



**Japan Hotel REIT Investment Corporation**

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

February 23, 2018

(TSE: 8985)

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

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## **I. Settlement of Accounts for FY12/2017 - Highlights**

# 1. FY12/2017 Highlights

## 1. External Growth

### ► Continuous Acquisitions of High-Quality Properties

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

#### ◆ Public offering in Jan.

2016

Acquired **2** properties /  
JPY**24.0** billion (\*1)

#### ◆ Public offering in Jul.

Acquired **4** properties /  
JPY**54.3** billion (\*2)

Actual Results (2016)

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

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

#### ◆ Public offering in Jun.

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



Hilton Tokyo Narita Airport  
JPY13.1 billion



International Garden Hotel Narita  
JPY9.1 billion



Hotel Nikko Narita  
JPY10.3 billion

Actual Results (2017)

Total Acquisition Price	Total Funds Raised through Public Offering
JPY <b>32.6B</b>	JPY <b>18.6B</b>

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

## 2. Internal Growth (\*3, 4, 5)

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

	2016	2017	Variance
RevPAR	9 HMJ Hotels	16,947	<b>17,388</b> 2.6%
	6 Accor Hotels	9,868	<b>10,185</b> 3.2%
	6 the b Hotels	8,619	<b>8,535</b> (1.0)%
	Total of 3 Hotel Groups	13,597	<b>13,916</b> 2.3%

(Unit: JPY)

GOP	Total of 3 Hotel Groups	16,265	<b>16,765</b> 3.1%
-----	-------------------------	--------	--------------------

(Unit: JPY M)

#### Year-on-Year Change in Variable Rent, etc. for Full Year 2017

7 HMJ Hotels	+JPY <b>397M</b>	6 the b Hotels	JPY <b>(58)M</b>
6 Accor Hotels	+JPY <b>115M</b>	Total of 3 Hotel Groups	+JPY <b>454M</b>
Revenue Sharing, etc.	JPY <b>(137)M</b>		

## 3. Strengthening of Financial Base

### ► Reduce financial costs while carrying out conservative financial management

(End of FY12/2017)

LTV	Costs for Interest-Bearing Debt	Average Life of Debt
39.9%	1.1%	4.7 years

- ◆ Launch of the second global offering
- ◆ Diversified funding methods by issuance of investment corporation bonds
- ◆ Status of Credit Rating

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

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

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

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

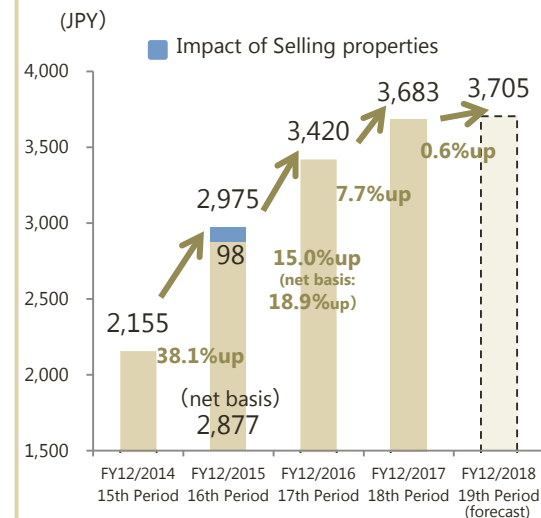
(\*4) The Six Accor Hotels are ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha and Mercure Yokosuka.

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

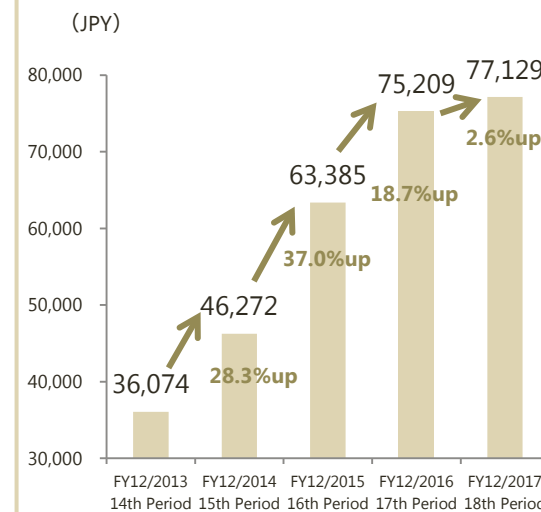
(\*6) Net basis means dividend without the effect by gain on sales of properties.

(\*7) The formula of NAV calculation has been changed from this material. The total amount of dividend is excluded from net asset for this calculation.

## Growth of Dividends (\*6)



## Increase in NAV Per Unit (\*7)



## **II . Summary of Settlement of Accounts**

# 1. Operational Performance

(Unit: JPY M)

		FY12/2016 (17th Period)	FY12/2017 (18th Period)	Variance		Major Factors Causing the Variance		
		Actual (A)	Actual (B)	(B)-(A)	%	Three Properties acquired in 2017(*1)	Five Properties acquired in 2016(*2)	Existing Properties
Properties	No. of Properties	41	44	3	-			
	Acquisition Price	286,801	319,474	32,673	11.4%			
Profit and Loss	Operating Revenue	22,107	25,475	3,368	15.2%	931	2,218	217
	Real Estate Operating Revenue	22,107	25,475	3,368	15.2%	931	2,218	217
	Fixed Rent, etc.	Composition 57.5% 12,714	Composition 55.8% 14,221	1,506	11.9%	536	1,069	(99)
	Variable Rent	42.5% 9,392	44.2% 11,253	1,861	19.8%	395	1,148	316
	NOI <sup>(*)3</sup>	18,829	21,424	2,594	13.8%	922	1,533	139
	NOI Yield	6.6%	6.7%	0.1%				
	Depreciation	3,294	3,725	431	-	182	259	(10)
	Asset Retirement Obligations Expenses	1	2	0	-			0
	Loss on Retirement of Noncurrent Assets	16	132	116	-			116
	NOI after Depreciation <sup>(*)3</sup>	15,517	17,563	2,046	13.2%	739	1,273	33
	NOI Yield after Depreciation	5.4%	5.5%	0.1%				
	Other Operating Expenses	1,632	1,806	174	-			
	Operating Income	13,885	15,757	1,872	13.5%			
	Non-Operating Expenses, etc.	1,665	1,751	86	5.2%			
	Ordinary Income	12,220	14,006	1,786	14.6%			
	Extraordinary Income or Loss, etc.	(97)	(1)	95	-			
	Net Income	12,123	14,005	1,881	15.5%			
Dividend	Use of Negative Goodwill	740	769	29	4.0%			
	Total Dividends	12,865	14,771	1,906	14.8%			
	Number of Units Issued (Unit)	3,761,907	4,010,847	248,940	6.6%			
	Dividend per Unit (JPY)	3,420	3,683	263	7.7%			

## Major Causes of Variance

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

- FY12/2016:  
Reception of the penalty for cancellation of lease contract when replacing the tenants  
JPY(126)M

- FY12/2017:  
Increase in rent when replacing the tenants, etc.  
JPY10M

### Variable rent of the existing properties

- The seven HMJ hotels:  
Increase in variable rent  
JPY397M
- The six Accor Hotels:  
Increase in income from management contracts, etc.  
JPY115M
- The six *the b* Hotels:  
Decrease in variable rent  
JPY(58)M
- (sub total) JPY454M
- Decrease in rent from revenue sharing, etc.  
JPY(137)M
- (total) JPY316M

(\*1) Stating the impact on the statements of income by properties acquired during fiscal year ended December 2017 (18th period), namely Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara.

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

(\*3) Each is calculated using the following formula:  

$$\text{NOI (Net Operating Income)} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$$

$$\text{NOI yield} = \text{NOI} \div \text{Acquisition price}$$

$$\text{NOI after depreciation} = \text{Real estate operating revenue} - \text{Real estate operating costs}$$

$$\text{NOI yield after depreciation} = \text{NOI after depreciation} \div \text{Acquisition price}$$



## 2. Revenue Forecast

	FY12/2017 (18th Period)	FY12/2018 (19th Period)
	Actual (A)	Forecast <sup>(*)</sup> (B)
<b>Properties</b>		
No. of Properties	44	44
Acquisition Price	319,474	319,474

<b>Profit and Loss</b>	<b>Operating Revenue</b>	<b>25,475</b>	<b>26,567</b>
	<b>Real Estate Operating Revenue</b>	<b>25,475</b>	<b>26,567</b>
	Fixed Rent, etc.	Composition	Composition
		55.8% 14,221	56.0% 14,878
	Variable Rent	44.2% 11,253	44.0% 11,689
	<b>NOI</b>	<b>21,424</b>	<b>22,186</b>
	NOI Yield	6.7%	6.9%
	Depreciation	3,725	4,083
	Loss on Retirement of Noncurrent Assets	132	38
	<b>NOI after Depreciation</b>	<b>17,563</b>	<b>18,062</b>
	NOI Yield after Depreciation	5.5%	5.7%
	Other Operating Expenses	1,806	1,968
	<b>Operating Income</b>	<b>15,757</b>	<b>16,094</b>
	<b>Non-Operating Expenses, etc.</b>	<b>1,751</b>	<b>1,798</b>
	Non-Operating Income	27	8
	Non-Operating Expenses	1,778	1,806
	<b>Ordinary Income</b>	<b>14,006</b>	<b>14,295</b>
	Extraordinary Income or Loss, etc.	(1)	(1)
	<b>Net Income</b>	<b>14,005</b>	<b>14,294</b>

<b>Dividend</b>	<b>Use of Negative Goodwill<sup>(*)</sup></b>	769	565
	<b>Total Dividends</b>	14,771	14,860
	<b>Number of Units Issued (Unit)</b>	4,010,847	4,010,847
	<b>Dividend per Unit (JPY)</b>	<b>3,683</b>	<b>3,705</b>

Variance		Major Factors Causing the Variance	
(B)-(A)	%	Property Acquisition in 17th Period (*2)	Existing Properties
-	-		
-	-		

1,092	4.3%	1,139	(46)
1,092	4.3%	1,139	(46)
656	4.6%	663	(7)
435	3.9%	475	(39)
761	3.6%	991	(230)
0.2%			
357	-	239	118
(94)	-		(94)
498	2.8%	752	(254)
0.2%			
162	-		
336	2.1%		
46	2.7%		
(18)	-		
27	-		
289	2.1%		
0	-		
289	2.1%		

(203)	(26.5)%
88	0.6%
-	-
22	0.6%

(Unit: JPY M)

### Major Causes of Variance

#### Variable rent of the existing properties

- The eight HMJ hotels (\*3) :  
increase in variable rent JPY210M
  - The six Accor hotels: increase in income from management contracts, etc. JPY167M
  - The six *the b* hotels: decrease in variable rent JPY(35)M
- (sub total) JPY342M**
- Decrease in revenue sharing, etc. JPY(61)M
- (sub total) JPY281M**
- Decrease in variable rent due to the renovation of Hotel Centraza Hakata JPY(320)M
- (total) JPY(39)M**

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

FY12/2016 :

- 50-year amortization amount JPY262M
- Loss on retirement of noncurrent assets JPY132M
- Cope with dilution JPY374M

FY12/2017 :

- 50-year amortization amount JPY262M
- Loss on retirement of noncurrent assets JPY38M
- Cope with major renovation works JPY265M

- (\*1) For details, please refer to the "Financial Report for the Fiscal Year Ended December 31, 2017 (January 1, 2017 – December 31, 2017)" dated February 22, 2018.
- (\*2) Stating the impact on the statements of income by properties acquired during fiscal year ended December 2017 (18th period), namely Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara.
- (\*3) The eight HMJ hotels are the nine HMJ hotels excluding Hotel Centraza Hakata.
- (\*4) Please refer to P23 for the use of negative goodwill.

### 3. Balance Sheet

(Unit: JPY M)

	FY12/2016 End of Fiscal Year	FY12/2017 End of Fiscal Year	Variance
(As of)	2016.12.31	2017.12.31	
<b>ASSETS</b>			
<b>Current Assets</b>	<b>29,050</b>	<b>30,919</b>	<b>1,869</b>
Cash and Deposits (*1)	26,373	27,920	1,546
Operating Accounts Receivables	2,071	2,411	340
Others	605	587	( 17)
<b>Noncurrent assets</b>	<b>288,441</b>	<b>320,859</b>	<b>32,418</b>
Net Property and Equipment	250,690	283,066	32,375
Buildings in Trust (*2)	94,608	109,983	15,374
Land in Trust	154,841	171,618	16,776
Others (*3)	1,240	1,465	225
Intangible Assets	34,278	34,171	( 107)
Other Assets	3,472	3,621	149
Leasehold and Security Deposits	170	170	0
Others	3,301	3,450	149
<b>Deferred Assets</b>	<b>387</b>	<b>404</b>	<b>16</b>
<b>TOTAL ASSETS</b>	<b>317,878</b>	<b>352,183</b>	<b>34,304</b>

	FY12/2016 End of Fiscal Year	FY12/2017 End of Fiscal Year	Variance
(As of)	2016.12.31	2017.12.31	
<b>LIABILITIES</b>			
<b>Current Liabilities</b>	<b>14,364</b>	<b>21,161</b>	<b>6,797</b>
Operating Accounts Payable	666	909	243
Short-Term Loans Payable	1,800	3,000	1,200
Current Portion of Long-Term Loans Payable	9,679	15,022	5,343
Accounts Payable	1,107	1,211	104
Advances Received	899	900	0
Others	211	116	(95)
<b>Long-Term Liabilities</b>	<b>121,524</b>	<b>129,058</b>	<b>7,533</b>
Investment Corporation Bonds	22,600	23,600	1,000
Long-Term Loans Payable	92,099	98,777	6,677
Tenant Leasehold and Security Deposits	5,660	5,694	33
Derivative Liabilities	676	504	(172)
Others	487	482	(5)
<b>TOTAL LIABILITIES</b>	<b>135,889</b>	<b>150,219</b>	<b>14,330</b>
<b>NET ASSETS</b>			
Unitholders' Capital	134,829	153,516	18,686
Capital Surplus	21,746	21,746	0
Dividend Reserve	13,867	0	(13,867)
Reserve for Temporary Difference Adjustment	0	13,127	13,127
Unappropriated Retained Earnings (midterm/year)	12,126	14,005	1,879
Others	(580)	(431)	148
<b>TOTAL NET ASSETS</b>	<b>181,989</b>	<b>201,963</b>	<b>19,974</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>317,878</b>	<b>352,183</b>	<b>34,304</b>

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

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

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



### **III. External Growth**

## 2. Continuous Property Acquisitions

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

### 2014

#### Acquired 3 assets (JPY15.7B)



ibis Styles Sapporo  
JPY6,797M



Mercure Sapporo  
JPY6,000M

+1 other asset

### 2015

#### Acquired 9 assets (JPY57.0B)



Okinawa Marriott  
Resort & Spa  
JPY14,950M



Sheraton Grand  
Hotel Hiroshima  
JPY17,320M

+7 other assets

### 2016

#### Acquired 5 assets (JPY61.0B)



Holiday Inn  
Osaka Namba  
JPY27,000M



Hilton Nagoya  
JPY15,250M

+3 other assets

### 2017

#### Acquired 3 assets (JPY32.6B)



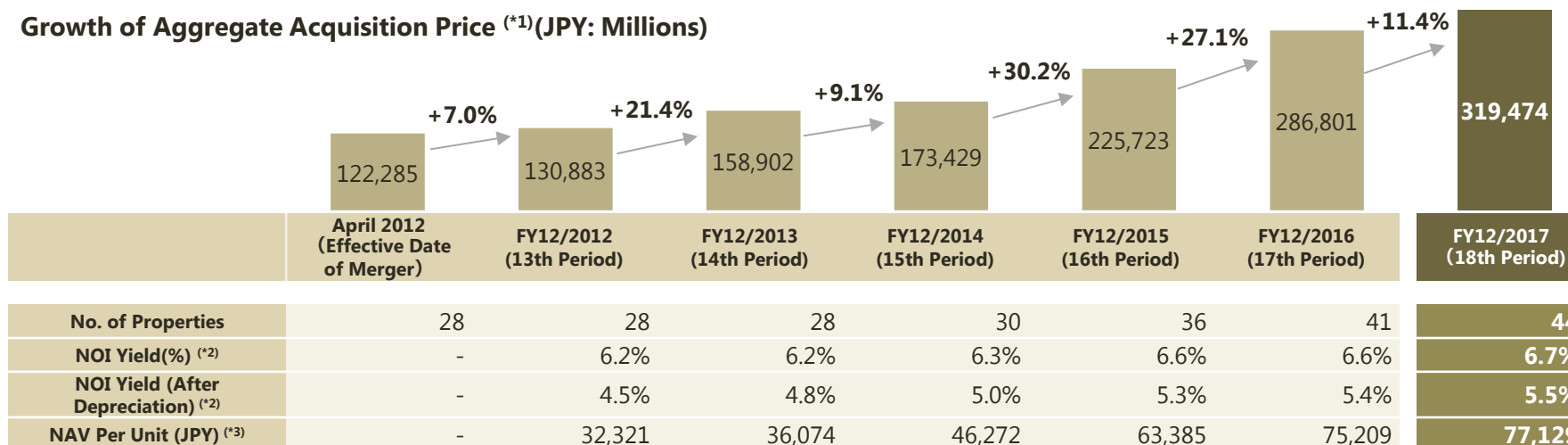
Hilton Tokyo  
Narita Airport  
JPY13,175M



Hotel Nikko Nara  
JPY10,373M

+ International Garden Hotel Narita  
JPY9,125M

### Growth of Aggregate Acquisition Price <sup>(\*)</sup>(JPY: Millions)



Aim for  
Further  
Growth

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

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

(\*)3 The formula for NAV calculation has been changed from this material. The total amount of dividend is excluded from net asset for this calculation. NAV per unit on the basis of the former calculation is JPY33,748, JPY38,013, JPY48,427, JPY66,360, JPY78,629, JPY80,812 from FY12/2012 to FY12/2017 respectively.

## **IV. Portfolio**

### 3. Portfolio

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

#### Portfolio Summary

##### Total Assets

JPY**319.4B**

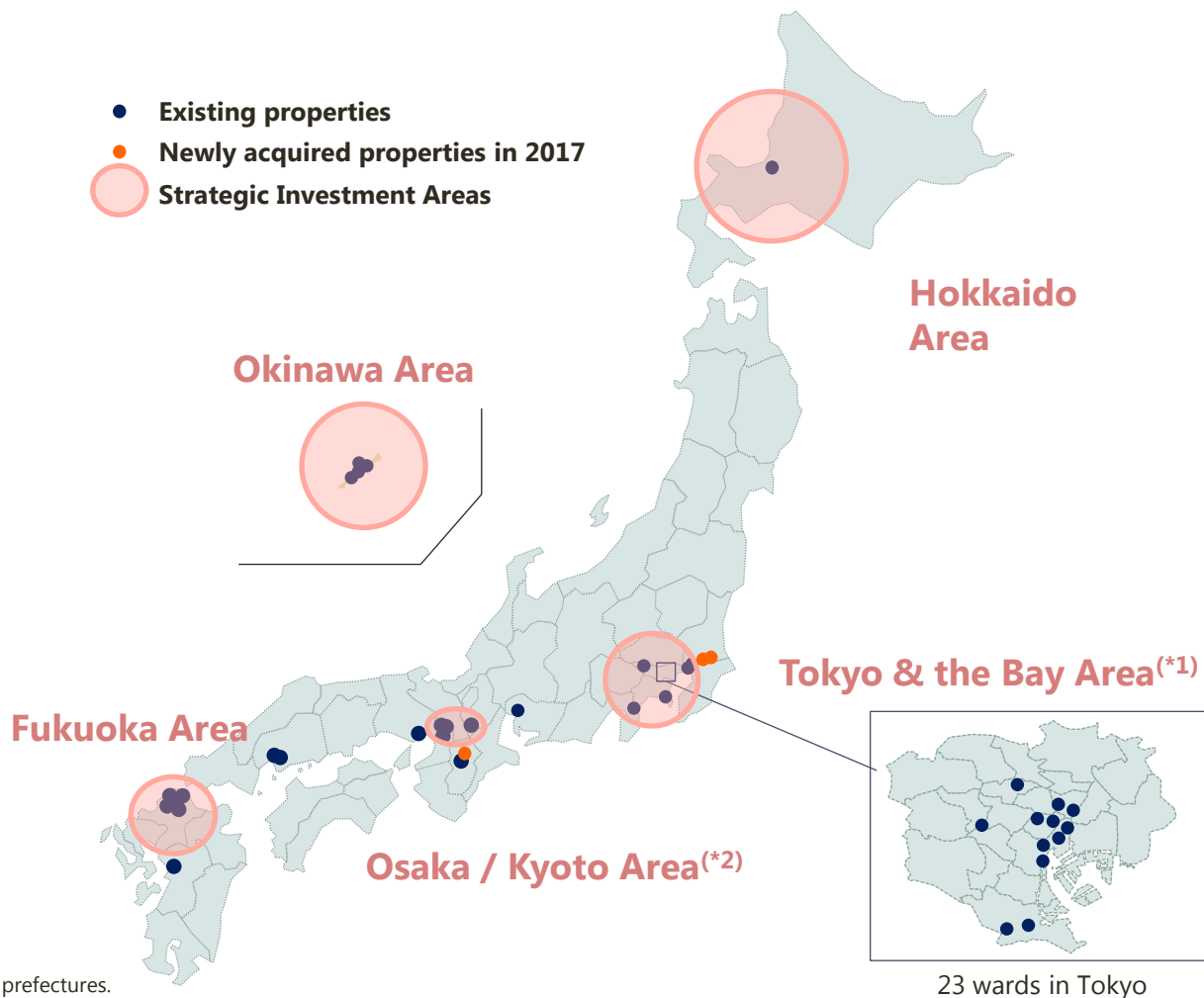
##### No. of Hotels

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

##### No. of Guest Rooms

**11,486** Rooms

#### Strategic Investment Areas and Locations of Properties



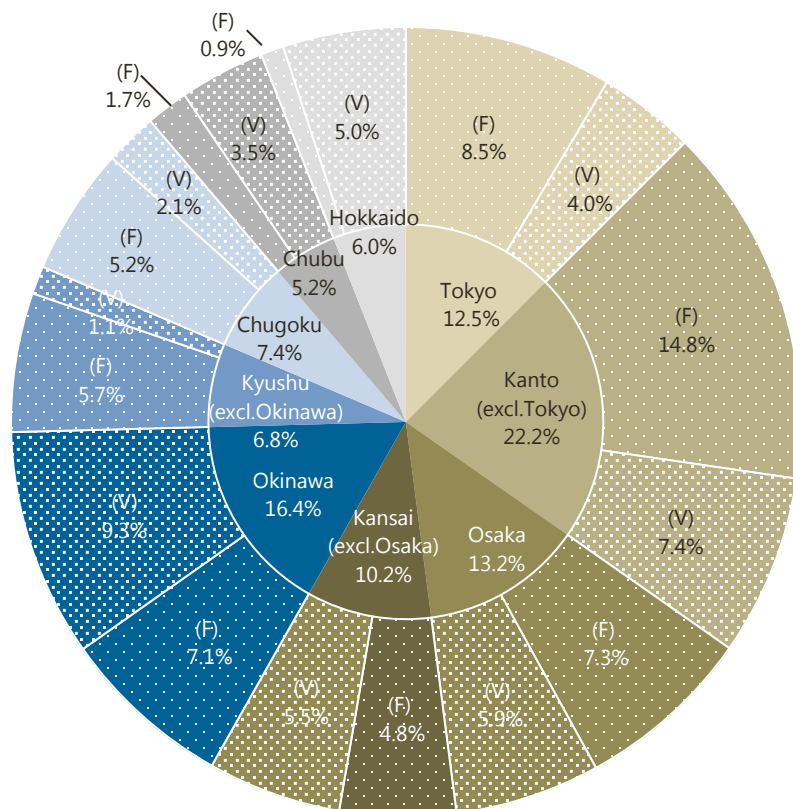
(\*) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.

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

## 2. Diversification of Portfolio

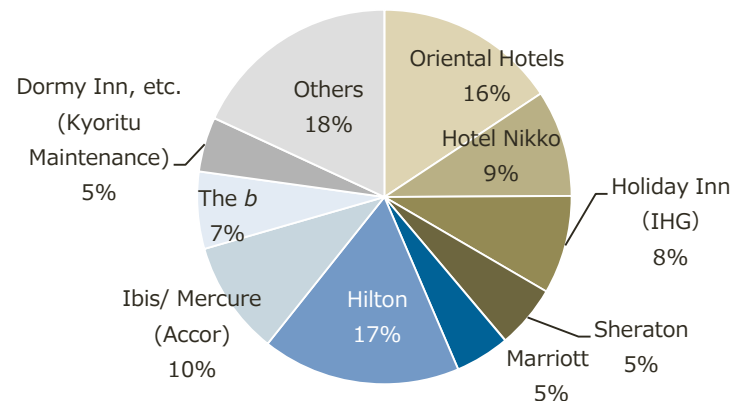
- ◆ Widely diversified and high-quality portfolio
- ◆ Appeal to inbound visitors by international brands

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



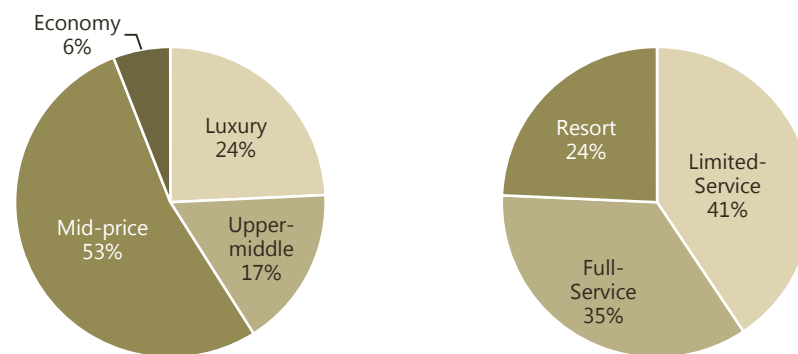
Fixed Rent (F)	Variable Rent (V)
56.0%	44.0%

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



**International Brand: 47%**

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



(\*1) Based on the estimated rent for revenues forecast of FY12/2018

**V . Internal Growth**



# 1. Rent Structures

Stability

Upside

(FY12/2017)

Rent Structure <sup>(*)1</sup>		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable Rent	Variable rent	Management contract	Total
Type of Contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of Rent	Fixed	○	○	○	-	-	-
	Variable	-	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	Hotel revenue and/or a certain percentage of hotel GOP	Hotel GOP	-
Real Estate Operating Revenue (%) (FY12/2017)		JPY3,175M (12.5%)	JPY3,416M (13.4%)	JPY13,973M (54.8%)	JPY1,757M (6.9%)	JPY3,153M (12.4%)	JPY25,475M (100.0%)
	Fixed rent, etc. <sup>(*)2</sup> (%)	JPY3,175 M (12.5%)	JPY2,996M (11.8%)	JPY7,066M (27.7%)	JPY511M (2.0%)	JPY471M (1.9%)	JPY14,221M (55.8%)
	Variable rent (%)	-	JPY419M (1.6%)	JPY6,906M (27.1%)	JPY1,245M (4.9%)	JPY2,681M (10.5%)	JPY11,253M (44.2%)
Involvement in Hotel Operation		Low	Low	High	High	High	-
CAPEX paid by JHR		1) Renewal of building and facilities	1) Renewal of building and facilities <3) Strategic investment>	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	-
No. of Properties		13	5	18	3	5	44
Acquisition Price (%)		JPY42,580M (13.3%)	JPY40,470M (12.7%)	JPY189,060M (59.2%)	JPY17,723M (5.5%)	JPY29,640M (9.3%)	JPY319,474M (100.0%)
Hotels		The Beach Tower Okinawa Hotel Francs CANDEO HOTELS UENO-KOEN and other hotels	Hilton Tokyo Bay Hotel Keihan Universal City Hotel Sunroute Shinbashi Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo	The Twelve HMJ Hotels <sup>(*)3</sup> The Six <i>the b</i> Hotels	Hilton Nagoya Mercure Yokosuka Chisun Inn Kamata	The Five Accor Hotels <sup>(*)4</sup>	-

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

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

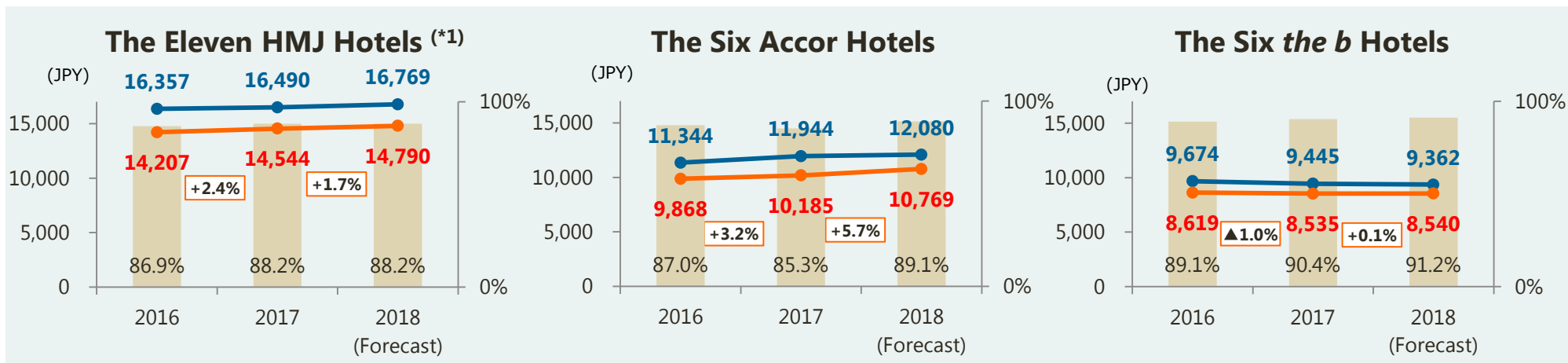
(\*)3 The Twelve HMJ Hotels are the Nine HMJ Hotels plus Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara.

(\*)4 The Five Accor Hotels are five hotels excluding Mercure Yokosuka from The Six Accor Hotels.

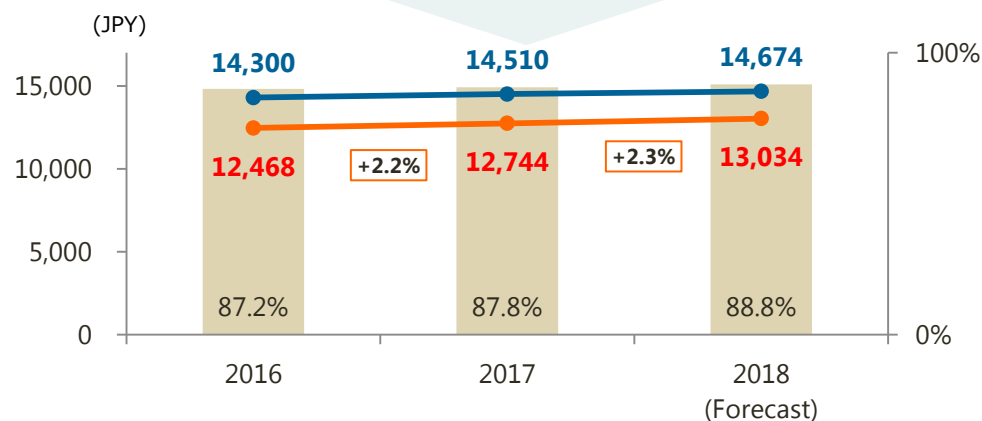
## 2. Performance of Major Hotels Adopting Variable Rent Scheme

### Indicators of Rooms Department

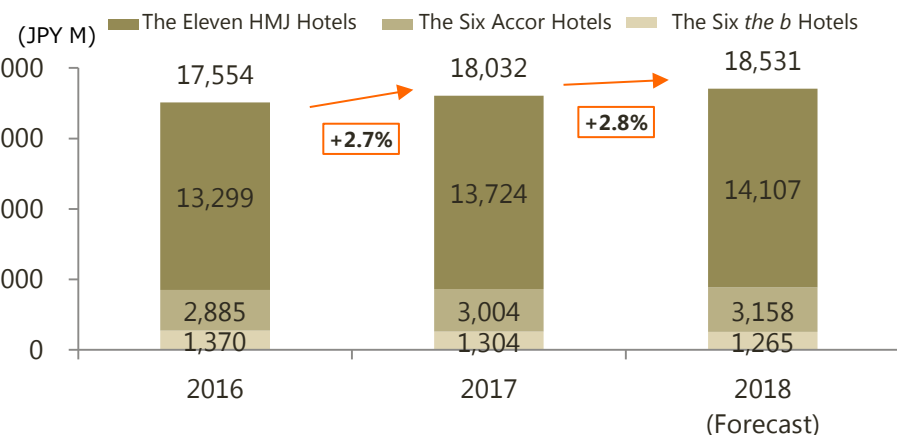
■ Occupancy rate (right axis) ● ADR (left axis) ● RevPAR (left axis)



### Total of Three Hotel Groups



### Change in GOP



(\*1) The Eleven HMJ Hotels exclude Hotel Centraza Hakata from the Twelve HMJ Hotels.

(\*2) For properties acquired in 2016 and 2017, numbers prior to acquisition which were obtained from the previous owners, etc. are used for the calculation.

### 3. Active Asset Management

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

#### FY12/2018 Forecasts (JPY M)

Hotels	Three Hotel Groups <sup>(*)1</sup>	Hotel Sales	52,881
		Hotel Operating Costs	33,764
		GOP	19,116

Variable rent contract

REIT	Real Estate Operating Revenue	Three Hotel Groups	18,566
		Other Hotels	8,001
	Real Estate Operating Costs		4,381
	NOI		22,186

#### Examples of Active Asset Management

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

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

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

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

Maximize DPU

(\*)1 The figures of the Three Hotel Groups are the total amount of the Twelve HMJ Hotels, the Six Accor Hotels and the Six the b Hotels.

### 3. Active Asset Management (Cont.)

#### ◆ Examples of active asset management (1)

##### Major renovation works at Hotel Centraza Hakata

###### ● Concept of the renovation

Renewal of the hotel located in a favorable area in the Hakata market that has continuously been growing  
⇒ Aim to **improve GOP** through an increase of ADR and operation optimization, etc.

###### ● Schedule for the renovation works

October 2018 to March 2019 (plan)

###### ● Main methods to maximize the revenue

###### • Increase the number of rooms

(plan to increase to 221 rooms from 194 rooms)

⇒ Convert meeting rooms and an office room on the 5th floor into guest rooms/ divide suite rooms

###### • Improve ADR

⇒ Add the number of beds

Add value through construction of new facilities (gym and laundry)

###### • Change the restaurant operator from the hotel to a tenant

###### ● Main measures to optimize the hotel operation

- Consolidate a back office into one floor
- Optimize operations by consolidating a café and bar into the same area
- Consolidate kitchens of banquet
- Newly install baggage lockers

###### ● Improve environmental performance by resolving deterioration due to aging and taking some measures for energy conservation

- Supply new pipes for water supply and drainage
- Renew heater source equipment (cold water generator, boiler)
- Renew ventilation equipment (improve air environment through renewal of outdoor ventilation equipment, etc.)
- Switch all indoor lighting to LED

###### ● Eliminate an impact on dividend caused by suspension of hotel operation by using negative goodwill

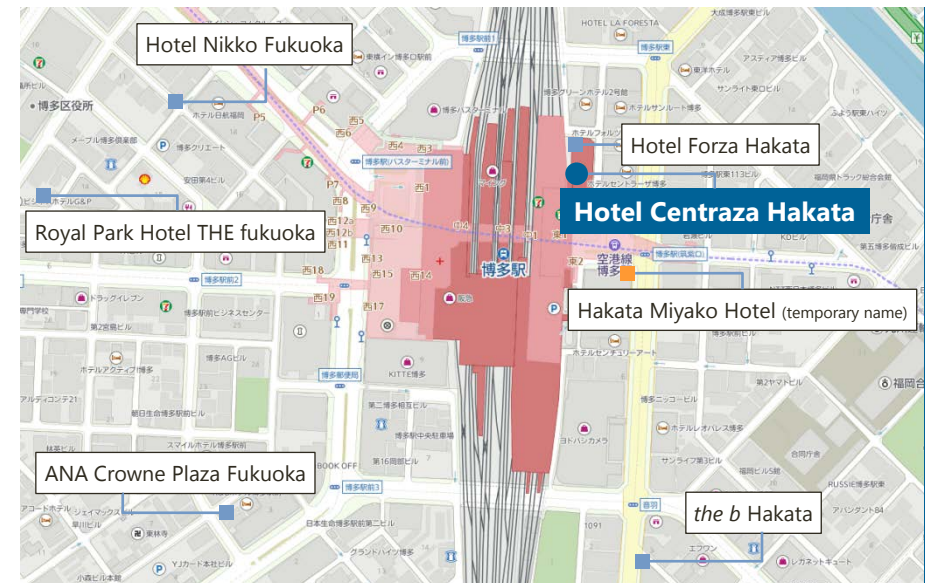
【Current Appearance】 <Outside>



<Lobby>



【Map】



■ Major Hotel that is planning to open

#### ◆ Examples of active asset management (2)

##### Relocation of a Bridal Salon at Kobe Meriken Park Oriental Hotel

Relocated a bridal salon, which had been located at a section nearby a passenger terminal (2F) operated by Kobe city, into the floor (6F) where wedding-related facilities in the hotels are all located

##### ● Efficient sales operation of wedding

Implemented a renovation work, which changed interior layout inside the hotel

⇒ Efficient wedding sales operation by gathering all wedding-related facilities into the same floor (bridal salon, wedding dress store, photo studio, beauty salon, brides room)

##### ● Reduced rent payment by returning a section used for the bridal salon

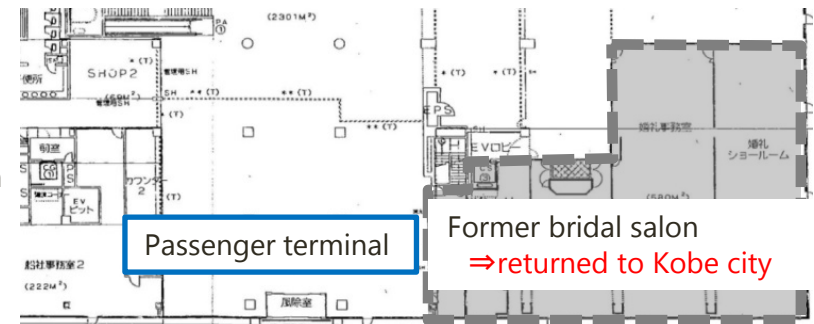
Returned the bridal salon section to Kobe city

⇒ Reduced total of rent payment and common area maintenance charges by approximately JPY21M/year

【 Bridal salon after renovation 】



2F : Section owned by Kobe city

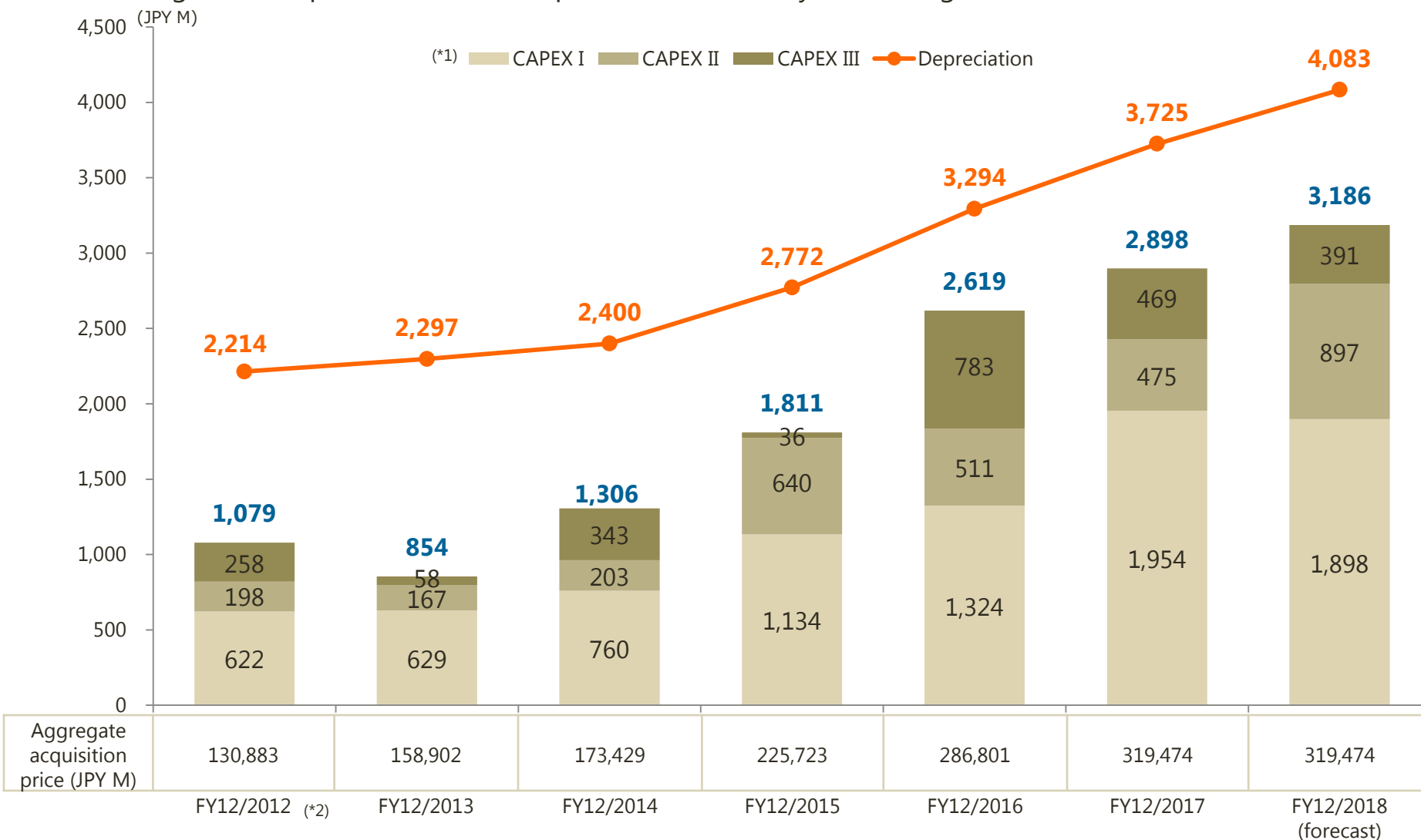


6F : Wedding-related Facilities



## 4. Capital Expenditures and Depreciation

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



(\*1) CAPEX I is capital investment related to renewal of buildings, facilities, and equipment which is required to maintain proper values of properties. CAPEX II is capital investment for fixtures and furnishings that are not directly related to building structures or facilities but necessary for operating hotels. CAPEX III is strategic capital investment for renewals including guest rooms, banquet rooms and restaurant and others in order to maintain or to improve the competitiveness of the hotels.

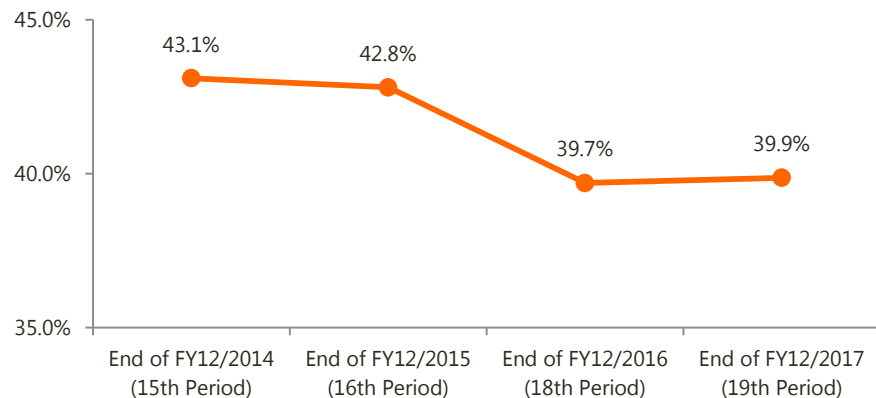
(\*2) Since FY12/2012 is irregular nine months period, the numbers for capital expenditure in FY12/2012 are the accumulated actual numbers from January to December, 2012. On the other hand, the number for depreciation is the annualized number.



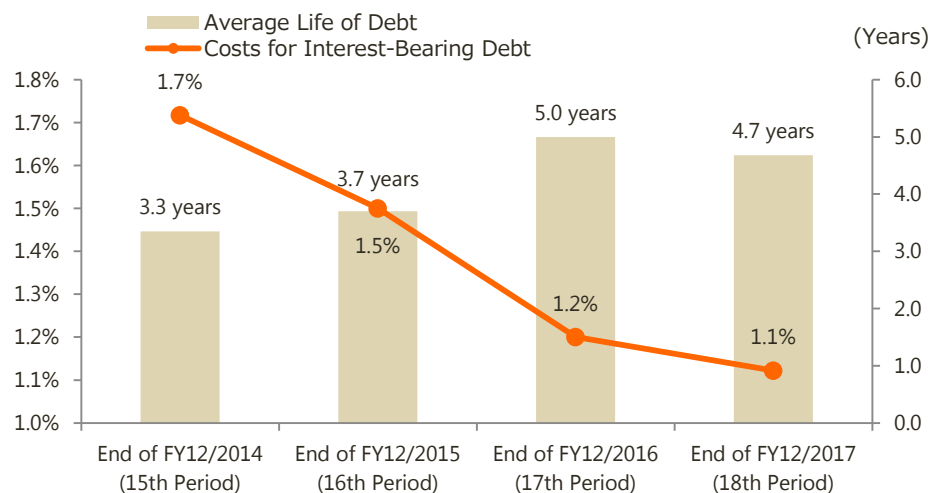
## **VI. Financial Status**

# 1. Financial Status

## Changes in LTV (Total Asset Base)



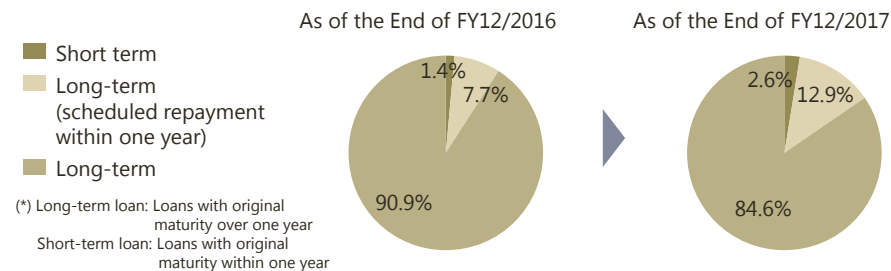
## Changes in Costs for Interest-Bearing Debt<sup>(\*)</sup> and Average Life of Debt<sup>(\*)</sup>



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

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

## Term of Interest-Bearing Debt

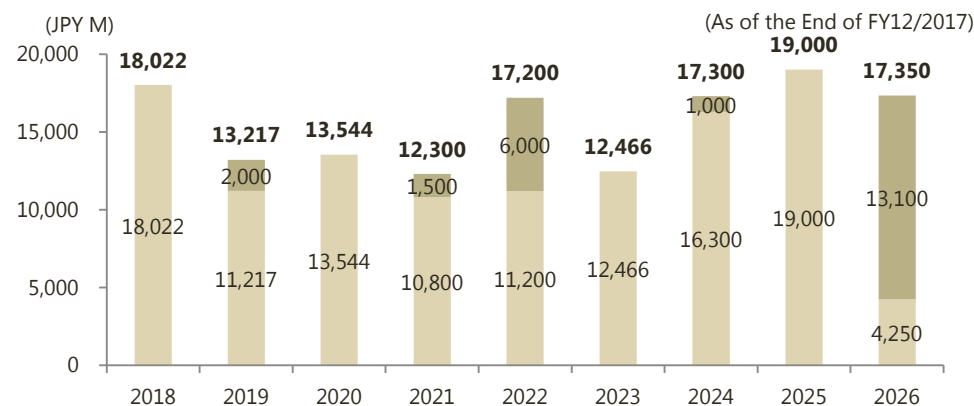


## Fixed Interest Rate Ratio

As of the end of Dec..2016  
**98.0%**

As of the end of Dec. 2017  
**94.0%**

## Repayment Schedule of Interest-Bearing Debt



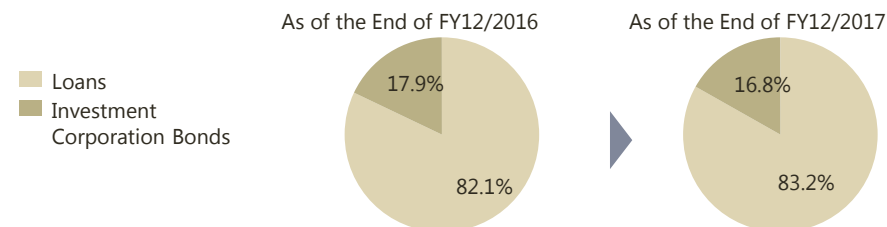
# 1. Financial Status (Cont.)

## Lender List for Interest-Bearing Debt

(JPY M)

Lenders/ Bond Name	Balance (As of the end of Dec.2016)		Balance (As of the end of Dec.2017)		Variance
	Balance	Percentage	Balance	Percentage	
Sumitomo Mitsui Banking Corporation	25,556	20.3%	29,632	21.1%	4,076
Shinsei Bank, Ltd.	14,210	11.3%	16,492	11.7%	2,282
Mizuho Bank, Ltd.	13,980	11.1%	16,480	11.7%	2,500
Sumitomo Mitsui Trust Bank, Limited	10,163	8.1%	11,495	8.2%	1,331
Resona Bank, Limited	9,593	7.6%	10,073	7.2%	480
The Tokyo Star Bank, Limited	8,570	6.8%	7,097	5.1%	(1,473)
The Nomura Trust and Banking Co.,Ltd.	4,868	3.9%	4,858	3.5%	(10)
Mitsubishi UFJ Trust and Banking Corporation	3,435	2.7%	4,135	2.9%	700
Development Bank of Japan Inc.	2,980	2.4%	3,780	2.7%	800
Fukuoka Bank, Ltd.	2,610	2.1%	3,260	2.3%	650
Hiroshima Bank, Ltd.	2,427	1.9%	2,427	1.7%	-
The Chiba Bank, Ltd.	2,213	1.8%	2,705	1.9%	492
Aozora Bank, Ltd.	1,935	1.5%	2,435	1.7%	500
Sompo Japan Nipponkoa Insurance Inc.	937	0.7%	929	0.7%	(8)
The Nishi-Nippon City Bank, Ltd.	-	-	1,000	0.7%	1,000
The Higo Bank, Ltd.	100	0.1%	-	-	(100)
<b>Borrowing (Sub-Total)</b>	<b>103,579</b>	<b>82.1%</b>	<b>116,799</b>	<b>83.2%</b>	<b>13,220</b>
3rd Investment Corporation Bonds without Collateral	2,000	1.6%	2,000	1.4%	0
4th Investment Corporation Bonds without Collateral	1,500	1.2%	1,500	1.1%	0
5th Investment Corporation Bonds without Collateral	6,000	4.8%	6,000	4.3%	0
6th Investment Corporation Bonds without Collateral	3,000	2.4%	3,000	2.1%	0
7th Investment Corporation Bonds without Collateral	9,000	7.1%	9,000	6.4%	0
8th Investment Corporation Bonds without Collateral	1,100	0.9%	1,100	0.8%	0
9th Investment Corporation Bonds without Collateral	-	-	1,000	0.7%	1,000
<b>Investment Corporation Bonds (Sub-Total)</b>	<b>22,600</b>	<b>17.9%</b>	<b>23,600</b>	<b>16.8%</b>	<b>1,000</b>
<b>Total Interest-Bearing Debt</b>	<b>126,179</b>	<b>100.0%</b>	<b>140,399</b>	<b>100.0%</b>	<b>14,220</b>

## Breakdown of Interest-Bearing Debt



## Status of Credit Rating

Japan Credit Rating Agency, Ltd. (JCR)	<b>A+</b> (stable)
Rating and Investment Information, Inc. (R&I)	<b>A</b> (stable)

# 1. Financial Status (Cont.)

## Negative Goodwill

### <Policy for Use of Negative Goodwill>

1. Add JPY262M (50-year amortization amount of negative goodwill) to dividends every period.

2. In addition to above, dividends will be increased in response to the following.

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

### <Amount Used in FY12/2017>

50-year amortization amount on negative goodwill	:	JPY262M
Cope with dilution	:	JPY374M
Cope with loss on retirement of noncurrent assets	:	JPY132M
Total amount	:	<b>JPY769M</b>

**Balance of Negative Goodwill as of the End of December 2017**

**JPY12,357M**

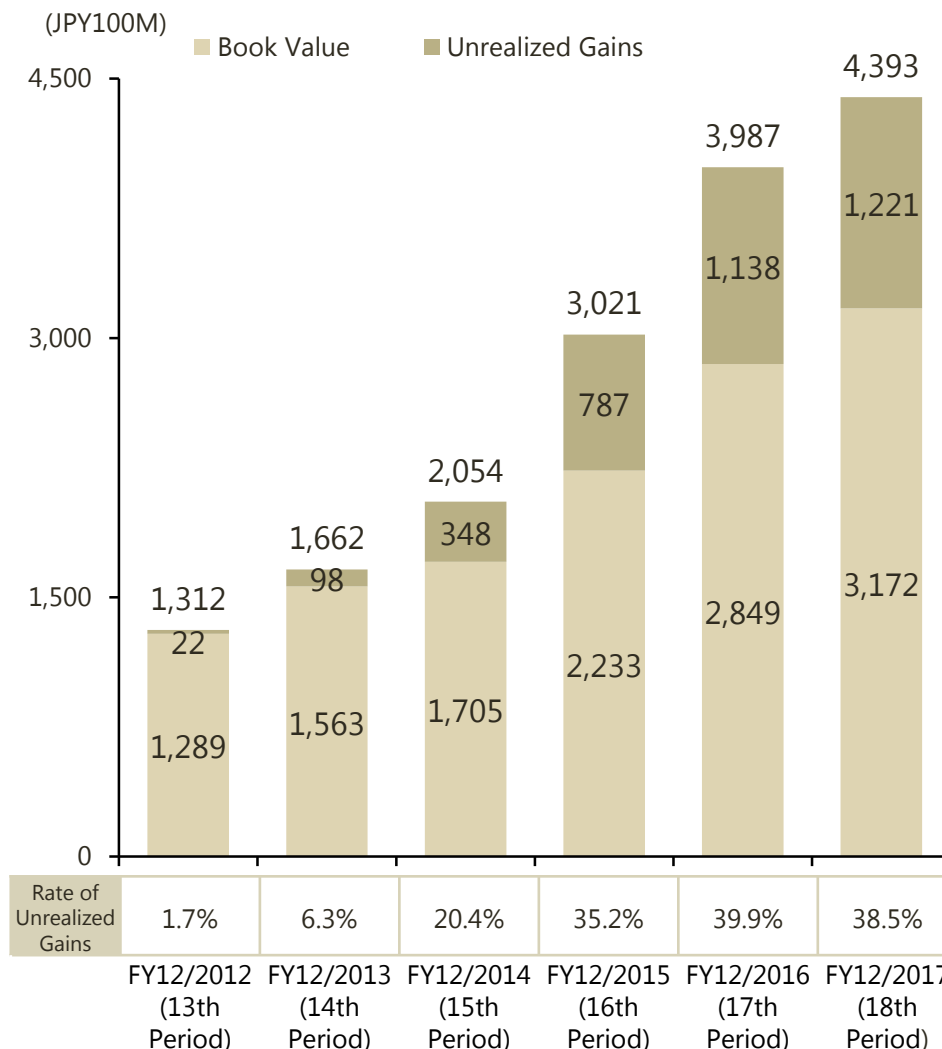
### <Amount to be Used in FY12/2018>

50-year amortization amount of negative goodwill	:	JPY262M
Cope with loss on retirement of noncurrent assets	:	JPY38M
Cope with major renovation works	:	JPY265M
Total amount	:	<b>JPY565M</b>

**Balance of Negative Goodwill as of the End of December 2018 (Forecast)**

**JPY11,792M**

## Changes in Appraisal Value (Unrealized Gains)



(\*) The "50-year amortization amount of negative goodwill" includes amortization, etc. of fixed-term leasehold of land, asset retirement obligations, etc. of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA, which were purchased in the year ended December 2016 (17th Period). The amount of such amortizations, etc. was JPY152M for the fiscal year ended December 2017 (18th Period).

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

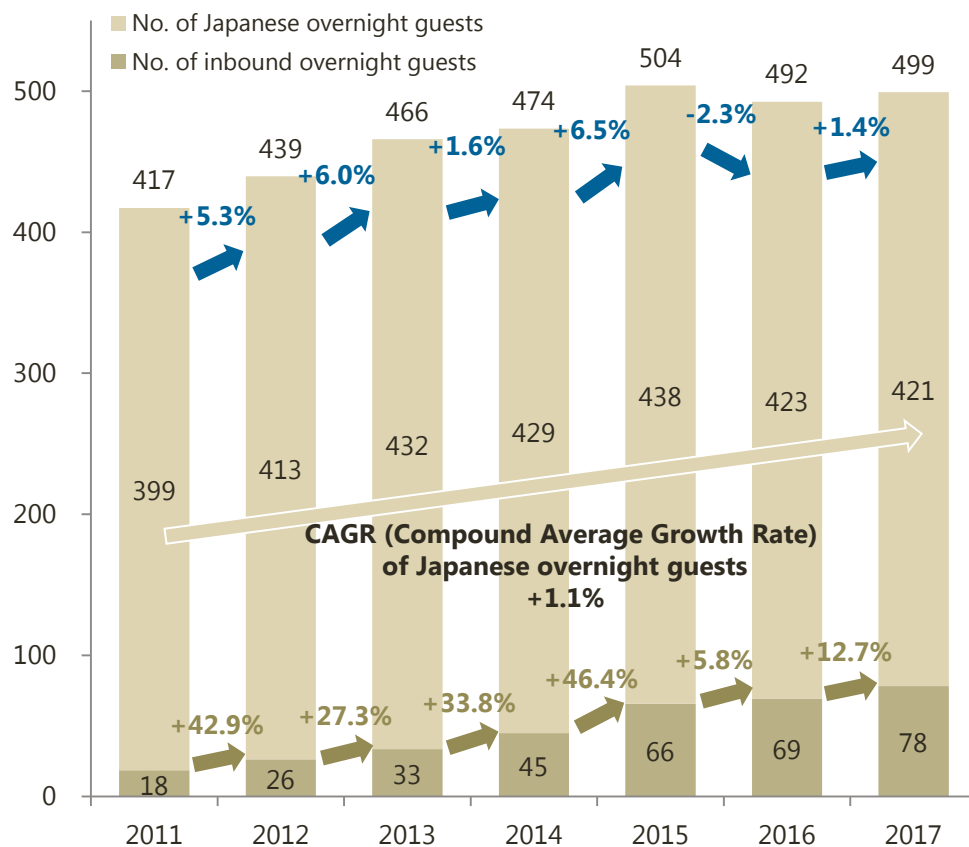
## **VII. Market Environment**

# 1. Market Environment

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

## Changes in the Number of Overnight Guests in Japan

(Guest nights in millions)

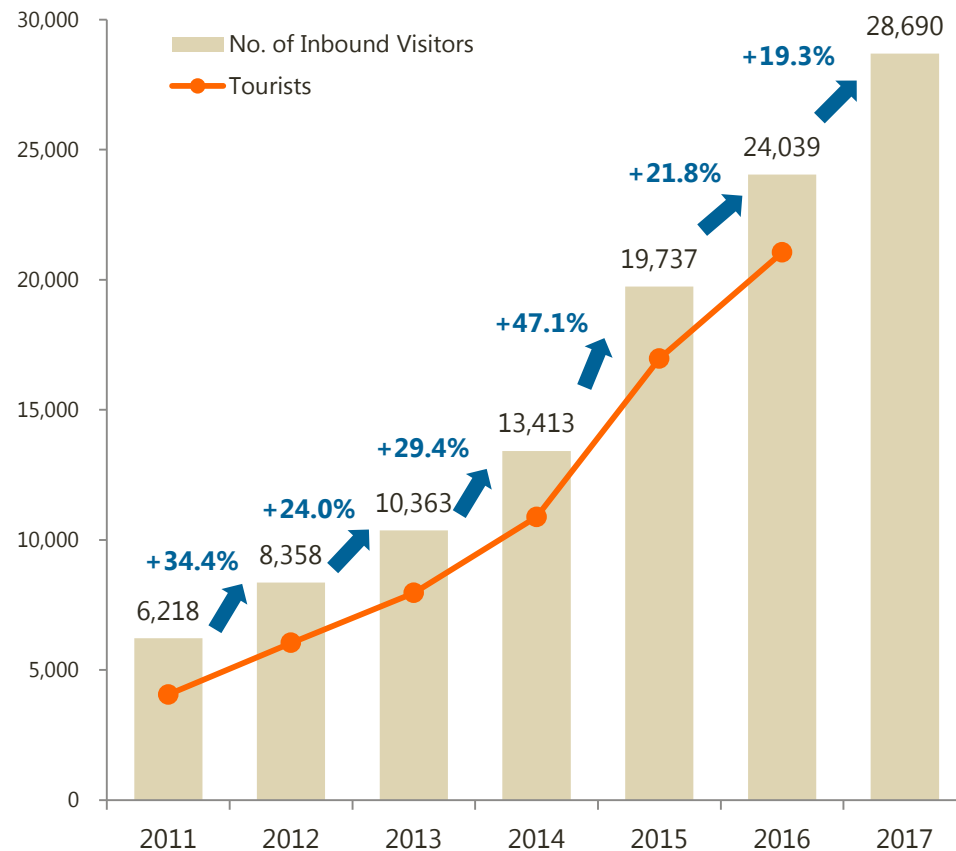


Source: Statistics of Overnight Travel by Japan Tourism Agency  
(\*) Rounded off to the nearest millions of people

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

## Changes in the Number of Inbound Visitors

(Thousands)



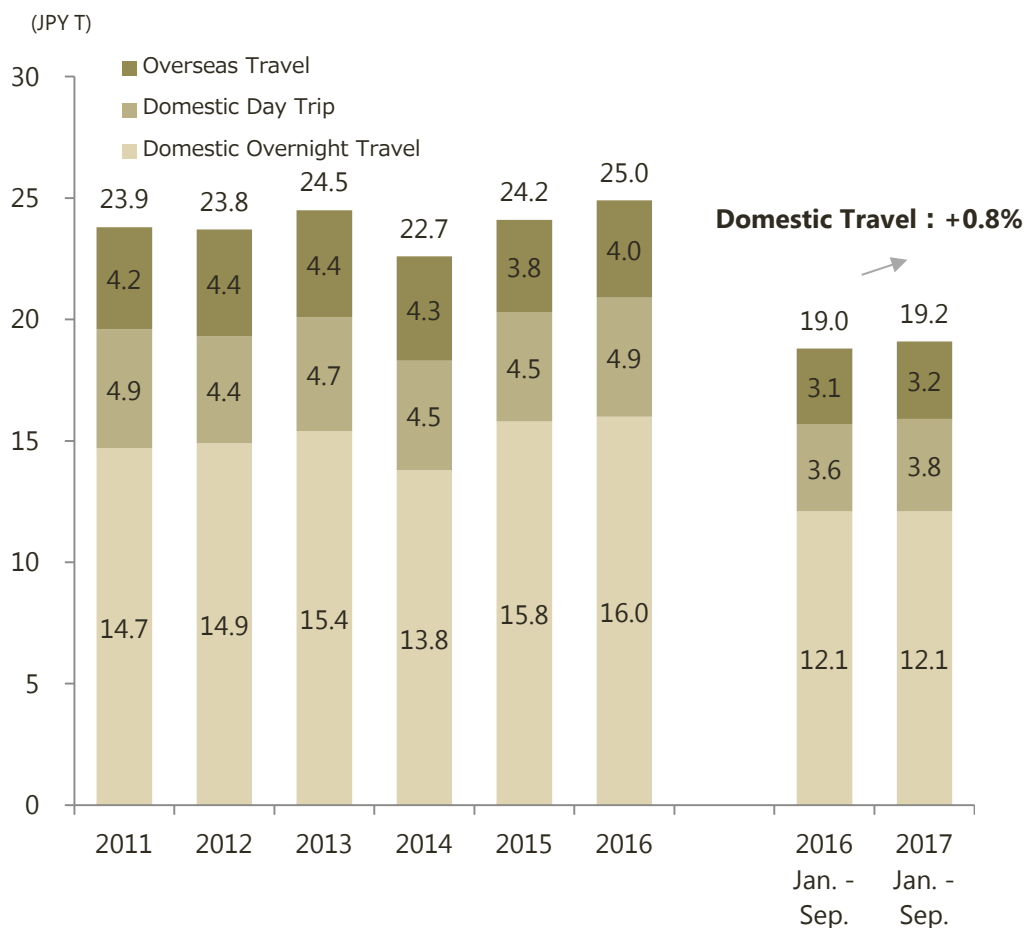
Source: Number of International Visitors to Japan by Japan National Tourism Organization (JNTO)  
(\*) The numbers for 2017 Jan.-Oct. are provisional numbers, and Nov.-Dec. are estimated numbers.



# 1. Market Environment (Cont.)

◆ Japanese demand for domestic travels has been stable

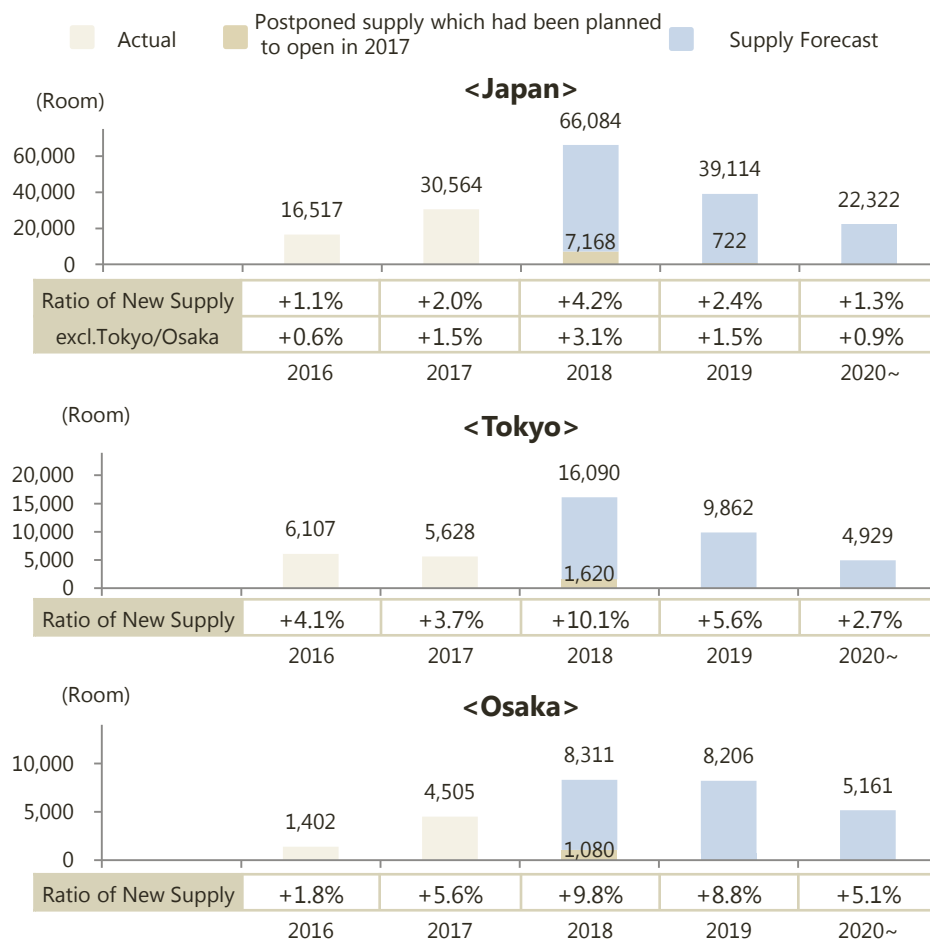
## Changes in Travel Spending among Japanese Travelers



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

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

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



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

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

# **Appendix 1**

## **JHR's Characteristics**

# 1. Simultaneous Pursuit of Stability and Upside Potential

**JHR pursues both stability and upside potential by steadily implementing growth strategies.**

## Ensure Stable Revenue

### Fixed rent structure

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

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

## Pursue Upside

Management contract structure

Variable rent structure

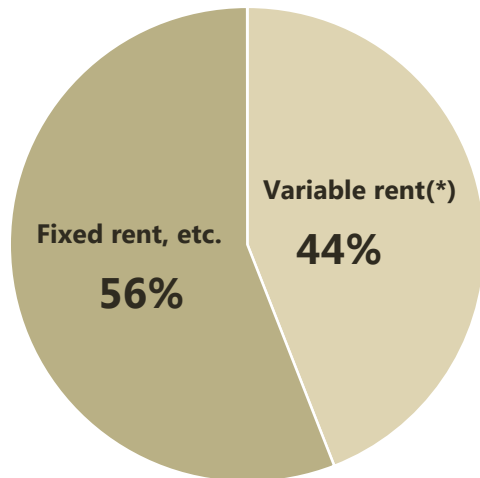
Revenue sharing structure

### Active Asset Management Strategies

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

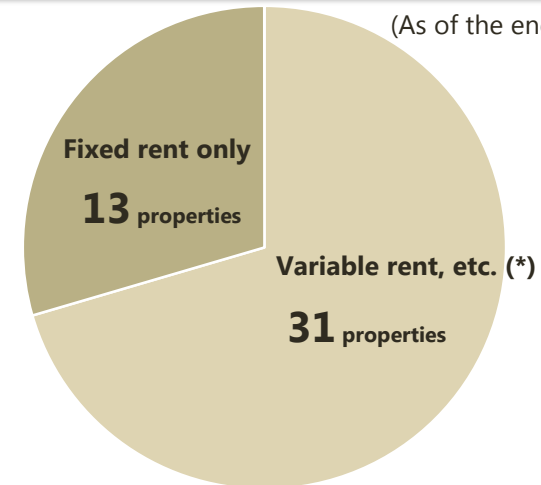
**Increase in rental income, etc. through improvement in hotels' performance**

## Proportion of Rental Income (FY12/2017)



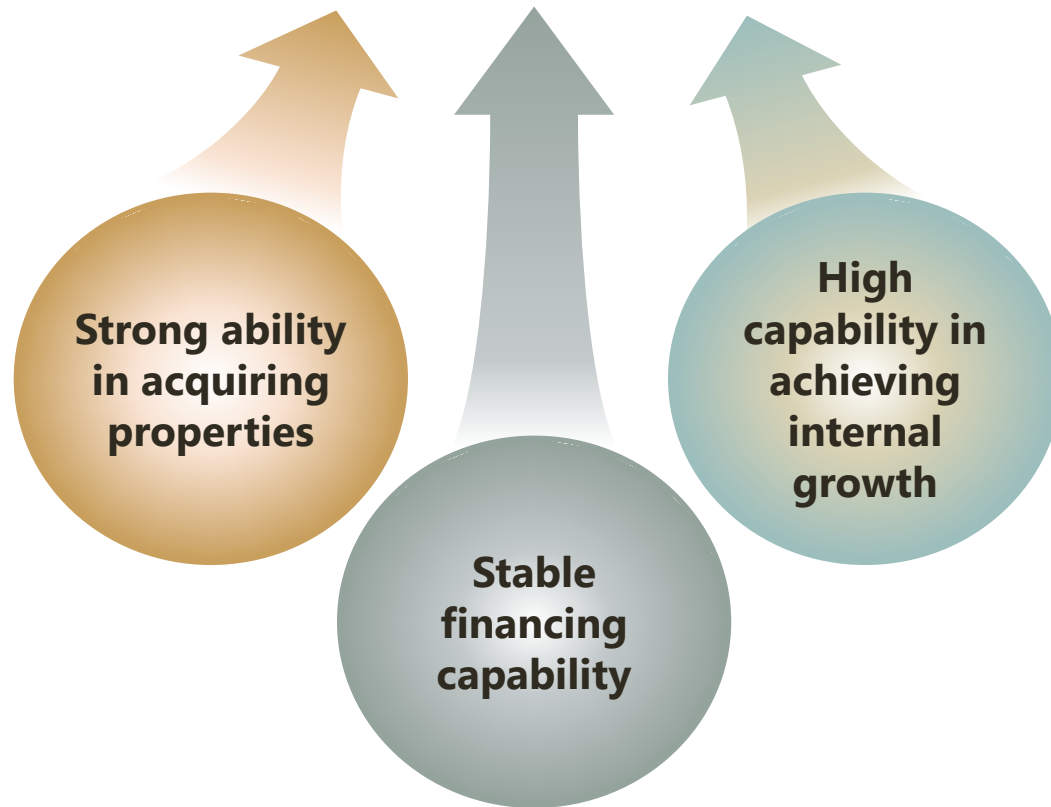
(\*) Variable rent  
Rent from revenue sharing  
Income from management contracts

## Proportion of Rent Structures (As of the end of December, 2017)



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

### Aim to increase dividend



#### Strong ability in acquiring properties

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

#### High capability in achieving internal growth

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

#### Stable financing capability

- Secure sound and stable finance
- Diversify financing methods

## Recognition of External Environment

### Trend of the Hotel Investment Market

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

## Basic Policies

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



## Key Measures

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

## Recognition of External Environment

### Hotel Market Environment

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

## Basic Policies

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



## Key Measures

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

## Recognition of External Environment

### Trend of Financing Environment and Interest Rates

- The amount of bond issues by J-REITs is increasing while the amount of financing by equity offering has been comparatively lower for the past several years. Lending stance by financial institutions remains well.
- Although short-term and long-term interest rates are expected to be stable due to the Bank of Japan's monetary easing policy, need to be paid close attention to a fluctuation of long-term interest rates provoked by international factors.

## Basic Policies

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



## Key Measures

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

## 6. Initiatives for Sustainability

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

### ● Sustainability Policy

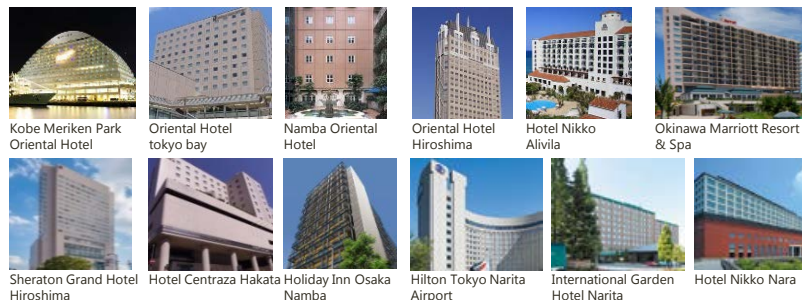
JHR and JHRA have established "Sustainability Policy", which includes important issues and initiatives.

#### Sustainability Policy

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

### ● Addition of Green Lease Provisions

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



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

(\*2) Investigated by the Asset Management Company based on public information

### ● Acquisition of BELS certification (\*1)

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

#### Hotel Nikko Alivila



#### Mercure Okinawa Naha





# 7. Benefits Program for Unitholders

JHR implemented benefits program for unitholders to obtain a better understanding, improve their satisfaction and expand the investor base. JHR also expanded the benefits program in 2017 by adding four HMJ hotels, aggregated coverage to 15 hotels.

- **Eligible recipients of complimentary coupons**

Complimentary coupons will be sent to those who hold ten or more JHR units at the end of June every year (end of the midterm settlement)  
<FY2017>

Eligible Unitholders: 14,346

Valid period: One year between October 2017 and September 2018

- **Hotels that offer the benefits program**

The nine HMJ Hotels and the six Accor Hotels

- **The Nine HMJ Hotels**



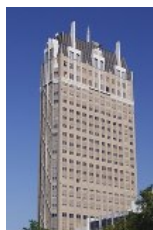
Kobe Meriken Park  
Oriental Hotel



Oriental Hotel  
Tokyo Bay



Namba  
Oriental Hotel



Oriental Hotel  
Hiroshima

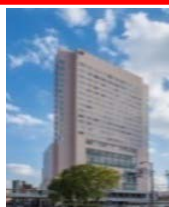


Hotel Nikko  
Alivila

**New**



Okinawa Marriott  
Resort & Spa



Sheraton Grand  
Hiroshima Hotel



Hotel Centraza  
Hakata



Holiday Inn  
Osaka Namba

- **Details of the benefits program**

Five complimentary coupons for accommodations and five complimentary coupons for restaurants (\*)

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

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

- **Record of coupon redemption**

(One year from October 2016 to September 2017)

<Eligible Unitholders: 13,213>

Accommodation		Restaurant	
No. of Coupons Used	No. of Coupon Users	No. of Coupons Used	No. of Coupon Users
1,451	1,977	2,900	8,167

- **The Six Accor Hotels**



ibis Tokyo Shinjuku



ibis Styles Kyoto Station



ibis Styles Sapporo



Mercure Sapporo



Mercure Okinawa Naha



Mercure Yokosuka

## **Appendix 2**

### **Information on Properties**

# 1. Property List (1/2)

(As of December 31, 2017)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY M) (*4)	Book Value (JPY M) (*5)	Appraisal Value				Investment Ratio(*7)	Revenue from Real Estate Operation (JPY1,000) (*8)	NOI (JPY1,000) (*8)	P/L from Real Estate Operation (JPY1000) (*8)	NOI Yield (Actual) (*9)
									17th Period (as of 12.31.2016)		18th Period (as of 12.31.2017)						
									Appraisal Value (JPY M) (*6)	CAP Rate	Appraisal Value (JPY M)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Hyogo	22.5	10,900	10,065	14,400	5.2%	15,100	5.2%	3.4%	1,195,053	926,481	609,294	8.5%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	503	Chiba	22.7	19,900	18,172	34,100	4.5%	34,100	4.5%	6.2%	1,729,459	1,608,209	1,185,716	8.1%
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	21.8	15,000	14,737	32,000	4.3%	32,700	4.3%	4.7%	1,600,053	1,499,846	1,325,638	10.0%
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	24.3	4,100	4,160	4,250	7.3%	4,280	7.5%	1.3%	498,124	453,440	380,032	11.1%
5	Hotel Nikko Alivila	Resort	Luxury	396	Okinawa	23.8	18,900	18,363	29,200	5.0%	31,500	4.9%	5.9%	1,951,987	1,801,396	1,476,566	9.5%
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	13.8	7,610	6,754	9,420	4.7%	9,820	4.5%	2.4%	511,017	468,095	340,735	6.2%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	11.3	4,070	3,806	5,020	5.2%	5,220	5.0%	1.3%	294,946	268,777	180,599	6.6%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	9.9	2,334	2,185	2,950	5.8%	2,960	5.8%	0.7%	194,460	171,456	131,367	7.3%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	31.4	1,120	1,234	2,040	4.3%	1,940	4.3%	0.4%	114,268	102,195	77,166	9.1%
10	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	20.8	999	961	1,300	4.1%	1,300	4.1%	0.3%	63,995	55,341	42,514	5.5%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	22.9	2,130	2,041	4,350	4.7%	4,330	4.7%	0.7%	240,000	225,000	200,000	10.6%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	17.8	2,050	1,838	2,430	5.2%	2,430	5.2%	0.6%	151,000	134,000	93,000	6.5%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	15.8	1,720	1,751	1,920	4.1%	1,920	4.1%	0.5%	97,294	82,162	68,588	4.8%
14	R&B Hotel Higashi-nihonbashi	Limited-service	Economy	202	Tokyo	19.8	1,534	1,495	2,050	4.7%	2,050	4.7%	0.5%	122,207	105,436	86,422	6.9%
15	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	9.9	3,746	3,593	5,320	4.5%	5,330	4.5%	1.2%	270,859	240,630	204,537	6.4%
16	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	20.8	2,108	2,041	3,060	4.2%	3,060	4.2%	0.7%	152,882	137,802	118,327	6.5%
17	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	16.3	1,652	1,456	2,680	4.7%	2,670	4.7%	0.5%	141,039	128,078	106,687	7.8%
18	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	16.5	6,000	5,985	14,600	5.2%	13,600	5.1%	1.9%	811,595	733,698	646,150	12.2%
19	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	14.7	823	792	1,410	4.5%	1,430	4.5%	0.3%	78,164	70,921	59,515	8.6%
20	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	25.9	1,512	1,465	1,990	4.5%	2,000	4.5%	0.5%	109,959	95,137	71,644	6.3%
21	Hotel Sunroute Shinbashi	Limited-service	Mid-price	220	Tokyo	9.8	4,800	4,840	8,730	3.9%	8,740	4.0%	1.5%	412,327	355,295	334,264	7.4%
22	Hilton Tokyo Bay	Resort	Luxury	828	Chiba	29.5	26,050	26,192	36,000	4.3%	36,100	4.3%	8.2%	1,929,388	1,631,807	1,454,530	6.3%
23	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	37.4	7,243	8,136	9,290	4.2%	9,650	4.2%	2.3%	539,330	365,195	210,898	5.0%
24	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	8.8	6,600	6,712	10,900	4.3%	11,300	4.3%	2.1%	597,320	509,380	474,318	7.7%

# 1. Property List (2/2)

(As of December 31, 2017)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY M) (*4)	Book Value (JPY M) (*5)	Appraisal Value				Investment Ratio(*7)	Revenue from Real Estate Operation (JPY1,000) (*8)	NOI (JPY1,000) (*8)	P/L from Real Estate Operation (JPY1000) (*8)	NOI Yield (Actual) (*9)
									17th Period (as of 12.31.2016)		18th Period (as of 12.31.2017)						
									Appraisal Value (JPY M) (*6)	CAP Rate	Appraisal Value (JPY M)	CAP Rate					
25	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	7.4	6,797	6,686	10,200	4.9%	10,500	4.9%	2.1%	707,094	572,177	496,076	8.4%
26	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	8.7	6,000	5,931	10,300	4.8%	10,500	4.8%	1.9%	818,109	537,104	460,135	9.0%
27	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	8.4	3,000	2,916	7,620	4.8%	7,760	4.8%	0.9%	491,464	402,333	351,594	13.4%
28	the b akasaka-mitsuke	Limited-service	Mid-price	122	Tokyo	15.1	6,250	6,306	6,740	4.1%	6,010	4.1%	2.0%	249,719	231,296	209,410	3.7%
29	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	35.5	6,520	6,585	7,590	4.4%	7,330	4.4%	2.0%	360,195	334,768	304,606	5.1%
30	the b ochanomizu	Limited-service	Mid-price	72	Tokyo	18.4	2,320	2,357	2,590	4.2%	2,360	4.2%	0.7%	108,640	100,252	90,148	4.3%
31	the b hachioji	Limited-service	Mid-price	196	Tokyo	31.4	2,610	2,693	3,070	5.2%	2,780	5.2%	0.8%	202,307	176,051	149,258	6.7%
32	the b hakata	Limited-service	Mid-price	175	Fukuoka	20.3	2,300	2,354	3,960	4.5%	4,160	4.5%	0.7%	252,182	240,061	219,561	10.4%
33	Hotel Francs	Full-service	Mid-price	222	Chiba	26.4	3,105	3,155	4,090	4.7%	4,050	4.7%	1.0%	300,000	235,793	187,282	7.6%
34	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	24.2	1,650	1,669	2,040	4.7%	2,800	4.7%	0.5%	291,202	179,336	147,888	10.9%
35	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	12.9	14,950	14,853	17,200	5.0%	18,500	5.0%	4.7%	1,215,761	1,127,058	895,750	7.5%
36	ACTIVE-INTER CITY HIROSHIMA	Full-service	Luxury	238	Hiroshima	7.3	17,320	17,694	18,700	4.6%	20,500	4.6%	5.4%	1,482,412	1,060,219	873,824	6.1%
37	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	8.0	6,705	6,728	7,630	4.0%	7,630	4.0%	2.1%	350,191	329,982	290,543	4.9%
38	Hotel Centraza Hakata	Full-service	Mid-price	194	Fukuoka	32.5	7,197	7,413	7,690	4.7%	8,490	4.7%	2.3%	865,634	623,730	373,763	8.7%
39	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	9.4	27,000	27,122	28,800	4.4%	27,200	4.4%	8.5%	1,215,339	1,180,161	1,065,193	4.4%
40	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	18.7	4,925	5,187	5,340	4.8%	5,560	4.8%	1.5%	436,888	285,802	250,728	5.8%
41	Hilton Nagoya	Full-service	Luxury	460	Aichi	28.9	15,250	15,588	15,800	4.2%	15,700	4.2%	4.8%	1,388,411	714,991	578,679	4.7%
42	Hilton Tokyo Narita Airport	Full-service	Upper-middle	548	Chiba	24.4	13,175	13,383	13,400	4.7%	13,400	4.7%	4.1%	398,168	394,150	322,143	-
43	International Garden Hotel Narita	Full-service	Mid-price	463	Chiba	21.6	9,125	9,258	9,430	4.9%	9,430	4.9%	2.9%	261,663	259,270	200,013	-
44	Hotel Nikko Nara	Full-service	Upper-middle	330	Nara	19.9	10,373	10,558	11,200	4.9%	11,200	4.9%	3.2%	272,120	269,117	217,523	-
Total or Average		-	-	11,486	-	19.5	319,474	317,229	398,770	-	439,390	-	100.0%	25,475,553	21,424,619	17,563,899	6.7%

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

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

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

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

(\*5) Book value as of the end of December 2017.

(\*6) No.42 to No.44 state the appraisal value when they were acquired.

(\*7) Percentage of the acquisition price of the each asset to the total acquisition price. Numbers beyond one decimal place is rounded off.

(\*8) Actual for one year from January through December 2017. Since the lessees did not agree to disclose numbers in units of JPY1,000 for No. 11 and 12, amounts are rounded down to the nearest JPY million.

As No. 42 to 44 were acquired during the period, No.42 to 44 state the numbers after they were acquired.

(\*9) As No. 42 to 44 were acquired during the period, NOI yield (actual) is not calculated. Also the NOI yield for the portfolio is calculated as follows : Total NOI for FY12/2017 (actual) ÷ total acquisition price of properties held as of the end of FY12/2017.

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

(As of the end of December 2017)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease / MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to End of Dec. 2017)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
1	Kobe Meriken Park Oriental Hotel	Fixed-lease	Fixed + Variable	Hotel Management Japan Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	8	2	(Fixed rent) JPY3,221M/year + (Variable rent) When the total GOP of the five HMJ hotels exceeds GOP base amount (JPY3,351M), the excess x 85% is paid.	In principle, the same rent will be applied until expiration of the contract.	Jan. 2016	Structure was modified.	—	To be expired (Dec.)
2	Oriental Hotel tokyo bay												
3	Namba Oriental Hotel												
4	Oriental Hotel Hiroshima												
5	Hotel Nikko Alivila												
6	The Beach Tower Okinawa	Fixed-lease	Fixed	Kyoritsu Maintenance Co., Ltd.		20	8	JPY42M/month	The same rent will be applied until expiration of the contract.	—	—	—	—
7	Hakone Setsugetsuka	Fixed-lease	Fixed			20	8	JPY24M/month	The same rent will be applied until expiration of the contract.	—	—	—	—
8	Dormy Inn Kumamoto	Fixed-lease	Fixed			12	5	JPY16M/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Same	—	—
9	Dormy Inn EXPRESS Asakusa	Lease	Fixed			20	2	JPY5M/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Contract was renewed. (same)	—	—
10	Hakata Nakasu Washington Hotel Plaza	Lease	Fixed	Washington Hotel K.K.		3	0	JPY20M/month	Rent can be modified through mutual agreement.	Apr. 2015	Contract was renewed. (same)	To be expired (Mar.)	—
11	Nara Washington Hotel Plaza	Lease	Fixed			20	2	JPY11M/month	Rent can be modified through mutual agreement.	—	—	—	—
12	R&B Hotel Ueno-hirokoji	Lease	Fixed			20	4	JPY8M/month	Rent can be modified through mutual agreement.	Apr. 2011	Increased (+ 3.0%)	—	—
13	R&B Hotel Higashi-nihonbashi	Lease	Fixed			20	0	JPY10M/month	Rent can be modified through mutual agreement.	Apr. 2013	Same	To be expired (Mar.)	—
14	Comfort Hotel Tokyo Higashi Nihombashi	Fixed-lease	Fixed	Greens Co., Ltd.		20	10	JPY21M/month	Rent can be modified through mutual agreement every five years.	Jan. 2013	Same	Under discussion (Jan.)	—
15	Smile Hotel Nihombashi Mitsukoshimae	Lease	Fixed+Revenue sharing	THE KAMOGAWA GRAND HOTEL, LTD.		20	2	JPY11M/month + Revenue sharing	Rent can be modified through mutual agreement.	Apr. 2017	Contract was renewed. (same)	—	—
16	Toyoko Inn Hakata-guchi Ekimae	Lease	Fixed	Toyoko Inn Co., Ltd.		30	13	JPY11M/month	No rule has been stipulated.	Oct. 2007	Increased (+ 9.4%)	—	—
17	Hotel Keihan Universal City	Lease	Fixed+Revenue sharing	K.K. Hotel Keihan		20	3	Nondisclosure(*5)	Nondisclosure(*5)	Jul. 2014	Structure was modified.	—	—
18	Chisun Inn Kamata	Fixed-lease	Variable	Solare Hotels & Resorts Co., Ltd.	SHR Hotels, Co., Ltd.	2	2	Hotel GOP x 86% (If it is below zero, it will be JPY0)	-	Jul. 2017	Contract was renewed. (the calculation method of variable rent was modified.)	—	To be expired (Dec.)
19	Hotel Vista Kamata Tokyo	Lease	Fixed+Revenue sharing	Vista Hotel Management Co., Ltd.		4	1	JPY7M/month + Revenue sharing	In principle, the same rent will be applied until expiration of the contract.	Jul. 2015	Contract was renewed. (the calculation method of revenue sharing was modified.)	To be expired (Dec.)	—
20	Hotel Sunroute Shinbashi	Fixed-lease	Fixed+Revenue sharing	Sotetsu Hotel Management Co., Ltd.		15	5	JPY18M/month + Revenue sharing	No rule has been stipulated.	—	—	—	—
21	Hilton Tokyo Bay	Fixed-lease	Fixed+Revenue sharing	THE DAI-ICHI BUILDING CO., LTD	Hilton International Company	4	1	JPY157M/month + Revenue sharing	Rent can be modified through mutual agreement.	Jul. 2015	Contract was renewed.	To be expired (Dec.)	—

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

(As of the end of December 2017)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease / MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to End of Dec. 2017)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
22	ibis Tokyo Shinjuku	-	Management contract	-	AAPC Japan K.K.	12	6	Amount equivalent to hotel GOP	-	Jul. 2012	Structure was modified.	-	-
23	ibis Styles Kyoto Station	-	Management contract			5	1	Amount equivalent to hotel GOP	-	-	-	To be expired (Dec.)	-
24	ibis Styles Sapporo	-	Management contract			5	1	Amount equivalent to hotel GOP	-	Dec. 2014	Structure was modified.	-	To be expired (Jan.)
25	Mercure Sapporo	-	Management contract			15	11	Amount equivalent to hotel GOP	-	-	-	-	-
26	Mercure Okinawa Naha	-	Management contract			10	6	Amount equivalent to hotel GOP	-	-	-	-	-
27	Mercure Yokosuka	Fixed-lease	Variable	AAPC Japan K.K.		5	1	Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	To be expired (Aug.)
28	the b akasaka-mitsuke	Fixed-lease	Fixed+ Variable	Ishin Akasaka Operations, K.K.		7	4	JPY102M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
29	the b ikebukuro	Fixed-lease	Fixed+ Variable	Ishin Ikebukuro Operations K.K.		7	4	JPY163M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
30	the b ochanomizu	Fixed-lease	Fixed+ Variable	Ishin Ochanomizu Operations K.K.		7	4	JPY69M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
31	the b hachioji	Fixed-lease	Fixed+ Variable	Ishin Hachioji Operations, Y.K.		7	4	JPY98M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
32	the b hakata	Fixed-lease	Fixed+ Variable	Ishin Hakata Operations K.K.		7	4	JPY82M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
33	the b suidobashi	Fixed-lease	Fixed+ Variable	Ishin Suidobashi Operations K.K.		5	2	JPY85M/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	Jul. 2015	Rebranded	-	-
34	Hotel Francs	Fixed-lease	Fixed	K.K. Bridal Produce		19	6	JPY25M/month	The same rent will be applied until expiration of the contract.	-	-	-	-
35	Okinawa Marriott Resort & Spa	Fixed-lease	Fixed+ Variable	Lagoon resort Nago Co., Ltd.		5	3	(Fixed rent) JPY550M/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY700M), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	-	-	-	-
36	ACTIVE-INTER CITY HIROSHIMA	Fixed-lease	Fixed+ Variable	K.K. A.I.C Hiroshima Management	STARWOOD ASIA PACIFIC HOTELS & RESORTS PTE LTD. (*6)	11	9	(Fixed rent) JPY348M/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY468M), the excess x 82.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	-	-	-	-
37	CANDEO HOTELS UENO-KOEN	Fixed-lease	Fixed	Candeo Hospitality Management, Inc.		20	12	Nondisclosure (*5)	Rent can be modified through mutual agreement every three years.	Jul. 2016	Renewed	-	-
38	Hotel Centraza Hakata	Fixed-lease	Fixed+ Variable	Hotel Centraza Co., Ltd.		4	2	(Fixed rent) JPY400M/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY425M), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	-	-	-	To be expired (Dec.)

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

(As of the end of December 2017)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease / MC Term	Remaining Contract Term (*2)	Contractual Rent (*3)	Rent Modification Summary	Rent Modification Summary (Acquisition to End of Dec. 2017)		Rent Modification Schedule (2018 to 2019)	
										Timing	Condition (*4)	2018	2019
39	Holiday Inn Osaka Namba	Fixed-lease	Fixed+ Variable	OW Hotel Operations KK		15	13	(Fixed rent) JPY576M/year (Variable rent) + when the total GOP exceeds GOP base amount (JPY650M), the excess x 92.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
40	HOTEL ASCENT FUKUOKA	Lease	Fixed	NIKOH SANGYO co., Ltd.		20	1	Nondisclosure (*5)	Rent can be modified through mutual agreement every three years.	—	—	—	To be expired (Apr.)
41	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	12	Nondisclosure (*5)	Rent can be modified through mutual agreement.	—	—	—	—
42	Hilton Tokyo Narita Airport	Fixed-leas	Fixed+ Variable	KK NaritaKosuge Operations		20	19	(Fixed rent) JPY444M/year (Variable rent) + When the total GOP exceeds GOP base amount (JPY550M), the excess x 86.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
43	International Garden Hotel Narita	Fixed-lease	Fixed + Variable	KK NaritaYoshikura Operations		10	9	(Fixed rent) JPY336M/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY360M), the excess x 98% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
44	Hotel Nikko Nara	Fixed-lease	Fixed + Variable	Hotel Management Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	3	3	(Fixed rent) JPY420M/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY470M), the excess x 91.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—

(\*1) Rent structure is as follows:

Fixed: Fixed rent

Variable: Variable rent

Management contract: Management contract

Fixed + Variable: Property paying both fixed and variable rent

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

(\*2) Remaining contract term as of the end of December, 2017.

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

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

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

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

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

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

(\*6) The hotel operator was changed to Luxury Hotels International of Hong Kong Limited in Jan. 1, 2018.

### 3. Major CAPEX III by Hotel

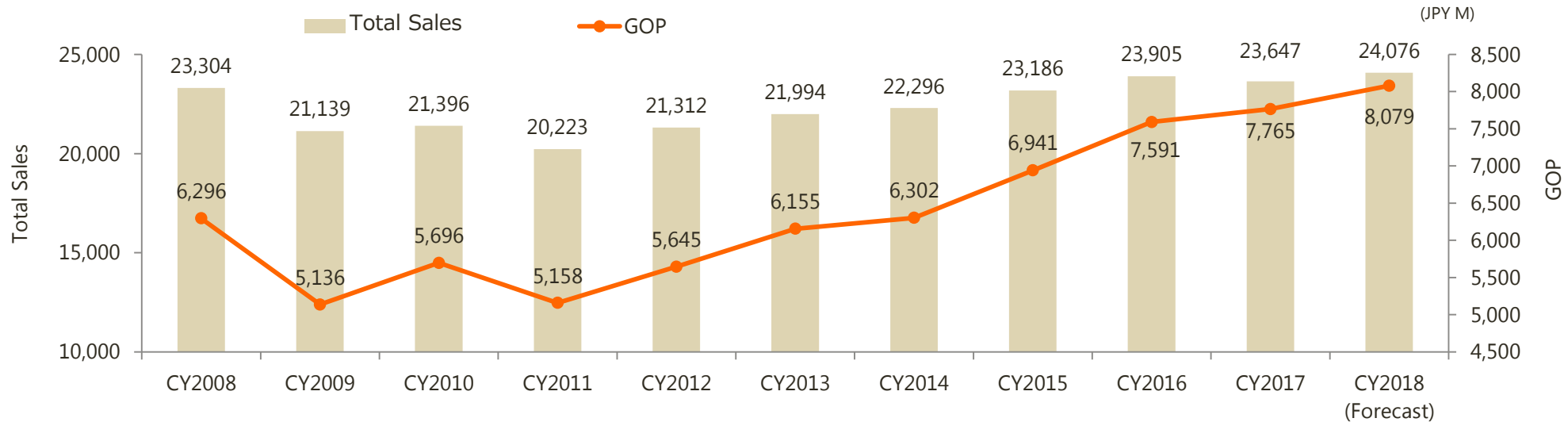
\* (Numbers in parentheses are CAPEX, amounts : JPY M)

	FY12/2012	FY12/2013	FY12/2014	FY12/2015	FY12/2016	FY12/2017	FY12/2018 Plan
Kobe Meriken Park Oriental Hotel	-	-	-	Chapel (36)	Guest rooms on 7F(50) Balconies on each floor (62) Bar (85)	Bridal salon (76)	Private rooms at restaurant and balcony, etc. on 3F (16)
Oriental Hotel Tokyo Bay	-	Restaurant(45)	-	-	Guest rooms on 4F (101)	-	Guest rooms on 11F to 12F (120)
Namba Oriental Hotel	-	Corner rooms on 5F to 8F (10)	-	-	Guest rooms on 9F (91)	Guest rooms on 7F (77)	Guest rooms on 6F (78)
Hotel Nikko Alivila	-	-	Guest rooms on 3F to 8F of North building and 3F to 5F of central building(333)	-	Guest rooms on 9F (55) Restaurant (31)	-	Guest rooms on 1F, etc. (16)
Oriental Hotel Hiroshima	-	-	Banquet room on 23F (10)	-	Guest rooms on 7F to 10F(43) Banquet room on 4F (38)	-	Chapel (10)
Ibis Tokyo Shinjuku	Lobby and restaurant on 2F, and guest rooms on 3,5,7,9F (170)	-	-	-	Guest rooms on 3F to 10F (192)	Guest rooms on 3F to 10F (312)	-
Holiday Inn Osaka Namba	-	-	-	-	-	-	Guest rooms on 6,7,12F (90)
Mercure Hotel Sapporo	-	-	-	-	-	-	Banquet room (29)
The b Ikebukuro	-	-	-	-	-	-	Guest rooms on 3F to 10F, etc. (23)

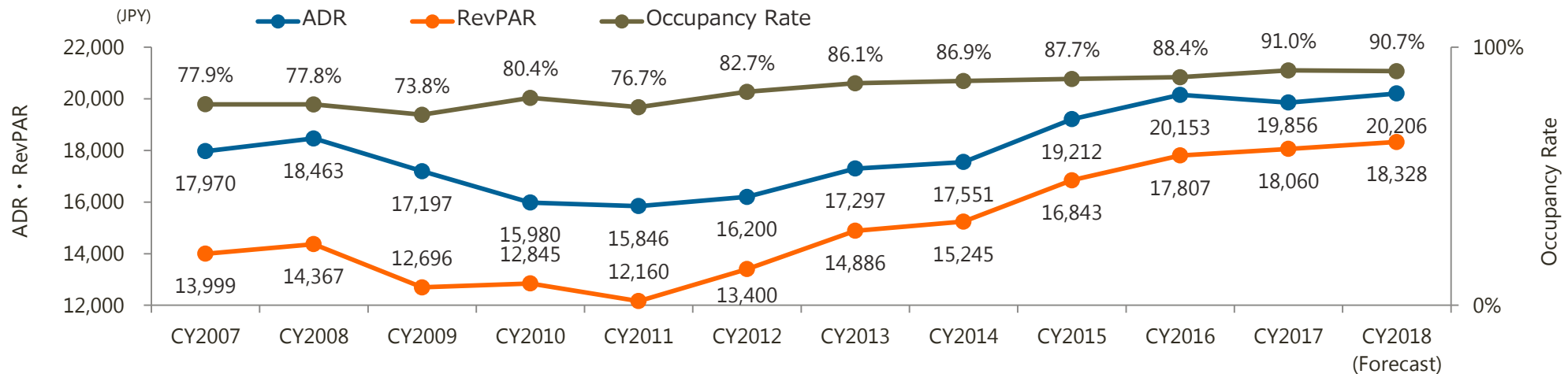


## 4. The Five HMJ Hotels – Highlights

### Changes in Total Sales and GOP



### Changes in KPI



# 5. Portfolio Map

## Total Assets

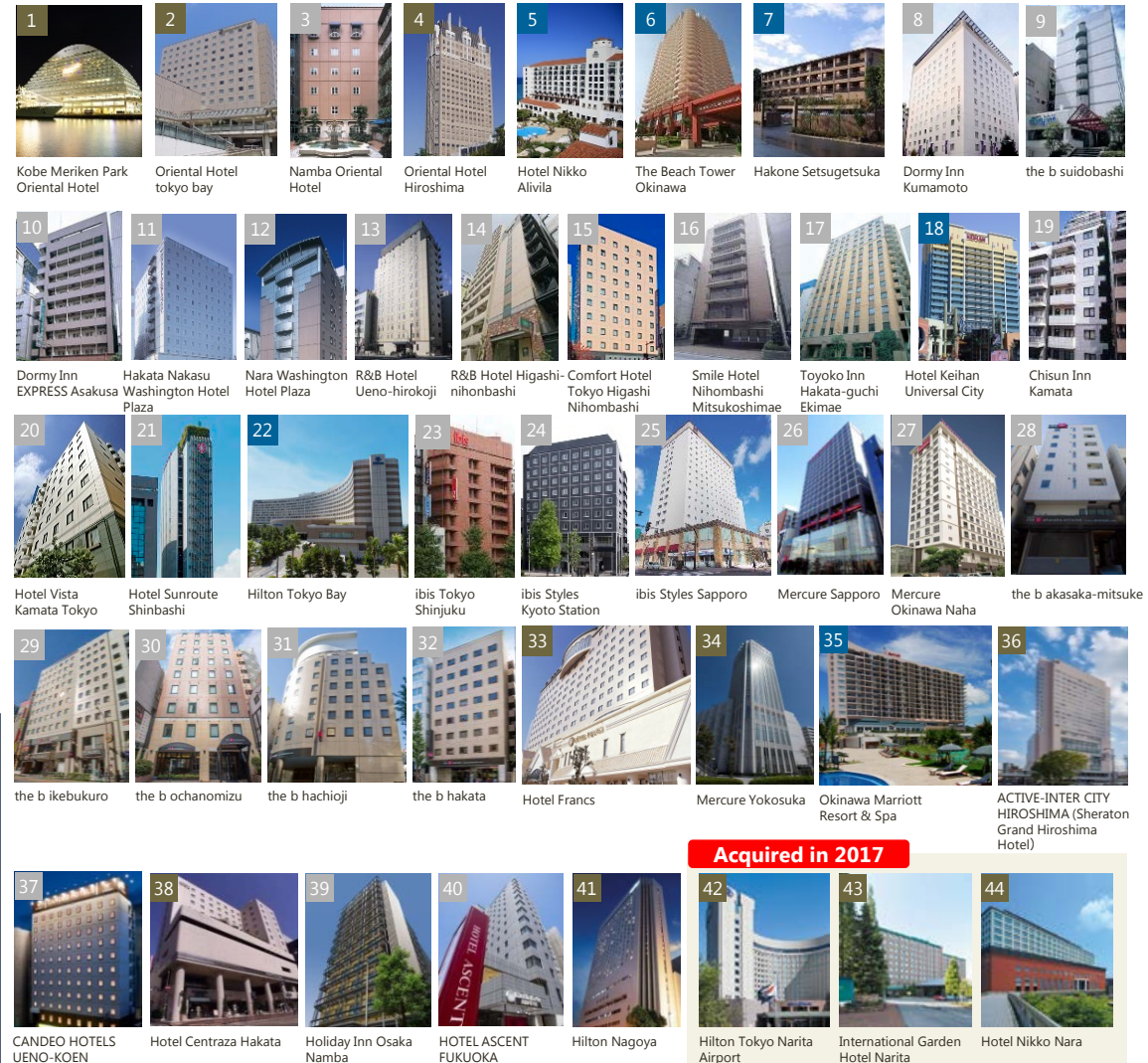
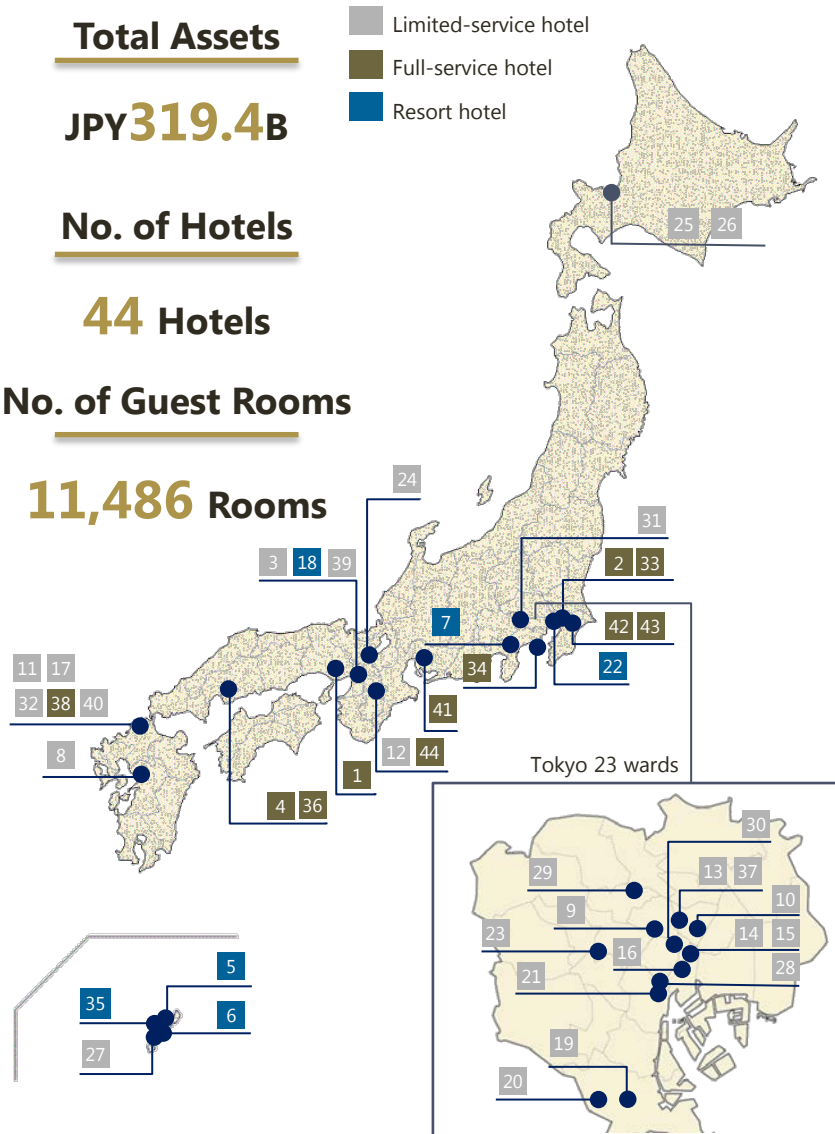
JPY**319.4B**

## No. of Hotels

**44** Hotels

## No. of Guest Rooms

**11,486** Rooms



## **Appendix 3**

### **Investors Composition and Investment Unit Price**

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# 1. Major Unitholders and Classifications of Unitholders

## Top Ten Major Unitholders

As of the End of June 2017

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

As of the End of December 2017

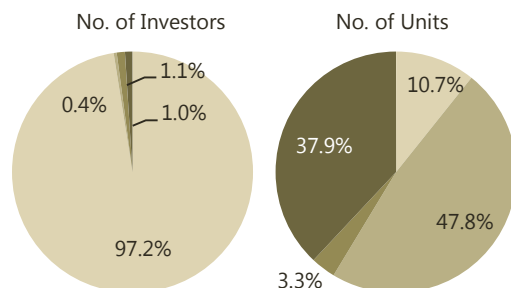
Rank	Name	No. of Units	Percentage (*)
1	The Master Trust Bank of Japan, Ltd. (Trust)	609,417	15.19
2	Japan Trustee Service Bank, Ltd. (Trust)	563,882	14.05
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	186,334	4.64
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	183,404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

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

## Owners of the Investment Units

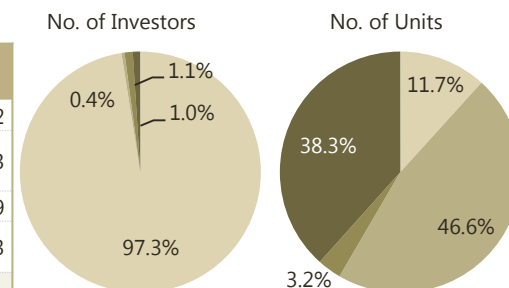
As of the End of June 2017

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



As of the End of December 2017

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



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

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

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

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

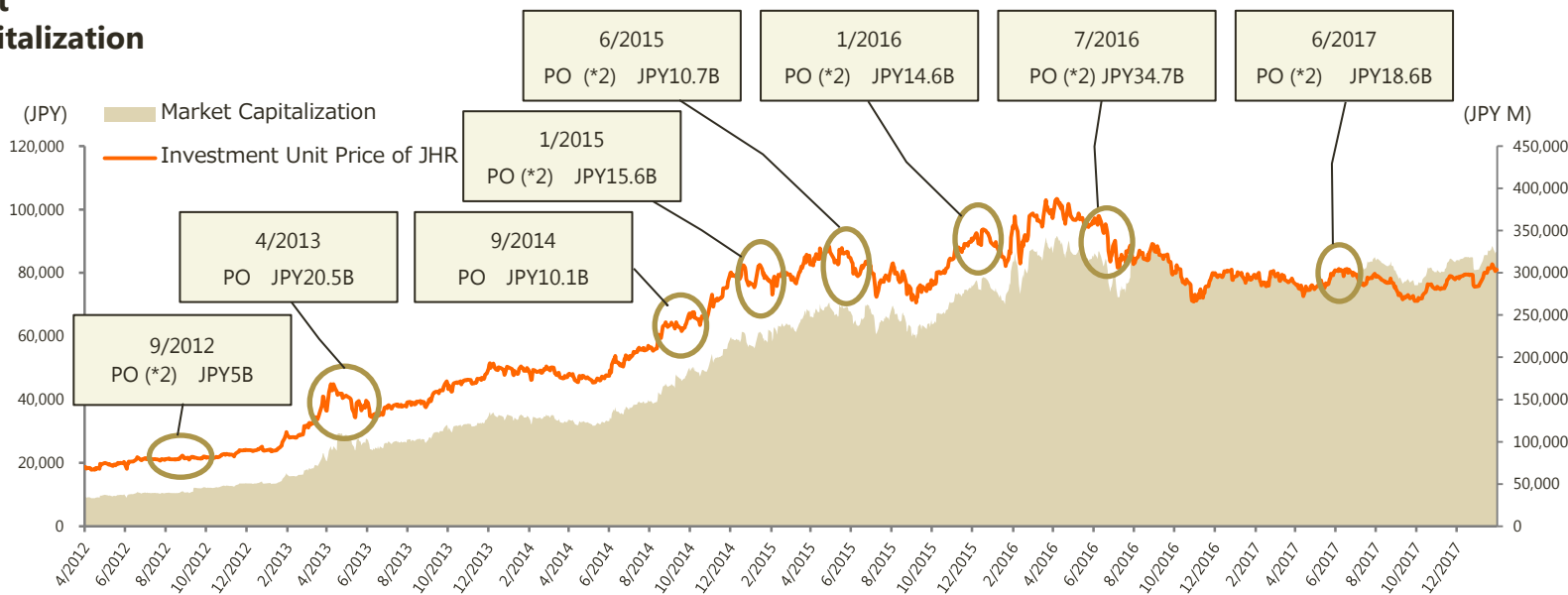
Price of the investment unit:  
**JPY80,900**

Total market capitalization:  
**JPY324.5B**

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

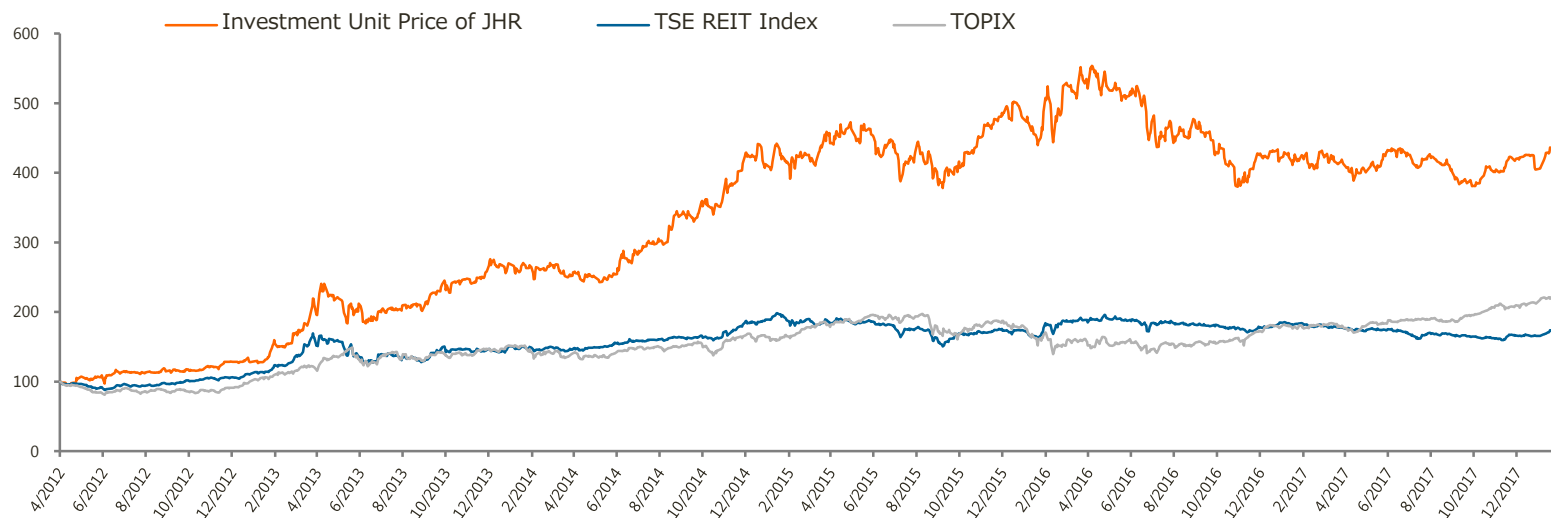
(\*1) Price of the real estate investment securities may fall depending on the fluctuations of price of the real estate under management or profitability, etc., and investors may suffer losses. Investors may also suffer losses through the bankruptcy or deteriorated financial condition of the issuer. With reference to the risk of investment in JHR units, see Securities Registration Statement of JHR dated June 19, 2017 and Semi-annual Financial Report dated September 20, 2017.

(\*2) Includes OA.



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

(\*1) 100 is the closing price of JHR unit, REIT index and TOPIX at TSE dated April 2, 2012. REIT Index of TSE is an index of a weighted average of the market capitalization of all REITs listed on TSE.



## **Appendix 4**

### **Summary of the Asset Management Company**

# 1 . Summary of the Asset Management Company

Company	Japan Hotel REIT Advisors Co., Ltd.
Location	Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo 150-0013
Establishment	August 10, 2004
Capital	JPY300M as of December 31, 2017
Shareholders	Rockrise Sdn Bhd, Kyoritsu Maintenance Co., Ltd., ORIX Corporation
Representative Director	Hisashi Furukawa
Registration and Licenses	Building Lots and Buildings Transaction Business Operator, Governor of Tokyo (3) No. 83613 Discretionary Transaction Agent by Minister of Land, Infrastructure, Transport and Tourism No. 38 Financial Instruments Trading Company, Director-General of Kanto Local Finance Bureau No. 334 Member of The Investment Trusts Association, Japan

Organization Chart



## 2. Features and Governance of the Asset Management Company

- Japan Hotel REIT Advisors Co., Ltd. (JHRA) is an asset management company of Japan Hotel REIT Investment Corporation, a real estate investment trust in Japan (J-REIT), specializing in hotel assets.
- JHRA holds up a mission statement, which is “Provide attractive hotel investment opportunities to investors as a professional of investment and management of hotel assets. Gain a creditability from our stakeholders and contribute to local communities and society through investment and management in hotel assets.” It manages JHR’s assets with high degree of professionalism and determined independence.

### Advanced Expertise

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

### Ensured Independence

- JHRA secures high independence from its main sponsor and clarifies its strong commitment to profit and growth of JHR.
  - No director and employee of the asset management company is a seconded employee of the main sponsor, SC CAPITAL PARTNERS group, except for part-time directors.
  - Non-sponsor-related directors account for half of JHRA’s board of directors.
  - With regard to transactions with sponsor-related parties and JHR, JHRA has set strict decision-making rules. In principle, in addition to obtaining approval by Compliance Committee which includes an outside specialist, who is authorized to dismiss proposals, JHRA is required to obtain approval from JHR’s board of directors’ meetings (directors consist of third-party members who do not have any relationship with the sponsor-related parties).



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

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

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

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

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

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

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Japan Hotel REIT Advisors Co., Ltd.  
Financial Instruments Trading Company  
Director-General of Kanto Local Finance Bureau No. 334  
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