

Japan Hotel REIT Investment Corporation

August 23, 2017

Midterm Financial Results Briefing 18th Period (FY12/2017)

(TSE: 8985)
<http://www.jhrth.co.jp/en/>

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Former Nippon Hotel Fund Investment Corporation ("former NHF") and former Japan Hotel and Resort, Inc. ("former JHR") merged on April 1, 2012. The surviving company is the former NHF. The new name after the merger is Japan Hotel REIT Investment Corporation ("JHR"). The asset management company of JHR is Japan Hotel REIT Advisors Co., Ltd. ("Asset Management Company").

I . Midterm Settlement of Accounts for FY12/2017 – Highlights

1. Highlights of Midterm - June 2017

1. External Growth

► Ongoing Acquisitions of High-Quality Properties

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

◆ Public offering in Jan.

2016

Acquired **2** properties /
JPY**24.0** billion ^{(*)1}

◆ Public offering in Jul.

Acquired **4** properties /
JPY**54.3** billion ^{(*)2}

Actual Results (2016)

Total Acquisition Price ^(*)1,2)	Total Funds Raised through Public Offerings
JPY 78.3B	JPY 49.3B

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

◆ Public offering in Jun.

Acquired **3** properties / JPY**32.6** billion



Hilton Tokyo
Narita Airport
JPY13.1 billion



International Garden
Hotel Narita
JPY9.1 billion



Hotel Nikko Narita
JPY10.3 billion

Actual Results (2017)

Total Acquisition Price	Total Funds Raised through Public Offering
JPY 32.6B	JPY 18.6B

End of Aug. 2017 **44** properties / JPY**319.4** billion (Anticipated)

2. Internal Growth ^(*)2, 3, 4, 5)

► RevPAR growth continues in regional cities

RevPAR	First Half of 2016	First Half of 2017	Variance
9 HMJ Hotels	14,845	15,315	3.2%
6 Accor Hotels	9,206	9,652	4.8%
6 the b Hotels	8,720	8,433	-3.3%
Total	12,261	12,599	2.8%

► Forecast of Year-on-Year Increase in Variable Rent, etc. for Full Year 2017

7 HMJ Hotels	+JPY 388M	6 the b Hotels	-JPY 74M
6 Accor Hotels	+JPY 164M	Revenue Sharing and others	-JPY 122M

3. Strengthening of Financial Base

► Focus on maintaining sound financial stability

◆ Launch of the second global offering

◆ Lender formation reinforcement (new bank participation)

	Post-acquisition of 3 new properties
LTV ^(*)6)	40.0%
Average Life of Debt	4.5 years
Cost for Interest-Bearing Debt	1.2%

^{(*)1} Includes JPY17.3 billion of ACTIVE-INTER CITY HIROSHIMA acquired in December 2015.

^{(*)2} Includes JPY 7.1 billion of Hotel Centraza Hakata acquired in April 2016.

^{(*)3} The Seven HMJ Hotels are the Five HMJ Hotels (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima) plus Okinawa Marriott Resort & Spa and Sheraton Grand Hiroshima Hotel (the major facility of ACTIVE-INTER CITY HIROSHIMA). The Nine HMJ Hotels are the Seven HMJ Hotels plus Hotel Centraza Hakata and Holiday Inn Osaka Namba.

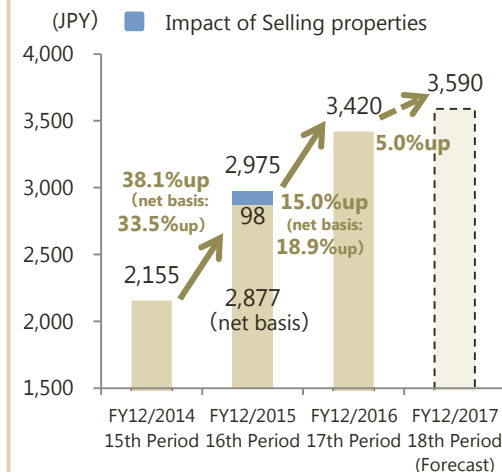
^{(*)4} The Six Accor Hotels are ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha and Mercure Yokosuka.

^{(*)5} The Six the b Hotels are the b akasaka-mitsuke, the b ikebukuro, the b ochanomizu, the b hachioji, the b hakata and the b suidobashi.

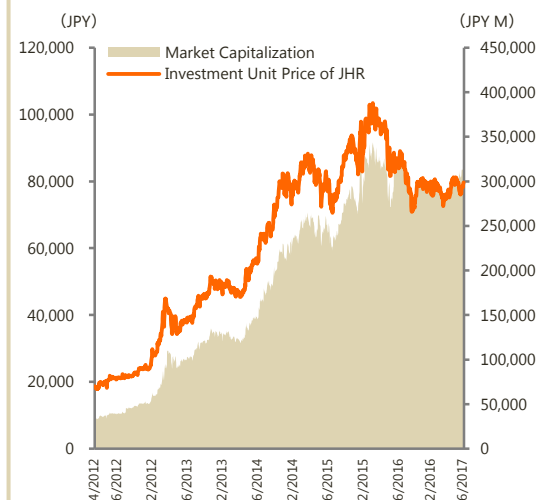
^{(*)6} LTV as of the end of June 2017 is 40.5%.

^{(*)7} Net basis means dividend without reflecting gain on sales of properties.

Steady Growth of Dividends ^(*)7)



Changes in Market Capitalization and Investment Unit Price



II . Summary of Midterm Settlement of Accounts & Revenue Forecast for the Full Fiscal Year

1. Midterm Results for the Fiscal Year Ending Dec. 2017

(Unit: JPY M)

		FY12/2016	FY12/2017		Comparison with Previous Forecast	
		Midterm Actual	Midterm Forecast Previous Time (A)	Midterm Actual (B)	(B) - (A)	Variance Ratio
Properties	No. of Properties	38	41	41	—	—
	Acquisition Price	239,626	286,801	286,801	—	—
Profit and Loss	Operating Revenue	9,390	11,056	11,272	215	1.9%
	Real Estate Operating Revenue	9,390	11,056	11,272	215	1.9%
	Fixed Rent	6,052	6,842	6,814	-28	-0.4%
	Variable Rent	3,338	4,213	4,457	244	5.8%
	Gain on Sale of Real Estate Properties	—	—	—	—	—
	Operating Expenses on Real Estate Properties	1,375	2,009	1,907	-102	-5.1%
	NOI ^{(*)2}	8,014	9,046	9,364	318	3.5%
	Depreciation	1,603	1,829	1,756	-73	-4.0%
	Asset Retirement Obligations Expenses	0	1	1	0	—
	Loss on Retirement of Noncurrent Assets, etc	5	56	18	-37	—
	Loss on Sales of Real Estate	—	—	—	—	—
	NOI after Depreciation ^{(*)2}	6,405	7,159	7,588	429	6.0%
	Other Operating Expenses	722	879	847	-31	-3.5%
	Operational Revenue	5,682	6,280	6,740	460	7.3%
	Non-operating Expenses	814	832	789	-43	-5.2%
	Ordinary Income	4,868	5,447	5,951	503	9.2%
	Extraordinary Losses	90	—	—	—	—
	Net Income(Midterm)	4,778	5,447	5,951	503	9.2%

Major Causes of Variance

(1) Operating revenue – Variable rent

- Increase/Decrease in variable rent and income from management contracts
 - The nine HMJ Hotels JPY267M
 - The six Accor Hotels JPY 26M
 - The six *the b* Hotels -JPY 49M

(2) Operating revenue – Fixed rent, etc.

- Increase in fixed rent JPY 2M
- Decrease in utilities income, etc. -JPY 30M

* Regarding the utilities income, about the same amount is posted as expenses for utilities. Therefore, there is little impact on net income by a decrease in utilities income.

(*)1 For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2017 (January 1, 2017-June 30, 2017) dated August 22, 2017.

(*)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

2. Revenue Forecast for the Full Fiscal Year Ending Dec. 2017

(Unit: JPY M)

		FY12/2016	FY12/2017				Comparison with Previous Forecast	
		Actual	Previous Forecast		Forecast this time		(B) - (A)	Variance Ratio
			(A)		(B)	Annualized		
Properties	No. of Properties	41	44		44	44	—	—
	Acquisition Price	286,801	319,474		319,474	319,474	—	—
Profit and Loss	Operating Revenue	22,107	25,514		25,573	26,642	58	0.2%
	Real Estate Operating Revenue	Ratio 22,107	Ratio 25,514		Ratio 25,573	Ratio 26,642	58	0.2%
	Fixed Rent	57.5% 12,714	55.9% 14,255		55.7% 14,240	55.9% 14,904	-14	-0.1%
	Variable Rent	42.5% 9,392	44.1% 11,259		44.3% 11,332	44.1% 11,737	72	0.6%
	Gain on Sale of Real Estate Properties	—	—		—	—	—	—
	NOI ^(*2,3)	18,829	21,288		21,349	22,188	60	0.3%
	NOI Yield	6.6%	6.7%		6.7%	6.9%	0.0%	
	Depreciation	3,294	3,849		3,814	4,049	-34	
	Loss on Retirement of Noncurrent Assets, etc.	18	72		72	72	—	
	NOI after Depreciation ^(*2,3)	15,517	17,366		17,461	18,066	95	0.6%
	NOI Yield after Depreciation	5.4%	5.4%		5.5%	5.7%	0.0%	
	Other Operating Expenses	1,632	1,960		1,938	1,999	-22	—
	Operating Income	13,885	15,405		15,523	16,067	117	0.8%
	Non-operating Expenses, etc.	1,665	1,912		1,829	1,838	-82	
	Ordinary Income	12,220	13,493		13,693	14,228	200	1.5%
	Extraordinary Losses	97	—		—	—	—	
	Net Income	12,123	13,492		13,692	14,227	200	1.5%
Dividend	Use of Negative Goodwill	740	706		706	332	—	—
	Total Dividends	12,865	14,198		14,398	14,559	200	1.4%
	Number of Units Issued (Unit)	3,761,907	4,010,847		4,010,847	4,010,847	—	—
	Dividend per Unit (JPY)	3,420	3,540		3,590	3,630	50	1.4%

+5.0% +1.4%

Major Causes of Variance

(1) Operating revenue – Variable rent

- Increase/Decrease in variable rent, income from management contracts, and rent from revenue sharing
 - The nine HMJ Hotels JPY160M
 - The six Accor Hotels JPY 54M
 - The six *the b* Hotels -JPY 82M
 - Others including rent from revenue sharing, etc. -JPY 59M

(2) Operating revenue – Fixed rent, etc.

- Increase in fixed rent JPY 13M
- Decrease in utilities income, etc. -JPY 27M

* Regarding the utilities income, about the same amount is posted as expenses for utilities. Therefore, there is little impact on net income by a decrease in utilities income.

(*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2016 (January 1, 2016-June 30, 2016) dated August 22, 2017.

(*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 yield =
NOI ÷ Acquisition price

NOI after depreciation =
Real estate operating revenue – Real estate operating costs

NOI yield after depreciation =
NOI after depreciation ÷ Acquisition price

3. Balance Sheet

(Unit: JPY M)

	FY12/2016 End of Fiscal Year	FY12/2017 End of Midterm	Variance
(As of)	12.31.2016	6.30.2017	
ASSETS			
Current Assets	29,050	22,300	-6,750
Cash and Deposits ^{(*)1}	26,373	20,200	-6,173
Operating Accounts Receivables	2,071	1,521	-549
Others	605	577	-27
Property and Equipment, at Cost	288,441	287,369	-1,071
Net Property and Equipment	250,690	249,891	-798
Buildings in Trust ^{(*)2}	94,608	93,806	-802
Land in Trust	154,841	154,841	0
Others ^{(*)3}	1,240	1,243	3
Intangible Assets	34,278	34,203	-74
Other Assets	3,472	3,274	-197
Leasehold and Security Deposits	170	170	0
Others	3,301	3,103	-197
Deferred Assets	387	318	-68
TOTAL ASSETS	317,878	309,988	-7,890

(*)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.

	FY12/2016 End of Fiscal Year	FY12/2017 End of Midterm	Variance
(As of)	12.31.2016	6.30.2017	
LIABILITIES AND NET ASSETS			
Current Liabilities	14,364	21,035	6,671
Operating Accounts Payable	666	567	-98
Short-Term Loans Payable	1,800	100	-1,700
Current Portion of Investment Corporation Bonds	0	0	0
Current Portion of Long-Term Loans Payable	9,679	18,458	8,778
Accounts Payable	1,107	886	-221
Advances Received	899	902	3
Others	211	120	-91
Long-Term Liabilities	121,524	113,818	-7,705
Investment Corporation Bonds	22,600	22,600	0
Long-Term Loans Payable	92,099	84,466	-7,633
Tenant Leasehold and Security Deposits	5,660	5,673	12
Derivative Liabilities	676	594	-82
Others	487	484	-3
TOTAL LIABILITIES	135,889	134,854	-1,034
NET ASSETS			
Unitholders' Capital	134,829	134,829	0
Capital Surplus	21,746	21,746	0
Dividend Reserve	13,867	0	-13,867
Reserve for Temporary Difference Adjustment	0	13,127	13,127
Unappropriated Retained Earnings for the Period	12,126	5,951	-6,174
Others	-580	-520	59
TOTAL NET ASSETS	181,989	175,133	-6,855
TOTAL LIABILITIES AND NET ASSETS	317,878	309,988	-7,890

III. External Growth

1. Properties Acquired in 2017

Hilton Tokyo Narita Airport



International Garden Hotel Narita



Hotel Nikko Nara



Acquisition Price	JPY13,175M	JPY9,125M	JPY10,373M
# of Rooms	548	463	330
Rent Period	20 years	10 years	3 years
NOI Yield ^(*1)	5.5%	5.8%	6.0%
Brand / Operator	Hilton / HMJ Group	Domestic Brand / HMJ Group	Nikko / Okura Nikko Hotel Management
Rent Structure	Fixed + Variable	Fixed + Variable	Fixed + Variable
Feature	<ul style="list-style-type: none"> Full-service hotel associated with the international brand name "Hilton" and achieved the highest ADR in the area 	<ul style="list-style-type: none"> Full-service hotel within the middle-price range that benefits from demand in the volume zone of the market 	<ul style="list-style-type: none"> Full-service hotel with the "Hotel Nikko" brand name and the largest number of rooms in Nara city
Investment Strategy	<ul style="list-style-type: none"> Pursue efficient management by leveraging HMJ platform Approach broad range of guests by hotels with different grade in the same area Seek synergies through operating multiple hotels in the same area 		<ul style="list-style-type: none"> Pursue efficient management by leveraging HMJ platform

(*1) NOI yield is calculated as hypothetical annualized NOI forecast for FY12/2017 divided by anticipated acquisition price.

2. Continuous Property Acquisitions

- ◆ Realize portfolio quality enhancement and continuous external growth by leveraging JHR's strength as an independent J-REIT specializing in hotel assets
- ◆ Acquired **24 properties** and approximately **JPY210 billion** worth of hotel assets since the merger

2014

Acquired 3 assets (JPY15.7B)



ibis Styles Sapporo
JPY6,797M



Mercure Sapporo
JPY6,000M

+1 other asset

2015

Acquired 9 assets (JPY57.0B)



Okinawa Marriott
Resort & Spa
JPY14,950M



Sheraton Grand
Hotel Hiroshima
JPY17,320M

+7 other assets

2016

Acquired 5 assets (JPY61.0B)



Holiday Inn
Osaka Namba
JPY27,000M



Hilton Nagoya
JPY15,250M

+3 other assets

2017

Acquired 3 assets (JPY32.6B)



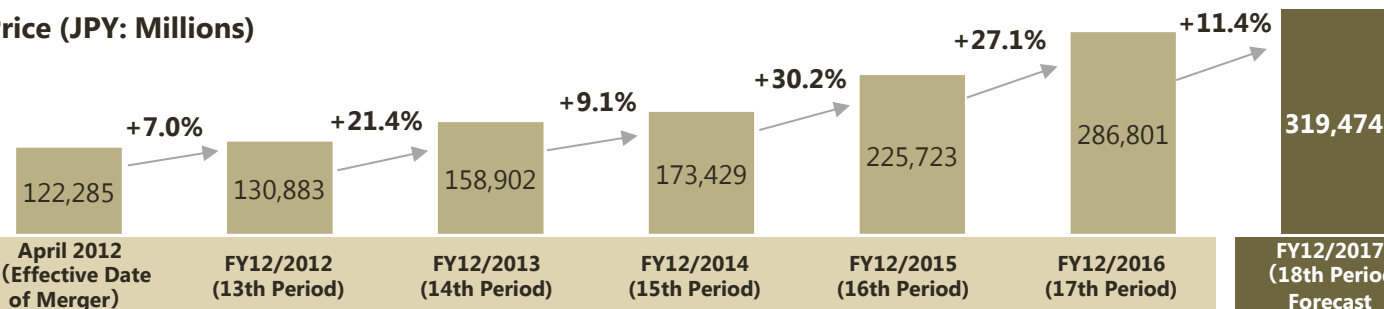
Hilton Tokyo
Narita Airport
JPY13,175M



Hotel Nikko Nara
JPY10,373M

+ International Garden Hotel Narita
JPY9,125M

Aggregate Acquisition Price (JPY: Millions)



	April 2012 (Effective Date of 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) Forecast
No. of Properties	28	28	28	30	36	41	44
NOI Yield(%) ^(*)	-	6.2%	6.2%	6.3%	6.6%	6.6% (annualized 7.1%)	6.7% (annualized 6.9%)
NOI Yield (After Depreciation) ^(*)	-	4.5%	4.8%	5.0%	5.3%	5.4% (annualized 5.9%)	5.5% (annualized 5.7%)
NAV Per Unit (JPY)	-	33,748	38,013	48,427	66,360	78,629	79,393

(*)1) NOI yield (after depreciation) is calculated as NOI (after depreciated) divided by the aggregate acquisition price.

NOI yield for FY12/2012 is hypothetical annualized based on actual NOI after merger of Former NHF with Former JHR on April 1, 2012. NOI yield for FY12/2017 is the forecast NOI yield for FY12/2017 of our portfolio of 44 properties based on the relevant assumptions used in operating forecasts.

**Aim for
Further
Growth**

3. 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

Total Assets

JPY**319.4B**

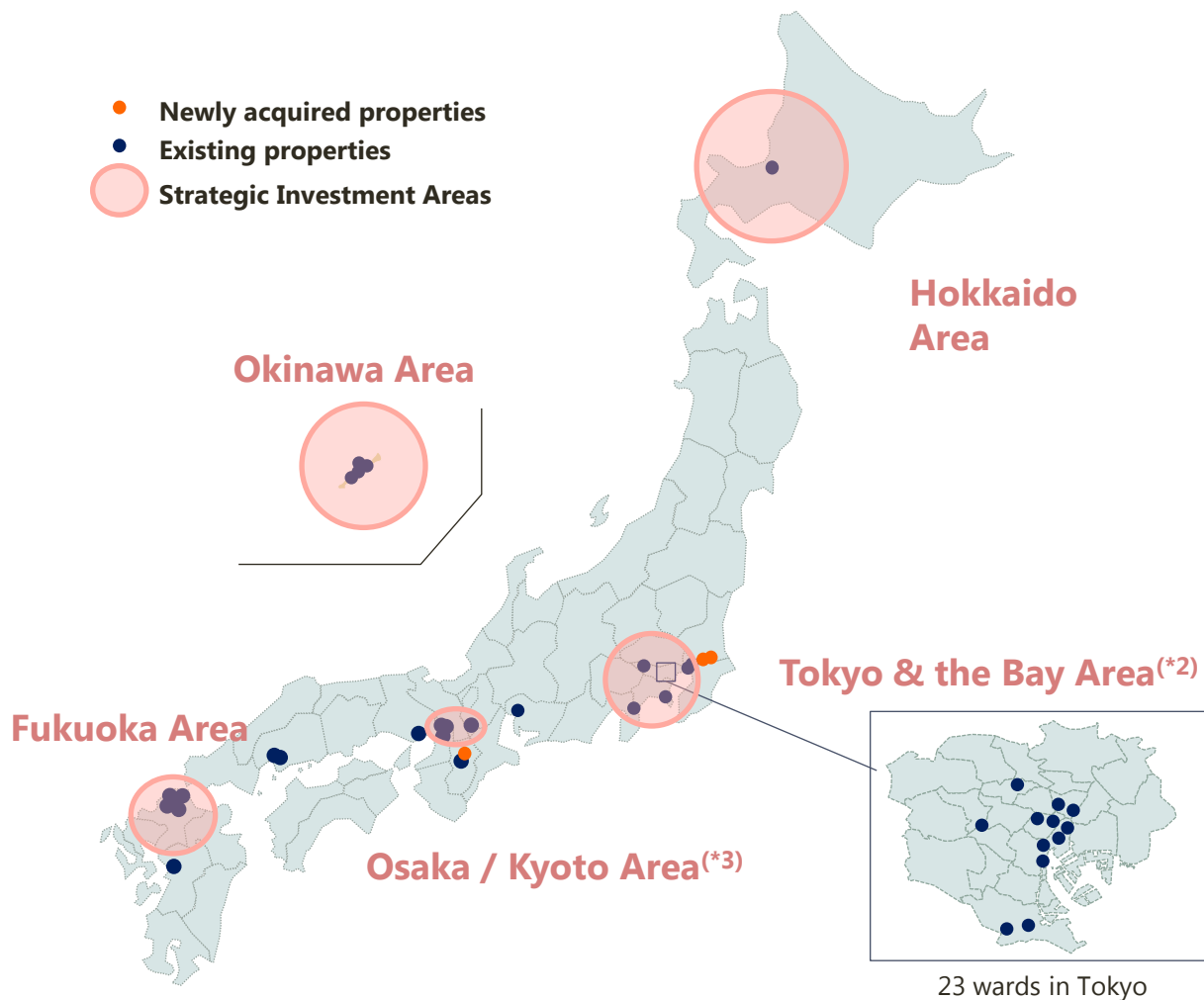
No. of Hotels

44 Hotels
(**35** in Strategic Investment Areas)

No. of Guest Rooms

11,486 Rooms

Strategic Investment Areas and Locations of Properties



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

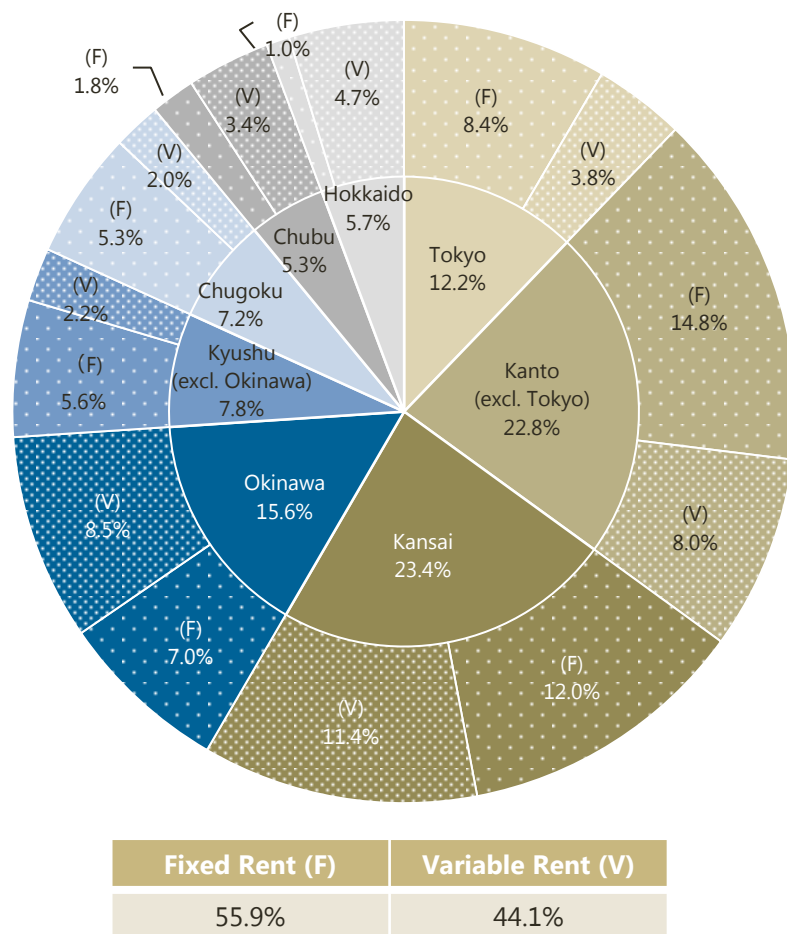
(*) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.

(*) Osaka / Kyoto Area includes Osaka and Kyoto prefectures.

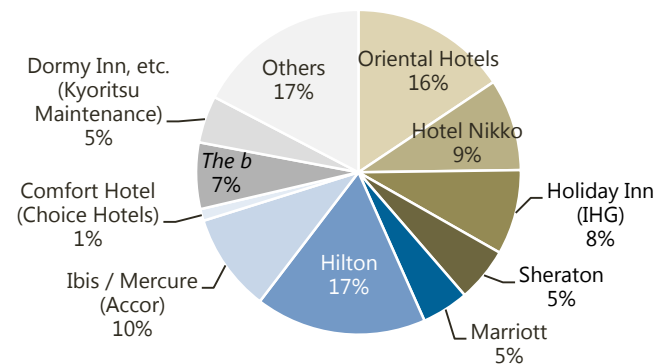
4. Portfolio Diversification

- ◆ Well-balanced rent structure and geographic diversification
- ◆ 47% of Portfolio carry major international hotel brands, which attract inbound visitors

By Area and Rent (*1) (*2)

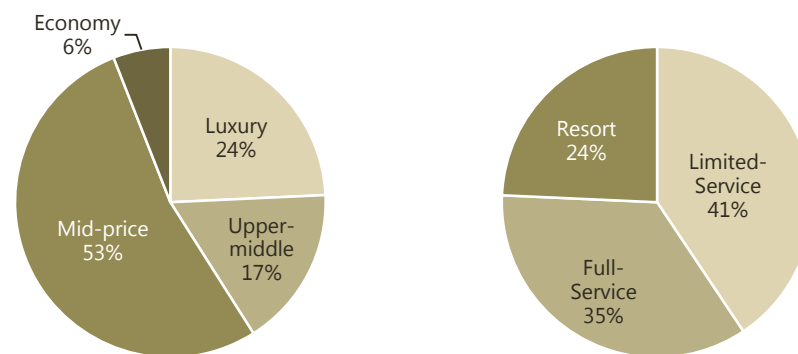


By Hotel Brand (*2)



International Brand: 47%

By Grade / Hotel Type (*2)



(*1) Based on forecasts of annualized rent revenues for FY12/2017.

(*2) Based on total acquisition price after the acquisitions of three properties.

IV. Internal Growth

1. Rent Structures

Stability

Upside

(FY12/2017(Anticipated))

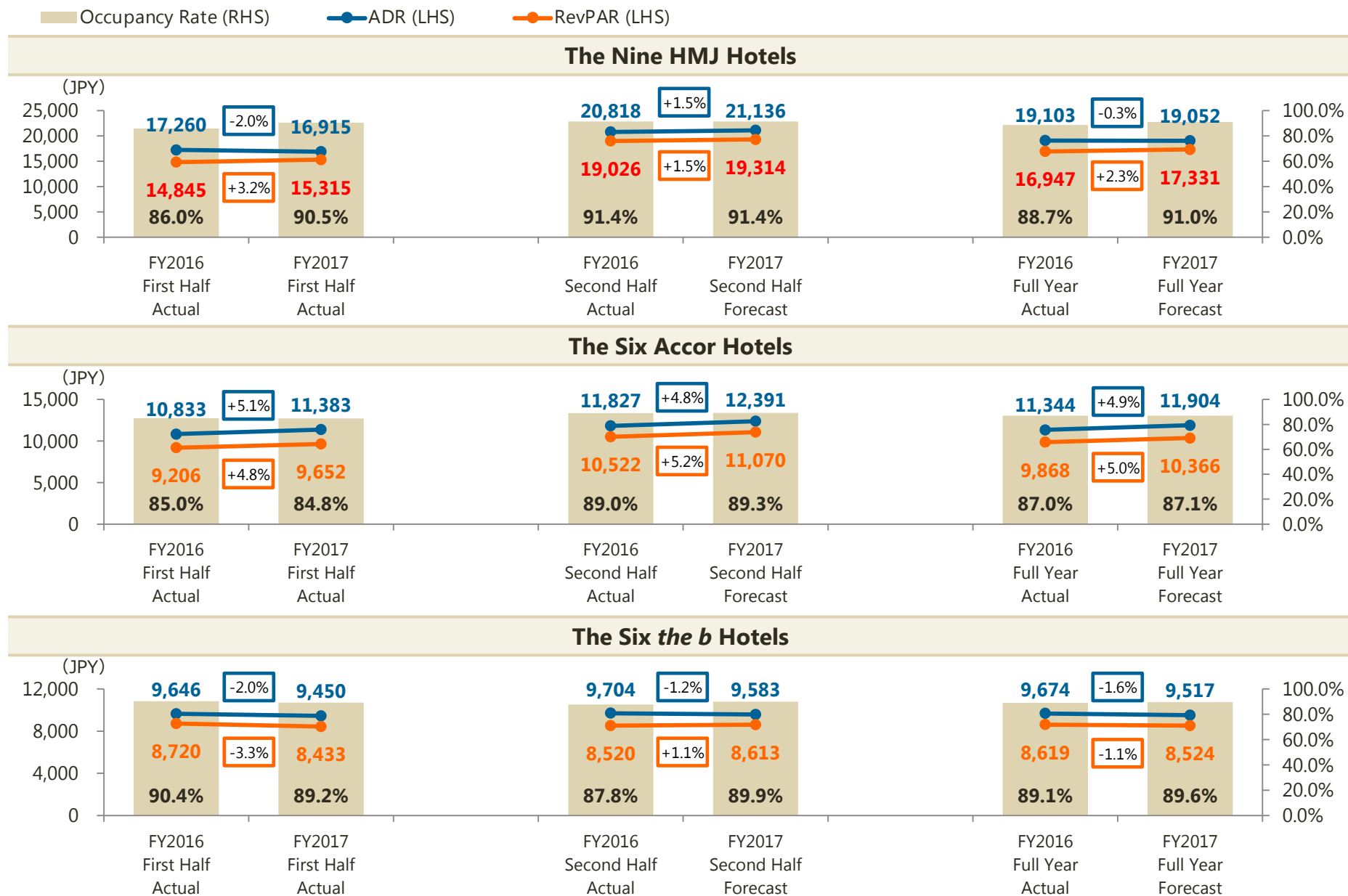
Rent structure ^{(*)1}		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable Rent	Variable rent	Management contract	Total
Type of contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of rent	Fixed	○	○	○	-	-	-
	Variable	-	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	A certain percentage of hotel GOP	GOP of hotel	-
Operating revenue		JPY3,175M (11.9%)	JPY3,424M (12.9%)	JPY15,061M (56.5%)	JPY1,803M (6.8%)	JPY3,178M (11.9%)	JPY26,642M (100.0%)
	Fixed rent, etc. ^{(*)2}	JPY3,175 M (11.9%)	JPY2,990M (11.2%)	JPY7,733M (29.0%)	JPY530M (2.0%)	JPY474M (1.8%)	JPY14,904M (55.9%)
	Variable rent	-	JPY434M (1.6%)	JPY7,328M (27.5%)	JPY1,272M (4.8%)	JPY2,703M (10.1%)	JPY11,737M (44.1%)
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		13	5	18	3	5	44
Acquisition price		JPY42,580M (13.3%)	JPY40,470M (12.7%)	JPY189,060M (59.2%)	JPY17,723M (5.5%)	JPY29,640M (9.3%)	JPY319,474M (100.0%)
Hotels		The Beach Tower Okinawa CANDEO HOTELS UENO-KOEN, etc.	Hilton Tokyo Bay Hotel Keihan Universal City, etc.	The Nine HMJ Hotels The Six <i>the b</i> Hotels, etc. <Three new properties> Hilton Tokyo Narita Airport International Garden Hotel Narita Hotel Nikko Nara	Hilton Nagoya, etc.	The Five Accor Hotels ^{(*)3}	-

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

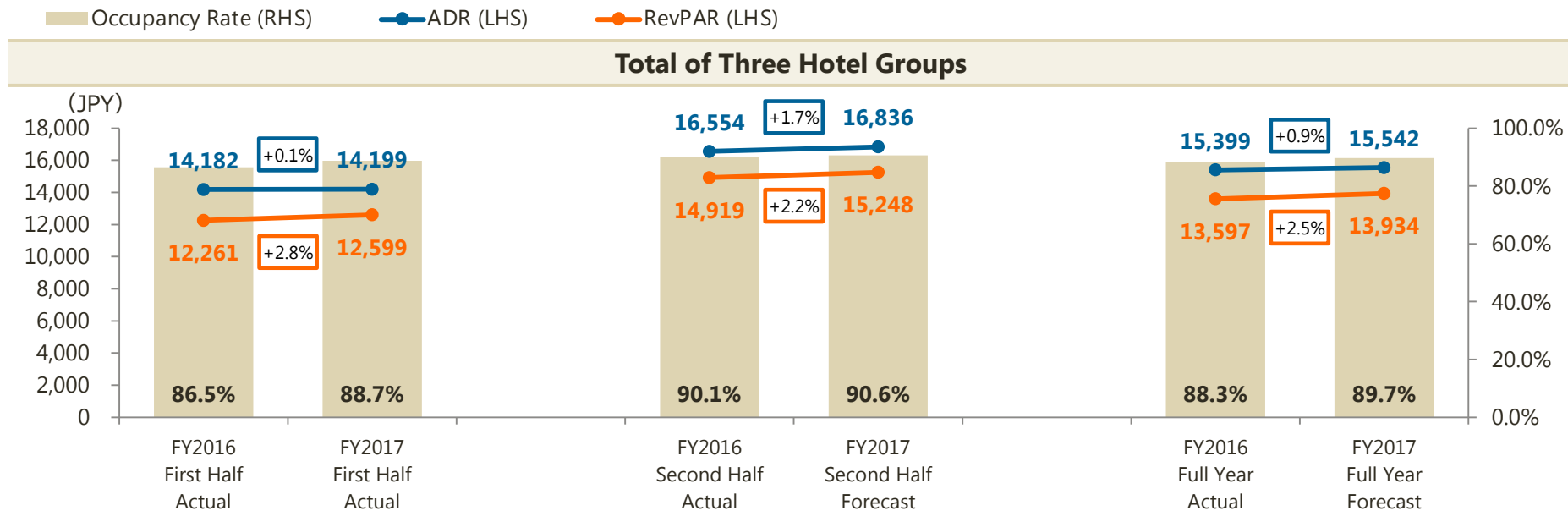
(*)2 Fixed rent include rent based on rent contract from non-hotel portion of acquired asset (offices, signage, car parks, retail shops, etc.).

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

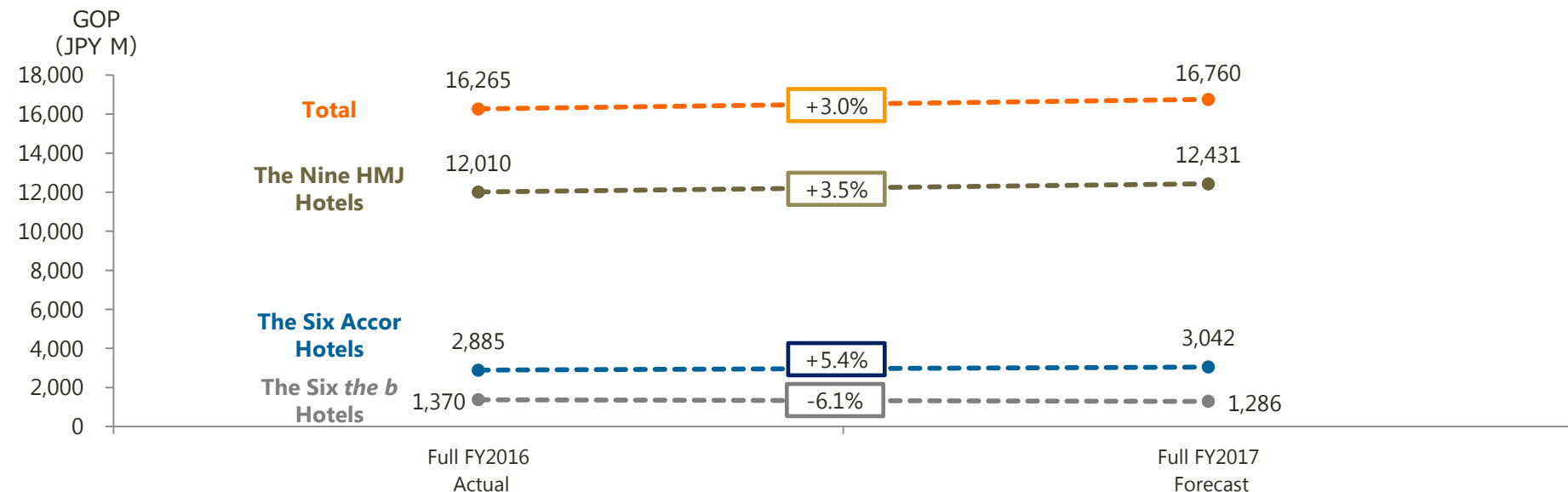
2. Performance of Major Hotels Adopting Variable Rent Scheme



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



Forecast of GOP



3. Active Asset Management

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

FY12/2017 Forecasts (annualized) (JPY M)

Hotels	Three Hotel Groups	Hotel Sales	52,360
		Hotel Operating Costs	33,332
		GOP	19,027

Rents

REIT	Real Estate Operating Revenue	Three Hotel Groups	18,557
		Other Hotels	8,085
	Real Estate Operating Costs		4,453
		NOI	22,188

Active Asset Management

- ◆ Strategic capital expenditure (e.g., renovations for RevPAR increase)
- ◆ 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
- ◆ Joint purchasing in the same group
- ◆ Reduction of utility costs

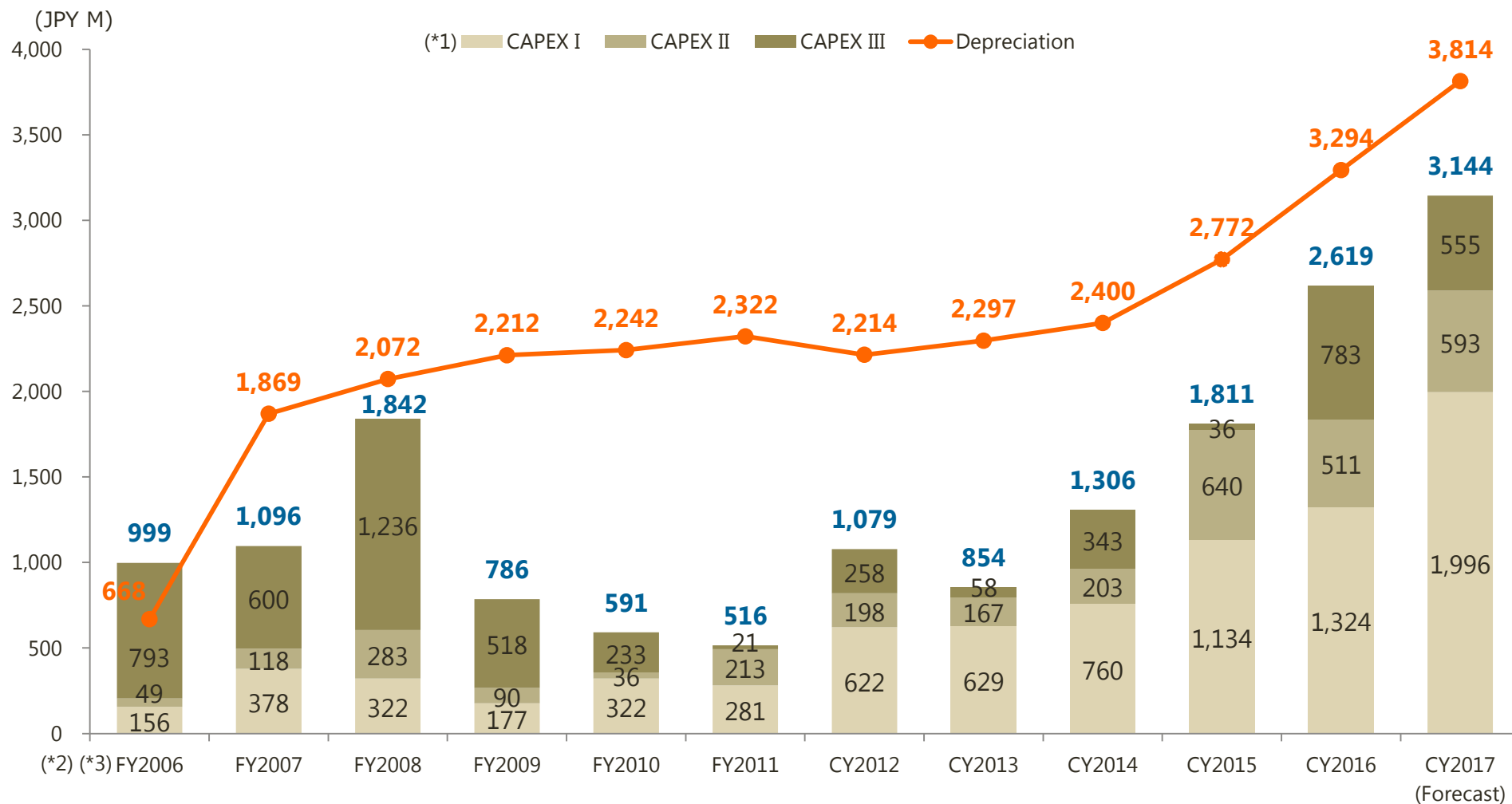
- ◆ Revision of rent scheme to capitalize on hotel GOP growth
 - The Five HMJ Hotels, CANDEO HOTELS UENO-KOEN, etc.

- ◆ Optimization of PM/BM/Trust fees, and reduction of ground rent

Maximize DPU

4. Capital Expenditure and Depreciation

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



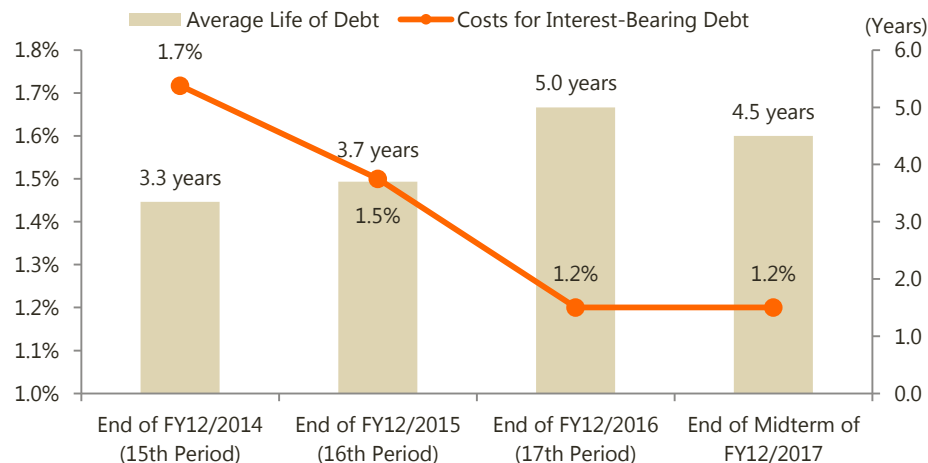
(*1) CAPEX I is capital investment related to renewal of buildings, facilities, and equipment which is required to maintain proper values of buildings. CAPEX II is capital investment for fixtures and furnishings that are not directly related to building structures or facilities but necessary for operating hotels. CAPEX III is strategic capital investment for renewing guest rooms, banquet rooms and restaurant for maintaining/improving the competitiveness of the hotels.

(*2) The actual for FY2006 is the actual of the former JHR for the period from IPO to August 2006 (6.5 months). The actual for FY2007 is the sum of the actual of the former JHR from September 2006 through August 2007 and that of the former NHF from IPO to September 2007 (15.5 months). The actual for FY2008 is the sum of the actual of former JHR from September 2007 through August 2008 and that of former NHF from October 2007 through September 2008 (the same method applies for FY2009 to FY2011). The actual of CY2012 is the actual from January 2012 through December 2012 (depreciation is the annualized number for the 13th period), and the actual for CY2013 through CY2016 is actual number for the period from January through December each year. The plan for CY2017 for the period from January 2017 through December 2017 is based on the operating forecast in the Midterm Financial Report dated August 22, 2017.

(*3) The former NHF spent JPY31M (from October 2011 through December 2011) and former JHR spent JPY90M (from September 2011 through December 2011), respectively, in addition to the amount indicated above.

V . Financial Status

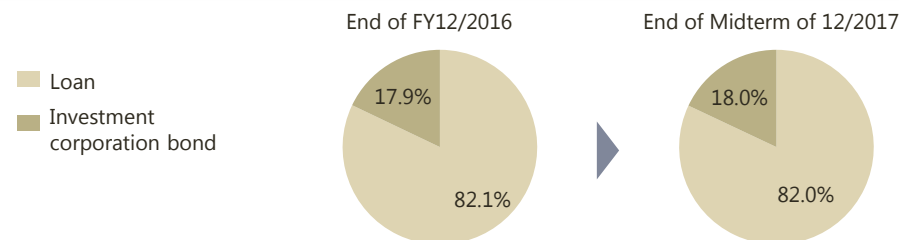
Changes in Costs for Interest-Bearing Debt (*1) and Average Life of Debt (*2)



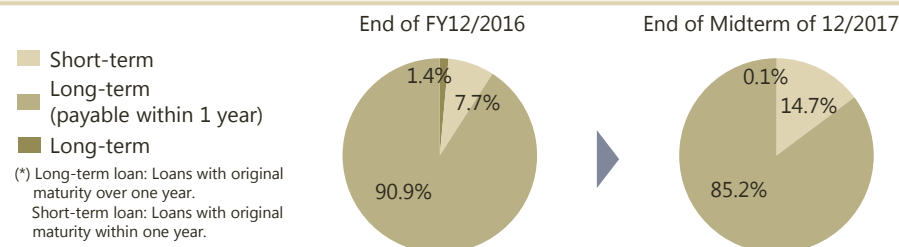
(*1) Weighted-average costs for interest-bearing debt (including up-front fee, etc.) as of the end of each year/midterm. Rounded off to one decimal place.

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

Breakdown of Interest-Bearing Debt

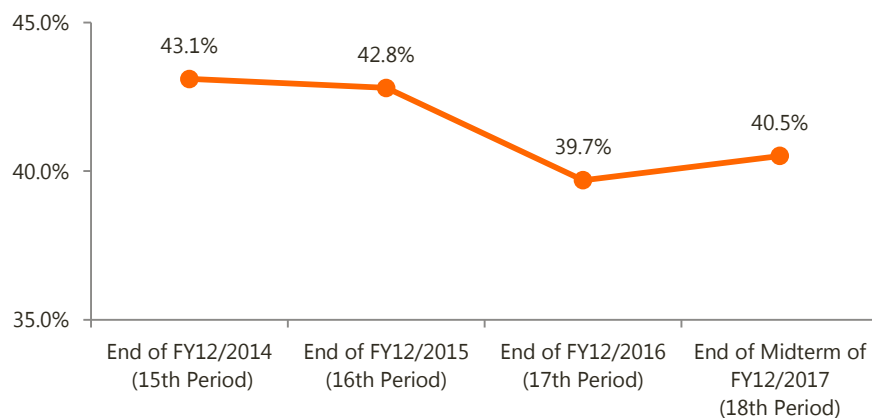


Term of Interest-Bearing Debt



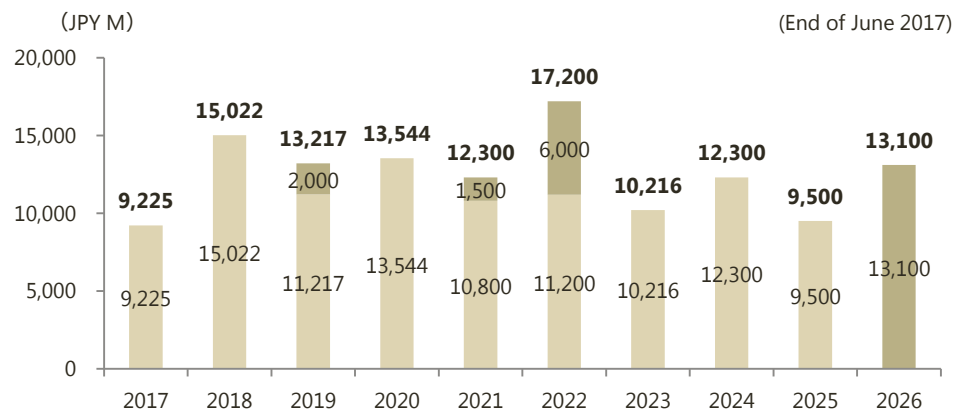
(*1) Long-term loan: Loans with original maturity over one year.
Short-term loan: Loans with original maturity within one year.

Changes in LTV (Total Asset Base)



(*) LTV as of the end of each year/midterm.

Repayment Schedule of Interest-Bearing Debt



1 . Financial Status (Cont.)

Lender List for Interest-Bearing Debt

(Unit: JPY M)

Lenders	Balance As of the End of Previous Period (As of the End of Dec. 2016)		Balance As of the End of This Midterm Period (As of the End of June. 2017)		Variance
	Balance	Percentage	Balance	Percentage	Balance
Sumitomo Mitsui Banking Corporation	25,556	20.3%	25,532	20.3%	-24
Shinsei Bank, Limited	14,210	11.3%	14,201	11.3%	-9
Mizuho Bank, Ltd.	13,980	11.1%	13,980	11.1%	-
Sumitomo Mitsui Trust Bank, Limited	10,163	8.1%	9,672	7.7%	-491
Resona Bank, Limited	9,593	7.6%	9,583	7.6%	-10
The Tokyo Star Bank, Limited	8,570	6.8%	8,564	6.8%	-6
The Nomura Trust and Banking Co, Ltd.	4,868	3.9%	4,863	3.9%	-5
Mitsubishi UFJ Trust and Banking Corp.	3,435	2.7%	3,435	2.7%	-
Development Bank of Japan Inc.	2,980	2.4%	2,980	2.4%	-
The Bank of Fukuoka, Ltd.	2,610	2.1%	2,610	2.1%	-
The Hiroshima Bank, Ltd.	2,427	1.9%	2,427	1.9%	-
The Chiba Bank, Ltd.	2,213	1.8%	2,209	1.8%	-4
Aozora Bank, Ltd.	1,935	1.5%	1,935	1.5%	-
Sompo Japan Nipponkoa Insurance Inc.	937	0.7%	933	0.7%	-4
The Higo Bank, Ltd.	100	0.1%	100	0.1%	-
Borrowing (Sub-Total)	103,579	82.1%	103,024	82.0%	-554
3rd Investment Corporation Bond without collateral	2,000	1.6%	2,000	1.6%	0
4th Investment Corporation Bond without collateral	1,500	1.2%	1,500	1.2%	0
5th Investment Corporation Bond without collateral	6,000	4.8%	6,000	4.8%	0
6th Investment Corporation Bond without collateral	3,000	2.4%	3,000	2.4%	0
7th Investment Corporation Bond without collateral	9,000	7.1%	9,000	7.2%	0
8th Investment Corporation Bond without collateral	1,100	0.9%	1,100	0.9%	0
Investment Corporation Bond (Sub-Total)	22,600	17.9%	22,600	18.0%	0
Total Interest-Bearing Debt	126,179	100.0%	125,624	100.0%	-554

Status of Credit Rating

Japan Credit Rating Agency, Ltd. (JCR)

A+ (stable)

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

A (stable)

Fixed Interest Rate Ratio

As of end of Dec. 2016

98.0%



As of end of Jun. 2017

97.8%

Negative Goodwill

<Policy for Use of Negative Goodwill>

1. Add JPY262M (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.)

<Amount to be Used in FY12/2017>

50-year amortization amount of negative goodwill	:	JPY262M
Cope with dilution of negative goodwill	:	JPY374M
Cope with loss on retirement of noncurrent assets	:	JPY 70M
Total amount of negative goodwill to be used in FY12/2017	:	JPY706M

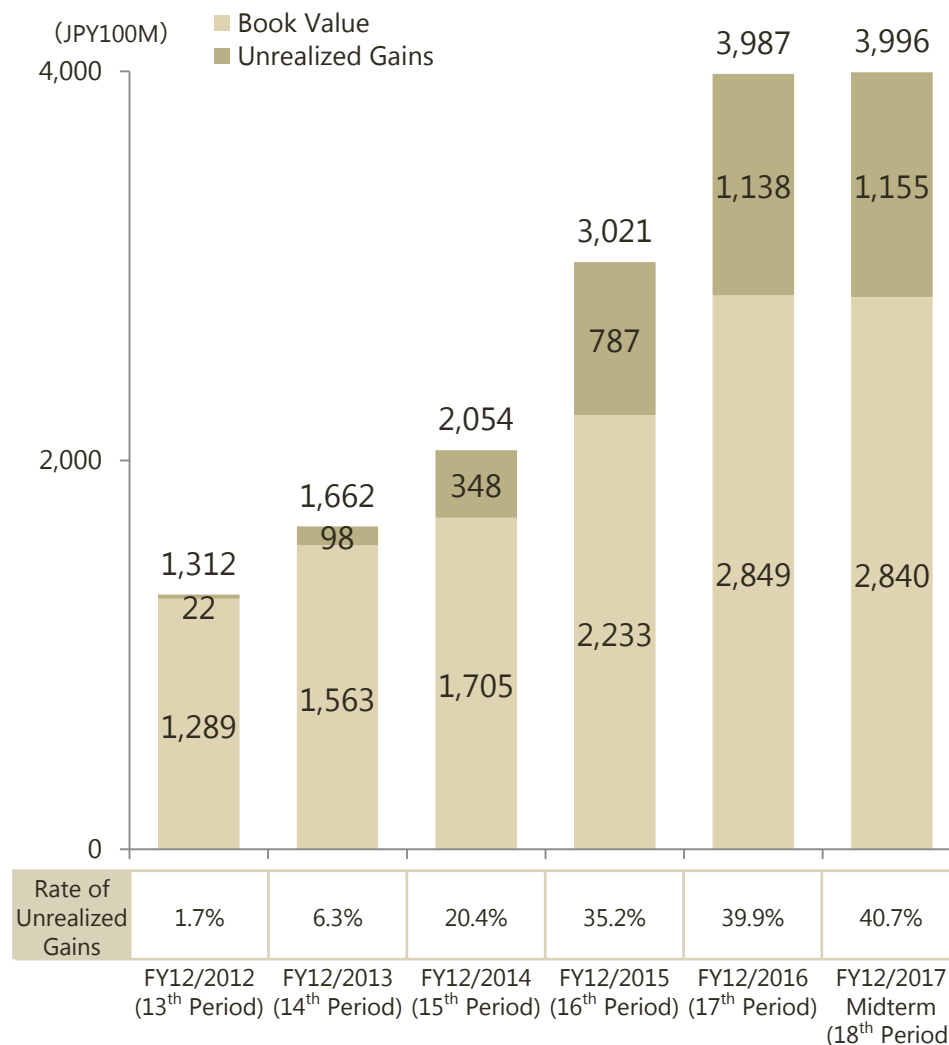
**Balance of negative goodwill
as of Dec 31, 2017 (Forecast)**

JPY12.4B

(*) 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).

JHR expects the amount of amortizations, etc. to be JPY152M for the fiscal year ending December 2017 (18th Period).

Changes in Unrealized Gains



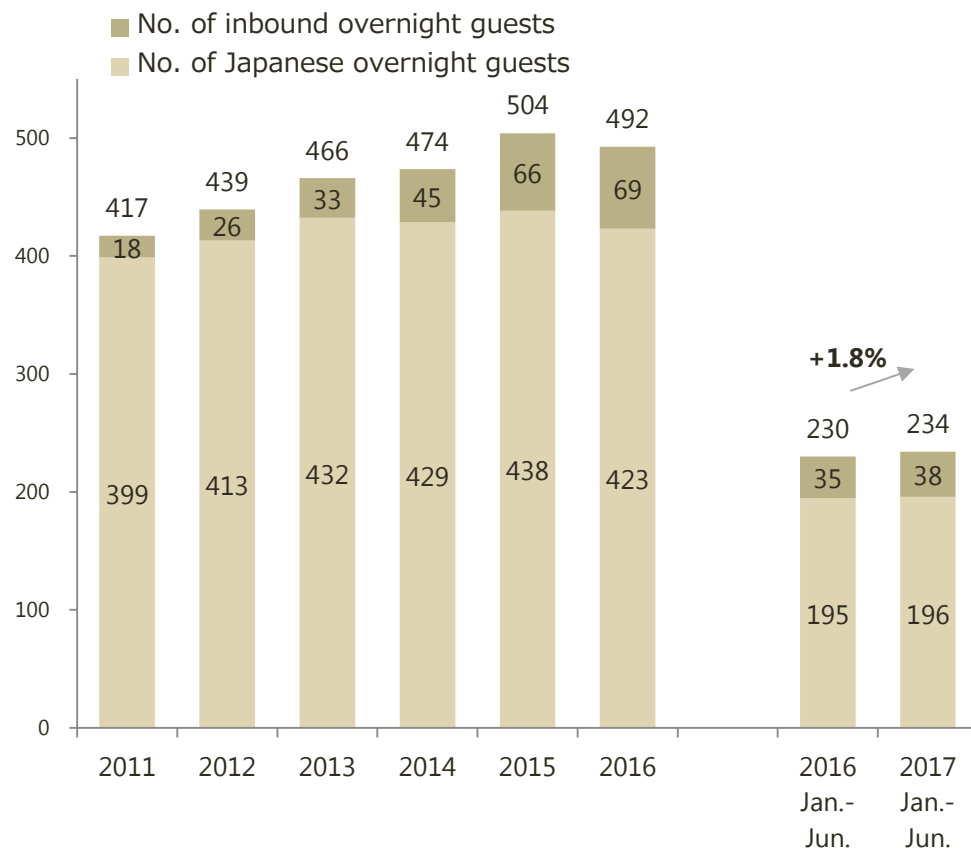
VI. Market Environment

1. Market Environment

- ◆ The number of overnight guests is solid
Both Japanese and inbound increased in the first half of 2017

Changes in the Number of Overnight Guests in Japan

(Guest nights in millions)

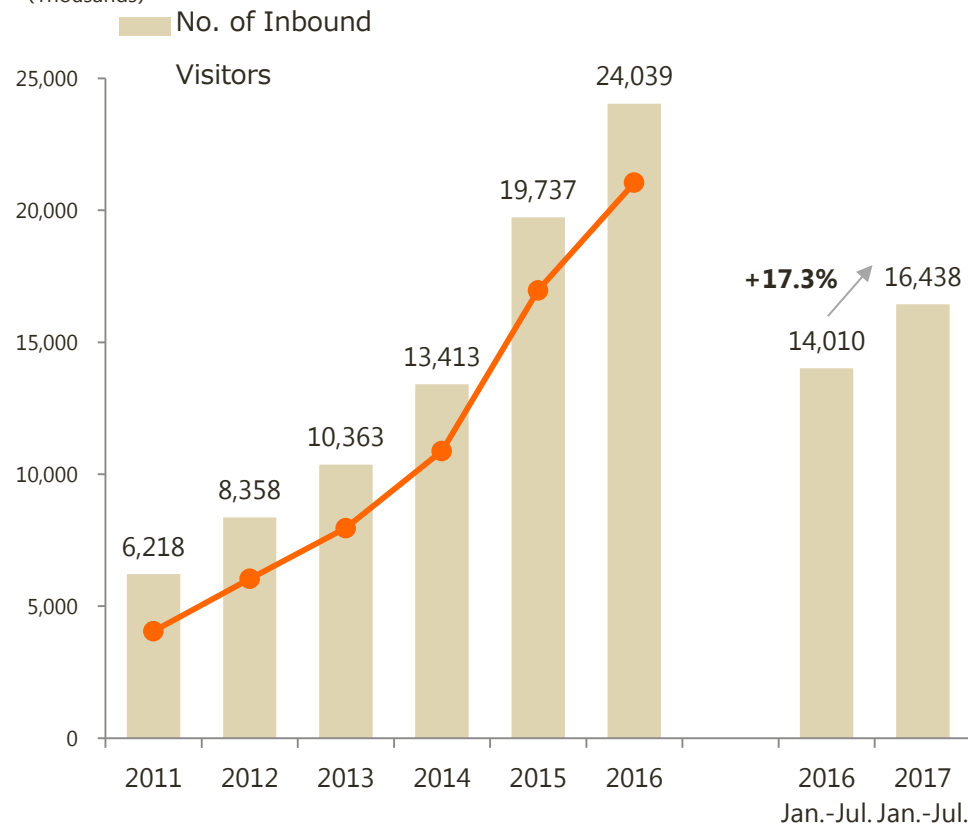


Source: Statistics of Overnight Travel by Japan Tourism Agency
(*) Rounded off to the nearest millions of yen.

- ◆ The number of inbound visitors increases at a faster pace than the government's target: 40M by 2020, 60M by 2030

Changes in the Number of Inbound Visitors

(Thousands)

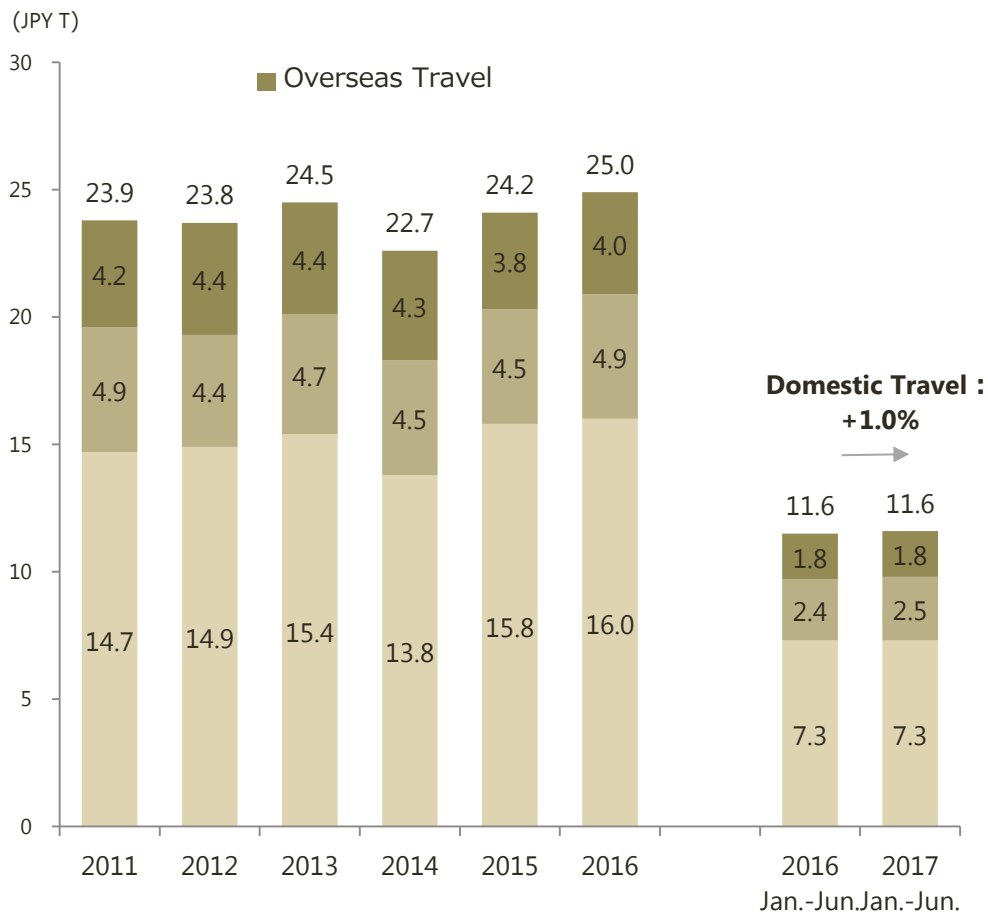


Source: Number of International Visitors to Japan by Japan National Tourism Organization (JNTO)
(*) The values for 2017 Jan.-May. are provisional values, and Jun.-Jul. are estimated values.

1. Market Environment (Cont.)

◆ Stable Japanese demand for domestic travels

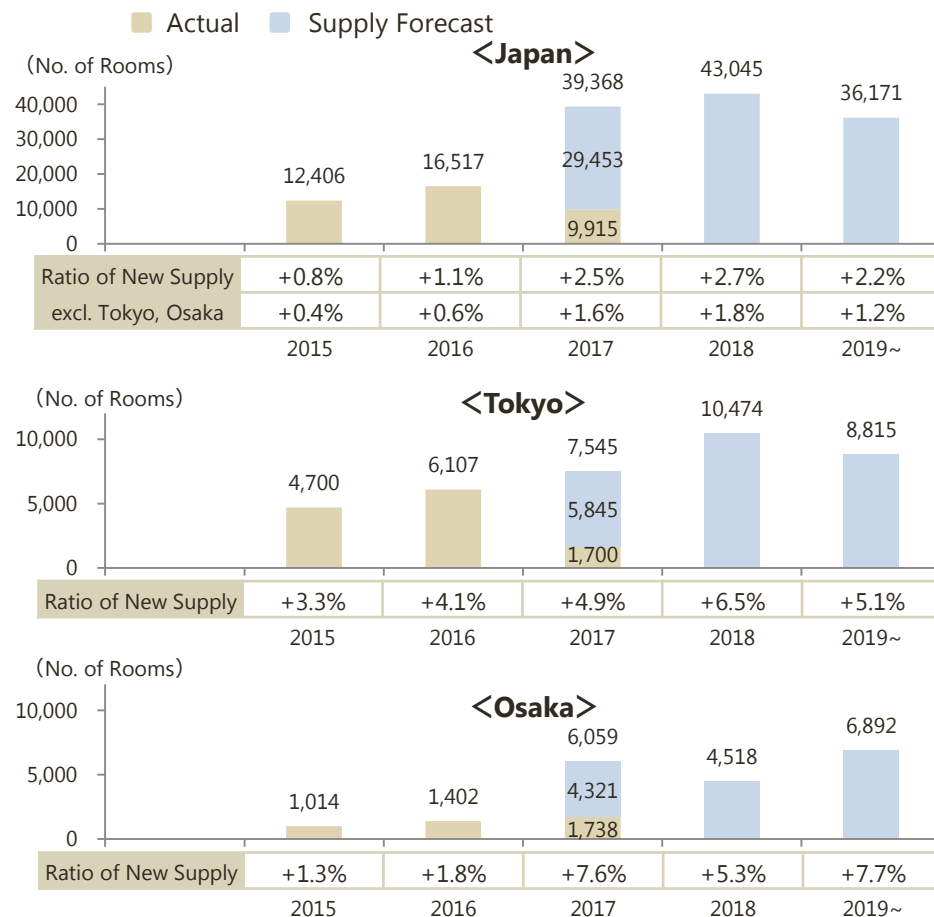
Changes in Travel Spending among Japanese Travelers



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

◆ New supply of rooms is increasing, mainly in Tokyo and Osaka

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



Source: Calculated 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 the number of rooms given "not determined" by hotels, the asset management company has used 180, the average number of new supply of hotel rooms, for calculation.

Appendix 1

JHR's Characteristics

1. 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

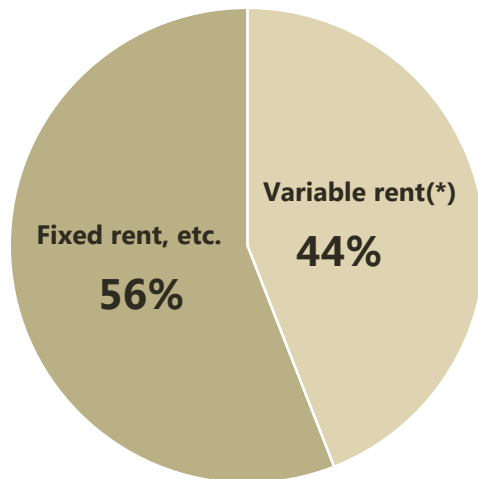
Revenue sharing structure

Active Asset Management Strategies

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

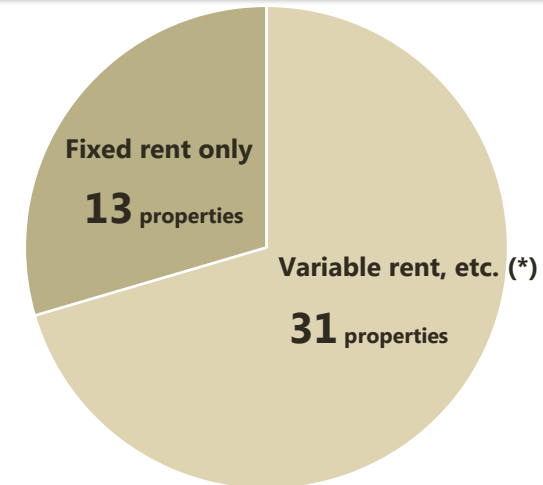
Increase in rental income, etc. through improvement in hotels' performance

Proportion of Rental Income (FY2017 (annualized))



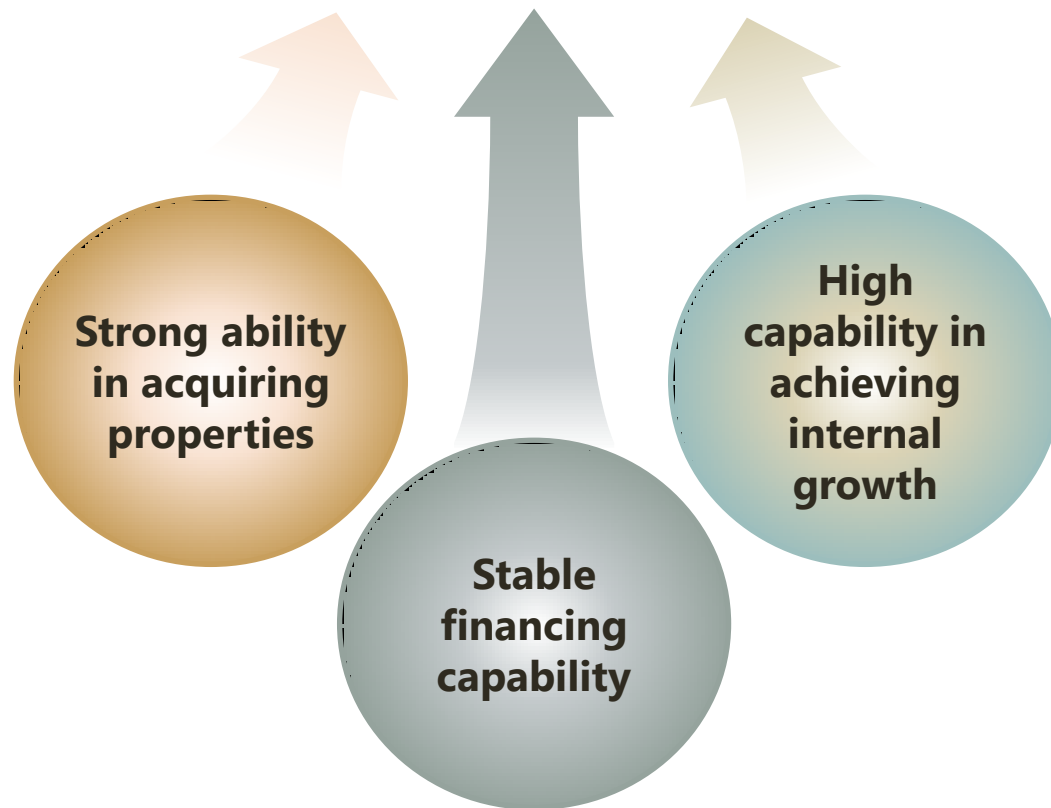
(*) Variable rent
Revenue sharing
Income from management contracts

Proportion of Rent Structures



(*) Fixed rent + variable rent structure
Fixed rent + revenue sharing structure
Variable rent structure, Management contract structure
Japan Hotel REIT Investment Corporation

Aim to increase dividend



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
- Diversification of financing methods

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 demand and has become intense growing inbound demand mainly from Asian countries. On the other hand, since the yields of other asset classes are decreasing and investors, including new REITs specializing in hotels, are increasing, 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 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, 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 is some impact by supply of new hotels and minpaku (private lodging for a fee), demand for accommodation is expected to continue steadily, driven by domestic and inbound leisure demand.

Basic Policies

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



Key Measures

- Monitoring and planning and execution of the active asset management strategy based on in-depth understanding of the hotel business 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
 - 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 bond issues by J-REITs is increasing while the amount of financing by equity offering has been comparatively lower for the past several years. Lending stance by financial institutions remains well.
- Although short-term and long-term interest rates are expected to be 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 bank 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. Benefits Program for Unitholders

Benefits program to unitholders to gain a better understanding, improve their satisfaction and expand the investor base
JHR expanded the benefits program in 2017 by adding four HMJ hotels, aggregated coverage to 15 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)
<FY2017 (Plan)>

Eligible Unitholders: 14,346

Valid period: One year between October 2017 and September 2018

- **Hotels that offer the benefits program**

The nine HMJ Hotels and the six Accor Hotels

- **The Nine HMJ Hotels**



Kobe Meriken Park
Oriental Hotel



Oriental Hotel
Tokyo Bay



Namba
Oriental Hotel



Oriental Hotel
Hiroshima



Hotel Nikko
Alivila

New



Okinawa Marriott
Resort & Spa



Sheraton Grand
Hiroshima Hotel



Hotel Centraza
Hakata



Holiday Inn
Osaka Namba

- **Details of the benefits program**

Five complimentary coupons for accommodations and five complimentary coupons for restaurants (*)
10% discount from the best-offered accommodation rates and 10% discount for restaurants

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

- **Record of coupon redemption**

(Nine months from October 2016 to June 2017)

<Eligible Unitholders: 13,213>

Accommodation		Restaurant	
No. of Coupons Used	No. of Coupon Users	No. of Coupons Used	No. of Coupon Users
988	1,240	1,830	5,143

- **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, 2017)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY M) (*4)	Book Value (JPY M) (*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 (Annualized/ Forecast) (*8)
									17th Period (as of 12.31.2016)		18th Period (as of 6.30.2017)						
									Appraisal Value (JPY M)	CAP Rate	Appraisal Value (JPY M)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Hyogo	22.0	10,900	10,057	14,400	5.2%	14,400	5.2%	3.8%	439,560	305,100	157,423	8.3%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	503	Chiba	22.2	19,900	18,288	34,100	4.5%	34,100	4.5%	6.9%	778,218	717,912	521,644	8.6%
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	21.3	15,000	14,813	32,000	4.3%	32,700	4.3%	5.2%	779,956	729,919	635,677	9.8%
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	23.8	4,100	4,092	4,250	7.3%	4,280	7.5%	1.4%	214,568	192,226	154,878	10.9%
5	Hotel Nikko Alivila	Resort	Luxury	396	Okinawa	23.3	18,900	18,469	29,200	5.0%	30,000	5.0%	6.6%	578,959	504,025	341,239	9.5%
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	13.3	7,610	6,792	9,420	4.7%	9,420	4.7%	2.7%	255,508	234,378	170,972	6.1%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	10.8	4,070	3,831	5,020	5.2%	5,030	5.2%	1.4%	147,472	134,627	91,953	6.6%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	9.4	2,334	2,179	2,950	5.8%	2,960	5.8%	0.8%	97,230	86,326	66,344	7.4%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	30.9	1,120	1,227	2,040	4.3%	1,940	4.3%	0.4%	55,860	49,453	37,215	8.9%
10	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	20.3	999	945	1,300	4.1%	1,300	4.1%	0.3%	31,997	27,667	21,520	5.5%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	22.3	2,130	2,043	4,350	4.7%	4,340	4.7%	0.7%	120,000	112,000	100,000	10.5%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	17.3	2,050	1,858	2,430	5.2%	2,430	5.2%	0.7%	75,000	67,000	47,000	6.5%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	15.2	1,720	1,757	1,920	4.1%	1,920	4.1%	0.6%	48,647	40,473	33,687	4.7%
14	R&B Hotel Higashi-nihonbashi	Limited-service	Economy	202	Tokyo	19.3	1,534	1,505	2,050	4.7%	2,050	4.7%	0.5%	61,103	52,766	43,285	6.8%
15	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	9.4	3,746	3,609	5,320	4.5%	5,330	4.5%	1.3%	135,395	120,426	102,408	6.4%
16	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	20.3	2,108	2,037	3,060	4.2%	3,060	4.2%	0.7%	85,682	78,141	68,556	6.5%
17	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	15.8	1,652	1,466	2,680	4.7%	2,670	4.7%	0.6%	70,519	64,032	53,336	7.7%
18	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	16.0	6,000	6,015	14,600	5.2%	14,000	5.2%	2.1%	522,756	484,209	441,119	12.0%
19	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	14.2	823	795	1,410	4.5%	1,430	4.5%	0.3%	37,850	34,115	28,426	8.6%
20	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	25.4	1,512	1,474	1,990	4.5%	2,010	4.5%	0.5%	46,796	39,300	27,586	6.6%
21	Hotel Sunroute Shinbashi	Limited-service	Mid-price	220	Tokyo	9.3	4,800	4,847	8,730	3.9%	8,730	3.9%	1.7%	254,418	226,613	216,122	7.4%
22	Hilton Tokyo Bay ^(*9)	Resort	Luxury	828	Chiba	29.0	26,050	26,113	36,000	4.3%	36,100	4.3%	9.1%	940,508	791,757	704,758	6.3%
23	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	36.8	7,243	7,746	9,290	4.2%	9,460	4.2%	2.5%	256,792	173,764	130,591	4.9%
24	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	8.3	6,600	6,717	10,900	4.3%	10,900	4.3%	2.3%	284,576	256,144	238,821	7.8%

1. Property List (2/2)

(As of June 30, 2017)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY M) (*4)	Book Value (JPY M) (*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 (Annualized/ Forecast) (*8)
									17th Period (as of 12.31.2016)		18th Period (as of 6.30.2017)						
									Appraisal Value (JPY M)	CAP Rate	Appraisal Value (JPY M)	CAP Rate					
25	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	6.9	6,797	6,717	10,200	4.8%	10,200	4.9%	2.4%	295,901	234,888	196,882	8.3%
26	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	8.2	6,000	5,937	10,300	4.8%	10,400	4.8%	2.1%	343,605	242,710	204,595	8.9%
27	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	7.9	3,000	2,910	7,620	4.8%	7,690	4.8%	1.0%	239,378	197,014	171,705	13.4%
28	the b akasaka-mitsuke	Limited-service	Mid-price	122	Tokyo	14.6	6,250	6,301	6,740	4.1%	6,420	4.1%	2.2%	123,899	114,655	103,821	3.7%
29	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	35.0	6,520	6,584	7,590	4.4%	7,470	4.4%	2.3%	176,986	165,034	150,176	5.1%
30	the b ochanomizu	Limited-service	Mid-price	72	Tokyo	17.9	2,320	2,353	2,590	4.2%	2,470	4.2%	0.8%	52,653	48,433	43,602	4.3%
31	the b hachioji	Limited-service	Mid-price	196	Tokyo	30.9	2,610	2,688	3,070	5.2%	2,940	5.2%	0.9%	94,611	81,233	68,230	6.4%
32	the b hakata	Limited-service	Mid-price	175	Fukuoka	19.8	2,300	2,357	3,960	4.5%	4,070	4.5%	0.8%	116,324	110,469	100,351	10.0%
33	Hotel Francs	Full-service	Mid-price	222	Chiba	25.9	3,105	3,135	4,090	4.7%	4,090	4.7%	1.1%	150,000	118,264	94,042	7.5%
34	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	23.7	1,650	1,644	2,040	4.7%	2,350	4.7%	0.6%	180,186	125,545	110,048	12.6%
35	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	12.4	14,950	14,866	17,200	5.0%	17,200	5.0%	5.2%	348,226	303,795	189,009	7.3%
36	ACTIVE-INTER CITY HIROSHIMA	Full-service	Luxury	238	Hiroshima	6.8	17,320	17,716	18,700	4.6%	18,700	4.6%	6.0%	719,254	513,333	421,403	5.8%
37	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	7.5	6,705	6,742	7,630	4.0%	7,650	4.0%	2.3%	175,205	168,161	148,480	4.8%
38	Hotel Centraza Hakata	Full-service	Mid-price	194	Fukuoka	32.0	7,197	7,474	7,690	4.7%	7,750	4.7%	2.5%	436,973	318,436	194,205	8.1%
39	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	8.9	27,000	27,179	28,800	4.4%	28,500	4.4%	9.4%	601,538	589,159	531,974	4.4%
40	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	18.2	4,925	5,197	5,340	4.8%	5,340	4.8%	1.7%	214,425	144,610	127,153	5.7%
41	Hilton Nagoya	Full-service	Luxury	460	Nagoya	28.4	15,250	15,589	15,800	4.2%	15,800	4.2%	5.3%	682,348	365,395	298,178	4.5%
Total or Average		-	-	10,145	-	18.6	286,801	284,085	398,770	-	399,600	-	100.0%	11,272,084	9,364,708	7,588,793	6.9%

(*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 or Real Estate Purchase & Sale Agreement 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 2017.

(*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 six months from January through June 2017. 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) Annualized NOI Yield (Forecast) is a forecast annualized forecast for FY12/2017. Also the total annualized NOI yield is calculated as follows : Annualized NOI for FY12/2017 (forecast) ÷ total acquisition price of properties held as of the end of FY12/2017 (anticipated).

(*9) The number of guest rooms of Hilton Tokyo Bay has changed from 823 to 828 since 3rd March 2017.

2. Summary of Lease Contracts (1/2)

(As of the end of June 2017)

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 Summary	Rent Modification Summary (Acquisition to End of June 2017)		Rent Modification Schedule (2017~2018)	
										Timing	Condition (*4)	2017	2018
1	Kobe Meriken Park Oriental Hotel	Fixed-lease	Fixed + Variable	Hotel Management Japan Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	8	3	(Fixed rent) JPY3,221M/year (Variable rent) When the total GOP of the five HMJ hotels exceeds GOP base amount (JPY3,351M), the excess x 85% is paid.	In principle, the same rent will be applied until expiration of the contract.	Jan. 2016	Structure is modified.	—	—
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	9	JPY42M/month	The same rent will be applied until expiration of the contract.	—	—	—	—
7	Hakone Setsugetsuka	Fixed-lease	Fixed			20	9	JPY24M/month	The same rent will be applied until expiration of the contract.	—	—	—	—
8	Dormy Inn Kumamoto	Fixed-lease	Fixed			12	6	JPY16M/month	Rent can be modified through mutual agreement every three years	—	—	In discussion	—
9	Dormy Inn EXPRESS Asakusa	Lease	Fixed			3	3	JPY5M/month	Rent can be modified through mutual agreement every three years	Apr. 2017	Contract is renewed. (same)	Renewed (March)	—
10	Hakata Nakasu Washington Hotel Plaza	Lease	Fixed			Washington Hotel K.K.		3	1	JPY20M/month	Rent can be modified through mutual agreement.	Apr. 2015	Contract is renewed. (same)
11	Nara Washington Hotel Plaza	Lease	Fixed	20	3			JPY11M/month	Rent can be modified through mutual agreement.	—	—	—	—
12	R&B Hotel Ueno-hirokoji	Lease	Fixed	20	5			JPY8M/month	Rent can be modified through mutual agreement.	Apr. 2011	Increased (+3.0%)	—	—
13	R&B Hotel Higashi-nihonbashi	Lease	Fixed	20	1			JPY10M/month	Rent can be modified through mutual agreement.	Apr. 2013	Same	—	To be expired (March)
14	Comfort Hotel Tokyo Higashi Nihombashi	Fixed-lease	Fixed	Greens Co., Ltd.				20	11	JPY21M/month	Rent can be modified through mutual agreement every five years.	Jan. 2013	Same
15	Smile Hotel Nihombashi Mitsukoshimae	Lease	Fixed+Revenue sharing	THE KAMOGAWA GRAND HOTEL, LTD.		3	3	JPY11M/month + Revenue sharing	Rent can be modified through mutual agreement.	Mar. 2017	Contract is renewed. (same)	Renewed (March)	—
16	Toyoko Inn Hakata-guchi Ekimae	Lease	Fixed	Toyoko Inn Co., Ltd.		30	14	JPY11M/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	4	Nondisclosure(*5)	Nondisclosure	Jul. 2014	Structure is modified.	—	—
18	Chisun Inn Kamata	Fixed-lease	Variable	Solare Hotels & Resorts Co., Ltd.	SHR Hotels, Co., Ltd.	3	3	Hotel GOP x 86% (If it is below zero, it will be JPY0.-)	-	Jul. 2017	Renewed Variable rent rate is modified.	Renewed (July)	—
19	Hotel Vista Kamata Tokyo	Lease	Fixed+Revenue sharing	Vista Hotel Management Co., Ltd.		4	2	JPY7M/month + Revenue sharing	In principle, the same rent will be applied until expiration of the contract.	Jul. 2015	Contract is renewed. (Modify the calculation method of revenue sharing.)	—	To be expired (December)
20	Hotel Sunroute Shinbashi	Fixed-lease	Fixed+Revenue sharing	Sunroute Co., Ltd.		15	6	JPY18M/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	2	JPY157M/month + Revenue sharing	Rent can be modified through mutual agreement.	Jul. 2015	Contract is renewed.	—	To be expired (December)
22	ibis Tokyo Shinjuku	-	Management contract	—	AAPC Japan K.K.	12	7	Amount equivalent to hotel GOP	-	Jul. 2012	Structure is modified.	—	—
23	ibis Styles Kyoto Station	-	Management contract			5	2	Amount equivalent to hotel GOP	-	—	—	—	To be expired (December)
24	ibis Styles Sapporo	-	Management contract			5	2	Amount equivalent to hotel GOP	-	Dec. 2014	Structure is modified.	—	—
25	Mercure Sapporo	-	Management contract			15	12	Amount equivalent to hotel GOP	-	—	—	—	—
26	Mercure Okinawa Naha	-	Management contract			10	7	Amount equivalent to hotel GOP	-	—	—	—	—

2. Summary of Lease Contracts (2/2)

(As of the end of June 2017)

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 Summary	Rent Modification Summary (Acquisition to End of June 2017)		Rent Modification Schedule (2017~2018)	
										Timing	Condition (*4)	2017	2018
27	Mercure Yokosuka	Fixed-lease	Variable	AAPC Japan K.K.		5	2	Linked to hotel GOP	The same rent will be applied until expiration of the contract.	—	—	—	—
28	the b akasaka-mitsuke	Fixed-lease	Fixed+ Variable	Ishin Akasaka Operations, K.K.		7	5	JPY102M/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	5	JPY163M/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	5	JPY69M/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	5	JPY98M/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	5	JPY82M/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	3	JPY85M/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	7	JPY25M/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	4	(Fixed rent) JPY550M/year (Variable rent) When the total GOP exceeds GOP base amount (JPY700M), 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	STARWOOD ASIA PACIFIC HOTELS & RESORTS PTE LTD.	11	10	(Fixed rent) JPY348M/year (Variable rent) When the total GOP exceeds GOP base amount (JPY468M), 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	13	Nondisclosure ^{(*)5}	Rent can be modified through mutual agreement every three years.	2016	Renewed ^{(*)5}	—	—
38	Hotel Centraza Hakata	Fixed-lease	Fixed+ Variable	Hotel Centraza Co., Ltd.		4	2	(Fixed rent) JPY400M/year (Variable rent) When the total GOP exceeds GOP base amount (JPY425M), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
39	Holiday Inn Osaka Namba	Fixed-lease	Fixed+ Variable	OW Hotel Operations KK		15	14	(Fixed rent) JPY576M/year (Variable rent) When the total GOP exceeds GOP base amount (JPY650M), 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	2	Nondisclosure ^{(*)5}	Rent can be modified through mutual agreement every three years.	—	—	—	—
41	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	13	Nondisclosure ^{(*)5}	Rent can be modified through mutual agreement.	—	—	—	—

(*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, 2016.

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

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

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

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

No. 18: At the timing of renewal, variable rent ratio of variable rent was changed to 86% from 85%.

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

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

3. Portfolio Map

Total Assets

JPY**319.4B**

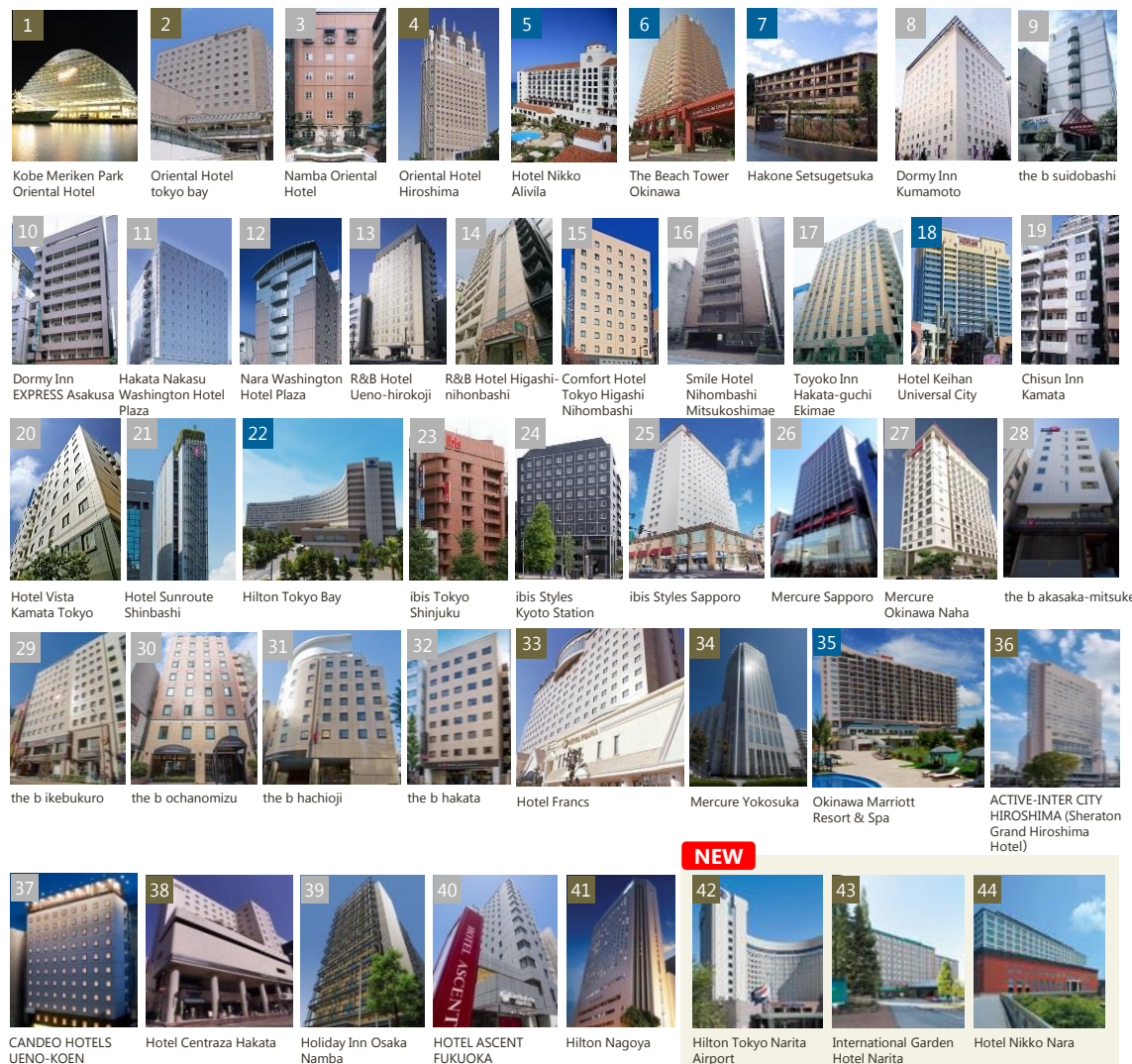
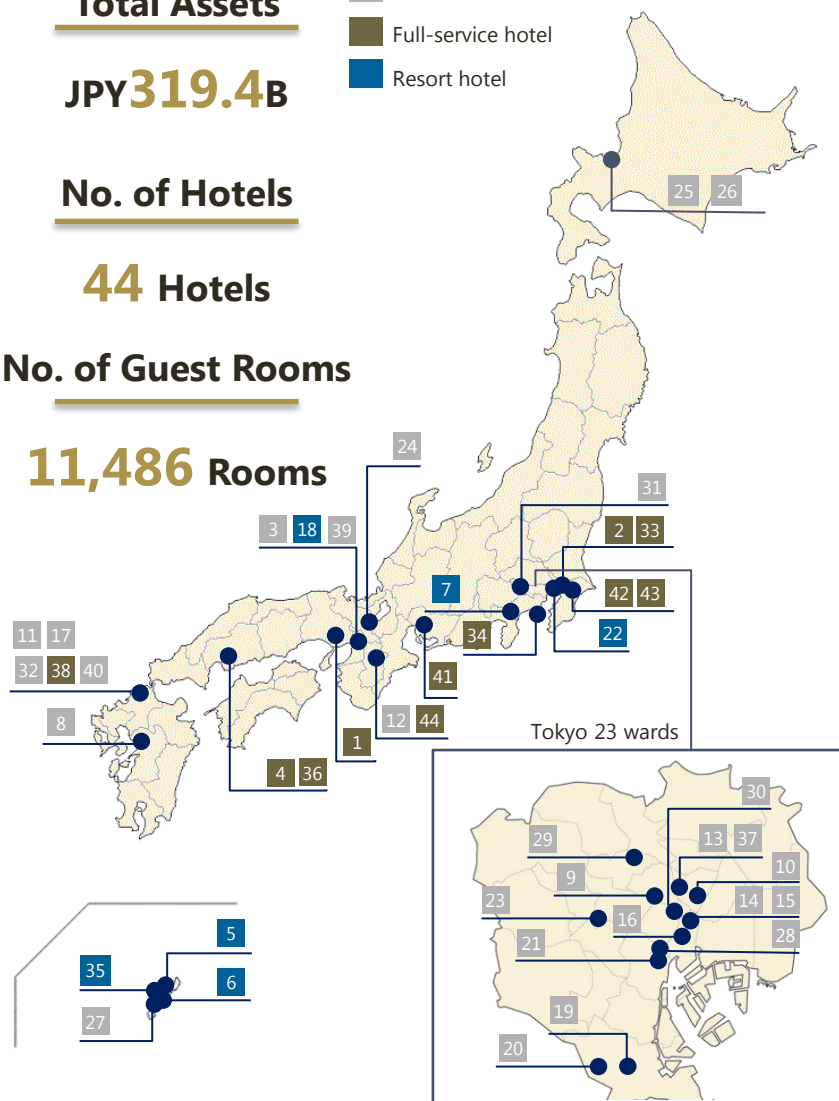
No. of Hotels

44 Hotels

No. of Guest Rooms

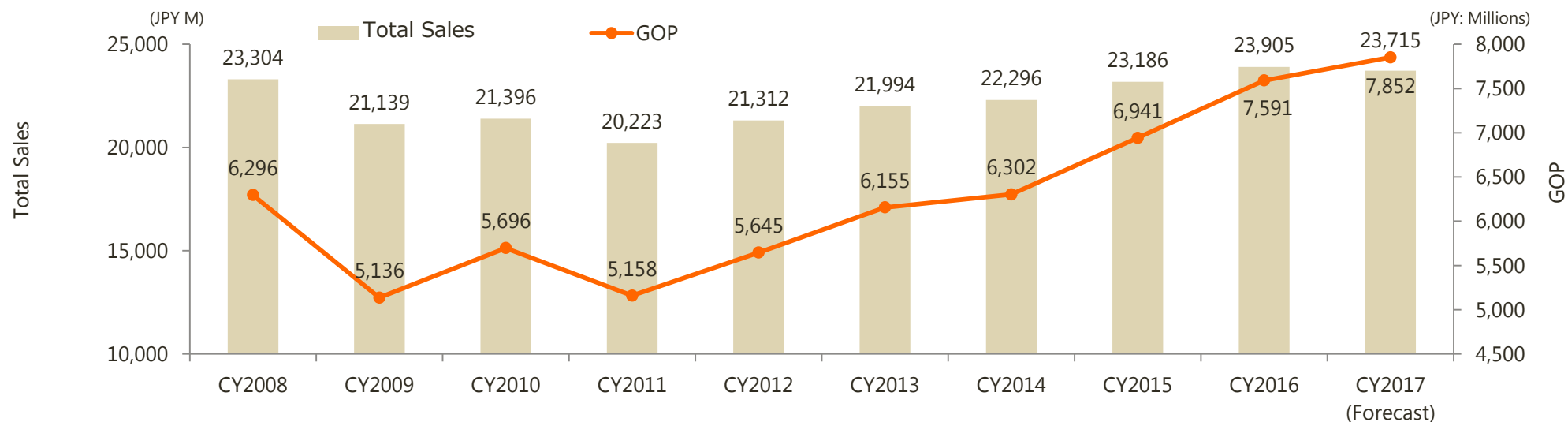
11,486 Rooms

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

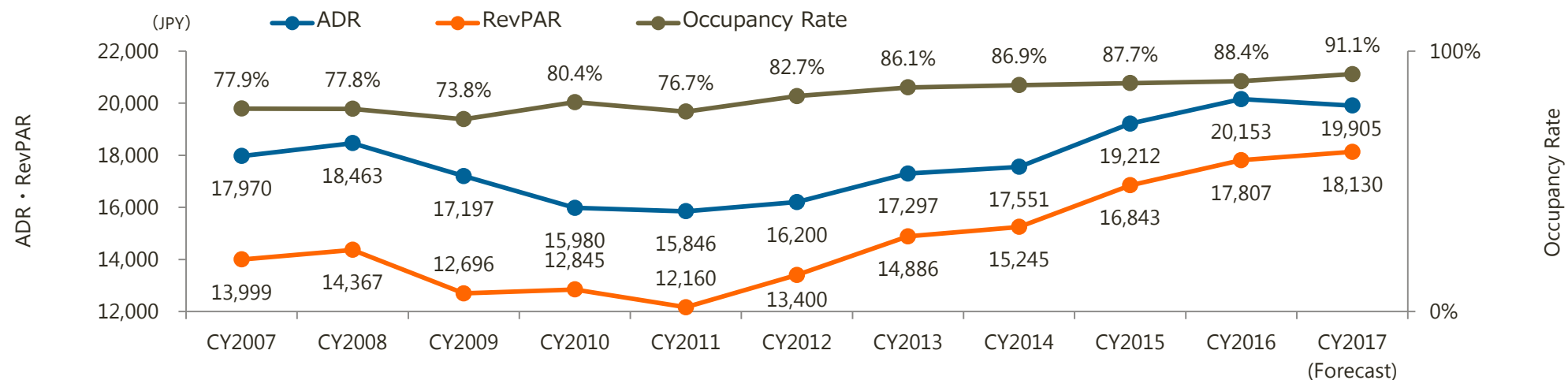


4. The Five HMJ Hotels – Highlights

Changes in Total Sales and GOP



Changes in KPI



Appendix 3

Investors Composition and Investment Unit Price

1. Major Unitholders and Unitholders of Investment Units

Top Ten Major Unitholders

As of the End of December 2016

Rank	Name	No. of Units	Percentage (*)
1	Japan Trustee Service Bank, Ltd. (Trust)	626,276	16.64
2	The Master Trust Bank of Japan, Ltd. (Trust)	398,094	10.58
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	328,425	8.73
4	Nomura Bank (Luxembourg) S.A.	165,981	4.41
5	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	145,006	3.85
6	The Bank of New York, Non-Treaty JASDEC Account	65,440	1.73
7	Shikoku Railway Company	58,311	1.55
8	State Street Bank & Trust Company 505012	57,881	1.53
9	NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	54,701	1.45
10	State Street Bank & Trust Company	54,685	1.45
Total		1,954,800	51.96

As of the End of June 2017

Rank	Name	No. of Units	Percentage (*)
1	Japan Trustee Service Bank, Ltd. (Trust)	596,908	15.86
2	The Master Trust Bank of Japan, Ltd. (Trust)	410,753	10.91
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	359,163	9.54
4	Nomura Bank (Luxembourg) S.A.	163,923	4.35
5	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	141,635	3.76
6	State Street Bank & Trust Company 505012	81,115	2.15
7	The Bank of New York, Non-Treaty JASDEC Account	59,518	1.58
8	Shikoku Railway Company	58,311	1.55
9	Goldman Sachs International	54,984	1.46
10	NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	50,729	1.34
Total		1,977,039	52.55

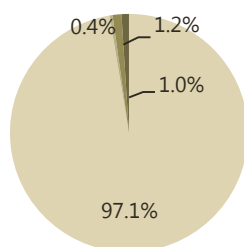
(*) The total units held by each investor to the total units issued by JHR as of the end of December 2016 and the end of June 2017 respectively. (Rounded off to two decimal places.)

Owners of the Investment Units

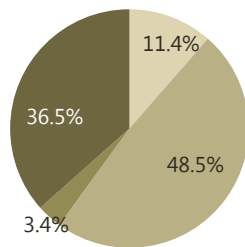
As of the End of December 2016

Owners	No. of Investors	No. of Units
Individuals & Others	30,491	429,225
Financial Institutions (Incl. Securities Firms)	149	1,824,980
Other Domestic Firms	406	131,234
Foreign Firms & Individuals	325	1,376,468
Total	31,371	3,761,907

No. of Investors



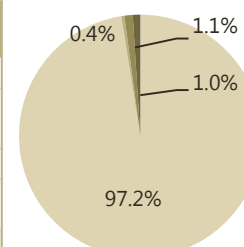
No. of Units



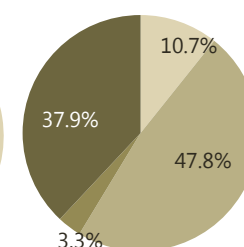
As of the End of June 2017

Owners	No. of Investors	No. of Units
Individuals & Others	30,801	404,776
Financial Institutions (Incl. Securities Firms)	137	1,801,222
Other Domestic Firms	378	127,515
Foreign Firms & Individuals	340	1,428,394
Total	31,656	3,761,907

No. of Investors



No. of Units



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: **JPY79,700.-**

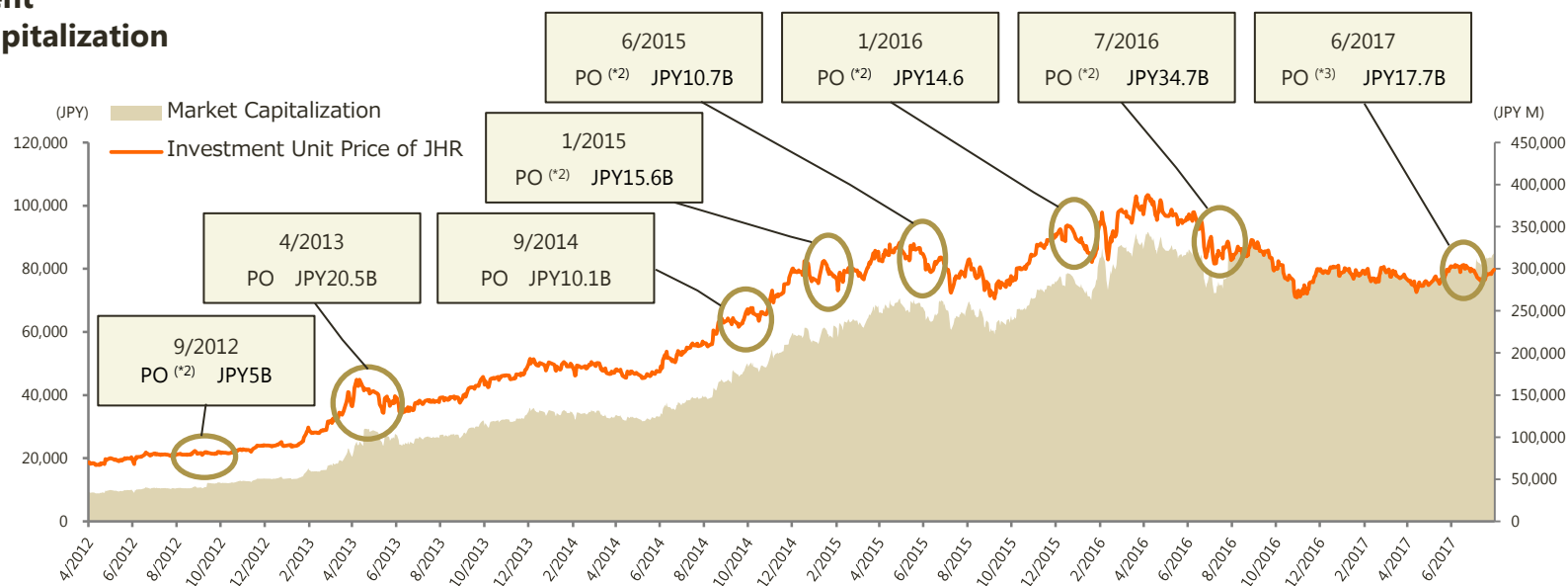
Total market capitalization: **JPY318.6B**

(Based on the closing price of July 31, 2017)

(*) 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, see Securities Registration Statement of JHR dated June 19, 2017.

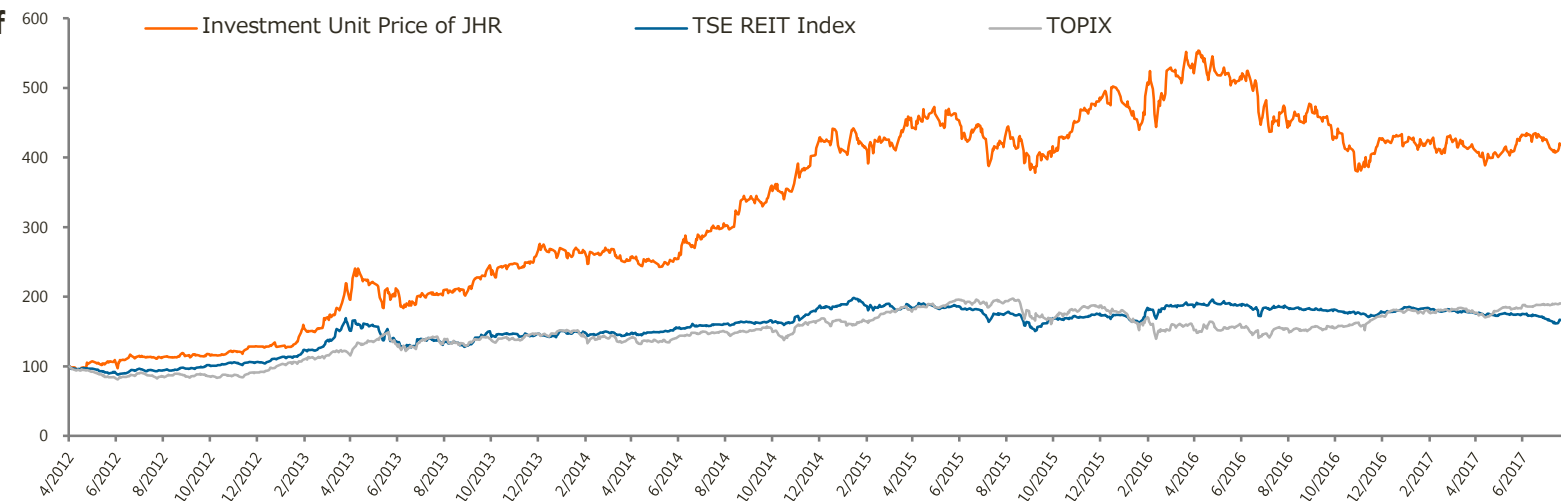
(*) Includes OA.

(*) There is an additional JPY0.9B of OA in August 2017.



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	JPY300M as of June 30, 2017
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



2. Features and Governance of the Asset Management Company

- Japan Hotel REIT Advisors Co., Ltd. (JHRA) is an asset management company of Japan Hotel REIT Investment Corporation, a real estate investment trust in Japan (J-REIT), specializing in hotel assets.
- JHRA holds up a mission statement which is to continue its challenge and creation, and provide investors with attractive hotel investment opportunities. It manages JHR's assets with high degree of professionalism and determined independence.

Advanced Expertise

- Capability of planning and executing unprecedented and appropriate measures of asset management based on in-depth understanding of hotel operation.
- Extensive experience and track record of renovation and rebranding through collaboration with hotel lessees and hotel operators.
- Strong and long-term relationships with a large number of hotel lessees and hotel operators.
- Highly analytical skills and accurate judgement based on rich information and data obtained through a broad network.

Ensured Independence

- JHRA secures high independence from its main sponsor and clarifies its strong commitment to profit and growth of JHR.
 - No director and employee of the asset management company is a seconded employee of the main sponsor, SC CAPITAL PARTNERS group, except for part-time directors.
 - Non-sponsor-related directors 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 consist of third-party members who do not have any relationship with the sponsor-related parties).

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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.

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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
Director-General of Kanto Local Finance Bureau No. 334
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