

December 6, 2019

Japan Excellent, Inc. (TSE: 8987)
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Notice concerning Transfer and Partial Transfer of Domestic Real Estate Trust Beneficiary Rights, and Lease Cancellation
(JEI Nishi-Honmachi Building, Kowa Kawasaki Nishiguchi Building)

Japan Excellent, Inc. (hereinafter referred to as “JEI”) made a decision today regarding transfer and partial transfer of domestic real estate trust beneficiary rights (transfer: JEI Nishi-Honmachi Building, partial transfer: Kowa Kawasaki Nishiguchi Building), and lease cancellation as described below.

1. Summary of Transfer and Partial Transfer, and Lease Cancellation

(A) JEI Nishi-Honmachi Building (Transfer)

This property’s transfer will be conducted in three parts as described in (3), (9) and (10) below and completed on July 3, 2020.

(1) Property Name	JEI Nishi-Honmachi Building		
(2) Assets to Be Transferred	Trust beneficiary right in real estate		
(3) Transfer Price (Note 1) (Note 2)	¥9,010 million		
	(a) ¥450.5 million (quasi co-ownership 5.0%)	(b) ¥7,208 million (quasi co-ownership 80.0%)	(c) ¥1,351.5 million (quasi co-ownership 15.0%)
(4) Book Value (Note 2) (Note 3)	6,992 million yen		
(5) Difference Between Transfer Price and Book Value (3)-(4) (Note 2) (Note 4)	2,017 million yen		
(6) Transferee	Please refer to “4. Details of the Transferee/Partial Transferee” below.		
(7) Brokerage	No		
(8) Planned Date of Execution of Purchase Agreement	December 6, 2019		
(9) Transfer Date (planned)	December 20, 2019	March 27, 2020	July 3, 2020



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(10) Payment Date (planned)	December 20, 2019	March 27, 2020	July 3, 2020
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(B) Kowa Kawasaki Nishiguchi Building (Partial Transfer)

Transfer of a total of 35.0% of the trust beneficiary rights of this property will be conducted in two parts as described in (3), (9) and (10) below, and after the transfer is completed, JEI will quasi co-own the trust beneficiary rights of the property with the buyer.

(1) Property Name	Kowa Kawasaki Nishiguchi Building		
(2) Assets to Be Transferred	Trust beneficiary right in real estate		
(3) Transfer Price (Note 1) (Note 2)	¥8,821 million (quasi co-ownership 35.0%)		
	(a) ¥1,260 million (quasi co-ownership 5.0%)	(b) ¥7,560 million (quasi co-ownership 30.0%)	
(4) Book Value (Note 2) (Note 3)	10,252 million yen		
(5) Difference Between Transfer Price and Book Value (3)-(4) (Note 2) (Note 4)	-1,431 million yen		
(6) Partial Transferee	Please refer to “4. Details of the Transferee/Partial Transferee” below.		
(7) Brokerage	No		
(8) Planned Date of Execution of Purchase Agreement	December 6, 2019		
(9) Transfer Date (planned)	December 20, 2019	June 26, 2020	
(10) Payment Date (planned)	December 20, 2019	June 26, 2020	

(Note 1) Excluding transfer costs, property taxes and urban planning taxes settled, consumption taxes, and local consumption taxes, etc.

(Note 2) Amounts are rounded down to the nearest million yen.

(Note 3) “Book Value” refers to book value as of October 31, 2019.

(Note 4) The value is a reference value calculated to show the difference between transfer price and book value as of October 31, 2019, and different from accounting gains or losses on sale.

Hereinafter, asset to be transferred/partially transferred described above shall be individually referred to as the “Property” and collectively referred to as the “Properties”.

2. Background of Transfer and Partial Transfer, and Lease Cancellation

JEI has been engaged in improving the quality of our portfolio through transfer of property which generates low returns, has latent losses or causes concerns about weakening competitive strength, given robust real estate market, and decided to transfer and partial transfer the Properties as part of JEI’s asset replacement efforts.

Both NOI yield and yield after depreciation of the Properties have been below average of those of other properties owned by JEI, and JEI has incurred latent losses. JEI plans to improve the quality of our portfolio by increasing JEI’s portfolio yield and NAV per unit and correcting the property concentration through transfer and partial transfer of the Properties.

In order to ensure a steady growth in profit distribution and maximize retained earnings, transfer of the JEI Nishi-Honmachi Building will be conducted in three periods and the Kowa Kawasaki Nishiguchi Building in two periods.



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Replacement of assets will come full circle by the transfer and partial transfer of the Properties, and JEI will work on increasing unitholders' value including growing asset base through investment in carefully selected properties by also utilizing additional capacity to acquire properties created as a result of the transfer and partial transfer of the Properties.

3. Summary of Planned Assets for Transfer and Partial Transfer and Lease Cancellation

(A) JEI Nishi-Honmachi Building

Property Name	JEI Nishi-Honmachi Building (Property #: II-2)				
Type of Specified Asset	Trust beneficiary right in real estate				
Location (Address)	1-3-15 Awaza, Nishi-ku, Osaka, Osaka-Prefecture				
Use ^(Note 1)	Office and parking				
Appraisal Value	¥5,860 million				
Appraisal Date	October 1, 2019				
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.				
Lease Summary					
Leasable Floor Space ^(Note 3)	10,601.70 m ²				
Leased Floor Space ^(Note 4)	10,601.70 m ²				
Number of Tenants ^(Note 5)	1 (23)				
Monthly Rent ^(Note 6)	¥34,823 thousand				
Leaseholds and Security Deposits ^(Note 7)	¥396,914 thousand				
Occupancy Rates	End of December 2017	End of June 2018	End of December 2018	End of June 2019	End of September 2019
	96.9%	96.9%	93.9%	98.4%	100.0%

(B) Kowa Kawasaki Nishiguchi Building (quasi co-ownership 35.0%)

Property Name	Kowa Kawasaki Nishiguchi Building (Property #: III-9)				
Type of Specified Asset	Trust beneficiary right in real estate				
Location (Address)	66-2 Horikawa-cho, Saiwai-ku, Kawasaki, Kanagawa-Prefecture				
Use ^(Note 1)	Office and stores				
Appraisal Value ^(Note 2)	¥8,820 million				
Appraisal Date	October 1, 2019				
Appraiser	Japan Valuers Co., Ltd.				
Lease Summary					
Leasable Floor Space ^(Note 2) ^(Note 3)	13,431.47 m ²				
Leased Floor Space ^(Note 2) ^(Note 4)	13,431.47 m ²				
Number of Tenants ^(Note 5)	1 (23)				
Monthly Rent ^(Note 6)	¥50,129 thousand				
Leaseholds and Security Deposits ^(Note 2) ^(Note 7)	¥373,349 thousand				
Occupancy Rates	End of December 2017	End of June 2018	End of December 2018	End of June 2019	End of September 2019
	97.4%	100.0%	99.7%	100.0%	100.0%



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(Note 1) The descriptions of “Use” are based on information in the land registry or the completion drawing.

(Note 2) The figure indicates value/amount/area related to quasi co-ownership 35.0%.

(Note 3) “Leasable Floor Space” indicates the area which is leasable as of September 30, 2019.

(Note 4) “Leased Floor Space” indicates the area for which a lease agreement has been executed between the master lease company and the end tenants out of the leasable floor space and which is actually leased, and which is indicated on the lease agreement with the end tenants as of September 30, 2019.

(Note 5) A master lease agreement has been executed between the master lease company and end tenants. Therefore, the number of tenants is indicated as one with the total number of end tenants indicated in brackets.

(Note 6) The “Monthly Rent” amount (excluding consumption taxes) indicates, in principle, the sum of the monthly rents indicated on the lease agreement executed between the master lease company and the end tenants as of September 30, 2019 (which sets forth the amount of rent on a monthly basis) (the amount includes common-area charges but excludes user fees for monthly parking and other accompanying facilities).

(Note 7) The “Leaseholds and Security Deposits” amount indicates, in principle, the sum of the balance of leaseholds and security deposits of a lessee based on the lease agreement executed between the master lease company and the end tenants as of September 30, 2019, after deducting any portions that are not refundable.”

4. Details of the Transferee

The transferee/partial transferee is a domestic general industrial corporation but it is not described here as it has not agreed to disclose its profile. There are no capital, personnel or business relationships worthy of special mention between the transferee/partial transferee and JEI as well as the Asset Management Company. The transferee/partial transferee as well as its affiliates are not a related party of JEI or the Asset Management Company.

5. Details of Brokerage

Not applicable

6. Impact on JEI’s financial status in the event of its failure to fulfill the forward commitment etc.

The sale and purchase agreement concerning the transfer and partial transfer falls under the category of forward commitment etc. by investment corporations (Note) as defined in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. Institutions published by Financial Services Agency. Furthermore, the said sale and purchase agreement stipulates that, in the event of breach of provisions of the said agreement either by JEI or the transferee/partial transferee, the other party may terminate the said agreement and demand an amount equivalent to 20% of the transfer price as a penalty. However, as JEI is a seller and there is no concern about funding risk, etc. in relation to the performance of this agreement, JEI thinks that it is unlikely that JEI will be charged a penalty fee which may significantly affect JEI’s financial status, etc.

(Note) A forward commitment refers to a post-dated sale and purchase agreement to carry out payment for and delivery of the property after one month or later from the execution of the agreement or to similar agreements.

7. Payment Method

Lump sum payment, every transfer date

8. Outlook

For impact of the transfer and partial transfer of the Properties on the forecasted performance for the periods ending December 2019 (July 1, 2019 - December 31, 2019) and ending June 2020 (January 1, 2020 - June 30, 2020), please refer to the “Notice Concerning Revision of the Operating Forecasts for the Fiscal Periods Ending December 31, 2019 and Ending June 30, 2020” dated today.



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9. Appraisal Summary of the Properties

(A) JEI Nishi-Honmachi Building

Appraisal Value	¥5,860 million
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.
Appraisal Date	October 1, 2019

(In thousands of yen^(Note 1))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	5,860,000	
Direct Capitalization Value	5,940,000	
Operating Revenue	479,557	
Gross potential revenue	504,961	Calculated based on valuation of potential rent and other stable medium- and long-term revenue
Vacancy Loss, etc.	25,404	Calculated based on valuation of the occupancy rate level that is stable over the medium- to long-term
Operating Expenses	178,404	
Maintenance Property Management Fee (Note 2)	50,886	Maintenance fee is calculated by considering the performance for the past fiscal year, and property management fee is calculated by considering similar contracts.
Utilities	44,053	Utilities fee is calculated by considering occupancy rate, based on the performance for the past fiscal year.
Repair costs	16,311	Calculated based on the conclusion that an annual average of long-term repairs, maintenance and renewal costs as specified in the Engineering Report, etc. is reasonable.
Advertisement for leasing, etc.	3,656	Calculated by assessing the estimated amount of costs required for brokerage service, advertisement, etc. equal to one month's rent, with reference to the amount of costs required for similar properties.
Tax and public dues	57,939	Calculated by considering the level of amount borne by JEI, based on the performance for the fiscal 2019.
Insurance	1,057	Recorded based on current insurance premium.
Other expenses	4,500	Recorded based on the performance for the past fiscal year, etc.
Net Operating Income	301,152	
Interest Income	3,269	Calculated by assessing with the yield on investment at 1.0%, comprehensively taking into account both management and procurement aspects
Capital Expenditures	31,077	Assessed based on long-term repairs, maintenance and renewal costs as specified in the Engineering Report.
Net Cash Flow	273,344	
Cap Rate	4.6%	Assessed by considering regional and individual characteristics of the property, and with the reference to the cap rates, etc. for similar properties.
Discounted Cash Flow Value	5,830,000	
Discount Rate	4.4%	Assessed by comparison to discount rates related to transactions for similar properties and yields related to other financial products.
Terminal Cap Rate	4.8%	Assessed by considering marketability, etc. of the property to the cap rate at the expiration of the holding period of the property.
Cost Approach Value	7,090,000	
Land Value	88.7%	
Building Value	11.3%	

Other matters noted by the appraiser in conducting appraisal	None
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(B) Kowa Kawasaki Nishiguchi Building (quasi co-ownership 35.0%)

Appraisal Value ^(Note 3)	¥8,820 million
Appraiser	Japan Valuers Co., Ltd.
Appraisal Date	October 1, 2019

(In thousands of yen ^(Note 1))

Appraisal Item	Appraisal Value	Remarks, etc.
Income Approach Value	25,200,000	
Direct Capitalization Value	25,400,000	
Operating Revenue	2,060,209	
Gross potential revenue	2,127,905	Calculated by considering current rent and market rent.
Vacancy Loss, etc.	67,695	Calculated by considering current occupancy rates and level of vacancy rates in the market, etc.
Operating Expenses	768,057	
Maintenance	276,494	Maintenance fee is calculated by assessment based on the actual amount.
Property Management Fee (Note 2)		Property Management Fee is calculated by assessment based on the current ratio table.
Utilities	192,862	Utilities fee is calculated based on the actual amount.
Repair costs	91,153	Calculated based on the last 12 year average of repairs, maintenance and renewal costs as specified in the Engineering Report.
Advertisement for leasing, etc.	42,352	New: amount equal to one month's rent, Renewal: assessed by considering future rent, etc.
Tax and public dues	151,244	Calculated based on the actual amount in 2019.
Insurance	3,949	Calculated based on the actual amount.
Other expenses	10,000	Calculated based on the actual amount, etc. in the past fiscal years.
Net Operating Income	1,292,152	
Interest Income	11,596	Assessed with the yield on investment at 1.0%
Capital Expenditures	135,386	Calculated based on the last 12 year average of renewal costs as specified in the Engineering Report.
Net Cash Flow	1,168,362	
Cap Rate	4.6%	Assessed by considering the discount rate plus forecasted net cash flow and change in selling prices, and with reference to the cap rates for similar properties.
Discounted Cash Flow Value	24,900,000	
Discount Rate	4.3%	Assessed based on the method which takes into account the yield of financial assets plus individual characteristics of the property and the method which refers to the comparison with transactions of similar properties, and with reference to the result of the Japanese Real Estate Investor Survey.
Terminal Cap Rate	4.7%	Assessed by taking into account increasing uncertainty about the revenue forecast in the period after the holding period of the property is over in comparison with the current revenue forecast, and possibility of an increase in capital expenditures due to the aged property.
Cost Approach Value	19,100,000	
Land Value	89.4%	
Building Value	10.6%	

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

(Note 2) Maintenance and management fees and property management fees are indicated as a combined figure because individually reporting maintenance and management fees and property management fee levels would impact other transactions involving the companies entrusted with building management and property management, impede efficient performance of duties by JEL, and/or negatively impact investors' profits.

(Note 3) Appraisal value indicates figures related to quasi co-ownership 35.0%, and other figures are figures for the entire Property.

End of Document



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[Attachments]

Appendix: Portfolio as of the End of the Period Ending December 2019 (Planned)

* URL of JEI's website: <https://www.excellent-reit.co.jp/en/>



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[Appendix] Portfolio as of the End of the Period Ending December 2019 (Planned)

Area	Property #	Company Name	Date of Acquisition	(Planned) Acquisition Price (yen, mill.) (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	Omorii Bellport D	June 29, 2006	22,552	8.1	50.3
	I-2	Shiba 2-Chome Building	June 29, 2006	9,450	3.4	
	I-3	JEI Hamamatsucho Building	June 29, 2006	8,350	3.0	
	I-8	AKASAKA INTERCITY	October 26, 2007	17,857	6.4	
			February 5, 2013	10,289	3.7	
			Total	28,146	10.1	
	I-9	Kowa Shirokanedai Building	December 24, 2010	4,705	1.7	
	I-10	Daiba Garden City Building	February 4, 2011	11,000	3.9	
	I-12	HAMARIKYU INTERCITY	December 20, 2011	7,080	2.5	
			February 4, 2014	12,000	4.3	
			Total	19,080	6.8	
	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	4.1		
I-15	Mansard Daikanyama	July 1, 2016	11,420	4.1		
I-16	AKASAKA INTERCITY AIR	July 2, 2018	6,590	2.4		
I-17	BIZCORE AKASAKA MITSUKE	October 1, 2019	6,200	2.2		
Area II Central Osaka Central Nagoya Central Fukuoka (Note 4)	II-1	NHK Nagoya Housou Center Building	June 27, 2006	4,300	1.5	4.9
			March 24, 2014	1,310	0.5	
			Total	5,610	2.0	
	II-2	JEI Nishi-Honmachi Building (Note 5)	March 28, 2007	6,339	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	5.0	36.2
	III-2	Kowa Kawasaki Higashiguchi Building	June 27, 2006	10,976	3.9	
	III-3	JEI Hongo Building	June 29, 2006	5,400	1.9	
	III-5	Kawasaki Nisshincho Building	June 27, 2006	3,775	1.4	
			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 (Note 5)	October 26, 2007	30,400	10.9	
	III-10	Pacific Square Sengoku	December 20, 2011	1,620	0.6	
	III-11	Core City Tachikawa	February 5, 2013	6,500	2.3	
	III-12	Nisseki Yokohama Building	April 1, 2015	24,500	8.8	
III-13	Yokohama Bentendori Dai-ichi Seimei Building	June 15, 2018	640	0.2		
Area IV Osaka, Nagoya and Fukuoka (excl. Area II), other government-decreed cities, etc.	IV-2	JEI Kyobashi Building	September 1, 2011	3,308	1.2	8.5
	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-motimachi 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	
	IV-9	Senshin Building	November 13, 2019	1,580	0.6	
Total				279,433	100.0	100.0

(Note 1) "Planned" Acquisition Price" is the acquisition value on the purchase agreement, excluding consumption taxes. 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.



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(Note 3) “Tokyo’s 6 Central Wards” are Chiyoda, Chuo, Minato, Shinjuku, Shinagawa, and Shibuya wards.

(Note 4) “Central Osaka” refers to the Umeda, Dojima, Nakanoshima, Yodoyabashi, and Honmachi districts. “Central Nagoya” refers to the Meieki, Fushimi, and Sakae districts, and “Central Fukuoka” refers to the Tenjin and Hakata Terminal Peripheral districts.

(Note 5) Figures related to quasi co-ownership 95% held by JEI as of the end of the period ending December 2019 (planned).