



SEKISUI HOUSE REIT, INC.

Semi-Annual Report

1st Fiscal Period Ended April 30, 2015

(from September 8, 2014 to April 30, 2015)

Message to Our Unitholders

Sekisui House Reit, Inc. (“SHR”) is an investment corporation that has Sekisui House, Ltd. (“Sekisui House”), one of the leading housing manufacturers in Japan, as its sponsor.

SHR has been established to achieve mutual growth and prosperity with its unitholders, tenant companies and all other stakeholders. SHR aims to provide high-quality social capital and maximize unitholder value by conducting asset management that pursues the securing of stable earnings over the medium to long term and steady growth of its investment assets. With this basic philosophy, SHR was newly listed on the Tokyo Stock Exchange Real Estate Investment Trust Section on December 3, 2014.

SHR recently settled its accounts for the 1st fiscal period (fiscal period ended April 2015). I, on behalf of SHR, would like to extend my heartfelt thanks to unitholders as this could not have been managed without your understanding and support.

I hereby report on the management status and financial results for the 1st fiscal period of SHR.

SHR acquired three properties for 114.3 billion yen upon its listing, and posted operating revenue of 2,108 million yen, operating income of 1,580 million yen, ordinary income of 1,014 million yen and net income of 1,013 million yen. As a result, the distribution per investment unit declared was 1,603 yen.

I next report on the status of activities subsequent to the fiscal period under review. Entering the 2nd fiscal period (fiscal period ending October 2015), SHR conducted issuance of new investment units to follow its listing five months earlier and, combined with new borrowing of funds, SHR newly acquired a property. SHR’s portfolio has thus grown to four properties, amounting to an asset size of 152.9 billion yen on an acquisition price basis.

By taking full advantage of the sponsor support by Sekisui House, which has an excellent track record of developing commercial properties, SHR will continue to pursue the securing of 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.



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”), which is one of the leading housing manufacturers in Japan and has an abundant development and management track record also in the 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 makes it a policy to conduct asset management that pursues the securing of stable earnings over the medium to long term and steady growth of its investment assets, mainly investing in commercial properties (Note), with particularly commercial properties situated in strategic locations or have high quality that it refers to as prime properties positioned as its core investment targets.

Based on the policy described above, SHR acquired three properties (sum total of acquisition price: 114,300 million yen) and, in effect, commenced management on the listing date December 3, 2014.

(Note) “Commercial properties” refer to real estate mainly used for business purposes other than for residence, such as office buildings, retail properties and hotels. Residence includes 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 continued to be on a moderate recovery trend, as evidenced by such factors as improvement in the employment and income situation leading to private consumption picking up, albeit moderately, and corporate earnings sustaining an improving trend due to depreciation of the yen and crude oil prices.

In the real estate transaction market, in addition to a favorable financing environment, signs of an increasingly marked improvement in the office rent level and vacancy rate boosted the investment appetite, with particularly depreciation of the yen and the sense that real estate prices are relatively undervalued leading to increasingly active overseas fund movements, thereby increasing the sense of overheating in certain areas.

In addition, in the office leasing market, reflecting the improvement in corporate earnings leading to floor space expansions, relocations for greater floor space, etc. in major office areas, the vacancy rate showed ongoing steady improvement, and the rent level also showed signs of increase in certain areas. On the other hand, the environment surrounding retail properties, according to the Bank of Japan’s Monthly Report of Recent Economic and Financial Developments (April 2015), was that sales at department stores have been on an improving trend supported by the pick-up in demand following the decline in reaction to the rush demand and the wealth effects as a result of the rise in stock prices as well as by increased sales to foreign visitors to Japan. Meanwhile, sales at supermarkets nationwide have shown relatively weak movements, while sales at convenience stores have shown a moderate increasing trend. These, among other factors, suggest that store rent, which is susceptible to private consumption trends, was on a recovery trend.

Management Performance

Based on the basic asset management policy set forth in its articles of incorporation, SHR used the proceeds from issuance of new investment units and loans to acquire real estate trust beneficiary interests that have real estate as assets in trust (the three properties “Garden City Shinagawa Gotenyama” (Shinagawa Ward, Tokyo; acquisition price: 39,700 million yen), “Gotenyama SH Building” (Shinagawa Ward, Tokyo; acquisition price: 51,500 million yen) and “Hommachi Minami Garden City” (Osaka City, Osaka; acquisition price: 23,100 million yen)) and thereby commenced management on December 3, 2014.

The assets held by SHR as of April 30, 2015 (“as of the end of the fiscal period under review”) are the three properties above, with sum total of acquisition price of 114,300 million yen and total leasable area of 57,732.90m². In addition, of the three properties, master lease agreements with Sekisui House as lessee have been executed for two 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

SHR implemented an issuance of new investment units through public offering (600,000 units) with December 2, 2014 as the payment date and was listed on the Tokyo Stock Exchange Real Estate Investment Trust Section on December 3, 2014. SHR then implemented an issuance of new investment units by way of third-party allotment (30,000 units) with December 24, 2014 as the payment date. As a result, as of the end of the fiscal period under review, unitholders' capital is 67,074 million yen and the number of investment units issued and outstanding is 632,000 units.

In addition, in connection with acquisition of real estate trust beneficiary interests (three properties) upon the new listing, SHR procured loans in a total amount of 55,000 million yen on December 3, 2014 for use as funds for acquisition of the real estate trust beneficiary interests (three properties) as well as related expenses. The interest rate for loans in the amount of 41,000 million yen of these loans has been converted into a fixed rate through an interest rate swap transaction.

As a result, as of the end of the fiscal period under review, the balance of interest-bearing liabilities is 55,000 million yen and the ratio of total interest-bearing liabilities (total amount of loans amount, investment corporation bonds issuance amount and short-term investment corporation bonds issuance amount) to total assets ("LTV (total assets basis)") is 42.5%.

Furthermore, in the fiscal period under review, SHR acquired long-term issuer rating (AA-; rating outlook: stable) from Japan Credit Rating Agency, Ltd.

(4) Overview of Business Performance and Distributions

Results in the fiscal period under review are operating revenue of 2,108 million yen, operating income of 1,580 million yen and ordinary income of 1,014 million yen, resulting in net income of 1,013 million yen. In addition, concerning distributions, the decision has been made to distribute the entire amount of unappropriated retained earnings, excluding the portion where 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 application of a 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 1,603 yen.

2. Status of Capital Increase, etc.

The following is the increase (decrease) in unitholders' capital and the total number of investment units issued and outstanding since the establishment of SHR through to April 30, 2015.

Date	Event	Unitholders' capital (thousand yen)		Total number of investment units issued and outstanding (units)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
September 8, 2014	Private placement for establishment	200,000	200,000	2,000	2,000	(Note 1)
December 2, 2014	Public offering	63,690,000	63,890,000	600,000	602,000	(Note 2)
December 24, 2014	Third-party allotment	3,184,500	67,074,500	30,000	632,000	(Note 3)

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

(Note 2) New investment units were issued at an offer price of 110,000 yen (issue price of 106,150 yen) per unit through public offering.

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

[Changes in Market Price of Investment Securities]

The following is 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: Sept. 8, 2014 To: Apr. 30, 2015
High (yen)	148,600
Low (yen)	131,700

(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 (1st fiscal period) is 1,603 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: Sept. 8, 2014 To: Apr. 30, 2015
Total amount of unappropriated retained earnings (thousand yen)	1,013,381
Amount of accumulated earnings (thousand yen)	285
Total amount of cash distribution (thousand yen)	1,013,096
[Distribution per unit] (yen)	[1,603]
Of which, Total amount of distribution of earnings (thousand yen)	1,013,096
[Distribution of earnings per unit] (yen)	[1,603]
Of which, Total amount of withdrawal of investments in capital (thousand yen)	-
[Amount of withdrawal of investments in capital per unit] (yen)	[-]

4. Future Management Policy

(1) Future Trends Outlook

The future Japanese economic outlook is that, amid ongoing improvement in the employment and income situation, such factors as the impact of decline in crude oil prices and effects of the government's various economic measures are supposed to lead to moderate economic recovery. In the immediate future, while the favorable investment environment, such as strong corporate earnings, is expected to continue, the pace of U.S. economic recovery, impact of decline in crude oil prices, future of emerging economies and other overseas economic trends are thought to require continued monitoring.

In the office leasing market, strong office demand backed by such factors as recovery in employment conditions and corporate earnings and the accompanying continued decrease in the vacancy rate in major office areas will lead to progress in improvement in the supply-demand balance.

Amid such expected full-fledged office leasing market recovery, supported by a favorable financial environment, the office real estate transaction market is showing increasingly active real estate investment with listed REITs and private REITs being joined by overseas investors and other participants due to depreciation of the yen and the sense that real estate prices are relatively undervalued. In addition, the real estate pricing factoring in the expected future increase in rental income is seen to lower the expected cap rate and thereby further increase the sense of overheating over real estate acquisitions.

(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 have high quality, as its core investment targets among commercial properties positioned as its main investment targets. By implementing growth strategies that take full advantage of the real estate development and operation capabilities and other strengths of Sekisui House, which has built an abundant track record of developing and operating commercial properties, through the sponsor support, SHR will pursue the securing of 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 an effort to advance diversification of the portfolio.

The policy is to set as its main investment areas the Three major metropolitan areas with Three large cities, namely the Tokyo 23 Wards, Osaka City and Nagoya City, at the core, 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), which is specifically (a) grant of preferential negotiation rights with regard to the sale of domestic real estate, etc. owned or developed by Sekisui House, (b) provision of information on real estate, etc. owned or developed in Japan by third parties, (c) provision of warehousing functions, and (d) support for redevelopment of owned properties. In addition, SHR can seek from Sekisui House (a) provision of property management services for owned assets, and (b) in relation to management of owned assets for internal growth, (i) provision of technologies and know-how that contribute to improvement of tenant satisfaction or those, including energy saving and eco-friendly considerations, that contribute to value enhancement of properties, (ii) personnel support, including provision of know-how required for the operation of SHR, and (iii) support for such matters as discussion regarding execution of master lease agreements.

By implementing growth strategies that take full advantage of the versatile support by Sekisui House for external growth and internal growth as described above, SHR will pursue the securing of stable earnings and steady growth of its investment assets and thereby aim to maximize unitholder value.

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

(3) Financial Strategy

SHR makes it a policy to conduct 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 refinance risks and risk of fluctuations in interest rates by investigating lengthening of the borrowing periods and working to diversify the repayment dates, etc., while pursuing the optimum balance of fixed-rate and floating-rate debts.

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

SHR’s LTV (total assets basis), which was 42.5% as of the end of the fiscal period under review, is expected to decrease by a certain level as a result of the public offering, etc. implemented in May 2015. Along with considering utilization of the funding capacity generated by this decrease in LTV (total assets basis), SHR will work to diversify the procurement methods for direct and indirect financing, including issuance of investment corporation bonds, by comprehensively taking into account the market environment, SHR’s financial standing and other factors.

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 April 24, 2015. Payments for the new investment units through public offering and the new investment units by way of third-party allotment were completed on May 19 and June 12, 2015, respectively. As a result, unitholders' capital is 87,743,594,000 yen and the number of investment units issued and outstanding is 794,000 units.

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

Number of investment units to be issued:	154,200 units
Offer price:	131,917 yen per unit
Total amount of offer price:	20,341,601,400 yen
Amount to be paid in (issue price):	127,587 yen per unit
Total amount of amount to be paid in (issue price):	19,673,915,400 yen
Payment date:	May 19, 2015
Date of commencement of distribution calculation:	May 1, 2015

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

Number of investment units to be issued:	7,800 units
Amount to be paid in (issue price):	127,587 yen per unit
Total amount of amount to be paid in (issue price):	995,178,600 yen
Payment date:	June 12, 2015
Date of commencement of distribution calculation:	May 1, 2015
Allottee:	Nomura Securities Co., Ltd.

iii) Use of proceeds

The proceeds from the issuance of new investment units through public offering above were used as part of funds for acquisition of Hommachi Garden City on May 19, 2015, and the proceeds from the issuance of new investment units by way of third-party allotment above were used for early repayment of part of short-term loans on June 17, 2015.

(Reference Information)

(a) Borrowing of funds

SHR conducted the following borrowing of funds on May 19, 2015 for use as funds for acquisition of the asset stated in "(b) Acquisition of asset" below, as well as related expenses.

Category	Lender	Loan amount (million yen)	Interest rate	Drawdown date	Repayment due date	Repayment method	Remarks
Short term	The Bank of Tokyo- Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation	16,600	Base rate (JBA 1-month JPY TIBOR) + 0.225%	May 19, 2015	May 18, 2016	Lump-sum payment at maturity	Unsecured Unguaranteed

(b) Acquisition of asset

The following one property was acquired on May 19, 2015.

Property name	Hommachi Garden City
Type of asset	Trust beneficiary interests that have real estate as assets in trust
Category	Office building
Acquisition price	38,600 million yen
Acquisition date	May 19, 2015
Seller	Sekisui House, Ltd.
Location (indication of residential address)	3-6-4 Hommachi, Chuo-ku, Osaka-shi, Osaka
Type of ownership	Land: Right of site (co-ownership interest) Building: Sectional ownership right

Outline of the Investment Corporation

1. Status of Capital

Fiscal period	1st fiscal period as of Apr. 30, 2015
Total number of investment units authorized (units)	10,000,000
Total number of investment units issued and outstanding (units)	632,000
Unitholders' capital (million yen)	67,074
Number of unitholders (persons)	16,005

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 owned units (units)	Percentage of owned units to total units issued and outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	129,381	20.47
Sekisui House, Ltd.	60,200	9.53
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	44,794	7.09
The Master Trust Bank of Japan, Ltd. (Trust Account)	40,616	6.43
Goldman Sachs International	17,741	2.81
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	16,816	2.66
Nomura Bank (Luxembourg) S.A.	13,536	2.14
The Bank of Yokohama, Ltd.	7,658	1.21
The Hokkoku Bank, Ltd.	6,518	1.03
Trust & Custody Services Bank, Ltd. (Taxable Money Trust Account)	6,429	1.02
Total	343,689	54.38

(Note) Percentage of owned units to total units issued and outstanding is rounded to two decimal places.

3. Matters Concerning Directors, etc.

- (1) The following is the executive director, supervisory directors and independent auditor 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	2,400
	Tatsushi Omiya	Auditor, QB Net Co., Ltd. Partner, City Law Offices	2,400
Independent Auditor	Ernst & Young ShinNihon LLC	—	10,600 (Note 2)

(Note 1) None of the executive director or supervisory directors own SHR investment units in their own name or in the name of another.

In addition, supervisory directors may be directors of other corporations other than those stated above, but none of them, including those above, have vested interest in SHR.

(Note 2) The total amount of compensation stated above is an approximate amount and includes the compensation for business pertaining to agreed-upon procedures for matters specific to real estate investment corporations upon the issuance of new investment units conducted in October 2014 and April 2015.

- (2) Policy for Deciding on Dismissal and Refusal of Reappointment of the Independent Auditor

Subject to consideration at a meeting of the board of directors of SHR shall be the dismissal of the independent auditor 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”) and the refusal of reappointment of the independent auditor by taking into account the quality of audits, amount of audit fee and other various circumstances in a comprehensive manner.

4. Asset Management Company, Asset Custodian and Administrative Agents

The following is the asset management company, asset custodian and administrative agents 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 is the composition of assets of SHR as of the end of the fiscal period under review.

Type of asset	Geographical area, etc. (Note 1)	1st fiscal period as of Apr. 30, 2015	
		Total amount held (million yen) (Note 2)	As a percentage of total assets (%) (Note 3)
Real estate in trust	Three major metropolitan areas	114,108	88.1
	Other areas	—	—
Total of real estate in trust		114,108	88.1
Deposits and other assets		15,374	11.9
Total amount of assets		129,482	100.0

(Note 1) Under “Geographical area, etc.,” “Three major metropolitan areas” refers to “Greater Tokyo,” “Osaka area” and “Nagoya area,” where “Greater Tokyo” refers to Tokyo, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture, “Osaka area” refers to Osaka Prefecture, Kyoto Prefecture, Hyogo Prefecture and Nara Prefecture and “Nagoya area” refers to Aichi Prefecture.

(Note 2) “Total amount held” is the carrying amount (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 3) “As a percentage of total assets” is rounded to one decimal place.

2. Major Portfolio Assets

The following is 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	39,660	21,033.47	21,033.47	100.0	34.6	Office building
Gotenyama SH Building	51,421	19,999.97	19,999.97	100.0	42.5	Office building
Hommachi Minami Garden City	23,026	16,699.46	16,699.46	100.0	22.9	Office building
Total	114,108	57,732.90	57,732.90	100.0	100.0	—

(Note 1) “Book value” is the depreciated book value of each property as of the end of the fiscal period under review, rounded down to the nearest million yen. The same shall apply hereinafter.

(Note 2) “Leasable area” is 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. The same shall apply hereinafter.

(Note 3) “Leased area” is 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” is the ratio of leased area to leasable area of each property as of the end of the fiscal period under review, rounded to one decimal place. That in the total column is the occupancy rate of the entire portfolio, which is the ratio of leased area of all properties to leasable area of all properties. The same shall apply hereinafter.

(Note 5) “As a percentage of total property-related operating revenue” is rounded to one decimal place. The same shall apply hereinafter.

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

The following is 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)	Estimated value at end of period (million yen) (Note)
Garden City Shinagawa Gotenyama	6-7-29 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	39,660	41,100
Gotenyama SH Building	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	51,421	53,400
Hommachi Minami Garden City	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	23,026	25,600
Total	—	—	114,108	120,100

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

The following is the status of leasing of real estate, etc. held by SHR.

Name of real estate, etc.	1st fiscal period From: Sept. 8, 2014 To: Apr. 30, 2015			
	Number of tenants [at end of fiscal period under review] (Note 1)	Occupancy rate [at end of fiscal period under review] (%)	Property-related operating revenue [during fiscal period under review] (million yen) (Note 2)	As a percentage of total property-related operating revenue (%) (Note 3)
Garden City Shinagawa Gotenyama	1	100.0	730	34.6
Gotenyama SH Building	1	100.0	895	42.5
Hommachi Minami Garden City	1	100.0	482	22.9
Total	3	100.0	2,108	100.0

(Note 1) “Number of tenants” is 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 the fiscal period under review. Furthermore, in cases where a fixed-rent-type master lease agreement, based on which a fixed amount of rent is received regardless of fluctuations in rent from end-tenants, has been executed for the concerned property, the number of lessees under the master lease agreement is stated as the number of tenants.

(Note 2) “Property-related operating revenue [during fiscal period under review]” is the sum total of property-related operating revenue in the fiscal period under review of each property, rounded down to the nearest million yen.

(Note 3) “As a percentage of total property-related operating revenue” is property-related operating revenue in the fiscal period under review of each property expressed as a percentage of total property-related operating revenue, rounded to one decimal place.

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

The following is 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)
			Of which, due after 1 year	
Transaction other than market transaction	Interest rate swap transaction Floating interest rate receivable and fixed interest rate payable	41,000,000	41,000,000	—

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

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

5. Status of Other Assets

Trust beneficiary interests that have real estate as the main assets in trust are stated in “3. Itemization 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.

6. Status of Holding of Assets by Country and Region

As of the end of the fiscal period under review, there are no overseas real estate, etc. in countries and regions other than Japan in the portfolio.

Capital expenditures for property

1. Schedule of Capital Expenditures

There are no capital expenditures accompanying renovation work, etc. currently planned for assets held by SHR. However, there may possibly be a portion eventually charged to capital expenditures for accounting purposes.

2. Capital Expenditures During Period

There is no construction work that falls under the category of capital expenditures conducted by SHR in the fiscal period under review.

Repair expenses charged to expenses in the fiscal period under review amounted to 3,898 thousand yen.

3. Cash Reserves for Long-Term Repair Plans

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

Condition of expenses

Itemization of Expenses Pertaining to Management, etc.

(Unit: thousand yen)

Item	1st fiscal period From: Sept. 8, 2014 To: Apr. 30, 2015
Asset management fee	143,170
Asset custody fee	1,381
Administrative service fees	3,813
Directors' compensations	4,800
Other expenses	7,632
Total	160,798

Condition of investment transactions

1. Status, etc. of Sale and Purchase of Real Estate, etc. and Asset-Backed Securities, etc.

Name of real estate, etc.	Acquisition		Disposition			
	Acquisition date	Acquisition price (million yen) (Note)	Disposition date	Disposition price (million yen) (Note)	Book value (million yen)	Gain (Loss) on sale (million yen)
Garden City Shinagawa Gotenyama	December 3, 2014	39,700	—	—	—	—
Gotenyama SH Building	December 3, 2014	51,500	—	—	—	—
Hommachi Minami Garden City	December 3, 2014	23,100	—	—	—	—
Total	—	114,300	—	—	—	—

(Note) “Acquisition price” and “Disposition price” is the sale and purchase price stated in the sale and purchase agreement for each property held (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.

2. Status, etc. of Sale and Purchase of Other Assets

Not applicable.

Main other assets other than the abovementioned real estate, etc. and asset-backed securities, etc. are basically bank deposits or bank deposits within assets in trust.

3. Investigation into Value, etc. of Specified Assets

(1) Real Estate, etc. (Appraisal)

Acquisition or disposition	Name of real estate, etc.	Transaction date	Type of asset	Acquisition price or disposition price (million yen)	Appraisal value (million yen) (Note)	Appraisal firm	Date of value
Acquisition	Garden City Shinagawa Gotenyama	December 3, 2014	Real estate trust beneficiary interests	39,700	39,900	Daiwa Real Estate Appraisal Co., Ltd.	August 1, 2014
	Gotenyama SH Building	December 3, 2014	Real estate trust beneficiary interests	51,500	52,100	The Tanizawa Sōgō Appraisal Co., Ltd.	August 1, 2014
	Hommachi Minami Garden City	December 3, 2014	Real estate trust beneficiary interests	23,100	24,400	Richi Appraisal Institute Co., Ltd.	August 1, 2014
Total		—	—	114,300	116,400	—	—

(Note) The appraisal stated above is by applying “Real Estate Appraisal Standards; Particulars; Chapter 3: Appraisal on Value of Real Estate Subject to Securitization.”

(2) Other

Concerning transactions requiring investigation into the value, etc. of specified assets pursuant to Article 201, Paragraph 2 of the Investment Trusts Act, Ernst & Young ShinNihon LLC has conducted the investigation pursuant to The Japanese Institute of Certified Public Accountants’ Industry Audit Practice Committee Practical Guidelines No. 23 “Investigation into the Value, etc. of Specified Assets of Investment Trusts and Investment Corporations” and SHR has been notified of the results of the investigation.

The transactions subject to the investigation in the fiscal period under review were three interest rate swap transactions. For the transactions, investigation of the name of the counterparty to the transaction, the type of financial instrument or financial indicator, the transaction period, other matters concerning the content of the over-the-counter transaction of derivatives, etc. has been entrusted.

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

(1) Status of Transactions

Category	Amount of purchase and sale, etc.	
	Amount of purchase, etc.	Amount of sale, etc.
Total amount	114,300 million yen	— million yen
Breakdown of status of transactions with interested persons, etc.		
Sekisui House, Ltd.	114,300 million yen [100.0%]	— million yen [— %]

(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)	10,858	Sekisui House, Ltd.	10,858	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) The following is the amount paid for repair work, etc. orders placed with interested persons, etc. in the fiscal period under review other than the commission fee, etc. stated above.

Sekisui House, Ltd. 3,898 thousand yen

(Note 3) “Management fee” is 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 the Asset Management Company does not engage in any business operations of type I financial instruments business or type II financial instruments business under the Financial Instruments and Exchange Act, building lots and buildings transaction business, or specified joint real estate ventures as a concurrent business as of the end of the fiscal period under review.

Other information

1. Notice

(1) General Meeting of Unitholders

In the fiscal period under review, the first general meeting of unitholders of SHR was held on October 16, 2014.

The following matters were approved at the general meeting of unitholders.

Approval date	Matters approved	Overview
October 16, 2014	Partial amendment of articles of incorporation	The articles of incorporation of SHR was partially amended, involving deletion of wording for matters stated in the articles of incorporation that were required upon the establishment of SHR but are no longer required after the establishment, and addition of investment targets and other matters in line with revision of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480 of 2000, as amended).

(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, the following matters were approved at a meeting of the board of directors of SHR.

Approval date	Matters approved	Overview
September 8, 2014	Execution of asset management agreement	Business operations related to asset management for SHR were entrusted to Sekisui House Investment Advisors, Ltd.
September 8, 2014	Execution of asset custodian contract	Business operations related to asset custody for SHR were entrusted to Mitsubishi UFJ Trust and Banking Corporation.
September 8, 2014	Execution of administrative contract (contract on administration of investment units)	Business operations related to transfer agency for SHR were entrusted to Mizuho Trust & Banking Co., Ltd.
September 8, 2014	Execution of general administrative contract	General administrative affairs pertaining to operation of the administrative instruments, accounting and other business operations for SHR were entrusted to Mitsubishi UFJ Trust and Banking Corporation.
October 16, 2014	Execution of contract on amendment of asset management agreement	Addition of investment targets and other matters, with approval of the partial amendment of the articles of incorporation at the general meeting of unitholders which was approved by the meeting of the board of directors held on the same date as a condition precedent, were agreed upon with Sekisui House Investment Advisors, Ltd.
November 21, 2014	Execution of underwriting agreement for new investment units	Administrative affairs pertaining to solicitation of persons to subscribe for new investment units and other business operations related to the issuance of new investment units and secondary distribution of investment units approved at the meeting of the board of directors held on the same date were entrusted to Nomura Securities Co., Ltd., SMBC Nikko Securities Inc., Goldman Sachs Japan Co., Ltd., Daiwa Securities Co. Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Mizuho Securities Co., Ltd.

2. Other

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)
	1st Fiscal Period
	(As of April 30, 2015)
Assets	
Current assets	
Cash and deposits	4,806,695
Cash and deposits in trust	7,770,676
Prepaid expenses	65,883
Deferred tax assets	24
Consumption taxes receivable	2,451,353
Other	121
Total current assets	15,094,753
Non-current assets	
Property, plant and equipment	
Buildings in trust	30,919,664
Accumulated depreciation	(297,650)
Buildings in trust, net	30,622,013
Structures in trust	643,178
Accumulated depreciation	(7,215)
Structures in trust, net	635,962
Land in trust	82,850,441
Construction in progress in trust	0
Total property, plant and equipment	114,108,418
Intangible assets	
Other	6,822
Total intangible assets	6,822
Investments and other assets	
Lease and guarantee deposits	10,000
Long-term prepaid expenses	262,823
Total investments and other assets	272,823
Total non-current assets	114,388,065
Total assets	129,482,818
Liabilities	
Current liabilities	
Operating accounts payable	17,552
Accounts payable – other	194,928
Accrued expenses	67,862
Income taxes payable	1,144
Total current liabilities	281,488
Non-current liabilities	
Long-term loans payable	55,000,000
Tenant leasehold and security deposits in trust	6,113,449
Total non-current liabilities	61,113,449
Total liabilities	61,394,937
Net assets	
Unitholders' equity	
Unitholders' capital	67,074,500
Surplus	
Unappropriated retained earnings	1,013,381
Total surplus	1,013,381
Total unitholders' equity	68,087,881
Total net assets (Note 4)	68,087,881
Total liabilities and net assets	129,482,818

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

(2) Statement of Income and Retained Earnings

(Thousands of yen)

	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Operating revenue	
Rent revenue – real estate (Note 5)	2,108,597
Total operating revenue	2,108,597
Operating expenses	
Expenses related to rent business (Note 5)	367,319
Asset management fee	143,170
Asset custody fee	1,381
Administrative service fees	3,813
Directors' compensations	4,800
Other operating expenses	7,632
Total operating expenses	528,117
Operating income	1,580,479
Non-operating income	
Interest income	502
Total non-operating income	502
Non-operating expenses	
Interest expenses	183,616
Borrowing related expenses	134,748
Organization expenses	58,684
Investment unit issuance expenses	119,963
Other offering costs associated with issuance of investment units	64,367
Other	5,000
Total non-operating expenses	566,379
Ordinary income	1,014,602
Income before income taxes	1,014,602
Income taxes – current	1,246
Income taxes – deferred	(24)
Total income taxes	1,221
Net income	1,013,381
Unappropriated retained earnings	1,013,381

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

(3) Statement of Changes in Net Assets

1st Fiscal Period (From September 8, 2014 to April 30, 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	—	—	—	—	—
Changes of items during period					
Issuance of new investment units	67,074,500			67,074,500	67,074,500
Net income		1,013,381	1,013,381	1,013,381	1,013,381
Total changes of items during period	67,074,500	1,013,381	1,013,381	68,087,881	68,087,881
Balance at end of period (Note 6)	67,074,500	1,013,381	1,013,381	68,087,881	68,087,881

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

(4) Statement of Cash Distributions

Item	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
I . Unappropriated retained earnings	1,013,381,222 yen
II . Cash distributions	1,013,096,000 yen
[Cash distributions per unit]	[1,603 yen]
III. Retained earnings brought forward	285,222 yen
Method of calculating amount of distribution	<p>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.</p> <p>Based on such policy, SHR decided to pay out a distribution of earnings of 1,013,096,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (632,000 units) in an amount not in excess of unappropriated retained earnings for the period.</p> <p>SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.</p>

(5) Statement of Cash Flows

(Thousands of yen)

1st Fiscal Period
(From September 8, 2014
to April 30, 2015)

Cash flows from operating activities	
Income before income taxes	1,014,602
Depreciation	305,394
Investment unit issuance expenses	119,963
Interest income	(502)
Interest expenses	183,616
Decrease (increase) in consumption taxes receivable	(2,451,353)
Decrease (increase) in prepaid expenses	(65,883)
Decrease (increase) in long-term prepaid expenses	(262,823)
Increase (decrease) in operating accounts payable	17,552
Increase (decrease) in accounts payable – other	194,928
Other, net	(121)
Subtotal	(944,625)
Interest income received	502
Interest expenses paid	(115,753)
Income taxes paid	(102)
Net cash used in by operating activities	(1,059,978)
Cash flows from investing activities	
Purchase of property, plant and equipment in trust	(114,413,285)
Purchase of intangible assets	(7,350)
Proceeds from tenant leasehold and security deposits in trust	6,115,249
Repayments of tenant leasehold and security deposits in trust	(1,800)
Payments for lease and guarantee deposits	(10,000)
Net cash used in investing activities	(108,317,186)
Cash flows from financing activities	
Proceeds from long-term loans payable	55,000,000
Proceeds from issuance of investment units	66,954,536
Net cash provided by financing activities	121,954,536
Net increase (decrease) in cash and cash equivalents	12,577,371
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period (Note 7)	12,577,371

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 days.

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	(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: Buildings 17-62 years Structures 37-40 years (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.
2. Accounting for deferred assets	(1)Organization expenses The entire amount is expensed as incurred. (2)Investment unit issuance expenses The entire amount is expensed as incurred.
3. Standards for revenue and expense recognition	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. In the 1st fiscal period, the amount equivalent to property tax included in the acquisition cost of real estate, etc. was 30,766 thousand yen.
4. Method of hedge accounting	(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.

	<p>(2) Hedging instruments and hedged items Hedging instruments: Interest rate swap transactions Hedged items: Interest on loans</p> <p>(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.</p> <p>(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	<p>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.</p>
6. Other significant matters serving as basis for preparation of financial statements	<p>(1) Accounting for trust beneficiary interests of real estate, etc. as assets in trust Concerning trust beneficiary interests of real estate, etc. as assets in trust, all accounts of assets and liabilities within assets in trust as well as all accounts of revenue and expenses from the assets in trust are recognized in the relevant account items on the balance sheet and the statement of income and retained earnings. The following material items of the assets in trust recognized in the relevant account items are separately listed on the balance sheet.</p> <ol style="list-style-type: none"> 1) Cash and deposits in trust 2) Buildings in trust; Structures in trust; Land in trust; Construction in progress in trust 3) Tenant leasehold and security deposits in trust <p>(2) Accounting for consumption tax, etc. Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>

4. Notes to Balance Sheet

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

(Thousands of yen)	
	1st Fiscal Period (As of April 30, 2015)
	50,000

5. Notes to Statement of Income and Retained Earnings

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

(Thousands of yen)	
	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
A. Property-related operating revenue	
Rent revenue – real estate	
Rental income	2,108,582
Other lease business revenue	
Other	14
Total property-related operating revenue	2,108,597
B. Property-related operating expenses	
Expenses related to rent business	
Property management fees	10,858
Trust fees	1,077
Property and other taxes	41,801
Insurance expenses	2,738
Repair expenses	3,898
Depreciation	304,866
Other expenses related to rent business	2,080
Total property-related operating expenses	367,319
C. Property-related operating income [A – B]	1,741,277

6. Notes to Statement of Changes in Net Assets

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

	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Total number of authorized investment units	10,000,000 units
Total number of investment units issued	632,000 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)

	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Cash and deposits	4,806,695
Cash and deposits in trust	7,770,676
Cash and cash equivalents	12,577,371

8. Lease Transactions

Operating lease transactions as lessor

Future minimum lease payments

(Thousands of yen)

	1st Fiscal Period (As of April 30, 2015)
Due within 1 year	5,126,750
Due after 1 year	42,889,168
Total	48,015,919

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 cost 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, 2015, 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)).

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	4,806,695	4,806,695	—
(2) Cash and deposits in trust	7,770,676	7,770,676	—
Total assets	12,577,371	12,577,371	—
(3) Long-term loans payable	55,000,000	55,096,527	96,527
Total liabilities	55,000,000	55,096,527	96,527
(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 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	Book value recorded on the balance sheet
Tenant leasehold and security deposits in trust	6,113,449

(Note 3) Redemption schedule of monetary claims after the closing date (As of April 30, 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	4,806,695	—	—	—	—	—
Cash and deposits in trust	7,770,676	—	—	—	—	—
Total	12,577,371	—	—	—	—	—

(Note 4) Repayment schedule of loans after the closing date (As of April 30, 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	27,000,000

10. Securities

1st Fiscal Period (as of April 30, 2015)

Not applicable.

11. Derivative Transactions

1. Derivatives to which hedge accounting is not applied

1st Fiscal Period (as of April 30, 2015)

Not applicable.

2. Derivatives to which hedge accounting is applied

1st Fiscal Period (as of April 30, 2015)

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.

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	41,000,000	41,000,000	*	—

*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, etc. of financial instruments (Note 1)”).

12. Retirement Benefits

1st Fiscal Period (as of April 30, 2015)

Not applicable.

13. Income Taxes

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

(Thousands of yen)

	1st Fiscal Period (As of April 30, 2015)
Deferred tax assets	
Accrued business taxes not deductible from taxable income	24
Total deferred tax assets	24
Net deferred tax assets	24

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

(%)

	1st Fiscal Period (As of April 30, 2015)
Statutory tax rate	34.16
[Adjustments]	
Deductible cash distribution	(34.11)
Other	0.07
Effective income tax rate after application of tax-effect accounting	0.12

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

1st Fiscal Period (From September 8, 2014 to April 30, 2015)

Not applicable.

15. Transactions with Related Parties

1. Parent company and major corporate unitholders.

1st Fiscal Period (From September 8, 2014 to April 30, 2015)

Not applicable.

2. Subsidiaries and affiliates.

1st Fiscal Period (From September 8, 2014 to April 30, 2015)

Not applicable.

3. Sister companies.

1st Fiscal Period (From September 8, 2014 to April 30, 2015)

Not applicable.

4. Directors and major individual unitholders.

1st Fiscal Period (From September 8, 2014 to April 30, 2015)

Type	Name	Description of business or occupation	Percentage of voting rights, etc. 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)	143,170	Accounts payable – other	154,624

(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

1st Fiscal Period (as of April 30, 2015)

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)	
	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Carrying amount	
Balance at beginning of period	—
Amount of increase (decrease) during period	114,108,418
Balance at end of period	114,108,418
Fair value at end of period	120,100,000

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

(Note 2) The increase during the period is mainly attributable to the acquisition of new properties (114,413,284 thousand yen), offset by depreciation (304,866 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 1st fiscal period 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

1st fiscal period (From September 8, 2014 to April 30, 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 is 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.	1,212,793	Real estate leasing business
Not disclosed (Note)	895,788	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

	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Net assets per unit	107,733 yen
Net income per unit	2,525 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.

	1st Fiscal Period (From September 8, 2014 to April 30, 2015)
Net income (thousand yen)	1,013,381
Amount not attributable to common unitholders (thousand yen)	—
Net income attributable to common investment units (thousand yen)	1,013,381
Average number of investment units during period (units)	401,319

20. Significant Subsequent Events

Issuance of new investment units

SHR passed the following resolution concerning the issuance of new investment units at a meeting of the Board of Directors held on April 24, 2015. Payment was completed for the new investment units through a public offering on May 19, 2015, and for the new investment units by way of a third-party allotment on June 12, 2015. As a result, unitholders' capital was 87,743,594,000 yen with 794,000 investment units issued and outstanding as of June 12, 2015.

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

Number of investment units to be issued:	154,200 units
Issue price:	131,917 yen per unit
Total amount of issue price:	20,341,601,400 yen
Amount to be paid in (issue amount):	127,587 yen per unit
Total amount to be paid in (issue amount):	19,673,915,400 yen
Payment deadline:	May 19, 2015
Date of commencement of distribution calculation:	May 1, 2015

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

Number of investment units to be issued:	7,800 units
Amount to be paid in (issue amount):	127,587 yen per unit
Total amount to be paid in (issue amount):	995,178,600 yen
Payment deadline:	June 12, 2015
Date of commencement of distribution calculation:	May 1, 2015
Allottee:	Nomura Securities Co., Ltd.

The funds procured from the issuance of the new investment units through the public offering above were used as part of the funds for the acquisition of Hommachi Garden City on May 19, 2015, and the funds procured from the issuance of new investment units by way of third-party allotment above were used for early repayment of a portion of short-term loans on June 17, 2015.

(7) Supplementary Schedules

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	41,000,000	41,000,000	—
Total		41,000,000	41,000,000	—

(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 real estate, etc.

(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 amortization		Net balance at end of period	Notes
							For the period		
Property, plant and equipment	Buildings in trust	—	30,919,664	—	30,919,664	297,650	297,650	30,622,013	(Note)
	Structures in trust	—	643,178	—	643,178	7,215	7,215	635,962	(Note)
	Land in trust	—	82,850,441	—	82,850,441	—	—	82,850,441	(Note)
	Construction in progress in trust	—	0	—	0	—	—	0	—
	Subtotal	—	114,413,285	—	114,413,285	304,866	304,866	114,108,418	—
Intangible assets	Other	—	7,350	—	7,350	527	527	6,822	—
	Subtotal	—	7,350	—	7,350	527	527	6,822	—
Total		—	114,420,635	—	114,420,635	305,394	305,394	114,115,241	—

(Note) The increase during the period is attributable to the acquisition of Garden City Shinagawa Gotenyama, Gotenyama SH Building and Hommachi Minami Garden City.

4. Schedule of other specified assets

Real estate trust beneficiary interests are included above in “3. Schedule of real estate, etc.”.

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	0.38088	Nov. 30, 2017	Lump-sum payment at maturity	Purchase of assets and related expenses	Un- secured Un- guaran- teed
	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						
Total		—	55,000,000	—	55,000,000	—	—	—	—	—

(Note 1) Average interest rate is the weighted average interest rate during the period. Interest rates are rounded to five 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



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Independent Auditor's Report

The Board of Directors
Sekisui House Reit, Inc.

We have audited the accompanying financial statements of Sekisui House Reit, Inc., which comprise the balance sheet as at April 30, 2015, and the statements of income and retained earnings, changes in net assets, cash distributions, cash flows, and supplementary schedules from September 8, 2014 to April 30, 2015 and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sekisui House Reit, Inc. as at April 30, 2015, and its financial performance and cash flows from September 8, 2014 to April 30, 2015 in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

July 23, 2015
Tokyo, Japan



SEKISUI HOUSE REIT, INC.