

Financial Report for the Fiscal Period Ended July 31, 2023 (REIT)

September 14, 2023

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 Securities Code: 2971
 Representative: Atsumu Sasaki, Executive Director

Stock Exchange Listing: TSE
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Supplementary materials: Yes

IR Conference: Yes (For institutional investors and analysts)

[Amounts are rounded down to the nearest million yen]

1. Status of Management and Assets for the Fiscal Period Ended July 31, 2023 (From February 1, 2023 to July 31, 2023)

(1) Management

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
FP2023/7	2,497	(1.7)	1,255	(7.8)	1,140	(4.5)	1,139	(38.7)
FP2023/1	2,541	(6.1)	1,362	(1.4)	1,194	(5.9)	1,859	46.6

	Net income per unit*	Ratio of net income to unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenue
	yen	%	%	%
FP2023/7	3,239	2.9	1.5	45.7
FP2023/1	5,283	4.7	1.6	47.0

* Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days (351,967 units for the fiscal period ended January 31, 2023, and 351,967 units for the fiscal period ended July 31, 2023) and rounded to the nearest whole number.

(2) Distributions

	Distribution per unit (excluding distribution in excess of earnings)	Total distributions (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit	Total distributions in excess of earnings	Payout ratio	Ratio of distributions to net assets
	yen	million yen	yen	million yen	%	%
FP2023/7	3,238	1,139	—	—	100.0	2.9
FP2023/1	5,283	1,859	—	—	100.0	4.7

(3) Financial Position

	Total assets	Net assets	Ratio of unitholders' equity to total assets	Net assets per unit
	million yen	million yen	%	yen
FP2023/7	75,595	39,247	51.9	111,507
FP2023/1	76,300	39,966	52.4	113,552

(4) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
FP2023/7	1,273	(101)	(1,858)	5,672
FP2023/1	1,674	(99)	(1,269)	6,358

2. Management Status Forecasts for the Fiscal Period Ending January 31, 2024 (From August 1, 2023 to January 31, 2024), and the Fiscal Period Ending July 31, 2024 (From February 1, 2024 to July 31, 2024).

[% figures show the period-on-period increase (decrease)]

	Operating revenue		Operating income		Ordinary income		Net income		Distribution per unit (excluding distribution in excess of earnings)	Distribution in excess of earnings per unit
	million yen	%	million yen	%	million yen	%	million yen	%	yen	yen
FP2024/1	2,464	(1.3)	1,231	(1.9)	1,085	(4.8)	1,084	(4.2)	3,082	—
FP2024/7	2,485	0.9	1,229	(0.1)	1,107	2.0	1,106	2.4	3,144	—

(Reference) Estimated net income per unit: Estimated net income / Estimated the number of investment units at end of period

FP2024/1: 3,082 yen

FP2024/7: 3,144 yen

*** Others**

(1) Changes in Accounting Policies, Changes in Accounting Estimates, Restatements

- | | |
|---|----|
| (i) Changes in accounting policies accompanying amendments to accounting standards, etc.: | No |
| (ii) Changes in accounting policies other than (i): | No |
| (iii) Changes in accounting estimates: | No |
| (iv) Restatements | No |

(2) Total Number of Investment Units Issued and Outstanding

(i) Total number of investment units issued and outstanding at end of period (including own investment units):

(ii) Number of own investment units at end of period:

FP2023/7	351,967 units	FP2023/1	351,967 units
FP2023/7	0 units	FP2023/1	0 units

*For the number of investment units serving as the basis of calculation for net income per unit, refer to Notes to Per Unit Information on page 21

(3) Rounding processing

Unless otherwise specified in this document, monetary figures are rounded down to the nearest whole unit and ratios are rounded off to the first decimal place.

* This financial report has not been subjected to audit procedures by a certified public accountant or audit firm.

*** Special Note**

(Caution Concerning Forward-Looking Statements, etc.)

The outlook for management status and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are deemed reasonable by ESCON REIT. Accordingly, actual management status and other results may differ materially from these forward-looking statements due to a variety of factors. In addition, these forecasts do not intend to guarantee the amount of distribution.

For details on assumptions for the forecast figures above, refer to “Underlying Assumptions of the Operating Forecasts for the Fiscal Period ending January 31, 2024 (From August 1, 2023 to January 31, 2024), and the Fiscal Period ending July 31, 2024 (From January 1, 2024 to July 31, 2024) on page 6 and 7.

Table of Contents

1.	Operations.....	2
	(1) Operations	2
	(2) Investment Risk	7
2.	Financial Statements	8
	(1) Balance Sheets.....	8
	(2) Statements of Income and Retained Earnings	10
	(3) Statements of Unitholders' Equity	11
	(4) Statements of Cash Dividend Distributions	12
	(5) Statements of Cash Flows	13
	(6) Notes on Going Concern Assumptions	14
	(7) Notes on Matters Concerning Significant Accounting Policies	14
	(8) Notes Concerning Significant Accounting Estimates	15
	(9) Notes to Financial Statements	16
	(10) Changes in Total Number of Investment Units Issued and Outstanding	21
3.	Reference Information	22
	(1) Portfolio Information	22
	(2) Capital Expenditures	29

1. Operations

(1) Operations

i. Overview of the Current Fiscal Period

A. Brief background of the REIT

ESCON REIT was established on August 26, 2016, with ES-CON ASSET MANAGEMENT Ltd. (hereinafter the “Asset Manager”) as the organizer, based on the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter the “Investment Trust Act”), and listed on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. (hereinafter the “Tokyo Stock Exchange”) on February 13, 2019 (securities code: 2971).

ESCON REIT will continue to pursue long-term stability and earnings growth by building a portfolio focused on investments in commercial facilities*¹ and leasehold land*² deeply rooted in local communities in the Four Major Metropolitan Areas*³ where the concentrated population is expected to last. ESCON REIT now owns 38 properties with a total acquisition price of 69,604 million yen as of the end of the current fiscal period.

ESCON REIT shares the same Vision Concept*⁴ as ES-CON Japan Ltd. (hereinafter “ES-CON JAPAN”) in becoming a Lifestyle Developer*⁵ that develops not only buildings but also the lives of those who live in the buildings while thinking of their happiness. By drawing on property development and management expertise that ES-CON JAPAN has cultivated as a general real estate developer*⁶, and we aim to maximize unitholder value through consistently expanding our assets under management.

As the parent company of the Asset Manager, ES-CON JAPAN is a consolidated subsidiary of Chubu Electric Power Co., Inc. (hereinafter “Chubu Electric Power”). ES-CON JAPAN and Chubu Electric Power are in a business and capital partnership to bolster the Group’s real estate business. ESCON REIT and the Asset Manager have signed a sponsor support agreement with ES-CON JAPAN and support agreements with Chubu Electric Power and Chuden Real Estate Co., Inc. (hereinafter “Chuden Real Estate”).

*1. A “Commercial Facility” refers to real estate occupied chiefly by commercial tenants, such as retailers, restaurants, cafes, service providers and amusement facility operators. A lifestyle-focused commercial facility, which is the type of property that ESCON REIT mainly invests in, refers to a commercial facility supplying goods and services needed for daily life that is directly connected to a railway station or located in a densely populated area or on an arterial road or in other areas of daily life. The same applies hereinafter.

*2. “Leasehold Land” refers to land leased by a third party on which a building is owned by the said third party. The same applies hereinafter.

*3. The “Four Major Metropolitan Areas” refers to the Tokyo Metropolitan Area, the Kinki Metropolitan Area, the Chukyo Metropolitan Area and the Fukuoka Metropolitan Area. The Tokyo Metropolitan Area refers to Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi and Gunma Prefectures, the Kinki Metropolitan Area refers to Osaka, Kyoto, Hyogo, Nara and Shiga Prefectures, the Chukyo Metropolitan Area refers to Aichi, Shizuoka, Mie and Gifu Prefectures, and the Fukuoka Metropolitan Area refers to Fukuoka Prefecture.

*4. ESCON REIT’s “Vision Concept” is creating the ideal community that residents love and enjoy with pride. ESCON REIT conducts asset management while sharing this Vision Concept with ES-CON JAPAN, sponsor of ESCON REIT and a lifestyle developer engaging in the development of people’s lives. The term “Vision Concept” has been coined by combining the words “Vision”, which refers to a state in which an entity hopes to be in the future, and “Concept”, which refers to an idea or notion. This term is used in this document to signify how ESCON REIT aims to be, and the basic concept.

*5. “Lifestyle Developer” refers to the corporate branding concept of ES-CON JAPAN, which is to be a developer of not only the buildings but also the lifestyles of those who live in them while thinking of their happiness, creating richness unprecedented in the real estate industry, and connecting people with communities in the future.

*6. As used in this document, a “general real estate developer” means a developer conducting a wide variety of real estate development projects such as condominiums, detached residential houses, commercial facilities, hotels and logistical facilities; i.e., a developer with a comprehensive approach to all aspects of development as a business.

B. Operating environment and Management performance

During the current fiscal period, the Japanese economy has begun normalizing in terms of socioeconomic activities with the downgrading of COVID-19 to a Category 5 infectious disease, and the real GDP growth rate in April-June period of 2023 (second preliminary report) was 1.2% (4.8% annualized), marking the third consecutive quarter of positive growth. For individual consumption in particular, the increase in movement of people has led to increased dining out, including for large groups, which had been sluggish, while in lodging and travel, domestic travel demand remains steady, and, with such factors as the weak yen, Japanese prices are relatively low for international travelers, resulting in inbound consumption recovering to just below 90% of pre-COVID-19 levels, meaning that rebound demand has surfaced, primarily in service consumption. These factors have led to continued strong performance in many tenants, particularly supermarkets, drugstores, and restaurants in commercial facilities in general.

While monetary policy trends, such as the Bank of Japan’s flexible yield curve control policy, have been the focus of attention in the real estate investment market, investors’ desire to acquire real estate remains strong and has not yet reached a state where supply and demand have slackened.

It is under these circumstances that ESCON REIT, while not buying or selling new properties, has striven to secure stable earnings by implementing measures to manage assets properly and improve earnings by conducting leasing to attract major chains such as Muji at SUROY MALL Nagamine and MOS BURGER at tonarie Yamatotakada while focusing on dining establishments that are more convenient and familiar for locals at tonarie Seiwadai and tonarie Minami-senri, as well as proactively hosting events in line with current trends at each facility to incorporate this recovering individual consumption through our owned facilities.

As a result of the measures above, the occupancy rate of the 38 assets under management as of the end of the current fiscal period was 99.9%*¹. For the third floor of Yoshizuya Y Store Nishiharu, which remained vacant at end of the fiscal period, we will continue to focus in leasing out the space. The rent per tsubo for the floor area will increase as tenants occupy the space.

ESG initiatives have been recognized in increasing unitholders’ value, and ESCON REIT and the Asset Manager continue to promote efforts to reduce environmental impact and revitalize local communities. ESCON REIT received DBJ Green Building

Certification (evaluation rank: three stars) for two of its properties (tonarie Yamatotakada and tonarie Toga・Mikita) from the Development Bank of Japan Inc. for the second time during the fiscal period under review, in recognition of their “excellent environmental and social awareness”. In addition, ESCON REIT has received DBJ Green Building Certification (evaluation rank: three stars) for five of its properties (tonarie Yamatotakada, tonarie Toga・Mikita, tonarie Minami-senri, tonarie Seiwadai and Asumigaoka Brand-New Mall) as of the end of the fiscal period under review.

*1. The occupancy rate is calculated by the calculation formula below based on data as of the end of the fiscal period and rounded off to the nearest first decimal place.

Occupancy rate = Leased area / Leasable area *100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the occupancy rate is calculated including the “leased area” on the third floor, which was vacant as of the end of the fiscal period. Taking into account the fact that the floor is vacant, the occupancy rate after deducting the “leased area” would be 98.8%.

C. Procurement of funds

The balance of interest-bearing debt as of the end of the current fiscal period become 33,091 million yen, and the ratio of interest-bearing debt to total assets (hereinafter, “LTV”) was 43.8%.

ESCON REIT received an issuer rating of “A-” (Stable) from Rating and Investment Information, Inc.(R&I). ESCON REIT shall aim to improve further credibility while maintaining the flexibility of fund procurement and stable financial management.

D. Performance and distributions

As a result of the management actions described above, ESCON REIT posted operating revenue of 2,497 million yen, operating income of 1,255 million yen, ordinary income of 1,140 million yen and net income of 1,139 million yen for the current fiscal period. In the previous fiscal period, ESCON REIT received 666 million yen from the Asset Manager as compensation for damages due to the Asset Manager's breach of fiduciary duty of loyalty, and such compensation for damages received was recorded as extraordinary income in the current previous period. Without taking into account the 666 million yen in compensation for damages received from the Asset Manager, net income for the previous period was 1,193 million yen.

For distribution, ESCON REIT has decided to distribute an amount of 1,139 million yen as earnings distributions, which is almost equal to the full revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act by applying the special measure of taxation for investment corporations (Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended) in accordance with the distribution policy set forth in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit amounted to 3,238 yen.

E. Lifting of Business Improvement Order against the Asset Manager

The Asset Manager received a business suspension order and a business improvement order on July 15, 2022, and submitted a report summarizing the status of our business improvement measures to the Commissioner of the Financial Services Agency on August 15, 2022, and has been working to clarify its management stance regarding compliance with laws and regulations, etc., to establish responsible compliance and internal control systems run by the management team, and to review its business operation methods to soundly achieve these objectives, under the guidance of the supervisory authorities and with support from its parent company ES-CON JAPAN and its ultimate parent company Chubu Electric Power in order to realize fair and appropriate business operations.

Specifically, the Asset Manager implemented the following initiatives, announcement of the “Compliance Declaration”, establishment of “Management Philosophy”, change in decision-making process for property acquisitions to strengthen governance structure, acceptance of dispatched director from Chubu Electric Power, change to the ordering work rules of real estate appraisal services, improving the various regulations and the manuals, strengthen monitoring of operations for the ordering of real estate appraisals by the Compliance Department, training and awareness-raising for ongoing improvement of the conflict-of-interest management system.

The final report on the status of business improvement (the “Business Improvement Final Report”) has been submitted to and accepted by the Financial Services Agency. As of the end of the current fiscal period, the Business Improvement Order against the Asset Manager has been lifted.

ii. Outlook for next period

A. Outlook for the overall management environment

Individual consumption will, for the time being, be driven by a rebound in demand for dining and other service sectors and is expected to continue even after demand has subsided through increase in personal income. The Japanese economy is expected to gradually recover as well; however, the impact of price hikes, interest rates, and exchange rate fluctuations will continuously need to be monitored.

Under these circumstances, ESCON REIT will acquire and properly manage assets closely related to people's lifestyles and ensure stable and sound financial operations are in place to secure strong revenues and steadily increase asset values over the medium to long term.

B. Internal growth

To maintain and grow stable revenues over the medium to long term, ESCON REIT will take measures for maintaining and

increasing lease revenue and streamlining management expenses.

a. Maintaining and increasing lease revenue

ESCON REIT will grasp trends and needs of tenants (factors for customer dissatisfaction and their potential needs in both hardware and software of facilities) through the periodic exchange of information with the property management company and will improve the satisfaction of tenants and build and strengthen relationships of trust with them by actively taking measures to build relations and implementing appropriate and prompt measures. In addition, we will aim to contribute to local revitalization and community formation by holding various events and social contribution activities with the participation of local residents and tenants at commercial facilities closely related to daily life. According to these measures, ESCON REIT will aim to secure stable revenue by maintaining and increasing lease revenue and preventing cancellations.

For new tenant leasing, ESCON REIT will make efforts to maximize the rent generation period and rent level through leasing activities based on controlling market trends, by making maximum use of the networks of the Asset Manager and the ES-CON group (ES-CON JAPAN and its subsidiaries and affiliated companies) and periodically exchanging information with the property management company in charge of new tenant leasing.

b. Streamlining management expenses

ESCON REIT will formulate the operation and management plan of individual properties to streamline management expenses and improve their efficiency while maintaining and increasing tenant satisfaction and the competitiveness of properties. For operating and managing properties, ESCON REIT will efficiently manage the assets by strengthening the relationship with the property management company.

C. External growth

ESCON REIT will work to achieve steady external growth by actively using the solid sponsor pipeline based on the real estate development capabilities of ES-CON JAPAN as a sponsor and as a general developer and in collaboration with the Chubu Electric Power Group (Chubu Electric Power and its subsidiaries and affiliates, excluding ES-CON JAPAN group), who will act as a supporter. We will make maximum use of the sponsor's support, such as the granting of preferential negotiation rights for real estate properties owned by ES-CON JAPAN, redevelopment support for assets under management, and the support provided by the Chubu Electric Power Group, primarily for the provisioning of environmentally friendly technologies and know-how on energy cost reduction, while strictly monitoring conflicts of interest. In addition, the Asset Manager established the Investment Marketing Department as of June 14, 2023 for the purpose of enhancing the Asset Manager's own property acquisition channels. The Asset Manager will also actively acquire properties from third parties by continuously acquiring high-quality third-party property acquisition information, aiming to expand the asset scale of the ESCON REIT and improve the quality of the portfolio.

D. Financial policy

ESCON REIT will raise funds to achieve stable and sound financial operations for the purpose of securing stable revenues and steadily improving the asset value over the medium to long term.

The issuance of new investment units will be determined based on the assessment of the current financial environment, taking into consideration the LTV, the dilution of rights of the existing unitholders and the potential decline in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

When making loans and issuing investment corporation bonds (including short-term investment corporation bonds), ESCON REIT will raise funds in consideration of the balance between the mobility of financing and financial stability as well as the characteristics of acquired real estates. Specifically, we will examine the financing methods (loans, investment corporate bonds), the ratio of long-term debt, ratio of loans with fixed interest rates, the diversification of repayment dates and the need to provide security, among others.

For the LTV, we will set 50% as the upper limit, in principle, based on our policy of maintaining a conservative threshold.

We will also efficiently and appropriately manage cash by accurately assessing the financing needs of our portfolio through constant monitoring.

E. Compliance with laws and regulations

As described above in "2. Status in Asset Management during the Current Fiscal Period (5) Lifting of Business Improvement Order against the Asset Manager", the Business Improvement Order against the Asset Manager has been lifted. The Asset Manager will continue to take a position in maintaining and improving these systems and management has placed high priority in addressing this issue. Furthermore, the Asset Manager will steadily implement various measures set forth in the business improvement final report and endeavor to realize fair and appropriate business operations.

iii. Significant subsequent events

Not applicable.

iv. Outlook for the management status

ESCON REIT expects the management status for the fiscal periods ending January 31, 2024 and July 31, 2024 as shown below. For the assumptions about the management status, refer to “Underlying Assumptions of the Operating Forecasts for the Fiscal Period Underlying January 31, 2024 (From August 1, 2023 to January 31, 2024) and the Fiscal Period Underlying July 31, 2024 (From February 1, 2024 to July 31, 2024) and” on page 6-7.

	Operating revenues	Operating income	Ordinary income	Net income	DPU (excluding distributions in excess of earnings)	Distributions in excess of earnings per unit	DPU (including distributions in excess of earnings)
14th fiscal period ending January 31, 2024	2,464 million yen	1,231 million yen	1,085 million yen	1,084 million yen	3,082 yen	-	3,082 Yen
15th fiscal period ending July 31, 2024	2,485 million yen	1,229 million yen	1,107 million yen	1,106 million yen	3,144 yen	-	3,144 yen

*The forecast values above are calculated based on certain assumptions. Accordingly, actual operating revenue, operating income, ordinary income, net income, distribution per unit and distribution in excess of earnings per unit may change due to the future acquisition or sale of real estate, trends in the real estate market, and fluctuations in interest rates and changes in other circumstances surrounding ESCON REIT. The forecasts do not intend to guarantee the amount of these items.

Underlying Assumptions of the Operating Forecasts for the Fiscal Period Underlying January 31, 2024 (From August 1, 2023 to January 31, 2024) and the Fiscal Period Underlying July 31, 2024 (From February 1, 2024 to July 31, 2024)

Item	Assumptions
Calculation period	<ul style="list-style-type: none"> 14th fiscal period: August 1, 2023 to January 31, 2024 (184 days) 15th fiscal period: February 1, 2024 to July 31, 2024 (182 days)
Assets under management	<ul style="list-style-type: none"> For the forecast of financial results, it is assumed that ESCON REIT will continue to own the real estate beneficiary interests in 38 properties already acquired up to the fiscal period ended July 31, 2023 that there will be no changes made to the assets under management such as acquisition of new properties and/or disposition of portfolio properties, etc. until the end of the period ending July 31, 2024. Changes may arise due to the acquisition of new properties other than the Intended Acquisition Assets, disposition of portfolio properties, etc.
Operating revenue	<ul style="list-style-type: none"> Real estate leasing revenue is calculated based on lease contracts effective as of the date of this document, taking into account tenant and market trends and other factors. Operating revenue is based on the assumption that tenants will pay their rents without delinquency. Operating revenue is based on the assumption that no gain/loss on sale of real estate will occur. Utilities charges received are expected to be 268 million yen for the fiscal period ending January 31, 2024 and 278 million yen for the fiscal period ending July 31, 2024.
Operating expenses	<ul style="list-style-type: none"> Of the real estate leasing business expenses which are the major operating expense, expenses excluding depreciation, are calculated based on past actual expenses, and reflect variable factors. Property taxes and city planning taxes are expected to be 217 million yen for the fiscal period ending January 31, 2024 and 223 million yen for the fiscal period ending July 31, 2024. Utilities charges are expected to be 284 million yen for the fiscal period ending January 31, 2024 and 294 million yen for the fiscal period ending July 31, 2024. Non-life insurance premiums are expected to be 11 million yen for the fiscal period ending January 31, 2024 and 10 million yen for the fiscal period ending July 31, 2024. Expenses for repairing buildings are expected to be 62 million yen for the fiscal period ending January 31, 2024 and 79 million yen for the fiscal period ending July 31, 2024. As expenses for repairing buildings, the amount estimated based on the medium- and long-term repair plan created by the Asset Manager is accounted for. The actual repair expenses during a specific financial period may differ significantly from the expected amount, given that damage to buildings for unexpected reasons may give rise to emergency repair expenses, the amount generally varies considerably from fiscal period to fiscal period, and repair expenses do not fall under expenses that are regularly incurred. Depreciation is calculated using the straight-line method inclusive of incidental expenses, etc. and is expected to amount to 188 million yen in the fiscal period ending January 31, 2024 and 192 million yen in the fiscal period ending July 31, 2024. In accordance with accounting standards for the impairment of fixed assets, we assume that no impairment loss will be recorded. Due to a water leak caused by sprinkler failure at tonarie Seiwadai, an asset under management of ESCON REIT, expenses for tenant operating compensation are expected 10 million yen in the Fiscal Period ending January 31, 2024.
Non-operating expenses	<ul style="list-style-type: none"> Non-operating expenses for the period ending January 31, 2024 are estimated to be 145 million yen, of which 144 million yen is for interest expenses and other borrowing cost. Non-operating expenses for the period ending July 31, 2024 are estimated to be 121 million yen, of which 120 million yen is for interest expenses and other borrowing cost.
Borrowings	<ul style="list-style-type: none"> It is assumed that interest-bearing liabilities at the end of period ending January 31, 2024 and at the end of period ending July 31, 2024 will be 33,091 million yen. LTV ratio is expected to be approximately 43.8% at the end of the period ending January 31, 2024 and at the end of the period ending July 31, 2024. LTV ratio: Total interest-bearing liabilities / Total assets *100
Number of investment units	<ul style="list-style-type: none"> It is assumed that, in addition to the 351,967 units, no additional investment units will be issued before the end of the period ending July 31, 2024. DPU (excluding distribution in excess of earnings) per unit for the period ending January 31, 2024 and period ending July 31, 2024 is calculated based on the anticipated number of investment units issued and outstanding totaling 351,967 units at the end of the period ending January 31, 2024 and period ending July 31, 2024.
DPU (excluding distributions in excess of earnings)	<ul style="list-style-type: none"> DPU (excluding distribution in excess of earnings) is calculated based on the assumption that distributions will be conducted in accordance with the cash distribution policy provided in ESCON REIT's Articles of Incorporation. DPU (excluding distribution in excess of earnings) may vary due to various factors, such as fluctuation in rent revenue accompanying changes in assets under management, changes in tenants, etc. or incurrence of unexpected repairs.

Distributions in excess of earnings per unit	<ul style="list-style-type: none"> • Even though it is possible for ESCON REIT to make cash distributions in excess of earnings in accordance with the Articles of Incorporation, ESCON REIT does not intend to make such cash distributions at this point in time when factoring in the ratio of capital expenditures to depreciation expenses and in order to maintain conservative financial management.
Others	<ul style="list-style-type: none"> • It is assumed that there will be no revision of laws and regulations, tax systems, accounting standards, listing rules of the Tokyo Stock Exchange, Inc., and rules of The Investment Trusts Association, Japan, etc. that will impact the forecasted figures above. • It is assumed that there will be no unforeseen material change in general economic trends, real estate market conditions, etc.

(2) Investment Risk

No disclosure necessary, since there have been no material changes from “Investment risk” in the most recent periodic securities report (submitted April 27, 2023).

2. Financial Statements

(1) Balance Sheets

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
Assets		
Current assets		
Cash and deposits	2,852,651	2,318,451
Cash and deposits in trust	3,506,168	3,354,221
Operating accounts receivable	55,606	100,249
Prepaid expenses	64,974	82,599
Total current assets	6,479,401	5,855,522
Non-current assets		
Property, plant and equipment		
Buildings	7,063	7,063
Accumulated depreciation	(646)	(1,011)
Buildings, net	6,417	6,052
Buildings in trust	12,661,970	12,759,582
Accumulated depreciation	(1,058,360)	(1,233,647)
Buildings in trust, net	11,603,609	11,525,935
Structures in trust	146,110	146,945
Accumulated depreciation	(31,507)	(35,087)
Structures in trust, net	114,603	111,858
Tools, furniture and fixtures in trust	42,155	44,922
Accumulated depreciation	(13,430)	(17,485)
Tools, furniture and fixtures in trust, net	28,725	27,436
Land in trust	57,914,000	57,914,000
Total property, plant and equipment	69,667,355	69,585,282
Intangible assets		
Trademarks	556	502
Other	1,799	982
Total intangible assets	2,355	1,484
Investment and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	141,311	143,059
Deferred tax assets	28	2
Total investments and other assets	151,339	153,061
Total noncurrent assets	69,821,050	69,739,829
Total assets	76,300,452	75,595,352

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
Liabilities		
Current liabilities		
Operating accounts payable	139,448	199,417
Current portion of long-term borrowings	4,610,000	4,610,000
Accounts payable - other	73,461	15,698
Accrued expenses	166,257	163,112
Income taxes payable	1,203	655
Accrued consumption taxes	19,688	31,343
Advances received	332,029	334,062
Deposits received	267	2,592
Total current liabilities	5,342,357	5,356,882
Non-current liabilities		
Long-term borrowings	28,481,000	28,481,000
Tenant lease and guarantee deposits in trusts	2,510,420	2,510,386
Total non-current liabilities	30,991,420	30,991,386
Total liabilities	36,333,778	36,348,269
Net assets		
Unitholders' equity		
Unitholders' capital	38,107,208	38,107,208
Surplus		
Unappropriated retained earnings (undisposed loss)	1,859,465	1,139,874
Total surplus	1,859,465	1,139,874
Total unitholders' equity	39,966,674	39,247,083
Total net assets	*1 39,966,674	*1 39,247,083
Total liabilities and net assets	76,300,452	75,595,352

(2) Statements of Income and Retained Earnings

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Operating revenues		
Leasing business revenue	*1 2,203,845	*1 2,193,842
Other leasing business revenue	*1 337,333	*1 303,889
Total operating revenue	2,541,179	2,497,731
Operating expenses		
Expenses related to leasing business	*1 969,223	*1 1,034,941
Asset management fees	140,176	137,049
Asset custodian fees	3,654	3,664
Administrative service fees	11,372	11,698
Remuneration for director (and other officers)	2,700	2,700
Taxes and public dues	11,495	9,214
Other operating expenses	40,291	42,962
Total operating expenses	1,178,915	1,242,231
Operating income	1,362,264	1,255,499
Non-operating income		
Interest income	28	27
Gain on forfeiture of unclaimed dividends	1,171	719
Total non-operating income	1,199	746
Non-operating expenses		
Interest expenses	82,003	80,653
Financing fees	85,494	33,686
Other	1,323	1,370
Total non-operating expenses	168,820	115,709
Ordinary income	1,194,644	1,140,536
Extraordinary income		
Compensation for damages received	666,000	-
Total extraordinary income	666,000	-
Income before income taxes	1,860,644	1,140,536
Income taxes-current	1,207	659
Income taxes-deferred	(18)	26
Total income taxes	1,189	686
Net income	1,859,454	1,139,850
Retained earnings bought forward	10	24
Unappropriated retained earnings (undisposed loss)	1,859,465	1,139,874

(3) Statements of Unitholders' Equity

Previous fiscal period (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,268,499	1,268,499	39,375,708	39,375,708
Changes of items during the period					
Dividends from surplus	-	(1,268,489)	(1,268,489)	(1,268,489)	(1,268,489)
Net income	-	1,859,454	1,859,454	1,859,454	1,859,454
Total changes of items during the period	-	590,965	590,965	590,965	590,965
Balance at the end of the period	*1 38,107,208	1,859,465	1,859,465	39,966,674	39,966,674

Current fiscal period (From February 1, 2023 to July 31, 2023)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,859,465	1,859,465	39,966,674	39,966,674
Changes of items during the period					
Dividends from surplus	-	(1,859,441)	(1,859,441)	(1,859,441)	(1,859,441)
Net income	-	1,139,850	1,139,850	1,139,850	1,139,850
Total changes of items during the period	-	(719,591)	(719,591)	(719,591)	(719,591)
Balance at the end of the period	*1 38,107,208	1,139,874	1,139,874	39,247,083	39,247,083

(4) Statements of Cash Dividend Distributions

(Unit: yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
I . Unappropriated retained earnings	1,859,465,760	1,139,874,269
II . Distributions	1,859,441,661	1,139,669,146
(Distributions per unit)	(5,283)	(3,238)
III . Retained earnings carried forward	24,099	205,123
How distributions were calculated	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,859,441,661 yen. It is roughly the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>Furthermore, ESCON REIT will not distribute cash in excess of earnings as provided in Article 36, Paragraph 2 of the Articles of Incorporation.</p>	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,139,669,146 yen. It is roughly the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>Furthermore, ESCON REIT will not distribute cash in excess of earnings as provided in Article 36, Paragraph 2 of the Articles of Incorporation.</p>

(5) Statements of Cash Flows

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Cash Flows from Operating Activities		
Income before income taxes	1,860,644	1,140,536
Depreciation	180,710	184,156
Interest income	(28)	(27)
Interest expenses	82,003	80,653
Compensation for damages received	(666,000)	-
Decrease (increase) in operating accounts receivable	8,907	(44,642)
Decrease (increase) in prepaid expenses	(10,847)	(17,625)
Decrease (increase) in long-term prepaid expenses	(54,209)	(1,748)
Increase (decrease) in operating accounts payable	(302,384)	59,969
Increase (decrease) in accounts payable - other	61,392	(58,970)
Increase (decrease) in accrued expenses	2,568	(3,141)
Increase (decrease) in accrued consumption taxes	(69,259)	11,654
Increase (decrease) in advances received	(671)	2,032
Others, net	(505)	2,324
Subtotal	1,092,321	1,355,171
Interest received	28	27
Interest paid	(82,760)	(80,656)
Compensation for damages received	666,000	-
Income taxes paid	(820)	(1,207)
Net cash provided by operating activities	1,674,768	1,273,334
Cash Flows from Investing Activities		
Purchase of property, plant and equipment in trust	(104,647)	(101,213)
Proceeds from tenant lease and guarantee deposits in the trusts	15,894	29,744
Refund of tenant lease and guarantee deposits in the trusts	(10,824)	(29,778)
Net cash used in investing activities	(99,577)	(101,247)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	9,860,000	-
Repayments of long-term borrowings	(9,860,000)	-
Distributions paid	(1,269,195)	(1,858,233)
Net cash provided by (used in) financing activities	(1,269,195)	(1,858,233)
Net increase (decrease) in cash and cash equivalents	305,995	(686,147)
Cash and cash equivalents at the beginning of period	6,052,825	6,358,820
Cash and cash equivalents at the end of period	*1 6,358,820	*1 5,672,672

(6) Notes on Going Concern Assumptions
Not applicable.

(7) Notes on Matters Concerning Significant Accounting Policies

<p>1. Method of depreciation and amortization of non-current assets</p>	<p>(1) Property, plant and equipment (including assets in trust) The straight-line method is used. The useful lives of property, plant and equipment are as follows.</p> <ul style="list-style-type: none"> • Buildings 3 to 64 years • Structures 12 to 63 years • Tools, furniture and fixtures 2 to 10 years <p>(2) Intangible assets The straight-line method is used.</p> <p>(3) Long-term prepaid expenses The straight-line method is used.</p>
<p>2. Accounting standards for revenues and expenses</p>	<p>(1) Standards for revenue recognition The following is a description of the ESCON REIT's main performance obligations with respect to revenues arising from contracts with customers and the normal time at which such performance obligations are satisfied (i.e., the normal time at which revenue is recognized).</p> <p>i. Sales of real estate For sales of real estate revenue is recognized when the customer (i.e., the buyer) obtains control of the real estate as a result of our fulfillment of the delivery obligations stipulated in the sales contract for the real estate.</p> <p>ii. Utilities charges received Utilities charges received are recorded as revenues according to the supply of electricity, water to the lessee as a customer, based on the lease contract of the real estate and other related agreements.</p> <p>(2) Accounting for property taxes For property taxes, city planning taxes, depreciable asset taxes on real estate holdings, the amounts corresponding to the current fiscal period are treated as expenses related to the leasing business.</p> <p>Consistent with the acquisition of real estate or trust beneficiary interests in real estate, the amount equivalent to property taxes for the first year paid to the transferor as a settlement payment is not recorded as an expense and is included in the acquisition cost for the purchased real estate property. No amount equivalent to property taxes, etc. is included in the acquisition costs for real estate, etc. in the previous fiscal period and the current fiscal period.</p>
<p>3. Scope of funds in the statements of cash flows</p>	<p>Funds (cash and cash equivalents) in the statements of cash flows consist of cash on hand, cash in trust, deposits and deposits in trust that can be withdrawn at any time, and short-term investments that are readily convertible into cash, with low risk of price fluctuations and with a maturity of less than three months.</p>
<p>4. Other Items Forming the Basis for the Preparation of Financial Statements</p>	<p>(1) Accounting for trust beneficial interests in real estate as trust asset For trust beneficial interests in real estate held as trust assets, all assets and liabilities as well as all revenue and expense items associated with trust assets are accounted for under the respective account items of the balance sheets and Statement of Income and Retained Earnings.</p> <p>Included in the trust assets accounted for under the respective account items, the following items of significance are separately classified on the balance sheets.</p> <ul style="list-style-type: none"> i. Cash in trust and deposits in trust ii. Buildings in trust and structures in trust Tools, furniture and fixtures in trust and land in trust iii. Leasehold and guarantee deposits received in trust <p>(2) Accounting for non-deductible consumption taxes Non-deductible consumption taxes on non-current assets are included in the acquisition cost of individual assets.</p>

(8) Notes Concerning Significant Accounting Estimates

Impairment of non-current assets

1. Amount recorded in financial statements

(Unit: thousand yen)

	Previous fiscal period As of and for the six months ended January 31, 2023	Current fiscal period As of and for the six months ended July 31, 2023
Property, plant and equipment	69,667,355	69,585,282
Intangible assets	2,355	1,484
Impairment losses	-	-

2. Information concerning significant accounting estimates related to identified items

In accordance with accounting standards for impairment of non-current assets, ESCON REIT applies an accounting method to reduce the book value of non-current assets to the recoverable amount when recovery of the amount invested is not expected due to a decline in profitability. In applying the accounting treatment, each property owned by ESCON REIT is considered as one asset group, and when there is an indication of impairment due to continuous operating losses, significant decline in market price, or significant deterioration of the business environment, it is determined whether to have to recognize an impairment loss. Estimated future cash flows are used to determine whether an impairment loss should be recognized. When recognition of an impairment loss is deemed necessary, the book value of the asset is reduced to its recoverable amount based on an external real estate appraisal, etc., and the amount of the reduction is recognized as an impairment loss.

Future cash flows are determined through an overall consideration of market trends, examples of transactions involving similar properties, and other factors regarding rents, occupancy rates, leasing business expenses, as well as other factors that are taken into account when estimating future cash flows.

The rents, occupancy rates, leasing business expenses, etc. for each property may be affected by trends in the real estate leasing market, etc. Therefore, any changes in the assumptions used for estimates, including these, may affect ESCON REIT's asset and profit and loss status in the following fiscal period.

(9) Notes to Financial Statements
[Note to Balance Sheets]

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
*1. Minimum amount of net assets provided for in Article 67, Paragraph 4 of the Act on Investment Trusts and Investment Corporations	50,000	50,000

[Notes to Statements of Income and Retained Earnings]

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
*1. Description of income from real estate leasing operations		
A. Real estate leasing business revenue		
Leasing business revenue		
Lease revenue	1,069,940	1,061,916
Land lease revenue received	824,893	824,893
Common service fees	122,088	120,312
Other lease revenues	186,923	186,719
Total	2,203,845	2,193,842
Other leasing business revenues		
Utilities charges received	281,775	249,379
Insurance revenue	351	42,366
Other revenues	55,207	12,143
Total	337,333	303,889
Total real estate leasing business revenue	2,541,179	2,497,731
B. Real estate leasing business expenses		
Expenses related to leasing business		
Administrative expenses	209,954	216,963
Trust fees	9,212	9,177
Utilities charges	303,222	263,666
Non-life insurance premiums	4,557	10,457
Repair expenses	35,425	54,238
Taxes and public dues	212,314	217,391
Depreciation	179,839	183,285
Compensation for damages	2,091	70,229
Other leasing business expenses	12,605	9,531
Total expenses related to leasing business	969,223	1,034,941
C. Income from real estate leasing business (A - B)	1,571,956	1,462,790

(Changes in presentation methods)

“Insurance revenue” and “Compensation for damages”, which were included in “Other revenues” and “Other leasing business expenses” respectively in the previous fiscal period, are presented separately in the current fiscal period due to the increase in impact on the financial statements.

“Insurance revenue” of 351 thousand yen and “Compensation for damages” of 2,091 thousand yen, which were included in “Other revenues” and “Other leasing business expenses” respectively in the previous fiscal period, have been reclassified as “Insurance revenue” and “Compensation for damages”.

[Notes to Statements of Unitholders' Equity]

*1. Total number of investment units authorized and total number of investment units issued and outstanding

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	351,967 units	351,967 units

[Notes to Statements of Cash Flows]

*1. Relationship between the ending balance of cash and cash equivalents and the amounts of items posted in the balance sheets

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Cash and deposits	2,852,651	2,318,451
Cash and deposits in trust	3,506,168	3,354,221
Cash and cash equivalents	6,358,820	5,672,672

[Notes to Financial Instruments]

1. Matters concerning the status of financial instruments

(1) Policies on financial instruments

ESCON REIT takes a balanced approach to raising funds through borrowings from financial institutions and the issuance of investment corporate bonds and investment units to contribute to the steady growth of assets under management as well as implementing an efficient and stable management style.

When taking out borrowings from financial institutions and issuing investment corporate bonds, ESCON REIT will take into account the balance between the flexibility of financing, the financial stability and the nature of the acquired real estate assets. Specifically, ESCON REIT will examine the financing methods, the ratio of long-term loans, the ratio of fixed interest rates, the diversification of repayment dates and the need to provide security, among other factors. When borrowing funds, lenders will be limited to the qualified institutional investors specified in the Financial Instruments and Exchange Act (however, limited to the institutional investors specified in Article 67-15 of the Act on Special Measures Concerning Taxation).

The issuance of new investment units will be determined based on the assessment of the current financial environment and taking into consideration the LTV, the dilution of rights of the existing unitholders and potential decline in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

ESCON REIT may engage in derivative transactions to hedge the interest volatility and other risks arising from its liabilities. In the current fiscal period, ESCON REIT did not enter into any derivative transactions.

(2) Description of financial instruments and associated risks, and the risk management system

Borrowings are taken out mainly for the purpose of raising funds to acquire assets and repay the borrowings. While the Company is exposed to risk of increasing interest rates on the borrowings upon refinancing and may not be able to refinance the borrowings, ESCON REIT works to mitigate the risks by diversifying the lenders, due dates and taking a balanced financing approach including the issuance of investment units. ESCON REIT also manages risks to its operation from rising interest rates through the close monitoring of fluctuations in interest rates and the appropriate control of LTV.

(3) Supplementary explanation on matters concerning the fair value of financial instruments

Certain assumptions and other factors were used in calculating the fair value of financial instruments, and the results may differ due to different assumptions and other factors used in valuing the financial instruments.

2. Matters concerning the fair value, etc. of financial instruments

Balance sheet amounts, fair value and their differences as of January 31, 2023 are as follows: Notes to “Cash and deposits” and “Cash and deposits in trust” are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for “tenant lease and guarantee deposits in the trusts” have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value*1	Difference
(1) Current portion of long-term borrowings	4,610,000	4,610,000	-
(2) Long-term borrowings	28,481,000	28,481,000	-
Total liabilities	33,091,000	33,091,000	-

Balance sheet amounts, fair value and their differences as of July 31, 2023 are as follows: Notes to “Cash and deposits” and “Cash and deposits in trust” are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for “tenant lease and guarantee deposits in the trusts” have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value*1	Difference
(1) Current portion of long-term borrowings	4,610,000	4,610,000	-
(2) Long-term borrowings	28,481,000	28,481,000	-
Total liabilities	33,091,000	33,091,000	-

*1. The method used in calculating the fair value of the financial instruments

(1) Current portion of long-term borrowings, (2) Long-term borrowings

The borrowings have variable interest rates and interest is adjusted to the current market rates and accordingly, the fair value of the borrowings should approximate the carrying value of the borrowings.

*2. Scheduled redemption of loans after the closing date (January 31, 2023)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-
Total	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-

Scheduled redemption of loans after the closing date (July 31, 2023)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	4,610,000	5,273,000	10,684,000	7,559,000	4,965,000	-
Total	4,610,000	5,273,000	10,684,000	7,559,000	4,965,000	-

[Notes to Deferred Income Taxes]

1. Significant components of the deferred tax assets and deferred tax liabilities are as follows:

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
(Deferred tax assets)		
Unpaid business tax not included in deductible expenses	28	2
Total deferred tax assets	28	2
(Net deferred tax assets)	28	2

2. Reconciliation of significant differences between the statutory tax rate and the effective tax rate after applying deferred income tax accounting

(Unit: %)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
Effective statutory tax rate	31.46	31.46
(Adjustments)		
Distribution payments included in tax deductible expenses	(31.44)	(31.44)
Others	0.04	0.04
Effective tax rate	0.06	0.06

[Notes to Real Estate for Lease]

ESCON REIT owns commercial facilities and real estate for lease, the principal use of which is leasehold land. The carrying value, changes during the period and fair value at the end of the period of these properties are as follows.

(Unit: thousand yen)

		Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Carrying value*1	Balance at the beginning of the period	69,742,547	69,667,355
	Changes during the period *2	(75,191)	(82,072)
	Balance at the end of the period	69,667,355	69,585,282
Fair value at the end of the period *3		73,026,700	72,713,900

*1. The carrying value includes the acquisition cost and incidental costs associated with the acquisition.

*2. Of the changes during the period, most of the increase of the previous fiscal period was mainly due to capital expenditures for 6 properties, including Yoshizuya Y Store Nishiharu etc. (104,647 thousand yen in total), while the decrease is mainly due to depreciation (179,839 thousand yen). The increase in the current fiscal period is mainly due to capital expenditures for 8 properties, including tonarie Minami-senri etc. (101,213 thousand yen in total), while the decrease is mainly due to depreciation (183,285 thousand yen).

*3. The fair value at the end of the period was determined by an outside real estate appraisers.

Profit and loss of real estate for lease are as described in “Notes to Statements of Income and Retained Earnings.”

[Notes to Revenue Recognition]

1. Breakdown of revenue from contracts with customers

Previous fiscal period (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate, etc.	-	-
Utilities charges received*2	281,775	281,775
Other	-	2,259,404
Total	281,775	2,541,179

*1. Leasing business income subject to ASBJ Statement No. 13 “Accounting Standard for Lease Transactions” is not included in “Revenue from contracts with customers”, because the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2. Utilities charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

Current fiscal period (From February 1, 2023 to July 31, 2023)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate, etc.	-	-
Utilities charges received*2	249,379	249,379
Other	-	2,248,351
Total	249,379	2,497,731

*1. Leasing business income subject to ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" is not included in "Revenue from contracts with customers", because the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2. Utilities charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

2. Underlying information to understand the revenue from contracts with customers

Previous fiscal period (From August 1, 2022 to January 31, 2023)

As described in the Notes on matters concerning significant accounting policies.

Current fiscal period (From February 1, 2023 to July 31, 2023)

As described in the Notes on matters concerning significant accounting policies.

3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from the contracts with customers that exist at the end of the current fiscal period

(1) Balance of contract assets and contract liabilities

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Receivables from contracts with a customer (at the beginning of the period)	45,923	41,492
Receivables from contracts with a customer (at the end of the period)	41,492	44,602
Contract assets (balance at the beginning of period)	-	-
Contract assets (balance at the end of period)	-	-
Contract liabilities (balance at the beginning of period)	-	-
Contract liabilities (balance at the end of period)	-	-

(2) Transaction prices allocated to remaining performance obligations

Not applicable.

For utility charges income, the Company recognizes revenues for the amount in accordance with paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition since the Company is entitled to receive an amount from customers (lessees) which directly corresponds to the portion completed by the end of the period. Accordingly, the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition have been applied and the transaction price allocated to the remaining performance obligations has not been included in the notes to transaction prices.

[Notes to Per Unit Information]

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Net assets per unit	113,552 yen	111,507 yen
Net income per unit	5,283 yen	3,239 yen

Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period and rounded to the nearest whole number.

Diluted net income per unit is not stated because there are no dilutive investment units.

* The basis for calculating net income per unit is as follows:

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Net income (thousand yen)	1,859,454	1,139,850
Amount not attributable to common unitholders (thousand yen)	-	-
Net income for common investment units (thousand yen)	1,859,454	1,139,850
Average number of investment units during the period (Units)	351,967	351,967

[Notes to Significant Subsequent Events]

Not applicable.

(Disclosure Omissions)

Disclosure of notes regarding lease transactions is omitted because such disclosure in the financial report is not considered to be significant.

(10) Changes in Total Number of Investment Units Issued and Outstanding

Changes in the total amount of investment and the total number of investment units issued and outstanding for ESCON REIT since its establishment to July 31, 2023, are as follows.

Date	Summary	Total number of investment units Issued and outstanding (units)		Total amount of investment (million yen) *1		Remarks
		Increase	Balance	Increase	Balance	
February 12, 2019	Capital increase through public offering	188,351	237,000	18,319	22,941	*2
February 3, 2020	Capital increase through public offering	43,792	280,792	5,236	28,177	*3
February 26, 2020	Capital increase through third-party allotment	2,190	282,982	261	28,439	*4
August 2, 2021	Capital increase through public offering	65,700	348,682	9,207	37,646	*5
August 24, 2021	Capital increase through third-party allotment	3,285	351,967	460	38,107	*6

*1. From the current fiscal period, total amount of investment has been stated in millions yen instead of thousands yen.

*2. ESCON REIT issued new investment units through a public offering with the offer price per unit of 101,000 yen per unit (issue price of 97,263 yen) for the purpose of raising funds to acquire specified assets.

*3. ESCON REIT issued new investment units through a public offering with offer price per unit 124,029 yen (issue price of 119,576 yen) for the purpose of raising funds to acquire specified assets.

*4. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 119,576 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

*5. ESCON REIT issued new investment units through a public offering with offer price per unit 145,282 yen (issue price of 140,141 yen) for the purpose of raising funds to acquire specified assets.

*6. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 140,141 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

3. Reference Information

(1) Portfolio Information

i. Status of investment

Asset type	Region	12th fiscal period As of January 31, 2023		13th fiscal period As of July 31, 2023	
		Total holdings (million yen) *1	Ratio to total assets (%) *2	Total holdings (million yen) *1	Ratio to total assets (%) *2
Real estate	Chukyo metropolitan area	6	0.0	6	0.0
Total real estate		6	0.0	6	0.0
Real estate in trust	Tokyo metropolitan area	7,757	10.2	7,744	10.2
	Kinki metropolitan area	34,319	45.0	34,308	45.4
	Chukyo metropolitan area	5,062	6.6	5,030	6.7
	Fukuoka metropolitan area	10,537	13.8	10,537	13.9
	Other area	11,984	15.7	11,957	15.8
Total real estate in trust		69,660	91.3	69,579	92.0
Deposits and other assets		6,633	8.7	6,010	8.0
Total assets		76,300	100.0	75,595	100.0

	Amount (million yen)	Ratio to total assets (%) *2	Amount (million yen)	Ratio to total assets (%) *2
Total liabilities	36,333	47.6	36,348	48.1
Total net assets	39,966	52.4	39,247	51.9

*1. The total amount owned is based on the amount on the balance sheets as of the end of the fiscal period and rounded down to the nearest million yen.

*2. The ratio to total assets is rounded off to the nearest first decimal place.

ii. Investment assets

A. Major investment securities

Not applicable.

B. Investment properties

Investment real estate, together with assets held through trust beneficiary interests, are collectively recorded in “C. Other major investment assets” below.

C. Other major investment assets

a. Overview of assets owned

The overview of real estate, which is the trust asset of trust beneficial interests owned by ESCON REIT.

(As of July 31, 2023)

Property number	Property name	Location	Ownership formats*1	Acquisition price (million yen) *2	Book value (million yen) *3	Appraisal value at the end of the period (million yen) *4	Appraiser
11201	YAMADA DENKI Tecc Land Sapporo Shiroishi (Leasehold land)	Sapporo City, Hokkaido Prefecture	Trust beneficiary interests	1,300	1,310	1,310	The Tanizawa Sogo Appraisal Co., Ltd.
13101	Asumigaoka Brand-New Mall	Chiba City, Chiba Prefecture	Trust beneficiary interests	3,200	3,175	3,240	The Tanizawa Sogo Appraisal Co., Ltd.
	Asumigaoka Brand-New Mall (Leasehold land) *5					(1)150 (2)149	
13102	Nishi-shiroi Ekimae Plaza	Shiroi City, Chiba Prefecture	Trust beneficiary interests	451	455	470	Daiwa Real Estate Appraisal Co., Ltd.
13201	K's Denki Oyumino (Leasehold land)	Chiba City, Chiba Prefecture	Trust beneficiary interests	2,710	2,737	2,890	JLL Morii Valuation & Advisory KK
13202	Nitori Tsuchiura (Leasehold land)	Tsuchiura City, Ibaraki Prefecture	Trust beneficiary interests	999	1,007	1,100	JLL Morii Valuation & Advisory KK
13203	Nitori Imaichi (Leasehold land)	Nikko City, Tochigi Prefecture	Trust beneficiary interests	363	368	409	JLL Morii Valuation & Advisory KK
15101	Yoshizuya Y Store Nishiharu *6	Kitanagoya City, Aichi Prefecture	Trust beneficiary interests and auxiliary facilities	4,610	4,553	2,270	Daiwa Real Estate Appraisal Co., Ltd.
15201	MaxValu Kikyogaoka-higashi (Leasehold land)	Nabari City, Mie Prefecture	Trust beneficiary interests	477	483	542	JLL Morii Valuation & Advisory KK
16101	tonarie Minami-senri	Suita City, Osaka Prefecture	Trust beneficiary interests	7,200	7,277	8,080	The Tanizawa Sogo Appraisal Co., Ltd.
16102	tonarie Seiwadai	Kawanishi City, Hyogo Prefecture	Trust beneficiary interests	3,290	3,183	3,350	Daiwa Real Estate Appraisal Co., Ltd.
16103	tonarie Yamatotakada (50% ownership) *7	Yamatotakada City, Nara Prefecture	Trust beneficiary interests	4,150	4,063	4,035	JLL Morii Valuation & Advisory KK
16104	tonarie Toga・Mikita	Sakai City, Osaka Prefecture	Trust beneficiary interests	6,986	6,865	6,970	Daiwa Real Estate Appraisal Co., Ltd.
16201	LAMU Kitatsumori (Leasehold land)	Osaka City, Osaka Prefecture	Trust beneficiary interests	1,270	1,284	1,480	JLL Morii Valuation & Advisory KK
16202	K's Denki Nishi-kobe (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	2,133	2,154	2,470	JLL Morii Valuation & Advisory KK
16203	Sanyo Marunaka Mitani (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	1,430	1,443	1,540	JLL Morii Valuation & Advisory KK
16204	TSUTAYA Sakai-minami (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interests	946	955	1,040	JLL Morii Valuation & Advisory KK
16205	LIFE Daisen (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interests	2,733	2,758	3,060	Daiwa Real Estate Appraisal Co., Ltd.
16206	TRIAL Omihachiman (Leasehold land)	Omihachiman City, Shiga Prefecture	Trust beneficiary interests	1,010	1,019	1,100	JLL Morii Valuation & Advisory KK
16207	Kusuri no Aoki Ikaruga (Leasehold land) *8	Ikoma District, Nara Prefecture	Trust beneficiary interests	711	718	(1)702 (2)28	JLL Morii Valuation & Advisory KK
16208	DRUG Yutaka Mukokamiueno (Leasehold land)	Muko City, Kyoto Prefecture	Trust beneficiary interests	460	464	477	JLL Morii Valuation & Advisory KK
16209	WELCIA Amagasaki Mukomotomachi (Leasehold land)	Amagasaki City, Hyogo Prefecture	Trust beneficiary interests	565	571	577	The Tanizawa Sogo Appraisal Co., Ltd.

Property number	Property name	Location	Ownership formats*1	Acquisition price (million yen) *2	Book value (million yen) *3	Appraisal value at the end of the period (million yen) *4	Appraiser
16210	Cocokara Fine Neyagawakoen (Leasehold land)	Neyagawa City, Osaka Prefecture	Trust beneficiary interests	702	709	717	The Tanizawa Sogo Appraisal Co., Ltd.
16211	ENEOS Ikawadani SS (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	530	535	531	The Tanizawa Sogo Appraisal Co., Ltd.
16212	GEO Hikone Takamiya (Leasehold land)	Hikone City, Shiga Prefecture	Trust beneficiary interests	300	304	305	The Tanizawa Sogo Appraisal Co., Ltd.
18101	SUROY MALL Nagamine	Kumamoto City, Kumamoto Prefecture	Trust beneficiary interests	4,600	4,602	4,560	JLL Morii Valuation & Advisory KK
18201	MrMAX Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	3,387	3,428	3,930	The Tanizawa Sogo Appraisal Co., Ltd.
18202	UNIQLO Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	595	601	670	The Tanizawa Sogo Appraisal Co., Ltd.
18203	Avail.Shimamura Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	863	874	1,110	The Tanizawa Sogo Appraisal Co., Ltd.
18204	au-SoftBank Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	143	145	160	The Tanizawa Sogo Appraisal Co., Ltd.
18205	Kura Sushi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	261	264	302	The Tanizawa Sogo Appraisal Co., Ltd.
18206	docomo Shop Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	160	163	181	The Tanizawa Sogo Appraisal Co., Ltd.
18207	Konpira Maru Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	236	239	264	The Tanizawa Sogo Appraisal Co., Ltd.
18208	One-Karubi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	236	239	265	The Tanizawa Sogo Appraisal Co., Ltd.
18209	Suke-san Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	401	405	419	The Tanizawa Sogo Appraisal Co., Ltd.
18210	NAFCO Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	2,631	2,666	3,440	The Tanizawa Sogo Appraisal Co., Ltd.
18211	K's Denki Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	1,487	1,506	1,860	The Tanizawa Sogo Appraisal Co., Ltd.
19101	Fuji Grand Natalie	Hatsukaichi City, Hiroshima Prefecture	Trust beneficiary interests	3,950	3,908	4,120	Daiwa Real Estate Appraisal Co., Ltd.
19201	K's Denki Kurashiki (Leasehold land)	Kurashiki City, Okayama Prefecture	Trust beneficiary interests	2,121	2,136	2,450	JLL Morii Valuation & Advisory KK
	Total			69,604	69,585	72,713	

*1. Trust beneficiary interests represent trust beneficiary interests in mainly real estate.

*2. The acquisition price is an amount (sales price stated in the sales contract) not including expenses required for the acquisition of real estate (sales intermediary fees, taxes and public dues, etc.).

*3. The book value is rounded down to the stated value.

*4. The appraisal value at the end of the period is an appraisal value by a real estate appraiser based on the Articles of Incorporation of ESCON REIT and rules set by the Investment Trusts Association, Japan, with the end of the fiscal period as the date of investigation.

*5. "Asumigaoka Brand-New Mall (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Akindo Sushiro Co., Ltd. and McDonald's Holdings Company (Japan), Ltd., and the "Appraisal value at end of the period" shows the portion pertaining to Akindo Sushiro Co., Ltd. as (1) and the portion pertaining to McDonald's Holdings Company (Japan), Ltd. as (2).

*6. The book value of Yoshizuya Y Store Nishiharu includes the book value of auxiliary facilities associated with the commercial facility.

*7. "Book Value" and "Appraisal value at the end of the period" for tonarie Yamatotakada are indicated in consideration of quasi co-ownership with a 50% real estate trust beneficial interests.

*8. "Kusuri no Aoki Ikaruga (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Kusuri no Aoki Co., Ltd. and Ikaritombo Co., Ltd. and the "Acquisition price" and "Book value" are the sum of the amounts for the two lessees. In addition, "Appraisal value at the end of period" shows the portion pertaining to Kusuri no Aoki Co., Ltd. as (1) and the portion pertaining to Ikaritombo Co., Ltd. as (2).

b. Overview of lease

The total number of tenants, leasable area, leased area, occupancy rate and real estate leasing business revenue of the real estate owned are as follows.

(As of July 31, 2023)

Property number	Property name	Total number of tenants *1	Leasable area (m ²) *2	Leased area (m ²) *2	Occupancy rate (%) *2 *3	Real estate leasing business revenue (million yen) *4	Ratio to total rent revenue (%)
11201	YAMADA DENKI Tecc Land Sapporo Shiroishi	1	8,154.00	8,154.00	100.0	Not disclosed *6	Not disclosed *6
13101	Asumigaoka Brand-New Mall	30	22,516.59	22,476.20	99.8	253	10.1
	Asumigaoka Brand-New Mall (Leasehold land)	2	2,672.67	2,672.67	100.0		
13102	Nishi-shiroi Ekimae Plaza	4	969.72	969.72	100.0	20	0.8
13201	K's Denki Oyumino (Leasehold land)	1	23,379.50	23,379.50	100.0	70	2.8
13202	Nitori Tsuchiura (Leasehold land)	1	10,312.00	10,312.00	100.0	Not disclosed *6	Not disclosed *6
13203	Nitori Imaichi (Leasehold land)	1	10,236.00	10,236.00	100.0	Not disclosed *6	Not disclosed *6
15101	Yoshizuya Y Store Nishiharu	54	26,432.58	26,267.85	99.4	114	4.6
15201	MaxValu Kikyougaka-higashi (Leasehold land)	1	9,025.88	9,025.88	100.0	Not disclosed *6	Not disclosed *6
16101	tonarie Minami-senri	45	7,594.00	7,471.45	98.4	334	13.4
16102	tonarie Seiwadai	32	8,798.01	8,798.01	100.0	228	9.2
16103	tonarie Yamatotakada (50% Ownership)	66	14,414.75	14,414.75	100.0	176	7.1
16104	tonarie Toga・Mikita	31	8,471.24	8,471.24	100.0	261	10.5
16201	LAMU Kitatsumori (Leasehold land)	1	11,677.03	11,677.03	100.0	41	1.5
16202	K's Denki Nishi-kobe (Leasehold land)	1	9,787.68	9,787.68	100.0	62	2.5
16203	Sanyo Marunaka Mitani (Leasehold land)	1	9,610.80	9,610.80	100.0	Not disclosed *6	Not disclosed *6
16204	TSUTAYA Sakai-minami (Leasehold land)	1	4,406.04	4,406.04	100.0	21	0.9
16205	LIFE Daisen (Leasehold land)	1	9,264.48	9,264.48	100.0	72	2.9
16206	TRIAL Omihachiman (Leasehold land)	1	17,268.43	17,268.43	100.0	Not disclosed *6	Not disclosed *6
16207	Kusuri no Aoki Ikaruga (Leasehold land) *5	2	8,486.78	8,486.78	100.0	Not disclosed *6	Not disclosed *6
16208	DRUG Yutaka Mukokamiueno (Leasehold land)	1	1,839.21	1,839.21	100.0	Not disclosed *6	Not disclosed *6
16209	WELCIA Amagasaki Mukomotomachi (Leasehold land)	1	1,491.47	1,491.47	100.0	Not disclosed *6	Not disclosed *6
16210	Cocokara Fine Neyagawakoen (Leasehold land)	1	2,728.00	2,728.00	100.0	Not disclosed *6	Not disclosed *6
16211	ENEOS Ikawadani SS (Leasehold land)	1	2,634.83	2,634.83	100.0	Not disclosed *6	Not disclosed *6
16212	GEO Hikone Takamiya (Leasehold land)	1	2,237.60	2,237.60	100.0	Not disclosed *6	Not disclosed *6
18101	SUROY MALL Nagamine	24	12,622.98	12,622.98	100.0	165	6.6

Property number	Property name	Total number of tenants *1	Leasable area (m ²) *2	Leased area (m ²) *2	Occupancy rate (%) *2 *3	Real estate leasing business revenue (million yen) *4	Ratio to total rent revenue (%)
18201	MrMAX Kasuga (Leasehold land)	1	38,113.27	38,113.27	100.0	84	3.4
18202	UNIQLO Kasuga (Leasehold land)	1	5,426.59	5,426.59	100.0	13	0.6
18203	Avail.Shimamura Kasuga (Leasehold land)	1	8,752.57	8,752.57	100.0	23	0.9
18204	au-SoftBank Kasuga (Leasehold land)	1	1,200.84	1,200.84	100.0	3	0.2
18205	Kura Sushi Kasuga (Leasehold land)	1	2,257.85	2,257.85	100.0	7	0.3
18206	docomo Shop Kasuga (Leasehold land)	1	1,358.76	1,358.76	100.0	4	0.2
18207	Konpira Maru Kasuga (Leasehold land)	1	1,983.48	1,983.48	100.0	6	0.3
18208	One-Karubi Kasuga (Leasehold land)	1	1,983.48	1,983.48	100.0	6	0.3
18209	Suke-san Kasuga (Leasehold land)	1	3,126.16	3,126.16	100.0	10	0.4
18210	NAFCO Kasuga (Leasehold land)	1	33,928.37	33,928.37	100.0	Not disclosed *6	Not disclosed *6
18211	K's Denki Kasuga (Leasehold land)	1	16,961.48	16,961.48	100.0	37	1.5
19101	Fuji Grand Natalie	1	28,543.96	28,543.96	100.0	Not disclosed *6	Not disclosed *6
19201	K's Denki Kurashiki (Leasehold land)	1	11,433.38	11,433.38	100.0	Not disclosed *6	Not disclosed *6
	Total	319	402,102.46	401,774.79	99.9	2,497	100.0

*1. The total number of tenants is stated based on data as of the closing date. For properties under a pass-through type master lease contract, the total number of tenants is reported based on end tenants. For "Fuji Grand Natalie" facility, Fuji Corporation has entered into a lease agreement for the whole building.

*2. "Leasable area" is the total area considered available for lease in the acquired assets (if the acquired asset is leasehold lands, such lands) as of July 31, 2023, based on the various lease agreements, reports prepared by property management companies, or building plans. The Leasable Area for Yoshizuya Y Store Nishiharu is based on the leased area in the completion drawing, etc. for certain lease contracts where the leased area is not stated. "Leased area" is the total leased area indicated in each lease agreement as of the closing date. In addition, the Leased Area for assets for which a master lease agreement has been concluded is the total area that has actually been leased to end tenants with sublease agreements, etc. However, for "Fuji Grand Natalie," which has a lease agreement with Fuji Corporation, the "leased area" of the lease agreement. The area is rounded off to the second decimal place, respectively. The occupancy rate is given based on the data as of the end of the fiscal period. Although ESCON REIT owns a 50% quasi-co-ownership interest in the trust beneficiary rights for tonarie Yamatotakada, the above table shows the figures for the entire properties.

*3. The occupancy rate is calculated by the calculation formula below based on data as of the closing date and rounded off to the nearest first decimal place.

$$\text{Occupancy rate} = \text{Leased area} / \text{Leasable area} * 100$$

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the leased area in the table above includes the 4,485.14m² leased area on the third floor, which was vacant as of the end of the fiscal period.

Regarding the third floor, a fixed rent per tsubo will be added according to the contracted floor area as tenants move in, but taking into account the fact that the floor is vacant, the occupancy rate after deducting the leased area of the third floor is 82.4%. The overall occupancy rate after taking this into account would be 98.8%.

*4. The real estate leasing business revenue is rounded off to the stated value.

*5. "Kusuri no Aoki Ikaruga (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Kusuri no Aoki Co., Ltd., and Ikaritombo Co., Ltd. Each figure is the sum of the figures for the two lessees.

*6. The figure is not disclosed as consent has not been obtained from the lessee or other parties.

c. Summary of Appraisals, etc.

The following is a summary of the real estate appraisal reports on owned assets, which the Asset Manager entrusted to The Tanizawa Sogo Appraisal Co., Ltd, JLL Morii Valuation & Advisory K.K., and DAIWA Real Estate Appraisal Co., Ltd. The appraisal reports represent the judgment and opinion of the appraiser as of a specific point in time and they do not guarantee the validity, accuracy, or the possibility of trading a property at its appraised value. Furthermore, these appraisers have no special interest relationship with ESCON REIT or the Asset Manager.

Property number	Property type	Property name	Appraiser	Appraisal value (million yen) *1	Estimated value (million yen)	Value based on Direct Capitalization Method (million yen)	Cap rate (%)	Value based on DCF Method (million yen)	Discount rate (%)	Terminal cap rate (%)
11201	Commercial facilities	YAMADA DENKI Tecc Land Sapporo Shiroishi (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	1,310	-	-	-	1,310	4.4	-
13101	Commercial facilities	Asumigaoka Brand-New Mall	The Tanizawa Sogo Appraisal Co., Ltd.	3,240	3,080	3,130	4.9	3,280	5.0	5.1
		Asumigaoka Brand-New Mall (Leasehold land) *2		(1)150 (2)149	-	-	-	(1)150 (2)149	(1) 4.4 (2) until 3FY: 4.2 (2) from 4FY: 4.3	-
13102	Commercial facilities	Nishi-shiroi Ekimae Plaza	Daiwa Real Estate Appraisal Co., Ltd.	470	334	474	5.3	468	5.1	5.5
13201	Commercial facilities	K's Denki Oyumino (Leasehold land)	JLL Morii Valuation & Advisory KK	2,890	-	-	-	2,890	4.7	-
13202	Commercial facilities	Nitori Tsuchiura (Leasehold land)	JLL Morii Valuation & Advisory KK	1,100	-	-	-	1,100	5.3	-
13203	Commercial facilities	Nitori Imaichi (Leasehold land)	JLL Morii Valuation & Advisory KK	409	-	-	-	409	5.6	-
15101	Commercial facilities	Yoshizuya Y Store Nishiharu	Daiwa Real Estate Appraisal Co., Ltd.	2,270	4,800	2,280	5.0	2,260	4.8	5.2
15201	Commercial facilities	MaxValu Kikyougaoka-higashi (Leasehold land)	JLL Morii Valuation & Advisory KK	542	-	-	-	542	5.6	-
16101	Commercial facilities	tonarie Minami-senri	The Tanizawa Sogo Appraisal Co., Ltd.	8,080	8,370	8,000	4.4	8,110	4.5	4.6
16102	Commercial facilities	tonarie Seiwadai	Daiwa Real Estate Appraisal Co., Ltd.	3,350	2,370	3,400	5.4	3,330	5.2	5.6
16103	Commercial facilities	tonarie Yamatotakada (50% ownership) *3	JLL Morii Valuation & Advisory KK	4,035	3,490	4,090	4.9	3,975	4.7	5.1
16104	Commercial facilities	tonarie Toga・Mikita	Daiwa Real Estate Appraisal Co., Ltd.	6,970	4,370	7,010	4.6	6,950	4.4	4.8
16201	Commercial facilities	LAMU Kitatsumori (Leasehold land)	JLL Morii Valuation & Advisory KK	1,480	-	-	-	1,480	4.3	-
16202	Commercial facilities	K's Denki Nishikobe (Leasehold land)	JLL Morii Valuation & Advisory KK	2,470	-	-	-	2,470	4.6	-
16203	Commercial facilities	Sanyo Marunaka Mitani (Leasehold land)	JLL Morii Valuation & Advisory KK	1,540	-	-	-	1,540	4.6	-
16204	Commercial facilities	TSUTAYA Sakai-minami (Leasehold land)	JLL Morii Valuation & Advisory KK	1,040	-	-	-	1,040	4.5	-
16205	Commercial facilities	LIFE Daisen (Leasehold land)	Daiwa Real Estate Appraisal Co., Ltd.	3,060	-	-	-	3,060	4.3	-
16206	Commercial facilities	TRIAL Omihachiman (Leasehold land)	JLL Morii Valuation & Advisory KK	1,100	-	-	-	1,100	4.6	-

Property number	Property type	Property name	Appraiser	Appraisal value (million yen) *1	Estimated value (million yen)	Value based on Direct Capitalization Method (million yen)	Cap rate (%)	Value based on DCF Method (million yen)	Discount rate (%)	Terminal cap rate (%)
16207	Commercial facilities	Kusuri no Aoki Ikaruga (Leasehold land) *4	JLL Morii Valuation & Advisory KK	(1)702 (2)28	-	-	-	(1)702 (2)28	5.2	-
16208	Commercial facilities	DRUG Yutaka Mukokamiueno (Leasehold land)	JLL Morii Valuation & Advisory KK	477	-	-	-	477	4.4	-
16209	Commercial facilities	WELCIA Amagasaki Mukomotomachi (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	577	-	-	-	577	until 7FY: 4.0 from 8FY: 4.1	-
16210	Commercial facilities	Cocokara Fine Neyagawakoen (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	717	-	-	-	717	until 5FY: 4.1 from 6FY: 4.2	-
16211	Commercial facilities	ENEOS Ikawadani SS (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	531	-	-	-	531	until 7FY: 4.2 from 8FY: 4.3	-
16212	Commercial facilities	GEO Hikone Takamiya (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	305	-	-	-	305	4.3	-
18101	Commercial facilities	SUROY MALL Nagamine	JLL Morii Valuation & Advisory KK	4,560	4,690	4,630	5.2	4,490	5.0	5.4
18201	Commercial facilities	MrMAX Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	3,930	-	-	-	3,930	4.5	-
18202	Commercial facilities	UNIQLO Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	670	-	-	-	670	4.6	-
18203	Commercial facilities	Avail.Shimamura Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	1,110	-	-	-	1,110	4.6	-
18204	Commercial facilities	au-SoftBank Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	160	-	-	-	160	4.6	-
18205	Commercial facilities	Kura Sushi Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	302	-	-	-	302	4.6	-
18206	Commercial facilities	docomo Shop Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	181	-	-	-	181	4.6	-
18207	Commercial facilities	Konpira Maru Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	264	-	-	-	264	4.6	-
18208	Commercial facilities	One-Karubi Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	265	-	-	-	265	4.6	-
18209	Commercial facilities	Suke-san Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	419	-	-	-	419	4.6	-
18210	Commercial facilities	NAFCO Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	3,440	-	-	-	3,440	4.5	-
18211	Commercial facilities	K's Denki Kasuga (Leasehold land)	The Tanizawa Sogo Appraisal Co., Ltd.	1,860	-	-	-	1,860	4.5	-
19101	Commercial facilities	Fuji Grand Natalie	Daiwa Real Estate Appraisal Co., Ltd.	4,120	5,700	4,090	5.1	4,130	4.9	5.3
19201	Commercial facilities	K's Denki Kurashiki (Leasehold land)	JLL Morii Valuation & Advisory KK	2,450	-	-	-	2,450	4.6	-
Total				72,713	-	-	-	72,611	-	-

*1. The date of "appraisal value" in each case is July 31, 2023. The "appraisal value" is the amount indicated in the appraisal report, rounded down to the nearest million yen. Consequently, the total of the "appraisal value" may not equal the overall total.

*2. "Asumigaoka Brand-New Mall (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Akindo Sushiro Co., Ltd. and McDonald's Holdings Company (Japan), Ltd., and the "appraisal value", "value based on DCF Method" and "discount rate" show the portion pertaining to

Akindo Sushiro Co., Ltd. as (1) and the portion pertaining to McDonald's Holdings Company (Japan), Ltd. as (2).

- *3. Regarding tonarie Yamatotakada, given that the asset held consists of 50% quasi co-ownership of the trust beneficiary rights, the "appraisal value", "estimated value", "value based on direct capitalization method", and the "value based on DCF method" are the amounts calculated based on the quasi co-ownership interest ratio.
- *4. "Kusuri no Aoki Ikaruga (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Kusuri no Aoki Co., Ltd., and Ikaritombo Co., Ltd. and "Appraisal value" and "Value based on DCF method" show the portion pertaining to Kusuri no Aoki Co., Ltd. as (1) and the portion pertaining to Ikaritombo Co., Ltd. as (2).

(2) Capital Expenditures

i. Planned capital expenditures

There are no major constructions that fall under the category of capital expenditures scheduled for the assets held as of July 31, 2023.

ii. Capital expenditures during the period

There is no repair work applicable to the capital expenditure in current fiscal period on the assets owned as of July 31, 2023.