

# **Asset Management Report**

**For the Year Ended December 31, 2016**

**Japan Hotel REIT Investment Corporation**



Dear Investors,

Thank you for your support and patronage to Japan Hotel REIT Investment Corporation (JHR).

Having settled the accounts for the 17th fiscal period (from January 1, 2016 to December 31, 2016) of JHR, we are pleased to present you with the asset management status and settlement of accounts for the period.

Looking at the environment surrounding JHR, the number of foreign tourists visiting Japan (inbound tourists) increased with continued momentum, reaching 24.03 million in 2016 (a year-on-year increase of 21.8%), in contrast to 19.73 million counted in 2015 (up 47.1% over the previous year), renewing record highs.

JHR has established and implemented an asset management strategy aimed at proactively maximizing revenue and asset value for each of the hotels it owns, in an effort to promote internal growth. In the fiscal period under review, many of JHR's hotels achieved better operating performance, led by the rooms department, given a favorable market environment. This resulted in an increase in the variable rent, etc. received by JHR.

In terms of external growth, JHR conducted capital increase through public offerings of investment units in January and July 2016 to procure approximately ¥49.3 billion in total. Utilizing the funds with new borrowings, JHR acquired 5 properties (total acquisition price: ¥61.0 billion), including HOTEL VISTA GRANDE OSAKA (rebranded to Holiday Inn Osaka Namba in November 2016) located in the Namba area in Osaka, where the market is experiencing significant growth, and Hilton Nagoya, a full-service hotel representing Nagoya. Consequently, JHR's asset size (sum total of acquisition price) grew significantly to ¥286.8 billion, and the quality of the portfolio was improved. Moreover, in the capital increase through public offering in July, JHR conducted its first global offering in an attempt to further expand its investor base.

On top of the above, JHR worked to cut its expenses, including reduction of operating expenses and funding costs. As a result, JHR posted operating revenue of ¥22,107 million, ordinary income of ¥12,220 million and net income of ¥12,123 million for the 17th fiscal period. Dividend per unit came to ¥3,420, up 15.0% from the previous fiscal period.

We at JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd., are resolved to make our best endeavors for JHR's further growth in order to provide investors with attractive opportunities to invest in hotel assets by taking advantage of the high expertise and know-how we have fostered and accumulated to date.

We ask for your continued support.

Kaname Masuda  
Executive Director  
Japan Hotel REIT Investment Corporation

Hisashi Furukawa  
Representative Director and President  
Japan Hotel REIT Advisors Co., Ltd.

# JAPAN HOTEL REIT INVESTMENT CORPORATION

## Contents:

### I. Asset Management Report 3

This section (P1-P44) is the translation of the Asset Management Report for the 17th Period released on March 22, 2017 except for the update on 6. Significant subsequent events in Outline of Asset Management Operation. This English translation is provided for information purposes only. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

### II. Financial Statements

For the Years ended December 31, 2016 and 2015

Balance Sheets	45
Statements of Income	47
Statements of Changes in Net Assets	48
Statements of Cash Flows	49
Notes to Financial Statements	51
Independent Auditor's Report	66

# I. ASSET MANAGEMENT REPORT

## Outline of Asset Management Operation

### 1. Operating results and financial position, etc.

Fiscal period Account closing date (Note 1)		13th period December 2012	14th period December 2013	15th period December 2014	16th period December 2015	17th period December 2016
Operating revenue (Note 2)	JPY1M	7,283	11,472	12,760	17,343	22,107
[Real estate operating revenue]	JPY1M	[7,283]	[11,472]	[12,760]	[17,033]	[22,107]
Operating expenses	JPY1M	4,688	6,105	5,214	6,354	8,221
[Real estate operating costs]	JPY1M	[2,668]	[3,870]	[4,163]	[5,002]	[6,589]
Operating income	JPY1M	2,595	5,367	7,545	10,988	13,885
Ordinary income	JPY1M	1,412	3,740	5,776	9,295	12,220
Net income (Note 3)	JPY1M	19,031	3,233	5,774	9,294	12,123
Total assets	JPY1M	139,623	170,727	188,091	240,356	317,878
[Period-on-period change]	[%]	[198.5]	[22.3]	[10.2]	[27.8]	[32.3]
Net assets	JPY1M	69,010	89,756	100,342	129,914	181,989
[Period-on-period change]	[%]	[192.0]	[30.1]	[11.8]	[29.5]	[40.1]
Unitholders' capital	JPY1M	28,260	48,845	59,024	85,470	134,829
Number of investment units issued and outstanding	Units	2,111,281	2,621,281	2,791,281	3,144,227	3,761,907
Net assets per unit	JPY	32,686	34,241	35,948	41,318	48,376
Net income per unit	JPY	9,711	1,307	2,159	3,036	3,462
Total dividends	JPY1M	3,012	5,082	6,015	9,354	12,865
Dividend per unit	JPY	1,427	1,939	2,155	2,975	3,420
[Earnings dividend per unit]	JPY	1,427	1,939	2,155	2,975	3,420
[Dividend per unit resulted from excess of earnings]	JPY	–	–	–	–	–
Ratio of ordinary income to total assets (Note 4)	%	1.5	2.4	3.2	4.3	4.4
[Annualized]	[%]	[2.0]	[2.4]	[3.2]	[4.3]	[4.4]
Return on unitholders' equity (Note 5)	%	41.1	4.1	6.1	8.1	7.8
[Annualized]	[%]	[54.5]	[4.1]	[6.1]	[8.1]	[7.8]
Ratio of net assets to total assets (Note 6)	%	49.4	52.6	53.3	54.1	57.3
[Period-on-period change]	[%]	[(1.1)]	[3.2]	[0.8]	[0.7]	[3.2]
Payout ratio (Note 7)	%	15.8	157.2	104.2	100.6	106.1
[Additional information]						
NOI (Note 8)	JPY1M	6,216	9,907	11,002	14,829	18,829
FFO per unit (Note 9) (Note 10)	JPY	2,087	2,759	2,930	3,748	4,103
FFO multiple (Note 10) (Note 11)	Times	8.6	18.2	26.3	23.9	19.2
Debt service coverage ratio (Note 10) (Note 12)	Times	3.8	4.5	5.1	9.1	14.2
Interest-bearing debt	JPY1M	65,220	74,784	81,089	102,772	126,179
Ratio of interest-bearing debt to total assets (Note 13)	%	46.7	43.8	43.1	42.8	39.7
Number of investment properties	Properties	28	28	30	36	41
Total leasable area	m <sup>2</sup>	288,875.32	349,162.63	386,826.71	493,758.78	587,481.02
Number of tenants at end of period (Note 14)	Tenants	37	38	57	113	128
Occupancy rate at end of period (Note 15)	%	100.0	100.0	99.9	99.9	99.9
Depreciation	JPY1M	1,592	2,297	2,400	2,772	3,294
Capital expenditures	JPY1M	699	854	1,306	1,811	2,619
Number of operating days	Days	275	365	365	365	366

(Note 1) Following the resolution to partly amend the Articles of Incorporation of Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) at the 5th General Meeting of Unitholders held on February 24, 2012, JHR changed its fiscal period from six-month periods that end on March 31 and September 30 each year to 12-month periods that

end on December 31 (aligned with the calendar year). As a result of the change, and to facilitate the transition, JHR's 13th fiscal period was the nine months from April 1, 2012 through December 31, 2012.

- (Note 2) Operating revenue does not include consumption tax, etc.
- (Note 3) Net income for the 13th fiscal period includes a gain on negative goodwill (¥18,578 million) from a merger, loss on sale of real estate properties (¥1,393 million) and impairment loss (¥958 million). Net income for the 14th fiscal period includes loss on sale of real estate properties (¥1,189 million) and impairment loss (¥516 million). Net income for the 16th fiscal period includes gain on sale of real estate properties (¥305 million).
- (Note 4)  $\text{Ratio of ordinary income to total assets} = \text{Ordinary income} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$
- (Note 5)  $\text{Return on unitholders' equity} = \text{Net income} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
- (Note 6)  $\text{Ratio of net assets to total assets} = \text{Net assets at end of period} / \text{Total assets at end of period} \times 100$
- (Note 7)  $\text{Payout ratio} = \text{Total dividends (excess of earnings exclusive)} / \text{Net income} \times 100$
- (Note 8)  $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$
- (Note 9)  $\text{FFO per unit} = (\text{Net income} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)}) / \text{Number of investment units issued and outstanding}$
- (Note 10) For the 13th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on negative goodwill (¥18,578 million), loss on sale of real estate properties (¥1,393 million) and impairment loss (¥958 million). For the 14th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding loss on sale of real estate properties (¥1,189 million) and impairment loss, etc. (¥516 million). For the 16th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥305 million).
- (Note 11)  $\text{FFO multiple} = \text{Investment unit price at end of period} / \text{Annualized FFO per unit}$
- (Note 12)  $\text{Debt service coverage ratio} = (\text{Net Income before income taxes} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)} + \text{Amortization of investment corporation bond issuance costs} + \text{Amortization of investment unit issuance expenses} \pm \text{Gain or loss on derivative instruments} + \text{Interest expense} + \text{Interest expense on investment corporation bonds}) / (\text{Interest expense} + \text{Interest expense on investment corporation bonds} + \text{Total of contracted principal repayments (excluding lump-sum principal repayments)})$
- (Note 13)  $\text{Ratio of interest-bearing debt to total assets} = \text{Interest-bearing debt at end of period} / \text{Total assets at end of period} \times 100$
- (Note 14) Number of tenants at end of period indicates the total number of tenants based on the lease contracts for respective real estate properties in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total number of the end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 15) Occupancy rate at end of period indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period.

## 2. Asset management operation for the fiscal period under review

### (1) Brief history and principal activities

Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) section of the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

JHR entrusts the asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves real estate wholly or partially used as hotels or real estate equivalents of such real estate, or which are backed by such real estate or real estate equivalents.

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”), merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”) and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger, JHR has carried out seven public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the

quality of its portfolio through new property acquisitions of 21 properties amounting to ¥177,349 million (on an acquisition price basis) in total in the nearly five years since the Merger. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 41 properties with a combined acquisition price of ¥286,801 million and the total number of investment units issued and outstanding stood at 3,761,907 units.

## **(2) Investment performance for fiscal period under review**

During the fiscal period under review, the Japanese economy saw improvement in corporate earnings come to a standstill due in part to a heightened sense of uncertainty over the perspective ahead, with such factors in Japan as the yen increasingly appreciated since the beginning of 2016 and the 2016 Kumamoto Earthquake occurring in April 2016 and such factors in overseas as slowdown in the Chinese and other emerging economies and the UK's decision to leave the EU. After the U.S. presidential election, however, the yen became weaker against the higher dollar and the U.S. economy remained strong. Bolstered by these developments and given the rising expectations for the economic outlook and other factors, the Japanese economy continued to show a moderate recovery trend, despite delay in improvement seen in some areas.

Amid such, the tourism market was in an environment in which, in addition to solid domestic leisure demand, the government promoted its policies aimed at making Japan a tourism nation. This and other factors led to the increase in the number of overseas (inbound) tourists visiting Japan, primarily from Asian countries, continuing strong. The number of inbound tourists, which surpassed 10 million for the first time in history in 2013, has since marked new record highs of 13.4 million (up 29.4% year-on-year) in 2014, 19.7 million (up 47.1% year-on-year) in 2015 and, although at a slower rate of increase than the previous year, 24.0 million (up 21.8% year-on-year) in 2016. Under such circumstances, the Japanese government set a goal to increase the number of foreign tourists visiting Japan to 40 million by 2020 and 60 million by 2030, and established and promoted measures for realization of a tourism nation. With such expectations for growth of Japan's tourism industry and hotel industry continuing, many of the hotels owned by JHR achieved strong operating performance, mainly in the rooms department, despite some impact of new hotel supply, and the investment market for hotels remained brisk.

In such an environment, in January 2016, JHR implemented capital increase through public offering, the sixth since the Merger, to complement a decrease in cash on hand, a decrease equivalent to the cash on hand used to fund the acquisition of ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) in December 2015 for an acquisition price of ¥17,320 million. JHR also used the proceeds from the public offering to newly acquire CANDEO HOTELS UENO-KOEN, located in the Ueno area in central Tokyo, for an acquisition price of ¥6,705 million.

In addition, in July 2016, JHR implemented a global offering, the first for JHR, to complement a decrease in cash on hand, a decrease equivalent to the cash on hand used to fund the acquisition of Hotel Centraza Hakata in April 2016 for an acquisition price of ¥7,197 million. JHR also used the proceeds from the global offering to acquire HOTEL VISTA GRANDE OSAKA (renamed to Holiday Inn Osaka Namba on November 1, 2016 upon completion of its rebranding; the same shall apply hereinafter) for an acquisition price of ¥27,000 million, Hilton Nagoya for an acquisition price of ¥15,250 million and HOTEL ASCENT FUKUOKA for an acquisition price of ¥4,925 million (with a combined acquisition price of ¥47,175 million for the three properties).

JHR has been pursuing expansion of asset size through continuous property acquisitions by leveraging such strengths as high recognition as Japan's largest REIT specializing in hotel properties and ability to propose diverse acquisition schemes and execute transactions. In terms of portfolio, too, JHR has been striving to improve the quality of its portfolio through such measures as making international brands, which have a competitive advantage in attracting high-paying inbound tourists, account for a greater share of the portfolio and further diversifying the portfolio by geographical area.

JHR has been implementing active asset management, which is the aggressive and proactive pursuit to improve profitability and asset value of its owned hotels. JHR conducted active asset management, such as measures to improve ADR (average daily rate) through investing in guest room renovations and other strategic renovations, change of operators to those best suited to the hotel characteristics or rebranding, change of the rent structure or upward revision of rents aimed at capturing upside potential. This led to an increase in variable rents including revenue sharing and income from management contracts through the enhancement of performance and other achievements of the hotels JHR owns.

In terms of operations of the five hotels (hereinafter referred to as the "five HMJ hotels") (Note 1) which JHR

leases to Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) under variable rent contracts, and hotels which JHR leases to the HMJ Group companies under variable rent contracts, namely, Okinawa Marriott Resort & Spa, ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel), Hotel Centraza Hakata and Holiday Inn Osaka Namba, many of these hotels have produced a year-on-year increase both in sales and GOP (gross operating profit), led by the rooms department, during the fiscal period under review. The rooms department worked to achieve greater earnings with increase in ADR to drive growth. For further details of sales, GOP and other management indicators for the HMJ Group hotels (Note 1), please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2016” and “<Reference 2><1> Sales and GOP of HMJ group hotels” in 7. Reference information.

Moreover, inbound and domestic leisure demand were successfully attracted by the six hotels (Note 2) for which AAPC Japan K.K. (hereinafter referred to as “Accor”), a Japanese subsidiary of Accor Hotels headquartered in Paris, France, serves as the operator (hereinafter referred to as the “six Accor hotels”). Many of these hotels posted a year-on-year increase both in sales and GOP, mainly led by an increase in ADR. For further details of sales, GOP and other management indicators for the six Accor hotels, please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2016” and “<Reference 2><2> Sales and GOP of the six Accor hotels” in 7. Reference information.

Furthermore, efforts were made to attract inbound tourists at the six *the b* hotels (Note 3), which are leased to the subsidiaries of the Ishin Hotels Group with a variable rent structure, and consequently a year-on-year increase was achieved both in sales and GOP in the case of the five *the b* hotels for which year-on-year comparisons can be made. For further details of sales, GOP and other management indicators for the six *the b* hotels, please refer to “<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2016” and “<Reference 2><3> Sales and GOP of the six *the b* hotels” in 7. Reference information.

On top of increasing revenue through an increase in rents under variable rent structures etc., JHR has also been striving to reduce costs in terms of real estate operating costs, general and administrative expenses and borrowing costs through persistent talks with relevant parties and other measures. Furthermore, JHR recorded ¥95 million in repair expenses related to the 2016 Kumamoto Earthquake as extraordinary losses in the fiscal period under review.

(Note 1) The five HMJ hotels represent the five hotels, namely, Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima. The HMJ Group hotels represent the nine hotels comprising the five HMJ hotels plus Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel, which is the major facility of ACTIVE-INTER CITY HIROSHIMA, Hotel Centraza Hakata and Holiday Inn Osaka Namba. The same shall apply hereinafter.

(Note 2) Represents the six hotels, namely, ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha and Mercure Yokosuka. The same shall apply hereinafter.

(Note 3) Represents the six hotels, namely, the five hotels comprising the *b* akasaka-mitsuke, the *b* ikebukuro, the *b* ochanomizu, the *b* hachioji and the *b* hakata (hereinafter referred to as “the five *the b* hotels”) plus the *b* suidobashi. The same shall apply hereinafter.

### (3) Funding conditions

JHR procured a total of ¥14,618 million by way of capital increase through public offering in January 2016 and capital increase through third-party allotment in February 2016, as well as ¥2,000 million in long-term loans, to complement a decrease in cash on hand, which is a decrease equivalent to the cash on hand used to fund the acquisition of ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) in December 2015, and to acquire CANDEO HOTELS UENO-KOEN. In addition, between February and March 2016, JHR refinanced ¥11,214 million in existing long-term loans (with a partial reduction of ¥114 million), and also refinanced ¥9,000 million in existing short-term loans into long-term debt by procuring ¥6,000 million in long-term loans and ¥3,000 million in investment corporation bonds.

Moreover, after using ¥7,000 million in short-term loans and cash on hand to acquire Hotel Centraza Hakata in April 2016, JHR procured a total of ¥34,740 million by way of capital increase through public offering in July 2016 and capital increase through third-party allotment in August 2016, as well as ¥14,000 million in long-term loans. JHR used the funds to complement a decrease in cash on hand, a decrease equivalent to the cash on hand used to fund the acquisition of Hotel Centraza Hakata, and to acquire Holiday Inn Osaka Namba, Hilton Nagoya and HOTEL ASCENT FUKUOKA.

In November 2016, JHR issued investment corporation bonds totaling ¥10,100 million to complement a decrease in cash on hand, which is a decrease equivalent to the cash on hand used to redeem investment

corporation bonds totaling ¥2,500 million due for redemption, and to fund the early prepayment of ¥7,000 million in existing short-term loans and new acquisition of real estate properties in the future. In addition, in order to fund the repair expenses for Dormy Inn Kumamoto that had suffered damage from the 2016 Kumamoto Earthquake, JHR procured ¥100 million from The Higo Bank, Ltd., which is a bank in the Kumamoto area and is a new lender for JHR, in December 2016.

Consequently, as of the end of the fiscal period under review, interest-bearing debt totaled ¥126,179 million, including short-term loans payable of ¥1,800 million, current portion of long-term loans payable of ¥9,679 million, long-term loans payable of ¥92,099 million and investment corporation bonds of ¥22,600 million, and the ratio of interest-bearing debt to total assets at end of the fiscal period (Note 4) stood at 39.7%.

Through refinancing and newly procuring funds, JHR advanced its efforts to lower funding costs and extend and spread out maturity dates, among other endeavors, while working to further diversify funding methods. Concurrently, JHR concluded interest rate swap contracts to fix the interest on ¥34,400 million in total on loans in March, July and August 2016 in order to benefit from the current interest rate environment and to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio (including the interest rate cap purchase portion) on JHR's total interest-bearing debt at the end of the fiscal period under review to around 98%.

(Note 4) Ratio of interest-bearing debt to total assets at end of period = Balance of interest-bearing debt at end of period / Total assets at end of period x 100

As of December 31, 2016, JHR's issuer ratings were as follows.

Rating and Investment Information, Inc. (hereinafter referred to as "R&I") changed JHR's issuer rating from "A- (Positive)" to "A (Stable)" on October 5, 2016, and Japan Credit Rating Agency, Ltd. (hereinafter referred to as "JCR") also changed JHR's long-term issuer rating from "A (Positive)" to "A+ (Stable)" on October 17, 2016.

Rating agency	Rating	Outlook
R&I	A	Stable
JCR	A+	Stable

#### (4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥22,107 million, ¥13,885 million and ¥12,220 million, respectively, for the fiscal period under review (12-month period from January 1 to December 31, 2016). Net income was ¥12,123 million.

With regard to dividends, it was decided that ¥12,866 million, which was calculated by adding a reversal of dividend reserve (appropriation for dividends) of ¥740 million to unappropriated retained earnings of ¥12,126 million, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥3,420.

For details of the appropriation for dividends for the fiscal period under review, please refer to "<Reference 3> Dividend per unit and appropriation for dividends" in 7. Reference information.

### 3. Changes in unitholders' capital, etc.

The table below indicates increases (decreases) in the number of investment units issued and outstanding and unitholders' capital of JHR in the past five years.

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (JPY1M)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
April 1, 2012	Investment unit split	638,341	696,372	—	23,161	(Note 1)
April 1, 2012	Merger	1,162,909	1,859,281	—	23,161	(Note 2)
September 12, 2012	Capital increase through public offering of investment units	240,000	2,099,281	4,855	28,017	(Note 3)



October 11, 2012	Capital increase through third-party allotment of investment units	12,000	2,111,281	242	28,260	(Note 4)
April 17, 2013	Capital increase through public offering of investment units	510,000	2,621,281	20,585	48,845	(Note 5)
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 6)
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 7)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 8)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 9)
July 23 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 10)
January 20 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 11)
February 17 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 12)
July 27 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 13)
August 23 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 14)

(Note 1) JHR conducted a 12-for-1 split of investment units.

(Note 2) JHR (the former NHF) merged with the former JHR. The merger was an absorption-type merger pursuant to Article 147 of the Investment Trusts Act where JHR is the surviving corporation and the former JHR is the absorbed corporation. Following this merger, 11 investment units of JHR after the split of investment units were delivered by allotment for each investment unit of the former JHR.

(Note 3) New investment units were issued through public offering with an issue price per unit of ¥20,990 (issue value of ¥20,232) in order to raise funds for the acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥20,232 in order to repay loans payable, etc.

(Note 5) New investment units were issued through public offering with an issue price per unit of ¥41,778 (issue value of ¥40,363) in order to raise funds for the acquisition of new properties, etc.

(Note 6) New investment units were issued through public offering with an issue price per unit of ¥61,912 (issue value of ¥59,880) in order to raise funds for the acquisition of new properties, etc.

(Note 7) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to raise funds for the acquisition of new properties, etc.

(Note 8) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 9) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to raise funds for the acquisition of new properties, etc.

(Note 10) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 11) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to raise funds for the acquisition of new properties, etc.

(Note 12) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to raise funds for the acquisition of new properties, etc.

(Note 13) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to raise funds for the acquisition of new properties, etc.

(Note 14) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

[Fluctuation in market price of investment units]

The highest and lowest prices (closing price) during each fiscal period of the investment units of JHR on the Tokyo Stock Exchange REIT section are as follows:

(yen)

Fiscal period Account closing month	13th period December 2012	14th period December 2013	15th period December 2014	16th period December 2015	17th period December 2016
Highest price	25,110	51,500	82,400	93,800	103,400
Lowest price	17,830	23,670	45,350	70,600	70,900
Price at end of period	23,880	50,400	77,000	89,500	78,600

#### 4. Dividends, etc.

Earnings dividend for the period under the review was decided in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation to exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. And ¥12,866 million, which was calculated by adding a reversal of dividend reserve (appropriation for dividends) of ¥740 million to unappropriated retained earnings of ¥12,126 million as of end of the fiscal period under the review, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥3,420.

(yen)

Classification	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)
Unappropriated retained earnings	19,031,977,302	3,235,030,032	5,776,116,820	9,296,121,922	12,126,057,948
Reversal of dividend reserve	—	1,848,870,143	240,538,162	60,847,707	740,075,040
Retained earnings	1,695,047	1,236,316	1,444,427	2,894,304	411,048
Total cash dividends [Dividend per unit]	3,012,797,987 [1,427]	5,082,663,859 [1,939]	6,015,210,555 [2,155]	9,354,075,325 [2,975]	12,865,721,940 [3,420]
Of the above, total earnings dividends [Earnings dividend per unit]	3,012,797,987 [1,427]	5,082,663,859 [1,939]	6,015,210,555 [2,155]	9,354,075,325 [2,975]	12,865,721,940 [3,420]
Of the above, total return of capital contributions [Return of capital contributions per unit]	— [—]	— [—]	— [—]	— [—]	— [—]
Of total return of capital contributions, total distributions from allowance for temporary difference adjustment [Of return of capital contributions per unit, distributions from allowance for temporary difference adjustment per unit]	— [—]	— [—]	— [—]	— [—]	— [—]
Of total return of capital contributions, total distributions from the unitholders' capital for tax purpose [Of return of capital contribution per unit, distributions from the unitholders' capital for tax purpose per unit]	— [—]	— [—]	— [—]	— [—]	— [—]

## 5. Investment policies and issues to be addressed

### General investment outlook

In 2017, the Japanese economy is expected to be on a moderate recovery, due in part to the effects of various government policies, while the employment and income environment continues to improve. However, with many uncertainties over policy management under the new U.S. president, the French presidential election, etc., attention must be paid to the unpredictability in overseas economies and the effects of fluctuations in the financial and capital markets. As for the environment surrounding the tourism industry, it is expected that JHR will benefit from a further increase in the number of domestic tourists and inbound tourists, thanks to increase in personal income buoyed by economic growth in the Asian region, visa waivers and relaxation of visa issuance requirements, increase in international flight arrival and departure slots and other infrastructure developments, among other factors, in addition to steady domestic leisure demand. On the other hand, a close watch must be kept on the brisk investment market for hotels, increase in supply from new development of hotels following trends of increase in inbound tourists, the state of *minpaku* (rentals of private homes as accommodation for a fee) and other future supply-demand balance. Under such circumstances, JHR intends to manage assets based on the approach described below aiming to make investing in JHR more appealing.

### Internal growth

JHR will work to boost sales and GOP of hotels operated under variable rent contracts, which are the HMJ Group hotels and the six *the b* hotels, as well as of the six Accor hotels that are mainly operated under a management contract structure, with an aim to maximize variable rents and income from management contracts receivable by JHR. To achieve this goal, JHR will focus efforts on seeking the cooperation of relevant parties in shifting from competition based on price to competition based on value in an aim to differentiate itself in the market, in terms of both facilities and services, through active asset management. This will include requesting lessees, operations support companies and operators of respective hotels to implement marketing initiatives to attract a wider range of demand, measures to maintain and increase room rates, etc., and implementing strategic capital expenditures.

For hotels with fixed rent only contracts, JHR will increase its efforts to monitor operating conditions and, by paying careful attention to each tenant's ability to bear the rent costs, conduct negotiations with the hotels at which the ability to bear rent costs has been enhanced through better performances so that the improvement in hotel earnings would lead to an increase in JHR's earnings, such as revising rents upward and introducing revenue sharing structure.

In addition, JHR will carry out an ongoing program of facility maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

### External growth

In terms of external growth strategy, JHR will keep its focus on acquiring highly-competitive hotels in areas where attracting "domestic and inbound leisure demand" can be expected over the medium to long term, as JHR has done to date. While setting the entire range of limited-service hotels, full-service hotels and resort hotels as its investment targets, JHR will work to acquire properties with competitive advantages in terms of both buildings, facilities, etc. (infrastructure) and the capabilities of the hotel lessee and operator (services), investigating on a property-by-property basis.

In the investment market for hotels, competition over acquisition will likely become increasingly fierce due to the listing of new REITs specializing in hotels and other factors. JHR intends to leverage its first-mover advantages to acquire properties while differentiating itself from the others, so that it can solidify its position in the industry.

Specifically, JHR will utilize its pipelines as a major player in the investment market for hotels, its ability to collect information on operations of hotels in general, its ability to make proposal and implement a variety of rent structures including the management contract structure, collaboration with HMJ and excellent networks with major hotel operators. Building on these and other strengths, JHR will acquire properties while maintaining its superiority in the investment market for hotels.

### Finance strategy

JHR implements conservative financial strategy for its operation as its basic policy. JHR maintains and enhances the relationships of trust with financial institutions with which it does business, works to further diversify the

means of financing, and puts importance on ensuring its financial stability and strength to meet such policy. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50%, as it has done to date. In addition, when seeking new funding for property acquisitions or refinancing existing debt, JHR will endeavor to reinforce its formation of lenders and further diversify funding methods while placing a balanced emphasis on further spreading out the maturity dates of its debt as well as on borrowing costs. Moreover, while discerning the conditions of the interest rate market, JHR aims to further improve its financial foundation by extending maturity dates and conducting interest rate risk management such as fixing of rates.

### **Policy on handling of negative goodwill**

Starting from the fiscal year ending December 31, 2017 (18th period), JHR will commence paying out dividends through reversal of dividend reserve (classified as reserve for temporary difference adjustment for the 18th period and thereafter) in association with partial amendments to the “Ordinance on Accountings of Investment Corporations” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan.

Specifically, JHR will transfer the remaining balance of dividend reserve (¥13,127 million) attributable to the gain on negative goodwill in the cash dividends statements for the fiscal year ended December 31, 2016 (17th period) to “reserve for temporary difference adjustment,” and reverse ¥262 million (hereinafter called “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the remaining balance of the dividend reserve, to pay out as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year from the fiscal year ending December 31, 2017 (18th period).

In addition, in cases of incurrence of losses caused by property dispositions, impairment loss of assets or on retirement of noncurrent assets, etc. and in case of dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., JHR plans to pay extra amount in addition to the 50-year amortization amount of negative goodwill (¥262 million) and reverse the reserve.

As for amortizations, etc. of fixed-term leasehold of land and asset retirement obligations (Note 2) of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA, which have been subject to the previous “Policy on handling of negative goodwill,” JHR plans to include the amortizations, etc. in the 50-year amortization amount of negative goodwill instead of adding them to the 50-year amortization amount of negative goodwill to reverse the reserve.

In response to the above-mentioned new policy, the amount to be added to dividends by reversing negative goodwill from the fiscal year ending December 31, 2017 (18th period) is planned to be 50-year amortization amount of negative goodwill (¥262 million) or more, with the maximum amount set at the remaining balance of the reserve for temporary difference adjustment.

As for the fiscal year ending December 31, 2017 (18th period), JHR expects ¥332 million, which is the 50-year amortization amount (¥262 million) of negative goodwill plus loss on retirement of noncurrent assets (¥70 million) as additional amounts to dividends by reversing the reserve.

(Note 1) The policy may change due to a resolution of the board of directors, and it does not guarantee the method of reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.

(Note 2) The amount of amortizations, etc. for the fixed-term leasehold of land and asset retirement obligations of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA acquired in the fiscal year ended December 31, 2016 (17th period) is planned to be ¥152 million for the fiscal year ending December 31, 2017 (18th period).

## **6. Significant subsequent events**

Not applicable

## **7. Reference information**

### **<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2016**

The following tables indicate the figures related to the hotel business of the HMJ group hotels, the six Accor hotels and the six *the b* hotels for the operating period from January 1, 2016 through December 31, 2016, based on the data provided by the hotel lessees, etc. Furthermore, while the indicators of the hotels are among the indicators that show the operating status of the rooms departments, they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the daily rates of the respective rooms available for sale and profit margins, etc. are not uniform,

among other reasons. As such, the indicators are no more than the reference figures.

(a) The HMJ group hotels

(millions of yen)

	Kobe Meriken Park Oriental Hotel		Oriental Hotel Tokyo bay		Namba Oriental Hotel		Hotel Nikko Alivila		Oriental Hotel Hiroshima		The five HMJ hotels Total/Average	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	79.1%	—	96.8%	—	94.1%	—	85.3%	—	81.5%	—	88.4%	—
ADR (Note 1)	17,691	—	20,449	—	19,918	—	27,513	—	9,599	—	20,153	—
RevPAR (Note 2)	13,987	—	19,799	—	18,736	—	23,471	—	7,826	—	17,807	—
Total sales	5,361	100.0%	7,271	100.0%	2,877	100.0%	6,155	100.0%	2,240	100.0%	23,905	100.0%
Rooms department	1,799	33.6%	4,018	55.3%	1,949	67.7%	3,750	60.9%	715	31.9%	12,231	51.2%
Food & beverage department	3,260	60.8%	2,785	38.3%	137	4.8%	1,903	30.9%	1,461	65.2%	9,548	39.9%
Tenant department	60	1.1%	245	3.4%	752	26.1%	2	0.0%	22	1.0%	1,081	4.5%
Other departments (Note 3)	242	4.5%	223	3.1%	39	1.4%	499	8.1%	41	1.8%	1,045	4.4%
GOP	1,131	21.1%	2,161	29.7%	1,746	60.7%	2,173	35.3%	381	17.0%	7,591	31.8%

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel		Hotel Centraza Hakata		Holiday Inn Osaka Namba		The HMJ group hotels Total/Average	
		Ratio to total sales	(Note 4)	Ratio to total sales	(Note 5)	Ratio to total sales	(Note 6)	Ratio to total sales	(Note 7)	Ratio to total sales
Occupancy rate	85.6%	—	85.2%	—	90.6%	—	95.7%	—	88.7%	—
ADR (Note 1)	19,708	—	17,237	—	10,164	—	19,711	—	19,103	—
RevPAR (Note 2)	16,875	—	14,690	—	9,212	—	18,856	—	16,947	—
Total sales	3,933	100.0%	2,996	100.0%	2,421	100.0%	2,206	100.0%	35,461	100.0%
Rooms department	2,459	62.5%	1,413	47.2%	721	29.8%	2,170	98.3%	18,993	53.6%
Food & beverage department	1,059	26.9%	1,503	50.2%	1,447	59.8%	—	—	13,558	38.2%
Tenant department	60	1.5%	—	—	232	9.6%	28	1.3%	1,401	4.0%
Other departments (Note 3)	355	9.0%	80	2.7%	21	0.9%	9	0.4%	1,509	4.3%
GOP	1,274	32.4%	845	28.2%	825	34.1%	1,474	66.8%	12,010	33.9%

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms sold during the period. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms available for sale during the period. Revenue per available room equals the product of ADR and occupancy rate. The same shall apply hereinafter.

(Note 3) Figures for the Other departments include sales of the Product sales department.

(Note 4) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 5) For Hotel Centraza Hakata, which JHR acquired on April 1, 2016, the annual figures are for throughout the year including those prior to the acquisition.

(Note 6) For Holiday Inn Osaka Namba, which JHR acquired on August 1, 2016, the annual figures are for throughout the year including those prior to the acquisition.

(Note 7) For Total/Average of the HMJ group hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel operators or hotel lessees.

(Note 8) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales

and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place. The same shall apply hereinafter.

(b) The six Accor hotels

(millions of yen)

	ibis Tokyo Shinjuku		ibis Styles Kyoto Station		ibis Styles Sapporo		Mercure Sapporo		Mercure Okinawa Naha		Mercure Yokosuka		Total/Average (Note)	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	80.2%	—	97.0%	—	89.3%	—	85.1%	—	83.6%	—	87.1%	—	87.0%	—
ADR	12,431	—	11,473	—	9,858	—	11,830	—	11,083	—	12,071	—	11,344	—
RevPAR	9,973	—	11,124	—	8,805	—	10,069	—	9,268	—	10,509	—	9,868	—
Total sales	832	100.0%	977	100.0%	1,122	100.0%	1,254	100.0%	1,049	100.0%	1,071	100.0%	6,306	100.0%
Rooms department	752	90.3%	875	89.6%	896	79.8%	1,050	83.8%	882	84.1%	615	57.5%	5,070	80.4%
Food & beverage department	66	7.9%	96	9.8%	201	17.9%	192	15.3%	140	13.4%	436	40.7%	1,131	17.9%
Other departments	15	1.8%	6	0.6%	25	2.3%	12	0.9%	27	2.6%	20	1.9%	105	1.7%
GOP	445	53.5%	541	55.4%	571	50.9%	562	44.9%	475	45.3%	290	27.1%	2,885	45.8%

(Note) For Total/Average, figures are calculated by JHR as reference since no figures have been provided by the hotel operators or hotel lessees.

(c) The six *the b* hotels

(millions of yen)

	the b suidobashi		the b akasaka -mitsuke		the b ikebukuro		the b ochanomizu		the b hachioji		the b hakata		Total/Average (Note)	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total Sales		Ratio to total sales		Ratio to total sales
Occupancy rate	85.4%	—	86.9%	—	88.6%	—	90.7%	—	87.9%	—	93.8%	—	89.1%	—
ADR	11,290	—	11,965	—	11,086	—	11,075	—	7,362	—	7,898	—	9,674	—
RevPAR	9,646	—	10,403	—	9,825	—	10,044	—	6,472	—	7,409	—	8,619	—
Total sales	351	100.0%	468	100.0%	635	100.0%	266	100.0%	564	100.0%	478	100.0%	2,763	100.0%
Rooms department	350	99.5%	465	99.2%	629	99.1%	265	99.5%	464	82.3%	475	99.2%	2,647	95.8%
Food & beverage department	—	—	—	—	—	—	—	—	96	17.0%	—	—	96	3.5%
Other departments	2	0.5%	4	0.8%	6	0.9%	1	0.5%	4	0.7%	4	0.8%	20	0.7%
GOP	175	49.7%	273	58.4%	343	54.0%	126	47.3%	208	36.8%	245	51.3%	1,370	49.6%

(Note) For Total/Average, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees.

<Reference 2>

Of the hotels that have adopted variable rent, the following presents sales and GOP of the HMJ Group Hotels, the six Accor hotels and the six *the b* hotels. The numerical figures are based on figures obtained from hotel lessees, etc. Please note that these numbers have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the numbers and information. Sales and GOP are rounded off to the nearest millions of yen. Comparison with the previous period is rounded off to one decimal place.

<1> Sales and GOP of the HMJ group hotels

# (1) Sales by hotel

(millions of yen)

Sales of the HMJ group hotels		Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Kobe Meriken Park Oriental Hotel	First half	2,424	(0.0)%	2,465	1.7%
	Second half	2,828	1.1%	2,896	2.4%
	Full year	5,252	0.6%	5,361	2.1%
Oriental Hotel tokyo bay	First half	3,395	0.9%	3,454	1.7%
	Second half	3,927	2.2%	3,817	(2.8)%
	Full year	7,322	1.6%	7,271	(0.7)%
Namba Oriental Hotel	First half	1,189	19.1%	1,386	16.6%
	Second half	1,341	16.6%	1,491	11.1%
	Full year	2,530	17.8%	2,877	13.7%
Hotel Nikko Alivila	First half	2,377	8.6%	2,421	1.8%
	Second half	3,571	8.2%	3,734	4.6%
	Full year	5,948	8.3%	6,155	3.5%
Oriental Hotel Hiroshima	First half	991	(5.2)%	1,025	3.4%
	Second half	1,142	(3.0)%	1,216	6.4%
	Full year	2,134	(4.0)%	2,240	5.0%
Total for the five HMJ hotels	First half	10,376	3.5%	10,751	3.6%
	Second half	12,810	4.4%	13,154	2.7%
	Full year	23,186	4.0%	23,905	3.1%
Okinawa Marriott Resort & Spa	First half	1,614	0.9%	1,607	(0.4)%
	Second half	2,402	8.7%	2,326	(3.2)%
	Full year	4,016	5.4%	3,933	(2.1)%
Sheraton Grand Hiroshima Hotel	First half	1,346	(1.0)%	1,369	1.7%
	Second half	1,502	(0.6)%	1,627	8.3%
	Full year	2,847	(0.8)%	2,996	5.2%
Hotel Centraza Hakata	First half	1,124	2.0%	1,155	2.8%
	Second half	1,205	6.6%	1,265	5.0%
	Full year	2,330	4.4%	2,421	3.9%
Holiday Inn Osaka Namba	First half	832	47.9%	1,104	32.7%
	Second half	1,133	57.6%	1,103	(2.7)%
	Full year	1,965	53.4%	2,206	12.3%
Total for HMJ group hotels	First half	15,291	4.4%	15,985	4.5%
	Second half	19,053	6.8%	19,476	2.2%
	Full year	34,343	5.7%	35,461	3.3%

(Note 1) Although Okinawa Marriott Resort & Spa was acquired on July 10, 2015 and ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) was acquired on December 18, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

(Note 2) Hotel Centraza Hakata was acquired on April 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including the period prior to the acquisition.

(Note 3) Holiday Inn Osaka Namba was acquired on August 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including the period prior to the acquisition.

(Note 4) Renovation of Holiday Inn Osaka Namba was completed by the previous owner in March 2014 and the number of guest rooms increased from 304 to 314. Therefore, the numbers of guest rooms available for sale in the first half or full year of 2015 and the first half or full year of 2014 are different.

## (2) Hotel GOP

(millions of yen)

GOP and ratio of GOP (Note 1) of the HMJ group hotels		Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Total for HMJ group hotels	GOP	10,912	15.2%	12,010	10.1%
	Ratio of GOP	31.8%	2.6%	33.9%	2.1%

(Note 1) Ratio of GOP refers to the ratio of GOP to sales. The same shall apply hereinafter.

(Note 2) Although Okinawa Marriott Resort & Spa was acquired on July 10, 2015 and ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) was acquired on December 18, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

(Note 3) Although Hotel Centraza Hakata was acquired on April 1, 2016 and Holiday Inn Osaka Namba was acquired on August 1, 2016, the figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including the period prior to the acquisition.

## <2> Sales and GOP of the six Accor hotels

### (1) Sales by hotel

(millions of yen)

Sales of the six Accor hotels		Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
		Actual	Comparison with previous period	Actual	Comparison with previous period
ibis Tokyo Shinjuku	First half	453	6.1%	406	(10.3)%
	Second half	421	(5.5)%	426	1.3%
	Full year	873	0.2%	832	(4.7)%
ibis Styles Kyoto Station	First half	357	17.1%	464	30.0%
	Second half	457	18.8%	513	12.3%
	Full year	814	18.0%	977	20.1%
ibis Styles Sapporo	First half	429	7.9%	490	14.3%
	Second half	591	13.1%	633	7.1%
	Full year	1,019	10.9%	1,122	10.1%
Mercure Sapporo	First half	499	17.5%	546	9.3%
	Second half	672	17.4%	708	5.3%
	Full year	1,172	17.4%	1,254	7.0%
Mercure Okinawa Naha	First half	407	12.1%	489	20.2%
	Second half	516	24.5%	560	8.6%
	Full year	923	18.7%	1,049	13.7%
Mercure Yokosuka	First half	550	1.0%	569	3.5%
	Second half	512	4.3%	502	(2.0)%
	Full year	1,062	2.6%	1,071	0.8%
Total	First half	2,696	9.5%	2,965	10.0%
	Second half	3,168	12.0%	3,341	5.5%
	Full year	5,863	10.8%	6,306	7.6%

(Note) Although Mercure Yokosuka was acquired on April 2, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

## (2) Hotel GOP

(millions of yen)

GOP and ratio of GOP of the six Accor hotels		Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
		Actual	Comparison with previous period	Actual	Comparison with previous period



Total for six Accor hotels	2,512	21.0%	2,885	14.9%
Ratio of GOP	42.8%	3.6%	45.8%	2.9%

(Note) Although Mercure Yokosuka was acquired on April 2, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

### <3> Sales and GOP of the six *the b* hotels

#### (1) Sales by hotel

(millions of yen)

Sales of the six <i>the b</i> hotels		Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
		Actual	Comparison with previous period	Actual	Comparison with previous period
the b akasaka-mitsuke	First half	221	69.4%	242	9.4%
	Second half	242	13.8%	226	(6.7)%
	Full year	464	35.0%	468	1.0%
the b ikebukuro	First half	301	7.7%	323	7.3%
	Second half	324	14.5%	312	(3.7)%
	Full year	625	11.1%	635	1.6%
the b ochanomizu	First half	132	9.0%	131	(0.8)%
	Second half	130	4.8%	135	3.5%
	Full year	262	6.9%	266	1.3%
the b hachioji	First half	267	10.4%	291	9.0%
	Second half	291	13.8%	273	(6.1)%
	Full year	558	12.2%	564	1.1%
the b hakata	First half	191	10.9%	230	20.6%
	Second half	215	12.8%	249	15.5%
	Full year	406	11.9%	478	17.9%
Total for five <i>the b</i> hotels	First half	1,111	17.7%	1,216	9.4%
	Second half	1,203	12.8%	1,195	(0.7)%
	Full year	2,315	15.1%	2,412	4.2%
the b suidobashi	First half	—	—	177	—
	Second half	—	—	174	—
	Full year	—	—	351	—
Total for six <i>the b</i> hotels	First half	—	—	1,394	—
	Second half	—	—	1,369	—
	Full year	—	—	2,763	—

(Note 1) Although the five *the b* hotels were acquired on January 30, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

(Note 2) Renovation of the b akasaka-mitsuke was completed by the previous owner in April 2014 and the number of guest rooms increased from 91 to 122. Therefore, the numbers of guest rooms available for sale in the first half or full year of 2015 and the first half or full year of 2014 are different.

(Note 3) The b suidobashi was rebranded from Dormy Inn Suidobashi on July 1, 2015. Therefore, no figures are indicated for the fiscal year ended December 2015 and comparison with previous period for the fiscal year ended December 2016.

#### (2) Hotel GOP

(millions of yen)

GOP and ratio of GOP of the five <i>the b</i> hotels	Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
	Actual	Comparison with previous period	Actual	Comparison with previous period
Total for the five <i>the b</i> hotels	1,079	26.4%	1,195	10.8%
Ratio of GOP	46.6%	4.2%	49.6%	3.0%

GOP and ratio of GOP of the six <i>the b</i> hotels	Fiscal year ended Dec. 31, 2015		Fiscal year ended Dec. 31, 2016	
	Actual	Comparison with previous period	Actual	Comparison with previous period
Total for the six <i>the b</i> hotels	—	—	1,370	—
Ratio of GOP	—	—	49.6%	—

(Note 1) Although the five *the b* hotels were acquired on January 30, 2015, the figures for the fiscal year ended December 2015 are for the entire year including the period prior to the acquisition.

(Note 2) The *b* *suidobashi* was rebranded from Dormy Inn *Suidobashi* on July 1, 2015. Therefore, no figures are indicated for the fiscal year ended December 2015 and comparison with previous period for the fiscal year ended December 2016.

### <Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal year ended December 31, 2015 and December 31, 2016 was calculated based on the assumptions described below.

(millions of yen)		
	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Unappropriated retained earnings	9,296	12,126
Total appropriation for dividends (use of negative goodwill)	60	740
Loss on retirement of noncurrent assets	25	16
Financial costs in accordance with early repayment	35	-
Amortization, etc. of fixed-term leasehold of land and asset retirement obligations (Note 1)	-	112
Adjustment for dilution (Note 2)	-	611
Total dividends	9,354	12,865
Number of investment units issued and outstanding (Units)	3,144,227	3,761,907
Dividend per unit (JPY)	2,975	3,420

(Note 1) Dividend reserve (negative goodwill) will be appropriated for the amount recorded as amortizations, etc. for the fixed-term leasehold of land and asset retirement obligations of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA.

(Note 2) This is to respond to the dilution of dividend per unit which occurred as a result of the issuance of new investment units during the fiscal year ended December 31, 2016.

### <Reference 4> Balance of dividend reserve (negative goodwill)

The balance of dividend reserve (negative goodwill) after appropriation for dividends for the fiscal year ended December 2016 is as follows. JHR will transfer the remaining balance of dividend reserve after appropriation for dividends (¥13,127 million) for the year ended December 2016 to “reserve for temporary difference adjustment.”

(millions of yen)	
Balance of dividend reserve as of December 31, 2015	13,928
Appropriation for dividends for the fiscal year ended December 31, 2015	(60)
Balance of dividend reserve after appropriation for dividends as of December 31, 2015	13,867
Appropriation for dividends for the fiscal year ended December 31, 2016	(740)
Balance of dividend reserve after appropriation for dividends as of December 31, 2016	13,127

## Overview of JHR

### 1. Unitholders' capital

Account closing date	13th period As of December 31, 2012	14th period As of December 31, 2013	15th period As of December 31, 2014	16th period As of December 31, 2015	17th period As of December 31, 2016
Total number of authorized units (Units)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Number of investment units issued and outstanding (Units)	2,111,281	2,621,281	2,791,281	3,144,227	3,761,907
Unitholders' capital (JPY1M)	28,260	48,845	59,024	85,470	134,829
Number of unitholders (Persons)	13,630	17,073	22,866	25,182	31,371

## 2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2016 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	626,276	16.64%
The Master Trust Bank of Japan, Ltd. (Trust Account)	398,094	10.58%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	328,425	8.73%
Nomura Bank (Luxembourg) S.A.	165,981	4.41%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	145,006	3.85%
The Bank of New York, Non-Treaty JASDEC Account	65,440	1.73%
Shikoku Railway Company	58,311	1.55%
STATE STREET BANK AND TRUST COMPANY 505012	57,881	1.53%
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	54,701	1.45%
STATE STREET BANK AND TRUST COMPANY	54,685	1.45%
Total	1,954,800	51.96%

(Note) The percentage indicates the ratio of the number of units held to the number of units issued and outstanding, rounded down to the two decimal places.

## 3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2016 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (JPY1000)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	5,400
Supervisory Director	Hiroshi Matsuzawa (Note 1)	—	3,000
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,000
Supervisory Director	Hiroto Kashii (Note1)	—	3,000
Independent auditor	KPMG AZSA LLC (Note 2)	—	50,400

(Note 1) None of the Executive Director and the Supervisory Directors own investment units of JHR in their own name or another person's name. Moreover, although the Supervisory Directors may be officers in corporations other than those listed above, there are no conflicts of interest between those corporations including those listed above and JHR.

(Note 2) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥27,100 thousand, such as preparation of comfort letters and research reports based on agreed-upon procedures performed for the capital increase through the public offerings on January 20, 2016 and July 27, 2016, respectively, and the issuance of investment corporation bonds on March 22, 2016 and November 29, 2016, respectively.

(Note 3) In case the number of Executive Director does not meet the requirement stipulated by laws and regulations, Hisashi Furukawa, Representative Director of the Asset Management Company, was elected as Substitute Executive Director, based on the resolution made by the 7th General Meeting of Unitholders of JHR held on November 26, 2015.

(2) Policy for decisions on dismissal or non-reappointment of independent auditor

We have a policy to determine, at a General Meeting of Unitholders, whether to dismiss the independent auditor pursuant to provisions of the Investment Trusts Act, and to determine whether or not to reappoint the independent auditor taking into comprehensive consideration the audit quality, audit fees and other various matters.

#### 4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2016 were as follows:

Consignment classification	Name
Asset management company	Japan Hotel REIT Advisors Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration of the unitholders' registry, book keeping, tax payments, organizational operations, etc., and administration of the special account management agency)	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration regarding investment corporation bonds)	Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited Mizuho Bank, Ltd. Resona Bank, Limited Mitsubishi UFJ Trust and Banking Corporation
General administrator (tax return preparation, etc.)	PwC Tax Japan

# Status of Investment Assets

## 1. Composition of assets

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	16th period (As of December 31, 2015)		17th period (As of December 31, 2016)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Limited- service hotel	Tokyo	ibis Tokyo Shinjuku	7,487	3.1	7,671	2.4
			CANDEO HOTELS UENO-KOEN	-	-	6,751	2.1
			the b ikebukuro	6,591	2.7	6,578	2.1
			the b akasaka-mitsuke	6,295	2.6	6,286	2.0
			Hotel Sunroute Shinbashi	4,873	2.0	4,854	1.5
			Comfort Hotel Tokyo Higashi Nihombashi	3,655	1.5	3,625	1.1
			the b hachioji	2,670	1.1	2,673	0.8
			the b ochanomizu	2,350	1.0	2,344	0.7
			Smile Hotel Nihombashi Mitsukoshimae	2,056	0.9	2,047	0.6
			R&B Hotel Ueno Hirokoji	1,761	0.7	1,764	0.6
			R&B Hotel Higashi Nihonbashi	1,528	0.6	1,512	0.5
			Hotel Vista Kamata Tokyo	1,473	0.6	1,467	0.5
			the b suidobashi	1,204	0.5	1,205	0.4
			Dormy Inn EXPRESS Asakusa	963	0.4	951	0.3
			Chisun Inn Kamata	802	0.3	797	0.3
		Osaka	Namba Oriental Hotel	14,689	6.1	14,656	4.6
			Holiday Inn Osaka Namba (Note 4)	-	-	27,163	8.5
		Hokkaido	ibis Styles Sapporo	6,788	2.8	6,724	2.1
			Mercure Sapporo	6,010	2.5	5,945	1.9
		Fukuoka	the b hakata	2,323	1.0	2,330	0.7
			Hakata Nakasu Washington Hotel Plaza	2,075	0.9	2,054	0.6
			Toyoko Inn Hakata-guchi Ekimae	1,498	0.6	1,477	0.5
			HOTEL ASCENT FUKUOKA	-	-	5,211	1.6
		Kyoto	ibis Styles Kyoto Station	6,725	2.8	6,701	2.1
		Okinawa	Mercure Okinawa Naha	2,953	1.2	2,916	0.9
		Kumamoto	Dormy Inn Kumamoto	2,232	0.9	2,199	0.7
		Nara	Nara Washington Hotel Plaza	1,910	0.8	1,871	0.6
		Subtotal		90,924	37.8	129,783	40.8
	Full-service hotel	Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 5)	17,934	7.5	17,778	5.6
			Oriental Hotel Hiroshima	4,043	1.7	4,071	1.3
		Chiba	Oriental Hotel tokyo bay	18,512	7.7	18,267	5.7
			Hotel Francs	3,165	1.3	3,145	1.0
		Aichi	Hilton Nagoya	-	-	15,530	4.9
		Hyogo	Kobe Meriken Park Oriental Hotel	9,963	4.1	9,947	3.1
		Fukuoka	Hotel Centraza Hakata	-	-	7,506	2.4
		Kanagawa	Mercure Yokosuka	1,659	0.7	1,643	0.5
		Subtotal		55,277	23.0	77,891	24.5
	Resort hotel	Okinawa	Hotel Nikko Alivila	18,325	7.6	18,267	5.7
			Okinawa Marriott Resort & Spa	15,025	6.3	14,861	4.7
			The Beach Tower Okinawa	6,882	2.9	6,831	2.1
		Chiba	Hilton Tokyo Bay	26,109	10.9	26,180	8.2
		Osaka	Hotel Keihan Universal City	6,019	2.5	5,982	1.9
		Kanagawa	Hakone Setsugetsuka	3,788	1.6	3,747	1.2
		Subtotal		76,150	31.7	75,871	23.9

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	16th period (As of December 31, 2015)		17th period (As of December 31, 2016)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
			Real estate in trust – Total	222,352	92.5	283,546	89.2
			Deposits and other assets (Note 6)	18,003	7.5	34,332	10.8
			Total assets	240,356	100.0	317,878	100.0

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) HOTEL VISTA GRANDE OSAKA was renamed to Holiday Inn Osaka Namba on November 1, 2016. The same shall apply hereinafter throughout this document.
- (Note 5) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility. Furthermore, ACTIVE-INTER CITY HIROSHIMA (Sheraton Hiroshima Hotel) was renamed to ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) on June 10, 2016. The same shall apply hereinafter throughout this document.
- (Note 6) Includes machinery and installation, furniture, fixtures and equipment, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

## 2. Major portfolio assets

An overview of the portfolio assets of JHR (41 properties in total) as of December 31, 2016 was as follows.

Property No.	Name of property, etc.	Book value (JPY1M) (Note 1)	Leasable area (m <sup>2</sup> ) (Note 2)	Leased area (m <sup>2</sup> ) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	10,137	32,663.90	32,663.90	100.0	5.0	Hotel
2	Oriental Hotel tokyo bay	18,460	44,833.11	44,833.11	100.0	8.5	Hotel
3	Namba Oriental Hotel	14,765	19,364.33	19,364.33	100.0	7.1	Hotel
4	Hotel Nikko Alivila (Note 6)	18,545	38,024.98	38,024.98	100.0	8.2	Hotel
5	Oriental Hotel Hiroshima	4,123	13,752.22	13,752.22	100.0	2.1	Hotel
6	ibis Tokyo Shinjuku	7,778	6,801.84	6,801.84	100.0	3.3	Hotel
8	The Beach Tower Okinawa (Note 7)	6,837	20,140.01	20,140.01	100.0	2.3	Hotel
9	Hakone Setsugetsuka (Note 8)	3,756	10,655.03	10,655.03	100.0	1.3	Hotel
10	Dormy Inn Kumamoto (Note 8)	2,199	7,701.19	7,701.19	100.0	0.9	Hotel
12	the b suidobashi	1,231	3,097.25	3,097.25	100.0	0.6	Hotel
13	Dormy Inn EXPRESS Asakusa	951	2,014.90	2,014.90	100.0	0.3	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,054	5,602.04	5,602.04	100.0	1.1	Hotel
15	Nara Washington Hotel Plaza	1,876	5,271.54	5,271.54	100.0	0.7	Hotel
16	R&B Hotel Ueno Hirokoji	1,764	3,060.31	3,060.31	100.0	0.4	Hotel
17	R&B Hotel Higashi Nihonbashi	1,512	3,800.77	3,800.77	100.0	0.6	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi (Note 8)	3,625	5,765.27	5,765.27	100.0	1.2	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,047	3,167.82	3,167.82	100.0	0.7	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,477	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	0.6	Hotel
25	Hotel Vista Kamata Tokyo	1,468	3,831.80	3,831.80	100.0	0.5	Hotel
26	Chisun Inn Kamata	800	1,499.87	1,499.87	100.0	0.4	Hotel
29	Hotel Keihan Universal City (Note 9)	5,983	16,212.40	16,212.40	100.0	4.1	Hotel
30	Hotel Sunroute Shinbashi	4,854	5,246.66	5,246.66	100.0	1.8	Hotel
31	Hilton Tokyo Bay (Note 10)	26,180	64,931.94	64,931.94	100.0	8.9	Hotel
32	ibis Styles Kyoto Station (Note 8)	6,731	5,003.99	5,003.99	100.0	2.7	Hotel
33	ibis Styles Sapporo (Note 8)	6,754	14,992.49	14,896.40	99.4	2.9	Hotel
34	Mercure Sapporo	5,964	15,189.42	14,905.88	98.1	3.4	Hotel
35	Mercure Okinawa Naha (Note 8)	2,933	10,884.25	10,884.25	100.0	2.1	Hotel
36	the b akasaka-mitsuke (Note 11)	6,305	2,867.04	2,867.04	100.0	1.3	Hotel
37	the b ikebukuro (Note 8) (Note 11)	6,586	5,650.01	5,650.01	100.0	1.7	Hotel
38	the b ochanomizu (Note 11)	2,349	1,742.23	1,742.23	100.0	0.5	Hotel
39	the b hachioji (Note 11)	2,687	7,847.65	7,847.65	100.0	1.0	Hotel
40	the b hakata (Note 11)	2,354	3,986.09	3,986.09	100.0	1.0	Hotel
41	Hotel Francs	3,145	19,213.39	19,213.39	100.0	1.4	Hotel
42	Mercure Yokosuka (Note 12)	1,658	16,881.82	16,881.82	100.0	1.2	Hotel
43	Okinawa Marriott Resort & Spa (Note 8)	14,971	36,430.15	36,430.15	100.0	4.8	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 8) (Note 13)	17,795	31,181.05	31,131.60	99.8	6.2	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 14)	6,761	7,934.26	7,934.26	100.0	1.4	Hotel
46	Hotel Centraza Hakata	7,581	18,105.42	18,105.42	100.0	2.7	Hotel
47	Holiday Inn Osaka Namba	27,203	11,501.10	11,501.10	100.0	2.4	Hotel
48	HOTEL ASCENT FUKUOKA	5,211	8,238.75	8,238.75	100.0	0.7	Hotel
49	Hilton Nagoya (Note 15)	15,534	47,942.71	47,942.71	100.0	1.9	Hotel
Total		284,965	587,481.02	587,050.94	99.9	100.0	

(Note 1) Book value includes real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress, construction in progress in trust, and intangible assets.

(Note 2) In principle, leasable area represents leasable area of the building, which does not include leasable area of land



(including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).

- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. The same shall apply hereinafter throughout this document.
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review. In calculating, the figures are rounded off to one decimal place.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a compartmentalized ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters). With regard to the portion of the building owned exclusively by Kobe City, the area rented by JHR from Kobe City with permission for use under Kobe City's ordinance for harbor facilities, etc. is 694.00 square meters and excluded from the above area of 32,663.90 square meters.
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) Leasable area and leased area for Hakone Setsugetsuka, Dormy Inn Kumamoto, Comfort Hotel Tokyo Higashi Nihombashi, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Okinawa Naha, the b ikebukuro, Okinawa Marriott Resort & Spa and ACTIVE-INTER CITY HIROSHIMA include accessory buildings.
- (Note 9) The building of Hotel Keihan Universal City is a building with compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 10) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,931.94 square meters (JHR owns 9/10 of co-ownership interest).
- (Note 11) The b akasaka-mitsuke, the b ikebukuro, the b ochanomizu, the b hachioji and the b hakata are properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle. The same shall apply hereinafter throughout this document.
- (Note 12) The building of Mercure Yokosuka is a building with compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, apartments, office spaces and parking lots, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 13) The building of ACTIVE-INTER CITY HIROSHIMA is a building with compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, stores, parking lots and bicycle parking lots etc., as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel, office spaces and stores is indicated.
- (Note 14) Leasable area and leased area of CANDEO HOTELS UENO-KOEN indicate the total floor area described in the certificate of inspection, based on the building lease agreement with the hotel lessee. Furthermore, the figure includes the floor area for the mechanical parking facilities.
- (Note 15) Building of Hilton Nagoya is a compartmentalized ownership of AMMNAT SQUARE, which consists of a hotel building (including retail space), office building and car parking space, etc., as a single building. Leasable area and leased area indicate the sum total of the leased area for the hotel building, the office building and the retail space described in the lease agreement.
- (Note 16) The omitted numbers are the numbers for assets that have been transferred.

### 3. Details of property assets, etc.

#### (1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2016 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	14,400	10,137	J
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	34,100	18,460	J
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	32,000	14,765	J
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	29,200	18,545	J
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,250	4,123	J
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	9,290	7,778	J
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	9,420	6,837	J
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,020	3,756	J
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,950	2,199	M
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	2,040	1,231	J
13	Dormy Inn EXPRESS Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,300	951	M
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,350	2,054	J
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,876	J
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,920	1,764	M
17	R&B Hotel Higashi Nihonbashi	15-6 Higashi-Nihonbashi 2-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,050	1,512	M
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,320	3,625	M
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	3,060	2,047	M
24	Toyoko Inn Hakata-guchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,680	1,477	T
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,990	1,468	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,410	800	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	14,600	5,983	R
30	Hotel Sunroute Shinbashi	10-2 Shinbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	8,730	4,854	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	36,000	26,180	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	10,900	6,731	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,200	6,754	J
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,300	5,964	J
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	7,620	2,933	J

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
36	the b akasaka-mitsuke	21-7 Akasaka 3-chome, Minato-ku, Tokyo	Beneficial interest in trust	6,740	6,305	J
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,590	6,586	J
38	the b ochanomizu	7-5 Kanda-awajicho 1-chome, Chiyoda-ku, Tokyo	Beneficial interest in trust	2,590	2,349	J
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	3,070	2,687	J
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	3,960	2,354	J
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,090	3,145	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	2,040	1,658	D
43	Okinawa Marriott Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	17,200	14,971	J
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	18,700	17,795	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,630	6,761	D
46	Hotel Centraza Hakata	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	7,690	7,581	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	28,800	27,203	J
48	HOTEL ASCENT FUKUOKA	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	5,340	5,211	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	15,800	15,534	D
Total				398,770	284,965	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of valuation, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) and regulations set forth by The Investment Trusts Association, Japan.

(Note 2) Book value includes amounts of real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress, construction in progress in trust, and intangible assets.

(Note 3) The letters indicate the appraisers for the properties as follows:

J: Japan Real Estate Institute

M: Morii Appraisal & Investment Consulting, Inc.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

R: Rich Appraisal Institute Co., Ltd.

D: DAIWA REAL ESTATE APPRAISAL CO.,LTD.

(Note 4) Due to the lack of a displayed address, "location" in the registration or registration record is shown.

(Note 5) The omitted numbers are the numbers for assets that have been transferred.

## (2) Transition of real estate leasing business, etc.

An overview of leasing business of real estate, etc. owned by JHR is as follows:

Property No.	Name of property, etc.	16th period (From January 1, 2015 to December 31, 2015)				17th period (From January 1, 2016 to December 31, 2016)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,110	6.5	1	100.0	1,103	5.0
2	Oriental Hotel tokyo bay	1	100.0	1,732	10.2	1	100.0	1,879	8.5
3	Namba Oriental Hotel	1	100.0	1,279	7.5	1	100.0	1,574	7.1
4	Hotel Nikko Alivila	1	100.0	1,604	9.4	1	100.0	1,804	8.2
5	Oriental Hotel Hiroshima	1	100.0	421	2.5	1	100.0	469	2.1
6	ibis Tokyo Shinjuku	4	100.0	645	3.8	4	100.0	722	3.3
8	The Beach Tower Okinawa	1	100.0	511	3.0	1	100.0	511	2.3
9	Hakone Setsugetsuka	1	100.0	294	1.7	1	100.0	294	1.3
10	Dormy Inn Kumamoto	1	100.0	194	1.1	1	100.0	194	0.9
12	the b suidobashi	1	100.0	95	0.6	1	100.0	121	0.6
13	Dormy Inn EXPRESS Asakusa	1	100.0	63	0.4	1	100.0	63	0.3
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	1.4	1	100.0	240	1.1
15	Nara Washington Hotel Plaza	2	100.0	151	0.9	2	100.0	151	0.7
16	R&B Hotel Ueno Hirokoji	1	100.0	99	0.6	1	100.0	98	0.4
17	R&B Hotel Higashi Nihonbashi	1	100.0	122	0.7	1	100.0	122	0.6
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	270	1.6	2	100.0	270	1.2
19	Comfort Hotel Shin-Yamaguchi (Note 2)	—	—	50	0.3	—	—	—	—
21	Daiwa Roynet Hotel Akita (Note 2)	—	—	114	0.7	—	—	—	—
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	150	0.9	1	100.0	152	0.7
23	Hotel Sunroute Niigata (Note 2)	—	—	129	0.8	—	—	—	—
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	0.8	1	100.0	141	0.6
25	Hotel Vista Kamata Tokyo	1	100.0	113	0.7	1	100.0	115	0.5
26	Chisun Inn Kamata	1	100.0	70	0.4	1	100.0	79	0.4
29	Hotel Keihan Universal City	1	100.0	796	4.7	1	100.0	914	4.1
30	Hotel Sunroute Shinbashi	4	100.0	379	2.2	4	100.0	403	1.8
31	Hilton Tokyo Bay	1	100.0	1,953	11.5	1	100.0	1,959	8.9
32	ibis Styles Kyoto Station	2	100.0	483	2.8	2	100.0	587	2.7
33	ibis Styles Sapporo	5	99.4	573	3.4	5	99.4	635	2.9
34	Mercure Sapporo	13	97.5	651	3.8	14	98.1	745	3.4
35	Mercure Okinawa Naha	1	100.0	392	2.3	1	100.0	475	2.1
36	the b akasaka-mitsuke	2	100.0	262	1.5	2	100.0	285	1.3
37	the b ikebukuro	4	100.0	330	1.9	4	100.0	369	1.7
38	the b ochanomizu	1	100.0	105	0.6	1	100.0	115	0.5
39	the b hachioji	13	100.0	200	1.2	13	100.0	221	1.0
40	the b hakata	1	96.5	154	0.9	2	100.0	230	1.0
41	Hotel Francs	1	100.0	229	1.3	1	100.0	300	1.4
42	Mercure Yokosuka	1	100.0	154	0.9	1	100.0	271	1.2
43	Okinawa Marriott Resort & Spa	1	100.0	722	4.2	1	100.0	1,066	4.8
44	ACTIVE-INTER CITY HIROSHIMA	37	100.0	34	0.2	37	99.8	1,378	6.2
45	CANDEO HOTELS	—	—	—	—	1	100.0	309	1.4

Property No.	Name of property, etc.	16th period (From January 1, 2015 to December 31, 2015)				17th period (From January 1, 2016 to December 31, 2016)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
	UENO-KOEN (Note 3)								
46	Hotel Centraza Hakata (Note 4)	—	—	—	—	1	100.0	599	2.7
47	Holiday Inn Osaka Namba (Note 5)	—	—	—	—	1	100.0	539	2.4
48	HOTEL ASCENT FUKUOKA (Note 6)	—	—	—	—	6	100.0	158	0.7
49	Hilton Nagoya (Note 7)	—	—	—	—	4	100.0	430	1.9
Total		113	99.9	17,033	100.0	128	99.9	22,107	100.0

(Note 1) Number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the number of end tenants is indicated. For properties with sub-lease-type master lease contracts in which JHR receives predetermined rents despite fluctuations in rents from end tenants, the number of the master lease companies is indicated as tenants.

(Note 2) Comfort Hotel Shin-Yamaguchi, Daiwa Roynet Hotel Akita and Hotel Sunroute Niigata were transferred as of October 30, 2015.

(Note 3) CANDEO HOTELS UENO-KOEN was acquired on February 1, 2016.

(Note 4) Hotel Centraza Hakata was acquired on April 1, 2016.

(Note 5) Holiday Inn Osaka Namba was acquired on August 1, 2016.

(Note 6) HOTEL ASCENT FUKUOKA was acquired on August 19, 2016.

(Note 7) Hilton Nagoya was acquired on September 1, 2016.

(Note 8) The property numbers of assets that were transferred before the previous fiscal period are intentionally omitted.

#### 4. Details of securities assets

There are no applicable securities held by JHR as of December 31, 2016.

#### 5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2016 were as follows:

Classification	Transaction	Amounts of contract, etc. (JPY1M) (Note 1)		Fair value (JPY1M) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions	99,222	89,602	(554)
	Payable fixed rate / Receivable floating rate			
	Interest rate cap transactions	5,134	4,286	0
Total		104,357	93,889	(554)

(Note 1) Contractual amounts, etc. of interest rate swap transactions and interest rate cap transactions are based on notional principal amounts, etc.

(Note 2) Fair value is based on the price, etc. provided by counterparty financial institutions.

#### 6. Other assets

All of the beneficial interest in trust mainly invested in real estate held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments in the portfolio of JHR as of December 31, 2016.

#### 7. Asset holdings by country and region

There is nothing to be reported on countries and regions other than Japan.

## Capital Expenditures for Portfolio Properties

### 1. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures for renovation work planned as of the end of the fiscal period under review for investment real estate properties (in trust) held by JHR. Expenditures are expected to total ¥2,928 million, which consists of capital expenditures of ¥2,864 million and repair expenses of ¥63 million, for the following fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)		
			Total amount	Payment for the period	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of disaster prevention switchboard	From May 2017 to December 2017	50	-	-
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Relocation of bridal salon	From April 2017 to December 2017	95	-	-
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Renewal of automatic fire alarm equipment	From January 2017 to June 2017	50	-	-
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 7th floor, etc.	From February 2017 to March 2017	77	-	-
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of piping	From May 2017 to August 2017	65	-	-
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of interior fittings and furniture in guest rooms on the 4th through 10th floors	From May 2017 to August 2017	249	-	-
Hakone Setsugetsuka (Ashigarashimogun, Kanagawa)	Replacement of air-conditioning facilities within the building	From June 2017 to June 2017	99	-	-
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From May 2017 to July 2017	72	-	-
Total			758	-	-

(Note) For new construction and renewal work, estimated construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned repair work and whether or not the repair work will be performed may change.

## 2. Capital expenditures during the period (Note 1)

For investment real estate properties (in trust) held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥2,619 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥68 million (Note 2). In aggregate, ¥2,688 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of guest rooms on the 7th floor	From January 2016 to March 2016	50
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of guest room balconies	From January 2016 to April 2016	62
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of sky lounge “Kou’s” and renovation of elevator halls and pathways on the 14th floor	From June 2016 to December 2016	85
Oriental Hotel Tokyo Bay (Urayasu-shi, Chiba)	Renewal of guest rooms on the 4th floor	From January 2016 to March 2016	101
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 9th floor	From January 2016 to February 2016	91
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Renewal of guest rooms on the 9th floor	From May 2016 to July 2016	55
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of piping	From May 2016 to July 2016	62
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of interior fittings and furniture and prefabricated bathrooms in guest rooms on the 3rd through 10th floors	From May 2016 to July 2016	192
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Replacement of emergency power generator	From February 2016 to April 2016	60
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From January 2016 to August 2016	92
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renewal of hotel operation systems	From November 2015 to May 2016	55
Total			908

(Note 1) For new construction and renewal work, construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures.

(Note 2) Excludes the repair expenses related to the 2016 Kumamoto Earthquake (¥95 million), which was recorded as extraordinary losses for the fiscal period under review.

### 3. Cash reserves for the long-term repairs and maintenance plan (reserve for repairs and maintenance)

JHR accumulates cash reserves from cash flows for each fiscal period as detailed below to utilize for medium- to long-term future expenditures on large-scale repairs and maintenance projects based on long-term repairs and maintenance plans prepared for each property.

(millions of yen)

Fiscal period	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)
Balance at beginning of period	409	307	454	493	657
Provision during the period	(Note) 286	184	46	185	133
Reversal during the period	388	37	7	20	-
Amount carried forward	307	454	493	657	791

(Note) Figures in the above table include amounts assumed from the former JHR as a result of the merger.



## Expenses and Liabilities

### 1. Details of expenses related to asset management, etc.

(thousands of yen)

	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)
(a) Asset management fees	(Note 1) 1,045,925	(Note 2) 1,307,381
(b) Asset custody fees	17,633	21,029
(c) Administrative service fees	89,541	91,782
(d) Officers' compensation	10,800	14,400
(e) Other operating expenses	188,480	197,443
Total	1,352,381	1,632,036

(Note 1) For asset management fees for the 16th fiscal period, besides the above amounts, there are ¥427,690 thousand of fees included in the acquisition price of investment properties, etc. in acquiring the properties and ¥24,450 thousand included in gain or loss on sale of real estate from property transfer.

(Note 2) For asset management fees for the 17th fiscal period, besides the above amounts, there are ¥458,079 thousand of fees included in the acquisition price of investment properties, etc. in acquiring properties.

## 2. Loans Payable

The status of loans by contractual agreement and by financial institution as of December 31, 2016 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	December 18, 2015	4,000	—	0.41%	November 30, 2016	Lump-sum repayment (Note 5)	(Note 7)	Unsecured, unguaranteed
	Shinsei Bank, Limited		2,250	—					
	Mizuho Bank, Ltd.		2,250	—					
	The Hiroshima Bank, Ltd.		500	—					
	Subtotal		9,000	—					
	Sumitomo Mitsui Banking Corporation	February 29, 2016	—	1,700	0.34%	February 28 2017	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		—	1,700					
	The Higo Bank, Ltd.	December 2, 2016	—	100	0.35%	November 30 2017	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		—	100					
	Short-term loans payable – Total (Note 2)			9,000	1,800				
Long-term loans payable	The Tokyo Star Bank, Limited	March 24, 2011	2,576	—	2.01% (Note 3)	March 28, 2016	Lump-sum repayment (Note 6)	(Note 10)	Unsecured, unguaranteed
	Subtotal		2,576	—					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	1,081	—	1.97%	March 28, 2016	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Subtotal		1,081	—					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	—	—	1.52%	March 28, 2016	Repayment of ¥50,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		7	—					
	The Norinchukin Bank		—	—					
	Subtotal		7	—					
	Sumitomo Mitsui Banking Corporation	September 19, 2012	1,200	1,200	1.47% (Note 3)	September 19, 2017	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Shinsei Bank, Limited		390	390					
	The Tokyo Star Bank, Limited		960	960					
	Subtotal		2,550	2,550					
	The Norinchukin Bank	November 15, 2012	—	—	1.29% (Note 3)	March 28, 2016	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,538	—					
	Sumitomo Mitsui Banking Corporation		453	—					
	Subtotal		1,991	—					
	Shinsei Bank, Limited	November 15, 2012	2,000	2,000	1.38% (Note 3)	November 15, 2017	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		500	500					
	Sumitomo Mitsui Banking Corporation		4,000	4,000					
	Subtotal		6,500	6,500					
	Sumitomo Mitsui Banking Corporation	February 28, 2013	1,742	—	0.93%	February 29, 2016	Repayment of ¥1,625 thousand every month, and lump-sum repayment of the remaining amount	(Note 8)	Unsecured, unguaranteed
	Subtotal		1,742	—					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Trust Bank, Limited	March 29, 2013	488	479	0.90%	March 31, 2017	Repayment of ¥2,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 8)	Unsecured, unguaranteed
	Subtotal		488	479					
	The Nomura Trust and Banking Co., Ltd.	April 26, 2013	1,744	—	0.87%	April 26, 2016	Repayment of ¥11,000 thousand every 3 months, and lump-sum repayment of the remaining amount (Note 5)	(Note 7)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		883	—					
	Development Bank of Japan Inc.		788	—					
	The Bank of Fukuoka, Ltd.		418	—					
	Subtotal		3,835	—					
	Sumitomo Mitsui Banking Corporation	April 26, 2013	2,145	2,123	1.00%	April 26, 2018	Repayment of ¥11,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 7)	Unsecured, unguaranteed
	Shinsei Bank, Limited		975	965					
	The Tokyo Star Bank, Limited		1,267	1,254					
	Subtotal		4,387	4,342					
	Sumitomo Mitsui Banking Corporation	September 30, 2013	1,809	1,790	0.98% (Note 3)	September 30, 2018	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 8)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		952	942					
	Subtotal		2,762	2,733					
	Sumitomo Mitsui Banking Corporation	October 31, 2013	500	500	0.98% (Note 3)	September 30, 2018	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		500	500					
	Subtotal		3,000	3,000					
	Sumitomo Mitsui Banking Corporation	March 31, 2014	70	62	0.73% (Note 3)	March 31, 2018	Repayment of ¥19,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 8)	Unsecured, unguaranteed
	Resona Bank, Limited		753	733					
	Shinsei Bank, Limited		718	710					
	Sumitomo Mitsui Trust Bank, Limited		75	61					
	The Nomura Trust and Banking Co., Ltd.		688	678					
	The Chiba Bank, Ltd.		551	543					
	Sompo Japan Nipponkoa Insurance Inc.		617	609					
	Subtotal		3,473	3,397					
	Sumitomo Mitsui Banking Corporation	March 31, 2014	648	648	1.15% (Note 3)	March 31, 2021	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Resona Bank, Limited		2,516	2,516					
	Shinsei Bank, Limited		2,516	2,516					
	Sumitomo Mitsui Trust Bank, Limited		1,120	1,120					
	Subtotal		6,800	6,800					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	0.60% (Note 4)	September 30, 2019	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		434	434					
	Shinsei Bank, Limited		720	720					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	The Bank of Fukuoka, Ltd.		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Hiroshima Bank, Ltd.		435	435					
	Sompo Japan Nipponkoa Insurance Inc.		328	328					
	Development Bank of Japan Inc.		500	500					
	Subtotal		6,317	6,317					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	800	800	0.92% (Note 3)	September 30, 2020	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,600	1,600					
	Resona Bank, Limited		1,100	1,100					
	Shinsei Bank, Limited		970	970					
	Sumitomo Mitsui Trust Bank, Limited		800	800					
	Development Bank of Japan Inc.		500	500					
	The Tokyo Star Bank, Limited		762	762					
	Aozora Bank, Ltd.		285	285					
	Subtotal		6,817	6,817					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	1.04% (Note 3)	September 30, 2021	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		850	850					
	Shinsei Bank, Limited		750	750					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	Subtotal		4,000	4,000					
	Mitsubishi UFJ Trust and Banking Corporation	December 30, 2014	935	935	0.55%	December 30, 2020	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		935	935					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,400	1,400	0.38% (Note 3)	January 31, 2020	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,500	1,500					
	Shinsei Bank, Limited		500	500					
	Resona Bank, Limited		500	500					
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Chiba Bank, Ltd.		300	300					
	Subtotal		4,700	4,700					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,700	1,700	0.90% (Note 3)	January 31, 2022	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		3,000	3,000					
	Shinsei Bank, Limited		1,050	1,050					
	Resona Bank, Limited		1,000	1,000					
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	The Tokyo Star Bank, Limited		300	300					
	Aozora Bank, Ltd.		150	150					
	Subtotal		8,200	8,200					
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	1,500	0.93% (Note 3)	March 31, 2022	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		1,500	1,500					
	Aozora Bank, Ltd.	July 10, 2015	1,000	1,000	0.95% (Note 3)	June 30, 2022	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Mitsubishi UFJ Trust and Banking Corporation		500	500					
	Subtotal		1,500	1,500					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	100	100	0.50%	June 30, 2020	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		992	992					
	Subtotal		1,092	1,092					
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07% (Note 3)	September 29, 2023	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	703	703	1.07% (Note 3)	September 29, 2023	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		1,744	1,744					
	Shinsei Bank, Limited		189	189					
	Subtotal		2,636	2,636					
	Sumitomo Mitsui Banking Corporation	February 29, 2016	—	500	0.21% (Note 3)	March 31, 2019	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		—	1,000					
	Shinsei Bank, Limited		—	250					
	Mizuho Bank, Ltd.		—	250					
	Subtotal		—	2,000					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	—	480	0.19% (Note 3)	March 31, 2019	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		—	800					
	Mizuho Bank, Ltd.		—	480					
	Subtotal		—	1,760					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	—	530	0.19% (Note 3)	March 31, 2019	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		—	270					
	Development Bank of Japan Inc.		—	230					
	The Bank of Fukuoka, Ltd.		—	110					
	Subtotal		—	1,140					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	—	1,050	0.77% (Note 3)	March 31, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		—	1,750					
	Mizuho Bank, Ltd.		—	1,050					
	Subtotal		—	3,850					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	—	1,200	0.77% (Note 3)	March 31, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		—	600					
	Development Bank of Japan Inc.		—	550					
	The Bank of Fukuoka, Ltd.		—	300					
	Subtotal		—	2,650					
	Sumitomo Mitsui Banking Corporation	March 31, 2016	—	1,200	0.68% (Note 3)	March 31, 2023	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		—	1,000					
	Shinsei Bank, Limited		—	1,000					
	Resona Bank, Limited		—	500					
	The Tokyo Star Bank, Limited		—	500					
	The Nomura Trust and Banking Co., Ltd.		—	500					
	Subtotal		—	4,700					
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	—	800	0.66% (Note 3)	March 31, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		—	800					
	Development Bank of Japan Inc.	March 31, 2016	—	500	0.57% (Note 3)	March 31, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		—	500					
	Sumitomo Mitsui Banking Corporation	September 1, 2016	—	2,900	0.74% (Note 3)	September 30, 2025	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	1,700					
	Mizuho Bank, Ltd.		—	1,700					
	Resona Bank, Limited		—	1,000					
	The Nomura Trust and Banking Co., Ltd.		—	500					
	The Chiba Bank, Ltd.		—	500					
	The Bank of Fukuoka, Ltd.		—	1,200					
	Subtotal		—	9,500					
	Sumitomo Mitsui Trust Bank, Limited	September 1, 2016	—	1,300	0.56% (Note 3)	September 30, 2024	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		—	1,300					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Mitsubishi UFJ Trust and Banking Corporation	September 1, 2016	—	2,000	0.56% (Note 3)	September 30, 2024	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		—	2,000					
	Development Bank of Japan Inc.	September 1, 2016	—	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		—	700					
	Aozora Bank, Ltd.	September 1, 2016	—	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Subtotal		—	500					
	Long-term loans payable – Total			81,772	101,779				
Total loans payable			90,772	103,579					

(Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to two decimal places.

(Note 2) Short-term loans payable include ¥7,000 million which JHR borrowed on April 1, 2016 and made early repayment of the full amount on November 30, 2016.

(Note 3) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is the rate obtained by taking into account the effect of interest rate swaps, rounded off to two decimal places.

(Note 4) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% per annum for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.

(Note 5) JHR made early repayment of the full amount of these loans payable on March 31, 2016.

(Note 6) JHR extended the repayment date of the loan to March 28, 2016 and repaid the full amount on the day.

(Note 7) The funds were appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.

(Note 8) The funds were appropriated for refinancing of borrowings, etc.

(Note 9) JHR borrowed funds from the bank in an effort to diversify its lenders. The funds were appropriated for repairs and maintenance.

(Note 10) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses, etc.

(Note 11) In order to list each loan payable, ¥9,679 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

### 3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2016 was as follows:

Name	Issuance date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Second unsecured investment corporation bonds	November 26, 2013	2,500	—	0.89	November 25, 2016	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Third unsecured investment corporation bonds	March 19, 2014	2,000	2,000	0.92	March 19, 2019	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 5)
Fourth unsecured investment corporation bonds	December 19, 2014	1,500	1,500	0.86	December 17, 2021	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 5)
Fifth unsecured investment corporation bonds	October 23, 2015	6,000	6,000	0.82	October 21, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 6)
Sixth unsecured investment corporation bonds	March 22, 2016	—	3,000	0.935	March 19, 2026	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 5)

Seventh unsecured investment corporation bonds	November 29, 2016	–	9,000	0.60	November 27, 2026	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed (Note 6)
Eighth unsecured investment corporation bonds	November 29, 2016	–	1,100	0.60	November 27, 2026	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed (Note 5)
Total		12,000	22,600					

(Note 1) The funds were appropriated for redemption of the first unsecured investment corporation bonds and future acquisition of specified assets, etc.

(Note 2) The funds were appropriated to partly fund the repayment of existing borrowings.

(Note 3) The funds were appropriated for repayment of existing borrowings and future acquisition of specified assets, etc.

(Note 4) The funds were appropriated for redemption of the second unsecured investment corporation bonds, repayment of existing borrowings and future acquisition of real estate properties, etc.

(Note 5) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

(Note 6) A special pari passu clause among investment corporation bonds is attached to the bonds.

#### **4. Short-term investment corporation bonds**

Not applicable.

#### **5. Subscription rights to new investment units**

Not applicable.



## Purchase and Sale during the Period

### 1. Purchase and sale, etc. of real estate, etc., asset-backed securities, etc. and infrastructure assets, etc., and infrastructure-related assets

Asset type	Name of property, etc.	Acquisition		Sale			
		Acquisition date	Acquisition price (JPY1M) (Note)	Sale date	Sale price (JPY1M)	Book value (JPY1M)	Gain (loss) on sale (JPY1M)
Beneficial interest of real estate in trust	CANDEO HOTELS UENO-KOEN	February 1, 2016	6,705	—	—	—	—
Beneficial interest of real estate in trust	Hotel Centraza Hakata	April 1, 2016	7,197	—	—	—	—
Beneficial interest of real estate in trust	Holiday Inn Osaka Namba	August 1, 2016	27,000	—	—	—	—
Beneficial interest of real estate in trust	HOTEL ASCENT FUKUOKA	August 19, 2016	4,925	—	—	—	—
Beneficial interest of real estate in trust	Hilton Nagoya	September 1, 2016	15,250	—	—	—	—
Total		—	61,077	—	—	—	—

(Note) Acquisition price indicates contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition of such property.

### 2. Purchase and sale of other assets, etc.

Assets other than real estate, etc., asset-backed securities, etc., and infrastructure assets, etc. and infrastructure-related assets are mostly bank deposits and bank deposits in trust.

### 3. Survey of prices, etc. of specified assets

#### (1) Real estate properties, etc.

Acquisition/sale	Asset type	Name of property, etc.	Acquisition/sale date	Acquisition/sale price (JPY1M) (Note 1)	Appraisal value (JPY1M) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Beneficial interest of real estate in trust	CANDEO HOTELS UENO-KOEN	February 1, 2016	6,705	6,820	November 1, 2015	DAIWA REAL ESTATE APPRAISAL CO.,LTD.
Acquisition	Beneficial interest of real estate in trust	Hotel Centraza Hakata	April 1, 2016	7,197	7,240	February 1, 2016	DAIWA REAL ESTATE APPRAISAL CO.,LTD.
Acquisition	Beneficial interest of real estate in trust	Holiday Inn Osaka Namba	August 1, 2016	27,000	28,500	June 1, 2016	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	HOTEL ASCENT FUKUOKA	August 19, 2016	4,925	5,220	January 1, 2016	DAIWA REAL ESTATE APPRAISAL CO.,LTD.
Acquisition	Beneficial interest of real estate in trust	Hilton Nagoya	September 1, 2016	15,250	15,900	March 1, 2016	DAIWA REAL ESTATE APPRAISAL CO.,LTD.

- (Note 1) Acquisition price and sale price indicate contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.
- (Note 2) The above appraisals were valued by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

## (2) Transaction of securities

Not applicable.

## (3) Other

For transactions made by JHR that require research on price, etc. pursuant to the provisions of Article 201 of the Investment Trusts Act, except for transactions described in “(1) Real estate properties, etc.” above, the research activities were entrusted to KPMG AZSA LLC.

JHR has received from KPMG AZSA LLC a research report on eight interest rate swap transactions executed during the period from January 1, 2016 to December 31, 2016.

## 4. Transactions with interested parties, etc. (Note 1)

### (1) Transactions

(millions of yen)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	61,077	—	22,107
	Amount of purchase from interested parties, etc.	Amount of sales to interested parties, etc.	Amount of real estate operating revenue from interested parties, etc.
	— [—%]	— [—%]	10,922 [49.4%]
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	— [—%]	— [—%]	6,825 [30.9%]
Lagoon resort Nago Co., Ltd.	— [—%]	— [—%]	1,066 [4.8%]
Kyoritsu Maintenance Co., Ltd.	— [—%]	— [—%]	1,063 [4.8%]
K.K. A.I.C Hiroshima Management	— [—%]	— [—%]	833 [3.8%]
Hotel Centraza Co., Ltd.	— [—%]	— [—%]	594 [2.7%]
OW Hotel Operations KK	— [—%]	— [—%]	539 [2.4%]
Total	— [—%]	— [—%]	10,922 [49.4%]

- (Note 1) Interested parties, etc. are the Asset Management Company’s interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trust Act (hereinafter referred to as “interested parties, etc.”). The amounts in “(1) Transactions” above and “(2) Amounts of fees paid, etc.” below include transactions with those interested parties, etc. as well as major transactions with sponsor-related parties stipulated in the Asset Management Company’s company code for transactions with sponsor-related parties, which include 1. Interested parties, etc., 2. The Asset Management Company’s shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 50% or more stake, 5. Entity or persons who ceased to fall under 1. or 4. within 3 months, and 6. Entity or persons who are deemed appropriate by the compliance officer of the Asset Management Company to be treated as sponsor-related parties in light of the company code for transactions with sponsor-related parties and the purpose of these rules.

- (Note 2) Acquisition price, etc. and sale price, etc. indicate contracted amounts of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

- (Note 3) The figures in brackets show the ratio of the amount etc. to the total amount of purchase and sale amount, etc. rounded off to one decimal place.

**(2) Amount of fees paid, etc.**

(thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with interested parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	291,236	Hotel Management Japan Co., Ltd.	5,760	2.0

(Note) Includes basic fees under the property management agreement as well as outsourcing expenses related to routine maintenance and management of buildings and facilities.

**5. Transactions with the Asset Management Company in other businesses of the Asset Management Company**

The Asset Management Company only engages in asset management and does not engage in any businesses related to the financial instruments trading business, building lots and buildings transactions, or real estate specified joint enterprise business. There are no applicable transactions.

## **II. Financial Information**

### **1. Assets, liabilities, equity, and profit and loss**

For the status of assets, liabilities, equity (contribution), and profit and loss, please refer to “Balance Sheets”, “Statements of Income”, “Statements of Changes in Net Assets”, “Statements of Cash Flows” and “Notes to Financial Statements”.

### **2. Changes in calculation method of depreciation**

Not applicable.

### **3. Changes in evaluation method of real estate, etc. and infrastructure assets, etc.**

Not applicable.

### **Status, etc. of beneficiary certificates of investment trusts set up by JHR**

Not applicable

### **Status, etc. of corporation owning foreign real estate**

Not applicable.

### **Status, etc. of real estate owned by corporation owning foreign real estate**

Not applicable.

## Other

### (1) Announcements

The following shows the summary of major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR's Board of Directors.

Approval date	Item	Summary
January 4, 2016	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units was entrusted to SMBC Nikko Securities Inc., Daiwa Securities Co. Ltd. and Mizuho Securities Co., Ltd.
July 7, 2016	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units in Japan was entrusted to SMBC Nikko Securities Inc., Daiwa Securities Co. Ltd., Mizuho Securities Co., Ltd., Goldman Sachs Japan Co., Ltd. and Nomura Securities Co., Ltd. In addition, general administration for global offering of the investment units was entrusted to SMBC Nikko Capital Markets Limited, Goldman Sachs International, Daiwa Capital Markets Europe Limited and Mizuho International plc as international joint lead managers of the global offering.

### (2) Other

Unless otherwise noted, amounts and ratios in this report are rounded down and rounded off to the stated unit, respectively.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Balance Sheets**  
**As of December 31, 2016 and 2015**

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and deposits ( <i>Notes 3 and 4</i> )	¥ 15,141,393	¥ 5,450,696
Cash and deposits in trust ( <i>Notes 3 and 4</i> )	11,232,472	8,247,600
Operating accounts receivable	2,071,152	1,269,572
Prepaid expenses	586,700	410,241
Consumption taxes receivable	-	245,509
Income taxes receivable	294	3,057
Other current assets	18,339	6,473
Total current assets	29,050,353	15,633,151
<b>Property and equipment, at cost (<i>Notes 15 and 17</i>):</b>		
Machinery and equipment	220,174	184,717
Tools, furniture and fixtures	1,983,010	1,428,232
Construction in progress	3,240	2,676
Buildings in trust ( <i>Note 11</i> )	104,284,116	88,642,547
Structures in trust	2,100,930	2,006,145
Machinery and equipment in trust	534,100	456,282
Tools, furniture and fixtures in trust	137,266	125,266
Land in trust	154,841,633	120,918,641
Construction in progress in trust	4,085	606
	264,108,558	213,765,117
Less: Accumulated depreciation	(13,417,931)	(10,276,615)
Net property and equipment	250,690,627	203,488,501
<b>Intangible assets:</b>		
Software	168,345	100,333
Leasehold rights in trust ( <i>Note 17</i> )	28,648,457	19,774,039
Fixed-term leasehold rights in trust ( <i>Note 17</i> )	5,451,770	-
Other intangible assets ( <i>Note 17</i> )	9,796	10,476
Total intangible assets	34,278,369	19,884,849
<b>Other assets:</b>		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	158,323	158,323
Long-term prepaid expenses	3,090,505	993,340
Derivative assets ( <i>Notes 4 and 16</i> )	146,585	1,272
Reserve fund for repairs and maintenance	64,130	49,219
Investment unit issuance costs	243,615	66,928
Investment corporation bond issuance costs	143,589	68,381
Total other assets	3,859,270	1,349,986
<b>Total assets</b>	<b>¥317,878,620</b>	<b>¥240,356,489</b>

(Continued)

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Balance Sheets**  
**As of December 31, 2016 and 2015**

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Operating accounts payable	¥ 666,315	¥ 875,465
Short-term loans payable ( <i>Notes 4 and 5</i> )	1,800,000	9,000,000
Current portion of investment corporation bonds ( <i>Notes 4 and 6</i> )	-	2,500,000
Current portion of long-term loans payable ( <i>Notes 4, 5 and 16</i> )	9,679,250	11,393,603
Accrued expenses	610,344	500,859
Income taxes payable	1,210	1,210
Consumption taxes payable	496,373	-
Advances received	899,290	692,794
Dividends payable	15,101	12,381
Deposits received	117,949	71,442
Derivative liabilities ( <i>Notes 4 and 16</i> )	24,379	-
Other current liabilities	54,503	25,452
Total current liabilities	14,364,717	25,073,210
<b>Long-term liabilities:</b>		
Investment corporation bonds ( <i>Notes 4 and 6</i> )	22,600,000	9,500,000
Long-term loans payable ( <i>Notes 4, 5 and 16</i> )	92,099,750	70,379,000
Tenant leasehold and security deposits ( <i>Note 4</i> )	1,041,032	2,041,032
Tenant leasehold and security deposits in trust ( <i>Note 4</i> )	4,619,744	2,914,912
Derivative liabilities ( <i>Notes 4 and 16</i> )	676,488	533,856
Deferred tax liabilities ( <i>Note 13</i> )	46,233	-
Asset retirement obligations ( <i>Note 7</i> )	441,542	-
Total long-term liabilities	121,524,790	85,368,801
<b>Total liabilities</b>	135,889,508	110,442,012
<b>Net assets (<i>Note 8</i>):</b>		
Unitholders' equity:		
Unitholders' capital	134,829,448	85,470,541
Units authorized: 20,000,000 units		
Units issued and outstanding; 3,761,907 units and 3,144,227 units as of December 31, 2016 and 2015, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Dividend reserve	13,867,228	13,928,075
Total voluntary reserve	13,867,228	13,928,075
Unappropriated retained earnings	12,126,057	9,296,121
Total surplus	47,739,684	44,970,596
Total unitholders' equity	182,569,132	130,441,137
Valuation and translation adjustments:		
Deferred gains (losses) on hedges ( <i>Note 16</i> )	(580,019)	(526,660)
Total valuation and translation adjustments	(580,019)	(526,660)
<b>Total net assets</b>	181,989,112	129,914,477
<b>Total liabilities and net assets</b>	¥317,878,620	¥240,356,489

See notes to financial statements.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Income**  
**For the years ended December 31, 2016 and 2015**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
<b>Operating revenue:</b>		
Real estate operating revenue ( <i>Note 9</i> )	¥ 21,165,085	¥ 16,632,526
Other real estate operating revenue ( <i>Note 9</i> )	942,384	401,349
Gain on sale of real estate properties ( <i>Note 10</i> )	-	305,668
Gain on investment in silent partnership	-	4,288
Total operating revenue	22,107,470	17,343,833
<b>Operating expenses:</b>		
Real estate operating costs ( <i>Note 9</i> )	6,589,908	5,002,501
Asset management fee	1,307,381	1,045,925
Asset custody fee	21,029	17,633
Administrative service fee	91,782	89,541
Directors' compensation	14,400	10,800
Other operating expenses	197,443	188,480
Total operating expenses	8,221,945	6,354,882
Operating income	13,885,524	10,988,950
<b>Non-operating income:</b>		
Interest income	1,924	2,977
Gain on forfeiture of unclaimed dividends	2,296	1,186
Gain on insurance claims	472	4,644
Interest on tax refunds	610	292
Gain on derivative instruments	1,872	9,411
Total non-operating income	7,176	18,512
<b>Non-operating expenses:</b>		
Interest expense	862,943	918,051
Interest expense on investment corporation bonds	128,071	62,850
Borrowing costs	561,927	632,240
Amortization of investment corporation bond issuance costs	19,043	12,500
Amortization of investment unit issuance costs	81,361	51,846
Loss on derivative instruments	16,445	33,996
Other	2,673	90
Total non-operating expenses	1,672,466	1,711,575
Ordinary income	12,220,234	9,295,887
<b>Extraordinary losses</b>		
Loss on disaster ( <i>Note 12</i> )	95,860	-
Total extraordinary losses	95,860	-
Income before income taxes	12,124,373	9,295,887
<b>Income taxes (<i>Note 13</i>):</b>		
Current	1,210	1,210
Deferred	-	-
Total income taxes	1,210	1,210
Net income	¥ 12,123,163	¥ 9,294,677

See notes to financial statements.



**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Changes in Net Assets**  
**For the years ended December 31, 2016 and 2015**

<i>Thousands of yen</i>								
Unitholders' equity								
Surplus								
	Unitholders' capital	Voluntary reserve			Unappropriated retained earnings	Total surplus	Total unitholders' equity	
		Capital surplus	Dividend reserve	Total voluntary reserve				
<b>Balance, January 1, 2015</b>	¥ 59,024,923	¥ 21,746,398	¥ 14,168,614	¥ 14,168,614	¥ 5,776,116	¥ 41,691,129	¥ 100,716,052	
Changes of items during the year:								
Issuance of new investment units	26,445,618	-	-	-	-	-	26,445,618	
Reversal of dividend reserve	-	-	(240,538)	(240,538)	240,538	-	-	
Dividends paid	-	-	-	-	(6,015,210)	(6,015,210)	(6,015,210)	
Net income	-	-	-	-	9,294,677	9,294,677	9,294,677	
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-	
Total changes of items during the year	26,445,618	-	(240,538)	(240,538)	3,520,005	3,279,466	29,725,085	
<b>Balance, December 31, 2015</b>	¥ 85,470,541	¥ 21,746,398	¥ 13,928,075	¥ 13,928,075	¥ 9,296,121	¥ 44,970,596	¥ 130,441,137	
Changes of items during the year:								
Issuance of new investment units	49,358,906	-	-	-	-	-	49,358,906	
Reversal of dividend reserve	-	-	(60,847)	(60,847)	60,847	-	-	
Dividends paid	-	-	-	-	(9,354,075)	(9,354,075)	(9,354,075)	
Net income	-	-	-	-	12,123,163	12,123,163	12,123,163	
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-	
Total changes of items during the year	49,358,906	-	(60,847)	(60,847)	2,829,936	2,769,088	52,127,994	
<b>Balance, December 31, 2016</b>	¥ 134,829,448	¥ 21,746,398	¥ 13,867,228	¥ 13,867,228	¥ 12,126,057	¥ 47,739,684	¥ 182,569,132	

<i>Thousands of yen</i>			
Valuation and translation adjustments			
Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets	
<b>Balance, January 1, 2015</b>	¥ (373,144)	¥ (373,144)	¥ 100,342,908
Changes of items during the year:			
Issuance of new investment units	-	-	26,445,618
Reversal of dividend reserve	-	-	-
Dividends paid	-	-	(6,015,210)
Net income	-	-	9,294,677
Net changes of items other than unitholders' equity	(153,516)	(153,516)	(153,516)
Total changes of items during the year	(153,516)	(153,516)	29,571,568
<b>Balance, December 31, 2015</b>	¥ (526,660)	¥ (526,660)	¥ 129,914,477
Changes of items during the year:			
Issuance of new investment units	-	-	49,358,906
Reversal of dividend reserve	-	-	-
Dividends paid	-	-	(9,354,075)
Net income	-	-	12,123,163
Net changes of items other than unitholders' equity	(53,359)	(53,359)	(53,359)
Total changes of items during the year	(53,359)	(53,359)	52,074,635
<b>Balance, December 31, 2016</b>	¥ (580,019)	¥ (580,019)	¥ 181,989,112

*See notes to financial statements.*

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2016 and 2015**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 12,124,373	¥ 9,295,887
Depreciation and amortization	3,294,081	2,772,440
Loss on disposal of property and equipment	16,662	25,790
Loss on derivative instruments	14,572	24,584
Amortization of investment corporation bond issuance costs	19,043	12,500
Amortization of investment unit issuance costs	81,361	51,846
Decrease in properties in trust due to sale	-	4,400,042
Gain on investment in silent partnership	-	(4,288)
Interest income	(1,924)	(2,977)
Interest expense	991,014	980,901
Interest on tax refunds	(610)	(292)
(Increase) decrease in operating accounts receivable	(801,580)	(240,193)
(Increase) decrease in consumption taxes receivable	245,509	(245,509)
(Increase) decrease in prepaid expenses	(176,458)	(28,602)
(Increase) decrease in long-term prepaid expenses	(2,095,775)	(189,593)
Increase (decrease) in operating accounts payable	102,258	69,222
Increase (decrease) in accrued expenses	112,854	103,627
Increase (decrease) in consumption taxes payable	496,373	(290,174)
Increase (decrease) in advances received	206,495	41,141
Increase (decrease) in deposits received	46,506	62,058
Other	4,862	7,996
Subtotal	14,679,620	16,846,409
Interest received	1,862	2,977
Interest paid	(994,383)	(983,493)
Interest received on tax refunds	610	292
Income taxes – refunded (paid)	1,553	(3,838)
Net cash provided by operating activities	13,689,262	15,862,346
<b>Cash flows from investing activities:</b>		
Proceeds from redemption of investment securities	-	607,013
Purchase of property and equipment in trust	(49,582,657)	(59,092,222)
Purchase of property and equipment	(659,879)	(299,812)
Purchase of intangible assets	(14,535,928)	(81,347)
Payments of reserve fund for repairs and maintenance	(14,911)	(49,219)
Proceeds from tenant leasehold and security deposits in trust	1,756,161	641,553
Repayment of tenant leasehold and security deposits in trust	(43,325)	(324,585)
Proceeds from tenant leasehold and security deposits	7,000	16
Repayment of tenant leasehold and security deposits	(1,001,800)	-
Net cash used in investing activities	¥ (64,075,340)	¥ (58,598,604)

(Continued)

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2016 and 2015**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loans payable	¥ 8,800,000	¥ 15,000,000
Repayments of short-term loans payable	(16,000,000)	(6,000,000)
Proceeds from long-term loans payable	31,400,000	22,508,000
Repayments of long-term loans payable	(11,393,603)	(15,825,132)
Proceeds from investment corporation bonds	13,100,000	6,000,000
Repayments of investment corporation bond	(2,500,000)	-
Proceeds from issuance of investment units	49,100,858	26,382,471
Payments for investment corporation bond issuance costs	(94,251)	(41,959)
Dividends paid	(9,351,356)	(6,013,599)
Net cash provided by financing activities	63,061,647	42,009,780
Net increase (decrease) in cash and cash equivalents	12,675,569	(726,477)
Cash and cash equivalents at beginning of year	13,698,296	14,424,774
Cash and cash equivalents at end of year ( <i>Note 3</i> )	¥ 26,373,866	¥ 13,698,296

*See notes to financial statements.*

# **JAPAN HOTEL REIT INVESTMENT CORPORATION**

## **Notes to Financial Statements**

### **For the years ended December 31, 2016 and 2015**

---

#### **1. Organization and Basis of Presentation**

##### **a. Organization**

Japan Hotel REIT Investment Corporation (“JHR”), formerly known as Nippon Hotel Fund Investment Corporation (the “Former NHF”), was established under the Act on Investment Trusts and Investment Corporations (the “Investment Trusts Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) Section on the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006. JHR is externally managed by a licensed asset management company, Japan Hotel REIT Advisors Co., Ltd.

Focusing on hotels, which are important components of the social infrastructure, and their profitability, JHR primarily invests in real estate related assets that are in themselves real estate which are wholly or partially used as hotels or real estate equivalents of such real estate or that are backed by such real estate or real estate equivalents.

In the fiscal period ended December 31, 2012, the Former NHF, as the surviving entity, merged with Japan Hotel and Resort, Inc. (the “Former JHR”), as the dissolved entity, with an effective date of April 1, 2012 (the “Merger”). In conjunction with the Merger, the Former NHF changed its name to Japan Hotel REIT Investment Corporation.

Through the Merger, nine properties held by the Former JHR were succeeded by JHR. As a result, as of the effective date of the Merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2016, JHR has ownership interests in 41 properties.

##### **b. Basis of presentation**

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been reformatted and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of JHR prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language financial statements, but not necessarily required for fair presentation, is not presented in the accompanying financial statements. JHR has not prepared consolidated financial statements, as JHR has no consolidating subsidiaries or entities.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, the amounts are rounded down to the nearest thousands or millions. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

#### **2. Summary of Significant Accounting Policies**

##### **a. Cash and cash equivalents**

Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.

##### **b. Property and equipment**

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of major property and equipment components are as follows:

Machinery and equipment	2 to 17 years
Tools, furniture and fixtures	2 to 20 years
Buildings in trust	2 to 62 years
Structures in trust	2 to 62 years
Machinery and equipment in trust	4 to 32 years
Tools, furniture and fixtures in trust	2 to 27 years

**c. Intangible assets**

Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.

Software (internal use) 5 years

Fixed-term leasehold rights: 41 or 49 years (remaining contractual period at the time of acquisition)

Leasehold rights in trust are intangible assets with indefinite useful lives.

**d. Investment unit issuance costs**

Investment unit issuance costs are amortized using the straight-line method over three years.

Underwriting fees, which usually form a part of investment unit issuance costs, have not incurred in the offerings executed during both years ended December 31, 2016 and 2015 due to the reason below;

The issuance of new investment units through public offerings on January 27, 2015, June 22, 2015, January 20, 2016 and July 27, 2016 was consummated under underwriting agreements in which underwriting securities companies committed to purchase all of the investment units being offered at an issue value and selling them at an offering price different from such issue value to general investors (the “spread method”). No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥1,571,900 thousand for the year ended December 31, 2016 and ¥858,900 thousand for the year ended December 31, 2015 respectively, representing the difference between the issue price and the issue value of all new investment units issued.

**e. Investment corporation bond issuance costs**

Investment corporation bond issuance costs are amortized using the effective interest rate method over the respective term of the bond.

**f. Taxes on property and equipment**

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for property taxes and city planning taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was ¥101,229 thousand for the year ended December 31, 2016 and ¥180,668 thousand for the year ended December 31, 2015.

**g. Derivatives and hedging activities**

JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which are defined in the Articles of Incorporation, mainly arising from adverse fluctuations in interest rates on loans payable. Derivative financial instruments are carried at fair value with changes in the unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting in which the unrealized gain or loss is deferred as a component of net assets.

JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.

**h. Accounting treatment of beneficiary interests in trust assets including real estate**

For real estate beneficial interest in trust, all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the relevant balance sheet and income statement accounts.

**i. Consumption taxes**

Consumption taxes are excluded from the transaction amounts.

### 3. Cash Flow Information

- a. Cash and cash equivalents as of December 31, 2016 and 2015 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
Cash and deposits	¥ 15,141,393	¥ 5,450,696
Cash and deposits in trust	11,232,472	8,247,600
Cash and cash equivalents	¥ 26,373,866	¥ 13,698,296

b. Significant non-cash transactions

For the year ended December 31, 2016, JHR recognized asset retirement obligations as it is obliged to restore the land of Hotel Centraza Hakata, acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with each of the fixed-term land leasehold agreements. As a result, each balance of the buildings in trust and the asset retirement obligations increased by ¥440,168 thousand.

There was no significant transaction for the year ended December 31, 2015.

### 4. Financial Instruments

a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trusts Act, managing investments mainly in specified assets as prescribed in the Investment Trusts Act. As a policy, JHR procures funds through issuance of investment units, etc. and loans from financial institutions in order to make selective investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risk, JHR may enter into derivative transactions, if necessary.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the asset management company. Derivative transactions are arranged by the finance section of the asset management company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

Loans payable expose JHR to liquidity risks. The finance section of the asset management company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitors compliance with restrictive covenants set forth in the loan agreements. JHR manages liquidity risks by managing the ratio of short-term and long-term loans payable considering the current financial environment through approval and resolution by authorized personnel and meeting committee structure in the asset management company and resolution of JHR's board of directors.

b. Fair Value of Financial Instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2016 and 2015 were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table. See Note (2) below.

<i>Thousands of yen</i>			
As of December 31, 2016			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 15,141,393	¥ 15,141,393	¥ -
(ii) Cash and deposits in trust	11,232,472	11,232,472	-
Total	¥ 26,373,866	¥ 26,373,866	¥ -
(iii) Short-term loans payable	¥ 1,800,000	¥ 1,800,000	¥ -
(iv) Current portion of investment corporation bonds	-	-	-
(v) Current portion of long-term loans payable	9,679,250	9,679,250	-
(vi) Investment corporation bonds	22,600,000	22,629,640	29,640
(vii) Long-term loans payable	92,099,750	92,099,750	-
Total	¥ 126,179,000	¥ 126,208,640	¥ 29,640
(viii) Derivative transactions (*)	¥ (554,282)	¥ (554,282)	¥ -

  

<i>Thousands of yen</i>			
As of December 31, 2015			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 5,450,696	¥ 5,450,696	¥ -
(ii) Cash and deposits in trust	8,247,600	8,247,600	-
Total	¥ 13,698,296	¥ 13,698,296	¥ -
(iii) Short-term loans payable	¥ 9,000,000	¥ 9,000,000	¥ -
(iv) Current portion of investment corporation bonds	2,500,000	2,507,000	7,000
(v) Current portion of long-term loans payable	11,393,603	11,393,603	-
(vi) Investment corporation bonds	9,500,000	9,544,450	44,450
(vii) Long-term loans payable	70,379,000	70,379,000	-
Total	¥ 102,772,603	¥ 102,824,053	¥ 51,450
(viii) Derivative transactions (*)	¥ (532,584)	¥ (532,584)	¥ -

(\*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

Notes:

(1) Methods to measure fair value of financial instruments

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) Short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

(iv) Current portion of investment corporation bonds, (vi) Investment corporation bonds

The fair value of these instruments is measured based on the market price.

(v) Current portion of long-term loans payable, (vii) Long-term loans payable

The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are adjusted periodically to reflect market interest rates.

(viii) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 16.

(2) Information on financial instruments whose fair values are considered extremely difficult to measure as of December 31, 2016 and 2015 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
	Carrying amount	
Tenant leasehold and security deposits	¥ 1,041,032	¥ 2,041,032
Tenant leasehold and security deposits in trust	4,619,744	2,914,912
Total	¥ 5,660,776	¥ 4,955,944

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) are not subject to fair value measurement because they have no market price and their actual deposit periods from a tenant's move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows difficult.

(3) Redemption schedule for monetary claims as of December 31, 2016 and 2015:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2016						
Cash and deposits	¥15,141,393	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,232,472	-	-	-	-	-
Total	¥26,373,866	¥ -	¥ -	¥ -	¥ -	¥ -

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2015						
Cash and deposits	¥ 5,450,696	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	8,247,600	-	-	-	-	-
Total	¥13,698,296	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2016 and 2015.

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2016						
Short-term loan payable	¥ 1,800,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of investment corporation bonds	-	-	-	-	-	-
Current portion of long-term loans payable	9,679,250	-	-	-	-	-
Investment corporation bonds	-	-	2,000,000	-	1,500,000	19,100,000
Long-term loans payable	-	13,322,750	11,217,000	13,544,000	10,800,000	43,216,000
Total	¥11,479,250	¥13,322,750	¥13,217,000	¥13,544,000	¥12,300,000	¥62,316,000

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2015						
Short-term loan payable	¥ 9,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of investment corporation bonds	2,500,000	-	-	-	-	-
Current portion of long-term loans payable	11,393,603	-	-	-	-	-
Investment corporation bonds	-	-	-	2,000,000	-	7,500,000
Long-term loans payable	-	9,679,250	13,322,750	6,317,000	13,544,000	27,516,000
Total	¥22,893,603	¥9,679,250	¥13,322,750	¥8,317,000	¥13,544,000	¥35,016,000



## 5. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2016 and 2015 consisted of the following:

		Millions of yen	
		As of December 31, 2016	As of December 31, 2015
	Maturity date	Amount	
<b>Short-term loans payable:</b>			
0.41% Unsecured loan, payable in a lump-sum at maturity (*3)	November 30, 2016	¥ -	¥ 9,000
0.34% Unsecured loan, payable in a lump-sum at maturity	February 28, 2017	1,700	-
0.35% Unsecured loan, payable in a lump-sum at maturity	November 30, 2017	100	-
Sub-total		1,800	9,000
<b>Long-term loans payable:</b>			
2.01% Unsecured loan, payable in a lump-sum at maturity (*1, 4)	March 28, 2016	-	2,576
1.97% Unsecured loan, payable in a lump-sum at maturity	March 28, 2016	-	1,081
1.52% Unsecured loan, payable ¥50,000 thousand quarterly and the remaining balance in a lump-sum at maturity	March 28, 2016	-	7
1.47% Unsecured loan, payable in a lump-sum at maturity (*1)	September 19, 2017	2,550	2,550
1.29% Unsecured loan, payable in a lump-sum at maturity (*1)	March 28, 2016	-	1,991
1.38% Unsecured loan, payable in a lump-sum at maturity (*1)	November 15, 2017	6,500	6,500
0.93% Unsecured loan, payable ¥1,625 thousand monthly and the remaining balance in a lump-sum at maturity	February 29, 2016	-	1,742
0.90% Unsecured loan, payable ¥2,250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2017	479	488
0.87% Unsecured loan, payable ¥11,000 thousand quarterly and the remaining balance in a lump-sum at maturity (*3)	April 26, 2016	-	3,835
1.00% Unsecured loan, payable ¥11,250 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2018	4,342	4,387
0.98% Unsecured loan, payable ¥7,250 thousand quarterly and the remaining balance in a lump-sum at maturity (*1)	September 30, 2018	2,733	2,762
0.98% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2018	3,000	3,000
0.73% Unsecured loan, payable ¥19,000 thousand quarterly and the remaining balance in a lump-sum at maturity (*1)	March 31, 2018	3,397	3,473
1.15% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2021	6,800	6,800
0.60% Unsecured loan, payable in a lump-sum at maturity (*2)	September 30, 2019	6,317	6,317
0.92% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2020	6,817	6,817
1.04% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2021	4,000	4,000
0.55% Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	935	935
0.38% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2020	4,700	4,700
0.90% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2022	8,200	8,200
0.93% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2022	1,500	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	June 30, 2022	1,500	1,500
0.50% Unsecured loan, payable in a lump-sum at maturity	June 30, 2020	1,092	1,092
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,636	2,636
0.21% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	2,000	-
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	1,760	-
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	1,140	-
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	3,850	-
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	2,650	-
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2023	4,700	-
0.66% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	800	-
0.57% Unsecured loan, payable in a lump-sum at maturity	March 31, 2024	500	-
0.74% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	9,500	-
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	1,300	-
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	2,000	-
0.59% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	700	-
0.71% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	500	-
Sub-total		101,779	81,772
Total of short-term and long-term loans payable		¥ 103,579	¥ 90,772

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2016, or the most recent year, based on the number of days and outstanding balance of the loans payable. The interest rate is rounded to the nearest second decimal place.

Notes:

- (\*1) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is the rate obtained by taking into account the effect of interest rate swaps (interest rate fixation), rounded off to two decimal places.
- (\*2) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.
- (\*3) JHR made early repayment of the full amount of these loans payable on March 31, 2016.
- (\*4) JHR extended the repayment date of the loan from March 24, 2016 to March 28, 2016, and repaid the full amount.

## 6. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2016 and 2015 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2016	As of December 31, 2015
Unsecured 2nd investment corporation bond at interest rate of 0.89%, due on November 25, 2016	¥ -	¥ 2,500
Unsecured 3rd investment corporation bond at interest rate of 0.92%, due on March 19, 2019	2,000	2,000
Unsecured 4th investment corporation bond at interest rate of 0.86%, due on December 17, 2021	1,500	1,500
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022	6,000	6,000
Unsecured 6th investment corporation bond at interest rate of 0.935%, due on March 19, 2026	3,000	-
Unsecured 7th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	9,000	-
Unsecured 8th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	1,100	-
Total	¥ 22,600	¥ 12,000

## 7. Asset Retirement Obligations

### a. Outline of the asset retirement obligations

JHR recognized asset retirement obligations as it is obliged to restore the land of Hotel Centraza Hakata, acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with each of the fixed-term land leasehold agreements.

### b. Calculation method of the asset retirement obligations

The amount of each asset retirement obligation was calculated by using the discount rates of 0.484% and 0.394%, respectively, and estimating the expected periods of use based on the remaining useful lives of the related buildings (34 years and 48 years, respectively).

**c. Changes in the total amount of the asset retirement obligations**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
Balance at beginning of year	¥ -	¥ -
Increase due to acquisition of property and equipment	440,168	-
Adjustment due to accretion expense	1,373	-
Balance at end of year	¥ 441,542	¥ -

**8. Net Assets**

JHR maintains at least ¥50,000 thousand as the minimum net assets as required by the Investment Trusts Act.

Dividends related to each period but declared and paid after the balance sheet date are summarized as follows:

	<i>yen</i>			
	For the year ended December 31, 2016		For the year ended December 31, 2015	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 12,126,057,948		¥ 9,296,121,922	
II Reversal of voluntary reserve				
Reversal of dividend reserve	13,867,228,256	¥ 3,686	60,847,707	¥ 19
III Dividends	12,865,721,940	¥ 3,420	9,354,075,325	¥ 2,975
IV Voluntary reserve				
Reserve for temporary difference adjustment (*)	13,127,153,216	¥ 3,489	-	¥ -
V Retained earnings carried forward	¥ 411,048		¥ 2,894,304	

(\*) JHR applied the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015) from this year. As a result, ¥13,127,153,216 of the dividend reserve, representing the remaining balance of the gain on negative goodwill recorded in a prior fiscal period, was transferred to the “reserve for temporary difference adjustment” account through the appropriation of profit. Starting from the next fiscal year, JHR plans to reverse the reserve every fiscal year in an amount that shall be at least 2% of the transferred amount but not exceeding the remaining amount of the reserve at that point.

## 9. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2016 and 2015 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2016	For the year ended December 31, 2015
Operating revenue:		
Real estate operating revenue:		
Fixed rent	¥ 11,772,386	¥ 9,909,942
Variable rent	6,808,433	4,460,082
Income from management contract (*1)	2,584,265	2,262,502
Sub-total	21,165,085	16,632,526
Other real estate operating revenue:		
Parking lots	158,750	87,100
Other incidental revenue	40,775	41,191
Utilities	545,754	261,412
Other	197,104	11,644
Sub-total	942,384	401,349
Total operating revenue	22,107,470	17,033,876
Real estate operating costs:		
Land lease and other rent expenses	710,456	463,289
Property taxes	1,216,710	940,806
Outsourcing expenses (*2)	609,823	387,958
Nonlife insurance	41,944	32,334
Depreciation and amortization	3,294,081	2,772,440
Loss on disposal of property and equipment	16,662	25,790
Repairs	68,632	65,240
Utilities	541,127	259,741
Trust fees	41,764	42,674
Other	48,706	12,224
Total real estate operating costs	6,589,908	5,002,501
Net real estate operating income	¥ 15,517,561	¥ 12,031,375

Notes:

- (\*1) Pursuant to our management contracts with a certain hotel operator, we receive revenue in the amount equivalent to the properties’ gross operating profit, or GOP, while we pay management contract fees to the operator. In the event a property’s GOP for the relevant period is a negative number, then we are required to pay an amount equal to such negative number to the operator. Even though some of the revenue we receive under management contracts is variable, we recognize such revenue as income from management contracts and not as variable rent.
- (\*2) Outsourcing expenses include management contract fees of ¥318,587 thousand for the year ended December 31, 2016 and ¥239,507 thousand for the year ended December 31, 2015.

## 10. Gain on Sale of Real Estate Properties

There was no significant transaction for the year ended December 31, 2016.

The components of “Gain on sale of real estate properties” for the year ended December 31, 2015 were as follows:

	<i>Thousands of yen</i>			
	For the year ended December 31, 2015			
	Comfort Hotel Shin-Yamaguchi	Daiwa Roynet Hotel Akita	Hotel Sunroute Niigata	Total
Proceeds from sale of properties	¥ *	¥ *	¥ *	¥ 4,890,000
Costs of sale of properties	787,727	1,644,598	1,967,716	4,400,042
Other selling expenses	33,684	72,401	78,203	184,288
Gain on sale of real estate properties	¥ -	¥ -	¥ -	¥ 305,668

\* The sale prices for each property have not been disclosed as consent on disclosure has not been obtained from the purchaser.

## 11. Advanced Depreciation of Property and Equipment

The accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received as of December 31, 2016 and 2015 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
Buildings in trust	¥ 24,921	¥ 24,921

## 12. Loss on disaster

Restoration costs for assets damaged by the 2016 Kumamoto Earthquake were recorded as an extraordinary losses for the year ended December 31, 2016.

## 13. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2016 and 2015 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2016	As of December 31, 2015
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,775,942	¥ 1,833,861
Amortization of fixed-term leasehold rights	32,589	-
Asset retirement obligations	3,087	-
Deferred losses on hedges	221,352	179,626
Subtotal deferred tax assets	2,032,972	2,013,488
Valuation allowance	(2,032,972)	(2,013,488)
Total deferred tax assets	¥ -	¥ -
Deferred tax liabilities		
Deferred gains on hedges	46,233	-
Total deferred tax liabilities	¥ 46,233	¥ -

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2016 and 2015 was as follows:

	For the year ended December 31, 2016	For the year ended December 31, 2015
Effective statutory tax rate	32.31%	34.15%
Deduction for dividends paid	(32.37)	(32.59)
Change in valuation allowance	(0.21)	(2.72)
Other – net	0.28	1.17
Actual effective tax rate	0.01%	0.01%

#### 14. Amounts per Unit

Net income per unit for the years ended December 31, 2016 and 2015 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
	Net income	Weighted- average units	Net income per unit
For the year ended December 31, 2016			
Basic net income per unit - Net income attributable to common unitholders	¥ 12,123,163	3,501,175	¥ 3,462
For the year ended December 31, 2015			
Basic net income per unit - Net income attributable to common unitholders	¥ 9,294,677	3,060,647	¥ 3,036

Notes:

- (1) The computation of net income per unit is based on the weighted-average number of units outstanding during the period.
- (2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2016 and 2015.

Net assets per unit as of December 31, 2016 and 2015 were as follows:

	<i>Yen</i>
	As of December 31, 2016
Net assets per unit	¥ 48,376
	As of December 31, 2015
	¥ 41,318

#### 15. Leases

##### As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. Minimum rental revenue under the non-cancellable operating leases as of December 31, 2016 and 2015 were as follows:

	<i>Thousands of yen</i>
	As of December 31, 2016
Due within one year	¥ 1,709,333
Due after one year	5,889,179
Total	¥ 7,598,512
	As of December 31, 2015
	¥ 1,788,631
	7,565,169
	¥ 9,353,800

## 16. Derivatives and Hedging Activities

### a. Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting is not applied as of December 31, 2016 and 2015 were as follows:

As of December 31, 2016	Classification	Thousands of yen		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,794,000	¥ 6,794,000	¥ (38,033)
Interest rate caps	Transactions other than market transactions	¥ 848,250	¥ -	¥ -

As of December 31, 2015	Classification	Thousands of yen		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,794,000	¥ 6,794,000	¥ (38,598)
Interest rate caps	Transactions other than market transactions	¥ 848,250	¥ 848,250	¥ 34

### b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting is applied as of December 31, 2016 and 2015 were as follows:

As of December 31, 2016	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 92,428,750	¥ 82,808,750	¥ (516,439)
Interest rate caps	Deferral method	Long-term loans payable	4,286,250	4,286,250	190

As of December 31, 2015	Method of accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after One year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥63,581,950	¥ 58,028,750	¥ (495,258)
Interest rate caps	Deferral method	Long-term loans payable	8,565,250	4,286,250	1,238

Notes:

(\*1) The contract amounts of the interest rate swap and interest rate cap are presented based on the notional principal amounts. Also, the contract amounts of derivative transactions do not indicate market risk exposure related to derivative transactions.

(\*2) The fair value is measured at the quoted price obtained from the counterparty financial institutions.

## 17. Investment and Rental Properties

JHR owns rental properties for hotels to earn lease income and income from management contracts. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

	Thousands of yen			
	Carrying amount			Fair value (*2)
	January 1, 2016	Net increase (*1)	December 31, 2016	December 31, 2016
Hotels	¥ 222,362,750	¥ 62,602,797	¥ 284,965,547	¥ 398,770,000

Notes:

(\*1) Increase during 2016 principally represents the acquisition of CANDEO HOTELS UENO-KOEN for ¥6,784 million, Hotel Centraza Hakata for ¥7,614 million, Holiday Inn Osaka Namba (HOTEL VISTA GRANDE OSAKA) for ¥27,245 million, HOTEL ASCENT FUKUOKA for ¥5,222 million and Hilton Nagoya for ¥15,488 million.

(\*2) Fair value of properties as of December 31, 2016 is generally the appraisal value determined by licensed real estate appraisers.

	Thousands of yen			
	Carrying amount			Fair value (*2)
	January 1, 2015	Net increase (*1)	December 31, 2015	December 31, 2015
Hotels	¥ 169,847,788	¥ 52,514,962	¥ 222,362,750	¥ 302,110,000

Notes:

(\*1) Increase during 2015 principally represents the acquisition of the five *the b* hotels for ¥20,230 million, Hotel Francs for ¥3,181 million, Mercure Yokosuka for ¥1,649 million, Okinawa Marriott Resort & Spa for ¥15,094 million and ACTIVE-INTER CITY HIROSHIMA for ¥17,949 million. Decrease during the year ended December 31, 2015 principally represents the sale of Comfort Hotel Shin-Yamaguchi (book value of ¥787 million), Daiwa Roynet Hotel Akita (book value of ¥1,644 million) and Hotel Sunroute Niigata (book value of ¥1,967 million).

(\*2) Fair value of properties as of December 31, 2015 is generally the appraisal value determined by licensed real estate appraisers.

Real estate operating revenue and costs for the years ended December 31, 2016 and 2015 related to the rental



properties were as follows:

<i>Thousands of yen</i>			
For the year ended December 31, 2016			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 22,107,470	¥ 6,589,908	¥ 15,517,561

  

<i>Thousands of yen</i>			
For the year ended December 31, 2015			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 17,033,876	¥ 5,002,501	¥ 12,031,375

Note:

(\*) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other real estate operating revenue) and corresponding expenses (such as depreciation, property taxes, trust fees, and repairs and maintenance expenses), and are included in “Operating revenue” and “Real estate operating costs,” respectively.

## 18. Segment Information

### a. Segment information

The segment information has been omitted because JHR has only one segment, which is the investment and management business of hotel real estate.

### b. Related information

(1) Information about products and services for the years ended December 31, 2016 and 2015

Information about products and services has been omitted because operating revenue from external customers in a single product/service category accounted for more than 90% of total operating revenue.

(2) Information about geographical areas for the years ended December 31, 2016 and 2015

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue in Japan accounted for more than 90% of total operating revenue.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment.

(3) Information about major customers

<For the year ended December 31, 2016>

Name of customer	Segment	<i>Thousands of yen</i>	
		Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	6,825,199
AAPC Japan K.K.	Hotel real estate investment and management	¥	2,980,712

<For the year ended December 31, 2015>

Name of customer	Segment	<i>Thousands of yen</i>	
		Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	6,147,639
AAPC Japan K.K.	Hotel real estate investment and management	¥	2,546,023
The DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management		(*)

(\*) The operating revenue is not disclosed as consent on disclosure has not been obtained from the hotel lessee.

## 19. Subsequent Events

There were no material subsequent events.



## **Independent Auditor's Report**

To the Board of Directors of  
Japan Hotel REIT Investment Corporation:

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2016 and 2015, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

**KPMG AZSA LLC**

April 14, 2017  
Tokyo, Japan