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Hotel Sale (Valie Hotel Hiroshima)

Ichigo Hotel decided today to sell the Valie Hotel Hiroshima.

1. Sale Summary

Hotel No. Hotel Name	024 Valie Hotel Hiroshima
Hotel Type	Lodging-focused[1]
Date Built	August 1985
Form of Ownership	Trust beneficiary interest in real estate *(juekiken)*
Acquisition Date	July 19, 2019
Buyer	Third-Party Japanese Company
Broker	N/A
Sale Price[2]	JPY 1,785 million
Book Value[3]	JPY 1,507 million
Sale Price less Book Value	JPY 277 million
Gains on Sale[4]	JPY 233 million
Appraisal Value[5]	JPY 1,760 million
Contract Date	October 31, 2024
Transaction Date	December 2, 2024
Closing Date	December 2, 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 (July 2024 fiscal period-end), adjusted for expected capital expenditures and depreciation through the Transaction Date.

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

[5] Appraisal Value is as calculated by Tanizawa Real Estate Appraisal Co., Ltd. as of July 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 Valie Hotel Hiroshima is a lodging-focused hotel located a 15-minute walk from JR Hiroshima Station and a three-minute walk from Jogakuin-Mae Station on the Hiroshima Electric Railway. Since acquiring the hotel in July 2019, Ichigo Hotel has rebranded the hotel and conducted value-add initiatives to increase the hotel's value.

Considering the hotel's lease agreement ending on November 30, 2024, IIA was in the process of planning a large-scale renovation and renewal to drive earnings in spring 2025. While negotiating contract terms with the current hotel operator and other hotel operators, it received an offer from the buyer that values the hotel at a price greater than book value and appraisal value, reflecting the buyer's recognition of the hotel's convenient location near the Hiroshima Joint Government Building.

IIA decided that it is in the best interest of shareholders to sell the hotel after determining 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 c. JPY 230 million 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		Valie Hotel Hiroshima				
Form of Ownership		Trust beneficiary interest in real estate *(juekiken)*				
Address		7-25 Kamihatchobori, Naka-ku, Hiroshima				
Trustee		Mizuho Trust & Banking Co., Ltd.				
Period of Trust Contract		February 20, 2004 – July 31, 2029				
Land	Property Right	Freehold				
	Area	1,090.97 m^2				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 500%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure	Reinforced Concrete B1/8 Floors				
	Total Floor Area	4,332.50m^2				
	Date Built	August 2, 1985				
Number of Tenants		1 (as of September 30, 2024)				
Monthly Rental Income[1]		Minimum guaranteed rent: JPY 66,297,550 p.a. Variable rent: Monthly GOP – (Minimum guaranteed rent + percentage of monthly revenue + percentage of monthly GOP)				
Deposit		No lease or guarantee deposit				
Leasable Area		4,332.50m^2				
Leased Area		4,332.50m^2				
Occupancy		May 2024	Jun 2024	Jul 2024	Aug 2024	Sep 2024
		100%	100%	100%	100%	100%
Acquisition Price		JPY 1,500 million				
Appraisal	Appraiser	Tanizawa Real Estate Appraisal Co., Ltd.				
	Date	July 31, 2024				
	Value	JPY 1,760 million				

[1] Minimum guaranteed rent is the annual minimum guaranteed rent covering the 12-month period from August 2023 to July 2024.

Appraisal Details		
Hotel Name	Valie Hotel Hiroshima	
Appraisal Value	JPY 1,760,000,000	
Appraiser	Tanizawa Real Estate Appraisal Co., Ltd.	
Appraisal Date	July 31, 2024	
	Amount (JPY)	**Notes**
Appraisal Value	1,760,000,000	Based on a DCF valuation derived from expected net profit as a basis
Value by Direct Capitalization Method	1,790,000,000	
Income	122,774,520	Based on expected income
Maximum Obtainable Rental Income	123,106,186	
Vacancy Loss	331,666	
Expenses	18,606,411	
Administrative and Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	7,920,000	Based on engineering reports, reference to similar assets, and a 3:7 (Repair Expenses: Capital Expenditure) allocation
PM Fees	1,440,000	Based on the contractual amount
Leasing Brokerage Fees	57,486	
Taxes	8,657,700	Based on FY2024 tax reports
Insurance Premiums	408,450	Based on the insurance documents
Other Expenses	122,775	Based on reference to similar assets
Net Operating Income (NOI)	104,168,109	
Income on Investment of Deposits Received	31,508	Based on 1.0% investment yield for deposits
Capital Expenditures	18,480,000	Based on engineering reports, reference to similar assets, and a 3:7 (Repair Expenses: Capital Expenditure) allocation
FF&E Reserve	–	
Net Profit	85,719,617	
Cap Rate	4.8%	Based on transactions of similar assets located in nearby areas and similar locations
Value via DCF Method	1,740,000,000	
Discount Rate	4.9%	Based on the asset's location and adjusted for individual risks
Terminal Cap Rate	5.0%	Cap rate adjusted for uncertainties

	Amount (JPY)	Notes
Value via Cost Approach	1,690,000,000	
Land	64.2%	
Building	35.8%	
Notes		
None		

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 material capital, personnel, or transactional relationship with Ichigo Hotel or IIA. 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 IIA.

5. Forward Commitment

Because the Transaction Date is December 2, 2024, the sale of Valie Hotel Hiroshima (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. Settlement Method

Lump-sum payment on contract date

7. Use of Sale Proceeds

Ichigo Hotel will distribute the gains on sale of c. JPY 230 million 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.

8. Earnings Impact

The impact of the sale on the January 2025 fiscal period is detailed in today's release "Upward Earnings Forecast Revision for the January 2025 Fiscal Period." There is no change to the July 2025 fiscal period earnings forecast.

Appendix: Post-Sale Portfolio[1]

Hotel No.[2]	Hotel Name	Prefecture	Lease Terms	Acquisition Price[3] (JPY million)	% of Portfolio[4]
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.2
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.5
A-4 033	THE KNOT SAPPORO	Hokkaido	Variable Rent	4,900	7.4
B-1 020	Capsule Plus Yokohama	Kanagawa	Variable Rent	1,490	2.3
B-2 027	Smile Hotel Nagano	Nagano	Variable Rent	670	1.0
B-3 028	Hotel Sunshine Utsunomiya	Tochigi	Fixed Rent	2,200	3.3
B-4 030	HOTEL THE KNOT YOKOHAMA	Kanagawa	Variable Rent	4,800	7.3
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	5.9
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.1
C-4 025	The OneFive Tokyo Shibuya	Tokyo	Variable Rent	3,700	5.6
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	4.0
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	8.0
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.5
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	6.8
E-3 005	The OneFive Osaka Sakaisuji	Osaka	Variable Rent	1,630	2.5
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae	Hyogo	Variable Rent	1,490	2.3
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	11.5
E-6 029	Comfort Hotel Osaka Shinsaibashi (Ichigo Shinsaibashi Building)	Osaka	Variable Rent	3,700	5.6
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	2.6
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	2.1
G-3 023	Nest Hotel Kumamoto	Kumamoto	Variable Rent	2,220	3.4
Total 28 Hotels				66,203	100

[1] Excludes the Nest Hotel Sapporo Ekimae (A-1 001) scheduled to be sold on December 25, 2024. For details on the asset sale, please see the July 31, 2024 release "Hotel Sale (Nest Hotel Sapporo Ekimae)."

[2] 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

[3] 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.

[4] % 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.