



Japan Excellent, Inc.

**For Immediate Release
For Translation Purposes Only**

June 27, 2018

Japan Excellent, Inc. (TSE: 8987)
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**Notice Concerning Acquisition of Investment Asset
(AKASAKA INTERCITY AIR)**

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 regarding the acquisition of an asset as described below.

1. Summary of Acquisition

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| (1) Property Name: | AKASAKA INTERCITY AIR (hereinafter the “Property”) |
| (2) Property to be Acquired: | Trust beneficiary interest in real estate |
| (3) Planned Acquisition Price: | ¥6,590,000,000 ^(Note 1) |
| (4) Planned Date of Execution of Purchase Agreement: | June 27, 2018 |
| (5) Scheduled Acquisition Date: | July 2, 2018 |
| (6) Seller: | Nippon Steel Kowa Real Estate Co., Ltd. |
| (7) Funding for Acquisition: | Debt financing ^(Note 2) and funds on hand |
| (8) Payment Method: | Lump-sum payment upon delivery |

(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.

2. Background of the Transaction

JEI is promoting a strategy to enhance profitability of its portfolio and strengthen the structure of its financial position through the replacement of properties with unrealized losses and properties with low profitability in addition to the replacement of relatively-aged properties in light of the recent brisk real estate market conditions.

The Property is positioned as an alternative asset of Akasaka Garden City^(Note) which was sold in December 2017. The Property is superior to Akasaka Garden City in terms location and specifications and JEI intends to improve NAV and NOI yield through asset replacement.

For aspects that JEI recognized upon deciding the acquisition of the Property to be Acquired, please refer to “(1) Evaluation of the Property to be Acquired” in “3. Details of the Property to be Acquired” below.

(Note) For details of the sale of Akasaka Garden City, please refer to “Notice Concerning Transfer of Assets and Termination of Leases (Akasaka Garden City, and No. 44 Kowa Building)” dated December 13, 2017.

3. Details of the Property to be Acquired

(1) Evaluation of Property to be Acquired

A Location

The Property offers access to five different lines at three stations including “Tameike-Sanno” Station on the Tokyo Metro Ginza Line and Nanboku Line (directly connected via underground passage) as well as “Toranomom New Station (tentative name),” which is currently being developed (scheduled to commence operation in 2020), on the Tokyo Metro Hibiya Line, and has high traffic convenience. The Property faces Roppongi-dori and has high visibility. It is a landmark in the Akasaka area. Akasaka 1-chome, where the Property is located, is an international area with a concentration of embassies and foreign companies. In addition, growth is expected in the surrounding area where a policy on urban development has been established.

B Building Facilities

The Property is a new structure completed in August 2017. The standard floor office space is approximately 780 tsubos and the Property has advanced specifications with a ceiling height of 2,850 mm, OA floor of 150 mm, LED lights, etc. In addition, it has a comfortable working environment for office workers by having a large-scale green space with an area of 5,000 m² or more (green coverage ratio of 50% or more), conference hall and medical and childcare facilities. Furthermore, when taking into consideration a safety factor 1.5 times higher than that in the Building Standards Act in having three types of anti-seismic devices, etc. including a technology that was put into practical use for the first time in Japan, the Property has secured seismic performance. In addition, the Property has high business continuity in case of a disaster, and even when disaster or trouble in power transmission occurs, 45VA/m² of electricity will be supplied to the exclusive area for a maximum of 200 hours through an emergency generator adopting a dual-fuel system using medium-pressure gas and heavy oil with high seismic resistance.

(2) Overview of Property to be Acquired

Property Name		AKASAKA INTERCITY AIR
Type of Specified Asset ^(Note 1)		Trust beneficiary interest in real estate (quasi co-ownership)
Trustee		Mitsubishi UFJ Trust and Banking Corporation
Trust Establishment Date		August 31, 2017
Location	Lot Number ^(Note 2)	1-1600-1 Akasaka, Minato-ku, Tokyo
	Address	1-8-1 Akasaka, Minato-ku, Tokyo
Use ^(Note 3)		Office, retail, parking and machine room
Site Area	Land ^(Note 4)	16,088.32 m ²
	Building ^(Note 5)	176,536.75 m ²
Structure ^(Note 2)		S/SRC with flat roof, B3/39F
Completion Date ^(Note 2)		August 31, 2017
Building Designer		Nihon Sekkei, Inc.
Constructor		Obayashi Corporation
Building Certification Agency		The Building Center of Japan
Type of Ownership ^(Note 6)	Land	Ownership (co-ownership) ^(Note 7)
	Building	Compartmentalized ownership (co-ownership) ^(Note 8)
Appraisal Value		¥7,180,000,000
Appraisal Date		May 1, 2018
Appraiser		Japan Real Estate Institute
PML ^(Note 9)		0.66% (Based on the Building Survey Report on PML Assessment prepared by Sompo Risk Management & Healthcare Inc.)
Collateral		None
Property Management Company		Akasaka Intercity Management Co., Ltd. ^(Note 10)
Master Lease Company ^(Note 11)		Akasaka Intercity Management Co., Ltd. ^(Note 10)
Other Relevant Information		1. The exclusively-owned space to be acquired in the Property (hereinafter the “Exclusively-Owned Space”) is held under

	<p>co-ownership or quasi co-ownership by multiple right holders via trust or directly. An agreement concerning management and operation of the Exclusively-Owned Space (hereinafter the “Agreement”) has been concluded with the said co-owners and quasi co-owners and leasing of the Exclusively-Owned Space and management and operation including property management have been entrusted to Nippon Steel Kowa Real Estate Co., Ltd. (hereinafter the “Executor”) based on the Agreement and trust contract.</p> <p>2. In the Agreement, it is stipulated that co-owners or quasi co-owners shall, in principal, discuss with other co-owners and quasi co-owners in preference to third parties when they intend to transfer the ownership interest.</p>
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- (Note 1) The type of the Property to be Acquired by JEI. The trust asset is the co-ownership interest in the Exclusively-Owned Space and the co-ownership interest in the site and common area corresponding to it. Quasi co-ownership indicates joint ownership of trust beneficiary interests with other beneficiaries. The quasi co-ownership interest to be acquired by JEI is 17,510,400/327,558,000.
- (Note 2) The descriptions of “Lot Number,” “Structure,” and “Completion Date” are based on information in the land registry and “Structure” indicates that of the entire building.
- (Note 3) “Use” indicates only the use of the exclusively-owned space of the Property to be Acquired based on the indication on the land registry or the completion drawing. The use of the entire building including the Property to be Acquired is for office, retail, apartment, machine room and parking but apartment is not included in the use of the Property to be Acquired.
- (Note 4) The total site area of land for the entire site of the Property written in the land registry is indicated here.
- (Note 5) The total floor area of the entire building written in the land registry is indicated here. The area of the Exclusively-Owned Space is 156,676.50 m².
- (Note 6) The “Type of Ownership” indicates the type of ownership held by the trustee for the Property to be Acquired. Furthermore, “compartmentalized ownership” means ownership of exclusively-owned spaces of a compartmentalized ownership building.
- (Note 7) JEI will hold the ownership interest calculated by multiplying the right of site pertaining to the Exclusively-Owned Space (993,356,000/1,000,000,000,000) by the ownership interest in the exclusively-owned space to be acquired (2.9184%) via trust.
- (Note 8) The co-ownership interest held by the trustee is 327,558,000/600,000,000. JEI will hold 2.9184% of ownership interest in the exclusively-owned space via trust.
- (Note 9) “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.
- (Note 10) The contract with the property management company and the master lease company has been concluded with Nippon Steel Kowa Real Estate Co., Ltd., the Executor.
- (Note 11) A pass-through type master lease agreement will be concluded.

(3) Tenant Summary

Leasable Floor Space ^(Note 1)	2,580.24 m ²
Leased Floor Space ^{(Note 1) (Note 2)}	2,540.59 m ²
Number of Tenants ^(Note 2)	1
Monthly Rent	- ^(Note 3)
Leaseholds and Security Deposits	- ^(Note 3)
Occupancy Rate	May 31, 2018
	98.46%

- (Note 1) “Leasable Floor Space” and “Leased Floor Space” indicate the figure calculated by multiplying the “Leasable Floor Space” and “Leased Floor Space” of the exclusively-owned space to be acquired (excluding attached buildings and facilities such as warehouse) by the co-ownership ratio to be acquired (2.9184%).
- (Note 2) A master lease agreement between the master lease company and the Executor of the Property, with the master lease company as the lessee, has been concluded, and there is one tenant. “Leased Floor Space” indicates the area that is leased under a lease agreement concluded between the master lease company and the end tenant as of the end of May 2018 out of the leasable floor space.
- (Note 3) The figures for “Monthly Rent” and “Leaseholds and Security Deposits” are not disclosed as the consent of other co-owners on disclosure has not been obtained.



(4) Details of the Seller

Company Name	Nippon Steel Kowa Real Estate Co., Ltd.	
Location	1-8-1 Akasaka, Minato-ku, Tokyo	
Representative	Mikito Nagai, President and CEO	
Capital	¥19,824 million (as of March 31, 2018)	
Net Assets	¥148,474 million (as of March 31, 2018)	
Total Assets	¥713,975 million (as of March 31, 2018)	
Main Business	Real estate business	
Established	March 24, 1997	
Major Shareholders	Nippon Steel & Sumitomo Metal Corporation The Dai-ichi Life Insurance Company, Limited Nippon Life Insurance Company UNIZO Holdings Company, Limited (as of March 31, 2018)	
Relationship with JEI/JEAM	Capital Relationship	As of December 31, 2017, the seller holds 71,560 units of JEI's investment units (5.5% of the total number of outstanding investment units). The seller also holds 4,860 shares of JEAM's shares (54.0% of the total number of outstanding shares) and falls under the category of "related party" as defined in the Act on Investment Trusts and Investment Corporations (the "Investment Trusts Act"). In addition, the seller falls under the category of "sponsor company" under voluntary internal regulations for transactions with sponsor companies (the "Regulations for Transactions with Sponsor Companies") formulated by JEAM with the aim of eliminating potential conflicts of interest and thereby enabling it to perform efficient asset management for JEI.
	Personnel Relationship	As of December 31, 2017, nine JEAM officers and employees are dispatched by the Seller.
	Business Relationship	In the fiscal period ended December 2017, JEI transferred No. 44 Kowa Building to the seller. For details, please refer to "Notice Concerning Transfer of Assets and Termination of Leases (Akasaka Garden City, and No. 44 Kowa Building)" dated December 13, 2017.
	Status as Related Party	The seller is not a related party of JEI. It is a parent company of JEAM.

(5) Status of Previous Owners

Status of Previous Owners	Current Owner/ Beneficiary	Previous Owner
Company Name	Nippon Steel Kowa Real Estate Co., Ltd.	Not applicable
Relationship with JEI/JEAM	Please refer to “(4) Details of the Seller” above.	
Background/Reasons for Acquisition	Acquired for development purpose	
Date of Acquisition	August 31, 2017 (new construction)	
Acquisition Price	Not applicable as the building will be developed	

(6) Details of Brokerage

Not applicable

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

Nippon Steel Kowa Real Estate Co., Ltd., the seller, falls under the category of “related party” as defined in the Investment Trusts Act and “sponsor company” in the “Regulations for Transactions with Sponsor Companies.” Upon concluding the agreement with said related party and 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

June 27, 2018	Decision within JEI to acquire the Property
June 27, 2018	Execution of the purchase agreement
July 2, 2018	Delivery of the Property

4. Outlook

Since the scheduled acquisition date of the Property to be Acquired is July 2, 2018, there is no impact on the operating results for the fiscal period ended June 2018 (January 1, 2018 – June 30, 2018). Furthermore, since the impact on the forecast operating results for the fiscal period ending December 2018 (July 1, 2018 – December 31, 2018) is minimal, there is no revision to the forecast.



5. Appraisal Summary

Property Name	AKASAKA INTERCITY AIR
Appraisal Value	¥7,180 million
Appraiser	Japan Real Estate Institute
Appraisal Date	May 1, 2018

(thousands of yen ^(Note 1))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	7,180,000	
Direct Capitalization Value	7,350,000	
Operating Revenue	344,171	
Gross potential revenue	358,513	Calculated based on valuation of potential rent and other stable medium- and long-term revenue
Vacancy Loss, etc.	14,342	Calculated on the assumption of the occupancy rate level that is stable over the medium to long term
Operating Expenses	111,556	
Maintenance Property Management Fee ^(Note 2)	46,225	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	23,948	Assumed by taking into account the occupancy rate, etc. of the rental spaces, based on the actual results of past years
Repair costs	2,087	Calculated by referring to the actual fees of past years and considering 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.	2,595	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	33,476	Assessed in reference to real estate tax based on roadside land price, building replacement costs, etc.
Insurance	161	Recorded in reference to insurance premium rates of similar properties, etc.
Other expenses	3,064	Recorded lease expenses, etc. of the facility
Net Operating Income	232,615	
Interest Income	0	
Capital Expenditures	4,871	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	227,744	
Cap Rate	3.1%	Assessed by adjusting the spread based on the property site, building or other conditions, while considering future uncertainties and transaction yields of similar properties
Discounted Cash Flow Value	7,010,000	
Discount Rate	2.8%	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	3.3%	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	7,000,000	
Land Value	74.8%	
Building Value	25.2%	

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.



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Appendix:

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

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(Appendix 1) Income and Expense Outlook of the Property to be Acquired

Revenues	¥345 million
Expenses (excluding depreciation)	¥108 million
Net Operating Income (NOI)	¥237 million
NOI Yield	3.6%
Yield After Depreciation	3.0%

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 the acquisition of the Property to be Acquired. (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 the Acquisition of the Property to be Acquired

Area	Property #	Property Name	Date of Acquisition	(Planned) Acquisition Price (mn yen) (Note 1)	Investment Ratio (% of total portfolio) (Note 2)	Investment Ratio by Area (%) (Note 2)
Area I Tokyo's 6 Central Wards (Note 3)	I-1	Omori Bellport D	June 29, 2006	22,552	8.2	49.2
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.5	
	I-3	JEI Hamamatsucho Building	June 29, 2006	8,350	3.1	
	I-8	AKASAKA INTERCITY	October 26, 2007	17,857	6.5	
			February 5, 2013	10,289	3.8	
		Total		28,146	10.3	
	I-9	Kowa Shirokanedai Building	December 24, 2010	4,705	1.7	
	I-10	Daiba Garden City Building	February 4, 2011	11,000	4.0	
	I-12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.6	
			February 4, 2014	12,000	4.4	
		Total		19,080	7.0	
	I-13	Shintomicho Building	March 28, 2012	1,750	0.6	
	I-14	Kowa Nishi-Shimbashi Building	March 28, 2013	3,931	1.4	
			August 1, 2017	7,500	2.7	
	Total		11,431	4.2		
I-15	Mansard Daikanyama	July 1, 2016	11,420	4.2		
I-16	AKASAKA INTERCITY AIR	July 2, 2018 (Scheduled)	6,590	2.4		
Area II Central Osaka, Central Nagoya, Central Fukuoka (Note 4)	II-1	NHK Nagoya Housou Center Building	June 27, 2006	4,300	1.6	5.1
			March 24, 2014	1,310	0.5	
			Total	5,610	2.1	
	II-2	JEI Nishi-Honmachi Building	March 28, 2007	6,673	2.4	
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	5.1	37.6
	III-2	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976	4.0	
	III-3	JEI Hongo Building	June 29, 2006	5,400	2.0	
			June 27, 2006	3,775	1.4	
	III-5	Kawasaki Nisshincho Building	November 30, 2006	130	0.0	
			October 17, 2008	300	0.1	
			April 17, 2013	520	0.2	
			Total	4,725	1.7	
	III-7	JEI Ryogoku Building	June 27, 2006	2,550	0.9	
	III-9	Kowa Kawasaki Nishiguchi Building	October 26, 2007	32,000	11.7	
	III-10	Pacific Square Sengoku	December 20, 2011	1,620	0.6	
	III-11	Core City Tachikawa	February 5, 2013	6,500	2.4	
	III-12	Nisseki Yokohama Building	April 1, 2015	24,500	9.0	
III-13	Yokohama Bentendori Dai-ichi Seimei Building	June 15, 2018	640	0.2		
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	1.2	8.1
	IV-3	JEI Hiroshima Hacchobori Building	May 22, 2012	2,760	1.0	
	IV-4	SE Sapporo Building	March 1, 2013	5,500	2.0	
	IV-5	Aoba-dori Plaza	February 4, 2014	2,120	0.8	
	IV-6	Daiwa Minami-morimachi Building	February 4, 2014	4,410	1.6	
	IV-7	JEI Naha Building	December 7, 2015	1,380	0.5	
	IV-8	Hiroshima Dai-ichi Seimei OS Building	June 15, 2018	2,780	1.0	
Total				273,587	100.0	100.0

(Note 1) "(Planned) Acquisition Price" is the acquisition value on the purchase agreement, excluding consumption tax, etc. Amounts are rounded down to the nearest specified unit.

(Note 2) "Investment Ratio" and "Investment Ratio by Area" are rounded to the first decimal place.

(Note 3) "Tokyo's 6 Central Wards" is Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya Wards.

(Note 4) "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.

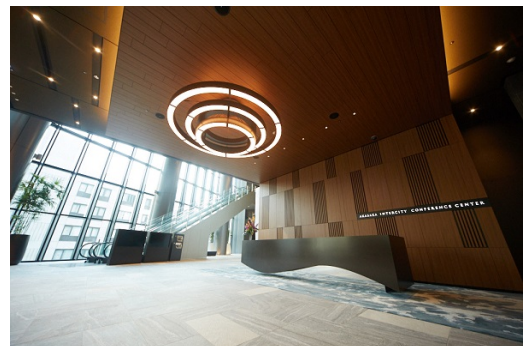


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(Appendix 3) External View of the Property to be Acquired



Office Entrance (1F)



Conferences Hall Entrance (3F)

