



(TSE: 8985)

Financial Results

FY12/2018 (19th Period)

Japan Hotel REIT Investment Corporation
Japan Hotel REIT Advisors Co., Ltd.

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



February 20, 2019

I. Settlement of Accounts for FY12/2018 - Highlights		Appendix 1 JHR's Characteristics and Strategy	
1. FY12/2018 Highlights	3	1. JHR's Investment Targets	35
II. Summary of Settlement of Accounts		2. Simultaneous Pursuit of Stability and Upside Potential	36
1. Results for the FY12/2018	6	3. External Growth Strategy	37
2. Revenue Forecast for FY12/2019	7	4. Internal Growth Strategy	38
3. Balance Sheet	8	5. Financial Strategy	39
III. External Growth		6. Initiatives for Sustainability	40
1. Successive External Growth	10	7. Benefits Program for Unitholders	41
2. Summary of Two New Properties	11	Appendix 2 Information on Properties	
IV. Portfolio		1. Property List	43
1. Portfolio	17	2. Summary of Lease Contracts	45
2. Portfolio Diversification	18	3. Major CAPEX III by Hotel	47
V. Internal Growth		4. The Five HMJ Hotels – Highlights	48
1. Rent Structures	20	5. Portfolio Map	49
2. Performance of Major 21 Hotels with Variable Rent, etc.	21	Appendix 3 Investors Composition and Investment Unit Price	
3. RevPAR Variance to Previous Year by Region of Major 21 Hotels with Variable Rent, etc.	22	1. Major Unitholders and Classification of Unitholders	51
4. Active Asset Management	23	2. Changes in Investment Unit Price and Market Capitalization	52
5. Capital Expenditure and Depreciation	25	Appendix 4 Summary of the Asset Management Company	
VI. Financial Conditions		1. Summary of the Asset Management Company	54
1. Financial Conditions	27	2. Features and Governance of the Asset Management Company	55
VII. Market Environment			
1. Market Environment	31		

I . Settlement of Accounts for FY12/2018 - Highlights

1. FY12/2018 Highlights

1. External Growth(*1)

► Strategic property replacement

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

◆ Public Offering in June Acquisition in 2017

2017	Acquired 3 properties/ JPY 32.6 Bn	Total Acquisition Price	Total Funds Raised through Public Offerings
		JPY 32.6 Bn	JPY 18.6 Bn

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

◆ Sale of Properties in August Sale in 2018

2018	Sold 3 properties/ ▲ JPY 10.1 Bn(*1) Total Gain on Sale: JPY 1.9 Bn	Total Book Value of Sold Properties	Total Sales Price of Sold Properties
		JPY 10.1 Bn	JPY 12.1 Bn

End of FY12/2018 **41** properties/JPY **309.3**Bn

◆ Public Offering in January Acquisition in 2019

2019	(Planned) Acquisition 2 properties/ JPY 65.1 Bn	Total Acquisition Price	Total Funds Raised through Public Offerings
		JPY 65.1 Bn	JPY 33.3 Bn

Hilton Tokyo Odaiba



Hotel Oriental Express
Osaka Shinsaibashi



End of April 2019
(expected) **43** properties/JPY **374.5**Bn

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

► Improvement in hotel performance and increase of rent through active asset management

◆ Track Record

Major 21 hotels with variable rent, etc.

	2017	2018	Variance
RevPAR (JPY)	12,840	12,920	+0.6%
11 HMJ Hotels	14,544	14,572	+0.2%
6 Accor Hotels	10,185	10,416	+2.3%
4 the b Hotels	8,162	8,235	+0.9%
GOP (JPY MM)	17,678	17,911	+1.3%

◆ Forecast for FY12/2019

Major 21 hotels with variable rent, etc.

	2019	Variance
RevPAR (JPY)	13,456	+4.2%
GOP (JPY MM)	18,324	+2.3%

(*1) Stating total amount of the acquisition price.

(*2) The Eleven HMJ Hotels are are Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (the major facility of ACTIVE-INTER CITY HIROSHIMA), Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara. (Hotel Centrara Hakata has been implementing major renovation works from October 2018 to the end of March 2019 (plan). As the hotel has been suspending its hotel operation during the renovation, the hotel is excluded from the HMJ Group.)

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

(*4) The Four the b Hotels are the b ikebukuro, the b hachioji, the b hakata and the b suidobashi. The Six the b hotels are the Four the b hotels plus the b akasaka-mitsuke, the b ochanomizu.

(*5) Stating total asset LTV (expected) after the acquisition of Hilton Tokyo Odaiba (April 8, 2019).

(*6) For details, please refer to P.40.

3. Strengthening of Financial Base

► Conservative financial management

(at the end of December, 2018)

LTV(*5)	Costs for Interest-Bearing Debt	Average Life of Debt
40.6%	1.1%	4.8 years

◆ Diversified funding methods by issuance of investment corporation bonds

- Issuance of investment corporation bonds for individual investors (JPY10Bn) (the third time)

◆ Procurement of new loan utilizing SMBC Environmental Assessment Loan ("A" grade)(*6)

◆ Retained earnings by reserve for special advanced depreciation

- Retained earnings in amount of JPY1.1 billion out of gain on sale of R&B Hotel Higashi-nihonbashi which JHR hold over 10 years

◆ Reinforcement of lender formation

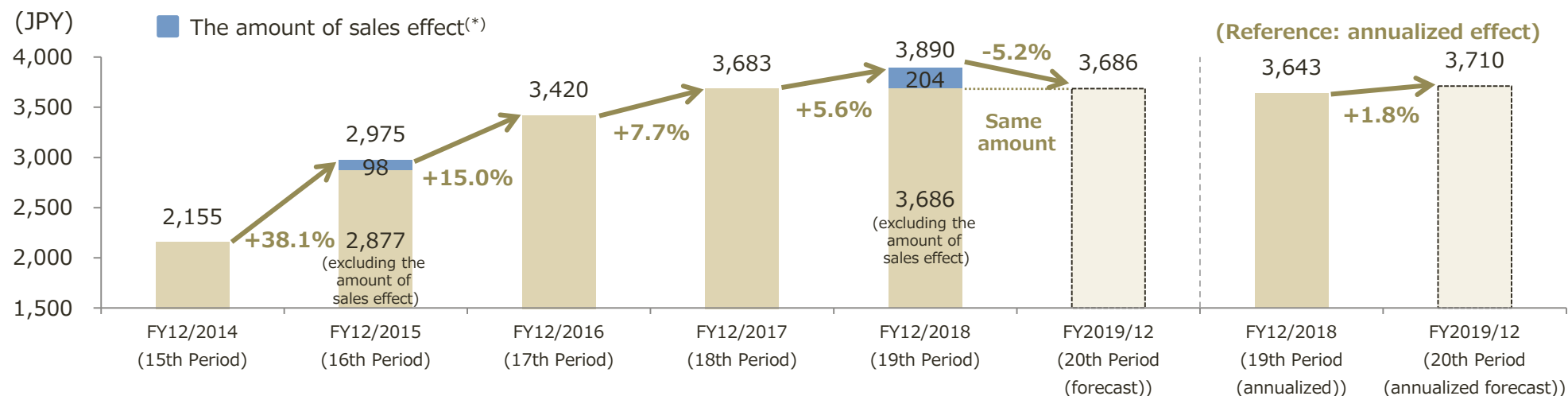
- New loan from Shizuoka Bank

◆ Status of Credit Rating

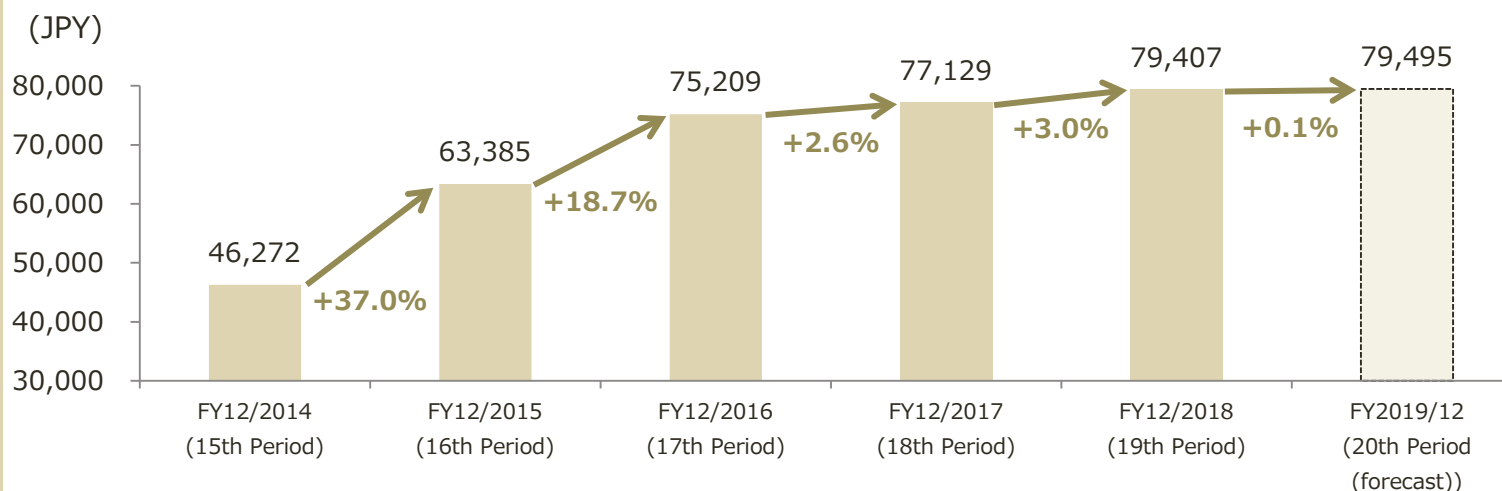
JCR	R&I
A+ (stable)	A (stable)

1. FY12/2018 Highlights (cont.)

Dividends Per Unit Growth



NAV Per Unit Growth



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

II . Summary of Settlement of Accounts

1. Results for the FY12/2018

(Unit: JPY MM)

		FY12/2017 (18th Period)	FY12/2018 (19th Period)	Variance		Breakdown of Variance			
		Actual (A)	Actual ^(*1) (B)	(B)-(A)	Variance	Three Properties Sold in 2018 ^(*3)	Three Properties Acquired in 2017 ^(*4)	Hotel Centraza Hakata	Existing Properties
Proper- ties	No. of Properties	44	41	(3)		(3)			
	Acquisition Price	319,474	309,370	(10,104)	(3.2%)	(10,104)			
Profit and Loss	Operating Revenue	25,475	28,253	2,778	10.9%	1,733	1,091	(276)	229
	Real Estate Operating Revenue	25,475	26,318	843	3.3%	(201)	1,091	(276)	229
	Fixed Rent, etc.	55.8% 14,221	56.2% 14,788	567	4.0%	(128)	664		31
	Variable Rent	44.2% 11,253	43.8% 11,529	275	2.5%	(72)	426	(276)	198
	Gain on Sale of Properties, etc.	-	1,934	1,934		1,934			
	NOI ^(*2)	21,424	22,104	679	3.2%	(185)	963	(280)	181
	NOI Yield	6.7%	7.1%	0.4%					
	Depreciation	3,725	4,091	366		(16)	239	(26)	168
	Asset Retirement Obligations Expenses	2	2	0				0	0
	Loss on Retirement of Noncurrent Assets	132	35	(96)					(96)
	NOI after Depreciation ^(*2)	17,563	17,974	410	2.3%	(168)	723	(253)	109
	NOI Yield after Depreciation	5.5%	5.8%	0.3%					
	Other Operating Expenses	1,806	1,916	109					
	Operating Income	15,757	17,993	2,235	14.2%				
Dividend	Ordinary Income	14,006	16,211	2,205	15.7%				
	Net Income	14,005	16,210	2,205	15.7%				
	Use of Negative Goodwill	769	563	(205)	(26.8%)				
	Reserve for special advanced depreciation	-	(1,174)	(1,174)					
	Total Dividends	14,771	15,602	830	5.6%				
	Number of Units Issued (Unit)	4,010,847	4,010,847						
	Dividend per Unit (JPY)	3,683	3,890 [3,686] ^(*6)	207	5.6%				

Major Causes of Variance of Existing Properties

Fixed rent, etc.

• Rent from office and commercial tenants	JPY11 MM
• Utilities income, etc.	JPY20 MM
(Total)	JPY31 MM

Variable rent

• Variable rent from the Eight HMJ Hotels ^(*5)	JPY116 MM
• Income from management contracts, etc. from the Six Accor Hotels	JPY16 MM
• Variable rent from the Four the b Hotels	JPY(9) MM
• Revenue sharing, etc.	JPY74 MM
(Total)	JPY198 MM

(*1) For detail, please refer to Financial Report for the Fiscal Year Ending December 31, 2018 (January 1, 2018–December 31, 2018) dated February 20, 2019.

(*2) Each is calculated using the following formula:

NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses
NOI after depreciation = Real estate operating revenue – Real estate operating costs

(*3) Representing R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu, which JHR sold in FY12/2018 (19th Period).

(*4) Representing Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara, which JHR acquired in FY12/2017 (18th Period).

(*5) The Eight HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (the major facility of ACTIVE-INTER CITY HIROSHIMA) and Holiday Inn Osaka Namba.

(*6) The figure refers to dividend per unit after excluding the amount of sales effect (reference number).

2. Revenue Forecast for FY12/2019

(Unit: JPY MM)

		FY12/2018 (19th Period)	FY12/2019 (20th Period)	Comparison with Previous Period				
		Actual (A)	Forecast ^(*) (B)	(B)-(A)	Variance	Three Properties to be Acquired in 2019 ^{(*)2}	Three Properties Sold in 2018	Existing Properties
Properties	No. of Properties	41	43	2		2		
	Acquisition Price	309,370	374,508	65,138	21.1%	65,138		
Profit and Loss	Operating Revenue	28,253	28,876	622	2.2%	2,402	(2,214)	434
	Real Estate Operating Revenue	26,318	28,876	2,557	9.7%	2,402	(279)	434
	Fixed Rent, etc.	56.2% 14,788	58.8% 16,989	2,200	14.9%	2,367	(199)	32
	Variable Rent	43.8% 11,529	41.2% 11,886	356	3.1%	34	(79)	402
	Gain on Sale of Properties, etc.	1,934	-	(1,934)			(1,934)	
	Operating Expenses related to Properties	4,214	4,377	163		7	(27)	183
	NOI	22,104	24,498	2,394	10.8%	2,394	(251)	251
	NOI Yield	7.1%	6.5%	(0.6%)				
	Depreciation	4,091	4,663	571		272	(34)	334
	Asset Retirement Obligations Expenses	2	2	0				0
	Loss on Retirement of Noncurrent Assets	35	247	211				211
	NOI after Depreciation	17,974	19,584	1,610	9.0%	2,121	(216)	(294)
	NOI Yield after Depreciation	5.8%	5.2%	(0.6%)				
	Other Operating Expenses	1,916	2,213	297				
	Operating Income	17,993	17,371	(621)	(3.5%)			
	Non-Operating Income	31	0	(31)				
	Non-Operating Expenses	1,813	2,096	283				
Dividend	Ordinary Income	16,211	15,274	(936)	(5.8%)			
	Extraordinary losses and corporate tax	1	1					
	Net Income	16,210	15,273	(936)	(5.8%)			
	Use of negative goodwill	563	1,177	613	108.9%			
	Reserve for special advanced depreciation	(1,174)	-	1,174				
Dividend	Total Dividends	15,602	16,448	846	5.4%			
	Number of Units Issued (Unit)	4,010,847	4,462,347	451,500	11.3%			
	Dividend per Unit (JPY)	3,890	3,686	(204)	(5.2%)			

Major Causes of Variance of Existing Properties

Fixed rent

Fixed rent of HOTEL ASCENT FUKUOKA	JPY22 MM
Rent from office and commercial tenants	JPY18 MM
Utilities income, etc.	JPY(9) MM
(Total)	JPY32 MM

Variable rent

Variable rent from the Twelve HMJ Hotels ^{(*)3}	JPY255 MM
Income from management contracts, etc. from the Six Accor Hotels	JPY169 MM
Revenue sharing, etc.	JPY(22) MM
(Total)	JPY402 MM

Use of Negative Goodwill^{(*)4}

FY12/2018

50-year amortization amount	JPY262 MM
Loss on retirement of noncurrent assets	JPY35 MM
Correspondence to major renovation work	JPY265 MM
(Total)	JPY563 MM

FY12/2019

50-year amortization amount	JPY262 MM
Loss on retirement of noncurrent assets	JPY247 MM
Correspondence to major renovation work	JPY357 MM
Correspondence to dilution, etc.	JPY310 MM
(Total)	JPY1,177 MM

(*)1 For detail, please refer to Financial Report for the Fiscal Year Ending December 31, 2018 (January 1, 2018–December 31, 2018) dated February 20, 2019.

(*)2 Representing Hilton Tokyo Odaiba and Hotel Oriental Express Osaka Shinsaibashi, which JHR plans to acquire in FY12/2019 (20th Period).

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

(*)4 Please refer to P.29 for the use of negative goodwill (reserve for temporary difference adjustment).

3. Balance Sheet

(Unit: JPY MM)

	FY12/2017 End of Fiscal Year 2017.12.31	FY12/2018 End of Fiscal Year 2018.12.31	Variance
(As of)			
ASSETS			
Current Assets	30,919	40,266	9,346
Cash and Deposits ^(*1)	27,920	37,184	9,264
Operating Accounts Receivables	2,411	2,474	62
Others	587	607	20
Noncurrent Assets	320,859	309,993	(10,865)
Net Property and Equipment	283,066	272,889	(10,176)
Buildings in Trust ^(*2)	109,983	107,874	(2,109)
Land in Trust	171,618	163,151	(8,466)
Others ^(*3)	1,465	1,864	398
Intangible Assets	34,171	33,915	(255)
Other Assets	3,621	3,188	(433)
Leasehold and Security Deposits	170	162	(8)
Others	3,450	3,025	(425)
Deferred Assets	404	296	(107)
TOTAL ASSETS	352,183	350,556	(1,626)

	FY12/2017 End of Fiscal Year 2017.12.31	FY12/2018 End of Fiscal Year 2018.12.31	Variance
(As of)			
LIABILITIES			
Current Liabilities	21,161	17,021	(4,140)
Operating Accounts Payable	909	1,941	1,031
Short-Term Loans Payable	3,000	0	(3,000)
Current Portion of Investment Corporate Bonds Payable	0	2,000	2,000
Current Portion of Long-Term Loans Payable	15,022	11,117	(3,905)
Accounts Payable	1,211	1,028	(183)
Advances Received	900	882	(18)
Others	116	52	(64)
Long-Term Liabilities	129,058	130,163	1,105
Investment Corporation Bonds	23,600	31,600	8,000
Long-Term Loans Payable	98,777	91,954	(6,823)
Tenant Leasehold and Security Deposits	5,694	5,634	(59)
Derivative Liabilities	504	514	10
Others	482	459	(22)
TOTAL LIABILITIES	150,219	147,184	(3,035)
NET ASSETS			
Unitholders' Capital	153,516	153,516	–
Capital Surplus	21,746	21,746	–
Reserve for Temporary Difference Adjustment	13,127	12,357	(769)
Unappropriated Retained Earnings (midterm/year)	14,005	16,213	2,207
Others	(431)	(461)	(29)
TOTAL NET ASSETS	201,963	203,372	1,408
TOTAL LIABILITIES AND NET ASSETS	352,183	350,556	(1,626)

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

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

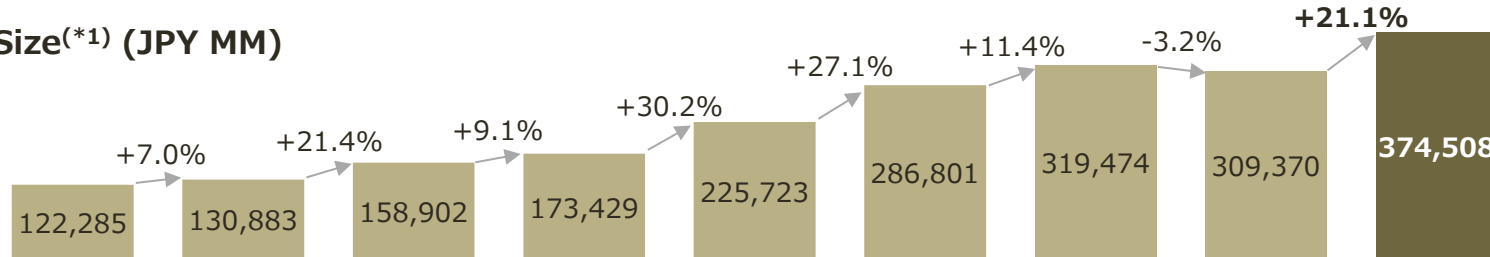
(*3) The sum of machinery and equipment, tools, furniture and fixtures, and construction in progress.

III. External Growth

1. Successive External Growth

◆ Improvement of the quality of JHR's portfolio and successive external growth through strategic asset replacement

Growth in Asset Size^(*1) (JPY MM)



	April 2012 (merger)	FY12/2012 (13th Period)	FY12/2013 (14th Period)	FY12/2014 (15th Period)	FY12/2015 (16th Period)	FY12/2016 (17th Period)	FY12/2017 (18th Period)	FY12/2018 (19th Period)	FY12/2019 (20th Period) (annualized effect)
NOI Yield ^(*2)	-	6.2%	6.2%	6.3%	6.6%	6.6%	6.7%	7.1%	6.5% (6.7%)
NOI Yield after Depreciation ^(*2)	-	4.5%	4.8%	5.0%	5.3%	5.4%	5.5%	5.8%	5.2% (5.4%)
NAV per Unit	-	JPY32,321	JPY36,074	JPY46,272	JPY63,385	JPY75,209	JPY77,129	JPY79,407	JPY79,495
No. of Properties	28	28	28	30	36	41	44	41	43
No. of Acquisition	-	2	2	3	9	5	3	-	2
Acquisition Price	-	JPY10.8Bn	JPY32.6Bn	JPY15.7Bn	JPY57.0Bn	JPY61.0Bn	JPY32.6Bn	-	JPY65.1Bn
No. of Dispositions	-	2	2	1	3	-	-	3	-
Sale Price	-	JPY0.8Bn	JPY2.6Bn	JPY0.7Bn	JPY4.8Bn	-	-	JPY12.1Bn	-

Aim for
Successive
Growth

	Three properties sold in 2018	Two properties to be acquired in 2019
Acquisition Price	JPY10,104MM	JPY65,138MM
Appraisal Value	JPY10,460MM ^(*3)	JPY68,850MM
Average NOI Yield	3.6% ^(*4)	4.5% ^(*6)
Type of Hotels	Limited-service	Full-service/Limited-service
Grade of Hotels	Economy/Mid-price	Upper-middle/Mid-price
Book Value	JPY10,215MM ^(*5)	
Sale Price	JPY12,150MM	
Gain on Sale	JPY1,934MM	
Disposed Properties	R&B Hotel Higashi-nihonbashi the b akasaka-mitsuke the b ochanomizu	Hilton Tokyo Odaiba Hotel Oriental Express Osaka Shinsaibashi



- (*)1 Asset side is based on the aggregate (anticipated) acquisition price of the properties at the end of each fiscal period.
- (*)2 NOI yield for FY12/2012 is hypothetical annualized based on actual NOI after merger.
- (*)3 As of June 30, 2018
- (*)4 NOI yield to sale price.
NOI is the actual for FY12/2017.
- (*)5 As of the date of the sale.
- (*)6 NOI yield is calculated based on annualized effect (forecast) for FY12/2019.

2 - 1 . Summary of Two New Properties: Hilton Tokyo Odaiba

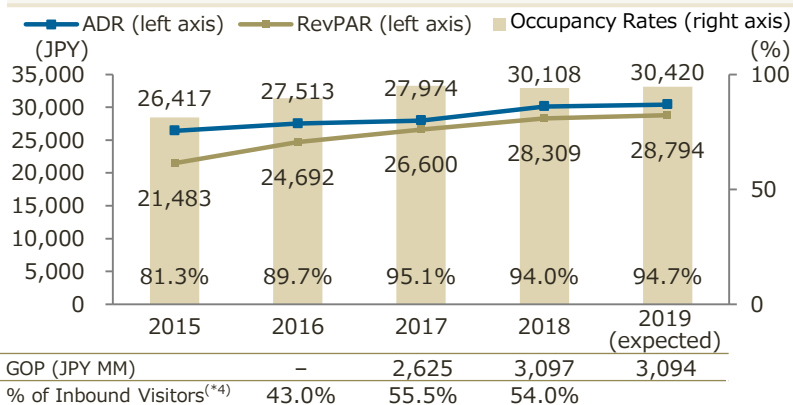
- ◆ An acquisition of largest^(*1) asset in our portfolio and trophy asset for JHR
- ◆ Scarce large-scale full-service hotel in the middle of Tokyo



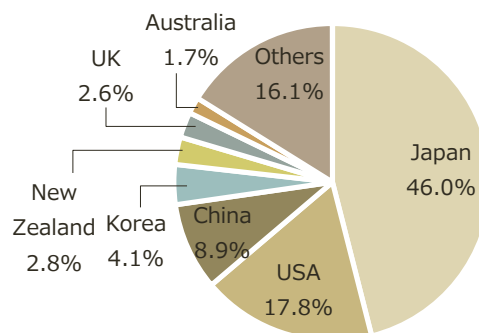
Hilton Tokyo Odaiba (plan to acquire on April 8, 2019)

Anticipated Acquisition Price	JPY62,400MM
Type/Grade	Full-service/Upper-middle
Number of Rooms	453
Lease Term	April 8, 2019 – December 31, 2029
NOI Yield ^(*2)	4.4%
Brand/Operator	Hilton/HMJ Group
Rent Structure	Fixed + Variable
Feature	<ul style="list-style-type: none"> • Large full-service hotel with scarce 4 star recognition • Change the contract with "Hilton", and HMJ will operate the hotel • Attract active demand for both leisure and business purposes • Seek to raise its profile and upside potential by leveraging advertising effectiveness from 2020 Tokyo Olympic and Paralympic Games

Changes in KPI^(*3)



Guest Room Sales by Country^(*5)



Rent Structure

<From April 8, 2019 to December 31, 2021>

- Fixed rent: JPY3.1Bn/year
- Variable rent:
In case AGOP^(*6) exceeds AGOP base amount (JPY2.97Bn a year), the amount arrived by multiplying 30% to the exceeded amount

<From January 1, 2022 to December 31, 2029>

- Fixed rent: JPY1.6Bn/year
- Variable rent:
In case AGOP exceeds AGOP base amount (JPY1.66Bn a year), the amount arrived by multiplying 98% to the exceeded amount

(*1) Based on the acquisition price.

(*2) NOI yield is calculated based on the annualized effect for FY12/2019 (forecast).

(*3) All the data is on an unaudited basis and shared by the current owner as Hilton Tokyo Odaiba has not been acquired yet. ADR and RevPAR include service charge. These data are not necessarily calculated by accounting treatment, etc. adopted by JHR. JHR and Japan Hotel REIT Advisors Co., Ltd. (hereinafter called "JHRA") cannot guarantee accuracy of the numbers.

(*4) % of Inbound visitors is calculated based on numbers of guest rooms sold.

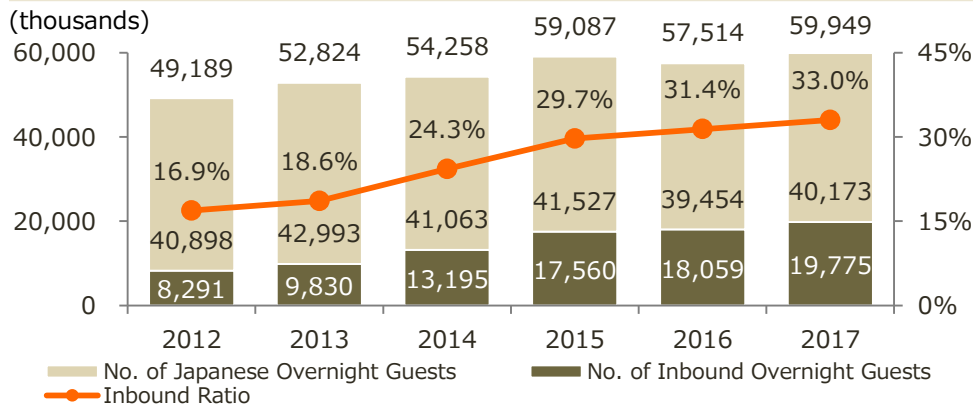
(*5) Guest room sales by country is calculated based on numbers of guest rooms sold.

(*6) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP.

2 - 1 . Summary of Two New Properties: Tokyo Market

- ◆ Largest market which attracts stable demand from both domestic and inbound visitors for leisure and business
- ◆ Scarcity of 4-star and 5-star hotels in Japan (Hilton Tokyo Odaiba has a 4-star rating)

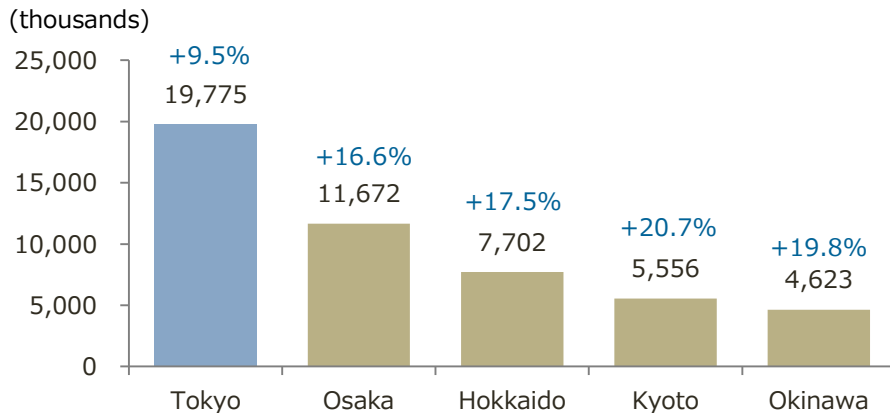
Number of Nights Spent at Lodging Facilities in Tokyo



Source: Statistic research of trip with lodging by Japan Tourism Agency

Note: Number of nights spent by domestic guests are calculated as total number of nights spent minus the number of nights spent by inbound guests.

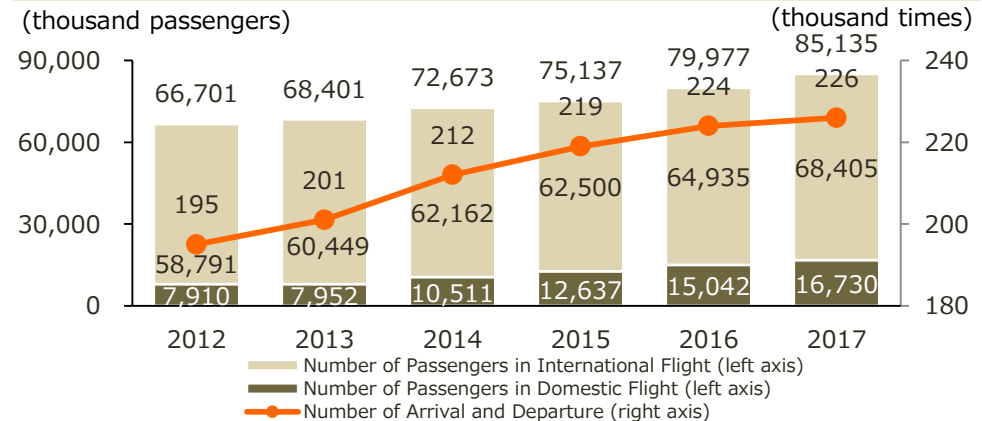
Number of Nights Spent by Inbound Guests by Prefecture (Top 5) (2017)



Source: Japan Tourism Agency

Note: % in the chart indicates changes against 2016.

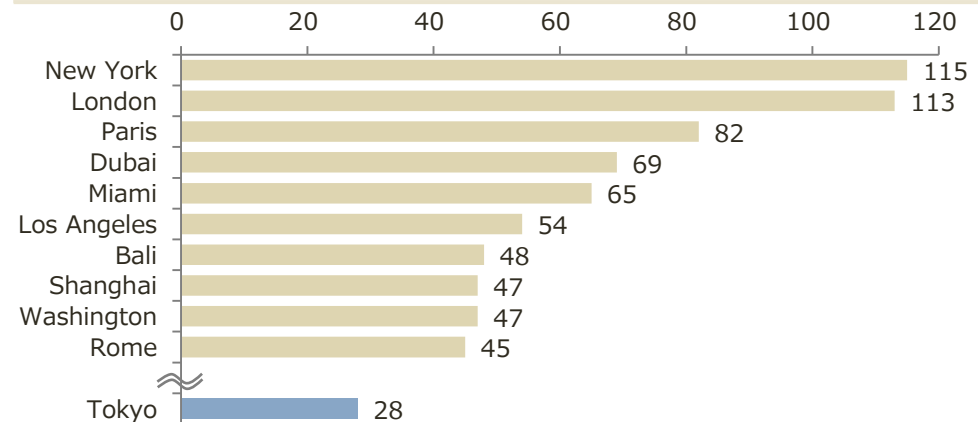
Changes in Number of Arrival and Departure and Number of Passengers in Haneda Airport



Source: Airport Management Report by Year and by fiscal year by Ministry of Land, Infrastructure, Transport and Tourism

Note: Transit Passenger does not included in each figure.

Number of 4-Star and 5-Star Hotels by Major City



Source: Prepared by the Asset Manager based on data on Five Star Alliance web site

Note: As of November 30

2 - 1 . Summary of Two New Properties: Odaiba Market

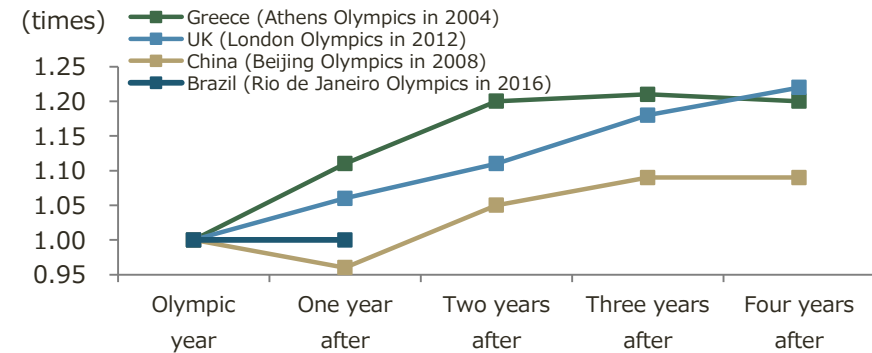
- ◆ Has good access to Haneda Airport and major tourist spots in Tokyo and area itself has many tourist attractions
- ◆ Improvement of tourism infrastructure is underway for Tokyo Olympics and Paralympics. Successive growth of demand is expected after 2020

Tourist Attractions in Odaiba Area/Waterfront of Tokyo



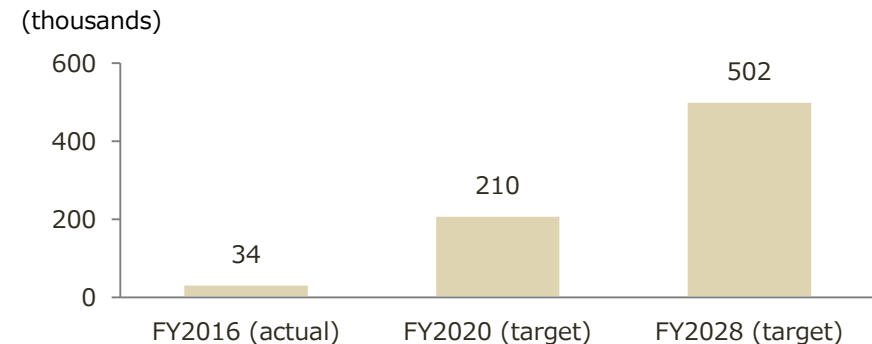
The facilities colored by ■ are planned to be used for venues for Tokyo Olympic and Paralympic. The name of sports planned to be held are written inside the bracket.

Changes in Number of International Tourist Arrivals after Olympics and Paralympics



Source: Prepared by the Asset Manager based on the data from "International tourism, number of arrivals" by World Bank and "Tourism Highlights 2018 Edition" by UNWTO
 (*1) The data were calculated in the past and those are not guaranteed for the change after Tokyo Olympics and Paralympics.
 (*2) Figures one year after Olympic in Brazil are estimated figures.

Track Record and Target of Number of Cruise Ship Passengers in the Tokyo Bay area



Source: "Tokyo Cruise Vision", "Annual Plan for 'Action Plan for 2020'" and "Track Record at the end of FY2016" by Tokyo Metropolitan Government

(*) Rainbow Bridge, Fuji Television Head Office Building and Tokyo Big Sight, etc are facilities located in Odaiba area, and JHR has no plan to acquire these facilities at this moment.

2 - 2 . Summary of Two New Properties: Hotel Oriental Express Osaka Shinsaibashi

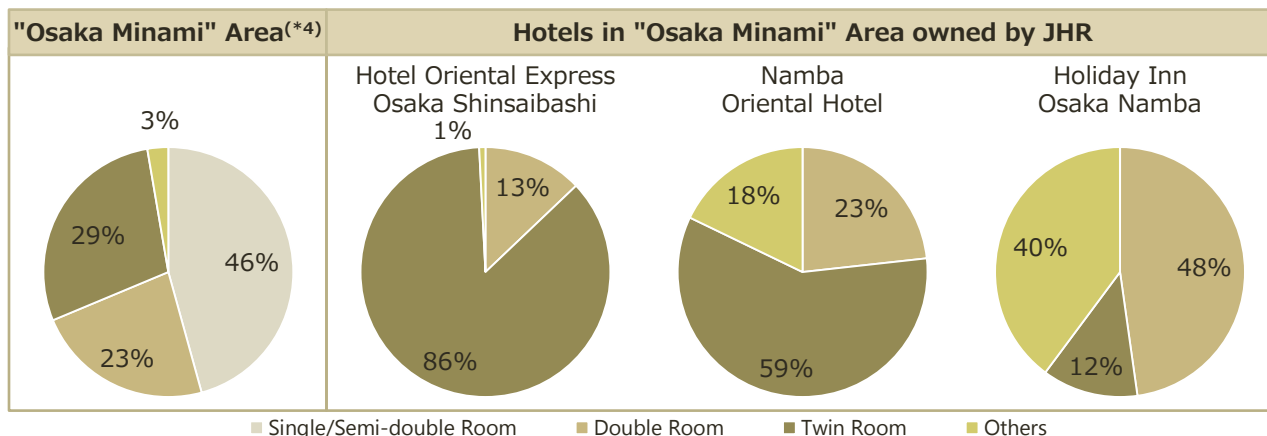
- ◆ Newly-built hotel located in "Osaka Minami" area, one of Kansai's foremost tourist destinations
- ◆ Expected to benefit from inbound demand with capacity to accommodate two or more person in all guest rooms



Hotel Oriental Express Osaka Shinsaibashi

Anticipated Acquisition Price	JPY2,738MM
Type/Grade	Limited-service/Mid-price
Number of Rooms	124 (16 Double room/107 Twin Room/1 Universal Room ^(*)1))
Lease Term	April 2, 2018 – March 31, 2028
NOI Yield ^(*)2)	6.0%
Brand/Operator	Oriental (Domestic Brand)/HMJ Group
Rent Structure ^(*)3)	Fixed + Variable
Feature	<ul style="list-style-type: none"> • Newly- built hotel which HMJ Group has been involved since development and managed since its opening • Expected to benefit from inbound visitors capacity to accommodate two or more person in all guest rooms • Realize synergies with two other hotels operated by HMJ Group in the same area

Breakdown of Room Type of Hotels



Rent Structure

- Fixed rent: JPY110.4MM/years
- Variable rent:
In case GOP exceeds GOP base amount (JPY128MM a year), the amount arrived by multiplying 91% to the exceeded amount

(*)1 "Universal room" is a barrier-free room type with consideration to the use of a wheel-chair.

(*)2 NOI yield is hypothetical annualized NOI yield for FY12/2019 (forecast).

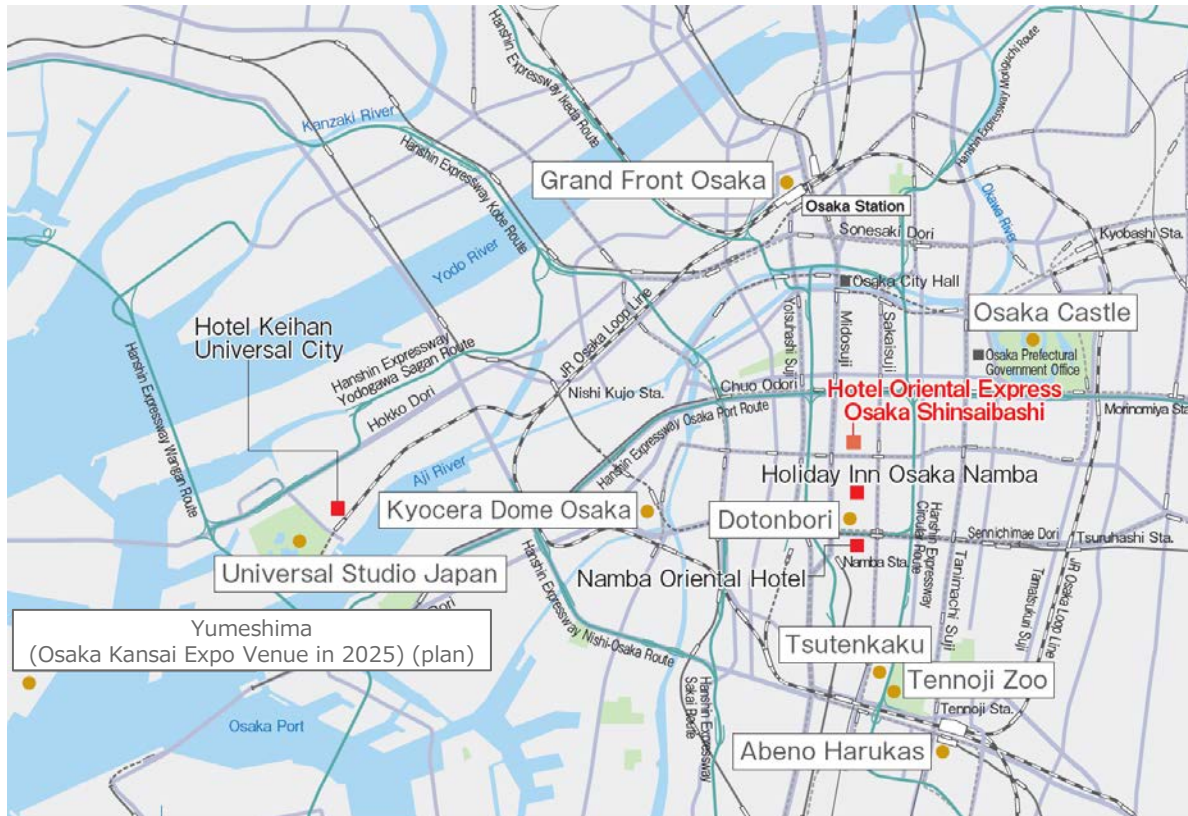
(*)3 Rent structure from April 2, 2019 to June 30, 2019 is fixed rent only (JPY9,500 thousands/month).

(*)4 For Osaka Minami Area, data were prepared by the Asset Manager based on the data as of September 30, 2018 from large travel agency (excludes Capsule Hotels and Sauna).

2-2. Summary of Two New Properties: Osaka Market

- ◆ Osaka's Minami has strength to attract inbound demand through highly convenient transportation access to various tourist site in Osaka and surrounding major cities such as Kyoto, Nara and Kobe

Status of Area Surrounding Hotel Oriental Express Osaka Shinsaibashi



Characteristics of "Osaka Minami" Area

Highly Convenient Transportation Access

- Approx. 6 minutes to Umeda Station and approx. 13 minutes to Shin-Osaka Station via Osaka Metro Midosuji Line from Shinsaibashi Station
- Allows easy access to Osaka Business Park and Kyobashi by way of Osaka Metro Nagahori Tsurumi-ryokuchi Line
- Good access to surrounding major cities such as Kyoto, Nara and Kobe, and Kansai International Airport by train

Surrounding Facilities



Yumeshima
Osaka Kansai
Expo Venue (plan))



Grand Front Osaka



Osaka Castle



Universal Studios Japan



Kyocera Dome
Osaka



Tsutenkaku



ABENO
HARUKAS



Tennoji Zoo



Dotonbori

IV. Portfolio

1 . Portfolio

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

Portfolio Summary

(Plan as of the end of April 2019)

Total Assets

JPY**3,745**Bn

No. of Hotels

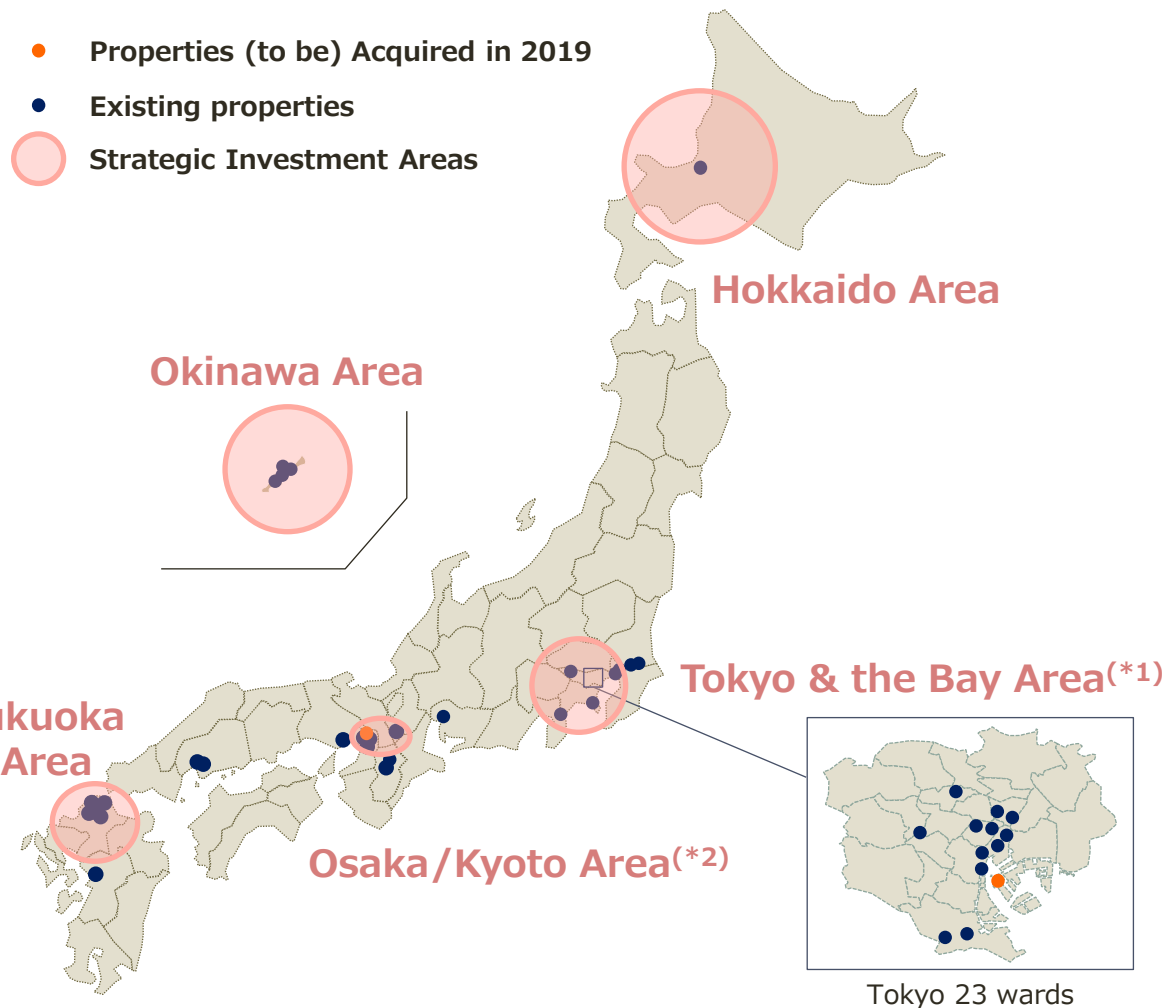
43 Hotels

(**34** in Strategic Investment Areas)

No. of Guest Rooms

11,676 Rooms

Strategic Investment Areas and Locations of Properties



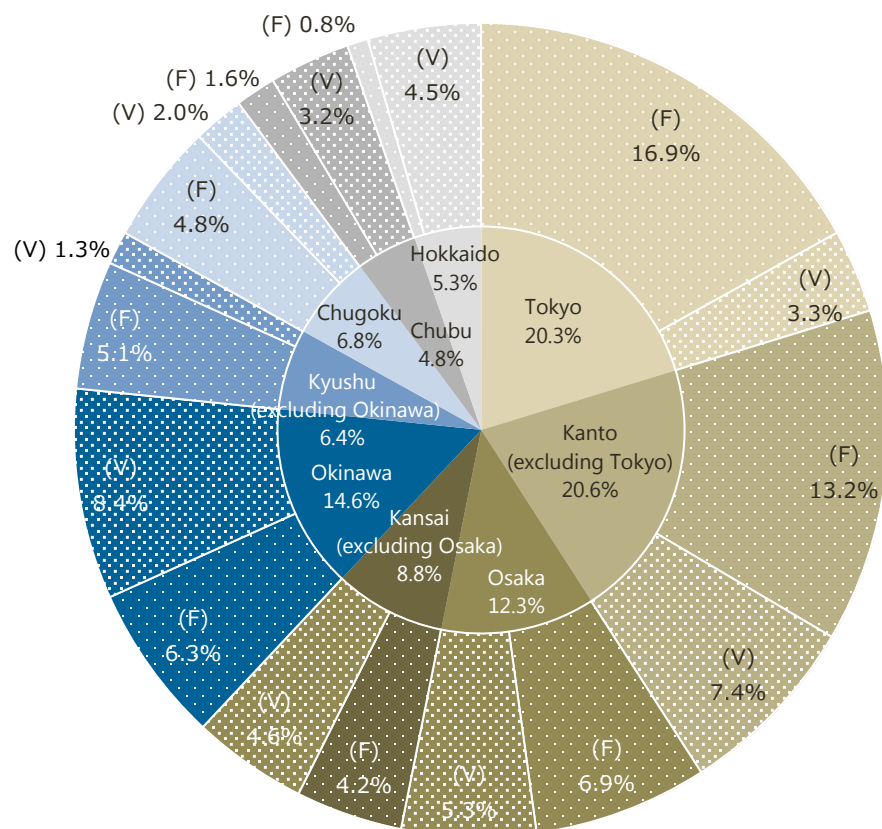
(*1) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.

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

2. Diversification of Portfolio

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

By Area and Rent(*1)



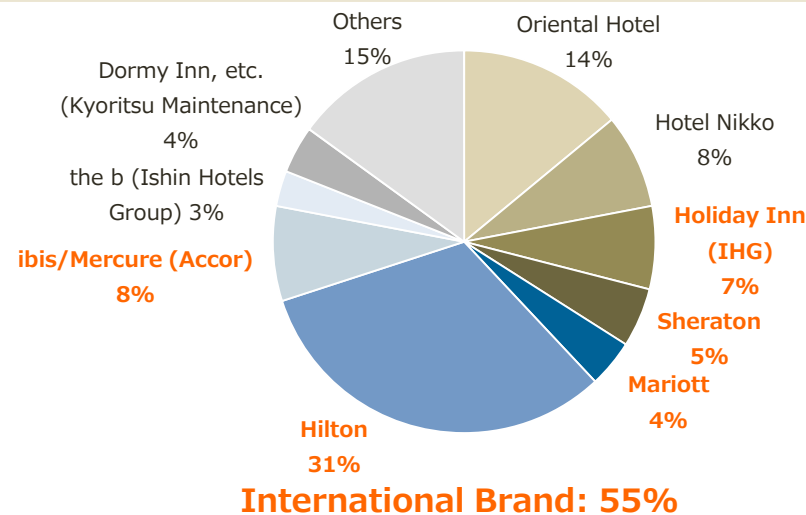
Fixed Rent (F)

59.9%

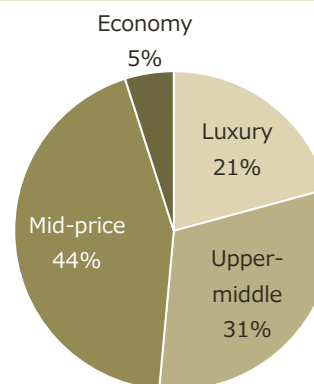
Variable Rent (V)

40.1%

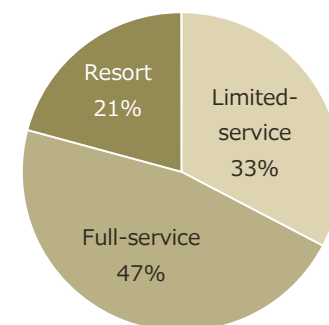
By Hotel Brand(*2)



By Grade(*2)



By Hotel Type(*2)



(*1) Based on the annualized rent in revenue forecast of FY12/2019

(*2) Based on the acquisition price

V . Internal Growth

1. Rent Structures

Stability

Upside

(FY12/2019 estimated)

Rent Structure ^(*)		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable rent	Variable rent	Management contract	Total
Type of Contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of Rent	Fixed	○	○	○	–	–	–
	Variable	–	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	A certain percentage of hotel revenue or hotel GOP	Hotel GOP	–
Real Estate Operating Revenue (%) (annualized forecast for FY12/2019)		JPY2,797MM (9.4%)	JPY3,715MM (12.5%)	JPY18,099MM (60.8%)	JPY1,841MM (6.2%)	JPY3,299MM (11.1%)	JPY29,753MM (100.0%)
(breakdown)	Fixed Rent, etc. ^(*) (%)	JPY2,797MM (9.4%)	JPY3,287MM (11.0%)	JPY10,763MM (36.2%)	JPY521MM (1.8%)	JPY462MM (1.6%)	JPY17,832MM (59.9%)
	Variable Rent (%)	–	JPY428MM (1.4%)	JPY7,335MM (24.7%)	JPY1,319MM (4.4%)	JPY2,837MM (9.5%)	JPY11,921MM (40.1%)
Involvement in Hotel Operation		Low	Low	High	High	High	–
CAPEX Paid by JHR		1) Renewal of building and facilities	1) Renewal of building and facilities <3) Strategic investment>	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	–
No. of Properties		11	6	18	3	5	43
Acquisition Price (%)		JPY37,300MM (10.0%)	JPY44,216MM (11.8%)	JPY245,628MM (65.6%)	JPY17,723MM (4.7%)	JPY29,640MM (7.9%)	JPY374,508MM (100.0%)
Hotels		The Beach Tower Okinawa Hotel Francs CANDEO HOTELS UENO-KOEN HOTEL ASCENT FUKUOKA And other hotels	Hilton Tokyo Bay Hotel Keihan Universal City Hotel Sunroute Shinbashi Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo Comfort Hotel Tokyo Higashi Nihombashi	The Twelve HMJ Hotels the b ikebukuro the b hachioji the b hakata the b suidobashi <Acquisition in 2019 (plan)> Hilton Tokyo Odaiba Hotel Oriental Express Osaka Shinsaibashi	Hilton Nagoya Mercure Yokosuka Chisun Inn Kamata	ibis Tokyo Shinjuku ibis Styles Kyoto Station ibis Styles Sapporo Mercure Sapporo Mercure Okinawa Naha	–

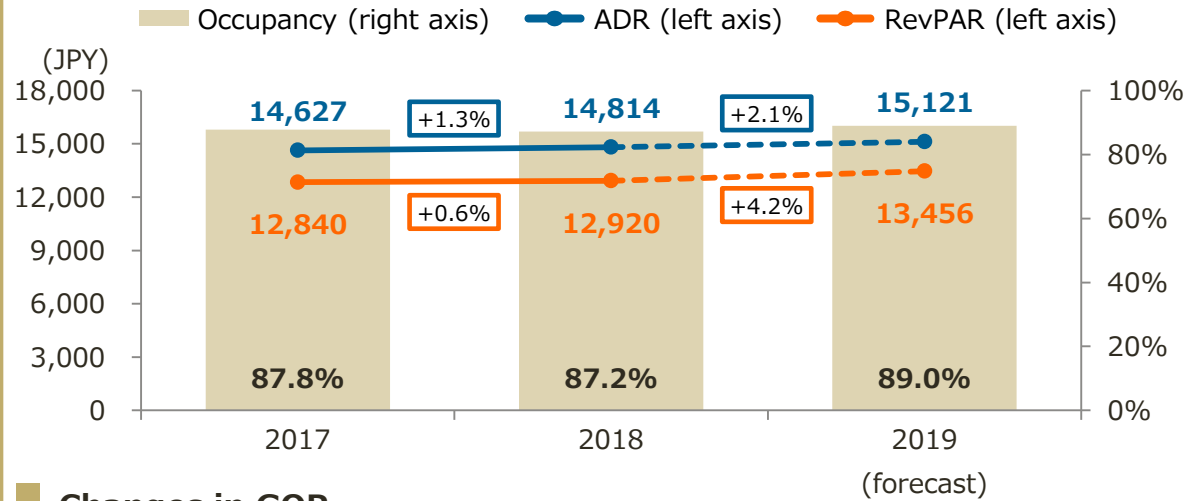
(*)1 Rent structure is categorized according to the rent contract for hotels of each acquired asset.

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

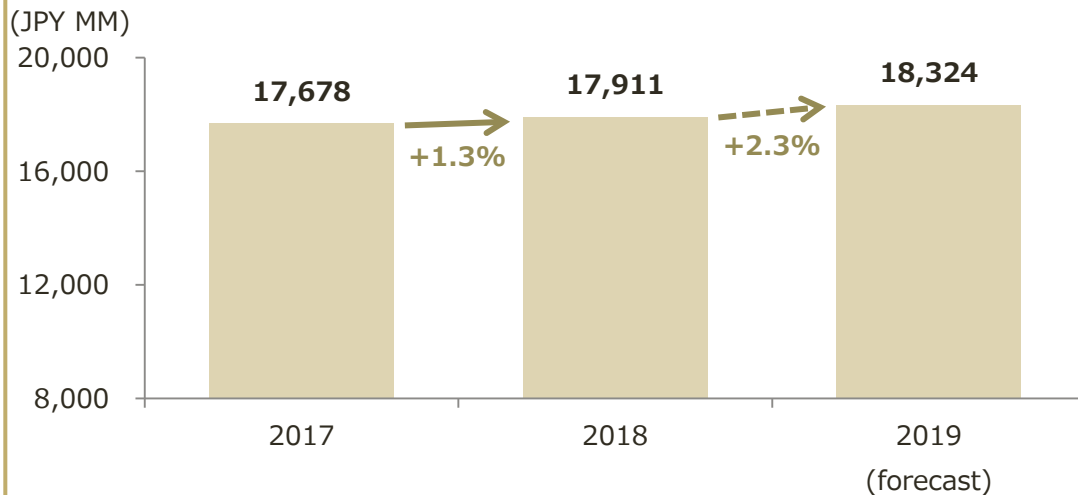
2. Performance of Major 21 Hotels with Variable Rent, etc.

Total of Major 21 Hotels with Variable Rent, etc.

Changes in 3KPIs

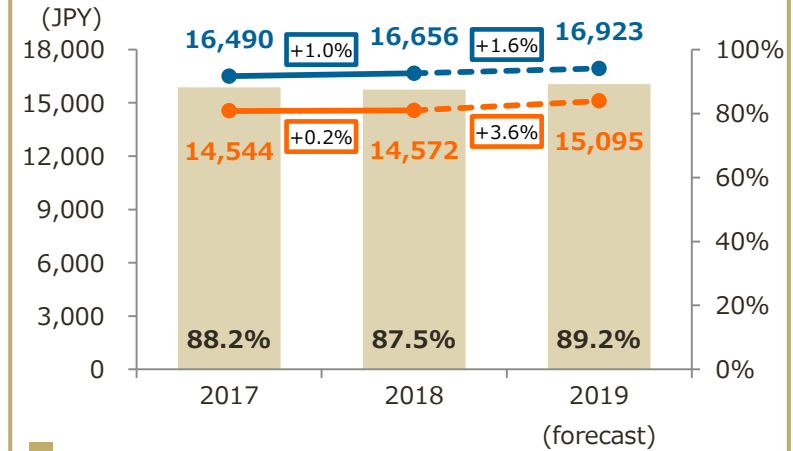


Changes in GOP

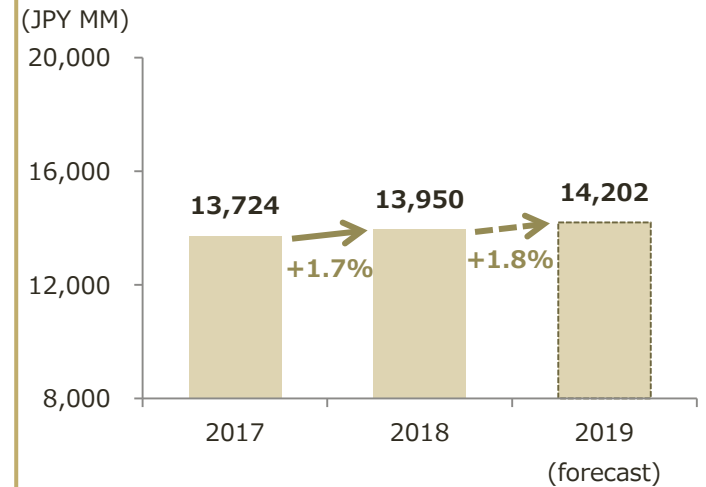


Total of HMJ11 Hotels

Changes in 3KPIs

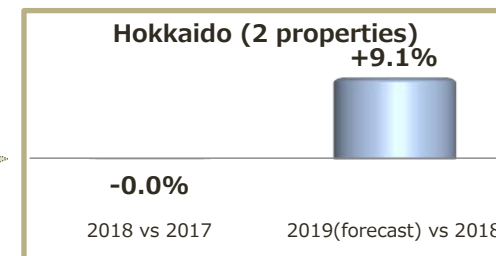
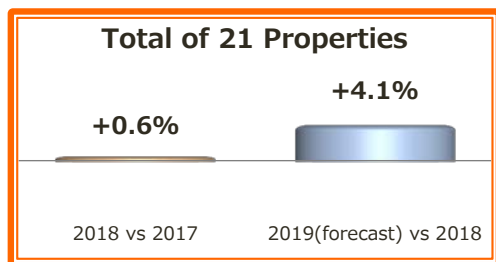


Changes in GOP

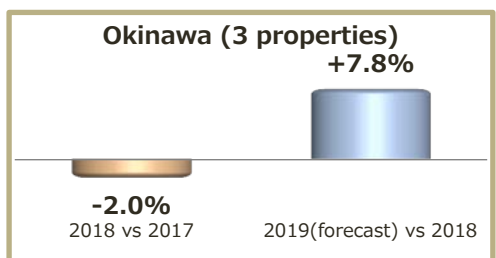


3. RevPAR Variance to Previous Year by Region of Major 21 Hotels with Variable Rent, etc.

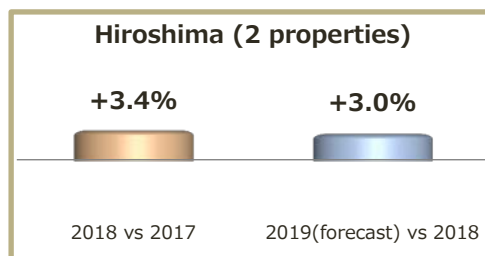
- ◆ Diverse Portfolio
- ◆ Growth in RevPAR was achieved in many major cities



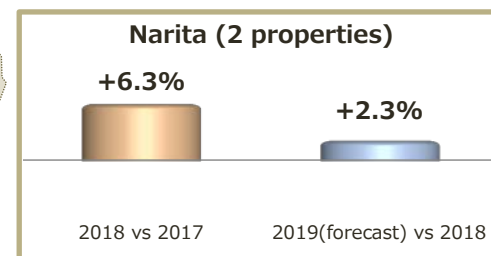
- ibis Styles Sapporo
- Mercure Sapporo



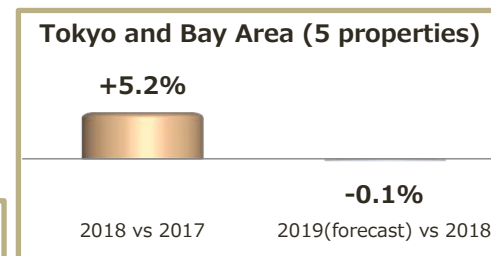
- Hotel Nikko Alivila
- Okinawa Marriott Resort & Spa
- Mercure Okinawa Naha



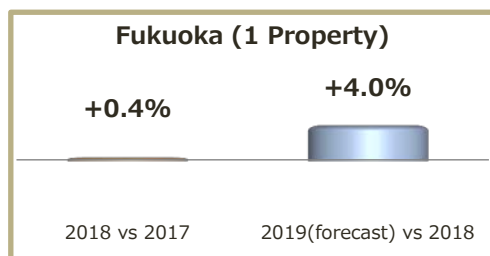
- Oriental Hotel Hiroshima
- ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)



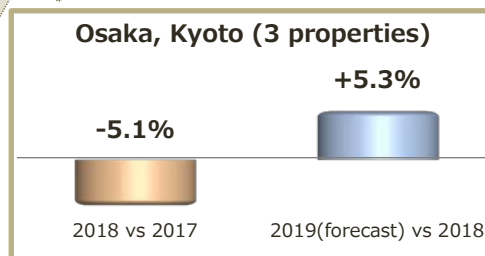
- Hilton Tokyo Narita Airport
- International Garden Hotel Narita



- Oriental Hotel Tokyo Bay
- ibis Tokyo Shinjuku
- the b Ikebukuro
- the b Hachioji
- the b Suidobashi



- the b Hakata



- Namba Oriental Hotel
- Holiday Inn Osaka Namba
- ibis Styles Kyoto Station

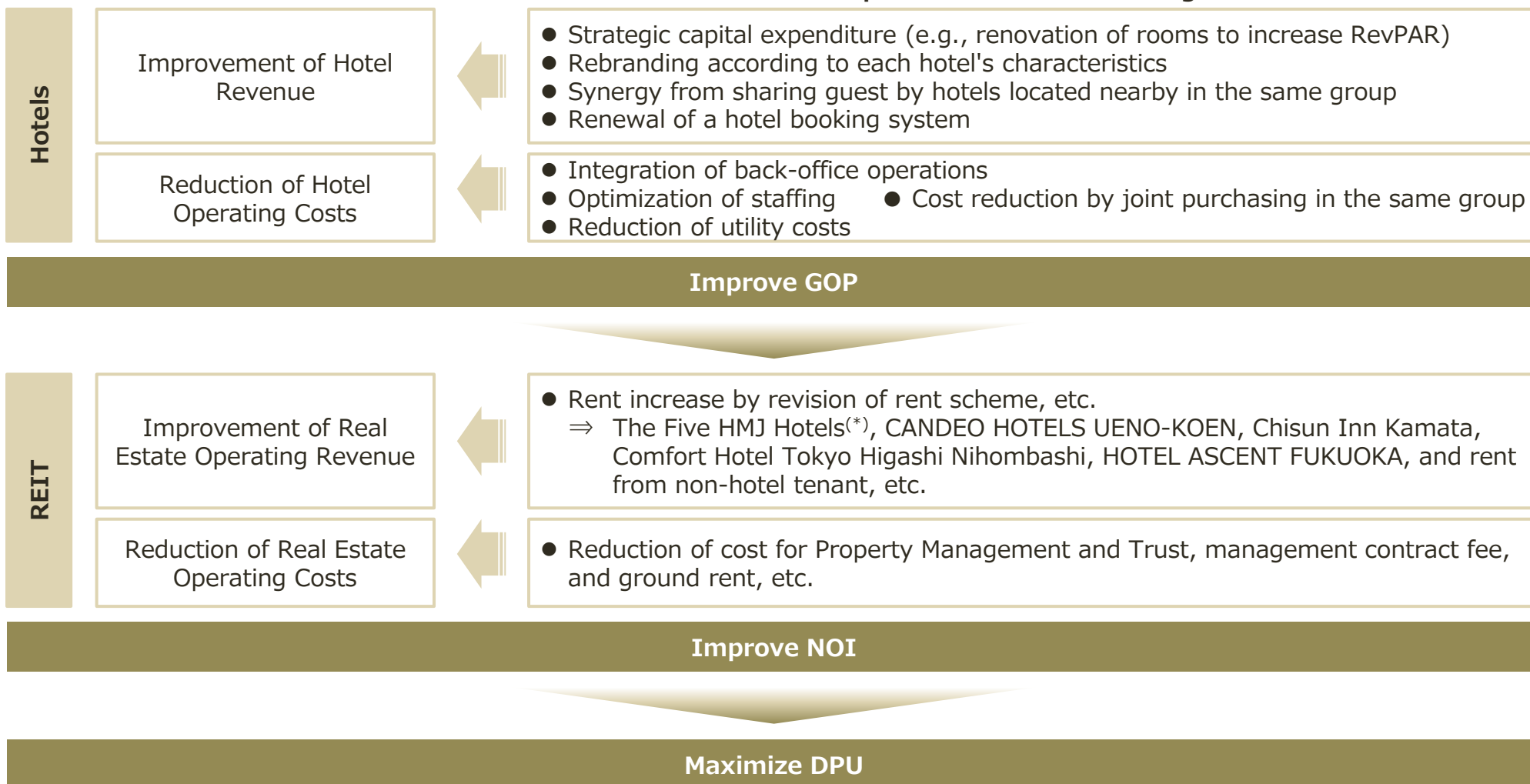
- Properties owned by JHR

(*) Stating major hotels in each area out of major 21 hotels under variable rent, etc.

4. Active Asset Management

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

Examples of Active Asset Management



(*) The five HMJ hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima.

4. Active Asset Management (cont.)

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

Hotel Centraza Hakata

Renovation of the Entire Building and Rebranding in Progress

● Schedule

October 1, 2018 to March 31, 2019 (plan)

● Rebranding (change of hotel name)

Planning to rebrand and open the hotel as **"Oriental Hotel Fukuoka Hakata Station"** in April 9, 2019

Aim to improve position of its hotel grade by renovation of the entire building and rebranding of the hotel in a prime location in front of Hakata Station

● Increase in the number of rooms and improve ADR

Increase number of rooms from 194 to 221

Add value by making all room types to double rooms or larger and set up facilities (gym and others) for exclusive use by hotel guests

● Mitigate impact on dividend caused by suspension of hotel operation by using negative goodwill

Utilized JPY265MM in FY12/2018 and plan to utilize JPY357MM in FY12/2019

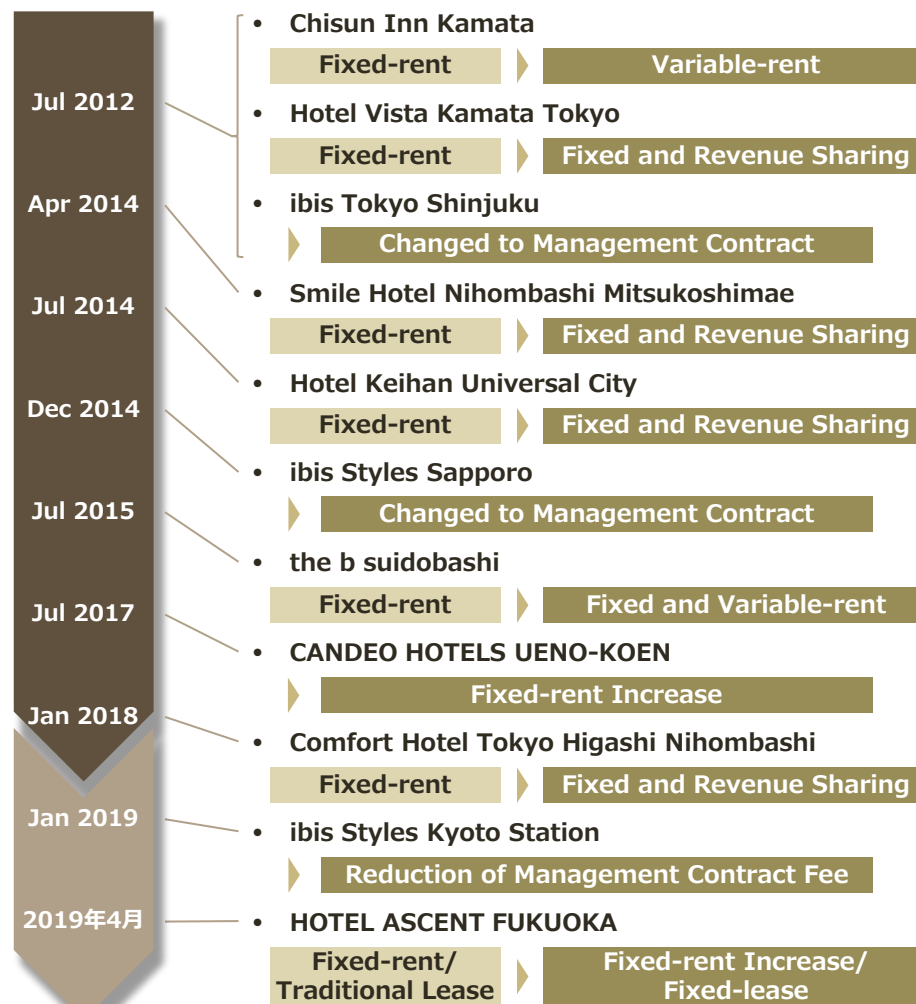


Guest room (image after renovation)



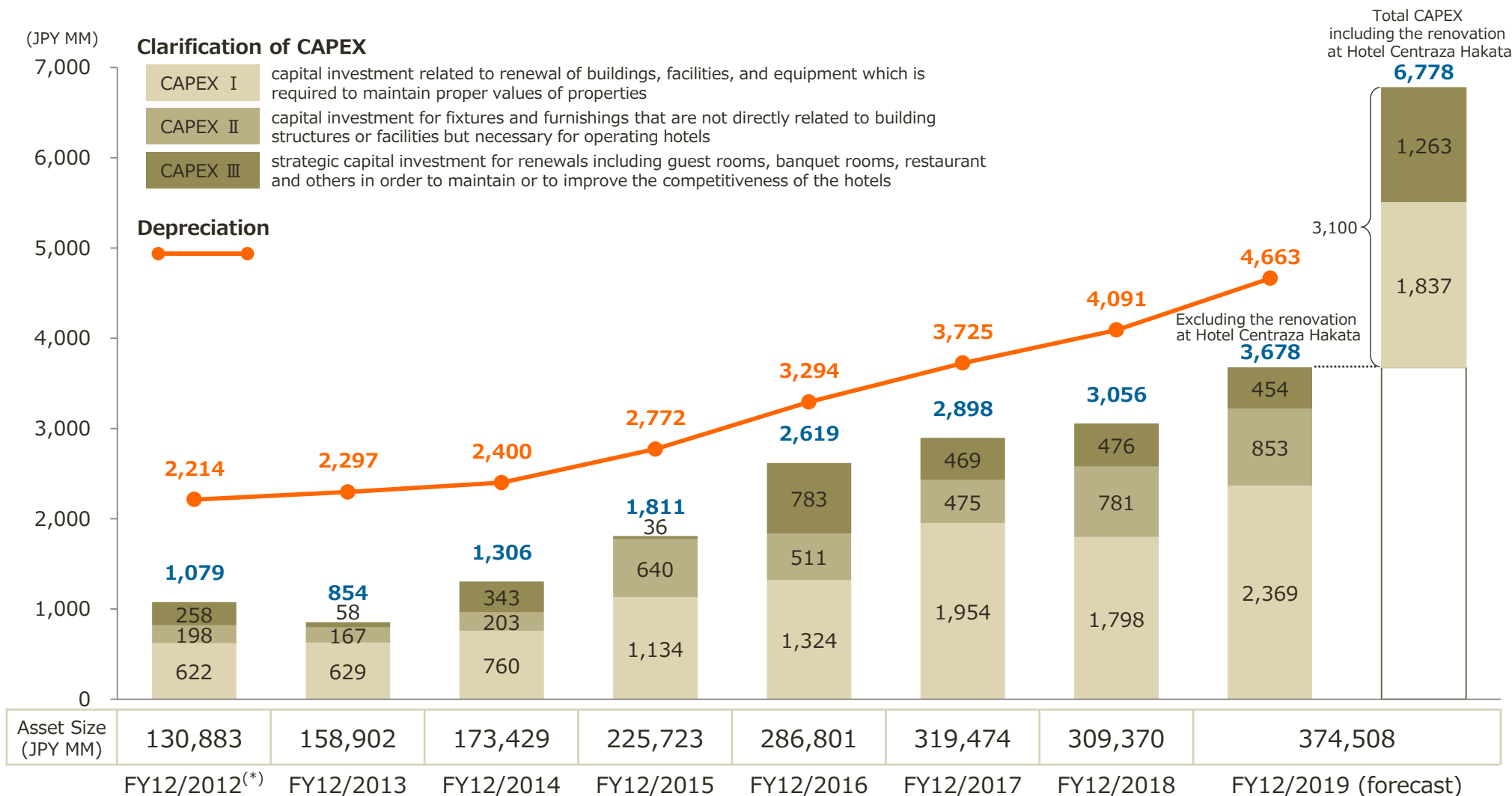
Front Lobby (image after renovation)

Track Record of Rent Scheme Revision



5. Capital Expenditures and Depreciation

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

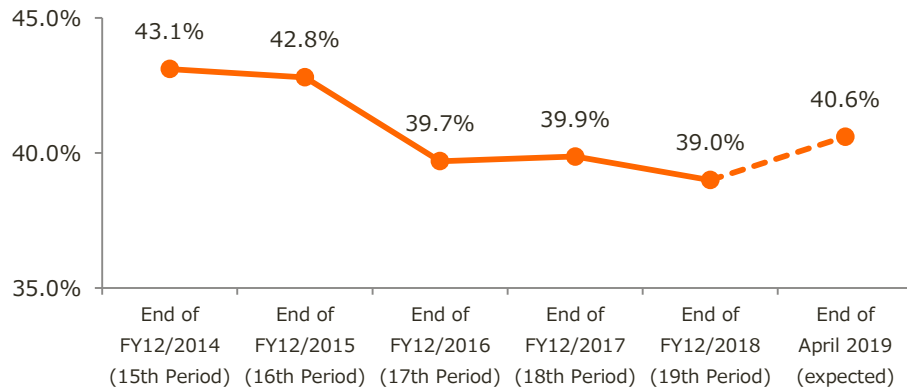


(*) Since FY12/2012 is irregular nine months period, the numbers for capital expenditure in FY12/2012 are the accumulated actual numbers from January to December, 2012. On the other hand, the number for depreciation is the annualized number.

VI. Financial Conditions

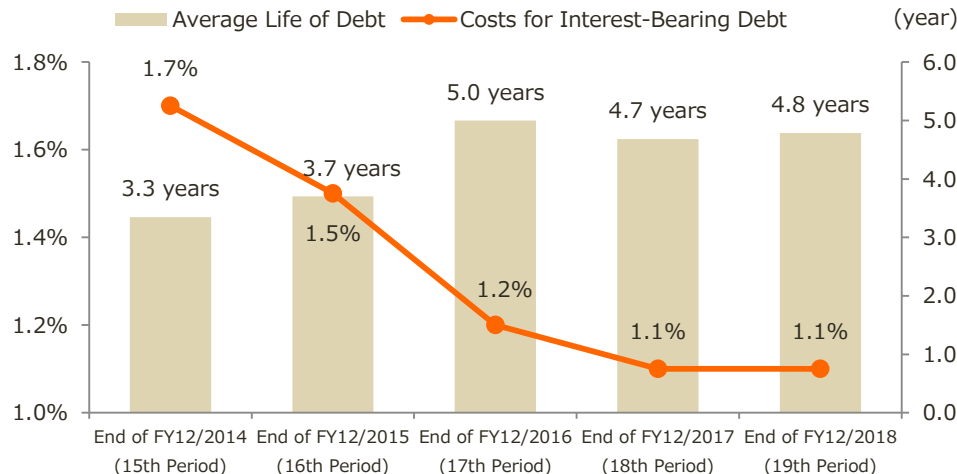
1. Financial Conditions

Changes in LTV (total Asset Base)



(*) LTV as of the end of each period/year. LTV for the end of April 2019 is expected to be 40.6%.

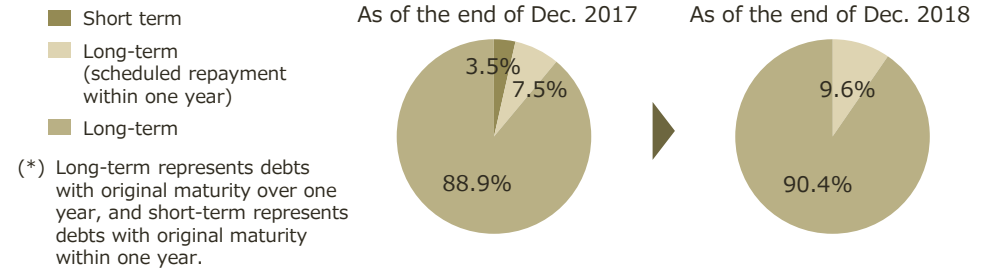
Changes in Costs for Interest-Bearing Debt^(*1) and Average Life of Debt^(*2)



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

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

Term of Interest-Bearing Debt

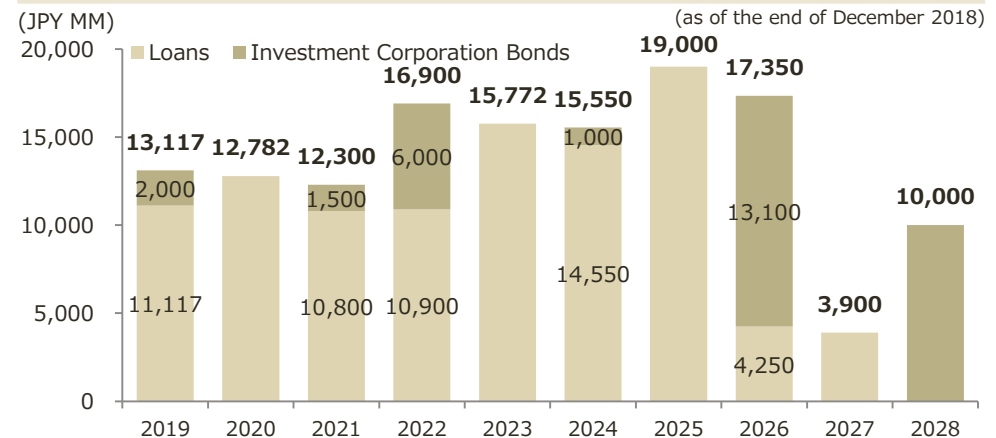


Fixed Interest Rate Ratio

As of the end of Dec. 2017
94.0%

As of the end of Dec. 2018
97.7%

Repayment Schedule of Interest-Bearing Debt



1. Financial Conditions (cont.)

Lender List for Interest-Bearing Debt

(Unit: JPY MM)

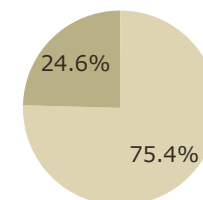
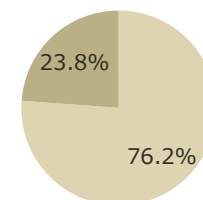
Lenders/Bond Name	Balance (as of the end of Dec. 2017)		Balance (as of the end of Jun. 2018)		Variance
	Balance	%	Balance	%	
Sumitomo Mitsui Banking Corporation	29,632	21.1%	26,431	19.3%	(3,201)
Shinsei Bank, Ltd.	16,492	11.7%	15,035	11.0%	(1,457)
Mizuho Bank, Ltd.	16,480	11.7%	15,030	11.0%	(1,450)
Sumitomo Mitsui Trust Bank, Limited	11,495	8.2%	10,540	7.7%	(955)
Resona Bank, Limited	10,073	7.2%	9,360	6.8%	(713)
The Nomura Trust and Banking Co., Ltd.	4,858	3.5%	4,190	3.1%	(668)
MUFG Bank, Ltd.	4,135	2.9%	4,135	3.0%	0
Development Bank of Japan Inc.	3,780	2.7%	3,780	2.8%	0
Fukuoka Bank, Ltd.	3,260	2.3%	3,610	2.6%	350
Hiroshima Bank, Ltd.	2,427	1.7%	2,927	2.1%	500
The Chiba Bank, Ltd.	2,705	1.9%	2,670	2.0%	(35)
Aozora Bank, Ltd.	2,435	1.7%	2,435	1.8%	0
The Nishi-Nippon City Bank, Ltd.	1,000	0.7%	1,600	1.2%	600
Sompo Japan Nipponkoa Insurance Inc.	929	0.7%	828	0.6%	(101)
The Tokyo Star Bank, Limited	7,097	5.1%	0	0.0%	(7,097)
The Shizuoka Bank, Ltd.	-	-	500	0.4%	500
Total of Bank Loans	116,799	83.2%	103,071	75.4%	(13,728)
Investment Corporation Bonds (for institutional investors)					
3rd Investment Corporation Bonds without Collateral	2,000	1.4%	2,000	1.5%	0
4th Investment Corporation Bonds without Collateral	1,500	1.1%	1,500	1.1%	0
6th Investment Corporation Bonds without Collateral	3,000	2.1%	3,000	2.2%	0
8th Investment Corporation Bonds without Collateral	1,100	0.8%	1,100	0.8%	0
9th Investment Corporation Bonds without Collateral	1,000	0.7%	1,000	0.7%	0
Total of Investment Corporation Bonds (for institutional investors)	8,600	6.1%	8,600	6.3%	0
Investment Corporation Bonds (for individual investors)					
5th Investment Corporation Bonds without Collateral	6,000	4.3%	6,000	4.4%	0
7th Investment Corporation Bonds without Collateral	9,000	6.4%	9,000	6.6%	0
10th Investment Corporation Bonds without Collateral	-	-	10,000	7.3%	10,000
Total of Investment Corporation Bonds (for individual investors)	15,000	10.7%	25,000	18.3%	10,000
Total of Investment Corporation Bonds	23,600	16.8%	33,600	24.6%	10,000
Total of Interest-Bearing Debt	140,399	100.0%	136,671	100.0%	(3,728)

Breakdown of Interest-Bearing Debt

As of the end of Dec. 2017

As of the end of Dec. 2018

Loans
Investment
Corporation Bonds



Status of Credit Rating

Japan Credit Rating Agency, Ltd.
(JCR)

A+ (stable)

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

A (stable)

1. Financial Conditions (cont.)

Negative Goodwill

<Policy for Use of Negative Goodwill>

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

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

<Amount used in FY12/2018>

50-year amortization amount on negative goodwill	: JPY262MM
Cope with loss on retirement of noncurrent assets	: JPY35MM
Cope with major renovation works	: JPY265MM
Total amount	: JPY563MM

Balance of Negative Goodwill after the end of December 2018	JPY11,794MM
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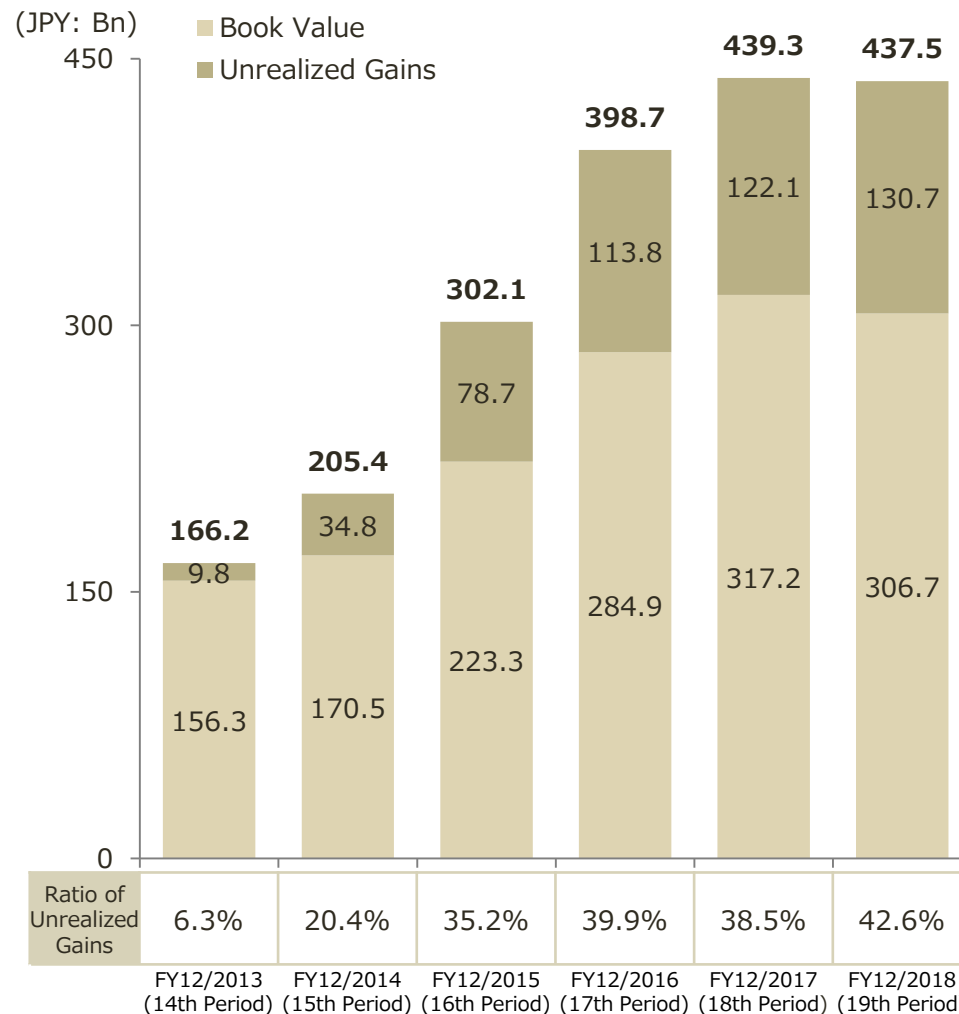
<Amount to be used in FY12/2019>

50-year amortization amount on negative goodwill	: JPY262MM
Cope with loss on retirement of noncurrent assets	: JPY247MM
Cope with major renovation works	: JPY357MM
Adjustment for dilution	: JPY310MM
Total amount	: JPY1,177MM

Balance of Negative Goodwill after the end of December 2019 (forecast)	JPY10,616MM
---	--------------------

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

Changes in Appraisal Value (Unrealized Gains)



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

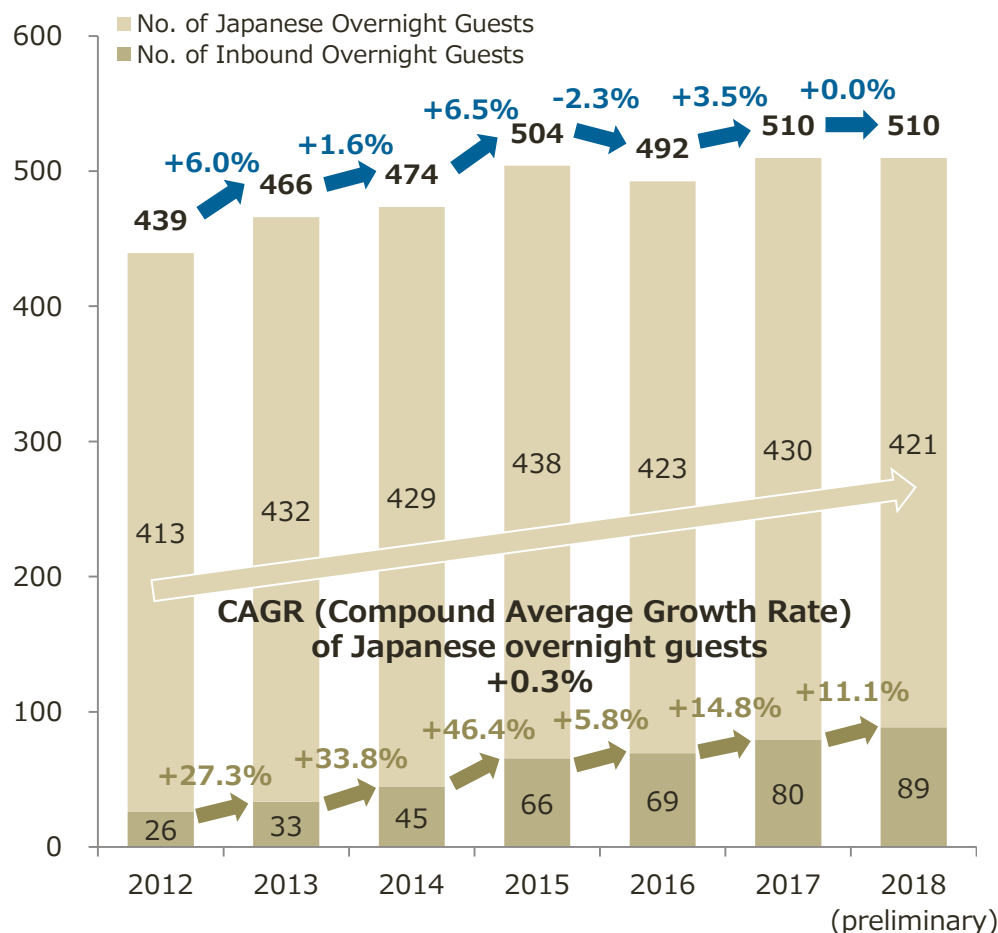
VII. Market Environment

1. Market Environment

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

Changes in Number of Overnight Guests in Japan

(Guest nights in millions)



Source: Statistics of Overnight Travel by Japan Tourism Agency

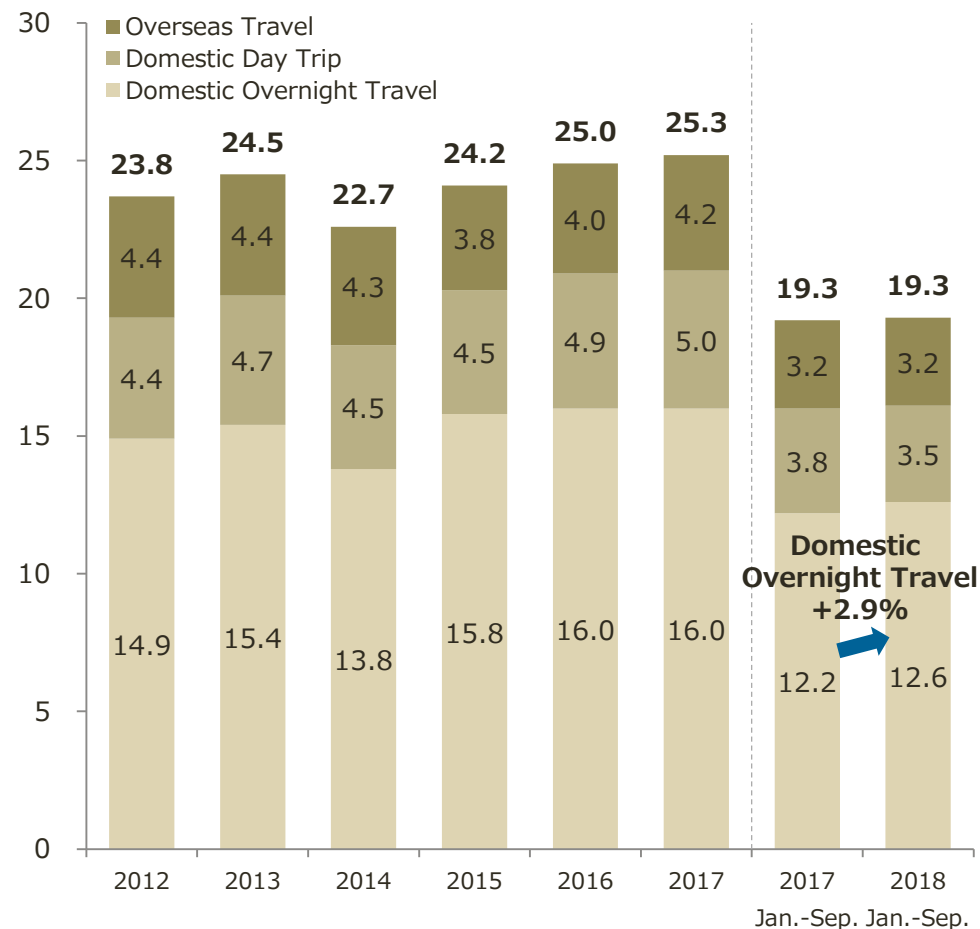
(*) Rounded off to the nearest millions of people.

Numbers for Jan.-Nov 2018 are second preliminary figure, numbers for December 2018 are first preliminary figure. Final annual numbers for 2018 are planned to be released on June 28, 2019.

- ◆ Japanese demand for domestic travels has been stable

Changes in Travel Spending among Japanese Travelers

(JPY Tn)

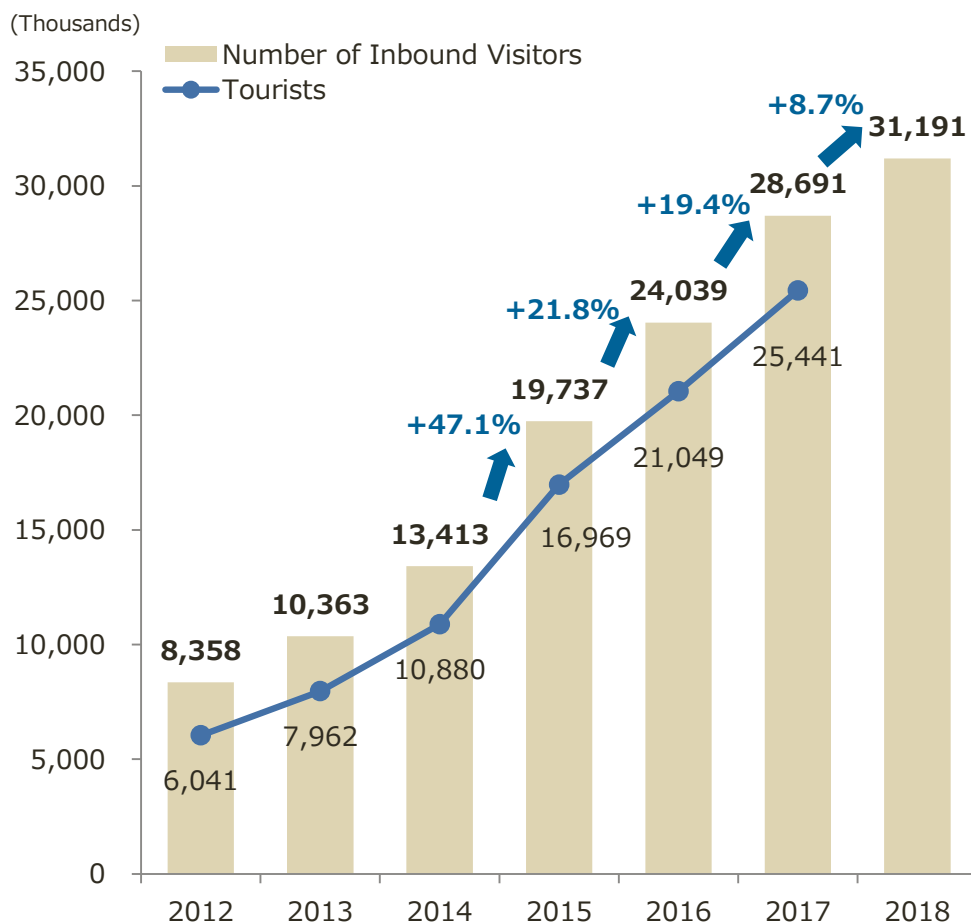


Source: Travel and Tourism Consumption Trends Survey by Japan Tourism Agency

1. Market Environment (cont.)

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

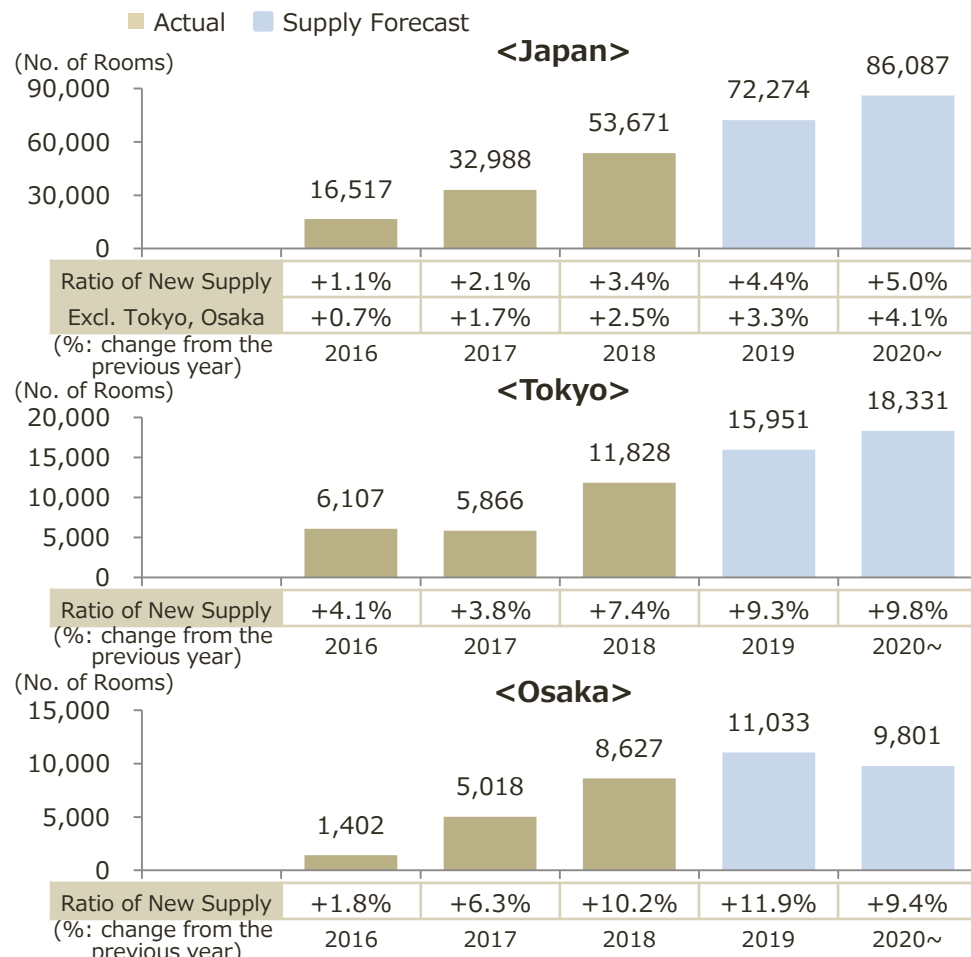
Changes in Number of Inbound Visitors



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

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

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



Source: Estimated by the Asset Management Company using data from "Public Health Administration Report" by Ministry of Health, Labour and Welfare (MHLW), a weekly hotel & restaurant magazine (HOTERES), and Nikkei Telecom.
 (*) Ratio of new supply is the number of new rooms to be supplied in a year to the stock of rooms at the beginning of the year. With regard to the above data, please note that in case the number of rooms are stated as "to be determined" by hotels, the asset management company has used 180, the average number of new supply of hotel rooms, for calculation.

1. Market Environment (cont.)

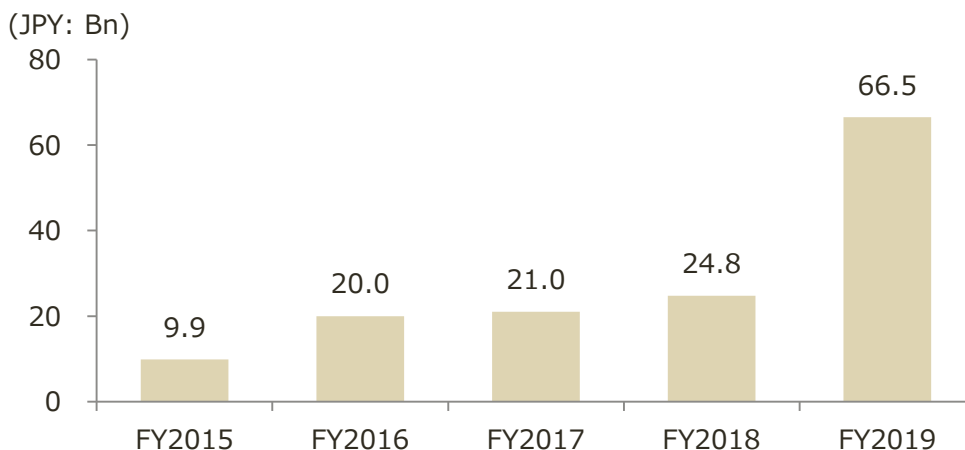
- ◆ Setting the specific target, the government is working on the measures of tourism vision
- ◆ Budget of Japan Tourism Agency has increased drastically to support growth of tourism industry

Summary of "Tourism Vision to Support the Future of Japan"

	Target in 2020	Target in 2030
Number of inbound visitors	40MM	60MM
Spending by inbound visitors	JPY8Tn	JPY15Tn
Inbound overnight guests in rural areas	70MM	130MM
Inbound repeaters	24MM	36MM
Spending by Japanese domestic tourism	JPY21Tn	JPY22Tn

Source: Japan Tourism Agency, "Tourism Vision to Support the Future of Japan"
 (Note) The target figures were written in "Tourism Vision to Support the Future of Japan" which has set in March 2016 and those are not guaranteed to be accomplished and subject to be changed drastically.

Japan Tourism Agency's Budget



Source: Japan Tourism Agency
 (Note) Budget of Japan Tourism Agency excludes those for Tohoku reconstruction

- ◆ Various international events, conferences, and infrastructure development are scheduled on and after 2019, and further growth of tourism industry is expected

Japan's Incoming Catalysts for Both Domestic and Inbound Travel Demand

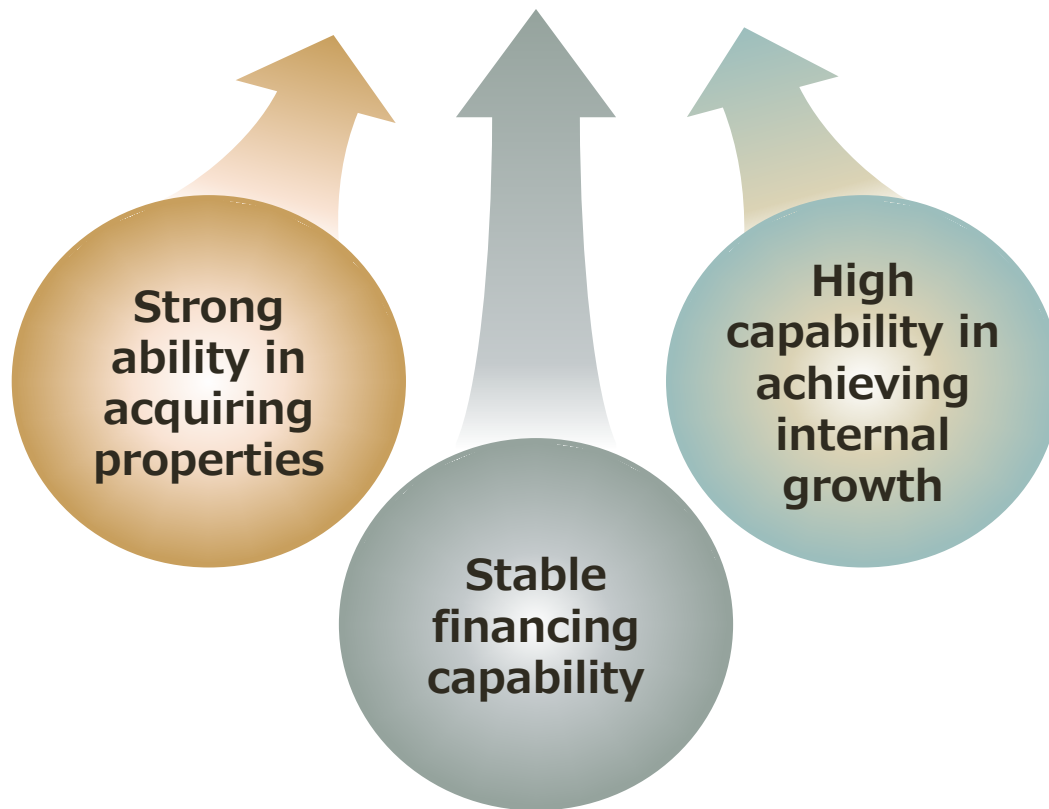
	International Events, Conferences, etc.	Infrastructure Development, etc.	Others
2019	<ul style="list-style-type: none"> • Rugby World Cup 2019 (nationwide) • 2019 G20 Osaka summit • 7th International Conference on African Development (Yokohama) 	<ul style="list-style-type: none"> • Expansion of New Chitose Airport International Terminal • Shinko Pier Cruise Terminal (Yokohama) Expansion 	<ul style="list-style-type: none"> • 10 consecutive holidays on new Emperor's accession in May 2019 • Large increase in tourism budget following introduction of International Tourist Tax
2020	<ul style="list-style-type: none"> • Tokyo 2020 Summer Olympics & Paralympics Games (nationwide) 	<ul style="list-style-type: none"> • Addition of second runway at Naha Airport • Tokyo International Cruise Terminal is planned to open in Odaiba 	<ul style="list-style-type: none"> • New areas are planned to open in Universal Studio Japan • "Large-scale Development at Tokyo Disneyland", new areas and facilities are planned to open
2021	<ul style="list-style-type: none"> • World Masters Games 2021 Kansai • 19th FINA World Aquatics Championships 2021 Fukuoka 		
2022		<ul style="list-style-type: none"> • Extension of Kyushu Shinkansen (Takeo Onsen and Nagasaki) • Extension of Hokuriku Shinkansen (Kanazawa and Tsuruga) 	<ul style="list-style-type: none"> • "Large-scale Expansion Project at Tokyo DisneySea", new theme port is planned to open
2024		<ul style="list-style-type: none"> • Integrated Resorts commence operation • Addition of second runway at Fukuoka Airport 	
2025	<ul style="list-style-type: none"> • World Expo 2025 (Osaka, Kansai Expo 2025) 		
2027		<ul style="list-style-type: none"> • Linear Chuo Shinkansen line commences operation 	
2028		<ul style="list-style-type: none"> • Completion of third runway at Narita Airport 	

(Note) As events are those scheduled as of November 30, 2018 and may be changed.

Appendix 1

JHR's Characteristics and Strategy

Aim to increase dividend for mid to long term



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

High capability in achieving internal growth

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

Stable financing capability

- Secure sound and stable finance
- Diversify financing methods

2. Simultaneous Pursuit of Stability and Upside Potential

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

Ensure Stable Revenue

Fixed rent structure

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

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

Pursue Upside

Management contract structure

Variable rent structure

Revenue sharing structure

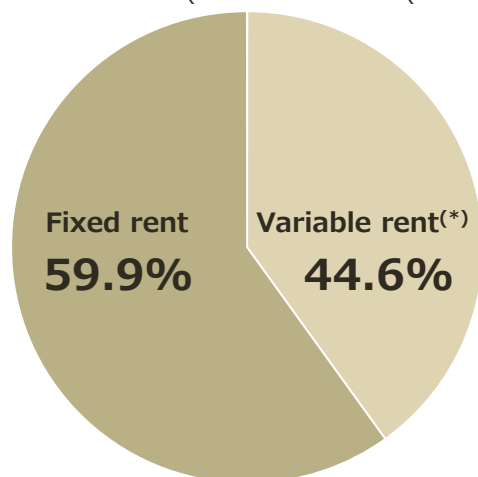
Active Asset Management Strategies

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

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

Proportion of Rental Income

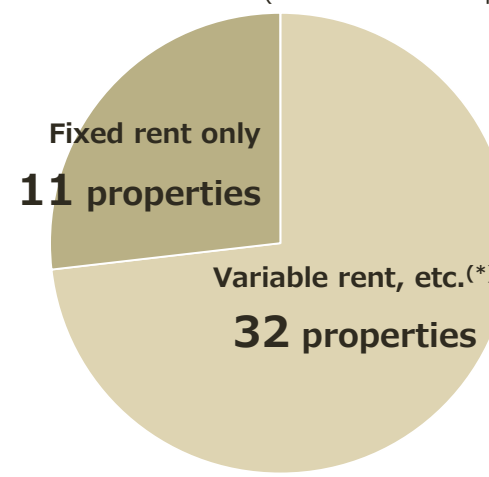
(Annualized effect (forecast) of FY12/2019)



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

Proportion of Rent Structures

(As of the end of April 2019 (expected))



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

Recognition of External Environment

Trend of the Hotel Investment Market

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

Basic Policies

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



Key Measures

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

Recognition of External Environment

Hotel Market Environment

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

Basic Policies

- Pursue both stability and upside potential by steadily implementing active asset management strategies



Key Measures

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

Recognition of External Environment

Trend of Financing Environment and Interest Rates

- Both number and procurement amount of public offering (including IPO) by J-REITs in 2018 exceeded the previous year, and those in 2019 has started favorable as well.
- Issuance of investment corporation bonds has rapidly increased, including green bonds. Spread has been slightly widening after autumn 2018. Meanwhile, lending stance by financial institutions remains unchanged.
- Both short-term and long-term interest rate still remain low. Although drastic change may not happen in financial environment, need to pay close attention to a fluctuation of long-term interest rates provoked mainly by international factors.

Basic Policies

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



Key Measures

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

6. Initiatives for Sustainability

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

Sustainability Policy

- ◆ JHR and JHRA have established "Sustainability Policy", which defines material issues and initiatives for sustainability in our business

Sustainability Policy

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

Acquisition of BELS Certification^(*1) (February 2018)

- ◆ JHR has acquired a BELS certification for our two properties, Hotel Nikko Alivila and Mercure Okinawa Naha, for the first among J-REIT owned hotels



SMBC Environment Assessment Loan^(*2) (March 2018)

- ◆ **Acquisition of "A" grade**
Took out a loan using the SMBC Environmental Assessment Loan which evaluated JHR's excellent initiatives for environmental considerations in asset management

Initiatives at hotel

- ◆ **Conversion to the LEDs in lightning fixtures**
 - ACTIVE-INTER CITY HIROSHIMA (January 2018)
Converted to the LEDs in atrium at 1st and 2nd floor
 - Oriental Hotel Hiroshima (May 2018)
Converted to the LEDs in the banquet room at 4th floor in addition to the banquet room at 3rd floor (December 2017)
Around 75% of the electricity has reduced (preliminary calculation)

GRESB Real Estate Assessment^(*3) (September 2018)

- ◆ JHR has received a "Green Star" designation, as it is evaluated in both areas "Management & Policy" and "Implementation & Measurement" with regards to initiatives for environmental considerations and sustainability

- Highest ranking

Acquired 「 Green Star 」

- "GRESB Rating"

Acquired 「 4-star 」

Key aspects that highly evaluated by the GRESB

- Establishment of various sustainability policies, structuring of management system and initiatives for disclosure
- Management and execution system for effective implementation of governance policies
- Conducting assessments of environmental and social risks and measures for energy and water saving etc. on individual properties
- Establishment of cooperation system with stakeholders to monitor and enhance environmental performance



(*1) BELS (Building-Housing Energy-Efficiency Labeling System) is a display system of energy conservation performance of a building set by Ministry of Land, Infrastructure, Transport and Tourism.

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

(*3) The GRESB is an annual benchmarking program to evaluate ESG considerations of property companies and real estate funds. The GRESB Real Estate Assessment is distinguished by its comprehensive evaluation of initiatives for sustainability of property companies, REITs and real estate funds, not of individual properties. GRESB rating is a relative evaluation based on comprehensive scores and the highest being "5-stars".

7. Benefits Program for Unitholders

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

◆ Eligible recipients of complimentary coupons

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

<FY2018> Eligible unitholders: 13,376

Valid period: One year between October 2018 to September 2019

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

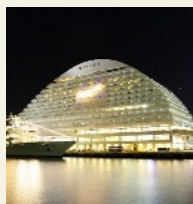
◆ Details of the benefits program

Five complimentary coupons for accommodations and five complimentary coupons for restaurants(*)
10% discount from the best rate for accommodation by each hotel and 10% discount for restaurants

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

Hotels that offer the Benefits Program

The Twelve HMJ Hotels



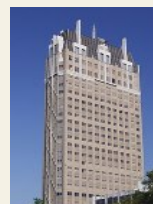
Kobe Meriken Park
Oriental Hotel



Oriental Hotel
Tokyo Bay



Namba
Oriental Hotel



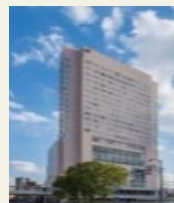
Oriental Hotel
Hiroshima



Hotel Nikko
Alivila



Okinawa Marriott
Resort & Spa



Sheraton Grand
Hiroshima Hotel



Hotel Centraza Hakata



Holiday Inn
Osaka Namba

New Addition



ヒルトン Natira



International Garden Hotel Narita



Hotel Nikko Nara

The Six Accor Hotels



ibis Tokyo Shinjuku



ibis Styles Kyoto Station



ibis Styles Sapporo



Mercure Sapporo



Mercure Okinawa Naha



Mercure Yokosuka

Appendix 2

Information on Properties

1. Property List (1/2)

(As of December 31, 2018)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (forecast) (*8)
									18th Period (As of December 31, 2017)		19th Period (As of December 31, 2018)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Hyogo	23.5	10,900	9,988	15,100	5.2%	15,800	5.2%	3.5%	1,210,096	957,797	640,674	8.8%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	511	Chiba	23.7	19,900	18,013	34,100	4.5%	34,100	4.5%	6.4%	1,888,871	1,770,283	1,357,144	8.9%
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	22.8	15,000	14,690	32,700	4.3%	32,900	4.3%	4.8%	1,629,254	1,525,885	1,345,405	10.2%
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	25.3	4,100	4,175	4,280	7.5%	4,350	7.5%	1.3%	424,730	380,299	295,573	9.3%
5	Hotel Nikko Alivila	Resort	Luxury	397	Okinawa	24.8	18,900	18,242	31,500	4.9%	31,500	4.9%	6.1%	2,048,343	1,899,999	1,578,371	10.1%
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	14.8	7,610	6,682	9,820	4.5%	9,810	4.5%	2.5%	511,017	467,640	337,615	6.1%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	12.3	4,070	3,730	5,220	5.0%	5,200	5.0%	1.3%	294,946	270,607	179,019	6.6%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	10.9	2,334	2,165	2,960	5.8%	3,000	5.7%	0.8%	194,460	170,564	128,990	7.3%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	32.4	1,120	1,222	1,940	4.3%	1,940	4.3%	0.4%	109,471	97,768	70,426	8.7%
10	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	21.8	999	952	1,300	4.1%	1,330	4.0%	0.3%	63,995	55,269	41,897	5.5%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	23.9	2,130	2,034	4,330	4.7%	4,440	4.6%	0.7%	240,000	224,000	198,000	10.5%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	18.8	2,050	1,805	2,430	5.2%	2,430	5.2%	0.7%	150,000	134,000	95,000	6.6%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	16.8	1,720	1,766	1,920	4.1%	1,950	4.0%	0.6%	97,294	83,106	69,439	4.8%
14	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	10.9	3,746	3,557	5,330	4.5%	5,680	4.4%	1.2%	270,927	240,839	204,667	6.4%
15	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	21.8	2,108	2,030	3,060	4.2%	3,120	4.1%	0.7%	153,465	138,046	117,898	6.5%
16	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	17.3	1,652	1,437	2,670	4.7%	2,780	4.5%	0.5%	141,039	127,964	109,285	7.7%
17	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	17.5	6,000	5,931	13,600	5.1%	13,900	4.9%	1.9%	822,800	746,999	656,782	12.4%
18	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	15.7	823	781	1,430	4.5%	1,440	4.5%	0.3%	82,680	75,450	63,948	9.2%
19	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	26.9	1,512	1,466	2,000	4.5%	2,040	4.5%	0.5%	115,241	100,121	76,255	6.6%
20	Hotel Sunroute Shinbashi ^(*)	Limited-service	Mid-price	220	Tokyo	10.8	4,800	4,822	8,740	4.0%	8,810	4.0%	1.6%	426,062	360,989	339,516	7.5%
21	Hilton Tokyo Bay	Resort	Luxury	828	Chiba	30.5	26,050	26,102	36,100	4.3%	39,600	4.4%	8.4%	1,992,542	1,694,049	1,521,024	6.5%
22	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	38.4	7,243	8,061	9,650	4.2%	9,650	4.2%	2.3%	660,122	469,556	358,409	6.5%
23	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	9.8	6,600	6,687	11,300	4.3%	11,500	4.4%	2.1%	548,688	473,261	436,285	7.2%

1. Property List (2/2)

(As of December 31, 2018)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (forecast) (*8)
									18th Period (As of December 31, 2017)		19th Period (As of December 31, 2018)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
24	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	8.4	6,797	6,658	10,500	4.9%	10,800	4.9%	2.2%	662,395	530,233	451,415	7.8%
25	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	9.7	6,000	5,923	10,500	4.8%	10,700	4.7%	1.9%	820,128	532,637	446,866	8.9%
26	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	9.4	3,000	2,891	7,760	4.8%	7,760	4.8%	1.0%	456,113	373,482	317,981	12.4%
27	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	36.5	6,520	6,609	7,330	4.4%	7,330	4.3%	2.1%	361,036	332,064	295,945	5.1%
28	the b hachioji	Limited-service	Mid-price	196	Tokyo	32.4	2,610	2,698	2,780	5.2%	2,780	5.2%	0.8%	203,227	176,553	146,754	6.8%
29	the b hakata	Limited-service	Mid-price	175	Fukuoka	21.3	2,300	2,355	4,160	4.5%	4,530	4.4%	0.7%	250,689	237,949	216,680	10.3%
30	Hotel Francs	Full-service	Mid-price	222	Chiba	27.4	3,105	3,187	4,050	4.7%	4,090	4.7%	1.0%	300,000	237,807	194,249	7.7%
31	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	25.2	1,650	1,681	2,800	4.7%	2,940	4.7%	0.5%	310,497	198,952	162,129	12.1%
32	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	13.9	14,950	15,044	18,500	5.0%	18,600	5.0%	4.8%	1,169,917	1,084,541	833,818	7.3%
33	ACTIVE-INTER CITY HIROSHIMA	Full-service	Luxury	238	Hiroshima	8.3	17,320	17,561	20,500	4.6%	21,100	4.6%	5.6%	1,526,824	1,090,707	893,130	6.3%
34	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	9.0	6,705	6,689	7,630	4.0%	7,630	4.0%	2.2%	349,971	323,308	283,600	4.8%
35	Hotel Centraza Hakata ^(*10)	Full-service	Mid-price	194	Fukuoka	33.5	7,197	8,001	8,490	4.7%	8,500	4.7%	2.3%	589,421	343,659	119,879	4.8%
36	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	10.4	27,000	27,130	27,200	4.4%	27,200	4.4%	8.7%	1,114,357	1,068,046	920,121	4.0%
37	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	19.7	4,925	5,178	5,560	4.8%	6,540	4.9%	1.6%	432,801	284,239	248,611	5.8%
38	Hilton Nagoya	Full-service	Luxury	460	Aichi	29.9	15,250	15,605	15,700	4.2%	15,700	4.3%	4.9%	1,390,977	687,096	539,487	4.5%
39	Hilton Tokyo Narita Airport	Full-service	Upper-middle	548	Chiba	25.4	13,175	13,461	13,400	4.7%	13,400	4.7%	4.3%	785,260	720,053	553,599	5.5%
40	International Garden Hotel Narita	Full-service	Mid-price	463	Chiba	22.6	9,125	9,259	9,430	4.9%	9,440	4.9%	2.9%	608,931	574,674	447,319	6.3%
41	Hotel Nikko Nara	Full-service	Upper-middle	330	Nara	20.9	10,373	10,500	11,200	4.9%	11,200	4.9%	3.4%	629,260	591,786	462,741	5.7%
Total or Average (41 properties)		-	-	11,099	-	20.5	309,370	306,789	428,970	4.6%	437,510	4.6%	100.0%	26,039,666	21,852,832	17,757,520	7.1%

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

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

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

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

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

(*6) Investment ratio indicate percentage of the acquisition price of the each asset to the total acquisition price. Numbers beyond one decimal place is rounded off.

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

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

(*9) Hotel Sunroute Shinbashi is scheduled to be renamed as Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on April 23, 2019.

(*10) Hotel Centraza Hakata is scheduled to be renamed as Oriental Hotel Fukuoka Hakata Station on April 9, 2019.

2. Summary of Lease Contracts (1/2)

(As of December 31, 2018)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/Hotel Consulting and Management Company	Lease/MC Term	Expiration Date of Contract	Contractual Rent (*2)	Rent Modification Summary	Rent Modification Summary (After acquisition)		Rent Modification Schedule (2019 to 2020)	
										Timing	Condition	2019	2020
1	Kobe Meriken Park Oriental Hotel	Fixed-lease	Fixed + Variable	Hotel Management Japan Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	8	Dec. 2019	(Fixed rent) JPY3,221MM/year+ (Variable rent) When the total GOP of the five HMJ hotels exceeds GOP base amount (JPY3,351MM), the excess x 85% is paid.	In principle, the same rent will be applied until expiration of the contract.	Jan. 2016	Structure was modified	To be expired (Dec.)	-
2	Oriental Hotel Tokyo Bay												
3	Namba Oriental Hotel												
4	Oriental Hotel Hiroshima												
5	Hotel Nikko Alivila												
6	The Beach Tower Okinawa	Fixed-lease	Fixed	Kyoritsu Maintenance Co., Ltd.		20	Jun. 2026	JPY42MM/month	The same rent will be applied until expiration of the contract.	-	-	-	-
7	Hakone Setsugetsuka	Fixed-lease	Fixed			20	Oct. 2026	JPY24MM/month	The same rent will be applied until expiration of the contract.	-	-	-	-
8	Dormy Inn Kumamoto	Fixed-lease	Fixed			12	Mar. 2023	JPY16MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Same	-	To be discussed (Apr.)
9	Dormy Inn EXPRESS Asakusa	Lease	Fixed			20	Mar. 2020	JPY5MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2017	Contract was renewed (same)	-	To be expired (Mar.)
10	Hakata Nakasu Washington Hotel Plaza	Lease	Fixed			3	Mar. 2021	JPY20MM/month	Rent can be modified through mutual agreement.	Apr. 2018	Contract was renewed (same)	-	-
11	Nara Washington Hotel Plaza	Lease	Fixed	Washington Hotel K.K.		20	Mar. 2020	JPY11MM/month	Rent can be modified through mutual agreement.	-	-	-	To be expired (Mar.)
12	R&B Hotel Ueno-hirokoji	Lease	Fixed			20	Apr. 2022	JPY8MM/month	Rent can be modified through mutual agreement.	Apr. 2011	Increased (+3.0%)	-	-
13	Comfort Hotel Tokyo Higashi Nihombashi	Fixed-lease	Fixed+Revenue sharing	Greens Co., Ltd.		20	Jan. 2028	JPY21MM/month+ Revenue sharing	Rent can be modified through mutual agreement every five years.	Apr. 2018	Same (Introduced revenue sharing)	-	-
14	Smile Hotel Nihombashi Mitsukoshimae	Lease	Fixed+Revenue sharing	THE KAMOGAWA GRAND HOTEL, LTD		20	Mar. 2020	JPY11MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Apr. 2017	Renewed (same)	-	To be expired (Mar.)
15	Toyoko Inn Hakata-guchi Ekimae	Lease	Fixed	Toyoko Inn Co., Ltd.		30	Sep. 2031	JPY11MM/month	No rule has been stipulated.	Oct. 2007	Increased (+9.4%)	-	-
16	Hotel Keihan Universal City	Lease	Fixed+Revenue sharing	K.K. Hotel Keihan		20	Jun. 2021	Nondisclosure ^(*)	Nondisclosure ^(*)	Jul. 2014	Structure was modified.	-	-
17	Chisun Inn Kamata	Fixed-lease	Variable	Solare Hotels & Resorts Co., Ltd.	SHR Hotels, Co., Ltd.	2	Dec. 2019	Hotel GOP x 86% (If it is below zero, it will be JPY0)	-	Jul. 2017	Renewed (the calculation method of variable rent was modified)	To be expired (Dec.)	-
18	Hotel Vista Kamata Tokyo	Lease	Fixed+Revenue sharing	Vista Hotel Management Co., Ltd.		4	Dec. 2021	JPY7MM/month + Revenue sharing	In principle, the same rent will be applied until expiration of the contract.	Jul. 2015	Contract was renewed (the calculation method of revenue sharing was modified)	-	-
19	Hotel Sunroute Shinbashi	Fixed-lease	Fixed+Revenue sharing	Sotetsu Hotel Management Co., Ltd. ^(*)		15	Mar. 2023	JPY18MM/month + Revenue sharing	No rule has been stipulated.	-	-	-	-
20	Hilton Tokyo Bay	Fixed-lease	Fixed+Revenue sharing	THE DAI-ICHI BUILDING CO., LTD.	Hilton International Company	4	Dec. 2022	JPY163MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Jan. 2019	Renewed (Increased)	Renewed (Jan.)	-
21	ibis Tokyo Shinjuku	-	Management contract	-	AAPC Japan K.K.	12	Jun. 2024	Amount equivalent to hotel GOP	-	Jul. 2012	Changed to management contract	-	-
22	ibis Styles Kyoto Station	-	Management contract			1	Dec. 2019	Amount equivalent to hotel GOP	-	-	-	To be expired (Dec.)	-
23	ibis Styles Sapporo	-	Management contract			5	Dec. 2019	Amount equivalent to hotel GOP	-	Dec. 2014	Changed to management contract	To be expired (Dec.)	-
24	Mercure Sapporo	-	Management contract			15	Sep. 2029	Amount equivalent to hotel GOP	-	-	-	-	-
25	Mercure Okinawa Naha	-	Management contract			10	Apr. 2024	Amount equivalent to hotel GOP	-	-	-	-	-
26	Mercure Yokosuka	Fixed-lease	Variable	AAPC Japan K.K.		5	Aug. 2019	Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	To be expired (Aug.)	-
27	the b ikebukuro	Fixed-lease	Fixed + Variable	Ishin Ikebukuro Operations K.K.		7	Jan. 2022	JPY163MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
28	the b hachioji	Fixed-lease	Fixed + Variable	Ishin Hachioji Operations, Y.K.		7	Jan. 2022	JPY98MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
29	the b hakata	Fixed-lease	Fixed + Variable	Ishin Hakata Operations K.K.		7	Jan. 2022	JPY82MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	-	-	-	-
30	the b suidobashi	Fixed-lease	Fixed + Variable	Ishin Suidobashi Operations K.K.		5	Jun. 2020	JPY85MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	Jul. 2015	Rebranded	-	To be expired (June)

2. Summary of Lease Contracts (2/2)

(As of December 31, 2018)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/Hotel Consulting and Management Company	Lease/MC Term	Expiration Date of Contract	Contractual Rent (*2)	Rent Modification Summary	Rent Modification Summary (After acquisition)		Rent Modification Schedule (2019 to 2020)	
										Timing	Condition	2019	2020
31	Hotel Francs	Fixed-lease	Fixed	K.K. Bridal Produce		19	Oct. 2024	JPY25MM/month	The same rent will be applied until expiration of the contract.	—	—	—	—
32	Okinawa Marriott Resort & Spa	Fixed-lease	Fixed + Variable	Lagoon resort Nago Co., Ltd.		5	Dec. 2020	(Fixed rent) JPY550MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY700MM), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	To be expired (Dec.)
33	ACTIVE-INTER CITY HIROSHIMA	Fixed-lease	Fixed + Variable	K.K. A.I.C Hiroshima Management	Luxury Hotels International of Hong Kong Limited.	11	Dec. 2026	(Fixed rent) JPY348MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY468MM), the excess x 82.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
34	CANDEO HOTELS UENO-KOEN	Fixed-lease	Fixed	Candeo Hospitality Management, Inc.		20	Feb. 2030	Nondisclosure ^(*4)	Rent can be modified through mutual agreement every three years.	Jul. 2016	Renewed	—	—
35	Hotel Centraza Hakata	Fixed-lease	Fixed + Variable	Hotel Centraza Co., Ltd.		4	Dec. 2019	(Fixed rent) JPY400MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY425MM), the excess x 90% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	To be expired (Dec.)	—
36	Holiday Inn Osaka Namba	Fixed-lease	Fixed + Variable	OW Hotel Operations KK		15	Oct. 2031	(Fixed rent) JPY576MM/year (Variable rent) + when the total GOP exceeds GOP base amount (JPY650MM), the excess x 92.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
37	HOTEL ASCENT FUKUOKA	Lease	Fixed	NIKOH SANGYO co., Ltd.		20	Apr. 2019	Nondisclosure ^(*4)	Rent can be modified through mutual agreement every three years.	Apr. 2019	Changed to fixed-term lease contract and renewed the contract (Increased)	Renewed (Apr.)	—
38	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	Dec. 2029	Nondisclosure ^(*4)	Rent can be modified through mutual agreement.	—	—	—	—
39	Hilton Tokyo Narita Airport	Fixed-lease	Fixed + Variable	KK NaritaKosuge Operations		20	Jun. 2037	(Fixed rent) JPY444MM/year (Variable rent) + When the total GOP exceeds GOP base amount (JPY550MM), the excess x 86.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
40	International Garden Hotel Narita	Fixed-lease	Fixed + Variable	KK NaritaYoshikura Operations		10	Jun. 2027	(Fixed rent) JPY336MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY360MM), the excess x 98% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
41	Hotel Nikko Nara	Fixed-lease	Fixed + Variable	Hotel Management Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	3	Dec. 2020	(Fixed rent) JPY420MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY470MM), the excess x 91.5% is paid.	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—

(*1) Rent structure is as follows:

Fixed: Fixed rent
 Variable: Variable rent
 Management contract: Management contract
 Fixed + Variable: Property paying both fixed and variable rent
 Fixed + Revenue sharing: When the sales of the hotel (lessee) exceed pre-determined amount, additional rent is paid

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

(*3) The lessee is scheduled to change to Sotetsu Hotel Development Co., Ltd. on May 1, 2019.

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

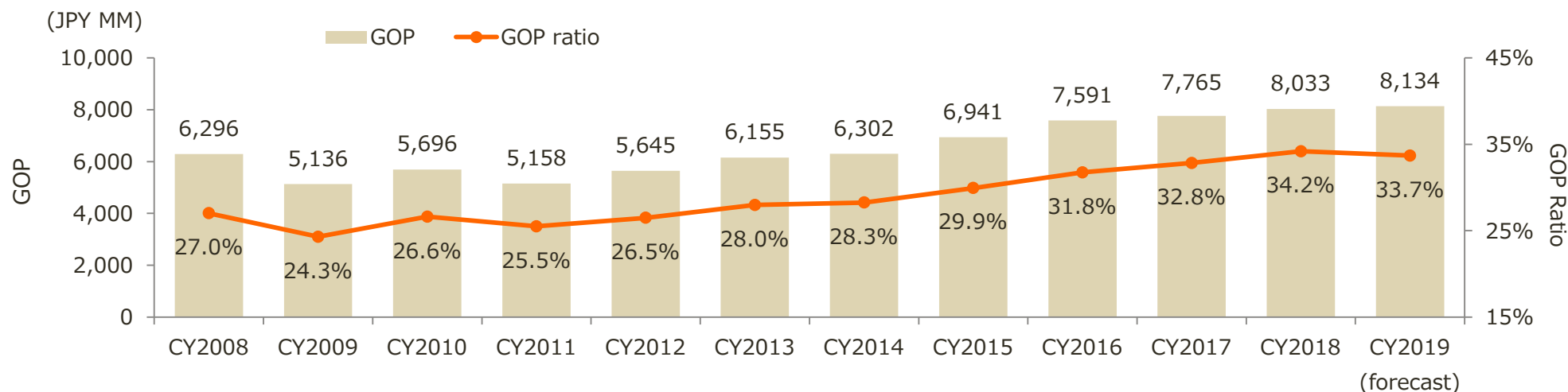
3. Major CAPEX Ⅲ by Hotel

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

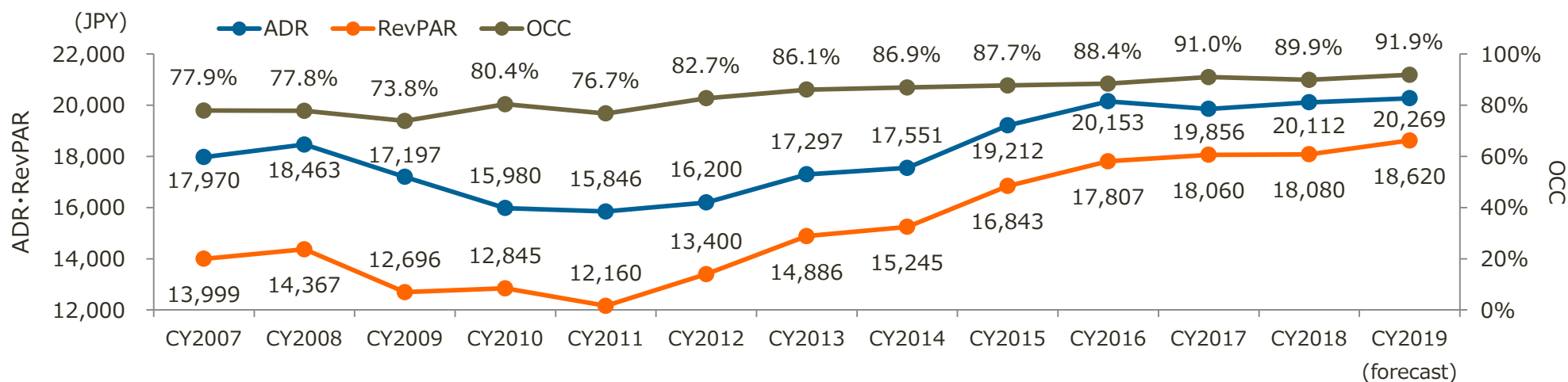
	FY12/2012	FY12/2013	FY12/2014	FY12/2015	FY12/2016	FY12/2017	FY12/2018	FY12/2019 Plan
Kobe Meriken Park Oriental Hotel	-	-	-	Chapel (36)	Guest rooms on 7F (50) Balconies on each floor (62) Bar (85)	Bridal salon (76)	Private rooms at restaurant and balcony, etc. on 3F (19)	Restaurant (30) Conversion to guest rooms from brides room (40)
Oriental Hotel Tokyo Bay	-	Restaurant (45)	-	-	Guest rooms on 4F (101)	-	Guest rooms on 11F to 12F (140)	-
Namba Oriental Hotel	-	Corner rooms on 5F to 8F (10)	-	-	Guest rooms on 9F (91)	Guest rooms on 7F (77)	Guest rooms on 6F (78)	-
Hotel Nikko Alivila	-	-	Guest rooms on 3F to 8F of North building and 3F to 5F of central building (333)	-	Guest rooms on 9F (55) Restaurant (31)	-	Guest rooms on 1F, etc (16)	-
Oriental Hotel Hiroshima	-	-	Banquet room on 23F (10)	-	Guest rooms on 7F to 10F (43) Banquet room on 4F (38)	-	Chapel (10)	Guest rooms on 13F to 14F (14)
Ibis Tokyo Shinjuku	Lobby and restaurant on 2F, and guest rooms on 3,5,7,9F (170)	-	-	-	Guest rooms on 3F to 10F (192)	Guest rooms on 3F to 10F (312)	-	-
Holiday Inn Osaka Namba	-	-	-	-	-	-	Guest rooms on 4,6,7,12F (115)	Guest rooms on 10F to 11F (72)
ibis Styles Sapporo	-	-	-	-	-	-	Vacant space on 1F (28)	-
Mercure Hotel Sapporo	-	-	-	-	-	-	Banquet room (15)	-
the b Ikebukuro	-	-	-	-	-	-	Guest rooms on 3F to 10F, etc. (18)	-
Okinawa Marriott Resort & Spa	-	-	-	-	-	-	-	Restaurant (140) Renewal of lounge, conversion to guest room, etc. (30)
Hotel Centraza Hakata	-	-	-	-	-	-	-	Major renovation works (1,263)
Hotel Nikko Nara	-	-	-	-	-	-	-	Guest rooms on 8F (128)

4. The Five HMJ Hotels – Highlights

Changes in GOP and GOP Ratio



Changes in KPI



5. Portfolio Map

Total Assets

JPY**3,745**Bn

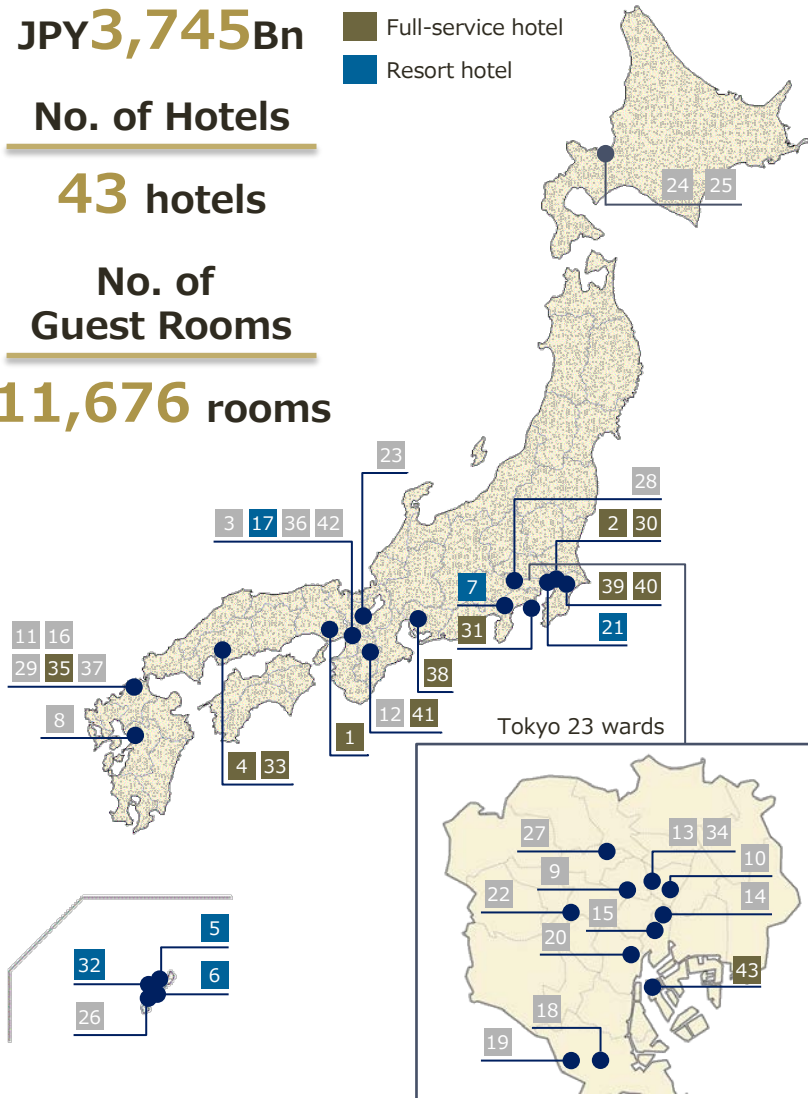
No. of Hotels

43 hotels

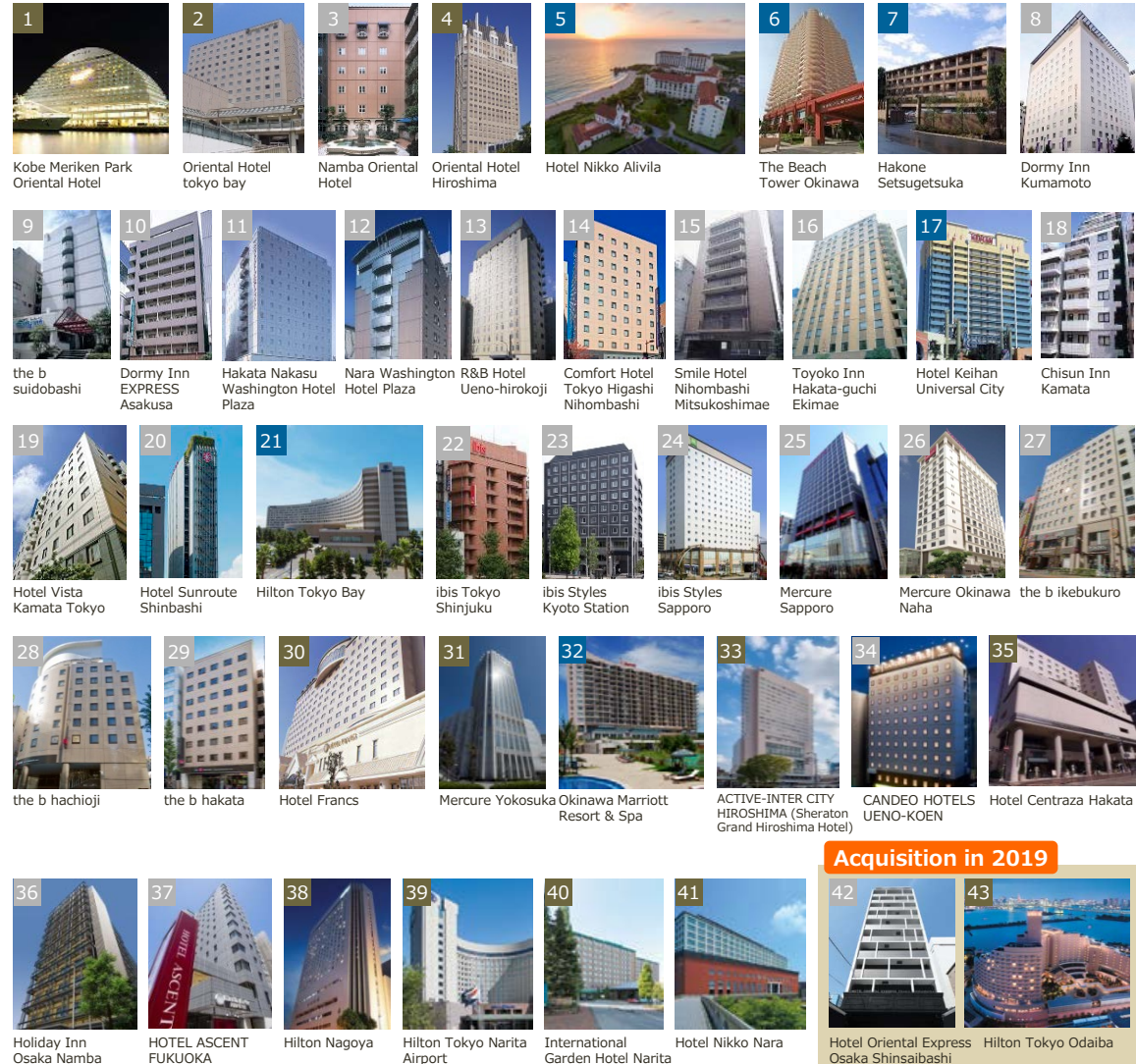
No. of Guest Rooms

11,676 rooms

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



(as of the end of April, 2019 (expected))



Acquisition in 2019

Appendix 3

Investors Composition and Investment Unit Price

1. Major Unitholders and Classifications of Unitholders

Top 10 Major Unitholders

As of the end of June 2018

Rank	Name	No. of Units	%(*)
1	The Master Trust Bank of Japan, Ltd. (Trust)	626,327	15.61
2	Japan Trustee Service Bank, Ltd. (Trust)	537,982	13.41
3	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	183,975	4.58
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	159,993	3.98
5	The Bank of New York, Non-Treaty JASDEC Account	99,920	2.49
6	State Street Bank & Trust Company 505012	73,839	1.84
7	Shikoku Railway Company	65,100	1.62
8	State Street Bank & Trust Company 505223	59,006	1.47
9	CBNY DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO	58,311	1.45
10	STATE STREET BANK WEST CLIENT TREATY 505234	57,373	1.43
Total		1,921,826	47.91

As of the end of December 2018

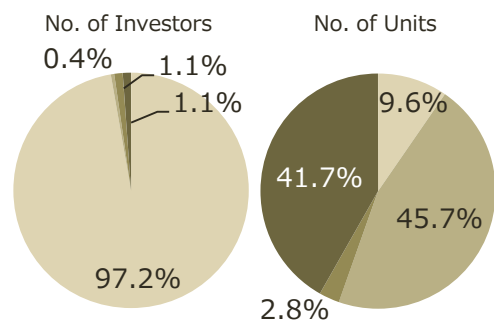
Rank	Name	No. of Units	%(*)
1	The Master Trust Bank of Japan, Ltd. (Trust)	629,007	15.68
2	Japan Trustee Service Bank, Ltd. (Trust)	492,388	12.27
3	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	190,271	4.74
4	BNYM AS AGT/CLTS 10 PERCENT	146,423	3.65
5	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	122,691	3.05
6	JP Morgan Chase Bank 385628	65,100	1.62
7	STATE STREET BANK WEST CLIENT TREATY 505234	62,579	1.56
8	Shikoku Railway Company	58,311	1.45
9	Mizuho Trust & Banking Co., Ltd.	55,166	1.37
10	State Street Bank & Trust Company 505223	52,313	1.30
Total		1,874,249	46.72

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

Owners of the Investment Units

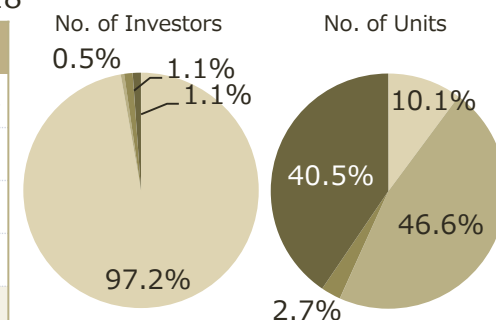
As of the end of June 2018

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



As of the end of December 2018

Owners	No. of Investors	No. of Units
Individuals & Others	30,293	407,254
Financial Institutions (Incl. Securities Firms)	151	1,869,433
Other Domestic Firms	357	109,488
Foreign Firms & Individuals	354	1,624,672
Total	31,155	4,010,847



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

2. Changes in Investment Unit Price and Market Capitalization

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

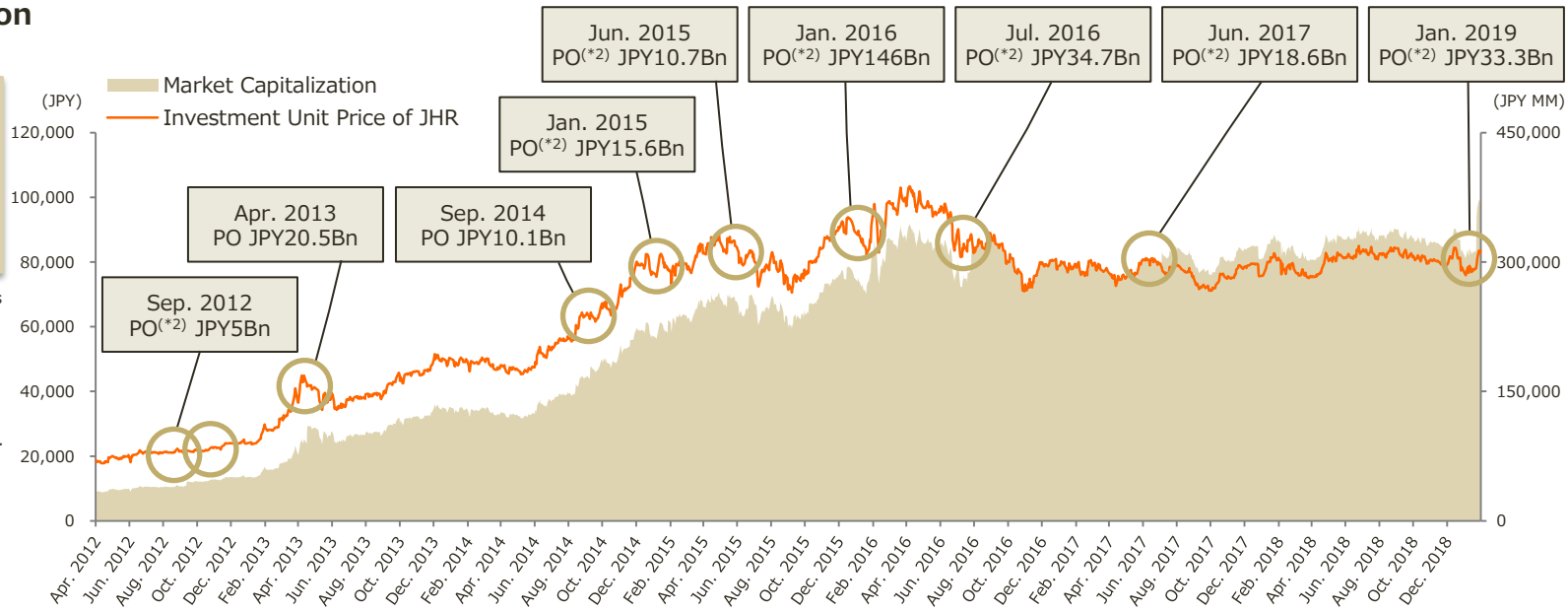
Price of the investment unit:
JPY81,900

Total market capitalization:
JPY328.5Bn

(Based on the closing price of January 31, 2019)

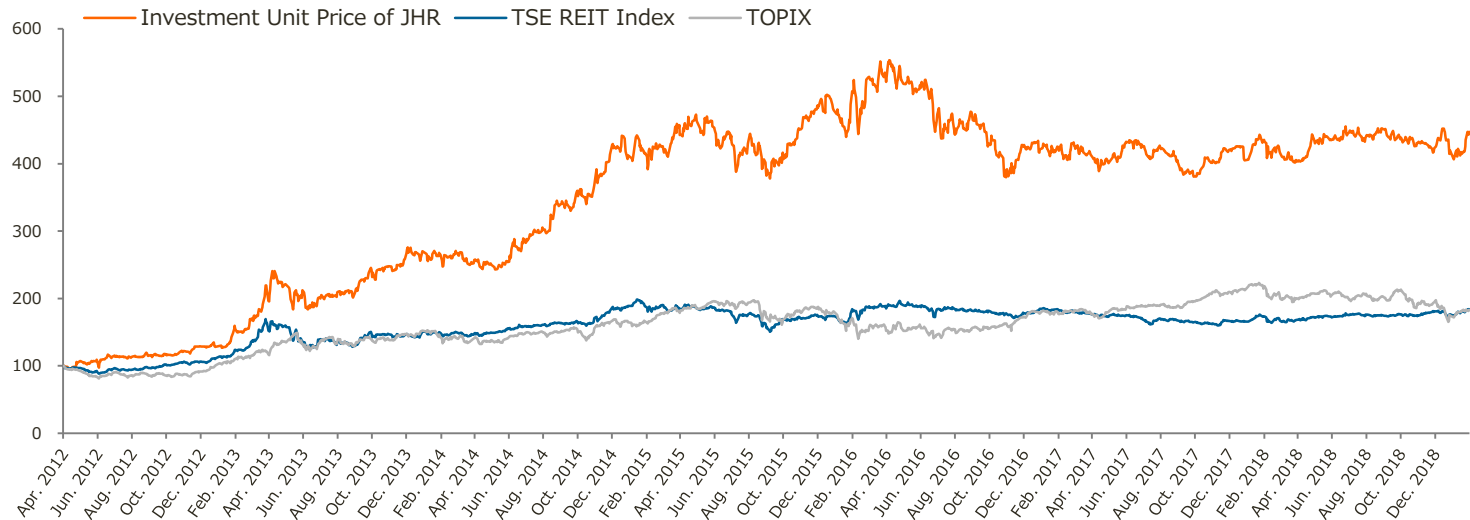
(*1) Price of the real estate investment securities may fall depending on the fluctuations of price of the real estate under management or profitability, etc., and investors may suffer losses. Investors may also suffer losses through the bankruptcy or deteriorated financial condition of the issuer. With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

(*2) including OA



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

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



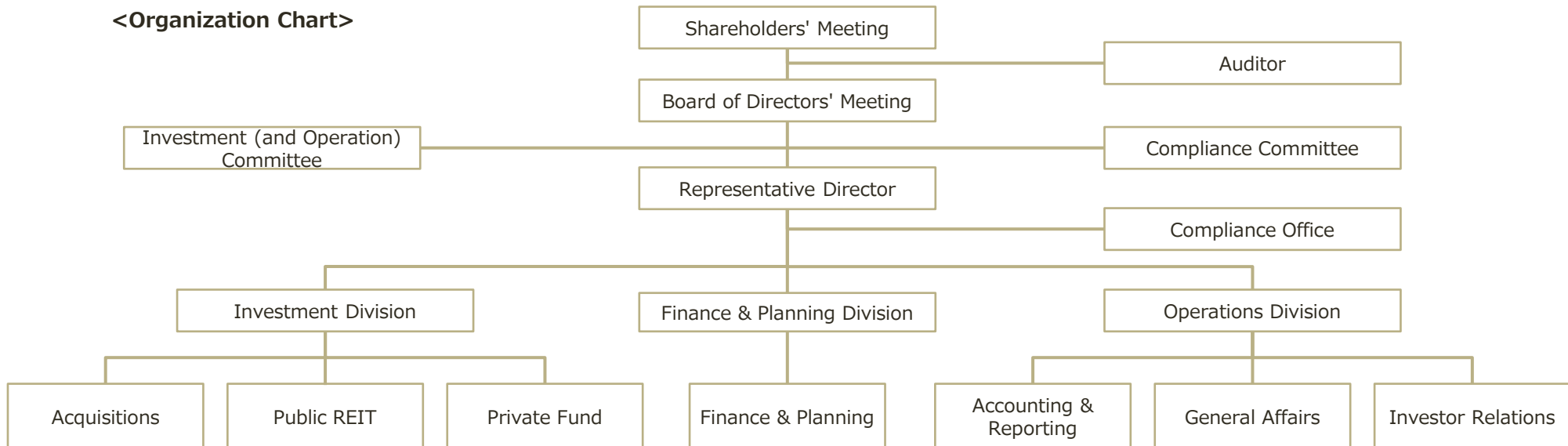
Appendix 4

Summary of the Asset Management Company

1 . Summary of the Asset Management Company

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

<Organization Chart>



Mission Statement

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

Code of Conduct

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

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

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

Challenge

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

Teamwork

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

Advanced Expertise

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

Ensured Independence

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

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

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

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

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

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

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