

Asset Management Report

For the Year Ended December 31, 2020

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 21st fiscal period (from January 1, 2020 to December 31, 2020) of JHR, we are pleased to present you with the status of management and detail of the settlement of accounts for the period.

The fiscal period under review was a very tough year generally for the tourism industry, including the lodging industry, as the number of inbound tourists declined sharply due to restrictions on admission for inbound visitors in response to the worldwide spread of COVID-19, and the number of Japanese tourists declined significantly due to the government's declaration of a State of Emergency. “Go To Travel” campaign was launched in July 2020 as a measure to stimulate tourism demand, and there were signs of a recovery in domestic lodging demand in the second half of the same year. However, COVID-19 began to expand again in November and “Go To Travel” campaign was temporarily suspended in December, and domestic travel and lodging demand began to decline again. Under such environment, all hotels owned by JHR experienced a significant year-on-year decline in hotel performance for the fiscal period under review.

In the harsh business environment brought by the spread of COVID-19, JHR communicated closely with the lessees and operators that operates each hotel. For some hotels, JHR took measures to temporarily close their operations, and worked to reduce costs by thoroughly improving the efficiency of its operation system, thereby securing hotel revenues. With the HMJ Group, JHR's largest lessee and strategic partner, in light of the large-scale restructuring implemented by them, JHR substantially revised its lease contracts in order to make the relationship between the two more sustainable in a medium-to long-term perspective.

On July 1, 2020, JHR sold Sotetsu Fresa Inn Shimbashi-Karasumoriguchi and recorded a gain on sale of real estate properties of JPY3,158 million to actualize a portion of unrealized gains on assets and enhanced liquidity on hand. Furthermore, on October 29, 2020, we reached an agreement with a building owner adjacent to HOTEL ASCENT FUKUOKA, which is owned by JHR, and through the exchange of a part of the real estate owned by both parties, we recorded a gain on the exchange of real estate properties of JPY184 million as well as devised to improve asset value by the whole ownership of real estate.

As a result, JHR posted operating revenue of ¥13,838 million, ordinary income of ¥1,398 million and net income of ¥1,527 million for the 21st Period. Dividend per unit came to ¥410.

We expect the hotel market to continue to face challenging conditions until the spread of the infections of COVID-19 is settled down. In the future, if the COVID-19 converges due to the popularization of vaccinations and other factors, it is expected that the government will resume “Go To travel” campaign and other measures, and the domestic travel demand of Japanese people will greatly recover. Also, with regard to inbound demand, we believe that inbound lodging demand will expand over the medium to long term after the outbreak of COVID-19 is converged since there is a medium-to long-term trend of rising income levels in Asian countries, and Japan has high popularity in foreign countries due to its large appeal as a destination for travel. JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd., will make full efforts to further grow and improve the attractiveness of JHR through responding to major changes in the hotel industry by leveraging the high level of 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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I. ASSET MANAGEMENT REPORT

Outline of Asset Management Operation

1. Operating results and financial position, etc.

Fiscal period Account closing date		17th period December 2016	18th period December 2017	19th period December 2018	20th period December 2019	21st period December 2020
Operating revenue (Note 1)	JPY1M	22,107	25,475	28,253	28,278	13,838
[Real estate operating revenue]	JPY1M	[22,107]	[25,475]	[26,318]	[28,278]	[10,495]
Operating expenses	JPY1M	8,221	9,717	10,260	11,129	10,662
[Real estate operating costs]	JPY1M	[6,589]	[7,911]	[8,344]	[8,997]	[8,717]
Operating income	JPY1M	13,885	15,757	17,993	17,148	3,176
Ordinary income	JPY1M	12,220	14,006	16,211	15,291	1,398
Net income (Note 2)	JPY1M	12,123	14,005	16,210	15,290	1,527
Total assets	JPY1M	317,878	352,183	350,556	415,722	400,296
[Period-on-period change]	[%]	[32.3]	[10.8]	[(0.5)]	[18.6]	[(3.7)]
Net assets	JPY1M	181,989	201,963	203,372	236,522	221,201
[Period-on-period change]	[%]	[40.1]	[11.0]	[0.7]	[16.3]	[(6.5)]
Unitholders' capital	JPY1M	134,829	153,516	153,516	186,894	186,894
Number of investment units issued and outstanding	Units	3,761,907	4,010,847	4,010,847	4,462,347	4,462,347
Net assets per unit	JPY	48,376	50,354	50,705	53,004	49,570
Net income per unit (Note 3)	JPY	3,462	3,606	4,041	3,447	342
Total dividends	JPY1M	12,865	14,771	15,602	16,466	1,829
Dividend per unit	JPY	3,420	3,683	3,890	3,690	410
[Earnings dividend per unit]	JPY	3,420	3,683	3,890	3,690	410
[Dividend per unit resulted from excess of earnings]	JPY	—	—	—	—	—
Ratio of ordinary income to total assets (Note 4)	%	4.4	4.2	4.6	4.0	0.3
Return on unitholders' equity (Note 5)	%	7.8	7.3	8.0	7.0	0.7
Ratio of net assets to total assets (Note 6)	%	57.3	57.3	58.0	56.9	55.3
[Period-on-period change]	[%]	[3.2]	[0.1]	[0.7]	[(1.1)]	[(1.6)]
Payout ratio (Note 7)	%	106.1	105.5	96.2	107.7	119.8
[Additional information]						
NOI (Note 8)	JPY1M	18,829	21,424	22,104	24,087	6,547
FFO per unit (Note 9) (Note 10)	JPY	4,103	4,454	4,588	4,503	632
FFO multiple (Note 10) (Note 11)	Times	19.2	17.0	17.1	18.0	83.9
Debt service coverage ratio (Note 10) (Note 12)	Times	14.2	15.6	18.0	17.5	3.3
Interest-bearing debt	JPY1M	126,179	140,399	136,671	168,754	168,754
Ratio of interest-bearing debt to total assets (Note 13)	%	39.7	39.9	39.0	40.6	42.2
Number of investment properties	Properties	41	44	41	43	42
Total leasable area	m ²	587,481.02	687,124.54	678,714.48	746,329.68	741,083.02
Number of tenants at end of period (Note 14)	Tenants	128	131	126	125	121
Occupancy rate at end of period (Note 15)	%	99.9	99.9	99.9	99.9	99.9
Depreciation	JPY1M	3,294	3,725	4,091	4,557	4,761
Capital expenditures	JPY1M	2,619	2,898	3,056	6,767	1,665
Number of operating days	Days	366	365	365	365	366

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

(Note 2) Net income for the 19th fiscal period includes gain on sale of real estate properties (¥1,934 million). Net income for the 21st fiscal period includes gain on sale of real estate properties (¥3,158 million) and gain on exchange of real estate properties (¥184 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) $\text{FFO per unit} = (\text{Net income} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} - \text{gain on sale of real estate properties} - \text{gain on exchange of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)}) / \text{Number of investment units issued and outstanding}$
- (Note 10) For the 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). For the 21st fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥3,158 million) and gain on exchange of real estate properties (¥184 million) and extraordinary income (¥130 million).
- (Note 11) $\text{FFO multiple} = \text{Investment unit price at end of period} / \text{Annualized FFO per unit}$
- (Note 12) $\text{Debt service coverage ratio} = (\text{Income before income taxes} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses} - \text{gain on sale of real estate properties} - \text{gain on exchange of real estate properties} \pm \text{Extraordinary loss or income (excluding loss on disaster)} + \text{Amortization of investment corporation bond issuance costs} + \text{Amortization of investment unit issuance expenses} \pm \text{Loss or gain on derivative instruments} + \text{Interest expense} + \text{Interest expense on investment corporation bonds}) / (\text{Interest expense} + \text{Interest expense on investment corporation bonds} + \text{Total of contractual principal repayments (excluding lump-sum principal repayments)})$
- (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 nine years since the Merger. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 42 properties with a combined acquisition price of ¥370,031 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

The Japanese economy in the fiscal period under review (from January 1, 2020 to December 31, 2020) remained in a difficult situation since February 2020, as economic activities were significantly restrained both in and outside Japan due to the impact by the spread of novel coronavirus (COVID-19). The domestic accommodation and tourism market was heavily impacted by a significant decrease in the number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”), which was estimated to be 4.11 million in 2020 (-87.1% year on year), due to travel restrictions to Japan from abroad, etc., as well as by the nationwide self-restraint pertaining various events and suspension of operations at large theme parks in accordance with the government’s declaration of a state of emergency, resulting in a sharp drop in domestic demand. Accordingly, the cumulative number of overnight guests at domestic accommodation facilities in 2020 fell by 48.6% year on year to 306 million guest nights (preliminary release). Domestic demand for accommodation showed a sign of recovery in the latter half of the year thanks to the “Go To Travel” campaign, a government measure to stimulate domestic tourism demand that started in late July 2020, but the earnings environment surrounding hotels remain uncertain as temporary suspension of the campaign was decided in December due to the re-spread of COVID-19 from November.

As to the performance of hotels owned by JHR under these circumstances, RevPAR (Note 1) and GOP (gross operating profit) of all hotels including The 24 hotels with Variable Rent, etc. (Note 2) for the fiscal period fell significantly below the figures of the previous year due to the impact of the spread of COVID-19.

To cope with the hardship, JHR maintained close communication with the lessees and operators of its respective hotels and worked to secure hotel earnings through reduction of operating costs, etc. In particular, after discussions and investigations with JHR, Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), a hotel lessee and a group company of the Asset Management Company, and its subsidiaries (hereinafter collectively called the “HMJ Group”), implemented large-scale restructuring of labor costs, outsourcing costs and other costs. Having achieved larger cost reductions in the fiscal period under review compared with fiscal 2019, the HMJ Group is expected to reduce costs consistently in the following fiscal period and thereafter. Based on this, JHR concluded a fixed-term building lease contract with the HMJ Group as of August 25, 2020, agreeing to exempting fixed rent of each hotel operated by the HMJ Group from February 2020 through the end of 2021 (fixed rent and variable rent will be employed as before for 2022 and thereafter).

As for The Ishin Group Hotels (Note 3), its performance worsened due to the impact of the spread of COVID-19, making it difficult for JHR to collect fixed rent as designated in the lease contract. Accordingly, JHR decided to change the rent structure in the lease contract with respective lessees of The Ishin Group Hotels for April 2020 and thereafter, in consideration of its impact on rent not only for the fiscal period under review but also for the future.

Moreover, JHR decided that it is appropriate to partly realize unrealized gain of owned assets to record it as gain on sale of real estate properties and enhance the liquidity on hand. Accordingly, JHR sold Sotetsu Fresa Inn Shimbashi-Karasumoriguchi as of July 1, 2020, recording ¥3,158 million as gain on sale of real estate properties. JHR also exchanged the land that is part of the site of HOTEL ASCENT FUKUOKA with the real estate beneficial interest in trust of the land that is part of an adjacent building (hereinafter referred to as the “Exchange Transaction”) as of October 29, 2020. As a result of the Exchange Transaction, the mutual leasehold ownership was terminated and JHR acquired full ownership of HOTEL ASCENT FUKUOKA. This transaction contributed to higher asset value, and JHR recorded ¥184 million as gain on exchange of real estate properties.

Furthermore, JHR made a drastic review of its capital expenditures, including large-scale renovation work planned for the fiscal period under review, and worked to reduce such cost items as real estate operating costs and general and administrative expenses.

For further details of management indicators for the 24 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. 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, totaled 14 hotels, are referred to as the “HMJ Group Hotels.” The 24 hotels with variable rent, etc. refers to the HMJ Group Hotels 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) The Ishin Group Hotels refers to the four hotels comprising the b suidobashi, the b ikebukuro, the b hachioji and the b hakata. The same shall apply hereinafter.

(3) Funding conditions

In the fiscal period under review (from January 1, 2020 to December 31, 2020), JHR took out loans of ¥4,700 million in total to refinance existing borrowings that were due for repayment in January 2020. Moreover, also for the purpose of refinancing existing borrowings that were due for repayment, JHR took out loans of ¥1,092 million in total in June, ¥11,847 million in total in September, and ¥935 million in December 2020, respectively.

Consequently, as of the end of the fiscal period under review, balance of interest-bearing debt totaled ¥168,754 million, including short-term loans payable of ¥12,782 million, current portion of long-term loans payable of ¥10,800 million, long-term loans payable of ¥103,572 million, current portion of investment corporation bonds of ¥1,500 million and investment corporation bonds of ¥40,100 million, and the ratio of interest-bearing debt to total assets at end of year (Note) stood at 42.2%. The ratio of fixed interest rate debt to the total interest-bearing debt at the end of the fiscal period under review was at 91.0%.

(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

JHR's issuer ratings are as follows.

Japan Credit Rating Agency, Ltd. (JCR) changed the outlook of long-term issuer rating for JHR from "A+ (Stable)" to "A+ (Negative)" on December 25, 2020. Rating and Investment Information, Inc. (R&I) changed the outlook of issuer rating for JHR from "A (Stable)" to "A (Negative)" on January 5, 2021.

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd. (JCR)	A +	(Negative)
Rating and Investment Information, Inc. (R&I)	A	(Negative)

(4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥13,838 million, ¥3,176 million and ¥1,398 million, respectively, for the fiscal period under review (12-month period from January 1, 2020 to December 31, 2020). Net income was ¥1,527 million.

With regard to dividends, it was decided that ¥1,829 million was distributed, which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥305 million to unappropriated retained earnings of ¥1,527 million. Consequently, ¥1,829 million was distributed as dividend and the dividend per unit came to ¥410.

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 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 1)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 2)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 3)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 4)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 5)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 6)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 7)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 8)

(Note 1) 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 2) 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 3) 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 4) 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 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 ¥77,518 (issue value of ¥75,065) 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 ¥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 7) 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 8) 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	17th period	18th period	19th period	20th period	21st period
Account closing month	December 2016	December 2017	December 2018	December 2019	December 2020
Highest price	103,400	81,200	85,000	91,800	82,400
Lowest price	70,900	71,100	75,000	75,900	24,700
Price at end of period	78,600	75,600	78,400	81,200	53,000

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 ¥1,829,562,270, which excludes fractions of less than one yen of dividend per unit from ¥1,833,485,071, which was calculated by adding a reversal of the reserve for temporary difference adjustment of ¥305,694,382 to unappropriated retained earnings of ¥1,527,790,689 as of end of the fiscal period under review, was distributed. Consequently, the dividend per unit came to ¥410.

(yen)

Classification	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)	21st period (From January 1, 2020 to December 31, 2020)
Unappropriated retained earnings	12,126,057,948	14,005,489,588	16,213,482,816	15,290,314,375	1,527,790,689
Retained earnings	411,048	3,048,696	—	744,789	3,922,801
Total cash dividends	12,865,721,940	14,771,949,501	15,602,194,830	16,466,060,430	1,829,562,270
[Dividend per unit]	[3,420]	[3,683]	[3,890]	[3,690]	[410]
Of the above, total earnings dividends	12,865,721,940	14,771,949,501	15,602,194,830	16,466,060,430	1,829,562,270
[Earnings dividend per unit]	[3,420]	[3,683]	[3,890]	[3,690]	[410]
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

It is forecasted that the Japanese economy will remain in a difficult situation for some time under the impact of COVID-19, as the government again declared a state of emergency in January 2021. The domestic accommodation and tourism market is also forecast to remain in a harsh environment due to a continuing significant decrease in the number of inbound visitors as well as a decrease in domestic tourists. Under such circumstances, JHR will discuss, investigate, and implement with lessees and operators a variety of measures, such as reducing operating costs through review of operations at each hotel, maintaining necessary employment, handling cash management, and implementing sales measures in response to new demand including “staycation” and “workation.” Especially for the hotels with variable rent, etc. centering on the HMJ Group Hotels, JHR will endeavor to maximize GOP of each hotel and thus maximize the rent JHR can receive as a result.

In addition, it is assumed that JHR will receive requests for rent reduction, etc. from the lessees that have been impacted by the spread of infection of COVID-19, etc. To cope with such requests, JHR will examine what has been requested from respective lessees, details of the existing lease contracts with them, rent levels compared with the market rent, the possibility to collect the reduced rent portion in the future, and their financial conditions. By doing so, JHR will respond to the requests individually after discussing with each lessee and operator, while carefully considering the possibility of replacing operators.

On the other hand, JHR believes that domestic tourism demand will gradually recover going forward thanks to the development and distribution of vaccinations against COVID-19 and resumption of “Go To Travel” campaign by the government, among other factors. Moreover, given the large potential demand for overseas tourism globally and in particular, improvement in income levels in Asian countries as well as the popularity of Japan as travel destination, accommodation demand from inbound visitors to Japan is expected to recover over a medium to long term. As such, there is no change in the view of JHR that the accommodation and tourism market will expand over the medium to long term. On the belief that the location and competitiveness of individual hotels as well as the capabilities of the operators (the ability to differentiate from other hotels, improve profitability including cost management and capture recovering demand, etc.) will lead to differentiation of performance among hotels, JHR will continue to implement strategies to differentiate its hotels as it has done to date.

In the meanwhile, as a result from the spread of COVID-19, the spread of contactless new behavior pattern such as web conferencing, etc. may cause structural changes in hotel industry, for instance, a reduction in banquet demand etc. JHR will work more closely than ever with hotel lessees and operators to respond to environmental changes. Under the 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 the experience it has cultivated as a 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 continue to focus on setting and maintaining appropriate rents based on the rent levels in the market where respective hotels are located or each tenant’s creditworthiness and ability to bear the rent costs. And JHR aims at raising rents (including introduction of revenue sharing structure) in accordance with the conditions of the accommodation market. For the moment, with possible requests for reduction of fixed rent, etc. from the lessees that were heavily impacted by the spread of infection of COVID-19, JHR intends to appropriately cope with the situation through discussions with respective lessees and operators.

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.

In January 2021, for Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo), JHR conducted rebranding of the property upon the termination of the lease contract. Moreover, for Hotel Keihan Universal City and HOTEL ASCENT FUKUOKA, JHR plans to conduct their rebranding in accordance with the expiration and early termination of the lease contracts. As to rebranding of Hotel Keihan Universal City and HOTEL ASCENT

FUKUOKA, inviting the HMJ Group as new lessee, JHR will work to operate them efficiently through such measures as coordination with existing HMJ Group Hotels, sharing of management resources with neighboring hotels and utilization of the hotel operation know-how accumulated in the past. By doing so, JHR aims to maximize earnings from them.

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 the recovery of leisure demand from domestic and inbound visitors, measures to maintain and increase room rates, and realization of the synergy effects like cost reductions from owning multiple properties, among other issues.

On the other hand, under the impact of the spread of infection of COVID-19, recovery in hotel performance is expected to take time. To cope with such a situation, JHR will closely cooperate with the lessees and operators of respective hotels to promote drastic reform of the hotel earnings structure through cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while continuing efforts on health consideration for the guests and employees of respective hotels and environmental sanitation management. JHR will also promote various measures to restore hotel earnings, such as the creation of appropriate products in response to major changes in the market environment and the preparation of hotel facility environments, etc.

Moreover, in an attempt to recover and enhance hotel earnings, JHR will accurately grasp the situation of the accommodation and tourism market and changing customer needs and conduct strategic capital expenditures (CAPEX) in an appropriate manner as needed.

B. Properties under fixed rent contracts

JHR will pursue efforts to set and maintain reasonable rent levels by appropriately monitoring operating conditions of these hotels and by paying careful attention to each tenant's ability to bear the rent costs. At the same time, JHR will appropriately respond to requests to reduce fixed rent from the lessees that were greatly affected by the spread of infection of COVID-19. In addition, JHR will carry out investments for the purpose of continuous maintenance and renewal of facilities and equipment 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 believes that domestic and inbound leisure demand will recover over the medium to long term and will continue targeting acquisition of 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 it 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.

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 (including the ability of the hotel lessee to bear rent costs) as well as operation and management capabilities of hotel lessee and operator, and the aspect of location whose superiority 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 capital to be invested in 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, the environment continues to be difficult for the hotel operation under the impact of COVID-19, and hotel transactions remain on a stagnant trend due to a sense of uncertainty over the domestic

accommodation and tourism market. Under such circumstances, JHR believes that it must be prudent in investigating property acquisitions. Moreover, JHR plans to investigate property dispositions as needed, from the viewpoint of securing its earnings and financial soundness. On the other hand, there is a possibility of an increase in special investment opportunities unlike before, such as sales of assets due to rapid deterioration in the financial position of operators, sales of hotels categorized as non-core assets due to deterioration in performance of main business of its owners, sales of hotels completed or scheduled to be completed without operators, etc. JHR will flexibly deal with such investment opportunities by utilizing the efficient hotel operation platform of HMJ or by other measures. Moreover, over the medium to long term, JHR believes that, along with the spread of COVID-19 coming to an end and accompanying recovery of domestic accommodation demand including that from inbound visitors, many investors who have been on the sideline may resume investment in hotels, and competition over acquisition may become active again. Going forward, while closely monitoring market trends from many angles and responding to changes in hotel earnings structures and the investment environment according to circumstances, JHR will work to acquire highly competitive properties by leveraging its strengths and advantages, as well as utilizing the HMJ platform for certain properties in pursuit of expansion of asset size that accompanies improvement of the portfolio quality.

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 communicate more closely than before with existing financial institutions with which it does business in order to maintain and enhance the relationships of trust, 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 its formation of lenders while considering the balance with the funding cost and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds)..

Moreover, while JHR believes that no abrupt change is likely to occur to the interest rate level in the current situation, it aims to maintain and enhance financial stability and soundness in preparation for future change in the financial market environment, by taking into account the dispersion of maturity dates while working to optimize financing costs and, when necessary, conducting interest rate risk management including interest rate fixation. While being impacted by COVID-19, JHR will work to securely achieve refinancing of existing borrowings by paying attention to financing costs while maintaining good relationships with respective lenders. In addition, JHR will conduct appropriate control of capital expenditures and secure liquidity on hand in an effort to strengthen its financial foundation.

Policy on handling of negative goodwill

From the fiscal period 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 (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the balance of the reserve for temporary difference adjustment for the fiscal period ended December 31, 2017, 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 1).

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 1). As for the fiscal period ending December 31, 2021 (22nd period), JHR expects ¥330 million, which is the total of the 50-year amortization amount of negative goodwill (¥262 million), loss on retirement of noncurrent assets (¥11 million) and amortization of the trademark rights for the Oriental Hotel brand, etc. (Note 2) (¥56 million), as additional amounts to dividends by reversing

negative goodwill.

(Note 1) 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.

(Note 2) JHR acquired the trademark rights on May 15, 2020 as announced in “Notice Concerning Acquisition of New Assets (Trademark Rights of “Oriental Hotel” brand, etc.)” on May 15, 2020. The trademark rights are amortized over 10 years using the straight-line method.

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). In September 2018, JHR became the first J-REIT specializing in hotels to be recognized by GRESB (Note 2) for its environmental awareness and sustainability initiatives and acquired “Green Star” in the GRESB Real Estate Assessment for the three consecutive years since then. Moreover, in April 2020, Hilton Tokyo Odaiba acquired CASBEE Certification for Buildings, the first such recognition for an existing hotel property. JHR was also selected for Sector Leader of Asian Hotel Sector in the GRESB Real Estate Assessment conducted in 2020. Going forward, JHR will continue to actively promote enhancement of its initiatives on a variety of sustainability issues.

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.

In addition, as an effort under the expanding spread of COVID-19, JHR worked together with the lessees to provide two hotels which it owns in Tokyo as facilities to accept patients with mild or no symptoms who do not require hospital treatment among the patients infected with COVID-19.

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 is an annual benchmarking assessment to measure ESG (Environmental, Social and Governance) integration 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

Issuance of new investment units

JHR resolved to issue new investment units by way of third-party allotment at the Board of Directors meeting held on March 4, 2021. Payment for the new investment units was completed on March 16, 2021, and the investment units were issued under the following terms and conditions. As a result, JHR’s unitholders’ capital stands at ¥187,194,209,409, with the number of investment units issued and outstanding at 4,467,006 units.

(1) Issuance of new investment units (third-party allotment)

Number of investment units issued:	4,659 units
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Paid-in amount (issue value):	¥64,400 per unit
Total paid-in amount (total issue value):	¥300,039,600
Payment date:	March 16, 2021
Allottee:	SC J-REIT Investments GK

(2) Use of proceeds

JHR plans to allocate the proceeds from the issuance of new investment units by way of third-party allotment of ¥300,039,600 to part of the funds for capital expenditures.

7. Reference information

<Reference 1> Major indicators of the hotel business for the fiscal period ended December 31, 2020

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2020 through December 31, 2020, 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	
	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales
Occupancy rate	48.8%	—	40.3%	—	17.1%	—	40.7%	—	51.5%	—	40.0%	—
ADR (Note 1)	18,914	—	15,293	—	13,663	—	24,169	—	8,166	—	16,895	—
RevPAR (Note 2)	9,225	—	6,167	—	2,330	—	9,837	—	4,208	—	6,756	—
Total sales (millions of yen)	2,853	100.0%	2,291	100.0%	918	100.0%	2,636	100.0%	826	100.0%	9,525	100.0%
Rooms department	1,091	38.2%	1,153	50.3%	220	24.0%	1,429	54.2%	350	42.3%	4,243	44.5%
Food & beverage department	1,385	48.5%	740	32.3%	16	1.7%	837	31.8%	405	49.0%	3,382	35.5%
Tenant department	77	2.7%	144	6.3%	622	67.8%	2	0.1%	22	2.6%	868	9.1%
Other departments (Note 3)	300	10.5%	255	11.1%	60	6.6%	367	13.9%	50	6.1%	1,033	10.8%
GOP (millions of yen)	195	6.8%	(149)	(6.5%)	463	50.4%	294	11.1%	(108)	(13.0%)	695	7.3%

	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	
	(Note 4)	Ratio to total sales	(Note 4,5)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales
Occupancy rate	31.7%	—	38.9%	—	44.5%	—	16.5%	—	43.3%	—	36.0%	—
ADR (Note 1)	19,171	—	22,663	—	13,058	—	11,792	—	12,281	—	7,989	—
RevPAR (Note 2)	6,083	—	8,818	—	5,814	—	1,951	—	5,320	—	2,875	—
Total sales (millions of yen)	1,403	100.0%	1,670	100.0%	1,145	100.0%	272	100.0%	1,653	100.0%	712	100.0%
Rooms department	804	57.3%	768	46.0%	470	41.1%	224	82.3%	1,067	64.6%	487	68.5%
Food & beverage department	338	24.1%	797	47.7%	346	30.2%	—	—	404	24.4%	143	20.1%
Tenant department	32	2.3%	—	—	257	22.4%	34	12.5%	38	2.3%	4	0.6%
Other departments (Note 3)	229	16.3%	104	6.3%	72	6.3%	14	5.2%	144	8.7%	77	10.8%
GOP (millions of yen)	(70)	(5.0%)	243	14.5%	385	33.6%	27	10.0%	148	9.0%	143	20.1%

	Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average	
	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 4)	Ratio to total sales	(Note 6)	Ratio to total sales
Occupancy rate	29.7%	—	10.8%	—	32.6%	—	35.8%	—
ADR (Note 1)	12,818	—	7,736	—	27,458	—	16,081	—
RevPAR (Note 2)	3,812	—	833	—	8,951	—	5,757	—
Total sales (millions of yen)	1,071	100.0%	49	100.0%	3,646	100.0%	21,146	100.0%
Rooms department	460	43.0%	38	76.5%	1,484	40.7%	10,046	47.5%
Food & beverage department	539	50.3%	2	4.0%	1,584	43.4%	7,535	35.6%
Tenant department	11	1.1%	—	—	131	3.6%	1,375	6.5%
Other departments (Note 3)	61	5.7%	10	19.5%	447	12.3%	2,190	10.4%
GOP (millions of yen)	(102)	(9.5%)	(35)	(69.9%)	(109)	(3.0%)	1,326	6.3%

(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.

(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. The same shall apply hereinafter.

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

(Note 4) The properties were temporarily closed for a certain period of time during the fiscal period under review due to the impact of COVID-19, but the occupancy rate has been calculated by including the closed period.

(Note 5) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(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> The 24 Hotels with Variable Rent

		Fiscal period ended December 31, 2019		Fiscal period ended December 31, 2020	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	85.1%	(2.9)pt	34.0%	(51.1)pt
	Second half	86.9%	0.5pt	40.8%	(46.1)pt
	Full year	86.0%	(0.0)pt	37.4%	(48.6)pt
ADR	First half	15,691	0.4%	13,362	(14.8)%
	Second half	17,263	(3.4)%	13,354	(22.6)%
	Full year	16,492	(1.6)%	13,357	(19.0)%
RevPAR	First half	13,348	(3.0)%	4,536	(66.0)%
	Second half	14,993	(2.9)%	5,445	(63.7)%
	Full year	14,178	(2.9)%	4,993	(64.8)%
Sales (millions of yen)	First half	28,259	(2.0)%	10,718	(62.1)%
	Second half	31,453	(2.0)%	13,378	(57.5)%
	Full year	59,712	(2.0)%	24,096	(59.6)%
GOP (millions of yen)	First half	9,067	(5.6)%	(213)	(102.4)%
	Second half	11,804	(2.8)%	1,867	(84.2)%
	Full year	20,871	(4.0)%	1,654	(92.1)%

<2> The HMJ Group Hotels

		Fiscal period ended December 31, 2019		Fiscal period ended December 31, 2020	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	85.3%	(3.0)pt	33.1%	(52.2)pt
	Second half	87.9%	1.4pt	38.4%	(49.5)pt
	Full year	86.6%	(0.8)pt	35.8%	(50.8)pt
ADR	First half	17,587	(0.7)%	15,222	(13.4)%
	Second half	19,635	(4.5)%	16,814	(14.4)%
	Full year	18,635	(2.7)%	16,081	(13.7)%
RevPAR	First half	15,005	(4.1)%	5,045	(66.4)%
	Second half	17,263	(3.0)%	6,460	(62.6)%
	Full year	16,143	(3.5)%	5,757	(64.3)%
Sales (millions of yen)	First half	24,050	(2.4)%	9,167	(61.9)%
	Second half	27,137	(2.0)%	11,978	(55.9)%
	Full year	51,187	(2.2)%	21,146	(58.7)%
GOP (millions of yen)	First half	7,230	(6.1)%	(370)	(105.1)%
	Second half	9,886	(2.0)%	1,696	(82.8)%
	Full year	17,116	(3.8)%	1,326	(92.3)%

<Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal periods ended December 31, 2019 and December 31, 2020 were calculated based on the assumptions described below.

		(millions of yen)	
		Fiscal period ended December 31, 2019	Fiscal period ended December 31, 2020
Unappropriated retained earnings		15,290	1,527
Total of reserve for temporary difference adjustments (negative goodwill) used		1,176	305
	Negative goodwill – 50-year amortization amount (Note 1)	262	262
	Loss on retirement of noncurrent assets (Note 2)	246	5
	Correspondence to large-scale renovation works (Note 3)	357	-
	Adjustment for dilution (Note 4)	310	-
	Amortization of trademark rights (Note 5)	-	37
Total dividends		16,466	1,829
Total number of investment units issued (Units)		4,462,347	4,462,347
Dividend per unit (JPY)		3,690	410

(Note 1) JHR reverses ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”) to payout as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year.

(Note 2) The amount recognized as a loss on retirement of noncurrent assets are appropriated by reserve for temporary difference adjustment (negative goodwill).

(Note 3) Oriental Hotel Fukuoka Hakata Station implemented large-scale renovation works accompanied by suspension of hotel operation from October 1, 2018 to April 8, 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 4) Adjustment for dilution of dividend per unit due to issuance of new investment units.

(Note 5) The trademark rights for the Oriental Hotel brand, etc. are amortized over 10 years using the straight-line method. For the amount to be amortized in the fiscal period under review, reserve for temporary difference adjustment (negative goodwill) is appropriated.

<Reference 4> Balance of reserve for temporary difference adjustment

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal period ended December 2020 is as follows.

	(millions of yen)
Balance of reserve for temporary difference adjustment as of December 31, 2020	10,617
Appropriation for dividends for the fiscal period ended December 31, 2020	(305)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal period ended December 31, 2020	10,311

Overview of JHR

1. Unitholders' capital

Account closing date	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	21st period As of December 31, 2020
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)	3,761,907	4,010,847	4,010,847	4,462,347	4,462,347
Unitholders' capital (JPY1M)	134,829	153,516	153,516	186,894	186,894
Number of unitholders (Persons)	31,371	35,046	31,155	30,574	35,117

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2020 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	739,108	16.56%
Custody Bank of Japan, Ltd. (Trust Account)	429,005	9.61%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	226,474	5.07%
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	162,196	3.63%
BNYM AS AGT/CLTS 10 PERCENT	158,778	3.55%
SDSS K INVESTCO LIMITED	117,567	2.63%
ELLIOTT INTERNATIONAL LP	93,886	2.10%
THE BANK OF NEW YORK 133970	67,259	1.50%
THE BANK OF NEW YORK MELLON 140044	63,797	1.42%
STATE STREET BANK WEST CLIENT TREATY 505234	63,476	1.42%
Total	2,121,546	47.54%

(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, 2020 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)	Representative of Umezawa Accountant Office	3,600
Independent auditor	KPMG AZSA LLC	–	25,250

(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) 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, 2020 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, etc., book keeping, etc., tax payments, etc., 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.	20th period (As of December 31, 2019)		21st period (As of December 31, 2020)	
				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	26,985	6.5	26,870	6.7
			Namba Oriental Hotel	14,539	3.5	14,437	3.6
			Hotel Oriental Express Osaka Shinsaibashi	2,817	0.7	2,805	0.7
		Tokyo	ibis Tokyo Shinjuku	7,908	1.9	7,830	2.0
			CANDEO HOTELS UENO-KOEN	6,644	1.6	6,606	1.7
			the b ikebukuro	6,584	1.6	6,578	1.6
			Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	4,801	1.2	-	-
			Comfort Hotel Tokyo Higashi Nihombashi	3,527	0.8	3,491	0.9
			the b hachioji	2,680	0.6	2,664	0.7
			Smile Hotel Nihombashi Mitsukoshimae	2,022	0.5	2,042	0.5
			R&B Hotel Ueno Hirokoji	1,822	0.4	1,806	0.5
			Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo) (Note 5)	1,452	0.3	1,447	0.4
			the b suidobashi	1,194	0.3	1,173	0.3
			dormy inn • global cabin Asakusa	941	0.2	934	0.2
			Chisun Inn Kamata	769	0.2	768	0.2
		Hokkaido	ibis Styles Sapporo	6,561	1.6	6,492	1.6
			Mercure Sapporo	5,792	1.4	5,735	1.4
		Fukuoka	HOTEL ASCENT FUKUOKA	5,161	1.2	5,450	1.4
			the b hakata	2,340	0.6	2,329	0.6
			Hakata Nakasu Washington Hotel Plaza	2,022	0.5	2,038	0.5
			Toyoko Inn Hakata-guchi Ekimae	1,419	0.3	1,401	0.4
		Kyoto	ibis Styles Kyoto Station	6,650	1.6	6,623	1.7
		Okinawa	Mercure Okinawa Naha	2,833	0.7	2,801	0.7
		Kumamoto	Dormy Inn Kumamoto	2,139	0.5	2,170	0.5
		Nara	Nara Washington Hotel Plaza	1,798	0.4	1,764	0.4
		Subtotal		121,410	29.2	116,265	29.0
	Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,429	15.3	63,376	15.8
			Oriental Hotel tokyo bay	17,486	4.2	17,190	4.3
		Chiba	Hilton Tokyo Narita Airport	13,205	3.2	13,088	3.3
			International Garden Hotel Narita	9,162	2.2	9,127	2.3
			Hotel Francs	3,178	0.8	3,145	0.8
			Hotel Francs	3,178	0.8	3,145	0.8
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,327	4.2	17,215	4.3
			Oriental Hotel Hiroshima	4,099	1.0	4,048	1.0
		Aichi	Hilton Nagoya	15,650	3.8	15,695	3.9
		Nara	Hotel Nikko Nara	10,355	2.5	10,254	2.6
		Hyogo	Kobe Meriken Park Oriental Hotel	9,678	2.3	9,482	2.4
		Fukuoka	Oriental Hotel Fukuoka Hakata Station	9,560	2.3	9,251	2.3
		Kanagawa	Mercure Yokosuka	1,621	0.4	1,606	0.4
		Subtotal		174,756	42.0	173,483	43.3
	Resort hotel	Okinawa	Hotel Nikko Alivila	17,904	4.3	17,790	4.4
			Okinawa Marriott Resort & Spa	14,924	3.6	14,745	3.7
			The Beach Tower Okinawa	6,581	1.6	6,490	1.6
		Chiba	Hilton Tokyo Bay	26,408	6.4	26,289	6.6
		Osaka	Hotel Keihan Universal City	5,905	1.4	5,830	1.5
		Kanagawa	Hakone Setsugetsuka	3,689	0.9	3,616	0.9

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	20th period (As of December 31, 2019)		21st period (As of December 31, 2020)	
				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)
			Subtotal	75,413	18.1	74,763	18.7
			Real estate in trust – Total	371,580	89.4	364,512	91.1
			Deposits and other assets (Note 7)	44,142	10.6	35,783	8.9
			Total assets	415,722	100.0	400,296	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) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.
- (Note 5) Hotel Vista Kamata Tokyo changed its name to Chisun Hotel Kamata on January 1, 2021 due to rebranding following cancellation of lease contract. 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) Includes machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

2. Major portfolio assets

An overview of the portfolio assets of JHR (42 properties in total) as of December 31, 2020 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)	9,654	32,663.90	32,663.90	100.0	1.7	Hotel
2	Oriental Hotel tokyo bay	17,367	44,833.11	44,833.11	100.0	(1.3)	Hotel
3	Namba Oriental Hotel	14,513	19,364.33	19,364.33	100.0	4.0	Hotel
4	Hotel Nikko Alivila (Note 6)	18,019	38,024.98	38,024.98	100.0	2.5	Hotel
5	Oriental Hotel Hiroshima	4,112	13,752.22	13,752.22	100.0	(0.9)	Hotel
6	ibis Tokyo Shinjuku	7,903	6,801.84	6,801.84	100.0	1.3	Hotel
8	The Beach Tower Okinawa (Note 7)	6,495	20,140.01	20,140.01	100.0	4.9	Hotel
9	Hakone Setsugetsuka	3,622	10,655.03	10,655.03	100.0	2.8	Hotel
10	Dormy Inn Kumamoto	2,170	7,701.19	7,701.19	100.0	1.9	Hotel
12	the b suidobashi	1,186	3,097.25	3,097.25	100.0	0.2	Hotel
13	dormy inn • global cabin Asakusa	934	2,014.90	2,014.90	100.0	0.6	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,038	5,602.04	5,602.04	100.0	2.3	Hotel
15	Nara Washington Hotel Plaza	1,765	5,271.54	5,271.54	100.0	1.4	Hotel
16	R&B Hotel Ueno Hirokoji	1,806	3,060.31	3,060.31	100.0	0.9	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,491	5,765.27	5,765.27	100.0	2.6	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,042	3,167.82	3,167.82	100.0	1.4	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,401	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	1.3	Hotel
25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo)	1,458	3,831.80	3,831.80	100.0	0.9	Hotel
26	Chisun Inn Kamata	771	1,499.87	1,499.87	100.0	0.2	Hotel
29	Hotel Keihan Universal City (Note 8)	5,833	16,212.40	16,212.40	100.0	5.3	Hotel
31	Hilton Tokyo Bay (Note 9)	26,301	64,928.83	64,928.83	100.0	18.8	Hotel
32	ibis Styles Kyoto Station	6,641	5,003.99	5,003.99	100.0	0.4	Hotel
33	ibis Styles Sapporo	6,522	14,992.49	14,735.17	98.3	0.9	Hotel
34	Mercure Sapporo	5,789	15,189.42	14,561.13	95.9	1.5	Hotel
35	Mercure Okinawa Naha	2,841	10,884.25	10,884.25	100.0	0.0	Hotel
37	the b ikebukuro (Note 10)	6,593	5,650.01	5,650.01	100.0	1.8	Hotel
39	the b hachioji (Note 10)	2,681	7,847.65	7,847.65	100.0	1.9	Hotel
40	the b hakata (Note 10)	2,347	3,986.09	3,986.09	100.0	0.3	Hotel
41	Hotel Francs	3,145	19,213.39	19,213.39	100.0	2.9	Hotel
42	Mercure Yokosuka (Note 11)	1,634	16,881.82	16,881.82	100.0	1.1	Hotel
43	Okinawa Marriott Resort & Spa	14,878	36,430.15	36,430.15	100.0	0.4	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,294	31,181.03	31,130.58	99.8	8.5	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,613	7,934.26	7,934.26	100.0	3.3	Hotel
46	Oriental Hotel Fukuoka Hakata Station	9,473	18,105.42	18,105.42	100.0	3.6	Hotel
47	Holiday Inn Osaka Namba	26,941	11,501.10	11,501.10	100.0	0.5	Hotel
48	HOTEL ASCENT FUKUOKA	5,451	8,238.75	8,238.75	100.0	4.5	Hotel
49	Hilton Nagoya (Note 14)	15,696	47,942.71	47,942.71	100.0	7.8	Hotel
50	Hilton Tokyo Narita Airport	13,343	56,817.28	56,817.28	100.0	1.2	Hotel
51	International Garden Hotel Narita	9,196	21,814.93	21,814.93	100.0	1.3	Hotel
52	Hotel Nikko Nara (Note 15)	10,357	21,011.31	21,011.31	100.0	0.3	Hotel
53	Hotel Oriental Express Osaka Shinsaibashi	2,816	2,710.55	2,710.55	100.0	0.1	Hotel
54	Hilton Tokyo Odaiba	63,607	64,907.76	64,907.76	100.0	2.5	Hotel
Total		366,760	741,083.02	740,146.96	99.9	97.6	

(Note 1) Book value includes real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress, 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. Please note that the sum of the ratio of rental revenue to total rental revenue is 97.6% because the relevant ratios of the trademark rights for the Oriental Hotel brand, etc. and of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi that was sold in the 21st fiscal period are not included.
- (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 contract 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 contracts.
- (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, 2020 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	13,900	9,654	JR
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	32,100	17,367	JR
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	31,400	14,513	JR
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	28,800	18,019	JR
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,130	4,112	JR
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	9,900	7,903	JR
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	10,000	6,495	JR
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,300	3,622	JR
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	3,030	2,170	JR
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	2,280	1,186	JR
13	dormy inn • global cabin Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,280	934	JM
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,510	2,038	JR
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,765	JR
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,910	1,806	JM
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,390	3,491	JM
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,930	2,042	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	1,401	T
25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo)	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	2,010	1,458	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,370	771	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	15,400	5,833	R
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	39,900	26,301	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	10,200	6,641	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	11,100	6,522	JR
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,500	5,789	JR
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	6,940	2,841	JR
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	6,980	6,593	JR
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,560	2,681	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)
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,330	2,347	JR
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,080	3,145	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	3,310	1,634	D
43	Okinawa Marriott Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	17,200	14,878	JR
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	21,000	17,294	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,430	6,613	D
46	Oriental Hotel Fukuoka Hakata Station	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	15,200	9,473	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	26,500	26,941	JR
48	HOTEL ASCENT FUKUOKA	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	6,650	5,451	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	15,000	15,696	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	13,400	13,343	JR
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,500	9,196	JR
52	Hotel Nikko Nara	8-1 Sanjyohonmachi, Nara-shi, Nara	Beneficial interest in trust	9,790	10,357	D
53	Hotel Oriental Express Osaka Shinsaibashi	2-13 Minamisenba 3-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	2,840	2,816	D
54	Hilton Tokyo Odaiba	9-1 Daiba 1-chome, Minato-ku, Tokyo	Beneficial interest in trust	68,100	63,607	JR
Total				493,330	366,760	

(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, 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.	20th period (From January 1, 2019 to December 31, 2019)				21st period (From January 1, 2020 to December 31, 2020)			
		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 (%) (Note 2)	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 (%) (Note 2)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,256	4.4	1	100.0	176	1.7
2	Oriental Hotel tokyo bay	1	100.0	1,883	6.7	1	100.0	(134)	(1.3)
3	Namba Oriental Hotel	1	100.0	1,406	5.0	1	100.0	415	4.0
4	Hotel Nikko Alivila	1	100.0	1,977	7.0	1	100.0	263	2.5
5	Oriental Hotel Hiroshima	1	100.0	472	1.7	1	100.0	(96)	(0.9)
6	ibis Tokyo Shinjuku	4	100.0	704	2.5	4	100.0	141	1.3
8	The Beach Tower Okinawa	1	100.0	511	1.8	1	100.0	511	4.9
9	Hakone Setsugetsuka	1	100.0	294	1.0	1	100.0	294	2.8
10	Dormy Inn Kumamoto	1	100.0	194	0.7	1	100.0	194	1.9
12	the b suidobashi	1	100.0	103	0.4	1	100.0	21	0.2
13	dormy inn ・ global cabin Asakusa	1	100.0	63	0.2	1	100.0	63	0.6
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	0.9	1	100.0	240	2.3
15	Nara Washington Hotel Plaza	2	100.0	151	0.5	2	100.0	150	1.4
16	R&B Hotel Ueno Hirokoji	1	100.0	97	0.3	1	100.0	97	0.9
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	287	1.0	2	100.0	272	2.6
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	154	0.5	1	100.0	147	1.4
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	0.5	1	100.0	141	1.3
25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo)	1	100.0	112	0.4	1	100.0	97	0.9
26	Chisun Inn Kamata	1	100.0	80	0.3	1	100.0	22	0.2
29	Hotel Keihan Universal City	1	100.0	746	2.6	1	100.0	558	5.3
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 3)	4	100.0	446	1.6	-	-	232	2.2
31	Hilton Tokyo Bay	1	100.0	2,220	7.9	1	100.0	1,978	18.8
32	ibis Styles Kyoto Station	2	100.0	459	1.6	2	100.0	45	0.4
33	ibis Styles Sapporo	4	98.3	661	2.3	4	98.3	92	0.9
34	Mercure Sapporo	12	95.4	797	2.8	11	95.9	154	1.5
35	Mercure Okinawa Naha	1	100.0	342	1.2	1	100.0	-	0.0
37	the b ikebukuro	4	100.0	356	1.3	4	100.0	187	1.8
39	the b hachioji	11	100.0	185	0.7	10	100.0	204	1.9
40	the b hakata	2	100.0	228	0.8	2	100.0	33	0.3
41	Hotel Francs	1	100.0	300	1.1	1	100.0	300	2.9
42	Mercure Yokosuka	1	100.0	360	1.3	1	100.0	112	1.1
43	Okinawa Marriott Resort & Spa	1	100.0	937	3.3	1	100.0	45	0.4
44	ACTIVE-INTER CITY HIROSHIMA	38	99.6	1,624	5.7	40	99.8	895	8.5
45	CANDEO HOTELS UENO-KOEN	1	100.0	349	1.2	1	100.0	349	3.3
46	Oriental Hotel Fukuoka Hakata Station	1	100.0	740	2.6	1	100.0	373	3.6
47	Holiday Inn Osaka Namba	1	100.0	967	3.4	1	100.0	48	0.5
48	HOTEL ASCENT FUKUOKA	6	100.0	447	1.6	6	100.0	468	4.5
49	Hilton Nagoya	4	100.0	1,452	5.1	4	100.0	816	7.8

Property No.	Name of property, etc.	20th period (From January 1, 2019 to December 31, 2019)				21st period (From January 1, 2020 to December 31, 2020)			
		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 (%) (Note 2)	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 (%) (Note 2)
50	Hilton Tokyo Narita Airport	1	100.0	912	3.2	1	100.0	123	1.2
51	International Garden Hotel Narita	1	100.0	604	2.1	1	100.0	136	1.3
52	Hotel Nikko Nara	1	100.0	625	2.2	1	100.0	35	0.3
53	Hotel Oriental Express Osaka Shinsaibashi	1	100.0	109	0.4	1	100.0	9	0.1
54	Hilton Tokyo Odaiba	1	100.0	2,264	8.0	1	100.0	258	2.5
Total		125	99.9	28,278	100.0	121	99.9	10,480	99.9

(Note 1) Number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties for which master lease 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) Represents the ratio of real estate operating revenue of each property to total real estate operating revenue. In calculating, the figures are rounded off to the first decimal place. Please note that the sum of the ratio to total real estate operating revenue 99.9% because the relevant ratio of the trademark rights for the Oriental Hotel brand, etc. is not included.

(Note 3) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 4) 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, 2020.

5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2020 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	104,566	93,766	(789)
	Payable fixed rate / Receivable floating rate			
Total		104,566	93,766	(789)

(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, 2020.

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)

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 ¥3,534 million, which consists of capital expenditures of ¥3,522 million (Note) and repair expenses of ¥12 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 2021 to July 2021	55	-
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning equipment	From March 2021 to July 2021	80	-
Hotel Keihan Universal City (Osaka-shi, Osaka)	Renovation of guest rooms	From April 2021 to July 2021	160	-
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From March 2021 to April 2021	60	-
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of guest rooms, etc.	From October 2021 to December 2021	500	-
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renovation of guest rooms, etc.	From April 2021 to June 2021	265	-
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of furniture in guest rooms etc.	From April 2021 to June 2021	55	-
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of heat-source equipment for air conditioning facilities	From April 2021 to May 2021	73	-
International Garden Hotel Narita (Narita-shi, Chiba)	Renewal of air conditioning units	From October 2021 to November 2021	55	-
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of central monitoring device	From March 2021 to June 2021	63	-
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of information and telecommunication equipment	From April 2021 to June 2021	100	-
Total			1,467	-

(Note) 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.

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 ¥1,665 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥29 million. In aggregate, ¥1,694 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Hotel Nikko Alivila (Nakagami-gun, Okinawa)	Additional installation of sewage tank	From March 2020 to June 2020	72
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning equipment	From May 2020 to June 2020	67
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of air conditioning equipment	From May 2020 to July 2020	52
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of air conditioning equipment	From March 2020 to March 2020	90
Hilton Nagoya (Nagoya-shi, Aichi)	Work on plumbing equipment	From March 2020 to May 2020	57
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of elevators	From June 2020 to December 2020	51
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of banquet rooms	From December 2019 to March 2020	92
Total			483

(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	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)	21st period (From January 1, 2020 to December 31, 2020)
Balance at beginning of period	657	791	946	951	1,060
Provision during the period	133	154	15	116	25
Reversal during the period	-	-	9	8	10
Amount carried forward	791	946	951	1,060	1,075

Expenses and Liabilities

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

(thousands of yen)

	20th period (From January 1, 2019 to December 31, 2019)	21st period (From January 1, 2020 to December 31, 2020)
(a) Asset management fees	(Note 1) 1,781,691	(Note 2) 1,479,381
(b) Asset custody and administrative service fee	119,138	125,986
(c) Officers' compensation	14,400	17,400
(d) Other operating expenses	217,357	322,710
Total	2,132,586	1,945,477

(Note 1) 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.

(Note 2) For asset management fees for the 21st fiscal period, besides the above amounts, there are ¥7,647 thousand of fees for property acquisition included in the acquisition price of the relevant investment property, and ¥42,615 thousand of fees for property sale deducted from the gain on sale of real estate properties.

2. Loans payable

The status of loans by contractual agreement and by financial institution as of December 31, 2020 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
Short-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2020	—	2,787	0.37%	September 30, 2021	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	1,470					
	Mizuho Bank, Ltd.		—	3,470					
	Sumitomo Mitsui Trust Bank, Limited		—	1,485					
	Resona Bank, Limited		—	1,600					
	Development Bank of Japan Inc.		—	650					
	Aozora Bank, Ltd.		—	285					
	Subtotal		—	11,747					
	The Chiba Bank, Ltd.	September 30, 2020	—	100	0.31%	September 30, 2021	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	Subtotal		—	100					
	MUFG Bank, Ltd.	December 30, 2020	—	935	0.59%	June 30, 2021	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	Subtotal		—	935					
Short-term loans payable – Total			—	12,782					
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 31, 2014	648	648	1.15% (Note 2)	March 31, 2021	Lump-sum repayment	(Note 4)	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	800	—	0.92% (Note 2)	September 30, 2020	Lump-sum repayment (Note 3)	(Note 5)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,600	—					
	Resona Bank, Limited		1,100	—					
	Shinsei Bank, Limited		970	—					
	Sumitomo Mitsui Trust Bank, Limited		800	—					
	Development Bank of Japan Inc.		500	—					
	Aozora Bank, Ltd.		285	—					
	Subtotal		6,055	—					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	1.04% (Note 2)	September 30, 2021	Lump-sum repayment	(Note 5)	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	—	0.56%	December 30, 2020	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	Subtotal		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	—	0.38% (Note 2)	January 31, 2020	Lump-sum repayment	(Note 5)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,500	—					
	Shinsei Bank, Limited		500	—					
	Resona Bank, Limited		500	—					
	Sumitomo Mitsui Trust Bank, Limited		500	—					
	The Chiba Bank, Ltd.		300	—					
	Subtotal		4,700	—					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,700	1,700	0.90% (Note 2)	January 31, 2022	Lump-sum repayment (Note 3)	(Note 5)	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 6)	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 6)	Unsecured, unguaranteed
	MUFG Bank, Ltd.		500	500					
	Subtotal		1,500	1,500					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	100	—	0.52%	June 30, 2020	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		992	—					
	Subtotal		1,092	—					
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07% (Note 2)	September 29, 2023	Lump-sum repayment	(Note 4)	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 3)	(Note 4)	Unsecured, unguaranteed
	Shinsei Bank, Limited		189	189					
	Subtotal		892	892					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77% (Note 2)	March 29, 2024	Lump-sum repayment (Note 3)	(Note 4)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,050	1,050					
	Subtotal		2,100	2,100					

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	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 4)	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 3)	(Note 4)	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 4)	Unsecured, unguaranteed
	Subtotal		800	800					
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 29, 2024	Lump-sum repayment	(Note 4)	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 6)	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 6)	Unsecured, unguaranteed
	Subtotal		1,300	1,300					
	MUFG Bank, Ltd.	September 1, 2016	2,000	2,000	0.56% (Note 2)	September 30, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		2,000	2,000					
	Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		700	700					
	Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	July 12, 2017	1,750	1,750	0.46%	June 30, 2023	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		500	500					
	Subtotal		2,250	2,250					

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	August 1, 2017	1,250	1,250	0.85% (Note 2)	September 30, 2026	Lump-sum repayment	(Note 6)	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% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		1,000	1,000						
	MUFG Bank, Ltd.	August 1, 2017	700	700	0.68% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		700	700						
	Development Bank of Japan Inc.	August 1, 2017	500	500	0.75% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		500	500						
	The Bank of Fukuoka, Ltd.	August 1, 2017	500	500	0.73% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		500	500						
	Aozora Bank, Ltd.	August 1, 2017	500	500	0.73% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		500	500						
	THE NISHI-NIPPON CITY BANK, LTD.	August 1, 2017	1,000	1,000	0.73% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		1,000	1,000						
	Shinsei Bank, Limited	August 1, 2017	300	300	0.68% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed	
	Subtotal		300	300						
	Sumitomo Mitsui Banking Corporation	September 19, 2017	1,200	1,200	0.65% (Note 2)	March 31, 2025	Lump-sum repayment	(Note 4)	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% (Note 2)	March 29, 2024	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		1,500	1,500						
	Subtotal			4,000	4,000					
	Sumitomo Mitsui Banking Corporation	November 15, 2017	1,500	1,500	0.65% (Note 2)	March 31, 2025	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		500	500						
	Development Bank of Japan Inc.		300	300						
	The Bank of Fukuoka, Ltd.		150	150						
	Subtotal			2,450	2,450					
	Sumitomo Mitsui Banking Corporation	March 30, 2018	1,700	1,700	0.41%	March 31, 2023	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed	
	Subtotal		1,700	1,700						

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 26, 2018	650	650	0.41%	March 31, 2023	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed
	Shinsei Bank, Limited		950	950					
	The Chiba Bank, Ltd.		500	500					
	THE NISHI-NIPPON CITY BANK, LTD.		250	250					
	Sompo Japan 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 4)	Unsecured, unguaranteed
	Subtotal		500	500					
	The Shizuoka Bank, Ltd.	September 28, 2018	500	500	0.55%	September 29, 2023	Lump-sum repayment	(Note 4)	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 4)	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.	April 8, 2019	500	500	0.38%	March 29, 2024	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		500	500					
	THE NISHI-NIPPON CITY BANK, LTD.		500	500					
	Sompo Japan Insurance Inc.		1,000	1,000					
	Subtotal		2,500	2,500					
	Sumitomo Mitsui Banking Corporation	April 8, 2019	2,500	2,500	0.72% (Note 2)	March 31, 2027	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,500	1,500					
	Mizuho Bank, Ltd.		1,500	1,500					
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	Development Bank of Japan Inc.		1,000	1,000					
	Subtotal		7,500	7,500					
	Sumitomo Mitsui Banking Corporation	April 8, 2019	4,000	4,000	0.82% (Note 2)	March 31, 2028	Lump-sum repayment	(Note 6)	Unsecured, unguaranteed
	Shinsei Bank, Limited		3,000	3,000					
	Mizuho Bank, Ltd.		3,000	3,000					
	Sumitomo Mitsui Trust Bank, Limited		2,500	2,500					
	Resona Bank, Limited		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	Development Bank of Japan Inc.		1,000	1,000					
	The Bank of Fukuoka, Ltd.		1,000	1,000					
	Aozora Bank, Ltd.		1,000	1,000					
	THE NISHI-NIPPON CITY BANK, LTD.		1,000	1,000					
	Subtotal		18,000	18,000					

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	The Chiba Bank, Ltd.	September 30, 2019	200	200	0.23%	September 30, 2024	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed	
	The Hiroshima Bank, Ltd.		1,400	1,400						
	Subtotal		1,600	1,600						
	Sumitomo Mitsui Banking Corporation	September 30, 2019	550	550	0.68% (Note 2)	September 30, 2027	Lump-sum repayment	(Note 7)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		450	450						
	Mizuho Bank, Ltd.		1,400	1,400						
	Sumitomo Mitsui Trust Bank, Limited		200	200						
	Resona Bank, Limited		200	200						
	Development Bank of Japan Inc.		700	700						
	The Bank of Fukuoka, Ltd.		1,100	1,100						
	The Nomura Trust and Banking Co., Ltd.		1,000	1,000						
	Subtotal		5,600	5,600						
	Long-term loans payable – Total		127,154	114,372						
	Total loans payable			127,154	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) JHR made partial early repayment of the loan on April 26, 2018.

(Note 4) The funds were appropriated for refinancing of borrowings and related expenses, etc.

(Note 5) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses, etc.

(Note 6) The funds were appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.

(Note 7) The funds were appropriated for refinancing and early repayment of borrowings.

(Note 8) In order to list each loan payable, ¥10,800 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.

(Note 9) Sompo Japan Nipponkoa Insurance Inc. changed its name to Sompo Japan Insurance Inc. as of April 1, 2020.

3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2020 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
Fourth unsecured investment corporation bonds	December 19, 2014	1,500	1,500	0.860	December 17, 2021	Lump-sum repayment	(Note 1)	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 2)	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 2)	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 2)	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 1)	Unsecured, unguaranteed (Note 6)
Eleventh unsecured investment corporation bonds	June 14, 2019	8,000	8,000	0.854	June 14, 2029	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 6)
Twelfth unsecured investment corporation bonds (green bonds)	July 31, 2019	2,000	2,000	0.400	July 31, 2024	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed (Note 5)
Total		41,600	41,600					

(Note 1) 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 2) The funds were appropriated to partly fund the repayment of existing borrowings.

(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 1)	Sale date	Sale price (JPY1M) (Note 1)	Book value (JPY1M)	Gain (loss) on sale (JPY1M)
The trademark rights	The trademark rights for the Oriental Hotel brand, etc.	May 15, 2020	550	—	—	—	—
Beneficial interest of real estate in trust	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	—	—	July 1, 2020	8,000	4,790	3,158
Real estate /Beneficial interest of real estate in trust	HOTEL ASCENT FUKUOKA (part of site) (Note 2)	October 29, 2020	653	October 29, 2020	523	333	184 (Note 2)
Total		—	1,203	—	8,523	5,123	3,343

(Note 1) Acquisition price and Sale 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.

(Note 2) JHR exchanged the land that is part of the site of HOTEL ASCENT FUKUOKA with the real estate beneficial interest in trust of the land that is part of an adjacent building. In doing so, JHR acquired real estate in kind and additionally entrusted it. The amount obtained by excluding the book value and the expenses related to the exchange transaction from the transaction price was recorded as gain on exchange of real estate properties. The same shall apply hereinafter.

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
Sale	Beneficial interest of real estate in trust	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	July 1, 2020	8,000	8,950	December 31, 2019	DAIWA REAL ESTATE APPRAISAL CO., LTD.
Acquisition	Real estate	HOTEL ASCENT FUKUOKA (part of site)	October 29, 2020	653	660	July 1, 2020	Japan Real Estate Institute
Sale	Beneficial interest of real estate in trust			523	523		

(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

Not applicable.

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

(1) Transactions

(millions of yen)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	1,203	8,523	10,495
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	550 [45.7%]	– [–%]	635 [6.1%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,063 [10.1%]
Hotel Centraza Co., Ltd.	– [–%]	– [–%]	373 [3.6%]
K.K. A.I.C Hiroshima Management	– [–%]	– [–%]	325 [3.1%]
Tokyo Humania Enterprise KK	– [–%]	– [–%]	258 [2.5%]
KK Narita Yoshikura Operations	– [–%]	– [–%]	136 [1.3%]
KK Narita Kosuge Operations	– [–%]	– [–%]	123 [1.2%]
OW Hotel Operations KK	– [–%]	– [–%]	48 [0.5%]
Lagoon resort Nago Co., Ltd.	– [–%]	– [–%]	45 [0.4%]
Hotel Management Co., Ltd.	– [–%]	– [–%]	35 [0.3%]
Hotel Oriental Express Co., Ltd.	– [–%]	– [–%]	9 [0.1%]
Total	550 [45.7%]	– [–%]	3,054 [29.1%]

(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 the 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. through 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)	423,852	Hotel Management Japan Co., Ltd.	5,760	1.4
		Tokyo Humania Enterprise KK	120	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
21st fiscal period	From January 1, 2020 to December 31, 2020	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

There were no 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.

Moreover, the 10th General Meeting of Unitholders of JHR was held on December 23, 2020. The major items approved at the General Meeting of Unitholders are summarized below.

Agenda	Summary
Partial amendments to the Articles of Incorporation	A new provision was established to specify that, of the proposals for resolutions at the general meeting of unitholders that may have a major impact on the management of JHR and on the interest of unitholders, those for which submitting conflicting counterproposals is considered difficult by its nature shall be excluded from the deemed approval system that is stipulated in Article 93, paragraph 1 of the Investment Trusts Act and Article 14, paragraph 1 of JHR's Articles of Incorporation, with the aim of more directly reflecting the intention of unitholders.

(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, 2020 and 2019

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
<u>ASSETS</u>		
Current assets:		
Cash and deposits (<i>Notes 5 and 6</i>)	¥ 19,382,019	¥ 22,449,911
Cash and deposits in trust (<i>Notes 5 and 6</i>)	9,171,145	11,894,019
Operating accounts receivable (<i>Note 6</i>)	672,415	2,779,730
Prepaid expenses	533,150	550,281
Income taxes receivable	42	54
Derivative assets (<i>Notes 6 and 19</i>)	-	573
Other current assets	82,698	88,045
Total current assets	29,841,471	37,762,616
Property and equipment, at cost (<i>Notes 18 and 20</i>):		
Machinery and equipment	622,365	579,731
Tools, furniture and fixtures	4,373,456	4,211,971
Construction in progress	2,761	-
Buildings in trust (<i>Note 15</i>)	137,193,115	136,930,501
Structures in trust	2,772,035	2,721,962
Machinery and equipment in trust	683,995	675,362
Tools, furniture and fixtures in trust	133,628	136,526
Land in trust	216,410,533	219,901,119
Construction in progress in trust	83,507	18,384
	362,275,397	365,175,561
Less: Accumulated depreciation	(28,971,718)	(24,652,749)
Net property and equipment	333,303,679	340,522,811
Intangible assets:		
Software	162,441	227,600
Trademark rights	523,498	-
Leasehold rights in trust (<i>Note 20</i>)	28,532,362	28,532,362
Fixed-term leasehold rights in trust (<i>Note 20</i>)	4,765,994	5,036,941
Other intangible assets (<i>Note 20</i>)	7,076	7,756
Total intangible assets	33,991,374	33,804,661
Other assets:		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,449,539	2,766,474
Derivative assets (<i>Notes 6 and 19</i>)	-	43,870
Reserve fund for repairs and maintenance	314,067	307,513
Investment unit issuance costs	56,111	140,631
Investment corporation bond issuance costs	177,418	211,194
Total other assets	3,159,879	3,632,429
Total assets	¥400,296,404	¥415,722,517

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
As of December 31, 2020 and 2019

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Operating accounts payable	¥ 2,654,679	¥ 1,485,375
Short-term loans payable (<i>Notes 6 and 7</i>)	12,782,000	-
Current portion of investment corporation bonds (<i>Notes 6 and 8</i>)	1,500,000	-
Current portion of long-term loans payable (<i>Notes 6, 7 and 19</i>)	10,800,000	12,782,000
Accrued expenses	527,572	651,435
Income taxes payable	1,210	1,210
Consumption taxes payable	143,389	661,048
Advances received	423,355	909,293
Dividends payable	17,381	15,852
Deposits received	9,111	8,696
Derivative liabilities (<i>Notes 6 and 19</i>)	21,398	17,229
Other current liabilities	42,763	95,331
Total current liabilities	28,922,861	16,627,473
Long-term liabilities:		
Investment corporation bonds (<i>Notes 6 and 8</i>)	40,100,000	41,600,000
Long-term loans payable (<i>Notes 6, 7 and 19</i>)	103,572,000	114,372,000
Tenant leasehold and security deposits (<i>Note 6</i>)	1,040,520	1,040,520
Tenant leasehold and security deposits in trust (<i>Note 6</i>)	4,356,804	4,681,825
Derivative liabilities (<i>Notes 6 and 19</i>)	767,749	416,600
Deferred tax liabilities (<i>Note 16</i>)	-	13,981
Asset retirement obligations (<i>Note 9</i>)	335,161	447,677
Total long-term liabilities	150,172,234	162,572,605
Total liabilities	179,095,095	179,200,079
Net assets (<i>Note 10</i>):		
Unitholders' equity:		
Unitholders' capital	186,894,169	186,894,169
Units authorized: 20,000,000 units		
Units issued and outstanding; 4,462,347 units as of December 31, 2020 and 2019		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Reserve for temporary difference adjustment (<i>Note 11</i>)	10,617,580	11,794,071
Reserve for advanced depreciation	1,174,860	-
Reserve for special advanced depreciation	-	1,174,860
Total voluntary reserve	11,792,441	12,968,932
Unappropriated retained earnings	1,527,790	15,290,314
Total surplus	35,066,630	50,005,645
Total unitholders' equity	221,960,800	236,899,815
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (<i>Note 19</i>)	(759,492)	(377,376)
Total valuation and translation adjustments	(759,492)	(377,376)
Total net assets	221,201,308	236,522,438
Total liabilities and net assets	¥400,296,404	¥415,722,517

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Income
For the years ended December 31, 2020 and 2019

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	For the year ended December 31, 2019
Operating revenue:		
Real estate operating revenue (<i>Note 12</i>)	¥ 9,603,724	¥ 27,107,988
Other real estate operating revenue (<i>Note 12</i>)	892,001	1,170,561
Gain on sale of real estate properties (<i>Note 13</i>)	3,158,381	-
Gain on exchange of real estate properties (<i>Note 14</i>)	184,725	-
Total operating revenue	13,838,832	28,278,550
Operating expenses:		
Real estate operating costs (<i>Note 12</i>)	8,717,332	8,997,408
Asset management fee	1,479,381	1,781,691
Asset custody and administrative service fee	125,986	119,138
Directors' compensation	17,400	14,400
Other operating expenses	322,710	217,357
Total operating expenses	10,662,810	11,129,995
Operating income	3,176,022	17,148,555
Non-operating income:		
Interest income	278	357
Gain on forfeiture of unclaimed dividends	3,535	4,361
Gain on insurance claims	34,217	28,063
Refunded taxes on property and equipment	-	1,239
Interest on tax refunds	95	549
Gain on derivative instruments	1,138	12,382
Total non-operating income	39,266	46,953
Non-operating expenses:		
Interest expense	963,502	940,789
Interest expense on investment corporation bonds	316,795	284,524
Borrowing costs	399,645	483,761
Amortization of investment corporation bond issuance costs	33,776	30,298
Amortization of investment unit issuance costs	84,520	151,922
Loss on derivative instruments	4,802	378
Other	13,989	12,309
Total non-operating expenses	1,817,032	1,903,983
Ordinary income	1,398,255	15,291,524
Extraordinary income:		
Gain from collection of security deposits	130,000	-
Total extraordinary income	130,000	-
Income before income taxes	1,528,255	15,291,524
Income taxes (<i>Note 16</i>):		
Current	1,210	1,210
Total income taxes	1,210	1,210
Net income	1,527,045	15,290,314

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Changes in Net Assets
For the years ended December 31, 2020 and 2019

	<i>Thousands of yen</i>							
	Unitholders' equity							
	Surplus							
	Voluntary reserve							
	Unitholders' capital	Capital surplus	Reserve for temporary difference adjustment	Reserve for advanced depreciation	Reserve for special advanced depreciation	Total voluntary reserve	Unappropriated retained earnings	Total surplus
Balance, January 1, 2019	¥ 153,516,129	¥ 21,746,398	¥ 12,357,644	¥ -	¥ -	¥ 12,357,644	¥ 16,213,482	¥ 50,317,525
Changes of items during the year:								
Issuance of new investment units	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)
Net income	-	-	-	-	-	-	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)
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
Changes of items during the year:								
Reversal of reserve for temporary difference adjustment	-	-	(1,176,490)	-	-	(1,176,490)	1,176,490	-
Provision of reserve for advanced depreciation	-	-	-	1,174,860	-	1,174,860	(1,174,860)	-
Reversal of reserve for special advanced depreciation	-	-	-	-	(1,174,860)	(1,174,860)	1,174,860	-
Dividends paid	-	-	-	-	-	-	(16,466,060)	(16,466,060)
Net income	-	-	-	-	-	-	1,527,045	1,527,045
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	-	-	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(13,762,523)	(14,939,014)
Balance, December 31, 2020	¥ 186,894,169	¥ 21,746,398	¥ 10,617,580	¥ 1,174,860	¥ -	¥ 11,792,441	¥ 1,527,790	¥ 35,066,630

	<i>Thousands of yen</i>			
	Unitholders' equity	Valuation and translation adjustments		
	Total unitholders' equity	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, January 1, 2019	¥ 203,833,655	¥ (461,435)	¥ (461,435)	¥ 203,372,219
Changes of items during the year:				
Issuance of new investment units	33,378,040	-	-	33,378,040
Reversal of reserve for temporary difference adjustment	-	-	-	-
Provision of reserve for special advanced depreciation	-	-	-	-
Dividends paid	(15,602,194)	-	-	(15,602,194)
Net income	15,290,314	-	-	15,290,314
Net changes in items other than unitholders' equity	-	84,059	84,059	84,059
Total changes in amount during the year	33,066,160	84,059	84,059	33,150,219
Balance, December 31, 2019	¥ 236,899,815	¥ (377,376)	¥ (377,376)	¥ 236,522,438
Changes of items during the year:				
Reversal of reserve for temporary difference adjustment	-	-	-	-
Provision of reserve for advanced depreciation	-	-	-	-
Reversal of reserve for special advanced depreciation	-	-	-	-
Dividends paid	(16,466,060)	-	-	(16,466,060)
Net income	1,527,045	-	-	1,527,045
Net changes in items other than unitholders' equity	-	(382,115)	(382,115)	(382,115)
Total changes in amount during the year	(14,939,014)	(382,115)	(382,115)	(15,321,130)
Balance, December 31, 2020	¥ 221,960,800	¥ (759,492)	¥ (759,492)	¥ 221,201,308

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	For the year ended December 31, 2019
Cash flows from operating activities:		
Income before income taxes	¥ 1,528,255	¥ 15,291,524
Depreciation and amortization	4,761,907	4,557,414
Gain on exchange of real estate properties	(184,725)	-
Loss on retirement of noncurrent assets	5,701	246,890
(Gain) Loss on derivative instruments	3,663	(12,004)
Amortization of investment corporation bond issuance costs	33,776	30,298
Amortization of investment unit issuance costs	84,520	151,922
Decrease of property and equipment due to sale	1,010	-
Decrease of property and equipment in trust due to sale	4,789,585	-
Gain from collection of security deposits	(130,000)	-
Interest income	(278)	(357)
Interest expense	1,280,297	1,225,314
Interest on tax refunds	(95)	(549)
(Increase) decrease in operating accounts receivable	2,107,315	(305,608)
(Increase) decrease in prepaid expenses	17,130	(22,789)
(Increase) decrease in long-term prepaid expenses	316,935	(78,478)
Increase (decrease) in operating accounts payable	1,693,683	(240,644)
Increase (decrease) in accrued expenses	(124,063)	116,600
Increase (decrease) in consumption taxes payable	(517,659)	164,127
Increase (decrease) in advances received	(485,938)	27,240
Increase (decrease) in deposits received	414	1,380
Other	(153,173)	69,494
Subtotal	15,028,266	21,221,777
Interest received	312	482
Interest paid	(1,280,097)	(1,220,857)
Interest received on tax refunds	95	549
Income taxes – refunded (paid)	(1,197)	(1,230)
Net cash provided by operating activities	13,747,378	20,000,722
Cash flows from investing activities:		
Purchase of property and equipment	(476,704)	(1,332,712)
Purchase of property and equipment in trust	(1,858,016)	(71,102,935)
Purchase of intangible assets	(604,760)	(89,263)
Payments of reserve fund for repairs and maintenance	(36,549)	(40,453)
Proceeds from collection of security deposits	130,000	-
Repayment of tenant leasehold and security deposits	-	(496)
Proceeds from tenant leasehold and security deposits in trust	64,941	329,120
Repayment of tenant leasehold and security deposits in trust	(296,047)	(228,114)
Net cash used in investing activities	¥ (3,077,137)	¥ (72,464,854)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	For the year ended December 31, 2019
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 18,574,000	¥ 8,000,000
Repayments of short-term loans payable	(5,792,000)	(8,000,000)
Proceeds from long-term loans payable	-	37,000,000
Repayments of long-term loans payable	(12,782,000)	(12,917,000)
Proceeds from investment corporation bonds	-	10,000,000
Repayments of investment corporation bond	-	(2,000,000)
Payments for investment corporation bond issuance costs	-	(69,102)
Proceeds from issuance of investment units	-	33,209,706
Dividends paid	(16,461,008)	(15,600,256)
Net cash provided by (used in) financing activities	(16,461,008)	49,623,347
Net decrease in cash and cash equivalents	(5,790,766)	(2,840,785)
Cash and cash equivalents at beginning of year	34,343,930	37,184,716
Cash and cash equivalents at end of year (<i>Note 5</i>)	¥ 28,553,164	¥ 34,343,930

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Notes to Financial Statements

For the years ended December 31, 2020 and 2019

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, 2020, JHR has ownership interests in 42 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

Trademark rights: 10 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 not applicable for the year ended December 31, 2020 and ¥249,415 thousand for the year ended December 31, 2019.

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. Additional information

Impact of COVID-19

With the number of infections starting to increase again since November 2020, and despite growing expectations for containment of infections as vaccination started in Europe and the U.S., the worldwide spread of the infection by COVID-19 and the deterioration in social and economic conditions caused by COVID-19 have not yet settled, and recovery in hotel performance is expected to take more time.

Under such circumstances, some of the lessees whose business performance has worsened have requested reduction of fixed rent or postponement of fixed rent payments, leading to the risk of JHR’s operating revenue decreasing.

Although it is uncertain and difficult to foresee when COVID-19 will be contained, JHR made accounting estimates related to impairment accounting for noncurrent assets by assuming that the impact by COVID-19 will continue through the fiscal period ending December 31, 2021, followed by recovery in performance after a certain period of time, based on the information available as of the date of preparation of the financial statements.

However, as it is difficult to accurately predict when COVID-19 will be contained and how large its impact will be, JHR’s financial position, results of operations and cash flows may be affected in case the recovery is delayed.

4. Accounting Standards Issued but Not Yet Applied

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 revised on March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 revised on March 31, 2020)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 revised on March 31, 2020)

(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 periods beginning on or after January 1, 2018 and that Topic 606 is applied from fiscal periods 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 period ending December 31, 2022.

(3) Impact of applying the accounting standards

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

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 issued by ASBJ on July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 revised on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31 issued by ASBJ on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 revised on March 31, 2020)

(1) Overview

IASB and FASB have established detailed guidance for fair value measurement (IFRS 13 “Fair Value Measurement” under the IFRS and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification under the U.S. accounting standards) containing almost the same content. In light of this, the ASBJ worked to secure consistency of the Japanese accounting standards with these internationally recognized accounting standards, mainly in terms of the guidance on and disclosure of the fair value of financial instruments, and announced the Accounting Standard for Fair Value Measurement, etc.

The basic policy of ASBJ for the development of the Accounting Standard for Fair Value Measurement was to adopt all provisions of IFRS 13 as a rule from the viewpoint of improving the comparability between the financial statements of the Japanese and foreign companies by using a unified measurement approach. Moreover, in consideration of the practices that have been used in Japan to date, ASBJ determined to establish other treatments for certain items, to the extent that they do not significantly impair the comparability between the financial statements.

(2) Scheduled date of application

The above standards will be applied from the beginning of the fiscal period 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.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31 issued by ASBJ on March 31, 2020)

(1) Overview

With regard to the “sources of estimation uncertainty” for which disclosure is required under Paragraph 125 of the International Accounting Standards (“IAS”) 1 “Presentation of Financial Statements” (“IAS 1”) issued by IASB in 2003, requests were made for ASBJ to consider requiring such disclosures in the form of notes under the Japanese GAAP as it would be useful information for users of financial statements. Accordingly, ASBJ has developed and published the Accounting Standard for Disclosure of Accounting Estimates (the “Accounting Standard”).

The basic policy of ASBJ for the development of the Accounting Standard was to provide general principles (disclosure objectives), instead of expanding required information in the notes individually, and let companies determine specific disclosure contents in light of the disclosure objectives. In developing the Accounting Standard, ASBJ referred to the provisions of the Paragraph 125 of the IAS 1.

(2) Scheduled date of application

The above standard will be applied from the end of the fiscal period ending December 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24 (revised 2020) issued by ASBJ on March 31, 2020)

(1) Overview

Given the recommendation to consider enhancement of note information regarding the “accounting principles and procedures adopted in cases when provisions of relevant accounting standards are not clear,” ASBJ has made necessary amendments and published the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

Furthermore, ASBJ has determined that, when enhancing the note information regarding the “accounting principles and procedures adopted in cases when provisions of relevant accounting standards are not clear,” the provisions in the Notes on Corporate Accounting Principles (Note 1-2) shall be followed as before in order to avoid any impact on the practices taken to date when the provisions of relevant accounting standards are clear.

(2) Scheduled date of application

The above standard will be applied from the end of the fiscal period ending December 31, 2021.

5. Cash Flow Information

Cash and cash equivalents as of December 31, 2020 and 2019 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
Cash and deposits	¥ 19,382,019	¥ 22,449,911
Cash and deposits in trust	9,171,145	11,894,019
Cash and cash equivalents	¥ 28,553,164	¥ 34,343,930

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 it is judged that fixing interest payment is 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, 2020 and 2019 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, 2020			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 19,382,019	¥ 19,382,019	¥ -
(ii) Cash and deposits in trust	9,171,145	9,171,145	-
(iii) Operating accounts receivable	672,415	672,415	-
Total	¥ 29,225,579	¥ 29,225,579	¥ -
(iv) Short-term loans payable	¥ 12,782,000	¥ 12,782,000	¥ -
(v) Current portion of investment corporation bonds	1,500,000	1,468,350	(31,650)
(vi) Current portion of long-term loans payable	10,800,000	10,800,000	-
(vii) Investment corporation bonds	40,100,000	34,415,280	(5,684,720)
(viii) Long-term loans payable	103,572,000	103,572,000	-
Total	¥ 168,754,000	¥ 163,037,630	¥ (5,716,370)
(ix) Derivative transactions (*)	¥ (789,147)	¥ (789,147)	¥ -
<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) Short-term loans payable	¥	-	¥	-	¥	-
(v) Current portion of investment corporation bonds		-		-		-
(vi) Current portion of long-term loans payable		12,782,000		12,782,000		-
(vii) Investment corporation bonds		41,600,000		41,480,400		(119,600)
(viii) Long-term loans payable		114,372,000		114,372,000		-
Total	¥	<u>168,754,000</u>	¥	<u>168,634,400</u>	¥	<u>(119,600)</u>
(ix) Derivative transactions (*)	¥	<u>(389,386)</u>	¥	<u>(389,386)</u>	¥	<u>-</u>

(*) 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 and derivative transactions

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) Operating accounts receivable, (iv) Short-term loans payable

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

(v) Current portion of investment corporation bonds, (vii) Investment corporation bonds

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

(vi) Current portion of long-term loans payable, (viii) 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.

(ix) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 19.

(2) Information on financial instruments whose fair values are difficult to estimate as of December 31, 2020 and 2019 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
	Carrying amount	
Tenant leasehold and security deposits	¥ 1,040,520	¥ 1,040,520
Tenant leasehold and security deposits in trust	4,356,804	4,681,825
Total	¥ 5,397,324	¥ 5,722,345

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, 2020 and 2019:

As of December 31, 2020	<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
Cash and deposits	¥19,382,911	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	9,171,145	-	-	-	-	-
Operating accounts receivable	672,415	-	-	-	-	-
Total	<u>¥29,225,579</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>

	<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	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2020 and 2019.

	<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, 2020						
Short-term loans payable	¥12,782,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of investment corporation bonds	1,500,000	-	-	-	-	-
Current portion of long-term loans payable	10,800,000	-	-	-	-	-
Investment corporation bonds	-	6,000,000	-	3,000,000	-	31,100,000
Long-term loans payable	-	10,900,000	15,772,000	18,650,000	19,000,000	39,250,000
Total	¥25,082,000	¥16,900,000	¥15,772,000	¥21,650,000	¥19,000,000	¥70,350,000

	<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						
Short-term loans payable	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
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

7. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2020 and 2019 consisted of the following:

	Maturity date	Millions of yen	
		As of December 31, 2020	As of December 31, 2019
		Amount	
Short-term loans payable:			
0.37% Unsecured loan, payable in a lump-sum at maturity	September 30, 2021	¥ 11,747	¥ -
0.31% Unsecured loan, payable in a lump-sum at maturity	September 30, 2021	100	-
0.59% Unsecured loan, payable in a lump-sum at maturity	June 30, 2021	935	-
Sub-total		12,782	-
Long-term loans payable:			
1.15% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2021	¥ 6,800	¥ 6,800
0.92% Unsecured loan, payable in a lump-sum at maturity (*1,2)	September 30, 2020	-	6,055
1.04% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2021	4,000	4,000
0.56% Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	-	935
0.38% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2020	-	4,700
0.90% Unsecured loan, payable in a lump-sum at maturity (*1,2)	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
1.07% 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 (*1,2)	September 29, 2023	892	892
0.77% Unsecured loan, payable in a lump-sum at maturity (*1,2)	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 (*1,2)	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
0.46% 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
0.41% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	1,700	1,700
0.41% 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
0.38% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,500	2,500
0.72% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2027	7,500	7,500
0.82% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2028	18,000	18,000
0.23% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,600	1,600
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2027	5,600	5,600
Sub-total		114,372	127,154
Total of short-term and long-term loans payable		¥ 127,154	¥ 127,154

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2020, 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) JHR made partial early repayment of these loans payable on April 26, 2018.

8. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2020 and 2019 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2020	As of December 31, 2019
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	8,000
Unsecured 12th investment corporation bond (green bonds) at interest rate of 0.40%, due on July 31, 2024	2,000	2,000
Total	¥ 41,600	¥ 41,600

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. For the asset retirement obligations of HOTEL ASCENT Fukuoka, the obligations have been expired with the termination of the fixed-term land leasehold agreement due to the exchange of part of the site as of October 29, 2020.

b. Calculation method of the asset retirement obligations

JHR calculated the amount of asset retirement obligations by estimating the expected periods of use of 34 years and 48 years based on the remaining useful lives of the related buildings and using the discount rates of 0.484% and 0.394%, respectively.

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

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	For the year ended December 31, 2019
Balance at beginning of year	¥ 447,677	¥ 445,622
Adjustment due to accretion expense	1,989	2,054
Decrease due to expiration of asset retirement obligations	(114,505)	-
Balance at end of year	¥ 335,161	¥ 447,677

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, 2020		For the year ended December 31, 2019	
		Total	Per unit	Total	Per unit
I	Unappropriated retained earnings	¥ 1,527,790,689		¥ 15,290,314,375	
II	Reversal of voluntary reserve				
	Reversal of reserve for temporary difference adjustment (*1)	305,694,382	¥ 68	1,176,490,844	¥ 263
	Reversal of reserve for special advanced depreciation(*2)	-	¥ -	1,174,860,958	¥ 263
III	Dividends	1,829,562,270	¥ 410	16,466,060,430	¥ 3,690
IV	Voluntary reserve				
	Provision of reserve for advanced depreciation(*2)	-		1,174,860,958	
V	Retained earnings carried forward (I+II-III-IV)	¥ 3,922,801		¥ 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 the fiscal period ended December 31, 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 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, 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 retirement of noncurrent assets 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.

For the year ended December 31, 2020, reversal of reserve for temporary difference adjustment of ¥305,694,382 has been decided, which is the amount calculated by adding ¥5,701,616 equivalent to loss on retirement of noncurrent assets and ¥37,392,766 equivalent to amortization of trademark rights to ¥262,600,000 of the basic reversal.

(*2) 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, 2020 and 2019 consisted of the following (thousands of yen):

Source	Original amount	Balance as of January 1, 2020	Provision during the year	Reversal during the year	Balance as of December 31, 2020	Rationale for provision or reversal
Dividend reserve	13,127,153	11,794,071	-	1,176,490	10,617,580	Allocation for dividend

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

(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, 2020 and 2019 were as follows:

		<i>Thousands of yen</i>	
		For the year ended December 31, 2020	For the year ended December 31, 2019
Operating revenue:			
Real estate operating revenue:			
Fixed rent	¥	7,640,060	¥ 15,931,097
Variable rent		1,902,240	8,675,885
Income from management contract (*1)		61,423	2,501,004
Sub-total		9,603,724	27,107,988
Other real estate operating revenue:			
Parking lots		116,458	161,660
Other incidental revenue		83,051	63,016
Utilities		546,450	803,012
Other		146,041	142,873
Sub-total		892,001	1,170,561
Total operating revenue		10,495,725	28,278,550
Real estate operating costs:			
Land lease and other rent expenses		890,001	898,207
Property taxes		1,915,565	1,658,930
Outsourcing expenses (*2)		423,852	653,041
Nonlife insurance		67,271	51,030
Depreciation and amortization		4,761,907	4,557,414
Loss on retirement of noncurrent assets		5,701	246,890
Repairs		29,261	41,410
Utilities		559,044	818,290
Trust fees		42,480	44,679
Other		22,245	27,511
Total real estate operating costs		8,717,332	8,997,408
Net real estate operating income	¥	1,778,393	¥ 19,281,141

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 ¥70,119 thousand for the year ended December 31, 2020 and ¥296,029 thousand for the year ended December 31, 2019.

13. Gain on Sale of Real Estate Properties

The components of “Gain on sale of real estate properties” for the year ended December 31, 2020 were as follows:

	<i>Thousands of yen</i>
	<u>For the year ended December 31, 2020</u>
	<u>Sotetsu Fresa Inn Shimbashi- Karasumoriguchi</u>
Proceeds from sale of properties	¥ 8,000,000
Costs of sale of properties	4,790,596
Other selling expenses	51,021
Gain on sale of real estate properties	<u>¥ 3,158,381</u>

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

14. Gain on Exchange of Real Estate Properties

The components of “Gain on exchange of real estate properties” for the year ended December 31, 2020 were as follows:

	<i>Thousands of yen</i>
	<u>For the year ended December 31, 2020</u>
	<u>HOTEL ASCENT FUKUOKA (part of site)</u>
Value of properties transferred for exchange	¥ 523,000
Costs of properties transferred for exchange	333,359
Other transferring expenses	4,915
Gain on exchange of real estate properties	<u>¥ 184,725</u>

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

15. 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, 2020 and 2019 were as follows:

	<i>Thousands of yen</i>	
	<u>As of December 31, 2020</u>	<u>As of December 31, 2019</u>
Buildings in trust	¥ 24,921	¥ 24,921

16. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2020 and 2019 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,696,476	¥ 1,712,010
Amortization of fixed-term leasehold rights	206,151	162,810
Asset retirement obligations	15,530	14,951
Amortization of trademark rights	11,763	-
Deferred losses on hedges	238,937	128,306
Subtotal deferred tax assets	2,168,860	2,018,079
Valuation allowance	(2,168,860)	(2,018,079)
Total deferred tax assets	¥ -	¥ -
Deferred tax liabilities		
Deferred gains on hedges	-	13,981
Total deferred tax liabilities	¥ -	¥ 13,981

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, 2020 and 2019 was as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2019
Effective statutory tax rate	31.46%	31.51%
Deduction for dividends paid	(34.09)	(31.72)
Change in valuation allowance	2.63	0.20
Other – net	0.08	0.03
Actual effective tax rate	0.08%	0.01%

17. Amounts per Unit

Net income per unit for the years ended December 31, 2020 and 2019 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
For the year ended December 31, 2020	Net income	Weighted- average units	Net income per unit
Basic net income per unit - Net income attributable to common unitholders	¥ 1,527,045	4,462,347	¥ 342
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

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, 2020 and 2019.

Net assets per unit as of December 31, 2020 and 2019 were as follows:

	<i>Yen</i>	
	As of December 31, 2020	As of December 31, 2019
Net assets per unit	¥ 49,570	¥ 53,004

18. 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, 2020 and 2019 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2020	As of December 31, 2019
Due within one year	¥ 990,152	¥ 1,459,034
Due after one year	1,213,075	2,106,234
Total	¥ 2,203,227	¥ 3,565,268

19. 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, 2020 and 2019 were as follows:

As of December 31, 2020	Classification	<i>Thousands of yen</i>		
		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	¥ (29,655)

As of December 31, 2019	Classification	<i>Thousands of yen</i>		
		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)

b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting was applied as of December 31, 2020 and 2019 were as follows:

As of December 31, 2020	Method of hedge accounting	Hedged item	<i>Thousands of yen</i>		
			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	¥ 101,072,000	¥ 90,272,000	¥ (759,492)

As of December 31, 2019	Method of hedge accounting	Hedged item	<i>Thousands of yen</i>		
			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)

Notes:

(*1) The contract amounts of the interest rate swap is presented based on the contracted amount or notional principal amounts on the contract, etc. as of the end of the fiscal period. 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.

20. 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, 2020	Net increase (decrease) (*1)	December 31, 2020	December 31, 2020
Hotels	¥ 374,314,498	¥ (7,030,802)	¥ 367,283,696	¥ 493,330,000

Notes:

(*1) Decrease during 2020 principally represents the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (¥4,790 million) and recording of depreciation.

(*2) Fair value of properties as of December 31, 2020 is generally the appraisal value determined by outside licensed real estate appraisers.

	<i>Thousands of yen</i>			
	Carrying amount			Fair value (*2)
	January 1, 2019	Net increase (decrease) (*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.

Real estate operating revenue and costs for the years ended December 31, 2020 and 2019 related to the rental properties were as follows:

<i>Thousands of yen</i>			
For the year ended December 31, 2020			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 10,495,725	¥ 8,717,332	¥ 1,778,393

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

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.

21. 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, 2020 and 2019

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, 2020 and 2019

(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, 2020>

<i>Thousands of yen</i>	<i>Operating revenue</i>	
Name of customer	Segment	
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 1,990,793
THE DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management	Undisclosed (*2)

<For the year ended December 31, 2019>

<i>Thousands of yen</i>	<i>Operating revenue</i>	
Name of customer	Segment	
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 15,221,983
AAPC Japan K.K.	Hotel real estate investment and management	¥ 2,996,251

Note:

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

(*2) Undisclosed as the consent on disclosure has not been obtained from the lessee.

22. Subsequent Events

Issuance of new investment units

JHR resolved to issue new investment units by way of third-party allotment at the Board of Directors meeting held on March 4, 2021. Payment for the new investment units was completed on March 16, 2021, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital stands at ¥187,194,209,409, with the number of investment units issued and outstanding at 4,467,006 units.

(1) Issuance of new investment units (third-party allotment)

Number of investment units issued:	4,659 units
Paid-in amount (issue value):	¥64,400 per unit
Total paid-in amount (total issue value):	¥300,039,600
Payment date:	March 16, 2021
Allottee:	SC J-REIT Investments GK

(2) Use of proceeds

JHR plans to allocate the proceeds from the issuance of new investment units by way of third-party allotment of ¥300,039,600 to part of the funds for capital expenditures.



Independent auditor's report

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

Opinion

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2020 and 2019, the statements of income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Supervisory directors are responsible for overseeing the executive director's performance of his duties including the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the executive director regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the executive director with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with him all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

畑岡 哲 

Satoshi Hataoka

Designated Engagement Partner

Certified Public Accountant

橋本 宏徳 

Hironori Hashizume

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

April 15, 2021