



SEKISUI HOUSE REIT, INC.



SEKISUI HOUSE REIT, INC.

Semi-Annual Report

3rd Fiscal Period

(from November 1, 2015 to April 30, 2016)

Performance highlights

■ Distribution per unit

Distribution per Unit
3rd Fiscal Period Ended April 2016

2,477yen

■ Business results and distribution

	2nd FP (ended Oct. 2015)	3rd FP (ended Apr. 2016)	4th FP (Forecast) (ended Oct. 2016)	5th FP (Forecast) (ended Apr. 2017)
Operating revenue (million yen)	3,379	3,467	4,052	4,151
Operating income (million yen)	2,290	2,278	2,633	2,683
Ordinary income (million yen)	1,952	1,967	2,281	2,343
Net income (million yen)	1,951	1,966	2,280	2,342
Distribution per unit (yen)	2,458	2,477	2,550	2,620



Message to our unitholders

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 3rd fiscal period (namely, the fiscal period ended April 2016). 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 3rd fiscal period of SHR.

The management performance for the 3rd fiscal period resulted in operating revenue of 3,467 million yen, operating income of 2,278 million yen, ordinary income of 1,967 million yen and net income of 1,966 million yen.

Since its listing, SHR has been aiming for expansion of its asset size by continuous external growth through utilizing the sponsor pipeline. As part of such efforts, SHR conducted its second public offering in May 2016 (at the beginning of its 4th fiscal period) since its listing and acquired three properties (comprising an additional portion of a property part of which is already owned by SHR and two new properties) for 26.6 billion yen with the funds raised, etc. With this public offering, SHR’s asset size has grown from 152.9 billion yen comprising four properties at the end of the 3rd fiscal period to 179.5 billion yen comprising six properties, enabling SHR to make progress in the realization of its external growth and diversification of its portfolio.

By focusing on prime properties—commercial properties that feature strategic locations or high quality - as its core investment targets and taking full advantage of the sponsor support from Sekisui House, Ltd. (“Sekisui House”), which has an established track record of developing commercial properties, SHR will continue to seek to secure stable earnings and steady growth of its investment assets and thereby aim to maximize unitholder value.

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 Investment Advisors, Ltd.

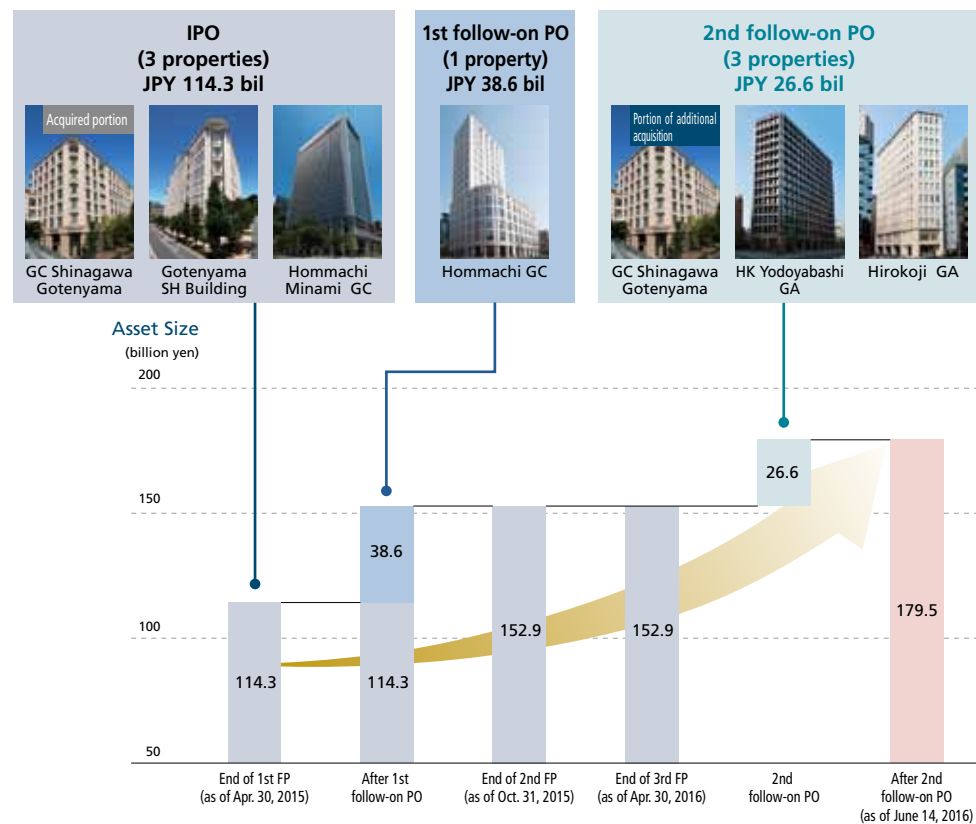


Topics

■ Expansion of asset size through the public offerings conducted for the second consecutive year since its listing

Pipeline Support by Sekisui House

- Acquisition of 3 recently built and high quality office buildings developed by Sekisui House
- Acquisition by utilizing preferential negotiation rights

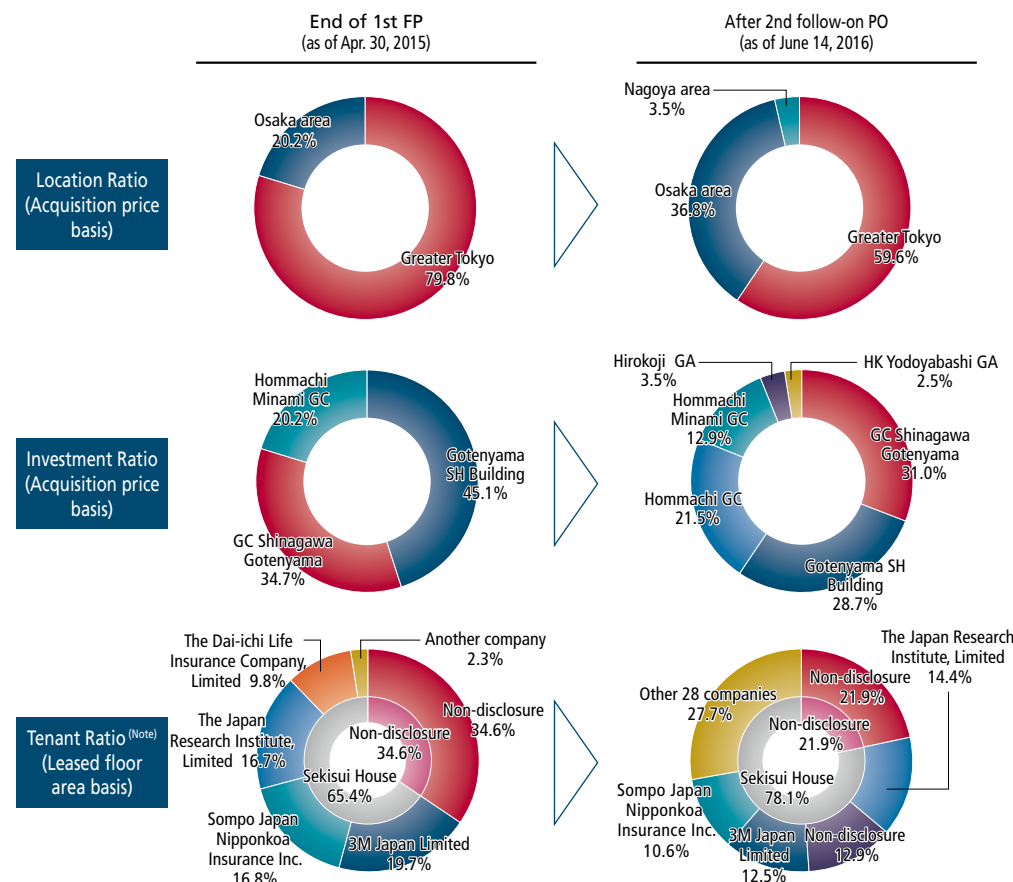


Aggregate acquisition price (billion yen)	114.3	152.9	152.9	179.5
Unrealized gain ^(Note) (billion yen)	5.9	11.9	17.8	20.0
LTV (total asset basis) (%)	42.5	41.0	40.9	40.9
Distribution per unit (yen)	1,603	2,458	2,477	4th FP (Forecast) 2,550 5th FP (Forecast) 2,620

(Note) "Unrealized gain" is obtained by: for the end of each fiscal period, totaling the difference between the book value and appraisal value at the end of each fiscal period of each asset owned at the end of each fiscal period; for after the 2nd follow-on public offering, totaling the difference between the book value and appraisal value at the end of the 3rd fiscal period of each asset owned at the end of the 3rd fiscal period and the difference between the acquisition price of each asset acquired in the 4th fiscal period and its appraisal value at the time of the acquisition. Amounts below the specified unit are rounded down.

■ Diversification of portfolio

	End of 1st FP (as of Apr. 30, 2015)	End of 2nd FP (as of Oct. 31, 2015)	End of 3rd FP (as of Apr. 30, 2016)	After 2nd follow-on PO (as of June 14, 2016)
Number of Properties	3	4	4	6
Asset Size (Aggregate Acquisition Price) (billion yen)	114.3	152.9	152.9	179.5
Number of Tenants (Number of End-tenants)	2 (6)	2 (17)	2 (17)	2 (33)



(Note) Inner rings and outer rings of the doughnut graphs represent tenant ratio and end-tenant ratio respectively.

Characteristics of SHR

SHR is a J-REIT that has Sekisui House as its sponsor and invests in commercial properties centering on office buildings

Asset Size

Aggregate acquisition price **179.5** billion yen

Number of owned properties **6** properties

Portfolio Quality

Average building age **5.4** years

Office buildings ratio **100.0**%

Financial Base

LTV (total asset basis) **40.9**%

Long-term liability ratio **88.1**%

Fixed interest rate borrowing ratio **70.0**%

Status of Portfolio

Occupancy rate (as of May 31, 2016) **99.9**%

Total appraisal value **198.4** billion yen

Unrealized gain **20.0** billion yen

Location Ratio

Greater Tokyo **59.6**%

Osaka area **36.8**%

Nagoya area **3.5**%

Credit Rating

JCR **AA-** (Stable)

(as of June 14, 2016)

Owned properties



Garden City
Shinagawa
Gotenyama



Gotenyama SH
Building



Homomachi
Minami Garden
City



Homomachi Garden
City



HK Yodoyabashi
Garden Avenue



Hirokoji Garden
Avenue

3 Strategies of SHR

SHR seeks to provide high-quality social capital and to maximize the unitholder value through the 3 strategies

1 Investment Strategy

Investment in commercial properties focused on “strategic locations” and “high quality”

- The 6 properties owned are in the strategic locations of **central Tokyo, Osaka and Nagoya**
- All acquisitions are of **recently built and high quality office buildings developed by Sekisui House**
- **Reducing earthquake-related risks** by owning properties with high quake-resistant performance such as having a seismically isolated mechanism, etc.

2 Growth Strategy

Taking full advantage of versatile support by Sekisui House

- Utilizing **the pipeline support agreement** for property acquisition to realize external growth
- Selecting a leasing agreement type from among a **fixed-rent/pass-through type master lease, a direct lease, etc.**, in accordance with property characteristics
- Entrusting Sekisui House with real estate management/operation and utilizing **information network, etc. on tenant attraction**

3 Financial Strategy

Stable and sound financial operations

- **Managing LTV (total assets basis) (ratio of interest-bearing liabilities to total assets) at a conservative level between 40% and 50%**
- Promoting extension of **borrowing periods, diversification of dates for repayment and fixation of interest rates** in order to reduce risks of fluctuation in interest rates and refinancing risk
- Obtained **AA- rating (Rating Outlook: Stable) for the long-term issuer rating** from Japan Credit Rating Agency, Ltd. (JCR)

Growth strategies that take full advantage of the versatile support by Sekisui House

External growth strategies: pipeline support by Sekisui House

- Grant of preferential negotiation rights with regard to the sale of domestic real estate, etc. owned or developed by Sekisui House
- Provision of information on domestic real estate, etc. owned or developed by third parties
- Provision of warehousing functions
- Support for redevelopment of owned properties

■ Properties acquired by utilizing the pipeline support

All 6 properties SHR has acquired since its listing are properties developed by Sekisui House.



HK Yodoyabashi GA (Osaka)
Completion in July 2015



Hirokoji GA (Aichi)
Completion in Mar. 2011



GC Shinagawa Gotenyama (Tokyo)
Completion in Feb. 2011



Hommachi GC (Osaka)
Completion in May 2010

■ Examples of urban redevelopment projects within and outside Japan by Sekisui House



Umeda Sky Building (Osaka)
Completion in Mar. 1993



Grand Front Osaka (Osaka)
Completion in Apr. 2013



Waterway Point
(Singapore)



One Central Park
(Australia)

■ Status of preferential negotiation rights held by SHR

Property name	Address	Asset type	Period of preferential negotiation rights	Ratio of unacquired floor area ^(Note 2) (%)
Garden City Shinagawa Gotenyama ^(Note 1)	Shinagawa-ku, Tokyo	Office building	From Oct. 16, 2014	24.2
Hommachi Minami Garden City ^(Note 1)	Osaka-shi, Osaka	Office building	From Oct. 16, 2014	43.6
Hommachi Garden City ^(Note 1)	Osaka-shi, Osaka	Hotel	From Apr. 24, 2015	47.3
Waterway Point	Punggol, Singapore	Retail property	From Dec. 1, 2016 to Nov. 30, 2019	—
One Central Park	Sydney, Australia	Retail property	From Dec. 1, 2016 to Nov. 30, 2019	—

(Note 1) SHR has acquired a portion and has been granted preferential negotiation rights for the remaining portion.

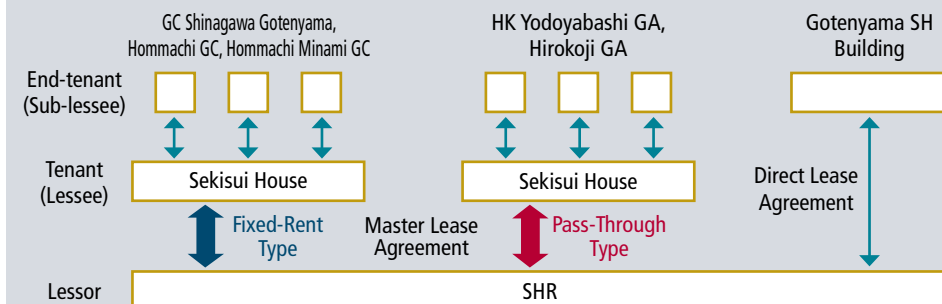
(Note 2) "Ratio of unacquired floor area" refers to percentage of the unacquired floor area in respect of which SHR holds preferential negotiation rights for acquisition to the exclusively-owned area of the entire building. Unacquired floor area refers to the exclusively-owned area in Garden City Shinagawa Gotenyama, Hommachi Minami Garden City and Hommachi Garden City for which SHR holds preferential negotiation rights for acquisition.

Internal growth strategies: sponsor support by Sekisui House

- Provision of property management services for owned assets
- Provision of know-how and services related to operation management of highly value-added real estate possessed by Sekisui House
- Upon acquiring properties in respect of which a certain period has passed since the date of construction, coordination in terms of strategies such as renovation or repairment with value enhancement, etc. after acquisition of such properties
- Investigation and discussion regarding such matters as execution of master lease agreements in formats responding to property characteristics

■ Seeking stable earnings and internal growth opportunities

Image of Lease Scheme



(Note) "Fixed-rent-type master lease" refers to a master lease in which a lessee pays a fixed amount regardless of the amount of rent sublessee pays to the lessee. "Pass-through type master lease" refers to a master lease in which the rent paid by a lessee and the rent paid by a sublessee are always the same amount.

■ SHR's characteristics in terms of internal growth

Characteristic 1

Approximately 70% of the portfolio (ratio of lease types)^(Note) adopts **fixed-rent type master lease** with Sekisui House. Rent revenue is being fixed in order to reduce the impact of tenant vacation, etc. on earnings.

Characteristic 2

HK Yodoyabashi Garden Avenue and Hirokoji Garden Avenue adopt **pass-through type master lease** with Sekisui House. Since SHR can receive rent of the same amount as the rent under the lease agreement concluded between Sekisui House and end-tenants, SHR can benefit from rent revenue upside when the occupancy rate rises or the rent is revised upward.

Characteristic 3

Gotenyama SH Building adopts **direct lease** in which the property is directly leased to the end-tenant. A 20-year lease agreement has been concluded with the tenant, and thus the rent revenue is stable over the long-term.

(Note) "Ratio of lease types" refers to the ratio of the leased floor area for each lease type under the relevant lease agreements for the properties (the master lease agreement if a master lease agreement has been concluded for the property) that is effective as of June 14, 2016, to the total of leased floor areas indicated in such lease agreements.

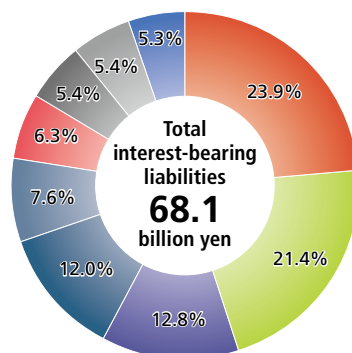
Stable and sound financial operations

Interest-bearing liabilities

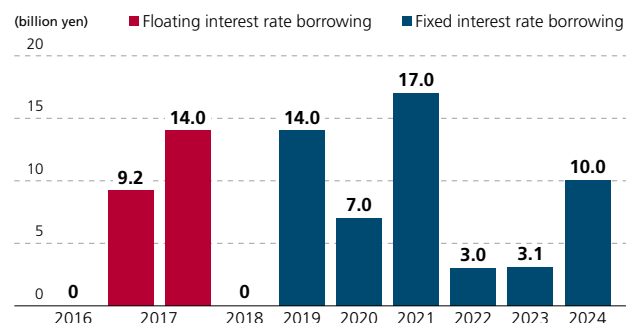
	End of 2nd FP (As of Oct. 31, 2015)	End of 3rd FP (As of Apr. 30, 2016)	After 2nd follow-on PO ^(Note 2)
Total interest-bearing liabilities (billion yen)	68.1	68.1	77.3
LTV (total asset basis) (%)	41.0	40.9	40.9
Fixed interest rate borrowing ratio (%)	79.4	79.4	70.0
Long-term liability ratio (%)	100.0	100.0	88.1
Average interest rate ^(Note 1) (%)	0.81	0.80	0.73
Average remaining term of interest-bearing liabilities (years)	5.3	4.8	4.3

Diversification of lenders (excluding short-term loans) ^(Note 2)

	Balance (billion yen)	Percentage (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	16.30	23.9
Sumitomo Mitsui Banking Corporation	14.60	21.4
Mizuho Bank, Ltd.	8.70	12.8
Sumitomo Mitsui Trust Bank, Limited	8.15	12.0
Resona Bank, Limited	5.15	7.6
Mitsubishi UFJ Trust and Banking Corporation	4.30	6.3
Development Bank of Japan Inc.	3.65	5.4
The Norinchukin Bank	3.65	5.4
Mizuho Trust & Banking Co., Ltd.	3.60	5.3



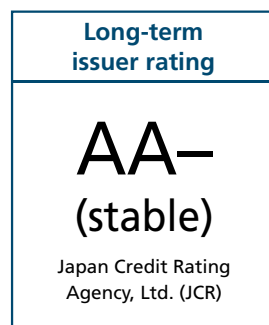
Diversification of repayment date ^(Note 2)



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

(Note 2) The information is as of June 14, 2016.

Credit rating ^(Note 2)



Overview of portfolio

Outline of portfolio (as of June 14, 2016)

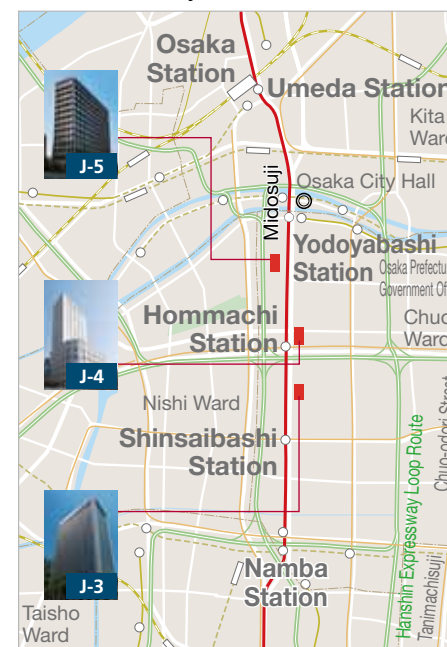
Property No.	Property name	Acquisition price (billion yen)	Investment ratio (%)	Appraisal value ^(Note 1) (billion yen)	Total leasable area (m ²)	Occupancy rate ^(Note 2) (%)	Building age (year)	Location	PML value (%)
J-1	Garden City Shinagawa Gotenyama	39.7	22.1	44.3	21,033.47	100.0			
J-1	Portion of additional acquisition New	15.9	8.9	16.9	8,202.48	100.0	5.3	Shinagawa-ku, Tokyo	0.5
Sub-total		55.6	31.0	61.2	29,235.95	100.0			
J-2	Gotenyama SH Building	51.5	28.7	56.3	19,999.97	100.0	5.4	Shinagawa-ku, Tokyo	1.9
J-3	Hommachi Minami Garden City	23.1	12.9	26.9	16,699.46	100.0	5.3	Osaka-shi, Osaka	4.5
J-4	Hommachi Garden City	38.6	21.5	42.2	17,006.94	100.0	6.1	Osaka-shi, Osaka	4.2
J-5	HK Yodoyabashi Garden Avenue New	4.4	2.5	5.1	4,554.52	98.6	0.9	Osaka-shi, Osaka	7.5
J-6	Hirokoji Garden Avenue New	6.35	3.5	6.78	4,442.75	100.0	5.2	Nagoya-shi, Aichi	2.7
Total		179.55	100.0	198.48	91,939.59	99.9	5.4		1.9

(Note 1) The total appraisal values stated in the appraisal reports as of the end of the 3rd fiscal period is indicated for the assets owned as of the end of the 3rd fiscal period. The total appraisal values at the time of acquisition is indicated for assets acquired in the 4th fiscal period.

(Note 2) Occupancy rate stated above is as of May 31, 2016.

Portfolio map

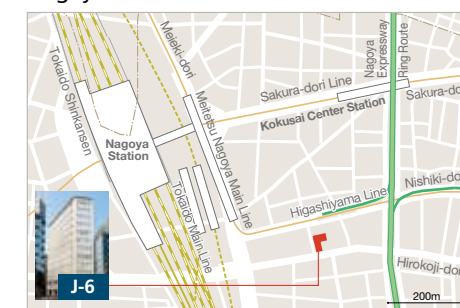
Osaka Area:
Hommachi-Yodoyabashi Area



Greater Tokyo:
Shinagawa Gotenyama Area



Nagoya Area:
Nagoya Meieki Area



Overview of portfolio

■ Greater Tokyo

J-1 Garden City Shinagawa Gotenyama Additionally Acquired in the 4th FP

Environmentally friendly maison-like office building that blends in with the townscape of abundant greenery and a long and distinguished history



Location (indication of residential address)	6-7-29 Kitashinagawa, Shinagawa-ku, Tokyo
Acquisition Price	55.6 billion yen
Structure / Floors	RC, 9F/B1F
Total Floor Area	62,975.42m ²
Total Leasable Area	29,235.95m ²

J-2 Gotenyama SH Building

Office building located upland with high business continuity incorporating a seismically isolated device

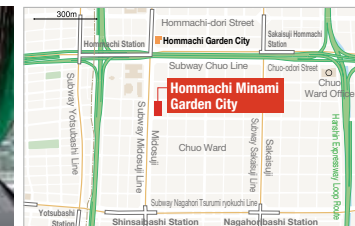


Location (indication of residential address)	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo
Acquisition Price	51.5 billion yen
Structure / Floors	S/SRC, 7F/B1F
Total Floor Area	19,812.85m ²
Total Leasable Area	19,999.97m ²

■ Osaka area

J-3 Hommachi Minami Garden City

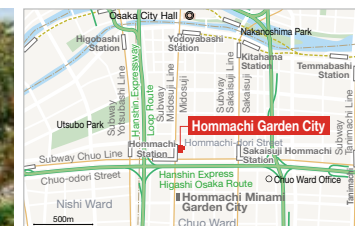
Office building located along the Midosuji street, which is the main street in Osaka City, and is capable of being a landmark in the vicinity



Location (indication of residential address)	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka
Acquisition Price	23.1 billion yen
Structure / Floors	S/SRC, 25F/B2F
Total Floor Area	46,010.88m ²
Total Leasable Area	16,699.46m ²

J-4 Hommachi Garden City

Complex facility capable of becoming a landmark as it stands on Midosuji street and its height exceeds the conventional height control due to application of special urban renaissance district rules



Location (indication of residential address)	3-6-4 Hommachi, Chuo-ku, Osaka-shi, Osaka
Acquisition Price	38.6 billion yen
Structure / Floors	S/SRC, 27F/B2F
Total Floor Area	49,163.16m ²
Total Leasable Area	17,006.94m ²

Overview of portfolio

■ Osaka area

J-5 HK Yodoyabashi Garden Avenue

Acquired
in the 4th FP

Comfortable and safe office building with strength of iron and tenderness of natural stone



Location (indication of residential address)	4-3-9 Fushimimachi, Chuo-ku, Osaka-shi, Osaka
Acquisition Price	4.4 billion yen
Structure / Floors	S/SRC/RC, 13F/B2F
Total Floor Area	16,953.28m ²
Total Leasable Area	4,554.52m ²

■ Nagoya area

J-6 Hirokoji Garden Avenue

Acquired
in the 4th FP

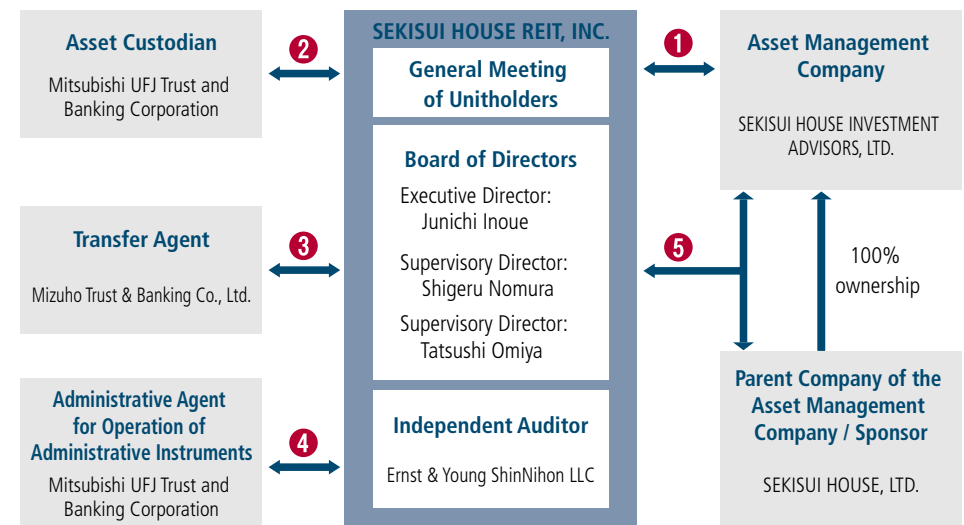
Office building located in the Nagoya Meieki area, a core area in Nagoya, with an elegant exterior using natural materials



Location (indication of residential address)	4-24-16, Meieki, Nakamura-ku, Nagoya-shi, Aichi
Acquisition Price	6.35 billion yen
Structure / Floors	S/SRC, 12F/B1F
Total Floor Area	7,017.98m ²
Total Leasable Area	4,442.75m ²

Overview of SHR and asset management company

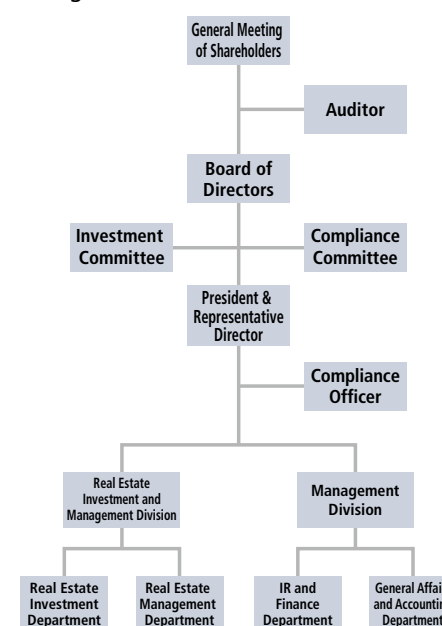
■ Structure diagram



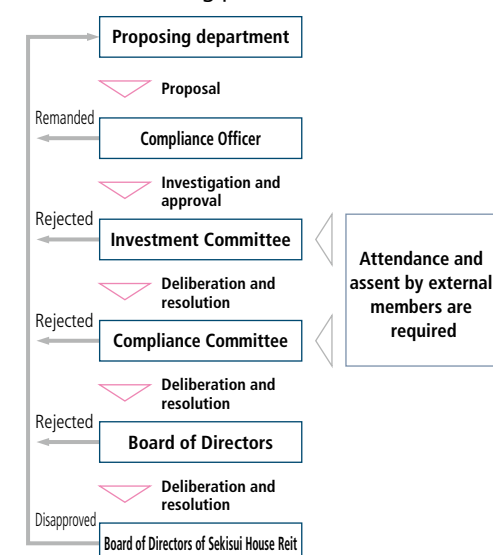
- ① Asset Management Agreement ③ Administrative Agreement (Administration of Investment Units) ⑤ Pipeline Support Agreement / Sponsor Support Agreement, etc.
② Asset Custody Agreement ④ General Administrative Agreement

■ Asset management company

Organization chart



Decision-making process



Deliberation and approval (Note)
(Note) "Approval" includes consent of SHR based on the approval.

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 listed on the Tokyo Stock Exchange Real Estate Investment Trust Section 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), 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 (for an aggregate acquisition price of 114,300 million yen) and, in effect, commenced management on the listing date of December 3, 2014. In addition, SHR acquired one property (with an acquisition price of 38,600 million yen) on May 19, 2015 and SHR's assets as of April 30, 2016 (that is, the end of the fiscal period under review) are four properties (with an aggregate acquisition price of 152,900 million yen).

(Note) "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. The same shall apply hereinafter.

(2) Management Environment and Management Performance

Management Environment

In the fiscal period under review, the Japanese economy continues to be on a moderate recovery trend although weakness in export and production affected by slowdown in emerging economies is seen.

In the real estate transaction market, appetite for investment has grown as improvement in office rent levels and vacancy rates have become apparent. Moreover, since supply of properties for sale is trending slightly downwards, the sense of overheating is increasing not only in major cities but even for properties in regional cities.

In addition, in the office leasing market, a trend of rising rent centering on Tokyo has been witnessed as solid demand continues to exist. However, there have been more cases where more time is needed for attracting tenants due to the heightened rent levels, and thus the pace of rises in rent may slow down going forward.

On the other hand, in the environment surrounding retail properties, according to the Bank of Japan's Outlook for Economic Activity and Prices (April, 2016), private consumption has remained solid backed by steady improvements in the employment and income environments although some weakness is showing in some parts. In addition, amid the new record number of foreign visitors to Japan, demand for new store openings targeting tourists is strong. There have also been announcements of a number of new development plans and resumption of developments, indicating a robust retail market trend as a whole. In line with this, store rent levels continue to be on an uptrend although store rent levels have begun to stabilize in some areas.

Management Performance

The assets held by SHR as of the end of the fiscal period under review are four properties with an aggregate acquisition price of 152,900 million yen and total leasable area of 74,739.84m². In addition, of the four properties, master lease agreements with Sekisui House as lessee have been executed for three 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. Fund Procurement

SHR has adopted as its basic 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. During the fiscal period under review, there has been no fund procurement in line with new acquisition of assets; and as of the end of the fiscal period under review, unitholders' capital is 87,743 million yen, the total number of investment units issued and outstanding is 794,000 units and the total interest-bearing liabilities (that is, the total amount of loan, investment corporation bonds issued and short-term investment corporation bonds issued; the same shall apply hereinafter) is 68,100 million yen. All interest-bearing liabilities are long-term loans and there are no loans maturing within one year from the end of the fiscal period under review.

As of the end of the fiscal period under review, the ratio of total interest-bearing liabilities to total assets ("LTV (total assets basis)") is 40.9%.

b. Credit Rating

The following table sets forth the rating status of SHR 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: Stable

(4) Overview of Business Performance and Distributions

Results in the fiscal period under review are operating revenue of 3,467 million yen (an increase of 2.6% over that of the previous fiscal period), operating income of 2,278 million yen (a decrease of 0.5% over that of the previous fiscal period) and ordinary income of 1,967 million yen (an increase of 0.8% over that of the previous fiscal period), resulting in net income of 1,966 million yen (an increase of 0.8% over that of the previous fiscal period). 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 2,477 yen (an increase of 0.8% over that of the previous fiscal period).

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.

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)

(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, etc.

(Note 3) New investment units were issued at an issue price of 106,150 yen per unit by way of third-party allotment to repay part 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, etc.

(Note 5) New investment units were issued at an issue price of 127,587 yen per unit by way of third-party allotment to repay loans and to fund future acquisitions of specified assets, etc.

[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	1st fiscal period From: Sep. 8, 2014 To: Apr. 30, 2015	2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016
High (yen)	148,600	142,500	133,500
Low (yen)	131,700	111,400	116,700

(Note) SHR investment securities were listed on the Tokyo Stock Exchange Real Estate Investment Trust Section on December 3, 2014.

3. Performance of Distribution, etc.

Distribution per unit for the fiscal period under review (that is, the 3rd fiscal period) is 2,477 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	1st fiscal period From: Sep. 8, 2014 To: Apr. 30, 2015	2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016
Total amount of unappropriated retained earnings (thousand yen)	1,013,381	1,951,805	1,967,034
Amount of accumulated earnings (thousand yen)	285	153	296
Total amount of cash distribution (thousand yen)	1,013,096	1,951,652	1,966,738
[Distribution per unit] (yen)	[1,603]	[2,458]	[2,477]
Total amount of distribution of earnings out of the total amount of cash distribution (thousand yen)	1,013,096	1,951,652	1,966,738
[Distribution of earnings per unit] (yen)	[1,603]	[2,458]	[2,477]
Total amount of refund of investments in capital out of the total amount of cash distribution (thousand yen)	-	-	-
[Amount of refund of investments 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

The Japanese economic outlook, according to the Cabinet Office's Monthly Economic Report (May 2016), is that amid ongoing improvement in the employment and income situation, moderate economic recovery is expected, in part due to the effects of the government's various measures. However, as some overseas economies show weakness, there is a risk of the economies of China and other emerging countries in Asia as well as countries supplying natural resources going on a downward swing, thereby suppressing the Japanese economy.

Under such circumstances, it may be important to pay attention to the impact of mounting uncertainties in overseas economies as well as fluctuations in the financial and capital markets.

In the office leasing market, there is strong office demand backed by the recovery in the employment situation and corporate earnings, which leads to the continued gradual improvement in vacancy rates. Meanwhile, there are also hopes for movements in the recovery of rent levels, although such trends are expected to be modest. Amid such hopes for the full-fledged recovery of the office leasing market, the real estate transaction market is in an environment where caution must be exercised regarding the timing of fund procurement due to the slight instability in the financial and capital markets caused by concerns that the Chinese economy will go on a downward swing and such other concerns.

However, competition for property acquisition continues to be overheated and the current situation where the formation of real estate prices, factoring in the expected future increase in rent levels, leads to the lowering of expected cap rates is expected to continue for some time into the future.

(2) Future Management Policy and Challenges to Address

In the next and subsequent fiscal periods, SHR will continue to focus on prime properties, commercial properties situated in strategic locations or that are of a high quality, as its core commercial property 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 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 Investment Advisors, Ltd. (the "Asset Management Company"), investment opportunities will also be explored through its own initiatives in efforts to advance portfolio diversification.

SHR's policy is to set as its core investment areas the Three major metropolitan areas 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 made by Sekisui House (Note).

SHR has executed a pipeline 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. In addition, SHR can seek from Sekisui House (a) property management services for owned assets, and (b) in relation to management of owned assets for internal growth, (i) 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 enhancement of property value, (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.

By implementing growth strategies that take full advantage of the versatile support from Sekisui House 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) 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.

(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, the LTV (total assets basis) policy is to manage it at a conservative level between 40% and 50% with attention paid to the securing of funding capacity.

SHR's LTV (total assets basis), which was 41.0% as of the end of the previous fiscal period, has decreased to 40.9% as of the end of the fiscal period under review, and that level is expected to be maintained even after the completion of issuance of new investment units, etc. which was implemented in May 2016. SHR will, even after the completion of said issuance of new investment units, etc., work to diversify the procurement methods for direct and indirect financing, including issuance of investment corporation bonds, etc., by comprehensively taking into account the market environment, SHR's financial standing and other factors while considering the utilization of the funding capacity that has been secured.

5. Significant Subsequent Events

Issuance of new investment units

SHR passed the following resolution concerning issuance of new investment units at a meeting of the board of directors held on May 9, 2016. Payments for the new investment units issued through a public offering and the new investment units issued by way of third-party allotment were completed on May 24 and June 21, 2016, respectively. As a result, unitholders' capital is 100,040,294,000 yen and the number of investment units issued and outstanding is 894,000 units.

i) Issuance of new investment units through public offering (primary offering)

Number of investment units to be issued:	95,200 units
Offer price:	127,140 yen per unit
Total amount of offer price:	12,103,728,000 yen
Amount to be paid in (issue price):	122,967 yen per unit
Total amount to be paid in (issue price):	11,706,458,400 yen
Payment date:	May 24, 2016
Date of commencement of distribution calculation:	May 1, 2016

ii) Issuance of new investment units by way of third-party allotment

Number of investment units to be issued:	4,800 units
Amount to be paid in (issue price):	122,967 yen per unit
Total amount to be paid in (issue price):	590,241,600 yen
Payment date:	June 21, 2016
Date of commencement of distribution calculation:	May 1, 2016
Allottee:	Nomura Securities Co., Ltd.

iii) Use of proceeds

Proceeds from the issuance of new investment units through the public offering described above were used to fund part of the acquisition cost of Garden City Shinagawa Gotenyama (that is, the portion of additional acquisition), HK Yodoyabashi Garden Avenue and Hirokoji Garden Avenue on May 24, 2016, and proceeds from the issuance of new investment units by way of the third-party allotment described above are being kept as cash on hand and deposited at financial institutions until utilization, and are scheduled to be used for part repayment of loans in the future or to fund part of the acquisition costs of specified assets in the future.

(Reference Information)

(a) Borrowing of funds

SHR borrowed the following funds on May 24, 2016 to finance its acquisition of the assets stated in “(b) Acquisition of assets” below, as well as related expenses.

Category	Lender	Loan amount (million yen)	Interest rate (Note 1) (Note 2) (Note 3) (Note 4)	Drawdown date	Repayment date (Note 5)	Repayment method (Note 6)	Remarks
Short term	The Bank of Tokyo- Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation	9,200	Base rate (JBA 1- month JPY TIBOR) + 0.22%	May 24, 2016	May 23, 2017	Lump-sum payment at maturity	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 shall be 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 on 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.

(Note 3) The first interest payment date shall be the last day of May 2016, and subsequent interest payment dates shall be the last day 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.

(Note 4) The first interest calculation period shall be from May 24, 2016 to the last day of May 2016. The base rate corresponding to the concerned period is 0.01636%.

(Note 5) 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 within the next calendar month, then it shall be the business day immediately preceding the concerned date.

(Note 6) During the period from the Borrowing 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.

(b) Acquisition of assets

The following three properties were acquired on May 24, 2016.

Property name	Garden City Shinagawa Gotenyama (portion of additional acquisition) (Note 1)
Type of asset	Trust beneficiary interests with real estate as assets in trust
Category	Office building
Acquisition price (Note 2)	15,900 million yen
Acquisition date	May 24, 2016
Seller	Sekisui House, Ltd.
Location (indication of residential address)	6-7-29 Kitashinagawa, Shinagawa-ku, Tokyo
Type of ownership	Land: Right of site (co-ownership interest) Building: Sectional ownership right

(Note 1) Concerning Garden City Shinagawa Gotenyama, SHR acquired the sectional ownership right 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 the building, as well as the accompanying right of site (ratio of right of site: 2,103,349/3,857,806 (approximately 54.5%)) on December 3, 2014. Of the building of Garden City Shinagawa Gotenyama, SHR additionally acquired the sectional ownership right to part of the exclusively-owned portions of the 2nd, 3rd, 5th and 6th floors of the building, as well as the accompanying right of site (ratio of right of site: 820,252/3,857,806 (approximately 21.3%)) in line with the issuance of new investment units through the public offering described above.

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

Property name	HK Yodoyabashi Garden Avenue (Note)
Type of asset	Trust beneficiary interests with real estate as assets in trust
Category	Office building
Acquisition price	4,400 million yen
Acquisition date	May 24, 2016
Seller	Sekisui House, Ltd.
Location (indication of residential address)	4-3-9 Fushimimachi, Chuo-ku, Osaka-shi, Osaka
Type of ownership	Land: Right of site (co-ownership interest) Building: Sectional ownership right

(Note) The sections acquired by SHR are the sectional ownership right to all of the exclusively-owned portions of the 1st to 6th floors of the building, as well as the accompanying right of site (ratio of right of site: 405,901/1,000,000 (approximately 40.6%))

Property name	Hirokoji Garden Avenue
Type of asset	Trust beneficiary interests with real estate as assets in trust
Category	Office building
Acquisition price	6,350 million yen
Acquisition date	May 24, 2016
Seller	Sekisui House, Ltd.
Location (indication of residential address)	4-24-16, Meieki, Nakamura-ku, Nagoya-shi, Aichi
Type of ownership	Land: Ownership Building: Ownership

Outline of the Investment Corporation

1. Status of Capital

Fiscal period	As of end of 1st fiscal period (Apr. 30, 2015)	As of end of 2nd fiscal period (Oct. 31, 2015)	As of end of 3rd fiscal period (Apr. 30, 2016)
Total number of investment units authorized (units)	10,000,000	10,000,000	10,000,000
Total number of investment units issued and outstanding (units)	632,000	794,000	794,000
Unitholders' capital (million yen)	67,074	87,743	87,743
Number of unitholders (persons)	16,005	18,089	16,545

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)	225,764	28.43
Sekisui House, Ltd.	63,300	7.97
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	63,216	7.96
The Master Trust Bank of Japan, Ltd. (Trust Account)	30,976	3.90
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	20,866	2.63
BNY FOR GCM CLIENT ACCOUNTS (E) ISG	11,321	1.43
The Hyakujushi Bank, Ltd.	9,200	1.16
The Hokuriku Bank, Ltd.	8,736	1.10
NOMURA BANK (LUXEMBOURG) S. A.	8,568	1.08
The Hokkoku Bank, Ltd.	6,572	0.83
Total	448,519	56.49

(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) The following table sets forth information on the executive director, supervisory directors and independent auditor of SHR in the fiscal period under review.

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 Investment Advisors, Ltd.	—
Supervisory Director	Shigeru Nomura	Auditor, K-GOLD International Corporation Director, Shigeru Nomura Certified Public Accountant Office Inspector, View Communications Outside Director, Eiken Chemical Co., Ltd.	1,800
	Tatsushi Omiya	Auditor, QB Net 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 compensation amounts stated above are approximate amounts and include 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 Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended) (the "Investment Trusts 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 circumstances in a comprehensive manner.

(3) Matters concerning entities that have been ordered to suspend operations within the past two years

On December 22, 2015, SHR's Independent Auditor received an order from the Financial Services Agency to suspend operations relating to the conclusion of new contracts for three months (from January 1, 2016 to March 31, 2016).

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 end of the fiscal period under review.

Entrustment category	Name
Asset Management Company	Sekisui House Investment Advisors, 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

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 end of 2nd fiscal period (Oct. 31, 2015)		As of end of 3rd fiscal period (Apr. 30, 2016)	
		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	152,371	91.8	151,817	91.3
	Other areas	—	—	—	—
Total of real estate in trust		152,371	91.8	151,817	91.3
Deposits and other assets		13,628	8.2	14,486	8.7
Total amount of assets		165,999	100.0	166,303	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 (million yen) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Occupancy rate (%) (Note 4)	As a percentage of total property-related operating revenue (%) (Note 5)	Main use
Garden City Shinagawa Gotenyama	39,432	21,033.47	21,033.47	100.0	25.6	Office building
Gotenyama SH Building	51,141	19,999.97	19,999.97	100.0	31.4	Office building
Hommachi Minami Garden City	22,806	16,699.46	16,699.46	100.0	16.9	Office building
Hommachi Garden City	38,436	17,006.94	17,006.94	100.0	26.1	Office building
Total	151,817	74,739.84	74,739.84	100.0	100.0	—

(Note 1) "Book value" 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" 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 nearest second decimal place.

(Note 3) "Leased area" refers to the sum total of the leased area indicated in the respective lease agreements for each property that are valid 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.

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 end of period (million yen) (Note 1)	Estimated value at end of period (million yen) (Note 2)
Garden City Shinagawa Gotenyama	6-7-29 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	39,432	44,300
Gotenyama SH Building	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	51,141	56,300
Hommachi Minami Garden City	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	22,806	26,900
Hommachi Garden City	3-6-4 Hommachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	38,436	42,200
Total	—	—	151,817	169,700

(Note 1) "Book value at 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 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 Sogō 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.

The following table sets forth the status of leasing of real estate, etc. held by SMF.									
2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015					3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016				
Name of real estate, etc.	Number of tenants [at end of fiscal period] (Note 1)	Occupancy rate [at 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 end of fiscal period] (Note 1)	Occupancy rate [at 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	887	26.3	1	100.0	887	25.6	
Gotenyama SH Building	1	100.0	1,088	32.2	1	100.0	1,088	31.4	
Hommachi Minami Garden City	1	100.0	586	17.4	1	100.0	586	16.9	
Hommachi Garden City	1	100.0	816	24.2	1	100.0	903	26.1	
Total	2	100.0	3,379	100.0	2	100.0	3,467	100.0	

(Note 1) "Number of tenants" refers to the sum total of the number of tenants under the respective lease agreements for each property indicated in the lease agreement for the property that is valid as of the end of each fiscal period. In cases where a fixed-rent-type master lease agreement in which a master lessee pays a fixed amount regardless of the amount of rent sublessee pays to the master lessee, the number of lessees under the master lease agreement is stated as the number of tenants. The same tenant in multiple properties is counted as one in the total column.

(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)	50,350,000	50,350,000	—

(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. and asset-backed securities, 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 (thousand yen) (Note)		
			Total amount	Payment for the fiscal period under review	Amount already paid
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of parts of automatic security system	From: June 2016 To: October 2016	1,989	-	-
Hommachi Minami Garden City (Chuo-ku, Osaka-shi, Osaka)	Renovation of fire- fighting equipment	From: June 2016 To: July 2016	1,666	-	-

(Note) The 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 5,905 thousand yen and, together with 21,242 thousand yen of repair expenses charged to expenses in the fiscal period under review, work amounting to 27,147 thousand yen was implemented.

Name of real estate, etc. (location)	Purpose	Period	Payment amount (thousand yen)
Hommachi Garden City (Chuo-ku, Osaka-shi, Osaka)	Upgrading of power meter	From: January 2016 To: February 2016	2,960
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of parts of air- conditioning monitoring board	From: March 2016 To: March 2016	1,471
Other capital expenditures			1,473
Total			5,905

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)	
	2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016
Asset management fee	246,331	272,995
Asset custody fee	2,579	3,154
Administrative service fees	10,774	11,783
Directors' compensations	3,600	3,600
Other expenses	35,771	36,517
Total	299,056	328,051

(Note) In respect of asset management fees, in addition to the amounts shown above, there are management fees for property acquisition (amounting to 57,900 thousand yen in respect of the 2nd fiscal period but not applicable in the 3rd fiscal period) 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. and asset-backed securities, etc. 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
Not applicable.

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)	19,200	Sekisui House, Ltd.	19,200	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 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), building lots and buildings transaction business, or specified joint real estate ventures.

Other information

1. Notice
 - (1) General Meeting of Unitholders
No general meetings of unitholders were held during the fiscal period under review.
 - (2) Meeting of the Board of Directors of the Investment Corporation
In the fiscal period under review, of the matters, etc. provided in Items 2, 3, 5, 6 and 8 of Article 109, Paragraph 2 of the Investment Trusts Act, there were no matters that were approved at a meeting of the board of directors of SHR or other information that are deemed important.
2. Others
Amounts have been rounded down and ratios have been rounded to the nearest specified unit unless otherwise indicated in this document.

Financial Section (Audited)

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1. Financial Statements

(1) Balance Sheet

	(Thousands of yen)	
	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Assets		
Current assets		
Cash and deposits	2,117,144	4,059,682
Cash and deposits in trust	10,093,565	10,037,966
Prepaid expenses	79,735	82,843
Deferred tax assets	10	17
Consumption taxes receivable	1,000,376	—
Other	14,663	6,333
Total current assets	13,305,495	14,186,844
Non-current assets		
Property, plant and equipment		
Buildings in trust	45,889,590	45,895,496
Accumulated depreciation	(848,625)	(1,399,667)
Buildings in trust, net	45,040,965	44,495,829
Structures in trust	672,428	672,428
Accumulated depreciation	(16,259)	(25,303)
Structures in trust, net	656,169	647,125
Tools, furniture and fixtures in trust	996	996
Accumulated depreciation	(13)	(97)
Tools, furniture and fixtures in trust, net	982	898
Land in trust	106,673,263	106,673,263
Construction in progress in trust	—	16,023
Total property, plant and equipment	152,371,380	151,833,140
Intangible assets		
Other	6,087	5,352
Total intangible assets	6,087	5,352
Investments and other assets		
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	306,492	267,961
Total investments and other assets	316,492	277,961
Total non-current assets	152,693,959	152,116,453
Total assets	165,999,455	166,303,297

	(Thousands of yen)	
	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Liabilities		
Current liabilities		
Operating accounts payable	53,524	75,140
Accounts payable – other	277,730	319,477
Accrued expenses	68,627	69,909
Income taxes payable	586	775
Accrued consumption taxes	—	223,779
Total current liabilities	400,469	689,082
Non-current liabilities		
Long-term loans payable	68,100,000	68,100,000
Tenant leasehold and security deposits in trust	7,803,586	7,803,586
Total non-current liabilities	75,903,586	75,903,586
Total liabilities	76,304,055	76,592,668
Net assets		
Unitholders' equity		
Unitholders' capital	87,743,594	87,743,594
Surplus		
Unappropriated retained earnings	1,951,805	1,967,034
Total surplus	1,951,805	1,967,034
Total unitholders' equity	89,695,399	89,710,628
Total net assets (Note 4)	89,695,399	89,710,628
Total liabilities and net assets	165,999,455	166,303,297

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

(2) Statement of Income and Retained Earnings

	(Thousands of yen)	
	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Operating revenue		
Rent revenue – real estate (Note 5)	3,379,712	3,467,176
Other lease business revenue (Note 5)	42	379
Total operating revenue	3,379,755	3,467,556
Operating expenses		
Expenses related to rent business (Note 5)	790,155	860,922
Asset management fee	246,331	272,995
Asset custody fee	2,579	3,154
Administrative service fees	10,774	11,783
Directors' compensations	3,600	3,600
Other operating expenses	35,771	36,517
Total operating expenses	1,089,212	1,188,973
Operating income	2,290,542	2,278,582
Non-operating income		
Interest income	1,127	1,267
Interest on refund	1,087	197
Total non-operating income	2,215	1,465
Non-operating expenses		
Interest expenses	265,059	275,257
Borrowing related expenses	50,646	36,447
Investment unit issuance expenses	24,618	—
Other	83	499
Total non-operating expenses	340,407	312,204
Ordinary income	1,952,350	1,967,842
Income before income taxes	1,952,350	1,967,842
Income taxes – current	815	969
Income taxes – deferred	14	(7)
Total income taxes	830	961
Net income	1,951,520	1,966,880
Retained earnings brought forward	285	153
Unappropriated retained earnings	1,951,805	1,967,034

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

(3) Statement of Changes in Net Assets

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

(Thousands of yen)					
	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings	Total surplus		
Balance at beginning of period	67,074,500	1,013,381	1,013,381	68,087,881	68,087,881
Changes of items during period					
Issuance of new investment units	20,669,094			20,669,094	20,669,094
Distribution from surplus		(1,013,096)	(1,013,096)	(1,013,096)	(1,013,096)
Net income		1,951,520	1,951,520	1,951,520	1,951,520
Total changes of items during period	20,669,094	938,424	938,424	21,607,518	21,607,518
Balance at end of period (Note 6)	87,743,594	1,951,805	1,951,805	89,695,399	89,695,399

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings	Total surplus		
Balance at beginning of period	87,743,594	1,951,805	1,951,805	89,695,399	89,695,399
Changes of items during period					
Distribution from surplus		(1,951,652)	(1,951,652)	(1,951,652)	(1,951,652)
Net income		1,966,880	1,966,880	1,966,880	1,966,880
Total changes of items during period	—	15,228	15,228	15,228	15,228
Balance at end of period (Note 6)	87,743,594	1,967,034	1,967,034	89,710,628	89,710,628

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

(4) Statement of Cash Distributions

Item	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
I. Unappropriated retained earnings	1,951,805,557 yen	1,967,034,548 yen
II. Cash distributions	1,951,652,000 yen	1,966,738,000 yen
[Cash distributions per unit]	[2,458 yen]	[2,477 yen]
III. Retained earnings brought forward	153,557 yen	296,548 yen
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 1,951,652,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (794,000 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 1,966,738,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (794,000 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)	
	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Cash flows from operating activities		
Income before income taxes	1,952,350	1,967,842
Depreciation and amortization	560,767	560,904
Investment unit issuance expenses	24,618	—
Interest income	(1,127)	(1,267)
Interest expenses	265,059	275,257
Decrease (increase) in consumption taxes receivable	1,450,976	1,000,376
Decrease (increase) in prepaid expenses	(13,851)	(3,108)
Decrease (increase) in long-term prepaid expenses	(43,668)	38,530
Increase (decrease) in operating accounts payable	34,974	9,246
Increase (decrease) in accounts payable – other	80,640	39,208
Increase (decrease) in accrued consumption taxes	—	223,779
Other, net	60	(6,273)
Subtotal	4,310,800	4,104,497
Interest income received	1,127	1,267
Interest expenses paid	(264,294)	(273,974)
Income taxes paid	(1,373)	(780)
Net cash provided by operating activities	4,046,260	3,831,009
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(38,821,997)	(9,559)
Proceeds from tenant leasehold and security deposits in trust	1,675,743	14,603
Repayments of tenant leasehold and security deposits in trust	(210)	—
Net cash provided by (used in) investing activities	(37,146,463)	5,044
Cash flows from financing activities		
Proceeds from short-term loans payable	16,600,000	—
Repayments of short-term loans payable	(16,600,000)	—
Proceeds from long-term loans payable	13,100,000	—
Proceeds from issuance of investment units	20,644,475	—
Dividends paid	(1,010,934)	(1,949,114)
Net cash provided by (used in) financing activities	32,733,541	(1,949,114)
Net increase (decrease) in cash and cash equivalents	(366,661)	1,886,939
Cash and cash equivalents at beginning of period	12,577,371	12,210,709
Cash and cash equivalents at end of period (Note 7)	12,210,709	14,097,649

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>15-62 years</td></tr> <tr> <td>Structures</td><td>37-40 years</td></tr> <tr> <td>Tools, furniture and fixtures</td><td>6 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	15-62 years	Structures	37-40 years	Tools, furniture and fixtures	6 years
Buildings	15-62 years						
Structures	37-40 years						
Tools, furniture and fixtures	6 years						
2. Accounting for deferred assets	<p>Investment unit issuance expenses The entire amount is expensed as incurred.</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 109,887 thousand yen for the 2nd fiscal period, and there were no property taxes capitalised for the 3rd 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. 1) Cash and deposits in trust 2) Buildings in trust: Structures in trust: Tools, furniture and fixtures in trust: Land in trust: Construction in progress in trust 3) Tenant leasehold and security deposits in trust (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)	
2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
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)				
	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)		3rd Fiscal Period (From November 1, 2015 to April 30, 2016)	
A. Property-related operating revenue				
Rent revenue – real estate				
Rental income	3,379,712	3,379,712	3,467,176	3,467,176
Other lease business revenue				
Other	42	42	379	379
Total property-related operating revenue	3,379,755		3,467,556	
B. Property-related operating expenses				
Expenses related to rent business				
Property management fees	18,619		19,200	
Trust fees	1,526		1,550	
Property and other taxes	191,422		250,042	
Insurance expenses	5,026		5,149	
Repair expenses	10,652		21,242	
Depreciation	560,032		560,169	
Other expenses related to rent business	2,876	790,155	3,569	860,922
Total property-related operating expenses	790,155		860,922	
C. Property-related operating income [A – B]	2,589,599		2,606,633	

6. Notes to Statement of Changes in Net Assets

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

	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued	794,000 units	794,000 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)		
	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Cash and deposits	2,117,144	4,059,682
Cash and deposits in trust	10,093,565	10,037,966
Cash and cash equivalents	12,210,709	14,097,649

8. Lease Transactions

Operating lease transactions as lessor

Future minimum lease payments

(Thousands of yen)		
	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Due within 1 year	6,934,353	6,934,353
Due after 1 year	46,739,869	43,272,692
Total	53,674,222	50,207,045

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 amount 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 April 30, 2016, 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)).

2nd Fiscal Period (As of October 31, 2015)

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	2,117,144	2,117,144	—
(2) Cash and deposits in trust	10,093,565	10,093,565	—
Total assets	12,210,709	12,210,709	—
(3) Long-term loans payable	68,100,000	68,961,485	861,485
Total liabilities	68,100,000	68,961,485	861,485
(4) Derivative transactions	—	—	—

3rd Fiscal Period (As of April 30, 2016)

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	4,059,682	4,059,682	—
(2) Cash and deposits in trust	10,037,966	10,037,966	—
Total assets	14,097,649	14,097,649	—
(3) Long-term loans payable	68,100,000	70,039,383	1,939,383
Total liabilities	68,100,000	70,039,383	1,939,383
(4) 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) Long-term loans payable

As 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.

(4) 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	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Tenant leasehold and security deposits in trust	7,803,586	7,803,586

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

2nd Fiscal Period (As of October 31, 2015)

(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	2,117,144	—	—	—	—	—
Cash and deposits in trust	10,093,565	—	—	—	—	—
Total	12,210,709	—	—	—	—	—

3rd Fiscal Period (As of April 30, 2016)

(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	4,059,682	—	—	—	—	—
Cash and deposits in trust	10,037,966	—	—	—	—	—
Total	14,097,649	—	—	—	—	—

(Note 4) Repayment schedule of loans after the closing date

2nd Fiscal Period (As of October 31, 2015)

(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
Long-term loans payable	—	—	14,000,000	—	14,000,000	40,100,000

3rd Fiscal Period (As of April 30, 2016)

(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
Long-term loans payable	—	14,000,000	—	14,000,000	7,000,000	33,100,000

10. Securities

2nd Fiscal Period (As of October 31, 2015)

Not applicable.

3rd Fiscal Period (As of April 30, 2016)

Not applicable.

11. Derivative Transactions

1. Derivatives to which hedge accounting is not applied

2nd Fiscal Period (As of October 31, 2015)

Not applicable.

3rd Fiscal Period (As of April 30, 2016)

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.

2nd Fiscal Period (As of October 31, 2015)

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 Receivable floating ; Payable fixed	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)").

3rd Fiscal Period (As of April 30, 2016)

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 Receivable floating ; Payable fixed	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)").

12. Retirement Benefits

2nd Fiscal Period (As of October 31, 2015)

Not applicable.

3rd Fiscal Period (As of April 30, 2016)

Not applicable.

13. Income Taxes

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

	(Thousands of yen)	
	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Deferred tax assets		
Accrued business taxes not deductible from taxable income	10	17
Total deferred tax assets	10	17
Net deferred tax assets	10	17

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

	2nd Fiscal Period (As of October 31, 2015)	3rd Fiscal Period (As of April 30, 2016)
Statutory tax rate	32.31	32.31
[Adjustments]		
Deductible cash distribution	(32.30)	(32.29)
Other	0.03	0.03
Effective income tax rate after application of tax-effect accounting	0.04	0.05

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

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

Not applicable.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

Not applicable.

15. Transactions with Related Parties

1. Parent company and major corporate unitholders.

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

Not applicable.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

Not applicable.

2. Subsidiaries and affiliates.

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

Not applicable.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

Not applicable.

3. Sister companies.

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

Not applicable.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

Not applicable.

4. Directors and major individual unitholders.

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

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)	304,231 (Note 2)	Accounts payable — other	266,038

(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 57,900 thousand yen of asset management fees pertaining to real estate acquisition 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.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

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)	272,995	Accounts payable – other	294,835

(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

2nd Fiscal Period (As of October 31, 2015)

Not applicable.

3rd Fiscal Period (As of April 30, 2016)

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)

	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Carrying amount		
Balance at beginning of period	114,108,418	152,371,380
Amount of increase (decrease) during period	38,262,962	(554,263)
Balance at end of period	152,371,380	151,817,116
Fair value at end of period	164,300,000	169,700,000

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

(Note 2) Net increase during the 2nd fiscal period is mainly attributable to the acquisition of new properties (38,819,898 thousand yen), offset by depreciation (560,032 thousand yen). Net decrease during the 3rd fiscal period is mainly attributable to depreciation (560,169 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 2nd and 3rd 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

2nd Fiscal Period (From May 1, 2015 to October 31, 2015)

(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.	2,290,713	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.

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

(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.	2,378,178	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

	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Net assets per unit	112,966 yen	112,985 yen
Net income per unit	2,511 yen	2,477 yen

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

	2nd Fiscal Period (From May 1, 2015 to October 31, 2015)	3rd Fiscal Period (From November 1, 2015 to April 30, 2016)
Net income (Thousands of yen)	1,951,520	1,966,880
Amount not attributable to common unitholders (Thousands of yen)	—	—
Net income attributable to common investment units (Thousands of yen)	1,951,520	1,966,880
Average number of investment units during period (Units)	777,134	794,000

20. Significant Subsequent Events

SHR resolved, at its meeting of the board of directors held on May 9, 2016, the following issuance of new investment units with payment dates of May 24, 2016 for the new investment units issued through a public offering and on June 21, 2016 for the new investment units issued by way of a third-party allotment. As a result, as of July 27, 2016, unitholders' capital is 100,040,294,000 yen and the total number of investment units issued and outstanding is 894,000 units.

<Issuance of new investment units through public offering (primary offering)>

Number of new investment units to be issued : 95,200 units
Issue price : 127,140 yen per unit
Total amount of issue price : 12,103,728,000 yen
Amount to be paid in (issue amount) : 122,967 yen per unit
Total amount to be paid in (total issue amount) : 11,706,458,400 yen
Payment date : May 24, 2016
Initial date of calculating distribution : May 1, 2016

<Issuance of new investment units by way of third-party allotment>

Number of new investment units to be issued: 4,800 units
Amount to be paid in (issued amount) : 122,967 yen per unit
Total amount to be paid in (issued amount) : 590,241,600 yen
Payment date : June 21, 2016
Initial date of calculating distribution : May 1, 2016
Allottee : Nomura Securities Co., Ltd.

Funds procured from the above issuance of new investment units through the public offering will be used to partly fund the acquisition of Garden City Shinagawa Gotenyama (additional acquisition portion), HK Yodoyabashi Garden Avenue and Hirokoji Garden Avenue; and funds procured from the issuance of new investment units by way of the third-party allotment will be kept as cash on hand and be deposited at financial institutions until the outlay, and are scheduled to be used for part of future repayment of borrowings or part of acquisition funds of specified assets in the future.

(7) Supplementary Schedules

3rd Fiscal Period (From November 1, 2015 to April 30, 2016)

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	50,350,000	50,350,000	—
Total		50,350,000	50,350,000	—

(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	45,889,590	5,905	—	45,895,496	1,399,667	551,041	44,495,829	—
	Structures in trust	672,428	—	—	672,428	25,303	9,043	647,125	—
	Tools, furniture and fixtures in trust	996	—	—	996	97	83	898	—
	Land in trust	106,673,263	—	—	106,673,263	—	—	106,673,263	—
	Construction in progress in trust	—	16,023	—	16,023	—	—	16,023	—
	Subtotal	153,236,279	21,928	—	153,258,208	1,425,068	560,169	151,833,140	—
Intangible assets	Other	7,350	—	—	7,350	1,997	735	5,352	—
	Subtotal	7,350	—	—	7,350	1,997	735	5,352	—
Total		153,243,629	21,928	—	153,265,558	1,427,065	560,904	151,838,492	—

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

Not applicable.

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	Purpose	Security
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500,000	—	—	1,500,000	0.36100	Nov. 30, 2017	Lump-sum payment at maturity	Purchase of assets and related expenses	Un-secured Un-guaranteed
	Development Bank of Japan Inc.	1,100,000	—	—	1,100,000					
	The Norinchukin Bank	1,500,000	—	—	1,500,000					
	Mizuho Bank, Ltd.	2,100,000	—	—	2,100,000					
	Mizuho Trust & Banking Co., Ltd.	1,300,000	—	—	1,300,000					
	Sumitomo Mitsui Banking Corporation	1,200,000	—	—	1,200,000					
	Sumitomo Mitsui Trust Bank, Limited	2,100,000	—	—	2,100,000					
	Mitsubishi UFJ Trust and Banking Corporation	1,300,000	—	—	1,300,000					
	Resona Bank, Limited	1,900,000	—	—	1,900,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,300,000	—	—	3,300,000	0.65830	Nov. 30, 2019			
	Development Bank of Japan Inc.	800,000	—	—	800,000					
	The Norinchukin Bank	800,000	—	—	800,000					
	Mizuho Bank, Ltd.	1,800,000	—	—	1,800,000					
	Mizuho Trust & Banking Co., Ltd.	600,000	—	—	600,000					
	Sumitomo Mitsui Banking Corporation	3,000,000	—	—	3,000,000					
	Sumitomo Mitsui Trust Bank, Limited	1,800,000	—	—	1,800,000					
	Mitsubishi UFJ Trust and Banking Corporation	1,000,000	—	—	1,000,000					
	Resona Bank, Limited	900,000	—	—	900,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,200,000	—	—	4,200,000	0.94060	Nov. 30, 2021			
	Development Bank of Japan Inc.	800,000	—	—	800,000					
	The Norinchukin Bank	700,000	—	—	700,000					
	Mizuho Bank, Ltd.	2,400,000	—	—	2,400,000					
	Mizuho Trust & Banking Co., Ltd.	900,000	—	—	900,000					
	Sumitomo Mitsui Banking Corporation	3,700,000	—	—	3,700,000					
	Sumitomo Mitsui Trust Bank, Limited	2,000,000	—	—	2,000,000					
	Mitsubishi UFJ Trust and Banking Corporation	900,000	—	—	900,000					
	Resona Bank, Limited	1,400,000	—	—	1,400,000					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,200,000	—	—	4,200,000	1.47450	Nov. 30, 2024			
	Development Bank of Japan Inc.	300,000	—	—	300,000					
	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						
Mitsubishi UFJ Trust and Banking Corporation	400,000	—	—	400,000						

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	Purpose	Security			
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,650,000	—	—	1,650,000	0.61760	Nov. 30, 2020	Lump-sum payment at maturity	Repayment of loans payable	Un-secured Un-guaranteed			
	The Norinchukin Bank	650,000	—	—	650,000	0.62760							
	Mizuho Bank, Ltd.	950,000	—	—	950,000								
	Mizuho Trust & Banking Co., Ltd.	500,000	—	—	500,000								
	Sumitomo Mitsui Banking Corporation	1,650,000	—	—	1,650,000								
	Sumitomo Mitsui Trust Bank, Limited	850,000	—	—	850,000								
	Mitsubishi UFJ Trust and Banking Corporation	200,000	—	—	200,000								
	Resona Bank, Limited	550,000	—	—	550,000								
	The Bank of Tokyo-Mitsubishi UFJ, 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								
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750,000	—	—	750,000	1.00850					Nov. 30, 2023		
	Mizuho Bank, Ltd.	400,000	—	—	400,000	1.01850							
	Mizuho Trust & Banking Co., Ltd.	300,000	—	—	300,000								
	Sumitomo Mitsui Banking Corporation	700,000	—	—	700,000								
	Sumitomo Mitsui Trust Bank, Limited	350,000	—	—	350,000								
	Mitsubishi UFJ Trust and Banking Corporation	500,000	—	—	500,000								
	Resona Bank, Limited	100,000	—	—	100,000								
	Subtotal	68,100,000	—	—	68,100,000	—	—					—	—
		Total	68,100,000	—	—	68,100,000	—				—	—	—

(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) 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	—	14,000,000	7,000,000

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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, 2016, and the statements of income and retained earnings, changes in net assets, cash distributions, cash flows, and supplementary schedules from November 1, 2015 to April 30, 2016 and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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.

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.

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, 2016, and its financial performance and cash flows from November 1, 2015 to April 30, 2016 in conformity with accounting principles generally accepted in Japan.

Ernst & Young Skinnikore LLC

July 22, 2016
Tokyo, Japan

Memo

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.