

August 3, 2023

Real Estate Investment Trust Securities Issuer
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 (Securities Code: 3309)

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Notice Concerning Disposition of Trust Beneficiary Interest in Domestic Real Estate
(Sha Maison Stage Kanazawa Nishiizumi)

Sekisui House Reit, Inc. (“SHR”) hereby announces that Sekisui House Asset Management, Ltd. (“SHAM”), to which SHR entrusts management of its assets, decided today for SHR to dispose the following asset (the “Asset Disposition”) as described below.

1. Summary of the Asset Disposition

Property name	Type of use	Disposition price (Note 1)	Book value (expected) (Note 2)	Gain on disposition (expected) (Note 3)	Buyer (Note 4)
Sha Maison Stage Kanazawa Nishiizumi	Residence	1,100 million yen	985million yen	74million yen	Undisclosed

- a. Type of specified asset : Trust beneficiary interest in trust asset which is comprised of domestic real estate
- b. Contract date : August 3, 2023
- c. Brokerage : Applicable (Note 5)
- d. Disposition date : August 3, 2023
- e. Settlement method : Receipt of entire amount at time of delivery

(Note 1) “Disposition price” is the sale and purchase price stated in the sale and purchase agreement for the trust beneficiary interest (excluding consumption tax, local consumption tax, commission for sales, and other various expenses; rounded down to the nearest million yen). The same applies hereinafter.

(Note 2) “Book value (expected)” is the approximate value as of the date of this document, rounded down to the nearest million yen.

(Note 3) “Gain on disposition (expected)” is the approximate value as of the date of this document and is subject to change. Figures are rounded down to the nearest million yen. The same applies hereinafter.

(Note 4) The buyer is undisclosed because the consent for disclosure has not been obtained from the buyer.

(Note 5) The broker has no capital, personal and/or business relationship with SHR or SHAM that needs to be specified and does not fall within the definition of interested persons of SHR and SHAM.

2. Reason for the Asset Disposition

The asset to be disposed (“Disposition Asset”) is a property that was succeeded from Sekisui House Residential Investment Corporation (“SHI”) due to the merger with SHI, which came into effect on May 1, 2018 (the “Investment Corporation Merger”).

NOI yield after depreciation for the Disposition Asset (Note 1) is 2.5%, which is lower than the depreciated NOI yield of 3.3% for the entire residential portfolio as of the end of the fiscal period ended April 30, 2023 (17th fiscal period). In addition, the average buildings age is about 16 years, and SHR expects the profitability will decline due to the expected increase in repair expenses including large-scale repairs. The Disposition Asset has a fixed-rent master lease agreement, and although the average end-tenant occupancy rate remained at a constant level of 93.3% for the year from July 2022 to June 2023, due to

recent trends in average rent unit price for end tenants it is unlikely that rent will increase upon negotiations approaching with the contract termination scheduled for March 2025; thus expect that it will be difficult for profitability to recover. Under such circumstances, SHR received an offer from the buyer to purchase the property at a disposition price approximately 10% above the appraisal value of 990 million yen (as of April 30, 2023), and decided on the Asset Disposition based on the judgment that improving the profitability of the portfolio would contribute to maximizing unitholder value from a medium to long term perspective.

SHR expects to record a gain on disposition of 74 million yen from the Asset Disposition. In addition, the Disposition Asset is a property that SHR succeeded from SHI, and due to the difference in the book value for accounting purposes and the book value for tax purposes (Note 2), a discrepancy between tax and accounting reporting of 49 million yen is expected.

Furthermore, a portion of the disposition price is scheduled to be allocated towards the early repayment of existing loans. For details, please refer to the " Notice Concerning Partial Early Repayment of Existing Borrowings " separately announced today.

(Note 1) NOI yield after depreciation is the sum of the NOI after depreciation for the fiscal period ended October 31, 2022 (16th fiscal period) and the fiscal period ended April 30, 2023 (17th fiscal period) of the Disposition Asset, divided by the acquisition price of 1,080 million yen and rounded to the first decimal place.

(Note 2) The assets under management succeeded from SHI as a result of the Investment Corporation Merger were accounted by the purchase method in which SHR is the acquiring corporation and SHI is the acquired corporation and the appraisal value obtained by SHR as of April 30, 2018 is the actual received amount by SHR for accounting purposes. Since, however, SHR succeeded to the book value as of the last day of SHI's final operating period (April 30, 2018) for taxation purposes, the difference between book value for accounting purpose and taxation purpose has occurred at the time of the Asset Disposition.

3. Description of the Disposition Asset

Sha Maison Stage Kanazawa Nishiizumi

Overview of specified asset		
Property name	Sha Maison Stage Kanazawa Nishiizumi	
Type of specified asset	Trust beneficiary interest	
Trustee	Mitsubishi UFJ Trust and Banking Corporation	
Period of trust contract	From April 2, 2015 to March 31, 2025	
Disposition price	1,100 million yen	
Appraisal value (Date of value)	990 million yen (April 30, 2023)	
Appraiser	DAIWA REAL ESTATE APPRAISAL CO.,LTD.	
Location (residence indication)	2-155-1 Nishiizumi, Kanazawa-shi, Ishikawa	
Land	Lot	2-155-1 Nishiizumi, Kanazawa-shi, Ishikawa
	Site area	1633.40 m ²
	Use district	commercial zone / category 1 residential zone
	Building coverage ratio	80% / 60%
	Floor area ratio	400% / 200%
	Type of ownership	Ownership
Building	Use	Apartment complex
	Construction completion	September 2007
	Structure / Floors	RC/14F
	Total floor area	5,181.40 m ²
	Type of ownership	Ownership
Collateral	None	

Status of leasing and management	
Leasable area	4,634.50 m ² (Leasable unit: 60 units)
Leased area	4,634.50 m ² (Leased unit: 60 units)

Occupancy rate	End of Feb. 2023	End of Mar. 2023	End of Apr. 2023	End of May 2023	End of Jun. 2023
	100.0%	100.0%	100.0%	100.0%	100.0%
Number of tenants	1				
Monthly rent	6,198 thousand yen				
Leasehold and security deposits	12,482 thousand yen				
Property management company	Sekisui House Real Estate Chubu,Ltd.				
Master lease company	Sekisui House Real Estate Chubu,Ltd.				
Master lease type	Fixed rent type				
Master lease contract period	From April 1, 2020 to March 31, 2025				

Matters of special note

As of April 1, 2009, among the locations of the property, the commercial area was designated as an altitude zone of 31m. However, due to the height of the building being 43.59m, it is currently considered an unqualified existing building.

[Explanation of “3. Description of the Disposition Asset”]

- (1) “Appraisal value (Date of value)” is the appraisal value or the survey value along with the date of valuation prepared by the appraisal agency or price survey research agency that SHR and SHAM have entrusted with the appraisal or survey of the investment real estate, where the appraisal value or survey value is rounded down to the nearest million yen. In addition, the survey report is based on the Act on Real Estate Appraisal (Act No. 152 of 1963) and the “Guidelines Concerning Determination of the Purpose and Scope of Business when Real Estate Appraisers Conduct Price Surveys Relating to Real Estate and Statements on Results Report” stipulated by the Ministry of Land, Infrastructure, Transport and Tourism, thus was issued as a price survey that does not conform to real estate appraisal standards.
- (2) “Location” is the indication of the residential address. Residential address is based on the notice delivered by municipalities, the written property outline or written explanation of important matters. Furthermore, if there is no implementation of indication of residential address or no indication of residential address in the written property outline and written explanation of important matters, “Location” is the content of “Location of the building” section in the registry (including registration information; the same applies hereinafter) or the indication method used in practice as the location.
- (3) “Lot” and “Site area” are the parcel number (in cases where there are several, then one of them) and the sum total of parcel area based on that stated in the registry.
- (4) “Use district” is the type of use district listed in Article 8, Paragraph 1, Item 1 of the City Planning Act (Act No. 100 of 1968, including amendments thereto) (the “City Planning Act”).
- (5) “Building coverage ratio,” which is the ratio of the building area of the building to the site area as provided in Article 53 of the Building Standards Act (Act No. 201 of 1950, including amendments thereto) (the “Building Standards Act”), is the percentage figure provided in accordance with the Building Standards Act, the City Planning Act and other related laws and regulations.
- (6) “Floor area ratio,” which is the ratio of the total floor area of the building to the site area as provided in Article 52 of the Building Standards Act, is the percentage figure provided in accordance with the Building Standards Act, the City Planning Act and other related laws and regulations.
- (7) For “Land,” “Type of ownership” is the classification of the type of ownership, such as ownership right and compartmentalized ownership, interest held or to be held by the trustee.
- (8) “Use” is the major type indicated in the registry.
- (9) “Construction completion” is based on that stated in the registry.
- (10) “Structure / Floors” is based on that stated in the registry. Furthermore, the following abbreviations are used.
RC: Reinforced concrete structure; SRC: Steel reinforced concrete structure; S: Steel-framed structure
- (11) “Total floor area” is the sum total of floor area of the building (excluding annex buildings, etc.) indicated in the registry.
- (12) For “Building,” “Type of ownership” is the classification of the type of ownership, such as ownership right and compartmentalized ownership interest held or to be held by the trustee of the real estate trust.
- (13) “Collateral” outlines the collateral borne by SHR, if any.
- (14) “Leasable area” refers to the total floor area which is considered to be available for leasing based on the lease agreements or building drawings, etc., effective as of the end of June 2023.
- (15) “Leased area” is the sum total of the leased area indicated in the lease agreements or the leased area based on building drawings, etc., effective as of the end of June 2023.
- (16) “Occupancy rate” is the ratio of leased area to leasable area rounded to the first decimal place.
- (17) “Number of tenants” is the total number of the tenant based on the contents of the lease agreement, effective as of the end of June 2023. However, as for the Disposition Asset, since a master lease agreement has been concluded between the trustee and the master lease company, the number of the total lessee under the master lease agreement is stated in the total number. Please refer to (21) below for the definition of “master lease company” and “master lease agreement”.
- (18) “Monthly rent” is the monthly rent (the monthly rent excludes usage fee for parking, warehouses, signboards, etc. but includes common area fees. Consumption tax and local consumption tax are not included. The same applies hereinafter), based on the content of the fixed-rent master lease agreement concluded with the master lease company effective as of the end of June 2023 and shall be rounded down to the nearest thousand yen.
- (19) “Leasehold and security deposits” is the total amount of the leasehold and security deposits (excluding leasehold of parking. The

same applies hereinafter), based on the content of the fixed-rent master lease agreement concluded with the master lease company effective as of the end of June 2023 and shall be rounded down to the nearest thousand yen.

- (20) "Property management company" is the company entrusted with property management services.
- (21) "Master lease company" is the company that concluded a master lease agreement with the trustee. Furthermore, "master lease agreement" is a lease agreement of a building concluded in bulk in the purpose of the lessee subleasing the building to third parties. The same applies hereinafter.
- (22) "Master lease type" is the type of master lease agreement. "Fixed-rent type" is a master lease in which the rent that the master lessee pays is a fixed amount regardless of the rent that the sublessee pays to the master lessee. "Pass-through type" is a master lease in which the rent that the master lessee pays is always the same amount as the rent that the end-tenant pays to the master lessee.
- (23) "Matters of special note" is the matters considered important in relation to rights, use, etc. of the Disposition Asset, and the matters considered important in consideration of the degree of impact on the valuation, profitability and liquidity of the Disposition Asset including the following matters.
- a. Key limitations or restrictions by laws and regulations
 - b. Key burdens or limitations pertaining to rights, etc. (including establishment of security interest)
 - c. Key structures, etc. crossing the boundary between the real estate or real estate in trust and the adjacent land or issues with boundary confirmation, etc., as well as agreements, etc. thereof, if any
 - d. Key matters agreed upon or agreements, etc. with co-owners or compartmentalized ownership holders

4. Profile of Buyer

Although the buyer is a domestic company, details are undisclosed as consent on disclosure has not been obtained from the buyer. The concerned buyer has no capital, personal and/or business relationship with SHR or SHAM that needs to be specified and does not fall within the definition of a related party of SHR and SHAM.

5. Future Outlook

The effect of this Asset Disposition on the results of SHR is minimal, and there is no impact on the forecasts of performance for the fiscal period ending October 31, 2023 (May 1, 2023 – October 31, 2023) and the fiscal period ending April 30, 2024 (November 1, 2023 – April 30, 2024) as mentioned in the "Financial Report for the Fiscal Period Ended April 30, 2023 " announced on June 15, 2023.

6. Summary of the Appraisal Report, etc. of the Disposition Asset

Sha Maison Stage Kanazawa Nishiizumi

Property name	Sha Maison Stage Kanazawa Nishiizumi
Appraisal value	990,000,000 yen
Name of appraisal firm	DAIWA REAL ESTATE APPRAISAL CO.,LTD.
Date of value	April 30, 2023

(thousand yen)

Item	Details	Description, etc.
Income approach value	990,000	It was determined that the value based on the income approach calculated using the DCF method, which calculates the value by defining fluctuations on future net operating income, is more persuasive and convincing, thus trial calculations were performed using the direct capitalization method, based on the income amount according to the DCF method
Value based on direct capitalization method	1,000,000	—
Operating revenue	85,145	—
Gross potential income	91,023	Assuming multi-tenancy, standardized assumed income recognized as stable in the medium to long term for rent income, common area fee, parking lot income, key money income, renewal fees, neighborhood association fees and utility pole installation fee income is assessed and recorded.

Vacancy loss, etc.	5,878	Assessed using vacancy rates equalized over the medium-to long-term
Operating expenses	29,817	—
Maintenance and management fee	9,159	Assessed the level of maintenance and management costs for similar real estate, the current contract amount is deemed appropriate.
Utilities expenses	1,682	Assessed based on expenditure records and similar properties, etc.
Repair expenses	6,435	For repair expenses, the average annual repair expenses in the engineering reports was deemed appropriate. Tenant replacement costs are assessed in consideration of the replacement rate and vacancy rate
Property management fee	2,478	Assessed based on property management fee for similar real estate
Tenant leasing cost, etc.	1,240	Assessed based on the level of similar properties and recorded in the replacement portion when the assumed replacement rate is applied.
Property taxes	8,302	Assessed based on the actual value, taking into account the burden level and land price trends.
Insurance premium	159	Based on the level of non-life insurance premiums for similar properties, determined the current contract amount is deemed appropriate.
Other expenses	360	Assessed based on expenditure records.
Net operating income (NOI)	55,328	—
Gain on management of income from lump-sum payment	117	Assumed using an investment yield of 1.0%.
Capital expenditures	6,277	Assessed the level of renewal costs for similar properties, determined that the annual mean renewal costs in the engineering report were appropriate and recorded the amount of capital expenditures, taking into account CM fees.
Net cash flow (NCF)	49,167	—
Capitalization rate	4.9%	Assessed by adjusting the spread based on the location of the subject property, building conditions such as building grade, building age, and facility level, as well as other conditions such as the level of the current rent relative to the market rent, rights, and contract conditions, and by referring to the capitalization rate in the appraisal of J-REIT properties in the primary market area.
Value of earnings calculated by discounted cash flow (DCF) method	986,000	—
Discount rate	4.7%	Assessed by combining the method of calculating by comparison with valuation examples of similar real estate and the method of calculating by adding the individuality of the real estate to the yield of fi financial assets, and also by referring to interviews with investors.
Terminal capitalization rate	5.1%	Assessed with reference to trade yields related to similar trade cases, comprehensively considering such factors as future trends in investment yields, the risks of the subject property as an investment target, general forecasts of future economic growth rates, and trends in real estate prices. Based on the capitalization rate of the subject property, an assessment is made by

			comprehensively considering uncertain factors such as the possibility of an increase in capital expenditures due to the aging of the building, the uncertainty of trends in the sale and purchase market, and the impact of the passage of time on liquidity.
Cost method value	942,000	—	
Ratio of land	30.3%	—	
Ratio of building	69.7%	—	

Items considered upon determining appraisal value	The value of the appraisal was determined by reference to the estimated value based on the capitalized value as the standard, judging that the capitalized value which well reflects the actual market supply and demand trends and the behavioral principle of the market participant is more compelling.
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(Note) As the amounts are given in units of thousand yen, the amounts may not add up to the figures for operating revenue, operating expenses and other items.

* Sekisui House Reit, Inc. website: <https://sekisuihouse-reit.co.jp/en/>