

Asset Management Report

For the Year Ended December 31, 2022

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 23rd fiscal period (from January 1, 2022 to December 31, 2022) of JHR, we are pleased to present you with the status of management and detail of the settlement of accounts for the period.

In the third year of COVID-19 pandemic, the Japanese economy has been on a recovery track because the government has gradually eased restrictions on activities and the impact of COVID-19 on social life has gradually decreased since the lifting of the stricter measures to prevent the spread of the virus in March. Although, the domestic accommodation and tourism market was severely affected by COVID-19 pandemic in the first half of the fiscal year, gradually began to recover along with the easing of restrictions on activities. In particular, the hotel market recovery gained strength toward the end of the year since October, when the national travel subsidy program and a significant relaxation of entry restrictions were implemented.

Under such environment, JHR worked to secure hotel earnings through reduction of operating costs, etc. and promoted measures to improve earnings in preparation for a full-fledged recovery period in accommodation demand while continuously maintained close communication with the lessees and operators of its respective hotels. The HMJ Group, JHR's largest lessee and strategic partner, implemented large-scale restructuring since 2020 to thoroughly reduce costs, and has been able to establish an operating structure that enables it to aggressively pursue sales, including the implementation of measures to strengthen sales during the recovery period of hotel market. As a result of these efforts, JHR posted operating revenue of JPY14,912 million and net income of JPY2,671 million for the 23rd fiscal period. Dividend per unit came to JPY682.

In 2023, under the government's goal of balancing to prevent infection and social and economic activities, the national travel subsidy program resumed in early January, and inbound tourism is also making progress toward normalization. The rising demand for hotel accommodations has led some parts of the hotel market to exceed their pre-pandemic operating indicators. JHR believes that Japan's growth potential of accommodation demand from inbound visitors is strong, given the large potential demand for overseas tourism globally and the popularity of Japan as a travel destination. With the recovery and growth of inbound accommodation demand added to robust domestic travel demand, we expect Japan's accommodation and tourism market to grow beyond the pre-pandemic indicators in 2019 for the medium to long term.

JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd., will make full efforts together for further growth and improvement of the attractiveness of JHR by leveraging the high level of expertise and know-how cultivated to date.

We would appreciate your continued support for us.

Kaname Masuda
Executive Director
Japan Hotel REIT Investment Corporation

Hisashi Furukawa
Representative Director, President and CEO
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 23rd Period released on March 20, 2023 except for, if any, the update on outlook of issuer rating described in I.2. Asset management operation for the fiscal period under review (3) Funding conditions and I.6. Significant subsequent events. 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		19th period	20th period	21st period	22nd period	23rd period
Account closing date		December 2018	December 2019	December 2020	December 2021	December 2022
Operating revenue	JPY MM	28,253	28,278	13,838	13,633	14,912
[Real estate operating revenue]	JPY MM	[26,318]	[28,278]	[10,495]	[10,374]	[14,912]
Operating expenses	JPY MM	10,260	11,129	10,662	10,673	10,616
[Real estate operating costs]	JPY MM	[8,344]	[8,997]	[8,717]	[8,830]	[8,796]
Operating income	JPY MM	17,993	17,148	3,176	2,959	4,296
Ordinary income	JPY MM	16,211	15,291	1,398	1,298	2,672
Net income (Note 1)	JPY MM	16,210	15,290	1,527	1,296	2,671
Total assets	JPY MM	350,556	415,722	400,296	394,323	396,799
[Period-on-period change]	(%)	[(0.5)]	[18.6]	[(3.7)]	[(1.5)]	[0.6]
Net assets	JPY MM	203,372	236,522	221,201	221,542	223,574
[Period-on-period change]	(%)	[0.7]	[16.3]	[(6.5)]	[0.2]	[0.9]
Unitholders' capital	JPY MM	153,516	186,894	186,894	187,194	187,194
Number of investment units issued and outstanding	Units	4,010,847	4,462,347	4,462,347	4,467,006	4,467,006
Net assets per unit	JPY	50,705	53,004	49,570	49,595	50,050
Net income per unit (Note 2)	JPY	4,041	3,447	342	290	598
Total dividends	JPY MM	15,602	16,466	1,829	1,634	3,046
Dividend per unit	JPY	3,890	3,690	410	366	682
[Earnings dividend per unit]	JPY	3,890	3,690	410	366	682
[Dividend per unit resulted from excess of earnings]	JPY	—	—	—	—	—
Ratio of ordinary income to total assets (Note 3)	%	4.6	4.0	0.3	0.3	0.7
Return on unitholders' equity (Note 4)	%	8.0	7.0	0.7	0.6	1.2
Ratio of net assets to total assets (Note 5)	%	58.0	56.9	55.3	56.2	56.3
[Period-on-period change]		[0.7]	[(1.1)]	[(1.6)]	[0.9]	[0.2]
Payout ratio (Note 6)	%	96.2	107.7	119.8	126.1	114.0

[Additional information]

NOI (Note 7)	JPY MM	22,104	24,087	6,547	6,366	10,963
FFO per unit (Note 8) (Note 9)	JPY	4,588	4,503	632	640	1,683
FFO multiple (Note 9) (Note 10)	Times	17.1	18.0	83.9	87.8	46.0
Debt service coverage ratio (Note 9) (Note 11)	Times	18.0	17.5	3.3	3.4	7.5
Interest-bearing debt	JPY MM	136,671	168,754	168,754	164,754	164,231
Ratio of interest-bearing debt to total assets (Note 12)	%	39.0	40.6	42.2	41.8	41.4
Number of investment properties	Properties	41	43	42	41	41
Total leasable area	m ²	678,714.48	746,329.68	741,083.02	733,995.61	733,995.61
Number of tenants at end of period (Note 13)	Tenants	126	125	121	116	110
Occupancy rate at end of period (Note 14)	%	99.9	99.9	99.9	99.8	99.8
Depreciation	JPY MM	4,091	4,557	4,761	4,804	4,787
Capital expenditures	JPY MM	3,056	6,767	1,665	3,367	4,497
Number of operating days	Days	365	365	366	365	365

(Note 1) Net income for the 19th fiscal period includes gain on sale of real estate properties (¥1,934 million). Net income for the 21st fiscal period includes gain on sale of real estate properties (¥3,158 million) and gain on exchange of real estate properties (¥184 million). Net income for the 22nd fiscal period includes gain on sale of real estate properties (¥3,258 million).

(Note 2) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.

- (Note 3) Ratio of ordinary income to total assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100
- (Note 4) Return on unitholders' equity = Net income / ((Net assets at beginning of period + Net assets at end of period) / 2) × 100
- (Note 5) Ratio of net assets to total assets = Net assets at end of period / Total assets at end of period × 100
- (Note 6) Payout ratio = Total dividends (excess of earnings exclusive) / Net income × 100
- (Note 7) NOI = Real estate operating revenue - Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses
- (Note 8) FFO per unit = (Net income + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses - gain on sale of real estate properties - gain on exchange of real estate properties ± Extraordinary loss or income (excluding loss on disaster)) / Number of investment units issued and outstanding
- (Note 9) 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). For the 21st fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥3,158 million), gain on exchange of real estate properties (¥184 million) and extraordinary income (¥130 million). For the 22nd fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥3,258 million).
- (Note 10) FFO multiple = Investment unit price at end of period / Annualized FFO per unit
- (Note 11) Debt service coverage ratio = (Income before income taxes + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses - gain on sale of real estate properties - gain on exchange of real estate properties ± Extraordinary loss or income (excluding loss on disaster) + Amortization of investment corporation bond issuance costs + Amortization of investment unit issuance expenses ± Loss or gain on derivative instruments + Interest expense + Interest expense on investment corporation bonds) / (Interest expense + Interest expense on investment corporation bonds + Total of contractual principal repayments (excluding lump-sum principal repayments))
- (Note 12) Ratio of interest-bearing debt to total assets = Interest-bearing debt at end of period / Total assets at end of period × 100
- (Note 13) 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 14) 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, merged with Japan Hotel and Resort, Inc. 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 through the end of the fiscal period under review (12 months period from January 1, 2022 to December 31, 2022), JHR has carried out nine public offerings for capital increase and continuously acquired “highly competitive hotels” in mainly “strategic investment 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 26 properties amounting to ¥275,160 million (acquisition price basis) in total through the end of the fiscal period under review. As of the end of the fiscal period under review, JHR had a portfolio of 41 properties with a combined acquisition price of ¥363,542 million, and the total number of investment units issued and outstanding stood at 4,467,006 units.

(2) Investment performance for the fiscal year under review

The Japanese economy in the fiscal period under review (12 months period from January 1, 2022 to December 31, 2022) was on a recovery trend as the impact of COVID-19 on social and economic activities gradually became limited with the easing of movement restrictions by the government in phases since the strict measures to prevent the spread of the virus were lifted in March.

The domestic accommodation and tourism market in the first half of the year was heavily impacted by COVID-19 like in the previous fiscal year but showed robust recovery in the second half of the year, particularly after October due to launch of the national travel subsidy program and substantial easing of entry restrictions to Japan for foreign visitors to Japan (hereinafter referred to as “inbound visitors”). The number of inbound visitors is estimated as 3.83 million for 2022 (increased 1,458.6% compared with the previous year and decreased 88.0% compared with 2019). However, in November to December of 2022, the figure ended up decrease around the 46.4% level compared with the same period of 2019 due to the easing of entry restrictions to Japan. The trend of recovery in domestic demand was striking and the cumulative number of overnight guests of Japanese nationality among the cumulative number of overnight guests at domestic accommodation facilities since October 2022 turned positive compared with the same period of 2019. As a result, the cumulative number of overnight guests at domestic accommodation facilities in 2022 was increased 42.9% from the previous year or decreased by 23.8% from 2019 to 454 million guest nights (preliminary release).

JHR maintained close communication with the lessees and operators of its hotels under management and worked to secure hotel earnings through reduction of operating costs, etc., as well as promoted measures to increase earnings for when accommodation demand makes a full-fledged recovery. In particular, Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), which is a group company of the Asset Management Company, and its subsidiaries (hereinafter collectively referred to as the “HMJ Group”) kept implementing large-scale restructuring (such as reduction of labor costs through closure of unprofitable restaurants within hotels, reduction of outsourcing costs with the switch from outsourcing to insourcing and change of specifications, and consolidation of back offices and common operations) from 2020. HMJ Group have succeeded to accomplish cost reduction that were better than initially planned and to organize an operating system that could facilitate proactive pursuit of profits in the hotel market where the recovery trend is striking.

As to the performance of hotels owned by JHR under these circumstances, RevPAR (Note 1) of The 25 Hotels with Variable Rent, etc. (Note 2) for the fiscal period under review significantly exceeded that of the previous year by 89.4%, and GOP (gross operating profit) was ¥8,874 million (increased 274.9% from the previous year) due to earnings improving with the recovery in the accommodation and tourism market and also cost management measures at hotels proving effective.

For further details of sales, GOP (gross operating profit) and other operating indexes for the 25 Hotels with Variable Rent, etc., please refer to “<Reference Information 2> Hotel operation indexes, sales and GOP (gross operating profit)” on page 15.

(Note 1) RevPAR represents Revenue Per Available Room, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

(Note 2) “The Five HMJ Hotels” represent following 5 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

“The 14 HMJ Hotels” represent Five HMJ Hotels plus following hotels JHR leases to subsidiaries of HMJ.

Oriental Hotel Okinawa Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER 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

“The Two Rebranded HMJ Hotels” represent following 2 hotels which lessees were changed to subsidiaries of HMJ in 2021 due to rebranding.

Hotel Oriental Express Fukuoka Tenjin and Oriental Hotel Universal City

“The 16 HMJ Hotels” represent The 14 HMJ Hotels plus The Two Rebranded HMJ Hotels.

“The Accor Group Hotels” represent following 5 hotels.

ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, and Mercure Yokosuka.

“The Ishin Group Hotels” represent following 4 hotels.

the b Suidobashi, the b Ikebukuro, the b Hachioji, and the b Hakata.

The 25 Hotels with Variable Rent, etc. refers to 25 hotels, which are The 16 HMJ Hotels plus The Accor Group Hotels and The Ishin Group Hotels.

The same shall apply hereinafter.

(3) Funding conditions

In the fiscal period under review (12 months period from January 1, 2022 to December 31, 2022), JHR took out loans in January, March, June and September to refinance existing borrowings that were due for repayment in the same month. Total amount of the loans was ¥30,936 million. Moreover, with regard to the fifth unsecured investment corporation bonds of ¥6,000 million due for redemption in October 2022, in addition to issuance of investment corporation bonds in amount of ¥2,800 million in September which part of the procured fund were appropriated for redemption, JHR took out new loans in amount of ¥4,600 million and used cash on hand to appropriate for the redemption. For the loans taken out in October, we invited The Minato Bank, Ltd. as a new lender to expand our lenders formation. In addition, a part of the procured fund from issuance of investment corporation bonds mentioned above were appropriated to repay existing loans to enhance our financial soundness through controlling balance of interest-bearing debt.

Consequently, as of the end of the fiscal period under review, the balance of interest-bearing debt totaled ¥164,231 million, including short-term loans payable of ¥35,113 million, current portion of long-term loans payable of ¥15,432 million, long-term loans payable of ¥76,786 million, and investment corporation bonds of ¥36,900 million, and the ratio of interest-bearing debt to total assets (Note) at the end of the fiscal year under review stood at 41.4%. The ratio of fixed interest rate to total interest-bearing debt at the end of the fiscal year under review was at 76.8%.

(Note) 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

As of December 31, 2022, JHR’s issuer ratings were as follows:

Rating agency	Rating	
Japan Credit Rating Agency, Ltd. (JCR)	A+	(Negative) (Note 1)
Rating and Investment Information, Inc. (R&I)	A	(Negative) (Note 2)

(Note1: Outlook of issuer rating by JCR was changed from Negative to Stable on March 14, 2023)

(Note2: Outlook of issuer rating by R&I was changed from Negative to Stable on April 11, 2023)

(4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥14,912 million, ¥4,296 million and ¥2,672 million, respectively, for the fiscal period under review (12 months period from January 1, 2022 to December 31, 2022). Net income was ¥2,671 million. Regarding dividends, it was decided that ¥3,046 million, an amount excluded fractions of less than one yen of dividend per unit from ¥3,049 million will be distributed. ¥3,049 million was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥376 million to unappropriated retained earnings of ¥2,672 million. Consequently, the dividend per unit came to ¥682. For details of the appropriation for dividends for the fiscal year under review, please refer to “<Reference Information 3> Dividend per unit and appropriation for dividends” on page 17.

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 (JPY MM)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 1)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 2)
March 16, 2021	Capital increase through third-party allotment of investment units	4,659	4,467,006	300	187,194	(Note 3)

(Note 1) New investment units were issued through public offering with an issue price per unit of ¥76,342 (issue value of ¥73,927) in order to raise funds for the acquisition of new properties, etc.

(Note 2) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to raise funds for allocation to part of the acquisition of new properties.

(Note 3) New investment units were issued through third-party allotment with an issue value per unit of ¥64,400 in order to raise funds for allocation to a part of capital expenditures.

[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:

Fiscal period Account closing month	(JPY)				
	19th period December 2018	20th period December 2019	21st period December 2020	22nd period December 2021	23rd period December 2022
Highest price	85,000	91,800	82,400	71,400	81,100
Lowest price	75,000	75,900	24,700	51,600	54,400
Price at end of period	78,400	81,200	53,000	56,200	77,500

4. Dividends, etc.

Earnings dividend for the period under review was decided in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation. It was decided that ¥3,046,498,092, an amount excluded fractions of less than one yen of dividend per unit from ¥3,049,429,074 which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of JPY376,501,098 to unappropriated retained earnings of ¥2,672,927,976. Consequently, the dividend per unit came to ¥682.

Classification	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)	21st period (From January 1, 2020 to December 31, 2020)	22nd period (From January 1, 2021 to December 31, 2021)	23rd period (From January 1, 2022 to December 31, 2022)
Unappropriated retained earnings	16,213,482,816	15,290,314,375	1,527,790,689	1,300,724,473	2,672,927,976
Retained earnings	-	744,789	3,922,801	1,171,664	2,930,982
Total cash dividends [Dividend per unit]	15,602,194,830 [3,890]	16,466,060,430 [3,690]	1,829,562,270 [410]	1,634,924,196 [366]	3,046,498,092 [682]
Of the above, total earnings dividends [Earnings dividend per unit]	15,602,194,830 [3,890]	16,466,060,430 [3,690]	1,829,562,270 [410]	1,634,924,196 [366]	3,046,498,092 [682]
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

The Japanese economy is in transition period to post COVID-19 society and expected to recover due to the effect by various policies by the government. On the other hand, we need to keep our eye on impact on financial and foreign exchange market caused by worldwide monetary tightening, etc. as well as inflation caused by heightening of geopolitical risks and other factors.

With regard to hotel market in 2023, we see domestic demand for accommodation to overcome recovery and exceed the level prior to COVID-19 due to governmental measures to stimulate leisure demand such as restart of national travel subsidy program from January 10, 2023 under policies to implement simultaneous pursuit to prevent infection and to stimulate social and economic activities without enforcement of new moving restrictions despite of increased cases of infection by COVID-19 from the end of 2022 as the 8th wave of spread of infection. With regard to inbound visitors, although we need to pay attention to tendency of policy for COVID-19 by Chinese government as well as recovery of international flight and other factors, steady progress to normalization is seen since significant easing was made on entry restrictions in October 2022. Since behavior pattern of people is sifting to enjoy travels and events while paying enough attention to prevent infection, we expect demand for accommodation will be gradually enhanced due to the inbound demand for travel in addition to steady domestic demand for travel.

JHR will continue to implement a variety of measures with lessees and operators, such as reducing operating costs through review of operations, etc., at each hotel, maintaining necessary employment, handling cash management, and also implementing sales measures in response to new demand including “staycation” and “workation.” We intended to draw the demand which is under the recovery trend through these measures. Especially for the hotels with variable rent, etc., JHR will endeavor to maximize GOP of each hotel and thus maximize the rent JHR can receive as a result. In particular, with the HMJ Group, a strategic partner of JHR, in addition to strengthening the initiatives of the restructuring plan mentioned earlier and together with further reduction of constant cost, measures to develop and capture demand will be proactively promoted, such as making attractive products which turn the hotel itself as the tourism destination and increasing brand awareness through TV commercials, etc. The HMJ Group is conducting initiatives from both sides to enhance profitability. The rent scheme with the HMJ Group was changed to full variable rent scheme until the end of December 2022 and it returned to fixed rent plus variable rent scheme from January 2023 as before based on memorandum of understanding related to fixed term building lease contract concluded on February 25, 2022.

On the other hand, given the large potential demand for overseas tourism globally, particularly due to the improvement in income levels in Asian countries and the popularity of Japan as a travel destination, etc., JHR expects that accommodation demand from inbound visitors will show growth to exceed numbers achieved in 2019. As such, JHR believes that the accommodation and tourism market will expand. On the belief that the location and competitiveness of individual hotels as well as the capabilities of operators (the ability to differentiate from other hotels, improve profitability including cost management and capture recovering demand, etc.) will lead to differentiation of performance among hotels, JHR will implement strategies to differentiate its hotels.

In the meanwhile, as a result of the spread of infection by COVID-19, contactless behavior patterns, such as web conferencing, have spread, and these may cause structural changes in the hotel industry, for instance, a reduction in banquet demand, etc. JHR will work more closely than ever with hotel lessees and operators to flexibly respond to the changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to continue to implement strategies to differentiate by utilizing the experience it has cultivated as a J-REIT specializing in hotels, 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 strategies which proactively pursue greater profitability and asset value in properties by way of a variety of measures such as adopting adequate brand to meet characteristic of each hotel and coordinating with HMJ.

For properties with fixed-rent contracts, JHR will continue to focus on setting and maintaining appropriate rents based on rent levels in the market where respective hotels are located or each tenant’s creditworthiness and ability to bear the rent costs, and aiming at raising rents (including introduction of a revenue-sharing structure) in accordance with the conditions of the accommodation market while appropriately respond if there are any requests for reduction of fixed rent, etc. from lessees greatly affected by COVID-19).

For hotels under variable rent contracts and under a management contract structure, JHR is working to increase variable rent, etc. by implementing active asset management strategies.

A. Properties under variable rent contracts

JHR works to enhance the profitability of its properties under variable rent contracts through its active asset management strategies. JHR has adopted world-leading international brands such as Hilton, Sheraton, Mercure and Holiday Inn as well as leading brands in Japan including Oriental Hotel (brand of the HMJ Group) and Hotel Nikko and, together with excellent operators, aims to increase variable rent, etc. through improved performance of these hotels. JHR coordinates with the operators in an effort to enhance hotel performance by requesting them to implement

marketing initiatives to attract a wider range of demand with considerations given to recovery of leisure demand from domestic and inbound visitors, measures to maintain and increase room rates, and realization of synergy effects like cost reductions from operating multiple properties, among other efforts.

On the other hand, JHR will continue to closely cooperate with the lessees and operators of respective hotels to promote drastic reform of the earnings structures of hotels through various cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while considering for the health of guests and employees of respective hotels and environmental sanitation management. JHR will also promote various measures to restore hotel earnings, such as the creation of appropriate products in response to major changes in the market environment and the preparation of hotel facility environments.

Moreover, JHR will strive to recover and improve hotel earnings by implementing strategic capital expenditure (CAPEX) as necessary through accurately grasping the conditions in the domestic accommodation and tourism market, and changing customers' needs.

B. Properties under fixed rent contracts

JHR will monitor operating conditions of these hotels appropriately, pay careful attention to each lessee's ability to bear the cost of rent, and pursue efforts to set and maintain reasonable rent, while appropriately responding to requests for reduction of fixed rent from lessees greatly affected by the spread of infection by COVID-19 (if any). In addition, JHR will continuously execute investment to maintain and renew facilities and equipment in order to ensure each hotel becomes prominent in the market and to maintain and enhance asset value.

External growth

In terms of external growth strategy, JHR believes that domestic and inbound leisure demand will recover over the medium to long term and will continue targeting acquisition of 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 it has done to date. In addition, JHR will build a portfolio which can secure stable revenues with future growth potential in mind in order to achieve upside gains.

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

Specifically, JHR will aim 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, profitability, etc. 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 transaction market, some investors continue to take cautious stance for investment due to a sense of uncertainty over the domestic accommodation and tourism market stemming from the impact of COVID-19. On the other hand, transactions, including those involving large properties, have seen since 2021 due to expectation for recovery of hotel market and easing attitude by financial institutions to provide finance on hotels. Furthermore, there is also increasing possibility of special investment opportunities unlike before, such as sales of assets due to rapid deterioration in the financial position of operators, sales of hotels which are non-core assets due to deterioration in main business performance, sales of hotels completed or scheduled to be completed without operators, etc. JHR will flexibly deal with such investment opportunities by utilizing the efficient hotel operation platform of HMJ and such. Moreover, over the medium to long term, JHR believes that transition to post COVID-19 society and accompanying recovery of domestic accommodation demand including that from inbound visitors, many investors who have been on the sideline may resume investment in hotels, and competition over acquisition may become more active. Going forward, while closely monitoring market trends from many angles, JHR will flexibly respond to changes in earnings structures of hotels and the investment environment by leveraging the strengths and advantages it has cultivated as a J-REIT specializing in hotel investment and JHR will aim to expand asset size that accompanies improvement of the portfolio quality through acquiring highly competitive properties, while utilizing the operation platform of the HMJ Group as necessary.

Finance strategy

JHR will focus on the enhancement of financial stability and soundness and intends to maintain and enhance the relationship of trust with financial institutions with which it does business through close communication and such.

With regard to refinancing of existing borrowings, JHR will work to extend borrowing period while paying attention to financing costs and maintaining good relationships with respective lenders under the conditions that the hotel market is on recovery trend. In addition, JHR will strengthen its financial foundation through invitation of new lender and appropriate control of capital expenditures, etc. JHR aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% as in the past, but it maintains roughly the current level for the time being. In addition, when seeking new borrowing for property acquisitions, JHR will work to disperse the maturity dates of its debt as well as further reinforce its composition of lenders and further diversify funding methods, such as issuance of investment

corporation bonds (including green bonds), while considering the balance with the funding costs.

Policy on handling of negative goodwill

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; hereinafter referred to as the “Ordinance on Accountings of Investment Corporations”) and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. 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 31, 2017, to pay out as dividends every year, 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 retirement of noncurrent assets, 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).

(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, consideration for ESG (Environment, Social and Governance) has grown in importance in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management that considers for ESG is important to maximize 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 guests, lessees, operators, business partners such as property managers, local communities, and officers and employees of the Asset Management Company, 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, has established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at properties in our portfolio 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 hotel properties owned by a J-REIT (Note 1). In September 2018, JHR became the first J-REIT specializing in hotels to be recognized by GRESB (Note 2) for its environmental awareness and sustainability initiatives. And JHR acquired “Green Star” in the GRESB Real Estate Assessment. Moreover, for the third consecutive year, JHR was selected as a Sector Leader of Asian Hotel Sector in the GRESB Real Estate Assessment conducted in 2022. In April 2020, Hilton Tokyo Odaiba acquired CASBEE (Comprehensive Assessment System for Built Environment Efficiency) Certification for Buildings, the first such recognition for an existing property used as hotel. In May 2021, Oriental Hotel Fukuoka Hakata Station also acquired CASBEE Certification for Buildings, the second case of such for an existing property used as hotels following Hilton Tokyo Odaiba. In addition, in December 2021, JHR defined its materiality (key issues) in terms of ESG from the dual standpoints of stakeholder expectations and impact on its business. Also, the Asset Management Company expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB), and joined the TCFD Consortium, an organization made up of Japanese companies that support the recommendations. In August 2022, it disclosed the initiatives for the four disclosure themes recommended by the TCFD, including the degree of financial impact based on climate change-related scenario analysis. In addition, it is working to sequentially clarify targets in numerical terms, such as formulating and disclosing the CO2 reduction target by 2050 in February 2023. Going forward, JHR, together with the Asset Management Company, will continue to actively promote enhancement of its initiatives and disclosure on a variety of sustainability issues. Furthermore, JHR issued green bonds in July 2019 to allocate funds mainly to refinancing of loans procured for funding investment capital and constructions cost, etc. for equipment which contribute to environment, including reduction of CO2 and water consumption in the renovation work at Oriental Hotel Fukuoka Hakata Station. It was the first case of a J-REIT specializing in hotels issuing green bonds. Of the funds procured from the green bonds, the remaining funds, excluding the repayment of such loans, were used to fund renovation work, etc. at other hotels, and JHR allocated funds to construction costs for reduction of CO2, etc. at four hotels including Hilton Nagoya. As a result, the funds procured from the green bonds have been fully appropriated for eligible projects and there is no unappropriated balance.

In addition, as an effort under the spread of infection by COVID-19, JHR worked together with the lessees to provide total of nine hotels it owns as facilities to accept patients with mild or no symptoms who do not require hospital treatment among the patients infected with COVID-19 from 2020 through the date of this document. JHR also provided restaurants and banquet rooms in Oriental Hotel Tokyo Bay and Hotel Nikko Nara as venues for vaccination under workplace vaccination programs and for local residents. Furthermore, the HMJ Group conducted workplace vaccination to provide vaccinations to its employees who wish to be vaccinated so that hotel guests can use the hotels safely with peace of mind.

Recognizing its social responsibility towards local communities as a J-REIT specializing in hotels, JHR will continue to

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 public information.

(Note 2) GRESB which stands for Global Real Estate Sustainability Benchmark is an annual benchmarking assessment to measure ESG (Environmental, Social and Governance) considerations 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

Acquisition of assets

JHR acquired two properties as follows:

Name of acquired asset	UAN kanazawa
Type of specified asset	Beneficial interest of real estate in trust and movable asset attached to the hotel
Asset type	Hotel
Location (displayed address)	6-30 Oyama-machi, Kanazawa-shi, Ishikawa
Acquisition date	January 31, 2023
Seller	GK Esquilino Investment
Acquisition price (Note 1)	¥2,050 million

Name of acquired asset	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi
Type of specified asset	Beneficial interest of real estate in trust
Asset type	Hotel
Location (displayed address)	10-2 Shimbashi 4-chome, Minato-ku, Tokyo
Acquisition date	March 24, 2023
Seller	Not disclosed (Note 2)
Acquisition price (Note 1)	¥8,400 million

Notes:

(Note 1) The acquisition price does not include expenses for acquisition, settlement of property tax, city planning tax, etc., and consumption tax and local consumption tax.

(Note 2) Not disclosed because the approval of the seller has not been obtained.

7. Reference information

<Reference 1> Major indexes of the hotel business for the fiscal period ended December 31, 2022

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2022 through December 31, 2022, based on the data provided by the hotel lessees, etc. Furthermore, while the indexes 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 room rates and profit margins, etc. are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

	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	66.9%	—	77.1%	—	54.9%	—	56.3%	—	100.0%	—	70.0%	—
ADR (Note 1)	19,310	—	17,902	—	10,264	—	30,471	—	9,092	—	17,928	—
RevPAR (Note 2)	12,915	—	13,800	—	5,634	—	17,151	—	9,092	—	12,558	—
Total sales (JPY MM)	4,016	100.0	4,201	100.0	1,047	100.0	4,057	100.0	1,145	100.0	14,466	100.0
Rooms department	1,523	37.9	2,574	61.3	531	50.7	2,485	61.3	753	65.8	7,866	54.4
Food & beverage department	2,187	54.5	1,296	30.8	32	3.1	1,232	30.4	37	3.2	4,784	33.1
Tenant department	68	1.7	159	3.8	454	43.4	2	0.0	—	—	684	4.7
Other departments (Note 3)	238	5.9	171	4.1	31	3.0	338	8.3	355	31.0	1,133	7.8
GOP (JPY MM)	495	12.3	1,053	25.1	506	48.3	1,113	27.4	692	60.4	3,859	26.7

	Oriental Hotel Universal City		Oriental Hotel Okinawa Resort & Spa		Sheraton Grand Hiroshima Hotel (Note 4)		Oriental Hotel Fukuoka Hakata Station		Holiday Inn Osaka Namba		Hotel Oriental Express Fukuoka Tenjin	
		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	61.5%	—	47.9%	—	58.2%	—	65.0%	—	100.0%	—	63.1%	—
ADR (Note 1)	20,661	—	22,836	—	20,837	—	13,402	—	3,395	—	7,024	—
RevPAR (Note 2)	12,716	—	10,940	—	12,131	—	8,717	—	3,395	—	4,430	—
Total sales (JPY MM)	1,797	100.0	2,307	100.0	2,222	100.0	1,614	100.0	408	100.0	446	100.0
Rooms department	1,532	85.3	1,441	62.5	1,054	47.4	703	43.6	389	95.3	425	95.3
Food & beverage department	256	14.2	588	25.5	1,087	48.9	615	38.1	—	—	9	2.0
Tenant department	—	—	45	2.0	—	—	236	14.6	18	4.4	—	—
Other departments (Note 3)	10	0.6	232	10.1	80	3.6	59	3.7	1	0.2	12	2.7
GOP (JPY MM)	648	36.1	224	9.7	443	19.9	632	39.2	236	57.8	166	37.2

	Hilton Tokyo Narita Airport		International Garden Hotel Narita		Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi (Note 5)		Hilton Tokyo Odaiba		The 16 HMJ Hotels Total/Average (Note 6)	
		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	64.1%	—	62.7%	—	54.9%	—	5.0%	—	59.2%	—	64.1%	—
ADR (Note 1)	11,039	—	7,362	—	13,208	—	11,684	—	25,201	—	15,121	—
RevPAR (Note 2)	7,079	—	4,616	—	7,245	—	579	—	14,907	—	9,694	—
Total sales (JPY MM)	2,192	100.0	1,016	100.0	1,688	100.0	26	100.0	6,569	100.0	34,752	100.0
Rooms department	1,416	64.6	780	76.8	873	51.7	26	100.0	2,465	37.5	18,970	54.6
Food & beverage department	640	29.2	191	18.8	772	45.7	—	—	3,781	57.6	12,723	36.6
Tenant department	22	1.0	4	0.4	4	0.2	—	—	80	1.2	1,095	3.2
Other departments (Note 3)	114	5.2	41	4.0	40	2.4	0	0.0	243	3.7	1,965	5.7
GOP (JPY MM)	319	14.6	223	21.9	206	12.2	(11)	(42.3)	812	12.4	7,757	22.3

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms sold during the period.

Service charges are 10% for Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Oriental Hotel Okinawa Resort & Spa, ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station; 12% for Hilton Tokyo Narita Airport; and 13% for Hilton Tokyo Odaiba. Oriental Hotel Universal City, Holiday Inn Osaka Namba, Hotel Oriental Express Fukuoka Tenjin and Hotel Oriental Express Osaka Shinsaibashi do not request service charges. 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 (including service charges) by the total number of rooms available for sale during the period. 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) The properties were temporarily closed for a certain period of time during the fiscal period under review due to the impact of COVID-19, but the occupancy rate has been calculated by including the closed period.

(Note 6) For Total/Average of The 16 HMJ Hotels, 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.

<Reference 2> Hotel operation indexes, sales and GOP (gross operating profit)

The numeral figures are based on figures obtained from hotel lessees, etc. Please note that these figures have not been audited nor have they gone through other procedures. No guarantee is made as to the accuracy or completeness of the figures and information.

ADR (Note 1) and RevPAR (Note 2) 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.

<1> The 16 HMJ Hotels

		Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022		
		Result	Comparison with 2019	Result	Comparison with previous period	Comparison with 2019
Occupancy rate	First half of the year	26.4%	(59.5pt)	54.6%	28.2pt	(31.3pt)
	Second half of the year	47.8%	(40.6pt)	73.4%	25.6pt	(15.0pt)
	Full year	37.2%	(50.0pt)	64.1%	26.9pt	(23.0pt)
ADR (Note 1)	First half of the year	12,615	(26.2%)	12,292	(2.6%)	(28.1%)
	Second half of the year	14,038	(26.2%)	17,192	22.5%	(9.6%)
	Full year	13,537	(25.1%)	15,121	11.7%	(16.3%)
RevPAR (Note 2)	First half of the year	3,333	(77.3%)	6,716	101.5%	(54.2%)
	Second half of the year	6,709	(60.1%)	12,625	88.2%	(24.9%)
	Full year	5,035	(68.0%)	9,694	92.5%	(38.5%)
Sales (JPY MM)	First half of the year	8,429	(66.8%)	12,720	50.9%	(49.8%)
	Second half of the year	13,140	(54.0%)	22,031	67.7%	(22.9%)
	Full year	21,569	(60.0%)	34,752	61.1%	(35.6%)
GOP (JPY MM)	First half of the year	(164)	(102.1%)	1,536	—%	(80.5%)
	Second half of the year	2,178	(79.5%)	6,222	185.7%	(41.4%)
	Full year	2,014	(89.1%)	7,757	285.1%	(58.0%)

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms sold during the period. 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 (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

<2> The 25 Hotels with Variable Rent, etc.

		Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022		
		Result	Comparison with 2019	Result	Comparison with previous period	Comparison with 2019
Occupancy rate	First half of the year	29.5%	(56.0pt)	55.8%	26.3pt	(29.6pt)
	Second half of the year	48.7%	(38.6pt)	74.2%	25.5pt	(13.1pt)
	Full year	39.2%	(47.2pt)	65.1%	25.9pt	(21.3pt)
ADR	First half of the year	10,755	(30.9%)	10,872	1.1%	(30.1%)
	Second half of the year	12,143	(28.9%)	15,018	23.7%	(12.1%)
	Full year	11,625	(28.8%)	13,255	14.0%	(18.8%)
RevPAR	First half of the year	3,169	(76.2%)	6,063	91.4%	(54.4%)
	Second half of the year	5,913	(60.4%)	11,140	88.4%	(25.3%)
	Full year	4,552	(67.7%)	8,623	89.4%	(38.9%)
Sales (JPY MM)	First half of the year	9,512	(67.3%)	14,364	51.0%	(50.6%)
	Second half of the year	14,567	(55.0%)	24,735	69.8%	(23.6%)
	Full year	24,079	(60.8%)	39,100	62.4%	(36.4%)
GOP (JPY MM)	First half of the year	(96)	(101.0%)	1,819	—%	(80.8%)
	Second half of the year	2,463	(79.9%)	7,055	186.4%	(42.3%)
	Full year	2,367	(89.1%)	8,874	274.9%	(59.1%)

<Reference 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal period ended December 31, 2021, and the fiscal period ended December 31, 2022, are calculated based on the following assumptions.

	Fiscal period ended December 31, 2021 (JPY MM)	Fiscal period ended December 31, 2022 (JPY MM)
Unappropriated retained earnings	1,300	2,672
Total of reserve for temporary difference adjustment (negative goodwill) used	335	376
50-year amortization amount of negative goodwill	262	262
Loss on retirement of noncurrent assets	16	57
Amortization of trademark rights	56	56
Total dividends	1,634	3,046
Total number of investment units issued and outstanding	4,467,006 units	4,467,006 units
Dividend per unit	¥366	¥682

<Reference 4> Balance of reserve for temporary difference adjustment

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal period ended December 2022 is as follows.

Balance of reserve for temporary difference adjustment as of December 31, 2022	¥9,976 million
Appropriation for dividends as of December 31, 2022	(¥376 million)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal period ended December 31, 2022	¥9,600 million

Overview of JHR

1. Unitholders' capital

Account closing date	19th period As of December 31, 2018	20th period As of December 31, 2019	21st period As of December 31, 2020	22nd period As of December 31, 2021	23rd period As of December 31, 2022
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)	4,010,847	4,462,347	4,462,347	4,467,006	4,467,006
Unitholders' capital (JPY MM)	153,516	186,894	186,894	187,194	187,194
Number of unitholders (Persons)	31,155	30,574	35,117	31,481	27,573

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2022 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	815,025	18.24
Custody Bank of Japan, Ltd. (Trust Account)	731,291	16.37
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	232,834	5.21
The Chase Manhattan Bank, N.A. London Special Account Number One	107,498	2.40
JPMorgan Securities Japan Co., Ltd.	80,460	1.80
BNYM AS AGT Clients 10 PERCENT	75,875	1.69
State Street Bank and Trust Company 505223	73,811	1.65
STATE STREET BANK WEST CLIENT TREATY 505234	73,503	1.64
State Street Bank and Trust Company 505103	68,691	1.53
SSBTC CLIENT OMNIBUS ACCOUNT	68,599	1.53
Total	2,327,587	52.10

(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, 2022 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (JPY thousands)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	6,600
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,600
Supervisory Director	Hiroto Kashii (Note 1)	–	3,600
Supervisory Director	Mayumi Umezawa (Note 1)	Representative of Umezawa Accountant Office	3,600
Independent auditor	KPMG AZSA LLC (Note 2)	–	26,750

(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) Fees paid to independent auditor include fees related to provide comfort letter in relation with issuance of investment corporation bonds (¥1,750 thousand).

(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 reappointed as Substitute Executive Director, based on the resolution made by the 11th General Meeting of Unitholders of JHR held on November 25, 2021.

(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. Matters regarding directors and officers liability insurance contract

JHR has entered into a directors and officers liability insurance agreement as follows:

Scope of the insured	Overview of contract
Executive Director and Supervisory Directors	<p>(Overview of insured event covered by the insurance) JHR has entered into a directors and officers liability insurance contract, as provided in Article 116-3-1 of the Investment Trusts Act, with an insurance company. The contract shall cover, to a certain extent, such legal loss as compensation payment for damages and dispute costs to be borne by the insured when they receive a claim for compensation of damages caused by the actions they have taken as a director of JHR.</p> <p>(Burden ration of insurance premium) JHR bears 100% of the insurance premium. (Measures to ensure the appropriateness of the execution of duties by directors and officers) When the insured suffer damages by actions which they executed while recognizing that it may constitute criminal act or violate the laws and regulations, the loss is not subject of the protection.</p>

5. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2022 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, etc., bookkeeping, etc., tax payments, etc., 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 Trust Bank, Limited Mizuho Bank, Ltd. Resona Bank, Limited MUFG Bank, Ltd.
General administrator (tax return preparation, etc.)	PwC Tax Japan

Status of Investment Assets

1. Composition of assets

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	22nd period (As of December 31, 2021)		23rd period (As of December 31, 2022)			
				Total amount of assets held (JPY MM) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY MM) (Note 2)	Ratio to total assets (%) (Note 3)		
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,757	6.8	26,646	6.7		
			Namba Oriental Hotel	14,354	3.6	14,250	3.6		
			Hotel Oriental Express Osaka Shinsaibashi	2,793	0.7	2,781	0.7		
		Tokyo	the b ikebukuro	6,567	1.7	6,548	1.7		
			CANDEO HOTELS UENO-KOEN	6,567	1.7	6,535	1.6		
			Comfort Hotel Tokyo Higashi Nihombashi	3,457	0.9	3,422	0.9		
			the b hachioji	2,683	0.7	2,685	0.7		
			Smile Hotel Nihombashi Mitsukoshimae	2,028	0.5	2,025	0.5		
			R&B Hotel Ueno Hirokoji	1,794	0.5	1,780	0.4		
			Chisun Hotel Kamata	1,452	0.4	1,442	0.4		
			the b suidobashi	1,170	0.3	1,155	0.3		
			dormy inn ・ global cabin Asakusa	930	0.2	922	0.2		
			Chisun Inn Kamata	775	0.2	773	0.2		
			Hokkaido	ibis Styles Sapporo	6,432	1.6	6,366	1.6	
		Mercure Sapporo		5,671	1.4	5,614	1.4		
		Fukuoka	Hotel Oriental Express Fukuoka Tenjin	5,716	1.4	5,728	1.4		
			the b hakata	2,345	0.6	2,330	0.6		
			Washington Hotel Plaza Hakata, Nakasu	2,054	0.5	2,062	0.5		
			Toyoko Inn Hakata-guchi Ekimae	1,382	0.4	1,364	0.3		
		Kyoto	ibis Styles Kyoto Station	6,599	1.7	6,580	1.7		
		Okinawa	Mercure Okinawa Naha	2,784	0.7	2,745	0.7		
		Kumamoto	Dormy Inn Kumamoto	2,203	0.6	2,186	0.6		
		Nara	Washington Hotel Plaza Nara	1,736	0.4	1,703	0.4		
		Subtotal				108,259	27.5	107,654	27.1
		Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,266	16.0	63,160	15.9	
				Chiba	Oriental Hotel tokyo bay	16,945	4.3	16,724	4.2
					Hilton Tokyo Narita Airport	13,015	3.3	13,038	3.3
					International Garden Hotel Narita	9,059	2.3	8,983	2.3
					Hotel Francs	3,141	0.8	3,142	0.8
			Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 4)	17,060	4.3	17,016	4.3	
Oriental Hotel Hiroshima	4,043			1.0	4,032	1.0			
Aichi	Hilton Nagoya		15,618	4.0	15,560	3.9			
Nara	Hotel Nikko Nara		10,145	2.6	10,047	2.5			
Hyogo	Kobe Meriken Park Oriental Hotel		9,337	2.4	9,260	2.3			
Fukuoka	Oriental Hotel Fukuoka Hakata Station		8,955	2.3	8,720	2.2			
Kanagawa	Mercure Yokosuka		1,598	0.4	1,608	0.4			
Subtotal				172,186	43.7	171,296	43.2		

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	22nd period (As of December 31, 2021)		23rd period (As of December 31, 2022)	
				Total amount of assets held (JPY MM) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (JPY MM) (Note 2)	Ratio to total assets (%) (Note 3)
Real estate in trust	Resort hotel	Okinawa	Hotel Nikko Alivila	17,627	4.5	17,451	4.4
			Oriental Hotel Okinawa Resort & Spa	14,597	3.7	15,408	3.9
			The Beach Tower Okinawa	6,472	1.6	6,418	1.6
		Chiba	Hilton Tokyo Bay	26,159	6.6	26,097	6.6
		Osaka	Oriental Hotel Universal City	7,019	1.8	7,302	1.8
		Kanagawa	Hakone Setsugetsuka	3,593	0.9	3,552	0.9
	Subtotal			75,469	19.1	76,231	19.2
Real estate in trust – Total				355,915	90.3	355,182	89.5
Deposits and other assets (Note 5)				38,408	9.7	41,617	10.5
Total assets				394,323	100.0	396,799	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) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the hotel type of Sheraton Grand Hiroshima Hotel, its main facility.

(Note 5) Includes machinery and equipment, tools, furniture and fixtures, construction in progress, 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, 2022 are as follows.

Property No.	Name of property, etc.	Book value (JPY MM) (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)	9,484	32,663.90	32,663.90	100.0	2.9	Hotel
2	Oriental Hotel tokyo bay	16,889	44,833.11	44,833.11	100.0	5.6	Hotel
3	Namba Oriental Hotel	14,317	19,364.33	19,364.33	100.0	3.1	Hotel
4	Hotel Nikko Alivila (Note 6)	17,665	38,024.98	38,024.98	100.0	5.5	Hotel
5	Oriental Hotel Hiroshima	4,095	13,752.22	13,752.22	100.0	4.1	Hotel
8	The Beach Tower Okinawa (Note 7)	6,420	20,140.01	20,140.01	100.0	3.4	Hotel
9	Hakone Setsugetsuka	3,558	10,655.03	10,655.03	100.0	2.0	Hotel
10	Dormy Inn Kumamoto	2,186	7,701.19	7,701.19	100.0	1.3	Hotel
12	the b suidobashi	1,167	3,097.25	3,097.25	100.0	0.2	Hotel
13	dormy inn · global cabin Asakusa	922	2,014.90	2,014.90	100.0	0.4	Hotel
14	Washington Hotel Plaza Hakata, Nakasu	2,062	5,602.04	5,602.04	100.0	1.6	Hotel
15	Washington Hotel Plaza Nara	1,703	5,271.54	5,271.54	100.0	1.0	Hotel
16	R&B Hotel Ueno Hirokoji	1,780	3,060.31	3,060.31	100.0	0.7	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,423	5,765.27	5,765.27	100.0	1.8	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,025	3,167.82	3,167.82	100.0	0.9	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,364	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	0.9	Hotel
25	Chisun Hotel Kamata	1,452	3,831.80	3,831.80	100.0	0.2	Hotel
26	Chisun Inn Kamata	779	1,499.87	1,499.87	100.0	0.1	Hotel
29	Oriental Hotel Universal City (Note 8)	7,732	15,926.83	15,926.83	100.0	4.2	Hotel
31	Hilton Tokyo Bay (Note 9)	26,106	64,928.83	64,928.83	100.0	13.3	Hotel
32	ibis Styles Kyoto Station	6,594	5,003.99	5,003.99	100.0	0.5	Hotel
33	ibis Styles Sapporo	6,414	14,992.49	14,896.40	99.4	1.4	Hotel
34	Mercure Sapporo	5,679	15,189.42	14,532.53	95.7	1.8	Hotel
35	Mercure Okinawa Naha	2,807	10,884.25	10,884.25	100.0	0.3	Hotel
37	the b ikebukuro (Note 10)	6,570	5,650.01	5,650.01	100.0	3.2	Hotel
39	the b hachioji (Note 10)	2,701	7,847.65	7,847.65	100.0	0.6	Hotel
40	the b hakata (Note 10)	2,343	3,986.09	3,986.09	100.0	0.4	Hotel
41	Hotel Francs	3,142	19,213.39	19,213.39	100.0	2.0	Hotel
42	Mercure Yokosuka (Note 11)	1,629	16,881.82	16,881.82	100.0	1.6	Hotel
43	Oriental Hotel Okinawa Resort & Spa	15,756	36,430.15	36,430.15	100.0	1.3	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,190	31,181.03	30,677.43	98.4	7.6	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,548	7,934.26	7,934.26	100.0	2.3	Hotel
46	Oriental Hotel Fukuoka Hakata Station	8,879	18,105.42	18,105.42	100.0	4.1	Hotel
47	Holiday Inn Osaka Namba	26,672	11,501.10	11,501.10	100.0	1.4	Hotel
48	Hotel Oriental Express Fukuoka Tenjin	5,828	8,238.75	7,751.21	94.1	1.9	Hotel
49	Hilton Nagoya (Note 14)	15,560	47,942.71	47,942.71	100.0	7.0	Hotel
50	Hilton Tokyo Narita Airport	13,247	56,817.28	56,817.28	100.0	1.5	Hotel
51	International Garden Hotel Narita	9,050	21,814.93	21,814.93	100.0	1.4	Hotel
52	Hotel Nikko Nara (Note 15)	10,135	21,011.31	21,011.31	100.0	1.2	Hotel
53	Hotel Oriental Express Osaka Shinsaibashi	2,804	2,710.55	2,710.55	100.0	—	Hotel
54	Hilton Tokyo Odaiba	63,369	64,907.76	64,907.76	100.0	4.8	Hotel
	Total	358,067	733,995.61	732,251.49	99.8	99.8	

(Note 1) Book value includes real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress, 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. In this report, the same shall apply hereinafter.

- (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. Please note that the sum of the ratio of rental revenue to total rental revenue is 99.8% because the relevant ratios of the trademark rights for the Oriental Hotel brand, etc. are not included.
- (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 Oriental Hotel 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 64,928.83 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. In this report, the same shall apply hereinafter.
- (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 contracts of the hotel, office spaces and stores are 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 contract 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 contracts.
- (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, 2022 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPYMM) (Note 1)	Book value (JPY MM) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	14,100	9,484	JR
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	31,700	16,889	JR
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	31,000	14,317	JR
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	28,100	17,665	JR
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,150	4,095	JR
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	9,960	6,420	JR
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,260	3,558	JR
10	Dormy Inn Kumamoto	3-1 Karashimacho, Chuo-ku, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,930	2,186	JR
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	2,270	1,167	JR
13	dormy inn · global cabin Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,300	922	JM
14	Washington Hotel Plaza Hakata, Nakasu	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,520	2,062	JR
15	Washington Hotel Plaza Nara	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,703	JR
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,800	1,780	JM
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,370	3,423	JM
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,940	2,025	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	2,760	1,364	T
25	Chisun Hotel Kamata	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	2,050	1,452	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,380	779	T
29	Oriental Hotel Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	17,800	7,732	R
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	40,500	26,106	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	9,990	6,594	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	11,100	6,414	JR
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,500	5,679	JR
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	6,940	2,807	JR
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,180	6,570	JR
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,570	2,701	JR
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,320	2,343	JR

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (JPYMM) (Note 1)	Book value (JPY MM) (Note 2)	Appraisal agency (Note 3)
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,100	3,142	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	3,240	1,629	D
43	Oriental Hotel Okinawa Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	17,900	15,756	JR
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	20,700	17,190	D
45	CANDEO HOTELS UENO- KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,460	6,548	D
46	Oriental Hotel Fukuoka Hakata Station	4-23 Hakata-eki Chuo-gai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	15,000	8,879	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	26,600	26,672	JR
48	Hotel Oriental Express Fukuoka Tenjin	3-14 Tenjin 3-chome, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	6,520	5,828	D
49	Hilton Nagoya	3-3 Sakae 1-chome, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	14,900	15,560	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	12,300	13,247	JR
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,080	9,050	JR
52	Hotel Nikko Nara	8-1 Sanjyo-honmachi, Nara-shi, Nara	Beneficial interest in trust	9,500	10,135	D
53	Hotel Oriental Express Osaka Shinsaibashi	2-13 Minamisenba 3-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	2,890	2,804	D
54	Hilton Tokyo Odaiba	9-1 Daiba 1-chome, Minato-ku, Tokyo	Beneficial interest in trust	68,000	63,369	JR
Total				483,110	358,067	

(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, 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, 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.	22nd period (From January 1, 2021 to December 31, 2021)				23rd period (From January 1, 2022 to December 31, 2022)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY MM)	Ratio to total real estate operating revenue (%) (Note 2)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (JPY MM)	Ratio to total real estate operating revenue (%) (Note 2)
1	Kobe Meriken Park Oriental Hotel	1	100.0	36	0.3	1	100.0	429	2.9
2	Oriental Hotel Tokyo Bay	1	100.0	—	—	1	100.0	833	5.6
3	Namba Oriental Hotel	1	100.0	288	2.8	1	100.0	460	3.1
4	Hotel Nikko Alivila	1	100.0	155	1.5	1	100.0	814	5.5
5	Oriental Hotel Hiroshima	1	100.0	297	2.9	1	100.0	618	4.1
6	ibis Tokyo Shinjuku (Note 3)	—	—	155	1.5	—	—	—	—
8	The Beach Tower Okinawa	1	100.0	511	4.9	1	100.0	511	3.4
9	Hakone Setsugetsuka	1	100.0	294	2.8	1	100.0	294	2.0
10	Dormy Inn Kumamoto	1	100.0	194	1.9	1	100.0	194	1.3
12	the b suidobashi	1	100.0	12	0.1	1	100.0	30	0.2
13	dormy inn · global cabin Asakusa	1	100.0	63	0.6	1	100.0	65	0.4
14	Washington Hotel Plaza Hakata, Nakasu	1	100.0	240	2.3	1	100.0	240	1.6
15	Washington Hotel Plaza Nara	2	100.0	150	1.4	2	100.0	150	1.0
16	R&B Hotel Ueno Hirokoji	1	100.0	97	0.9	1	100.0	97	0.7
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	271	2.6	2	100.0	271	1.8
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	134	1.3	1	100.0	134	0.9
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	1.4	1	100.0	141	0.9
25	Chisun Hotel Kamata	1	100.0	15	0.1	1	100.0	26	0.2
26	Chisun Inn Kamata	1	100.0	2	0.0	1	100.0	18	0.1
29	Oriental Hotel Universal City	1	100.0	470	4.5	1	100.0	627	4.2
31	Hilton Tokyo Bay	1	100.0	1,979	19.1	1	100.0	1,980	13.3
32	ibis Styles Kyoto Station	2	100.0	46	0.4	2	100.0	71	0.5
33	ibis Styles Sapporo	5	99.4	55	0.5	5	99.4	214	1.4
34	Mercure Sapporo	11	95.7	115	1.1	9	95.7	269	1.8
35	Mercure Okinawa Naha	1	100.0	—	—	1	100.0	50	0.3
37	the b ikebukuro	3	100.0	404	3.9	3	100.0	478	3.2
39	the b hachioji	10	100.0	45	0.4	10	100.0	91	0.6
40	the b hakata	2	100.0	35	0.3	2	100.0	66	0.4
41	Hotel Francs	1	100.0	300	2.9	1	100.0	300	2.0
42	Mercure Yokosuka	1	100.0	242	2.3	1	100.0	231	1.6
43	Oriental Hotel Okinawa Resort & Spa	1	100.0	—	—	1	100.0	199	1.3
44	ACTIVE-INTER CITY HIROSHIMA	40	99.5	881	8.5	37	98.4	1,127	7.6
45	CANDEO HOTELS UENO-KOEN	1	100.0	349	3.4	1	100.0	349	2.3
46	Oriental Hotel Fukuoka Hakata Station	1	100.0	243	2.4	1	100.0	612	4.1
47	Holiday Inn Osaka Namba	1	100.0	71	0.7	1	100.0	213	1.4
48	Hotel Oriental Express Fukuoka Tenjin	5	96.1	405	3.9	4	94.1	286	1.9
49	Hilton Nagoya	4	100.0	780	7.5	4	100.0	1,037	7.0
50	Hilton Tokyo Narita Airport	1	100.0	41	0.4	1	100.0	228	1.5
51	International Garden Hotel Narita	1	100.0	284	2.7	1	100.0	212	1.4
52	Hotel Nikko Nara	1	100.0	—	—	1	100.0	178	1.2
53	Hotel Oriental Express Osaka Shinsaibashi	1	100.0	—	—	1	100.0	—	—
54	Hilton Tokyo Odaiba	1	100.0	522	5.0	1	100.0	722	4.8
	Total	116	99.8	10,340	99.7	110	99.8	14,879	99.8

(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) Represents the ratio of real estate operating revenue of each property to total real estate operating revenue. In calculating, the figures are rounded off to the first decimal place. Please note that the sum of the ratio to total real estate operating revenue are 99.7% for the 22nd fiscal period and 99.8% for the 23rd fiscal period because the relevant ratio of the trademark rights for the Oriental Hotel brand, etc. is not included.

(Note 3) ibis Tokyo Shinjuku was sold on December 15, 2021.

(Note 4) 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, 2022.

5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2022 were as follows:

Classification	Transaction	Amounts of contract, etc. (JPY MM) (Note 1)		Fair value (JPY MM) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions Payable fixed rate / Receivable floating rate	81,954	72,350	1,184
	Total	81,954	72,350	1,184

(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, 2022.

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 items 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 ¥4,858 million, which consists of capital expenditures of ¥4,848 million (Note) and repair expenses of ¥10 million, for the next fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY MM)	
			Total amount	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of restaurant	From July 2023 to September 2023	110	—
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of guest rooms (12th and 13th floors)	From May 2023 to July 2023	203	—
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From May 2023 to July 2023	55	—
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Tenant compartment construction	From July 2023 to November 2023	50	—
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Renovation of restaurant	From August 2023 to August 2023	63	—
Oriental Hotel tokyo bay (Urayasu-shi, Chiba)	Renovation of guest rooms (11th and 12th floors)	From May 2023 to July 2023	300	—
Hotel Nikko Alivila (Nakagami-gun, Okinawa)	Renovation of elevators	From January 2023 to March 2023	151	—
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renewal of disaster prevention board	From June 2023 to December 2023	90	—
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of elevators	From January 2023 to February 2023	73	—
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of air conditioning units in guest rooms	From August 2023 to November 2023	79	—
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From October 2023 to December 2023	60	—
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of air conditioning units in guest rooms	From October 2023 to December 2023	88	—
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renovation of guest rooms	From October 2023 to December 2023	465	—
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of piping	From October 2023 to December 2023	60	—
Hilton Tokyo Narita Airport (Narita-shi, Chiba)	Renewal of telephone switchboard	From June 2023 to September 2023	60	—
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of power receiving and transforming facilities	From November 2023 to November 2023	120	—
Total			2,027	—

(Note) New construction and renewal works includes that for buildings, attached facilities, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned renovation work and whether or not the renovation 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 ¥4,497 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥21 million. In aggregate, ¥4,519 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY MM)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of executive rooms	From May 2022 to July 2022	100
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From July 2022 to September 2022	62
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation of guest rooms (13th to 17th floors)	From January 2022 to February 2022	283
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation of guest rooms (5th to 12th floors)	From January 2022 to July 2022	447
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of elevators	From November 2022 to December 2022	65
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renovation of lobby and swimming pool area	From December 2021 to March 2022	493
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of air conditioning equipment in guest rooms	From May 2022 to December 2022	219
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of piping in guest rooms	From September 2022 to December 2022	51
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From September 2022 to December 2022	64
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renovation of guest rooms	From September 2022 to December 2022	337
ACTIVE-INTER CITY HIROSHIMA (Hiroshima-shi, Hiroshima)	Renovation of sixth floor lobby and lounge area	From May 2022 to August 2022	144
Oriental Hotel Fukuoka Hakata Station (Fukuoka-shi, Fukuoka)	Repair works of restaurant at B2 floor	From August 2022 to October 2022	57
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renewal of heat sources	From February 2022 to May 2022	57
Total			2,382

(Note) New construction and renewal works includes that for buildings, attached facilities, 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.

(JPY MM)

Fiscal period	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)	21st period (From January 1, 2020 to December 31, 2020)	22nd period (From January 1, 2021 to December 31, 2021)	23rd period (From January 1, 2022 to December 31, 2022)
Balance at beginning of period	946	951	1,060	1,075	1,066
Provision during the period	15	116	25	1	9
Reversal during the period	9	8	10	11	—
Amount carried forward	951	1,060	1,075	1,066	1,076

Expenses and Liabilities

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

(JPY thousand)

Item	22nd period (From January 1, 2021 to December 31, 2021)	23rd period (From January 1, 2022 to December 31, 2022)
(a) Asset management fees (Note)	1,447,210	1,491,325
(b) Asset custody and administrative service fee	121,700	115,661
(c) Officers' compensation	17,400	17,400
(d) Other operating expenses	257,097	195,024
Total	1,843,408	1,819,411

(Note) For asset management fees for the 22nd fiscal period, besides the above amounts, there are ¥5,654 thousand of fees for property acquisition included in the acquisition price of the relevant investment property, and ¥56,500 thousand of fees for property sale deducted from the gain on sale of real estate properties.

2. Loans payable

The status of loans by contractual agreement and by financial institution as of December 31, 2022 were as follows:

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Short-term loans payable	Sumitomo Mitsui Banking Corporation	March 31, 2021	648	—	0.58%	March 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		2,516	—						
	Sumitomo Mitsui Trust Bank, Limited		1,120	—						
	Resona Bank, Limited		2,516	—						
	Subtotal			6,800	—					
	Sumitomo Mitsui Banking Corporation	September 30, 2021	3,487	—	0.56%	September 30, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		4,670	—						
	Resona Bank, Limited		2,450	—						
	Shinsei Bank, Limited		2,220	—						
	Sumitomo Mitsui Trust Bank, Limited		2,085	—						
	Development Bank of Japan Inc. (Note 3)		505	—						
	Aozora Bank, Ltd.		285	—						
	Subtotal			15,702	—					
	Sumitomo Mitsui Banking Corporation (Note 3)	December 16, 2021	626	—	0.56%	December 16, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd. (Note 3)		434	—						
	Sumitomo Mitsui Trust Bank, Limited (Note 3)		310	—						
	Development Bank of Japan Inc. (Note 3)		130	—						
	Subtotal			1,500	—					
	Sumitomo Mitsui Banking Corporation	January 31, 2022	—	909	0.57%	January 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		—	2,526						
Resona Bank, Limited	—		756							
Sumitomo Mitsui Trust Bank, Limited	—		660							
Shinsei Bank, Limited	—		593							
Aozora Bank, Ltd.	—		67							
Subtotal			—	5,511						
Sumitomo Mitsui Banking Corporation	March 31, 2022	—	2,148	0.57%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		—	2,516							
Resona Bank, Limited		—	2,516							
Sumitomo Mitsui Trust Bank, Limited		—	1,120							
Subtotal			—	8,300						
Aozora Bank, Ltd.	June 30, 2022	—	1,000	0.57%	June 30, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Subtotal			—						1,000	

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2022	—	3,487	0.56%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		—	4,670					
	Resona Bank, Limited		—	2,450					
	Shinsei Bank, Limited		—	2,220					
	Sumitomo Mitsui Trust Bank, Limited		—	2,085					
	Development Bank of Japan Inc.		—	505					
	Aozora Bank, Ltd.		—	285					
	Subtotal			—	15,702				
	Sumitomo Mitsui Banking Corporation	October 20, 2022	—	1,541	0.56%	October 20, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		—	922					
	Sumitomo Mitsui Trust Bank, Limited		—	658					
	Development Bank of Japan Inc.		—	279					
	Resona Bank, Limited		—	100					
	The Shizuoka Bank, Ltd.		—	100					
The Minato Bank Ltd.	—		1,000						
Subtotal			—	4,600					
Short-term loans payable – Total			24,002	35,113					
Long-term loans payable	Sumitomo Mitsui Banking Corporation	January 30, 2015	909	—	0.90%	January 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		2,526	—					
	Shinsei Bank, Limited		593	—					
	Resona Bank, Limited		756	—					
	Sumitomo Mitsui Trust Bank, Limited		660	—					
	Aozora Bank, Ltd.		67	—					
	Subtotal			5,511	—				
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	—	0.93%	March 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal			1,500					
	Aozora Bank, Ltd.	July 10, 2015	1,000	—	0.95%	June 30, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	MUFG Bank, Ltd.		423	—					
	Subtotal			1,423	—				
	Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07%	September 29, 2023	Lump-sum repayment	(Note 2)	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%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Shinsei Bank, Limited		189	189						
Subtotal			892						892

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,050	1,050					
	Subtotal		2,100	2,100					
	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	1,200	1,200	0.77%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		600	600					
	Development Bank of Japan Inc.		550	550					
	The Bank of Fukuoka, Ltd.		186	186					
	Subtotal	2,536	2,536						
	Sumitomo Mitsui Banking Corporation	March 31, 2016	1,200	1,200	0.68%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		1,000	1,000					
	Resona Bank, Limited		500	500					
	The Nomura Trust and Banking Co., Ltd.		388	388					
	Subtotal	4,088	4,088						
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	800	800	0.66%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal	800	800						
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal	500	500						
	Sumitomo Mitsui Banking Corporation	September 1, 2016	2,900	2,900	0.74%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,700	1,700					
	Shinsei Bank, Limited		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%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
Subtotal	1,300	1,300							
MUFG Bank, Ltd.	September 1, 2016	2,000	2,000	0.56%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Subtotal	2,000	2,000							
Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Subtotal	700	700							
Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Subtotal	500	500							
Sumitomo Mitsui Banking Corporation	July 12, 2017	1,750	1,750	0.47%	June 30, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
The Chiba Bank, Ltd.		500	500						
Subtotal		2,250	2,250						

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Long-term loans payable	Sumitomo Mitsui Banking Corporation	August 1, 2017	1,250	1,250	0.85%	September 30, 2026	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		1,250	1,250						
	Shinsei Bank, Limited		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 2)	Unsecured, unguaranteed	
	Subtotal			1,000						1,000
	MUFG Bank, Ltd.	August 1, 2017	700	700	0.68%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			700						700
	Development Bank of Japan Inc.	August 1, 2017	500	500	0.75%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						500
	The Bank of Fukuoka, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						500
	Aozora Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						500
	THE NISHI-NIPPON CITY BANK, LTD.	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			1,000						1,000
	Shinsei Bank, Limited	August 1, 2017	300	300	0.68%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			300						300
	Sumitomo Mitsui Banking Corporation	September 19, 2017	1,200	1,200	0.65%	March 31, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		500	500						
	Sumitomo Mitsui Trust Bank, Limited		460	460						
	Shinsei Bank, Limited		390	390						
	Subtotal			2,550	2,550					
	Sumitomo Mitsui Banking Corporation	November 15, 2017	2,500	2,500	0.57%	March 29, 2024	Lump-sum repayment	(Note 2)	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%	March 31, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		500	500							
Development Bank of Japan Inc.		300	300							
The Bank of Fukuoka, Ltd.		150	150							
Subtotal			2,450	2,450						
Sumitomo Mitsui Banking Corporation	March 30, 2018	1,700	1,700	0.42%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Subtotal			1,700						1,700	

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Long-term loans payable	Sumitomo Mitsui Banking Corporation	April 26, 2018	650	650	0.42%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		950	950						
	The Chiba Bank, Ltd.		432	432						
	THE NISHI-NIPPON CITY BANK, LTD.		184	184						
	Sompo Japan Insurance Inc.		464	464						
	Subtotal			2,680	2,680					
	The Hiroshima Bank, Ltd.	April 26, 2018	454	454	0.52%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			454						454
	The Shizuoka Bank, Ltd.	September 28, 2018	488	488	0.55%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			488						488
	Sumitomo Mitsui Banking Corporation	September 28, 2018	1,700	1,700	0.95%	September 30, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Sumitomo Mitsui Trust Bank, Limited		1,400	1,400						
	Shinsei Bank, Limited		500	500						
	Mizuho Bank, Ltd.		300	300						
	Subtotal			3,900	3,900					
	The Bank of Fukuoka, Ltd.	April 8, 2019	500	500	0.38%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	The Chiba Bank, Ltd.		500	500						
	THE NISHI-NIPPON CITY BANK, LTD.		500	500						
	Sompo Japan Insurance Inc.		1,000	1,000						
	Subtotal			2,500	2,500					
	Sumitomo Mitsui Banking Corporation	April 8, 2019	2,500	2,500	0.72%	March 31, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		1,500	1,500						
	Mizuho Bank, Ltd.		1,500	1,500						
Sumitomo Mitsui Trust Bank, Limited	1,000		1,000							
Development Bank of Japan Inc.	1,000		1,000							
Subtotal			7,500	7,500						
Sumitomo Mitsui Banking Corporation	April 8, 2019	4,000	4,000	0.82%	March 31, 2028	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		3,000	3,000							
Mizuho Bank, Ltd.		3,000	3,000							
Sumitomo Mitsui Trust Bank, Limited		2,500	2,500							
Resona Bank, Limited		1,000	1,000							
The Nomura Trust and Banking Co., Ltd.		500	500							
Development Bank of Japan Inc.		1,000	1,000							
The Bank of Fukuoka, Ltd.		1,000	1,000							
Aozora Bank, Ltd.		1,000	1,000							
THE NISHI-NIPPON CITY BANK, LTD.		1,000	1,000							
Subtotal			18,000	18,000						
The Chiba Bank, Ltd.	September 30, 2019	200	200	0.23%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
The Hiroshima Bank, Ltd.		1,400	1,400							

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
	Subtotal		1,600	1,600						
Long-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2019	550	550	0.68%	September 30, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		450	450						
	Mizuho Bank, Ltd.		1,400	1,400						
	Sumitomo Mitsui Trust Bank, Limited		200	200						
	Resona Bank, Limited		200	200						
	Development Bank of Japan Inc.		700	700						
	The Bank of Fukuoka, Ltd.		1,100	1,100						
	The Nomura Trust and Banking Co., Ltd.		1,000	1,000						
	Subtotal		5,600	5,600						
	Long-term loans payable – Total		100,652	92,218						
Total loans payable		124,654	127,331							

(Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to second decimal places. 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 2) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, refinancing of borrowings and redemption of investment corporation bonds.

(Note 3) JHR made full early payment of the loan on September 30, 2022

(Note 4) In order to list each loan payable, ¥15,432 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 5) Shinsei Bank, Limited changed its name to SBI Shinsei Bank, Limited as of January 4, 2023.

3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2022 was as follows:

Name	Issuance date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Fifth unsecured investment corporation bonds	October 23, 2015	6,000	—	0.820	October 21, 2022	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 3)
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 1)	Unsecured, unguaranteed (Note 3)
Eighth unsecured investment corporation bonds	November 29, 2016	1,100	1,100	0.600	November 27, 2026	Lump-sum repayment	(Note 1)	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	10,000	0.840	February 21, 2028	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 3)
Eleventh unsecured investment corporation bonds	June 14, 2019	8,000	8,000	0.854	June 14, 2029	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 3)
Twelfth unsecured investment corporation bonds (green bonds)	July 31, 2019	2,000	2,000	0.400	July 31, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 4)
Thirteenth unsecured investment corporation bonds	September 20, 2022	—	2,800	1.000	September 19, 2025	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 4)
Total		40,100	36,900					

(Note 1) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, refinancing of borrowings and redemption of investment corporation bonds.

(Note 2) The funds were mainly appropriated for repayment of existing borrowings that were appropriated for capital expenditures and constructions costs which contribute to environment, including reduction of CO₂ and water consumption.

(Note 3) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

(Note 4) 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. infrastructure assets, etc., and infrastructure-related assets

Not applicable.

2. Purchase and sale of other assets, etc.

Assets other than real estate, etc., asset-backed securities, etc., 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.

Not applicable

(2) Transaction of securities

Not applicable.

(3) Other

Not applicable.

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

(1) Transactions

(JPY MM)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	-	-	14,912
Breakdown of transactions with interested parties, etc.			
Hotel Management Japan Co., Ltd.	- [-%]	- [-%]	3,181 [21.3%]
Kyoritsu Maintenance Co., Ltd.	- [-%]	- [-%]	1,063 [7.1%]
Tokyo Humania Enterprise KK	- [-%]	- [-%]	722 [4.8%]
Hotel Centraza Co., Ltd.	- [-%]	- [-%]	612 [4.1%]
KK Osaka Sakurajima Operations	- [-%]	- [-%]	607 [4.1%]
K.K. A.I.C Hiroshima Management	- [-%]	- [-%]	531 [3.6%]
KK Narita Kosuge Operations	- [-%]	- [-%]	228 [1.5%]
OW Hotel Operations KK	- [-%]	- [-%]	213 [1.4%]
KK Narita Yoshikura Operations	- [-%]	- [-%]	212 [1.4%]
KK Lagoon Resort Nago	- [-%]	- [-%]	199 [1.3%]
KK Hotel Management	- [-%]	- [-%]	178 [1.2%]
KK Fukuoka Tenjin Operations	- [-%]	- [-%]	174 [1.2%]
Total	- [-%]	- [-%]	7,926 [53.2%]

(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 the 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. through 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.

(JPY thousands)

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)	352,400	Hotel Management Japan Co., Ltd.	5,760	1.6
		Tokyo Humania Enterprise KK	120	0.0

(Note) Includes base 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.

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,” 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)
Accumulated total	—	—	3,700

(2) Status of holding units

		Number of units held at end of period (units)	Total investment at end of period (JPY thousands) (Note 1)	Ratio to total units issued (%) (Note 2)	(Reference) Total number of units issued at end of period (units)
19th fiscal period	From January 1, 2018 to December 31, 2018	3,700	305,571	0.09	4,010,847
20th fiscal period	From January 1, 2019 to December 31, 2019	3,700	305,571	0.08	4,462,347
21st fiscal period	From January 1, 2020 to December 31, 2020	3,700	305,571	0.08	4,462,347
22nd fiscal period	From January 1, 2021 to December 31, 2021	3,700	305,571	0.08	4,467,006
23rd fiscal period	From January 1, 2022 to December 31, 2022	3,700	305,571	0.08	4,467,006

(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

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 during the fiscal period under review.

Approval date	Item	Summary
August 24, 2022	Conclusion of Memorandum of Understanding concerning an entrustment contract for administration of the unitholders' registry, etc.	A memorandum of understanding has been concluded that sets forth the new additional administrative services and administrative service fees following the implementation of the electronic provision system of unitholders' meeting materials on September 1, 2022.

(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.

II. FINANCIAL STATEMENTS

JAPAN HOTEL REIT INVESTMENT CORPORATION

Balance Sheets

As of December 31, 2022 and 2021

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
ASSETS		
Current assets:		
Cash and deposits	¥ 21,142,716	¥ 22,838,609
Cash and deposits in trust	8,372,349	7,458,225
Operating accounts receivable	4,442,532	1,750,164
Prepaid expenses	484,478	485,240
Income taxes receivable	41	40
Other current assets	111,037	108,411
Total current assets	34,553,157	32,640,693
Property and equipment, at cost (Notes 17 and 19):		
Machinery and equipment	804,339	677,977
Tools, furniture and fixtures	5,911,833	4,889,299
Construction in progress	1,155	21,972
Buildings in trust (Note 14)	140,026,191	137,035,704
Structures in trust	2,963,947	2,844,532
Machinery and equipment in trust	693,008	645,033
Tools, furniture and fixtures in trust	129,718	126,678
Land in trust	212,263,515	212,263,515
Construction in progress in trust	118,127	110,371
	362,911,837	358,615,085
Less: Accumulated depreciation	(36,922,960)	(32,471,257)
Net property and equipment	325,988,877	326,143,828
Intangible assets (Note 19):		
Software	257,298	275,488
Trademark rights	411,320	467,409
Leasehold rights in trust	27,324,752	27,324,752
Fixed-term leasehold rights in trust	4,495,583	4,630,789
Other intangible assets	5,240	5,920
Total intangible assets	32,494,195	32,704,360
Other assets:		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	139,668	139,668
Long-term prepaid expenses	1,958,131	2,191,650
Derivative assets (Notes 6 and 18)	1,195,251	12,117
Reserve fund for repairs and maintenance	327,173	327,476
Investment unit issuance costs	4,165	7,735
Investment corporation bond issuance costs	126,802	143,863
Total other assets	3,763,712	2,835,031
Total assets	¥ 396,799,942	¥ 394,323,913

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION

Balance Sheets

As of December 31, 2022 and 2021

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Operating accounts payable	¥ 1,943,815	¥ 1,426,861
Short-term loans payable (Note 7)	35,113,000	24,002,000
Current portion of investment corporation bonds (Notes 6 and 8)	-	6,000,000
Current portion of long-term loans payable (Notes 6, 7 and 18)	15,432,000	8,434,000
Accrued expenses	570,397	538,359
Income taxes payable	1,210	1,210
Consumption taxes payable	398,802	172,743
Advances received	664,196	658,839
Dividends payable	6,473	9,714
Deposits received	2,592	6,002
Derivative liabilities (Notes 6 and 18)	11,079	5,289
Other current liabilities	21,994	10,281
Total current liabilities	54,165,561	41,265,303
Long-term liabilities:		
Investment corporation bonds (Notes 6 and 8)	36,900,000	34,100,000
Long-term loans payable (Notes 6, 7 and 18)	76,786,000	92,218,000
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	3,619,666	3,614,474
Derivative liabilities (Notes 6 and 18)	-	202,673
Deferred tax liabilities (Note 15)	375,207	3,812
Asset retirement obligations (Note 9)	338,413	336,783
Total long-term liabilities	119,059,807	131,516,263
Total liabilities	173,225,369	172,781,567
Net assets (Note 10):		
Unitholders' equity:		
Unitholders' capital		
Units authorized: 20,000,000 units	187,194,209	187,194,209
Units issued and outstanding: 4,467,006 units as of December 31, 2022 and 2021		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Reserve for temporary difference adjustment (Note 11)	9,976,515	10,311,886
Reserve for advanced depreciation	1,174,860	1,174,860
Total voluntary reserve	11,151,375	11,486,747
Unappropriated retained earnings	2,672,927	1,300,724
Total surplus	35,570,702	34,533,870
Total unitholders' equity	222,764,911	221,728,079
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (Note 18)	809,661	(185,733)
Total valuation and translation adjustments	809,661	(185,733)
Total net assets	223,574,572	221,542,346
Total liabilities and net assets	¥ 396,799,942	¥ 394,323,913

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Income
For the years ended December 31, 2022 and 2021

	<i>Thousands of yen</i>	
	For the year ended December 31, 2022	For the year ended December 31, 2021
Operating revenue:		
Real estate operating revenue (<i>Note 12</i>)	¥ 13,925,987	¥ 9,502,439
Other real estate operating revenue (<i>Note 12</i>)	986,984	872,223
Gain on sale of real estate properties (<i>Note 13</i>)	-	3,258,950
Total operating revenue	<u>14,912,972</u>	<u>13,633,613</u>
Operating expenses:		
Real estate operating costs (<i>Note 12</i>)	8,796,879	8,830,354
Asset management fee	1,491,325	1,447,210
Asset custody and administrative service fee	115,661	121,700
Directors' compensation	17,400	17,400
Other operating expenses	195,024	257,097
Total operating expenses	<u>10,616,291</u>	<u>10,673,763</u>
Operating income	4,296,681	2,959,849
Non-operating income:		
Interest income	270	267
Gain on forfeiture of unclaimed dividends	3,533	4,233
Gain on insurance claims	2,250	34,144
Refunded taxes on property and equipment	-	20,527
Interest on tax refunds	-	10,590
Gain on derivative instruments	13,228	15,730
Other	541	151
Total non-operating income	<u>19,824</u>	<u>85,646</u>
Non-operating expenses:		
Interest expense	855,183	907,653
Interest expense on investment corporation bonds	301,631	315,762
Borrowing costs	436,444	416,416
Amortization of investment corporation bond issuance costs	32,090	33,554
Amortization of investment unit issuance costs	3,570	59,086
Loss on derivative instruments	-	1,000
Other	14,619	14,011
Total non-operating expenses	<u>1,643,539</u>	<u>1,747,484</u>
Ordinary income	<u>2,672,966</u>	<u>1,298,011</u>
Income before income taxes	2,672,966	1,298,011
Income taxes (<i>Note 15</i>):		
Current	1,210	1,210
Total income taxes	<u>1,210</u>	<u>1,210</u>
Net income	<u>2,671,756</u>	<u>1,296,801</u>

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Changes in Net Assets
For the years ended December 31, 2022 and 2021

	<i>Thousands of yen</i>						
	Unitholders' equity						
	Surplus						
	Unitholders' capital	Capital surplus	Voluntary reserve			Total voluntary reserve	Unappropriated retained earnings
Reserve for temporary difference adjustment			Reserve for advanced depreciation				
Balance, January 1, 2021	¥ 186,894,169	¥ 21,746,398	¥ 10,617,580	¥ 1,174,860	¥ 11,792,441	¥ 1,527,790	¥ 35,066,630
Changes of items during the year:							
Issuance of new investment units	300,039	-	-	-	-	-	-
Reversal of reserve for temporary difference adjustment	-	-	(305,694)	-	(305,694)	305,694	-
Dividends paid	-	-	-	-	-	(1,829,562)	(1,829,562)
Net income	-	-	-	-	-	1,296,801	1,296,801
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-
Total changes in amount during the year	300,039	-	(305,694)	-	(305,694)	(227,066)	(532,760)
Balance, December 31, 2021	¥ 187,194,209	¥ 21,746,398	¥ 10,311,886	¥ 1,174,860	¥ 11,486,747	¥ 1,300,724	¥ 34,533,870
Changes of items during the year:							
Reversal of reserve for temporary difference adjustment	-	-	(335,371)	-	(335,371)	335,371	-
Dividends paid	-	-	-	-	-	(1,634,924)	(1,634,924)
Net income	-	-	-	-	-	2,671,756	2,671,756
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-
Total changes in amount during the year	-	-	(335,371)	-	(335,371)	1,372,203	1,036,832
Balance, December 31, 2022	¥ 187,194,209	¥ 21,746,398	¥ 9,976,515	¥ 1,174,860	¥ 11,151,375	¥ 2,672,927	¥ 35,570,702

	<i>Thousands of yen</i>			
	Unitholders' equity	Valuation and translation adjustments		Total net assets
	Total unitholders' equity	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2021	¥ 221,960,800	¥ (759,492)	¥ (759,492)	¥ 221,201,308
Changes of items during the year:				
Issuance of new investment units	300,039	-	-	300,039
Reversal of reserve for temporary difference adjustment	-	-	-	-
Dividends paid	(1,829,562)	-	-	(1,829,562)
Net income	1,296,801	-	-	1,296,801
Net changes in items other than unitholders' equity	-	573,758	573,758	573,758
Total changes in amount during the year	(232,720)	573,758	573,758	341,037
Balance, December 31, 2021	¥ 221,728,079	¥ (185,733)	¥ (185,733)	¥ 221,542,346
Changes of items during the year:				
Reversal of reserve for temporary difference adjustment	-	-	-	-
Dividends paid	(1,634,924)	-	-	(1,634,924)
Net income	2,671,756	-	-	2,671,756
Net changes in items other than unitholders' equity	-	995,394	995,394	995,394
Total changes in amount during the year	1,036,832	995,394	995,394	2,032,226
Balance, December 31, 2022	¥ 222,764,911	¥ 809,661	¥ 809,661	¥ 223,574,572

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2022 and 2021

Thousands of yen

	For the year ended December 31, 2022	For the year ended December 31, 2021
Cash flows from operating activities:		
Income before income taxes	¥ 2,672,966	¥ 1,298,011
Depreciation and amortization	4,787,822	4,804,111
Loss on retirement of noncurrent assets	57,811	16,682
(Gain) Loss on derivative instruments	(13,228)	(14,730)
Amortization of investment corporation bond issuance costs	32,090	33,554
Amortization of investment unit issuance costs	3,570	59,086
Decrease of property and equipment due to sale	-	48,841
Decrease of property and equipment in trust due to sale	-	7,757,292
Decrease of intangible assets due to sale	-	2,918
Interest income	(270)	(267)
Interest expense	1,156,814	1,223,415
Interest on tax refunds	-	(10,590)
(Increase) decrease in operating accounts receivable	(2,692,368)	(1,077,749)
(Increase) decrease in prepaid expenses	761	47,910
(Increase) decrease in long-term prepaid expenses	233,518	257,888
Increase (decrease) in operating accounts payable	(9,852)	(1,694,120)
Increase (decrease) in accrued expenses	33,714	12,475
Increase (decrease) in consumption taxes payable	226,058	29,354
Increase (decrease) in advances received	5,357	235,483
Increase (decrease) in deposits received	(3,410)	(3,108)
Other	(811)	(128,639)
Subtotal	6,490,545	12,897,821
Interest received	269	271
Interest paid	(1,158,491)	(1,225,104)
Interest received on tax refunds	-	10,590
Income taxes – refunded (paid)	(1,210)	(1,208)
Net cash provided by operating activities	5,331,112	11,682,370
Cash flows from investing activities:		
Purchase of property and equipment	(1,102,874)	(666,633)
Purchase of property and equipment in trust	(2,767,507)	(2,828,665)
Purchase of intangible assets	(48,094)	(199,936)
Payments of reserve fund for repairs and maintenance	(40,625)	(40,625)
Proceeds from collection of security deposits in trust	-	10,555
Proceeds from tenant leasehold and security deposits in trust	51,124	56,530
Repayment of tenant leasehold and security deposits in trust	(32,161)	(726,247)
Payments into deposit with withdrawal restrictions	(1,500,000)	(300,000)
Withdrawal from deposit with withdrawal restriction	1,800,000	-
Net cash used in investing activities	¥ (3,640,139)	¥ (4,695,022)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2022 and 2021

	<i>Thousands of yen</i>	
	For the year ended December 31, 2022	For the year ended December 31, 2021
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 35,536,000	¥ 25,082,000
Repayments of short-term loans payable	(24,425,000)	(13,862,000)
Repayments of long-term loans payable	(8,434,000)	(13,720,000)
Proceeds from issuance of investment corporation bond	2,800,000	-
Repayments of investment corporation bond	(6,000,000)	(1,500,000)
Proceeds from issuance of investment units	-	289,329
Payments for investment corporation bond issuance costs	(15,029)	-
Dividends paid	(1,634,712)	(1,833,006)
Net cash provided by (used in) financing activities	<u>(2,172,742)</u>	<u>(5,543,676)</u>
Net increase (decrease) in cash and cash equivalents	(481,768)	1,443,670
Cash and cash equivalents at beginning of year	<u>29,996,835</u>	<u>28,553,164</u>
Cash and cash equivalents at end of year (<i>Note 5</i>)	<u>¥ 29,515,066</u>	<u>¥ 29,996,835</u>

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Notes to Financial Statements
For the years ended December 31, 2022 and 2021

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. Since the Merger, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 26 properties amounting to ¥275,160 million (acquisition price basis) in total through the end of the fiscal period under review. As of the end of the fiscal period under review, JHR had a portfolio of 41 properties with a combined acquisition price of ¥363,542 million, and the total number of investment units issued and outstanding stood at 4,467,006 units.

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 26 years
Buildings in trust:	2 to 64 years
Structures in trust:	2 to 64 years
Machinery and equipment in trust:	3 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

Trademark rights: 10 years

Fixed-term leasehold rights in trust: 41 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.

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. Revenue from contracts with customers

The details of main performance obligations concerning revenue generated from contracts with JHR's customers and the ordinary time to fulfil said performance obligations (ordinary time to recognize revenue) are as follows.

(1) Sale of real estate properties

For the proceeds from sale of real estate properties, JHR recognizes revenue when the purchaser who is a customer obtains control of the relevant real estate properties, etc. as a result of the seller fulfilling its delivery obligations stipulated in the transaction agreement of the real estate, etc.

The amount obtained by deducting "Costs of sale of properties," which is the book value of real estate properties, etc. sold, and "Other selling expenses," which are the various expenses directly required in the sale, from "Proceeds from sale of properties," which are the sales proceeds of real estate properties, etc., is indicated as "Gain on sale of real estate properties" or "Loss on sale of real estate properties" in the statements of income. There is no gain or loss on sale of real estate properties for the fiscal period ended December 31, 2022.

(2) Utilities income

For utilities income, JHR recognizes revenue in accordance with the supply of electricity, water, etc. to the lessee who is a customer based on the lease contracts of real estate properties, etc. and agreements incidental to it.

g. 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 either for the year ended December 31, 2022, or for the year ended December 31, 2021.

h. 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.

i. 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.

3. Changes in accounting policies

(Application of Accounting Standard for Revenue Recognition, etc.)

JHR has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (hereinafter referred to as “ASBJ”) Statement No. 29 (revised 2020) issued on March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”), etc. from the beginning of the fiscal period ended December 31, 2022, and JHR decided to recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of such goods or services is transferred to the customer. The impact of adoption of these accounting standards on the financial statements is minimal for the fiscal period ended December 31, 2022.

Furthermore, in accordance with the transitional treatment stipulated in Paragraph 89-3 of the Revenue Recognition Accounting Standard, the notes for the fiscal period ended December 31, 2021, are omitted from the Note 20, “Revenue from Contracts with Customers.”

(Application of Accounting Standard for Fair Value Measurement, etc.)

JHR has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 issued on July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”), etc. from the beginning of the fiscal period ended December 31, 2022, and decided to apply the new accounting policy set forth in the Fair Value Measurement Accounting Standard, etc. going forward in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 (revised 2019) issued on July 4, 2019). The impact of adoption of these accounting standards on the financial statements is minimal for the fiscal period ended December 31, 2022.

Moreover, certain disclosures such as a breakdown of fair value of financial instruments by their levels in the fair value hierarchy are omitted pursuant to Article 2, Paragraph 5 of supplementary provisions in the Cabinet Office Ordinance on Partially Amending Regulation on Terminology, Forms and Preparation Methods of Financial Statement, etc. (Cabinet Office Ordinance No.61 issued on September 24, 2021).

4. Significant Accounting Estimates

Valuation of noncurrent assets

a. Amounts recorded in the financial statements

	<i>Thousands of yen</i>	
	For the year ended December 31, 2022	For the year ended December 31, 2021
Property and equipment	¥ 325,988,877	¥ 326,143,828
Intangible assets	32,494,195	32,704,360
Impairment loss	-	-

b. Information on the nature of significant accounting estimates for identified items

In accordance with the accounting standard for impairment of noncurrent assets, JHR has adopted the accounting treatment to reduce the book value of noncurrent assets to a recoverable amount when the invested amount is deemed to be unrecoverable due to decline in profitability.

In adopting the accounting treatment, the respective properties owned by JHR are regarded as a single asset group, and judgment is made whether it is required to recognize impairment losses when indications of impairment are deemed to exist for the group due to a significant decline in the market value and such.

Future cash flow estimates are used to determine whether or not to recognize impairment losses. When it is determined that impairment losses should be recognized, the book value is reduced to the recoverable amount, and the reduced amount is recorded as impairment losses.

In estimating the future cash flow, the underlying rent, occupancy rate and real estate operating costs, etc. are assumed by comprehensively taking into account the market trends and transaction cases of similar properties, etc.

JHR’s asset management business in real estate has seen risks of its operating revenue decreasing, etc., due to a decrease in variable rents linked to hotel sales and other factors since our business is largely affected by the worldwide spread of the COVID-19 infection and the changes in social and economic conditions caused by the spread.

Although it is uncertain and difficult to foresee when the spread of the COVID-19 infection will be contained and its impacts, JHR made accounting estimates related to impairment accounting for noncurrent assets on the assumption that COVID-19 will be contained gradually and the business environment will improve from the fiscal period ending December 31, 2023, based on information available as of the date of preparation of the financial statements for the

fiscal period ended December 31, 2022.

However, as it is difficult to accurately predict when the spread of the COVID-19 infection will be contained and how large its impact will be, JHR may see its financial position, results of operations and cash flows affected in case the recovery is delayed.

5. Cash Flow Information

Cash and cash equivalents as of December 31, 2022, and 2021 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
Cash and deposits	¥ 21,142,716	¥ 22,838,609
Cash and deposits in trust	8,372,349	7,458,225
Deposit with withdrawal restrictions	-	(300,000)
Cash and cash equivalents	¥ 29,515,066	¥ 29,996,835

6. 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 is operating receivables and is exposed to credit risks of clients. As for the risks, JHR is managing payment dates and balances by each client with an aim to grasp concerns in collecting due to deterioration in their financial status and other factors at an early stage and reduce the risks.

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 it is judged that fixing interest payment is 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, etc. considering the current financial environment and other conditions 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, 2022 and 2021 were as follows. The notes on “Cash and deposits,” “Cash and deposits in trust,” “Operating accounts receivable” and “Short-term loans payable” are omitted as these are settled within a short period of time and thus the fair value approximates the book value. Notes on “Tenant leasehold and security deposits” and “Tenant leasehold and security deposits in trust” are also omitted as those items are immaterial.

<i>Thousands of yen</i>			
As of December 31, 2022			
	Carrying amount	Fair value	Difference
(i) Current portion of investment corporation bonds	¥ -	¥ -	¥ -
(ii) Current portion of long-term loans payable	15,432,000	15,432,000	-
(iii) Investment corporation bonds	36,900,000	33,223,450	(3,676,550)
(iv) Long-term loans payable	76,786,000	76,786,000	-
Total	<u>129,118,000</u>	<u>125,441,450</u>	<u>(3,676,550)</u>
(v) Derivative transactions (*)	<u>¥ 1,184,172</u>	<u>¥ 1,184,172</u>	<u>¥ -</u>

<i>Thousands of yen</i>			
As of December 31, 2021			
	Carrying amount	Fair value	Difference
(i) Current portion of investment corporation bonds	¥ 6,000,000	¥ 5,886,600	¥ (113,400)
(ii) Current portion of long-term loans payable	8,434,000	8,434,000	-
(iii) Investment corporation bonds	34,100,000	29,514,460	(4,585,540)
(iv) Long-term loans payable	92,218,000	92,218,000	-
Total	<u>¥ 140,752,000</u>	<u>¥ 136,053,060</u>	<u>¥ (4,698,940)</u>
(v) Derivative transactions (*)	<u>¥ (195,846)</u>	<u>¥ (195,846)</u>	<u>¥ -</u>

(*) 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 and derivative transactions

(i) Current portion of investment corporation bonds, (iii) Investment corporation bonds

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

(ii) Current portion of long-term loans payable, (iv) 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.

(v) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 18.

(2) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2022 and 2021.

		<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
<u>As of December 31, 2021</u>							
Investment corporation bonds		¥ 6,000,000	¥ -	¥ 3,000,000	¥ -	¥ 13,100,000	¥ 18,000,000
Long-term loans payable		8,434,000	15,432,000	18,536,000	19,000,000	4,250,000	35,000,000
Total		<u>¥ 14,434,000</u>	<u>¥ 15,432,000</u>	<u>¥ 21,536,000</u>	<u>¥ 19,000,000</u>	<u>¥ 17,350,000</u>	<u>¥ 53,000,000</u>
		<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
<u>As of December 31, 2022</u>							
Investment corporation bonds		¥ -	¥ 3,000,000	¥ 2,800,000	¥ 13,100,000	¥ -	¥ 18,000,000
Long-term loans payable		15,432,000	18,536,000	19,000,000	4,250,000	17,000,000	18,000,000
Total		<u>¥ 15,432,000</u>	<u>¥ 21,536,000</u>	<u>¥ 21,800,000</u>	<u>¥ 17,350,000</u>	<u>¥ 17,000,000</u>	<u>¥ 36,000,000</u>

7. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2022 and 2021 consisted of the following:

	Maturity date	<i>Millions of yen</i>	
		As of December 31, 2022	As of December 31, 2021
Short-term loans payable:			
0.58% Unsecured loan, payable in a lump-sum at maturity	March 31, 2022	¥ -	¥ 6,800
0.56% Unsecured loan, payable in a lump-sum at maturity	September 30, 2022	-	15,702
0.56% Unsecured loan, payable in a lump-sum at maturity	December 16, 2022	-	1,500
0.57% Unsecured loan, payable in a lump-sum at maturity	January 31, 2023	5,511	-
0.57% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	8,300	-
0.57% Unsecured loan, payable in a lump-sum at maturity	June 30, 2023	1,000	-
0.56% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	15,702	-
0.56% Unsecured loan, payable in a lump-sum at maturity	October 20, 2023	4,600	-
Sub-total		35,113	24,002
Long-term loans payable:			
0.90% Unsecured loan, payable in a lump-sum at maturity	January 31, 2022	¥ -	¥ 5,511
0.93% Unsecured loan, payable in a lump-sum at maturity	March 31, 2022	-	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity	June 30, 2022	-	1,423
1.07% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	892	892
0.77% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,100	2,100
0.77% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,536	2,536
0.68% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	4,088	4,088
0.66% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	800	800
0.57% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	500	500
0.74% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	9,500	9,500
0.56% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,300	1,300
0.56% Unsecured loan, payable in a lump-sum at maturity	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
0.47% 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	September 30, 2026	4,250	4,250
0.73% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity	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	September 30, 2025	500	500
0.73% 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	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	300	300
0.65% Unsecured loan, payable in a lump-sum at maturity	March 31, 2025	2,550	2,550
0.57% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	4,000	4,000
0.65% Unsecured loan, payable in a lump-sum at maturity	March 31, 2025	2,450	2,450
0.42% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	1,700	1,700
0.42% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	2,680	2,680
0.52% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	454	454
0.55% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	488	488
0.95% Unsecured loan, payable in a lump-sum at maturity	September 30, 2027	3,900	3,900
0.38% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,500	2,500
0.72% Unsecured loan, payable in a lump-sum at maturity	March 31, 2027	7,500	7,500
0.82% Unsecured loan, payable in a lump-sum at maturity	March 31, 2028	18,000	18,000
0.23% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,600	1,600
0.68% Unsecured loan, payable in a lump-sum at maturity	September 30, 2027	5,600	5,600
Sub-total		92,218	100,652
Total of short-term and long-term loans payable		¥ 127,331	¥ 124,654

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2022, 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. 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.

8. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2022 and 2021 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2022	As of December 31, 2021
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022	¥ -	¥ 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	10,000
Unsecured 11th investment corporation bond at interest rate of 0.854%, due on June 14, 2029	8,000	8,000
Unsecured 12th investment corporation bond (green bonds) at interest rate of 0.40%, due on July 31, 2024	2,000	2,000
Unsecured 13th investment corporation bond at interest rate of 1.00%, due on September 19, 2025	2,800	-
Total	¥ 36,900	¥ 40,100

9. Asset Retirement Obligations

a. Outline of the asset retirement obligations

JHR recognized asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata), acquired on April 1, 2016, to the original state in accordance with the fixed-term land leasehold agreements.

b. Calculation method of the asset retirement obligations

JHR calculated the amount of asset retirement obligations by estimating the expected periods of use of 34 years based on the remaining useful lives of the related buildings and using the discount rates of 0.484%.

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

	<i>Thousands of yen</i>	
	For the year ended December 31, 2022	For the year ended December 31, 2021
Balance at beginning of year	¥ 336,783	¥ 335,161
Adjustment due to accretion expense	1,630	1,622
Balance at end of year	¥ 338,413	¥ 336,783

10. 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, 2022		For the year ended December 31, 2021	
		Total	Per unit	Total	Per unit
I	Unappropriated retained earnings	¥ 2,672,927,976		¥ 1,300,724,473	
II	Reversal of voluntary reserve				
	Reversal of reserve for temporary difference adjustment (*1)	¥ 376,501,098	¥ 84	¥ 335,371,387	¥ 75
III	Dividends	¥ 3,046,498,092	¥ 682	¥ 1,634,924,196	¥ 366
IV	Retained earnings carried forward (I+II-III)	¥ 2,930,982		¥ 1,171,664	

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 the fiscal period ended December 31, 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 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, 2021, reversal of reserve for temporary difference adjustment of ¥335,371,387 was decided, which was the amount calculated by adding ¥16,682,237, equivalent to loss on retirement of noncurrent assets and ¥56,089,150, equivalent to amortization of trademark rights to ¥262,600,000 of the basic reversal.

For the year ended December 31, 2022, reversal of reserve for temporary difference adjustment of ¥376,501,098 has been decided, which is the amount calculated by adding ¥57,811,948, equivalent to loss on retirement of noncurrent assets and ¥56,089,150, equivalent to amortization of trademark rights to ¥262,600,000 of the basic reversal.

11. 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, 2022 and 2021 consisted of the following (thousands of yen):

Source	Original amount	Balance as of January 1, 2022	Provision during the year	Reversal during the year	Balance as of December 31, 2022	Rationale for provision or reversal
Dividend reserve	13,127,153	10,311,886	-	335,371	9,976,515	Allocation for dividend

Source	Original amount	Balance as of January 1, 2021	Provision during the year	Reversal during the year	Balance as of December 31, 2021	Rationale for provision or reversal
Dividend reserve	13,127,153	10,617,580	-	305,694	10,311,886	Allocation for dividend

(Note) See (*1) of Note 10 above for further descriptions.

12. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2022 and 2021 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2022	For the year ended December 31, 2021
Operating revenue:		
Real estate operating revenue:		
Fixed rent	¥ 6,279,169	¥ 6,413,988
Variable rent	7,304,059	3,054,524
Income from management contract (*1)	342,758	33,926
Sub-total	<u>13,925,987</u>	<u>9,502,439</u>
Other real estate operating revenue:		
Parking lots	141,741	116,270
Other incidental revenue	69,068	66,395
Utilities	643,154	483,341
Other	133,020	206,216
Sub-total	<u>986,984</u>	<u>872,223</u>
Total operating revenue	<u>14,912,972</u>	<u>10,374,662</u>
Real estate operating costs:		
Land lease and other rent expenses	845,567	857,819
Property taxes	1,923,806	1,947,316
Outsourcing expenses (*2)	352,400	494,005
Nonlife insurance	70,695	73,031
Depreciation and amortization	4,787,822	4,804,111
Loss on retirement of noncurrent assets	57,811	16,682
Repairs	21,378	30,176
Utilities	683,346	498,283
Trust fees	39,783	43,558
Other	14,267	65,369
Total real estate operating costs	<u>8,796,879</u>	<u>8,830,354</u>
Net real estate operating income	<u>¥ 6,116,092</u>	<u>¥ 1,544,308</u>

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 ¥ 40,786 thousand for the year ended December 31, 2022 and ¥148,088 thousand for the year ended December 31, 2021.

13. Gain on Sale of Real Estate Properties

The components of “Gain on sale of real estate properties” for the year ended December 31, 2022 were as follows:

Not Applicable

The components of “Gain on sale of real estate properties” for the year ended December 31, 2021 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	
	ibis Tokyo Shinjuku	
Proceeds from sale of properties	¥	11,300,000
Costs of sale of properties		7,809,052
Other selling expenses		231,996
Gain on sale of real estate properties	¥	3,258,950

14. 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, 2022 and 2021 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
Buildings in trust	¥ 24,921	¥ 24,921

15. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2022 and 2021 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,667,655	¥ 1,681,502
Amortization of fixed-term leasehold rights	291,223	248,687
Asset retirement obligations	25,570	19,131
Amortization of trademark rights	47,055	29,409
Deferred losses on hedges	2,447	61,045
Subtotal deferred tax assets	<u>2,033,953</u>	<u>2,039,776</u>
Valuation allowance	<u>(2,033,953)</u>	<u>(2,039,776)</u>
Total deferred tax assets	<u>¥ -</u>	<u>¥ -</u>
Deferred tax liabilities		
Deferred gains on hedges	375,207	3,812
Total deferred tax liabilities	<u>¥ 375,207</u>	<u>¥ 3,812</u>

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, 2022 and 2021 was as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021
Effective statutory tax rate	31.46%	31.46%
Deduction for dividends paid	(33.44)	(35.22)
Change in valuation allowance	1.97	3.76
Other – net	0.05	0.09
Actual effective tax rate	<u>0.05%</u>	<u>0.09%</u>

16. Amounts per Unit

Net income per unit for the years ended December 31, 2022 and 2021 were as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
<u>For the year ended December 31, 2022</u>	<u>Net income</u>	<u>Weighted- average units</u>	<u>Net income per unit</u>
Basic net income per unit - Net income attributable to common unitholders	¥ 2,671,756	4,467,006	¥ 598
<u>For the year ended December 31, 2021</u>			
Basic net income per unit - Net income attributable to common unitholders	¥ 1,296,801	4,466,061	¥ 290

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, 2022 and 2021.

Net assets per unit as of December 31, 2022 and 2021 were as follows:

	<i>Yen</i>	
	As of December 31, 2022	As of December 31, 2021
Net assets per unit	¥ 50,050	¥ 49,595

17. 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, 2022 and 2021 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2022	As of December 31, 2021
Due within one year	¥ 1,152,214	¥ 1,293,157
Due after one year	4,054,288	4,979,488
Total	¥ 5,206,502	¥ 6,272,645

18. 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, 2022 and 2021 were as follows:

As of December 31, 2022	Classification	<i>Thousands of yen</i>		
		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	¥ 3,494,000	¥ 1,750,000	¥ (696)

As of December 31, 2021	Classification	<i>Thousands of yen</i>		
		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	¥ 3,494,000	¥ 3,494,000	¥ (13,924)

b. Derivative transactions to which hedge accounting is applied

Derivative transactions to which hedge accounting was applied as of December 31, 2022 and 2021 were as follows:

			<i>Thousands of yen</i>		
<u>As of December 31, 2022</u>	<u>Method of hedge accounting</u>	<u>Hedged item</u>	<u>Contract amount (*1)</u>	<u>Contract amount due after one year</u>	<u>Fair value (*2)</u>
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 78,460,000	¥ 70,600,000	¥ 1,184,868

			<i>Thousands of yen</i>		
<u>As of December 31, 2021</u>	<u>Method of hedge accounting</u>	<u>Hedged item</u>	<u>Contract amount (*1)</u>	<u>Contract amount due after one year</u>	<u>Fair value (*2)</u>
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 89,660,000	¥ 78,460,000	¥ (181,921)

Notes:

(*1) The contract amounts of the interest rate swap are presented based on the contracted amount or notional principal amounts on the contract, etc. as of the end of the fiscal period. 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.

19. 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>	
		<u>Carrying amount</u>		<u>Fair value (*2)</u>	
		<u>January 1, 2022</u>	<u>Net increase (decrease) (*1)</u>	<u>December 31, 2022</u>	<u>December 31, 2022</u>
Hotels		¥ 358,819,865	¥ (341,052)	¥ 358,478,812	¥ 483,110,000

Notes:

(*1) Decrease during 2022 principally represents the recording of depreciation.

(*2) Fair value of properties as of December 31, 2022 is generally the appraisal value determined by outside licensed real estate appraisers.

				<i>Thousands of yen</i>	
		<u>Carrying amount</u>		<u>Fair value (*2)</u>	
		<u>January 1, 2021</u>	<u>Net increase (decrease) (*1)</u>	<u>December 31, 2021</u>	<u>December 31, 2021</u>
Hotels		¥ 367,283,696	¥ (8,463,831)	¥ 358,819,865	¥ 485,480,000

Notes:

(*1) Decrease during 2021 principally represents the sale of ibis Tokyo Shinjuku (¥7,809 million) and recording of depreciation.

(*2) Fair value of properties as of December 31, 2021 is generally the appraisal value determined by outside licensed real estate appraisers.

Real estate operating revenue and costs for the years ended December 31, 2022 and 2021 related to the rental properties were as follows:

		<i>Thousands of yen</i>		
		For the year ended December 31, 2022		
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income	
Hotels	¥ 14,912,972	¥ 8,796,879	¥ 6,116,092	
		<i>Thousands of yen</i>		
		For the year ended December 31, 2021		
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income	
Hotels	¥ 10,374,662	¥ 8,830,354	¥ 1,544,308	

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.

20. Revenue from Contracts with Customers

For the year ended December 31, 2022

Breakdown information on revenue from contracts with customers

For the breakdown information on revenue from contracts with customers, please refer to Note 12, "Real Estate Operating Revenue and Costs."

Note that the revenues described in the Note 12 include revenues recognized under the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13). The revenues from contracts with customers mainly consists of utilities income.

21. 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, 2022 and 2021
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, 2022 and 2021
 - (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.

(2) Information about major customers
<For the year ended December 31, 2022>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 6,862,661
THE DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management	Undisclosed (*2)

<For the year ended December 31, 2021>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 2,524,020
THE DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management	Undisclosed (*2)

Note:

(*1) Operating revenue includes the operating revenue from customers belonging to the business group of the said customer.

(*2) Undisclosed as the consent on disclosure has not been obtained from the lessee.

22. Subsequent Events

Acquisition of assets

JHR acquired two properties as follows:

Name of acquired asset	UAN kanazawa
Type of specified asset	Beneficial interest of real estate in trust and movable asset attached to the hotel
Asset type	Hotel
Location (displayed address)	6-30 Oyama-machi, Kanazawa-shi, Ishikawa
Acquisition date	January 31, 2023
Seller	GK Esquilino Investment
Acquisition price (*1)	¥2,050 million

Name of acquired asset	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi
Type of specified asset	Beneficial interest of real estate in trust
Asset type	Hotel
Location (displayed address)	10-2 Shimbashi 4-chome, Minato-ku, Tokyo
Acquisition date	March 24, 2023
Seller	Not disclosed (*2)
Acquisition price (*1)	¥8,400 million

Note:

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

(*2) Not disclosed because the approval of the seller has not been obtained.



Independent auditor's report

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

Opinion

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation (“the Company”), which comprise the balance sheets as at December 31, 2022 and 2021, the statements of income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 22 (Subsequent Events) to the financial statements, which states that the Company acquired assets. Our opinion is not modified in respect of this matter.

Other Information

The other information comprises the information included in the Asset Management Report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. Supervisory directors are responsible for overseeing the executive director's performance of his duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this

other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Supervisory directors are responsible for overseeing the executive director's performance of his duties with regard to the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements

represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the executive director regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the executive director with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with him all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Atsunori Sadahiro

Designated Engagement Partner

Certified Public Accountant

/S/ Hironori Hashizume

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

April 21, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.