

[Provisional Translation Only]

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REIT Issuer

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Asset Management Company

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Hotel Sale (Smile Hotel Asakusa)

Ichigo Investment Advisors (“IIA”), the asset management company of Ichigo Hotel, decided today to sell Smile Hotel Asakusa.

The sale price of Smile Hotel Asakusa is 1.4X book value and 1.3X appraisal value, generating gains on sale of c. JPY 690 million in the January 2019 fiscal period.

1. Sale Summary

Hotel Name	Smile Hotel Asakusa
Hotel No.	C-2 014
Hotel Type	Stay-Only
Date Built	September 22, 1992
Form of Ownership	Trust beneficiary interest in real estate (<i>juekiken</i>)
Acquisition Date	August 17, 2016
Appraisal Value ¹	JPY 2,130 million
Sale Price ²	JPY 2,700 million
Book Value ³	JPY 1,912 million
Gains on Sale ⁴	c. JPY 690 million
Contract Date	April 20, 2018
Transaction Date	August 1, 2018
Closing Date	August 1, 2018
Transaction Method	Sale of trust beneficiary interest in real estate

¹ Appraisal Value is as calculated by Daiwa Real Estate Appraisal Co., Ltd. as of January 31, 2018, and is compliant with the appraisal guidelines of IIA as well as the rules of The Investment Trusts Association, Japan.

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 2018 fiscal period-end), adjusted for expected capital expenditures and depreciation through the Transaction Date.

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

2. Sale Rationale

Ichigo Hotel is committed to growing value for its shareholders, and consistent with this commitment was Japan's second J-REIT to conduct a share buyback in October 2017.

Since acquiring Smile Hotel Asakusa, Ichigo Hotel has worked in partnership with the hotel operator to increase the hotel's value. Having received an offer from a buyer that values the hotel at 1.4X book value and 1.3X appraisal value, Ichigo Hotel has decided that it is in the best interest of shareholders to sell the hotel and deploy the gains on sale towards future growth investments that will further grow shareholder value.

In negotiation with the buyer, the closing date has been set on August 1, 2018, which is 3.5 months from the contract date. The buyer has completed due diligence and will pay 10% of the sale price on the contract date, so there is minimal settlement risk. The August 1 closing date will provide time for Ichigo Hotel to transfer operational know-how to the buyer to ensure a smooth ownership transition and review potential growth investments to grow shareholder value using the sale proceeds.

As a result of today's sale, Ichigo Hotel's January 2019 fiscal period net income is forecast to increase by c. JPY 564 million (+70.0%).

3. Hotel Overview

Hotel Overview						
Hotel Name		Smile Hotel Asakusa				
Form of Ownership		Trust beneficiary interest in real estate (<i>juekiken</i>)				
Address		6-35-8 Asakusa, Taito-ku, Tokyo				
Land	Property Right	Freehold				
	Area	361.38m ²				
	Zoning	Retail				
	Coverage Ratio Floor Area Ratio	80% 500%				
Building	Property Right	Freehold				
	Use	Hotel, retail				
	Structure	SRC ² 10 Floors				
	Total Floor Area	1,793.43m ²				
	Date Built	September 22, 1992				
Number of Tenants		1 (as of January 31, 2018)				
Monthly Rental Income ¹		Minimum guaranteed rent: JPY 31,316,680 p.a. Variable rent: Monthly GOP – (Minimum guaranteed rent + percentage of monthly revenue + percentage of monthly GOP)				
Deposit		No lease deposit, no guarantee deposit				
Leasable Area		1,793.43m ²				
Leased Area		1,793.43m ²				
Occupancy		Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018
		100%	100%	100%	100%	100%
Acquisition Price		JPY 1,920 million				
Appraisal	Appraiser	Daiwa Real Estate Appraisal Co., Ltd.				
	Date	January 31, 2018				
	Value	JPY 2,130 million				

¹ Minimum guaranteed rent is the annual minimum guaranteed rent covering the 12-month period from February 2017 to January 2018.

² SRC = Steel-Reinforced Concrete

Appraisal Details		
Hotel Name	Smile Hotel Asakusa	
Appraisal Value	JPY 2,130 million	
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	
Appraisal Date	January 31, 2018	
	Amount (JPY)	Notes
Appraisal Value	2,130,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation
Value by Direct Capitalization Method	2,160,000,000	
Income	107,772,000	
Maximum Obtainable Rental Income	107,772,000	
Vacancy Loss	–	
Expenses	8,242,767	
Administrative and Maintenance Expenses	–	Borne by tenant
Utility Expenses	–	Borne by tenant
Repair Expenses	1,137,417	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	4,714,600	Based on FY2017 actual amounts (including depreciable asset tax)
Insurance Premiums	113,030	Based on the actual amounts
Other Expenses	1,077,720	1.0% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	99,529,233	
Income on Investment of Deposits Received	–	None, pursuant to contractual terms
Capital Expenditures	11,061,735	Based on average renewal expense of the past 12 years in engineering reports
Net Profit	88,467,498	
Cap Rate	4.1%	Based on transactions of similar assets and a comprehensive assessment of the asset's location, its individual characteristics, and market trends
Value via DCF Method	2,120,000,000	
Discount Rate	3.9%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
Terminal Cap Rate	4.3%	Based on risk-adjusted NOI

	Amount (JPY)	Notes
Value via Cost Approach	557,000,000	
Land	66.5%	
Building	33.5%	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	The buyer, a Japanese SPC, did not provide consent to disclose its name.
Relationship with Ichigo Hotel or IIA	The buyer does not have any capital, personnel, or business relationship of note with Ichigo Hotel or IIA. In addition, the buyer is not an interested 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. Broker Profile

Name	Tokyu Livable, Inc.
Address	1-9-5 Dogenzaka, Shibuya-ku, Tokyo
Representative	Shinji Sakaki, President
Principal Businesses	Brokerage, sale, and consigned sale of real estate
Capital	JPY 1,396,300,000
Establishment Date	March 10, 1972
Relationship with Ichigo Hotel or IIA	The broker does not have any capital, personnel, or business relationship of note with Ichigo Hotel or IIA. In addition, the broker is not an interested party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law or the internal rules of the Asset Management Company.
Brokerage Fee	The broker did not provide consent to disclose the fee.

6. Forward Commitment

Because the Transaction Date is August 1, 2018, the sale of Smile Hotel Asakusa (the “Sale”) constitutes a “forward commitment”¹ by Ichigo Hotel as stipulated in the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators” by the Financial Services Agency.

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 20% of the purchase price as penalty.

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

¹ Refers to a post-dated purchase and sales agreement under which payment and property delivery shall be made at least 1 month after the conclusion of the agreement, or any other agreement similar thereto.

7. Settlement Method

JPY 270 million payment (10% of the sale price) on contract date with the remainder fully paid on closing date

8. Use of Sale Proceeds

Ichigo Hotel will retain the sale proceeds as cash-on-hand for future use, including asset acquisitions and value-add capex.

9. Earnings Outlook

The sale is forecast to generate gains on sale of c. JPY 690 million in the January 2019 fiscal period. Ichigo Hotel will distribute 100% of this January 2019 net income as a dividend to its shareholders, including all of the profits on this sale, and will continue to work to maximize shareholder value.

Because the closing date is August 1, 2018, the sale does not impact the July 2018 fiscal period earnings forecast. The impact of the sale on the January 2019 fiscal period is detailed in today’s announcement “Earnings Forecast Revision for the January 2019 Fiscal Period.”

Post-Sale Portfolio

Hotel No. ¹	Hotel Name	Prefecture	Lease Terms	Acquisition Price ² (JPY million)	% of Portfolio ³
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable	2,160	4.4
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable	1,450	3.0
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed	1,490	3.0
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable	3,910	8.0
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed	1,360	2.8
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed	1,550	3.2
D-2 003	Hotel Wing International Nagoya	Aichi	Variable	2,670	5.4
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed	5,308	10.8
D-4 019	Comfort Hotel Suzuka	Mie	Fixed	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable	4,480	9.1
E-2 002	Hotel Vista Premio Kyoto	Kyoto	Variable	3,600	7.3
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable	1,630	3.3
E-4 007	Hotel Suave Kobe Asuta	Hyogo	Fixed ⁴	1,490	3.0
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable	7,600	15.5
F-1 017	Comfort Hotel Okayama	Okayama	Fixed	1,200	2.4
F-2 015	Nest Hotel Matsuyama	Ehime	Variable	1,610	3.3
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed	1,800	3.7
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable	1,380	2.8
G-2 013	Nest Hotel Naha	Okinawa	Variable	3,750	7.6
Total 20 Hotels				49,038	100.0

¹ The initial letter (A, B, etc.) is a regional 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.

⁴ While Hotel Suave Kobe Asuta's lease contract includes a variable rent clause, it has never been triggered. Because Ichigo Hotel does not anticipate receiving variable rent at this hotel, it has been classified as a fixed rent hotel.