

Translation of Japanese Original

May 19, 2016

To All Concerned Parties

REIT Issuer:
Kenedix Retail REIT Corporation
Representative: Akihiro Asano, Executive Director
(Securities Code: 3453)

Asset Manager:
Kenedix Real Estate Fund Management, Inc.
Representative: Ryosuke Homma, CEO and President
Contact: Koichiro Nobata, General Manager of
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Notice Concerning Construction of a New Building (Property Expansion) at Unicus Ina

Kenedix Retail REIT Corporation (“KRR”) announced today that Kenedix Real Estate Fund Management, Inc. (“the Asset Manager”), the asset manager for KRR, has decided to build a new building (“the New Building”) through construction (property expansion) at Unicus Ina (“the Property”), an existing property of KRR.

1. Outline of the acquisition through construction

(1) Property name:	Unicus Ina (T-5) Restaurant Building
(2) Location:	2-188-1 Inamachi-gakuen, Kitaadachi-gun, Saitama
(3) Type of specified asset:	Real estate ^(Note 1)
(4) Use:	Retail
(5) Zoning:	Category II residential area
(6) Expected gross floor area:	Approximately 394.38 m ² ^(Note 2)
(7) Expected structure/no. of floors:	Wooden / 1 above-ground floor
(8) Expected construction costs:	Approximately 107.6 million yen ^(Note 3)
(9) Construction funds:	Cash on hand ^(Note 4)
(10) Construction company:	To be decided
(11) Schedule:	Please refer to Item 4. Schedule for details
(12) Assumed increase in NOI ^(Note 5) :	Approximately 12.9 million yen
(13) Assumed NOI yield: (assumed increase in NOI to construction costs)	Approximately 12.0%
(14) Expected completion date: (acquisition date)	Mid-January 2017

Note:

1. KRR will acquire the New Building as real estate and additionally entrust the building to the trustee on the same date.
2. Gross floor area shown is based on the plan.
3. Expected construction cost is assumed based on current construction plan. Construction plan and other matters related to the New Building construction may change and accordingly construction cost may increase or decrease.
4. The settlement method and date for the construction are to be decided.
5. Assumed increase in NOI is calculated as follows: assumed operating revenue minus assumed operating expenses (excluding depreciation) of the New Building; however, special items for the first year are excluded, and maintenance expenses, taxes and dues, insurance premium, etc. are included in expenses; as for operating revenue, since the lease contract with the tenant includes a step-up clause for the rent, average rent for the lease term is used for the calculation. Assumed operating revenue is calculated based on the expected construction plan. The rent should be determined by the formula defined by anticipated lease contract with P&D Consulting Co., Ltd. (planned) after construction cost is fixed. Since there is no lease noncontract regarding the New Building as of today, the assumed rent may increase or decrease. Furthermore, construction costs may change as indicated in note3 above. Accordingly, assumed NOI may increase or decrease, and assumed increase in NOI is not guaranteed.

2. Reason for construction

Through this construction, KRR seeks to enhance profitability and grow its asset value by property expansion on the underutilized space^(Note 1) of existing properties, which is one of KRR's internal growth strategies. Internal growth is expected as (i) assumed NOI yield of the New Building (assumed increase in NOI of the Property to the construction costs) is approximately 12.0%, and (ii) appraisal value of Unicus Ina with the New Building valued by Japan Real Estate Institute, a real estate appraiser, is 4,660 million yen^(Note 2), which is 240 million yen higher than the appraisal value of Unicus Ina before the construction as of March 31, 2016 (4,420 million yen). Unicus Ina is a neighborhood shopping center housing a supermarket (grocery), drug store, 100 yen shop (a dollar shop), clothing store and software rental shop. The population in the surrounding areas has continued to increase on the back of continued development and sale of residential properties. A restaurant is anticipated to be the tenant for the New Building, which is expected to have synergistic effect among other tenants by attracting new customers to come.

Note:

1. "Underutilized space" is floor-area ratio as determined according to the Building Standards Act, etc. multiplied by the land area minus the actual gross floor area of building to land area.
2. This appraisal value is from real estate investigation report, which has been prepared in accordance with MLIT's Guideline regarding Scope of Work and Reporting when appraisers conduct assignments under certain conditions.

3. Transactions with related parties

Not applicable

4. Expected Schedule

May 19, 2016	Execution of contract for the transfer of status and rights in relation to the construction of the New Building
Mid-September 2016	Construction starts
Mid-January 2017	Completion and transfer of the New Building

5. Future outlook

The impact of the construction of the New Building on the financial results is minimal, and there are no changes to the forecasts of financial results of KRR published in the "Financial Report for the Fiscal Period Ended March 31, 2016 (REIT) (October 1, 2015 to March 31, 2016)" dated May 19, 2016.

6. Summary of real estate investigation report
(The numbers are in yen unless otherwise noted)

Summary of real estate investigation report		
Appraisal value	4,660,000,000	
Appraiser	Japan Real Estate Institute	
Date of appraisal	March 31, 2016	
Item	Content	Basis
Income capitalization approach value	4,660,000,000	Calculated using DCF method, with result checked by using direct-capitalizaion method
Value based on direct capitalization method	4,690,000,000	Calculated by dividing the stabilized NCF by the cap rate
(1) Gross operating revenue	277,581,000	
Effective gross operating revenue	277,581,000	Calculated based on both current and anticipated lease contracts
Loss from vacancy, etc.	0	None on assumption due to single-lease property
(2) Operating expenses	28,918,000	
Maintenance expenses	292,000	Calculated based on assumption related to bank transfer fee and pest extermination
Utility expenses	0	None on assumption that the expenses are borne by lessees
Repair expenses	3,079,000	Calculated based on the average annual repair expenses described in the engineering report
PM fees	3,600,000	Calculated based on current PM fees for the property
Tenant recruit expenses, etc.	0	None on assumption due to single-lease property
Taxes and dues	21,265,000	Calculated based on the actual taxes and dues for 2015
Insurance premium	682,000	Calculated based on actual insurance premiums
Other expenses	0	None
(3) Net operating income (NOI= (1)-(2))	248,663,000	
(4) Profit from security deposits	2,833,000	Calculated with assumed investment yield of 2.0%
(5) Capital expenditure	7,541,000	Calculated based on the average annual capital expenditure described in the engineering report
(6) Net cash flow (NCF=(3)+(4)-(5))	243,955,000	
(7) Cap rate	5.2%	Calculated based on overall evaluation of the location, building specifications and contract terms of the property
Value based on DCF method	4,620,000,000	
Discount rate	4.9%	Calculated based on transactions of comparable properties and by taking into account the uniqueness of real estate properties as financial assets in terms of investment yield
Terminal cap rate	5.4%	Calculated by taking into account the characteristics of the NCF used for the capitalization rate and future uncertainties/ liquidity/ marketability of the property
Value based on cost method	4,150,000,000	
Ratio of land	60.1%	
Ratio of building	39.9%	
Adjustments in estimated value and considerations taken into account in determining appraisal value	The subject property is conveniently located within a walking distance of "Hanuki" Station on Saitama New Urban Transit Ina Line and set back from Ageo-Kuki Prefectural Road; the building is relatively well maintained/managed. The property is a NSC drawing the largest number of customers in the region, with "Yaoko," a high-quality tenant, as the anchor tenant. Since tenant turnover risk should be minimal as the rent falls within the affordable range, stable income should be expected. All these factors were taken into account in determining the appraisal value.	

Attached materials

Reference material 1. Perspective drawings of the New Building

Reference material 2. Property photograph and map of Unicus Ina

Note: KRR's website address: <http://www.krr-reit.com/en/>

This notice is the English translation of the Japanese announcement on May 19, 2016. However, no assurance or warranties are given for the completeness or accuracy of this English translation.

Reference material 1. Perspective drawings of the New Building
Perspective drawings



Perspective drawings may differ from the actual building to be completed

Reference material 2. Property photograph and map of Unicus Ina

