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July 31, 2024

Issuer
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# Hotel Sale (Nest Hotel Sapporo Ekimae)

Ichigo Hotel decided today to sell the Nest Hotel Sapporo Ekimae. Because the buyer is a related party as defined in the Investment Trust and Investment Corporation Law Article 2, Clause 1 (1951 Law, Act No. 198, including subsequent revisions), the asset sale was approved at today's board meeting.

1. Sale Summary

| | |
|---|---|
| Hotel No.<br>Hotel Name | 001<br>Nest Hotel Sapporo Ekimae |
| Hotel Type | Lodging-focused[1] |
| Date Built | June 1984 |
| Form of Ownership | Trust beneficiary interest in real estate *(juekiken)* |
| Acquisition Date | November 30, 2015 |
| Buyer | Ichigo Estate |
| Broker | N/A |
| Sale Price[2] | JPY 4,700 million |
| Book Value[3] | JPY 2,130 million |
| Sale Price less Book Value | JPY 2,569 million |
| Gains on Sale[4] | JPY 2,181 million |
| Appraisal Value[5] | JPY 2,730 million |
| Contract Date | July 31, 2024 |
| Transaction Date | December 25, 2024 |
| Closing Date | December 25, 2024 |

[1] Lodging-focused hotels are hotels specialized in lodging with a limited or minimum amount of related facilities located near train stations, airports, tourist sites, business and commercial districts, and other key transport infrastructure such as major train stations and highway interchanges.

[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 (January 2024 fiscal period-end), adjusted for expected capital expenditures and depreciation through the Transaction Date.

[4] Gains on Sale is an estimate calculated by IIA as the Sale Price less Book Value and forecast sale expenses, and is subject to change.

[5] Appraisal Value is as calculated by Daiwa Real Estate Appraisal Co., Ltd. as of January 31, 2024, and is compliant with the appraisal guidelines of IIA as well as the rules of The Investment Trusts Association, Japan.

2. Sale Rationale

Ichigo Hotel continues to execute on its strategy to build a stable, diversified portfolio and drive shareholder value. As part of this strategy, Ichigo Hotel diversified its portfolio via the acquisition of five hotels in August 2023, i.e., Comfort Hotel Osaka Shinsaibashi (Ichigo Shinsaibashi Building), HOTEL THE KNOT YOKOHAMA, Quintessa Hotel Ise Shima, Quintessa Hotel Ogaki, and THE KNOT SAPPORO, from sponsor Ichigo.

The Nest Hotel Sapporo Ekimae is a lodging-focused hotel located in central Sapporo in Hokkaido Prefecture, a five-minute walk from Sapporo Station on the Sapporo Municipal Subway Namboku Line. Since acquiring the hotel in November 2015, Ichigo Hotel has conducted value-add initiatives to increase the hotel's value.

As a result of its value-add, Ichigo Hotel received an offer from a buyer that values the hotel at 2.2X book value and 1.7X appraisal value, and has decided that it is in the best interest of shareholders to sell the hotel. Although Ichigo Hotel acquired THE KNOT SAPPORO to increase market share in central Sapporo, the decision reflects Ichigo Hotel's judgment that value-add capex costs and maintenance costs will potentially increase to maintain the hotel's competitiveness.

As a result of the sale, Ichigo Hotel is forecast to record JPY 2.1 billion in gains on sale during the January 2025 fiscal period, which will be distributed to shareholders as dividend.

Ichigo Hotel will strategically use the proceeds from the sale to fund growth investments including hotel acquisitions and value-add execution.

3. Hotel Overview

| Hotel Overview | | | | | | |
|---|---|---|---|---|---|---|
| Hotel Name | | Nest Hotel Sapporo Ekimae | | | | |
| Form of Ownership | | Trust beneficiary interest in real estate *(juekiken)* | | | | |
| Address | | 2-9-2 Kita Nijo Nishi, Chuo-ku, Sapporo, Hokkaido | | | | |
| Trustee | | Mitsubishi UFJ Trust and Banking Corporation | | | | |
| Period of Trust Contract | | November 30, 2015 – November 30, 2025 | | | | |
| Land | Property Right | Freehold | | | | |
| | Area | 899.01m$^2$ | | | | |
| | Zoning | Retail | | | | |
| | Coverage Ratio<br>Floor Area Ratio | 80%<br>800% | | | | |
| Building | Property Right | Freehold | | | | |
| | Use | Hotel | | | | |
| | Structure | SRC[2] B1/11 Floors | | | | |
| | Total Floor Area | 5,734.93m$^2$ | | | | |
| | Date Built | June 30, 1984 | | | | |
| Number of Tenants | | 1 (as of June 30, 2024) | | | | |
| Monthly Rental Income[1] | | Minimum guaranteed rent: JPY 63,521,729 p.a.<br>Variable rent: Monthly GOP – (Minimum guaranteed rent + percentage of monthly revenue + percentage of monthly GOP) | | | | |
| Deposit | | Deposit: JPY 15,900,000, no guarantee deposit | | | | |
| Leasable Area | | 5,734.93m$^2$ | | | | |
| Leased Area | | 5,734.93m$^2$ | | | | |
| Occupancy | | Feb 2024 | Mar 2024 | Apr 2024 | May 2024 | Jun 2024 |
| | | 100% | 100% | 100% | 100% | 100% |
| Acquisition Price | | JPY 2,160 million | | | | |
| Appraisal | Appraiser | Daiwa Real Estate Appraisal Co., Ltd. | | | | |
| | Date | January 31, 2024 | | | | |
| | Value | JPY 2,730 million | | | | |

[1] Minimum guaranteed rent is the annual minimum guaranteed rent covering the 12-month period from February 2024 to January 2025.

[2] SRC = Steel-Reinforced Concrete

| Appraisal Details | | |
|---|---|---|
| Hotel Name | Nest Hotel Sapporo Ekimae | |
| Appraisal Value | JPY 2,730,000,000 | |
| Appraiser | Daiwa Real Estate Appraisal Co., Ltd. | |
| Appraisal Date | January 31, 2024 | |

| | Amount (JPY) | Notes |
|---|---|---|
| Appraisal Value | 2,720,000,000 | Based on a DCF valuation derived from expected net profit as a basis |
| Value by Direct Capitalization Method | 2,750,000,000 | |
| Income | 179,379,000 | Based on expected income and reference to similar assets |
| Maximum Obtainable Rental Income | 179,379,000 | |
| Vacancy Loss | – | |
| Expenses | 18,421,722 | |
| Administrative and Maintenance Expenses | – | Borne by tenant |
| Utility Expenses | – | Borne by tenant |
| Repair Expenses | 3,016,167 | Based on the average of past 12 years of engineering reports |
| PM Fees | 1,200,000 | Based on the contractual amount |
| Leasing Brokerage Fees | – | |
| Taxes | 12,829,400 | Based on FY2023 actual amounts (including depreciable asset tax) |
| Insurance Premiums | 479,260 | Based on the actual amounts |
| Other Expenses | 896,895 | 0.5% of rental income (accounted for as a variable expense) |
| Net Operating Income (NOI) | 160,957,278 | |
| Income on Investment of Deposits Received | 159,000 | Based on 1.0% investment yield for deposits |
| Capital Expenditures | 23,372,083 | Based on average renewal expense of the past 12 years in engineering reports |
| FF&E Reserve | – | |
| Net Profit | 137,744,195 | |
| Cap Rate | 5.0% | Based on transactions of similar assets located in nearby areas and similar locations |
| Value via DCF Method | 2,720,000,000 | |
| Discount Rate | 4.8% | Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account |
| Terminal Cap Rate | 5.2% | Cap rate adjusted for uncertainties |

| | Amount (JPY) | Notes |
|---|---|---|
| Value via Cost Approach | 1,910,000,000 | |
| Land | 90.5% | |
| Building | 9.5% | Sum of building and Furniture, Fixtures, & Equipment (FF&E) values divided by sum of building, FF&E, and land values |
| **Notes** | | |
| None | | |

4. Buyer Profile

| | |
|---|---|
| Name | Ichigo Estate |
| Address | 2-6-1 Marunouchi, Chiyoda-ku, Tokyo |
| Representative | Yasuhide Hosono, Representative Director & President |
| Capital | JPY 500 million |
| Establishment Date | November 10, 2005 |
| Principal Business | Sustainable real estate, preserving and improving existing real estate |
| Net Assets | JPY 27,789 million (as of February 28, 2024) |
| Total Assets | JPY 130,195 million (as of February 28, 2024) |
| Major Shareholder and Shareholding Ratio | Ichigo 100% |
| Relationship to Ichigo Hotel and IIA | |
| Personnel Relationship | Ichigo Estate does not have any personnel relationships with Ichigo Hotel or IIA. However, IIA and Ichigo Estate employees are seconded from their parent company, Ichigo. |
| Transactional Relationship | Ichigo Hotel acquired the HOTEL THE KNOT YOKOHAMA, Quintessa Hotel Ise Shima, and Quintessa Hotel Ogaki, and THE KNOT SAPPORO from Ichigo Estate on August 25, 2023. |
| Related Party Treatment | Ichigo Estate is a wholly-owned subsidiary of Ichigo, IIA's parent company, and is a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law and IIA's internal rules. |

Note: Because Ichigo Estate is a related party as defined in the Investment Trust and Investment Corporation Law, Ichigo Hotel fully implemented its related party transaction procedures and received approval from its Board of Directors, and has obtained third-party appraisals on the acquired hotels and has cross-checked the third-party appraisals with additional third-party second opinion appraisals.

5. Forward Commitment

Because the Transaction Date is December 25, 2024, the sale of Nest Hotel Sapporo Ekimae (the "Sale") constitutes a "forward commitment" by Ichigo Hotel 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 Sale by Ichigo Hotel or the buyer, the other party shall have the right to terminate the Sale and claim an amount equivalent to 10% of the purchase price as penalty.

As Ichigo Hotel is the seller, it is highly unlikely that Ichigo Hotel will not be able to fulfill its obligations under the Sale.

[1] Forward commitment 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.

6. Broker Profile

N/A

7. Settlement Method

Lump-sum payment on contract date

8. Use of Sale Proceeds

Ichigo Hotel will distribute the gains on sale of JPY 2.1 billion to shareholders as January 2025 dividend, and use the remainder as cash-on-hand for future use, including asset acquisitions and value-add capex, to maximize shareholder value.

9. Earnings Impact

The impact of the sale on the January 2025 fiscal period is detailed in today's announcement "Upward Earnings Forecast Revision for the January 2025 Fiscal Period."

Appendix: Post-Sale Portfolio

| Hotel No.[1] | Hotel Name | Prefecture | Lease Terms | Acquisition Price[2] (JPY million) | % of Portfolio[3] |
|---|---|---|---|---|---|
| A-2 008 | Nest Hotel Sapporo Odori | Hokkaido | Variable Rent | 1,450 | 2.1 |
| A-3 018 | Comfort Hotel Kushiro | Hokkaido | Fixed Rent | 300 | 0.4 |
| A-4 033 | THE KNOT SAPPORO | Hokkaido | Variable Rent | 4,900 | 7.2 |
| B-1 020 | Capsule Plus Yokohama | Kanagawa | Variable Rent | 1,490 | 2.2 |
| B-2 027 | Smile Hotel Nagano | Nagano | Variable Rent | 670 | 1.0 |
| B-3 028 | Hotel Sunshine Utsunomiya | Tochigi | Fixed Rent | 2,200 | 3.2 |
| B-4 030 | HOTEL THE KNOT YOKOHAMA | Kanagawa | Variable Rent | 4,800 | 7.1 |
| C-1 012 | Smile Hotel Tokyo Asagaya | Tokyo | Variable Rent | 3,910 | 5.8 |
| C-3 016 | Hotel Livemax Nihombashi-Hakozaki | Tokyo | Fixed Rent | 1,360 | 2.0 |
| C-4 025 | The OneFive Tokyo Shibuya | Tokyo | Variable Rent | 3,700 | 5.5 |
| D-1 006 | Comfort Hotel Hamamatsu | Shizuoka | Fixed Rent | 1,550 | 2.3 |
| D-2 003 | Hotel Wing International Nagoya | Aichi | Variable Rent | 2,670 | 3.9 |
| D-3 011 | Comfort Hotel Central International Airport | Aichi | Fixed Rent | 5,308 | 7.8 |
| D-4 019 | Comfort Hotel Suzuka | Mie | Fixed Rent | 300 | 0.4 |
| D-5 031 | Quintessa Hotel Ise Shima | Mie | Variable Rent | 610 | 0.9 |
| D-6 032 | Quintessa Hotel Ogaki | Gifu | Variable Rent | 1,070 | 1.6 |
| E-1 001 | Smile Hotel Kyoto Shijo | Kyoto | Variable Rent | 4,480 | 6.6 |
| E-3 005 | The OneFive Osaka Sakaisuji | Osaka | Variable Rent | 1,630 | 2.4 |
| E-4 007 | Hotel Wing International Kobe Shin Nagata Ekimae | Hyogo | Variable Rent | 1,490 | 2.2 |
| E-5 010 | Nest Hotel Osaka Shinsaibashi | Osaka | Variable Rent | 7,600 | 11.2 |
| E-6 029 | Comfort Hotel Osaka Shinsaibashi (Ichigo Shinsaibashi Building) | Osaka | Variable Rent | 3,700 | 5.5 |
| F-1 017 | The OneFive Okayama | Okayama | Variable Rent | 1,200 | 1.8 |
| F-2 015 | Nest Hotel Matsuyama | Ehime | Variable Rent | 1,610 | 2.4 |
| F-3 021 | Urbain Hiroshima Executive | Hiroshima | Fixed Rent | 1,800 | 2.7 |
| F-4 022 | The OneFive Garden Kurashiki | Okayama | Variable Rent | 1,725 | 2.5 |
| F-5 024 | Valie Hotel Hiroshima | Hiroshima | Variable Rent | 1,500 | 2.2 |
| F-6 026 | Washington Hotel Plaza Shimonoseki Eki Nishi | Yamaguchi | Fixed Rent | 1,080 | 1.6 |
| G-1 009 | The OneFive Fukuoka Tenjin | Fukuoka | Variable Rent | 1,380 | 2.0 |
| G-3 023 | Nest Hotel Kumamoto | Kumamoto | Variable Rent | 2,220 | 3.3 |
| Total 29 Hotels | | | | 67,703 | 100 |

[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). The assets to be acquired may include personal property.

[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.