# Partial Translation of the Securities Report Submitted on July 30, 2025

## Part 1. Fund Information;
## Section 1. Status of Fund;
## 3. Investment Risks

SEKISUI HOUSE REIT, INC.

July 30, 2025

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Securities Report
Part 1. Fund Information
Section 1. Status of Fund
3【Investment Risks】
(1) Risk Factors

The following is a list of major factors that may be considered as risk factors with respect to an investment in investment units or bonds of Sekisui House Reit, Inc. ("SHR"). However, the following is not an exhaustive list of all risks associated with an investment in SHR's investment units or bonds and risks other than those mentioned may also exist.

It is the policy of SHR to avoid the occurrence of these risks to the extent possible and to respond to such risks when they do occur; however, there can be no assurance that avoidance and response will be sufficient as a result. If any of the risks described below materialize, the market price of the investment units or the investment corporation bonds is expected to decline and may even be lower than that of the issue price, and as a result, unitholders or investment corporation bondholders may suffer losses. In addition, a decrease in the net asset value or other deterioration in the financial condition of SHR may result in a decrease in distributions.

Each investor should make investment decisions concerning SHR's investment units or bonds at his or her own risk after careful consideration of this section and the other sections of the securities report submitted on July 30, 2025 ("Securities Report") (other sections of the Securities Report are currently only available in Japanese).

The matters described in this section include forward-looking statements, but unless otherwise stated, these statements are based on the judgment of SHR and Sekisui House Asset Management, Ltd. ("SHA"), the asset management company, as of the date of this document.

The risk items listed in this section are as follows:

i. Risks related to the merchantability of SHR's investment units or bonds
   (a) Risks related to fluctuations in market price of SHR's investment units or bonds
   (b) Risks related to transactions in the market for SHR's investment units
   (c) Risks related to cash distributions
   (d) Risks related to fluctuations in income and expenditures
   (e) Risk of dilution of value per units upon issuance of new investment units
   (f) Risk that rights of the unitholder are not necessarily the same as those of the shareholder
   (g) Risk related to redemption and interest payment of investment bonds
   (h) Risks related to the legal, taxation and other institutional treatment of an investment corporation
ii. Risks related to SHR's operational policy
   (a) Risk of not being able to acquire properties as expected based on sponsor support agreements, etc.
   (b) Risk of inability to acquire or dispose of real estate
   (c) Risks related to fundraising through the issuance of new investment units, borrowings and bonds
   (d) Risks related to uneven distribution of assets under management
   (e) Risks related to tenant concentration
   (f) Risk associated with single-tenant properties
   (g) Risks related to dependance of income on specific properties
   (h) Risks related to investment in residences
   (i) Risks related to investment in office buildings
   (j) Risks related to investment in data centers
   (k) Risks related to investment in hotels
   (l) Risks related to investment in commercial facilities
   (m) Risks related to investment in senior assets
   (n) Risks related to the Property Management ("PM") company
   (o) Risks related to the rent guarantee company
   (p) Risks associated with investment in overseas real estate, etc.

iii. Risks related to SHR's related parties and structure
   (a) Risks related to dependence on Sekisui House Group and conflicts of interest
   (b) Risks related to dependence on SHR's directors, SHA's personnel and other related parties of SHR, and conflicts of interest
   (c) Risks related to changes in SHR's investment policy, etc.
   (d) Risk of bankruptcy or deregistration of SHR
   (e) Risks related to security deposits
iv. Risks associated with real estate and beneficiary interests in trust
   (a) Risks related to defects and flaws in real estate and boundaries
   (b) Risks related to liability for the sale of real estate
   (c) Risks related to lease contracts
   (d) Risk of damage, loss and deterioration of buildings due to disasters, etc.
   (e) Risks related to owner's liability, repair and maintenance costs, etc. for real estate
   (f) Risks related to administrative laws, ordinances, etc. concerning real estate
   (g) Risks related to enactment or change of laws and regulations
   (h) Risk of being affected by the seller's bankruptcy, etc.
   (i) Risks related to master lease company
   (j) Risks related to subleasing
   (k) Risks related to the status of use of real estate by tenants, etc.
   (l) Risk associated with co-owned properties
   (m) Risks related to unit-owned buildings
   (n) Risk associated with leasehold land rights
   (o) Risk associated with leased land
   (p) Risk associated with leased buildings
   (q) Risks related to development properties
   (r) Risks related to forward commitment, etc.
   (s) Risks related to hazardous substances
   (t) Risks inherent in holding real estate in the form of trust beneficiary interests
   (u) Risks related to quasi co-ownership of trust beneficiary interests in real estate trusts, etc.
   (v) Risks related to liquidity of real estate at the time of sale
   (w) Risks related to climate change
   (x) Risks related to competition for acquiring properties and tenants
   (y) Risk of increase in real estate operating expenses
v. Risks related to taxation
   (a) Risks related to conduit requirements
   (b) Risk that the conduit requirement will not be satisfied after the fact due to a tax audit or other corrective action
   (c) Risks related to general tax system changes
vi. Other
   (a) Risk associated with expert reports, etc.
   (b) Risks related to the application of impairment accounting
   (c) Risk of not being able to acquire the property to be acquired
   (d) Risks related to investment in silent partnership equity interests
   (e) Risks related to investment in preferred securities
   (f) Risk of a decrease in profit distribution due to a reversal of allowance for temporary difference adjustments
   (g) Risks related to ESG assessment

i. Risks related to the merchantability of SHR's investment units or bonds

(a) Risks related to fluctuations in market price of SHR's investment units or bonds

SHR is a closed-end investment corporation that does not provide refunds upon request from unitholders; therefore, the means by which unitholders may redeem their investment units are limited to sales to third parties.

The market price of SHR's investment units or bonds is affected by the balance of supply and demand on the stock exchange, etc., and if a large volume of sales occur within a certain period of time, the price may fall significantly. In addition, market prices fluctuate under the influence of interest rate conditions, economic conditions, real estate market conditions and various other factors surrounding the market.

The market price of SHR's investment units and bonds may also fall in the event of a recommendation for administrative action or administrative action by the supervisory authorities against SHR or SHA, or another investment corporation or another asset management company.

If the market price of SHR's investment units or bonds declines, unitholders or investment corporation bondholders may not be able to sell the investment units or bonds at or above the price at which they acquired them, and as a result, may suffer a loss.

(b) Risks related to transactions in the market for SHR's investment units

SHR's investment units are listed on the Tokyo Stock Exchange but will be delisted in the event of a decrease in the total amount of assets of SHR, a decrease in the trading volume of investment units, or in any other case that violates the delisting criteria for listed real estate investment trust securities as stipulated in the Securities Listing Regulations established by the Tokyo Stock Exchange.

In the event of delisting of SHR's investment units, unitholders may be forced to transfer their investment units at a price considerably lower than the net asset value of SHR or the transfer of the investment units itself may become virtually impossible, and unitholders may suffer losses, as they have no other means of redemption than to transfer their investment units on a relative basis.

(c) Risks related to cash distributions

Although SHR intends to make cash distributions to unitholders in accordance with the distribution policy described in "2. Investment Policy (3) Distribution Policy" of the Securities Report (currently only available in Japanese), the existence of distributions and the amount thereof are not guaranteed under any circumstances. Profit and losses for the period may fluctuate depending on factors such as the leasing status of the real estate to be acquired by SHR and the underlying asset of the real estate-backed asset (in this "(1) Risk Factors" section, the following is collectively referred to as "real estate"), gains or losses on sales, impairment losses or disposal losses associated with reconstruction, etc., which may result in an increase or decrease in distributions to unitholders.

(d) Risks related to fluctuations in income and expenditures

SHR's income depends primarily on rental income from real estate related assets to be acquired by SHR and the underlying real estate. Such rental revenues may decrease significantly due to a decline in the occupancy rate of the properties, etc. In addition, there is a possibility that rents may be reduced due to discussions with lessees or requests from lessees, etc., or that the rents may not be revised upward as per the contract. (Please refer to "iv. Risks associated with real estate and beneficiary interests in trust (c) Risks related to lease contracts" below for the risks concerning such rent income.)

On the other hand, in addition to a decrease in income, the return of security deposits to departing tenants, expenses for large-scale repairs, etc., large capital expenditures, expenses for real estate acquisitions, etc., and other expenditures related to real estate may increase depending on circumstances, which may cause a decrease in cash flow.

In addition, there are expenses related to real estate-related assets, such as depreciation, public taxes and public charges, insurance premiums, management association fees, utilities, property management fees, cleaning and sanitation fees, security guard fees, facility management fees, and other building management fees, maintenance and repair fees, land and building lease fees, and tenant attraction fees (brokerage fees, advertising fees, etc.). The amount of such expenses may increase depending on circumstances.

Thus, income may decrease, and expenses may increase, and if both or either of these events occur, the amount of distributions to unitholders may decrease, the market price of SHR's investment units may fall, or principal or interest payments on SHR's investment bonds may be delayed or insolvent.

(e) Risk of dilution of value per units upon issuance of new investment units

SHR raises funds as necessary to conduct its business, but if such fundraising is conducted through the issuance of additional investment units, the ratio of investment units held by existing unitholders to the total number of investment units issued by SHR may be diluted.

In addition, if additional investment units are issued during the period, the additional investment units will receive the same amount of cash distributions as existing unitholders hold, regardless of the investment unit holding period for that period, which may affect the amount of distributions to existing unitholders. Furthermore, if additional units are issued in the future, the net asset value per unit may decrease or the supply and demand balance of investment units in the market may be adversely affected, which may in turn adversely affect the price of investment units.

(f) Risk that rights of the unitholder are not necessarily the same as those of the shareholder

Unitholders of SHR may participate in the decision-making of SHR on certain important matters and exercise certain rights against SHR through the General Meeting of Unitholders, but such rights are not necessarily the same as the rights of shareholders in a stock company.

For example, a general meeting of unitholders is not necessarily convened every fiscal period, since the financial statements, etc. of SHR, including financial statements for cash distributions, are finalized only with the approval of the Board of Directors (Article 131, Paragraph 2 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended)) (the "Investment Trust Act") and do not require approval by a general meeting of unitholders. In addition, if a unitholder does not attend a general meeting of unitholders and does not exercise his/her voting rights, said unitholder shall be deemed to approve the proposals submitted to the meeting (in the case where multiple proposals are submitted, if there are proposals with conflicting purposes among them, none of said proposals shall be included) (Article 93, Paragraph 1 of the Investment Trust Act and Article 17, Paragraph 1 of the Articles of Incorporation). Furthermore, SHR has entrusted SHA and other third parties with operations related to asset management and other services. These factors may prevent unitholders from exercising effective control over operations and other tasks related to the management of assets.

(g) Risk related to redemption and interest payment of investment bonds

There is a risk that principal or interest payments on SHR's investment bonds may be delayed or insolvent due to deterioration in the credit condition of SHR or for other reasons.

(h) Risks related to the legal, taxation and other institutional treatment of an investment corporation

There is a possibility that the legal, taxation, or other institutional treatment or interpretation of investment corporations may be substantially changed, or that new laws may be enacted, which may necessitate changes to the current operational policy, operation style, etc. of SHR. As a result, there is a possibility that the survival, earnings, etc. of SHR may be adversely affected.

ii. Risks related to SHR's operational policy

(a) Risk of not being able to acquire properties as expected based on sponsor support agreements, etc.

SHR and SHA have concluded sponsor support agreements or agreements concerning preferential negotiating rights etc. with Sekisui House, Ltd. ("Sekisui House") and Sekisui House Real Estate, Ltd. ("Sekisui House Real Estate") (for sponsor support agreements and agreements concerning preferential negotiating rights etc., please refer to "Part II Detailed Information on Investment Corporation 3. Management and Operation 1 Outline of Asset Management, etc. (5) Others (iv) Procedures for Renewal, etc. of Agreements with Related Parties (g) Parent company/sponsor of the Asset Management Company: Sekisui House" and "(h) Pipeline Support Companies: Sekisui House Real Estate" of the Securities Report (currently only available in Japanese)). However, there is a possibility that Sekisui House and the Sekisui House Real Estate may not be able to sufficiently acquire or provide information that meets the investment criteria of SHR. In addition, Sekisui House and the Sekisui House Real Estate are not obligated to sell the real estate to SHR at a price that SHR desires. In other words, the sponsor support agreement and the agreements concerning preferential negotiating rights etc. do not always ensure that SHR will be able to acquire real estate that SHR deems appropriate at an appropriate price.

Therefore, SHR may not be able to build a portfolio of assets that it deems optimal for improving yields and stabilizing earnings, etc.

(b) Risk of inability to acquire or dispose of real estate

Since real estate is generally not substitutable due to the highly individual nature of each property and has low liquidity, it may not be possible to acquire or dispose of the desired property at the desired time. In addition, it is not always possible for SHR to acquire the properties SHR intended to acquire. Even if acquisition is possible, there is a possibility that transactions cannot be conducted at the desired price, time, or other conditions from the viewpoint of investment profitability. Furthermore, even if SHR disposes of real estate after acquiring it, there is a possibility that it may not be able to conduct the transaction at the price, time, or under other conditions that it wishes from the viewpoint of investment profitability. In addition, among real estate, real estate operated by operators (so-called operational assets) such as hotels, student dormitories, corporate housing, senior assets(Note), and data centers, which are investment targets of SHR, are special in terms of location, use, and structure compared to other types of real estate, and both sellers and buyers tend to be limited. Therefore, it is necessary to keep in mind that the liquidity of these assets is even lower than other types of real estate. In particular, when the tenant of a hotel is an operator with a global brand, the hotel tenant generally tends to shy away from transferring the property to a competing operator. Therefore, the hotel lease agreement may stipulate restrictions such as requiring the consent of the hotel tenant with respect to the transfer of the hotel to a third party, including a competing operator, and such restrictions may make it impossible to transfer the hotel to the party, price, timing, or other conditions that SHR wishes to use.

As a result of the above, SHR may not be able to build a portfolio of assets that it considers optimal for improving yields and stabilizing earnings, etc. and may not be able to reconfigure its portfolio in a timely manner.

(Note) “Senior assets” refers to serviced housing for the elderly, paid nursing homes and adult day care centers.

(c) Risks related to fundraising through the issuance of new investment units, borrowings and bonds

The possibility of and conditions for the issuance of new investment units, borrowing of funds, and the issuance of corporate bonds are affected by the economic creditworthiness of SHR, the interest rate situation, and other factors; thus, there is no guarantee that SHR will be able to issue new investment units, borrow funds, or issue corporate bonds at the timing and conditions desired. As a result, SHR may not be able to acquire planned assets, may be forced to sell unplanned assets, or may experience cash flow difficulties.

In addition, in the event that SHR borrows money or issues investment corporation bonds, there is a possibility that, as a condition for such borrowing of money or issuance of bonds, new financial covenants may be established that require SHR to maintain certain financial index values based on assets and liabilities, maintain a certain level of evaluation regarding the credit standing of SHR, restrict distributions of money to unitholders, require new or additional collateral to be set on the investment asset, or restrict changes to the Articles of Incorporation, etc. In addition, there is a possibility that these restrictions may hinder the operation of SHR or adversely affect the amount of cash distributions to unitholders. If these restrictions are violated, SHR may be required to pledge additional collateral or incur additional expenses, which may have a material adverse effect on the operation of SHR. Furthermore, SHR has entered into a basic agreement regarding the borrowing of funds with certain financial institutions and has entered into loan agreements based on such basic agreement. In such basic agreements, financial covenants are set to the effect that values on certain financial indices based on assets, liabilities, etc. are to be maintained within a certain range.

In the event that collateral is pledged for assets under management of SHR, even if SHR wishes to sell the assets under management for which collateral has been pledged, it may not be able to sell the assets at the desired time or at the desired price due to collateral release procedures or other circumstances. In addition, there is a possibility that additional collateral may be required to be pledged against the assets under management under certain conditions, such as when the appraisal value of the assets under management is reduced due to deterioration in profitability or other reasons, or when other borrowings are taken out. In such cases, there may be no appropriate assets to be pledged as collateral because collateral has already been pledged for other borrowings, etc. In addition, if the cash flow from the collateralized real estate decreases or its appraisal value is reduced, SHR may be forced to procure refinancing funds under undesirable terms and conditions, or SHR may be forced to dispose of the assets under management at a time and under terms and conditions not desired, which may have an adverse effect on SHR's earnings. Furthermore, there may be no suitable assets to use as collateral, which may prevent SHR from borrowing, etc. as desired.

Interest rates and other terms and conditions of borrowings and investment corporation bonds, as well as expenses related thereto, are subject to market trends at the time of borrowings and investment corporation bond issuance, as well as to the credit rating for the investment corporation bonds, etc., and, in the case of floating interest rates, to subsequent market trends. If interest rates on borrowings and investment corporation bonds rise, or if the amount of borrowings and investment corporation bonds issued by SHR increases, the interest payment amount of SHR will increase. Such an increase in interest payments may adversely affect the amount of cash distributions to unitholders, etc.

Although the maximum LTV level for total assets of SHR is targeted at 60%, it may temporarily exceed 60% due to the acquisition of assets and other factors. In addition, if the LTV value increases as a result of financing at floating interest rates, the distributable amount will be more easily affected by interest rate fluctuations, which may result in a decrease in the amount distributed to unitholders.

(d) Risks related to uneven distribution of assets under management

Although SHR manages its properties in accordance with the investment policy described in "2. Investment Policy (1) Investment Policy" of the Securities Report (currently only available in Japanese), depending on future management, there is a possibility that the location of SHR's investment assets may become unevenly distributed regionally. In the event that assets under management are unevenly distributed to certain uses or regions, earthquakes or other disasters in such regions, a decline in occupancy rates due to sluggish market conditions, or a fall in rent levels may have a significant adverse effect on SHR's earnings, etc. or survival of SHR.

In addition, although the ratio of individual assets under management to total assets is generally expected to decline as the size of total assets expands, in the event of an earthquake or other disaster, a decline in occupancy rates, a fall in rent levels, or other circumstances with respect to assets under management that account for a large percentage of total assets, there may be a significant adverse effect on SHR's earnings, etc. or survival of SHR.

(e) Risks related to tenant concentration

When the number of tenants of an investment property decreases, SHR's revenues, etc. are more likely to be affected by the departure of a specific tenant, deterioration of their solvency, or other circumstances. In other words, if a tenant with a large leased area moves out, the occupancy rate will decrease and it may be difficult to find another tenant and recover the occupancy rate, and if such a period of time is prolonged, it may have an adverse effect on SHR's earnings, etc. In addition, in cases where rental income from a particular tenant account for a high percentage of total rental income, if the tenant's ability to pay rent declines or is lost, the impact on total rental income will be significant. Although SHR will strive to appropriately diversify its investment targets and tenants in order to reduce such risks, there is no guarantee that such risks will not materialize.

(f) Risk associated with single-tenant properties

In the case of a so-called single-tenant property where a single tenant leases the entire property, if the single-tenant property has a strong individuality, etc., and the single tenant moves out and there is no equivalent successor tenant, the vacancy period until a replacement tenant moves in may be prolonged due to the limited number of possible replacement tenants. As a result, the vacancy period until a replacement tenant moves in may be prolonged, resulting in the occupancy rate of the said property to decrease significantly, or the rent level may have to be lowered to secure a replacement tenant, which may have a significant adverse impact on rent income.

(g) Risks related to dependance of income on specific properties

Although SHR will manage its properties in accordance with the investment policy described in "2. Investment Policy (1) Investment Policy" of the Securities Report (currently only available in Japanese), depending on future management, SHR's income may be heavily dependent on certain properties. In this case, in the event that any of the properties on which it relies are damaged, lost, or deteriorated for any reason, or in the event that events occur that make leasing impossible, or in the event that the financial condition and business performance of the tenants deteriorate, or in the event that these tenants vacate due to mid-term cancellation or other reasons, and if such tenants vacate and there is no equivalent successor tenant (including cases where there is no contract with a sub-tenant to succeed them), or if the rent specified in the lease agreements with such tenants is reduced due to a rent revision or other reason, this may have a significant adverse effect on the SHR's earnings, etc.

(h) Risks related to investment in residences

SHR invests in residential properties. Therefore, trends in demand for rental housing and rents due to demographic trends may have an adverse effect on SHR's earnings. In addition, in the case of residential properties, there are various factors that cause tenants to move out, vacancies are expected to occur with a certain frequency due to tenants moving out. In addition, SHR's earnings may be adversely affected by factors such as the burden of restoration costs by lessors, etc. and leasing costs for successor tenants due to vacant properties, and the inability to conclude lease agreements with successor tenants at rent levels anticipated by SHR in rent negotiations.

(i) Risks related to investment in office buildings

Although SHR invests in office buildings, rental demand for office buildings is generally influenced by economic trends, and depending on such demand trends, SHR's earnings may be adversely affected. In addition, in general, in the leasing of office buildings, the degree of adverse impact on earnings, etc. of SHR in the event that tenants described in "(g) Risks related to dependance of income on specific properties" above move out due to mid-term cancellation or other reasons tends to be greater than that of residential properties.

(j) Risks related to investment in data centers

Although SHR may invest in data centers, data centers are facilities that specialize in the installation and operation of computers, data communications, and other equipment, and future changes in Japan's telecommunications technology and other infrastructure may cause demand for data centers to decline, which may adversely affect SHR's earnings. In addition, it is difficult to change the use of a data center, and the characteristics of the property limit the number of potential tenants. Therefore, when an existing tenant moves out, the number of potential replacement tenants is limited compared to residences, office buildings, commercial facilities, etc., and the period of non-operation until a replacement tenant moves in may be prolonged, which may have an adverse effect on SHR's earnings. Furthermore, data centers are equipped with various special designs for their intended use, but if such facilities become obsolete, their competitiveness may decline, which may have an adverse effect on SHR's earnings, and large expenses may be required to renew such facilities, etc. These factors may have an adverse effect on SHR's earnings.

(k) Risks related to investment in hotels

SHR invests in hotels. Therefore, a decrease in sales or profits of hotel tenants, etc. may have a direct negative impact on the rental income of SHR. In addition, if SHR adopts a rent system with hotel tenants in which rent fluctuates in accordance with sales-based rent or certain other management indicators, a decrease in sales, etc. of hotel tenants may have an even more direct negative impact on SHR's rent income because the rent is a variable rent. And the hotel industry's performance and earnings may be adversely affected by a variety of factors, including those listed below.

- Decrease in the number of travelers affected by changes in consumer behavior due to deterioration in domestic and international business and economic conditions, disasters, severe weather, epidemics, etc.
- Decrease in the number of travelers due to political and diplomatic events and trends (including war, riots, disturbance, terrorism, etc.) and exchange rate factors
- Default on obligations incurred through credit transactions with a travel agency due to the bankruptcy of the travel agency, etc.
- Decrease in ability to attract customers due to obsolescence of owned facilities or the surrounding environment, or changes in the transportation environment
- Decrease in ability to attract customers due to closure, etc., of specific facilities in the vicinity where the ability to attract customers depends on the closure, etc., of such facilities
- Decrease in ability to attract customers due to the termination of a specific service provided in or around the facility, or a change in travelers' preference for that service, etc.
- Decrease in ability to attract customers due to competition from hotels with similar concepts
- Changes in travel needs or trends of travelers
- Failure to secure hotel tenant employees, etc., who provide services that are difficult to mechanize
- Accidents such as food poisoning caused by food and beverages provided
- Leakage of customer information due to intentional or negligent acts of hotel tenant employees, etc.
- Revocation of business permits or other licenses and authorizations based on the Hotel Business Act (Act No. 138 of 1948, including subsequent amendments) or equivalent laws and regulations of the country or region in which the hotel is located

In addition, the performance and earnings of the hotel industry fluctuate due to seasonal factors and other factors.

Furthermore, the hotel industry is strongly characterized as an equipment industry, and in some cases, hotel tenants or operators own assets, rights, etc. essential for facility operation, such as interiors, and because advanced knowledge is required for operation, when an existing hotel tenant or operator moves out, there are few hotel tenants or operators who can replace the existing tenant or operator. Therefore, the vacancy period will be prolonged until an alternative hotel tenant moves in, or an alternative operator starts operation after a new management consignment contract is concluded, resulting in a significant decrease in the occupancy rate of the real estate. In order to secure an alternative hotel tenant or operator, the rent or commission level may have to be lowered, sufficient revenue may not be realized during the transition period, or the terms of the lease or management consignment contract may become unfavorable, which may have an adverse effect on SHR's earnings, etc.

Furthermore, even if the hotel tenant or operator is replaced due to the termination of the lease agreement with the existing hotel tenant or the management contract with the existing operator, the replacement may not be smooth or may involve significant expenses, which may have an adverse effect on SHR's earnings, etc.

In addition, hotels require regular renewal investments in so-called FF&E (Note) to maintain competitiveness and large-scale investments to enhance competitiveness that go beyond simple renewal. However, if the Investment Corporation owns many of these properties and must make initial investments, repairs, renewals, etc. beyond its capacity, this could have an adverse effect on SHR's performance.

When construction is undertaken for these reasons, all or part of the facility may be closed for a considerable period of time, during which time the hotel tenant will not be able to generate revenue or will experience a decrease in revenue. In the event of major FF&E repairs and renewals that involve the closure of a facility, there may be an adverse impact on SHR's revenues in the form of reduced rents and other costs. In addition, if such initial investment, repair, or renewal of FF&E does not lead to an increase in hotel sales or profits and does not have the expected effect, it may have an adverse effect on SHR's earnings, etc.

(Note) "FF&E" stands for Furniture, Fixture & Equipment, and refers to assets necessary for hotel operations, such as furniture, fixtures, fittings, decorative items, and kitchen equipment. In principle, FF&E are depreciable assets.

In addition, in the case of hotels, it is often difficult for operators to make major changes to the business type due to the special nature of the structure according to the use, and in addition, when profitability declines due to changes in economic trends and consumption patterns, they may be forced to withdraw or downsize their operations, and in such cases, SHR’s earnings, etc. may be adversely affected.

(l) Risks related to investment in commercial facilities

Although SHR invests in commercial properties, in the case of commercial properties, it is often difficult to significantly change the business type of tenants due to their location and building structure. If the business type of tenants of investment real estate is biased toward a particular business type, such as a general supermarket or department store, there is a possibility that the business risk associated with the tenant's business type may have a significant negative impact on SHR's earnings, such as losing competitiveness as a retailer due to changes in consumption patterns. In addition, if SHR adopts a sales-based rent with a tenant, the rent is a variable rent, and therefore, a decrease in sales by the tenant may have a direct negative impact on SHR's rent income.

(m) Risks related to investment in senior assets

SHR invests in senior assets (including investments as part of residences, etc.). However, in the management of senior assets, know-how related to unique operations, etc. is required to provide the services required by tenants as operators, and the management of such assets is strongly dependent on the business execution capabilities of not only the PM company but also the operator. Therefore, with respect to operators, there are risks similar to those described in "(n) Risks related to the PM company" below. In addition, the operation of senior assets requires such unique know-how, and the degree of risk may be greater than that of other types of properties because the substitutability of operators is limited in terms of business laws and regulations. Senior assets may have different characteristics from other general types of rental housing in terms of floor plans, ancillary facilities, their location, and use restrictions under the Building Standards Act. Therefore, when a tenant moves out in the future, the vacancy period may be prolonged until a replacement tenant moves in, or the property may not be able to be converted to general rental housing or other uses, or when SHR tries to sell the property, the buyer may be limited due to its restricted use and the property may not be disposed of, or it may not be disposed of at the assumed price. Furthermore, as many of the tenants of senior assets are elderly, it may not be easy from a humanitarian standpoint to immediately cancel the contract and evict the tenants, for example, in the event of insufficient or delayed payment of compensation from the tenants. In addition, in some cases, operators as tenants of senior assets (paid nursing homes) receive a certain amount of upfront payment from tenants, and if a tenant moves out within the amortization period of the upfront payment, the remaining amount will be returned to the tenant. SHR owns senior assets (paid nursing home) as part of residential properties and manages them by leasing them to operators through the master lease company, but it is not expected that SHR will assume the occupancy agreements and the obligation to refund entrance fees. Therefore, although the senior assets (paid nursing homes) will be managed by the operator, there is no guarantee that the tenant will not demand legally unacceptable measures, such as the repayment of the remaining entrance fees, not only from the operator but also from SHR, in the event that the business and financial status of the operator deteriorates.

In addition, amendments to laws, regulations, and guidelines related to senior assets, as well as revisions to long-term care insurance and other systems may affect the operation of senior assets and the competitive environment, which may affect the earnings of facilities owned by SHR and, in turn, have an adverse effect on the asset value of such facilities.

(n) Risks related to the PM company

In general, the success or failure of overall real estate management operations such as lessee management and building maintenance depends largely on the ability, experience, and knowledge of the PM company, and the management of real estate owned by SHR also depends to a considerable extent on the ability of the PM company to perform the operations to which it outsources management. In selecting a PM company, it is a precondition that the ability, experience, and knowledge of each PM company be fully considered, but there is no guarantee that the human and financial resources of the PM company will be maintained. In addition, PM companies may be entrusted with real estate management and operation services by other clients (including other real estate investment corporations) for multiple properties and may perform similar or the same type of PM services as those for SHR's investment real estate. In these cases, such PM companies may harm the distributable amount by giving priority to the interests of parties other than SHR.

Although SHR may terminate the management agreement in the event that the PM company is found to have failed to perform its duties or is found to be bankrupt, there is a risk that the PM company may be absent or dysfunctional until a successor PM company is appointed, which may temporarily worsen the management situation of the relevant investment real estate.

(o) Risks related to the rent guarantee company

SHR may introduce a rent guarantee system for delinquent rent payments by a rent guarantee company for its properties. The said guarantee system is based on a guarantee agreement between the PM company, the end-tenant, and the rent guarantee company, which is the guarantor of the end-tenant's rent obligations, etc. Under the terms of the said guarantee agreement, if an end-tenant becomes delinquent in paying rent, the PM company can request subrogation from the rent guarantee company. However, if the rent guarantee company enters bankruptcy or other legal bankruptcy proceedings, the PM company may not be able to receive subrogation payments from the rent guarantee company, or if the end tenant pays the equivalent amount of rent to the rent guarantee company, the PM company may not be able to receive subrogation payments from the rent guarantee company, which may have an adverse effect on SHR’s earnings.

(p) Risks associated with investment in overseas real estate, etc.

a. Risks related to acquisition, management and operation of overseas real estate, etc. and other risks related to the investment areas of overseas real estate, etc.

   SHR owns overseas real estate, etc. and may acquire additional overseas real estate, etc. in the future. For the time being, the investment shall be limited to residential real estate located in the United States.

   SHR believes that the management and administration of the assets in which it invests in the U.S. will be consistent with applicable local laws and regulations. However, government authorities or administrative agencies in the U.S. may impose new procedures or reinterpret on existing regulations, policies, or other permits and licenses, which may require SHR to incur additional expenditures and take additional measures to ensure compliance with such regulations and policies.

   SHA has limited experience in acquiring, managing, and operating overseas real estate, etc. As a result, SHR may face unexpected problems in acquiring, managing, or operating overseas real estate, etc. due to differences from the general handling of such matters in Japan, and may be unable to carry out acquisitions or may face problems in managing overseas real estate, etc. that it acquires.

   SHR may be exposed to risks such as government controls on investments in overseas real estate, foreign exchange restrictions, the risk of being unable to remit income from investments in overseas real estate to Japan, a deterioration in the economic situation of the countries in which the investment properties are located, changes in local political stances, fluctuations in exchange rates, problems with staffing and management of overseas businesses, the risk of being taxed in multiple jurisdictions, changes in the political and economic situation in the countries or regions in which the overseas real estate is located, and the risk of new trade restrictions or system changes. The realization of such general risks associated with international factors may adversely affect SHR’s earnings.

Furthermore, if relations between Japan and the country in which the overseas real estate, etc. is located deteriorate, there is a possibility that SHR's business in that country may be restricted or prohibited. If SHR is unable to properly manage these risks, such risks may have an adverse effect on SHR.

In addition, the deterioration of relations between Japan and other countries may have an adverse effect on the value of overseas real estate, etc. In addition, conflicts, etc. may occur in the countries in which the overseas real estate, etc. are located, causing the value of local real estate to decline, or the financial market and economic environment may deteriorate globally.

As for country risks in the U.S., while the U.S. has a long tradition of democracy and a highly stable political system based on a smooth government administration and a fair judicial system, internal political issues such as the growing disparities and division among racial and social classes are becoming increasingly complex.

Furthermore, the intensifying conflict between major political parties and the possibility of significant changes in the government's administrative policies and policy directions continue to be considered risk factors. At the same time, there are risks of persistently high inflation and prolonged monetary tightening, a resurgence of financial instability, and the onset of a credit crunch.

b. Risks related to foreign exchange accounting

SHR may engage in transactions denominated in foreign currencies in connection with its investments in overseas real estate, etc. Such transactions involve risks related to fluctuations in foreign exchange rates, and fluctuations in foreign exchange rates may have an adverse effect on the profit and loss of SHR. If the yen appreciates against foreign currencies, the yen equivalent value of foreign currency-denominated transactions related to investments in overseas real estate, etc. may decrease, which may adversely affect SHR's net income.

In addition, when assets and liabilities denominated in foreign currencies arise in connection with investments in overseas real estate, etc., some of these items are converted into yen at the foreign exchange rates prevailing at the time of closing of accounts for the purpose of preparing financial statements. These items may adversely affect SHR's net income due to exchange rate fluctuations.

c. Risk of impairment losses on overseas real estate, etc.

Similar to domestic real estate, investments in overseas real estate, etc. are subject to impairment of fixed assets and mandatory write-downs of securities. Risks associated with the application of these accounting standards are described in "vi. Other (b) Risks related to the application of impairment accounting" below. Fluctuations in foreign exchange rates may affect losses that may arise from the application of these accounting standards.

In addition, since the special purpose company that holds overseas real estate has adopted the IFRS fair value model as the valuation method for investment real estate, if the real estate appraisal report value obtained by the special purpose company each fiscal year is lower than the book value, an impairment loss will be recorded in the special purpose company's income statement, which will result in a decrease in the profits of the special purpose company, resulting in a decrease in dividend income from the special purpose company, which may have an adverse effect on distributions from SHR.

d. Risk of incurring foreign corporate tax

As SHR invests in overseas real estate, etc., it bears the corporate income tax, etc. (hereinafter referred to as "foreign corporate tax") of the local jurisdictions in which it invests. In general, foreign corporate tax borne by an investment corporation on investments in real estate, etc. outside Japan are deducted from the amount of withholding income tax on dividends, etc. paid by the investment corporation to investors (hereinafter referred to as "foreign tax credit") in accordance with the provisions of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended). However, the amount of foreign corporate tax that can be deducted is limited to the amount of such withholding income tax. Therefore, in the event that an amount of foreign corporate tax that cannot be deducted pursuant to the provision of the foreign tax credit arises, the amount of distributions to unitholders may be reduced by that amount.

iii. Risks related to SHR's related parties and structure

(a) Risks related to dependence on Sekisui House Group and conflicts of interest

As of the date of this document, Sekisui House owns all of the SHA's shares, is the company from which some of SHA's officers and employees are seconded and is the company to which SHA's part-time directors and part-time auditors serve concurrently. Sekisui House Group is also a major tenant in SHR's portfolio as of the date of this document. Furthermore, SHR and SHA have concluded sponsor support agreements or preferential negotiating rights etc. with Sekisui House and Sekisui House Real Estate and receives various types of support, including sponsor support.

In other words, SHR and SHA have a close relationship with the Sekisui House Group, and the influence of the Sekisui House Group on securing stable earnings and growth potential of SHR is quite high.

Therefore, in the event that SHR and SHA are unable to maintain the same relationship with the Sekisui House Group as of the date of this document, SHR may be adversely affected.

Furthermore, in the event that SHR and SHA, through its asset management activities or otherwise, conducts real estate sales, purchases, leases, or other transactions with the Sekisui House Group, etc., SHA may act against the interests of SHR or SHR's unitholders or investment corporation bondholders in order to benefit its shareholders and its consolidated subsidiaries and equity method affiliates of the Sekisui House Group. In order to reduce such risks, SHR and SHA have taken certain measures against conflicts of interest, such as implementing procedures based on the Rules for Transactions with Interested Parties. However, despite such measures, SHA may take actions that are contrary to the interests of SHR or the unitholders or investment corporation bondholders of SHR, in which case the unitholders or investment corporation bondholders of SHR may suffer damages. In addition, the agreements that SHR and SHA have with Sekisui House Group does not prohibit Sekisui House Group from conducting business that competes with SHR. The Sekisui House Group engages in various forms of business related to real estate, including the development, ownership, and operation of real estate, provision of PM services, and asset management of listed investment corporations. Therefore, the possibility cannot be denied that there may be situations in which SHR or SHA and Sekisui House Group may compete with respect to the acquisition, lease, operation and management, disposal, etc. of specific assets, or other conflicts of interest may arise. These conflicts of interest could have a negative impact on SHR.

(b) Risks related to dependence on SHR's directors, SHA's personnel and other related parties of SHR, and conflicts of interest

The operation of SHR is highly dependent on the personnel of SHR's directors and SHA's personnel, and the loss of these personnel could have an adverse effect on the operation of SHR.

In accordance with the Investment Trust Act, SHR entrusts the Board of Directors, consisting of all executive directors and supervisory directors, with important decision-making, asset management to SHA, asset custody to the asset custodian, and general administrative services to the general administrative agent. Although it is considered that the smooth execution of operations of SHR relies heavily on the abilities, experience, and knowledge of these persons, there is no guarantee that these persons will necessarily be able to maintain the human and financial bases, etc. necessary for the execution of their operations.

The Investment Trust Act also stipulates the duties and responsibilities of the executive directors and supervisory directors of SHR and related parties of SHR, such as the duty of care as a good manager (duty of care) or the duty to faithfully perform their duties on behalf of SHR (duty of loyalty). However, if these related parties of SHR violate the Investment Trust Act or other laws and ordinances, or fail to take the legally stipulated measures, unitholders or investment corporation bondholders may suffer damages. In addition, if these parties lose their ability to perform their duties, the survival and earnings, etc. of SHR may be adversely affected, and unitholders or investment corporation bondholders may suffer damages.

Furthermore, in the event that SHA, the asset custodian, or the general administrative agent violates the duty of care as a good manager (duty of care), the duty to faithfully perform their duties for SHR (duty of loyalty), the duty not to harm the interests of SHR in the event of a conflict of interest situation, or other obligations, or if these persons lose the ability to perform their duties, such as the human and financial foundations necessary to perform their duties, this could have an adverse effect on the survival and profits of SHR, and unitholders or investment corporation bondholders of SHR could suffer damages. In the event that SHA, the asset custodian or the general administrative agent loses its ability to perform its duties due to bankruptcy proceedings, corporate reorganization proceedings or other insolvency proceedings, etc., SHR may face difficulties in collecting its claims against them, and SHA, the asset custodian and the general administrative agent may be forced to cancel or terminate their contracts. In such cases, the day-to-day execution of operations will be affected, as SHR is obligated under the Investment Trust Act to outsource asset management, asset custody, and general administrative operations to a third party. In addition, in the event that the consignment agreement is cancelled or terminated, a new asset management company, asset custodian or general administration trustee must be selected and each of the aforementioned operations must be consigned to these parties. However, there is no guarantee that SHR will be able to select a third party with equivalent or greater capabilities and expertise as it currently has and entrust each of the above-mentioned operations and administrative tasks to such a third party at the timing and conditions desired by SHR. If such a third party cannot be selected promptly, the survival and profit-and-loss status, etc. of SHR will be adversely affected, and if an appropriate asset management company cannot be selected, SHR's investment units may be delisted.

In addition, there are PM companies, building management companies, etc., that work for SHA, SHR, or the trustees of real estate trust beneficiary interests that may become investment assets in the future. It is believed that the improvement of the profitability of SHR will largely depend on the abilities, experience, and knowledge of these companies, but there is no guarantee that these companies will be able to maintain the human and financial resources necessary to carry out their work. If these persons fail to perform their duties or otherwise breach their obligations, or if they lose the ability to perform their duties, the existence and earnings, etc. of SHR may be adversely affected.

(c) Risks related to changes in SHR’s investment policy, etc.

While approval of the General Meeting of Unitholders is required for changes to basic matters such as asset management targets and policies described in the Articles of Incorporation of SHR, more detailed investment policies, portfolio construction policies, management guidelines, etc., as determined by the Board of Directors of SHR and SHA may be changed without approval of the General Meeting of Unitholders. Therefore, there is a possibility that these may be changed without reflecting the will of SHR's unitholders.

In addition, in the event of an acquisition of investment units issued by SHR with the intention of acquiring control or otherwise, the management policy, form of operation, etc. of SHR may be changed to a policy, form, etc. not assumed by other unitholders as a result of a resolution, etc. at the General Meeting of Unitholders.

On the other hand, it may not be possible to appropriately change SHR's operational policy, operation style, etc. in response to changes in the operating environment, and in such a case, SHR's earnings, etc. may be adversely affected.

(d) Risk of bankruptcy or deregistration of SHR

SHR may be subject to bankruptcy proceedings under the Bankruptcy Act (Act No. 75 of 2004, including subsequent amendments) (hereinafter referred to as the "Bankruptcy Act"), rehabilitation proceedings under the Civil Rehabilitation Act (Act No. 225 of 1999, including subsequent amendments) (hereinafter referred to as the “Civil Rehabilitation Act”), and special liquidation proceedings under the Investment Trust Act (Article 164 of the Investment Trust Act).

SHR is registered as an investment corporation under the Investment Trust Act, but its registration may be revoked in accordance with the Investment Trust Act if certain events occur (Article 216 of the Investment Trust Act). In such a case, the listing of the investment units will be delisted, and SHR will be dissolved and

enter into liquidation proceedings.
In the event of liquidation of SHR, unitholders will only be able to recover their investment amount through distribution of the residual assets after repayment to all creditors (including redemption of investment corporation bonds). Therefore, unitholders may not be able to recover all or part of the investment amount.

(e) Risks related to security deposits
SHR may use the leasehold and security deposits by tenants of the investment assets with no or low interest as part of the funds for acquiring the investment assets. However, due to trends in the rental market, negotiations with tenants, etc., the amount of the leasehold and security deposits by tenants may be less than SHR expects, or the deposit period may be shorter than SHR expects. In such cases, SHR may have no choice but to procure the necessary funds through borrowing or other means. In addition, if SHR acquires beneficiary interests in a trust that holds real estate, SHR may be obligated to return the leasehold and security deposits as a condition for SHR's use of the leasehold and security deposits related to the real estate that is the trust property, and SHR may need to procure the funds necessary to fulfill such return obligations through borrowing or other means. As a result of these factors, the SHR's earnings may be adversely affected.

iv. Risks associated with real estate and beneficiary interests in trust
SHR's principal assets under management are real estate, etc., as described in "2. Investment Policy, (2) Investment Targets, 1) Type of Assets to be Invested" of the Securities Report (currently only available in Japanese). SHR has acquired trust beneficiary interests in real estate, etc. as described in "5. Operational Status (2) Investment Assets 5) Overview of Individual Real Estate in Held Assets" of the Securities Report (currently only available in Japanese). Owners of trust beneficiary interests in real estate and other assets backed by real estate are in a similar economic position to those who directly own the trust property or the backing property. Therefore, in principle, the real estate-related risks described below also apply to trust beneficiary interests in real estate and other assets backed by real estate.
For risks specific to beneficiary interests in trust, please refer to "(t) Risks inherent in holding real estate in the form of trust beneficiary interests" below.

(a) Risks related to defects and flaws in real estate and boundaries
Due to various reasons, such as the existence of third-party rights, defects in the construction of buildings, misappropriation or other inappropriate use of data used during construction, and the topography and composition of the land, real estate may have defects, malfunctions, non-compliance with standards, or flaws (meaning non-compliance when the type, quantity, performance, nature or quality of an object is insufficient or does not conform to the contents of a contract; the same applies hereinafter) (including hidden defects) in relation to rights, the ground and geology of the land, the structure of building piles and beams, etc., the design and construction, and the strength and function of building materials, including seismic isolation devices and vibration control devices, and such defects, malfunctions, or flaws may become apparent after acquisition. Even if there were no such defects, malfunctions, etc. at the time of acquisition by SHR, such defects, malfunctions, etc. may arise after acquisition due to the cancellation of permits or certifications for building materials, etc. Depending on the circumstances, SHR may require the previous owner to make representations and warranties on certain matters and impose liability for warranty against defects and non-compliance with the contract. However, even if SHR is able to pursue liability for damages, warranty against defects, or non-compliance with the contract on the grounds that such representations and warranties were untrue, the period and amount of such liability is usually limited to a certain extent, and such liability may be ineffective because the previous owner has dissolved or is insolvent.
In such cases, depending on the level of the defects and flaws, etc., the costs of repairing the defects and flaws, etc., rebuilding the building, and other measures required to prevent the asset value of the real estate from declining may be significant, and SHR, as the buyer of the real estate, may be forced to bear such costs, which may cause damage to the unitholders or investment corporation bondholders of SHR.
In addition, even if a transaction is conducted based on the belief of the entries in the real estate registry, the

buyer may not be able to acquire the rights to the real estate. Furthermore, the matters regarding the rights to the real estate in the real estate registry may not match the current situation. In addition, not only the matters related to rights, but also the matters related to the display of real estate in the real estate registry may not match the current situation. In such cases, as mentioned above, SHR will pursue responsibility from the seller, etc. to the extent possible under the law or contract, but there is no guarantee that this will be effective.

Furthermore, there are many real estate properties whose boundaries with surrounding real estate have not been determined, and SHR may acquire such properties even if their boundaries are not determined after considering the possibility of disputes, etc. and the impact on operations, etc. However, contrary to SHR's assumptions, disputes may arise with neighboring land, or land essential to the operation of the managed assets may be deemed to belong to the owner of the neighboring land in the process of determining the boundaries, which may have an adverse effect on SHR’s earnings, etc.

(b) Risks related to liability for the sale of real estate

When SHR sells real estate, SHR is deemed to be a real estate broker under the Real Estate Brokerage Act (Act No. 176 of 1952, as amended) Therefore, under the said Act, SHR is restricted from making special provisions in the purchase and sale contract for real estate that are disadvantageous to the buyer regarding liability for warranty against defects and liability for non-compliance with the contract, unless the other party to the sale is a real estate broker. Accordingly, when SHR sells real estate, it may be forced to bear the costs of repairing defects, rebuilding buildings, and other measures in the sold real estate, which may cause damage to the unitholders or investment corporation bondholders of SHR.

In addition, due to the complexity of the rights and obligations surrounding real estate, it is possible that the rights regarding real estate may be restricted by the rights of third parties or administrative regulations, or that it may be discovered later that the rights of third parties are infringed. As a result, this may have an adverse effect on SHR’s earnings. Furthermore, depending on the shape and use of the real estate, the existence and usage of the real estate may result in unintended infringement of the rights of third parties.

When a rental property is sold, it is interpreted that the new owner will inherit the obligation to return the deposit to the tenant, and practice usually follows this, but if the previous owner (SHR) has not obtained the tenant's consent to be relieved of the obligation, it may be interpreted that the previous owner (SHR) will continue to be liable for the obligation along with the new owner, which may result in the previous owner being liable for unexpected debts or obligations.

(c) Risks related to lease contracts

a. Risks related to the termination and renewal of lease agreements

In cases where the lessee reserves the right to terminate the lease agreement, the lease agreement may be terminated during the contract period, or the lease agreement may not be renewed at the end of the contract period, which may result in a decline in occupancy rates and a decrease in rental income from the real estate. In addition, even if there are clauses restricting the right to terminate during the contract period by including clauses prohibiting termination or penalty for termination, or clauses restricting the renewal fee, the court may reduce the amount from the specified amount or deny the effectiveness of such clauses.

If rental income, etc., decreases due to the above reasons, it may have an adverse effect on SHR’s earnings, etc., and cause damage to unitholders or investment corporation bondholders of SHR.

b. Risk of non-payment of rent

If the financial condition of the tenant deteriorates or the tenant becomes subject to bankruptcy proceedings, rehabilitation proceedings under the Civil Rehabilitation Act, or reorganization proceedings under the Corporate Reorganization Act (Act No. 154 of 2002, including subsequent amendments) (hereinafter referred to as the "Corporate Reorganization Act") or other bankruptcy proceedings (collectively referred to as "bankruptcy proceedings, etc."), the tenant may be unable to pay rent, various

expenses, and other monies owed to the landlord under the lease agreement. If the total amount of debts such as overdue rent exceeds the amount secured by the security deposit, this may cause damage to the unitholders or investment corporation bondholders of SHR.
In addition, SHR may lease properties with guarantees from a guarantor, etc., but if the financial condition of the tenant deteriorates and the financial condition of the guarantor, etc., also deteriorates, SHR may not be able to collect rent, etc. In addition, SHR may entrust a debt collection company to collect rent, etc. from tenants through direct debit. In this case, if the debt collection company's financial condition deteriorates, the debt collection company may delay or be unable to collect rent, etc. In addition, if the lessor fails to fulfill its obligations under the lease agreement, the tenant may counter this with non-payment of rent, etc., and the tenant may counter this with intentional non-payment of rent, etc., citing some fault on the lessor's part, which would have a negative impact on the income from the real estate.

c. Risks related to rent revisions
When the lease agreement with a tenant is for a relatively long period of time, it is often the case that the contents of the lease agreement, such as the rent, are to be reviewed periodically.
Therefore, there is no guarantee that the rent as of the date of this document will be maintained in the future. If the rent is reduced due to a rent revision, it may have an adverse effect on SHR's earnings and cause damage to unitholders or investment corporation bondholders of SHR. In particular, in the case of so-called single-tenant properties where a single tenant leases the entire property, if the rent is reduced due to a rent revision with the tenant, the overall income of the property will decrease, and the impact will be relatively large.
In addition, even if the lease agreement contains provisions to increase the rent periodically, it is not always possible to increase the rent as stipulated, depending on the negotiations with the tenant.

d. Risk of tenants exercising right to claim rent reduction
Unless a special clause is included in the fixed-term building lease agreement that excludes the right to claim rent reduction under Article 32 of the Act on Land and Building Leases (Law No. 90 of 1991, including subsequent amendments) (hereinafter referred to as the "Act on Land and Building Leases"), the tenant of the building may claim rent reduction under the same article. If the claim is approved, the rental income from the real estate in question may decrease, which may have an adverse effect on SHR's earnings, and may cause damage to the unitholders or investment corporation bondholders of SHR.

e. Risks related to fixed-term building lease agreements
SHR may lease investment assets to tenants under fixed-term building lease agreements. In order to enter into a fixed-term building lease agreement with a building lessee, it is necessary to satisfy the requirements set forth in Article 38 of the Act on Land and Building Leases. If such requirements are not satisfied (or are not deemed to have been satisfied), the validity of the fixed-term building lease agreement may not be recognized. As a result, the profitability of SHR may be adversely affected and the unitholders or investment corporation bondholders of SHR may suffer damages if the above-mentioned special clause for excluding the right to claim rent reduction is not recognized or if the lease agreement is renewed against the intention of SHR.

f. Risks related to variable rent
For investment assets, variable rent linked to sales or profits may be set for all or part of the rent in the lease agreement between SHR and the tenant or the lease agreement between the master lessee and the end tenant. In cases where variable rent linked to sales or profits is paid, a decrease in sales or profits may lead to a decrease in the total rent, which may have an adverse effect on SHR's earnings and cause damage to the unitholders or investment corporation bondholders of SHR.
In addition, in lease agreements where variable rent is paid, there may be cases where the lessor is unable to fully verify the accuracy of the figures such as sales that are the basis for calculating the variable rent.

As a result, the full amount of variable rent that should have been paid may not be paid, which may have an adverse effect on SHR's earnings and cause damage to the unitholders or investment corporation bondholders of SHR.

g. Risks related to renewal fees
In some areas, SHR collects renewal fees from tenants. Renewal fees are collected based on the lease agreement concluded with the tenant, but the basis for collecting renewal fees may be denied based on the interpretation of the Consumer Contract Act (Act No. 61 of 2000, including subsequent amendments), etc. In addition, there is a possibility that a request for retroactive refund of renewal fees may be made, in which case the originally planned profits may not be secured.

h. Risks related to the spread of infectious diseases
If requests for measures implemented by the government and local governments to prevent the spread of infection, including refraining from going out, are prolonged or strengthened due to the spread or prolonged duration of infectious diseases, it may disrupt the economic activities of tenants in the managed assets, leading to requests for deferral of rent payments, requests for rent reductions for a certain period of time or non-payment of rent, due to a decrease in tenants' ability to pay rent, etc., or bankruptcy of tenants, or reduction or termination of leased area due to a decrease in demand for office space due to changes in working styles such as teleworking, etc., which may have a significant adverse effect on SHR's earnings and the value of SHR’s assets.

(d) Risk of damage, loss and deterioration of buildings due to disasters, etc.
Real estate may be lost, deteriorated or damaged due to fire, earthquake, tsunami, storm, flood, lightning, tornado, war, riot, disturbance, terrorism, etc. (hereinafter referred to as "disasters, etc."), and its value may be affected. In such a case, the building may be forced to be out of operation for a certain period of time to repair the lost, deteriorated or damaged parts, which may result in a decrease in rental income or a decline in the value of the real estate, which may cause damage to unitholders or investment corporation bondholders of SHR. If insurance contracts (including contracts regarding earthquake insurance) are not concluded due to the individual circumstances of the real estate, if damages exceed the maximum amount payable under the insurance contract occur, if disasters, etc. not covered by the insurance contract occurs, or if payments by insurance companies based on the insurance contract are not made, reduced or delayed for any other reason, this may have an adverse effect on SHR's earnings and cause damage to the unitholders or investment corporation bondholders of SHR.
In addition, the possibility of an earthquake or other natural disaster, accident, etc. of the same scale or greater than the Tohoku-Pacific Ocean Earthquake that occurred on March 11, 2011, occurring in the future cannot be denied. In such a case, there is a risk that the properties owned or acquired by SHR will be lost, deteriorated or damaged, and there is a possibility that rent levels, occupancy rates or tenants' ability to repay will decrease. In addition, the economies of surrounding areas and Japan as a whole may be adversely affected, which may have an adverse effect on SHR’s earnings and the value of SHR's assets.

(e) Risks related to owner’s liability, repair and maintenance costs, etc. for real estate
In the event that the real estate, which is an investment asset, infringes on the life, body, or property of a third party, an obligation to pay damages will arise, and as a result, SHR may suffer unexpected damages. In particular, the owner of a structure on the land may be held strictly reliable under the Civil Code (Act No. 89 of 1896, including subsequent amendments) (hereinafter referred to as the “Civil Code”). In addition, some of the hotels in which SHR invests have leisure facilities such as athletics and swimming pools as part of the building or as structures on the land, so the risk of third parties, particularly the life, body, or property of guests, being infringed by parts of the building or structures on the land is higher for hotels than for other types of real estate. If an insurance contract is not concluded due to individual circumstances of the real estate, or if insurance money is not paid for an accident that occurs, SHR’s earnings, etc. may be adversely affected,

as with the above "(d) Risk of damage, loss and deterioration of buildings due to disasters, etc.".
In addition, if the real estate is lost, damaged, or deteriorated, etc., and repairs are required, large costs may be required in connection with such repairs. In addition, if such repairs are difficult or impossible, rental income from the real estate may decrease, and the price of the real estate may fall.
Furthermore, the costs required for the maintenance and management of real estate, such as repair and maintenance costs of real estate, are not fixed, and therefore the costs required for the repair and management of real estate may increase in the future due to factors such as rising interest rates, changes in tax systems, and fluctuations in economic conditions.

(f) Risks related to administrative laws, ordinances, etc. concerning real estate

When the Building Standards Act or orders or ordinances thereunder, amendments to the City Planning Act (Act No. 100 of 1968, including subsequent amendments) (hereinafter referred to as the "City Planning Act"), new legislation, expropriation, redevelopment, land readjustment and other administrative actions are enforced or applied, existing buildings (including those currently under construction) or their sites that do not comply with these provisions are generally treated as not applying the provisions (so-called existing non-conformity). However, when rebuilding such an existing non-conformity building, the current provisions apply, so it is necessary to make adjustments to comply with the current provisions, which may require additional costs, and it may be impossible to build a building of the same size as the current one, or even impossible to rebuild the building at all. Furthermore, so-called existing non-conformity is limited to the enforcement or application of new legislation or administrative actions, so if the shape of the site changes after the construction of the building, or if the permission or certification of the building materials, etc. of the building is revoked, it is necessary to make adjustments to comply with the current provisions, which may require additional costs, and it may be impossible to maintain the building of the same size as the current one.
In addition, various administrative laws and regulations related to real estate and regulations by local ordinances may apply to real estate that is an operating asset. For example, restrictions on construction, etc. within scenic areas under the City Planning Act and local government ordinances, restrictions on new construction, etc. of structures in river conservation areas under the River Act (Act No. 167 of 1964, including subsequent amendments), the obligation to conduct exploratory surveys under the Law for the Protection of Cultural Properties (Law No. 214 of 1950, including subsequent amendments), the obligation to attach housing to a certain percentage of the land, the obligation to install parking lots, the obligation to install welfare-friendly facilities, the obligation to promote greening and the obligation to install rainwater runoff control facilities, the obligation to report on greenhouse gas emissions and the obligation to limit emissions as a measure against global warming, etc. If such obligations are imposed, practical difficulties may arise when disposing of or rebuilding the real estate, or additional costs may be incurred to comply with these obligations.
Furthermore, if the area including the real estate that is an investment asset is subject to urban planning such as the construction of roads, building restrictions may be imposed on the part subject to the urban planning, the area designated as the site for buildings may decrease, and revenues may decrease. In addition, when rebuilding the real estate, it may not be possible to build a building of the same scale as the current one.

(g) Risks related to enactment or change of laws and regulations

In addition to the Soil Contamination Countermeasures Act (Act No. 53 of 2002, including subsequent amendments) (hereinafter referred to as the “Soil Contamination Countermeasures Act”), laws and regulations aimed at protecting the environment may be enacted and enforced in the future, and obligations such as investigations, removal, and compensation for damages related to air, soil, groundwater, etc. contamination of real estate may be imposed on the real estate regardless of the presence or absence of negligence.
In addition, amendments to the Fire Service Act and other related laws and regulations that affect real estate management may increase real estate management costs, and additional costs and expenses may be incurred due to the enactment, application, or amendment of laws, ordinances, etc. aimed at reducing energy and greenhouse gas emissions. In addition, rights related to real estate may be restricted or obligations may be

imposed due to amendments to the Building Standards Act and City Planning Act, new legislation, and administrative actions such as expropriation, redevelopment, and land readjustment. Such laws, regulations, administrative actions, or changes thereto, may have an adverse effect on SHR's earnings.

(h) Risk of being affected by the seller's bankruptcy, etc.

If SHR acquires real estate from a seller who is deemed or suspected to be in a substantial financial crisis, such as being in a state of insolvency, the sale of said real estate may be cancelled by the seller's creditors (cancellation of fraudulent acts). In addition, if bankruptcy proceedings are initiated against the seller after SHR acquires real estate, the sale of said real estate may be denied by the bankruptcy trustee, supervisory officer, or trustee.

Moreover, if SHR acquires real estate from another person (hereinafter referred to as the "buyer" in this (h) section) who acquired real estate from a seller, and SHR knows, at the time of acquiring said real estate, facts that could be the basis for the cancellation or denial of the sale of said real estate between the seller and the buyer as a fraudulent act, the sale between the seller and the buyer may also be denied and the effect of this may be asserted against SHR.

SHR will carefully consider all circumstances regarding the risk that the sale and purchase will be denied or cancelled by the trustee, etc., and will endeavor to avoid the risk that the sale and purchase will be denied or cancelled by the trustee, etc., to the extent practically possible, but it is difficult to completely eliminate this risk.

Furthermore, depending on the nature of the transaction, such as a transaction in which SHR acquires real estate from the seller and simultaneously leases the real estate as a lump sum to the seller (a so-called sale and leaseback transaction), there is a possibility that the sale and purchase of real estate between the seller and SHR may be deemed to be a secured transaction, and the real estate may be deemed to form part of the bankruptcy estate of the seller who is bankrupt, or to belong to the assets of the seller who is a reorganization company or rehabilitation debtor (there is a risk that it will not be deemed to be a genuine transfer).

(i) Risks related to master lease company

SHR may acquire properties in the form of a master lease in which the master lessee (sublessor) enters into a master lease agreement with SHR or the trustee and subleases the property to each sublessee.

In the case of a property in the form of a master lease, if the financial condition of the master lessee deteriorates, even if the sublessee pays rent to the master lessee, the master lessee may be unable to pay rent to SHR or the trustee due to the master lessee's creditor seizing the master lessee's rent claims against the sublessee.

In addition, SHR may collect rent by having end tenants directly transfer rent to SHR's or the trustee's account. However, if the master lessee's financial condition deteriorates after the master lessee collects rent from the end tenant due to delayed rent payment or other reasons, the master lessee may be unable to pay rent to the lessor, SHR or the trustee. In addition, if the master lessee goes bankrupt and end tenants are in arrears with their rent payments, the amount equivalent to the overdue rent may be interpreted as a bankruptcy claim against the master lessee. If such an interpretation is adopted, it may become extremely difficult to collect the amount equivalent to the overdue rent, which may have an adverse effect on the financial position of SHR.

(j) Risks related to subleasing

If a lessee (including a sublessee) is given the authority to sublease all or part of the real estate, SHR may no longer be able to select the tenants who will occupy the real estate at its own will or to evict them. In addition, if the lessee's rent is linked to the sublessee's rent to the lessee, the sublessee's credit status, etc. may have an adverse effect on SHR's earnings.

Even if a lease agreement is terminated by mutual consent or terminated due to default, if the lease agreement stipulates that the sublessor's obligation to return deposits, etc. to the sublessee will be assumed by the lessor when the lease agreement terminates, the obligation to return such deposits, etc. may be assumed by the lessor. In such cases, the funds required to return the deposits, etc. will become the lessor's burden, which may have an adverse effect on SHR's earnings.

(k) Risks related to the status of use of real estate by tenants, etc.

The use and management status of real estate by tenants may have a negative impact on the asset value of the real estate and the profits of SHR. In addition, depending on the attributes of sublessees and leasehold transferees, the tenant attributes of real estate that are investment assets may deteriorate, which may result in a decline in the rent level of the entire building. Even if the building itself meets the standards of laws, regulations, or ordinances, etc., the tenant may make modifications to the building, change the interior, or other usage conditions, etc., resulting in a violation of the Building Standards Act, Fire Service Act, or other laws, regulations, or ordinances, etc., and SHR may be required to bear the costs of improvement or suffer legal disadvantages.

In order to reduce such risks, SHR is investigating the usage status of tenants' real estate through PM companies, but there is no guarantee that such risks will not materialize.

(l) Risk associated with co-owned properties

When real estate that is an investment asset is jointly owned with a third party, there are various risks regarding its preservation, use, disposal, etc. that do not exist when the property is solely owned.

First, unless otherwise agreed between the co-owners, the management of the property in common is to be carried out by the majority of the co-owners in accordance with the value of their shares (Article 252, Paragraph 1 of the Civil Code). Therefore, if SHR does not hold a majority of the co-ownership interests, it may not be possible to reflect SHR's intentions in the management and operation of the property. In addition, since co-owners can use the entire property in proportion to their shares (Article 249, Paragraph 1 of the Civil Code), the exercise of these rights by other co-owners may prevent SHR from owning or using the property.

Furthermore, in the case of co-ownership, there is a possibility that the other co-owners may exercise their right to claim division of the entire property in common (Main clause of Article 256, Paragraph 1 of the Civil Code), and the court may order the auction of the entire property in common (Article 258, Paragraph 3 of the Civil Code). This means that there is a risk that the entire property in common will be disposed of by the exercise of the right to claim division by one co-owner, contrary to the intentions of the other co-owner.

A special agreement between co-owners not to exercise the right to request division is valid, but the special agreement will not be in effect for more than five years (Article 256, Paragraph 1, proviso of the Civil Code). Even if there is a registered non-division special agreement, if the person who made the special agreement becomes the subject of bankruptcy proceedings, the trustee, etc. may request division in order to secure the right to liquidate the property. However, a co-owner can acquire the co-owner's share of the other co-owner who has become the subject of bankruptcy proceedings for a reasonable price (Article 52 of the Bankruptcy Act, Article 48 of the Civil Rehabilitation Act, Article 60 of the Corporate Reorganization Act).

If a mortgage is established on the co-owner's share of the other co-owner, when the co-owner's property is divided, the effect of the mortgage is considered to extend to the entire property that was co-owned in proportion to the share of the co-owner (mortgagor). Therefore, even if a mortgage is not established on the co-owned interest that is the investment asset, if a mortgage is established on the co-owned interest of other co-owners, when the co-owned property is divided, there is a risk that the effect of the mortgage will extend to the investment asset after division in proportion to the share ratio of the other co-owners.

In addition, it is understood that co-owned interests can be disposed of freely in the same way as sole ownership, but in the case of co-owned real estate, by agreeing on a preferential right of purchase for the co-owned interest, the co-owner may be obligated to give the other co-owners a preferential opportunity to purchase the interest if the co-owner sells the interest to a third party.

Furthermore, when a co-owner of real estate becomes a landlord, it is generally understood that rental claims become indivisible claims and security deposit return obligations become indivisible liabilities, and the co-owner may be affected by the credit risk of the other co-owner who is the landlord.

As there are restrictions and risks as mentioned above for co-owned real estate compared to sole ownership, it may take more time and money to acquire and sell, and the depreciation factor of the price may increase.

(m) Risks related to unit-owned buildings

A unit-owned building is a building that is subject to the Act on Building Unit Ownership, etc. (Act No. 69 of 1962, including subsequent amendments) (hereinafter referred to as the "Act on Building Unit Ownership") and is composed of the exclusive area that is the subject of sole ownership, the common areas that are shared, and the building site (the same applies below). In the case of a unit-owned building, the management method is determined by the statutory management method and management regulations (if there are management regulations). When making a resolution to rebuild, etc., a majority of more than four-fifths of the unit owners and voting rights (the proportion of the floor area of the exclusive areas owned by them, unless otherwise specified in the management regulations) must pass a majority resolution to rebuild at a meeting (Article 62 of the Act on Building Unit Ownership), and there are restrictions on the management method, unlike single-ownership properties that are not subject to the Act on Building Unit Ownership.

The exclusive areas of a unit-owned building can be disposed of freely, but as with shared properties, unit owners may agree on preferential purchase rights.

There are the following risks regarding the relationship between unit-owned buildings and sites.

The right that a unit owner has on the site in order to own the exclusive area of a unit-owned building is called the land use right. In a unit-owned building, in order to maintain the integrity of the exclusive area and the land use rights, the law prohibits, in principle, the disposal of the exclusive area and the land use rights related thereto separately (Article 22 of the Act on Building Unit Ownership). However, if the land rights have not been registered, the prohibition on separate disposal cannot be asserted against a bona fide third party, and the separate disposal will be valid (Article 23 of the Act on Building Unit Ownership). In addition, if the land of a unit-owned building is divided into several parcels, and each unit owner has the ownership, leasehold, etc. of one or several parcels of land as a land use right (so-called subdivided land use right), it is possible to dispose of the land separately. If the exclusive area and the land use rights related thereto are disposed of separately in this way, there is a possibility that a unit owner without land use rights will appear.

In addition, if the land use rights are leased or of a similar right, if the land is transferred to a third party through sale, auction, etc., the unit owner may not be able to assert his/her previous land use rights against the third party.

Reflecting this relationship between unit-owned buildings and land, in the case of unit-owned buildings, it may take more time and money to acquire and sell them, and the price depreciation factors may increase.

(n) Risk associated with leasehold land rights

SHR may invest in land leaseholds (land leases and surface rights) and buildings on the leased land (hereinafter referred to as "leasehold properties"). However, leasehold properties have unique risks compared to owning both the land and the building. Unlike ownership, land leaseholds do not last forever and will naturally expire when the term expires (in the case of fixed-term land leaseholds) or will expire if the lessor refuses to renew the lease at the expiration of the term and has a legitimate reason for doing so (in the case of ordinary land leaseholds). In addition, land leaseholds may be terminated due to non-payment of rent or other reasons (furthermore, under the Act on Land Leases (Act No. 49 of 1921, including subsequent amendments) (hereinafter referred to as the "Act on Land Leases"), the deterioration of buildings on the leased land is also a statutory cause of extinction). When the lease expires, the building on the leased land must be demolished and the land returned, except in cases where the building can be purchased at market value (Article 13 of the Act on Land and Building Leases; Article 4, Paragraph 2 of the Act on Land Leases). In the case of a normal lease, it is impossible for SHR to accurately predict at the time of acquiring the property whether the above-mentioned legitimate reasons for refusing to renew the lease at the expiration of the lease will be recognized, and even if SHR has the right to request the purchase of the building, there is no guarantee that the purchase price will be higher than the price desired by SHR.

In addition, the ownership of the land for which SHR holds a lease may be resold to another party or transferred to a third party through the execution of a mortgage or other right on the land that already exists at the time the lease was established. In this case, if the requirements for third-party perfection (which include the registration of the lease or the ownership of a building registered by the lessee on the land on which the lease is held) are not met in accordance with the laws and regulations applicable to the lease, SHR may not be able to assert the leasehold rights against the new owner of the land, and may be obligated to vacate the land.

Furthermore, if the land lease is a leasehold right, the lessor's consent is required in principle to transfer the land lease. When transferring ownership of a building on leased land, the land lease for the leased land is also transferred, thus the lessor's consent is required in principle. Regarding the lessor's consent, there may be cases where a consent fee is promised to be paid in advance to the lessor, or even if not promised, the lessor may request a consent fee as a condition of consent due to customary practice (note that the lessor is not automatically entitled to request a consent fee under the law).

In addition, due to the lessor's deterioration in financial resources or bankruptcy, etc., the leasehold and security deposit paid to the lessor may not be returned in full or in part. It is common that no collateral or guarantee is provided for the right to request the return of the deposit and security money from the lessor.

When a local government entity specified in the Local Autonomy Act (Act No. 67 of 1947, including subsequent amendments) (hereinafter referred to as the "Local Autonomy Act") lends ordinary property, the head of the ordinary local government entity may terminate the contract even during the lease period if the local government entity needs to use the property for official or public purposes (Article 238-5, Paragraph 4 of the Local Autonomy Act). Therefore, when SHR leases land or other assets from a local government entity, the contract may be terminated even if there is no violation of the contract, which may have an adverse effect on the SHR's asset management and earnings.

As for leasehold rights and buildings built on leased land, compared to when the land and building are owned together, there are restrictions and risks as described above, so that acquisition and sale may take more time and cost, and the depreciation factor may increase.

(o) Risk associated with leased land

SHR may acquire land that a third party leases and owns a building on, so-called leased land properties.

Leased land properties have their own unique risks. When the land lease is terminated, the lessee may request that SHR purchase the building at market value (Article 13 of the Act on Land and Building Leases; Article 4 of the Act on Land Leases). If the lessee requests that the building be purchased at market value, there is no guarantee that the purchase price will be lower than the price desired by SHR.

In addition, when the land lease is a leasehold right, the lessee must, in principle, obtain the consent of SHR before transferring the land lease. However, if the court grants permission in lieu of consent (Article 19 of the Act on Land and Building Leases), or if the land lease agreement has consented to the transfer of the land lease to a certain extent in advance, the land lease may be transferred without the consent of SHR, which may result in the land lease being transferred to a person not desired by SHR, such as one with a problematic financial condition, which may result in damage to the unitholders or investment corporation bondholders of SHR.

Furthermore, if the payment of land rent under the land lease agreement falls behind and the total amount of overdue rent exceeds the amount secured by the leasehold and security deposit, etc., this could cause damage to unitholders or investment corporation bondholders of SHR. In addition, if the land rent is revised or the lessee requests a reduction in the land rent under Article 11 of the Act on Land and Building Leases, rental income from the underlying land could decrease, causing damage to unitholders or investment corporation bondholders of SHR.

(p) Risk associated with leased buildings

SHR may lease buildings (including co-ownership interests, unit-ownership interests, etc.) from a third party or have a trustee lease them, and then sublease the leased portion to a tenant directly or through the trustee together with the building it owns, or the leased portion alone.

In this case, as in the case of "(n) Risk associated with leasehold land rights" above, there is a possibility that the leasehold and security deposit to the building lessor will not be returned in whole or in part due to the building lessor's deterioration in financial strength or bankruptcy, etc. In addition, under the Civil Code, if a lease agreement that SHR has concluded with a third party directly or through a trustee is terminated for any reason, in principle, the sublease agreement between SHR or the trustee and the tenant will also be terminated. This means that the tenant may file a claim for damages based on the termination of the sublease agreement.

(q) Risks related to development properties

In accordance with the investment policy set out in the Articles of Incorporation, SHR may enter into a purchase and sale agreement in advance at the development stage in order to acquire properties after completion. In such cases, unlike cases where a purchase and sale agreement are entered into and the property is acquired after it has already been completed, there is a possibility that development may be delayed, changed or cancelled for various reasons, and the property may not be handed over as per the purchase and sale agreement. As a result, the revenues, etc. from the developed property may be significantly lower than SHR's expectations, and there is a possibility that SHR may not be able to obtain revenues, etc. at the scheduled time or at all, or that SHR may bear or suffer unanticipated expenses, damages or losses, which may have an adverse effect on the SHR's earnings, etc.

(r) Risks related to forward commitment, etc.

a. Risk of acquiring real estate or trust beneficiary interests in real estate

SHR may make forward commitments, etc. when acquiring real estate or trust beneficiary interests in real estate. If a real estate purchase and sale contract is terminated due to the buyer's circumstances, the buyer will be liable for damages due to default. In addition, regardless of proving the amount of damages, etc., it is not uncommon for an agreement to be made that a penalty fee of a certain percentage of the purchase price of real estate or trust beneficiary interests in real estate will occur. In the case of forward commitments, etc., there is a certain period from the conclusion of the contract to settlement and delivery of the property, thus if SHR is forced to terminate the purchase and sale contract, such as if SHR is unable to raise funds to acquire real estate due to changes in the market environment during that period, etc., the payment of penalty fees, etc. may have a negative impact on the financial situation of SHR.

b. Risk of selling real estate or trust beneficiary interests in real estate

SHR may make forward commitments, etc. when selling real estate or trust beneficiary interests in real estate. If a real estate purchase and sale contract is terminated due to the seller's circumstances, the seller will be liable for damages for default. In addition, regardless of proving the amount of damages, etc., it is not uncommon for an agreement to be made that a penalty fee of a certain percentage of the sale price of the real estate or the trust beneficiary interest in the real estate will occur. In the case of a forward commitment, etc., there is a certain period from the conclusion of the contract to the settlement and delivery of the property, thus if SHR is forced to terminate the purchase and sale contract, such as if it becomes operationally inappropriate for SHR to sell the property under the contracted conditions due to changes in the market environment during that period, etc., the payment of the penalty fee, etc. may have a negative impact on the financial position of SHR.

(s) Risks related to hazardous substances

In the event that SHR acquires land, leasehold rights or surface rights to land, or trust beneficiary interests that holds these, there is a possibility that hazardous substances such as industrial waste may be buried on the land, and if such hazardous substances are buried, the price of the land may fall. In addition, if it becomes necessary to replace or clean the soil to remove such hazardous substances, unexpected costs and time may be required. If a third party suffers damage from such hazardous substances, SHR may be obligated to compensate for such damage, either directly or indirectly through the trustee. In addition, according to the Soil Contamination Countermeasures Act, the owner, manager or occupant of the land may be ordered by the prefectural governor to investigate and report on the status of soil contamination by lead, arsenic, trichloroethylene or other specified hazardous substances, and if there is or is a risk of damage to human health due to contamination of the soil by specified hazardous substances, the prefectural governor may order the necessary measures to prevent such damage, such as removal of the contamination.

In this case, SHR may incur a large burden, and SHR may not always be able to receive reimbursement for the expenses it is forced to incur from the person who caused the expense or from other parties.

In addition, if SHR acquires a building or a trust beneficiary interest in a building, and if the building materials in the building contain or may contain asbestos or other hazardous substances, or if PCBs are stored in the building, the price of the building may fall. In addition, if it becomes necessary to completely or partially replace the building materials to remove such hazardous substances, or if it becomes necessary to dispose of or store the hazardous substances, unexpected costs and time may be required for this. In addition, if a third party suffers damage due to such hazardous substances, SHR may be obligated to compensate for the damage directly or indirectly through the trustee.

(t) Risks inherent in holding real estate in the form of trust beneficiary interests

SHR may acquire real estate in the form of a trust beneficiary interest.

The trustee owns and manages the real estate, real estate leasehold, surface rights or easements as trust assets for the benefit of the trust beneficiaries, and all economic profits and losses ultimately belong to the trust beneficiaries. Therefore, by holding the trust beneficiary interest, SHR, through the trustee, will bear substantially the same risks as if the investment assets were real estate.

When attempting to transfer the trust beneficiary interest under the trust agreement, the consent of the trustee is usually required. Furthermore, the beneficiary interest of a trust that entrusts real estate, real estate leasehold, surface rights or easements does not have the characteristics of a security under private law unless it is a beneficiary certificate of a beneficiary certificate issuing trust, so it will be transferred in the same manner as a claim transfer and will not have the liquidity of a security.

Under the Trust Act (Act No. 62 of 1922, including subsequent amendments, but prior to amendment by the Act on the Development of Related Laws Associated with the Enforcement of the Trust Act (Act No. 109 of 2006)) and the Trust Act (Act No. 108 of 2006, including subsequent amendments), if a trustee becomes subject to bankruptcy or other proceedings, in order to assert against a third party such as a bankruptcy trustee that the real estate that is the subject of the trust beneficial interest is trust property, a trust registration must be made for the entrusted real estate. If such registration is not made, SHR may not be able to assert against a third party that the real estate is the subject of the trust beneficial interest.

In addition, if the trustee of the trust property disposes of the real estate that is the trust property in a manner contrary to the purpose of the trust or incurs some kind of debt using the real estate that is the trust property as collateral, SHR, which holds the trust beneficial interest in the real estate, may suffer unforeseen losses.

Furthermore, if, under the trust agreement, the initial settlor is required to bear a certain degree of liability for warranty against defects or liability for non-compliance with the contract to the trustee of the trust assets in respect of defects or imperfections in the trust real estate that already existed at the time the trust was established, and the trustee of the trust assets does not or is unable to appropriately pursue such liability for warranty against defects or liability for non-compliance with the contract, this could result in SHR suffering unforeseen losses and causing damage to the unitholders or investment corporation bondholders of SHR.

(u) Risks related to quasi co-ownership of trust beneficiary interests in real estate trusts, etc.

When the trust beneficiary rights in a real estate trust, which are investment assets, are quasi co-owned with a third party, there are various risks regarding the preservation, use, disposal, etc. that do not exist when the trust beneficiary rights are solely owned.

First, unless otherwise specified between the quasi co-owners, the management of the quasi co-ownership rights is to be carried out by the majority of the quasi co-owners in accordance with the price of their interests (Articles 264 and 252, Paragraph 1 of the Civil Code). Therefore, if SHR does not hold a majority of the quasi co-ownership interests, it may not be possible to reflect SHR's intentions in the trust beneficiary's instructions regarding the management and operation of the real estate. In addition, since the quasi co-owner can use the entire quasi co-ownership rights in proportion to the proportion of his/her interest (Articles 264 and 249, Paragraph 1 of the Civil Code), the exercise of these rights by other quasi co-owners may prevent SHR from holding or using the trust beneficiary rights.

In addition, it is generally understood that quasi co-ownership interests can be disposed of freely in the same way as sole ownership interests; however, when trust beneficiary interests are quasi co-owned, the quasi co-owners may be obligated to give the other quasi co-owners a preferential opportunity to purchase the quasi co-ownership interests if the quasi co-owner sells the quasi co-ownership interest to a third party by agreeing on a preferential right to purchase the quasi co-ownership interests.

Furthermore, it is generally understood that the claim for trust subsidies that a quasi co-owner of a real estate trust beneficiary interest has against the real estate trustee is an indivisible claim, and the obligation to pay trust expenses, etc. borne by the real estate trustee is an indivisible debt, and quasi co-owners may be affected by the credit risk of the other quasi co-owners.

In addition, between quasi co-owners, agreements or the like may be concluded, in which the quasi co-owners agree on preferential purchase rights for the quasi co-ownership interests, the parties may agree on the occurrence of a right to demand sale or a right to demand purchase in certain cases, or the method of decision-making for the trust beneficiaries may be agreed upon (the contents of such agreements vary). However, if such agreements are made, there is a possibility that the disposal of the quasi co-ownership interests held by SHR may be restricted, and SHR may be forced to acquire or transfer the quasi co-ownership interests at an unexpected time, or SHR may not be able to reflect its intentions in the trust beneficiaries' instructions regarding the management and operation of the real estate, regardless of the ownership ratio.

When trust beneficiary interests in a real estate trust are quasi co-owned with a third party, there are restrictions and risks such as those mentioned above compared to sole ownership, and therefore acquisition and sale may take more time and cost and the factors that cause depreciation in price may increase.

(v) Risks related to liquidity of real estate at the time of sale

Due to the presence of the above risks, real estate has relatively low liquidity compared to securities, etc., which have well-developed secondary markets. In addition, depending on the state of the above risks, liquidity may become particularly low. As a result, depending on the impact of the economic environment and real estate supply and demand, SHR may not be able to sell the real estate it wishes to sell at the desired time and under the desired conditions, or may incur unanticipated expenses or losses in relation to such real estate. As a result of these factors, SHR's earnings, etc. may be adversely affected.

(w) Risks related to climate change

In recent years, the impact of climate change due to the progression of global warming has become a major social issue both in Japan and overseas. As a result, certain real estate owners may be required by law or ordinance to report on greenhouse gas emissions and limit emissions as a measure against global warming. As these systems are designed or expanded, they may be forced to bear the burden of implementing building renovations to reduce emissions and acquiring emission rights or renewable energy credits, etc. In addition, if flood damage caused by typhoons or heavy rains makes it difficult to continue the rental business, this may have an adverse effect on the profits, etc. of SHR due to a decrease in rental income from real estate, an increase in repair costs, and a decrease in asset value. Furthermore, when sea levels rise due to an increase in average temperatures, properties located in areas with low elevations may be flooded and their asset values may be damaged. In addition, in order to maximize unitholder value from a medium- to long-term perspective, in response to climate change, SHR may make investments, etc. that are not expected to improve the profitability of SHR in the short term. Such investments, etc. may also have an adverse effect on SHR's earnings, etc.

(x) Risks related to competition for acquiring properties and tenants

Real estate investment by real estate investment trusts and other funds, large and small investors, etc. may

become more active, and competition for property acquisition may intensify. Under such circumstances, it may be impossible to realize an asset portfolio that SHR considers optimal for improving yields and stabilizing earnings, etc., due to circumstances such as being unable to acquire properties under desired conditions.
In addition, since real estate-related assets are exposed to competition with other real estate to acquire tenants, changes in competitive conditions such as new construction, renovation, and reductions in asking rents of competing real estate may force SHR to bear large expenses for rent reductions and interior construction work before occupancy, etc., and lower occupancy rates, which may have a negative impact on SHR's earnings.

(y) Risk of increase in real estate operating expenses
Expenses related to real estate operation may increase due to inflation in the economy in general, rising labor costs and utility costs, rising expenses related to real estate management and building management or management costs such as procuring equipment, the burden of repair costs due to the deterioration of buildings over time, increases in various insurance premiums, increases in public taxes and public charges, and other reasons. On the other hand, there is no guarantee that income from real estate-related assets will increase accordingly.

v. Risks related to taxation

(a) Risks related to conduit requirements

Under the tax law, Article 67-15, Paragraph 1 of the Special Taxation Measures Act (hereinafter referred to as the "Special Provisions for Taxation on Investment Corporations"), investment corporations that meet certain requirements (conduit requirements) are permitted to include dividends, etc. in the investment corporation's losses in order to eliminate double taxation between the investment corporation and its unitholders.

| Major conduit requirements for investment corporations | |
|---|---|
| Dividend payment requirements | The amount of dividends, etc., is more than 90% of the amount of distributable profits (if a monetary distribution is made that exceeds the profits, the amount of monetary distribution must be more than 90% of the distributable amount) |
| Over 50% domestic offering requirements | The Articles of Incorporation state or record that the ratio of the issue price of investment units offered domestically to the total issue price of investment units exceeds 50% |
| Lender requirements | Must not borrow from outside parties other than institutional investors (meaning those prescribed in Article 67-15, Paragraph 1, Item 1, (b) of the Special Taxation Measures Act. The same applies to the following "Ownership requirements") |
| Ownership requirements | At the end of the fiscal year, the issued investment units must be owned by 50 or more people or must be owned only by institutional investors |
| Non-family company requirements | At the end of the fiscal year, the company must not be a family company in which one of the investors or special related parties holds more than 50% of the total issued investment units or total voting rights |
| Prohibition of corporate control requirements | Does not hold 50% or more of the shares or investments of other corporations (including silent partnership equity interests, excluding shares or investments of certain overseas subsidiaries) |

Although SHR intends to endeavor to satisfy the conduit requirements, it is possible that it will be unable to satisfy the conduit requirements in the future due to the factors described below or other factors. If SHR is unable to satisfy the conduit requirements, it may become unable to include dividends, etc. as deductible expenses, which may result in an increase in SHR’s tax burden and thus have an adverse effect on the amount of distributions, etc. to unitholders.

a. Risk of inconsistency between accounting and tax treatments

If there is an inconsistency between accounting and tax treatments (tax inconsistency), expenses and losses incurred in accounting cannot be deducted in whole or in part as expenses for tax purposes, and therefore tax burdens such as corporate tax will be incurred and accounting profits, which are the source of dividends, will decrease. Since the amount of distributable profits (or distributable amount) in the dividend payment requirements is calculated based on accounting profit before tax, if a large amount of corporate tax is incurred, it may be difficult to pay dividends of more than 90% of the distributable profits (or cash distributions of more than 90% of the distributable amount), making it difficult to meet the dividend payment requirements. In addition, the 2015 tax reform made it possible to reduce the amount of corporate tax by distributing the temporary difference adjustment reserve for tax and accounting discrepancies excluding entertainment expenses, donations, and corporate tax, etc. However, if a large amount of additional tax (previous year corporate tax, etc.) occurs due to a correction or other procedure for SHR's past fiscal years, the corporate tax, etc. is not subject to the temporary difference adjustment reserve, so there remains a risk that the dividend payment requirements cannot be met.

b. Risk that the amount of dividends, etc. recorded from earnings will be limited due to insufficient funds
If SHR is unable to raise funds flexibly due to restrictions on lenders, etc. based on lender requirements or delays in the disposal of assets, SHR may not be able to meet the dividend payment requirements due to a lack of funds that can serve as the source of dividends.

c. Risks related to lender requirements
If SHR is forced to borrow from non-institutional investors for some reason, or if the loan receivables related to SHR's existing borrowings are transferred to non-institutional investors, or if the definition of borrowings under this requirement is unclear under tax law and deposits from tenants, etc. are interpreted as borrowings, the lender requirements may not be met.

d. Risk that SHR is unable to control changes in investors
If SHR's investment units are distributed on the market, the ownership requirements or non-family company requirements may not be met in a manner beyond SHR's control.

(b) Risk that the conduit requirement will not be satisfied after the fact due to a tax audit or other corrective action
It is possible that a tax audit will be conducted against SHR, and that a tax reassessment will be made due to differences in opinion with the tax authorities regarding the treatment of the conduit requirements, which may result in the conduit requirements for past years no longer being met retroactively. In such a case, SHR's ability to deduct dividends, etc. paid by SHR in past years as expenses will be denied, which may result in an increase in tax burden and may have an adverse effect on the amount of distributions to unitholders, etc.

(c) Risks related to general tax system changes
If the tax system relating to real estate, real estate trust beneficiary interests and other assets of SHR or the tax system relating to SHR or the interpretation, operation or treatment of such tax system were to change, the burden of public taxes and public charges would increase, which could have an adverse effect on SHR’s earnings. In addition, if the tax system relating to the dividends of profits related to investment units, return of capital, transfer, etc. or the interpretation, operation or treatment of such tax system were to change, the amount of net income received by investors from holding or selling the SHR’s investment units could decrease, or investors could incur burdens in terms of tax procedures such as filing tax returns.

vi. Other

(a) Risk associated with expert reports, etc.

When acquiring real estate or after acquiring real estate, SHR or SHA may request a real estate appraiser to appraise the said real estate and obtain an appraisal report. However, the appraisal value of the real estate is merely an opinion of the valuation at the time of analysis based on the analysis of each real estate appraiser, etc., and does not necessarily match the objectively fair real estate price. Even if the same property is appraised or surveyed, the appraisal value may differ depending on the real estate appraiser, etc., the valuation method, or the method or timing of the survey. In addition, the results of such appraisals do not guarantee or promise the possibility of buying or selling at the appraisal value in the present or future. Furthermore, the appraisal NOI (defined in "5. Operating Status (2) Investment Assets ③ Other Major Investment Assets (C) Overview of Real Estate Appraisal" of the Securities Report (currently only available in Japanese)), which is the net operating income stated in the real estate appraisal report, is an amount calculated by each real estate appraiser, etc. based on their analysis when calculating the appraisal value of the real estate, and is merely an opinion at the time of analysis, and does not necessarily match the amount of actual net operating income obtained from the said property. In particular, if the rental terms of the real estate change upon acquisition, such as when a fixed-rent master lease agreement is concluded upon acquisition by SHR, the appraisal NOI does not necessarily match the net operating income based on the changed rental terms. The actual amount of net operating income that SHR receives from the real estate is affected by the rental terms, occupancy status, expense expenditure status, and other factors of the real estate, and therefore does not necessarily match the appraisal NOI. The appraisal NOI does not guarantee or promise the amount of net operating income of SHR after acquiring the real estate.

In addition, when acquiring real estate or after acquiring it, SHR or SHA may obtain the engineering report, earthquake risk diagnosis report, and a third-party report on the validity of the structural calculation report of the said real estate. However, the engineering report, earthquake risk diagnosis report, and the third-party report on the validity of the structural calculation report is a report of a building evaluation expert who has reviewed the design documents, etc., visually inspected the current state, or interviewed the facility manager, etc., to identify current or future building defects, extraction of necessary repair or renewal work, and calculation of the estimated costs and replacement price required for them, as well as the seismic performance and risk of loss due to earthquakes, etc., and does not guarantee or promise that the real estate is free of defects, flaws, etc.

Furthermore, the PML calculated for real estate is also merely a forecast based on the analysis of individual experts. PML is expressed as the ratio of the expected restoration cost of damage to the replacement cost, but if an earthquake occurs in the future, it may be necessary to pay restoration costs that are greater than expected.

In addition, when acquiring real estate, SHR or SHA may obtain market reports on the structure as well as the facilities and operation status, etc. of the said real estate (in the case of hotels and senior assets) the operator, content and system of the service provision thereof. The market analysis, statistical information, and expected rent levels, as well as the analysis of the operator's capabilities, performance, financial condition, creditworthiness, and future performance forecasts, etc. (in the case of hotels and senior assets), presented by a third party in the market report are merely opinions on the evaluation at the time of the analysis based on the analysis of each research company, and do not necessarily match the objectively appropriate area characteristics, demand and supply, market positioning, market trends, the level and content of the service provided by the operator (in the case of hotels and senior assets), as well as the facilities and operation status, etc. Even if research and analysis are conducted on the same property, the contents of the market analysis, statistical information, and expected rent levels, as well as the analysis of the operator's capabilities, performance, financial condition, creditworthiness, and future performance forecasts, etc. (in the case of hotels and senior assets), may differ depending on the research company and the time or method of the research. In addition, the expected rent level does not guarantee or promise the possibility of leasing at that rent level now or in the future, and there is no guarantee that the contents and analysis of the report (including the analysis of the operator's capabilities, performance, financial condition, creditworthiness and future performance forecasts (in the case of hotels and senior assets)) are accurate. Furthermore, hotels, which are one of the main investment targets of SHR, generally have strong characteristics for each facility, and it may be difficult to obtain information on similar properties that are the basis for market analysis and expected rent levels. In addition, hotel market analysis and expected rent levels are influenced by trends in the tourism industry, and it may be difficult for research companies to appropriately predict trends in the tourism industry. Furthermore, the level and content of services provided by operators, as well as facilities and operating status, may vary significantly during peak and off-season periods. Therefore, compared to other real estate, etc., the market analysis, statistical information, and expected rent levels as well as the analysis of the operator's capabilities, performance, financial position, creditworthiness, and future performance forecasts in the market reports for hotels may be generalized. In some cases, it may not be possible to obtain market reports at all, and the information gathering by SHR using market reports may be limited.

(b) Risks related to the application of impairment accounting

Accounting standards for the impairment of fixed assets ("Opinion on the establishment of accounting standards for the impairment of fixed assets" (Accounting Standards Board of Japan, August 9, 2002) and "Guidelines for the implementation of accounting standards for the impairment of fixed assets" (Business Accounting Standards Implementation Guidelines No. 6, October 31, 2003, including subsequent amendments)) are applied.

"Impairment accounting" refers to an accounting treatment for commercial real estate, mainly land and buildings, where the book value is reduced to reflect the possibility of recovery under certain conditions when there is no prospect of recovering the investment amount due to a decline in profitability. The application of "impairment accounting" may result in accounting impairment losses depending on the trend in land prices and the profitability of managed assets, which may have a negative impact on the profit and loss of SHR.

Furthermore, when investing in overseas real estate, SHR may acquire a majority of the total number or total value of issued shares or investments in overseas real estate-holding corporations, and such shares or investments are treated as subsidiary or affiliated company shares and other securities, and their valuation and accounting treatment is subject to the Accounting Standards for Financial Instruments (Corporate Accounting Standards No. 10, Business Accounting Council, January 22, 1999). When the actual value of such subsidiary or affiliated company shares and other securities without a market price falls significantly due to a deterioration in the financial condition of the issuing company, they must be appropriately devalued and the valuation difference must be treated as a loss for the current period (impairment treatment), and if impairment treatment is performed, it may have an adverse effect on the profit and loss of SHR.

(c) Risk of not being able to acquire the property to be acquired

In the event of a significant change in the economic environment or in the event that the conditions precedent or preconditions set out in the purchase and sale agreement are not met due to circumstances of the other party, etc., it may not be possible to acquire the asset to be acquired. In addition, if additional borrowing to be used as part of the acquisition funds is not feasible, it may not be possible to acquire the asset to be acquired. In such a case, SHR plans to make efforts to acquire a replacement asset, but there is no guarantee that it will be able to acquire a property suitable for investment in a short period of time as a replacement asset for the asset to be acquired, and if it is unable to manage funds effectively, it may cause damage to unitholders.

(d) Risks related to investment in silent partnership equity interests

Based on its Articles of Incorporation, SHR may invest in silent partnership equity interests related to real estate. The silent partnerships in which SHR invests SHR's capital in real estate, but if the income from the real estate deteriorates, if the value of the real estate declines, or if unintended taxation occurs, the dividends and redemption amount of principal that SHR receives as a silent partner may decrease, and as a result, SHR may suffer losses such as being unable to recover the amount invested in the operator. In addition, the transfer of silent partnership equity interests may be prohibited or restricted by contract, or there may be no established secondary market, and therefore the liquidity of the shares is low, and even if SHR intends to transfer them, it may be difficult to transfer them at the appropriate time and price, or it may be forced to sell them at a price lower than expected.

(e) Risks related to investment in preferred securities

Pursuant to its Articles of Incorporation, SHR may invest in preferred equity securities issued by special purpose companies based on the Asset Securitization Act. Such special purpose companies in which SHR has an interest invest in real estate, and if the income from the real estate deteriorates or the value of the real estate declines, or if unintended taxation occurs in the conduit special purpose company, SHR may suffer a decrease in the dividends and residual assets distributed from the preferred equity securities, which may result in SHR being unable to recover the amount invested in the special purpose company. In addition, preferred equity securities may be contractually prohibited or restricted from transfer between investors in the special purpose company, and since there is no established secondary market, their liquidity is low, and even if SHR intends to transfer them, it may be difficult to transfer them at the appropriate time and price, or it may be forced to sell them at a lower price than planned.

(f) Risk of a decrease in profit distribution due to a reversal of allowance for temporary difference adjustments

If SHR posts an allowance of temporary difference adjustment in the net assets section of the balance sheet, the posting of the allowance of temporary difference adjustment is made to adjust the timing of the recognition of profit and loss in accounting and tax, and therefore the allowance is required when the tax account discrepancy caused by the posting of the reserve is resolved. Since the reversal is made with SHR's profits, the distributable amount may decrease as a result of unappropriated retained earnings for the current period being used for the reversal of the allowance of temporary difference adjustments.

(g) Risks related to ESG assessment

SHR has been given ESG ratings by multiple ESG rating agencies for its ESG initiatives and has been selected as a constituent for some ESG-related indexes based on these ratings. In recent years, ESG ratings have become increasingly important in light of growing interest in ESG both domestically and internationally. However, ESG assessments and ESG ratings may change due to factors attributable to SHR or SHA, such as a deterioration in SHR's business or financial situation, changes in management policies, and changes in the composition of managed assets, as well as factors beyond the control of SHR or SHA, such as the content of various regulations applicable to SHR, reviews of evaluation standards by ESG rating agencies, and changes in social conventions. If SHR's ESG rating is lowered or no longer assigned, or SHR is removed from an ESG-related index due to these reasons, the market price of SHR’s investment units or investment bonds may fall. In addition, if financial institutions, investors and others view SHR's ESG initiatives as insufficient, it may be difficult for SHR to raise funds, which may have an adverse effect on SHR's operations.

(2) Investment Risk Management System

In light of the various risks described above, SHR and SHA, through the following governance, strive to have established an effective risk management system for SHR's asset management and ensure that such management system is as effective as possible.

SHR and SHA have a policy of striving to avoid the occurrence of risks related to investments in SHR's investment units and bonds and to minimize losses in the event that risks occur, to the greatest extent possible, but there is no guarantee that these measures will ultimately be sufficiently successful.

(i) Structure of SHR

SHR was established under the Investment Trusts Act and is managed by the Board of Directors Meeting consisting of one executive director and three supervisory directors. The executive director holds board meetings at least once every three months and deliberate on matters to be approved as stipulated by laws and regulations or the internal regulations of SHR and SHA. SHR uses this procedure to check whether there is a risk of conflict of interest in transactions with stakeholders of SHA, and strives to manage risks related to conflicts of interest, etc. In addition, the executive director reports on the operation of SHR and their own business execution status at the Board of Directors Meeting. Through this reporting, the supervisory directors obtain accurate information and maintain a system to monitor the business execution status of the executive director.

Under the asset management contract, SHR has the right to receive various reports from SHA and the right to investigate the books, records and other materials of SHA. By exercising this right, SHR maintains a system to monitor the business execution status of SHA.

(ii) Structure of SHA

In its risk management regulations, SHA prescribes methods of risk management, monitoring of the risk management status, and methods of response in the event of the occurrence of unforeseen serious risk-related events. Each organization of SHA manages risks related to its business division through the following methods, etc. In addition, the Compliance Officer and Internal Control Promotion Department of SHA, as the department responsible for risk management of SHA, supervise and monitor risk management in each organization and report to SHA's Board of Directors. For details of the division of duties in each organization of SHA, please refer to "1 Overview of the Investment Corporation (4) Structure of the Investment Corporation ② Investment Corporation Management Structure (B) Division of Duties of Each Organization of the Asset Management Company" of the Securities Report (currently only available in Japanese).

(a) In its management guidelines, SHA prescribes the portfolio construction policy, portfolio operation and management policy, screening criteria for investments, and due diligence standards for properties. In addition, SHA has established internal regulations regarding the selection of subcontractors such as PM companies and tenants and strives to manage risks related to real estate and real estate trust beneficiary interests by complying with such management guidelines and other internal regulations.

(b) SHA has established internal regulations such as rules for the division of duties, rules for authority, committee rules, and compliance rules to clarify the decision-making process for important matters related to the asset management of SHR and monitor the compliance status of the decision-making process and has established objective business procedures for each of the investigation, acquisition, operation and management of real estate and other operations to manage risks.

(c) SHA's Internal Control Promotion Department monitors the compliance status of laws and regulations and is in charge of thorough compliance, such as the elimination of conflict-of-interest transactions, insider trading, and transactions with anti-social forces. In addition, the Compliance Officer prepares various rules related to compliance, including a compliance manual, in accordance with the provisions of laws and regulations, and strives to raise awareness of compliance among SHA's officers and employees through in-house training, etc.

(d) SHA's internal audits are conducted by the Compliance Officer and the Internal Control Promotion Department, which are independent from other organizations and departments, and the Compliance Officer is responsible for them. However, internal audits of the Compliance Officer and the Internal Control Promotion Department are conducted by the General Affairs Department, with the Representative Director and President as the person responsible. The system for internal audits is established based on the Internal Audit Regulations, etc., and the results of internal audits and the status of improvements to any issues raised are reported to the Board of Directors by the Compliance Officer as appropriate. By establishing such a system, internal audits are conducted with objectivity, and the Board of Directors monitors the status of business execution of each organization within SHA.

(e) Properties related to forward commitments, etc. are not recorded on the balance sheet of SHR until settlement, and are off-balance sheet, but the risk of price fluctuations of the property during that period belongs to SHR. For this reason, when making forward commitments, etc., SHA manages the risk based on the rules regarding forward commitments, etc., which stipulate the upper limit of penalty fees, the upper limit of the acquisition price of the property, and the upper limit of the period from the conclusion of the contract to the delivery of the property.

(f) Regarding SHR's fund-raising activities such as the issuance of new investment units, borrowing, and issuance of investment corporation bonds, a system has been established to obtain approval from SHR's Board of Directors in accordance with the provisions of laws, regulations, etc. In addition, SHA has established guidelines for the management of surplus funds and rules for the handling of derivative transactions and risk management, and manages the financial risks of SHR.

(g) SHA has established emergency response regulations and a business continuity plan to establish a system for SHR's assets and SHA's BCP in the event of a disaster or other emergency.

(h) SHA has established internal regulations regarding information assets, such as information management regulations, document regulations, information system management regulations, a personal information protection policy and personal information protection regulations, to establish a system for managing information assets such as important information for the execution of SHA's business and personal information related to all stakeholders, including officers and employees of SHA and unitholders and tenants of SHR, as well as a system for monitoring the status of information management at business contractors.