

Asset Management Report

For the Year Ended December 31, 2018

Japan Hotel REIT Investment Corporation



Dear Investors,

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

Having settled the accounts for the 19th fiscal period (from January 1, 2018 to December 31, 2018) of JHR, we are pleased to present you with the asset management status and settlement of accounts for the period.

In the 19th fiscal period, natural disasters, such as typhoons and earthquakes, etc. occurred more often than a typical year and there were some impacts of natural disasters on lodging demand in some areas such as Osaka and Sapporo, etc. However, stable domestic leisure demand and the increase in number of inbound visitors have continued to be solid. While the performance in a part of hotels owned by JHR became slow due to the impact of natural disasters and new supply, the performance in many hotels owned by JHR was solid mainly in the room department. Moreover, thanks to the effect of the cost reduction, etc., the variable rent JHR received increased.

In the 19th fiscal period, JHR sold 3 hotels specialized for accommodation in Tokyo (R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu) so that JHR improved the quality of its portfolio through asset replacement. Furthermore, JHR procured funds through public offerings after the fiscal year end, in January 2019, and decided to acquire “Hilton Tokyo Odaiba” and “Hotel Oriental Express Osaka Shinsaibashi.” With completing the acquisition of the two hotels (total anticipated acquisition price: ¥65,138 million), JHR is expected to grow its asset size to approximately ¥374.5 billion (total acquisition price).

On top of an increase in rent income and cost reduction, etc., gain on sales of real estate properties helped JHR to post operating revenue of ¥28,253 million, ordinary income of ¥16,211 million and net income of ¥16,210 million for the 19th fiscal period. Dividend per unit came to ¥3,890, up 5.6% from the previous fiscal period.

JHR also focuses its efforts on ESG (Environment, Social and Governance) related initiatives from the standpoint of sustainability. JHR became the first J-REIT specializing in hotels that was recognized by GRESB and acquired “Green Star,” the highest ranking in the 19th fiscal period.

With the continued growth of Japan’s tourism industry and expansion of the hotel market, we at JHR, and Japan Hotel REIT Advisors Co., Ltd., its asset management company, will strive for JHR’s further growth and enhancement of its attractiveness.

We would appreciate your continued support for us.

Kaname Masuda
Executive Director
Japan Hotel REIT Investment Corporation

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

JAPAN HOTEL REIT INVESTMENT CORPORATION

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This section (P1-P42) is the translation of the Asset Management Report for the 19th Period released on March 20, 2019 except for, if any, the update on 6. Significant subsequent events in Outline of Asset Management Operation. This English translation is provided for information purposes only. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

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I. ASSET MANAGEMENT REPORT

Outline of Asset Management Operation

1. Operating results and financial position, etc.

Fiscal period Account closing date		15th period December 2014	16th period December 2015	17th period December 2016	18th period December 2017	19th period December 2018
Operating revenue (Note 1)	JPY1M	12,760	17,343	22,107	25,475	28,253
[Real estate operating revenue]	JPY1M	[12,760]	[17,033]	[22,107]	[25,475]	[26,318]
Operating expenses	JPY1M	5,214	6,354	8,221	9,717	10,260
[Real estate operating costs]	JPY1M	[4,163]	[5,002]	[6,589]	[7,911]	[8,344]
Operating income	JPY1M	7,545	10,988	13,885	15,757	17,993
Ordinary income	JPY1M	5,776	9,295	12,220	14,006	16,211
Net income (Note 2)	JPY1M	5,774	9,294	12,123	14,005	16,210
Total assets	JPY1M	188,091	240,356	317,878	352,183	350,556
[Period-on-period change]	[%]	[10.2]	[27.8]	[32.3]	[10.8]	[(0.5)]
Net assets	JPY1M	100,342	129,914	181,989	201,963	203,372
[Period-on-period change]	[%]	[11.8]	[29.5]	[40.1]	[11.0]	[0.7]
Unitholders' capital	JPY1M	59,024	85,470	134,829	153,516	153,516
Number of investment units issued and outstanding	Units	2,791,281	3,144,227	3,761,907	4,010,847	4,010,847
Net assets per unit	JPY	35,948	41,318	48,376	50,354	50,705
Net income per unit (Note 3)	JPY	2,159	3,036	3,462	3,606	4,041
Total dividends	JPY1M	6,015	9,354	12,865	14,771	15,602
Dividend per unit	JPY	2,155	2,975	3,420	3,683	3,890
[Earnings dividend per unit]	JPY	2,155	2,975	3,420	3,683	3,890
[Dividend per unit resulted from excess of earnings]	JPY	—	—	—	—	—
Ratio of ordinary income to total assets (Note 4)	%	3.2	4.3	4.4	4.2	4.6
Return on unitholders' equity (Note 5)	%	6.1	8.1	7.8	7.3	8.0
Ratio of net assets to total assets (Note 6)	%	53.3	54.1	57.3	57.3	58.0
[Period-on-period change]	[%]	[0.8]	[0.7]	[3.2]	[0.1]	[0.7]
Payout ratio (Note 7)	%	104.2	100.6	106.1	105.5	96.2
[Additional information]						
NOI (Note 8)	JPY1M	11,002	14,829	18,829	21,424	22,104
FFO per unit (Note 9) (Note 10)	JPY	2,930	3,748	4,103	4,454	4,588
FFO multiple (Note 10) (Note 11)	Times	26.3	23.9	19.2	17.0	17.1
Debt service coverage ratio (Note 10) (Note 12)	Times	5.1	9.1	14.2	15.6	18.0
Interest-bearing debt	JPY1M	81,089	102,772	126,179	140,399	136,671
Ratio of interest-bearing debt to total assets (Note 13)	%	43.1	42.8	39.7	39.9	39.0
Number of investment properties	Properties	30	36	41	44	41
Total leasable area	m ²	386,826.71	493,758.78	587,481.02	687,124.54	678,714.48
Number of tenants at end of period (Note 14)	Tenants	57	113	128	131	126
Occupancy rate at end of period (Note 15)	%	99.9	99.9	99.9	99.9	99.9
Depreciation	JPY1M	2,400	2,772	3,294	3,725	4,091
Capital expenditures	JPY1M	1,306	1,811	2,619	2,898	3,056
Number of operating days	Days	365	365	366	365	365

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

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

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

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

2. Asset management operation for the fiscal period under review

(1) Brief history and principal activities

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

JHR entrusts the asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves wholly or partially used as hotels or real estate equivalents of such real estate or which are backed by such real estate or real estate equivalents (hereinafter referred to as the “Real Estate for Hotels, etc.”).

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”), merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”) and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger by the end of the fiscal period, JHR has carried out eight public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 24 properties amounting to ¥210,022 million (on an acquisition price basis) in total in approximately a little less than seven years since the Merger. Moreover, in the fiscal year under review, JHR sold 3 properties (R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu) (hereinafter referred to as the “Sale”) as part of its growth strategy to improve the quality of its portfolio through asset replacement. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 41 properties with a combined acquisition price of ¥309,370 million and the total number of investment units issued and outstanding stood at 4,010,847 units.

(2) Investment performance for the fiscal period under review

Although 2018 was a year when natural disasters hit Japan more often and harder than a typical year, such as Typhoon Jebi that made Kansai International Airport dysfunctional and the Hokkaido Eastern Iburi Earthquake, the accommodation market remained solid as the cumulative number of overnight guests at domestic accommodation facilities totaled 510 million guest nights (preliminary release), a slight increase over 2017 when the figure reached record high. Moreover, the number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”) in 2018 amounted to 31.19 million (by preliminary release, up 8.7% from the previous year), as the government showed strong commitment to making Japan a tourism nation. As such, the number of inbound visitors has continued to increase strongly.

The hotel investment market continued to be in a brisk state with continual attention paid to Japan’s tourism industry and hotel industry. With the investment market for certain hotels felt overheated, JHR carried out the Sale by comprehensively taking into account the relevant properties’ positions in the portfolio, their competitiveness over the medium to long term and prospects for upside gains and stability, among other factors.

The performance of the hotels owned by JHR showed some signs of impact of the above-mentioned natural disasters to a certain degree. However, GOP (gross operating profit) of the Major 21 hotels with variable rent contracts (Note) increased over the previous year. In particular, the rooms department worked to generate greater earnings by implementing active asset management, which is proactive pursuit for improvement of profitability and asset value of owned hotels. For further details of sales, GOP and other management indicators for the Major 21 hotels with variable rent contracts, please refer to “<Reference 2> Hotel operation indexes, sales and GOP” in 7. Reference information.

In addition to measures to increase fixed and variable rent, etc. through the active asset management strategy, JHR has endeavored to increase dividend by reducing the costs of each item such as real estate operating costs, general and administrative expenses and borrowing costs through negotiations with relevant parties and other measures.

(Note) The hotel group combining the hotels which JHR leases to Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivilla and Oriental Hotel Hiroshima, (hereinafter referred to as the “Five HMJ hotels”)), with the hotels which JHR leases to HMJ subsidiaries (Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), Hotel Centraza Hakata (*), Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, and Hotel Nikko Nara) is called the Existing HMJ Group. The Major 21 hotels with variable rent contracts refers to the Existing HMJ Group excluding Hotel Centraza Hakata plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata. The same shall apply hereinafter.

(*) Hotel Centraza Hakata was renamed to Oriental Hotel Fukuoka Hakata Station on April 9, 2019. The same shall apply hereinafter.

(3) Funding conditions

In February 2018, JHR issued investment corporation bonds of ¥10,000 million for individual investors mainly to allocate the fund to early repayment of existing loans. In addition, JHR borrowed ¥1,700 million in March 2018 to refinance existing loans, and ¥8,350 million in April 2018 for the refinance and partial early repayment of existing loans. Meanwhile, in August 2018, JHR made early repayment of ¥5,000 million in short-term loans it borrowed in April 2018 by using part of the proceeds from the sale of R&B Hotel Higashi-nihonbashi, the b Akasaka-Mitsuke and the b Ochanomizu. Upon the refinance of ¥4,400 million conducted in September 2018, JHR newly added The Shizuoka Bank, Ltd. to its lending banks to further diversify lenders. Moreover, in November 2018, JHR took out loans of ¥700 million, the first part of the loans in multiple installments totaling ¥3,100 million mainly for the purpose of renovating Hotel Centraza Hakata (Note 1).

Consequently, as of the end of the fiscal year under review, balance of interest-bearing debt totaled ¥136,671 million, comprised of long-term loans payable of ¥103,071 million and investment corporation bonds of ¥33,600 million, and the ratio of interest-bearing debt to total assets at end of year (Note 2) stood at 39.0%.

JHR reduced borrowing costs and extended maturity dates through the aforementioned series of fund procurement. Along with such, JHR concluded loans with fixed interest rates as well as interest rate swap contracts to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio on total interest-bearing debt at end of year to around 97%.

As of December 31, 2018, JHR's issuer ratings were as follows.

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

(Note 1) Hotel Centraza Hakata undertook a major renovation work that caused the hotel to suspend operations (hereinafter referred to as the "Renovation") for the period from October 1, 2018 to March 31, 2019.

(Note 2) Ratio of interest-bearing debt to total assets at end of period = Balance of interest-bearing debt at end of period / Total assets at end of period x 100

(4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥28,253 million, ¥17,993 million and ¥16,211 million, respectively, for the fiscal period under review (12-month period from January 1 to December 31, 2018). Net income was ¥16,210 million. Furthermore, of the gain on sale of real estate properties, JHR decided to internally reserve ¥1,174 million as reserve for special advanced depreciation.

With regard to dividends, it was decided that ¥15,602 million would be distributed, which was calculated by deducting the above-mentioned reserve for special advanced depreciation of ¥1,174 million from and adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥563 million to unappropriated retained earnings of ¥16,213 million. Consequently, ¥15,602 million will be distributed and the dividend per unit came to ¥3,890.

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

3. Changes in unitholders' capital, etc.

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

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (JPY1M)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 1)
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 2)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 3)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 4)
July 23, 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 5)
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 6)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 7)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 8)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 9)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 10)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 11)

- (Note 1) New investment units were issued through public offering with an issue price per unit of ¥61,912 (issue value of ¥59,880) in order to raise funds for the acquisition of new properties, etc.
- (Note 2) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to raise funds for the acquisition of new properties, etc.
- (Note 3) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 4) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to raise funds for the acquisition of new properties, etc.
- (Note 5) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 6) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to raise funds for the acquisition of new properties, etc.
- (Note 7) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to raise funds for the acquisition of new properties, etc.
- (Note 8) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to raise funds for the acquisition of new properties, etc.
- (Note 9) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to raise funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 10) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to raise funds for the acquisition of new properties, etc.
- (Note 11) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to raise funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

[Fluctuation in market price of investment units]

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

(yen)					
Fiscal period Account closing month	15th period December 2014	16th period December 2015	17th period December 2016	18th period December 2017	19th period December 2018
Highest price	82,400	93,800	103,400	81,200	85,000
Lowest price	45,350	70,600	70,900	71,100	75,000
Price at end of period	77,000	89,500	78,600	75,600	78,400

4. Dividends, etc.

In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, JHR decided to distribute the entire amount of ¥15,602,194,830, which was calculated by deducting the reserve for special advanced depreciation of ¥1,174,860,958 from and adding a reversal of reserve for temporary difference adjustment of ¥563,572,972 to unappropriated retained earnings of ¥16,213,482,816, as earnings dividend. Consequently, the dividend per unit came to ¥3,890.

(yen)

Classification	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)
Unappropriated retained earnings	5,776,116,820	9,296,121,922	12,126,057,948	14,005,489,588	16,213,482,816
Retained earnings	1,444,427	2,894,304	411,048	3,048,696	—
Total cash dividends [Dividend per unit]	6,015,210,555 [2,155]	9,354,075,325 [2,975]	12,865,721,940 [3,420]	14,771,949,501 [3,683]	15,602,194,830 [3,890]
Of the above, total earnings dividends [Earnings dividend per unit]	6,015,210,555 [2,155]	9,354,075,325 [2,975]	12,865,721,940 [3,420]	14,771,949,501 [3,683]	15,602,194,830 [3,890]
Of the above, total return of capital contributions [Return of capital contributions per unit]	— [—]	— [—]	— [—]	— [—]	— [—]
Of total return of capital contributions, total distributions from allowance for temporary difference adjustment [Of return of capital contributions per unit, distributions from allowance for temporary difference adjustment per unit]	— [—]	— [—]	— [—]	— [—]	— [—]
Of total return of capital contributions, total distributions from the unitholders' capital for tax purpose [Of return of capital contribution per unit, distributions from the unitholders' capital for tax purpose per unit]	— [—]	— [—]	— [—]	— [—]	— [—]

5. Investment policies and issues to be addressed

General investment outlook

As for the environment surrounding the tourism industry, JHR considers it to be favorable with continued anticipation for expansion of national tourism policies, such as the budget of the Japan Tourism Agency for the fiscal year 2019 increasing by 2.7 times year-on-year to ¥66.5 billion (except reconstruction budget). Moreover, with the number of inbound tourists continuing to increase strongly and domestic leisure demand remaining solid, such major events as Rugby World Cup 2019 and Tokyo 2020 Olympic and Paralympic Games that will strongly demonstrate the attractiveness of “Japan” to the world are expected to provide a further boost to the tourism industry. On the other hand, however, close attention should be paid to the changes in supply-demand balance going forward, including an increase in supply from new development of hotels following trends of increase in inbound visitors, and the impact on private house lodging business by the private house lodging business law (new *minpaku* law) that was enforced in June 2018. Although the hotel market remains generally solid, the supply-demand balance appears to be loosening in certain areas and for certain asset classes, while high-grade hotels in limited supply over demand are anticipated to continue growing strongly. As such, JHR believes that the location and competitiveness of individual hotels and the capabilities of the operators are essential for differentiating the hotels from others. JHR considers that in addition to aforementioned differentiation, whether profitability including cost management can be enhanced will make a further difference in hotel performance. Under such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate JHR in the market by utilizing experience which JHR has cultivated as J-REIT specializing in hotel investment, and manage assets based on the approach described below.

Internal growth

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

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

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

A. Properties under variable rent contracts

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

B. Properties under fixed rent contracts

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

renewal of facility and equipment to differentiate each hotel in the market and to maintain and increase the value of its assets.

External growth

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

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

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

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

Finance strategy

Under the basic policy of carrying out conservative financial strategy which places importance on securement of financial stability and soundness, JHR intends to maintain and enhance the relationships of trust with existing financial institutions with which it does business while endeavoring to diversify the means of financing. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% for the time being as in the past. In addition, when seeking new funding for property acquisitions or refinancing existing debt, JHR will work to disperse maturity dates of its debt as well as further reinforce and expand its base of lenders and further diversify funding methods, including issuance of investment corporation bonds, while considering the balance with the borrowing costs.

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

Policy on handling of negative goodwill

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

Furthermore, in cases of incurrence of losses caused by property dispositions, impairment loss of assets, dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., loss on disposal of property and equipment, and suspension of sales and such due to large-scale renovations with significant

impact on revenues, JHR stipulated a policy to reverse additional portion of the negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note).

As for the fiscal year ending December 31, 2019 (20th period), JHR expects ¥1,177 million, which is the total of the 50-year amortization amount (¥262 million), adjustment for dilution, etc. (¥310 million), loss on disposal of property and equipment (¥247 million) and the large-scale renovation at Hotel Centraza Hakata (¥357 million) as additional amounts to dividends by reversing the negative goodwill.

(Note) The policy may change due to a resolution of the board of directors, and it does not guarantee the method of reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.

Initiatives for Sustainability

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

In order to put such ideas into practice, JHR, along with the Asset Management Company, established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at our portfolio properties based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for J-REIT’s hotel properties (Note 1). Furthermore, in September 2018, JHR became the first J-REIT specializing in hotels (Note 1) that was recognized by GRESB for its environmental awareness and sustainability initiatives, acquiring “Green Star,” the highest ranking, in the GRESB Real Estate Assessment (Note 2) and “4 Stars” in the GRESB Rating.

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

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

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

6. Significant subsequent events

(1) Asset acquisition

JHR acquired two properties as follows.

Property name	Hotel Oriental Express Osaka Shinsaibashi
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-2-13, Minamisanma, Chuo-ku, Osaka-shi, Osaka
Acquisition date	February 1, 2019
Seller	Undisclosed (Note 1)
Acquisition price (Note 2)	¥2,738 million

(Note 1) The information is not disclosed as consent for disclosure has not been obtained from the seller.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption tax and local consumption tax.

Property name	Hilton Tokyo Odaiba
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-9-1, Daiba, Minato-ku, Tokyo
Acquisition date	April 8, 2019
Seller	Hulic Co., Ltd.
Acquisition price (Note)	¥62,400 million

(Note) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption tax and local consumption tax.

(2) Resolution on borrowing of funds

On April 8, 2019, JHR conducted new borrowings as follows, in order to partly fund the acquisition of the real estate beneficial interest in trust of Hilton Tokyo Odaiba and movable assets attached thereon as described above in (1) Asset acquisition.

(A) Term Loan 53

Lenders	The Bank of Fukuoka, Ltd. / The Chiba Bank, Ltd. / THE NISHI-NIPPON CITY BANK, LTD. / Sompo Japan Nipponkoa Insurance Inc.
Amount of the loan	¥2,500 million
Interest rate	0.375% (fixed rate)
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 29, 2024
Collateral	Unsecured / Unguaranteed

(B) Term Loan 54

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank, Limited / Development Bank of Japan Inc.
Amount of the loan	¥7,500 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.55%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2027
Collateral	Unsecured / Unguaranteed

(C) Term Loan 55

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank Limited / Resona Bank, Limited. / The Nomura Trust and Banking Co., Ltd. / Development Bank of Japan Inc. / The Bank of Fukuoka, Ltd. / Aozora Bank, Ltd. / THE NISHI-NIPPON CITY BANK, LTD.
Amount of the loan	¥18,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.60%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2028
Collateral	Unsecured / Unguaranteed

(D) Term Loan 56

Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥2,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.275%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2020
Collateral	Unsecured / Unguaranteed

(3) Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 8, 2019 and January 16, 2019. Payment for the new investment units was completed on January 23, 2019 and February 20, 2019, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital increased to ¥186,894,169,809, with the number of investment units issued and outstanding totaling 4,462,347 units.

(A) Issuance of new investment units (domestic public offering and overseas offering)

Number of investment units issued:	447,800 units
Of which, domestic public offering:	206,247 units
Of which, overseas offering:	241,553 units
Offering price:	¥76,342 per unit
Total offering price:	¥34,185,947,600
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥33,104,510,600
Payment date:	January 23, 2019

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

Number of investment units issued:	3,700 units
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥273,529,900
Payment date:	February 20, 2019
Allottee:	SMBC Nikko Securities Inc.

(C) Use of proceeds

JHR allocated the proceeds from the issuance of new investment units through the domestic public offering and overseas offering of ¥33,104,510,600 to part of the funds for acquisition of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba as described above in “(1) Asset acquisition” In addition, the proceeds from the issuance of new investment units through third-party allotment of ¥273,529,900 was allocated to part of the funds for acquisition of Hilton Tokyo Odaiba.

7. Reference information

<Reference 1> Major indicators of the hotel business for the fiscal year ended December 31, 2018

The following tables indicate the figures related to the hotel business of the Existing HMJ Group for the operating period from January 1, 2018 through December 31, 2018, based on the data provided by the hotel lessees, etc. Furthermore, while the indicators of the hotels are among the indicators that show the operating status of the rooms departments, they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the daily rates of the respective rooms available for sale and profit margins, etc. are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

(millions of yen)

	Kobe Meriken Park Oriental Hotel		Oriental Hotel tokyo bay		Namba Oriental Hotel		Hotel Nikko Alivila		Oriental Hotel Hiroshima		The Five HMJ hotels Total/Average	
		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	84.8%	—	96.7%	—	92.8%	—	84.9%	—	87.2%	—	89.9%	—
ADR (Note 1)	17,166	—	20,464	—	19,469	—	28,738	—	9,409	—	20,112	—
RevPAR (Note 2)	14,564	—	19,797	—	18,073	—	24,392	—	8,208	—	18,080	—
Total sales	5,442	100.0%	6,839	100.0%	2,891	100.0%	6,433	100.0%	1,904	100.0%	23,509	100.0%
Rooms department	1,872	34.4%	4,019	58.8%	1,878	65.0%	3,894	60.5%	748	39.3%	12,411	52.8%
Food & beverage department	3,277	60.2%	2,392	35.0%	130	4.5%	1,888	29.4%	1,095	57.5%	8,782	37.4%
Tenant department	70	1.3%	230	3.4%	834	28.8%	2	0.0%	23	1.2%	1,159	4.9%
Other departments (Note 3)	223	4.1%	198	2.9%	50	1.7%	648	10.1%	38	2.0%	1,157	4.9%
GOP	1,263	23.2%	2,172	31.8%	1,810	62.6%	2,460	38.2%	328	17.2%	8,033	34.2%

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel		Hotel Centraza Hakata		Holiday Inn Osaka Namba		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		Ratio to total sales	(Note 4)	Ratio to total sales	(Note 5)	Ratio to total sales		Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	83.0%	—	91.2%	—	70.7%	—	93.8%	—	86.0%	—	85.5%	—
ADR (Note 1)	21,291	—	18,381	—	12,074	—	18,063	—	10,710	—	7,526	—
RevPAR (Note 2)	17,669	—	16,757	—	8,534	—	16,947	—	9,216	—	6,438	—
Total sales	4,027	100.0%	3,372	100.0%	1,836	100.0%	1,991	100.0%	3,271	100.0%	1,521	100.0%
Rooms department	2,573	63.9%	1,601	47.5%	667	36.4%	1,944	97.7%	2,063	63.1%	1,197	78.7%
Food & beverage department	1,009	25.1%	1,673	49.6%	951	51.8%	—	—	1,112	34.0%	311	20.5%
Tenant department	62	1.5%	—	—	206	11.2%	36	1.8%	50	1.5%	6	0.4%
Other departments (Note 3)	383	9.5%	98	2.9%	11	0.6%	10	0.5%	46	1.4%	7	0.5%
GOP	1,389	34.5%	1,016	30.1%	635	34.6%	1,232	61.9%	944	28.9%	639	42.0%

	Hotel Nikko Nara		The Existing HMJ Group Total/Average	
		Ratio to total sales	(Note 6)	Ratio to total sales
Occupancy rate	76.4%	—	86.7%	—
ADR (Note 1)	12,480	—	16,481	—
RevPAR (Note 2)	9,535	—	14,289	—
Total sales	2,893	100.0%	42,421	100.0%
Rooms department	1,264	43.7%	23,720	55.9%
Food & beverage department	1,579	54.6%	15,416	36.3%
Tenant department	31	1.1%	1,551	3.7%
Other departments (Note 3)	20	0.7%	1,734	4.1%
GOP	699	24.2%	14,586	34.4%

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms sold during the period. Holiday Inn Osaka Namba does not request service charges. Described in unit of yen. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of rooms available for sale during the period. Revenue per available room equals the product of ADR and occupancy rate. Described in unit of yen. The same shall apply hereinafter.

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

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

(Note 5) Hotel Centraza Hakata was under major renovation work and suspended hotel operation during the period from October 1, 2018 through April 8, 2019. The occupancy rate is calculated including the suspension period.

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

(Note 7) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place. The same shall apply hereinafter.

<Reference 2> Hotel operation indexes, sales and GOP

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

ADR and RevPAR are rounded off to the nearest yen. Sales and GOP are rounded off to the nearest million yen. Occupancy rate and comparison with the previous period are rounded off to one decimal place. ADR represents average daily rate, which is calculated by dividing revenue for rooms in a given period by the total number of rooms sold during the period. RevPAR represents revenue per available room, which is calculated by dividing revenue for rooms for a given period by the total number of rooms available for sale during the period. The same shall apply hereinafter.

<1> Major 21 Hotels with Variable Rent

(millions of yen)

	Actual result of Fiscal year ended December 31, 2017						Actual result of Fiscal year ended December 31, 2018					
	First half	Comparison with previous period	Second half	Comparison with previous period	Full year	Comparison with previous period	First half	Comparison with previous period	Second half	Comparison with previous period	Full year	Comparison with previous period
Occupancy rate	87.0%	1.6pt	88.6%	(0.3)pt	87.8%	0.6pt	87.3%	0.3pt	87.1%	(1.4)pt	87.2%	(0.6)pt
ADR	13,454	1.0%	15,761	2.3%	14,627	1.7%	13,744	2.2%	15,868	0.7%	14,814	1.3%
RevPAR	11,702	2.9%	13,959	2.0%	12,840	2.4%	11,996	2.5%	13,828	(0.9)%	12,920	0.6%
Sales	22,777	1.4%	26,568	0.8%	49,345	1.1%	22,958	0.8%	26,257	(1.2)%	49,215	(0.3)%
GOP	7,517	5.4%	10,161	1.4%	17,678	3.1%	7,715	2.6%	10,196	0.3%	17,911	1.3%

(Note) The figures of the fiscal year ended December 2017 for Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara, which are the properties acquired in the fiscal year ended December 2017, are for the full year calculated by adding the figures prior to the acquisition by JHR. The same shall apply hereinafter.

<2> The Eleven HMJ hotels

The figures are the total amount for the 11 hotels of the Existing HMJ Group excluding Hotel Centraza Hakata in order to exclude the impact of the Renovation that resulted in suspension of sales.

(millions of yen)

	Actual result of Fiscal year ended December 31, 2017						Actual result of Fiscal year ended December 31, 2018					
	First half	Comparison with previous period	Second half	Comparison with previous period	Full year	Comparison with previous period	First half	Comparison with previous period	Second half	Comparison with previous period	Full year	Comparison with previous period
Occupancy rate	87.4%	2.7pt	89.0%	0.0pt	88.2%	1.3pt	87.3%	(0.1)pt	87.7%	(1.3)pt	87.5%	(0.7)pt
ADR	14,912	(0.3)%	18,013	1.9%	16,490	0.8%	15,246	2.2%	18,035	0.1%	16,656	1.0%
RevPAR	13,027	2.8%	16,037	2.0%	14,544	2.4%	13,306	2.1%	15,816	(1.4)%	14,572	0.2%
Sales	18,715	1.3%	22,151	0.6%	40,865	0.9%	18,754	0.2%	21,831	(1.4)%	40,585	(0.7)%
GOP	5,683	6.3%	8,041	1.1%	13,724	3.2%	5,809	2.2%	8,141	1.2%	13,950	1.7%

<Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal years ended December 31, 2017 and December 31, 2018 were calculated based on the assumptions described below.

(millions of yen)		
	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Unappropriated retained earnings	14,005	16,213
Reserve for special advanced depreciation(Note 1)	-	(1,174)
Total of reserve for temporary difference adjustments (Note 2) (negative goodwill) used	769	563
Negative goodwill – 50-year amortization amount (Note 2)	262	262
Loss on disposal of property and equipment (Note 3)	132	35
Large-scale renovation works (Note 4)	-	265
Adjustment for dilution (Note 5)	374	-
Total dividends	14,771	15,602
Number of investment units issued and outstanding (Units)	4,010,847	4,010,847
Dividend per unit (JPY)	3,683	3,890

(Note 1) It is assumed that ¥1,174 million of the gain on sale from the Sale will be retained as reserve for special advanced depreciation within the limit to maintain conduit status stipulated by Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called the Special Measures Concerning Taxation).

(Note 2) Starting from the fiscal year ended December 31, 2017 (18th period), JHR commenced paying out dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. Specifically, as part of the appropriation of profit for the fiscal year ended December 31, 2016 (17th period), JHR transferred the remaining balance of dividend reserve (¥13,127 million) attributable to the gain on negative goodwill to “reserve for temporary difference adjustment” and reverses ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the initial balance of the reserve for temporary difference adjustment, to payout as dividends, with the remaining balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount, for every year from the fiscal year ended December 31, 2017 (18th period).

(Note 3) The amount recognized as a loss on disposal of property and equipment will be appropriated by reversing the reserve for temporary difference adjustment (negative goodwill) and is expected to have no impact on the dividend per unit.

(Note 4) Taking into consideration the effect on dividend by the suspension of hotel operation due to the Renovation at Hotel Centraza Hakata, an amount of ¥265 million, which is equivalent to the difference between NOI after depreciation for the fiscal year ended December 2017 (18th period) and forecasted NOI after depreciation for the fiscal year ended December 2018 (19th period) of Hotel Centraza Hakata, will be appropriated by reversing the reserve for temporary difference adjustment (negative goodwill).

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

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

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal year ended December 2018 is as follows.

(millions of yen)	
Balance of reserve for temporary difference adjustment as of December 31, 2018	12,357
Appropriation for dividends for the fiscal year ended December 31, 2018	(563)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal year ended December 31, 2018	11,794

Overview of JHR

1. Unitholders' capital

Account closing date	15th period As of December 31, 2014	16th period As of December 31, 2015	17th period As of December 31, 2016	18th period As of December 31, 2017	19th period As of December 31, 2018
Total number of authorized units (Units)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Number of investment units issued and outstanding (Units)	2,791,281	3,144,227	3,761,907	4,010,847	4,010,847
Unitholders' capital (JPY1M)	59,024	85,470	134,829	153,516	153,516
Number of unitholders (Persons)	22,866	25,182	31,371	35,046	31,155

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2018 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	629,007	15.68%
Japan Trustee Services Bank, Ltd. (Trust Account)	492,388	12.27%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	190,271	4.74%
BNYM AS AGT/CLTS 10 PERCENT	146,423	3.65%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	122,691	3.05%
JP Morgan Chase Bank 385628	65,100	1.62%
STATE STREET BANK WEST CLIENT TREATY 505234	62,579	1.56%
Shikoku Railway Company	58,311	1.45%
Mizuho Trust & Banking Co., Ltd.	55,166	1.37%
STATE STREET BANK AND TRUST COMPANY 505223	52,313	1.30%
Total	1,874,249	46.72%

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

3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2018 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (JPY1000)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	6,400
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,500
Supervisory Director	Hiroto Kashii (Note1)	—	3,500
Independent auditor	KPMG AZSA LLC (Note 2)	—	26,950

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

(Note 2) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥1,700 thousand, such as preparation of comfort letters associated with the issuance of investment corporation bonds on February 21, 2018.

(Note 3) In case the number of Executive Director does not meet the requirement stipulated by laws and regulations, Hisashi Furukawa, Representative Director of the Asset Management Company, was elected as Substitute Executive Director, based on the resolution made by the 8th General Meeting of Unitholders of JHR held on November 22, 2017.

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

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

4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2018 were as follows:

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

(Note) As of April 16, 2018, MUFG Bank, Ltd. succeeded the position as General administrator (administration regarding investment corporation bonds) for JHR's eighth and ninth unsecured investment corporation bonds from Mitsubishi UFJ Trust and Banking Corporation through a company split and absorption.

Status of Investment Assets

1. Composition of assets

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	18th period (As of December 31, 2017)		19th period (As of December 31, 2018)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Limited-service hotel	Tokyo	ibis Tokyo Shinjuku	7,984	2.3	7,940	2.3
			CANDEO HOTELS UENO-KOEN	6,719	1.9	6,681	1.9
			the b ikebukuro	6,573	1.9	6,584	1.9
			the b akasaka-mitsuke (Note 4)	6,290	1.8	-	-
			Hotel Sunroute Shinbashi (Note 5)	4,840	1.4	4,821	1.4
			Comfort Hotel Tokyo Higashi Nihombashi	3,593	1.0	3,557	1.0
			the b hachioji	2,680	0.8	2,686	0.8
			the b ochanomizu (Note 4)	2,350	0.7	-	-
			Smile Hotel Nihombashi Mitsukoshimae	2,041	0.6	2,030	0.6
			R&B Hotel Ueno Hirokoji	1,751	0.5	1,766	0.5
			R&B Hotel Higashi-nihonbashi (Note 4)	1,495	0.4	-	-
			Hotel Vista Kamata Tokyo	1,464	0.4	1,465	0.4
			the b suidobashi	1,204	0.3	1,198	0.3
			Dormy Inn EXPRESS Asakusa	961	0.3	952	0.3
			Chisun Inn Kamata	789	0.2	779	0.2
		Osaka	Holiday Inn Osaka Namba	27,083	7.7	27,033	7.7
			Namba Oriental Hotel	14,595	4.1	14,552	4.2
		Hokkaido	ibis Styles Sapporo	6,659	1.9	6,620	1.9
			Mercure Sapporo	5,895	1.7	5,853	1.7
		Fukuoka	HOTEL ASCENT FUKUOKA	5,187	1.5	5,178	1.5
			the b hakata	2,335	0.7	2,340	0.7
			Hakata Nakasu Washington Hotel Plaza	2,040	0.6	2,033	0.6
			Toyoko Inn Hakata-guchi Ekimae	1,456	0.4	1,437	0.4
		Kyoto	ibis Styles Kyoto Station	6,682	1.9	6,665	1.9
		Okinawa	Mercure Okinawa Naha	2,889	0.8	2,860	0.8
		Kumamoto	Dormy Inn Kumamoto	2,185	0.6	2,165	0.6
		Nara	Nara Washington Hotel Plaza	1,835	0.5	1,802	0.5
		Subtotal		129,588	36.8	119,010	33.9
	Full-service hotel	Chiba	Oriental Hotel tokyo bay	18,002	5.1	17,790	5.1
			Hilton Tokyo Narita Airport	13,318	3.8	13,253	3.8
			International Garden Hotel Narita	9,222	2.6	9,195	2.6
			Hotel Francs	3,155	0.9	3,187	0.9
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,620	5.0	17,487	5.0
			Oriental Hotel Hiroshima	4,091	1.2	4,106	1.2
		Aichi	Hilton Nagoya	15,588	4.4	15,605	4.5
		Nara	Hotel Nikko Nara	10,525	3.0	10,442	3.0
		Hyogo	Kobe Meriken Park Oriental Hotel	9,893	2.8	9,772	2.8
		Fukuoka	Hotel Centraza Hakata (Note 7)	7,341	2.1	7,178	2.0
		Kanagawa	Mercure Yokosuka	1,636	0.5	1,642	0.5
		Subtotal		110,397	31.3	109,661	31.3
	Resort hotel	Okinawa	Hotel Nikko Alivila	18,128	5.1	17,989	5.1
			Okinawa Marriott Resort & Spa	14,722	4.2	14,875	4.2
			The Beach Tower Okinawa	6,749	1.9	6,677	1.9
		Chiba	Hilton Tokyo Bay	26,192	7.4	26,098	7.4
		Osaka	Hotel Keihan Universal City	5,984	1.7	5,930	1.7
		Kanagawa	Hakone Setsugetsuka	3,798	1.1	3,722	1.1

Type of assets	Business category (Note 1)	Prefectural location	Name of property, etc.	18th period (As of December 31, 2017)		19th period (As of December 31, 2018)	
				Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)
			Subtotal	75,576	21.5	75,295	21.5
			Real estate in trust – Total	315,561	89.6	303,967	86.7
			Deposits and other assets (Note 8)	36,621	10.4	46,589	13.3
			Total assets	352,183	100.0	350,556	100.0

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) JHR sold R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu on August 10, 2018.
- (Note 5) Hotel Sunroute Shinbashi is scheduled to be renamed as Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on April 23, 2019.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Hotel Centraza Hakata was renamed to Oriental Hotel Fukuoka Hakata Station on April 9, 2019.
- (Note 8) Includes machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

2. Major portfolio assets

An overview of the portfolio assets of JHR (41 properties in total) as of December 31, 2018 was as follows.

Property No.	Name of property, etc.	Book value (JPY1M) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	9,988	32,663.90	32,663.90	100.0	4.6	Hotel
2	Oriental Hotel tokyo bay	18,013	44,833.11	44,833.11	100.0	7.2	Hotel
3	Namba Oriental Hotel	14,690	19,364.33	19,364.33	100.0	6.2	Hotel
4	Hotel Nikko Alivila (Note 6)	18,242	38,024.98	38,024.98	100.0	7.8	Hotel
5	Oriental Hotel Hiroshima	4,175	13,752.22	13,752.22	100.0	1.6	Hotel
6	ibis Tokyo Shinjuku	8,061	6,801.84	6,801.84	100.0	2.5	Hotel
8	The Beach Tower Okinawa (Note 7)	6,682	20,140.01	20,140.01	100.0	1.9	Hotel
9	Hakone Setsugetsuka	3,730	10,655.03	10,655.03	100.0	1.1	Hotel
10	Dormy Inn Kumamoto	2,165	7,701.19	7,701.19	100.0	0.7	Hotel
12	the b suidobashi	1,222	3,097.25	3,097.25	100.0	0.4	Hotel
13	Dormy Inn EXPRESS Asakusa	952	2,014.90	2,014.90	100.0	0.2	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,034	5,602.04	5,602.04	100.0	0.9	Hotel
15	Nara Washington Hotel Plaza	1,805	5,271.54	5,271.54	100.0	0.6	Hotel
16	R&B Hotel Ueno Hirokoji	1,766	3,060.31	3,060.31	100.0	0.4	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,557	5,765.27	5,765.27	100.0	1.0	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,030	3,167.82	3,167.82	100.0	0.6	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,437	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	0.5	Hotel
25	Hotel Vista Kamata Tokyo	1,466	3,831.80	3,831.80	100.0	0.4	Hotel
26	Chisun Inn Kamata	781	1,499.87	1,499.87	100.0	0.3	Hotel
29	Hotel Keihan Universal City (Note 8)	5,931	16,212.40	16,212.40	100.0	3.1	Hotel
30	Hotel Sunroute Shinbashi	4,822	5,246.66	5,246.66	100.0	1.6	Hotel
31	Hilton Tokyo Bay (Note 9)	26,102	64,931.94	64,931.94	100.0	7.6	Hotel
32	ibis Styles Kyoto Station	6,687	5,003.99	5,003.99	100.0	2.1	Hotel
33	ibis Styles Sapporo	6,658	14,992.49	14,735.17	98.3	2.5	Hotel
34	Mercure Sapporo	5,923	15,189.42	14,905.88	98.1	3.1	Hotel
35	Mercure Okinawa Naha	2,891	10,884.25	10,884.25	100.0	1.7	Hotel
37	the b ikebukuro (Note 10)	6,609	5,650.01	5,650.01	100.0	1.4	Hotel
39	the b hachioji (Note 10)	2,698	7,847.65	7,847.65	100.0	0.8	Hotel
40	the b hakata (Note 10)	2,355	3,986.09	3,986.09	100.0	1.0	Hotel
41	Hotel Francs	3,187	19,213.39	19,213.39	100.0	1.1	Hotel
42	Mercure Yokosuka (Note 11)	1,681	16,881.82	16,881.82	100.0	1.2	Hotel
43	Okinawa Marriott Resort & Spa	15,044	36,430.15	36,430.15	100.0	4.4	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,561	31,181.03	31,130.58	99.8	5.8	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,689	7,934.26	7,934.26	100.0	1.3	Hotel
46	Hotel Centraza Hakata	8,001	18,105.42	18,105.42	100.0	2.2	Hotel
47	Holiday Inn Osaka Namba	27,130	11,501.10	11,501.10	100.0	4.2	Hotel
48	HOTEL ASCENT FUKUOKA	5,178	8,238.75	7,978.58	96.8	1.6	Hotel
49	Hilton Nagoya (Note 14)	15,605	47,942.71	47,942.71	100.0	5.3	Hotel
50	Hilton Tokyo Narita Airport	13,461	56,817.28	56,817.28	100.0	3.0	Hotel
51	International Garden Hotel Narita	9,259	21,814.93	21,814.93	100.0	2.3	Hotel
52	Hotel Nikko Nara (Note 15)	10,500	21,011.31	21,011.31	100.0	2.4	Hotel
Total		306,789	678,714.48	677,863.00	99.9	98.9	

(Note 1) Book value includes real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets.

(Note 2) In principle, leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in

which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).

- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. The same shall apply hereinafter throughout this document.
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review. In calculating, the figures are rounded off to one decimal place. Furthermore, the sum total of the ratio of rental revenue to total rental revenue is 98.9% as the figure does not include the relevant ratios of R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu that were sold during the fiscal period under review.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a compartmentalized ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters).
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) The building of Hotel Keihan Universal City is a building with compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 9) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,931.94 square meters (JHR owns 9/10 of co-ownership interest).
- (Note 10) The b ikebukuro, the b hachioji and the b hakata are properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle. The same shall apply hereinafter throughout this document.
- (Note 11) The building of Mercure Yokosuka is a building with compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, apartments, office spaces and parking lots, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 12) The building of ACTIVE-INTER CITY HIROSHIMA is a building with compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, stores, parking lots and bicycle parking lots etc., as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel, office spaces and stores is indicated.
- (Note 13) Leasable area and leased area of CANDEO HOTELS UENO-KOEN indicate the total floor area described in the certificate of inspection, based on the building lease agreement with the hotel lessee. Furthermore, the figure includes the floor area for the mechanical parking facilities.
- (Note 14) The building of Hilton Nagoya is a compartmentalized ownership of AMMNAT SQUARE, which consists of a hotel building (including retail space), office building and car parking space, etc., as a single building. Leasable area and leased area indicate the sum total of the leased area for the hotel building, the office building and the retail space described in the lease agreement.
- (Note 15) The building of Hotel Nikko Nara is a compartmentalized ownership of the entire building of Redeveloped Building 1 in front of JR Nara Station, which consists of hotel building, retail space and car parking space, etc. JHR's share of voting right of the building is 223/353 (approximately 63.2%).
- (Note 16) The omitted property numbers are the numbers for assets that have been transferred.

3. Details of property assets, etc.

(1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2018 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	15,800	9,988	JR
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	34,100	18,013	JR
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	32,900	14,690	JR
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	31,500	18,242	JR
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,350	4,175	JR
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	9,650	8,061	JR
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	9,810	6,682	JR
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,200	3,730	JR
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	3,000	2,165	JM
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	1,940	1,222	JR
13	Dormy Inn EXPRESS Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,330	952	JM
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,440	2,034	JR
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,805	JR
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,950	1,766	JM
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,680	3,557	JM
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	3,120	2,030	JM
24	Toyoko Inn Hakata-guchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,780	1,437	T
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	2,040	1,466	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,440	781	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	13,900	5,931	R
30	Hotel Sunroute Shinbashi	10-2 Shinbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	8,810	4,822	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	39,600	26,102	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	11,500	6,687	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,800	6,658	JR
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,700	5,923	JR
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	7,760	2,891	JR
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,330	6,609	JR

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPY1M) (Note 1)	Book value (JPY1M) (Note 2)	Appraisal agency (Note 3)
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,780	2,698	JR
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,530	2,355	JR
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,090	3,187	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	2,940	1,681	D
43	Okinawa Marriott Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	18,600	15,044	JR
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	21,100	17,561	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,630	6,689	D
46	Hotel Centraza Hakata	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	8,500	8,001	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	27,200	27,130	JR
48	HOTEL ASCENT FUKUOKA	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	6,540	5,178	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	15,700	15,605	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	13,400	13,461	JR
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,440	9,259	JR
52	Hotel Nikko Nara	8-1 Sanjyohonmachi, Nara-shi, Nara	Beneficial interest in trust	11,200	10,500	D
Total				437,510	306,789	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of valuation, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) and regulations set forth by The Investment Trusts Association, Japan.

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

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

JR: Japan Real Estate Institute

JM: JLL Morii Valuation & Advisory K.K.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

R: Rich Appraisal Institute Co., Ltd.

D: DAIWA REAL ESTATE APPRAISAL CO., LTD.

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

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

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

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

Property No.	Name of property, etc.	18th period (From January 1, 2017 to December 31, 2017)				19th period (From January 1, 2018 to December 31, 2018)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,195	4.7	1	100.0	1,210	4.6
2	Oriental Hotel tokyo bay	1	100.0	1,729	6.8	1	100.0	1,888	7.2
3	Namba Oriental Hotel	1	100.0	1,600	6.3	1	100.0	1,629	6.2
4	Hotel Nikko Alivila	1	100.0	1,951	7.7	1	100.0	2,048	7.8
5	Oriental Hotel Hiroshima	1	100.0	498	2.0	1	100.0	424	1.6
6	ibis Tokyo Shinjuku	4	100.0	539	2.1	4	100.0	660	2.5
8	The Beach Tower Okinawa	1	100.0	511	2.0	1	100.0	511	1.9
9	Hakone Setsugetsuka	1	100.0	294	1.2	1	100.0	294	1.1
10	Dormy Inn Kumamoto	1	100.0	194	0.8	1	100.0	194	0.7
12	the b suidobashi	1	100.0	114	0.4	1	100.0	109	0.4
13	Dormy Inn EXPRESS Asakusa	1	100.0	63	0.3	1	100.0	63	0.2
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	0.9	1	100.0	240	0.9
15	Nara Washington Hotel Plaza	2	100.0	151	0.6	2	100.0	150	0.6
16	R&B Hotel Ueno Hirokoji	1	100.0	97	0.4	1	100.0	97	0.4
17	R&B Hotel Higashi-nihonbashi (Note 2)	1	100.0	122	0.5	-	-	74	0.3
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	270	1.1	2	100.0	270	1.0
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	152	0.6	1	100.0	153	0.6
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	0.6	1	100.0	141	0.5
25	Hotel Vista Kamata Tokyo	1	100.0	109	0.4	1	100.0	115	0.4
26	Chisun Inn Kamata	1	100.0	78	0.3	1	100.0	82	0.3
29	Hotel Keihan Universal City	1	100.0	811	3.2	1	100.0	822	3.1
30	Hotel Sunroute Shinbashi	4	100.0	412	1.6	4	100.0	426	1.6
31	Hilton Tokyo Bay	1	100.0	1,929	7.6	1	100.0	1,992	7.6
32	ibis Styles Kyoto Station	2	100.0	597	2.3	2	100.0	548	2.1
33	ibis Styles Sapporo	5	99.4	707	2.8	4	98.3	662	2.5
34	Mercure Sapporo	14	98.1	818	3.2	14	98.1	820	3.1
35	Mercure Okinawa Naha	1	100.0	491	1.9	1	100.0	456	1.7
36	the b akasaka-mitsuke (Note 2)	2	100.0	249	1.0	-	-	146	0.6
37	the b ikebukuro	4	100.0	360	1.4	4	100.0	361	1.4
38	the b ochanomizu (Note 2)	1	100.0	108	0.4	-	-	58	0.2
39	the b hachioji	13	100.0	202	0.8	12	100.0	203	0.8
40	the b hakata	2	100.0	252	1.0	2	100.0	250	1.0
41	Hotel Francs	1	100.0	300	1.2	1	100.0	300	1.1
42	Mercure Yokosuka	1	100.0	291	1.1	1	100.0	310	1.2
43	Okinawa Marriott Resort & Spa	1	100.0	1,215	4.8	1	100.0	1,169	4.4
44	ACTIVE-INTER CITY HIROSHIMA	37	99.8	1,482	5.8	39	99.8	1,526	5.8
45	CANDEO HOTELS UENO-KOEN	1	100.0	350	1.4	1	100.0	349	1.3
46	Hotel Centraza Hakata	1	100.0	865	3.4	1	100.0	589	2.2
47	Holiday Inn Osaka Namba	1	100.0	1,215	4.8	1	100.0	1,114	4.2
48	HOTEL ASCENT FUKUOKA	6	100.0	436	1.7	5	96.8	432	1.6
49	Hilton Nagoya	4	100.0	1,388	5.4	4	100.0	1,390	5.3

Property No.	Name of property, etc.	18th period (From January 1, 2017 to December 31, 2017)				19th period (From January 1, 2018 to December 31, 2018)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY1M)	Ratio to total real estate operating revenue (%)
50	Hilton Tokyo Narita Airport	1	100.0	398	1.6	1	100.0	785	3.0
51	International Garden Hotel Narita	1	100.0	261	1.0	1	100.0	608	2.3
52	Hotel Nikko Nara	1	100.0	272	1.1	1	100.0	629	2.4
Total		131	99.9	25,475	100.0	126	99.9	26,318	100.0

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

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

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

4. Details of securities assets

There are no applicable securities held by JHR as of December 31, 2018.

5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2018 were as follows:

Classification	Transaction	Amounts of contract, etc. (JPY1M) (Note 1)		Fair value (JPY1M) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions Payable fixed rate / Receivable floating rate	96,742	85,048	(484)
Total		96,742	85,048	(484)

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

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

6. Other assets

All of the beneficial interest in trust mainly invested in real estate held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments in the portfolio of JHR as of December 31, 2018.

7. Asset holdings by country and region

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

Capital Expenditures for Portfolio Properties

1. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures for renovation work planned as of the end of the fiscal period under review for investment real estate properties (in trust) held by JHR. Expenditures are expected to total ¥6,842 million, which consists of capital expenditures of ¥6,778 million and repair expenses of ¥64 million, for the next fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)	
			Total amount	Total amount paid
R&B Hotel Ueno Hirokoji (Taito-ku, Tokyo)	Renewal of air conditioning units	From January 2019 to March 2019	54	-
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention facilities	From October 2019 to November 2019	53	-
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Land preparation for parking lot	From December 2018 to May 2019	423	-
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guest rooms	From February 2019 to March 2019	66	-
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of restaurants	From May 2019 to June 2019	233	-
Hotel Centraza Hakata (Fukuoka-shi, Fukuoka)	Major renovation work for entire property	From October 2018 to March 2019	3,100	704
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renovation of guest rooms (guestrooms on the 10th and 11th floors)	From May 2019 to May 2019	72	-
Hotel Nikko Nara (Nara-shi, Nara)	Renewal of interior surfaces for one floor	From May 2019 to June 2019	128	-
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From March 2019 to November 2019	55	-
Total			4,185	704

(Note) For new construction and renewal work, estimated construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned repair work and whether or not the repair work will be performed may change.

2. Capital expenditures during the period (Note)

For investment real estate properties (in trust) held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥3,056 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥46 million. In aggregate, ¥3,102 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of telephone switchboard	From May 2018 to July 2018	41
Oriental Hotel Tokyo Bay (Urayasu-shi, Chiba)	Increase in the number of guestrooms associated with relocation of Mama Salon and renovation of front lobby	From October 2018 to December 2018	144

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th floor	From January 2018 to February 2018	78
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guest rooms	From September 2018 to December 2018	260
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th and 7th floors	From January 2018 to February 2018	58
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 4th and 12th floors	From September 2018 to September 2018	57
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of drainage for sewage and gray water pipes	From June 2017 to January 2018	55
Total			696

(Note) For new construction and renewal work, construction costs include those for buildings, annexed installation, etc. as well as items classified as furniture and fixtures.

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

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

(millions of yen)

Fiscal period	15th period (From January 1, 2014 to December 31, 2014)	16th period (From January 1, 2015 to December 31, 2015)	17th period (From January 1, 2016 to December 31, 2016)	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)
Balance at beginning of period	454	493	657	791	946
Provision during the period	46	185	133	154	15
Reversal during the period	7	20	-	-	9
Amount carried forward	493	657	791	946	951

Expenses and Liabilities

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

(thousands of yen)

	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)
(a) Asset management fees	(Note 1) 1,501,391	(Note 2) 1,577,515
(b) Asset custody and administrative service fee	111,425	110,273
(c) Officers' compensation	14,150	13,400
(d) Other operating expenses	179,110	214,828
Total	1,806,078	1,916,017

(Note 1) For asset management fees for the 18th fiscal period, besides the above amounts, there are ¥245,047 thousand of fees included in the acquisition price of investment properties, etc. in acquiring properties.

(Note 2) For asset management fees for the 19th fiscal period, besides the above amounts, there are ¥60,750 thousand of fees deducted from the gain on sale of real estate properties in selling properties.

2. Loans payable

The status of loans by contractual agreement and by financial institution as of December 31, 2018 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	July 12, 2017	1,125	—	0.33%	June 29, 2018	Lump-sum repayment (Note 4)	(Note 9)	Unsecured, unguaranteed
	Shinsei Bank, Limited		750	—					
	Mizuho Bank, Ltd.		750	—					
	Sumitomo Mitsui Trust Bank, Limited		375	—					
	Subtotal		3,000	—	0.33%	December 28, 2018	Lump-sum repayment (Note 5)	(Note 10)	Unsecured, unguaranteed
	Sumitomo Mitsui Banking Corporation	April 26, 2018	—	—					
	Subtotal		—	—					
	Short-term loans payable – Total		3,000	—					
	Long-term loans payable	Sumitomo Mitsui Banking Corporation	April 26, 2013	2,101	—	0.97%	April 26, 2018	Repayment of ¥11,250 thousand every 3 months, and lump-sum repayment of the remaining amount (Note 6)	(Note 9)
Shinsei Bank, Limited		955		—					
The Tokyo Star Bank, Limited		1,241		—					
Subtotal		4,297		—					
Sumitomo Mitsui Banking Corporation		September 30, 2013	1,771	—	0.98% (Note 2)	September 30, 2018	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 10)	Unsecured, unguaranteed
Sumitomo Mitsui Trust Bank, Limited			932	—					
Subtotal			2,704	—					
Sumitomo Mitsui Banking Corporation		October 31, 2013	500	—	0.98% (Note 2)	September 30, 2018	Lump-sum repayment (Note 7)	(Note 9)	Unsecured, unguaranteed
Sumitomo Mitsui Trust Bank, Limited			1,000	—					
Mizuho Bank, Ltd.			1,000	—					
Shinsei Bank, Limited			500	—					
Subtotal		3,000	—	0.73% (Note 2)	March 31, 2018	Repayment of ¥19,000 thousand every 3 months, and lump-sum repayment of the remaining amount (Note 4)	(Note 10)	Unsecured, unguaranteed	
Sumitomo Mitsui Banking Corporation		March 31, 2014	54						—
Resona Bank, Limited			713						—
Shinsei Bank, Limited			702						—
Sumitomo Mitsui Trust Bank, Limited			47						—
The Nomura Trust and Banking Co., Ltd.			668						—
The Chiba Bank, Ltd.			535						—
Sompo Japan Nipponkoa Insurance Inc.			601						—
Subtotal		3,321	—	1.15% (Note 2)	March 31, 2021	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed	
Sumitomo Mitsui Banking Corporation	March 31, 2014	648	648						
Resona Bank, Limited		2,516	2,516						
Shinsei Bank, Limited		2,516	2,516						
Sumitomo Mitsui Trust Bank, Limited		1,120	1,120						
Subtotal		6,800	6,800						

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	(Note 3)	September 30, 2019	Lump-sum repayment	(Note 11)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		434	434					
	Shinsei Bank, Limited		720	720					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	The Bank of Fukuoka, Ltd.		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Hiroshima Bank, Ltd.		435	435					
	Sompo Japan Nipponkoa Insurance Inc.		328	328					
	Development Bank of Japan Inc.		500	500					
	Subtotal		6,317	6,317					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	800	800	0.92% (Note 2)	September 30, 2020	Lump-sum repayment (Note 8)	(Note 11)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,600	1,600					
	Resona Bank, Limited		1,100	1,100					
	Shinsei Bank, Limited		970	970					
	Sumitomo Mitsui Trust Bank, Limited		800	800					
	Development Bank of Japan Inc.		500	500					
	The Tokyo Star Bank, Limited		762	—					
	Aozora Bank, Ltd.		285	285					
	Subtotal		6,817	6,055					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	600	1.04% (Note 2)	September 30, 2021	Lump-sum repayment	(Note 11)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	1,200					
	Resona Bank, Limited		850	850					
	Shinsei Bank, Limited		750	750					
	Sumitomo Mitsui Trust Bank, Limited		600	600					
	Subtotal		4,000	4,000					
	MUFG Bank, Ltd.	December 30, 2014	935	935	0.56%	December 30, 2020	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Subtotal		935	935					
	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,400	1,400	0.38% (Note 2)	January 31, 2020	Lump-sum repayment	(Note 11)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,500	1,500					
	Shinsei Bank, Limited		500	500					
	Resona Bank, Limited		500	500					
	Sumitomo Mitsui Trust Bank, Limited		500	500					
	The Chiba Bank, Ltd.		300	300					
	Subtotal		4,700	4,700					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	January 30, 2015	1,700	1,700	0.90% (Note 2)	January 31, 2022	Lump-sum repayment (Note 8)	(Note 11)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		3,000	3,000					
	Shinsei Bank, Limited		1,050	1,050					
	Resona Bank, Limited		1,000	1,000					
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					
	The Tokyo Star Bank, Limited		300	—					
	Aozora Bank, Ltd.		150	150					
	Subtotal		8,200	7,900					
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	1,500	0.93% (Note 2)	March 31, 2022	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		1,500	1,500					
	Aozora Bank, Ltd.	July 10, 2015	1,000	1,000	0.95% (Note 2)	June 30, 2022	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	MUFG Bank, Ltd.		500	500					
	Subtotal		1,500	1,500					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	100	100	0.51%	June 30, 2020	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		992	992					
	Subtotal		1,092	1,092					
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07% (Note 2)	September 29, 2023	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					
	Sumitomo Mitsui Banking Corporation	September 30, 2015	703	703	1.07% (Note 2)	September 29, 2023	Lump-sum repayment (Note 8)	(Note 10)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		1,744	—					
	Shinsei Bank, Limited		189	189					
	Subtotal		2,636	892					
	Sumitomo Mitsui Banking Corporation	February 29, 2016	500	500	0.21% (Note 2)	March 31, 2019	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		250	250					
	Mizuho Bank, Ltd.		250	250					
	Subtotal		2,000	2,000					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	480	480	0.19% (Note 2)	March 31, 2019	Lump-sum repayment (Note 8)	(Note 10)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		800	—					
	Mizuho Bank, Ltd.		480	480					
	Subtotal		1,760	960					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	530	530	0.19% (Note 2)	March 31, 2019	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		270	270					
	Development Bank of Japan Inc.		230	230					
	The Bank of Fukuoka, Ltd.		110	110					
	Subtotal		1,140	1,140					
	Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77% (Note 2)	March 31, 2024	Lump-sum repayment (Note 8)	(Note 10)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		1,750	—					
	Mizuho Bank, Ltd.		1,050	1,050					
	Subtotal		3,850	2,100					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	1,200	1,200	0.77% (Note 2)	March 31, 2024	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		600	600					
	Development Bank of Japan Inc.		550	550					
	The Bank of Fukuoka, Ltd.		300	300					
	Subtotal		2,650	2,650					
	Sumitomo Mitsui Banking Corporation	March 31, 2016	1,200	1,200	0.68% (Note 2)	March 31, 2023	Lump-sum repayment (Note 8)	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		1,000	1,000					
	Resona Bank, Limited		500	500					
	The Tokyo Star Bank, Limited		500	—					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	Subtotal		4,700	4,200					
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	800	800	0.66% (Note 2)	March 31, 2024	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Subtotal		800	800					
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 31, 2024	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	September 1, 2016	2,900	2,900	0.74% (Note 2)	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,700	1,700					
	Mizuho Bank, Ltd.		1,700	1,700					
	Resona Bank, Limited		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	The Chiba Bank, Ltd.		500	500					
	The Bank of Fukuoka, Ltd.		1,200	1,200					
	Subtotal		9,500	9,500					
	Sumitomo Mitsui Trust Bank, Limited	September 1, 2016	1,300	1,300	0.56% (Note 2)	September 30, 2024	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		1,300	1,300					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	MUFG Bank, Ltd.	September 1, 2016	2,000	2,000	0.56%	September 30, 2024	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		2,000	2,000	(Note 2)				
	Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		700	700					
	Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		500	500					
	Sumitomo Mitsui Banking Corporation	February 28, 2017	1,700	—	0.33%	March 30, 2018	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Subtotal		1,700	—					
	Sumitomo Mitsui Banking Corporation	July 12, 2017	1,750	1,750	0.46%	June 30, 2023	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		500	500					
	Subtotal		2,250	2,250					
	Sumitomo Mitsui Banking Corporation	August 1, 2017	1,250	1,250	0.85%	September 30, 2026	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,250	1,250					
	Mizuho Bank, Ltd.		1,250	1,250					
	Resona Bank, Limited		500	500					
	Subtotal		4,250	4,250					
	Sumitomo Mitsui Trust Bank, Limited	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		1,000	1,000	(Note 2)				
	MUFG Bank, Ltd.	August 1, 2017	700	700	0.68%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		700	700	(Note 2)				
	Development Bank of Japan Inc.	August 1, 2017	500	500	0.75%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		500	500					
	The Fukuoka Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		500	500	(Note 2)				
	Aozora Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		500	500	(Note 2)				
	THE NISHI-NIPPON CITY BANK, LTD.	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		1,000	1,000	(Note 2)				
	Shinsei Bank, Limited	August 1, 2017	300	300	0.68%	September 30, 2025	Lump-sum repayment	(Note 9)	Unsecured, unguaranteed
	Subtotal		300	300	(Note 2)				
	Sumitomo Mitsui Banking Corporation	September 19, 2017	1,200	1,200	0.65%	March 31, 2025	Lump-sum repayment	(Note 10)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		500	500					
	Sumitomo Mitsui Trust Bank, Limited		460	460					
	Shinsei Bank, Limited		390	390					
	Subtotal		2,550	2,550					

Category	Lender	Borrowing date	Balance at beginning of period (JPY1M)	Balance at end of period (JPY1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	November 15, 2017	2,500	2,500	0.57% (Note 2)	March 29, 2024	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Shinsei Bank, Limited		1,500	1,500					
	Subtotal		4,000	4,000					
	Sumitomo Mitsui Banking Corporation	November 15, 2017	1,500	1,500	0.65% (Note 2)	March 31, 2025	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Shinsei Bank, Limited		500	500					
	Development Bank of Japan Inc.		300	300					
	The Fukuoka Bank, Ltd.		150	150					
	Subtotal		2,450	2,450					
	Sumitomo Mitsui Banking Corporation	March 30, 2018	—	1,700	0.41%	March 31, 2023	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Subtotal		—	1,700					
	Sumitomo Mitsui Banking Corporation	April 26, 2018	—	650	0.41%	March 31, 2023	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Shinsei Bank, Limited		—	950					
	The Chiba Bank, Ltd.		—	500					
	THE NISHI-NIPPON CITY BANK, LTD.		—	250					
	Sompo Japan Nipponkoa Insurance Inc.		—	500					
	Subtotal		—	2,850					
	The Hiroshima Bank, Ltd.	April 26, 2018	—	500	0.52%	March 31, 2023	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Subtotal		—	500					
	The Shizuoka Bank, Ltd.	September 28, 2018	—	500	0.55%	September 29, 2023	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Subtotal		—	500					
	Sumitomo Mitsui Banking Corporation	September 28, 2018	—	1,700	0.95% (Note 2)	September 30, 2027	Lump-sum repayment	(Note 10)	Unsecured unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		—	1,400					
	Shinsei Bank, Limited		—	500					
	Mizuho Bank, Ltd.		—	300					
	Subtotal		—	3,900					
	The Bank of Fukuoka, Ltd.	November 30, 2018	—	350	0.34%	December 30, 2019	Lump-sum repayment	(Note 12)	Unsecured unguaranteed
	Subtotal		—	350					
	THE NISHI-NIPPON CITY BANK, LTD.	November 30, 2018	—	350	0.34%	December 30, 2019	Lump-sum repayment	(Note 12)	Unsecured unguaranteed
	Subtotal		—	350					
	Long-term loans payable – Total		113,799	103,071					
Total loans payable			116,799	103,071					

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

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

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

interest rate swap agreement on September 26, 2014.

- (Note 4) JHR made early repayment for the entire amount on February 28, 2018.
- (Note 5) JHR made early repayment for the entire amount on August 10, 2018.
- (Note 6) JHR made partial early repayment of ¥1,400 million on February 28, 2018 and made lump-sum repayment for the remaining amount on the maturity date.
- (Note 7) JHR made partial early repayment of ¥1,200 million on February 28, 2018 and made lump-sum repayment for the remaining amount on the maturity date.
- (Note 8) JHR made partial early repayment of the loan on April 26, 2018.
- (Note 9) The funds were appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.
- (Note 10) The funds were appropriated for refinancing of borrowings, etc.
- (Note 11) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses, etc.
- (Note 12) The funds were appropriated for renovation of Hotel Centraza Hakata and related expenses, etc.
- (Note 13) In order to list each loan payable, ¥11,117 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.
- (Note 14) MUFG Bank, Ltd. succeeded the corporate lending operations of Mitsubishi UFJ Trust and Banking Corporation as of April 16, 2018 through a corporate split and absorption.

3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2018 was as follows:

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

- (Note 1) The funds were appropriated to partly fund the repayment of existing borrowings.
- (Note 2) The funds were appropriated for repayment of existing borrowings and future acquisition of specified assets, etc.
- (Note 3) The funds were appropriated for redemption of the second unsecured investment corporation bonds, repayment of existing borrowings and future acquisition of real estate properties, etc.
- (Note 4) A special pari passu clause among specified investment corporation bonds is attached to the bonds.
- (Note 5) A special pari passu clause among investment corporation bonds is attached to the bonds.

4. Short-term investment corporation bonds

Not applicable.

5. Subscription rights to new investment units

Not applicable.

Purchase and Sale during the Period

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

Asset type	Name of property, etc.	Acquisition		Sale			
		Acquisition date	Acquisition price (JPY1M)	Sale date	Sale price (JPY1M) (Note 1)	Book value (JPY1M)	Gain (loss) on sale (JPY1M) (Note 2)
Beneficial interest of real estate in trust	R&B Hotel Higashi-nihonbashi	—	—	August 10, 2018	3,050	1,483	1,543
Beneficial interest of real estate in trust	the b akasaka-mitsuke	—	—	August 10, 2018	6,600	6,294	264
Beneficial interest of real estate in trust	the b ochanomizu	—	—	August 10, 2018	2,500	2,353	127
Total		—	—	—	12,150	10,131	1,934

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

(Note 2) Gain (loss) on sale indicates the amount obtained by deducting the book value and other sale-related expenses from the sale price.

2. Purchase and sale of other assets, etc.

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

3. Investigation into prices, etc. of specified assets

(1) Real estate properties, etc.

Acquisition/sale	Asset type	Name of property, etc.	Acquisition/sale date	Acquisition/sale price (JPY1M) (Note 1)	Appraisal value (JPY1M) (Note 2)	Date of appraisal	Appraisal agency
Sale	Beneficial interest of real estate in trust	R&B Hotel Higashi-nihonbashi	August 10, 2018	3,050	2,090	June 30, 2018	JLL Mori Valuation & Advisory K.K.
Sale	Beneficial interest of real estate in trust	the b akasaka-mitsuke	August 10, 2018	6,600	6,010	June 30, 2018	Japan Real Estate Institute
Sale	Beneficial interest of real estate in trust	the b ochanomizu	August 10, 2018	2,500	2,360	June 30, 2018	Japan Real Estate Institute

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

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

(2) Transaction of securities

Not applicable.

(3) Other

Name of the party that conducted the investigation

KPMG AZSA LLC

Overview of results and method of the investigation

From the period from January 1, 2018 to December 31, 2018, JHR requested an investigation of one interest rate swap transaction. Based on Article 201-2 of the Act on Investment Trusts and Investment Corporations, JHR entrusted the investigation to KPMG AZSA LLC with regard to such information as the comparable price, counterparty's name, contract amounts and transaction period, and received a report on the agreed upon procedures as a result of the investigation based on the "Practical Guidelines on the Agreed Upon Procedures for the Investigation into Prices, Etc. of Specified Assets for Investment Trusts and Investment Corporations" (Professional Practice Guidelines 4460) issued by the Japanese Institute of Certified Public Accountants.

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

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

(1) Transactions

(millions of yen)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	–	12,150	26,318
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	7,200 [27.4%]
Lagoon resort Nago Co., Ltd.	– [–%]	– [–%]	1,169 [4.4%]
OW Hotel Operations KK	– [–%]	– [–%]	1,114 [4.2%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,063 [4.0%]
K.K. A.I.C Hiroshima Management	– [–%]	– [–%]	996 [3.8%]
KK NaritaKosuge Operations	– [–%]	– [–%]	784 [3.0%]
Hotel Management Co., Ltd.	– [–%]	– [–%]	629 [2.4%]
KK NaritaYoshikura Operations	– [–%]	– [–%]	608 [2.3%]
Hotel Centraza Co., Ltd.	– [–%]	– [–%]	589 [2.2%]
Total	– [–%]	– [–%]	14,156 [53.8%]

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

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

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

(2) Amount of fees paid, etc.

(thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with interested parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	714,663	Hotel Management Japan Co., Ltd.	5,760	0.8

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

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

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

II. Financial Information

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

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

2. Changes in calculation method of depreciation

Not applicable.

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

Not applicable.

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

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

(1) Status of acquisition, etc.

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

(2) Status of holding units

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

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

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

Other

(1) Announcements

There were no major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR's Board of Directors during the fiscal period under review.

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

Approval date	Item	Summary
January 16, 2019	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units in Japan was entrusted to SMBC Nikko Securities Inc., Daiwa Securities Co. Ltd., Mizuho Securities Co., Ltd., Goldman Sachs Japan Co., Ltd., Nomura Securities Co., Ltd., FFG Securities Co., Ltd., Nishi-Nippon City Tokai Tokyo Securities Co., Ltd. and Chibagin Securities Co., Ltd. Moreover, general administration for offering the investment units overseas was entrusted to SMBC Nikko Capital Markets Limited, Goldman Sachs International, Mizuho International plc and Daiwa Capital Markets Europe Limited as joint lead managers for the overseas offering.

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

Not applicable.

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

Not applicable.

(4) Other

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

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
As of December 31, 2018 and 2017

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
<u>ASSETS</u>		
Current assets:		
Cash and deposits (<i>Notes 4 and 5</i>)	¥ 25,706,559	¥ 16,179,716
Cash and deposits in trust (<i>Notes 4 and 5</i>)	11,478,156	11,740,634
Operating accounts receivable (<i>Note 5</i>)	2,474,121	2,411,837
Prepaid expenses	527,491	573,439
Income taxes receivable	34	32
Derivative assets (<i>Notes 5 and 17</i>)	2,229	-
Other current assets	77,987	14,205
Total current assets	40,266,582	30,919,866
Property and equipment, at cost (<i>Notes 16 and 18</i>):		
Machinery and equipment	398,134	278,899
Tools, furniture and fixtures	3,121,628	2,438,070
Buildings in trust (<i>Note 13</i>)	122,605,307	122,414,147
Structures in trust	2,535,539	2,493,765
Machinery and equipment in trust	598,790	580,867
Tools, furniture and fixtures in trust	136,526	137,266
Land in trust	163,151,369	171,618,110
Construction in progress in trust	765,363	1,512
	293,312,661	299,962,640
Less: Accumulated depreciation	(20,423,041)	(16,896,044)
Net property and equipment	272,889,620	283,066,595
Intangible assets:		
Software	199,563	200,001
Leasehold rights in trust (<i>Note 18</i>)	28,532,362	28,648,457
Fixed-term leasehold rights in trust (<i>Note 18</i>)	5,175,217	5,313,494
Other intangible assets (<i>Note 18</i>)	8,436	9,116
Total intangible assets	33,915,580	34,171,069
Other assets:		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	158,323
Long-term prepaid expenses	2,687,996	3,008,327
Derivative assets (<i>Notes 5 and 17</i>)	45,125	123,334
Reserve fund for repairs and maintenance	292,508	319,058
Investment unit issuance costs	124,220	272,107
Investment corporation bond issuance costs	172,390	132,059
Total other assets	3,484,984	4,025,731
Total assets	¥350,556,767	¥352,183,262

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
As of December 31, 2018 and 2017

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Operating accounts payable	¥ 1,941,008	¥ 909,971
Short-term loans payable (<i>Notes 5 and 6</i>)	-	3,000,000
Current portion of investment corporation bonds (<i>Notes 5 and 7</i>)	2,000,000	-
Current portion of long-term loans payable (<i>Notes 5, 6 and 17</i>)	11,117,000	15,022,750
Accrued expenses	530,377	650,568
Income taxes payable	1,210	1,210
Consumption taxes payable	496,921	560,170
Advances received	882,052	900,259
Dividends payable	18,275	16,400
Deposits received	7,315	22,098
Derivative liabilities (<i>Notes 5 and 17</i>)	17,608	23,471
Deferred tax liabilities (<i>Note 14</i>)	583	-
Other current liabilities	9,013	54,903
Total current liabilities	17,021,368	21,161,802
Long-term liabilities:		
Investment corporation bonds (<i>Notes 5 and 7</i>)	31,600,000	23,600,000
Long-term loans payable (<i>Notes 5, 6 and 17</i>)	91,954,000	98,777,000
Tenant leasehold and security deposits (<i>Note 5</i>)	1,041,016	1,041,016
Tenant leasehold and security deposits in trust (<i>Note 5</i>)	4,593,946	4,653,410
Derivative liabilities (<i>Notes 5 and 17</i>)	514,339	504,179
Deferred tax liabilities (<i>Note 14</i>)	14,255	38,954
Asset retirement obligations (<i>Note 8</i>)	445,622	443,577
Total long-term liabilities	130,163,180	129,058,138
Total liabilities	147,184,548	150,219,940
Net assets (<i>Note 9</i>):		
Unitholders' equity:		
Unitholders' capital	153,516,129	153,516,129
Units authorized: 20,000,000 units		
Units issued and outstanding; 4,010,847 units and 4,010,847 units as of December 31, 2018 and 2017, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Reserve for temporary difference adjustment (<i>Note 10</i>)	12,357,644	13,127,153
Total voluntary reserve	12,357,644	13,127,153
Unappropriated retained earnings	16,213,482	14,005,489
Total surplus	50,317,525	48,879,041
Total unitholders' equity	203,833,655	202,395,170
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (<i>Note 17</i>)	(461,435)	(431,849)
Total valuation and translation adjustments	(461,435)	(431,849)
Total net assets	203,372,219	201,963,321
Total liabilities and net assets	¥350,556,767	¥352,183,262

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Income
For the years ended December 31, 2018 and 2017

	<i>Thousands of yen</i>	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Operating revenue:		
Real estate operating revenue (<i>Note 11</i>)	¥ 25,140,735	¥ 24,318,307
Other real estate operating revenue (<i>Note 11</i>)	1,178,141	1,157,246
Gain on sale of real estate properties (<i>Note 12</i>)	1,934,974	-
Total operating revenue	28,253,850	25,475,553
Operating expenses:		
Real estate operating costs (<i>Note 11</i>)	8,344,364	7,911,653
Asset management fee	1,577,515	1,501,391
Asset custody and administrative service fee	110,273	111,425
Directors' compensation	13,400	14,150
Other operating expenses	214,828	179,110
Total operating expenses	10,260,381	9,717,731
Operating income	17,993,469	15,757,821
Non-operating income:		
Interest income	225	212
Gain on forfeiture of unclaimed dividends	3,583	3,624
Gain on insurance claims	4,627	648
Refunded taxes on property and equipment	10,354	-
Interest on tax refunds	118	391
Gain on derivative instruments	12,843	22,381
Total non-operating income	31,752	27,258
Non-operating expenses:		
Interest expense	818,631	904,000
Interest expense on investment corporation bonds	246,329	169,584
Borrowing costs	525,031	522,774
Amortization of investment corporation bond issuance costs	27,751	20,748
Amortization of investment unit issuance costs	147,887	141,962
Loss on derivative instruments	39,417	13,306
Other	8,529	6,414
Total non-operating expenses	1,813,577	1,778,791
Ordinary income	16,211,644	14,006,288
Income before income taxes	16,211,644	14,006,288
Income taxes (<i>Note 14</i>):		
Current	1,210	1,210
Total income taxes	1,210	1,210
Net income	¥ 16,210,434	¥ 14,005,078

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Changes in Net Assets
For the years ended December 31, 2018 and 2017

	Thousands of yen								
	Unitholders' equity								
	Surplus								
		Voluntary reserve							
	Unitholders' capital	Capital surplus	Dividend reserve	Reserve for temporary difference adjustment	Total voluntary reserve	Unappropriated retained earnings	Total surplus	Total unitholders' equity	
Balance, January 1, 2017	¥ 134,829,448	¥ 21,746,398	¥ 13,867,228	¥ -	¥ 13,867,228	¥ 12,126,057	¥ 47,739,684	¥ 182,569,132	
Changes of items during the year:									
Issuance of new investment units	18,686,681	-	-	-	-	-	-	18,686,681	
Reversal of dividend reserve	-	-	(13,867,228)	-	(13,867,228)	13,867,228	-	-	
Provision of reserve for temporary difference adjustment	-	-	-	13,127,153	13,127,153	(13,127,153)	-	-	
Dividends paid	-	-	-	-	-	(12,865,721)	(12,865,721)	(12,865,721)	
Net income	-	-	-	-	-	14,005,078	14,005,078	14,005,078	
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-	
Total changes in amount during the year	18,686,681	-	(13,867,228)	13,127,153	(740,075)	1,879,431	1,139,356	19,826,037	
Balance, December 31, 2017	¥ 153,516,129	¥ 21,746,398	¥ -	¥ 13,127,153	¥ 13,127,153	¥ 14,005,489	¥ 48,879,041	¥ 202,395,170	
Changes of items during the year:									
Reversal of reserve for temporary difference adjustment	-	-	-	(769,508)	(769,508)	769,508	-	-	
Dividends paid	-	-	-	-	-	(14,771,949)	(14,771,949)	(14,771,949)	
Net income	-	-	-	-	-	16,210,434	16,210,434	16,210,434	
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-	
Total changes in amount during the year	-	-	-	(769,508)	(769,508)	2,207,993	1,438,484	1,438,484	
Balance, December 31, 2018	¥ 153,516,129	¥ 21,746,398	¥ -	¥ 12,357,644	¥ 12,357,644	¥ 16,213,482	¥ 50,317,525	¥ 203,833,655	

<i>Thousands of yen</i>			
	Valuation and translation adjustments		
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, January 1, 2017	¥ (580,019)	¥ (580,019)	¥ 181,989,112
Changes of items during the year:			
Issuance of new investment units	-	-	18,686,681
Reversal of dividend reserve	-	-	-
Provision of reserve for temporary difference adjustment	-	-	-
Dividends paid	-	-	(12,865,721)
Net income	-	-	14,005,078
Net changes in items other than unitholders' equity	148,170	148,170	148,170
Total changes in amount during the year	148,170	148,170	19,974,208
Balance, December 31, 2017	¥ (431,849)	¥ (431,849)	¥ 201,963,321
Changes of items during the year:			
Reversal of reserve for temporary difference adjustment	-	-	-
Dividends paid	-	-	(14,771,949)
Net income	-	-	16,210,434
Net changes in items other than unitholders' equity	(29,586)	(29,586)	(29,586)
Total changes in amount during the year	(29,586)	(29,586)	1,408,897
Balance, December 31, 2018	¥ (461,435)	¥ (461,435)	¥ 203,372,219

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	<i>Thousands of yen</i>	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Cash flows from operating activities:		
Income before income taxes	¥ 16,211,644	¥ 14,006,288
Depreciation and amortization	4,091,929	3,725,775
Loss on disposal of property and equipment	35,972	132,908
(Gain) Loss on derivative instruments	26,574	(9,074)
Amortization of investment corporation bond issuance costs	27,751	20,748
Amortization of investment unit issuance costs	147,887	141,962
Decrease of property and equipment due to sale	19,104	-
Decrease of property and equipment in trust due to sale	9,995,677	-
Decrease of intangible assets due to sale	117,138	-
Interest income	(225)	(212)
Interest expense	1,064,961	1,073,584
Interest on tax refunds	(118)	(391)
(Increase) decrease in operating accounts receivable	(62,284)	(340,685)
(Increase) decrease in prepaid expenses	44,621	13,261
(Increase) decrease in long-term prepaid expenses	320,330	82,178
Increase (decrease) in operating accounts payable	286,480	(6,949)
Increase (decrease) in accrued expenses	(139,228)	43,449
Increase (decrease) in consumption taxes payable	(63,249)	63,796
Increase (decrease) in advances received	(18,206)	969
Increase (decrease) in deposits received	(14,782)	(95,850)
Other	(106,639)	(11,075)
Subtotal	31,985,341	18,840,684
Interest received	170	166
Interest paid	(1,045,923)	(1,076,810)
Interest received on tax refunds	118	391
Income taxes – refunded (paid)	(1,211)	(947)
Net cash provided by operating activities	30,938,494	17,763,484
Cash flows from investing activities:		
Purchase of property and equipment	(536,481)	(557,756)
Purchase of property and equipment in trust	(2,399,742)	(35,256,102)
Purchase of intangible assets	(87,074)	(46,379)
Payments of reserve fund for repairs and maintenance	(40,330)	(258,870)
Refunds of leasehold and security deposits in trust	8,100	-
Repayment of tenant leasehold and security deposits	-	(16)
Proceeds from tenant leasehold and security deposits in trust	59,743	70,297
Repayment of tenant leasehold and security deposits in trust	(115,020)	(35,130)
Net cash used in investing activities	¥ (3,110,806)	¥ (36,083,958)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2018 and 2017

	<i>Thousands of yen</i>	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 5,000,000	¥ 4,000,000
Repayments of short-term loans payable	(8,000,000)	(2,800,000)
Proceeds from long-term loans payable	10,150,000	21,700,000
Repayments of long-term loans payable	(20,878,750)	(9,679,250)
Proceeds from investment corporation bonds	10,000,000	1,000,000
Proceeds from issuance of investment units	-	18,516,225
Payments for investment corporation bond issuance costs	(68,082)	(9,218)
Dividends paid	(14,766,490)	(12,860,798)
Net cash provided by (used in) financing activities	(18,563,322)	19,866,959
Net increase (decrease) in cash and cash equivalents	9,264,365	1,546,484
Cash and cash equivalents at beginning of year	27,920,350	26,373,866
Cash and cash equivalents at end of year (<i>Note 4</i>)	¥ 37,184,716	¥ 27,920,350

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Notes to Financial Statements

For the years ended December 31, 2018 and 2017

1. Organization and Basis of Presentation

a. Organization

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

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

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

Through the Merger, nine properties held by the Former JHR were succeeded by JHR. As a result, as of the effective date of the Merger, JHR’s property portfolio expanded to 28 properties.

During the fiscal year ended December 31, 2018, JHR sold 3 properties (R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu) as part of its growth strategy to improve the quality of its portfolio through asset replacement. As of December 31, 2018, JHR has ownership interests in 41 properties.

b. Basis of presentation

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

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

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

2. Summary of Significant Accounting Policies

a. Cash and cash equivalents

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

b. Property and equipment

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

Machinery and equipment:	2 to 17 years
Tools, furniture and fixtures:	2 to 20 years
Buildings in trust:	2 to 62 years
Structures in trust:	2 to 62 years
Machinery and equipment in trust:	4 to 32 years
Tools, furniture and fixtures in trust:	2 to 27 years

c. Intangible assets

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

Software (internal use): 5 years

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

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

d. Investment unit issuance costs

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

Underwriting fees, which usually form a part of investment unit issuance costs, have not incurred in the offering executed during the year ended December 31, 2017 due to the reason below;

The issuance of new investment units through a public offering on July 5, 2017 was consummated under an underwriting agreement in which underwriting securities companies committed to purchase all of the investment units being offered at an issue value and selling them at an offering price different from such issue value to general investors (the “spread method”). No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥578,908 thousand, representing the difference between the offering price and the issue value of all new investment units issued.

e. Investment corporation bond issuance costs

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

f. Taxes on property and equipment

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for those properties related taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was not applicable for the year ended December 31, 2018 and ¥75,557 thousand for the year ended December 31, 2017.

g. Derivatives and hedging activities

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

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

h. Beneficial interests of real estate in trust

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

i. Consumption taxes

Consumption taxes are excluded from the transaction amounts.

3. Accounting Standards Issued but Not Yet Applied

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

(1) Overview

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

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

(2) Scheduled date of application

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

(3) Impact of applying the accounting standards

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

4. Cash Flow Information

Cash and cash equivalents as of December 31, 2018 and 2017 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
Cash and deposits	¥ 25,706,559	¥ 16,179,716
Cash and deposits in trust	11,478,156	11,740,634
Cash and cash equivalents	<u>¥ 37,184,716</u>	<u>¥ 27,920,350</u>

5. Financial Instruments

a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust Act. As a policy, JHR procures funds through issuance of investment units, etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

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

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

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk

management rules applied by the Asset Management Company. Derivative transactions are arranged by the finance section of the Asset Management Company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

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

b. Fair value of financial instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2018 and 2017 were as follows. Financial instruments whose fair values are difficult to estimate are not included in the table. See Note (2) below.

<i>Thousands of yen</i>			
As of December 31, 2018			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 25,706,559	¥ 25,706,559	¥ -
(ii) Cash and deposits in trust	11,478,156	11,478,156	-
(iii) Operating accounts receivable	2,474,121	2,474,121	-
Total	¥ 39,658,838	¥ 39,658,838	¥ -
(iv) Short-term loans payable	¥ -	¥ -	¥ -
(v) Current portion of investment corporation bonds	2,000,000	2,002,200	2,200
(vi) Current portion of long-term loans payable	11,117,000	11,117,000	-
(vii) Investment corporation bonds	31,600,000	31,785,870	185,870
(viii) Long-term loans payable	91,954,000	91,954,000	-
Total	¥ 136,671,000	¥ 136,859,070	¥ 188,070
(ix) Derivative transactions (*)	¥ (484,593)	¥ (484,593)	¥ -
<i>Thousands of yen</i>			
As of December 31, 2017			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 16,179,716	¥ 16,179,716	¥ -
(ii) Cash and deposits in trust	11,740,634	11,740,634	-
(iii) Operating accounts receivable	2,411,837	2,411,837	-
Total	¥ 30,332,188	¥ 30,332,188	¥ -
(iv) Short-term loans payable	¥ 3,000,000	¥ 3,000,000	¥ -
(v) Current portion of investment corporation bonds	-	-	-
(vi) Current portion of long-term loans payable	15,022,750	15,022,750	-
(vii) Investment corporation bonds	23,600,000	23,621,270	21,270
(viii) Long-term loans payable	98,777,000	98,777,000	-
Total	¥ 140,399,750	¥ 140,421,020	¥ 21,270
(ix) Derivative transactions (*)	¥ (404,316)	¥ (404,316)	¥ -

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

Notes:

(1) Methods to measure fair value of financial instruments

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

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

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

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

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

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

(ix) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 17.

(2) Information on financial instruments whose fair values are difficult to estimate as of December 31, 2018 and 2017 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
	Carrying amount	
Tenant leasehold and security deposits	¥ 1,041,016	¥ 1,041,016
Tenant leasehold and security deposits in trust	4,593,946	4,653,410
Total	¥ 5,634,962	¥ 5,694,426

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) are not subject to fair value disclosure because they have no market price and their actual deposit periods from a tenant's move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows difficult.

(3) Redemption schedule for monetary claims as of December 31, 2018 and 2017:

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

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2017						
Cash and deposits	¥16,179,716	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	11,740,634	-	-	-	-	-
Operating accounts receivable	2,411,837	-	-	-	-	-
Total	¥30,332,188	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2018 and 2017.

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

<i>Thousands of yen</i>						
As of December 31, 2017	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loan payable	¥3,000,000	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of investment corporation bonds	-	-	-	-	-	-
Current portion of long-term loans payable	15,022,750	-	-	-	-	-
Investment corporation bonds	-	2,000,000	-	1,500,000	6,000,000	14,100,000
Long-term loans payable	-	11,217,000	13,544,000	10,800,000	11,200,000	52,016,000
Total	¥18,022,750	¥13,217,000	¥13,544,000	¥12,300,000	¥17,200,000	¥66,116,000

6. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2018 and 2017 consisted of the following:

	Maturity date	Millions of yen	
		As of December 31, 2018	As of December 31, 2017
		Amount	
Short-term loans payable:			
0.33% Unsecured loan, payable in a lump-sum at maturity (*3)	June 29, 2018	¥ -	¥ 3,000
0.33% Unsecured loan, payable in a lump-sum at maturity (*4)	December 28, 2018	-	-
Sub-total		-	3,000
Long-term loans payable:			
0.97% Unsecured loan, payable ¥11,250 thousand quarterly and the remaining balance in a lump-sum at maturity (*5)	April 26, 2018	-	4,297
0.98% Unsecured loan, payable ¥7,250 thousand quarterly and the remaining balance in a lump-sum at maturity (*1)	September 30, 2018	-	2,704
0.98% Unsecured loan, payable in a lump-sum at maturity (*1,6)	September 30, 2018	-	3,000
0.73% Unsecured loan, payable ¥19,000 thousand quarterly and the remaining balance in a lump-sum at maturity (*1,3)	March 31, 2018	-	3,321
1.15% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2021	6,800	6,800
Unsecured loan, payable in a lump-sum at maturity (*2)	September 30, 2019	6,317	6,317
0.92% Unsecured loan, payable in a lump-sum at maturity (*1,7)	September 30, 2020	6,055	6,817
1.04% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2021	4,000	4,000
0.56% Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	935	935
0.38% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2020	4,700	4,700
0.90% Unsecured loan, payable in a lump-sum at maturity (*1,7)	January 31, 2022	7,900	8,200
0.93% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2022	1,500	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	June 30, 2022	1,500	1,500
0.51% Unsecured loan, payable in a lump-sum at maturity	June 30, 2020	1,092	1,092
1.07% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity (*1,7)	September 29, 2023	892	2,636
0.21% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	2,000	2,000
0.19% Unsecured loan, payable in a lump-sum at maturity (*1,7)	March 31, 2019	960	1,760
0.19% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2019	1,140	1,140
0.77% Unsecured loan, payable in a lump-sum at maturity (*1,7)	March 31, 2024	2,100	3,850
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	2,650	2,650
0.68% Unsecured loan, payable in a lump-sum at maturity (*1,7)	March 31, 2023	4,200	4,700
0.66% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2024	800	800
0.57% Unsecured loan, payable in a lump-sum at maturity	March 31, 2024	500	500
0.74% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	9,500	9,500
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	1,300	1,300
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2024	2,000	2,000
0.59% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	700	700
0.71% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	500	500
0.33% Unsecured loan, payable in a lump-sum at maturity	March 30, 2018	-	1,700
0.46% Unsecured loan, payable in a lump-sum at maturity	June 30, 2023	2,250	2,250
0.85% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2026	4,250	4,250
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	700	700
0.75% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2025	300	300
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,550	2,550
0.57% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	4,000	4,000
0.65% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2025	2,450	2,450
0.41% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	1,700	-
0.41% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	2,850	-
0.52% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	500	-
0.55% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	500	-
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2027	3,900	-
0.34% Unsecured loan, payable in a lump-sum at maturity	December 30, 2019	350	-
0.34% Unsecured loan, payable in a lump-sum at maturity	December 30, 2019	350	-
Sub-total		103,071	113,799
Total of short-term and long-term loans payable		¥ 103,071	¥ 116,799

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2018, or the most recent year, based on the number of days and outstanding balance of the loans payable. The interest rate is rounded off to the nearest second decimal place.

Notes:

- (*1) As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps (interest rate fixation), rounded off to second decimal places.
- (*2) Of these loans payable, the interest rate on the portion totaling ¥1,317 million is, in effect, fixed at 0.80225% per annum for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is, in effect, fixed at 0.94875% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.
- (*3) JHR made early repayment of the full amount of these loans payable on February 28, 2018.
- (*4) JHR borrowed ¥5,000 million loan payable on April 26, 2018 with scheduled maturity date on December 28, 2018. However, JHR made early repayment of the full amount of the loan payable on August 10, 2018.
- (*5) JHR made partial early repayment of ¥1,400 million on February 28, 2018 and made lump-sum repayment for the remaining amount on the maturity date.
- (*6) JHR made partial early repayment of ¥1,200 million on February 28, 2018 and made lump-sum repayment for the remaining amount on the maturity date.
- (*7) JHR made partial early repayment of these loans payable on April 26, 2018.

7. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2018 and 2017 consisted of the following:

	<i>Millions of yen</i>			
	As of December 31, 2018		As of December 31, 2017	
Unsecured 3rd investment corporation bond at interest rate of 0.92%, due on March 19, 2019	¥	2,000	¥	2,000
Unsecured 4th investment corporation bond at interest rate of 0.86%, due on December 17, 2021		1,500		1,500
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022		6,000		6,000
Unsecured 6th investment corporation bond at interest rate of 0.935%, due on March 19, 2026		3,000		3,000
Unsecured 7th investment corporation bond at interest rate of 0.60%, due on November 27, 2026		9,000		9,000
Unsecured 8th investment corporation bond at interest rate of 0.60%, due on November 27, 2026		1,100		1,100
Unsecured 9th investment corporation bond at interest rate of 0.53%, due on November 22, 2024		1,000		1,000
Unsecured 10th investment corporation bond at interest rate of 0.84%, due on February 21, 2028		10,000		-
Total	¥	33,600	¥	23,600

8. Asset Retirement Obligations

a. Outline of the asset retirement obligations

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

b. Calculation method of the asset retirement obligations

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

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

	<i>Thousands of yen</i>	
	For the year ended December 31, 2018	For the year ended December 31, 2017
Balance at beginning of year	¥ 443,577	¥ 441,542
Adjustment due to accretion expense	2,045	2,035
Balance at end of year	¥ 445,622	¥ 443,577

9. Net Assets

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

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

	<i>Yen</i>			
	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Total	Per unit	Total	Per unit
I Unappropriated retained earnings	¥ 16,213,482,816		¥ 14,005,489,588	
II Reversal of voluntary reserve				
Reversal of reserve for temporary difference adjustment (*1)	563,572,972	¥ 140	769,508,609	¥ 191
III Dividends	15,602,194,830	¥ 3,890	14,771,949,501	¥ 3,683
IV Provision of voluntary reserve				
Reserve for special advanced depreciation (*2)	1,174,860,958		-	
V Retained earnings carried forward (I+II-III-IV)	¥ -		¥ 3,048,696	

Notes:

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

For the year ended December 31, 2017, reversal of reserve for temporary difference adjustment of ¥769,508,609 was decided, which was calculated as ¥262,600,000 of the basic reversal plus ¥374,000,000 as a compensation for dilution of dividend per unit due to capital increase through public offerings and ¥132,908,609 corresponding to loss on disposal of property and equipment during the year.

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

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

10. Provision and Reversal of Reserve for Temporary Difference Adjustment

Changes in the balance of reserve for temporary difference adjustment during the years ended December 31, 2018 and 2017 consisted of the following (yen in thousand):

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

Source	Original amount	Balance as of January 1, 2017	Provision during the year	Reversal during the year	Balance as of December 31, 2017	Rationale for provision or reversal
Dividend reserve	13,127,153	-	13,127,153	-	13,127,153	Application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the "Ordinance on Accounting of Investment Corporations" (Cabinet Office Ordinance No. 27 of 2015)

(Note) See (*1) of Note 9 above for further descriptions.

11. Real Estate Operating Revenue and Costs

The components of "Real estate operating revenue" and "Real estate operating costs" for the years ended December 31, 2018 and 2017 were as follows:

		<i>Thousands of yen</i>	
		For the year ended December 31, 2018	For the year ended December 31, 2017
Operating revenue:			
Real estate operating revenue:			
Fixed rent	¥	13,610,785	¥ 13,064,351
Variable rent		8,851,482	8,572,121
Income from management contract (*1)		2,678,467	2,681,834
Sub-total		25,140,735	24,318,307
Other real estate operating revenue:			
Parking lots		173,453	179,054
Other incidental revenue		62,693	62,597
Utilities		804,915	781,934
Other		137,078	133,660
Sub-total		1,178,141	1,157,246
Total operating revenue		26,318,876	25,475,553
Real estate operating costs:			
Land lease and other rent expenses		907,621	922,891
Property taxes		1,630,178	1,476,156
Outsourcing expenses (*2)		714,663	703,933
Nonlife insurance		47,798	47,030
Depreciation and amortization		4,091,929	3,725,775
Loss on disposal of property and equipment		35,972	132,908
Repairs		46,405	49,747
Utilities		813,911	790,728
Trust fees		42,537	43,655
Other		13,345	18,825
Total real estate operating costs		8,344,364	7,911,653
Net real estate operating income	¥	17,974,512	¥ 17,563,899

Notes:

- (*1) Pursuant to management contracts with a certain hotel operator, JHR receives revenue in the amount equivalent to the properties' gross operating profit, or GOP, while it pays management contract fees to the operator. In the event a property's GOP for the relevant period is a negative number, then JHR is required to pay an amount equal to such negative number to the operator. Even though some of the revenue JHR receives under management contracts is variable, it recognizes such revenue as income from management contracts and not as variable rent.
- (*2) Outsourcing expenses include management contract fees of ¥337,442 thousand for the year ended December 31, 2018 and ¥343,712 thousand for the year ended December 31, 2017.

12. Gain on Sale of Real Estate Properties

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

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

There was no gain or loss on sale of real estate properties for the year ended December 31, 2017.

13. Advanced Depreciation of Property and Equipment

The accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received as of December 31, 2018 and 2017 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
	¥ 24,921	¥ 24,921
Buildings in trust		

14. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2018 and 2017 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2018	As of December 31, 2017
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,728,216	¥ 1,756,833
Amortization of fixed-term leasehold rights	119,491	76,475
Asset retirement obligations	11,259	7,603
Deferred losses on hedges	156,203	165,776
Subtotal deferred tax assets	2,015,170	2,006,688
Valuation allowance	(2,015,170)	(2,006,688)
Total deferred tax assets	¥ -	¥ -
Deferred tax liabilities		
Deferred gains on hedges	14,838	38,954
Total deferred tax liabilities	¥ 14,838	¥ 38,954

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2018 and 2017 was as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Effective statutory tax rate	31.74%	31.74%
Deduction for dividends paid	(29.63)	(31.92)
Reserve for special advanced depreciation	(2.30)	-
Change in valuation allowance	0.10	0.18
Other – net	0.09	0.01
Actual effective tax rate	0.01%	0.01%

15. Amounts per Unit

Net income per unit for the years ended December 31, 2018 and 2017 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
	Net income	Weighted- average units	Net income per unit
For the year ended December 31, 2018			
Basic net income per unit - Net income attributable to common unitholders	¥ 16,210,434	4,010,847	¥ 4,041
For the year ended December 31, 2017			
Basic net income per unit - Net income attributable to common unitholders	¥ 14,005,078	3,883,679	¥ 3,606

Notes:

- (1) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.
- (2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2018 and 2017.

Net assets per unit as of December 31, 2018 and 2017 were as follows:

	<i>Yen</i>
	As of December 31, 2018
Net assets per unit	¥ 50,705
	As of December 31, 2017
	¥ 50,354

16. Leases

As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. Minimum rental revenue under the non-cancellable operating leases as of December 31, 2018 and 2017 were as follows:

	<i>Thousands of yen</i>
	As of December 31, 2018
Due within one year	¥ 1,666,631
Due after one year	3,562,086
Total	¥ 5,228,717
	As of December 31, 2017
	¥ 1,520,073
	4,685,123
	¥ 6,205,197

17. Derivatives and Hedging Activities

a. Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting was not applied as of December 31, 2018 and 2017 were as follows:

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

As of December 31, 2017	Classification	Thousands of yen		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 6,794,000	¥ 1,794,000	¥ (15,651)

b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting was applied as of December 31, 2018 and 2017 were as follows:

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

As of December 31, 2017	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 100,058,750	¥ 91,048,000	¥ (388,665)
Interest rate caps	Deferral method	Long-term loans payable	4,286,250	-	-

Notes:

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

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

18. Investment and Rental Properties

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

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

Notes:

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

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

	<i>Thousands of yen</i>			
	Carrying amount			Fair value (*2)
	January 1, 2017	Net increase (*1)	December 31, 2017	December 31, 2017
	¥	¥	¥	¥
Hotels	284,965,547	32,263,660	317,229,208	439,390,000

Notes:

(*1) Increase during 2017 principally represents the acquisition of Hilton Tokyo Narita Airport for ¥13,376 million, International Garden Hotel Narita for ¥9,237 million and Hotel Nikko Nara for ¥10,589 million.

(*2) Fair value of properties as of December 31, 2017 is generally the appraisal value determined by outside licensed real estate appraisers.

Real estate operating revenue and costs for the years ended December 31, 2018 and 2017 related to the rental properties were as follows:

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

	<i>Thousands of yen</i>		
	For the year ended December 31, 2017		
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
	¥	¥	¥
Hotels	25,475,553	7,911,653	17,563,899

Note:

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

19. Segment Information

a. Segment information

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

b. Related information

(1) Information about products and services for the years ended December 31, 2018 and 2017

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

(2) Information about geographical areas for the years ended December 31, 2018 and 2017

(i) Operating revenue

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

(ii) Property and equipment

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

(3) Information about major customers

<For the year ended December 31, 2018>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	7,200,325
AAPC Japan K.K.	Hotel real estate investment and management	¥	3,121,263

<For the year ended December 31, 2017>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	6,973,259
AAPC Japan K.K.	Hotel real estate investment and management	¥	3,098,069

20. Subsequent Events

1. Acquisition of assets

JHR acquired two properties as follows.

Property name	Hotel Oriental Express Osaka Shinsaibashi
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-2-13, Minamimemba, Chuo-ku, Osaka-shi, Osaka
Acquisition date	February 1, 2019
Seller	Undisclosed (*1)
Acquisition price (*2)	¥2,738 million

(*1) The information is not disclosed as consent for disclosure has not been obtained from the seller.

(*2) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption tax and local consumption tax.

Property name	Hilton Tokyo Odaiba
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-9-1, Daiba, Minato-ku, Tokyo
Acquisition date	April 8, 2019
Seller	Hulic Co., Ltd.
Acquisition price (*)	¥62,400 million

(*) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption tax and local consumption tax.

2. Borrowing of funds

On April 8, 2019, JHR conducted new borrowings as follows, in order to partly fund the acquisition of the real estate beneficial interest in trust of Hilton Tokyo Odaiba and movable assets attached thereon as described above in 1. Acquisition of assets.

(1) Term Loan 53

Lenders	The Bank of Fukuoka, Ltd. / The Chiba Bank, Ltd. / THE NISHI-NIPPON CITY BANK, LTD / Sampo Japan Nipponkoa Insurance Inc.
Amount of the loan	¥2,500 million
Interest rate	0.375% (fixed rate)
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 29, 2024
Collateral	Unsecured / Unguaranteed

(2) Term Loan 54

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank, Limited. / Development Bank of Japan Inc.
Amount of the loan	¥7,500 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.55%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2027
Collateral	Unsecured / Unguaranteed

(3) Term Loan 55

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited. / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank Limited / Resona Bank, Limited. / The Nomura Trust and Banking Co., Ltd. / Development Bank of Japan Inc. / The Bank of Fukuoka, Ltd. / Aozora Bank, Ltd. / THE NISHI-NIPPON CITY BANK, LTD.
Amount of the loan	¥18,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.60%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2028
Collateral	Unsecured / Unguaranteed

(4) Term Loan 56

Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥2,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.275%
Date of borrowing	April 8, 2019
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2020
Collateral	Unsecured / Unguaranteed

3. Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 8, 2019 and January 16, 2019. Payment for the new investment units was completed on January 23, 2019 and February 20, 2019, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital increased to ¥186,894,169,809, with the number of investment units issued and outstanding totaling 4,462,347 units.

(1) Issuance of new investment units (domestic public offering and overseas offering)

Number of investment units issued:	447,800 units
Of which, domestic public offering:	206,247 units
Of which, overseas offering:	241,553 units
Offering price:	¥76,342 per unit
Total offering price:	¥34,185,947,600
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥33,104,510,600
Payment date:	January 23, 2019

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

Number of investment units issued:	3,700 units
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥273,529,900
Payment date:	February 20, 2019
Allottee:	SMBC Nikko Securities Inc.

(3) Use of proceeds

JHR will allocate the proceeds from the issuance of new investment units through the domestic public offering and overseas offering of ¥33,104,510,600 to part of the funds for acquisition of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba as described above in "1. Acquisition of assets." In addition, the proceeds from the issuance of new investment units through third-party allotment of ¥273,529,900 will be allocated to part of the funds for acquisition of Hilton Tokyo Odaiba. The residual funds of the proceeds, if any, will be retained as cash on hand to be allocated to part of the funds for future acquisition of specified assets, part of the funds for repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.



Independent Auditor's Report

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

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 20 (Subsequent Events) to the financial statements, which states that the Company acquired properties, conducted new borrowings and issued new investment units. Our opinion is not modified in respect of this matter.

KPMG AZSA LLC

April 19, 2019
Tokyo, Japan