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Hotel Acquisition (Urbain Hiroshima Executive)

Ichigo Investment Advisors ("IIA"), the asset management company of Ichigo Hotel REIT, decided today to acquire a Hiroshima hotel, Urbain Hiroshima Executive.

1. Acquisition Summary

Hotel Name	Urbain Hiroshima Executive
Hotel No.[1]	F-3 021
Hotel Type	Stay-Only
Date Built	June 2008
Form of Ownership	Trust beneficiary interest in real estate (*juekiken*)
Appraisal Value[2]	JPY 2,080,000,000
Acquisition Price[3]	JPY 1,800,000,000
Seller	Domestic operating company (Please see "Seller Profile" in Section 4.)
Contract Date	July 25, 2017
Closing Date	August 1, 2017
Financing Method	Cash-on-hand and bank loans[4]
Settlement Method	Lump-sum payment

[1] The initial letter "F" is Ichigo Hotel REIT's regional code for where the hotel is located, in this case the Chugoku/Shikoku region in western Japan.

[2] Appraisal value is as of June 1, 2017.

[3] Acquisition price excludes incidental expenses such as property, city planning, and consumption taxes.

[4] Financing details will be announced when determined.

2. Acquisition Rationale

Ichigo Hotel REIT is committed to maximizing shareholder value by executing on its growth plan and leveraging the value-add capabilities of its sponsor Ichigo. Taking advantage of IIA's sourcing network, Ichigo Hotel REIT is acquiring Urbain Hiroshima Executive, financing the acquisition with cash-on-hand and bank loans.

Urbain Hiroshima Executive ("Urbain Hotel") is a stay-only hotel located a 5-minute walk from JR Hiroshima Station, the largest train station in the Chugoku Region.

On the back of growing inbound tourism, Hiroshima has set a new record for annual tourist visits for five consecutive years. Hiroshima is a globally recognized tourist destination featuring two UNESCO World Heritage sites, the Hiroshima Peace Memorial and Itsukushima Shrine.

Urbain Hotel provides convenient access for both business and leisure travelers due to its proximity to the Shinkansen (bullet train) exit of Hiroshima Station as well as ready access to Hiroshima Airport, Mazda Stadium (home ground to the Hiroshima Carps, a major Japanese baseball team), and the Hiroshima CBD. Large-scale redevelopment underway at Hiroshima Station and its neighboring Futaba no Sato district is also expected to contribute to further growth.

Built in June 2008, Urbain Hotel can accommodate diverse traveler needs through its array of attractively designed single, double, and twin rooms. Including complimentary breakfasts, drinks in the first floor guest lounge, and Japanese bath facilities, Urbain Hotel boasts an outstanding service offering that was recognized in the Michelin Guide's Hiroshima 2013 Special Edition and has received multiple awards from major Japanese online booking services.

Urbain Hotel has a fixed rent lease with a forecast NOI yield of 6.3%. Ichigo Hotel REIT believes the acquisition of Urbain Hotel will increase shareholder value via increased earnings, earnings stability, and portfolio quality.

As a result of today's acquisition, Ichigo Hotel REIT's January 2018 NOI and EPS are forecast to increase by JPY 57 million and JPY 86, respectively,

3. Hotel Details

Location and Features

Urbain Hotel is located a 5-minute walk from the Shinkansen (bullet train) exit of Hiroshima Station, the largest train station in the Chugoku Region.

Urbain Hotel caters to both business and leisure demand given its convenient access to the Shinkansen terminal, Hiroshima Airport, and major tourist sites.

Urbain Hotel can accommodate diverse traveler needs, given its array of single, double, and twin rooms, all boasting attractive designs and furnished with amenities to support guest comfort and convenience.

Photos and Location Map









Hotel Overview		
Legal Form of Asset		Trust beneficiary interest in real estate (*juekiken*)
Trustee		SMBC Trust Bank Ltd. (Expected)
Period of Trust Contract		August 1, 2017 – July 31, 2027 (Expected)
Location		16-13 Wakakusacho, Higashi-ku, Hiroshima
Land	Property Right	Freehold
	Area	693.96m^2
	Zoning	Commercial
	Coverage Ratio Floor Area Ratio	80% 400%
Building	Property Right	Freehold
	Use	Hotel
	Structure[1]	RC, 14 Floors
	Total Floor Area	2,756.20m^2
	Construction Date	June 27, 2008
Appraiser		Daiwa Real Estate Appraisal Co., Ltd.
Appraisal Value		JPY 2,080,000,000
Appraisal Date		June 1, 2017
Value by Direct Capitalization Method		JPY 2,090,000,000
Number of Guest Rooms		171
Architect[2]		Yuki Construction, Hiroshima Branch, First-Class Registered Architects Office
Builder[2]		Yuki Construction, Hiroshima Branch
Structural Engineer[2]		Sasaki Architects Structure Design Office
Inspection Agency[2]		House Plus Chugoku Region
PML (Assessor)		4.95% (Sompo Risk Management & Health Care Inc.)
Collateral		None (expected)
Lease Overview		
Tenant Overview		
	Number of Tenants	1
	Monthly Rental Income	Hotel operator did not provide consent to disclose.*
	Deposit	Hotel operator did not provide consent to disclose.
	Leasable Area	2,756.20m^2
	Leased Area	2,756.20m^2
	Occupancy	N/A (previous owner did not lease the hotel)
Property Management Company		Building Management & Strategy Inc.
Master Lease Company		N/A
Master Lease Type		–

NOI yield[3]	6.3%
NOI yield (post-depreciation)[4]	4.8%
Special Items	
None	

* Urbain Hiroshima Executive has a fixed-rent lease contract.

[1] Building Structure refers to the structure mentioned in the real estate register. The following abbreviations are used with regards to structure: RC stands for reinforced concrete; and SRC for steel-reinforced concrete.

[2] Names of the architect, builder, structural engineer, and inspection agency are those as of when the building was built.

[3] NOI yield = forecast NOI (net operating income) divided by the acquisition price, where NOI is taken from the real estate appraisal report and is derived using the Direct Capitalization Method (DCM).

[4] NOI Yield (post-depreciation) = NOI plus depreciation divided by the acquisition price. Depreciation is an estimated value calculated by IIA using the straight-line method.

Appraisal Overview	
Hotel Name	Urbain Hiroshima Executive
Appraisal Value	JPY 2,080,000,000
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.
Appraisal Date	June 1, 2017

	Amount	Note
Appraisal Value	JPY 2,080,000,000	Valuation determined via both a direct capitalization valuation and DCF valuation
Value by Direct Capitalization Method	JPY 2,090,000,000	
Income	JPY 129,960,000	
Maximum Obtainable Rental Income	JPY 129,960,000	
Vacancy Loss	–	
Expenses	JPY 16,509,275	
Administrative and Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	JPY 2,920,583	Based on the average of the past 12 years of engineering reports
PM Fee	JPY 1,440,000	Based on the level of similar assets and set at JPY 120,000 per month
Leasing Brokerage Fees	–	
Taxes	JPY 10,684,372	Based on FY2017 actual amounts (including depreciable asset tax)
Insurance Premiums	JPY 164,720	Based on insurance estimates, etc.
Other Expenses	JPY 1,299,600	1.0% of Income calculated as variable expense
Net Operating Income (NOI)	JPY 113,450,725	
Income on Investment of Deposits Received	JPY 649,800	Based on comprehensive assessment of the investment and procurement of the deposits received
Capital Expenditure	JPY 3,510,667	Based on average renewal expense of the past 12 years in engineering reports
Net Profit	JPY 110,589,858	
Cap Rate	5.3%	Based on transactions of similar assets and comprehensive assessment of the asset's location, its individual characteristics, property right, as well as recent decline of hotel cap rates
Value via DCF Method	JPY 2,070,000,000	
Discount Rate	5.1%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
Terminal Cap Rate	5.5%	Based upon risk-adjusted NOI

Value via Cost Approach		JPY 1,370,000,000	
	Land	58.6%	
	Building	41.4%	Sum of building prices divided by sum of building and land prices
Notes			
None			

4. Seller Profile

Name	Yuki Corporation Co., Ltd.
Address	1-6-2 Shin Kamata, Ota-ku, Tokyo
Representative	Harukuni Nakamoto, Representative Director
Principal Businesses	Ownership, management, operation, and consulting of hotels and related businesses
Capital	JPY 30 million
Establishment Date	October 26, 1993
Relationship with Ichigo Hotel REIT or IIA	The seller does not have any capital, personnel, or business relationship of note with Ichigo Hotel 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 IIA.
Net Assets	The seller has not given consent to disclose the information.
Total Assets	The seller has not given consent to disclose the information.
Major Shareholder and Shareholding Ratio	The seller has not given consent to disclose the information.

5. Broker Profile

Name	The broker has not given consent to disclose the information.
Relationship with Ichigo Hotel REIT or IIA	The broker does not have any capital, personnel, or business relationship of note with Ichigo Hotel REIT or IIA. In addition, the broker is not an interested party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law or the internal rules of IIA.
Brokerage Fee	The broker has not given consent to disclose the information.

6. Acquisition Schedule

Contract Date	July 25, 2017
Acquisition and Settlement Date	August 1, 2017 (Expected)

7. Earnings Outlook

Because the acquisition is scheduled for August 1, 2017, there is no July 2017 earnings impact. While the January 2018 earnings forecast remains unchanged, NOI and EPS are expected to increase by JPY 57 million and JPY 86, respectively.

Appendix A: Engineering Report Summary

Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	May 2017
Short-Term Repair Expense[1]	–
Long-Term Repair Expense[2]	JPY 77,175,000
Current Replacement Cost	JPY 736,800,000

[1] Short-Term Repair Expense is defined as repair expenses considered necessary beyond the scope of ordinary maintenance within a year from the time of inspection.

[2] Long-Term Repair Expense is defined as cumulative repair expenses considered necessary for the maintenance of the hotel within twelve years from the time of inspection.

Appendix B: Post-Acquisition Portfolio

Hotel No.[1]	Hotel Name	Prefecture	Lease Terms	Acquisition Price[2] (JPY million)	% of Portfolio[3]
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable	2,160	4.2
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable	1,450	2.8
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed	1,490	2.9
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable	3,910	7.7
C-2 014	Smile Hotel Asakusa	Tokyo	Variable	1,920	3.8
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed	1,360	2.7
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed	1,550	3.0
D-2 003	Hotel Wing International Nagoya	Aichi	Variable	2,670	5.2
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed	5,308	10.4
D-4 019	Comfort Hotel Suzuka	Mie	Fixed	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable	4,480	8.8
E-2 002	Hotel Vista Premio Kyoto	Kyoto	Variable	3,600	7.1
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable	1,630	3.2
E-4 007	Hotel Suave Kobe Asuta	Hyogo	Fixed[4]	1,490	2.9
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable	7,600	14.9
F-1 017	Comfort Hotel Okayama	Okayama	Fixed	1,200	2.4
F-2 015	Nest Hotel Matsuyama	Ehime	Variable	1,610	3.2
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed	1,800	3.5
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable	1,380	2.7
G-2 013	Nest Hotel Naha	Okinawa	Variable	3,750	7.4
Total 21 Hotels				50,958	100.0

[1] The initial letter (A, B, etc.) is a regional code which identifies the area in which the hotel is located.

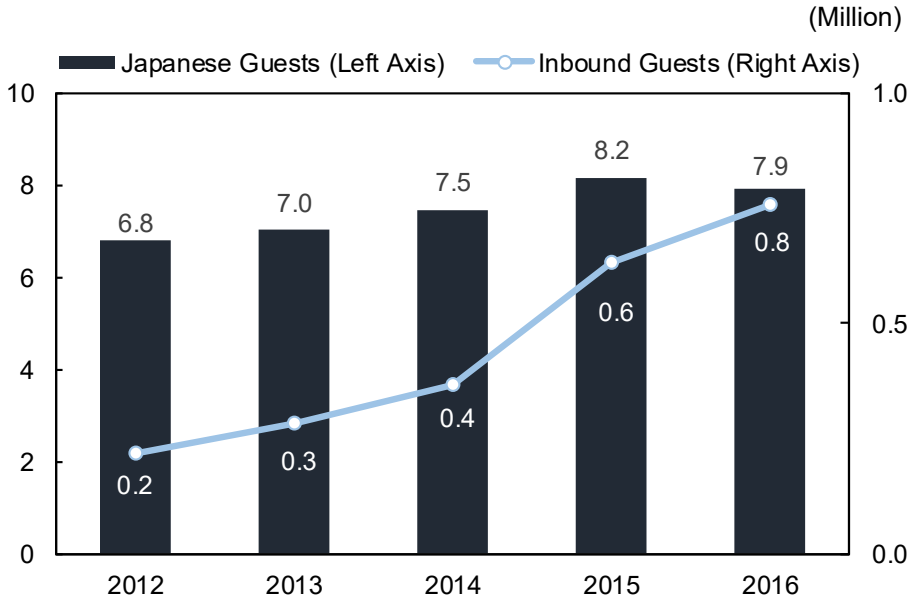
Code	Region	Prefectures
A	Hokkaido/Tohoku	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
B	Kanto	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Yamanashi, Nagano, Niigata
C	Tokyo	Tokyo
D	Hokuriku/Tokai	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, Mie
E	Kinki	Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama
F	Chugoku/Shikoku	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Kagawa, Tokushima, Kochi, Ehime
G	Kyushu/Okinawa	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa

[2] Acquisition Price is the price as indicated in the purchase and sales agreement for the hotel (excluding fees and incidental expenses such as property, city planning, and consumption taxes).

[3] % of Portfolio is the Acquisition Price of each hotel as a percentage of the Total Acquisition Price for the portfolio, rounded to the nearest tenth.

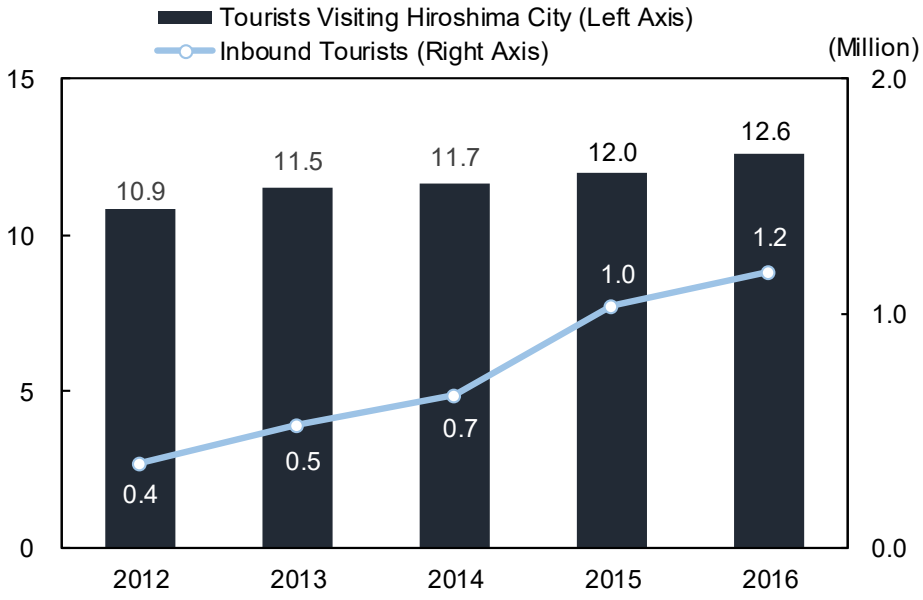
[4] While Hotel Suave Kobe Asuta's lease contract includes a variable rent clause, it has never been triggered. Because Ichigo Hotel REIT does not anticipate receiving variable rent at this hotel, it has been classified as a fixed rent hotel.

Appendix C: Number of Guests Staying in Hiroshima Prefecture



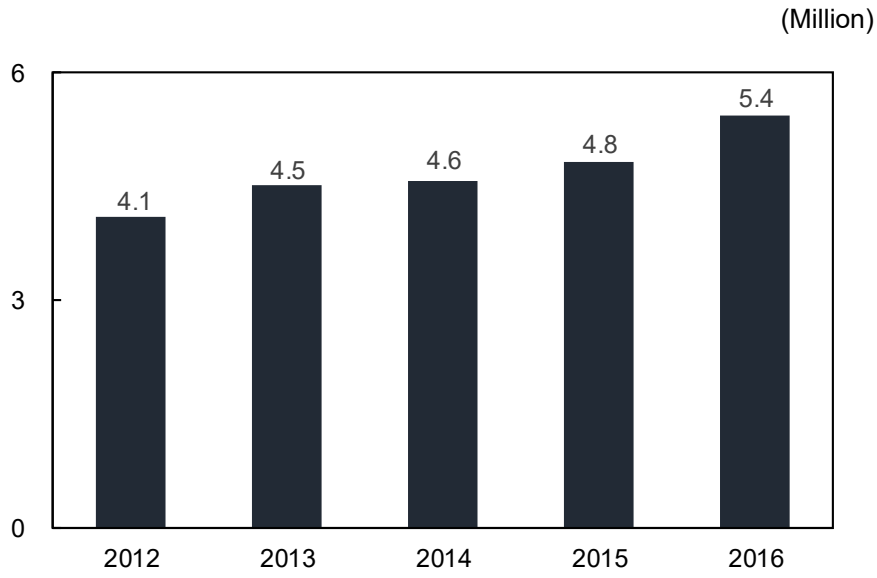
Note: Data prepared by IIA based on Japan Tourism Agency's "Statistical Survey of Travelers."

Appendix D: Number of Tourists Visiting Hiroshima City



Note: Data prepared by IIA based on Hiroshima City's "Number of Tourists Visiting Hiroshima 2016."

Appendix E: Number of Guests Staying in Hiroshima City



Note: Data prepared by IIA based on Hiroshima City's "Number of Tourists Visiting Hiroshima 2016."