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For Immediate Release

Real Estate Investment Trust Securities Issuer  
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Notice Concerning Acquisition of Mezzanine Loan Debt  
Star Asia Mezzanine Loan Debt Investment Series 4 (Subordinate Loan Claims)

Star Asia Investment Corporation (“SAR”) announces that Star Asia Investment Management Co., Ltd. (the “Asset Manager”), to which SAR entrusts the management of its assets, has decided today to invest in mezzanine loan debt (the acquisition of mezzanine loan debt is hereinafter referred to as the “Acquisition”). Details are as follows.

The Acquisition is SAR’s fourth mezzanine loan debt investment and SAR regards the continued diversification of revenue-generating opportunities such as these as a differentiation strategy in pursuit of maximization of unitholder value. Going forward, SAR will continue to discuss measures to create new investment opportunities corresponding to the state of the real estate market, without being bound by previous examples.

1. Overview of the Acquisition

(1) Asset to be acquired	Subordinate part of nonrecourse loan (the “Subordinate Loan Claims”) to GK DS Kaigan (the “GK”), whose collateral asset shall be the beneficiary interest in trust with Premier Kaigan Building as the main asset in trust (the “Collateral Asset”) (Note 1).
(2) Name of asset to be acquired	Star Asia Mezzanine Loan Debt Investment Series 4
(3) Loan term of the Subordinate Loan Claims	From January 30, 2019 to January 30, 2025
(4) Collateral asset for loan claims (non-recourse loan)	Collateral Asset: The beneficiary interest in trust with Premier Kaigan Building as the main asset in trust
(5) Amount of the Subordinate Loan Claims	300,000,000 yen
(6) Planned acquisition price of the Subordinate Loan Claims	300,000,000 yen (excluding acquisition expenses, etc.)
(7) Planned interest rate (Note 2)	Base rate (Note 3) +5%
(8) LTV of loan claims (non-recourse loan)	Approximately 63.6% (Note 4) The appraisal value of the Collateral Asset, which is used as the denominator for calculating LTV, is 5,750 million yen.
(9) Contract date of Subordinate Loan Claims transfer agreement	January 28, 2019
(10) Planned acquisition date of the Subordinate Loan Claims	January 30, 2019
(11) Interest payment date for the Subordinate Loan Claims	Last day of January, April, July and October (Four times a year) (The first interest payment date is April 26, 2019.)

(12) Final repayment date	January 30, 2025 (Note 5)											
(13) Acquisition financing	Cash on hand											
(14) Settlement method	Lump-sum settlement upon acquisition of the Subordinate Loan Claims											
(15) Seller	Undisclosed (Undisclosed due to the request from the seller (the "Seller").											
(16) Overview of the Subordinate Loan Claims	<p>Operator: GK</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;">GK</td> <td></td> </tr> <tr> <td rowspan="2" style="text-align: center; vertical-align: middle;">Collateral Asset Premier Kaigan Building</td> <td style="text-align: center;">(Senior loan) 3,354.3 million yen Lender A (*)</td> <td rowspan="3" style="text-align: center; vertical-align: middle;">➔</td> </tr> <tr> <td style="text-align: center;">(Mezzanine Loan) 300 million yen Lender B (*)</td> </tr> <tr> <td style="text-align: center;">Appraisal Value 5,750 million yen</td> <td style="text-align: center;">(Equity) Silent partnership, investment, etc.</td> <td style="text-align: center; vertical-align: middle;">(Subordinate Loan Claims) 300 million yen  SAR</td> </tr> </table> <p>(*) Undisclosed due to the request from the Lender.</p> <ol style="list-style-type: none"> <li>1. Loan (non-recourse loan) of 3,654.3 million yen in total will be executed by Lender A and Lender B to the GK on January 30, 2019.</li> <li>2. SAR plans to acquire the Subordinate Loan Claims from Lender A on the same day. (The GK plans to acquire the Collateral Asset using the payment for silent partnership investment, etc. and the borrowing (non-recourse loan) from Lender A and Lender B on the same day.)</li> <li>3. The Subordinate Loan Claims are subordinated to senior loans but are prioritized over "equity (silent partnership investment, etc.)" of the GK in terms of interest payment and repayment of principal. As to repayment of principal, even when the value of the Collateral Asset should fall, "equity (silent partnership investment, etc.)" of the GK is the first to incur loss, and after all "equities (silent partnership investment, etc.)" have incurred loss, then the principal of the Subordinate Loan Claims incurs loss.</li> <li>4. Repayment for a portion of senior loans is planned once the GK receives consumption tax refund.</li> </ol>		GK			Collateral Asset Premier Kaigan Building	(Senior loan) 3,354.3 million yen Lender A (*)	➔	(Mezzanine Loan) 300 million yen Lender B (*)	Appraisal Value 5,750 million yen	(Equity) Silent partnership, investment, etc.	(Subordinate Loan Claims) 300 million yen  SAR
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(17) Relationship between SAR/the Asset Manager and the GK * Based on information as of January 24, 2019.	Capital relationship	There is no capital relationship to report between SAR/the Asset Manager and the GK.										
	Personnel relationship	There is no personnel relationship to report between SAR/the Asset Manager and the GK. Furthermore, there is no personnel relationship to report between associated persons and associated companies of SAR/the Asset Manager and associated persons and associated companies of the GK.										
	Business relationship	There is no business relationship to report between SAR/the Asset Manager and the GK. Furthermore, there is no business relationship to report between associated persons and associated companies of SAR/the Asset Manager and associated persons and associated companies of the GK.										
	Related party status	There is no related party status to report between SAR/the Asset Manager and the GK.										

- (Note 1) For an overview of the Collateral Asset, please refer to 2. Reason for the Acquisition <Overview of the Collateral Asset>.
- (Note 2) SAR is scheduled to receive an up-front fee upon the acquisition of the Subordinate Loan Claims separately from the interest payment.
- (Note 3) Base rate is JBA 3-month JPY TIBOR. The Japanese yen TIBOR by JBA can be confirmed on the website of the JBA TIBOR Administration (<http://www.jbatibor.or.jp/english/rate/>). For each interest calculation period, the rate announced at 11 a.m. (Tokyo time) two business days prior to the last day of the previous calculation period of the relevant calculation period (the first date is two business days prior to the drawdown date) will be applied as the base rate.
- (Note 4) The figure indicates the ratio of (a) amount procured from the GK's loans through a loan claim (non-recourse loan), including the Subordinate Loan Claims (3,654.3 million yen) to (b) the appraisal value indicated in the appraisal report obtained by the GK regarding the Collateral Asset (5,750 million yen), rounded to one decimal place.
- (Note 5) The final repayment date of the Subordinate Loan Claims is January 30, 2025. However, the Subordinate Loan Claims may be repaid earlier due to the sale of the Collateral Asset and other reasons.

## 2. Reason for the Acquisition

The Acquisition will not only realize diversification of investment targets, but also likely boost distributable profits since it will be conducted with cash on hand held by SAR, allowing SAR to receive interest income (planned interest rate: more than 5%) from effective use of own funds. Therefore, SAR has decided on the Acquisition judging that such will contribute to maximization of unitholder value. The Asset Manager recognized the following points upon deciding the acquisition of the Subordinate Loan Claims.

- ① The appraisal value of the Collateral Asset SAR has acquired is 5,750 million yen, and LTV against the amount of the Subordinate Loan Claims and senior debts (3,654.3 million yen) calculated based on this figure is 63.6%. Therefore, risk of loss while holding the Subordinate Loan Claims is judged to be low.
- ② The Collateral Asset is an office building that falls under the category of “middle-sized assets in the Tokyo area (Note)” defined by SAR and is believed to have strong liquidity. In addition, since the loan can be fully repaid at 63.6% of the appraisal value as explained in ① above, the certainty of repayment of the Subordinate Loan Claims through sale of the Collateral Asset or refinancing is judged to be high.
- ③ The certainty of interest payment for the Subordinate Loan Claims is assessed to be high since its rent income is highly stable as shown in the evaluation of the Collateral Asset below.
- ④ As planned, the interest rate of the Subordinate Loan Claims is “base rate + 5%” (please refer to 1. Overview of the Acquisition above), securement of profits that surpass the after-amortization yield of real estate portfolio can be expected. The certainty of interest payment is judged to be high, even if capital expenditures and repair costs arise more than expected.

(Note) Refers to real estate, etc. with an acquisition price lower than 10 billion yen.

Overview of Collateral Asset and Evaluation of Collateral Asset by the Asset Manager are as follows.

<Overview of Collateral Asset>

Asset type		Real estate beneficiary interest in trust				
Property name		Premier Kaigan Building				
Planned acquisition date		January 30, 2019				
Planned buyer		GK DS Kaigan				
Location		2-2-6 Kaigan Minato-ku, Tokyo				
Use (Note 1)		Office/Residence/Parking lot				
Structure (Note 2)		Steel-framed reinforced concrete structure, 12F aboveground				
Area	Land (Note 3)	1,670.99 m <sup>2</sup>				
	Building (Total floor area) (Note 4)	8,476.92 m <sup>2</sup>				
Type of ownership (Note 5)	Land	Proprietary ownership				
	Building	Proprietary ownership				
Construction completion		January 29, 1993				
Earthquake PML (Note 6)		4.5%				
Appraisal obtained by the GK (Note 7)	Appraisal value	5,750 million yen				
	Appraisal NOI (Note 8)	223,390,000 yen				
	Appraisal date	November 30, 2018				
	Appraiser	Land Coordinating Research Inc.				
Total number of end tenants (Note 9)		20				
Occupancy rate						
		August 2018	September 2018	October 2018	November 2018	December 2018
		98.3%	98.3%	98.3%	100.0%	100.0%
Special notation		Not applicable.				

(Note 1) "Use" indicates the use stated in the real estate registry, and may differ from the present state.

(Note 2) "Structure" indicates the structure stated in the real estate registry of the building.

(Note 3) "Land" is the entire land area of Premier Kaigan Building stated in the real estate registry and may differ from the present state.

(Note 4) "Building (Total floor area)" is the total floor area of Premier Kaigan Building stated in the real estate registry and may differ from the present state.

(Note 5) "Type of ownership" is the type of right held by the trustee of Premier Kaigan Building.

(Note 6) The PML (probable maximum loss) calculated in the evaluation of seismic risk analysis conducted by City Evolution Co., Ltd., which was entrusted by the GK upon acquisition of the Collateral Asset as part of efforts to grasp the appropriate price of the real estate is indicated. "Probable Maximum Loss" means the probable maximum loss that may result from an earthquake and, herein, refers to the extent of damage that may be suffered due to an earthquake of the assumed maximum scale (earthquake with a probability of occurring once in 475 years = earthquake with a probability of occurrence in 50 years of more than 10%) in the scheduled use period (50 years = useful life of a general building), expressed as the estimated cost of restoring such damage (physical loss corresponding to a probability of more than 90% in the event of occurrence of such earthquake) as a percentage (%) of the replacement cost.

(Note 7) Items other than the indicated above that are stated in the real estate appraisal report the GK has obtained for grasping the appropriate price of the real estate at the time of its acquisition of the Collateral Asset are not disclosed as consent has not been obtained from the planned buyer of the Collateral Asset.

(Note 8) "Appraisal NOI" indicates the amount of net operating income (NOI) obtained through the direct capitalization method, stated in the real estate appraisal report.

(Note 9) The total number of end tenants is as of December 31, 2018

<Evaluation of the Collateral Asset by the Asset Manager>

Premier Kaigan Building, the Collateral Asset, is an office building with an apartment constructed under permission of the comprehensive design system, located approximately a 3-minute walk from Hinode Station on the Tokyo Waterfront New Transit Waterfront Line (Yurikamome) and approximately a 12-minute walk from Hamamatsucho Station on the JR Yamanote Line, etc. From Hamamatsucho Station, excellent access to other commercial/business districts, Haneda Airport, etc. is secured by using the JR lines and Tokyo Monorail.

The Collateral Asset is highly versatile since the office space is regular-shaped with no pillars and a ceiling height of 2,600 mm, allowing for flexible layouts. In addition, it is equipped with raised floors (70 mm) and individual air-conditioning system, and its common areas, etc. were renovated in 2014. With such features, it has strong appeal for tenants.

The upper floors (10th to 12th floors) of the building are made as an apartment with an open feeling created by the superb views of Tokyo Bay and Odaiba. With each unit having ample space of over 100 m<sup>2</sup>, the Asset Manager believes it has substantial appeal to those who seek affluent life on the waterfront surrounded by abundant greenery while living in central Tokyo.

3. Seller profile

The Seller of the Subordinate Loan Claims is a domestic financial institution. However, details are undisclosed as consent for disclosure has not been obtained from the Seller. There is no capital or personnel relationship to report between SAR/the Asset Manager and the Seller as of today, but SAR has debt financed by the Seller. In addition, the Seller does not fall under the category of a related party of SAR or the Asset Manager.

4. Transaction with interested person, etc.

The acquisition of the Subordinate Loan Claims is not a transaction with an interested person, etc. under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951) or interested person, etc. defined in the "Rules on Transactions with Interested Parties" set forth by the Asset Manager.

5. Schedule for the Acquisition

Decision date of the Acquisition	January 24, 2019
Contract date of the Subordinate Loan Claims transfer agreement	January 28, 2019
Date of drawdown from Lender A and Lender B to the GK	January 30, 2019
Planned acquisition date of the Subordinate Loan Claims	January 30, 2019

(Note) The Acquisition will be conducted on the assumption that the GK acquires the Collateral Asset on January 30, 2019 using the borrowings from Lender A and Lender B and payment for silent partnership investment, etc.

6. Settlement method

The Acquisition is planned to be settled through lump-sum payment of the acquisition price on the planned acquisition date.

7. Future outlook

Since the impact of the acquisition of the Subordinate Loan Claims on the forecast for operating results for the 6th fiscal period ending January 31, 2019 (August 1, 2018 to January 31, 2019) and the 7th fiscal period ending July 31, 2019 (February 1, 2019 to July 31, 2019) announced on September 13, 2018 is minimal, there is no change to the forecast.

\* Star Asia Investment Corporation website address: <http://starasia-reit.com/en/>