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Notice Concerning Proposal of Amendment to Asset Management Fee System

Japan Prime Realty Investment Corporation ("JPR") announced the resolutions at the Board of Directors' meeting held today to submit for approval of partial amendments (the "Amendment") to the Articles of Incorporation regarding the asset management fee paid to Tokyo Realty Investment Management, Inc. ("TRIM"), the asset management company of JPR, to the General Meeting of Unitholders (the "General Meeting of Unitholders") scheduled to be held on September 5, 2019.
For details of the proposal to be submitted to the General Meeting of Unitholders, please refer to "Notice Concerning Partial Amendments to the Articles of Incorporation and Appointment of Board of Directors" dated today.

Details

1. Purpose and Overview of the Amendment
   Seventeen years have passed since the listing of JPR in 2002 and the business environment surrounding JPR and TRIM is changing significantly. On the other hand, the outline of the asset management fee system of JPR has not been changed since listing (Note 1) and issues such as having a fee system with little relevance to the "sustainable growth of unitholder value," which is the goal of JPR, and not being able to respond to the significant change in the contracted business have arisen. Therefore, JPR believes it is necessary to review the asset management fee system in order to realize further development and growth, and decided to change the fee system to an asset management fee system in line with the "stable growth of DPU" and "disciplined expansion of asset size and improvement of portfolio quality," which are the pillars of its growth strategy.
   The content of the new fee system is aimed at enhancing the linkage with unitholder interest as well as promoting disciplined continuous growth and quality improvement of the portfolio. JPR also aims to expand stable revenue by promoting further sophistication and efficiency of the management capability of TRIM and will promote sustainable growth of unitholder value.
   (Note 1) JPR added an acquisition fee as well as slight revisions in 2007.

2. Content of the Amendment
   As for the distribution-linked fee (Management Fee 3), a fluctuation rate of distributable base amount

per unit (Note 4) will be introduced to enhance the incentive for growth of distribution. In addition, as for the basic fee (Management Fee 1), JPR will abolish the fixed fee and change it to a fee linked to asset size and shall lower the percentage of the revenue-linked fee (Management Fee 2). As a result, the distribution-linked fee (Management Fee 3) is scheduled to have the largest share of approximately 40 percent, and the new fee system is better linked to unitholder interest.
Furthermore, the cost for considering acquisition is increasing due to the intensification of competition for property acquisition in the real estate transaction market and the diversification and complication of acquisition method including property replacement and M&A. JPR will revise the rate of the acquisition fee as well as newly introduce a merger fee and sales fee in order to further promote disciplined growth and quality improvement of the portfolio based on such environmental change (Management Fee 4 and Management Fee 5).

Type of fee	Before the Amendment	After the Amendment
Management Fee 1 (Basic fee)	12.5 million yen per month (fixed)	Total acquisition price (Note 2) × 0.05%
Management Fee 2 (Revenue-linked fee)	Total revenue × 2.0% (1.5% for amounts exceeding 8 billion yen)	Total revenue × 1.2%
Management Fee 3 (Distribution-linked fee)	Income before income tax before deducting Management Fee 3 × 3.0%	Distributable base amount (Note 3) × 3.8% × fluctuation rate of distributable base amount per unit (Note 4)
Management Fee 4 (Acquisition and merger fee)	Acquisition price × 0.25%	Acquisition price × 0.5% Appraisal value of assets inherited due to merger × 0.5%
Management Fee 5 (Sales fee)	None	Sales price × 0.5% (Management Fee 5 will not incur when loss on sale arises after the deduction of Management Fee 5)

(Note 2) Total acquisition price is the total amount of acquisition price (excluding consumption tax, local consumption tax and expenses related to acquisition) of the assets under management owned as of the end of the immediately preceding fiscal period.
(Note 3) Distributable base amount is the income before income tax before the deduction of Management Fee 3 and nondeductible consumption tax.
(Note 4) Fluctuation rate of distributable base amount per unit is calculated by dividing the distributable base amount per unit for the said business period by the average distributable base amount per unit for the most recent three business periods excluding the said business period, and the lower limit is set at 80% and the upper limit at 120%.

3. Commencement Period of the Application of the Amendment

The Amendment is scheduled to be applied from the fiscal period ending June 2020 when it is approved at the General Meeting of Unitholders.

4. Outlook for Management Status

In the fiscal period ended June 2019, distribution per unit of JPR reached a new record high since listing, marking the 11th straight fiscal period with a period-on-period increase. The asset management fee will increase slightly with the Amendment but the amount is forecasted to continue increasing even in the fiscal period ending June 2020 when the new asset management fee system will be applied, and distribution per unit of 7,500 yen, which is the goal in the mid-term plan, is expected to be achieved.

Moreover, the Amendment will have no impact on the management status for the fiscal period ending December 2019. For the forecast of management status for the fiscal periods ending December 2019 and June 2020, please refer to "Japan Prime Realty Investment Corporation Financial Report for the 35th Fiscal Period Results (January 1, 2019 - June 30, 2019)" dated today.