



**Japan Hotel REIT Investment Corporation**  
(TSE: 8985)

## **Midterm Financial Results** **FY12/2019 (20th Period)**



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

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

August 22, 2019

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# **I . Midterm Settlement of Accounts for FY12/2019**

## **- Highlights**

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# 1. Highlights of Midterm for FY12/2019

## 1. External Growth(\*1)

### ► Strategic property replacement

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

#### ◆ Public Offering in June Acquisition in 2017

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

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

#### ◆ Sale of Properties in August Sale in 2018

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

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

#### ◆ Public Offering in January Acquisition in 2019

2019	Acquired <b>2</b> properties/ JPY <b>65.1</b> Bn	Total Acquisition Price	Total Funds Raised through Public Offerings
		JPY <b>65.1</b> Bn	JPY <b>33.3</b> Bn

Hilton Tokyo Odaiba  
Hotel Oriental Express  
Osaka Shinsaibashi



As of August 22, 2019 **43** properties/JPY**374.5**Bn

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

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

#### ◆ RevPAR and GOP

		Full Year			First Half			Second Half		
		2018	2019 (forecast)	Variance	2018	2019	Variance	2018	2019 (forecast)	Variance
RevPAR (JPY)	21 hotels with variable rent, etc.	13,833	13,940	+0.8%	12,817	12,765	(0.4%)	14,831	15,097	+1.8%
	11 HMJ Hotels	15,957	15,951	(0.0%)	14,552	14,453	(0.7%)	17,338	17,425	+0.5%
GOP (JPY MM)	21 hotels with variable rent, etc.	17,911	17,898	(0.1%)						
	11 HMJ Hotels	13,950	13,864	(0.6%)						

## 3. Strengthening of Financial Base

### ► Conservative financial management

(as of the end of June 2019)

LTV(*5)	Costs for Interest-Bearing Debt	Average Life of Debt
40.6%	1.1%	5.3 years

#### ◆ Status of Credit Rating

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

### ◆ Diversified funding methods by issuance of investment corporation bonds

- Issuance of investment corporation bonds for individual investors (The fourth time) (June 2019) Total JPY8Bn
- Issuance of investment corporation bonds (Green Bonds) (The first time as J-REITs specializing in hotels) (July 2019) Total JPY2Bn  
⇒ The proceeds will be allocated to the funds for repayment of procured fund for renovation of Oriental Hotel Fukuoka Hakata Station and the funds for construction for renovation, etc. of other hotels

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

(\*2) 11 HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA), Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara.

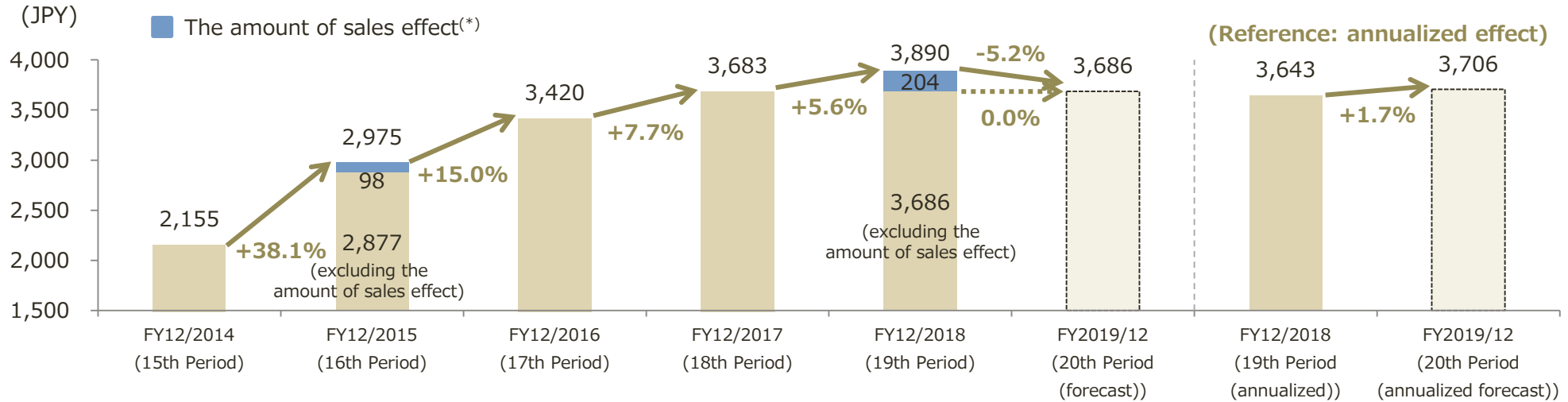
(\*3) 21 hotels with variable rent, etc. are HMJ 11 Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b ikebukuro, the b hachioji, the b hakata and the b suidobashi.

(\*4) Oriental Hotel Fukuoka Hakata Station is excluded from the 21 hotels with variable rent, etc. as major renovation works with suspension of its hotel operation was implemented from October 2018 to April 8, 2019.

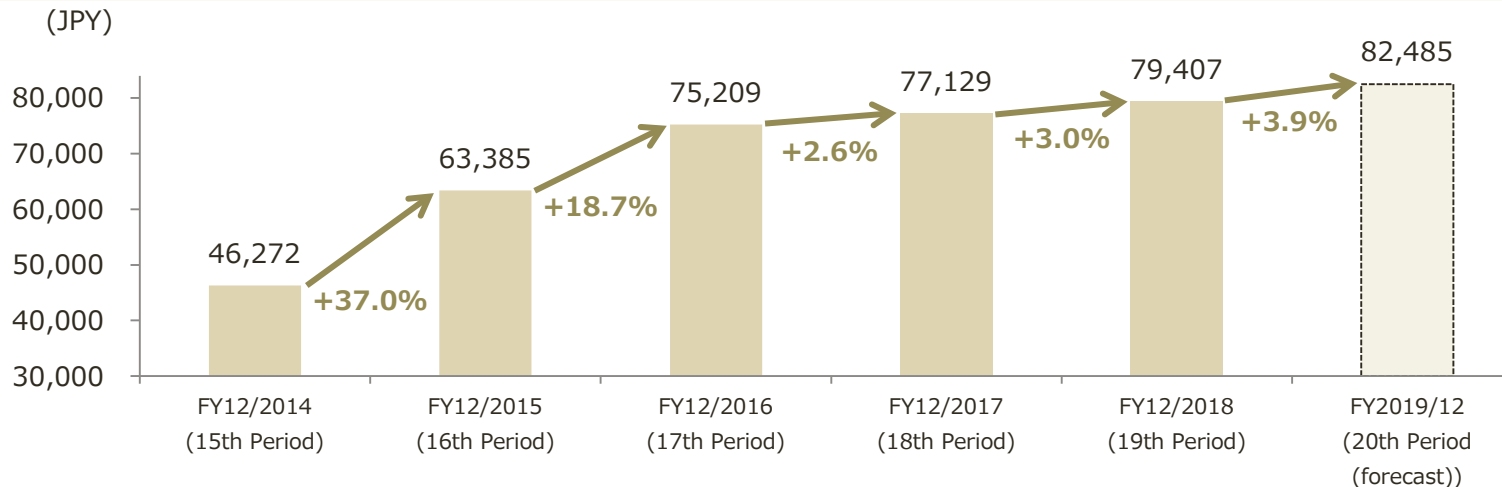
(\*5) Stating LTV by total asset for the end of December 2019 (forecast).

# 1. Highlights of Midterm for FY12/2019 (cont.)

## Dividends Per Unit Growth



## NAV Per Unit Growth



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

## **II . Summary of Midterm Settlement of Accounts and Revenue Forecast for the Full Fiscal Year**

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# 1. Midterm Results for the Fiscal Year Ending December 2019

(Unit: JPY MM)

		FY12/2018 (19th Period)	FY12/2019 (20th Period)	Variance		Breakdown of Variance		
		Actual (A)	Actual <sup>(*)</sup> (B)	(B)–(A)	%	Three Properties Sold in 2018 <sup>(*)</sup>	Two Properties Acquired in 2019 <sup>(*)</sup>	Existing Properties
Properties	No. of Properties	44	43	(1)	–			
	Acquisition Price	319,474	374,508	55,034	–			
Profit and Loss	Operating Revenue	12,321	12,719	398	3.2%	(229)	762	(134)
	Real Estate Operating Revenue	12,321	12,719	398	3.2%	(229)	762	(134)
	Fixed Rent, etc.	60.3% 7,430	63.8% 8,113	683	9.2%	(163)	762	84
	Variable Rent	39.7% 4,891	36.2% 4,606	(284)	(5.8%)	(65)	–	(219)
	NOI <sup>(*)</sup>	10,294	10,679	384	3.7%	(207)	759	(167)
	Depreciation	2,031	2,165	133		(25)	64	95
	Asset Retirement Obligations Expenses	1	1	0		–	–	0
	Loss on Retirement of Noncurrent Assets	11	218	207		–	–	207
	NOI after Depreciation <sup>(*)</sup>	8,250	8,294	44	0.5%	(181)	695	(470)
	Other Operating Expenses	930	1,001	70				
	Operating Income	7,319	7,293	(26)	(0.4%)			
	Non-Operating Income	28	9	(18)				
	Non-Operating Expenses	959	948	(11)				
	Ordinary Income	6,387	6,354	(33)	(0.5%)			
	Net Income	6,387	6,353	(33)	(0.5%)			

## Major Causes of Variance of Existing Properties

### Fixed rent, etc.

• Increase of rent from hotels	JPY56 MM
• Increase of rent from office and commercial tenants, etc.	JPY23 MM
• Utilities income, etc.	JPY4 MM
<b>(total)</b>	<b>JPY84 MM</b>

### Variable rent

• Variable rent from the 21 hotels with variable rent, etc.	JPY(20) MM
• Revenue sharing, etc.	JPY(39) MM
• Impact on suspension of the sales due to major renovation at Oriental Hotel Fukuoka Hakata Station	JPY(159) MM
<b>(total)</b>	<b>JPY(219) MM</b>

(\*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2019 (January 1, 2019–December 31, 2019) dated August 22, 2019.

(\*2) Each is calculated using the following formula:  
 NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses  
 NOI after depreciation = Real estate operating revenue – Real estate operating costs

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

(\*4) Representing Hilton Tokyo Odaiba and Hotel Oriental Express Osaka Shinsaibashi which JHR acquired in FY12/2019 (20th Period).

## 2. Revenue Forecast for the Full Year Ending December 2019

(Unit: JPY MM)

		FY12/2018 (19th Period)	FY12/2019 (20th Period)			(reference)		Breakdown	
		Actual (A)	Previous Forecast <sup>(*)2</sup> (A)	Forecast This Time (B)	Forecast This Time (Annualized Effect)			(B)-(A)	%
Propert ies	No. of Properties	41	43	43	43			-	
	Acquisition Price	309,370	374,508	374,508	374,508			-	
Profit and Loss	Operating Revenue	28,253	28,876	28,666	29,527			(210)	(0.7%)
	Real Estate Operating Revenue	26,318	28,876	28,666	29,527			(210)	(0.7%)
	Fixed Rent, etc.	56.2% 14,788	58.8% 16,989	59.7% 17,102	60.8% 17,945			112	0.7%
	Variable Rent	43.8% 11,529	41.2% 11,886	40.3% 11,563	39.2% 11,582			(323)	(2.7%)
	Gain on Sale of Properties, etc.	1,934	-	-	-			-	-
	NOI	22,104	24,498	24,298	24,827			(200)	(0.8%)
	NOI Yield	7.1%	6.5%	6.5%	6.6%			(0.1%)	
	NOI after Depreciation	17,974	19,584	19,411	19,853			(173)	(0.9%)
	NOI Yield after Depreciation	5.8%	5.2%	5.2%	5.3%			(0.0%)	
	Other Operating Expenses	1,916	2,213	2,183	2,248			(29)	-
	Operating Income	17,993	17,371	17,227	17,604			(143)	(0.8%)
	Non-Operating Income	31	0	9	9			9	
	Non-Operating Expenses	1,813	2,096	1,962	1,940			(134)	
	Ordinary Income	16,211	15,274	15,274	15,673			0	0.0%
	Extraordinary Income	-	-	-	-			-	
	Extraordinary Losses and Corporate Tax	1	1	1	1			-	
	Net Income	16,210	15,273	15,273	15,672			0	0.0%
Dividend	Use of Negative Goodwill	563	1,177	1,177	867			-	-
	Reserve for Special Advanced Depreciation	(1,174)	-	-	-			-	-
	Total Dividends	15,602	16,448	16,448	16,537			0	0.0%
	Number of Units Issued (Unit)	4,010,847	4,462,347	4,462,347	4,462,347			-	-
	Dividend per Unit (JPY)	3,890	3,686	3,686	3,706			-	-

### Major Causes of Variance

#### Fixed rent, etc.

- Increase of rent from hotels JPY100 MM
  - Increase of rent from office and commercial tenants, etc. JPY8 MM
  - Utilities income, etc. JPY3 MM
- (total) JPY112 MM**

#### Variable rent

- Variable rent from the 21 hotels with variable rent, etc. JPY(373) MM
  - Oriental Hotel Fukuoka Hakata Station JPY75 MM
  - Revenue sharing, etc. JPY(24) MM
- (total) JPY(323) MM**

### Use of Negative Goodwill<sup>(\*)3</sup>

#### FY12/2018

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

#### FY12/2019

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

(\*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2019 (January 1, 2019–December 31, 2019) dated August 22, 2019.

(\*2) Stating the figures of forecast announced in Financial Report for the Fiscal Year Ended December 31, 2018 (January 1, 2018–December 31, 2018) dated February 20, 2019.

(\*3) Please refer to P.26 for the use of negative goodwill (reserve for temporary difference adjustment).

### 3. Balance Sheet

(Unit: JPY MM)

	FY12/2018 End of Fiscal Year 2018.12.31	FY12/2019 End of Midterm 2019.6.30	Variance
(as of)			
<b>ASSETS</b>			
<b>Current Assets</b>	<b>40,266</b>	<b>27,855</b>	<b>(12,411)</b>
Cash and Deposits <sup>(*)1</sup>	37,184	24,811	(12,372)
Operating Accounts Receivables	2,474	1,795	(679)
Others	607	1,248	640
<b>Noncurrent Assets</b>	<b>309,993</b>	<b>377,752</b>	<b>67,758</b>
Net Property and Equipment	272,889	340,542	67,652
Buildings in Trust <sup>(*)2</sup>	107,874	118,416	10,542
Land in Trust	163,151	219,893	56,742
Others <sup>(*)3</sup>	1,864	2,231	367
Intangible Assets	33,915	33,851	(64)
Other Assets	3,188	3,358	169
Leasehold and Security Deposits	162	162	–
Others	3,025	3,195	169
<b>Deferred Assets</b>	<b>296</b>	<b>411</b>	<b>114</b>
<b>TOTAL ASSETS</b>	<b>350,556</b>	<b>406,018</b>	<b>55,461</b>

	FY12/2018 End of Fiscal Year 2018.12.31	FY12/2019 End of Midterm 2019.6.30	Variance
(as of)			
<b>LIABILITIES</b>			
<b>Current Liabilities</b>	<b>17,020</b>	<b>18,086</b>	<b>1,065</b>
Operating Accounts Payable	1,941	1,572	(368)
Short-Term Loans Payable	–	900	900
Current Portion of Investment Corporate Bonds Payable	2,000	–	(2,000)
Current Portion of Long-Term Loans Payable	11,117	13,709	2,592
Accounts Payable	1,028	606	(422)
Advances Received	882	895	13
Others	52	402	350
<b>Long-Term Liabilities</b>	<b>130,163</b>	<b>160,911</b>	<b>30,747</b>
Investment Corporation Bonds	31,600	39,600	8,000
Long-Term Loans Payable	91,954	114,162	22,208
Tenant Leasehold and Security Deposits	5,634	5,717	83
Derivative Liabilities	514	983	469
Others	460	447	(12)
<b>TOTAL LIABILITIES</b>	<b>147,184</b>	<b>178,997</b>	<b>31,812</b>
<b>NET ASSETS</b>			
Unitholders' Capital	153,516	186,894	33,378
Capital Surplus	21,746	21,746	–
Reserve for Temporary Difference Adjustment	12,357	11,794	(563)
Reserve for Special Account for Tax Purpose Reduction Entry	–	1,174	1,174
Unappropriated Retained Earnings	16,213	6,353	(9,859)
Others	(461)	(941)	(480)
<b>TOTAL NET ASSETS</b>	<b>203,372</b>	<b>227,021</b>	<b>23,648</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>350,556</b>	<b>406,018</b>	<b>55,461</b>

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

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

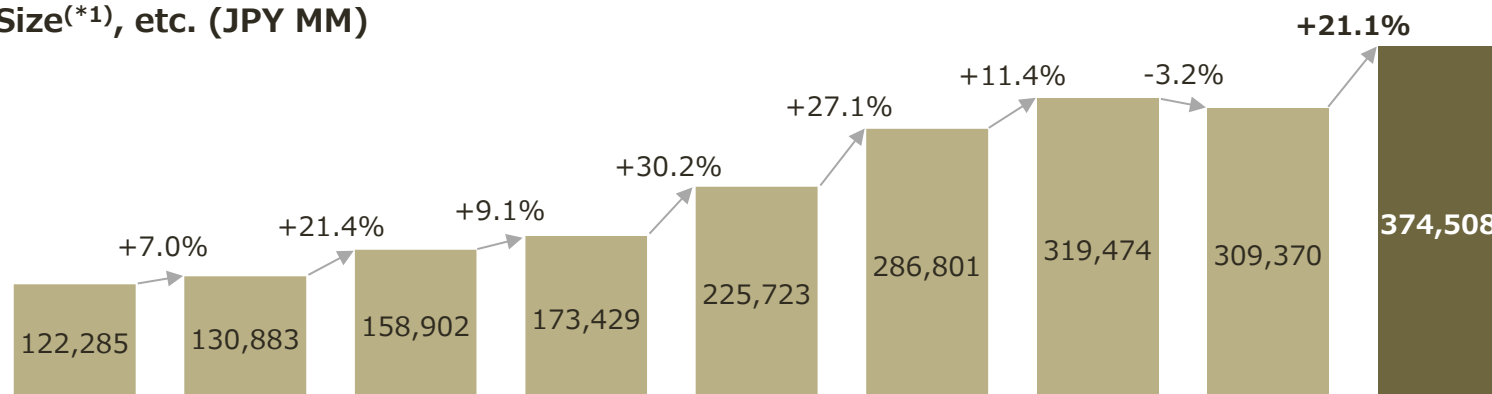
(\*)3 The sum of machinery and equipment, tools, furniture and fixtures, and construction in progress.

### **III. External Growth**

# 1. Successive External Growth

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

## Growth in Asset Size<sup>(\*1)</sup>, etc. (JPY MM)



	April 2012 (merger)	FY12/2012 (13th Period)	FY12/2013 (14th Period)	FY12/2014 (15th Period)	FY12/2015 (16th Period)	FY12/2016 (17th Period)	FY12/2017 (18th Period)	FY12/2018 (19th Period)	FY12/2019 (20th Period) (annualized effect)
NOI Yield <sup>(*2)</sup>	–	6.2%	6.2%	6.3%	6.6%	6.6%	6.7%	7.1%	6.5% (6.6%)
NOI Yield after Depreciation <sup>(*2)</sup>	–	4.5%	4.8%	5.0%	5.3%	5.4%	5.5%	5.8%	5.2% (5.3%)
NAV per Unit	–	JPY32,321	JPY36,074	JPY46,272	JPY63,385	JPY75,209	JPY77,129	JPY79,407	JPY82,485
No. of Properties	28	28	28	30	36	41	44	41	43
No. of Acquisition		2	2	3	9	5	3		2
Acquisition Price		JPY10.8Bn	JPY32.6Bn	JPY15.7Bn	JPY57.0Bn	JPY61.0Bn	JPY32.6Bn		JPY65.1Bn
No. of Dispositions		2	2	1	3			3	
Sale Price		JPY0.8Bn	JPY2.6Bn	JPY0.7Bn	JPY4.8Bn			JPY12.1Bn	

Aim for  
Successive  
Growth

(\*1) Asset size is based on the aggregate acquisition price of the properties at the end of each fiscal period.

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

## 2. Two New Properties Acquired in 2019

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

### Hilton Tokyo Odaiba

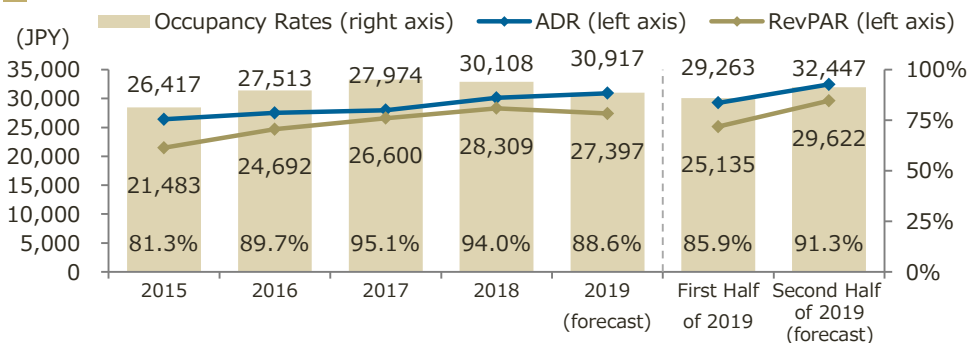


- ◆ Located in "Osaka Minami" area, one of Kansai's foremost tourist destinations
- ◆ Can accommodate two or more person in all guest rooms

### Hotel Oriental Express Osaka Shinsaibashi

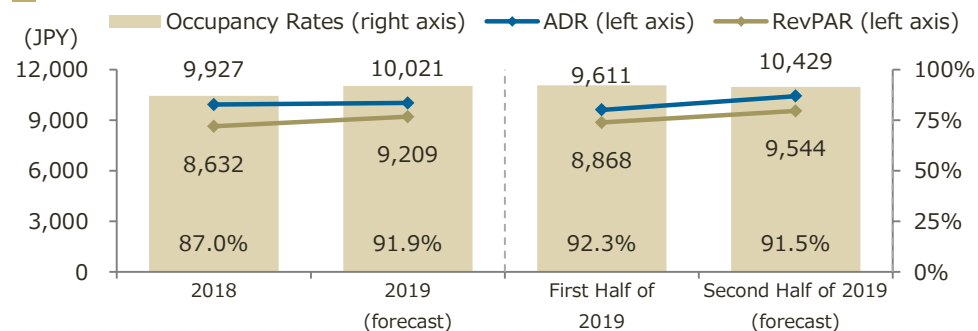


### Changes in Major Indicators<sup>(\*2)</sup>



	2016	2017	2018	2019
GOP (JPY MM)	-	2,625	3,097	2,768
% of Inbound Visitors <sup>(*3)</sup>	43.0%	55.5%	54.0%	48.5%

### Changes in Major Indicators<sup>(\*2)</sup>



	2018	2019
GOP (JPY MM)	104	175
% of Inbound Visitors <sup>(*3)</sup>	94.5%	97.8%

(<sup>\*1</sup>) Based on the acquisition price.

(<sup>\*2</sup>) All the data is obtained from the current tenant and is unaudited basis. ADR and RevPAR include service charge. The data is not necessarily calculated by accounting treatment, etc. adopted by JHR. JHR and Japan Hotel REIT Advisors Co., Ltd. (hereinafter called "JHRA") cannot guarantee accuracy of the numbers. As Hotel Oriental Express Osaka Shinsaibashi opened in April 2018, the figures for 2018 state the figures from April to December 2018.

(<sup>\*3</sup>) Guest room sales by inbound visitors are calculated based on numbers of guest rooms sold. Percentage of inbound visitors for 2019 states the actual figures for the first half.

## **IV. Portfolio**

# 1. Portfolio

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

## Portfolio Summary

(as of August 22, 2019)

### Total Assets

JPY**374.5**Bn

### No. of Hotels

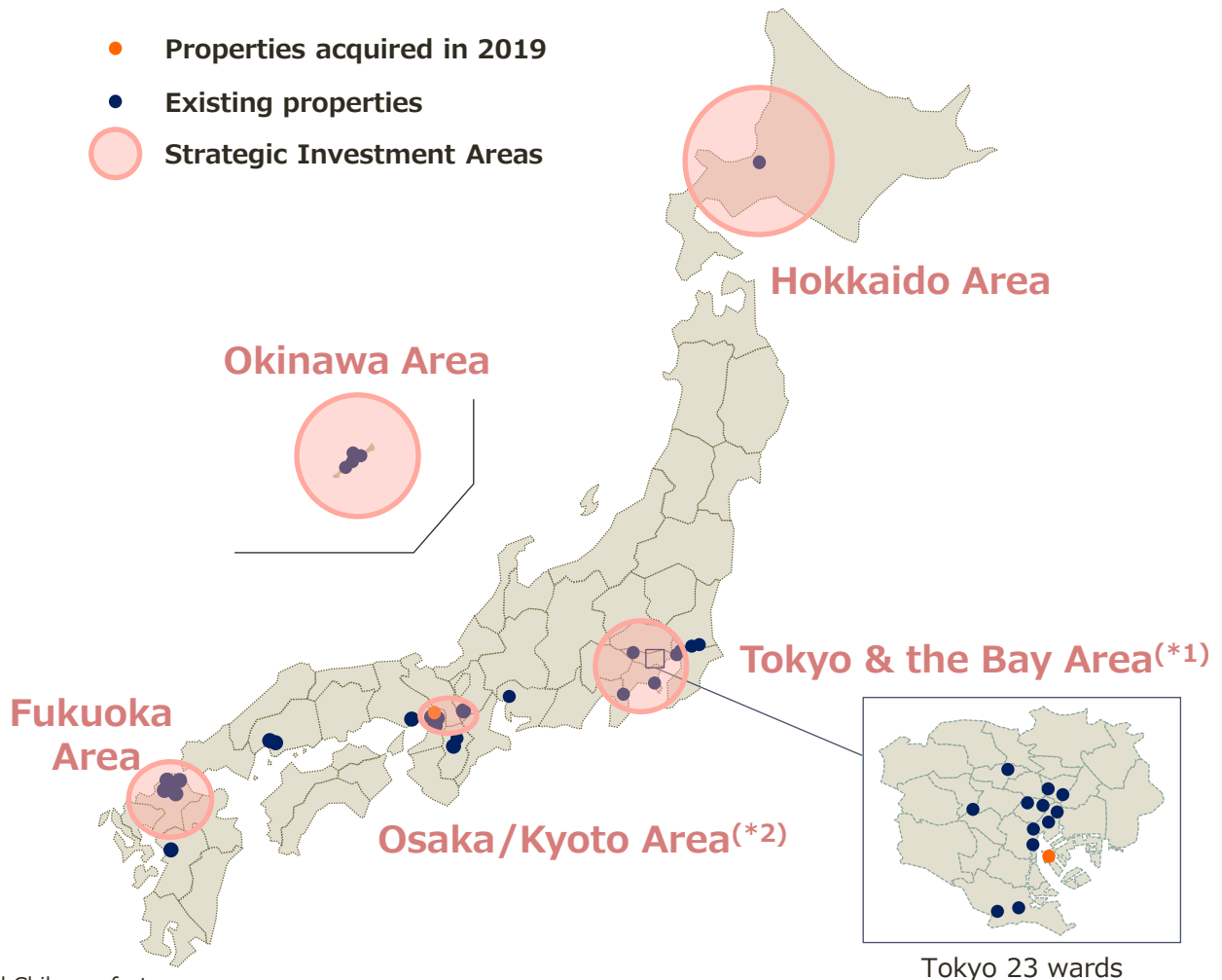
**43** Hotels

(**34** in Strategic Investment Areas)

### No. of Guest Rooms

**11,701** Rooms

## Strategic Investment Areas and Locations of Properties



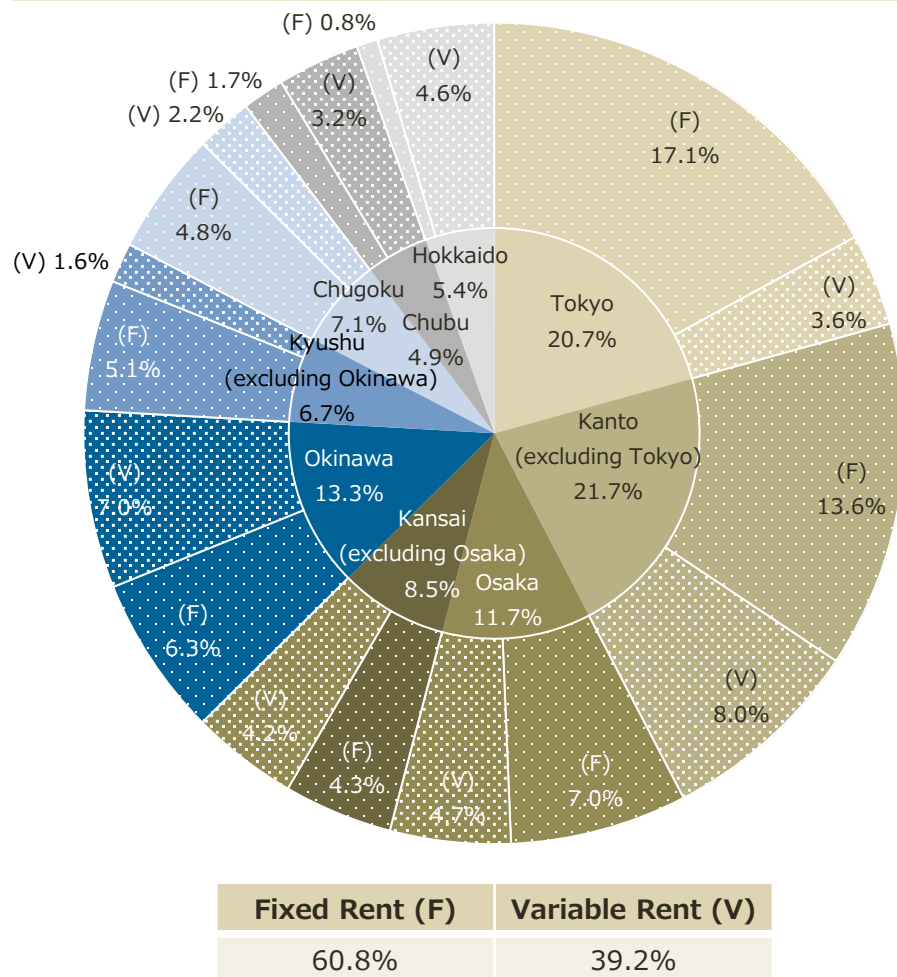
(\*1) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.

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

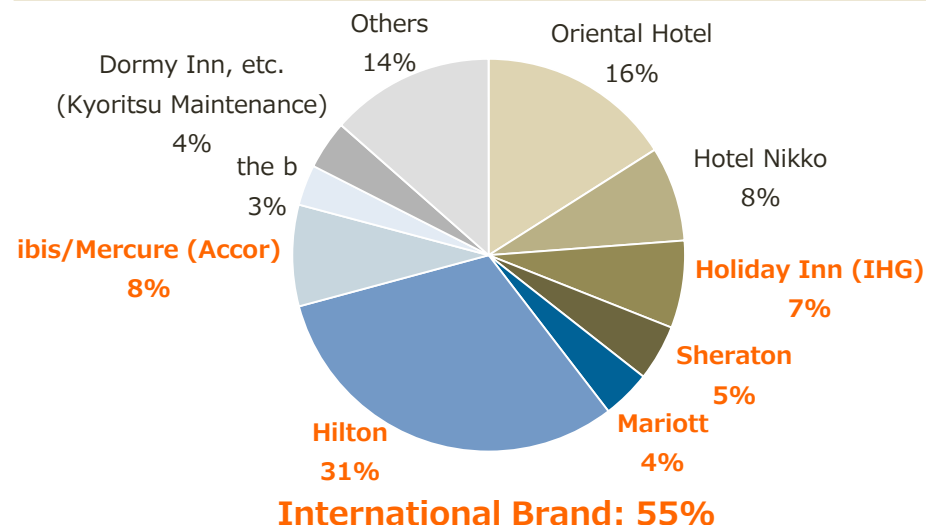
## 2. Portfolio Diversification

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

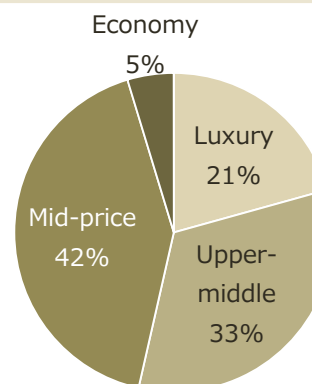
**By Area and Rent(\*1)**



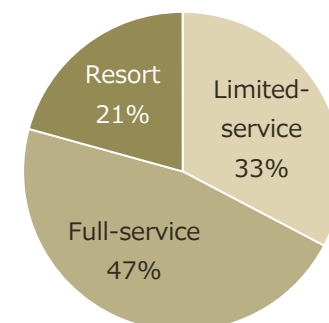
**By Hotel Brand(\*2)**



**By Grade(\*2)**



**By Hotel Type(\*2)**



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

(\*2) Based on the acquisition price.

**V. Internal Growth**

# 1. Rent Structures

Stability



Upside

(FY12/2019 forecast)

Rent Structure <sup>(*)</sup>		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable rent	Variable rent	Management contract	Total
Type of Contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of Rent	Fixed	○	○	○	–	–	–
	Variable	–	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	A certain percentage of hotel revenue or hotel GOP	Hotel GOP	–
Real Estate Operating Revenue (%) (annualized forecast for FY12/2019)		JPY2,796MM (9.5%)	JPY3,794MM (12.8%)	JPY17,862MM (60.5%)	JPY1,877MM (6.4%)	JPY3,197MM (10.8%)	JPY29,527MM (100.0%)
(breakdown)	Fixed Rent, etc. <sup>(*)</sup> (%)	JPY2,796MM (9.5%)	JPY3,383MM (11.5%)	JPY10,770MM (36.5%)	JPY535MM (1.8%)	JPY459MM (1.6%)	JPY17,945MM (60.8%)
	Variable Rent (%)	–	JPY411MM (1.4%)	JPY7,091MM (24.0%)	JPY1,341MM (4.5%)	JPY2,738MM (9.3%)	JPY11,582MM (39.2%)
Involvement in Hotel Operation		Low	Low	High	High	High	–
CAPEX Paid by JHR		1) Renewal of building and facilities	1) Renewal of building and facilities <3) Strategic investment>	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	–
No. of Properties		11	6	18	3	5	43
Acquisition Price (%)		JPY37,300MM (10.0%)	JPY44,216MM (11.8%)	JPY245,628MM (65.6%)	JPY17,723MM (4.7%)	JPY29,640MM (7.9%)	JPY374,508MM (100.0%)
Hotels		The Beach Tower Okinawa Hotel Francs CANDEO HOTELS UENO-KOEN HOTEL ASCENT FUKUOKA And other hotels	Hilton Tokyo Bay Hotel Keihan Universal City Sotetsu Fresa Inn Shimbashi-Karasumoriguchi Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo Comfort Hotel Tokyo Higashi Nihombashi	The Twelve HMJ Hotels <sup>(*)</sup> the b ikebukuro the b hachioji the b hakata the b suidobashi <Acquisition in 2019> <b>Hilton Tokyo Odaiba</b> <b>Hotel Oriental Express Osaka Shinsaibashi</b>	Hilton Nagoya Mercure Yokosuka Chisun Inn Kamata	ibis Tokyo Shinjuku ibis Styles Kyoto Station ibis Styles Sapporo Mercure Sapporo Mercure Okinawa Naha	–

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

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

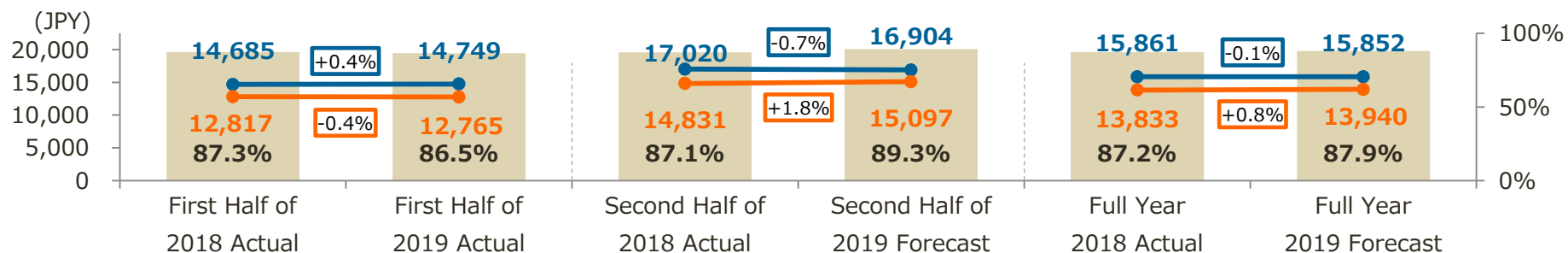
(\*)3) The Twelve HMJ Hotels are 11 HMJ Hotels plus Oriental Hotel Fukuoka Hakata Station.

## 2. Performance of the 21 Hotels with Variable Rent, etc.

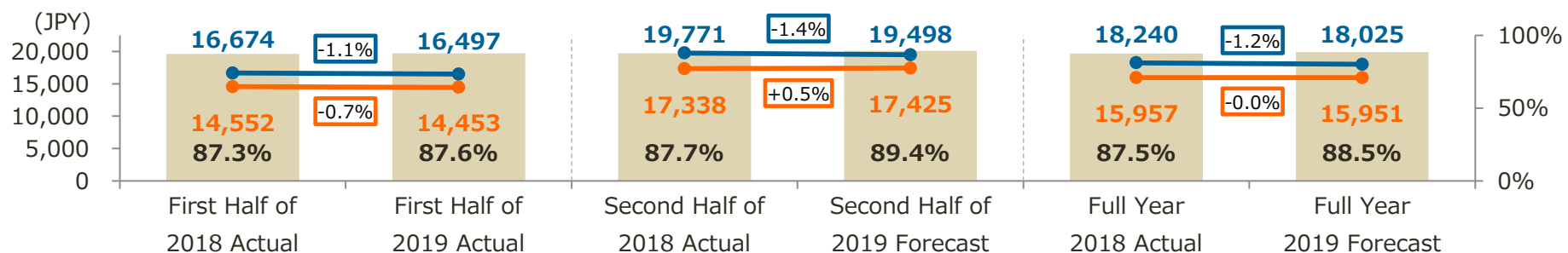
### Performance and Forecast of Major Indicators

Occupancy (right axis) ADR (left axis) RevPAR (left axis)

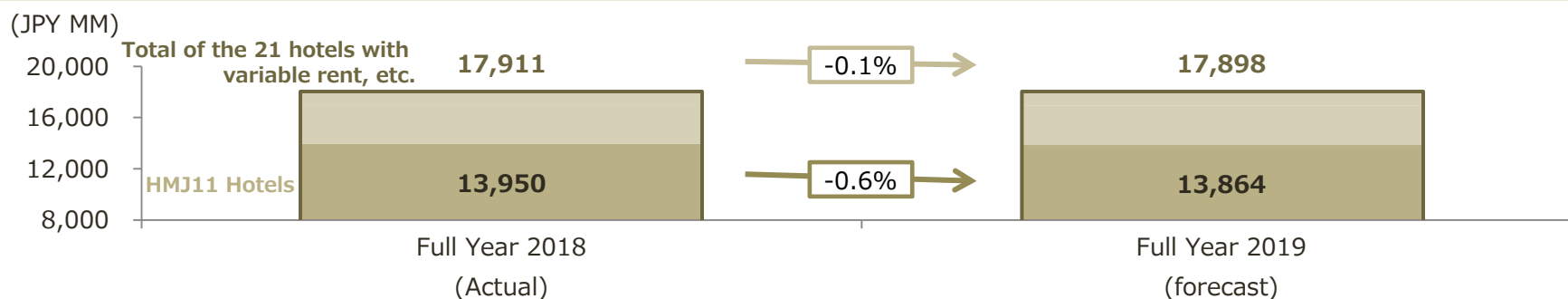
#### Total of the 21 Hotels with Variable Rent, etc.



#### HMJ11 Hotels

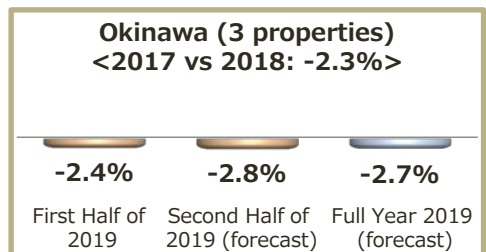
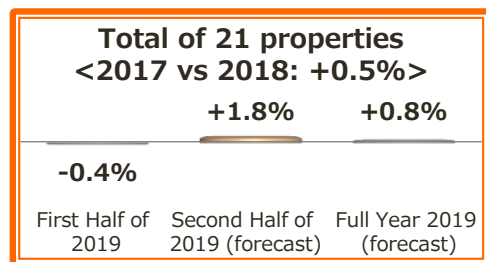


### Performance and Forecast of GOP

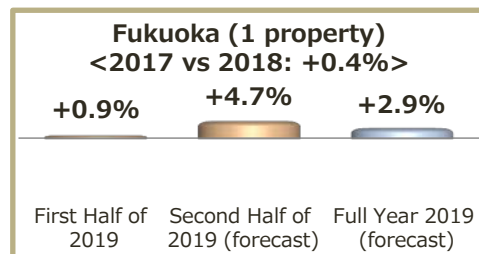


### 3. RevPAR Variance to Previous Year by Region of the 21 Hotels with Variable Rent, etc. (2019)

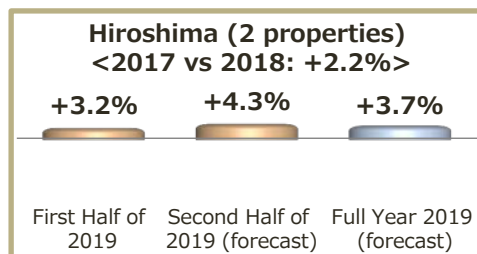
- ◆ Diverse Portfolio
- ◆ Growth in RevPAR was achieved in many major cities



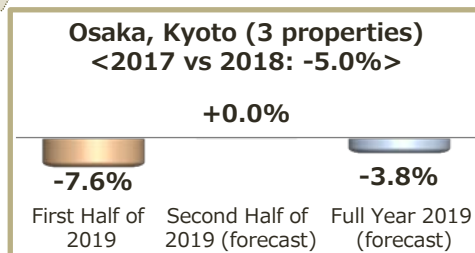
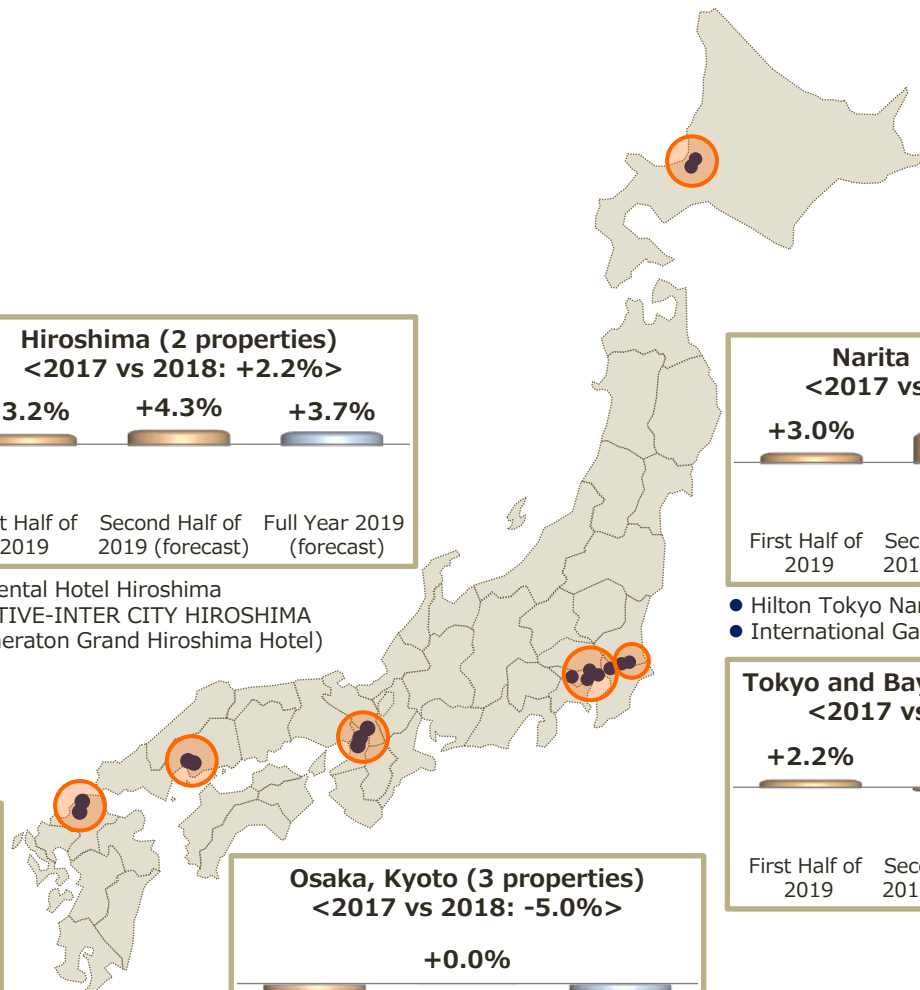
- Hotel Nikko Alivila
- Okinawa Marriott Resort & Spa
- Mercure Okinawa Naha



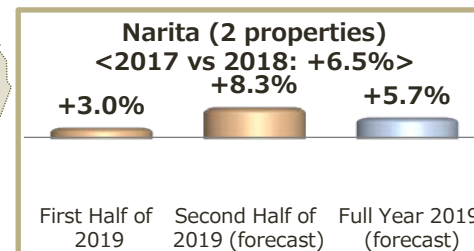
- the b hakata



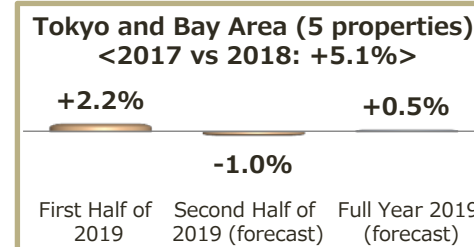
- Oriental Hotel Hiroshima
- ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)



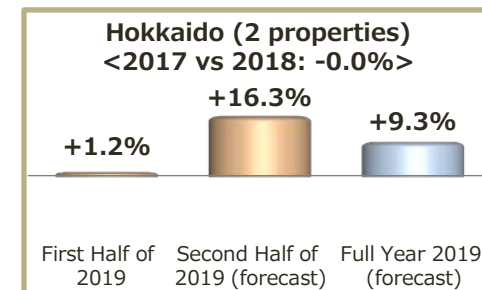
- Namba Oriental Hotel
- Holiday Inn Osaka Namba
- ibis Styles Kyoto Station



- Hilton Tokyo Narita Airport
- International Garden Hotel Narita



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



- ibis Styles Sapporo
- Mercure Sapporo

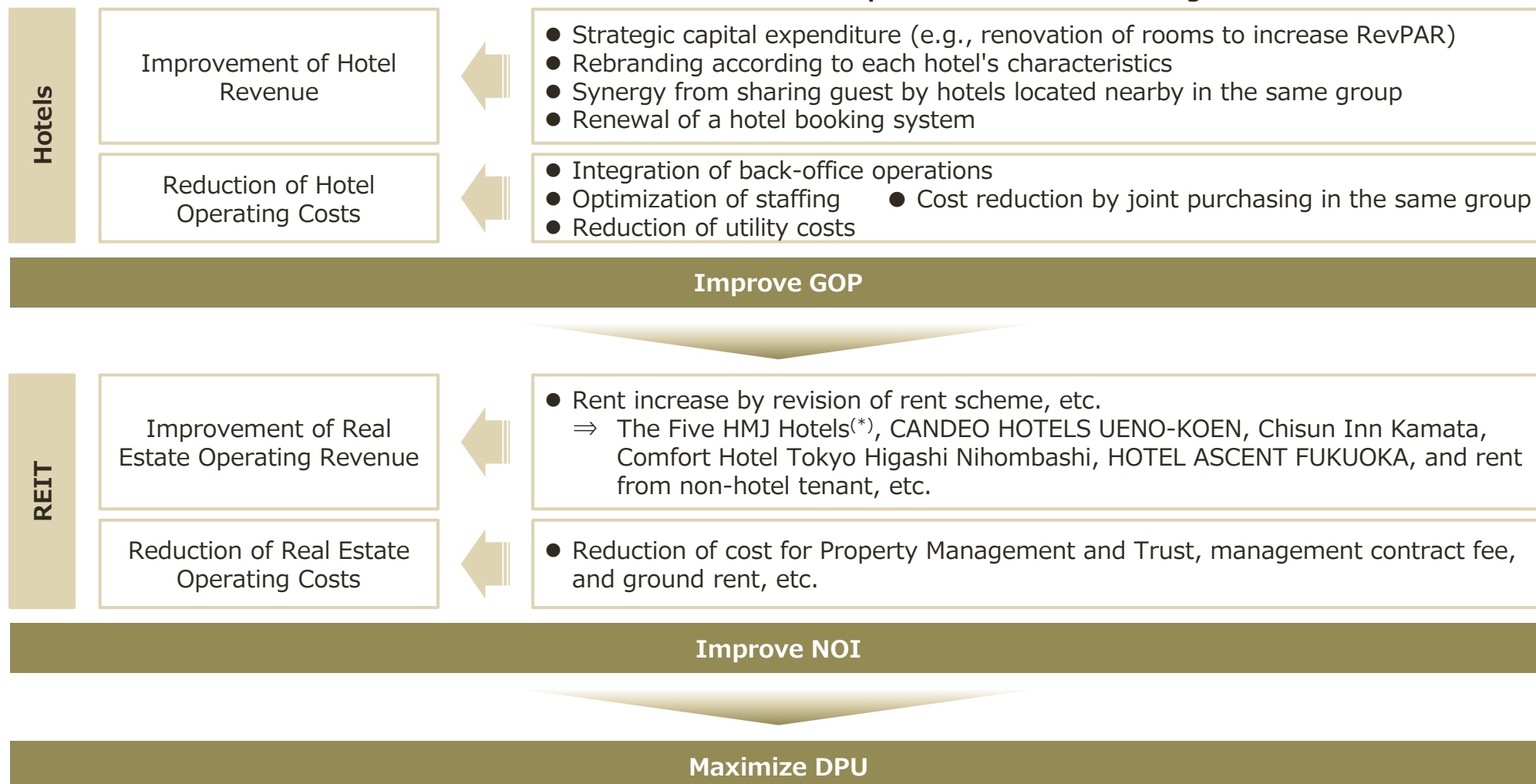
(\*) Stating major hotels in each area out of the 21 hotels with variable rent, etc.

● Properties owned by JHR

# 4. Active Asset Management

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

## Examples of Active Asset Management



(\*) The Five HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima.

## 4. Active Asset Management (cont.)

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

### Rebranded and Reopened Oriental Hotel Fukuoka Hakata Station (April 2019)

#### ● Overview

Rebranded and reopened on April 9, 2019 after the six-month renovation from October 2018

Investment: JPY3.1Bn

- Increased in guest rooms (+27 rooms) and made all rooms types double room or larger
- Established a 24 hour gym and converted a pool area into a rooftop garden
- Established a smoking area and smoking is banned within the building
- Enhanced convenience by consolidating back offices into one space

#### ● Effects of Renovation

- ADR Improvement: +41.7% compared to the figures before renovation (Full year for 2019 (forecast): JPY18,882)
- Becoming a more attractive hotel by step up to a higher grade (Upper middle)

<Before>



<After>



<Before>



<After>



<Before>



<After>



## 4. Active Asset Management (cont.)

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

### Okinawa Marriott Resort & Spa Renovation of Restaurant

#### ● Renovation of All Day Dining "ALL STAR BUFFET"

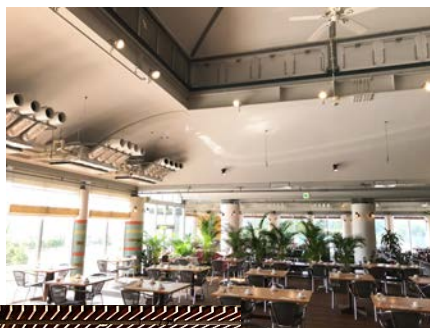
May 7, 2019–July 15, 2019 (Reopen on July 20, 2019)

Capital expenditure: JPY142MM

- Elimination of deterioration (building age: 14 years)
- Consolidated buffet tables to one location and increased the number of seats (200 seats ⇒ 343 seats)
- Promoting barrier-free operations by eliminating steps

#### ● Cost reduction, Revenue Increase and Increase of customer satisfaction

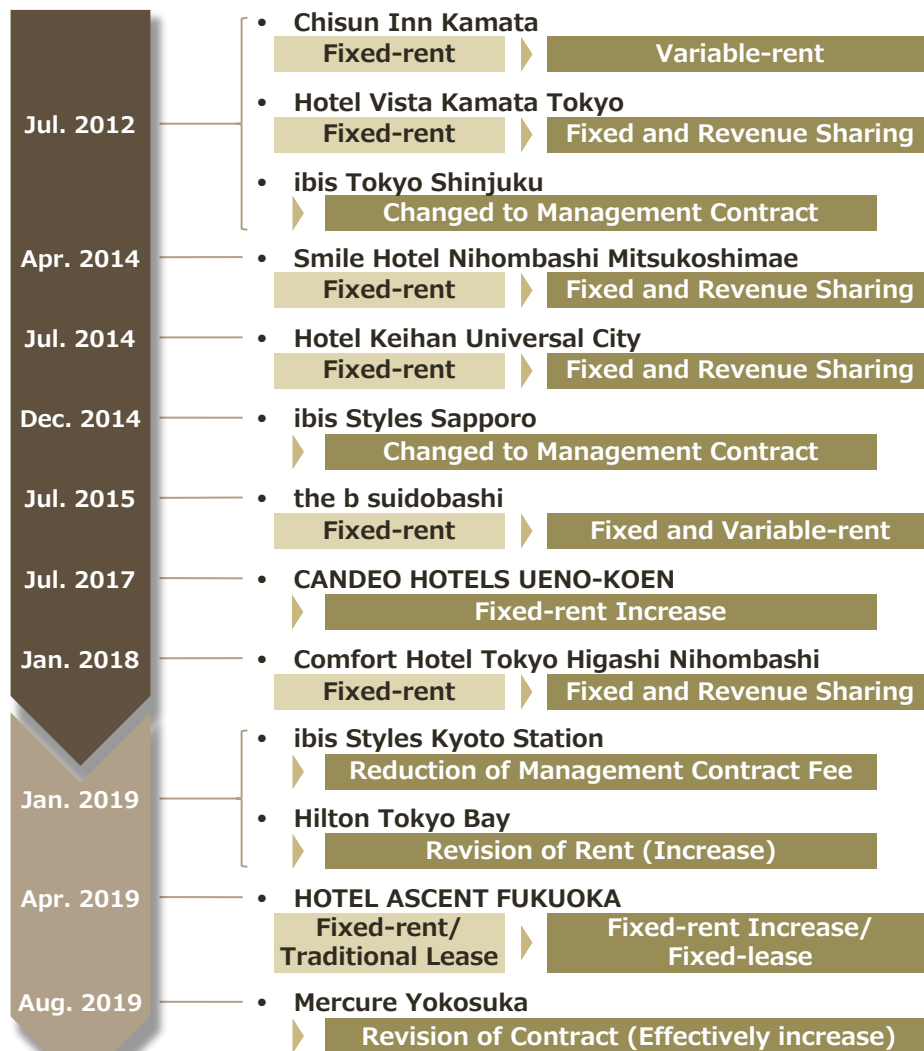
<Before>



<After>

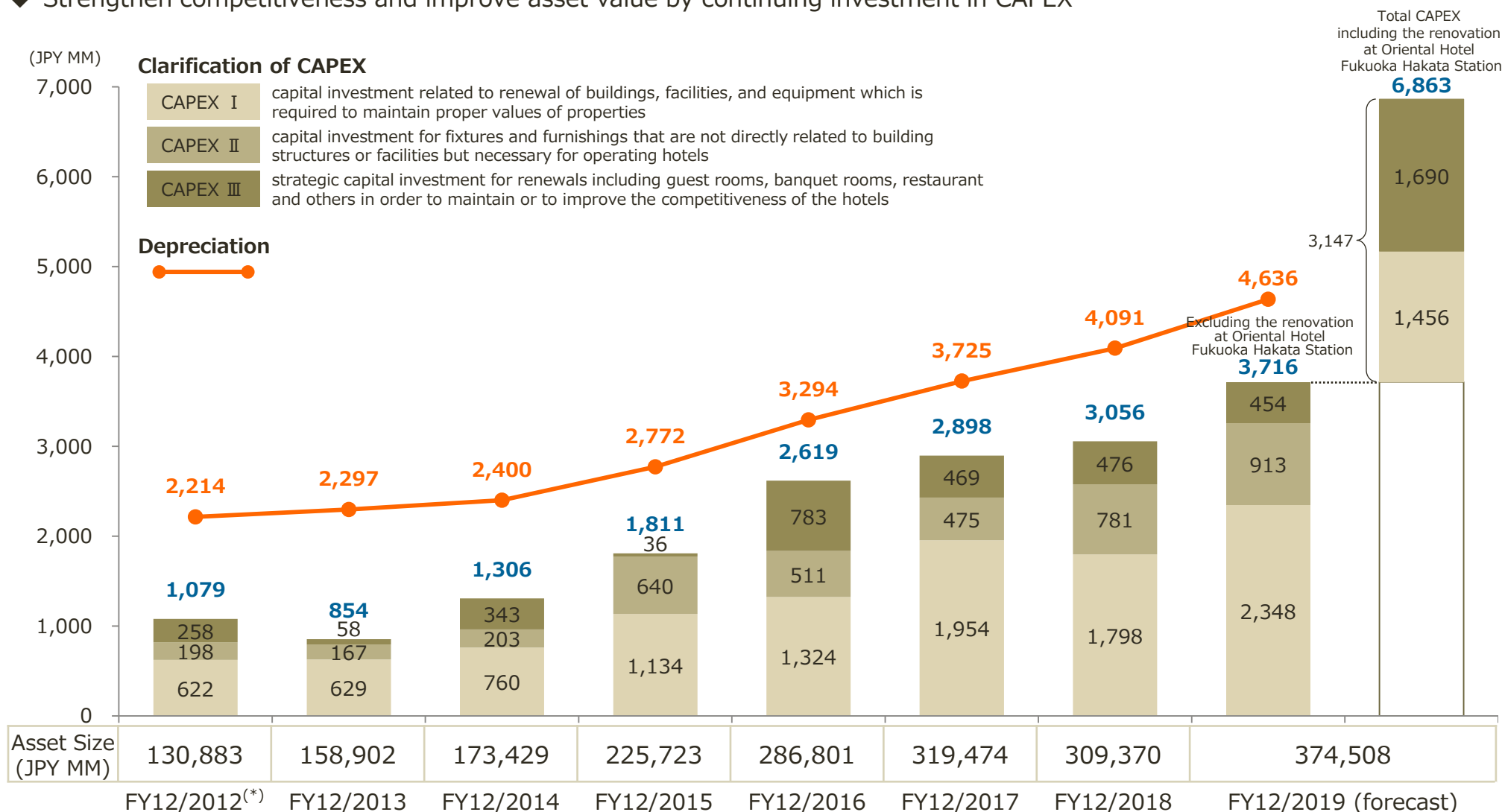


### Track Record of Rent Scheme Revision



# 5. Capital Expenditures and Depreciation

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

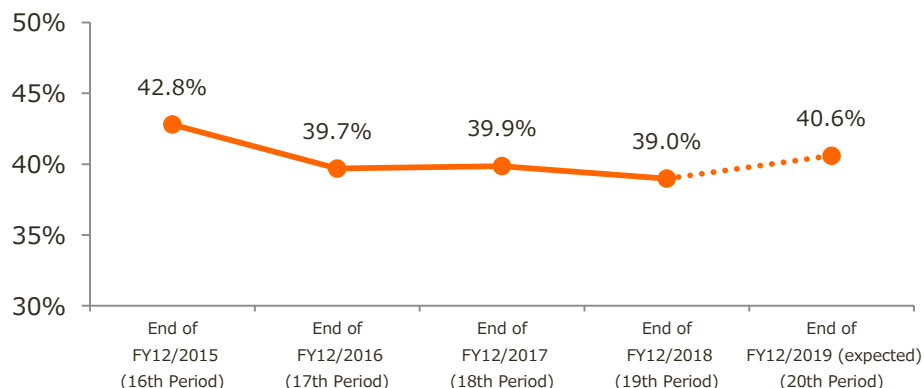


(\*) Since FY12/2012 is irregular nine months period, the numbers for capital expenditure in FY12/2012 are the accumulated actual numbers from January to December, 2012. On the other hand, the number for depreciation is the annualized number.

## **VI. Financial Conditions**

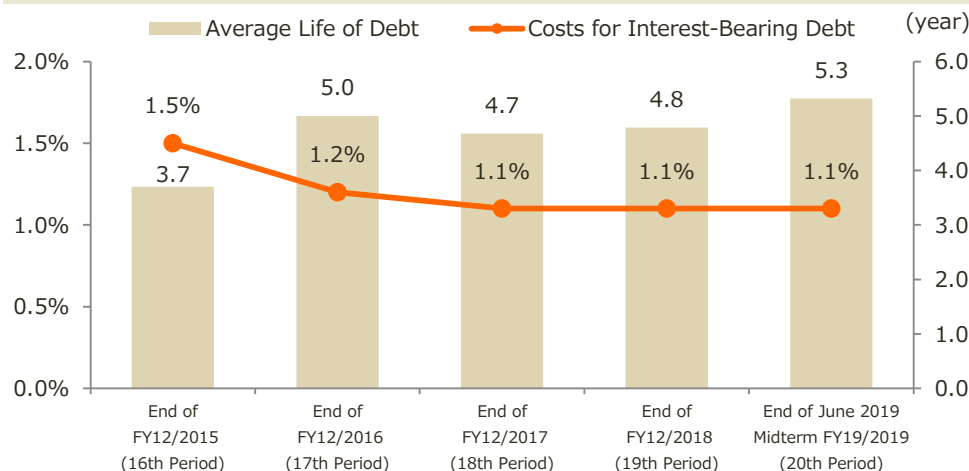
# 1. Financial Conditions

## Changes in LTV (total asset base)



(\*) LTV as of the end of each period/year. LTV for the end of June 2019 was 41.5%.

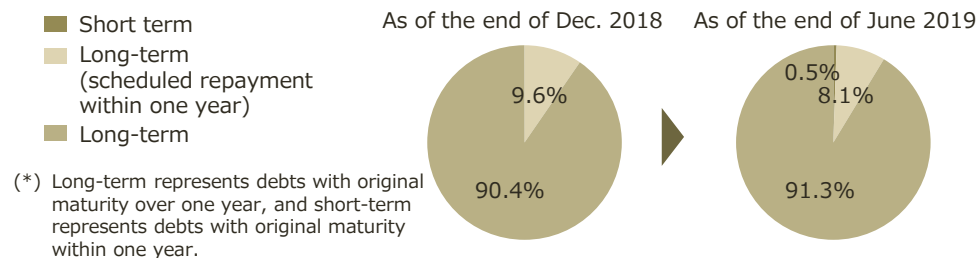
## Changes in Costs for Interest-Bearing Debt<sup>(\*1)</sup> and Average Life of Debt<sup>(\*2)</sup>



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

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

## Term of Interest-Bearing Debt

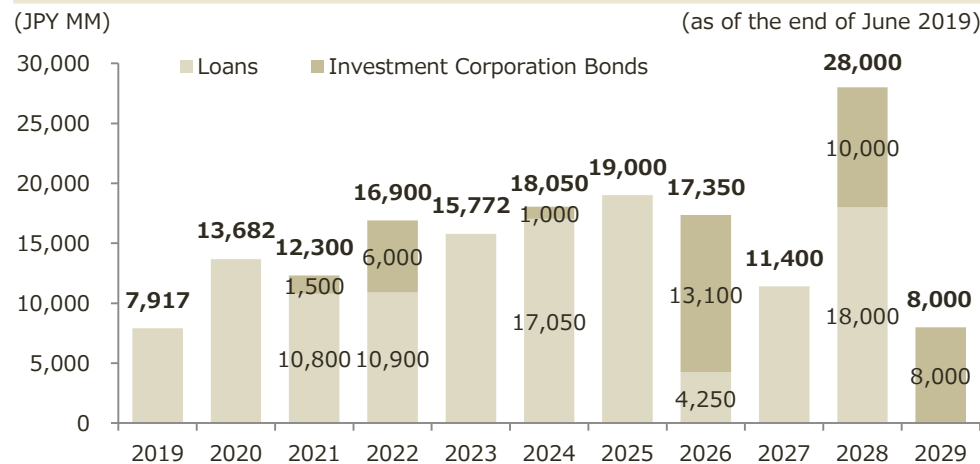


(\*) Long-term represents debts with original maturity over one year, and short-term represents debts with original maturity within one year.

## Fixed Interest Rate Ratio



## Repayment Schedule of Interest-Bearing Debt



# 1. Financial Conditions (cont.)

## Lender List for Interest-Bearing Debt

(Unit: JPY MM)

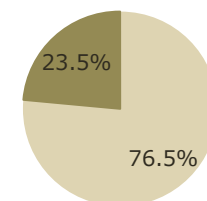
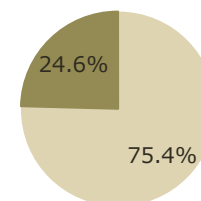
Lenders/Bond Name	Balance (as of the end of Dec. 2018)		Balance (as of the end of Jun. 2019)		Variance
	Balance	%	Balance	%	
Sumitomo Mitsui Banking Corporation	26,431	19.3%	32,851	19.5%	6,420
Shinsei Bank, Ltd.	15,035	11.0%	19,285	11.5%	4,250
Mizuho Bank, Ltd.	15,030	11.0%	18,800	11.2%	3,770
Sumitomo Mitsui Trust Bank, Limited	10,540	7.7%	14,040	8.3%	3,500
Resona Bank, Limited	9,360	6.8%	10,360	6.2%	1,000
Development Bank of Japan Inc.	3,780	2.8%	5,550	3.3%	1,770
Fukuoka Bank, Ltd.	3,610	2.6%	5,450	3.2%	1,840
The Nomura Trust and Banking Co., Ltd.	4,190	3.1%	4,160	2.5%	(30)
MUFG Bank, Ltd.	4,135	3.0%	4,135	2.5%	-
The Nishi-Nippon City Bank, Ltd.	1,600	1.2%	3,550	2.1%	1,950
Aozora Bank, Ltd.	2,435	1.8%	3,435	2.0%	1,000
The Chiba Bank, Ltd.	2,670	2.0%	2,900	1.7%	230
Hiroshima Bank, Ltd.	2,927	2.1%	1,927	1.1%	(1,000)
Sompo Japan Nipponkoa Insurance Inc.	828	0.6%	1,828	1.1%	1,000
The Shizuoka Bank, Ltd.	500	0.4%	500	0.3%	0
<b>Total of Bank Loans</b>	<b>103,071</b>	<b>75.4%</b>	<b>128,771</b>	<b>76.5%</b>	<b>25,700</b>
<b>Investment Corporation Bonds (for institutional investors)</b>					
3rd Investment Corporation Bonds without Collateral	2,000	1.5%	-	-	(2,000)
4th Investment Corporation Bonds without Collateral	1,500	1.1%	1,500	0.9%	-
6th Investment Corporation Bonds without Collateral	3,000	2.2%	3,000	1.8%	-
8th Investment Corporation Bonds without Collateral	1,100	0.8%	1,100	0.7%	-
9th Investment Corporation Bonds without Collateral	1,000	0.7%	1,000	0.6%	-
<b>Total of Investment Corporation Bonds (for institutional investors)</b>	<b>8,600</b>	<b>6.3%</b>	<b>6,600</b>	<b>3.9%</b>	<b>(2,000)</b>
<b>Investment Corporation Bonds (for individual investors)</b>					
5th Investment Corporation Bonds without Collateral	6,000	4.4%	6,000	3.6%	-
7th Investment Corporation Bonds without Collateral	9,000	6.6%	9,000	5.3%	-
10th Investment Corporation Bonds without Collateral	10,000	7.3%	10,000	5.9%	-
11th Investment Corporation Bonds without Collateral	-	-	8,000	4.8%	8,000
<b>Total of Investment Corporation Bonds (for individual investors)</b>	<b>25,000</b>	<b>18.3%</b>	<b>33,000</b>	<b>19.6%</b>	<b>8,000</b>
<b>Total of Investment Corporation Bonds</b>	<b>33,600</b>	<b>24.6%</b>	<b>39,600</b>	<b>23.5%</b>	<b>6,000</b>
<b>Total of Interest-Bearing Debt</b>	<b>136,671</b>	<b>100.0%</b>	<b>168,371</b>	<b>100.0%</b>	<b>31,700</b>

## Breakdown of Interest-Bearing Debt

As of the end of Dec. 2018

As of the end of June 2019

Loans  
Investment  
Corporation Bonds



## Status of Credit Rating

Japan Credit Rating Agency, Ltd.  
(JCR)

**A+** (stable)

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

**A** (stable)

## Status of Reserve for Special Advanced Depreciation

- ◆ A part of gain on sale of three properties sold in 2018 are retained as reserve for special advanced depreciation

Reserve for special  
advanced depreciation

**JPY1,174MM**

# 1. Financial Conditions (cont.)

## Negative Goodwill

### <Policy for Use of Negative Goodwill>

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

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

### <Amount used in FY12/2018>

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

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

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

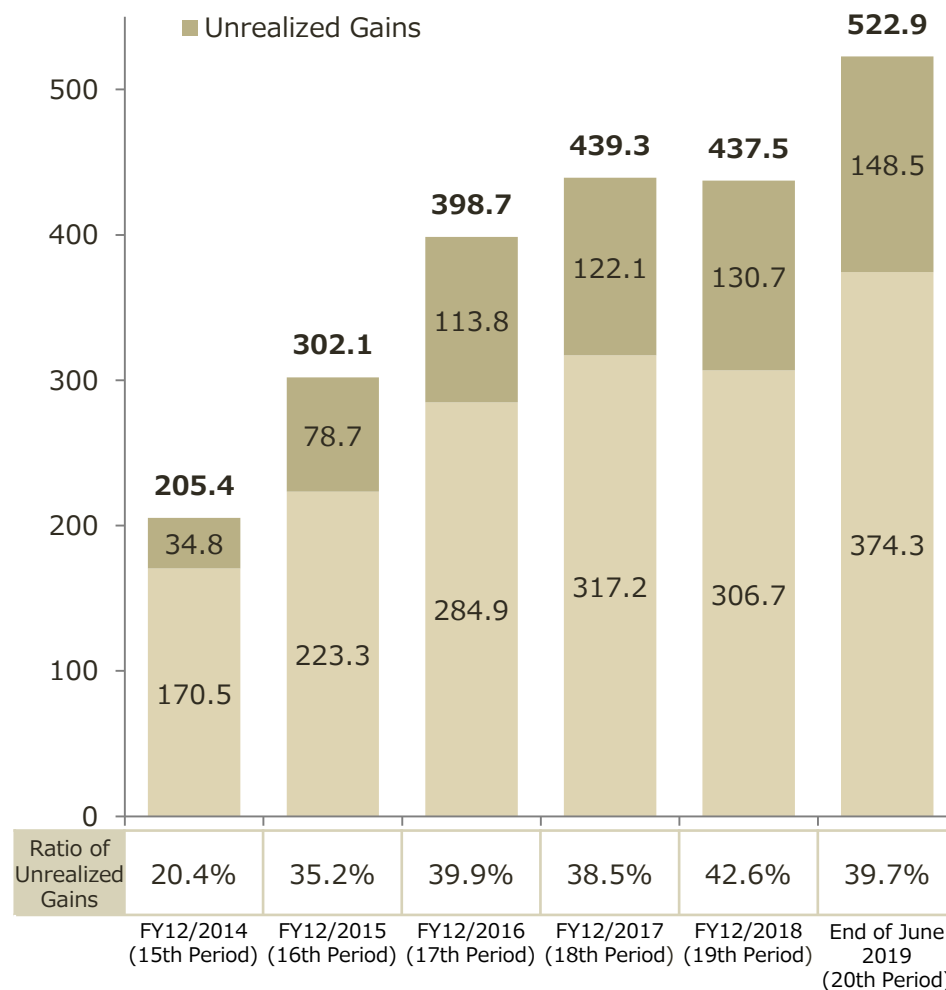
<b>Balance of Negative Goodwill after the end of December 2019 (forecast)</b>	<b>JPY10,616MM</b>
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(\*) The "50-year amortization amount of negative goodwill" includes amortization, etc. of fixed-term leasehold of land, asset retirement obligations, etc. of Oriental Hotel Fukuoka Hakata Station and HOTEL ASCENT FUKUOKA, which were purchased in the year ended December 2016 (17th Period).

## Changes in Appraisal Value (Unrealized Gains)

(JPY: Bn)

■ Book Value  
■ Unrealized Gains



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

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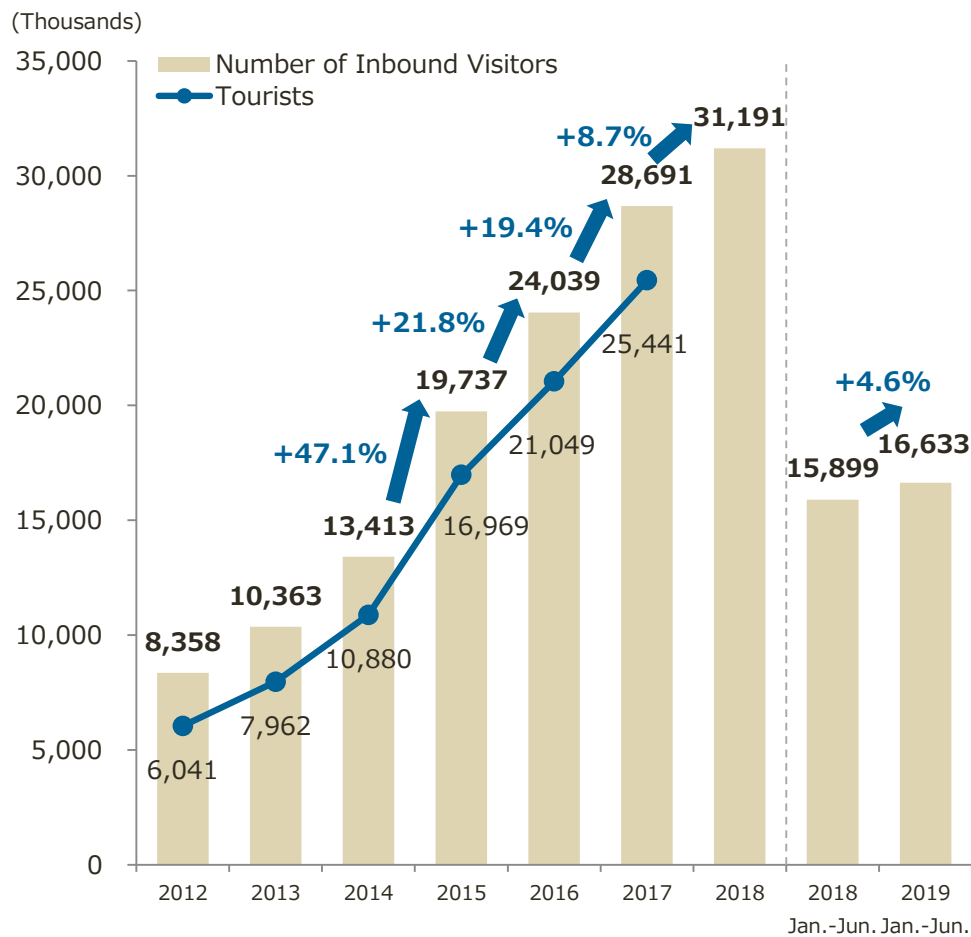
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## **VII. Market Environment**

# 1. Market Environment (cont.)

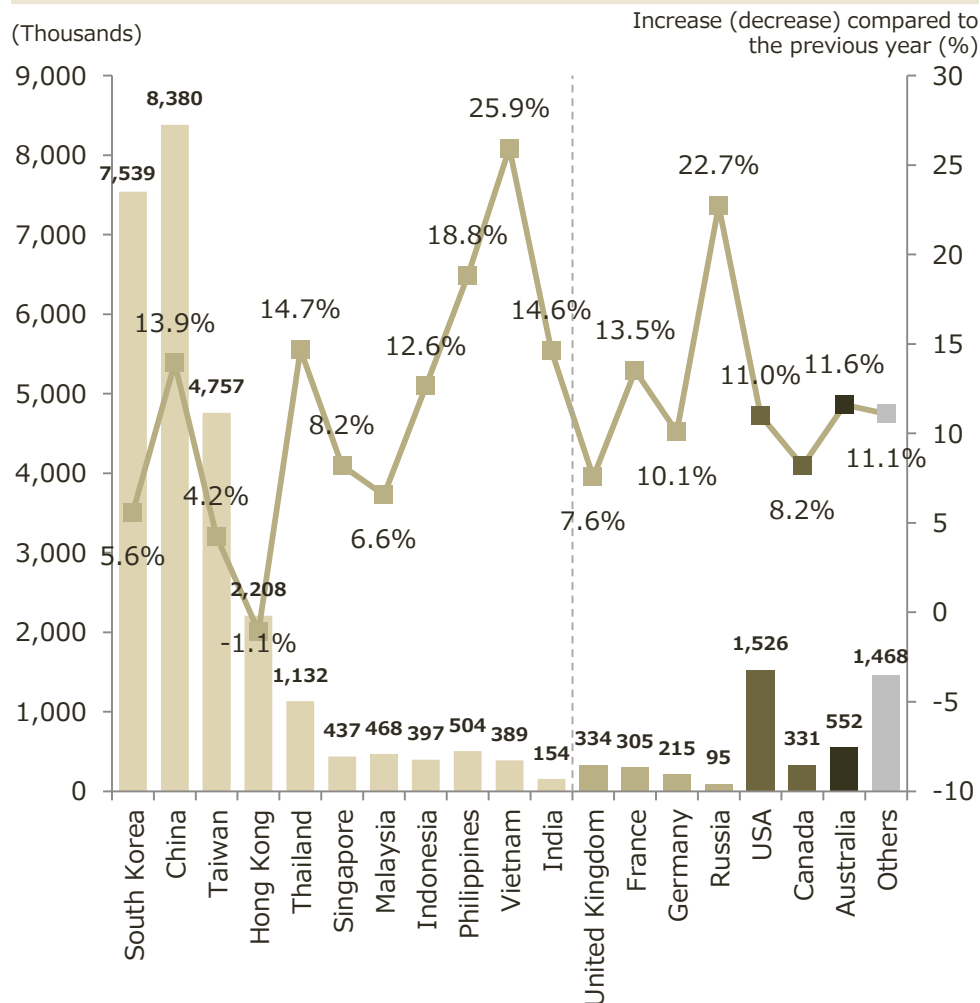
- ◆ The number of inbound continues to increase  
the government's target: 40 million in 2020, 60 million in 2030

## Changes in Number of Inbound Visitors



- ◆ Approximately 86% inbound visitors are from Asian countries
- ◆ Double-digit growth in inbound visitors from Europe, USA and Australia

## Inbound Visitors by Country in 2018

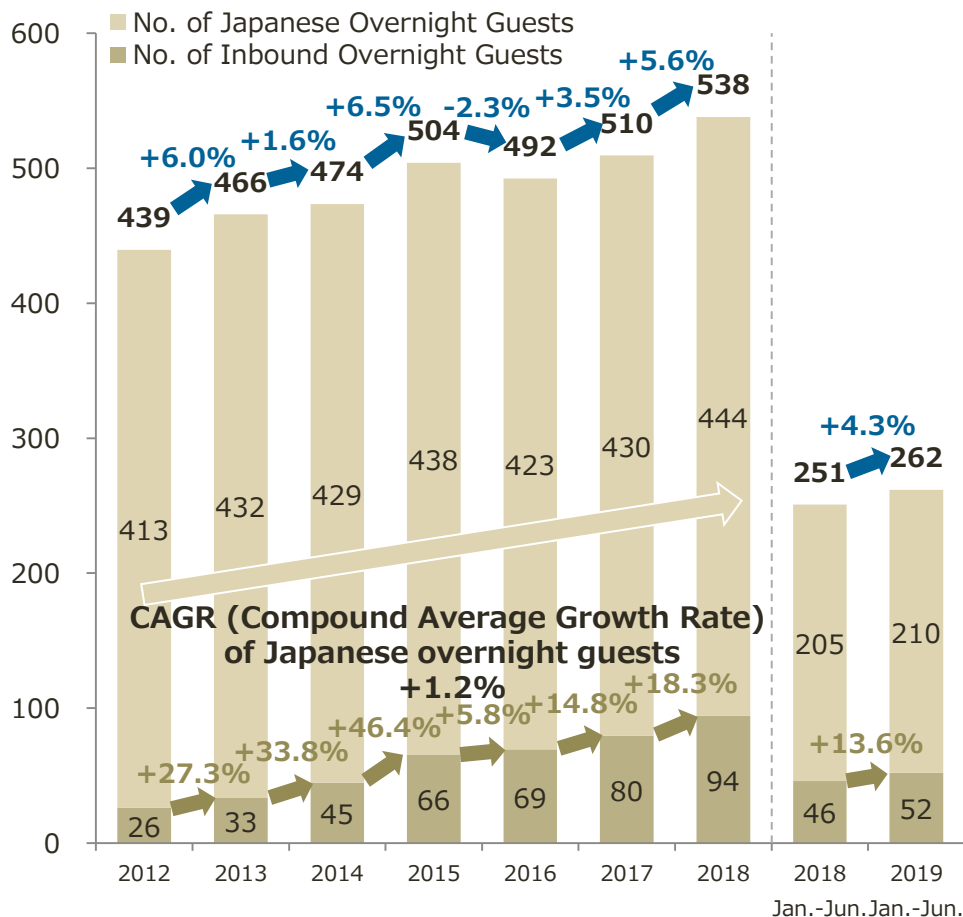


# 1. Market Environment

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

## Changes in Number of Overnight Guests in Japan

(Guest nights in millions)



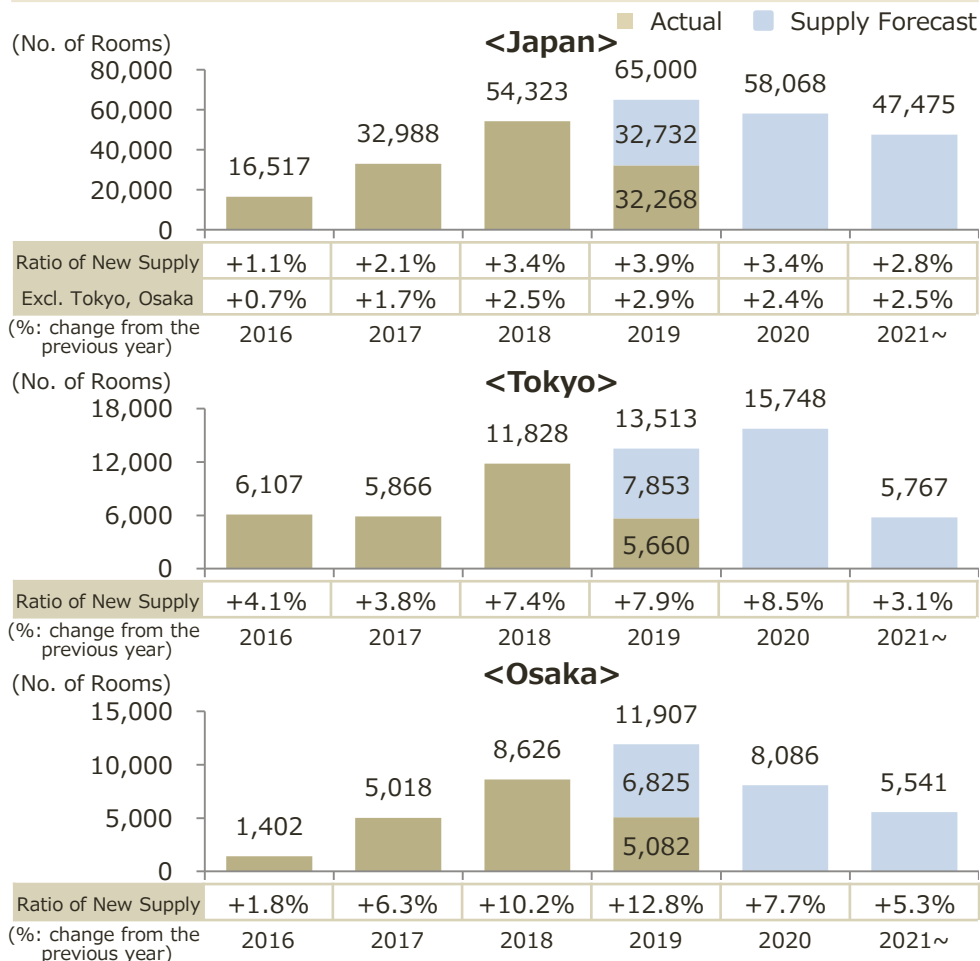
Source: Statistics of Overnight Travel by Japan Tourism Agency

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

Numbers for Jan.-May 2019 are second preliminary figure, numbers for June 2019 are first preliminary figure.

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

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



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

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

# 1. Market Environment (cont.)

## ◆ Coming big sports events in Japan

### Rugby World Cup Japan 2019

#### Overview and Match Venues

Date: September 20 to November 2  
(44 days)

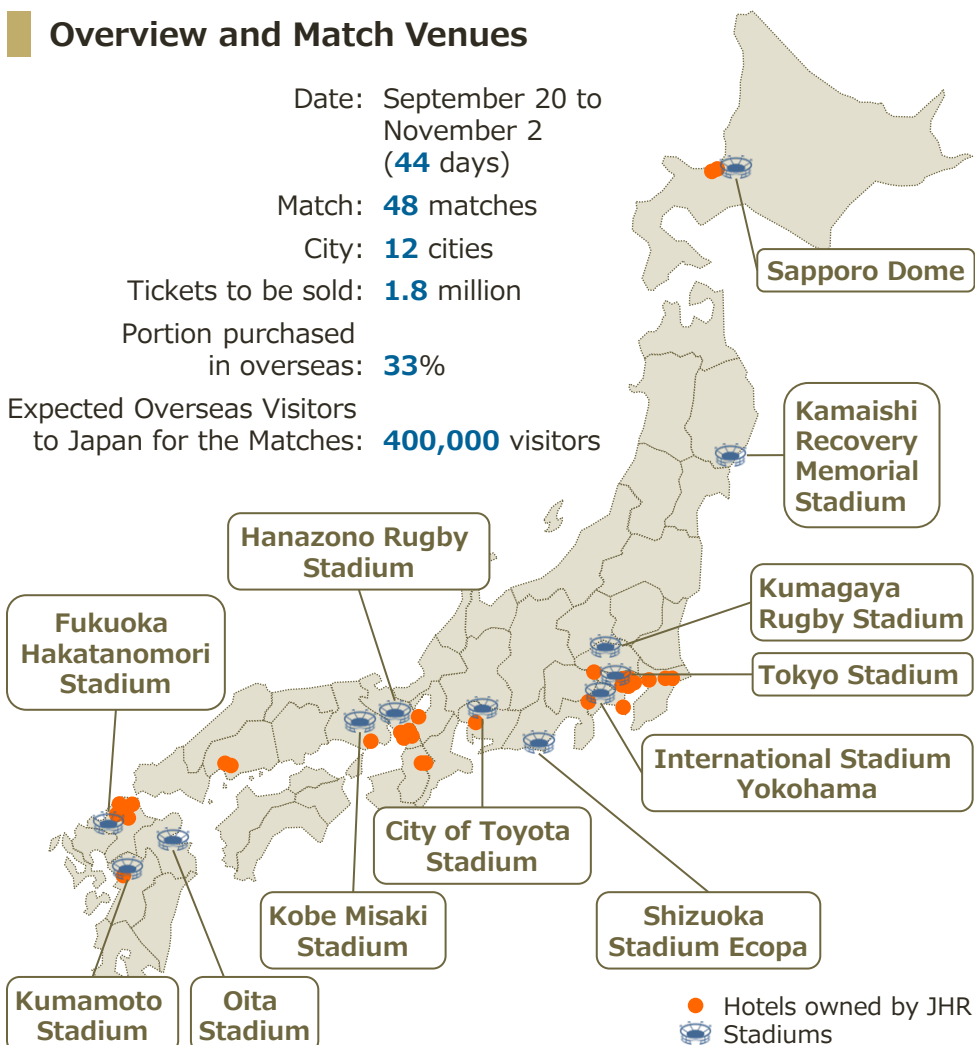
Match: 48 matches

City: 12 cities

Tickets to be sold: 1.8 million

Portion purchased in overseas: 33%

Expected Overseas Visitors to Japan for the Matches: 400,000 visitors



Source: Prepared by the Asset Management Company based on the official website of Rugby World Cup 2019

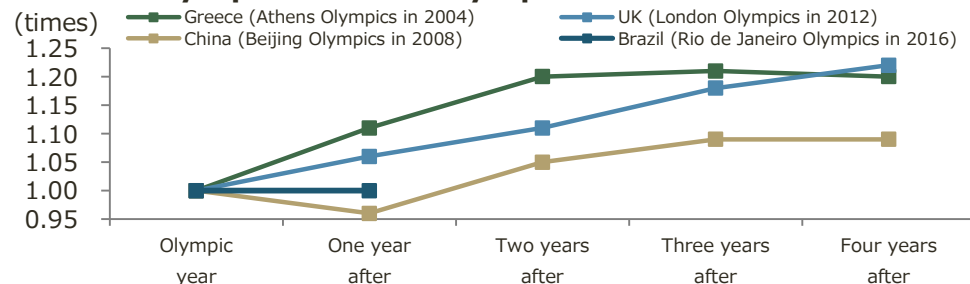
### The 2020 Tokyo Olympic and Paralympic Games

#### Venue Map



Source: Prepared by the Asset Management Company based on the website of Bureau of Olympic and Paralympic Games Tokyo 2020 Preparation

#### Changes in Number of International Tourist Arrivals after Olympics and Paralympics



Source: Prepared by the Asset Manager based on the data from "International tourism, number of arrivals" by World Bank and "Tourism Highlights 2018 Edition" by UNWTO

(\*1) The data were statistics in the past and those will be not guaranteed for the change after Tokyo Olympics and Paralympics.

(\*2) Figures one year after Olympic in Brazil are estimated figures.

# 1. Market Environment (cont.)

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

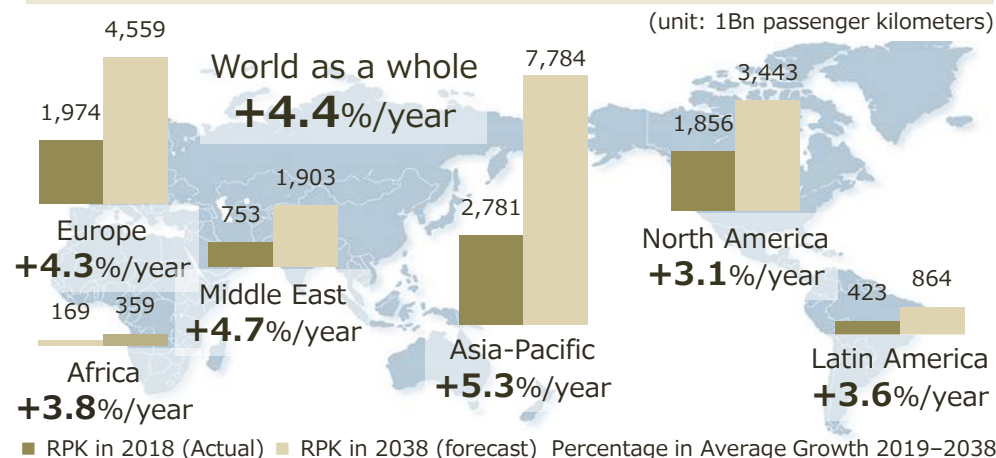
## Coming Major Events related to Tourism, etc. in Japan

	International Events, Conferences, etc.	Others
2019	<ul style="list-style-type: none"> <li>7th International Conference on African Development (Yokohama) (Aug.)</li> <li><b>Rugby World Cup Japan 2019 (nationwide) (Sep. – Nov.)</b></li> </ul>	<ul style="list-style-type: none"> <li>Large increase in tourism budget following introduction of International Tourist Tax</li> <li>Shinko Pier Cruise Terminal (Yokohama) Expansion</li> </ul>
2020	<ul style="list-style-type: none"> <li><b>Tokyo 2020 Summer Olympics &amp; Paralympics Games (nationwide) (Jul. – Sep.)</b></li> </ul>	<ul style="list-style-type: none"> <li>New area is planned to open in Universal Studio Japan (Nintendo-themed)</li> <li>"Large-scale Development at Tokyo Disneyland", new areas and facilities are planned to open (Beauty and the Beast, etc. is themed)</li> <li>Tokyo International Cruise Terminal is planned to open in Odaiba (July)</li> </ul>
2021	<ul style="list-style-type: none"> <li>World Masters Games 2021 Kansai (May)</li> <li>19th FINA World Aquatics Championships 2021 Fukuoka (Jul. – Aug.)</li> </ul>	
2022		<ul style="list-style-type: none"> <li>"Large-scale Expansion Project at Tokyo Disney Sea", new theme port is planned to open ("Fantasy Springs")</li> <li>Extension of Kyushu Shinkansen (Takeo Onsen and Nagasaki)</li> <li>Extension of Hokuriku Shinkansen (Kanazawa and Tsuruga)</li> </ul>
2023		<ul style="list-style-type: none"> <li>Mixed-use developments including convention center in Rinku Central Park (Izumisano-City, Osaka)</li> </ul>
2024		<ul style="list-style-type: none"> <li><b>Integrated Resorts commence operation</b></li> <li>New subway station, "Yumeshima" is planned to open, and station building is planned to open</li> </ul>
2025	<ul style="list-style-type: none"> <li><b>World Expo 2025 (Osaka, Kansai Expo 2025)</b></li> </ul>	
2027		<ul style="list-style-type: none"> <li>Linear Chuo Shinkansen line commences operation</li> </ul>

(\*) As events are those scheduled as of July 31, 2019 and may be changed.

- Approximately 5% increase is expected in air passenger traffic in Asia-Pacific in coming 20 years

## World Air Passenger Traffic Forecast (2018–2038)



Source: Prepared by the Asset Management Company based on "Worldwide Market Forecast of Private Aircraft (2019–2038)" by Japan Aircraft Development Corporation  
 (\*) RPK (Revenue Passenger Kilometers) represents transportation performance with revenue passengers on board and flown. The number of revenue passengers × Transportation distance (kilometers).

## Future Airport Development Plan

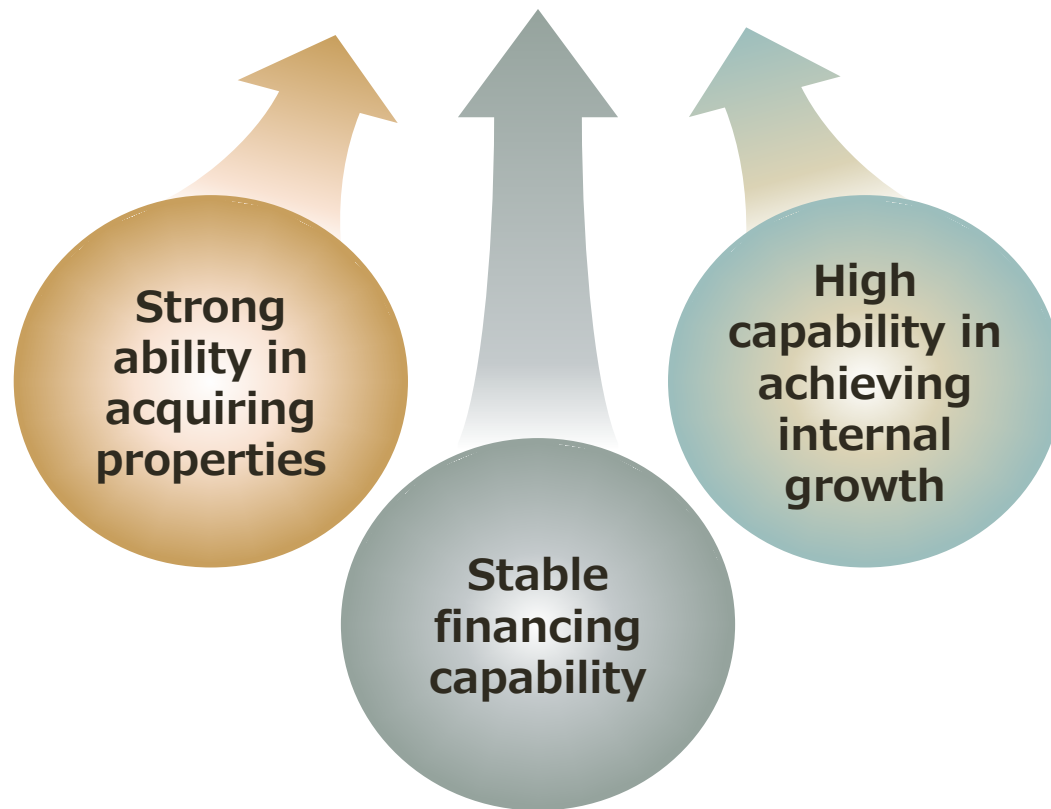
<b>New Chitose Airport</b>	2020	Expansion of terminal building
<b>Narita International Airport</b>	End of Oct., 2019	Extension of night time flight operating hours by 1 hour
	2030 and the latter half of 2030s	Departure and arrival slots will be increased to 400,000 times in 2030 and 500,000 in latter half of the 2030s from 256,000 in FY2018 (actual)
<b>Haneda Airport</b>	2020	Expansion of departure and arrival slots of international flights (from 60,000 to 99,000)
<b>Kansai International Airport</b>	Until 2025	Increase in capacity to accept passengers by about 10 million a year
<b>Fukuoka Airport</b>	2025	Commencement of the second runway
<b>Naha Airport</b>	2020	Commencement of the second runway

(\*) These are plans as of July 31, 2019 and may be changed later.

# **Appendix 1**

## **JHR's Characteristics and Strategy**

## Aim to increase dividend for mid to long term



### Strong ability in acquiring properties

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

### High capability in achieving internal growth

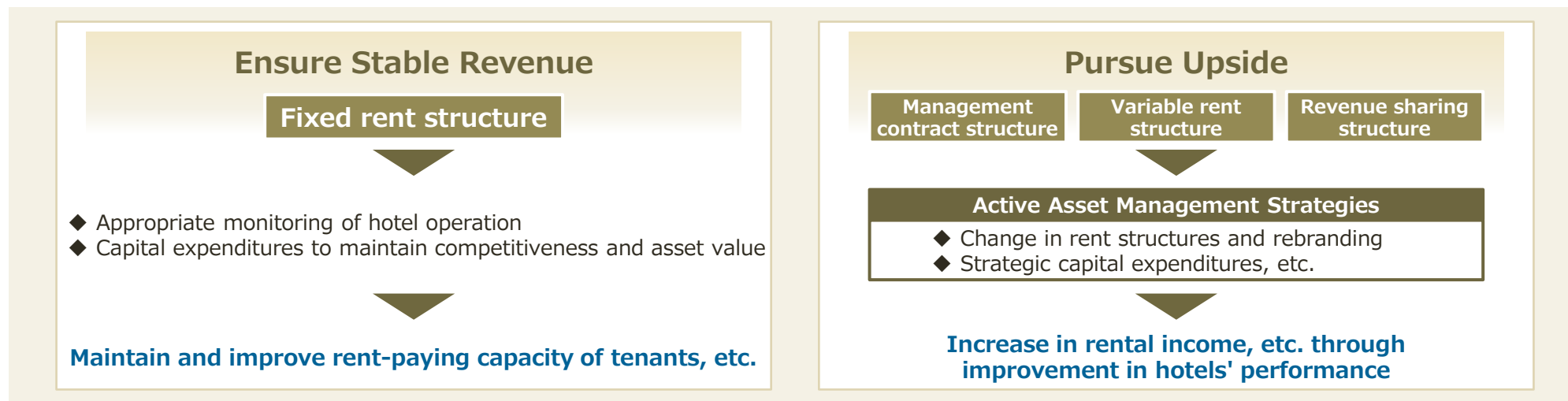
- Management approach through active asset management strategies that achieves a good balance between stability and upside potential
- Increase in hotel revenue through collaboration with high-quality operators
- Attract inbound demand through enhanced international brand portfolio
- Strengthen and maintain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

### Stable financing capability

- Secure sound and stable finance
- Diversify financing methods

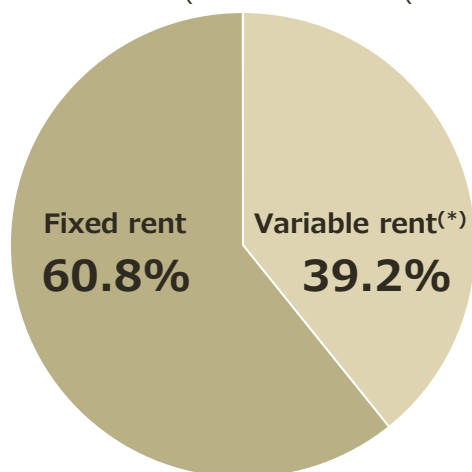
## 2. Simultaneous Pursuit of Stability and Upside Potential

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



### Proportion of Rental Income

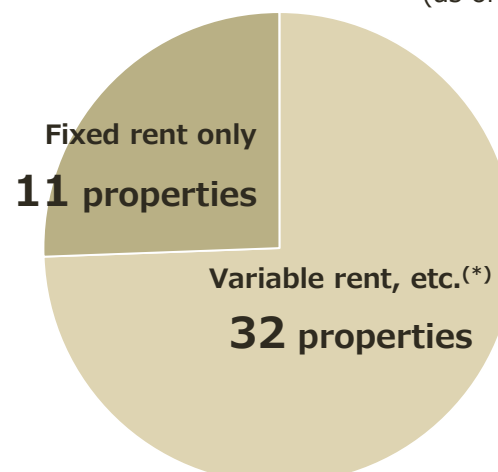
(Annualized effect (forecast) of FY12/2019)



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

### Proportion of Rent Structures

(as of August 22, 2019)



(\*) Fixed rent + variable rent structure  
Fixed rent + revenue sharing structure  
Variable rent structure and management contract structure.

## Recognition of External Environment

### Trend of the Hotel Investment Market

- Amid gradually recovering economy, hotel revenue has remained stable as a result of stable domestic leisure demand and strong growth of inbound tourists mainly from Asian countries.
- Hotel assets have further strengthened their position as investment targets due to expectations for big events such as the Rugby World Cup Japan in 2019 and the 2020 Tokyo Olympics and Paralympics. In addition, competition for acquisitions in the hotel investment market is severe, due to the decline in yields on other asset classes and the increase in the number of players in hotel investment and hotel development, including new private funds.
- New supply of hotels is on the rise, responding to the increasing number of inbound visitors. Depending on specifications, locations, capability of hotel operators, the superiority or inferiority in competitiveness of hotel is becoming more clearly. Therefore, differentiation between hotels is becoming more important.

## Basic Policies

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



## Key Measures

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

### Recognition of External Environment

#### Hotel Market Environment

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

### Basic Policies

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



### Key Measures

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

## Recognition of External Environment

### Trend of Financing Environment and Interest Rates

- In the first half of 2019, both the number of J-REIT public offerings (including IPOs) and the amount of funding were below the previous year's level, but the Tokyo Stock Exchange REIT Index remained firm and conditions remained favorable.
- As for investment corporation bonds, issuance of green bonds increased. Interest rates are also on a declining trend as long-term interest rates decline.
- There is no particular change in the lending attitude of financial institutions. Both short-term and long-term interest rates remain at low levels. Although drastic change may not happen in the financial environment, some attention should be paid to fluctuations in long-term interest rates mainly due to international factors.

## Basic Policies

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



## Key Measures

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

# 6. Initiatives for Sustainability

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

## Sustainability Policy

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

### Sustainability Policy

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

## Acquisition of BELS Certification(\*1)

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

Hotel Nikko Alivila



Mercure Okinawa Naha



## GRESB Real Estate Assessment(\*3) (September 2018)

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

- ▶ Highest ranking

Acquired **Green Star**

- ▶ "GRESB Rating"

Acquired **4-star**



## SMBC Environment Assessment Loan(\*2) (March 2018)

- ◆ Acquisition of "A" grade

- Took out a loan using the SMBC Environmental Assessment Loan which evaluated JHR's excellent initiatives for environmental considerations in asset management



## Issuance of Green Bonds (July 2019)

- ◆ Issuance of the twelfth unsecured investment corporation bonds of JHR (Green Bonds) (for the first among J-REIT specializing in hotels)  
Amount: JPY2Bn  
Duration: 5 years
- ◆ Usage of the Green Bonds
  - Funds to repay procured funds for renovation of Oriental Hotel Fukuoka Hakata Station
  - Funds for constructions for renovation etc. of the other hotels

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

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

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

## 6. Initiatives for Sustainability (cont.)

### Initiatives led by JHR

#### Initiatives for renovation works at hotels in consideration of saving energy and environment

##### ◆ Oriental Hotel Fukuoka Hakata Station

- Changed from central air conditioning to individual air conditioning  
⇒ Enable to operate air conditionings only in necessary areas to save energy and improve comfortability of guests
- Change all lighting to **LEDs**  
⇒ Promote energy conservation

<After>



<Before>



#### Initiatives for renovation for smoking ban

##### ◆ HMJ Hotels and other hotels

- In order to improve the satisfaction of hotel guests and hotel staff, JHR has been implementing renovation for non-smoking rooms
- Non-smoking room ratio (based on the room numbers):  
**89%** (the beginning of 2018) ⇒ **96%** (the end of March 2019)  
⇒ Promote a comfortable stay environment for hotel guests and a healthy and comfortable working place for employees

### Initiatives led by each hotel

#### Promotion of Eco-Cleaning in HMJ Hotels

##### ◆ Hotel Nikko Alivila

Two types of promotion named "**Eco-Cleaning**" and "**No- Cleaning**" are available

The hotel gives post cards to guests who selects "Eco-cleaning"

In addition, the hotel gives a JPY1,000 voucher which can be used in the hotel to guests who select "No-cleaning"



##### ◆ Promotion of Eco-Cleaning

Other than the above hotel, 10 out of 13 HMJ Hotels has introduced the "Eco-Cleaning"

What is "Eco-Cleaning":

Encourage cost and CO<sub>2</sub> reductions by selecting "no sheets replacement" or "no room cleaning"

#### Initiatives for plastic reduction

##### ◆ Okinawa Marriott Resort & Spa

- Abolished the use of plastic straws and replaced all with **paper straws** (since February 2019)

##### ◆ Hilton Nagoya

- Abolished the use of plastic straws and started to use **paper straws**
- Discontinued the use of PET bottles in guest rooms and started to use bins instead

##### ◆ ibis Styles Sapporo

- Abolished the use of plastic straws

# 7. Benefits Program for Unitholders

JHR implemented benefits program for unitholders to obtain a better understanding, improve their satisfaction and expand the investor base. JHR also expanded the benefits program in 2019 by adding two newly acquired hotels, aggregated coverage to 20 hotels.

## ◆ Eligible recipients of complimentary coupons

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

<FY2019 (plan)>

Eligible unitholders: 12,120

Valid period: One year between October 1, 2019 to September 30, 2020

## ◆ Details of the benefits program

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

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

## Hotels that offer the Benefits Program

### The 14 HMJ Hotels



Kobe Meriken Park Oriental Hotel



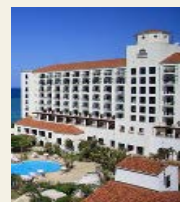
Oriental Hotel Tokyo Bay



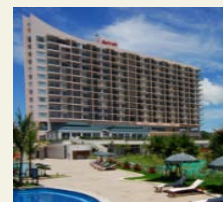
Namba Oriental Hotel



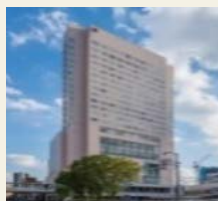
Oriental Hotel Hiroshima



Hotel Nikko Aliviva



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

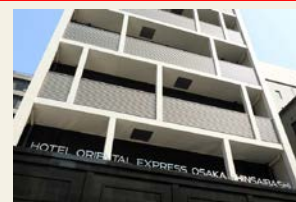


Hotel Nikko Nara

Newly Added



Hilton Tokyo Odaiba



Hotel Oriental Express Osaka Shinsaibashi

### The Six Accor Hotels



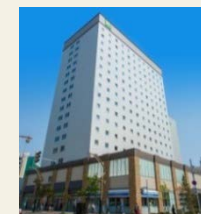
ibis Tokyo Shinjuku



ibis Styles Kyoto Station



Mercure Sapporo



ibis Styles Sapporo



Mercure Okinawa Naha



Mercure Yokosuka

## **Appendix 2**

### **Information on Properties**

# 1. Property List (1/2)

(as of the end of June 2019)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (forecast) (*8)
									19th Period (as of December 31, 2018)		20th Period (as of June 30, 2019)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Hyogo	24.0	10,900	9,871	15,800	5.2%	16,200	5.1%	2.9%	504,988	379,913	216,016	9.3%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	511	Chiba	24.2	19,900	17,839	34,100	4.5%	34,900	4.4%	5.3%	916,509	857,463	641,508	9.0%
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	23.3	15,000	14,628	32,900	4.3%	32,900	4.1%	4.0%	742,215	690,136	610,772	9.3%
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	25.8	4,100	4,164	4,350	7.5%	4,370	7.5%	1.1%	218,792	196,652	153,415	10.4%
5	Hotel Nikko Alivila	Resort	Luxury	397	Okinawa	25.3	18,900	18,167	31,500	4.9%	32,900	4.8%	5.0%	589,764	515,796	359,058	9.7%
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	15.3	7,610	6,622	9,810	4.5%	10,000	4.4%	2.0%	255,524	234,229	168,256	6.1%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	12.8	4,070	3,710	5,200	5.0%	5,300	4.9%	1.1%	147,482	135,741	89,552	6.6%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	11.4	2,334	2,145	3,000	5.7%	3,060	5.6%	0.6%	97,230	86,729	65,394	7.3%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	32.9	1,120	1,209	1,940	4.3%	1,940	4.1%	0.3%	52,361	45,628	31,880	8.7%
10	dormy inn·global cabin Asakusa <sup>(*)9)</sup>	Limited-service	Economy	75	Tokyo	22.3	999	946	1,330	4.0%	1,330	3.9%	0.3%	31,997	27,618	20,875	5.4%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	24.3	2,130	2,034	4,440	4.6%	4,520	4.4%	0.6%	120,000	112,000	99,000	10.5%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	19.3	2,050	1,799	2,430	5.2%	2,440	5.0%	0.5%	75,000	66,000	49,000	6.5%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	17.2	1,720	1,812	1,950	4.0%	2,010	3.9%	0.5%	48,646	41,506	33,357	4.7%
14	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	11.4	3,746	3,541	5,680	4.4%	5,830	4.3%	1.0%	152,351	136,978	118,862	6.8%
15	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	22.3	2,108	2,025	3,120	4.1%	3,160	4.0%	0.6%	87,423	79,682	69,483	6.5%
16	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	17.8	1,652	1,428	2,780	4.5%	2,780	4.5%	0.4%	70,519	63,887	54,777	7.7%
17	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	18.0	6,000	5,926	13,900	4.9%	13,900	4.9%	1.6%	457,124	419,574	376,957	11.1%
18	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	16.2	823	777	1,440	4.5%	1,450	4.5%	0.2%	41,541	38,060	32,443	9.3%
19	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	27.4	1,512	1,465	2,040	4.5%	2,040	4.5%	0.4%	46,867	39,710	27,272	6.6%
20	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi <sup>(*)10)</sup>	Limited-service	Mid-price	220	Tokyo	11.3	4,800	4,813	8,810	4.0%	8,970	3.9%	1.3%	279,734	248,202	237,326	7.9%
21	Hilton Tokyo Bay	Resort	Luxury	828	Chiba	31.0	26,050	26,460	39,600	4.4%	40,400	4.3%	7.0%	989,059	846,589	763,274	6.7%
22	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	38.8	7,243	8,011	9,650	4.2%	10,200	4.0%	1.9%	329,048	232,130	176,362	7.2%
23	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	10.3	6,600	6,678	11,500	4.4%	11,600	4.3%	1.8%	236,489	213,830	195,785	6.4%
24	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	8.9	6,797	6,636	10,800	4.9%	11,200	4.7%	1.8%	289,026	225,463	184,453	8.4%
25	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	10.2	6,000	5,888	10,700	4.7%	11,000	4.6%	1.6%	370,423	265,809	220,680	9.6%

# 1. Property List (2/2)

(as of the end of June 2019)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (forecast) (*8)
									19th Period (as of December 31, 2018)		20th Period (as of June 30, 2019)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
26	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	9.9	3,000	2,875	7,760	4.8%	7,760	4.6%	0.8%	172,205	135,954	107,235	10.1%
27	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	37.0	6,520	6,594	7,330	4.3%	7,350	4.2%	1.7%	182,222	169,494	152,843	5.3%
28	the b hachioji	Limited-service	Mid-price	196	Tokyo	32.9	2,610	2,683	2,780	5.2%	2,790	5.1%	0.7%	94,685	82,643	67,413	6.3%
29	the b hakata	Limited-service	Mid-price	175	Fukuoka	21.8	2,300	2,344	4,530	4.4%	4,710	4.3%	0.6%	120,631	114,519	103,841	10.3%
30	Hotel Francs	Full-service	Mid-price	222	Chiba	27.9	3,105	3,168	4,090	4.7%	4,090	4.6%	0.8%	150,000	117,913	96,709	7.6%
31	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	25.7	1,650	1,663	2,940	4.7%	3,000	4.6%	0.4%	200,934	145,652	126,507	13.9%
32	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	14.4	14,950	14,924	18,600	5.0%	18,700	4.9%	4.0%	300,619	258,432	121,724	6.4%
33	ACTIVE-INTER CITY HIROSHIMA	Full-service	Luxury	238	Hiroshima	8.8	17,320	17,495	21,100	4.6%	21,700	4.5%	4.6%	780,667	561,725	460,672	6.8%
34	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	9.5	6,705	6,671	7,630	4.0%	7,630	4.0%	1.8%	174,989	161,831	141,877	4.8%
35	Oriental Hotel Fukuoka Hakata Station <sup>(*11)</sup>	Full-service	Upper-middle	221	Fukuoka	34.0	7,197	10,055	8,500	4.7%	14,000	4.6%	1.9%	199,999	77,322	-268,084	6.3%
36	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	10.9	27,000	27,134	27,200	4.4%	27,200	4.3%	7.2%	515,258	491,559	413,899	3.7%
37	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	20.2	4,925	5,171	6,540	4.9%	6,630	4.8%	1.3%	216,587	145,991	127,579	6.1%
38	Hilton Nagoya	Full-service	Luxury	460	Aichi	30.4	15,250	15,565	15,700	4.3%	16,000	4.2%	4.1%	695,425	342,754	266,440	4.8%
39	Hilton Tokyo Narita Airport	Full-service	Upper-middle	548	Chiba	25.9	13,175	13,412	13,400	4.7%	13,700	4.6%	3.5%	407,814	365,072	270,507	6.0%
40	International Garden Hotel Narita	Full-service	Mid-price	463	Chiba	23.1	9,125	9,210	9,440	4.9%	9,650	4.8%	2.4%	309,065	286,897	219,216	6.4%
41	Hotel Nikko Nara	Full-service	Upper-middle	330	Nara	21.3	10,373	10,461	11,200	4.9%	11,200	4.8%	2.8%	284,853	260,930	193,209	5.3%
42	Hotel Oriental Express Osaka Shinsaibashi	Limited-service	Mid-price	124	Osaka	1.4	2,738	2,835	–	–	3,050	4.6%	0.7%	47,735	46,324	40,982	5.1%
43	Hilton Tokyo Odaiba	Full-service	Upper-middle	453	Tokyo	23.5	62,400	63,505	–	–	69,400	3.7%	16.7%	714,630	713,404	654,448	4.4%
Total or Average (43 properties)		–	–	11,701	-	21.3	374,508	374,378	437,510	4.6%	522,960	4.5%	100.0%	12,719,646	10,679,564	8,294,221	6.6%

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

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

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

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

(\*5) Book value as of the end of June 2019.

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

(\*7) Actual for six months from January to June 2019. Since the lessees did not agree to disclose numbers in units of JPY1,000 for No. 11 and 12, amounts are rounded down to the nearest JPY million. Since No.42 and 43 were acquired during the period, numbers after acquisition is indicated.

(\*8) NOI yield (forecast) states forecast NOI yield (annualized) for FY12/2019. NOI yield for the portfolio is calculated as follows: Total NOI for FY12/2019 (forecast) (annualized) ÷ total acquisition price of properties held as of the end of FY12/2019.

(\*9) The name of the hotel was changed from Dormy Inn EXPRESS Asakusa on August 4, 2019.

(\*10) The name of the hotel was changed from Hotel Sunroute Shinbashi on April 23, 2019.

(\*11) The name of the hotel was changed from Hotel Centraza Hakata on April 9, 2019. The hotel grade was changed from "Mid-price" to "Upper-middle."

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

(as of the end of June 2019)

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

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

(as of the end of June 2019)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/Hotel Consulting and Management Company	Lease/MC Term	Expiration Date of Contract	Contractual Rent (*2)	Rent Modification Summary	Rent Modification Summary (After acquisition)		Rent Modification Schedule (2019 to 2020)	
										Timing	Condition	2019	2020
31	Hotel Francs	Fixed-lease	Fixed	K.K. Bridal Produce		19	Oct. 2024	JPY25MM/month	The same rent will be applied until expiration of the contract.	—	—	—	—
32	Okinawa Marriott Resort & Spa	Fixed-lease	Fixed + Variable	Lagoon resort Nago Co., Ltd.		5	Dec. 2020	(Fixed rent) JPY550MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY700MM), the excess x 90% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	To be expired (Dec.)
33	ACTIVE-INTER CITY HIROSHIMA	Fixed-lease	Fixed + Variable	K.K. A.I.C Hiroshima Management	Luxury Hotels International of Hong Kong Limited.	11	Dec. 2026	(Fixed rent) JPY348MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY468MM), the excess x 82.5% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
34	CANDEO HOTELS UENO-KOEN	Fixed-lease	Fixed	Candeo Hospitality Management, Inc.		20	Feb. 2030	Nondisclosure <sup>(*)4</sup>	Rent can be modified through mutual agreement every three years.	Jul. 2016	Renewed	—	—
35	Oriental Hotel Fukuoka Hakata Station	Fixed-lease	Fixed + Variable	Hotel Centraza Co., Ltd.		4	Dec. 2019	(Fixed rent) JPY400MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY425MM), the excess x 90% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	To be expired (Dec.)	—
36	Holiday Inn Osaka Namba	Fixed-lease	Fixed + Variable	OW Hotel Operations KK		15	Oct. 2031	(Fixed rent) JPY576MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY650MM), the excess x 92.5% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
37	HOTEL ASCENT FUKUOKA	Fixed-lease	Fixed	K.K.ASCENT.		7	Mar. 2026	Nondisclosure <sup>(*)4</sup>	Rent can be modified through mutual agreement every three years.	Apr. 2019	Changed to fixed-term lease contract and renewed the contract (Increased)	Renewed (Apr.)	—
38	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	Dec. 2029	Nondisclosure <sup>(*)4</sup>	Rent can be modified through mutual agreement.	—	—	—	—
39	Hilton Tokyo Narita Airport	Fixed-lease	Fixed + Variable	KK NaritaKosuge Operations		20	Jun. 2037	(Fixed rent) JPY444MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY550MM), the excess x 86.5% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
40	International Garden Hotel Narita	Fixed-lease	Fixed + Variable	KK NaritaYoshikura Operations		10	Jun. 2027	(Fixed rent) JPY336MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY360MM), the excess x 98% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
41	Hotel Nikko Nara	Fixed-lease	Fixed + Variable	Hotel Management Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	3	Dec. 2020	(Fixed rent) JPY420MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY470MM), the excess x 91.5% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	To be expired (Dec.)
42	Hotel Oriental Express Osaka Shinsaibashi	Fixed-lease	Fixed + Variable	K.K. HOTEL ORIENTAL EXPRESS		10	Mar. 2028	(Fixed rent) JPY110MM/year + (Variable rent) When the total GOP exceeds GOP base amount (JPY128MM), the excess x 91% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—
43	Hilton Tokyo Odaiba	Fixed-lease	Fixed + Variable	Tokyo Humania Enterprise Inc.		11	Dec. 2029	(Fixed rent) JPY3,100MM/year, JPY1,600MM/year on and after January 1, 2022 (Variable rent) • Until December 31, 2019: When AGOP <sup>(*)5</sup> exceeds AGOP base amount (JPY2,450MM), the excess x 30% is paid • On and after January 1, 2020: When AGOP exceeds AGOP base amount (JPY2,970MM), the excess x 30% is paid • On and after January 1, 2022: When AGOP exceeds AGOP base amount (JPY1,660MM), the excess x 98% is paid	In principle, the same rent will be applied until expiration of the contract.	—	—	—	—

(\*1) Rent structure is as follows:

Fixed: Fixed rent

Variable: Variable rent

Management contract: Management contract

Fixed + Variable: Property paying both fixed and variable rent

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

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

(\*3) The lessee is changed to Sotetsu Hotel Management CO., LTD. on May 1, 2019.

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

(\*5) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP.

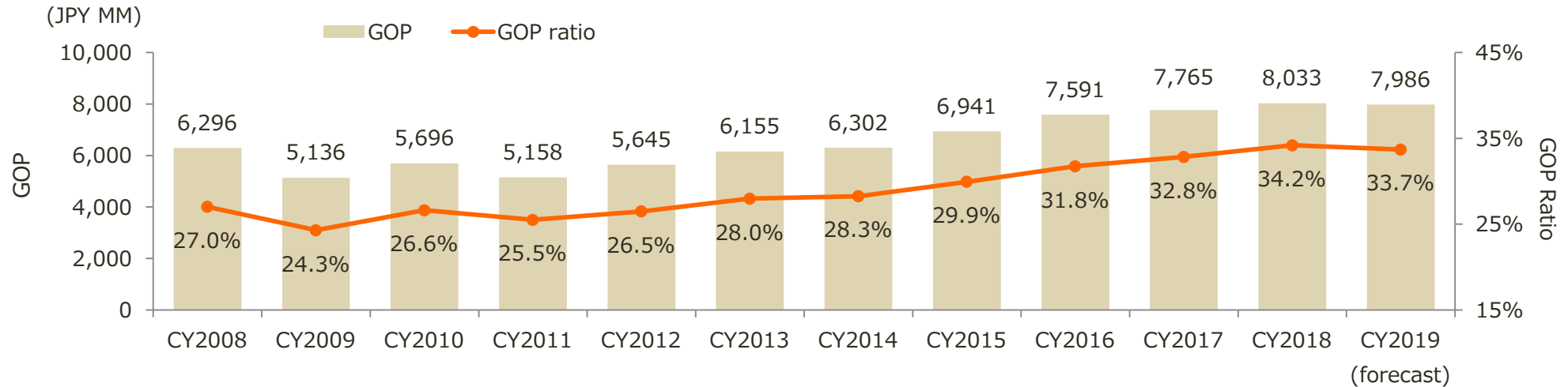
### 3. Major CAPEX Ⅲ by Hotels

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

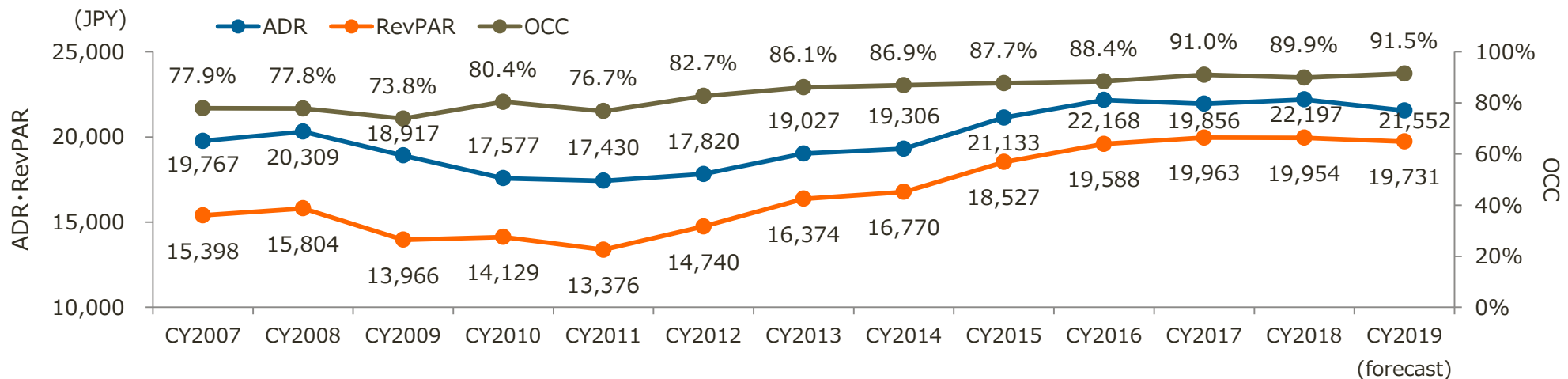
	FY12/2012	FY12/2013	FY12/2014	FY12/2015	FY12/2016	FY12/2017	FY12/2018	FY12/2019 Plan
Kobe Meriken Park Oriental Hotel	-	-	-	Chapel (36)	Guest rooms on 7F (50) Balconies on each floor (62) Bar (85)	Bridal salon (76)	Private rooms at restaurant and balcony, etc. on 3F (19)	Restaurant (30) Conversion to guest rooms from brides room (40)
Oriental Hotel tokyo bay	-	Restaurant (45)	-	-	Guest rooms on 4F (101)	-	Guest rooms on 11F to 12F (140)	-
Namba Oriental Hotel	-	Corner rooms on 5F to 8F (10)	-	-	Guest rooms on 9F (91)	Guest rooms on 7F (77)	Guest rooms on 6F (78)	-
Hotel Nikko Alivila	-	-	Guest rooms on 3F to 8F of North building and 3F to 5F of central building (333)	-	Guest rooms on 9F (55) Restaurant (31)	-	Guest rooms on 1F, etc (16)	-
Oriental Hotel Hiroshima	-	-	Banquet room on 23F (10)	-	Guest rooms on 7F to 10F (43) Banquet room on 4F (38)	-	Chapel (10)	Guest rooms on 13F to 14F (14)
Ibis Tokyo Shinjuku	Lobby and restaurant on 2F, and guest rooms on 3,5,7,9F (170)	-	-	-	Guest rooms on 3F to 10F (192)	Guest rooms on 3F to 10F (312)	-	-
Holiday Inn Osaka Namba	-	-	-	-	-	-	Guest rooms on 4,6,7,12F (115)	Guest rooms on 10F to 11F (72)
ibis Styles Sapporo	-	-	-	-	-	-	Vacant space on 1F (28)	-
Mercure Hotel Sapporo	-	-	-	-	-	-	Banquet room (15)	-
the b Ikebukuro	-	-	-	-	-	-	Guest rooms on 3F to 10F, etc. (18)	-
Okinawa Marriott Resort & Spa	-	-	-	-	-	-	-	Restaurant (142)
Oriental Hotel Fukuoka Hakata Station	-	-	-	-	-	-	-	Major renovation works (1,690)

## 4. The Five HMJ Hotels – Highlights

### Change in GOP and GOP ratio



### Change in KPI



# 5. Portfolio Map

## Total Assets

JPY**374.5**Bn

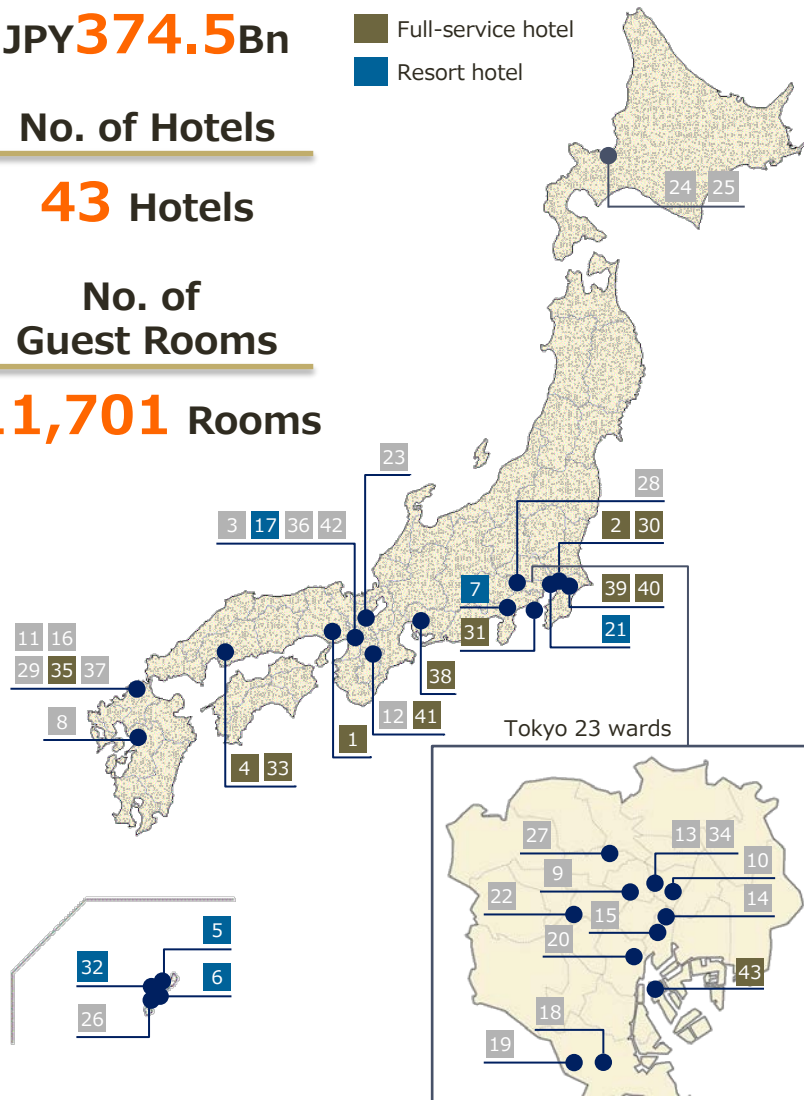
## No. of Hotels

**43** Hotels

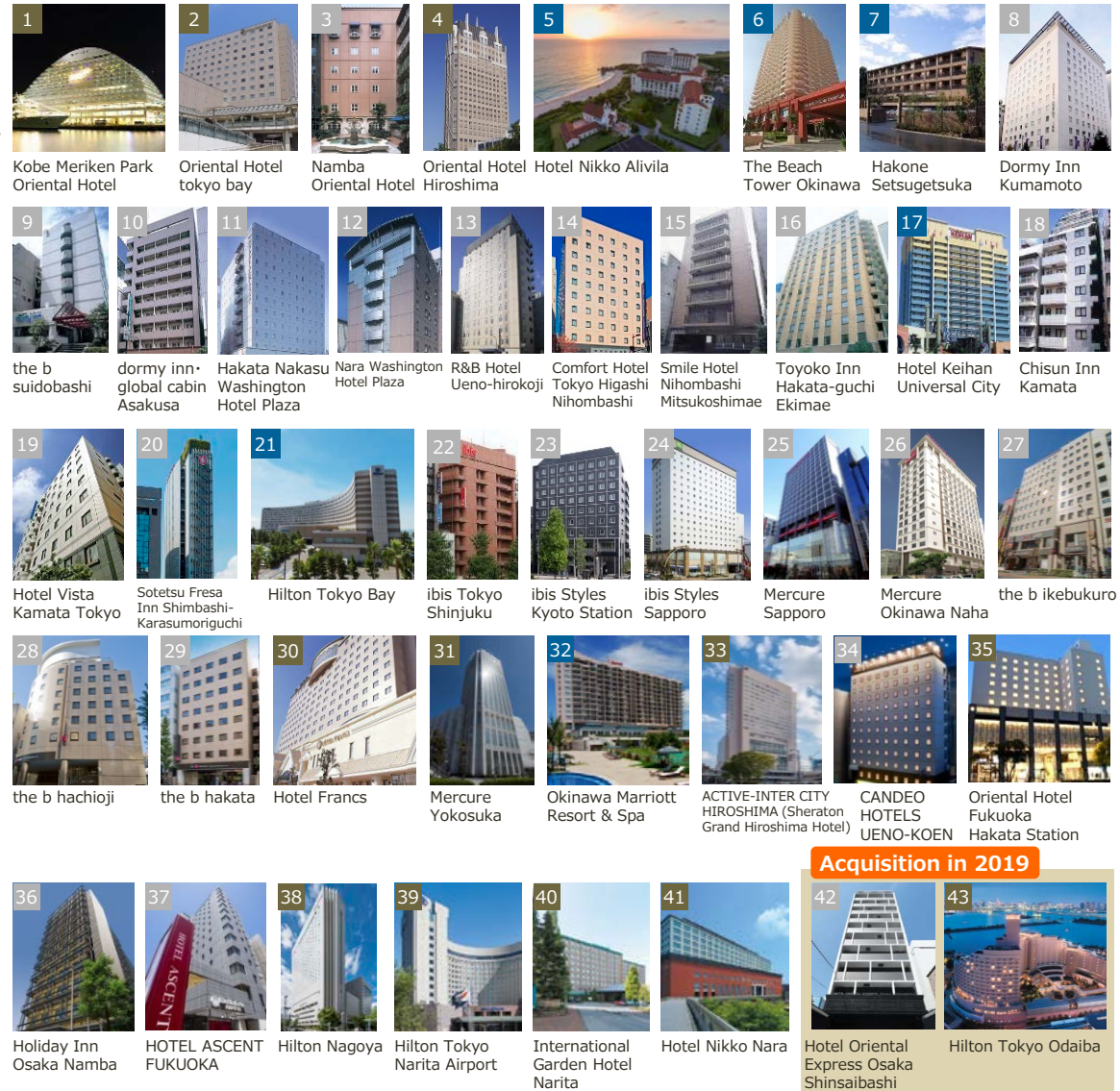
## No. of Guest Rooms

**11,701** Rooms

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



(as of August 22, 2019)



## **Appendix 3**

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

---

# 1. Major Unitholders and Classifications of Unitholders

## Top 10 Major Unitholders

As of the end of December 2018

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

As of the end of June 2019

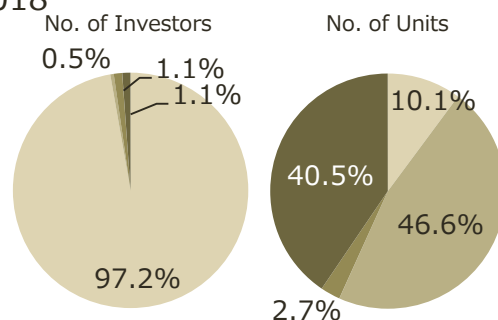
Rank	Name	No. of Units	% <sup>(*)</sup>
1	The Master Trust Bank of Japan, Ltd. (Trust)	721,861	16.17
2	Japan Trustee Service Bank, Ltd. (Trust)	531,521	11.91
3	J.P. Morgan Bank Luxembourg S.A. 384500	337,322	7.55
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	195,422	4.37
5	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	131,797	2.95
6	BNYM AS AGT Clients 10 PERCENT	122,142	2.73
7	State Street Bank and Trust Company 505223	64,452	1.44
8	State Street Bank West Client-Treaty 505234	64,127	1.43
9	Shikoku Railway Company	56,989	1.27
10	CBNY DFA International Real Estate Securities Portfolio	54,823	1.22
<b>Total</b>		<b>2,280,456</b>	<b>51.10</b>

(\*) The total units held by each investor to the total units issued by JHR as of the end of December 2018 and the end of June 2019 respectively. (Rounded off to two decimal places.)

## Owners of the Investment Units

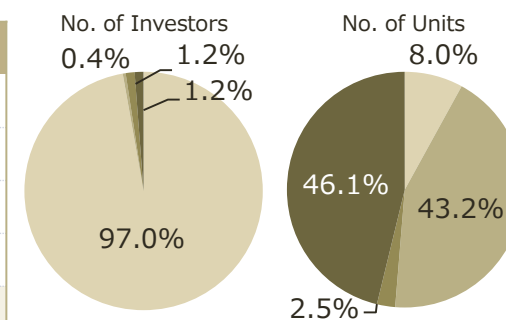
As of the end of December 2018

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



As of the end of June 2019

Owners	No. of Investors	No. of Units
Individuals & Others	28,383	358,329
Financial Institutions (Incl. Securities Firms)	138	1,930,626
Other Domestic Firms	352	113,176
Foreign Firms & Individuals	370	2,060,216
<b>Total</b>	<b>29,243</b>	<b>4,462,347</b>



Legend: Individuals & Others (light beige), Financial Institutions (Incl. Securities Firms) (medium beige), Other Domestic Firms (dark beige), Foreign Firms & Individuals (dark brown)

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

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

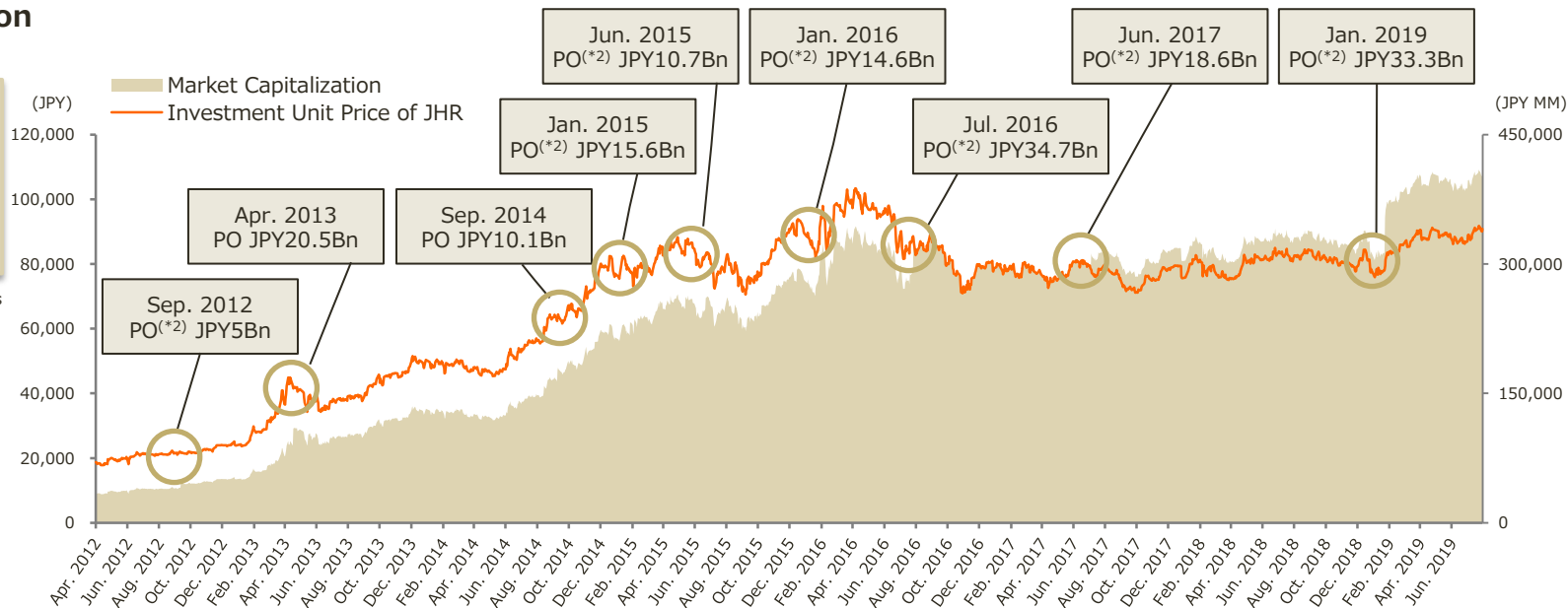
### Changes in the investment unit price and market capitalization (Based on the closing price)

**Price of the investment unit:**  
**JPY90,800**

**Total market capitalization:**  
**JPY405.1Bn**

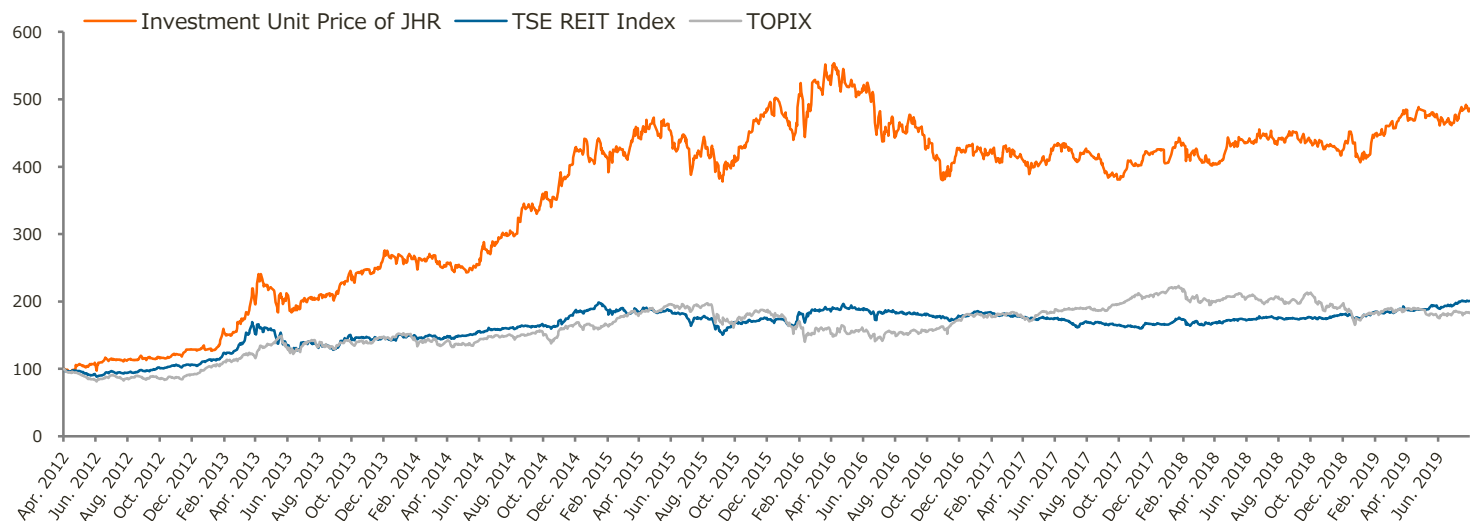
(Based on the closing price of July 31, 2019)

- (\*1) Price of the real estate investment securities may fall depending on the fluctuations of price of the real estate under management or profitability, etc., and investors may suffer losses. Investors may also suffer losses through the bankruptcy or deteriorated financial condition of the issuer. With reference to the risk of investment in JHR units, please see Securities Report dated March 20, 2019.
- (\*2) including OA



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

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



## **Appendix 4**

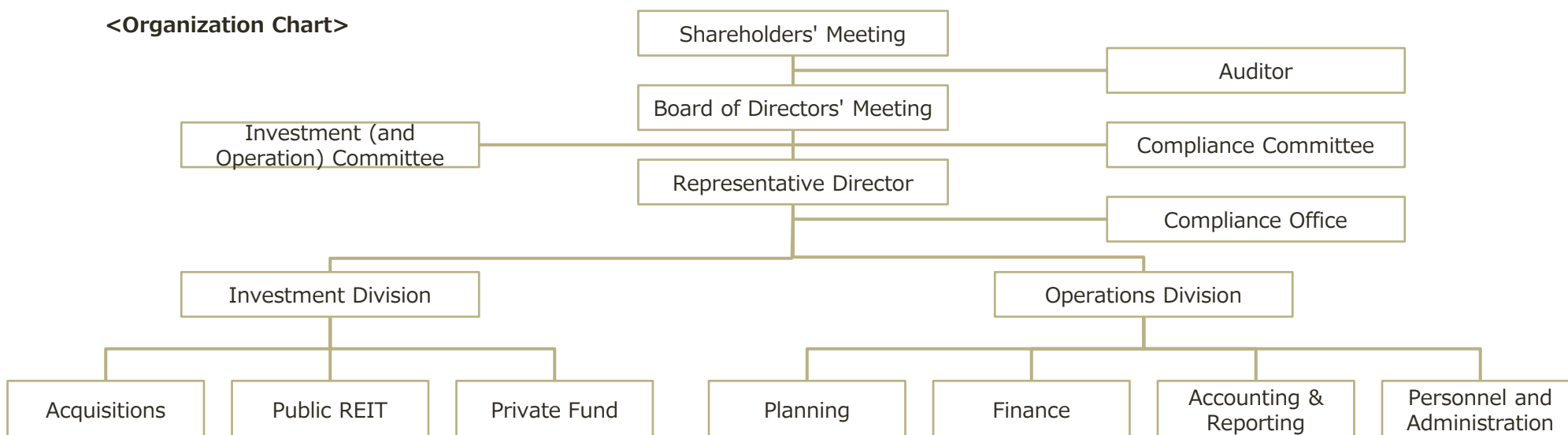
### **Summary of the Asset Management Company**

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# 1. Summary of the Asset Management Company

Company	Japan Hotel REIT Advisors Co., Ltd.
Location	Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo 150-0013
Establishment	August 10, 2004
Capital	JPY300MM as of June 30, 2019
Shareholders	Rockrise Sdn Bhd, Kyoritsu Maintenance Co., Ltd., ORIX Corporation
Representative Director	Hisashi Furukawa
Registration and Licenses	Building Lots and Buildings Transaction Business Operator, Governor of Tokyo (3) No. 83613 Discretionary Transaction Agent by Minister of Land, Infrastructure, Transport and Tourism No. 38 Financial Instruments Trading Company, Director-General of Kanto Local Finance Bureau No. 334 Member of The Investment Trusts Association, Japan Member of The Japan Investment Advisers Association

## <Organization Chart>



### Mission Statement

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

### Code of Conduct

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

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

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

#### Challenge

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

#### Teamwork

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

### Advanced Expertise

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

### Ensured Independence

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

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

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

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