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Issuer

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Sale of Retail Asset (Lions Square Kawaguchi)

Consistent with its strategy to focus on office assets as a specialized office REIT, Ichigo Office decided today to sell one of its few remaining retail assets, the Lions Square Kawaguchi in Saitama Prefecture.

1. Asset Sale Summary

Asset Number	Z-12
Asset Name	Lions Square Kawaguchi
Asset Type	Retail
Date Built	July 6, 1998
Form of Ownership	Trust beneficiary interest in real estate (<i>juekiken</i>)
Acquisition Date	December 15, 2014
Buyer ¹	Japanese operating company
Sale Price ² (A)	JPY 2,845 million
Book Value ³ (B)	JPY 2,357 million
Sale Price vs. Book Value (A) – (B)	+JPY 487 million
Appraisal Value ⁴	JPY 2,530 million
Contract Date	March 31, 2020
Closing Date	April 24, 2020
Legal Form of Transaction	Sale of trust beneficiary interest in real estate (<i>juekiken</i>)

¹ The buyer did not provide consent to disclose its name.

² Sale Price is the sale price of the asset excluding incidental expenses such as fees and property, city planning, and consumption taxes.

³ Book Value is an estimate based upon the most recent book value (October 2019 fiscal period), adjusted for capital expenditures and depreciation through the Closing Date. Sale Price vs. Book Value is the difference between the sale price and book value of the asset (i.e., the Sale Price is higher than Book Value).

⁴ Appraisal Value is calculated by Daiwa Real Estate Appraisal as of October 31, 2019, and is in compliance with the appraisal guidelines of IIA as well as the rules of the Investment Trusts Association of Japan.

2. Transaction Rationale

As a specialized office REIT, Ichigo Office continues to execute on its strategy to grow shareholder value by focusing its portfolio on high-quality, mid-size office assets and secure funds for growth investments via sales of non-office assets.

Ichigo Office decided to sell the asset because of the significant anticipated expenditures required for upgrades to maintain its competitiveness and the uncertain outlook for rents from supermarkets and gym tenants in the area. With this asset sale, Ichigo Office's post-transaction portfolio will be 96.7% office assets.

To avoid a decrease in Ichigo Office's earnings and dividend due to the sale, proceeds from the sale will be used for strategic investments such as asset acquisitions and value-add capex.

3. Details of Lions Square Kawaguchi

Asset Overview					
Asset Name		Lions Square Kawaguchi			
Legal Form of Asset		Trust beneficiary interest in real estate (<i>juekiken</i>)			
Location		2-15-3 Motogo, Kawaguchi City, Saitama Prefecture			
Land	Property Right	Freehold			
	Area	9,531.83m ²			
	Zoning	Quasi-industrial			
	Coverage Ratio Floor Area Ratio	60% 200%			
Building	Property Right	Freehold			
	Use	Retail, Training Area, Parking			
	Structure	Steel/Steel Reinforced Concrete, 6 Floors			
	Total Floor Area	7,309.66m ²			
	Date Built	July 6, 1998			
Number of Tenants		3 (as of February 29, 2020)			
Monthly Rental Income		JPY 11.42 million (as of February 29, 2020)			
Tenant Security Deposits		JPY 106.9 million (as of February 29, 2020)			
Leasable Area		7,788.09m ² (as of February 29, 2020)			
Leased Area		7,788.09m ² (as of February 29, 2020)			
Occupancy	Apr 2018	Oct 2018	Apr 2019	Oct 2019	Feb 2020
	100%	100%	100%	100%	100%
Acquisition Price		JPY 2,430 million			

Appraisal Value	Appraiser	Daiwa Real Estate Appraisal Co., Ltd.
	Appraisal Date	October 31, 2019
	Appraisal Value	JPY 2,530 million

Note: Monthly Rental Income (including utilities fees) and Tenant Security Deposits refer to those stated in the lease agreement.

Appraisal Details		
Asset Name	Lions Square Kawaguchi	
Appraisal Value	JPY 2,530,000,000	
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.	
Appraisal Date	October 31, 2019	
	Amount	Note
Appraisal Value	JPY 2,530,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation
Value by Direct Capitalization Method	JPY 2,510,000,000	
Income	JPY 243,067,097	
Forecast Full-Occupancy Rental Income	JPY 265,035,344	Based on an analysis of potential rental income, common area service income, parking lot income, and other income
Forecast Decrease in Rental Income due to Vacancy	JPY 21,968,247	Based on long-term vacancy rates
Expenses	JPY 108,831,950	
Administrative & Maintenance Expenses	JPY 16,962,480	Based on an analysis of expenses of similar assets and past actual amounts
Utility Expenses	JPY 53,714,520	Based on similar assets and past actual amounts
Repair Expenses	JPY 2,310,167	Based on engineering reports and similar assets
PM Fee	JPY 4,704,169	Based on analysis of similar assets
Leasing Brokerage Fees	JPY 1,457,486	Based on expected turnover rate for similar assets and past actual amounts
Taxes	JPY 27,916,000	Based on FY2019 actual amounts
Insurance Premiums	JPY 794,860	Based on FY2019 actual amounts
Other Expenses	JPY 972,268	0.4% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	JPY 134,235,147	
Income on Investment of Deposits Received	JPY 1,134,730	Based on a 1.0% investment yield
Capital Expenditure	JPY 22,262,750	Based on engineering reports and similar assets
Net Profit	JPY 113,107,127	
Cap Rate	4.5%	Based on yields of similar real estate assets and of Japanese financial assets, taking into account the asset's specific characteristics

	Value via DCF Method	JPY 2,540,000,000	
	Discount Rate	4.3%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
	Terminal Cap Rate	4.7%	Based upon risk-adjusted NOI
	Accounting Value	JPY 3,300,000,000	
	Land	80.8%	Based upon value recorded in government national land assessment (<i>kouji kakaku</i>)
	Building	19.2%	Based upon post-depreciation value
Notes			
A DCF valuation (verified using a direct capitalization valuation) was the primary valuation methodology employed, because it reflects market value and is thus more relevant than accounting value.			

4. Buyer Profile

Name	The buyer, a Japanese operating company unrelated to Ichigo Office, did not provide consent to disclose its name.
Relationship with Ichigo Office or IIA	The buyer does not have any capital, personnel, or transactional relationships with Ichigo Office 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

Name	SMBC Trust Bank Ltd.
Address	1-3-1 Nishi-Shinbashi, Minato-ku, Tokyo
Representative	President & CEO Kozo Ogino
Principal Businesses	Trust business and banking business
Capital	JPY 87.55 billion (as of March 31, 2019)
Establishment Date	February 25, 1986
Relationship with Ichigo Office or IIA	The broker does not have additional capital, personnel, or transactional relationship of note with Ichigo Office or IIA requiring disclosure under Tokyo Stock Exchange rules. In addition, the broker is not a related party as defined in the Enforcement Ordinance of the Investment Trust and Investment Corporation Law.
Broker Fee	The broker did not provide consent to disclose the broker fee.

6. Payment Method

Lump-sum payment at closing.

7. Use of Sale Proceeds

Ichigo Office will retain the proceeds from the sale as cash on hand to use them for strategic investments such as asset acquisitions and value-add capex.

8. Earnings Outlook

The asset sale is forecast to generate gains on sale of JPY 370 million.¹ Subject to complying with J-REIT conduit requirements, Ichigo Office will retain all or part of the gains on sale to fund growth investments such as acquisitions and value-add capex. Therefore, the impact of the sale on Ichigo Office's April 2020 earnings is minimal. There is no change to Ichigo Office's April 2020 earnings forecast.

¹ Calculated as sale price including property and city-planning taxes minus book value and expected sale-related expenses

Appendix: Post-Transaction Portfolio

No.	Asset Name	Area ¹	Acquisition Price (JPY million)	% of Portfolio ²
O-02	Ichigo Nishisando Building	Central Tokyo	3,254	1.6
O-03	Ichigo Mita Building	Central Tokyo	2,740	1.4
O-04	Ichigo Nanpeidai Building	Central Tokyo	1,920	0.9
O-05	Ichigo Hanzomon Building	Central Tokyo	1,550	0.8
O-06	Ichigo Hijirizaka Building	Central Tokyo	1,200	0.6
O-07	Ichigo Shibuya Kamiyamacho Building	Central Tokyo	1,505	0.7
O-08	Ichigo Akasaka 5 Chome Building	Central Tokyo	735	0.4
O-09	Ichigo Shibakoen Building	Central Tokyo	1,100	0.5
O-10	Ichigo Ebisu Nishi Building	Central Tokyo	1,917	0.9
O-11	Ichigo Ginza 612 Building	Central Tokyo	1,773	0.9
O-12	Ichigo Uchikanda Building	Central Tokyo	1,140	0.6
O-14	Ichigo Yotsuya 4 Chome Building	Central Tokyo	550	0.3
O-15	Ichigo Tameike Building	Central Tokyo	580	0.3
O-16	Ichigo Jimbocho Building	Central Tokyo	1,820	0.9
O-17	Ichigo Hakozaeki Building	Central Tokyo	1,150	0.6
O-18	Ichigo Kudan 2 Chome Building	Central Tokyo	763	0.4
O-19	Ichigo Kudan 3 Chome Building	Central Tokyo	844	0.4
O-20	Ichigo Gotanda Building	Central Tokyo	5,060	2.5
O-21	Ichigo Shin Yokohama Building	Tokyo Metro Area	1,816	0.9
O-22	Ichigo Minami Ikebukuro Building	Tokyo Metro Area	1,460	0.7
O-23	Ichigo Nakano North Building	Tokyo Metro Area	764	0.4
O-24	Ichigo Eitai Building	Tokyo Metro Area	1,490	0.7
O-26	Ichigo Ikejiri Building	Tokyo Metro Area	2,030	1.0
O-27	Ichigo Nishi Ikebukuro Building	Tokyo Metro Area	639	0.3
O-28	Ichigo Nishi Gotanda Building	Central Tokyo	765	0.4
O-29	Ichigo Kichijoji Building	Tokyo Metro Area	2,160	1.1
O-34	Ichigo Sakae Building	Four Major Regional Cities	4,705	2.3
O-37	Ichigo Marunouchi Building	Four Major Regional Cities	6,710	3.3
O-38	Ichigo Toyamaeki Nishi Building	Other Regional Cities	1,645	0.8
O-39	Ichigo Mirai Shinkin Building	Other Regional Cities	1,158	0.6
O-42	Ichigo Takamatsu Building	Other Regional Cities	3,010	1.5
O-46	Ichigo Kanda Nishikicho Building	Central Tokyo	2,130	1.1
O-47	Ichigo Akihabara North Building	Central Tokyo	5,500	2.7
O-48	Ichigo Sakaisuji Honmachi Building	Four Major Regional Cities	1,940	1.0
O-49	Ichigo Kanda Ogawamachi Building	Central Tokyo	2,210	1.1

No.	Asset Name	Area ¹	Acquisition Price (JPY million)	% of Portfolio ²
O-50	Ichigo Hatchobori Building	Central Tokyo	1,905	0.9
O-51	Ebisu Green Glass	Central Tokyo	5,900	2.9
O-52	Ichigo Omori Building	Central Tokyo	3,850	1.9
O-53	Ichigo Takadanobaba Building	Central Tokyo	1,580	0.8
O-54	Ichigo Omiya Building	Tokyo Metro Area	3,430	1.7
O-55	Ichigo Sagamiyama Building	Tokyo Metro Area	1,174	0.6
O-56	Ichigo Ofuna Building	Tokyo Metro Area	2,000	1.0
O-57	Ichigo Sendai East Building	Other Regional Cities	1,840	0.9
O-58	Ichigo Kumamoto Building	Other Regional Cities	1,450	0.7
O-59	Ichigo Jingumae Building	Central Tokyo	7,200	3.6
O-60	Ichigo Shibuya Dogenzaka Building	Central Tokyo	3,650	1.8
O-61	Ichigo Hiroo Building	Central Tokyo	3,960	2.0
O-62	Ichigo Sasazuka Building	Central Tokyo	4,780	2.4
O-63	Ichigo Nihonbashi East Building	Central Tokyo	4,700	2.3
O-64	Ichigo Sakurabashi Building	Central Tokyo	2,500	1.2
O-65	Ichigo Shinkawa Building	Central Tokyo	2,360	1.2
O-66	Ichigo Kudan Building	Central Tokyo	3,190	1.6
O-67	Ichigo Higashi Gotanda Building	Central Tokyo	3,660	1.8
O-68	Axior Mita	Central Tokyo	1,800	0.9
O-69	Ichigo Higashi Ikebukuro Building	Tokyo Metro Area	4,570	2.3
O-70	Koriyama Big-i (Office Section)	Other Regional Cities	1,660	0.8
O-71	Ichigo Kawasaki Building	Tokyo Metro Area	1,750	0.9
O-72	Ichigo Shibuya East Building	Central Tokyo	1,350	0.7
O-73	Ichigo Ningyocho Building	Central Tokyo	1,450	0.7
O-74	Ichigo Nishi Honmachi Building	Four Major Regional Cities	2,190	1.1
O-75	Ichigo Hakata Building	Four Major Regional Cities	1,380	0.7
O-76	Ichigo Nishiki First Building	Four Major Regional Cities	2,000	1.0
O-77	Ichigo Ikenohata Building	Tokyo Metro Area	5,130	2.5
O-78	Ichigo Ikebukuro East Building	Tokyo Metro Area	3,010	1.5
O-79	Ichigo Motoazabu Building	Central Tokyo	1,890	0.9
O-80	Ichigo Otsuka Building	Tokyo Metro Area	2,740	1.4
O-81	Ichigo Nagoya Building	Four Major Regional Cities	3,420	1.7
O-82	Ichigo Fushimi Building	Four Major Regional Cities	2,340	1.2
O-83	Ichigo Nishiki Building	Four Major Regional Cities	1,330	0.7
O-84	Ichigo Minami Morimachi Building	Four Major Regional Cities	1,040	0.5

No.	Asset Name	Area ¹	Acquisition Price (JPY million)	% of Portfolio ²
O-85	Ichigo Shibuya Udagawacho Building	Central Tokyo	3,500	1.7
O-86	Win Gotanda Building	Central Tokyo	3,100	1.5
O-87	Ichigo Hongo Building	Tokyo Metro Area	2,300	1.1
O-88	Oimachi Center Building	Central Tokyo	1,680	0.8
O-89	Win Gotanda Building 2	Central Tokyo	3,300	1.6
O-90	MIF Building	Central Tokyo	2,200	1.1
O-91	Ichigo Uchi Honmachi Building	Four Major Regional Cities	1,900	0.9
O-92	Ichigo Minami Otsuka Building	Tokyo Metro Area	2,780	1.4
O-93	Ichigo Nogizaka Building	Central Tokyo	3,315	1.6
O-94	Ichigo Hakata East Building	Four Major Regional Cities	2,250	1.1
O-95	Ichigo Nakameguro Building ³	Tokyo Metro Area	1,495	0.7
Subtotal - Office (81 Assets)			195,732	96.7
Z-09	Konami Sports Club Izumi Fuchu	Other Regional Cities	1,210	0.6
Z-10	Ichigo Shibuya Bunkamura Dori Building	Central Tokyo	2,400	1.2
Z-11	Twicere Yokohama Isogo (Retail Section)	Tokyo Metro Area	1,620	0.8
Z-14	Ichigo Kamata Building	Tokyo Metro Area	1,400	0.7
Subtotal - Other (4 Assets)			6,630	3.3
Total (85 Assets)			202,362	100

TK Equity Investment	Tachikawa Holdings GK TK Equity Interest	50	—
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¹ Central Tokyo refers to Chiyoda, Minato, Chuo, Shinjuku, Shibuya, and Shinagawa Wards. Tokyo Metro Area refers to Tokyo (excluding the six wards above), Kanagawa, Chiba, and Saitama Prefectures. Four Major Regional Cities refers to Osaka, Nagoya, Fukuoka, and Sapporo.

² % of Portfolio is based upon acquisition price.

³ Ichigo Office will complete the acquisition of the Ichigo Nakameguro Building announced in the January 29, 2020 release “Acquisition of Office Asset (Ichigo Nakameguro Building)” on April 14, 2020.