

Asset Management Report

For the Year Ended December 31, 2014

Japan Hotel REIT Investment Corporation



Dear Investors,

Thank you for your support and patronage to Japan Hotel REIT Investment Corporation (JHR) and its asset management company, Japan Hotel REIT Advisors Co., Ltd.

Having settled the 15th fiscal period (from January 1, 2014 to December 31, 2014) of JHR, we are pleased to present you with the asset management status and operating results for the period.

Pursuant to our recognized mission of providing investors with attractive opportunities to invest in hotel assets, we conduct asset management by placing “simultaneous pursuit of stability and upside potential” at the core of our strategy. JHR has carried out capital increases through public offering of new investment units four times in the last three years, and has acquired excellent hotel assets to expand its portfolio. In acquiring the hotel assets, we have taken initiatives that are specific to a REIT specialized in hotels, implementing such measures as rebranding, switching hotel operators and restructuring rental schemes that could enhance the future value of individual assets.

In the fiscal period under review, JHR acquired ibis Styles Sapporo, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha. These hotels, located in Sapporo and Okinawa that are among our strategic investment target areas, are operated by Accor Hotels that is highly recognized globally. As such, they are the hotel assets that exactly match JHR’s strategy of attracting leisure demand from within and outside Japan.

In addition to the acquisition of these new properties, JHR worked to increase revenue from existing properties in its portfolio and reduce financing costs and other expenses. As a result of these and other endeavors, JHR posted operating revenue of ¥12,760 million, ordinary income of ¥5,776 million and net income of ¥5,774 million for the fiscal year ended December 2014. The dividend per unit for the period came to ¥2,155, up 11.1% from the previous fiscal period.

Entering the 16th fiscal period (from January 1, 2015 to December 31, 2015), we continue to implement the growth strategy, as we made a resolution in January to issue up to 210,000 new investment units and use the proceeds to acquire another six hotel properties primarily in Tokyo metropolitan area, whose

total acquisition and planned acquisition price is ¥23,105 million.

Attention is being drawn to the growth potential of the tourism industry, given the measures implemented by the government to make Japan a major tourism nation and an increase in the number of inbound tourists visiting Japan over recent years. Enhancement of infrastructures toward the 2020 Olympic and Paralympic Games in Tokyo also serves as another growth factor for the tourism industry. Under such circumstances, there is a growing interest in hotel assets as investment targets in anticipation of their growth in the future.

We at JHR and Japan Hotel REIT Advisors are resolved to make our best endeavors to provide investors with attractive opportunities to invest in hotel assets, the cornerstone of the tourism industry, by taking advantage of the high expertise and know-how we have fostered and accumulated.

We ask for your continued support and understanding of our operations.

Yukio Isa

Executive Director

Japan Hotel REIT Investment Corporation

Hisashi Furukawa

Representative Director and President

Japan Hotel REIT Advisors Co., Ltd.

JAPAN HOTEL REIT INVESTMENT CORPORATION

Contents:

I. Asset Management Report 4

This section (P1-P43) is the translation of the Asset Management Report for the 15th Period released on March 20, 2015. Therefore, some information is not updated as shown in Financial Statements below dated April 20, 2015. This English translation is provided for information purposes only. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

II. Financial Statements

For the Years ended December 31, 2014 and December 31, 2013

Balance Sheets	44
Statements of Income	46
Statements of Changes in Net Assets	47
Statements of Cash Flows	48
Notes to Financial Statements	50
Independent Auditor's Report	70

I. ASSET MANAGEMENT REPORT

Outline of Asset Management Operation

1. Operating results and financial position, etc.

Fiscal period Account closing date (Note 1)		11th period September 2011	12th period March 2012	13th period December 2012	14th period December 2013	15th period December 2014
Operating revenue (Note 2)	Millions of yen	1,419	1,431	7,283	11,472	12,760
[Real estate operating revenue] (Note 3)	Millions of yen	[1,419]	[1,431]	[7,283]	[11,472]	[12,760]
Operating expenses	Millions of yen	619	681	4,688	6,105	5,214
[Real estate operating costs] (Note 3)	Millions of yen	[454]	[503]	[2,668]	[3,870]	[4,163]
Operating income	Millions of yen	799	750	2,595	5,367	7,545
Ordinary income	Millions of yen	494	474	1,412	3,740	5,776
Net income (Note 4)	Millions of yen	493	473	19,031	3,233	5,774
Total assets	Millions of yen	46,761	46,773	139,623	170,727	188,091
[Period-on-period change]	[%]	[17.2]	[0.0]	[198.5]	[22.3]	[10.2]
Net assets	Millions of yen	23,655	23,635	69,010	89,756	100,342
[Period-on-period change]	[%]	[18.9]	[(0.1)]	[192.0]	[30.1]	[11.8]
Unitholders' capital	Millions of yen	23,161	23,161	28,260	48,845	59,024
Total number of units issued	Units	58,031	58,031	2,111,281	2,621,281	2,791,281
Net assets per unit (Note 5)	Yen	407,628	33,941	32,686	34,241	35,948
Total dividends	Millions of yen	493	473	3,012	5,082	6,015
Dividend per unit	Yen	8,502	8,166	1,427	1,939	2,155
[Earnings dividend per unit]	Yen	8,502	8,166	1,427	1,939	2,155
[Dividend per unit resulted from excess of earnings]	Yen	—	—	—	—	—
Ratio of ordinary income to total assets (Note 6)	%	1.1	1.0	1.5	2.4	3.2
[Annualized]	[%]	[2.3]	[2.0]	[2.0]	[2.4]	[3.2]
Return on unitholders' equity (Note 7)	%	2.3	2.0	41.1	4.1	6.1
[Annualized]	[%]	[4.5]	[4.0]	[54.5]	[4.1]	[6.1]
Ratio of net assets to total assets (Note 8)	%	50.6	50.5	49.4	52.6	53.3
[Period-on-period change]	[%]	[0.7]	[(0.1)]	[(1.1)]	[3.2]	[0.8]
Payout ratio (Note 9)	%	99.3	100.0	15.8	157.2	104.2
[Additional information]						
NOI (Note 10)	Millions of yen	1,231	1,191	6,216	9,907	11,002
FFO per unit (Note 5) (Note 11) (Note 12)	Yen	13,081	1,059	2,087	2,759	2,930
FFO multiple (Note 5) (Note 12) (Note 13)	Times	7.6	8.8	8.6	18.2	26.3
Debt service coverage ratio (Note 12) (Note 14)	Times	3.2	3.3	3.8	4.5	8.3
Interest-bearing debt	Millions of yen	21,625	21,516	65,220	74,784	81,089
Ratio of interest-bearing debt to total assets (Note 15)	%	46.2	46.0	46.7	43.8	43.1
Number of investment properties	Properties	19	19	28	28	30
Total leasable area	m ²	101,028.49	101,028.49	288,875.32	349,162.63	386,826.71
Depreciation	Millions of yen	265	263	1,592	2,297	2,400

Fiscal period Account closing date (Note 1)		11th period September 2011	12th period March 2012	13th period December 2012	14th period December 2013	15th period December 2014
Capital expenditures	Millions of yen	31	102	699	854	1,306
Number of operating days	Days	183	183	275	365	365

(Note 1) Following the resolution to partly amend the Articles of Incorporation of Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) at the 5th General Meeting of Unitholders held on February 24, 2012, JHR changed its fiscal period from six-month periods that end on March 31 and September 30 each year to 12-month periods that end on December 31 (aligned with the calendar year). As a result of the change, and to facilitate the transition, JHR’s 13th business period was the nine months from April 1, 2012 through December 31, 2012.

(Note 2) Operating revenue does not include consumption taxes.

(Note 3) Revenue from the real estate leasing business was presented as “Real estate rental income” in past periods. However, because of the introduction of management contracts in the 13th fiscal period, this presentation of the real estate leasing business is no longer appropriate. Therefore, the presentation of revenue from this business was changed to “Real estate operating revenue” for all fiscal periods including the 12th and earlier fiscal periods. The presentation of expenses for the real estate leasing business was changed from “Real estate rental expenses” to “Real estate operating costs.”

(Note 4) Net income for the 13th fiscal period includes a gain on negative goodwill (¥18,578 million) from a merger, loss on sale of real estate properties (¥1,393 million) and impairment loss (¥958 million). Net income for the 14th fiscal period includes loss on sale of real estate properties (¥1,189 million) and impairment loss (¥516 million).

(Note 5) JHR carried out a 12-for-1 split of units with an effective date of April 1, 2012. Net assets per unit, FFO per unit (defined below under Note 11) and FFO multiple (defined below under Note 13) are calculated as if the unit split had been completed at the start of the 12th fiscal period.

(Note 6) $\text{Ratio of ordinary income to total assets} = \text{Ordinary income} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$

(Note 7) $\text{Return on unitholders' equity} = \text{Net income} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$

(Note 8) $\text{Ratio of net assets to total assets} = \text{Net assets at end of period} / \text{Total assets at end of period} \times 100$

(Note 9) The payout ratio is calculated using the formula “Dividend per unit / Net income per unit x 100” from the 11th and 12th fiscal periods, and the formula “Total dividends (excess of earnings exclusive) / Net income x 100” from the 13th through 15th fiscal periods.

(Note 10) $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets}$

(Note 11) $\text{FFO per unit} = (\text{Net income} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary loss or income}) / \text{Number of units issued}$

(Note 12) For the 13th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on negative goodwill of ¥18,578 million, loss on sale of real estate properties of ¥1,393 million and impairment loss of ¥958 million. For the 14th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding loss on sale of real estate properties of ¥1,189 million and impairment loss of ¥516 million.

(Note 13) $\text{FFO multiple} = \text{Investment unit price at end of period} / \text{Annualized FFO per unit}$

(Note 14) $\text{Debt service coverage ratio} = (\text{Income before income taxes} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} \pm \text{Loss or gain on sale of real estate properties} \pm \text{Extraordinary losses or income} + \text{Amortization of investment corporation bond issuance costs} + \text{Amortization of investment unit issuance expenses} + \text{Loss on derivative instruments} + \text{Interest expense} + \text{Interest expense on investment corporation bonds}) / (\text{Interest expense} + \text{Interest expense on investment corporation bonds} + \text{Total of contracted principal repayments (excluding lump-sum principal repayments)})$

(Note 15) $\text{Ratio of interest-bearing debt to total assets} = \text{Interest-bearing debt at end of period} / \text{Total assets at end of period} \times 100$

2. Asset management operation for the fiscal period under review

(1) Brief history and principal activities

Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) in November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) section of the Tokyo Stock Exchange (Securities code: 8985) in June 14, 2006.

JHR entrusts the management of property assets to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on hotels, which are important and profitable components of the social infrastructure, JHR primarily invests in real estate related assets that are wholly or partially used as hotels and that are in themselves real estate or real estate equivalents or that are backed by such real estate or real estate equivalents.

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”) merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “merger”). In conjunction with the merger, the former NHF changed its name to Japan Hotel REIT Investment Corporation. Over approximately three years since making a new start as a REIT specializing in hotel properties, JHR carried out three capital increases through public offerings, and has continuously acquired hotels that are “competitive enough to attract domestic and inbound leisure demand” and located in its “strategic investment target areas.”

As such, JHR has expanded the portfolio size by steadily implementing the growth strategy, with its portfolio growing to 30 properties with a combined acquisition price of ¥173,429 million as of the end of the fiscal period under review.

As of December 31, 2014, the number of units issued was 2,791,281.

(2) Investment performance

During the fiscal period under review, the Japanese economy continued to show a modest economic recovery as a whole, despite some weakness seen in consumer spending, partly due to the effect of the various measures aimed at ending deflation and generating sustainable economic growth implemented by the Abe administration. Under such circumstances, the tourism industry has seen the leisure demand among the Japanese people remain solid and the number of overseas (inbound) tourists visiting Japan, primarily from Asian countries, also increase significantly thanks to the various measures implemented by the government aimed at making Japan a major tourism nation as well as the depreciation of the yen and other factors. The number of such inbound tourists, which had surpassed 10 million for the first time in 2013, reached 13 million, up around 30% over the figure, in 2014.

Given such a strong wind behind Japan’s tourism industry and hotel industry, many of the hotels owned by JHR achieved a rise in operating performance, mainly in the rooms department, allowing us to feel how strong the leisure demand was both in and outside Japan. Also in the investment market for hotels, the market size continued to expand with an increase in the number of investors who anticipated future growth of hotel properties. In such an environment, JHR issued new investment units through public offering in September 2014, marking the third consecutive year with capital increase, and acquired three properties in Sapporo and Naha where growth had appeared to be lagging. JHR also employed a management contract scheme for these hotels in order to proactively pursue upside potential.

Furthermore, JHR conducted capital increase through public offering in January 2015 and newly acquired five hotels (Note 1) located primarily in Tokyo and operated by the Ishin Hotels Group (hereinafter referred to as the “five ‘the b’ hotels”). With new acquisition of another hotel planned for March 2015, the portfolio size is expected to grow to around approximately ¥200 billion on an acquisition price basis.

JHR makes it a policy to aim at raising rents for its owned hotels against the backdrop of the strong performance in the overnight stays market. For fixed rent properties held, JHR worked to introduce upside sharing schemes in addition to conventional fixed rents upon renewal of lease contracts for hotels at which the ability to bear rent costs was enhanced through better performances. For hotels with variable rent contracts and management contracts, JHR endeavored to expand its earnings by continuously discussing with the hotel operators for increased revenue, after assessing the business environment and operation conditions at each hotel on a monthly basis.

With respect to capital investments in portfolio properties, JHR invested in the renewal of its facilities in order to maintain the value of its assets and carried out strategic refurbishment to increase profits at hotels with variable rent contracts, etc.

Furthermore, JHR leases five hotels (hereinafter referred to as the “five HMJ hotels”) (Note 2) to Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) under variable rent contracts. Operations of those hotels during the fiscal period under review produced a year-on-year increase both in sales and GOP (gross operating profit), led by the rooms department. Not only the guest room occupancy rate but also the ADR (average daily rate) increased in the rooms department, endorsing the solidity in leisure-related consumption. For further details regarding sales, GOP and other management indicators for the five HMJ hotels, please refer to “<Reference 2> Sales and GOP for the five HMJ hotels.”

Moreover, JHR entrusts operations of the 5 hotels (hereinafter referred to as the “five Accor hotels”) (Note 3) to AAPC Japan K.K. (hereinafter referred to as “Accor”), a Japanese subsidiary of Accor Hotels headquartered in Paris, France, and employs a management contract scheme for them. These hotels also successfully attracted inbound guests and domestic leisure demand, and posted a year-on-year increase both in sales and GOP, mainly led by an increase in the ADR. For further details regarding sales, GOP and other management indicators for the five Accor hotels, please refer to “<Reference 3> Sales and GOP for the five Accor hotels.”

In addition, JHR not only increased the size of its asset portfolio by acquiring new properties, but also made steady progress in reducing real estate management costs, general and administrative expenses, and borrowing costs.

(Note 1) Represent five hotels, namely, the b akasaka-mitsuke, the b ikebukuro, the b ochanomizu, the b hachioji and the b hakata.

(Note 2) Represent five hotels, namely, Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima.

(Note 3) Represents the five hotels, namely ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha.

(3) Funding

JHR obtained ¥10,406 million in new loans and ¥2,000 million in investment corporation bonds for refinancing ¥12,428 million in existing loans that matured in March 2014. JHR also made partial early repayment of ¥527 million by using the proceeds obtained through the transfer of Dormy Inn Namba in January 2014.

Moreover, in September 2014, JHR acquired three properties in Sapporo and Naha by using the

¥10,179 million obtained by issuing new investment units through public offering and the ¥17,676 million in long-term loans (including the ¥10,249 million for early repayment and refinance of existing long-term loans) borrowed from a bank syndication in which Aozora Bank, Ltd. newly participated. JHR also realized release of the security on loans, making all its loans unsecured and unguaranteed.

In addition, in December 2014, JHR procured ¥1,000 million in borrowings from Mitsubishi UFJ Trust and Banking Corporation, with which JHR newly started business, and ¥1,500 million in 7-year investment corporation bonds to conduct early repayment of ¥2,315 million in loans from some existing financial institutions.

As a result of the above, as of the end of the fiscal period under review, interest-bearing debt totaled ¥81,089 million, including current portion of long-term loans payable of ¥11,825 million, long-term loans payable of ¥63,264 million, and investment corporation bonds of ¥6,000 million, and the ratio of interest-bearing debt to total assets at end of period (Note 4) equaled 43.1%.

Through a series of these funding measures, JHR was able to lower its funding costs and diversify its repayment terms.

Furthermore, JHR concluded an interest rate swap contract to fix the interest on ¥10,121 million on loans on March 31, 2014 in order to suppress the increase in interest payment resulting from future interest rate rises. JHR also concluded an interest rate swap contract for ¥17,676 million in loans. These actions brought the fixed rate ratio (including the interest rate cap purchase portion) on JHR's total interest-bearing debt to approximately 90%.

(Note 4) Ratio of interest-bearing debt to total assets at end of period = Interest-bearing debt at end of period / Total assets at end of period

As of December 31, 2014, JHR's issuer ratings were as follows.

Rating agency	Rating	Outlook
Rating and Investment Information, Inc.	A-	Stable
Japan Credit Rating Agency, Ltd.	A	Stable

(4) Financial results

As a result of the abovementioned investments and management, operating revenue, operating income and ordinary income were ¥12,760 million, ¥7,545 million and ¥5,776 million, respectively, for the fiscal period under review (12-month period from January 1 to December 31, 2014). Net income was ¥5,774 million.

With regard to dividends, it was decided that ¥6,016 million, which was calculated by adding a decrease (reversal) of reserve for dividends (appropriation for dividends) of ¥240 million to unappropriated retained earnings of ¥5,776 million, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥2,155.

Appropriation for dividends for the fiscal period under review consists of appropriation for dilution of dividends per unit due to the issuance of new investment units, and offsetting of financial costs associated with early repayment, and losses on retirement of existing facilities incurred for the replacement of equipment.

Please refer to “<Reference 4> Dividend per unit and appropriation for dividends” for appropriation for dividends.

3. Changes in unitholders' capital, etc.

On September 9, 2014, JHR raised ¥10,179 million through the issuance of new investment units (170,000 units) via public offering. Changes in the number of units issued and unitholders' capital up to the fiscal period under review are as follows:

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (Millions of yen)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
November 10, 2005	Incorporation through private placement of investment units	400	400	200	200	(Note 1)
June 13, 2006	Capital increase through public offering of investment units	41,800	42,200	19,361	19,561	(Note 2)
April 6, 2011	Capital increase through third-party allotment of investment units	15,831	58,031	3,599	23,161	(Note 3)
April 1, 2012	Investment unit split	638,341	696,372	–	23,161	(Note 4)
April 1, 2012	Merger	1,162,909	1,859,281	–	23,161	(Note 5)
September 12, 2012	Capital increase through public offering of investment units	240,000	2,099,281	4,855	28,017	(Note 6)
October 11, 2012	Capital increase through third-party allotment of investment units	12,000	2,111,281	242	28,260	(Note 7)
April 17, 2013	Capital increase through public offering of investment units	510,000	2,621,281	20,585	48,845	(Note 8)
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 9)

(Note 1) At the time of incorporation of JHR, investment units were issued with an issue price per unit of ¥500,000.

(Note 2) New investment units were issued through public offering with an issue price per unit of ¥480,000 (subscription price of ¥463,200) in order to raise funds for the acquisition of new investment properties, etc.

(Note 3) New investment units were issued through third-party allotment with an issue price per unit of ¥227,400 in order to raise funds for the acquisition of new investment properties.

(Note 4) JHR conducted a 12-for-1 split of investment units.

(Note 5) JHR (the former NHF) merged with the former JHR. The merger was an absorption-type merger pursuant to Article 147 of the Investment Trusts Act where JHR is the surviving corporation and the former JHR is the absorbed corporation. Following this merger, 11 investment units of JHR after the split of investment units were delivered by allotment for each investment unit of the former JHR.

(Note 6) New investment units were issued through public offering with an issue price per unit of ¥20,990 (subscription price of ¥20,232) in order to raise funds for the acquisition of new investment properties, etc.

(Note 7) New investment units were issued through third-party allotment with an issue price per unit of ¥20,232 in order to repay loans payable, etc.

(Note 8) New investment units were issued through public offering with an issue price per unit of ¥41,778 (subscription price of ¥40,363) in order to raise funds for the acquisition of new investment properties, etc.

(Note 9) New investment units were issued through public offering with an issue price per unit of ¥61,912 (subscription price of ¥59,880) in order to raise funds for the acquisition of new investment properties, etc.

[Fluctuation in market price of investment units]

The highest and lowest prices (closing price) during each fiscal period of the investment units of JHR on the Tokyo Stock Exchange REIT section are as follows:

(Yen)

Fiscal period Account closing month	11th period September 2011	12th period March 2012	13th period December 2012	14th period December 2013	15th period December 2014
Highest price	290,000	19,550 (Note)	25,110	51,500	82,400
Lowest price	199,000	15,008 (Note)	17,830	23,670	45,350
Price at end of period	199,000	18,700 (Note)	23,880	50,400	77,000

(Note) In line with the merger, JHR conducted a 12-for-1 split of investment units with an effective date of April 1, 2012. Consequently, figures for the 12th period have been calculated as if the unit split had been conducted at the start of the fiscal period.

4. Dividends, etc.

For the 15th fiscal period, it was decided that ¥6,016 million, which was calculated by adding a decrease (reversal) of reserve for dividends (appropriation for dividends) of ¥240 million to unappropriated retained earnings of ¥5,776 million as of December 31, 2014, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥2,155. This amount exceeds 90% JHR's distributable profit that can be paid out as dividends pursuant to Article 67-15 of the Act on Special Measures Concerning Taxation, and in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's articles of incorporation.

(Yen)

Classification	11th period (From April 1, 2011 to September 30, 2011)	12th period (From October 1, 2011 to March 31, 2012)	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)
Unappropriated retained earnings	493,382,601	473,912,203	19,031,977,302	3,235,030,032	5,776,116,820
Decrease (reversal) of reserve for dividends	—	—	—	1,848,870,143	240,538,162
Retained earnings	3,039	31,057	1,695,047	1,236,316	1,444,427
Total cash dividends	493,379,562	473,881,146	3,012,797,987	5,082,663,859	6,015,210,555
[Dividend per unit]	[8,502]	[8,166]	[1,427]	[1,939]	[2,155]
Of the above, total earnings dividends	493,379,562	473,881,146	3,012,797,987	5,082,663,859	6,015,210,555
[Earnings dividend per unit]	[8,502]	[8,166]	[1,427]	[1,939]	[2,155]
Of the above, total capital refunds	—	—	—	—	—
[Capital refunds per unit]	[—]	[—]	[—]	[—]	[—]

5. Investment policies and issues to be addressed

General investment outlook

In the general election conducted in December 2014, the ruling parties achieved a victory, allowing the Abe administration to remain in power standing on a stable foundation. However, with the endeavors to end deflation still halfway, there are concerns about the Japanese economy in 2015 that worsened consumer sentiment might continue to push consumption downward. In addition, attention must be paid to the risks of the downward swing in overseas economies and other factors would hold down the Japanese economy. Nevertheless, with the employment and income environment continuing to show an improvement trend, the economy is expected to keep recovering modestly, partly due to the impact of the drop in crude oil prices and various political measures proving effective.

In addition, the government places importance on such measures as preparing and implementing promotion programs to encourage people to visit Japan for a further increase in the number of inbound tourists, further relaxing visa issuance requirements, enhancing the environment for accepting inbound tourists and inviting and promoting international events (MICE: meetings, incentives, conferences and exhibitions). Accordingly, it is expected that a future increase in the number of domestic individual tourists and inbound tourists, who are the essential part of nonresident population, will serve as a tailwind for JHR.

Under such circumstances, JHR intends to invest based on the approach described below in order to make investing in JHR more appealing based on its mix of stability centered on fixed rent revenue and upside potential derived from variable rent and other revenue sources.

Internal growth

To increase the earnings capability of existing properties, JHR will work to boost sales and GOP of such hotels operated under variable rent contracts as the five HMJ hotels and the five “the b” hotels acquired in January 2015, as well as of the five Accor hotels that are operated under a management contract scheme, in order to maximize variable rent and earnings under management contracts. To achieve this goal, JHR will request each hotel, its business support company and its operator to implement marketing initiatives to attract more demand and measures to maintain and increase room rates. JHR will also work with related parties to move the business focus from competition based on price to competition based on value, aiming to create facilities and services that become prominent in the market.

For hotels with only fixed rent contracts, JHR will increase its efforts to monitor operating conditions and, by paying careful attention to each tenant’s ability to bear the rent costs, conduct negotiations with the hotels at which the ability to bear rent costs has been enhanced through better performances so that the improvement in hotel earnings would lead to an increase in JHR’s earnings, such as revising rents upward and introducing upside sharing schemes.

In addition, JHR will carry out an ongoing program of facility maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

External growth

In terms of external growth strategy, JHR will focus on investing in hotels with prospects for attracting domestic and overseas leisure demand, that is, those located in appealing or fashionable areas, as it has done to date. Limited-service hotels, full-service hotels and resort hotels are all investment targets, but JHR will only acquire properties with competitive advantages in terms of buildings and facilities (infrastructure) and the capabilities of the hotel tenant and operator (services).

However, competition over acquisition has become fierce in the investment market for hotels in accordance with an increase in the number of investors, with transaction yields showing a downward trend. Under such circumstances, JHR will work to acquire properties and make them prominent in the market, by taking advantage of its strength as a REIT specializing in hotel properties of being able to extensively collect transaction information of real estate related assets that are used as hotels and make selective approaches.

Specifically, JHR will build on its pipelines as a major player in the investment market for hotels, ability to collect information on operations of hotels in general, proposal and implementation of a variety of rent schemes including the management contract scheme, and excellent networks with major hotel operators. By doing so, JHR will acquire properties while maintaining its superiority in the investment market for hotels.

Following such policy, in the fiscal period under review, JHR acquired 3 properties in Sapporo and Naha under a management contract scheme, operated by Accor, which is headquartered in Paris, France and ranked sixth in the world in terms of the number of guest rooms of hotels it operates. By such an action, JHR aims to attract demand of inbound tourists visiting Japan, primarily from Asia, which are expected to grow significantly in number going forward.

In January 2015, JHR also acquired 6 properties located mainly in Tokyo and the bay area that are deemed to enjoy the largest benefits from an increase in inbound tourists. Of these properties, the five “the b” hotels employed a lease scheme that combines fixed rents and variable rents in order to pursue upside potential while working to secure stability. Going forward, JHR will continuously acquire properties by taking advantage of these strengths that are peculiar to a REIT specialized in hotels.

Finance strategy

JHR seeks to maintain and enhance the relationships of trust with financial institutions with which it does business, while working to ensure financial stability and strength by increasingly diversifying the means of financing. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% for the time being. In addition, when seeking new borrowings for property acquisitions or refinancing existing debt, JHR will work to reinforce its existing relationships with multiple banks while seeking to spread out the maturity dates of its debt and considering the balance with borrowing costs.

Moreover, JHR will investigate extending the maturity dates and managing interest rate risks while discerning the interest rate market trends.

6. Significant subsequent events

(1) Acquisition of assets

On January 30, 2015, JHR acquired five properties with a total acquisition price of ¥20,000 million as follows.

Property name	the b akasaka-mitsuke
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-21-7 Akasaka, Minato-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Yosezaka TMK
Acquisition price (Note)	¥6,250 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b ikebukuro
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-39-4 Higashi-ikebukuro, Toshima-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Inarizaka TMK
Acquisition price (Note)	¥6,520 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b ochanomizu
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-7-5 Kanda-awajicho, Chiyoda-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Tenjinzaka TMK
Acquisition price (Note)	¥2,320 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b hachioji
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	4-6-12 Myojincho, Hachioji-shi, Tokyo
Acquisition date	January 30, 2015
Seller	Hijirizaka TMK
Acquisition price (Note)	¥2,610 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b hakata
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-3-9 Hakata-eki Minami, Hakata-ku, Fukuoka-shi, Fukuoka
Acquisition date	January 30, 2015
Seller	Tenjinzaka TMK
Acquisition price (Note)	¥2,300 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

(2) Resolution on acquisition of asset

On January 9, 2015, JHR concluded a purchase and sale agreement regarding the following asset.

Property name	Hotel Francs
Asset category	Real estate beneficial interest in trust
Asset type	Hotel
Address	2-10-2 Hibino, Mihama-ku, Chiba-shi, Chiba
Planned acquisition date	March 31, 2015
Planned Seller	G.K. Tourism Japan No. 1 (Note 1)

Planned acquisition price (Note 2)	¥3,105 million
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(Note 1) GK Tourism Japan No. 1 is the business operator of a silent partnership in which JHR invested ¥595 million (represented a 49.8% equity interest in the silent partnership; excluding acquisition expenses) and JHR exercised the preferential negotiation rights that were granted to JHR upon the investment in the concerned partnership. Furthermore, in connection with the acquisition, the invested equity interest in the silent partnership will be redeemed to JHR by the end of the fiscal year ending December 2015.

(Note 2) The planned acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

(3) Borrowing of funds

On January 30, 2015, JHR obtained new borrowings with the following Term Loans 9, 10 and 11 totaling ¥13,900 million in order to fund the acquisition of the real estate beneficial interest in trust of the five “the b” hotel properties and movable assets attached thereon (as described above in item (1) Acquisition of assets) and to fund the early repayment on the same date of an existing loan (¥4,779 million outstanding balance) maturing on February 15, 2015.

Term Loan 9 (Term: 1 year)

Facility	Term Loan 9
Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥1,000 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.40%
Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 29, 2016
Collateral	Unsecured/Unguaranteed

Term Loan 10 (Term: 5 years)

Facility	Term Loan 10
Lender	Sumitomo Mitsui Banking Corporation / Mizuho Bank, Ltd. / Shinsei Bank, Limited / Resona Bank, Limited / Sumitomo Mitsui Trust Bank, Limited / The Chiba Bank, Ltd.
Amount of the loan	¥4,700 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.45%

Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 31, 2020
Collateral	Unsecured/Unguaranteed

Term Loan 11 (Term: 7 years)

Facility	Term Loan 11
Lender	Sumitomo Mitsui Banking Corporation / Mizuho Bank, Ltd. / Shinsei Bank, Limited / Resona Bank, Limited / Sumitomo Mitsui Trust Bank, Limited / The Tokyo Star Bank, Limited / Aozora Bank, Ltd.
Amount of the loan	¥8,200 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.55%
Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 31, 2022
Collateral	Unsecured/Unguaranteed

(4) Resolution on borrowing of funds

On January 9, 2015, JHR resolved on new borrowing to fund the acquisition of Hotel Francs described in the above (2) Resolution on acquisition of asset, as follows.

Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥1,500 million
Interest rate	To be determined
Date of borrowing	March 31, 2015
Method of principal repayment	To be determined
Maturity date	To be determined
Collateral	Unsecured/Unguaranteed

(5) Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 9, 2015 and January 20, 2015. Payment for the new investment units was completed on January 27, 2015 and February 18, 2015, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital stands at ¥74,676,659,234, with the number of investment units issued and outstanding at 3,000,322 units.

(A) Issuance of new investment units (public offering)

Number of investment units offered:	200,000 units
Issue price:	¥77,415 per unit
Total issue price:	¥15,483,000,000
Paid-in amount (Issue value):	¥74,874 per unit
Total paid-in amount (issue value):	¥14,974,800,000
Payment date:	January 27, 2015

(B) Issuance of new investment units (third-party allotment)

Number of investment units offered:	9,041 units
Paid-in amount (Issue value):	¥74,874 per unit
Total paid-in amount (issue value):	¥676,935,834
Payment date:	February 18, 2015
Allottee:	SMBC Nikko Securities Inc.

(C) Use of funds

JHR plans to use the proceeds obtained from the public offering to partly fund the acquisition of the specified assets described in the above (1) Acquisition of assets as well as to partly fund the acquisition of the specified asset described in the above (2) Resolution on acquisition of asset. JHR plans to use the remainder of the proceeds to partly fund the future acquisition of specified assets, partly fund the repayment of other borrowings or fund the capital expenditures for maintaining and enhancing the competitiveness of existing properties.

Furthermore, JHR plans to use the proceeds obtained from the third-party allotment to partly fund the future acquisition of specified assets, partly fund the repayment of other borrowings or fund the capital expenditures for maintaining and enhancing the competitiveness of existing properties.

7. Reference information

<Reference 1> Major indicators of the five HMJ hotels for the fiscal year ended December 31, 2014 (Note 1) (Note 2)

		(a) Kobe Meriken Park Oriental Hotel		(b) Oriental Hotel Tokyo Bay		(c) Namba Oriental Hotel		(d) Hotel Nikko Alivila		(e) Oriental Hotel Hiroshima		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
Indicators for rooms department (%, Yen)	Occupancy rate	80.6%	—	98.1%	—	90.9%	—	80.0%	—	78.1%	—	86.9%	—
	ADR (Note 3)	15,355	—	19,306	—	12,902	—	25,082	—	8,517	—	17,551	—
	RevPAR (Note 4)	12,369	—	18,944	—	11,731	—	20,072	—	6,650	—	15,245	—
Financial indicators (Millions of yen)	Total sales	5,222	100.0%	7,210	100.0%	2,149	100.0%	5,491	100.0%	2,223	100.0%	22,296	100.0%
	Rooms department	1,587	30.4%	3,829	53.1%	1,212	56.4%	3,200	58.3%	606	27.3%	10,433	46.8%
	Food & beverage department	3,285	62.9%	2,902	40.3%	150	7.0%	1,815	33.1%	1,548	69.6%	9,701	43.5%
	Product sales department	111	2.1%	—	—	—	—	368	6.7%	—	—	480	2.2%
	Tenant department	62	1.2%	264	3.7%	741	34.5%	2	0.0%	23	1.0%	1,091	4.9%
	Other departments	177	3.4%	214	3.0%	46	2.1%	106	1.9%	46	2.1%	590	2.6%
	GOP	1,136	21.8%	1,923	26.7%	1,160	54.0%	1,735	31.6%	348	15.7%	6,302	28.3%

(Note 1) 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. The same shall apply hereinafter.

(Note 2) Figures related to the hotel business for the operating period from January 1, 2014 through December 31, 2014 are based on figures provided by the tenants.

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

(Note 4) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (excluding service charges) by the total number of available rooms during the period. Revenue per available room equals the product of ADR and occupancy rate. The same shall apply hereinafter.

<Reference 2> Sales and GOP of the five HMJ hotels

(1) Sales by hotel

(Millions of yen)

Sales of the five HMJ hotels		Fiscal year ended Dec. 31, 2013		Fiscal year ended Dec. 31, 2014		For Reference Fiscal year ending Dec. 31, 2015	
		Results	Year-on-year change	Results	Year-on-year change	Forecasts	Year-on-year change
Kobe Meriken Park Oriental Hotel	First half	2,416	(5.0)%	2,424	0.4%	2,459	1.4%
	Second half	2,795	(4.3)%	2,798	0.1%	2,965	6.0%
	Full year	5,210	(4.7)%	5,222	0.2%	5,425	3.9%
Oriental Hotel tokyo bay	First half	3,209	(0.4)%	3,366	4.9%	3,305	(1.8)%
	Second half	3,973	12.2%	3,844	(3.3)%	3,931	2.3%
	Full year	7,182	6.2%	7,210	0.4%	7,236	0.4%
Namba Oriental Hotel	First half	934	5.5%	998	6.8%	1,039	4.1%
	Second half	1,038	6.6%	1,151	10.9%	1,166	1.3%
	Full year	1,972	6.1%	2,149	9.0%	2,205	2.6%
Hotel Nikko Alivila	First half	2,193	7.5%	2,190	(0.1)%	2,316	5.7%
	Second half	3,183	4.4%	3,301	3.7%	3,426	3.8%
	Full year	5,375	5.6%	5,491	2.2%	5,741	4.6%
Oriental Hotel Hiroshima	First half	1,046	5.8%	1,046	(0.0)%	1,039	(0.6)%
	Second half	1,208	5.2%	1,178	(2.5)%	1,208	2.6%
	Full year	2,254	5.5%	2,223	(1.4)%	2,248	1.1%
Total	First half	9,797	1.2%	10,024	2.3%	10,158	1.3%
	Second half	12,197	4.8%	12,272	0.6%	12,697	3.5%
	Full year	21,994	3.2%	22,296	1.4%	22,855	2.5%

(Note) Sales are rounded off to the nearest million yen. Year-on-year change is rounded off to one decimal place.

(2) Hotel GOP

(Millions of yen)

GOP of the five HMJ hotels		Fiscal year ended Dec. 31, 2013		Fiscal year ended Dec. 31, 2014		For Reference Fiscal year ending Dec. 31, 2015	
		Results	Year-on-year change	Results	Year-on-year change	Forecasts	Year-on-year change
Total for five HMJ hotels		6,155	9.0%	6,302	2.4%	6,366	1.0%
Ratio of GOP to sales		28.0%	1.5%	28.3%	0.3%	27.9%	(0.4)%

(Note) GOP is rounded off to the nearest million yen. Ratio of GOP to sales and year-on-year change are rounded off to one decimal place.

The calculation of rent for five HMJ hotels for the fiscal year ended December 31, 2014 is as follows:

Annual rent (¥5,625 million) = Fixed rent (¥3,221 million) + Variable rent (¥2,404 million)

Variable rent = [Total GOP of the five HMJ hotels (¥6,302 million) – GOP base amount (¥3,351 million)] × 81.5%

<Reference 3> Sales and GOP of the five Accor hotels

(1) Sales by hotel

(Millions of yen)

Sales of the five Accor hotels		Fiscal year ended Dec. 31, 2013		Fiscal year ended Dec. 31, 2014		For Reference Fiscal year ending Dec. 31, 2015	
		Results	Year-on-year change	Results	Year-on-year change	Forecasts	Year-on-year change
ibis Tokyo Shinjuku	First half	381	21.9%	427	12.0%	443	3.8%
	Second half	414	31.0%	445	7.5%	456	2.5%
	Full year	795	26.5%	872	9.6%	899	3.1%
ibis Styles Kyoto Station	First half	—	—	305	—	348	14.2%
	Second half	—	—	384	—	401	4.3%
	Full year	—	—	690	—	749	8.7%
ibis Styles Sapporo	First half	—	—	—	—	421	—
	Second half	—	—	—	—	534	—
	Full year	—	—	—	—	955	—
Mercure Hotel Sapporo	First half	—	—	—	—	454	—
	Second half	—	—	—	—	623	—
	Full year	—	—	—	—	1,077	—
Mercure Hotel Okinawa Naha	First half	—	—	—	—	388	—
	Second half	—	—	—	—	429	—
	Full year	—	—	—	—	817	—
Total	First half	—	—	—	—	2,054	—
	Second half	—	—	—	—	2,443	—
	Full year	—	—	—	—	4,497	—

(Note 1) Figures of the results in fiscal year ended December 31, 2013, results in fiscal year ended December 31, 2014 and year-on-year change are not available for ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha as no consent to disclosure of operating figures has been obtained from the previous lessees, etc.

(Note 2) Sales are rounded off to the nearest million yen. Year-on-year change is rounded off to one decimal place.

(2) Hotel GOP

(Millions of yen)

GOP of the five Accor hotels	Fiscal year ended Dec. 31, 2013		Fiscal year ended Dec. 31, 2014		For Reference Fiscal year ending Dec. 31, 2015	
	Results	Year-on-year change	Results	Year-on-year change	Forecasts	Year-on-year change
Total for five Accor hotels	-	-	-	-	2,006	-
Ratio of GOP to sales	-	-	-	-	44.6%	-

(Note 1) Figures of the results in fiscal year ended December 31, 2013, results in fiscal year ended December 31, 2014 and year-on-year change are not available for ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha as no consent to disclosure of operating figures has been obtained from the previous lessees, etc.

(Note 2) GOP is rounded off to the nearest million yen. Ratio of GOP to sales and year-on-year change are rounded off to one decimal place.

<Reference 4> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal periods ended December 31, 2013 and December 31, 2014 was calculated based on the assumptions described below.

(Millions of yen)

		Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Unappropriated retained earnings		3,235	5,776
Appropriation for dividends	Use of negative goodwill (Impairment loss)	516	-
	Use of negative goodwill (Loss on retirement of noncurrent assets)	8	4
	Use of negative goodwill (Loss on sale)	1,189	-
	Use of negative goodwill (Financial costs in accordance with early repayment)	-	71
	Use of negative goodwill (Adjustment for dilution) (Note)	135	164
Total dividends		5,082	6,015
Number of units issued (Units)		2,621,281	2,791,281
Dividend per unit (Yen)		1,939	2,155

(Note) This is to respond to the dilution of dividend per unit which occurred as a result of the issuance of new investment units during the fiscal periods ended December 31, 2013 and December 31, 2014.

<Reference 5> Balance of reserve for dividends (negative goodwill)

The following shows the balance of reserve for dividends (negative goodwill) after the appropriation for dividends as of December 31, 2014.

(Millions of yen)

Balance of reserve for dividends as of December 31, 2013	16,017
Appropriation for dividends for the fiscal year ended December 31, 2013	(1,848)
Balance of reserve for dividends after appropriation for dividends as of December 31, 2013	14,168
Appropriation for dividends for the fiscal year ended December 31, 2014	(240)
Balance of reserve for dividends after appropriation for dividends as of December 31, 2014	13,928

Overview of JHR

1. Unitholders' capital

Account closing date	11th period As of September 30, 2011	12th period As of March 31, 2012	13th period As of December 31, 2012	14th period As of December 31, 2013	15th period As of December 31, 2014
Total number of authorized units (Units)	2,000,000	2,000,000	20,000,000	20,000,000	20,000,000
Total number of units issued (Units)	58,031	58,031	2,111,281	2,621,281	2,791,281
Unitholders' capital (Millions of yen)	23,161	23,161	28,260	48,845	59,024
Number of unitholders (Persons)	5,279	5,728	13,630	17,073	22,866

(Note) The total number of authorized units changed from 2 million units to 20 million units on the effective date of the merger based on a resolution of the 5th General Meeting of Unitholders of JHR held on February 24, 2012.

2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2014 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	524,068	18.77
The Master Trust Bank of Japan, Ltd. (Trust Account)	287,523	10.30
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	252,508	9.04
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	118,089	4.23
Nomura Bank (Luxembourg) S.A.	97,755	3.50
Shikoku Railway Company	58,311	2.08
Goldman Sachs International	41,638	1.49
NOMURA PB NOMINEES TK1 LIMITED	38,269	1.37
NOMURA PB NOMINEES LIMITED OMINIBUS-MARGIN(CASHPB)	36,314	1.30
The Bank of New York Mellon SA/NV 10	29,695	1.06
Total	1,484,170	53.17

(Note) The percentage indicates the ratio of the number of units held to the total number of units issued.

3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2014 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (Thousands of yen)
Executive Director	Yukio Isa (Note 1) (Note 2)	—	4,800
Supervisory Director	Hiroshi Matsuzawa (Note 1) (Note 3)	—	2,400
Supervisory Director	Tetsuya Mishiku (Note 1) (Note 3)	Representative Attorney, Mishiku Nagamachi Law Office	2,400
Independent auditor	KPMG AZSA LLC (Note 4)	—	27,024

(Note 1) Executive Director and two Supervisory Directors of JHR were all elected at its 6th General Meeting of Unitholders held on November 28, 2013.

(Note 2) Yukio Isa owns 72 investment units of JHR in his own name.

(Note 3) No Supervisory Directors own investment units of JHR in their own name or another person's name. Although Supervisory Directors may be officers in corporations other than those listed above, there are no conflicts of interest between those corporations including those listed above and JHR.

(Note 4) Remuneration for the independent auditor includes fees for services other than those stipulated in Article 2, paragraph 1 of the Certified Public Accountants Act amounting to ¥7,500 thousand, such as preparation of comfort letters and research reports based on agreed-upon procedures performed for the capital increase through the public offering on September 9, 2014 and the issuance of investment corporation bonds on March 19, 2014 and December 19, 2014.

(2) Policy for decisions on dismissal or non-reappointment of independent auditor

We have a policy to determine, at a General Meeting of Unitholders, whether to dismiss the independent auditor pursuant to provisions of the Investment Trusts Act, and to determine whether or not to reappoint the independent auditor taking into comprehensive consideration the audit quality, audit fees and other various matters.

4. Asset management company, custodian and general administrators

The asset management company, etc. as of December 31, 2014 were as follows:

Consignment classification	Name
Asset management company	Japan Hotel REIT Advisors Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration of the unitholders' registry, book keeping, tax payments, organizational operations, etc., and administration of the special account management agency and special account)	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration regarding investment corporation bonds)	Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Limited
General administrator (tax return preparation, etc.)	Zeirishi-Hojin PricewaterhouseCoopers

Status of Investment Assets

1. Composition of assets

Type of assets	Business category (Note 1)	Prefectural location	Property name	14th period (As of December 31, 2013)		15th period (As of December 31, 2014)		
				Total amount of assets held (Millions of yen) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (Millions of yen) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Tokyo	ibis Tokyo Shinjuku	7,414	4.3	7,386	3.9	
			Hotel Sunroute Shimbashi	4,914	2.9	4,893	2.6	
			Comfort Hotel Tokyo Higashi-Nihombashi	3,719	2.2	3,689	2.0	
			Smile Hotel Nihombashi-Mitsukoshimae	2,054	1.2	2,056	1.1	
			R&B Hotel Ueno-Hirokoji	1,741	1.0	1,760	0.9	
			R&B Hotel Higashi-Nihombashi	1,496	0.9	1,516	0.8	
			Hotel Vista Kamata Tokyo	1,464	0.9	1,467	0.8	
			Dormy Inn Suidobashi	1,065	0.6	1,065	0.6	
			Dormy Inn EXPRESS Asakusa	984	0.6	974	0.5	
			Chisan Inn Kamata	817	0.5	810	0.4	
		Osaka	Namba Oriental Hotel	14,800	8.7	14,746	7.8	
			Dormy Inn Namba (Note 4)	684	0.4	-	-	
		Hokkaido	ibis Styles Sapporo (Note 5)	-	-	6,849	3.6	
			Mercure Hotel Sapporo	-	-	6,079	3.2	
		Kyoto	ibis Styles Kyoto Station	6,762	4.0	6,743	3.6	
		Fukuoka	Hakata Nakasu Washington Hotel Plaza	2,093	1.2	2,072	1.1	
			Toyoko Inn Hakataguchi Ekimae	1,541	0.9	1,520	0.8	
		Okinawa	Mercure Hotel Okinawa Naha	-	-	2,994	1.6	
		Kumamoto	Dormy Inn Kumamoto	2,307	1.4	2,268	1.2	
		Nara	Nara Washington Hotel Plaza	1,986	1.2	1,949	1.0	
		Niigata	Hotel Sunroute Niigata	1,956	1.1	1,967	1.0	
		Akita	Daiwa Roynet Hotel Akita	1,706	1.0	1,672	0.9	
		Yamaguchi	Comfort Hotel Shin-Yamaguchi	813	0.5	799	0.4	
		Subtotal			60,328	35.3	75,284	40.0
		Full-service hotel	Chiba	Oriental Hotel tokyo bay	19,173	11.2	18,800	10.0
			Hyogo	Kobe Meriken Park Oriental Hotel	10,415	6.1	10,171	5.4
			Hiroshima	Oriental Hotel Hiroshima	4,031	2.4	4,026	2.1
		Subtotal			33,621	19.7	32,999	17.5
		Resort hotel	Chiba	Hilton Tokyo Bay	26,264	15.4	26,189	13.9
			Okinawa	Hotel Nikko Alivila	18,423	10.8	18,475	9.8
	The Beach Tower Okinawa			7,053	4.1	6,953	3.7	
	Osaka		Hotel Keihan Universal City	6,124	3.6	6,085	3.2	
	Kanagawa		Hakone Setsugetsuka	3,927	2.3	3,848	2.0	
	Subtotal			61,793	36.2	61,553	32.7	
	Real estate in trust – Total			155,742	91.2	169,837	90.3	
Equity interest in silent partnership (Note 6)			-	-	602	0.3		
Deposits and other assets (Note 7)			14,985	8.8	17,651	9.4		
Total assets			170,727	100.0	188,091	100.0		

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount of assets held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of each asset held to total assets, rounded off to one decimal place.
- (Note 4) Dormy Inn Namba was transferred as of January 24, 2014.
- (Note 5) Changed name from Best Western Hotel Nakajima Koen to ibis Styles Sapporo as of December 27, 2014. In this report, the same name shall apply hereinafter.
- (Note 6) Represents the equity interest in silent partnership with G.K. Tourism Japan No. 1 as business operator.
- (Note 7) Includes machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets (excluding leasehold rights in trust).

2. Major portfolio assets

An overview of the portfolio assets of JHR (30 properties in total) as of December 31, 2014 was as follows.

Property No.	Property name	Book value (Millions of yen) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	10,289	32,663.90	32,663.90	100.0	8.5	Hotel
2	Oriental Hotel tokyo bay	18,982	44,833.11	44,833.11	100.0	12.8	Hotel
3	Namba Oriental Hotel	14,797	19,364.33	19,364.33	100.0	8.3	Hotel
4	Hotel Nikko Alivila (Note 6)	18,688	38,024.98	38,024.98	100.0	11.0	Hotel
5	Oriental Hotel Hiroshima	4,061	13,752.22	13,752.22	100.0	3.4	Hotel
6	ibis Tokyo Shinjuku	7,448	6,801.84	6,801.84	100.0	4.9	Hotel
8	The Beach Tower Okinawa (Note 7)	6,953	20,140.01	20,140.01	100.0	4.0	Hotel
9	Hakone Setsugetsuka (Note 8)	3,859	10,655.03	10,655.03	100.0	2.3	Hotel
10	Dormy Inn Kumamoto (Note 8)	2,268	7,701.19	7,701.19	100.0	1.5	Hotel
12	Dormy Inn Suidobashi	1,065	3,097.25	3,097.25	100.0	0.7	Hotel
13	Dormy Inn EXPRESS Asakusa	974	2,014.90	2,014.90	100.0	0.5	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,074	5,602.04	5,602.04	100.0	1.9	Hotel
15	Nara Washington Hotel Plaza	1,950	5,271.54	5,271.54	100.0	1.2	Hotel
16	R&B Hotel Ueno-Hirokoji	1,760	3,060.31	3,060.31	100.0	0.8	Hotel
17	R&B Hotel Higashi-Nihombashi	1,516	3,800.77	3,800.77	100.0	1.0	Hotel
18	Comfort Hotel Tokyo Higashi-Nihombashi (Note 8)	3,689	5,765.27	5,765.27	100.0	2.1	Hotel
19	Comfort Hotel Shin-Yamaguchi	799	2,999.00	2,999.00	100.0	0.5	Hotel
21	Daiwa Roynet Hotel Akita (Note 8)	1,672	7,539.52	7,539.52	100.0	1.1	Hotel
22	Smile Hotel Nihombashi-Mitsukoshimae	2,056	3,167.82	3,167.82	100.0	1.1	Hotel
23	Hotel Sunroute Niigata (Note 8)	1,967	8,328.84	8,328.84	100.0	1.2	Hotel
24	Toyoko Inn Hakataguchi Ekimae	1,520	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	1.1	Hotel
25	Hotel Vista Kamata Tokyo	1,467	3,831.80	3,831.80	100.0	0.8	Hotel
26	Chisan Inn Kamata	814	1,499.87	1,499.87	100.0	0.5	Hotel

Property No.	Property name	Book value (Millions of yen) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Tenant occupancy ratio (%) (Note 4)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
29	Hotel Keihan Universal City	6,086	16,212.40	16,212.40	100.0	4.4	Hotel
30	Hotel Sunroute Shimbashi	4,893	5,246.66	5,246.66	100.0	2.9	Hotel
31	Hilton Tokyo Bay (Note 9)	26,189	64,931.94	64,931.94	100.0	14.9	Hotel
32	ibis Styles Kyoto Station (Note 8)	6,763	5,003.99	5,003.99	100.0	3.2	Hotel
33	ibis Styles Sapporo (Note 8)	6,859	14,992.49	14,896.40	99.4	1.9	Hotel
34	Mercure Hotel Sapporo	6,091	15,189.42	14,905.88	98.1	1.0	Hotel
35	Mercure Hotel Okinawa Naha (Note 8)	3,014	10,884.25	10,884.25	100.0	0.6	Hotel
Total (Note 14)		170,576	386,826.71	386,447.08	99.9	100.0	

(Note 1) Book value includes real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets.

(Note 2) Leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).

(Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo).

(Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review, rounded off to one decimal place. Furthermore, although the ratio of rental revenue to total rental revenue for Dormy Inn Namba, which was transferred in the fiscal year ended December 2014, is not included, the sum total of the ratio of rental revenue to total rental revenue is indicated as 100.0% as the transfer has minimum impact.

(Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a condominium ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters). With regard to the portion of the building owned exclusively by Kobe City, the area rented by JHR from Kobe City with permission for use under Kobe City's ordinance for harbor facilities, etc. is 694.00 square meters and excluded from the above area of 32,663.90 square meters.

(Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.

(Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).

(Note 8) Leasable area and leased area for Hakone Setsugetsuka, Dormy Inn Kumamoto, Comfort Hotel Tokyo Higashi-Nihombashi, Daiwa Roynet Hotel Akita, Hotel Sunroute Niigata, ibis Styles Kyoto Station, ibis Styles Sapporo and Mercure Hotel Okinawa Naha include accessory buildings.

(Note 9) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,931.94 square meters (with co-ownership interest of 9/10 for common areas).

(Note 10) No. 7, No. 11, No. 20, No. 27 and No. 28 are intentionally omitted, as they represent transferred assets.

3. Details of property assets, etc.

(1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2014 were as follows:

Property No.	Property name	Location (Displayed address)	Form of ownership	Assessed value at end of period (Millions of yen) (Note 1)	Book value (Millions of yen) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	12,500	10,289	J
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	27,700	18,982	J
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	19,200	14,797	J
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	21,300	18,688	J
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,150	4,061	J
6	ibis Tokyo Shinjuku	10-5 Nishi-Shinjuku 7-chome, Shinjuku-ku, Tokyo	Beneficial interest in trust	7,740	7,448	J
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	8,400	6,953	J
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	4,480	3,859	J
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,790	2,268	M
12	Dormy Inn Suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	1,620	1,065	J
13	Dormy Inn EXPRESS Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,080	974	M
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,780	2,074	J
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,160	1,950	J
16	R&B Hotel Ueno-Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,670	1,760	M
17	R&B Hotel Higashi-Nihombashi	15-6 Higashi-Nihonbashi 2-chome, Chuo-ku, Tokyo	Beneficial interest in trust	1,850	1,516	M
18	Comfort Hotel Tokyo Higashi-Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	4,740	3,689	M
19	Comfort Hotel Shin-Yamaguchi (Note 4)	1255-1 Aza Watari Kamiichi, Ogori-shimogo, Yamaguchi-shi, Yamaguchi	Beneficial interest in trust	822	799	M
21	Daiwa Roynet Hotel Akita	2-41 Omachi 2-chome, Akita-shi, Akita	Beneficial interest in trust	1,820	1,672	J
22	Smile Hotel Nihombashi-Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,550	2,056	M
23	Hotel Sunroute Niigata	11-25 Higashi-oodori 1-chome, Chuo-ku, Niigata-shi, Niigata	Beneficial interest in trust	1,900	1,967	M
24	Toyoko Inn Hakataguchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,280	1,520	T

Property No.	Property name	Location (Displayed address)	Form of ownership	Assessed value at end of period (Millions of yen) (Note 1)	Book value (Millions of yen) (Note 2)	Appraisal agency (Note 3)
25	Hotel Vista Kamata Tokyo	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,520	1,467	T
26	Chisan Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	886	814	T
29	Hotel Keihan Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	8,920	6,086	R
30	Hotel Sunroute Shimbashi	10-2 Shinbashi 4-chome, Minato-ku, Tokyo	Beneficial interest in trust	6,360	4,893	D
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	30,700	26,189	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	7,020	6,763	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3 chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	7,080	6,859	J
34	Mercure Hotel Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	6,170	6,091	J
35	Mercure Hotel Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	3,220	3,014	J
Total				205,408	170,576	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of value estimate, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) and regulations set forth by The Investment Trusts Association, Japan.

(Note 2) Book value includes amounts of real estate in trust, machinery and installation, furniture, fixtures and equipment, construction in progress in trust, and intangible assets.

(Note 3) The letters indicate the appraisers for the properties as follows:

M: Morii Appraisal & Investment Consulting, Inc.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

J: Japan Real Estate Institute

R: Rich Appraisal Institute Co., Ltd.

D: Daiwa Real Estate Appraisal Co., Ltd.

(Note 4) Due to the lack of a displayed address, "location" in the registration or registration record is shown.

(Note 5) No. 7, No.11, No. 20, No. 27 and No. 28 are intentionally omitted, as they represent transferred assets.

(2) Transition of real estate leasing business, etc.

An overview of JHR's real estate leasing business, etc. is as follows:

Property No.	Property name	14th period (From January 1, 2013 to December 31, 2013)				15th period (From January 1, 2014 to December 31, 2014)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)
1	Kobe Meriken Park Oriental Hotel	1	100.0	1,072	9.3	1	100.0	1,085	8.5
2	Oriental Hotel tokyo bay	1	100.0	1,629	14.2	1	100.0	1,633	12.8
3	Namba Oriental Hotel	1	100.0	974	8.5	1	100.0	1,065	8.3
4	Hotel Nikko Alivila	1	100.0	1,392	12.1	1	100.0	1,406	11.0
5	Oriental Hotel Hiroshima	1	100.0	438	3.8	1	100.0	438	3.4
6	ibis Tokyo Shinjuku	4	100.0	545	4.8	4	100.0	625	4.9
8	The Beach Tower Okinawa	1	100.0	511	4.5	1	100.0	511	4.0
9	Hakone Setsugetsuka	1	100.0	294	2.6	1	100.0	294	2.3
10	Dormy Inn Kumamoto	1	100.0	194	1.7	1	100.0	194	1.5
11	Dormy Inn Namba (Note 2)	2	100.0	87	0.8	—	—	5	0.0
12	Dormy Inn Suidobashi	1	100.0	84	0.7	1	100.0	84	0.7
13	Dormy Inn EXPRESS Asakusa	1	100.0	63	0.6	1	100.0	63	0.5
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	2.1	1	100.0	240	1.9
15	Nara Washington Hotel Plaza	2	100.0	153	1.3	2	100.0	151	1.2
16	R&B Hotel Ueno-Hirokoji	1	100.0	100	0.9	1	100.0	100	0.8
17	R&B Hotel Higashi-Nihombashi	1	100.0	122	1.1	1	100.0	122	1.0
18	Comfort Hotel Tokyo Higashi-Nihombashi	2	100.0	270	2.4	2	100.0	270	2.1
19	Comfort Hotel Shin-Yamaguchi	1	100.0	60	0.5	1	100.0	60	0.5
20	Pearl Hotel Kayabacho (Note 3)	—	—	193	1.7	—	—	—	—
21	Daiwa Roynet Hotel Akita	1	100.0	138	1.2	1	100.0	138	1.1
22	Smile Hotel Nihombashi-Mitsukoshimae	1	100.0	134	1.2	1	100.0	134	1.1
23	Hotel Sunroute Niigata	1	100.0	156	1.4	1	100.0	156	1.2
24	Toyoko Inn Hakataguchi Ekimae	1	100.0	141	1.2	1	100.0	141	1.1
25	Hotel Vista Kamata Tokyo	1	100.0	93	0.8	1	100.0	98	0.8
26	Chisan Inn Kamata	1	100.0	50	0.4	1	100.0	62	0.5
27	Hotel Vista Hashimoto (Note 4)	-	-	41	0.4	—	—	—	—
29	Hotel Keihan Universal City	1	100.0	561	4.9	1	100.0	560	4.4
30	Hotel Sunroute Shimbashi	5	100.0	350	3.1	5	100.0	367	2.9
31	Hilton Tokyo Bay (Note 5)	1	100.0	1,283	11.2	1	100.0	1,897	14.9

Property No.	Property name	14th period (From January 1, 2013 to December 31, 2013)				15th period (From January 1, 2014 to December 31, 2014)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (Millions of yen)	Ratio to total real estate operating revenue (%)
32	ibis Styles Kyoto Station (Note 6)	2	100.0	92	0.8	2	100.0	408	3.2
33	ibis Styles Sapporo (Note 7)	-	-	-	-	5	99.4	241	1.9
34	Mercure Hotel Sapporo (Note 8)	-	-	-	-	15	98.1	123	1.0
35	Mercure Hotel Okinawa Naha (Note 8)	-	-	-	-	5	100.0	77	0.6
Total		39	100.0	11,472	100.0	62	99.9	12,760	100.0

(Note 1) Calculation is made with lessees that have direct lease contracts with trustees as tenants.

(Note 2) Dormy Inn Namba was transferred as of January 24, 2014.

(Note 3) Pearl Hotel Kayabacho was transferred as of November 13, 2013.

(Note 4) Hotel Vista Hashimoto was transferred as of June 28, 2013.

(Note 5) Hilton Tokyo Bay was acquired as of April 26, 2013.

(Note 6) ibis Styles Kyoto Station was acquired as of October 31, 2013.

(Note 7) ibis Styles Sapporo was acquired as of July 9, 2014.

(Note 8) Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha were acquired as of September 30, 2014.

(Note 9) No. 7 and No. 28 are intentionally omitted, as they represent assets that were transferred before the fiscal year ended December 31, 2013.

4. Details of securities assets

The details of securities assets held by JHR as of December 31, 2014 were as follows:

Securities	Asset type	Quantity	Book value (Millions of yen)		Estimated value (Millions of yen) (Note 1)		Gain or loss on valuation (Millions of yen)	Remarks
			Per Unit	Total	Per Unit	Total		
Equity interest in silent partnership with G.K. Tourism Japan No. 1 as business operator	Equity interest in silent partnership	-	602	602	729	729	126	(Note 2)

(Note 1) Estimated value represents the amount for the equity interest in silent partnership calculated on the basis of the appraisal value of the real estate under management. Furthermore, the evaluation method differs from that applied to the fair value in [5. Financial Instruments] in the Notes to Financial Statements.

(Note 2) The silent partnership invests in the real estate beneficial interest in trust of Hotel Francs.

5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2014 were as follows:

Classification	Transaction	Amounts of contract, etc. (Millions of yen) (Note 1)		Fair value (Millions of yen) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swaps Payable fixed rate / Receivable floating rate	60,604	53,659	(358)
	Interest rate caps	9,413	9,413	4
	Total	70,017	63,073	(353)

(Note 1) Contractual amounts, etc. of interest rate swaps and interest rate caps are based on notional principal amounts, etc.

(Note 2) Fair value is based on the price, etc. provided by counterparty financial institutions.

6. Other assets

All of the real estate beneficial interest in trust held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments or are part of JHR’s portfolio as of December 31, 2014.

7. Asset holdings by country and region

There is nothing to be reported on countries and regions other than Japan.

Capital Expenditures for Portfolio Properties

1. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures for renovation work planned as of the end of the fiscal period under review for investment real estate properties held by JHR. Expenditures are expected to total ¥1,760 million, which consists of capital expenditures of ¥1,696 million and repair expenses of ¥63 million, for the following fiscal period.

Property name (Location)	Purpose	Scheduled period	Estimated construction costs (Millions of yen)		
			Total amount	Payment for the period	Total amount paid
Dormy Inn Suidobashi (Bunkyo-ku, Tokyo)	Replacement of air conditioning units	From April 2015 to June 2015	56	-	-
Dormy Inn Suidobashi (Bunkyo-ku, Tokyo)	Renewal in association with re-branding	From April 2015 to June 2015	60	-	-
ibis Tokyo Shinjuku (Shinjuku-ku, Tokyo)	Replacement of piping	From August 2015 to October 2015	90	-	-
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Replacement of piping in the kitchen and guest rooms	From February 2015 to December 2015	54	-	-
Total			260	-	-

(Note) For new construction and renewal work, estimated construction costs include that for buildings, annexed installation, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned repair work and whether or not the repair work will be performed may change.

2. Capital expenditures during the period (Note)

For investment real estate properties held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥1,306 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥45 million. In aggregate, there was ¥1,352 million of construction work.

Property name (Location)	Purpose	Period	Construction costs (Millions of yen)
Namba Oriental Hotel (Chuo-ku, Osaka-shi, Osaka)	Work on emergency power generator	From October 2014 to November 2014	62
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Renewal of guest rooms	From January 2014 to March 2014	332
Hotel Nikko Alivila (Yomitan-son, Nakagami-gun, Okinawa)	Painting of outer wall	From January 2014 to March 2014	74
Total			468

(Note) For new construction and renewal work, construction costs include those for buildings, annexed installation, etc. as well as those classified as furniture and fixtures.

3. Cash reserves for the long-term repairs and maintenance plan (reserve for repairs and maintenance)

JHR accumulates cash reserves from cash flows for each period as detailed below to utilize for medium- to long-term future expenditures on large-scale repairs and maintenance projects based on a long-term repairs and maintenance plan prepared for each property.

(Millions of yen)

Fiscal period	11th period (From April 1, 2011 to September 30, 2011)	12th period (From October 1, 2011 to March 31, 2012)	13th period (From April 1, 2012 to December 31, 2012)	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)
Balance at beginning of period	311	369	409	307	454
Provision during the period	87	90	(Note) 286	184	46
Decrease (reversal) during the period	29	50	388	37	7
Amount carried forward	369	409	307	454	493

(Note) Figures in the above table include amounts assumed from the former JHR as a result of the merger.

Expenses and Liabilities

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

(Thousands of yen)

	14th period (From January 1, 2013 to December 31, 2013)	15th period (From January 1, 2014 to December 31, 2014)
(a) Asset management fees	(Note 1) 738,628	(Note 2) 809,152
(b) Asset custody fees	23,967	14,134
(c) Administrative service fees	73,409	71,703
(d) Officers' compensation	9,600	9,600
(e) Other operating expenses	199,857	147,060
Total	1,045,461	1,051,650

(Note 1) For asset management fees for the 14th fiscal period, besides the above amounts, there are ¥244,875 thousand of fees included in the acquisition value of investment properties, etc. in purchasing the properties and ¥13,400 thousand included in gain or loss on sale of real estate from the transfer of the properties.

(Note 2) For asset management fees for the 15th fiscal period, besides the above amounts, there are ¥110,977 thousand of fees included in the acquisition value of investment properties, etc. in acquiring the properties and ¥3,500 thousand included in gain or loss on sale of real estate from property transfer.

2. Loans Payable

The status of loans by contractual agreement and by financial institution as of December 31, 2014 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	March 29, 2013	389	—	0.77	March 31, 2014	Repayment of ¥7,750 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		675	—					
	Sompo Japan Nipponkoa Insurance Inc.		760	—					
	The Nomura Trust and Banking Co., Ltd.		844	—					
	Subtotal		2,669	—					
	Short-term loans payable – Total		2,669	—					
Long-term loans payable	Resona Bank, Limited	February 15, 2011	2,000	—	1.50	February 15, 2014	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Shinsei Bank, Limited		3,000	—					
	Subtotal		5,000	—					
	Sumitomo Mitsui Banking Corporation	February 15, 2011	2,560	2,560	1.71	February 15, 2015	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		2,219	2,219					
	The Norinchukin Bank		2,219	—					
	Subtotal		6,998	4,779					
	MetLife Insurance K.K.	February 15, 2011	5,000	—	2.42 (Note 2)	February 15, 2018	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Subtotal		5,000	—					
	The Tokyo Star Bank, Limited	March 24, 2011	3,000	2,945	1.91 (Note 3)	March 24, 2016	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Subtotal		3,000	2,945					
	Sumitomo Mitsui Banking Corporation	March 31, 2011	486	—	1.52	March 31, 2014	Repayment of ¥12,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,458	—					
	Resona Bank, Limited		1,945	—					
	Shinsei Bank, Limited		875	—					
	Subtotal		4,765	—					
	Sumitomo Mitsui Banking Corporation	March 31, 2011	718	708	1.71 (Note 4)	September 30, 2015	Repayment of ¥7,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
Shinsei Bank, Limited	194		191						
The Tokyo Star Bank, Limited	1,266		1,251						
Subtotal		2,178	2,150						
	Sumitomo Mitsui Banking Corporation	May 31, 2011	715	—	1.61	September 30, 2014	Repayment of ¥13,250	(Note 16)	Unsecured, unguaranteed

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Trust Bank, Limited		240	—			thousand every 3 months, and lump-sum repayment of the remaining amount		
	Resona Bank, Limited		1,095	—					
	Shinsei Bank, Limited		1,210	—					
	Subtotal		3,262	—					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	2,200	2,200	1.97	March 26, 2016	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Subtotal		2,200	2,200					
	Sumitomo Mitsui Banking Corporation	March 26, 2012	225	—	1.56	March 26, 2016	Repayment of ¥50,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 17)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		450	207					
	The Norinchukin Bank		450	—					
	Subtotal		1,125	207					
	Sumitomo Mitsui Trust Bank, Limited	September 19, 2012	960	960	1.11 (Note 5)	September 19, 2015	Lump-sum repayment	(Note 18)	Unsecured, unguaranteed
	Resona Bank, Limited		960	960					
	The Nomura Trust and Banking Co., Ltd.		960	960					
	Subtotal		2,880	2,880					
	Sumitomo Mitsui Banking Corporation	September 19, 2012	1,200	1,200	1.32 (Note 6)	September 19, 2017	Lump-sum repayment	(Note 18)	Unsecured, unguaranteed
	Shinsei Bank, Limited		960	960					
	The Tokyo Star Bank, Limited		960	960					
	Subtotal		3,120	3,120					
	The Tokyo Star Bank, Limited	November 15, 2012	500	500	1.06 (Note 7)	November 15, 2015	Lump-sum repayment	(Note 16)	Unsecured, unguaranteed
	Hiroshima Bank, Ltd.		1,000	992					
	Sumitomo Mitsui Banking Corporation		100	100					
	Subtotal		1,600	1,592					
	The Norinchukin Bank	November 15, 2012	2,100	—	1.21 (Note 8)	March 26, 2016	Lump-sum repayment	(Note 16)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		2,100	2,100					
	Sumitomo Mitsui Banking Corporation		453	453					
	Subtotal		4,653	2,553					
	Shinsei Bank, Limited	November 15, 2012	2,000	2,000	1.26 (Note 9)	November 15, 2017	Lump-sum repayment	(Note 16)	Unsecured, unguaranteed
	The Tokyo Star Bank, Limited		500	500					

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation		4,000	4,000					
	Subtotal		6,500	6,500					
	Sumitomo Mitsui Banking Corporation	February 28, 2013	1,781	1,761	0.94	February 29, 2016	Repayment of ¥1,625 thousand every month, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
	Subtotal		1,781	1,761					
	Sumitomo Mitsui Trust Bank, Limited	March 29, 2013	875	866	1.01	March 31, 2017	Repayment of ¥2,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
	Subtotal		875	866					
	The Nomura Trust and Banking Co., Ltd.	April 26, 2013	1,990	1,942	0.91	April 26, 2016	Repayment of ¥11,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 18)	Unsecured, unguaranteed
	The Chiba Bank, Ltd.		995	972					
	Development Bank of Japan Inc.		895	879					
	The Bank of Fukuoka, Ltd.		497	488					
	Subtotal		4,378	4,283					
	Sumitomo Mitsui Banking Corporation	April 26, 2013	2,189	2,167	1.11	April 26, 2018	Repayment of ¥11,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 18)	Unsecured, unguaranteed
	Shinsei Bank, Limited		995	985					
	The Tokyo Star Bank, Limited		1,293	1,280					
	Subtotal		4,477	4,432					
	Sumitomo Mitsui Banking Corporation	September 30, 2013	1,847	1,828	0.81 (Note 10)	September 30, 2018	Repayment of ¥7,250 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
Sumitomo Mitsui Trust Bank, Limited	972		962						
Subtotal		2,820	2,791						
	Sumitomo Mitsui Banking Corporation	October 31, 2013	500	500	0.81 (Note 10)	September 30, 2018	Lump-sum repayment	(Note 18)	Unsecured, unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		1,000	1,000					

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Mizuho Bank, Ltd.		1,000	1,000					
	Shinsei Bank, Limited		500	500					
	Subtotal		3,000	3,000					
	Sumitomo Mitsui Banking Corporation	March 31, 2014	–	78	0.66 (Note 11)	March 31, 2018	Repayment of ¥19,000 thousand every 3 months, and lump-sum repayment of the remaining amount	(Note 16)	Unsecured, unguaranteed
	Resona Bank, Limited		–	773					
	Shinsei Bank, Limited		–	726					
	Sumitomo Mitsui Trust Bank, Limited		–	89					
	The Nomura Trust and Banking Co., Ltd.		–	698					
	The Chiba Bank, Ltd.		–	559					
	Sompo Japan Nipponkoa Insurance Inc.		–	625					
	Subtotal		–	3,549					
	Sumitomo Mitsui Banking Corporation	March 31, 2014	–	648	0.81 (Note 12)	March 31, 2021	Lump-sum repayment	(Note 16)	Unsecured, unguaranteed
	Resona Bank, Limited		–	2,516					
	Shinsei Bank, Limited		–	2,516					
	Sumitomo Mitsui Trust Bank, Limited		–	1,120					
	Subtotal		–	6,800					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	–	600	0.71 (Note 13)	September 30, 2019	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		–	1,200					
	Resona Bank, Limited		–	803					
	Shinsei Bank, Limited		–	720					
	Sumitomo Mitsui Trust Bank, Limited		–	600					
	The Bank of Fukuoka, Ltd.		–	1,000					
	The Nomura Trust and Banking Co., Ltd.		–	500					
	Hiroshima Bank, Ltd.		–	500					
	Sompo Japan Nipponkoa Insurance Inc.		–	371					
	Development Bank of Japan Inc.		–	500					
	Subtotal		–	6,794					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	–	800	0.76 (Note 14)	September 30, 2020	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		–	1,600					
	Resona Bank, Limited		–	1,100					

Category	Lender	Borrowing date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Shinsei Bank, Limited		–	970					
	Sumitomo Mitsui Trust Bank, Limited		–	800					
	Development Bank of Japan Inc.		–	500					
	The Tokyo Star Bank, Limited		–	762					
	Aozora Bank, Ltd.		–	350					
	Subtotal		–	6,882					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	–	600	0.81 (Note 15)	September 30, 2021	Lump-sum repayment	(Note 17)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		–	1,200					
	Resona Bank, Limited		–	850					
	Shinsei Bank, Limited		–	750					
	Sumitomo Mitsui Trust Bank, Limited		–	600					
	Subtotal		–	4,000					
	Mitsubishi UFJ Trust and Banking Corporation	December 30, 2014	–	1,000	0.63	December 30, 2020	Lump-sum repayment	(Note 16)	Unsecured, unguaranteed
	Subtotal		–	1,000					
Long-term loans payable – Total		69,614	75,089						
Total loans payable			72,284	75,089					

- (Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to two decimal places.
- (Note 2) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 2.54600% per annum from February 15, 2013 through February 15, 2018.
- (Note 3) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 2.01375% per annum from November 15, 2012 through March 24, 2016.
- (Note 4) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.80375% per annum from December 28, 2012 through September 30, 2015.
- (Note 5) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.20375% per annum from December 28, 2012 through September 19, 2015.
- (Note 6) Under the interest rate swap contract entered as of October 10, 2012, the interest rate is substantially fixed at 1.47000% per annum from December 28, 2012 through September 19, 2017.
- (Note 7) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.13800% per annum from February 28, 2013 through November 15, 2015.
- (Note 8) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.29000% per annum from February 28, 2013 through March 26, 2016.
- (Note 9) Under the interest rate swap contract entered as of December 13, 2012, the interest rate is substantially fixed at 1.38000% per annum from February 28, 2013 through November 15, 2017.
- (Note 10) Under the interest rate swap contract entered as of November 13, 2013, the interest rate is substantially fixed at 0.98050% per annum from December 30, 2013 through September 30, 2018.
- (Note 11) Under the interest rate swap contract entered as of March 27, 2014, the interest rate is substantially fixed at 0.72738% per annum from March 31, 2014 through March 31, 2018.
- (Note 12) Under the interest rate swap contract entered as of March 27, 2014, the interest rate is substantially fixed at 1.15039% per annum from March 31, 2014 through March 31, 2021.

- (Note 13) Of these loans payable, the interest rate on the portion totaling ¥1,794 million is, in effect, fixed at 0.80225% for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.
- (Note 14) Under the interest rate swap contract entered as of September 26, 2014, the interest rate is substantially fixed at 0.91620% per annum from September 30, 2014 through September 30, 2020.
- (Note 15) Under the interest rate swap contract entered as of September 26, 2014, the interest rate is substantially fixed at 1.03900% per annum from December 31, 2014 through September 30, 2021.
- (Note 16) The funds were appropriated for repayment of borrowings.
- (Note 17) The funds were mainly appropriated for acquisition of the beneficial interest of real estate in trust, repayment of borrowings and related expenses, etc.
- (Note 18) The funds were mainly appropriated for acquisition of the beneficial interest of real estate in trust and related expenses, etc.
- (Note 19) To present loans payable for each loan contract, ¥11,825 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2014 was as follows:

Name	Issuance date	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Second unsecured investment corporation bonds	November 26, 2013	2,500	2,500	0.89	November 25, 2016	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 4)
Third unsecured investment corporation bonds	March 19, 2014	—	2,000	0.92	March 19, 2019	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 4)
Fourth unsecured investment corporation bonds	December 19, 2014	—	1,500	0.86	December 17, 2021	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 4)
Total		2,500	6,000					

- (Note 1) The funds were mainly appropriated for redemption of the first unsecured investment corporation bonds and future acquisition of specified assets, etc.
- (Note 2) The funds were appropriated to partly fund the repayment of existing borrowings.
- (Note 3) The funds were mainly appropriated for repayment of borrowings and future acquisition of specified assets, etc.
- (Note 4) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

4. Short-term investment corporation bonds

Not applicable.

Purchase and Sale during the Period

1. Purchase and sale of real estate properties and asset-backed securities, etc.

Asset type	Property name	Acquisition		Sale			
		Acquisition date	Acquisition price (Millions of yen) (Note 1)	Sale date	Sale price (Millions of yen) (Note 1)	Book value (Millions of yen)	Gain (loss) on sale (Millions of yen) (Note 2)
Beneficial interest of real estate in trust	ibis Styles Sapporo	July 9, 2014	6,797	—	—	—	—
Beneficial interest of real estate in trust	Mercure Hotel Sapporo	September 30, 2014	6,000	—	—	—	—
Beneficial interest of real estate in trust	Mercure Hotel Okinawa Naha	September 30, 2014	3,000	—	—	—	—
Equity interest in silent partnership	Equity interest in silent partnership with G.K. Tourism Japan No. 1 as business operator	October 31, 2014	595	—	—	—	—
Beneficial interest of real estate in trust	Dormy Inn Namba	—	—	January 24, 2014	700	683	0
Total		—	16,392	—	700	683	0

(Note 1) Acquisition price and sale price indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) “Gain (loss) on sale” shows the amount calculated by deducting the book value and other selling expenses from the sale price.

2. Purchase and sale of other assets, etc.

Assets other than real estate properties and asset-backed securities were mostly bank deposits and bank deposits in trust.

3. Survey of prices, etc. of specified assets

(1) Real estate properties, etc.

Acquisition/sale	Asset type	Property name	Acquisition/sale date	Acquisition/sale price (Millions of yen) (Note 1)	Appraisal value (Millions of yen) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Beneficial interest of real estate in trust	ibis Styles Sapporo	July 9, 2014	6,797	7,080	December 31, 2014	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	Mercure Hotel Sapporo	September 30, 2014	6,000	6,170	December 31, 2014	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	Mercure Hotel Okinawa Naha	September 30, 2014	3,000	3,220	December 31, 2014	Japan Real Estate Institute
Acquisition	Beneficial interest of real estate in trust	Dormy Inn Namba	January 24, 2014	700	1,090	June 30, 2013	The Tanizawa Sogo Appraisal Co., Ltd.

(Note 1) Acquisition price and sale price indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) The above appraisals were made by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

(2) Transaction of securities

Acquisition/ sale	Asset type	Name of securities	Acquisition date	Acquisition price (Millions of yen) (Note 1)	Survey value of specified asset (Millions of yen) (Note 2)
Acquisition	Equity interest in silent partnership	Equity interest in silent partnership with G.K. Tourism Japan No. 1 as business operator	October 31, 2014	595	729

(Note 1) Acquisition price indicates contracted amounts in the silent partnership agreement excluding related expenses incurred on the investment in such interest.

(Note 2) The research on price, etc. of the above specified asset was conducted by KPMG AZSA LLC pursuant to the “Survey on Prices, Etc. of Specified Assets of Investment Trusts and Investment Corporations” (Industry Committee Practical Guidance No. 23, The Japanese Institute of Certified Public Accountants). The survey report was received by JHR.

(3) Other

For transactions made by JHR that require research on price, etc. pursuant to the provisions of Article 201 of the Investment Trusts Act, except for transactions described in “(1) Real estate properties, etc.” above, the research was commissioned to KPMG AZSA LLC.

JHR has received from KPMG AZSA LLC a research report on six interest rate swap contracts during the period from January 1, 2014 to December 31, 2014.

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

(1) Transactions

(Millions of yen)			
Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	16,392	700	12,760
	Amount of purchase from related parties, etc. 3,000 [18.3%]	Amount of sales to related parties, etc. – [–%]	Amount of real estate operating revenue from related parties, etc. 6,997 [54.8%]
Breakdown of transactions with related parties, etc.			
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	5,627 [44.1%]
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,153 [9.0%]
GK Sapporo Hotel Holding	– [–%]	– [–%]	216 [1.7%]
Tsubogawa GK (Note 4)	3,000 [18.3%]	– [–%]	– [–%]
Total	3,000 [18.3%]	– [–%]	6,997 [54.8%]

(Note 1) Interested parties are the Asset Management Company’s interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trusts Act (hereinafter referred to as “interested parties, etc.”). The amounts in “(1) Transactions” above and “(2) Amounts of fees paid, etc.” below include transactions with those interested parties, etc. as well as sponsor-related parties stipulated in the Asset Management Company’s company code for transactions with sponsor-related persons, which include 1. Interested parties, etc., 2.

The Asset Management Company's shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 50% or more stake, 5. Entity or persons who ceased to fall under 1. or 4. within 3 months, and 6. Entity or persons who are deemed appropriate by the compliance officer to be treated as sponsor-related persons in light of the company code for transactions with sponsor-related persons and the purpose of these rules.

(Note 2) Acquisition price, etc. and sale price, etc. indicate contracted amounts of the property in the purchase and sale agreement excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 3) The figures in brackets show the ratio of the amount to the total amount of purchase and sale amount, etc. rounded off to one decimal place.

(Note 4) Tsubogawa GK does not fall under the category of interested parties, etc. stipulated in Article 201 of the Investment Trusts Act and Article 123 of the Enforcement Order of the Investment Trusts Act. However, it falls under the category of sponsor related party under the Code for Transaction with Sponsor Related Party, an internal code of the asset management company. The RECAP group, to which the asset management company's parent company belongs, has silent partnership equity interests in the seller.

(2) Amount of fees paid, etc.

(Thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with related parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	115,979	Hotel Management Japan Co., Ltd.	5,760	5.0

(Note) Includes basic fees under the property management agreement as well as outsourcing expenses related to routine maintenance and management of buildings and facilities.

5. Transactions with the Asset Management Company in other businesses of the Asset Management Company

The Asset Management Company only engages in investment management and does not engage in any businesses related to the financial instruments business, building lots and buildings transactions, or real estate specified joint enterprise business. There are no applicable transactions.

II. Financial Information

1. Assets, liabilities, equity, and profit and loss

For the status of assets, liabilities, equity, and profit and loss, please refer to “BALANCE SHEETS,” “STATEMENTS OF INCOME,” “STATEMENTS OF CHANGES IN NET ASSETS,” “STATEMENTS OF CASH FLOWS” and “NOTES TO FINANCIAL STATEMENTS.”

2. Changes in calculation method of depreciation

Not applicable.

3. Changes in evaluation method of real estate properties

Not applicable.

4. Beneficiary certificates of investment trusts set up by JHR

Not applicable.

Other

(1) Announcements

The following shows the summary of major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR’s Board of Directors.

Approval date	Item	Summary
August 20, 2014	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units	Due to the issuance of new investment units, general administration for offering the investment units was entrusted to SMBC Nikko Securities Inc. and Daiwa Securities Co., Ltd.
November 19, 2014	Comprehensive resolution on the issuance of investment corporation bonds and entrustment of accompanying administration (Note 2)	A comprehensive resolution was made on the issuance of investment corporation bonds with the issuance period between November 19, 2014 and September 10, 2015 with the total amount issued of up to ¥50.0 billion, and the decision on matters regarding the issuance of investment corporation bonds, including entrustment of the administration, was left to the discretion of the Executive Director.

(Note 1) On March 19, 2014, the third unsecured investment corporation bonds were issued. General administration on the third unsecured investment corporation bonds was entrusted to Sumitomo Mitsui Banking Corporation. Furthermore, the comprehensive resolution and entrustment of accompanying administration were approved by the Board of Directors’ meeting held on September 3, 2014.

(Note 2) On December 19, 2014, the fourth unsecured investment corporation bonds were issued. General administration on the fourth unsecured investment corporation bonds was entrusted to Sumitomo Mitsui Trust Bank, Limited.

(2) Other

Unless otherwise noted, amounts and ratios in this report are rounded down and rounded off to the stated unit, respectively.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
December 31, 2014 and 2013

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and deposits (<i>Notes 3, 4 and 5</i>)	¥ 7,539,897	¥ 6,356,081
Cash and deposits in trust (<i>Notes 3 and 5</i>)	6,884,877	6,197,207
Operating accounts receivable	1,029,379	753,808
Prepaid expenses	381,639	329,729
Income taxes receivable	428	405
Other current assets	37	5,278
Total current assets	15,836,259	13,642,511
Property and equipment, at cost (<i>Notes 4, 12, 15, 17, 18 and 19</i>):		
Machinery and equipment	155,796	129,562
Tools, furniture and fixtures	1,041,932	748,924
Buildings in trust (<i>Note 11</i>)	67,291,439	57,994,577
Structures in trust	736,632	654,368
Machinery and equipment in trust	469,007	243,405
Tools, furniture and fixtures in trust	129,339	133,069
Land in trust	89,055,831	82,502,566
Construction in progress in trust	126	14,573
	158,880,106	142,421,049
Less: Accumulated depreciation	(8,143,763)	(5,891,461)
Net property and equipment	150,736,342	136,529,587
Intangible assets:		
Software	57,421	38,407
Leasehold rights in trust (<i>Note 4</i>)	19,774,039	19,774,039
Other intangible assets	10,968	11,647
Total intangible assets	19,842,429	19,824,094
Other assets:		
Investment securities (<i>Note 5</i>)	602,725	-
Security deposits	12,520	12,500
Leasehold and security deposits in trust	158,323	158,323
Long-term prepaid expenses	803,747	445,294
Derivative assets (<i>Note 16</i>)	4,834	35,759
Investment unit issuance costs	55,628	62,355
Investment corporation bond issuance costs	38,923	17,499
Total other assets	1,676,703	731,733
Total assets	¥188,091,734	¥170,727,927

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Balance Sheets
December 31, 2014 and 2013

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Operating accounts payable	¥ 285,938	¥ 238,954
Short-term loans payable (<i>Notes 4, 5 and 6</i>)	-	2,669,150
Current portion of long-term loans payable (<i>Notes 4, 5, 6 and 16</i>)	11,825,132	13,701,860
Accounts payable	-	46,197
Accrued expenses	400,390	398,909
Income taxes payable	1,210	1,210
Consumption taxes payable	290,174	113,717
Advances received	651,652	634,692
Dividends payable	10,770	7,208
Deposits received	9,384	74,895
Other current liabilities	-	375
Total current liabilities	13,474,653	17,887,171
Long-term liabilities:		
Investment corporation bonds (<i>Notes 5 and 7</i>)	6,000,000	2,500,000
Long-term loans payable (<i>Notes 4, 5, 6 and 16</i>)	63,264,603	55,913,055
Tenant leasehold and security deposits (<i>Note 5</i>)	2,041,916	2,010,520
Tenant leasehold and security deposits in trust (<i>Note 5</i>)	2,608,901	2,615,148
Derivative liabilities (<i>Note 16</i>)	358,752	44,789
Deferred tax liabilities (<i>Note 13</i>)	-	1,028
Total long-term liabilities	74,274,172	63,084,541
Total liabilities	87,748,826	80,971,713
Net assets (<i>Note 8</i>):		
Unitholders' equity:		
Unitholders' capital	59,024,923	48,845,323
Units authorized: 20,000,000 units		
Units issued and outstanding; 2,791,281 units and 2,621,281 units as of December 31, 2014 and 2013, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Dividend reserve	14,168,614	16,017,484
Total voluntary reserve	14,168,614	16,017,484
Unappropriated retained earnings	5,776,116	3,235,030
Total surplus	41,691,129	40,998,912
Total unitholders' equity	100,716,052	89,844,236
Valuation and translation adjustments:		
Deferred gains (losses) on hedges (<i>Note 16</i>)	(373,144)	(88,022)
Total valuation and translation adjustments	(373,144)	(88,022)
Total net assets	100,342,908	89,756,213
Total liabilities and net assets	¥188,091,734	¥170,727,927

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Income
For the years ended December 31, 2014 and December 31, 2013

	<i>Thousands of yen</i>	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Operating revenue:		
Real estate operating revenue (<i>Note 9</i>)	¥ 12,510,628	¥ 11,277,162
Other real estate operating revenue (<i>Note 9</i>)	249,564	195,761
Gain on sale of real estate properties (<i>Note 10</i>)	13	-
Total operating revenue	12,760,205	11,472,924
Operating expenses:		
Real estate operating costs (<i>Note 9</i>)	4,163,015	3,870,583
Loss on sale of real estate properties (<i>Note 10</i>)	-	1,189,084
Asset management fee	809,152	738,628
Asset custody fee	14,134	23,967
Administrative service fee	71,703	73,409
Directors' compensation	9,600	9,600
Other operating expenses	147,060	199,857
Total operating expenses	5,214,666	6,105,130
Operating income	7,545,539	5,367,794
Non-operating income:		
Interest income	2,111	1,996
Gain on forfeiture of unclaimed dividends	1,268	1,744
Gain on insurance claims	958	2,329
Interest on tax refunds	447	806
Government subsidy income	-	35,637
Total non-operating income	4,785	42,514
Non-operating expenses:		
Interest expense	1,029,964	1,053,352
Interest expense on investment corporation bonds	37,110	43,888
Borrowing costs	599,282	491,126
Amortization of investment corporation bond issuance costs	8,677	580
Amortization of investment unit issuance costs	35,774	36,437
Loss on derivative instruments (<i>Note 16</i>)	63,357	8,632
Advanced depreciation deduction of property and equipment (<i>Note 11</i>)	-	24,921
Impairment loss (<i>Notes 12 and 18</i>)	-	516,779
Other	67	45
Total non-operating expenses	1,774,234	2,175,763
Income before income taxes	5,776,090	3,234,544
Income taxes (<i>Note 13</i>):		
Current	1,210	1,210
Deferred	-	-
Total income taxes	1,210	1,210
Net income	¥ 5,774,880	¥ 3,233,334

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Changes in Net Assets
For the years ended December 31, 2014 and December 31, 2013

	<i>Thousands of yen</i>						
	Unitholders' equity						
	Surplus						Total unitholders' equity
	Unitholders' capital	Capital surplus	Dividend reserve	Total voluntary reserve	Unappropriated retained earnings	Total surplus	
Balance, January 1, 2013	28,260,193	21,746,398	-	-	19,031,977	40,778,375	69,038,569
Changes of items during the year:							
Issuance of new investment units	20,585,130	-	-	-	-	-	20,585,130
Addition to dividend reserve	-	-	16,017,484	16,017,484	(16,017,484)	-	-
Dividends paid	-	-	-	-	(3,012,797)	(3,012,797)	(3,012,797)
Net income	-	-	-	-	3,233,334	3,233,334	3,233,334
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-
Total changes of items during the year	20,585,130	-	16,017,484	16,017,484	(15,796,947)	220,536	20,805,666
Balance, December 31, 2013	¥ 48,845,323	¥ 21,746,398	¥ 16,017,484	¥ 16,017,484	¥ 3,235,030	¥ 40,998,912	¥ 89,844,236
Changes of items during the year:							
Issuance of new investment units	10,179,600	-	-	-	-	-	10,179,600
Decrease of dividend reserve	-	-	(1,848,870)	(1,848,870)	1,848,870	-	-
Dividends paid	-	-	-	-	(5,082,663)	(5,082,663)	(5,082,663)
Net income	-	-	-	-	5,774,880	5,774,880	5,774,880
Net changes of items other than unitholders' equity	-	-	-	-	-	-	-
Total changes of items during the year	10,179,600	-	(1,848,870)	(1,848,870)	2,541,086	692,216	10,871,816
Balance, December 31, 2014	¥ 59,024,923	¥ 21,746,398	¥ 14,168,614	¥ 14,168,614	¥ 5,776,116	¥ 41,691,129	¥ 100,716,052

	<i>Thousands of yen</i>		
	Valuation and translation adjustments		
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Total net assets
Balance, January 1, 2013	(28,279)	(28,279)	69,010,289
Changes of items during the year:			
Issuance of new investment units	-	-	20,585,130
Addition to dividend reserve	-	-	-
Dividends paid	-	-	(3,012,797)
Net income	-	-	3,233,334
Net changes of items other than unitholders' equity	(59,743)	(59,743)	(59,743)
Total changes of items during the year	(59,743)	(59,743)	20,745,923
Balance, December 31, 2013	¥ (88,022)	¥ (88,022)	¥ 89,756,213
Changes of items during the year:			
Issuance of new investment units	-	-	10,179,600
Decrease of dividend reserve	-	-	-
Dividends paid	-	-	(5,082,663)
Net income	-	-	5,774,880
Net changes of items other than unitholders' equity	(285,121)	(285,121)	(285,121)
Total changes of items during the year	(285,121)	(285,121)	10,586,694
Balance, December 31, 2014	¥ (373,144)	¥ (373,144)	¥ 100,342,908

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2014 and December 31, 2013

	<i>Thousands of yen</i>	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Cash flows from operating activities:		
Income before income taxes	¥ 5,776,090	¥ 3,234,544
Depreciation and amortization	2,400,444	2,297,350
Loss on disposal of property and equipment	4,643	8,005
Loss on derivative instruments	63,357	8,632
Government subsidy income	-	(35,637)
Advanced depreciation deduction of property and equipment	-	24,921
Amortization of investment corporation bond issuance costs	8,677	580
Amortization of investment unit issuance costs	35,774	36,437
Impairment loss	-	516,779
Decrease in property and equipment in trust due to sale	683,986	3,763,543
Interest income	(2,111)	(1,996)
Interest expense	1,067,075	1,097,240
Interest on tax refunds	(447)	(806)
(Increase) decrease in operating accounts receivable	(275,570)	(47,846)
(Increase) decrease in prepaid expenses	(51,910)	(4,882)
(Increase) decrease in long-term prepaid expenses	(358,452)	(17,609)
Increase (decrease) in operating accounts payable	(11,682)	49,673
Increase (decrease) in accounts payable	(46,197)	46,161
Increase (decrease) in accrued expenses	60,922	65,035
Increase (decrease) in consumption taxes payable	176,457	(19,208)
Increase (decrease) in advances received	16,960	(3,642)
Increase (decrease) in deposits received	(65,510)	63,160
Other – net	(4,307)	(7,285)
Subtotal	9,478,198	11,073,151
Interest received	2,111	1,996
Interest paid	(1,126,516)	(1,084,141)
Interest received on tax refunds	447	806
Income taxes – refunded (paid)	(1,233)	92
Net cash provided by operating activities	8,353,007	9,991,905
Cash flows from investing activities:		
Purchase of investment securities	(602,725)	-
Purchase of property and equipment in trust	(16,924,492)	(33,875,735)
Purchase of property and equipment	(317,551)	(208,522)
Purchase of intangible assets	(14,290)	-
Proceeds from security deposits in trust	-	10,000
Proceeds from tenant leasehold and security deposits in trust	102,021	759,374
Reimbursements of tenant leasehold and security deposits in trust	(72,900)	(70,521)
Proceeds from tenant leasehold and security deposits	1,396	-
Government subsidy received	-	35,637
Net cash used in investing activities	¥ (17,828,541)	¥ (33,349,766)

(Continued)

JAPAN HOTEL REIT INVESTMENT CORPORATION
Statements of Cash Flows
For the years ended December 31, 2014 and December 31, 2013

	<i>Thousands of yen</i>	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Cash flows from financing activities:		
Proceeds from short-term loans payable	¥ 6,800,000	¥ 2,949,980
Repayments of short-term loans payable	(9,469,150)	(4,122,810)
Proceeds from long-term loans payable	29,082,000	17,407,175
Repayments of long-term loans payable	(23,607,180)	(7,170,515)
Proceeds from investment corporation bonds	3,500,000	2,500,000
Repayments of investment corporation bond	-	(2,000,000)
Proceeds from issuance of investment units	10,150,551	20,541,446
Payments for investment corporation bond issuance costs	(30,101)	(18,080)
Payments for derivative instruments	-	(86,595)
Dividends paid	(5,079,101)	(3,011,748)
Net cash provided by financing activities	<u>11,347,018</u>	<u>26,988,851</u>
Net increase in cash and cash equivalents	1,871,484	3,630,990
Cash and cash equivalents at beginning of year (<i>Note 3</i>)	<u>12,553,289</u>	<u>8,922,299</u>
Cash and cash equivalents at end of year (<i>Note 3</i>)	<u>¥ 14,424,774</u>	<u>¥ 12,553,289</u>

See notes to financial statements.

JAPAN HOTEL REIT INVESTMENT CORPORATION
Notes to Financial Statements
For the years ended December 31, 2014 and December 31, 2013

1. Organization

Japan Hotel REIT Investment Corporation (“JHR”), formerly known as Nippon Hotel Fund Investment Corporation (the “former NHF”), was established under the Act on Investment Trusts and Investment Corporations (the “Investment Trust Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) Section on the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

Focusing on hotels, which are important and profitable parts of the social infrastructure, JHR primarily invests in real estate assets that are wholly or partially used as hotels and real estate-related assets that are in themselves real estate equivalents pertaining to such real estate assets or that are backed by such real estate or real estate equivalents.

In the nine months ended December 31, 2012, the former NHF, as the surviving entity, merged with Japan Hotel and Resort, Inc. (the “former JHR”), as the dissolved entity, with an effective date of April 1, 2012 (the “merger”). In conjunction with the merger, the former NHF changed its name to Japan Hotel REIT Investment Corporation, marking a new start as the only REIT specializing in hotel properties in Japan.

Through the merger, nine properties held by the former JHR were succeeded by JHR. As a result, as of the effective date of the merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2014, JHR has ownership interests in 30 properties.

2. Summary of Significant Accounting Policies

a. Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and their related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements have been reformatted and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of JHR prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. JHR has not prepared consolidated financial statements, as JHR has no consolidating subsidiaries or entities.

b. Cash and cash equivalents

Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.

c. Securities

Investment securities without market value held as available-for-sale are stated at cost being determined by the moving average method. Equity interest in silent partnership is stated at its net asset value corresponding to the equity interest in the silent partnership.

d. Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of major property and equipment components are as follows:

Machinery and equipment	2 to 12 years
Tools, furniture and fixtures	2 to 20 years
Buildings in trust	2 to 65 years

Structures in trust	2 to 65 years
Machinery and equipment in trust	10 to 35 years
Tools, furniture and equipment in trust	2 to 29 years

e. Intangible assets

Intangible assets are amortized using the straight-line method.

f. Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight-line method.

g. Investment unit issuance costs

Investment unit issuance costs are amortized using the straight-line method over three years.

The issuance of new investment units through a public offering on September 9, 2014 was consummated under an underwriting agreement in which an underwriting securities company committed to purchase all of the investment units being offered at an issue value and selling them at an offering price different from such issue value to general investors (the “spread method”).

No underwriting fees were paid by JHR under the spread method since the underwriters were compensated by the underwriting spread, which amounted to ¥345,440 thousand for the year ended December 31, 2014 and ¥721,650 thousand for the year ended December 31, 2013, representing the difference between the issue price and the issue value of all new investment units issued.

h. Investment corporation bond issuance costs

Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.

i. Income taxes

Deferred tax assets and liabilities are recognized in the financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect in the years when the temporary differences are expected to be recovered or settled.

j. Taxes on property and equipment

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for property taxes and city planning taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was ¥36,674 thousand for the year ended December 31, 2014 and ¥104,803 thousand for the year ended December 31, 2013.

k. Derivatives and hedging activities

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, mainly arising from adverse fluctuations in interest rates on loans payable. Derivative financial instruments are carried at fair value with changes in the unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting in which the unrealized gain or loss is deferred as a component of net assets.

JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.

l. Accounting treatment of beneficiary interests in trust assets including real estate

For trust beneficiary interests in real estate, all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are recorded separately in the accompanying balance sheet and income statement accounts.

m. Consumption taxes

Consumption taxes are excluded from the transaction amounts. However, non-deductible consumption taxes on property and equipment are included in the acquisition cost of the respective assets.

n. Rounding of amounts presented in the financial statements

The amounts are rounded down to the nearest thousands or millions in the accompanying financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2014 and 2013 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
Cash and deposits	¥ 7,539,897	¥ 6,356,081
Cash and deposits in trust	6,884,877	6,197,207
Cash and cash equivalents	¥ 14,424,774	¥ 12,553,289

4. Pledged Assets and Secured Liabilities

The carrying amount of assets pledged as collateral and the secured liabilities as of December 31, 2014 and 2013 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
Assets pledged:		
Cash and deposits	¥ -	¥ 6,328,424
Machinery and equipment	-	101,572
Tools, furniture and fixtures	-	374,761
Buildings in trust	-	52,609,359
Structures in trust	-	579,472
Machinery and equipment in trust	-	205,494
Tools, furniture and fixtures in trust	-	71,564
Land in trust	-	82,502,566
Construction in progress in trust	-	14,573
Leasehold rights in trust	-	19,774,039
Total	¥ -	¥ 162,561,828
Secured liabilities:		
Short-term loans payable	¥ -	¥ 2,669,150
Current portion of long-term loans payable	-	13,701,860
Long-term loans payable	-	55,913,055
Total	¥ -	¥ 72,284,065

5. Financial Instruments

a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust Act. As a policy, JHR procures funds through issuance of investment units, etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

Investment securities, which represent an investment in a silent partnership, are exposed to credit risks of the issuer and risks of fluctuation of real estate property value, etc. JHR manages these risks by periodically measuring the actual market values of such properties and the financial conditions of the issuer.

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risk, JHR may enter into derivative transactions, if necessary.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the asset management company. Derivative transactions are arranged by the finance section of the asset management company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

Loans payable are exposed to liquidity risks. The finance department of the asset management company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitor compliance with restrictive covenants set forth in the loan agreements. JHR manages liquidity risks by managing the ratio of short-term and long-term loans payable considering the current financial environment through approval and resolution by authorized personnel and meeting committee structure in the asset management company and resolution of JHR's board of directors.

(3) Supplemental explanation regarding fair value of financial instruments

The carrying amount of derivative transactions described in "5.b. Fair values of financial instruments" does not consider market risk related to derivative transactions.

b. Fair Value of Financial Instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2014 and 2013 were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table. See Note (2) below.

<i>Thousands of yen</i>			
As of December 31, 2014			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 7,539,897	¥ 7,539,897	¥ -
(ii) Cash and deposits in trust	6,884,877	6,884,877	-
Total	¥ 14,424,774	¥ 14,424,774	¥ -
(iv) Current portion of long-term loans payable	¥ 11,825,132	¥ 11,825,132	¥ -
(v) Investment corporation bonds	6,000,000	6,029,450	29,450
(vi) Long-term loans payable	63,264,603	63,264,603	-
Total	¥ 81,089,735	¥ 81,119,185	¥ 29,450
(vii) Derivative transactions (*)	¥ (353,917)	¥ (353,917)	¥ -
<i>Thousands of yen</i>			
As of December 31, 2013			
	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 6,356,081	¥ 6,356,081	¥ -
(ii) Cash and deposits in trust	6,197,207	6,197,207	-
Total	¥ 12,553,289	¥ 12,553,289	¥ -
(iii) Short-term loans payable	¥ 2,669,150	¥ 2,669,150	¥ -
(iv) Current portion of long-term loans payable	13,701,860	13,701,860	-
(v) Investment corporation bond	2,500,000	2,500,250	250
(vi) Long-term loans payable	55,913,055	55,913,055	-
Total	¥ 74,784,065	¥ 74,784,315	¥ 250
(vii) Derivative transactions (*)	¥ (9,030)	¥ (9,030)	¥ -

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

Notes:

(1) Methods to measure fair value of financial instruments

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) 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.

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

(v) Investment corporation bonds

The fair value of investment corporation bonds is measured based on the market price.

(vii) Derivative transactions

The information on the fair value of derivative transactions is presented in Note 16.

(2) Information on financial instruments whose fair values are considered extremely difficult to measure as of December 31, 2014 and 2013 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
	Carrying amount	
Investment securities	¥ 602,725	¥ -
Tenant leasehold and security deposits	2,041,916	2,010,520
Tenant leasehold and security deposits in trust	2,608,901	2,615,148
Total	¥ 5,253,542	¥ 4,625,668

Investment securities

Investment securities (equity investment in silent partnership) are not subject to fair value disclosure because they have no market price and their fair values are considered extremely difficult to measure.

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

Furthermore, 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 difficult.

(3) Redemption schedule for monetary claims as of December 31, 2014 and 2013:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2014						
Cash and deposits	¥ 7,539,897	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	6,884,877	-	-	-	-	-
Total	¥14,424,774	¥ -	¥ -	¥ -	¥ -	¥ -

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2013						
Cash and deposits	¥ 6,356,081	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	6,197,207	-	-	-	-	-
Total	¥12,553,289	¥ -	¥ -	¥ -	¥ -	¥ -

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2014 and 2013.

As of December 31, 2014	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Current portion of long-term loans payable	¥11,825,132	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	2,500,000	-	-	2,000,000	1,500,000
Long-term loans payable	-	13,847,603	10,618,250	13,322,750	6,794,000	18,682,000
Total	<u>¥11,825,132</u>	<u>¥16,347,603</u>	<u>¥10,618,250</u>	<u>¥13,322,750</u>	<u>¥ 8,794,000</u>	<u>¥20,182,000</u>

As of December 31, 2013	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loan payable	¥ 2,669,150	¥ -	¥ -	¥ -	¥ -	¥ -
Current portion of long-term loans payable	13,701,860	-	-	-	-	-
Investment corporation bond	-	-	2,500,000	-	-	-
Long-term loans payable	-	14,275,430	16,093,625	10,542,250	15,001,750	-
Total	<u>¥16,371,010</u>	<u>¥14,275,430</u>	<u>¥18,593,625</u>	<u>¥10,542,250</u>	<u>¥15,001,750</u>	<u>¥ -</u>

6. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2014 and 2013 consisted of the following:

		Millions of yen		
		As of December 31, 2014	For the year ended December 31, 2014	As of December 31, 2013
	Maturity date	Amount	Average Interest rate (*1)	Amount
Short-term loan payable:				
Unsecured loan, payable ¥7,750 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2014	¥ -	0.77%	¥ 2,669
Sub-total		-		2,669
Long-term loans payable:				
Unsecured loan, payable in a lump-sum at maturity	February 15, 2014	-	1.50%	5,000
Unsecured loan, payable in a lump-sum at maturity	February 15, 2015	4,779	1.71%	6,998
Unsecured loan, payable in a lump-sum at maturity (*2)	February 15, 2018	-	2.42%	5,000
Unsecured loan, payable in a lump-sum at maturity (*3)	March 24, 2016	2,945	1.91%	3,000
Unsecured loan, payable ¥12.250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2014	-	1.52%	4,765
Unsecured loan, payable ¥7.000 thousand quarterly and the remaining balance in a lump-sum at maturity (*4)	September 30, 2015	2,150	1.71%	2,178
Unsecured loan, payable ¥13.250 thousand quarterly and the remaining balance in a lump-sum at maturity	September 30, 2014	-	1.61%	3,262
Unsecured loan, payable in a lump-sum at maturity	March 26, 2016	2,200	1.97%	2,200
Unsecured loan, payable ¥50.000 thousand quarterly and the remaining balance in a lump-sum at maturity	March 26, 2016	207	1.56%	1,125
Unsecured loan, payable in a lump-sum at maturity (*5)	September 19, 2015	2,880	1.11%	2,880
Unsecured loan, payable in a lump-sum at maturity (*6)	September 19, 2017	3,120	1.32%	3,120
Unsecured loan, payable in a lump-sum at maturity (*7)	November 15, 2015	1,592	1.06%	1,600
Unsecured loan, payable in a lump-sum at maturity (*8)	March 26, 2016	2,553	1.21%	4,653
Unsecured loan, payable in a lump-sum at maturity (*9)	November 15, 2017	6,500	1.26%	6,500
Unsecured loan, payable ¥1.625 thousand monthly and the remaining balance in a lump-sum at maturity	February 29, 2016	1,761	0.94%	1,781
Unsecured loan, payable ¥2.250 thousand quarterly and the remaining balance in a lump-sum at maturity	March 31, 2017	866	1.01%	875
Unsecured loan, payable ¥11.000 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2016	4,283	0.91%	4,378
Unsecured loan, payable ¥11.250 thousand quarterly and the remaining balance in a lump-sum at maturity	April 26, 2018	4,432	1.11%	4,477
Unsecured loan, payable ¥7.250 thousand quarterly and the remaining balance in a lump-sum at maturity (*10)	September 30, 2018	2,791	0.81%	2,820
Unsecured loan, payable in a lump-sum at maturity (*10)	September 30, 2018	3,000	0.81%	3,000
Unsecured loan, payable ¥19.000 thousand quarterly and the remaining balance in a lump-sum at maturity (*11)	March 31, 2018	3,549	0.66%	-
Unsecured loan, payable in a lump-sum at maturity (*12)	March 31, 2021	6,800	0.81%	-
Unsecured loan, payable in a lump-sum at maturity (*13)	September 30, 2019	6,794	0.71%	-
Unsecured loan, payable in a lump-sum at maturity (*14)	September 30, 2020	6,882	0.76%	-
Unsecured loan, payable in a lump-sum at maturity (*15)	September 30, 2021	4,000	0.81%	-
Unsecured loan, payable in a lump-sum at maturity	December 30, 2020	1,000	0.63%	-
Sub-total		75,089		69,614
Total of short-term and long-term loans payable		¥ 75,089		¥ 72,284

Notes:

(*1) The average interest rate represents the weighted average rate during the period based on the number of days and outstanding balance of the loans payable. The interest rate is rounded to the nearest second decimal place.

(*2) The interest rate for this loan payable is, in effect, fixed at 2.54600% for the period from February 15, 2013 through February 15, 2018 due to the execution of an interest rate swap agreement on October 10, 2012.

(*3) The interest rate for this loan payable is, in effect, fixed at 2.01375% for the period from November 15, 2012 through March 24, 2016 due to the execution of an interest rate swap agreement on October 10, 2012.

(*4) The interest rate for this loan payable is, in effect, fixed at 1.80375% for the period from December 28, 2012 through September 30, 2015 due to the execution of an interest rate swap agreement on October 10, 2012.

(*5) The interest rate for this loan payable is, in effect, fixed at 1.20375% for the period from December 28, 2012 through September 19, 2015 due to the execution of an interest rate swap agreement on October 10, 2012.

(*6) The interest rate for this loan payable is, in effect, fixed at 1.47000% for the period from December 28, 2012 through September 19, 2017 due to the execution of an interest rate swap agreement on October 10, 2012.

(*7) The interest rate for this loan payable is, in effect, fixed at 1.13800% for the period from February 28, 2013 through November 15, 2015 due to the execution of an interest rate swap agreement on December 13, 2012.

(*8) The interest rate for this loan payable is, in effect, fixed at 1.29000% for the period from February 28, 2013 through March 26, 2016 due to the execution of an interest rate swap agreement on December 13, 2012.

(*9) The interest rate for this loan payable is, in effect, fixed at 1.38000% for the period from February 28, 2013 through November 15, 2017 due to the execution of an interest rate swap agreement on December 13, 2012.

(*10) The interest rate for this loan payable is, in effect, fixed at 0.98050% for the period from December 30, 2013 through September 30, 2018 due to the execution of an interest rate swap agreement on November 13, 2013.

(*11) The interest rate for this loan payable is, in effect, fixed at 0.72738% for the period from March 31, 2014 through March 31, 2018 due to the execution of an interest rate swap agreement on March 27, 2014.

(*12) The interest rate for this loan payable is, in effect, fixed at 1.15039% for the period from March 31, 2014 through March 31, 2021 due to the execution of an interest rate swap agreement on March 27, 2014.

(*13) Of these loans payable, the interest rate on the portion totaling ¥1,794 million is, in effect, fixed at 0.80225% for the period from September 30, 2014 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014. Moreover, the interest rate on the portion totaling ¥5,000 million is projected to be, in effect, fixed at around 0.95% for the period from March 30, 2018 through September 30, 2019 due to the execution of an interest rate swap agreement on September 26, 2014.

(*14) The interest rate for this loan payable is, in effect, fixed at 0.91620% for the period from September 30, 2014 through September 30, 2020 due to the execution of an interest rate swap agreement on September 26, 2014.

(*15) The interest rate for this loan payable is, in effect, fixed at 1.03900% for the period from December 31, 2014 through September 30, 2021 due to the execution of an interest rate swap agreement on September 26, 2014.

The annual maturities of long-term loan payable as of December 31, 2014 were as follows:

Years ending December 31	Millions of yen
2015	¥ 11,825
2016	13,847
2017	10,618
2018	13,322
2019	6,794
2020 and thereafter	18,682
Total	¥ 75,089

7. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2014 and 2013 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2014	As of December 31, 2013
Unsecured investment corporation bond at interest rate of 0.89%, due on November 25, 2016	¥ 2,500	¥ 2,500
Unsecured investment corporation bond at interest rate of 0.92%, due on March 19, 2019	2,000	-
Unsecured investment corporation bond at interest rate of 0.86%, due on December 17, 2021	1,500	-
Total	<u>¥ 6,000</u>	<u>¥ 2,500</u>

The annual maturities of the investment corporation bonds as of December 31, 2014 were as follows:

Years ending December 31	<i>Millions of yen</i>
2015	¥ -
2016	2,500
2017	-
2018	-
2019	2,000
2020 and thereafter	1,500
Total	<u>¥ 6,000</u>

8. Net Assets

JHR maintains at least ¥50,000 thousand as the minimum net assets as required by the Investment Trust Act.

9. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2014 and December 31, 2013 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Operating revenue:		
Real estate operating revenue:		
Fixed rent	¥ 8,817,424	¥ 8,465,465
Variable rent	2,739,966	2,370,041
Income from management contract	953,237	441,655
Sub-total	12,510,628	11,277,162
Other real estate operating revenue:		
Parking lots	61,735	56,879
Other incidental revenue	26,112	18,937
Utilities	133,458	102,762
Other	28,258	17,182
Sub-total	249,564	195,761
Total operating revenue	12,760,192	11,472,924
Real estate operating costs:		
Land lease and other rent expenses	463,124	474,954
Property taxes	835,162	721,254
Outsourcing expenses (*1)	197,668	147,574
Nonlife insurance	26,480	25,906
Depreciation and amortization	2,400,444	2,297,350
Loss on disposal of property and equipment	4,643	8,005
Repairs	45,507	40,804
Utilities	132,826	103,782
Trust fees	44,901	42,785
Other	12,254	8,165
Total real estate operating costs	4,163,015	3,870,583
Net real estate operating income	¥ 8,597,176	¥ 7,602,340

Note:

(*1) Outsourcing expenses include management contract fees of ¥81,689 thousand for the year ended December 31, 2014 and ¥44,477 thousand for the year ended December 31, 2013.

10. Gain and Loss on Sale of Real Estate Properties

The components of “Gain on sale of real estate properties” and “Loss on sale of real estate properties” for the years ended December 31, 2014 and December 31, 2013 were as follows:

	<i>Thousands of yen</i>		
	For the year ended December 31, 2014	For the year ended December 31, 2013	
	Dormy Inn Namba	Hotel Vista Hashimoto	Pearl Hotel Kayabacho
Proceeds from sale of properties	¥ 700,000	¥ 380,000	¥ 2,300,000
Costs of sale of properties	683,986	593,174	3,170,368
Other selling expenses	16,000	10,360	95,180
Gain (loss) on sale of real estate properties	¥ 13	¥ (223,535)	¥ (965,549)

11. Advanced Depreciation Deduction of Property and Equipment

The advanced depreciation deduction of property and equipment for the years ended December 31, 2014 and December 31, 2013 represents the amounts deducted from acquisition costs for the property and equipment due to government subsidies received:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2014	For the year ended December 31, 2013
Buildings in trust	¥ 24,921	¥ 24,921

12. Impairment Loss

JHR identified groups of assets based on each real estate property, which were individually reviewed for impairment. The recoverable amounts were measured at the net sale price. The net sale price is calculated as the sale price, which is based on an appraisal made by a licensed real estate appraiser, less estimated selling costs.

<For the year ended December 31, 2014>

Not applicable.

<For the year ended December 31, 2013>

JHR recorded an impairment loss for the following asset groups for the year ended December 31, 2013:

	Purpose of use	Location	Category	<i>Thousands of yen</i>	
				Amount	
Dormy Inn Namba	Hotel	Osaka-shi, Osaka	Land in trust	¥	220,001
			Buildings and other property and equipment in trust	¥	296,777

For the year ended December 31, 2013, in connection with the beneficial interest sale and purchase agreement that JHR entered into on December 19, 2013, the book values of property and equipment were written down to their respective recoverable amounts by ¥516,779 thousand. The amount consisted of ¥292,049 thousand for buildings in trust, ¥525 thousand for structures in trust, ¥1,796 thousand for machinery and equipment in trust, ¥2,405 thousand for tools, furniture and fixtures in trust, and ¥220,001 thousand for land in trust.

13. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
Deferred tax assets – noncurrent:		
Valuation difference on assets acquired by merger	¥ 2,084,809	¥ 2,126,163
Impairment loss	-	176,531
Deferred losses on hedges	135,963	30,745
Total gross deferred tax assets – noncurrent	2,220,772	2,333,441
Valuation allowance	(2,220,772)	(2,333,441)
Total deferred tax assets – noncurrent	-	-
Deferred tax liabilities – noncurrent:		
Deferred gains on hedges	-	1,028
Total deferred tax liabilities – noncurrent	-	1,028
Net deferred tax liabilities – noncurrent	¥ -	¥ 1,028

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2014 and December 31, 2013 was as follows:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Effective statutory tax rate	34.16%	36.59%
Deduction for dividends paid	(30.56)	(29.93)
Change in valuation allowance	(3.62)	(6.22)
Other – net	0.04	(0.40)
Actual effective tax rate	0.02%	0.04%

14. Amounts per Unit

Net income per unit for the years ended December 31, 2014 and December 31, 2013 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
	Net income	Weighted- average units	Net income per unit
For the year ended December 31, 2014			
Basic net income per unit - Net income attributable to common unitholders	¥ 5,774,880	2,674,377	¥ 2,159
For the year ended December 31, 2013			
Basic net income per unit - Net income attributable to common unitholders	¥ 3,233,334	2,473,171	¥ 1,307

Notes:

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

(2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2014 and December 31, 2013.

Net assets per unit as of December 31, 2014 and 2013 were as follows:

	<i>Yen</i>	
	As of December 31, 2014	As of December 31, 2013
Net assets per share	¥ 35,948	¥ 34,241

15. Leases

As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. As of December 31, 2014 and 2013, future minimum rental revenue under the non-cancellable operating leases were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2014	As of December 31, 2013
Due within one year	¥ 1,308,494	¥ 1,483,459
Due after one year	6,161,012	7,452,533
Total	¥ 7,469,507	¥ 8,935,992

16. Derivatives and Hedging Activities

a. Derivative transaction to which hedge accounting is not applied

Derivative transaction to which hedge accounting is not applied as of December 31, 2014 and 2013 was as follows:

<For the year ended December 31, 2014>

As of December 31, 2014	Classification	Thousands of yen		
		Contract amount	Contract amount due after one year	Fair value
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 5,000,000	¥ 5,000,000	¥ (37,252)

<For the year ended December 31, 2013>

Not applicable.

b. Derivatives to which hedge accounting is applied

Derivative transactions to which hedge accounting is applied as of December 31, 2014 and 2013 were as follows:

As of December 31, 2014	Method of accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥55,604,250	¥ 48,659,950	¥ (321,499)
Interest rate caps	Deferral method	Long-term loans payable	9,413,500	9,413,500	4,834
Total			<u>¥65,017,750</u>	<u>¥58,073,450</u>	<u>¥ (316,665)</u>

As of December 31, 2013	Method of accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after One year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥34,907,250	¥34,907,250	¥ (41,779)
Interest rate caps	Deferral method	Long-term loans payable	9,413,500	9,413,500	32,749
Total			<u>¥44,320,750</u>	<u>¥44,320,750</u>	<u>¥ (9,030)</u>

Notes:

(*1) The contract amounts of the interest rate swap and interest rate cap are presented based on the notional principal amounts.

(*2) The fair value is measured at the quoted price obtained from the counterparty financial institutions.

17. Investment and Rental Properties

JHR owns investment and rental properties to earn lease income and income from management contracts. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

	<i>Thousands of yen</i>			
	Carrying amount (*1)			Fair value (*3)
	January 1, 2014	Net increase (*2)	December 31, 2014	December 31, 2014
Hotels	¥ 155,753,667	¥ 14,094,120	¥ 169,847,788	¥ 205,408,000

Notes:

(*1) Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any. Amounts for machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets other than leasehold rights in trust and facility usage rights are not included.

(*2) Increase during the year ended December 31, 2014 principally represents the acquisition of ibis Styles Sapporo (formerly Best Western Hotel Sapporo Nakajima Koen) for ¥6,868 million, Mercure Hotel Sapporo for ¥6,102 million and Mercure Hotel Okinawa Naha for ¥3,009 million. Decrease during the year ended December 31, 2014 principally represents the sale of Dormy Inn Namba for ¥683 million.

(*3) Fair value of properties as of December 31, 2014 is generally the appraisal value determined by licensed real estate appraisers.

	<i>Thousands of yen</i>			
	Carrying amount (*1)			Fair value (*3)
	January 1, 2013	Net increase (*2)	December 31, 2013	December 31, 2013
Hotels	¥ 128,342,605	¥ 27,411,061	¥ 155,753,667	¥ 166,237,000

Notes:

(*1) Carrying amount recognized in the balance sheet is net of accumulated depreciation and accumulated impairment losses, if any. Amounts for machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets other than leasehold rights in trust and facility usage rights are not included.

(*2) Increase during the year ended December 31, 2013 principally represents the acquisition of Hilton Tokyo Bay for ¥26,354 million and ibis Styles Kyoto Station for ¥6,765 million. Decrease during the year ended December 31, 2013 principally represents the sale of Hotel Vista Hashimoto for ¥593 million and Pearl Hotel Kayabacho for ¥3,170 million, and the recognition of an impairment loss of ¥516 million on Dormy Inn Namba.

(*3) Fair value of properties as of December 31, 2013 is generally the appraisal value determined by licensed real estate appraisers. The fair value of Dormy Inn Namba as of December 31, 2013 is the sale price stated in the purchase and sale agreement.

Real estate operating revenue and costs for the years ended December 31, 2014 and December 31, 2013 related to the rental properties were as follows:

	<i>Thousands of yen</i>		
	For the year ended December 31, 2014		
	Real estate operating revenue (*1)	Real estate operating costs (*1)	Net real estate operating income
Hotels	¥ 12,760,192	¥ 4,163,015	¥ 8,597,176

	<i>Thousands of yen</i>		
	For the year ended December 31, 2013		
	Real estate operating revenue (*1)	Real estate operating costs (*1)	Net real estate operating income
Hotels	¥ 11,472,924	¥ 3,870,583	¥ 7,602,340

Note:

(*1) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other real estate operating revenue) and corresponding expenses (such as depreciation, property taxes, trust fees, and repairs and maintenance expenses), and are included in “Operating revenue” and “Real estate

operating costs,” respectively.

18. Segment Information

a. Segment information

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

b. Related information

(1) Information about products and services for the years ended December 31, 2014 and December 31, 2013

Information about products and services has been omitted because operating revenue from external customers in a single product/service category accounted for more than 90% of total operating revenue.

(2) Information about geographical areas for the years ended December 31, 2014 and December 31, 2013

(i) Sales

Information about geographical areas has been omitted because operating revenue in Japan accounted for more than 90% of total operating revenue.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment.

(3) Information about major customers

<For the year ended December 31, 2014>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	5,627,554
The Dai-ichi Building Co., Ltd.	Hotel real estate investment and management	¥	1,872,000

<For the year ended December 31, 2013>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue	
Hotel Management Japan Co., Ltd.	Hotel real estate investment and management	¥	5,506,588
The Dai-ichi Building Co., Ltd.	Hotel real estate investment and management	¥	1,283,669
Kyoritsu Maintenance Co., Ltd.	Hotel real estate investment and management	¥	1,225,203

c. Information about impairment loss

<For the year ended December 31, 2014>

Not applicable.

<For the year ended December 31, 2013>

Impairment loss of ¥516,779 thousand is not presented because JHR has only one segment.

19. Subsequent Events

a. Acquisition of assets

On January 30, 2015, JHR acquired five properties with a total acquisition price of ¥20,000 million as follows.

Property name	the b akasaka-mitsuke
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-21-7 Akasaka, Minato-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Yosezaka TMK
Acquisition price (Note)	¥ 6,250 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b ikebukuro
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-39-4 Higashi-ikebukuro, Toshima-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Inarizaka TMK
Acquisition price (Note)	¥ 6,520 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b ochanomizu
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-7-5 Kanda-awajicho, Chiyoda-ku, Tokyo
Acquisition date	January 30, 2015
Seller	Tenjinzaka TMK
Acquisition price (Note)	¥ 2,320 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b hachioji
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	4-6-12 Myojincho, Hachioji-shi, Tokyo
Acquisition date	January 30, 2015
Seller	Hijirizaka TMK
Acquisition price (Note)	¥ 2,610 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

Property name	the b hakata
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-3-9 Hakata-eki Minami, Hakata-ku, Fukuoka-shi, Fukuoka
Acquisition date	January 30, 2015
Seller	Tenjinzaka TMK
Acquisition price (Note)	¥ 2,300 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

On March 31, 2015, JHR acquired the following property.

Property name	Hotel Francs
Asset category	Real estate beneficial interest in trust
Asset type	Hotel
Address	2-10-2 Hibino, Mihama-ku, Chiba-shi, Chiba
Acquisition date	March 31, 2015
Seller	G.K. Tourism Japan No. 1(Note 1)
Acquisition price (Note 2)	¥ 3,105 million

(Note 1) GK Tourism Japan No. 1 is the business operator of a silent partnership in which JHR invested ¥595 million (represented a 49.8% equity interest in the silent partnership; excluding acquisition expenses) and JHR exercised the preferential negotiation rights that were granted to JHR upon the investment in the concerned partnership. Furthermore, in connection with the acquisition, the invested equity interest in the silent partnership will be redeemed to JHR by the end of the fiscal year ending December 2015.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

On April 2, 2015, JHR acquired the following property.

Property name	Mercure Yokosuka
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-27, Honcho, Yokosuka-shi, Kanagawa
Acquisition date	April 2, 2015
Seller	Mitsui Fudosan Co., Ltd.
Acquisition price (Note)	¥ 1,650 million

(Note) The acquisition price does not include expenses for acquisition, settlement of fixed asset tax and city planning tax, and national and local consumption taxes.

b. Borrowing of funds

On January 30, 2015, JHR obtained new borrowings under Term Loans 9, 10 and 11 totaling ¥13,900 million in order to fund the acquisition of the real estate beneficial interest in trust of the five “the b” hotel properties and movable assets attached thereon (as described above in item a. Acquisition of assets) and to fund the early repayment on the same date of an existing loan (¥4,779 million outstanding balance) maturing on February 15, 2015.

Term Loan 9 (Term: 1 year)

Facility	Term Loan 9
Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥1,000 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.40%
Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 29, 2016
Collateral	Unsecured/Unguaranteed

Term Loan 10 (Term: 5 years)

Facility	Term Loan 10
Lender	Sumitomo Mitsui Banking Corporation / Mizuho Bank, Ltd. / Shinsei Bank, Limited / Resona Bank, Limited / Sumitomo Mitsui Trust Bank, Limited / The Chiba Bank, Ltd.
Amount of the loan	¥4,700 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.45%
Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 31, 2020
Collateral	Unsecured/Unguaranteed

Term Loan 11 (Term: 7 years)

Facility	Term Loan 11
Lender	Sumitomo Mitsui Banking Corporation / Mizuho Bank, Ltd. / Shinsei Bank, Limited / Resona Bank, Limited / Sumitomo Mitsui Trust Bank, Limited / The Tokyo Star Bank, Limited / Aozora Bank, Ltd.
Amount of the loan	¥8,200 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.55%
Date of borrowing	January 30, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	January 31, 2022
Collateral	Unsecured/Unguaranteed

On March 31, 2015, JHR conducted new borrowing in order to fund the acquisition of Hotel Francs (as described above in item a. Acquisition of assets), as follows.

Term Loan 12 (Term: 7 years)

Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥1,500 million
Interest rate	Base interest rate (Japanese Yen TIBOR for one month in JBA)+0.55%
Date of borrowing	March 31, 2015
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2022
Collateral	Unsecured/Unguaranteed

c. Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 9, 2015 and January 20, 2015. Payment for the new investment units was completed on January 27, 2015 and February 18, 2015, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital increased to ¥74,676,659,234, with the number of investment units issued and outstanding totaling 3,000,322 units.

(1) Issuance of new investment units (public offering)

Number of investment units issued:	200,000 units
Issue price:	¥77,415 per unit
Total issue price:	¥15,483,000,000
Paid-in amount (Issue value):	¥74,874 per unit
Total paid-in amount (issue value):	¥ 14,974,800,000
Payment date:	January 27, 2015

(2) Issuance of new investment units (third-party allotment)

Number of investment units issued:	9,041 units
Paid-in amount (Issue value):	¥74,874 per unit
Total paid-in amount (issue value):	¥676,935,834
Payment date:	February 18, 2015
Allottee:	SMBC Nikko Securities Inc.

(3) Use of funds

JHR used the proceeds obtained from the public offering to partly fund the acquisition of specified assets described above in item a. Acquisition of assets, as well as to partly fund repayment of other borrowings and capital expenditures for maintaining and enhancing the competitiveness of existing properties. JHR plans to use the remainder of the proceeds from the public offering and the proceeds from the third-party allotment to partly fund the future acquisition of specified assets, repayment of other borrowings, and capital expenditures for maintaining and enhancing the competitiveness of existing properties.



Independent Auditor's Report

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

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation ("the Company"), which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 19, Subsequent Events to the financial statements which describes that the Company acquired properties, conducted new borrowings and issued new investment units. Our opinion is not qualified in respect of this matter.

KPMG AZSA LLC

April 20, 2015
Tokyo, Japan