

[Provisional Translation Only]

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Issuer

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Hotel Acquisition (HOTEL EMIT SHIBUYA)

Ichigo Hotel decided today to acquire the HOTEL EMIT SHIBUYA in central Tokyo.

1. Acquisition Summary

Hotel Name	HOTEL EMIT SHIBUYA
Hotel Number ¹	C-4 025
Hotel Type	Lodging-focused
Date Built	January 2018
Form of Ownership	Trust beneficiary interest in real estate (<i>juekiken</i>)
Appraisal Value ²	JPY 4,200,000,000
Acquisition Price ³	JPY 3,700,000,000
Seller ⁴	Third-party Japanese company
Contract Date	January 31, 2020
Closing Date	February 25, 2020
Financing Method	Cash-on-hand
Settlement Method	Lump-sum payment

¹ The initial letter “C” is Ichigo Hotel’s region code for where the hotel is located, in this case Tokyo. Please see page 10 for region code details.

² Appraisal Value is calculated by Tanizawa Sogo Appraisal as of December 1, 2019, and is in compliance with the appraisal guidelines of Ichigo Investment Advisors (“IIA”) as well as the rules of the Investment Trusts Association of Japan.

³ Acquisition Price excludes incidental expenses such as fees and property, city planning, and consumption taxes.

⁴ The seller, a third-party Japanese company, did not provide consent to disclose its name.

2. Acquisition Rationale

Ichigo Hotel continues to execute on its strategy to grow earnings and dividends for its shareholders.

As part of that strategy, Ichigo Hotel is today acquiring the HOTEL EMIT SHIBUYA near Shibuya Station, one of Tokyo's top transportation hubs and retail and office centers, and one which is expected to attract many visitors during the Tokyo Olympics.

Ichigo Hotel will acquire the hotel at 11% discount to appraisal value using proceeds from the sale of the Hotel Premio Vista Kyoto announced in the August 27, 2019 release "Hotel Sale (Hotel Premio Vista Kyoto)." Today's acquisition is forecast to increase Ichigo Hotel's annual NOI by JPY 144 million.

The HOTEL EMIT SHIBUYA is a six-minute walk from Shibuya Station on the JR Yamanote Line, Tokyu Toyoko Line, Keio Inokashira Line, and Tokyo Metro Subway Lines. The hotel is located within one of Tokyo's most popular retail and cultural districts, and is within easy walking distance of two more, Harajuku and Omotesando. The hotel is also near the headquarters of NHK, Japan's national broadcaster, as well as the NHK Studio Park, NHK Hall concert venue, Yoyogi National Stadium, Yoyogi Park, and Shibuya Public Hall theater. The prime location enables it to capture stable business demand as well as leisure demand.

As rapid re-development projects are underway around Shibuya Station, office and retail demand is expected to continue to grow. However, new supply of hotels is very limited in the area, allowing Ichigo Hotel to benefit from ongoing visitor demand. Tourist demand in Tokyo has been firm, with inbound demand forecast to continue increasing. Shibuya will continue to attract inbound tourists given the popularity of its retail and cultural offerings.

The hotel's current operator is SHIDAX DAISHINTO HUMAN SERVICE Inc. ("SHIDAX DHS"), a hotel operator in the SHIDAX Group. Ichigo Hotel will enter into a lease contract with sponsor Ichigo's hotel operator, Hakata Hotels, to take over the hotel's operating rights. Hakata Hotels will subcontract hotel operations to SHIDAX DHS, which will continue operating the hotel.

Ichigo Hotel will work closely with Hakata Hotels and SHIDAX DHS to capture the continuing growth potential from inbound tourism.

3. Description and Location of the HOTEL EMIT SHIBUYA

The HOTEL EMIT SHIBUYA is located in the heart of Shibuya and caters to business, leisure, and inbound demand due to its convenient access to the NHK Broadcasting Center, NHK Hall, Yoyogi National Stadium, Yoyogi Park, and Shibuya Public Hall.

The hotel is within walking distance from Shibuya station and is located near Omotesando and Harajuku, two other popular shopping and cultural areas. The guest rooms are mostly single-bed rooms, and with some double rooms, capable of accommodating the diverse needs of travelers. The guest rooms feature stylish room decor with furniture by Japan's major interior goods brand, ACME Furniture.

The HOTEL EMIT SHIBUYA is a BELS-certified asset. BELS (Building-housing Energy-efficiency Labeling System) is a public evaluation system that assesses the energy efficiency of nonresidential buildings by assigning a ranking of from one to five stars. The HOTEL EMIT SHIBUYA was ranked four stars.



Hotel Details						
Legal Form of Asset		Trust beneficiary interest in real estate (<i>juekiken</i>)				
Trustee		Mitsubishi UFJ Trust and Banking Corporation				
Period of Trust Contract		February 25, 2020 – February 28, 2030 (Expected)				
Location		1-8-11 Jinnan, Shibuya-ku, Tokyo				
Land	Property Right	Freehold				
	Area	388.82m ²				
	Zoning	Commercial				
	Coverage Ratio Floor Area Ratio	100% 366%				
Building	Property Right	Freehold				
	Use	Hotel				
	Structure ¹	Steel 7F				
	Total Floor Area	1,470.52m ²				
	Date Built	January 24, 2018				
Appraiser		Tanizawa Sogo Appraisal Co., Ltd.				
Appraisal Value		JPY 4,200,000,000				
Appraisal Date		December 1, 2019				
Value by Direct Capitalization Method		JPY 4,340,000,000				
Number of Guest Rooms		72				
Architect ²		K PARTNERS ARCHITECTS Co., Ltd.				
Builder ²		Nakano Corporation				
Structural Designer ²		K PARTNERS ARCHITECTS Co., Ltd.				
Inspection Agency ²		Japan ERI Co., Ltd.				
PML (Assessor)		6.57% (Sompo Risk Management & Health Care Inc.)				
Collateral		None				
Lease Details						
Tenant Overview						
	Number of Tenants	1				
	Rental Income ³	Minimum Guaranteed Rent*: JPY 73,792,067 p.a. Variable Rent: Monthly GOP (Gross Operating Profit) – (Monthly Minimum Guaranteed Rent + Percentage of Monthly GOP) * Minimum Guaranteed Rent from March 1, 2020 to February 28, 2021				
	Deposit	No lease or guarantee deposit				
	Leasable Area	1,470.52m ²				
	Leased Area	1,470.52m ²				
	Occupancy	August 2019	September 2019	October 2019	November 2019	December 2019
		100%	100%	100%	100%	100%

Property Management Company	Building Management & Strategy Inc.
Master Lease Company	Ichigo Hotel REIT Investment Corporation
Master Lease Type	Pass-through
Appraisal NOI Yield ⁴	4.1%
Post-Depreciation NOI Yield ⁵	3.7%
Special Items	
<p>An engineering report indicates the following issues with the building. The seller has agreed to rectify them at the seller's expense by the acquisition date.</p> <ol style="list-style-type: none"> 1. An outdoor signboard permit has not been confirmed for the hotel's outdoor signboards exceeding a total size of 10m². 2. A polycarbonate roof over guest washing/drying machines on the west side of the building should be considered a building extension. However, the hotel has not applied for a permit. 3. A polycarbonate roof over a washing machine on the north side of the building should be considered a building extension. However, the hotel has not applied for a permit. 4. A tent-type storage space under an outdoor stairway should be considered a building extension. However, the hotel has not applied for a permit. 5. The studded paving blocks (for visually handicapped people) may not be properly placed on an access ramp between a public road and the hotel entrance intercom. 6. There may be less than the required 150mm of space between a water storage tank and a drainage pipe. 	

¹ Building Structure refers to the structure described in the real estate registry.

² Names of the architect, builder, structural designer, and inspection agency are those as of when the building was built.

³ Rental Income includes all rent from hotel facilities.

⁴ Appraisal NOI Yield = Appraisal NOI (Net Operating Income) in the real estate appraisal report divided by the Acquisition Price. This figure is independently calculated by IIA based upon the above data and is therefore not in the real estate appraisal report itself.

⁵ Post-Depreciation NOI Yield = Appraisal NOI in the real estate appraisal report minus Depreciation, divided by the Acquisition Price. Depreciation is independently calculated by IIA using the straight-line method, and the Post-Depreciation NOI Yield is calculated by IIA based upon the above data and are therefore not in the real estate appraisal report itself.

Appraisal Details		
Hotel Name	HOTEL EMIT SHIBUYA	
Appraisal Value	JPY 4,200,000,000	
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.	
Appraisal Date	December 1, 2019	
	Amount	Note
Appraisal Value	JPY 4,200,000,000	Based on a DCF valuation, and verified using a direct capitalization valuation and DCF valuation
Value by Direct Capitalization Method	JPY 4,340,000,000	
Income	JPY 165,640,008	
Maximum Obtainable Rental Income	JPY 165,640,008	
Vacancy Loss	—	
Expenses	JPY 12,699,510	
Administrative & Maintenance Expenses	—	Borne by tenant
Utility Expenses	—	Borne by tenant
Repair Expenses	1,250,000	Based on the average of the past 12 years of engineering reports and past expenses at similar assets
PM Fee	1,200,000	Based on estimates
Leasing Brokerage Fees	—	
Taxes	9,296,200	Based on FY2019 actual amounts (including depreciable asset tax)
Insurance Premiums	125,110	Based on insurance estimates
Other Expenses	828,200	0.3% of rental income (accounted for as a variable expense)
Net Operating Income (NOI)	JPY 152,940,498	
Income on Investment of Deposits Received	—	
Capital Expenditure	JPY 5,380,000	Based on the average of the past 12 years of engineering reports and past expenditures at similar assets
Net Profit	JPY 147,560,498	
Cap Rate	3.4%	Based on transactions of similar assets and comprehensive assessment of the asset's location, its individual characteristics, and property rights

	Value via DCF Method	JPY 4,140,000,000	
	Discount Rate	3.5%	Based on transactions of similar assets and the yields of financial assets with the asset's individual characteristics taken into account
	Terminal Cap Rate	3.6%	Based upon risk-adjusted NOI
	Value via Cost Approach	JPY 4,190,000,000	
	Land	87.0%	
	Building	13.0%	Sum of building and FF&E values divided by sum of building, FF&E, and land values
Notes			
None			

4. Seller Profile

Name	Third-party Japanese company
Relationship with Ichigo Hotel or IIA	The seller does not have any capital, personnel, or business relationship of note with Ichigo Hotel or IIA. In addition, the seller 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. Ownership History

The HOTEL EMIT SHIBUYA was not acquired from a related-party seller.

6. Broker Profile

Name	The broker did not provide consent to disclose its name.
Relationship with Ichigo Hotel or IIA	The broker does not have any material capital, personnel, or transactional relationship with Ichigo Hotel or IIA. In addition, the broker 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.
Broker Fee	The broker did not provide consent to disclose the fee.

7. Related-Party Transaction

Hakata Hotels, a consolidated subsidiary of Ichigo, IIA's parent company, will become the tenant of the hotel as of February 25, 2020. Because Hakata Hotels is a related party as defined in the Ordinance of the Investment Trust and Investment Corporation Law and IIA's internal rules, Ichigo Hotel obtained prior approval as a related-party transaction from IIA's Board of Directors.

8. Acquisition Schedule

Ichigo Hotel Board Resolution Date	January 31, 2020
Contract Date	January 31, 2020
Acquisition and Settlement Date	February 25, 2020 (Expected)

9. Earnings Outlook

The acquisition of the HOTEL EMIT SHIBUYA is forecast to increase Ichigo Hotel's July 2020 fiscal period NOI and dividend by c. JPY 60 million and JPY 100, respectively. As the acquisition date is February 25, 2020, the acquisition will not impact January 2020 fiscal period earnings.

While Ichigo Hotel is not currently revising its existing earnings forecast for the July 2020 fiscal period, the HOTEL EMIT SHIBUYA has a variable-rent lease agreement, and Ichigo Hotel will work with Hakata Hotels and the current hotel operator to drive further value growth. Should an earnings forecast revision become necessary, Ichigo Hotel will promptly disclose the details.

Appendix A: Engineering Report Summary

Inspector Name	Tokio Marine & Nichido Risk Consulting Co., Ltd.
Inspection Date	December 2019
Short-Term Repair Expenses ¹	—
Long-Term Repair Expenses ²	JPY 52,278,000
Current Replacement Cost	JPY 499,400,000

¹ Short-Term Repair Expenses are defined as repair expenses considered necessary beyond the scope of ordinary maintenance within a year from the time of inspection.

² Long-Term Repair Expenses are defined as cumulative repair expenses considered necessary for the maintenance of the hotel within twelve years from the time of inspection.

Appendix B: Post-Acquisition Portfolio

Hotel No. ¹	Hotel Name	Prefecture	Lease Terms	Acquisition Price ² (JPY million)	% of Portfolio ³
A-1 004	Nest Hotel Sapporo Ekimae	Hokkaido	Variable Rent	2,160	4.2
A-2 008	Nest Hotel Sapporo Odori	Hokkaido	Variable Rent	1,450	2.9
A-3 018	Comfort Hotel Kushiro	Hokkaido	Fixed Rent	300	0.6
B-1 020	Grandpark-Inn Yokohama	Kanagawa	Fixed Rent	1,490	2.9
C-1 012	Smile Hotel Tokyo Asagaya	Tokyo	Variable Rent	3,910	7.7
C-3 016	Hotel Livemax Nihombashi-Hakozaki	Tokyo	Fixed Rent	1,360	2.7
C-4 025	HOTEL EMIT SHIBUYA	Tokyo	Variable Rent	3,700	7.3
D-1 006	Comfort Hotel Hamamatsu	Shizuoka	Fixed Rent	1,550	3.0
D-2 003	Hotel Wing International Nagoya	Aichi	Variable Rent	2,670	5.3
D-3 011	Comfort Hotel Central International Airport	Aichi	Fixed Rent	5,308	10.4
D-4 019	Comfort Hotel Suzuka	Mie	Fixed Rent	300	0.6
E-1 001	Smile Hotel Kyoto Shijo	Kyoto	Variable Rent	4,480	8.8
E-3 005	Chisun Inn Osaka Hommachi	Osaka	Variable Rent	1,630	3.2
E-4 007	Hotel Wing International Kobe Shin Nagata Ekimae	Hyogo	Variable Rent	1,490	2.9
E-5 010	Nest Hotel Osaka Shinsaibashi	Osaka	Variable Rent	7,600	15.0
F-1 017	Comfort Hotel Okayama	Okayama	Fixed Rent	1,200	2.4
F-2 015	Nest Hotel Matsuyama	Ehime	Variable Rent	1,610	3.2
F-3 021	Urbain Hiroshima Executive	Hiroshima	Fixed Rent	1,800	3.5
F-4 022	Court Hotel Kurashiki	Okayama	Variable Rent	1,725	3.4
F-5 024	Valie Hotel Hiroshima	Hiroshima	Variable Rent	1,500	3.0
G-1 009	Valie Hotel Tenjin	Fukuoka	Variable Rent	1,380	2.7
G-3 023	Nest Hotel Kumamoto	Kumamoto	Variable Rent	2,220	4.4
Total 22 Hotels				50,833	100.0

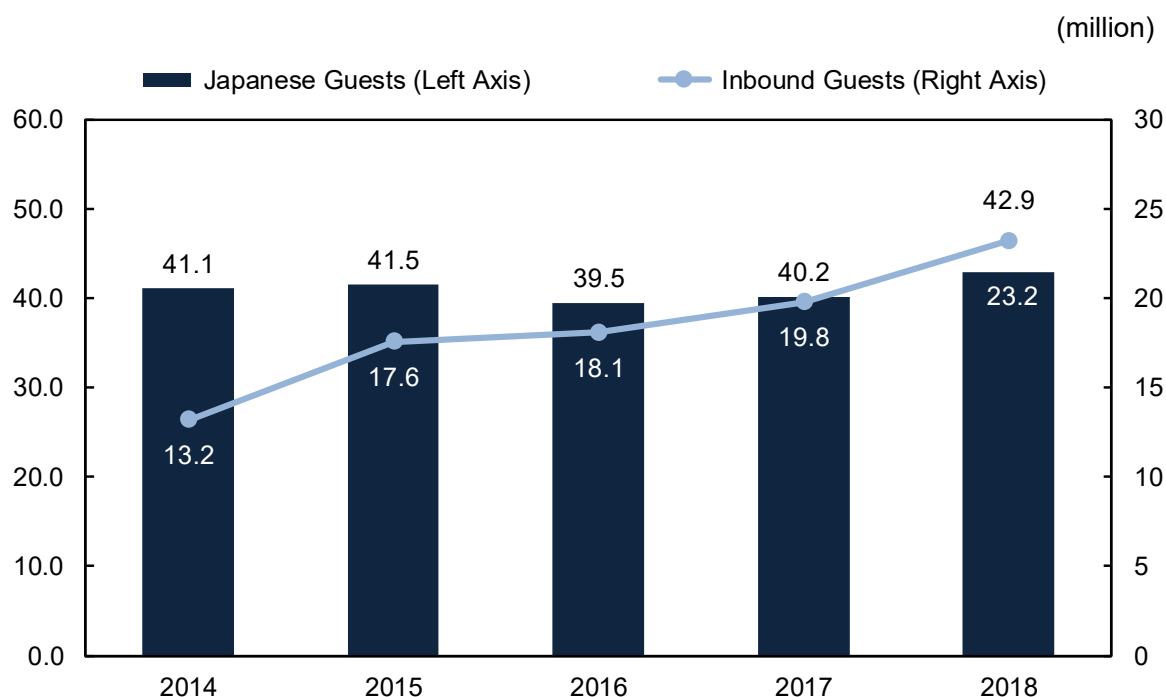
¹ The initial letter (A, B, etc.) is a region code which identifies the area in which the hotel is located.

Code	Region	Prefectures
A	Hokkaido/Tohoku	Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
B	Kanto	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Kanagawa, Yamanashi, Nagano, Niigata
C	Tokyo	Tokyo
D	Hokuriku/Tokai	Toyama, Ishikawa, Fukui, Gifu, Shizuoka, Aichi, Mie
E	Kinki	Osaka, Hyogo, Kyoto, Shiga, Nara, Wakayama
F	Chugoku/Shikoku	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Kagawa, Tokushima, Kochi, Ehime
G	Kyushu/Okinawa	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa

² Acquisition Price is the price as indicated in the purchase and sales agreement for the hotel (excluding fees and incidental expenses such as property, city planning, and consumption taxes).

³ % of Portfolio is the Acquisition Price of each hotel as a percentage of the Total Acquisition Price for the portfolio, rounded to the nearest tenth.

Appendix C: Annual Hotel Guests in Tokyo



Note: Data prepared by IIA based on the Japan Tourism Agency's "Statistical Survey of Travelers," 2014 – 2018.