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September 23, 2016

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Sale of Portfolio Asset (Ichigo Yokosuka Building)

Ichigo Investment Advisors (IIA), the asset management company of Ichigo Office REIT, today contracted to sell Ichigo Yokosuka Building.

1. Sale Overview

Asset Name	Ichigo Yokosuka Building
Asset Type/Asset No.	Office/O-25
Building Completion Date	December 7, 1981
Legal Form of Asset	Real estate
Acquisition Date	November 1, 2011 (Ichigo Office REIT merger) (Original acquisition date: May 16, 2006)
Sale Price[1] (A)	JPY 1,000,000,000
Book Value[2] (B)	JPY 962,524,710
Difference (A) – (B)	JPY 37,475,290
Appraisal Value[3]	JPY 982,000,000 (as of April 30, 2016)
Contract Date	September 23, 2016
Transfer Date	September 30, 2016
Settlement Date	September 30, 2016
Transaction Method	Real estate sale

[1] Sale price excludes incidental expenses such as fees and property, city planning, and consumption taxes.

[2] Book Value is an estimate based upon the most recent book value (April 2016 fiscal period), adjusted for capital expenditures and depreciation through Settlement Date.

[3] Appraisal Value was calculated by the Tanizawa Sogo Appraisal Co., Ltd. as of April 30, 2016, and is in compliance with the appraisal guidelines of IIA as well as the rules of The Investment Trusts Association of Japan.

2. Sale Rationale

Ichigo Office REIT continues to execute on its strategy to drive sustainable dividend growth (Stage V, Growth Strategy Roadmap) and “increase portfolio size and scale and be smart in portfolio restructuring.”

Ichigo Office REIT regularly reviews its portfolio for profitability and determines whether it is in the best interest of shareholders to continue to own each asset based upon its maintenance needs and competitiveness with nearby assets. In this case, Ichigo Office REIT concluded that selling the asset would increase portfolio profitability and quality.

3. Asset Overview

Details of Ichigo Yokosuka Building		
Asset Name		Ichigo Yokosuka Building
Legal Form of Asset		Real estate
Address		1-21-10 Wakamatsucho, Yokosuka City, Kanagawa
Land	Legal Form of Asset	Real estate
	Area	800.32 m^2
	Zoning	Commercial
	Coverage Ratio Floor Area Ratio	80% 600%
Building	Property Right	Ownership
	Use	Office, retail
	Structure[2]	SRC & RC 7 Floors plus 1 Basement Floor
	Total Floor Area	3,310.85 m^2
	Construction Date	December 7, 1981 (extension on April 14, 1982)
Number of Tenants		12 (as of September 23, 2016)
Monthly Rent[1]		JPY 8,258,000 (as of September 23, 2016)
Tenant Security Deposits[1]		JPY 86,027,000 (as of September 23, 2016)
Leasable Area		2,187.44 m^2 (as of September 23, 2016)
Leased Area		2,187.44 m^2 (as of September 23, 2016)
Occupancy		100% (as of September 23, 2016)
Acquisition Price		JPY 971 million
Appraisal	Appraiser	The Tanizawa Sogo Appraisal Co., Ltd.
	Date	April 30, 2016
	Value	JPY 982 million

[1] Monthly Rent (including cost of utilities) and Tenant Security Deposits refer to those stated in the rental contract.

[2] SRC = Steel-Reinforced Concrete, RC = Reinforced Concrete

4. Appraisal Overview

Appraisal Details		
Asset Name	Ichigo Yokosuka Building	
Appraisal Value	JPY 982,000,000	
Appraiser	The Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	April 30, 2016	
	Amount (JPY)	Notes
Appraisal Value	982,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation
Value by Direct Capitalization Method	971,000,000	
Income	118,711,966	
Maximum Obtainable Rental Income	124,774,754	Based on rental income, common area service income, parking lot income, and other income
Vacancy Loss	6,062,788	Based on mid- to long-term vacancy rate
Expenses	48,176,284	
Administrative and Maintenance Expenses	9,528,489	Based on similar assets and past actual amounts
Utility Expenses	20,658,183	Based on similar assets and past actual amounts
Repair Expenses	7,276,500	Based on engineering reports and similar assets
PM Fees	2,861,365	Based on similar assets and past actual amounts
Leasing Brokerage Fees	811,473	Based on the expected turnover rate and tenant acquisition costs for similar assets
Taxes	6,664,000	Based on FY2015 actual amounts
Insurance Premiums	138,850	Based on similar assets and past actual amounts
Other Expenses	237,424	
Net Operating Income (NOI)	70,535,682	
Income on Investment of Deposits Received	1,766,761	Based on a 2.0% investment yield
Capital Expenditures	16,978,500	Based on engineering reports and similar assets
Net Profit	55,323,943	
Cap Rate	5.7 %	Based on transactions of similar assets and a comprehensive assessment of the asset's location, its individual characteristics, and market trends.
Value via DCF Method	987,000,000	
Discount Rate	5.6 %	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
Terminal Cap Rate	5.9 %	Based on risk-adjusted NOI

	Amount (JPY)	Notes
Value via Cost Approach	904,000,000	
Land	66.8 %	
Building	33.2 %	
Notes		
None		

5. Buyer Profile

Name	The buyer is a domestic operating company, but did not give consent to disclose its name.
Relationship with Ichigo Office REIT or IIA	The buyer does not have any capital, personnel, or business relationship of note with Ichigo Office REIT or IIA. In addition, the seller is not an interested party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law or the internal rules of the Asset Management Company.

6. Broker Profile

Name	Nomura Real Estate Development Co., Ltd.
Address	1-26-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo
Representative	Seiichi Miyajima, President
Principal Businesses	Real estate
Capital	JPY 2 billion (as of April 1, 2016)
Establishment Date	April 15, 1957
Relationship with Ichigo Office REIT or IIA	The broker does not have any capital, personnel, or business relationship of note with Ichigo Office REIT/IIA. In addition, the seller is not an interested party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law or the internal rules of the Asset Management Company.
Brokerage Fee	The broker did not give consent to disclose the fee.

7. Settlement Method

Lump-sum payment.

8. Use of Sale Proceeds

Ichigo Office REIT will allocate part of the sale proceeds towards prepayment of existing loans and the rest will be retained as cash-on-hand for future strategic use including asset acquisitions. Details of the loan prepayment will be announced as soon as they are determined.

9. Earnings Outlook

The impact of the sale on Ichigo Office REIT's earnings and dividend forecasts for the October 2016 and April 2017 fiscal periods is minimal, and therefore the forecasts are unchanged. The gain on sale will be allocated to the dividend reserve to maintain the stability of future dividends.

Portfolio Reference Information

1. Post-Sale Portfolio

	Before Sale (A)	After Sale (B)	Difference (B – A)
Occupancy	96.9%[1]	96.9%	No change
Geographic Diversification: Greater Tokyo Area/Other Areas[2]	79.0% / 21.0%	78.9% / 21.1%	-0.1% / +0.1%

[1] Occupancy Before Sale is as of August 31, 2016.

[2] Greater Tokyo Area refers to Central Tokyo and the Tokyo Metropolitan Area. Other Areas refer to the Four Major Regional Cities and Other Regional Cities. Geographic Diversification percentage is based upon acquisition prices.

2. Post-Sale Portfolio Assets

No.	Asset	Area[1]	Acquisition Price[2] (mm yen)	% of Portfolio[3]
O-02	Ichigo Nishisando Building	Central Tokyo	3,254	1.7 %
O-03	Ichigo Mita Building	Central Tokyo	2,740	1.4 %
O-04	Ichigo Nanpeidai Building	Central Tokyo	1,920	1.0 %
O-05	Ichigo Hanzomon Building	Central Tokyo	1,550	0.8 %
O-06	Ichigo Hijirizaka Building	Central Tokyo	1,200	0.6 %
O-07	Ichigo Shibuya Kamiyamacho Building	Central Tokyo	1,505	0.8 %
O-08	Ichigo Akasaka 5 Chome Building	Central Tokyo	735	0.4 %
O-09	Ichigo Shibakoen Building	Central Tokyo	1,100	0.6 %
O-10	Ichigo Ebisu Nishi Building	Central Tokyo	1,917	1.0 %
O-11	Ichigo Ginza 612 Building	Central Tokyo	1,773	0.9 %
O-12	Ichigo Uchikanda Building	Central Tokyo	1,140	0.6 %
O-14	Ichigo Yotsuya 4 Chome Building	Central Tokyo	550	0.3 %
O-15	Ichigo Tameike Building	Central Tokyo	580	0.3 %
O-16	Ichigo Jimbocho Building	Central Tokyo	1,820	1.0 %
O-17	Ichigo Hakozaki Building	Central Tokyo	1,150	0.6 %
O-18	Ichigo Kudan 2 Chome Building	Central Tokyo	763	0.4 %
O-19	Ichigo Kudan 3 Chome Building	Central Tokyo	844	0.4 %
O-20	Ichigo Gotanda Building	Central Tokyo	5,060	2.6 %
O-21	Ichigo Shin Yokohama Building	Tokyo Metropolitan Area	1,816	1.0 %
O-22	Ichigo Minami Ikebukuro Building	Tokyo Metropolitan Area	1,460	0.8 %
O-23	Ichigo Nakano North Building	Tokyo Metropolitan Area	764	0.4 %
O-24	Ichigo Eitai Building	Tokyo Metropolitan Area	1,490	0.8 %
O-26	Ichigo Ikejiri Building	Tokyo Metropolitan Area	2,030	1.1 %
O-27	Ichigo Nishi Ikebukuro Building	Tokyo Metropolitan Area	639	0.3 %
O-28	Ichigo Nishi Gotanda Building	Central Tokyo	765	0.4 %
O-29	Ichigo Kichijoji Building	Tokyo Metropolitan Area	2,160	1.1 %

No.	Asset	Area[1]	Acquisition Price[2] (mm yen)	% of Portfolio[3]
O-34	Ichigo Sakae Building	Four Major Regional Cities	4,705	2.5 %
O-37	Ichigo Marunouchi Building	Four Major Regional Cities	6,710	3.5 %
O-38	Ichigo Toyamaeki Nishi Building	Other Regional Cities	1,650	0.9 %
O-39	Ichigo Mirai Shinkin Building	Other Regional Cities	1,158	0.6 %
O-42	Ichigo Takamatsu Building	Other Regional Cities	3,010	1.6 %
O-46	Ichigo Kanda Nishikicho Building	Central Tokyo	2,130	1.1 %
O-47	Ichigo Akihabara North Building	Central Tokyo	5,500	2.9 %
O-48	Ichigo Sakaisuji Honmachi Building	Four Major Regional Cities	1,940	1.0 %
O-49	Ichigo Kanda Ogawamachi Building	Central Tokyo	2,210	1.2 %
O-50	Ichigo Hatchobori Building	Central Tokyo	1,905	1.0 %
O-51	Ebisu Green Glass	Central Tokyo	5,900	3.1 %
O-52	Ichigo Omori Building	Central Tokyo	3,850	2.0 %
O-53	Ichigo Takadanobaba Building	Central Tokyo	1,580	0.8 %
O-54	Ichigo Omiya Building	Tokyo Metropolitan Area	3,430	1.8 %
O-55	Ichigo Sagamihara Building	Tokyo Metropolitan Area	1,174	0.6 %
O-56	Ichigo Ofuna Building	Tokyo Metropolitan Area	2,000	1.0 %
O-57	Ichigo Sendai East Building	Other Regional Cities	1,840	1.0 %
O-58	Ichigo Kumamoto Building	Other Regional Cities	1,450	0.8 %
O-59	Ichigo Jingumae Building	Central Tokyo	7,200	3.8 %
O-60	Ichigo Shibuya Dogenzaka Building	Central Tokyo	3,650	1.9 %
O-61	Ichigo Hiroo Building	Central Tokyo	3,960	2.1 %
O-62	Ichigo Sasazuka Building	Central Tokyo	4,780	2.5 %
O-63	Ichigo Nihonbashi East Building	Central Tokyo	4,700	2.5 %
O-64	Ichigo Sakurabashi Building	Central Tokyo	2,500	1.3 %
O-65	Ichigo Shinkawa Building	Central Tokyo	2,360	1.2 %
O-66	Ichigo Kudan Building	Central Tokyo	3,190	1.7 %
O-67	Ichigo Higashi Gotanda Building	Central Tokyo	3,660	1.9 %
O-68	Axior Mita	Central Tokyo	1,800	0.9 %
O-69	Ichigo Higashi Ikebukuro Building	Tokyo Metropolitan Area	4,570	2.4 %
O-70	Koriyama Big-i (Office Section)	Other Regional Cities	1,660	0.9 %
O-71	Ichigo Kawasaki Building	Tokyo Metropolitan Area	1,750	0.9 %
O-72	Ichigo Shibuya East Building	Central Tokyo	1,350	0.7 %
O-73	Ichigo Ningyocho Building	Central Tokyo	1,450	0.8 %
O-74	Ichigo Nishi Honmachi Building	Other Regional Cities	2,190	1.1 %
O-75	Ichigo Hakata Building	Other Regional Cities	1,380	0.7 %
O-76	Nishiki First Building	Other Regional Cities	2,000	1.0 %
O-77	Ichigo Ikenohata Building	Other Regional Cities	5,130	2.7 %
O-78	Ichigo Ikebukuro East Building	Tokyo Metropolitan Area	3,010	1.6 %
O-79	Ichigo Motoazabu Building	Central Tokyo	1,890	1.0 %
O-80	Ichigo Otsuka Building	Tokyo Metropolitan Area	2,740	1.4 %

No.	Asset	Area[1]	Acquisition Price[2] (mm yen)	% of Portfolio[3]
O-81	Ichigo Nagoya Building	Central Tokyo	3,420	1.8 %
O-82	Ichigo Fushimi Building	Central Tokyo	2,340	1.2 %
O-83	Ichigo Nishiki Building	Central Tokyo	1,330	0.7 %
O-84	Ichigo Minami Morimachi Building	Central Tokyo	1,040	0.5 %
Subtotal – Offices (70 Assets)			167,917	87.9 %
R-04	Ichigo Serviced Apartments Takanawadai	Central Tokyo	1,360	0.7 %
R-06	B-SITE Hamamatsucho	Central Tokyo	701	0.4 %
R-09	Ichigo Serviced Apartments Ginza	Central Tokyo	946	0.5 %
Z-02	Ichigo Fiesta Shibuya	Central Tokyo	1,970	1.0 %
Z-03	Ichigo Burg Omori	Tokyo Metropolitan Area	3,218	1.7 %
Z-04	Ichigo Pagoda Asakusa	Tokyo Metropolitan Area	1,640	0.9 %
Z-05	Ichigo Machida East Building	Tokyo Metropolitan Area	1,310	0.7 %
Z-07	Ichigo Sapporo Minami 2 Nishi 3 Building	Four Major Regional Cities	558	0.3 %
Z-08	Ichigo Daimyo Balcony	Four Major Regional Cities	638	0.3 %
Z-09	Konami Sports Club Izumi Fuchu	Other Regional Cities	1,210	0.6 %
Z-10	Ichigo Shibuya Bunkamura Dori Building	Central Tokyo	2,400	1.3 %
Z-11	Twicere Yokohama Isogo (Retail Section)	Tokyo Metropolitan Area	1,620	0.8 %
Z-12	Lions Square Kawaguchi	Tokyo Metropolitan Area	2,430	1.3 %
Z-13	Ichigo Shin Yokohama Arena Dori Building	Tokyo Metropolitan Area	1,700	0.9 %
Z-14	Ichigo Kamata Building	Tokyo Metropolitan Area	1,400	0.7 %
Subtotal – Other (15 Assets)			23,101	12.1 %
Grand Total (85 Assets)			191,018	100.0 %

[1] Central Tokyo refers to the Chiyoda, Minato, Chuo, Shinjuku, Shibuya, and Shinagawa Wards. Tokyo Metropolitan Area refers to Tokyo (excluding the six wards above), Kanagawa, Chiba, and Saitama Prefectures. Four Major Regional Cities refers to Osaka, Nagoya, Fukuoka, and Sapporo.

[2] Acquisition Price excludes incidental expenses such as fees and property, city planning, and consumption taxes. For the 31 office assets (O-02 through O-42) and 6 non-office assets (Z-02 through Z-08) acquired via the REIT merger on November 1, 2011, Acquisition Price is the appraisal value as of October 31, 2011.

[3] % of Portfolio is the ratio of each asset's Acquisition Price to the Total Portfolio Acquisition Price.