

【Systems for managing investment risk】

HRR and the Asset Management Company recognize there are various risks relating to real estate investment management, etc., and have established risk management systems to maximize response to such risks.

However, said risk management systems are not guaranteed to be fully effective, and in the event of the risk management systems failing to function properly, there is a risk of damage to unitholders or investment corporation bondholders.

HRR's systems

HRR stipulates in its Rules of the Board of Directors that Meetings of the Board of Directors shall be held at least once every three months. HRR's Board of Directors meetings shall be attended by the Executive Director and Supervisory Director. In the presence of the Asset Management Company, the Executive Director is to report on the status of his or her job execution as well as on the business execution status of the Asset Management Company, General Service Administrator, and Asset Custodian, thereby ensuring an internal control system in which control is exercised through the Board of Directors meeting. Reporting of the Executive Director's job execution status and of the business execution status of the Asset Management Company, General Service Administrator, and Asset Custodian shall be carried out at least once every three months. As of the date of this document, one lawyer and one certified public accountant for a total of two individuals are appointed HRR's Supervisory Directors, each of whom builds on their past experience and expertise to provide multifaceted supervision of the Executive Director's job execution.

The Asset Management Company's systems

The Asset Management Company has established the risk management system shown below in regard to the risks associated with the management of HRR's assets.

(A) Formulation of, and compliance with, asset management guidelines and risk management rules

The Asset Management Company, for the realization of basic policies such as the investment policies of the Articles of Incorporation, etc., formulates asset management guidelines in alignment with the Articles of Incorporation, etc. and establishes investment policies, rules for transactions with stakeholders, and basic policies, etc. relating to the acquisition, sale, management, and administration of investment properties. The Asset Management Company, by abiding by the asset management guidelines, shall manage the risks relating to investment management.

In addition, the Asset Management Company, in its Risk Management Rules, stipulates basic risk management policy, key person responsible for risk management, response in the event of discovery of serious problems, etc., and defines major risks which should be managed by the Asset Management Company as investment risk, financial risk, system risk, reputation risk, risk relating to compliance, risk relating to anti-social forces, etc., and sets forth the roles of the Board of Directors as well as the Compliance Officer who is the Asset Management Company's key person responsible for risk, and the General Managers of each department who are responsible for risk management in each department. In regard to risk status, the Compliance Officer is to conduct monitoring at least semiannually or as needed, and upon evaluation and analysis, report the results to the Compliance Committee and Board of Directors. The adequacy or efficacy of the risk management system is to be validated by the internal audit supervised by the Compliance Officer and by audits, etc. by an external agency (for details on validation by said internal audit, refer to "(B)

Validation by internal audit" below).

(B) Validation by internal audit

The Compliance Officer is in charge of internal audits. In addition to regular internal audits which are conducted on all departments at least once annually as a general rule, extraordinary internal audits may be conducted when the Compliance Officer deems it necessary. In addition, special audits may be conducted under special order by the President & CEO. Internal audits are to include: audits on whether the operations and management of each body are in compliance with laws and regulations including the Financial Instruments and Exchange Act, Investment Trusts Act, and Real Estate Brokerage Act, rules provided by the Investment Trusts Association, Japan, and the internal rules, etc. of the Asset Management Company, and whether they are being carried out appropriately and effectively; audits to discover and prevent wrongdoing and serious negligence; audits of whether information management including personal information management and corporate information management is being performed appropriately, and audits of other necessary matters. The Compliance Officer, without delay after conducting the internal audit, shall compile the results into an Internal Audit Report and submit the same to the President & CEO and the Board of Directors, as well as make recommendations or directives for improvement as necessary to the departments subjected to internal audit, and report their content to the President & CEO and the Board of Directors. The Compliance Officer, if judging the improvement plans received from the audited departments and their improvement status to be adequate, shall report to the President & CEO and the Board of Directors regarding said improvement plans and improvement status. The Board of Directors, in the event of judging said improvement plans and improvement status to be inadequate, may give additional recommendations or directives for improvement to the department which received the recommendations or directives for improvement, or to the Compliance Officer. If the Board of Directors or Compliance Officer deems it necessary for verifying suitability of operational management or for other reasons, an external audit may be performed by an external expert, etc.

(C) Stakeholder Transaction Rules

In the event that property acquisition, transfer, leasing, entrustment of operations such as property management, entrustment of brokerage of purchase, sale, or lease, or issuing of order for construction, etc., is to be carried out with Stakeholders, etc., such transactions shall comply with the provisions in the Financial Instruments and Exchange Act, Investment Trusts Act, Order for Enforcement of Investment Trusts Act, and Stakeholder Transaction Rules, and in accordance with the Rules on the Segregation of Operational Duties be evaluated in advance by the Compliance Officer in regard to any compliance issues in light of laws and regulations, government ordinances, rules, Articles of Incorporation, and the Asset Management Company's internal rules.

To engage in a transaction with Stakeholders, etc. described in (a) to (d) below, consent from HRR must be obtained in advance based on approval by HRR's Board of Directors.

- (a) Acquisition or transfer of securities
- (b) Leasing and borrowing of securities
- (c) Acquisition or transfer of real estate
- (d) Leasing and borrowing of real estate

(D) Insider Trading Rules

The Asset Management Company has established Insider Trading Rules to prevent insider trading by the Asset Management Company's officers and employees, etc. According to said Rules, the Asset Management Company's officers and employees and their relatives in the same household are prohibited from engaging in the purchase and sales, etc. of HRR's investment units and investment corporation bonds, with said Rules to be observed for the duration of one year after they cease to be an officer, etc. of the Asset Management Company.

(E) Forward commitments, etc.

Properties relating to forward commitments, etc. are not posted on HRR's balance sheet until settlement, and the off-balance sheet risk of price fluctuation of said properties until settlement is attributed to HRR. Therefore, we make a point of considering the levels of cancellation penalties relating to breach of contract, implications for the balance of the portfolio as a whole and its dividend scale, etc. (including delisting criteria set forth by the Tokyo Stock Exchange), the period from the signing of a sales agreement to property handover, the fluctuation risk of the financial environment and real estate markets, etc. during said period, and settlement fund procurement methods, etc.