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REIT Issuer

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## **Hotel Sale (Hotel Vista Premio Kyoto)**

Ichigo Hotel decided today to sell Hotel Vista Premio Kyoto for JPY 4.5 billion. The sale is being executed at 1.3X book value and 1.2X appraisal value, generating gains on sale of c. JPY 660 million in the January 2020 fiscal period.

### 1. Sale Summary

Hotel Name	Hotel Vista Premio Kyoto
Hotel No.	E-2 002
Hotel Type	Stay-Only
Date Built	June 2008
Form of Ownership	Trust beneficiary interest in real estate ( <i>juekiken</i> )
Acquisition Date	November 30, 2015
Appraisal Value <sup>1</sup>	JPY 3,820,000,000
Sale Price <sup>2</sup>	JPY 4,500,000,000
Book Value <sup>3</sup>	JPY 3,576,737,000
Gains on Sale <sup>4</sup>	c. JPY 660 million
Buyer	Third-Party Japanese SPC
Broker	Third-Party Japanese Company
Contract Date	August 27, 2019
Transaction Date	October 31, 2019
Closing Date	October 31, 2019
Transaction Method	Sale of trust beneficiary interest in real estate

<sup>1</sup> Appraisal Value is as calculated by Daiwa Real Estate Appraisal Co., Ltd. as of July 31, 2019, and is compliant with the appraisal guidelines of Ichigo Investment Advisors (IIA) as well as the rules of The Investment Trusts Association, Japan.

<sup>2</sup> Sale Price excludes incidental expenses such as fees and property, city planning, and consumption taxes.

<sup>3</sup> Book Value is an estimate based on the most recent book value (July 2019 fiscal period-end), adjusted for expected capital expenditures and depreciation through the Transaction Date.

<sup>4</sup> Gains on Sale are an estimate, calculated as the Sale Price less Book Value and estimated sale expenses, and are subject to change.

## 2. Sale Rationale

Ichigo Hotel is committed to growing value for its shareholders. Consistent with this commitment, it became Japan's second J-REIT to conduct a share buyback in October 2017, and became the first (and still only) J-REIT to deploy a no fixed fee, performance fee-only AM fee structure in 2018.

In further keeping with this commitment to serve Ichigo Hotel shareholders, Ichigo Hotel is working to increase the stability of its portfolio via geographic diversification. The sale of the Hotel Vista Premio Kyoto will decrease Ichigo Hotel's holdings in the Kyoto/Osaka area, and comes after Ichigo Hotel increased its holdings in two other regional cities by acquiring the Nest Hotel Kumamoto in April and the Valie Hotel Hiroshima in July.

Since acquiring Hotel Vista Premio Kyoto in November 2015, Ichigo Hotel has worked in partnership with the hotel operator to increase the hotel's value, increasing its appraisal value, as calculated by third-party appraisers, by 5.5% (JPY 200 million) since acquisition.

Having received an offer from a buyer that values the hotel at 1.3X book value and 1.2X appraisal value, Ichigo Hotel has decided that it is in the best interest of shareholders to sell the hotel. The decision reflects Ichigo Hotel's judgement that it has limited ability to further exploit its capabilities in executing value-add renovations because the hotel's remaining value-add potential is now very limited. Ichigo Hotel also took into consideration the increasing hotel supply in the Kyoto/Osaka areas, which could negatively affect the hotel's long-term earnings potential as well as Ichigo Hotel's overall portfolio performance. As a result, Ichigo Hotel decided to sell the hotel and deploy the gains on sale towards growth investments that will further grow shareholder value.

As a result of today's sale, Ichigo Hotel expects to generate gains on sale of c. JPY 660 million in the January 2020 fiscal period, increasing net income by c. JPY 396 million (+49.4%).

### 3. Hotel Overview

Hotel Overview						
Hotel Name		Hotel Vista Premio Kyoto				
Form of Ownership		Trust beneficiary interest in real estate ( <i>juekiken</i> )				
Address		457 Matsugae-cho, Kawaramachi-dori Rokkaku Nishi-Iru, Nakagyo-ku, Kyoto				
Land	Property Right	Freehold				
	Area <sup>1</sup>	1,004.91m <sup>2</sup>				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	80% 700%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure <sup>2</sup>	Steel/RC B1F/6F				
	Total Floor Area	3,867.66m <sup>2</sup>				
	Date Built	June 26, 2008				
Number of Tenants		3 (as of July 31, 2019)				
Monthly Rental Income <sup>3</sup>		Minimum guaranteed rent: JPY 12,500,000 Variable rent: 35% of amount in excess, when GOP exceeds JPY165 million p.a.				
Deposit		The lessee did not consent to disclosure.				
Leasable Area		3,867.66m <sup>2</sup>				
Leased Area		3,867.66m <sup>2</sup>				
Occupancy		Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019
		100%	100%	100%	100%	100%
Acquisition Price		JPY 3,600 million				
Appraisal	Appraiser	Daiwa Real Estate Appraisal Co., Ltd.				
	Date	July 31, 2019				
	Value	JPY 3,820 million				

<sup>1</sup> Includes driveway (approximately 11.2m<sup>2</sup>) pursuant to Article 42, Paragraph 2 of the Building Standards Act.

<sup>2</sup> Steel/RC = Steel-Reinforced Concrete

<sup>3</sup> Monthly rental income excludes that from retail sections of the hotel.

Appraisal Details		
Hotel Name	Hotel Vista Premio Kyoto	
Appraisal Value	JPY 3,820 million	
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	
Appraisal Date	July 31, 2019	
	Amount (JPY)	Notes
Appraisal Value	3,820,000,000	Based on a DCF valuation, which is more relevant than accounting value, and verified using a direct capitalization valuation
Value by Direct Capitalization Method	3,880,000,000	
Income	191,098,668	
Maximum Obtainable Rental Income	192,304,812	
Vacancy Loss	1,206,144	Retail section vacancy loss based on vacancy rates and competitiveness versus similar assets
Expenses	23,717,416	
Administrative and Maintenance Expenses	1,684,742	JPY120/month per 3.3m <sup>2</sup> of leasable area
Utility Expenses	–	Not recorded as borne by tenant
Repair Expenses	3,020,667	Based on the average of past 12 years of engineering reports
PM Fees	1,440,000	Based on the contractual amount
Leasing Brokerage Fees	324,990	Retail section leasing brokerage fees based on expected turnover rate and similar assets
Taxes	15,133,500	Based on FY2019 actual amounts
Insurance Premiums	202,530	Based on the actual amounts
Other Expenses	1,910,987	1.0% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	167,381,252	
Income on Investment of Deposits Received	444,993	Based on 1.0% yield
Capital Expenditures	4,777,333	Based on average renewal expense of the past 12 years in engineering reports
Net Profit	163,048,912	
Cap Rate	4.2%	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	3,800,000,000	
Discount Rate	4.0%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
Terminal Cap Rate	4.4%	Based on risk-adjusted NOI

	Amount (JPY)	Notes
Value via Cost Approach	4,710,000,000	
Land	87.7%	
Building	12.2%	Sum of building and Furniture, Fixtures, & Equipment (FF&E) values divided by sum of building, FF&E, and land values
Notes		
While the Value via Cost Approach results in a higher valuation, the appraiser used the Appraisal Value because it was deemed to better reflect the expected return on the investment.		

#### 4. Buyer Profile

Name	The buyer, a third-party Japanese SPC, did not provide consent to disclose its name.
Relationship with Ichigo Hotel or IIA	The buyer does not have any additional capital, personnel, or transactional relationships with Ichigo Hotel or IIA requiring disclosure under Tokyo Stock Exchange rules. 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 the Asset Management Company.

#### 5. Broker Profile

The broker is a third-party Japanese company, and does not have any additional capital, personnel, or transactional relationships with Ichigo Hotel or IIA requiring disclosure under Tokyo Stock Exchange rules. 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 the Asset Management Company.

#### 6. Forward Commitment

Because the Transaction Date is October 31, 2019, the sale of Hotel Vista Premio Kyoto (the “Sale”) constitutes a “forward commitment”<sup>1</sup> 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.

<sup>1</sup> 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.

#### 7. Settlement Method

Lump-sum payment 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 660 million in the January 2020 fiscal period. Ichigo Hotel will distribute 100% of this as a dividend to its shareholders.

Because the closing date is October 31, 2019, the sale does not impact the July 2019 fiscal period earnings forecast. The impact of the sale on the January 2020 fiscal period is detailed in today's announcement "Earnings Forecast Revision for the January 2020 Fiscal Period."

Post-Sale Portfolio

<b>Hotel No.<sup>1</sup></b>	<b>Hotel Name</b>	<b>Prefecture</b>	<b>Lease Terms</b>	<b>Acquisition Price<sup>2</sup> (JPY million)</b>	<b>% of Portfolio<sup>3</sup></b>
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable Rent	2,160	4.2
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.8
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	2.9
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	7.7
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.7
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	3.0
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	5.2
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	10.4
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	8.8
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.2
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae	Hyogo	Variable Rent	1,490	2.9
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	14.9
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.4
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.2
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.5
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.4
F-5 024	Valie Hotel Hiroshima	Hiroshima	Variable Rent	1,500	2.9
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.7
G-2 013	Nest Hotel Naha	Okinawa	Variable Rent	3,750	7.4
G-3 023	Nest Hotel Kumamoto	Kumamoto	Variable Rent	2,220	4.4
Total 22 Hotels				50,883	100.0

<sup>1</sup> 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

<sup>2</sup> 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).

<sup>3</sup> % 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.