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Notice Concerning Changes of Fixed-Term Lease Contracts

This is to inform you that, Japan Hotel REIT Investment Corporation (hereinafter called “JHR”), resolved and concluded Memorandums of understanding related to change fixed-term building lease contracts (hereinafter called the “Memorandums”) to change fixed-term building lease contracts on 14 hotels in total (hereinafter called the “14 HMJ Hotels”) leased by 10 companies, described in “2. Summary of the change” among 16 hotels (*1) which owned by JHR and leased to Hotel Management Japan Co., Ltd. (hereinafter called “HMJ”) and its subsidiaries (with HMJ, collectively called the “HMJ Group”) as of today, as follows

Each company of the HMJ Group with which JHR concluded the Memorandums falls under the category of an interested party, etc. as stipulated in the Act on Investment Trusts and Investment Corporation (Act No. 198 of 1951, as amended; hereinafter called the “Investment Trust Act”). Therefore, with regard to the transactions of the Memorandums, the consent of the JHR was obtained based on the approval of the JHR’s board of directors meeting in accordance with the Investment Trust Act and the internal codes for transaction with sponsor-related parties stipulated by the Japan Hotel REIT Advisors Co., Ltd. (hereinafter called the “Asset Management Company”) (please see “4. Transaction with Interested Parties, etc.” below.).

(*) For the changes of fixed-term lease contracts, please also refer to page 10 in “Financial Result Briefing” dated today.

1. Rationale for the revision

Since February 2020, from the early stage of the spread of infection by COVID-19, JHR has been communicating closely with the HMJ Group, a group company of asset management company. JHR has been discussed and requested various measures such as reducing operating costs by thorough review of the operations at each hotel and correspondence to financing, etc. in order to respond to the sharp deterioration of the hotel market.

HMJ Group has carried out large-scale restructuring including reduction of personnel costs and outsourcing costs, etc. However, it was difficult for HMJ Group to pay the fixed rent (JPY9,530MM/year) from GOP (*2), which is revenue before the rent payment of the 14 HMJ Hotels. Therefore, JHR concluded the new fixed-term building lease contracts with lessees of 14 hotels of the HMJ Group (hereinafter called “Previous Contracts”) in August 2020. Under the rent structure in the Previous Contracts, fixed rent of JPY8,736MM from February onward in the fiscal year 2020 was exempted, and full variable rent scheme was adopted in order to prepare for the risk of unstable market environment in the fiscal year 2021. The rent scheme from the fiscal year from 2022 onwards was combination of fixed rent and variable rent as in the past.

Since then, the outlook for the hotel market remains unclear, as the COVID-19 has been repeated spread of infection and stable condition, and particularly the variant that differ from those before has been spread since the start of 2022.

Although the HMJ Group continues to thoroughly reduces operating costs, improves management efficiency and strives to increase sales by branding, and improvement of product appeal, taking consideration of uncertain hotel market and the stability of the management of HMJ Group, there is a high degree of uncertainty regarding the payment of fixed rent (JPY8,030MM/year) for 14 HMJ hotels in the fiscal year 2022. As the result, JHR has reached an agreement with the HMJ Group to conclude Memorandums to apply the full variable rent scheme which applied in the fiscal year 2021 for the full year in the fiscal year 2022, with conditions of further permanent cost reductions through the restructuring of the operating system by the HMJ Group.

The HMJ Group operates 16 hotels with a total of 5,361 guest rooms of hotels owned by JHR. Many of which are large-scale full-service hotels, which require advanced management expertise. HMJ Group is an important partner in JHR's highly flexible investment strategy, and despite of situation under the impact of COVID-19, JHR rebranded three hotels to brand of Oriental Hotels, etc. JHR judged conclusion of the Memorandum would contribute to the medium to long term benefit of JHR and reached to agreement with HMJ Group.

2. Summary of the change

Although JHR believes that the hotel market will gradually recover in the fiscal year 2022 due to the progress of vaccination and the development of therapeutic medicine, as well as the support by measures to promote tourism by the national and local governments, it is difficult to predict the pace of recovery and downside risks. Therefore, JHR will exempt the fixed rent of JPY8,030MM/year for 14 HMJ hotels in the fiscal year 2022 and adopt the full variable rent scheme as we did in Previous Contracts. The base amount of AGOP (*3) and the rate against AGOP in which generate variable rent remain unchanged from the Previous Contracts. Moreover, from 2023 onwards, the conditions stipulated in the Previous Contracts are not changed.

In concluding Memorandums, JHR and the HMJ Group agreed that HMJ Group will further improve the profit structure by implementing a new cost reduction of approximately JPY0.5Bn/year at 14 HMJ Hotels in addition to a permanent cost reduction of approximately JPY1.5Bn/year agreed upon conclusion of Previous Contracts and achieved to date. JHR and HMJ Group mutually confirmed that a portion of the increase in GOP due to the improvement of the profit structure will contribute to an increase in variable rent received by JHR, and through the amount of this increase, JHR can recover the amount equivalent to the exemption of the fixed rent for the fiscal year 2022 in the medium to long term.

The rent structure of the 14 HMJ Hotels after revision (fixed rent and variable rent) is shown in the table below.

(1) Fixed rent

No	Name	Lessee	Fixed rent			
			Before change		After change	
			From FY2022 onwards	FY2022	From FY2023 onwards	
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	JPY3,221MM/year	Not applicable	JPY3,221MM/year	
2	Oriental Hotel tokyo bay					
3	Namba Oriental Hotel					
4	Hotel Nikko Alivila					
5	Oriental Hotel Hiroshima					
6	Oriental Hotel Okinawa Resort & Spa	Lagoon resort Nago Co., Ltd.	JPY550MM/year		JPY550MM/year	
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (*4)	K.K. A.I.C Hiroshima Management	JPY348MM/year		JPY348MM/year	
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	JPY425MM/year		JPY425MM/year	
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	JPY576MM/year		JPY576MM/year	
10	Hilton Tokyo Narita Airport	KK NaritaKosuge Operations	JPY444MM/year		JPY444MM/year	
11	International Garden Hotel Narita	KK NaritaYoshikura Operations	JPY336MM/year		JPY336MM/year	
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	JPY420MM/year		JPY420MM/year	
13	Hotel Oriental Express Osaka Shinsaibashi	K.K. HOTEL ORIENTAL EXPRESS	JPY110MM/year		JPY110MM/year	
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise Inc.	JPY1,600MM/year		JPY1,600MM/year	

(2) Variable rent

No	Name	Method of calculation of variable rent		
		Before		After
		From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel	(The total AGOP of The Five HMJ Hotels (*5) – base amount (JPY4,120MM/year)) x 85.0%	AGOP x 86.0%	(The total AGOP of The Five HMJ Hotels – base amount (JPY4,120MM/year)) x 85.0%
2	Oriental Hotel tokyo bay		AGOP x 79.0%	
3	Namba Oriental Hotel		AGOP x 91.0%	
4	Hotel Nikko Alivila		AGOP x 74.0%	
5	Oriental Hotel Hiroshima		AGOP x 89.0%	
6	Oriental Hotel Okinawa Resort & Spa	(AGOP – base amount (JPY655MM/year)) x 95.0%	AGOP x 89.0%	(AGOP – base amount (JPY655MM/year)) x 95.0%
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (*4)	(AGOP – base amount (JPY360MM/year)) x 90.0%	AGOP x 93.0%	(AGOP – base amount (JPY360MM/year)) x 90.0%
8	Oriental Hotel Fukuoka Hakata Station	(AGOP – base amount (JPY442MM/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (JPY442MM/year)) x 98.0%
9	Holiday Inn Osaka Namba	(AGOP – base amount (JPY580MM/year)) x 97.0%	AGOP x 98.0%	(AGOP – base amount (JPY580MM/year)) x 97.0%
10	Hilton Tokyo Narita Airport	(AGOP – base amount (JPY450MM/year)) x 93.0%	AGOP x 95.0%	(AGOP – base amount (JPY450MM/year)) x 93.0%
11	International Garden Hotel Narita	(AGOP – base amount (JPY360MM/year)) x 98.0%	AGOP x 95.0%	(AGOP – base amount (JPY360MM/year)) x 98.0%
12	Hotel Nikko Nara	(AGOP – base amount (JPY440MM/year)) x 95.0%	AGOP x 95.0%	(AGOP – base amount (JPY440MM/year)) x 95.0%
13	Hotel Oriental Express Osaka Shinsaibashi	(AGOP – base amount (JPY128MM/year)) x 91.0%	AGOP x 87.0%	(AGOP – base amount (JPY128MM/year)) x 91.0%
14	Hilton Tokyo Odaiba	(AGOP – base amount (JPY1,660MM/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (JPY1,660MM/year)) x 98.0%

(*1) 16 hotels refers to Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Oriental Hotel Okinawa Resort & Spa, Sheraton Grand Hiroshima Hotel, 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, Hilton Tokyo Odaiba, Hotel Oriental Express Fukuoka Tenjin and Oriental Hotel Universal City.

(*2) GOP (gross operating profit) is the remainder after expenses, such as personnel costs and general and administrative expenses, etc. incurred in hotel operation, are deducted from total sales.

(*3) AGOP is the amount calculated by subtracting certain fees and other items from hotel GOP. The same shall apply hereinafter in this document.

(*4) Stating the rent for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA. The same shall apply hereinafter in this document.

(*5) The Five HMJ Hotels refers to Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, and Oriental Hotel Hiroshima, which JHR leases to HMJ.

3. Future Prospects

Operating forecast and forecast of dividend for the fiscal year ending December 2022 (23rd Period), is not determined yet. JHR will announce it as soon as it is formulated.

4. Transactions with Interested Parties, etc.

Each company of the HMJ Group, which is the lessee under the Memorandum, falls under the category of an interested party, etc. as stipulated in Article 201 of the Investment Trust Act as well as Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations. Therefore, in accordance with “the Code for Transaction with the Sponsor-Related Parties” stipulated by the Asset Management Company, appropriate procedures stipulated in the Code for Transactions with Sponsor-Related Parties such as approval of the compliance committee attended by outside experts and of the Board of Directors meeting of JHR have been obtained, prior to the conclusion of the Memorandum with each company of the HMJ Group.

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