

October 8, 2013

To All Concerned Parties

REIT Issuer:  
Kenedix Realty Investment Corporation  
Naokatsu Uchida, Executive Director  
(Securities Code: 8972)

Asset Management Company:  
Kenedix Real Estate Fund Management, Inc.  
Ryosuke Homma, CEO and President

Inquiries:  
Hikaru Teramoto  
General Manager of Planning Department  
KRI Fund Division  
TEL.: +81-3-3519-3491

Notice Concerning the Formation of an Open-ended Unlisted Privately Placed Real Estate Investment Corporation by the Asset Management Company, and Decision to Submit Notification of Change in Details and Method of Operations

Kenedix Real Estate Fund Management, Inc. (“KFM”), which is entrusted with the management of assets by Kenedix Realty Investment Corporation (“KRI”), has decided to establish a new open-ended unlisted privately placed real estate investment corporation (the “Unlisted Investment Corporation”) for which KFM is the organizer. As part of the establishment of the Unlisted Investment Corporation, KFM will submit a notification of a change in details and method of operations based on Article 31, Paragraph 3 of the Financial Instruments and Exchange Act and Article 21 of the Cabinet Office Ordinance on Financial Instruments Business, etc. to the Commissioner of the Financial Services Agency.

1. Intent of the Decision

Since the operation of open-ended unlisted privately placed real estate investment corporations (“privately placed REITs”) first commenced in Japan in 2011, total assets under management are said to have exceeded ¥400 billion as of July 31, 2013.

It is believed that the expansion of privately placed REITs that possess different product characteristics to listed real estate investment corporations demonstrates investors’ desire for investment diversification.

Based on such conditions, KFM has decided to prepare for the establishment of the Unlisted Investment Corporation <sup>(Note)</sup> in order to form a privately placed REIT for securing stable earnings in

the medium- to long-term without being directly affected by financial and capital markets.

KFM aims to prevent conflicts of interest by separating the main target investments and other investment criteria of the Unlisted Investment Corporation from KRI, in addition to strictly adhering to rules concerning “preferential study rights” and “Pipeline Meetings,” which are rules for preventing conflicts of interest that arise between investment corporations and real estate funds other than investment corporations that are operated by KFM. (With the establishment of the Unlisted Investment Corporation, KFM will partially amend the rules on the “preferential study rights.” An overview of the amended rules can be found in “5. Approach to Conflicts of Interest” below.)

KFM aims for the Unlisted Investment Corporation to receive the full support of Kenedix, Inc., the sponsor company, in the same way KRI is supported, and to provide products offering stable earnings and sustainable growth in the long term.

Note: The establishment of the Unlisted Investment Corporation is conditional upon the acquisition of necessary approvals, etc. from the relevant authorities.

2. Schedule of Establishment and Operation of the Unlisted Investment Corporation <sup>(Note)</sup>

Notification of Establishment	Mid-October 2013 (scheduled)
Establishment of the Unlisted Investment Corporation	Mid-October 2013 (scheduled)
Application for Registration	Mid-October 2013 (scheduled)
Completion of Registration	Mid-November 2013 (scheduled)
Commencement of Operations	Mid-March 2014 (scheduled)

Note: The above schedule is KFM’s plan as of the date of this document, and the actual schedule for the establishment of the Unlisted Investment Corporation may be altered at a later date due to the progress of internal procedures within KFM or approval, etc. by the relevant authorities.

3. Characteristics of the Unlisted Investment Corporation (planned)

- (1) Equity funding is scheduled to be obtained through private placement with investors aiming for stable investment income in the medium- to long-term.
- (2) The financial policy is scheduled to involve keeping the ratio of interest-bearing debt at a relatively low level.
- (3) The Unlisted Investment Corporation is scheduled to conduct diversified investment primarily in large-scale office buildings, commercial facilities and hotels, with investment decisions based on factors such as the scarcity and liquidity in the real estate market, real estate supply and demand and stability of value.
- (4) The Unlisted Investment Corporation is an open-ended investment corporation with provisions

for refunding investment units based on requests by investors, and there are no plans to list investment units.

- (5) Solicitation of investment units will only be carried out for qualified institutional investors stipulated under the Financial Instruments and Exchange Act and institutional investors stipulated under the Act on Special Measures Concerning Taxation.

#### 4. Overview of the Notification of the Change in Details and Method of KFM Operations

##### (1) Details of the Change

The following points will be changed in the statement of operational procedures.

- Addition of management of assets of an open-ended investment corporation as a financial instruments transaction conducted by the investment management business operator
- Addition of provisions regarding the management of the Unlisted Investment Corporation's assets.

Furthermore, the following points will be changed in the organization rules and the rules on responsibilities and authority, which are appended to the statement of operational procedures.

- Addition of provisions on a new fund division (the "New Fund Division") for conducting the management of the Unlisted Investment Corporation's assets. <sup>(Note)</sup>

Note: The New Fund Division, which is responsible for the management of the Unlisted Investment Corporation's assets, and the KRI Fund Division, which is responsible for the management of KRI's assets, are separate divisions. Please see the attached document (Reference) for details.

##### (2) Notification Date

Mid-October, 2013 (planned)

#### 5. Approach to Conflicts of Interest

With the establishment of the Unlisted Investment Corporation, KFM is to be entrusted with the management of the assets of KRI, Kenedix Residential Investment Corporation ("KDR") and the Unlisted Investment Corporation. Furthermore, KFM will also be entrusted with the management of real estate funds, etc. other than those of investment corporations (special purpose companies and other corporate forms used as investment vehicles that include but are not limited to partnerships and trust beneficiaries, and are hereinafter referred to as "real estate funds").

Therefore there is a possibility of conflicting acquisition opportunities occurring between KRI, KDR, the Unlisted Investment Corporation and real estate funds after the establishment of the Unlisted Investment Corporation. To begin with, conflicts between investment corporations are avoided by having the Unlisted Investment Corporation principally invest in large-scale office buildings, commercial facilities and hotels, KRI in medium-scale office buildings, and KDR in rental housing and other residential properties, but there is expected to be some conflict between KRI, KDR and the

Unlisted Investment Corporation concerning the type of property being considered for acquisition. Furthermore, real estate funds are also expected to partially conflict with KRI, KDR and the Unlisted Investment Corporation concerning the type of property being considered for acquisition.

To address this, the rule on “preferential study rights,” which is a rule for coordinating conflicts in acquisition opportunities, will be partially amended with the establishment of the Unlisted Investment Corporation, and the ranking of the preferential right to study property information shall be revised as shown below. (For an overview of the existing rule on the “preferential study rights,” see “3. Conflict of Interest Approach (Preferential right to study property information)” in the “Notice Concerning Conclusion of Memorandum of Reorganization by Kenedix Office Partners, Inc., the Asset Management Company” dated May 28, 2013.)

KFM will continue to appropriately adhere to the rules on “preferential study rights” and prohibit an individual from concurrently serving as the general manager of the New Fund Division and the KRI Fund Division in an effort to prevent the arbitrary distribution of information on real estate acquisitions and to prevent conflicts of interest between each fund.

Although it is expected that there will be some conflicts concerning the type of property being considered for acquisition by KRI, KDR, the Unlisted Investment Corporation and real estate funds, considering the restrictions on the gross floor area prescribed in the rules stipulating the priority of preferential study rights, the preferential study right will be granted to KDR for most rental housing and other residential properties, to KRI for most medium-scale office buildings, and to the Unlisted Investment Corporation for most large-scale office buildings, commercial facilities and hotels, and it is anticipated that the restrictions on the acquisition of information on properties that are potential investments for KRI, KDR and the Unlisted Investment Corporation will be limited.

Below, “KRI” refers to the KRI Fund Division, “KDR” refers to the KDR Fund Division for KDR Asset Management, “New Fund” refers to the New Fund Division and “Private Fund” refers to the Private Fund Division for Private Fund Asset management.

(1) Preferential study rights pertaining to office buildings <sup>(Note 1)</sup>

Tokyo 23 Wards			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
Under 2,000	New Fund	KRI	Private Fund
2,000 to 13,000	KRI	New Fund	Private Fund
Over 13,000	New Fund	KRI	Private Fund

Outside Tokyo 23 Ward			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
Under 3,000	New Fund	KRI	Private Fund
3,000 to 20,000	KRI	New Fund	Private Fund
Over 20,000	New Fund	KRI	Private Fund

Note 1: “Office buildings” refers to real estate where the largest amount of floor space of the building(s)

composing the real estate is for office use as categorized under the Building Standards Act, or assets with such underlying real estate.

(2) Preferential study rights pertaining to rental housing and other residential properties <sup>(Note 2)</sup>

Tokyo 23 Wards			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
Less than or equal to 20,000	KDR	New Fund	Private Fund
Over 20,000	Private Fund	KDR	New Fund

Outside Tokyo 23 Wards			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
Less than or equal to 30,000	KDR	New Fund	Private Fund
Over 30,000	Private Fund	KDR	New Fund

Note 2: “Rental housing and other residential properties” refers to rental housing, serviced apartments, elderly-care housing, company rental housing, student dormitories and apartments, short-term apartments, etc. and other residential properties with facility operators, and land with leasehold interests on which any of the previously listed buildings are located where the largest amount of floor space of the building(s) composing the real estate is for residential use as categorized under the Building Standards Act, or assets with such underlying real estate.

(3) Preferential study rights pertaining to Retail Properties <sup>(Note 3)</sup>

Urban Retail Properties <sup>(Note 4)</sup>			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
All	New Fund	KRI	Private Fund

Note 3: “Retail Properties” refers to real estate where the largest amount of floor space of the building(s) composing the real estate is for store use as categorized under the Building Standards Act, or assets with such underlying real estate.

Note 4: “Urban Retail Properties” refers to real estate where the largest amount of floor space of the building(s) composing the real estate is for store use as categorized under the Building Standards Act and is located in a busy area with a high level of tenant substitutability, or assets with such underlying real estate.

Other than Urban Retail Properties			
Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
All	New Fund	Private Fund	—

(4) Preferential study rights pertaining to hotels<sup>(Note 5)</sup>

Floor area per building (m <sup>2</sup> )	Primary	2nd	3rd
All	New Fund	Private Fund	—

Note 5: “Hotels” refers to real estate that provides accommodation facilities where the largest amount of floor space of the building(s) composing the real estate is for hotel use as categorized under the Building Standards Act, is located in an area with high customer appeal and primarily has Western-style structure and facilities, or assets with such underlying real estate.

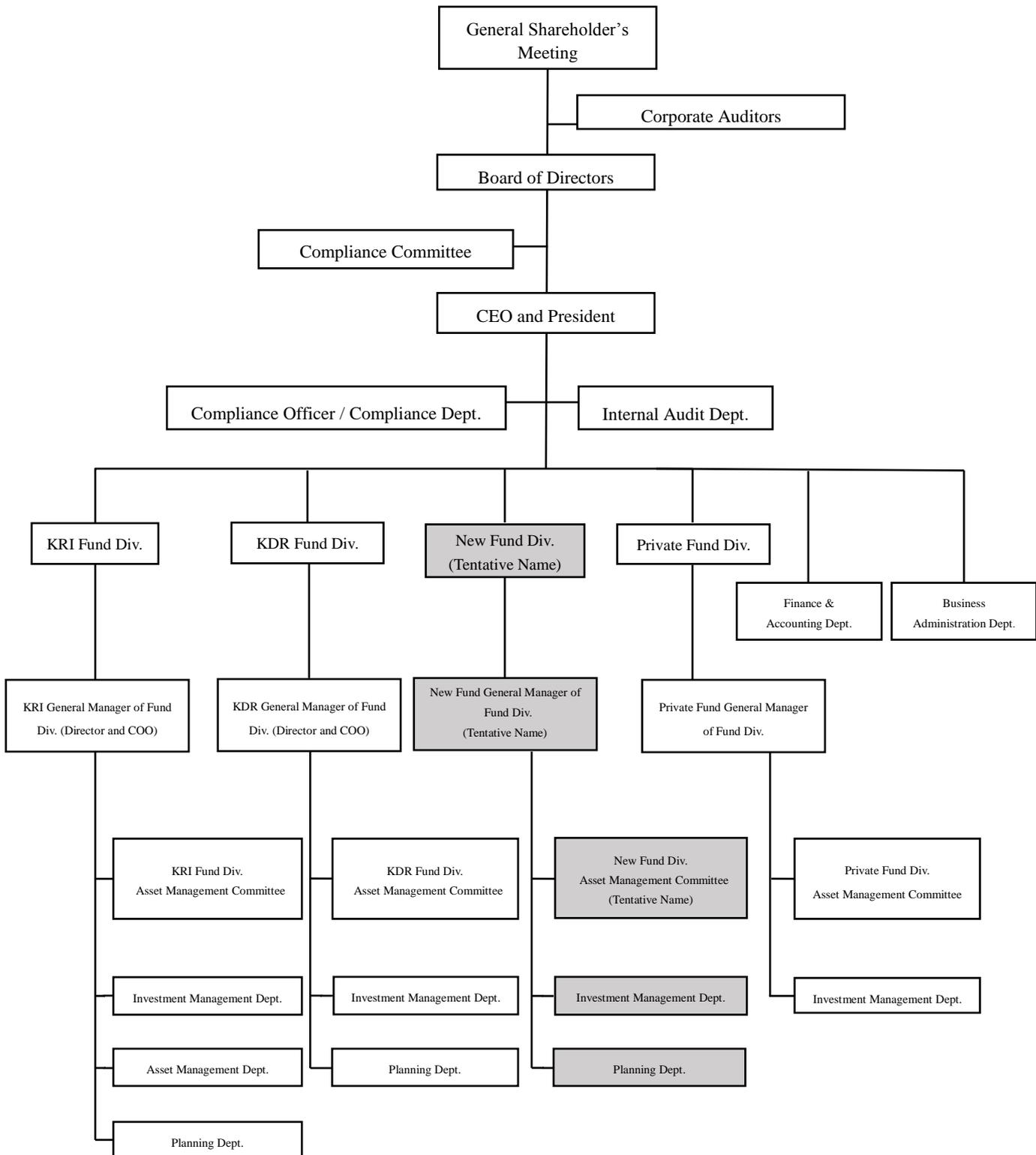
6. Impact on performance

There are no revisions to the operating forecasts of KRI for the fiscal period ending October 2013 (May 1, 2013 to October 31, 2013), as the impact on the KRI performance from the filing of notification of a change in details and method of KFM operations and related matters will be immaterial.

This notice is an English translation of the Japanese announcement on our Web site released on October 8, 2013. No assurance or warranties are given with respect to the accuracy or completeness of this English translation.

(Reference)

■ Organizational Chart of KFM (After)



■ : New Fund Division of Asset Management for an Open-ended Unlisted Privately Placed Real Estate Investment Corporation