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For Immediate Release

Investment Corporation

Japan Real Estate Investment Corporation

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Announcement of Disposition of Trust Beneficial Interest in Domestic Real Estate

Japan Real Estate Investment Corporation ("JRE") hereby announces that Japan Real Estate Asset Management Co., Ltd. ("JRE-AM"), an asset management company to which JRE entrusts the management of its properties, has decided to dispose of a trust beneficial interest in domestic real estate on September 19, 2019 as follows:

This disposition will take place in two steps.

1. Outline of the disposition

Name of property	Kawasaki Isago Building	
Disposition price	¥ 6,156 million	
	(i) 3,078 million yen (Quasi-co-ownership: 50%)	(ii) 3,078 million yen (Quasi-co-ownership: 50%)
Estimated book value	¥ 1,423 million	¥ 1,417 million
Estimated gain on disposition	¥ 1,581 million	¥ 1,595 million
Buyer	Undisclosed (see item 4 below)	
Brokerage	Yes (not an interested party)	
Date of decision	September 19, 2019	
Date of contract	September 19, 2019	
Date of transfer (scheduled)	September 30, 2019	December 20, 2019
Date of payment (scheduled)	September 30, 2019	December 20, 2019

(Notes)	<ul style="list-style-type: none"> • The disposition price excludes disposition expenses, the adjustment amounts of the property tax and city planning tax, and the consumption tax. • The estimated book value is the book value estimated as of today calculated by the asset management company on the basis of capital expenditures scheduled and depreciation estimated up to each of the transfer dates. • The estimated gain on disposition represents an approximate amount because disposition expenses are partially yet to be determined.
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2. Reason for the disposition

JRE-AM has decided to dispose of the property after consideration of its current and future portfolio strategies, while comprehensively taking into account the characteristics of the property, the profitability of the portfolio, and the trend of the real estate market, in conformity with “the basic policy of asset management” and “the investment stance” set forth in the articles of association of JRE.

While making a decision to dispose of the property, JRE-AM paid particular attention to the following points:

This property is highly regarded for its excellent transport convenience lying in close proximity to JR Kawasaki Station and Keikyu Kawasaki Station. The almost 29-year-old property, however, is faced with the challenge of bearing repair/renewal expenses on renewal of air-conditioning facilities, among other things, going forward.

It was recently decided that the property’s main tenant occupying about a half of the total rented area would vacate the space by the end of 2019. The office market is active in the area, and it is expected that the space will be leased on favorable terms. On the other hand, such a prospect of leasing also allows the property to be highly appraised in its trading market. In such a situation, JRE-AM received from the buyer an acquisition offer, whose terms are described in “1. Outline of the disposition”.

In consequence, the property’s disposition price exceeds the estimated book value by approximately 3.3 billion yen (+117%) and the appraisal value by approximately 3.0 billion yen (+94%).

Furthermore, JRE will record a gain on the disposition over the two consecutive fiscal periods, the September 2019 period and the March 2020 period, by dividing the disposition into two separate transactions in order to level dividends. As for a net gain on the disposition, it will be retained as cash reserves and appropriated to future’s acquisition of specified assets or repayment of loans.

3. Outline of the property to be disposed

Name of property	Kawasaki Isago Building
Type of specified assets	Trust beneficial interest in real estate
Type of ownership	
Land	Ownership
Building	Ownership
Location (Building address)	1-2-4, Isago, Kawasaki-ku, Kawasaki-shi, Kanagawa
Completion	December 1990
Usage	Offices
Appraisal value (Date of value)	¥ 3,180,000 thousand (as of September 1, 2019)
Appraisal institution	Daiwa Real Estate Appraisal Co., Ltd.
Outline of lease	
Total number of tenants	14
Total rental income	¥ 156,738 thousand (for the March 2019 period)

Security deposit	¥ 177,922 thousand	
Total rented area	6,831 m ²	
Net rentable area	6,831 m ²	
occupancy rate	March 31, 2017	100%
	September 30, 2017	100%
	March 31, 2018	100%
	September 30, 2018	100%
	March 31, 2019	100%
Special notes	None	

(Note)

- The stated usage indicates the main usage, among those listed in the real property registry.
- The figures in “outline of lease” are the ones as of the last day of the fiscal period ended March 31, 2019.

4. Outline of buyer

Although the buyer is a domestic specific purpose company, its consent to disclose information is not obtained.

Note that the said entity does not fall under interested parties of JRE or JRE-AM.

5. Settlement method

A lump-sum payment is to be made on each of the transfer dates.

6. Future outlook

JRE does not make any revision to the operating performance forecasts for the fiscal periods ending September 30, 2019 (from April 1 to September 30, 2019) and March 31, 2020 (from October 1, 2019 to March 31, 2020) because the disposition will likely have only a marginal effect on the performance.

To stabilize its future dividends, JRE intends to internally retain the gain on the disposition (¥1,246 million for the September 2019 period and ¥1,257 million for the March 2020 period) as reserve for reduction entry and deferred tax liability by applying “special provisions for taxation in cases of repurchase of specified assets” stipulated in Article 65-7 of the Act on Special Measures Concerning Taxation.

Note: The retained gain mentioned above is an estimate as of today, which is calculated on the basis of the estimated gain on the disposition.

7. Summary of appraisal report

Name of property	Kawasaki Isago Building
Appraisal value	¥ 3,180 million
Appraisal institution	Daiwa Real Estate Appraisal Co., Ltd.
Date of value	September 1, 2019

Item	Amount	Description
Value indicated by the income approach	3,180,000	Indicated by the income approach, putting more weight on the DCF method, which incorporates fluctuation of the future net cash flow, while employing the direct capitalization method for verification
Value indicated by the direct capitalization method	3,220,000	
(1) Operating Income [①-②]	306,023	
① Potential rental income	325,613	Recorded on the basis of new rent levels of comparable properties, etc.

②Vacancy Loss	19,589	Recorded on the basis of average vacancy rates of comparable properties, etc.
(2)Operating expenses	120,845	
Maintenance and management fee	45,503 (note)	Estimated as the equivalent of 3.0 percent of rental income, referring to expenses incurred in previous years for the maintenance and management fee and cases of comparable properties for PM fee
Property management fee		
Utilities expenses	31,000	Estimated on the basis of expenses incurred in previous years, taking into account occupancy rates, etc.
Repair expenses	14,542	Estimated according to the average annual expense stated in the engineering report
Leasing Cost	2,252	Estimated in light of cases of comparable properties
Property tax and city planning tax	26,933	Estimated on the basis of the taxes levied for fiscal year 2019
Insurance Premium	612	Estimated taking into consideration the current insurance premium rate and those for comparable properties
Other expenses	0	
(3) Net Operating Income [(1)-(2)]	185,178	
(4) Operating profit on lump-sum payments	1,757	Estimated under the assumption of an interest rate of 1%
(5) Capital expenditure	38,797	Estimated according to the re-procurement prices shown in the engineering report
(6) Net Cash Flow [(3)+(4) — (5)]	148,139	
(7) Capitalization rate	4.6%	Estimated referring to market capitalization rates of comparable properties
Value indicated by the DCF method	3,160,000	
Discount rate	4.4%	Estimated after consideration of the individuality of the subject property while drawing on market capitalization rates of comparable properties
Terminal capitalization rate	4.8%	Estimated on the basis of the capitalization rate, while taking into account the uncertainty of the market trend
Value indicated by the cost approach	1,890,000	
Land ratio	65.3%	
Building ratio	34.7%	

* In thousands of yen (Amounts are rounded down to the nearest thousand yen)

Any special considerations in the reconciliation between indicated values and determination of the final appraisal value	The appraisal value is calculated on the basis of the income approach rather than the cost approach. This is because the appraiser determined that the income approach will better weave into the value the profitability, which the said property has actually realized as one multiplex real estate, and better reflect the real market situation comprised of customers' attributes and behaviors.
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Note: The property management company did not consent to us disclosing the property management fee. If the fee for the subject property is disclosed, it might potentially affect other deals done by the company, which could affect JRE in effective delegation of property management services under our policy on property maintenance and management. This could in turn undermine the interests of our unit holders. Accordingly, the maintenance-management fee and property management fee are shown in the total amount for presentation.

This is the English translation of the announcement in Japanese dated September 19, 2019.

No assurance or warranties are given for the completeness or accuracy of this English translation.