

[Provisional Translation Only]

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Issuer

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Hotel Acquisition (Valie Hotel Hiroshima)

Ichigo Hotel decided today to acquire the Valie Hotel Hiroshima in central Hiroshima.

1. Acquisition Summary

Hotel Name ¹	Valie Hotel Hiroshima
Hotel Number ²	F-5 024
Date Built	August 1985
Form of Ownership	Trust beneficiary interest in real estate (<i>juekiken</i>)
Appraisal Value ³	JPY 1,730,000,000
Acquisition Price ⁴	JPY 1,500,000,000
Seller ⁵	Domestic real estate company
Contract Date	July 17, 2019
Closing Date	July 19, 2019
Financing Method	Cash-on-hand and loan ⁶
Settlement Method	Lump-sum payment
Other Terms	Ichigo Estate, which entered a purchase and sales agreement with the seller to acquire the hotel, has transferred its rights as the buyer of the hotel to Ichigo Hotel pursuant to a transfer of rights agreement.

¹ Ichigo Hotel plans to rebrand and reopen the hotel as Valie Hotel Hiroshima in September 2019.

² The initial letter “F” is Ichigo Hotel’s region code for where the hotel is located, in this case the Chugoku/Shikoku region in western Japan. Please see page 10 for region code details.

³ Appraisal Value is calculated by Tanizawa Sogo Appraisal as of April 1, 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.

⁴ Acquisition Price excludes incidental expenses such as fees and property, city planning, and consumption taxes.

⁵ The seller, a domestic real estate company, did not provide consent to disclose its name.

⁶ For financing details, please refer to today’s release “New Loan and Interest Rate Swap.”

2. Acquisition Rationale

Ichigo Hotel continues to execute on its strategy to grow earnings and dividends for its shareholders.

As part of that strategy, Ichigo Hotel is today acquiring the Valie Hotel Hiroshima in central Hiroshima, an area with strong inbound tourism growth. The acquisition is at a 13% discount to appraisal value, and is forecast to increase Ichigo Hotel’s annual NOI by JPY 117 million. Ichigo Hotel’s forecast post-acquisition LTV is 43.6%.¹

The Valie Hotel Hiroshima is a 15-minute walk from the JR Hiroshima Station, the largest train station in the Chugoku region of western Japan, and a three-minute walk from the Jogakuin-mae Station on the Hiroden Tram line. It is located in downtown Hiroshima in an area with government buildings and offices, and offers convenient access to the Hatchobori area with offices, retail stores, and restaurants, as well as tourist spots such as the Hiroshima Peace Memorial. The strong location enables the hotel to capture stable business demand as well as leisure demand.

Tourist demand in Hiroshima has been firm, with inbound demand forecast to continue increasing due to the popularity of Hiroshima’s historical and cultural attractions.

Ichigo Hotel expects to carry out renovations to increase guest convenience, and rebrand and reopen the hotel as Valie Hotel Hiroshima in September 2019. In order to capture greater leisure demand, Ichigo Hotel is converting single-bed rooms, the most common room type in the hotel, into double rooms, thus increasing the guest capacity of all rooms to at least two guests.

The hotel’s operator, The Court, operates 13 hotels across Japan, including Ichigo Hotel’s Valie Hotel Tenjin and Court Hotel Kurashiki. Ichigo Hotel has a variable-rent lease with The Court, which will allow Ichigo Hotel to benefit from earnings growth from increased inbound tourism.

¹ Post-Loan LTV = (Post-Loan Total Interest Bearing Liabilities) / (January 2019 Total Assets – January 2019 Total Dividends + Acquisition Price of Nest Hotel Kumamoto (acquired on April 25, 2019) + Acquisition Price of Valie Hotel Hiroshima)

3. Description and Location of the Valie Hotel Hiroshima

The Valie Hotel Hiroshima caters to business, leisure, and inbound demand due to its central Hiroshima location and convenient access to government offices, shopping districts, and the Hiroshima Peace Memorial.

The hotel is located near the JR Hiroshima Station and the Hiroshima Bus Center, both of which offer easy access to Hiroshima Airport.

Ichigo Hotel is converting single-bed rooms, currently the most common room type in the hotel, into double rooms to increase the capacity of all rooms to at least two guests. This will allow the hotel to more flexibly accommodate the diverse needs of travelers.



Hotel Details						
Legal Form of Asset		Trust beneficiary interest in real estate (<i>juekiken</i>)				
Trustee		Mizuho Trust & Banking Co., Ltd.				
Period of Trust Contract		February 20, 2004 – July 31, 2029 (Expected)				
Location		7-25 Kamihatchobori, Naka-ku, Hiroshima				
Land	Property Right	Freehold				
	Area	1,091.58m ²				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	100% 500%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure ¹	Reinforced Concrete B1F/8F				
	Total Floor Area	4,473.91m ²				
	Date Built	August 2, 1985				
Appraiser		Tanizawa Sogo Appraisal Co., Ltd.				
Appraisal Value		JPY 1,730,000,000				
Appraisal Date		April 1, 2019				
Value by Direct Capitalization Method		JPY 1,780,000,000				
Number of Guest Rooms		171				
Architect ²		Taisei Corporation, Hiroshima Branch, First-Class Registered Architects Office				
Builder ²		Taisei Corporation, Hiroshima Branch				
Structural Designer ²		Taisei Corporation, First-Class Registered Architects Office				
Inspection Agency ²		Hiroshima City				
PML (Assessor)		4.46% (Sompo Risk Management & Health Care Inc.)				
Collateral		None				
Lease Details						
Tenant Overview						
Number of Tenants		1				
Rental Income ³		Minimum Guaranteed Rent*: JPY 32,655,612 p.a. Variable Rent: Monthly GOP (Gross Operating Profit) – (Monthly Minimum Guaranteed Rent + Percentage of Monthly GOP) * Minimum Guaranteed Rent from September 1, 2019, the forecast reopening date, to August 31, 2020				
Deposit		No lease or guarantee deposit				
Leasable Area		4,473.91m ²				
Leased Area		4,473.91m ²				
Occupancy		February 2019	March 2019	April 2019	May 2019	June 2019
		100%	100%	100%	100%	–

Property Management Company	Uniho Co., Ltd.
Master Lease Company	Ichigo Hotel REIT Investment Corporation
Master Lease Type	Pass-through
Appraisal NOI Yield ⁴	7.1%
Post-Depreciation NOI Yield ⁵	4.5%
Special Items	
<p>A report by Earth-Appraisal Co., Ltd. indicates that although asbestos was detected in the paint coating used for the interior wall on the first floor, there is no risk of the asbestos becoming airborne during normal use given that there are no significant damages and the coating is in good condition. Ichigo Hotel expects to incur c. JPY 5 million in expenses to remove the asbestos as part of future building renovations, which will be booked as a liability for asset retirement obligation for the July 2019 fiscal period.</p>	

¹ Building Structure refers to the structure described in the real estate registry.

² Names of the architect, builder, structural designer, and inspection agency are those as of when the building was built.

³ Rental Income includes all rent from hotel facilities. Ichigo Hotel expects to start booking Rental Income for the Valie Hotel Hiroshima in September 2019 at the hotel's reopening.

⁴ Appraisal NOI Yield = Appraisal NOI (Net Operating Income) in the real estate appraisal report divided by the Acquisition Price. This figure is independently calculated by IIA based upon the above data and is therefore not in the real estate appraisal report itself.

⁵ Post-Depreciation NOI Yield = Appraisal NOI in the real estate appraisal report minus Depreciation, divided by the Acquisition Price. Depreciation is independently calculated by IIA using the straight-line method, and the Post-Depreciation NOI Yield is calculated by IIA based upon the above data and are therefore not in the real estate appraisal report itself.

Appraisal Details		
Hotel Name	Valie Hotel Hiroshima	
Appraisal Value	JPY 1,730,000,000	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	April 1, 2019	
	Amount	Note
Appraisal Value	JPY 1,730,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation and DCF valuation
Value by Direct Capitalization Method	JPY 1,780,000,000	
Income	JPY 124,200,000	
Maximum Obtainable Rental Income	JPY 124,200,000	
Vacancy Loss	–	
Expenses	JPY 18,427,930	
Administrative & Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	JPY 7,920,000	Based on the average of the past 12 years of engineering reports and past expenses at similar assets
PM Fee	JPY 1,440,000	Based on estimates
Leasing Brokerage Fees	–	
Taxes	JPY 8,420,600	Based on FY2018 actual amounts (including depreciable asset tax)
Insurance Premiums	JPY 274,730	Based on insurance estimates
Other Expenses	JPY 372,600	0.3% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	JPY 105,772,070	
Income on Investment of Deposits Received	–	
Capital Expenditure	JPY 18,480,000	Based on the average of the past 12 years of engineering reports and past expenditures at similar assets
Net Profit	JPY 87,292,070	
Cap Rate	4.9%	Based on transactions of similar assets and comprehensive assessment of the asset's location, its individual characteristics, and property rights

	Value via DCF Method	JPY 1,710,000,000	
	Discount Rate	5.0%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
	Terminal Cap Rate	5.1%	Based upon risk-adjusted NOI
	Value via Cost Approach	JPY 1,550,000,000	
	Land	56.2%	
	Building	43.8%	Sum of building and FF&E values divided by sum of building, FF&E, and land values
Notes			
Expenses to remove the asbestos are reflected in the appraisal calculation.			

4. Seller Profile

Name	Domestic real estate company
Relationship with Ichigo Hotel or IIA	The seller does not have any capital, personnel, or business relationship of note with Ichigo Hotel 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. Ownership History

The Valie Hotel Hiroshima was not acquired from a related-party seller.

6. Broker Profile

N/A

7. Related-Party Transaction

Because Ichigo Hotel did not have sufficient time to complete its internal processes and enter a sales and purchase agreement with the seller, Ichigo Hotel asked Ichigo Estate, a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law, to enter on Ichigo Hotel's behalf a sales and purchase agreement with the seller. Ichigo Estate then agreed to transfer its rights as the buyer of the hotel to Ichigo Hotel after the acquisition.

Ichigo Estate thus entered a sales and purchase agreement with the seller as requested by Ichigo Hotel, and agreed to transfer its rights as the buyer to Ichigo Hotel. Ichigo Hotel will pay JPY 15 million to Ichigo Estate as a compensation for its role.

The compensation was determined to be appropriate upon consideration of 1) the benefits gained by Ichigo Hotel in securing the acquisition opportunity; 2) the risks borne by Ichigo Estate to enter the sales and purchase agreement before transferring its rights as the buyer; 3) the expenses incurred by Ichigo Estate in entering both agreements; 4) a comparison with the expected profitability and costs that would have resulted from using an alternative method of acquisition such as a bridge fund; and 5) the fact that hotel's appraisal value of JPY 1.73 billion is greater than the sum of the acquisition price and the compensation amount.

Because Ichigo Estate, which entered a sales and purchase agreement with the seller, is a related party as defined in the Ordinance of the Investment Trust and Investment Corporation Law and IIA's internal rules, Ichigo Hotel obtained prior approval from IIA's Board of Directors as a related-party transaction.

8. Acquisition Schedule

Contract Date	July 17, 2019
Acquisition and Settlement Date	July 19, 2019 (Expected)

9. Earnings Outlook

The impact of the acquisition of the Valie Hotel Hiroshima on Ichigo Hotel's July 2019 and January 2020 fiscal period earnings is minimal because the acquisition date is close to the July 2019 period-end and because the earnings contribution is largely offset by the hotel renovation, rebranding, and reopening costs in the January 2020 period. While the forecasts announced on March 14, 2019 are therefore unchanged, Ichigo Hotel believes the acquisition will contribute to long-term growth in earnings and shareholder value.

Appendix A: Engineering Report Summary

Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	April 2019
Short-Term Repair Expenses ¹	–
Long-Term Repair Expenses ²	JPY 286,631,000
Current Replacement Cost	JPY 1,324,800,000

¹ Short-Term Repair Expenses are defined as repair expenses considered necessary 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 hotel within twelve years from the time of inspection.

Appendix B: Post-Acquisition Portfolio

Hotel No.¹	Hotel Name	Prefecture	Lease Terms	Acquisition Price² (JPY million)	% of Portfolio³
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable Rent	2,160	4.0
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.7
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	2.7
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	7.2
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.5
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	2.8
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	4.9
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	9.7
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	8.2
E-2 002	Hotel Vista Premio Kyoto	Kyoto	Variable Rent	3,600	6.6
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.0
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae	Hyogo	Variable Rent	1,490	2.7
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	13.9
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.2
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.0
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.3
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.2
F-5 024	Valie Hotel Hiroshima	Hiroshima	Variable Rent	1,500	2.8
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.5
G-2 013	Nest Hotel Naha	Okinawa	Variable Rent	3,750	6.9
G-3 023	Nest Hotel Kumamoto	Kumamoto	Variable Rent	2,220	4.1
Total 23 Hotels				54,483	100.0

¹ The initial letter (A, B, etc.) is a region code which identifies the area in which the hotel is located.

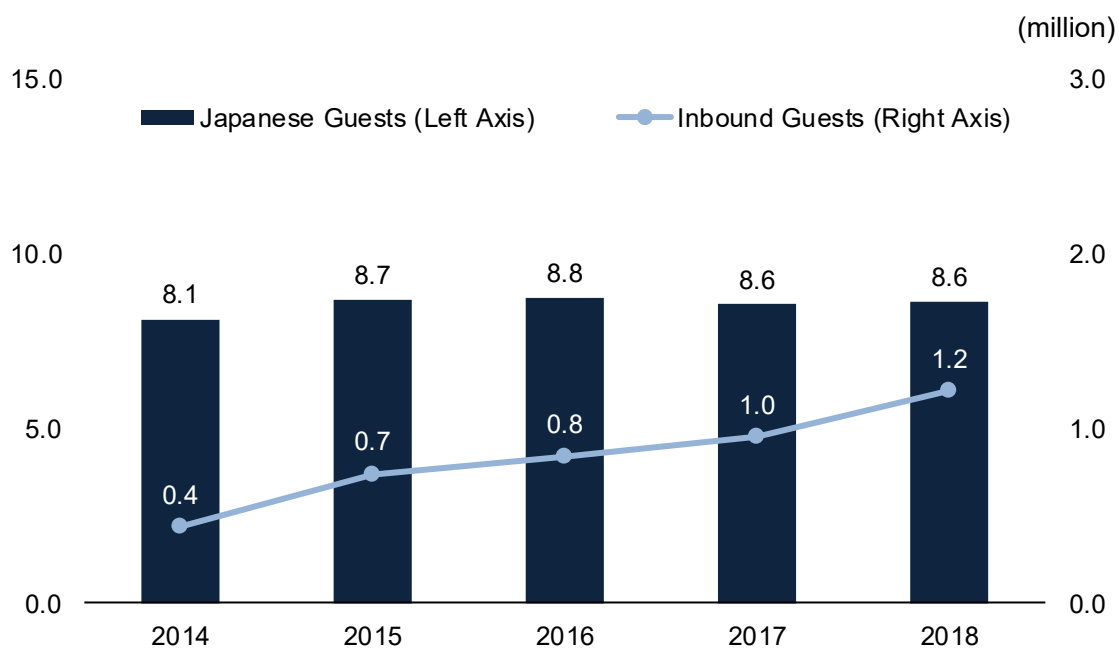
Code	Region	Prefectures
A	Hokkaido/Tohoku	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
B	Kanto	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Yamanashi, Nagano, Niigata
C	Tokyo	Tokyo
D	Hokuriku/Tokai	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, Mie
E	Kinki	Osaka, Hyogo, Kyoto, Shiga, 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).

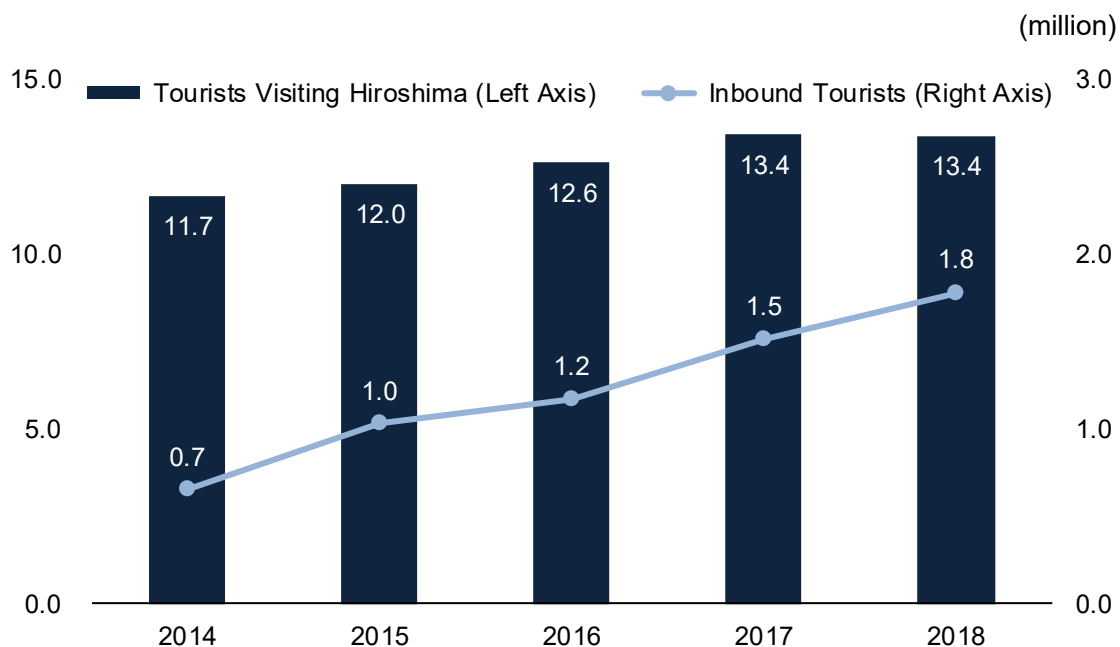
³ % of Portfolio is the Acquisition Price of each hotel as a percentage of the Total Acquisition Price for the portfolio, rounded to the nearest tenth.

Annual Hotel Guests in Hiroshima Prefecture



Note: Data prepared by IIA based on the Japan Tourism Agency’s “Statistical Survey of Travelers,” 2014 – 2018.

Annual Tourists Visiting Hiroshima City



Note: Data prepared by IIA based on Hiroshima City’s “Number of Tourists Visiting Hiroshima City in 2018.”