

[Provisional Translation Only]

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Issuer

Ichigo Hotel REIT Investment Corporation (“Ichigo Hotel,” 3463)

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Asset Management Company

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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.	004
Hotel Name	Nest Hotel Sapporo Ekimae
Hotel Type	Lodging-focused ¹
Date Built	June 1984
Form of Ownership	Trust beneficiary interest in real estate (<i>juekiken</i>)
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 (<i>juekiken</i>)				
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 Floor Area Ratio	80% 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. 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 Price² (JPY million)	% of Portfolio³
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.