



Japan Excellent, Inc.

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For Translation Purposes Only**

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Japan Excellent, Inc. (TSE: 8987)
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**Notice Concerning Acquisition of Investment Asset
(Additional Acquisition of Co-ownership Interest of Akasaka Garden City)**

Japan Excellent, Inc. (hereinafter “JEI”) hereby announces that Japan Excellent Asset Management Co., Ltd. (hereinafter “Asset Management Company”), to which JEI entrusts asset management, made a decision today as described below regarding the additional acquisition of an asset.

1. Summary of Acquisition

(1) Property Name	Akasaka Garden City (hereinafter the “Property”) (Provided that JEI will additionally acquire co-ownership interest in the exclusively-owned space of the land and building of the Property, which is described in detail in “3. Details of the Property to be Acquired” below and hereinafter referred to as the “Co-ownership Interest” or the “Property to be Acquired.”)
(2) Property to be Acquired	Real Estate
(3) Planned Acquisition Price	around ¥870 million (JPY869,591,115) ^(Note 1)
(4) Planned Date of Execution of Purchase Agreement	August 7, 2017
(5) Scheduled Acquisition Date	August 10, 2017
(6) Seller	Not disclosed as consent from the seller has not been obtained.
(7) Funding for Acquisition	Debt financing ^(Note 2)
(8) Payment Method	Lump-sum payment upon delivery
(9) Method of Acquisition	JEI already holds trust beneficiary interest in part of the Property (the “Acquired Ownership Interest, etc.”) as a major trust asset, for which Mizuho Trust & Banking Co., Ltd. (“Mizuho Trust Bank”) has been acting as the trustee. JEI plans to place the Co-ownership Interest in trust, adding it to the said trust asset, immediately after the additional acquisition.

(Note 1) Planned Acquisition Price does not include consumption tax, local consumption tax or fees required for the acquisition.

(Note 2) For details of the debt financing, please refer to the press release “Notice Concerning Debt Financing” separately announced today.

2. Background of Acquisition

JEI has decided to acquire the Property to be Acquired in order to enhance its portfolio in accordance with the investment targets and policies of asset management stipulated in its Articles of Incorporation.

JEI holds trust beneficiary interests pertaining to the compartmentalized ownership of the 5th to 9th floors, co-ownership interests of the compartmentalized ownership of the 10th floor and co-ownership interests of the land, and has steadily accumulated management records.

The area of the exclusively-owned space which is currently owned by JEI (Note) accounts for approximately 31.08% of the entire exclusively-owned space of the Property. The Asset Management Company judged that the ratio will increase to approximately 32.83% after the acquisition of the Co-ownership Interest and the additional acquisition of the Co-ownership Interest complies with the policy aiming to enhance the asset value and liquidity of the Property.

For aspects that JEI recognized upon deciding on the acquisition, please refer to “Evaluation of the Property to be Acquired” in “3. Details of the Property to be Acquired” below.

(Note 1) The area of the exclusively-owned space in which JEI holds co-ownership interest is calculated under the assumption that the actual area is multiplied by the ownership ratio. The same shall apply hereinafter.

3. Details of the Property to be Acquired

(1) Evaluation of the Property to be Acquired

A Location

The Akasaka area, where the Property is located, is situated in the northeastern part of Minato Ward and offers excellent access to five different subway stations (Akasaka-Mitsuke, Akasaka, Tameike-Sanno, Kokkai-Gijidomae stations on the Tokyo Metro line and Aoyama 1-chome Station on the Tokyo Metro and Toei Subway line), all of which are located either within the Akasaka area or its perimeter, with connections to six different subway lines from these stations. Moreover, the area offers an outstanding environment with a high concentration of business and commercial functions centering on redevelopment buildings as an office district adjacent to the “Uchisaiwaicho, Kasumigaseki and Nagatacho” area where public institutions such as public and national government agencies concentrate.

The Property is close to Aoyama-dori Street and to both Aoyama 1-chome Station and Akasaka-Mitsuke Station. The area has high traffic convenience where four subway lines (Tokyo Metro Ginza Line, Hanzomon Line and Marunouchi Line and the Toei Oedo Subway Line) can be used and is expected to undergo further development.

B Building Facilities

The standard floor office space consists of 1,554 m² (470.08 tsubo) of regular-shaped open (pillar- and column-free) space. It is designed with low perimeter counters (the wall underneath the window) that ensure wide vistas, and has windows facing three directions. It has a ceiling height of 2,800 mm, and 100 mm of space for wires and cables for computers and other office equipment, and the floors are bright and spacious.

In addition, it has facilities installed that take into consideration comfort and energy saving by adopting Low-E pair glass (high heat-shield, heat-insulating multilayered glass), which has twice the solar radiation heat acquisition rate of conventional glass, having communications equipment compatible with a wide range of communications media including fiber optical lines (private lines) and metal lines (public lines) and improving air-conditioning efficiency with electrical double blind technology.

(2) Overview of the Property to be Acquired

Property Name		Akasaka Garden City
Type of Specified Asset ¹		Real estate
Location	Lot Number ²	4-1500-1 Akasaka, Minato-ku, Tokyo
	Address	4-15-1 Akasaka, Minato-ku, Tokyo
Use ²		Office
Site Area ²	Land ³	6,888.97 m ²
	Building ⁴	46,776.76 m ²
Structure ²		S/RC/SRC with flat roof, B2/19F
Completion Date ²		January 31, 2006
Building Designer		Nihon Sekkei, Inc.
Constructor		Kajima Corporation
Building Certification Agency		Japan ERI Co., Ltd. and The Building Center of Japan
Type of Ownership ⁵	Land	Ownership (co-ownership)
	Building	Compartmentalized ownership (co-ownership)
Appraisal Value		¥1,040 million (JPY1,040,000,000)

Appraisal Date	July 31, 2017
Appraiser	Japan Real Estate Institute
PML ⁶	1.59% (Based on the Building Survey Report on PML Assessment prepared by Sompo Risk Management & Healthcare Inc.)
Collateral	None
Property Management Company ⁷	Dai-ichi Building Co., Ltd.
Master Lease Company ⁸	Dai-ichi Building Co., Ltd.
Other Relevant Information	None

Notes

1. The type of the Property to be Acquired by JEI.
2. The descriptions of “Lot Number,” “Use,” “Site Area,” “Structure,” and “Completion Date” are based on the indications in the land registry. “Use” indicates that of the exclusively-owned space of the Property to be Acquired and “Structure” indicates that of the entire building.
3. The total site area of land for the entire site of the Property written in the land registry is indicated here. The right of site of the building is registered for the land of the Property. The ownership of the right of site pertaining to the exclusively-owned space to be acquired is 54,698/1,000,000 and JEI will acquire approximately 3,173/10,000 of it.
4. The total floor area of the entire building written in the land registry is indicated here. JEI will acquire 3,173/10,000 of co-ownership interest in the exclusively-owned space (1,527.28 m²) of the office on the 10th floor this time.
5. The “Type of Ownership” indicates the type of ownership of the Property to be Acquired. Furthermore, “compartmentalized ownership” means ownership of exclusively-owned spaces of a compartmentalized ownership building.
6. “PML (Probable Maximum Loss)” indicates the extent of damage due to an earthquake that has more than 10% probability occurring within the assumed period of usage (50 years) in the ratio of forecasted amount of loss against the building replacement price.
7. “Property Management Company” indicates the name of the property management company to which JEI plans to entrust property management for the Property to be Acquired after the acquisition and additional entrustment.
8. “Master Lease Company” indicates the name of the master lease company with whom JEI plans to conclude a master lease agreement for the Property to be Acquired after the acquisition and additional entrustment. Moreover, the method for collecting rent in the master lease agreement is the “pass-through type” method, whereby the trustee receives the same amount of rent which is paid by the end tenant. For details on the master lease agreement, please refer to “(3) Tenant Summary” below.

(3) Tenant Summary

Leasable Floor Space ¹	493.08 m ²				
Leased Floor Space ²	493.08 m ²				
Number of Tenants	1				
Monthly Rent ³	-				
Leaseholds and Security Deposits ³	-				
Occupancy Rate	June 30, 2013	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
	100%	100%	100%	100%	100%

Notes

1. “Leasable Floor Space” refers to the space that can be leased in the exclusively-owned space in which JEI will acquire co-ownership interest. The figure is calculated by multiplying the leasable floor space by the ratio of co-ownership interest (3,173/10,000) to be acquired this time.
2. “Leased Floor Space” refers to the space that is actually being leased under the lease agreement concluded between the master lease company and the end tenant. The figure is calculated by multiplying the space by the ratio of co-ownership interest (3,173/10,000) to be acquired this time.
3. The figures for “Monthly Rent” and “Leaseholds and Security Deposits” are not disclosed as the consent of the tenant on disclosure has not been obtained.

(4) Details of the Sellers

The sellers are several individuals and a general company in Japan. However, details of the sellers are not disclosed as consent for disclosure has not been obtained from each seller. There is no capital relationship, personnel relationship or business relationship to describe between JEI, the Asset Management Company (JEAM) and each seller. Each seller and their related parties/related companies are not related parties of JEI or the Asset Management Company.

(5) Status of Previous Owners

The acquisition of the Property to be Acquired is not from a person with a special interest relationship with JEI/the Asset Management Company.

(6) Details of Brokerage

The broker of the Property to be Acquired is a domestic company. However, details of the broker are not disclosed as consent for disclosure has not been obtained from the broker. There is no capital relationship, personnel relationship or business relationship to describe between JEI, JEAM and the broker. The broker and its related parties/related companies are not related parties of JEI or the Asset Management Company.

(7) Conflicts of Interest of JEAM with regard to the Property to be Acquired

The Dai-ichi Building Co., Ltd., which will serve as the property management company and the master lease company, falls under the category of “sponsor company” in the “Regulations for Transactions with Sponsor Companies.” Upon concluding the transaction agreement with said sponsor company, the Asset Management Company, in compliance with the said Regulations, has had the transaction approved at a meeting of its Compliance Committee, which includes outside experts, and deliberated and approved at a meeting of its Investment Committee.

(8) Acquisition Schedule

August 7, 2017	Decision within JEI to acquire the Property
August 7, 2017	Execution of the purchase agreement
August 10, 2017	livery of the Property

4. Outlook

Since the scheduled acquisition date of the Property to be Acquired is August 10, 2017, there is no impact on the operating results for the fiscal period ended June 2017 (January 1, 2017 – June 30, 2017). Furthermore, since the impact on the forecast operating results for the fiscal period ending December 2017 (July 1, 2017 – December 31, 2017) is minimal, there is no revision to the forecast.

5. Appraisal Summary

Property name	Akasaka Garden City
Appraisal Value	¥1,040 million
Appraiser	Japan Real Estate Institute
Appraisal Date	July 31, 2017

(Thousands of yen¹)

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	1,040,000	Estimated by correlating Direct Capitalization Value and Discounted Cash Flow Value
Direct Capitalization Value	1,050,000	
Operating Revenue	49,175	
Gross potential revenue	50,696	Calculated by evaluating potential rent and other stable medium- and long-term revenue based on current average rent and other revenue, level of new rent and other revenue, and attribution of current lessee, etc.
Vacancy Loss	1,521	Estimated on the assumption of the occupancy rate level that is stable over a medium to long term based on occupancy status or supply-demand trend of similar real estate that fall under the relationship of substitution competition or other relationship with the property, and the property's past occupancy status and its future trend
Operating Expenses	12,585	
Maintenance Property management fees ²	5,232	Maintenance fee is calculated by considering the individuality of the property, while referring to the actual fees of past years and maintenance fees of similar properties, and property management fee is calculated by considering the fee level and individuality of similar properties, while referring to the scheduled terms of contract
Utilities	2,730	Calculated by taking into account the occupancy rate, etc. of the rental spaces, based on actual results of past years



Repair costs	76	Calculated by referring to the actual fees of past years and considering maintenance and operational plan, the fee level of similar properties and an annual average of repairs, maintenance and renewal costs as specified in the engineering report
Advertisement for leasing, etc.	362	Calculated annual average amount of costs required for brokerage service, advertisement, etc. estimated based on the presumed turnover period of the lessee
Tax and public dues	4,161	Recorded based on the tax base for fiscal 2017
Insurance	24	Recorded in reference to the insurance premium based on insurance contract and insurance premium rates of similar properties, etc.
Other expenses	0	
Net Operating Income	36,590	
Interest Income	373	Estimated profit through management by setting the management yield at 1.0%
Capital Expenditures	182	Assessed by taking into account the capital expenditure levels of similar properties, the building age and repair and replacement expenses stated in the engineering report, based on the assumption the reserve is made on average each fiscal period
Net Cash Flow	36,781	
Cap Rate	3.5%	Assessed by adjusting the spread based on the subject property's site, building or other conditions, while considering future uncertainties and transaction yields of similar properties
Discounted Cash Flow Value	1,030,000	
Discount Rate	3.1%	Assessed in reference to the investment yield, etc. of transactions of similar properties and comprehensively taking into account the individual characteristics of the property
Terminal Cap Rate	3.7%	Assessed in reference to the transaction yield, etc. of similar properties and comprehensively taking into account the future trends of the investment yield, risks of the property as investment target, general forecasts of future economic growth and the trends in real estate prices and rent levels, etc.
Cost Approach Value	1,060,000	
Land Value	83.6%	
Building Value	16.4%	

Other matters noted by the appraiser in conducting appraisal	None
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(Note 1) Amounts are rounded to the nearest thousand yen.

(Note 2) Through the individual reporting of maintenance and management fees and property management fee standards, other transactions involving the companies entrusted with building management and property management may be impacted, efficient performance of duties by JEI may be impeded, or investor profits may be negatively impacted. Therefore, maintenance and management fees and property management fees are indicated as a combined figure.

(End)

Appendix:

- (1) Property Income and Expense Outlook
- (2) Portfolio Overview after Acquisition of the Property to be Acquired
- (3) Photo and Map of the Property to be Acquired

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(Appendix 1) Property Income and Expense Outlook

(millions of yen)

Revenues	48 million
Expenses (excluding depreciation)	12 million
Net Operating Income (NOI)	36 million
NOI Yield	4.2%
Yield After Depreciation	3.8%

Assumptions for Income and Expense Outlook

The above figures for “Revenues,” “Expenses” and “NOI” are the annual averages of JEI’s estimated figures for the first 5 years after acquisition of the Property to be Acquired by JEI, excluding special factors that may arise during the first fiscal year of acquisition. (i.e., not forecast for the current fiscal period).

NOI Yield is the figure calculated by the following formula:

$$\text{NOI Yield} = \text{NOI yield} / \text{Planned acquisition price}$$

Yield After Depreciation is the figure calculated by the following formula:

$$\text{Yield After Depreciation} = (\text{NOI} - \text{Depreciation}) / \text{Planned acquisition price}$$

Furthermore, depreciation is calculated based on the straight-line method corresponding to the useful life, which is in the same manner applied for properties already owned by JEI, after considering various information such as engineering report.



(Appendix 2) Portfolio Overview after Acquisition of the Property to be Acquired

Area	Property #	Property Name	Date of Acquisition	(Planned) Acquisition Price ¹ (mn yen)	Investment Ratio ² (% of total portfolio)	Investment Ratio by Area ² (%)
Area I Tokyo's 6 Central Wards ³	I-1	Omori Bellport D	June 29, 2006	22,552	7.6	51.5
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.2	
	I-3	JEI Hamamatsucho Building	June 29, 2006	8,350	2.8	
	I-7	Akasaka Garden City	March 28, 2007	23,300	7.9	
			August 10, 2017(planned)	869	0.3	
			Total	24,169	8.2	
	I-8	AKASAKA INTERCITY	October 26, 2007	17,857	6.0	
			February 5, 2013	10,289	3.5	
			Total	28,146	9.5	
	I-9	Kowa Shirokanedai Building	December 24, 2010	4,705	1.6	
	I-10	Daiba Garden City Building	February 4, 2011	11,000	3.7	
	I-12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.4	
			February 4, 2014	12,000	4.1	
			Total	19,080	6.5	
	I-13	Shintomicho Building	March 28, 2012	1,750	0.6	
I-14	Kowa Nishi-Shimbashi Building	March 28, 2013	3,931	1.3		
		D August 1, 2017	7,500	2.5		
		Total	11,431	3.9		
I-15	Mansard Daikanyama	July 1, 2016	11,420	3.9		
Area II Central Osaka, Central Nagoya, Central Fukuoka ⁴	II-1	NHK Nagoya Housou Center Building	June 27, 2006	4,300	1.5	4.8
			March 24, 2014	1,310	0.4	
			Total	5,610	1.9	
	II-2	JEI Nishi-Honmachi Building	March 28, 2007	6,673	2.3	
II-3	Osaka Kogin Building (Land with Leasehold Interest)	February 5, 2013	1,770	0.6		
Area III Tokyo (excl. Area I) and areas surrounding Tokyo (Kanagawa, Saitama and Chiba prefectures)	III-1	Musashikosugi Tower Place	June 27, 2006	13,890	4.7	37.2
	III-2	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976	3.7	
	III-3	JEI Hongo Building	June 29, 2006	5,400	1.8	
	III-5	Kawasaki Nisshincho Building	June 27, 2006	3,775	1.3	
			November 30, 2006	130	0.0	
			October 17, 2008	300	0.1	
			April 17, 2013	520	0.2	
			Total	4,725	1.6	
	III-6	No. 44 Kowa Building	June 27, 2006	1,150	0.4	
	III-7	JEI Ryogoku Building	June 27, 2006	2,550	0.9	
	III-8	Ebina Prime Tower	March 29, 2007	6,470	2.2	
	III-9	Kowa Kawasaki Nishiguchi Building	October 26, 2007	32,000	10.8	
III-10	Pacific Square Sengoku	December 20, 2011	1,620	0.5		
III-11	Core City Tachikawa	February 5, 2013	6,500	2.2		
III-12	Nisseki Yokohama Building	April 1, 2015	24,500	8.3		
Area IV Osaka, Nagoya and Fukuoka (excl. Area II) and other government-decreed cities, etc.	IV-2	JEI Kyobashi Building	September 1, 2011	3,308	1.1	6.6
	IV-3	JEI Hiroshima Hacchobori Building	May 22, 2012	2,760	0.9	
	IV-4	SE Sapporo Building	March 1, 2013	5,500	1.9	
	IV-5	Aoba-dori Plaza	February 4, 2014	2,120	0.7	
	IV-6	Daiwa Minami-morimachi Building	February 4, 2014	4,410	1.5	
	IV-7	JEI Naha Building	December 7, 2015	1,380	0.5	
Total				295,365	100.0	100.0

Notes

- “(Planned) Acquisition Price” is the acquisition value on the purchase agreement, excluding consumption tax, etc. Amounts are rounded down to the nearest specified unit.
- “Investment Ratio” and “Investment Ratio by Area” are rounded to the first decimal place.
- “Tokyo's 6 Central Wards” is Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya Wards.
- “Central Osaka” is the Umeda, Dojima, Nakanoshima, Yodoyabashi, and Honmachi districts, “Central Nagoya” is the Meieki, Fushimi, Sakae districts, and “Central Fukuoka” is the Tenjin and Hakata Terminal Peripheral districts.



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(Appendix 3) Photo and Map

