Japan Excellent, Inc.

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Japan Excellent, Inc. (TSE: 8987)
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Notice Concerning Transfer of Domestic Real Estate Trust Beneficiary Rights and Lease Cancellation (Kowa Kawasaki Higashiguchi Building, Osaka Kogin Building (Land with Leasehold Interest))

Japan Excellent, Inc. (hereinafter "JEI") hereby announces that JEI made a decision today regarding transfer of domestic real estate trust beneficiary rights (hereinafter the "Transfer"), and lease cancellation as described below.

1. Summary of Transfer and Lease Cancellation

(1) Property Name	Kowa Kawasaki Higashiguchi Building	Osaka Kogin Building (Land with Leasehold Interest)	Total
(2) Property to be Transferred	Trust beneficiary rights in real estate		—
(3) Planned Transfer Value (Note 1) (Note 2)	¥9,250 million	¥3,050 million	¥12,300 million
(4) Book Value (Note 2) (Note 3)	¥10,925 million	¥1,865 million	¥12,790 million
(5) Difference Between Planned Transfer Value and Book Value (Note 2) (Note 4) (3)-(4)	-¥1,675 million	¥1,185 million	-¥490 million
(6) Lessee	Nippon Steel Kowa Real Estate Co., Ltd.		—
(7) Transferee	Please refer to "4. Details of Transferee" below.		—
(8) Use of Broker	None		—
(9) Date of Execution of Purchase Agreement (planned)	December 26, 2024		—
(10) Transfer Date (planned)	December 26, 2024		—
(11) Payment Date (planned)	December 26, 2024		—

(Note 1) Does not include fees related to the transfer, the JEI share of the real estate tax and city planning tax, the consumption tax or the local consumption tax.
(Note 2) Amounts are rounded down to the nearest million yen.
(Note 3) "Book Value" indicates the book value as of June 30, 2024.
(Note 4) These are reference figures calculated as the difference between transfer value and the book value as of June 30, 2024 and differ from gain (loss) on transfer in accounting.

Hereinafter, the above-mentioned properties are referred to individually as the "Property" and collectively as the "Two Properties."

2. Background of Transfer and Lease Cancellation

JEI considers it an important strategy to manage its portfolio from a medium- to long-term perspective. This may necessitate the sale or replacement of properties if there is a concern over deterioration in their future competitiveness or earnings power. Of the properties to be transferred, the Kowa Kawasaki Higashiguchi Building has a risk of tenant concentration due to the building being leased in its entirety, and is expected to require an increase in expenditure for work in future due to 36 years elapsing since it was built, and it was also continuing to incur unrealized losses. We had been considering selling the property, but had difficulty with the selection of a buyer because the land of the Property is leased land and the rights are complicated. As a result of consideration, a decision was made to utilize the sponsor support to transfer it to Nippon Steel Kowa Real Estate Co., Ltd., which is the core sponsor. Due to a loss on transfer being expected to arise as a result, it was decided to transfer the Osaka Kogin Building (Land with Leasehold Interest) to Nippon Steel Kowa Real Estate Co., Ltd., the land lessee, at a price exceeding the appraisal value at the end of the most recent fiscal period, and to use the gain on transfer to offset the loss on transfer of the Kowa Kawasaki Higashiguchi Building.

3. Details of Property to be Transferred and the Property Subject to Lease Cancellation

(A) Kowa Kawasaki Higashiguchi Building

Property Name		Kowa Kawasaki Higashiguchi Building (Property #: III-2)
Type of Specified Asset		Trust beneficiary rights in real estate
Trustee		Mizuho Trust & Banking Co., Ltd.
Trustee Period		June 27, 2006 - June 30, 2026
Location (Address)		1-53, Nisshin-cho, Kawasaki-ku, Kawasaki-shi, Kanagawa
Use (Note 1)		Office
Type of Ownership (Note 2)	Land	Leasehold rights
	Building	Ownership
Appraisal Value		¥9,230 million
Appraisal Date		December 1, 2024
Appraisal Organization		Japan Valuers Co., Ltd.
Lease Summary		
	Leasable Floor Space (Note 3)	18,612.72 m^2
	Leased Floor Space (Note 4)	18,612.72 m^2
	Total Number of Tenants	1

Monthly Rent (Note 5)	Not disclosed				
Leaseholds and Security Deposits (Note 5)	Not disclosed				
Occupancy Rates	June 30, 2023	December 31, 2023	June 30, 2024	November 30, 2024	
	100.0%	100.0%	100.0%	100.0%	

(Note 1) The descriptions of "Use" are based on information in the registration record.

(Note 2) "Type of Ownership" indicates the type of interest held by the trustee of the property to be transferred (A).

(Note 3) "Leasable Floor Space" is based on leasable floor space as of November 30, 2024 (excluding that pertaining to parking, warehouse and other attached buildings and facilities).

(Note 4) "Leased Floor Space" states the leased floor space indicated in the lease agreements with end tenants as of November 30, 2024 within the leasable floor space.

(Note 5) "Monthly Rent" and "Leaseholds and Security Deposits" are not disclosed because the consent of the end tenant has not been obtained.

(B) Osaka Kogin Building (Land with Leasehold Interest)

Property Name		Osaka Kogin Building (Land with Leasehold Interest) (Property #: II-3)			
Type of Specified Asset		Trust beneficiary rights in real estate			
Trustee		Mizuho Trust & Banking Co., Ltd.			
Trustee Period		October 29, 2004 - February 28, 2033			
Location (Address)		4-1-1 Koraibashi, Chuo-ku, Osaka-shi, Osaka			
Use		—			
Type of Ownership (Note 1)	Land	Ownership			
	Building	—			
Appraisal Value		¥3,040 million			
Appraisal Date		December 1, 2024			
Appraisal Organization		Japan Real Estate Institute			
Lease Summary					
Leasable Floor Space		3,158.45 m^2			
Leased Floor Space		3,158.45 m^2			
Total Number of Tenants (Note 2)		1			
Monthly Rent (Fixed) (Note 3)		¥6,733 thousand			
Leaseholds and Security Deposits		—			
Occupancy Rates		June 30, 2023	December 31, 2023	June 30, 2024	November 30, 2024
		100.0%	100.0%	100.0%	100.0%

(Note 1) Normal leasehold rights (rental rights) have been established for the Property with Mizuho Trust & Banking Co., Ltd. as the lessee of the land. The term of the land lease agreement is 30 years from February 5, 2013 to February 4, 2043, and it can be cancelled with notice in writing after February 5, 2023 (notice period of one year).

(Note 2) The number of tenants is counted as "1" based on the lease agreement for the leased land.

(Note 3) "Monthly Rent (Fixed)" consists of the above fixed rent and a variable rent (an amount corresponding to the total amount of fixed property tax, city planning tax and other taxes and public dues imposed on the Property).

4. Details of Transferee

Company Name	Nippon Steel Kowa Real Estate Co., Ltd.	
Location	1-8-1 Akasaka, Minato-ku, Tokyo	
Name and Title of Representative	Masahiro Miwa, President and CEO	
Capital	¥19,824 million (as of September 30, 2024)	
Net Assets	¥326,373 million (as of September 30, 2024)	
Total Assets	¥1,287,318 million (as of September 30, 2024)	
Main Business	Real Estate	
Established	March 24, 1997	
Major Shareholders	Nippon Steel Corporation ML Estate Company, Limited The Dai-ichi Life Insurance Company, Limited Nippon Life Insurance Company	
Relationships between JEI/JEAM and Transferee	Capital Relationship	As of June 30, 2024, the transferee holds 134,427 units of JEI's investment units (10.2% of the total number of outstanding investment units). The transferee also holds 4,860 shares of JEAM's shares (54.0% of the total number of outstanding shares) and falls under the category of "related party" as defined in the Act on Investment Trusts and Investment Corporations (the "Investment Trusts Act"). In addition, the transferee falls under the category of "sponsor company" under voluntary internal regulations for transactions with sponsor companies (the "Regulations for Transactions with Sponsor Companies") formulated by JEAM with the aim of eliminating potential conflicts of interest and thereby enabling it to perform efficient asset management for JEI.
	Personnel Relationship	As of June 30, 2024, seven JEAM officers and employees are seconded from the transferee.
	Business Relationship	JEI acquired "OSAKI BRIGHT TOWER/OSAKI BRIGHT PLAZA" from the transferee in the period ended June 2024. For details, please refer to the "Notice Concerning Acquisition of Domestic Real Estate Trust Beneficiary Rights (OSAKI BRIGHT TOWER/OSAKI BRIGHT PLAZA)" dated August 17, 2023.
	Status as a Related Party	The transferee is a related party of JEI. It is the parent company of JEAM.

5. Details of Brokerage

Not applicable

6. Conflicts of Interest of JEAM with regard to the Property to be Transferred

Nippon Steel Kowa Real Estate Co., Ltd., which is the transferee, falls under the category of "related party" as defined in the Investment Trusts Act and "sponsor company" in the Regulations for Transactions with Sponsor Companies. Upon execution of agreement for the property with said related party and sponsor company, JEAM, in compliance with said Regulations, has had the transaction approved at a meeting of its Compliance Committee, which includes outside experts, and deliberated and approved at a meeting of its Investment Committee.

7. Payment Method

Payment in full on the transfer date

8. Outlook

Please refer to the "Notice Concerning Revision of Operating Forecasts for the Fiscal Period Ending December 31, 2024" dated today for the impact of the Transfer on the forecasts of operating results for the fiscal period ending December 31, 2024 (from July 1, 2024, to December 31, 2024). Since the impact of the Transfer on the on the forecasts of operating results for the fiscal period ending June 30, 2025 is minimal, there is no revision to the forecast. Notice of the forecasts for the fiscal period ending June 30, 2025 and the fiscal period ending December 31, 2025 will be provided in the "Japan Excellent, Inc. Reports 37th Period Financial Results" scheduled to be published in mid-February 2025.

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9. Appraisal Summary

(1) Property to be Transferred (A)

Property Name	Kowa Kawasaki Higashiguchi Building
Appraisal Value	¥9,230 million
Appraisal Organization	Japan Valuers Co., Ltd.
Appraisal Date	December 1, 2024
Value Type	Market value

(In thousands of yen (Note 1))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	9,230,000	
Direct Capitalization Value	9,100,000	
Operating Revenue	975,232	
Gross Potential Revenue	1,009,756	Calculated by taking into account current rents and market rents
Vacancy Loss, etc.	34,523	Calculated by taking into account current occupancy rate, market occupancy levels, etc.
Operating Expenses	429,273	
Property Management Expenses Property Management Fees (Note 2)	147,849	Property management expenses: Assessed based on past results Property management fees: Calculated based on the rate schedule in the memorandum of understanding
Utilities	104,859	Assessed based on past results
Repair Costs	39,672	Calculated using the 12-year average of repair costs in the engineering report
Advertisement for Leasing, etc.	20,338	New: Calculated using the equivalent of 1 month's rent Renewal: Assessed by assuming renewal costs incurred every two years
Tax and Public Dues	66,933	Assessed based on the actual amounts for fiscal 2024
Insurance	2,811	Calculated based on past actual amounts
Land Rent	43,085	Calculated based on past actual amounts
Other expenses for rental operation	3,722	Calculated based on past actual amounts, etc.
Net Operating Income	545,959	
Interest Income	5,371	Assessed profit through management by setting the management yield at 1.0%
Capital Expenditures	123,479	Calculated using the 12-year average of renewal costs in the engineering report
Net Cash Flow	427,851	
Cap Rate	4.7%	Assessed by referring to examples of yield of similar properties taking into account the discount rate, the outlook for net cash flow and projected fluctuations in sale prices
Discounted Cash Flow Value	9,350,000	
Discount Rate	4.3%	Assessed by using a combination of the method taking into account the individual characteristics of the property with yield on financial assets and the method using a comparison with examples of transactions for similar properties, and referring to the results of the Japanese Real Estate Investor Survey
Terminal Cap Rate	4.9%	Assessed by taking into account increasing uncertainty about the revenue forecast in the period after the analysis period of the property is over in comparison with the current revenue forecast, and possibility of an increase in capital expenditures due to the aged property
Cost Approach Value	11,800,000	
Land Value	90.3%	
Building Value	9.7%	

Other matters noted by the appraiser in conducting appraisal	As a result of comprehensive consideration, the income approach value was found to be appropriate and used to determine the appraisal value.

(Note 1) Amounts are rounded down to the nearest thousand yen.

(Note 2) Through the individual reporting of maintenance and management fee and property management fee standards, other transactions involving the companies entrusted with building management and property management may be impacted, efficient performance of duties by JEI may be impeded, or investor profits may be negatively impacted. Therefore, maintenance and management fees and property management fees are indicated as a combined figure.

(2) Property to be Transferred (B)

Property Name	Osaka Kogin Building (Land with Leasehold Interest)
Appraisal Value	¥3,040 million
Appraisal Organization	Japan Real Estate Institute
Appraisal Date	December 1, 2024
Value Type	Limited market value

(In thousands of yen (Note 1))

Appraisal Item	Appraisal Value	Remarks, etc.
A. Vacant Land Value	25,300,000	Valuation by associating the income approach value to the comparable price based on the sales comparison approach.
Income Approach Value	25,200,000	
Operating Revenue	1,863,834	
Gross Potential Revenue	1,972,920	Calculated by taking into account current rents and market rents.
Vacancy Loss, etc.	109,086	Assessed based on the assumption of constructing and leasing a building for rent.
Operating Expenses	511,320	
Property Management Expenses Property Management Fees	193,129	Assessed based on the assumption of constructing and leasing a building for rent.
Utilities	34,304	Assessed based on the assumption of constructing and leasing a building for rent.
Repair Costs	16,320	Assessed based on the assumed replacement cost of the assumed building
Advertisement for Leasing, etc.	15,533	Assessed considering 1 month of rent for new tenants and future rent, etc. for renewals.
Taxes	245,234	Assessed based on the actual results for fiscal 2023.
Insurance	6,800	Assessed based on the assumed replacement cost of the assumed building.
Other expenses for rental operation	0	Calculated based on past actual amounts, etc.
Net Operating Income	1,327,235	
Interest Income	15,361	Assessed profit through management by setting the management yield at 1.0%
Capital Expenditures	38,080	Assessed based on the assumed replacement cost of the assumed building.
Net Cash Flow	1,329,795	
Cap Rate	3.0%	Assessed by referring to examples of yield of similar properties taking into account the discount rate, the outlook for net cash flow and projected fluctuations in sale prices.
Comparable price	25,300,000	
B. Leasehold Rights Value	22,260,000	Assessed by multiplying the vacant land value by the percentage of leasehold rights.
C. Value Based on the Leasehold Rights Deduction Method (A-B)	3,040,000	Estimated by deducting the leasehold rights value from the vacant land value.

Other matters noted by the appraiser in conducting appraisal	The value based on the leasehold rights deduction method is obtained by focusing on the fact that in a transaction between parties to land with leasehold interest, the transaction price is formed by deducting the leasehold rights value from the vacant land value, and is the value that allocates the entire incremental value of taking full ownership.

(Note 1) Amounts are rounded down to the nearest thousand yen.

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Appendix:

Appendix: Portfolio Overview after the Transaction

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Appendix: Portfolio Overview (Planned) as of June 30, 2025 (Note 1)

Area	Property #	Property Name	Date of Acquisition	(Planned) Acquisition Price (millions of yen) (Note 2)	Investment Ratio (%) (Note 3)	Investment Ratio by Area (%) (Note 3)
Area I Tokyo's 6 Central Wards (Note 4)	I-1	Omori Bellport D	June 29, 2006	22,552	8.2	63.0
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.4	
	I-3	JEI Hamamatsucho Building	June 29, 2006	8,350	3.0	
	I-8	AKASAKA INTERCITY	October 26, 2007	17,857	6.5	
			February 5, 2013	10,289	3.7	
			Total	28,146	10.2	
	I-10	Daiba Garden City Building	February 4, 2011	11,000	4.0	
	I-12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.6	
			February 4, 2014	12,000	4.3	
			Total	19,080	6.9	
	I-14	Kowa Nishi-Shimbashi Building	March 28, 2013	3,931	1.4	
			August 1, 2017	7,500	2.7	
			Total	11,431	4.1	
	I-15	Mansard Daikanyama	July 1, 2016	11,420	4.1	
	I-16	AKASAKA INTERCITY AIR	July 2, 2018	6,590	2.4	
	I-17	BIZCORE AKASAKA-MITSUKE	October 1, 2019	6,200	2.2	
	I-18	BIZCORE JIMBOCHO	June 25, 2021	10,200	3.7	
	I-19	BIZCORE SHIBUYA	August 1, 2022	6,640	2.4	
	I-20	BIZCORE TSUKIJI	July 4, 2023	9,800	3.5	
	I-21	OSAKI BRIGHT TOWER/OSAKI BRIGHT PLAZA	April 26, 2024	13,100	4.7	
Area II Central Osaka, Central Nagoya, Central Fukuoka (Note 5)	II-1	NHK Nagoya Housou-Center Building	June 27, 2006	4,300	1.6	8.2
			March 24, 2014	1,310	0.5	
			Total	5,610	2.0	
	II-4	GRAND FRONT OSAKA (Umekita Plaza, South Building)	February 3, 2020	4,868	1.8	
			December 8, 2023	4,650	1.7	
			Total	9,518	3.4	
	II-5	GRAND FRONT OSAKA (North Building)	February 3, 2020	3,982	1.4	
			December 8, 2023	3,650	1.3	
			Total	7,632	2.8	
Area III Tokyo (excl. Area I) and areas surrounding Tokyo (Kanagawa, Saitama, and Chiba prefectures)	III-1	Musashikosugi Tower Place	June 27, 2006	13,890	5.0	19.9
	III-5	Kawasaki Nisshincho Building	June 27, 2006	3,775	1.4	
			November 30, 2006	130	0.0	
			October 17, 2008	300	0.1	
			April 17, 2013	520	0.2	
			Total	4,725	1.7	
	III-7	JEI Ryogoku Building	June 27, 2006	2,550	0.9	
	III-11	Core City Tachikawa	February 5, 2013	6,500	2.4	
	III-12	Nisseki Yokohama Building	April 1, 2015	24,500	8.9	
	III-13	Yokohama Bentendori Dai-ichi Seimei Building	June 15, 2018	640	0.2	
	III-14	Shinyokohama Arena Dori Bldg.	March 31, 2023	2,077	0.8	
Area IV Osaka, Nagoya and Fukuoka (excl. Area II) and other government-decreed cities, etc.	IV-3	JEI Hiroshima Hacchobori Building	May 22, 2012	2,760	1.0	8.9
	IV-4	SE Sapporo Building	March 1, 2013	5,500	2.0	
	IV-5	Aoba-dori Plaza	February 4, 2014	2,120	0.8	
	IV-6	Daiwa Minami-morimachi Building	February 4, 2014	4,410	1.6	
	IV-7	JEI Naha Building	December 7, 2015	1,380	0.5	
	IV-8	Hiroshima Dai-ichi Seimei OS Building	June 15, 2018	2,780	1.0	
	IV-9	Senshin Building	November 13, 2019	1,580	0.6	
	IV-10	Sapporo Otemachi Building	December 1, 2021	4,069	1.5	
Total				276,201	100.0	100.0

(Note 1) In addition to the properties held as of today (December 24, 2024), this assumes the transfer of JEI Hongo Building (for details, please refer to “Notice Concerning Transfer of Domestic Real Estate Trust Beneficiary Right (JEI Hongo Building)” dated February 19, 2024) and the transfer of the Two Properties. However, in practice, changes may occur due to changes in investment assets.

(Note 2) “(Planned) Acquisition Price” is the acquisition value stated in the purchase agreement of each property (excluding consumption taxes). Amounts are rounded down to the nearest million yen.

(Note 3) “Investment Ratio” and “Investment Ratio by Area” are rounded to the first decimal place.

(Note 4) “Tokyo’s 6 Central Wards” are Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya wards.

(Note 5) “Central Osaka” refers to the Umeda, Dojima, Nakanoshima, Yodoyabashi, and Honmachi districts. “Central Nagoya” refers to the Meieki, Fushimi, and Sakae districts, and “Central Fukuoka” refers to the Tenjin and Hakata Terminal Peripheral districts.