

Translation of Japanese Original

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To All Concerned Parties

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(Securities Code: 3453)

Asset Manager:  
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Revisions to Asset Management Internal Rules  
(Retail REIT Department Asset Management Guidelines)

Kenedix Retail REIT Corporation (“KRR”) announced today that Kenedix Real Estate Fund Management, Inc. (“the Asset Manager”), which is the asset manager for KRR, has decided to revise the internal asset management rules of the Retail REIT Department (“the Asset Management Guidelines”). The change will take effect upon approval of the changes to the Articles of Incorporation<sup>(note)</sup> by the Second General Meeting of Unitholders to be held on June 15, 2018 (“the General Meeting”).

Note: Regarding the details of the changes to the Articles of Incorporation, please refer to the press release “Notice Concerning Changes to the Articles of Incorporation and Appointment of Directors” announced today. The same shall apply hereafter.

1. Reason for revisions to the Asset Management Guidelines

Purchasing food and other household necessities has always been a vital part of people’s lives, and retail facilities are often the most convenient location where people can buy these goods. Upon its listing in February 2015, KRR became the first J-REIT with investments focused on neighborhood, community and other shopping centers for daily needs, and KRR has been growing steadily for over three years since its IPO.

Currently, backed by advances in information technology, orders placed via the Internet and delivered to homes from logistics facilities have been increasing, and e-commerce has grown to account for a certain share of consumer spending. KRR believes that grocery anchored shopping centers for daily needs, its core investment targets, are highly resistant to e-commerce. One reason is the strong demand among consumers to purchase groceries after directly checking their freshness. These shopping centers for daily needs also have service-oriented tenants (or experienced consumption tenants), where consumers go to shop services they need. In addition, these shopping centers are in very convenient locations, which makes consumers easy to shop. However, the growth of e-commerce is adding logistics facilities to retail facilities as channels and functions for providing consumers with merchandise.

The growth of e-commerce has also created the problems at logistics companies such as the increasing number of second delivery attempts when a recipient is not home and issues involving personnel. How to handle the last stage of a delivery, which is between the final shipment location and the final destination, often referred to as “the last mile,” is another issue for logistics companies. In addition, the problem of higher expenses for delivery companies and recipients alike caused by these issues remains.

In this changing retail environment, KRR believes that logistics activities are becoming more diverse. Merchandises that people order using the Internet are shipped not only from large logistics facilities near major highways but also from stores located near residential areas. Furthermore, people sometimes use delivery boxes at railway stations or retail facilities as well as stores to pick up goods they ordered through

the Internet, and there is diversification in how people receive goods they order. An increasing number of stores in KRR's properties are handling e-commerce deliveries, particularly for fresh food. Some of these retail facilities are adding delivery functions for e-commerce. Another trend is the acquisition of conventional retailers by Internet retail companies or the formation of alliances between these companies. KRR believes that the growth of e-commerce is creating an increasing need for e-commerce delivery functions at shopping centers for daily needs that are close to consumption areas.

From the standpoint of supplying merchandise to consumers, similarities in functions of retail and logistics facilities are becoming more evident.

Under recognition of the above conditions, KRR views logistics facilities as an extension of retail facilities that are channels and functions for providing consumers with merchandise, reflecting current and probable future shifts in the consumer buying behavior. In addition, KRR anticipates more growth in demand for shopping centers for daily needs close to consumption areas and logistics facilities, providing goods involving diversifying merchandise distribution channels and "the last mile" delivery. Consequently, KRR decided to revise the Asset Management Guidelines to add logistics facilities, which supplement retail facilities in providing goods, to its investment targets, in addition to shopping centers for daily needs, a place that supplies household necessities for which demand is likely to remain stable. This revision will require the approval at the General Meeting.

2. Primary characteristics of logistics facilities to be added to the scope of investment targets

The primary characteristics<sup>(note)</sup> of logistics facilities that KRR will include in the scope of investment targets are listed below. Logistics facilities with the characteristics listed below are defined by KRR as "retail distribution centers," which differ from the large logistics facilities located near major highways. Because many tenants occupying retail distribution centers and shopping centers for daily needs belong to the same business sectors, capturing synergies between investments in these two asset categories is one objective of adding logistics facilities to KRR's investment criteria.

- Logistics facilities for delivering goods to end consumers
- Logistics facilities for delivering goods to consumption areas such as stores
- Relatively small-scale logistics facilities
- Logistics facilities where the companies supplying goods are in the same business sector as KRR's retail tenants, where business performance is stable, and where facilities are under long-term leases

Note: This is a list of the primary characteristics of logistics facilities that KRR plans to acquire. However, KRR may acquire logistics facilities that do not have some or any of these characteristics.

3. Kenedix Group activities involving logistics facilities

The Kenedix Group manages a broad spectrum of properties as an independent real estate management company. Kenedix, Inc. is one of the sponsors of Japan Logistics Fund, Inc. ("JLF"), along with Mitsui & Co., Ltd. and Sumitomo Mitsui Trust Bank, Limited, playing an important role in the listing of JLF in 2005 as the first logistics J-REIT. By selling properties developed by Kenedix to JLF and providing other support, the Kenedix Group has made a big contribution to JLF's external growth. Furthermore, the management and employees of the Asset Manager includes individuals who have experience managing logistics facilities at the Kenedix Group. Akihiro Asano, the Asset Manager's COO and Head of Retail REIT Department, was an outside director of Mitsui & Co., Logistics Partners Ltd. ("MLP"), which is the asset manager for JLF, from January 2009 until July 2014. In addition, Shinya Kaneko, Head of Asset Investment Division, Retail REIT Department of the Asset Manager, was assigned to work at MLP at one time.

As described above, the Kenedix Group has many years of experience involving logistics facilities and this expertise has been passed on to the management and employees of the Asset Manager who are responsible for managing the assets of KRR. In addition, support for logistics facilities will be added to the sponsor

support contract with Kenedix, Inc. As a result, KRR will benefit from the resources and expertise of the Kenedix Group concerning the development and operation of logistics facilities.

4. Effective date of revisions

June 15, 2018 (scheduled)

The change will take effect upon approval of the changes to the Articles of Incorporation at the General Meeting.

5. Details of the revisions to the Asset Management Guidelines and KRR's portfolio strategies

The details of the revisions to the Asset Management Guidelines and KRR's portfolio strategies are as follows. (Revisions are underlined.)

(1) Target property types

KRR seeks to build a portfolio capable of producing stable cash flows and with the potential for income growth. The portfolio is to consist of retail properties at 80% or more and shopping centers for daily needs at 80% or more by acquisition price as well. KRR makes investments in carefully selected shopping centers for daily needs that are expected to improve portfolio quality and achieve income growth after examining the characteristics and competitive position of each property. KRR views logistics facilities as an extension of shopping centers that are channels and functions for providing consumers with merchandise, reflecting current and probable future shifts in the consumer buying behavior. In addition, KRR anticipates more growth in demand for shopping centers for daily needs close to consumption areas and logistics facilities providing goods involving diversifying merchandise distribution channels and "the last mile" delivery. Consequently, KRR invests in carefully selected logistics facilities, which supplement retail facilities in providing goods, in addition to shopping centers for daily needs, a place that supplies household necessities for which demand is likely to remain stable. Furthermore, KRR also seeks investment opportunities in the underlying land by categorizing leased land based on how buildings on the land are used. For example, when a building on the land has characteristics of a shopping center for daily needs, the land is classified as a shopping center for daily needs. When making decisions for investments in leased land, KRR takes into consideration the terms of the lease, characteristics of tenants, asset value of the land, the percentage of leased land in its portfolio.

(2) Target geographic areas

KRR plans to make substantial investments chiefly in Japan's four major metropolitan areas <sup>(note 1)</sup> due to the relative stability of the populations of these areas. In addition to the four major metropolitan areas, carefully selected investments will be made in ordinance-designated cities and core cities <sup>(note 2)</sup> for retail facilities and in ordinance-designated cities and core cities or in locations near expressways or major public highways and easy access to a major metropolitan area or an ordinance-designated city and core city for logistics facilities. By making these investments, KRR aims to avoid having too many investments in any single region and to build a portfolio that can achieve income growth and adapt with flexibility to shifts in market conditions.

Note 1: "Four major metropolitan areas" refers to the Tokyo metropolitan area, the Greater Osaka area, the Greater Nagoya area and the Fukuoka area. References to "Tokyo metropolitan area" are to the area that consists of Tokyo, Kanagawa, Saitama and Chiba prefectures. References to the "Greater Osaka area" are to the area that consists of Osaka, Kyoto, Hyogo, Nara and Shiga prefectures. References to the "Greater Nagoya area" are to the area that consists of Aichi, Gifu and Mie prefectures. References to the "Fukuoka area" are to the area that consists of Fukuoka prefecture. The same shall apply hereafter.

Note 2: "Ordinance-designated cities, core cities and other areas" refers to cities designated by government ordinance, which have populations of 500,000 persons or more, core cities, which have populations of 200,000 persons or more, and to other areas with a population fewer than 200,000 persons, which we believe will have suitable customer traffic from surrounding areas. The same shall apply hereafter.

(3) Target portfolio distribution

a. Property types

KRR invests primarily in retail properties. Investments are selected by taking into consideration a property's liquidity in its real estate market, the size of the local real estate market, the availability of information about the local real estate market, the proper diversification of types of properties and tenant categories in KRR's portfolio, and other factors.

The targets for the percentages of investments for different property types are as follows.

Property type		Target pct. (note)
Neighborhood, community and other shopping centers for daily needs	Retail properties selling products and services that cater to the day-to-day needs of local area customers, and that are within residential areas, adjacent to major roads and in other convenient locations	80% or more
Other retail properties	RSC (Regional Shopping Center) and other retail properties other than shopping centers for daily needs	20% or less
<u>Logistics facilities</u>	-	<u>20% or less</u>

Note: The percentages of investments are calculated by dividing the acquisition cost of all properties in a category by the acquisition cost of all properties in the portfolio.

KRR does not invest in offices, residential properties, golf courses and adult entertainment shops as defined in Article 2, Paragraph 5 of the Act on Control and Improvement of Amusement Business, etc. (Act No. 122 of 1948 including subsequent amendments).

b. Geographic areas

KRR plans to make substantial investments chiefly in Japan's four major metropolitan areas due to the relative stability of the populations of these areas. In addition, carefully selected investments will be made in ordinance-designated cities and core cities for retail facilities and in ordinance-designated cities and core cities or in locations near expressways or major public highways and easy access to a major metropolitan area or an ordinance-designated city and core city for logistics facilities. By making these investments, KRR aims to avoid having too many investments in any single region and to build a portfolio that can achieve income growth and adapt with flexibility to shifts in market conditions.

KRR has no targets for the percentages of investments in specific geographic areas.

Reporting and notifications with regard to the revisions will be conducted in accordance with the Financial Instruments and Exchange Act, the Real Estate Brokerage Act, and other applicable laws and regulations.

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

*This notice is the English translation of the Japanese announcement on May 17, 2018. However, no assurance or warranties are given for the completeness or accuracy of this English translation.*