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Hotel Sale (Nest Hotel Naha)

Ichigo Hotel decided today to sell Nest Hotel Naha for JPY 5.3 billion. The sale is being executed at 1.4X book value and 1.3X appraisal value, generating gains on sale of c. JPY 1.26 billion in the January 2020 fiscal period.

1. Sale Summary

Hotel Name	Nest Hotel Naha
Hotel No.	G-2 013
Hotel Type	Lodging-Focused
Date Built	February 1975
Form of Ownership	Trust beneficiary interest in real estate *(juekiken)*
Acquisition Date	August 17, 2016
Appraisal Value[1]	JPY 4,190,000,000
Sale Price[2]	JPY 5,285,000,000
Book Value[3]	JPY 3,787,815,000
Gains on Sale[4]	c. JPY 1.26 billion
Buyer	Third-Party Japanese Company
Broker	N/A
Contract Date	January 30, 2020
Transaction Date	January 31, 2020
Closing Date	January 31, 2020
Transaction Method	Sale of trust beneficiary interest in real estate

[1] Appraisal Value is as calculated by Daiwa Real Estate Appraisal Co., Ltd. as of July 31, 2019, and is compliant with the appraisal guidelines of Ichigo Investment Advisors (IIA) as well as the rules of The Investment Trusts Association, Japan.

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

[3] Book Value is an estimate based on the most recent book value (July 2019 fiscal period-end), adjusted for expected capital expenditures and depreciation through the Transaction Date.

[4] Gains on Sale are an estimate, calculated as the Sale Price less Book Value and estimated sale expenses, and are subject to change.

2. Sale Rationale

Ichigo Hotel is working to increase the stability of its portfolio to maximize value for its shareholders. To this end, Ichigo Hotel acquired the Nest Hotel Kumamoto in April 2019 and the Valie Hotel Hiroshima in July 2019, and sold the Hotel Vista Premio Kyoto in August 2019. Ichigo Hotel is selling the Nest Hotel Naha to further diversify its portfolio.

The Nest Hotel Naha is a lodging-focused hotel located in the center of Naha City and a seven-minute drive from the Naha Airport. Since acquiring the Nest Hotel Naha in August 2016, Ichigo Hotel has worked in partnership with the hotel operator to increase the hotel's value, raising its appraisal value, as calculated by third-party appraisers, by 11% (JPY 420 million) since acquisition.

Having received an offer from a buyer that values the hotel at 1.3X appraisal value and 1.4X book value, Ichigo Hotel has decided that it can best serve the interests of shareholders by selling the hotel. The decision reflects Ichigo Hotel's judgement that it has already executed on most of the opportunities for value-add renovations, leaving limited potential for further earnings growth. Ichigo Hotel also took into consideration that the expected gains on sale would equal ten periods (i.e., five years) worth of NOI. As a result, Ichigo Hotel decided to sell the hotel and deploy the gains on sale towards growth investments that will create more value for shareholders.

As a result of today's sale, Ichigo Hotel expects to generate gains on sale of c. JPY 1.26 billion in the January 2020 fiscal period.

Ichigo Hotel will continue its actions to drive earnings at its hotels and maximize shareholder value.

3. Hotel Overview

Hotel Overview						
Hotel Name		Nest Hotel Naha				
Form of Ownership		Trust beneficiary interest in real estate *(juekiken)*				
Address		1-6-1 Nishi, Naha City, Okinawa				
Land	Property Right	Freehold				
	Area	2,322.62m^2				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 400%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure[1]	Steel/RC 11F				
	Total Floor Area	9,240.20m^2				
	Date Built	February 28, 1975				
Number of Tenants		1				
Monthly Rental Income		Fixed Rent: JPY 108,391,987 p.a. Variable Rent: Monthly GOP (Gross Operating Profit) – (Monthly Minimum Guaranteed Rent + Percentage of Monthly GOP)				
Deposit		Lease deposit: 25,200,000 yen, No guarantee deposit				
Leasable Area		9,240.20m^2				
Leased Area		9,240.20m^2				
Occupancy		Aug 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019
		100%	100%	100%	100%	100%
Acquisition Price		JPY 3,750 million				
Appraisal	Appraiser	Daiwa Real Estate Appraisal Co., Ltd.				
	Date	July 31, 2019				
	Value	JPY 4,190 million				

[1] Steel/RC = Steel-Reinforced Concrete

Appraisal Details		
Hotel Name	Nest Hotel Naha	
Appraisal Value	JPY 4,190 million	
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	
Appraisal Date	July 31, 2019	
	Amount (JPY)	**Notes**
Appraisal Value	4,190,000,000	Based on a DCF valuation, which is more relevant than accounting value, and verified using a direct capitalization valuation
Value by Direct Capitalization Method	4,230,000,000	
Income	268,800,000	
Maximum Obtainable Rental Income	268,800,000	
Vacancy Loss	–	
Expenses	18,664,490	
Administrative and Maintenance Expenses	–	Not recorded as borne by tenant
Utility Expenses	–	Not recorded as borne by tenant
Repair Expenses	6,442,000	Based on the average of past 12 years of engineering reports
PM Fees	1,440,000	Based on the contractual amount
Leasing Brokerage Fees	–	
Taxes	8,963,500	Based on FY2019 actual amounts
Insurance Premiums	474,990	Based on the actual amounts
Other Expenses	1,344,000	0.5% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	250,135,510	
Income on Investment of Deposits Received	252,000	Based on 1.0% yield
Capital Expenditures	25,949,641	Based on average renewal expense of the past 12 years in engineering reports
Net Profit	224,437,869	
Cap Rate	5.3%	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	4,170,000,000	
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 on risk-adjusted NOI

	Amount (JPY)	Notes
Value via Cost Approach	1,470,000,000	
Land	80.4%	
Building	19.6%	Sum of building and Furniture, Fixtures, & Equipment (FF&E) values divided by sum of building, FF&E, and land values

Notes
Based on the hotel's competitiveness in the leasing and acquisition market, the appraisal was made based on the assumption that maximized utilization will continue as is, and a DCF valuation (verified using a direct capitalization valuation) was the primary valuation methodology employed, because it reflects market value and is thus more relevant than accounting value.

4. Buyer Profile

Name	The buyer, a third-party Japanese company, did not provide consent to disclose its name.
Relationship with Ichigo Hotel or IIA	The buyer does not have any additional capital, personnel, or transactional relationships with Ichigo Hotel or IIA requiring disclosure under Tokyo Stock Exchange rules. In addition, the buyer is not a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law or the internal rules of the Asset Management Company.

5. Broker Profile

N/A

6. Settlement Method

Lump-sum payment on closing date

7. Use of Sale Proceeds

Ichigo Hotel will retain the sale proceeds as cash-on-hand for future use, including asset acquisitions and value-add capex.

8. Earnings Outlook

The sale is forecast to generate gains on sale of c. JPY 1.26 billion in the January 2020 fiscal period. Ichigo Hotel will distribute 100% of this as a dividend to its shareholders.

The impact of the sale on the January 2020 and July 2020 fiscal period is detailed in today's announcement "Earnings Forecast Revisions for the January 2020 and July 2020 Fiscal Periods."

Post-Sale 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	4.6
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	3.1
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	3.2
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	8.3
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.9
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	3.3
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	5.7
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	11.3
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	9.5
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.5
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae	Hyogo	Variable Rent	1,490	3.2
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	16.1
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.5
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.4
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.8
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.7
F-5 024	Valie Hotel Hiroshima	Hiroshima	Variable Rent	1,500	3.2
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.9
G-3 023	Nest Hotel Kumamoto	Kumamoto	Variable Rent	2,220	4.7
Total 21 Hotels				47,133	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.