

March 18, 2019

To All Concerned Parties

6-8-7 Ginza, Chuo-ku, Tokyo
Frontier Real Estate Investment Corporation
Takao Iwadou, Executive Director
(Securities Code: 8964)

Asset Management Company:
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Notice Concerning Sale of Real Estate Property in Japan
(Mitsui Shopping Park ALPARK (East Building))

Frontier Real Estate Investment Corporation (the "Investment Corporation") hereby announces the decision of Mitsui Fudosan Frontier REIT Management Inc., the Investment Corporation's asset management company (the "Asset Management Company"), reached on March 18, 2019, to sell Mitsui Shopping Park ALPARK (East Building) (the "Sale;" the "Property"). Details are as follows.

1. Details of the Asset to Be Sold

- (1) Property name: Mitsui Shopping Park ALPARK (East Building)
- (2) Type of Asset to Be sold: Real estate (partial ownership of land and sectional co-ownership of building)
- (3) Planned Sale price: ¥3,800 million *1
- (4) Book value: ¥4,741 million (as of December 31, 2018)
- (5) Loss on sale: Approximately ¥900 million *2
- (6) Contract date: March 18, 2019
- (7) Planned delivery date: May 31, 2019
- (8) Buyer: Not disclosed (undisclosed as the Investment Corporation has not obtained the buyer's permission) *3
- (9) Broker: Not applicable
- (10) Method of settlement: Single payment at the time of delivery
- (11) Outline of forward commitment, etc.:

The Sale falls under the category of forward commitments, etc. (contracts for forward and future transactions for which settlement and delivery take place one or more months after their signing) (the "Forward Commitment").

The Forward Commitment may be cancelled under certain circumstances, including the violation of legal obligations or when a serious obstacle to the execution of the contract arises. If

the Forward Commitment is cancelled, the party responsible for the cancellation is to pay a penalty equivalent to 20% of the real estate purchase price to the other party. However, as this Forward Commitment is one in which the Investment Corporation is disposing of its own property and financing is not necessary, the likelihood of a significant direct negative impact on the financial status of the Investment Corporation is considered to be low.

- *1 The amount noted here excludes real property taxes, city planning taxes, consumption taxes, etc.
- *2 The above value is approximate, as certain sale costs had yet to be determined at the time of this publication. The Property's projected book value at the date of sale is ¥4,670 million.
- *3 The buyer is not a party with a relationship of special interest with either the Investment Corporation or the Asset Management Company

2. Rationale

Since the Asset Management Company acquired the Property in February 2013, it has operated as one of Hiroshima City's key retail facilities. However, due to rapid changes in the local environment of the Property in recent years, the aging of the building, and other factors, the facility's competitiveness has declined, leading to a steady decline in sales, and the Property is expected to see profitability continuing to fall in the future.

Against this backdrop, the Investment Corporation carefully considered the risk factors that may arise in the future, such as a risk of cancellation of the property's master lease agreement, and their impact. The Investment Corporation determined that, rather than continuing to hold the Property, if the Property could be sold in the present brisk real estate sales market, even if doing so would result in a loss on the sale, it would be preferable in order to avoid future risk. Accordingly, the Investment Corporation decided to carry out the Sale.

The Sale is being conducted as part of asset replacement measures in conjunction with the acquisition of Ikebukuro GLOBE (50% co-ownership stake), SAKAE GLOBE (40% quasi co-ownership stake) and Shinsaibashi MG Building (60% co-ownership stake), as detailed in the March 18, 2019 press release "Notice Concerning Acquisition of Real Estate Property in Japan and Trust Beneficiary Rights to Real Estate Property in Japan." As a result of these asset replacement measures, the Asset Management Company expects the portfolio's overall asset size to expand and its average building age to decrease.

The capital provided by the Sale will be used toward the stable growth of unitholder value, including for future property acquisitions and to repay interest-bearing liabilities.

3. Details of the Assets to Be Sold

Property name		Mitsui Shopping Park ALPARK (East Building)
Type of asset		Real estate (partial ownership of land and compartmentalized co-ownership of building)
Location (residence indication)		2-26-1 Kusatsushinmachi, Nishi Ward, Hiroshima City, Hiroshima
Land	Lot area	Site of building: 16,682.75 m ² (registered) Site owned by the Investment Corporation: 15,033.90 m ² (registered)
	Use	Commercial district

	Plot ratio	400%
	Building to land ratio	80%
	Ownership	Proprietary ownership (partial ownership)
Building	Structure / Number of floors *1	Steel frame and steel-framed reinforced concrete, flat roof construction, two floors below ground and ten floors above ground
	Construction completed *2	April 10, 1990
	Gross floor area	Building total: 64,720.87 m ² (registered) *1 Exclusive use portion: 60,383.72 m ² (registered) *2
	Use *2	Stores, parking lot
	Ownership	Compartmentalized co-ownership (7,504,832 of 8,128,925 parts)
Acquisition price		¥5,400 million
Book value *3		¥4,741 million
Sale price		¥3,800 million
Loss on sale *4		Approximately ¥900 million
Appraisal value		¥3,470 million
Appraiser		Japan Real Estate Institute
Sale date		May 31, 2019 (planned)
Tenant details		Number of tenants: 1 Total rent revenue: ¥529 million/year Total leasable floor space: 65,603.50 m ² Total leased floor space: 65,603.50 m ² Occupancy rate: 100.0% Leasehold and security deposit: ¥264 million

*1 Data for the Property's entire building.

*2 Data for the entire exclusive use portion.

*3 Value as of December 31, 2018, rounded down to the nearest million yen.

*4 The above value is approximate, as certain sale costs had yet to be determined at the time of this publication. The Property's projected book value at the date of sale is ¥4,670 million.

4. Buyer Profile

The buyer of the Property is a Japanese general business corporation, but as the Investment Corporation has not received permission from the buyer to disclose its name or other details, it will not do so. This is not a sale to a party with a relationship of special interest, such as a capital, personal, or business relationship, with either the Investment Corporation or the Asset Management Company.

5. Broker Profile

Not applicable.

6. Outlook

The Sale will result in a loss on sale in the 30th fiscal period, ending June 30th, 2019, and is therefore expected to impact distributions. However, by such means as acquiring and selling properties, drawing from internal reserves (approximately ¥180 million), and paying distributions in excess of earnings, the Investment Corporation plans to work during the fiscal period to keep the distribution per unit at the level forecast under "Forecast of Results for the 30th Fiscal Period" in the Summary of Financial Results for the 29th Fiscal Period

published on February 15, 2019. The amount of distributions in excess of earnings will be determined in line with the policy on distribution of cash in excess of profits set forth in the Articles of Incorporation and be no greater than 60% of the depreciation and amortization incurred in the relevant period, with consideration given to securing the necessary funds to maintain the value of portfolio assets and adequate liquidity on hand after the payment of distributions in excess of earnings, as well as to the LTV ratio after such distributions.

As such, the effect of the Sale on the results for the 30th fiscal period is expected to be modest, and there is no change to the operating forecast published on February 15, 2019 under “Forecast of Results for the 30th Fiscal Period” in the Summary of Financial Results for the 29th Fiscal Period.

7. Summary of Property Appraisal

Property name	Mitsui Shopping Park ALPARK (East Building)
Appraisal value	¥3,470,000,000
Appraiser	Japan Real Estate Institute
Date of appraisal	January 31, 2019

Item	Content	Remarks
Indicated value by income approach	¥3,470,000,000	Calculated using the capitalization method, with reference to both the value indicated by the income approach obtained by the DCF method and the value indicated by the income approach obtained by the direct reduction method.
Direct-reduction method value	¥3,480,000,000	
Operating income	¥529,000,000	
Effective gross income	¥529,000,000	Recorded rent income, etc. based on the lease agreement while taking into account the terms of lease agreement and rent-bearing capability of tenants, etc.
Loss from vacancy, etc.	¥0	Not recorded taking into account the status of the lessee, competitiveness as a retail facility, contents of lease agreement, etc.
Operating costs	¥141,335,000	
Maintenance and management fees	¥0	Not recorded as the property is leased in its entirety as a retail facility and routine management and operation are conducted by the lessee.
Utility costs	¥0	Not recorded as borne by the lessee.
Repair costs	¥13,513,000	Calculated with reference to results for the past year, management and operational plans, the costs for similar properties, the annual average repair and replacement costs in the engineering report, and other factors.
Property management fees	¥10,580,000	Upon assessing the PM fee, a fee to be paid to the commissioned company which sums up works such as tenant management and building management, fee rates for similar real estate, individual characteristics of the subject real estate,

Item	Content	Remarks
		etc. are considered with reference to fee rates based on the terms of agreement, etc.
	Tenant advertising costs ¥0	Expenses for brokerage, advertisement, etc. required for leasing activities are not recorded as the property is leased in its entirety as a retail facility under a long-term lease agreement.
	Taxes and public dues ¥111,394,000	Assessed based on the materials about tax and public dues.
	Insurance premium ¥5,848,000	Calculated with reference with the insurance premiums based on insurance contracts, the insurance premiums of buildings similar to that covered, and other factors.
	Other expenses ¥0	There are no expenses to be recorded as other expenses.
	Net operating income ¥387,665,000	
	Operating profit on lump-sum payments ¥2,645,000	Calculated by multiplying the amount of security deposit, which is lump-sum payment temporarily in hand, stated in the terms of the lease agreement by the yield.
	Capital expenditure ¥27,980,000	Renewal costs required for maintaining functions of the building actually arise irregularly. However, capital expenditure is assessed with assumption that the average amount of expected expenditure is saved every fiscal period while taking into account the level of capital expenditure at similar real estate, building age, the average annual renewal costs stated in the engineering report, etc.
	Net income ¥362,330,000	
	Cap rate 10.4%	Assessed taking into account the future uncertainty, transaction yield of similar real estate, result of interviews with investors, etc., based on the yield of real estate which is considered to possess least risks. Competitiveness as a retail facility including its location, building conditions (building age, total floor area, level of facilities, etc.) and lease conditions, etc. of the target property as well as spread due to other conditions (rights relation of the land and building, etc.) are also considered.
	DCF value ¥3,460,000,000	
	Discount rate 10.3%	Assessed taking into account the individual characteristics, etc., of the target property comprehensively, with reference to investment yields, etc., of similar real estate.
	Terminal cap rate 10.8%	Assessed taking into account future trends in investment yields, risks of the target property as an investment target, the general outlook for the economic

Item	Content	Remarks
		growth rate, trends in real estate prices and rents, etc., comprehensively, with reference to investment yields, etc., of similar real estate.
Indicated value by cost approach	¥3,680,000,000	
Land ratio	54.1%	
Building ratio	45.9%	

Other matters considered by appraiser in carrying out appraisal	<p>Due to the site characteristics, building use, and other attributes of the real estate property in question, demand would primarily come from corporate investors with the ability to raise capital and who, in general, tend to prioritize revenue potential in their transactions.</p> <p>Given this, the appraisal value was determined through a combination of the direct reduction method and the DCF method, with the cost approach value as a reference.</p>
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The above appraisal value represents a significant drop from the appraisal value obtained by the Investment Corporation as of December 31, 2018 (¥5,470 million). The Asset Management Company has determined that the principal reason for this drop is the revision of the cap rate and other figures in the property appraisal summarized above as a result of the new consideration of a risk of decline in profitability due to the cancellation of the property's master lease agreement.

Attachments

1. Overview of the investment portfolio after the Sale

This document is released to media organizations through the Kabuto Club (the press club of the Tokyo Stock Exchange); the Ministry of Land, Infrastructure, Transport and Tourism Press Club; and the Press Club for the Ministry of Land, Infrastructure, Transport and Tourism Construction Paper.

Frontier Real Estate Investment Corporation website: <https://www.frontier-reit.co.jp/eng/>

1. Overview of the investment portfolio after the Sale

Property name	Location	(Planned) acquisition date	(Planned) acquisition price (Millions of yen) *1	Percent age of portfolio *2
AEON STYLE Shinagawa Seaside	Shinagawa, Tokyo	August 9, 2004	20,100	6.2%
AEON MALL Ibaraki	Ibaraki City, Osaka	August 9, 2004	18,100	5.6%
Papillon Plaza	Fukuoka City, Fukuoka	August 9, 2004	4,810	1.5%
Kamiikedai Tokyu Store	Ota, Tokyo	August 9, 2004	1,490	0.5%
Belltown Tambaguchi Eki-Mae Store	Kyoto City, Kyoto	August 29, 2005	2,130	0.7%

AEON MALL NAGOYADOME-Mae	Nagoya City, Aichi	March 23, 2006	24,800	7.7%
Summit Store Takinogawa Momiji-Bashi	Kita, Tokyo	September 29, 2006	3,100	1.0%
Home Center Kohnan Hiroshima Minami-Machi (land interest)	Hiroshima City, Hiroshima	April 13, 2007	1,940	0.6%
Frespo Tosu (land interest)	Tosu City, Saga	November 8, 2007	3,178	1.0%
You Me Town Hiroshima	Hiroshima City, Hiroshima	February 19, 2008	23,200	7.2%
Queen's Isetan Suginami-Momoi	Suginami, Tokyo	July 4, 2008	3,560	1.1%
Mitsui Outlet Park IRUMA	Iruma City, Saitama	July 10, 2008	19,900	6.2%
Costco Wholesale Warehouse Iruma (land interest)	Iruma City, Saitama	July 10, 2008	2,600	0.8%
Desigual Harajuku	Shibuya, Tokyo	October 15, 2008	3,100	1.0%
Ito-Yokado Higashi-Yamato	Higashi-Yamato City, Tokyo	January 13, 2009	11,600	3.6%
AEON TOWN Tanashi-Shibakubo	Nishi-Tokyo City, Tokyo	February 18, 2009	3,100	1.0%
Don Quijote Fukuoka Tenjin	Fukuoka City, Fukuoka	December 16, 2009	3,700	1.1%
Mitsui Shopping Park LaLaport IWATA	Iwata City, Shizuoka	July 2, 2010	15,200	4.7%
GINZA GLASSE	Chuo, Tokyo	July 2, 2010	13,600	4.2%
Shimura Shopping Center	Itabashi, Tokyo	January 18, 2011	4,430	1.4%
Mitsui Shopping Park LaLagarden KASUKABE	Kasukabe City, Saitama	February 16, 2011	10,000	3.1%
Summit Store Yokohama Okano (land interest)	Yokohama City, Kanagawa	February 24, 2012	5,700	1.8%
VIORO	Fukuoka City, Fukuoka	February 28, 2012	10,100	3.1%
QANAT Rakuohoku	Kyoto City, Kyoto	July 4, 2012	8,800	2.7%
Ikebukuro Square	Toshima, Tokyo	February 1, 2013	20,400	6.3%
Kohnan Kawasaki-Odasakae Mall (land interest)	Kawasaki City, Kanagawa	January 31, 2014	7,000	2.2%
Mitsui Shopping Park LaLaport SHIN-MISATO Annex	Misato City, Saitama	March 25, 2014	3,930	1.2%
Shinsaibashi Square	Osaka City, Osaka	March 2, 2015	8,620	2.7%
Mitsui Shopping Park LaLaport SHIN-MISATO	Misato City, Saitama	April 1, 2015 August 10, 2016 (additional acquisition)	19,840	6.2%
Costco Wholesale Warehouse Shin-Misato (land interest)	Misato City, Saitama	April 1, 2015	3,810	1.2%
KOJIMA × BIC CAMERA Naha Store	Naha City, Okinawa	January 25, 2016	1,850	0.6%
Super Viva Home Zama and Super Sanwa Zama Higashihara (land interest)	Zama City, Kanagawa	July 31, 2017	4,320	1.3%
SAKAE GLOBE *3	Nagoya City, Aichi	March 28, 2018 March 22, 2019 (additional acquisition)	15,650	4.9%
Summit Store Higashi-Nagasaki (land interest)	Toshima, Tokyo	June 8, 2018	2,022	0.6%

Ikebukuro GLOBE *3	Toshima, Tokyo	March 22, 2019	10,300	3.2%
Shinsaibashi MG Building *3	Osaka City, Osaka	March 22, 2019	5,840	1.8%
Total			321,820	100.0%

*1 (Planned) acquisition price amounts are rounded down to the nearest million yen.

*2 Percentage of portfolio figures are based on (planned) acquisition price and are rounded to the nearest decimal place.

*3 Please refer to the press release titled "Notice Concerning Acquisition of Real Estate Property in Japan and Trust Beneficiary Rights to Real Estate Property in Japan," dated March 18, 2019.