REIT REPORT

Star Asia Investment Corporation

3468

Tokyo Stock Exchange REIT

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http://www.fisco.co.jp

Index

Summary

The appearance of a comprehensive REIT that is developing various policies to maximize unitholders' interests

Star Asia Investment Corporation <3468> (hereafter, also "the REIT") is the REIT of the Star Asia Group, which is an independent real estate investment group. It was established in December 2015 and was listed on the Tokyo Stock Exchange (TSE) REIT Market in April 2016. The Star Asia Group was established in 2007 by Malcolm F. MacLean IV and Taro Masuyama, and it is a real estate investment group in which investment decisions are made by both men. It mainly manages the funds from investors who seek long-term investment, such as overseas university funds, foundations and pension funds, by investing in assets related to real estate, etc. in Japan and other Asian countries. One of its features is that in addition to direct investment in real estate of various asset types, it invests flexibly in real estate through multiple approaches, including via bond and stock investments. Its investments up to the present time within Japan have reached a total of ¥297.8bn (as of the end of July 2016).

The REIT's main investment policies are as follows: 1) Prioritized, focused investment in the Tokyo area, 2) Gaining income stability and growth through diversification of asset types, and 3) Investment primarily in middle-size assets. The REIT plans to replace assets on February 1, 2017, through the sale and the acquisition of properties (announced on December 5, 2016), and the total acquisition price after this replacement will be ¥62.078bn. The portfolio it manages is as described below.

"Concentrating on the Tokyo area": It is expected that the ratio of properties in the Tokyo area will reach 78.6%, and even among the properties outside the Tokyo area, they are mainly highly-liquid properties near to stations in major cities.

"Diversified asset types": Approximately half of the assets it manages are offices (42.0% of all assets) and hotels (6.1%) with a focus on growth, and the remainder are residences (22.3%) and logistics facilities (29.6%) with a focus on stability.

"Investing in middle-size assets": The average purchase price of its 18 properties is ¥3.44bn, and it aims to thoroughly disperse risk through investing in highly-liquid, middle-size properties.

In FY7/16 (1st fiscal period) results, operating revenue was ¥1,859mn, operating income ¥1,147mn, ordinary income ¥335mn, and net income ¥333mn, and it has already distributed ¥968 per unit. The 1st fiscal period was an irregular fiscal period and ordinary income was kept down from listing-related expenses and other expenses, but even so the cash distribution per unit was 16.8% higher than the initial forecast (of ¥829). The investment assets at the end of FY7/16 were 18 properties with a total acquisition price of ¥61,493mn, so a certain asset scale had been achieved, while the occupancy rate was at the high level of 95.9%. The fiscal period will be a regular six-month period from FY1/17 (2nd fiscal period), and the forecasts are for operating revenue of ¥1,987mn, operating income of ¥1,169mn, ordinary income of ¥1,051mn, net income of ¥1,050mn, and cash distribution per unit of ¥3,046. As the property tax and city planning tax will be expensed, the results for FY7/17 (3rd fiscal period) were understood to be stable when the 1st fiscal period financial results were released. But in December 5, 2016, the REIT announced the replacement of properties (it decided to sell 1 of the properties it owns and acquire 1 new property), and at the same time, it upwardly revised its 3rd fiscal period results forecasts. The aims of the replacement of properties are to strengthen the portfolio, to realize unrealized gains through the transfer of an asset held, and to actualize the valuation of an asset held. The upwardly revised forecasts as a result of this replacement are operating revenue of ¥2,167mn, operating income of ¥1,202mn, ordinary income of ¥1,076mn, net income of ¥1,075mn, and cash distribution per unit of ¥3,120.

An overview of the replacement of properties announced on December 5, 2016 (scheduled for February 1, 2017) is as follows.

[Asset to be transferred]
Name: Urban Park Yoyogikoen
Scheduled transfer price: ¥1,100mn (acquisition price: ¥875mn)

[Asset to be acquired]
Name: Urban Park Gokokuji (former name: Joytel Gokokuji)
Scheduled acquisition price: ¥1,460mn (minimum purchase price in preferential negotiation rights contract: ¥1,460mn)

The REIT is targeting a total asset value of ¥200bn by 2020. Up to August 2016, it had acquired the preferential negotiation rights for properties with a total minimum purchase price of ¥16.591bn (6 properties, of which 1 property (Urban Park Gokokuji) is the property it has decided to acquire in the replacement of properties announced on December 5, 2016). Breaking them down by asset type, there are 2 residences (including Urban Park Gokokuji), 2 hotels, 1 office building, and 1 logistics facility, and all of these 6 properties are owned by the sponsor group. It is considered that as the REIT, it intends to calculate the timing of the acquisition of properties in accordance with the equity financing and incorporate them into the portfolio, while also observing the trend in the price of the investment unit.

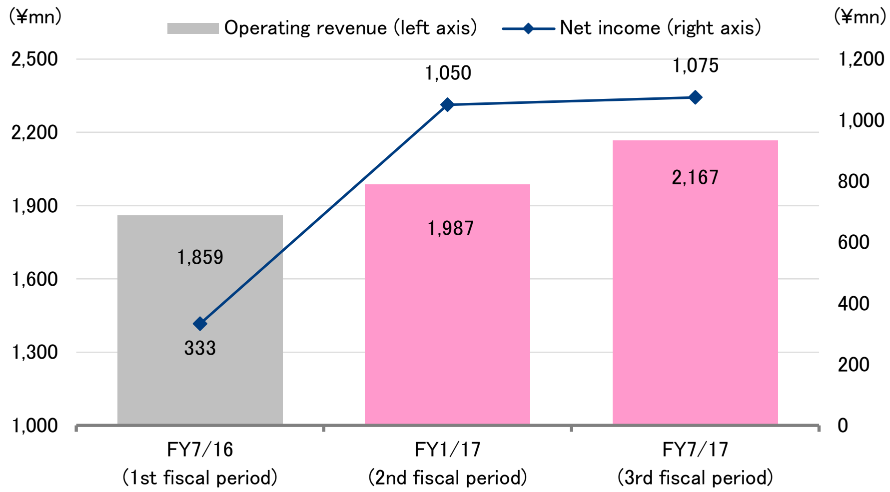
The REIT's appeals include that it has a low P/NAV (premium to net asset value) and a high distribution yield. At the end of the 1st fiscal period (end of July 2016), the P/NAV was 0.82 times and the distribution yield was 6.8% (doubled the 2nd fiscal period cash distribution per unit forecast of ¥3,046, divided by the investment unit price at the end of the period of ¥87,900), which deviated greatly from the J-REIT average. The factors behind this undervaluation are estimated to be the REIT's low number of investments and its lack of name recognition as it has only just been listed, and it seems likely there will be a correction phase if its name recognition improves. The public offering price of the investment unit was ¥100,000 / unit (the price when it was first listed was ¥99,100), but the price was pushed down from the beginning of June 2016 until the BREXIT referendum, and thereafter trended below the TSE REIT Index. But according to the REIT, since the announcement of the 1st fiscal period results (September 14, 2016), thanks to the financial results IR briefings it has conducted for a large number of institutional investors both domestically and overseas, these investors are gradually coming to understand its results, its growth strategy for the future, and its position within the Star Asia Group. This is coinciding with factors such as the upward revision to the cash distribution per unit forecast from the replacement of properties announced on December 5, 2016, and presently the REIT's investment unit price is trending above the TSE REIT Index (the lowest price since the listing was ¥86,400 (July 8, 2016), and its current price is ¥97,600 (December 30, 2016, on a closing-price basis).

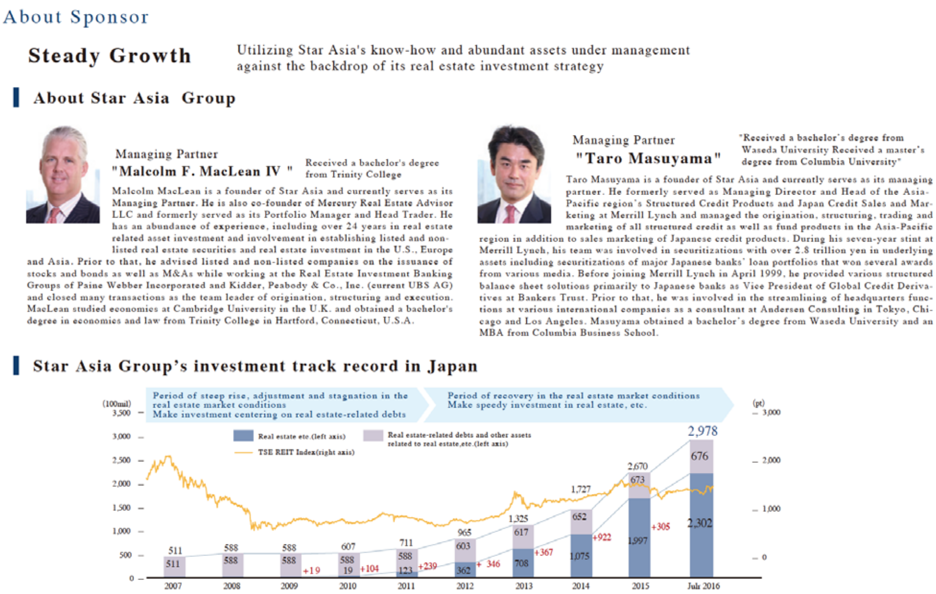
The REIT announced its "Strategy to maximize unitholders' interests" on December 5, 2016, according to which it can be expected to implement various policies to maintain and improve the cash distribution per unit in the future.

Key Points

- Building a middle-scale properties portfolio with diversified asset types, focused on the Tokyo area
- In the 1st fiscal period, it gradually expanded the asset scale and built a foundation (acquisition total, ¥61,493mn), and in the 2nd and 3rd fiscal periods, income is expected to grow steadily for a stable distribution
- In the short term, it will incorporate assets for which it has preferential negotiation rights of ¥16,591mn, and in the medium term, it is aiming for total assets of ¥200bn by 2020
- By replacing properties, it is strengthening the portfolio and actualizing unrealized gains, and it is considering various policies to maximize unitholder value, including deciding to distribute the gain on a sale, and its management capabilities are appealing

Results trends





About Sponsor

Steady Growth Utilizing Star Asia's know-how and abundant assets under management against the backdrop of its real estate investment strategy

About Star Asia Group

Managing Partner
"Malcolm F. MacLean IV "
Received a bachelor's degree from Trinity College

Malcolm MacLean is a founder of Star Asia and currently serves as its Managing Partner. He is also co-founder of Mercury Real Estate Advisor LLC and formerly served as its Portfolio Manager and Head Trader. He has an abundance of experience, including over 24 years in real estate related asset investment and involvement in establishing listed and non-listed real estate securities and real estate investment in the U.S., Europe and Asia. Prior to that, he advised listed and non-listed companies on the issuance of stocks and bonds as well as M&As while working at the Real Estate Investment Banking Groups of Paine Webber Incorporated and Kidder, Peabody & Co., Inc. (current UBS AG) and closed many transactions as the team leader of origination, structuring and execution. MacLean studied economics at Cambridge University in the U.K. and obtained a bachelor's degree in economics and law from Trinity College in Hartford, Connecticut, U.S.A.

Managing Partner
"Taro Masuyama"
"Received a bachelor's degree from Waseda University Received a master's degree from Columbia University"

Taro Masuyama is a founder of Star Asia and currently serves as its managing partner. He formerly served as Managing Director and Head of the Asia-Pacific region's Structured Credit Products and Japan Credit Sales and Marketing at Merrill Lynch and managed the origination, structuring, trading and marketing of all structured credit as well as fund products in the Asia-Pacific region in addition to sales marketing of Japanese credit products. During his seven-year stint at Merrill Lynch, his team was involved in securitizations with over 2.8 trillion yen in underlying assets including securitizations of major Japanese banks' loan portfolios that won several awards from various media. Before joining Merrill Lynch in April 1999, he provided various structured balance sheet solutions primarily to Japanese banks as Vice President of Global Credit Derivatives at Bankers Trust. Prior to that, he was involved in the streamlining of headquarters functions at various international companies as a consultant at Andersen Consulting in Tokyo, Chicago and Los Angeles. Masuyama obtained a bachelor's degree from Waseda University and an MBA from Columbia Business School.

Star Asia Group's investment track record in Japan

Overview of Star Asia Investment Corporation

Its sponsor is an independent real estate investment group continuously supported by major overseas institutional investors

1. The REIT and its sponsor

The REIT's sponsor is the Star Asia Group, which is an independent real estate investment group, and it entrusts asset management to Star Asia Investment Management Co., Ltd. It was established in December 2015, and in April 2016 it was listed on the TSE REIT Market (J-REIT market). It has two fiscal periods a year (ending in January and July).

The Star Asia Group was established in 2007 by Malcolm F. MacLean IV and Taro Masuyama, and it is a real estate group comprised of the funds resulting from the investment decisions taken by both men, the investment management company, and the assets invested in. It mainly manages the funds from investors who seek long-term investment, such as overseas university funds, foundations and pension funds, by investing in assets related to real estate, etc. in Japan and other Asian countries. Currently, it is not investing in assets other than in Japan and it has been continuously accumulating a track record of investing in the Japanese real estate market. One of its features is that in addition to direct investment in real estate of various asset types, it invests flexibly in real estate through multiple approaches, including via bond and stock investments. When searching for investment projects, it makes full use of the wide range of relationships that the Star Asia Group has in the financial and real estate markets. Its investments up to the present time within Japan have reached a total of ¥297.8bn (as of the end of July 2016).

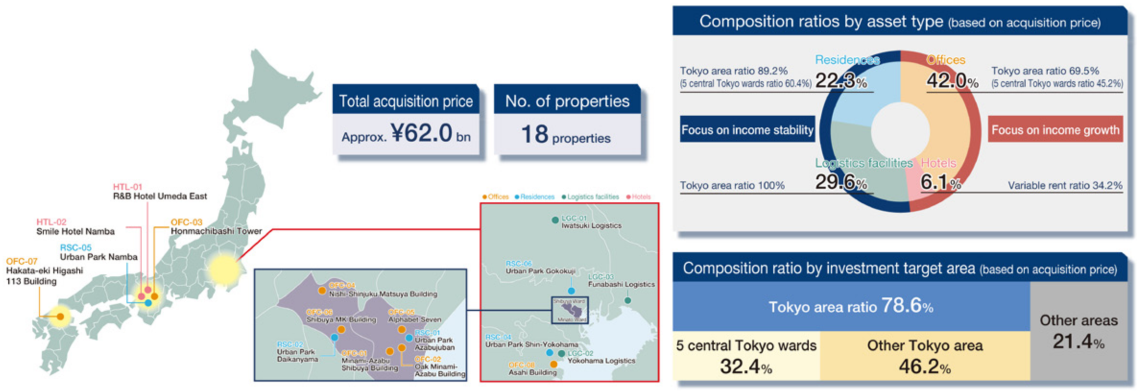
Building a middle-scale properties portfolio with diversified asset types, focused on the Tokyo area

2. Investment policies and asset portfolio

The REIT, which follows the principle of "unitholders' interests-first," is a comprehensive REIT that is utilizing the accumulated expertise and abundant management track record of the Star Asia Group to manage its assets. Its four investment policies are as follows; 1) Prioritized, focused investment in the Tokyo area, 2) Gaining income stability and growth through diversification of asset types, and 3) Investment primarily in middle-size assets, and 4) Strategic investment in large-size assets exclusively in five central wards of Tokyo.

1) With regards to "concentrating on the Tokyo area," its policy is to invest 70% or above in the Tokyo area based on the acquisition prices of the investment assets, and it plans for this percentage to have reached 78.6% (18 properties) by February 1, 2017. It is also maintaining this ratio (of 70% or above) for the group of properties for which it acquired the preferential negotiation rights, and it is expected to maintain this policy in the future. The areas being targeted for investment outside the Tokyo area include Osaka, Nagoya, Fukuoka, Sapporo, and other government-ordinance designated cities, and its policy is to invest through strictly selecting properties in each of these areas. As of the end of July 2016, its portfolio included four Osaka properties and 1 Fukuoka property.

2) For the policy of "diversified asset types," the assets types it targets for investment are offices, commercial facilities, residences, logistics facilities, and hotels, and in principle each type constitutes less than 50% of the portfolio, and it is pursuing a portfolio that combines both income growth and stability. By February 1, 2017, the RIET plans to have approximately half of the assets it manages as offices (42.0% of all assets) and hotels (6.1%) with a focus on growth, and the remainder as residences (22.3%) and logistics facilities (29.6%) with a focus on stability.
3) For the policy of "investing in middle-size assets," it is aiming to minimize the impact on portfolio income of tenants leaving properties and rent reduction by accumulating highly liquid, high-quality middle-scale properties. On February 1, 2017, the average acquisition price of the 18 properties it owns will be ¥3.44bn (compared to ¥3.41bn at the end of July 2016), and it is clearly evident that it is implementing this investment policy from the fact it acquired all of its properties for less than ¥10bn. Although the characteristics of each asset type are slightly different, its basic strategy is orientated toward thoroughly dispersing risk by building a portfolio focused on middle-scale properties that multiple tenants (can) lease.
4) The aim of the policy of "Strategic investment in large-size assets exclusively in five central wards of Tokyo" is to increase the asset scale and build a stable earnings foundation. While it has acquired no such assets so far, this policy is considered to be for medium-term and opportunistic initiatives .



Results trends

In the 1st fiscal period, it gradually expanded the asset scale and built a foundation (acquisition total, ¥61.4bn)

1. Results trends in FY7/16 (1st fiscal period)

The REIT made a steady start in FY7/16 (1st fiscal period), the period in which it was listed, with operating revenue of ¥1,859mn, operating income of ¥1,147mn, ordinary income of ¥335mn, and net income of ¥333mn. In January 2016 it acquired 11 properties (total acquisition price, ¥43.74bn; 3 offices, 3 residences, 3 logistics facilities, and 2 hotels) and began its asset management, and then following its listing in April of the same year, it acquired an additional 7 properties (total acquisition price, ¥17.753bn; 5 offices and 2 residences). During the 1st fiscal period, it acquired properties in two stages, while it also incurred expenses relating to its listing (mainly non-operating expenses), which kept down ordinary income. At the end of FY7/16, it had 18 properties as investment assets with a total acquisition price of ¥61.493bn, so it had reached a certain asset scale, while the occupancy rate (the rate at properties with rental income) was high, at 95.9%,

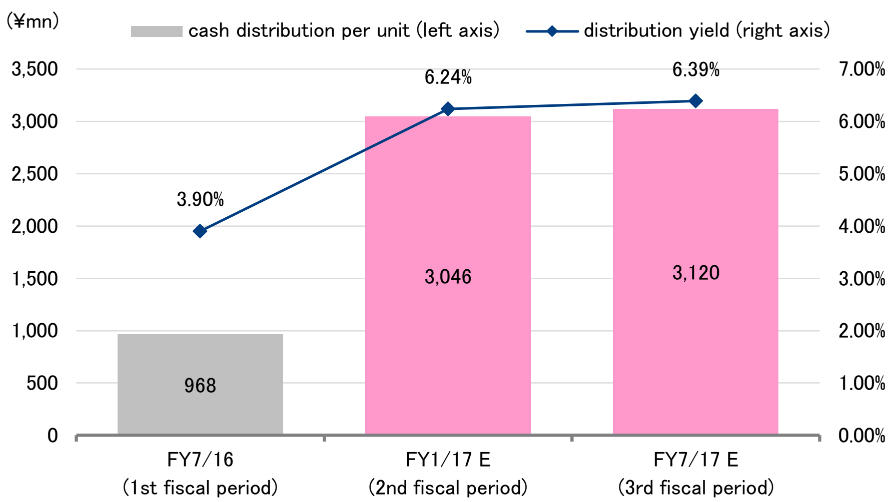
The FY7/16 (the 1st fiscal period) results, and the 2nd and 3rd fiscal periods results forecasts

(¥mn)

	FY7/16 (1st fiscal period)	FY1/17 (2nd fiscal period)		FY7/17 (3rd fiscal period)	
	Results	Forecast	Change compared to previous fiscal period	Forecast	Change compared to previous fiscal period
Operating revenue	1,859	1,987	128	2,167	180
Operating income	1,147	1,169	21	1,202	33
Ordinary income	335	1,051	715	1,076	25
Net income	333	1,050	716	1,075	25
Cash distribution per unit	¥968	¥3,046	¥2,078	¥3,120	¥74
No. of management days	200 days	184 days		181 days	

Source: Company materials

cash distribution per unit and distribution yield



* The 1st fiscal period's yield is calculated from the number of days from the listing date based on an investment unit closing price of ¥87,900 at the end of the 1st fiscal period (July 29, 2016)
* The 2nd and 3rd fiscal periods' yield are calculated from the investment unit closing price on December 30, 2016
The 3rd fiscal period's cash distribution forecast includes the distribution of ¥382 from a gain on sale

Steady income growth in the 2nd and 3rd fiscal periods toward a stable distribution

2. FY1/17 (2nd fiscal period) and FY7/17 (3rd fiscal period) results forecasts

The REIT's forecasts for FY1/17 (2nd fiscal period) are for operating revenue of ¥1,987mn (up ¥128mn from the previous period), operating income of ¥1,169mn (up ¥21mn), ordinary income of ¥1,051mn (up ¥715mn), net income of ¥1,050mn (up ¥716mn), and cash distribution per unit of ¥3,046 (up ¥2,078).

As the property tax and city planning tax will be expensed, the FY7/17 (3rd fiscal period) results, whose forecasts were announced when the 1st fiscal period financial results were released, were understood to be stable. But in December 5, 2016, the REIT announced the replacement of properties (it decided to transfer 1 property it owned and acquire 1 new property), and at the same time, it upwardly revised its 3rd fiscal period results forecasts from the expected gain on the sale of a property. The aims of this replacement of properties are to strengthen the portfolio, to realize unrealized gains through the sale of an asset held, and to actualize the valuation of an asset held. The upwardly revised forecasts as a result of this replacement are operating revenue of ¥2,167mn (up ¥180mn from the 2nd fiscal period), operating income of ¥1,202mn (up ¥33mn) ordinary income of ¥1,076mn (up ¥25mn), and net income of ¥1,075mn (up ¥25mn), further exceeding the results of the 2nd fiscal period. In the REIT's results forecasts, the cash distribution per unit forecast before the revision was ¥2,726, which has been increased ¥12 from the acquisition of a new property and ¥382 from the gain on the sale of a property, and as a result, the 3rd fiscal period's cash distribution per unit forecast has become ¥3,120.

The overview of the replacement of properties announced on December 5, 2016, is as follows.

[Asset to be transferred]
Name: Urban Park Yoyogikoen
Scheduled transfer price: ¥1,100mn (Acquisition price: ¥875mn)

[Asset to be acquired]
Name: Urban Park Gokokuji (former name: Joytel Gokokuji)
Scheduled acquisition price: ¥1,460mn (minimum purchase price in preferential negotiation rights contract: ¥1,460mn)

It can also be expected to further increase the cash distribution per unit, including by eliminating the rent gap in the offices portfolio and reducing administrative and management costs

LTV (interest-bearing debt / total assets) is 47.4%, there are no financial concerns, as much as the debt is long term

3. Financial position

At the end of FY7/16 (1st fiscal period), total assets were ¥68,636mn, while liabilities were ¥34,788mn. Within the liabilities, the ratio of long-term loans payable is high, and the long-term liabilities ratio was 89.7%. The Loan to Value (LTV; interest-bearing debt ÷ total assets) was 47.4% at the end of FY7/16 (1st fiscal period), but on entering the 2nd fiscal period, it was further reduced through the advanced repayment of some of the loans.

As of the end of December 2016, total loans payable was ¥30,200mn, while the LTV at the end of FY1/17 (2nd fiscal period) is expected to be in the region of 45.2%. The REIT's lenders are a co-financing group arranged by Sumitomo Mitsui Banking Corporation (Sumitomo Mitsui Financial Group <8316>) and Mizuho Bank, Ltd. (Mizuho Financial Group <8411>), in which seven banks participate including these two banks (in addition to these two banks, Sumitomo Mitsui Trust Bank, Limited, Mitsubishi UFJ Trust and Banking Corporation, Aozora Bank, Ltd., Shinsei Bank, Limited, and Resona Bank, Limited), which is a lineup that gives a feeling of stability. As the ratio of long-term loans payable is high and the debt capacity is sufficient, it can be evaluated as having no financial concerns in terms of growth in the future.

Balance sheet and management indicators

(¥mn)

	End of FY7/16
Current assets	5,979
(cash and deposits)	2,006
(cash and deposits in trust)	2,557
Non-current asset	62,656
(property, plant and equipment)	59,023
Total assets	68,636
Current liabilities	4,035
Non-current liabilities	30,752
Total liabilities	34,788
Total net assets	33,848
Total liabilities and net assets	68,636
<Stability>	
Current ratio (current assets ÷ current liabilities)	148.2%
Long-term liability ratio (long-term liabilities ÷ total liabilities)	89.7%
LTV (interest-bearing debt ÷ total assets)	47.4%
Equity ratio (equity ÷ total assets)	49.3%

Source: Company materials

Growth strategy

Aiming for total assets of ¥200bn by 2020

1. Initiatives for growth

The growth strategy can be divided into initiatives for external growth and for internal growth. The initiatives for external growth are mainly for the following three points; 1) Securing room for external growth by obtaining preferential negotiation rights, 2) Strategic investment by identifying trends of asset types, and 3) conducting speedy investment that makes the maximum possible use of sponsor support. The initiatives for internal growth are focused on the following three points; 1) Promoting lease-up to improve the occupancy rate, 2) Increasing rental income by eliminating the rent gap, and 3) Implementation of strategic renovation work with occupancy rate and rent increase in mind.

Initiatives for growth

	The main initiatives
External growth strategy	· Securing room for external growth by obtaining preferential negotiation rights · Strategic investment by identifying trends of asset types · External growth target: "200 billion yen by 2020"
Internal growth strategy	· Promoting lease-up to improve the occupancy rate · Increasing rental income by eliminating the rent gap · Implementation of strategic renovation work with occupancy rate and rent increase in mind

Source: Company information

External growth: in the short term, incorporating preferential negotiating rights assets worth ¥16,591mn

2. Securing of room for external growth through obtainment of preferential negotiation rights

By August 2016, the REIT had acquired preferential negotiation rights for 6 properties worth a total of ¥16.591bn. Breaking them down by asset type, there were 2 residences (including 1 property it has already acquired), 2 hotels, 1 office building, and 1 logistics facility. All 6 properties are owned by the sponsor group, and it is considered that as the REIT, it is aiming to calculate the timing of the acquisition of properties in accordance with the equity financing and incorporate them into the portfolio, while also observing the trend in the price of the investment unit. The preferential negotiation rights expire in February 2017, but the rights may be extended as these properties are owned by the sponsor group. Among them, for 1 property, Urban Park Gokokuji (formerly Joytel Gokokuji, a residential building), the REIT concluded a sales agreement on December 5, 2016, for its acquisition, and intends to acquire it on February 1, 2017.

After the replacement of properties announced on December 5, 2016, the portfolio (as of February 1, 2017) will contain 18 properties with a total value of ¥62.078bn on an acquisition-price basis. Based on this, in the event of acquiring all of the remaining 5 preferential-negotiating-rights properties for the minimum purchase amount, the portfolio will expand to 23 properties worth a total of ¥77.209bn, and it will include a good balance of the 4 asset types. The percentages of the asset types in the portfolio will be as follows: offices, 36.7%; residences, 19.5%; logistics facilities, 29.9%; and hotels, 14.0%. Also, the percentage of properties in the Tokyo area will increase to 79.9% (compared to 78.4% at the end of the 1st fiscal period).

The medium-term target for external growth is to achieve an asset scale of "¥200bn by 2020," which can be achieved through incorporating assets into the portfolio at a rate of around ¥30bn a year. The REIT is thought to be aiming to achieve speedy and steady external growth through utilizing its asset management company's independent network, while also making full use of the sponsor's support.

Internal growth: implement initiatives to eliminate the rent gap in offices and to improve the occupancy rate, and for selective renovation work in residences

3. Different internal growth strategy for each asset type

The basic initiatives for internal growth are to improve the occupancy rate and rental income by lease-up and to reduce management and administrative costs, and in the medium-to-long term, to select investment targets for renovation and other projects. However, the importance given to these initiatives differs according to the asset type. For example, in offices, at the end of the 1st fiscal period and based on the rental area, the rent gap (the gap between the current rent and the market rent, with the current rent said to be lower than the market rent) was 74.1%, so negotiations will be conducted to increase the rent at the time the rent contract is renewed. At the end of the 1st fiscal period, the rent gap in the offices was approximately 7.6% of the monthly total rent, or in other words, it would seem that the aim is to increase the rent by this much. On the other hand, a feature of the REIT's initiatives for residences is to improve the occupancy rate and to conduct strategic restoration and renovation works. While the REIT's residences are operating stably, their occupancy rate is around 93%, so there is still room for improvement. However, its policy is not to conduct leasing that is unreasonable in business terms, such as by reducing the rent. Rather, it is aiming to improve tenant satisfaction, maintain competitiveness, and further raise rent by increasing the appeal of properties in accordance with the features of each respective property, including by upgrading the common areas and renovating vacant spaces. The replacement of properties announced on December 5, 2016, is expected to further stabilize the occupancy rate in the residences portfolio. It will transfer Urban Park Yoyogikoen, where the average size is large (257.56m^2), the total number of units is low (6) and fluctuations in the occupancy rate are considered to be relatively large. It will also acquire Urban Park Gokokuji, where the fluctuations in the occupancy rate are considered to be relatively small because as a city-center, single-type property, tenant demand is strong.

Benchmarks

Since the announcement of the 1st fiscal period's financial results, the investment unit price has outperformed the TSE REIT Index

The REIT's appeals include that it has a low P/NAV (premium to net asset value) and a high distribution yield. At the end of the 1st fiscal period, the P/NAV was 0.82 times and the distribution yield was 6.8% (doubled the 2nd fiscal period cash distribution per unit forecast of ¥3,046, divided by the investment unit price at the end of the period of ¥87,900), which deviated greatly from the J-REIT average. The factors behind this undervaluation are estimated to be the REIT's low number of investments and its lack of name recognition, as it has only just been listed

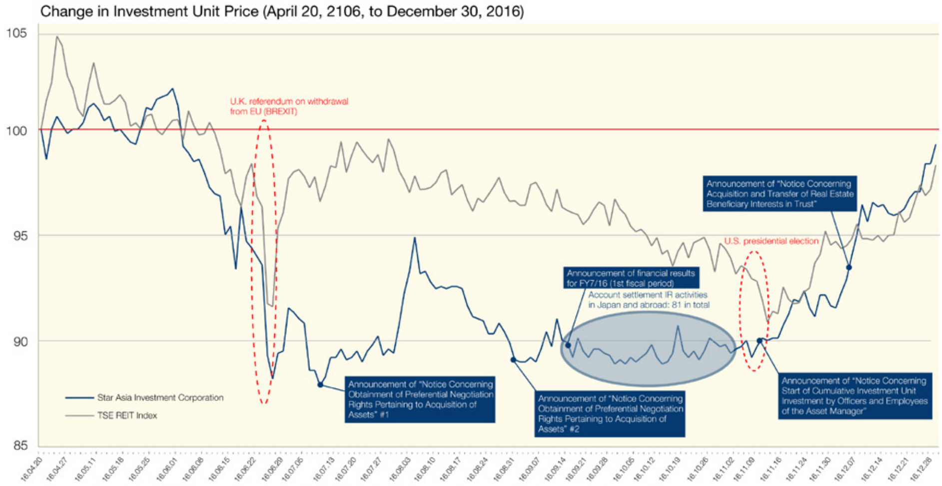
The public offering price of the investment unit was ¥100,000 / unit (the price when it was first listed was ¥99,100), but the price was pushed down from the beginning of June 2016 until the BREXIT referendum, and thereafter trended below the TSE REIT Index. But according to the REIT, since the announcement of the 1st fiscal period results (September 14, 2016), thanks to the financial results IR briefings it has conducted for a large number of institutional investors both domestically and overseas, these investors are gradually coming to understand its results, its growth strategy for the future, and its position within the Star Asia Group. This is coinciding with factors such as the upward revision to the cash distribution per unit forecast from the replacement of properties announced on December 5, 2016, and presently the REIT's investment unit price is trending above the TSE REIT Index [Figure 1] (the lowest price since the listing was ¥86,400 (July 8, 2016), and its current price is ¥97,600 (December 30, 2016, on a closing-price basis).

The yield is declining alongside the recovery trend in the investment unit price, but on considering the effects of the strengthening of the yen and the weakening of the U.S. dollar, it can be said that the yield remains at a high level for overseas investors. [Figure 2]

The REIT announced its "Strategy to maximize unitholders' interests" on December 5, 2016, according to which it can be expected to implement various policies to maintain and improve the cash distribution per unit in the future. [Figure 3]

Figure 1

Change in Investment Unit Price (April 20, 2106, to December 30, 2016)

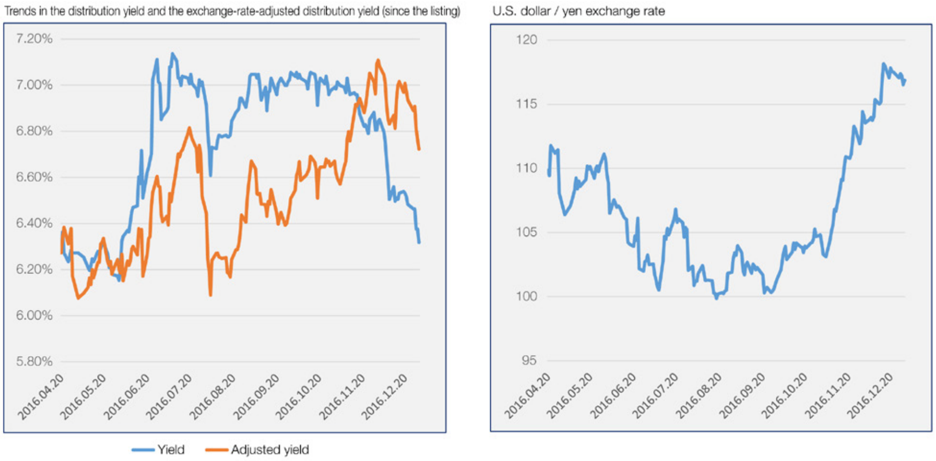


* Index created based on the TSE REIT Index on the listing date (April 20, 2016) with the Star Asia Investment Corporation's closing investment unit price set as 100.

Source: Company materials

Benchmarks

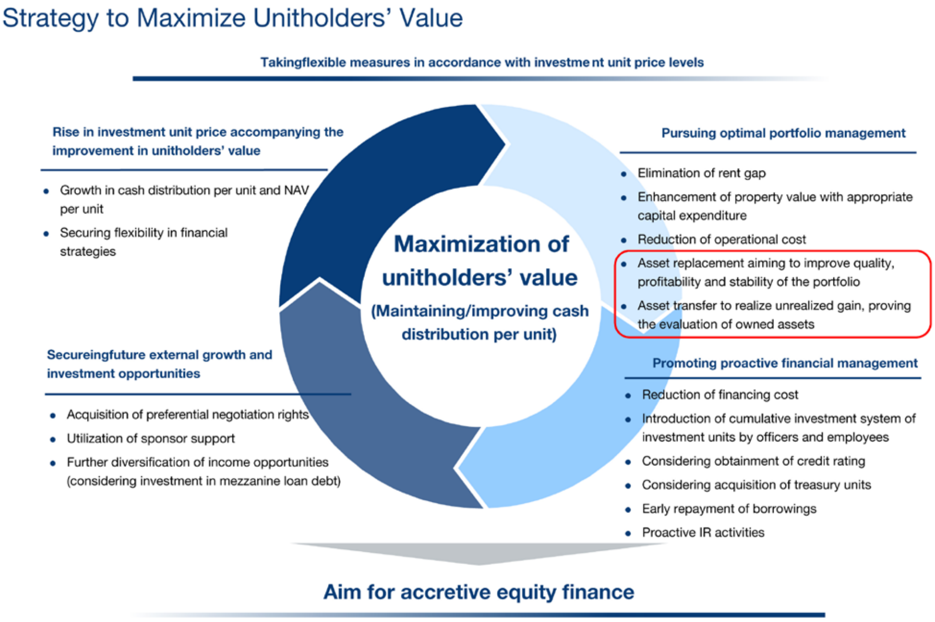
Figure 2



The distribution yield is the combined yield for the 2nd and 3rd fiscal periods announced on December 5, 2016
The exchange-rate-adjusted distribution yield was calculated by multiplying the distribution yield by the rate of change, based on the U.S. dollar / yen exchange rate on April 20, 2016

Source: prepared by FISCO

Figure 3



Source: Company materials

FISCO

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