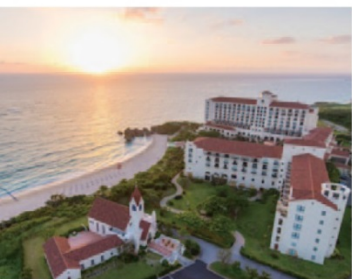


# J JAPAN HOTEL REIT



**Japan Hotel REIT Investment Corporation**

## **Midterm Financial Results Briefing 19th Period (FY12/2018)**

August 22, 2018

(TSE: 8985)

<http://www.jhrth.co.jp/en/>

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**I . MIDTERM SETTLEMENT OF ACCOUNTS FOR FY12/2018 -  
HIGHLIGHTS**

# 1. Highlights of Midterm – June 2018

## 1. External Growth

### ► Strategic property replacement

End of FY12/2015 **36** properties/JPY**225.7**Bn

#### ◆ Public Offering in Jan.

Acquired **2** properties/  
JPY**24.0**Bn<sup>(\*1)</sup>

#### Acquisition in 2016

Total Acquisition Price <sup>(*1,2)</sup>	Total Funds Raised through Public Offerings
JPY <b>78.3</b> Bn	JPY <b>49.3</b> Bn

#### ◆ Public Offering in Jul.

Acquired **4** properties/  
JPY**54.3**Bn<sup>(\*2)</sup>

End of FY12/2016 **41** properties/JPY**286.8**Bn

#### ◆ Public Offering in Jun.

Acquired **3** properties/  
JPY**32.6**Bn

#### Acquisition in 2017

Total Acquisition Price	Total Funds Raised through Public Offerings
JPY <b>32.6</b> Bn	JPY <b>18.6</b> Bn

End of FY12/2017 **44** properties/JPY**319.4**Bn

#### ◆ Sale of Properties in Aug.

Sold **▲3** properties/  
▲JPY**10.1**Bn<sup>(\*3)</sup>

#### Sale in 2018

Total Book Value of Sold Properties	Total Sales Price of Sold Properties
JPY <b>101</b> Bn	JPY <b>121</b> Bn

R&B Hotel Higashi-nihonbashi  
the b akasaka-mitsuke  
the b ochanomizu

Total Gain on Sale:  
JPY**1.9**Bn

As of Aug. 22, 2018 **41** properties/JPY**309.3**Bn

## 2. Internal Growth<sup>(\*4,5,6)</sup>

### ► Improvement in hotel performance and increase in variable rent, etc. through active asset management

#### ◆ RevPAR

(Unit: JPY)

Name	First Half of 2017	First Half of 2018	Variance (%)
11 HMJ Hotels	13,027	13,306	+2.1%
6 Accor Hotels	9,652	10,071	+4.3%
6 the b Hotels	8,433	8,495	+0.7%
<b>Total</b>	<b>11,641</b>	<b>11,922</b>	<b>+2.4%</b>

#### ◆ Year on Year Change (forecast) in Rent for Full Year 2018

Name	Variance (JPY MM)	Variance (%)
8 HMJ Hotels	+272	+2.7%
6 Accor Hotels	+207	+7.1%
4 the b Hotels	-13	-1.6%
Revenue Sharing, etc.	-18	-0.4%
<b>Total</b>	<b>+447</b>	<b>+2.5%</b>

<sup>(\*1)</sup> Includes JPY17.3 billion of ACTIVE-INTER CITY HIROSHIMA acquired in December 2015.

<sup>(\*2)</sup> Includes JPY7.1 billion of Hotel Centraza Hakata acquired in April 2016.

<sup>(\*3)</sup> Stated total amount of the acquisition price.

<sup>(\*4)</sup> The Eight HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (the major facility of ACTIVE-INTER CITY HIROSHIMA) and Holiday Inn Osaka Namba. The Eleven HMJ Hotels are the Eight HMJ Hotels plus Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara.

<sup>(\*5)</sup> The Six Accor Hotels are ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha and Mercure Yokosuka.

<sup>(\*6)</sup> The Four the b Hotels are the b Ikebukuro, the b Hachioji, the b Hakata and the b Suidobashi. The Six the b Hotels are the Four the b Hotels plus the b Akasaka-Mitsuke, the b Ochanomizu.

<sup>(\*7)</sup> Stating total asset LTV at the end of December 2018 (forecast).

<sup>(\*8)</sup> For details, please refer to P.37.

## 3. Strengthening of Financial Base

### ► Conservative financial management

(End of June 2018)

LTV <sup>(*7)</sup>	Costs for Interest-Bearing Debt	Average Life of Debt
39.0%	1.1%	4.9 years

#### ◆ Diversified funding methods by issuance of investment corporation bonds

- Issued investment corporation bonds for retail investors (the third)  
Total amount of bonds: JPY10 billion  
Maturity period: 10 years  
Interest rate: 0.84%

#### ◆ Procurement of new loan utilizing SMBC Environmental Assessment Loan ("A" grade)<sup>(\*8)</sup>

#### ◆ Repayment of the existing loans in accordance with sales of three properties (JPY5.0 billion)

#### ◆ Retained earnings by reserve for special advanced depreciation

- Retained earnings in amount of JPY1.2 billion out of gain on sale of R&B Hotel Higashi-nihonbashi JHR hold over 10 years

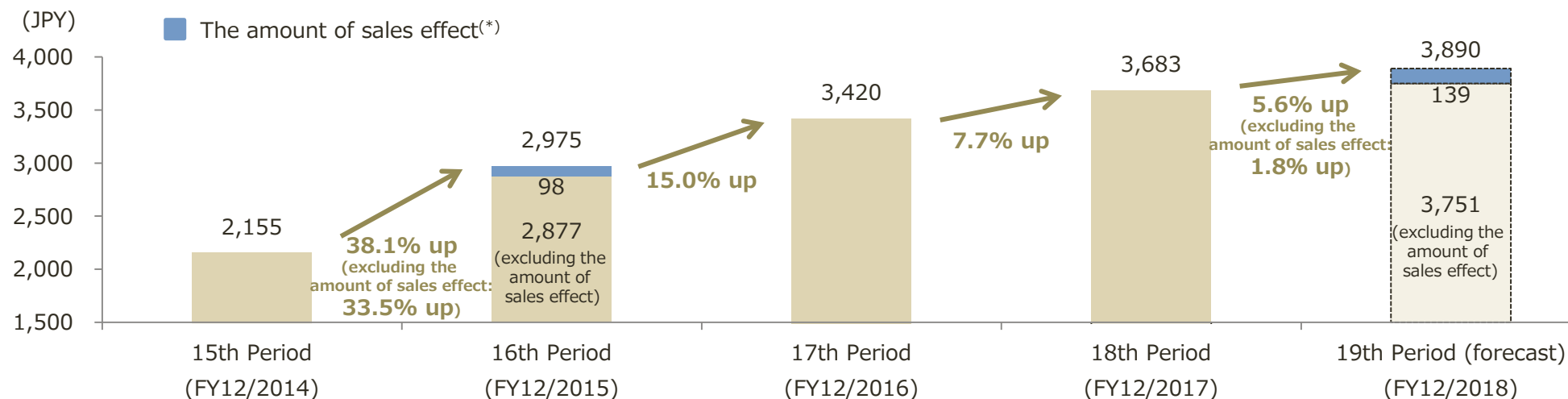
#### ◆ Status of Credit Rating

JCR	R&I
A+ (stable)	A (stable)

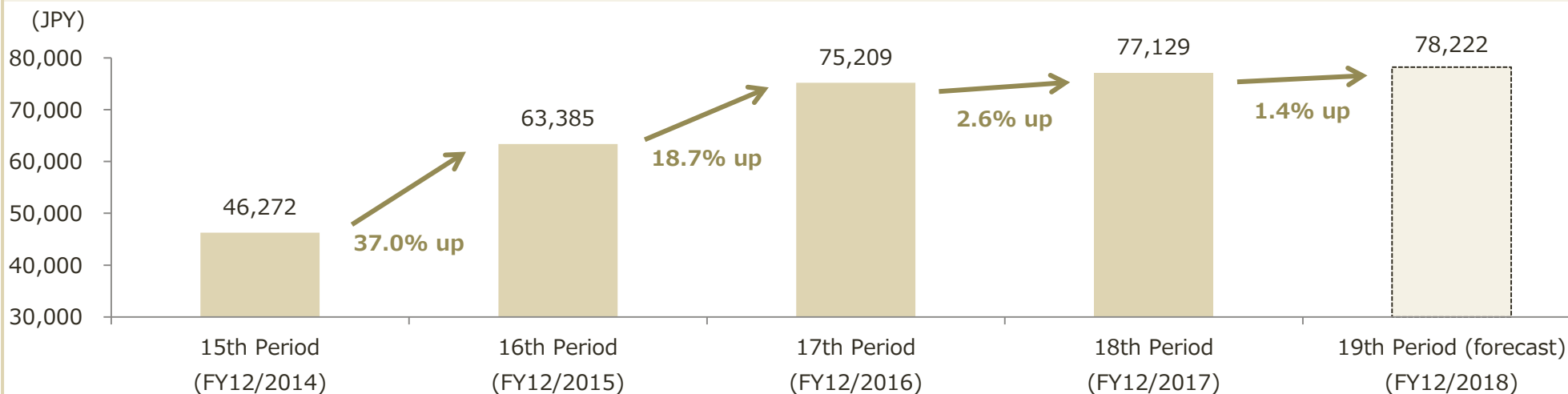


# 1. Highlights of Midterm – June 2018 (cont.)

## Dividends Per Unit Growth



## NAV Per Unit Growth



(\*) The amount of sales effect represents dividends per unit which are increasing due to sales of properties.

## **II. SUMMARY OF MIDTERM SETTLEMENT OF ACCOUNTS AND REVENUE FORECAST FOR THE FULL FISCAL YEAR**

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# 1. Midterm Results for the Fiscal Year Ending December 2018

(Unit: JPY MM)

		FY12/2017 (18th Period)	FY12/2018 (19th Period)	Variance		Breakdown of Variance	
		Midterm Actual (A)	Midterm Actual (B)	(B)–(A)	Variance (%)	Three Properties Acquired in 2017	Existing Properties
Properties	No. of Properties	41	44	3	-		
	Acquisition Price	286,801	319,474	32,673	-		
Profit and Loss	Operating Revenue	11,272	12,321	1,049	0.6%	987	61
	Real Estate Operating Revenue	11,272	12,321	1,049	0.6%	987	61
	Fixed Rent, etc.	60.5%	60.3%	615	0.1%	600	15
	Variable Rent	39.5%	39.7%	433	1.3%	387	45
	NOI <sup>(*2)</sup>	9,364	10,294	929	0.9%	939	(9)
	Depreciation	1,756	2,031	275		197	78
	Asset Retirement Obligations Expenses	1	1	0		-	0
	Loss on Retirement of Noncurrent Assets	18	11	(6)		-	(6)
	NOI after Depreciation <sup>(*2)</sup>	7,588	8,250	661	1.3%	742	(80)
	Other Operating Expenses	847	930	82			
	Operating Income	6,740	7,319	578	1.3%		
	Non-Operating Income	14	28	13			
	Non-Operating Expenses	803	959	155			
	Ordinary Income	5,951	6,387	436	1.3%		
	Net Income (Midterm)	5,951	6,387	436	1.3%		

## Major Causes of Variance

### Fixed rent, etc. of the existing properties

- Increase in utilities income, etc. JPY15 MM

### Variable rent of the existing properties

- The Eight HMJ Hotels: increase in variable rent JPY53 MM
- The Six Accor Hotels: increase in income from management contracts, etc. JPY69 MM
- The Six *the b* Hotels: decrease in variable rent JPY(4) MM
- Increase in rent from revenue sharing, etc. JPY4 MM
- Hotel Centraza Hakata: decrease in variable rent due to the renovation<sup>(\*3)</sup> JPY(77) MM

(Total) JPY45 MM

(\*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2018 (January 1, 2018–June 30, 2018) dated August 22, 2018.

(\*2) Each is calculated using the following formula:  
 NOI (Net Operating Income) =  
 Real estate operating revenue – Real estate operating costs + Depreciation  
 + Loss on retirement of noncurrent assets + Asset retirement obligations  
 expenses  
 NOI after depreciation = Real estate operating revenue – Real estate  
 operating costs

(\*3) As for Hotel Centraza Hakata, the effect of expected decrease in GOP due to the renovation with suspension of sales from October 2018 is incorporated in the result of midterm of FY12/2018.

## 2. Revenue Forecast for the Full Fiscal Year Ending December 2018

(Unit: JPY MM)

		FY12/2017 (18th Period)		FY12/2018 (19th Period)		Comparison with Previous Forecast			
		Actual	Previous Forecast <sup>(*)2</sup> (A)	Forecast This Time		(B)-(A)	Variance (%)	Sales Properties	Existing Properties
Properties	No. of Properties	44	44	41	41	(3)		(3)	
	Acquisition Price	319,474	319,474	309,370	309,370	(10,104)		(10,104)	
Profit and Loss	Operating Revenue	25,475	26,567	28,485	26,269	1,917	7.2%	1,753	164
	Real Estate Operating Revenue	25,475	26,567	26,548	26,269	(19)	(0.1)%	(183)	164
	Fixed Rent, etc.	55.8% 14,221	56.0% 14,878	55.6% 14,763	55.4% 14,564	(114)	(0.8)%	(128)	14
	Variable Rent	44.2% 11,253	44.0% 11,689	44.4% 11,784	44.6% 11,704	94	0.8%	(55)	149
	Gain on Sale of Real Estate Properties	-	-	1,937	-	1,937		1,937	
	NOI	21,424	22,186	22,221	21,927	34	0.2%	(165)	199
	NOI Yield	6.7%	6.9%	7.2%	7.1%	0.3%		0.2%	0.1%
	Depreciation	3,725	4,083	4,049	4,014	(33)		(18)	(15)
	Loss on Retirement of Noncurrent Assets	132	38	17	17	(20)		-	(20)
	NOI after Depreciation	17,563	18,062	18,152	17,893	89	0.5%	(146)	236
	NOI Yield after Depreciation	5.5%	5.7%	5.9%	5.8%	0.2%		0.1%	0.1%
	Other Operating Expenses	1,806	1,968	1,966	1,944	(1)		0	(2)
	Operating Income	15,757	16,094	18,122	15,948	2,028	12.6%	1,790	238
	Non-operating Expenses, etc.	1,751	1,798	1,827	1,817	29	1.7%		
	Non-operating Income	27	8	28	28	19		-	19
	Non-operating Expenses	1,778	1,806	1,856	1,846	49		(6)	55
	Ordinary Income	14,006	14,295	16,294	14,130	1,998	14.0%	1,796	202
	Extraordinary Income or Loss, etc.	1	1	1	1	-		-	-
	Net Income	14,005	14,294	16,293	14,129	1,998	14.0%	1,796	202
Dividend	Use of Negative Goodwill <sup>(*)4</sup>	769	565	544	544	(20)	-	-	(20)
	Reserve for special advanced depreciation	-	-	(1,235)	0	(1,235)	-	(1,235)	0
	Total Dividends	14,771	14,860	15,602	14,671	742		557	184
	No. of Units Issued (Unit)	4,010,847	4,010,847	4,010,847	4,010,847	-	-	-	-
Dividend per Unit (JPY)		3,683	3,705	3,890	3,658	185	5.0%	139	46

+5.6%

+5.0%

### Major Causes of Variance

#### Fixed rent

- Decrease in rent from tenant other than hotel JPY(8) MM
  - Increase in utilities income, etc. JPY22 MM
- (sub total) JPY14 MM

- Decrease due to property sales JPY(128) MM
- (Total) JPY(114) MM

#### Variable rent

- The Twelve HMJ Hotels: Increase in variable rent JPY62 MM
  - The Six Accor Hotels: Increase in income from management contracts, etc. JPY41 MM
  - The Six the b Hotels: Increase in variable rent JPY4 MM
  - Increase in rent from revenue sharing, etc. JPY42 MM
- (sub total) JPY149 MM

- Decrease in variable rent due to property sales JPY(55) MM
- (Total) JPY94 MM

#### Use of Negative Goodwill<sup>(\*)4</sup>

- 50-year amortization amount JPY262 MM
  - Loss on retirement of noncurrent assets JPY17 MM
  - Correspondence to major renovation works JPY265 MM
- (Total) JPY544 MM

(\*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2018 (January 1, 2018-June 30, 2018) dated August 22, 2018.

(\*2) Stating the forecast disclosed on the Financial Report for the Fiscal Year Ended December 31, 2017 (January 1, 2017-December 31, 2017) dated February 22, 2018.

(\*3) The Twelve HMJ Hotels are the Eleven HMJ Hotels plus Hotel Centraza Hakata.

(\*4) Please refer to P.26 for the use of negative goodwill (reserve for temporary difference adjustment).



### 3. Balance Sheet

(Unit: JPY MM)

	FY12/2017 End of Fiscal Year 2017.12.31	FY12/2018 End of Midterm 2018.6.30	Variance
(as of)			
<b>ASSETS</b>			
<b>Current Assets</b>	<b>30,919</b>	<b>23,676</b>	<b>(7,243)</b>
Cash and Deposits <sup>(*1)</sup>	27,920	21,422	(6,497)
Operating Accounts Receivables	2,411	1,742	(668)
Others	587	510	(76)
<b>Noncurrent assets</b>	<b>320,859</b>	<b>319,544</b>	<b>(1,314)</b>
Net Property and Equipment	283,066	282,096	(969)
Buildings in Trust <sup>(*2)</sup>	109,983	108,974	(1,009)
Land in Trust	171,618	171,618	0
Others <sup>(*3)</sup>	1,465	1,504	39
Intangible Assets	34,171	34,090	(80)
Other Assets	3,621	3,357	(264)
Leasehold and Security Deposits	170	170	0
Others	3,450	3,186	(264)
	<b>404</b>	<b>382</b>	<b>(21)</b>
<b>TOTAL ASSETS</b>	<b>352,183</b>	<b>343,603</b>	<b>(8,579)</b>

	FY12/2017 End of Fiscal Year 2017.12.31	FY12/2018 End of Midterm 2018.6.30	Variance
(as of)			
<b>LIABILITIES</b>			
<b>Current Liabilities</b>	<b>21,161</b>	<b>17,850</b>	<b>(3,311)</b>
Operating Accounts Payable	909	346	(563)
Short-Term Loans Payable	3,000	5,000	2,000
Current Portion of Investment Corporate Bonds Payable	0	2,000	2,000
Current Portion of Long-Term Loans Payable	15,022	8,589	(6,433)
Accounts Payable	1,211	910	(301)
Advances Received	900	905	5
Others	116	98	(18)
<b>Long-Term Liabilities</b>	<b>129,058</b>	<b>132,021</b>	<b>2,963</b>
Investment Corporation Bonds	23,600	31,600	8,000
Long-Term Loans Payable	98,777	93,871	(4,906)
Tenant Leasehold and Security Deposits	5,694	5,672	(21)
Derivative Liabilities	504	394	(109)
Others	482	483	0
<b>TOTAL LIABILITIES</b>	<b>150,219</b>	<b>149,872</b>	<b>(347)</b>
<b>NET ASSETS</b>			
Unitholders' Capital	153,516	153,516	0
Capital Surplus	21,746	21,746	0
Reserve for Temporary Difference Adjustment	13,127	12,357	(769)
Unappropriated Retained Earnings (midterm/year)	14,005	6,390	(7,615)
Others	(431)	(278)	152
<b>TOTAL NET ASSETS</b>	<b>201,963</b>	<b>193,731</b>	<b>(8,231)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>352,183</b>	<b>343,603</b>	<b>(8,579)</b>

(\*1) Cash and deposits in trust is included.

(\*2) The sum of buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, and construction in progress in trust.

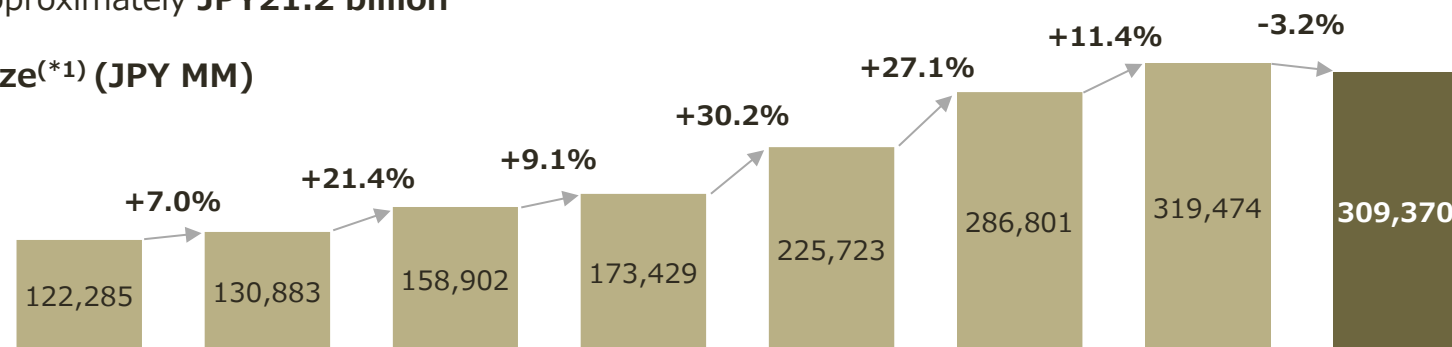
(\*3) The sum of machinery and equipment, tools, furniture and fixtures, and construction in progress.

### **III. EXTERNAL GROWTH**

# 1. Change in Asset Size

- ◆ Realize portfolio quality enhancement through asset replacement and continuous external growth by leveraging JHR's strength as an independent J-REIT specializing in hotel assets
- ◆ Acquired **24 properties**, approximately **JPY210 billion** worth of hotel assets since the merger, while sold **11** properties in the amount of approximately **JPY21.2 billion**

## Growth in Asset Size<sup>(\*1)</sup> (JPY MM)



	April 2012 (merger)	FY12/2012 (13th Period)	FY12/2013 (14th Period)	FY12/2014 (15th Period)	FY12/2015 (16th Period)	FY12/2016 (17th Period)	FY12/2017 (18th Period)	FY12/2018 (19th Period) (forecast)
NOI Yield (%) <sup>(*2)</sup>	–	6.2%	6.2%	6.3%	6.6%	6.6%	6.7%	7.2%
NOI Yield (After Depreciation) <sup>(*2)</sup>	–	4.5%	4.8%	5.0%	5.3%	5.4%	5.5%	5.9%
NAV Per Unit	–	JPY32,321	JPY36,074	JPY46,272	JPY63,385	JPY75,209	JPY77,129	JPY78,222

Acquisition	No. of Properties	2	2	3	9	5	3	
	Acquisition Price	JPY10.8Bn	JPY32.6Bn	JPY15.7Bn	JPY57.0Bn	JPY61.0Bn	JPY32.6Bn	
Sale	No. of Properties	2	2	1	3			3
	Sales Price	JPY0.8Bn	JPY2.6Bn	JPY0.7Bn	JPY4.8Bn			JPY12.1Bn
Total No. of Properties		28	28	30	36	41	44	41

(\*1) Total Assets refers to the total acquisition price.

(\*2) NOI yield for FY12/2012 is hypothetical yield calculated based on annualized actual NOI after merger.

Aim for  
Further  
Growth

## 2. Summary of Property Sales

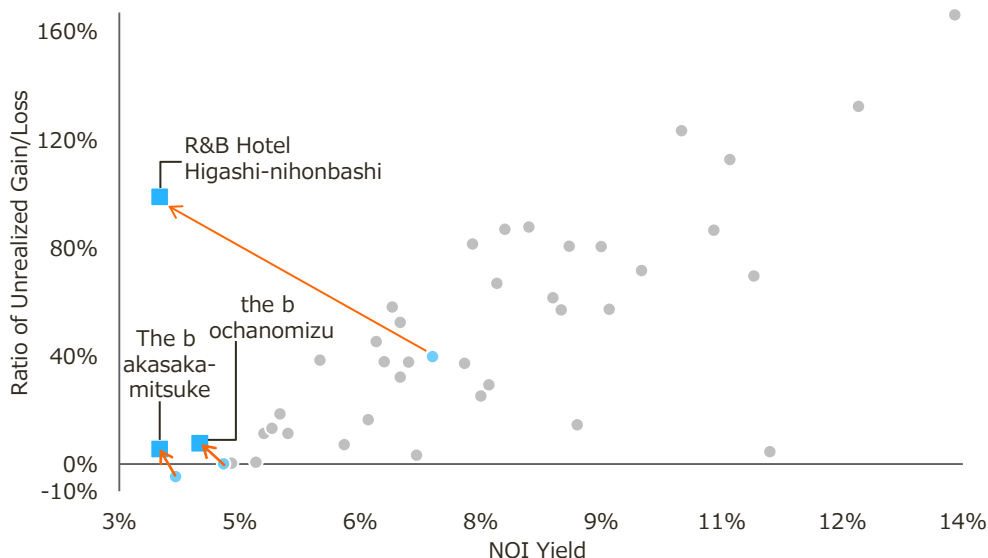
- ◆ Sold three properties in Tokyo in August 2018. Improve portfolio quality by replacement of assets

	R&B Hotel Higashi-nihonbashi	the b akasaka-mitsuke	the b ochanomizu	Total/Average
Acquisition Price	JPY1,534MM	JPY6,250MM	JPY2,320MM	JPY10,104MM
Book Value <sup>(*1)</sup>	JPY1,483MM	JPY6,293MM	JPY2,353MM	JPY10,131MM
Sale Price	JPY3,050MM	JPY6,600MM	JPY2,500MM	JPY12,150MM
Gain on Sale	JPY1,543MM	JPY265MM	JPY128MM	JPY1,937MM
<Reference>				
Appraisal Value <sup>(*2)</sup>	JPY2,090MM	JPY6,010MM	JPY2,360MM	JPY10,460MM
Appraisal NOI <sup>(*3)</sup> Yield to Sale Price	3.5%	3.5%	4.0%	3.6%

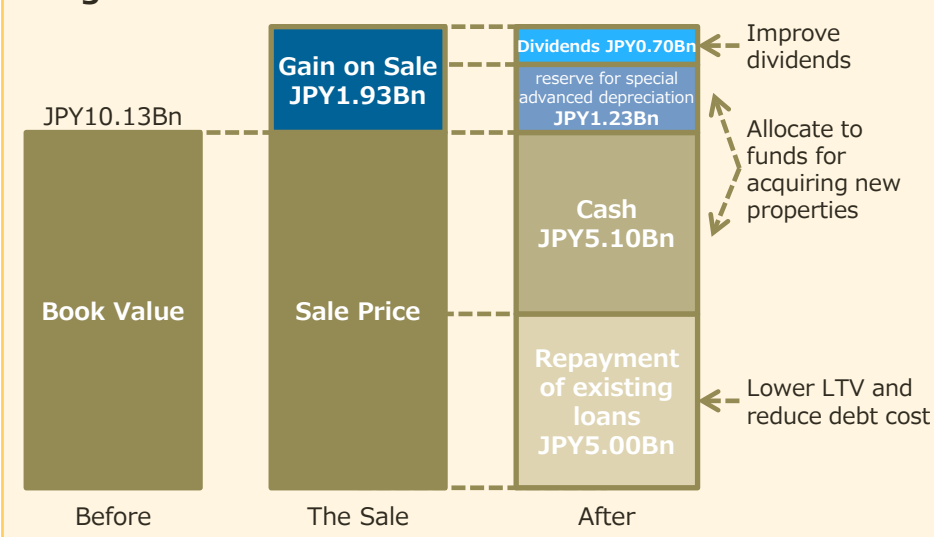
### Rational for the sales

- ◆ JHR decided to sell as a result of comprehensive consideration regarding positions of the assets (hotel types, locations, etc.), the competitiveness for mid-to-long term, upside and stability, etc.

### Ratio of Unrealized Gain/Loss and NOI Yield of each property<sup>(\*4)</sup>



### Usage of Gain on Sale



(\*1) As of the end of July, 2018 (estimated)

(\*2) As of the end of June, 2018

(\*3) NOI is the actual for FY ended December 2017.

(\*4) Ratio of unrealized gain/loss = (Appraisal value – book value) / book value (as of the end of June 2018). NOI yield is the actual for FY ended December 2017. "□" of three sold properties represents appraisal NOI yield to sale price and ratio of actualized gain on sale.

## **IV. PORTFOLIO**

# 1 . Portfolio

- ◆ Portfolio consisting of competitive hotels in areas with strong leisure lodging demand
- ◆ Selectively invest in locations with high growth potential of leisure demand such as Strategic Investment Areas

## Portfolio Summary

(as of Aug. 22, 2018)

### Total Assets

JPY**309.3**Bn

### No. of Hotels

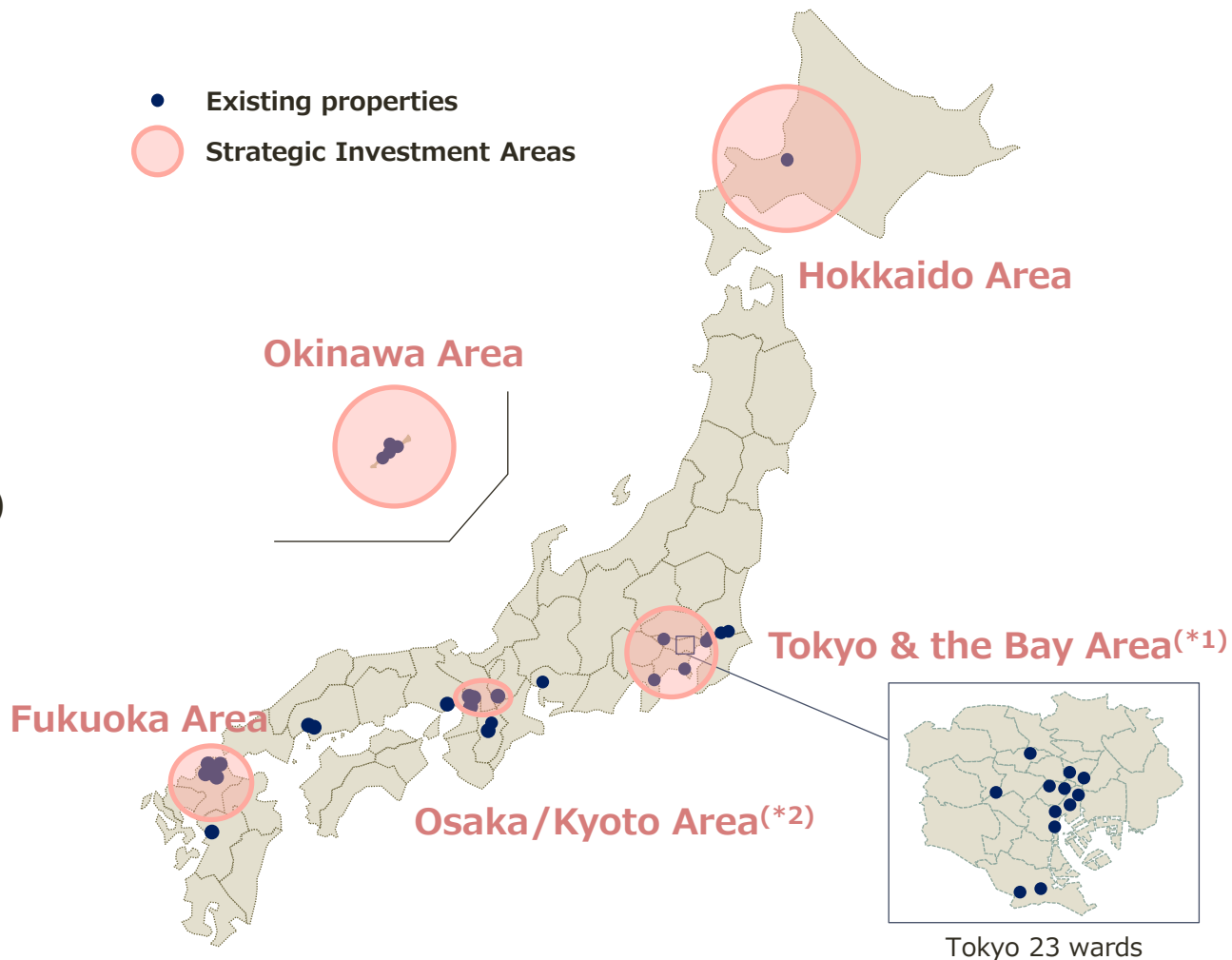
**41** Hotels

(**32** in Strategic Investment Areas)

### No. of Guest Rooms

**11,090** Rooms

## Strategic Investment Areas and Locations of Properties



(\*1) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.

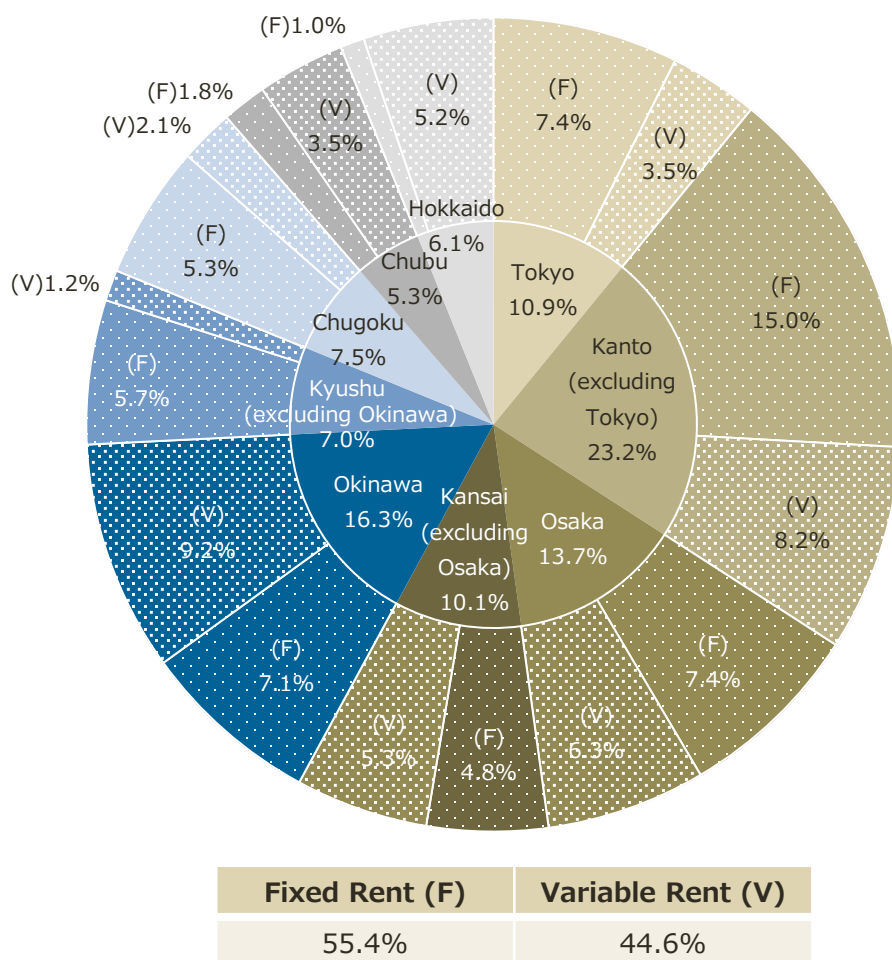
(\*2) Osaka/Kyoto Area refers to Osaka and Kyoto prefectures.



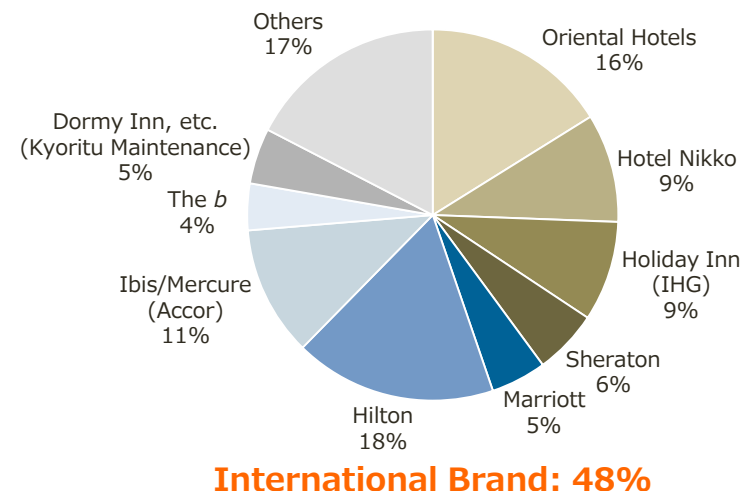
## 2. Diversification of Portfolio

- ◆ Widely diversified and high-quality portfolio
- ◆ Appeal to inbound visitors by international brands

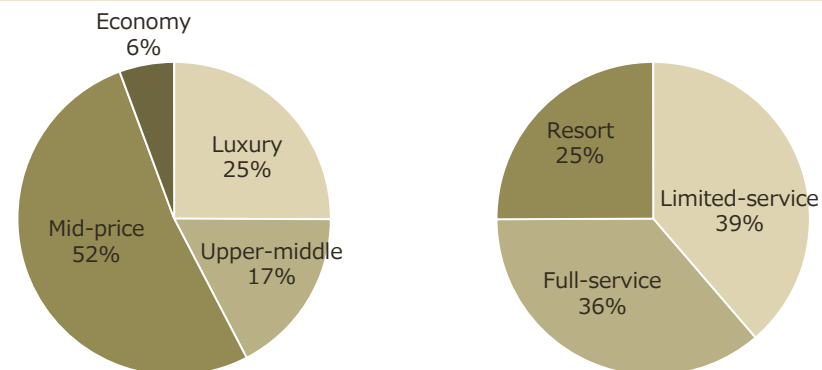
**By Area and Rent (based on rent)(\*)**



**By Hotel Brand (based on the acquisition price)**



**By Grade/Hotel Type (based on the acquisition price)**



(\*) Based on the annualized rent in revenue forecast of FY12/2018

## **V. INTERNAL GROWTH**

# 1. Rent Structures

Stability

Upside

(FY12/2018 estimated)

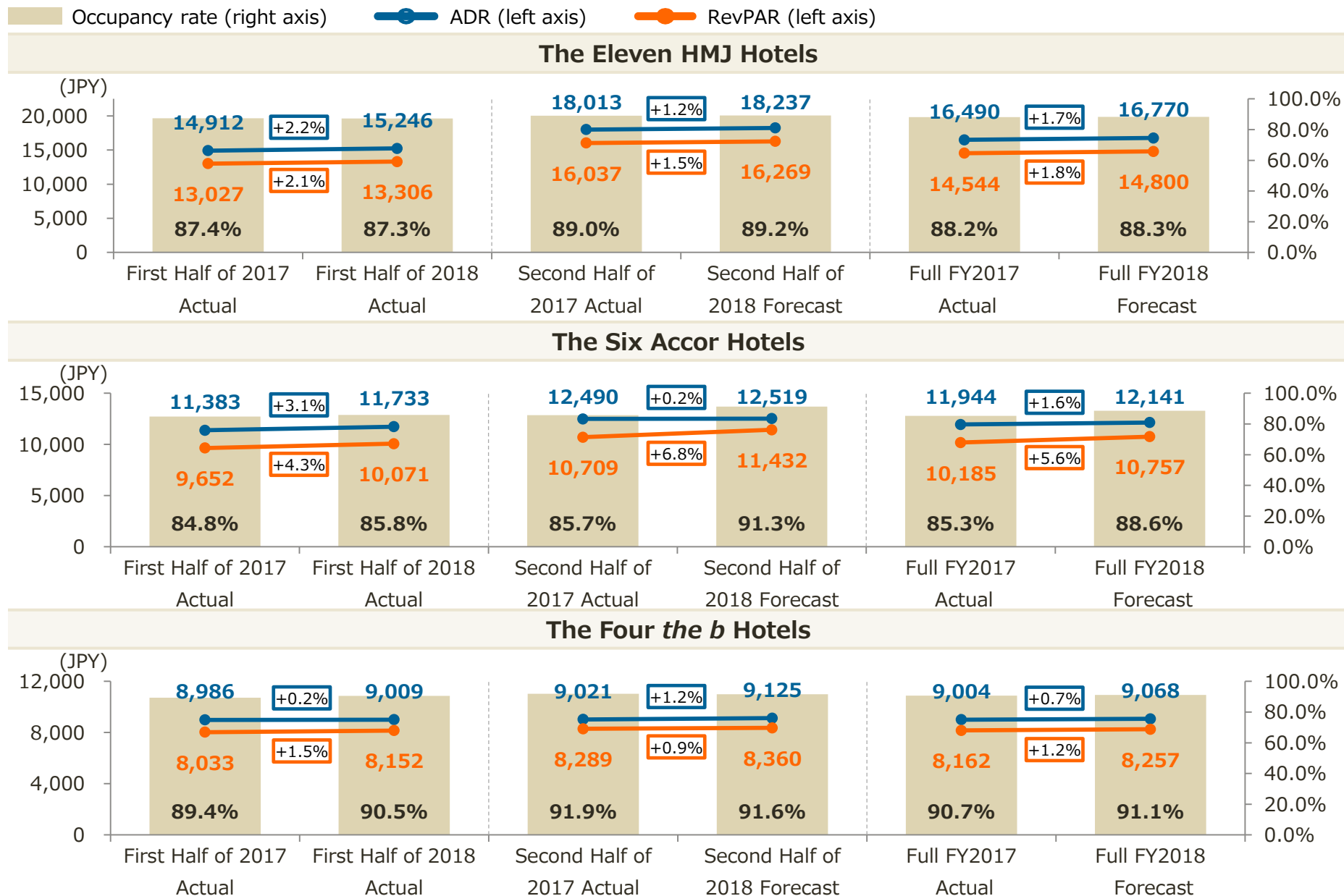
Rent Structure <sup>(*1)</sup>		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable rent	Variable rent	Management contract	Total
Type of Contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of Rent	Fixed	○	○	○	–	–	–
	Variable	–	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	A certain percentage of hotel revenue and/or hotel GOP	Hotel GOP	–
Real Estate Operating Revenue (%) (FY12/2018 annualized forecast)		JPY2,782MM (10.6%)	JPY3,685MM (14.0%)	JPY14,693MM (55.9%)	JPY1,790MM (6.8%)	JPY3,317MM (12.6%)	JPY26,269MM (100.0%)
(breakdown)	Fixed Rent, etc. <sup>(*2)</sup> (%)	JPY2,782MM (10.6%)	JPY3,281MM (12.5%)	JPY7,526MM (28.6%)	JPY508MM (1.9%)	JPY465MM (1.8%)	JPY14,564MM (55.4%)
	Variable Rent (%)	–	JPY403MM (1.5%)	JPY7,167MM (27.3%)	JPY1,282MM (4.9%)	JPY2,851MM (10.9%)	JPY11,704MM (44.6%)
Involvement in Hotel Operation		Low	Low	High	High	High	–
CAPEX Paid by JHR		1) Renewal of building and facilities	1) Renewal of building and facilities <3) Strategic investment>	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	–
No. of Properties		11	6	16	3	5	41
Acquisition Price (%)		JPY37,300MM (12.1%)	JPY44,216MM (14.3%)	JPY180,490MM (58.3%)	JPY17,723MM (5.7%)	JPY29,640MM (9.6%)	JPY309,370MM (100.0%)
Hotels		The Beach Tower Okinawa Hotel Francs CANDEO HOTELS UENO-KOEN and other hotels	Hilton Tokyo Bay Hotel Keihan Universal City Hotel Sunroute Shinbashi Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo Comfort Hotel Tokyo Higashi Nihombashi	The Twelve HMJ Hotels The Four <i>the b</i> Hotels	Hilton Nagoya Mercure Yokosuka Chisun Inn Kamata	The Five Accor Hotels <sup>(*3)</sup>	–

(\*1) Rent structure is categorized according to the rent contract for hotels of each acquired asset.

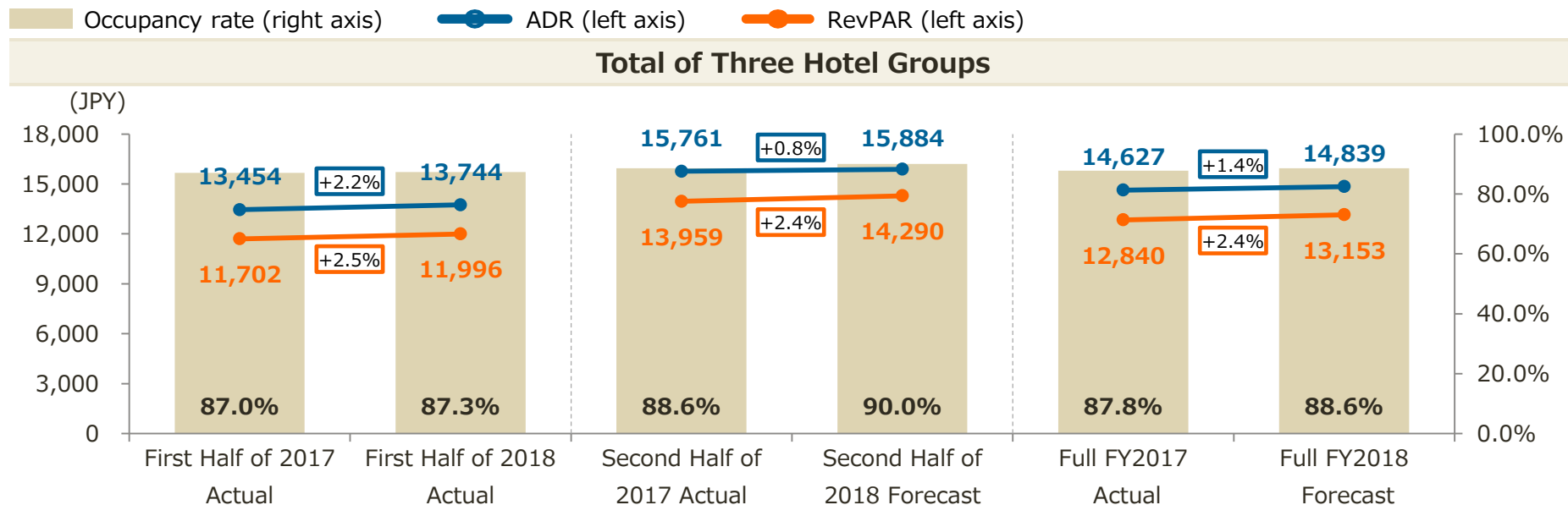
(\*2) Fixed rent includes fixed rent and utility income based on rent contract from non-hotel portion (offices, signage, car parks, retail shops, etc.) of acquired asset.

(\*3) The Five Accor Hotels are five hotels excluding Mercure Yokosuka from The Six Accor Hotels.

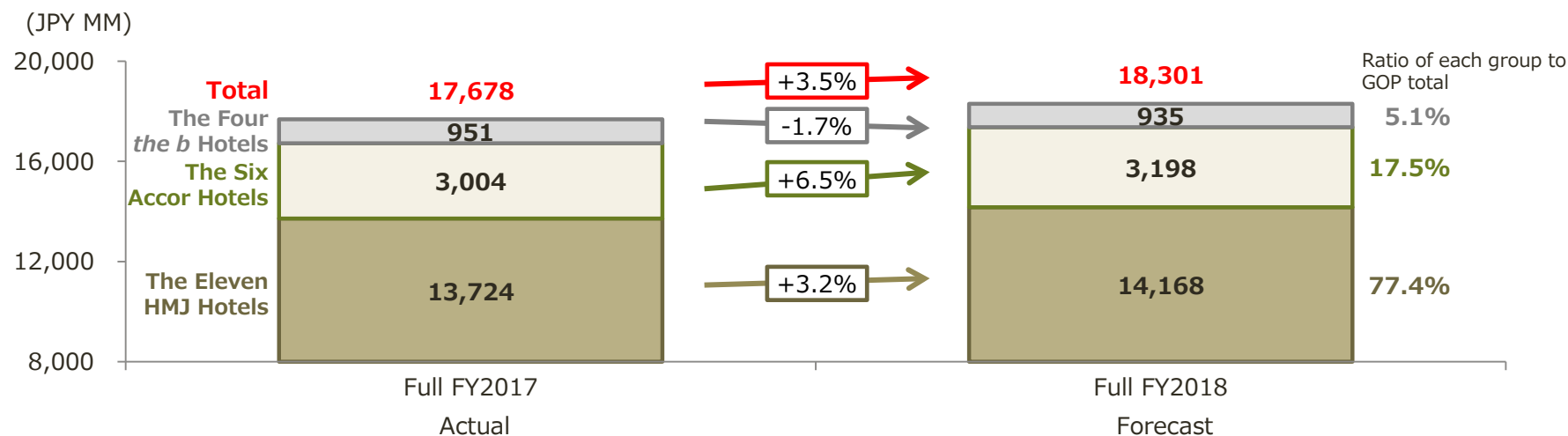
## 2. Performance of Major Hotels Adopting Variable Rent Scheme



## 2. Performance of Major Hotels Adopting Variable Rent Scheme (cont.)



### Estimated GOP



# 3. Active Asset Management

- ◆ Implement Active Asset Management at both hotel and REIT sides
- ◆ Accelerate internal growth through both revenue enhancement and cost control

## FY12/2018 Forecasts (JPY MM)

Hotels	Three Hotel Groups(*)	Hotel Revenue	52,458	←
		Hotel Operating Costs	33,218	←
		GOP	19,239	
Variable rent contract				
REIT	Real Estate Operating Revenue	Three Hotel Groups	18,544	←
		Other Hotels	8,004	
	Real Estate Operating Costs	4,327	←	
		NOI	22,221	

## Examples of Active Asset Management

- Strategic capital expenditure (e.g., renovation of rooms to increase RevPAR)
- Rebranding according to each hotel's characteristics
- Sharing guest by hotels located nearby in the same group
- Renewal of a hotel booking system

- Integration of back-office operations
- Optimization of staffing
- Cost reduction by joint purchasing in the same group
- Reduction of utility costs

- Rent increase by revision of rent scheme, etc.
  - The Five HMJ Hotels, CANDEO HOTELS UENO-KOEN, Chisun Inn Kamata, Comfort Hotel Tokyo Higashi Nihombashi and rent from non-hotel tenant, etc.

- Optimization of cost for PM/BM/Trust, reduction of ground rent, etc. and review of fixed asset tax

Maximize DPU

(\*) The figures of the Three Hotel Groups are the total amount of the Twelve HMJ Hotels, the Six Accor Hotels and the Six the b Hotels.



# 3. Active Asset Management (cont.)

- ◆ Promote internal growth through renovation and rebrand, etc. as a part of Active Asset Management strategy

## Hotel Centraza Hakata Renovation of the Entire Building and Rebrand

- **Schedule**  
October 1, 2018 to March 31, 2019 (plan)
- **Rebrand (change of hotel name)**  
Planning to rebrand and open the hotel as "**Oriental Hotel Fukuoka Hakata Station**" in April 2019  
Aim to improve position of its hotel grade by renovation of the entire building and rebrand of the hotel in prime location in front of Hakata Station
- **Increase in the number of rooms and improve ADR**  
Increase to 221 from 194 rooms  
Add value through making all room types bigger than double room and set up facilities (gym and others) for exclusive use by hotel guests
- **Eliminate an impact on dividend caused by suspension of hotel operation by using negative goodwill**  
Plan to utilize JPY265MM in FY12/2018



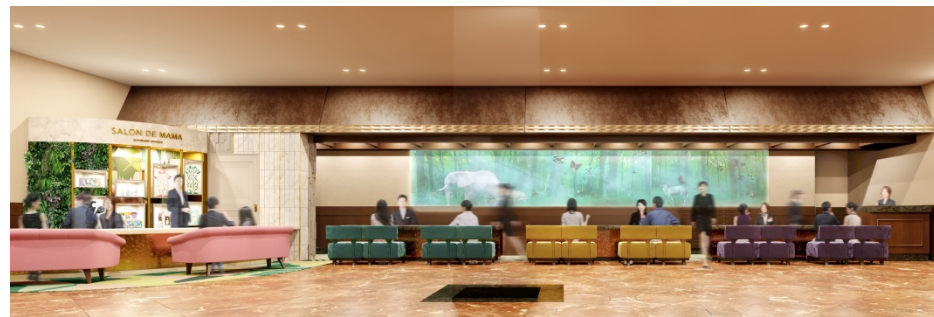
Guest room (image after renovation)



Lobby area (image after renovation)

## Oriental Hotel Tokyo Bay Renovation of guest rooms and lobby, etc.

- **Schedule**  
October 9, 2018 to November 20, 2018 (plan)
- **Increase in the number of rooms**  
Increase by eight rooms through converting facilities (reception desk exclusive to special floor, etc.) to guest rooms and dividing suite rooms
- **Facility renovation for optimize the hotel operation**  
Aim to optimize the hotel operation by multitasking of lobby operation, such as relocating reception desk exclusive to special floor to lobby on the second floor
- **Renovation works of mechanical parking lot**  
Reduce maintenance cost by converting it to ground level parking lot



Lobby (image after renovation)

## Holiday Inn Osaka Namba and Namba Oriental Hotel Renovation of guest rooms

### ● Holiday Inn Osaka Namba

Jan. to Feb. 2018 Renovated 56 guest rooms (6th to 7th floor),  
Increased triple rooms

Sep. 2018 Plan to renovate 50 guest rooms (4th and 12th floor)

<Before>



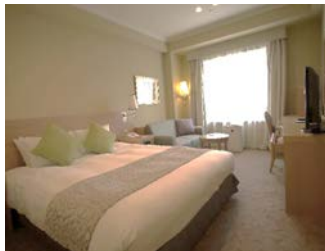
<After>



### ● Namba Oriental Hotel

Jan. 2018 Renovated 41 guest rooms (6th floor)

<Before>



<After>



### <Guest Room Composition in "Minami" area in Osaka>

Single and double rooms account for approximately 70% of the whole guest rooms, while there are relatively small number of rooms larger than twin rooms

## Other Examples

### ● Mercure Sapporo and Ibis Styles Sapporo

Plan to install fitness gym

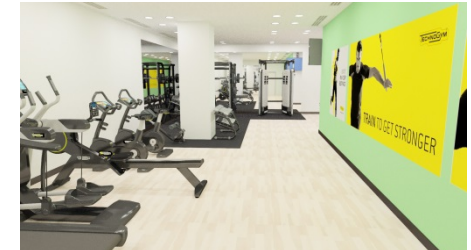
Enhance superiority by aiming to differentiate in the market

Mercure Sapporo



Gym (image after renovation)

Ibis Styles Sapporo



Gym (image after renovation)

### ● Comfort Hotel Tokyo Higashi Nihombashi

Jan. 2018 Rent was revised (Increased)

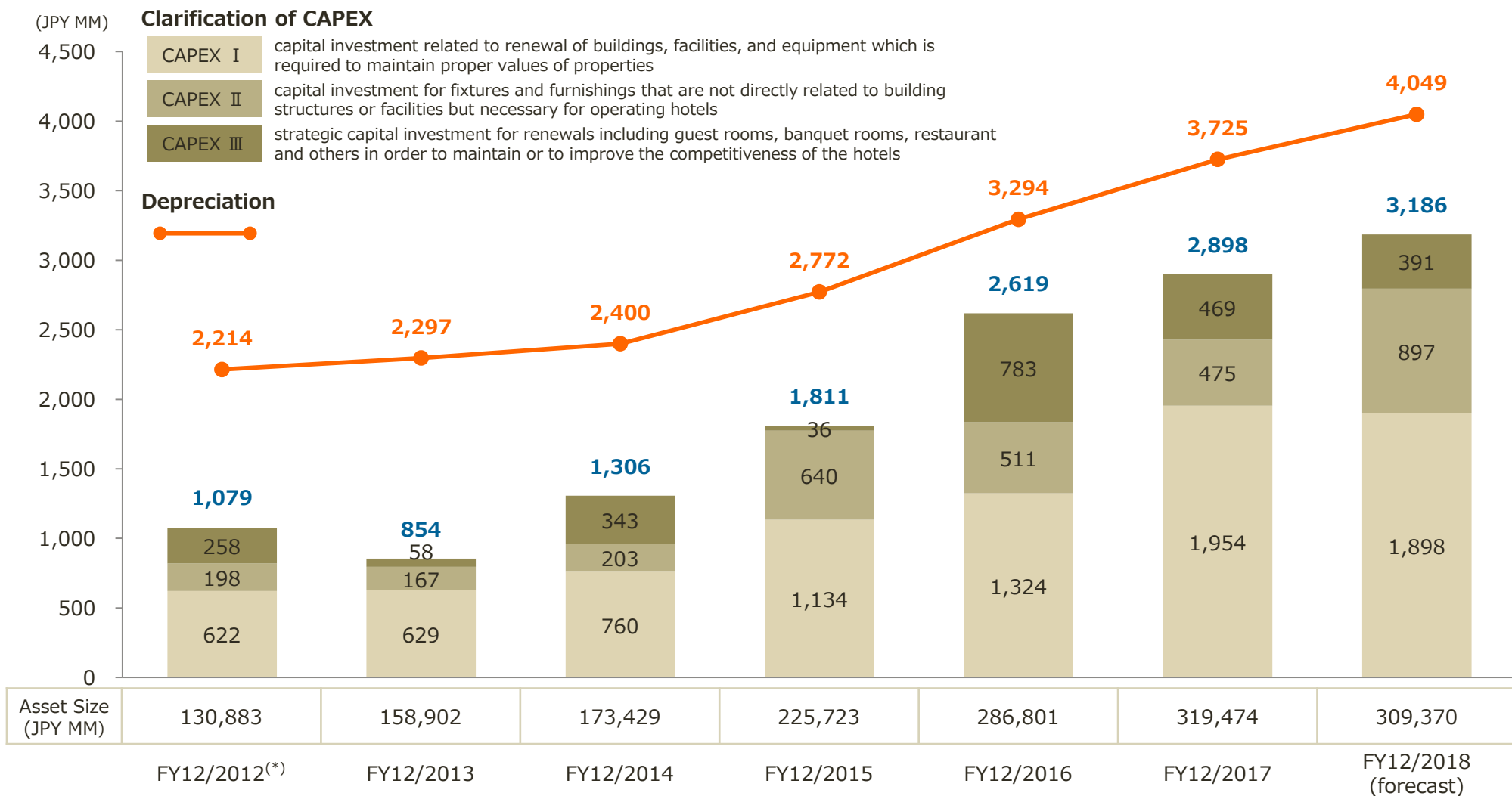
In addition to fixed rent (the same amount as before), revenue sharing was introduced

### ● Review of fixed asset tax

Decrease fixed asset tax, including the passed years, through negotiating with the concerned authorities regarding some properties

## 4. Capital Expenditures and Depreciation

◆ Strengthen competitiveness and improve asset value by continuing investment in CAPEX

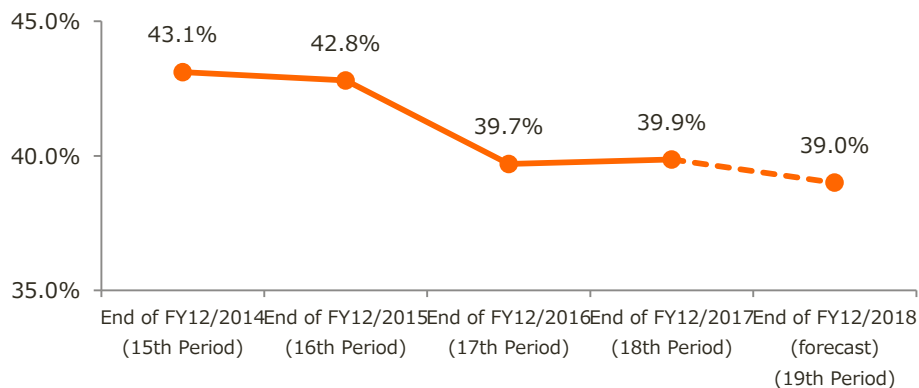


(\*) Since FY12/2012 is irregular nine months period, the numbers for capital expenditure in FY12/2012 are the accumulated actual numbers from January to December, 2012. On the other hand, the number for depreciation is the annualized number.

## **VI. FINANCIAL STATUS**

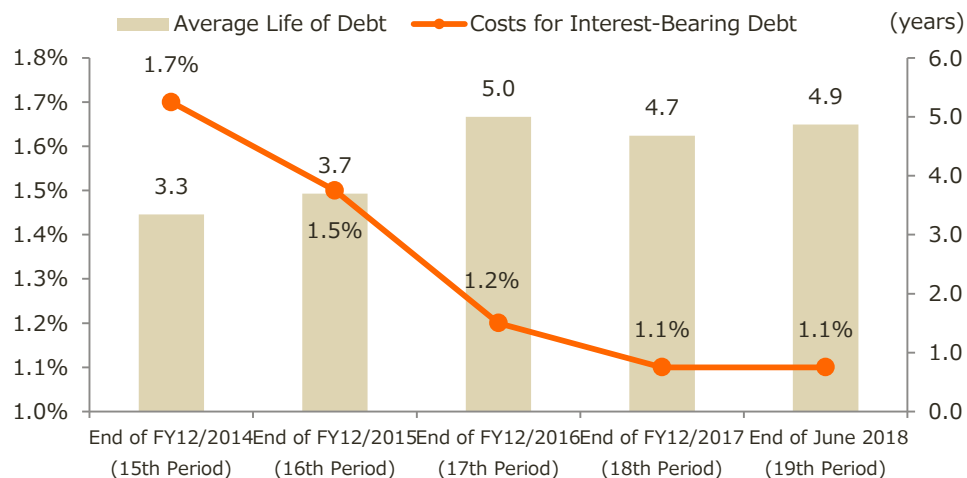
# 1. Financial Status

## Changes in LTV (total Asset Base)



(\*) LTV as of the end of each period/year. LTV for Midterm of FY12/2018 is 41.1%.

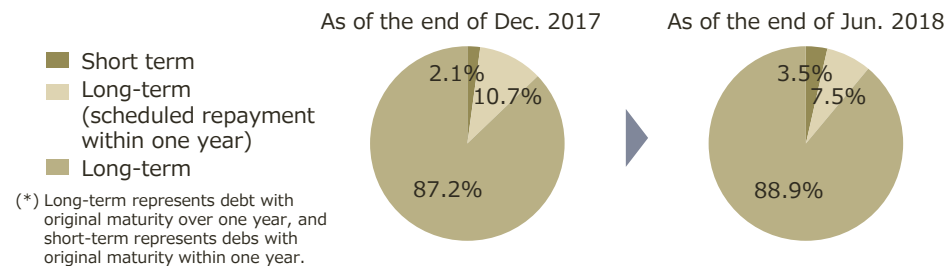
## Changes in Costs for Interest-Bearing Debt<sup>(\*)</sup> and Average Life of Debt<sup>(\*)</sup>



(\*)1 Weighted-average costs for interest-bearing debt (including up-front fee, etc.) as of the end of each period/year. Rounded off to one decimal place.

(\*)2 Average life of debt as of the end of each period/year.

## Term of Interest-Bearing Debt

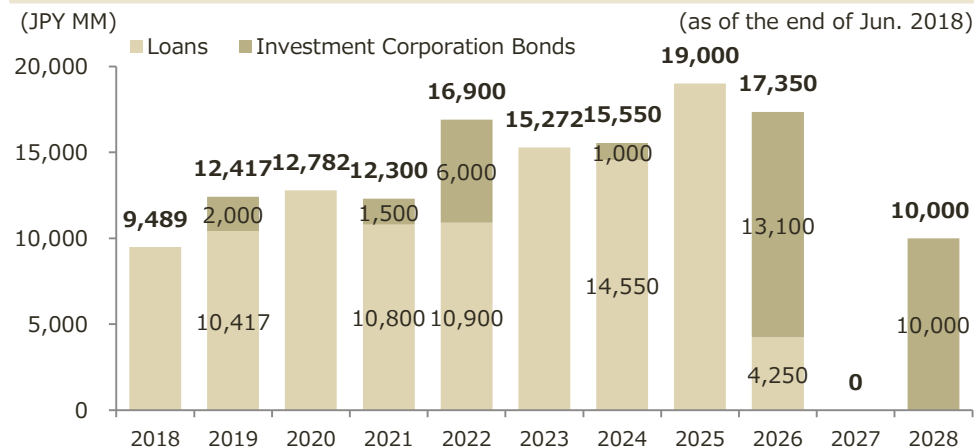


(\*) Long-term represents debt with original maturity over one year, and short-term represents debts with original maturity within one year.

## Fixed Interest Rate Ratio

As of the end of Dec. 2017 **94.0%** → As of the end of Jun. 2018 **94.7%**

## Repayment Schedule of Interest-Bearing Debt



# 1. Financial Status (cont.)

## Lender List for Interest-Bearing Debt

(Unit: JPY MM)

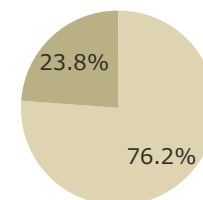
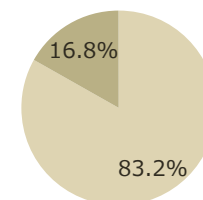
Lenders/Bond Name	Balance (as of the end of Dec. 2017)		Balance (as of the end of Jun. 2018)		Variance
	Balance	%	Balance	%	
Sumitomo Mitsui Banking Corporation	29,632	21.1%	31,993	22.7%	2,360
Shinsei Bank, Ltd.	16,492	11.7%	15,035	10.7%	(1,457)
Mizuho Bank, Ltd.	16,480	11.7%	15,030	10.7%	(1,450)
Sumitomo Mitsui Trust Bank, Limited	11,495	8.2%	10,567	7.5%	(927)
Resona Bank, Limited	10,073	7.2%	9,360	6.6%	(713)
The Nomura Trust and Banking Co., Ltd.	4,858	3.5%	4,190	3.0%	(668)
MUFG Bank, Ltd.	4,135	2.9%	4,135	2.9%	0
Development Bank of Japan Inc.	3,780	2.7%	3,780	2.7%	0
Fukuoka Bank, Ltd.	3,260	2.3%	3,260	2.3%	0
Hiroshima Bank, Ltd.	2,427	1.7%	2,927	2.1%	500
The Chiba Bank, Ltd.	2,705	1.9%	2,670	1.9%	(35)
Aozora Bank, Ltd.	2,435	1.7%	2,435	1.7%	0
The Nishi-Nippon City Bank, Ltd.	1,000	0.7%	1,250	0.9%	250
Sompo Japan Nipponkoa Insurance Inc.	929	0.7%	828	0.6%	(101)
The Tokyo Star Bank, Limited	7,097	5.1%	-	-	(7,097)
<b>Total of Bank Loans</b>	<b>116,799</b>	<b>83.2%</b>	<b>107,460</b>	<b>76.2%</b>	<b>(9,339)</b>
<b>Investment Corporation Bonds (for institutional investors)</b>					
3rd Investment Corporation Bonds without Collateral	2,000	1.4%	2,000	1.4%	0
4th Investment Corporation Bonds without Collateral	1,500	1.1%	1,500	1.1%	0
6th Investment Corporation Bonds without Collateral	3,000	2.1%	3,000	2.1%	0
8th Investment Corporation Bonds without Collateral	1,100	0.8%	1,100	0.8%	0
9th Investment Corporation Bonds without Collateral	1,000	0.7%	1,000	0.7%	0
<b>Total of Investment Corporation Bonds (for institutional investors)</b>	<b>8,600</b>	<b>6.1%</b>	<b>8,600</b>	<b>6.1%</b>	<b>0</b>
<b>Investment Corporation Bonds (for individual investors)</b>					
5th Investment Corporation Bonds without Collateral	6,000	4.3%	6,000	4.3%	0
7th Investment Corporation Bonds without Collateral	9,000	6.4%	9,000	6.4%	0
10th Investment Corporation Bonds without Collateral	-	-	10,000	7.1%	10,000
<b>Total of Investment Corporation Bonds (for individual investors)</b>	<b>15,000</b>	<b>10.7%</b>	<b>25,000</b>	<b>17.7%</b>	<b>10,000</b>
<b>Total of Investment Corporation Bonds</b>	<b>23,600</b>	<b>16.8%</b>	<b>33,600</b>	<b>23.8%</b>	<b>10,000</b>
<b>Total of Interest-Bearing Debt</b>	<b>140,399</b>	<b>100.0%</b>	<b>141,060</b>	<b>100.0%</b>	<b>661</b>

## Breakdown of Interest-Bearing Debt

As of the end of Dec. 2017

As of the end of Jun. 2018

Loans  
Investment  
Corporation Bonds



## Status of Credit Rating

Japan Credit Rating Agency, Ltd.  
(JCR)

**A+** (stable)

Rating and Investment Information, Inc.  
(R&I)

**A** (stable)



# 1. Financial Status (cont.)

## Negative Goodwill

### <Policy for Use of Negative Goodwill>

1. Add JPY262 million (50-year amortization amount of negative goodwill) to dividends every period
2. In addition to above, dividends will be increased in response to the following

- Cope with losses caused by property dispositions
- Cope with loss on retirement of noncurrent assets
- Cope with dilution of dividend per unit
- Cope with inconsistency between tax and accounting treatments (Amortization of fixed-term leasehold of land, amortization of asset retirement obligations, etc.)
- Cope with suspension of sales and such due to major renovation works with significant impact on revenues

### < Amount to be Used in FY12/2018 >

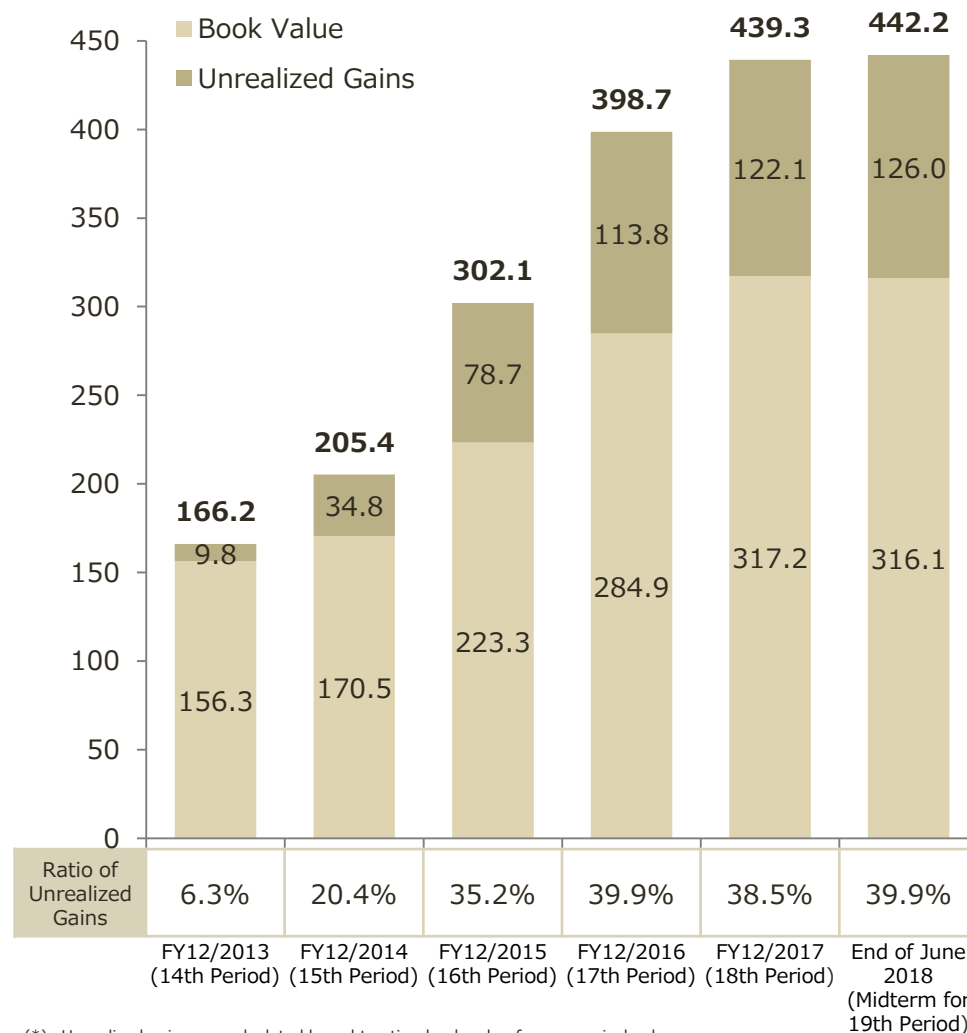
50-year amortization amount on negative goodwill	:	JPY262MM
Cope with loss on retirement of noncurrent assets	:	JPY17MM
Cope with major renovation works	:	JPY265MM
<b>Total amount</b>	<b>:</b>	<b>JPY544MM</b>

**Balance of Negative Goodwill as of the end of December 2018 (forecast) JPY11,813MM**

(\*) The "50-year amortization amount of negative goodwill" includes amortization, etc. of fixed-term leasehold of land, asset retirement obligations, etc. of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA, which were purchased in the year ended December 2016 (17th Period).

## Changes in Appraisal Value (Unrealized Gains)

(JPY Bn)



(\*) Unrealized gains are calculated by subtracting book value from appraisal value.

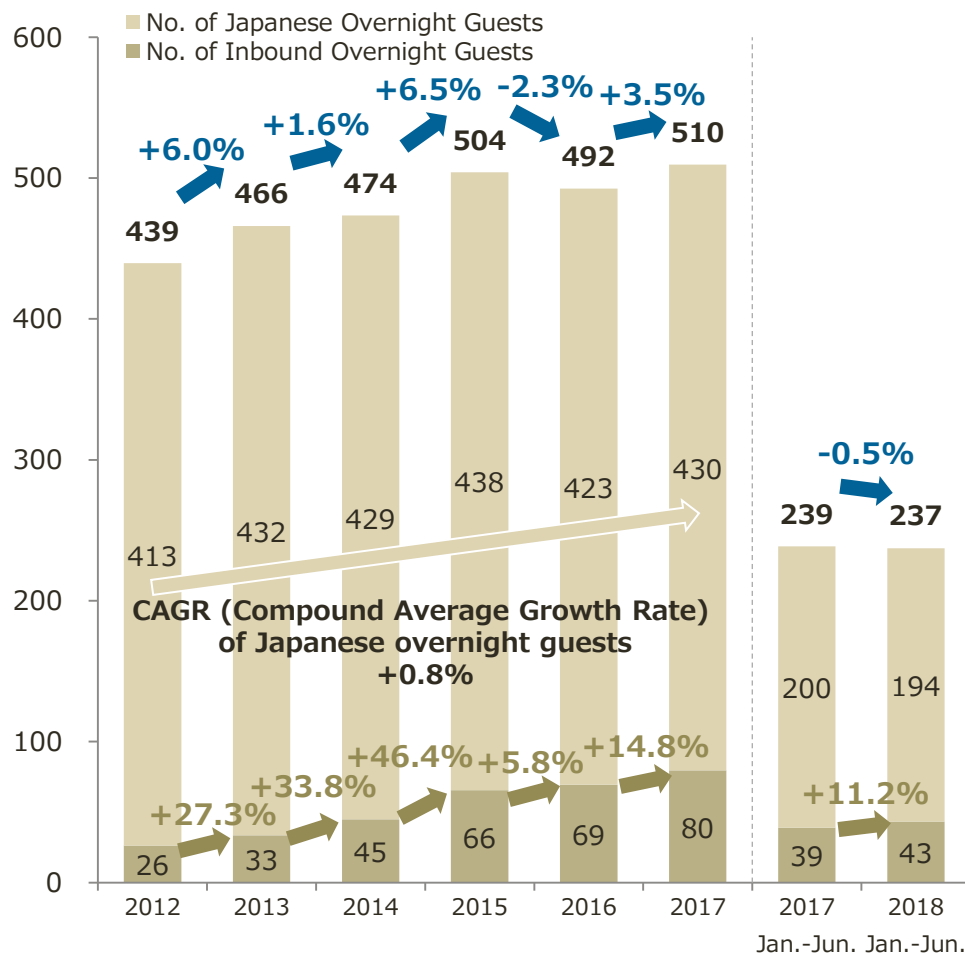
## **VII. MARKET ENVIRONMENT**

# 1. Market Environment

- ◆ Inbound visitors drew the lodging demand  
The number of overnight guests has been solid

## Changes in Number of Overnight Guests in Japan

(Guest nights in millions)

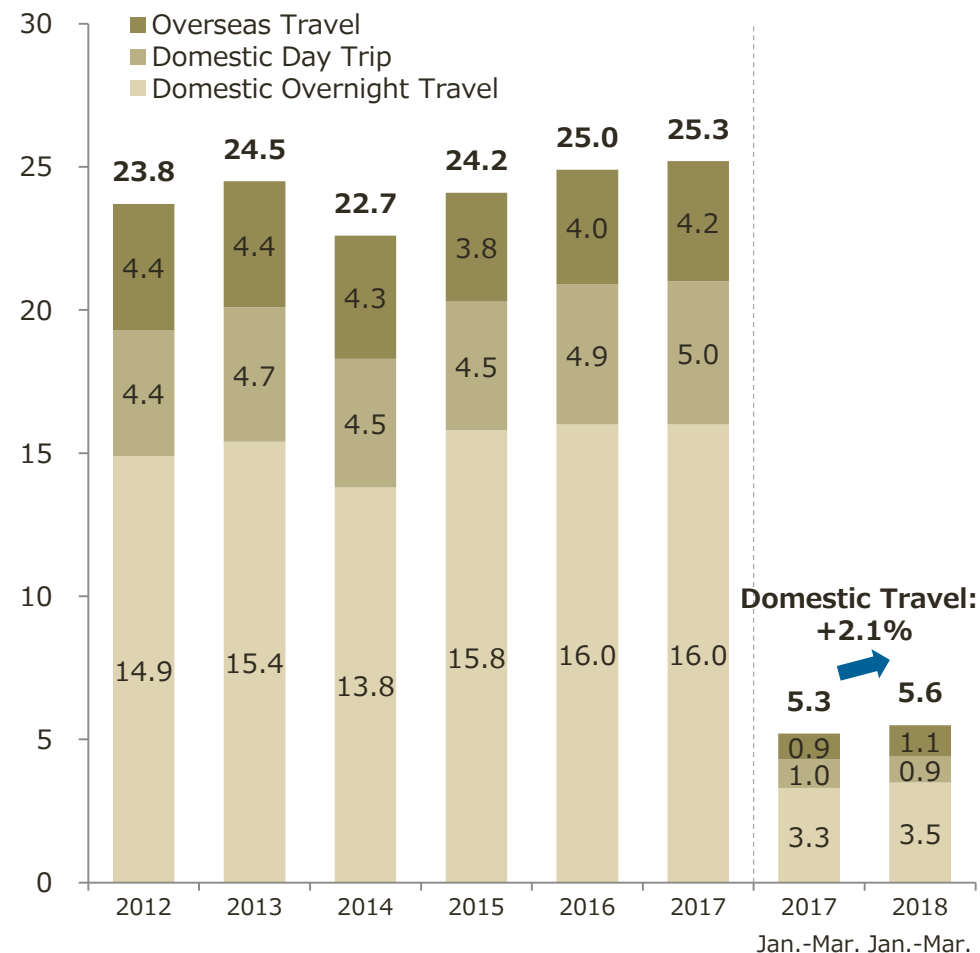


Source: Statistics of Overnight Travel by Japan Tourism Agency  
(\*) Rounded off to the nearest millions of people.

- ◆ Japanese demand for domestic travels has been stable

## Changes in Travel Spending among Japanese Travelers

(JPY Tn)

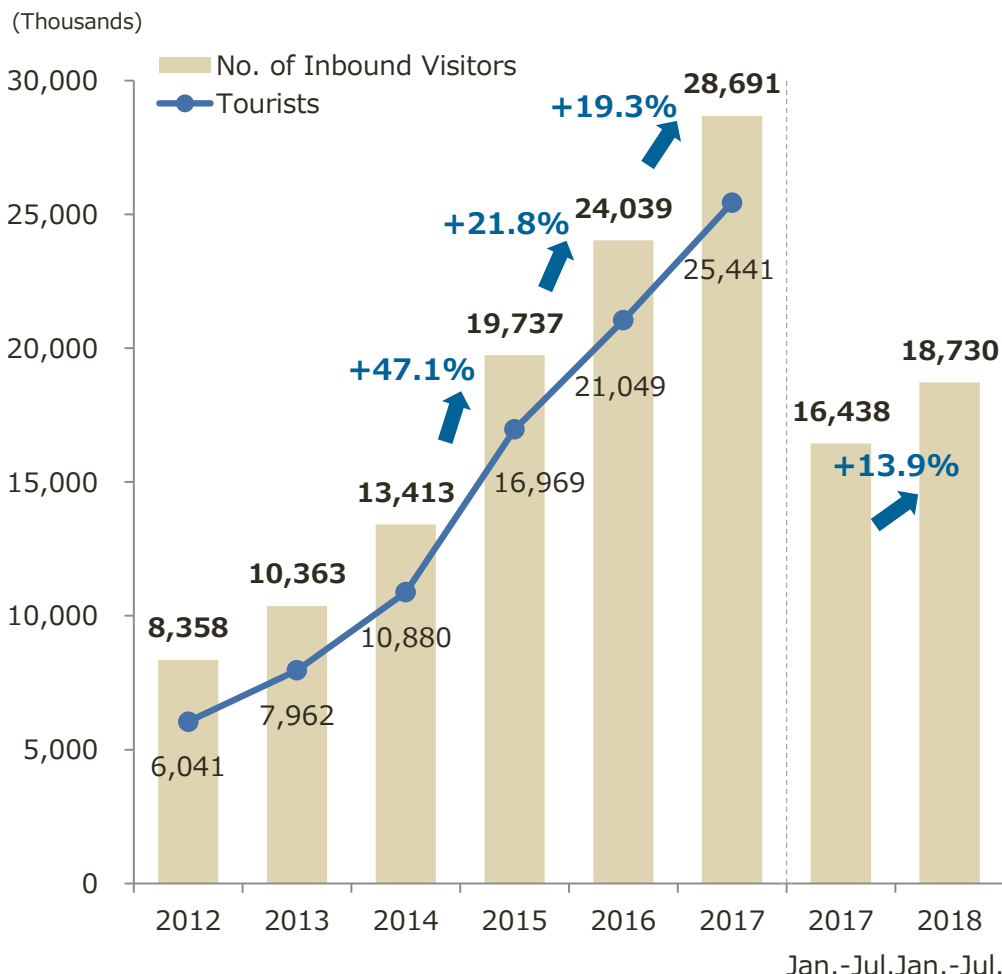


Source: Travel and Tourism Consumption Trends survey by Japan Tourism Agency

# 1. Market Environment (cont.)

- ◆ The number of inbound visitors increased at a faster pace than the government's target: 40 million in 2020, 60 million in 2030

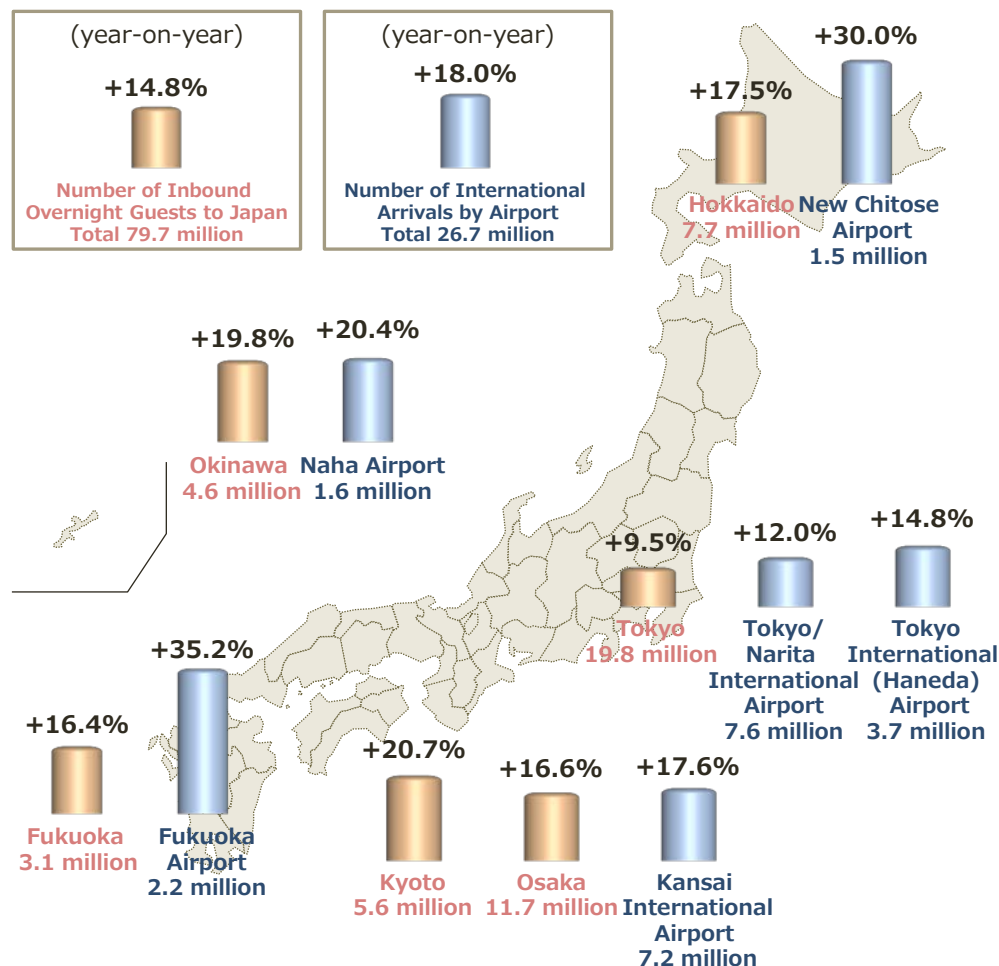
## Changes in Number of Inbound Visitors



Source: Number of International Visitors to Japan by Japan National Tourism Organization (JNTO)  
 (\*) The numbers for 2018 Jan.-May are provisional numbers, and Jun.-Jul. are estimated numbers.

- ◆ The number of inbound overnight guests in Tokyo, Osaka and major local cities saw a year on year increase as well as the number of international arrivals by airports

## Number of Inbound Overnight Guest and Number of International Arrivals by Airports in 2017

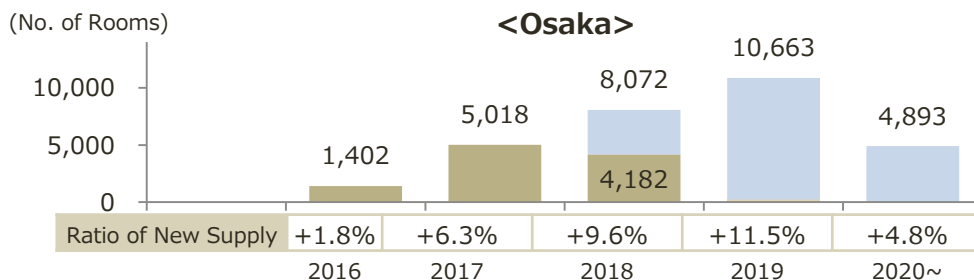
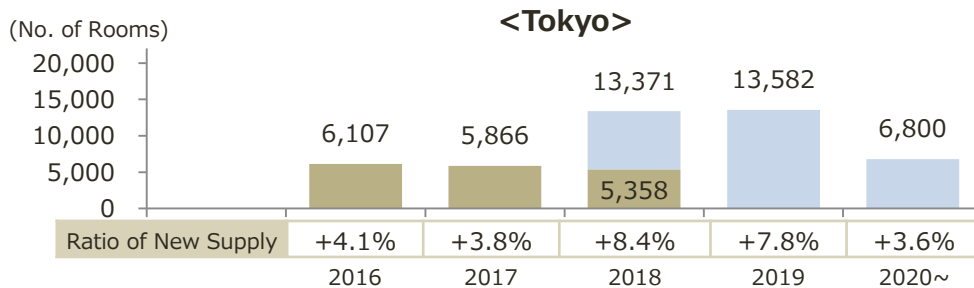
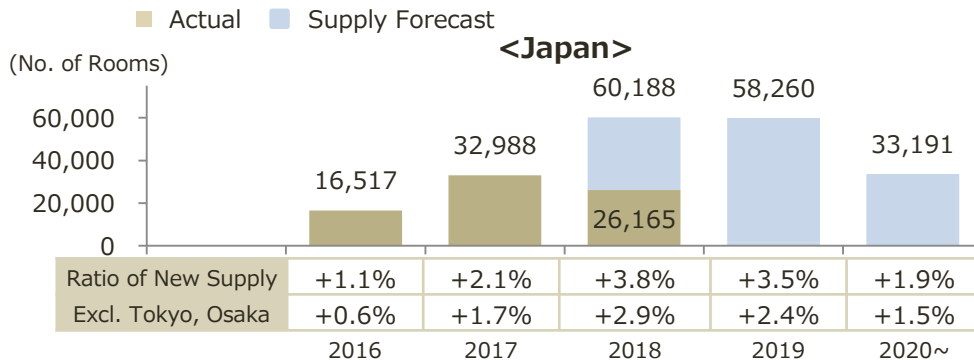


Source: Japanese Tourism Agency and Immigration Bureau of JAPAN, The Ministry of Justice  
 (\*) Rounded off to the nearest millions of people.

# 1. Market Environment (cont.)

- ◆ New supply of rooms has been increasing, mainly in Tokyo and Osaka

## Number of New Supply of Rooms in Hotels/Ryokans in Japan



Source: Estimated by the Asset Management Company using data from "Public Health Administration Report" by Ministry of Health, Labour and Welfare (MHLW), a weekly hotel & restaurant magazine (HOTERES), and Nikkei Telecom.

(\*) Ratio of new supply is the number of new rooms to be supplied in a year to the stock of rooms at the beginning of the year. With regard to the above data, please note that in case the number of rooms are stated as "to be determined" by hotels, the asset management company has used 180, the average number of new supply of hotel rooms, for calculation.

- ◆ New Minpaku law became effective on June 2018.  
Number of listings of private lodgings have been sluggish

## Overview of New Minpaku Law and Recent Changes

### <Overview of The Private Lodging Business Act (New Minpaku Law)>

- ◆ The law enforced from June 15, 2018
- ◆ Subject to the registration to local governments, homeowners are allowed to rent out their rooms within 180 days a year (Local governments are able to reinforce the regulations with additional restrictions)
- ◆ The "house" that can conduct private lodging business shall be currently used as residence
- ◆ Rules to be observed by the private lodging business operator

- Ensuring the health of lodgers
- Ensuring safety of lodgers
- Posting of signs
- Furnish registry book of guests
- Response to complaints
- Periodic reporting to prefectural governor
- Secure comfort and convenience of lodgers, who are foreign tourists
- Prevention of harmful effects on the living environment in the surrounding area

### <No. of registration based on the Private Lodging Business Act>

(as of July 27, 2018)

	The number of registration submitted	The number of registration accepted
Japan	6,603	5,235 (79%)

### <Changes in number of listings on Minpaku related website (Airbnb, etc.)>

- ◆ The number of listings recorded highest in spring 2018 (approximately 62,000 listings), however, the number has sharply dropped after the new Minpaku law went into effect
- ◆ There are still some unregistered properties listed on the websites, the Japan Tourism Agency requires Airbnb, etc. to crack down on illegal private lodgings
  - The number of listings of illegal properties has been deleting

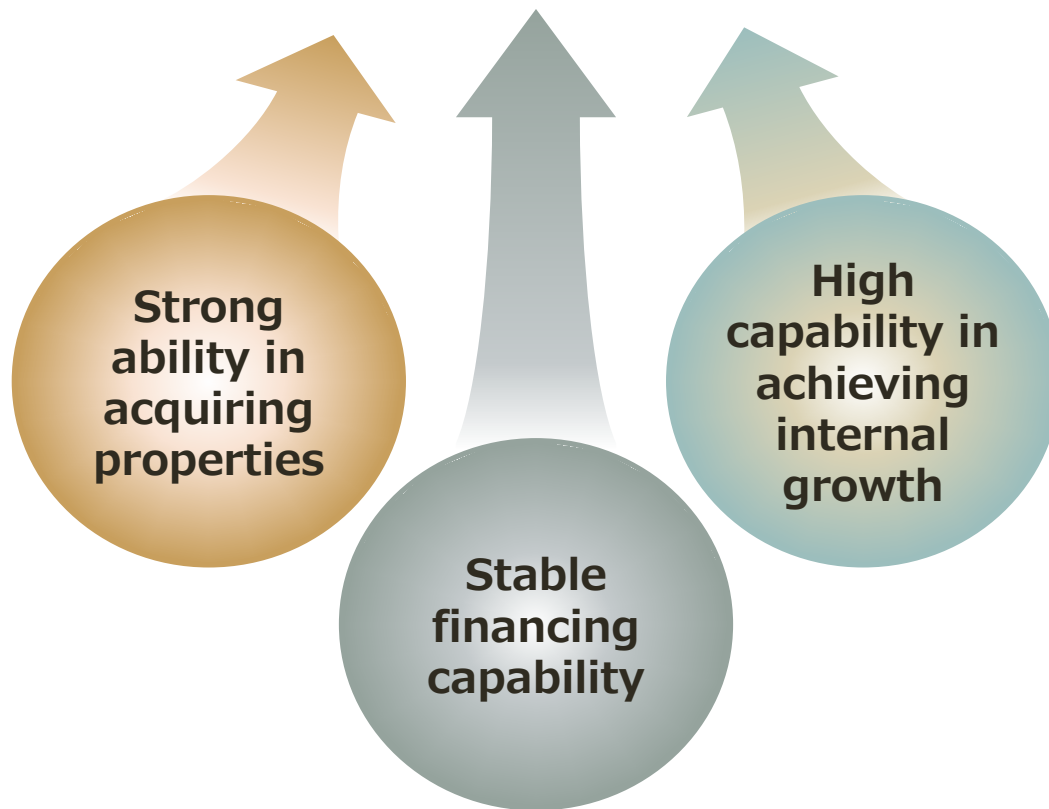
Source: Japan Tourism Agency, The Nikkei

# **Appendix 1**

## **JHR'S CHARACTERISTICS**



## Aim to increase dividend for mid to long term



### Strong ability in acquiring properties

- Highly recognized as Japan's largest J-REIT specializing in hotels
- High presence and credibility in the property market by continuously acquiring properties
- Capability to propose various acquisition schemes and to execute acquisitions

### High capability in achieving internal growth

- Management approach through active asset management strategies that achieves a good balance between stability and upside potential
- Increase in hotel revenue through collaboration with high-quality operators
- Attract inbound demand through enhanced international brand portfolio
- Strengthen and maintain competitiveness by investing in appropriate capital expenditures

### Stable financing capability

- Secure sound and stable finance
- Diversify financing methods

## 2. Simultaneous Pursuit of Stability and Upside Potential

- ◆ JHR pursues both stability and upside potential by steadily implementing growth strategies

### Ensure Stable Revenue

#### Fixed rent structure

- ◆ Appropriate monitoring of hotel operation
- ◆ Capital expenditures to maintain competitiveness and asset value

Maintain and improve rent-paying capacity of tenants, etc.

### Pursue Upside

Management contract structure

Variable rent structure

Revenue sharing structure

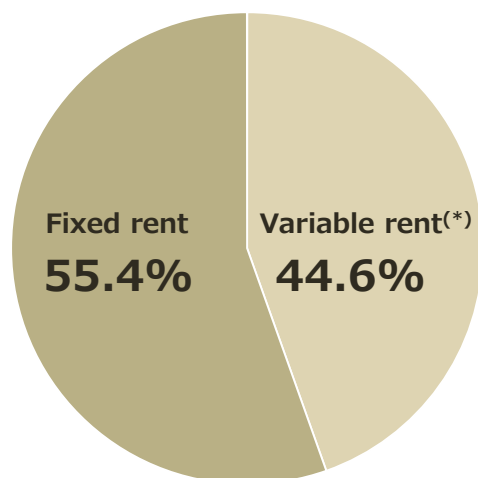
#### Active Asset Management Strategies

- ◆ Change in rent structures and rebranding
- ◆ Strategic capital expenditures, etc.

Increase in rental income, etc. through improvement in hotels' performance

### Proportion of Rental Income

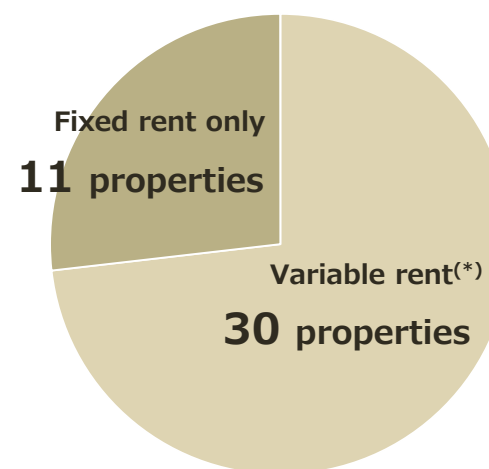
(Annualized effect (forecast) of FY12/2018)



(\*) Variable rent, Rent from revenue sharing and Income from management contracts

### Proportion of Rent Structures

As of August 22, 2018



(\*) Fixed rent + variable rent structure  
Fixed rent + revenue sharing structure  
Variable rent structure, Management contract structure

## Recognition of External Environment

### Trend of the Hotel Investment Market

- Amid gradually recovering economy, hotel assets have gained a firm position as an investment target due to increase in hotel revenue resulting from stable domestic leisure demand and strong growth of inbound tourists mainly from Asian countries. On the other hand, since the yields of other asset classes are decreasing and investors in hotel investment, including private funds, are increasing. Therefore, competition to acquire hotel assets has become intense in hotel investment market.
- New supply of hotels is on the rise, responding to the increasing number of inbound visitors. Depending on specifications, locations, capability of hotel operators, the superiority or inferiority in competitiveness of hotel may be seen more clearly.

## Basic Policies

- Acquire highly competitive hotel real estate, etc. in areas that have potential to attract "demand by both domestic and inbound leisure customers" in the medium to long-term
- Improve profitability, stability, and quality of the overall portfolio



## Key Measures

- Emphasize the superiority of buildings and facilities (infrastructure), operations (services), and locations of hotel real estate, etc.
  - The prime investment targets are "full-service hotels" and "resort hotels" that have high barriers to entry due to operation and management know-how, capital outlay and locations
  - In the case of "limited-service hotels," the creditworthiness of the hotel lessee, the age of the building, location, guest room composition and profitability are important
  - Hotels specialized in selling single rooms are carefully chosen
  - Especially, proactively review the purchase of hotels that have potential for internal growth as well as the possibility of synergy effect to the existing properties by implementing active asset management
- Strategic investment areas
  - Hokkaido area, Tokyo and bay area, Osaka/Kyoto area, Fukuoka area, and Okinawa area
- Investigation and planning of the internal growth strategy upon property acquisition
  - Investigate the appropriate rent level and rent structure upon renewal, etc., cost reduction possibilities, and possibilities to improve buildings and facilities
  - Particularly, if the hotel pays variable rent, etc., promote internal growth through collaboration with lessees and/or operators

### Recognition of External Environment

#### Hotel Market Environment

- In addition to stable domestic leisure demand, due to the government policy to promote tourism nation, the number of inbound tourists, mainly from Asian countries, is continuing to rise. Amid such growth expectation for Japan's tourism and hotel industries, although there are needs to carefully monitor some impact by supply of new hotels and Minpaku (private lodging for a fee), demand for accommodation is expected to stay firm.

### Basic Policies

- Pursue both stability and upside potential by steadily implementing growth strategies



### Key Measures

- Planning and execution of the active asset management in order to realize pursuit in upside revenue
  - Make strategic investments which will improve profitability and strengthen competitiveness
  - Change to rent structures that can achieve upside revenue
  - Make proactive proposals to build effective hotel operating structures which aim to maximize GOP, from the perspective of both hotel sales and expenses
  - Attract inbound demand through rebranding to international brands
  - Increase hotel revenue through collaboration with high-quality operators
- Planning and execution of strategic CAPEX which secure steady revenue, and monitoring of lessees
  - Analyze the creditworthiness of hotel lessees, understand and improve hotel income and expenditures
  - Maintain and improve rent-paying capacity of tenants, etc. through capital expenditures, which lead to maintenance of competitiveness and asset value

## Recognition of External Environment

### Trend of Financing Environment and Interest Rates

- The amount of financing by equity offering has exceeded to the previous year, and the amount of bond issues by J-REITs is upward trend while. Lending stance by financial institutions remains well.
- Although short-term and long-term interest rates have been stable due to the Bank of Japan's monetary easing policy, need to be paid close attention to a fluctuation of long-term interest rates provoked by international factors.

## Basic Policies

- Ensure healthy and stable finance
- Strengthen lender formation and relationships with financial institutions
- Diversify financing methods



## Key Measures

- Maintain LTV level at a maximum of 50% (total asset base) for the time being
- Diversify financing methods such as public offerings and issuance of investment corporation bonds
- Improve financial stability by extending and diversifying repayment periods and fixing interest rates, etc.
- Optimize borrowing costs

# 6. Initiatives for Sustainability

Aiming for mid to long-term growth to coexist with society and environment and working on to enhance sustainability based on suitable actions for ESG issues

## ◆ Sustainability Policy

JHR and JHRA have established "Sustainability Policy", which includes important issues and initiatives.

### Sustainability Policy

- Monitoring and improvement of environmental performance in our portfolio
- Promotion of comfortable, healthy, secure and safe hotels
- Promotion of ESG in value chains
- Consideration for and contribution to local communities
- Initiatives for our officers and employees
- Compliance as corporate citizens
- Improvement of transparency and engagement with our stakeholders

## ◆ Green Lease Provisions

Added "Green Lease Provisions" on the lease agreement with the Twelve HMJ Hotels, JHR and JHRA are working on to improve environmental and energy conservation in collaboration with HMJ Group.

## ◆ Acquisition of BELS certification<sup>(\*1)</sup> (February 2018)

JHR has acquired a BELS certification for our two properties, Hotel Nikko Alivila and Mercure Okinawa Naha, for the first among J-REIT owned properties<sup>(\*2)</sup>

Hotel Nikko Alivila



Mercure Okinawa Naha



## ◆ SMBC Environment Assessment Loan <sup>(\*2)</sup> from Sumitomo Mitsui Banking Corporation (March 2018)

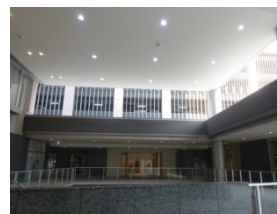
Acquisition of "A" grade

Took out a loan using the SMBC Environmental Assessment Loan which evaluated JHR's excellent initiatives for environmental considerations in asset management

## ◆ Initiatives at hotel

### Conversion to the LEDs in lightning fixtures

- ACTIVE-INTER CITY HIROSHIMA (January 2018)  
Converted to the LEDs in atrium at 1st and 2nd floor



- Oriental Hotel Hiroshima (May 2018)  
Converted to the LEDs in the banquet room at 4th floor in addition to the banquet room at 3rd floor (December 2017)  
Around 75% of the electricity has reduced (preliminary calculation)



### Energy reduction through optimization of facility management

- Analyze energy consumption mainly in HMJ Hotels  
Expect to reduce around 7% to 33% of energy use through effective operation of main facilities such as optimization of operation pattern of heat system (preliminary calculation)

(\*1) BELS (Building-Housing Energy-Efficiency Labeling System) is a display system of energy conservation performance of a building.

(\*2) "SMBC Environmental Assessment Loan" assesses status of corporate initiatives for environmental considerations, on loan execution and establishment of lending conditions, based on environmental assessment criteria developed independently by SMBC and the Japan Research Institute, Limited.



# 7. Benefits Program for Unitholders

JHR implemented benefits program for unitholders to obtain a better understanding, improve their satisfaction and expand the investor base. JHR also expanded the benefits program in 2018 by adding three HMJ hotels, aggregated coverage to 18 hotels.

## ◆ Eligible recipients of complimentary coupons

Complimentary coupons will be sent to those who hold ten or more JHR units at the end of June every year (end of the midterm settlement)

<FY2018 (plan)>

Eligible unitholders: 13,376

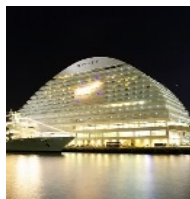
Valid period: One year between October 2018 to September 2019

※ The valid period for Hotel Centraza Hakata is April 1, 2019 to September 30, 2019 (plan) due to the renovation works

## ◆ Hotels that offer the benefits program

The Twelve HMJ Hotels and The Six Accor Hotels

## ◆ The Twelve HMJ



Kobe Meriken Park  
Oriental Hotel



Oriental Hotel  
Tokyo Bay



Namba  
Oriental Hotel



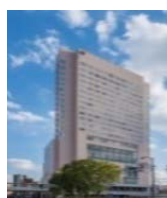
Oriental Hotel  
Hiroshima



Hotel Nikko  
Aliviva



Okinawa Marriott  
Resort & Spa



Sheraton Grand  
Hiroshima Hotel



Hotel Centraza Hakata



Holiday Inn  
Osaka Namba

## New Addition



ℳHilton Natira



International Garden Hotel Narita



Hotel Nikko Nara

## ◆ Details of the benefits program

Five complimentary coupons for accommodations and five complimentary coupons for restaurants<sup>(\*)</sup>

10% discount from the best rate for accommodation by each hotel and 10% discount for restaurants

(\*) Complimentary coupons for restaurants are only available at selected hotels

## ◆ Record of coupon redemption

(Nine month from October 2017 to June 2018)

<Eligible Unitholders: 14,346>

Accommodation		Restaurant	
No. of Coupons Used	No. of Coupon Users	No. of Coupons Used	No. of Coupon Users
251	340	621	1,694

## ◆ The Six Accor Hotels



ibis Tokyo Shinjuku



ibis Styles Kyoto Station



ibis Styles Sapporo



Mercure Sapporo



Mercure Okinawa Naha



Mercure Yokosuka

## **Appendix 2**

### **INFORMATION ON PROPERTIES**



# 1. Property List (1/2)

(as of June 30, 2018)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1000) (*7)	NOI Yield (forecast) (*8)
									18th Period (as of Dec. 31, 2017)		Midterm for 19th Period (as of Jun. 30, 2018)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Hyogo	23.0	10,900	9,962	15,100	5.2%	15,800	5.2%	3.4%	492,707	365,634	212,452	9.0%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	503	Chiba	23.2	19,900	18,026	34,100	4.5%	34,100	4.5%	6.2%	814,633	755,019	558,281	8.8%
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	22.3	15,000	14,749	32,700	4.3%	32,900	4.3%	4.7%	787,740	736,567	639,284	10.2%
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	24.8	4,100	4,183	4,280	7.5%	4,350	7.5%	1.3%	187,392	165,142	123,481	9.3%
5	Hotel Nikko Alivila	Resort	Luxury	396	Okinawa	24.3	18,900	18,281	31,500	4.9%	31,500	4.9%	5.9%	586,879	512,448	355,201	10.3%
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	14.3	7,610	6,713	9,820	4.5%	9,810	4.5%	2.4%	255,508	233,412	168,763	6.1%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	11.8	4,070	3,763	5,220	5.0%	5,240	5.0%	1.3%	147,472	135,395	89,693	6.6%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	10.4	2,334	2,167	2,960	5.8%	3,000	5.7%	0.7%	97,230	84,325	63,646	7.3%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	31.9	1,120	1,230	1,940	4.3%	1,940	4.3%	0.4%	54,664	49,108	35,702	8.8%
10	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	21.3	999	954	1,300	4.1%	1,330	4.0%	0.3%	31,997	27,650	20,996	5.5%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	23.3	2,130	2,044	4,330	4.7%	4,340	4.7%	0.7%	120,000	110,000	98,000	10.4%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	18.3	2,050	1,821	2,430	5.2%	2,430	5.2%	0.6%	75,000	67,000	46,000	6.5%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	16.2	1,720	1,744	1,920	4.1%	1,950	4.0%	0.5%	48,647	41,597	34,797	4.8%
14	R&B Hotel Higashi-nihonbashi	Limited-service	Economy	202	Tokyo	20.3	1,534	1,486	2,050	4.7%	2,090	4.6%	0.5%	61,103	52,584	43,063	-
15	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	10.4	3,746	3,575	5,330	4.5%	5,680	4.4%	1.2%	135,463	120,564	102,481	6.4%
16	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	21.3	2,108	2,040	3,060	4.2%	3,110	4.1%	0.7%	86,265	78,751	68,770	6.5%
17	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	16.8	1,652	1,446	2,670	4.7%	2,720	4.6%	0.5%	70,519	64,003	54,433	7.7%
18	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	17.0	6,000	5,972	13,600	5.1%	13,900	5.0%	1.9%	533,511	495,849	450,899	12.3%
19	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	15.2	823	787	1,430	4.5%	1,430	4.5%	0.3%	38,693	35,100	29,350	8.6%
20	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	26.4	1,512	1,456	2,000	4.5%	2,010	4.5%	0.5%	46,802	39,226	27,373	6.5%
21	Hotel Sunroute Shinbashi	Limited-service	Mid-price	220	Tokyo	10.3	4,800	4,833	8,740	4.0%	8,780	4.0%	1.5%	260,091	226,632	215,962	7.6%
22	Hilton Tokyo Bay	Resort	Luxury	828	Chiba	30.0	26,050	26,114	36,100	4.3%	36,100	4.4%	8.2%	940,482	790,700	698,903	6.1%
23	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	37.8	7,243	8,101	9,650	4.2%	9,650	4.2%	2.3%	318,028	227,396	171,965	6.3%
24	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	9.3	6,600	6,695	11,300	4.3%	11,200	4.3%	2.1%	270,246	242,705	224,472	7.6%

# 1. Property List (2/2)

(as of June 30, 2018)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1000) (*7)	NOI Yield (forecast) (*8)
									18th Period (as of Dec. 31, 2017)		Midterm for 19th Period (as of Jun. 30, 2018)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
25	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	7.9	6,797	6,647	10,500	4.9%	10,800	4.9%	2.1%	306,916	243,182	204,911	8.7%
26	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	9.2	6,000	5,892	10,500	4.8%	10,700	4.7%	1.9%	373,477	267,102	226,730	9.5%
27	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	8.9	3,000	2,890	7,760	4.8%	7,760	4.8%	0.9%	219,900	178,922	152,495	13.0%
28	the b akasaka-mitsuke	Limited-service	Mid-price	122	Tokyo	15.6	6,250	6,297	6,010	4.1%	6,010	4.1%	2.0%	119,708	110,197	99,027	–
29	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	36.0	6,520	6,618	7,330	4.4%	7,330	4.3%	2.0%	175,407	160,215	143,497	5.0%
30	the b ochanomizu	Limited-service	Mid-price	72	Tokyo	18.9	2,320	2,355	2,360	4.2%	2,360	4.2%	0.7%	48,591	44,295	39,000	–
31	the b hachioji	Limited-service	Mid-price	196	Tokyo	31.9	2,610	2,695	2,780	5.2%	2,780	5.2%	0.8%	99,688	86,598	72,419	6.6%
32	the b hakata	Limited-service	Mid-price	175	Fukuoka	20.8	2,300	2,343	4,160	4.5%	4,390	4.5%	0.7%	121,413	115,192	104,718	10.4%
33	Hotel Francs	Full-service	Mid-price	222	Chiba	26.9	3,105	3,136	4,050	4.7%	4,080	4.7%	1.0%	150,000	118,699	95,764	7.6%
34	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	24.7	1,650	1,683	2,800	4.7%	2,830	4.7%	0.5%	180,904	124,906	106,763	13.1%
35	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	13.4	14,950	14,752	18,500	5.0%	18,600	5.0%	4.7%	337,816	294,615	176,271	7.4%
36	ACTIVE-INTER CITY HIROSHIMA	Full-service	Luxury	238	Hiroshima	7.8	17,320	17,622	20,500	4.6%	20,600	4.6%	5.4%	729,831	522,545	424,209	6.3%
37	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	8.5	6,705	6,708	7,630	4.0%	7,620	4.0%	2.1%	174,985	162,192	142,366	4.8%
38	Hotel Centraza Hakata	Full-service	Mid-price	194	Fukuoka	33.0	7,197	7,385	8,490	4.7%	8,490	4.7%	2.3%	359,739	236,695	109,890	4.3%
39	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	9.9	27,000	27,139	27,200	4.4%	27,200	4.4%	8.5%	572,576	549,536	483,796	4.1%
40	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	19.2	4,925	5,173	5,560	4.8%	5,560	4.8%	1.5%	217,174	144,691	126,928	6.0%
41	Hilton Nagoya	Full-service	Luxury	460	Aichi	29.4	15,250	15,621	15,700	4.2%	15,700	4.2%	4.8%	683,347	337,495	264,156	4.5%
42	Hilton Tokyo Narita Airport	Full-service	Upper-middle	548	Chiba	24.9	13,175	13,324	13,400	4.7%	13,400	4.7%	4.1%	397,072	374,229	300,415	5.6%
43	International Garden Hotel Narita	Full-service	Mid-price	463	Chiba	22.1	9,125	9,215	9,430	4.9%	9,430	4.9%	2.9%	304,494	292,293	231,427	6.0%
44	Hotel Nikko Nara	Full-service	Upper-middle	330	Nara	20.3	10,373	10,520	11,200	4.9%	11,200	4.9%	3.2%	286,166	272,907	210,287	6.0%
Total or Average (44 properties)		–	–	11,486	–	19.9	319,474	316,179	439,390	4.6%	442,200	4.6%	100.0%	12,321,105	10,294,589	8,250,043	7.2%
(reference) Total or Average (41 properties)		–	–	11,090	–	20.0	309,370	306,040	428,970	4.6%	431,740	4.6%	–	12,091,702	10,087,513	8,068,953	–

(\*1) Under the category of Hotel Type, "Full-service" is full-service hotel, "Resort" is resort hotel, and "Limited-service" is limited-service hotel.

(\*2) Mainly based on ADR, etc., JHR has classified the hotels into four categories as "luxury," "upper-middle," "mid-price," and "economy."

(\*3) Average age: Weighted average calculated as follows. The sum of (acquisition price of each property x property age) / Total acquisition price.

(\*4) The acquisition price in the Purchase & Sale Agreement for the Beneficial Interest in Trust, etc. is indicated. (Consumption tax, amount equivalent to consumption tax, brokerage fee, and other purchase-related costs are excluded.)

(\*5) Book value as of the end of June 2018.

(\*6) Percentage of the acquisition price of the each asset to the total acquisition price. Numbers beyond one decimal place is rounded off.

(\*7) Actual for half a year from January to June 2018. Since the lessees did not agree to disclose numbers in units of JPY1,000 for No. 11 and 12, amounts are rounded down to the nearest JPY million.

(\*8) NOI yield (forecast) is the forecast as of FY12/2018. NOI yield for the portfolio is calculated as follows: Total NOI for FY12/2018 (forecast) / total acquisition price of properties held as of the end of FY12/2017.

(\*9) No.14 "R&B Hotel Higashi-nihonbashi," No.28 "the b akasaka-mitsuke" and No.30 "the b ochanomizu" were sold on August 10, 2018.

## 2. Summary of Lease Contracts (1/3)

(as of June 30, 2018)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease/ MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to end of Jun. 2018)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
1	Kobe Meriken Park Oriental Hotel	Fixed-lease	Fixed + Variable	Hotel Management Japan Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	8	1	(Fixed rent) JPY3,221MM/year+(Variable rent) When the total GOP of the five HMJ hotels exceeds GOP base amount (JPY3,351MM), the excess x 85% is paid.	In principle, the same rent will be applied until expiration of the contract.	Jan. 2016	Structure was modified	-	To be expired (Dec.)
2	Oriental Hotel tokyo bay												
3	Namba Oriental Hotel												
4	Oriental Hotel Hiroshima												
5	Hotel Nikko Alivila												
6	The Beach Tower Okinawa	Fixed-lease	Fixed	Kyoritsu Maintenance Co., Ltd.		20	8	JPY42MM/month	The same rent will be applied until expiration of the contract.	-	-	-	-
7	Hakone Setsugetsuka	Fixed-lease	Fixed			20	8	JPY24MM/month	The same rent will be applied until expiration of the contract.	-	-	-	-
8	Dormy Inn Kumamoto	Fixed-lease	Fixed			12	4	JPY16MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Same	-	-
9	Dormy Inn EXPRESS Asakusa	Lease	Fixed			20	1	JPY5MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Contract was renewed (same)	-	-
10	Hakata Nakasu Washington Hotel Plaza	Lease	Fixed			Washington Hotel K.K.		3	2	JPY20MM/month	Rent can be modified through mutual agreement.	Apr. 2018	Contract was renewed (same)
11	Nara Washington Hotel Plaza	Lease	Fixed	20	1			JPY11MM/month	Rent can be modified through mutual agreement.	-	-	-	-
12	R&B Hotel Ueno-hirokoji	Lease	Fixed	20	3			JPY8MM/month	Rent can be modified through mutual agreement.	Apr. 2011	Increased (+3.0%)	-	-
13	R&B Hotel Higashi-nihonbashi	Lease	Fixed	20	2			JPY10MM/month	Rent can be modified through mutual agreement.	Apr. 2018	Renewed (same)	Renewed	-
14	Comfort Hotel Tokyo Higashi Nihombashi	Fixed-lease	Fixed+Revenue sharing	Greens Co., Ltd.				20	9	JPY21MM/month+ Revenue sharing	Rent can be modified through mutual agreement every five years.	Deb. 2018	Renewed (same fixed rent +applied revenue sharing scheme)
15	Smile Hotel Nihombashi Mitsukoshimae	Lease	Fixed+Revenue sharing	THE KAMOGAWA GRAND HOTEL, LTD		20	1	JPY11MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Apr. 2017	Renewed (same)	-	-
16	Toyoko Inn Hakata-guchi Ekimae	Lease	Fixed	Toyoko Inn Co., Ltd.		30	13	JPY11MM/month	No rule has been stipulated.	Oct. 2007	Increased (+9.4%)	-	-
17	Hotel Keihan Universal City	Lease	Fixed+Revenue sharing	K.K. Hotel Keihan		20	3	Nondisclosure(*5)	Nondisclosure(*5)	Jul. 2014	Structure was modified.	-	-
18	Chisun Inn Kamata	Fixed-lease	Variable	Solare Hotels & Resorts Co., Ltd.	SHR Hotels, Co., Ltd.	2	1	Hotel GOP x 86% (If it is below zero, it will be JPY0)	-	Jul. 2017	Renewed (the calculation method of variable rent was modified)	-	To be expired (Dec.)
19	Hotel Vista Kamata Tokyo	Lease	Fixed+Revenue sharing	Vista Hotel Management Co., Ltd.		4	0	JPY7MM/month + Revenue sharing	In principle, the same rent will be applied until expiration of the contract.	Jul. 2015	Contract was renewed (the calculation method of revenue sharing was modified)	To be expired (Dec.)	-
20	Hotel Sunroute Shinbashi	Fixed-lease	Fixed+Revenue sharing	Sotetsu Hotel Management Co., Ltd.		15	4	JPY18MM/month + Revenue sharing	No rule has been stipulated.	-	-	-	-
21	Hilton Tokyo Bay	Fixed-lease	Fixed+Revenue sharing	THE DAI-ICHI BUILDING CO., LTD.	Hilton International Company	4	0	JPY157MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Jul. 2015	Renewed	To be expired (Dec.)	-
22	ibis Tokyo Shinjuku	-	Management contract	-	AAPC Japan K.K.	12	6	Amount equivalent to hotel GOP	-	Jul. 2012	Structure was modified.	-	-
23	ibis Styles Kyoto Station	-	Management contract			5	0	Amount equivalent to hotel GOP	-	-	-	To be expired (Dec.)	-
24	ibis Styles Sapporo	-	Management contract			5	1	Amount equivalent to hotel GOP	-	Dec. 2014	Structure was modified.	-	To be expired (Dec.)
25	Mercure Sapporo	-	Management contract			15	11	Amount equivalent to hotel GOP	-	-	-	-	-
26	Mercure Okinawa Naha	-	Management contract			10	5	Amount equivalent to hotel GOP	-	-	-	-	-

## 2. Summary of Lease Contracts (2/3)

(as of June 30, 2018)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease/ MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to end of Jun. 2018)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
27	Mercure Yokosuka	Fixed-lease	Variable	AAPC Japan K.K.		5	1	Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	To be expired (Aug.)
28	the b akasaka-mitsuke	Fixed-lease	Fixed+ Variable	Ishin Akasaka Operations, K.K.		7	3	JPY102MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
29	the b ikebukuro	Fixed-lease	Fixed+ Variable	Ishin Ikebukuro Operations K.K.		7	3	JPY163MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
30	the b ochanomizu	Fixed-lease	Fixed+ Variable	Ishin Ochanomizu Operations K.K.		7	3	JPY69MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
31	the b hachioji	Fixed-lease	Fixed+ Variable	Ishin Hachioji Operations, Y.K.		7	3	JPY98MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
32	the b hakata	Fixed-lease	Fixed+ Variable	Ishin Hakata Operations K.K.		7	3	JPY82MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
33	the b suidobashi	Fixed-lease	Fixed+ Variable	Ishin Suidobashi Operations K.K.		5	2	JPY85MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	Jul. 2015	Rebranded	—	—
34	Hotel Francs	Fixed-lease	Fixed	K.K. Bridal Produce		19	6	JPY25MM/month	The same rent will be applied until expiration of the contract.	—	—	—	—
35	Okinawa Marriott Resort & Spa	Fixed-lease	Fixed+ Variable	Lagoon resort Nago Co., Ltd.		5	2	(Fixed rent) JPY550MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY700MM), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
36	ACTIVE-INTER CITY HIROSHIMA	Fixed-lease	Fixed+ Variable	K.K. A.I.C Hiroshima Management	Luxury Hotels International of Hong Kong Limited.	11	8	(Fixed rent) JPY348MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY468MM), the excess x 82.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
37	CANDEO HOTELS UENO-KOEN	Fixed-lease	Fixed	Candeo Hospitality Management, Inc.		20	11	Nondisclosure <sup>(*)5</sup>	Rent can be modified through mutual agreement every three years.	Jul. 2016	Renewed	—	—
38	Hotel Centraza Hakata	Fixed-lease	Fixed+ Variable	Hotel Centraza Co., Ltd.		4	1	(Fixed rent) JPY400MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY425MM), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	To be expired (Dec.)
39	Holiday Inn Osaka Namba	Fixed-lease	Fixed+ Variable	OW Hotel Operations KK		15	13	(Fixed rent) JPY576MM/year (Variable rent) + when the total GOP exceeds GOP base amount (JPY650MM), the excess x 92.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
40	HOTEL ASCENT FUKUOKA	Lease	Fixed	NIKOH SANGYO co., Ltd.		20	0	Nondisclosure <sup>(*)5</sup>	Rent can be modified through mutual agreement every three years.	—	—	—	To be expired (Apr.)
41	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	11	Nondisclosure <sup>(*)5</sup>	Rent can be modified through mutual agreement.	—	—	—	—
42	Hilton Tokyo Narita Airport	Fixed-leas	Fixed+ Variable	KK NaritaKosuge Operations		20	19	(Fixed rent) JPY444MM/year (Variable rent) + When the total GOP exceeds GOP base amount (JPY550MM), the excess x 86.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—

## 2. Summary of Lease Contracts (3/3)

(as of June 30, 2018)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease/ MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to end of Jun. 2018)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
43	International Garden Hotel Narita	Fixed-lease	Fixed + Variable	KK NaritaYoshikura Operations		10	9	(Fixed rent) JPY336MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY360MM), the excess x 98% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
44	Hotel Nikko Nara	Fixed-lease	Fixed + Variable	Hotel Management Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	3	2	(Fixed rent) JPY420MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY470MM), the excess x 91.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—

(\*1) Rent structure is as follows:

Fixed: Fixed rent

Variable: Variable rent

Management contract: Management contract

Fixed + Variable: Property paying both fixed and variable rent

Fixed + Revenue sharing: When the sales of the hotel (lessee) exceed pre-determined amount, additional rent is paid

(\*2) Remaining contract term as of the end of June, 2018 Rounded down to a year.

(\*3) Amount including car park and CAM without tax.

(\*4) Details of "Modified Structure" are as follows.

No.1-5: Variable rent was modified from 81.5% to 85%

No.14, 15, 17: Revenue sharing structure has been applied in addition to fixed rent

No.22, 24: JHR has commenced direct management contract

(\*5) Information is undisclosed as the lessee did not agree to disclose detail of the rent agreement.

(\*6) No.13, 28, 30: Sold on August 10, 2018.

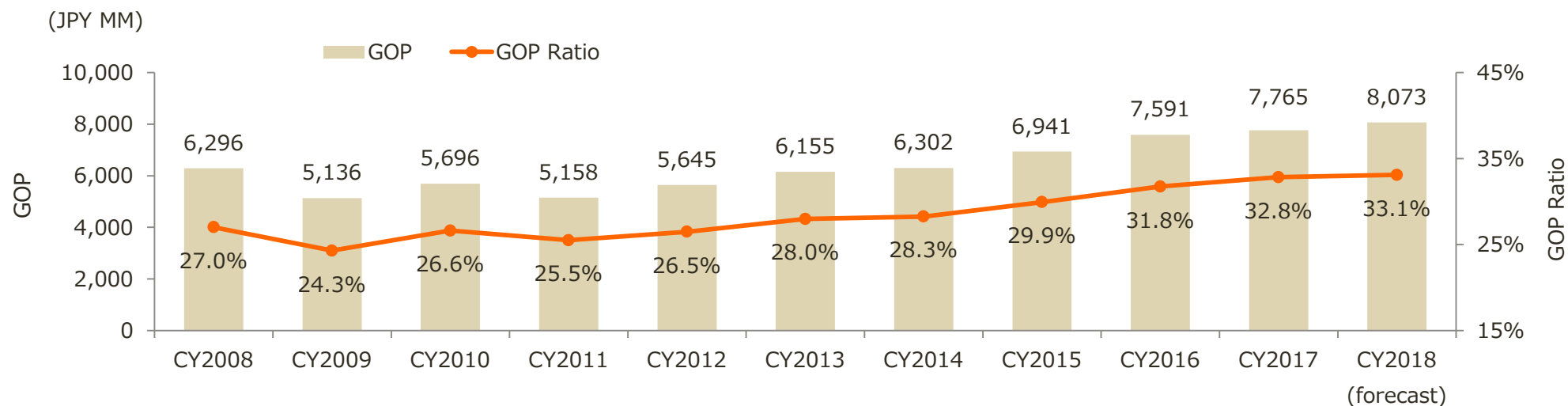
### 3. Major CAPEX Ⅲ by Hotel

\* (Numbers in parentheses are CAPEX, amounts: JPY MM)

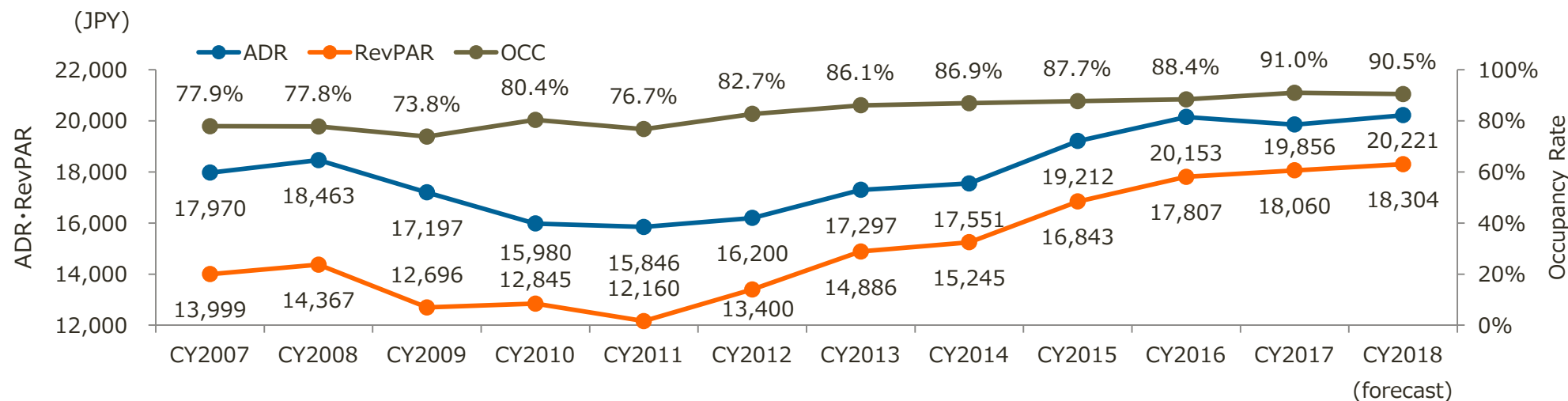
	FY12/2012	FY12/2013	FY12/2014	FY12/2015	FY12/2016	FY12/2017	FY12/2018 Plan
Kobe Meriken Park Oriental Hotel	-	-	-	Chapel (36)	Guest rooms on 7F (50) Balconies on each floor (62) Bar (85)	Bridal salon (76)	Private rooms at restaurant and balcony, etc. on 3F (19)
Oriental Hotel Tokyo Bay	-	Restaurant (45)	-	-	Guest rooms on 4F (101)	-	Guest rooms on 11F to 12F (140)
Namba Oriental Hotel	-	Corner rooms on 5F to 8F (10)	-	-	Guest rooms on 9F (91)	Guest rooms on 7F (77)	Guest rooms on 6F (78)
Hotel Nikko Alivila	-	-	Guest rooms on 3F to 8F of North building and 3F to 5F of central building (333)	-	Guest rooms on 9F (55) Restaurant (31)	-	Guest rooms on 1F, etc (16)
Oriental Hotel Hiroshima	-	-	Banquet room on 23F (10)	-	Guest rooms on 7F to 10F (43) Banquet room on 4F (38)	-	Chapel (10)
Ibis Tokyo Shinjuku	Lobby and restaurant on 2F, and guest rooms on 3,5,7,9F (170)	-	-	-	Guest rooms on 3F to 10F (192)	Guest rooms on 3F to 10F (312)	-
Holiday Inn Osaka Namba	-	-	-	-	-	-	Guest rooms on 4,6,7,12F (118)
ibis Styles Sapporo	-	-	-	-	-	-	Vacant space on 1F (28)
Mercure Hotel Sapporo	-	-	-	-	-	-	Banquet room (15)
the b Ikebukuro	-	-	-	-	-	-	Guest rooms on 3F to 10F, etc. (18)

## 4. The Five HMJ Hotels – Highlights

### Changes in GOP and GOP Ratio



### Changes in KPI





# 5. Portfolio Map

## Total Assets

JPY**309.3**Bn

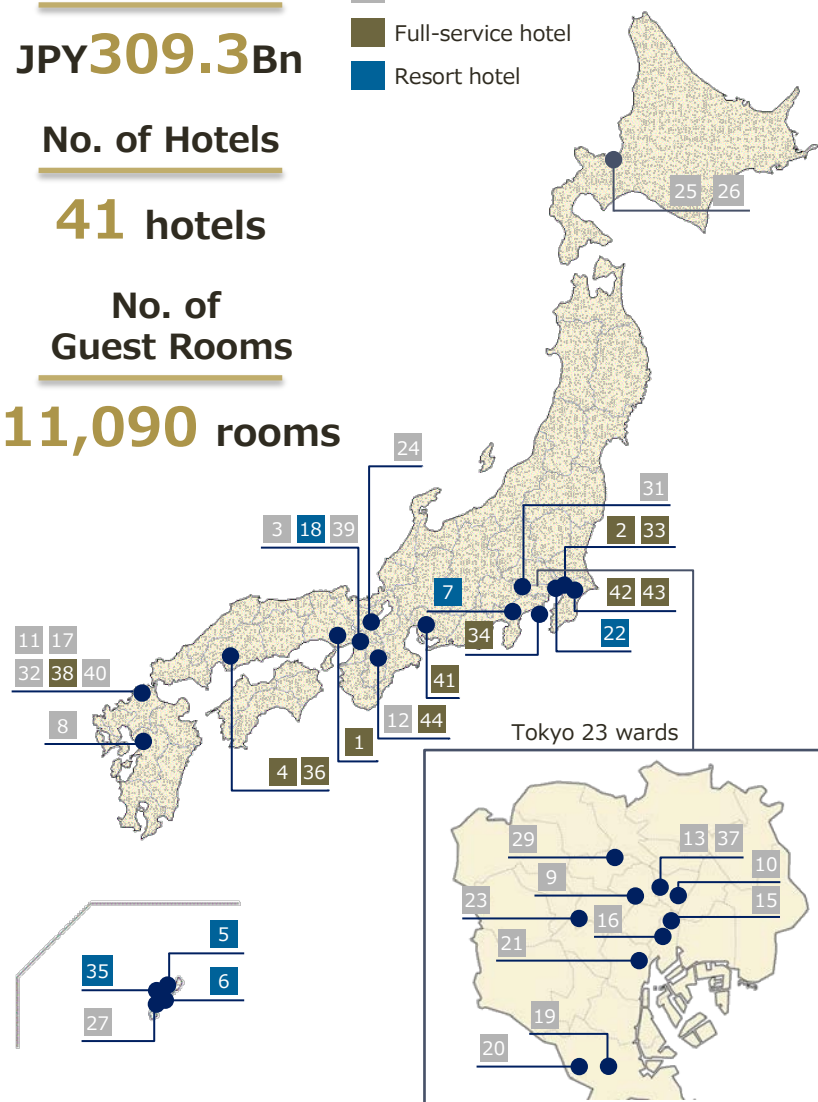
## No. of Hotels

**41** hotels

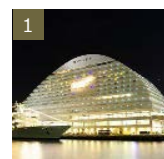
## No. of Guest Rooms

**11,090** rooms

- Limited-service hotel
- Full-service hotel
- Resort hotel



(as of August 22, 2018)



1  
Kobe Meriken Park  
Oriental Hotel



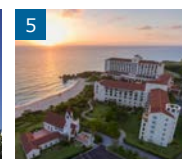
2  
Oriental Hotel  
Tokyo Bay



3  
Namba Oriental  
Hotel



4  
Oriental Hotel  
Hiroshima



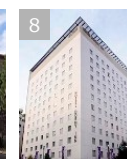
5  
Hotel Nikko Alivila



6  
The Beach  
Tower Okinawa



7  
Hakone  
Setsugetsuka



8  
Dormy Inn  
Kumamoto



9  
the b  
Suidobashi



10  
Dormy Inn  
EXPRESS  
Asakusa



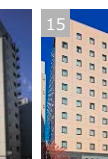
11  
Hakata Nakasu  
Washington Hotel  
Plaza



12  
Nara Washington  
Hotel Plaza



13  
R&B Hotel  
Ueno-hirokoji



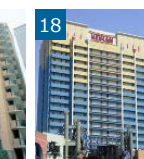
15  
Comfort Hotel  
Tokyo Higashi  
Nihonbashi



16  
Smile Hotel  
Nihonbashi  
Mitsukoshimae



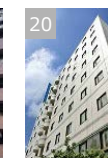
17  
Toyoko Inn  
Hakata-guchi  
Ekimae



18  
Hotel Keihan  
Universal City



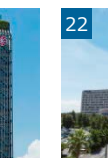
19  
Chisun Inn  
Kamata



20  
Hotel Vista  
Kamata Tokyo



21  
Hotel Sunroute  
Shinbashi



22  
Hilton Tokyo Bay



23  
ibis Tokyo  
Shinjuku



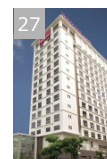
24  
ibis Styles  
Kyoto Station



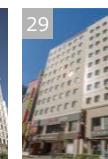
25  
ibis Styles  
Sapporo



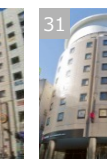
26  
Mercure Sapporo



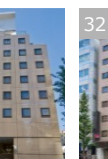
27  
Mercure Okinawa  
Naha



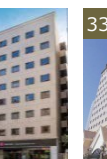
29  
the b Ikebukuro



31  
the b Hachioji



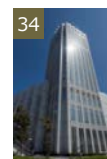
32  
the b Hakata



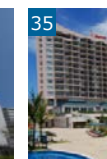
33  
Hotel Francis



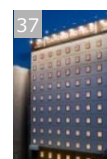
34  
Mercure Yokosuka



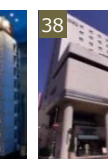
35  
Okinawa Marriott  
Resort & Spa



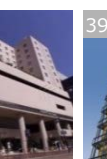
36  
ACTIVE-INTER CITY  
HIROSHIMA (Sheraton  
Grand Hiroshima Hotel)



37  
CANDEO HOTELS  
UENO-KOEN



38  
Hotel Centraza Hakata



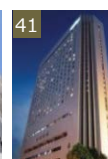
39  
Holiday Inn  
Osaka Namba



40  
HOTEL ASCENT  
FUKUOKA



41  
Hilton Nagoya



42  
Hilton Tokyo Narita  
Airport



43  
International  
Garden Hotel Narita



44  
Hotel Nikko Nara

(\*) R&B Hotel Higashi-nihonbashi (No.14), the b akasaka-mitsuke (No.28) and the b ochanomizu (No.30), which were sold on August 10, 2018 are excluded.



## **Appendix 3**

### **INVESTORS COMPOSITION AND INVESTMENT UNIT PRICE**

---

# 1. Major Unitholders and Classifications of Unitholders

## Top 10 Major Unitholders

As of the end of December 2017

Rank	Name	No. of Units	% <sup>(*)</sup>
1	The Master Trust Bank of Japan, Ltd. (Trust)	609,417	15.19
2	Japan Trustee Service Bank, Ltd. (Trust)	563,882	14.05
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	186,334	4.64
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	183,404	4.57
5	The Bank of New York, Non-Treaty JASDEC Account	83,266	2.07
6	State Street Bank & Trust Company 505012	71,916	1.79
7	Shikoku Railway Company	58,311	1.45
8	State Street Bank & Trust Company 505223	55,442	1.38
9	CBNY DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	53,933	1.34
10	STATE STREET BANK WEST CLIENT TREATY 505234	47,924	1.19
<b>Total</b>		<b>1,913,829</b>	<b>47.71</b>

As of the end of June 2018

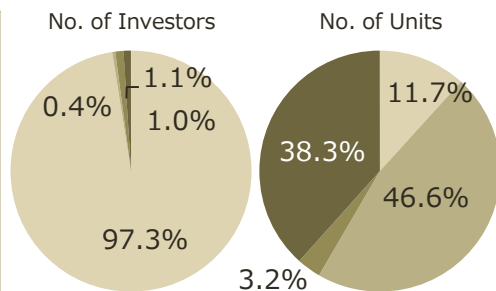
Rank	Name	No. of Units	% <sup>(*)</sup>
1	The Master Trust Bank of Japan, Ltd. (Trust)	626,327	15.61
2	Japan Trustee Service Bank, Ltd. (Trust)	537,982	13.41
3	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	183,975	4.58
4	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	159,993	3.98
5	The Bank of New York, Non-Treaty JASDEC Account	99,920	2.49
6	The Bank of New York Melon SANV 10	73,839	1.84
7	JP Morgan Chase Bank 385628	65,100	1.62
8	STATE STREET BANK WEST CLIENT TREATY 505234	59,006	1.47
9	Shikoku Railway Company	58,311	1.45
10	State Street Bank & Trust Company 505223	57,373	1.43
<b>Total</b>		<b>1,921,826</b>	<b>47.91</b>

(\*) The total units held by each investor to the total units issued by JHR as of the end of December 2017 and the end of June 2018 respectively. (Rounded off to two decimal places.)

## Owners of the Investment Units

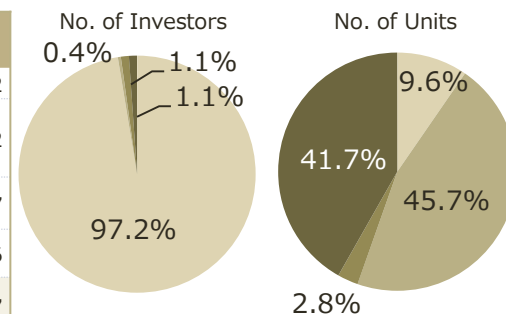
As of the end of December 2017

Owners	No. of Investors	No. of Units
Individuals & Others	34,113	471,932
Financial Institutions (Incl. Securities Firms)	152	1,869,983
Other Domestic Firms	414	131,309
Foreign Firms & Individuals	367	1,537,623
<b>Total</b>	<b>35,046</b>	<b>4,010,847</b>



As of the end of June 2018

Owners	No. of Investors	No. of Units
Individuals & Others	30,413	387,302
Financial Institutions (Incl. Securities Firms)	146	1,836,662
Other Domestic Firms	362	113,987
Foreign Firms & Individuals	356	1,672,896
<b>Total</b>	<b>31,277</b>	<b>4,010,847</b>



Individuals & Others   Financial Institutions (Incl. Securities Firms)   Other Domestic Firms   Foreign Firms & Individuals

(\*) Percentage of investors is percentage of owners in each segment to the total number of investors in JHR, and percentage of investment units is percentage of investment units owned by each segment to the total investment units issued as of respective date. (Both rounded off to one decimal place.)

## 2. Changes in Investment Unit Price and Market Capitalization

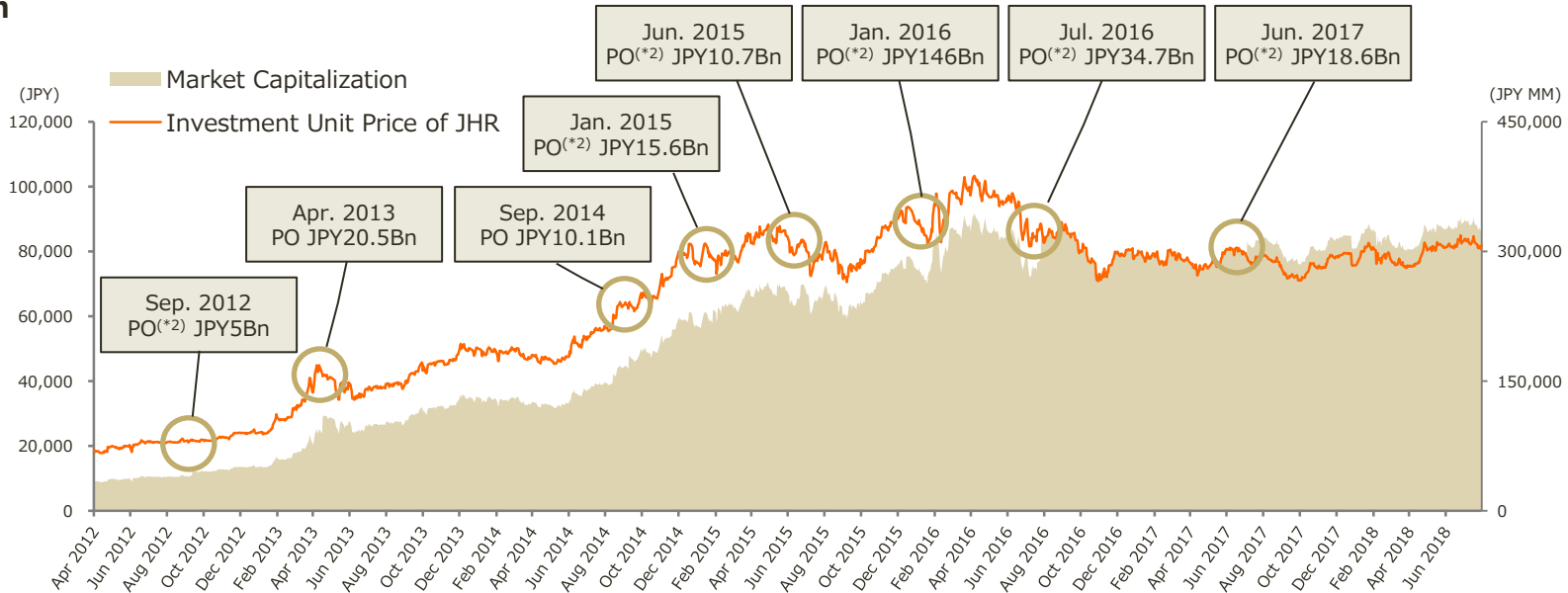
### Changes in the investment unit price and market capitalization (Based on the closing price)

**Price of the investment unit:**  
**JPY81,900**

**Total market capitalization:**  
**JPY328.5Bn**

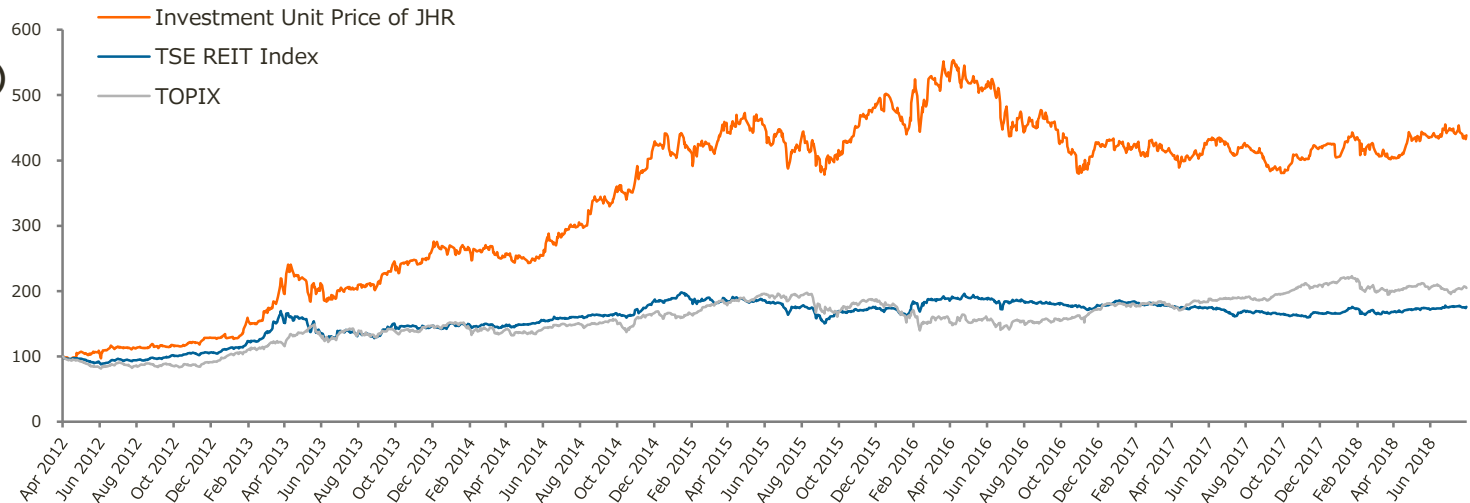
(Based on the closing price of July 31, 2018)

- (\*1) Price of the real estate investment securities may fall depending on the fluctuations of price of the real estate under management or profitability, etc., and investors may suffer losses. Investors may also suffer losses through the bankruptcy or deteriorated financial condition of the issuer. With reference to the risk of investment in JHR units, please see Securities Report dated March 20, 2018.
- (\*2) including OA



### Comparison with REIT Index and TOPIX of Tokyo Stock Exchange (TSE)

- (\*) 100 is the closing price of JHR unit, REIT index and TOPIX at TSE dated April 2, 2012. REIT Index of TSE is an index of a weighted average of the market capitalization of all REITs listed on TSE.



## **Appendix 4**

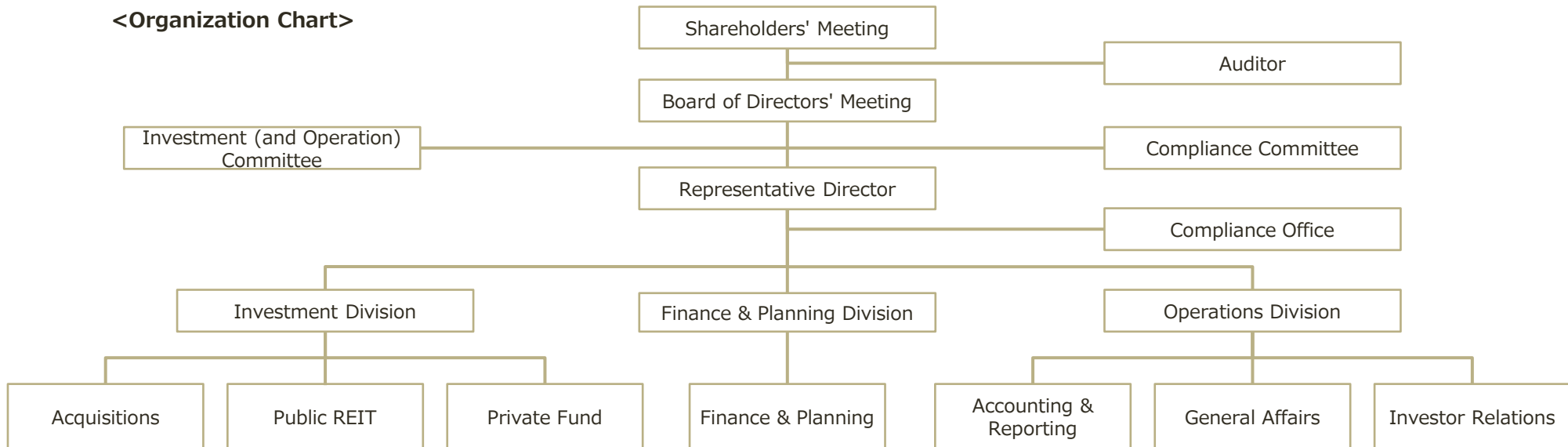
### **SUMMARY OF THE ASSET MANAGEMENT COMPANY**

---

# 1 . Summary of the Asset Management Company

Company	Japan Hotel REIT Advisors Co., Ltd.
Location	Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo 150-0013
Establishment	August 10, 2004
Capital	JPY300MM as of June 30, 2018
Shareholders	Rockrise Sdn Bhd, Kyoritsu Maintenance Co., Ltd., ORIX Corporation
Representative Director	Hisashi Furukawa
Registration and Licenses	Building Lots and Buildings Transaction Business Operator, Governor of Tokyo (3) No. 83613 Discretionary Transaction Agent by Minister of Land, Infrastructure, Transport and Tourism No. 38 Financial Instruments Trading Company, Director-General of Kanto Local Finance Bureau No. 334 Member of The Investment Trusts Association, Japan

## <Organization Chart>



### Mission Statement

"Provide attractive hotel investment opportunities to investors as specialist in investment and management of hotel assets. Gain trust from our stakeholders, and contribute to local communities and society through investing and managing hotel assets."

### Code of Conduct

As an independent asset management company, all, employees and officers at JHRA should have a **"spirit of challenge"** aiming to constantly provide high added value.

Also, **"teamwork"** is inevitable to provide high added value.

JHRA recognizes "challenge" and "teamwork" as essential value which our code of conduct is based upon.

#### Challenge

- Be a self-starter, take initiative and demonstrate drive
- Set high goal and strive
- Respect creativity and innovation
- Promote challenge, free from fear of failure

#### Teamwork

- Respect teamwork and collaborate with team-mates
- Respect others. Respect values and opinions of others
- Promote "sharing" (idea, knowledge, information, goal, achievement, joy of achievement, lesson, etc.)
- Make effort for open, frank and sincere communication

### Advanced Expertise

- ◆ Ability to propose transaction scheme, execute transaction, and plan and execute unprecedented measures of asset management based on in-depth understanding of hotel operation and track record of such asset management.
- ◆ Extensive experience of renovation and rebranding through collaboration with many hotel lessees and hotel operators.
- ◆ Strong and long-term relationships with a large number of hotel lessees and hotel operators.
- ◆ High analytical skills and accurate judgement capacity based on rich information and data obtained through a broad network and high credibility.

### Ensured Independence

- ◆ No director and employee of JHRA is a seconded employee from sponsor.
- ◆ Part-time directors from our main sponsor, SC CAPITAL PARTNERS group and non-sponsor-related full-time directors each account for half of JHRA's board of directors.
- ◆ With regard to transactions with sponsor-related parties and JHR, JHRA has set strict decision-making rules. In principle, in addition to obtaining approval by Compliance Committee which includes an outside specialist, who is authorized to dismiss proposals, JHRA is required to obtain approval from JHR's board of directors' meetings (directors are all third-party members who do not have any relationship with the sponsor-related parties).
- ◆ As our main sponsor, SC CAPITAL PARTNERS group is also an independent asset management company, it fully understands and respects importance of JHRA's independency. JHRA conducts asset management business based upon its own judgement.

This material is prepared and provided solely for the purpose of providing information and not to offer, solicit, or do business, etc. with specific products including purchase of investment units, investment unit subscription rights, or investment corporation bonds of Japan Hotel REIT Investment Corporation ("JHR") or any other particular products. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

This material is neither a disclosure document nor an investment report required under or prepared pursuant to the Financial Instruments and Exchange Act, Act on Investment Trusts and Investment Corporations and related government ordinances, Cabinet Office regulations, listing rules by Tokyo Stock Exchange, Regulations of The Investment Trusts Association, Japan, or other related rules and regulations.

This material contains forward-looking statements about financial conditions, operational results, and businesses of JHR, as well as plans and intentions of JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd ("JHRA"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or performance of JHR to materially differ from those expressed or implied forecasts. Those forecasts are made based on JHR's present and future business strategies and assumptions relating to the political and economic circumstances surrounding JHR in the future.

Every effort has been made to ensure the accuracy of the information contained in this material. However, there can be no assurance that the information is accurate, complete, appropriate or fair. The information may be revised or retracted without prior notice.

Regarding the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, financial institutions may charge you pre-determined handling fees and other charges aside from the price of the investment units, investment unit subscription rights or investment corporation bonds. Since neither JHR nor JHRA handles the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, please ask financial institutions for the amount, upper limit, and calculation methods of such fees and other charges.

JHR mainly invests in real estate-related assets, primarily hotels which are subject to change in values. Therefore, unitholders, holders of investment unit subscription rights and investment corporation bonds may suffer losses due to economic conditions of the real estate market or securities market, economic situations including interest rate environment, the nature of investment units, investment unit subscription rights, and investment corporation bonds, dependency on mechanisms and related persons of investment corporations, changes in legal systems related to real estate (include tax regulations, building regulations and others), damage caused to the real estate-related assets by natural disasters, fluctuation in prices or profitability of the real estate-related assets, nature of the trust beneficiary rights under management, delisting of the investment units, or worsening financial position or insolvency of JHR. For details, please refer to the Articles of Incorporation, Securities Registration Statement, Annual Securities Report and Extraordinary Report, etc. of JHR.

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Financial Instruments Trading Company  
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