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December 18, 2015

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Notice Concerning Revision of Fixed-Term Lease Agreement

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) informs you that it concluded an agreement (hereinafter called “Revised Agreement”) to revise a fixed-term lease agreement (hereinafter called “Agreement”) with Hotel Management Japan Co., Ltd. (hereinafter called “HMJ”) on HMJ’s five hotels. The Revised Agreement takes effect on January 1, 2016 as follows.

Since transactions related to the Revised Agreement apply to transactions with interested parties, etc. as stipulated in Article 201, Paragraph 2, Item 1 of the Act on Investment Trusts and Investment Corporations of Japan (Act No. 198 of 1951, including modifications made thereafter; hereinafter called the “Investment Trust Law”), based on the Investment Trust Law, the Asset Management Company has obtained consent from JHR based on approval from the board of directors’ meeting held on December 18, 2015.

1. Reasons for revision

HMJ’s five hotels (*1), which are JHR’s major assets, adopt a mixed rent scheme of fixed rent and variable rent. Variable rent fluctuates since it is linked to hotels’ performance. HMJ has assigned Abilitas Hospitality Co., Ltd. (hereinafter called “AH”) to support hotel operations in order to maximize the hotels’ profitability since these assets were purchased by JHR. With the support of AH, HMJ has accumulated know-how of hotel operations and took a step to build a structure for operations so that it does not have to rely on support for operations by AH. Now that HMJ’s structure is ready for hotel operations independently, HMJ and AH will end the hotel management support agreement upon its expiration in December 2015. HMJ will shift to its own operating structure (*2).

JHR believes that HMJ’s profitability will improve once HMJ shifts to operate the hotel independently. As a result of the discussion to revise the Agreement, HMJ and JHR came to an agreement that JHR returns part of security deposit to HMJ, in exchange HMJ agrees to change the variable rent ratio from 81.5% to 85%.

Also, due to diversification of revenue of HMJ’s five hotels and the above-mentioned change in the operating structure, JHR and HMJ have also agreed to revise part of definitions of GOP.

(*1) HMJ’s five hotels are five hotels, namely Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, and Oriental Hotel Hiroshima.

(*2) The hotel management support agreement between HMJ and Okura Nikko Hotel Management Co., Ltd. (changed the company name from JAL Hotels Co., Ltd. on October 1, 2015) on Hotel Nikko Alivila will continue after 2017.

2. Summary of revision

Amended parts of the Revised Agreement are as follows. (Amended parts are underlined.)

Date of revision: January 1, 2016

	Revised Agreement	Current Agreement
Calculation method of variable rent	(Total annual GOP of HMJ's five hotels – GOP base amount (JPY3,351M)) x 85.0%	(Total annual GOP of HMJ's five hotels – GOP base amount (JPY3,351M)) x 81.5%
Amount of security deposit	JPY1,010M	JPY2,010M
Definition of GOP (Gross Operating Profit)	Balance after deducting the following operating expenses from hotels' sales, <u>income</u> , etc. (1) costs related to sales, <u>income, etc.</u> , (2) manpower costs and fringe benefits of hotel employees, (3) costs for equipment, (4) expenses related to sales and marketing (including outsourcing costs, various fees, etc.), (5) general administration cost, (6) sales promotion, advertisement expenses, (7) repair and maintenance fee (including facility maintenance and management fees), (8) utility costs, (9) insurance premium related to operations and management, (10) taxes and public dues on hotel operations and management (stamp duty, etc.), (11) allowance for bad debt related to hotels' sales credit and bad debts loss, (12) other expenses related to hotels' operations and management.	Balance after deducting the following operating expenses <u>(but limited to items directly generated from operations at each hotel)</u> from hotels' sales, income, etc. (1) costs related to sales, (2) manpower costs and fringe benefits of hotel employees, (3) costs for equipment, (4) expenses related to sales and marketing (including outsourcing costs, various fees, etc.), (5) general administration cost, (6) sales promotion, advertisement expenses, (7) repair and maintenance fee (including facility maintenance and management fees), (8) utility costs, (9) insurance premium related to operations and management, (10) taxes and public dues on hotel operations and management (stamp duty, etc.), (11) allowance for bad debt related to hotels' sales credit and bad debts loss, (12) other <u>direct</u> expenses related to hotels' operations and management.

(*) Contract period is from April 1, 2012 through December 31, 2019. There is no change in fixed rent in the amount of JPY3,221M.

3. Impact resulting from Revised Agreement

We expect about JPY125M increase resulting from the Revised Agreement if we calculate variable rent based on assumed GOP of HMJ's five hotels for the fiscal year ending December 2015, which is JPY6,932M.

<Calculation of variable rent>

(GOP amount – GOP base amount) x Variable rent ratio = Variable rent

After revision	(JPY6,932M - JPY3,351M) x	85.0% =	JPY3,043M
Current		81.5% =	JPY2,918M
Difference			JPY125M

(*) Amounts of variable rent are rounded down to the nearest JPY1M.

Due to partial revision in the definition of GOP, there may be cases when new income or expenses, etc. are posted from now on. However, such items and amounts are not determined as of today. The above calculation, therefore, does not consider any impact resulting from partial revision in the definition of GOP.

4. Future prospects.

There is no impact on the revenue forecast for the year ending December FY2015 (16th Period) resulting from the Revised Agreement. We will announce the revenue forecast and forecast of dividend for the fiscal year ending December 2016 (17th Period), which reflects the Revised Agreement once it is determined.

5. Transactions with interested parties, etc.

Transactions related to this Revised Agreement apply to transactions with interested parties, etc. of the Asset Management Company. In accordance with the Investment Trust Law, JHR's articles of incorporation, and rules of transactions with sponsor-related parties stipulated by the Asset Management



Company, transactions related to this Revised Agreement have gone through appropriate procedures including obtaining consent from JHR based on the approval by compliance committee with outside specialists and JHR's board of directors meetings.

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