Japan Excellent, Inc.

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For Translation Purposes Only

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Japan Excellent, Inc. (TSE: 8987)
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Notice Concerning Transfer of Assets and Termination of Leases (Akasaka Garden City, and No. 44 Kowa Building)

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

1. Summary of Transfer and Termination of Leases

	①	②	Total
(1) Property Name	Akasaka Garden City	No. 44 Kowa Building	-
(2) Property to be Transferred	Trust beneficiary interest in real estate		-
(3) Transfer Value (Note 1) (Note 2)	¥22,500 million	¥1,890 million	¥24,390 million
(4) Assumed Book Value (Note 2) (Note 3)	¥23,103 million	¥1,001 million	¥24,105 million
(5) Amount of Difference between Transfer Value and Assumed Book Value: (3)-(4) (Note 2) (Note 4)	-¥603 million	¥888 million	¥284 million
(6) Date of Execution of Transfer Agreement	December 13, 2017		-
(7) Date of Transfer	December 20, 2017		-
(8) Lessee	The Dai-ichi Building Co., Ltd.	Nippon Steel Kowa Real Estate Co., Ltd.	-
(9) Transferee	Please refer to "4. Details of Transferees" 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, consumption tax, local consumption tax, etc.
(Note 2) Amounts are rounded down to the nearest million yen.
(Note 3) "Assumed book value" is the assumed book value as at the date of transfer of the property (December 20, 2017).
(Note 4) These are reference figures calculated as the difference between transfer value and assumed book value, and differ from gain (loss) on sale in accounting.

Hereinafter, the properties to be transferred are individually referred to as the "Property" and collectively referred to as the "Two Properties."

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2. Background of Transfer and Termination of Leases

JEI has been striving for qualitative enhancement of the portfolio through replacement of relatively-aged properties from before. The decision was made this time in light of the recent brisk real estate market conditions to, in addition to such efforts, work on enhancing the profitability and strengthening the structure of the portfolio through transfer of not-so-profitable properties.

Akasaka Garden City to be transferred this time is a property with excellent location and specifications, but has continued to be in a state with unrealized losses as NOI yield and yield after depreciation fall below the JEI average.

No. 44 Kowa Building is a property that has maintained high profitability to date, but its building age of 33 years substantially exceeds the average building age of the entire portfolio of JEI of 20 years and thus poses a concern of competitiveness declining in the future.

The transfer this time is aimed to not only raise portfolio yield but also increase unrealized gains that will lead to improvement in NAV per unit and other indicators, along with generating the capacity to acquire properties that serve to enhance profitability in the future and thereby strengthen the earning power of the portfolio over the medium to long term.

Change in financial indicators, etc. due to transfer of the Two Properties (Note)

	Before Transfer	After Transfer	Difference
① NOI Yield	4.70%	4.87%	0.17pt
② NOI Yield after Depreciation	3.34%	3.43%	0.09pt
③ NAV per Unit	¥125,638	¥128,456	¥2,818
④ LTV (total assets basis)	47.9%	43.4%	-4.5pt

(Note) The methods of calculation are as follows:

① and ②

Before Transfer: Weighted average of the actual yield (annualized) of owned properties in the 22nd period and the assumed yield at the time of acquisition of the properties additionally acquired in the 23rd period

After Transfer: The figures for Before Transfer, but excluding the figures for the Two Properties

③

Before Transfer: NAV per unit as at the end of the 22nd period, plus the "amount of difference between appraisal value and book value" (that divided by the number of investment units outstanding) at the time of acquisition of the properties additionally acquired in the 23rd period

After Transfer: The figures for Before Transfer, minus the "amount of difference between appraisal value and book value" (that divided by the number of investment units outstanding) for the Two Properties

④

Before Transfer: LTV (total assets basis) as at the end of the 22nd period, but reflecting the amount of increase in assets and interest-bearing debt due to acquisition of the properties additionally acquired in the 23rd period

After Transfer: The figures for Before Transfer, but reflecting the expected amount of decrease in assets and interest-bearing debt due to transfer of the Two Properties

3. Overview of Properties to be Transferred and Leases to be Terminated

① Akasaka Garden City

Property Name	Akasaka Garden City (Property Number: I-7)
Type of Specified Asset	Trust beneficiary interest in real estate
Trustee	Mizuho Trust & Banking Co., Ltd.
Trust Period	From March 28, 2007 to June 30, 2026
Location (Address)	4-15-1 Akasaka, Minato-ku, Tokyo
Use[1]	Office, retail, parking
Structure[1]	S/RC/SRC with flat roof, B2/19F

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Site Area[1]	Land	6,888.97 m^2
	Building (Total Floor Space)	46,776.76 m^2
Type of Ownership[2]	Land	Ownership (co-ownership)
	Building	Compartmentalized ownership (including co-ownership)
Completion Date[1]		January 2006
Acquisition Price		¥24,169 million
Appraisal Value		¥19,100 million
Appraisal Date		November 1, 2017
Appraiser		Japan Real Estate Institute
PML[3]		1.59% (based on the Building Survey Report on PML Assessment prepared by Sompo Risk Management & Health Care Inc.)
Collateral		None
Leasable Floor Space[4]		9,262.62 m^2
Leased Floor Space[5]		9,262.62 m^2
Number of Tenants[6]		1
Monthly Rent[7]		¥67,570 thousand
Leaseholds and Security Deposits[8]		¥642,732 thousand
Occupancy Rate[9]		100%

② No. 44 Kowa Building

Property Name		No. 44 Kowa Building (Property Number: III-6)
Type of Specified Asset		Trust beneficiary interest in real estate
Trustee		Mizuho Trust & Banking Co., Ltd.
Trust Period		From February 1, 2006 to June 30, 2026
Location (Address)		1-2-7 Higashiyama, Meguro-ku, Tokyo
Use[1]		Office
Structure[1]		SRC with flat roof, 9F
Site Area[1]	Land	699.87 m^2
	Building (Total Floor Space)	3,359.55 m^2
Type of Ownership[2]	Land	Ownership
	Building	Ownership
Completion Date[1]		July 1984
Acquisition Price		¥1,150 million
Appraisal Value		¥1,810 million
Appraisal Date		November 1, 2017
Appraiser		Japan Real Estate Institute
PML[3]		5.27% (based on the Building Survey Report on PML Assessment prepared by Sompo Risk Management & Health Care Inc.)
Collateral		None
Leasable Floor Space[4]		2,549.71 m^2
Leased Floor Space[5]		2,549.71 m^2
Number of Tenants[6]		1
Monthly Rent[7]		¥12,776 thousand

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Leaseholds and Security Deposits[8]	¥109,349 thousand
Occupancy Rate[9]	100%

Notes

1. The descriptions of "Use," "Structure," "Site Area" and "Completion Date" are based on the indications on the land registry or the completion drawing.
2. "Type of Ownership" indicates the type of ownership owned by the trustee.
3. "PML" (Probable Maximum Loss) 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).
4. "Leasable Floor Space" indicates floor space available for lease as of October 31, 2017.
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 October 31, 2017. 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 October 31, 2017 is included in the leased space. This also applies to any figure which is calculated based on leased floor space in this document.
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.
7. "Monthly Rent" is, in principle, the total (not including consumption tax, etc.) of monthly rents (including common area expenses, but excluding fees for use of parking and other attached facilities) 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 pass-through type, however, said master lease agreement shall apply) concluded between JEI, the trustee or the master lease company and the end tenants as of October 31, 2017.
8. "Leaseholds and Security Deposits" is, in principle, the total of the balance (not including the amount which the lessor is not obligated to return), as of October 31, 2017, 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 pass-through type, however, said master lease agreement shall apply) concluded between JEI, the trustee or the master lease company and the end tenants as of October 31, 2017.
9. Occupancy rate is a percentage of leased floor space to leasable floor space of real estate in trust as of October 31, 2017.
10. JEI additionally acquired co-ownership interest of Akasaka Garden City on August 10, 2017 as such complies with the policy aiming to enhance the asset value and liquidity of property. The ratio of the area of the exclusively-owned space owned by JEI to the entire exclusively-owned space of the Property increased from the 31.08% prior to the additional acquisition to 32.83% as a result, but all of the co-ownership interest will be sold this time. For details, please refer to "Notice Concerning Acquisition of Investment Asset (Additional Acquisition of Co-ownership Interest of Akasaka Garden City)" dated August 7, 2017.

4. Details of Transferees

① Akasaka Garden City

Company Name	Yagenzaka TMK	
Location of Headquarters	1-6-15 Hirakawacho, Chiyoda-ku, Tokyo	
Representative	Takafumi Inaba, Director	
Capital	¥100,000 (as of November 30, 2017)	
Equity Holders	Not disclosed as consent has not been obtained from the Transferee	
Established	October 24, 2017	
Relationship with JEI/JEAM	Capital Relationship	Not applicable.
	Personnel Relationship	Not applicable.
	Business Relationship	During the fiscal period ended June 30, 2017 (from January 1, 2017 to June 30, 2017), there was no asset acquisition or transfer transaction between the Transferee and JEI or JEI's asset management company Japan Excellent Asset Management Co., Ltd. (JEAM).
	Status as Related Party	The Transferee is not a related party of JEI or JEAM.

② No. 44 Kowa Building

Company Name	Nippon Steel Kowa Real Estate Co., Ltd.	
Location of Headquarters	1-15-5 Minami-Aoyama, Minato-ku, Tokyo	
Representative	Mikito Nagai, President and CEO	
Capital	¥19.8 billion (as of March 31, 2017)	
Major Shareholders	Nippon Steel & Sumitomo Metal Corporation The Dai-ichi Life Insurance Company, Limited Nippon Life Insurance Company UNIZO Holdings Company, Limited (as of March 31, 2017)	
Established	March 24, 1997	
Relationship with JEI/JEAM	Capital Relationship	As of June 30, 2017, the Transferee holds 71,560 units of JEI's investment units (5.5% of the total number of investment units outstanding). The Transferee also holds 4,860 shares of JEAM's shares (54.0% of the total number of shares outstanding) and falls under the category of "related party" as defined in the Act on Investment Trusts and Investment Corporations (the "Investment Trusts Act"). In addition, the Transferee falls under the category of "sponsor related company" under voluntary internal regulations for transactions with sponsor related companies (the "Regulations for Transactions with Sponsor Related 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 June 30, 2017, ten JEAM officers and employees are dispatched by the Transferee.
	Business Relationship	During the fiscal period ended June 30, 2017, there was no asset acquisition or transfer transaction between the Transferee and JEI or JEAM.
	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 with Regard to No. 44 Kowa Building

Nippon Steel Kowa Real Estate Co., Ltd., which is the transferee of No. 44 Kowa Building, falls under the category of "related party" as defined in the Investment Trusts Act and also "sponsor related company" under the "Regulations for Transactions with Sponsor Related Companies" that are voluntary internal regulations formulated by JEAM. Upon execution of agreement with said related party and sponsor related company, JEAM, in compliance with said Regulations, has completed the following procedures: (i) approval at a meeting of its Compliance Committee, which includes outside experts, and (ii) deliberation and resolution at a meeting of its Investment Committee.

7. Schedule of Transfer and Termination of Leases

December 13, 2017 Decision on transfer and termination of leases
December 13, 2017 Execution of agreement
December 20, 2017 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 of the Two Properties, but the plan is to retain a portion of the gain on transfer as reserve for reduction entry by application of the "Special Provisions for Taxation in Cases of Repurchase of Specified Assets" (Article 65-7 of the Act on Special Measures Concerning Taxation). Accordingly, there is no revision to the operating forecasts for the fiscal period ending December 31, 2017 (from July 1, 2017 to December 31, 2017) of JEI.

There is also no revision to the operating forecasts for the fiscal period ending June 30, 2018 (from January 1, 2018 to June 30, 2018) at this point in time. This is because, although expecting impact of the transfer and termination of leases of the Two Properties, the impact on the operating forecasts ends up being minimal when the various expenses and other outlook for the management of the other owned properties, level of reserve for reduction entry and other factors are taken into account in a comprehensive manner.

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10. Appraisal Summary of the Two Properties

① Akasaka Garden City

Appraisal Value	¥19,100 million
Appraiser	Japan Real Estate Institute
Appraisal Date	November 1, 2017

(Thousands of yen[1])

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	19,100,000	
Direct Capitalization Value	19,400,000	
Operating Revenue	910,783	
Gross Potential Revenue	938,952	Recorded by assessing the potential rent and other revenue that is stable over the medium to long term
Vacancy Loss, etc.	28,169	Recorded by assessing the occupancy rate level that is stable over the medium to long term
Operating Expenses	235,460	
Maintenance and Management Fees Property Management Fees[2]	97,842	Maintenance and management fees are recorded by considering the individual characteristics of the subject property, while referring to the actual amount of past fiscal years, current fee level and fee level of similar properties, and property management fees are recorded by considering the fee level of similar properties and individual characteristics of the subject property, while referring to the terms of contract
Utilities	51,220	Recorded by considering the actual amount of past fiscal years
Repair Costs	1,426	Recorded by considering the cost level of similar properties, annual average amount of repair, maintenance and renewal costs in the engineering report, etc.
Advertisement for Leasing, etc.	6,795	Assessed in light of the outsourcing contract details and by referring to similar data, etc.
Tax and Public Dues	77,723	Recorded based on the tax base for fiscal 2017
Insurance	454	Assessed on the basis of the current insurance premium and by comparing with similar data
Other Expenses	0	
Net Operating Income	675,323	
Interest Income	6,882	Assessed profit through management by setting the management yield at 1.0%
Capital Expenditures	3,432	Assessed on the basis of the estimated amount of repair, maintenance and renewal costs in the engineering report and by referring to similar data, etc.
Net Cash Flow	678,773	
Cap Rate	3.5%	Assessed by taking into account the regional and individual characteristics of the subject property and referring to the cap rate of similar properties, etc.
Discounted Cash Flow Value	18,800,000	
Discount Rate	3.1%	Assessed with the cap rate above as the base and by taking into account the economic growth rate and market trend projections, etc.
Terminal Cap Rate	3.7%	Assessed with the cap rate above as the base and by taking into account the risk premium of the risk of price falling due to aging degradation, risk of market fluctuation, etc.
Cost Approach Value	20,200,000	
Land Value	84.3%	
Building Value	15.7%	

Other matters noted by the appraiser in conducting appraisal	None

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② No. 44 Kowa Building

Appraisal Value	¥1,810 million
Appraiser	Japan Real Estate Institute
Appraisal Date	November 1, 2017

(Thousands of yen[1])

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	1,810,000	
Direct Capitalization Value	1,830,000	
Operating Revenue	171,155	
Gross Potential Revenue	182,335	Recorded by assessing the potential rent and other revenue that is stable over the medium to long term
Vacancy Loss, etc.	11,180	Recorded by assessing the occupancy rate level that is stable over the medium to long term
Operating Expenses	59,441	
Maintenance and Management Fees Property Management Fees[2]	26,160	Maintenance and management fees are recorded by considering the individual characteristics of the subject property, while referring to the actual amount of past fiscal years, current fee level and fee level of similar properties, and property management fees are recorded by considering the fee level of similar properties and individual characteristics of the subject property, while referring to the terms of contract
Utilities	15,800	Recorded by considering the actual amount of past fiscal years
Repair Costs	4,966	Recorded by considering the cost level of similar properties, annual average amount of repair, maintenance and renewal costs in the engineering report, etc.
Advertisement for Leasing, etc.	886	Recorded in light of the outsourcing contract details and by assessing based on the presumed turnover period of the lessee
Tax and Public Dues	11,353	Recorded based on the tax base for fiscal 2017
Insurance	226	Recorded by considering the insurance premium based on the current contract, insurance premium rate of similar buildings, etc.
Other Expenses	50	Recorded neighborhood association fees
Net Operating Income	111,714	
Interest Income	927	Assessed profit through management by setting the management yield at 1.0%
Capital Expenditures	12,140	Assessed by taking into account the capital expenditure level of similar properties, building age, and repair, maintenance and renewal costs in the engineering report
Net Cash Flow	100,501	
Cap Rate	5.5%	Assessed by adjusting the spread based on the subject property's site, building and other conditions, while considering future uncertainties, transaction yields of similar properties, etc.
Discounted Cash Flow Value	1,790,000	
Discount Rate	5.2%	Assessed by referring to the investment yield of transactions of similar properties, etc. and comprehensively taking into account the individual characteristics of the subject property
Terminal Cap Rate	5.8%	Assessed by referring to the transaction yield of similar properties, etc. and comprehensively taking into account the future trends of the investment yield, risks of the subject property as an investment target, general forecasts of future economic growth, trends in real estate prices and rent, etc.
Cost Approach Value	1,570,000	
Land Value	90.7%	
Building Value	9.3%	

Other matters noted by the appraiser in conducting appraisal	None

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Notes
1. Amounts are rounded down to the nearest thousand yen.
2. Through the individual reporting of maintenance and management fee and property management fee standards, other transactions involving the companies entrusted with building management and property management may be impacted, efficient performance of duties by JEI may be impeded, or investor profits may be negatively impacted. Therefore, maintenance and management fees and property management fees are indicated as a combined figure.

(End)

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

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

Area	Property #	Property Name	Date of Acquisition	Acquisition Price[1] (mn yen)	Investment Ratio[2] (% of total portfolio)	Investment Ratio by Area[2] (%)
Area I Tokyo's 6 Central Wards[3]	I-1	Omori Bellport D	June 29, 2006	22,552	8.4	47.4
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.5	
	I-3	JEI Hamamatsucho Building	June 29, 2006	8,350	3.1	
	I-8	AKASAKA INTERCITY	October 26, 2007	17,857	6.6	
			February 5, 2013	10,289	3.8	
			Total	28,146	10.4	
	I-9	Kowa Shirokanedai Building	December 24, 2010	4,705	1.7	
	I-10	Daiba Garden City Building	February 4, 2011	11,000	4.1	
	I-12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.6	
			February 4, 2014	12,000	4.4	
			Total	19,080	7.1	
	I-13	Shintomicho Building	March 28, 2012	1,750	0.6	
	I-14	Kowa Nishi-Shimbashi Building	March 28, 2013	11,431	4.2	
	I-15	Mansard Daikanyama	July 1, 2016	11,420	4.2	
Area II Central Osaka, Central Nagoya, Central Fukuoka[4]	II-1	NHK Nagoya Housou-Center Building	June 27, 2006	4,300	1.6	5.2
			March 24, 2014	1,310	0.5	
			Total	5,610	2.1	
	II-2	JEI Nishi-Honmachi Building	March 28, 2007	6,673	2.5	
	II-3	Osaka Kogin Building (Land with Leasehold Interest)	February 5, 2013	1,770	0.7	
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	5.1	40.2
	III-2	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976	4.1	
	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-7	JEI Ryogoku Building	June 27, 2006	2,550	0.9	
	III-8	Ebina Prime Tower	March 29, 2007	6,470	2.4	
	III-9	Kowa Kawasaki Nishiguchi Building	October 26, 2007	32,000	11.8	
	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	9.1	
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	7.2
	IV-3	JEI Hiroshima Hacchobori Building	May 22, 2012	2,760	1.0	
	IV-4	SE Sapporo Building	March 1, 2013	5,500	2.0	
	IV-5	Aoba-dori Plaza	February 4, 2014	2,120	0.8	
	IV-6	Daiwa Minami-morimachi Building	February 4, 2014	4,410	1.6	
	IV-7	JEI Naha Building	December 7, 2015	1,380	0.5	
Total				270,047	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 specified unit.
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.