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February 23, 2017

Financial Report for the Fiscal Year Ended December 31, 2016 (January 1, 2016 – December 31, 2016)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
Securities code: 8985
URL: <http://www.jhrth.co.jp/en/>
Representative: Kaname Masuda, Executive Director

Asset Management Company: Japan Hotel REIT Advisors Co., Ltd.
Representative: Hisashi Furukawa, Representative Director and President
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Scheduled date to file Securities Report: March 22, 2017
Scheduled date to start dividend payment: March 22, 2017

Preparation of supplementary material on financial report: Yes
Schedule for presentation of financial results: Yes (Analysts and institutional investors only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the fiscal year ended December 31, 2016 (January 1, 2016 – December 31, 2016)

(1) Operating results

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary income		Net income	
Fiscal year ended	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
December 31, 2016	22,107	27.5	13,885	26.4	12,220	31.5	12,123	30.4
December 31, 2015	17,343	35.9	10,988	45.6	9,295	60.9	9,294	61.0

	Net income per unit	Return on equity (ROE)	Ordinary income to total assets	Ordinary income to operating revenue
Fiscal year ended	JPY	%	%	%
December 31, 2016	3,462	7.8	4.4	55.3
December 31, 2015	3,036	8.1	4.3	53.6

(Note 1) Net income per unit is calculated based on the period-average number of investment units issued.

(Note 2) Net income for the fiscal year ended December 31, 2015 includes gain on sale of real estate properties (¥305 million).

(2) Cash distributions

	Dividend per unit (Excess of earnings exclusive)	Total dividends (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings	Total dividends from excess of earnings	Payout ratio	Dividend to net assets
Fiscal year ended	JPY	JPY1M	JPY	JPY1M	%	%
December 31, 2016	3,420	12,865	0	0	106.1	7.1
December 31, 2015	2,975	9,354	0	0	100.6	7.7

(Note 1) The source of dividends for the fiscal year ended December 31, 2016 is calculated by adding appropriation for dividends (¥740 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Materials 3> Dividend per unit and appropriation for dividends” on page 22.

(Note 2) The source of dividends for the fiscal year ended December 31, 2015 is calculated by adding appropriation for dividends (¥60 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Materials 3> Dividend per unit and appropriation for dividends” on page 22.

(Note 3) Payout ratio is calculated using the following formula, rounded off to one decimal place.

$$\text{Total dividends (total dividends from excess of earnings exclusive)} \div \text{Net income} \times 100$$

(3) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Fiscal year ended	JPY1M	JPY1M	%	JPY
December 31, 2016	317,878	181,989	57.3	48,376
December 31, 2015	240,356	129,914	54.1	41,318

(Note) Net assets per unit are calculated based on the total number of investment units issued and outstanding at the end of the fiscal year.

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
Fiscal year ended	JPY1M	JPY1M	JPY1M	JPY1M
December 31, 2016	13,689	(64,075)	63,061	26,373
December 31, 2015	15,862	(58,598)	42,009	13,698

2. Operating forecast for the fiscal year ending December 31, 2017 (January 1, 2017 – December 31, 2017)

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary income		Net income		Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%	JPY	JPY
Midterm	11,056	17.7	6,280	10.5	5,447	11.9	5,447	14.0	-	-
Full year	24,530	11.0	14,719	6.0	12,987	6.3	12,986	7.1	3,540	0

(Reference) Estimated net income per unit for the fiscal year ending December 31, 2017 (full year) ¥3,452

(Calculated based on the estimate of period-average number of investment units of 3,761,907.)

(Note) Reserve for temporary difference adjustment in the amount of ¥332 million is planned to be the source of dividend payment.

*** Other**

(1) Changes in accounting policies, changes in accounting estimates, and restatement of financial statements for prior period after error corrections

(a) Changes in accounting policies due to revisions to accounting standards and other regulations: No change

(b) Changes in accounting policies due to other reasons than above (a): No change

(c) Changes in accounting estimates: No change

(d) Restatement of financial statements for prior period after error corrections: No change

(2) Total number of investment units issued and outstanding

(a) Total number of investment units issued and outstanding at the end of the fiscal year

(including investment units owned by Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”))

As of December 31, 2016 3,761,907 units

As of December 31, 2015 3,144,227 units

(b) Number of JHR’s own investment units held at the end of the fiscal year

As of December 31, 2016 0 units

As of December 31, 2015 0 units

(Note) For the number of investment units serving as the basis of computation of net income per unit, please refer to “Notes on per unit information” on page 41.

*** Status of audit procedures**

At the time of disclosure of this financial report, audit procedures for the financial statements pursuant to the Financial Instruments and Exchange Act of Japan are incomplete.

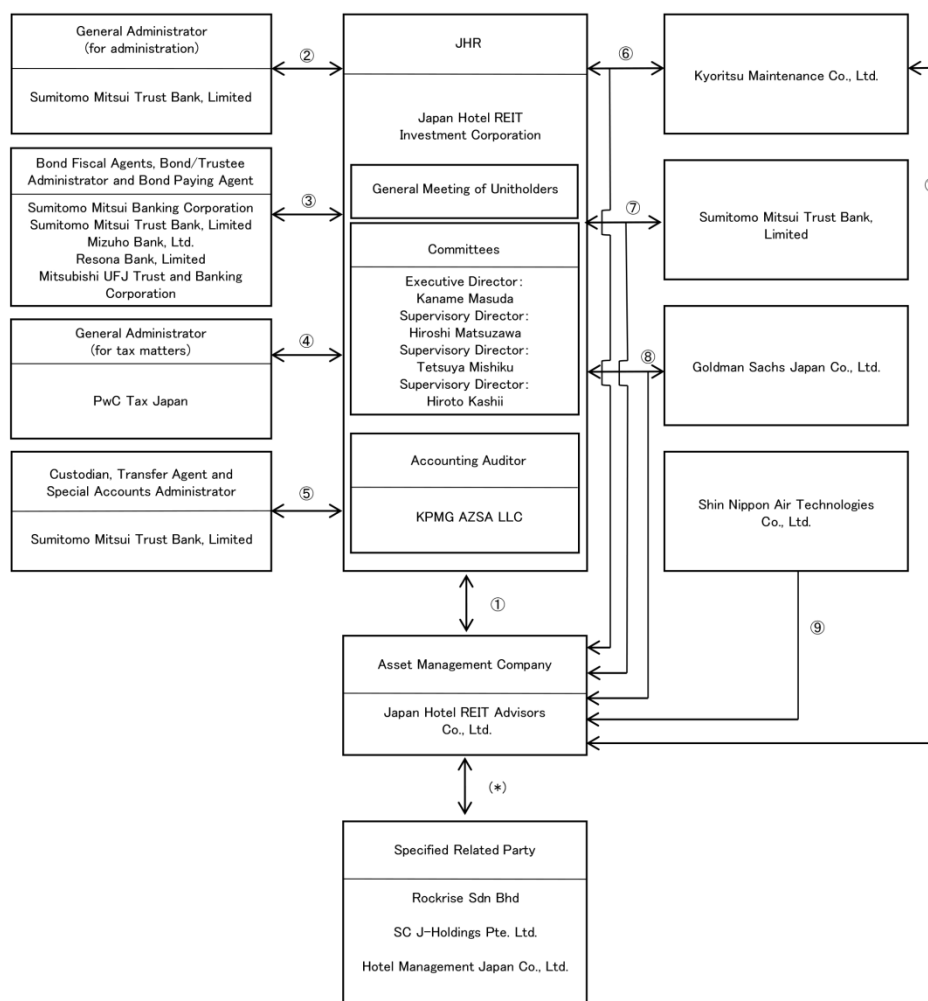
*** Appropriate use of forecasts of results and other special items**

Forward-looking statements presented in this financial report including operating forecasts are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors. Furthermore, we do not intend to guarantee any dividend amount by this forecast. For the assumptions of the operating forecast and notes for the use of operating forecast, please refer to “2. Investment policies and operating results; (2) Operating results; (B) Outlook for the next fiscal period” on page 8 and “Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2017 (18th period)” on page 11.

1. Related parties of the investment corporation

(1) Structure of the investment corporation

The following is the structure of JHR as of the date of this report.



(1) Asset management agreement

(2) Administrative agreement

(3) Fiscal agency agreement (investment corporation bonds) / Investment corporation bonds trustee agreement

(4) Administrative agreement related to tax payment, etc.

(5) Asset custodian agreement / Unitholders' register administrative agency agreement / Special accounts administrative agreement

(6) Information provision agreements regarding acquisition of real estate, etc.

(7) Basic agreement regarding information provision including brokerage, etc. of profit-earning real estate

(8) Information provision agreement

(9) Technical advisory agreement

(10) Back-up operation letter of intent

(Note) Specified related parties (specified related parties as prescribed in Article 12, paragraph 3 of the Cabinet Office Ordinance on Disclosure of Information, etc. on Specified Securities) of the investment corporation are Rockrise Sdn Bhd (the parent company, holding 87.6% of the shares issued and outstanding, of the asset management company), SC J-Holdings Pte. Ltd. (a corporation holding 100% equity interest in Rockrise Sdn Bhd), Hotel Management Japan Co., Ltd. (a stock company, 100% of the shares issued and outstanding of which is indirectly held by SC J-Holdings Pte. Ltd.) (hereinafter referred to as "HMJ"). Rockrise Sdn Bhd, SC J-Holdings Pte. Ltd. and HMJ are corporations belonging to the SC Capital Partners Group (former RECAP Group).

(2) Operational role, name and overview of related business operations of the investment corporation and the investment corporation's related parties

Please refer to the most recent Securities Report (submitted on March 23, 2016) for the operational role, name and overview of related business operations of the investment corporation and the investment corporation's related parties other than the related parties presented below.

Operational role	Name	Overview of related business operations
Administrative agent (investment corporation bonds)	Resona Bank, Limited	An investment corporation bonds trustee agreement and administrative agent agreement were concluded with Resona Bank, Limited on November 1, 2016. As an administrative agent under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the "Investment Trusts Act") (of Article 117, item 2, item 3 and item 6 of the Investment Trusts Act, those matters concerning investment corporation bonds), Resona Bank, Limited shall perform the following with respect to the seventh unsecured investment corporation bonds (with pari passu covenants among corporation bonds) based on the abovementioned trustee agreement: (1) Delivery of the paid-in amount received from the parties purchasing and underwriting investment corporation bonds, (2) Preparation and keeping of the investment corporation bonds registry and other business affairs related to the investment corporation bonds registry, (3) Business affairs related to payment of interest or redemption amount to the investment corporation bondholders, (4) Business affairs related to receipt of requests from the investment corporation bondholders, and (5) Business operations as a trustee of investment corporation bonds.
	Mitsubishi UFJ Trust and Banking Corporation	A fiscal, issuing and paying agency agreement was concluded with Mitsubishi UFJ Trust and Banking Corporation on November 1, 2016. As an administrative agent under the Investment Trusts Act (of Article 117, item 2, item 3 and item 6 of the Investment Trusts Act, those matters concerning investment corporation bonds), Mitsubishi UFJ Trust and Banking Corporation shall perform the following with respect to the eighth unsecured investment corporation bonds (with pari passu covenants among specified corporation bonds) based on the abovementioned fiscal, issuing and paying agency agreement: (1) Delivery of the paid-in amount received from the parties purchasing and underwriting investment corporation bonds, (2) Preparation and keeping of the investment corporation bonds registry and other business affairs related to the investment corporation bonds registry, (3) Business affairs related to payment of interest or redemption amount to the investment corporation bondholders, (4) Business affairs related to receipt of requests from the investment corporation bondholders, and (5) Business affairs related to fiscal agent of investment corporation bonds.

2. Investment policies and operating results

(1) Investment policies

Disclosure is omitted because there is no significant change from "Investment policies," "Investment targets" and "Distribution policy" in the most recent Securities Report (submitted on March 23, 2016) and Securities Registration Statement (submitted on July 7, 2016).

(2) Operating results

(A) Overview of the fiscal period under review

(a) Brief history and principal activities

JHR was established under the Investment Trusts Act on November 10, 2005 and was listed on the Real Estate Investment Trust (REIT) section of the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

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

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

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 21 properties amounting to ¥177,349 million (acquisition price basis) in total in the nearly five years since the Merger. As a result, JHR had a portfolio of 41 properties with a combined acquisition price of ¥286,801 million and a total number of investment units issued and outstanding of 3,761,907 units at the end of the fiscal period under review (December 31, 2016).

(b) Investment performance for fiscal period under review

During the fiscal period under review (12-month period from January 1, 2016 through December 31, 2016), the Japanese economy saw improvement in corporate earnings come to a standstill due in part to a heightened sense of uncertainty over the future with such factors in Japan as progress in appreciation of the yen since the beginning of the calendar year and the Kumamoto Earthquake occurred in April 2016 and such factors in overseas markets as slowdown in the Chinese and other emerging economies and the UK’s decision to leave the EU. However, backed also by progress in depreciation of the yen against the dollar and strong U.S. economy after the U.S. presidential election, the rising expectations for the economic outlook and other factors led to the Japanese economy continuing to show a moderate recovery trend, despite delay in improvement seen in some areas.

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

In such an environment, in January 2016, JHR implemented capital increase through public offering, the sixth since the Merger, to complement a decrease in cash on hand, a decrease equivalent to the cash on hand used to fund the acquisition of ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) in December 2015 for an acquisition price of ¥17,320 million. JHR also used the proceeds from the public offering to newly acquire CANDEO HOTELS UENO-KOEN, located in the Ueno area in central Tokyo, for an acquisition price of ¥6,705 million. In addition, in July 2016, JHR implemented a global offering, the first for JHR, to complement a decrease in cash on hand, a decrease equivalent to the cash on hand used to fund the acquisition of Hotel Centraza Hakata in April 2016 for an acquisition price of ¥7,197 million. JHR also used the proceeds from the global offering to acquire HOTEL VISTA GRANDE OSAKA (On November 1, 2016, completed rebranding of the hotel and changed the name to Holiday Inn Osaka Namba. The same shall apply hereinafter.) for an acquisition price of ¥27,000 million, Hilton Nagoya for an acquisition price of ¥15,250 million and HOTEL ASCENT FUKUOKA for an acquisition price of ¥4,925 million for a total of three properties with a combined acquisition price of ¥47,175 million.

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

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

With regard to status of operations of the five hotels (hereinafter referred to as the "five HMJ hotels") (Note 1) which JHR leases to Hotel Management Japan Co., Ltd. (hereinafter referred to as "HMJ") under variable rent contracts, and hotels which JHR leases to HMJ Group companies under variable rent contracts, namely, Okinawa Marriott Resort & Spa, ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel), Hotel Centraza Hakata and Holiday Inn Osaka Namba, many of these hotels have produced a year-on-year increase both in sales and GOP (gross operating profit), led by the rooms department, during the fiscal period under review. The rooms department aimed to generate greater earnings with increase in ADR to drive growth. For further details of sales, GOP and other management indicators for the HMJ Group Hotels (Note 1), please refer to "<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels" on page 18 and "D. Overview of the hotel business; (2) Major indicators of the hotel business; (a) The HMJ Group Hotels" on page 67.

Moreover, inbound and domestic leisure demand were successfully attracted by the six hotels (Note 2) for which AAPC Japan K.K. (hereinafter referred to as "Accor"), a Japanese subsidiary of Accor Hotels headquartered in Paris, France, serves as the operator (hereinafter referred to as the "six Accor hotels"). Many of these hotels posted a year-on-year increase both in sales and GOP, mainly led by an increase in ADR. For further details of sales, GOP and other management indicators for the six Accor hotels, please refer to "<Reference Materials 2> <2> Sales and GOP of the Six Accor Hotels" on page 19 and "D. Overview of the hotel business; (2) Major indicators of the hotel business; (b) The Six Accor Hotels" on page 69.

Furthermore, efforts were made to attract inbound tourists at the six *the b* hotels (Note 3), which are leased to the subsidiaries of the Ishin Hotels Group with a variable rent structure, and consequently a year-on-year increase was achieved both in sales and GOP in the case of the five *the b* hotels for which year-on-year comparisons can be made. For further details of sales, GOP and other management indicators for the six *the b* hotels, please refer to "<Reference Materials 2> <3> Sales and GOP of the Six *the b* Hotels" on page 21 and "D. Overview of the hotel business; (2) Major indicators of the hotel business; (c) The Six *the b* Hotels" on page 69.

In addition to such increase in income by increasing variable rent, etc., JHR has also been striving to reduce the costs of each item under real estate operating costs, general and administrative expenses and borrowing costs through persistent talks with relevant parties and other measures. Furthermore, ¥95 million in repair expenses related to the Kumamoto Earthquake were recorded in extraordinary loss in the fiscal period under review.

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

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

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

(c) Funding status

JHR procured a total of ¥14,618 million by way of capital increase through public offering in January 2016 and capital

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

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

Moreover, in November 2016, JHR issued ¥10,100 million in investment corporation bonds to complement a decrease in cash on hand, which is a decrease equivalent to the cash on hand used to fund the repayment of ¥2,500 million in investment corporation bonds due for redemption, and to fund the prepayment of ¥7,000 million in existing short-term loans and new acquisition of real estate, etc. in the future. In addition, in December 2016, JHR procured ¥100 million from The Higo Bank, Ltd., a local bank that is a new lender for JHR, to fund the repair expenses for Dormy Inn Kumamoto that had suffered damage from the Kumamoto Earthquake.

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

Through refinancing and newly procuring funds, JHR was able to further diversify funding methods, while advancing other efforts like lowering funding costs and extending and spreading out maturity dates. Concurrently, JHR concluded interest rate swap contracts to fix the interest on ¥34,400 million in total on loans in March, July and August 2016 in order to benefit from the current interest rate environment and to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio (including the interest rate cap purchase portion) on total interest-bearing debt at end of year to around 98%.

(Note 4) Ratio of interest-bearing debt to total assets at end of year = Balance of interest-bearing debt at end of year ÷ Total assets at end of year × 100

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

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

Rating agency	Rating	
R&I	A	(Stable)
JCR	A+	(Stable)

(d) Financial results

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

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

¥3,420.

For details of the appropriation for dividends for the fiscal period under review, please refer to “<Reference Materials 3> Dividend per unit and appropriation for dividends” on page 22.

(B) Outlook for the next fiscal period

(a) Investment policies and issues to be addressed

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

Internal growth

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

For hotels with only fixed rent contracts, JHR will increase its efforts to monitor operating conditions and pay careful attention to each tenant's ability to bear the rent costs. For the hotels at which the ability to bear rent costs has been enhanced through better performances, JHR will conduct negotiations to revise rents upward and introduce revenue sharing in order to increase JHR's revenue.

In addition, JHR will carry out an ongoing program of facilities and equipment maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and enhance asset value.

External growth

In terms of external growth strategy, JHR will keep its focus on acquiring highly-competitive hotels in areas where attracting “domestic and inbound leisure demand” can be expected over the medium to long term as JHR has done to date. On that basis, the policy is that limited-service hotels, full-service hotels and resort hotels are all investment targets, but JHR will only acquire properties with competitive advantages in terms of both buildings, facilities, etc. (infrastructure) and the capabilities of the hotel lessee and operator (services) on a property-by-property basis.

In the hotel investment market, competition over acquisition will likely become increasingly fierce due to the listing of new REITs specializing in hotels and other factors. While differentiating itself from the others by leveraging first-mover advantages, JHR intends to keep making its position in the industry strong while acquiring properties.

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

Finance strategy

JHR seeks to maintain and enhance the relationships of trust with financial institutions with which it does business, while implementing operations with a conservative financial strategy as a basic policy putting importance on ensuring financial stability and strength by continuously diversifying the means of financing. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% as in the past. In addition, when seeking new funding for property acquisitions or refinancing existing debt, JHR will work to reinforce its existing relationships with multiple lenders and further diversify funding methods while seeking to spread out the maturity dates of its debt and considering the balance with borrowing costs.

Furthermore, while monitoring the conditions of the interest rate market, JHR aims to further improve its financial foundation by extending maturity dates and managing risk of interest rates market by fixing rates, etc.

Policy on the handling of negative goodwill

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

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

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

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

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

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

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

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

(b) Significant subsequent events

Not applicable.

(c) Operating forecast

The following is JHR's operating forecast for the midterm of the fiscal year ending December 31, 2017 (18th period) and the full year of the fiscal year ending December 31, 2017 (18th period). For the assumptions of the operating forecast, please refer to "Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2017 (18th period)" on page 11.

Midterm of the fiscal year ending December 31, 2017 (18th period)

Operating revenue	¥11,056 million
Operating income	¥6,280 million
Ordinary income	¥5,447 million
Midterm net income	¥5,447 million

Full year of the fiscal year ending December 31, 2017 (18th period)

Operating revenue	¥24,530 million
Operating income	¥14,719 million
Ordinary income	¥12,987 million
Net income	¥12,986 million
Dividend per unit	¥3,540
Dividend per unit resulting from excess of earnings	¥0

(Note) The forecast figures above are the current forecasts calculated based on certain assumptions. As such, actual operating revenue, operating income, ordinary income, net income (midterm/full year), dividend per unit and dividend per unit resulting from excess of earnings may vary due to changes in the circumstances. Furthermore, the forecasts are not intended to guarantee any dividend amount.

Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2017 (18th period)

Item	Assumptions												
Calculation period	<ul style="list-style-type: none">• Midterm (18th Period) : January 1, 2017 through June 30, 2017 (181 days)• Full year (18th Period) : January 1, 2017 through December 31, 2017 (365 days)												
Assets under management	<ul style="list-style-type: none">• The 41 properties owned by JHR as of today are assumed, and it is also assumed that there will be no change in assets (acquisitions or dispositions, etc.) through the end of the fiscal year ending December 2017 (18th period). However, the actual results may fluctuate depending on the changes in assets under management that may take place.												
Operating revenue	<ul style="list-style-type: none">• Operating revenue is calculated based on leases and other contracts effective as of today and in consideration of competitiveness of hotels, market environment and other factors. If there are lease contracts with regards to facilities other than hotels, such as retail facilities and offices, etc., operating revenue calculated based on the said lease contracts is included.• Rents, etc. of the main hotels are calculated based on the following assumptions.												
	(1) The Five HMJ Hotels												
	The assumptions of the fixed rent and variable rent for the five HMJ hotels are as follows. Annual rent (¥6,969 million) = Fixed rent (¥3,221 million/year) + Variable rent Variable rent = [(a) Total GOP of the five HMJ hotels – (b) GOP base amount] × 85.0%												
	(Unit: millions of yen)												
	<table><tr><td></td><td>Total GOP of the five HMJ hotels (a)</td><td>GOP base amount (b)</td><td>Variable rent ((a) – (b)) × 85.0%</td></tr><tr><td>Midterm</td><td>2,935</td><td>1,675</td><td>1,071</td></tr><tr><td>Full year</td><td>7,760</td><td>3,351</td><td>3,748</td></tr></table>		Total GOP of the five HMJ hotels (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 85.0%	Midterm	2,935	1,675	1,071	Full year	7,760	3,351	3,748
		Total GOP of the five HMJ hotels (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 85.0%									
	Midterm	2,935	1,675	1,071									
	Full year	7,760	3,351	3,748									
	(*) Please refer to “<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels” below for sales of the five HMJ hotels.												
	(2) Okinawa Marriott Resort & Spa												
The fixed rent and variable rent of Okinawa Marriott Resort & Spa is calculated as follows. Annual rent (¥1,095 million) = Fixed rent (¥550 million/year) + Variable rent Variable rent = [(a) Hotel GOP – (b) GOP base amount] × 90.0%													
(Unit: millions of yen)													
<table><tr><td></td><td>Hotel GOP (a)</td><td>GOP base amount (b)</td><td>Variable rent ((a) – (b))×90.0%</td></tr><tr><td>Midterm</td><td>348</td><td>350</td><td>—</td></tr><tr><td>Full year</td><td>1,305</td><td>700</td><td>545</td></tr></table>		Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b))×90.0%	Midterm	348	350	—	Full year	1,305	700	545	
	Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b))×90.0%										
Midterm	348	350	—										
Full year	1,305	700	545										
(*) Please refer to “<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels” below for sales of Okinawa Marriott Hotel Resort & Spa.													
(3) ACTIVE-INTER CITY HIROSHIMA													
ACTIVE-INTER CITY HIROSHIMA is a complex facility composed of a hotel building, an office building, and a retail zone. Rent for each facility is calculated as follows. (a) Hotel building (Sheraton Grand Hiroshima Hotel) Annual rent (¥641 million) = Fixed rent (¥348 million/year)+ Variable rent Variable rent = [(a) Hotel GOP – (b) GOP base amount] × 82.5%													
(Unit: millions of yen)													
<table><tr><td></td><td>Hotel GOP (a)</td><td>GOP base amount (b)</td><td>Variable rent ((a) – (b)) × 82.5%</td></tr><tr><td>Midterm</td><td>364</td><td>234</td><td>107</td></tr><tr><td>Full year</td><td>823</td><td>468</td><td>293</td></tr></table>		Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 82.5%	Midterm	364	234	107	Full year	823	468	293	
	Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 82.5%										
Midterm	364	234	107										
Full year	823	468	293										
(*) Please refer to “<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels” below for sales of Sheraton Grand Hiroshima Hotel.													

Item	Assumptions																															
Operating revenue	(b) Office building and retail zone Rent from the office building and the retail zone is expected to be ¥219 million for the midterm and ¥439 million for the full year. These figures include ¥8 million for the midterm and ¥16 million for the full year as variable rent pursuant to an agreement for revenue sharing with some retail tenants.																															
	(4) Hotel Centraza Hakata The fixed and variable rent of Hotel Centraza Hakata is calculated as follows. Annual rent (¥758 million) = Fixed rent (¥400 million) + Variable rent Variable rent = [(a) Hotel GOP – (b) GOP base amount] × 90.0%																															
	(Unit: millions of yen)																															
	<table><tr><th></th><th>Hotel GOP (a)</th><th>GOP base amount (b)</th><th>Variable rent ((a) – (b)) × 90.0%</th></tr><tr><td>Midterm</td><td>409</td><td>212</td><td>177</td></tr><tr><td>Full year</td><td>823</td><td>425</td><td>358</td></tr></table>		Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 90.0%	Midterm	409	212	177	Full year	823	425	358																			
		Hotel GOP (a)	GOP base amount (b)	Variable rent ((a) – (b)) × 90.0%																												
	Midterm	409	212	177																												
	Full year	823	425	358																												
	(*) Please refer to “<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels” below for sales of Hotel Centraza Hakata.																															
	(5) Holiday Inn Osaka Namba The fixed and variable rent of Holiday Inn Osaka Namba is calculated as follows. Annual rent (¥1,384 million) = Fixed rent (¥576 million) + Variable rent Variable rent = [(a) Hotel GOP - (b) GOP Base Amount] × 92.5%																															
	(Unit: millions of yen)																															
	<table><tr><th></th><th>Hotel GOP (a)</th><th>GOP Base Amount (b)</th><th>Variable rent ((a) – (b)) × 92.5%</th></tr><tr><td>Midterm</td><td>727</td><td>325</td><td>372</td></tr><tr><td>Full year</td><td>1,523</td><td>650</td><td>808</td></tr></table>		Hotel GOP (a)	GOP Base Amount (b)	Variable rent ((a) – (b)) × 92.5%	Midterm	727	325	372	Full year	1,523	650	808																			
		Hotel GOP (a)	GOP Base Amount (b)	Variable rent ((a) – (b)) × 92.5%																												
Midterm	727	325	372																													
Full year	1,523	650	808																													
(*) Please refer to “<Reference Materials 2> <1> Sales and GOP of the HMJ Group Hotels” below for sales of Holiday Inn Osaka Namba.																																
(6) The Six Accor Hotels Income from management contracts and variable rent of the six Accor hotels																																
(Unit: millions of yen)																																
<table><tr><th></th><th>ibis Tokyo Shinjuku</th><th>ibis Styles Kyoto Station</th><th>ibis Styles Sapporo</th><th>Mercure Sapporo</th><th>Mercure Okinawa Naha</th><th>Mercure Yokosuka</th><th>Total</th></tr><tr><td>Midterm</td><td>201</td><td>264</td><td>238</td><td>239</td><td>220</td><td>154</td><td>1,319</td></tr><tr><td>Full year</td><td>413</td><td>572</td><td>592</td><td>604</td><td>483</td><td>257</td><td>2,924</td></tr></table>		ibis Tokyo Shinjuku	ibis Styles Kyoto Station	ibis Styles Sapporo	Mercure Sapporo	Mercure Okinawa Naha	Mercure Yokosuka	Total	Midterm	201	264	238	239	220	154	1,319	Full year	413	572	592	604	483	257	2,924								
	ibis Tokyo Shinjuku	ibis Styles Kyoto Station	ibis Styles Sapporo	Mercure Sapporo	Mercure Okinawa Naha	Mercure Yokosuka	Total																									
Midterm	201	264	238	239	220	154	1,319																									
Full year	413	572	592	604	483	257	2,924																									
(1) Please refer to “<Reference Materials 2> <2> Sales and GOP of the Six Accor Hotels” below for sales and GOP of the six Accor hotels.																																
(2) For income from management contracts, it is assumed that each hotel’s GOP amount is recognized as income from management contracts and the management contract fees to be paid by JHR are recognized as an operating expense. In cases where certain revenue from non-hotel tenant(s), etc. is included in the hotel’s GOP, such tenant revenue is subtracted from GOP to calculate income from management contracts. Such tenant revenue is recognized as parking area rent.																																
(3) Mercure Sapporo includes variable rent which is linked to the sales of tenant(s) other than the hotel.																																
(7) The Six the b Hotels Fixed and variable rent of the six the b hotels (midterm)																																
(Unit: millions of yen)																																
<table><tr><th></th><th>the b suidobashi</th><th>the b akasaka-mitsuke</th><th>the b ikebukuro</th><th>the b ochanomizu</th><th>the b hachioji</th><th>the b hakata</th><th>Total</th></tr><tr><td>Fixed (*1)</td><td>42</td><td>68</td><td>108</td><td>34</td><td>60</td><td>44</td><td>359</td></tr><tr><td>Variable</td><td>18</td><td>76</td><td>77</td><td>21</td><td>47</td><td>66</td><td>307</td></tr><tr><td>Total</td><td>60</td><td>144</td><td>186</td><td>56</td><td>108</td><td>111</td><td>667</td></tr></table>		the b suidobashi	the b akasaka-mitsuke	the b ikebukuro	the b ochanomizu	the b hachioji	the b hakata	Total	Fixed (*1)	42	68	108	34	60	44	359	Variable	18	76	77	21	47	66	307	Total	60	144	186	56	108	111	667
	the b suidobashi	the b akasaka-mitsuke	the b ikebukuro	the b ochanomizu	the b hachioji	the b hakata	Total																									
Fixed (*1)	42	68	108	34	60	44	359																									
Variable	18	76	77	21	47	66	307																									
Total	60	144	186	56	108	111	667																									

Item	Assumptions							
Operating revenue	Fixed and variable rent of the six <i>the b</i> hotels (full year) (Unit: millions of yen)							
		the b suidobashi	the b akasaka- mitsuke	the b ikebukuro	the b ochanomizu	the b hachioji	the b hakata	Total
	Fixed (*1)	84	136	217	69	121	89	719
	Variable	42	144	153	45	94	144	625
	Total	127	280	371	114	216	234	1,345
	(*1) Fixed rent includes rent from non-hotel tenant(s).							
	(*2) Please refer to “<Reference Materials 2> <3> Sales and GOP of the Six <i>the b</i> Hotels” below for sales and GOP of the six <i>the b</i> hotels.							
	(8) Other hotels subject to variable rent							
	Variable rent from other hotels subject to variable rent (Unit: millions of yen)							
		Midterm		Full year				
	Smile Hotel Nihombashi Mitsukoshimae	19		19				
	Hotel Vista Kamata Tokyo	—		23				
	Chisun Inn Kamata	38		80				
	Hotel Keihan Universal City	Undisclosed (*)		Undisclosed (*)				
	Hotel Sunroute Shinbashi	88		88				
Hilton Tokyo Bay	Undisclosed (*)		Undisclosed (*)					
Hilton Nagoya	Undisclosed (*)		Undisclosed (*)					
Total	850		1,490					
(*) Undisclosed since tenants that concluded lease agreements did not agree to disclose rent revenue, etc.								
• The following is the breakdown of variable rent and income from management contracts.								
<Breakdown of variable rent for the fiscal year ending December 2017 (18th period)> (Unit: millions of yen)								
	Midterm		Full year					
The Five HMJ Hotels	1,071		3,748					
Okinawa Marriott Resort & Spa	—		545					
ACTIVE-INTER CITY HIROSHIMA	115		309					
Hotel Centraza Hakata	177		358					
Holiday Inn Osaka Namba	372		808					
The Six Accor Hotels	1,319		2,924					
The Six <i>the b</i> Hotels	307		625					
Other seven hotels with variable rent	850		1,490					
Total (28 hotels)	4,213		10,811					
(*) For details of variable rent and income from management contract, please refer to “D. Overview of the hotel business (1) Rent structures of hotels with variable rent, management contract or revenue sharing” on page 66.								
Operating expenses	<ul style="list-style-type: none">• With respect to real estate leasing expenses, which constitute a major part of the operating expenses, expenses other than depreciation are calculated based on historical data, and variable factors are reflected in the calculation.• It is assumed that ¥1,491 million will be recognized as expenses for fixed asset tax, city planning tax and other taxes and public dues.• In general, fixed asset tax and city planning tax and other taxes and public dues on acquired assets are settled with the previous owners at the time of acquisition, calculated on a pro rata basis of the holding period. For JHR, such settlement amount is included in the acquisition price, and it will not be recognized as expenses for the calculation period. Also, the fixed asset tax and city planning tax and other taxes and public dues to be recorded as expenses for the fiscal year ending December 2017 (18th period) for the five properties (CANDEO HOTELS UENO-KOEN, Hotel Centraza Hakata, Holiday Inn Osaka Namba, HOTEL ASCENT FUKUOKA, and Hilton Nagoya) acquired in the fiscal year ended December 2016 (17th period) are assumed to be ¥175 million (equivalent to nine months).							

Item	Assumptions														
Operating expenses	<ul style="list-style-type: none"> Depreciation is calculated using the straight-line method, and is estimated to be ¥3,639 million, including the planned capital expenditures ¥2,864 million (capital expenditures I ¥1,841 million, capital expenditures II ¥529 million, and capital expenditures III ¥493 million (*)) for fiscal year ending December 2017 (18th period). (*) JHR classifies capital expenditures into the following three categories. (I) Capital investment related to renewal of buildings, facilities, and equipment which is required to maintain proper values of properties, (II) capital investment for fixtures and furniture that are not directly related to building structure or facilities but necessary for operating hotels, and (III) strategic capital investment for renovating guest rooms, etc. for maintaining/improving the competitiveness of the hotels. Repair expenses for buildings are recognized as expenses in the estimated amount necessary for each operating period. Please note that the repair expenses of each operating period may differ materially from the forecast amount for various reasons, such as; (1) Emergency repair expenses may be necessary due to damage to buildings from unexpected causes; (2) The amount of repair expenses generally tends to increase in difference over time; and (3) Repair expenses are not required on a regular basis. 														
Non-operating expenses	<ul style="list-style-type: none"> ¥1,734 million is expected for all non-operating expenses, including interest expense, arrangement fee, amortization for the following (1) handling fees and (2) derivative instruments (interest rate caps). Expenses for issuance of new investment units and secondary offering are amortized over a period of three years by the straight-line method. 														
Interest-bearing debt	<ul style="list-style-type: none"> The balance of interest-bearing debt (sum of loans and investment corporation bonds) was ¥126,179 million as of December 31, 2016, and it is assumed that the balance of interest-bearing debt will be ¥125,449 million as of December 31, 2017. It is assumed that the contractual repayment in the fiscal year ending December 2017 (18th period) in the amount of ¥729 million will be paid by cash on hand. 														
Issuance of investment units	<ul style="list-style-type: none"> The number of investment units issued as of today (3,761,907 units) is assumed. It is assumed that there will be no additional issuance of investment units through to the end of the fiscal year ending December 2017 (18th period). 														
Dividend per unit	<ul style="list-style-type: none"> Dividend per unit for the fiscal year ending December 2017 (18th period) is calculated based on the following assumptions. <table> <tr> <td>Net income</td><td>¥12,986 million</td></tr> <tr> <td>Use of reserve for temporary difference adjustment (negative goodwill) (*1)</td><td></td></tr> <tr> <td> Negative goodwill – 50-year amortization amount (*1)</td><td>¥262 million</td></tr> <tr> <td> Loss on retirement of noncurrent assets (*2)</td><td>¥70 million</td></tr> <tr> <td>Distributable amount</td><td>¥13,319 million</td></tr> <tr> <td>Total number of investment units issued</td><td>3,761,907 units</td></tr> <tr> <td>Dividend per unit</td><td>¥3,540</td></tr> </table> <p>(*)1 JHR will transfer the remaining balance of dividend reserve ((¥13,127 million) attributable to the gain on negative goodwill to “reserve for temporary difference adjustment,” and reverse ¥262 million (hereinafter called “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the remaining balance of the dividend reserve, to pay out as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year from the fiscal year ending December 2017 (18th period).</p> <p>Since the remaining balance of dividend reserve and the 50-year amortization amount are the forecast amount after deducting the forecast amount of the reversal for the fiscal year ended December 2016 (17th period), these amounts may fluctuate in the future.</p> <p>(*)2 The amount recognized as a loss on retirement of noncurrent assets will be appropriated by reserve for temporary difference adjustment (negative goodwill) by adding the amount to the 50-year amortization amount and is expected to have no impact on dividend per unit.</p> <ul style="list-style-type: none"> Dividend per unit may fluctuate due to various causes, such as fluctuation of rent revenue resulting from transfer of assets under management, change of tenants, etc. at hotels, change in the business environment for hotel business of tenants, etc., unexpected repairs, and actual number of new units issued, etc. 	Net income	¥12,986 million	Use of reserve for temporary difference adjustment (negative goodwill) (*1)		Negative goodwill – 50-year amortization amount (*1)	¥262 million	Loss on retirement of noncurrent assets (*2)	¥70 million	Distributable amount	¥13,319 million	Total number of investment units issued	3,761,907 units	Dividend per unit	¥3,540
Net income	¥12,986 million														
Use of reserve for temporary difference adjustment (negative goodwill) (*1)															
Negative goodwill – 50-year amortization amount (*1)	¥262 million														
Loss on retirement of noncurrent assets (*2)	¥70 million														
Distributable amount	¥13,319 million														
Total number of investment units issued	3,761,907 units														
Dividend per unit	¥3,540														

Item	Assumptions
	<ul style="list-style-type: none"> The remaining balance of the reserve for temporary difference adjustment (negative goodwill) after the appropriation of the reserve for temporary difference adjustment (negative goodwill) for dividends for the fiscal year ending December 2017 (18th period) is expected to be ¥12,794 million.
Dividend per unit resulting from excess of earnings	<ul style="list-style-type: none"> It is assumed that the excess of earnings (dividend per unit resulting from excess of earnings) will not be distributed.
Other	<ul style="list-style-type: none"> It is assumed that revision in law, tax system, accounting standard, regulations of the listing, regulations of The Investment Trusts Association, Japan that may impact the forecast above will not be made. It is assumed that unexpected major incident will not occur in the general economy, real estate market and hotel business environment, etc. The numerical values are rounded down to the nearest millions of yen in the assumptions above.

<Reference Materials 1> Highlights of the operating forecast and forecast of dividend

- (1) The following table provides comparison and major causes of variance between actual results of fiscal year ended December 2015 (16th period) and actual results of fiscal year ended December 2016 (17th period).

(Unit: millions of yen)

		16th Period	17th Period	Comparison with Previous Period		Major Factors Causing the Variance				
		Actual (A)	Actual (B)	(B)-(A)	Variance	Property Acquisition in 17th Period (*1)	Property Acquisition in 16th Period (*2)	Property Disposition in 16th Period (*3)	Other Properties (*4)	Causes of Variance (Other Properties)
Properties	No. of properties	36	41	5	13.9%					
	Acquisition price	225,723	286,801	61,077	27.1%					
Profit and Loss	Operating revenue	17,343	22,107	4,763	27.5%	2,038	2,043	(599)	1,281	
	Real estate operating revenue	17,033	22,107	5,073	29.8%	2,038	2,043	(293)	1,285	
	Fixed rent	Composition 60.5% 10,311	Composition 57.5% 12,714	2,403	23.3%	1,161	1,432	(293)	102	Receipt of termination charge due to replacement of tenants in 17th period: JPY126M
	Variable rent	39.5% 6,722	42.5% 9,392	2,670	39.7%	876	610	-	1,183	The five HMJ hotels -- increase in variable rent: JPY677M The five Accor hotels -- increase in income from management contracts, etc.: JPY321M Increase in revenue sharing, etc.: JPY184M
	Gain on sale of real estate properties	309	-	(309)	-	-	-	(305)	(4)	
	NOI (*5)	14,829	18,829	4,000	27.0%	1,601	1,457	(257) (*7)	1,199	
	NOI yield	6.6% (*6)(7.2%)	6.6% (*6)(7.1%)	0.0%	-	-	-	-	-	
	NOI after depreciation (*5)	12,031	15,517	3,486	29.0%	1,285	1,141	(184) (*7)	1,243	
	NOI yield after depreciation	5.3% (*6)(5.8%)	5.4% (*6)(5.9%)	0.1%	-	-	-	-	-	
	Operating income	10,988	13,885	2,896	26.4%					
	Ordinary income	9,295	12,220	2,924	31.5%					
	Extraordinary losses or income, etc.	(1)	(97)	(95)						Repair expenses in the amount of JPY95M for damage caused by the Kumamoto earthquakes, and others.
	Net income	9,294	12,123	2,828	30.4%					
Dividend	Use of negative goodwill	60	740	679	1116.3%					
	Total dividends	9,354	12,865	3,511	37.5%					
	No. of units issued	3,144,227	3,761,907	617,680	19.6%					
	Dividend per unit (JPY)	2,975	3,420	445	15.0%					

- (*1) Stating the impact on the statements of income by CANDEO HOTELS UENO-KOEN, Hotel Centraza Hakata, Holiday Inn Osaka Namba, HOTEL ASCENT FUKUOKA, and Hilton Nagoya acquired in the fiscal year ended December 2016 (17th period).
- (*2) Stating the impact on the statements of income by the five *the b* hotels, Hotel Francs, Mercure Yokosuka, Okinawa Marriott Resort & Spa, and ACTIVE-INTER CITY HIROSHIMA acquired in the fiscal year ended December 2015 (16th period).
- (*3) Stating the impact on the statements of income by three properties, Comfort Hotel Shin-Yamaguchi, Daiwa Roynet Hotel Akita, and Hotel Sunroute Niigata, sold on October 30, 2015.
- (*4) Twenty-seven properties excluding three properties sold during the fiscal year ended December 2015 from thirty properties JHR owned as of the end of

December 31, 2014.

(*5) 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

(*6) The sum of (NOI of each property ÷ operating days x 365) ÷ acquisition price is indicated as an annualized NOI yield in parenthesis.

The sum of (NOI after depreciation of each property ÷ operating days x 365) ÷ acquisition price is indicated as an annualized NOI after depreciation in parenthesis. Please note that depreciation is calculated as the total amount of (depreciation of each property ÷ operating months x 12).

(*7) NOI and NOI after depreciation do not include gain on sale of real estate properties, etc. The factors causing the variance on NOI and NOI after depreciation with consideration of the effect by gain on sale are ¥(563) million and ¥(489) million, respectively.

(2) The following is a comparison and major causes of variance between the actual results for the fiscal year ended December 31, 2016 (17th period) and the forecast for the fiscal year ending December 31, 2017 (18th period)

(Unit: millions of yen)

		17th Period	18th Period	Comparison with Previous Period		Major Factors Causing the Variance			
		Actual	Forecast (*1)			Property Acquisition in 17th Period (*2)	Existing Properties	Causes of Variance of Existing Properties	
		(A)	(B)	(B)-(A)	Variance				
Properties	No. of properties	41	41	-	-				
	Acquisition price	286,801	286,801	-	-				
Profit and Loss	Operating revenue	22,107	24,530	2,422	11.0%	2,376	46		
	Real estate operating revenue	22,107	24,530	2,422	11.0%	2,376	46		
	Fixed rent	Composition 57.5% 12,714	Composition 55.9% 13,718	1,004	7.9%	1,120	(116)	Decrease in termination charge due to replacement of tenants in 17th period: (JPY126M)	
	Variable rent	42.5% 9,392	44.1% 10,811	1,418	15.1%	1,255	163	①The seven HMJ group hotels (*3) -- increase in variable rent: JPY154M ②The six Accor hotels -- increase in income from management contracts, etc.: -- JPY110M ③ The six the b hotels -- increase in variable rent: JPY8M ④ Decrease in revenue sharing, etc.: (JPY109M)	
	Gain on sale of real estate properties	-	-	-	-	-	-		
	NOI (*4)	18,829	20,312	1,482	7.9%	1,618	(135)		
	NOI yield	6.6% (*5)(7.1%)	7.1%	0.5%					
	NOI after depreciation (*4)	15,517	16,600	1,082	7.0%	1,347	(265)		
	NOI yield after depreciation	5.4% (*5)(5.9%)	5.8%	0.4%					
	Operating income	13,885	14,719	833	6.0%				
	Ordinary income	12,220	12,987	767	6.3%				
	Extraordinary losses or income, etc.	(97)	(1)	95	-				
	Net income	12,123	12,986	863	7.1%				
Dividend	Use of negative goodwill	740	332	(407)	(55%)	The amount to be used from negative goodwill in the 18th period includes the 50-year amortization amount of negative goodwill. (*6)			
	Total dividends	12,865	13,317	451	3.5%				
	Number of units issued (unit)	3,761,907	3,761,907	-	-				
	Dividend per unit (JPY)	3,420	3,540	120	3.5%				

(*1) For the assumptions of the forecast, please see “Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 2017 (18th period)” above.

(*2) Stating the impact on the statements of income by CANDEO HOTELS UENO-KOEN, Hotel Centraza Hakata, Holiday Inn Osaka Namba, HOTEL ASCENT FUKUOKA, and Hilton Nagoya acquired in the fiscal year ended December 2016 (17th period).

(*3) Seven hotels refer to Okinawa Marriott Resort & Spa and Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA, in addition to the five HMJ hotels.

(*4) 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 = $\text{NOI} \div \text{acquisition price}$, NOI after depreciation = Real estate operating revenue – Real estate operating costs, NOI yield after depreciation = $\text{NOI after depreciation} \div \text{acquisition price}$

- (*5) The sum of $(\text{NOI of each property} \div \text{operating days} \times 365) \div \text{acquisition price}$ is indicated as an annualized NOI yield in parenthesis. The sum of $(\text{NOI after depreciation of each property} \div \text{operating days} \times 365) \div \text{acquisition price}$ is indicated as an annualized NOI after depreciation in parenthesis. Please note that depreciation is calculated as the total amount of $(\text{depreciation of each property} \div \text{operating months} \times 12)$.
- (*6) For details of the 50-year amortization amount of negative goodwill, please see “Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 2017 (18th Period)” above.

<Reference Materials 2>

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

<1> Sales and GOP of the HMJ Group Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the HMJ Group Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
		Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Kobe Meriken Park Oriental Hotel	First half of the year	2,424	(0.0%)	2,465	1.7%	2,519	2.2%
	Second half of the year	2,828	1.1%	2,896	2.4%	2,984	3.0%
	Full year	5,252	0.6%	5,361	2.1%	5,503	2.6%
Oriental Hotel tokyo bay	First half of the year	3,395	0.9%	3,454	1.7%	3,452	(0.1%)
	Second half of the year	3,927	2.2%	3,817	(2.8%)	3,935	3.1%
	Full year	7,322	1.6%	7,271	(0.7%)	7,387	1.6%
Namba Oriental Hotel	First half of the year	1,189	19.1%	1,386	16.6%	1,438	3.7%
	Second half of the year	1,341	16.6%	1,491	11.1%	1,544	3.6%
	Full year	2,530	17.8%	2,877	13.7%	2,982	3.6%
Hotel Nikko Alivila	First half of the year	2,377	8.6%	2,421	1.8%	2,502	3.4%
	Second half of the year	3,571	8.2%	3,734	4.6%	3,787	1.4%
	Full year	5,948	8.3%	6,155	3.5%	6,289	2.2%
Oriental Hotel Hiroshima	First half of the year	991	(5.2%)	1,025	3.4%	1,026	0.1%
	Second half of the year	1,142	(3.0%)	1,216	6.4%	1,248	2.7%
	Full year	2,134	(4.0%)	2,240	5.0%	2,274	1.5%
Total of the Five HMJ Hotels	First half of the year	10,376	3.5%	10,751	3.6%	10,938	1.7%
	Second half of the year	12,810	4.4%	13,154	2.7%	13,498	2.6%
	Full year	23,186	4.0%	23,905	3.1%	24,436	2.2%
Okinawa Marriott Resort & Spa	First half of the year	1,614	0.9%	1,607	(0.4%)	1,629	1.4%
	Second half of the year	2,402	8.7%	2,326	(3.2%)	2,445	5.1%
	Full year	4,016	5.4%	3,933	(2.1%)	4,074	3.6%
Sheraton Grand Hiroshima Hotel	First half of the year	1,346	(1.0%)	1,369	1.7%	1,391	1.6%
	Second half of the year	1,502	(0.6%)	1,627	8.3%	1,568	(3.7%)
	Full year	2,847	(0.8%)	2,996	5.2%	2,959	(1.2%)
Hotel Centraza Hakata	First half of the year	1,124	2.0%	1,155	2.8%	1,178	2.0%
	Second half of the year	1,205	6.6%	1,265	5.0%	1,146	(9.5%)
	Full year	2,330	4.4%	2,421	3.9%	2,324	(4.0%)
Holiday Inn Osaka Namba	First half of the year	832	47.9%	1,104	32.7%	1,115	1.0%
	Second half of the year	1,133	57.6%	1,103	(2.7%)	1,201	8.9%
	Full year	1,965	53.4%	2,206	12.3%	2,316	5.0%
Total of HMJ Group Hotels	First half of the year	15,291	4.4%	15,985	4.5%	16,251	1.7%
	Second half of the year	19,053	6.8%	19,476	2.2%	19,858	2.0%
	Full year	34,343	5.7%	35,461	3.3%	36,109	1.8%

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

(*2) Hotel Centraza Hakata was acquired on April 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for

the entire year including prior to the acquisition.

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

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

(2) Hotel GOP

(Unit: millions of yen)

GOP and ratio of GOP of the HMJ Group Hotels (*1)		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
		Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the HMJ Group Hotels	GOP	10,912	15.2%	12,010	10.1%	12,237	1.9%
	Ratio of GOP	31.8%	2.6%	33.9%	2.1%	33.9%	0.0%

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

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

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

<2> Sales and GOP of the Six Accor Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the Six Accor Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
		Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
ibis Tokyo Shinjuku	First half of the year	453	6.1%	406	(10.3%)	406	0.1%
	Second half of the year	421	(5.5%)	426	1.3%	430	0.8%
	Full year	873	0.2%	832	(4.7%)	836	0.5%
ibis Styles Kyoto Station	First half of the year	357	17.1%	464	30.0%	492	6.1%
	Second half of the year	457	18.8%	513	12.3%	540	5.1%
	Full year	814	18.0%	977	20.1%	1,032	5.6%
ibis Styles Sapporo	First half of the year	429	7.9%	490	14.3%	505	3.2%
	Second half of the year	591	13.1%	633	7.1%	650	2.8%
	Full year	1,019	10.9%	1,122	10.1%	1,156	3.0%
Mercure Sapporo	First half of the year	499	17.5%	546	9.3%	585	7.2%
	Second half of the year	672	17.4%	708	5.3%	745	5.2%
	Full year	1,172	17.4%	1,254	7.0%	1,330	6.1%
Mercure Okinawa Naha	First half of the year	407	12.1%	489	20.2%	519	6.0%
	Second half of the year	516	24.5%	560	8.6%	578	3.2%
	Full year	923	18.7%	1,049	13.7%	1,096	4.5%
Mercure Yokosuka	First half of the year	550	1.0%	569	3.5%	586	3.0%
	Second half of the year	512	4.3%	502	(2.0%)	540	7.7%
	Full year	1,062	2.6%	1,071	0.8%	1,127	5.2%
Total	First half of the year	2,696	9.5%	2,965	10.0%	3,094	4.4%
	Second half of the year	3,168	12.0%	3,341	5.5%	3,482	4.2%
	Full year	5,863	10.8%	6,306	7.6%	6,577	4.3%

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

(2) Hotel GOP

(Unit: millions of yen)

GOP and ratio of GOP of the Six Accor Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
	Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Six Accor Hotels	2,512	21.0%	2,885	14.9%	2,987	3.5%
Ratio of GOP	42.8%	3.6%	45.8%	2.9%	45.4%	(0.3%)

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

<3> Sales and GOP of the Six *the b* Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the Six <i>the b</i> Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
		Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
the b akasaka-mitsuke	First half of the year	221	69.4%	242	9.4%	242	(0.0%)
	Second half of the year	242	13.8%	226	(6.7%)	231	2.0%
	Full year	464	35.0%	468	1.0%	473	1.0%
the b ikebukuro	First half of the year	301	7.7%	323	7.3%	325	0.7%
	Second half of the year	324	14.5%	312	(3.7%)	324	3.6%
	Full year	625	11.1%	635	1.6%	648	2.1%
the b ochanomizu	First half of the year	132	9.0%	131	(0.8%)	134	2.5%
	Second half of the year	130	4.8%	135	3.5%	138	2.4%
	Full year	262	6.9%	266	1.3%	273	2.5%
the b hachioji	First half of the year	267	10.4%	291	9.0%	296	1.8%
	Second half of the year	291	13.8%	273	(6.1%)	291	6.6%
	Full year	558	12.2%	564	1.1%	587	4.1%
the b hakata	First half of the year	191	10.9%	230	20.6%	240	4.2%
	Second half of the year	215	12.8%	249	15.5%	255	2.4%
	Full year	406	11.9%	478	17.9%	494	3.3%
Total of the Five <i>the b</i> Hotels	First half of the year	1,111	17.7%	1,216	9.4%	1,237	1.7%
	Second half of the year	1,203	12.8%	1,195	(0.7%)	1,238	3.6%
	Full year	2,315	15.1%	2,412	4.2%	2,475	2.6%
the b suidobashi	First half of the year	—	—	177	—	183	3.1%
	Second half of the year	—	—	174	—	194	11.5%
	Full year	—	—	351	—	377	7.3%
Total of the Six <i>the b</i> Hotels	First half of the year	—	—	1,394	—	1,420	1.9%
	Second half of the year	—	—	1,369	—	1,432	4.6%
	Full year	—	—	2,763	—	2,852	3.2%

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

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

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

(2) Hotel GOP

(Unit: millions of yen)

GOP and the ratio of GOP of the Five <i>the b</i> Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
	Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Five <i>the b</i> Hotels	1,079	26.4%	1,195	10.8%	1,198	0.2%
Ratio of GOP	46.6%	4.2%	49.6%	3.0%	48.4%	(1.2%)

GOP and the ratio of GOP of the Six <i>the b</i> Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)		FY 2017 (Fiscal year ending December 2017)	
	Actual	Comparison with previous period	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Six <i>the b</i> Hotels	—	—	1,370	—	1,381	0.8%
Ratio of GOP	—	—	49.6%	—	48.4%	(1.2%)

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

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

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

Dividend per unit for the fiscal year ended December 31, 2015 and the fiscal year ended December 31, 2016 are calculated based on the following assumptions.

	Fiscal year ended December 31, 2016 (JPY1M)	Fiscal year ended December 31, 2017 (JPY1M)
Unappropriated retained earnings	9,296	12,126
Total appropriation for dividends (use of negative goodwill)	60	740
Loss on retirement of noncurrent assets	25	16
Financial costs in accordance with early repayment	35	—
Amortization of fixed-term leasehold of land and asset retirement obligations (*1)	—	112
Adjustment for dilution (*2)	—	611
Total dividends	9,354	12,865
Total number of investment units issued	3,144,227 units	3,761,907 units
Dividend per unit	¥2,975	¥3,420

(*1) Amount recognized as amortization, etc. related to fixed-term leasehold of land and asset retirement obligations of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA is planned to be added to the dividends through appropriation of the dividends reserve (negative goodwill).

(*2) Adjustment for dilution of dividend per unit due to issuance of new investment units in the fiscal year ended December 2016.

3. Financial statements

(1) Balance sheets

(thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	5,450,696	15,141,393
Cash and deposits in trust	8,247,600	11,232,472
Operating accounts receivable	1,269,572	2,071,152
Prepaid expenses	410,241	586,700
Consumption taxes receivable	245,509	—
Income taxes receivable	3,057	294
Other current assets	6,473	18,339
Total current assets	15,633,151	29,050,353
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	184,717	220,174
Accumulated depreciation	(68,766)	(92,636)
Machinery and equipment, net	115,951	127,538
Tools, furniture and fixtures	1,428,232	1,983,010
Accumulated depreciation	(637,865)	(873,534)
Tools, furniture and fixtures, net	790,367	1,109,476
Construction in progress	2,676	3,240
Buildings in trust	*1 88,642,547	*1 104,284,116
Accumulated depreciation	(9,276,696)	(12,060,126)
Buildings in trust, net	79,365,851	92,223,989
Structures in trust	2,006,145	2,100,930
Accumulated depreciation	(172,064)	(238,341)
Structures in trust, net	1,834,081	1,862,588
Machinery and equipment in trust	456,282	534,100
Accumulated depreciation	(52,883)	(75,467)
Machinery and equipment in trust, net	403,399	458,632
Tools, furniture and fixtures in trust	125,266	137,266
Accumulated depreciation	(68,340)	(77,824)
Tools, furniture and fixtures in trust, net	56,926	59,442
Land in trust	120,918,641	154,841,633
Construction in progress in trust	606	4,085
Net property and equipment	203,488,501	250,690,627
Intangible assets		
Software	100,333	168,345
Leasehold rights in trust	19,774,039	28,648,457
Fixed-term leasehold rights in trust	—	5,451,770
Other intangible assets	10,476	9,796
Total intangible assets	19,884,849	34,278,369
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	158,323	158,323
Long-term prepaid expenses	993,340	3,090,505
Derivative assets	1,272	146,585
Reserve for repairs and maintenance	49,219	64,130
Total investments and other assets	1,214,676	3,472,065
Total noncurrent assets	224,588,027	288,441,062
Deferred assets		
Investment unit issuance costs	66,928	243,615
Investment corporation bond issuance costs	68,381	143,589
Total deferred assets	135,310	387,204
Total assets	240,356,489	317,878,620

(thousands of yen)

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

(2) Statements of income

(thousands of yen)

	For the year ended December 31, 2015	For the year ended December 31, 2016
Operating revenue		
Real estate operating revenue	*1 16,632,526	*1 21,165,085
Other real estate operating revenue	*1 401,349	*1 942,384
Gain on sale of real estate properties	*2 305,668	—
Gain on investment in silent partnership	4,288	—
Total operating revenue	17,343,833	22,107,470
Operating expenses		
Real estate operating costs	*1, *3 5,002,501	*1, *3 6,589,908
Asset management fee	1,045,925	1,307,381
Asset custody fee	17,633	21,029
Administrative service fee	89,541	91,782
Directors' compensation	10,800	14,400
Other operating expenses	188,480	197,443
Total operating expenses	6,354,882	8,221,945
Operating income	10,988,950	13,885,524
Non-operating income		
Interest income	2,977	1,924
Gain on forfeiture of unclaimed dividends	1,186	2,296
Gain on insurance claims	4,644	472
Interest on tax refunds	292	610
Gain on derivative instruments	9,411	1,872
Total non-operating income	18,512	7,176
Non-operating expenses		
Interest expense	918,051	862,943
Interest expense on investment corporation bonds	62,850	128,071
Borrowing costs	632,240	561,927
Amortization of investment corporation bond issuance costs	12,500	19,043
Amortization of investment unit issuance costs	51,846	81,361
Loss on derivative instruments	33,996	16,445
Other	90	2,673
Total non-operating expenses	1,711,575	1,672,466
Ordinary income	9,295,887	12,220,234
Extraordinary loss		
Loss on disaster	—	*4 95,860
Total extraordinary loss	—	95,860
Income before income taxes	9,295,887	12,124,373
Income taxes – current	1,210	1,210
Total income taxes	1,210	1,210
Net income	9,294,677	12,123,163
Retained earnings brought forward	1,444	2,894
Unappropriated retained earnings (undisposed loss)	9,296,121	12,126,057

(3) Statements of changes in net assets

For the year ended December 31, 2015

(thousands of yen)

(thousands of yen)

	Unitholders' equity						
	Unitholders' capital	Surplus					Total unitholders' equity
		Capital surplus	Voluntary reserve		Unappropriated retained earnings (undisposed loss)	Total surplus	
			Dividend reserve	Total voluntary reserve			
Balance, January 1, 2015	59,024,923	21,746,398	14,168,614	14,168,614	5,776,116	41,691,129	100,716,052
Changes of items during the year:							
Issuance of new investment units	26,445,618						26,445,618
Reversal of dividend reserve			(240,538)	(240,538)	240,538	—	—
Dividends paid					(6,015,210)	(6,015,210)	(6,015,210)
Net income					9,294,677	9,294,677	9,294,677
Net changes of items other than unitholders' equity							
Total changes of items during the year	26,445,618	—	(240,538)	(240,538)	3,520,005	3,279,466	29,725,085
Balance, December 31, 2015	^{*1} 85,470,541	21,746,398	13,928,075	13,928,075	9,296,121	44,970,596	130,441,137

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2015	(373,144)	(373,144)	100,342,908
Changes of items during the year:			
Issuance of new investment units			26,445,618
Reversal of dividend reserve			—
Dividends paid			(6,015,210)
Net income			9,294,677
Net changes of items other than unitholders' equity	(153,516)	(153,516)	(153,516)
Total changes of items during the year	(153,516)	(153,516)	29,571,568
Balance, December 31, 2015	(526,660)	(526,660)	129,914,477

For the year ended December 31, 2016

(thousands of yen)

(thousands of yen)

	Unitholders' equity						
	Unitholders' capital	Surplus					Total unitholders' equity
		Capital surplus	Voluntary reserve		Unappropriated retained earnings (undisposed loss)	Total surplus	
			Dividend reserve	Total voluntary reserve			
Balance, January 1, 2016	85,470,541	21,746,398	13,928,075	13,928,075	9,296,121	44,970,596	130,441,137
Changes of items during the year:							
Issuance of new investment units	49,358,906						49,358,906
Reversal of dividend reserve			(60,847)	(60,847)	60,847	—	—
Dividends paid					(9,354,075)	(9,354,075)	(9,354,075)
Net income					12,123,163	12,123,163	12,123,163
Net changes of items other than unitholders' equity							
Total changes of items during the year	49,358,906	—	(60,847)	(60,847)	2,829,936	2,769,088	52,127,994
Balance, December 31, 2016	^{*1} 134,829,448	21,746,398	13,867,228	13,867,228	12,126,057	47,739,684	182,569,132

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2016	(526,660)	(526,660)	129,914,477
Changes of items during the year:			
Issuance of new investment units			49,358,906
Reversal of dividend reserve			—
Dividends paid			(9,354,075)
Net income			12,123,163
Net changes of items other than unitholders' equity	(53,359)	(53,359)	(53,359)
Total changes of items during the year	(53,359)	(53,359)	52,074,635
Balance, December 31, 2016	(580,019)	(580,019)	181,989,112

(4) Statements of cash dividends

Classification	For the year ended December 31, 2015	For the year ended December 31, 2016
I. Unappropriated retained earnings	¥9,296,121,922	¥12,126,057,948
II. Reversal of voluntary reserve		
Reversal of dividend reserve	¥60,847,707	¥13,867,228,256
III. Dividends	¥9,354,075,325	¥12,865,721,940
[Dividend per unit]	[¥2,975]	[¥3,420]
IV. Voluntary reserve	—	*1 ¥13,127,153,216
Reserve for temporary difference adjustment		
V. Retained earnings carried forward	¥2,894,304	¥411,048
Method of calculating the amount of dividends	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥9,356,969,629, which was calculated by adding a reversal of dividend reserve of ¥60,847,707 to unappropriated retained earnings of ¥9,296,121,922, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥2,975. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥12,866,132,988, which was calculated by adding a reversal of dividend reserve of ¥740,075,040 to unappropriated retained earnings of ¥12,126,057,948, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥3,420. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.

(5) Statements of cash flows

(thousands of yen)

	For the year ended December 31, 2015	For the year ended December 31, 2016
Cash flows from operating activities		
Income before income taxes	9,295,887	12,124,373
Depreciation and amortization	2,772,440	3,294,081
Loss on retirement of noncurrent assets	25,790	16,662
Loss on derivative instruments	24,584	14,572
Amortization of investment corporation bond issuance costs	12,500	19,043
Amortization of investment unit issuance costs	51,846	81,361
Decrease in property and equipment in trust due to sale	4,400,042	—
Gain on investment in silent partnership	(4,288)	—
Interest income	(2,977)	(1,924)
Interest expense	980,901	991,014
Interest on tax refunds	(292)	(610)
(Increase) decrease in operating accounts receivable	(240,193)	(801,580)
(Increase) decrease in consumption taxes receivable	(245,509)	245,509
(Increase) decrease in prepaid expenses	(28,602)	(176,458)
(Increase) decrease in long-term prepaid expenses	(189,593)	(2,095,775)
Increase (decrease) in operating accounts payable	69,222	102,258
Increase (decrease) in accrued expenses	103,627	112,854
Increase (decrease) in consumption taxes payable	(290,174)	496,373
Increase (decrease) in advances received	41,141	206,495
Increase (decrease) in deposits received	62,058	46,506
Other – net	7,996	4,862
Subtotal	16,846,409	14,679,620
Interest received	2,977	1,862
Interest paid	(983,493)	(994,383)
Interest received on tax refunds	292	610
Income taxes – refunded (paid)	(3,838)	1,553
Net cash provided by operating activities	15,862,346	13,689,262
Cash flows from investing activities		
Proceeds from redemption of investment securities	607,013	—
Purchase of property and equipment in trust	(59,092,222)	(49,582,657)
Purchase of property and equipment	(299,812)	(659,879)
Purchase of intangible assets	(81,347)	(14,535,928)
Payments of reserve for repairs and maintenance	(49,219)	(14,911)
Proceeds from tenant leasehold and security deposits in trust	641,553	1,756,161
Reimbursements of tenant leasehold and security deposits in trust	(324,585)	(43,325)
Proceeds from tenant leasehold and security deposits	16	7,000
Reimbursements of tenant leasehold and security deposits	—	(1,001,800)
Net cash used in investing activities	(58,598,604)	(64,075,340)
Cash flows from financing activities		
Proceeds from short-term loans payable	15,000,000	8,800,000
Repayments of short-term loans payable	(6,000,000)	(16,000,000)
Proceeds from long-term loans payable	22,508,000	31,400,000
Repayments of long-term loans payable	(15,825,132)	(11,393,603)
Proceeds from investment corporation bonds	6,000,000	13,100,000
Redemption of investment corporation bonds	—	(2,500,000)
Proceeds from issuance of investment units	26,382,471	49,100,858
Payments for investment corporation bond issuance costs	(41,959)	(94,251)
Dividends paid	(6,013,599)	(9,351,356)
Net cash provided by financing activities	42,009,780	63,061,647
Net increase (decrease) in cash and cash equivalents	(726,477)	12,675,569
Cash and cash equivalents at beginning of year	14,424,774	13,698,296
Cash and cash equivalents at end of year	*1 13,698,296	*1 26,373,866

(6) Notes on going concern assumption

Not applicable.

(7) Notes on matters concerning significant accounting policies

1. Method of depreciation and amortization of noncurrent assets	<p>(1) Property and equipment (including trust accounts)</p> <p>Depreciation of property and equipment is calculated using the straight-line method. The useful lives of major property and equipment components are as follows:</p> <table><tr><td>Machinery and equipment</td><td>2 to 17 years</td></tr><tr><td>Tools, furniture and fixtures</td><td>2 to 20 years</td></tr><tr><td>Buildings in trust</td><td>2 to 62 years</td></tr><tr><td>Structures in trust</td><td>2 to 62 years</td></tr><tr><td>Machinery and equipment in trust</td><td>4 to 32 years</td></tr><tr><td>Tools, furniture and fixtures in trust</td><td>2 to 27 years</td></tr></table> <p>(2) Intangible assets</p> <p>Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.</p> <table><tr><td>Software (for internal use)</td><td>5 years as internally usable years</td></tr></table> <p>Fixed-term leasehold rights in trust is amortized using the straight-line method based on remaining period (41 years and 49 years) of the contract.</p> <p>(3) Long-term prepaid expenses</p> <p>Long-term prepaid expenses are amortized using the straight-line method.</p>	Machinery and equipment	2 to 17 years	Tools, furniture and fixtures	2 to 20 years	Buildings in trust	2 to 62 years	Structures in trust	2 to 62 years	Machinery and equipment in trust	4 to 32 years	Tools, furniture and fixtures in trust	2 to 27 years	Software (for internal use)	5 years as internally usable years
Machinery and equipment	2 to 17 years														
Tools, furniture and fixtures	2 to 20 years														
Buildings in trust	2 to 62 years														
Structures in trust	2 to 62 years														
Machinery and equipment in trust	4 to 32 years														
Tools, furniture and fixtures in trust	2 to 27 years														
Software (for internal use)	5 years as internally usable years														
2. Accounting for deferred assets	<p>(1) Investment unit issuance costs</p> <p>Investment unit issuance costs are amortized using the straight-line method over three years.</p> <p>The issuance of new investment units through public offerings on January 20, 2016 and July 27, 2016 was consummated under underwriting agreements in which underwriting securities companies committed to purchase all of the investment units being offered at an issue value and selling them at an offering price different from such issue value to general investors (the “spread method”).</p> <p>No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥858,900 thousand for the year ended December 31, 2015 and ¥1,571,900 thousand for the year ended December 31, 2016, representing the difference between the issue price and the issue value.</p> <p>(2) Investment corporation bond issuance costs</p> <p>Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.</p>														
3. Standards for recognition of revenues and expenses	<p>Treatment of property taxes and other taxes</p> <p>For taxes imposed on properties under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the respective period and expensed as “Real estate operating costs.”</p> <p>Cash paid for property taxes and city planning taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property.</p> <p>The amount of such taxes capitalized in the acquisition cost of real properties was ¥180,668 thousand for the year ended December 31, 2015 and ¥101,229 thousand for the year ended December 31, 2016.</p>														

<p>4. Method of hedge accounting</p>	<p>(1) Method of hedge accounting Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items Hedging instruments Interest rate swaps Interest rate caps Hedged items Interest rates on loans payable</p> <p>(3) Hedging policy JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Articles of Incorporation.</p> <p>(4) Method for assessing hedge effectiveness JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.</p>
<p>5. Scope of funds (cash and cash equivalents) in the statements of cash flows</p>	<p>Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.</p>
<p>6. Other significant matters serving as the basis for preparing financial statements</p>	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets For trust beneficial interests in real estate, etc., all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the accompanying balance sheet and income statement accounts accordingly. The following material items of the trust accounts recorded in the relevant accounts are presented separately on the balance sheets.</p> <p>(a) Cash and deposits in trust</p> <p>(b) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust</p> <p>(c) Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust</p> <p>(d) Tenant leasehold and security deposits in trust</p> <p>(2) Accounting treatment of consumption taxes Consumption taxes are excluded from the transaction amounts.</p>

(8) Notes to financial statements

Disclosure of notes on “securities,” “share of (profit) loss of entities accounted for using equity method,” “related-party transactions” and “retirement benefits” is omitted because there is thought to be no longer necessary for disclosure in the financial report.

[Notes to balance sheets]

*1. Accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received, etc.

	As of December 31, 2015	As of December 31, 2016
Buildings in trust	¥24,921 thousand	¥24,921 thousand

*2. Minimum net assets as required by Article 67, paragraph 4 of the Investment Trusts Act

	As of December 31, 2015	As of December 31, 2016
	¥50,000 thousand	¥50,000 thousand

[Notes to statements of income]

*1. Components of real estate operating revenue and real estate operating costs

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

(Note) Outsourcing expenses include management contract fees of ¥239,507 thousand for the year ended December 31, 2015 and ¥318,587 thousand for the year ended December 31, 2016.

*2. Components of gain (loss) on sale of real estate properties

(thousands of yen)

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

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

	For the year ended December 31, 2016			
	Not applicable.			

*3. Depreciation was expensed as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2016
Property and equipment	¥2,748,885 thousand	¥3,150,543 thousand
Intangible assets	¥23,554 thousand	¥143,537 thousand

*4. Loss on disaster

Restoration costs for assets damaged by the Kumamoto Earthquake were recorded as loss on disaster.

[Notes to statements of changes in net assets]

	For the year ended December 31, 2015	For the year ended December 31, 2016
*1 Total number of investment units authorized, and issued and outstanding		
Total number of investment units authorized	20,000,000 units	20,000,000 units
Total number of investment units issued and outstanding	3,144,227 units	3,761,907 units

[Notes to statements of cash dividends]

*1. Reserve for temporary difference adjustment

By application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015), ¥13,127,153,216 in dividend reserve that is the remaining balance of the amount subdivided into gain on negative goodwill recorded in prior fiscal years is set aside as reserve for temporary difference adjustment on the statements of cash dividends. Starting from the fiscal year following the fiscal year in which the reserve was made, reversal of the concerned reserve amount is scheduled to take place every fiscal year in an amount that shall be no less than the 50-year even amortization amount, but limited to the balance of the reserve for temporary difference adjustment as maximum.

[Notes to statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of year and the amount in balance sheet accounts

	For the year ended December 31, 2015	For the year ended December 31, 2016
Cash and deposits	¥5,450,696 thousand	¥15,141,393 thousand
Cash and deposits in trust	¥8,247,600 thousand	¥11,232,472 thousand
Cash and cash equivalents	¥13,698,296 thousand	¥26,373,866 thousand

2. Content of significant non-cash transactions

For the year ended December 31, 2015

Not applicable

For the year ended December 31, 2016

JHR recognizes asset retirement obligations as it is obliged to restore the land of Hotel Centraza Hakata, acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with the fixed-term leasehold agreements. This increases buildings in trust of property and equipment and asset retirement obligations by ¥440,168 thousand.

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

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

[Notes on financial instruments]

1. Matters concerning status of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

(3) Supplementary explanation on matters concerning fair value, etc. of financial instruments

Regarding the contract amount, etc. of derivative transactions in "2. Matters concerning fair value of financial instruments," the amount itself does not indicate certain scale of market risk exposure related to derivative transactions.

2. Matters concerning fair value of financial instruments

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

	Carrying amount (JPY1000)	Fair value (JPY1000)	Difference (JPY1000)
(1) Cash and deposits	5,450,696	5,450,696	—

(2) Cash and deposits in trust	8,247,600	8,247,600	—
Total assets	13,698,296	13,698,296	—
(3) Short-term loans payable	9,000,000	9,000,000	—
(4) Current portion of investment corporation bonds	2,500,000	2,507,000	7,000
(5) Current portion of long-term loans payable	11,393,603	11,393,603	—
(6) Investment corporation bonds	9,500,000	9,544,450	44,450
(7) Long-term loans payable	70,379,000	70,379,000	—
Total liabilities	102,772,603	102,824,053	51,450
(8) Derivative transactions (*)	(532,584)	(532,584)	—

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

	Carrying amount (JPY1000)	Fair value (JPY1000)	Difference (JPY1000)
(1) Cash and deposits	15,141,393	15,141,393	—
(2) Cash and deposits in trust	11,232,472	11,232,472	—
Total assets	26,373,866	26,373,866	—
(3) Short-term loans payable	1,800,000	1,800,000	—
(4) Current portion of investment corporation bonds	—	—	—
(5) Current portion of long-term loans payable	9,679,250	9,679,250	—
(6) Investment corporation bonds	22,600,000	22,629,640	29,640
(7) Long-term loans payable	92,099,750	92,099,750	—
Total liabilities	126,179,000	126,208,640	29,640
(8) Derivative transactions (*)	(554,282)	(554,282)	—

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

(Note 1) Methods to measure fair value of financial instruments

(1) Cash and deposits; (2) Cash and deposits in trust; (3) Short-term loans payable

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

(4) Current portion of investment corporation bonds; (6) Investment corporation bonds

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

(5) Current portion of long-term loans payable; (7) Long-term loans payable

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

(8) Derivative transactions

The information on the fair value of derivative transactions is presented in “Notes on derivative transactions” below.

(Note 2) Carrying amount of financial instruments whose fair values are considered extremely difficult to measure

(thousands of yen)

Classification	As of December 31, 2015	As of December 31, 2016
Tenant leasehold and security deposits	2,041,032	1,041,032
Tenant leasehold and security deposits in trust	2,914,912	4,619,744
Total	4,955,944	5,660,776

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

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

3. Redemption schedule for monetary claims subsequent to the account closing date

As of December 31, 2015

	Due within one year (JPY1000)	Due after one to two years (JPY1000)	Due after two to three years (JPY1000)	Due after three to four years (JPY1000)	Due after four to five years (JPY1000)	Due after five years (JPY1000)
Cash and deposits	5,450,696	—	—	—	—	—
Cash and deposits in trust	8,247,600	—	—	—	—	—
Total	13,698,296	—	—	—	—	—

As of December 31, 2016

	Due within one year (JPY1000)	Due after one to two years (JPY1000)	Due after two to three years (JPY1000)	Due after three to four years (JPY1000)	Due after four to five years (JPY1000)	Due after five years (JPY1000)
Cash and deposits	15,141,393	—	—	—	—	—
Cash and deposits in trust	11,232,472	—	—	—	—	—
Total	26,373,866	—	—	—	—	—

4. Schedule for repayment of loans payable and redemption of investment corporation bonds subsequent to the account closing date

As of December 31, 2015

	Due within one year (JPY1000)	Due after one to two years (JPY1000)	Due after two to three years (JPY1000)	Due after three to four years (JPY1000)	Due after four to five years (JPY1000)	Due after five years (JPY1000)
Short-term loans payable	9,000,000	—	—	—	—	—
Current portion of investment corporation bonds	2,500,000	—	—	—	—	—
Current portion of long-term loans payable	11,393,603	—	—	—	—	—
Investment corporation bonds	—	—	—	2,000,000	—	7,500,000
Long-term loans payable	—	9,679,250	13,322,750	6,317,000	13,544,000	27,516,000
Total	22,893,603	9,679,250	13,322,750	8,317,000	13,544,000	35,016,000

As of December 31, 2016

	Due within one year (JPY1000)	Due after one to two years (JPY1000)	Due after two to three years (JPY1000)	Due after three to four years (JPY1000)	Due after four to five years (JPY1000)	Due after five years (JPY1000)
Short-term loans payable	1,800,000	—	—	—	—	—
Current portion of investment corporation bonds	—	—	—	—	—	—
Current portion of long-term loans payable	9,679,250	—	—	—	—	—
Investment corporation bonds	—	—	2,000,000	—	1,500,000	19,100,000
Long-term loans payable	—	13,322,750	11,217,000	13,544,000	10,800,000	43,216,000
Total	11,479,250	13,322,750	13,217,000	13,544,000	12,300,000	62,316,000

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

As of December 31, 2015

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	6,794,000	6,794,000	(38,598)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.
	Interest rate caps	848,250	848,250	34	

As of December 31, 2016

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	6,794,000	6,794,000	(38,033)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.
	Interest rate caps	848,250	—	—	

2. Derivative transactions to which hedge accounting is applied

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for each method of hedge accounting was as follows:

As of December 31, 2015

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	63,581,950	58,028,750	(495,258)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.
	Interest rate caps	Long-term loans payable	8,565,250	4,286,250	1,238	

As of December 31, 2016

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	92,428,750	82,808,750	(516,439)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.
	Interest rate caps	Long-term loans payable	4,286,250	4,286,250	190	

[Notes on tax-effect accounting]

1. Significant components of deferred tax assets and liabilities by cause

(thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Deferred tax assets:		
Valuation difference on assets accepted through merger	1,833,861	1,775,942
Amortization of fixed-term leasehold of land	—	32,589
Asset retirement obligations	—	3,087
Deferred gains (losses) on hedges	179,626	221,352
Total gross deferred tax assets	2,013,488	2,032,972
Valuation allowance	(2,013,488)	(2,032,972)
Total deferred tax assets	—	—
Deferred tax liabilities:		
Deferred gains (losses) on hedges	—	46,233
Total gross deferred tax liabilities	—	46,233

2. Details of major causes of material differences between the statutory tax rate and the tax rate under effective tax accounting

	As of December 31, 2015	As of December 31, 2016
Statutory tax rate	34.15%	32.31%
[Adjustments]		
Deduction for dividends paid	(32.59%)	(32.37%)
Change in valuation allowance	(2.72%)	(0.21%)
Other – net	1.17%	0.28%
Actual effective tax rate	0.01%	0.01%

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the balance sheet

1. Outline of the subject asset retirement obligations

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

2. Calculation method of the subject asset retirement obligations

Calculated the amount of asset retirement obligations estimating that the expected useful life is 34 years and 48 years, respectively, due to their remaining use period and using the discount rate of 0.484% and 0.394%, respectively.

3. Increase and decrease of the subject asset retirement obligations

(thousands of yen)

	For the year ended December 31, 2015	For the year ended December 31, 2016
Balance at beginning of period	—	—
Increase due to acquisition of property and equipment	—	440,168
Adjustment due to passage of time	—	1,373
Balance at end of period	—	441,542

[Notes on segment and related information]

1. Segment information

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

2. Related information

For the year ended December 31, 2015

(1) Information about products and services

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

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the statements of income.

(ii) Property and equipment

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

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd.	6,147,639	Investment and management of hotel real estate
AAPC Japan K.K.	2,546,023	Investment and management of hotel real estate
THE DAI-ICHI BUILDING CO., LTD.	(Note)	Investment and management of hotel real estate

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

For the year ended December 31, 2016

(1) Information about products and services

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

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the statements of income.

(ii) Property and equipment

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

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd.	6,825,199	Investment and management of hotel real estate
AAPC Japan K.K.	2,980,712	Investment and management of hotel real estate

[Notes on rental properties, etc.]

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

(thousands of yen)

Use		For the year ended December 31, 2015	For the year ended December 31, 2016
Hotel	Carrying amount		
	Balance at beginning of period	169,847,788	222,362,750
	Net increase (decrease) during period	52,514,962	62,602,797
	Balance at end of period	222,362,750	284,965,547
	Fair value at end of period	302,110,000	398,770,000

(Note 1) For a summary of the applicable rental properties, please refer to “5. Reference information; (2) Assets under management; (C) Other major assets under management; A. Summary of real estate properties (in trust) under management” on page 51.

(Note 2) With regards to net increase (decrease) during period, increase during the year ended December 31, 2015 principally represents the acquisition of the five *the b* hotels for ¥20,230 million, Hotel Francs for ¥3,181 million, Mercure Yokosuka for ¥1,649 million, Okinawa Marriott Resort & Spa for ¥15,094 million and ACTIVE-INTER CITY HIROSHIMA for ¥17,949 million. Decrease during the year ended December 31, 2015 principally represents the sale of Comfort Hotel Shin-Yamaguchi for ¥787 million, Daiwa Roynet Hotel Akita for ¥1,644 million and Hotel Sunroute Niigata for ¥1,967 million. Increase during the year ended December 31, 2016 principally represents the acquisition of CANDEO HOTELS UENO-KOEN for ¥6,784 million, Hotel Centraza Hakata for ¥7,614 million, Holiday Inn Osaka Namba (HOTEL VISTA GRANDE OSAKA) for ¥27,245 million, HOTEL ASCENT FUKUOKA for ¥5,222 million and Hilton Nagoya for ¥15,488 million.

(Note 3) Fair value at end of period is the appraisal value determined by licensed real estate appraisers.

Real estate operating revenue and costs related to the rental properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2015	For the year ended December 31, 2016
Hotel	Amount on the statements of income		
	Real estate operating revenue	17,033,876	22,107,470
	Real estate operating costs	5,002,501	6,589,908
	Net real estate operating income	12,031,375	15,517,561

(Note) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other income from real estate operation) and corresponding expenses (such as depreciation, property tax, etc., trust fees, and repair expenses and others), and are included in “Operating revenue” and “Real estate operating costs,” respectively.

[Notes on per unit information]

	As of December 31, 2015	As of December 31, 2016
Net assets per unit	¥41,318	¥48,376
Net income per unit	¥3,036	¥3,462

(Note 1) Net income per unit is computed by dividing net income by the average number of investment units during the period.

Net income per unit after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

(Note 2) The basis of computation of net income per unit is as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2016
Net income (JPY1000)	9,294,677	12,123,163
Amount not attributable to common unitholders (JPY1000)	—	—
Net income for attributable to common investment units (JPY1000)	9,294,677	12,123,163
Average number of investment units during period (units)	3,060,647	3,501,175

[Notes on significant subsequent events]

Not applicable.

(9) Changes in total number of investment units issued and outstanding

Issuance of new investment units through public offering (170,000 units) on January 20, 2016, issuance of new investment units through third-party allotment (7,680 units) on February 17, 2016, issuance of new investment units through public offering (428,260 units) on July 27, 2016 and issuance of new investment units through third-party allotment (11,740 units) on August 23, 2016 resulted in procurement of ¥49,358 million. The following is the status of increase (decrease) in the total number of investment units issued and outstanding and unitholders' capital through to the end of the fiscal period under review.

Date	Capital transaction	Total number of investment units issued and outstanding (Units)		Unitholders' capital (JPY1M)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
November 10, 2005	Incorporation through private placement	400	400	200	200	(Note 1)
June 13, 2006	Capital increase through public offering of investment units	41,800	42,200	19,361	19,561	(Note 2)
April 6, 2011	Capital increase through third-party allotment of investment units	15,831	58,031	3,599	23,161	(Note 3)
April 1, 2012	Investment unit split	638,341	696,372	-	23,161	(Note 4)
April 1, 2012	Merger	1,162,909	1,859,281	-	23,161	(Note 5)
September 12, 2012	Capital increase through public offering of investment units	240,000	2,099,281	4,855	28,017	(Note 6)
October 11, 2012	Capital increase through third-party allotment of investment units	12,000	2,111,281	242	28,260	(Note 7)
April 17, 2013	Capital increase through public offering of investment units	510,000	2,621,281	20,585	48,845	(Note 8)
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 9)
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 10)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 11)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 12)
July 23, 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 13)
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 14)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 15)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 16)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 17)

(Note 1) At the time of incorporation, investment units were issued with an issue price per unit of ¥500,000.

(Note 2) New investment units were issued through public offering with an issue price per unit of ¥480,000 (issue value of ¥463,200) in order to procure funds for the acquisition of new properties, etc.

(Note 3) New investment units were issued through third-party allotment with an issue value per unit of ¥227,400 in order to procure funds for the acquisition of new properties.

(Note 4) Conducted a 12-for-1 split of investment units.

(Note 5) JHR (the former NHF) merged with Japan Hotel & Resort, Inc. (the former JHR). The merger was an absorption-type merger pursuant to Article 147 of the Investment Trusts Act where JHR is the surviving corporation and the former JHR is the absorbed corporation. Following this merger, 11 investment units of JHR after the split of investment units were delivered by allotment for each investment unit of the former JHR.

(Note 6) New investment units were issued through public offering with an issue price per unit of ¥20,990 (issue value of ¥20,232) in order to procure funds for the acquisition of new properties, etc.

(Note 7) New investment units were issued through third-party allotment with an issue value per unit of ¥20,232 in order to repay loans payable, etc.

(Note 8) New investment units were issued through public offering with an issue price per unit of ¥41,778 (issue value of ¥40,363) in order to procure funds for the acquisition of new properties, etc.

(Note 9) New investment units were issued through public offering with an issue price per unit of ¥61,912 (issue value of ¥59,880) in order to procure funds for the acquisition of new properties, etc.

(Note 10) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to procure funds for the acquisition of new properties, etc.

(Note 11) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to procure funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 12) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to procure funds for the acquisition of new properties, etc.

(Note 13) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to procure funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing

properties.

- (Note 14) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to procure funds for the allocation to acquisition of new properties, etc.
- (Note 15) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to procure funds for allocation to acquisition of new properties, etc.
- (Note 16) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to procure funds for the allocation to acquisition of new properties, etc.
- (Note 17) New investment units were issued through third-party allotment with an issue price per unit of ¥78,956 in order to procure funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

4. Status of directors

(1) Directors of JHR

The following are the directors of JHR as of the date of this report.

Title	Name	Major career		Number of investment units held
Executive Director	Kaname Masuda	<p>Apr. 1990 Oct. 1998 Nov. 2000 Mar. 2001 Aug. 2002 May 2003 Sep. 2006 Feb. 2008 Jun. 2008 Sep. 2010 Feb. 2012 Jun. 2014 Oct. 2014 Nov. 2015 Mar. 2016</p>	<p>Registered as a lawyer (Daiichi Tokyo Bar Association) Joined Nishimura & Asahi (formerly, Nishimura & Partners) Joined Merrill Lynch Japan Securities Co., Ltd. General Counsel Executive Director (Concurrent position) Enrolled in Columbia Law School, Columbia University, U.S. Graduated from Columbia Law School, Columbia University, U.S. (LL.M.) Registered as a lawyer, State of New York Established Masuda & Partners Law Office as Managing Partner (current) Joined Jibun Bank Corporation as Outside Corporate Auditor (current) Joined Japan Hotel and Resort, Inc. as Executive Director Joined Commons Asset Management, Inc. as Outside Corporate Auditor (current) Joined Kando Co., Ltd. as Outside Director (current) Joined CROSSWARP Inc. as Outside Corporate Auditor (current) Joined Japan Hotel REIT Investment Corporation as Executive Director (current) Joined GMO Internet, Inc. as Director (Independent Director) / Audit and Supervisory Committee Member (current)</p>	0
Supervisory Director	Hiroshi Matsuzawa	<p>Apr. 1966 May 1988 Dec. 1989 May 1991 Jan. 1993 Jun. 1995 Jul. 1999 Sep. 2001 May 2004 Apr. 2012</p>	<p>Joined Sumitomo Mitsui Trust Bank, Limited (formerly, The Mitsui Trust and Banking Co., Ltd.) Branch Manager, Yokosuka Branch Branch Manager, Umeda Branch General Manager, Investment Advisory Department General Manager, Pension Fund Management Department Joined JDC Corporation and served as Managing Director Joined Sumitomo Mitsui Trust Asset Management Co., Ltd. (formerly, Chuo Mitsui Asset Management Co., Ltd.) as Managing Director Representative Director and President Joined Premier Investment Corporation as Executive Officer Joined Japan Hotel REIT Investment Corporation as Supervisory Director (current)</p>	0

Title	Name	Major career		Number of investment units held
Supervisory Director	Tetsuya Mishiku	Apr. 1993 Dec. 2000 Sep. 2002 Nov. 2003 Nov. 2005 Dec. 2005 Mar. 2007 Aug. 2010 Sep. 2010 Aug. 2011 Nov. 2016	Registered as a lawyer (Daiichi Tokyo Bar Association) Joined Iinuma Law Office Partner Part-time lecturer at Chuo University Changed registration to Shizuoka Bar Association Joined Aoba Law Office as Partner Joined Japan Hotel REIT Investment Corporation (formerly, Nippon Hotel Fund Investment Corporation) as Supervisory Director (current) Joined A-too Co., Ltd. as Part-time Corporate Auditor Joined Healing Entertainment Co., Ltd. as Part-time Corporate Auditor (current) Joined Mishiku & Nagamachi Law Office (formerly, Aoi Tower Law Office) as Representative (current) Joined Koike Roof and Siding KK as Outside Corporate Auditor (current) Outside Director of A-too Co., Ltd. (current) Outside Corporate Auditor of Kabushiki kaisha Tem Realtor (current)	0
Supervisory Director	Hiroto Kashii	Apr. 1971 Apr. 1997 Apr. 1998 Apr. 2002 Jun. 2003 Jun. 2009 Jun. 2012 Mar. 2013 Jun. 2013 Nov. 2015	Joined Development Bank of Japan, Inc. (formerly, Japan Development Bank) responsible for lending and investment General Manager, Retail Department at Head Office Joined K.K. Hotel Odakyu as Managing Director and General Manager of Accounting Department Joined K.K. Hotel Odakyu (formerly, K.K. Odakyu Hotels and Resorts which merged with K.K. Hotel Odakyu later) as Managing Director responsible for marketing Joined New Kansai International Airport Co., Ltd. (formerly, Kansai International Airport Co., Ltd.) as Executive Officer responsible for terminal sales promotion, subsidiaries management and hotel businesses Joined Kyowa Co., Ltd. as Representative Director Joined Japan Carbon Finance, Ltd. as Managing Director Representative Director Joined DBJ Asset Management Co., Ltd. as Corporate Auditor Joined Japan Hotel REIT Investment Corporation as Supervisory Director (current)	0

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

(2) Directors of the Asset Management Company

The following are the directors of the Asset Management Company as of the date of this report.

Title	Name	Major career		Number of shares held
Representative Director and President	Hisashi Furukawa	Apr. 1982 Jan. 1984 Jul. 1990 Apr. 2000 May 2004 Aug. 2013 Jun. 2014	Joined Sumitomo Realty & Development Co., Ltd. Building Business Department Seconded to its subsidiary in the U.S. Joined Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (formerly, Morgan Stanley Japan Limited) and served as Executive Director of the Real Estate Group in the Investment Banking Division Joined UBS Securities Co., Ltd. (formerly, Warburg Dillon Read (Japan) Limited) and served as Co-head and Executive Director of the Real Estate Sector Team in the Corporate Finance Division Joined Rockpoint Group, L.L.C. as Representative of Japan Office and Principal Established River Flows, Inc. as Representative Director Joined Japan Hotel REIT Advisors Co., Ltd. as Representative Director and President (current)	0
Director	Shuya Matsubara	Apr. 1986 Dec. 1998 Mar. 2001 Jun. 2009 Apr. 2012 May 2013 Apr. 2014 Mar. 2015	Joined The Hyakujushi Bank, Ltd. and served as Deputy Manager of the International Affairs Department Joined Deloitte Tohmatsu Consulting LLC as Manager of the Financial Division Joined Goldman Sachs Realty Japan, Ltd. and served as Director and Joint Group Leader of the Strategic Management Group in the Acquisition Division Joined Japan Hotel & Resort K.K. as Director Joined Japan Hotel REIT Advisors Co., Ltd. as Director (current) and Senior General Manager of the Finance & Planning Department Senior General Manager of the Finance & Accounting Division Senior General Manager of the Finance & Accounting Division and General Manager of the Finance Department Senior General Manager of the Finance & Planning Division and General Manager of the Finance & Planning Department (current)	0
Director	Toshitaka Ishido	Apr. 1999 Jul. 2002 Aug. 2003 Sep. 2006 Apr. 2007 Apr. 2012 Mar. 2013	Joined Value Management Institute, Inc. Joined Hospitality Advisory Group of KPMG Business Advisory LLC (Tokyo Branch) Manager of the Hospitality Group of KPMG FAS Co., Ltd. (Tokyo Branch of KPMG Business Advisory LLC was merged with KPMG FAS Co., Ltd.) Joined Japan Hotel & Resort K.K. and served as Senior Manager Director and Senior General Manager of Asset Management Department Joined Japan Hotel REIT Advisors Co., Ltd. as Senior General Manager of Investment Division (current) and General Manager of Acquisitions Department Director (current)	0

Title	Name	Major career		Number of shares held
Director	Noboru Itabashi	<p>Apr. 1995 Jan. 1998</p> <p>Aug. 1999 Sep. 2006</p> <p>Apr. 2007 Apr. 2012</p> <p>Mar. 2015</p>	<p>Joined Asahi Sangyo Kaisha, Ltd., Fabricated Metals Department</p> <p>Joined British American Tobacco Japan, Ltd. (formerly, Rothmans Japan), Finance Department</p> <p>Joined Sun Microsystems K.K., Field Finance Division</p> <p>Joined Japan Hotel & Resort K.K. and served as Senior Manager of the Finance and Accounting Division</p> <p>Senior General Manager of Operations Division</p> <p>Joined Japan Hotel REIT Advisors Co., Ltd. as General Manager of the Accounting Department</p> <p>Director, Senior General Manager of Operations Division & General Manager of Accounting and Reporting Department (current)</p>	0
Director	Hiroyuki Aoki	<p>Sep. 1994</p> <p>Jun. 1997 Nov. 2001 Jul. 2002</p> <p>Aug. 2005</p> <p>Jan. 2008 Nov. 2011</p> <p>Dec. 2011</p> <p>Apr. 2012</p>	<p>Joined Deloitte & Touche LLP, New York Office, Accounting & Audit Department</p> <p>Joined Ingersoll-Rand Headquarters, Internal Audit Department</p> <p>Joined KPMG Tax Corporation (formerly, Arthur Andersen LLP)</p> <p>Joined Ripplewood Holdings LLC, Hotel Investment Group as Vice President</p> <p>Joined Creative Renovation Group Japan, Inc. as Vice President of Finance</p> <p>Joined Tokyo Venture Gear Co. Ltd. as Director</p> <p>Appointed Representative Director of SC Capital Partners Japan Co. Ltd. (formerly, RE Capital Services Japan Co., Ltd.) (current) (Note)</p> <p>Appointed Statutory Auditor (part-time) of Japan Hotel & Resort K.K.</p> <p>Appointed Director (part-time) of Japan Hotel REIT Advisors Co., Ltd. (current)</p>	0
Director (Chairman)	Suchad Chiaranussati	<p>Oct. 1987</p> <p>Oct. 1991</p> <p>Nov. 1992</p> <p>Nov. 1998 Apr. 1999</p> <p>Nov. 2004</p> <p>Oct. 2007 May 2010 Aug. 2010</p> <p>Aug. 2015 Oct. 2015</p>	<p>Joined the Central Bank of Thailand, Foreign Exchange Reserve Management Division</p> <p>Joined Temasek Holdings (in Singapore) and served as Manager of Direct Investment</p> <p>Joined JP Morgan (in Singapore) and served as Vice President in the Real Estate Investment and Investment Banking Division</p> <p>Appointed Advisor at the Central Bank of Thailand</p> <p>Joined Westbrook in Singapore as Principal and Managing Director responsible for Asian investment activities</p> <p>Established Real Estate Capital Asia Partners, L.P.</p> <p>Appointed Director of SC Management Limited (current) (Note)</p> <p>Appointed Director of Rockrise Sdn Bhd as Director (current) (Note)</p> <p>Appointed Director (part-time) of Japan Hotel REIT Advisors Co., Ltd. (current)</p> <p>Appointed Director of SC J-Holdings Pte. Ltd. (current) (Note)</p> <p>Appointed Chairman (part-time) of Japan Hotel REIT Advisors Co., Ltd. (current)</p>	0

Title	Name	Major career		Number of shares held
Director	Ian George Winston Lien	May 1989 Jan. 2003 Oct. 2007 Aug. 2010	Joined Starwood Hotels & Resort Worldwide, Inc. (formerly, Westin Hotel Company) Participated in the establishment of Octagon Capital Partners Pte. Ltd. (Co-founder) Joined SC Management Ltd. as Managing Director (Note) Appointed Director (part-time) of Japan Hotel REIT Advisors Co., Ltd. (current)	0
Director	Chua Keng Kim	Mar. 1988 Apr. 1995 Jun. 2007 Nov. 2007 Sep. 2008 Aug. 2010 Aug. 2013	Joined Government of Singapore Investment Corporation (GIC) Joined Rodamco PACIFIC B.V. / Rodamco Asia N.V. as Managing Director and Head of Investment Management Appointed independent Non-Executive Director and member of the Audit Committee of Travelsky Technology Ltd Participated in the establishment of Stonegate China Properties Limited (Founder and CEO) Joined SC Management Ltd. as Managing Director (Note) Appointed Director (part-time) of Japan Hotel REIT Advisors Co., Ltd. (current) Appointed Director of SC J-Holdings Pte. Ltd. (formerly, SC Core Manager Pte. Ltd.) (current) (Note)	0
Corporate Auditor	Shigeo Sekita	Apr. 1974 Oct. 1979 Mar. 1998 Apr. 2000 Jan. 2002 Aug. 2005 Sep. 2010 Dec. 2010 Apr. 2012 Oct. 2013	Joined Daiwa Securities Co. Ltd. Joined Mizuho Securities Co., Ltd. (formerly, Wako Securities Co., Ltd.) Seconded to Wako International (Europe) Ltd. as President Manager of the IPO Department at Mizuho Securities Co., Ltd. (formerly, Shinko Securities Co., Ltd. The corporation's name changed due to merger) Joined WestLB Securities Inc. as Director of the Investment Banking Group Joined Credit Suisse Securities (Japan) Ltd. as Director of the Structured Investment Department Joined Japan Hotel REIT Advisors Co., Ltd. as Advisor Representative Director Corporate Auditor (part-time) (current) Joined Alpha Japan Asset Advisors Ltd. as Compliance Manager (current)	0

(Note) SC Capital Partners Japan Co. Ltd., SC Management Limited, Rockrise Sdn Bhd and SC J-Holdings Pte. Ltd. are corporations belonging to SC CAPITAL PARTNERS Group (formerly, RECAP Group).

5. Reference information

(1) Investment status

The following outlines the investment status of JHR as of the end of the fiscal period under review.

The following tables are investment status of STAs as of the end of the fiscal period under review.								
Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2015		As of December 31, 2016		
				Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Tokyo	ibis Tokyo Shinjuku	7,487	3.1	7,671	2.4	
			CANDEO HOTELS UENO-KOEN	—	—	6,751	2.1	
			the b ikebukuro	6,591	2.7	6,578	2.1	
			the b akasaka-mitsuke	6,295	2.6	6,286	2.0	
			Hotel Sunroute Shinbashi	4,873	2.0	4,854	1.5	
			Comfort Hotel Tokyo Higashi Nihombashi	3,655	1.5	3,625	1.1	
			the b hachioji	2,670	1.1	2,673	0.8	
			the b ochanomizu	2,350	1.0	2,344	0.7	
			Smile Hotel Nihombashi Mitsukoshimae	2,056	0.9	2,047	0.6	
			R&B Hotel Ueno Hirokoji	1,761	0.7	1,764	0.6	
			R&B Hotel Higashi Nihonbashi	1,528	0.6	1,512	0.5	
			Hotel Vista Kamata Tokyo	1,473	0.6	1,467	0.5	
			the b suidobashi	1,204	0.5	1,205	0.4	
			Dormy Inn EXPRESS Asakusa	963	0.4	951	0.3	
			Chisun Inn Kamata	802	0.3	797	0.3	
		Osaka	Namba Oriental Hotel	14,689	6.1	14,656	4.6	
			Holiday Inn Osaka Namba (Note 4)	—	—	27,163	8.5	
		Hokkaido	ibis Styles Sapporo	6,788	2.8	6,724	2.1	
			Mercure Sapporo	6,010	2.5	5,945	1.9	
		Fukuoka	the b hakata	2,323	1.0	2,330	0.7	
			Hakata Nakasu Washington Hotel Plaza	2,075	0.9	2,054	0.6	
			Toyoko Inn Hakata-guchi Ekimae	1,498	0.6	1,477	0.5	
			HOTEL ASCENT FUKUOKA	—	—	5,211	1.6	
		Kyoto	ibis Styles Kyoto Station	6,725	2.8	6,701	2.1	
		Okinawa	Mercure Okinawa Naha	2,953	1.2	2,916	0.9	
		Kumamoto	Dormy Inn Kumamoto	2,232	0.9	2,199	0.7	
		Nara	Nara Washington Hotel Plaza	1,910	0.8	1,871	0.6	
		Subtotal			90,924	37.8	129,783	40.8
		Full-service hotel	Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 5)	17,934	7.5	17,778	5.6
				Oriental Hotel Hiroshima	4,043	1.7	4,071	1.3
			Chiba	Oriental Hotel tokyo bay	18,512	7.7	18,267	5.7
				Hotel Francs	3,165	1.3	3,145	1.0
			Aichi	Hilton Nagoya	—	—	15,530	4.9
	Hyogo		Kobe Meriken Park Oriental Hotel	9,963	4.1	9,947	3.1	
	Fukuoka		Hotel Centraza Hakata	—	—	7,506	2.4	
	Kanagawa		Mercure Yokosuka	1,659	0.7	1,643	0.5	
	Subtotal			55,277	23.0	77,891	24.5	
	Resort hotel	Okinawa	Hotel Nikko Alivila	18,325	7.6	18,267	5.7	
			Okinawa Marriott Resort & Spa	15,025	6.3	14,861	4.7	
			The Beach Tower Okinawa	6,882	2.9	6,831	2.1	
		Chiba	Hilton Tokyo Bay	26,109	10.9	26,180	8.2	
		Osaka	Hotel Keihan Universal City	6,019	2.5	5,982	1.9	
		Kanagawa	Hakone Setsugetsuka	3,788	1.6	3,747	1.2	
		Subtotal			76,150	31.7	75,871	23.9
	Real estate in trust – Total			222,352	92.5	283,546	89.2	
Deposits and other assets (Note 6)			18,003	7.5	34,332	10.8		
Total assets			240,356	100.0	317,878	100.0		

	Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)
Total liabilities	110,442	45.9	135,889	42.7
Total net assets	129,914	54.1	181,989	57.3

(Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.

(Note 2) For real estate in trust, “Total amount held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).

(Note 3) “Ratio to total assets” shows the ratio of total amount of each asset held to total assets, rounded off to one decimal place.

(Note 4) HOTEL VISTA GRANDE OSAKA changed its name to Holiday Inn Osaka Namba on November 1, 2016. In this report, the same shall apply hereinafter.

(Note 5) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.

ACTIVE-INTER CITY HIROSHIMA (Sheraton Hotel Hiroshima) changed its name to ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) on June 10, 2016. In this report, the same shall apply hereafter.

(Note 6) Includes machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold of land in trust).

(2) Assets under management

(A) Major issues of investment securities

Not applicable.

(B) Real estate properties under management

Not applicable.

(C) Other major assets under management

A. Summary of real estate properties (in trust) under management

The following summarizes the real estate properties (in trust) under management by JHR as of the end of the fiscal period under review.

Details of assets under management 1 (location, form of ownership, area, structural size, etc.)

Property No.	Name	Location	Form of ownership (Note 1)		Area		Structures and stories (Note 4)	Building completion (Note 5)	Total number of guest rooms (rooms) (Note 6)
			Land	Building	Acreage (m ²) (Note 2)	Total floor area (m ²) (Note 3)			
1	Kobe Meriken Park Oriental Hotel	Chuo-ku, Kobe-shi, Hyogo	Leasehold right (Note 7)	Compartmentalized ownership (Note 7)	22,660.09 (Note 7)	48,701.82 (Note 7)	S 14F	July 1995	319
2	Oriental Hotel Tokyo Bay	Urayasu-shi, Chiba	Ownership	Ownership	9,914.00	44,833.11	SRC/S/RC B2/12F	May 1995	503
3	Namba Oriental Hotel	Chuo-ku, Osaka-shi, Osaka	Ownership	Ownership	4,505.23	19,364.33	S/SRC B1/9F	March 1996	258
4	Hotel Nikko Alivila	Yomitan-son, Nakagami-gun, Okinawa	Ownership/Leasehold right (Note 8)	Ownership	65,850.05 (Note 8)	38,024.98 (Note 8)	SRC B1/10F	April 1994	396
5	Oriental Hotel Hiroshima	Naka-ku, Hiroshima-shi, Hiroshima	Ownership	Ownership	1,792.84	13,752.22	SRC B2/23F	September 1993 Extended in September 2006	227
6	ibis Tokyo Shinjuku	Nishi-Shinjuku, Shinjuku-ku, Tokyo	Ownership	Ownership	937.67	7,398.19	SRC/RC/S B1/11F	September 1980	206
8	The Beach Tower Okinawa	Chatan-cho, Nakagami-gun, Okinawa	Ownership	Ownership	10,242.00	20,140.01	SRC 24F	March 2004 Extended in June 2005 Extended in May 2006	280
9	Hakone Setsugetsuka	Hakone-machi, Ashigarashimo-gun, Kanagawa	Ownership	Ownership	10,478.89	10,655.03	RC B1/5F	October 2006	158
10	Dormy Inn Kumamoto	Chuo-ku, Kumamoto-shi, Kumamoto	Ownership	Ownership	1,295.85	7,701.19	SRC 13F	January 2008	291
12	the b suidobashi	Hongo, Bunkyo-ku, Tokyo	Ownership	Ownership	723.86	3,097.25	SRC/RC B1/8F	August 1986 Extended in September 1989	99
13	Dormy Inn EXPRESS Asakusa	Hanakawado, Taito-ku, Tokyo	Ownership	Ownership	287.66	2,006.51	SRC/RC 10F	March 1997	77
14	Hakata Nakasu Washington Hotel Plaza	Hakata-ku, Fukuoka-shi, Fukuoka	Ownership	Ownership	1,128.46	5,692.24	S 12F	March 1995	247
15	Nara Washington Hotel Plaza	Nara-shi, Nara	Ownership	Ownership	2,322.28	5,385.82	S 7F	March 2000	204
16	R&B Hotel Ueno Hirokoji	Ueno, Taito-ku, Tokyo	Ownership	Ownership	446.29	3,060.21	S 13F	April 2002	187
17	R&B Hotel Higashi Nihonbashi	Higashi-Nihonbashi, Chuo-ku, Tokyo	Ownership/Leasehold right	Ownership	507.83 (Note 9)	3,715.26	S 10F	March 1998	202
18	Comfort Hotel Tokyo Higashi Nihombashi	Nihonbashi-bakurocho, Chuo-ku, Tokyo	Ownership	Ownership	823.67	5,765.26	S 11F	January 2008	259

Property No.	Name	Location	Form of ownership (Note 1)		Area		Structures and stories (Note 4)	Building completion (Note 5)	Total number of guest rooms (rooms) (Note 6)
			Land	Building	Acreage (m ²) (Note 2)	Total floor area (m ²) (Note 3)			
22	Smile Hotel Nihombashi Mitsukoshimae	Nihonbashi-Honcho, Chuo-ku, Tokyo	Ownership	Ownership	512.58	3,097.85	SRC/RC B1/10F	March 1997	164
24	Toyoko Inn Hakata-guchi Ekimae	Hakata-ku, Fukuoka-shi, Fukuoka	Ownership	Ownership	Main building: 565.98 Annex: 152.37	Main building: 3,566.46 Annex: 856.68	Main building: SRC 14F Annex: SRC 9F	Main building and annex both September 2001	257
25	Hotel Vista Kamata Tokyo	Nishikamata, Ota-ku, Tokyo	Ownership	Ownership	743.46	3,831.80	SRC/S B1/9F	January 1992	105
26	Chisun Inn Kamata	Kamata, Ota-ku, Tokyo	Ownership	Ownership	240.35	1,499.87	SRC 12F	April 2003	70
29	Hotel Keihan Universal City	Konohana-ku, Osaka-shi, Osaka	Ownership/ Leasehold right (Note 10)	Compartmentalized ownership (Note 10)	3,350.14 (Note 10)	17,252.71 (Note 10)	S/SRC 21F	June 2001	330
30	Hotel Sunroute Shinbashi	Shinbashi, Minato-ku, Tokyo	Ownership	Ownership	761.01	5,476.39	S/SRC 16F	March 2008	220
31	Hilton Tokyo Bay	Urayasu-shi, Chiba	Ownership (Note 11)	Ownership (Note 11)	36,121.00 (Note 11)	72,146.60 (Note 11)	SRC B1/11F	June 1988	823
32	ibis Styles Kyoto Station	Minami-ku, Kyoto-shi, Kyoto	Ownership	Ownership	1,107.77	5,003.99	RC 10F	March 2009	215
33	ibis Styles Sapporo	Chuo-ku, Sapporo-shi, Hokkaido	Ownership	Ownership	2,515.22	14,992.49	RC B1/16F	July 2010	278
34	Mercure Sapporo	Chuo-ku, Sapporo-shi, Hokkaido	Ownership	Ownership	2,016.27	16,145.79	S B1/15F	April 2009	285
35	Mercure Okinawa Naha	Naha-shi, Okinawa	Ownership/ Leasehold right	Ownership	2,860.69 (Note 12)	10,884.25	RC 14F	August 2009	260
36	the b akasaka-mitsuke	Akasaka, Minato-ku, Tokyo	Ownership	Ownership	625.46	2,867.04	S 8F	November 2002	122
37	the b ikebukuro	Higashi-ikebukuro, Toshima-ku, Tokyo	Ownership	Ownership	718.71	5,650.01	SRC/S B2/10F	June 1982	175
38	the b ochanomizu	Kanda-awajicho, Chiyoda-ku, Tokyo	Ownership	Ownership	357.47	1,742.23	SRC 9F	August 1999	72
39	the b hachioji	Hachioji-shi, Tokyo	Ownership	Ownership	1,227.29	7,847.65	SRC B2/12F	August 1986	196
40	the b hakata	Hakata-ku, Fukuoka-shi, Fukuoka	Ownership	Ownership	719.46	3,986.09	SRC 8F	September 1997	175
41	Hotel Francs	Mihama-ku, Chiba-shi, Chiba	Ownership	Ownership	4,828.00	19,213.39	SRC B1/13F	August 1991	222
42	Mercure Yokosuka	Yokosuka-shi, Kanagawa	Right of site (co-ownership) (Note 13)	Compartmentalized ownership (Note 13)	1,887.86 (Note 13)	16,881.82 (Note 13)	SRC/S B3/21F	November 1993	160
43	Okinawa Marriott Resort & Spa	Nago-shi, Okinawa	Ownership	Ownership	52,988.00	36,430.15	SRC 14F	February 2005 Extended in December 2006	361
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Higashi-ku, Hiroshima-shi, Hiroshima	Right of site (co-ownership) (Note 14)	Compartmentalized ownership (Note 14)	6,379.02 (Note 14)	39,540.75 (Note 14)	S/RC/SRC B1/21F	August 2010	238 (Note 15)
45	CANDEO HOTELS UENO-KOEN	Negishi, Taito-ku, Tokyo	Ownership	Ownership	1,559.03	7,030.10	S 12F	December 2009	268
46	Hotel Centraza Hakata	Hakata-ku, Fukuoka-shi, Fukuoka	Fixed-term leasehold right (Note 16)	Ownership	2,163.42	18,105.42	SRC B3/12F	July 1985	194
47	Holiday Inn Osaka Namba	Chuo-ku, Osaka-shi, Osaka	Ownership	Ownership	2,428.47	11,501.10	S 12F	August 2008	314
48	HOTEL ASCENT FUKUOKA	Chuo-ku, Fukuoka-shi, Fukuoka	Ownership/ Fixed-term leasehold right (Note 17)	Ownership	1,482.13	8,600.22	S/RC/SRC B2/13F	April 1999	263

49	Hilton Nagoya	Naka-ku, Nagoya-shi, Aichi	Ownership and superficies (Note 18)	Compartmentalized ownership (Note 18)	6,723.59 (Note 18)	46,368.99 (Note 18)	S/RC/SRC B3/29F	February 1989	460
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- (Note 1) “Form of ownership” is the type of right held by the owner of the real estate that is the asset held (the trustee in the case of a real estate in trust).
- (Note 2) “Acreage” is the area of the entire site based on the registration or registration record. The registration or registration record entry may not coincide with the present state of the land.
- (Note 3) “Total floor area” is the area of the building based on the registration or registration record. The area of the accessory building, if any, is included unless otherwise stated. The registration or registration record entry may not coincide with the present state of the building.
- (Note 4) Under “Structures and stories,” “S” means steel-framed building, “RC” means reinforced concrete building and “SRC” means steel reinforced concrete building. The structure of the main building is shown, but there may be cases where there is a parking lot or storage space as an accessory to the building in a separate building.
- (Note 5) “Building completion” is based on the registration or registration record.
- (Note 6) “Total number of guest rooms” is the respective number of guest rooms available for sale (excluding rooms occupied by the hotel for a long term) at the end of the fiscal period under review.
- (Note 7) The land of Kobe Meriken Park Oriental Hotel is land leased by JHR from the City of Kobe and land with permission for use from the City of Kobe under the City of Kobe’s ordinance for harbor facilities, etc. The acreage above is based on the number on the construction confirmation application form. The acreage for which permission for use has been obtained is 1,328.44 square meters (part of the building for which the permission for use was obtained was returned on August 31, 2014, resulting in total floor area changing from 2,804.18 square meters to 1,328.44 square meters), of which 1,188.32 square meters is included in the acreage above. In addition, the building of Kobe Meriken Park Oriental Hotel is a building under compartmentalized ownership by two compartmentalized owners (JHR and the City of Kobe). The figure above is the total floor area of the entire building under compartmentalized ownership (including an accessory building of 764.83 square meters), where the portion owned exclusively by JHR (excluding an accessory building of 764.83 square meters) is 31,899.07 square meters, the portion owned exclusively by the City of Kobe is 13,960.11 square meters, and the portion that is the common area of JHR and the City of Kobe is 2,077.81 square meters (JHR has 72.18% interest and the City of Kobe has 27.82% interest of the common area). Furthermore, regarding the portion of the building owned exclusively by the City of Kobe, the building for which JHR has obtained the permission for use is 694.00 square meters and is included in the total floor area above of 48,701.82 square meters.
- (Note 8) The land of Hotel Nikko Alivila is land owned by JHR or land leased or subleased by JHR from Kabushiki Kaisha Okinawa Umi No Sono (hereinafter referred to as the “Umi No Sono”). The acreage above is the sum total of the area on the certified copy of the real estate registry of each land. Furthermore, the land leased or land subleased includes those where only a portion of a parcel of land is leased or subleased and, thus, the acreage above includes some area that is not leased or subleased by JHR from Umi No Sono. In addition, subdivision of part of the subleased land resulted in the acreage above changing from 67,038.05 square meters to 65,850.05 square meters on June 12, 2012. The sum total of the acreage of the land owned by JHR and the land leased or subleased calculated based on the certified copy of the real estate registry, lease contract with Umi No Sono, etc. is 57,406.26 square meters. The total floor area above includes an accessory building of 120.10 square meters and excludes a building leased from Umi No Sono of 493.50 square meters.
- (Note 9) Of the acreage of R&B Hotel Higashi Nihonbashi, the area of the land leased is 77.38 square meters.
- (Note 10) The land of Hotel Keihan Universal City comprises land under co-ownership with other right holders (8,785.43 square meters) and land leased under quasi-co-ownership with other right holders from the City of Osaka (8,788.67 square meters). The acreage above is the sum total of JHR’s co-ownership interest of the land under co-ownership of 1,674.76 square meters (approximately 19.06% of co-ownership interest) and JHR’s quasi-co-ownership interest in the land leasehold right of the land leased from the City of Osaka of 1,675.38 square meters (approximately 19.06% of quasi-co-ownership interest). In addition, the building of Hotel Keihan Universal City is a building under compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building (86,888.64 square meters). The portion owned exclusively by JHR (including the common area by bylaws) is 15,749.32 square meters, and JHR’s co-ownership interest of the common area (15,648.98 square meters) is 3,466.56 square meters (approximately 22.15% of co-ownership interest). “Total floor area” in the table above is the total floor area based on the completion drawing of new construction of Hotel Keihan.
- (Note 11) The land of Hilton Tokyo Bay is land under co-ownership with other right holders. The acreage is the total area of the land under co-ownership. Of the acreage, JHR’s co-ownership interest is 32,508.90 square meters (9/10 of co-ownership interest). In addition, the building of Hilton Tokyo Bay is a building under co-ownership with other right holders. The total floor area is the total area of the building under co-ownership (including an accessory building of 37.38 square meters). Of the total floor area, JHR’s co-ownership interest is 64,931.94 square meters (9/10 of co-ownership interest).
- (Note 12) The acreage of Mercure Okinawa Naha includes land leased of 125.67 square meters.
- (Note 13) The land of Mercure Yokosuka comprises the entire joint ownership of right of site. The acreage is the area equivalent to JHR’s co-ownership interest of the right to use the site (181,372/1,000,000 or approximately 18.14%) of the entire area of the subject land (10,408.79 square meters), which is 1,887.86 square meters. In addition, the building is a building under compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, residential complex, office spaces and parking lots, as a single building (67,019.04 square meters). Total floor area is the area of the portion owned exclusively by the hotel on the certified copy of the real estate registry.
- (Note 14) The land of ACTIVE-INTER CITY HIROSHIMA comprises the entire joint ownership of right of site. The acreage is the area equivalent to JHR’s co-ownership interest of the right to use the site (9,862,454/10,000,000 or approximately 98.62%) of the entire area of the subject land (6,468.28 square meters), which is 6,379.02 square meters. In addition, the building is a building under compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, retail zone, parking lots and bicycle parking lots, etc., as a single building (6,379.02 square meters). Total floor area is the area of the exclusive area for the hotel, office spaces, stores and parking lots on the certified copy of the real estate registry.
- (Note 15) The total number of guest rooms of ACTIVE-INTER CITY HIROSHIMA is the total number of guest rooms of the main facility Sheraton Grand Hiroshima Hotel.
- (Note 16) Remaining term of the fixed-term leasehold of land of Hotel Centraza Hakata is until March 30, 2057.

- (Note 17) Of the acreage of HOTEL ASCENT FUKUOKA, the area of the land leased is 113.52 square meters, and its remaining term of the fixed-term leasehold is until July 2, 2065.
- (Note 18) Land of Hilton Nagoya is comprised of the owned land and land with superficies, and Acreage indicates total of owned land (918.39 square meters) and land with superficies (5,805.20 square meters). Building of Hilton Nagoya is a compartmentalized ownership of Ammnat Square (Total floor space: 91,948.34 square meters), which consists of hotel building (including retail space), office building and car parking space, etc. Total floor area is a total of exclusive area of hotel and retail space (44,552.79 square meters), exclusive area of office in 9th floor (1,075.90 square meters) multiplied by JHR's share of co-ownership interest ratio (74,030/107,590; approximately 68.8%) (740.30 square meters) and exclusive area of office in 10th floor (1,075.90 square meters).
- (Note 19) The omitted property numbers are the property numbers of assets that have been transferred before the end of the previous fiscal year.

Details of assets under management 2 (acquisition price, etc.)

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
1	Kobe Meriken Park Oriental Hotel	Upper-middle	10,900	10,137	14,400	J	3.8	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	18,460	34,100	J	6.9	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,765	32,000	J	5.2	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	18,545	29,200	J	6.6	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,123	4,250	J	1.4	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	7,778	9,290	J	2.5	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,837	9,420	J	2.7	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,756	5,020	J	1.4	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,199	2,950	M	0.8	Unsecured
12	the b suidobashi	Mid-price	1,120	1,231	2,040	J	0.4	Unsecured
13	Dormy Inn EXPRESS Asakusa	Economy	999	951	1,300	M	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,054	4,350	J	0.7	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,876	2,430	J	0.7	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,764	1,920	M	0.6	Unsecured
17	R&B Hotel Higashi Nihonbashi	Economy	1,534	1,512	2,050	M	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,625	5,320	M	1.3	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,047	3,060	M	0.7	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,477	2,680	T	0.6	Unsecured
25	Hotel Vista Kamata Tokyo	Economy	1,512	1,468	1,990	T	0.5	Unsecured
26	Chisun Inn Kamata	Economy	823	800	1,410	T	0.3	Unsecured
29	Hotel Keihan Universal City	Mid-price	6,000	5,983	14,600	R	2.1	Unsecured
30	Hotel Sunroute Shinbashi	Mid-price	4,800	4,854	8,730	D	1.7	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,180	36,000	D	9.1	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,731	10,900	D	2.3	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,754	10,200	J	2.4	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,964	10,300	J	2.1	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,933	7,620	J	1.0	Unsecured
36	the b akasaka-mitsuke	Mid-price	6,250	6,305	6,740	J	2.2	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,586	7,590	J	2.3	Unsecured
38	the b ochanomizu	Mid-price	2,320	2,349	2,590	J	0.8	Unsecured
39	the b hachioji	Mid-price	2,610	2,687	3,070	J	0.9	Unsecured
40	the b hakata	Mid-price	2,300	2,354	3,960	J	0.8	Unsecured
41	Hotel Francs	Mid-price	3,105	3,145	4,090	D	1.1	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,658	2,040	D	0.6	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	14,971	17,200	J	5.2	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,795	18,700	D	6.0	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,761	7,630	D	2.3	Unsecured
46	Hotel Centraza Hakata	Mid-price	7,197	7,581	7,690	D	2.5	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	27,203	28,800	J	9.4	Unsecured
48	HOTEL ASCENT FUKUOKA	Economy	4,925	5,211	5,340	D	1.7	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,534	15,800	D	5.3	Unsecured
	Total		286,801	284,965	398,770		100.0	

- (Note 1) JHR categorizes hotels into the four grade classes “Luxury,” “Upper-middle,” “Mid-price” and “Economy” mainly from the perspective of average daily rate, etc.
- (Note 2) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted from the former JHR.
- (Note 3) “Carrying amount at end of period” is the book value at the end of the fiscal period under review, and includes not only the amounts for real estate in trust, but also machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets.
- (Note 4) “Appraisal value at end of period” is the appraisal value at the end of the fiscal period under review as the date of appraisal, in accordance with the asset valuation methods and standards provided in JHR’s Articles of Incorporation and the regulations set forth by The Investment Trusts Association, Japan.
- (Note 5) Under “Appraisal agency,” the letters indicate the appraisers for the properties as follows:
J: Japan Real Estate Institute
M: Morii Appraisal & Investment Consulting, Inc.
T: The Tanizawa Sōgō Appraisal Co., Ltd.
R: Rich Appraisal Institute Co., Ltd.
D: DAIWA REAL ESTATE APPRAISAL CO., LTD.
- (Note 6) “Investment ratio” is the ratio of acquisition price of the respective asset held at the end of the fiscal period under review to the total amount of acquisition price of all assets held at the end of the fiscal period under review, rounded off to one decimal place.
- (Note 7) “Collateral” is whether or not a pledge has been established for the beneficial interest in trust.
- (Note 8) The omitted property numbers are the property numbers of assets that have been transferred.

Details of assets under management 3 (change in portfolio tenants)

The following is the change in total number of tenants, occupancy rate, etc. of real estate properties (in trust) under management for the past five years.

	12th period March 2012	13th period December 2012	14th period December 2013	15th period December 2014	16th period December 2015	17th period December 2016
Number of tenants (Note 1)	24	37	38	57	113	128
Total leasable area (Note 2)	101,028.49 m ²	288,875.32 m ²	349,162.63 m ²	386,826.71 m ²	493,758.78 m ²	587,481.02m ²
Total leased area (Note 3)	101,028.49 m ²	288,875.32 m ²	349,162.63 m ²	386,447.08 m ²	493,138.06 m ²	587,050.94m ²
Occupancy rate (Note 4)	100.0%	100.0%	100.0%	99.9%	99.9%	99.9%

- (Note 1) Number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. from end tenants as is in principle, the total number of end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 2) In principle, leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). In this report, the same shall apply hereinafter.
- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. with rents, etc. from end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. In this report, the same shall apply hereinafter.
- (Note 4) Occupancy rate indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period or fiscal period. In this report, the same shall apply hereinafter.

Details of property assets 4 (information on major real estate)

There is no major real estate of which total annual rent accounts for 10% or more of the total annual rent of the entire portfolio. Total annual rent of the entire portfolio is the total annual rent calculated based on Note 2 of “C. Status of portfolio diversification” on page 64.

Details of assets under management 5 (NOI, etc.)

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY1000)	NOI (Note 2) (JPY1000)	NOI after depreciation (Note 3) (JPY1000)
1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	1,103,646	825,464	502,205
2	Oriental Hotel tokyo bay	Variable/Fixed	1,879,183	1,758,566	1,315,833
3	Namba Oriental Hotel	Variable/Fixed	1,574,336	1,474,633	1,309,019
4	Hotel Nikko Alivila	Variable/Fixed	1,804,507	1,654,475	1,336,126
5	Oriental Hotel Hiroshima	Variable/Fixed	469,494	423,958	340,279
6	ibis Tokyo Shinjuku	Management contract	722,167	532,085	456,602
8	The Beach Tower Okinawa	Fixed	511,023	467,562	342,456
9	Hakone Setsugetsuka	Fixed	294,946	270,378	187,135
10	Dormy Inn Kumamoto	Fixed	194,460	153,486	113,627
12	the b suidobashi	Variable/Fixed	121,929	110,542	86,732
13	Dormy Inn EXPRESS Asakusa	Fixed	63,995	55,275	42,947
14	Hakata Nakasu Washington Hotel Plaza (Note 4)	Fixed	240,000	225,000	199,000
15	Nara Washington Hotel Plaza (Note 4)	Fixed	151,000	134,000	93,000
16	R&B Hotel Ueno Hirokoji	Fixed	98,342	83,238	70,071
17	R&B Hotel Higashi Nihonbashi	Fixed	122,207	105,397	86,505
18	Comfort Hotel Tokyo Higashi Nihombashi	Fixed	270,114	240,514	204,679
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 5)	152,951	137,312	118,315
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	141,039	128,052	106,661
25	Hotel Vista Kamata Tokyo	Variable/Fixed (Note 5)	115,215	100,402	77,465
26	Chisun Inn Kamata	Variable	79,090	71,501	59,848
29	Hotel Keihan Universal City	Variable/Fixed (Note 5)	914,058	835,099	750,721
30	Hotel Sunroute Shinbashi	Variable/Fixed (Note 5)	403,274	346,792	325,667
31	Hilton Tokyo Bay	Variable/Fixed (Note 5)	1,959,866	1,660,728	1,493,243
32	ibis Styles Kyoto Station	Management contract	587,035	502,140	468,122
33	ibis Styles Sapporo	Management contract	635,792	511,369	438,794
34	Mercure Sapporo	Management contract	745,017	491,733	413,750
35	Mercure Okinawa Naha	Management contract	475,303	384,519	334,316
36	the b akasaka-mitsuke	Variable/Fixed	285,436	270,544	249,765
37	the b ikebukuro	Variable/Fixed	369,739	350,723	321,109
38	the b ochanomizu	Variable/Fixed	115,112	107,620	98,106
39	the b hachioji	Variable/Fixed	221,312	199,214	174,515
40	the b hakata	Variable/Fixed	230,433	218,530	199,181
41	Hotel Francs	Fixed	300,000	250,823	202,684
42	Mercure Yokosuka	Variable	271,678	174,702	144,712
43	Okinawa Marriott Resort & Spa	Variable/Fixed	1,066,669	992,311	770,978
44	ACTIVE-INTER CITY HIROSHIMA	Variable/Fixed	1,378,205	979,232	797,604
45	CANDEO HOTELS UENO-KOEN (Note 6)	Fixed	309,721	305,749	269,815
46	Hotel Centraza Hakata (Note 7)	Variable/Fixed	599,351	391,388	213,623
47	Holiday Inn Osaka Namba (Note 8)	Variable/Fixed	539,345	537,478	491,814
48	HOTEL ASCENT FUKUOKA (Note 9)	Fixed	158,704	121,181	106,719
49	Hilton Nagoya (Note 10)	Variable	430,893	245,728	203,507
	Total		22,107,470	18,829,678	15,517,561

(Note 1) Under “Rent type,” “Fixed” is a property under a fixed rent structure, “Variable” is a property under a variable rent structure, “Management contract” is a property under a management contract structure, and “Variable/Fixed” is a property under a combination of fixed and variable rent structures.

(Note 2) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses

(Note 3) NOI after depreciation (net real estate operating income) = Real estate operating revenue – Real estate operating costs

(Note 4) For Hakata Nakasu Washington Hotel Plaza and Nara Washington Hotel Plaza, consent on disclosure of rent in units of thousand yen has not been obtained from the lessees and is thus rounded down to the nearest million yen.

(Note 5) For Smile Hotel Nihombashi Mitsukoshimae, Hotel Vista Kamata Tokyo, Hotel Keihan Universal City, Hotel Sunroute Shinbashi and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly rent based on revenue sharing.

(Note 6) CANDEO HOTELS UENO-KOEN was acquired on February 1, 2016.

(Note 7) Hotel Centraza Hakata was acquired on April 1, 2016.

- (Note 8) Holiday Inn Osaka Namba was acquired on August 1, 2016
- (Note 9) HOTEL ASCENT FUKUOKA was acquired on August 19, 2016.
- (Note 10) Hilton Nagoya was acquired on September 1, 2016.
- (Note 11) The property numbers of assets that were transferred before the end of the previous fiscal year are intentionally omitted.

Details of assets under management 6 (status of rent settings of major tenants)

Tenant name (Note 1)	Property name	Business type	Contract commencement date Contract expiration date	Total leased area (By hotel)		Total leased area (By tenant)		Annual rent (By hotel) (Note 3) (JPY1M)	Total annual rent (By tenant) (Note 3) (JPY1M)
					Ratio to total (Note 2)		Ratio to total (Note 2)	Fixed rent (Note 4) Variable rent	Fixed rent (Note 4) Variable rent
HMJ (Hotel Management Japan Co., Ltd.) (Note 5) (Note 6)	Kobe Meriken Park Oriental Hotel	Hotel	April 1, 2012 December 31, 2019	32,663.90 m ²	5.6%	148,638.54 m ²	25.3%	645 (Note 7)	3,221 (Note 7)
	Oriental Hotel tokyo bay		April 1, 2012 December 31, 2019	44,833.11 m ²	7.6%			631 (Note 7)	
	Namba Oriental Hotel		April 1, 2012 December 31, 2019	19,364.33 m ²	3.3%			797 (Note 7)	
	Hotel Nikko Alivila		April 1, 2012 December 31, 2019	38,024.98 m ²	6.5%			804 (Note 7)	
	Oriental Hotel Hiroshima		April 1, 2012 December 31, 2019	13,752.22 m ²	2.3%			341 (Note 7)	
Accor (AAPC Japan K.K.)	ibis Tokyo Shinjuku	Ryokan/ Hotel	July 1, 2012 June 30, 2024	5,789.26 m ²	1.0%	65,148.46 m ²	11.1%	- (Note 8)	- (Note 8)
	ibis Styles Kyoto Station		October 31, 2013 December 31, 2018	4,628.32 m ²	0.8%			- (Note 8)	
	ibis Styles Sapporo		December 27, 2014 December 27, 2019	14,076.45 m ²	2.4%			- (Note 8)	
	Mercure Sapporo		September 30, 2014 September 30, 2029	12,888.36 m ²	2.2%			- (Note 8)	
	Mercure Okinawa Naha		September 30, 2014 April 26, 2024	10,884.25 m ²	1.9%			- (Note 8)	
	Mercure Yokosuka		April 2, 2015 August 30, 2019	16,881.82 m ²	2.9%			- (Note 8)	
THE DAI-ICHI BUILDING CO., LTD.	Hilton Tokyo Bay	Real estate leasing and management	July 1, 2015 December 31, 2018	64,931.94 m ²	11.1%	64,931.94 m ²	11.1%	1,872 (Note 9)	1,872 (Note 9)
Total for major tenants				278,718.94 m ²	47.5%	278,718.94 m ²	47.5%	5,093 -	5,093 -
Total for entire portfolio				587,050.94 m ²	100.0%	587,050.94 m ²	100.0%	12,520 -	12,520 -

(Note 1) The information on major tenants, which are those accounting for at least 10% of total leased area of the entire portfolio.

(Note 2) Ratio to total is rounded off to one decimal place.

(Note 3) The ratio of annual rent by hotel or by tenant may vary depending on the amount of variable rent and income from management contracts and is thus not shown.

(Note 4) Fixed rent is the amount arrived at when the monthly fixed rent income based on lease contracts valid as of December 31, 2016 between JHR and the major tenant (rent of the building itself only, excluding common area maintenance charges and signage and parking usage fees; not factoring in any change in rent during the fiscal period) is multiplied by 12, excluding variable rents and income from management contracts.

(Note 5) HMJ falls under the category of interested party, etc. under the Investment Trusts Act and sponsor-related party as stipulated in the Asset Management Company's company rule for transactions with sponsor-related parties.

(Note 6) HMJ has acquired all shares of Lagoon resort Nago Co., Ltd., which is the lessee and hotel operator of Okinawa Marriott Resort & Spa, K.K. A.I.C Hiroshima Management, which is the lessee and hotel operator of Sheraton Grand Hiroshima Hotel (the main facility of ACTIVE-INTER CITY HIROSHIMA), Hotel Centraza Co., Ltd., which is the lessee and hotel operator of Hotel Centraza Hakata, and OW Hotel Operations KK, which is the lessee and hotel operator of Holiday Inn Osaka Namba. Accordingly, Lagoon resort Nago Co., Ltd., K.K. A.I.C Hiroshima Management, Hotel Centraza Co., Ltd. and OW Hotel Operations KK fall under the category of interested party, etc. under the Investment Trusts Act and sponsor-related party as stipulated in the Asset Management Company's company rule for transactions with sponsor-related parties. The following are the leasing terms and conditions of Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (the main facility of ACTIVE-INTER CITY HIROSHIMA), Hotel Centraza Hakata and Holiday Inn Osaka Namba. The leased area, ratio of leased area and total annual fixed rent of HMJ and its wholly-owned subsidiaries Lagoon resort Nago Co., Ltd., K.K. A.I.C Hiroshima Management, Hotel Centraza Co., Ltd. and OW Hotel Operations KK are 236,565.54 square meters, 40.3% and ¥5,095 million, respectively.

Tenant name	Property name	Business type	Contract commencement date Contract expiration date	Total leased area (m ²)	Ratio of total leased area	Annual fixed rent Annual variable rent (JPY1M)
Lagoon resort Nago Co., Ltd.	Okinawa Marriott Resort & Spa	Hotel	July 10, 2015 December 31, 2020	36,430.15	6.2%	550 (*)
K.K. A.I.C Hiroshima Management	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Hotel	December 18, 2015 December 31, 2026	21,890.33	3.7%	348 (*)
Hotel Centraza Co., Ltd.	Hotel Centraza Hakata	Hotel	April 1, 2016 December 31, 2019	18,105.42	3.1%	400 (*)
OW Hotel Operations KK	Holiday Inn Osaka Namba	Hotel	August 1, 2016 October 31, 2031	11,501.10	2.0%	576 (*)

(*) For details of the variable rent arrangements for Okinawa Marriott Resort & Spa, ACTIVE-INTER CITY HIROSHIMA, Hotel Centraza Hakata, and Holiday Inn Osaka Namba, please refer to "D. Overview of the hotel business; (1) Rent structures of hotels with variable rent, management contract or revenue sharing" on page 66.

(Note 7) For details of the variable rent arrangements for HMJ, please refer to "D. Overview of the hotel business; (1) Rent structures of hotels with variable rent, management contract or revenue sharing" on page 66.

(Note 8) Variable rent for Accor (AAPC Japan K.K.) means income from management contracts and variable rent. For details of the arrangements of income from management contract and variable rent, please refer to “D. Overview of the hotel business; (1) Rent structures of hotels with variable rent, management contract or revenue sharing” on page 66.

(Note 9) The variable rent for THE DAI-ICHI BUILDING CO., LTD. is not disclosed as consent on disclosure has not been obtained from the tenant and thus considered to be a case where disclosure cannot be made due to unavoidable circumstances. There is thus also no entry of the total for major tenants.

B. Income statements for individual real estate properties (in trust) under management

The following are the individual income statements for real estate properties (in trust) under management for the fiscal period under review (from January 1, 2016 to December 31, 2016). Figures are rounded down to the nearest thousand yen in principle, but are otherwise noted if circumstances do not allow for the figures to be stated in units of thousand yen. Income statement items that are not directly attributable to the property are not included. In addition, the income statement amounts shown are on an accrual basis in principle, but are otherwise noted if circumstances require the amounts to be shown on a cash basis.

Property No.	-	1	2	3	4	5
Property name	Portfolio total	Kobe Meriken Park Oriental Hotel	Oriental Hotel tokyo bay	Namba Oriental Hotel	Hotel Nikko Alivila	Oriental Hotel Hiroshima
Number of operating days	-	366	366	366	366	366
(A) Real estate operating revenue subtotal	22,107,470	1,103,646	1,879,183	1,574,336	1,804,507	469,494
Fixed rent	11,772,386	645,900	631,600	797,900	804,100	341,504
Variable rent	9,392,699	451,407	1,247,583	776,436	1,000,407	127,990
Other revenue	942,384	6,339	-	-	-	-
(B) Real estate operating costs subtotal	6,589,908	601,441	563,350	265,317	468,380	129,214
Land lease and other rent expenses	710,456	216,099	-	-	84,149	-
Property taxes	1,216,710	55,595	115,369	96,299	59,362	41,511
Outsourcing expenses	609,823	960	960	960	1,920	960
Nonlife insurance	41,944	3,505	3,274	1,420	2,418	1,137
Depreciation and amortization	3,294,081	323,259	441,104	163,790	314,059	74,830
Loss on retirement of noncurrent assets	16,662	-	1,628	1,823	4,290	8,848
Other costs	700,230	2,021	1,013	1,023	2,181	1,926
(C) Net real estate operating income = (A) – (B)	15,517,561	502,205	1,315,833	1,309,019	1,336,126	340,279
(Reference) Occupancy rate	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	128	1	1	1	1	1

Property No.	6	8	9	10	12	13
Property name	ibis Tokyo Shinjuku (Note 1)	The Beach Tower Okinawa	Hakone Setsugetsuka	Dormy Inn Kumamoto	the b suidobashi	Dormy Inn EXPRESS Asakusa
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	722,167	511,023	294,946	194,460	121,929	63,995
Fixed rent	97,572	511,008	294,340	194,460	84,999	63,395
Variable rent	445,381	-	-	-	36,929	-
Other revenue	179,214	15	606	-	-	600
(B) Real estate operating costs subtotal	265,565	168,567	107,810	80,832	35,197	21,048
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	33,465	39,022	22,985	19,368	8,055	5,985
Outsourcing expenses	90,740	-	-	-	1,200	1,200
Nonlife insurance	637	1,256	654	474	205	124
Depreciation and amortization	75,483	125,105	83,243	39,859	23,809	12,327
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	65,239	3,182	927	21,130	1,927	1,410
(C) Net real estate operating income = (A) – (B)	456,602	342,456	187,135	113,627	86,732	42,947
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	1	1	1	1	1

Property No.	14	15	16	17	18	22
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2)	Nara Washington Hotel Plaza (Note 2)	R&B Hotel Ueno Hirokoji	R&B Hotel Higashi Nihonbashi	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	240,000	151,000	98,342	122,207	270,114	152,951
Fixed rent	240,000	146,000	96,504	122,207	258,909	134,400
Variable rent	-	-	-	-	-	18,551
Other revenue	0	4,000	1,837	-	11,205	-
(B) Real estate operating costs subtotal	41,000	57,000	28,271	35,702	65,435	34,635
Land lease and other rent expenses	-	-	-	5,400	-	-
Property taxes	12,000	12,000	11,880	8,577	26,286	12,174
Outsourcing expenses	1,000	3,000	840	1,200	1,614	1,200
Nonlife insurance	0	0	177	214	455	214
Depreciation and amortization	25,000	41,000	13,166	18,892	35,835	18,996
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	1,000	1,000	2,206	1,417	1,244	2,051
(C) Net real estate operating income = (A) – (B)	199,000	93,000	70,071	86,505	204,679	118,315
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	1	2	1

Property No.	24	25	26	29	30	31
Property name	Toyoko Inn Hakata-guchi Ekimae	Hotel Vista Kamata Tokyo	Chisun Inn Kamata	Hotel Keihan Universal City	Hotel Sunroute Shinbashi	Hilton Tokyo Bay
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	141,039	115,215	79,090	914,058	403,274	1,959,866
Fixed rent	141,039	93,534	-	Undisclosed (Note 3)	282,266	Undisclosed (Note 3)
Variable rent	-	21,611	79,090	Undisclosed (Note 3)	87,805	Undisclosed (Note 3)
Other revenue	-	70	-	Undisclosed (Note 3)	33,202	Undisclosed (Note 3)
(B) Real estate operating costs subtotal	34,377	37,749	19,241	163,336	77,606	466,622
Land lease and other rent expenses	-	-	-	21,110	-	132,257
Property taxes	10,385	11,978	4,643	45,144	24,932	137,442
Outsourcing expenses	1,080	1,200	1,080	5,912	4,710	23,787
Nonlife insurance	273	244	104	1,470	355	3,629
Depreciation and amortization	21,390	22,936	11,652	84,377	21,125	167,484
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	1,246	1,389	1,761	5,321	26,483	2,020
(C) Net real estate operating income = (A) – (B)	106,661	77,465	59,848	750,721	325,667	1,493,243
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	1	4	1

Property No.	32	33	34	35	36	37
Property name	ibis Styles Kyoto Station (Note 1)	ibis Styles Sapporo (Note 1)	Mercure Sapporo (Note 1)	Mercure Okinawa Naha (Note 1)	the b akasaka-mitsuke	the b ikebukuro
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	587,035	635,792	745,017	475,303	285,436	369,739
Fixed rent	42,334	26,266	64,054	-	136,383	217,973
Variable rent	541,100	571,057	562,606	464,359	149,052	151,765
Other revenue	3,600	38,469	118,357	10,944	-	-
(B) Real estate operating costs subtotal	118,913	196,998	331,267	140,986	35,671	48,629
Land lease and other rent expenses	-	-	42	297	-	-
Property taxes	18,027	36,491	48,343	23,017	11,281	14,925
Outsourcing expenses	63,830	49,904	116,705	57,676	1,200	1,200
Nonlife insurance	438	896	1,072	686	254	451
Depreciation and amortization	34,017	72,574	77,983	50,202	20,779	29,614
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	2,599	37,130	87,120	9,106	2,155	2,438
(C) Net real estate operating income = (A) – (B)	468,122	438,794	413,750	334,316	249,765	321,109
(Reference) Occupancy rate	100.0%	99.4%	98.1%	100.0%	100.0%	100.0%
(Reference) Number of tenants	2	5	14	1	2	4

Property No.	38	39	40	41	42	43
Property name	the b ochanomizu	the b hachioji	the b hakata	Hotel Francs	Mercure Yokosuka	Okinawa Marriott Resort & Spa
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	115,112	221,312	230,433	300,000	271,678	1,066,669
Fixed rent	69,000	123,733	88,268	300,000	-	550,000
Variable rent	46,112	91,851	142,165	-	229,751	516,669
Other revenue	-	5,727	-	-	41,927	-
(B) Real estate operating costs subtotal	17,006	46,796	31,252	97,315	126,965	295,690
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	4,648	16,150	7,044	45,078	27,371	62,394
Outsourcing expenses	1,200	1,200	1,826	1,800	17,567	2,400
Nonlife insurance	134	492	259	1,035	2,317	2,584
Depreciation and amortization	9,514	24,698	19,278	48,138	29,990	221,333
Loss on retirement of noncurrent assets	-	-	70	-	-	-
Other costs	1,508	4,254	2,772	1,263	49,719	6,978
(C) Net real estate operating income = (A) – (B)	98,106	174,515	199,181	202,684	144,712	770,978
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	13	2	1	1	1

Property No.	44	45	46	47	48	49
Property name	ACTIVE-INTER CITY HIROSHIMA	CANDEO HOTELS UENO-KOEN (Note 4)	Hotel Centraza Hakata (Note 5)	Holiday Inn Osaka Namba (Note 6)	HOTEL ASCENT FUKUOKA (Note 7)	Hilton Nagoya (Note 8)
Number of operating days	366	335	275	153	135	122
(A) Real estate operating revenue subtotal	1,378,205	309,721	599,351	539,345	158,704	430,893
Fixed rent	773,187	Undisclosed (Note 3)	300,000	240,000	112,485	Undisclosed (Note 3)
Variable rent	328,400	-	294,152	299,345	-	Undisclosed (Note 3)
Other revenue	276,617	Undisclosed (Note 3)	5,199	-	46,219	Undisclosed (Note 3)
(B) Real estate operating costs subtotal	580,601	39,906	385,728	47,530	51,984	227,386
Land lease and other rent expenses	-	-	166,654	-	10,311	74,133
Property taxes	87,179	-	-	-	-	-
Outsourcing expenses	105,299	1,200	2,500	780	5,052	31,991
Nonlife insurance	3,677	481	973	573	191	2,451
Depreciation and amortization	181,628	35,934	176,575	45,663	14,276	42,221
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	202,817	2,290	39,023	513	22,153	76,587
(C) Net real estate operating income = (A) – (B)	797,604	269,815	213,623	491,814	106,719	203,507
(Reference) Occupancy rate	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	37	1	1	1	6	4

(Note 1) Variable rent includes income from management contracts. For details of the management contract, please refer to “D. Overview of the hotel business; (1) Rent structures of hotels with variable rent, management contract or revenue sharing” on page 66.

(Note 2) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and is thus rounded down to the nearest million yen.

(Note 3) Rent income, etc. is not disclosed as consent on disclosure has not been obtained from the tenant with whom a lease contract has been concluded and thus considered to be a case where disclosure cannot be made due to unavoidable circumstances.

(Note 4) CANDEO HOTELS UENO-KOEN was acquired on February 1, 2016.

(Note 5) Hotel Centraza Hakata was acquired on April 1, 2016.

(Note 6) Holiday Inn Osaka Namba was acquired on August 1, 2016.

(Note 7) HOTEL ASCENT FUKUOKA was acquired on August 19, 2016.

(Note 8) Hilton Nagoya was acquired on September 1, 2016.

(Note 9) The property numbers of assets that were transferred before the end of the previous fiscal year are intentionally omitted.

C. Status of portfolio diversification

a. Diversification by hotel type

The total annual rent, the total of acquisition price and the investment ratio by the hotel type of the assets held at the end of the fiscal period under review were as follows:

Hotel type (Note 1)	Total annual rent (Note 2) (JPY1M)	Acquisition price (Note 3) (JPY1M)	Investment ratio (Note 4) (%)
Limited-service hotel	9,709	129,798	45.3
Full-service hotel	6,765	79,422	27.7
Resort hotel	6,504	77,580	27.1
Total	22,980	286,801	100.0

b. Diversification by geographical area

The total annual rent, the total of acquisition price and the investment ratio by the geographical area of the assets held at the end of the fiscal period under review were as follows:

Geographical area (Note 5)	Total annual rent (Note 2) (JPY1M)	Acquisition price (Note 3) (JPY1M)	Investment ratio (Note 4) (%)
Hokkaido	1,225	12,797	4.5
Tokyo	3,263	50,010	17.4
Kanto (excluding Tokyo)	4,650	54,775	19.1
Chubu	928	15,250	5.3
Kansai	5,621	67,550	23.6
Chugoku	1,571	21,420	7.5
Kyushu (excluding Okinawa)	1,873	20,538	7.2
Okinawa	3,846	44,460	15.5
Total	22,980	286,801	100.0

c. Diversification by hotel grade

The total annual rent, the total of acquisition price and the investment ratio by the hotel grade of the assets held at the end of the fiscal period under review were as follows:

Hotel grade	Total annual rent (Note 2) (JPY1M)	Acquisition price (Note 3) (JPY1M)	Investment ratio (Note 4) (%)
Luxury	5,781	77,520	27.0
Upper-middle	2,633	29,950	10.4
Mid-price	13,230	160,311	55.9
Economy	1,334	19,019	6.6
Total	22,980	286,801	100.0

d. Diversification by building age

The total annual rent, the total of acquisition price and the investment ratio by the building age of the assets held at the end of the fiscal period under review were as follows. The building age is the period from the date stated as the date of new construction on the registration or registration record to the last day of December 2016:

Building age	Total annual rent (Note 2) (JPY1M)	Acquisition price (Note 3) (JPY1M)	Investment ratio (Note 4) (%)
More than 5 years, less than 10 years (inclusive)	5,887	84,302	29.4
More than 10 years, less than 20 years (inclusive)	4,492	59,311	20.7
More than 20 years	12,600	143,188	49.9
Total	22,980	286,801	100.0

e. Diversification by remaining contract term

The total annual rent and the ratio of the total annual rent of the concerned properties to the total annual rent of all assets held at the end of the fiscal period under review by the remaining contract term of the assets held at the end of the fiscal period under review were as follows, where the remaining contract term is the period from the last day of December 2016 to the lease contract expiration date:

Remaining contract term	Total annual rent (Note 2) (JPY1M)	Ratio of total annual rent to total (%)
Less than 5 years (inclusive)	14,863	64.7
More than 5 years, less than 10 years (inclusive)	3,887	16.9
More than 10 years, less than 20 years (inclusive)	4,230	18.4
Total	22,980	100.0

f. Diversification by rent type

The total annual rent and the ratio of the total annual rent of the concerned properties to the total annual rent of all assets held at the end of the fiscal period under review by the rent type of the assets held at the end of the fiscal period under review were as follows, where fixed rent refers to fixed rent contracts and variable rent, etc. refers to variable rent contracts and management contracts:

Rent type	Total annual rent (Note 2) (JPY1M)	Ratio of total annual rent to total (%)
Fixed rent	12,520	54.5
Variable rent, etc.	10,459	45.5
Total	22,980	100.0

(Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.

(Note 2) “Total annual rent” is the amount arrived at when the monthly rent income, etc. (rent of the building itself only, excluding signage and parking usage fees; not factoring in any change in rent during the fiscal period under review) of the assets under management at the end of the fiscal period under review is multiplied by 12.

However, the assumptions of the total annual rent of the hotels with revenue sharing, with variable rent or operated under a management contract structure are as follows:

The Five HMJ Hotels Okinawa Marriott Resort & Spa Sheraton Grand Hiroshima Hotel	The amount of (i) the variable rent actually generated from January 1, 2016 to December 31, 2016 and (ii) the amount arrived at when the monthly fixed rent at the end of the fiscal period under review is multiplied by 12.
The Six Accor Hotels	The amount of the total amount of income from management contracts or variable rent actually generated from January 1, 2016 to December 31, 2016.
The Six <i>the b</i> Hotels	The amount of (i) the variable rent actually generated from January 1, 2016 to December 31, 2016 and (ii) the amount arrived at when the monthly fixed rent at the end of the fiscal period under review is multiplied by 12.
Hotel Centraza Hakata Holiday Inn Osaka Namba Hilton Nagoya	The amount of (i) variable rent calculated based on actual GOP or sales from January 1, 2016 to December 31, 2016, plus (ii) the amount arrived at when the monthly fixed rent at the end of the fiscal period under review is multiplied by 12.
Chisun Inn Kamata	The amount of variable rent actually generated from January 1, 2016 to December 31, 2016
Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo Hotel Keihan Universal City Hotel Sunroute Shinbashi Hilton Tokyo Bay	The amount of (i) the variable rent actually generated from January 1, 2016 to December 31, 2016 and (ii) the amount arrived at when the monthly fixed rent at the end of the fiscal period under review is multiplied by 12.

For details of the contracts of the hotels with revenue sharing, with variable rent or operated under a management contract structure, please refer to “D. Overview of the hotel business; (1) Rent structures of hotels with variable rent, management contract or revenue sharing” on page 66.

(Note 3) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted from the former JHR.

(Note 4) “Investment ratio” is the ratio of total acquisition price of the assets held at the end of the fiscal period under review that are of the respective type to the total of acquisition price of all assets held at the end of the fiscal period under review, rounded off to one decimal place.

(Note 5) Tokyo means Tokyo metropolitan area. Kanto (excluding Tokyo) means Kanagawa, Chiba, Saitama, Ibaraki, Gunma, Tochigi and Yamanashi prefectures. Chubu means Aichi, Shizuoka, Nagao, Gifu, Niigata, Toyama, Ishikawa and Fukui Prefectures. Kansai means Kyoto, Osaka, Shiga, Hyogo, Nara and Wakayama prefectures. Chugoku means Hiroshima, Okayama, Tottori, Yamaguchi and Shimane prefectures. Kyushu (excluding Okinawa) means Fukuoka, Nagasaki, Miyazaki, Kumamoto, Saga, Oita and Kagoshima prefectures. Okinawa means Okinawa prefecture.

D. Overview of the hotel business

(1) Rent structures of hotels with variable rent, management contract or revenue sharing

	Property No.	Name	Rent type	Method of calculating variable rent and income from management contracts
The HMJ Group Hotels	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	When total GOP of the five HMJ hotels exceeds GOP base amount (set at ¥3,351 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 85.0% (Note 1). GOP base amount is set individually for each hotel for such purposes as payment of variable rent from each hotel. The breakdown of GOP base amount is presented below (Note 2).
	2	Oriental Hotel tokyo bay		
	3	Namba Oriental Hotel		
	4	Hotel Nikko Alivila		
	5	Oriental Hotel Hiroshima		
	43	Okinawa Marriott Resort & Spa	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥700 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 90.0%
	44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 3)	When hotel GOP exceeds GOP base amount (set at ¥468 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 82.5%
	46	Hotel Centraza Hakata	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥425 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 90.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥650 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 92.5%
The Six Accor Hotels	6	ibis Tokyo Shinjuku	Management contract (Note 4)	Amount equivalent to GOP
	32	ibis Styles Kyoto Station		Amount equivalent to GOP
	33	ibis Styles Sapporo		Amount equivalent to GOP
	34	Mercure Sapporo		Amount equivalent to GOP
	35	Mercure Okinawa Naha		Amount equivalent to GOP
	42	Mercure Yokosuka	Variable	Amount linked to GOP
The Six the b Hotels	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 5)
	36	the b akasaka-mitsuke		
	37	the b ikebukuro		
	38	the b ochanomizu		
	39	the b hachioji		
	40	the b hakata		
Other hotels with variable rent or revenue sharing	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	25	Hotel Vista Kamata Tokyo	Fixed + Revenue sharing	When hotel total sales from January 1 to December 31 of every year exceeds ¥270 million, the amount arrived at when the amount exceeding ¥270 million is multiplied by 32.5%
	26	Chisun Inn Kamata	Variable	Amount that is the monthly GOP multiplied by 85.0% (¥0 if the amount is below ¥0).
	29	Hotel Keihan Universal City	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	30	Hotel Sunroute Shinbashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 5)

(Note 1) Concerning a fixed-term lease agreement on the five HMJ hotels, the variable rent ratio was changed from 81.5% to 85.0% effective as of January 1, 2016.

(Note 2) Breakdown of the GOP base amount set individually for the five HMJ hotels

Hotel name	Annual GOP base amount
Kobe Meriken Park Oriental Hotel	¥599,900 thousand
Oriental Hotel tokyo bay	¥693,200 thousand
Namba Oriental Hotel	¥832,200 thousand
Hotel Nikko Alivila	¥995,700 thousand
Oriental Hotel Hiroshima	¥230,000 thousand
Total	¥3,351,000 thousand

(Note 3) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 4) The management contract structure is a structure for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue. Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel

revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management fee to the operator. This hotel revenue achieved is recognized as “real estate operating revenue through management contract” and is equivalent to the rent that is the real estate operating revenue under the leasing structure.

(Note 5) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee.

(2) Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels, the six Accor hotels and the six *the b* hotels for the operating period from January 1, 2016 through December 31 2016, based on the data provided by the hotel lessees etc. Furthermore, while these indicators of the hotels are among the indicators that show the operating status of the rooms departments, they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the daily rates and profit margins, etc. of the respective rooms available for sale are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

(a) The HMJ Group Hotels

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

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

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

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

(Note 3) Figures for the other departments include sales of the department for sale of goods.

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

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

acquisition.

- (Note 6) For Holiday Inn Osaka Namba which JHR acquired on August 1, 2016, the annual figures are for throughout the year including those prior to the acquisition.
- (Note 7) For Total/Average of the HMJ Group Hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel operators or hotel lessees.
- (Note 8) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place. The same shall apply hereinafter.

(b) The Six Accor Hotels

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

(Note 1) For Total/Average, figures are calculated by JHR since no figures have been provided by the hotel operators or hotel lessees.

(c) The Six the b Hotels

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

(Note 3) For Total/Average, figures are calculated by JHR since no figures have been provided by the hotel lessees.

E. Status of capital expenditures

a. Planned capital expenditures (Note)

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

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

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

b. Capital expenditures during the period (Note 1)

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

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of guest rooms on the 7th floor	From January 2016 to March 2016	50
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of guest room balconies	From January 2016 to April 2016	62
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of sky lounge “Kou’s” and renovation of elevator halls and pathways on the 14th floor	From June 2016 to December 2016	85
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Renewal of guest rooms on the 4th floor	From January 2016 to March 2016	101
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 9th floor	From January 2016 to February 2016	91
Hotel Nikko Alivila (Yomitan-son, Nakagami- gun, Okinawa)	Renewal of guest rooms on the 9th floor	From May 2016 to July 2016	55
ibis Tokyo Shinjuku	Replacement of piping	From May 2016	62

(Shinjuku-ku, Tokyo)		to July 2016	
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of interior fittings and furniture and prefabricated bathrooms in guest rooms on the 3rd through 10th floors	From May 2016 to July 2016	192
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Replacement of emergency power generator	From February 2016 to April 2016	60
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From January 2016 to August 2016	92
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renewal of hotel operation systems	From November 2015 to May 2016	55
Total			908

(Note 1) New construction and renewal work will include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures.

(Note 2) Repair expenses in the amount of ¥95 million related to the Kumamoto earthquakes which were recorded in extraordinary loss in the fiscal period under review are not included.