

Securities Code: 3468

October 25, 2017

Real Estate Investment Trust Securities Issuer

Star Asia Investment Corporation

Representative: Atsushi Kato, Executive Officer  
(Code: 3468)

Asset Management Company

Star Asia Investment Management Co., Ltd.

Representative: Atsushi Kato, President and CEO

Contact: Toru Sugihara, Director and CFO

TEL: +81-3-5425-1340

**Supplementary Material**  
**Concerning the Acquisition of Mezzanine Loan Debt**  
-Star Asia Mezzanine Loan Debt Investment Series1 (subordinate bonds)-

---

# Why Invest in Mezzanine Loan Debt?

- SAR will invest in mezzanine loan debt as a measure to pursue maximization of unitholder value based on the following ideas:

**1 Attractive investment alternative when real estate equity prices are expensive**

**2 Increased revenue due to higher after-amortization yields of real estate portfolios**

**3 Serves as an effective investment using current cash on hand (cash and deposits) for accretion**

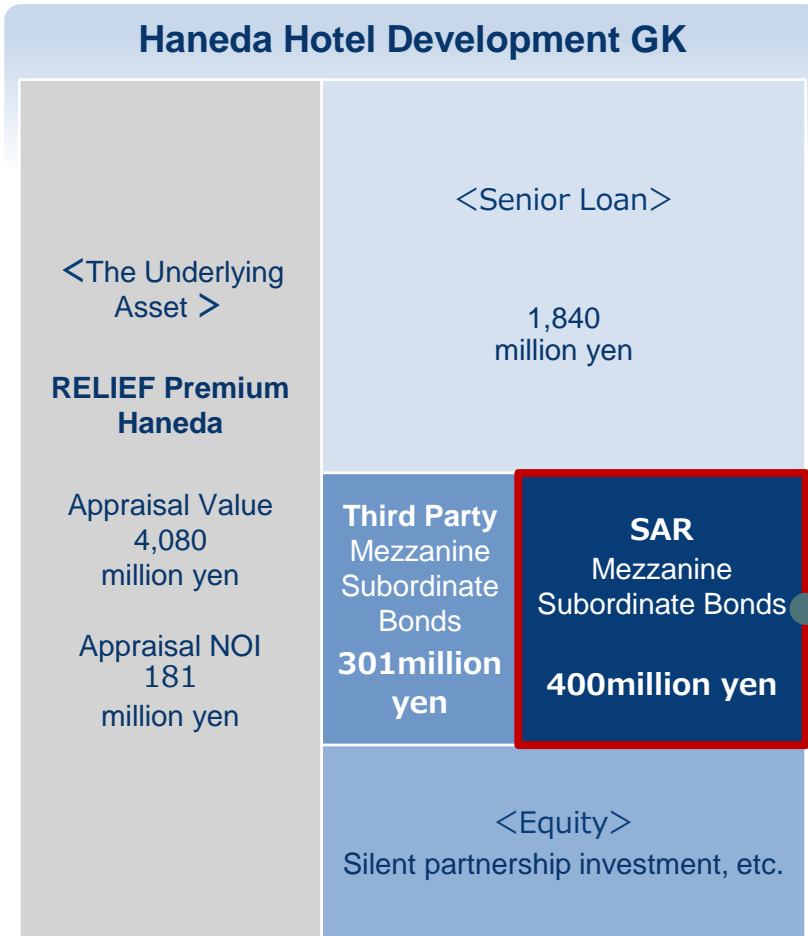
**4 Are judged most likely to assure repayment of principal and interest so typically considered lower risk than investment in real estate**

**Pursue  
maximization  
of unitholder  
value**

# SAR Investment in Mezzanine Loan Debt Series1

## Structure of Investment in Mezzanine Loan Debt and Effect of Investing in Mezzanine

- SAR is expecting the following points upon deciding the acquisition of the Subordinate Bonds
- SAR continuously considers the implementation of measures



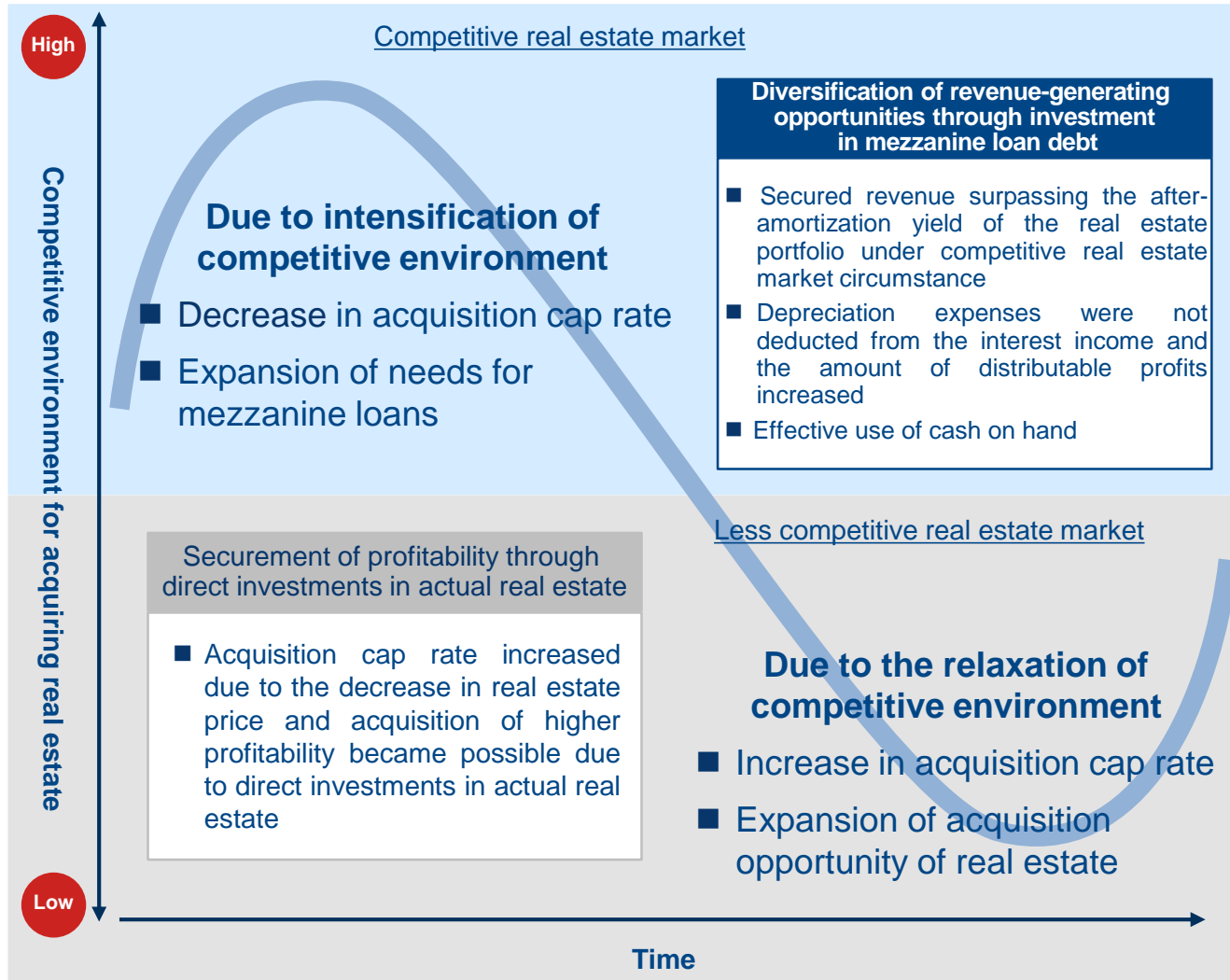
| Effect of investing in Mezzanine   |   |
|--|---|
| differentiating investment scheme from real estate players, as a supplemental investment to direct investment, under competitive market circumstance | <b>Expected return : 3M TIBOR +5.0%</b> |
| Effective use of cash on hand (cash and deposits)  | <b>400million yen use cash on hand</b>  |
| Effect of increase in DPU (forecast)   | <b>Approximately +24*</b>               |

| Condition of investment in mezzanine loan debt (subordinate bonds)   |
|--|
| <ul style="list-style-type: none"> <li>■ LTV : 62.3%                             <ul style="list-style-type: none"> <li>400 million yen : SAR Mezzanine Subordinate Bonds</li> <li>301 million yen : Third Party Mezzanine Subordinate Bonds</li> <li>1,840 million yen : Senior Loan</li> <li>Total 2,541 million yen</li> <li>The percentage of Appraisal value of 4,080million yen is 62.3%</li> <li>➔ <b>The risk of principal loss is estimated to be low</b></li> </ul> </li> <li>■ The Underlying Asset is Business Hotel at Ota-ku, Tokyo                             <ul style="list-style-type: none"> <li>➔ <b>Meeting the investment criteria of SAR</b></li> </ul> </li> <li>■ Final redemption date : Oct 31<sup>st</sup>, 2023</li> </ul> |

\* : Effect of increase in DPU (forecast) is calculated as bellow  
 Interest / Total number of investment units issued (414,300unit)  
 However, there is a risk of early repayment before final redemption date

## Creation of new investment opportunities corresponding to the real estate market states

- Investments in mezzanine loan debt that can diversify revenue-generating opportunities by avoiding competition are considered to be an effective method to pursue maximization of unitholder value under competitive real estate market circumstance

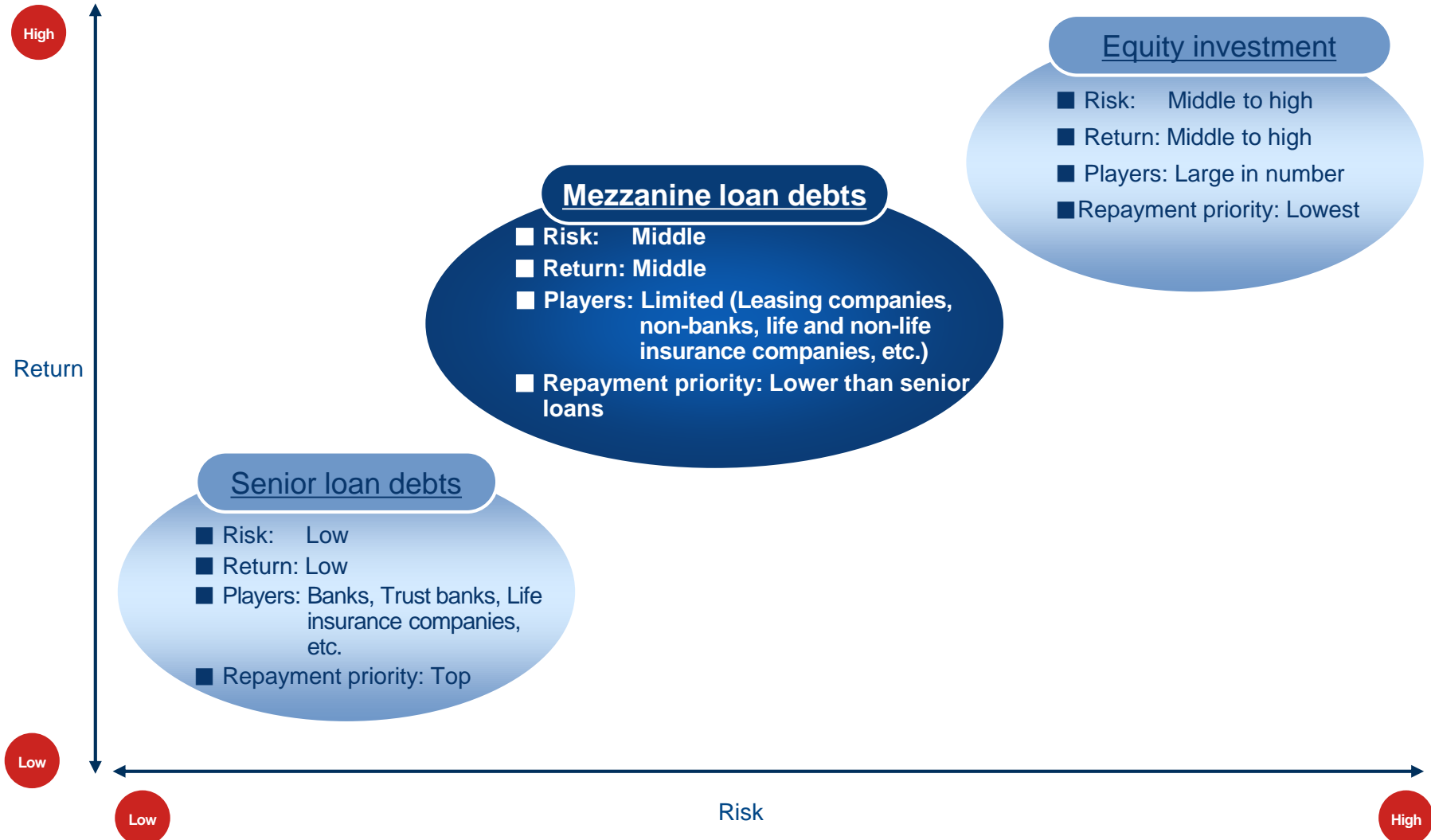


**Effectiveness of investments in mezzanine loan debt**

- Supplemental investment to direct investment**
  - When the competitive environment is severe, it may be difficult to acquire properties that satisfy SAR's investment criteria and which SAR wants to acquire at the preferred price.
- Yield**
  - Secured revenue surpassing the after-amortization yield of the real estate portfolio under an environment where competition for acquisition is intensifying
  - The yield based on mezzanine loan debts with LTV of 85% is 4.1% when setting the appraised value as 100 and the NOI yield as 3.5%
- Having a lower risk than equity**
  - Repayment of principal and interest is subordinated to senior loan and superior to equity
  - Even if collateral assets' value is lost, especially in case of repayment of principal, equity is lost initially, and then principal of mezzanine loan debt begins to be lost

## Procured funds and risk/return in properties owned by SPC (Concept)

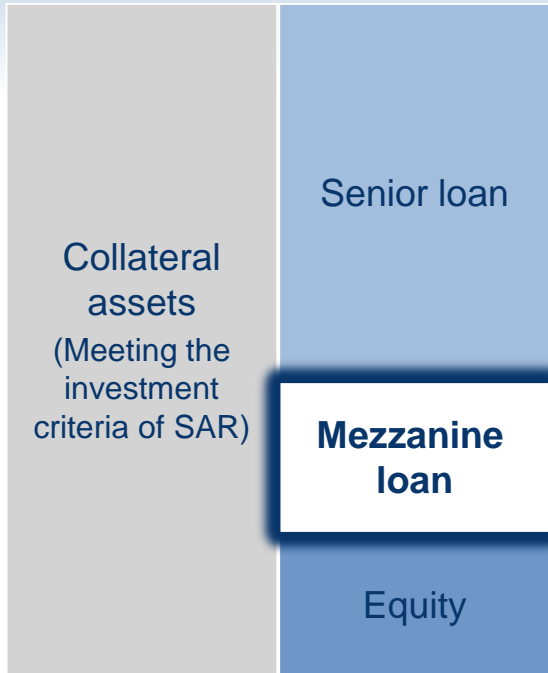
- Investment in mezzanine loan debt is considered as an investment with middle risk and middle return. SAR will invest in mezzanine debt to be deemed by the Asset Management Company as investment with higher possibility of repayment.



# What is Mezzanine Loan Debt?

## General real estate finance structure utilizing mezzanine loans

### Property holding by SPC



- Mezzanine loans are loans borrowed when the amount of senior loan is less than the preferred borrowing amount and when equity investors (in properties) seek to increase the efficiency of investments
- As for repayment priority, mezzanine loans are lower than senior debt, also called senior loans, but are prioritized over equity
- The interest rate of mezzanine loans is higher than that of senior loans

## SAR's ideas on investments in mezzanine loan debt (investment criteria)

### SAR's ideas on investments in mezzanine loan debt

Conditions of investment in mezzanine loan debt

1. SAR will invest in mezzanine loan debt which is financed to the SPC holding only real estates, and the repayment resource should be limited to the property and its cash flow
2. Regardless of the form, such as loans (including the real estate beneficiary interests in trust) and social bonds, SAR will invest only in mezzanine loan debt which is regarded as a loan with certain interests
3. The repayment priority is subordinated to senior loan and prior to equity (silent partnership investment, etc.)

### Investment criteria

- Collateral real estate should meet the investment criteria (location, asset type, price, etc.) of SAR

- The balance of investments in debts such as mezzanine loans should be maintained at 5% or less of total assets of SAR at the end of the immediately preceding fiscal period. (However, it will be separate consideration will be given when there is a large fluctuation in total assets such as through acquisition and sale of properties during the period.)

- Upper limit of LTV:85%

LTV= (Amount including mezzanine loans that are the investment target of SAR and senior debts) ÷ (appraised value to be obtained by SAR)

- Interest rate: 4% or more in principle

**Upper limit of LTV: 85%**

Calculated by dividing the amount including mezzanine loan and senior debt by the appraisal value to be obtained by SAR

In principle, equity investors should not be parties that share a special interest with SAR

# Continuing Actions for Maximization of Unitholder Value and Change in Investment Unit Price

## Measures conducted since IPO and unitholder return

- SAR has proactively implemented measures aiming to maximize unitholder value and has progressed differentiation from existing J-REITs. SAR considers investments in mezzanine loan debt as a measure contributing to the maximization of unitholder value in the current real estate market and therefore decided to conduct such investments in J-REITs for the first time. SAR will continue to proactively maximize unitholder value and aim to increase the investment unit price.

Implementing various measures for unitholder return since our listing

### Asset replacement



Urban Park Yoyogikoen (Sale)      Urban Park Gokokuji (Acquisition)

**Gain on sale: 150 million yen**

### Asset replacement through PO



Oak Minami-Azabu Building (Sale)      Baraki Logistics, etc. (Acquisition)

**Gain on sale: 152 million yen (schedule)**

**Acquisition of new income opportunity**

**Mezzanine loan debt  
400 million yen  
Interest rate: 5.0%**

**Continue to consider various for maximization of unitholder value**

Amount of return of unitholder value  
**Total: 150 million yen**  
Amount per unit: **368 yen**

Amount of return of unitholder value (schedule)  
**Total: 152 million yen**  
Amount per unit: **3,680 yen**

(Amount of internal reserve (schedule))  
Total: 110 million yen  
Amount per unit: 266 yen

Effect of increase in DPU (forecast)  
approx. **+24 yen \***  
**(+0.4%~+0.5%)**

\* refer to page3



\*1: TSE REIT index is relativized based on the closing price of SAR's investment units as of April 20, 2016

## Disclaimer

- This document has not been prepared for the purpose of solicitation of acquisitions of investment securities and conclusion of contract for financial instruments transaction. We caution investors to undertake investment at their own decision and responsibility.
- A loss may occur due to the fluctuation in the price of real estate investment securities caused by fluctuations in the real estate market price, the price of real estate investment trust securities market and other securities markets, the level of interest rate as well as price and appraised value of real estate that are backing investment securities. A loss may occur due to the fluctuation in the price of real estate investment securities when there is a change in the situation concerning the business and property of Star Asia Investment Corporation, the issuer of real estate investment securities, and Star Asia Investment Management Co., Ltd., the Asset Management Company managing those assets.
- This document is neither a governmental and ministerial ordinance based on the Financial Instruments and Exchange Act and the Act on Investment Trusts and Investment Corporations nor a disclosure material and management report based on the rules of the Tokyo Stock Exchange and other related rules.
- The information provided in this document is indicated based on the information held by Star Asia Investment Management Co., Ltd. as of the date of this document, but it does not guarantee its accuracy, integrity, certainty, validity and fairness. Furthermore, please note that such information may be changed or deleted without any prior notice.
- This document includes descriptions based on the forecast of the future as of now based on certain assumptions. Such descriptions are impacted by the change in future assumptions, occurrence of risks or fluctuations in uncertain factors, and do not guarantee the future financial results of Asia Investment Management Co., Ltd.
- Copying, reprinting or any other use of the contents of this document without prior approval is strictly prohibited.