

Provisional Translation Only

This English translation of the Japanese original is provided solely for information purposes. In the event that there is any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

April 14, 2011

REIT Issuer:

Japan Hotel and Resort, Inc. (TSE code: 8981)
Kaname Masuda, Executive Director

Asset Management Company:

Japan Hotel & Resort K.K.
Hiroyuki Suzui, Chief Executive Officer

Inquiries:

Noboru Itabashi
Director, Operations Division
Tel: +81-3-6439-0333

Notice regarding Re-Signing of Regular Building Lease Contract

Japan Hotel and Resort, Inc. (hereinafter “JHR”) has decided to terminate the regular building lease contract concluded with Hotel Management Japan K.K. (hereinafter “HMJ”), which was originally due to expire on February 14, 2012 (hereinafter “the current lease contract”) on August 31, 2011 in order to avoid inconvenience due to changes in the contract conditions during the fiscal year of JHR, and has also decided to re-sign a new regular building lease contract (hereinafter “the new lease contract”) that will be applied from September 1, 2011, the date on which JHR’s new fiscal year starts. Therefore, JHR hereby provides notice of the overview of the new lease contract and related matters as follows.

1. Purpose

JHR is a J-REIT with the unique product characteristic that it has introduced variable rents with the intention of reflecting the profitability of the assets being operated, namely the hotels, in the profit and dividends of JHR. The variable rents system is designed so that when the lessee managing the hotels is earning high revenues that profit is returned to JHR, the real estate owner, while conversely, at times when the revenues of the lessee are deteriorating, rent payments in excess of the lessee’s rent payment capacity are prevented while JHR aims for growth and stability over the mid/long-term.

In order to create this product characteristic, a structure combining fixed rents and variable rents is applied to the five hotels leased to HMJ (hereinafter the “five HMJ hotels”)(Note1) based on the current lease contract with HMJ.

On the occasion of this re-signing, JHR engaged in consultations with HMJ to maintain the product characteristic possessed by JHR and based on the agreement in the current lease contract to the effect that “in consultations about re-signing, the parties will consult based on substantially identical conditions, including the rents and other economic conditions,” the content of the contract was decided as follows.

2. Major Changes

The two main changes due to this re-signing are the “method of calculating the variable rents” and the “contract period” as shown below. Note that there are no changes to the total amount of the fixed rents collected from the five HMJ hotels, the amounts of the deposits, the sharing of the burden with the lessee for capital investment and repairs, etc.

(1) Variable Rents

(i) Method of calculating the variable rents

The variable rents in the new lease contract (hereinafter “new variable rents”) are calculated based on the annual total GOP (Note 2) of the five HMJ hotels as shown in the mathematical formula below. Furthermore, it is expected that the new variable rents will not differ greatly from the variable rents calculated using the current lease contract (hereinafter “current variable rents.” Please refer to Note 3 for an overview of the current variable rents.)

$$\text{Annual variable rents} = [\text{Annual total GOP of the five HMJ hotels} - \text{GOP threshold (3,351 million yen)}] \times 81.5\%$$

Note that we do not anticipate that the above GOP threshold amount will change through the contract period of the new lease contract.

(ii) Economic impact arising from the change to the method of calculating the variable rents

For reference, the differences between the actual total amounts of rent from the five HMJ hotels in the past three years, and the total amounts of rent that would have been collected during the same periods if the new variable rents had been applied are as follows. Please refer to the appendix below for details.

	New lease contract (fixed rents + variable rents)	Current lease contract (fixed rents + variable rents)	Differences
3 rd term (Note 4) Sep.2007 – Aug.2008	5,643 million yen	5,552 million yen (Variable rents: 10% of hotel revenues)	91 million yen
4 th term Sep.1008 – Aug.2009	4,929 million yen	4,834 million yen (Variable rents: Variable rent cap)	95 million yen
5 th term Sep.2009 – Aug.2010	5,117 million yen	5,073 million yen (Variable rents: Variable rent cap)	44 million yen

(2) Contract Period

The contract period for new lease contract is from September 1, 2011 – August 31, 2019.

3. Reason

As a general rule, the current variable rents were calculated based on the total revenues of the five HMJ hotels, but for the following reasons we have changed this so that the new variable rents will be calculated based on GOP.

(1) Response to changes in the hotel revenue structure going forward

As a result of the changes in the business environment, there is a strong trend towards general business corporations aiming to maximize profit rather than the amount of revenues, and it is forecast that in the hotel business the proportion of room revenues, which make a large contribution to GOP, will increase. In this kind of situation, introducing variable rents linked to GOP makes it possible to create a situation in which it is easier to return the fruits of future improvements in HMJ revenues to JHR.

(2) Capital expenditure to meet the requirements of the Act on the Rational Use of Energy, etc.

Meeting the requirements of the Act on the Rational Use of Energy is a matter of compliance for JHR, and there is a possibility that a certain amount of capital investment will be necessary when doing so. In cases in which this kind of capital investment produces the result of reducing utilities costs, etc. and expanding GOP in HMJ, it is possible for JHR to recover its investment when making capital investments to meet energy-saving requirements.

4. Risks Arising from the Conclusion of the New Lease Contract

We believe that even after the new lease contract has been concluded, there will be no changes in the investment risks faced by JHR.

Even with the current variable rents, in the case that the revenues of the five HMJ hotels deteriorate, the rents are determined linked to the GOP of the five HMJ hotels, and the notes about the prior investment risks also took this point into account.

5. Transaction with Party with Potential Conflict of Interest

This transaction (re-signing of the new lease contract with HMJ) qualifies as a transaction with an interested party of the Asset Management Company, but the contract and other conditions are in compliance with the Act on Investment Trusts and Investment Corporations, the Articles of Incorporation of JHR, and the voluntary rules for transactions with interested parties stipulated by the Asset Management Company, and they have gone through the proper procedures including obtaining approval in the compliance committee attended by external experts and in JHR's Board Meeting.

6. Others

JHR has comprehensively examined the operational situation and business environment, etc. of the hotels it owns, and as a result has decided with regard to its asset management that it will not apply the Management Contract Scheme announced in the Supplementary Explanation regarding Asset Management under the Management Contract Scheme dated July 23, 2010 to the five HMJ hotels but will apply the above lease scheme to these hotels instead.

(Reference) Overview of the conditions in the new lease contract

The overview of the major conditions in the new lease contract and the comparison with the current lease contract are as follows.

	New lease contract	Current lease contract
Lessor	Mitsubishi UFJ Trust and Banking Corporation	
Lessee	Hotel Management Japan K.K.	
Hotel	Kobe Meriken Park Oriental Hotel Oriental Hotel Tokyo Bay Numba Oriental Hotel Hotel Nikko Alivila Oriental Hotel Hiroshima	
Type of Contract	Regular Building Lease Contract	
Contract Period	September 1, 2011 - August 31, 2019	February 15, 2006 - February 14, 2012
Fixed rent	3,221 million yen annually (no change from the current lease contract)	
Variable Rents	The variable rents in the case that the total GOP amount of the five hotels exceeds the GOP threshold (set at 3,351 million yen annually) are the figures obtained by multiplying the excess amount by 81.5%.	The variable rents are the figures obtained by multiplying the hotel revenues by (i) 10% for amounts up to the revenue threshold for stepping up, and (ii) by 30% in the case of the four hotels other than the Oriental Hotel Hiroshima and by 40% in the case of the Oriental Hotel Hiroshima for amounts in excess of the revenue threshold for stepping up. However, in the case that the total of (i) and (ii) (the overall total variable rents) exceeds the variable rent cap, defined as 90% of the adjusted GOP (the GOP of the businesses operated by HMJ minus the fixed rents and the fees paid to the operators), said variable rent cap shall be the upper limit of the variable rents.
Deposit	2,011 million yen (no change from the current contract)	
Terms of payment	“Provisionally-paid variable rents”: Within 2 months and 15 operating days of the end of 1 st , 2 nd , 3 rd and 4 th quarter (January, April and July) “Final variable rents”: Within two months and 15 operating days of the end of the operating period	“Provisionally-paid variable rents”: Within 2 months of the end of 1 st , 2 nd , 3 rd and 4 th quarter (January, April and July) “Final variable rents”: Within two months of the end of the operating period
Revised Rents	Except in cases where there are certain grave circumstances, rents shall not be revised, and the Act on Land and Building Leases, Article 32 (Right to Request Decrease in Rent) shall not be applied. The main circumstance in which rents can be revised is the case in	Except in cases where there are certain grave circumstances, rents shall not be revised, and the Act on Land and Building Leases, Article 32 (Right to Request Decrease in Rent) shall not be applied. The main circumstances in which rents can be revised are as follows. (i) The

	<p>which in the first half of the year or the second half of the year the fixed rents in the applicable period are higher than the operating profit before depreciation (before rent deduction) of the same period.</p> <p>The revision due to circumstances related to the variable rent cap that is in the current lease contract has been deleted.</p>	<p>case in which in the first half of the year or the second half of the year the fixed rents in the applicable period are higher than the operating profit before depreciation (before rent deduction) of the same period, and (ii) in the case in which in two consecutive operating periods the total variable rents for said operating periods are higher than the variable rent cap.</p>
--	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

(Note 1) Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Numba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima

(Note 2) GOP (Gross Operating Profit): Total department profit minus unallocated expenses.

(Note 3) Regarding the current variable rents JHR collects from HMJ, as a general rule JHR collects 10% of the revenues from the five hotels with variable rents (if that the revenues from the hotels exceed a certain amount, 30% or 40% of the excess amount of the revenues). However, in order to avoid the payment of variable rents by HMJ exceeding its payment capacity due to a deterioration in the profitability of the five hotels with variable rents, and to give a sense of stability to the overall scheme, there is a rent structure in place which has a “variable rent cap” as the upper limit of payments of variable rents. The variable rent cap is calculated as 90% of the GOP of the five hotels with variable rents minus the fixed rents of the five hotels with variable rents and the fees paid to the hotel operators.

(Note 4) Although in FY2008 owned Oriental Hotel Hiroshima for 11 months, figure for a 12-month period is used for a comparison purpose. The figure is not audited.

* The Japanese original was distributed to the press clubs in the Tokyo Stock Exchange, Ministry of Land, Infrastructure and Transport.

* Japan Hotel and Resort, Inc. website: <http://www.jhrth.com/>

(Appendix)

Comparison of Rents in the Current Lease Contract with Rents after Application of the New Lease Contract.

Actual

	Hotel revenues (A)	Hotel GOP (B)
3 rd term	23,312	6,323
4 th term	21,923	5,447
5 th term	21,431	5,678

New lease contract

	GOP threshold (C)	Variable rents (D)=(B-C)x81.5%	Fixed rents (E)	Total (D)+(E)
3 rd term	3,351	2,423	3,221	5,643
4 th term	3,351	1,708	3,221	4,929
5 th term	3,351	1,897	3,221	5,117

Current lease contract

	Rents linked to hotel revenues (F)	Variable rent cap (Note) (G)	Variable rents (H)=Smaller of (F) and (G)	Fixed rents (I)	Total (J)
3 rd term	2,331	2,350	2,331	3,221	5,552
4 th term	2,192	1,613	1,613	3,221	4,834
5 th term	2,143	1,852	1,852	3,221	5,073

(Note) Variable rent cap=(GOP of the five HMJ hotels – Fixed rents from the five HMJ hotels – Fees to operators) x 90%