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REIT Issuer:

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Notice Concerning Acquisition of New Assets
(“Mercure Hotel Sapporo” and “Mercure Hotel Okinawa Naha”)

This is to inform you that Japan Hotel REIT Advisors Co., Ltd., the asset management company of Japan Hotel REIT Investment Corporation (hereinafter called “JHR”), has resolved to acquire the properties below (hereinafter called “New assets”) today on behalf of JHR.

1. Summary of New assets

Name of New asset	Mercure Hotel Sapporo	Mercure Hotel Okinawa Naha
Category of New asset	Beneficial interest in trust and movable assets attached to the hotel	Beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel	Hotel
Classification	Limited service hotel	Limited service hotel
Grade	Mid-price	Mid-price
Rent type	Management contract scheme	Management contract scheme
Purchase price (*1)	JPY 6,000,000,000.-	JPY 3,000,000,000.-
Conclusion of Sale and Purchase Agreement (*2)	August 20, 2014	August 20, 2014
Scheduled acquisition date	September 30, 2014	September 30, 2014
Seller (*3)	Mitsui Fudosan Co., Ltd.	Tsubogawa G.K.
Acquisition funds (*4)	New loan, funds to be procured through issuance of new investment units and cash on hand, etc.	New loan, funds to be procured through issuance of new investment units and cash on hand, etc.
Collateral	Not requested (planned)	Not requested (planned)

(*1) The purchase price is the scheduled price on the purchase and sale agreement. The purchase price does not include expenses for acquisition, fixed asset tax, city planning tax and consumption tax, etc.

(*2) Purchase and sale agreements of beneficial interest in trust (hereinafter called “PSA of beneficial interest in trust”) have been concluded with the sellers to acquire the New assets on the scheduled acquisition dates above. For details of the PSA of beneficial interest in trust, see “9. Matters on forward commitment, etc.” below.

(*3) See “5. Summary of sellers” for details.

(*4) See “Notice Concerning New Loans (New Loan and Refinancing)” dated today for the borrowings and “Notice Concerning Issuance of New Investment Units and Secondary Offering” dated today for the issuance of new investment units.

2. Rationale for acquisition

JHR intends to provide investors with attractive investment opportunities in hotels that accommodate both stability

and upside potential. We decided to acquire the New assets, as they are assets that benefit this policy for the following reasons.

(1) Markets with positive prospect for growth

JHR realizes that the Sapporo and Okinawa markets are relatively laggard compared with to other major Japanese cities where the ADR (*) has been rising in accordance with an increase in occupancy rates. However, led by the leisure demand from foreign customers primarily in Asia, the occupancy rate and the ADR in these markets are observed to gradually start increasing. Given such a market environment, the New assets are expected to achieve growth in the future by absorbing leisure demand in and outside Japan.

*ADR represents average daily rate, which is calculated by dividing total rooms revenue for a certain period by the total number of rooms sold during the period.

(2) Physical superiority of the properties

Both of the New assets are properties characterized by the fact that they are i) situated in good locations and ii) have wide guest room areas as well as being relatively newly built. As such, JHR believes that they have competitiveness that allows them to absorb leisure demand in and outside Japan.

	Mercure Hotel Sapporo	Mercure Hotel Okinawa Naha
Location	Two minutes on foot from Susukino Station on the Sapporo City Subway Nanboku Line	One minute on foot from Tsubogawa Station of Okinawa City Monorail, and approximately ten minutes by car from Naha Airport
Completion	April 2009	August 2009
Guest room unit area	24.3m ² (weighted average)	22.1 m ² (weighted average)

(3) Superiority of operational expertise

The operation of the New assets is planned to be entrusted to A.A.P.C. Japan K.K. (hereinafter called “Accor”), the Japanese subsidiary of Accor Hotels, under the management contract scheme. According to the Statistical Survey on Overnight Travel by the Japan Tourism Agency, the Hokkaido and Okinawa markets have been highly ranked as popular destinations by tourists from the top 3 countries in Asia (South Korea, Taiwan and China) in terms of the number of foreign tourists visiting Japan. Against this backdrop, JHR believes that the key driver for increasing overnight travel demand for Sapporo and Naha is to absorb the overnight travel demand from overseas, particularly from Asia. However, in the hotel markets in Sapporo and Okinawa, there are only a few hotels that have international brands and can conduct high quality operations for foreign tourists visiting Japan. JHR believes that, by entrusting the operation of the New assets to the Accor Hotels, which is an international brand having high brand recognition in Asia and high hotel operation capability that has been fostered through its track record of hotel operations in a global scale, future growth can be expected.

3. Features of the New assets

(1) Features of the New assets

1) Mercure Hotel Sapporo

The property is a limited-service hotel located in Chuo Ward, Sapporo City and is 5 years since it was built. Situated in the center of Susukino, which is the busiest and most entertaining area in the city, it is located two minutes’ walk from Susukino Station on the Sapporo City Subway Nanboku Line and one minute’s walk from Hosui Susukino Station on the subway’s Toho Line. In 2013, an underground passage was constructed to connect Sapporo Station on the JR lines and Susukino, drastically enhancing access on foot especially in winter. Moreover, although it is located in the central part of the city, the property satisfies the need of the hotel guests to use car parks as parking towers and other car parks have been newly built in the neighborhood, on top of the availability of the car park of M-Square, its integrated facility.

The property is also a hotel rich in contemporary design, and features high visibility from the central area of Susukino. It commands strong competitiveness to successfully attract business guests and leisure guests in and outside Japan, as it has 285 guest rooms with either twin-beds or double-beds, provides the convenience of being near the station, and is relatively newly built. On top of this, the property has sales channels as an

international brand which is rare in Sapporo City, and many of its staff can serve customers in foreign languages centering on English. By taking advantage of these strengths, it has succeeded in capturing foreign guests, with approximately 51% of guests who used the hotel between January and April 2014 being foreigners.

2) Mercure Hotel Okinawa Naha

The property is a limited-service hotel located in Naha City, Okinawa Prefecture. It features good accessibility from the airport, as it takes approximately 10 minutes by car from Naha Airport and approximately 10 minutes by Okinawa City Monorail to Tsubogawa Station, the nearest station. The property features high convenience, as it is close to Tsubogawa Station with one minute on foot and offers car rental services within the hotel building, allowing the guests to avoid confusion of car rental processes at the airport. It is also within a walking distance from the Kokusai street, the busiest and most entertaining town in Okinawa.

It has 260 guest rooms with either twin-beds or double-beds, provides transport accessibility, and is relatively newly built. Thus, it commands strong competitiveness to attract leisure guests in and outside Japan.

By attributes of users as of 2013, the second year from its opening of April 2012, approximately 58% were domestic guests and 42% were foreign tourists visiting Japan. By country of the foreign tourists visiting Japan, more than 90% came from Asia, with Hong Kong and Taiwan occupying approximately 70% in total followed by China and South Korea. As an international brand that is rare in Naha City, the property is expected to further absorb foreign tourists visiting Japan that are anticipated to grow going forward.

(2) Operation entrustment to Accor

As stated in 2. Rationale for acquisition and 3. (1) Features of the New assets above, the hotel revenue of the New assets are not only stable but also expected to grow further. In order for JHR to enjoy the fruits of the enhanced hotel revenue, the asset management of the New assets is planned to be conducted under the management contract scheme (*).

JHR has already entrusted operations of two hotels – “ibis Tokyo Shinjuku” and “ibis Styles Kyoto Station” – to Accor. JHR also plans to switch to the management contract scheme with Accor for the operation of “Best Western Hotel Sapporo Nakajima Koen” which was acquired as of July 9, 2014 after renaming it to “ibis Styles Sapporo” as of December 27, 2014.

When the New assets are acquired, JHR will own four hotels out of ten that Accor operates in Japan. After the above-mentioned rebranding of “Best Western Hotel Sapporo Nakajima Koen,” JHR will own five out of eleven such hotels.

Foreign tourists visiting Japan are expected to grow significantly in the future. The Accor Hotels, one of the world’s leading hotel operators, boasts a high level of recognition among such tourists particularly in the Asian region. JHR has established a relationship of trust with the Accor Hotels through entrusted operations of hotels to date. By strengthening the collaboration with the Accor Hotels, JHR intends to pursue the upside potential of the increasing leisure demand in and outside Japan.

(* Management contract scheme

The management contract scheme is a scheme for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue.

Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management contract fee to the operator. This hotel revenue achieved is recognized as “real estate operating revenue through management contract” and is equivalent to the rent that is the real estate operating revenue under the leasing scheme.

Under the management contract scheme, revenue from hotel operation all reflects in the real estate operating revenue of JHR. Therefore, in the upward phase of hotel revenue, JHR can directly and immediately take in that revenue enhancement. On the other hand, in the downward phase of hotel revenue, that revenue may materially decrease and there is a risk that “real estate operating revenue through management contract” will become negative. This may also seriously impact the bottom line of JHR. In this manner, the upside and downside of hotel revenue will directly reflect in the real estate operating revenue of JHR.

4. Details of the New assets

(1) Mercure Hotel Sapporo

Property No.	34	Property name	Mercure Hotel Sapporo
1. Asset summary (*1)			
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel		
Acquisition date	September 30, 2014		
Purchase price	JPY 6,000,000,000.-		
Appraisal value	JPY 6,030,000,000.- (See Reference 1 for detail)		
2. Summary of real estate (or trusted real estate) (*2)			
Intended use of the property	Hotel/Limited service hotel		
Ownership	Land	Ownership	
	Building	Ownership	
Land	Plot No.	2-2-4 and other Minami 4jo Nishi, Chuo-ku, Sapporo-shi, Hokkaido	
	Address	2-2-4 Minami 4jo Nishi, Chuo-ku, Sapporo-shi, Hokkaido	
	Acreage	2,016.27m ²	
	Zoning, etc.	Commercial district	
	Building-to-land ratio	100%	
	Floor area ratio	800%	
Building	Structures and stories	Steel-framed building, fifteen stories above ground with one story below ground (*3)	
	Intended use	Hotel	
	Completion	April 2009	
	Total floor space	16,145.79 m ² (*4)	
	Designer	Hokkaido Nikken Sekkei, Ltd.	
	Constructor	Taisei Corporation	
	Institute that confirmed building	Japan ERI Co., Ltd.	
Present owner	Mitsui Fudosan, Co., Ltd.		
3. Traffic			
Two minutes on foot from “Susukino” station of the Sapporo City Subway Nanboku Line and one minute on foot from “Housui Susukino” station of the Sapporo City Subway Toho Line			
4. Summary of the management contract (*5)			
Entrustor	Japan Hotel REIT Investment Corporation		
Trustee	Accor		
Form of contract	Management contract scheme		
Floor space under entrusted operation	12,888.36 m ²		
Contract term	From September 30, 2014 to September 29, 2029 (15 years) (Scheduled)		
Real estate operating revenue through management contract	Amount equivalent to GOP (*6)		
Management contract fee	Fee linked to hotel revenue and GOP (*7)		
Deposit and guarantee money	None		
Special remarks for contract renewal, management contract fee revision, etc.			
Renewal of contract at expiration	N/A		
Revision of management contract fee	No regulation is stipulated for revision of the management contract fee.		
Special remark	Subject to certain conditions (*8), JHR has the right to terminate the contract in principle.		
5. Related parties for hotel operation			
Hotel operator	Accor		
Property manager	MS Building Support, Co., Ltd.		
6. Hotel website			

http://mercuresapporo.jp/		
7. Summary of the building inspection report		
Investigation company	Tokio Marine & Nichido Risk Consulting Co., Ltd.	
Investigation date	As of May 16, 2014	
Repair cost	Urgently required	JPY0.-
	Required within one year	JPY0.-
	Total amount for another 12 years	JPY 164,138,000.-
Earthquake PML value (*9)	1.0%	
8. Special remark (*10)		
None		

(*1) Asset summary

- Asset category indicates category of real estate, etc.
- Purchase price is the price stated on the Real Estate Purchase and Sale Agreement and does not include various expenses required to acquire the New asset (e.g., broker's fee).

(*2) Real estate (or trusted real estate) summary

- Structure and stories, intended use of the building and completion of the building are taken from the real estate registration statement. However, if erroneous information is identified by investigation, correct information is stated.
- Zoning, etc. (use district, special use district, fire prevention district and quasi-fire prevention district) are stated based on Article 8, Clause 1-1, Clause 2, and Clause 5 of City Planning Act.

(*3) Structures and stories

- There is a separate multi-story car park (steel-framed building, 164.66m²).

(*4) Total floor space

- The total floor space includes an accessory building (car park) totaling 164.66 m²

(*5) Summary of the management contract

- As of the same date (August 20, 2014), JHR concluded a management contract with Accor, setting completion of acquisition of the property as condition precedent to its effectuation. Furthermore, as the property is held in trust, JHR plans to separately conclude a building lease contract with the trustee as of the scheduled acquisition date.

(*6) Real estate operating revenue through management contract

- JHR recognizes the amount as "real estate operating revenue through management contract," which is equivalent to the rent that is the real estate operating revenue under the leasing scheme. In cases where the amount becomes negative, JPR will pay the negative portion to Accor.

(*7) Management contract fee

- The fee rate is not disclosed due to a compelling reason, as no consent to disclosure has been obtained from Accor.

(*8) Special remarks for contract renewal, management contract fee revision, etc.

- In cases where the actual GOP does not reach 85% of the target GOP for two consecutive years, JHR has the right to terminate the management contract as long as certain conditions stipulated in the contract are met.

(*9) PML

- PML (Probable Maximum Loss) is the anticipated damage ratio resulted from earthquake. Since no uniform definition has been made yet on PML, we used the following method. Probability and anticipated loss amount caused by the various earthquakes that may occur in another 475 years are evaluated and statistically processed to identify the anticipated percentage of loss amount against the building replacement cost. It has been calculated based on site inspection, assessment of building condition, confirmation of the consistency with the design document, ground investigation, local factors and structural investigation. Indicated PML is the PML on valuation detail (Phase 2) of the investigation company.

(*10) Special remarks

- In principal, the following items are stated: (1) Right or restriction on the property based on the right of the third party except for tenant of the building (2) Important matters stipulated in the management rules, agreements or memoranda concluded with other co-owners of the strata-titled building and shared land, (3) Important restrictions stipulated by the administrative laws and regulations to the property.

(*11) All amounts are rounded down to JPY1,000.

(2) Mercure Hotel Okinawa Naha

Property No.	35	Property name	Mercure Hotel Okinawa Naha
1. Asset summary (*1)			
Asset category		Real estate beneficial interest in trust and movable assets attached to the hotel	
Acquisition date		September 30, 2014	
Purchase price		JPY3,000,000,000.-	
Appraisal value		JPY3,040,000,000.- (See Reference 1 for detail)	
2. Summary of real estate (or trusted real estate) (*2)			
Intended use of the property		Hotel/Limited service hotel	
Ownership	Land	Ownership (partly land leasehold)	
	Building	Ownership	
Land	Plot No.	3-3-19 and other Tsubogawa, Naha-shi, Okinawa	
	Address	3-3-19 Tsubogawa, Naha-shi, Okinawa	
	Acreage	2,860.69 m ² (*3)	
	Zoning, etc.	Commercial district	
	Building-to-land ratio	80%	
	Floor area ratio	400% (*4)	
Building	Structures and stories	Reinforced concrete building with flat roof. Fourteen stories above ground. (*5)	
	Intended use	Hotel	
	Completion	August 2009	
	Total floor space	10,884.25 m ² (*6)	
	Designer	Kuniken, Ltd.	
	Constructor	Kokuba-Gumi, Co., Ltd.	
	Institute that confirmed building	Japan ERI Co., Ltd.	
Present owner		Trustee: Sumitomo Mitsui Trust Bank, Limited. Beneficiary: Tsubogawa G. K.	
3. Traffic			
One minute on foot from "Tsubogawa" station of Okinawa Monorail.			
4. Summary of the management contract (*7)			
Entrustor		Japan Hotel REIT Investment Corporation	
Entrustee		Accor	
Form of contract		Management contract scheme	
Floor space under entrusted operation		10,833.95m ²	
Contract term		From September 30, 2014 to April 26, 2024(Scheduled)	
Real estate operating revenue through management contract		Amount equivalent to GOP (*8)	
Management contract fee		Fee linked to hotel revenue and GOP (*9)	
Deposit and guarantee money		None	
Special remarks for contract renewal, management contract fee revision, etc.			
Renewal of contract at expiration		N/A	
Revision of management contract fee		No regulation is stipulated for revision of the management contract fee.	
Special remark		Subject to certain conditions (*10), JHR has the right to terminate the contract in principle.	
5. Related parties for hotel operation			
Hotel operator		Accor	
Property manager		KK Kokusai Biru Sangyo	
6. Hotel website			
http://mercureokinawanaha.jp/			
7. Summary of the building inspection report			
Investigation company		Tokio Marine & Nichido Risk Consulting Co., Ltd.	
Investigation date		June 12, 2014	
Repair cost	Urgently required	JPY0.-	
	Required within one year	JPY0.-	

	Total amount for another 12 years	JPY 111,880,000.-
	Earthquake PML value (*11)	0.5%
8. Special remark (*12)		
<p>1) Part of the land of the subject property (3-3-12, Tsubogawa, Naha-shi), together with the adjacent land to the north (lot number 3-20), is used as a common passage, and an easement of access has been established with the lot numbers 3-5 and 3-20 designated as dominant land.</p> <p>2) Part of the land of the subject property (3-3-13, Tsubogawa, Naha-shi; 125.67m²) is a leased land and utilized as the garden of the hotel. The land, whose owner became unknown due to turmoil associated with war damages, and is managed by the Okinawa prefectural government pursuant to Article 62 of the Act on Special Measures Incidental to Reversion of Okinawa. If the owner of the said land is determined or it becomes necessary to terminate the use due to other reasons, the land lease agreement may be cancelled by the Okinawa prefectural government.</p>		

(*1) Asset summary

- Asset category indicates category of real estate, etc.
- Purchase price is the price stated on the Real Estate Purchase and Sale Agreement and does not include various expenses required to acquire the New asset (e.g., broker's fee).

(*2) Real estate (or trusted real estate) summary

- Structure and stories, intended use of the building and completion of the building are taken from the real estate registration statement. However, if erroneous information is identified by investigation, correct information is stated.
- Zoning, etc. (use district, special use district, fire prevention district, quasi-fire prevention district) are stated based on Article 8, Clause 1-1, Clause 2, and Clause 5 of City Planning Act

(*3) Acreage

- The acreage includes 125.67m² of a leased land.

(*4) Floor area ratio

- The lower limit (200%) of the floor area ratio has been designated based on the district planning for the Tsubogawa district.

(*5) Structures and stories

- The property has an accessory building (steel-framed building with a flat roof, 175.05m²) used as car park

(*6) Total floor space

- The total floor space includes an accessory building totaling 175.05m² (car park)

(*7) Summary of the management contract

- As of the same date (August 20, 2014), JHR concluded a management contract with Accor, setting completion of acquisition of the property as condition precedent to its effectuation. Furthermore, as the property is held in trust, JHR plans to separately conclude a building lease contract with the trustee as of the scheduled acquisition date.

(*8) Real estate operating revenue through management contract

JHR recognizes the amount as "real estate operating revenue through management contract," which is equivalent to the rent that is the real estate operating revenue under the leasing scheme. In cases where the amount becomes negative, JHR will pay the negative portion to Accor.

(*9) Management contract fee

- The fee rate is not disclosed due to a compelling reason, as no consent to disclosure has been obtained from Accor.

(*10) Special remarks for contract renewal, management contract fee revision, etc.

- In cases where the actual GOP does not reach 85% of the target GOP for two consecutive years, JHR has the right to terminate the management contract as long as certain conditions stipulated in the contract are met.

(*11) PML

- PML (Probable Maximum Loss) is the anticipated damage ratio resulted from earthquake. Since no uniform definition has been made yet on PML, we used the following method. Probability and anticipated loss amount caused by the various earthquakes that may occur in another 475 years are evaluated and statistically processed to identify the anticipated percentage of loss amount against the building replacement cost. It has been calculated based on site inspection, assessment of building condition, confirmation of the consistency with the design document, ground investigation, local factors and structural investigation. Indicated PML is the PML on valuation detail (Phase 2) of the investigation company.

(*12) Special remarks

- In principal, the following items are stated: (1) Right or restriction on the property based on the right of the third party except for tenant of the building (2) Important matters stipulated in the management rules, agreements or memoranda concluded with other co-owners of the strata-titled building and shared land, (3) Important restrictions stipulated by the administrative laws and regulations to the property.

(*13) All amounts are rounded down to JPY1,000.

5. Summary of sellers

(1) Mercure Hotel Sapporo

Name	Mitsui Fudosan, Co., Ltd.
Headquarters	2-1-1 Nihonbashi Muromachi, Chuo-ku, Tokyo
Representative	Masanobu Komoda, President and Chief Executive Officer
Capital	JPY 174,296,000,000.-
Establishment	July 15, 1942
Major business	Acquisition, possession, disposition, lease, sale and management of real estate
Relationship between the seller and JHR and its asset management company	
Capital relationship Human relationship Business relationship	JHR and its asset management company do not have any capital, human and business relationships that should be statutory reported with the seller. The affiliated parties and companies of JHR and its asset management company do not have any capital, human, and business relationships that should be specifically reported with the affiliated parties and companies of the seller.
Related parties	The seller does not fall under the category of related parties of JHR and its asset management company. Affiliated parties and companies of the seller do not fall under the category of related parties of JHR and its asset management company.

(2) Mercure Hotel Okinawa Naha

Name	Tsubogawa G. K. (hereinafter called the “seller of Mercure Hotel Okinawa Naha”)
Headquarters	Nihonbashi Itchome Building 1-4-1 Nihonbashi, Chuo-ku, Tokyo
Representative	Representative partner: Tsubogawa General Incorporated Association
Capital	JPY 100,000.-
Establishment	July 4, 2011
Major business	Acquisition, possession, disposition, lease and management of real estate beneficial interest in trust
Relationship between the seller and JHR and its asset management company	
Capital relationship Human relationship Business relationship	JHR and its asset management company do not have any capital, human and business relationships that should be statutory reported with the seller. The affiliated parties and companies of JHR and its asset management company do not have any capital, human, and business relationships that should be specifically reported with the affiliated parties and companies of the seller.
Related parties	The seller does not fall under the category of related parties of JHR and its asset management company. Affiliated parties and companies of the seller do not fall under the category of related parties of JHR and its asset management company.

6. Status of previous owners

(1) Mercure Hotel Sapporo

The previous owner does not have any special interest relationship with either JHR or its asset management company.

(2) Mercure Hotel Okinawa Naha

Status of the property owner	Previous owner	Before previous owner
Company name	Seller of Mercure Hotel Okinawa Naha	Parties with which no special interest relationship exists
Relationship with party having special interest relationship	See 8. Transaction with sponsor related party below	
Background and reason of acquisition	Acquired for the purpose of investment and management	
Acquisition price	Omitted as the property has been owned by the previous owner for more than a year	
Acquisition period	August 2011	

7. Summary of the intermediary

(1) Mercure Hotel Sapporo

The intermediary is not disclosed as no consent to disclosure has been obtained from the intermediary.

JHR and its asset management company do not have any capital, human and business relationships that should be statutory reported with the intermediary. The affiliated parties and companies of JHR and its asset management company do not have any capital, human, and business relationships that should be specifically reported with the affiliated parties and companies of the intermediary.

The intermediary does not fall under the category of related parties of JHR and its asset management company. Affiliated parties and companies of the intermediary do not fall under the category of related parties of JHR and its asset management company.

(2) Mercure Hotel Okinawa Naha

None

8. Transaction with sponsor related party

The seller of Mercure Hotel Okinawa Naha does not fall under the category of interested parties as stipulated in Article 201 of the Act on Investment Trusts and Investment Corporations (hereinafter called the “Investment Trusts Act”) and Article 123 of the Enforcement Order of the Act on Investment Trusts and Investment Corporations. However, it falls under the category of sponsor related party under the Code for Transaction with Sponsor Related Party, an internal rule of the asset management company, as the RECAP group, to which the asset management company’s parent company belongs, has silent partnership equity interests in the seller.

Accordingly, upon concluding the PSA of beneficial interest in trust with the seller of Mercure Hotel Okinawa Naha, the asset management company followed the appropriate procedures set forth in the said Code for Transaction with Sponsor Related Party, including acquisition of approvals from its compliance committee, to which outside experts present, and the Board of Directors meeting of JHR.

9. Matters on forward commitment, etc. (Note)

(1) New Assets subject to Forward Commitment, etc.

Name of New Asset	Conclusion of Sale and Purchase Agreement	Scheduled acquisition date
Mercure Hotel Sapporo	August 20, 2014	September 30,2014
Mercure Hotel Okinawa Naha	August 20, 2014	September 30,2014

(Note) Forward Commitment, etc. is defined in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators by Financial Services Agency as “a postdated real estate transaction contract where there is an agreement to either make a financial settlement or close on a property sale after a period of one month or more following the conclusion of the contract, or any other similar contracts.”

(2) Impact on the finance condition of JHR if forward commitment, etc. cannot be implemented

In order to ensure acquisition of the New assets, JHR today concluded PSA of beneficial interest in trust with the sellers. The agreements stipulate that either party may cancel the agreement if the other party violates the obligations stipulated in the agreements and that the violating party shall pay a certain amount of penalty to the other party.

However, the PSA of beneficial interest in trust for Mercure Hotel Okinawa Naha contains a special condition which stipulates that completion of debt financing or fundraising by JHR for the acquisition of the New assets, as separately announced today, is the condition precedent to the payment of the transaction amount. Accordingly, in the event that debt financing or fundraising by JHR for the payment of the transaction amount is not conducted, the PSA of beneficial interest in trust will be terminated without payment of cancellation penalty, etc. The PSA of beneficial interest in trust for Mercure Hotel Sapporo does not contain such special condition. Therefore, in the event that debt financing or fundraising for the payment of the transaction amount is not conducted, JHR shall be obliged to pay a certain amount of penalty, but since it is small, JHR believes

that it is unlikely that its financial conditions or dividend source will be seriously impacted.

10. Settlement method

JHR plans to pay the settlement amounts by using new loan, proceeds to be procured through issuance of new investment units and cash on hand, etc.

11. Schedule until settlement date

(1) Mercure Hotel Sapporo

Resolution for the acquisition	August 20, 2014
Conclusion of Sale and Purchase Agreement	August 20, 2014
Settlement and transfer	September 30, 2014(Scheduled)

(2) Mercure Hotel Okinawa Naha

Resolution for the acquisition	August 20, 2014
Conclusion of Sale and Purchase Agreement	August 20, 2014
Settlement and transfer	September 30, 2014(Scheduled)

12. Future prospects

With respect to the operating forecast after acquiring the New assets, please refer to the press release “Notice Concerning Revision of Operating Forecast and Dividend for the Fiscal Period Ending December 2014 (15th Fiscal Period)” separately announced today.

* Website of Japan Hotel REIT Investment Corporation: <http://www.jhrth.co.jp/>

<Attachment 1>
Market summary

(1) Mercure Hotel Sapporo

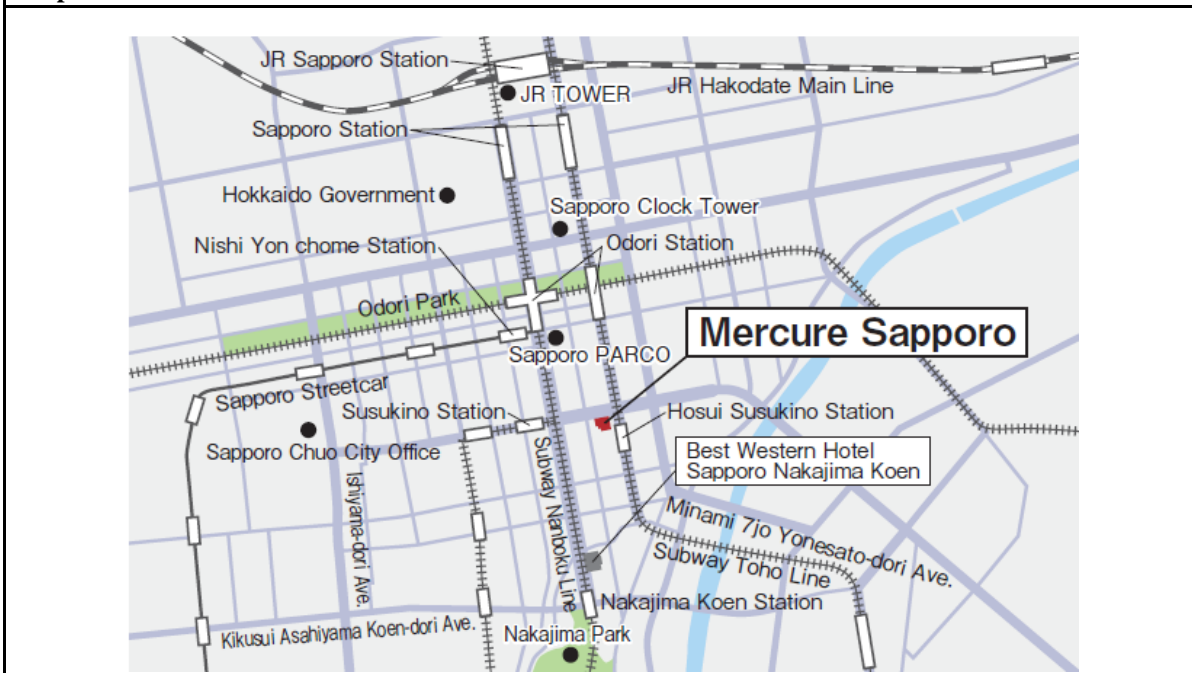
Market summary

Having a population of approximately 2 million as of March 2014, Sapporo City is the fifth largest government-ordinance-designated city in Japan, following the 23 wards of Tokyo, Yokohama City, Osaka City and Nagoya City. The number of passengers arriving at and departing from New Chitose Airport, the gateway to Sapporo City, is approximately 17 million, and it is on an increasing trend. A breakdown of flights for fiscal 2012 shows that domestic lines occupied 94%, but the number of international lines entering service is increasing, as exemplified by a low-cost carrier (hereinafter called “LLC”) started flight operations to and from Seoul in 2011. With a domestic LLC also entering service in 2012, the number of domestic tourists is expected to grow. Moreover, the Hokkaido Shinkansen (bullet train) is scheduled to start operations between Shin-Aomori station and Shin-Hakodate Hokuto station in 2015, which allows anticipation for an increased number of tourists. The Shinkansen is planned to be extended to Sapporo in fiscal 2035 and, when the plan is realized, Sapporo is directly connected to Tokyo by Shinkansen, which should contribute to the growth of the city’s tourism industry over the medium to long term.

In terms of sightseeing, the number of tourists visiting Sapporo is on an increasing trend. It totaled 13 million people in fiscal 2012, of which guests from within Hokkaido occupied 67%, guests from outside Hokkaido 28% and foreigners 5%. However, foreign tourists have shown a large increase in recent years. By country of foreign hotel guests, Taiwan, Honk Kong, China and South Korea the top four countries in this order, combined to occupy 75% of the total. In addition, approximately 10% of foreign tourists visiting Japan have visited Sapporo, and the number is expected to further increase going forward. The number of foreign tourists who visited Sapporo in the first half of fiscal 2013 increased 48.3% year-on-year, and tourists from Thailand, Malaysia and Indonesia for which the entry visa requirements were relaxed showed a notable increase of more than 50%. While August is the peak season in the Sapporo market both for domestic and foreign tourists, the ski season of January to February is another peak for foreign tourists, and they are expected to compensate for the decrease of domestic tourists in that period.

As for hotels, the number of guest rooms has remained flat since 2010, with the total number of guest rooms being approximately 28,000 in 2012. New entries that have been announced to date include only one limited-service hotel primarily comprising single rooms. As such, it is a stable hotel market, with an increase in supply falling short of the expected increase in demand.

Map around the New asset



(*) The above “Market summary” is extracted or summarized information of real estate appraisal report and market research report made by Japan Real Estate Institute and KPMG FAS, respectively.

(2) Mercure Hotel Okinawa Naha

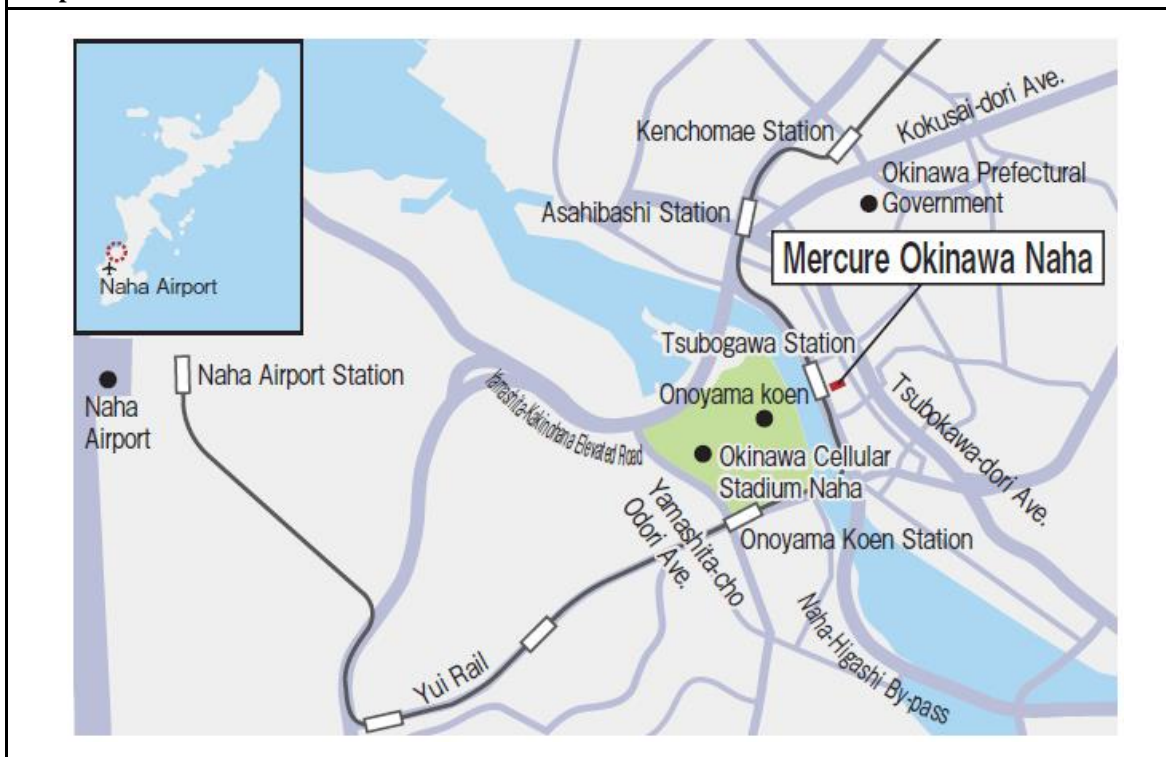
Market summary

The population of Okinawa Prefecture is approximately 1.41 million as of 2013. The average annual growth rate from 2000 to 2013 was 0.56%, surpassing that of entire Japan, and the population is forecast to increase steadily to about 1.43 million by 2025. The number of passengers arriving at and departing from Naha Airport was approximately 16 million in 2013 (a preliminary figure), recording a record high both for domestic and international lines. The capacity of Naha Airport has limited its arrival and departure slot to 135,000 to date. However, a runway expansion project started construction in January 2014 and, in 2020 when the project is scheduled to complete, the slot is expected to increase by approximately 37% to 185,000. Moreover, a new international terminal building started services in February 2014, with the facility size 3.6 times as large as before. This also allows expectations for an increased number of flight services in the future.

In terms of sightseeing, the number of inbound tourists in Okinawa Prefecture is on an increasing trend, reaching the record high of 6.41 million in 2013. Domestic guests occupy a large proportion at approximately 92% of the total, and more than 80% of them are repeaters, indicating the high popularity of Okinawa. A half of the domestic tourists are travelers from Tokyo, followed by those from Kansai area and Fukuoka. The number of foreign guests reached the record high of 550,000 in 2013. In March 2014, Okinawa Prefecture was authorized by the government as the Center for International Sightseeing of the National Strategic Special Zones, and investigations will be made on further relaxing of visa requirements and acceleration of immigration procedures, on top of the multiple-entry visa that was introduced for China in July 2013. The Visit Okinawa Project by the Okinawa prefectural government set up a target of the inbound tourists reaching 10 million in fiscal 2021, of which 2 million are foreigners. As such, a further increase in the number of tourists is expected.

As for hotels, the number of guest rooms in Naha City has increased only slightly, reaching approximately 13,000 rooms in fiscal 2012. New entries that have been announced to date are a hotel in 2015 and another in 2016, offering no more than about 500 guest rooms. As such, it is a stable hotel market, with an increase in supply falling short of the expected increase in demand.

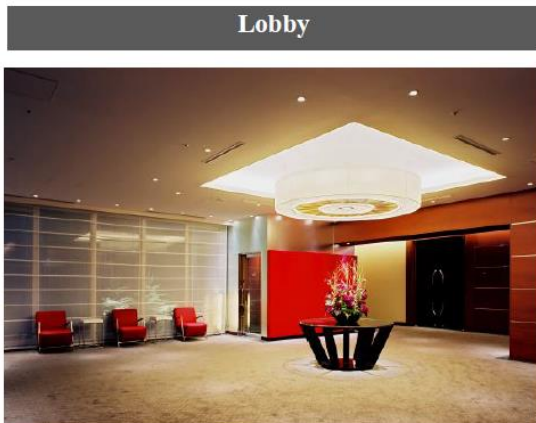
Map around the New asset



(* The above “Market summary” is extracted or summarized information of real estate appraisal report and market research report made by Japan Real Estate Institute and KPMG FAS, respectively.

<Attachment 2>
External and internal appearance of the New assets

(1) Mercure Hotel Sapporo



(2) Mercure Hotel Okinawa Naha

External appearance



Lobby



Bistro De La Mer (restaurant)



Deluxe king room



Deluxe twin room



<Reference 1> Appraisal report summary

(1) Mercure Hotel Sapporo

Appraiser		Japan Real Estate Institute		
Appraisal value		JPY 6,030,000,000.-		
Date of appraisal		As of May 16, 2014		
Type of value		Specified value		
Indicated value by cost approach	a. Replacement cost	Land	5,657,000,000	
		Building	1,740,000,000	
		Furniture, etc.	3,699,000,000	
			218,000,000	
			1,636,600,000	
	b. Depreciation adjustment			
	c. Other assets		0	
	d. Adjustment on marketability		130%	
	e. Indicated value		5,230,000,000	$e \doteq (a - b + c) \times d$
Value based on income		Indicated values by both the direct capitalization method and the discount cash flow method are used.		
Value by direct capitalization method	a. Gross income	Rent income		
		Fixed rent, etc.	78,537,000	
		Variable rent (hotel)	315,811,000	
		Common area fees	22,102,000	
		Other income	144,418,000	
	Vacancy loss, etc.	-5,735,000		
	b. Total cost	Maintenance and management expenses	46,665,000	
		Utilities cost	82,500,000	
		Repair cost	4,103,000	
		Property management fee	7,200,000	
		Tax and public dues	51,675,000	
		Casualty insurance premium	1,072,000	
	Other expenses	5,700,000		
c. Net operating income (NOI)		356,218,000	$c \doteq a - b$	
d. Capital expenditures		9,575,000		
e. Gain on management of security deposits		4,978,000		
f. FF&E reserve		10,220,000		
g. Net cash flow (NCF)		341,401,000	$g = c - d + e - f$	
h. Cap rate		5.6%		
i. Value based on income		6,100,000,000	$i \doteq g \div h$	
Value by DCF method	a. Value based on income		5,960,000,000	
	b. Discount rate		5.4%	
	c. Terminal cap rate		5.8%	

(2) Mercure Hotel Okinawa Naha

Appraiser		Japan Real Estate Institute			
Appraisal value		JPY 3,040,000,000			
Date of appraisal		June 1, 2014			
Type of value		Specified value			
Indicated value by cost approach	a. Replacement cost	Land	3,145,000,000		
		Building	495,000,000		
		Furniture, etc.	2,350,000,000		
			300,000,000		
	b. Depreciation adjustment		1,150,500,000		
	c. Other assets		JPY0.-		
	d. Adjustment on marketability		130%		
	e. Indicated value		2,590,000,000	$e = (a - b + c) \times d$	
Value based on income		Indicated values by both the direct capitalization method and the discount cash flow method are used.			
Value by direct capitalization method	a. Gross income	Rent income			
		Fixed rent, etc.	5,400,000		
		Variable rent (hotel)	199,463,000		
		Other income	10,752,000		
	b. Total cost	Maintenance and management expenses		JPY0.-	
		Utilities cost		JPY0.-	
		Repair cost		3,908,000	
		Property management fee		1,800,000	
		Tax and public dues		24,726,000	
		Casualty insurance premium		769,000	
		Other expenses		287,000	
	c. Net operating income (NOI)		184,125,000	$c = a - b$	
	d. Capital expenditures		5,416,000		
e. Gain on management of security deposits		JPY0.-			
f. FF&E reserve		7,380,000			
g. Net cash flow (NCF)		171,329,000	$g = c - d + e - f$		
h. Cap rate		5.6%			
i. Value based on income		3,060,000,000	$i = g \div h$		
Value by DCF method	a. Value based on income		3,020,000,000		
	b. Discount rate		5.4%		
	c. Terminal cap rate		5.8%		

<Reference 2> The portfolio list after acquisition of the New assets

No.	Hotel	Type	Grade	No. of guest rooms (*1)	Area (*2)	Completion	Acquisition price (plan) (JPY1M)(*3)	Investment ratio (*4)
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Kansai	July 1995	10,900	6.3%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	503	Kanto (excluding Tokyo)	May 1995	19,900	11.5%
3	Namba Oriental Hotel	Limited-service	Mid-price	257	Kansai	March 1996	15,000	8.6%
4	Hotel Nikko Alivila	Resort	Luxury	396	Okinawa	April 1994	18,900	10.9%
5	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Other	September 1993 (Extended in September 2006)	4,100	2.4%
6	Ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	September 1980	7,243	4.2%
8	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	March 2004 (Extended in June 2005 and May 2006)	7,610	4.4%
9	Hakone Setsugetsuka	Resort	Mid-price	158	Kanto (excluding Tokyo)	October 2006	4,070	2.3%
10	Dormy Inn Kumamoto	Limited-service	Mid-price	294	Other	January 2008	2,334	1.3%
12	Dormy Inn Suidobashi	Limited-service	Economy	99	Tokyo	August 1986 (Extended in September 1989)	1,120	0.6%
13	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	March 1997	999	0.6%
14	Hakata Nakasu Washington Plaza	Limited-service	Mid-price	247	Other	March 1995	2,130	1.2%
15	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Kansai	March 2000	2,050	1.2%
16	R&B Hotel Ueno-Hirokoji	Limited-service	Economy	187	Tokyo	April 2002	1,720	1.0%
17	R&B Hotel Higashi-Nihombashi	Limited-service	Economy	203	Tokyo	March 1998	1,534	0.9%
18	Comfort Hotel Tokyo Higashi-Nihombashi	Limited-service	Economy	259	Tokyo	January 2008	3,746	2.2%
19	Comfort Hotel Shin Yamaguchi	Limited-service	Economy	139	Other	August 2007	866	0.5%
21	Daiwa Roynet Hotel Akita	Limited-service	Economy	221	Other	June 2006	1,760	1.0%
22	Smile Hotel Nihombashi-Mitsukoshimae	Limited-service	Economy	164	Tokyo	March 1997	2,108	1.2%
23	Hotel Sunroute Niigata	Limited-service	Mid-price	231	Other	August 1992	2,105	1.2%
24	Toyoko Inn Hakataguchi Ekimae	Limited-service	Economy	257	Other	September 2001	1,652	1.0%
25	Hotel Vista Kamata Tokyo	Limited-service	Economy	106	Tokyo	January 1992	1,512	0.9%
26	Chisan Inn Kamata	Limited-service	Economy	70	Tokyo	April 2003	823	0.5%
29	Hotel Keihan Universal City	Resort	Mid-price	330	Kansai	June 2001	6,000	3.5%
30	Hotel Sunroute Shimbashi	Limited-service	Mid-price	220	Tokyo	March 2008	4,800	2.8%
31	Hilton Tokyo Bay Hotel	Resort	Luxury	818	Kanto (excluding Tokyo)	June 1988	26,050	15.0%
32	Ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kansai	March 2009	6,600	3.8%
33	Best Western Hotel Sapporo Nakajima Koen	Limited-service	Mid-price	278	Hokkaido	July 2010	6,797	3.9%
34	Mercure Hotel Sapporo	Limited-service	Mid-price	285	Hokkaido	April 2009	6,000	3.5%
35	Mercure Hotel Okinawa Naha	Limited-service	Mid-price	260	Okinawa	August 2009	3,000	1.7%
	Total	—	—	7,510	—	—	173,429	100.0%

(*1) No. of rooms available to sell as of today (rooms occupied by the hotel for a long term is excluded.)

(*2) Tokyo means Tokyo Metropolitan area. Kanto (excluding Tokyo) means Kanagawa, Chiba, Saitama, Ibaragi, Gunma, Tochigi and Yamanashi prefectures. Kansai means Kyoto, Osaka, Shiga, Hyogo, Nara and Wakayama prefectures. Okinawa means Okinawa prefecture.

(*3) The purchase prices stated on the Purchase and Sales Agreement for the Beneficial Interest in Trust or Real Estate Purchase and Sale

Agreement are indicated (Consumption tax, local consumption tax and the acquisition expense such as broker's fee are not included).
The acceptance prices are indicated for the assets that have been accepted through the merger. The purchase price is indicated for the New assets.

(*4) The percentage of each purchase price to the total purchase price is indicated and the numbers are rounded off to one decimal place.

(*5) Numbers for the asset transferred (No. 7, No. 11, No. 20, No. 27 and No. 28) are missing numbers.