounted by the rate assumed in the event of a similar new drawdown corresponding to the remaining period.

## (5) Derivative transactions

Please refer to “11. Derivative Transactions”.

(Note 2) Financial instruments for which fair value is recognized to be extremely difficult to determine

Tenant leasehold and security deposits in trust are not subject to valuation of fair value because a reasonable estimation of cash flows is recognized to be extremely difficult because there is no market price and the difficulty of calculating the actual deposit period from when lessees move in to when they move out.

(Thousands of yen)		
Item	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
Tenant leasehold and security deposits in trust	9,268,730	9,269,955

(Note 3) Redemption schedule of monetary claims after the closing date

6th Fiscal Period (As of October 31, 2017)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Cash and deposits	1,756,618	—	—	—	—	—
Cash and deposits in trust	6,518,376	—	—	—	—	—
Total	8,274,994	—	—	—	—	—

7th Fiscal Period (As of April 30, 2018)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Cash and deposits	2,607,767	—	—	—	—	—
Cash and deposits in trust	7,005,235	—	—	—	—	—
Total	9,613,003	—	—	—	—	—

(Note 4) Repayment schedule of investment corporation bonds and loans after the closing date

6th Fiscal Period (As of October 31, 2017)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Current portion of long-term loans payable	14,000,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	3,000,000	2,000,000
Long-term loans payable	—	—	14,000,000	12,910,000	17,000,000	21,490,000

7th Fiscal Period (As of April 30, 2018)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Investment corporation bonds	—	—	—	—	3,000,000	2,000,000
Long-term loans payable	—	14,000,000	11,050,000	18,860,000	10,000,000	25,490,000

## 10. Securities

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.



**11. Derivative Transactions**

1. Derivatives to which hedge accounting is not applied

6th Fiscal Period (As of October 31, 2017)

Not applicable.

7th Fiscal Period (As of April 30, 2018)

Not applicable.

2. Derivatives to which hedge accounting is applied

The following is the contract amount or the amount equivalent to the principal provided in the contract as of the closing date for each method of hedge accounting.

6th Fiscal Period (As of October 31, 2017)

(Thousands of yen)

Method of hedge accounting	Type of derivative transactions	Main hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, over 1 year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Floating interest rate receivable and fixed interest rate payable	Long-term loans payable	50,350,000	50,350,000	*	—

\*As derivative transactions qualifying for the special accounting treatment for interest rate swaps are accounted for with the hedged long-term loans payable, the fair value is included in the fair value of the underlying long-term loans payable (please refer to “9. Financial Instruments: 2. Matters concerning fair value of financial instruments (Note 1)”).

7th Fiscal Period (As of April 30, 2018)

(Thousands of yen)

Method of hedge accounting	Type of derivative transactions	Main hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, over 1 year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Floating interest rate receivable and fixed interest rate payable	Long-term loans payable	60,450,000	60,450,000	*	—

\*As derivative transactions qualifying for the special accounting treatment for interest rate swaps are accounted for with the hedged long-term loans payable, the fair value is included in the fair value of the underlying long-term loans payable (please refer to “9. Financial Instruments: 2. Matters concerning fair value of financial instruments (Note 1)”).

**12. Retirement Benefits**

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

**13. Income Taxes**

1. Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Thousands of yen)

	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
Deferred tax assets		
Accrued business taxes not deductible from taxable income	7	21
Total deferred tax assets	7	21
Net deferred tax assets	7	21

2. Breakdown of major items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax-effect accounting

(%)

	6th Fiscal Period (As of October 31, 2017)	7th Fiscal Period (As of April 30, 2018)
Statutory tax rate	31.74	31.74
[Adjustments]		
Deductible cash distribution	(31.73)	(31.72)
Other	0.02	0.02
Effective income tax rate after application of tax-effect accounting	0.03	0.04

**14. Profit or Loss of Affiliates Accounted for Under the Equity Method**

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

**15. Transactions with Related Parties**

1. Parent company and major corporate unitholders.

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

2. Subsidiaries and affiliates.

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

3. Sister companies.

6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

## 4. Directors and major individual unitholders.

## 6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Type	Name	Description of business or occupation	Percentage of voting rights held by (in) SHR	Description of transaction	Transaction amount (Thousands of yen)	Account item	Balance at end of period (Thousands of yen)
Director or close relative	Junichi Inoue	Executive Director of SHR and Representative Director of Sekisui House Investment Advisors, Ltd.	—	Payment of asset management fee to Sekisui House Investment Advisors, Ltd. (Note 1)	391,362 (Note 2)	Accounts payable – other	388,327

(Note 1) A transaction conducted by Junichi Inoue as a representative of a third party (Sekisui House Investment Advisors, Ltd.) and the fee amount is based on terms and conditions set forth in the Articles of Incorporation of SHR.

(Note 2) The amount includes 31,800 thousand yen of asset management fees pertaining to real estate acquisitions included in the book value of property, plant and equipment.

(Note 3) Consumption taxes are not included in the transaction amount but are included in the balance at end of period.

## 7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Type	Name	Description of business or occupation	Percentage of voting rights held by (in) SHR	Description of transaction	Transaction amount (Thousands of yen)	Account item	Balance at end of period (Thousands of yen)
Director or close relative	Junichi Inoue	Executive Director of SHR and Representative Director of Sekisui House Investment Advisors, Ltd.	—	Payment of asset management fee to Sekisui House Investment Advisors, Ltd. (Note 1)	370,434	Accounts payable – other	400,069

(Note 1) A transaction conducted by Junichi Inoue as a representative of a third party (Sekisui House Investment Advisors, Ltd.) and the fee amount is based on terms and conditions set forth in the Articles of Incorporation of SHR.

(Note 2) Consumption taxes are not included in the transaction amount but are included in the balance at end of period.

## 16. Asset Retirement Obligations

## 6th Fiscal Period (From May 1, 2017 to October 31, 2017)

Not applicable.

## 7th Fiscal Period (From November 1, 2017 to April 30, 2018)

Not applicable.

## 17. Investment and Rental Properties

SHR owns rental office buildings, etc. in Tokyo and other areas for the purpose of earning revenue from leasing. The following is the carrying amount, amount of increase (decrease) during the period and fair value of these investment and rental properties.

	(Thousands of yen)	
	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
Carrying amount		
Balance at beginning of period	177,418,011	198,055,813
Amount of increase (decrease) during period	20,637,802	(679,117)
Balance at end of period	198,055,813	197,376,695
Fair value at end of period	233,080,000	234,040,000

(Note 1) Carrying amount is the book value less accumulated depreciation.

(Note 2) Net increase during the 6th fiscal period is mainly attributable to the acquisition of new properties (21,355,798 thousand yen), offset by depreciation (730,095 thousand yen).

Net decrease during the 7th fiscal period is mainly attributable to depreciation (731,538 thousand yen).

(Note 3) Fair value at the end of the period is the appraisal value by outside real estate appraisers.

The property-related operating income in the 6th and 7th fiscal periods for investment and rental properties is presented in “5. Notes to Statement of Income and Retained Earnings”.

## 18. Segment Information

## 1. Segment information

Segment information is omitted because SHR operates a single segment, which is the real estate leasing business.

## 2. Related information

## 6th Fiscal Period (From May 1, 2017 to October 31, 2017)

## (1) Information about products and services

Information about products and services is omitted because net sales to external customers for a single products and services category are in excess of 90% of operating revenue on the statement of income and retained earnings.

## (2) Information about geographic areas

## 1) Operating revenue

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of operating revenue on the statement of income and retained earnings.

## 2) Property, plant and equipment

Information about property, plant and equipment is omitted because the property, plant and equipment located in Japan is in excess of 90% of property, plant and equipment on the balance sheet.

## (3) Information about major customers

(Thousands of yen)		
Name of customer	Operating revenue	Name of related segment
Sekisui House, Ltd.	3,151,016	Real estate leasing business
Not disclosed (Note)	1,088,998	Real estate leasing business

(Note) The customer is a general business company in Japan, but the name is not disclosed because consent has not been obtained from the customer. The customer is not a group company of Sekisui House, Ltd.

## 7th Fiscal Period (From November 1, 2017 to April 30, 2018)

## (1) Information about products and services

Information about products and services is omitted because net sales to external customers for a single products and services category are in excess of 90% of operating revenue on the statement of income and retained earnings.

## (2) Information about geographic areas

## 1) Operating revenue

Information about net sales is omitted because net sales to external customers in Japan are in excess of 90% of operating revenue on the statement of income and retained earnings.

## 2) Property, plant and equipment

Information about property, plant and equipment is omitted because the property, plant and equipment located in Japan is in excess of 90% of property, plant and equipment on the balance sheet.

## (3) Information about major customers

(Thousands of yen)

Name of customer	Operating revenue	Name of related segment
Sekisui House, Ltd.	3,211,225	Real estate leasing business
Not disclosed (Note)	1,088,998	Real estate leasing business

(Note) The customer is a general business company in Japan, but the name is not disclosed because consent has not been obtained from the customer. The customer is not a group company of Sekisui House, Ltd.

**19. Per Unit Information**

	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
Net assets per unit	58,212yen	58,209yen
Net income per unit	1,368yen	1,352yen

(Note 1) Net income per unit is calculated by dividing net income by the daily weighted average number of investment units.

In addition, diluted net income per unit is not stated because there are no dilutive investment units.

(Note 2) SHR implemented a 2-for-1 split of investment units with May 1, 2018 as the effective date. Net assets per unit and net income per unit are calculated on the basis that the investment unit split was implemented at the beginning of the 6th fiscal period.

(Note 3) The following is the basis for calculating net income per unit.

	6th Fiscal Period (From May 1, 2017 to October 31, 2017)	7th Fiscal Period (From November 1, 2017 to April 30, 2018)
Net income (Thousands of yen)	2,625,719	2,621,476
Amount not attributable to common unitholders (Thousands of yen)	—	—
Net income attributable to common investment units (Thousands of yen)	2,625,719	2,621,476
Average number of investment units during period (Units) (Note)	1,918,506	1,938,000

(Note) SHR implemented a 2-for-1 split of investment units with May 1, 2018 as the effective date. Average number of investment units during period are calculated on the basis that the investment unit split was implemented at the beginning of the 6th fiscal period.

**20. Significant Subsequent Events**

## 1. Merger with Sekisui House Residential Investment Corporation

SHR implemented an absorption-type merger on May 1, 2018 with SHR as the surviving corporation and SHI as the dissolving corporation.

## (1) Purpose of the Investment Corporation Merger

SHR implemented the Investment Corporation Merger having reached the conclusion that expanding the scale of assets and increasing market presence through the Investment Corporation Merger as well as enhancing opportunities for growth by utilizing the integrated corporate strength of the Sekisui House Group, thereby securing strong returns and stability and growth of distributions through the steady increase of assets under management, would be the best strategy for maximizing unitholder value.

## (2) Merger Ratio

Upon the Investment Corporation Merger, SHR allocated and delivered to SHI unitholders 1.65 units of SHR investment units for every 1 investment unit of SHI.

## (3) Merger Consideration

In lieu of the cash distribution for SHI's final fiscal period ended April 30, 2018 (from October 1, 2017 to April 30, 2018), SHR intends to pay the unitholders stated or recorded in the final unitholder register of SHI on April 30, 2018, the day before the effective date of the Investment Corporation Merger, a merger consideration in the form of cash distribution based on SHI's distributable income for SHI's final fiscal period on July 20, 2018.

## (4) Unitholders' Capital, Etc.

The increase in unitholders' capital and capital surplus of SHR upon the Investment Corporation Merger are as follows:

Unitholders' capital: 0 yen

Capital surplus: This amount corresponds to the change in unitholders' equity, etc. as specified in Article 22, Paragraph 1 of the Regulations on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended), less the amount of unitholders' capital stated above

## 2. Split of Investment Units

SHR implemented a 2-for-1 split of its investment units with April 30, 2018 as the record date and May 1, 2018 as the effective date.

## (1) Purpose of the Investment Unit Split

The purpose is to be able to issue at least 1 unit of SHR investment units to all SHI unitholders upon the Investment Corporation Merger.

## (2) Method of the Investment Unit Split

Investment units owned by the unitholders stated or recorded in the final unitholder register on April 30, 2018, the day before the effective date of the Investment Unit Split, were split at a ratio of 2-for-1.

## (3) Increase in Number of Investment Units, Etc. Due to the Investment Unit Split and the Investment Corporation Merger

Total number of SHR units outstanding prior to the Investment Unit Split: 969,000 units

Increase in number of units due to the Investment Unit Split: 969,000 units

Total number of SHR units outstanding following the Investment Unit Split: 1,938,000 units

Number of units allocated to SHI units upon the Investment Corporation Merger: 1,824,091 units

Total number of SHR units outstanding following the Investment Corporation Merger: 3,762,091 units

Total number of units authorized following the Investment Unit Split (Note): 20,000,000 units

(Note) Given the increase in total number of investment units issued and outstanding upon the Investment Unit Split, SHR changed the total number of investment units authorized from 10,000,000 units to 20,000,000 units, subject to the Investment Corporation Merger coming into effect. Please refer to "Per Unit Information" for the figures for per unit information when calculated on the basis that the Investment Unit Split was implemented at the beginning of the 6th fiscal period.

(7) Supplementary Schedules

7th Fiscal Period (From November 1, 2017 to April 30, 2018)

1. Schedule of securities

(1) Shares

Not applicable.

(2) Securities other than shares

Not applicable.

2. Contract amount and fair value of derivative transactions

(Thousands of yen)

Category	Type	Contract amount (Note 1)		Fair value (Note 2)
			Of which, over 1 year	
Transaction other than market transaction	Interest rate swap transaction Floating interest rate receivable and fixed interest rate payable	60,450,000	60,450,000	—
Total		60,450,000	60,450,000	—

(Note 1) The contract amount of interest rate swap transactions is based on the notional principal.

(Note 2) The fair value is omitted because the transaction meets the criteria for the special accounting treatment under the Accounting Standards for Financial Instruments.

3. Schedule of property, plant and equipment and intangible assets

(Thousands of yen)

Type of assets		Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Accumulated depreciation or accumulated amortization		Net balance at end of period	Notes
							For the period		
Property, plant and equipment	Buildings in trust	59,604,170	50,077	—	59,654,248	4,121,631	722,100	55,532,616	—
	Structures in trust	683,807	550	—	684,357	61,803	9,210	622,554	—
	Machinery and equipment in trust	921	—	—	921	93	34	827	—
	Tools, furniture and fixtures in trust	1,259	1,794	—	3,053	638	191	2,414	—
	Land in trust	141,218,283	—	—	141,218,283	—	—	141,218,283	—
	Subtotal	201,508,442	52,421	—	201,560,863	4,184,167	731,538	197,376,695	—
Intangible assets	Other	7,350	—	—	7,350	4,937	735	2,412	—
	Subtotal	7,350	—	—	7,350	4,937	735	2,412	—
Total		201,515,792	52,421	—	201,568,213	4,189,105	732,273	197,379,108	—

4. Schedule of other specified assets

Real estate trust beneficiary interests are included above in “3. Schedule of property, plant and equipment and intangible assets”.

5. Schedule of investment corporation bonds

Name	Issue date	Balance at beginning of period (Thousands of yen)	Amount of decrease during period (Thousands of yen)	Balance at end of period (Thousands of yen)	Coupon rate (%)	Redemption date	Use of proceeds	Security
First Series Unsecured Investment Corporation Bond	September 8, 2016	2,000,000	—	2,000,000	0.340	September 8, 2026	(Note 1)	Unsecured
Second Series Unsecured Investment Corporation Bond	July 13, 2017	3,000,000	—	3,000,000	0.240	July 13, 2022	(Note 1)	Unsecured
Total	—	5,000,000	—	5,000,000	—	—	—	—

(Note 1) The proceeds are used as funds for repayment of loans payable.

(Note 2) This investment corporation bonds are equipped with pari passu clause among specified investment corporation bonds.

(Note 3) The following is the maturity schedule of investment corporation bonds within five years of the balance sheet date.

(Thousands of yen)

	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Investment Corporation Bonds	—	—	—	—	3,000,000



6. Schedule of loans payable

(Thousands of yen)										
Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security
Long-term loans payable	MUFG Bank, Ltd.	1,500,000	—	1,500,000	—	0.29364	Nov. 30, 2017	Lump-sum payment at maturity	Purchase of assets and related expenses	Un-secured Un-guaranteed
	Mitsubishi UFJ Trust and Banking Corporation	1,300,000	—	1,300,000	—					
	Mizuho Bank, Ltd.	2,100,000	—	2,100,000	—					
	Sumitomo Mitsui Banking Corporation	1,200,000	—	1,200,000	—					
	Sumitomo Mitsui Trust Bank, Limited	2,100,000	—	2,100,000	—					
	Mizuho Trust & Banking Co., Ltd.	1,300,000	—	1,300,000	—					
	Resona Bank, Limited	1,900,000	—	1,900,000	—					
	Development Bank of Japan Inc.	1,100,000	—	1,100,000	—					
	The Norinchukin Bank	1,500,000	—	1,500,000	—					
	MUFG Bank, Ltd.	3,300,000	—	—	3,300,000	0.65830	Nov. 30, 2019			
	MUFG Bank, Ltd.(Note 2)	1,000,000	—	—	1,000,000					
	Mizuho Bank, Ltd.	1,800,000	—	—	1,800,000					
	Sumitomo Mitsui Banking Corporation	3,000,000	—	—	3,000,000					
	Sumitomo Mitsui Trust Bank, Limited	1,800,000	—	—	1,800,000					
	Mizuho Trust & Banking Co., Ltd.	600,000	—	—	600,000					
	Resona Bank, Limited	900,000	—	—	900,000					
	Development Bank of Japan Inc.	800,000	—	—	800,000					
	The Norinchukin Bank	800,000	—	—	800,000					
	MUFG Bank, Ltd.	4,200,000	—	—	4,200,000	0.94060	Nov. 30, 2021			
	MUFG Bank, Ltd.(Note 2)	900,000	—	—	900,000					
	Mizuho Bank, Ltd.	2,400,000	—	—	2,400,000					
	Sumitomo Mitsui Banking Corporation	3,700,000	—	—	3,700,000					
	Sumitomo Mitsui Trust Bank, Limited	2,000,000	—	—	2,000,000					
	Mizuho Trust & Banking Co., Ltd.	900,000	—	—	900,000					
	Resona Bank, Limited	1,400,000	—	—	1,400,000					
	Development Bank of Japan Inc.	800,000	—	—	800,000					
	The Norinchukin Bank	700,000	—	—	700,000					

Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security
Long-term loans payable	MUFG Bank, Ltd.	4,200,000	—	—	4,200,000	1.47450	Nov. 30, 2024	Lump-sum payment at maturity	Purchase of assets and related expenses	Un-secured Un-guaranteed
	MUFG Bank, Ltd. (Note 2)	400,000	—	—	400,000					
	Mizuho Bank, Ltd.	700,000	—	—	700,000					
	Sumitomo Mitsui Banking Corporation	3,700,000	—	—	3,700,000					
	Sumitomo Mitsui Trust Bank, Limited	700,000	—	—	700,000					
	Development Bank of Japan Inc.	300,000	—	—	300,000					
	MUFG Bank, Ltd.	1,650,000	—	—	1,650,000	0.62760	Nov. 30, 2020		Repayment of loans payable	
	MUFG Bank, Ltd. (Note 2)	200,000	—	—	200,000					
	Mizuho Bank, Ltd.	950,000	—	—	950,000					
	Sumitomo Mitsui Banking Corporation	1,650,000	—	—	1,650,000					
	Sumitomo Mitsui Trust Bank, Limited	850,000	—	—	850,000					
	Mizuho Trust & Banking Co., Ltd.	500,000	—	—	500,000					
	Resona Bank, Limited	550,000	—	—	550,000					
	The Norinchukin Bank	650,000	—	—	650,000					
	MUFG Bank, Ltd.	700,000	—	—	700,000	0.88470	Nov. 30, 2022			
	Development Bank of Japan Inc.	650,000	—	—	650,000	0.88500				
	Mizuho Bank, Ltd.	350,000	—	—	350,000	0.89470				
	Sumitomo Mitsui Banking Corporation	650,000	—	—	650,000					
	Sumitomo Mitsui Trust Bank, Limited	350,000	—	—	350,000					
	Resona Bank, Limited	300,000	—	—	300,000					
	MUFG Bank, Ltd.	750,000	—	—	750,000	1.00850	Nov. 30, 2023			
	MUFG Bank, Ltd. (Note 2)	500,000	—	—	500,000	1.01850				
	Mizuho Bank, Ltd.	400,000	—	—	400,000					
	Sumitomo Mitsui Banking Corporation	700,000	—	—	700,000					
	Sumitomo Mitsui Trust Bank, Limited	350,000	—	—	350,000					
	Mizuho Trust & Banking Co., Ltd.	300,000	—	—	300,000					
	Resona Bank, Limited	100,000	—	—	100,000		0.27475			
Sumitomo Mitsui Banking Corporation	1,560,000	—	—	1,560,000						
Sumitomo Mitsui Trust Bank, Limited	830,000	—	—	830,000						
Mizuho Trust & Banking Co., Ltd.	370,000	—	—	370,000						
Resona Bank, Limited	550,000	—	—	550,000						
Development Bank of Japan Inc.	370,000	—	—	370,000						
The Norinchukin Bank	370,000	—	—	370,000						

Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security			
Long-term loans payable	MUFG Bank, Ltd.	1,810,000	—	—	1,810,000	0.60500	Sep. 8, 2026	Lump-sum payment at maturity	Repayment of loans payable	Unsecured Un-guaranteed			
	MUFG Bank, Ltd. (Note 2)	440,000	—	—	440,000	0.67000							
	Mizuho Bank, Ltd.	900,000	—	—	900,000								
	Sumitomo Mitsui Banking Corporation	870,000	—	—	870,000	0.24975	Aug. 31, 2021						
	Sumitomo Mitsui Trust Bank, Limited	480,000	—	—	480,000								
	Resona Bank, Limited	300,000	—	—	300,000								
	The Norinchukin Bank	210,000	—	—	210,000								
	MUFG Bank, Ltd.	990,000	—	—	990,000	0.37000	Nov. 30, 2023						
	MUFG Bank, Ltd. (Note 2)	260,000	—	—	260,000	0.45254							
	Mizuho Bank, Ltd.	550,000	—	—	550,000								
	Mizuho Trust & Banking Co., Ltd.	220,000	—	—	220,000								
	Development Bank of Japan Inc.	220,000	—	—	220,000						0.32000	Jul. 13, 2022	
	MUFG Bank, Ltd.	—	750,000	—	750,000								
	Mizuho Bank, Ltd.	—	1,050,000	—	1,050,000	0.34800							
	Sumitomo Mitsui Banking Corporation	—	600,000	—	600,000								
	Sumitomo Mitsui Trust Bank, Limited	—	1,050,000	—	1,050,000								
	Mizuho Trust & Banking Co., Ltd.	—	650,000	—	650,000								
	Resona Bank, Limited	—	950,000	—	950,000								
	The Norinchukin Bank	—	750,000	—	750,000	0.35341							
	MUFG Bank, Ltd. (Note 2)	—	650,000	—	650,000								
	Development Bank of Japan Inc.	—	550,000	—	550,000								
	MUFG Bank, Ltd.	—	750,000	—	750,000	0.34000	May. 31, 2023						
	Mizuho Bank, Ltd.	—	1,050,000	—	1,050,000	0.41800							
	Sumitomo Mitsui Banking Corporation	—	600,000	—	600,000								
	Sumitomo Mitsui Trust Bank, Limited	—	1,050,000	—	1,050,000								
	Mizuho Trust & Banking Co., Ltd.	—	650,000	—	650,000								
	Resona Bank, Limited	—	950,000	—	950,000								
	The Norinchukin Bank	—	750,000	—	750,000								
	MUFG Bank, Ltd. (Note 2)	—	650,000	—	650,000	0.42622							
	Development Bank of Japan Inc.	—	550,000	—	550,000								
	Subtotal	79,400,000	14,000,000	14,000,000	79,400,000	—	—				—	—	—
	Total	79,400,000	14,000,000	14,000,000	79,400,000	—	—				—	—	—

(Note 1) Average interest rate is the weighted average interest rate during the period. Interest rates are rounded to six decimal places. The interest rates for loans hedged by interest rate swap transactions used to hedge the risk of interest rate fluctuations are the interest rates reflecting the effect of the interest rate swaps.

(Note 2) MUFG Bank, Ltd. succeeded Mitsubishi UFJ Trust and Banking Corporation's position as lender upon the transfer of Mitsubishi UFJ Trust and Banking Corporation's corporate-loan-related businesses to MUFG Bank, Ltd., effective April 16, 2018.

(Note 3) The following is the maturity schedule of long-term loans within five years of the balance sheet date.

(Thousands of yen)					
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years
Long-term loans payable	—	14,000,000	11,050,000	18,860,000	10,000,000



Ernst & Young ShinNihon LLC  
Hibiya Mitsui Tower, Tokyo Midtown Hibiya  
1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100  
Fax: +81 3 3503 1197  
www.eyjapan.jp

## Independent Auditor's Report

The Board of Directors  
Sekisui House Reit, Inc.

We have audited the accompanying financial statements of Sekisui House Reit, Inc., which comprise the balance sheet as at April 30, 2018, and the statements of income and retained earnings, changes in net assets, cash distributions, cash flows, and supplementary schedules from November 1, 2017 to April 30, 2018 and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sekisui House Reit, Inc. as at April 30, 2018, and its financial performance and cash flows from November 1, 2017 to April 30, 2018 in conformity with accounting principles generally accepted in Japan.

### Emphasis of Matter

We draw attention to Note 20.1. to the financial statements, which states that Sekisui House Reit, Inc. has implemented an absorption-type merger as the surviving corporation with Sekisui House Residential Investment Corporation as the dissolving corporation on May 1, 2018. Our opinion is not qualified in respect of this matter.

*Ernst & Young ShinNihon LLC*

July 12, 2018  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

## Unitholder Information

### Introducing the Website of SHR

SHR renovated its website in May 2018. Press releases, financial results, portfolio and other various information are publicized on the website. SHR will continuously strive to provide information to our unitholders in a timely manner.

<http://sekisuihouse-reit.co.jp/en/>

Sekisui House Reit Search



### Information on Cash Distributions

Information on actual cash distributions and forecast cash distributions are provided.

### What's New

Press releases and information on updates are provided.

SHR's investment unit price (real time) and volume (20-minutes delay) are shown.

**IR e-mail Delivery (Japanese version only)**  
Delivers the latest information to registered e-mail addresses.

**Latest Financial Reports**  
Access the latest information on financial results

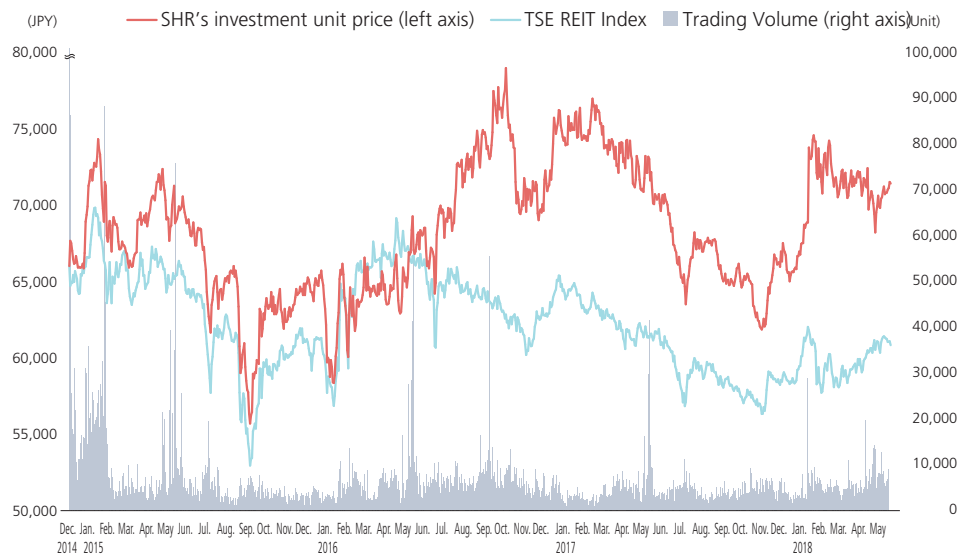
### Video on Financial Report Presentation Meetings (Japanese version only)

Video of presentation meeting for the 7th fiscal period held on June 15, 2018 is available.



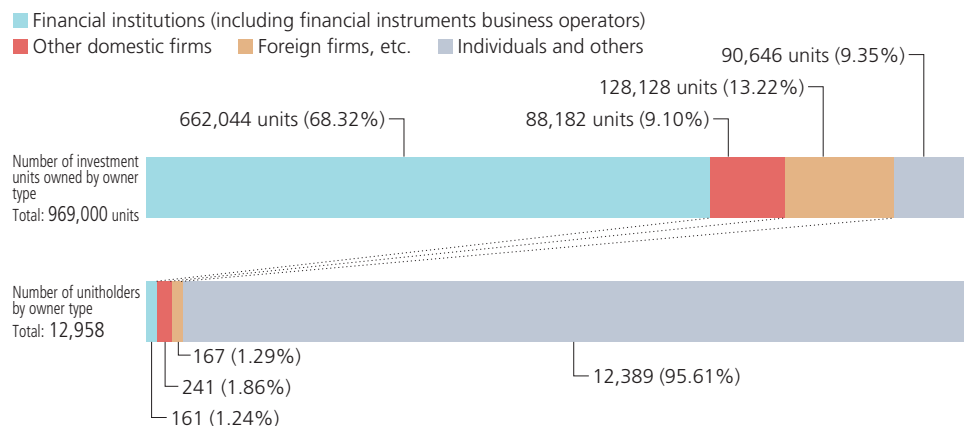
## Unitholder Information

### Change in Investment Unit Price and Trading Volume



(Note 1) Closing price and trading volume of the investment unit of SHR in a regular trading session at Tokyo Stock Exchange, Inc. are indicated.  
 (Note 2) As a two-for-one split of investment units was implemented on May 1, 2018, investment units have been traded at halved (the ex-rights) unit price on and after April 25, 2018. In consideration of the impact of the split, the above graph is based on actual figures of "Investment Unit Price" for April 25, 2018 and earlier being divided by two and actual figures of "Trading Volume" being multiplied by Two.  
 (Note 3) Change in TSE REIT Index is indicated after converting the closing price of TSE REIT Index on the listing date of SHR (December 3, 2014) to JPY 66,000, the amount gained after adjusting the two-for-one split to the closing price of the investment unit of SHR in a regular trading session. Furthermore, TSE REIT Index refers to the weighted average-type index of market capitalization of all REIT counters listed on the Tokyo Stock Exchange (TSE).  
 (Note 4) Figures for the period from December 3, 2014 to May 31, 2018 are indicated.

### Unitholder Composition (as of the end of the fiscal period ended April 2018 (7th fiscal period))



(Note) Total of ratios may not add up to 100.0% as ratios are indicated as rounded to the second decimal place.

### Unitholder Memo

Account Closing Date	End of April and October of each year
Record Date for Determining Distribution Payment	End of April and October of each year (Cash distribution will be paid out within 3 months from the record date)
General Meeting of Unitholders	General meeting of unitholders shall be convened on January 1, 2020 and onwards without delay, and subsequently be convened on January 1 every 2 years and onwards without delay. In addition, the general meetings of unitholders may be held from time to time when it is necessary.
Date to Determine Exercising of Voting Rights by Unitholders	Date stipulated in Article 12 of the Articles of Incorporation
Listed Stock Exchange	Tokyo Stock Exchange (Securities Code: 3309)
Newspaper Posting Public Notice	Nikkei
Transfer Agent	Mizuho Trust & Banking Co., Ltd.
Contact	Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd. 1-2-1 Yaesu, Chuo-ku, Tokyo Phone: 0120-288-324 (Toll Free only in Japan)

### Concerning procedures to change registered address, etc.

Please contact your securities company to change registered address, name, etc.

### Concerning receiving cash distribution

You can receive your "cash distribution" by bringing your "distributions receipt" to a nearby Japan Post Bank or post office.

In cases where the reception period has elapsed, please specify how you wish to receive dividends on the back of the "distributions receipt," and then mail it to the place of contact mentioned above, or receive cash distribution directly at the service counter of the head office/branch of Mizuho Trust & Banking Co., Ltd. In addition, with respect to future cash distribution, if you wish to receive them through transfer to a bank account you specify or other measures, please contact your securities company, etc. Please receive your "cash distribution" on an early date as we will be unable to pay them if they are not received within 3 years from the commencement date of payments of cash distribution.

### IR Calendar

