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August 25, 2021

Midterm Financial Report for the Fiscal Year Ending December 31, 2021 (January 1, 2021 – June 30, 2021)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
 Securities code: 8985
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Preparation of supplementary material on midterm financial report: Yes
 Schedule for presentation of midterm financial results: Yes (Institutional investors and analysts only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the midterm of the fiscal year ending December 31, 2021 (January 1, 2021 - June 30, 2021)

(1) Operating results

(Percentages: full year—changes from the previous year, midterm period—changes from the previous midterm period)

	Operating revenue		Operating income		Ordinary profit (loss)		Net income (loss)	
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
Midterm period ended								
June 30, 2021	4,589	(17.1)	(699)	-	(1,488)	-	(1,488)	-
June 30, 2020	5,536	(56.5)	325	(95.5)	(550)	-	(551)	-
Fiscal year ended								
December 31, 2020	13,838	(51.1)	3,176	(81.5)	1,398	(90.9)	1,527	(90.0)

	Net income for current midterm period per unit
Midterm period ended	JPY
June 30, 2021	(333)
June 30, 2020	(123)
Fiscal year ended	
December 31, 2020	342

(Note) Net income for current midterm period per unit is calculated based on the period-average number of investment units issued.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Midterm period ended	JPY1M	JPY1M	%	JPY
June 30, 2021	395,554	218,306	55.2	48,870
June 30, 2020	398,827	219,427	55.0	49,173
Fiscal year ended				
December 31, 2020	400,296	221,201	55.3	49,570

(Note) Net assets per unit are calculated based on the total number of investment units issued and outstanding at the end of the midterm period / full year.

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period/year
Midterm period ended	JPY1M	JPY1M	JPY1M	JPY1M
June 30, 2021	(760)	(1,025)	(1,541)	25,225
June 30, 2020	5,085	(2,264)	(16,455)	20,708
Fiscal year ended				
December 31, 2020	13,747	(3,077)	(16,461)	28,553

**2. Operating forecast for the fiscal year ending December 31, 2021
(January 1, 2021 – December 31, 2021)**

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary profit		Net income		Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%	JPY	JPY
Full year	-	-	-	-	-	-	-	-	-	-

(Note) It has been difficult to reasonably estimate the performance of hotels due to the spread of the infection by COVID-19. Because the share of variable rents and income from management contract that are linked to the performance of hotels in JHR's earnings is large, operating forecast and forecast of dividend for the fiscal year ending December 31, 2021 (January 1, 2021 to December 31, 2021) are withdrawn and left as undetermined.

*** Other**

(1) Changes in accounting policies, changes in accounting estimates, and restatement of financial statements for prior period after error corrections

(a) Changes in accounting policies due to revisions to accounting standards and other regulations: No change

(b) Changes in accounting policies due to other reasons than above (a): No change

(c) Changes in accounting estimates: No change

(d) Restatement of financial statements for prior period after error corrections: No change

(2) Total number of investment units issued and outstanding

(a) Total number of investment units issued and outstanding at the end of the midterm period / full year

(including investment units owned by Japan Hotel REIT Investment Corporation (hereinafter referred to as "JHR"))

As of June 30, 2021 4,467,006 units

As of June 30, 2020 4,462,347 units

As of December 31, 2020 4,462,347 units

(b) Number of JHR's own investment units held at the end of the midterm period / full year

As of June 30, 2021 0 units

As of June 30, 2020 0 units

As of December 31, 2020 0 units

(Note) For the number of investment units serving as the basis of computation of net income per unit, please refer to "Notes on per unit information" on page 29.

*** Status of midterm audit procedures**

Midterm financial report is not subject to audit procedures by accountants.

*** Appropriate use of forecasts of results and other special items**

Forward-looking statements presented in this midterm financial report including operating forecasts are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors.

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1. Operating results

(1) Operating results

(A) Overview of the midterm period under review

(a) Brief history and principal activities

Japan Hotel REIT Investment Corporation (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 asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on importance as social infrastructure and profitability as investment real estate of hotels, JHR primarily invests in real estate which are wholly or partially used as hotels or real estate equivalents of such real estate or related assets that are backed by such real estate or real estate equivalents (hereinafter referred to as “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, 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 in the little more than nine years since the Merger through the end of the midterm period under review (June 30, 2021). Furthermore, in March 2021, JHR conducted issuance of new investment units through a third-party allotment with SC J-REIT Investments GK, which belongs to the Sponsor Group (Note) as the allottee, aiming to strengthen its financial base as well as relationship with lender financial institutions. As a result, JHR had a portfolio of 42 properties with a combined acquisition price of ¥370,031 million. The total number of investment units issued stood at 4,467,006 units at the end of the midterm period under review.

(Note) The Sponsor Group refers to the SC CAPITAL PARTNERS group, which is the main sponsor (shareholder) of the Asset Management Company. The same shall apply hereinafter in this document.

(b) Investment performance for midterm period under review

The Japanese economy in the midterm period under review (six-month period from January 1, 2021 to June 30, 2021) continued to be severe in some regions despite ongoing recovery as a whole amid the still severe situation due to the impact of state-of-emergency declarations, stricter measure to prevent the spread of the virus, etc. implemented in line with the spread of COVID-19.

The domestic accommodation and tourism market was heavily impacted by the low number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”), which was estimated to be 96,000 in the first half of 2021 (-97.6% from the same period of the previous year; -99.4% from the same period of 2019), due to travel restrictions to Japan from various countries, etc., as well as the worsening of the COVID-19 situation, resulting in sluggish domestic demand. Accordingly, the cumulative number of overnight guests at domestic accommodation facilities in the first half of 2021 fell by 16.4% from the previous year (or by 56.3% from 2019) to 124 million guest nights (preliminary release).

As to the performance of hotels owned by JHR under these circumstances, RevPAR (Note 1) of The 24 hotels with Variable Rent, etc. (Note 2) for the midterm period under review fell below the figures of the same period of the previous year due to the impact of the spread of COVID-19, however, GOP (gross operating profit) slightly exceeded the figures of the same period of the previous year.

Under such circumstances, JHR maintained, as it did in the previous year, close communication with the lessees and operators of its respective hotels and worked to secure hotel earnings through reduction of operating costs, etc. In particular, after discussions and investigations with JHR, Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), a group company of the Asset Management Company, and its subsidiaries (hereinafter collectively referred to as the “HMJ

Group”), have continued to implement large-scale restructuring of labor costs, outsourcing costs and other costs since last year.

In addition, JHR changed lessees and conducted rebranding during the midterm period under review in order to improve hotel operations and increase earnings as follows.

In January 2021, for Chisun Hotel Kamata (former name: Hotel Vista Kamata Tokyo), JHR changed lessees and conducted rebranding after terminating the existing lease contract. In addition, In June 2021, for Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA), JHR changed the lessee to the HMJ Group and conducted rebranding. More efficient operations can be carried out through sharing of human resources and back offices with the HMJ Group Hotels located in the surrounding areas. Furthermore, expecting an improvement in ADR (Note 3) through the rebranding, the grade of the hotels has been changed from economy to mid-price. JHR has adopted a rent scheme that combines fixed rent and variable rent in the lease contract with the HMJ Group. Under the scheme, the rent burden ratio has risen compared with the former lease contract, and thus the amount of rent JHR will receive during the market recovery period is expected to increase.

On the other hand, JHR made a drastic review of its capital expenditures, including postponement of large-scale renovation work planned for the fiscal year ending December 2021, and worked to reduce costs under such cost items as real estate operating costs and general and administrative expenses through discussions with related parties. For further details of sales, GOP and other management indicators for The 24 hotels with Variable Rent, etc., please refer to “<Reference Information> Hotel operation indexes, sales and GOP (gross operating profit)” on page 12.

(Note 1) RevPAR represents revenue per available room, which is calculated by dividing revenue of the rooms department for a certain period (including service charge) by the total number of rooms available for sale during the period. The same shall apply hereinafter in this document.

(Note 2) The hotel group combining the hotels which JHR leases to HMJ (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Aliviva and Oriental Hotel Hiroshima, (hereinafter referred to as the “Five HMJ hotels”)), with the hotels which JHR leases to HMJ subsidiaries (Okinawa Marriott 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, totaled 14 hotels, are referred to as the HMJ Group Hotels. Although the lessee of Hotel Oriental Express Fukuoka Tenjin was changed to a subsidiary of HMJ on June 18, 2021, it is not included in the HMJ Group Hotels in the midterm period under review. The 24 hotels with Variable Rent, etc. refers to the HMJ Group Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b suidobashi, the b ikebukuro, the b hachioji and the b hakata. The same shall apply hereinafter in this document.

(Note 3) ADR represents average daily rate, which is calculated by dividing revenue for rooms for a certain period (including service charges) by the total number of rooms sold during the period. The same shall apply hereinafter in this document.

(c) Funding status

In the midterm period under review (six-month period from January 1, 2021 to June 30, 2021), JHR procured ¥300 million through third-party allotment with the Sponsor Group as the allottee in March 2021 with the aim to strengthen its financial base as well as relationship with lender financial institutions, and JHR took out loans of ¥6,800 million in total to refinance existing borrowings that were due for repayment in the same month. In addition, JHR took out loans of ¥935 million in total to refinance existing borrowings that were also due for repayment in June 2021.

Consequently, as of the end of the midterm period under review, the balance of interest-bearing debt totaled ¥168,754 million, including short-term loans payable of ¥19,582 million, current portion of long-term loans payable of ¥14,900 million, long-term loans payable of ¥92,672 million, current portion of investment corporation bonds of ¥1,500 million and investment corporation bonds of ¥40,100 million, and the ratio of interest-bearing debt to total assets (Note) at end of the midterm period stood at 42.7%. The ratio of fixed interest rate to total interest-bearing debt at the end of the midterm period was at 87.0%.

(Note) Ratio of interest-bearing debt to total assets at end of the midterm period = Balance of interest-bearing debt at end of the midterm period ÷ Total assets at end of the midterm period × 100

As of the end of the midterm period under review, JHR's issuer ratings were as follows.

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

(d) Financial results

As a result of the abovementioned asset management, operating revenue, operating loss, and ordinary loss were ¥4,589 million, ¥699 million, and ¥1,488 million, respectively, for the midterm period under review (six-month period from January 1, 2021 to June 30, 2021). Net loss for the midterm period under review was ¥1,488 million. Variable rent from the hotels with variable rent leased to the HMJ Group Hotels in the amount of ¥437 million is included in operating revenue, but this amount is calculated based on the GOP of the HMJ Group Hotels for the midterm period under review. The variable rent to be ultimately received from the HMJ Group Hotels will be determined by the full-year GOP (12-month period) of each hotel of the HMJ Group Hotels.

JHR settles accounts on an annual basis and investment corporations do not have a system for interim dividends under the Investment Trusts Act. Accordingly, no distribution of earnings can be made in the midterm period under review. Distribution of earnings is made based on the earnings for the full year (12-month period from January 1, 2021 to December 31, 2021). With regard to such distribution of earnings, in accordance with the policy that earnings exceeding 90% of JHR's distributable profit as defined by Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called "the Act on Special Measures Concerning Taxation") will be distributed.

(B) Outlook for the second half of the fiscal year

(a) Investment policies and issues to be addressed

The Japanese economy is expected to recover due to the progress of vaccine rollout and such, although severe condition may continue due to the impact of the spread of the infection by COVID-19 pandemic. The domestic accommodation and tourism market are also forecast to remain in a harsh environment for the time being due to the number of inbound visitors and domestic tourists continuing to remain low. However, JHR believes that when the infection status improves with more vaccinations, domestic tourism demand will enter a phase of recovery.

JHR will discuss, investigate and implement with lessees and operators a variety of measures, such as reducing operating costs through review of operations at each hotel, maintaining necessary employment, handling cash management, and implementing sales measures in response to new demand including "staycation" and "workation." Especially for the hotels with variable rent, etc. centering on the HMJ Group Hotels, JHR will endeavor to maximize GOP of each hotel and thus maximize the rent JHR can receive as a result.

In addition, if JHR receives requests for rent reduction, etc. from the lessees that have been impacted by the spread of COVID-19, etc., JHR will examine what has been requested from respective lessees, the details of the existing lease contracts with them, rent levels compared with the market rent, the possibility to collect the reduced rent portion in the future, and their financial conditions. By doing so, JHR will respond to requests individually after discussing with each lessee and operator, while carefully considering the possibility of replacing operators.

On the other hand, given the large potential demand for overseas tourism globally and in particular, due to the improvement in income levels in Asian countries as well as the popularity of Japan as a travel destination, JHR believes that accommodation demand from inbound visitors will recover over the medium to long term. As such, there is no change in the view of JHR that the accommodation and tourism market will expand over the medium to long term. 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 continue to implement strategies to differentiate its hotels as it has done to date.

In the meanwhile, as a result from the spread of COVID-19, contactless new behavior patterns such as web conferencing, etc. 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 respond to environmental changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate hotels owned by JHR in the market by utilizing the experience it has cultivated as a J-REIT specializing in hotel investment, 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” of hotel revenue 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 expanding international brands 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 to requests for reduction of fixed rent from lessees which was greatly affected by COVID-19.

For hotels under variable rent contracts and under a management contract structure, JHR is working to increase variable rent and reduce management contract fees by implementing the active asset management strategy.

In July 2021, for Oriental Hotel Universal City (former name: Hotel Keihan Universal City), JHR changed the lessee to the HMJ Group and conducted rebranding. More efficient operations will be carried out through sharing of human resources and back offices with the HMJ Group Hotels located in the surrounding areas. Furthermore, JHR aims to maximize revenue from the hotel in the recovery period of domestic demand as a theme park hotel adjacent to Universal Studios Japan. JHR has adopted a rent scheme that combines fixed rent and variable rent in the lease contract with the HMJ Group. Under the scheme, the rent burden ratio has risen compared with the former lease contract, and thus the amount of rent JHR will receive during the market recovery period is expected to increase.

In addition, with Okinawa Marriott Resort & Spa, JHR also plans to conduct rebranding in October 2021 in line with the expiration of the franchise contract. The HMJ Group will remain as the lessee after the rebranding, and the name will be changed to Oriental Hotel Okinawa Resort & Spa. The HMJ Group is the largest strategic operator for JHR, and it has deployed its branding strategy of “Oriental Hotels & Resorts” since this year in order to further strengthen its effort to capture business and leisure demand in both domestic and overseas markets. JHR believes that, with the brand development by the HMJ Group, the “Oriental Hotel” brand, of which trademark rights are held by JHR, will also gain more recognition and it is expected to increase in hotel revenue, leading to an increase in rent JHR receives, and that will result in improvement of the revenue of JHR’s overall portfolio.

i) Properties under variable rent contracts

JHR works to enhance the profitability of its properties under variable rent contracts through its active asset management strategy. 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 and Hotel Nikko that are operated in various areas throughout the country 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, under the impact of the spread of COVID-19, recovery in hotel performance is expected to take time. To cope with such a situation, JHR will closely cooperate with the lessees and operators of respective hotels to promote drastic reform of the earnings structure through cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while continuing efforts on consideration 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.

ii) Properties under fixed rent contracts

JHR will monitor operating conditions of these hotels appropriately, pay careful attention to each lessee's creditworthiness and ability to bear the cost of rent, and pursue efforts to set and maintain reasonable rent, while appropriately responding to requests from lessees for reduction of fixed rent, which was greatly affected by COVID-19. 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 investment market, although hotel transactions had remained stagnant due to a sense of uncertainty over the domestic accommodation and tourism market stemming from the impact of COVID-19, transactions, including those involving large properties, have gradually started to take place since the beginning of 2021. Furthermore, there is a possibility of an increase in 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, along with the spread of COVID-19 coming to an end 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 and responding to changes in earnings structures of hotels and the investment environment according to circumstances through leveraging its strengths and advantages, JHR will work to expand asset size that accompanies improvement of the portfolio quality through flexibly to acquire highly competitive properties, while utilizing the HMJ platform as necessary. Considering the uncertainty of the impact of COVID-19 and of the outlook for the hotel market environment, JHR intends to be careful with property acquisition for the time being, from the standpoint of procurement of new funds for property acquisition. In addition, from the standpoint of financial soundness, JHR will also consider asset replacement accompanying property disposition as necessary.

Finance Strategy

As the impact of the spread of the infection by COVID-19 prolongs and the outlook of earnings remains uncertain, JHR will focus on the enhancement of financial stability and soundness more than before and intends to maintain and enhance the relationship of trust with financial institutions with which it does business through close communication and such.

Specifically, JHR will work to securely achieve refinancing of existing borrowings while paying attention to financing costs and maintaining good relationships with respective lenders. In addition, JHR will secure liquidity on hand in an effort to strengthen its financial foundation through appropriate control of capital expenditures, necessary property disposition, etc. It 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. 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 base 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

JHR has conducted 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 Order No. 47 of 2006, as amended)” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan since the fiscal year ended December 31, 2017 (18th period). 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 2017, to pay out as dividends, 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, depreciation of trademark right, 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 way to reverse the reserve for temporary different adjustment and specific amounts, etc., for the future.

Initiatives for Sustainability

In recent years, the risks and opportunities of ESG (Environment, Social and Governance) issues have grown in importance in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management based on consideration 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 including property managers, etc., local communities, officers and employees of the Asset Management Company and others 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 acquired “Green Star” in the GRESB Real Estate Assessment for three consecutive years thereafter. Moreover, JHR was selected as a Sector Leader of Asian Hotel Sector in the GRESB Real Estate Assessment conducted in 2020. In April 2020, Hilton Tokyo Odaiba acquired CASBEE Certification for Buildings, the first such recognition for an existing hotel property. In June 2021, Oriental Hotel Fukuoka Hakata Station also acquired CASBEE (Comprehensive Assessment System for Built Environment Efficiency) Certification for Buildings, the second case of such for an existing hotel following Hilton Tokyo Odaiba. Going forward, JHR will continue to actively promote enhancement of its initiatives 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 capital expenditures 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 at other hotels, and during the midterm period under review, 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 fully appropriated for eligible projects and there is no unappropriated balance.

In addition, as an effort under the expanding spread of COVID-19, JHR worked together with the lessees to provide a total of seven hotels which 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 last year 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 for specified occupation and local residents. Furthermore, the HMJ Group has been also promoting 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 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 program to evaluate Environment, Social and Governance (ESG) awareness 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.

(b) Significant subsequent events

Not applicable

c) Operating forecast

As the impact of COVID-19 pandemic continues, including the extension of the state of emergency issued by the government, it is difficult at the moment to reasonably estimate the earnings of hotels through December 2021. Because JHR's earnings are affected by variant rents linked to the earnings of hotels and income from management contracts, it is not possible to reasonably estimate an operating revenue for the full year ending December 2021 (22nd Period) at the moment.

Therefore, the operating forecast for the full year of the fiscal year ending December 31, 2021 (22nd Period) announced in "Financial Report for the Fiscal Year Ended December 31, 2020 (January 1, 2020 – December 31, 2020)," dated February 25, 2021 will be withdrawn and left as undetermined at this time. JHR will disclose the operating status as soon as it assesses the impact on its performance and rational calculation becomes possible going forward.

Full year of the fiscal year ending

December 31, 2021 (22nd period)	Forecast this time	Previous forecast	Variance
Operating revenue	TBD	¥13,920 million	—
Operating income	TBD	¥2,715 million	—
Ordinary profit (loss)	TBD	¥879 million	—
Net income (loss)	TBD	¥877 million	—
Dividend per unit	TBD	¥270	—
Dividend per unit resulting from excess of earnings	TBD	—	—

(Note) The forecast figures above are the current forecasts calculated based on certain assumptions. As such, actual operating revenue, operating income, ordinary profit (loss), net income (loss), dividend per unit and dividend per unit resulting from excess of earnings may vary due to changes in the circumstances. Furthermore, the forecasts are not intended to guarantee any dividend amount.

<Reference Information> 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.

The operating forecast for the second half and full year of the fiscal year ending December 31, 2021 (22nd Period) is not stated because they are undecided at this time.

ADR and RevPAR 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> HMJ Group Hotels

		Fiscal year ending December, 2020		Fiscal year ending December, 2021			
		Result	Comparison with previous period	Previous forecast	First half result	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	33.1%	(52.2pt)	36.4%	27.7%	(5.4pt)	(8.7pt)
	Second half of the year	38.4%	(49.5pt)	68.3%	—	—	—
	Full year	35.8%	(50.8pt)	52.5%	—	—	—
ADR	First half of the year	15,222	(13.4%)	14,906	13,048	(14.3%)	(12.5%)
	Second half of the year	16,814	(14.4%)	19,590	—	—	—
	Full year	16,081	(13.7%)	17,979	—	—	—
RevPAR	First half of the year	5,045	(66.4%)	5,428	3,618	(28.3%)	(33.3%)
	Second half of the year	6,460	(62.6%)	13,379	—	—	—
	Full year	5,757	(64.3%)	9,436	—	—	—
Sales (JPY 1M)	First half of the year	9,167	(61.9%)	9,443	8,313	(9.3%)	(12.0%)
	Second half of the year	11,978	(55.9%)	20,624	—	—	—
	Full year	21,146	(58.7%)	30,067	—	—	—
GOP (JPY 1M)	First half of the year	(370)	(105.1%)	113	(136)	—%	—%
	Second half of the year	1,696	(82.8%)	6,280	—	—	—
	Full year	1,326	(92.3%)	6,393	—	—	—

<2> The 24 hotels with Variable Rent, etc.

		Fiscal year ending December, 2020		Fiscal year ending December, 2021			
		Result	Comparison with previous period	Previous forecast	First half result	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	34.0%	(51.1pt)	39.4%	30.6%	(3.3pt)	(8.8pt)
	Second half of the year	40.8%	(46.1pt)	68.8%	—	—	—
	Full year	37.4%	(48.6pt)	54.2%	—	—	—
ADR	First half of the year	13,362	(14.8%)	12,368	10,846	(18.8%)	(12.3%)
	Second half of the year	13,354	(22.6%)	16,398	—	—	—
	Full year	13,357	(19.0%)	14,947	—	—	—
RevPAR	First half of the year	4,536	(66.0%)	4,868	3,320	(26.8%)	(31.8%)
	Second half of the year	5,445	(63.7%)	11,289	—	—	—
	Full year	4,993	(64.8%)	8,105	—	—	—
Sales (JPY 1M)	First half of the year	10,718	(62.1%)	11,010	9,478	(11.6%)	(13.9%)
	Second half of the year	13,378	(57.5%)	23,455	—	—	—
	Full year	24,096	(59.6%)	34,466	—	—	—
GOP (JPY 1M)	First half of the year	(213)	(102.4%)	277	(65)	—%	—%
	Second half of the year	1,867	(84.2%)	7,046	—	—	—
	Full year	1,654	(92.1%)	7,323	—	—	—

(2) Material events related to going concern assumption

In the midterm period under review, JHR saw deterioration in its earnings because of the decrease in variable rents linked to hotel performance, etc. due to the impact of state-of-emergency declarations, stricter measure to prevent the spread of the virus, etc. implemented in line with the spread of COVID-19. As a result, continuing from the previous fiscal year, the debt-service coverage ratio, which is designated in the loan-related contracts with the financial institutions which JHR conducts business with, fell below the predetermined reference value. Because such financial situation caused temporary breach of financial covenants, there is a condition where substantial doubts on going concern may arise. However, JHR has agreed with the financial institutions with which it conducts business that such financial situation is not considered a breach of the financial covenants. In the case where the debt-service coverage ratio is lower than the predetermined reference value in the full-year period of the current fiscal year and thereafter, JHR may breach the financial covenants. Still, JHR believes that there is no material uncertainty regarding the going concern assumption due to consideration of good relationships between JHR and financial institutions with which it conducts business, continuing support from sponsor related entities, the sufficient amount of cash it has on hand and conservative debt ratio, etc.

2. Semi-annual financial statements

(1) Semi-annual balance sheets

(thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	19,382,019	18,040,761
Cash and deposits in trust	9,171,145	7,185,076
Operating accounts receivable	672,415	540,946
Prepaid expenses	533,150	434,972
Income taxes receivable	42	—
Other	82,698	107,898
Total current assets	29,841,471	26,309,656
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	622,365	662,140
Accumulated depreciation	(252,877)	(280,955)
Machinery and equipment, net	369,487	381,184
Tools, furniture and fixtures	4,373,456	4,634,724
Accumulated depreciation	(2,739,679)	(3,004,604)
Tools, furniture and fixtures, net	1,633,776	1,630,120
Construction in progress	2,761	—
Buildings in trust	*1 137,193,115	*1 138,054,014
Accumulated depreciation	(25,172,139)	(27,019,629)
Buildings in trust, net	112,020,975	111,034,384
Structures in trust	2,772,035	2,775,904
Accumulated depreciation	(511,004)	(548,219)
Structures in trust, net	2,261,030	2,227,684
Machinery and equipment in trust	683,995	688,595
Accumulated depreciation	(183,954)	(200,589)
Machinery and equipment in trust, net	500,040	488,005
Tools, furniture and fixtures in trust	133,628	133,878
Accumulated depreciation	(112,061)	(114,762)
Tools, furniture and fixtures in trust, net	21,566	19,115
Land in trust	216,410,533	216,410,533
Construction in progress in trust	83,507	84,167
Net property and equipment	333,303,679	332,275,196
Intangible assets		
Software	162,441	237,431
Trademark right	523,498	495,454
Leasehold rights in trust	28,532,362	28,532,362
Fixed-term leasehold rights in trust	4,765,994	4,698,392
Other	7,076	6,736
Total intangible assets	33,991,374	33,970,377
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,449,539	2,318,317
Reserve for repairs and maintenance	314,067	320,432
Total investments and other assets	2,926,350	2,801,493
Total noncurrent assets	370,221,403	369,047,067
Deferred assets		
Investment unit issuance costs	56,111	37,575
Investment corporation bond issuance costs	177,418	160,654
Total deferred assets	233,529	198,230
Total assets	400,296,404	395,554,954

(thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Operating accounts payable	2,654,679	1,251,568
Short-term loans payable	12,782,000	19,582,000
Current portion of investment corporation bonds	1,500,000	1,500,000
Current portion of long-term loans payable	10,800,000	14,900,000
Accrued expenses	527,572	512,241
Income taxes payable	1,210	605
Consumption taxes payable	143,389	15,026
Advances received	423,355	336,994
Dividends payable	17,381	11,425
Deposits received	9,111	6,967
Derivative liabilities	21,398	25,323
Other current liabilities	42,763	15,343
Total current liabilities	28,922,861	38,157,496
Long-term liabilities		
Investment corporation bonds	40,100,000	40,100,000
Long-term loans payable	103,572,000	92,672,000
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,356,804	4,309,654
Derivative liabilities	767,749	632,819
Asset retirement obligations	335,161	335,972
Total long-term liabilities	150,172,234	139,090,965
Total liabilities	179,095,095	177,248,461
Net assets		
Unitholders' equity		
Unitholders' capital	186,894,169	187,194,209
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 10,617,580	*2 10,311,886
Reserve for tax purpose reduction entry	1,174,860	1,174,860
Total voluntary reserve	11,792,441	11,486,747
Unappropriated retained earnings (undisposed loss)	1,527,790	(1,485,018)
Total surplus	35,066,630	31,748,126
Total unitholders' equity	221,960,800	218,942,336
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(759,492)	(635,843)
Total valuation and translation adjustments	(759,492)	(635,843)
Total net assets	*3 221,201,308	*3 218,306,492
Total liabilities and net assets	400,296,404	395,554,954

(2) Semi-annual statements of income

(thousands of yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Operating revenue		
Real estate operating revenue	*1 5,092,804	*1 4,143,994
Other real estate operating revenue	*1 443,894	*1 445,316
Total operating revenue	5,536,698	4,589,311
Operating Expenses		
Real estate operating costs	*1 4,316,312	*1 4,417,463
Asset management fee	733,044	706,383
Asset custody and administrative service fee	60,366	60,943
Directors' compensation	8,700	8,700
Other operating expenses	92,707	95,590
Total operating expenses	5,211,131	5,289,080
Operating profit (loss)	325,567	(699,769)
Non-operating income		
Interest income	155	147
Gain on forfeiture of unclaimed dividends	3,535	4,233
Gain on insurance claims	29,857	33,172
Refunded fixed asset tax	—	20,527
Interest on tax refunds	—	10,590
Gain on derivative instruments	1,536	7,356
Other	—	151
Total non-operating income	35,084	76,180
Non-operating Expenses		
Interest expense	484,215	454,793
Interest expense on investment corporation bonds	157,677	157,322
Borrowing costs	188,141	199,628
Amortization of investment corporation bond issuance costs	16,809	16,763
Amortization of investment unit issuance costs	56,464	29,245
Loss on derivative instruments	1,207	—
Other	6,994	6,994
Total non-operating expenses	911,511	864,747
Ordinary loss	(550,858)	(1,488,336)
Loss before income taxes	(550,858)	(1,488,336)
Income taxes – current	605	605
Total income taxes	605	605
Profit (loss)	(551,463)	(1,488,941)
Retained earnings brought forward	744	3,922
Unappropriated retained earnings (undisposed loss)	(550,718)	(1,485,018)

(3) Semi-annual statements of changes in net assets

For the six months ended June 30, 2020

(thousands of yen)

	Unitholders' equity								
	Unitholders' capital	Surplus						Unappropriated retained earnings (undisposed loss)	Total surplus
		Capital surplus	Voluntary reserve				Total voluntary reserve		
			Reserve for temporary difference adjustment	Reserve for tax purpose reduction entry	Reserve for special account for tax purpose reduction entry				
Balance, January 1, 2020	186,894,169	21,746,398	11,794,071	–	1,174,860	12,968,932	15,290,314	50,005,645	
Changes of items during the period									
Reversal of reserve for temporary difference adjustment			(1,176,490)			(1,176,490)	1,176,490	–	
Provision of reserve for tax purpose reduction entry				1,174,860		1,174,860	(1,174,860)	–	
Reversal of reserve for special account for tax purpose reduction entry					(1,174,860)	(1,174,860)	1,174,860	–	
Dividends paid							(16,466,060)	(16,466,060)	
Profit (loss)							(551,463)	(551,463)	
Net changes of items other than unitholders' equity									
Total changes of items during the period	–	–	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(15,841,033)	(17,017,524)	
Balance, June 30, 2020	*1 186,894,169	21,746,398	10,617,580	1,174,860	–	11,792,441	(550,718)	32,988,121	

(thousands of yen)

	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, 2020	236,899,815	(377,376)	(377,376)	236,522,438
Changes of items during the period				
Reversal of reserve for temporary difference adjustment	–			–
Provision of reserve for tax purpose reduction entry	–			–
Reversal of reserve for special account for tax purpose reduction entry	–			–
Dividends paid	(16,466,060)			(16,466,060)
Profit (loss)	(551,463)			(551,463)
Net changes of items other than unitholders' equity		(77,630)	(77,630)	(77,630)
Total changes of items during the period	(17,017,524)	(77,630)	(77,630)	(17,095,155)
Balance, June 30, 2020	219,882,290	(455,007)	(455,007)	219,427,283

For the six months ended June 30, 2021

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						Total unitholders' equity
		Capital surplus	Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustment	Reserve for tax purpose reduction entry	Total voluntary reserve			
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	221,960,800
Changes of items during the period								
Issuance of new investment unit	300,039							300,039
Reversal of reserve for temporary difference adjustment			(305,694)		(305,694)	305,694	—	—
Dividends paid						(1,829,562)	(1,829,562)	(1,829,562)
Profit (loss)						(1,488,941)	(1,488,941)	(1,488,941)
Net changes of items other than unitholders' equity								
Total changes of items during the period	300,039	—	(305,694)	—	(305,694)	(3,012,809)	(3,318,504)	(3,018,464)
Balance, June 30, 2021	*1 187,194,209	21,746,398	10,311,886	1,174,860	11,486,747	(1,485,018)	31,748,126	218,942,336

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2021	(759,492)	(759,492)	221,201,308
Changes of items during the period			
Issuance of new investment unit			300,039
Reversal of reserve for temporary difference adjustment			—
Dividends paid			(1,829,562)
Profit (loss)			(1,488,941)
Net changes of items other than unitholders' equity	123,648	123,648	123,648
Total changes of items during the period	123,648	123,648	(2,894,816)
Balance, June 30, 2021	(635,843)	(635,843)	218,306,492

(4) Semi-annual statements of cash flows

(thousands of yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(550,858)	(1,488,336)
Depreciation and amortization	2,365,860	2,334,009
Loss on retirement of noncurrent assets	876	7,227
Loss (profit) on derivative instruments	(328)	(7,356)
Amortization of investment corporation bond issuance costs	16,809	16,763
Amortization of investment unit issuance costs	56,464	29,245
Interest income	(155)	(147)
Interest expense	641,893	612,116
Interest on tax refunds	—	(10,590)
(Increase) decrease in operating accounts receivable	2,109,926	131,468
(Increase) decrease in consumption taxes receivable	(169,943)	—
(Increase) decrease in prepaid expenses	58,098	98,178
(Increase) decrease in long-term prepaid expenses	165,423	131,221
Increase (decrease) in operating accounts payable	(74,782)	(1,653,476)
Increase (decrease) in accrued expenses	(146,707)	(11,790)
Increase (decrease) in consumption taxes payable	(661,048)	(128,363)
Increase (decrease) in advances received	(346,942)	(86,360)
Increase (decrease) in deposits received	2,394,983	(2,143)
Other	(128,021)	(125,668)
Subtotal	5,731,548	(154,002)
Interest received	192	150
Interest paid	(645,114)	(615,657)
Interest received on tax refunds	—	10,590
Income taxes – refunded (paid)	(1,155)	(1,167)
Net cash provided by (used in) operating activities	5,085,470	(760,085)
Cash flows from investing activities		
Purchase of property and equipment	(425,310)	(224,682)
Purchase of property and equipment in trust	(1,219,101)	(775,972)
Purchase of intangible assets	(603,180)	(29,766)
Payments of reserve for repairs and maintenance	(20,288)	(20,312)
Proceeds from tenant leasehold and security deposits in trust	26,762	49,049
Reimbursements of tenant leasehold and security deposits in trust	(23,580)	(23,589)
Net cash provided by (used in) investing activities	(2,264,698)	(1,025,273)
Cash flows from financing activities		
Proceeds from short-term loans payable	5,792,000	7,735,000
Repayments of short-term loans payable	—	(935,000)
Repayments of long-term loans payable	(5,792,000)	(6,800,000)
Proceeds from issuance of investment units	—	289,329
Dividends paid	(16,455,764)	(1,831,295)
Net cash provided by (used in) financing activities	(16,455,764)	(1,541,965)
Net increase (decrease) in cash and cash equivalents	(13,634,992)	(3,327,325)
Cash and cash equivalents at beginning of period	34,343,930	28,553,164
Cash and cash equivalents at end of period	*1 20,708,937	*1 25,225,838

(5) Notes on going concern assumption

Not applicable.

(6) Notes on matters concerning significant accounting policies

<p>1. Method of depreciation and amortization of noncurrent assets</p>	<p>(1) Property and equipment (including trust accounts) Depreciation of property and equipment is calculated using the straight-line method. The useful lives of major property and equipment components are as follows:</p> <table border="0"><tr><td>Machinery and equipment</td><td>2 to 17 years</td></tr><tr><td>Tools, furniture and fixtures</td><td>2 to 20 years</td></tr><tr><td>Buildings in trust</td><td>2 to 64 years</td></tr><tr><td>Structures in trust</td><td>2 to 64 years</td></tr><tr><td>Machinery and equipment in trust</td><td>3 to 32 years</td></tr><tr><td>Tools, furniture and fixtures in trust</td><td>2 to 27 years</td></tr></table> <p>(2) Intangible assets Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.</p> <table border="0"><tr><td>Software (for internal use)</td><td>5 years as internally usable years</td></tr><tr><td>Trademark right</td><td>10 years</td></tr></table> <p>Fixed-term leasehold rights in trust is amortized using the straight-line method based on remaining period (41 years) of the contract.</p> <p>(3) Long-term prepaid expenses Long-term prepaid expenses are amortized using the straight-line method.</p>	Machinery and equipment	2 to 17 years	Tools, furniture and fixtures	2 to 20 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	Software (for internal use)	5 years as internally usable years	Trademark right	10 years
Machinery and equipment	2 to 17 years																
Tools, furniture and fixtures	2 to 20 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																
Software (for internal use)	5 years as internally usable years																
Trademark right	10 years																
<p>2. Accounting for deferred assets</p>	<p>(1) Investment unit issuance costs Investment unit issuance costs are amortized using the straight-line method over three years.</p> <p>(2) Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.</p>																
<p>3. Standards for recognition of revenues and expenses</p>	<p>Treatment of property taxes and other taxes For taxes imposed on properties, etc. under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the midterm period and expensed as "Real estate operating costs."</p> <p>Cash paid for property taxes and city planning taxes, etc. to the transferor of real properties, etc. at acquisition is not recorded as "Real estate operating costs" but capitalized as part of the acquisition cost of the relevant property.</p> <p>The amount of such taxes capitalized in the acquisition cost of real properties, etc. was none for the previous midterm period and the midterm period under review.</p>																
<p>4. Method of hedge accounting</p>	<p>(1) Method of hedge accounting Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items Hedging instruments Interest rate swaps Hedged items Interest rates on loans payable</p> <p>(3) Hedging policy JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Articles of Incorporation.</p> <p>(4) Method for assessing hedge effectiveness 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.</p>																

5. Scope of funds (cash and cash equivalents) in the semi-annual statements of cash flows	Cash and cash equivalents in the semi-annual 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.
6. Other significant matters serving as the basis for preparing semi-annual financial statements	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets For trust beneficial interests in real estate, etc., under management, 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 accompanying semi-annual balance sheet and income statement accounts accordingly. The following material items of the trust accounts recorded in the relevant accounts are presented separately on the semi-annual balance sheets.</p> <p>(a) Cash and deposits in trust (b) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust (c) Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust (d) Tenant leasehold and security deposits in trust</p> <p>(2) Accounting treatment of consumption taxes Consumption taxes are excluded from the transaction amounts.</p>

(7) Notes to semi-annual financial statements

Disclosure of notes on “securities” and “share of (profit) loss of entities accounted for using equity method” is omitted because there is thought to be no significant need for disclosure in the midterm financial report.

[Notes to semi-annual balance sheets]

*1. Accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received, etc.

(thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Buildings in trust	¥24,921	¥24,921

*2. Matters concerning provision and reversal of reserve for temporary difference adjustment

As of December 31, 2020

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	11,794,071	-	1,176,490	10,617,580	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill, which was recorded as a dividend reserve before the fiscal year ended December 2016, and is scheduled for reversal every fiscal year starting from the fiscal year following the fiscal year in which the reserve was made in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

As of June 30, 2021

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	10,617,580	-	305,694	10,311,886	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill, which was recorded as a dividend reserve before the fiscal year ended December 2016, and is scheduled for reversal every fiscal year starting from the fiscal year following the fiscal year in which the reserve was made in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

*3. Minimum net assets as required by Article 67, Paragraph 4 of the Investment Trusts Act

As of
December 31, 2020

As of
June 30, 2021

¥50,000 thousand

¥50,000 thousand

[Notes to semi-annual statements of income]

*1. Components of real estate operating revenue and real estate operating costs

(thousands of yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
A. Real estate operating revenue		
Real estate operating revenue		
Fixed rent	4,446,315	3,302,542
Variable rent	564,409	838,154
Income from management contracts	82,079	3,297
Total	5,092,804	4,143,994
Other real estate operating revenue		
Parking lots	52,647	48,272
Other incidental revenue	32,119	32,262
Utilities	276,959	217,611
Other	82,167	147,169
Total	443,894	445,316
Total real estate operating revenue	5,536,698	4,589,311
B. Real estate operating costs		
Real estate operating costs		
Land lease and other rent expenses	447,307	433,307
Property taxes	919,540	981,618
Outsourcing expenses (Note)	230,352	312,058
Nonlife insurance	27,357	38,757
Depreciation and amortization	2,365,860	2,334,009
Loss on retirement of noncurrent assets	876	7,227
Repairs	9,456	7,601
Utilities	289,373	228,019
Trust fees	21,066	24,015
Other	5,120	50,846
Total real estate operating costs	4,316,312	4,417,463
C. Net real estate operating income	1,220,385	171,847
(A - B)		

(Note) Outsourcing expenses include management contract fees of ¥51,281 thousand for the six months ended June 30, 2020, and ¥136,852 thousand for the six months ended June 30, 2021.

[Notes to semi-annual statements of changes in net assets]

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
*1. Total number of investment units authorized, and issued and outstanding		
Total number of investment units authorized	20,000,000 units	20,000,000 units
Total number of investment units issued and outstanding	4,462,347 units	4,467,006 units

[Notes to semi-annual statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of period and the amount in semi-annual balance sheet accounts

(thousands of yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Cash and deposits	¥13,887,918	¥18,040,761
Cash and deposits in trust	¥6,821,019	¥7,185,076
Cash and cash equivalents	¥20,708,937	¥25,225,838

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

(thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Due within one year	¥990,152	¥1,025,136
Due after one year	¥1,213,075	¥2,601,518
Total	¥2,203,227	¥3,626,654

[Notes on financial instruments]

Matters concerning fair value of financial instruments

Carrying amounts of financial instruments on the (semi-annual) balance sheets, their fair values, and the differences were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table.

See Note 2 below.

As of December 31, 2020

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	19,382,019	19,382,019	-
(2) Cash and deposits in trust	9,171,145	9,171,145	-
(3) Operating accounts receivable	672,415	672,415	-
Total assets	29,225,579	29,225,579	-
(4) Short-term loans payable	12,782,000	12,782,000	-
(5) Current portion of investment corporation bonds payable	1,500,000	1,468,350	(31,650)
(6) Current portion of long-term loans payable	10,800,000	10,800,000	-
(7) Investment corporation bonds	40,100,000	34,415,280	(5,684,720)
(8) Long-term loans payable	103,572,000	103,572,000	-
Total liabilities	168,754,000	163,037,630	(5,716,370)
(9) Derivative transactions (*)	(789,147)	(789,147)	-

As of June 30, 2021

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	18,040,761	18,040,761	-
(2) Cash and deposits in trust	7,185,076	7,185,076	-
(3) Operating accounts receivable	540,946	540,946	-
Total assets	25,766,785	25,766,785	-
(4) Short-term loans payable	19,582,000	19,582,000	-
(5) Current portion of investment corporation bonds payable	1,500,000	1,485,000	(15,000)
(6) Current portion of long-term loans payable	14,900,000	14,900,000	-
(7) Investment corporation bonds	40,100,000	34,976,160	(5,123,840)
(8) Long-term loans payable	92,672,000	92,672,000	-
Total liabilities	168,754,000	163,615,160	(5,138,840)
(9) Derivative transactions (*)	(658,142)	(658,142)	-

(*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

(Note 1) Methods to measure fair value of financial instruments, and derivative transactions

(1) Cash and deposits; (2) Cash and deposits in trust; (3) Operating accounts receivable; (4) Short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

(5) Current portion of investment corporation bonds payable; (7) Investment corporation bonds

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

(6) Current portion of long-term loans payable; (8) 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 revised periodically to reflect market interest rates.

(9) Derivative transactions

The information on the fair value of derivative transactions is presented in “Notes on derivative transactions” below.

(Note 2) Carrying amount of financial instruments whose fair values are considered extremely difficult to measure

(thousands of yen)

Classification	As of December 31, 2020	As of June 30, 2021
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,356,804	4,309,654
Total	5,397,324	5,350,174

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) are not subject to fair value disclosure because they have no market price and their actual deposit periods from a tenant’s move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows is difficult.

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

As of December 31, 2020

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(29,655)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of June 30, 2021

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(22,299)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

2. Derivative transactions to which hedge accounting is applied

As of December 31, 2020

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	101,072,000	90,272,000	(759,492)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of June 30, 2021

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for the midterm for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	94,272,000	79,072,000	(635,843)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the (semi-annual) balance sheets

1. Outline of the subject asset retirement obligations

JHR recognizes asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former name: Hotel Centraza Hakata), acquired on April 1, 2016, and Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA), acquired on August 19, 2016, to the original state in accordance with the fixed-term leasehold agreement on their land. For the asset retirement obligations of Hotel Oriental Express Fukuoka Tenjin, the obligations have been expired as of the end of the fiscal year ended December 31, 2020, with the termination of the fixed-term leasehold agreement on its land due to the exchange of part of the site on October 29, 2020.

2. Calculation method of the subject asset retirement obligations

Calculated the amount of asset retirement obligations estimating that the expected useful life is 34 years and 48 years, respectively, due to their remaining use period and using the discount rate of 0.484% and 0.394%, respectively.

3. Increase and decrease of the subject asset retirement obligations

(thousands of yen)

	For the year ended December 31, 2020	For the six months ended June 30, 2021
Balance at beginning of period	447,677	335,161
Adjustment due to passage of time	1,989	811
Decrease due to expiration of asset retirement obligations	(114,505)	-
Balance at end of period	335,161	335,972

[Notes on rental properties, etc.]

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:

(thousands of yen)

Use		For the year ended December 31, 2020	For the six months ended June 30, 2021
Hotel	Carrying amount		
	Balance at beginning of period	374,314,498	367,283,696
	Net increase (decrease) during period	(7,030,802)	(1,046,914)
	Balance at end of period	367,283,696	366,236,782
	Fair value at end of period	493,330,000	493,730,000

(Note 1) Decrease during the year ended December 31, 2020, principally represents the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi for ¥4,790 million and recording of depreciation. Decrease during the six months ended June 30, 2021, principally represents recording of depreciation.

(Note 2) Fair value at end of mid-term (end of fiscal period) is the appraisal value determined by licensed real estate appraisers from outside.

[Notes on segment and related information]

1. Segment information

The segment information has been omitted because JHR has only one segment, which is the investment and management of hotel real estate.

2. Related information

For the six months ended June 30, 2020

(1) Information about products and services

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 on the semi-annual statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(ii) Property and equipment, at cost

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 on the semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note 1)	1,042,301	Investment and management of hotel real estate
THE DAIICHI BUILDING CO., LTD.	Undisclosed (Note 2)	Investment and management of hotel real estate

(Note 1) Operating revenue includes the operating revenue from customers belonging to the same company group as said customers.

(Note 2) Undisclosed as the consent of the lessee has not been obtained.

For the six months ended June 30, 2021

(1) Information about products and services

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 on the semi-annual statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(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 on the semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
THE DAIICHI BUILDING CO., LTD.	Undisclosed (Note 1)	Investment and management of hotel real estate
Kyoritsu Maintenance Co., Ltd.	531,901	Investment and management of hotel real estate
Hotel Management Japan Co., Ltd. (Note 2)	508,905	Investment and management of hotel real estate

(Note 1) Undisclosed as the consent of the lessee has not been obtained.

(Note 2) Operating revenue includes the operating revenue from customers belonging to the same company group as said customers.

[Notes on per unit information]

Net assets per unit is as follows:

	As of December 31, 2020	As of June 30, 2021
Net assets per unit	¥49,570	¥48,870

Net income (loss) per unit and the basis of computation of net income per unit are as follows:

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Net income (loss) per unit	(¥123)	(¥333)
[Basis of computation]		
Net income (loss) for midterm (JPY 1,000)	(551,463)	(1,488,941)
Amount not attributable to common unitholders (JPY 1,000)	—	—
Net income (loss) for midterm attributable to common investment units (JPY 1,000)	(551,463)	(1,488,941)
Average number of investment units during period (units)	4,462,347	4,465,101

(Note) Net income (loss) per unit for midterm is computed by dividing net loss for midterm by the average number of investment units during the midterm period.

Net income (loss) per unit for midterm after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

[Notes on significant subsequent events]

Not applicable.

[Additional information]

Impact of COVID-19

With the number of infections starting to increase again since July 2021, despite growing expectations for containment of infections in line with the progress in the vaccination rollout, the worldwide spread of the infection by COVID-19 and the deterioration in social and economic conditions have not yet settled due to the spread of a more transmissible variant, and recovery in hotel performance is expected to take more time.

Under such circumstances, some of the lessees whose business performance has worsened have requested reduction or postponement of fixed rent, and variable rents linked to hotel sales have decreased. These and other factors have caused the risk of decrease in JHR's operating revenue and such to occur.

Although it is uncertain and difficult to foresee when the spread of the infection by COVID-19 will be contained, JHR made accounting estimates by applying impairment accounting for property and equipment based on information available as of the date of preparation of this Midterm Financial Report and assuming that the impact by COVID-19 will continue through the fiscal year ending December 31, 2021, followed by recovery in performance after a certain period of time.

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

(8) Changes in total number of investment units issued and outstanding

The following is the status of increase (decrease) in the total number of investment units issued and outstanding and unitholders' capital for past five years through to the end of the midterm period under review.

Date	Capital transaction	Total number of investment units issued and outstanding (Units)		Unitholders' capital (JPY1M)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 1)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 2)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 3)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 4)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 5)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 6)
March 16, 2021	Capital increase through third-party allotment of investment units	4,659	4,467,006	300	187,194	(Note 7)

(Note 1) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to procure 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 ¥78,956 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 3) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to procure funds for the acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.

(Note 5) 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 procure funds for the acquisition of new properties, etc.

(Note 6) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to procure part of funds for the acquisition of new properties.

(Note 7) New investment units were issued through third-party allotment with an issue value per unit of ¥64,400 in order to procure funds for allocation to part of capital expenditures.

3. Reference information

For detailed information of each property and the operating result of hotels, please see the reference information below as well as the Financial Results Briefing dated today as well as the website of JHR (<https://www.jhrth.co.jp/en/ir/library.html>).

(1) Information on values of assets under management, etc.

A. Investment status

The following outlines the investment status of JHR as of the end of the midterm period under review.

Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2020		As of June 30, 2021		
				Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,870	6.7	26,812	6.8	
			Namba Oriental Hotel	14,437	3.6	14,379	3.6	
			Hotel Oriental Express Osaka Shinsaibashi	2,805	0.7	2,799	0.7	
		Tokyo	ibis Tokyo Shinjuku	7,830	2.0	7,796	2.0	
			CANDEO HOTELS UENO-KOEN	6,606	1.7	6,586	1.7	
			the b ikebukuro	6,578	1.6	6,570	1.7	
			Comfort Hotel Tokyo Higashi Nihombashi	3,491	0.9	3,473	0.9	
			the b hachioji	2,664	0.7	2,679	0.7	
			Smile Hotel Nihombashi Mitsukoshimae	2,042	0.5	2,035	0.5	
			R&B Hotel Ueno Hirokoji	1,806	0.5	1,802	0.5	
			Chisun Hotel Kamata	1,447	0.4	1,465	0.4	
			the b suidobashi	1,173	0.3	1,164	0.3	
			dormy inn·global cabin Asakusa	934	0.2	929	0.2	
		Chisun Inn Kamata	768	0.2	767	0.2		
		Hokkaido	ibis Styles Sapporo	6,492	1.6	6,457	1.6	
			Mercure Sapporo	5,735	1.4	5,706	1.4	
		Fukuoka	Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA) (Note 4)	5,450	1.4	5,728	1.4	
			the b hakata	2,329	0.6	2,321	0.6	
			Hakata Nakasu Washington Hotel Plaza	2,038	0.5	2,067	0.5	
			Toyoko Inn Hakata-guchi Ekimae	1,401	0.4	1,391	0.4	
	Kyoto	ibis Styles Kyoto Station	6,623	1.7	6,610	1.7		
	Okinawa	Mercure Okinawa Naha	2,801	0.7	2,777	0.7		
	Kumamoto	Dormy Inn Kumamoto	2,170	0.5	2,146	0.5		
	Nara	Nara Washington Hotel Plaza	1,764	0.4	1,753	0.4		
	Subtotal				116,265	29.0	116,225	29.4
	Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,376	15.8	63,360	16.0	
			Chiba	Oriental Hotel tokyo bay	17,190	4.3	17,043	4.3
				Hilton Tokyo Narita Airport	13,088	3.3	13,048	3.3
				International Garden Hotel Narita	9,127	2.3	9,059	2.3
				Hotel Francs	3,145	0.8	3,128	0.8
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 5)	17,215	4.3	17,128	4.3	
			Oriental Hotel Hiroshima	4,048	1.0	4,024	1.0	
		Aichi	Hilton Nagoya	15,695	3.9	15,667	4.0	
Nara		Hotel Nikko Nara	10,254	2.6	10,203	2.6		
Hyogo		Kobe Meriken Park Oriental Hotel	9,482	2.4	9,385	2.4		
Fukuoka		Oriental Hotel Fukuoka Hakata Station	9,251	2.3	9,120	2.3		
Kanagawa		Mercure Yokosuka	1,606	0.4	1,596	0.4		
Subtotal				173,483	43.3	172,766	43.7	
Resort hotel	Okinawa	Hotel Nikko Alivila	17,790	4.4	17,686	4.5		
		Okinawa Marriott Resort & Spa	14,745	3.7	14,628	3.7		
		The Beach Tower Okinawa	6,490	1.6	6,439	1.6		
	Chiba	Hilton Tokyo Bay	26,289	6.6	26,215	6.6		
	Osaka	Oriental Hotel Universal City (former name: Hotel Keihan Universal City) (Note 4)	5,830	1.5	5,832	1.5		
	Kanagawa	Hakone Setsugetsuka	3,616	0.9	3,616	0.9		
Subtotal				74,763	18.7	74,418	18.8	
Real estate in trust – Total				364,512	91.1	363,410	91.8	
Deposits and other assets (Note 6)				35,783	8.9	32,144	8.1	
Total assets				400,296	100.0	395,554	100.0	
				Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)	
Total liabilities				179,095	44.7	177,248	44.8	
Total net assets				221,201	55.3	218,306	55.2	

- (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 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 total amount of each asset held to total assets, rounded off to one decimal place.
- (Note 4) Through rebranding, HOTEL ASCENT FUKUOKA changed its name to Hotel Oriental Express Fukuoka Tenjin on June 18, 2021, and Hotel Keihan Universal City changed its name to Oriental Hotel Universal City on July 1, 2021. The same shall apply hereinafter in this document.
- (Note 5) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 6) Includes machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term land lease right in trust).

B. Assets under management

(A) Major issues of investment securities

Not applicable.

(B) Real estate properties under management

Not applicable.

(C) Other major assets under management

A. Summary of real estate properties (in trust) under management

The following summarizes the real estate properties (in trust) under management by JHR as of the end of the midterm period under review.

a. Details of assets under management (acquisition price, etc.)

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
1	Kobe Meriken Park Oriental Hotel	Upper-middle	10,900	9,576	14,000	N	2.9	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	17,215	32,200	N	5.4	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,457	31,400	N	4.1	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	17,899	28,900	N	5.1	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,088	4,220	N	1.1	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	7,858	9,900	N	2.0	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,443	10,000	N	2.1	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,622	5,270	N	1.1	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,146	2,950	N	0.6	Unsecured
12	the b suidobashi	Mid-price	1,120	1,174	2,280	N	0.3	Unsecured
13	dormy inn·global cabin Asakusa	Economy	999	929	1,280	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,067	4,530	N	0.6	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,754	2,430	N	0.6	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,802	1,900	J	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,473	5,350	J	1.0	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,036	2,930	J	0.6	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,391	2,750	T	0.4	Unsecured
25	Chisun Hotel Kamata	Economy	1,512	1,483	2,020	T	0.4	Unsecured
26	Chisun Inn Kamata	Economy	823	770	1,370	T	0.2	Unsecured
29	Oriental Hotel Universal City	Mid-price	6,000	5,924	15,400	R	1.6	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,226	40,300	D	7.0	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,626	9,990	D	1.8	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,486	11,100	N	1.8	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,753	10,500	N	1.6	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,813	6,950	N	0.8	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,581	7,020	N	1.8	Unsecured
39	the b hachioji	Mid-price	2,610	2,695	2,570	N	0.7	Unsecured
40	the b hakata	Mid-price	2,300	2,341	4,330	N	0.6	Unsecured
41	Hotel Francs	Mid-price	3,105	3,128	4,040	D	0.8	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,627	3,340	D	0.4	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	14,742	17,200	N	4.0	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,190	20,700	D	4.7	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,593	7,440	D	1.8	Unsecured
46	Oriental Hotel Fukuoka Hakata Station	Upper-middle	7,197	9,318	15,200	D	1.9	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	26,861	26,500	N	7.3	Unsecured
48	Hotel Oriental Express Fukuoka Tenjin	Mid-price	5,248	5,849	6,480	D	1.4	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,667	14,800	D	4.1	Unsecured
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,291	13,600	N	3.6	Unsecured
51	International Garden Hotel Narita	Mid-price	9,125	9,125	9,520	N	2.5	Unsecured
52	Hotel Nikko Nara	Upper-middle	10,373	10,298	9,890	D	2.8	Unsecured

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
53	Hotel Oriental Express Osaka Shinsaibashi	Mid-price	2,738	2,823	2,880	D	0.7	Unsecured
54	Hilton Tokyo Odaiba	Upper-middle	62,400	63,581	68,300	N	16.9	Unsecured
	Total		370,031	365,741	493,730		100.0	

(Note 1) JHR categorizes hotels into the four grade classes of “Luxury,” “Upper-middle,” “Mid-price” and “Economy” mainly from the perspective of average daily rate, etc.

(Note 2) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust, etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted through the Merger.

(Note 3) “Carrying amount at end of period” is the book value at the end of the midterm period under review, and includes not only the amounts for real estate in trust, but also for machinery and equipment, tools, furniture and fixtures, construction in progress in trust and intangible assets.

(Note 4) “Appraisal value at end of period” is the appraisal value at the end of the midterm period under review as the date of appraisal, in accordance with the asset valuation methods and standards provided in JHR’s Articles of Incorporation and the regulations set forth by The Investment Trusts Association, Japan.

(Note 5) Under “Appraisal agency,” the letters indicate the appraisers for the properties as follows:

N: Nihon Fudosan Kenkyusho (Japan Real Estate Institute)

J: 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 6) “Investment ratio” is the ratio of acquisition price of the respective asset held at the end of the midterm period under review to the total amount of acquisition price of all assets held at the end of the midterm period under review, rounded off to one decimal place.

(Note 7) “Collateral” is whether or not a pledge has been established for the beneficial interest in trust.

(Note 8) The omitted property numbers are the property numbers of assets that have been sold.

b. Details of assets under management (change in tenants of portfolio)

The following is the change in total number of tenants, total leasable area, total leased area, and occupancy rate, etc. of real estate properties (in trust) under management for the past five years.

	End of 17th period December 2016	End of 18th period December 2017	End of 19th period December 2018	End of 20th period December 2019	End of 21st period December 2020	End of midterm period of 22nd period June 2021
Total number of tenants (Note 1)	128	131	126	125	121	119
Total leasable area (Note 2)	587,481.02 m ²	687,124.54 m ²	678,714.48 m ²	746,329.68 m ²	741,083.02 m ²	741,083.02 m ²
Total leased area (Note 3)	587,050.94 m ²	686,694.46 m ²	677,863.00 m ²	745,227.67 m ²	740,146.96 m ²	740,012.93 m ²
Occupancy rate (Note 4)	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%

(Note 1) Total 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 or midterm period. However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. from end tenants as is in principle, the total number of end tenants (excluding tenants of parking lots, etc.) is indicated.

(Note 2) In principle, total 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). The same shall apply hereinafter.

(Note 3) In principle, total 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 contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. with rents, etc. from 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. The same shall apply hereinafter.

(Note 4) Occupancy rate indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period or midterm period. The same shall apply hereinafter.

c. Details of assets under management (information on major real estate)

Major real estate of which total annual rent accounts for 10% or more of the total annual rent (Note 1) of the entire portfolio is as follows.

Property name	Total number of tenants	Total annual rent	Total leased area	Total leasable area	Change in occupancy rate for the past five years	
					December 2016	100.0%
Hilton Tokyo Bay	1	(Note 2)	64,928.83 m ² (Note 3)	64,928.83 m ² (Note 3)	December 2017	100.0%
					December 2018	100.0%
					December 2019	100.0%
					December 2020	100.0%
					June 2021	100.0%

(Note 1) “Total annual rent” is the total amount of (i) the amount arrived at when monthly fixed rent (rent of the building itself only, excluding common area maintenance charges and signage and parking usage fees; not factoring in any change in rent during the fiscal year) in lease contracts at the end of the midterm period under review is multiplied by 12, (ii) the actual amounts of revenue sharing, variable rent and income from management contracts for the midterm period under review, and (iii) assumed amounts of revenue sharing, variable rent and income from management contracts for the second half of the fiscal year stated in the outlook of the operating results disclosed in the Financial Report dated February 25, 2021.

(Note 2) Total annual rent for Hilton Tokyo Bay is not disclosed as consent for disclosure has not been obtained from the tenant.

(Note 3) 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).

d. Details of assets under management (NOI, etc.)

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
1	Kobe Meriken Park Oriental Hotel	Variable/Fixed (Note 4)	969	(123,965)	(267,192)
2	Oriental Hotel Tokyo Bay	Variable/Fixed (Note 4)	-	(59,239)	(240,276)
3	Namba Oriental Hotel	Variable/Fixed (Note 4)	140,717	88,108	17,321
4	Hotel Nikko Alivila	Variable/Fixed (Note 4)	49,816	(24,348)	(160,265)
5	Oriental Hotel Hiroshima	Variable/Fixed (Note 4)	22,609	513	(43,018)
6	ibis Tokyo Shinjuku	Management contract	67,209	12,928	(42,133)
8	The Beach Tower Okinawa	Fixed	255,504	232,689	171,847
9	Hakone Setsugetsuka	Fixed	147,469	134,832	87,123
10	Dormy Inn Kumamoto	Fixed	97,230	85,457	61,520
12	the b suidobashi	Variable/Fixed	6,499	510	(12,433)
13	dormy inn global cabin Asakusa	Fixed	31,997	27,604	21,202
14	Hakata Nakasu Washington Hotel Plaza (Note 5)	Fixed	120,000	112,000	99,000
15	Nara Washington Hotel Plaza (Note 5)	Fixed	75,000	67,000	48,000
16	R&B Hotel Ueno Hirokoji	Fixed	48,645	41,345	33,029
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 6)	135,763	119,473	101,078
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 6)	67,200	59,333	48,747
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	70,519	63,636	54,531
25	Chisun Hotel Kamata	Variable	70	(7,300)	(23,067)
26	Chisun Inn Kamata	Variable	421	(3,099)	(7,826)
29	Oriental Hotel Universal City (Note 7) (Note 8)	Variable/Fixed (Note 6)	290,788	234,452	186,149
31	Hilton Tokyo Bay	Variable/Fixed (Note 6)	989,235	847,882	754,430
32	ibis Styles Kyoto Station (Note 7)	Management contract	23,193	(19,990)	(38,026)
33	ibis Styles Sapporo (Note 7)	Management contract	25,132	(38,935)	(79,477)
34	Mercure Sapporo (Note 7)	Management contract	55,243	(66,887)	(112,292)
35	Mercure Okinawa Naha	Management contract	-	(28,115)	(59,716)
37	the b Ikebukuro	Variable/Fixed	169,338	155,109	139,282
39	the b Hachioji	Variable/Fixed	22,336	9,788	(6,897)
40	the b Hakata	Variable/Fixed	17,761	11,245	103
41	Hotel Francs	Fixed	150,000	119,016	95,844

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
42	Mercure Yokosuka	Variable	124,002	79,273	61,327
43	Okinawa Marriott Resort & Spa	Variable/Fixed (Note 4)	-	(42,120)	(179,550)
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 4)	408,764	228,078	117,191
45	CANDEO HOTELS UENO-KOEN	Fixed	174,985	161,900	141,739
46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed (Note 4)	81,313	(43,183)	(253,874)
47	Holiday Inn Osaka Namba (Note 7)	Variable/Fixed (Note 4)	-	(24,501)	(105,166)
48	Hotel Oriental Express Fukuoka Tenjin (Note 9)	Variable/Fixed	274,043	206,261	184,654
49	Hilton Nagoya	Variable	352,822	65,360	(21,967)
50	Hilton Tokyo Narita Airport	Variable/Fixed (Note 4)	-	(42,457)	(147,853)
51	International Garden Hotel Narita	Variable/Fixed (Note 4)	76,576	54,329	(20,189)
52	Hotel Nikko Nara	Variable/Fixed (Note 4)	-	(24,144)	(98,497)
53	Hotel Oriental Express Osaka Shinsaibashi (Note 7)	Variable/Fixed (Note 4)	-	(7,022)	(13,753)
54	Hilton Tokyo Odaiba	Variable/Fixed (Note 4)	-	(165,255)	(306,978)
	Total		4,573,905	2,498,490	184,486

(Note 1) Under “Rent type,” “Fixed” is a property under a fixed rent structure, “Variable” is a property under a variable rent structure, “Management contract” is a property under a management contract structure, and “Variable/Fixed” is a property under a combination of fixed and variable rent structures.

(Note 2) $NOI = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$

(Note 3) $NOI \text{ after depreciation (net real estate operating income)} = \text{Real estate operating revenue} - \text{Real estate operating costs}$

(Note 4) For The HMJ Group Hotels, only variable rent is paid in the fiscal year ending December 2021 and no fixed rent will be incurred.

(Note 5) For Hakata Nakasu Washington Hotel Plaza and Nara Washington Hotel Plaza, consent on disclosure of rent in units of thousand yen has not been obtained from the lessees and numbers are thus rounded down to the nearest million yen.

(Note 6) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, Oriental Hotel Universal City (former name: Hotel Keihan Universal City) and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly has rent based on a revenue sharing structure.

(Note 7) Temporarily closed for some time during the midterm period under review due to the impact of the spread of the infection by COVID-19.

(Note 8) Rent type for Hotel Keihan Universal City that applies through to June 30, 2021, is indicated. Rent type for Oriental Hotel Universal City will be variable/fixed from July 1, 2021 onward, however, the variable rent will be incurred in the fiscal year ending December 2022 onward.

(Note 9) Rent type for Hotel Oriental Express Fukuoka Tenjin that applies from June 18, 2021, is indicated. The variable rent will be incurred in the fiscal year ending December 2022 onward. Rent type for Hotel ASCENT FUKUOKA was fixed before June 17, 2021.

(Note 10) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

B. Income statements for individual real estate properties (in trust) under management

The following are the individual income statements for real estate properties (in trust) under management for the midterm period under review (from January 1, 2021 to June 30, 2021). Figures are rounded down to the nearest thousand yen in principle, but are otherwise noted if circumstances do not allow for the figures to be stated in units of thousand yen.

Property No.	-	1	2	3	4	5
Property name	Portfolio total (Note 1)	Kobe Meriken Park Oriental Hotel	Oriental Hotel tokyo bay	Namba Oriental Hotel	Hotel Nikko Alivila	Oriental Hotel Hiroshima
Number of operating days	-	181	181	181	181	181
(A) Real estate operating revenue subtotal	4,573,905	969	-	140,717	49,816	22,609
Fixed rent	3,302,542	-	-	-	-	-
Variable rent	841,452	-	-	140,717	49,816	22,609
Other revenue	429,910	969	-	-	-	-
(B) Real estate operating costs subtotal	4,389,418	268,162	240,276	123,396	210,082	65,627
Land lease and other rent expenses	433,307	96,351	-	-	42,074	-
Property taxes	981,618	25,078	55,796	49,944	28,267	20,315
Outsourcing expenses	312,058	480	480	480	960	480
Nonlife insurance	38,757	2,482	2,456	970	1,847	794
Depreciation and amortization	2,305,965	143,191	180,490	70,282	135,913	43,478
Loss on retirement of noncurrent assets	7,227	34	546	505	3	53
Other costs	310,483	543	506	1,213	1,015	505
(C) Net real estate operating income = (A) – (B)	184,486	(267,192)	(240,276)	17,321	(160,265)	(43,018)
(Reference) Occupancy rate	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	119	1	1	1	1	1

Property No.	6	8	9	10	12	13
Property name	ibis Tokyo Shinjuku (Note 1)	The Beach Tower Okinawa	Hakone Setsugetsuka	Dormy Inn Kumamoto	the b suidobashi	dormy inn·global cabin Asakusa
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	67,209	255,504	147,469	97,230	6,499	31,997
Fixed rent	50,569	255,504	147,169	97,230	6,499	31,697
Variable rent	3,297	-	-	-	-	-
Other revenue	13,342	-	300	-	-	300
(B) Real estate operating costs subtotal	109,343	83,656	60,346	35,709	18,933	10,795
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	17,657	19,746	11,236	9,814	4,011	3,025
Outsourcing expenses	21,486	-	-	-	600	600
Nonlife insurance	434	848	494	326	148	87
Depreciation and amortization	55,062	60,841	47,708	23,937	12,944	6,402
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	14,703	2,220	906	1,631	1,230	680
(C) Net real estate operating income = (A) – (B)	(42,133)	171,847	87,123	61,520	(12,433)	21,202
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	1	1	1	1	1

Property No.	14	15	16	18	22	24
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2)	Nara Washington Hotel Plaza (Note 2)	R&B Hotel Ueno Hirokoji	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae	Toyoko Inn Hakata-guchi Ekimae
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	120,000	75,000	48,645	135,763	67,200	70,519
Fixed rent	120,000	73,000	48,252	130,160	67,200	70,519
Variable rent	-	-	-	-	-	-
Other revenue	0	1,000	393	5,602	-	-
(B) Real estate operating costs subtotal	21,000	26,000	15,616	34,684	18,452	15,987
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	6,000	5,000	6,054	13,293	6,505	5,547
Outsourcing expenses	0	1,000	420	807	600	540
Nonlife insurance	0	0	127	315	143	182
Depreciation and amortization	13,000	18,000	8,316	18,394	10,585	9,104
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	0	0	698	1,874	618	613
(C) Net real estate operating income = (A) – (B)	99,000	48,000	33,029	101,078	48,747	54,531
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	2	1	1

Property No.	25	26	29	31	32	33
Property name	Chisun Hotel Kamata	Chisun Inn Kamata	Oriental Hotel Universal City (Note 3)	Hilton Tokyo Bay	ibis Styles Kyoto Station (Note 1) (Note 3)	ibis Styles Sapporo (Note 1) (Note 3)
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	70	421	290,788	989,235	23,193	25,132
Fixed rent	-	-	Undisclosed (Note 4)	Undisclosed (Note 4)	21,167	10,359
Variable rent	-	421	Undisclosed (Note 4)	Undisclosed (Note 4)	-	-
Other revenue	70	-	Undisclosed (Note 4)	Undisclosed (Note 4)	2,026	14,773
(B) Real estate operating costs subtotal	23,137	8,248	104,638	234,805	61,220	104,609
Land lease and other rent expenses	-	-	10,555	61,860	-	-
Property taxes	5,858	2,390	22,478	70,371	10,535	18,508
Outsourcing expenses	600	540	962	5,947	31,958	30,670
Nonlife insurance	171	72	1,135	2,478	270	716
Depreciation and amortization	15,767	4,727	48,302	93,451	18,036	40,541
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	740	518	21,204	696	419	14,173
(C) Net real estate operating income = (A) – (B)	(23,067)	(7,826)	186,149	754,430	(38,026)	(79,477)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	98.3%
(Reference) Number of tenants	1	1	1	1	2	4

Property No.	34	35	37	39	40	41
Property name	Mercure Sapporo (Note 1) (Note 3)	Mercure Okinawa Naha (Note 1)	the b ikebukuro	the b hachioji	the b hakata	Hotel Francs
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	55,243	-	169,338	22,336	17,761	150,000
Fixed rent	27,168	-	51,337	18,825	17,761	150,000
Variable rent	-	-	117,205	-	-	-
Other revenue	28,075	-	795	3,510	-	-
(B) Real estate operating costs subtotal	167,535	59,716	30,055	29,233	17,657	54,155
Land lease and other rent expenses	-	163	-	-	-	-
Property taxes	24,601	11,640	11,040	10,525	5,025	28,829
Outsourcing expenses	68,272	15,073	600	640	600	900
Nonlife insurance	837	587	298	334	184	810
Depreciation and amortization	45,404	31,600	15,827	16,685	11,141	23,171
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	28,419	651	2,289	1,048	705	442
(C) Net real estate operating income = (A) – (B)	(112,292)	(59,716)	139,282	(6,897)	103	95,844
(Reference) Occupancy rate	95.7%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	11	1	3	9	2	1

Property No.	42	43	44	45	46	47
Property name	Mercure Yokosuka	Okinawa Marriott Resort & Spa	ACTIVE-INTER CITY HIROSHIMA	CANDEO HOTELS UENO-KOEN	Oriental Hotel Fukuoka Hakata Station	Holiday Inn Osaka Namba (Note 3)
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	124,002	-	408,764	174,985	81,313	-
Fixed rent	-	-	245,908	Undisclosed (Note 4)	-	-
Variable rent	109,606	-	68,894	-	81,313	-
Other revenue	14,395	-	93,962	Undisclosed (Note 4)	-	-
(B) Real estate operating costs subtotal	62,674	179,550	291,573	33,245	335,187	105,166
Land lease and other rent expenses	-	-	-	-	111,103	-
Property taxes	17,007	38,733	59,924	11,363	10,388	22,512
Outsourcing expenses	9,951	1,200	49,186	600	1,500	780
Nonlife insurance	1,110	1,764	2,398	353	975	789
Depreciation and amortization	17,945	137,430	110,887	20,161	203,795	80,665
Loss on retirement of noncurrent assets	-	-	-	-	6,084	-
Other costs	16,659	422	69,176	768	1,340	420
(C) Net real estate operating income = (A) – (B)	61,327	(179,550)	117,191	141,739	(253,874)	(105,166)
(Reference) Occupancy rate	100.0%	100.0%	99.5%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	40	1	1	1

Property No.	48	49	50	51	52	53
Property name	Hotel Oriental Express Fukuoka Tenjin	Hilton Nagoya	Hilton Tokyo Narita Airport	International Garden Hotel Narita	Hotel Nikko Nara	Hotel Oriental Express Osaka Shinsaibashi (Note 3)
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	274,043	352,822	-	76,576	-	-
Fixed rent	183,896	Undisclosed (Note 4)	-	-	-	-
Variable rent	-	Undisclosed (Note 4)	-	76,576	-	-
Other revenue	90,146	Undisclosed (Note 4)	-	-	-	-
(B) Real estate operating costs subtotal	89,389	374,790	147,853	96,765	98,497	13,753
Land lease and other rent expenses	-	111,200	-	-	-	-
Property taxes	15,720	50,654	38,260	19,534	20,286	5,579
Outsourcing expenses	6,897	50,021	1,260	1,140	1,200	1,080
Nonlife insurance	353	2,427	2,457	1,097	1,716	113
Depreciation and amortization	21,607	87,328	105,396	74,519	74,353	6,730
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	44,811	73,156	479	474	942	249
(C) Net real estate operating income = (A) – (B)	184,654	(21,967)	(147,853)	(20,189)	(98,497)	(13,753)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	6	4	1	1	1	1

Property No.	54
Property name	Hilton Tokyo Odaiba
Number of operating days	181
(A) Real estate operating revenue subtotal	-
Fixed rent	-
Variable rent	-
Other revenue	-
(B) Real estate operating costs subtotal	306,978
Land lease and other rent expenses	-
Property taxes	161,641
Outsourcing expenses	60
Nonlife insurance	3,135
Depreciation and amortization	141,722
Loss on retirement of noncurrent assets	-
Other costs	418
(C) Net real estate operating income = (A) – (B)	(306,978)
(Reference) Occupancy rate	100.0%
(Reference) Number of tenants	1

(Note 1) Variable rent includes income from management contracts. For details of the management contract, please refer to “C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing” on page 42.

(Note 2) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and numbers are thus rounded down to the nearest million yen.

(Note 3) Temporarily closed for some time during the midterm period under review due to the impact of the spread of COVID-19.

(Note 4) Undisclosed as consent on disclosure has not been obtained from the tenant with whom a lease contract has been concluded.

(Note 5) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

C. Overview of the hotel business

a. Rent structures of hotels with variable rent, management contract or revenue sharing

	Property No.	Name	Rent type	Method of calculating variable rent and income from management contracts	
				FY2021	FY2022 and after
The HMJ Group Hotels	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	AGOP (Note 2) x 86.0%	("Total AGOP of The Five HMJ Hotels – base amount (¥4,120 million/year (Note 3))) 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%	
	43	Okinawa Marriott Resort & Spa	Variable/Fixed	AGOP x 89.0%	(AGOP – base amount (¥655 million/year)) x 95.0%
	44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 1)	AGOP x 93.0%	(AGOP – base amount (¥360 million/year)) x 90.0%
	46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed	AGOP x 97.0%	(AGOP – base amount (¥442 million/year)) x 98.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	AGOP x 98.0%	(AGOP – base amount (¥580 million/year)) x 97.0%
	48	Hotel Oriental Express Fukuoka Tenjin (Note 4)	Variable/Fixed	Not applicable	(AGOP – base amount (¥165 million/year)) x 97.0%
	50	Hilton Tokyo Narita Airport	Variable/Fixed	AGOP x 95.0%	(AGOP – base amount (¥450 million/year)) x 93.0%
	51	International Garden Hotel Narita	Variable/Fixed	AGOP x 95.0%	(AGOP – base amount (¥360 million/year)) x 98.0%
	52	Hotel Nikko Nara	Variable/Fixed	AGOP x 95.0%	(AGOP – base amount (¥440 million/year)) x 95.0%
	53	Hotel Oriental Express Osaka Shinsaibashi	Variable/Fixed	AGOP x 87.0%	(AGOP – base amount (¥128 million/year)) x 91.0%
54	Hilton Tokyo Odaiba	Variable/Fixed	AGOP x 97.0%	(AGOP – base amount (¥1,660 million/year)) x 98.0%	
The Accor Group Hotels	6	ibis Tokyo Shinjuku	Management contract (Note 5)	Amount equivalent to GOP	
	32	ibis Styles Kyoto Station			
	33	ibis Styles Sapporo			
	34	Mercure Sapporo			
	35	Mercure Okinawa Naha			
42	Mercure Yokosuka	Variable	Amount linked to GOP (Note 6)		
The Ishin Group Hotels	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 6)	
	37	the b ikebukuro			
	39	the b hachioji			
	40	the b hakata			
Other hotels with variable rent or revenue sharing	18	Comfort Hotel Tokyo Higashi Nihombashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)	
	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)	
	25	Chisun Hotel Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).	
	26	Chisun Inn Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).	
	29	Oriental Hotel Universal City (formerly, Hotel Keihan Universal City) (Note 7)	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)	
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)	
49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 6)		

(Note 1) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 2) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.

(Note 3) For the purpose of payments of variable rent from each hotel, etc. JHR has set individual GOP base amount for each hotel. The breakdown of the AGOP base amount of The Five HMJ Hotels (¥4,120 million/year) is as follows.

Kobe Meriken Park Oriental Hotel ¥690,000 thousands, Oriental Hotel tokyo bay ¥1,060,000 thousands, Namba Oriental Hotel ¥890,000 thousands, Hotel Nikko Alivila ¥1,250,000 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(Note 4) Rent that was applied from June 18, 2021 onward is indicated.

(Note 5) The management contract structure is a structure for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue. Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management fee to the operator. This hotel revenue achieved is recognized as "real estate operating revenue through management contract" and is equivalent to the rent that is the real estate operating revenue under the leasing structure.

(Note 6) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee.

(Note 7) Rent type for Hotel Keihan Universal City that applies through to June 30, 2021, is indicated. Rent type for Oriental Hotel Universal City is variable/variable from July 1, 2021 onward. The variable rent for the fiscal year 2021 is not applicable, and the variable rent for the fiscal year 2022 onward is as follows: (AGOP – base amount (¥370 million/year)) x 95.0%.

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2021, through June 30, 2021, based on the data provided by the hotel lessees. While these indicators of the hotels are among the indicators that show the operating status of the rooms departments, please note that 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. of the respective rooms available for sale 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 (Note 4)		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	31.1%	—	26.0%	—	22.0%	—	20.8%	—	52.7%	—	28.7%	—
ADR (Note 1)	15,280	—	12,623	—	5,584	—	23,532	—	8,269	—	13,126	—
RevPAR (Note 2)	4,755	—	3,281	—	1,229	—	4,900	—	4,361	—	3,767	—
Total sales	1,153	100.0	868	100.0	371	100.0	961	100.0	377	100.0	3,731	100.0
Rooms department	278	24.1	304	35.0	57	15.5	352	36.6	179	47.5	1,170	31.4
Food & beverage department	586	50.8	239	27.5	0	0.0	215	22.4	85	22.6	1,125	30.1
Tenant department	36	3.1	52	6.0	293	79.0	1	0.1	5	1.3	387	10.4
Other departments (Note 3)	254	22.0	274	31.5	20	5.4	393	40.9	108	28.6	1,049	28.1
GOP	(86)	(7.4)	(116)	(13.3)	155	41.7	70	7.3	25	6.7	48	1.3

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel (Note 5)		Oriental Hotel Fukuoka Hakata Station		Holiday Inn Osaka Namba (Note 4)		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		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	24.2%	—	25.4%	—	39.4%	—	—	—	39.8%	—	43.6%	—
ADR (Note 1)	17,494	—	21,446	—	9,627	—	—	—	10,707	—	7,133	—
RevPAR (Note 2)	4,238	—	5,449	—	3,796	—	0	—	4,264	—	3,107	—
Total sales	611	100.0	671	100.0	428	100.0	19	100.0	712	100.0	385	100.0
Rooms department	277	45.3	235	35.0	152	35.5	0	0.0	423	59.4	260	67.6
Food & beverage department	122	20.0	350	52.2	113	26.5	—	—	159	22.4	78	20.3
Tenant department	19	3.1	—	—	96	22.5	17	89.7	12	1.6	1	0.3
Other departments (Note 3)	193	31.6	86	12.9	67	15.6	2	10.3	118	16.6	45	11.8
GOP	(109)	(17.8)	91	13.5	84	19.6	(15)	(77.9)	21	3.0	81	20.9

	Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi (Note 4)		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	14.1%	—	—	—	28.3%	—	27.7%	—
ADR (Note 1)	12,169	—	—	—	21,702	—	13,048	—
RevPAR (Note 2)	1,719	—	—	—	6,136	—	3,618	—
Total sales	344	100.0	1	100.0	1,411	100.0	8,313	100.0
Rooms department	103	29.9	—	—	503	35.6	3,123	37.6
Food & beverage department	170	49.6	—	—	470	33.3	2,588	31.1
Tenant department	2	0.7	—	—	39	2.8	573	6.9
Other departments (Note 3)	68	19.8	1	100.0	399	28.3	2,029	24.4
GOP	(101)	(29.5)	(12)	—	(225)	(15.9)	(136)	(1.6)

(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, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), 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. Holiday Inn Osaka Namba 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 department for sale of goods.

(Note 4) Due to the impact of the spread of the infection by COVID-19, the temporary closure was implemented for certain period during the midterm period. However, the occupancy rate is calculated including the closure period.

(Note 5) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 6) For Total/Average of the HMJ Group 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.

(2) Status of capital expenditures

a. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work during the fiscal year planned as of the end of the midterm period under review. Capital expenditures are expected to total ¥2,226 million for the second half and, in aggregate with the capital expenditures for the first half, capital expenditures are expected to total ¥3,522 million for the full year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY 1M)		
			Total amount	Payment for the first half	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From April 2021 to July 2021	57	—	—
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air-conditioning equipment	From March 2021 to July 2021	80	—	—
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation of guest rooms, etc.	From April 2021 to December 2021	589	—	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From July 2021 to December 2021	44	—	—
International Garden Hotel Narita (Narita-shi, Chiba)	Renewal of air-conditioning equipment	From October 2021 to November 2021	38	—	—
Total			810	—	—

(Note) New construction and renewal work include those 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 the renovation work will be performed may change.

b. Capital expenditures during the period (Note)

Major construction work conducted by JHR during the midterm period under review that represents capital expenditures is as below. Capital expenditures for the midterm period under review totaled ¥1,296 million, and repair expenses that were accounted for as expense for the midterm period under review totaled ¥7 million. In aggregate, ¥1,303 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY 1M)
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation of guest rooms, etc.	From April 2021 to June 2021	134
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renewal of heat-source equipment for air conditioning facilities	From April 2021 to June 2021	67
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renovation of guest rooms, etc.	From April 2021 to June 2021	351
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of central monitoring device	From March 2021 to June 2021	63
Total			617

(Note) New construction and renewal work include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures.