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Acquisition of Office Asset (Ichigo Nakameguro Building)

Consistent with its strategy as a specialized office REIT, Ichigo Office decided today to acquire an office asset, the Ichigo Nakameguro Building.

1. Asset Acquisition Summary

Asset Number Asset Name[1]	O-95 Ichigo Nakameguro Building
Asset Type	Office
Date Built	January 17, 1992
Form of Ownership	Trust beneficiary interest in real estate (*juekiken*)
Appraisal Value[2]	JPY 1,670 million
Acquisition Price[3]	JPY 1,495 million
Seller	Domestic GK
Contract Date	January 29, 2020
Closing Date	April 14, 2020
Financing Method[4]	Cash-on-hand
Settlement Method	Lump-sum payment

[1] Ichigo Office will change the building name from the Nakameguro Aobadai Building to the Ichigo Nakameguro Building. For purposes of this release, the building is referred to as the Ichigo Nakameguro Building.

[2] Appraisal Value is calculated by Tanizawa Sogo Appraisal as of December 31, 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] The seller, a domestic company (GK), did not provide consent to disclose its name.

2. Transaction Rationale

As a specialized office REIT with stable earnings and a diverse portfolio, Ichigo Office continues to execute on its strategy to grow shareholder value by focusing its portfolio on high-quality, mid-size office assets.

The Ichigo Nakameguro Building is located in Nakameguro, a neighborhood adjacent to both Shibuya and Ebisu, two real estate markets with strong office tenant demand. Ichigo Office expects earnings growth through value-add capex after the acquisition.

With this asset acquisition, Ichigo Office's post-transaction portfolio will be 81 office assets, or 95.6% of the total portfolio. Ichigo Office expects to continue to grow its specialized, mid-size office portfolio to drive further earnings growth.

The Ichigo Nakameguro Building's tenants fully comply with the "Financial Report (*Yuka Shoken Hokokusho*)" (Japanese only) submitted on January 28, 2020.

Please refer to Section 3 "Details of the Ichigo Nakameguro Building" immediately below for additional details on the asset's features and characteristics that underpinned the acquisition decision.

3. Details of the Ichigo Nakameguro Building

(1) Location

The Ichigo Nakameguro Building is located in Nakameguro, an area near Shibuya, one of Tokyo's commercial centers. The building is an eight-minute walk from Nakameguro Station on the Tokyu Toyoko Line and Tokyo Metro Hibiya Line, offering convenient access to two railway lines and Yamate-Dori, a main avenue running through the area.

Despite Nakameguro's convenient location, rents are affordable compared to those in Shibuya and Ebisu. As a result, demand for office openings and floor space expansions has been robust in recent years, and generating the opportunity for strong rental growth going forward.

(2) Features

Each floor has a standard floor plate of 30 tsubo (99m^2) and ceiling height of 2.5 meters, and is equipped with individual air conditioning systems and raised-access floors, catering to the demands of diverse tenants.

Tenants include a retail store on the ground floor and information-technology and apparel companies on upper floors.

(3) Building Exterior and Location





Asset Overview						
Asset Name		Ichigo Nakameguro Building				
Legal Form of Asset		Trust beneficiary interest in real estate (*juekiken*)				
Trustee		Mitsubishi UFJ Trust and Banking Corporation				
Period of Trust Contract		April 14, 2020 – April 30, 2030 (expected)				
Location		2-21-6 Aobadai, Meguro-ku, Tokyo				
Land	Property Right	Freehold				
	Area	278.69m^2				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 500%				
Building	Property Right	Freehold				
	Use	Office, Retail				
	Structure	Steel, B1F/10F				
	Total Floor Area	1,360.72m^2				
	Date Built	January 17, 1992				
Appraiser		Tanizawa Sogo Appraisal Co., Ltd.				
Appraisal Value		JPY 1,670 million				
Appraisal Date		December 31, 2019				
Value by Direct Capitalization Method		JPY 1,750 million				
Architect[1]		Miyata Architects & Engineers Co., Ltd.				
Builder[1]		Tokai Kogyo K.K.				
Structural Designer[1]		Miyata Architects & Engineers Co., Ltd.				
Inspection Agency[1]		Meguro Ward				
PML (Assessor)		4.02% (Sompo Risk Management & Health Care Inc.)				
Collateral		None				
Lease Details (as of December 31, 2019)						
Tenant Overview						
	Number of Tenants	6				
	Monthly Rental Income	The seller did not provide consent to disclose the information.				
	Tenant Security Deposits	The seller did not provide consent to disclose the information.				
	Leasable Area	1,037.30m^2				
	Leased Area	1,037.30m^2				
	Occupancy	Apr 2018	Oct 2018	Apr 2019	Oct 2019	Dec 2019
		100%	100%	100%	100%	100%
Property Management Company		To Be Determined				
Master Lease Company		Ichigo Office REIT Investment Corporation (expected)				
Master Lease Type		Pass-through (expected)				

Special Items
1. An engineering report indicates the following issues with the building. The seller has agreed to rectify them at the seller's expense by the Acquisition Date. a. There is no obvious escape route from the building's balcony. Access to a nearby fire escape ladder on the second-floor rooftop is blocked by air-conditioning equipment. b. The ground floor tenant does not have permits for two outdoor signboards. c. One of those signboards is not properly anchored to the building, causing a possible safety risk. d. A door to the outdoor emergency stairway on the north side of the building swings out into a public road. e. A fire shutter in the ground-floor entrance hall that leads to an outdoor stairway is defective and stuck open. f. There is insufficient emergency lighting in a stairway to the basement. g. An air-conditioning pipe through a ventilation hole on the west side of the building prevents the fire damper from closing. h. In its regular fire safety inspection, the fire department cited a problem with obstructive objects. 2. Part of the land was acquired on January 30, 2004 by the Tokyo Metropolitan Government in line with its plan to expand the width of the road running along the southwest side of the building. The resulting reduction in land area has a created a code violation in which the building's total floor space exceeds that permitted under current building codes. 3. There are also plans to widen the road adjacent to the southeast side of the building (designated Route 50 in the urban planning blueprint of April 25, 1946). If the road is expanded, the property's southeast border will be pushed back 2.4m. 4. Pursuant to Article 42, paragraph 2 of the Building Standards Act, 20.84m^2 of land on the northeast side of the property is used as a public road. 5. A concrete platform sticks out into the road on the southwest side. There is no agreement to rectify the situation. 6. A lease termination notification was received from one of the tenants (leased area: 100.86m^2) on December 6, 2019, effective May 15, 2020. Occupancy is expected to be 90.3% after the termination.

[1] Names of the architect, builder, structural designer, and inspection agency are those as of the building's construction date.

Appraisal Details		
Asset Name	Ichigo Nakameguro Building	
Appraisal Value	JPY 1,670,000,000	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	December 31, 2019	
	Amount	**Note**
Appraisal Value	JPY 1,670,000,000	Based on a DCF valuation and verified using a direct capitalization valuation
Value by Direct Capitalization Method	JPY 1,750,000,000	
Income	JPY 88,595,598	
Forecast Full-Occupancy Rental Income	JPY 93,128,204	Based on an analysis of potential rental income, common area service income, and other income
Forecast Decrease in Rental Income due to Vacancy	JPY 4,532,606	Based on long-term vacancy rates
Expenses	JPY 17,441,270	
Administrative & Maintenance Expenses	JPY 3,995,680	Based on actual amounts
Utility Expenses	JPY 4,891,907	Based on actual amounts
Repair Expenses	JPY 2,200,000	Based on engineering reports
PM Fee	JPY 1,507,321	Based on current rate
Leasing Brokerage Fees	JPY 615,285	Based on a 10% p.a. turnover rate
Taxes	JPY 3,809,100	Based on FY2019 actual amounts
Insurance Premiums	JPY 156,190	Based on insurance estimates
Other Expenses	JPY 265,787	Based on actual amounts
Net Operating Income (NOI)	JPY 71,154,328	
Income from Investments of Deposits	JPY 589,404	Based on a 1.0% investment yield
Capital Expenditure	JPY 5,280,000	Based on engineering reports
Net Profit	JPY 66,463,732	
Cap Rate	3.8%	Based on transactions of similar assets and a comprehensive assessment of the asset's location, its specific characteristics, and the discount rate appropriate to the asset

	Value via DCF Method	JPY 1,640,000,000	
	Discount Rate	3.8%	Based on yields of similar real estate assets and of Japanese financial assets, taking into account the asset's specific characteristics
	Terminal Cap Rate	4.0%	Based upon risk-adjusted NOI
Accounting Value		JPY 1,570,000,000	
	Land	89.1%	
	Building	10.9%	
Notes			
None			

Note: Appraisal NOI Yield: 4.8% (calculated by dividing NOI by Acquisition Price)

4. Seller Profile

Name	The seller, a domestic GK unrelated to Ichigo Office, did not provide consent to disclose its name.
Relationship with Ichigo Office or IIA	The seller does not have any material capital, personnel, or transactional relationship with Ichigo Office or IIA. In addition, the seller 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. No Buyer/Seller Relationship

The seller is a third-party unrelated to Ichigo Office and IIA.

6. Broker Profile

Name	The broker did not provide consent to disclose its name.
Relationship with Ichigo Office or IIA	The broker does not have any material capital, personnel, or transactional relationship with Ichigo Office or IIA. In addition, the broker 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.
Broker Fee	JPY 44,910,000 (excluding consumption tax)

7. Acquisition Schedule

Ichigo Office Board Resolution Date	January 29, 2020
Contract Date	January 29, 2020
Closing Date	April 14, 2020 (expected)

8. Forward Commitment

Because the Transaction Date is April 14, 2020, the acquisition of the Ichigo Nakameguro Building (the "Acquisition") constitutes a "forward commitment" by Ichigo Office as stipulated in the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators" by the Financial Services Agency[1].

In the event of a violation of the provisions of the Acquisition by Ichigo Office or the seller, the other party shall have the right to terminate the Acquisition and claim up to 5% of the purchase price as a penalty.

Because Ichigo Office is the buyer, and will finance the transaction with cash on hand, which suggests that there is a limited financing risk, it is highly unlikely that Ichigo Office will incur the penalty or suffer a negative material impact on its financial position.

[1] Refers to a post-dated purchase and sales agreement under which payment and property delivery shall be made at least one month after the conclusion of the agreement, or any other agreement similar thereto.

9. Earnings Outlook

The impact of this acquisition on Ichigo Office's April 2020 and October 2020 fiscal period earnings announced on December 13, 2019 is minimal, and therefore the forecast is unchanged. The acquisition is consistent with Ichigo Office's strategy to grow its specialized, mid-size office portfolio to drive further earnings growth.

Reference

1. Earnings Profile of Asset Being Acquired

(JPY million)

	Forecast[1]	At Acquisition[2]
A. Rental Income	86	69
B. Rental Expenses (excluding depreciation)[3]	17	16
C. NOI (A-B)	69	53
D. NOI Yield[4]	4.6%	3.5%
E. Depreciation[5]	11	11
F. Post-depreciation NOI (C-E)	57	41
G. Post-depreciation NOI Yield[4]	3.9%	2.8%
H. Occupancy[6]	96%	100%

[1] Amounts exclude one-off factors in the year of acquisition and are calculated based on current and future anticipated fluctuations in occupancy.
[2] Shows first-year amounts used to calculate the DCF-based valuation, excluding one-off factors in the year of acquisition.
[3] Rental Expenses include incidental expenses such as service provider expenses, property, city planning, and consumption taxes, and other fees.
[4] Forecast NOI Yield and NOI Yield At Acquisition are calculated by dividing the Forecast NOI and NOI At Acquisition, respectively, by the Acquisition Price.
[5] Depreciation is as estimated by Ichigo Office.
[6] Occupancy is as of December 31, 2019.

2. Engineering Report Summary

Asset Name	Ichigo Nakameguro Building
Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	November 2019
Short-Term Repair Expenses[1]	–
Long-Term Repair Expenses[2]	JPY 66.23 million
Current Replacement Cost	JPY 440.7 million

[1] Short-Term Repair Expenses are defined as repair expenses 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 asset within twelve years from the time of inspection.

Appendix C: Post-Transaction Portfolio

No.	Asset Name	Area[1]	Acquisition Price[2] (JPY million)	% of Portfolio[3]
O-02	Ichigo Nishisando Building	Central Tokyo	3,254	1.6
O-03	Ichigo Mita Building	Central Tokyo	2,740	1.3
O-04	Ichigo Nanpeidai Building	Central Tokyo	1,920	0.9
O-05	Ichigo Hanzomon Building	Central Tokyo	1,550	0.8
O-06	Ichigo Hijirizaka Building	Central Tokyo	1,200	0.6
O-07	Ichigo Shibuya Kamiyamacho Building	Central Tokyo	1,505	0.7
O-08	Ichigo Akasaka 5 Chome Building	Central Tokyo	735	0.4
O-09	Ichigo Shibakoen Building	Central Tokyo	1,100	0.5
O-10	Ichigo Ebisu Nishi Building	Central Tokyo	1,917	0.9
O-11	Ichigo Ginza 612 Building	Central Tokyo	1,773	0.9
O-12	Ichigo Uchikanda Building	Central Tokyo	1,140	0.6
O-14	Ichigo Yotsuya 4 Chome Building	Central Tokyo	550	0.3
O-15	Ichigo Tameike Building	Central Tokyo	580	0.3
O-16	Ichigo Jimbocho Building	Central Tokyo	1,820	0.9
O-17	Ichigo Hakozaki Building	Central Tokyo	1,150	0.6
O-18	Ichigo Kudan 2 Chome Building	Central Tokyo	763	0.4
O-19	Ichigo Kudan 3 Chome Building	Central Tokyo	844	0.4
O-20	Ichigo Gotanda Building	Central Tokyo	5,060	2.5
O-21	Ichigo Shin Yokohama Building	Tokyo Metro Area	1,816	0.9
O-22	Ichigo Minami Ikebukuro Building	Tokyo Metro Area	1,460	0.7
O-23	Ichigo Nakano North Building	Tokyo Metro Area	764	0.4
O-24	Ichigo Eitai Building	Tokyo Metro Area	1,490	0.7
O-26	Ichigo Ikejiri Building	Tokyo Metro Area	2,030	1.0
O-27	Ichigo Nishi Ikebukuro Building	Tokyo Metro Area	639	0.3
O-28	Ichigo Nishi Gotanda Building	Central Tokyo	765	0.4
O-29	Ichigo Kichijoji Building	Tokyo Metro Area	2,160	1.1
O-34	Ichigo Sakae Building	Four Major Regional Cities	4,705	2.3
O-37	Ichigo Marunouchi Building	Four Major Regional Cities	6,710	3.3
O-38	Ichigo Toyamaeki Nishi Building	Other Regional Cities	1,645	0.8
O-39	Ichigo Mirai Shinkin Building	Other Regional Cities	1,158	0.6
O-42	Ichigo Takamatsu Building	Other Regional Cities	3,010	1.5
O-46	Ichigo Kanda Nishikicho Building	Central Tokyo	2,130	1.0
O-47	Ichigo Akihabara North Building	Central Tokyo	5,500	2.7
O-48	Ichigo Sakaisuji Honmachi Building	Four Major Regional Cities	1,940	0.9
O-49	Ichigo Kanda Ogawamachi Building	Central Tokyo	2,210	1.1

No.	Asset Name	Area[1]	Acquisition Price[2] (JPY million)	% of Portfolio[3]
O-50	Ichigo Hatchobori Building	Central Tokyo	1,905	0.9
O-51	Ebisu Green Glass	Central Tokyo	5,900	2.9
O-52	Ichigo Omori Building	Central Tokyo	3,850	1.9
O-53	Ichigo Takadanobaba Building	Central Tokyo	1,580	0.8
O-54	Ichigo Omiya Building	Tokyo Metro Area	3,430	1.7
O-55	Ichigo Sagamihara Building	Tokyo Metro Area	1,174	0.6
O-56	Ichigo Ofuna Building	Tokyo Metro Area	2,000	1.0
O-57	Ichigo Sendai East Building	Other Regional Cities	1,840	0.9
O-58	Ichigo Kumamoto Building	Other Regional Cities	1,450	0.7
O-59	Ichigo Jingumae Building	Central Tokyo	7,200	3.5
O-60	Ichigo Shibuya Dogenzaka Building	Central Tokyo	3,650	1.8
O-61	Ichigo Hiroo Building	Central Tokyo	3,960	1.9
O-62	Ichigo Sasazuka Building	Central Tokyo	4,780	2.3
O-63	Ichigo Nihonbashi East Building	Central Tokyo	4,700	2.3
O-64	Ichigo Sakurabashi Building	Central Tokyo	2,500	1.2
O-65	Ichigo Shinkawa Building	Central Tokyo	2,360	1.2
O-66	Ichigo Kudan Building	Central Tokyo	3,190	1.6
O-67	Ichigo Higashi Gotanda Building	Central Tokyo	3,660	1.8
O-68	Axior Mita	Central Tokyo	1,800	0.9
O-69	Ichigo Higashi Ikebukuro Building	Tokyo Metro Area	4,570	2.2
O-70	Koriyama Big-i (Office Section)	Other Regional Cities	1,660	0.8
O-71	Ichigo Kawasaki Building	Tokyo Metro Area	1,750	0.9
O-72	Ichigo Shibuya East Building	Central Tokyo	1,350	0.7
O-73	Ichigo Ningyocho Building	Central Tokyo	1,450	0.7
O-74	Ichigo Nishi Honmachi Building	Four Major Regional Cities	2,190	1.1
O-75	Ichigo Hakata Building	Four Major Regional Cities	1,380	0.7
O-76	Ichigo Nishiki First Building	Four Major Regional Cities	2,000	1.0
O-77	Ichigo Ikenohata Building	Tokyo Metro Area	5,130	2.5
O-78	Ichigo Ikebukuro East Building	Tokyo Metro Area	3,010	1.5
O-79	Ichigo Motoazabu Building	Central Tokyo	1,890	0.9
O-80	Ichigo Otsuka Building	Tokyo Metro Area	2,740	1.3
O-81	Ichigo Nagoya Building	Four Major Regional Cities	3,420	1.7
O-82	Ichigo Fushimi Building	Four Major Regional Cities	2,340	1.1
O-83	Ichigo Nishiki Building	Four Major Regional Cities	1,330	0.6
O-84	Ichigo Minami Morimachi Building	Four Major Regional Cities	1,040	0.5

No.	Asset Name	Area[1]	Acquisition Price[2] (JPY million)	% of Portfolio[3]
O-85	Ichigo Shibuya Udagawacho Building	Central Tokyo	3,500	1.7
O-86	Win Gotanda Building	Central Tokyo	3,100	1.5
O-87	Ichigo Hongo Building	Tokyo Metro Area	2,300	1.1
O-88	Oimachi Center Building	Central Tokyo	1,680	0.8
O-89	Win Gotanda Building 2	Central Tokyo	3,300	1.6
O-90	MIF Building	Central Tokyo	2,200	1.1
O-91	Ichigo Uchi Honmachi Building	Four Major Regional Cities	1,900	0.9
O-92	Ichigo Minami Otsuka Building	Tokyo Metro Area	2,780	1.4
O-93	Ichigo Nogizaka Building	Central Tokyo	3,315	1.6
O-94	Ichigo Hakata East Building	Four Major Regional Cities	2,250	1.1
O-95	**Ichigo Nakameguro Building**	**Tokyo Metro Area**	**1,495**	**0.7**
		Subtotal - Office (81 Assets)	195,732	95.6
Z-09	Konami Sports Club Izumi Fuchu	Other Regional Cities	1,210	0.6
Z-10	Ichigo Shibuya Bunkamura Dori Building	Central Tokyo	2,400	1.2
Z-11	Twicere Yokohama Isogo (Retail Section)	Tokyo Metro Area	1,620	0.8
Z-12	Lions Square Kawaguchi	Tokyo Metro Area	2,430	1.2
Z-14	Ichigo Kamata Building	Tokyo Metro Area	1,400	0.7
		Subtotal - Other (5 Assets)	9,060	4.4
		Total (86 Assets)	204,792	100.0

TK Equity Investment	Tachikawa Holdings GK TK Equity Interest	50	–

[1] Central Tokyo refers to Chiyoda, Minato, Chuo, Shinjuku, Shibuya, and Shinagawa Wards. Tokyo Metro Area refers to Tokyo (excluding the six wards above), Kanagawa, Chiba, and Saitama Prefectures. Four Major Regional Cities refers to Osaka, Nagoya, Fukuoka, and Sapporo.

[2] Acquisition Price excludes incidental expenses such as consumption taxes and other fees.

[3] % of Portfolio is based upon acquisition price.