



Ichigo Preserves and Improves Real Estate

*[Provisional Translation Only]*

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Issuer

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**Earnings Forecast Revision for the April 2018 Fiscal Period and  
Earnings Forecast for the October 2018 Fiscal Period**

Ichigo Office is revising up its April 2018 earnings forecast that was announced in the June 14, 2017 release “Earnings Summary for the April 2017 Fiscal Period,” and is also announcing its October 2018 earnings forecast.

October 2017 earnings will be announced on December 15, 2017. The current October 2017 forecast is unchanged.

1. April 2018 Earnings Forecast Revision

(JPY million)

	Operating Revenue	Operating Profit	Recurring Profit	Net Income	Dividend per Share (JPY)
Previous Forecast (A)	7,338	3,551	2,735	2,735	1,940
New Forecast (B)	7,408	3,616	2,812	2,811	1,940
Difference (B) - (A)	+69	+64	+76	+76	–
% Change	+1.0%	+1.8%	+2.8%	+2.8%	–

Net Income per share: JPY 1,834 Period-end number of shares outstanding: 1,532,287 shares

The forecast presented above is based on certain preconditions set out below in “Preconditions for April 2018 Earnings Forecast.” The actual operating revenue, operating profit, recurring profit, net income, and dividend may vary due to changes in circumstances such as asset acquisitions and dispositions, tenant turnover, unexpected maintenance and repair costs and other expenses, changes in interest rates, and the issuance of new shares. These forecasts should not be construed as a guarantee of such performance or results. Ichigo Office will make a forecast revision should there be a substantial discrepancy between the forecast and actual operating results.

## 2. Reason for April 2018 Earnings Forecast Revision

Ichigo Office is currently executing Stage VII: Lay Foundation for Long-Term Growth of its Growth Strategy Roadmap (see Reference below), and continues to invest to support sustainable growth in shareholder value.

Given the current upside to value-add capex in the current real estate market, in order to increase funds available for value-add capex and drive EPS and portfolio growth, Ichigo Office has decided to decrease its per-period negative goodwill amortization from JPY 200 million to JPY 105 million or more (the minimum per the Investment Trusts Association, Japan's rules on negative goodwill amortization). Beginning the move to this lower amortization level, Ichigo Office now expects April 2018 negative goodwill amortization of JPY 162 million.

April 2018 operating revenue is expected to exceed the previous forecast by JPY 69 million as a result of a JPY 57 million increase in rental income and a JPY 23 million increase in insurance income, partially offset by a JPY 7 million decrease in utilities income from tenants and a JPY 3 million decrease in income from parking fees.

Operating expenses are expected to exceed the previous forecast by JPY 5 million, comprised of a JPY 28 million increase in service provider expenses and a JPY 14 million increase in maintenance repair costs, partially offset by a JPY 38 million decrease in utilities expenses and a JPY 1 million decrease in non-rental expenses. Operating profit is therefore expected to increase by JPY 64 million.

Non-operating expenses are expected to decrease by JPY 11 million, primarily driven by a decrease in loan refinancing fees. Recurring profit and net income are therefore each expected to increase by JPY 76 million.

Forecast dividend per share and total dividends are unchanged at JPY 1,940 and JPY 2,972 million, respectively. Per the above, the dividend forecast assumes JPY 162 million of negative goodwill amortization.

### 3. October 2018 Earnings Forecast

(JPY million)

	Operating Revenue	Operating Profit	Recurring Profit	Net Income	Dividend per Share (JPY)
October 2018 Forecast (A)	7,531	3,652	2,867	2,866	1,940
New April 2018 Forecast (B)	7,408	3,616	2,812	2,811	1,940
Difference (B) - (A)	+122	+35	+54	+54	–
% Change	+1.7%	+1.0%	+2.0%	+2.0%	–

Net Income per share: JPY 1,870    Period-end number of shares outstanding: 1,532,287 shares

The forecast presented above is based on certain preconditions set out below in “Preconditions for October 2018 Earnings Forecast.” The actual operating revenue, operating profit, recurring profit, net income, and dividend may vary due to changes in circumstances such as asset acquisitions and dispositions, tenant turnover, unexpected maintenance and repair costs and other expenses, changes in interest rates, and the issuance of new shares. These forecasts should not be construed as a guarantee of such performance or results. Ichigo Office will make a forecast revision should there be a substantial discrepancy between the forecast and actual operating results.

### 4. October 2018 Earnings Forecast Rationale

Despite an expected decrease in period-occupancy of 0.4% versus April 2018, October 2018 operating revenue is expected to increase by JPY 122 million, comprised of a JPY 82 million increase in rental income and a JPY 49 million seasonal increase in utilities income from tenants, offset by a JPY 10 million decrease in insurance income.

Operating expenses are expected to increase by JPY 86 million versus April 2018, comprised of a JPY 57 million seasonal increase in utilities expenses, a JPY 45 million increase in property tax, and a JPY 40 million increase in non-rental expenses, partially offset by a JPY 54 million decrease in depreciation expenses. Operating profit is therefore expected to increase by JPY 35 million.

Non-operating expenses are expected to decrease by JPY 19 million versus April 2018, primarily driven by a decrease in loan refinancing fees. Recurring profit and net income are therefore each forecast to increase by JPY 54 million.

Forecast dividend per share and total dividends are expected to remain unchanged from April 2018 at JPY 1,940 and JPY 2,972 million, respectively. The dividend forecast assumes JPY 105 million of negative goodwill amortization.

Preconditions for April 2018 Earnings Forecast

Period	April 2018: November 1, 2017 – April 30, 2018 (181 days)
Number of Assets	<ul style="list-style-type: none"> <li>• 85 assets</li> </ul>
Number of Shares	<ul style="list-style-type: none"> <li>• 1,532,287 shares issued and outstanding as of today</li> </ul>
Operating Revenue	<ul style="list-style-type: none"> <li>• Rental income is calculated conservatively based on lease contracts that are in effect as of today while taking into consideration historical rents and asset and market conditions.</li> <li>• Total occupancy: 96.9% as of April 30, 2018</li> </ul>
Operating Expenses	<ul style="list-style-type: none"> <li>• Depreciation: JPY 920 million. Depreciation has been calculated using the straight-line method and includes the depreciation of forecast future capital expenditures.</li> <li>• Property, city planning, and depreciable asset taxes: JPY 589 million</li> <li>• Building maintenance and repair expenses: JPY 120 million. However, expenses may differ significantly from these estimated amounts for reasons including the variability of maintenance and repair expenses, one-time costs due to unexpected building damage, etc.</li> <li>• Service provider expenses, including property management fees: JPY 680 million</li> <li>• Performance fees: zero</li> <li>• Rental expenses, Ichigo Office’s principal operating expenses (other than depreciation, see above), are calculated based on historical data adjusted for anticipated expense variations.</li> <li>• Actual operating expenses may differ significantly from these assumptions due to unforeseeable factors.</li> </ul>
Non-Operating Expenses	<ul style="list-style-type: none"> <li>• Interest expenses on loans and bonds: JPY 523 million</li> <li>• Other borrowing-related expenses: JPY 280 million</li> </ul>
Interest-Bearing Liabilities	<ul style="list-style-type: none"> <li>• Loans and bonds: JPY 103.3 billion outstanding as of April 30, 2018</li> </ul>
Dividend	<ul style="list-style-type: none"> <li>• The dividend forecast assumes that dividends will comply with the dividend distribution policy stipulated in Ichigo Office’s Articles of Incorporation.</li> <li>• Total dividends are forecast to be JPY 2.972 billion (Net Income of JPY 2.811 billion plus JPY 162 million of negative goodwill amortization, rounded down, as necessary, to create a dividend per share that is a whole number).</li> <li>• The dividend is subject to change due to changes in circumstances such as asset acquisitions and dispositions, tenant turnover, unexpected maintenance and repair costs and other expenses, changes in interest rates, and the issuance of new shares.</li> </ul>
Dividend in Excess of Earnings	<ul style="list-style-type: none"> <li>• Ichigo Office does not plan on paying any dividend in excess of earnings.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• This forecast assumes that there are no material revisions to laws and regulations, the tax system, accounting standards, listing rules of the Tokyo Stock Exchange, and rules of the Investment Trusts Association, Japan, and no material changes in the state of the economy and real estate market conditions.</li> </ul>

Preconditions for October 2018 Earnings Forecast

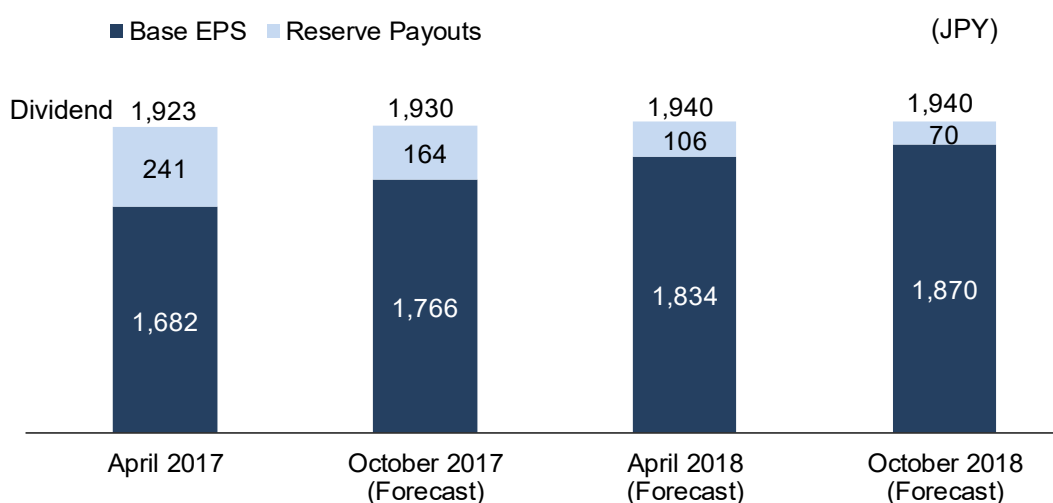
Period	October 2018: May 1, 2018 – October 31, 2018 (184 days)
Number of Assets	<ul style="list-style-type: none"> <li>• 85 assets</li> </ul>
Number of Shares	<ul style="list-style-type: none"> <li>• 1,532,287 shares issued and outstanding as of today</li> </ul>
Operating Revenue	<ul style="list-style-type: none"> <li>• Rental income is calculated conservatively based on lease contracts that are in effect as of today while taking into consideration historical rents and asset and market conditions.</li> <li>• Total occupancy: 96.5% as of October 31, 2018</li> </ul>
Operating Expenses	<ul style="list-style-type: none"> <li>• Depreciation: JPY 865 million. Depreciation has been calculated using the straight-line method and includes the depreciation of forecast future capital expenditures.</li> <li>• Property, city planning, and depreciable asset taxes: JPY 635 million</li> <li>• Building maintenance and repair expenses: JPY 124 million. However, expenses may differ significantly from these estimated amounts for reasons including the variability of maintenance and repair expenses, one-time costs due to unexpected building damage, etc.</li> <li>• Service provider expenses, including property management fees: JPY 674 million</li> <li>• Performance fees: JPY 34 million</li> <li>• Rental expenses, Ichigo Office's principal operating expenses (other than depreciation, see above), are calculated based on historical data adjusted for anticipated expense variations.</li> <li>• Actual operating expenses may differ significantly from these assumptions due to unforeseeable factors.</li> </ul>
Non-Operating Expenses	<ul style="list-style-type: none"> <li>• Interest expenses on loans and bonds: JPY 538 million</li> <li>• Other borrowing-related expenses: JPY 247 million</li> </ul>
Interest-Bearing Liabilities	<ul style="list-style-type: none"> <li>• Loans and bonds: JPY 103.2 billion outstanding as of October 31, 2018</li> </ul>
Dividend	<ul style="list-style-type: none"> <li>• The dividend forecast assumes that dividends will comply with the dividend distribution policy stipulated in Ichigo Office's Articles of Incorporation.</li> <li>• Total dividends are forecast to be JPY 2.972 billion (Net Income of JPY 2.867 billion plus JPY 105 million of negative goodwill amortization, rounded down, as necessary, to create a dividend per share that is a whole number).</li> <li>• The dividend is subject to change due to changes in circumstances such as asset acquisitions and dispositions, tenant turnover, unexpected maintenance and repair costs and other expenses, changes in interest rates, and the issuance of new shares.</li> </ul>
Dividend in Excess of Earnings	<ul style="list-style-type: none"> <li>• Ichigo Office does not plan on paying any dividend in excess of earnings.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• This forecast assumes that there are no material revisions to laws and regulations, the tax system, accounting standards, listing rules of the Tokyo Stock Exchange, and rules of the Investment Trusts Association, Japan, and no material changes in the state of the economy and real estate market conditions.</li> </ul>

## Reference

### Growth Strategy Roadmap

	Stage VI		Stage VII	
	2016/10	2017/4	2017/10	2018/4
Goals	Grow Office Portfolio		Lay Foundation for Long-Term Growth	
Action Plans	<p>■ <b>Organic Growth Strategy</b>  <b>Drive growth with strong Ichigo Office brand and 100 asset portfolio</b></p> <ul style="list-style-type: none"> <li>Increase competitiveness of Ichigo assets via strong Ichigo brand</li> <li>Develop original services for Ichigo tenants</li> <li>Drive higher rents within and outside of Tokyo</li> <li>Maximum return on capex</li> </ul> <p>■ <b>External Growth Strategy</b>  <b>Aim for portfolio size of JPY 230B</b></p> <ul style="list-style-type: none"> <li>Broaden acquisition pipeline via diversified sourcing</li> <li>Use Ichigo sponsor support and diversified funding capability to close quickly under deadline</li> </ul> <p>■ <b>Financing Strategy</b>  <b>Improve credit rating and diversify funding</b></p> <ul style="list-style-type: none"> <li>Achieve an A (Stable) credit rating</li> <li>Consider issuance of bonds and broadening lender base</li> <li>Use financial strength and commitment line to grow acquisition capacity</li> <li>Further improve borrowing terms</li> <li>Enter global REIT indices</li> </ul>		<p><b>Durably and Dynamically Grow Ichigo Office</b>  <b>Generate Funds to Invest for Growth</b></p> <ul style="list-style-type: none"> <li>Secure funds for growth investments via strategic portfolio restructuring and sale of non-office assets</li> <li>Rework implementation of dividend reserve releases</li> </ul> <p><b>Invest for Sustainable Growth in Shareholder Value</b></p> <ul style="list-style-type: none"> <li>Acquire high-quality assets via portfolio restructuring or using borrowing capacity</li> <li>Carry out value-add capex</li> </ul> <p>■ <b>Organic Growth Strategy</b></p> <ul style="list-style-type: none"> <li>Achieve minimal downtime between leases</li> <li>Carry out value-add capex to drive higher returns</li> <li>Implement environmental sustainability initiatives to grow long-term value</li> <li>Build a trusted Ichigo brand</li> </ul> <p>■ <b>External Growth Strategy</b></p> <ul style="list-style-type: none"> <li>Restructure portfolio to drive higher portfolio quality</li> <li>Acquire assets to increase shareholder value</li> <li>Consider M&amp;A</li> </ul> <p>■ <b>Financing Strategy</b></p> <ul style="list-style-type: none"> <li>Further improve borrowing terms</li> <li>Diversify funding via issuance of bonds</li> <li>Raise credit rating</li> <li>Enter global REIT indices</li> </ul>	

### Dividend and Base EPS



\* Base EPS = EPS excluding capital gains on asset sales