Japan Logistics Fund, Inc.

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For Immediate Release

Real Estate Investment Trust
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Notice Concerning Redevelopment Project of Yachiyo Logistics Center

Japan Logistics Fund, Inc. (JLF) announced today that it has decided to carry out a redevelopment project ("the Project") for the Yachiyo Logistics Center (property number: M-11; "this asset"), as detailed below.

1. Background behind the Project

This asset locates within the industrial park in the Yachiyo area where there is demand for a broad-area distribution center as well as a hub for regional distribution centering on Chiba Prefecture. This asset also has suitable geographical conditions for a logistics business including 24-hour operation and securing of labor force. The building was constructed as a single-story plant in 1972, and since acquiring this asset JLF has been considering redeveloping it to enhance its value at an appropriate time. Therefore, we conducted a detailed analysis of the location, tenant demand, impact on operations, etc. and elaborated multiple options including selling the land as a vacant site, large-scale repair, and redevelopment by a third party such as a sponsor and subsequent repurchase of the asset. However, we finally concluded that "OBR (Own Book Redevelopment)" is the best way to maximize its value while avoiding outflow of profit to external parties, and decided to commence the redevelopment project in April 2013.

Highlights of the Project

- **The first full-scale "OBR" in the history of J-REIT**
- **Maximization of asset value by avoiding the outflow of profit to external parties (increase in unrealized capital gains: 525 million yen)** (Note)
- **Improvement in portfolio profitability (increase in rental revenue: 129 million yen)** (Note)
- **Risk management for "OBR"**

Note: The numbers are current estimates calculated based on certain conditions and are subject to change due to actual tenant occupancy and other factors. For details, see "2. Highlights of the Project" below.

2. Highlights of the Project

(1) The first full-scale OBR in the history of J-REIT

The Project is the first J-REIT initiative in which an investment corporation will carry out full-scale OBR. Normally, in the process of redevelopment of J-REIT assets, assets held by an investment corporation are sold to a third party such as a sponsor, etc. for redevelopment, and are later repurchased by the same investment corporation upon completion of the redevelopment by the third party. In this Project, however, JLF as an investment corporation decided to conduct the redevelopment with its own book, aiming for maximizing the asset value by avoiding the outflow of profit to external parties.

(2) Maximization of asset value by avoiding the outflow of profit to external parties

JLF acquired this asset based on an assessment of future internal growth potential by constructing a large-scale logistics center by using the unutilized floor-area ratio, while taking into account the locational advantage as a logistics center as well as a stable flow of tenants. Upon completion of the Project, the total rentable area of this asset will increase by approximately 3.2 times, and it will become a large-scale multitenant logistics center with versatile facility specifications. JLF expects unrealized capital gains to increase by 185 million yen as a result of the Project. We also believe we will be able to maximize the value of this asset by avoiding the outflow of profit to external parties while increasing its convenience and versatility as a logistics center.

(3) Improvement in portfolio profitability

Through the Project, rental revenue of this asset is expected to be boosted by approximately 129 million yen (870 yen positive impact on DPU). As JLF has experience of significantly boosting portfolio profitability through the partial reconstruction project for Daito Logistics Center, we consider that OBR is an important approach to internal growth. Our policy is to continue pursuing OBR opportunity by leveraging our accumulated expertise as a pioneer REIT focused on logistics centers.

(4) Risk management for OBR

Among J-REITs today, JLF enjoys the lowest LTV (30.1%) (Note 1) and a high ratio of unrealized capital gains (22.1%) (Note 2), and has established a portfolio that can withstand the various risks associated with the Project. In addition, JLF's asset management company, Mitsui & Co., Logistics Partners Ltd., has a designated department in charge of leasing and facility management, and the ability to conduct detailed risk management by leveraging on-site capability cultivated through experience including the partial reconstruction project for Daito Logistics Center.

(Note 1) LTV (%) = Balance of interest-bearing debt / Total appraisal value of assets held x 100
Balance of interest-bearing debt = 56,200 million yen (as of March 13, 2013)
Total appraisal value of assets held = 186,586 million yen
(Estimated value at the end of the 15th fiscal period + Appraisal value of assets acquired during the 16th fiscal period)

(Note 2) Ratio of unrealized capital gains (%) = (Estimated value at the end of period − Book value at the end of period) / Book value at the end of period (As of the end of the 15th fiscal period)

Effects of the Project

	Before redevelopment	After redevelopment	Difference
Total rentable area	17,689.95 m^2	56,538.52 m^2	38,848.57 m^2 (+219.6%)
Net oeprating income (NOI)	62 million yen (Note 1)	244 million yen (Note 2)	182 million yen (+292.3%)
Rental revenue	44 million yen (Note 1)	174 million yen (Note 2)	129 million yen (+289.9%)
Impact on DPU (Note 3)	—	—	870 yen
Acquisition price	2,266 million yen	7,435 million yen (Note 4)	5,169 million yen (+228.1%)
Unrealized capital gains	356 million yen (Note 5)	882 million yen (Note 6)	525 million yen (+147.3%)
Utilization of the floor-area ratio (Note 7)	62.0%	199.7%	137.7%

(Note 1) The amount was calculated based on the results for the 15th fiscal period by deducting temporary expenses such as soil survey cost, etc.

(Note 2) The figure is based on an estimate for one calculation period (six months) based on an assumption of 100% occupancy and excluding special factors during the first year of operations. It is not an estimate at the time of commencement of operations.

(Note 3) Difference in rental revenue / Total units outstanding as of now (148,000 units)

(Note 4) The amount is calculated by adding the estimated construction cost for the new building after the redevelopment (5,773 million yen) to the value of land stated in its initial sales agreement (1,662 million yen).

(Note 5) Estimated value at the end of period − Book value at the end of period (as of the end of the 15th fiscal period)

(Note 6) Price investigation − Projected book value (at the time of completion of building)
As the construction of a building after the redevelopment of this asset has not been started, we obtained an investigation report (pricing date: February 28, 2013) from Tanizawa Sōgō Appraisal Co., Ltd. This report was prepared based on the price investigation on the building upon completion and lease contract by reflecting conditions on a pro forma basis. This price investigation was not an appraisal pursuant to the Japanese Real Estate Appraisal Standards.

(Note 7) Total floor area (Floor area subject to the floor-area ratio) / Site area x 100

(Reference) Effect of the Partial Reconstruction Project for Daito Logistics Center

	Before reconstruction results for the 6th fiscal period (ended July 2008)	After reconstruction results for the 12th fiscal period (ended July 2011)	Difference
Total rentable area	76,208.70 m^2	92,730.14 m^2	16,521.44 m^2 (+21.7%)
Net operating income (NOI)	365 million yen	478 million yen	113 million yen (+31.0%)
Rental revenue	305 million yen	390 million yen	85 million yen (+27.9%)
Acquisition price	7,617 million yen	9,762 million yen (Note 1)	2,145 million yen (+28.2%)
Unrealized capital gains (Note 2)	4,400 million yen	6,581 million yen	2,180 million yen (+49.6%)

(Note 1) The figure was calculated by adding the amount stated in the construction contract relating to Warehouse III (2,437 million yen) to the sale price stated in the initial sales contract (7,617 million yen), and deducting the cost of building demolition in July 2009 (291 million yen).

(Note 2) Estimated value at the end of period − Book value at the end of period

3. Outline of the Project

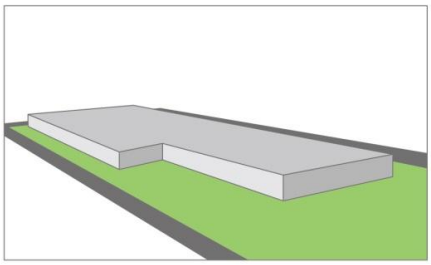
The demolition of the existing building is scheduled to start in April 2013 and the new building is expected to be completed at the end of September 2014.

<Facility Characteristics (based on the Plan)>

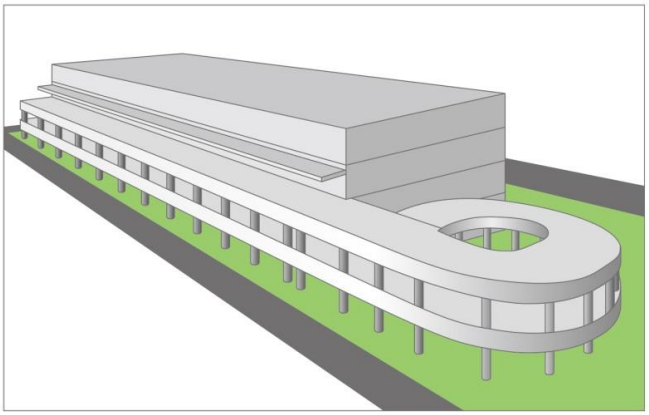
- Highly versatile facility specifications
  The facility is equipped with ideal specifications that meet all standards desired for a modern logistics center, including a column interval of 10.0 m, ceiling of 5.5 m or higher, and standard floor load capacity of 1.5 t/m^2.
- Large-scale multitenant logistics center
  It is a large-scale logistics center spread over four stories with a total floor area exceeding 20,000 *tsubo* (66,115 m^2). With truck berths on the second and third floors, the tenants have direct access to each floor through the rampway. The facility can be leased to multiple tenants in line with their needs.
- PC seismic isolated structure
  The building has seismically isolated system with a state-of-the-art precast and prestressed concrete structure, which will protect the building, goods and human life in the event of earthquakes. In addition, as the center locates inland area where there is little risk of disruption to infrastructure due to liquefaction, it has an advantage of being able to continue supplying goods without interference to logistics operations. Thus, tenants can use the facility as their business continuity plan (BCP) site in the event of disasters.
- Environmental considerations
  In light of increasing environmental awareness in recent years, we are planning to obtain an 'A' rating of CASBEE for New Construction.
  (Note) CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a tool for assessing and rating the environmental performance of buildings and built environment. In addition to the aspects of environmental load reduction such as energy and resource saving and recycling functionality, the system provides a comprehensive assessment of the environmental efficiency of buildings including the comfort of the indoor environment, considerations for the surrounding landscape, etc.

Concept of the Redevelopment

Before redevelopment



After redevelopment



Outline of the Property (Before redevelopment)

Property name		M-11: Yachiyo Logistics Center
Asset type		Trust beneficial interest
Acquisition date		February 9, 2006
Acquisition price		2,266 million yen
	Land price (percentage)	1,662 million yen (73.4%)
	Building price (percentage)	603 million yen (26.6%)
Land	Location	1734-4, Kamikoya, Yachiyo-shi, Chiba
	Site area	29,103.38 m^2
	Zoning	Restricted industrial zone
	Floor-area ratio	200%
	Building-to-land ratio	60%
	Type of ownership	Owned
Building	Structure/floors	Steel-frame structure, slate-roof single-story, etc.
	Date of completion	April 24, 1972, September 11, 2000 (partial demolition and extension work), etc.
	Total floor area	18,036.67 m^2
	Utilization of floor-area ratio	62.0%
	Total rentable area	17,689.95 m^2
	Use	Warehouses
	Type of ownership	Owned

Outline of the Property (After redevelopment)

Acquisition price		7,435 million yen
	Land price (percentage)	1,662 million yen (22.4%)
	Building price (percentage) (Note 1)	5,773million yen (77.6%)
Building (Note 2)	Structure/floors	Precast and prestressed concrete frame structure, zinc aluminum alloy plate roof, four stories
	Date of completion	September 2014 (tentative)
	Building area	19,791.89 m^2
	Floor area subject to floor-area ratio	58,106.77 m^2
	Utilization of floor-area ratio	199.7%
	Total rentable area	56,538.52 m^2
	Use	Warehouses, offices

(Note 1) The amount is based on the estimated construction cost for the new building after the redevelopment.

(Note 2) According to the current preliminary drawing

(Note 3) This is based on the current plan and is not intended to confirm the state of the property after the completion of the new building.

4. Outline of the Tenant (Lease Contract)

JLF has concluded a lease contract effective upon completion of the Project with the current tenant TOTO Ltd. With TOTO's tenancy, it has been confirmed that the new building will have approximately 25% occupancy upon completion of the Project.

Tenant name	TOTO Ltd.
Type of business	Manufacture of sanitary ware
Total rent area (Note 1)	13,816.79 m^2
Percentage of total rentable area (after rebuilding)	24.4%
Annual rent (excluding consumption tax)	Not disclosed (Note 2)
Lease period	From October 1, 2014 to September 30, 2021
Lease deposit	Not disclosed (Note 2)
Contract renewal/revision	Type of contract: Fixed-term lease contract (seven years) Rent revision: No revision Contract renewal: Contract will not be renewed unless both parties agree to conclude to renew the contract. Lease cancellation: The contract cannot be cancelled during the lease contract period, unless the lessee pays an amount equivalent to the rent payable from the cancellation date to the expiry date of the lease contract period as a penalty.
Major items	Household equipment

(Note 1) The total rent area is based on the scheduled lease contract.

(Note 2) The amount is not disclosed as tenant approval could not be obtained.

5. Impact on Operational Performance

(1) Demolition

JLF currently estimates that demolition costs related to the Project will be a total of 622 million yen. The cost will be posted under loss on write-offs of noncurrent assets for the 16th fiscal period (ending July 2013) during which the demolition is scheduled to be carried out. As DPU for the 16th fiscal period (excluding distributions in excess of earnings) is expected to decrease by approximately 4,200 yen due to the impact of the demolition-related costs, JLF is planning to pay out 3,200 yen per unit in distributions in excess of earnings in order to even out the total amount of distribution. With regard to the policy on distributions in excess of earnings, please refer to the "Notice Concerning the Establishment of 'Rules on Cash Distributions in Excess of Earnings' by the Asset Management Company" dated March 13, 2013.

Breakdown of demolition-related costs

Loss on write-offs of noncurrent assets	349 million yen
Demolition and removal-related cost	273 million yen

(2) New construction

JLF currently estimates that construction costs related to the Project will be a total of 5,797 million yen. The construction costs will be paid in installment in accordance with the progress of the construction work and the applicable amount will be posted under construction in progress for each period depending on the timing of the payment. We will give notice of financing in line with the construction costs as soon as the financing amount, period and method are finalized.

Breakdown of construction costs

Construction cost (Note 1)	5,773 million yen
Construction management cost (Note 2)	24 million yen

(Note 1) The figure is based on the estimated construction cost (excluding consumption tax) for the new building after the redevelopment.

(Note 2) The figure is an aggregate of remuneration/fees and expenses (excluding consumption tax) listed in the business consignment contract.

(3) Prospects for income/expenses of this asset

Prospects for income/expenses are yet to be determined as rental revenue will not be generated during the period between the commencement and the completion of the Project (April 2013 to September 2014) and the flows of income will also fluctuate even after the completion of the Project depending on the tenant occupancy. With regard to the impact of the Project on JLF's projected operational performance, please see "8. Future Prospects" below.

6. Outline of Construction Contractors

(1) Construction contract

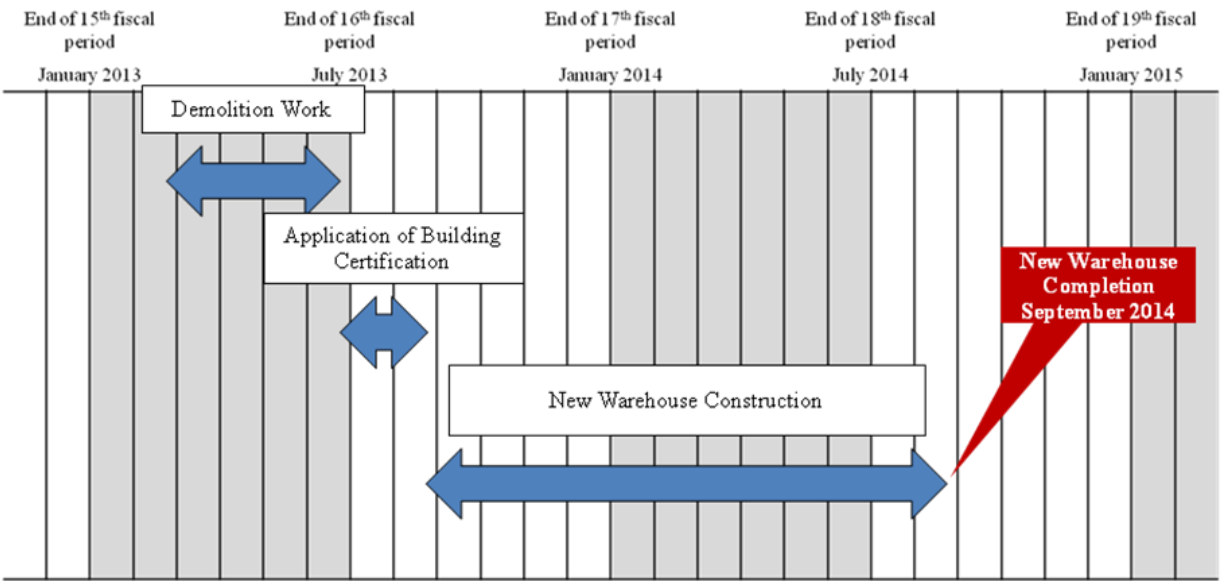
Name of company	Asanuma Corporation
Head office address	12-6 Higashikouzu-cho, Tennoji-ku, Osaka 543-8688 Japan
Representative	Kenichi Asanuma, Representative President
Capital	8,419 million yen
Main line of business	General Contractor
Relation with JLF or the Asset Management Company	None

(2) Construction management contract (Note)

Name of company	Fukuda and Partners Corporation
Head office address	1-7 Nihonbashi Kodenma-cho, Chuo-ku, Tokyo
Representative	Tetsuya Fukuda, President and CEO
Capital	50 million yen
Main line of business	Project management operations and office of class-1 registered architects
Relation with JLF or the Asset Management Company	None

(Note) Pertaining to general supervision and adjustment supplementary business in relation to the Project

7. Schedule
Conclusion of contract for demolition works: March 2013
Demolition works: April 2013 to July 2013
Conclusion of contract for new building construction: September 2013
New building construction: October 2013 to September 2014



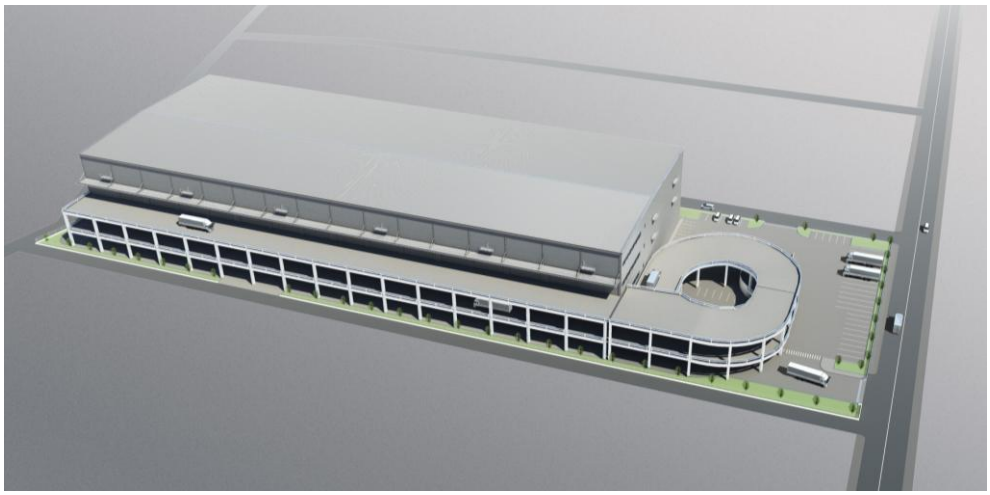
8. Future Prospects
Financial forecasts for the 16th fiscal period (ending July 2013) and the 17th fiscal period (ending January 2014), with regarding to the impact of this Project, will be announced in the Financial Report for the 15th fiscal period (ended January 2013) announced on March 13, 2013.

This notice is an English translation of the announcement in Japanese on our website. However, no assurance or warranties are given as to the completeness or accuracy of this English translation.

Reference Materials:
Reference Material 1: Conceptual illustration (After redevelopment)
Reference Material 2: Floor plan (After redevelopment) (Plan)
Reference Material 3: Location maps of this asset

*JLF's website: http://8967.jp/eng/

Reference Materials:
Reference Material 1: Conceptual illustration
(After redevelopment) (Note)

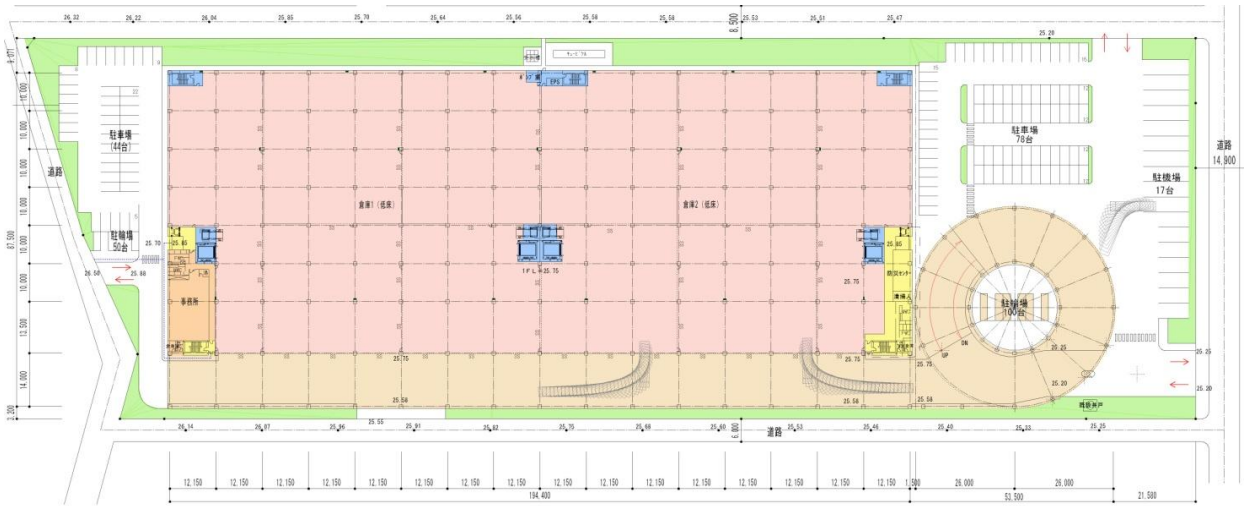


(Note) This illustration is based on the assumed state of the new building after redevelopment, and may differ from actual structure following completion.

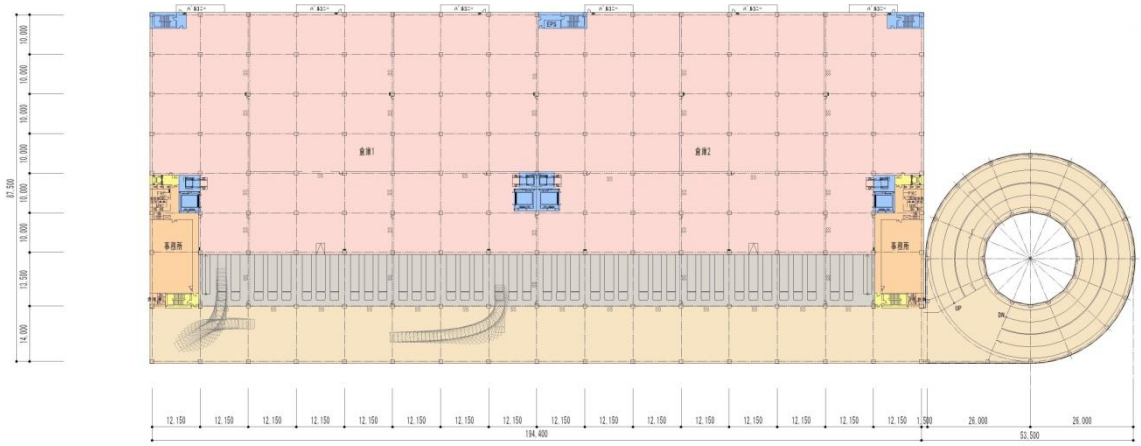
(Photo of the building before redevelopment)

Reference Material 2: Floor plan (After redevelopment) (Plan)

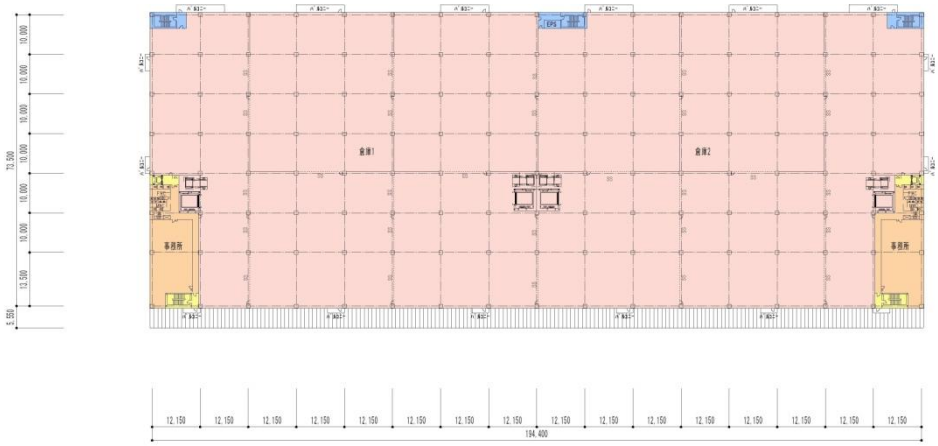
・1st floor



・Standard floor (2nd to 3th floors)



・4th floor



Reference Material 3: Location maps of this asset

・Wide view

・Neighboring view