Japan Excellent, Inc.

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Japan Excellent, Inc. (TSE: 8987)
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Notice Concerning Transfer of Assets and Termination of Leases (No. 32 Kowa Building/No. 35 Kowa Building)

Japan Excellent, Inc. (hereafter "JEI") announces that JEI has decided today to transfer assets and terminate the leases as follows.

1. Summary of Transfer and Termination of Leases

	①	②
(1) Property Name	No. 32 Kowa Building	No. 35 Kowa Building
(2) Property to be Transferred	Trust beneficiary interest in real estate	Trust beneficiary interest in real estate
(3) Transfer Value (Note 1) (Note 2)	¥6,390 million (JPY6,390,000,000)	¥9,320 million (JPY9,320,000,000)
(4) Assumed Book Value (Note 2) (Note 3)	¥7,356 million (JPY7,356,000,000) (Assumed book value as of December 24, 2015)	¥ 8,179 million (JPY8,179,000,000) (Assumed book value as of December 24, 2015)
(5) Amount of Difference between Transfer Value and Assumed Book Value: (3)-(4) (Note 2) (Note 4)	-¥966 million (-JPY966,000,000)	¥1,141 million (JPY1,141,000,000)
(6) Date of Execution of Transfer Agreement	December 22, 2015	December 22, 2015
(7) Date of Transfer	December 24, 2015	December 24, 2015
(8) Lesser	Nippon Steel Kowa Real Estate Co., Ltd.	Nippon Steel Kowa Real Estate Co., Ltd.
(9) Transferee	Please refer to 4. Details of Transferee below.	Please refer to 4. Details of Transferee below.

(Note 1) Transfer value does not include fees related to the transfer, the JEI share of the real estate tax and city planning tax, the consumption tax or the local consumption tax.
(Note 2) Amounts of less than one million yen are rounded down.
(Note 3) "Assumed book value" is the book value which JEI would have recognized if the concerned property was owned until the end of the fiscal period ending December 2015.
(Note 4) These are reference figures calculated as the difference between transfer value and assumed book value, and differ from gain (loss) on transfer in accounting.

Hereafter, each property to be transferred is referred to as the "Property" and both properties are collectively referred to as the "Two Properties."

Japan Excellent, Inc.

2. Background of Transfer and Termination of Leases

JEI has positioned asset replacement which aims to improve profitability and stability of the portfolio as one of growth strategies. The transfer of the Two Properties, which were constructed 30 years ago and are likely to show decline in competitiveness in the future, is carried out as part of the strategies. The proceeds from the transfer of the Two Properties will be used as part of early repayment of short-term borrowings (17.0 billion yen).

Through implementing the above measure which will generate capacity to replace properties and acquire properties that can expect future growth, JEI will build a highly competitive portfolio utilizing such capacity.

3. Summary of Assets to be Transferred and Leases to be Terminated

① No. 32 Kowa Building

Property Name		No. 32 Kowa Building (Property Number: I-4)
Type of Specified Asset		Trust beneficiary interest in real estate
Trustee		Mizuho Trust & Banking Co., Ltd.
Trustee Period		From June 27, 2006 to June 26, 2016
Location (Address)		5-2-32 Minamiazabu, Minato-ku, Tokyo
Use (Note 1)		Office
Structure (Note 1)		SRC, Flat roof, B1/9F
Site Area (Note 1)	Land	2,592.39m^2
	Building (Total Floor Space)	10,110.96 m^2
Type of Ownership (Note 2)	Land	Ownership
	Building	Ownership
Completion Date (Note 1)		March 1979
Acquisition Price		¥7,430 million
Appraisal Value		¥6,390 million
Appraisal Date		December 1, 2015
Appraiser		Chuo Real Estate Appraisal Co., Ltd.
PML (Note 3)		7.62% (Based upon the Building Survey Report on PML Assessment produced by Sompo Japan Nipponkoa Risk Management Inc.)
Collateral		None
Leasable Floor Space (Note 4)		7,570.95 m^2
Leased Floor Space (Note 5)		7,570.95 m^2
Number of Tenants (Note 6)		1
Monthly Rent (Note 7)		¥38,301 thousand
Leasehold and Security Deposit (Note 8)		¥328,832 thousand
Occupancy Rate (Note 9)		100%

② No. 35 Kowa Building

Property Name		No. 35 Kowa Building (Property Number: I-11)
Type of Specified Asset		Trust beneficiary interest in real estate
Trustee		Mitsubishi UFJ Trust and Banking Corporation
Trustee period		November 25, 2011 to November 30, 2021
Location (Address)		1-14-14 Akasaka, Minato-ku, Tokyo
Use (Note 1)		Office
Structure (Note 1)		RC, Flat roof, B1/6F
Site Area (Note 1)	Land	3,357.80 m^2
	Building(Total Floor Space)	13,328.53 m^2
Type of	Land	Ownership

Ownership (Note 2)	Building	Ownership
Completion Date (Note 1)		January 1980
Acquisition Price		¥8,280 million
Appraisal Value		¥9,320 million
Appraisal Date		December 1, 2015
Appraiser		Japan Real Estate Institute
PML (Note 3)		8.12% (Based upon the Building Survey Report on PML Assessment produced by Sompo Japan Nipponkoa Risk Management Inc.)
Collateral		None
Leasable Floor Space (Note 4)		9,377.16 m^2
Leased Floor Space (Note 5)		9,377.16 m^2
Number of Tenants (Note 6)		1
Monthly Rent (Note 7)		—
Leasehold and Security Deposit (Note 8)		—
Occupancy Rate (Note 9)		100%

(Note 1) The descriptions of "Use," "Structure," "Site Area" and "Completion Date" are based on the indications on the land registry or the completion drawing.

(Note 2) "Type of ownership" indicates the type of ownership owned by the trustee.

(Note 3) Probable Maximum Loss ("PML") indicates the ratio of (a) the estimated total cost associated with fully restoring a property after damage by an earthquake, to (b) the total reconstruction cost of the property, on the assumption that such an earthquake is a "maximum-scale" earthquake for that area (a large scale earthquake expected to occur once every 475 years with a 10% probability of occurrence every 50 years).

(Note 4) "Leasable floor space" indicates floor space available for lease as of November 30, 2015.

(Note 5) "Leased floor space" refers to space, among the leasable floor space", that is actually leased under lease agreement concluded between JEI, the trustee or the master lease company and the end tenant. The figure is, in principle, the leased floor space indicated in the lease agreements with the end tenants as of November 30, 2015. For properties which are used for profit by the master lease company, leased floor space includes the portion used and the figures indicate space which can be reasonably calculated based on the lease agreement on the master leasing. The leased floor space of end tenants who terminated their lease arrangement but have not yet moved out as of November 30, 2015 is included in the leased space. This also applies to any figure which is calculated based on "leased floor space" in this document.

(Note 6) When a master lease agreement has been concluded with a master lease company, "Number of tenants" is indicated as one, under the assumption that all tenants agreed to the master lease company acting as the lessor.

(Note 7) "Monthly Rent" is, in principle, the total of monthly rents (including common area expenses, but excluding fees for use of parking and other attached facilities), as of November 30, 2015, indicated in the lease agreements (agreements which set forth rents to be paid every month. For the portion which is leased to the master lease company under a master lease agreement stipulating rents in types other than path-through type, however, the said master lease agreement shall apply) concluded between JEI, the trustee or the master lease company and the end tenants. Monthly rent of No. 35 Kowa Building is not disclosed as consent for the disclosure has not been obtained from the end tenants.

(Note 8) "Leaseholds and Security Deposits" is, in principle, the total of the balance (the amount which the lessor is not obligated to return), as of November 30, 2015, of leaseholds and security deposits from lessees, based on the lease agreements (For the portion which is leased to the master lease company under a master lease agreement stipulating rents in types other than path-through type, however, the said master lease agreement shall apply.) concluded between JEI, the trustee or the master lease company and the end tenants as of November 30, 2015.

(Note 9) Occupancy rate is a percentage of total leased floor space to total leasable floor space of real estate in trust as of November 30, 2015.

4. Detail of Transferee

Company Name	Nippon Steel Kowa Real Estate Co., Ltd.
Location of Headquarters	1-15-5 Minamiaoyama, Minato-ku, Tokyo
Director	Mikito Nagai, President and CEO
Capital	¥19.8 billion (as of March 31, 2015)
Major Shareholders	Nippon Steel & Sumitomo Metal Corporation The Dai-Ichi Life Insurance Company, Ltd. Nippon Life Insurance Company UNIZO Holdings Company, Limited Hitachi Building Systems Co., Ltd. IBJ Leasing Company, Ltd.

	Mizuho Corporate Bank, Ltd. The Kyoritsu Co., Ltd.	
Main Business	Real estate business	
Relationship with JEI / JEAM	Capital Relationship	As of December 22, 2015, the Transferee holds 5.7% (71,560 units) of the total number of JEI's outstanding investment units, and also holds 54.0% (4,860 units) of the total number of the Asset Management Company (JEAM)'s outstanding shares. The Transferee falls under the category of a "related party" as defined in the Law Concerning Investment Trusts and Investment Corporations (the "Investment Trust Law"). The Transferee is a sponsor company under voluntary internal regulations for transactions with sponsor companies (the "Regulations for Transactions with Sponsor Companies") formulated by JEAM with the aim of eliminating potential conflicts of interest and thereby enabling it to perform efficient asset management for JEI.
	Personnel Relationship	As of December 22, 2015, the Transferee dispatches 10 peoples to JEAM
	Business Relationship	In the fiscal period ending December 2015, there is no business relationship concerning asset acquisition or transfer between JEI/JEAM and the Transferee.
	Status as Related Party	The Transferee is not a related party of JEI or JEAM.

5. Details of Brokerage

Not applicable.

6. Conflicts of Interest of JEAM Relating to the transfer of the Two Properties

The Transferee (Nippon Steel Kowa Real Estate Co., Ltd.) falls under the category of a "related party" as defined in the Investment Trust Law, and also is "sponsor company" under the "Regulations for Transactions with Sponsor Companies," which are voluntary internal regulations formulated by JEAM. Accordingly, in concluding the Transfer Agreement with said sponsor company, JEAM, in compliance with the aforementioned regulations, has completed the following procedures: (i) obtained approval at a meeting of its Compliance Committee, which includes outside experts; and (ii) presented the transaction for deliberation and approval at its Investment Committee.

7. Schedule of Transfer and Termination of Leases

December 22, 2015 Resolution on transfer and termination of leases
December 22, 2015 Execution of the Transfer Agreement for the trust beneficiary interests in real estate
December 24, 2015 Due date of handover

8. Method of Settlement

The settlement is planned to be made in one payment at the time of transfer and termination of leases of the Two Properties.

9. Outlook

Gain on transfer is expected from the transfer and termination of leases of the Two Properties. However, since we plan to allocate such to internal reserves by applying "Special Provisions for Taxation on the Acquisition of Land, etc. in 2009 and 2010 Prior to the Sale of Other Land, etc." stipulated in Article 66-2 of the Special

Japan Excellent, Inc.

Taxation Measure Law, there is no revision to the operating results forecast for the Nineteenth Fiscal Period (July 1, 2015 to December 31, 2015). As to the operating results for the Twentieth Fiscal Period (January 1, 2016 to June 30, 2016), although some impact of the transfer and termination of leases of the Two Properties is expected, there is no revision to the forecast at present since the expected impact is deemed, as a result of taking into consideration the outlook of expenses, etc. related to current management of other owned properties, to be minimal.
For future policy, please refer to the accompanying "Positioning of the Transfer and Future Policy" separately announced.

10. Appraisal Summary of the Two Properties

① No. 32 Kowa Building

Appraisal Value	¥6,390 million
Appraiser	Chuo Real Estate Appraisal Co., Ltd.
Appraisal Date	December 1, 2015

(Millions of yen (Note))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	6,390,000	
Direct Capitalization Value	7,020,000	
Operating Revenue	556,942	
Gross potential revenue	581,186	Estimated rents, etc. based on current rents and comparison with market average
Vacancy Loss, etc.	24,244	Estimated occupancy rate level based on current occupancy status and comparison with market average
Operating Expenses	181,505	
Maintenance Property Management Fee	41,574 26,219	Estimated maintenance fee with consideration to the current trust agreement and level of similar properties, etc. Estimated PM fee based on current contract terms and actual results of income and expenditure, etc.
Utilities	44,321	Estimated based on actual results of income and expenditure, etc.
Repair costs	19,457	Estimated by reference to similar data, etc. using the estimated amount of repair and replacement expenses stated in the engineering report as standards
Advertisement for leasing, etc.	5,797	In accordance with the terms of the trust agreement, estimated by reference to similar data, etc.
Tax and public dues	43,175	Recorded based on the tax base for fiscal 2015
Insurance	820	Estimated by comparing with similar data, based on the current insurance
Other expenses	142	Recorded actual amount of neighborhood association fee, etc.
Net Operating Income	375,437	
Interest Income	7,691	Estimated profit through management by setting the management yield at 2.0%
Capital Expenditures	25,028	Estimated by reference to similar date, etc., using the estimated amount of repair and replacement expenses stated in the engineering report as standards
Net Cash Flow	358,100	
Cap Rate	5.1%	Estimated by reference to cap rates of similar properties, while taking into consideration the regional and individual characteristics of the subject property
Discounted Cash Flow Value	6,390,000	
Discount Rate	4.9%	Estimated based on the above cap rate while taking into consideration the economic growth rate, market trend forecast, etc.
Terminal Cap Rate	5.3%	Estimated based on the above cap rate while taking into consideration

			risk premium such as the risk of the price falling due to aging degradation and of market fluctuation
Cost Approach Value		5,930,000	
	Land Value	94.6%	
	Building Value	5.4%	

Other matters noted by the appraiser in conducting appraisal	None

② No. 35 Kowa Building

Appraisal Value	¥9,320 million
Appraiser	Japan Real Estate Institute
Appraisal Date	December 1, 2015

(Millions of yen (Note))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	9,320,000	
Direct Capitalization Value	9,500,000	
Operating Revenue	576,559	
Gross potential revenue	586,149	Calculated based on valuation of potential rent and other stable medium- and long-term revenue
Vacancy Loss, etc.	9,590	Calculated on the assumption of the occupancy rate level that is stable over a medium to long term
Operating Expenses	182,307	
Maintenance Property Management Fee	42,500 18,670	Calculated considering the individuality of the property, while referring to the scheduled property management fees, property management fees of similar properties, and the actual fees of past years
Utilities	54,000	Calculated by taking into account the actual results of past years
Repair costs	4,970	Calculated considering the costs at similar properties and an annual average of repairs and replacement expenses stated in the engineering report
Advertisement for leasing, etc.	2,589	In accordance with the terms of the trust agreement, calculated based on the presumed turnover period of the lessee
Tax and public dues	58,609	Recorded based on the tax base for fiscal 2015
Insurance	969	Calculated considering insurance premium based on the current contract and insurance rate of similar buildings, etc.
Other expenses	0	
Net Operating Income	394,252	
Interest Income	7,501	Estimated profit through management by setting the management yield at 2.0%
Capital Expenditures	12,140	Estimated by taking into account the capital expenditure levels of similar properties, the building age and repair and replacement expenses stated in the engineering report
Net Cash Flow	389,613	
Cap Rate	4.1%	Assessed by adjusting the spread based on the property's site, building or other conditions, while considering future uncertainties and transaction yields of similar properties
Discounted Cash Flow Value	9,140,000	
Discount Rate	3.9%	Estimated in reference to the investment yield, etc. of transactions of similar properties and comprehensively taking into account the individual characteristics of the subject property
Terminal Cap Rate	4.3%	Estimated in reference to the transaction yield, etc. of similar properties and comprehensively taking into account the future trends

			of the investment yield, risks of the subject property as investment target, general forecasts of future economic growth and the trends in real estate prices and rent levels, etc.
Cost Approach Value		10,000,000	
	Land Value	90.1%	
	Building Value	9.9%	

Other matters noted by the appraiser in conducting appraisal	None

(Note) Amounts are rounded to the nearest thousand yen

(End)

Appendix:

(Reference) Portfolio Overview after Transfer and Termination of Leases of the Two Properties

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Japan Excellent, Inc.

(Reference) Portfolio Overview after Transfer and Termination of Leases of the Two Properties

Area	Property #	Property Name	Date of Acquisition	Acquisition Price (mn yen) (Note 1)	Investment ratio (%) (Note 2)	Investment Ratio by Area (%) (Note 2)
Area I: Tokyo's 6 Central Wards (Note 3)	I-1	Omori Bellport D	June 29, 2006	22,552	8.2	48.0
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.4	
	I -3	JEI Hamamatsucho Building	June 29, 2006	8,350	3.0	
	I -7	Akasaka Garden City	March 28, 2007	23,300	8.5	
	I -8	AKASAKA INTERCITY	October 26, 2007	17,857	6.5	
			February 5, 2013	10,289	3.7	
			Total	28,146	10.2	
	I -9	Kowa Shirokanedai Building	December 24, 2010	4,705	1.7	
	I -10	Daiba Garden City Building	February 4, 2011	11,000	4.0	
	I -12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.6	
			February 4, 2014	12,000	4.4	
			Total	19,080	6.9	
	I -13	Shintomicho Building	March 28, 2012	1,750	0.6	
	I -14	Kowa Nishi-Shimbashi Building	March 28, 2013	3,931	1.4	
Area II: Central Osaka, Central Nagoya, Central Fukuoka (Note 4)	II-1	NHK Nagoya Housou-Center Building	June 27, 2006	4,300	1.6	5.1
			March 24, 2014	1,310	0.5	
			Total	5,610	2.0	
	II -2	JEI Nishi-Honmachi Building	March 28, 2007	6,673	2.4	
	II -3	Osaka Kogin Building (Land with Leasehold Interest)	February 5, 2013	1,770	0.6	
Area III: Tokyo (excl. Area I) and areas surrounding Tokyo (Kanagawa, Saitama and Chiba prefectures)	III-1	Musashikosugi Tower Place	June 27, 2006	13,890	5.0	39.8
	III -2	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976	4.0	
	III -3	JEI Hongo Building	June 29, 2006	5,400	2.0	
	III -5	Kawasaki Nisshincho Building	June 27, 2006	3,775	1.4	
			November 30, 2006	130	0.0	
			October 17, 2008	300	0.1	
			April 17, 2013	520	0.2	
			Total	4,725	1.7	
	III -6	No. 44 Kowa Building	June 27, 2006	1,150	0.4	
	III -7	JEI Ryogoku Building	June 27, 2006	2,550	0.9	
	III -8	Ebina Prime Tower	March 29, 2007	6,470	2.3	
	III -9	Kowa Kawasaki Nishiguchi Building	October 26, 2007	32,000	11.6	
	III -10	Pacific Square Sengoku	December 20, 2011	1,620	0.6	
	III -11	Core City Tachikawa	February 5, 2013	6,500	2.4	
	III -12	Nisseki Yokohama Building	April 1, 2015	24,500	8.9	
Area IV: Osaka, Nagoya and Fukuoka (excl. Area II) and other government decreed cities, etc.	IV-2	JEI Kyobashi Building	September 1, 2011	3,308	1.2	7.1
	IV -3	JEI Hiroshima Hatchobori Building	May 22, 2012	2,760	1.0	
	IV -4	SE Sapporo Building	March 1, 2013	5,500	2.0	
	IV -5	Aobadori Plaza	February 4, 2014	2,120	0.8	
	IV -6	Daiwa Minamimoricho Building	February 4, 2014	4,410	1.6	
	IV -7	Okinawa No.27 Daikyo Building	December 7, 2015	1,380	0.5	
Total				275,577	100.0%	100.0

Notes

1. "Acquisition Price" is the acquisition value on the purchase agreement, excluding consumption tax, etc. Amounts are rounded down to the nearest million yen.
2. "Investment Ratio" and "Investment Ratio by Area" are rounded to the first decimal place.
3. "Tokyo's 6 Central Wards" is Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya Wards.
4. "Central Osaka" is the Umeda, Dojima, Nakanoshima, Yodoyabashi, and Honmachi districts, "Central Nagoya" is the Meieki, Fushimi, Sakae districts, and "Central Fukuoka" is the Tenjin and Hakata Terminal Peripheral districts.