

24 May 2019

To All Concerned Parties

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### Notice Concerning Asset Acquisition of Domestic Real Estate Trust Beneficiary Rights

Sakura Sogo REIT Investment Corporation (hereinafter the "Investment Corporation" or "SKR") announces that Sakura Real Estate Funds Management, Inc. (hereinafter "SREFM") has passed a resolution to acquire one asset (hereinafter referred to as the "Anticipated Acquisition") as outlined below:

#### 1. Overview of the Anticipated Acquisition

Property name	The Portal Akihabara
Asset type	Office
Location	Chiyoda-ward, Tokyo
Year of construction	May 2002
Anticipated acquisition price <sup>1</sup>	¥1,500,000,000
Appraisal value <sup>2</sup>	¥1,520,000,000

- Anticipated acquisition: Trust beneficiary rights
- Conclusion of purchase and sale agreement: 24 May 2019
- Anticipated settlement date: 3 June 2019
- Seller: Please refer to 4. Profile of the Seller of the asset to be acquired
- Acquisition funds: Anticipated acquisition will be acquired with debt financing and cash on hand (Please refer to the "Notice Concerning Borrowing" also announced today)
- Settlement method: Payment in full on settlement

#### 2. Reasons for the Transaction

SREFM, a licensed asset management company manages SKR's assets. SREFM is focused on implementing initiatives that enhance both SKR portfolio characteristics and unitholder value. This includes exploring opportunities to acquire assets, that increases SKR's geographical weighting to the Greater Tokyo Area<sup>3</sup> and the office portfolio particularly given the current strength of that sub-market. SREFM believes that real estate investments, particularly office assets located in the Greater Tokyo Area will benefit in the medium to long term by a more stable workforce population base relative to Regional locations in Japan. SREFM believes the Anticipated Acquisition outlined herein will further strengthen existing portfolio characteristics and the prospects for future earnings and distribution per

<sup>1</sup> "Anticipated acquisition price" indicates the anticipated purchase price for the trust beneficiary rights described in the purchase and sale agreement. It is exclusive of acquisition related expenses and consumption tax.

<sup>2</sup> "Appraisal value" is as at 1 May 2019

<sup>3</sup> Greater Tokyo Area consists of Tokyo, Kanagawa, Chiba and Saitama

unit. The forecast increase to Leasing Net Operating Income for the 6<sup>th</sup> Fiscal Period (ending 30 June 2019) and 7<sup>th</sup> Fiscal Period (ending 31 December 2019) is approximately ¥3 million and ¥29 million respectively. The forecast post acquisition loan to value ratio (hereinafter “LTV”) as at the end of the 6<sup>th</sup> Fiscal Period is 46.2% (vs. 44.8% as at the end of the 5<sup>th</sup> Fiscal Period ending 31 December 2018).

Furthermore, in deciding to complete the Anticipated Acquisition, SREFM has considered several key factors including the following:

1) *An increase in portfolio weighting to the Greater Tokyo Area*

Based on the investment guidelines, SKR targets maintaining a portfolio weighting of at least 50% to the Greater Tokyo Area (by acquisition price). Post the Anticipated Acquisition, SKR’s weighting to the Greater Tokyo Area will increase to 56.2% (from 55.0% as at the end of April 2019). SKR’s weighting to Central Tokyo<sup>4</sup> will increase to 44.9% (from 43.4%). This compares favorably with SKR’s Diversified and Small Cap REIT<sup>5</sup> peers which are 34.4% and 16.5% respectively as at 31 March 2019.

2) *An increase in portfolio weighting to office*

The Central Tokyo office market is performing strongly and is expected to remain firm in the foreseeable future. This is because there is limited new supply and office space demand continues to be robust. The Anticipated Acquisition will result in an increased weighting to SKR’s Central Tokyo office portfolio from 40.5% to 42.1% by acquisition price.

3) *A reduction in the weighted average property age*

Where possible, SKR also focuses on reducing the weighted average<sup>6</sup> age of the portfolio. The Anticipated Acquisition will result in a reduction in the weighted average age of the office portfolio to 28.2 years from 28.9 years (as at 30 Apr 2019). The weighted average age of the overall portfolio will decrease to 22.5 years from 22.6 years.

### 3. Features of the Anticipated Acquisition

The Anticipated Acquisition is a recently refurbished multi-tenant office building conveniently located within the Higashi-Kanda area. It is approximately a 4-minute walk from Bakurocho Station (JR Sobu Main Line), a 5-minute walk from Asakusabashi Station (JR Sobu and Toei Asakusa lines), and about an 8-minute walk from Akihabara Station (JR Yamate, Keihin Tohoku and Tokyo Metro Hibiya lines).

According to Sanko Estate Co., Ltd.’s office market report (March 2019), the vacancy rate in Central Tokyo where the Anticipated Acquisition is located was only 0.6% as at February 2019 and the average asking rent per tsubo as at February 2019 was ¥29,637 per tsubo per month, an increase of 5.9% over the past 12 months.

Renovation works were completed in March 2019 and included the following: 1. Extensive interior renovation and remodeling works (including installation of a kitchen and wood deck on 8F), 2. Upgrade to exterior walls, 3. Waterproofing works on the rooftop and all floors, 4. Office fitout works on all floors and 5. HVAC and ventilation systems renewal works. In addition, ceiling heights of approximately 3.4 meters were achieved by removing the suspended ceiling system and leaving structural beams exposed. Furthermore, by installing office and conference room

<sup>4</sup> Central Tokyo refers to the five central wards Chiyoda, Chuo, Minato, Shibuya and Shinjuku

<sup>5</sup> A “Diversified” REIT is a REIT investing in more than one type of asset class. A “Small Cap” REIT is defined as a REIT with less than ¥100 billion market cap. Source: J-REIT DB - Weighted average calculated using AUM of each J-REIT

<sup>6</sup> Weighted by acquisition value

furniture in line with tenant needs, the overall leasing appeal of the Anticipated Acquisition was significantly enhanced and the building now provides a modern, efficient work environment that has proven very attractive for start-up companies from multiple industries.

Having regard to all the above mentioned features and characteristics of the property, SREFM has determined that the acquisition of this property will enhance earnings and profit stability of the portfolio.

#### OF-08 The Portal Akihabara

Zoning	Commercial district
Asset type	Office / partial residential
Type of specified asset	Trust beneficiary interest
Trustee	SMBC Trust Bank Ltd.
Trust term	10 years from 3 June 2019 to 30 June 2029
Location	2-10-9 Higashi Kanda, Chiyoda-ward, Tokyo
Access	Bakurocho station (4 minute walk) JR Sobu main line Asakusabashi station (5-minutes) JR Sobu line Akihabara station (8-minutes) JR Yamanote, Keihin Tohoku, Hibiya, Tsukuba Express lines
Completion date	May 2002
Structure / Number of stories	Steel-frame reinforced concrete, steel-framed flat roof alloy plated steel plate / 8F
Building coverage ratio	80% (designated building coverage ratio)
Floor area ratio	500% (designated floor area ratio)
Site area	184.76 square meters (registered area)
Gross building area	1,010.67 square meters (registered area)
Total leasable area	941.69 square meters
Total leased area	840.54 square meters
Property management company	Sun Frontier Fudosan Co., Ltd.
Seismic risk (PML) <sup>1</sup>	8.2%
Anticipated acquisition price <sup>2</sup>	1,500 million yen
Appraisal value <sup>3</sup>	1,520 million yen
Appraisal NOI <sup>4</sup>	60.1 million yen
Appraisal firm	JLL Morii Valuation & Advisory K.K.
Tenant related (as at the date of this announcement)	
Total number of tenants	8
Total monthly all-in rent revenue	5.9 million yen
Occupancy	100.0%
Tenant security deposits	37.4 million yen
Special comments	n/a

<sup>1</sup> "PML" is extracted from the Earthquake Risk Valuation Report provided by Tokio Marine & Nichido Risk Consulting Co., Ltd. in April 2019

<sup>2</sup> "Anticipated acquisition price" as agreed to for the transaction and indicated in the Purchase and Sale Agreement (exclusive of acquisition related expenses and consumption tax)

<sup>3</sup> Effective date of the appraisal value is 1 May 2019

<sup>4</sup> "Appraised NOI" is defined as Net Operating Income, which is the operating income stated in the appraisal report minus operating expenses and is the income prior to deducting depreciation expenses. This is not the same as NCF (Net Cash Flow), which adds the revenue from the security deposit to the NOI and deducts Capex. The appraisal report NOI is based on the direct capitalization method and is rounded to the nearest thousand yen. Date of the appraisal report is 1 May 2019

#### Summary of the Appraisal Report

(unit: yen)

Property Name	The Portal Akihabara	
Appraisal Value	1,520,000,000	
Appraiser	JLL Morii Valuation & Advisory K.K.	
Appraisal Report Date	1 May 2019	
Item	Details	Description
Indicated value by income approach	1,520,000,000	Assessed utilizing a combination of the direct capitalization method and the DCF method. The direct capitalization method is an indicator that the profitability of the subject real estate is a clear

			method for net income and return yield, and the DCF method is effective by properly reflecting the forecast of net income. The appraisal value was calculated by taking the values derived from the direct capitalization method and the DCF method together into considerations.
Indicated value by direct capitalization method		1,540,000,000	Assessed by applying the direct capitalization rate to the appropriate net income of the subject real estate.
	(i) Operating revenue ((a)-(b))	69,013,331	-
	(a) Gross potential income	71,884,720	Assessed by applying the medium to long term stabilized rent to the rentable area.
	(b) Vacancy loss etc.	2,871,389	Assessed by taking into consideration the current and past occupancy of the subject real estate, market vacancy rates and future trends, tenant recruitment conditions, as well as the level of competitiveness of the subject real estate.
	(ii) Operating expenses	8,869,591	-
	Maintenance and management fee	2,040,000	Adopted terms of estimates received from service provider which are judged consistent in comparison with the maintenance and management costs of similar real estate.
	Utilities expense	170,916	Confirmed based on actual rates and comparing rates for similar properties.
	Repair expenses	885,500	Renewal work costs described in the engineering report were deemed appropriate, and 30% of the amount was recorded as repair expenses.
	Property management fee	1,725,333	Taking into considering the estimates received for property management services and the property management fees of similar real estate, we assessed property management fees at 2.5% of the revenue.
	Tenant leasing costs, etc.	717,847	Assessed from the projected churn. In addition, special advertising expenses were not included taking into consideration the competitiveness of the subject real estate.
	Property taxes	2,945,395	Based on the actual values obtained, the assessment was made in consideration of the rate of change that can be predicted by future reclassification of property tax.
	Insurance premiums	84,600	Assessed from the ratio to the replacement cost based on the actuals of similar real estate.
	Other expenses	300,000	Based on actuals of similar real estate.
	(iii) Net operating income (NOI = (i)-(ii))	60,143,740	-
	(iv) Financial interests on deposits	344,567	Assessed long term investment return as 1.0%.
	(v) Capital expenditures	2,066,167	Renewal costs described in the engineering report were recognized as appropriate, and 70% of that amount was classified as capital expenditure.
	(vi) Net cash flow (NCF = (iii)+(iv)-(v))	58,422,140	-
(vii) Capitalization rate		3.8%	Assessed taking into consideration forecast fluctuation of net income and level of competitiveness based on analyzing similar real estate transactions, potential supply and demand, building specifications, market rent, lease terms, tenant types, etc.
Indicated value of DCF method		1,500,000,000	Assessed by assuming current lease agreement terms and conditions and tenant characteristics, appropriately reflecting the change in future cash flows and terminal value.
	Discount rate	3.6%	Assessed from the discount rate for transactions of similar real estate and comparison with yields for other financial products.
	Terminal capitalization rate	3.9%	Assessed taking into consideration the marketability of the subject real estate at the end of the analysis period.
Indicated value by cost approach		776,000,000	Assessed by applying depreciation price correction to the replacement cost as well as taking the marketability of the land and building as a single piece of real estate into consideration.
	Ratio of land	80.0%	-
	Ratio of building	20.0%	-
Other matters of consideration		Since the subject real estate is an office building with a residential component, and the buyer is one who undertakes transactions with an emphasis on profitability, it is judged that the value is based on income reflecting actual market conditions. On the other hand, the indicated	

	value by cost approach focuses on cost and is judged as being difficult to fully reflect market conditions and profitability of the subject property when calculating the value. Based on the above, the appraisal value of the subject real estate was determined with an emphasis on the income approach and the indicated value by cost approach method was noted for reference purposes.
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#### 4. Profile of the Seller of the asset to be acquired

There are no capital, personal and business relationships between SKR, SREFM and the Seller. In addition, the Seller is not a “related party” of SKR or SREFM.

Company Name	Sun Frontier Fudosan Co., Ltd.
Head Office	1-2-2 Yurakucho, Chiyoda-ku, Tokyo
Representative Director	Tomoaki Horiguchi
Principal Business	Real estate brokerage, property management, etc.
Capital	¥11,965 million (as of January 2018)
Established	8 April 1999
Net Assets (consolidated) <sup>1</sup>	¥55,860 million (as at March 2019)
Total Assets (consolidated) <sup>1</sup>	¥110,898 million (as at March 2019)
Major unitholders and unitholder ratio <sup>2</sup>	Houonsha Co., Ltd. 36.83% (as at March 2019)
Relationships with SKR and/or SREFM	
Capital	There is no capital relationship to report
Personal	There is no personal relationship to report
Business	There is no business relationship to report
Related Party Status	The Seller does not fall under the definition of a related party of SKR or SREFM

<sup>1</sup> Figures are rounded down to the nearest ¥1 million.

<sup>2</sup> The ratio of the number of shares held to the total number of issued shares is the unitholder ratio, and unitholders with a unitholding ratio of over 10% are listed as major unitholders.

#### 5. Overview of Brokerage

There are no capital, personal and business relationships between SKR, SREFM and the broker. In addition, the broker is not a “related party” of SKR or SREFM.

Company Name	Sanko Office Management
Head Office	4-6-1 Ginza, Chuo-ward, Tokyo
Managing Director	Hajime Miyo
Principal Business	Brokerage, asset management, leasing management, consulting
Capital	100 million yen
Established	13 December 2011
Relationships with SKR and/or SREFM	
Capital	There is no capital relationship to report
Personal	There is no personal relationship to report
Business	There is no business relationship to report
Related Party Status	The broker does not fall under the definition of a related party of SKR or SREFM
Notes	The broker did not allow disclosure of broker fee

#### 6. Future Outlook

The forecast increase to Leasing Net Operating Income for the 6<sup>th</sup> Fiscal Period (ending 30 June 2019) and 7<sup>th</sup> Fiscal Period (ending 31 December 2019) is approximately ¥3 million and ¥29 million respectively. Currently, SKR is not revising its earnings forecast announced on 14 February 2019, but will promptly disclose the details in the event a revised earnings forecast is deemed necessary.

### Reference Materials

- Reference Material 1 Portfolio List after the Anticipated Acquisition
- Reference Material 2 Summary of Engineering Report and Earthquake Risk Analysis
- Reference Material 3 Photographs and Location Map of Anticipated Acquisition

The original Japanese version of this press release is distributed to the press club of the Tokyo Stock Exchange (Kabuto Club), the press club of the Ministry of Land, Infrastructure, Transport and Tourism, and the press club for construction trade publications of the Ministry of Land, Infrastructure, Transport and Tourism.

Sakura Sogo REIT Investment Corporation website address: <http://sakurasogoreit.com/en/>

## Reference Material 1. Portfolio List after the Anticipated Acquisition

Property No.	Property name	Location	Acquisition price (¥m) <sup>1</sup>	Real estate appraisal value (¥m) <sup>2</sup>	Investment ratio (%) <sup>3</sup>
OF-01	Seishin Building	Shinjuku, Tokyo	7,880	8,900	13.7
OF-02	NK Building	Chiyoda, Tokyo	3,730	4,010	6.5
OF-03	Tsukasamachi Building	Chiyoda, Tokyo	3,820	4,060	6.6
OF-04	Takadanobaba Access	Shinjuku, Tokyo	3,330	3,550	5.8
OF-05	Azabu Amerex Building	Minato, Tokyo	2,020	2,310	3.5
OF-06	Hiei Kudan Building	Chiyoda, Tokyo	1,960	2,120	3.4
OF-07	Shin Yokohama Nara Building	Yokohama, Kanagawa	1,910	2,030	3.3
OF-08	The Portal Akihabara	Chiyoda, Tokyo	1,500	1,520	2.6
Office sub-total			26,150	28,500	45.4
RT-01	La Park Kishiwada	Kishiwada, Osaka	6,460	6,650	11.2
RT-02	Suoy Mall Chikushino	Chikushino, Fukuoka	7,670	7,790	13.3
RT-03	Seiyu Minakuchi	Koka, Shiga	4,150	4,140	7.2
RT-04	Suoy Mall Nagamine	Kumamoto, Kumamoto	4,180	4,470	7.3
Retail sub-total			22,460	23,050	39.0
RS-01	Shiroi Logiman	Shiroi, Chiba	2,180	2,170	3.8
RS-02	Matsuya Residence Sekime	Osaka, Osaka	1,820	1,970	3.2
RS-04	Urban Plaza Imazato	Osaka, Osaka	940	949	1.6
RS-05	Abode Yoyogi Parkside	Shibuya, Tokyo	1,600	1,680	2.8
Residential sub-total			6,540	6,769	11.4
OT-01	Funabashi Hi Tech Park I	Funabashi, Chiba	1,720	1,800	3.0
OT-02	Funabashi HiTech Park II	Funabashi, Chiba	710	782	1.2
Other sub-total			2,430	2,582	4.2
Total Portfolio			57,580	60,901	100.0

<sup>1</sup> "Acquisition Price" as agreed to for the transaction and indicated in the Purchase and Sale Agreement (exclusive of acquisition related expenses and consumption tax)

<sup>2</sup> Appraisal reports provided by Daiwa Real Estate Appraisal Co., Ltd. with effective date 31 December 2018 for existing properties. Appraisal report for anticipated acquisition provided by JLL Morii Valuation & Advisory K.K. has effective date 1 May 2019.

<sup>3</sup> "Investment ratio" is the ratio of acquisition prices for each existing asset / anticipated acquisition asset to the total of acquisition prices, rounded down to the first decimal place.

## Reference Material 2. Summary of Engineering Report and Earthquake Risk Analysis

Property No.	Property name	Engineering Firm	Engineering Report Investigation Date	Short term repair expenses <sup>1</sup> (thousand yen)	Medium to long term repair expenses (thousand yen) <sup>2</sup>	PML (%) <sup>3</sup>
OF-01	Seishin Building	TRC <sup>4</sup>	5 October 2015	0	18,603	5.5
OF-02	NK Building	TRC <sup>4</sup>	8 October 2015	0	16,031	8.4
OF-03	Tsukasamachi Building	TRC <sup>4</sup>	8 October 2015	0	12,823	9.4
OF-04	Takadanobaba Access	TRC <sup>4</sup>	5 October 2015	0	16,108	3.5
OF-05	Azabu Amerex Building	TRC <sup>4</sup>	5 October 2015	0	5,682	9.3
OF-06	Hiei Kudan Building	TRC <sup>4</sup>	8 October 2015	0	17,234	3.5
OF-07	Shin Yokohama Nara Building	TRC <sup>4</sup>	16 October 2015	0	13,798	4.4
OF-08	The Portal Akihabara	RRI <sup>5</sup>	18 March 2019	0	2,952	8.2

RT-01	La Park Kishiwada	TRC <sup>4</sup>	5,6 October 2015	0	71,684	14.8
RT-02	Suoy Mall Chikushino	TRC <sup>4</sup>	21,22 June 2016	0	30,314	1.7
RT-03	Seiyu Minakuchi	TRC <sup>4</sup>	9 October 2015	0	14,058	4.2
RT-04	Suoy Mall Nagamine	TRC <sup>4</sup>	26 June 2016	0	14,857	8.1

RS-01	Shiroy Logiman	TRC <sup>4</sup>	13 October 2015	0	48,374	3.6
RS-02	Matsuya Residence Sekime	TRC <sup>4</sup>	7 October 2015	0	22,752	11.6
RS-04	Urban Plaza Imazato	TRC <sup>4</sup>	6 October 2015	0	7,993	12.0
RS-05	Abode Yoyogi Parkside	JCIA <sup>6</sup>	11 July 2017	0	642	7.3

OT-01	Funabashi Hi Tech Park I	TRC <sup>4</sup>	16 October 2015	0	1,901	4.6
OT-02	Funabashi Hi Tech Park II	TRC <sup>4</sup>	16 October 2015	0	3,123	4.6

Total Portfolio				0	318,929	3.9
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<sup>1</sup> "Short term repair expenses" are the expenses stated in the Engineering Report as expenses in need and repair required within roughly one year, rounded to the nearest thousand yen.

<sup>2</sup> "Medium to long-term repair expenses" is the average amount per year of the repair and renewal expenses projected for the next 12 years stated in the Engineering Report, rounded to the nearest thousand yen.

<sup>3</sup> "PML" ("Probable Maximum Loss") for the planned acquisition and overall PML is extracted from the Earthquake Risk Valuation Report provided by Tokio Marine & Nichido Risk Consulting Co., Ltd. in April 2019. PML for the residual assets is extracted from the Earthquake Risk Valuation Reports provided by Tokyo Marine & Nichido Risk Consulting Co., Ltd. in May 2018.

<sup>4</sup> Tokio Marine & Nichido Risk Consulting Co., Ltd.

<sup>5</sup> Rubicon Realty Inc.

<sup>6</sup> JCIA Japan Constructive Inspect Association



### Reference Material 3. Photographs and Location Map of Anticipated Acquisition

#### 1. OF-08 The Portal Akihabara





