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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 Acquisition and Transfer (Asset Replacement) of Real Estate Beneficiary Interests in Trust

Implementation policy for Asset Replacement

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■ Articulated the implementation policy for asset replacement as a part of active management pursuing maximization of unitholders' value

1

Future revenue contribution of the assets to be replaced (strengthen SAR's portfolio)

- Periodic evaluation of future revenue contribution for all owned assets (i.e. stability and growth potential of earnings, future estimate of the life-cycle costs, such as repair costs and capital expenditures, and balance between sales price)
- Comparison of assets available for acquisition and future revenue contribution of currently owned assets
- Existence of real estate investors with different valuation bases for owned assets

2

Real Estate Market Conditions by Asset Type

- Evaluation of investment environment for each investment asset type given the macro economic environment and analyzing which asset types are most attractive for investment based on such evaluation
- Detailed consideration of asset type exposures that should be increased or decreased in the portfolio

3

Level of the investment unit price of SAR

- Comparison between market indices such as the Tokyo Stock Exchange REIT Index and the trend of the investment unit price of SAR
- Comparison between the level of investment unit prices and NAV per unit (Note) of SAR
- Calculation of gains and losses on sales of assets through asset replacement and the impact of the return to existing unitholders

Maximization of unitholders' value by Asset Replacement

(※) NAV: Abbreviation of Net Asset Value
NAV = Amount of Net assets-amount of Book value of owned real estate + Appraisal value of owned real estate

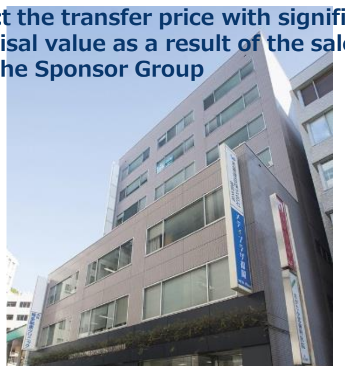
Asset Replacement announced today

Transfer : Hakata-eki Higashi 113 Building ／ Acquisition : Hotel WBF Fukuoka Tenjin Minami

- Expected realization of gain on sale due to the planned sales price which is approximately 37.7% higher than its appraisal value (※1) and expected realization of gain on sale for two consecutive fiscal periods through two separate sales
- Acquire the hotel located in the center of Fukuoka City with expectation of the growth in the profitability (Currently fixed rent scheme, but will be changed to a fixed + profit-linked variable rent scheme in the foreseeable future) reflecting a expected increase of inbound demand

Assets to be Transferred
Hakata-eki Higashi 113 Building

Expect the transfer price with significantly exceeding the appraisal value as a result of the sales activities collaborated with the Sponsor Group



Acquisition Price : 1,885 million Yen

Appraisal Value (※1): 2,070 million Yen

Planned Transfer Price : 2,850 million Yen

NOI yield after depreciation 3.0% (※3)

Year of construction 30 years

Expected repair expenses (※5) 172 million Yen

49% quasi-co-ownership interest (※2)
401 million Yen
(Estimated gain on sale)

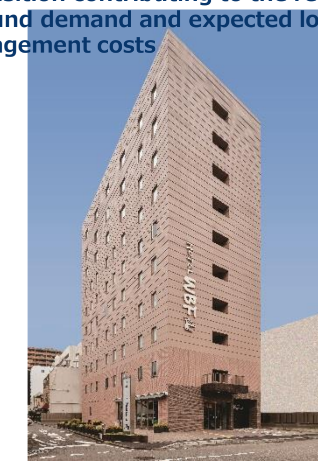
51% quasi-co-ownership interest (※2)
418 million Yen
(Estimated gain on sale)

Enhancement of the portfolio strength and Realization of gain on sale

Total expected gain on sale: 820 million Yen

Assets to be Acquired
Hotel WBF Fukuoka Tenjin Minami

Acquisition contributing to the revenue by the increase of inbound demand and expected lower maintenance and management costs



Planned Acquisition Price : 1,970 million Yen

Appraisal Value : 1,990 million Yen

Appraisal NOI yield after depreciation 3.9% (※4)

Year of construction 1 year

Expected repair expenses (※5) 0 million Yen

6th Fiscal Period

To be transferred on December 3, 2018

Returning a gain on sale to unitholders: 853 Yen per unit (※6)

Recording a gain on sale in the 6th and 7th fiscal period

7th Fiscal Period

Scheduled to be transferred on February 1, 2019

Estimated gain on sale in the 7th fiscal period
418 million Yen

【Consideration points for the asset replacement】

①
- Conclude Hakata-eki Higashi 113 Building is highly beneficial and should be transferred rather than continued holding
- Expects that it will be able to capture inbound demand that is expected to increase in the future with its location in the Tenjin area

②
- Expected growth in investment attractiveness backed by the steady growth of foreign visitors and the easing of competition with private lodging due to the enforcement of the Residence Lodging Business Act (the New Private Lodging Business Act)
- The Fukuoka-City, the center of the Kyushu region where the Assets to be Acquired, "Hotel WBF Fukuoka Tenjin Minami" is located, is within good access from Fukuoka Airport and Hakata Port, and is also geographically close to Asian countries such as China, Korea and Taiwan

※1:As of the end of January 2018 ※2:The type of asset is a beneficiary interest in trust and the quasi-co-ownership interest will be sold in two separate sales
※3:Calculated by the total amount of NOI after depreciation of the 3rd and the 4th fiscal period divided by the planned transfer price
※4:Calculated by the amount of the appraised NOI in Appraisal Report as of July 1, 2018 minus depreciation estimated by asset management company divided by the planned acquisition price
※5:Total amount of the next 5 year's repair costs estimated by a third party specialized agency
※6:Calculated by the estimated gain on sale (401 million yen) which will be realized in the 6th fiscal period divided by the total number of SAR's investment units (470,624 units)outstanding as of July 23, 2018

Maximization of unitholders' value through Asset Replacement

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- Since its listing, SAR has been pursuing the maximization of unitholders' value through two times "asset replacement" (as announced on December 5, 2016 and February 28, 2017) as a part of active management strategy
- SAR expects to realize a gain on transfer and the enhanced portfolio as a result of the third asset replacement as well
- SAR and the Asset Manager will continue to consider implimentation of asset replacement as an important measure of active management for the maximization of unitholders' value

Considerations based on implementation policy for asset replacement

First asset replacement

Asset replacement to an asset expected to contribute more on stability of earnings

Transferred

Urban Park Yoyogi Koen

Acquired

Urban Park Gokokuji

Total gain on sale: 152 million Yen

Second asset replacement

Real estate investors with different valuation bases

Transferred

Oak Minami Azabu

Acquired

Baraki Logistics

Total gain on sale: 1.51 billion Yen

Third asset replacement (this deal)

Asset replacement to an asset expected to have more revenue growth potential

To be transferred

Hakata-eki Higashi 113 Building

To be acquired

Hotel WBF Fukuoka Tenjin Minami

Estimated total gain on sale: 820 million Yen (estimate)

Considering future asset replacements

SAR will continue to consider asset replacement as a measure to pursue the maximization of unitholders' value.

	First asset replacement	Second asset replacement	Third asset replacement (this deal)
3rd Fiscal Period	3rd fiscal period gain on sale: 152 million Yen Gain per unit(※1): 367 Yen	3rd fiscal period gain on sale: 746 million Yen Gain per unit(※1): 1,801 Yen	
4th Fiscal Period		4th fiscal period gain on sale: 771 million Yen Gain per unit(※1): 1,826 Yen Retained earnings: 110 million Yen	
≈			
6th Fiscal Period			6th fiscal period gain on sale: approximately 401 million Yen(estimate) (※2) Gain per unit(※1): 853 Yen
7th Fiscal Period			Gain on sale to be expected in the 7th fiscal period as well

Portfolio after the asset replacement
Number of Properties: 29
Unrealized gain (※3): 7.3 billion Yen

※1: The gain per unit on the 3rd and 4th fiscal period is calculated by each period's gain on sale divided by the total number of investment units outstanding as of the end of each fiscal period. The gain per unit on the 6th fiscal period is calculated by the estimated gain on sale divided by the total number of investment units outstanding (470,624 units) as of July 23, 2018.

※2: Estimated gain on sale in the 6th fiscal period is due to the transfer of 49% quasi-co-ownership interest of Hakata-eki Higashi 113 Building. Rest of 51% quasi-co-ownership interest of Hakata-eki Higashi 113 Building will be transferred in the 7th fiscal period.

※3: Unrealized gain after the asset replacement is calculated by the total unrealized gain of 4th fiscal period (difference between the total appraisal value and the total book value at the end of such fiscal period) minus the unrealized gain attributed to Hakata-eki Higashi 113 Building transfer, plus the difference between the planned acquisition price and the appraisal value of Hotel WBF Fukuoka Tenjin Minami. However, there is no assurance that SAR will be able to realize such unrealized gain.

Pursuing the "maximization of unitholders' value" by continuous implementation of active management strategy

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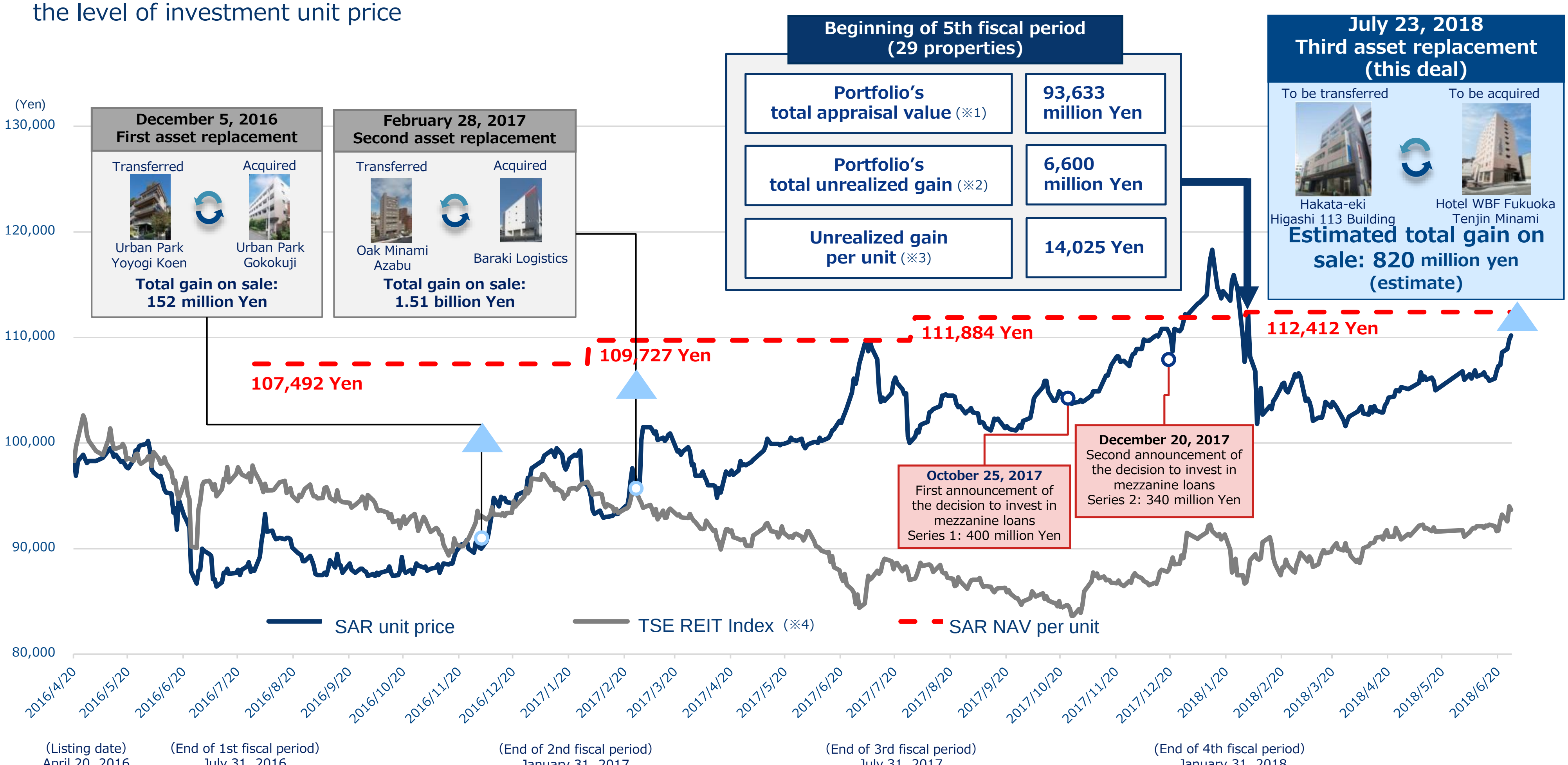
- SAR has been pursuing the maximization of unitholders' value through various measures such as flexible asset replacement and investment in mezzanine loans (SAR is the first J-REIT to invest in mezzanine loans) as a part of active management strategy
- SAR will continue to consider and implement active management, through spirit of no constraint with conventional concepts, considering the level of investment unit price



※1: Calculated by the sum of total appraisal value (as of the end of 4th fiscal period)of 23 properties held as of the end of 4th fiscal period and total appraisal of SAR value as of November 1, 2017 of 6 properties SAR has acquired at the beginning of 5th fiscal period.
※2: Portfolio's total unrealized gain on the 4th fiscal period is calculated by the difference between the total appraisal value of SAR's entire portfolio (29 assets) and the total book value of SAR's 23 assets at the end of 4th fiscal period and the total acquisition price of 6 properties SAR has acquired at the beginning of 5th fiscal period.
※3: Calculated by portfolio's total unrealized gain divided by the total number of SAR's investment units (470,624 units) outstanding as of July 23, 2018.
※4: TSE REIT Index is relativized based on the closing price of SAR's investment units (98,300 yen) as of April 20, 2016.

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