Securities Code 3487

CRE Logistics REIT

Financial Results Briefing for the 6th Period

Ended June 2019 (January 1, 2019 to June 30, 2019)

LogiSquare Kasukabe
The property is in close vicinity to National Route 16 and National Route 4 (Koshigaya-Kasukabe Bypass), which are major highways, and is located around 1.8 km from the Showa Interchange, where these two highways intersect. The property is expected to become even more convenient with the planned extension of National Route 4 (Higashi-Saitama Road).

August 15, 2019
CRE REIT Advisers, Inc.

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GLOSSARY

Term	Definition
Appraisal value	The appraisal value or an investigated value as of the end of the period is stated based on the Certificate of Incorporation of the Investment Corporation and the Regulation on Accountings of Investment Corporations (Cabinet Office Order No.47 of 2006 including subsequent revisions)
Unrealized gains	(Appraisal value) - (Book value) as of the end of the period
LTV	(Outstanding balance of interest-bearing debt) / (Total Assets)
LTV based on appraisal value	(Outstanding balance of interest-bearing debt) / (Total assets + Unrealized gains)
NAV per unit	(Net assets + Unrealized gains - Total amount of distributions) / Total number of investment units outstanding
Acquisition price	Acquisition price is the purchase agreement price for each of the trust beneficiary rights stated in the sales agreement and does not include national and local consumption taxes or sales commission and other expenses that are incurred in the acquisition.
NOI yield	Ratio of actual NOI of the portfolio assets to their acquisition price
Appraisal NOI yield	Ratio of appraisal NOI of each asset to the acquisition price (refers to appraisal NOI based on the appraisal report with June 30, 2019 as the date of the value opinion in the case of each asset held and appraisal NOI based on the appraisal report with May 31, 2019 as the date of the value opinion in the case of newly acquired assets)
CRE	CRE, INC.
CRE Group	CRE, INC. and its subsidiaries and affiliates

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1. First Capital Increase by Public Offering and Asset Acquisitions

LogiSquare Kawagoe
The property is in a good location because it is close to National Route 254 and National Route 16, which are major trunk roads, and because it provides good access to National Route 17 Shin-Omiya Ageo Road. Surrounded by numerous warehouses and factories, the property is located in the exclusive industrial district in Kawagoe Industrial Park and is operable 24 hours a day.

Summary of First Capital Increase by Public Offering

Assets

Acquire properties at appropriate price from Sponsor

M-7 LogiSquare Kawagoe

M-8 LogiSquare Kasukabe

Number of properties 2 properties	Acquisition price 6,390 million yen	Average appraisal NOI yield 5.0%
Average property age 1.1 years	Occupancy rate 100.0%	Average remaining lease term 9.1 years

Maintain high quality portfolio through investment in LogiSquare

	End of 6th Period (Ended June 2019)	After acquisition of assets
Number of properties	7 properties	9 properties
Acquisition price	47,725 million yen	54,115 million yen
Average appraisal NOI yield	4.9%	4.9%
Average property age	2.5 years	2.3 years
Occupancy rate	100.0%	100.0%
Average remaining lease term	6.6 years	6.9 years
Tokyo Metropolitan Area	94.0%	94.7%

Liabilities

Pursue appropriate LTV control and long-term debt

	End of 6th Period (Ended June 2019)	After the Borrowing(Note 1)
LTV	47.9%	Estimate for June 30, 2020 47.7%
Ratio of fixed interest rates	88.7%	100.0%
Average borrowing rate	0.533%	0.510%
Average duration of interest-bearing debt(Note 2)	2.1 years	3.1 years
Increase in borrowing	2,899 million yen	

Net assets

Realize external growth that contributes to improvement in distributions per unit and NAV per unit

	Before the Issue	After the Issue
NAV per unit	June 30, 2019 118,187 yen	After the Issue 119,557 yen (+1.2%)
Distributions per unit	Previous estimate for period ending December 2019(Note 3) 2,940 yen	Current estimate for period ending December 2019(Note4) 2,990 yen (+1.7%) Estimate for period ending June 2020(Note 4) 3,029 yen (+3.0%)
Number of new investment units to be issued	28,100 units (12.2% of total issued and outstanding investment units)	
Total issue value	3,196 million yen	
Form of offering	Domestic offering	

Note 1: The Borrowing refers to borrowing executed on July 16, 2019 to finance the acquisition of the newly acquired assets and expenses incidental thereto, the repayment of a loan that fell due on July 31, 2019 and borrowing executed on July 31, 2019 for such repayment.
Note 2: "Average life of interest-bearing debt" both at the end of the 6th Period and after the Borrowing indicates the weighted average of the period from July 31, 2019 to the repayment date of each interest-bearing debt weighted based on the balance of each interest-bearing debt.
Note 3: Based on Summary of Financial Results for the 5th Period Ended December 31, 2018" dated February 18, 2019.
Note 4: Based on Summary of Financial Results for the 6th Period Ended June 30, 2019" dated August 13, 2019.

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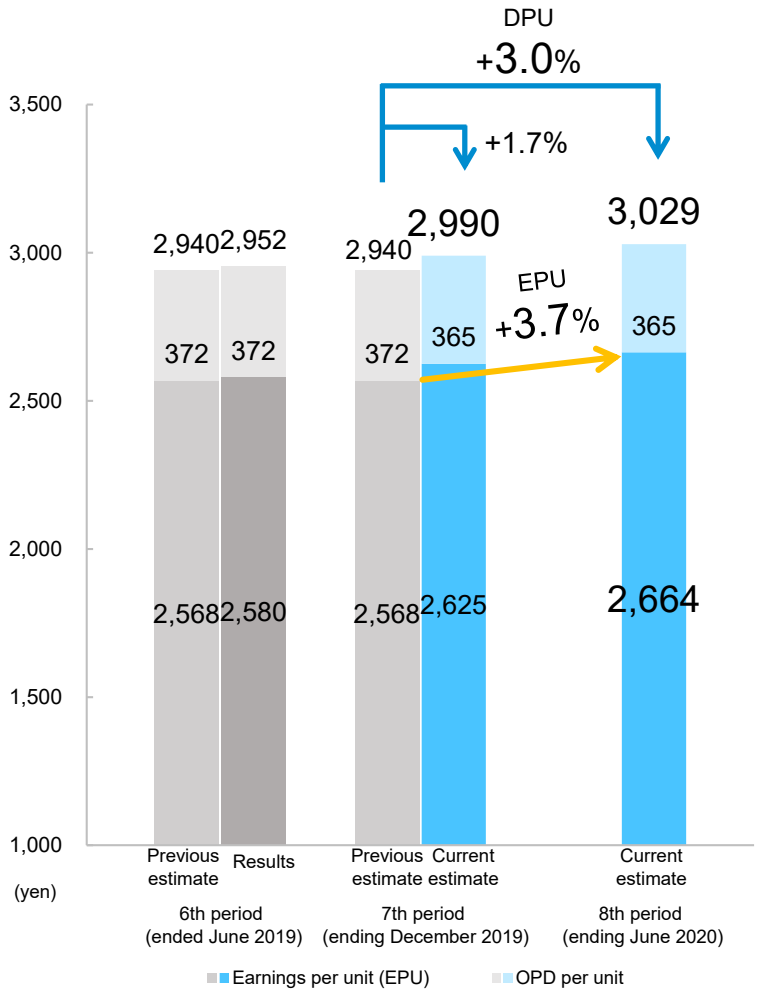
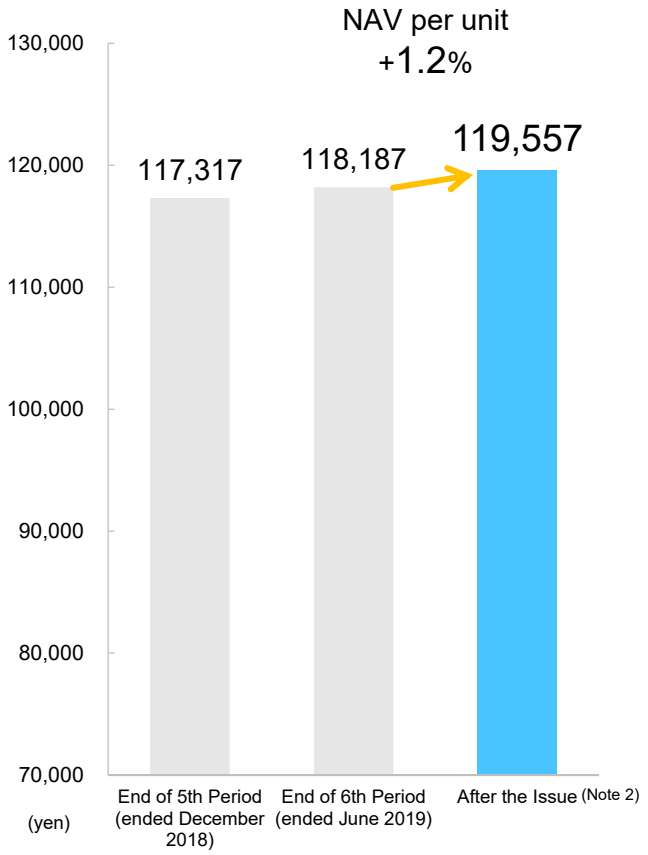
Enhance unitholder value through external growth that contributes to improvement in DPU and NAV per unit

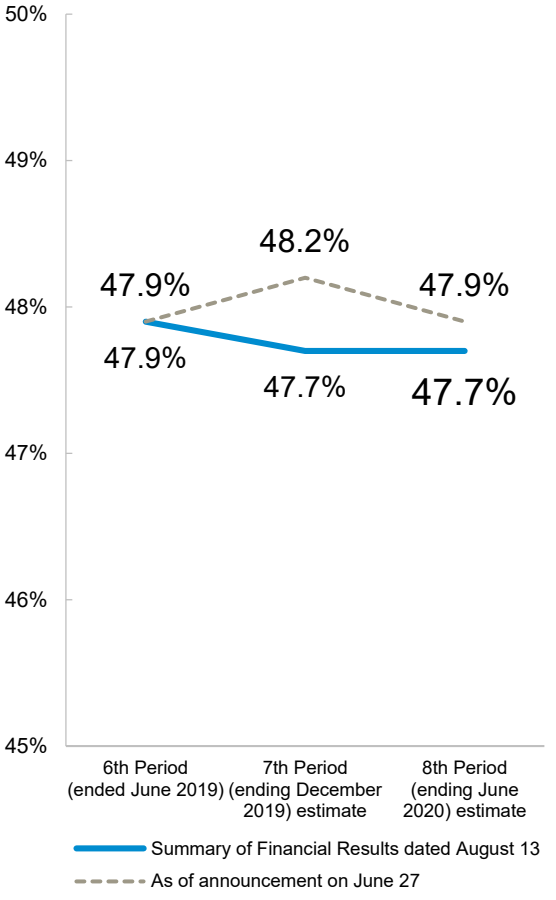
Effect of increasing DPU



Effect of increasing NAV per unit



Appropriate LTV control



Note 1: "DPU" indicates distributions per unit (including OPD), and "EPU" indicates distributions of earnings per unit.
Note 2: NAV per unit" after the Issue is calculated by the equation shown below.
NAV per unit after the Issue = (NAV at end of 6th Period (ended June 30, 2019) + Total issue value + Sum total of appraisal values of newly acquired assets - Sum total of acquisition prices of newly acquired assets) / Total issued and outstanding investment units of CRE-REIT after the Issue

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Ensure same high quality as that of existing portfolio

	6th period (2019/6)		Newly acquired assets		After acquisition of newly acquired assets
Number of properties	7 properties	+	2 properties	=	9 properties
Acquisition price	47,725 million yen		6,390 million yen		54,115 million yen
Appraisal value (Estimated value)	50,480 million yen		6,870 million yen		57,350 million yen
Average appraisal NOI yield	4.9%		5.0%		4.9%
Average appraisal NOI yield after depreciation(Note 1)	3.7%		4.1%		3.8%
Average property age(Note 2)	2.5 years		1.1 years		2.3 years
Occupancy rate	100.0%		100.0%		100.0%
Average lease term	8.9 years		10.0 years		9.0 years
Average remaining lease term(Note 3)	6.6 years		9.1 years		6.9 years
Number of tenants	10		2		12
Ratio of properties developed by CRE	100.0%		100.0%		100.0%

Note 1: “Average appraisal NOI yield after depreciation” is the ratio of the sum total of the appraisal NOI of each asset less forecast depreciation to the sum total of the acquisition price of each asset.
Note 2: “Average property age” indicates the weighted average (rounded to one decimal place) of the ages (refers to number of years from date of registration of new construction of each property in real property register to June 30, 2019) of each asset.
Note 3: “Average remaining lease term” indicates the weighted average of the periods from June 30, 2019 to the expiration date of the lease agreement stipulated in the lease agreement of each asset.

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Ensure same high quality as that of existing portfolio

No.	Property name		Location	(Planned) acquisition price (million yen)	Appraisal value(Note 1) (million yen)	Appraisal NOI yield (%)	Total floor area(Note 2) (m^2)	Age (years)	Number of tenants	BTS (Note 3)	Occupancy ratio (%)	Developer
M-1	LogiSquare Kuki		Kuki-shi, Saitama	9,759	10,300	4.8	40,907.13	3.1	1	BTS	100.0	CRE
M-2	LogiSquare Hanyu		Hanyu-shi, Saitama	6,830	7,070	4.9	33,999.61	3.0	1	BTS	100.0	CRE
M-3	LogiSquare Kuki II		Kuki-shi, Saitama	2,079	2,170	5.1	11,511.22	2.4	1	BTS	100.0	CRE
M-4	LogiSquare Urawa Misono		Saitama-shi, Saitama	13,060	13,900	4.7	48,738.29	2.3	3	—	100.0	CRE
M-5	LogiSquare Niiza		Niiza-shi, Saitama	6,960	7,280	4.9	25,355.82	2.3	1	—	100.0	CRE
M-6	LogiSquare Moriya		Moriya-shi, Ibaraki	6,157	6,630	5.1	32,904.90	2.2	2	—	100.0	CRE
M-7	LogiSquare Kawagoe		Kawagoe-shi, Saitama	1,490	1,570	5.0	7,542.56	1.4	1	—	100.0	CRE
M-8	LogiSquare Kasukabe		Kasukabe-shi, Saitama	4,900	5,300	5.1	21,315.54	1.1	1	BTS	100.0	CRE
O-1	LogiSquare Tosu		Tosu-shi, Saga	2,880	3,130	5.2	16,739.40	1.4	1	BTS	100.0	CRE
Total/Average				54,115	57,350	4.9	239,014.47	2.3	12	—	100.0	—

Newly acquired assets

Note 1: Appraisal value with May 31, 2019 as the date of the value opinion in the case of newly acquired assets.
Note 2: For "Total floor area," the total floor area of each property presented in the real estate register is stated. It also includes the floor area of annex building.
Note 3: "BTS" stands for build-to-suit. It is logistics real estate developed by incorporating a specific company's demands in its specifications.

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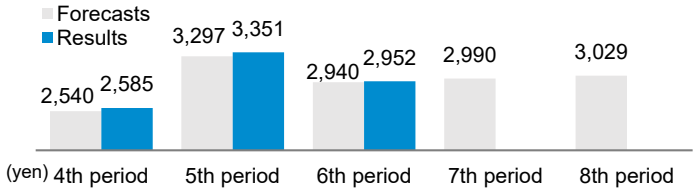
2. Financial Results and Forecasts

LogisSquare Hanyu
From the selection of the land, the facility was developed based on the needs of the tenant, which is a leading logistics company, and has a floor load capacity of 2.0t/m^2 to withstand heavy loads.
The low-rise two-story facility has dual-sided berths on the first floor for highly efficient loading and unloading.

Highlights on the 6th Period—Achieved better-than-anticipated results due to stable management

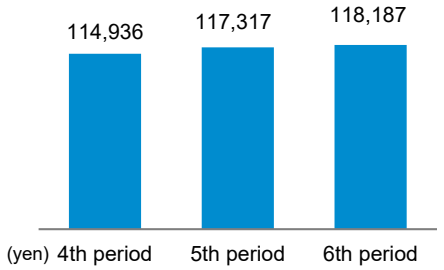
Distributions per unit

6th period Results (2019/6)	2,952 yen (Compared to forecast: Up 12 yen, Up 0.4%)
7th period Forecasts (2019/12)	2,990 yen
8th period Forecasts (2020/6)	3,029 yen



NAV per unit

6th period Results (2019/6)	118,187 yen (up 870 yen,up 0.7% from 5th period)



Portfolio

Portfolio size	7 properties 47.7 billion yen
Occupancy rate	100.0%
Average remaining lease term	6.6 years
Average property age	2.5 years
Ratio of fixed-term leases	100.0%
Ratio of fixed-rate rents	100.0%

Asset

	6th period (2019/6)	Compared to 5th period
Appraisal value	50,480 million yen	— million yen
Unrealized gains	3,460 million yen	+287 million yen
Unrealized gains ratio	7.4%	+0.7%
NOI yield	4.9%	-0.4%
NOI yield after depreciation	3.7%	-0.4%
Repair expense	0 million yen	-0 million yen
Capital expenditure	—million yen	-0 million yen

Note: As of June 30, 2019, before the capital increase by public offering

Debt

	6th period (2019/6)	Compared to 5th period
Interest-bearing debt	23,820 million yen	— million yen
LTV	47.9%	+0.2%
LTV based on appraisal value	44.8%	-0.0%
Ratio of fixed interest debt	88.7%	— %
Ratio of long-term debt	100.0%	— %
Average borrowing interest rate	0.533%	+0.001%

Equity

	6th period (2019/6)	Compared to 5th period
Net assets per unit	106,169 yen	-771 yen
NAV	27,319 million yen	+201 million yen
NAV per unit	118,187 yen	+870 yen
Total number of investment units outstanding	231,150 units	— units

One characteristic of logistics facilities is that the ratio of building value to land is typically high, and so depreciation expense tends to be higher than for other asset classes. Since unrealized gains are the difference between appraisal value at end of period and book value after deduction of depreciation expense, CRE-REIT, which holds fairly new properties and has minimal capital expenditure, tends to record increasing unrealized gains because, at the end of each period, the sum of depreciation expense and any increase in appraisal value at the end of the period is added to unrealized gains at the end of the previous period.

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Results for the 6th Period (Ended June 2019)

Unit: million yen

	5th period (2018/12) Results (A)	6th period (2019/6) Forecasts (B)	6th period (2019/6) Results (C)	Difference vs. Previous period (C) - (A)	Difference vs. Forecast (C) - (B)
Operating revenues	1,413	1,410	1,411	① -1	⑥ +1
Leasing expenses (excluding depreciation)	145	246	245	② +99	⑦ -0
NOI	1,267	1, 163	1, 166	-100	+2
Depreciation	287	287	287	—	—
Net leasing revenues (NOI - Dep.)	980	876	879	-100	+2
General and administrative expenses, etc.	168	160	160	③ -8	-0
Operating income	811	716	718	-92	+2
Non-operating income	3	—	0	④ -3	+0
Non-operating expenses	125	121	121	⑤ -3	-0
Ordinary income	689	594	597	-91	+2
Net income	688	593	596	-92	+2
Distributions per unit (yen)	3,351	2,940	2,952	-399	+12
Earnings per unit (yen)	2,979	2,568	2,580	-399	+12
OPD per unit (yen)	372	372	372	—	—

Major factors for difference

<Vs. previous period>

① Operating revenues -1
- Decrease in utilities income -1

② Leasing expenses +99
- Reduction of facility management expenses -2
- Decrease in utilities expenses -2
- Increase due to the expensing of fixed asset taxes and city planning taxes on 5 properties acquired in the 4th period +104

③ General and administrative expenses, etc. -8
- Decrease in asset management fees -8

④ Non Operating revenues -3
- Non-occurrence of interest on tax refund -3

⑤ Non-operating expenses -3
- Decrease in interest expenses -2, etc.

<Vs. forecast>

⑥ Operating revenues +1
- Increase in utilities income +1

⑦ Leasing expenses -0
- Decrease in repair expenses -1

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Forecasts for the 7th and 8th Periods (Ending December 2019 and June 2020)

Unit: million yen

	6th period (2019/6) Results (A)	7th period (2019/12) Forecasts (B)	Difference (B) - (A)	8th period (2020/6) Forecasts (C)	Difference (C) - (B)
Operating revenues	1,411	1,578	+166	1,591	④ +13
Leasing expenses (excluding depreciation)	245	254	+8	270	⑤ +16
NOI	1, 166	1,324	+157	1,321	-3
Depreciation	287	316	+29	316	—
Net leasing revenues (NOI - Dep.)	879	1,008	① +128	1,004	-3
General and administrative expenses, etc.	160	184	② +24	179	⑥ -4
Operating income	718	823	+104	825	+1
Non-operating income	0	—	-0	—	—
Non-operating expenses	121	141	③ +20	133	⑦ -8
Ordinary income	597	681	+84	691	+10
Net income	596	680	+84	690	+10
Distributions per unit (yen)	2,952	2,990	+38	3,029	+39
Earnings per unit (yen)	2,580	2,625	+45	2,664	+39
OPD per unit (yen)	372	365	-7	365	—

Major factors for difference

<7th period>

① Net leasing revenues +128
- Increased due to 2 newly acquired properties +131, etc.

② General and administrative expenses, etc. +24
- Increase in asset management fees +16
- Occurrence of expenses related to capital increase by public offering +2
- Occurrence of expenses for General Meeting of Unitholders, etc. +5

③ Non-operating expenses +20
- Increase in loan-related expenses +10
- Increase of interest expenses +7
- Occurrence of expenses related to issue of investment units +3, etc.

<8th period>

④ Operating revenues +13
- Increase due to full-period contribution of 2 newly acquired properties +14, etc.

⑤ Leasing expenses +16
- Increase due to the expensing of fixed asset taxes and city planning taxes on 2 newly acquired properties +18, etc.

⑥ General and administrative expenses, etc. -4
- Non-occurrence of expenses for General Meeting of Unitholders -5, etc.

⑦ Non-operating expenses -8
- Decrease in loan-related expenses -2
- Non-occurrence of expenses related to issuance of investment units -3, etc.

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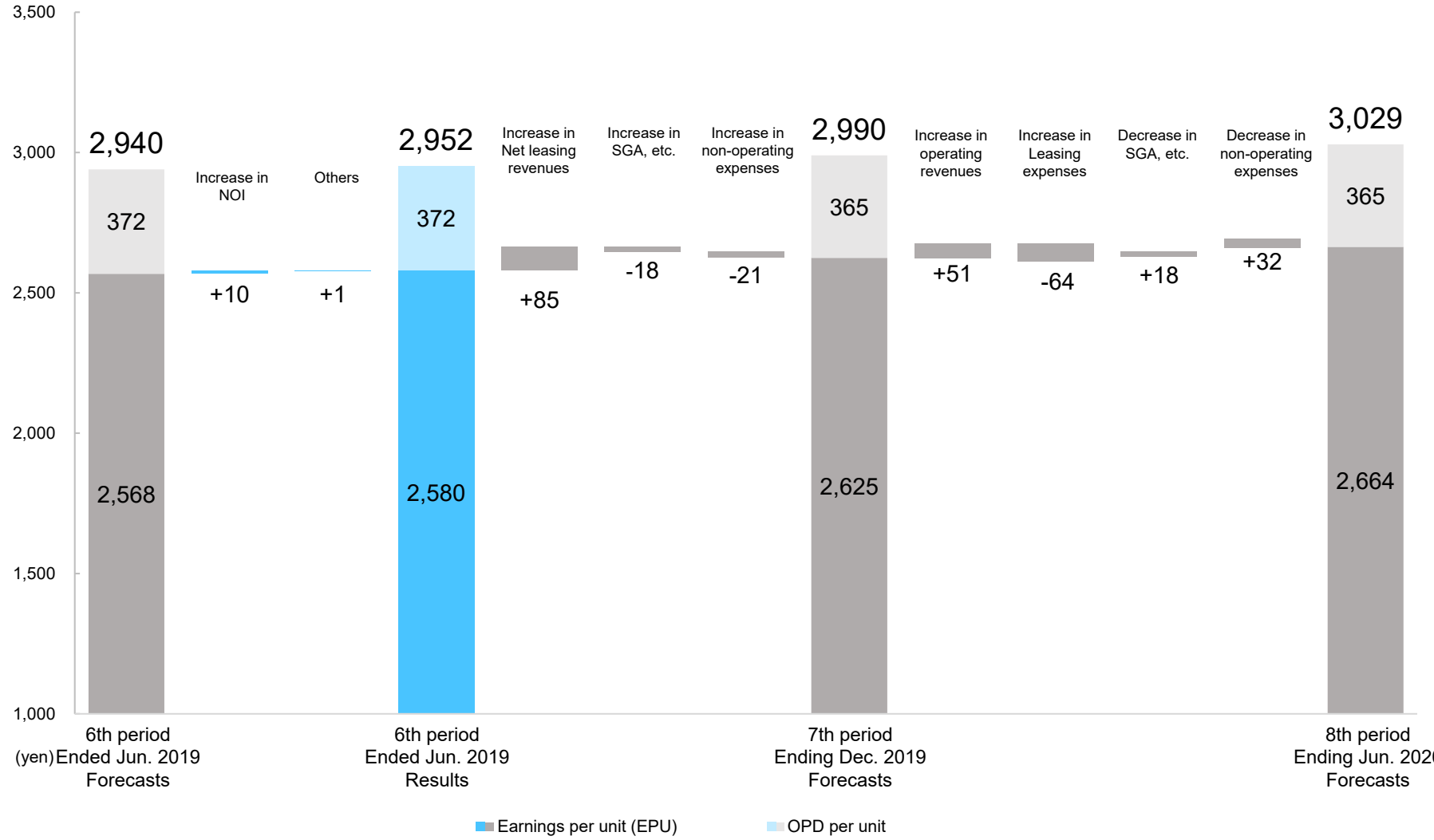
Comparison between Each Period



Note 1: Calculated on the assumption that the total number of investment units issued and outstanding at the end of the 6th Period is 231,150 units and the total number of investment units issued and outstanding at the end of the 7th and 8th Periods is 259,250 units.
Note 2: The components do not add up to the difference between each period because the components are rounded off to the nearest one yen.

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3. Growth Strategies

LogiSquare Ageo (Property with first refusal right)
The property fronts onto Ageo Road (National Route 17) and further improvement of convenience is expected, with the announcement of the start of a project to extend the Metropolitan Expressway Saitama Omiya Route from the Yono Interchange to the vicinity of the development site.

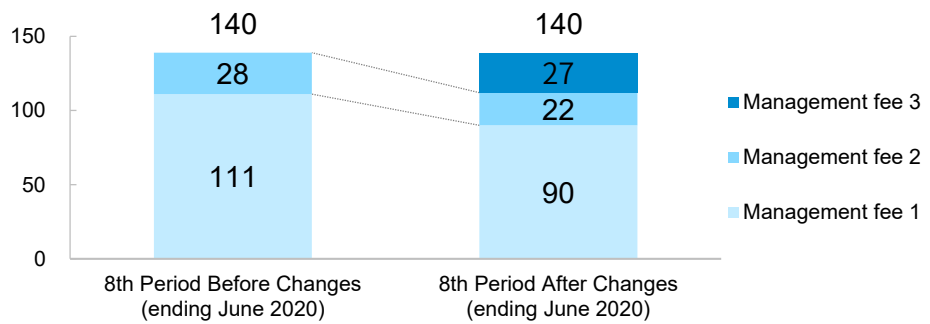
Strengthening of Governance (1) Revision of Asset Management Fee Structure More Aligned with Unitholder Interests

Overview of Revisions to Asset Management Fee Structure

- Plan to submit proposal for amendment of Articles of Incorporation to the General Meeting of Unitholders on September 27, 2019 and to revise fee structure from the Period ending June 2020
- Introduce fee structure more aligned with unitholder interests by decreasing management fees based on total assets and income before income taxes and establishing a new management fee based on earnings per unit to increase linkage with earnings per unit
- Repeal existing fee on sale to prevent fee charged even in the case of the sale of property that is detrimental to the interests of unitholder interests because a loss on sale is recognized

	Before Changes	After Changes	
Management fee 1	Total assets × 0.4% (Upper limit)	Reduce	Total assets × 0.325% (Upper limit)
Management fee 2	Income before income taxes × 5.0% (Upper limit)	Reduce	Income before income taxes × 4.0% (Upper limit)
Management fee 3	—	Newly establish	Earnings per unit × 10,000
Fee on acquisition	Acquisition cost × 1.0% (Upper limit) (0.5% (Upper limit) in case of transactions with interested party)		Acquisition cost × 1.0% (Upper limit) (0.5% (Upper limit) in case of transactions with interested party)
Fee on sale	Sale price × 0.5% (Upper limit)	Repeal	—

Comparison based on 8th period (Ending June 2020) Forecasts



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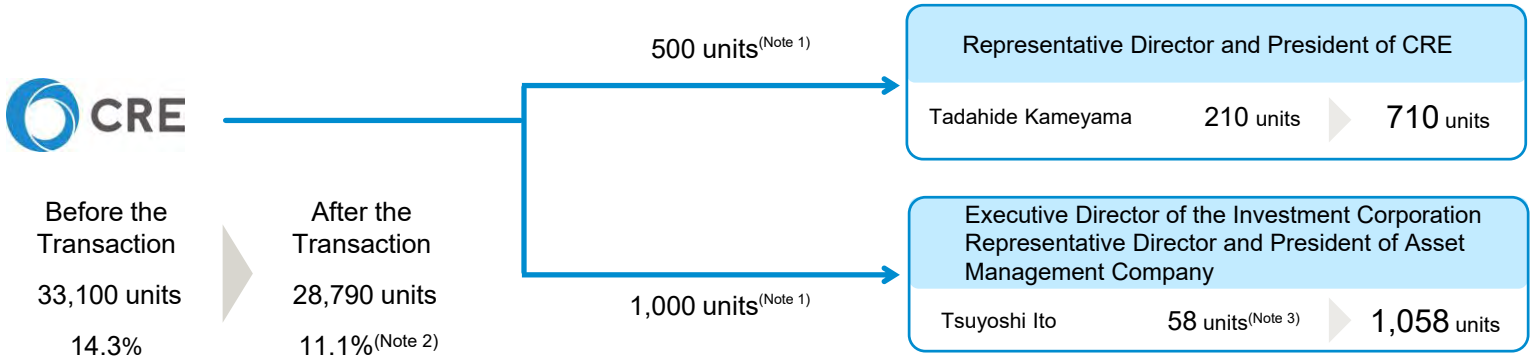
Strengthening of Governance (2) Holding of Investment Units by Management of Sponsor and the Asset Management Company Respectively

Holding of Investment Units by Management of Sponsor and the Asset Management Company Respectively

- At the time of the first capital increase by public offering, the management of the sponsor and the Asset Management Company respectively acquired investment units held by the sponsor, strengthening their commitment to CRE-REIT.



Holding of Investment Units by Officers and Employees of the Asset Management Company

- Almost all officers and employees of the Asset Management Company hold investment units of CRE-REIT based on adoption of a cumulative investment system (purchases started in October 2018) and internal regulations.

Title	Name	Units held (August 13, 2019)
Representative Director and President	Tsuyoshi Ito	1,078 units
Managing Director	Takeshi Oka	32 units
8 out of 9 other employees hold investment units		

Independence of the Asset Management Company

- Given that the Asset Management Company was established as an independent asset management company, almost all its members are proper employees and CRE is not involved in their recruitment or personnel evaluation.

Category	Number of persons
Standing directors	2
Employees	9
(Of which, employees temporarily transferred from CRE)	1(Note 4)
Total	11

Note 1: The investment units were sold for the same amount as the issue price in the Issue.
Note 2: The number of units decreased by 2,810 units because all greenshoe options granted by CRE in connection with secondary offering through over-allotment were exercised by SMBC Nikko Securities Inc.
Note 3: As of May 31, 2019
Note 4: The employee is in charge of IR in the Planning Department and is not involved in the examination of property acquisitions, etc.

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The Investment Corporation's Approach to Property Acquisitions/CRE's Approach to Property Sales and Development

The Investment Corporation's Approach to Property Acquisitions

- Acquisition of property without dilution of distribution per unit/NAV per unit is a prerequisite for the improvement of unitholder value.
  Acquisition cap rate standard is higher than the implied cap rate, suggesting that the above is possible.
- Achieve flexible external growth, taking investment unit price into consideration, including utilizing the bridge function.
  CRE acquired three properties from leasing companies at IPO. CRE also acquired one property from leasing company at capital increase by public offering and the timing of the Sponsor's property sales and the REIT's acquisitions can be adjusted.
- Acquisition of medium-sized properties and acquisition of quasi co-ownership interests using funds on hand is also possible.
  Properties with total floor area of 5,000 m^2 or larger are the investment targets and the acquisition of properties ranging from several hundred million yen to several billion yen is possible using funds on hand equivalent to depreciation expense.
- Achieve medium-term asset size target of 100 billion yen alongside improvement in unitholder value rather than focusing on early achievement.
  Take investment unit price into consideration when achieving target asset size two or three years after listing stated in materials for Financial Results Briefing for the 4th Period (June 2018), rather than focusing on early achievement as stated above.

CRE's Approach to Property Sales and Development

Stable operation of CRE-REIT over medium and long term is CRE's top priority

CRE's Positioning of Asset Management Business

- Grow asset management business into second pillar of stock business.
- Continuously earn asset management fees and property management fees by selling properties developed by CRE to CRE-REIT.

The Asset Management Company is involved from the time of site acquisition to implement development with discipline

Leasing	Rent assessment (scoring of location, road access, etc.)
Development	Formulation of plan incorporating development risks
Asset Management	Sharing of level of cap rates on acquisitions in REIT market
Construction Management	Appropriate cost control
Leasing	Attraction of tenants

Generation of higher profits than planned

Source: Prepared by the Asset Management Company based on the Long-term Management Policy (September 12, 2016) of CRE, Inc.

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A Pipeline Exceed the Existing Portfolio has Already Been Secured

(1) Completion month and year (planned)
(2) Total area (planned)
(3) Location
● Newly acquired assets
● Properties with first refusal right

Continue to promote property acquisitions at a reasonable price, aiming for continuous growth in distributions, based on cooperation with the CRE Group companies

Pipeline(Note 1)

9 properties Total floor area 309,976.36 m²

LogiSquare Chitose
(1) November 2017
(2) 19,760.00 m²
(3) Chitose-shi,Hokkaido

LogiSquare Ageo
(1) April 2019
(2) 19,142.84 m²
(3) Ageo-shi, Saitama

LogiSquare Kawagoe II
(1) June 2019
(2) 14, 786.36 m²
(3) Kawagoe-shi,Saitama

LogiSquare Kobe nishi
(1) April 2020
(2) 16,000 m²
(3) Kobe-shi, Hyogo

Sayama Hidaka IC Development Plan (provisional)
(1) June 2020
(2) 84,132 m²
(3) Hanno-shi,Saitama

LogiSquare Miyoshi
(1) June 2020
(2) 40,752 m²
(3) Miyoshi-machi, Saitama

LogiSquare Osaka Katano
(1) January 2021
(2) 80,226 m²
(3) Katano-shi,Osaka

new!
LogiSquare Miyoshi II
(1) January 2021
(2) 18,096 m²
(3) Miyoshi-machi, Saitama

Suminoe Logistics Center
(1) January 1992
(2) 17,081.16 m²
(3) Osaka-shi,Osaka

CRE → As a general rule, CRE-REIT is given the opportunity to acquire all logistics facilities developed and owned by CRE(Note 2) → CRE Logistics REIT

Existing Portfolio

9 properties
Total floor area 239,014.47 m²
Total acquisition price 54.1 billion yen

LogiSquare Kuki

LogiSquare Hanyu

LogiSquare Kuki II

LogiSquare Urawa Misono

LogiSquare Niiza

LogiSquare Moriya

LogiSquare Tosu

LogiSquare Kawagoe

LogiSquare Kasukabe

Note 1: As of August 13, 2019, CRE-REIT has not engaged in specific negotiations with the CRE Group companies on this pipeline, nor does it have any plan to acquire them at the present time or guarantee future acquisition. This slide shows the pipeline as of August 13, 2019 but first refusal rights will be granted at any time on other properties besides these properties and CRE Group companies will proceed at any time with the development of other properties besides these properties.
Note 2: Unless the grounds for exclusion from application stipulated in the Sponsor Support Agreement apply.

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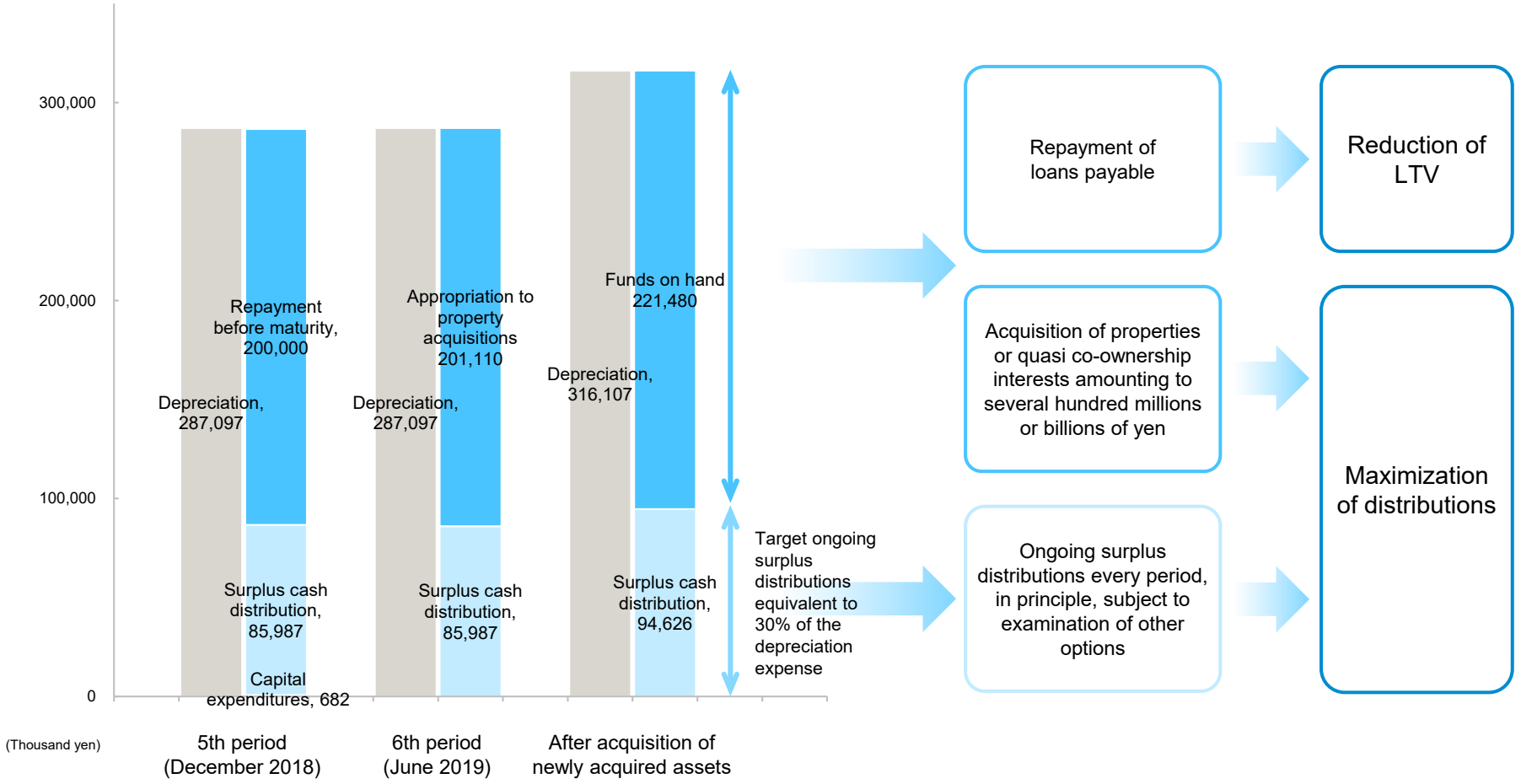
Efficient Cash Management

Efficient use of funds on hand from depreciation for maximization of distributions and expansion of financial reserve



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Promote Stable Financial Operations through Borrowing from New Lenders, Long-term Debt and Distribution of Repayment Dates Over the Period

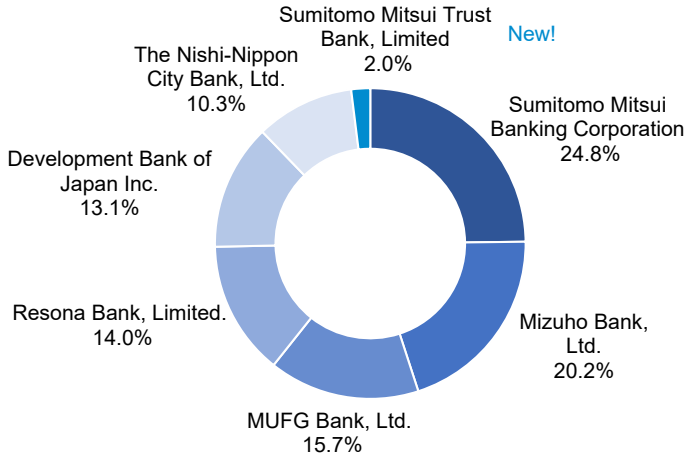
Promotion of Long-term Debt

	6th period (2019/6)	After the Borrowing(Note 3) (as of July 31, 2019)	Difference
Interest-bearing debt	23,820 million yen	26,719 million yen	+2,899 million yen
LTV	47.9%	(Note 1) 47.7%	-0.2%
Ratio of fixed interest debt	88.7%	100.0%	+11.3%
Ratio of long-term debt(Note 2)	100.0%	100.0%	—%
Average borrowing interest rate	0.533%	0.510%	-0.023%
Average life of interest-bearing debt	2.1 years	3.1 years	+1.0 years

Note 1: Forecast for end of Period ending June 2020
Note 2: Current portion of long-term debt is included in long-term debt.
Note 3: The Borrowing refers to borrowing executed on July 16, 2019 to finance the acquisition of the newly acquired assets and expenses incidental thereto, the repayment of a loan that fell due on July 31, 2019 and borrowing executed on July 31, 2019 for such repayment.

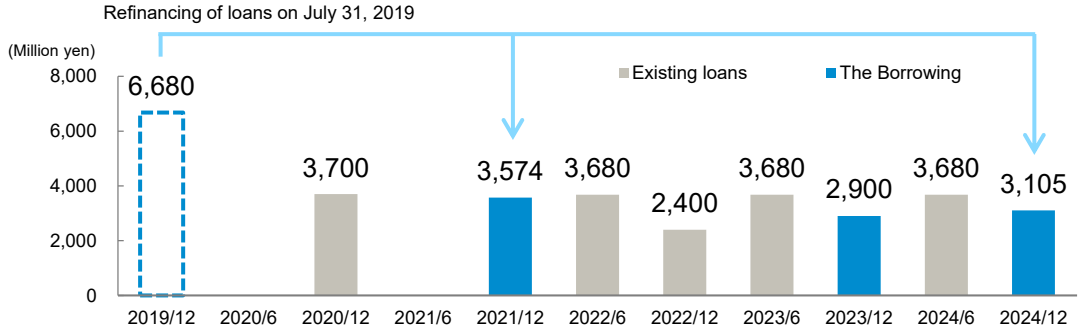
Borrowing from Sumitomo Mitsui Trust Bank for the First Time

Bank Formation after the Borrowing



Promotion of Distribution of Repayment Dates Over the Period

Refinanced loans in July 2019 in addition to borrowing associated with asset acquisitions.



Approach to Liabilities

- CRE-REIT's LTV is set at around 45% and the upper limit of LTV is 50% in principle.
- The above level is slightly higher than that of other logistics REITs but since cash flow is stable due to long-term contracts, CRE-REIT has the option to make effective use of loans.
- CRE-REIT conducts financial operations with emphasis on long-term stability by taking out long-term loans with fixed interest rates.
- After examining using funds on hand for property acquisitions, CRE-REIT examines using them to repay loans in order to increase financial strength and reduce borrowing costs.

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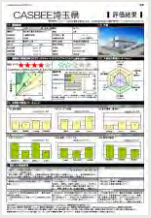
Initiatives for ESG

All properties have acquired BELS certification and 80% of properties have acquired CASBEE certification (based on acquisition price).

Property name	BELS All properties have acquired BELS certification.	CASBEE  80% of properties have acquired CASBEE certification (based on acquisition price).	Installation of Solar Panels CRE-REIT leases roof top space and the lessees contribute to the creation of renewable energy through photovoltaic power generation.	Sandwich Panels All the properties use sandwich panels with outstanding design and a high heat insulating effect for their exterior walls to reduce the thermal load when refrigerating and heating equipment is installed.	LED Lights The use of LED lights contributes not only to energy savings and the reduction of CO2, but also the reduction of electric bills, which are to be paid by tenants, along with the replacement cost of lighting and an improvement in the working environment.
M-1 LogiSquare Kuki	★★★★★	Saitama Prefecture Rank A	○	○	○
M-2 LogiSquare Hanyu	★★★★★	Saitama Prefecture Rank B+	○	○	○
M-3 LogiSquare Kuki II	★★★★★	Saitama Prefecture Rank A	○	○	○
M-4 LogiSquare Urawa Misono	★★★★★	Saitama Prefecture Rank A	—	○	○
M-5 LogiSquare Niiza	★★★★★	Saitama Prefecture Rank A	○	○	○
M-6 LogiSquare Moriya	★★★★★	—	○	○	○
M-7 LogiSquare Kawagoe	★★★★	—	—	○	○
M-8 LogiSquare Kasukabe	★★★★★	Saitama Prefecture Rank A	○	○	○
O-1 LogiSquare Tosu	★★★★★	—	—	○	○

Newly acquired assets

Wall greening

Wall greening has the effect of reducing the surface temperature of the building and contributes to the reduction of CO2.

Installation of roof sprinkler systems

Roof sprinkler systems using well water are installed, which contributes to the reduction of the temperature inside the warehouse.

Reduction of paper used to print prospectus for first capital increase by public offering

Helped protect the environment by omitting the pages printed in color below the front cover of the prospectus, which varies depending on the transactions but equates on average to 23.6 pages(Note).

Note: The average number of pages printed in color below the front page of the prospectus of other REITs is calculated based on the number of pages printed in color for capital increases by public offering of J-REITs completed in the period from January 1, 2018 to the end of December 2018 in relation to which a securities registration statement based on the reference format stipulated in Article 11-3 of Cabinet Office Ordinance on Disclosure of Information, etc. on Regulated Securities (Ordinance of the Ministry of Finance No. 22 of 1993, including subsequent amendments) was submitted. CRE-REIT prepared the prospectus that omitted the pages printed in color below its front cover to help protect the environment. After the period above, one other prospectus omitting pages printed in color has been produced by another J-REIT (as of the end of May 2019).

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4. Characteristics of CRE Logistics REIT, Inc.

LogiSquare Moriya
The property is located in the Moriya-shi Matsunami land rezoning project area, within walking distance of Moriya Station on the Tsukuba Express Line and has great advantages in terms of securing employees.

Characteristics/Advantages of CRE-REIT

Character-istics

1. Portfolio focused on LogiSquare
2. Long-term, stable asset management
3. Distinct external growth strategy

Advantages

High-quality portfolio

(1) Stable cash flow	Occupancy rate 100.0%	Ratio of fixed-term leases 100.0%	Ratio of fixed-rate rents 100.0%
(2) Long-term contracts with diverse tenants	Average lease contract term 9.0 years	Average remaining lease term 6.9 years	Ratio of single-tenant facilities 64.5%
(3) Good location	Ratio of Tokyo Metropolitan Area 94.7%	Average mileage to interchange 3.6 km	Within 10 mins' walk of public transportation 96.2%

Sponsor is real estate company specializing in logistics properties

(1) Leasing capability	Companies that have concluded lease contracts with CRE directly 1,070 companies	Leasing by CRE on its own 154 properties	Holding of private viewings, including for other listed REITs
(2) Property management (PM) capability	Managed floor area 1,575 properties 4,850,000 m²	PM entrusted by other companies Approx. 70%	PM entrusted by other listed REITs 910,000 m²
(3) Development capability	• Tenant requirements obtained through day-to-day management and leasing activities are fully reflected in facility development. • Has been developing suitable properties for REIT since 2006 when real estate securitization first appeared in Japan.		

Capable of flexibly acquiring properties, taking consideration into investment unit price

- Able to utilize bridge function. Already acquired three properties at IPO and one property at the first capital increase by public offering by utilizing the bridge function.
- Also able to acquire mid-sized properties and quasi-co-ownership interests using cash on hand.
- Already secured pipeline of nine properties with total floor area of 300,000 m² which exceeds portfolio after acquisition of newly acquired properties.

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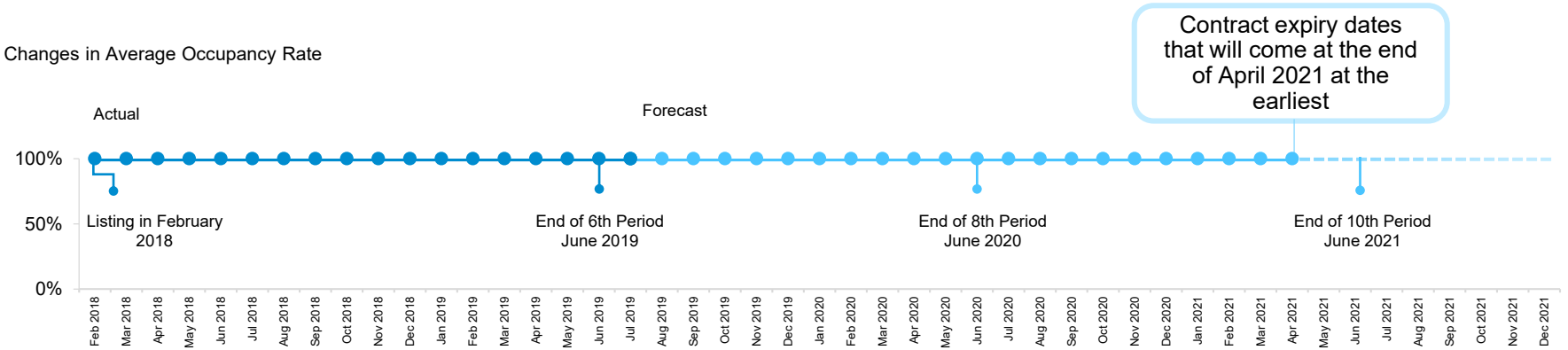
High-quality Portfolio (1) Stable cash flow

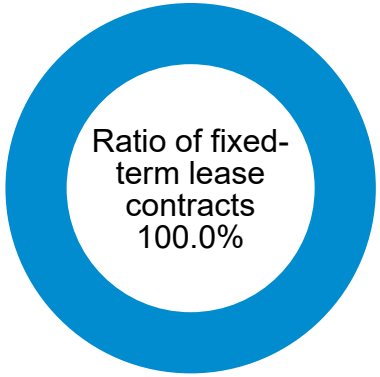
Plan to maintain average occupancy rate of 100.0% through to the end of April 2021



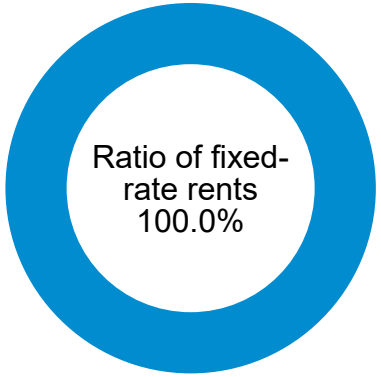
Form of contract that enables stable operation

- Tenants who cancel early before the end of the contract term are required to pay the equivalent of rent for the whole remaining lease term as a penalty for breach of contract.
- Intention for renewal or termination is ascertained a year before contract expiry.

Ratio of fixed-term lease contracts



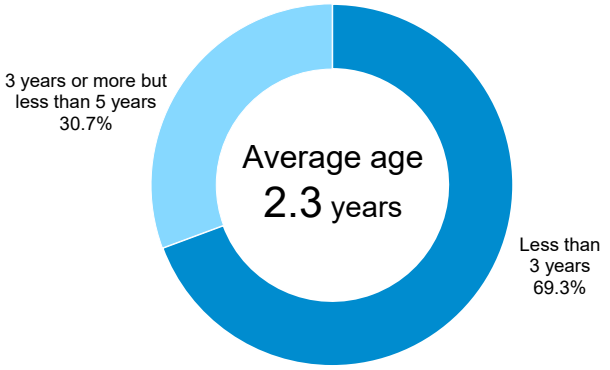
Ratio of fixed-rate rents



Repair expenses remain low due to inclusion of relatively new properties

- Repair expenses during the first six periods (to 6th Period ended June 2019) for portfolio assets have remained at a low level of less than 1 million yen each period due to the inclusion of relatively new properties.

Average age



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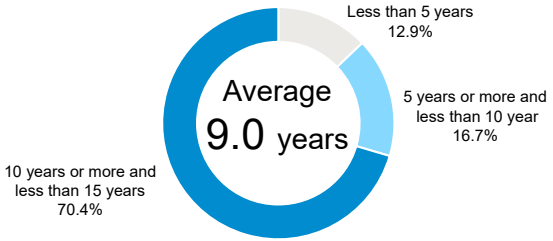
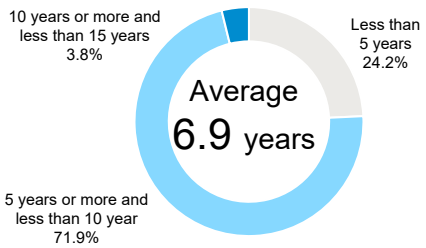
High-quality Portfolio (2) Long-term contracts with diverse tenants

Diverse tenants from mid-size enterprises to large enterprises conclude long-term contracts and use properties as dedicated centers.

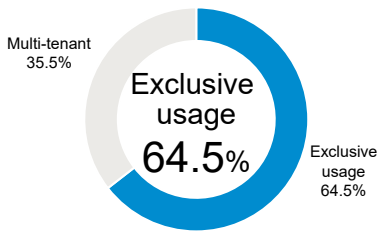
Average lease contract term



Average remaining lease term



Tenant composition



Property name	Tenant name	Sector	Main business	Listed market
LogiSquare Kuki	Sangetsu Corporation	Wholesale	Development and sale of total interior goods	TSE 1st Section
LogiSquare Hanyu	Major large logistics company	Land transportation	General logistics business and related businesses	Not disclosed
LogiSquare Kuki II	FUSOGOSEI Co., Ltd.	Manufacturing	Manufacture and sale of building interior materials and interior products	—
LogiSquare Urawa Misono	Nippon Express Co., Ltd.	Land transportation	General logistics business and related businesses	TSE 1st Section
	Tobu Delivery Co., Ltd. (Wholly-owned subsidiary of Tobu Railway Co., Ltd.)	Land transportation	General motor truck transportation and freight forwarding businesses	—
	INNOMEDICS Medical Instruments, Inc. (Wholly-owned subsidiary of ORIX Corporation)	Wholesale	Purchase, sale, design and lease of medical equipment, and other products and repair and maintenance thereof	—
LogiSquare Niiza	Building Book Center Co., Ltd. (Wholly-owned subsidiary of KADOKAWA Corpoation)	Warehousing and Transportation	Receipt, inventory management and shipment business of publications	—
LogiSquare Moriya	Lixus Co., Ltd.	Land transportation	Motor truck transportation and freight forwarding businesses	—
	CyberStep, Inc.	Information and communications	Development of network entertainment software	TSE 2nd Section
LogiSquare Kawagoe	Tokyo Logistics Factory Co., Ltd.	Land transportation	Motor truck transportation handling business	—
LogiSquare Kasukabe	Koizumi Logistics Service Corporation	Land transportation	Consigned freight forwarding business	—
LogiSquare Tosu	Nippon Express Co., Ltd.	Land transportation	General logistics business and related businesses	TSE 1st Section

Newly acquired assets

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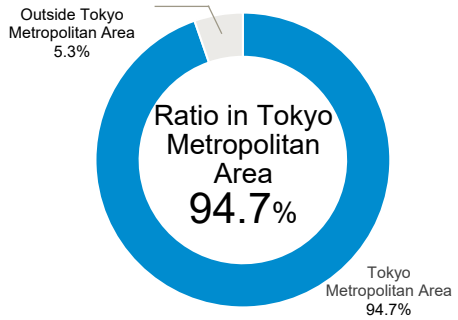
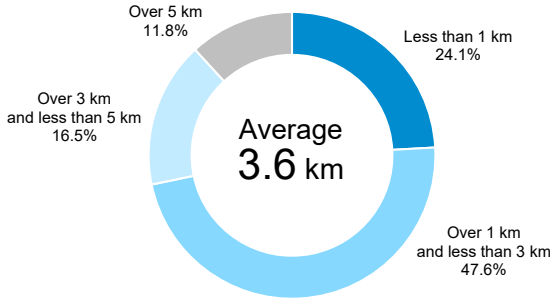
High-quality Portfolio (3) Good location

Properties are mostly in locations suited to logistics facilities where strong demand is expected, with tenants' need to secure labor also taken into consideration.

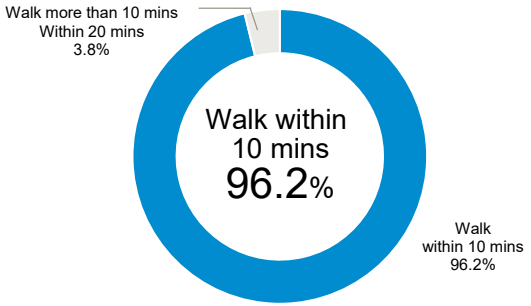
Ratio in Tokyo Metropolitan Area



Mileage to an interchange



Time required from public transportation facilities



Example: LogiSquare Urawa Misono

The property is located approximately 700 m from Urawa IC (Tohoku Expressway) and approximately 450 m and a six-minute walk from Urawa Misono Station on the Saitama Rapid Railway Line.

A large-scale community development project is underway in the surrounding area, which will allow a close proximity between work and the home and be a potential advantage in securing employee.

Features of LogiSquare

LogiSquare is the brand name of high-quality logistics facilities developed by CRE to meet tenant needs.

Semi-flexible pavement is used to inhibit rutting.

Sandwich panels are used on exterior walls to reduce heating and cooling loads and to give the exterior an attractive appearance.

The facility has truck berths on the first and third floors.
To prevent congestion and accidents, the facility is designed to separate traffic flows and equipped with dedicated gates for the first/second floor tenants and the third/fourth floor tenants, respectively.

Facility has roof spraying system that uses well water to reduce the internal temperature.

The facility has a total of 44 truck berths on the first and third floors to allow the docking of up to 44 large trucks simultaneously.

Truck berths are large enough to fit a whole 40ft container truck.

Rest area with wooden deck

Note: The logistics facility shown above is an example of the features of LogiSquare. Not all facilities held by CRE-REIT have the features shown above.

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Features of LogiSquare

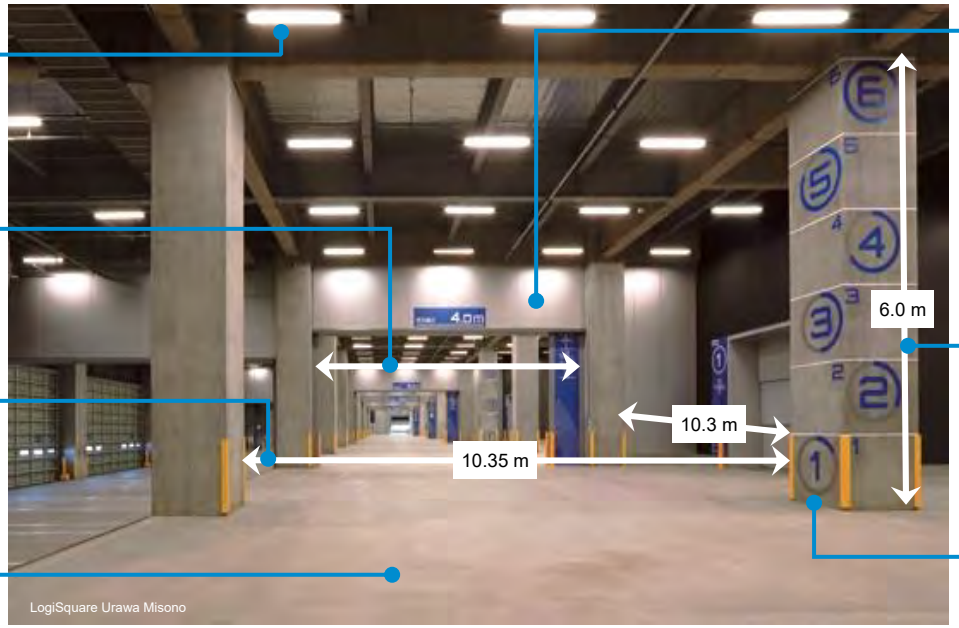
LogiSquare not only improves the efficiency of warehouse operations, creates a pleasant working environment for tenants but helps reduce costs in the future for CRE-REIT.

LED lighting throughout helps save energy.

Openings in fire partitions are as wide as possible.

Pillar span 10.3 m × 10.35 m

Floor loading 1.5 t/m^2



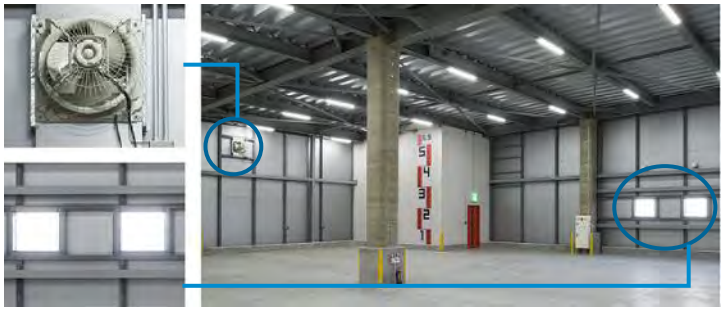
Fireproof partition walls are made of fire-resistant heat-insulating panels that have excellent insulation properties, seismic resistance and an aesthetically pleasing appearance.

The facility has an effective ceiling height of 6.0 m, or 5.5 m if cooling panels are installed.

Internal signage is designed to visually communicate warehouse functions.

Interior walls between offices and the warehouse space have windows in them to facilitate communication.

The women's restroom has lockers and designed to make female employees feel comfortable.



To help reduce costs in the future, the facility already has windows and ventilation built in to ensure compliance with laws and regulations in case it is necessary to expand office areas in the future.

Note: The logistics facility shown above is an example of the features of LogiSquare. Not all facilities held by CRE-REIT have the features shown above.

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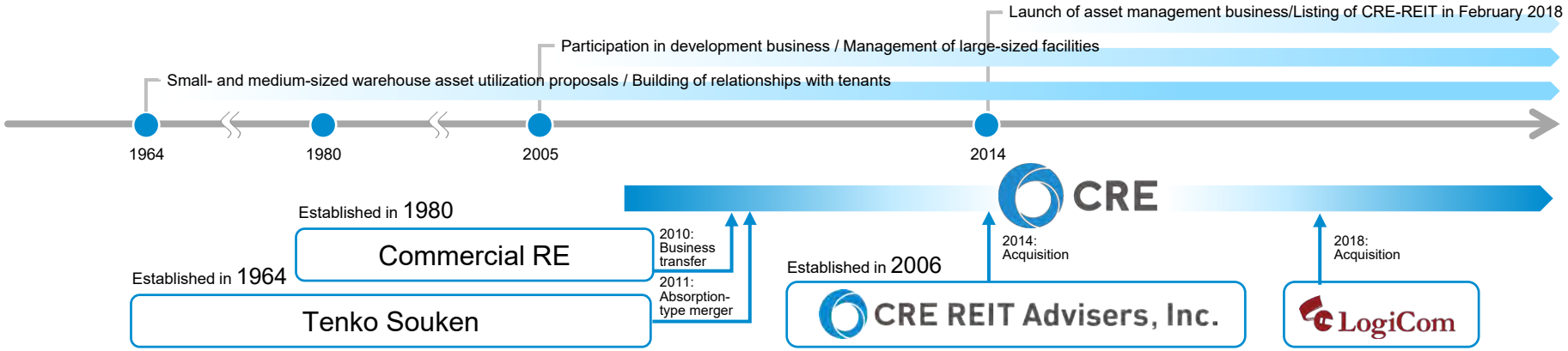
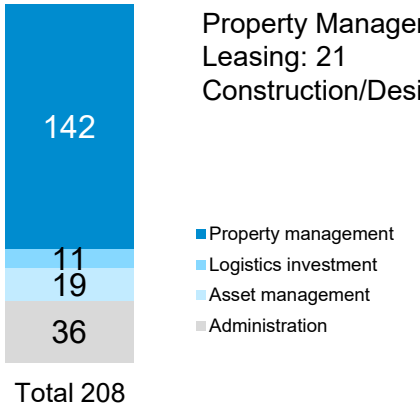
Sponsor is Real Estate Company Specializing in Logistics Properties

CRE, which sponsors CRE-REIT, has a track record of more than 50 years in the field of logistics real estate in Japan.



Involvement of All Employees in Logistics Properties

Number of employees on a consolidated basis (as of July 31, 2018) (Note 1)

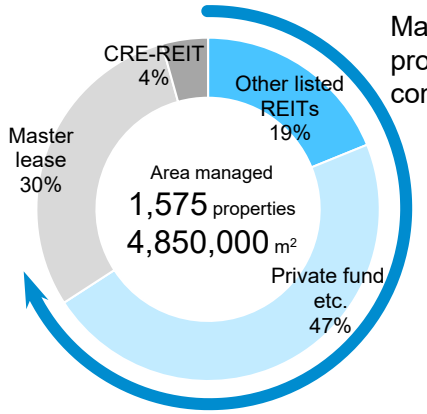


Property Management: 25
Leasing: 21
Construction/Design: 26

Note 1: Prepared by the Asset Management Company based on Annual Report for Fiscal 2018 of CRE, Inc.

Proven Track Record in Providing Services to Other Companies

CRE-REIT can draw on knowhow gained through management of 4,850,000 m²



Management of properties held by other companies: 3,190,000 m²

Note 2: As of April 30, 2019. Includes results under property management and master lease agreements for properties other than logistics-related facilities.

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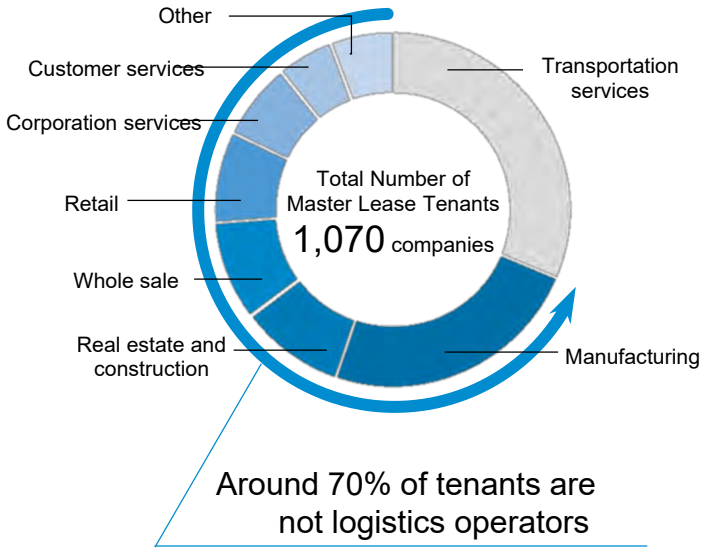
CRE's Leasing Capability—Accumulation of Information Through Many Leasing Opportunitiesc

Instantly understands rent trends, including actual rents paid and rent increases and decreases, through the conclusion of contracts directly with diverse tenants not just logistics service providers.

- CRE can gain an understanding of rent levels by entering contracts with tenants directly as master tenant under a master lease arrangement
- CRE builds relationships with tenants from a variety of industries not only logistics operators.

Total Number of Master Lease Tenants(Note 1)



Mitigation of Vacancy Risk through CRE's Leasing Capability

Time of Leasing Completion of Properties Held by CRE-REIT

	Tenants	BTS	Time of leasing completion	Land acquisition	Completion of construction
M-1 LogiSquare Kuki	1	BTS	Before the completion of construction		
M-2 LogiSquare Hanyu	1	BTS	At the time of land acquisition		
M-3 LogiSquare Kuki II	1	BTS	At the time of land acquisition		
M-4 LogiSquare Urawa Misono	3	—	Six months after the completion of construction		
M-5 LogiSquare Niiza	1	—	Before the completion of construction		
M-6 LogiSquare Moriya	2	—	Seven months after the completion of construction		
Newly acquired assets: M-7 LogiSquare Kawagoe	1	—	Four months after the completion of construction		
Newly acquired assets: M-8 LogiSquare Kasukabe	1	BTS	Before the completion of construction		
O-1 LogiSquare Tosu	1	BTS	Before the completion of construction		

Note 1: As of July 31, 2018. Includes tenants of properties other than logistics-related facilities.

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CRE's Leasing Capability—Information Gathering as a Leading Real Estate Company

Publication of LogiSquare Market Report

Every quarter, CRE publishes a report summarizing market trends in major areas, with a focus on large rental logistics facilities (10,000 m^2 or larger). Besides information on large logistics facilities, the report also includes information on small and medium-sized rental logistics facilities (less than 3,300 m^2/only those managed by CRE) based on CRE's database of master lease properties.

Publication of LogiSquare Map (map of large logistics facilities)

Map showing major large rental logistics facilities that have been built over the past 10 years or are planned for development. Published once a year.

Holding of CRE Forum

The purpose of the CRE Forum is to share logistics issues facing companies. **Since 2013**, CRE has **organized a total of 61 meetings**, with a total of **3,677 participants**.(Note 1)

Participating Companies (excerpt)(Note 2)

- Nittsu Research Institute and Consulting, Inc.
- Hitachi, Ltd.
- Sunstar Group
- Tanita Corporation
- JD.com Jingdong Japan Co., Ltd.
- Toyota Industries Corporation
- Sapporo Group Management Ltd.
- CBcloud Co., Ltd.
- KBS Kubota Corporation
- Office FA.com Co., Ltd.
- MUJIN Inc.

Note 1: As of May 31, 2019
Note 2: Prepared by the Asset Management Company based on the LogiSquare logistics facility information site.

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CRE's Management Capability—Diverse Customers Including Other Listed REITs

Management of Properties for Other Listed REITs, Private Funds, etc.

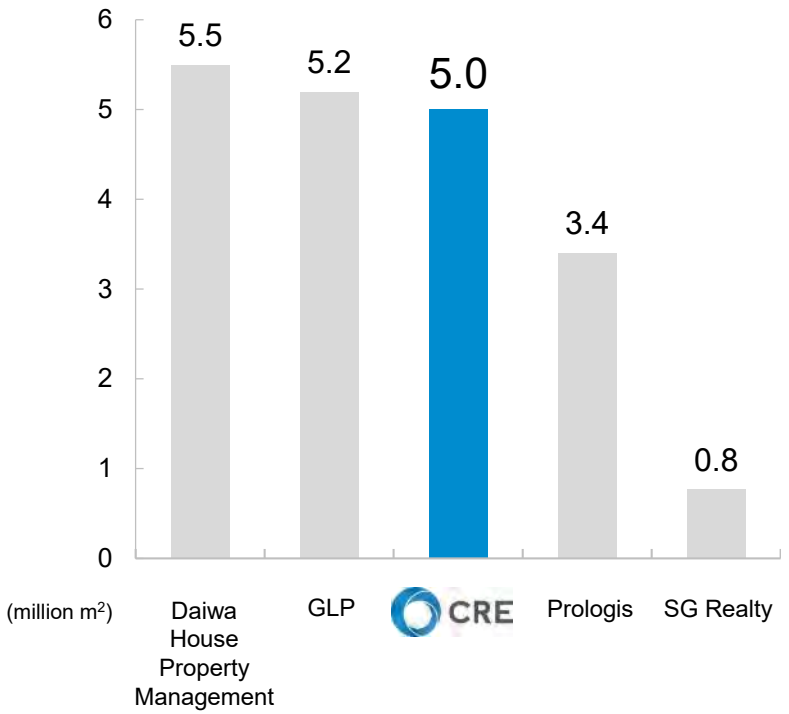
Major Customers

- LaSalle LOGIPORT REIT
- Star Asia Investment Corporation
- Kenedix Retail REIT Corporation
- United Urban Investment Corporation
- Japan Logistics Fund, Inc.
- Industrial & Infrastructure Fund Investment Corporation
- Mitsubishi Estate Logistics REIT Investment Corporation
- Daiwa House REIT Investment Corporation
- CRE Logistics REIT, Inc.
- Takara Asset Management Co., Ltd.
- Diamond Realty Management Inc.
- ESR LTD.
- Kokyo Asset Management Co., Ltd.
- Sumisho Realty Management Co., Ltd.
- SUMITOMO CORPORATION
- Challenger Limited
- Morgan Stanley Capital K.K.
- Daiei Real Estate & Development Co., Ltd.
- LC Partners, Inc.
- Tozai Asset Management Co., Ltd.
- Mitsui & Co., Realty Management Ltd.
- IDERA Capital Management Ltd.
- PGIM Real Estate (Japan) Ltd.
- Mitsubishi Jisho Investment Advisors, Inc
- FORTRESS INVESTMENT GROUP JAPAN
- Ichigo Estate
- Yamato Home Convenience Co. Ltd.
- TAKARA-SANGYO Co., Ltd.
- Tokyu Land Capital Management Inc.
- UIG Asset Management Co., Ltd.
- UNIVERSE DEVELOPMENT Co., Ltd.
- CRE REIT Advisers, Inc.
- Strategic Partners Co., Ltd..

(No particular order)

Note 1: CRE Inc.'s Summary of Financial Statements for the 3rd Quarter of the Fiscal Year Ending July 31, 2019

Ranks Third Among Logistics Facilities-centered PM companies



Note 2: "Logistics facilities-centered PM companies" refer to property management companies with 70% or more of their entrusted areas those of logistics facilities. "Entrusted areas" include the management areas of real estate other than logistics facilities.

Note 3: Prepared by the Asset Management Company based on Monthly Property Management magazine (November 2018 edition).
Entrusted areas are as of August 31, 2018.

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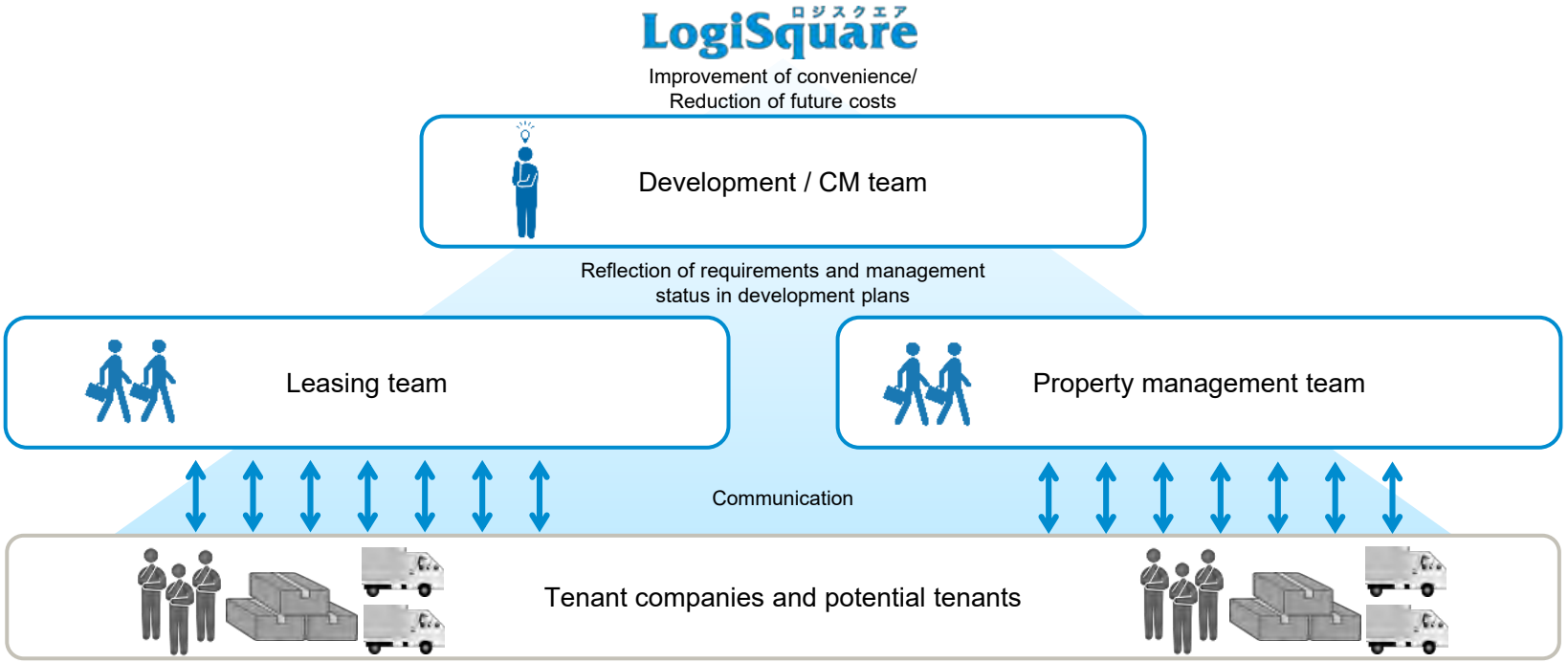
Development Capability—Development Incorporating Tenant Requirements While Ensuring Versatility

Realization of Long-term Contracts and Mitigation of Tenant Risk by Incorporating Tenant Requirements While Ensuring Versatility

LogiSquare (ロジスクエア) = High-quality logistics facilities developed by CRE to meet tenant needs

= Versatility: Location + Basic Specification + Expandability + Comfort + Tenant's unique requirements

Improvement of Convenience Through Full Reflection of Requirements Learned Through Day-to-Day Management and Leasing Activities in Development Plans



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CRE's Development Capability—Development Giving Tenant Convenience Highest Priority

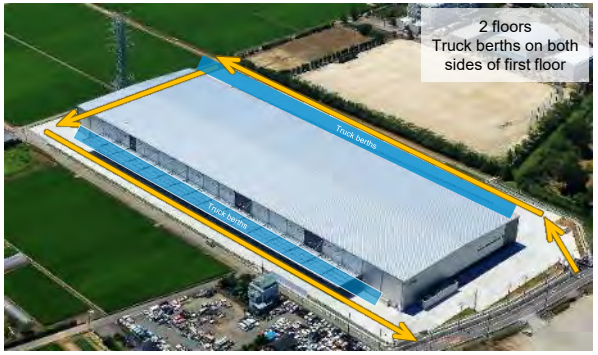
Development based on optimal plan for characteristics of location, giving tenant convenience the highest priority

Low-type

For tenants that attach importance to operational efficiency

Facility with one or two floors for more convenient loading and unloading.
Ideal for both storage and distribution and suited to tenants who attach importance to operational efficiency.

Example: LogiSquare Hanyu



The facility is designed to direct vehicles to move in one direction, with separate entrance and exit gates.

Slope-type

For tenants who attach importance to location and operational efficiency

Facility situated in location with strong tenant demand and having three or four floors to utilize the floor-area ratio.
Facility also has a slope, enabling trucks to access the third floors directly and allowing them to be used in same way as the first and second floors.
Ideal for both storage and distribution and suited to tenants who attach importance to both location and operational efficiency.

Example: LogiSquare Urawa Misono

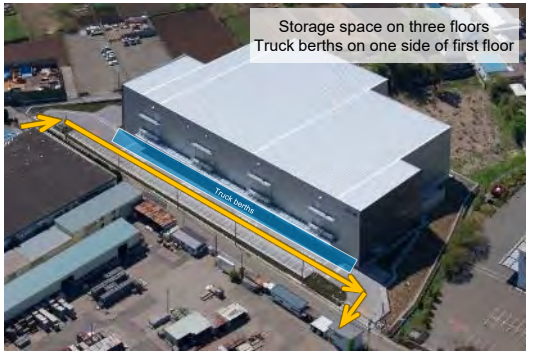
The facility is designed to separate traffic flows and equipped with dedicated gates for the first/second floor tenants and the third/fourth floor tenants, respectively.

Box-type

For tenants who attach importance to storage function

Facility in strategic location with strong tenant demand and close to city center and having three or four floors to utilize the floor-area ratio.
Ideal for storage, which is standard function for a logistic facility, and suited to tenants who attach importance to storage of personal items.

Example: LogiSquare Niiza



The facility is designed to direct vehicles to move in one direction, with separate entrance and exit gates.

All facility types are designed to prevent congestion and accidents.

Traffic flow
Truck berths

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CRE's Development Capability
—Development Since the Start of Real Estate Securitization in Japan

Cumulative total floor area / Total floor area of properties developed or to be developed during the period
Properties developed by Commercial RE / Properties developed by CRE
Properties jointly developed by Commercial RE and Kenedix / Properties to be developed by CRE (planned)
Properties held by other REITs / Assets owned by CRE-REIT / Newly acquired assets / Properties with first refusal right

CRE has been developing logistics properties since real estate securitization started in Japan and has built up knowhow on the development of properties suitable for REITs.

Track record of development of 30 properties and around 570,000 m²

Timing of listing of logistics REITs

- May 2005 — Listing of first REIT specializing in logistics facilities
- Dec. 2012
- Feb. 2013
- Feb. 2016
- Aug. 2016
- Sep. 2017
- Feb. 2018 — CRE-REIT listed
- Sep. 2018

Note: While the above also includes other assets besides portfolio assets, CRE-REIT has not engaged in specific negotiations with the CRE Group companies on any of the above assets that are not portfolio assets, nor does it have any plan to acquire them at the present time or guarantee future acquisition. The above also includes properties that have already been sold to third parties. Furthermore, with respect to properties to be developed by CRE (planned), as of August 13, 2019, development is not complete and the conceptional drawing, total floor area and development completion timing are based on plans as of August 13, 2019 and may change in the future. The building completion dates of the above properties are stated as the development completion dates.

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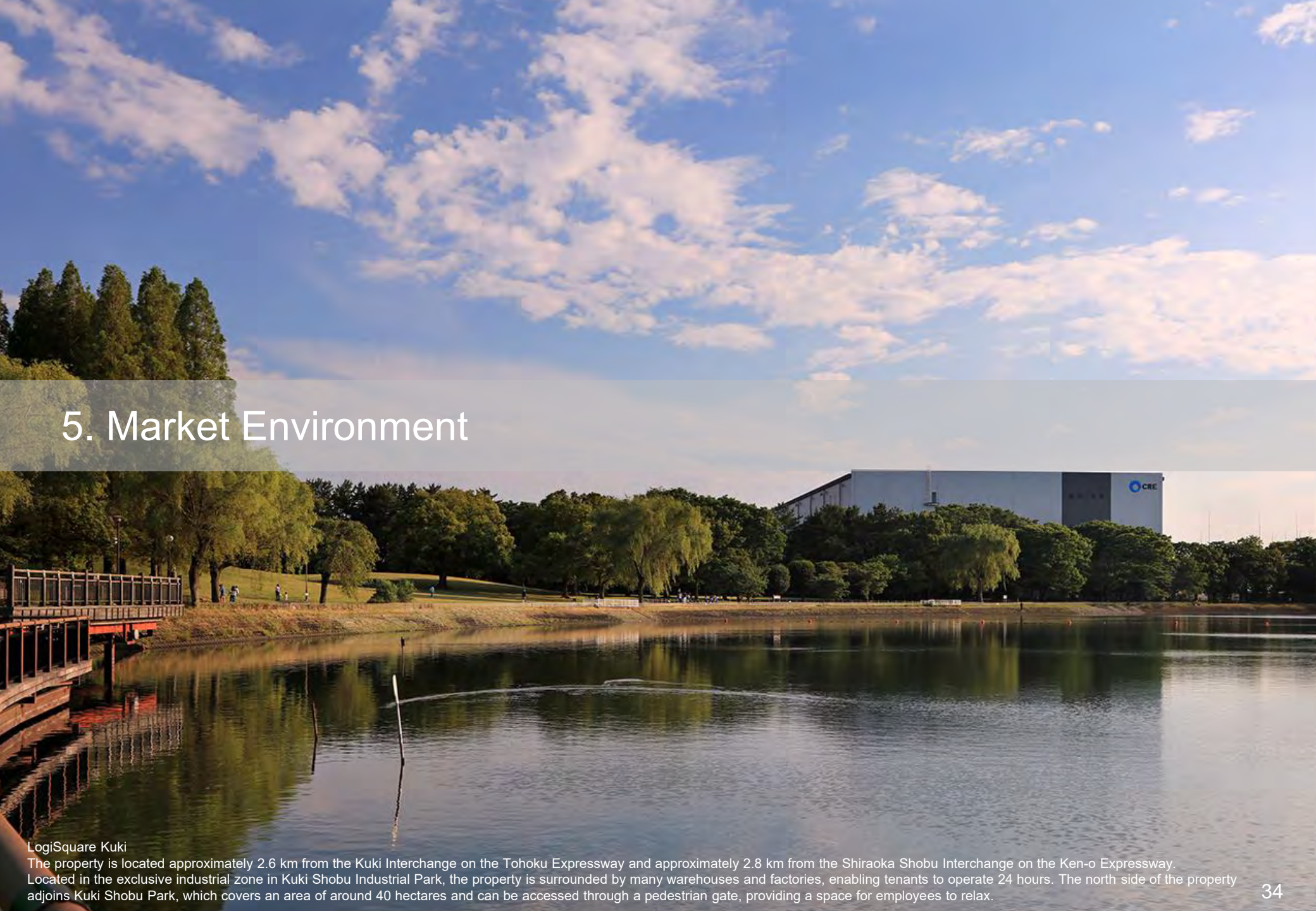
5. Market Environment



LogiSquare Kuki
The property is located approximately 2.6 km from the Kuki Interchange on the Tohoku Expressway and approximately 2.8 km from the Shiraoka Shobu Interchange on the Ken-o Expressway.
Located in the exclusive industrial zone in Kuki Shobu Industrial Park, the property is surrounded by many warehouses and factories, enabling tenants to operate 24 hours. The north side of the property adjoins Kuki Shobu Park, which covers an area of around 40 hectares and can be accessed through a pedestrian gate, providing a space for employees to relax.

Summary of Market Trends

Recent Market Trends

Tokyo Metropolitan Area
Pages 36 and 37

Vacancy rate: 2.44%, QoQ: Improved slightly (-0.94%)
Demand remained strong, exceeding 200,000 tsubo for the third consecutive quarter.

Osaka Area
Page 36

Vacancy rate: 6.09%, QoQ: Improved (-1.09%)
Vacancy rate hit record low, reflecting absorption of large supply in the past.

Rising Demand for Rental Logistics Facilities

(1) Reconstruction Demand for Logistics Facilities
Page 38

Around 30% of logistics facilities in the Tokyo Metropolitan Area are 40 to 50 years old.

(2) Expansion of 3PL Market and EC Market
Page 39

3PL Market Size

2009		2017
1.2 trillion yen	→	2.8 trillion yen

2.2-fold increase in 8 years

EC Market Size/EC Ratio

2010		2018
7.8 trillion yen	→	18.0 trillion yen
2.8%	→	6.2%

2.3-fold increase in 8 years

(3) Rising Importance of Logistics Network Strategy
Page 40

The most important cost reduction measure to be implemented is a restructuring of logistics facilities.

Note: Please refer to pp 36-40 later in this report for details of calculation methods, etc.

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Market Trends
(1) Tokyo Metropolitan Area and Osaka Area (from LogiSquare Market Report)

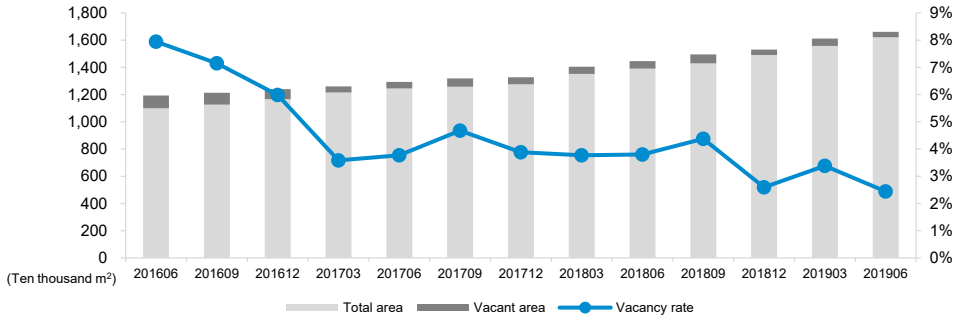
Vacancy rate: Less than 5%
Vacancy rate: 5% or more and less than 10%
Vacancy rate: 10% or more

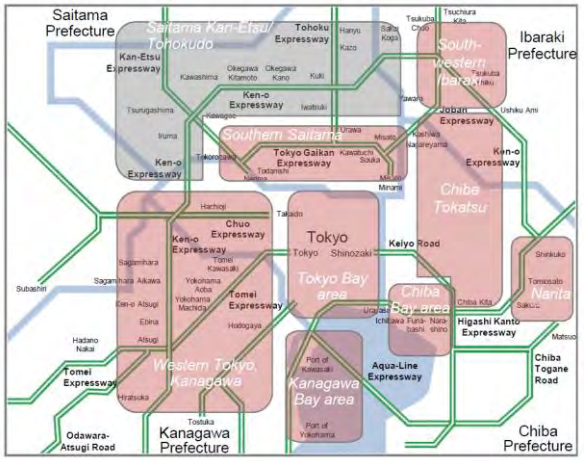
Tokyo Metropolitan Area

Strong demand exceeding 200,000 tsubo continued for the three consecutive quarter.

Vacancy rate: 2.44%
QoQ: Improved slightly

Total demand was slightly below 200,000 tsubo, remaining at a high level for the three consecutive quarter. The vacancy rate improved to 2.44%, remaining below 3%.
A large property with approx. 90,000 tsubo in the Kanagawa Bay area was fully occupied, and the Chiba Tokatsu area continues to absorb demand for large properties. An upward trend of contract rents has been observed in areas where the vacancy rate is below 5%.
Supply at the same level as the first half of 2019CY is scheduled for the second half. The current reservation rate is approx. 70%; given the strong demand, the vacancy rate is expected to remain low.



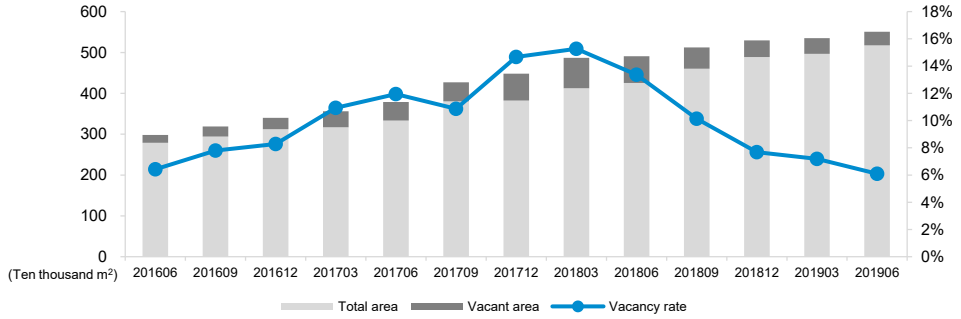


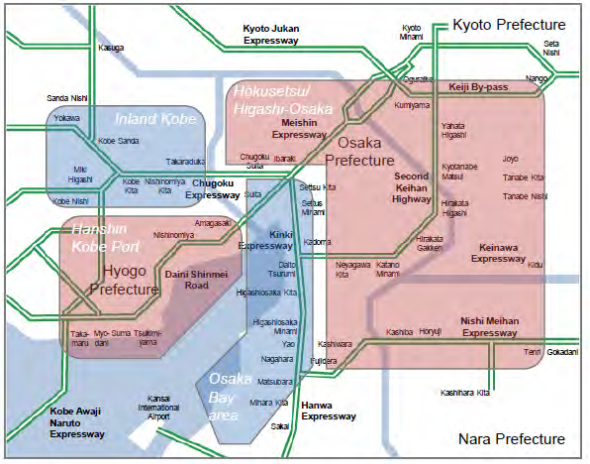
Osaka Area

Record low vacancy rate achieved after the digestion of a large number of properties supplied in the past

Vacancy rate: 6.09%
QoQ: Improved

Since the surveys started in Q2 of 2016CY, new properties of approx. 800,000 tsubo have been supplied, and the market size has doubled.
A large number of properties were digested thanks to high demand since 2018CY1Q, and the vacancy rate hit a new record of 6.09%, the lowest since the surveys started in 2016CY2Q. While the vacancy rate is rapidly rising in the Inland Kobe area in this moment, some of the tenants have been reserved. All new properties supplied in the second half of 2019CY have reportedly been reserved, and the vacancy rate is expected to decrease further.
However, large properties are scheduled to be supplied in 2020CY, and the situation remains unpredictable.





Source: "LogiSquare Market Report on Warehouses and Logistics Properties June 2019" of CRE, Inc.

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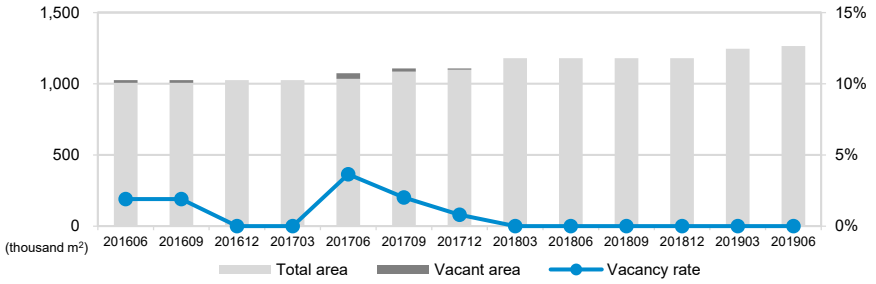
Market Trends
(2) Individual Areas of Tokyo Metropolitan Area (from LogiSquare Market Report)

Southern Saitama Area

Urawa Misono

Vacancy rate: 0.00% QoQ: Stagnant

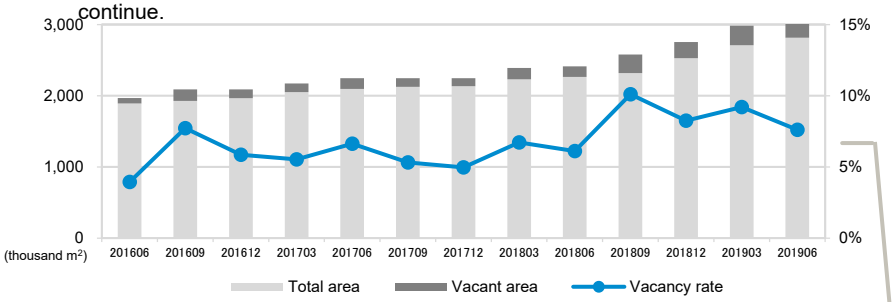
The vacancy rate was 0%, remaining at an extremely low level as in the previous Q. New supplies in the current Q were completed with full occupancy, and the vacancy rate remained 0% for five consecutive quarters, confirming strong demand in the area. While the reservation rate of new supply with approx. 15,000 tsubo in the remainder of 2019CY is only approx. 50%, the impact on the vacancy rate is likely limited, given large stocks and high demand.



Saitama Kan-Etsu and Tohoku Expressway Area

Vacancy rate: 7.61% QoQ: Improved

The vacancy rate improved 1.61 points from the previous Q, to 7.61%. The vacancy rate improved thanks to the steady digestion of existing properties and the full occupancy of one of three properties completed in the current Q. New supply of slightly less than 60,000 tsubo is scheduled in the latter half of 2019CY, approx. 70% of which is reserved; the vacant area, however, is still approx. 70,000 tsubo, nearly twice that in 2017CY, suggesting that the uncertain conditions will continue.

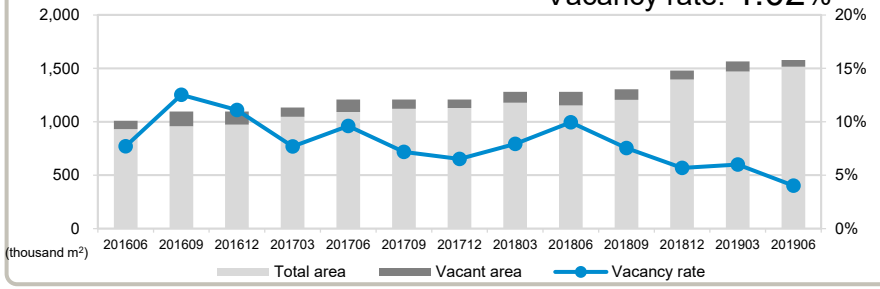


Breakdown: Saitama Kan-Etsu and Tohoku Expressway Area

Saitama Kan-Etsu Expressway Area

Niiza | Kawagoe

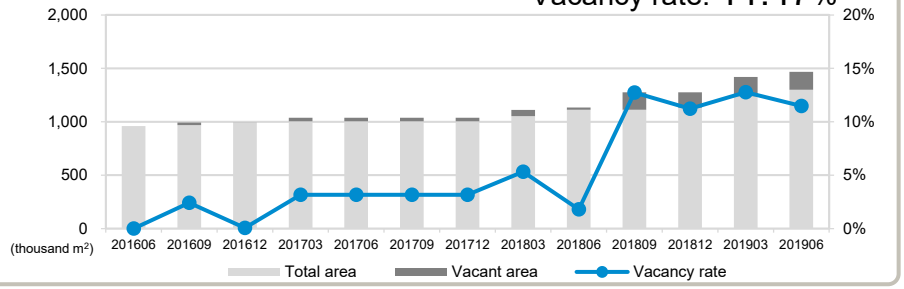
Vacancy rate: 4.02%



Saitama Tohoku Expressway Area

Kuki | Hanyu
Kuki II | Kasukabe

Vacancy rate: 11.47%



Source: "LogiSquare Market Report on Warehouses and Logistics Properties June 2019" of CRE, Inc.

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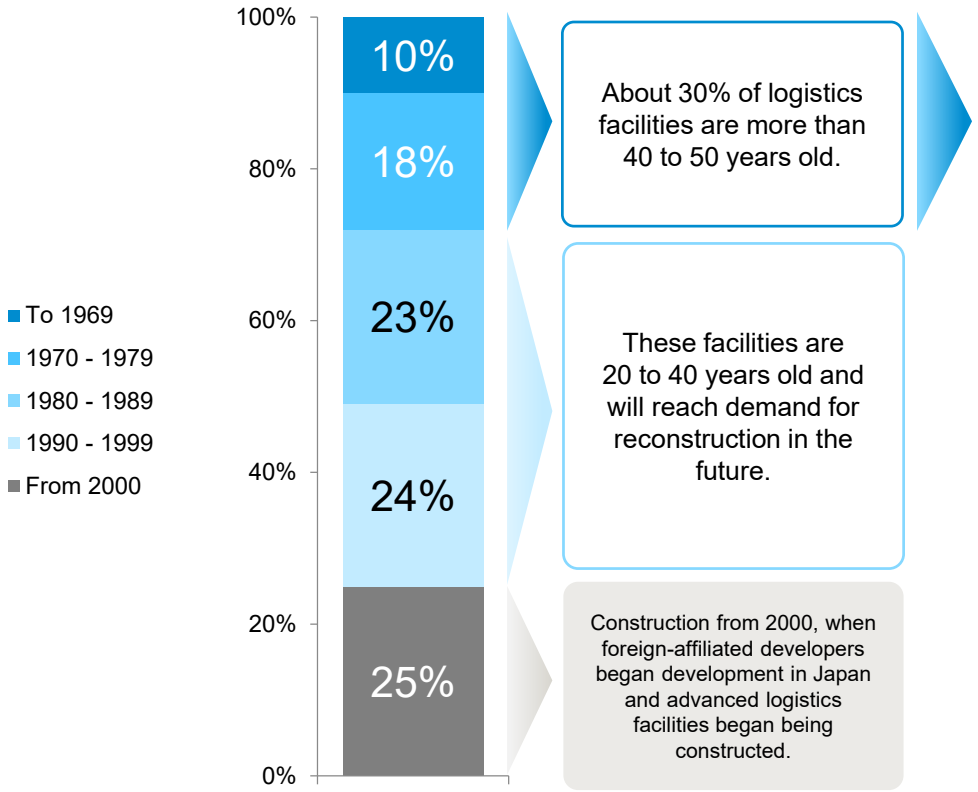
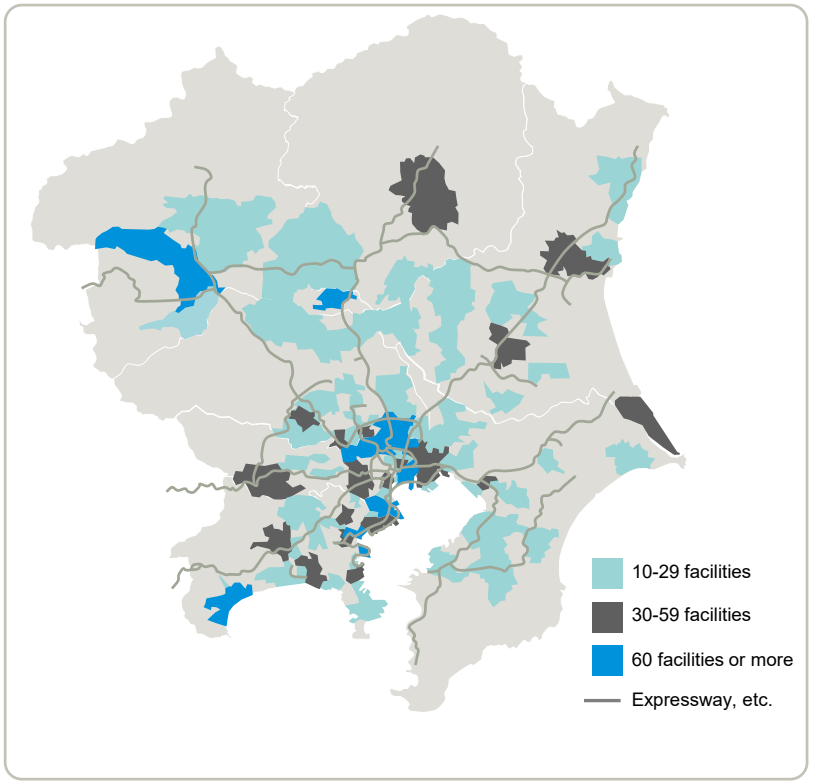
Rising Demand for Rental Logistics Facilities
(1) Reconstruction Demand for Logistics Facilities

- About 30% of logistics facilities in the Tokyo Metropolitan Area were constructed during the period of high economic growth or the economic bubble, and they are 40 to 50 years old.
- Given that the useful life of logistics facilities under the tax code is 38 years(Note 1), demand for reconstruction in pursuit of functionality appears to be increasing.

Percentage of logistics facilities in the Tokyo Metropolitan Area by year of construction



Distribution of locations by the number of facilities



Note 1: Steel-reinforced concrete or reinforced concrete structures
Note 2: Tokyo Metropolitan Area includes Tokyo, Kanagawa, Saitama, Chiba, central and southern Ibaraki, southern Tochigi and southern Gunma
Note 3: Prepared by the Asset Management Company based on data from Tokyo Metropolitan Transportation Planning Association

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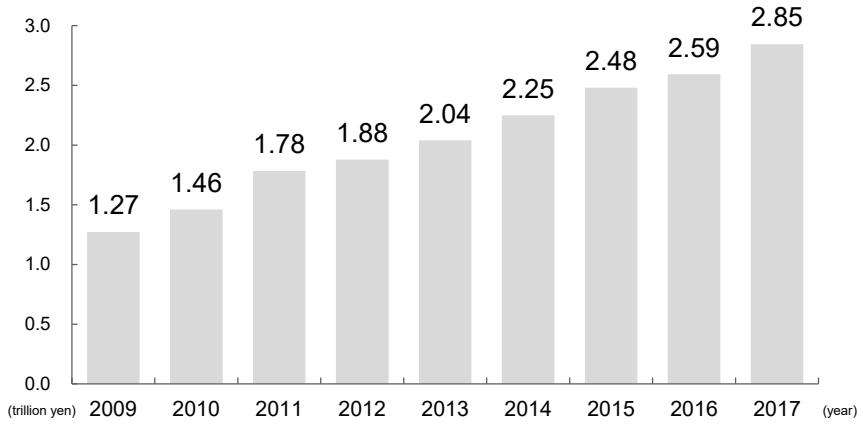
Rising Demand for Rental Logistics Facilities
(2) Expansion of 3PL Market and EC Market

- The market for third-party logistics (3PL) is growing as increasingly companies are tending to comprehensively outsource their logistic operation.

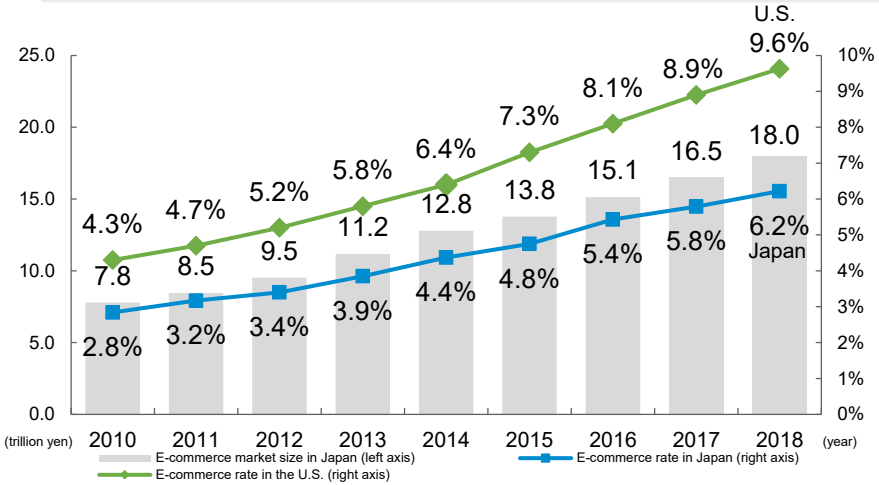
3PL (Third-Party Logistics) Market Size



Source: "The monthly Logistics Business" September 2018 issue

- The EC market is expanding year by year. However, in Japan, the EC rate is low compared with other advanced economies and there is still much room for expansion.

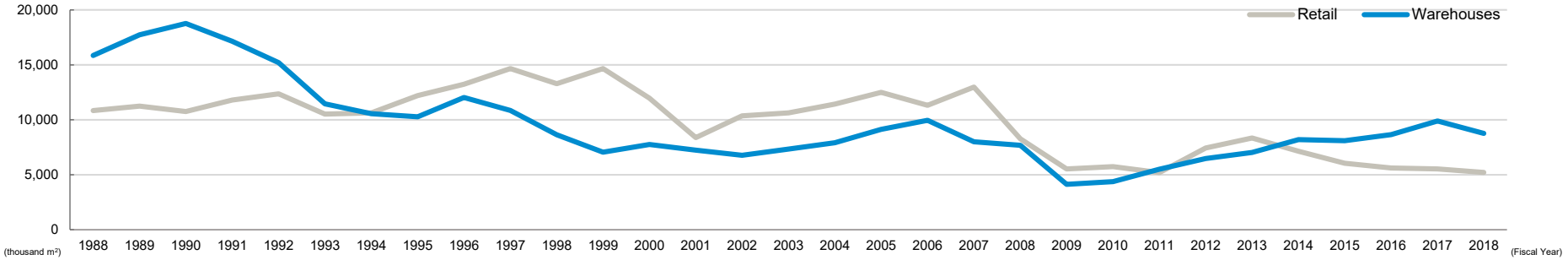
Growth in the BtoC e-commerce market size in Japan



Note 1: Prepared by the Asset Management Company based on data of the Ministry of Economy, Trade and Industry for the BtoC e-commerce market size and the e-commerce rate in Japan and data of the United States Census Bureau for the e-commerce rate in the U.S.
Note 2: The ratio of the e-commerce market size to the amount of all commercial transactions (the commercial transaction market size). The e-commerce rate in BtoC e-commerce refers to the value in the field of product sales.

- In 2014, warehouses overtook retail in terms of the floor space of new construction starts.

Trends in Floor Space of New Construction Starts



Note: Prepared by the Asset Management Company based on the Japan Construction Starts Report by the Ministry of Land, Infrastructure, Transport and Tourism.

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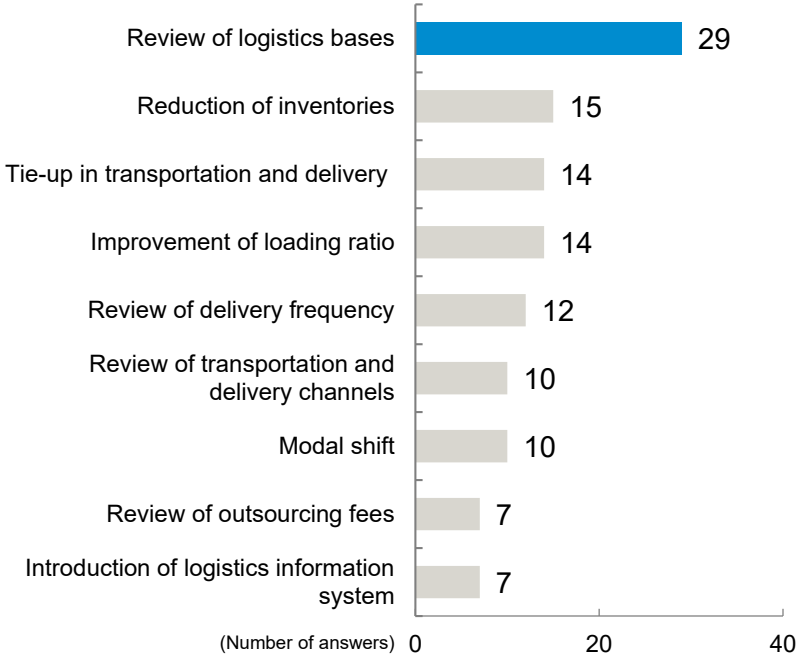
Rising Demand for Rental Logistics Facilities
(3) Rising Importance of Logistics Network Strategy

- A majority of companies mention a review of logistics bases as an important cost-cutting measure that needs to be implemented.

Important Cost-cutting Measures to be Implemented



Note 1: Prepared by the Asset Management Company based on the "Fiscal 2017 Research Report on Logistics Costs" of JILS

- Warehouse rents account for less than 10% of the cost of goods sold of major logistics companies, which is a small percentage compared to other costs such as labor costs.
- There is perhaps much room to reduce and curb costs from the viewpoint of employment and transportation, even if warehouse rents do rise, by reviewing logistics bases.

Warehouse Rents as Percentage of COGs at Major Logistics Companies (Note 2) (Note 3)

	Company A	Company B
Warehouse rents as % of COGs	6.8%	10.0%
Labor cost as % of COGs	22.4%	10.7%

Note 2: Listed companies that are not affiliated with electric railway companies are excluded from the 20 largest listed companies in terms of revenue that belong to the "land transportation industry" (middle classification) among the sectors in the Appendix of the Sector Classification Handling Guidelines published by the Securities Identification Code Committee and then information is provided about two listed companies (i) for which details of non-consolidated COGs figures are stated in their annual reports and (ii) which the Asset Management Company, upon consideration of their non-consolidated and consolidated COGs figures, judged to be core companies of the Groups to which they belong. The table shows the trend in relation to two specific leading logistics companies and the same trend does not necessarily apply to other major logistics companies.

Note 3: Created by the Asset Management Company based on the annual reports of each of the above companies for the fiscal year ended March 31, 2019.

Network strategy will become increasingly important
due to driver shortages, difficulties securing warehouse workers and rising fuel prices.

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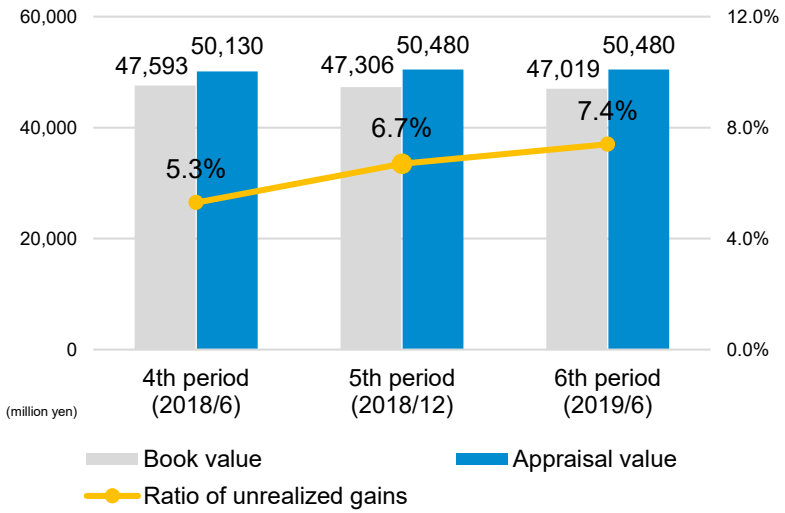
6. Appendix

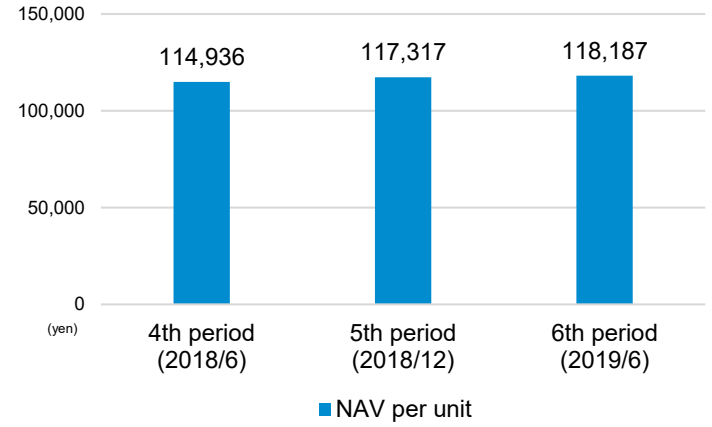
LogiSquare Kuki II
CRE-REIT leases the roofs of six out of the nine properties it owns to a solar power company, thereby helping generate renewable energy.

Overview of Appraisal

	5th period (2018/12)	6th period (2019/6)	Compared to previous period
Appraisal value	50,480 million yen	50,480 million yen	— million yen
Book value	47,306 million yen	47,019 million yen	-287 million yen
Unrealized gains and losses	3,173 million yen	3,460 million yen	+287 million yen
Unrealized gains	6.7%	7.4%	+0.7%
NAV per unit	117,317 yen	118,187 yen	+870 yen

One characteristic of logistics facilities is that the ratio of building value to land is typically high, and so depreciation expense tends to be higher than for other asset classes. Since unrealized gains are the difference between appraisal value at end of period and book value after deduction of depreciation expense, CRE-REIT, which holds fairly new properties and has minimal capital expenditure, tends to record increasing unrealized gains because, at the end of each period, the sum of depreciation expense and any increase in appraisal value at the end of the period is added to unrealized gains at the end of the previous period.





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Overview of Appraisal

No.	Property name	Acquisition month and year	Acquisition price (million yen)	Book value at the end of the 6th period (million yen)	At the end of the 6th period(Note) (June 30, 2019)		At the end of the 5th period (December 31, 2018)		Changes		Unrealized gains and losses (million yen)	Ratio of unrealized gains (%)
					Appraisal value (million yen)	Direct capitalization rate (%)	Appraisal value (million yen)	Direct capitalization rate (%)	Appraisal value (million yen)	Direct capitalization rate (%)		
M-1	LogiSquare Kuki	Jul. 2016	9,759	9,419	10,300	4.5	10,300	4.5	—	—	880	9.3
M-2	LogiSquare Hanyu	Jul. 2016	6,830	6,594	7,070	4.7	7,060	4.7	+10	—	475	7.2
M-3	LogiSquare Kuki II	Feb. 2018	2,079	2,067	2,170	4.8	2,170	4.8	—	—	102	5.0
M-4	LogiSquare Urawa Misono	Feb. 2018	13,060	13,025	13,900	4.4	13,900	4.4	—	—	874	6.7
M-5	LogiSquare Niiza	Feb. 2018	6,960	6,925	7,280	4.6	7,270	4.6	+10	—	354	5.1
M-6	LogiSquare Moriya	Feb. 2018	6,157	6,125	6,630	4.7	6,630	4.7	—	—	504	8.2
O-1	LogiSquare Tosu	Apr. 2018	2,880	2,862	3,130	4.7	3,150	4.7	-20	—	267	9.3
	End of 6th Period Total/Average	—	47,725	47,019	50,480	—	50,480	—	—	—	3,460	7.4

For Reference: After Acquisition of Newly Acquired Assets (as of July 16, 2019)

Newly acquired assets

M-7	LogiSquare Kawagoe	Jul. 2019	1,490	—	1,570	4.6	—	—	—	—	80	5.4
M-8	LogiSquare Kasukabe	Jul. 2019	4,900	—	5,300	4.5	—	—	—	—	400	8.2
	After acquisition of newly acquired assets Total/Average	—	54,115	—	57,350	—	—	—	—	—	3,940	7.4

Note: Based on the appraisal report with May 31, 2019 as the date of the value opinion in the case of newly acquired assets

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Location of Assets Held, Newly Acquired Assets and Assets in Pipeline

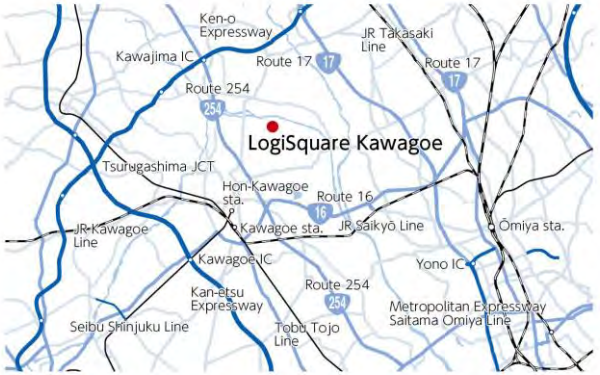
Newly Acquired Assets
(1) M-7 LogiSquare Kawagoe

Low-Type | Single | Tokyo Metropolitan Area | Ken-O Expressway, Kan-etsu Expressway, National Route 254, National Route 16 | BELS ★★★★

Location	2-8-45 Yoshinodai, Kawagoe-shi, Saitama
Access	Approximately 6.9 km from Kawajima interchange on Ken-O Expressway, and approximately 10 km from Kawagoe interchange on Kan-etsu Expressway
Structure	Steel construction, alloy coated steel sheet roof, two floors
Total floor area	7,542.56 m²
Total leasable area	7,542.56 m²
Planned acquisition price	1,490 million yen
Appraisal value	1,570 million yen
Appraisal NOI yield	5.0%
Completion date	February 2018
Occupancy rate	100.0%
Lease term	10.0 years
Tenant	Tokyo Logistics Factory Co., Ltd.

Property Features

- The property has a good location, approximately 6.9 km from Kawajima interchange on Ken-O Expressway and approximately 10 km from Kawagoe interchange on Kan-etsu Expressway. It is also in close vicinity to National Route 254 and National Route 16, which are major highways, and offers excellent access to Route 17 Shin-Omiya Ageo Road. Convenience will be improved still further through the opening of the Kawagoe Northern Circular Route.
- Located in the exclusive industrial zone in Kawagoe Industrial Park, the property is surrounded by many warehouses and factories, enabling tenants to operate 24 hours.
- The property is equipped with earthquake early warning system and AED, which are fitted as standard in LogiSquare facilities. In addition, the fire alarm system has an isolator to prevent fire shutters from short-circuiting and malfunctioning in the event of a fire and to prevent the fire from spreading.



Basic specifications	
Berth depth	13.5 m or more
Effective ceiling height	1F 6.15 m, 2F 6.0 m
Pillar span	10.0 m × 8.8 m
Floor loading	1.5 t/m²
Sandwich panels	○

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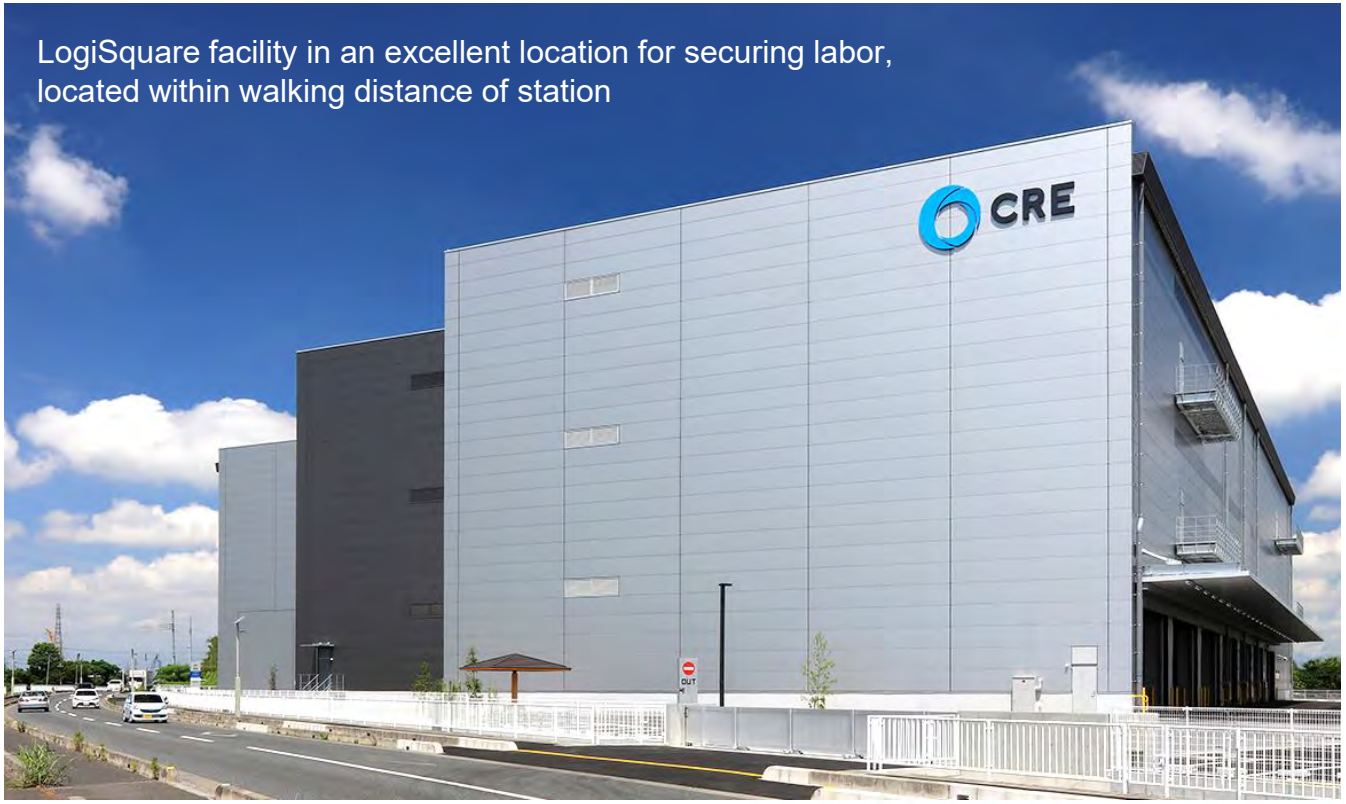
Newly Acquired Assets
(2) M-8 LogiSquare Kasukabe

Box-type | BTS-Single | Tokyo Metropolitan Area | Tohoku Expressway, National Route 16, National Route 4 | CASBEE Saitama Prefecture A ranking | BELS ★★★★★



Location	2126 Mukai-dori, Naganuma, Kasukabe-shi, Saitama
Access	Approximately 15 km from Iwatsuki Interchange on Tohoku Expressway
Structure	Reinforced concrete, steel construction, alloy coated steel sheet roof, three floors
Total floor area	21,315.54 m²
Total leasable area	21,315.54 m²
Planned acquisition price	4,900 million yen
Appraisal value	5,300 million yen
Appraisal NOI yield	5.1%
Completion date	June 2018
Occupancy rate	100.0%
Lease term	10.0 years
Tenant	Koizumi Logistics Service Corporation

Property Features

- The property is in close vicinity to National Route 16 and National Route 4 (Koshigaya-Kasukabe Bypass), which are major highways, and is located around 1.8 km from the Showa Interchange, where these two highways intersect. The property is expected to become even more convenient with the planned extension of National Route 4 (Higashi-Saitama Road).
- The property is also in an excellent location for securing labor as it is within walking distance (approximately 1.1 km) from Minami-Sakurai Station on the Tobu Urban Park Line.
- The facility has truck berths on two sides (the northeast side and northwest side) of the first floor, with 26 truck berths in total. To prevent congestion and accidents, the facility is designed to have the traffic flow in one direction and is equipped with an entry-only gate and an exit-only gate.

Basic specifications	
Berth depth	13.4 m + eaves 4.0 m
Effective ceiling height	6.0 m
Pillar span	10.7 m (10.8 m in parts)×10.5 m
Floor loading	1.5 t/m²
Sandwich panels	○

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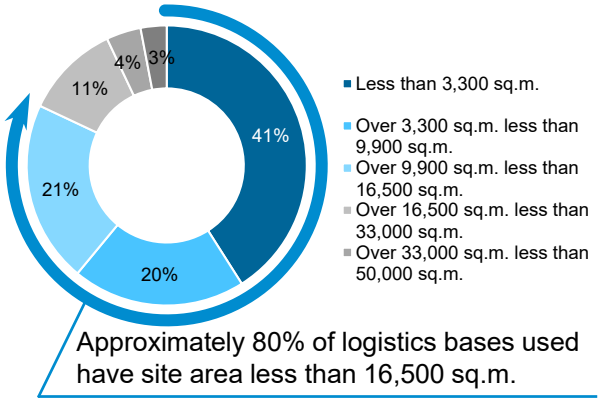
High-quality Portfolio (4) Competitive Advantage of Mid-sized Facilities

Many enterprises want to share a mid-sized logistic facility with a small number of other tenants and there is strong tenant demand for the logistics facilities developed by CRE.

1 Usage area per logistics base in the Tokyo Metropolitan Area

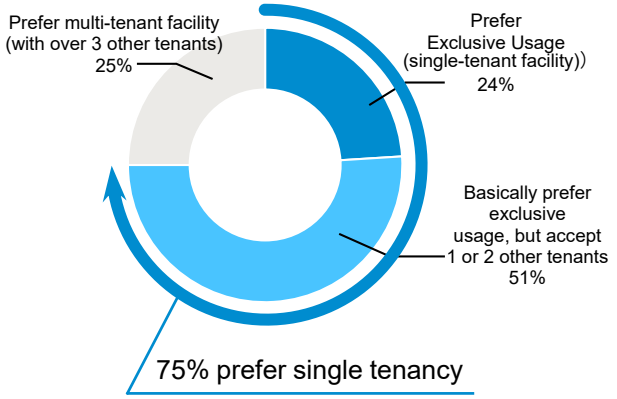
Approximately 80% of logistics bases used by consignors or logistics operators in the Tokyo Metropolitan Area are less than 16,500 sq.m. in site area(Note 1).



n = 655 buildings
Source: Sumitomo Mitsui Trust Research Institute Co., Ltd.

2 Desirable tenant mix

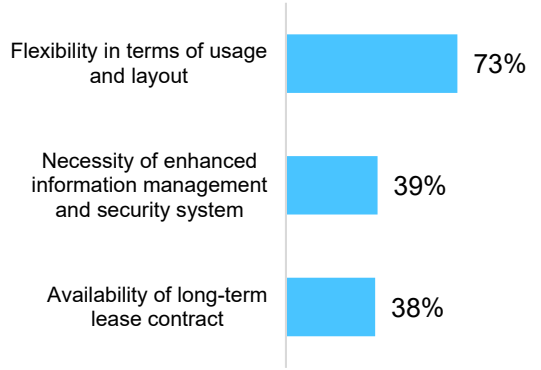
Approximately 75% prefer exclusive usage of facilities with up to 2 other tenants if they are to lease logistics facilities in the future.



n＝145 companies
Source: Sumitomo Mitsui Trust Research Institute Co., Ltd.

3 Reason for selecting single-tenant facility

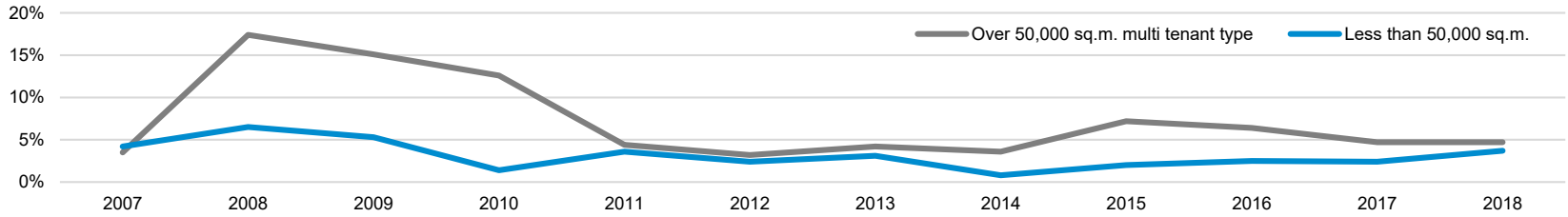
Respondents who prefer single-tenant facilities quoted the flexibility in terms of usage and layout, the necessity of enhanced information management and security system, and the availability of long-term lease contract.



n = 94 companies
Source: Sumitomo Mitsui Trust Research Institute Co., Ltd.

4 Vacancy rate per facility size in the Tokyo Metropolitan Area

Generally, logistics facilities with an area of less than 50,000 sq.m. have lower vacancy rates than multi-tenant logistics facilities with an area over 50,000 sq.m.(Note 2), suggesting a high level of demand.



Source: CBRE K.K

Note 1: Figures calculated based on a survey conducted by Sumitomo Mitsui Trust Research Institute Co., Ltd. from August to September 2017 (hereinafter the "Survey") are presented. In the Survey, a questionnaire was sent to 3,022 shipping and logistics companies, and the answers obtained from 199 companies are aggregated. Hereinafter the same applies to statements sourced by the surveys of Sumitomo Mitsui Trust Research Institute Co., Ltd. in this material.

Note 2: "Multi tenant-type" in "Vacancy rate per facility size in the Tokyo Metropolitan Area" refers to logistics facilities that were planned and designed on the premise of being used by multiple tenants at the development stage in principle.

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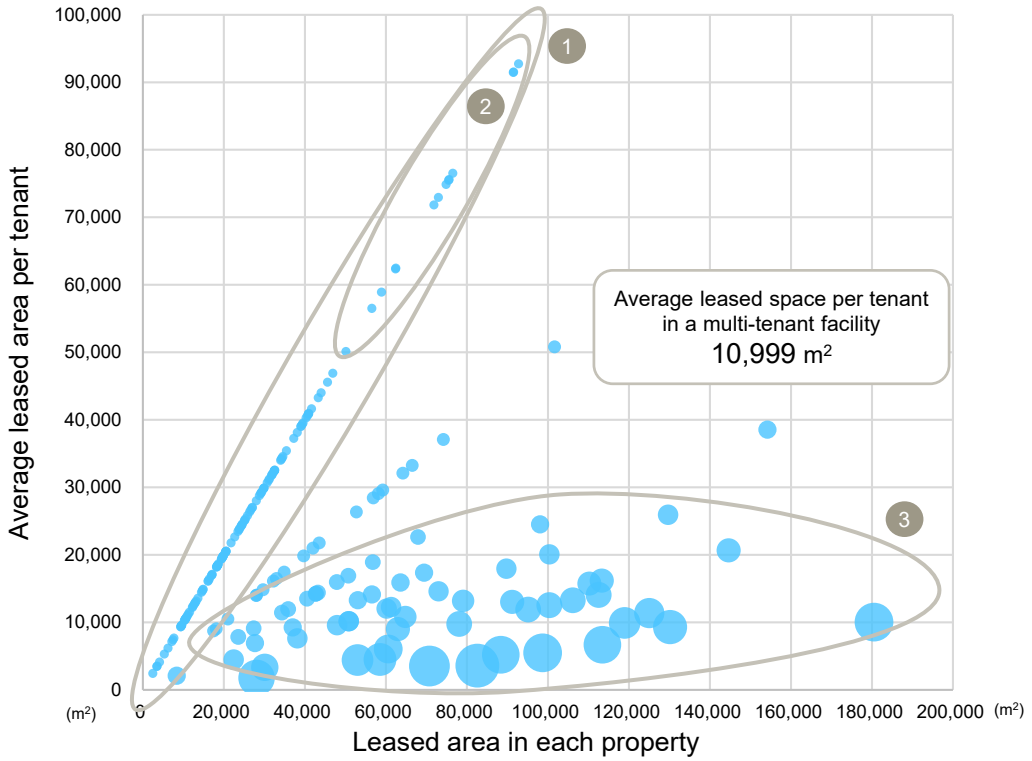
High-quality Portfolio (4) Competitive Advantage of Mid-sized Facilities

Since there is no change in the average leased space per tenant regardless of the size of the building, mid-sized facilities are very convenient for tenants who want to share with a small number of other tenants.

Correlation between leased area of each property and average leased area per tenant in case of logistics REITs(Note 1)(Note 2)

1. Single-tenant facilities account for 60% of all properties.
2. Tenants able to lease an entire facility of 50,000 sqm or more account for 2.3% of all tenants.
3. At multi-tenant facilities with 2 or more tenants, the average leased area per tenant is less than 20,000 sqm regardless of the size of the building.

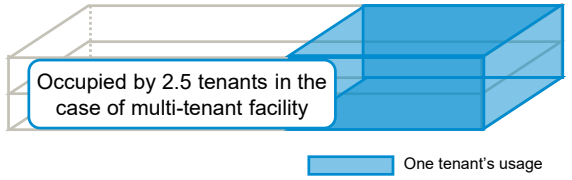


Note 1: The size of the bubble represents the number of tenants.
Note 2: Created by the Asset Management Company based on the most recent financial results of Japan Logistics Fund, Inc., GLP J-REIT, Nippon Prologis REIT, Inc., LaSalle LOGIPORT REIT, Mitsui Fudosan Logistics Park Inc., Mitsubishi Estate Logistics REIT Investment Corp., ITOCHU Advance Logistics Investment Corp. and CRE-REIT.

Average Leased Area for CRE-REIT

	All properties	Multi-tenant facilities
Average leased area of property	29,939 m²	40,430 m²
Average leased area per tenant	20,957 m²	16,172 m²

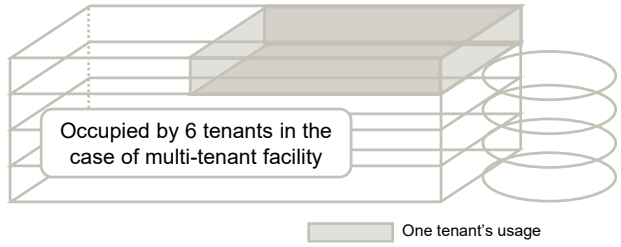
Illustration of average multi-tenant facility in case of CRE-REIT



Average Leased Area for Logistics REITs

	All properties	Multi-tenant facilities
Average leased area of property	42,264 m²	66,162 m²
Average leased area per tenant	14,764 m²	10,999 m²

Illustration of average multi-tenant facility in case of Logistics REITs



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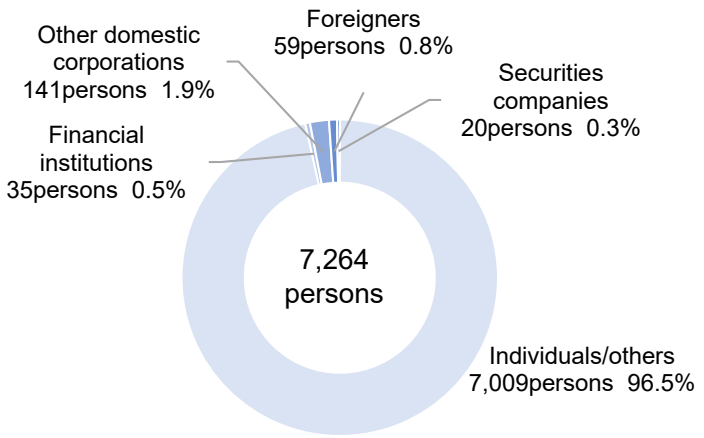
Status of Investors

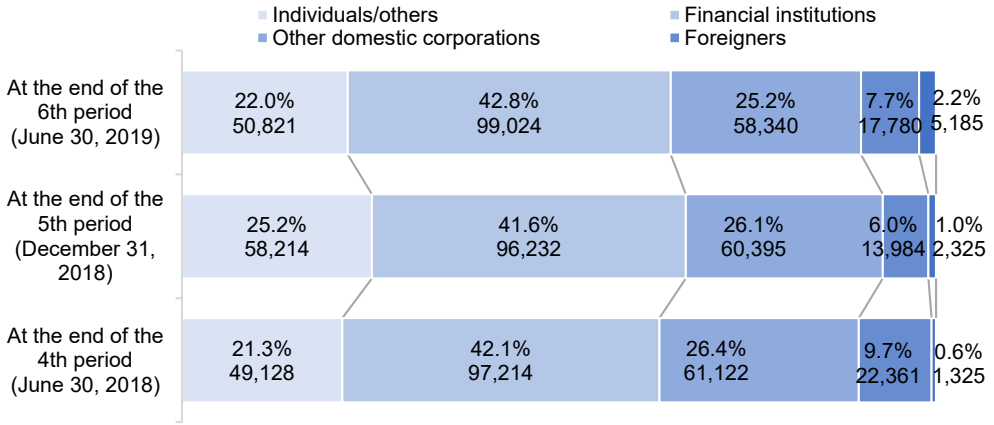
Major investors

Name	Number of investment units (units)	Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	44,503	19.3
CRE, Inc.	33,100	14.3
The Master Trust Bank of Japan ,Ltd. (Trust Account)	25,967	11.2
Fukuoka Jisho Co., Ltd.	10,000	4.3
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	5,128	2.2
Kyushu Leasing Service Co., Ltd.	5,000	2.2
Kinki Sangyo Credit Union	4,380	1.9
GOLDMAN,SACHS&CO.REG	3,381	1.5
An individual	3,340	1.4
Aozora Bank, Ltd.	3,204	1.4
Total	138,003	59.7

Number of investors by type of owner



Number of investment units by type of owner



Note: As of June 30, 2019

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