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Announcement of Partial Disposal of Domestic Property

Japan Real Estate Investment Corporation (“JRE”) announced today that Japan Real Estate Asset Management Co., Ltd., an asset management company to which JRE entrusts the management of its assets, decided on September 26, 2018 the partial disposal of domestic property as follows:

1. Outline of the disposal

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|---|---|
| 1) Name of property: | Lit City Building (retail unit)
(Okayama city, Okayama prefecture) |
| 2) Property to be disposed: | Domestic property
Land: Freehold (share of co-ownership)
Building: Compartmentalized building units (retail unit)
(share of ownership of the building: 3.15%) (Note 1) |
| 3) Disposition price: | ¥650 million (Note 2) |
| 4) Estimated book value: | ¥370 million (Note 3) |
| 5) Difference between the
disposition price and
estimated book value: | ¥279 million (Note 4) |
| 6) Scheduled contract date: | September 27, 2018 |
| 7) Scheduled closing date: | September 28, 2018 |
| 8) Buyer: | Domestic business corporation (Note 5) |
| 9) Method of Settlement: | Lump sum payment at closing of disposition |

(Note 1) JRE acquired 27.75% share of ownership of the building on February 1, 2006. JRE will continue to have the ownership of the office unit even after the above disposal and JRE's share of ownership of the building will be 24.60%.

(Note 2) Disposal costs, adjustment amounts of property taxes and city planning taxes and consumption taxes, etc. are not included in the disposition price.

(Note 3) The estimated book value means the estimated book value as of September 26, 2018 computed by the asset management company based on the book value at the end of the period ended March 31, 2018, the scheduled capital expenditures and the estimated depreciation for up to September 26, 2018. The number is rounded down to the nearest million.

(Note 4) It does not mean the actual gain on disposition as it does not include other costs. The number is rounded down to the nearest million.

(Note 5) The details concerning the domestic business corporation are undisclosed due to non-approval of disclosure by the corporation.

2. Reasons for the partial disposal

Customer flow is separated between the subject retail unit and the office area of this building. Thus, integrated operation of the said retail unit and the office unit owned by JRE is difficult to be realized.

Under such circumstances, JRE received a proposal from the buyer to dispose the said retail unit of the building and the disposal was decided after reviewing the current and future portfolio strategy taking into consideration the characteristic of the building, the profitability of the portfolio and the real estate market trend, etc. with the asset management basic policy and the investment attitude stipulated in the Article of the Company.

3. Details of the property to be partially disposed

The relevant information is as set out below; provided that the information on “area,” “structure” and “completion date” is derived from the land registry, “usage” described below is among the main usages listed in the land registry.

Entire property	
Name of property	Lit City Building
Type of specified assets	Real estate
Location (Address)	15-1 Ekimoto-machi, Okayama City, Okayama Prefecture
Usage	Offices and shops
Area	
Land	7,596.44 m ² (total land area for the building site)
Building	52,653.19 m ² (total floor space for the entire building)
Structure	Steel-framed, reinforced concrete structure, flat roof Above ground: 20 floors Below ground: 2 floors
Completion date	June 2005
Date of acquisition	February 2006
Acquisition price	¥ 4,650 million
Property to be disposed (retail unit)	
Type of ownership	
Land	Ownership (share of co-ownership: 27,911/1,000,000)
Building	Compartmentalized building units (retail unit) *share of ownership of the building: 3.15%
Acquisition price	¥ 555 million

Appraisal value at the point of disposal (Appraisal institution) (Appraisal date)	¥ 514 million (Daiwa Real Estate Appraisal Co., Ltd.) (as of September 1, 2018)
Tenant details	
Total number of tenants	9 (as of September 26, 2018. Same applies to below)
Total leasable space	1,058 m ²
Total leased space	1,058 m ²
Occupancy rate	100.0 %
Rent revenues	¥ 24,037 thousand (as of March 2018 period)
Security deposit	¥ 37,180 thousand (as of September 26, 2018)

4. Outline of the buyer

Buyer is a domestic business corporation, but the details concerning the domestic business corporation are undisclosed due to non-approval of disclosure by the corporation. The domestic business corporation is not applicable to a party with special interest.

5. Transaction with related parties

Transactions with interested parties stipulated by the Act on Investment Trusts and Investment Corporations of Japan will not be conducted with the disposal of the property.

6. Outline of the brokerage

Not applicable

7. Schedule of the disposal

September 26, 2018	Decision of the disposal of the property
September 27, 2018	Execution of the agreement for the disposal (scheduled)
September 28, 2018	Closing of transaction (scheduled)

8. Performance projection

As the impact of the partial disposal of this property on the JRE's management performance for the September 2018 period from April 1, 2018 to September 30, 2018 and the March 2019 period from October 1, 2018 to March 31, 2019 is expected to be minor, no revision of the forecast for performance will be made.

A part of the gain on this disposal will be considered to be reserved for reduction entry by utilizing special taxation measure "Exceptions of the Taxation in case of the Replacement by Purchase of Specific Assets" in Article 65-7 of the Special Taxation Measures Act for the purpose of stabilizing and leveling distribution per unit in the future.

9. Outline of appraisal report

Name of property	Lit City Building
Appraisal value	¥ 514,000 thousand
Appraisal institution	Daiwa Real Estate Institute
Date of appraisal	September 1, 2018

Item	Amount (thousand yen)	General Outline
Capitalization Value	514,000	Estimated with DCF method which is referring future net cash flow and also with the validation of capitalization value by direct method.
Direct Capitalization Value	515,000	
(1) Operating Revenue [①－②]	53,181	
① Annual Rent Revenue	55,826	Estimated based on level and trend of comparable cases referring to medium-to long term competitiveness etc.
② Amount of Loss due to Vacancy	2,644	Calculated with the estimation of medium-to long term sustainable vacancy rate based on a level of comparable cases and considering competitiveness etc.
(2) Operating Expenses	20,069	
Maintenance Cost for Building	5,917	Calculated respectively based on the actual costs in past years.
Property Management Fee	(Note)	
Brokerage Fee etc.	252	Monthly cost referring to comparable property cases.
Utilities Expenses	7,000	Calculated based on the actual costs in the past considering occupancy rate.
Repairing Expenses	1,729	Estimated based on annual average costs listed on the engineering reports.
Property and Other Taxes	4,815	Estimated based on the actual figures for fiscal 2018.
Casualty Insurance	275	Estimated based on comparable properties cases.
Other Expenses	80	Calculated based on the estimated discretionary reserve such as supplies expenses.
(3) Net Operating Income [(1)－(2)]	33,112	
(4) Profit from Managing Security Deposit	322	Assessed at a rate of return on investment of 1%.
(5) Capital Expenditure	3,591	Estimated based on annual average costs in the engineering reports.
(6) Net Cash Flow [(3)+(4)－(5)]	29,843	
(7) Cap Rate	5.8%	Estimated taking account of comparable properties' cases and individual characteristics of the property such as location and building age etc.
Value under DCF method	513,000	
Discount Rate	5.6%	Estimated with reference to comparable discount rate etc.
Terminal Cap Rate	6.0%	Estimated with consideration of the marketability etc. of subject property upon termination of analyzing the cap rate.
Integrated Value	519,000	
Ratio of Land	31.1%	
Ratio of Building	68.9%	

* Values below a thousand yen are cut off.

Any special considerations made in the reconciliation of estimated value and determination of the final appraisal value	None in particular
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(Note) The property management company of the subject property did not agree to disclose the property management fee. If the fee for the subject property were to be disclosed, it may impact on other deals related to the property management company, which could negatively affect JRE to delegate effective property management service based on JRE's policy of property maintenance and operation. This could in turn undermine the interest of JRE's unitholders. Accordingly, maintenance costs for the building and property management fees are shown in total amount.

This is the English translation of the announcement in Japanese dated September 26, 2018.
No assurance or warranties are given for the completeness or accuracy of this English translation.

List of all the properties of JRE after the disposal of the property

Area	Name	Location	Type of property	Acquisition date	Acquisition price (Note 1) (thousand yen)	Percentage of portfolio	Percentage by area
Tokyo metropolitan area (23 wards)	Kitanomaru Square	Chiyoda-ku, Tokyo	Real property	February 24, 2006	81,555,500	8.0%	76.6%
	MD Kanda Building	Chiyoda-ku, Tokyo	Real property	May 31, 2002	9,520,000	0.9%	
	Kandabashi Park Building	Chiyoda-ku, Tokyo	Real property	August 15, 2002	4,810,000	0.5%	
	Otemachi Financial City North Tower	Chiyoda-ku, Tokyo	Real property	March 31, 2014	15,462,900	1.5%	
	Nibancho Garden	Chiyoda-ku, Tokyo	Real property	April 1, 2005	14,700,000	1.4%	
	Mitsubishi UFJ Trust and Banking Building	Chiyoda-ku, Tokyo	Real property	March 28, 2007	44,700,000	4.4%	
	Burex Kojimachi Building	Chiyoda-ku, Tokyo	Real property	July 29, 2005	7,000,000	0.7%	
	Sanno Grand Building	Chiyoda-ku, Tokyo	Real property	January 31, 2005	10,200,000	2.1%	
				April 3, 2006	10,700,000		
				Total	20,900,000		
	Yurakucho Denki Building	Chiyoda-ku, Tokyo	Real property	August 1, 2003	7,200,000	0.7%	
	Kodenmacho Shin-Nihonbashi Building	Chuo-ku, Tokyo	Trust beneficiary rights	September 25, 2001	3,173,000	0.3%	
	Front Place Nihonbashi	Chuo-ku, Tokyo	Real property	January 19, 2018	17,560,000	1.7%	
	Kyodo Building (Kayabacho 2Chome)	Chuo-ku, Tokyo	Trust beneficiary rights	March 1, 2011	4,410,000	0.4%	
	Burex Kyobashi Building	Chuo-ku, Tokyo	Real property	July 22, 2002	5,250,000	0.5%	
	Ginza 1Chome East Building	Chuo-ku, Tokyo	Trust beneficiary rights	March 2, 2015	6,459,000	0.6%	
	Ginza Sanwa Building	Chuo-ku, Tokyo	Real property	March 10, 2005	16,830,000	1.7%	
	Ryoshin Ginza East Mirror Building	Chuo-ku, Tokyo	Real property	March 15, 2005	5,353,500	0.8%	
				May 24, 2010	2,645,922		
				Total	7,999,422		
	Harumi Front	Chuo-ku, Tokyo	Real property	January 7, 2013	31,300,000	3.1%	
	Harumi Center Building	Chuo-ku, Tokyo	Real property	December 18, 2007	26,800,000	2.6%	
	Akasaka Park Building	Minato-ku, Tokyo	Real property	November 15, 2011	60,800,000	6.0%	
	Aoyama Crystal Building	Minato-ku, Tokyo	Real property	March 14, 2003	7,680,000	0.8%	
	Clover Shiba-koen	Minato-ku, Tokyo	Trust beneficiary rights	January 20, 2015	4,500,000	0.4%	
	Shiodome Building	Minato-ku, Tokyo	Trust beneficiary rights	December 19, 2008	21,250,000	10.5%	
				January 15, 2010	54,600,000		
				May 1, 2015	10,100,000		
				March 30, 2017	10,450,000		
				September 1, 2017	10,530,000		
				Total	106,930,000		
	Shiba 2Chome Daimon Building	Minato-ku, Tokyo	Trust beneficiary rights	September 10, 2001	4,859,000	0.5%	
	Cosmo Kanasugibashi Building	Minato-ku, Tokyo	Trust beneficiary rights	September 25, 2001	2,808,000	0.3%	
	Tamachi Front Building	Minato-ku, Tokyo	Real property	March 30, 2017	6,210,000	0.6%	
	Shinjuku Eastside Square	Shinjuku-ku, Tokyo	Trust beneficiary rights	October 1, 2014	23,100,000	5.4%	
				January 25, 2017	6,660,000		
				March 30, 2018	25,460,000		
				Total	55,220,000		
	Shinjuku Front Tower	Shinjuku-ku, Tokyo	Trust beneficiary rights	April 17, 2018	2,025,000	2.5%	
	Shinwa Building	Shinjuku-ku, Tokyo	Real property	September 1, 2004	7,830,000	0.8%	
	Tokyo Opera City Building	Shinjuku-ku, Tokyo	Real property	September 13, 2005	9,350,000	3.1%	
				March 24, 2010	22,426,831		
				Total	31,776,831		
	TIXTOWER UENO	Taito-ku, Tokyo	Real property	June 15, 2012	22,000,000	2.2%	
	Higashi-Gotanda 1Chome Building	Shinagawa-ku, Tokyo	Real property	November 1, 2004	5,500,000	0.5%	
	Osaki Front Tower	Shinagawa-ku, Tokyo	Real property	February 1, 2011	12,300,000	1.2%	
	Omori-Eki Higashiguchi Building	Ota-ku, Tokyo	Trust beneficiary rights	September 10, 2001	5,123,000	0.5%	
	Shinjuku South Gate Project (tentative name) (Land with leasehold interest)	Shibuya-ku, Tokyo	Real property	March 24, 2004	6,670,000	0.5%	
				August 23, 2013	1,170,000		
				Total	5,500,000		
Yoyogi 1Chome Building	Shibuya-ku, Tokyo	Real property	April 1, 2004	8,700,000	0.9%		
Jingumae Terrace	Shibuya-ku, Tokyo	Real property	November 22, 2002	4,885,000	0.5%		
Jingumae Media Square Building	Shibuya-ku, Tokyo	Real property	October 9, 2003	12,200,000	1.2%		
			November 30, 2001	34,600,000			
			January 18, 2018	8,076,000			
Shibuya Cross Tower (Land with leasehold interest)	Shibuya-ku, Tokyo	Real property	Total	26,524,000	2.6%		
			November 14, 2003	3,740,000			
			April 1, 2004	360,000			
Ebisu Neonato	Shibuya-ku, Tokyo	Real property	February 18, 2014	10,512,000	1.4%		
			Total	14,612,000			
			February 28, 2005	8,500,000			
			December 19, 2012	520,000			
Harmony Tower	Nakano-ku, Tokyo	Real property	March 27, 2015	2,100,000	1.1%		
			Total	11,120,000			
			September 25, 2001	3,541,000			
			September 25, 2001	1,728,000			
Ikebukuro YS Building	Toshima-ku, Tokyo	Real property	August 2, 2004	4,500,000	0.4%		
Tokyo metropolitan area (excluding 23 wards)	Hachioji First Square	Hachioji City, Tokyo	Real property	March 31, 2005	3,300,000	0.6%	6.9%
				March 19, 2008	2,379,112		
				Total	5,679,112		
	Saitama Urawa Building	Saitama City, Saitama Prefecture	Real property	September 25, 2001	1,232,000	0.3%	
				October 11, 2001	1,342,000		
				Total	2,574,000		
	MM Park Building	Yokohama City, Kanagawa Prefecture	Real property	March 24, 2008	37,400,000	3.7%	
	Queen's Tower A	Yokohama City, Kanagawa Prefecture	Trust beneficiary rights	January 31, 2014	17,200,000	1.7%	
	Kawasaki Isago Building	Kawasaki City, Kanagawa Prefecture	Trust beneficiary rights	September 25, 2001	3,375,000	0.3%	
	Musashi Kosugi STM Building	Kawasaki City, Kanagawa Prefecture	Real property	March 25, 2008	4,000,000	0.4%	
Total: Tokyo metropolitan area					847,729,766	83.5%	83.5%

Hokkaido	8・3 Square Kita Building	Sapporo City, Hokkaido	Real property	June 1, 2007	7, 1 0 0, 0 0 0	0. 7 %	0. 7 %
Tohoku region	Jozenji Park Building	Sendai City, Miyagi Prefecture	Real property	January 31, 2005	1, 0 0 0, 0 0 0	0. 1 %	3. 2 %
	Higashi Nibancho Square	Sendai City, Miyagi Prefecture	Real property	January 7, 2013	9, 9 5 0, 0 0 0	1. 0 %	
	Sendai Honcho Honma Building	Sendai City, Miyagi Prefecture	Trust beneficiary rights	September 25, 2001	2, 9 2 4, 0 0 0	0. 3 %	
				June 28, 2006	2 5 0, 0 0 0		
				Total	3, 1 7 4, 0 0 0		
AER	Sendai City, Miyagi Prefecture	Real property	September 1, 2015	1 8, 6 4 0, 0 0 0	1. 8 %		
Hokuriku region	Kanazawa Park Building	Kanazawa City, Ishikawa Prefecture	Real property	February 28, 2002	2, 8 8 0, 0 0 0	0. 5 %	0. 7 %
				March 3, 2003	1, 7 0 0, 0 0 0		
				Total	4, 5 8 0, 0 0 0		
Kanazawa Kamitsutsumicho Building	Kanazawa City, Ishikawa Prefecture	Real property	October 3, 2016	2, 7 8 0, 0 0 0	0. 3 %		
Chubu region	Nishiki Park Building	Nagoya City, Aichi Prefecture	Real property	October 2, 2006	3, 8 5 0, 0 0 0	0. 6 %	3. 0 %
				November 1, 2006	1, 3 0 0, 0 0 0		
				June 9, 2014	6 5 0, 0 0 0		
				April 1, 2016	1 7 5, 0 0 0		
				Total	5, 9 7 5, 0 0 0		
	Nagoya Hirokoji Place	Nagoya City, Aichi Prefecture	Trust beneficiary rights	July 31, 2013	8, 5 6 7, 0 0 0	0. 8 %	
	Nagoya Hirokoji Building	Nagoya City, Aichi Prefecture	Real property	September 10, 2001	1 4, 5 3 3, 0 0 0	1. 4 %	
Nagoya Misono Building	Nagoya City, Aichi Prefecture	Real property	August 8, 2003	1, 8 6 5, 0 0 0	0. 2 %		
Kinki region	Shijo Karasuma Center Building	Kyoto City, Kyoto Prefecture	Real property	September 3, 2013	4, 4 0 0, 0 0 0	0. 4 %	7. 1 %
	Umeda Square Building	Osaka City, Osaka Prefecture	Trust beneficiary rights	April 1, 2015	1 5, 5 2 3, 5 2 0	1. 5 %	
	Shin-Fujita Building	Osaka City, Osaka Prefecture	Trust beneficiary rights	September 1, 2008	2 4, 0 0 0, 0 0 0	2. 4 %	
	Sakaisujihonmachi Building	Osaka City, Osaka Prefecture	Real property	September 25, 2001	2, 2 6 4, 0 0 0	0. 4 %	
				December 26, 2003	1, 9 0 0, 0 0 0		
	Total	4, 1 6 4, 0 0 0					
	Midosuji Daiwa Building	Osaka City, Osaka Prefecture	Trust beneficiary rights	September 25, 2001 February 28, 2002 Total	6, 9 3 4, 0 0 0 7, 3 8 0, 0 0 0 1 4, 3 1 4, 0 0 0	1. 4 %	
Amagasaki Front Building	Amagasaki City, Hyogo Prefecture	Trust beneficiary rights	March 25, 2015	9, 3 0 0, 0 0 0	0. 9 %		
Chugoku region	Lit City Building	Okayama City, Okayama Prefecture	Real property	February 1, 2006	4, 6 5 0, 0 0 0	0. 4 %	0. 7 %
				September 28, 2018	— 5 5 5, 1 3 1		
	NHK Hiroshima Broadcasting Center Building	Hiroshima City, Hiroshima Prefecture	Real property	Total	4, 0 9 4, 8 6 8	0. 3 %	
				March 25, 2004	1, 3 2 0, 0 0 0		
March 3, 2008				1, 4 5 0, 0 0 0			
Total	2, 7 7 0, 0 0 0						
Kyushu region	Tosei Tenjin Building	Fukuoka City, Fukuoka Prefecture	Real property	September 25, 2001	1, 5 5 0, 0 0 0	0. 2 %	1. 0 %
	Tenjin Crystal Building	Fukuoka City, Fukuoka Prefecture	Real property	June 1, 2005	5, 0 0 0, 0 0 0	0. 5 %	
	Hinode Tenjin Building	Fukuoka City, Fukuoka Prefecture	Trust beneficiary rights	September 10, 2001	3, 6 5 7, 0 0 0	0. 4 %	
Total: Other major cities					1 6 6, 9 3 7, 3 8 8	1 6. 5 %	1 6. 5 %
Total: Portfolio					1, 0 1 4, 6 6 7, 1 5 4	1 0 0. 0 %	1 0 0. 0 %

(Note1) Acquisition prices are expressed by eliminating the numbers below a thousand.

(Note2) Ratio and ratio by region are rounded to the nearest first decimal place.

(Note3) The acquisition price of Shinjuku South Gate Project (tentative name) (Land with leasehold interest) represents the acquisition price of the land and building net of the acquisition price of the building on March 24, 2004, as the building section was disposed on August 23, 2013.

(Note4) The acquisition price of Jingumae Media Square Building is the price of the property on the date of acquisition (October 9, 2003), including the sales cost (¥614 million) of the part of the property that was sold on October 30, 2009.

(Note5) The acquisition price of Shibuya Cross Tower (Land with leasehold interest) represents the acquisition price of the land and building net of the acquisition price of the building on November 30, 2001, as the building section was disposed on January 18, 2018.

(Note6) The acquisition price of Lit City Building excludes the acquisition price of the retail unit that is to be disposed on September 28, 2018.