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March 4, 2021

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Notice Concerning Issuance of New Investment Units by Way of Third-Party Allotment

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) informs you that JHR has resolved at the Board of Directors meeting today (hereinafter called the “Resolution at the Board of Directors Meeting”) to issue new investment units by way of third-party allotment (hereinafter called the “Third-Party Allotment”) as follows:

1. Summary of issuance of new investment units

- | | | |
|------|--|---------------------------------------|
| (1) | Number of investment units to be offered: | 4,659 units |
| (2) | Issue price: | ¥64,400.- per unit |
| (3) | Total issue price: | ¥300,039,600.- |
| (4) | Offering and allocation methods: | By way of third-party allotment |
| (5) | Subscription period (Subscription date): | March 12, 2021 (Friday) |
| (6) | Payment date: | March 16, 2021 (Tuesday) |
| (7) | Allottee and number of investment units to be allotted: | SC J-REIT Investments GK: 4,659units |
| (8) | Subscription unit: | 1 unit or more in multiples of 1 unit |
| (9) | Underwriter: | SMBC Nikko Securities Inc. |
| (10) | Each of the provisions above shall be subject to the condition that the securities registration statement filed in accordance with the Financial Instruments and Exchange Act (Act No.25 of 1948. Including subsequent revisions. The same shall apply hereinafter.) takes effect. | |

2. Change in total number of investment units issued after new issuance this time

Total number of investment units issued as of today	4,462,347 units
Increase in number of investment units by the Third-Party Allotment	4,659 units
Total number of investment units issued after the Third-Party Allotment	4,467,006 units

Note: This press release has been prepared for the purpose of announcing to the public certain matters relating to the issuance of new investment units of JHR by way of third-party allotment, and not for the purpose of soliciting any investment. JHR asks that investors make investment decisions only after they have referred to the prospectus for the issuance of new investment units and secondary offering of investment units as well as amendments thereto (if any) prepared by JHR, and that the investment decisions are made at their discretion and responsibility.

3. Purpose and rationale of issuance

As one of the Japan's largest J-REIT specializing in hotel, JHR considers providing attractive investment opportunities for hotel assets related to the Japanese tourism industry as an important mission, and aims to maximize unitholder value and enhance unitholder returns by pursuing stability and upside potential (*1). In recent years, JHR has been realized sustainable growth due to the steady leisure demand of Japanese people backed by rising income levels and increasing intention for leisure, as well as increase in number of foreign visitors to Japan (hereinafter called "inbound tourists") backed by implementation of policies by the government which aimed to become advanced countries for tourism and the response to these initiatives.

However, in 2020, due to the impact of the global spread of COVID-19, the Japanese economy was significantly affected and the hotel market deteriorated sharply due to the restraint of domestic and overseas economic activities, decrease in inbound tourists, as well as nationwide voluntary refrain from various events and the suspension of operations at large-scale theme parks following the declaration of the State of Emergency by the government. Under these circumstances, as for the performance of the hotels owned by JHR in the fiscal year ended December 2020, RevPAR (*2) and GOP (gross operating profit) of all hotels, including The 24 Hotels with Variable Rent, etc. (*3), were significantly decreased in comparison with the previous fiscal year, due to the impact of the spread of COVID-19.

In 2021, the Japanese economy is expected to remain challenging for the time being due to the impact of COVID-19, including the State of Emergency declared again by the government in January. In addition, the domestic accommodation and tourism market are also expected to continue to face a challenging environment due to the continued substantial decrease in inbound tourists and the decrease in domestic travelers.

Under these circumstances, JHR communicated closely with the lessees and operators of each hotel that operate the hotels owned by JHR in an effort to secure hotel revenues, including a reduction in operating costs. In particular, Hotel Management Japan Co., Ltd. (hereinafter called "HMJ"), the largest lessee, and its subsidiaries (collectively, hereinafter called the "HMJ Group"), underwent major restructuring, including personnel expenses and outsourcing expenses, after discussion and consideration with JHR. As a result, the HMJ Group has achieved substantial cost reductions in the operation of hotels owned by JHR in 2020 compared to 2019, and expects constant cost reduction hereafter. In addition, JHR has focused to ensure financial stability by maintaining close communication with the financial institutions to which it borrows.

On the other hand, there is still a high degree of uncertainty regarding the future outlook for the impact of COVID-19 on the hotel market. Therefore, JHR is striving to develop and implement measures to secure profits, such as further improvement of the hotel management organization and implementation of sales and marketing measures in response to changes in the market. Under such circumstances, through the discussions with the financial institutions to which JHR borrows, JHR decided to conduct a third-party allotment with SC J-REIT Investments GK as the allottee, which belongs to SC CAPITAL PARTNERS group (hereinafter called the "Sponsor Group") (*4), the sponsor (shareholder) of Japan Hotel REIT Advisors Co., Ltd. (hereinafter called "JHRA"). The purpose of the Third-Party Allotment is to contribute for enhancement of the JHR's unitholder value for medium-to long-term perspective through further strengthening the financial base of JHR by utilization of the financial resources of the Sponsor Group, strengthening the relationship between JHR and the Sponsor Group, which is to be allocated through community of interest, and strengthening the relationship between JHR and the financial institutions to which it borrows through the demonstration of commitment by the Sponsor Group's to JHR.

As announced by JHR in the "Financial Report for the Fiscal Year Ended December 31, 2020 (January 1, 2020- December 31, 2020)" dated February 25, 2021, the two properties of Hotel ACENT FUKUOKA and Hotel Keihan Universal City are scheduled to be rebranded with changes in lessees. The proceeds of the Third-Party Allotment will be used for the part of the fund for the capital expenditures, such as guestroom renovations associated with the rebranding.

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- (*1) Upside refers to an increase in revenue due to variable rent and other factors brought by improvement of hotel performance, and upside potential refers to upside feasibility.
- (*2) RevPAR: Represents revenue per available room, which is calculated by dividing revenue for rooms for a certain period (including service charges) by the total number of rooms available for sale during the period.
- (*3) The hotel group combining the hotels which JHR leases to HMJ (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima), with the hotels which JHR leases to subsidiaries of HMJ (Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVEINTER CITY HIROSHIMA), Oriental Hotel Fukuoka Hakata Station, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, Hotel Nikko Nara, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba), totaled 14 hotels, are referred to as the "HMJ Group Hotels." The 24 Hotels with Variable Rent, etc. refers to the HMJ Group Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata.
- (*4) The planned allottee will receive investment from a corporation which belongs to the Sponsor Group, which is the sponsor (shareholder) of JHRA on the payment date of the Third-Party Allotment. After such investment, the planned allottee will also belong to the Sponsor Group. Therefore, in this press release, it is assumed that the planned allottee belongs to the Sponsor Group.

4. Amount, intended use and payment schedule of funds to be raised

(1) Amount of funds to be raised (estimated net amount JHR will receive)

¥287,039,600.- (*)

(*) Amount of funds to be raised (estimated net amount JHR will receive) ¥287,039,600.- = total amount of funds to be raised ¥300,039,600.- — various costs for issuance of new investment units ¥13,000,000.- (estimated amount)

(2) Specific use and payment schedule of funds to be raised

Specific use	Amount	Payment schedule
Plan to fund a part of capital expenditures	¥287 million	July 2021

(*) Procured funds are planned to be deposited in financial institutions until its payment for intended use.

5. Concept on the rationality of the use of funds

Proceeds from the Third-Party Allotment will be appropriated as part of capital expenditures as described in "4. Amount, intended use and payment schedule of funds to be raised (2) Specific use and payment schedule of funds to be raised" above.

Implementation of the capital expenditures by the proceeds of the Third-Party Allotment is considered to be a reasonable use of funds as they contribute to the medium-to long-term growth of JHR and enhancement of its unitholder value.

6. Rationale for the conditions of the issuance

(1) Basis for calculation of the issue price

The issue price was set at ¥64,400.- the closing price of JHR's investment units (the "Investment Units") on the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") on March 3, 2021, the business day immediately before the date of the Resolution at the Board of Directors Meeting. There is no discount on the issue price from the closing price above.

The issue price, ¥64,400.- is 4.8% premium from the average closing price of ¥61,477.- (rounded down to the nearest yen) during the month immediately preceding the date of the Resolution at the Board of Directors Meeting (from February 4, 2021 to March 3, 2021), 15.5% premium from the average closing price of ¥55,735 (rounded down to the nearest yen) for the 3 months immediately preceding the date of Resolution at the Board of Directors Meeting (from December 4, 2020 to March 3, 2021), and 19.0% premium from the average closing price of ¥54,105 (rounded down to the nearest yen) for the 6 month

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immediately preceding the date of Resolution at the Board of Directors Meeting (from September 4, 2020 to March 3, 2021).

(2) Basis for the rationale behind the number of investment units to be issued and the scale of dilution of investment units

When determining the number of new investment units to be issued in the Third-Party Allotment, JHR decided to make the number of new investment units to be issued in the Third-Party Allotment to 4,659 units based on a comprehensive consideration of the extent of the impact of dilution of investment units through the Third-Party Allotment on existing unitholders, the planned amount of capital expenditures to be incurred regardless of whether the Third-Party Allotment is implemented, and the improvement of financial stability, etc. In the event that all of the new investment units of 4,659 units are issued in the Third-Party Allotment, dilution will occur at a rate of 0.11% with respect to the number of outstanding investment units as of today of 4,462,347 units.

However, JHR believes that the implementation of the Third-Party Allocation will contribute to the improvement of the JHR's unitholders value and the improvement of financial stability from a medium-to long-term perspective through making sponsor support more effective by sharing mutual interest with the Sponsor Group, which SC J-REIT Investments GK, the planned allottee, belongs to. For the reasons stated above, we believe that the volume of issuance and the scale of dilution of investment units through the Third-Party Allotment are reasonable.

7. Rationale for selection of the allottee, etc.

(1) Summary of the allottee (*1)

(1)	Name	SC J-REIT Investments GK	
(2)	Address	22-10-201, 3-chome, Toranomon, Minato-ku, Tokyo	
(3)	Representative	Representative partner: Aoyama Sogo Accounting Firm Co., Ltd. Executive manager: Masaki Aguni	
(4)	Basis for establishment, etc.	Japanese law	
(5)	Purpose of incorporation	Holding and trading of investment securities	
(6)	Date of incorporation	February 5, 2021	
(7)	Capital amount	¥100,000 (as of today)	
(8)	Investor, investment ratio and overview of the investor	Aoyama Sogo Accounting Firm Co., Ltd. 100% (The company is entrusted fund administration service, etc.)	
(9)	Overview of the operating partner	Name	Aoyama Sogo Accounting Firm Co., Ltd.
		Address	2-10-4, Toranomon, Minato-ku, Tokyo
		Representative	Founding Partner & CEO Masaki Aguni
		Business	Funds administration services, support for advancement overseas and advance into Japan, financial and tax advisory services
		Capital	¥51 million
(10)	Relationships between JHR, JHRA and the funds	Relationships between JHR, JHRA and the funds	Not applicable
		Relationships between JHR, JHRA and the operating partner	Not applicable

(*1) The planned allottee is planned to receive investment from a company belongs to the Sponsor Group, which is the sponsor (shareholder) of JHRA as of the payment date of the third-party allotment. After such investment, the planned allottee will also belong to the Sponsor Group.

(*2) We have confirmed that the planned allottee, the officer or major shareholders (major investors) of the planned allottee have no relationship with organized crime group, etc. and have submitted a confirmation to the Tokyo Stock Exchange to that effect.

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(2) Rationale for the election of the allottee

Please refer to “3. Purpose and rationale” of issuance above for the reasons for selecting SC J-REIT Investments GK as the allottee.

(3) Allottee’s policy on holding of the investment units

JHR has confirmed with the planned allottee that it intends to continue to hold the investment units to be acquired through the Third-Party Allotment unless there are special circumstances, except for sales, etc. to the corporation belonging to the Sponsor Group. In addition, the planned allottee agreed with JHR and JHRA that the planned allottee will not, in principle, sell the investment units to third parties without the prior written approval of JHR and JHRA (except for sales, etc. to the corporation belonging to the Sponsor Group, which are subject to the same duties as restrictions on sales, etc. imposed on the planned allottee for the period from the acquisition of the investment units to the date of 180 days after the payment date).

8. Major unitholders and investment unit ownership ratio

(1) Major shareholders and investment unit ownership ratio after the Third-Party Allotment

Before the Third-Party Allotment (as of December 31, 2020)		After the Third-Party Allotment (*2)	
The Master Trust Bank of Japan, Ltd. (Trust)	16.56%	The Master Trust Bank of Japan, Ltd. (Trust)	16.54%
Custody Bank of Japan, Ltd. (Trust)	9.61%	Custody Bank of Japan, Ltd. (Trust)	9.60%
The Nomura Trust and Banking Co., Ltd. (Investment Trust)	5.07%	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	5.06%
Custody Bank of Japan, Ltd. (Securities Investment Trust)	3.63%	Custody Bank of Japan, Ltd. (Securities Investment Trust)	3.63%
BNYMAS AGT/CLTS 10 PERCENT	3.55%	BNYMAS AGT/CLTS 10 PERCENT	3.55%
SDSS K INVESTCO LIMITED	2.63%	SDSS K INVESTCO LIMITED	2.63%
ELLIOTT INTERNATIONAL LP	2.10%	ELLIOTT INTERNATIONAL LP	2.10%
THE BANK OF NEW YORK 133970	1.50%	THE BANK OF NEW YORK 133970	1.50%
THE BANK OF NEW YORK MELLON 140044	1.42%	THE BANK OF NEW YORK MELLON 140044	1.42%
STATE STREET BANK WEST CLIENT - TREATY 505234	1.42%	STATE STREET BANK WEST CLIENT - TREATY 505234	1.42%

(*1) The percentage of investment units held is rounded down to the nearest second decimal place.

(*2) This chart shows the impact of Third-Party Allotment based on an assumption that there are no changes from the contents of the Investors' Registry dated December 31, 2020. The chart may not match with the actual status of the investors.

(2) Matters relating to the satisfaction of conduit

Not applicable

9. Future prospects

The impact of the Third-Party Allotment on the status of operations for the fiscal year ending December 31, 2021 (22nd Period) is subtle, and there are no changes to the forecast of the operations announced by JHR in the “Financial Report for the Fiscal Year Ended December 31, 2020 (January 1, 2020- December 31, 2020)” dated February 25, 2021.

*Website of Japan Hotel REIT Investment Corporation: <https://www.jhrth.co.jp/en/>

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