

Asset Management Report

For the Year Ended December 31, 2019

Japan Hotel REIT Investment Corporation



Dear Investors,

Thank you for your support and patronage to Japan Hotel REIT Investment Corporation (JHR) and its asset management company, Japan Hotel REIT Advisors Co., Ltd.

Having settled the accounts for the 20th fiscal period (from January 1, 2019 to December 31, 2019) of JHR, we are pleased to present you with the status of management and detail of the settlement of accounts for the period.

In the 20th fiscal period, the number of inbound visitors (hereinafter called “inbound”) to Japan from South Korea declined due to the deterioration of Japan-South Korea relations, but the number of inbound to Japan reached an estimated 31.88 million (up 2.2% from the previous year) making a record high, due to the factors including the increase in inbound due to the Rugby World Cup held in Japan. In addition, despite typhoons and other natural disasters, the number of overnight guests at domestic accommodation facilities in 2019 totaled 545 million guest nights (preliminary figures), and demand for accommodations among Japanese people remained firm. On the other hand, accommodation market was weak in the Kansai area and other areas due to the loosening supply-demand balance caused by increase in new supply of hotels and the significant impact of the decline in the inbound from South Korea. Under these circumstances, JHR has been making efforts to improve revenue through the active asset management strategies such as rebranding with large-scale renovation, review of sales measures, and cost management.

As for the external growth in the 20th fiscal period, JHR acquired “Hilton Tokyo Odaiba”, which became a flagship property (acquisition price: ¥62,400 million) of JHR and “Hotel Oriental Express Osaka Shinsaibashi” (acquisition price: ¥2,738 million). As a result, JHR grew its asset size to approximately ¥374.5 billion (total acquisition price).

As a result, JHR posted operating revenue of ¥28,278 million, ordinary income of ¥15,291 million and net income of ¥15,290 million for the 20th fiscal period. Dividend per unit came to ¥3,690, minus 5.1% from the previous fiscal period. As dividend per unit in the previous fiscal period included a part of gain from sales of properties, excluding such amount, dividend per unit in the current fiscal period remained at the same level as in the previous fiscal period.

As for the environment surrounding the hotel market, in addition to a decline in the number of inbound to Japan from South Korea since last year, there has been the coronavirus outbreak since the beginning of the year, and there are concerns that demand for hotel accommodations will decline until the outbreak is over. On the other hand, the Tokyo 2020 Olympic and Paralympic Games will be finally held this summer, and the attractiveness of Japan and its tourism resources will be widely disseminated overseas. We believe that the advertising effect of the Olympic Games will be significant, and it will boost the growth of Japan’s tourism industry in the mid to long term. Amid expectations for the mid to long term growth in the hotel market, we at JHR, and Japan Hotel REIT Advisors Co., Ltd., its asset management company, will make every effort for JHR’s further growth and enhancement of its attractiveness by leveraging the expertise and know-how cultivated to date.

We would appreciate your continued support for us.

Kaname Masuda
Executive Director
Japan Hotel REIT Investment Corporation

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

JAPAN HOTEL REIT INVESTMENT CORPORATION

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This section (P1-P44) is the translation of the Asset Management Report for the 20th Period released on March 19, 2020 except for I.5. Investment policies and issues to be addressed and I.6. Significant subsequent events and certain other sections which were partially updated based on translation of Securities Report dated March 27, 2020 and other reasons. This English translation is provided for information purposes only. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

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I. ASSET MANAGEMENT REPORT

Outline of Asset Management Operation

1. Operating results and financial position, etc.

Fiscal period Account closing date		16th period December 2015	17th period December 2016	18th period December 2017	19th period December 2018	20th period December 2019
Operating revenue (Note 1)	JPY1M	17,343	22,107	25,475	28,253	28,278
[Real estate operating revenue]	JPY1M	[17,033]	[22,107]	[25,475]	[26,318]	[28,278]
Operating expenses	JPY1M	6,354	8,221	9,717	10,260	11,129
[Real estate operating costs]	JPY1M	[5,002]	[6,589]	[7,911]	[8,344]	[8,997]
Operating income	JPY1M	10,988	13,885	15,757	17,993	17,148
Ordinary income	JPY1M	9,295	12,220	14,006	16,211	15,291
Net income (Note 2)	JPY1M	9,294	12,123	14,005	16,210	15,290
Total assets	JPY1M	240,356	317,878	352,183	350,556	415,722
[Period-on-period change]	[%]	[27.8]	[32.3]	[10.8]	[(0.5)]	[18.6]
Net assets	JPY1M	129,914	181,989	201,963	203,372	236,522
[Period-on-period change]	[%]	[29.5]	[40.1]	[11.0]	[0.7]	[16.3]
Unitholders' capital	JPY1M	85,470	134,829	153,516	153,516	186,894
Number of investment units issued and outstanding	Units	3,144,227	3,761,907	4,010,847	4,010,847	4,462,347
Net assets per unit	JPY	41,318	48,376	50,354	50,705	53,004
Net income per unit (Note 3)	JPY	3,036	3,462	3,606	4,041	3,447
Total dividends	JPY1M	9,354	12,865	14,771	15,602	16,466
Dividend per unit	JPY	2,975	3,420	3,683	3,890	3,690
[Earnings dividend per unit]	JPY	2,975	3,420	3,683	3,890	3,690
[Dividend per unit resulted from excess of earnings]	JPY	—	—	—	—	—
Ratio of ordinary income to total assets (Note 4)	%	4.3	4.4	4.2	4.6	4.0
Return on unitholders' equity (Note 5)	%	8.1	7.8	7.3	8.0	7.0
Ratio of net assets to total assets (Note 6)	%	54.1	57.3	57.3	58.0	56.9
[Period-on-period change]	[%]	[0.7]	[3.2]	[0.1]	[0.7]	[(1.1)]
Payout ratio (Note 7)	%	100.6	106.1	105.5	96.2	107.7
[Additional information]						
NOI (Note 8)	JPY1M	14,829	18,829	21,424	22,104	24,087
FFO per unit (Note 9) (Note 10)	JPY	3,748	4,103	4,454	4,588	4,503
FFO multiple (Note 10) (Note 11)	Times	23.9	19.2	17.0	17.1	18.0
Debt service coverage ratio (Note 10) (Note 12)	Times	9.1	14.2	15.6	18.0	17.5
Interest-bearing debt	JPY1M	102,772	126,179	140,399	136,671	168,754
Ratio of interest-bearing debt to total assets (Note 13)	%	42.8	39.7	39.9	39.0	40.6
Number of investment properties	Properties	36	41	44	41	43
Total leasable area	m ²	493,758.78	587,481.02	687,124.54	678,714.48	746,329.68
Number of tenants at end of period (Note 14)	Tenants	113	128	131	126	125
Occupancy rate at end of period (Note 15)	%	99.9	99.9	99.9	99.9	99.9
Depreciation	JPY1M	2,772	3,294	3,725	4,091	4,557
Capital expenditures	JPY1M	1,811	2,619	2,898	3,056	6,767
Number of operating days	Days	365	366	365	365	365

(Note 1) Operating revenue does not include consumption tax, etc.

(Note 2) Net income for the 16th fiscal period includes gain on sale of real estate properties (¥305 million). Net income for the 19th fiscal period includes gain on sale of real estate properties (¥1,934 million).

(Note 3) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.

- (Note 4) $\text{Ratio of ordinary income to total assets} = \text{Ordinary income} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$
- (Note 5) $\text{Return on unitholders' equity} = \text{Net income} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
- (Note 6) $\text{Ratio of net assets to total assets} = \text{Net assets at end of period} / \text{Total assets at end of period} \times 100$
- (Note 7) $\text{Payout ratio} = \text{Total dividends (excess of earnings exclusive)} / \text{Net income} \times 100$
- (Note 8) $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$
- (Note 9) $\text{FFO per unit} = (\text{Net income} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)}) / \text{Number of investment units issued and outstanding}$
- (Note 10) For the 16th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥305 million). For the 19th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥1,934 million).
- (Note 11) $\text{FFO multiple} = \text{Investment unit price at end of period} / \text{Annualized FFO per unit}$
- (Note 12) $\text{Debt service coverage ratio} = (\text{Income before income taxes} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)} + \text{Amortization of investment corporation bond issuance costs} + \text{Amortization of investment unit issuance expenses} \pm \text{Loss or gain on derivative instruments} + \text{Interest expense} + \text{Interest expense on investment corporation bonds}) / (\text{Interest expense} + \text{Interest expense on investment corporation bonds} + \text{Total of contractual principal repayments (excluding lump-sum principal repayments)})$
- (Note 13) $\text{Ratio of interest-bearing debt to total assets} = \text{Interest-bearing debt at end of period} / \text{Total assets at end of period} \times 100$
- (Note 14) Number of tenants at end of period indicates the total number of tenants based on the lease contracts for respective real estate properties in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total number of the end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 15) Occupancy rate at end of period indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period.

2. Asset management operation for the fiscal period under review

(1) Brief history and principal activities

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

JHR entrusts the asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves wholly or partially used as hotels or real estate equivalents of such real estate or which are backed by such real estate or real estate equivalents (hereinafter referred to as the “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 by the end of the fiscal period, JHR has carried out nine public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 26 properties amounting to ¥275,160 million (on an acquisition price basis) in total in approximately a little less than eight years since the Merger. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 43 properties with a combined acquisition price of ¥374,508 million and the total number of investment units issued and outstanding stood at 4,462,347 units.

(2) Investment performance for the fiscal period under review

In 2019, the domestic tourism market has remained strong although the impact of the future course of trade issues on the world economy and the impact of future prospects of the Chinese economy among others were carefully watched. The demand for accommodation remained solid as the cumulative number of overnight guests at domestic accommodation facilities in 2019 totaled 545 million guest nights (preliminary release), surpassing the figure for 2018 when the figure reached record high. The number of foreign visitors to Japan (hereinafter referred to as “inbound”) was estimated 31.88 million (up 2.2% from the previous year) during the year marking a record high, due to a large increase in the number of visitors from China, Southeast Asia, the U.S. and Europe offsetting the significant drop in the number of visitors from South Korea. On the other hand, as new supply of hotels increased against the backdrop of strong demand for accommodation, the loosening supply-demand balance resulted in a weak accommodation market particularly in the Kansai area.

The hotel investment market continued to be in a brisk state, with continual attention paid to Japan’s tourism industry and hotel industry against the backdrop of the expected growth in demand for accommodation. JHR has continuously expanded its asset size capitalizing on the strengths such as high recognition as Japan’s largest J-REIT specializing in hotels, capability to propose various acquisition schemes and cooperation with Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), a group company of the Asset Management Company.

During the fiscal year under review, JHR acquired Hilton Tokyo Odaiba (acquisition price: ¥62,400 million), a scarce large-scale full-service hotel positioned as JHR’s flagship property; and Hotel Oriental Express Osaka Shinsaibashi (acquisition price: ¥2,738 million), a hotel which HMJ has been involved with since the beginning of development and has managed utilizing its market knowledge and operational know-how. Amid some overheated mood in the hotel investment market, JHR improved the portfolio quality through acquisitions of highly competitive properties that can differentiate themselves from others.

As to the performance of hotels owned by JHR, RevPAR (Note 1) and GOP (gross operating profit) of the 21 hotels with variable rent, etc.(Note 2) fell below the previous year mainly due to a decrease in room sales at some hotels impacted by factors such as the increase in new hotel supply and the decrease of visitors from South Korea.

While taking measures to increase fixed and variable rent through the active asset management strategy, which is the proactive pursuit of greater profitability and asset value of owned hotels such as the large-scale renovation of Oriental Hotel Fukuoka Hakata Station (Note 3) which reopened in April 2019 after the renovation. JHR also has endeavored to generate greater earnings by appropriately reviewing the costs of each item such as real estate operating costs, general and administrative expenses and borrowing costs, etc. through negotiations with relevant parties and other measures. For further details of management indicators for the 21 hotels with variable rent, etc., please refer to “<Reference 2> Hotel operation indexes, sales and GOP” in 7. Reference information.

(Note 1) RevPAR: Represents revenue per available room, which is calculated by dividing revenue for rooms for a certain period (including service charges) by the total number of rooms available for sale during the period, and equals the product of average daily rate (ADR) and occupancy rate. The same shall apply hereinafter.

(Note 2) The hotel group combining the hotels which JHR leases to HMJ (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima, (hereinafter referred to as “The Five HMJ hotels”)), with the hotels which JHR leases to HMJ subsidiaries (Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), Oriental Hotel Fukuoka Hakata Station, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, Hotel Nikko Nara, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba) is called the HMJ Group Hotels. 12 Hotels excluding Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba from the HMJ Group Hotels are called The Twelve HMJ Hotels. The 21 hotels with variable rent, etc. refers to the HMJ Group Hotels excluding Oriental Hotel Fukuoka Hakata Station, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba which cannot be compared with the previous fiscal year due to renovation or new acquisition, plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata. The same shall apply hereinafter.

(Note 3) Former Hotel Centraza Hakata underwent large-scale renovation work accompanying the suspension of hotel operations from October 1, 2018 and has been operated as Oriental Hotel Fukuoka Hakata Station since April 9, 2019. The same shall apply hereinafter.

(3) Funding conditions

JHR took out loans of ¥30,000 million in total in April 2019, in addition to procuring ¥33,378 million by way of capital increase through public offering in January 2019 and third-party allotment in February 2019; and acquired two properties, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba in February and April 2019, respectively.

In March 2019, JHR took out loans of ¥6,000 million in total mainly to refinance existing investment corporation bonds that had matured and existing borrowings that were due for repayment. Furthermore, in April 2019, JHR took out loans of ¥1,800 million mainly for renovation of Oriental Hotel Fukuoka Hakata Station. JHR issued investment corporation bonds of ¥8,000 million targeting individual investors in June 2019 and allocated the funds to the early repayment of existing loans.

In addition, in July 2019, JHR issued green bonds (investment corporation bonds for institutional investors) of ¥2,000 million for the first time among J-REITs specializing in hotels mainly for the purpose of repaying existing borrowings allocated to capital expenditures and constructions of equipment which contribute to environment, including reduction of CO₂ and water consumption, out of the renovation cost for Oriental Hotel Fukuoka Hakata Station.

Furthermore, JHR took out loans of ¥7,200 million for the refinance and partial early repayment of existing loans in September 2019.

Consequently, as of the end of the fiscal year under review, balance of interest-bearing debt totaled ¥168,754 million, comprised of current portion of long-term loans payable of ¥12,782 million, long-term loans payable of ¥114,372 million and investment corporation bonds of ¥41,600 million, and the ratio of interest-bearing debt to total assets at end of year (Note) stood at 40.6%.

JHR reduced borrowing costs and extended maturity dates through the aforementioned series of fund procurement. Along with such, JHR concluded loans with fixed interest rates as well as interest rate swap contracts to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio on total interest-bearing debt at end of year to 97.8%.

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

As of December 31, 2019, JHR's issuer ratings were as follows.

As of October 17, 2019, Rating and Investment Information, Inc. (hereinafter referred to as "R&I") changed the outlook of JHR's issuer rating from "A (Stable)" to "A (Positive)."

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd.	A +	Stable
Rating and Investment Information, Inc.	A	Positive

(4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥28,278 million, ¥17,148 million and ¥15,291 million, respectively, for the fiscal period under review (12-month period from January 1, 2019 to December 31, 2019). Net income was ¥15,290 million.

With regard to dividends, it was decided that ¥16,466 million was distributed, which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥1,176 million to unappropriated retained earnings of ¥15,290 million. Consequently, ¥16,466 million was distributed as dividend and the dividend per unit came to ¥3,690.

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

3. Changes in unitholders' capital, etc.

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

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (JPY1M)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 1)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 2)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 3)
July 23, 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 4)
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 5)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 6)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 7)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 8)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 9)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 10)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 11)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 12)

(Note 1) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to raise funds for the acquisition of new properties, etc.

(Note 2) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 3) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to raise funds for the acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 5) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to raise funds for the acquisition of new properties, etc.

(Note 6) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to raise funds for the acquisition of new properties, etc.

(Note 7) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to raise funds for the acquisition of new properties, etc.

(Note 8) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 9) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to raise funds for the acquisition of new properties, etc.

(Note 10) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to raise funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(Note 11) New investment units were issued through public offering with an issue price per unit of ¥76,342 (issue value of ¥73,927) in order to raise funds for the acquisition of new properties, etc.

(Note 12) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to raise funds for allocation to part of the acquisition of new properties.

[Fluctuation in market price of investment units]

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

(yen)

Fiscal period Account closing month	16th period December 2015	17th period December 2016	18th period December 2017	19th period December 2018	20th period December 2019
Highest price	93,800	103,400	81,200	85,000	91,800
Lowest price	70,600	70,900	71,100	75,000	75,900
Price at end of period	89,500	78,600	75,600	78,400	81,200

4. Dividends, etc.

Earnings dividend for the period under review was decided in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation. And ¥16,466,060,430, which excludes fractions of less than one yen of dividend per unit from ¥16,466,805,219, which was calculated by adding a reversal of the reserve for temporary difference adjustment of ¥1,176,490,844 to unappropriated retained earnings of ¥15,290,314,375 as of end of the fiscal period under review, was distributed. Consequently, the dividend per unit came to ¥3,690.

(yen)					
Classification	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)
Unappropriated retained earnings	9,296,121,922	12,126,057,948	14,005,489,588	16,213,482,816	15,290,314,375
Retained earnings	2,894,304	411,048	3,048,696	—	744,789
Total cash dividends	9,354,075,325	12,865,721,940	14,771,949,501	15,602,194,830	16,466,060,430
[Dividend per unit]	[2,975]	[3,420]	[3,683]	[3,890]	[3,690]
Of the above, total earnings dividends	9,354,075,325	12,865,721,940	14,771,949,501	15,602,194,830	16,466,060,430
[Earnings dividend per unit]	[2,975]	[3,420]	[3,683]	[3,890]	[3,690]
Of the above, total return of capital contributions	—	—	—	—	—
[Return of capital contributions per unit]	[—]	[—]	[—]	[—]	[—]
Of total return of capital contributions, total distributions from allowance for temporary difference adjustment	—	—	—	—	—
[Of return of capital contributions per unit, distributions from allowance for temporary difference adjustment per unit]	[—]	[—]	[—]	[—]	[—]
Of total return of capital contributions, total distributions from the unitholders' capital for tax purpose	—	—	—	—	—
[Of return of capital contribution per unit, distributions from the unitholders' capital for tax purpose per unit]	[—]	[—]	[—]	[—]	[—]

5. Investment policies and issues to be addressed

General investment outlook

Due to the global spread of the novel coronavirus (COVID-19), the number of infected people in Japan and overseas has been increasing. There have been various events happening due to the spread, such as the request by the government to refrain from holding various events, closures of theme parks, the restrictions on travel from some countries, and the expansion of countries subject to restrictions on entry to Japan from foreign countries, etc. Therefore, travel demand by inbound to Japan from foreign countries including China has been significantly declining, and demand for accommodation and banquets among Japanese people has been also decreasing. As a result, the business environment surrounding hotels has changed dramatically. In the face of such circumstances, concerns have arisen about the impact on the respective hotels owned by JHR. However, the extent of the impact cannot be estimated at present. On the other hand, if the problem of the novel coronavirus settles, the demand for accommodation and banquets is expected to recover, and there is no change in JHR's belief that the tourism industry is a growing industry. For future hotel operations, JHR believes that the location and competitiveness of individual hotels and operator's capability to differentiate their hotels from others and to improve earning capability by controlling costs, etc. are the factors to widen the difference in performance among the hotels. Under recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate hotels owned by JHR in the market by utilizing experience which JHR has cultivated as J-REIT specializing in hotel investment, and manage assets based on the approach described below.

Internal growth

JHR will work to secure “stability” mainly with fixed rent contracts, while at the same time aim for “upside potential” through implementation of active asset management strategy, which proactively pursues greater profitability and asset value of its properties by way of a variety of measures such as expanding international brands and coordinating with HMJ.

For properties with fixed rent contracts, JHR will focus on setting, maintaining and increasing appropriate rents based on the rent levels in the market where respective hotels are located or each tenant's ability to bear the rent costs, and plans to aim at raising rents (including introduction of revenue sharing structure) in accordance with the conditions of the accommodation market.

For hotels under variable rent contracts and under a management contract structure, JHR is working to increase variable rent and reduce management contract fees by implementing the active asset management strategy.

A. Properties under variable rent contracts

JHR works to enhance the profitability of its properties under variable rent contracts through its active asset management strategy. JHR has adopted world-leading international brands such as Hilton, Marriott, Sheraton, Mercure and Holiday Inn or leading brands in Japan including Oriental Hotel and Hotel Nikko that are operated in various areas throughout the country and, together with excellent operators, aims to increase variable rent through improved performance of these hotels. JHR coordinates with the operators in an effort to enhance the hotel performances by requesting them to implement marketing initiatives to attract a wider range of demand with considerations given to solid domestic leisure demand and increasing leisure demand from inbound, measures to maintain and increase room rates, and realization of the synergy effects like cost reductions from owning multiple properties, among other issues. Moreover, JHR conducts strategic capital expenditure such as renovating guest rooms, etc. for improving property competitiveness primarily for hotels with high growth expectations, in an attempt to further enhance hotel earnings led by the growth in RevPAR. As such, JHR plans to implement large-scale renovation for Hilton Tokyo Odaiba and Namba Oriental Hotel in 2020.

B. Properties under fixed rent contracts

JHR will increase its efforts to appropriately monitor operating conditions of these hotels and, by paying careful attention to each tenant's ability to bear the rent costs, conduct negotiations with the tenants of hotels at which the ability to bear rent costs has been enhanced through better performances so that the improvement in hotel earnings would lead to an increase in JHR's earnings, such as revising rents upward and introducing revenue sharing structure. In addition, JHR will carry out investments for the purpose of continuous maintenance, renewal and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

External growth

In terms of external growth strategy, JHR will keep target to acquire highly-competitive Real Estate for Hotels, etc. (Hotel Assets) in areas which can expect “domestic and inbound leisure demand” over the medium to long term as JHR has done to date. In addition, JHR will build a portfolio which can secure stable revenues and with future growth potential in mind in order to achieve upside gains.

Upon acquiring properties, JHR will focus on the infrastructure aspects of the relevant Hotel Assets such as buildings and facilities, the services aspects such as the credibility of the hotel lessee and operator (including the ability of the hotel lessee to bear rent costs) as well as operation and management capabilities, and the properties’ location superiority that serves as the base for demand stability and growth potential.

Specifically, JHR will target to invest in “full-service hotels” and “resort hotels” that pose barriers to new opening due to such factors as operation and management know-how required for operating the hotels and limitations in terms of invested capital and location. As for “limited-service hotels,” JHR emphasizes the credibility and operation capabilities of the hotel lessee and operator as well as the building age, location, guestroom composition and profitability of the properties. Moreover, JHR will take a particularly selective approach to hotels specialized for accommodation and of a budget type (low price zone) that mainly offers single rooms and where the source of competitiveness relies only on prices.

In the hotel investment market, harsh competition over acquisition is ongoing due to competitions with J-REITs and non-listed private J-REITs that invest in hotels, overseas investors and others. JHR will aim for expansion of asset size that accompanies an improvement in the quality of its portfolio by acquiring highly competitive properties while leveraging its strength and advantages and also utilizing the HMJ platform in some cases.

Finance strategy

Under the basic policy of carrying out conservative financial strategy which places importance on securement of financial stability and soundness, JHR intends to maintain and enhance the relationships of trust with existing financial institutions with which it does business while endeavoring to diversify 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% for the time being as in the past. In addition, when seeking new borrowing for property acquisitions or refinancing existing debt, JHR will work to disperse maturity dates of its debt as well as further reinforce and expand its base of lenders and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds), while considering the balance with the funding costs.

Moreover, while JHR understands that no abrupt change is likely to occur to the interest rate level in the current situation, it aims to further improve its financial foundation by managing risk of interest rates market through extending maturity dates and fixing rates, etc., in preparation for addressing any change in the financial market environment.

Policy on handling of negative goodwill

Starting from the fiscal year ended December 31, 2017 (18th period), JHR started appropriation for dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 47 of 2006, as amended; hereinafter referred to as 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. JHR stipulated a policy to reverse ¥262 million, which is an amount equivalent to 2% (1/50) of the balance of the reserve for temporary difference adjustment for the fiscal year ended December 31, 2017 (hereinafter called the “50-year amortization amount of negative goodwill”), to pay out as dividends every year, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount (Note).

Furthermore, in cases of incurrence of losses caused by property dispositions, impairment loss of assets, dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., loss on retirement of noncurrent assets, and suspension of sales and such due to large-scale renovations with significant impact on revenues, JHR stipulated a policy to reverse additional portion of the negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note).

(Note) The policy may change due to a resolution of the board of directors. etc., and it does not guarantee the method of

reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.

Initiatives for Sustainability

In recent years, there has been growing importance of the risks and opportunities of ESG (Environment, Social and Governance) issues in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management based on consideration for ESG is important to enhance unitholder value and to further raise the attractiveness of JHR. In addition, JHR believes that it is indispensable to establish favorable relationships with its stakeholders including unitholders, hotel users (guests), lessees, operators, business partners including property managers, etc., local communities, officers and employees of the Asset Management Company and others and to fulfill our social responsibilities expected from each of them.

In order to put such ideas into practice, JHR, along with the Asset Management Company, has established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at properties in our portfolio based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for the two properties of Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for hotel properties owned by J-REITs (Note 1). Furthermore, in September 2018, JHR became the first J-REIT specializing in hotels (Note 1) that was recognized by GRESB for its environmental awareness and sustainability initiatives, and acquired “Green Star,” the highest ranking, in the GRESB Real Estate Assessment (Note 2). JHR was evaluated as “3 Stars” in GRESB Rating in September 2019.

Furthermore, JHR issued green bonds in July 2019 to allocate funds mainly to refinance loans procured for funding capital expenditures and constructions cost, etc. which contribute to the environment, including reduction of CO₂ and water consumption in the renovation work at Oriental Hotel Fukuoka Hakata Station. It was the first case of a J-REIT specializing in hotels issuing green bonds.

Recognizing its social responsibility towards local communities as a J- REIT specializing in hotels, JHR will proactively carry out social contribution activities capitalizing on the characteristics of the hotel sector and each hotel.

(Note 1) Investigated by the Asset Management Company based on disclosed information

(Note 2) GRESB, which stands for Global Real Estate Sustainability Benchmark, is an annual benchmarking program to evaluate Environment, Social and Governance (ESG) awareness of real estate companies and funds. It evaluates initiatives for sustainability of real estate companies, REITs and real estate funds, not of individual properties. The GRESB Rating makes relative assessment based on total scores, with 5 Stars being the highest ranking.

6. Significant subsequent events

Impact of the novel coronavirus

The global spread of the novel coronavirus infection has caused a significant decrease in the travel demand by Chinese and other foreign tourists visiting Japan. Moreover, domestic demand for travel, parties and banquets, etc. has also decreased as voluntary restraint on going out is spreading among Japanese people due to the request by the Japanese government.

In the face of such circumstances, concerns have arisen about the negative impact on the revenues and valuation of the hotels owned by JHR. However, the overall financial impact and duration cannot be estimated at this time.

7. Reference information

<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2019

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2019 through December 31, 2019, based on the data provided by the hotel lessees, etc. Furthermore, while the indicators of the hotels are among the indicators that show the operating status of the rooms departments, they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the daily rates of the respective rooms available for sale and profit margins, etc. are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

	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	84.8%	—	98.1%	—	92.9%	—	84.8%	—	88.5%	—	90.5%	—
ADR (Note 1)	19,337	—	21,230	—	18,602	—	30,614	—	9,932	—	21,067	—
RevPAR (Note 2)	16,397	—	20,837	—	17,290	—	25,961	—	8,788	—	19,066	—
Total sales (millions of yen)	5,433	100.0%	6,758	100.0%	2,589	100.0%	6,264	100.0%	2,110	100.0%	23,153	100.0%
Rooms department	1,909	35.1%	3,886	57.5%	1,628	62.9%	3,762	60.1%	728	34.5%	11,914	51.5%
Food & beverage department	3,256	59.9%	2,322	34.4%	116	4.5%	1,856	29.6%	1,314	62.3%	8,863	38.3%
Tenant department	77	1.4%	222	3.3%	796	30.8%	2	0.0%	23	1.1%	1,120	4.8%
Other departments (Note 3)	191	3.5%	328	4.8%	48	1.9%	644	10.3%	45	2.1%	1,256	5.4%
GOP (millions of yen)	1,317	24.2%	2,166	32.1%	1,549	59.8%	2,376	37.9%	384	18.2%	7,793	33.7%

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel		Oriental Hotel Fukuoka Hakata Station		Holiday Inn Osaka Namba		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		Ratio to total sales	(Note 4)	Ratio to total sales	(Note 5)	Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	80.6%	—	91.3%	—	64.4%	—	91.2%	—	88.8%	—	82.5%	—
ADR (Note 1)	21,805	—	20,676	—	18,633	—	16,597	—	12,768	—	8,712	—
RevPAR (Note 2)	17,577	—	18,872	—	11,995	—	15,134	—	11,337	—	7,191	—
Total sales (millions of yen)	3,693	100.0%	3,442	100.0%	1,994	100.0%	1,784	100.0%	3,431	100.0%	1,541	100.0%
Rooms department	2,316	62.7%	1,639	47.6%	968	48.5%	1,735	97.2%	2,268	66.1%	1,215	78.8%
Food & beverage department	961	26.0%	1,706	49.6%	748	37.5%	—	—	1,063	31.0%	315	20.4%
Tenant department	58	1.6%	0	0.0%	263	13.2%	37	2.1%	52	1.5%	6	0.4%
Other departments (Note 3)	358	9.7%	97	2.8%	16	0.8%	12	0.7%	48	1.4%	5	0.3%
GOP (millions of yen)	1,131	30.6%	1,097	31.9%	803	40.3%	1,074	60.2%	1,092	31.8%	634	41.1%

	Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales		Ratio to total sales		Ratio to total sales	(Note 6)	Ratio to total sales
Occupancy rate	79.3%	—	90.5%	—	87.9%	—	86.6%	—
ADR (Note 1)	13,039	—	9,293	—	30,202	—	18,635	—
RevPAR (Note 2)	10,337	—	8,407	—	26,558	—	16,143	—
Total sales (millions of yen)	2,874	100.0%	395	100.0%	8,880	100.0%	51,187	100.0%
Rooms department	1,245	43.3%	381	96.4%	4,391	49.5%	28,071	54.8%
Food & beverage department	1,586	55.2%	14	3.5%	4,093	46.1%	19,348	37.8%
Tenant department	26	0.9%	—	—	241	2.7%	1,804	3.5%
Other departments (Note 3)	16	0.6%	0	0.1%	155	1.7%	1,964	3.8%
GOP (millions of yen)	694	24.2%	156	39.5%	2,642	29.8%	17,116	33.4%

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

Service charges are 10% for Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station; 12% for Hilton Tokyo Narita Airport; and 13% for Hilton Tokyo Odaiba. Holiday Inn Osaka Namba and Hotel Oriental Express Osaka Shinsaibashi do not request service charges. Described in unit of yen. 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 (including 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. Described in unit of yen. The same shall apply hereinafter.

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

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

(Note 5) While Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata) undertook large-scale renovation work accompanied by suspension of hotel operation from October 1, 2018 through the reopening on April 9, 2019, the occupancy rate is calculated including the suspension period.

(Note 6) For Total/Average of the HMJ Group Hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees, etc.

(Note 7) 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.

<Reference 2> Hotel operation indexes, sales and GOP

The numerical figures are based on figures obtained from hotel lessees, etc. Please note that these figures have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the figures and information.

<1> 21 Hotels with Variable Rent

		Fiscal year ended December 31, 2018		Fiscal year ended December 31, 2019	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	87.3%	0.3pt	86.5%	(0.7)pt
	Second half	87.1%	(1.4)pt	86.5%	(0.6)pt
	Full year	87.2%	(0.6)pt	86.5%	(0.7)pt
ADR	First half	14,685	2.2%	14,749	0.4%
	Second half	17,020	0.4%	16,316	(4.1)%
	Full year	15,861	1.1%	15,539	(2.0)%
RevPAR	First half	12,817	2.6%	12,765	(0.4)%
	Second half	14,831	(1.2)%	14,113	(4.8)%
	Full year	13,833	0.5%	13,444	(2.8)%
Sales (millions of yen)	First half	22,958	0.8%	23,124	0.7%
	Second half	26,257	(1.2)%	25,320	(3.6)%
	Full year	49,215	(0.3)%	48,444	(1.6)%
GOP (millions of yen)	First half	7,715	2.6%	7,709	(0.1)%
	Second half	10,196	0.3%	9,561	(6.2)%
	Full year	17,911	1.3%	17,270	(3.6)%

<2> Oriental Hotel Fukuoka Hakata Station

		Fiscal year ended December 31, 2018		Fiscal year ended December 31, 2019	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	94.7%	1.0pt	39.1%	(55.6)pt
	Second half	47.0%	(48.4)pt	89.2%	42.2pt
	Full year	70.7%	(23.9)pt	64.4%	(6.3)pt
ADR	First half	13,323	8.4%	19,385	45.5%
	Second half	13,343	(1.5)%	18,309	37.2%
	Full year	13,330	3.1%	18,633	39.8%
RevPAR	First half	12,621	9.6%	7,588	(39.9)%
	Second half	6,274	(51.5)%	16,330	160.3%
	Full year	9,422	(22.9)%	11,995	27.3%
Sales (millions of yen)	First half	1,199	(5.3)%	673	(43.9)%
	Second half	637	(46.8)%	1,321	107.4%
	Full year	1,836	(22.5)%	1,994	8.6%
GOP (millions of yen)	First half	494	3.9%	131	(73.4)%
	Second half	141	(69.8)%	671	375.9%
	Full year	635	(32.6)%	803	26.3%

(Note) Oriental Hotel Fukuoka Hakata Station undertook large-scale renovation work accompanied by suspension of hotel operation from October 1, 2018 through April 8, 2019.

<3> Hotel Oriental Express Osaka Shinsaibashi

		Fiscal year ended December 31, 2018		Fiscal year ended December 31, 2019	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	—	—	92.3%	—
	Second half	—	—	88.7%	—
	Full year	—	—	90.5%	—
ADR	First half	—	—	9,611	—
	Second half	—	—	8,967	—
	Full year	—	—	9,293	—
RevPAR	First half	—	—	8,868	—
	Second half	—	—	7,954	—
	Full year	—	—	8,407	—
Sales (millions of yen)	First half	—	—	205	—
	Second half	—	—	190	—
	Full year	—	—	395	—
GOP (millions of yen)	First half	—	—	84	—
	Second half	—	—	72	—
	Full year	—	—	156	—

(Note 1) Hotel Oriental Express Osaka Shinsaibashi was acquired on February 1, 2019. The figures of the fiscal year ended December 2019 are for the full year calculated by adding the figures prior to the acquisition by JHR.

(Note 2) As Hotel Oriental Express Osaka Shinsaibashi opened on April 2, 2018, its figures for the fiscal year ended December 31, 2018 and earlier are not stated.

<4> Hilton Tokyo Odaiba

		Fiscal year ended December 31, 2018		Fiscal year ended December 31, 2019	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	95.2%	0.9pt	85.9%	(9.3)pt
	Second half	92.9%	(3.0)pt	89.9%	(2.9)pt
	Full year	94.0%	(1.1)pt	87.9%	(6.1)pt
ADR	First half	28,831	6.8%	29,263	1.5%
	Second half	31,396	8.6%	31,085	(1.0)%
	Full year	30,108	7.6%	30,202	0.3%
RevPAR	First half	27,451	7.7%	25,135	(8.4)%
	Second half	29,154	5.3%	27,957	(4.1)%
	Full year	28,309	6.4%	26,558	(6.2)%
Sales (millions of yen)	First half	4,591	9.5%	4,258	(7.3)%
	Second half	5,008	7.3%	4,622	(7.7)%
	Full year	9,599	8.3%	8,880	(6.9)%
GOP (millions of yen)	First half	1,374	21.7%	1,143	(16.9)%
	Second half	1,723	15.2%	1,500	(13.0)%
	Full year	3,097	18.0%	2,642	(14.7)%

(Note) Hilton Tokyo Odaiba was acquired on April 8, 2019. The figures of the fiscal years ended December 31, 2018 and December 31, 2019 are for the full year calculated by adding the figures prior to the acquisition by JHR.

<Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal years ended December 31, 2018 and December 31, 2019 were calculated based on the assumptions described below.

(millions of yen)		
	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Unappropriated retained earnings	16,213	15,290
Reserve for special advanced depreciation(Note 1)	(1,174)	-
Total of reserve for temporary difference adjustments (Note 2) (negative goodwill) used	563	1,176
Negative goodwill – 50-year amortization amount (Note 2)	262	262
Loss on retirement of noncurrent assets (Note 3)	35	246
Correspondence to large-scale renovation works (Note 4)	265	357
Adjustment for dilution (Note 5)	-	310
Total dividends	15,602	16,466
Total number of investment units issued (Units)	4,010,847	4,462,347
Dividend per unit (JPY)	3,890	3,690

(Note 1) R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b Ochanomizu were sold on August 10, 2018. ¥1,174 million of the gain on sale by the sales was retained as reserve for special advanced depreciation within the limit to maintain conduit status stipulated by Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called “ the Act on Special Measures Concerning Taxation” The same shall apply hereinafter.) by applying “Special provisions for taxation in the case where a special account is set up in connection with transfer of specified assets” (Article 65-8 in the Act on Special Measures Concerning Taxation).

(Note 2) Starting from the fiscal year ended December 31, 2017 (18th period), JHR commenced paying out dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. Specifically, JHR transferred 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 reverses ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the remaining balance of the reserve for temporary difference adjustment, to payout 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 ended December 31, 2017 (18th period).

(Note 3) The amount recognized as a loss on retirement of noncurrent assets are appropriated by reserve for temporary difference adjustment (negative goodwill) and have no impact on the dividend per unit.

(Note 4) Former Hotel Centraza Hakata implemented large-scale renovation work accompanied by suspension of hotel operation starting October 1, 2018 and resumed its operation as Oriental Hotel Fukuoka Hakata Station on April 9, 2019. Taking into consideration the impact on dividend by the suspension of hotel operation due to the renovation, reserve for temporary difference adjustment (negative goodwill) is appropriated.

(Note 5) Adjustment for dilution of dividend per unit due to issuance of new investment units.

<Reference 4> Balance of reserve for temporary difference adjustment (negative goodwill)

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal year ended December 2019 is as follows.

(millions of yen)	
Balance of reserve for temporary difference adjustment as of December 31, 2019	11,794
Appropriation for dividends for the fiscal year ended December 31, 2019	(1,176)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal year ended December 31, 2019	10,617

Overview of JHR

1. Unitholders' capital

Account closing date	16th period As of December 31, 2015	17th period As of December 31, 2016	18th period As of December 31, 2017	19th period As of December 31, 2018	20th period As of December 31, 2019
Total number of authorized units (Units)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Number of investment units issued and outstanding (Units)	3,144,227	3,761,907	4,010,847	4,010,847	4,462,347
Unitholders' capital (JPY1M)	85,470	134,829	153,516	153,516	186,894
Number of unitholders (Persons)	25,182	31,371	35,046	31,155	30,574

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2019 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	697,102	15.62%
Japan Trustee Services Bank, Ltd. (Trust Account)	526,839	11.80%
J.P. Morgan Bank Luxembourg S.A. 384500	334,947	7.50%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	213,302	4.78%
BNYM AS AGT/CLTS 10 PERCENT	140,401	3.14%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	134,779	3.02%
STATE STREET BANK WEST CLIENT TREATY 505234	59,918	1.34%
Shikoku Railway Company	56,989	1.27%
JPMorgan Securities Japan Co., Ltd.	52,951	1.18%
Japan Securities Finance Co., Ltd.	46,600	1.04%
Total	2,263,828	50.73%

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

3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2019 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (JPY1000)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	6,600
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,600
Supervisory Director	Hiroto Kashii (Note1)	—	3,600
Supervisory Director	Mayumi Umezawa (Note1) (Note2)	Representative of Umezawa Accountant Office	600
Independent auditor	KPMG AZSA LLC (Note 3)	—	48,600

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

(Note 2) Based on the resolution by the 9th General Meeting of Unitholders of JHR held on November 22, 2019, Mayumi Umezawa newly took office as Supervisory Director of JHR as of the same date.

(Note 3) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥22,100 thousand, such as preparation of comfort letters associated with the capital increase through the public offerings and the issuance of investment corporation bonds.

(Note 4) 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 9th General Meeting of Unitholders of JHR held on November 22, 2019.

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

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

4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2019 were as follows:

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

Status of Investment Assets

1. Composition of assets

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	19th period (As of December 31, 2018)		20th period (As of December 31, 2019)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	27,033	7.7	26,985	6.5
			Namba Oriental Hotel	14,552	4.2	14,539	3.5
			Hotel Oriental Express Osaka Shinsaibashi	-	-	2,817	0.7
		Tokyo	ibis Tokyo Shinjuku	7,940	2.3	7,908	1.9
			CANDEO HOTELS UENO-KOEN	6,681	1.9	6,644	1.6
			the b ikebukuro	6,584	1.9	6,584	1.6
			Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	4,821	1.4	4,801	1.2
			Comfort Hotel Tokyo Higashi Nihombashi	3,557	1.0	3,527	0.8
			the b hachioji	2,686	0.8	2,680	0.6
			Smile Hotel Nihombashi Mitsukoshimae	2,030	0.6	2,022	0.5
			R&B Hotel Ueno Hirokoji	1,766	0.5	1,822	0.4
			Hotel Vista Kamata Tokyo	1,465	0.4	1,452	0.3
			the b suidobashi	1,198	0.3	1,194	0.3
			dormy inn • global cabin Asakusa (Note 5)	952	0.3	941	0.2
			Chisun Inn Kamata	779	0.2	769	0.2
		Hokkaido	ibis Styles Sapporo	6,620	1.9	6,561	1.6
			Mercure Sapporo	5,853	1.7	5,792	1.4
		Fukuoka	HOTEL ASCENT FUKUOKA	5,178	1.5	5,161	1.2
			the b hakata	2,340	0.7	2,340	0.6
			Hakata Nakasu Washington Hotel Plaza	2,033	0.6	2,022	0.5
			Toyoko Inn Hakata-guchi Ekimae	1,437	0.4	1,419	0.3
		Kyoto	ibis Styles Kyoto Station	6,665	1.9	6,650	1.6
		Okinawa	Mercure Okinawa Naha	2,860	0.8	2,833	0.7
		Kumamoto	Dormy Inn Kumamoto	2,165	0.6	2,139	0.5
		Nara	Nara Washington Hotel Plaza	1,802	0.5	1,798	0.4
		Subtotal		119,010	33.9	121,410	29.2
	Full-service hotel	Tokyo	Hilton Tokyo Odaiba	-	-	63,429	15.3
			Oriental Hotel tokyo bay	17,790	5.1	17,486	4.2
		Chiba	Hilton Tokyo Narita Airport	13,253	3.8	13,205	3.2
			International Garden Hotel Narita	9,195	2.6	9,162	2.2
			Hotel Francs	3,187	0.9	3,178	0.8
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,487	5.0	17,327	4.2
			Oriental Hotel Hiroshima	4,106	1.2	4,099	1.0
		Aichi	Hilton Nagoya	15,605	4.5	15,650	3.8
		Nara	Hotel Nikko Nara	10,442	3.0	10,355	2.5
		Hyogo	Kobe Meriken Park Oriental Hotel	9,772	2.8	9,678	2.3
		Fukuoka	Oriental Hotel Fukuoka Hakata Station (Note 7)	7,178	2.0	9,560	2.3
		Kanagawa	Mercure Yokosuka	1,642	0.5	1,621	0.4
		Subtotal		109,661	31.3	174,756	42.0
	Resort hotel	Okinawa	Hotel Nikko Alivila	17,989	5.1	17,904	4.3
			Okinawa Marriott Resort & Spa	14,875	4.2	14,924	3.6
			The Beach Tower Okinawa	6,677	1.9	6,581	1.6
		Chiba	Hilton Tokyo Bay	26,098	7.4	26,408	6.4
		Osaka	Hotel Keihan Universal City	5,930	1.7	5,905	1.4
		Kanagawa	Hakone Setsugetsuka	3,722	1.1	3,689	0.9
		Subtotal		75,295	21.5	75,413	18.1

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	19th period (As of December 31, 2018)		20th period (As of December 31, 2019)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
			Real estate in trust – Total	303,967	86.7	371,580	89.4
			Deposits and other assets (Note 8)	46,589	13.3	44,142	10.6
			Total assets	350,556	100.0	415,722	100.0

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) Hotel Sunroute Shinbashi was renamed to Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on April 23, 2019. In this report, the same shall apply hereinafter.
- (Note 5) Dormy Inn EXPRESS Asakusa was renamed to dormy inn • global cabin Asakusa on August 4, 2019. In this report, the same shall apply hereinafter.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the hotel type of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Hotel Centraza Hakata was renamed to Oriental Hotel Fukuoka Hakata Station on April 9, 2019. In this report, the same shall apply hereinafter.
- (Note 8) Includes machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

2. Major portfolio assets

An overview of the portfolio assets of JHR (43 properties in total) as of December 31, 2019 are as follows.

Property No.	Name of property, etc.	Book value (JPY1M) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	9,888	32,663.90	32,663.90	100.0	4.4	Hotel
2	Oriental Hotel tokyo bay	17,699	44,833.11	44,833.11	100.0	6.7	Hotel
3	Namba Oriental Hotel	14,640	19,364.33	19,364.33	100.0	5.0	Hotel
4	Hotel Nikko Alivila (Note 6)	18,168	38,024.98	38,024.98	100.0	7.0	Hotel
5	Oriental Hotel Hiroshima	4,171	13,752.22	13,752.22	100.0	1.7	Hotel
6	ibis Tokyo Shinjuku	8,013	6,801.84	6,801.84	100.0	2.5	Hotel
8	The Beach Tower Okinawa (Note 7)	6,587	20,140.01	20,140.01	100.0	1.8	Hotel
9	Hakone Setsugetsuka	3,696	10,655.03	10,655.03	100.0	1.0	Hotel
10	Dormy Inn Kumamoto	2,139	7,701.19	7,701.19	100.0	0.7	Hotel
12	the b suidobashi	1,213	3,097.25	3,097.25	100.0	0.4	Hotel
13	dormy inn • global cabin Asakusa	941	2,014.90	2,014.90	100.0	0.2	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,022	5,602.04	5,602.04	100.0	0.9	Hotel
15	Nara Washington Hotel Plaza	1,800	5,271.54	5,271.54	100.0	0.5	Hotel
16	R&B Hotel Ueno Hirokoji	1,822	3,060.31	3,060.31	100.0	0.3	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,527	5,765.27	5,765.27	100.0	1.0	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,022	3,167.82	3,167.82	100.0	0.5	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,419	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	0.5	Hotel
25	Hotel Vista Kamata Tokyo	1,453	3,831.80	3,831.80	100.0	0.4	Hotel
26	Chisun Inn Kamata	772	1,499.87	1,499.87	100.0	0.3	Hotel
29	Hotel Keihan Universal City (Note 8)	5,905	16,212.40	16,212.40	100.0	2.6	Hotel
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	4,802	5,246.66	5,246.66	100.0	1.6	Hotel
31	Hilton Tokyo Bay (Note 9)	26,422	64,928.83	64,928.83	100.0	7.9	Hotel
32	ibis Styles Kyoto Station	6,675	5,003.99	5,003.99	100.0	1.6	Hotel
33	ibis Styles Sapporo	6,601	14,992.49	14,735.17	98.3	2.3	Hotel
34	Mercure Sapporo	5,857	15,189.42	14,483.81	95.4	2.8	Hotel
35	Mercure Okinawa Naha	2,887	10,884.25	10,884.25	100.0	1.2	Hotel
37	the b ikebukuro (Note 10)	6,608	5,650.01	5,650.01	100.0	1.3	Hotel
39	the b hachioji (Note 10)	2,699	7,847.65	7,847.65	100.0	0.7	Hotel
40	the b hakata (Note 10)	2,361	3,986.09	3,986.09	100.0	0.8	Hotel
41	Hotel Francs	3,178	19,213.39	19,213.39	100.0	1.1	Hotel
42	Mercure Yokosuka (Note 11)	1,658	16,881.82	16,881.82	100.0	1.3	Hotel
43	Okinawa Marriott Resort & Spa	15,106	36,430.15	36,430.15	100.0	3.3	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,436	31,181.03	31,041.95	99.6	5.7	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,652	7,934.26	7,934.26	100.0	1.2	Hotel
46	Oriental Hotel Fukuoka Hakata Station	9,847	18,105.42	18,105.42	100.0	2.6	Hotel
47	Holiday Inn Osaka Namba	27,126	11,501.10	11,501.10	100.0	3.4	Hotel
48	HOTEL ASCENT FUKUOKA	5,161	8,238.75	8,238.75	100.0	1.6	Hotel
49	Hilton Nagoya (Note 14)	15,651	47,942.71	47,942.71	100.0	5.1	Hotel
50	Hilton Tokyo Narita Airport	13,499	56,817.28	56,817.28	100.0	3.2	Hotel
51	International Garden Hotel Narita	9,245	21,814.93	21,814.93	100.0	2.1	Hotel
52	Hotel Nikko Nara (Note 15)	10,442	21,011.31	21,011.31	100.0	2.2	Hotel
53	Hotel Oriental Express Osaka Shinsaibashi	2,829	2,710.55	2,710.55	100.0	0.4	Hotel
54	Hilton Tokyo Odaiba	63,652	64,907.76	64,907.76	100.0	8.0	Hotel
Total		374,314	746,329.68	745,227.67	99.9	100.0	

- (Note 1) Book value includes real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets.
- (Note 2) In principle, leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).
- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. In this report, the same shall apply hereinafter.
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review. In calculating, the figures are rounded off to one decimal place.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a compartmentalized ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters).
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) The building of Hotel Keihan Universal City is a building with compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 9) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,928.83 square meters (JHR owns 9/10 of co-ownership interest).
- (Note 10) The b ikebukuro, the b hachioji and the b hakata are properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle. In this report, the same shall apply hereinafter.
- (Note 11) The building of Mercure Yokosuka is a building with compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, apartments, office spaces and parking lots, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 12) The building of ACTIVE-INTER CITY HIROSHIMA is a building with compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, stores, parking lots and bicycle parking lots etc., as a single building. For the leasable area and leased area of the property, the leased area under the lease contracts of the hotel, office spaces and stores are indicated.
- (Note 13) Leasable area and leased area of CANDEO HOTELS UENO-KOEN indicate the total floor area described in the certificate of inspection, based on the building lease agreement with the hotel lessee. Furthermore, the figure includes the floor area for the mechanical parking facilities.
- (Note 14) The building of Hilton Nagoya is a compartmentalized ownership of AMMNAT SQUARE, which consists of a hotel building (including retail space), office building and car parking space, etc., as a single building. Leasable area and leased area indicate the sum total of the leased area for the hotel building, the office building and the retail space described in the lease agreement.
- (Note 15) The building of Hotel Nikko Nara is a compartmentalized ownership of the entire building of Redeveloped Building 1 in front of JR Nara Station, which consists of hotel building, retail space and car parking space, etc. JHR's share of voting right of the building is 223/353 (approximately 63.2%).
- (Note 16) The omitted property numbers are the numbers for assets that have been transferred.

3. Details of property assets, etc.

(1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2019 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	16,200	9,888	JR
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	37,800	17,699	JR
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	32,900	14,640	JR
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	32,900	18,168	JR
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,400	4,171	JR
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	10,200	8,013	JR
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	10,100	6,587	JR
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,310	3,696	JR
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	3,060	2,139	JM
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	2,440	1,213	JR
13	dormy inn ・ global cabin Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,330	941	JM
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,520	2,022	JR
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,440	1,800	JR
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	2,010	1,822	JM
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,830	3,527	JM
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	3,160	2,022	JM
24	Toyoko Inn Hakata-guchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,750	1,419	T
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,990	1,453	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,430	772	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	13,900	5,905	R
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	10-2 Shinbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	8,950	4,802	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	40,500	26,422	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	10,900	6,675	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	11,200	6,601	JR
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	11,000	5,857	JR
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	7,190	2,887	JR
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,350	6,608	JR

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,790	2,699	JR
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,610	2,361	JR
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,140	3,178	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	3,590	1,658	D
43	Okinawa Marriott Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	17,900	15,106	JR
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	21,900	17,436	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,650	6,652	D
46	Oriental Hotel Fukuoka Hakata Station	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	15,300	9,847	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	27,200	27,126	JR
48	HOTEL ASCENT FUKUOKA	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	6,620	5,161	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	15,700	15,651	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	13,700	13,499	JR
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,660	9,245	JR
52	Hotel Nikko Nara	8-1 Sanjyohonmachi, Nara-shi, Nara	Beneficial interest in trust	10,900	10,442	D
53	Hotel Oriental Express Osaka Shinsaibashi	2-13 Minamisenba 3-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	2,990	2,829	D
54	Hilton Tokyo Odaiba	9-1 Daiba 1-chome, Minato-ku, Tokyo	Beneficial interest in trust	69,500	63,652	JR
Total				525,910	374,314	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of valuation, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations and regulations set forth by The Investment Trusts Association, Japan.

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

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

JR: Japan Real Estate Institute

JM: JLL Morii Valuation & Advisory K.K.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

R: Rich Appraisal Institute Co., Ltd.

D: DAIWA REAL ESTATE APPRAISAL CO., LTD.

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

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

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

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

Property No.	Name of property, etc.	19th period (From January 1, 2018 to December 31, 2018)				20th period (From January 1, 2019 to December 31, 2019)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,210	4.6	1	100.0	1,256	4.4
2	Oriental Hotel tokyo bay	1	100.0	1,888	7.2	1	100.0	1,883	6.7
3	Namba Oriental Hotel	1	100.0	1,629	6.2	1	100.0	1,406	5.0
4	Hotel Nikko Alivila	1	100.0	2,048	7.8	1	100.0	1,977	7.0
5	Oriental Hotel Hiroshima	1	100.0	424	1.6	1	100.0	472	1.7
6	ibis Tokyo Shinjuku	4	100.0	660	2.5	4	100.0	704	2.5
8	The Beach Tower Okinawa	1	100.0	511	1.9	1	100.0	511	1.8
9	Hakone Setsugetsuka	1	100.0	294	1.1	1	100.0	294	1.0
10	Dormy Inn Kumamoto	1	100.0	194	0.7	1	100.0	194	0.7
12	the b suidobashi	1	100.0	109	0.4	1	100.0	103	0.4
13	dormy inn ・ global cabin Asakusa	1	100.0	63	0.2	1	100.0	63	0.2
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	0.9	1	100.0	240	0.9
15	Nara Washington Hotel Plaza	2	100.0	150	0.6	2	100.0	151	0.5
16	R&B Hotel Ueno Hirokoji	1	100.0	97	0.4	1	100.0	97	0.3
17	R&B Hotel Higashi-nihonbashi (Note 2)	-	-	74	0.3	-	-	-	-
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	270	1.0	2	100.0	287	1.0
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	153	0.6	1	100.0	154	0.5
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	0.5	1	100.0	141	0.5
25	Hotel Vista Kamata Tokyo	1	100.0	115	0.4	1	100.0	112	0.4
26	Chisun Inn Kamata	1	100.0	82	0.3	1	100.0	80	0.3
29	Hotel Keihan Universal City	1	100.0	822	3.1	1	100.0	746	2.6
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	4	100.0	426	1.6	4	100.0	446	1.6
31	Hilton Tokyo Bay	1	100.0	1,992	7.6	1	100.0	2,220	7.9
32	ibis Styles Kyoto Station	2	100.0	548	2.1	2	100.0	459	1.6
33	ibis Styles Sapporo	4	98.3	662	2.5	4	98.3	661	2.3
34	Mercure Sapporo	14	98.1	820	3.1	12	95.4	797	2.8
35	Mercure Okinawa Naha	1	100.0	456	1.7	1	100.0	342	1.2
36	the b akasaka-mitsuke (Note 2)	-	-	146	0.6	-	-	-	-
37	the b ikebukuro	4	100.0	361	1.4	4	100.0	356	1.3
38	the b ochanomizu (Note 2)	-	-	58	0.2	-	-	-	-
39	the b hachioji	12	100.0	203	0.8	11	100.0	185	0.7
40	the b hakata	2	100.0	250	1.0	2	100.0	228	0.8
41	Hotel Francs	1	100.0	300	1.1	1	100.0	300	1.1
42	Mercure Yokosuka	1	100.0	310	1.2	1	100.0	360	1.3
43	Okinawa Marriott Resort & Spa	1	100.0	1,169	4.4	1	100.0	937	3.3
44	ACTIVE-INTER CITY HIROSHIMA	39	99.8	1,526	5.8	38	99.6	1,624	5.7
45	CANDEO HOTELS UENO-KOEN	1	100.0	349	1.3	1	100.0	349	1.2
46	Oriental Hotel Fukuoka Hakata Station	1	100.0	589	2.2	1	100.0	740	2.6
47	Holiday Inn Osaka Namba	1	100.0	1,114	4.2	1	100.0	967	3.4

Property No.	Name of property, etc.	19th period (From January 1, 2018 to December 31, 2018)				20th period (From January 1, 2019 to December 31, 2019)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
48	HOTEL ASCENT FUKUOKA	5	96.8	432	1.6	6	100.0	447	1.6
49	Hilton Nagoya	4	100.0	1,390	5.3	4	100.0	1,452	5.1
50	Hilton Tokyo Narita Airport	1	100.0	785	3.0	1	100.0	912	3.2
51	International Garden Hotel Narita	1	100.0	608	2.3	1	100.0	604	2.1
52	Hotel Nikko Nara	1	100.0	629	2.4	1	100.0	625	2.2
53	Hotel Oriental Express Osaka Shinsaibashi	-	-	-	-	1	100.0	109	0.4
54	Hilton Tokyo Odaiba	-	-	-	-	1	100.0	2,264	8.0
Total		126	99.9	26,318	100.0	125	99.9	28,278	100.0

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

(Note 2) JHR sold R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu on August 10, 2018.

(Note 3) The property numbers of assets that were transferred before the previous fiscal period are intentionally omitted.

4. Details of securities assets

There are no applicable securities held by JHR as of December 31, 2019.

5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2019 were as follows:

Classification	Transaction	Amounts of contract, etc. (JPY1M) (Note 1)		Fair value (JPY1M) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions	116,148	104,566	(389)
	Payable fixed rate / Receivable floating rate			
Total		116,148	104,566	(389)

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

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

6. Other assets

All of the beneficial interest in trust mainly invested in real estate held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments in the portfolio of JHR as of December 31, 2019.

7. Asset holdings by country and region

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

Capital Expenditures for Portfolio Properties

1. Planned capital expenditures (Note 1)

The following table shows major estimated capital expenditures items for renovation work planned as of the end of the fiscal period under review for investment real estate properties (in trust) held by JHR. Expenditures are expected to total ¥6,830 million, which consists of capital expenditures of ¥6,775 (Note 2) million and repair expenses of ¥55 million, for the next fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)	
			Total amount	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From April 2020 to July 2020	55	-
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Conversion of back-office to guest rooms	From June 2020 to July 2020	120	-
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Additional installation of sewage tank	From March 2020 to April 2020	65	9
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Renewal of elevator controller, etc.	From December 2020 to December 2020	65	-
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning facilities	From May 2020 to June 2020	70	-
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of air conditioning facilities	From May 2020 to July 2020	68	-
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of air conditioning facilities	From April 2020 to April 2020	89	-
Hilton Nagoya (Nagoya-shi, Aichi)	Work on plumbing equipment	From March 2020 to March 2020	57	-
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of elevators	From February 2020 to December 2020	57	-
Hilton Tokyo Narita Airport (Narita-shi, Chiba)	Renewal of telephone switchboard	From November 2020 to November 2020	50	-
Hilton Tokyo Narita Airport (Narita-shi, Chiba)	Renovation of guest rooms (guestrooms on the 11th floor)	From November 2020 to November 2020	120	-
International Garden Hotel Narita (Narita-shi, Chiba)	Renewal of air conditioning units	From March 2020 to October 2020	55	-
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of banquet rooms	From December 2019 to February 2020	92	-
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of central monitoring device	From July 2020 to July 2020	64	-
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of guest rooms, etc.	From September 2020 to December 2020	3,000	22

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)	
			Total amount	Total amount paid
Namba Oriental Hotel (Osaka-shi, Osaka)	Large-scale renovation works for entire property	From November 2020 to March 2021	2,600	6
Total			6,628	38

(Note 1) New construction and renewal work includes that 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.

(Note 2) The estimated construction costs for the large-scale renovation works for entire property of Namba Oriental Hotel is not included in the capital expenditures for the next fiscal period, as the construction work will be completed in March 2021.

2. Capital expenditures during the period (Note)

For investment real estate properties (in trust) held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥6,767 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥41 million. In aggregate, ¥6,809 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
R&B Hotel Ueno Hirokoji (Taito-ku, Tokyo)	Renewal of air conditioning units	From October 2018 to January 2019	53
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Land preparation for parking lot	From December 2018 to May 2019	419
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From September 2019 to December 2019	33
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of restaurants	From May 2019 to July 2019	298
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guestrooms	From November 2019 to December 2019	12
Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata) (Fukuoka-shi, Fukuoka)	Large-scale renovation work for entire property	From October 2018 to April 2019	3,147
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renovation of guest rooms (guestrooms on the 10th and 11th floors)	From May 2019 to May 2019	72
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renovation of guest rooms (guestrooms on the 8th and 9th floors)	From December 2019 to December 2019	72
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From August 2018 to March 2019	16
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From July 2019 to November 2019	25
Total			4,149

(Note) New construction and renewal work includes that for buildings, attached facilities, etc. as well as items classified as furniture and fixtures.

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

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

(millions of yen)

Fiscal period	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)
Balance at beginning of period	493	657	791	946	951
Provision during the period	185	133	154	15	116
Reversal during the period	20	-	-	9	8
Amount carried forward	657	791	946	951	1,060

Expenses and Liabilities

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

(thousands of yen)

	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)
(a) Asset management fees	(Note 1) 1,577,515	(Note 2) 1,781,691
(b) Asset custody and administrative service fee	110,273	119,138
(c) Officers' compensation	13,400	14,400
(d) Other operating expenses	214,828	217,357
Total	1,916,017	2,132,586

(Note 1) For asset management fees for the 19th fiscal period, besides the above amounts, there are ¥60,750 thousand of fees deducted from the gain on sale of real estate properties in selling properties.

(Note 2) For asset management fees for the 20th fiscal period, besides the above amounts, there are ¥488,535 thousand of fees included in the acquisition price of investment properties, etc. in acquiring properties.

2. Loans payable

The status of loans by contractual agreement and by financial institution as of December 31, 2019 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 31, 2014	648	648	1.15% (Note 2)	March 31, 2021	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Resona Bank, Limited		2,516	2,516					
	Shinsei Bank, Limited		2,516	2,516					
	Sumitomo Mitsui Trust Bank, Limited		1,120	1,120					
	Subtotal		6,800	6,800					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	—	(Note 3)	September 30, 2019	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	—					
	Resona Bank, Limited		434	—					
	Shinsei Bank, Limited		720	—					
	Sumitomo Mitsui Trust Bank, Limited		600	—					
	The Bank of Fukuoka, Ltd.		1,000	—					
	The Nomura Trust and Banking Co., Ltd.		500	—					
	The Hiroshima Bank, Ltd.		435	—					
	Sompo Japan Nipponkoa Insurance Inc.		328	—					
	Development Bank of Japan Inc.		500	—					
	Subtotal		6,317	—					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	800	800	0.92% (Note 2)	September 30, 2020	Lump-sum repayment (Note 4)	(Note 7)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,600	1,600					
	Resona Bank, Limited		1,100	1,100					
	Shinsei Bank, Limited		970	970					
	Sumitomo Mitsui Trust Bank, Limited		800	800					
	Development Bank of Japan Inc.		500	500					
	Aozora Bank, Ltd.		285	285					
	Subtotal		6,055	6,055					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	1.04% (Note 2)	September 30, 2021	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		850	850					
Shinsei Bank, Limited	750		750						
Sumitomo Mitsui Trust Bank, Limited	600		600						
Subtotal			4,000	4,000					
MUFG Bank, Ltd.	December 30, 2014	935	935	0.57%	December 30, 2020	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
Subtotal		935	935						

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,400	1,400	0.38% (Note 2)	January 31, 2020	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,500	1,500					
	Shinsei Bank, Limited		500	500					
	Resona Bank, Limited		500	500					
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Chiba Bank, Ltd.		300	300					
	Subtotal		4,700	4,700					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,700	1,700	0.90% (Note 2)	January 31, 2022	Lump-sum repayment (Note 4)	(Note 7)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		3,000	3,000					
	Shinsei Bank, Limited		1,050	1,050					
	Resona Bank, Limited		1,000	1,000					
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Aozora Bank, Ltd.		150	150					
	Subtotal		7,900	7,900					
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	1,500	0.93% (Note 2)	March 31, 2022	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		1,500	1,500					
	Aozora Bank, Ltd.	July 10, 2015	1,000	1,000	0.95% (Note 2)	June 30, 2022	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	MUFG Bank, Ltd.		500	500					
	Subtotal		1,500	1,500					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	100	100	0.52%	June 30, 2020	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		992	992					
	Subtotal		1,092	1,092					
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07% (Note 2)	September 29, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	703	703	1.07% (Note 2)	September 29, 2023	Lump-sum repayment (Note 4)	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		189	189					
	Subtotal		892	892					
	Sumitomo Mitsui Banking Corporation	February 29, 2016	500	—	0.21% (Note 2)	March 29, 2019	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		1,000	—					
	Shinsei Bank, Limited		250	—					
	Mizuho Bank, Ltd.		250	—					
	Subtotal		2,000	—					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 28, 2016	480	—	0.19% (Note 2)	March 29, 2019	Lump-sum repayment (Note 4)	(Note 6)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		480	—					
	Subtotal		960	—					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	530	—	0.19% (Note 2)	March 29, 2019	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		270	—					
	Development Bank of Japan Inc.		230	—					
	The Bank of Fukuoka, Ltd.		110	—					
	Subtotal		1,140	—					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77% (Note 2)	March 29, 2024	Lump-sum repayment (Note 4)	(Note 6)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,050	1,050					
	Subtotal		2,100	2,100					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	1,200	1,200	0.77% (Note 2)	March 29, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		600	600					
	Development Bank of Japan Inc.		550	550					
	The Bank of Fukuoka, Ltd.		300	300					
	Subtotal		2,650	2,650					
	Sumitomo Mitsui Banking Corporation	March 31, 2016	1,200	1,200	0.68% (Note 2)	March 31, 2023	Lump-sum repayment (Note 4)	(Note 6)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		1,000	1,000					
	Resona Bank, Limited		500	500					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	Subtotal		4,200	4,200					
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	800	800	0.66% (Note 2)	March 29, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		800	800					
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 29, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	September 1, 2016	2,900	2,900	0.74% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,700	1,700					
	Mizuho Bank, Ltd.		1,700	1,700					
	Resona Bank, Limited		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Chiba Bank, Ltd.		500	500					
	The Bank of Fukuoka, Ltd.		1,200	1,200					
	Subtotal		9,500	9,500					
	Sumitomo Mitsui Trust Bank, Limited	September 1, 2016	1,300	1,300	0.56% (Note 2)	September 30, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		1,300	1,300					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	MUFG Bank, Ltd.	September 1, 2016	2,000	2,000	0.56%	September 30, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		2,000	2,000	(Note 2)				
	Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		700	700					
	Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	July 12, 2017	1,750	1,750	0.47%	June 30, 2023	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		500	500					
	Subtotal		2,250	2,250					
	Sumitomo Mitsui Banking Corporation	August 1, 2017	1,250	1,250	0.85%	September 30, 2026	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,250	1,250					
	Mizuho Bank, Ltd.		1,250	1,250					
	Resona Bank, Limited		500	500					
	Subtotal		4,250	4,250					
	Sumitomo Mitsui Trust Bank, Limited	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		1,000	1,000	(Note 2)				
	MUFG Bank, Ltd.	August 1, 2017	700	700	0.68%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		700	700	(Note 2)				
	Development Bank of Japan Inc.	August 1, 2017	500	500	0.75%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		500	500					
	The Fukuoka Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		500	500	(Note 2)				
	Aozora Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		500	500	(Note 2)				
	THE NISHI-NIPPON CITY BANK, LTD.	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		1,000	1,000	(Note 2)				
	Shinsei Bank, Limited	August 1, 2017	300	300	0.68%	September 30, 2025	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Subtotal		300	300	(Note 2)				
	Sumitomo Mitsui Banking Corporation	September 19, 2017	1,200	1,200	0.65%	March 31, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		500	500					
	Sumitomo Mitsui Trust Bank, Limited		460	460					
	Shinsei Bank, Limited		390	390					
	Subtotal		2,550	2,550					
	Sumitomo Mitsui Banking Corporation	November 15, 2017	2,500	2,500	0.57%	March 29, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,500	1,500	(Note 2)				
	Subtotal		4,000	4,000					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	November 15, 2017	1,500	1,500	0.65% (Note 2)	March 31, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		500	500					
	Development Bank of Japan Inc.		300	300					
	The Fukuoka Bank, Ltd.		150	150					
	Subtotal		2,450	2,450					
	Sumitomo Mitsui Banking Corporation	March 30, 2018	1,700	1,700	0.42%	March 31, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		1,700	1,700					
	Sumitomo Mitsui Banking Corporation	April 26, 2018	650	650	0.42%	March 31, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		950	950					
	The Chiba Bank, Ltd.		500	500					
	THE NISHI-NIPPON CITY BANK, LTD.		250	250					
	Sompo Japan Nipponkoa Insurance Inc.		500	500					
	Subtotal		2,850	2,850					
	The Hiroshima Bank, Ltd.	April 26, 2018	500	500	0.52%	March 31, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		500	500					
	The Shizuoka Bank, Ltd.	September 28, 2018	500	500	0.55%	September 29, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	September 28, 2018	1,700	1,700	0.95% (Note 2)	September 30, 2027	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,400	1,400					
	Shinsei Bank, Limited		500	500					
	Mizuho Bank, Ltd.		300	300					
	Subtotal		3,900	3,900					
	The Bank of Fukuoka, Ltd.	November 30, 2018	350	—	0.34%	December 30, 2019	Lump-sum repayment (Note 5)	(Note 9)	Unsecured, unguaranteed
	Subtotal		350	—					
	THE NISHI-NIPPON CITY BANK, LTD.	November 30, 2018	350	—	0.34%	December 30, 2019	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		350	—					
	The Bank of Fukuoka, Ltd.	April 8, 2019	—	500	0.38%	March 29, 2024	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		—	500					
	THE NISHI-NIPPON CITY BANK, LTD.		—	500					
	Sompo Japan Nipponkoa Insurance Inc.		—	1,000					
	Subtotal		—	2,500					
	Sumitomo Mitsui Banking Corporation	April 8, 2019	—	2,500	0.72% (Note 2)	March 31, 2027	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	1,500					
	Mizuho Bank, Ltd.		—	1,500					
	Sumitomo Mitsui Trust Bank, Limited		—	1,000					
	Development Bank of Japan Inc.		—	1,000					
	Subtotal		—	7,500					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	April 8, 2019	—	4,000	0.82% (Note 2)	March 31, 2028	Lump-sum repayment	(Note 8)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	3,000					
	Mizuho Bank, Ltd.		—	3,000					
	Sumitomo Mitsui Trust Bank, Limited		—	2,500					
	Resona Bank, Limited		—	1,000					
	The Nomura Trust and Banking Co., Ltd.		—	500					
	Development Bank of Japan Inc.		—	1,000					
	The Bank of Fukuoka, Ltd.		—	1,000					
	Aozora Bank, Ltd.		—	1,000					
	THE NISHI-NIPPON CITY BANK, LTD.		—	1,000					
	Subtotal		—	18,000					
	The Chiba Bank, Ltd.	September 30, 2019	—	200	0.23%	September 30, 2024	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		—	1,400					
	Subtotal		—	1,600					
	Sumitomo Mitsui Banking Corporation	September 30, 2019	—	550	0.68% (Note 2)	September 30, 2027	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	450					
	Mizuho Bank, Ltd.		—	1,400					
	Sumitomo Mitsui Trust Bank, Limited		—	200					
	Resona Bank, Limited		—	200					
	Development Bank of Japan Inc.		—	700					
	The Bank of Fukuoka, Ltd.		—	1,100					
	The Nomura Trust and Banking Co., Ltd.		—	1,000					
	Subtotal		—	5,600					
	Long-term loans payable – Total		103,071	127,154					
Total loans payable			103,071	127,154					

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

(Note 2) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps, rounded off to second decimal places.

(Note 3) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is in effect, fixed at 0.94875% per annum for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.

(Note 4) JHR made partial early repayment of the loan on April 26, 2018.

(Note 5) JHR additionally borrowed ¥900 million loan on April 26, 2019 and made early repayment of ¥450 million on June 17, 2019 and ¥800 million on July 31, 2019, respectively.

(Note 6) The funds were appropriated for refinancing of borrowings and related expenses, etc.

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

(Note 8) The funds were appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.

(Note 9) The funds were appropriated for renovation of Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata) and related expenses, etc.

(Note 10) The funds were appropriated for refinancing and early repayment of borrowings.

(Note 11) In order to list each loan payable, ¥12,782 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2019 was as follows:

Name	Issuance date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Third unsecured investment corporation bonds	March 19, 2014	2,000	-	0.920	March 19, 2019	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Fourth unsecured investment corporation bonds	December 19, 2014	1,500	1,500	0.860	December 17, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 5)
Fifth unsecured investment corporation bonds	October 23, 2015	6,000	6,000	0.820	October 21, 2022	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 6)
Sixth unsecured investment corporation bonds	March 22, 2016	3,000	3,000	0.935	March 19, 2026	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Seventh unsecured investment corporation bonds	November 29, 2016	9,000	9,000	0.600	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 6)
Eighth unsecured investment corporation bonds	November 29, 2016	1,100	1,100	0.600	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 5)
Ninth unsecured investment corporation bonds	November 24, 2017	1,000	1,000	0.530	November 22, 2024	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Tenth unsecured investment corporation bonds	February 21, 2018	10,000	10,000	0.840	February 21, 2028	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 6)
Eleventh unsecured investment corporation bonds	June 14, 2019	-	8,000	0.854	June 14, 2029	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 6)
Twelfth unsecured investment corporation bonds (green bonds)	July 31, 2019	-	2,000	0.400	July 31, 2024	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed (Note 5)
Total		33,600	41,600					

(Note 1) The funds were appropriated to partly fund the repayment of existing borrowings.

(Note 2) The funds were appropriated for repayment of existing borrowings and acquisition of real estate or the beneficial interest of real estate in trust, etc.

(Note 3) The funds were appropriated for redemption of the second unsecured investment corporation bonds, repayment of existing borrowings and acquisition of real estate or the beneficial interest of real estate in trust, etc.

(Note 4) The funds were appropriated for repayment of existing borrowings that were appropriated for capital expenditures and constructions costs which contribute to environment, including reduction of CO₂ and water consumption.

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

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

4. Short-term investment corporation bonds

Not applicable.

5. Subscription rights to new investment units

Not applicable.

Purchase and Sale during the Period

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

Asset type	Name of property, etc.	Acquisition		Sale			
		Acquisition date	Acquisition price (JPY1M) (Note)	Sale date	Sale price (JPY1M)	Book value (JPY1M)	Gain (loss) on sale (JPY1M)
Beneficial interest of real estate in trust	Hotel Oriental Express Osaka Shinsaibashi	February 1, 2019	2,738	—	—	—	—
Beneficial interest of real estate in trust	Hilton Tokyo Odaiba	April 8, 2019	62,400	—	—	—	—
Total		—	65,138	—	—	—	—

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

2. Purchase and sale of other assets, etc.

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

3. Investigation into prices, etc. of specified assets

(1) Real estate properties, etc.

Acquisition/sale	Asset type	Name of property, etc.	Acquisition/sale date	Acquisition/sale price (JPY1M) (Note 1)	Appraisal value (JPY1M) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Beneficial interest of real estate in trust	Hotel Oriental Express Osaka Shinsaibashi	February 1, 2019	2,738	3,050	October 1, 2018	DAIWA REAL ESTATE APPRAISAL CO., LTD.
Acquisition	Beneficial interest of real estate in trust	Hilton Tokyo Odaiba	April 8, 2019	62,400	65,800	October 1, 2018	Japan Real Estate Institute

(Note 1) Acquisition price and sale price indicate contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) The above appraisals were evaluated by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

(2) Transaction of securities

Not applicable.

(3) Other

Name of the party that conducted the investigation

KPMG AZSA LLC

Overview of results and method of the investigation

For the period from January 1, 2019 to December 31, 2019, JHR requested an investigation of three interest rate swap transaction. Based on Article 201-2 of the Investment Trusts Act, JHR entrusted the investigation to KPMG AZSA LLC with regard to such information as the comparable price, counterparty's name, contract amounts and transaction period, and received a report on the agreed upon procedures as a result of the investigation based on the “Practical Guidelines on the Agreed Upon Procedures for the Investigation into Prices, Etc. of Specified Assets for Investment Trusts and Investment Corporations”

(Professional Practice Guidelines 4460) issued by The Japanese Institute of Certified Public Accountants.

This investigation does not constitute a part of the audit of the financial statements, nor provide any assurance or guarantee on the appropriateness of the price or the effectiveness of the internal control system.

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

(1) Transactions

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	65,138	–	28,278
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	6,996 [24.7%]
Tokyo Humania Enterprise KK	– [–%]	– [–%]	2,264 [8.0%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,063 [3.8%]
K.K. A.I.C Hiroshima Management	– [–%]	– [–%]	1,063 [3.8%]
OW Hotel Operations KK	– [–%]	– [–%]	967 [3.4%]
Lagoon resort Nago Co., Ltd.	– [–%]	– [–%]	937 [3.3%]
KK Narita Kosuge Operations	– [–%]	– [–%]	912 [3.2%]
Hotel Centraza Co., Ltd.	– [–%]	– [–%]	740 [2.6%]
Hotel Management Co., Ltd.	– [–%]	– [–%]	625 [2.2%]
KK Narita Yoshikura Operations	– [–%]	– [–%]	604 [2.1%]
Hotel Oriental Express Co., Ltd.	– [–%]	– [–%]	109 [0.4%]
Total	– [–%]	– [–%]	16,285 [57.6%]

(Note 1) Interested parties, etc. are the Asset Management Company's interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trust Act (hereinafter referred to as "interested parties, etc."). The amounts in "(1) Transactions" above and "(2) Amounts of fees paid, etc." below include transactions with those interested parties, etc. as well as major transactions with sponsor-related parties stipulated in the Asset Management Company's company code for transactions with sponsor-related parties, which include 1. Interested parties, etc., 2. The Asset Management Company's shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 50% or more stake, 5. Companies with which the Asset Management Company has concluded an asset management agreement, a discretionary investment agreement or an investment advisory agreement, 6. Entity or persons who ceased to fall under 1. or 5. within 3 months, and 7. Entity or persons who are deemed appropriate by the compliance officer of the Asset Management Company to be treated as sponsor-related parties in light of the company code for transactions with sponsor-related parties and the purpose of these rules.

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

(Note 3) The figures in brackets show the ratio of the relevant amount to the total amount, rounded off to one decimal place.

(2) Amount of fees paid, etc.

(thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with interested parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	653,041	Hotel Management Japan Co., Ltd.	5,760	0.9
		Tokyo Humania Enterprise KK	87	0.0

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

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

The Asset Management Company does not concurrently conduct any of the class 1 financial instruments transaction business, class 2 financial instruments transaction business, building lots and buildings transaction business, or real estate specified joint enterprise business, and there are no applicable transactions.

II. Financial Information

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

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

2. Changes in calculation method of depreciation

Not applicable.

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

Not applicable.

Status of beneficiary certificates of investment trusts set up by asset management company, etc.

Japan Hotel REIT Advisors Co., Ltd., the asset management company of JHR, has acquired JHR’s investment units as indicated below.

(1) Status of acquisition, etc.

Date	Number of units acquired (units)	Number of units disposed (units)	Number of units held (units)
January 20, 2016	2,500	—	2,500
July 5, 2017	1,200	—	3,700
Accumulated total	3,700	—	3,700

(2) Status of holding units

		Number of units held at end of period (units)	Total investment at end of period (thousands of yen) (Note 1)	Ratio to total units issued (%) (Note 2)	(Reference) Total number of units issued at end of period (units)
17th fiscal period	From January 1, 2016 to December 31, 2016	2,500	212,550	0.06	3,761,907
18th fiscal period	From January 1, 2017 to December 31, 2017	3,700	305,571	0.09	4,010,847
19th fiscal period	From January 1, 2018 to December 31, 2018	3,700	305,571	0.09	4,010,847
20th fiscal period	From January 1, 2019 to December 31, 2019	3,700	305,571	0.08	4,462,347

(Note 1) Total investment at end of period indicates the acquisition price.

(Note 2) Ratio to total units issued is percentage of investment units held at end of period to the total investment units issued at end of period and is rounded down to second decimal place.

Other

(1) Announcements

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

Approval date	Item	Summary
January 16, 2019	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units in Japan was entrusted to SMBC Nikko Securities Inc., Daiwa Securities Co. Ltd., Mizuho Securities Co., Ltd., Goldman Sachs Japan Co., Ltd., Nomura Securities Co., Ltd., FFG Securities Co., Ltd., Nishi-Nippon City Tokai Tokyo Securities Co., Ltd. and Chibagin Securities Co., Ltd. Moreover, general administration for offering the investment units overseas was entrusted to SMBC Nikko Capital Markets Limited, Goldman Sachs International, Mizuho International plc and Daiwa Capital Markets Europe Limited as joint lead managers for the overseas offering.
April 24, 2019	Shelf registration and comprehensive resolution on the issuance of investment corporation bonds and entrustment of accompanying administration	A comprehensive resolution was made on the issuance of investment corporation bonds with the issuance period between May 9, 2019 and May 8, 2021 with the total amount issued of within ¥100.0 billion. At the same time, a resolution was made on the issuance of investment corporation bonds of within ¥20 billion, and the decision on matters regarding the issuance of investment corporation bonds, including the administration related to issuance and entrustment of operations, was left to the discretion of the Executive Director.
November 22, 2019	Partial amendment to the asset management agreement	In accordance with the modifications to the Articles of Incorporation resolved at the 9th General Meeting of Unitholders of JHR, partial modifications were made to the asset management agreement as follows: <ul style="list-style-type: none"> • In view of the expansion of opportunities to invest in securities and monetary claims, etc., necessary amendments were made to enable investments to be made on an opportune basis. • Necessary amendment were made to add certain assets other than real estate-related assets to the calculation of the acquisition fee and the transfer fee; and others.

The 9th General Meeting of Unitholders of JHR was held on November 22, 2019. The major items approved at the General Meeting of Unitholders are summarized below.

Agenda	Summary
Partial amendments to the Articles of Incorporation	Partial amendments were made to the Articles of Incorporation due to the following reasons. <ul style="list-style-type: none"> • In view of the expansion of opportunities to invest in securities and monetary claims, etc., necessary amendments were made to enable investments to be made on an opportune basis. • Necessary amendment were made to add certain assets other than real estate-related assets to the calculation of the acquisition fee and the transfer fee; and others.
Election of one Executive Director	Kaname Masuda was again elected as Executive Director. His term of office commences on November 22, 2019 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since his election and at which a vote will be held on the election of Executive Director(s).

Agenda	Summary
Election of three Supervisory Directors	Tetsuya Mishiku, Hiroto Kashii and Mayumi Umezawa were elected as Supervisory Directors. The term of office of the elected Supervisory Directors commences on November 22, 2019 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since their election and at which a vote will be held on the election of Supervisory Directors.
Election of one Substitute Executive Director	Hisashi Furukawa, Representative Director of the Asset Management Company, was again elected as Substitute Executive Director.

(2) Status, etc. of corporation owning foreign real estate

Not applicable.

(3) Status, etc. of real estate owned by foreign real property holding corporations

Not applicable.

(4) Other

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

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
As of December 31, 2019 and 2018

	<i>Thousands of yen</i>	
	As of December 31, 2019	As of December 31, 2018
<u>ASSETS</u>		
Current assets:		
Cash and deposits (<i>Notes 5 and 6</i>)	¥ 22,449,911	¥ 25,706,559
Cash and deposits in trust (<i>Notes 5 and 6</i>)	11,894,019	11,478,156
Operating accounts receivable (<i>Note 6</i>)	2,779,730	2,474,121
Prepaid expenses	550,281	527,491
Income taxes receivable	54	34
Derivative assets (<i>Notes 6 and 18</i>)	573	2,229
Other current assets	88,045	77,987
Total current assets	37,762,616	40,266,582
Property and equipment, at cost (<i>Notes 17 and 19</i>):		
Machinery and equipment	579,731	398,134
Tools, furniture and fixtures	4,211,971	3,121,628
Buildings in trust (<i>Note 14</i>)	136,930,501	122,605,307
Structures in trust	2,721,962	2,535,539
Machinery and equipment in trust	675,362	598,790
Tools, furniture and fixtures in trust	136,526	136,526
Land in trust	219,901,119	163,151,369
Construction in progress in trust	18,384	765,363
	365,175,561	293,312,661
Less: Accumulated depreciation	(24,652,749)	(20,423,041)
Net property and equipment	340,522,811	272,889,620
Intangible assets:		
Software	227,600	199,563
Leasehold rights in trust (<i>Note 19</i>)	28,532,362	28,532,362
Fixed-term leasehold rights in trust (<i>Note 19</i>)	5,036,941	5,175,217
Other intangible assets (<i>Note 19</i>)	7,756	8,436
Total intangible assets	33,804,661	33,915,580
Other assets:		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,766,474	2,687,996
Derivative assets (<i>Notes 6 and 18</i>)	43,870	45,125
Reserve fund for repairs and maintenance	307,513	292,508
Investment unit issuance costs	140,631	124,220
Investment corporation bond issuance costs	211,194	172,390
Total other assets	3,632,429	3,484,984
Total assets	¥415,722,517	¥350,556,767

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
As of December 31, 2019 and 2018

	<i>Thousands of yen</i>	
	As of December 31, 2019	As of December 31, 2018
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Operating accounts payable	¥ 1,485,375	¥ 1,941,008
Current portion of investment corporation bonds (<i>Notes 6 and 8</i>)	-	2,000,000
Current portion of long-term loans payable (<i>Notes 6, 7 and 18</i>)	12,782,000	11,117,000
Accrued expenses	651,435	530,377
Income taxes payable	1,210	1,210
Consumption taxes payable	661,048	496,921
Advances received	909,293	882,052
Dividends payable	15,852	18,275
Deposits received	8,696	7,315
Derivative liabilities (<i>Notes 6 and 18</i>)	17,229	17,608
Other current liabilities	95,331	9,013
Total current liabilities	16,627,473	17,020,784
Long-term liabilities:		
Investment corporation bonds (<i>Notes 6 and 8</i>)	41,600,000	31,600,000
Long-term loans payable (<i>Notes 6, 7 and 18</i>)	114,372,000	91,954,000
Tenant leasehold and security deposits (<i>Note 6</i>)	1,040,520	1,041,016
Tenant leasehold and security deposits in trust (<i>Note 6</i>)	4,681,825	4,593,946
Derivative liabilities (<i>Notes 6 and 18</i>)	416,600	514,339
Deferred tax liabilities (<i>Note 15</i>)	13,981	14,838
Asset retirement obligations (<i>Note 9</i>)	447,677	445,622
Total long-term liabilities	162,572,605	130,163,763
Total liabilities	179,200,079	147,184,548
Net assets (<i>Note 10</i>):		
Unitholders' equity:		
Unitholders' capital	186,894,169	153,516,129
Units authorized: 20,000,000 units		
Units issued and outstanding; 4,462,347 units and 4,010,847 units as of December 31, 2019 and 2018, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Reserve for temporary difference adjustment (<i>Note 11</i>)	11,794,071	12,357,644
Reserve for special advanced depreciation	1,174,860	-
Total voluntary reserve	12,968,932	12,357,644
Unappropriated retained earnings	15,290,314	16,213,482
Total surplus	50,005,645	50,317,525
Total unitholders' equity	236,899,815	203,833,655
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (<i>Note 18</i>)	(377,376)	(461,435)
Total valuation and translation adjustments	(377,376)	(461,435)
Total net assets	236,522,438	203,372,219
Total liabilities and net assets	¥415,722,517	¥350,556,767

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Income
For the years ended December 31, 2019 and 2018

	<i>Thousands of yen</i>	
	For the year ended December 31, 2019	For the year ended December 31, 2018
Operating revenue:		
Real estate operating revenue (<i>Note 12</i>)	¥ 27,107,988	¥ 25,140,735
Other real estate operating revenue (<i>Note 12</i>)	1,170,561	1,178,141
Gain on sale of real estate properties (<i>Note 13</i>)	-	1,934,974
Total operating revenue	28,278,550	28,253,850
Operating expenses:		
Real estate operating costs (<i>Note 12</i>)	8,997,408	8,344,364
Asset management fee	1,781,691	1,577,515
Asset custody and administrative service fee	119,138	110,273
Directors' compensation	14,400	13,400
Other operating expenses	217,357	214,828
Total operating expenses	11,129,995	10,260,381
Operating income	17,148,555	17,993,469
Non-operating income:		
Interest income	357	225
Gain on forfeiture of unclaimed dividends	4,361	3,583
Gain on insurance claims	28,063	4,627
Refunded taxes on property and equipment	1,239	10,354
Interest on tax refunds	549	118
Gain on derivative instruments	12,382	12,843
Total non-operating income	46,953	31,752
Non-operating expenses:		
Interest expense	940,789	818,631
Interest expense on investment corporation bonds	284,524	246,329
Borrowing costs	483,761	525,031
Amortization of investment corporation bond issuance costs	30,298	27,751
Amortization of investment unit issuance costs	151,922	147,887
Loss on derivative instruments	378	39,417
Other	12,309	8,529
Total non-operating expenses	1,903,983	1,813,577
Ordinary income	15,291,524	16,211,644
Income before income taxes	15,291,524	16,211,644
Income taxes (<i>Note 15</i>):		
Current	1,210	1,210
Total income taxes	1,210	1,210
Net income	¥ 15,290,314	¥ 16,210,434

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Changes in Net Assets
For the years ended December 31, 2019 and 2018

	<i>Thousands of yen</i>							
	Unitholders' equity							
	Surplus							
	Unitholders' capital	Capital surplus	Voluntary reserve		Total voluntary reserve	Unappropriated retained earnings	Total surplus	Total unitholders' equity
			Reserve for temporary difference adjustment	Reserve for special advanced depreciation				
Balance, January 1, 2018	¥ 153,516,129	¥ 21,746,398	¥ 13,127,153	¥ -	¥ 13,127,153	¥ 14,005,489	¥ 48,879,041	¥ 202,395,170
Changes of items during the year:								
Reversal of reserve for temporary difference adjustment	-	-	(769,508)	-	(769,508)	769,508	-	-
Dividends paid	-	-	-	-	-	(14,771,949)	(14,771,949)	(14,771,949)
Net income	-	-	-	-	-	16,210,434	16,210,434	16,210,434
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	-	-	(769,508)	-	(769,508)	2,207,993	1,438,484	1,438,484
Balance, December 31, 2018	¥ 153,516,129	¥ 21,746,398	¥ 12,357,644	¥ -	¥ 12,357,644	¥ 16,213,482	¥ 50,317,525	¥ 203,833,655
Changes of items during the year:								
Issuance of new investment units	33,378,040	-	-	-	-	-	-	33,378,040
Reversal of reserve for temporary difference adjustment	-	-	(563,572)	-	(563,572)	563,572	-	-
Provision of reserve for special advanced depreciation	-	-	-	1,174,860	1,174,860	(1,174,860)	-	-
Dividends paid	-	-	-	-	-	(15,602,194)	(15,602,194)	(15,602,194)
Net income	-	-	-	-	-	15,290,314	15,290,314	15,290,314
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	33,378,040	-	(563,572)	1,174,860	611,287	(923,168)	(311,880)	33,066,160
Balance, December 31, 2019	¥ 186,894,169	¥ 21,746,398	¥ 11,794,071	¥ 1,174,860	¥ 12,968,932	¥ 15,290,314	¥ 50,005,645	¥ 236,899,815

	<i>Thousands of yen</i>		
	Valuation and translation adjustments		
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, January 1, 2018	¥ (431,849)	¥ (431,849)	¥ 201,963,321
Changes of items during the year:			
Reversal of reserve for temporary difference adjustment	-	-	-
Dividends paid	-	-	(14,771,949)
Net income	-	-	16,210,434
Net changes in items other than unitholders' equity	(29,586)	(29,586)	(29,586)
Total changes in amount during the year	(29,586)	(29,586)	1,408,897
Balance, December 31, 2018	¥ (461,435)	¥ (461,435)	¥ 203,372,219
Changes of items during the year:			
Issuance of new investment units	-	-	33,378,040
Reversal of reserve for temporary difference adjustment	-	-	-
Provision of reserve for special advanced depreciation	-	-	-
Dividends paid	-	-	(15,602,194)
Net income	-	-	15,290,314
Net changes in items other than unitholders' equity	84,059	84,059	84,059
Total changes in amount during the year	84,059	84,059	33,150,219
Balance, December 31, 2019	¥ (377,376)	¥ (377,376)	¥ 236,522,438

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	<i>Thousands of yen</i>	
	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash flows from operating activities:		
Income before income taxes	¥ 15,291,524	¥ 16,211,644
Depreciation and amortization	4,557,414	4,091,929
Loss on disposal of property and equipment	246,890	35,972
(Gain) Loss on derivative instruments	(12,004)	26,574
Amortization of investment corporation bond issuance costs	30,298	27,751
Amortization of investment unit issuance costs	151,922	147,887
Decrease of property and equipment due to sale	-	19,104
Decrease of property and equipment in trust due to sale	-	9,995,677
Decrease of intangible assets due to sale	-	117,138
Interest income	(357)	(225)
Interest expense	1,225,314	1,064,961
Interest on tax refunds	(549)	(118)
(Increase) decrease in operating accounts receivable	(305,608)	(62,284)
(Increase) decrease in prepaid expenses	(22,789)	44,621
(Increase) decrease in long-term prepaid expenses	(78,478)	320,330
Increase (decrease) in operating accounts payable	(240,644)	286,480
Increase (decrease) in accrued expenses	116,600	(139,228)
Increase (decrease) in consumption taxes payable	164,127	(63,249)
Increase (decrease) in advances received	27,240	(18,206)
Increase (decrease) in deposits received	1,380	(14,782)
Other	69,494	(106,639)
Subtotal	21,221,777	31,985,341
Interest received	482	170
Interest paid	(1,220,857)	(1,045,923)
Interest received on tax refunds	549	118
Income taxes – refunded (paid)	(1,230)	(1,211)
Net cash provided by operating activities	20,000,722	30,938,494
Cash flows from investing activities:		
Purchase of property and equipment	(1,332,712)	(536,481)
Purchase of property and equipment in trust	(71,102,935)	(2,399,742)
Purchase of intangible assets	(89,263)	(87,074)
Payments of reserve fund for repairs and maintenance	(40,453)	(40,330)
Refunds of leasehold and security deposits in trust	-	8,100
Repayment of tenant leasehold and security deposits	(496)	-
Proceeds from tenant leasehold and security deposits in trust	329,120	59,743
Repayment of tenant leasehold and security deposits in trust	(228,114)	(115,020)
Net cash used in investing activities	¥ (72,464,854)	¥ (3,110,806)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	<i>Thousands of yen</i>	
	For the year ended December 31, 2019	For the year ended December 31, 2018
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 8,000,000	¥ 5,000,000
Repayments of short-term loans payable	(8,000,000)	(8,000,000)
Proceeds from long-term loans payable	37,000,000	10,150,000
Repayments of long-term loans payable	(12,917,000)	(20,878,750)
Proceeds from investment corporation bonds	10,000,000	10,000,000
Repayments of investment corporation bond	(2,000,000)	-
Payments for investment corporation bond issuance costs	(69,102)	(68,082)
Proceeds from issuance of investment units	33,209,706	-
Dividends paid	(15,600,256)	(14,766,490)
Net cash provided by (used in) financing activities	<u>49,623,347</u>	<u>(18,563,322)</u>
Net increase (decrease) in cash and cash equivalents	(2,840,785)	9,264,365
Cash and cash equivalents at beginning of year	<u>37,184,716</u>	<u>27,920,350</u>
Cash and cash equivalents at end of year (Note 5)	<u>¥ 34,343,930</u>	<u>¥ 37,184,716</u>

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Notes to Financial Statements
For the years ended December 31, 2019 and 2018

1. Organization and Basis of Presentation

a. Organization

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

Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves wholly or partially used as hotels or real estate equivalents of such real estate or which are backed by such real estate or real estate equivalents.

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

Through the Merger, nine properties held by the Former JHR were succeeded by JHR. As a result, as of the effective date of the Merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2019, JHR has ownership interests in 43 properties.

b. Basis of presentation

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

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

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

2. Summary of Significant Accounting Policies

a. Cash and cash equivalents

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

b. Property and equipment

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

Machinery and equipment:	2 to 17 years
Tools, furniture and fixtures:	2 to 20 years
Buildings in trust:	2 to 64 years
Structures in trust:	2 to 64 years
Machinery and equipment in trust:	3 to 32 years
Tools, furniture and fixtures in trust:	2 to 27 years

c. Intangible assets

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

Software (internal use): 5 years

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

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

d. Investment unit issuance costs

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

e. Investment corporation bond issuance costs

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

f. Taxes on property and equipment

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for those properties related taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was ¥249,415 thousand for the year ended December 31, 2019 and not applicable for the year ended December 31, 2018.

g. Derivatives and hedging activities

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

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

h. Beneficial interests of real estate in trust

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

i. Consumption taxes

Consumption taxes are excluded from the transaction amounts.

3. Change in Presentation Method

JHR adopted “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year ended December 31, 2019. The method of presentation has been changed, whereby deferred tax assets are presented under other assets and deferred tax liabilities are presented under long-term liabilities.

As a result, deferred tax liabilities (¥583 thousand) that had previously been presented under current liabilities in the balance sheet as of December 31, 2018 was reclassified and included in deferred tax liabilities (¥14,838 thousand) under long-term liabilities to conform to the current fiscal year’s presentation.

4. Accounting Standards Issued but Not Yet Applied

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. Given the situation where IFRS 15 is applied from fiscal years beginning on or after January 1, 2018 and that Topic 606 is applied from fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance.

The basic policy for the ASBJ when it developed the accounting standards for revenue recognition was to establish the standards by incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining consistency with IFRS 15. The basic policy also allowed to add alternative treatments to the extent that comparability is not impaired, if consideration should be given to current practices that have been used thus far in Japan.

(2) Scheduled date of application

The above standards will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of applying the accounting standards

The impact on the financial statements of applying the standards is currently under review.

5. Cash Flow Information

Cash and cash equivalents as of December 31, 2019 and 2018 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2019	As of December 31, 2018
Cash and deposits	¥ 22,449,911	¥ 25,706,559
Cash and deposits in trust	11,894,019	11,478,156
Cash and cash equivalents	¥ 34,343,930	¥ 37,184,716

6. Financial Instruments

a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust 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

Operating accounts receivable are exposed to credit risks of customers. To address the risks, JHR monitors payment dates and balances by customers in order to detect and mitigate any suspicious accounts in a timely manner.

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

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the Asset Management Company. Derivative transactions are arranged by the finance section of the

Asset Management Company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

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

b. Fair value of financial instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2019 and 2018 were as follows. Financial instruments whose fair values are difficult to estimate are not included in the table. See Note (2) below.

<i>Thousands of yen</i>			
As of December 31, 2019			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 22,449,911	¥ 22,449,911	¥ -
(ii) Cash and deposits in trust	11,894,019	11,894,019	-
(iii) Operating accounts receivable	2,779,730	2,779,730	-
Total	¥ 37,123,661	¥ 37,123,661	¥ -
(iv) Current portion of investment corporation bonds	¥ -	¥ -	¥ -
(v) Current portion of long-term loans payable	12,782,000	12,782,000	-
(vi) Investment corporation bonds	41,600,000	41,480,400	(119,600)
(vii) Long-term loans payable	114,372,000	114,372,000	-
Total	¥ 168,754,000	¥ 168,634,400	¥ (119,600)
(viii) Derivative transactions (*)	¥ (389,386)	¥ (389,386)	¥ -
<i>Thousands of yen</i>			
As of December 31, 2018			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 25,706,559	¥ 25,706,559	¥ -
(ii) Cash and deposits in trust	11,478,156	11,478,156	-
(iii) Operating accounts receivable	2,474,121	2,474,121	-
Total	¥ 39,658,838	¥ 39,658,838	¥ -
(iv) Current portion of investment corporation bonds	2,000,000	2,002,200	2,200
(v) Current portion of long-term loans payable	11,117,000	11,117,000	-
(vi) Investment corporation bonds	31,600,000	31,785,870	185,870
(vii) Long-term loans payable	91,954,000	91,954,000	-
Total	¥ 136,671,000	¥ 136,859,070	¥ 188,070
(viii) Derivative transactions (*)	¥ (484,593)	¥ (484,593)	¥ -

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

Notes:

(1) Methods to measure fair value of financial instruments

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) Operating accounts receivable

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

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

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

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

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

(viii) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 18.

(2) Information on financial instruments whose fair values are difficult to estimate as of December 31, 2019 and 2018 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2019	As of December 31, 2018
	Carrying amount	
Tenant leasehold and security deposits	¥ 1,040,520	¥ 1,041,016
Tenant leasehold and security deposits in trust	4,681,825	4,593,946
Total	¥ 5,722,345	¥ 5,634,962

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 difficult.

(3) Redemption schedule for monetary claims as of December 31, 2019 and 2018:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2019						
Cash and deposits	¥22,449,911	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,894,019	-	-	-	-	-
Operating accounts receivable	2,779,730	-	-	-	-	-
Total	¥37,123,661	¥ -	¥ -	¥ -	¥ -	¥ -

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2018						
Cash and deposits	¥25,706,559	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,478,156	-	-	-	-	-
Operating accounts receivable	2,474,121	-	-	-	-	-
Total	¥39,658,838	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2019 and 2018.

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2019						
Current portion of investment corporation bonds	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	12,782,000	-	-	-	-	-
Investment corporation bonds	-	1,500,000	6,000,000	-	3,000,000	31,100,000
Long-term loans payable	-	10,800,000	10,900,000	15,772,000	18,650,000	58,250,000
Total	¥12,782,000	¥12,300,000	¥16,900,000	¥15,772,000	¥21,650,000	¥89,350,000

As of December 31, 2018	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Current portion of investment corporation bonds	¥ 2,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	11,117,000	-	-	-	-	-
Investment corporation bonds	-	-	1,500,000	6,000,000	-	24,100,000
Long-term loans payable	-	12,782,000	10,800,000	10,900,000	15,772,000	41,700,000
Total	<u>¥13,117,000</u>	<u>¥12,782,000</u>	<u>¥12,300,000</u>	<u>¥16,900,000</u>	<u>¥15,772,000</u>	<u>¥65,800,000</u>

7. Long-Term Loans Payable

long-term loans payable as of December 31, 2019 and 2018 consisted of the following:

	Maturity date	Millions of yen	
		As of December	As of December
		31, 2019	31, 2018
		Amount	
Long-term loans payable:			
1.15% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2021	¥ 6,800	¥ 6,800
Unsecured loan, payable in a lump-sum at maturity (*2)	September 30, 2019	-	6,317
0.92% Unsecured loan, payable in a lump-sum at maturity (*1,3)	September 30, 2020	6,055	6,055
1.04% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2021	4,000	4,000
0.57% Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	935	935
0.38% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2020	4,700	4,700
0.90% Unsecured loan, payable in a lump-sum at maturity (*1,3)	January 31, 2022	7,900	7,900
0.93% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2022	1,500	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	June 30, 2022	1,500	1,500
0.52% Unsecured loan, payable in a lump-sum at maturity	June 30, 2020	1,092	1,092
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity (*1,3)	September 29, 2023	892	892
0.21% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2019	-	2,000
0.19% Unsecured loan, payable in a lump-sum at maturity (*1,3)	March 29, 2019	-	960
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2019	-	1,140
0.77% Unsecured loan, payable in a lump-sum at maturity (*1,3)	March 29, 2024	2,100	2,100
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	2,650	2,650
0.68% Unsecured loan, payable in a lump-sum at maturity (*1,3)	March 31, 2023	4,200	4,200
0.66% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	800	800
0.57% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	500	500
0.74% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	9,500	9,500
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	1,300	1,300
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	2,000	2,000
0.59% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	700	700
0.71% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	500	500
0.47% Unsecured loan, payable in a lump-sum at maturity	June 30, 2023	2,250	2,250
0.85% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2026	4,250	4,250
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	700	700
0.75% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	300	300
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,550	2,550
0.57% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	4,000	4,000
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,450	2,450
0.42% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	1,700	1,700
0.42% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	2,850	2,850
0.52% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	500	500
0.55% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	500	500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2027	3,900	3,900
0.34% Unsecured loan, payable in a lump-sum at maturity (*4)	December 30, 2019	-	350
0.34% Unsecured loan, payable in a lump-sum at maturity (*4)	December 30, 2019	-	350
0.38% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,500	-
0.72% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2027	7,500	-
0.82% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2028	18,000	-
0.23% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,600	-
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2027	5,600	-
Sub-total		127,154	103,071
Total of long-term loans payable		¥ 127,154	¥ 103,071

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2019, or the most recent year, based on the number of days and outstanding balance of the loans payable. The interest rate is rounded off to the nearest second decimal place.

Notes:

- (*1) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps (interest rate fixation), rounded off to second decimal places.
- (*2) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is, in effect, fixed at 0.94875% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.
- (*3) JHR made partial early repayment of these loans payable on April 26, 2018.
- (*4) JHR additionally borrowed ¥900 million loan payable on April 26, 2019 and made early repayment of ¥450 million on June 17, 2019 and ¥800 million on July 31, 2019, respectively.

8. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2019	As of December 31, 2018
Unsecured 3rd investment corporation bond at interest rate of 0.92%, due on March 19, 2019	¥ -	¥ 2,000
Unsecured 4th investment corporation bond at interest rate of 0.86%, due on December 17, 2021	1,500	1,500
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022	6,000	6,000
Unsecured 6th investment corporation bond at interest rate of 0.935%, due on March 19, 2026	3,000	3,000
Unsecured 7th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	9,000	9,000
Unsecured 8th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	1,100	1,100
Unsecured 9th investment corporation bond at interest rate of 0.53%, due on November 22, 2024	1,000	1,000
Unsecured 10th investment corporation bond at interest rate of 0.84%, due on February 21, 2028	10,000	10,000
Unsecured 11th investment corporation bond at interest rate of 0.854%, due on June 14, 2029	8,000	-
Unsecured 12th investment corporation bond (green bonds) at interest rate of 0.40%, due on July 31, 2024	2,000	-
Total	¥ 41,600	¥ 33,600

9. Asset Retirement Obligations

a. Outline of the asset retirement obligations

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

b. Calculation method of the asset retirement obligations

The amount of asset retirement obligations for Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata) and HOTEL ASCENT FUKUOKA was calculated by using the discount rates of 0.484% and 0.394%, respectively, and estimating the expected periods of use based on the remaining useful lives of the related buildings (34 years and 48 years, respectively).

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

	<i>Thousands of yen</i>			
	For the year ended December 31, 2019		For the year ended December 31, 2018	
Balance at beginning of year	¥	445,622	¥	443,577
Adjustment due to accretion expense		2,054		2,045
Balance at end of year	¥	447,677	¥	445,622

10. Net Assets

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

Dividends and other movements in unappropriated retained earnings related to each period that were decided after the balance sheet date are summarized as follows:

	<i>Yen</i>			
	For the year ended December 31, 2019		For the year ended December 31, 2018	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 15,290,314,375		¥ 16,213,482,816	
II Reversal of voluntary reserve				
Reversal of reserve for temporary difference adjustment (*1)	1,176,490,844	¥ 263	563,572,972	¥ 140
Reversal of reserve for special advanced depreciation(*3)	1,174,860,958	¥ 263	-	¥ -
III Dividends	16,466,060,430	¥ 3,690	15,602,194,830	¥ 3,890
IV Voluntary reserve				
Provision of reserve for special advanced depreciation (*2)	-		1,174,860,958	
Provision of reserve for advanced depreciation(*3)	1,174,860,958		-	
V Retained earnings carried forward (I+II-III-IV)	¥ 744,789		¥ -	

Notes:

(*1) JHR applied the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015) from 2016. As a result, ¥13,127,153,216 of the dividend reserve, representing the remaining balance of the gain on negative goodwill recorded in a prior fiscal period, was transferred to the “Reserve for temporary difference adjustment” account through the appropriation of profit for the year ended December 31, 2016. Starting from the year ended December 31, 2017, JHR plans to reverse the reserve every fiscal year in an amount that shall be at least 2% of the transferred amount (¥262,543,065) but not exceeding the remaining amount of the reserve at that point in conformity with applicable rules and regulations.

For the year ended December 31, 2018, reversal of reserve for temporary difference adjustment of ¥563,572,972 was decided, which was calculated as ¥262,600,000 of the basic reversal plus ¥35,972,972 equivalent to loss on disposal of property and equipment and ¥265,000,000 for the large-scale renovation at Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata).

For the year ended December 31, 2019, reversal of reserve for temporary difference adjustment of ¥1,176,490,844 was decided, which was calculated as ¥262,600,000 of the basic reversal plus ¥246,890,844 equivalent to loss on disposal of property and equipment and ¥357,000,000 for the large-scale renovation at Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata) and ¥310,000,000 for adjustment to dilution of dividend per unit due to capital increase through public offering.

(*2) For the year ended December 31, 2018, based on Article 65-8 of the Special Taxation Measures Act of Japan, JHR decided to provide for the “Reserve for special advanced depreciation” in the amount of ¥1,174,860,958 in relation to the gain on sale of real estate properties recorded during the year.

(*3) For the year ended December 31, 2019, JHR decided to reverse the “Reserve for special advanced depreciation”

in the amount of ¥1,174,860,958 and to provide the same amount for the “Reserve for advanced depreciation” based on Article 65-7 of the Special Taxation Measures Act of Japan, following the acquisition of applicable assets during the year.

11. Provision and Reversal of Reserve for Temporary Difference Adjustment

Changes in the balance of reserve for temporary difference adjustment during the years ended December 31, 2019 and 2018 consisted of the following (yen in thousand):

Source	Original amount	Balance as of January 1, 2019	Provision during the year	Reversal during the year	Balance as of December 31, 2019	Rationale for provision or reversal
Dividend reserve	13,127,153	12,357,644	-	563,572	11,794,071	Allocation for dividend

Source	Original amount	Balance as of January 1, 2018	Provision during the year	Reversal during the year	Balance as of December 31, 2018	Rationale for provision or reversal
Dividend reserve	13,127,153	13,127,153	-	769,508	12,357,644	Allocation for dividend

(Note) See (*1) of Note 10 above for further descriptions.

12. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2019 and 2018 were as follows:

		<i>Thousands of yen</i>	
		For the year ended December 31, 2019	For the year ended December 31, 2018
Operating revenue:			
Real estate operating revenue:			
Fixed rent	¥	15,931,097	¥ 13,610,785
Variable rent		8,675,885	8,851,482
Income from management contract (*1)		2,501,004	2,678,467
Sub-total		27,107,988	25,140,735
Other real estate operating revenue:			
Parking lots		161,660	173,453
Other incidental revenue		63,016	62,693
Utilities		803,012	804,915
Other		142,873	137,078
Sub-total		1,170,561	1,178,141
Total operating revenue		28,278,550	26,318,876
Real estate operating costs:			
Land lease and other rent expenses		898,207	907,621
Property taxes		1,658,930	1,630,178
Outsourcing expenses (*2)		653,041	714,663
Nonlife insurance		51,030	47,798
Depreciation and amortization		4,557,414	4,091,929
Loss on disposal of property and equipment		246,890	35,972
Repairs		41,410	46,405
Utilities		818,290	813,911
Trust fees		44,679	42,537
Other		27,511	13,345
Total real estate operating costs		8,997,408	8,344,364
Net real estate operating income	¥	19,281,141	¥ 17,974,512

Notes:

(*1) Pursuant to management contracts with a certain hotel operator, JHR receives revenue in the amount equivalent to the properties’ gross operating profit, or GOP, while it pays management contract fees to the operator. In the

event a property's GOP for the relevant period is a negative number, then JHR is required to pay an amount equal to such negative number to the operator. Even though some of the revenue JHR receives under management contracts is variable, it recognizes such revenue as income from management contracts and not as variable rent.

- (*2) Outsourcing expenses include management contract fees of ¥296,029 thousand for the year ended December 31, 2019 and ¥337,442 thousand for the year ended December 31, 2018.

13. Gain on Sale of Real Estate Properties

There was no gain or loss on sale of real estate properties for the year ended December 31, 2019.

The components of "Gain on sale of real estate properties" for the year ended December 31, 2018 were as follows:

<i>Thousands of yen</i>			
For the year ended December 31, 2018			
	R&B Hotel Higashi-nihonbashi	the b akasaka-mitsuke	the b ochanomizu
Proceeds from sale of properties	¥ 3,050,000	¥ 6,600,000	¥ 2,500,000
Costs of sale of properties	1,483,749	6,294,221	2,353,951
Other selling expenses	22,955	41,508	18,639
Gain on sale of real estate properties	¥ 1,543,295	¥ 264,270	¥ 127,408

14. Advanced Depreciation of Property and Equipment

The accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received as of December 31, 2019 and 2018 were as follows:

<i>Thousands of yen</i>			
	As of December 31, 2019	As of December 31, 2018	
Buildings in trust	¥ 24,921	¥ 24,921	

15. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2019 and 2018 were as follows:

<i>Thousands of yen</i>			
	As of December 31, 2019	As of December 31, 2018	
Deferred tax assets			
Valuation difference on assets acquired by merger	¥ 1,712,010	¥ 1,728,216	
Amortization of fixed-term leasehold rights	162,810	119,491	
Asset retirement obligations	14,951	11,259	
Deferred losses on hedges	128,306	156,203	
Subtotal deferred tax assets	2,018,079	2,015,170	
Valuation allowance	(2,018,079)	(2,015,170)	
Total deferred tax assets	¥ -	¥ -	
Deferred tax liabilities			
Deferred gains on hedges	13,981	14,838	
Total deferred tax liabilities	¥ 13,981	¥ 14,838	

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2019 and 2018 was as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Effective statutory tax rate	31.51%	31.74%
Deduction for dividends paid	(31.72)	(29.63)
Reserve for special advanced depreciation	-	(2.30)
Change in valuation allowance	0.20	0.10
Other – net	0.03	0.09
Actual effective tax rate	0.01%	0.01%

16. Amounts per Unit

Net income per unit for the years ended December 31, 2019 and 2018 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
	Net income	Weighted- average units	Net income per unit
For the year ended December 31, 2019			
Basic net income per unit - Net income attributable to common unitholders	¥ 15,290,314	4,434,849	¥ 3,447
For the year ended December 31, 2018			
Basic net income per unit - Net income attributable to common unitholders	¥ 16,210,434	4,010,847	¥ 4,041

Notes:

- (1) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.
- (2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2019 and 2018.

Net assets per unit as of December 31, 2019 and 2018 were as follows:

	<i>Yen</i>	
	As of December 31, 2019	As of December 31, 2018
Net assets per unit	¥ 53,004	¥ 50,705

17. Leases

As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. Minimum rental revenue under the non-cancellable operating leases as of December 31, 2019 and 2018 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2019	As of December 31, 2018
Due within one year	¥ 1,459,034	¥ 1,666,631
Due after one year	2,106,234	3,562,086
Total	¥ 3,565,268	¥ 5,228,717

18. Derivatives and Hedging Activities

a. Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting was not applied as of December 31, 2019 and 2018 were as follows:

As of December 31, 2019	Classification	Thousands of yen		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 3,494,000	¥ 3,494,000	¥ (25,992)

As of December 31, 2018	Classification	Thousands of yen		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,088,000	¥ 3,494,000	¥ (37,996)

b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting was applied as of December 31, 2019 and 2018 were as follows:

As of December 31, 2019	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 112,654,000	¥ 101,072,000	¥ (363,394)

As of December 31, 2018	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 90,654,000	¥ 81,554,000	¥ (446,597)

Notes:

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

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

19. Investment and Rental Properties

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

	<i>Thousands of yen</i>			
	Carrying amount			Fair value (*2)
	January 1, 2019	Net increase (*1)	December 31, 2019	December 31, 2019
Hotels	¥ 306,789,379	¥ 67,525,119	¥ 374,314,498	¥ 525,910,000

Notes:

(*1) Increase during 2019 principally represents the acquisition of Hotel Oriental Express Osaka Shinsaibashi for ¥2,841 million and Hilton Tokyo Odaiba for ¥63,468 million.

(*2) Fair value of properties as of December 31, 2019 is generally the appraisal value determined by outside licensed real estate appraisers.

	<i>Thousands of yen</i>			
	Carrying amount			Fair value (*2)
	January 1, 2018	Net decrease (*1)	December 31, 2018	December 31, 2018
Hotels	¥ 317,229,208	¥ (10,439,828)	¥ 306,789,379	¥ 437,510,000

Notes:

(*1) Decrease during 2018 principally represents the sale of R&B Hotel Higashi-nihonbashi for ¥1,483 million, the b akasaka-mitsuke for ¥6,294 million and the b ochanomizu for ¥2,353 million.

(*2) Fair value of properties as of December 31, 2018 is generally the appraisal value determined by outside licensed real estate appraisers.

Real estate operating revenue and costs for the years ended December 31, 2019 and 2018 related to the rental properties were as follows:

	<i>Thousands of yen</i>		
	For the year ended December 31, 2019		
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 28,278,550	¥ 8,997,408	¥ 19,281,141

	<i>Thousands of yen</i>		
	For the year ended December 31, 2018		
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 26,318,876	¥ 8,344,364	¥ 17,974,512

Note:

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

20. Segment Information

a. Segment information

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

b. Related information

(1) Information about products and services for the years ended December 31, 2019 and 2018

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

(2) Information about geographical areas for the years ended December 31, 2019 and 2018

(i) Operating revenue

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

(ii) Property and equipment

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

(3) Information about major customers

<For the year ended December 31, 2019>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd. (*)	Hotel real estate investment and management	¥	15,221,983
AAPC Japan K.K.	Hotel real estate investment and management	¥	2,996,251

<For the year ended December 31, 2018>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd. (*)	Hotel real estate investment and management	¥	13,093,017
AAPC Japan K.K.	Hotel real estate investment and management	¥	3,121,263

Note:

(*) Operating revenue includes the operating revenue from customers belonging to the business group of the said customer.

21. Subsequent Events

Impact of the novel coronavirus

The global spread of the novel coronavirus infection has caused a significant decrease in the travel demand by Chinese and other foreign tourists visiting Japan. Moreover, domestic demand for travel, parties and banquets, etc. has also decreased as voluntary restraint on going out is spreading among Japanese people due to the request by the Japanese government.

In the face of such circumstances, concerns have arisen about the negative impact on the revenues and valuation of the hotels owned by JHR. However, the overall financial impact and duration cannot be estimated at this time.



Independent Auditor's Report

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

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2019 and 2018, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

April 17, 2020
Tokyo, Japan