



Semi-Annual Report 6th Fiscal Period

(from May 1, 2017 to October 31, 2017)

Performance highlights

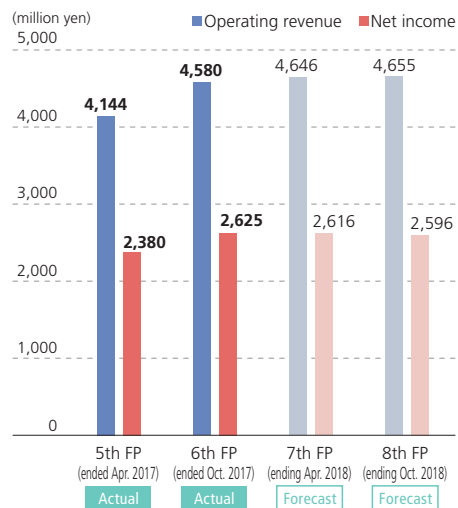
Distribution per unit

Distribution per unit
6th Fiscal Period Ended October 2017 **2,710 yen**

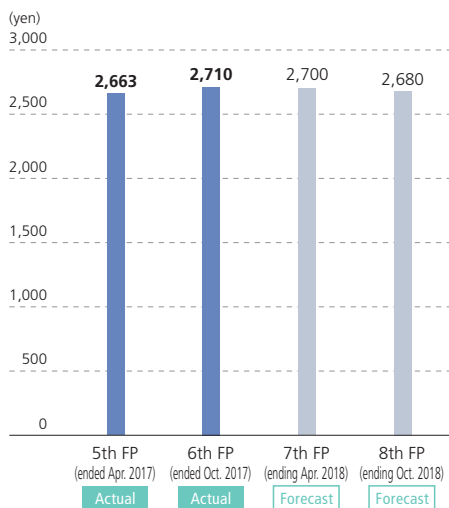
Business results and distribution

	5th FP (Actual) (ended Apr. 2017)	6th FP (Actual) (ended Oct. 2017)	7th FP (Forecast) (ending Apr. 2018)	8th FP (Forecast) (ending Oct. 2018)
Operating revenue (million yen)	4,144	4,580	4,646	4,655
Operating income (million yen)	2,704	2,987	2,992	2,968
Ordinary income (million yen)	2,381	2,626	2,617	2,597
Net income (million yen)	2,380	2,625	2,616	2,596
Distribution per unit (yen)	2,663	2,710	2,700	2,680

Operating revenue/Net income



Distribution per unit



Message to Our Unitholders

Since its listing on the Tokyo Stock Exchange Real Estate Investment Trust Section (the J-REIT market) in December 2014, Sekisui House Reit, Inc. ("SHR") has steadily accumulated a track record, and has settled its accounts for the 6th fiscal period (namely, the fiscal period ended October 2017). 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 6th fiscal period of SHR.

The management performance for the 6th fiscal period resulted in operating revenue of 4,580 million yen, operating income of 2,987 million yen, ordinary income of 2,626 million yen, and net income of 2,625 million yen, and the distribution per unit declared for the 6th fiscal period was 2,710 yen.

In the fiscal period under review, SHR conducted its third public offering in May 2017 since its listing and acquired two properties (comprising additional portions of two properties, parts of which are already owned by SHR) for 21.2 billion yen with the funds procured, etc. Through this, SHR's asset size has grown from 179.5 billion yen at the end of the 5th fiscal period to 200.7 billion yen. With this, SHR has achieved the targeted asset size of 200 billion yen in approximately two years and six months from its listing, while asset types within its portfolio have expanded to include a hotel asset for the first time.

In terms of debt finances, SHR obtained a short-term loan of 7.6 billion yen in May 2017, which was used as part of the funds to acquire the properties. SHR subsequently made early repayment of this short-term loan with funds procured through its issuance of investment corporation bonds and funds received under a long-term loan, etc. In November 2017 (at the beginning of the 7th fiscal period), SHR obtained long-term fixed interest rate loans (including floating interest rate loans, the rates of which were fixed by interest rate swap transactions) for the refinancing of an existing borrowing under which 14 billion yen was due for repayment, thereby extending the term of its debts and diversifying the dates for repayment of its debts, as well as promoting fixed interest rate debt.

By 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.



Characteristics of SHR

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

(as of October 31, 2017)

Asset Size

Number of owned properties **6** properties

Aggregate acquisition price **200.7** billion yen

Status of Portfolio

Occupancy rate **100.0**%

Total appraisal value **233.0** billion yen

Unrealized gain **35.0** billion yen

Portfolio Quality

Average building age **6.8** years

PML value **2.1**%

Asset type ratio (acquisition price basis)

Office building	91.4 %
Hotel	8.6 %

Location Ratio (acquisition price basis)

Greater Tokyo **55.3**%

Osaka area **41.5**%

Nagoya area **3.2**%

Financial Base

LTV (total asset basis) **40.7**%

Long-term debt ratio ^(Note) **100.0**%

Fixed interest rate debt ratio ^(Note) **93.0**%

Credit Rating

JCR **AA-** (Stable)

(Note) The information is as of November 30, 2017.

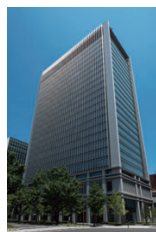
Owned properties



Garden City
Shinagawa
Gotenyama



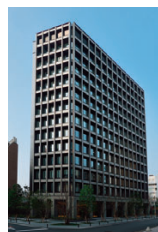
Gotenyama SH
Building



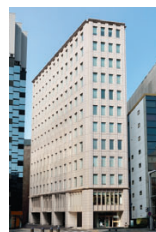
Homomachi
Minami Garden
City



Homomachi
Garden City



HK Yodoyabashi
Garden Avenue



Hirokoji
Garden Avenue

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 strategic locations of **central Tokyo, Osaka and Nagoya**
- All acquisitions are of **recently built and high quality commercial properties 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

- Utilization of **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**

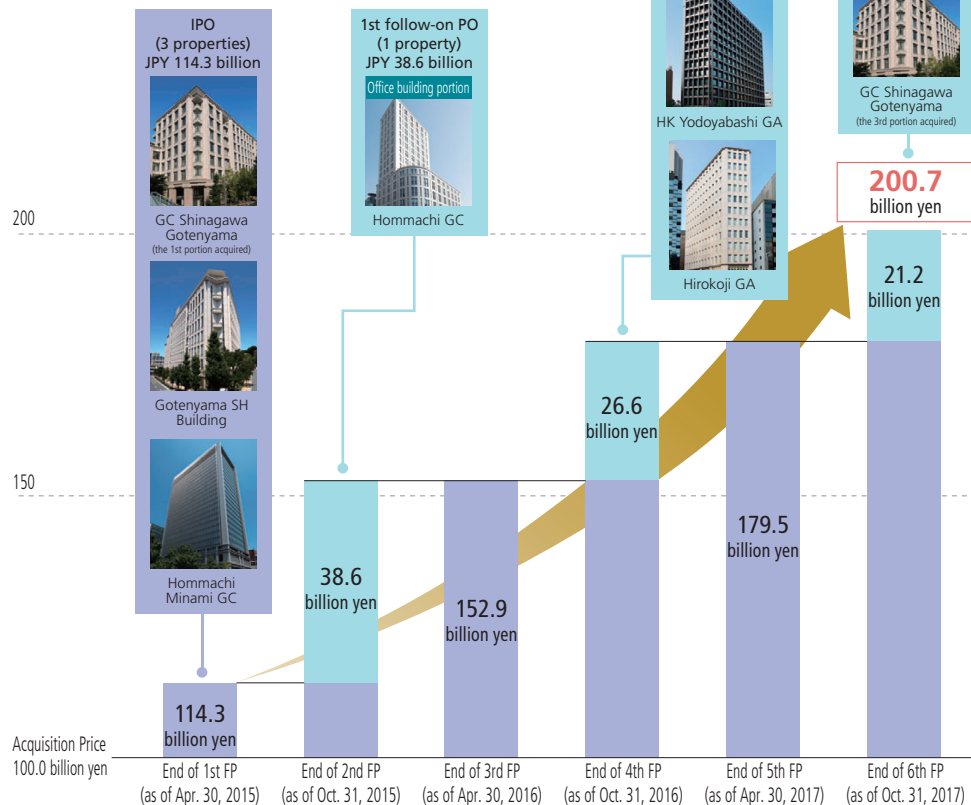
3 Financial Strategy Stable and sound financial operations

- Managing **LTV (total assets basis)** (ratio of interest-bearing liabilities to total assets) at a conservative level **between 40% and 50%**
- Promoting **extension of the term of debts, 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)

Development of asset size

Achievement of 200 billion yen in asset size within approximately two years and six months since listing

SHR has conducted a public offering for the third consecutive year, and has additionally acquired two properties for 21.2 billion yen with the funds procured and other source of funds. Through this, SHR's asset size has reached 200.7 billion yen (comprising six properties) within approximately two years and six months since its listing, enabling for steady expansion of its asset size as well as growth in distribution per unit and improvement in NAV per unit. Of the two properties acquired, one was SHR's first hotel asset, allowing for expansion of the type of assets within its portfolio.



(Note) "Garden City" and "Garden Avenue" are abbreviated as "GC" and "GA", respectively.

	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)	End of 4th FP (as of Oct. 31, 2016)	End of 5th FP (as of Apr. 30, 2017)	End of 6th FP (as of Oct. 31, 2017)
Distribution per unit (yen)	1,603	2,458	2,477	2,596	2,663	2,710
Net Asset Value per unit (yen)	115,610	125,531	133,030	138,885	142,888	149,859

CSR and Environmental Activities

Five Out of Six Owned Properties Received DBJ Green Building Certifications High Rankings



Hommachi Minami Garden City
Hommachi Garden City (Office building portion)
HK Yodoyabashi Garden Avenue
Hirokoji Garden Avenue

Award of "Green Star" in the Global Real Estate Sustainability Benchmark ("GRESB") Survey

In the GRESB Survey conducted in 2017, SHR received a "Green Star" rating, which is awarded to participants highly evaluated in both dimensions of "Management & Policy" and "Implementation & Measurement" with regard to activities for environmental considerations and sustainability. SHR also received "3 Stars" in the GRESB Rating.

In keeping with its policy of sustainability, SHR will further promote a sustainability strategy such as the implementation of measures to mitigate impact on the environment.



ESG initiatives of Sekisui House

Development of Philosophy and Value Creation

In 2005, Sekisui House defined "a sustainable society" as the vision to aspire to and in this connection announced four values—environmental, economic, social and homeowner—in order to attain and confirm this goal, which is intended to achieve balanced management based on its corporate philosophy.

ESG initiatives targeting sustainable growth

Environment

Environmental Management

- Global warming prevention
- Ecosystem conservation
- Resource recycling

Social

Improvements in Sociability

- Improve CS, ES and SS^(note)
- Human rights
- Promotion of diversity
- Workstyle innovation "Creating thrilling and exciting workplaces"
- Social contribution activities

Governance

Governance

- Compliance risk management
- Establishment of corporate ethics

(note) CS (Customer Satisfaction), ES (Employee Satisfaction), SS (Shareholder Satisfaction)

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

Investment strategy

- Investment focusing on Prime Properties
- Promoting continuous external growth primarily through property acquisitions from the sponsor
- Investigating property acquisitions from third parties other than the sponsor, from the perspective of selective investment
- Continuing to focus on office buildings as the main driver of external growth, while investigating the acquisition of hotels and retail properties from the perspective of expanding the scope of the portfolio

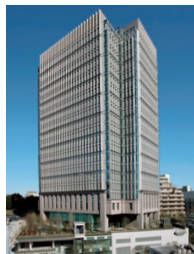
■ Track record of acquisition by utilizing the pipeline support

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

■ Examples of urban redevelopment projects by Sekisui House



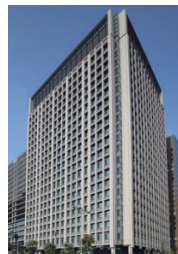
Governor of Osaka Award at the 14th Osaka Machinami Award in 1994
Umeda Sky Building
(Shin Umeda City) (Osaka)
Completion in Mar.1993
(Source) Sekisui House, Ltd.



Akasaka Garden City
(Tokyo)
Completion in Jan.2006



CASBEE OSAKA OF THE YEAR 2013
Grand Front Osaka
(Osaka)
Completion in Apr.2013



Otemon Tower-JX building
(Tokyo)
Completion in Nov.2015

■ Status of preferential negotiation rights held by SHR

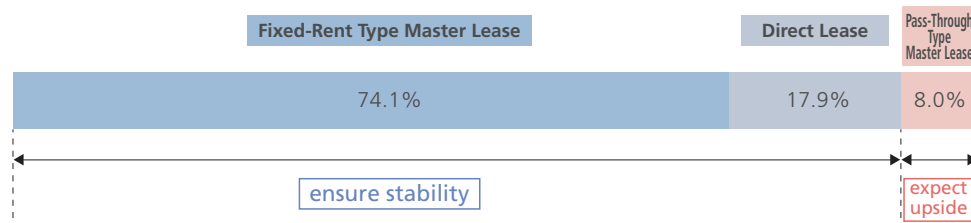
Property Name	Location	Asset Type	Ratio of unacquired floor area ^(Note)
Garden City Shinagawa Gotenyama	Shinagawa-ku, Tokyo	Office building	19.0%
Hommachi Minami Garden City	Osaka-shi, Osaka	Office building	43.6%

(Note) "Ratio of unacquired floor area" refers to the ratio of the floor area that SHR does not own but in respect of which it holds preferential acquisition negotiation rights in the relevant building, as against the total floor area in the relevant building that is exclusively owned, rounded to the nearest first decimal place. Specifically, such floor area refers to the floor area which is exclusively owned and over which SHR holds preferential acquisition negotiation rights in the Garden City Shinagawa Gotenyama and Hommachi Minami Garden City properties.

Internal growth strategies: Sponsor Support by Sekisui House

- Provision of property management services for owned properties
- 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 the property characteristics

Status of portfolio by types of lease agreements (leased floor area basis)^(Note)



■ SHR's characteristics in terms of portfolio

Characteristic 1

74.1% of the portfolio (ratio of lease types)^(Note) adopts **fixed-rent type master lease** by Sekisui House. Rent revenue is stable over the long term, as SHR can receive predetermined rents from Sekisui House regardless of how the market conditions and the occupancy status are.

Characteristic 2

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.

Characteristic 3

HK Yodoyabashi Garden Avenue and Hirokoji Garden Avenue adopt **pass-through type master lease** by Sekisui House. Since SHR can receive rent which is 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.

(Note) Ratio of the leased floor for each lease type under the relevant lease agreements, in respect of the properties, that are valid as of October 31, 2017 (or, if a master lease agreement is concluded for the property, the master lease agreement), to the total sum of leased floor areas indicated in such lease agreements, rounded to the nearest first decimal place. "Ratio of lease types" refers to such ratio of the leased floor area for each lease type.

Stable and sound financial operations

Debt finance

	End of 5th FP (as of Apr. 30, 2017)	After refinancing (as of November 30, 2017)
Total interest-bearing liabilities (billion yen)	77.3	84.4
LTV (total asset basis) (%)	40.8	40.7 (Note 1)
Fixed interest rate debt ratio (%)	76.6	93.0
Long-term debt ratio (%)	100.0	100.0
Average financing interest rate (Note 2) (%)	0.75	0.73
Average remaining term of interest-bearing liabilities (Note 3) (years)	4.2	4.5

Interest-bearing liabilities (as of November 30, 2017)

	Balance (billion yen)	Percentage (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19.10	22.6
Sumitomo Mitsui Banking Corporation	17.03	20.2
Mizuho Bank, Ltd.	10.15	12.0
Sumitomo Mitsui Trust Bank, Limited	9.46	11.2
Resona Bank, Limited	6.00	7.1
Mitsubishi UFJ Trust and Banking Corporation	5.00	5.9
Development Bank of Japan Inc.	4.24	5.0
The Norinchukin Bank	4.23	5.0
Mizuho Trust & Banking Co., Ltd.	4.19	5.0
Investment Corporation Bonds	5.00	5.9

Refinancing activities in 6th FP and 7th FP

6th FP (July and August 2017)

	Short-term loan (floating)
Amount	7.10 billion yen
Financing term	1.0 years
Average financing interest rate (Note 2)	1M TIBOR +0.18 %

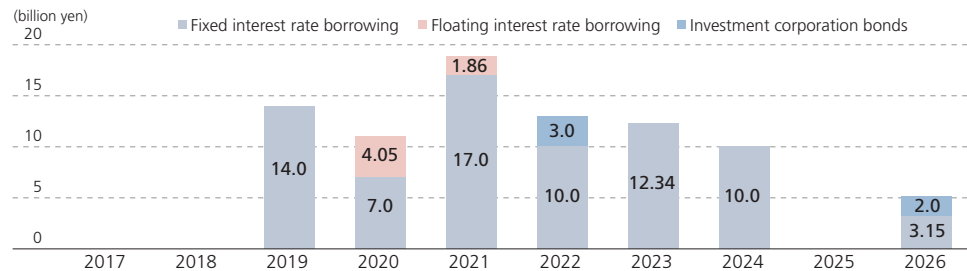
Investment corporation bonds	Long-term loan (floating)	Long-term loans (fixed)
3.00 billion yen	1.86 billion yen	2.24 billion yen
5.0 years	4.0 years	6.3 years
0.24 %	1M TIBOR +0.20 %	0.42 %

7th FP (November 2017)

	Long-term loan (floating)
Amount	14.00 billion yen
Financing term	3.0 years
Average financing interest rate (Note 2)	1M TIBOR +0.25 %

Long-term loans (fixed) (Note 4)	Long-term loans (fixed) (Note 4)
7.00 billion yen	7.00 billion yen
4.6 years	5.5 years
0.35 %	0.41 %

Diversification of repayment date (as of November 30, 2017)



(Note 1) The information is as of the end of the 6th FP (ended October 2017).

(Note 2) "Average financing interest rate" indicates a weighted average (annual) interest rate using the balance of interest-bearing liabilities. In respect of the interest rates of interest-bearing liabilities for which an interest rate swap was conducted, interest rates taking into account the effect of the interest rate swap are used.

(Note 3) "Average remaining term of interest-bearing liabilities" indicates the average remaining term from the respective date on which the average remaining term of interest-bearing liabilities was calculated to maturity dates thereof, weighted by the balance of the respective interest-bearing liabilities.

(Note 4) Including floating interest rate loans, the rates of which are fixed by interest rate swap transactions.

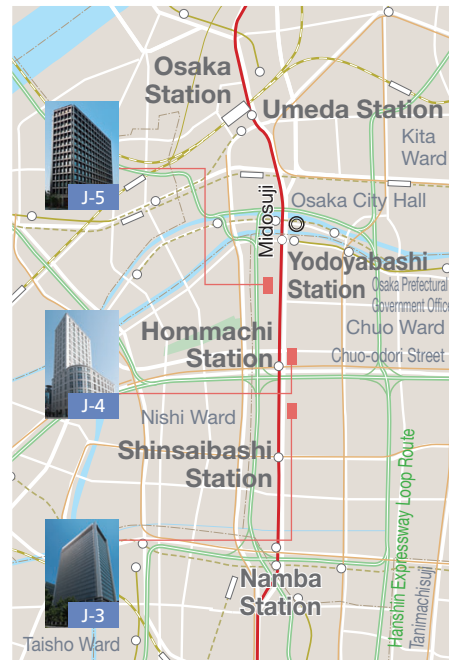
Overview of portfolio

Outline of portfolio (as of October 31, 2017)

Property No.	Property name		Acquisition price (billion yen)	Investment ratio (%)	Appraisal value (billion yen)	Leasable area (m ²)	Occupancy rate (%)	Building age (years)	Location	PML value (%)
J-1	Garden City Shinagawa Gotenyama	the 1st and 2nd portion acquired	55.6	27.7	—	29,235.95	100.0	6.7	Shinagawa-ku, Tokyo	0.5
		the 3rd portion acquired	4.0	2.0	—	2,000.39				
		Sub-total	59.6	29.7	71.0	31,236.34				
J-2	Gotenyama SH Building		51.5	25.7	58.5	19,999.97	100.0	6.7	Shinagawa-ku, Tokyo	1.9
J-3	Hommachi Minami Garden City		23.1	11.5	28.6	16,699.46	100.0	6.7	Osaka-shi, Osaka	4.5
J-4	Hommachi Garden City	Office building portion	38.6	19.2	44.6	17,006.94	100.0	7.5	Osaka-shi, Osaka	4.2
		Hotel portion	17.2	8.6	17.7	18,092.98				
		Sub-total	55.8	27.8	62.3	35,099.92				
J-5	HK Yodoyabashi Garden Avenue		4.4	2.2	5.57	4,554.52	100.0	2.3	Osaka-shi, Osaka	7.5
J-6	Hirokoji Garden Avenue		6.35	3.2	7.11	4,442.75	100.0	6.6	Nagoya-shi, Aichi	2.7
Total/Average			200.75	100.0	233.08	112,032.96	100.0	6.8		2.1

Portfolio map

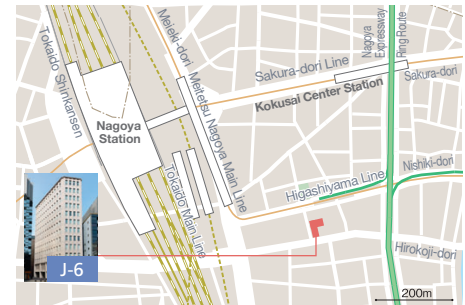
Osaka area:Hommachi-Yodoyabashi area



Greater Tokyo:Shinagawa Gotenyama area



Nagoya area:Nagoya Meieki area



Introduction of portfolio

Greater Tokyo

J-1 Garden City Shinagawa Gotenyama

Office building

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	59.6 billion yen
Structure, Floors	RC, 9F/B1F
Total Floor Area	62,975.42m ²
Leasable Area	31,236.34m ²

J-2 Gotenyama SH Building

Office building

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



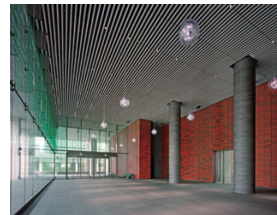
Location (indication of residential address)	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo
Acquisition Price	51.5 billion yen
Structure, Floors	S/SRC, 7F/B1F
Total Floor Area	19,812.85m ²
Leasable Area	19,999.97m ²

Osaka area

J-3 Hommachi Minami Garden City

Office building

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



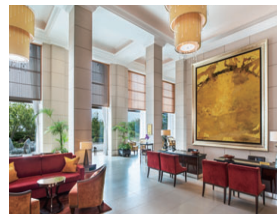
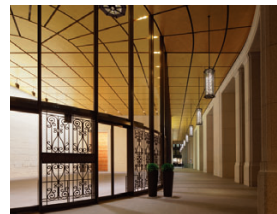
Location (indication of residential address)	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka
Acquisition Price	23.1 billion yen
Structure, Floors	S/SRC, 25F/B2F
Total Floor Area	46,010.88m ²
Leasable Area	16,699.46m ²

J-4 Hommachi Garden City

Office building

hotel

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	55.8 billion yen
Structure, Floors	S/SRC, 27F/B2F
Total Floor Area	49,163.16m ²
Leasable Area	35,099.92m ²

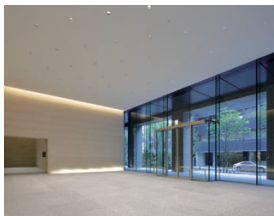
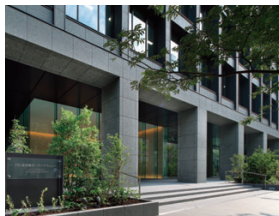
Introduction of portfolio

Osaka area

J-5 HK Yodoyabashi Garden Avenue

Office building

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
Leasable Area	4,554.52m ²

Nagoya area

J-6 Hirokoji Garden Avenue

Office building

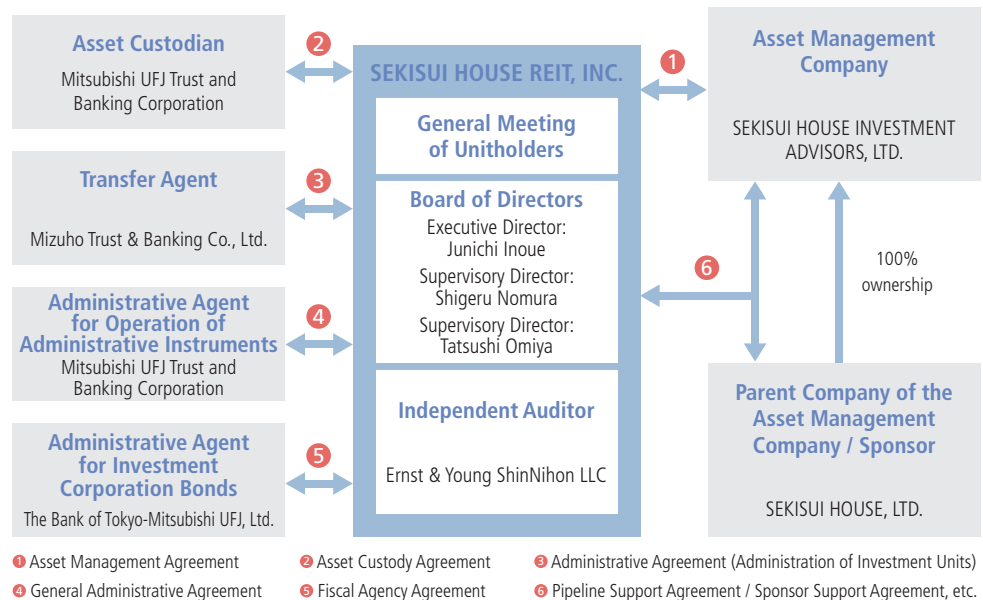
Office building located in the Nagoya Meieki area, a core area in Nagoya, with an elegant exterior using natural materials



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
Leasable Area	4,442.75m ²

Overview of SHR and the Asset Management Company

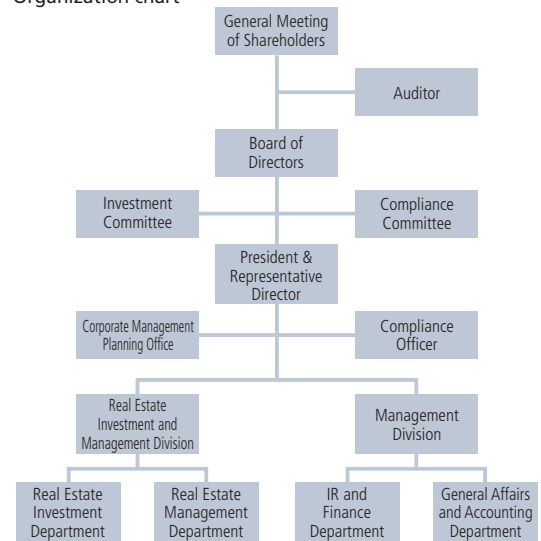
Structure diagram



Overview of the Asset Management Company

Trade Name	Sekisui House Investment Advisors, Ltd.
Shareholder	Sekisui House, Ltd. (100%)
Paid-in Capital	400 million yen
Location	1-6-6 Motoakasaka, Minato-ku, Tokyo
President & Representative Director	Junichi Inoue

Organization chart



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 is listed on the Real Estate Investment Trust Section of the Tokyo Stock Exchange, Inc. (“Tokyo Stock Exchange”) on December 3, 2014 (securities code: 3309).

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

Based on the policy described above, SHR acquired three properties (with an aggregate acquisition price (Note 2) of 114,300 million yen) on December 3, 2014, the day it was listed, and thereafter began managing them. After acquiring a property (with an acquisition price of 38,600 million yen) on May 19, 2015, SHR acquired three additional properties (with an aggregate acquisition price of 26,650 million yen), one of which is an additional portion of a property part of which is already owned by SHR on May 24, 2016. Thereafter, on May 24, 2017, SHR acquired two additional properties (with an aggregate acquisition price of 21,200 million yen), both of which are additional portions of properties part of which are already owned by SHR. As of October 31, 2017 (the end of the fiscal period under review), SHR owns six properties (with an aggregate acquisition price of 200,750 million yen) as its investment assets.

(Note 1) “Commercial properties” refer to real estate mainly used for business purposes other than for residence, such as office buildings, retail properties and hotels. Residential properties include student dormitories, company housing and serviced housing for the elderly. The same shall apply hereinafter.

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

(2) Management Environment and Management Performance

Management Environment

During the fiscal period under review, amid a moderate recovery of private consumption backed by improvements in employment and income levels, corporate earnings have continued to improve. This has enabled the Japanese economy to continue on a trend of moderate recovery.

In the real estate transaction market, competition for property is still overheated. Amid strong investor appetite for property acquisition as a result of sustained low vacancy rates, a nearly unchanged financing environment, and the like, high-quality properties remain in short supply; accordingly, cap rates continue to be below.

As for the office leasing market, as a result of firm and sustained demand, vacancy rates are currently experiencing a moderate decline in regional major cities as well as in central Tokyo.

With regard to the environment surrounding retail properties, according to the Outlook for Economic Activity and Prices (October 2017) released by the Bank of Japan, sales figures of department stores have picked up. Sales in supermarkets across Japan have also been on a gradual uptrend. Furthermore, sales of convenience stores in Japan are continuing on an upward trajectory. In line with these trends, improvements in private consumption have solidified. In light of these movements, demand for new store openings has remained firm and rent levels have remained steady across the country.

The hotel market remains favorable. The number of foreign tourists visiting Japan is still increasing; from July to September 2017, the number of foreign tourists to Japan totaled around 7.44 million, representing an 18.8% quarter-on-quarter increase as compared to the previous year. In addition, the average hotel-occupancy rates in major cities across Japan have stayed high, and have exceeded occupancy levels in the same period of the previous year.

Management Performance

On May 24, 2017, SHR acquired real estate trust beneficiary interests as assets in trust for Garden City Shinagawa Gotenyama (the 3rd portion acquired) (Shinagawa-ku, Tokyo; acquisition price: 4,000 million yen) and Hommachi Garden City (Hotel portion) (Chuo-ku, Osaka-shi, Osaka; acquisition price: 17,200 million yen.). As a result, the assets held by SHR as of the end of the fiscal period under review are six properties with an aggregate acquisition price of 200,750 million yen and total leasable area of 112,032.96m². In addition, of the six properties, master lease agreements with Sekisui House as lessee have been executed for five properties and a long-term lease agreement with one tenant as lessee has been executed for one property, resulting in occupancy rate as of the end of the fiscal period under review of 100.0%.

(3) Overview of Fund Procurement

a. Issuance of New Investment Units

During the fiscal period under review, SHR issued new investment units through the public offering (of 71,400 units) on May 24, 2017, and issued additional new investment units by way of third-party allotment (of 3,600 units) on June 12 of the same year. As a result, as of the end of the fiscal period under review, unitholders’ capital is 110,189 million yen and the total number of investment units issued and outstanding is 969,000 units.

b. Borrowings and Issuance of Investment Corporation Bonds

For the acquisition of the aforementioned real estate trust beneficiary interests (relating to two underlying properties), SHR procured short-term loans in the total amount of 7,600 million yen on May 24, 2017 to use as funds for acquisitions and related expenses. As for its short-term loans, SHR also made early partial repayments of 3,500 million yen with (i) proceeds from its issuance of new investment units by way of the third-party allotment conducted on June 12, 2017 and its cash on hand on June 15, 2017, (ii) proceeds from its issuance of investment corporation bonds on July 13, 2017 at a total issue amount of 3,000 million yen (which is the second such issuance for SHR) and its cash on hand on July 14, 2017. The remaining short-term loans of 4,100 million yen were refinanced to long-term loans on August 31, 2017. SHR has worked to diversify the repayment dates of its debts, extend the term of its debts and change part of the interest rates of its debts to fixed rates.

As a result, as of the end of the fiscal period under review, the balance of interest-bearing liabilities is 84,400 million yen and the ratio of total interest-bearing liabilities to total assets (“LTV (total assets basis)”) is 40.7%.

c. 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
Japan Credit Rating Agency, Ltd. (JCR)	Bond rating: AA–

(4) Overview of Business Performance and Distributions

Results in the fiscal period under review are operating revenue of 4,580 million yen (an increase of 10.5% over that of the previous fiscal period), operating income of 2,987 million yen (an increase of 10.5% over that of the previous fiscal period) and ordinary income of 2,626 million yen (an increase of 10.3% over that of the previous fiscal period), resulting in net income of 2,625 million yen (an increase of 10.3% 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 2,710 yen (an increase of 1.8% 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)
May 24, 2016	Public offering	11,706	99,450	95,200	889,200	(Note 6)
June 21, 2016	Third-party allotment	590	100,040	4,800	894,000	(Note 7)
May 24, 2017	Public offering	9,661	109,702	71,400	965,400	(Note 8)
June 12, 2017	Third-party allotment	487	110,189	3,600	969,000	(Note 9)

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

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

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

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

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

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

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

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

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

[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	2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016	4th fiscal period From: May 1, 2016 To: Oct. 31, 2016	5th fiscal period From: Nov. 1, 2016 To: Apr. 30, 2017	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017
High (yen)	142,500	133,500	157,900	153,900	146,400
Low (yen)	111,400	116,700	125,800	138,000	125,900

3. Performance of Distribution, etc.

Distribution per unit for the fiscal period under review (that is, the 6th fiscal period) is 2,710 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	2nd fiscal period From: May 1, 2015 To: Oct. 31, 2015	3rd fiscal period From: Nov. 1, 2015 To: Apr. 30, 2016	4th fiscal period From: May 1, 2016 To: Oct. 31, 2016	5th fiscal period From: Nov. 1, 2016 To: Apr. 30, 2017	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017
Total amount of unappropriated retained earnings (thousand yen)	1,951,805	1,967,034	2,321,003	2,381,018	2,626,016
Amount of accumulated earnings (thousand yen)	153	296	179	296	26
Total amount of cash distribution (thousand yen)	1,951,652	1,966,738	2,320,824	2,380,722	2,625,990
[Distribution per unit] (yen)	[2,458]	[2,477]	[2,596]	[2,663]	[2,710]
Total amount of distribution of earnings out of the total amount of cash distribution (thousand yen)	1,951,652	1,966,738	2,320,824	2,380,722	2,625,990
[Distribution of earnings per unit] (yen)	[2,458]	[2,477]	[2,596]	[2,663]	[2,710]
Total amount of refund of investment in capital out of the total amount of cash distribution (thousand yen)	—	—	—	—	—
[Amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]
Total distribution amount from reserve for temporary difference adjustments out of total amount of refund of investment in capital (thousand yen)	—	—	—	—	—
[Distribution amount from reserve for temporary difference adjustments per unit out of amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]
Total distribution amount from distribution reducing unitholders' capital for tax purpose out of total amount of refund of investment in capital (thousand yen)	—	—	—	—	—
[Distribution amount from distribution reducing unitholders' capital for tax purpose out of amount of refund of investment in capital per unit] (yen)	[—]	[—]	[—]	[—]	[—]

4. Future Management Policy

(1) Future Trends Outlook

Looking ahead, the Japanese economy is expected to recover moderately, supported by the effects of various economic policies, under circumstances where employment rates and income levels continue rising, according to the Monthly Economic Report (November 2017) released by the Cabinet Office.

Notwithstanding this, we have to be mindful of the impact of economic uncertainties overseas, such as the policies adopted by the U.S. government, issues involving North Korea, and fluctuations in global financial and capital markets.

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

As to the real estate market, as long as there is no environmental changes that cause a shift to risk avoidance trends in the Japanese and overseas financial markets, the cap rate is likely to remain low for the time being. The hotel market will likely continue to see sustained high occupancy rates, supported by the expected increase in foreign tourists' numbers and firm domestic demand.

(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, SHR's LTV policy (on a total assets basis) is to manage LTV at the conservative level of between 40% and 50% with attention being paid to the maintenance of funding capacity. SHR's LTV, which was at 40.8% at the end of the previous fiscal period, became 40.7% at the end of the current fiscal period.

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

5. Significant Subsequent Events

(1) Merger with Sekisui House Residential Investment Corporation

SHR and Sekisui House Residential Investment Corporation (“SHI,” and collectively with SHR, the “Two Investment Corporations”), at their respective board of directors meetings held on January 24, 2018, resolved to execute an absorption-type merger, with May 1, 2018 as the effective date, whereby SHR will be the surviving corporation and SHI will be the dissolving corporation in the merger (the “Investment Corporation Merger”), and executed a merger agreement (the “Investment Corporation Merger Agreement”) on January 24, 2018.

i) Purpose of the Investment Corporation Merger

Two Investment Corporations reached the conclusion that expanding the scale of their assets and increasing their market presence through a merger of the Two Investment Corporations, and improving the opportunity for growth by utilizing the integrated corporate strength of the Sekisui House Group, thereby securing strong returns and stability and growth of distributions through the steady increase of assets under management, would be their best strategy for maximizing unitholder value; accordingly, the Two Investment Corporations concluded the Investment Corporation Merger Agreement.

ii) Merger Ratio

As a result of the Investment Corporation Merger, for every 1 SHI investment unit, 1.65 post-Investment Unit Split (as defined at “(2) Split of Investment Units” below; the same shall apply hereinafter.) SHR investment units will be allocated and delivered (Note). Fractions of less than one investment unit will occur in the number of investment units that must be delivered, and therefore, those fractional units of less than one share will be sold through market transactions, and the proceeds from the sales will be delivered to the unitholders allocated fractional shares in accordance with the fraction pursuant to the provisions of Article 88 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent amendments, the “Investment Trusts Act”).

(Note) SHR plans to split one investment unit into two investment units with April 30, 2018 as the record date for splitting the investment units and May 1, 2018 as the effective date; the allocation ratio shown above and the number of new investment units SHR will allocate and deliver are subject to the Investment Unit Split taking effect. For more details on the Investment Unit Split, please refer to “(2) Split of Investment Units” stated below.

iii) Merger Consideration

As of the date of this document, in addition to the abovementioned investment units, SHR intends to pay SHI unitholders (the unitholders stated or recorded in the final unitholders register on April 30, 2018, the day prior to the effective date of the Investment Corporation Merger (excluding the SHI unitholders who demanded the purchase of their investment units pursuant to the provisions of Article 149-3 of the Investment Trusts Act (excluding those unitholders who retracted such purchase demand) hereinafter referred to as the “Unitholders Subject to Allocation”)), or the registered pledgees of investment units held in lieu of the cash distributions for the business period of SHI’s final term, a merger consideration in the form of cash distribution based on SHI’s distributable income for that same period in an amount (dropping any fractions of a yen) which is the quotient resulting from dividing the amount of SHI’s distributable income on the date prior to the effective date of the merger by the number of issued SHI investment units on that date reduced by the number of investment units held by unitholders other than the Unitholders Subject to Allocation within a reasonable period from the effective date of the Investment Corporation Merger. In addition, as of the date of this document, SHI will put before a general meeting of its unitholders, which is scheduled to be held on March 27, 2018, a proposal for an amendment of its articles of incorporation with a view to changing its accounting periods from the current March 31 and September 30 to April 30 and October 31. If the aforementioned amendment is approved, the last period before the effective date of the Investment Corporation Merger is expected to be a seven-month business period from October 1, 2017 to April 30, 2018.

iv) Overview of certain financial information in respect of SHI as at the end of September 2017 (being the end of the latest fiscal period from April 1, 2017 to September 30, 2017)

Business:	Investment and management, mainly in respect of Specified Assets, based on the Investment Trusts Act	
Operating revenue:	6,916 million yen	
Net income:	2,493 million yen	
Total assets:	210,009 million yen	
Liabilities:	108,667 million yen	
Net assets:	101,341 million yen	

(2) Split of Investment Units

SHR resolved, at the board of directors meeting held on January 24, 2018, to split its investment units as follows (the “Investment Unit Split”).

i) Purpose of the Investment Unit Split

As described in “(1) Merger with Sekisui House Residential Investment Corporation” above, SHR and SHI have agreed to implement the Investment Corporation Merger and for this purpose have executed the Investment Corporation Merger Agreement on January 24, 2018.

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

ii) Method of the Investment Unit Split

SHR units owned by the unitholders set forth or recorded in the final unitholder roster on April 30, 2018 (the day before the effective date of the Investment Corporation Merger) will be split 2-for-1. The Investment Unit Split shall come into effect on May 1, 2018 (the effective date of the Investment Corporation Merger), provided that all conditions precedent for the Investment Corporation Merger set forth in the Investment Corporation Merger Agreement are satisfied.

iii) Number of investment units to increase after the Investment Unit Split

(a)	Total number of outstanding units prior to the Investment Unit Split	: 969,000 units	
(b)	Increase in the number of units through the Investment Unit Split	: 969,000 units	
(c)	Total number of outstanding units following the Investment Unit Split	: 1,938,000 units	
(d)	Total number of outstanding units following the Investment Corporation Merger	: 3,762,091 units	(Note 1)
(e)	Number of authorized investment units following the Investment Unit Split and the Investment Corporation Merger	: 20,000,000 units	(Note 2)

(Note 1): The number under the assumption that, in connection with the Investment Corporation Merger, 1.65 SHR units following the Investment Unit Split would be allocated to every SHI unit with respect to all outstanding SHI units (1,105,510 units) as of the date of this document.

(Note 2): SHR’s authorized investment units constitute 10,000,000 units, but as a result of the Investment Corporation Merger, as of the date of this document, the articles of incorporation are expected to be partially amended, with the authorized investment units to be changed as of the effective date of the Investment Corporation Merger. Therefore, the figures stated above has been calculated taking into account such changes.

iv) Timeline of the Investment Unit Split

(a)	Announcement of the record date	March 30, 2018 (tentative)
(b)	Record date	April 30, 2018 (tentative)
(c)	Effective date	May 1, 2018 (tentative)

v) Impact on Information of per Unit

Information on a per unit basis, on the assumption that the Investment Unit Split is executed at the beginning of the previous fiscal period is as set forth in the following table.

(a) Net assets per unit:	(ended April 2017) 57,282 yen	(ended October 2017) 58,212 yen
(b) Net income per unit:	(ended April 2017) 1,331 yen	(ended October 2017) 1,368 yen

(Reference Information)

(1) Borrowing of Funds

SHR conducted the borrowing of funds on November 30, 2017 as described below for use as repayment funds of the existing borrowing totaling 14,000 million yen which was due for repayment on November 30, 2017.

<Fixed Interest Rate Borrowing>

Fixed Interest rate borrowing								
Category	Lender	Loan amount (mm yen)	Interest rate (Note 2) (Note 3) (Note 4)	Drawdown date	Borrowing method	Repayment date (Note 5)	Repayment method (Note 6)	Security
Long term	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750	0.32000%	Nov. 30, 2017	Borrowing based on the individual loan agreement, dated Nov. 28, 2017, with the lenders shown to the left as the loaner	July 13, 2022	Lump-sum repayment at maturity	Unsecured Unguaranteed
	Loan syndicate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as arranger (Note 1)	1,200	0.35341%					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	750	0.34000%			May 31, 2023		
	Loan syndicate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as arranger (Note 1)	1,200	0.42622%					

(Note 1) The loan syndicate comprises Mitsubishi UFJ Trust and Banking Corporation and Development Bank of Japan Inc.

(Note 2) Borrowing expenses, etc. payable to the lender are not included.

(Note 3) The first interest payment date shall be the last day of May 2018, and subsequent interest payment dates shall be the last days of May and November of each year and the principal repayment date. However, if the concerned date is not a business day, then it shall be the next business day, and if that next business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.

(Note 4) The first interest calculation period shall be from November 30, 2017 to the last day of May 2018.

(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 into the next calendar month, then it shall be the business day immediately preceding the concerned date.

(Note 6) During the period from the Borrowing's drawdown to the repayment date, SHR may make early repayment of loans, in whole or in part, if SHR gives prior written notice and other certain terms and conditions are met.

<Floating Interest Rate Borrowing>

Category	Lender	Loan amount (mm yen)	Interest rate (Note 2) (Note 3) (Note 4)	Drawdown date	Borrowing method	Repayment date (Note 7)	Repayment method (Note 8)	Security
Long term	Loan syndicate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as arranger (Note 1)	5,050	Base rate (JBA 1-month Japanese Yen TIBOR) plus 0.21% (Note 5)	Nov. 30, 2017	Borrowing based on the individual loan agreement dated Nov. 28, 2017, with the lender shown to the left as the loaner	July 13, 2022	Lump-sum repayment at maturity	Unsecured Unguaranteed
	Loan syndicate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as arranger (Note 1)	5,050	Base rate (JBA 1-month Japanese Yen TIBOR) plus 0.26% (Note 6)			May 31, 2023		

(Note 1) The loan syndicate comprises Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited, Resona Bank, Limited, The Norinchukin Bank and Mizuho Trust & Banking Co., Ltd.

(Note 2) Borrowing expenses, etc. payable to the lender are not included.

(Note 3) The base rate applicable to the calculation period for the interest payable on an interest payment date shall be the one-month Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration two business days prior to the interest payment date immediately preceding the respective interest payment date. The base rate is subject to review every interest payment date. However, in cases where there is no rate corresponding to the interest calculation period, the base rate shall be the base rate corresponding to the concerned period calculated based on the method provided in the contract.

(Note 4) The first interest payment date shall be the last day of December 2017, and subsequent interest payment dates shall be the last days of every month and the principal repayment date. However, if the concerned date is not a business day, then it shall be the next business day, and if that next business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date. The first interest calculation period shall be from November 30, 2017 to the last day of December 2017.

(Note 5) The interest rate is fixed at 0.34800%, in fact, by conclusion of the interest rate swap agreement.

(Note 6) The interest rate is fixed at 0.41800%, in fact, by conclusion of the interest rate swap agreement.

(Note 7) 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 into the next calendar month, then it shall be the business day immediately preceding the concerned date.

(Note 8) During the period from the Borrowing's drawdown to the repayment date, SHR may make early repayment of loans, in whole or in part, if SHR gives prior written notice and other certain terms and conditions are met.

(2) Acquisition and Sale of Assets

SHI entered into real estate sale and purchase agreements to acquire Prime Maison Shirokanedai Tower and 5 other properties, and to sell Esty Maison Machida and 11 other properties (such acquisitions and the sales being hereinafter collectively referred to as the "Asset Replacement"). As of the date of this document, the settlement and delivery of the Asset Replacement is scheduled to take place on May 1, 2018, which is the effective date of the Investment Corporation Merger as described in "(1) Merger with Sekisui House Residential Investment Corporation" above. Due to the Investment Corporation Merger, SHR, which will be the surviving corporation after the merger, is scheduled to succeed to and assume the status of either purchaser or seller, and exercise all rights and perform all duties thereof, under the sale and purchase agreements pertaining to the Asset Replacement. In the event that the Investment Corporation Merger does not take effect, SHR will not be considered a party related to SHI because SHI will execute the Asset Replacement as a purchaser or seller.

Outline of the Investment Corporation

1. Status of Capital

Fiscal period	As of the end of 2nd fiscal period (Oct. 31, 2015)	As of the end of 3rd fiscal period (Apr. 30, 2016)	As of the end of 4th fiscal period (Oct. 31, 2016)	As of the end of 5th fiscal period (Apr. 30, 2017)	As of the end of 6th fiscal period (Oct. 31, 2017)
Total number of investment units authorized (units)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total number of investment units issued and outstanding (units)	794,000	794,000	894,000	894,000	969,000
Unitholders' capital (million yen)	87,743	87,743	100,040	100,040	110,189
Number of unitholders (persons)	18,089	16,545	13,749	12,449	14,490

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)	245,286	25.31
The Master Trust Bank of Japan, Ltd. (Trust Account)	128,376	13.25
Sekisui House, Ltd.	65,200	6.73
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	50,411	5.20
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	35,728	3.69
STATE STREET BANK - WEST PENSION FUND CLIENTS - EXEMPT 505233	16,177	1.67
STATE STREET BANK AND TRUST COMPANY 505012	13,688	1.41
The Hachijuni Bank, Ltd.	12,818	1.32
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	10,309	1.06
STICHTING PENSIOENFONDS METAAL EN TECHNIEK	10,204	1.05
Total	588,197	60.70

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

3. Matters Concerning Directors, etc.

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

The following table sets forth information on the executive director, supervisory directors and independent auditor of SHR 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	Director, Shigeru Nomura Certified Public Accountant Office Outside Director, Eiken Chemical Co., Ltd. Member of Corporate Revitalization Committee, The Resolution and Collection Corporation (RCC)	1,800
	Tatsushi Omiya	Outside Director, QB Net Holdings Co., Ltd. Partner, City Law Offices	1,800
Independent Auditor	Ernst & Young ShinNihon LLC	—	13,800 (Note 2)

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

(Note 2) The total amount of compensation for the Independent Auditor, as stated above, is an approximation and includes compensation for preparing comfort letters for the issuance of new investment units in May 2017 and the issuance of the Second Series Unsecured Investment Corporation Bonds in July 2017, as well as compensation for auditing English financial statements.

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

Dismissal of the independent auditor is subject to consideration at a meeting of the board of directors of SHR in accordance with the provisions of the Investment 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
Administrative Agent (Administrative Agent for Investment Corporation Bonds)	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Condition of investment assets

1. Composition of Assets of the Investment Corporation

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

Type of asset	Geographical area, etc.	As of the end of 5th fiscal period (Apr. 30, 2017)		As of the end of 6th fiscal period (Oct. 31, 2017)	
		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	177,418	93.6	198,055	95.6
	Other areas	—	—	—	—
Total of real estate in trust		177,418	93.6	198,055	95.6
Deposits and other assets		12,209	6.4	9,086	4.4
Total amount of assets		189,627	100.0	207,142	100.0

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

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

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

2. Major Portfolio Assets

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

Name of real estate, etc.	Book value at the end of period (million yen) (Note 1)	Leasable area (m 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 (Note 6)	58,974	31,236.34	31,236.34	100.0	28.5	Office building
Gotenyama SH Building	50,722	19,999.97	19,999.97	100.0	23.8	Office building
Hommachi Minami Garden City	22,481	16,699.46	16,699.46	100.0	12.8	Office building
Hommachi Garden City (Note 7)	Office building portion					
	37,888	17,006.94	17,006.94	100.0	19.7	Office building
	Hotel portion					
	17,270	18,092.98	18,092.98	100.0	7.7	Hotel
HK Yodoyabashi Garden Avenue	4,391	4,554.52	4,554.52	100.0	3.3	Office building
Hirokoji Garden Avenue	6,326	4,442.75	4,442.75	100.0	4.1	Office building
Total	198,055	112,032.96	112,032.96	100.0	100.0	—

- (Note 1) “Book value at end of period” refers to the depreciated book value of each property as of the end of the fiscal period under review, rounded down to the nearest million yen. As such, the sum total of the “Book value at end of period” of each property may not match the figure indicated in the column for the total.
- (Note 2) “Leasable area” refers to the floor area available for leasing based on the lease agreement or building drawing, etc. for each property that is valid as of the end of the fiscal period under review, rounded down to the second decimal place.
- (Note 3) “Leased area” refers to the sum total of the leased area indicated in the respective lease agreements for each of the properties that are valid as of the end of the fiscal period under review (or, if a pass-through type master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the lease agreements with the respective end tenants concluded as of the end of the fiscal period under review).
- (Note 4) “Occupancy rate” refers to the ratio of leased area to leasable area of each property as of the end of the fiscal period under review, rounded to the nearest first decimal place. The figure indicated in the total column is the occupancy rate of the entire portfolio, which is the ratio of total leased area of each property to total leasable area of each property, rounded to the nearest first decimal place.
- (Note 5) Figures under the heading “As a percentage of total property-related operating revenue” indicate the ratio of property-related operating revenue of each property to total property-related operating revenue, rounded to the nearest first decimal place. As such, the sum total of the figures in respect of each property may not match the figure indicated in the column for the total. The same shall apply hereinafter.
- (Note 6) SHR acquired sectional ownership rights to all of the exclusively-owned portions of the 4th, 7th and 8th floors and part of the exclusively-owned portions of the 2nd, 3rd and 6th floors of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 2,103,349/3,857,806 (or approximately 54.5%)) (the “1st portion acquired”), on December 3, 2014. Subsequently, SHR acquired sectional ownership rights to part of the exclusively-owned portions of the 2nd, 3rd, 5th and 6th floors of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 820,252/3,857,806 (or approximately 21.3%)) (the “2nd portion acquired”), on May 24, 2016. Further SHR acquired sectional ownership rights to part of the exclusively-owned portions of the 2nd floor and all of the exclusively-owned portions of the 9th floor of Garden City Shinagawa Gotenyama, together with the accompanying right of site (ratio of right of site: 200,039/3,857,806 (or approximately 5.2%)) (the “3rd portion acquired”), on May 24, 2017.
- (Note 7) SHR acquired sectional ownership rights to all of the exclusively-owned portions used as office and retail property in Hommachi Garden City, together with the accompanying right of site, on May 19, 2015 (“Hommachi Garden City (Office building portion)” or “Office building portion”). The ratio of the exclusively-owned area is approximately 52.7% of the exclusively-owned area of the entire building, and the ratio of right of site is 68,645/100,000 for the office portion and 1,104/100,000 for the retail portion, totaling 69,749/100,000 (or approximately 69.7%). SHR subsequently acquired sectional ownership rights to all of the exclusively-owned portions used as a hotel in Hommachi Garden City, together with the accompanying right of site, on May 24, 2017 (“Hommachi Garden City (Hotel portion)” or the “Hotel portion”). The ratio of the exclusively-owned area is approximately 47.3% of the exclusively-owned area of the entire building and the ratio of right of site is 30,251/100,000 (or approximately 30.3%). SHR owns sectional ownership rights and the accompanying rights of site, as well as the annex to the entire Hommachi Garden City building. Hommachi Garden City includes co-ownership interest in the common portion pursuant to the relevant bylaws (parking, management offices, etc.), but there is no accompanying ratio of right of site.

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

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

Name of real estate, etc.	Location	Type of ownership	Book value at 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	58,974	71,000
Gotenyama SH Building	6-5-17 Kitashinagawa, Shinagawa-ku, Tokyo	Real estate trust beneficiary interests	50,722	58,500
Hommachi Minami Garden City	3-6-1 Kitakyuhojimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	22,481	28,600
Hommachi Garden City	3-6-4 Hommachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	Office building portion	
			37,888	44,600
			Hotel portion	
			17,270	17,700

HK Yodoyabashi Garden Avenue	4-3-9 Fushimimachi, Chuo-ku, Osaka-shi, Osaka	Real estate trust beneficiary interests	4,391	5,570
Hirokoji Garden Avenue	4-24-16, Meieki, Nakamura-ku, Nagoya-shi, Aichi	Real estate trust beneficiary interests	6,326	7,110
Total	—	—	198,055	233,080

- (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 Sōgō Appraisal Co., Ltd., Rich Appraisal Institute Co., Ltd. and Japan Real Estate Institute with the end of the fiscal period under review as the date of valuation), rounded down to the nearest million yen.

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

Name of real estate, etc.	5th fiscal period From: Nov. 1, 2016 To: Apr. 30, 2017				6th fiscal period From: May 1, 2017 To: Oct. 31, 2017			
	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	1,233	29.8	1	100.0	1,307	28.5
Gotenyama SH Building	1	100.0	1,089	26.3	1	100.0	1,088	23.8
Hommachi Minami Garden City	1	100.0	586	14.2	1	100.0	586	12.8
Hommachi Garden City	Office building portion							
	1	100.0	903	21.8	1	100.0	903	19.7
	Hotel portion							
	—	—	—	—	1	100.0	352	7.7
HK Yodoyabashi Garden Avenue	1 (7)	100.0	145	3.5	1 (7)	100.0	151	3.3
Hirokoji Garden Avenue	1 (9)	100.0	185	4.5	1 (9)	100.0	189	4.1
Total	2 (16)	100.0	4,144	100.0	2 (16)	100.0	4,580	100.0

- (Note 1) “Number of tenants” refers to the sum total of the number of tenants under, and indicated in, the respective lease agreements for each property that are valid as of the end of each fiscal period (or, if a master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the number of lessees under the master lease agreement). If a pass-through type master lease agreement that is valid as of the end of each fiscal period has been concluded for the property, the number of end tenants for the property is indicated in parenthesis.
- In the “Total” column, a tenant that leases spaces in multiple properties is counted as one. The sum total of the number of end tenants for properties where pass-through type master lease agreements that are valid as of the end of each fiscal period have been concluded is indicated in parenthesis.
- (Note 2) “Occupancy rate” refers to the ratio of leased area to leasable area of each property as of the end of each fiscal period, rounded to the nearest first decimal place. The total column indicates the occupancy rate of the entire portfolio, which indicates the ratio of total leased area of each property to total leasable area of each property, rounded to the nearest first decimal place.
- (Note 3) “Property-related operating revenue [during fiscal period]” refers to the sum total of property-related operating revenue in each fiscal period in respect of each property, rounded down to the nearest million yen. As such, the sum of “Property-related operating revenue [during fiscal period]” in respect of each property may not match the figure indicated in the column for the total.

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

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

6. Details of Investment Securities
Not applicable.

7. Table of Status of Contract Amount, etc. and Fair Value of Specified Transactions
The following table sets forth the status of contract amount, etc. and fair value of specified transactions at SHR as of the end of the fiscal period under review.

Category	Type	Contract amount, etc. (thousand yen) (Note 1)		Fair value (thousand yen) (Note 2)
			Amount due after 1 year	
Transaction other than market transaction	Interest rate swap transaction (Under which floating interest rates are receivable and fixed interest rates are payable)	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., asset-backed securities, etc. and infrastructure assets, etc. in the portfolio.

9. Status of Holding of Assets by Country and Region
As of the end of the fiscal period under review, there are no portfolio real estate, etc. in any other country or region besides Japan.

Capital expenditures for property

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

Name of real estate, etc. (location)	Purpose	Scheduled period	Scheduled amount (million yen) (Note)		
			Total amount	Payment for the fiscal period under review	Amount already paid
Hommachi Garden City (Hotel portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated heat meters	From: January 2018 To: January 2018	8	—	—
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Upgrading of integrated watt meters	From: January 2018 To: March 2018	7	—	—
Hommachi Garden City (Office building portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated heat meters	From: January 2018 To: January 2018	6	—	—
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Installation of emergency power generators	From: December 2017 To: March 2018	5	—	—
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of battery for guide light	From: August 2018 To: September 2018	4	—	—

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

2. Capital Expenditures During Period

An overview of capital expenditures conducted by SHR for its assets during the fiscal period under review is as set forth in the following table. Total capital expenditures during the fiscal period under review was 12 million yen and, together with 28 million yen of repair expenses charged to expenses in the fiscal period under review, work amounting to 40 million yen was implemented.

Name of real estate, etc. (location)	Purpose	Period	Payment amount (million yen)
Hommachi Garden City (Hotel portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of integrated heat meters	From: October 2017 To: October 2017	3
Hommachi Garden City (Office building portion) (Chuo-ku, Osaka-shi, Osaka)	Upgrading of water meters	From: August 2017 To: September 2017	2
Garden City Shinagawa Gotenyama (Kitashinagawa, Shinagawa-ku, Tokyo)	Replacement of central device for lighting control system and UPS	From: July 2017 To: September 2017	2
Other capital expenditures			3
Total			12

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)	
	5th fiscal period From: Nov. 1, 2016 To: Apr. 30, 2017	6th fiscal period From: May 1, 2017 To: Oct. 31, 2017
Asset management fee	332,503	359,562
Asset custody fee	3,520	3,526
Administrative service fees	11,820	11,485
Directors' compensations	3,600	3,600
Other expenses	35,864	36,614
Total	387,308	414,789

(Note) In respect of asset management fees, in addition to the amounts shown above, there are management fees for property acquisition (which are not applicable in the 5th fiscal period and amounting to 31,800 thousand yen in respect of the 6th 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

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 (3rd portion acquired)	May 24, 2017	4,000	—	—	—	—
Hommachi Garden City (Hotel portion)	May 24, 2017	17,200	—	—	—	—
Total	—	21,200	—	—	—	—

(Note) "Acquisition price" and "Disposition price" refer to the sale and purchase price as stated in the sale and purchase agreement for each property (excluding consumption tax and local consumption tax, as well as commissions and other various expenses; rounded down to the nearest million yen). The same shall apply hereinafter.

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

Not applicable.

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

3. Investigation into Value, etc. of Specified Assets

- (1) Real Estate, etc. (Appraisal)

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 1)	Appraisal firm	Date of value
Acquisition	Garden City Shinagawa Gotenyama (3rd portion acquired)	May 24, 2017	Real estate trust beneficiary interests	4,000	4,290	DAIWA REAL ESTATE APPRAISAL CO.,LTD.	March 31, 2017
Acquisition	Hommachi Garden City (Hotel portion)	May 24, 2017	Real estate trust beneficiary interests	17,200	17,600 (Note 2)	Japan Real Estate Institute	March 31, 2017
Total		—	—	21,200	21,890	—	—

(Note 1) The appraisal stated above is derived by applying the "Real Estate Appraisal Standards; Particulars; Chapter 3: Appraisal on Value of Real Estate Subject to Securitization."

(Note 2) The limited market value of the hotel portion (based on the increased value from holding the building in its entirety) of Hommachi Garden City is used. The market value of the Hotel portion (excluding the increased value from holding the whole building) is 17,200 million yen.

- (2) Others

Not applicable.

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	21,200 million yen	— million yen
Breakdown of status of transactions with interested persons		
Sekisui House, Ltd.	21,200 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)	26,177	Sekisui House, Ltd.	26,177	100.0

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

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

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

5. Status, etc. of Transactions with the Asset Management Company Pertaining to Business Operations of Concurrent Business Engaged in by the Asset Management Company

There are no applicable transactions because as of the end of the fiscal period under review, the Asset Management Company does not concurrently engage in any type I financial instruments or type II financial instruments business (as defined in the Financial Instruments and Exchange Act), 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, regarding 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, as well as other matters deemed important.
- | Approval date | Matters approved | Overview |
|---------------|--|--|
| May 9, 2017 | Conclusion of a new investment unit underwriting agreement | Administrative functions 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., Mizuho Securities Co., Ltd., Daiwa Securities Co. Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. |
2. Handling of fractions of monetary amounts and percentage figures
Amounts have been rounded down and ratios have been rounded to the nearest specified unit unless otherwise indicated in this document.

Financial Section (Audited)

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1. Financial Statements

(1) Balance Sheet

	(Thousands of yen)	
	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Assets		
Current assets		
Cash and deposits	4,115,187	1,756,618
Cash and deposits in trust	7,662,531	6,518,376
Operating accounts receivable	16,709	19,330
Prepaid expenses	84,523	76,198
Deferred tax assets	16	7
Consumption taxes receivable	—	372,744
Other	11,350	—
Total current assets	11,890,319	8,743,275
Non-current assets		
Property, plant and equipment		
Buildings in trust	53,345,801	59,604,170
Accumulated depreciation	(2,678,821)	(3,399,530)
Buildings in trust, net	50,666,979	56,204,639
Structures in trust	672,428	683,807
Accumulated depreciation	(43,390)	(52,592)
Structures in trust, net	629,038	631,215
Machinery and equipment in trust	411	921
Accumulated depreciation	(23)	(58)
Machinery and equipment in trust, net	387	862
Tools, furniture and fixtures in trust	1,259	1,259
Accumulated depreciation	(297)	(447)
Tools, furniture and fixtures in trust, net	961	811
Land in trust	126,120,644	141,218,283
Construction in progress in trust	9,699	—
Total property, plant and equipment	177,427,710	198,055,813
Intangible assets		
Other	3,882	3,147
Total intangible assets	3,882	3,147
Investments and other assets		
Lease and guarantee deposits	20,181	20,181
Long-term prepaid expenses	239,863	227,164
Total investments and other assets	260,044	247,345
Total non-current assets	177,691,637	198,306,306
Deferred assets		
Investment corporation bond issuance costs	17,453	35,045
Investment unit issuance costs	28,026	57,907
Total deferred assets	45,479	92,952
Total assets	189,627,436	207,142,534

	(Thousands of yen)	
	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Liabilities		
Current liabilities		
Operating accounts payable	130,929	172,924
Current portion of long-term loans payable	14,000,000	14,000,000
Accounts payable – other	376,804	402,587
Accrued expenses	79,170	82,238
Income taxes payable	938	743
Accrued consumption taxes	284,571	—
Total current liabilities	14,872,413	14,658,493
Non-current liabilities		
Investment corporation bonds	2,000,000	5,000,000
Long-term loans payable	61,300,000	65,400,000
Tenant leasehold and security deposits in trust	9,033,710	9,268,730
Total non-current liabilities	72,333,710	79,668,730
Total liabilities	87,206,123	94,327,223
Net assets		
Unitholders' equity		
Unitholders' capital	100,040,294	110,189,294
Surplus		
Unappropriated retained earnings	2,381,018	2,626,016
Total surplus	2,381,018	2,626,016
Total unitholders' equity	102,421,312	112,815,310
Total net assets (Note 4)	102,421,312	112,815,310
Total liabilities and net assets	189,627,436	207,142,534

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

(2) Statement of Income and Retained Earnings

	(Thousands of yen)	
	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Operating revenue		
Rent revenue – real estate (Note 5)	4,121,417	4,550,426
Other lease business revenue (Note 5)	22,970	30,081
Total operating revenue	4,144,387	4,580,508
Operating expenses		
Expenses related to rent business (Note 5)	1,053,022	1,178,033
Asset management fee	332,503	359,562
Asset custody fee	3,520	3,526
Administrative service fees	11,820	11,485
Directors' compensations	3,600	3,600
Other operating expenses	35,864	36,614
Total operating expenses	1,440,331	1,592,823
Operating income	2,704,056	2,987,685
Non-operating income		
Interest income	50	46
Interest on refund	1,521	—
Subsidy income	10,935	—
Total non-operating income	12,507	46
Non-operating expenses		
Interest expenses	283,125	293,464
Interest expenses on investment corporation bonds	3,383	5,568
Borrowing related expenses	39,818	43,160
Amortization of investment unit issuance costs	7,006	14,384
Amortization of investment corporation bond issuance costs	934	2,258
Other	515	2,416
Total non-operating expenses	334,784	361,252
Ordinary income	2,381,779	2,626,479
Income before income taxes	2,381,779	2,626,479
Income taxes – current	945	750
Income taxes – deferred	(5)	9
Total income taxes	940	759
Net income	2,380,839	2,625,719
Retained earnings brought forward	179	296
Unappropriated retained earnings	2,381,018	2,626,016

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

(3) Statement of Changes in Net Assets

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

	(Thousands of yen)			
	Unitholders' equity			Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity
		Unappropriated retained earnings	Total surplus	
Balance at beginning of period	100,040,294	2,321,003	2,321,003	102,361,297
Changes of items during period				
Distribution from surplus		(2,320,824)	(2,320,824)	(2,320,824)
Net income		2,380,839	2,380,839	2,380,839
Total changes of items during period	—	60,015	60,015	60,015
Balance at end of period (Note 6)	100,040,294	2,381,018	2,381,018	102,421,312

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

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

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

(4) Statement of Cash Distributions

Item	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
I . Unappropriated retained earnings	2,381,018,583yen	2,626,016,489yen
II . Cash distributions	2,380,722,000yen	2,625,990,000yen
[Cash distributions per unit]	[2,663yen]	[2,710yen]
III. Retained earnings carried forward	296,583yen	26,489yen
Method of calculating amount of distribution	The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR. Based on such policy, SHR decided to pay out a distribution of earnings of 2,380,722,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (894,000 units) in an amount not in excess of unappropriated retained earnings for the period. SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.	The basic policy is to distribute in excess of an amount equivalent to 90% of the amount of earnings available for distribution of SHR provided in Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation as set forth in Article 46, Paragraph 1, Item 2 of the Articles of Incorporation of SHR. Based on such policy, SHR decided to pay out a distribution of earnings of 2,625,990,000 yen, which is the largest integral multiple of the total number of investment units issued and outstanding (969,000 units) in an amount not in excess of unappropriated retained earnings for the period. SHR will not distribute cash in excess of earnings as set forth in Article 46, Paragraph 2 of the Articles of Incorporation of SHR.

(5) Statement of Cash Flows

	(Thousands of yen)	
	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Cash flows from operating activities		
Income before income taxes	2,381,779	2,626,479
Depreciation and amortization	650,209	730,830
Amortization of investment corporation bond issuance costs	934	2,258
Amortization of investment unit issuance costs	7,006	14,384
Interest income	(50)	(46)
Interest expenses	286,509	299,032
Decrease (increase) in operating accounts receivable	7,543	(2,621)
Decrease (increase) in consumption taxes receivable	461,715	(372,744)
Decrease (increase) in prepaid expenses	3,593	8,324
Decrease (increase) in long-term prepaid expenses	35,763	12,698
Increase (decrease) in operating accounts payable	(31,608)	58,926
Increase (decrease) in accounts payable – other	26,524	28,855
Increase (decrease) in accrued consumption taxes	284,571	(284,571)
Other, net	(10,886)	11,350
Subtotal	4,103,606	3,133,158
Interest income received	50	46
Interest expenses paid	(280,352)	(295,964)
Income taxes paid	(823)	(945)
Net cash provided by operating activities	3,822,480	2,836,294
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(68,745)	(21,377,917)
Proceeds from tenant leasehold and security deposits in trust	2,177	235,020
Repayments of tenant leasehold and security deposits in trust	(180)	—
Net cash provided by (used in) investing activities	(66,747)	(21,142,896)
Cash flows from financing activities		
Proceeds from short-term loans payable	—	7,600,000
Repayments of short-term loans payable	—	(7,600,000)
Proceeds from long-term loans payable	—	4,100,000
Proceeds from issuance of investment corporation bond	—	2,980,150
Proceeds from issuance of investment units	—	10,104,734
Dividends paid	(2,321,072)	(2,381,007)
Net cash provided by (used in) financing activities	(2,321,072)	14,803,877
Net increase (decrease) in cash and cash equivalents	1,434,660	(3,502,724)
Cash and cash equivalents at beginning of period	10,343,058	11,777,719
Cash and cash equivalents at end of period (Note 7)	11,777,719	8,274,994

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

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

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

SHR is externally managed by a licensed asset management company, Sekisui House Investment Advisors, Ltd.

2. Basis of Presentation

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

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

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

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

3. Summary of Significant Accounting Policies

1. Method of depreciation and amortization of non-current assets	<p>(1)Property, plant and equipment (including assets in trust) Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows:</p> <table> <tr> <td>Buildings</td><td>6-65 years</td></tr> <tr> <td>Structures</td><td>36-40 years</td></tr> <tr> <td>Machinery and equipment</td><td>10-18 years</td></tr> <tr> <td>Tools, furniture and fixtures</td><td>2-6 years</td></tr> </table> <p>(2)Intangible assets Intangible assets are amortized utilizing the straight-line method.</p> <p>(3)Long-term prepaid expenses Long-term prepaid expenses are amortized utilizing the straight-line method.</p>	Buildings	6-65 years	Structures	36-40 years	Machinery and equipment	10-18 years	Tools, furniture and fixtures	2-6 years
Buildings	6-65 years								
Structures	36-40 years								
Machinery and equipment	10-18 years								
Tools, furniture and fixtures	2-6 years								
2. Accounting for deferred assets	<p>(1) Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized utilizing the straight-line method over the redemption periods.</p> <p>(2) Investment unit issuance costs Investment unit issuance costs are amortized utilizing the straight-line method (over 3 years).</p>								
3. Standards for revenue and expense recognition	<p>Accounting for property taxes In accounting for property tax, city planning tax, depreciable asset tax, etc. on real estate, etc., of the tax amount assessed and determined, the amount corresponding to the applicable calculation period is expensed as expenses related to rent business. Reimbursement of property tax, paid to the seller upon the acquisition of real estate or trust beneficiary interests of real estate as assets in trust, is not recognized as expenses related to rent business in the corresponding fiscal period but included in the acquisition cost of the property. Property taxes capitalized as a part of the acquisition cost amounted to 78,845 thousand yen for the 6th fiscal period, and there were no property taxes capitalized for the 5th 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.</p> <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	The funds (cash and cash equivalents) in the statement of cash flows consist of cash on hand and cash in trust; deposits that can be withdrawn at any time and deposits in trust; and short-term investments with a maturity of three months or less from the date of acquisition, which are readily convertible to cash and bear only an insignificant risk of price fluctuation.
6. Other significant matters serving as basis for preparation of financial statements	<p>(1)Accounting for trust beneficiary interests of real estate, etc. as assets in trust Concerning trust beneficiary interests of real estate, etc. as assets in trust, all accounts of assets and liabilities within assets in trust as well as all accounts of revenue and expenses from the assets in trust are recognized in the relevant account items on the balance sheet and the statement of income and retained earnings. The following material items of the assets in trust recognized in the relevant account items are separately listed on the balance sheet.</p> <p>1) Cash and deposits in trust 2) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust 3) Tenant leasehold and security deposits in trust</p> <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)	
5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
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)				
	5th Fiscal Period (From November 1, 2016 to April 30, 2017)		6th Fiscal Period (From May 1, 2017 to October 31, 2017)	
A. Property-related operating revenue				
Rent revenue – real estate				
Rental income	4,109,999		4,538,496	
Other	11,418	4,121,417	11,930	4,550,426
Other lease business revenue				
Utilities revenue	17,447		24,706	
Other	5,522	22,970	5,375	30,081
Total property-related operating revenue		4,144,387		4,580,508
B. Property-related operating expenses				
Expenses related to rent business				
Subcontract expenses	24,779		24,546	
Property management fees	24,996		26,177	
Trust fees	2,265		2,704	
Utilities expenses	18,253		20,595	
Property and other taxes	296,203		334,107	
Insurance expenses	6,151		6,291	
Repair expenses	25,632		28,342	
Depreciation	649,474		730,095	
Other expenses related to rent business	5,266	1,053,022	5,171	1,178,033
Total property-related operating expenses		1,053,022		1,178,033
C. Property-related operating income [A – B]		3,091,364		3,402,475

6. Notes to Statement of Changes in Net Assets

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

	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued	894,000 units	969,000 units

7. Notes to Statement of Cash Flows

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

(Thousands of yen)		
	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Cash and deposits	4,115,187	1,756,618
Cash and deposits in trust	7,662,531	6,518,376
Cash and cash equivalents	11,777,719	8,274,994

8. Lease Transactions

Operating lease transactions as lessor

Future minimum lease payments

(Thousands of yen)		
	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Due within 1 year	8,178,120	9,159,073
Due after 1 year	38,316,796	35,656,637
Total	46,494,917	44,815,711

9. Financial Instruments

1. Status of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

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

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

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

2. Matters concerning fair value of financial instruments

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

5th Fiscal Period (As of April 30, 2017)

(Thousands of yen)			
	Book value recorded on the balance sheet	Fair value	Difference
(1) Cash and deposits	4,115,187	4,115,187	—
(2) Cash and deposits in trust	7,662,531	7,662,531	—
Total assets	11,777,719	11,777,719	—
(3) Current portion of long-term loans payable	14,000,000	14,000,000	—
(4) Investment corporation bonds	2,000,000	1,980,000	(20,000)
(5) Long-term loans payable	61,300,000	62,904,555	1,604,555
Total liabilities	77,300,000	78,884,555	1,584,555
(6) Derivative transactions	—	—	—

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

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

(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.

(4) Investment corporation bonds

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

(3) Current portion of long-term loans payable (5) Long-term loans payable

As the current portion of long-term loans payable and 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.

(6) 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	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Tenant leasehold and security deposits in trust	9,033,710	9,268,730

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

5th Fiscal Period (As of April 30, 2017)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Cash and deposits	4,115,187	—	—	—	—	—
Cash and deposits in trust	7,662,531	—	—	—	—	—
Total	11,777,719	—	—	—	—	—

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

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

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

5th Fiscal Period (As of April 30, 2017)

(Thousands of yen)						
	Due in 1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Due after 5 years
Current portion of long-term loans payable	14,000,000	—	—	—	—	—
Investment corporation bonds	—	—	—	—	—	2,000,000
Long-term loans payable	—	—	14,000,000	11,050,000	17,000,000	19,250,000

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

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

10. Securities

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

11. Derivative Transactions

1. Derivatives to which hedge accounting is not applied

5th Fiscal Period (As of April 30, 2017)

Not applicable.

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

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.

5th Fiscal Period (As of April 30, 2017)

(Thousands of yen)

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

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

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

(Thousands of yen)

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

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

12. Retirement Benefits

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

13. Income Taxes

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

(Thousands of yen)

	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Deferred tax assets		
Accrued business taxes not deductible from taxable income	16	7
Total deferred tax assets	16	7
Net deferred tax assets	16	7

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

(%)

	5th Fiscal Period (As of April 30, 2017)	6th Fiscal Period (As of October 31, 2017)
Statutory tax rate	31.74	31.74
[Adjustments]		
Deductible cash distribution	(31.73)	(31.73)
Other	0.03	0.02
Effective income tax rate after application of tax-effect accounting	0.04	0.03

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

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

15. Transactions with Related Parties

1. Parent company and major corporate unitholders.

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

2. Subsidiaries and affiliates.

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

3. Sister companies.

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

Not applicable.

4. Directors and major individual unitholders.

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Type	Name	Description of business or occupation	Percentage of voting rights held by (in) SHR	Description of transaction	Transaction amount (Thousands of yen)	Account item	Balance at end of period (Thousands of yen)
Director or close relative	Junichi Inoue	Executive Director of SHR and Representative Director of Sekisui House Investment Advisors, Ltd.	—	Payment of asset management fee to Sekisui House Investment Advisors, Ltd. (Note 1)	332,503	Accounts payable – other	359,103

(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.

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

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

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

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

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

16. Asset Retirement Obligations

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

Not applicable.

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

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)		
	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Carrying amount		
Balance at beginning of period	177,986,512	177,418,011
Amount of increase (decrease) during period	(568,501)	20,637,802
Balance at end of period	177,418,011	198,055,813
Fair value at end of period	205,120,000	233,080,000

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

(Note 2) Net decrease during the 5th fiscal period is mainly attributable to depreciation (649,474 thousand yen).

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

(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 5th and 6th 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

5th Fiscal Period (From November 1, 2016 to April 30, 2017)

(1) Information about products and services

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

(2) Information about geographic areas

1) Operating revenue

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

2) Property, plant and equipment

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

(3) Information about major customers

(Thousands of yen)		
Name of customer	Operating revenue	Name of related segment
Sekisui House, Ltd.	2,724,312	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.

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

(1) Information about products and services

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

(2) Information about geographic areas

1) Operating revenue

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

2) Property, plant and equipment

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

(3) Information about major customers

(Thousands of yen)

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

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

19. Per Unit Information

	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Net assets per unit	114,565yen	116,424yen
Net income per unit	2,663 yen	2,737 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.

	5th Fiscal Period (From November 1, 2016 to April 30, 2017)	6th Fiscal Period (From May 1, 2017 to October 31, 2017)
Net income (Thousands of yen)	2,380,839	2,625,719
Amount not attributable to common unitholders (Thousands of yen)	—	—
Net income attributable to common investment units (Thousands of yen)	2,380,839	2,625,719
Average number of investment units during period (Units)	894,000	959,253

20. Significant Subsequent Events

1. Merger between SHR and SHI

The Two Investment Corporations, at their respective Board of Directors' meetings held on January 24, 2018, resolved to execute the Investment Corporation Merger, with May 1, 2018 as the effective date, and executed the Investment Corporation Merger Agreement on the same day.

(1) Purpose of the Investment Corporation Merger

The Two Investment Corporations reached the conclusion that expanding the scale of their assets and increasing their market presence through a merger of the Two Investment Corporations, and improving opportunities for growth by utilizing the integrated corporate strength of the Sekisui House Group, thereby securing strong returns and stability and growth of distributions through the steady increase of assets under management, would be their best strategy for maximizing unitholder value; accordingly, the Two Investment Corporations concluded the Investment Corporation Merger Agreement.

(2) Merger Ratio

As a result of the Investment Corporation Merger, for every 1 SHI investment unit, 1.65 post-Investment Unit Split SHR investment units will be allocated and delivered (Note). The number of investment units that must be delivered will include fractional amounts of less than one unit, and therefore, those fractional amounts will be sold through market transactions, and the proceeds from the sales will be distributed to the unitholders allocated such fractional amounts on a proportional basis pursuant to the provisions of Article 88 of the Investment Trust Act.

(Note) SHR plans to split one investment unit into two investment units with April 30, 2018 as the record date and May 1, 2018 as the effective date; the allocation ratio shown above and the number of new investment units SHR will allocate and deliver are subject to the Investment Unit Split taking effect. For more details on the split of investment units, please refer to "2. Split of Investment Units" stated below.

(3) Merger Consideration

As of the date of these financial statements, in addition to the abovementioned investment units, SHR intends to pay the Unitholders Subject to Allocation or the registered pledgees of investment units held in lieu of cash distributions for the fiscal period of SHI's final term, a merger consideration in the form of cash distribution based on SHI's distributable income for that same period in an amount (excluding amounts less than one yen), which is the quotient resulting from dividing the amount of SHI's distributable income for the fiscal period up to the date prior to the effective date of the merger by the number of issued SHI investment units on that date less the number of investment units held by unitholders other than the Unitholders Subject to Allocation within a reasonable period from the effective date of the Investment Corporation Merger.

In addition, SHI will put before a general meeting of its unitholders, which is scheduled to be held on March 27, 2018, a proposal to amend its articles of incorporation with a view to changing its fiscal periods that currently end on March 31 and September 30 to April 30 and October 31, to enable the implementation of the Investment Corporation Merger. As a result, if the aforementioned amendment is approved, the last fiscal period before the effective date of the Investment Corporation Merger is expected to end on April 30, 2018. Specifically, such period is expected to be a seven-month fiscal period from October 1, 2017 to April 30, 2018.

(4) Summary of Certain Financial Information in Respect of SHI as at September 30, 2017 (end of the latest fiscal period from April 1, 2017 to September 30, 2017)

Business description: Investment and management, mainly in respect of Specified Assets, based on the Investment Trust Act

Operating revenue:	6,916 million yen
Net income:	2,493 million yen
Total assets:	210,009 million yen
Liabilities:	108,667 million yen
Net assets:	101,341 million yen

2. Split of Investment Units

SHR resolved at the Board of Directors' meeting held on January 24, 2018, to split its investment units as follows.

(1) Purpose of the Investment Unit Split

As described in "1. Merger between SHR and SHI" above, SHR and SHI have agreed to implement the Investment Corporation Merger and for this purpose have executed the Investment Corporation Merger Agreement on January 24, 2018.

The Investment Corporation Merger will be carried out through an absorption-type merger with SHR as the surviving corporation, and the merger ratio, before considering the Investment Unit Split, would be SHR 1: SHI 0.825. However, based on this merger ratio, 0.825 units of SHR would be allocated for every unit of SHI, which would result in a number of SHI unitholders receiving less than one unit of SHR. For this reason, so that SHI unitholders may continue to hold SHR units even after the Investment Corporation Merger is completed, and for the purpose of issuing at least 1 SHR unit to all SHI unitholders, it was decided to conduct a 2-for-1 split of SHR units.

(2) Method of the Investment Unit Split

SHR units owned by the unitholders set forth or recorded in the final unitholder register on April 30, 2018 (the day before the effective date of the Investment Corporation Merger) will be split 2-for-1. The Investment Unit Split shall come into effect on May 1, 2018 (the effective date of the Investment Corporation Merger), provided that all conditions precedent for the Investment Corporation Merger set forth in the Investment Corporation Merger Agreement are satisfied.

(3) Increase in Number of Investment Units Due to the Investment Unit Split

- | | |
|--|-----------------------------|
| 1) Total number of outstanding units prior to the Investment Unit Split | : 969,000 units |
| 2) Increase in the number of units due to the Investment Unit Split | : 969,000 units |
| 3) Total number of outstanding units following the Investment Unit Split | : 1,938,000 units |
| 4) Total number of outstanding units following the Investment Corporation Merger | : 3,762,091 units (Note 1) |
| 5) Number of authorized investment units following the Investment Unit Split and the Investment Corporation Merger | : 20,000,000 units (Note 2) |

Note 1: This figure was calculated under the assumption that, in connection with the Investment Corporation Merger, 1.65 SHR units following the Investment Unit Split would be allocated for every SHI unit with respect to all outstanding SHI units (1,105,510 units) as of the date of these financial statements.

Note 2: SHR's authorized investment units constitute 10,000,000 units, but as a result of the Investment Corporation Merger, as of the date of these financial statements, the articles of incorporation are expected to be partially amended, with the number of authorized investment units to be changed as of the effective date of the Investment Corporation Merger. Therefore, the figures stated above have been calculated taking into account such changes.

(4) Timeline of the Investment Unit Split

- | | |
|------------------------------------|----------------------------|
| 1) Announcement of the record date | March 30, 2018 (tentative) |
| 2) Record date | April 30, 2018 (tentative) |
| 3) Effective date | May 1, 2018 (tentative) |

(5) Impact on Per Unit Information

Information on a per unit basis, on the assumption that the Investment Unit Split was executed at the beginning of the previous fiscal period is set forth in the following table.

- | | | |
|-------------------------|--|---|
| 1) Net assets per unit: | (fiscal period ended April 30, 2017)
57,282 yen | (fiscal period ended October 31, 2017) 58,212 yen |
| 2) Net income per unit: | (fiscal period ended April 30, 2017)
1,331 yen | (fiscal period ended October 31, 2017) 1,368 yen |

(7) Supplementary Schedules

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

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	53,345,801	6,258,369	—	59,604,170	3,399,530	720,709	56,204,639	(Note)
	Structures in trust	672,428	11,379	—	683,807	52,592	9,201	631,215	(Note)
	Machinery and equipment in trust	411	510	—	921	58	34	862	—
	Tools, furniture and fixtures in trust	1,259	—	—	1,259	447	149	811	—
	Land in trust	126,120,644	15,097,638	—	141,218,283	—	—	141,218,283	(Note)
	Construction in progress in trust	9,699	—	9,699	—	—	—	—	—
	Subtotal	180,150,244	21,367,897	9,699	201,508,442	3,452,629	730,095	198,055,813	—
Intangible assets	Other	7,350	—	—	7,350	4,202	735	3,147	—
	Subtotal	7,350	—	—	7,350	4,202	735	3,147	—
Total		180,157,594	21,367,897	9,699	201,515,792	3,456,832	730,830	198,058,960	—

(Note) The increase during the period is attributable to the acquisition of Garden City Shinagawa Gotenyama (additional acquisition), Hommachi Garden City (hotel portion).

4. Schedule of other specified assets

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

5. Schedule of investment corporation bonds

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

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

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

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

(Millions of yen)

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

6. Schedule of loans payable

(Thousands of yen)

Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security
Short-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	4,560,000	4,560,000	—	0.21000	May. 23, 2018 (Note 2)	Lump-sum payment at maturity	Purchase of assets and related expenses	Un-secured Un-guaranteed
	Sumitomo Mitsui Banking Corporation	—	3,040,000	3,040,000	—					
	Subtotal	—	7,600,000	7,600,000	—					
						—	—	—	—	—
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,500,000	—	—	1,500,000	0.28095	Nov. 30, 2017 (Note 3)			
	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	Lump-sum payment at maturity	Purchase of assets and related expenses	Un-secured Un-guaranteed
	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					

Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,200,000	—	—	4,200,000	1.47450	Nov. 30, 2024		Purchase of assets and related expenses	Unsecured Un-guaranteed
	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					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,650,000	—	—	1,650,000	0.62760	Nov. 30, 2020			
	The Norinchukin Bank	650,000	—	—	650,000					
	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	Lump-sum payment at maturity	Nov. 30, 2022	Repayment of loans payable	
	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					
	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					
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,810,000	—	—	1,810,000	0.60500				
	Mizuho Bank, Ltd.	900,000	—	—	900,000	0.67000				
	Mitsubishi UFJ Trust and Banking Corporation	440,000	—	—	440,000					

Category	Lender	Balance at beginning of period	Amount of increase during period	Amount of decrease during period	Balance at end of period	Average interest rate (%) (Note 1)	Repayment due date	Repayment method	Use of proceeds	Security			
Long-term loans payable	Sumitomo Mitsui Banking Corporation	1,560,000	—	—	1,560,000	0.25595	Nov. 30, 2020	Lump-sum payment at maturity	Repayment of loans payable	Unsecured Un-guaranteed			
	Sumitomo Mitsui Trust Bank, Limited	830,000	—	—	830,000								
	Resona Bank, Limited	550,000	—	—	550,000								
	Development Bank of Japan Inc.	370,000	—	—	370,000								
	The Norinchukin Bank	370,000	—	—	370,000								
	Mizuho Trust & Banking Co., Ltd.	370,000	—	—	370,000	0.23286	Aug. 31, 2021						
	Sumitomo Mitsui Banking Corporation	—	870,000	—	870,000								
	Sumitomo Mitsui Trust Bank, Limited	—	480,000	—	480,000								
	Resona Bank, Limited	—	300,000	—	300,000								
	The Norinchukin Bank	—	210,000	—	210,000								
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	—	990,000	—	990,000	0.37000	Nov. 30, 2023						
	Mizuho Bank, Ltd.	—	550,000	—	550,000	0.45254							
	Mitsubishi UFJ Trust and Banking Corporation	—	260,000	—	260,000								
	Development Bank of Japan Inc.	—	220,000	—	220,000								
	Mizuho Trust & Banking Co., Ltd.	—	220,000	—	220,000								
	Subtotal	75,300,000	4,100,000	—	79,400,000	—	—				—	—	—
	Total	75,300,000	11,700,000	7,600,000	79,400,000	—	—				—	—	—

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

(Note 2) SHR made early repayment of 500 million yen on June 15, 2017, 3,000 million yen on July 14, 2017 and 4,100 million yen on August 31, 2017.

(Note 3) These loans are recorded in current liabilities on the balance sheet as current portion of long-term loans payable as of the end of the 6th fiscal period.

(Note 4) 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	12,910,000	17,000,000

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 October 31, 2017, and the statements of income and retained earnings, changes in net assets, cash distributions, cash flows, and supplementary schedules from May 1, 2017 to October 31, 2017 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 October 31, 2017, and its financial performance and cash flows from May 1, 2017 to October 31, 2017 in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 20.1. to the financial statements, which describes Sekisui House Reit, Inc. resolved the merger with Sekisui House Residential Investment Corporation at the meeting of board of directors held on January 24, 2018 and concluded a merger agreement on the same date. Our opinion is not qualified in respect of this matter.

Ernst & Young ShinNihon LLC

January 24, 2018
Tokyo, Japan