Invincible
Investment Corporation

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Follow on Acquisition and Disposition

TSE Code : 8963

July 25, 2017

Deal Summary

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- Portfolio rebalance, acquiring new addition of Hotel MyStays Gotanda Station at a 7.3%[1] NOI cap rate and selling two non-core assets at a 3.8%[2] NOI cap rate, improving the overall NOI yield of the portfolio
- Acquisition of three additional floors (49 hotel rooms) which are being converted from office space to highly desirable hotel rooms is extremely accretive due to the low acquisition price, and synergy associated with using the same front desk, elevator banks and corridors of the existing hotel
- Hotel MyStays Gotanda Station has demonstrated very strong and consistent performance where occupancy since acquisition averaged 95.7%[3] and RevPAR is 2.7% higher in the second quarter of 2017 compared to the same period in 2016

Acquisition

Additional Acquired Compartment	
Anticipated Acquisition date	October 31, 2017
Anticipated Acquisition Price[4]	¥ 1,880 million
Appraisal Value	¥ 2,600 million
NOI (Estimated for Full Year)	¥ 137 million
NOI Yield[1]	**7.3%**



Hotel MyStays Gotanda Station

- ✓ Will Acquire Annex 1F-3F (additional to original March 2016 acquisition of main building)
- ✓ 49 rooms（15m²～43m²）

Disposition

Total of 2 Properties	
Anticipated disposition date	July 31, 2017
Anticipated Sales Price	¥ 1,491 million
Book Value (As of July 31, 2017)[4]	¥ 1,301 million
Gain on Sales[4]	¥ 120 million
NOI (2016 Actual)	¥ 56 million
NOI Yield[2]	**3.8%**



Kindai Kagaku Sha Building



Times Kanda-Sudacho 4th

After Acquisition and Disposition

Estimated Increased NOI[5] (After Depreciation) for full year : **+¥ 82 million (+¥ 21 per unit[6])**

(Note 1) Calculated by dividing the NOI estimated by INV as of today by the anticipated acquisition price, which is rounded to one decimal place
(Note 2) Calculated by dividing actual NOI for 2016 by the anticipated sales price
(Note 3) Average from April 2016 to June 2017
(Note 4) Planned or Estimated as of July 25, 2017, which is subject to change
(Note 5) Net increased NOI calculated by subtracting the annualized NOI estimated to be decreased by the disposition from the annualized NOI estimated to be increased by the acquisition
(Note 6) Based on the number of units as of July 25, 2017

Conversion of office/retail space to hotel rooms provides the ability to get above market NOI yields

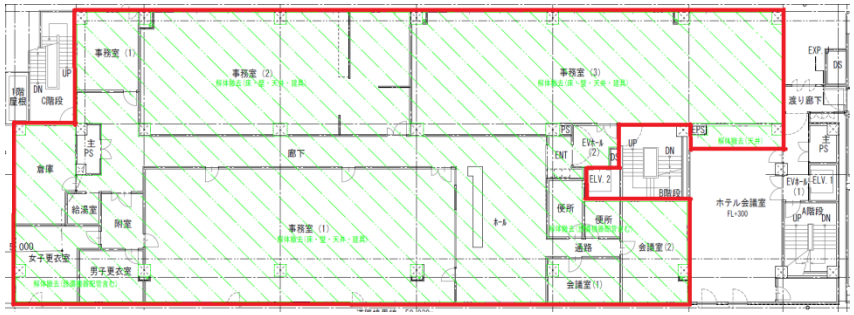
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- Negotiated with office condominium owners for a sale without existing tenants to enable a conversion to hotel rooms
- Benefits from existing lobby and infrastructure at Hotel MyStays Gotanda Station including train station and street front access
- INV entered into forward purchase upon completion of the rooms with expected initial 7.3% NOI yield. INV takes no construction or completion risk
- 49 rooms being added with an average room size of 22.5m^2 compared to the current average room size of 10.7m^2. Inbound guests prefer larger rooms and the hotel currently achieves a substantial ADR premium for the few Twin/Triple rooms it currently has
- Conversion project results in an extremely high room efficiency ratio of 84.5%[1] as Invincible benefits from the utilization of the existing check-in area, elevators and common space of the existing hotel

Conversion Overview

Before / After Drawings (2F)

Before : Office and Retail Space



After : 25 Hotel Rooms



Original Condition



Current Condition



Completion (Rendering)



Room Type / Size by Conversion

Room Type	Double Room	Twin Room	Triple/Quad Room
No. of Rooms	10	21	18
Room Size (m^2)	15.2	20.6 - 22.9	26.0 - 42.0
Current ADR* **(Room Size** (m^2)**)**	¥ 11,186 (10.6)	¥ 15,571 (16.7 - 18.4)	¥ 17,932 (26.1)

* Average rate for existing rooms in calendar year 2016 for the same room type

KPI for Hotel MyStays Gotanda Station

	Before Acquisition (LTM)[2]	After Acquisition (Forecast)[3]
Occupancy	95.7%	94.3%
ADR	¥ 10,461	¥ 11,014
RevPAR	¥ 10,010	¥ 10,389

(Note 1) Calculated by dividing total room area of additional acquired compartment by total GFA of the same compartment
(Note 2) Average for the last twelve months as of the end of June 2017
(Note 3) Annualized average of the 2017 forecast for the existing 333 rooms and the 2018 forecast for the additional 49 rooms

Positive Impact from March 2017 Public Offering (1)

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- The acquisition of Royal Parks Tower Minami-Senju has provided strong internal growth since acquisition. Since acquisition 52 new and renewal contracts have been signed, with an average rent increase of 12.7% which is outpacing expectations
- Royal Parks Tower Minami-Senju is a trophy residential asset where the role of property manager is highly sought after. Invincible was therefore able to leverage this assignment to reduce the property management fees at the property from 2.7% to 1.5%[1], as well as improve the economics at Royal Parks Seasir Minami-Senju and Royal Parks Momozaka by changing the lease agreement structure

Performance of Royal Parks Tower Minami-Senju After Acquisition (March 14, 2017 – June 30, 2017)

◆ Change in Rent for Lease Contracts

		New (A)	Renewal (B)	Total (A) + (B)
No. of Contracts		42	10	52
Change in Rent for All Contracts	Increase	**97.6%**	**100.0%**	**98.1%**
	Flat	0.0%	0.0%	0.0%
	Decrease	2.4%	0.0%	1.9%
Average Rent Increase		**+12.7%**	**+12.5%**	**+12.7%**

Initial Rent Gap[2] Comparing with Appraisal Rent : **7.7%**

Estimated Impact by Change of ML/PM at Four Royal Parks Residential Assets to Good Works Co., Ltd.

Royal Parks Tower Minami-Senju



Type of Master Lease: Pass-through

PM Fee (% of rental revenue): 2.7 → **1.5**

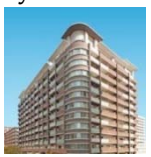
Royal Parks Seasir Minami-Senju



Type of Master Lease: Rent Guarantee → **Pass-through**

PM Fee (% of rental revenue): N/A → **1.5**

Royal Parks Momozaka



Type of Master Lease: Rent Guarantee → **Pass-through**

PM Fee (% of rental revenue): N/A → **1.5**

Royal Parks Shinden



Type of Master Lease: Rent Guarantee

PM Fee (% of rental revenue): N/A

NOI Increase Per Year (Estimated)

+¥ 39.0 million

(+¥ 10 per unit[3])

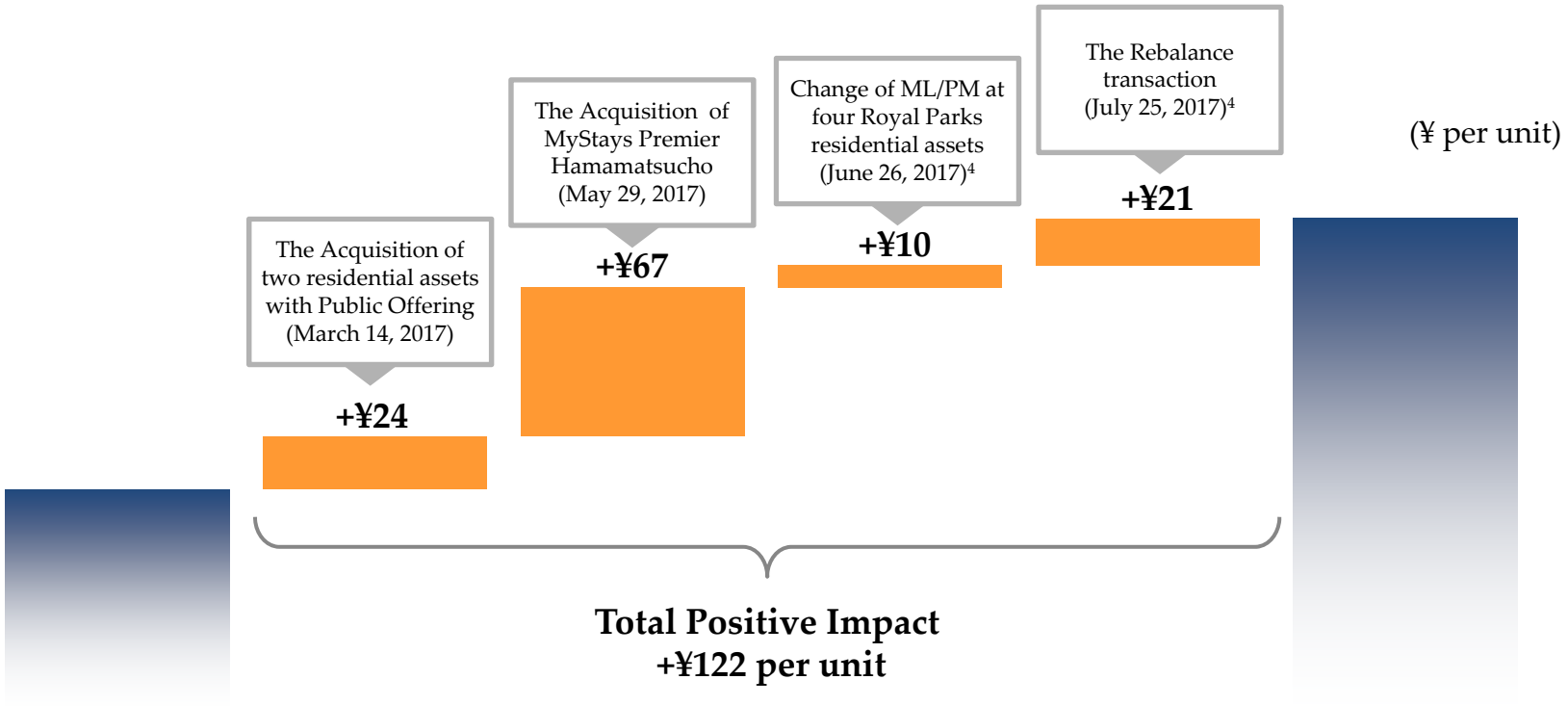
(Note 1) The change in property management fee is effective as of December 1, 2017
(Note 2) The rent gap between in-place rent and appraisal rent calculated as of the acquisition of Royal Parks Tower Minami-Senju. Refer to the notes on page 9 in the December 2016 Fiscal Period Results Material for details
(Note 3) Based on the number of units as of July 25, 2017

Positive Impact from March 2017 Public Offering (2)

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- The acquisition of the two Minami-Senju assets added two substantial Tokyo residential assets and further stability to the portfolio which enhanced borrowing capacity
- Two months later MyStays Premier Hamamatsucho was acquired without issuing additional equity
- Inclusion of two Minami-Senju assets facilitated a renegotiation of existing property management and master lease agreements
- The rebalance transaction sells two assets at a premium to appraisal and acquires the annex at a substantial discount to appraisal
- Increased NOI at the residential assets and the rebalance transaction contributes to an increase in NAV of ¥ 863 (+1.6%)[1] per unit and a pro-forma LTV post rebalance will be below 45%[2]

Impact on Stabilized and Annualized DPU by INV's Initiatives in 2017 YTD[3]



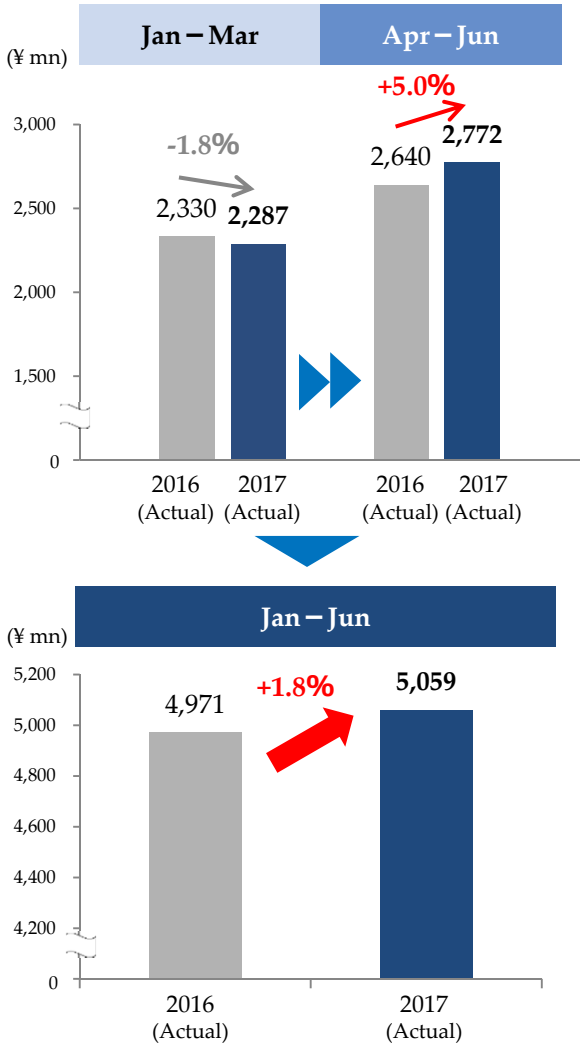
(Note 1) The difference between (i) NAV per unit after the completion of acquisition of two residential assets on March 14, 2017 and (ii) NAV per unit after the rebalance is calculated by subtracting A from B described by the following formula. Both A and B are provisional figures and subject to change at the end of the fiscal period
A= (Net Assets – Unappropriated retained earnings + Total Appraisal Value – Tangible property including leasehold rights in trust, each of which are estimated and based on the properties owned by INV as of the end of March 2017)
B = (Net Asset estimated as of the end of June 2017 – Unappropriated retained earnings estimated as of the end of June 2017 + Total Appraisal Value as of the end of June 2017 based on the properties owned by INV the end of June 2017 with the anticipated acquired property excluding the anticipated disposed properties – Tangible property including leasehold rights in trust estimated as of the end of June 2017 based on the same properties above)
(Note 2) Based on the calculation of the following formula: (The total appraisal value of INV's portfolio as of the end of June 2017 fiscal period, assuming the completion of the rebalance transaction) ÷ (Interest bearing debt at the end of the same period)
(Note 3) The above chart shows the simulation for describing the impact of each transaction, and does not indicate an estimated net income or DPU for any specific fiscal period. In addition, the simulation does not include the impact of other factors. Thus investors should be aware that the above chart does not guarantee such increase in the future. Moreover, we do not assume any obligation to revise the simulation even if any change that may affect the simulation occurs. / Based on the number of units as of July 25, 2017
(Note 5) The announcement/decision date

Performance of Existing Properties

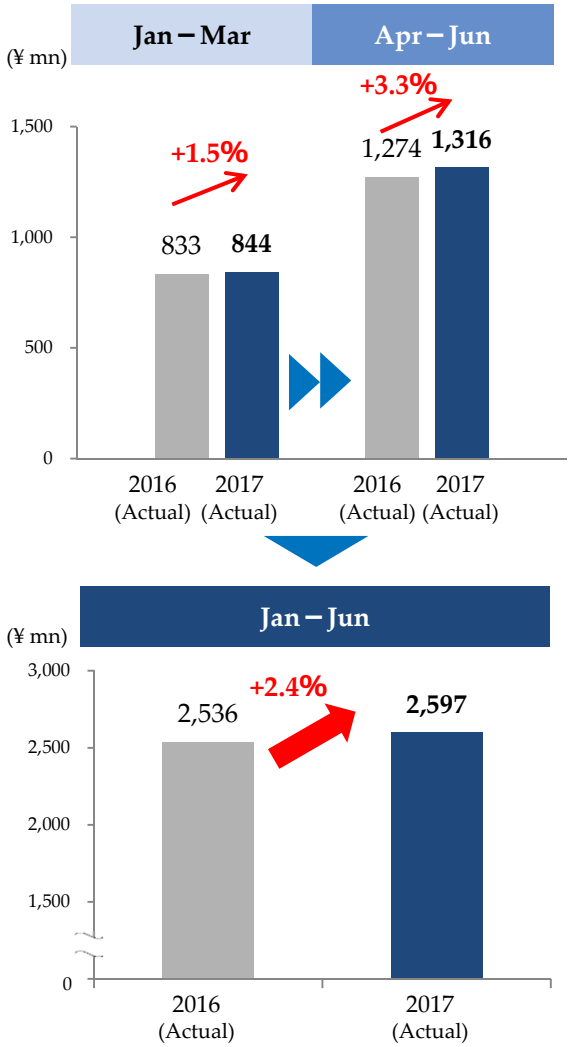
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Hotel bookings and forecasted RevPAR performance for the summer vacation months is strong relative to 2016 especially at Hotel Epinard Nasu, one of the Invincible's largest hotel and Hotel MyStays Premier Hamamatsucho, its most recent acquisition

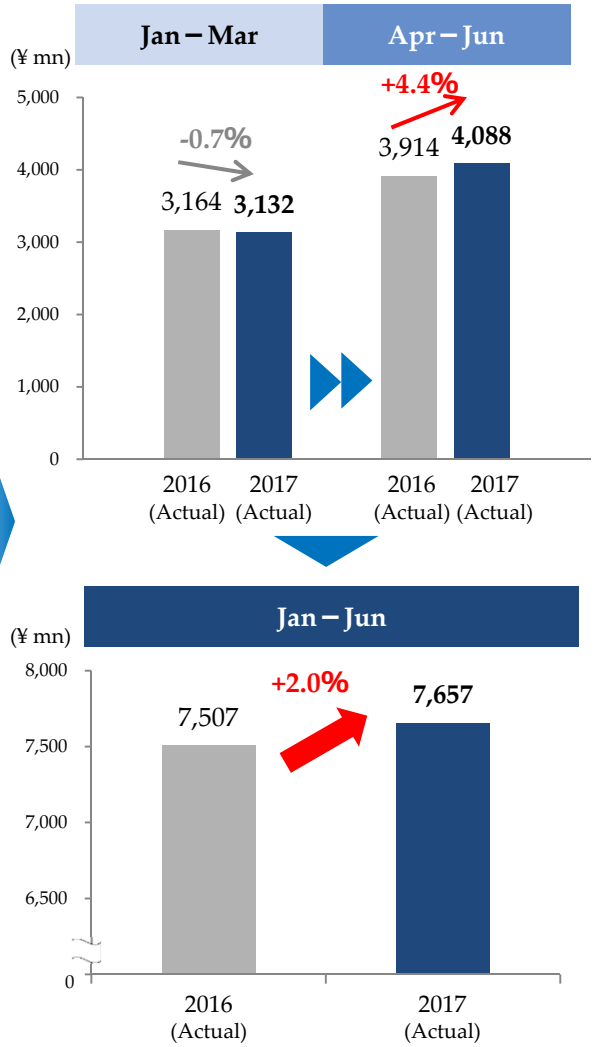
Hotel NOI[1]



Residential NOI[2]



Total NOI[1,2]



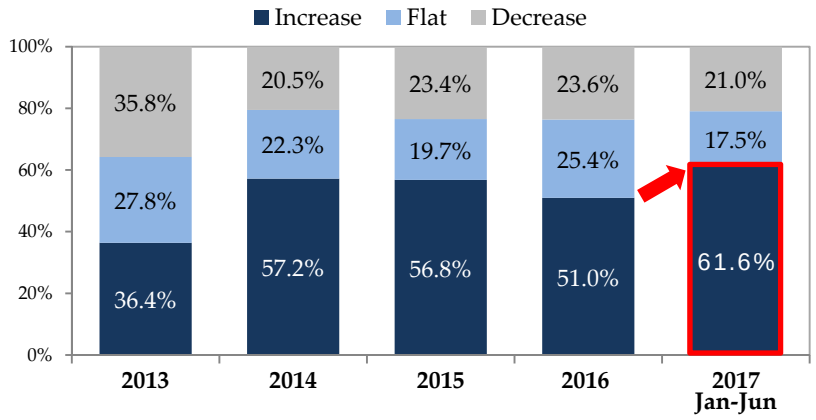
(Note 1)Based on 40 hotel properties; of the 49 hotel properties in our portfolio as of the end of June 2017, 9 hotels with fixed-rent lease agreements are excluded
(Note 2) Based on the 70 residential properties owned as of the end of June 2017. Excludes one-off insurance-related revenues and expenses
(Note 3) Performance of the properties acquired by June 2017 is based on actual results provided by sellers

Residential Rent Increase Initiative (1)

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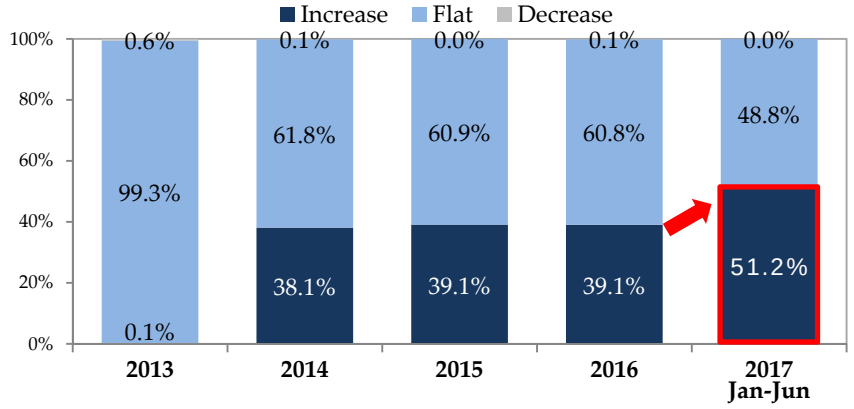
In 2014, INV initiated a Rent Increase Program to increase rents on new and renewal contracts

Change in Rent for New Contracts[1]



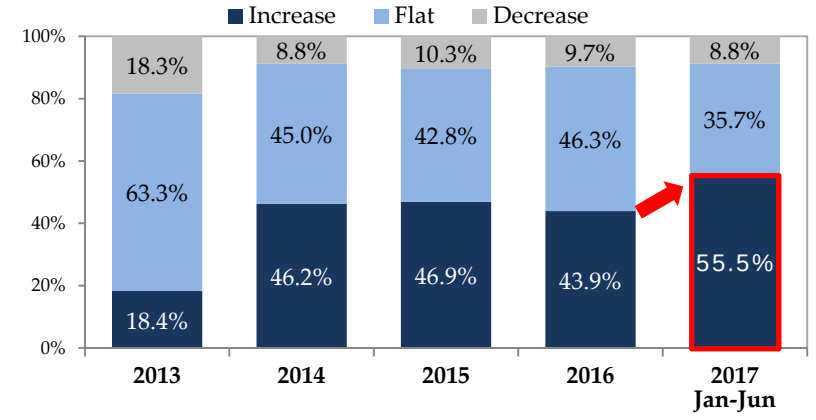
	2013	2014	2015	2016	2017 Jan-Jun
No. of New Contracts	827	649	943	783	544
Occupancy[2] (%)	**95.5**	**94.0**	**94.7**	**95.9**	**95.2**
Net Leasing Cost (No. of months)[3]	**1.15**	**1.01**	**1.23**	**1.15**	**1.03**

Change in Rent for Renewal Contracts[1]

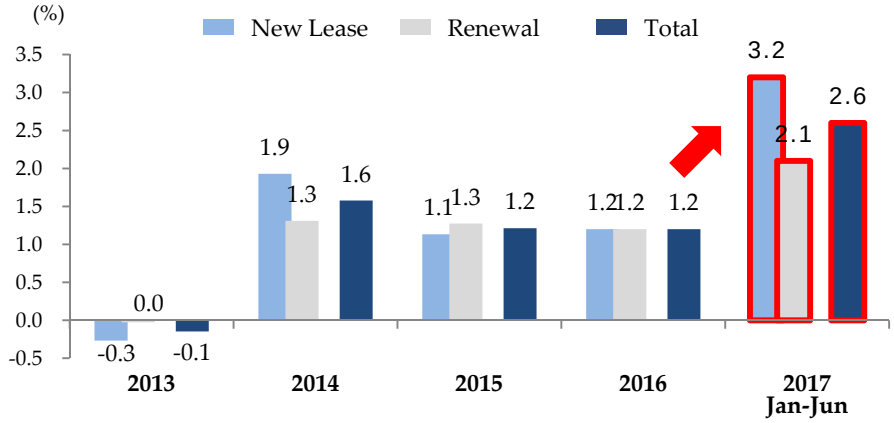


	2013	2014	2015	2016	2017 Jan-Jun
No. of Renewals	818	872	1,209	1,126	756
Renewal Rate[4] (%)	**81.2**	**84.7**	**85.4**	**83.7**	**81.0**

Change in Rent for All Contracts[1]



Average Rent Increase / Decrease[5]



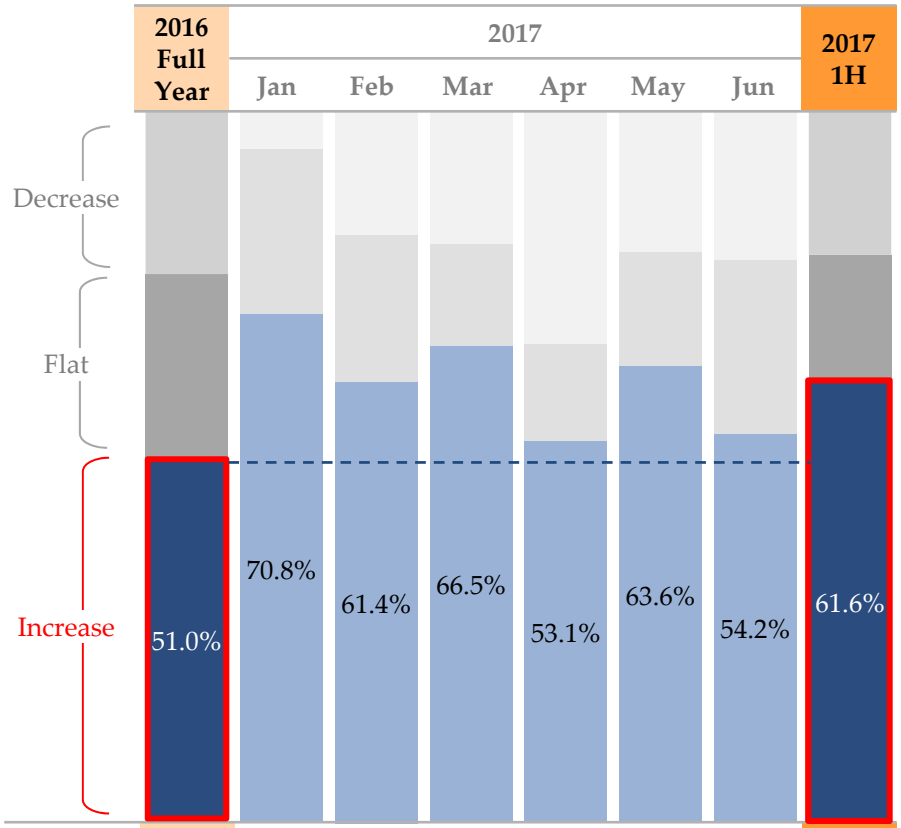
(Note 1) Based on the properties owned at the end of period. 63 properties for 2013, 63 properties for 2014, 66 properties for 2015, and 68 properties for 2016,, 70 properties for 2017 Jan-Jun
(Note 2) Occupancy is calculated by dividing the sum of total residential leased area by the sum of total residential leasable area at the end of each month of each year
(Note 3) Net Leasing Cost (Multiple of Monthly Rent) = Advertising Expenses (Multiple of Monthly Rent) + Free Rent (Multiple of Monthly Rent) – Key Money (Multiple of Monthly Rent)
(Note 4) Renewal rate is calculated by "Number of Renewals during the Period" ÷"Number of Cases Targeted for Renewal during the Period"
(Note 5) Weighted average of monthly rent increase or decrease (%) of new or renewal contracts, or the total of both, compared with previous contracts of properties owned at the end of period

Residential Rent Increase Initiative (2)

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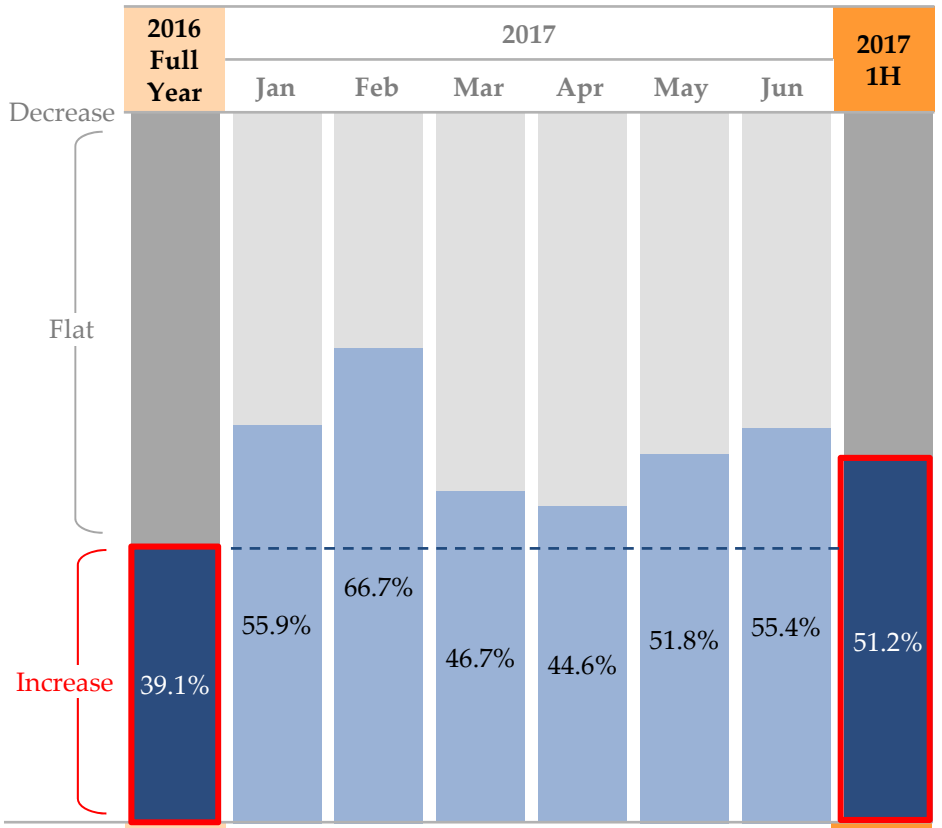
Invincible replaced the property managers at 16 properties in December 2016 and at 4 properties in June 2017, focusing on property managers who have performed well

Change in Rent for New Contracts[1]



	2016 Full Year	Jan	Feb	Mar	Apr	May	Jun	2017 1H
Average Rent Increase[2] (%)	1.2	2.6	1.2	3.4	2.7	7.2	3.3	3.2
No. of New Contracts	783	48	88	185	96	44	83	544
Occupancy[3] (%)	95.9	94.5	95.2	96.1	95.6	95.2	94.6	95.2

Change in Rent for Renewal Contracts[1]



	2016 Full Year	Jan	Feb	Mar	Apr	May	Jun	2017 1H
Average Rent Increase[2] (%)	1.2	2.1	2.9	1.6	1.8	2.3	2.3	2.1
No. of Renewals	1,126	68	102	227	193	83	83	756
Renewal Rate[4] (%)	83.7	95.8	86.4	78.0	80.4	79.8	76.1	81.0

(Note 1) Based on the properties owned at the end of each period
(Note 2) Weighted average of monthly rent increase or decrease (%) of new or renewal contracts, or the total of both, compared with previous contracts of properties owned at the end of period
(Note 3) Occupancy is calculated by dividing the sum of total residential leased area by the sum of total residential leasable area at the end of each month of each year
(Note 4) Renewal rate is calculated by "Number of Renewals during the Period" ÷"Number of Cases Targeted for Renewal during the Period"

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