Japan Prime Realty Investment Corporation

May 24, 2018

For Translation Purposes Only

For Immediate Release

Japan Prime Realty Investment Corporation
Satoshi Okubo, Executive Officer
(Securities Code: 8955)
Asset Management Company:
Tokyo Realty Investment Management, Inc.
Yoshihiro Jozaki, President and CEO
Inquiries: Yoshinaga Nomura, Director and CFO
(TEL: +81-3-3516-1591)

Notice Concerning Revisions to Internal Rules (JPR Asset Management Guidelines) at Asset Management Company

Japan Prime Realty Investment Corporation (JPR) today announced that Tokyo Realty Investment Management, Inc. (TRIM), a registered asset management company retained by JPR to provide asset management services, decided to revise the JPR Asset Management Guidelines, one of its internal rules, at its Board of Directors meeting held today, as outlined below.

Details

1. Overview of Revisions

TRIM has decided to revise its asset management guidelines for JPR to be able to maintain and pursue earnings in a stable manner amidst changes in the investment environment and other factors, as well as to pursue the maximization of unitholder value through building an excellent portfolio over a medium to long term.

2. Background of Revisions

JPR has enhanced portfolio quality and expanded asset size by setting superior office buildings (urban commercial facilities) and retail properties found in thriving commercial areas as its investment targets, and stipulating target property size (building with minimum total floor space of approximately 3,300 m^2 (approximately 1,000 tsubos) and minimum floor space of approximately 330 m^2 (approximately 100 tsubos) per standard floor, in principle) as part of investment standards particularly for office properties from a viewpoint of making selective investments.

However, the change in environments surrounding the office market, including an increase in high-quality medium-sized office properties with favorable location, quality and performance in addition to solid demand for such offices with the diversification of tenant needs, has made properties with a prescribed floor area or more the core investment target. Nevertheless, investing also in properties that fall below the current standard concerning office size, taking into account the characteristics, etc. of individual properties, will lead to the sustainable growth of JPR and the enhancement of unitholder value with the increase in acquisition opportunities. According to such judgement, TRIM has revised its standard concerning office size this time.

There will be no change in JPR’s investment stance to place importance on quality even after this revision, and we will continue making selective investments going forward.

In addition, TRIM will make necessary revisions to provisions concerning tenants (tenant concentration as in the entire portfolio), sales policy, leasehold and security deposits/cash and bank deposits, LTV (Loan to Value) and such in accordance with the current management status, etc.

3. Major Revisions

(1) Office property size as investment standards

Before revisions	After revisions
Building with minimum total floor space of approximately 3,300 m^2 (approximately 1,000 tsubos) and minimum floor space of approximately 330 m^2 (approximately 100 tsubos) per standard floor, in principle (“Standard floor” represents a typical floor of the relevant building on the second story or higher.)	Investment will center on buildings with minimum total floor space of approximately 3,300 m^2 (approximately 1,000 tsubos). However, investment judgement will be made after comprehensively taking into consideration factors such as location characteristics, tenant business type and facility specifications of each individual property, and properties with smaller floor space than the above may be included.

(2) Other major revisions

1) Tenants (tenant concentration as in the entire portfolio)

Before revisions	After revisions
The percentage ratio of rent revenue generated from any individual tenant (or in the case of a tenant occupying several properties, the aggregate rent revenue) shall be less than 10% of the total rent revenue, in principle. (“Rent revenue” includes common charges, parking fees, warehouse usage fees, but does not include additional usage fees, etc.) The percentage ratio may exceed the above figure upon comprehensive consideration of the possibility of change in tenants or the credit worthiness of the tenant, provided that thorough information disclosure shall be made in such cases.	The percentage ratio of rent revenue generated from any individual tenant (or in the case of a tenant occupying several properties, the aggregate rent revenue) shall be less than 10% of the total rent revenue, in principle. (“Rent revenue” includes common charges, parking fees, warehouse usage fees, but does not include additional usage fees, etc.) In a case where the contract with a tenant is a pass-through type master lease, the individual tenant defined above shall mean the end tenant (sub-lessee), but risk management of the master lease tenant shall also be given attention. The percentage ratio may exceed the above figure upon comprehensive consideration of the possibility of change in tenants or the credit worthiness of the tenant, provided that thorough information disclosure shall be made in such cases.

2) Sales policy

Before revisions	After revisions
The Company will determine asset values each fiscal term and an investment policy committee will study whether to sell or hold any property that has declined more than 20% in terms of appraised value compared with book value at the end of each fiscal term. In addition, the Company may also consider the sale of other properties as it sees fit, as warranted by market conditions and other factors.	
The following are the main considerations in determining sales: 1) Market forecast 2) Development forecast for the surrounding area 3) Profitability forecast 4) Estimated amount of future investments (repair costs, capital expenditures 5) Forecast changes in valuation 6) Considerations of the portfolio as a whole (diversification by geographical location, tenant and asset class, etc.; impact on dividends, etc.)	In addition to consideration to the market environment, etc., the following are the main considerations in determining sales: 1) Result of asset appraisal conducted in each fiscal term 2) Market forecast 3) Development forecast for the surrounding area 4) Profitability forecast 5) Estimated amount of future investments (repair costs, capital expenditures 6) Forecast changes in valuation 7) Considerations of the portfolio as a whole (diversification by geographical location, tenant and asset class, etc.; impact on dividends, etc.)

3) Leasehold and security deposits/cash and bank deposits

Before revisions	After revisions
(A) Leasehold and security deposits 1) For real estate trust beneficiary interests In principle, all leasehold and security deposits by tenants will be reserved within the trust account, but the Company shall be able to reduce the reserve amount if warranted by accumulated historical date, the establishment of commitment lines and other provisions. 2) For real estate, real estate leaseholds and surface rights In principle, leasehold and security deposits by tenants will be deposited in full to a commercial bank savings account or time deposit account. However, the Company shall be able to reduce reserves in order to more effectively utilize these funds if warranted by accumulated historical data, the establishment of commitment lines and other provisions, while ensuring to maintain security.	(A) Leasehold and security deposits In principle, leasehold and security deposits by tenants will be deposited in full to a commercial bank savings account or time deposit account. However, the Company shall be able to reduce reserves in order to more effectively utilize these funds if warranted by accumulated historical data, the establishment of commitment lines and other provisions, while ensuring to maintain security.
(B) Cash and bank deposits in the trust account (for real estate in trust) All cash will be deposited in ordinary savings accounts or time deposit accounts at two or more banks with short-term debt ratings of at least P-2 from Moody's. (C) Cash and bank deposits in the Company accounts The provisions of (B) will apply to cash and bank deposits in the Company accounts. However, this will not include savings accounts established for use in the execution of loans by financial institutions or the payment of interest on loans. Surplus funds will, in principle, be paid out in the following order of priority; any balances will be administered as described above: 1) Reinvestment (refers to a use in purchasing properties or capital expenditures; The same applies hereinafter.) 2) Cash distribution to investors (however, no cash distributions will be made to investors in excess of profits as long as the current tax treatment requires investors to calculate capital gains/losses each time such investors receive cash distribution exceeding earnings. However, if the board of the Company decides that cash distribution exceeding earnings is required, the cash distribution exceeding earnings is allowed.) 3) Partial repayment of borrowings (however, this will be given the highest priority when the repayment maturity date of the loan agreement arrives, regardless of the priorities listed above.)	(B) Cash and bank deposits All cash will be deposited in ordinary savings accounts that bear no interest (ordinary savings accounts of which entire deposited amount is protected under the deposit insurance system) or savings accounts of highly credible banks taking into consideration the credit rating by rating agencies. However, this will not include savings accounts established for use in the execution of loans by financial institutions or the payment of interest on loans. Surplus funds will, in principle, be paid out for the following purpose; any balances will be administered as described above: 1) Acquisition of properties/capital expenditures 2) Repayment of interest-bearing debt 3) Cash distribution (including cash distribution in excess of profits) 4) Acquisition of treasury units

4) LTV (Loan to Value)

Before revisions	After revisions
Loan to value (LTV) refers to a ratio calculated as shown below. LTV = (Borrowings + Corporate bonds) / Total assets (Note) (Note) 1) Short-term corporate bonds are included in the corporate bonds. 2) Total assets refers to the amount shown in the assets column of the period-end balance sheet for the most recent period prior to the calculation of LTV, and is found by adjusting the period-end book value of specified assets held by the Company (specified by Article 2, Paragraph 1 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951; hereinafter referred to as "Investment Trusts Act")) for the difference between the period-end book value of the specified assets and its appraised value. The Company will, in principle, maintain LTV at levels of no higher than 55%, but may temporarily exceed this level due to the acquisition of properties or changes in appraised values.	Loan to value (LTV) refers to a ratio calculated as shown below. LTV = (Borrowings + Corporate bonds) / Total assets (Note) (Note) 1) Short-term corporate bonds are included in the corporate bonds. 2) Total assets refers to the amount shown in the assets column of the period-end balance sheet for the most recent period prior to the calculation of LTV. The Company will, in principle, maintain LTV at levels of no higher than 55%, but may temporarily exceed this level due to the acquisition of properties.

4. Date of Revisions

July 1, 2018 (planned)

5. Other

JPR submitted an extraordinary report to the Kanto Local Finance Bureau as of May 24, 2018.

6. Future Outlook

The revision to the JPR Asset Management Guidelines will have no impact on the operating forecasts of JPR for the fiscal period ending June 30, 2018.