

September 14, 2020

**For Immediate Release**

**Real Estate Investment Trust**

Japan Logistics Fund, Inc. (Security Code: 8967)

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**Notice Concerning Redevelopment Project of Urayasu Logistics Center**

Japan Logistics Fund, Inc. (“JLF”) announced today that Mitsui & Co., Logistics Partners Ltd. (“MLP”), the asset manager of JLF, has decided on September 14, 2020 to carry out an own book redevelopment project (“the OBR”) for the Urayasu Logistics Center (“the Property”) currently owned by JLF as detailed below.

**Highlights of the Project**

- **The fifth project of OBR (own book redevelopment), a feature of JLF**
- **Implement in the Urayasu area with scarcity and strong demand for rental properties**
- **Maximize asset value by raising portfolio profitability and unrealized gains**
- **Leverage JLF’s financial base adequate for OBR as well as experience and expertise of MLP**

**1. Highlights of the OBR**

The Urayasu area, where the Property is located, has conditions suited for logistics operations, high demand for rental properties, and high scarcity of new logistics facilities. The existing building on the Property is a one-story warehouse suitable for the storage of steel materials, so the tenant needs of the Property is limited. Also, the current floor area ratio of available space is low (the actual floor area ratio is 49.8%, while the statutory floor area ratio is 200%). Given the expected increase in unite rent and total rentable area by redeveloping into a larger facility with higher versatility, JLF has been considering to carry out OBR at an appropriate time.

For the OBR of the property, JLF conducted rigorous evaluation on redevelopment potential of the location, expected tenant demand and the impact on operation of JLF. As a result, JLF concluded that JLF would be able to increase asset value (unrealized gains: an increase of 668 million yen) and profitability (income from real estate leasing business: an increase of 214 million yen) (Note), and that demolishon cost as well as write-off of the remaining book value of the old buiding would be compensated by reversal of the reserve for reduction entry in order to maintain stable dividends.

The OBR, in which JLF is the redeveloper, allows JLF to acquire new logistics facilities at a lower price than purchasing in the real estate market, because it can acquire the new building at the cost of redevelopment and book value of the Property's land. That means JLF's unitholders can expect to recognize development profit as unrealized gains. As a result of comparing multiple options for the Property, including re-signing with existing tenants and disposition of the Property, JLF has concluded that the OBR is the best means to maximize the asset value of the Property and consequently decided to initiate the OBR of the Property in September 2020.

(Note) The numbers are current estimates calculated based on certain conditions and are subject to change due to actual tenant occupancy and other factors.

## 2. Highlights of the OBR

### (1) **The fifth project of OBR, a feature of JLF**

The OBR, the most unique investment strategy of JLF, is the fifth one. OBR is an initiative to redevelop older properties with large floor-area ratios that have not been used by JLF. Through the OBR, JLF converts those properties into larger facilities with the latest specifications and equipment by utilizing the unused floor-area ratios. JLF has conducted 4 OBRs in the past and successfully raised their asset value and profitability significantly.

### (2) **Implementat in the Urayasu area with scarcity and strong demand for rental properties**

The Urayasu area, where the Property is located, is about 13 kilometers from central Tokyo, encompassing a large consuming area and can be used as a distribution center for the consuming area. It has easy access to major logistics infrastructures such as the Port of Tokyo, Haneda Airport, and Narita International Airport, making it viable for wide-area distribution. In addition, the Property is located in an industrial park, making it operable 24 hours a day, and is near a residential area, providing access to labor. These are some of the conditions that are appropriate for conducting logistics operations. While strong demand for rental properties can be expected from these conditions, properties for logistics facility development are limited largely due to difficulty in acquiring land for development. Therefore, the scarcity of new large logistics facilities is high in this area.

Because the existing building of the Property was constructed as a warehouse for storing goods related to steel materials, tenants who want to use this place were limited. By offering facility specifications capable of meeting the needs of a wide range of tenants through the OBR, demand for rental properties can also be expected in the Urayasu and neighboring areas where the potential tenants face tight supply-demand balance.

JLF will implement tenant leasing activities by leveraging the broad network of MLP.

**(3) Maximize asset value by raising portfolio profitability and unrealized gains**

Upon completion of the OBR, the total rentable area of the Property is expected to increase by approximately 3.8 times. The property will become a large, multi-tenant logistics center with high versatility in facility specifications. The OBR is expected to result in an increase of 214 million yen in rental revenue from the Property, and maximizes its asset value through an increase in the rentable area and unit rent as a result of improvement of building specifications.

In addition, when a J-REIT redevelops its property, other than OBRs, it is quite likely that the J-REIT sells the property to an external real estate developer, such as their sponsors, who then redevelops the property and the J-REIT buys it back. In that case, the real estate developer which redeveloped the property may sell it for a higher price than the development cost to gain development profit. Through OBR, however, JLF is able to prevent this development profit equivalent from being diverted to external real estate developers, and captures it as an unrealized gain for the benefit of unitholders.

The OBR is expected to grow unrealized gains by 668 million yen and raise the unitholder value.

**(4) Leverage JLF's financial base adequate for OBR as well as experience and expertise of MLP**

As of July 31, 2020, JLF maintains a low appraisal value base LTV (32.8%) (Note 1) and the highest level of unrealized gains as percentage of portfolio book value (42.6%) (Note 2) among J-REITs. These strong financial base enables JLF to withstand a variety of risks associated with the OBR. JLF has retained a portion of the gains from the past asset dispositions as a reserve for reduction entry, and together with the reserve for reduction entry to be transferred to the fiscal period ending July 2020, JLF has a 1.22 billion yen reserve for reduction entry. This makes it possible to stabilize distributions per unit by flexibly using the reserve for reduction entry even in the event of temporary expenses such as demolition costs for properties and loss on disposal of buildings associated with the OBR.

In addition, MLP has several employees with expertise in the logistics industry and development business. By leveraging MLP's highly specialized human resources, such as first-class architects who are able to communicate technically with developers and builders, and leasing personnel who have deep insight into tenant needs, as well as the know-how from the past four OBR properties, JLF ensures in-depth risk management of the OBR.

(Note 1) Appraisal value base LTV (%) = Balance of interest-bearing debt / Total appraisal value of properties held x 100  
Balance of interest-bearing debt = 114,000 million yen (as of July 31, 2020)

Total estimated value of properties held as of July 31, 2020 = 349,850 million yen

(Note 2) Unrealized gains as percentage of portfolio book value (%) = (Estimated value at the end of period – Book value at the end of period) / Book value at the end of period (as of July 31, 2020)

### Effects of the Project

	Before redevelopment	After redevelopment	Difference
Total rentable area	9,543.72 m <sup>2</sup>	36,394.00 m <sup>2</sup>	26,850.28 m <sup>2</sup> (+281%)
Net operating income (NOI)	131 million yen (Note 1)	502 million yen (Note 2)	370 million yen (+281%)
Income from real estate leasing business	119 million yen (Note 1)	333 million yen (Note 2)	214 million yen (+179%)
Impact on DPU (Note 3)	-	-	120 yen/per period
Acquisition price	2,902 million yen	9,019 million yen (Note 4)	6,117 million yen (+211%)
Unrealized gains	2,517million yen (Note 5)	3,186 million yen (Note 6)	668million yen (+27%)
Utilization of the floor-area ratio (Note 7)	49.8%	195.11%	292%

(Note 1) Based on the actual results for the fiscal period ended July 31, 2020, these figures are based on an assumed occupancy rate of 100%.

(Note 2) The figure is based on an estimate for one year based on an assumption of 100% occupancy and excluding special factors during the first year of operations. It is not an estimate at the time of completion of the new building.

(Note 3) Difference in income from real estate leasing business / Total units outstanding as of now (905,073 units)

(Note 4) The amount is calculated by adding the estimated construction cost for the redevelopment (6,549 million yen) to the value of land stated in its initial sales agreement (2,469 million yen).

(Note 5) Estimated value at the end of period – Book value at the end of period (as of July 31, 2020)

(Note 6) Price investigation – Projected book value (at the time of completion of the new building)

As the new building after OBR has not been completed, JLF obtained an investigation report (pricing date: September 1, 2020) from Tanizawa Sōgō Appraisal Co., Ltd. This report was prepared based on the price investigation on the building upon completion and lease contract by reflecting conditions on a pro forma basis. This price investigation was not an appraisal pursuant to the Japanese Real Estate Appraisal Standards.

(Note 7) Total floor area (Floor area subject to the floor-area ratio) / Site area x 100

### 3. Outline of the OBR

The demolition of the existing building is scheduled to start in September 2020 and the new building is expected to be completed in July 2022.

#### <Facility Characteristics (based on the Plan)>

- Highly versatile facility specifications

The facility is equipped with ideal specifications that meet all standards required for a modern logistics center, including a column interval of 11 meters or more, ceiling of 5.6 meters or higher, and standard floor load capacity of 1.5 t/m<sup>2</sup>.

- Large-scale multitenant logistics center

It is a large-scale logistics center spread over four stories with a total floor area exceeding 11,000 tsubo (36,000 m<sup>2</sup>). By placing truck berths providing direct access to the second floor through a slope as well as office spaces on both sides of the building, the Property can be rented and divided into areas that meet a variety of tenant needs.

- Construction to prevent liquefaction in preparation for disasters

Surface exploration was conducted prior to starting the OBR, and appropriate ground reinforcement and piling was implemented to withstand liquefaction when an earthquake strikes.

<Outline of the Property (Pre-OBR)>

Property name		M-2 Urayasu Logistics Center
Asset type		Trust beneficial interest
Acquisition date		May 9, 2005
Acquisition price		2,902 million yen
	Land price (percentage)	2,469 million yen (85.1%)
	Building price (percentage)	432 million yen (14.9%)
Land	Location	79 Minato, Urayasu, Chiba
	Site area	19,136 m <sup>2</sup>
	Zoning	Quasi-industrial zone
	Floor-area ratio	200%
	Building-to-land ratio	60%
	Type of ownership	Owned
Building	Structure/floors (Note)	1. Steel-frame structure, galvanized steel sheet roof, single-story building 2. Steel-frame structure, galvanized steel sheet roof, single-story building (warehouse)
	Date of completion (Note)	1. October 8, 1986 2. March 31, 1994
	Total floor area (Note)	1. 4,355.24 m <sup>2</sup> 2. 5,193.10 m <sup>2</sup>
	Utilization of floor-area ratio	49.8%
	Total rentable area	9,543.72m <sup>2</sup>
	Use (Note)	1. Warehouse 2. Warehouse
	Type of ownership	Owned

(Note) There are two buildings on this land. The above table shows information about building No. 79 as 1 and building No. 79-2 as 2.

<Outline of the Property (After-OBR)>

Acquisition price		9,019 million yen
	Land price (percentage)	2,575 million yen (28.6%)
	Building price (percentage) (Note 1)	6,443 million yen (71.4%)
Building (Note 2)	Structure/floors	Reinforced concrete and steel construction, four stories
	Date of completion	July 2022 (tentative)
	Building area	11,036.33m <sup>2</sup>
	Floor area subject to floor-area ratio	37,350.33m <sup>2</sup>
	Utilization of floor-area ratio	195.1%
	Total rentable area	36,394.00m <sup>2</sup>
	Use	Warehouses, offices

(Note 1) The amount is calculated by adding the estimated construction cost for the redevelopment (6,549 million yen) to the value of land stated in its initial sales agreement (2,469 million yen).

(Note 2) According to the current preliminary plan.

(Note 3) This is based on the current plan and is not intended to confirm the state of the property after the completion of the new building.

#### 4. Impact on Operational Performance

##### (1) Demolition

JLF currently estimates that demolition cost related to the OBR will be a total of 454 million yen. The cost will be posted under loss on retirement of non-current assets for the fiscal period ending January 31, 2021 (the 31<sup>st</sup> period), and demolition and removal-related cost for the fiscal period ending July 31, 2021 (the 32<sup>nd</sup> period). Because this cost will reduce net income, JLF plans to implement reversal of internal reserves of 258 million yen (285 yen per unit) for the fiscal period ending January 31, 2021 (the 31<sup>st</sup> period) and 493 million yen (544 yen per unit) for the fiscal period ending July 31, 2021 (the 32<sup>nd</sup> period) to even out DPU.

Refer to the Financial Report for the fiscal period ended July 31, 2020, which was published on September 14, 2020, for JLF's forecast that takes into account of the impact of the Project for the operating results for the 31<sup>st</sup> fiscal period ending January 31, 2021 and the 32<sup>nd</sup> fiscal period ending July 31, 2021.

##### Breakdown of demolition-related costs

Loss on write-offs of noncurrent assets	247 million yen
Demolition and removal-related cost	207 million yen

(2) New construction

JLF currently estimates that construction costs related to the Project will be a total of 6,549 million yen. The construction costs will be paid in installment in accordance with the progress of the construction work and the applicable amount will be posted under construction in progress for each period depending on the timing of the payment. We will give notice of financing in line with the construction costs as soon as the financing amount, period and method are finalized.

(3) Prospects for income/expenses of this asset

Tenant move-out as a result of the Project, as announced in the Financial Report for the Period Ended January 31, 2020 (REIT) published on March 13, 2020, " Forecasts for the Fiscal Period ending July 2020 (the 30th Period from February 1, 2020 to July 31, 2020) and the Fiscal Period ending January 2021 (the 31st Period from August 1, 2020 to January 31, 2021) ". The impact of this project on the operating results is expected to be negligible, as all tenants of the Property are expected to move out from the fiscal period ending January 31, 2021. Prospects for income/expenses are yet to be determined as rental revenue will not be generated during the period between the commencement and the completion of the OBR (September 2020 to July 2022) and income may also fluctuate after the completion of the OBR depending on the tenant occupancy.

5. Outline of Construction Contractors

(1) Construction contract

Name of company	Hazama Ando Corporation
Head office address	6-1-20 Akasaka, Minato-ku, Tokyo
Representative	Masato Fukutomi, Representative Director and President
Main line of business	Construction
Capital	17,006 million yen (as of March 31, 2020)
Date of establishment	October 1, 2003
Net assets	129,332 million yen (as of March 31, 2020)
Total assets	322,269 million yen (as of March 31, 2020)
Large shareholders	Japan Trustee Services Bank, Ltd.: 13.11% The Master Trust Bank of Japan, Ltd.: 6.33% (as of March 31, 2020)
Relation with JLF or the Asset Management Company	There are no capital or personal relationships. There is no noteworthy business relationship in the period ended July 31, 2020. The contractor is not a party related to JLF or MLP.

(2) Construction management contract (Note 1)

Name of company	Nikken Sekkei Construction Management, Inc.
Head office address	1-4-27 Koraku, Bunkyo-ku, Tokyo
Representative	Kazunori Mizuno, President and CEO
Main line of business	Consulting services for cost, quality and ordering of construction work
Capital	80 million yen (as of March 31, 2020)
Date of establishment	January 4, 2005
Net assets	Not disclosed (Note 2)
Total assets	5,321 million yen (as of March 31, 2020)
Large shareholders	NIKKEN SEKKEI LTD 100.0% (as of March 31, 2020)
Relation with JLF or the Asset Management Company	There are no capital or personal relationships. There is no noteworthy business relationship in the period ended July 31, 2020. The contractor is not a party related to JLF or MLP.

(Note 1) Pertaining to general supervision and adjustment supplementary business in relation to the Project.

(Note 2) Disclosure was not approved by the contractor.

6. Schedule

Conclusion of contract for demolition works: September 2020

Demolition works: September 2020 - January 2021

Conclusion of contract for new building construction: September 2020

New building construction: March 2021 - July 2022

7. Future Prospects

Refer to the Financial Report for the 30th period ended July 31, 2020, which was published on September 14, 2020, for JLF's forecast for the operating results for the 31st fiscal period ending January 31, 2021, and the 32nd fiscal period ending July 31, 2021, which take into account the impact on the Project.

(End)

Reference Materials:

Reference Material 1: Conceptual illustration (After redevelopment)

Reference Material 2: Location maps of this asset

\*JLF's website: <http://8967.jp/eng/>



Reference Materials:

Reference Material 1: Conceptual illustration  
(After redevelopment) (Note)



(Note) This illustration is based on the assumed state of the new building after redevelopment, and may differ from actual structure following completion.

(Photo of the building before redevelopment)



Reference Material 2: Location maps of this asset

• Wide view



• Neighboring view

