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REIT Issuer:

Japan Hotel REIT Investment Corporation (TSE code: 8985)

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Notice Concerning Revision of Operating Forecast and Forecast of Dividend
for the Fiscal Year Ended December 2016 (17th Period)

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) informs you of the revision of the operating forecast and forecast of dividend for the full year of the fiscal year ended December 2016 (January 1, 2016 through December 31, 2016), which was announced in the “Notice Concerning Revision of Operating Forecast and Forecast of Dividend for Fiscal Year Ended December 2016 (17th Period), and Operating Forecast and Forecast of Dividend for the Fiscal Year Ending December 2017 (18th Period)” dated January 6, 2017 as follows. Please note there is no change in the operating forecast and forecast of dividend for the full year of the fiscal year ending December 2017 (18th Period).

1. Revision of the operating forecast and forecast of dividend for the full year of the fiscal year ended December 2016 (January 1, 2016 through December 31, 2016)

	Operating revenue	Operating income	Ordinary income	Net income	Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
Previous forecast (A)	JPY1M 22,073	JPY1M 13,815	JPY1M 12,147	JPY1M 12,051	JPY 3,400	JPY 0
Revised forecast (B)	JPY1M 22,107	JPY1M 13,885	JPY1M 12,220	JPY1M 12,123	JPY 3,420	JPY 0
Variance (C)= (B) – (A)	JPY1M 33	JPY1M 70	JPY1M 72	JPY1M 71	JPY 20	JPY 0
Variance (D)= (C)/(A)	% 0.2	% 0.5	% 0.6	% 0.6	% 0.6	% 0

(Reference) Forecast of net income per unit for the full year: ¥3,462

(Calculated based on the forecast of the average number of investment units during the period (3,501,175 units))

(*1) Dividend per unit is calculated based on the number of investment units issued as of today: 3,761,907 units.

(*2) Reserve for dividends in the amount of ¥740 million is planned to be allocated as a part of dividend payment.

(*3) Amounts are rounded down to the nearest millions of yen, and percentage figures are rounded off to one decimal place.

Note: This document is intended to serve as a press release to make available the information on the revision of the operating forecast and forecast of dividend for the fiscal year ended December 2016 (17th period). This document should not be construed as an offer to sell or solicitation of an offer to purchase any investment units or other investment of JHR. Prospective investors are advised to make any investment decisions at their own risk and responsibility.

2. Rationale for the revisions of the operating forecast

JHR's operating results of the fiscal year ended December 2016 (17th period) have almost become clear, and JHR will revise the operating forecast and forecast of dividend as of today.

Since GOP (*1) of the HMJ group hotels (*2), the six Accor hotels (*3), and the six *the b* hotels (*4) was higher than the previous forecast, JHR expects operating revenue to increase by ¥33 million compared with the previous forecast. Also, as a result of reviewing various expenses related to properties, JHR expects a decrease mainly in operating expenses by ¥38 million in total compared with the previous forecast. Consequently, JHR expects an increase in dividend per unit by ¥20 compared with the previous forecast.

For hotel sales and hotel GOP for the HMJ group hotels, the six Accor hotels, and the six *the b* hotels, please refer to <1> Sales and GOP of the HMJ Group Hotels, <2> Sales and GOP of the Six Accor Hotels, and <3> Sales and GOP of the Six *the b* Hotels in <Reference Materials 3> as below.

- (*1) GOP is Gross Operating Profit, which is the remaining amount calculated by deducting expenses incurred from hotel operation, such as personnel cost and general and administrative expenses, from hotel sales. The same shall apply hereafter.
- (*2) The HMJ group hotels are the nine HMJ group hotels, which are five hotels, namely, Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima (the five hotels hereinafter collectively called "the five HMJ hotels") plus Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (the main facility of ACTIVE-INTER CITY HIROSHIMA), Hotel Centraza Hakata, and Holiday Inn Osaka Namba (*5). HMJ is the abbreviation for Hotel Management Japan Co., Ltd. The same shall apply hereafter.
- (*3) The six Accor hotels are ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, and Mercure Yokosuka. The same shall apply hereafter.
- (*4) The six *the b* hotels are the b akasaka-mitsuke, the b ikebukuro, the b ochanomizu, the b hachioji and the b hakata (the five hotels hereinafter collectively called "the five *the b* hotels") plus the b suidobashi (rebranded from Dormy Inn Suidobashi on July 1, 2015). The same shall apply hereafter.
- (*5) HOTEL VISTA GRANDE OSAKA completed its rebranding on November 1, 2016 and changed its name to Holiday Inn Osaka Namba. The same shall apply hereafter.

The above forecast is based on the operating status as of today, and actual dividend per unit may fluctuate. This forecast does not guarantee the amount of dividend shown above.

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

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<Reference Material 1> Highlights of the operating forecast and forecast of dividend

The following table provides comparison and major causes of variance between actual results of fiscal year ended December 2015 (16th period) and the forecast for the full year of the fiscal ended December 2016 (17th period)

(Unit: millions of yen)

		16th Period	17th Period	Comparison with Previous Period		Major Factors Causing the Variance				
		Actual (A)	Forecast This Time (B)	(B)-(A)	Variance	Property Acquisition in 17th Period (*1)	Property Acquisition in 16th Period (*2)	Property Disposition in 16th Period (*3)	Other Properties (*4)	Causes of Variance (Other Properties)
Properties	No. of properties	36	41	5	13.9%					
	Acquisition price	225,723	286,801	61,077	27.1%					
Profit and Loss	Operating revenue	17,343	22,107	4,763	27.5%	2,038	2,043	(599)	1,281	
	Real estate operating revenue	17,033	22,107	5,073	29.8%	2,038	2,043	(293)	1,285	
	Fixed rent	Composition 60.5% 10,311	Composition 57.5% 12,714	2,403	23.3%	1,161	1,432	(293)	102	Receipt of termination charge due to replacement of tenants in 17th Period: JPY126M
	Variable rent	39.5% 6,722	42.5% 9,392	2,670	39.7%	876	610	-	1,183	The five HMJ hotels -- increase in variable rent: JPY677M The five Accor hotels -- increase in income from management contracts, etc.: JPY321M Increase in revenue sharing, etc.: JPY184M
	Gain on sale of real estate properties	309	-	(309)	-	-	-	(305)	(4)	
	NOI (*5)	14,829	18,829	4,000	27.0%	1,601	1,457	(257) (*7)	1,199	
	NOI yield	6.6% (*6)(7.2%)	6.6% (*6)(7.1%)	0.0%		-	-	-	-	
	NOI after depreciation (*5)	12,031	15,517	3,486	29.0%	1,285	1,141	(184) (*7)	1,243	
	NOI yield after depreciation	5.3% (*6)(5.8%)	5.4% (*6)(5.9%)	0.1%		-	-	-	-	
	Operating income	10,988	13,885	2,896	26.4%					
	Ordinary income	9,295	12,220	2,924	31.5%					
	Extraordinary loss or income, etc	(1)	(97)	(95)						Repair expenses in the amount of JPY95M for damage caused by the Kumamoto earthquakes, and others.
	Net income	9,294	12,123	2,828	30.4%					
Dividend	Use of negative goodwill	60	740	679	1116.3%					
	Total dividends	9,354	12,865	3,511	37.5%					
	No. of units issued	3,144,227	3,761,907	617,680	19.6%					
	Dividend per unit (JPY)	2,975	3,420	445	15.0%					

- (*1) Stating the impact on the statements of income by acquisition of CANDEO HOTELS UENO-KOEN, Hotel Centraza Hakata, Holiday Inn Osaka Namba, HOTEL ASCENT FUKUOKA, and Hilton Nagoya in the fiscal year ended December 2016 (17th period).
- (*2) Stating the impact on the statements of income by acquisition of the five *the b* hotels, Hotel Francs, Mercure Yokosuka, Okinawa Marriott Resort & Spa, and ACTIVE-INTER CITY HIROSHIMA in the fiscal year ended December 2015 (16th period).
- (*3) Stating the impact on the statements of income by selling three properties, Comfort Hotel Shin-Yamaguchi, Daiwa Roynet Hotel Akita, and Hotel Sunroute Niigata, on October 30, 2015.
- (*4) Twenty-seven properties excluding three properties sold during the fiscal year ended December 2015 from thirty properties JHR owned as of the end of December 31, 2014.
- (*5) Each is calculated using the following formula.
 NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses
 NOI yield = NOI ÷ acquisition price
 NOI after depreciation = Real estate operating revenue – Real estate operating costs
 NOI yield after depreciation = NOI after depreciation ÷ acquisition price
- (*6) The sum of (NOI of each property ÷ operating days x 365) ÷ acquisition price is indicated as an annualized NOI yield in parenthesis.
 The sum of (NOI after depreciation of each property ÷ operating days x 365) ÷ acquisition price is indicated as an annualized NOI after depreciation in parenthesis. Please note that depreciation is calculated as the total amount of (depreciation of each property ÷ operating months x 12).
- (*7) NOI and NOI after depreciation do not include gain on sale of real estate properties, etc. The factors causing the variance on NOI and NOI after depreciation with consideration of the effect by gain on sale are ¥(563) million and ¥(489) million, respectively.

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<Reference Material 2> Dividend per unit

Dividend per unit for the fiscal year ended December 2016 is calculated based on the following assumptions.

Income brought forward from the previous period	¥2 million
Net income	¥12,123 million
Unappropriated retained earnings	¥12,126 million
Use of dividend reserve (negative goodwill)	
Loss on retirement of noncurrent assets (*1)	¥16 million
Amortization of fixed-term leasehold of land and asset retirement obligations (*2)	¥112 million
Adjustment for dilution (*3)	¥611 million
Distributable Amount	¥12,866 million
Total number of investment units issued	3,761,907 units
Dividend per unit	¥3,420

- (*1) Amount recognized as a loss on retirement of noncurrent assets will be appropriated by dividend reserve (negative goodwill) and is planned to have no impact on dividend per unit.
- (*2) Amount recognized as amortization of fixed-term leasehold of land and amortization, etc. of asset retirement obligations of Hotel Centraza Hakata and HOTEL ASCENT FUKUOKA (for part of land) is planned to be added to the dividends through appropriation of the dividends reserve (negative goodwill).
- (*3) Allocation of reserve for dividends from negative goodwill is planned to be used in order to avoid the impact of dilution on dividend per unit due to the issuance of new investment units.
- (*4) The balance of the dividend reserve (negative goodwill) after the appropriation of the dividend reserve (negative goodwill) for dividends for the fiscal year ended December 2016 (17th period) is expected to be ¥13,127 million.

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<Reference Materials 3>

Of the hotels that have adopted variable rent, the following presents sales and GOP of the HMJ group hotels, the six Accor hotels and the six *the b* hotels. The numerical figures are based on figures obtained from hotel lessees, etc. Please note that these numbers have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the numbers and information. Sales and GOP are rounded off to the nearest millions of yen. Comparison with the previous period is rounded off to one decimal place.

<1> Sales and GOP of the HMJ Group Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the HMJ Group Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
		Actual	Comparison with previous period	Forecast this time First half: actual Second half: forecast	Comparison with previous period
Kobe Meriken Park Oriental Hotel	First half of the year	2,424	(0.0%)	2,465	1.7%
	Second half of the year	2,828	1.1%	2,896	2.4%
	Full year	5,252	0.6%	5,361	2.1%
Oriental Hotel tokyo bay	First half of the year	3,395	0.9%	3,454	1.7%
	Second half of the year	3,927	2.2%	3,817	(2.8%)
	Full year	7,322	1.6%	7,271	(0.7%)
Namba Oriental Hotel	First half of the year	1,189	19.1%	1,386	16.6%
	Second half of the year	1,341	16.6%	1,491	11.1%
	Full year	2,530	17.8%	2,877	13.7%
Hotel Nikko Alivila	First half of the year	2,377	8.6%	2,421	1.8%
	Second half of the year	3,571	8.2%	3,734	4.6%
	Full year	5,948	8.3%	6,155	3.5%
Oriental Hotel Hiroshima	First half of the year	991	(5.2%)	1,025	3.4%
	Second half of the year	1,142	(3.0%)	1,216	6.4%
	Full year	2,134	(4.0%)	2,240	5.0%
Total of the Five HMJ Hotels	First half of the year	10,376	3.5%	10,751	3.6%
	Second half of the year	12,810	4.4%	13,154	2.7%
	Full year	23,186	4.0%	23,905	3.1%
Okinawa Marriott Resort & Spa	First half of the year	1,614	0.9%	1,607	(0.4%)
	Second half of the year	2,402	8.7%	2,326	(3.2%)
	Full year	4,016	5.4%	3,933	(2.1%)
Sheraton Grand Hiroshima Hotel	First half of the year	1,346	(1.0%)	1,369	1.7%
	Second half of the year	1,502	(0.6%)	1,627	8.3%
	Full year	2,847	(0.8%)	2,996	5.2%
Hotel Centraza Hakata	First half of the year	1,124	2.0%	1,155	2.8%
	Second half of the year	1,205	6.6%	1,265	5.0%
	Full year	2,330	4.4%	2,421	3.9%
Holiday Inn Osaka Namba	First half of the year	832	47.9%	1,104	32.7%
	Second half of the year	1,133	57.6%	1,103	(2.7%)
	Full year	1,965	53.4%	2,206	12.3%
Total of HMJ Group Hotels	First half of the year	15,291	4.4%	15,985	4.5%
	Second half of the year	19,053	6.8%	19,476	2.2%
	Full year	34,343	5.7%	35,461	3.3%

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- (*1) Okinawa Marriott Resort & Spa was acquired on July 10, 2015 and ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) was acquired on December 18, 2015. The figures for the fiscal year ended in December 2015 are for the entire year including prior to the acquisition.
- (*2) Hotel Centraza Hakata was acquired on April 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including prior to the acquisition.
- (*3) Holiday Inn Osaka Namba was acquired on August 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including prior to the acquisition.
- (*4) Renovation of Holiday Inn Osaka Namba was completed by the previous owner in March 2014. The number of guest rooms has increased from 304 to 314. Therefore, the numbers of guest rooms available for sale in the first half or full year of 2015 and the first half or full year of 2014 are different.

(2) Hotel GOP

(Unit: millions of yen)

GOP and ratio of GOP of the HMJ Group Hotels (*1)		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
		Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Five HMJ Hotels	GOP	6,941	10.1%	7,591	9.4%
	Ratio of GOP to sales	29.9%	1.7%	31.8%	1.8%
Okinawa Marriott Resort & Spa	GOP	1,230	11.3%	1,274	3.6%
	Ratio of GOP to sales	30.6%	1.6%	32.4%	1.8%
Sheraton Grand Hiroshima Hotel	GOP	716	10.0%	845	18.1%
	Ratio of GOP to sales	25.1%	2.5%	28.2%	3.1%
Hotel Centraza Hakata	GOP	715	8.7%	825	15.3%
	Ratio of GOP to sales	30.7%	1.2%	34.1%	3.4%
Holiday Inn Osaka Namba	GOP	1,309	73.1%	1,474	12.6%
	Ratio of GOP to sales	66.6%	7.6%	66.8%	(0.2%)
Total of the HMJ Group Hotels	GOP	10,912	15.2%	12,010	10.1%
	Ratio of GOP to sales	31.8%	2.6%	33.9%	2.1%

- (*1) Ratio of GOP refers to the ratio of GOP to sales.
- (*2) Okinawa Marriott Resort & Spa was acquired on July 10, 2015 and ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) was acquired on December 18, 2015. The figures for the fiscal year ended in December 2015 are for the entire year including prior to the acquisition.
- (*3) Hotel Centraza Hakata was acquired on April 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including prior to the acquisition.
- (*4) Holiday Inn Osaka Namba was acquired on August 1, 2016. The figures for the fiscal year ended December 2015 and the fiscal year ended December 2016 are for the entire year including prior to the acquisition.

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<2> Sales and GOP of the Six Accor Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the Six Accor Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
		Actual	Comparison with previous period	Forecast this time First half: actual Second half: forecast	Comparison with previous period
ibis Tokyo Shinjuku	First half of the year	453	6.1%	406	(10.3%)
	Second half of the year	421	(5.5%)	426	1.3%
	Full year	873	0.2%	832	(4.7%)
ibis Styles Kyoto Station	First half of the year	357	17.1%	464	30.0%
	Second half of the year	457	18.8%	513	12.3%
	Full year	814	18.0%	977	20.1%
ibis Styles Sapporo	First half of the year	429	7.9%	490	14.3%
	Second half of the year	591	13.1%	633	7.1%
	Full year	1,019	10.9%	1,122	10.1%
Mercure Sapporo	First half of the year	499	17.5%	546	9.3%
	Second half of the year	672	17.4%	708	5.3%
	Full year	1,172	17.4%	1,254	7.0%
Mercure Okinawa Naha	First half of the year	407	12.1%	489	20.2%
	Second half of the year	516	24.5%	560	8.6%
	Full year	923	18.7%	1,049	13.7%
Mercure Yokosuka	First half of the year	550	1.0%	569	3.5%
	Second half of the year	512	4.3%	502	(2.0%)
	Full year	1,062	2.6%	1,071	0.8%
Total of the Six Accor Hotels	First half of the year	2,696	9.5%	2,965	10.0%
	Second half of the year	3,168	12.0%	3,341	5.5%
	Full year	5,863	10.8%	6,306	7.6%

(*) Mercure Yokosuka was acquired on April 2, 2015. The figures for the fiscal year ended December 2015 are the figures for the entire year including prior to the acquisition.

(2) Hotel GOP

(Unit: millions of yen)

GOP and ratio of GOP of the Six Accor Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Six Accor Hotels	2,512	21.0%	2,885	14.9%
Ratio of GOP to sales	42.8%	3.6%	45.8%	2.9%

(*) Mercure Yokosuka was acquired on April 2, 2015. The figures for the fiscal year ended December 2015 are the figures for the entire year including prior to the acquisition.

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<3> Sales and GOP of the Six *the b* Hotels

(1) Hotel sales (by hotel)

(Unit: millions of yen)

Sales of the Six <i>the b</i> Hotels		FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
		Actual	Comparison with previous period	Forecast this time First half: actual Second half: forecast	Comparison with previous period
the b akasaka-mitsuke	First half of the year	221	69.4%	242	9.4%
	Second half of the year	242	13.8%	226	(6.7%)
	Full year	464	35.0%	468	1.0%
the b ikebukuro	First half of the year	301	7.7%	323	7.3%
	Second half of the year	324	14.5%	312	(3.7%)
	Full year	625	11.1%	635	1.6%
the b ochanomizu	First half of the year	132	9.0%	131	(0.8%)
	Second half of the year	130	4.8%	135	3.5%
	Full year	262	6.9%	266	1.3%
the b hachioji	First half of the year	267	10.4%	291	9.0%
	Second half of the year	291	13.8%	273	(6.1%)
	Full year	558	12.2%	564	1.1%
the b hakata	First half of the year	191	10.9%	230	20.6%
	Second half of the year	215	12.8%	249	15.5%
	Full year	406	11.9%	478	17.9%
Total of the Five <i>the b</i> Hotels	First half of the year	1,111	17.7%	1,216	9.4%
	Second half of the year	1,203	12.8%	1,195	(0.7%)
	Full year	2,315	15.1%	2,412	4.2%
the b suidobashi	First half of the year	—	—	177	—
	Second half of the year	—	—	174	—
	Full year	—	—	351	—
Total of the Six <i>the b</i> Hotels	First half of the year	—	—	1,394	—
	Second half of the year	—	—	1,369	—
	Full year	—	—	2,763	—

(*1) The five *the b* hotels were acquired on January 30, 2015. The figures for the fiscal year ended December 2015 are the figures for the entire year including prior to the acquisition.

(*2) The b akasaka-mitsuke completed its renovation work by the previous owner in April 2014. The number of guest rooms has increased from 91 to 122. Therefore, the numbers of guest rooms available for sale in the first half or full year of 2015 and the first half or full year of 2014 are different.

(*3) The b suidobashi was rebranded from Dormy Inn Suidobashi on July 1, 2015. Therefore, no figures are indicated for the fiscal year ended December 2015 and comparison with the previous period for the fiscal year ended December 2016.

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(2) Hotel GOP

(Unit: millions of yen)

GOP and the ratio of GOP of the Five <i>the b</i> Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Five <i>the b</i> Hotels	1,079	26.4%	1,195	10.8%
Ratio of GOP to sales	46.6%	4.2%	49.6%	3.0%

(Unit: millions of yen)

GOP and the ratio of GOP of the Six <i>the b</i> Hotels	FY 2015 (Fiscal year ended December 2015)		FY 2016 (Fiscal year ended December 2016)	
	Actual	Comparison with previous period	Forecast this time	Comparison with previous period
Total of the Six <i>the b</i> Hotels	—	—	1,370	—
Ratio of GOP to sales	—	—	49.6%	—

(*1) The five *the b* hotels were acquired on January 30, 2015. The figures for the five *the b* hotels for the fiscal year ended December 2015 are for the entire year including prior to the acquisition.

(*2) The b *suidobashi* was rebranded from Dormy Inn Suidobashi on July 1, 2015. Therefore, no figures for the six *the b* hotels are indicated for the fiscal year ended December 2015 and comparison with previous period for the fiscal year ended December 2016.

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