

Japan Hotel and Resort, Inc.

Announcement of Operational Results

First Term (ended August 2006)

October 24, 2006



JAPAN HOTEL AND RESORT

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Chapter 1 Overview of First Term Results (ended August 2006)

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Chapter1 Overview of First Term Results (ended August 2006)

1

¥15,921 distribution per unit (+¥1,695 over expected dividends for the first term)

- ¥15,921 to be distributed instead of the expected ¥14,226 – +11.9% over estimate

2

99% achievement rate in variable rent revenues

- Actual variable rent revenues reached ¥1,148 mn against estimate of ¥1,160 mn
- Variance in estimated and actual variable rent revenues primarily attributable to lower than expected wedding business revenues in Kobe

3

Capex predominantly for strategic renovation (total: around ¥1 bn)

- ¥793 mn spent for strategic renovation to enhance hotel competitiveness
- Strategic refurbishment of rooms (Shin-Urayasu, Kobe, Namba), restaurants (Kobe, Alivila), and banquet halls (Shin-Urayasu)

4

Purchase of interest rate cap spread and acquisition of issuer rating (R&I: Single A)

- Interest rate cap spread purchased to benefit from floating rate borrowings while hedging interest rate risk
- Single A rating obtained from R&I

(Summary) Balance Sheet, Income Statement

■ Chapter1 Overview of First Term Results (ended August 2006) ■

Japan Hotel and Resort, Inc.

First Term (Summary) Balance Sheet

		Actual	% of total assets
Assets	Cash and equivalents	¥6,175 mn	7.5 %
	Invested properties, etc.	¥73,719 mn	90.1 %
	Others	¥1,964 mn	2.4 %
	Total assets	¥81,857 mn	100.0 %
Liabilities	Borrowings	¥31,753 mn	38.8 %
	Deposits	¥1,660 mn	2.0 %
	Others	¥1,016 mn	1.2 %
	Total liabilities	¥34,429 mn	42.1 %
Net Assets	Net assets	¥47,428 mn	57.9 %

First Term (Summary) Income Statement — Full Year

	Estimate	Actual	Variance (%)
Operating revenues	¥3,004 mn	¥2,985 mn	-0.6 %
Operating profit	—	¥1,749 mn	—
Recurring profit	¥1,306 mn	¥1,461 mn	11.9 %
Net income	¥1,304 mn	¥1,459 mn	11.9 %
Dividend per unit	¥14,226	¥15,921	11.9 %

Reasons behind the variances between estimates and actuals

- Primary cause of variances in operating revenues are attributable to the shortfall of ¥12 mn in variable rent revenues.
- Operating profit exceeded expectations due to lower than expected SG&A (¥70 mn)
- Net income exceeded expectations by ¥155 mn due to lower than expected interest payable on borrowings and IPO-related costs.

Financial Indicators

First Term Financial Indicators

FFO

¥2,183 mn

- Funds From Operation (FFO) is calculated as a total of net income, depreciation cost, and loss from disposition of fixed asset.

ROA

1.8% (3.3% annualized)

- Return On Asset (ROA) is the recurring return on total assets and is calculated by dividing recurring profit by total assets at year-end. The number in brackets indicates the annualized number for the actual period of operation in the First Term (198 days).

ROE

3.1% (5.7% annualized)

- Return On Equity (ROE) is calculated by dividing net income by net assets at year-end. The number in brackets indicates the annualized number for the actual period of operation in the First Term (198 days).

LTV

38.8%

- Loan To Value (LTV) is the leverage ratio at year-end and is calculated by dividing the amount of interest-bearing debt at year-end by the amount of total assets at year-end.

Depreciation Cost

¥668 mn

- The REIT incurred ¥668 mn in depreciation cost and ¥54 mn in loss from disposition of fixed asset in the First Term.

Capital Expenditure

¥999 mn

- Capex for the First Term came to ¥999 mn. A total of 1,003 mn (including ¥4 mn for maintenance and repairs) was spent for construction work during the year.

Second Term Projections

Second Term Projections — Interim Period

	Forecast at the time of IPO	Updated forecast
Operating term	181 days	181 days
Operating revenues	¥2,677 mn	¥2,682 mn
Recurring profit	¥1,267 mn	¥1,283 mn
Net income	¥1,266 mn	¥1,282 mn
Dividend per unit	—	—

Second Term Projections — Full Year

	Forecast at the time of IPO	Updated forecast	Variance
Operating term	365 days	365 days	—
Operating revenues	¥5,480 mn	¥5,509 mn	¥29 mn
Recurring profit	¥2,401 mn	¥2,452 mn	¥51 mn
Net income	¥2,399 mn	¥2,450 mn	¥51 mn
Dividend per unit	¥26,172	¥26,718	¥546

Assumptions

- The investment period runs for 181 days in the first half of the Second Term from September 1, 2006, and for 365 days for the full year ending August 31, 2007.
- The projections assume that the REIT holds the six properties it held as of August 31, 2006.
- Dividend per unit assumes that the number of units outstanding as of August 31, 2006 (91,700 shares) remains unchanged at the end of August 2007.
- Projected operating revenues include ¥2,102 mn in variable rent revenues.
- Around ¥159 mn in property tax is assumed for the Second Term (five months' worth).
- Note that the projections are subject to changes in the property portfolio, property market, and any other changes in the operating environment surrounding the REIT, which may affect actual operating revenues, net income and dividends. Note also that the projections indicated do not guarantee the amount of dividend that may become payable.

Chapter2 Operating Performance of Individual Properties

$$\begin{array}{|c|} \hline \text{ADR} \\ \hline \text{(Average Daily Rate)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Occupancy Rate} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{RevPAR} \\ \hline \text{(Revenue Per Available Room)} \\ \hline \end{array}$$

■ Total rooms revenues during a certain period (excluding service charge) / Total rooms sold during the same period

■ Total rooms sold during a certain period / Total number of available rooms in the same period

■ Total rooms revenues during a certain period / Total number of available rooms in the same period

$$\begin{array}{|c|} \hline \text{GOP}^{(1)} \\ \hline \end{array} = \text{Total department profit}^{(2)} - \text{Undistributed expenses}$$

: Commonly used performance indicators for hotels

(1) Gross Operating Profit.

(2) Rooms, food & beverages, shops, tenants and others.

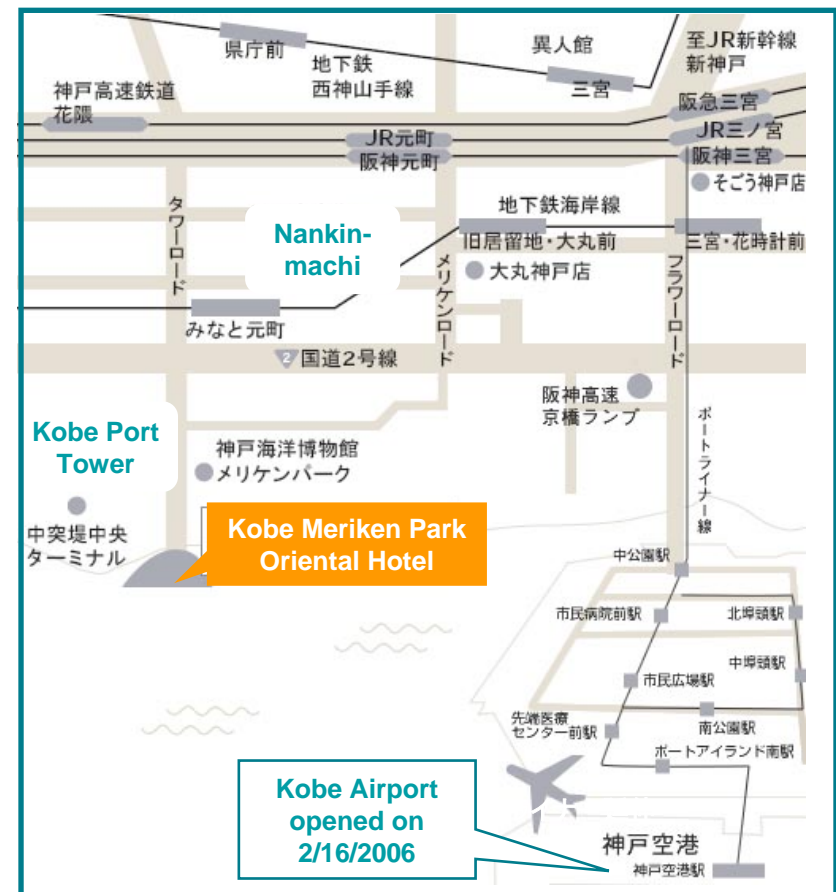
Kobe Meriken Park Oriental Hotel

Overview (1)

- Located in Kobe, where further area development can be expected
- Located on the pier of Meriken Park and surrounded by the ocean on 3 sides, serving demand for the urban resort experience
- Designed with an urban resort flavor; each room is equipped with a balcony to command a superior view
- Revenues contributions from food & beverages (banquets, restaurants, etc.)



Source: Kobe Meriken Park Oriental Hotel Homepage



Kobe Meriken Park Oriental Hotel

Summary (2)

■ Chapter2 Operating Performance of Individual Properties ■

Japan Hotel and Resort, Inc.

Asset Overview	
Appraised Value as of end Aug 06	¥12 bn
Form of Ownership	Land Lease
	Building Condo ownership
Land	Location Chuo-ku, Kobe
	Size 22,660.09m ²
Building	Structure/ Floors S structure 14 floors
	Year built July, 1995
	Total floor space 48,701.82m ²
Hotel Lessee	K.K. Hotel Management Japan
Operator	Archon Hospitality K.K.
PML	13.8%

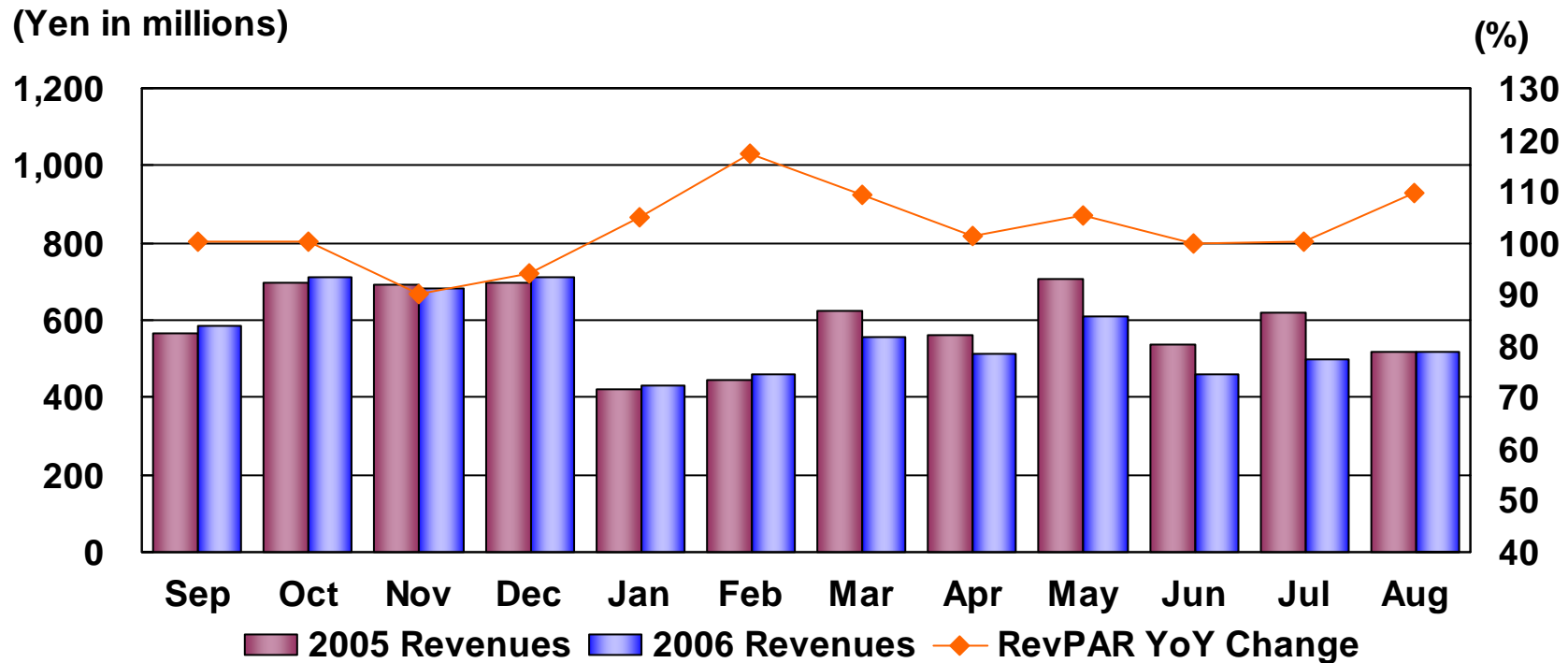
Facilities Overview	
# Rooms	331
Dining Facilities	6 directly operated
Banquet Halls	10
Others	2 chapels, 1 shinto shrine, and 1 pool
Operational indicators (FY2006 ⁽¹⁾)	
ADR	¥14,869
Occupancy Rate :	80.0%
RevPAR	¥11,925
Revenues	¥3,391 mn
GOP	¥669 mn
GOP/Revenues	19.7%

(1) FY2006 indicates the period covering February 15, 2006 through August 31, 2006.

Kobe Meriken Park Oriental Hotel

Hotel performance⁽¹⁾

- The major factor behind the drop in FY2006 revenues year-on-year was the decline in revenues from the wedding business
- RevPAR exceeded previous year's levels except in June and July when the hotel stopped selling some rooms due to guest room renovations



(1) "2005 revenues" are for September 2004 through August 2005, and "2006 revenues" are for September 2005 through August 2006. Some numbers have not been audited and are for reference purposes only.

Kobe Meriken Park Oriental Hotel Renovation (1)

12-13 floors (72 rooms) guest rooms and corridors renovated

Facilities needed to be updated to meet current customer needs. Guest rooms have been renovated with the “urban resort” concept in mind. Significant increase in ADR post renovation.

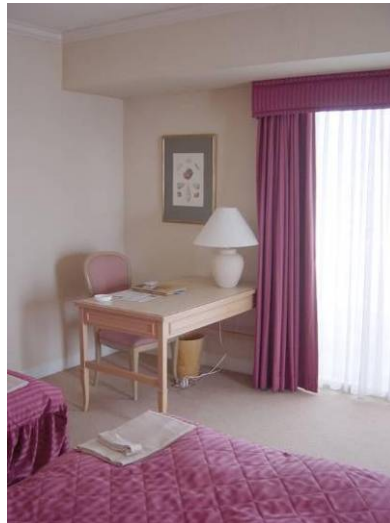
Expenditure⁽¹⁾: ¥189 mn

Effected: May-Jul. 2006

(1) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.



Before



After



Kobe Meriken Park Oriental Hotel Renovation (2)

Refurbishment of steakhouse “Oriental”

No improvements had been made to the restaurant since it began operation a decade ago and the design had become outdated. Achieved high customer satisfaction and increased number of repeaters after a complete overhaul of the interior.

Increased spending per customer and revenues seen post renovation.

Expenditure⁽¹⁾: ¥51 mn

Effected: Jan.-Mar. 2006

(1) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.

Before



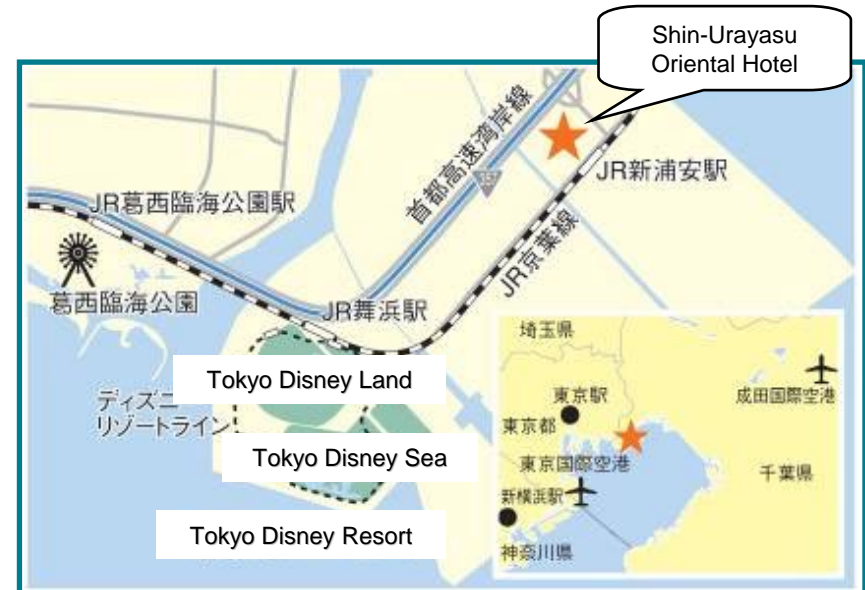
After



Shin-Urayasu Oriental Hotel

Overview (1)

- Partner Hotel of Tokyo Disney Resort (TDR), linked to JR Shin-Urayasu Station
 - The # of visitors to TDR is steadily increasing through renewal investments
- Unique facility composition, including a chapel in the hotel atrium and guest rooms designed for families
 - The demands of local users accompanying strong population growth and economic expansion
- High occupancy rate



Shin-Urayasu Oriental Hotel

Summary (2)

Asset Overview	
Appraised Value as of end Aug 06	¥19.5 bn
Form of Ownership	Land Owned
	Building Owned
Land	Location Urayasu-shi, Chiba
	Size 9,914.00m ²
Building	Structure/ Floors SRC·S·RC structure 2 basement floors 12 floors
	Year built May, 1995
	Total floor space 44,833.11m ²
	Hotel Lessee K.K. Hotel Management Japan
Operator Archon Hospitality K.K.	
PML 15.3%	

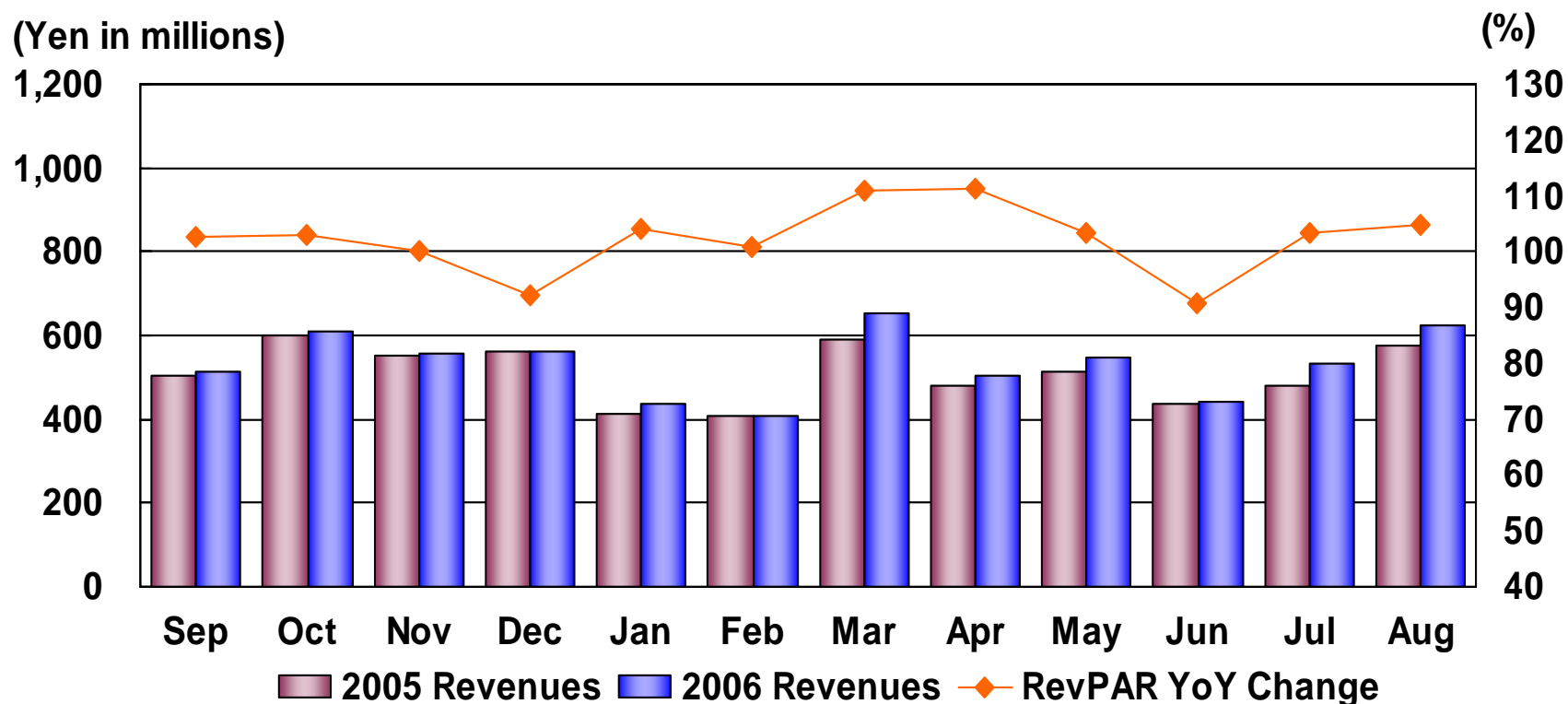
Facilities Overview	
# Rooms	506
Dining Facilities	5 directly operated, 1 tenant
Banquet Halls	8
Others	1 chapel
Operational indicators (FY2006 ⁽¹⁾)	
ADR	¥18,994
Occupancy Rate	84.3%
RevPAR	¥16,116
Revenues	¥3,524 mn
GOP	¥946 mn
GOP/Revenues	26.8%

(1) FY2006 indicates the period covering February 15, 2006 through August 31, 2006.

Shin-Urayasu Oriental Hotel

Hotel Performance⁽¹⁾

- 2006 revenues exceeded the previous year (Year-on-year increase in revenues from rooms, wedding/banquet, and restaurant departments)
- RevPAR remained strong except in June when the hotel stopped selling some rooms due to guest room renovations



(1) "2005 revenues" are for September 2004 through August 2005, and "2006 revenues" are for September 2005 through August 2006. Some numbers have not been audited and are for reference purposes only.

Shin-Urayasu Oriental Hotel Renovation

9 -10 floors (108 rooms) guest rooms and corridors renovated

The renovation of 9th and 10th floor guest rooms has contributed to sustaining competitiveness and driving the occupancy rate upwards in an environment of stiffer competition due to new entries by rival hotels.

Expenditure⁽¹⁾: ¥145 mn

Effected: Jun.-Jul. 2006

(1) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.



After

Renewal of banquet room “Rose”

By renovating the room into a wedding-oriented banquet room with natural-tone colors and bright ambiance, the hotel seeks to increase business and revenues from wedding receptions and any subsequent parties for 50 or more guests.

Expenditure⁽²⁾: ¥20 mn

Effected: Aug. 2006

(2) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.

Before



After

Namba Oriental Hotel

Overview (1)

- Located in the Sennichimae shopping district, only 1 minute away from Namba Station where 7 railroads cross
- All rooms have double / twin beds and a restaurant floor with attractive tenants is offered



Namba Oriental Hotel

Summary (2)

Asset Overview	
Appraised value as of end Aug 06	¥16.7 bn
Form of Ownership	Land Owned
	Building Owned
Land	Location Chuo-ku, Osaka
	Size 4,505.23m ²
Building	Structure/Floors S-SRC structure 1 basement floor 9 floors
	Year built March, 1996
	Total floor space 19,364.33m ²
Hotel Lessee	K.K. Hotel Management Japan
Operator	Archon Hospitality K.K.
PML	11.1%

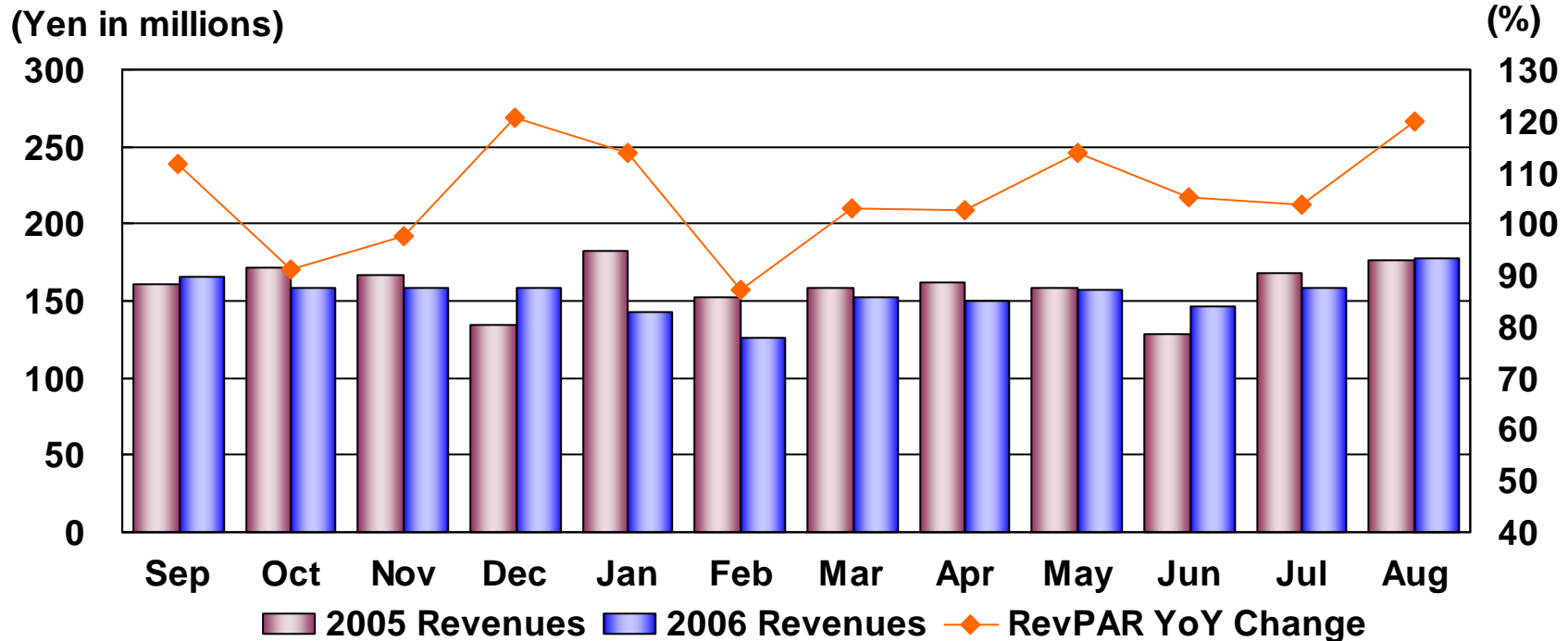
Facilities Overview	
# Rooms	257
Dining Facilities	1 directly operated, 13 tenants
Banquet Halls	None
Others	6 tenants
Operational Indicators (FY 2006 ⁽¹⁾)	
ADR	¥10,023
Occupancy Rate	80.8%
RevPAR	¥8,114
Revenues	¥1,007 mn
GOP	¥603 mn
GOP/Revenues	59.9%

(1) FY2006 indicates the period covering February 15, 2006 through August 31, 2006.

Namba Oriental Hotel

Hotel performance⁽¹⁾

- Revenues were affected by lower rental revenues after the change of a large tenant but were maintained at similar levels to the previous year through revenue management efforts such as online bookings, etc.
- RevPAR remained at levels above the previous year except for February, when the hotel stopped selling some rooms due to guest room renovations

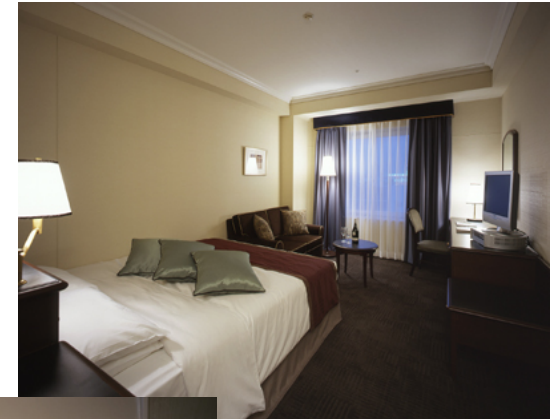


(1) "2005 revenues" are for September 2004 through August 2005, and "2006 revenues" are for September 2005 through August 2006. Some numbers have not been audited and are for reference purposes only.

7 and 8 floors (86 rooms) guest rooms and corridors renovated

Guest rooms and corridors have been renovated into a chic ambience with a European touch, inheriting the “NOHQ” concept (concept adopted when guest rooms on the 9th floor was refurbished in 2004).

All rooms have been fitted with LAN connection ports and beds by Simmons. RevPAR rose as a result of this renovation.



Expenditure⁽¹⁾: ¥93 mn

Effected: Jan.-Mar. 2006

(1) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.



Before



After



Hotel Nikko Alivila

Overview (1)

- Located on the west coast of Okinawa, one of the nation's leading resort locations
—Transition from summer resort to “Destination Resort”
- Location with “exclusivity”
- Resort-type facility structure with a beach frontage



Hotel Nikko Alivila

Summary (2)

Asset Overview		
Appraised value as of end Aug 06		¥19.8 bn
Form of Ownership	Land	Owned/lease
	Building	Owned
Land	Location	Yomitanson, Nakagami-gun, Okinawa
	Size	67,423.55m ²
Building	Structure/ Floors	SRC 1 basement floor 10 floors
	Year built	April, 1994
	Total floor space	38,024.98m ²
Hotel Lessee	K.K. Hotel Management Japan	
Operator	JAL Hotels Co., Ltd.	
PML	5.0%	

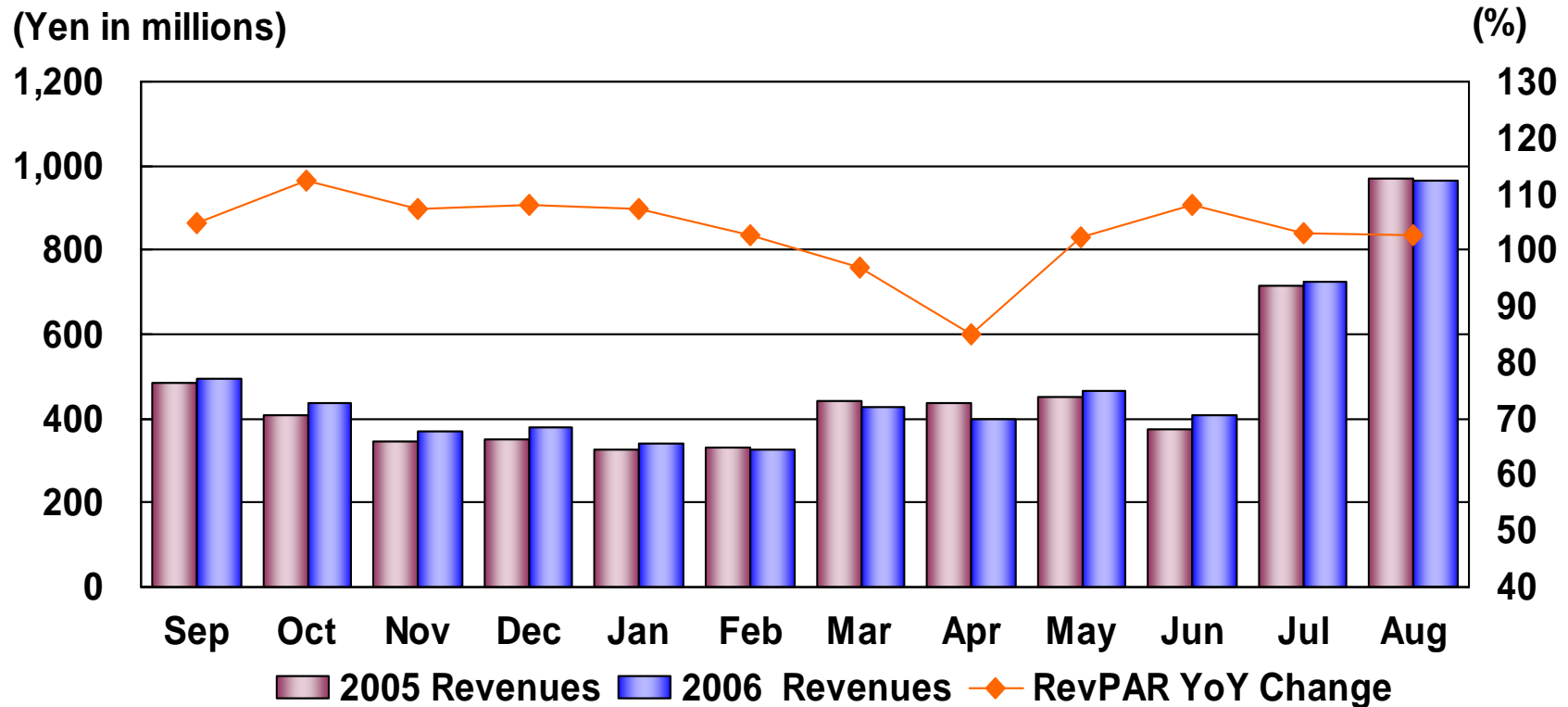
Facilities Overview	
# Rooms	397
Dining Facilities	8 directlyoperated
Banquet Halls	2
Others	Spa, outdoor pool, tennis court, putting green, marine sports facilities
Operational Indicators (FY 2006 ⁽¹⁾)	
ADR	¥29,516
Occupancy Rate	82.9%
RevPAR	¥25,077
Revenues	¥3,560 mn
GOP	¥1,310 mn
GOP/Revenues	36.8%

(1) FY2006 indicates the period covering February 15, 2006 through August 31, 2006.

Hotel Nikko Alivila

Hotel performance⁽¹⁾

- The number of visitors to Okinawa exceeded the previous year
- Revenues in February 2006 through August 2006 remained strong
- RevPAR remained above the previous year's levels except for March and April



(1) "2005 revenues" are for September 2004 through August 2005, and "2006 revenues" are for September 2005 through August 2006. Some numbers have not been audited and are for reference purposes only.

Refurbishing Herb & Grill “Hanahana”

Expanded peak-hour capacity by increasing seats, and coordinated the interior with a lighter color scheme. Menu offerings are made under the “herbs & grills” concept using locally-available ingredients with the aim to prompt traffic among existing customers and to cultivate new customer segments such as groups and families.

Expenditure⁽¹⁾: ¥155 mn

Effected: May, 2006

(1) Expenditures cover not only spending on building and auxiliary facilities that are classified as fixed assets, but also spending on equipment and furniture.



Before



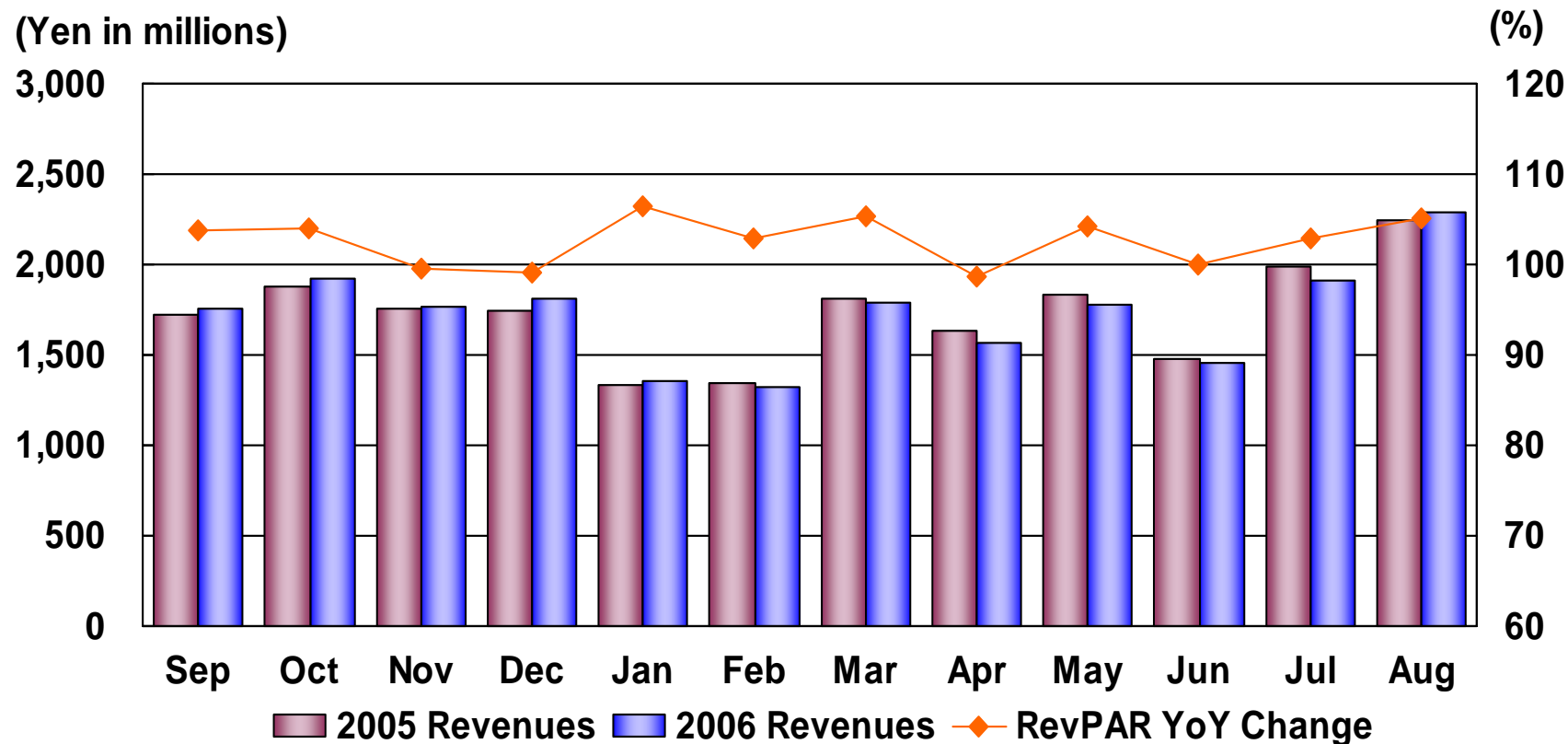
After



Hotel Performance⁽¹⁾: 4 HMJ Hotels

(Aggregated performance)

- Total revenues of the four HMJ hotels, where the variable rent scheme apply, fell only slightly. Strong revenues at Shin-Urayasu, etc., contributed toward offsetting the decline in wedding revenues in Kobe
- Average RevPAR at the four hotels exceeded prior year levels throughout the year

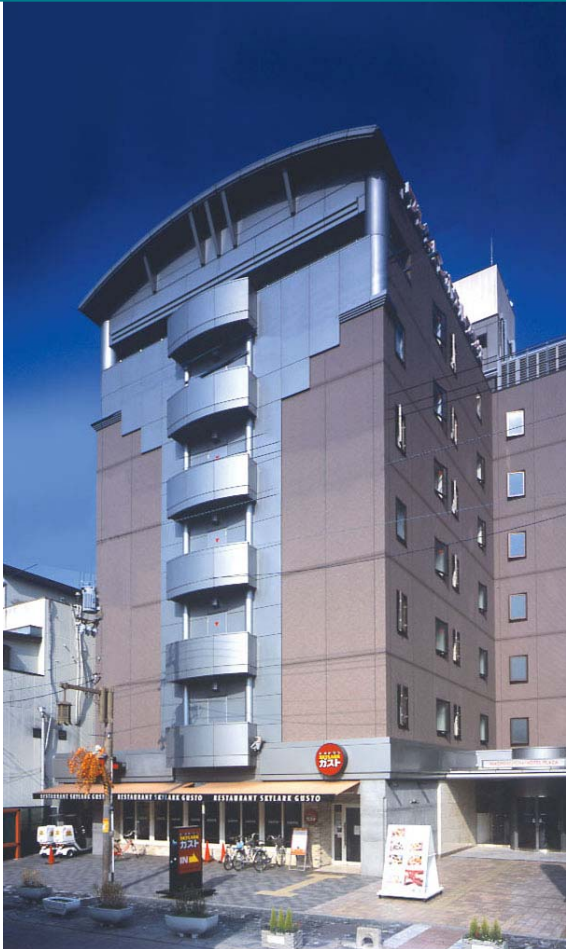


(1) "2005 revenues" are for September 2004 through August 2005, and "2006 revenues" are for September 2005 through August 2006. Some numbers have not been audited and are for reference purposes only.

Nara Washington Hotel Plaza

Overview

- Located in international tourist site “Nara”
- Relatively new facilities compared to competitors
- Operated by the Washington Hotel



Asset Overview

Appraised value as of end Aug. 06		¥1.9 bn
Form of Ownership	Land	Owned
	Building	Owned
Land	Location	Nara-shi, Nara
	Size	2,393.48m ²
Building	Structure / Floors	S; 7 floors
	Year built	March, 2000
	Floor Area	5,385.82m ²
# Rooms		204
Food&beverage Facilities		1 directly operated
Hotel Lessee		Washington Hotel Corporation
PML		6.7%

Hakata Nakasu Washington Hotel Plaza

Overview

- Located in “Fukuoka,” where demand is being created for both business and leisure
- Located in “Nakasu”, one of Kyushu's most thriving areas
- Operated by the Washington Hotel



Asset Overview

Appraised value as of end Aug. 06		¥3.9 bn
Form of Ownership	Land	Owned
	Building	Owned
Land	Location	Hakata-ku, Fukuoka-shi
	Size	1,128.46m ²
Building	Structure / Floors	S; 12 floors
	Year built	March, 1995
	Floor Area	5,692.24m ²
# Rooms	247	
Food&beverage Facilities	2 directly operated	
Hotel Lessee	Washington Hotel Corporation	
PML	0.14%	

Chapter3 Future Direction of Growth Strategy

Future Direction of Internal Growth Strategy (1)

Positioning of capex and strategic renovation

■ Capex is classified into three categories as shown below and effected to enhance the value of the assets over the medium to the long-term

The REIT will look to shoulder capex for renovating facilities (“strategic capex”) which is normally borne by the lessee to uphold and improve the hotel's competitiveness in an effort to increase hotel revenues and variable rent revenues



Categories of capital expenditures

CAPEX I Capex related to building repairs and maintenance

Replacement and maintenance of facilities required for maintaining the asset value of properties

CAPEX II Capex spending on fixtures, equipment, and facilities

Purchase of fixtures, furniture, and equipment required for operating hotels, unrelated to their building frame or facilities

CAPEX III Strategic capex

Capex related to the strategic renovation of guest rooms, banquet halls and restaurants. Spending with the view to increase ADR, occupancy rate, number of banquets & weddings, number of covers and average check in restaurants to uphold and improve hotel competitiveness

Future Direction of Internal Growth Strategy (2)

■ Chapter 3 Future direction of growth strategy ■

Japan Hotel and Resort, Inc.

Capex borne by the REIT (individual hotel basis)

Name of Hotel	Hotel Lessee	Form of Rent	CAPEX I	CAPEX II	CAPEX III
Kobe Meriken Park Oriental Hotel	K.K. Hotel Management Japan	Fixed+ Variable	●	●	●
Shin-Urayasu Oriental Hotel	K.K. Hotel Management Japan	Fixed+ Variable	●	●	●
Namba Oriental Hotel	K.K. Hotel Management Japan	Fixed+ Variable	●	●	●
Hotel Nikko Alivila	K.K. Hotel Management Japan	Fixed+ Variable	●	●	●
Nara Washington Hotel Plaza	Washington Hotel Corp.	Fixed	●	—	—
Hakata Nakasu Washington Hotel Plaza	Washington Hotel Corp.	Fixed	●	—	—

Process for determining a capex policy

When drafting the annual asset management plan each year, the asset manager will conduct a thorough cost/benefit analysis based on opinions from hotel lessees to decide upon a capex policy.

The asset manager will seek to adopt a “bidding” process in the selection of vendors to the extent possible to secure competitive pricing and quality vis-a-vis the market in implementing the policy.

Future Direction of External Growth Strategy (1)

Property selection policy

■ Select hotels that are competitive in terms of their “hard” aspects

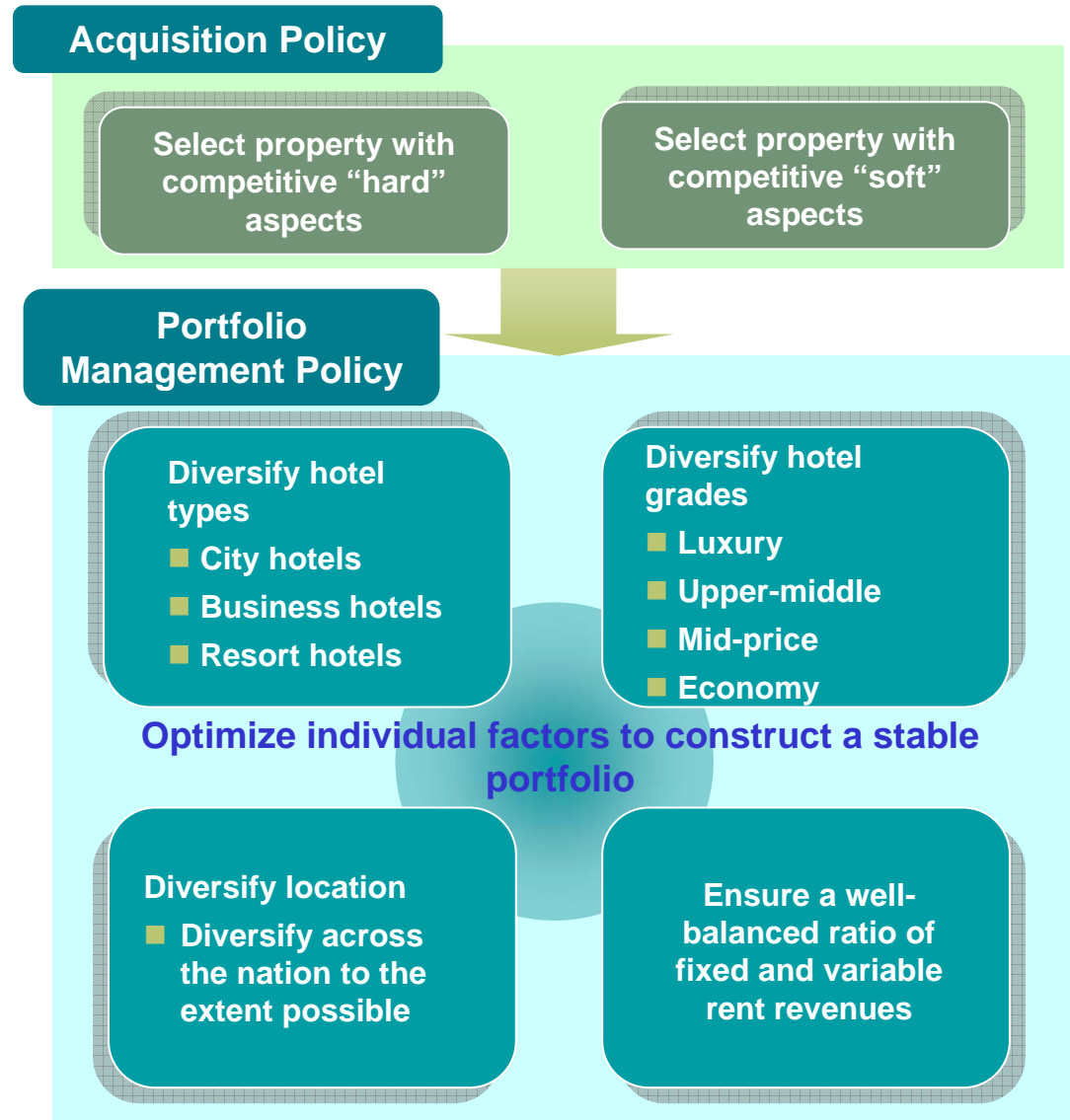
Properties that seem to offer medium-to-long term competitive advantages as a hotel in terms of their “hard” aspects, such as location and facilities, will be examined comprehensively for projected cash flow and rental income, and resultant pricing to select properties in which the REIT will seek to invest.

■ Select hotels that are competitive in terms of their “soft” aspects

Properties will be leased to hotel lessees who have competitive capabilities in operating hotels.

Portfolio management policy

The REIT will seek to construct a stable and optimal portfolio of diversified hotel types, grades and location, as well as ensuring a well-balanced mix of fixed and variable rent revenues.



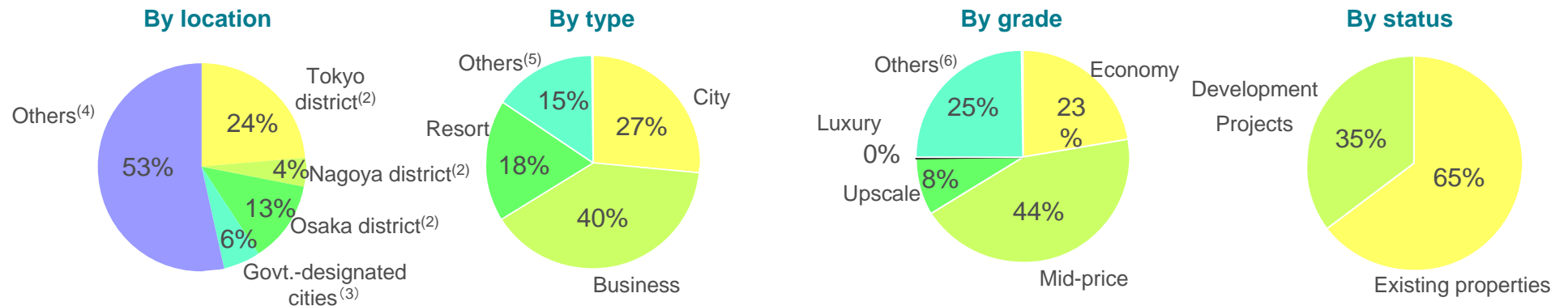
Future Direction of External Growth Strategy (2)

Acquisition opportunities

- The asset management company will search and acquire properties using its expertise and strong network in hotel investment. It will also seek to make acquisitions utilizing the pipeline agreement with the Goldman Sachs Group which has abundant know-how in hotel investment and operation.



- 71 properties were brought to the attention of the asset manager during the first term through the above network, etc. (1). The breakdown is as follows:



(1) The number of properties brought to attention since the IPO on Feb. 15, 2006 until Aug. 31, 2006. Includes two properties proposed by the Goldman Sachs Group.
 (2) Tokyo district (Tokyo, Kanagawa, Saitama, Chiba prefectures); Nagoya district (Aichi, Gifu, Mie prefectures); Osaka district (Osaka, Kyoto, Nara, Hyogo prefectures)
 (3) These are government-designated cities outside the three major metropolitan districts.
 (4) These include properties located outside the three major metropolitan districts and government-designated cities as well as those where details were undisclosed when proposed.
 (5) These include properties under development where the hotel type was undetermined and where details were undisclosed when proposed.
 (6) These include properties under development where the hotel grade was undetermined and where details were undisclosed when proposed.

Basic policy

■ Controlling leverage

- Maintain LTV ratio between 30 and 50%
- 65% ceiling on LTV ratio in principle
 - (1) LTV ratio = (Borrowings + investment corp.debentures)/total assets
 - (2) LTV may temporarily (during the term) exceeds 65% when properties are acquired.

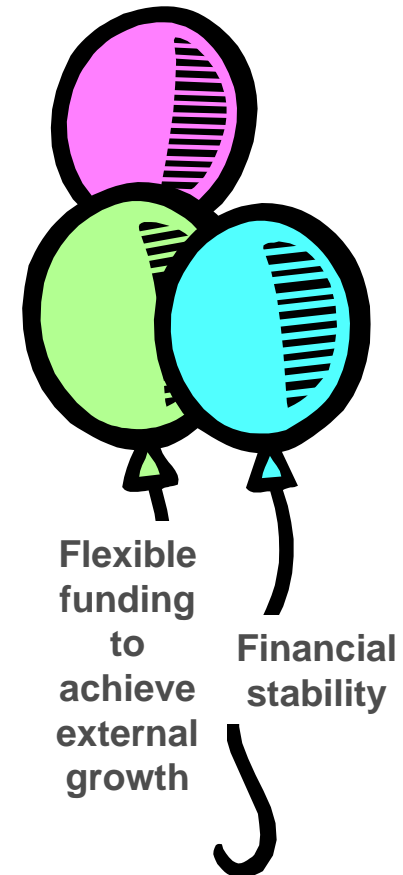
■ Any equity financing to be mindful of maintaining a balance between “sound finance” and “capital efficiency”

■ Diversify funding (debt)

- Diversify lenders and loan maturities
- Utilize floating rate borrowings to capitalize on the correlation between hotel profitability and interest rates
- Consider possibility of issuing debentures

■ Secure hedging means over the medium to the long-term to protect against risk of higher interest rates

Uphold/grow EPS (dividends)



Financial condition

Borrowings

- Initial borrowing of three-year floating rate term loans (¥31.7 bn)

Class ⁽¹⁾	Bank	Remaining Loan (¥ bn)	Interest Rate ⁽²⁾	Repayment Date	Repayment Method ⁽³⁾	Usage	Remarks
Mid-term	Sumitomo Mitsui Banking Corporation	10.5	0.52091% (Annual rate) till 11/15/2006	2/13/2009	Lump sum payment in principle	Fund for purchasing the assets and contingent costs	Secured
	Mizuho Bank, Ltd.	10.5					
	The Norinchukin Bank	10.5					
Total		31.7					

(1) Short-term: under a year; medium-term: 1-5 years; long-term: 5 year or longer

(2) 6-month TIBOR + 0.4% is the applicable interest rate in principle. However, initial interest payable on November 15, 2006 will be 9-month TIBOR + 0.4%.

(3) The REIT may decide to prepay all or part of the above borrowings should certain conditions be fulfilled, such as the submission of prior written notice.

(4) Amounts indicated are amounts that have been rounded down.

Hedging against risk of higher interest rates

- Purchased interest rate cap spread

Notional Amount	¥19 billion	Strike Prices	Low strike price: 1.30% High strike price: 3.00%
Start Date	Jun. 27, 2006	Variable Interest Receipt	If 6-month TIBOR ≤ 1.30% ⇒ 0%
Maturity Date	Feb. 15, 2011		If 1.3% < 6-month TIBOR ≤ 3.00% ⇒ 6-month TIBOR - 1.30%
Premium Payment	¥408,500,000 (215bps (46bps, Annual rate) to Notional Amount)		If 6-month TIBOR > 3.00% ⇒ 1.70%

Obtained rating

- “Single-A” rating obtained from R&I, the first-ever issuer rating assigned to a domestic hotel REIT

Rating Agency	Rating Object ⁽¹⁾	Rating ⁽²⁾	Rating Outlook ⁽³⁾
Rating and Investment Information (R&I)	Issuer Rating	A	Stable

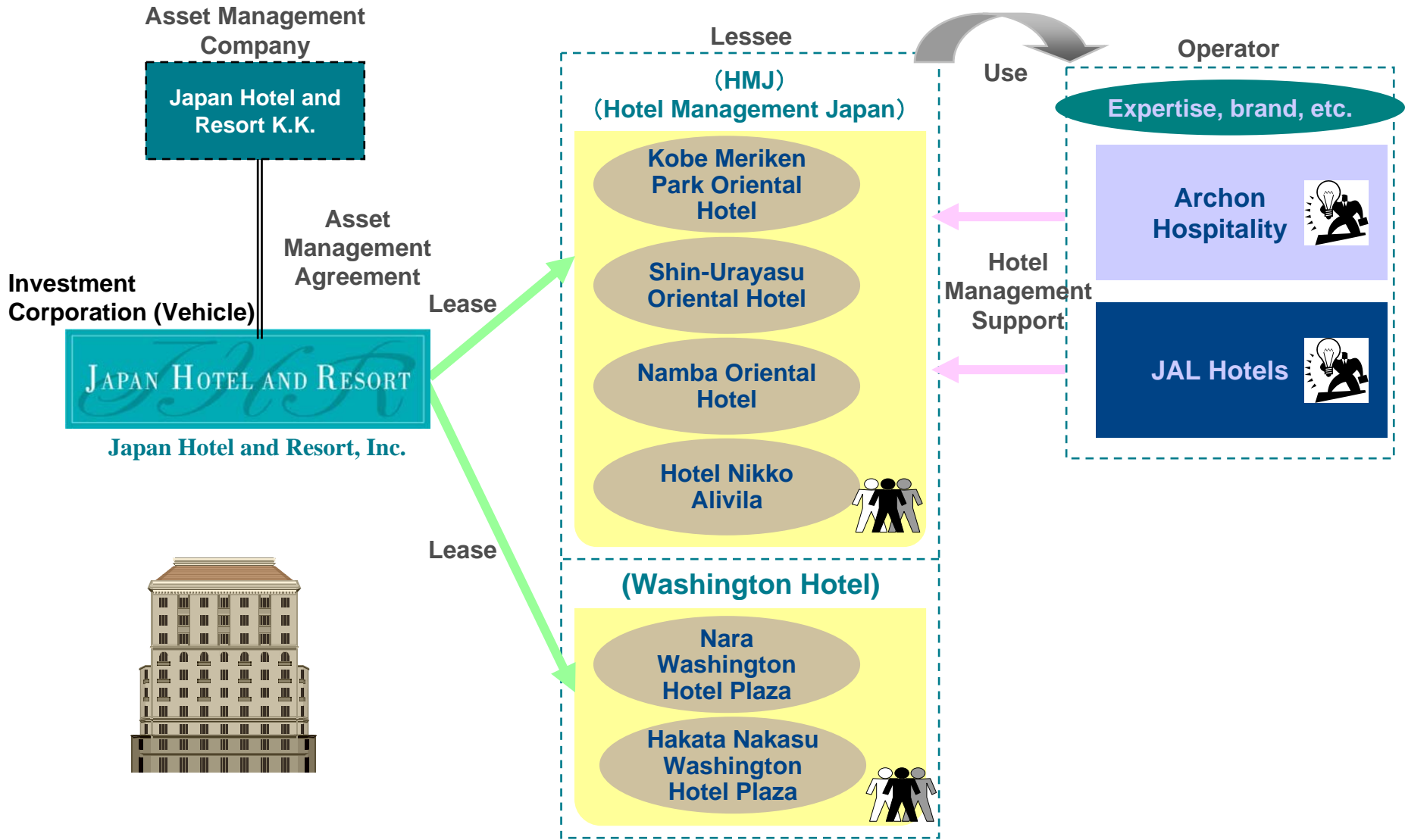
(1) According to R&I, an Issuer Rating is an R&I opinion regarding an issuer's overall ability to repay its entire financial obligations, and is assignable to all issuers. Ratings on individual bonds or loans reflect the terms and conditions of the agreement, the prospect of recovery, etc., and may be lower or higher than the rating assigned to the issuer.

(2) According to R&I, a “single A” rating indicates that “the credit quality is high and is also accompanied by some excellent factors.”

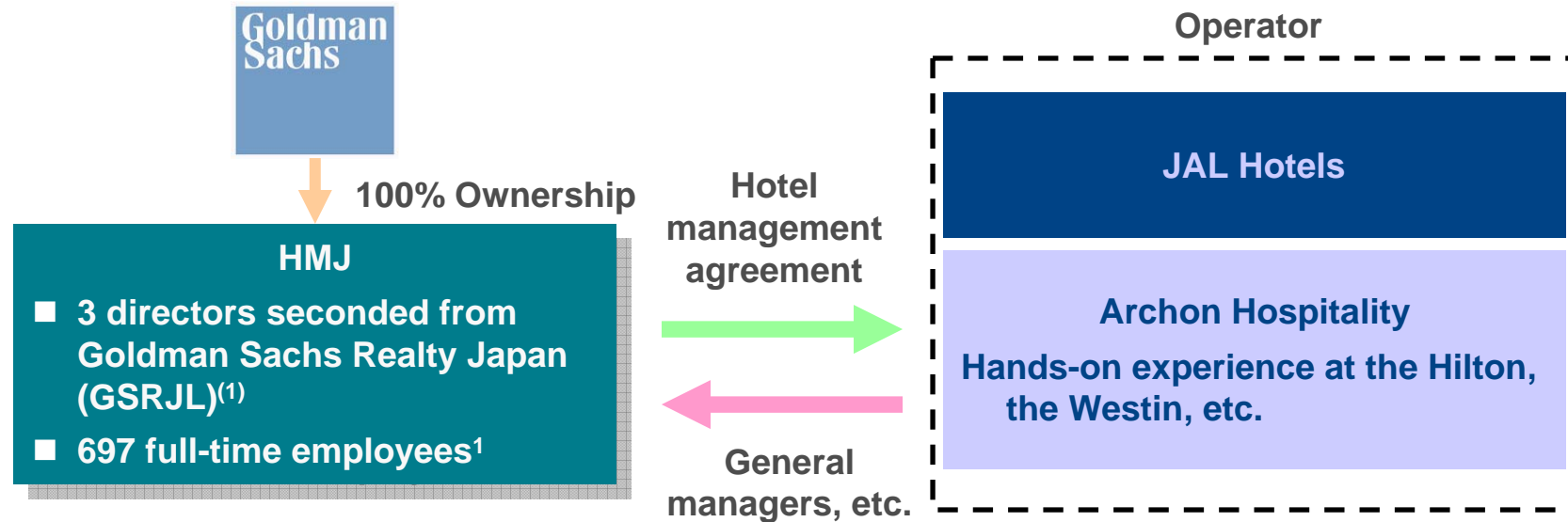
(3) According to R&I, a Rating Outlook is an opinion concerning the medium-term prospects of the Issuer Rating and Insurance Claims Paying Ability. To indicate its view of an issuer's creditworthiness in a clearer, more flexible way, R&I provides Rating Outlooks along with all Issuer Ratings in principle. The outlook is described as “Positive” when there is a strong likelihood of an upgrade,” while a “Negative” outlook indicates a strong likelihood of a Downgrade. The outlook is “Stable” when a rating is unlikely to be changed in the foreseeable future.

Appendix A Operation Highlights

Structural Framework for This REIT



Use of Capable Operators by Hotel Lessee



Special Characteristics of Archon Hospitality's Management

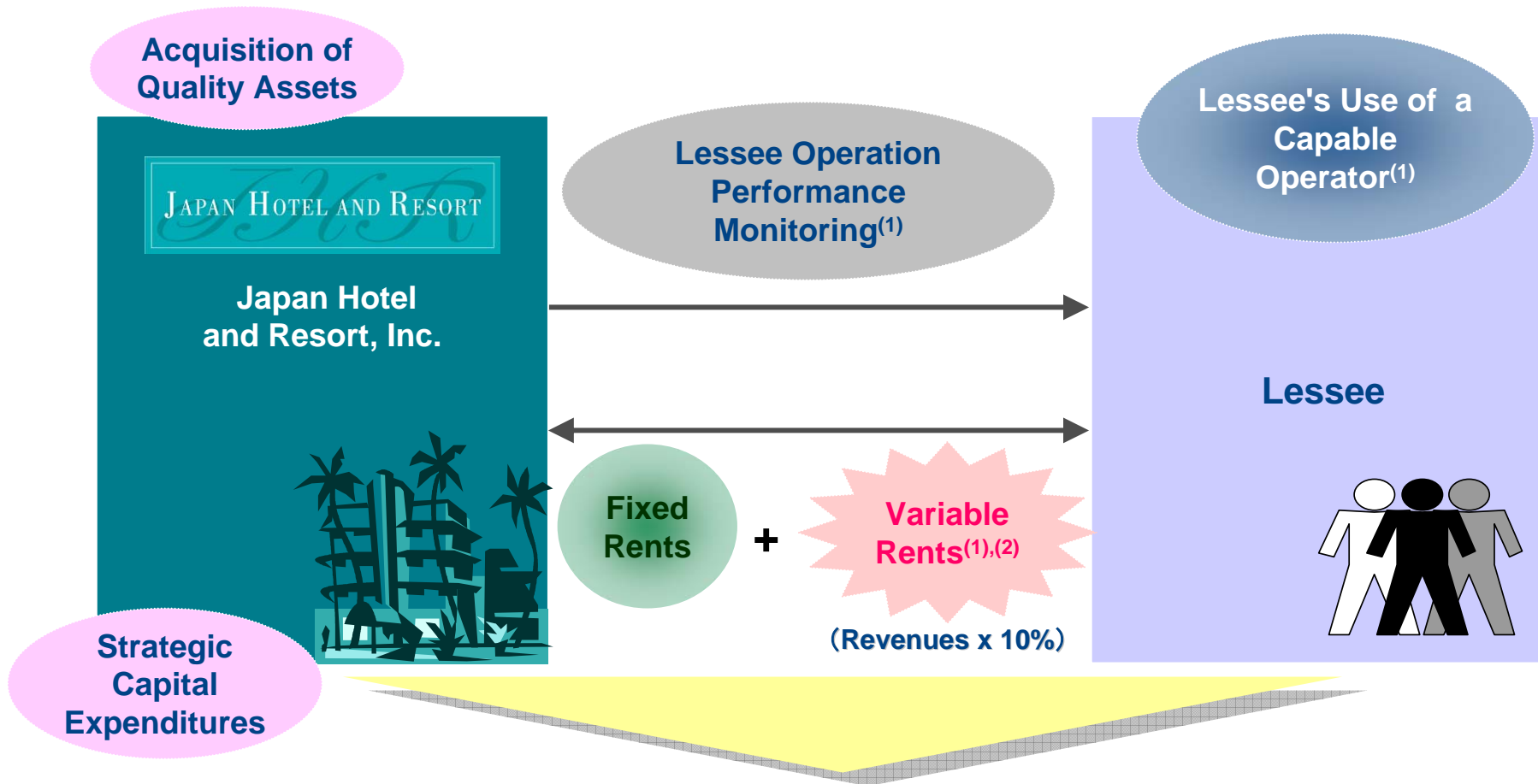
- Employing an efficient management control system which uses hotel management accounting (“Uniform System of Accounts”)
- Strategic profitability and cost management
 - Continuous profitability management focused on GOP
 - Methods such as joint marketing across several hotels
 - Bulk insurance, central procurement, etc. across several hotels
- Leveraging human resources and increasing efficiency

(1) As of 8/31/2006.

Structure for Achieving Enhanced Hotel Performance through Leveraging Competitive Advantage in Hard and Soft Aspects

■ Appendix A Operation Highlights ■

Japan Hotel and Resort, Inc.



Securing Stable Earnings + Benefiting from Enhanced Performance

(1) Structure applied to HMJ.

(2) Rent Cap = (GOP - fixed rents - management fee to Operators) x 90%.

Various Measures Taken for Lease Contracts with HMJ

Policies to Ensure Stable Lease Contracts

■ Appendix A Operation Highlights ■

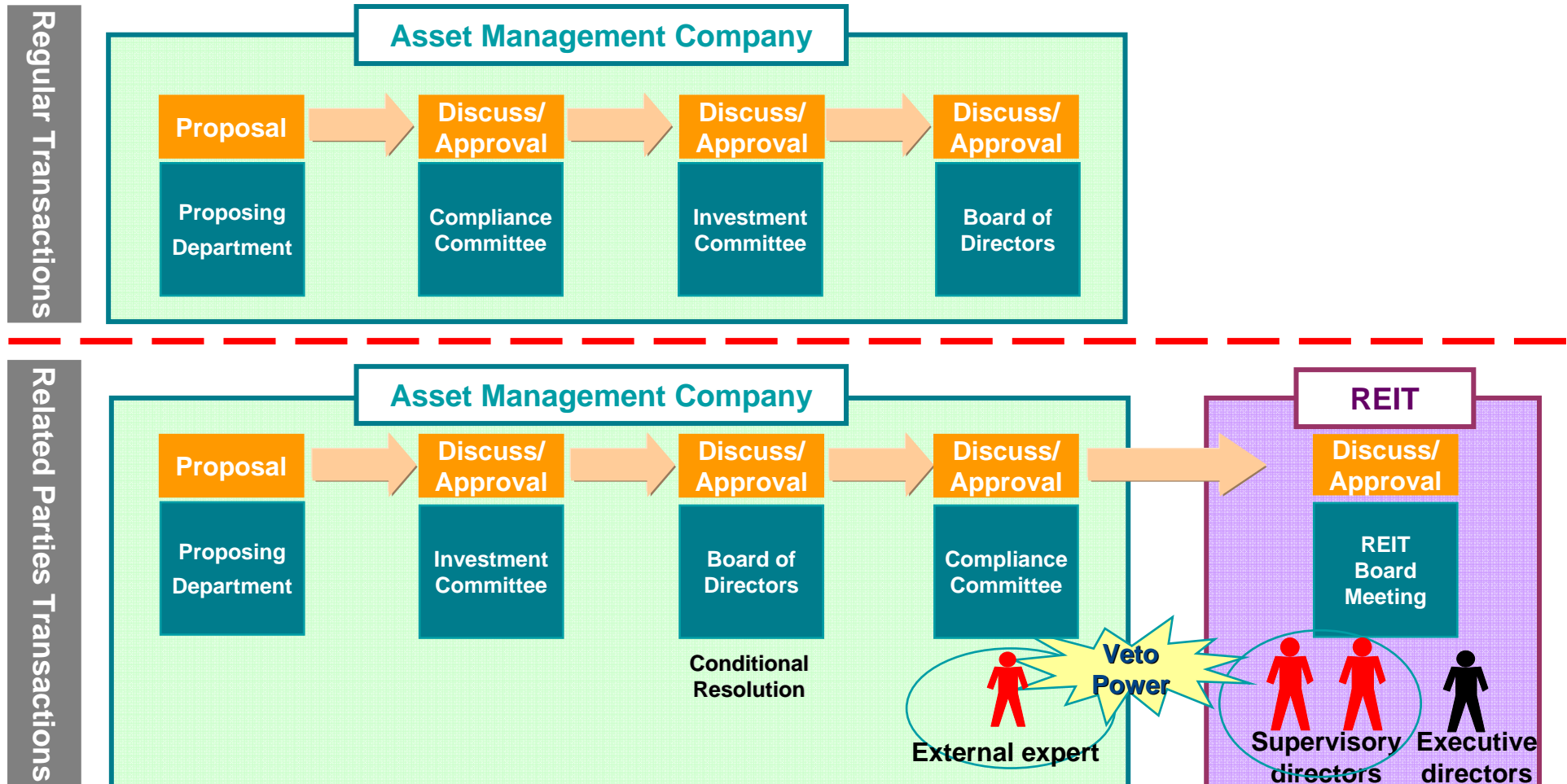
Japan Hotel and Resort, Inc.

- Fixed period lease contracts with term of 6 years
- Inhibition of mid-term cancellation (excluding certain circumstances of cancellation by the Lessee)
- Elimination of rents reduction claims
 - No revision of rents excluding cases below
 - ① Fixed rents $>$ Operating profit before depreciation of the same period
 - ② Variable rents total $>$ Rent Cap of the same period
- Conservation of the same economic conditions in extending contracts
 - Will discuss the terms and conditions, including rents and other economic conditions, virtually equal to that of the present contracts at the expiry of the lease period
- Consideration to the stability of the lease contract by setting Rent Cap

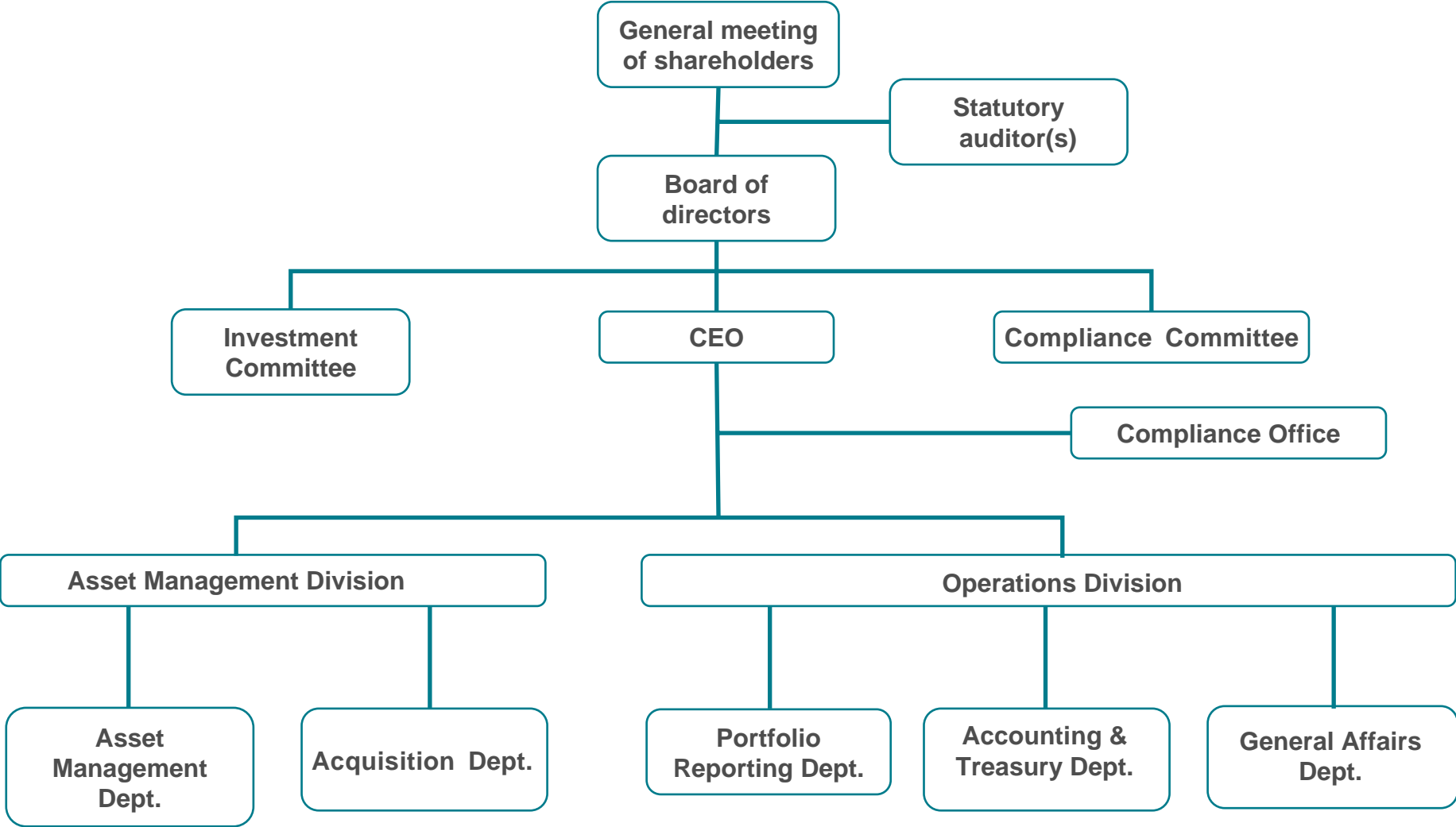
Appendix B Internal Controls

Decision-Making Process

- The external expert must be present at the Compliance Committee when discussing deals with conflicting interests
- The external expert is the only party with veto power
- The two supervisory directors at the REIT must support the proposal



Asset Management Company: Organizational Chart



Appendix C Portfolio Overview

Portfolio Map

Kobe Meriken Park Oriental Hotel

- Acquired Price/Appraised Value at Purchase: ¥11.40 bn
- 331 rooms



Shin-Urayasu Oriental Hotel

- Acquired Price/Appraised Value at Purchase: ¥19.40 bn
- 506 rooms



Hakata Nakasu Washington Hotel Plaza

- Acquired Price/Appraised Value at Purchase: ¥3.88 bn
- 247 rooms



Nara Washington Hotel Plaza

- Acquired Price/Appraised Value at Purchase: ¥1.80 bn
- 204 rooms

Namba Oriental Hotel

- Acquired Price/Appraised Value at Purchase: ¥16.70 bn
- 257 rooms



Hotel Nikko Alivila

- Acquired Price/Appraised Value at Purchase: ¥19.70 bn
- 397 rooms

List of Portfolio and Asset Mix

■ Appendix C Portfolio overview ■

Japan Hotel and Resort, Inc.

Property name	Type	Grade	Total # of rooms	Structure/ # of floors	Acquired price/ Appraised value at purchase (¥ mn)	Appraised value as of Aug. 31, 2006 (¥ mn)	% of Portfolio (based on appraised value as of Aug. 31, 2006)	Year Built
Kobe Meriken Park Oriental Hotel	City	Upper-middle	331	S 14 floors	11,400	12,000	16.3%	7/1995
Shin-Urayasu Oriental Hotel	City	Mid-price	506	SRC·S·RC 12 floors w/2 basement floors	19,400	19,500	26.4%	5/1995
Namba Oriental Hotel	Business	Mid-price	257	S·SRC 9 floors, 1 basement floor	16,700	16,700	22.6%	3/1996
Hotel Nikko Alivila	Resort	Luxury	397	SRC 10 floors, 1 basement floor	19,700	19,800	26.8%	4/1994
Nara Washington Hotel Plaza	Business	Mid-price	204	S 7 floors	1,800	1,900	2.6%	3/2000
Hakata Nakasu Washington Hotel Plaza	Business	Mid-price	247	S 12 floors	3,880	3,900	5.3%	3/1995
Total			1,942		72,880	73,800	100.0%	

Profit/Loss by Property

	Name of property	Kobe Meriken Park Oriental Hotel	Shin-Urayasu Oriental Hotel	Namba Oriental Hotel	Hotel Nikko Alivila	Nara Washington Hotel Plaza ⁽³⁾	Hakata Nakasu Washington Hotel Plaza ⁽³⁾
Profit/loss ⁽¹⁾ (¥ 000)	Rent revenue	650,356	711,448	531,815	871,884	79,000	140,000
	Rent expense ⁽²⁾	165,050	11,703	6,403	56,918	6,000	9,000
	NOI	485,306	699,745	525,411	814,966	73,000	131,000

(1) Profits/losses indicated above are results for February 15, 2006 through August. 31, 2006.

(2) Rent expenses indicated above are figures after deducting depreciation costs and loss from disposition of fixed assets.

(3) Profit/loss figures for Nara Washington Hotel Plaza and Hakata Nakasu Washington Hotel Plaza are rounded down to the nearest million yen, as the REIT was unable to obtain permission from the hotel operator to disclose rental revenues down to thousands of yen

Risk-Related Information

■ Appendix C Portfolio overview ■

List of architects, construction companies, and building permit issuers

Japan Hotel and Resort, Inc.

- Additional inspection process after the occurrence of earthquake-proofing fraud incidents
 - Sought supplemental surveys (dated as of 12/27/2005) from third-party specialist institutions, and as a result of reviewing the relevant documents it was confirmed that there are no special issues of concern with the buildings either structurally or under the earthquake-proofing regulations

List of architects, construction companies, and building permit issuers related to portfolio properties:

Name of Property	Architect	Constructor	Approval Institution
Shin-Urayasu Oriental Hotel	Haseko Corporation	Haseko Corporation	Chiba-Prefecture
Namba Oriental Hotel	Takenaka Corporation	Takenaka Corporation	Osaka-shi
Kobe Meriken Park Oriental Hotel	Takenaka Corporation	Takenaka Corporation	Kobe-shi
Hotel Nikko Alivila	Sato Kogyo Co., Ltd.	Sato Kogyo Co., Ltd.	Okinawa-Prefecture
Nara Washington Hotel Plaza	Actem Corporation	Consortium of Asunuma Co./ Satohide Co./ Kiuchi Co.	Nara-shi
Hakata Nakasu Washington Hotel Plaza	General Design Corporation Co., Ltd.	Consortium of Kumagai Gumi Co./ Nankai Tatsumura Construction Co.	Fukuoka-shi

Appendix D Investor Composition and Unit Price

List of Top 10 Investors at Year-end (as of Aug. 31, 2006)

■ Appendix D Investor composition and investment unit price ■

Japan Hotel and Resort, Inc.

Name	No. of units held	Weighting of units held against all outstanding units ⁽³⁾ (%)
Japan Hotel Alliance Co., Ltd. ⁽¹⁾	9,150	9.98
Nikko Cititrust Trust and Banking Corporation (inv. trust a/c)	6,843	7.46
UBS A G London-IPB Client Account	5,875	6.41
The Master Trust Bank of Japan, Ltd. (trust a/c)	5,527	6.03
Japan Trustee Services Bank, Ltd. (trust a/c)	5,146	5.61
Mori Kanko Trust Co., Ltd. ⁽²⁾	4,575	4.99
Trust & Custody Services Bank, Ltd. (securities inv. trust a/c)	4,451	4.85
CMBL S.A. Re Mutual Funds	3,858	4.21
Goldman Sachs International	3,672	4.00
American Life Insurance Company G.A.L.	2,365	2.58
Total	51,462	56.12

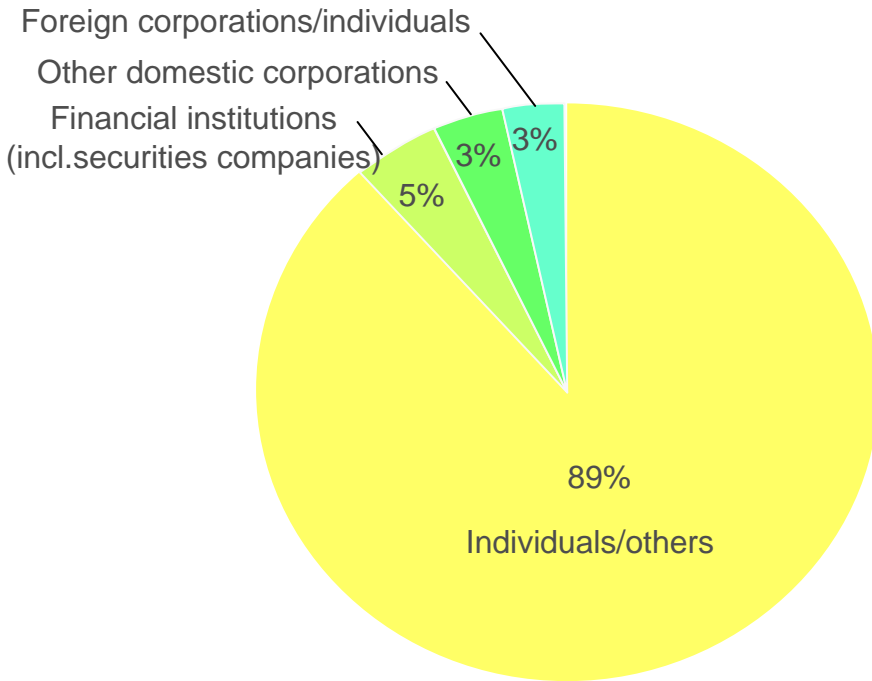
(1) Japan Hotel Alliance Ltd. is a 100% subsidiary of the Goldman Sachs Group, and has transferred their assets to the REIT. It currently holds 9,150 units in the REIT which were issued on February 15, 2006, which were acquired during the public offering process.

(2) Mori Kanko Trust Co., Ltd. possesses 5% of the asset management company's outstanding stock. Mori Kanko Trust also currently holds 4,575 units in the REIT which were issued on February 15, 2006, which were acquired during the public offering process.

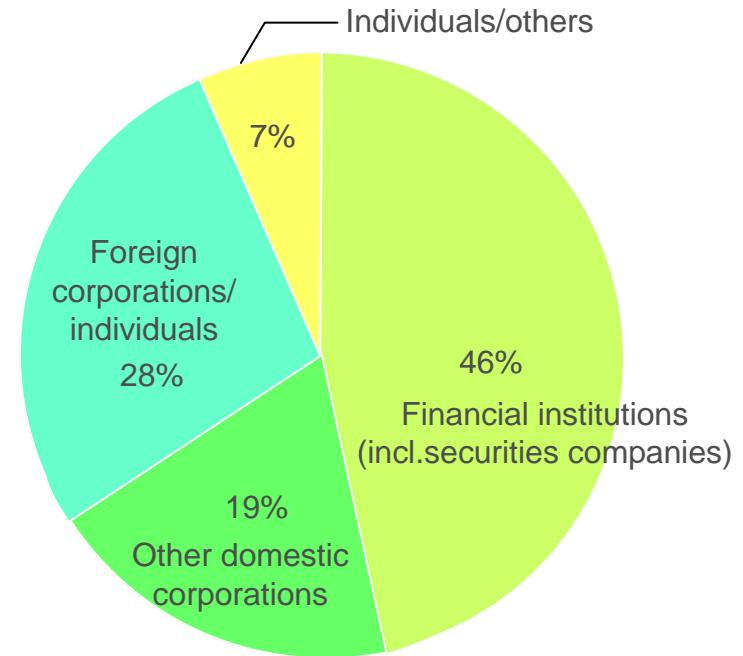
(3) The weighting of the units held against all outstanding units has been rounded off to the nearest third decimal place.

Units Held by Attribute

By # of investors



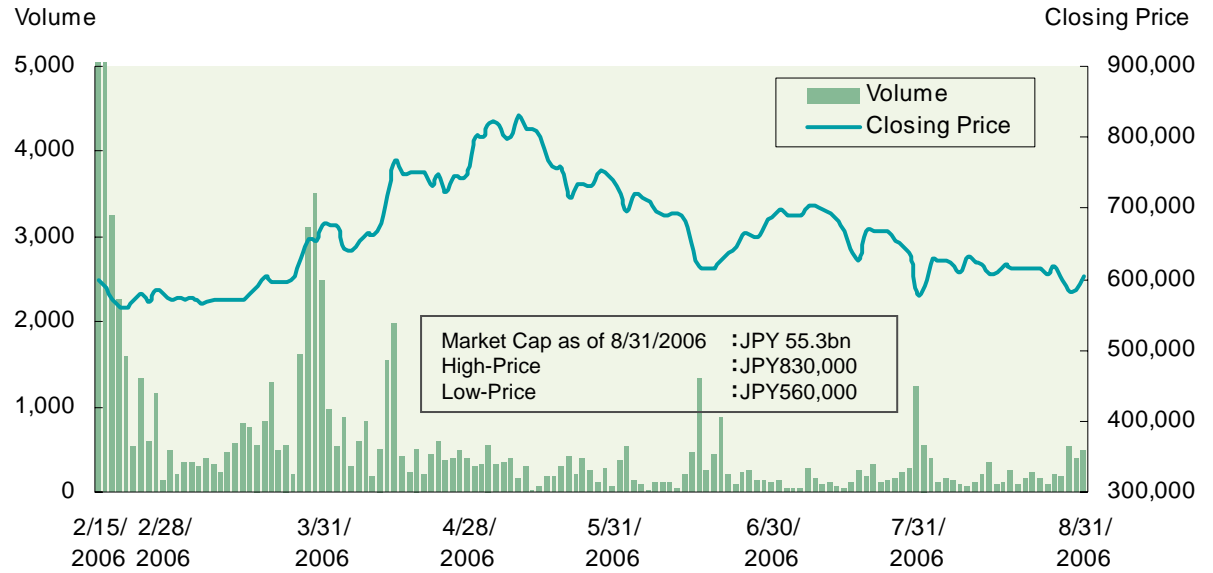
By # of units held



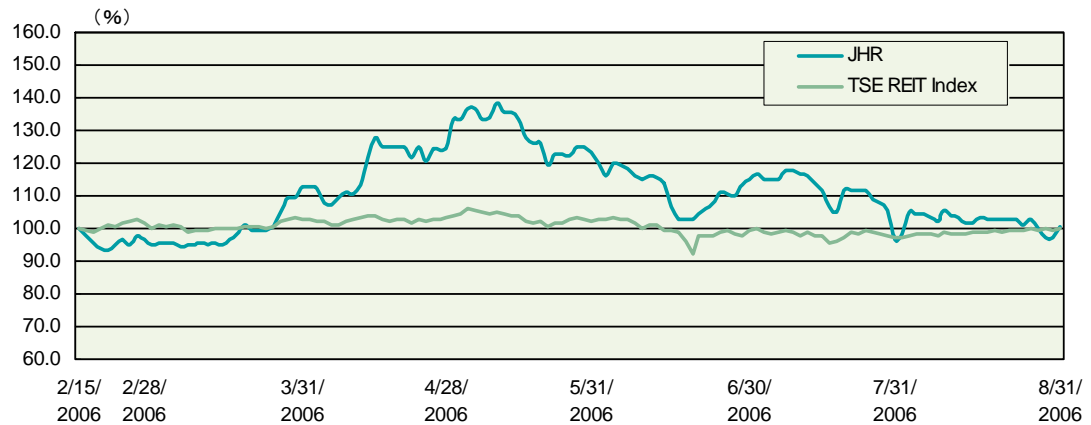
Category	Individuals/ others	Financial institutions (incl. securities companies)	Other domestic corporations	Foreign corp./individuals	Total
By # of investors	1,724	90	66	67	1,947
Proportion	89%	5%	3%	3%	100%
By # of units held	6,111	42,580	17,663	25,346	91,700
Proportion	7%	46%	19%	28%	100%

Price Performance

JHR⁽¹⁾ Unit Price/ Traded Volume



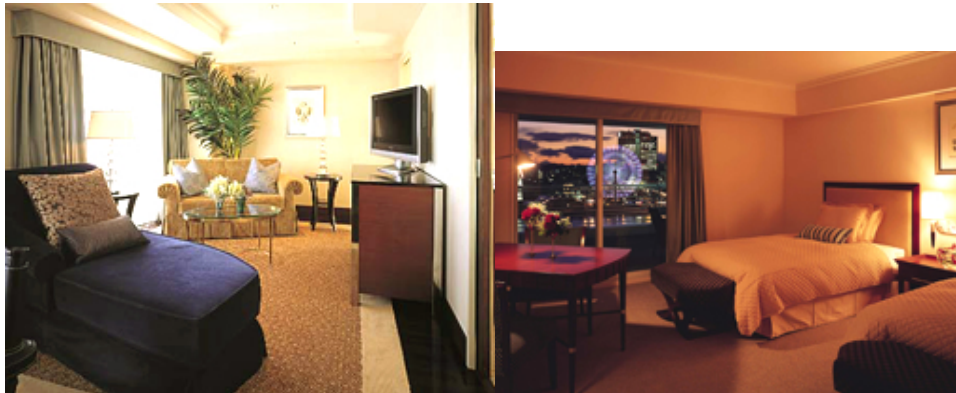
TSE REIT Index and JHR⁽¹⁾ Unit Price



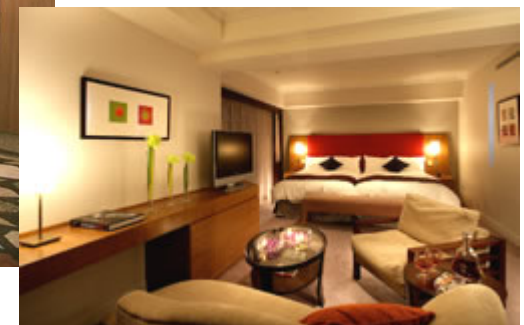
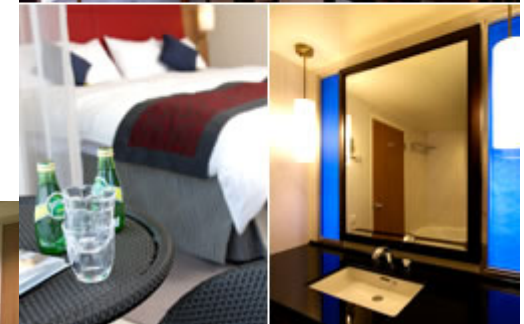
(1) JHR=Japan Hotel and Resort, Inc.

Appendix E Photographs

Com'fill floor



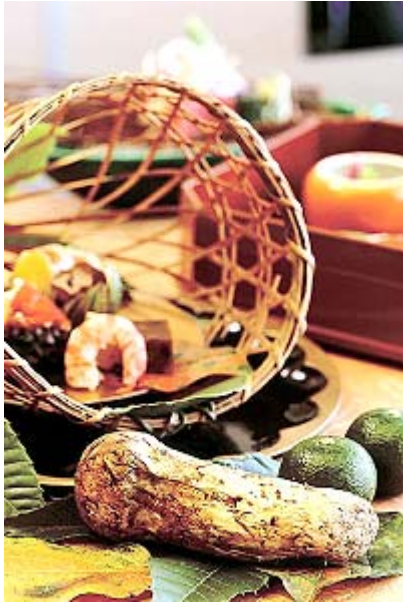
Renewal floor



Wedding



Restaurant



Shin-Urayasu Oriental Hotel Photographs

■ Appendix E Photographs ■

Japan Hotel and Resort, Inc.

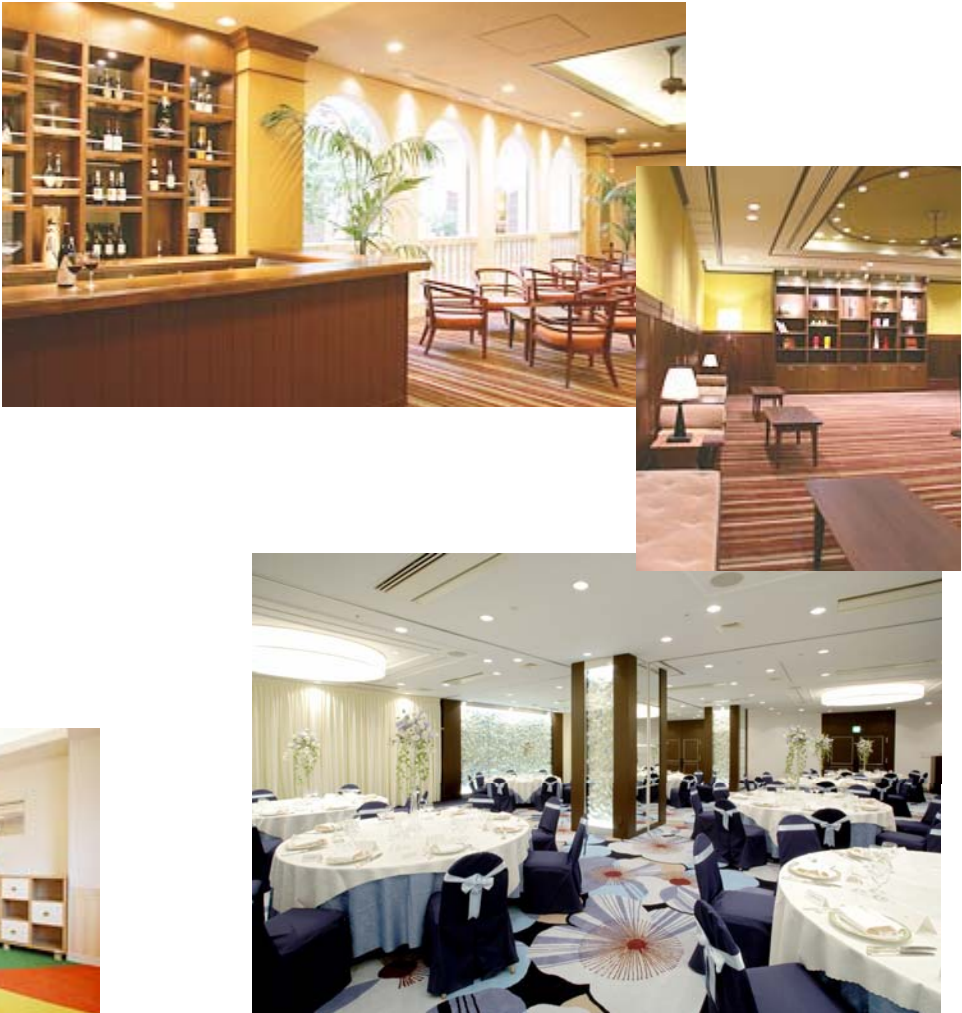
Renewal floor



Baby's Sweet



Lobby & Banquet



Renewal floor



「NOHQ」



Patio



Alivila Suite Room



Royal Suite Room



Hotel Nikko Alivila Photographs

Image of Resort

