Make The World
More Sustainable

ICHIGO

[Provisional Translation Only]
This English translation of the original Japanese document is provided solely for information purposes. Should there be any discrepancies between this translation and the Japanese original, the latter shall prevail.

April 23, 2019

Issuer
Ichigo Hotel REIT Investment Corporation ("Ichigo Hotel," 3463)
1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo
Representative: Osamu Miyashita, Executive Director
www.ichigo-hotel.co.jp/english

Asset Management Company
Ichigo Investment Advisors Co., Ltd.
Representative: Hiroshi Iwai, President
Inquiries: Hiroto Tajitsu, Head of Administration
Tel: +81-3-3502-4892

Hotel Acquisition (Nest Hotel Kumamoto)

Ichigo Hotel decided today to acquire the Nest Hotel Kumamoto in Kumamoto Prefecture.

1. Acquisition Summary

Hotel Name	Nest Hotel Kumamoto
Hotel Number[1]	G-3 023
Date Built	August 1984
Form of Ownership	Trust beneficiary interest in real estate (*juekiken*)
Appraisal Value[2]	JPY 2,440,000,000
Acquisition Price[3]	JPY 2,220,000,000
Seller	Nishi Nihon Holdings GK (Please see "Seller Profile" in Section 4.)
Contract Date	April 23, 2019
Closing Date	April 25, 2019
Financing Method	Cash-on-hand and loan[4]
Settlement Method	Lump-sum payment

[1] The initial letter "G" is Ichigo Hotel's region code for where the hotel is located, in this case the Kyushu/Okinawa region in southern Japan. Please see page 10 for region code details.

[2] Appraisal Value is calculated by Tanizawa Sogo Appraisal as of March 1, 2019, and is in compliance with the appraisal guidelines of Ichigo Investment Advisors ("IIA") as well as the rules of the Investment Trusts Association of Japan.

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

[4] For financing details, please refer to today's release "New Loan and Interest Rate Swap."

2. Acquisition Rationale

Ichigo Hotel continues to execute on its strategy to grow earnings and dividends for its shareholders.

As part of that strategy, today Ichigo Hotel is acquiring the Nest Hotel Kumamoto with the support of its sponsor, Ichigo. Ichigo Hotel is using cash-on-hand and a new loan to finance the acquisition, which is forecast to increase Ichigo Hotel's July 2019 and January 2020 NOI by JPY 40 million and JPY 75 million, respectively. The forecast post-acquisition LTV is 42.1%.[1]

The Nest Hotel Kumamoto is just a two-minute walk from the Nishikarashimacho station on the Kumamoto City Tram line. It is located in central Kumamoto in an area with government buildings, offices, and restaurants and convenient access to Kumamoto Castle, which enables the hotel to capture stable business demand as well as leisure demand. The hotel is a three-minute walk from the Kumamoto Bus Terminal, a major stop for buses to Kumamoto Airport. The Sakuramachi area where the terminal is located is currently undergoing large-scale redevelopment, and a large retail and residential complex that will feature Japan's largest bus terminal is set to open in September 2019. The complex will include SAKURA MACHI Kumamoto, a retail facility with 150 expected tenants, a large multi-purpose hall, and a movie theater, thus driving hotel guest demand. The complex will also separately include a hotel, but due to significant differences in room configurations and price, it is not expected to be in competition with the Nest Hotel Kumamoto.

The number of tourists visiting Kumamoto has been increasing, and although inbound demand temporarily decreased after the Kumamoto Earthquake in April 2016, it has rebounded back to pre-earthquake levels. Inbound demand is forecast to increase given Kumamoto is easily accessible from South Asia and features popular tourist spots such as Mount Aso and Kurokawa Onsen (hot springs).

All rooms in the hotel accommodate two or more people, and a large banquet hall and meeting rooms on the second floor enable the hotel to capture both business and leisure demand.

The hotel's operator, Nest Hotel Japan, operates 13 hotels across Japan, including Ichigo Hotel's five hotels under the Nest Hotel brand, and the hotel's variable rent lease is forecast to drive earnings upside from growing inbound tourism. Ichigo Hotel will also assess the upside from value-add capex such as room renovations to drive further earnings growth.

Ichigo Hotel has confirmed the appropriateness of the Nest Hotel Kumamoto's acquisition price. In particular, given that this is a related party transaction as specified in IIA's rules, Ichigo Hotel fully implemented its related party transaction procedures, including getting a third-party appraisal on the hotel and cross-checking the third-party appraisal with an additional third-party second opinion appraisal.

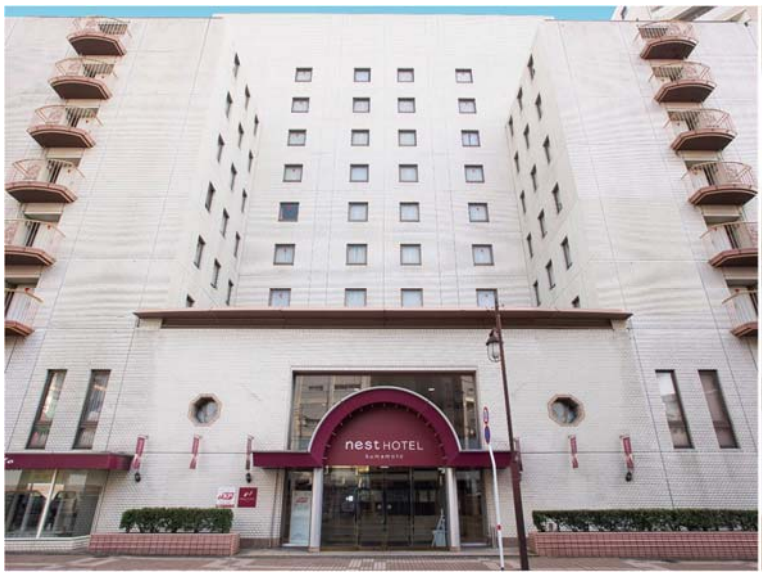
[1] Post-Loan LTV = (Post-Loan Total Interest Bearing Liabilities) / (January 2019 Total Assets – January 2019 Total Dividends + Acquisition Price of Nest Hotel Kumamoto)

3. Description and Location of the Nest Hotel Kumamoto

The Nest Hotel Kumamoto caters to business, leisure, and inbound demand. It is located in an area in central Kumamoto with government offices and shopping districts, and offers convenient access to Kumamoto Castle.

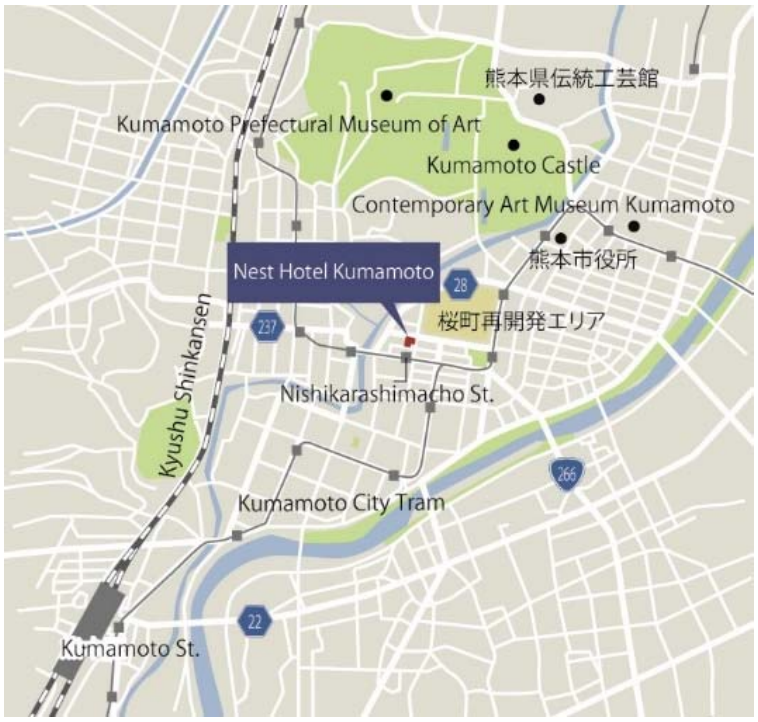
Guest demand is forecast to increase on the back of the nearby Sakuramachi area's large-scale redevelopment, where a large retail and residential complex and transportation hub is set to open in September 2019.

The hotel's double, twin-bed, and triple rooms allow it to flexibly accommodate the diverse needs of travelers.









Hotel Details						
Legal Form of Asset		Trust beneficiary interest in real estate (*juekiken*)				
Trustee		Mitsubishi UFJ Trust and Banking Corporation				
Period of Trust Contract		November 9, 2005 – April 30, 2029 (Expected)				
Location		4-39 Karashimacho, Chuo-ku, Kumamoto				
Land	Property Right	Freehold				
	Area	1,074.39m^2				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 600%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure[1]	Reinforced Concrete, Steel Reinforced Concrete 11 Floors				
	Total Floor Area	6,404.36m^2				
	Date Built	August 30, 1984				
Appraiser		Tanizawa Sogo Appraisal Co., Ltd.				
Appraisal Value		JPY 2,440,000,000				
Appraisal Date		March 1, 2019				
Value by Direct Capitalization Method		JPY 2,470,000,000				
Number of Guest Rooms		201				
Architect[2]		Nikken Sekkei Ltd., Tokyo Branch, First-Class Registered Architects Office				
Builder[2]		Obayashi Corporation, Fukuoka Branch				
Structural Designer[2]		Nikken Sekkei Ltd., Tokyo Branch, First-Class Registered Architects Office				
Inspection Agency[2]		Kumamoto City				
PML (Assessor)		1.82% (Sompo Risk Management & Health Care Inc.)				
Collateral		None				
Lease Details						
Tenant Overview						
	Number of Tenants	2				
	Rental Income[3]	Minimum Guaranteed Rent: JPY 64,679,234 p.a. Variable Rent: Monthly GOP (Gross Operating Profit) – (Monthly Minimum Guaranteed Rent + Percentage of Monthly GOP)				
	Deposit	Lease deposit: JPY 19,525,140; No guarantee deposit				
	Leasable Area	6,404.36m^2				
	Leased Area	6,404.36m^2				
	Occupancy	November 2018	December 2018	January 2019	February 2019	March 2019
		100%	100%	100%	100%	100%

Property Management Company	Uniho Co., Ltd.
Master Lease Company	Ichigo Hotel REIT Investment Corporation
Master Lease Type	Pass-through
Appraisal NOI Yield[4]	6.8%
Post-Depreciation NOI Yield[5]	5.3%
Special Items	
1. An engineering report indicates that there is insufficient smoke ventilation in the second floor men's room. The seller has agreed to rectify the issue at the seller's expense. 2. A cleaning report found water tank leakage, which the seller has agreed to rectify at the seller's expense.	

[1] Building Structure refers to the structure described in the real estate registry.

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

[3] Rental Income includes all rent from hotel facilities. For the Nest Hotel Kumamoto, Ichigo Hotel has entered a lease agreement for the banquet hall inside the hotel.

[4] Appraisal NOI Yield = Appraisal NOI (Net Operating Income) in the real estate appraisal report divided by the Acquisition Price. This figure is independently calculated by IIA based upon the above data and is therefore not in the real estate appraisal report itself.

[5] Post-Depreciation NOI Yield = Appraisal NOI in the real estate appraisal report minus Depreciation, divided by the Acquisition Price. Depreciation is independently calculated by IIA using the straight-line method, and the Post-Depreciation NOI Yield is calculated by IIA based upon the above data and are therefore not in the real estate appraisal report itself.

Appraisal Details		
Hotel Name	Nest Hotel Kumamoto	
Appraisal Value	JPY 2,440,000,000	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	March 1, 2019	
	Amount	**Note**
Appraisal Value	JPY 2,440,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation and DCF valuation
Value by Direct Capitalization Method	JPY 2,470,000,000	
Income	JPY 168,878,052	
Maximum Obtainable Rental Income	JPY 168,968,052	
Vacancy Loss	JPY 90,000	
Expenses	JPY 17,993,374	
Administrative & Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	JPY 6,195,000	Based on the average of the past 12 years of engineering reports
PM Fee	JPY 1,560,000	Based on estimates
Leasing Brokerage Fees	–	
Taxes	JPY 9,371,500	Based on FY2018 actual amounts (including depreciable asset tax)
Insurance Premiums	JPY 360,240	Based on insurance estimates
Other Expenses	JPY 506,634	0.3% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	JPY 150,884,678	
Income on Investment of Deposits Received	JPY 195,884	
Capital Expenditure	JPY 20,190,000	Based on the average upgrade expense over the past 12 years in engineering reports with Furniture, Fixtures, & Equipment (FF&E) reserves taken into account
Net Profit	JPY 130,890,562	
Cap Rate	5.3%	Based on transactions of similar assets and comprehensive assessment of the asset's location, its individual characteristics, and property rights

	Value via DCF Method	JPY 2,420,000,000	
	Discount Rate	5.4%	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 2,430,000,000	
	Land	58.2%	
	Building	41.8%	Sum of building and FF&E values divided by sum of building, FF&E, and land values
Notes			
None			

4. Seller Profile

Name	Nishi Nihon Holdings GK
Address	1-1-1 Uchisaiwaicho, Chiyoda-ku, Tokyo
Representative	Ippan Shadan Hojin VSL, Representative Employee Hiroshi Sasaki, Representative Director
Principal Businesses	Ownership and buying/selling of trust beneficiary interests in real estate (*juekiken*) Ownership, management, and buying/selling of real estate
Capital	JPY 100,000
Establishment Date	October 23, 2015
Relationship with Ichigo Hotel or IIA[1]	Although the seller is not a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law, it is a related party as defined in IIA's internal rules given that Ichigo, IIA's 100% shareholder, is a silent partner and the seller receives asset management advice from Ichigo Estate, an Ichigo subsidiary and related party.
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.

[1] Because Nishi Nihon Holdings GK is a related party as specified in IIA's internal rules, Ichigo Hotel fully implemented its related party transaction procedures, including getting a third-party appraisal on the hotel and cross-checking the third-party appraisal with an additional third-party second opinion appraisal.

5. Ownership History

Asset Name		Nest Hotel Kumamoto	
Overview		Current Owner	Previous Owner
	Name	Nishi Nihon Holdings GK	Unrelated Party
	Relationship to Ichigo Hotel	Related Party as defined in the internal rules of IIA. Please see “Seller Profile” in Section 4.	–
	Acquisition Rationale	Investment	–
	Acquisition Price	Omitted as ownership exceeds one year	–
	Acquisition Date	December 2015	–

6. Broker Profile

N/A

7. Acquisition Schedule

Contract Date	April 23, 2019
Acquisition and Settlement Date	April 25, 2019 (Expected)

8. Earnings Outlook

The acquisition of the Nest Hotel Kumamoto is forecast to increase Ichigo Hotel’s July 2019 and January 2020 NOI by JPY 40 million and JPY 75 million, respectively. While Ichigo Hotel is not currently revising its existing earnings forecast announced on March 14, 2019, should an earnings forecast revision become necessary, Ichigo Hotel will promptly disclose the details.

Appendix A: Engineering Report Summary

Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	March 2019
Short-Term Repair Expenses[1]	–
Long-Term Repair Expenses[2]	JPY 214,871,000
Current Replacement Cost	JPY 1,764,100,000

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

[2] Long-Term Repair Expenses are 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 Rent	2,160	4.1
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.7
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	2.8
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	7.4
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.6
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	2.9
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	5.0
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	10.0
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	8.5
E-2 002	Hotel Vista Premio Kyoto	Kyoto	Variable Rent	3,600	6.8
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.1
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae[4]	Hyogo	Variable Rent	1,490	2.8
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	14.3
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.3
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.0
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.4
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.3
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.6
G-2 013	Nest Hotel Naha	Okinawa	Variable Rent	3,750	7.1
G-3 023	**Nest Hotel Kumamoto**	**Kumamoto**	**Variable Rent**	**2,220**	**4.2**
Total 22 Hotels				52,983	100.0

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

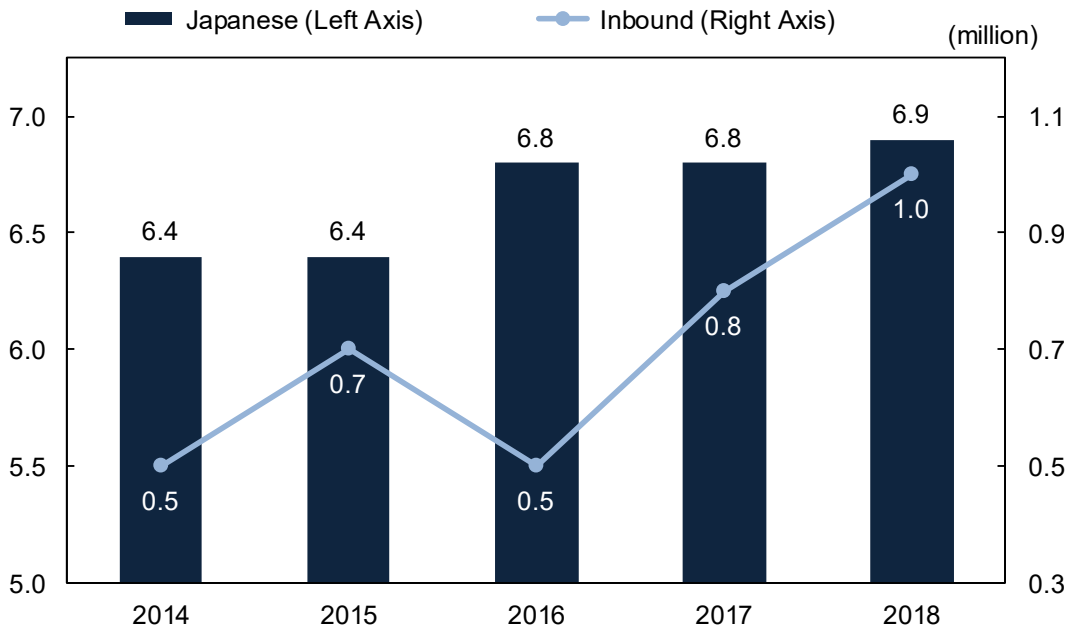
Code	Region	Prefectures
A	Hokkaido/Tohoku	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
B	Kanto	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Yamanashi, Nagano, Niigata
C	Tokyo	Tokyo
D	Hokuriku/Tokai	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, Mie
E	Kinki	Osaka, Hyogo, Kyoto, Shiga, 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] On March 1, 2019, Hotel Suave Kobe Asuta was renamed Hotel Wing International Kobe Shin Nagata Ekimae and changed to a variable rent lease.

Reference: Annual Hotel Guests in Kumamoto Prefecture



Note: Data prepared by IIA based on the Japan Tourism Agency's "Statistical Survey of Travelers," 2014 – 2018.