JAPAN HOTEL REIT

Japan Hotel REIT Investment Corporation
(TSE: 8985)

Midterm Financial Results

FY12/2020 (21st Period)

Japan Hotel REIT Investment Corporation
Japan Hotel REIT Advisors Co., Ltd.

https://www.jhrth.co.jp/en/

August 25, 2020

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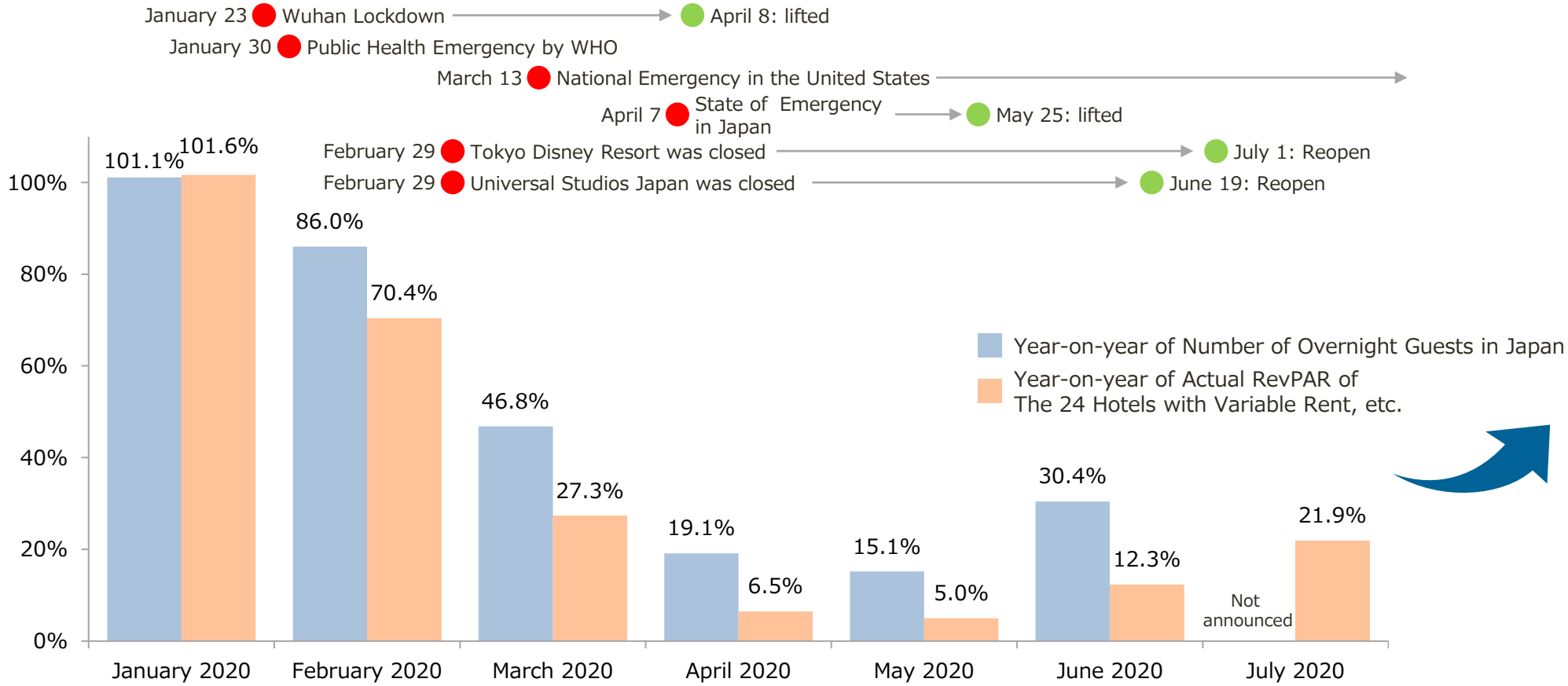
I . Introduction: Impact of COVID-19

1. Introduction: Impact of COVID-19

Year-on-year of Number of Overnight Guests in Japan and RevPAR of The 24 Hotels with Variable Rent, etc.



		January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020
The 24 Hotels with Variable Rent, etc.(*)	Number of hotels closed	0	10	16	9	4		
	% of number of guest rooms of the hotels closed	0%	15.3%	70.5%	33.9%	8.1%		

Source: Statistics of Overnight Travel by Japan Tourism Agency

(*) The 24 Hotels with Variable Rent, etc. are The 14 HMJ Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b ikebukuro, the b hachioji, the b hakata and the b suidobashi. The 14 HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel), Oriental Hotel Fukuoka Hakata Station, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, Hotel Nikko Nara, Hotel Oriental Express Osaka Shinsaibashi, and Hilton Tokyo Odaiba.

1. Introduction: Impact of COVID-19 (cont.)

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- Due to the impact of COVID-19, significant reduction of dividend is expected
- Implement countermeasures to overcome the crisis of COVID-19

Summary of Forecast for 2020

(Unit: JPY MM)

	Full Year 2020 (forecast)	Variance from the Initial Forecast(*1)
Operating Revenue	13,126	(56.2%)
Real Estate Operating Revenue	9,970	(66.7%)
Fixed Rent, etc.	8,921	(50.4%)
Variable Rent	1,049	(91.2%)
Gain on Sale of Properties, etc.	3,156	–
Net Income	243	(98.5%)
Use of Negative Goodwill	319	–
Dividend per Unit (JPY)	**126**	**(96.6%)**

Initiatives of JHR

Response to Requests for Rent Reduction, etc.

- Implement measures to reduce hotel operating costs in cooperation with operators
- Comprehensively judge on requests for rent reduction
- Agreed on rent with HMJ(*2)

Sale of Property

- Sold a limited-service hotel in Tokyo in July 2020
- Add source of dividend and improve liquidity on hand

Refinancing

- Maintain sound relationships with lenders
- Secure financial soundness and stability

Review of CAPEX

- Review of all capital expenditures (CAPEX) including large-scale renovations
- Prioritize improvement of liquidity on hand

(*1) Stating the figures of forecast announced in Financial Report for the Fiscal Year Ended December 2019 (January 1, 2019–December 31, 2019) dated February 20, 2020.
(*2) HMJ represents Hotel Management Japan Co., Ltd. or Hotel Management Japan Co., Ltd. and its subsidiaries. The same shall apply hereinafter.

Ⅱ. Initiatives of JHR

1. Initiatives of JHR

1	Response to Requests for Rent Reduction, etc.
2	Sale of Property
3	Refinancing
4	Review of CAPEX

1-1. Response to Requests for Rent Reduction, etc.

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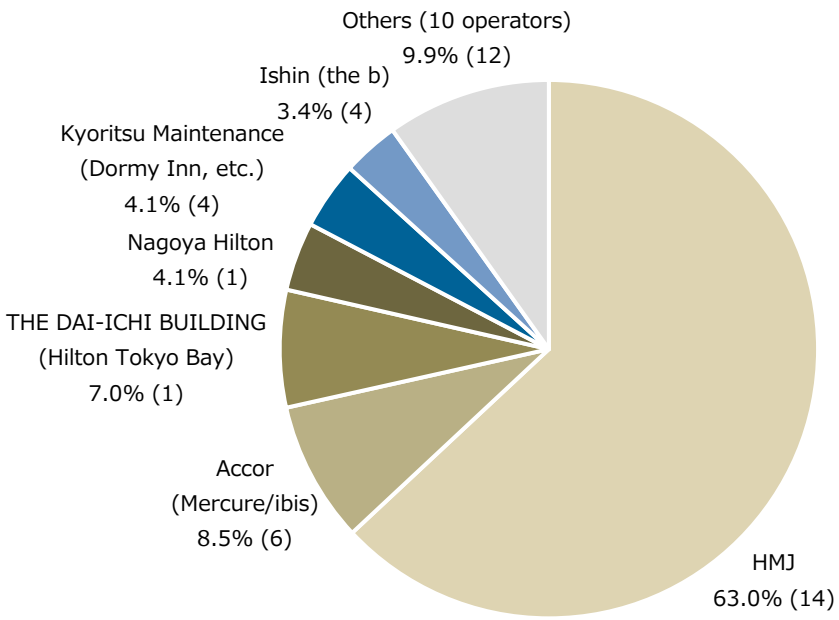
- Comprehensively judge on requests for rent reduction based on the policy
- Agreed with HMJ regarding rent

Status of Operators

Number of Operators of JHR	16 operators

Of these, 11 operators, including HMJ, requested a rent reduction

Breakdown of Operators



(*) Based on acquisition price. A parenthesis represents the number of hotel.

Policy of Decision-making on Rent

Make sure that operators are executing maximum efforts to reduce hotel operating costs, etc., and make comprehensive decisions based on the items below.

1	**Details of lease contracts and rent levels (changes in rent burden ratio during the operating period, etc.)**
2	**Financial condition of operators (Business continuity risk)**
3	**Potential of alternative operators**

* No problems with hotel management capability of operators

Progress in Decision-making

HMJ	• Agreed to amend a lease contract and changed a rent structure for 2020 onwards
Other operators	• Continuing negotiations with some operators • For the revenue forecast for FY2020, 200 million yen is expected as a risk of rent reduction

1-2. Restructuring Plan of HMJ

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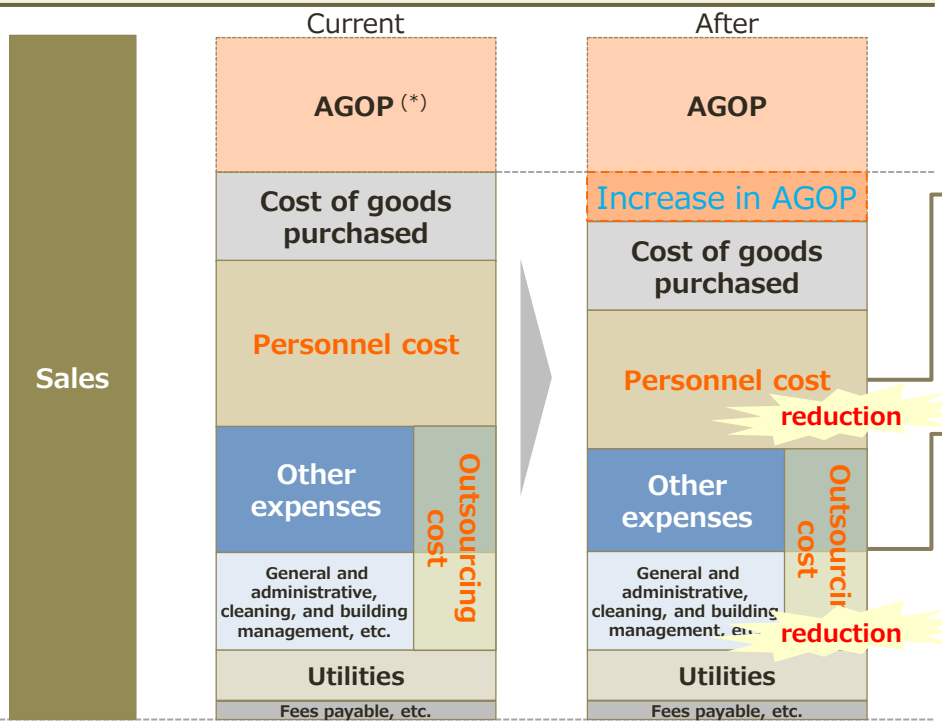
- Implemented a large-scale cost reduction to improve profitability and strengthen financial conditions
- Maximize the rent payable for this fiscal year by implementing emergency measures in 2020

Review of Cost Structure of HMJ



Action

Personnel Cost Reduction

- Streamlining, reducing, and closing unprofitable divisions
- Improve efficiency by consolidating back-office divisions and common operations
- Introduction of Smart Check-In
- Reduction and streamlining of personnel in accordance with the above measures

JPY1,137MM reduction (10.0%)

Outsourcing Cost Reduction

- Review of outsourcing business specifications/ standardization of standards

JPY381MM reduction (17.6%)

Revenue Upside Measures

- Convert directly managed restaurants to tenant operations and introduce managing contract
- Increase direct booking by retaining customers (save commission costs)

JPY1,518MM reduction/ year (11.1%)

<Emergency Measures in 2020>

- Maximize the rent payable by implementing emergency measures

Personnel	Temporary salary/bonus reduction
	Utilization of subsidies (government subsidies for employment adjustment, etc.)
Operating Cost	Suspension or reduction of outsourcing contracts
	Control sales and marketing expenses
	Control purchases of consumables
Secure Funding	Use of financing backed by public policy
	Deferred tax payments
	Funding support from the sponsor

Reduction of JPY4,258MM
(including some of the costs above)

(*) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP.

1-3. Change in Rent from HMJ

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◆ Reconstructing sustainable relationships with HMJ, the largest operator

Decision on Rent in 2020

✓ Based on the current contract, the rent structure was changed to variable rent from February onwards, when the impact of COVID-19 became apparent.

	Total rent	Fixed rent	Variable rent	Initial forecast of fixed rent	Variance from the initial forecast
The 14 HMJ Hotels	JPY1,151MM	JPY794MM (for one month (for January))	JPY357MM <GOP × ratio of each property − fixed rent for one month>	JPY9,530MM	(JPY8,379MM)
Of these, Hilton Tokyo Odaiba	*JPY258MM*	*JPY258MM*	*JPY0*	*JPY3,100MM*	*(JPY2,842MM)*

Change in Lease Contract (2021 and 2022 onwards)

✓ Changed the current contract.

2021	**Variable rent only** (The fixed rent is not set as 2021 is a recovery period of hotel performance)	
2022 onwards	**Fixed rent**	**Same amount** as the previous lease contract(*2)
	Variable rent	Review the GOP base for each property and set variable rent ratio with appropriate rent burden ratio(*3)

Receive part of HMJ's cost reduction as variable rent, and **collect the fixed rent reduction/ waived in 2020 in the future**

Rent Burden Ratio

✓ In 2020 the rent burden exceeds GOP, but from 2021 onwards, the rent burden ratio is decreased due to the change in the rent structure.

2020 (forecast)	GOP	Rent which HMJ can pay	Rent which GOP exceeds GOP base
	JPY204MM	JPY1,151MM	**JPY947MM**

Rent burden ratio (rent/GOP)	2019 actual (annualized)(*4) (A)	New rent structure (2021 onwards)(*5) (B)	(A)−(B)
	89.2%	85.5%	**(3.7pt)**

- The rent burden ratio is decreased, and part of the cost reduction effect **can be retained**
- **Strengthen the financial position**

(*1) For change in rent from HMJ, please see "Notice Concerning Revision of Fixed-Term Lease Agreement" on August 25, 2020.
(*2) The fixed rent of Hilton Tokyo Odaiba is the same amount as the fixed rent on and after 2021 (JPY1.6Bn), which was stipulated in the contract before revision.
(*3) When AGOP of each hotel exceeds AGOP base, the fixed rent is calculated by multiplying the amount by the fixed rent set for each hotel.
(*4) The rents of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba were annualized. The fixed rent of Hilton Tokyo Odaiba was calculated at JPY1.6Bn.
(*5) The figure was calculated based on certain assumptions based on hotel performance in 2019. The figure may differ depending on the actual GOP results.

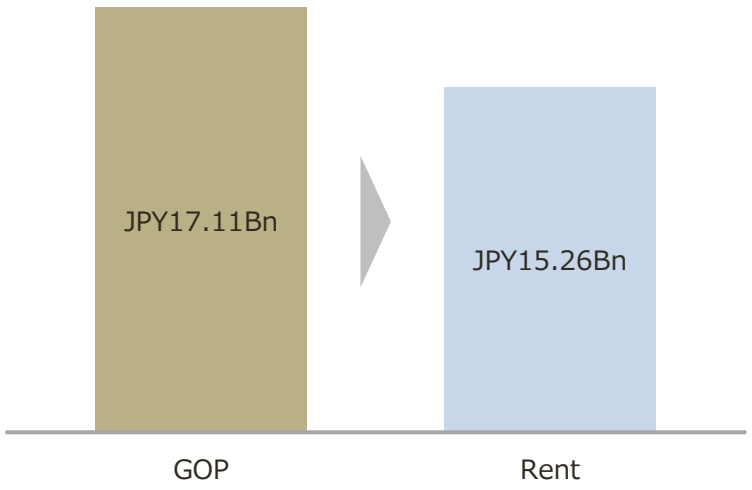
1-4. New Lease Contract with HMJ (2021 onwards)

- Share the effect of cost reduction of HMJ by JHR (as rent) and HMJ
- **Based on the hotel performance in 2019**, the cost reduction amount of **JPY1,520MM** will be equally divided into JHR rent of **JPY670MM** and HMJ internal reserve of **JPY850MM (JPY550MM after tax)**

2019 Actual (annualized)

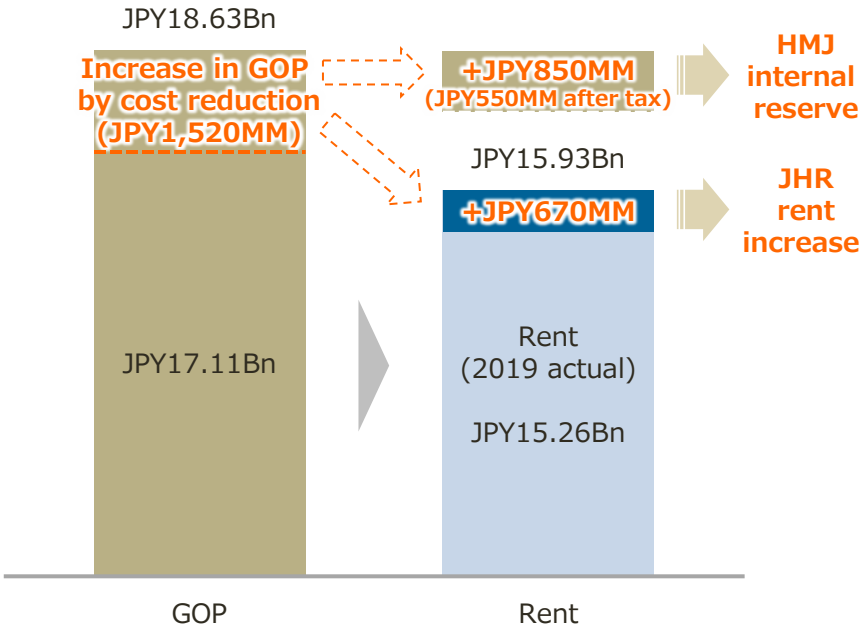
<The 14 HMJ Hotels>

- GOP: JPY17.11Bn
- Total rent: JPY15.26Bn(*1)



New Rent Structure(*2) (2021 onwards)

- Increase in GOP due to the cost reduction effect even when the sales is the same
- Increase in rent received by JHR due to the increase in GOP
- Increase in internal reserve of HMJ due to the lower rent burden ratio (89.2%→85.5%)
  ⇒ Improve rent payment capacity



(*1) The rents of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba were annualized. The fixed rent of Hilton Tokyo Odaiba was calculated at JPY1.6Bn.
(*2) The actual GOP in 2019 is stated for comparison. However, in the new rent structure, when AGOP of each hotel exceeds AGOP base, the fixed rent is calculated by multiplying the amount by the fixed rent set for each hotel.

2. Sale of Property

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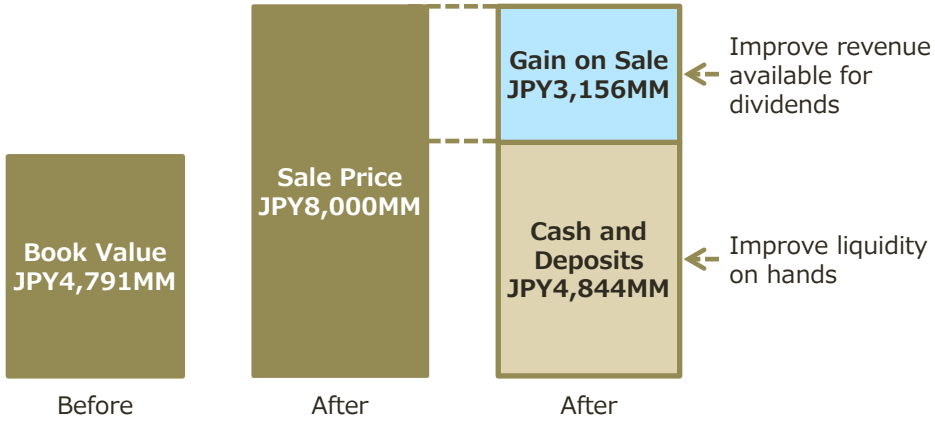
◆ Improve revenue available for dividends and improve liquidity on hand

Sale of Property (July 2020)

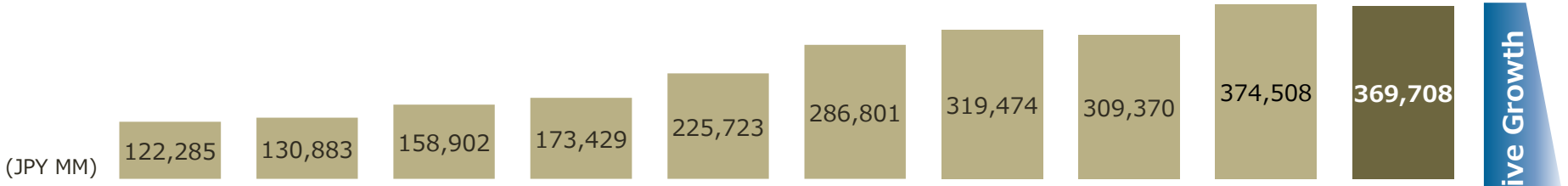
- Sold a large, limited-service hotel in Tokyo, which has a large amount of unrealized gain

Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	
Sale Price	JPY8,000MM
Acquisition Price	JPY4,800MM
Book Value(*1)	JPY4,791MM
Gain on Sale	JPY3,156MM
Appraisal Value(*2)	JPY8,950MM

Use of Gain on Sale



Change in Asset Size



	April 2012 (merger)	FY12/2012 (13th Period)	FY12/2013 (14th Period)	FY12/2014 (15th Period)	FY12/2015 (16th Period)	FY12/2016 (17th Period)	FY12/2017 (18th Period)	FY12/2018 (19th Period)	FY12/2019 (20th Period)	FY12/2020 (21st Period forecast)
No. of Properties	28	28	28	30	36	41	44	41	43	42
No. of Acquisition		2	2	3	9	5	3		2	
Acquisition Price		JPY10.8Bn	JPY32.6Bn	JPY15.7Bn	JPY57.0Bn	JPY61.0Bn	JPY32.6Bn		JPY65.1Bn	
No. of Dispositions		2	2	1	3			3		1
Sale Price		JPY0.8Bn	JPY2.6Bn	JPY0.7Bn	JPY4.8Bn			JPY12.1Bn		JPY8.0Bn

Aim for Successive Growth

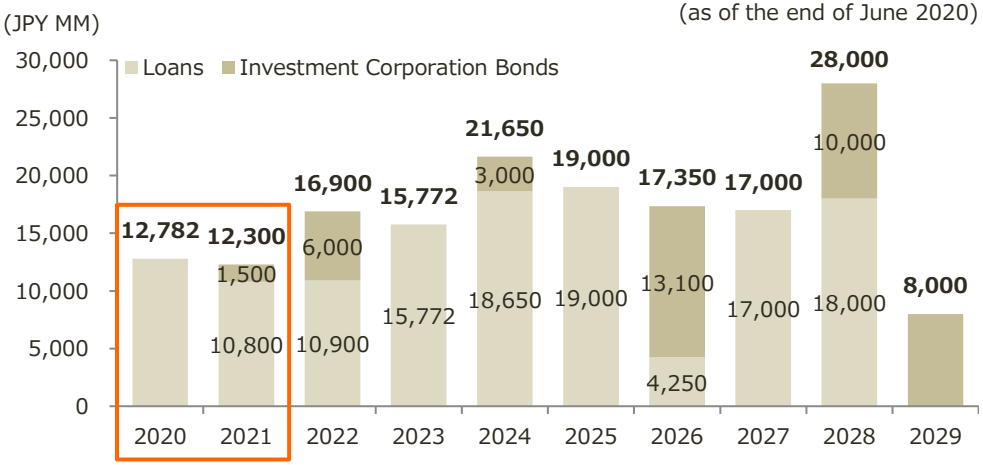
(*1) As of the end of June 2020.
(*2) As of the end of December 2019.

3. Refinancing

- Maintain sound relationships with all lenders and discuss more closely than ever before
- Continue to maintain financial soundness and stability

Repayment Schedule of Interest-bearing Debt

(as of the end of June 2020)



Refinancing in Second Half of 2020 and 2021

<Second half of 2020>

Repayment Date	Balance	Cost
September 30, 2020	JPY11,847MM	0.93%
December 30, 2020	JPY935MM	
Total	**JPY12,782MM**	

<2021>

Repayment Date	Balance	Cost
March 31, 2021	JPY6,800MM	1.62%
September 30, 2021	JPY4,000MM	
December 30, 2021 (Investment corporation bonds)	JPY1,500MM	
Total	**JPY12,300MM**	

Main Financial Indicators

Changes in LTV (total asset base)(*1) (End of FY12/2020 (expected) (21st Period))	42.2%
Cost for all interest-bearing debt (as of the end of June 2020)	1.0%
Average life of debt (as of the end of June 2020)	4.7 Year
Free cash after deducting dividends as of the end of December 2020(*2) (forecast)	JPY16.0Bn

(*1) LTV as of the end of each period/year. LTV as of the end of June 2020 is 42.3%.
(*2) The above figures represent cash and deposits, excluding various reserves for trust and amount equivalent to dividends to be paid, etc.

Status of Credit Rating

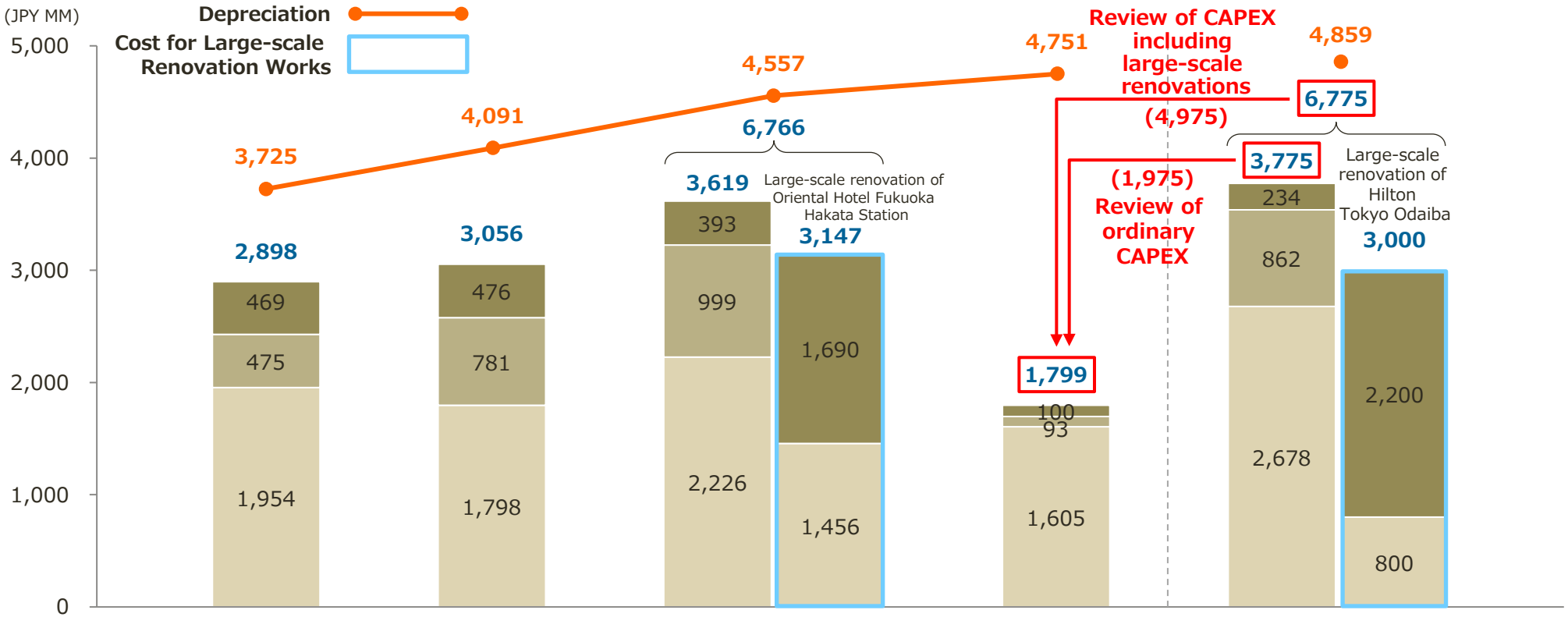
Japan Credit Rating Agency, Ltd. (JCR)	A+ (stable)
Rating and Investment Information, Inc. (R&I)	A (stable)

4. Capital Expenditure and Depreciation

◆ Reviewed all CAPEX including large-scale renovations and prioritize improvement of liquidity on hand

Clarification of CAPEX

CAPEX Ⅰ	capital investment related to renewal of buildings, facilities, and equipment which is required to maintain proper values of properties
CAPEX Ⅱ	capital investment for fixtures furniture and equipment that are not directly related to building structures or facilities but necessary for operating hotels
CAPEX Ⅲ	strategic capital investment for renewals of guest rooms, banquet rooms, restaurant and others in order to maintain or to improve the competitiveness of the hotels



	FY12/2017	FY12/2018	FY12/2019	FY12/2020 (forecast)	FY12/2020 (initial plan)
Asset Size (JPY MM)	319,474	309,370	374,508	369,708	369,708

(*) The expenditures related to large-scale renovation of Hilton Tokyo Odaiba in FY2020 (21st Period) were expected to be JPY3,000MM, and the expenditure of large-scale renovation of Namba Oriental Hotel in FY2021 (22nd Period) were expected to be JPY2,600MM. However, both large-scale renovations were postponed.

Ⅲ. Summary of Midterm Settlement of Accounts and Revenue Forecast for the Full Fiscal Year

1. Midterm Results for the Fiscal Year Ending December 2020

(Unit: JPY MM)

		FY12/2019 (20th Period) Midterm Actual (A)		FY12/2020 (21st Period) Midterm Actual(*1) (B)		Variance (B)−(A)	Variance %
Properties	**No. of Properties**		43		43	0	–
	Acquisition Price		374,508		374,508	0	–
Profit and Loss	**Operating Revenue**		12,719		5,536	(7,182)	(56.5%)
	Real Estate Operating Revenue		12,719		5,536	(7,182)	(56.5%)
	Fixed Rent	59.3%	7,537	80.3%	4,446	(3,090)	(47.1%)
	Other Income	4.5%	576	8.0%	443	(132)	(22.4%)
	Variable Rent	36.2%	4,606	11.7%	646	(3,959)	(86.0%)
	NOI(*2)		10,679		3,588	(7,091)	(66.4%)
	Depreciation		2,165		2,365	200	
	Asset Retirement Obligations Expenses		1		1	0	
	Loss on Retirement of Noncurrent Assets		218		0	(218)	
	NOI after Depreciation(*2)		8,294		1,220	(7,073)	(85.3%)
	Other Operating Expenses		1,001		894	(106)	
	Operating Income		7,293		325	(6,967)	(95.5%)
	Non-operating Income		9		35	25	
	Non-operating Expenses		948		911	(37)	
	Ordinary Income		6,354		(550)	(6,904)	–
	Net Income		6,353		(551)	(6,904)	–

Major Causes of Variance

Fixed rent

- The 14 HMJ Hotels (JPY3,115MM)
- Rent from office and commercial tenants, etc. JPY24MM

total (JPY3,090MM)

Variable rent

- The 24 Hotels with Variable Rent, etc. (JPY3,437MM)

  [Of these, The 14 HMJ Hotels (JPY2,058MM)]
- Other revenue sharing, etc. (JPY522MM)

total (JPY3,959MM)

(*1) For detail, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2020 (January 1, 2020–December 31, 2020) dated August 25, 2020.
(*2) 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 after depreciation = Real estate operating revenue − Real estate operating costs

2. Revenue Forecast for the Full Year Ending December 2020

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(Unit: JPY MM)

		FY12/2019 (20th Period)	FY12/2020 (21st Period)		(reference)	Comparison with Previous Period			
		Actual	Previous Forecast(*2) (A)	Forecast This Time (B)	Forecast This Time (annualized effect)	(B)−(A)	Variance	Property Sold (*3)	Existing Properties (*4)
Properties	No. of Properties	43	43	42	42	(1)		(1)	–
	Acquisition Price	374,508	374,508	369,708	369,708	(4,800)	(1.3%)	(4,800)	–
Profit and Loss	Operating Revenue	28,278	29,971	13,126	9,738	(16,844)	(56.2%)	2,990	(19,835)
	Real Estate Operating Revenue	28,278	29,971	9,970	9,738	(20,001)	(66.7%)	(165)	(19,835)
	Fixed Rent, etc.	56.3% 15,391	56.1% 16,828	79.5% 7,931	79.9% 7,782	(8,897)	(52.9%)	(149)	(8,748)
	Other Income	4.1% 1,170	3.9% 1,158	9.9% 989	10.0% 974	(169)	(14.6%)	(16)	(152)
	Variable Rent	39.5% 11,176	40.0% 11,984	10.5% 1,049	10.1% 982	(10,935)	(91.2%)	–	(10,935)
	Gain on Sale of Properties, etc.	–	–	3,156	–	3,156	–	3,156	–
	NOI	24,087	25,273	5,614	5,330	(19,658)	(77.8%)	(133)	(19,524)
	NOI Yield	*6.4%*	*6.7%*	*1.5%*	*1.4%*	*(5.2%)*			
	Depreciation	4,557	4,859	4,751	4,740	(108)		(11)	(97)
	Asset Retirement Obligations Expenses	2	2	2	2	0		–	0
	Loss on Retirement of Noncurrent Assets	246	18	19	19	0		–	0
	NOI after Depreciation	19,281	20,392	841	568	(19,550)	(95.9%)	(122)	(19,427)
	NOI Yield after Depreciation	*5.1%*	*5.4%*	*0.2%*	*0.2%*	*(5.2%)*			
	Other Operating Expenses	2,132	2,264	1,912	1,908	(351)	–		
	Operating Income	17,148	18,128	2,085	(1,340)	(16,042)	(88.5%)		
	Non-operating Income	46	0	35	35	34			
	Non-operating Expenses	1,903	1,888	1,876	1,876	(12)			
	Ordinary Profit (Loss)	15,291	16,239	244	(3,181)	(15,994)	(98.5%)		
	Extraordinary Losses and Corporate Tax	1	1	1	1	–			
	Net Income (Loss)	15,290	16,238	243	(3,182)	(15,994)	(98.5%)		
Dividend	Use of Negative Goodwill	1,176	496	319	337	(177)	(35.8%)		
	Total Dividends	16,466	16,733	562	–	(16,171)	(96.6%)		
	Number of Units Issued (Unit)	4,462,347	4,462,347	4,462,347	4,462,347	–	–		
	Dividend per Unit (JPY)	3,690	3,750	126	–	(3,624)	(96.6%)		

(3,564)

Major Causes of Variance of Existing Properties

Fixed rent

- The 14 HMJ Hotels (JPY8,736MM)
- Other tenants (JPY11MM)

Total (JPY8,748MM)

Variable rent

- The 24 Hotels with Variable Rent, etc. (JPY9,771MM)
  [Of these, The 14 HMJ Hotels (JPY6,614MM)]
- Decrease in variable rent, etc. in other hotels (JPY1,163MM)

Total(JPY10,935MM)

Use of Negative Goodwill(*5)

<FY12/2019>

50-year negative goodwill amortization	JPY262MM
Adjustment for dilution	JPY310MM
Correspondence to large-scale renovation work	JPY357MM
Loss on retirement of noncurrent assets	JPY246MM
Total	**JPY1,176MM**

<FY12/2020 (plan)>

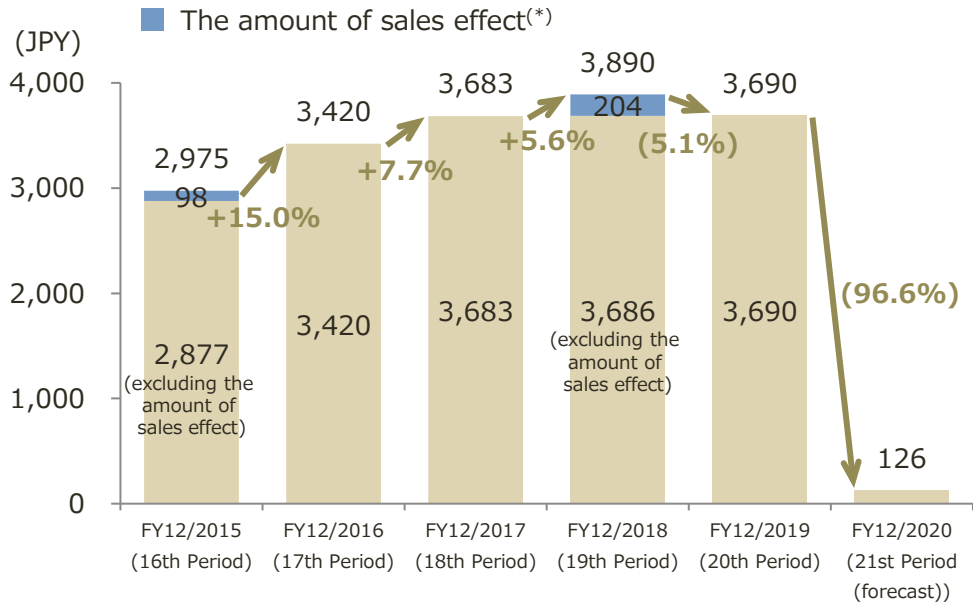
50-year negative goodwill amortization	JPY262MM
Loss on retirement of noncurrent assets	JPY19MM
Amortization of Trademark rights	JPY37MM
Total	**JPY319MM**

(*1) For details, please refer to Midterm Financial Report for the Fiscal Year Ending December 31, 2020 (January 1, 2020–December 31, 2020) dated August 25, 2020.
(*2) Stating the figures of forecast announced in Financial Report for the Fiscal Year Ended December 2019 (January 1, 2019–December 31, 2019) dated February 20, 2020.
(*3) Stating the amount of effect of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi, which was sold in July 1, 2020.
(*4) Existing properties refer to 42 properties JHR owns as of August 25, 2020. The same shall apply hereinafter.
(*5) Please refer to P.17 for the use of negative goodwill (reserve for temporary difference adjustment).

3. Dividend per Unit and Negative Goodwill

◆ Under the uncertain environment, priority is given to improving liquidity on hand

Dividend per Unit Growth



Breakdown of Dividend per Unit

		Forecast of full year 2020	Impact on dividend per unit
Net income for the current fiscal year excluding gain on sale	:	**(JPY2,913MM)**	**(JPY652)**
Gain on sale of property	:	**JPY3,156MM**	**JPY707**
Reverse amount of negative goodwill	:	**JPY319MM**	**JPY71**
Total amount for dividend for FY12/2020	:	**JPY562MM**	**JPY126**

(*) The amount of sales effect represents dividends per unit which were increased due to sales of properties.

Negative Goodwill

<Policy for Use of Negative Goodwill>

1. **Add JPY262 million (50-year amortization amount of negative goodwill) to dividends every period**
2. **In addition to above, dividends will be increased in response to the following**

- Cope with losses caused by property dispositions
- Cope with loss on retirement of noncurrent assets
- Cope with dilution of dividend per unit
- Cope with inconsistency between tax and accounting treatments (Amortization of fixed-term leasehold of land, amortization of asset retirement obligations, etc.)
- Cope with suspension of sales and such due to large-scale renovation works with significant impact on revenues

<Amount used in FY12/2019>

50-year amortization amount on negative goodwill	:	JPY262MM
Adjustment for dilution	:	JPY310MM
Cope with large-scale renovation works	:	JPY357MM
Cope with loss on retirement of noncurrent assets	:	JPY246MM
Total amount	:	**JPY1,176MM**
Balance of Negative Goodwill after the end of December 2019		**JPY10,617MM**

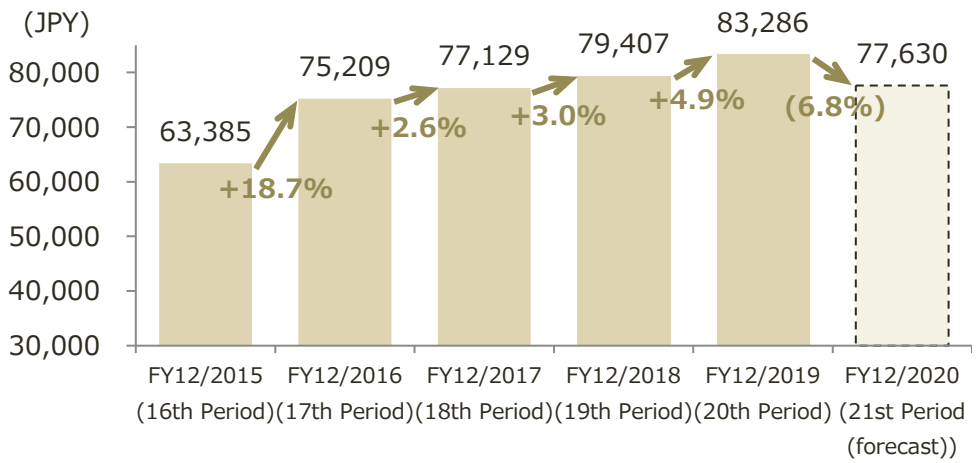
<Amount to be used in FY12/2020>

50-year amortization amount on negative goodwill	:	JPY262MM
Cope with loss on retirement of noncurrent assets	:	JPY19MM
Amortization of trademark rights	:	JPY37MM
Total amount (plan)	:	**JPY319MM**
Balance of Negative Goodwill after the end of December 2020 (forecast)		**JPY10,298MM**

4. NAV per Unit and Appraisal Value

- NAV and the appraisal value declined slightly by 6.8% and 4.3%, respectively, reflecting the current decline in appraised cash flow, despite no major changes in the CAP rate
- Maintain a high level of unrealized gains of about JPY130Bn

NAV per Unit Growth



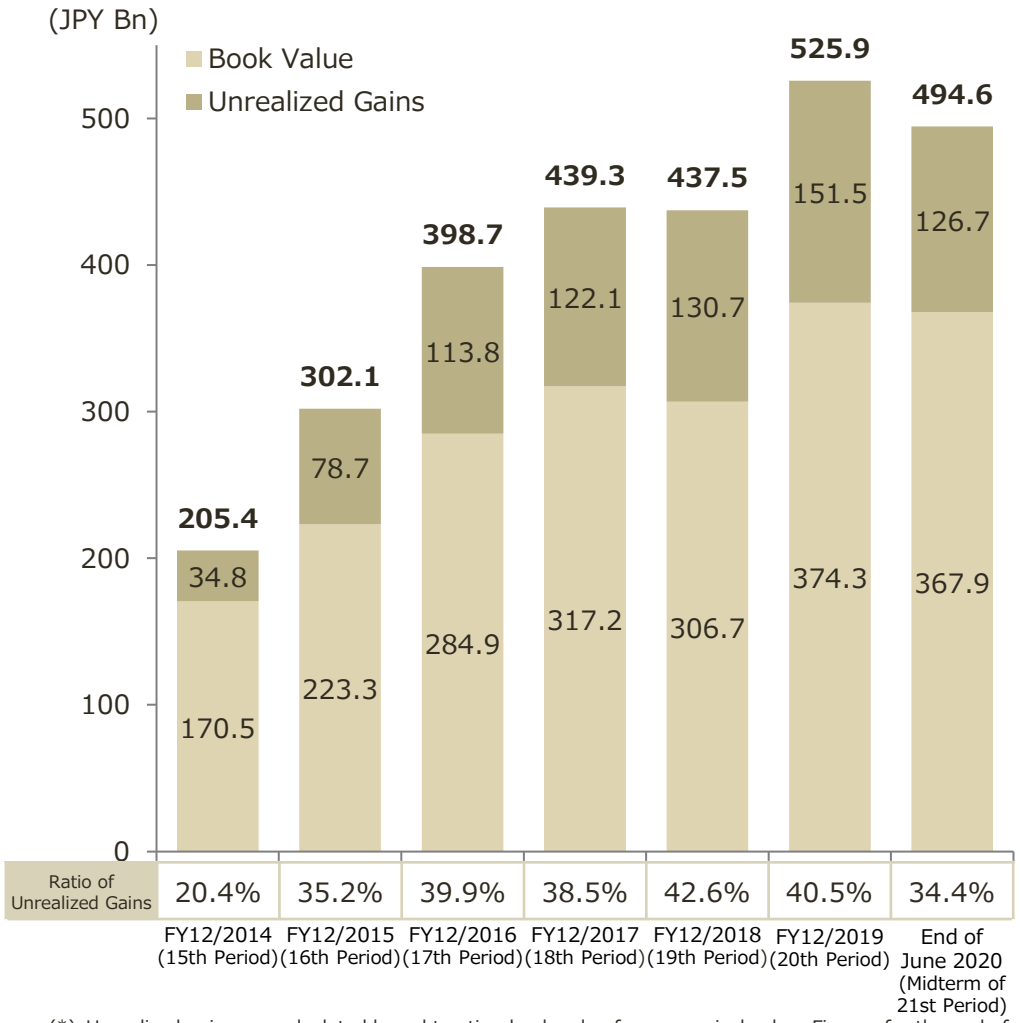
Change in Appraisal Value

(as of June 30, 2020)

	No. of Property	Acquisition Price (JPY MM)	Appraisal					
			Price (JPY MM)	Variance (*1)	Cap Rate (*2)	Variance of Cap Rate (*2)	Net Cash Flow (JPY MM)	Variance of Net Cash Flow
End of December 2019	43	374,508	525,910	2.0%	4.5%	–	23,452	–
End of June 2020 (*3)	42	369,708	494,690	(4.3%)	4.5%	0.1pt	22,422	(2.9%)

(*1) Variance is based on the properties owned by JHR as of the end of each fiscal year.
(*2) Cap rate and variance of cap rate are rounded off.
(*3) Figures for the end of June 2020 are for 42 properties excluding Sotetsu Fresa Inn Shimbashi-Karasumoriguchi.

Changes in Appraisal Value (Unrealized Gains)

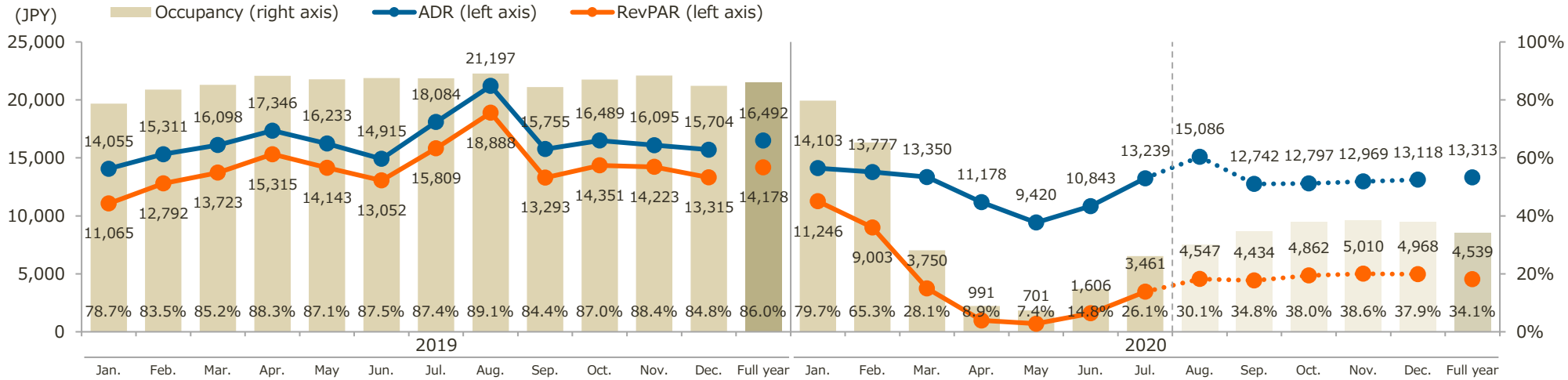


(*) Unrealized gains are calculated by subtracting book value from appraisal value. Figures for the end of June 2020 are for 42 properties excluding Sotetsu Fresa Inn Shimbashi-Karasumoriguchi.

Ⅳ. Status of Hotel Operations

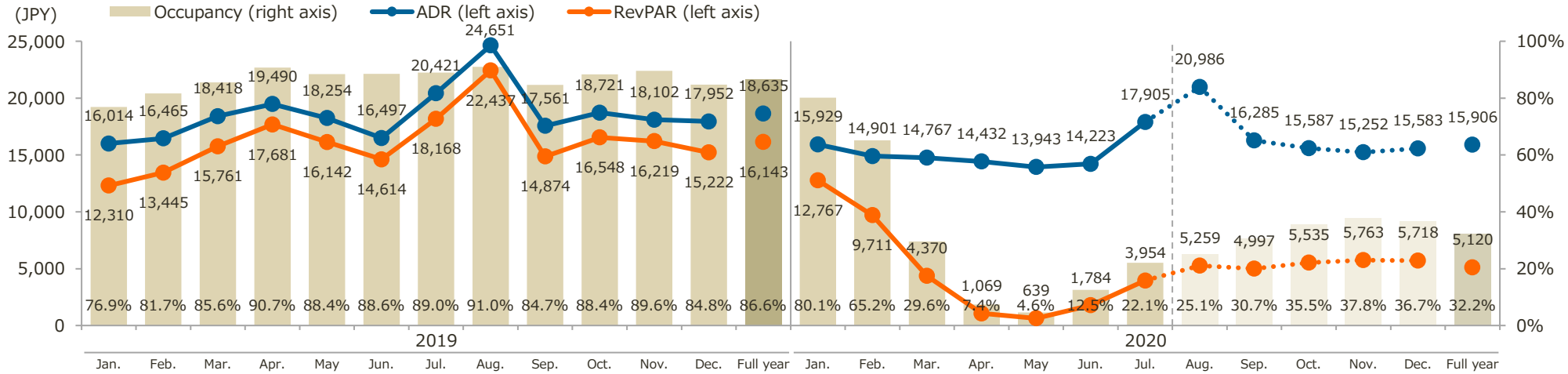
1. Monthly Performance of the 24 Hotels with Variable Rent, etc.

Monthly Performance of the 24 Hotels with Variable Rent, etc.



YoY change in RevPAR	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Full year
	+1.6%	(29.6%)	(72.7%)	(93.5%)	(95.0%)	(87.7%)	(78.1%)	(75.9%)	(66.6%)	(66.1%)	(64.8%)	(62.7%)	(68.0%)

Of these, Monthly Performance of the 14 HMJ Hotels



YoY change in RevPAR	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Full year
	+3.7%	(27.8%)	(72.3%)	(94.0%)	(96.0%)	(87.8%)	(78.2%)	(76.6%)	(66.4%)	(66.6%)	(64.5%)	(62.4%)	(68.3%)

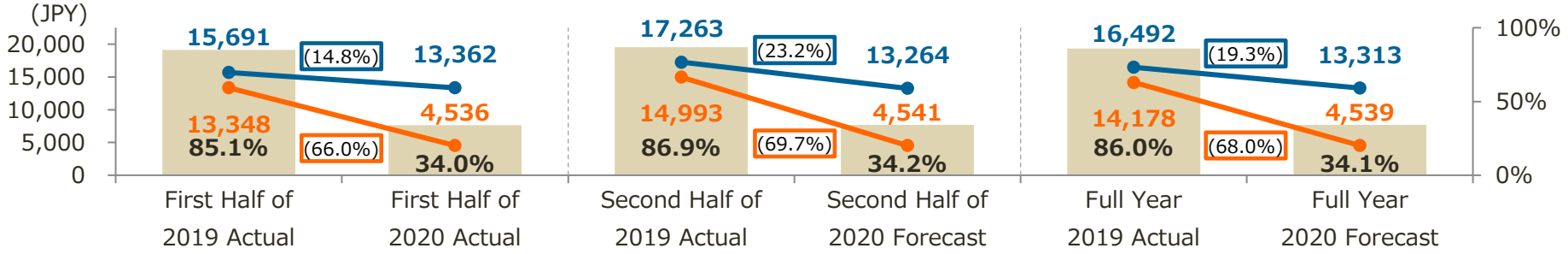
(*) Figures for August 2020 to December 2020 and full year 2020 are forecast figures.

2. Performance of the 24 Hotels with Variable Rent, etc.

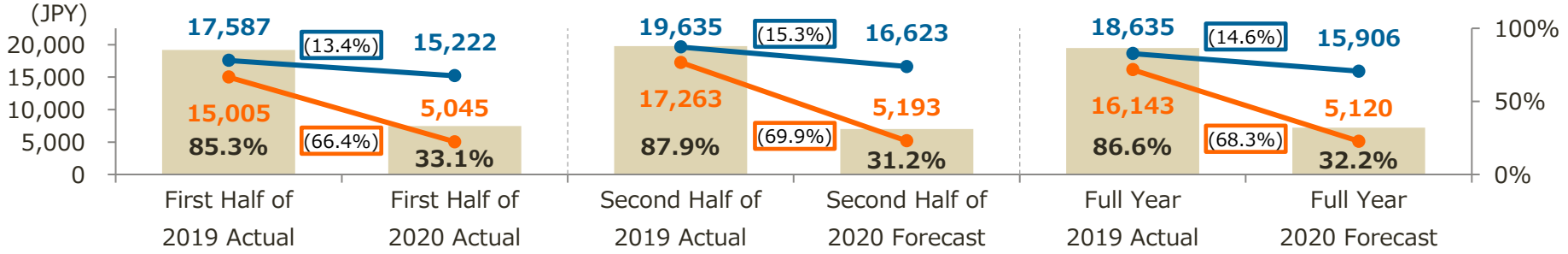
Performance and Forecast of Major Indicators

Occupancy (right axis) ADR (left axis) RevPAR (left axis)

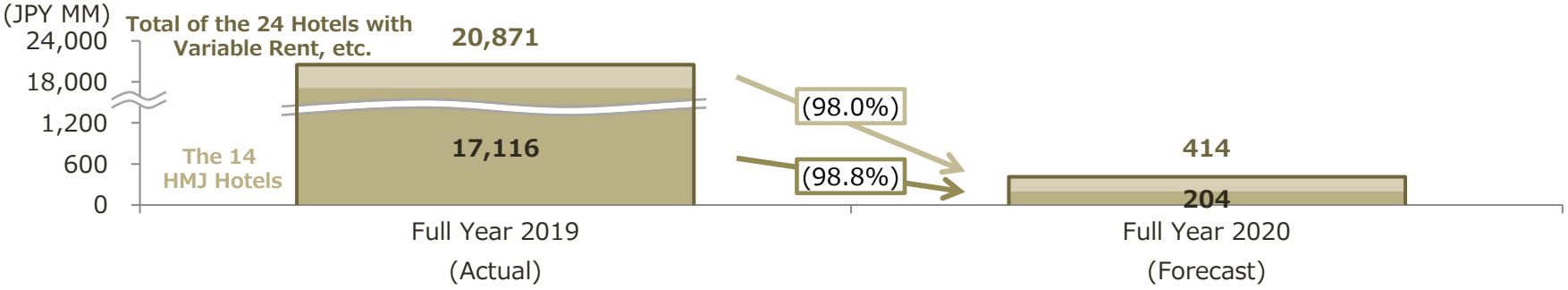
Total of the 24 Hotels with Variable Rent, etc.



The 14 HMJ Hotels

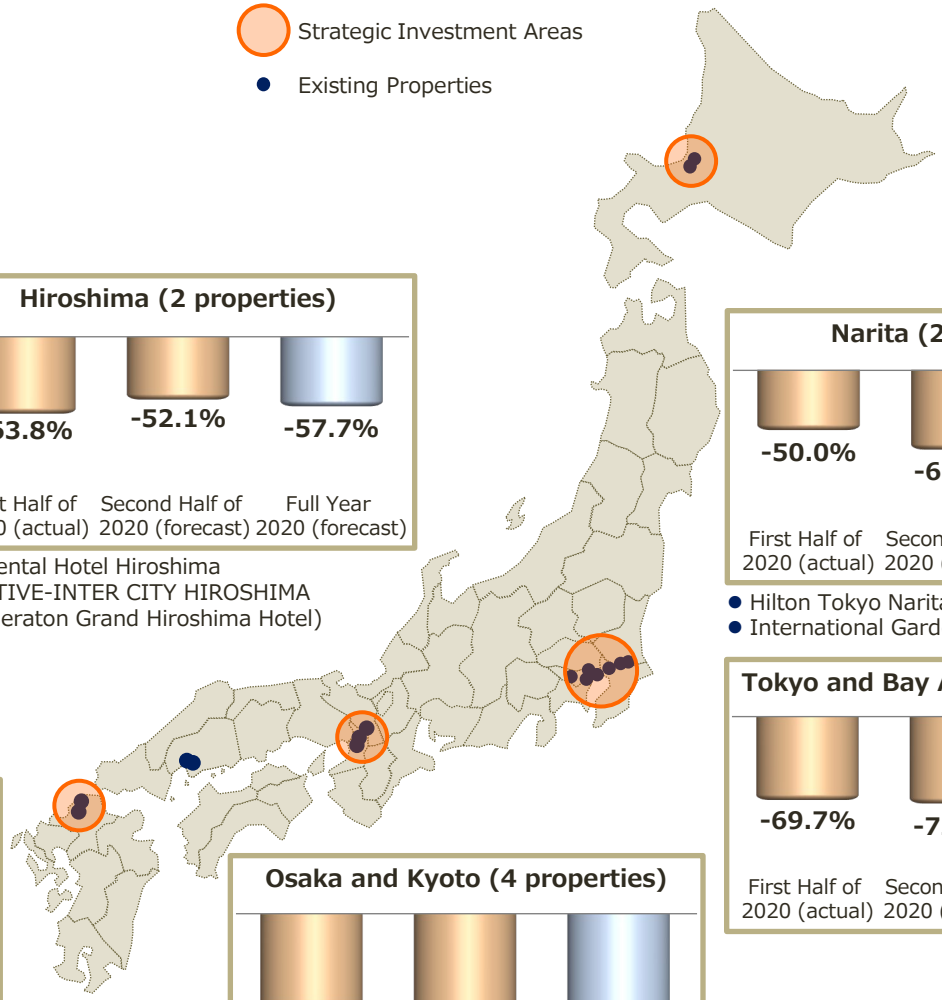


Performance and Forecast of GOP



3. RevPAR Variance to Previous Year by Region of the 24 Hotels with Variable Rent, etc. (2020)

◆ Nationwide impact of COVID-19



Total of 24 properties

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-66.0%	-69.7%	-68.0%

Hokkaido (2 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-64.0%	-71.2%	-67.9%

- ibis Styles Sapporo
- Mercure Sapporo

Hiroshima (2 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-63.8%	-52.1%	-57.7%

- Oriental Hotel Hiroshima
- ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)

Okinawa (3 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-65.4%	-67.6%	-66.7%

- Hotel Nikko Alivila
- Okinawa Marriott Resort & Spa
- Mercure Okinawa Naha

Narita (2 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-50.0%	-66.2%	-58.5%

- Hilton Tokyo Narita Airport
- International Garden Hotel Narita

Tokyo and Bay Area (6 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-69.7%	-72.5%	-71.2%

- Hilton Tokyo Odaiba
- Oriental Hotel tokyo bay
- ibis Tokyo Shinjuku
- the b ikebukuro
- the b hachioji
- the b suidobashi

Fukuoka (2 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-48.4%	-74.8%	-64.8%

- Oriental Hotel Fukuoka Hakata Station
- the b hakata

Osaka and Kyoto (4 properties)

First Half of 2020 (actual)	Second Half of 2020 (forecast)	Full Year 2020 (forecast)
-78.1%	-93.8%	-85.5%

- Namba Oriental Hotel
- Holiday Inn Osaka Namba
- Hotel Oriental Express Osaka Shinsaibashi
- ibis Styles Kyoto Station

(*) Stating major hotels in each area out of the 24 Hotels with Variable Rent, etc.

4. Infection Prevention Measures by HMJ

JAPAN HOTEL REIT

◆ Example of initiatives to prevent COVID-19
HMJ provides customers with safe and secure stays by implementing the measures in highest level to prevent COVID-19.

HOTEL MANAGEMENT JAPAN

Clean & Safe Policy

Hotel Management Japan Group Hotel is dedicated to thorough "avoidance of the Three Cs(*)" and "hygiene management." We will embody the three codes of service and implement measures to prevent COVID-19.

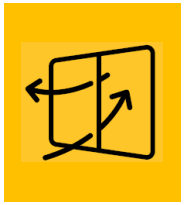
① Prevent infections by contact　② Prevent droplet infections　③ Thorough promotion

* The "Three Cs" represents Closed spaces with poor ventilation, Crowded places with many people nearby and Close-contact settings such as close-range conversations. (From the Ministry of Health, Labour, and Welfare Website)

Thorough cleaning for sterilization

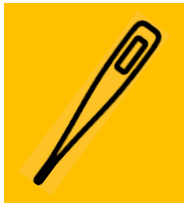
Disinfect areas that are frequently touched

Thorough ventilation



Frequently ventilate everywhere in all the building

Check of body temperatures upon entry



All guests are required to check body temperatures

Cleaning for extended stay

Staff enter in the guest room at the time of guests' request only

Prevention of droplet infections

Installation a panel at the reception to prevent droplet infections

Installation a disinfection station

Create an environment in public area where guests can use hand sanitizer at any time

New buffet style

Frequently exchange tongs and chopsticks for serving. Please wear masks and gloves when you take food from buffet table

Service staff

All staff wear masks and manage health and hygiene

Avoid congestion

Control waiting lines to keep distance and avoid close contact with staff

Temperature check system at the entrance
<Hilton Tokyo Odaiba>

Thorough disinfection
<Oriental Hotel Fukuoka Hakata Station>

5. Sustainability Initiatives

Aiming for achieving a mid to long-term growth that coexists with society and environment and enhancing sustainability through appropriate actions for ESG issues(*1)

Sustainability Policy

◆ JHR and JHRA stipulated "Sustainability Policy," which defines material issues and initiatives for sustainability in our business

Sustainability Policy

- Monitoring and improvement of environmental performance in our portfolio
- Promotion of comfortable, healthy, secure and safe hotels
- Promotion of ESG in value chains
- Consideration for and contribution to local communities
- Initiatives for our officers and employees
- Compliance as corporate citizens
- Improvement of transparency and engagement with our stakeholders

GRESB Real Estate Assessment(*2)

◆ JHR received a "Green Star" designation. It was highly evaluated in both "Management & Policy" and "Implementation & Measurement" areas with regards to initiatives for environmental considerations and sustainability

▶ Highest ranking
Acquired **Green Star**

▶ "GRESB Rating"
Acquired **3-star**

GRESB ★★★☆☆ 2019

CASBEE Certification for Buildings(*3) (May 2020)

◆ Hilton Tokyo Odaiba received CASBEE Certification for Buildings, (B+: Good) for the first time as existing hotel

Acquisition of BELS Certification(*4)

◆ JHR obtained a BELS certification for two properties, Hotel Nikko Alivila and Mercure Okinawa Naha, for the first among J-REIT owned hotels

Hotel Nikko Alivila

Mercure Okinawa Naha

Accommodate COVID-19 Patients

◆ Accommodated COVID-19 patients with mild or no symptoms (Two hotels)

- Of COVID-19 patients in Tokyo, accommodate those who are with mild or no symptoms
- Introduced cleaning and welcoming robots to make stay at hotels safer and more comfortable

(*1) For sustainability policy and examples of initiatives by JHR, please see websites of JHR (https://www.jhrth.co.jp/en/about/sustainability.html).
(*2) The GRESB is an annual benchmarking program to evaluate ESG considerations of property companies and real estate funds. The GRESB Real Estate Assessment is distinguished by its comprehensive evaluation of initiatives for sustainability of property companies, REITs and real estate funds, not of individual properties. GRESB rating is a relative evaluation based on comprehensive scores and the highest being "5-stars."
(*3) CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a method for evaluating and rating the environmental performance of buildings. CASBEE Certification for Buildings is granted for assessment results provided by CASBEE for New Construction, Existing Buildings, and Renovation. Assessment results by CASBEE are indicated in a scale of the following five ranks: "S: Superior," "A: Very Good," "B+: Good," "B-: Slightly Poor," and "C: Poor."
(*4) BELS (Building-Housing Energy-Efficiency Labeling System) is a display system of energy conservation performance of a building set by Ministry of Land, Infrastructure, Transport and Tourism.

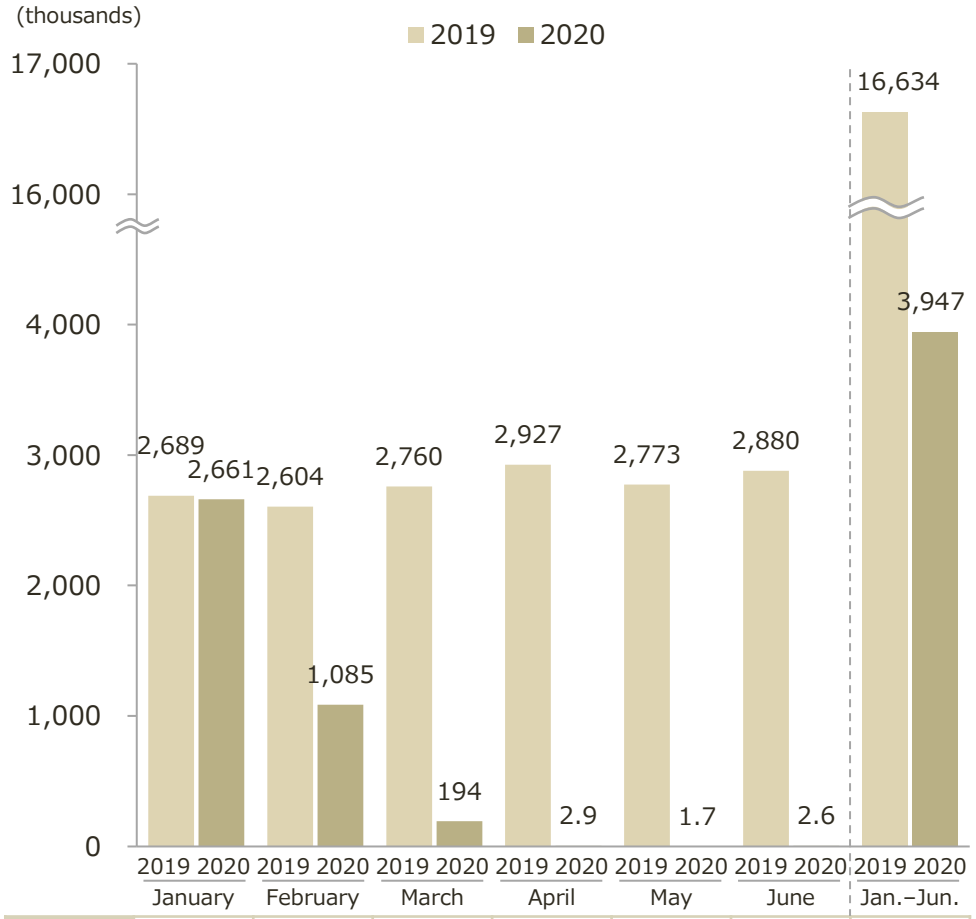
V. Market Environment

1. Market Environment

JAPAN HOTEL REIT

- The number of inbound visitors since April was close to zero

Changes in Number of Inbound Visitors

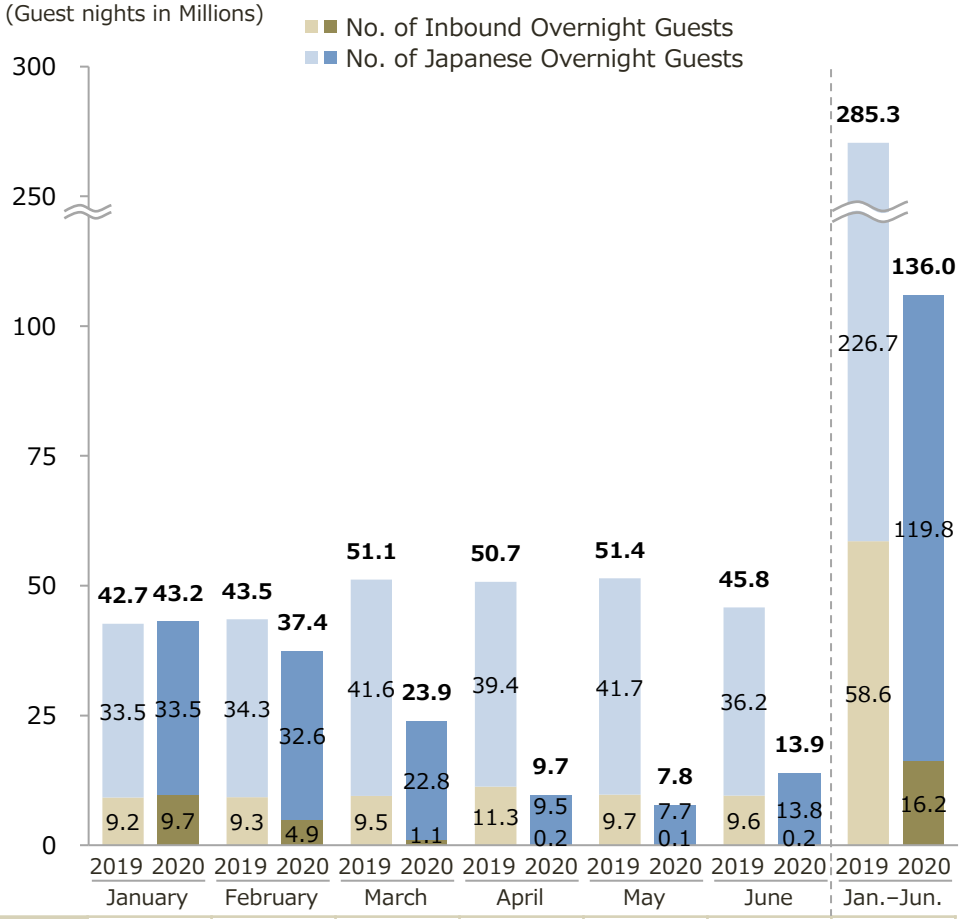


YoY change	(1.1%)	(58.3%)	(93.0%)	(99.9%)	(99.9%)	(99.9%)	(76.3%)

Source: Number of International Visitors to Japan by Japan National Tourism Organization (JNTO)
(*) The numbers for Jan.–Apr. 2020 are provisional numbers, and May–Jun. are estimated numbers.

- Hit the bottom in April and May under the state of emergency
- The number of Japanese overnight guests has recovered slowly since June

Changes in Number of Overnight Guests in Japan



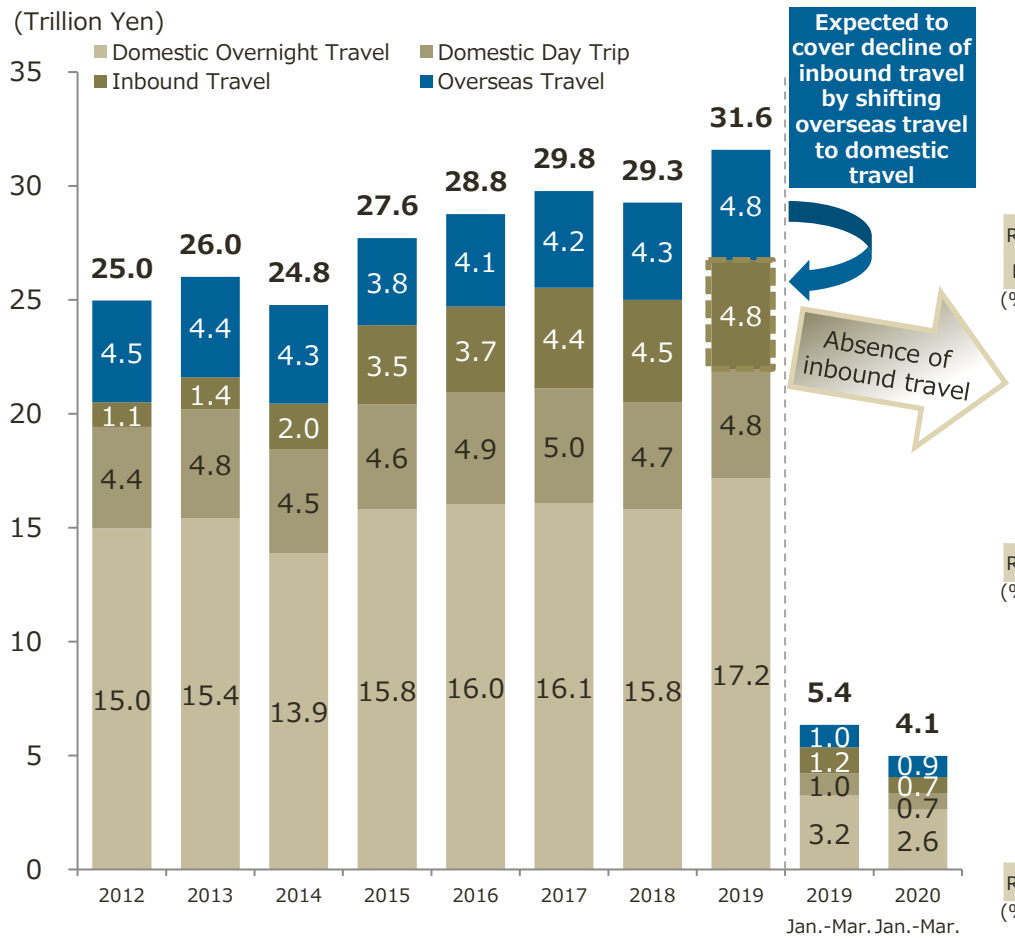
YoY change	+1.1%	(14.0%)	(53.2%)	(80.9%)	(84.9%)	(69.6%)	(52.3%)

Source: Statistics of Overnight Travel by Japan Tourism Agency
(*) Rounded off to the nearest millions of people.
Numbers for Jan.–May 2020 are second preliminary figure, numbers for June 2020 are first preliminary figure.

1. Market Environment (cont.)

- Consumption by inbound visitors and Japanese overseas travel is at the same level
- Shift from overseas travel to domestic travel is expected

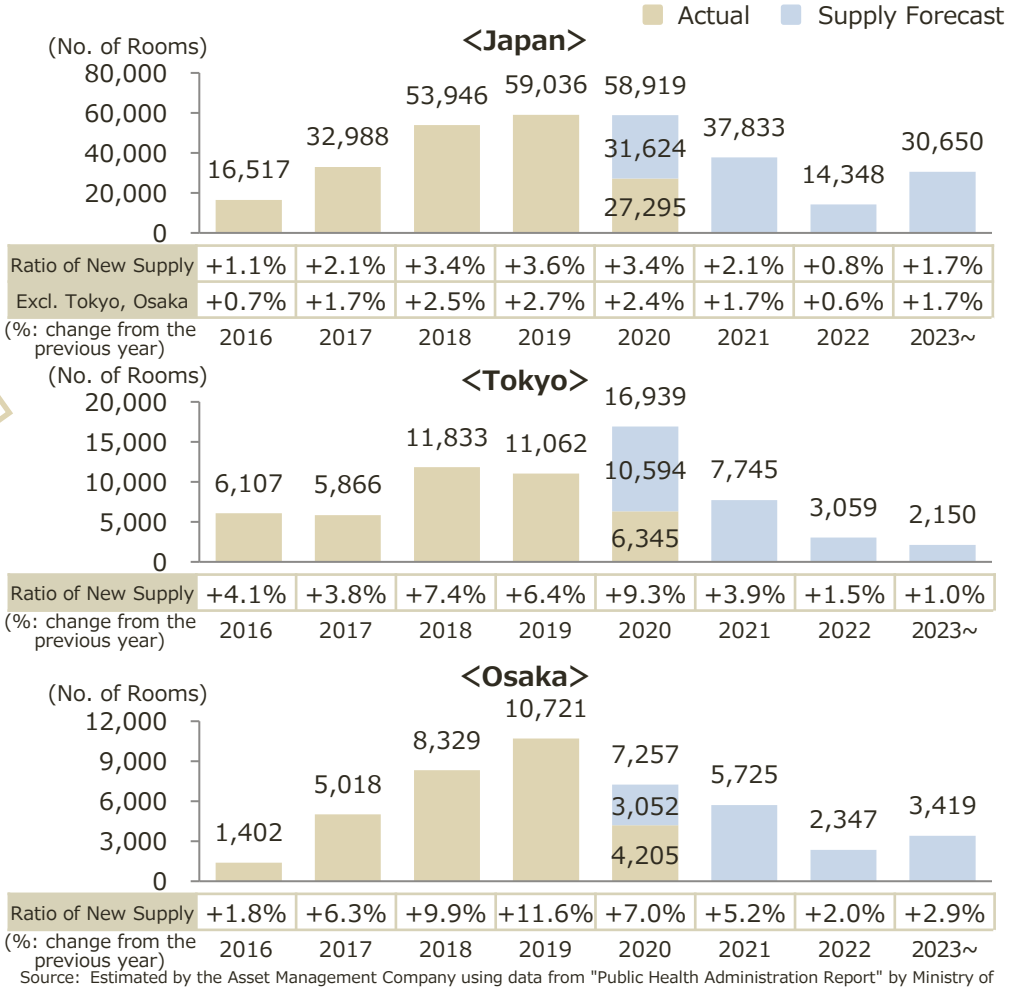
Changes in Number of Consumer Outlook Survey in Tourism



Source: Consumer Outlook Survey in Tourism by Japan Tourism Agency
(*) Numbers for Jan.–Mar. 2020 are first preliminary figure.

- Part of new hotel opening plans were canceled or postponed
- The number of new supplies in Tokyo and Osaka, where mass supply has continued, is expected to decrease from 2021 onwards

Supply of Rooms in Hotels/Ryokans in Japan



Source: Estimated by the Asset Management Company using data from "Public Health Administration Report" by Ministry of Health, Labour and Welfare (MHLW), a weekly hotel & restaurant magazine (HOTERES), and Nikkei Telecom.
(*) Ratio of new supply is the ratio of new rooms to be supplied in a year to the stock of rooms at the beginning of the year. With regard to the above data, please note that in case the number of rooms are stated as "to be determined" by hotels, the asset management company has used 180, the average number of new supply of hotel rooms, for calculation.

1. Market Environment (cont.)

JAPAN HOTEL REIT

◆ To stimulate tourism demand, the government has started support measures with unprecedented budgets

Measures to stimulate domestic tourism demand by the government

Go To Travel Campaign

- One of four campaigns to stimulate tourism demand

Summary	Travelers can receive up to 50% subsidies on accommodation and daytrip in Japan Of the subsidies, 70% is granted as a discount on travel expenses and 30% is given by vouchers that can be used in local areas when travelling Up to JPY20,000 per person per night (up to JPY10,000 for daytrip) (no limit of the number of consecutive nights at the destination and number of times you can use)
Budget	JPY1,350Bn (80% of Go To Campaign)
Schedule	The discount of travel has started on July 22, 2020

Diversification of vacations and promotion of new style of travel

"Workation" (work + vacation)	Pleasure	Satellite Office	Stay-on Trip
Remote work at areas including resort and hot springs	Extend stay on business trip to enjoy leisure	Accommodation facilities can be used as office	Experience local nature for a period of time, including weekdays

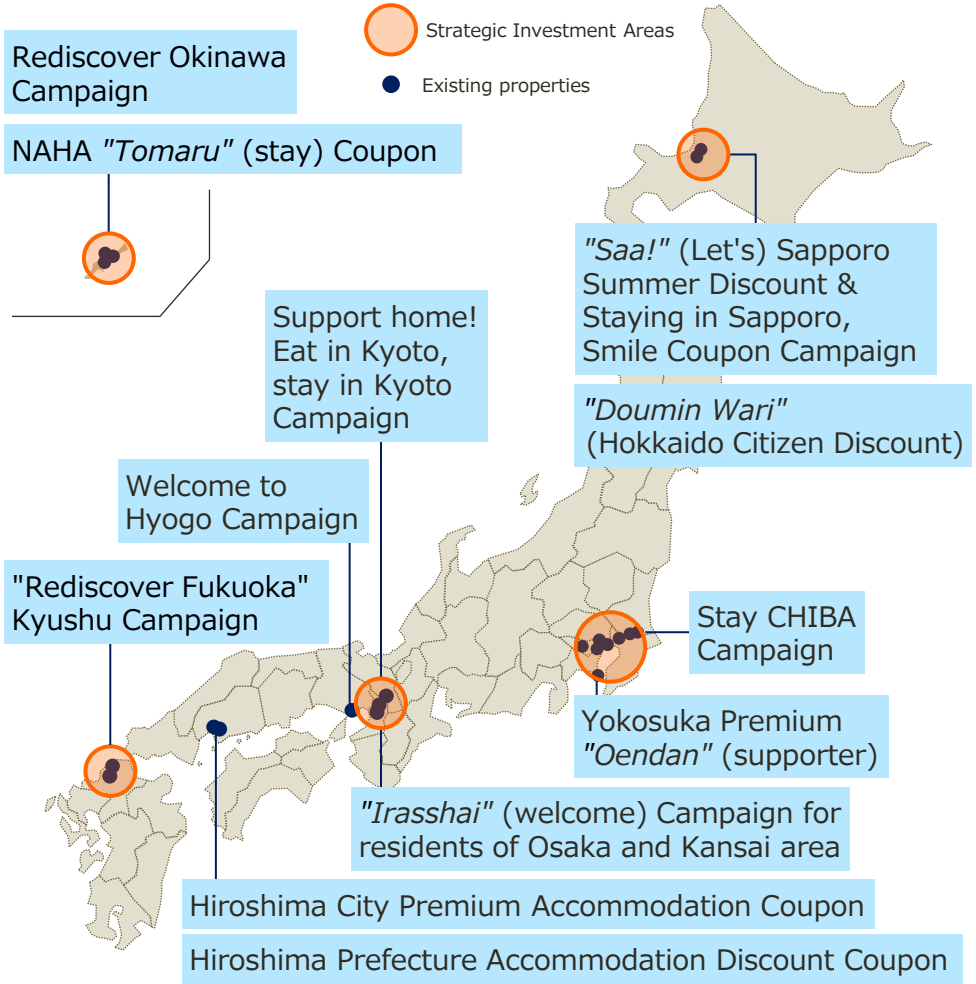
Promote "new style of travel" in tourist spot and accommodations

Source: "Supplementary budget related to Japan Tourism Agency for the fiscal year 2020" "Summary of Go To travel campaign" "Initiatives to increase travel consumption and diversification of vacations" (minutes of Tourism Strategy Promotion Council) by Japan Tourism Agency

(*) The above information is planned as of the end of July 2020. The budget is the amount in supplementary budget for the fiscal year 2020.

◆ Campaigns for encouraging travel unique to each local government have started, and encourage local travel

Campaigns for encouraging travel by major local governments

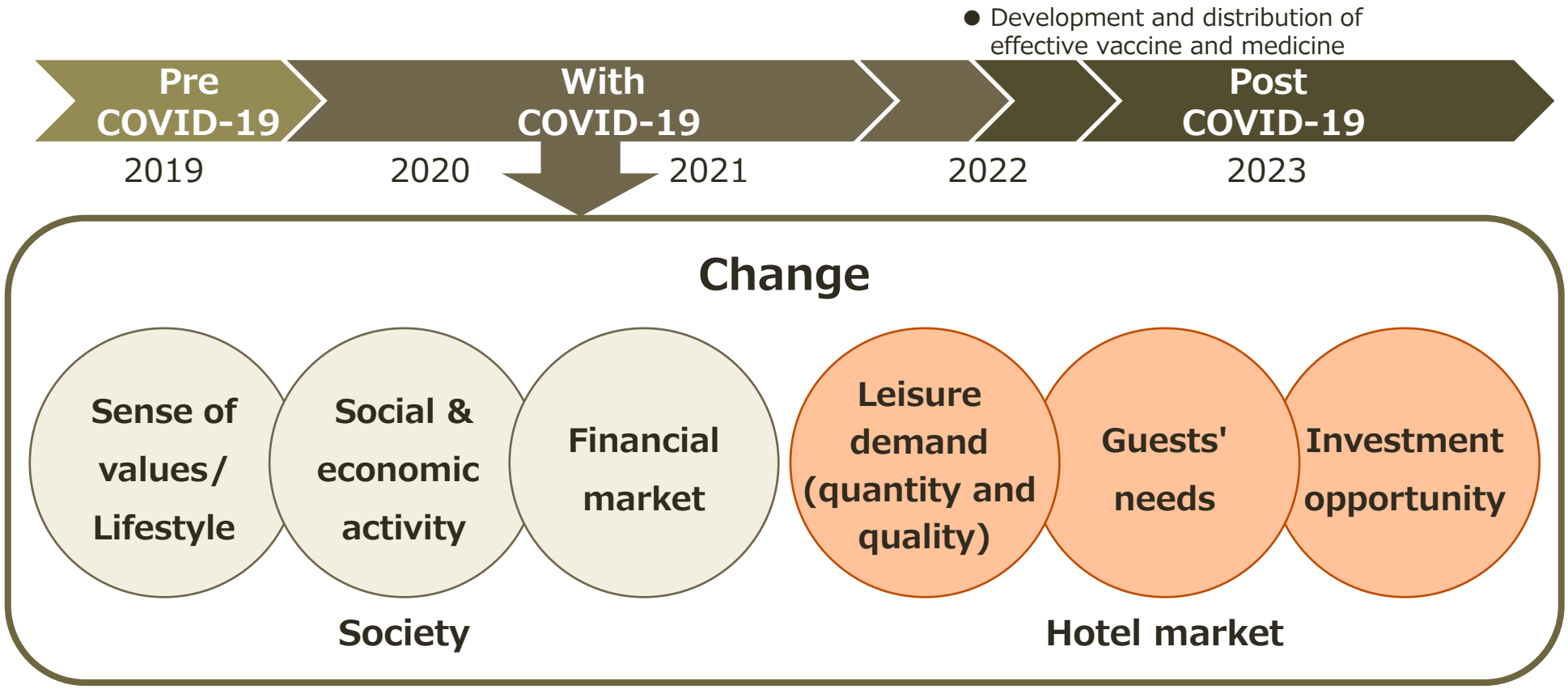


Source: Disclosures by each local government

(*) Stating major campaigns in the areas where the hotels owned by JHR. Each campaign was confirmed as of the end of July 2020 and may change in the future.

Ⅵ. Takeaways

1. Takeaways



Respond flexibly to change

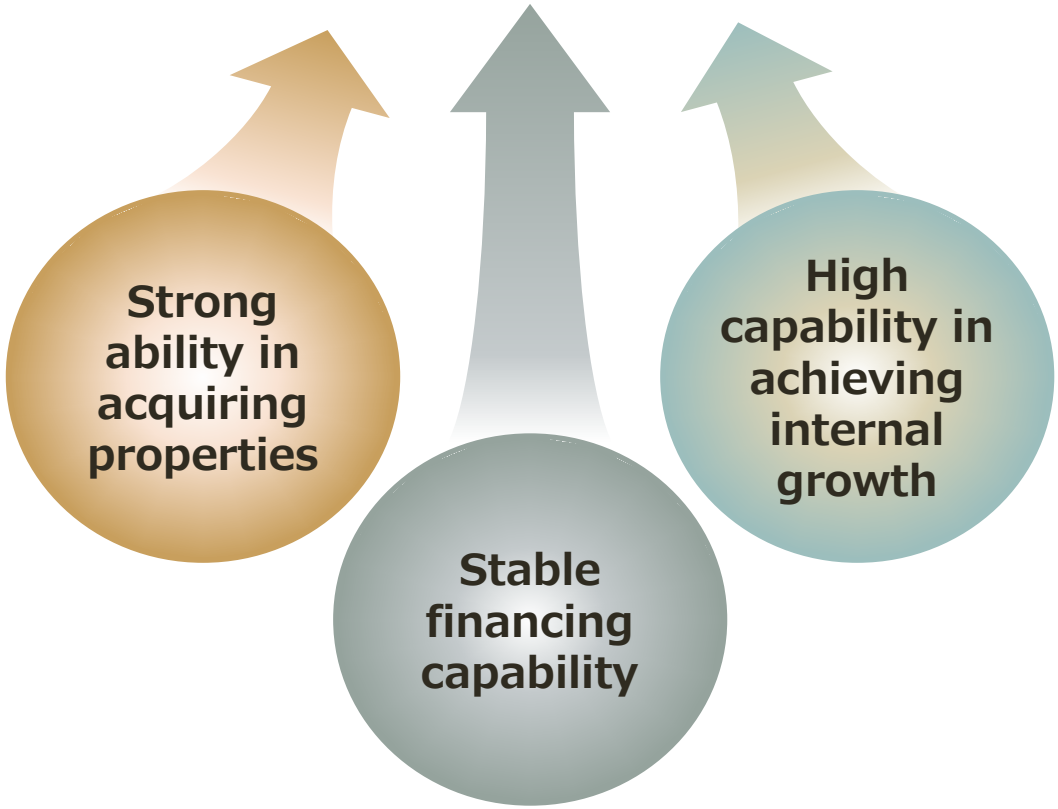
Survive the "with COVID-19" period

Aim to become a front-runner adopting to the "post COVID-19" period

Appendix 1

JHR's Characteristics and Strategy

Aim to increase dividend for mid to long term



Strong ability in acquiring properties

- Highly recognized as Japan's largest J-REIT specializing in hotels
- High presence and credibility in the property market by continuously acquiring properties
- Capability to propose various acquisition schemes and to execute acquisitions

High capability in achieving internal growth

- Management approach through active asset management strategies that achieves a good balance between stability and upside potential
- Increase in hotel revenue through collaboration with high-quality operators
- Attract inbound demand through enhanced international brand portfolio
- Strengthen and maintain competitiveness by investing in appropriate capital expenditures

Stable financing capability

- Secure sound and stable finance
- Diversify financing methods

2. Simultaneous Pursuit of Stability and Upside Potential

JAPAN HOTEL REIT

◆ JHR pursues both stability and upside potential by steadily implementing growth strategies

Ensure Stable Revenue

Fixed rent structure

◆ Appropriate monitoring of hotel operation
◆ Capital expenditures to maintain competitiveness and asset value

Maintain and improve rent-paying capacity of tenants, etc.

Pursue Upside

Management contract structure | **Variable rent structure** | **Revenue sharing structure**

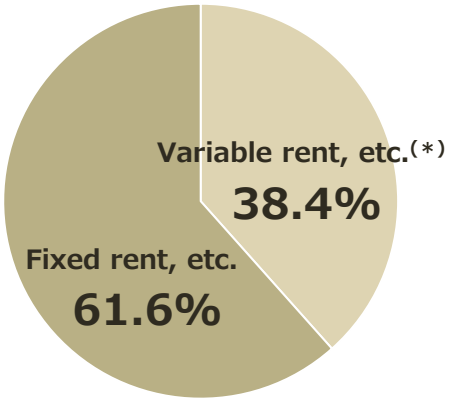
Active Asset Management Strategies

◆ Change in rent structures and rebranding
◆ Strategic capital expenditures, etc.

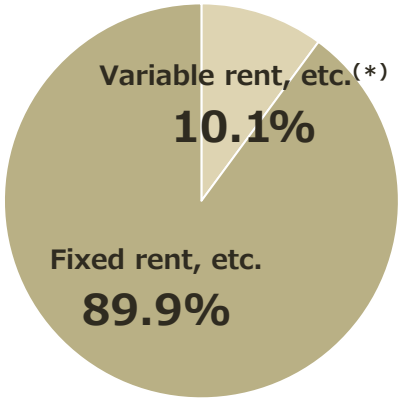
Increase in rental income, etc. through improvement in hotels' performance

Proportion of Rental Income

2019 Actual (annualized)



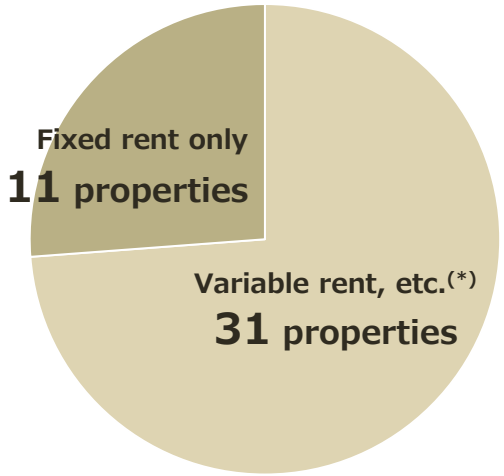
2020 Forecast (annualized)



(*) Variable rent, Rent from revenue sharing and Income from management contracts

Proportion of Rent Structures

(as of August 25, 2020)



(*) Fixed rent + variable rent structure
Fixed rent + revenue sharing structure
Variable rent structure and management contract structure

3. External Growth Strategy

Recognition of External Environment

Trend of the Hotel Investment Market

- Amid the rapid economic downturn caused by the COVID-19, hotel revenue has been largely hit and unprecedented events, such as requests for rent reductions from tenants and concerns about the creditworthiness of hotel operators have occurred. As a result, the hotel market, which had been brisk due to the expansion of inbound demand, has been turning around and the business environment continues to be challenging.
- In the short term, both sellers and buyers are quiet due to the uncertainty about the market conditions, and hotel transactions are stagnant.
- For medium to long term, demand for domestic and overseas accommodations is expected to recover as a result of the development and commercialization of a vaccine and medicine for COVID-19. As the market recovers, the hotel investment may be revitalized again. However, the competitiveness of hotels is becoming more evident in accordance with the hotel specifications, locations, and the abilities of hotel operators, and it is important to differentiate each hotel.

Basic Policies

- Acquire highly competitive hotel real estate, etc. in areas that have potential to attract "demand by both domestic and inbound leisure customers" in the medium to long-term
- Improve profitability, stability, and quality of the overall portfolio

Key Measures

- Emphasize the superiority of buildings and facilities (infrastructure), operations (services), and locations of hotel real estate, etc.
  - The prime investment targets are "full-service hotels" and "resort hotels" that have high barriers to entry due to operation and management know-how, capital outlay and locations
  - In the case of "limited-service hotels," the creditworthiness of the hotel lessee, the age of the building, location, guest room composition and profitability are important
  - For limited-service hotels specialized in selling single rooms, consider acquisition individually, taking into account the hotel specifications and the possibility of achieving the upside.
  - Especially, proactively review the purchase of hotels that have potential for internal growth by implementing active asset management or the possibility of synergy effect with the existing properties
- Strategic investment areas
  - Hokkaido area, Tokyo and bay area, Osaka/Kyoto area, Fukuoka area, and Okinawa area
- Investigation and planning of the internal growth strategy upon property acquisition
  - Investigate the appropriate rent level and rent structure upon renewal, etc., cost reduction possibilities, and possibilities to improve buildings and facilities
  - Particularly, if the hotel pays variable rent, etc., promote internal growth through collaboration with lessees and/or operators
- Use HMJ's efficient hotel operation platform, etc. to respond to new investment opportunities (such as sales of hotels without operators, etc.) caused by the impact of COVID-19

Recognition of External Environment

Hotel Market Environment

- Due to the spread of infection by COVID-19, both inbound and domestic demand declined significantly, and the Japanese tourism and hotel industries are expected to remain stagnant for the time being. From now on, global trend needs to be watched closely, but inbound and domestic demand are expected to gradually recover as the spread of infections come to an end.
- Although there are supply-demand imbalances depending on the market due to the continued supply of new hotels against the backdrop of robust hotel demand in recent years, there are no changes to the medium to long term trend of expansion in the tourism market accompanying economic growth in the Asia region.
- As hotel operators are temporarily exposed to significant deterioration in the market environment, they must adopt a defensive strategy to maintain sound management and respond flexibly to changes.

Basic Policies

- Pursue both stability and upside potential by steadily implementing active asset management strategies

Key Measures

- Planning and execution of the active asset management in order to realize pursuit in upside revenue
  - Make strategic CAPEX which will improve profitability and strengthen competitiveness mainly at hotels with high growth potential
  - Raise rent and change to rent structures that can achieve upside revenue
  - Reduction of management contract fee of properties under management contract
  - Attract inbound demand through rebranding to international brands
  - Make proactive proposals to build effective hotel operating structures which aim to maximize GOP, from the perspective of both hotel sales and expenses
  - Increase hotel revenue through collaboration with high-quality operators
- Planning and execution of strategic CAPEX which secure steady revenue, and monitoring of lessees
  - Analyze the creditworthiness of hotel lessees, understand hotel income and expenditures, closely observe and improve rent-paying capacity
  - Maintain and improve rent-paying capacity of tenants, etc. through capital expenditures, which lead to maintain and improve competitiveness and asset value
- Flexible approach to the influence of COVID-19
  - Promote drastic restructuring of hotel revenue structure through cost reduction measures centered on thorough efficiency improvement of operating structure
  - Develop appropriate products and improve hotel facility environment in response to major changes in the market environment
  - Appropriately implement strategic CAPEX in response to the conditions of the domestic accommodation and tourism markets as well as changing customer needs

5. Financial Strategy

Recognition of External Environment

Trend of Financing Environment and Interest Rates

- In the first half 2020, both the number of public offering (including IPOs) and the amount of fund procured by J-REITs were smaller than the previous year due to the financial market turmoil caused by the spread of infection by COVID-19. The Tokyo Stock Exchange RIET Index fell sharply in mid-March and has remained weak since then.
- Although there has been no change in supportive attitude by financial institutions. However, some sectors, such as hotels, have seen a cautious stance toward long-term loan and upward pressure on interest rates due to the spread of infection by COVID-19.
- Both short-term and long-term interest rates remain at low levels due to the monetary easing policy.
- As for investment corporation bonds, issuance of green bonds continues to increase, but the amount of issuance is on a declining trend.

Basic Policies

- Ensure healthy and stable finance
- Strengthen lender formation and relationships with financial institutions
- Diversify financing methods

Key Measures

- Maintain LTV level at a maximum of 50% (total asset base) for the time being
- Diversify financing methods such as public offerings and issuance of investment corporation bonds
- Improve financial stability by diversifying repayment periods and fixing interest rates, etc. as necessary
- Optimize borrowing costs
- Aim to improve liquidity on hand and further strengthen the financial base by controlling capital expenditures, etc.

6. Benefits Program for Unitholders

JHR implemented benefits program for unitholders to obtain a better understanding, improve their satisfaction and expand the investor

◆ **Eligible recipients of complimentary coupons**

Complimentary coupons will be sent to those who hold ten or more JHR units at the end of June every year (end of the midterm settlement)
<FY2020>
Eligible unitholders: 16,369
Valid period: One year between October 1, 2020 to September 30, 2021

◆ **Details of the benefits program**

Five complimentary coupons for accommodations and five complimentary coupons for restaurants(*)
10% discount from the best rate for accommodation by each hotel and 10% discount for restaurants

(*) Complimentary coupons for restaurants are only available at selected hotels.

Hotels that offer the Benefits Program

The 14 HMJ Hotels

Kobe Meriken Park Oriental Hotel

Oriental Hotel tokyo bay

Namba Oriental Hotel

Oriental Hotel Hiroshima

Hotel Nikko Alivila

Okinawa Marriott Resort & Spa

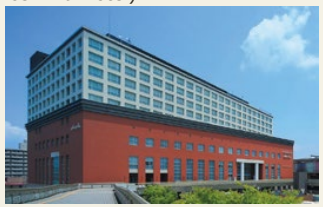
ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)

Oriental Hotel Fukuoka Hakata Station

Holiday Inn Osaka Namba

Hilton Tokyo Narita Airport

International Garden Hotel Narita


Hotel Nikko Nara

Hilton Tokyo Odaiba

Hotel Oriental Express Osaka Shinsaibashi

The Six Accor Hotels

ibis Tokyo Shinjuku

ibis Styles Kyoto Station

Mercure Sapporo

ibis Styles Sapporo

Mercure Okinawa Naha

Mercure Yokosuka

Appendix 2

Information on Properties

1. Portfolio Map

JAPAN HOTEL REIT

- Portfolio consisting of competitive hotels in areas with strong leisure lodging demand
- Selectively invest in locations with high growth potential of leisure demand such as Strategic Investment Areas

Total Assets

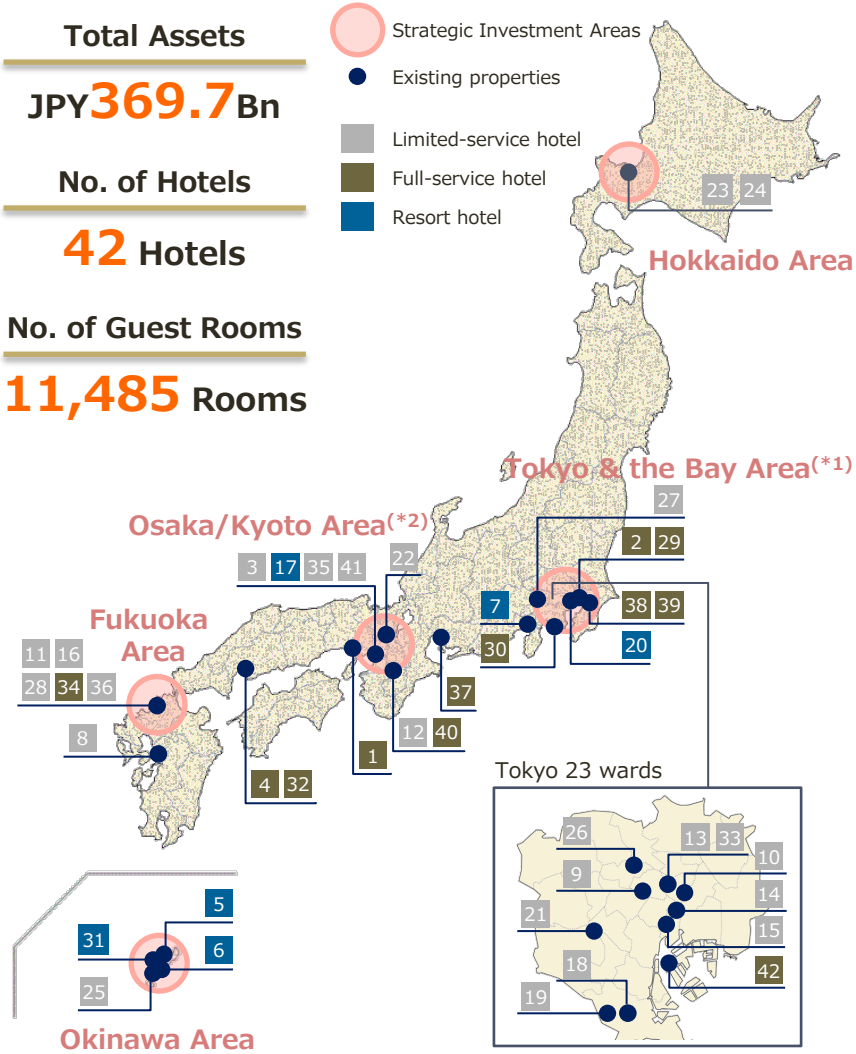
JPY369.7Bn

No. of Hotels

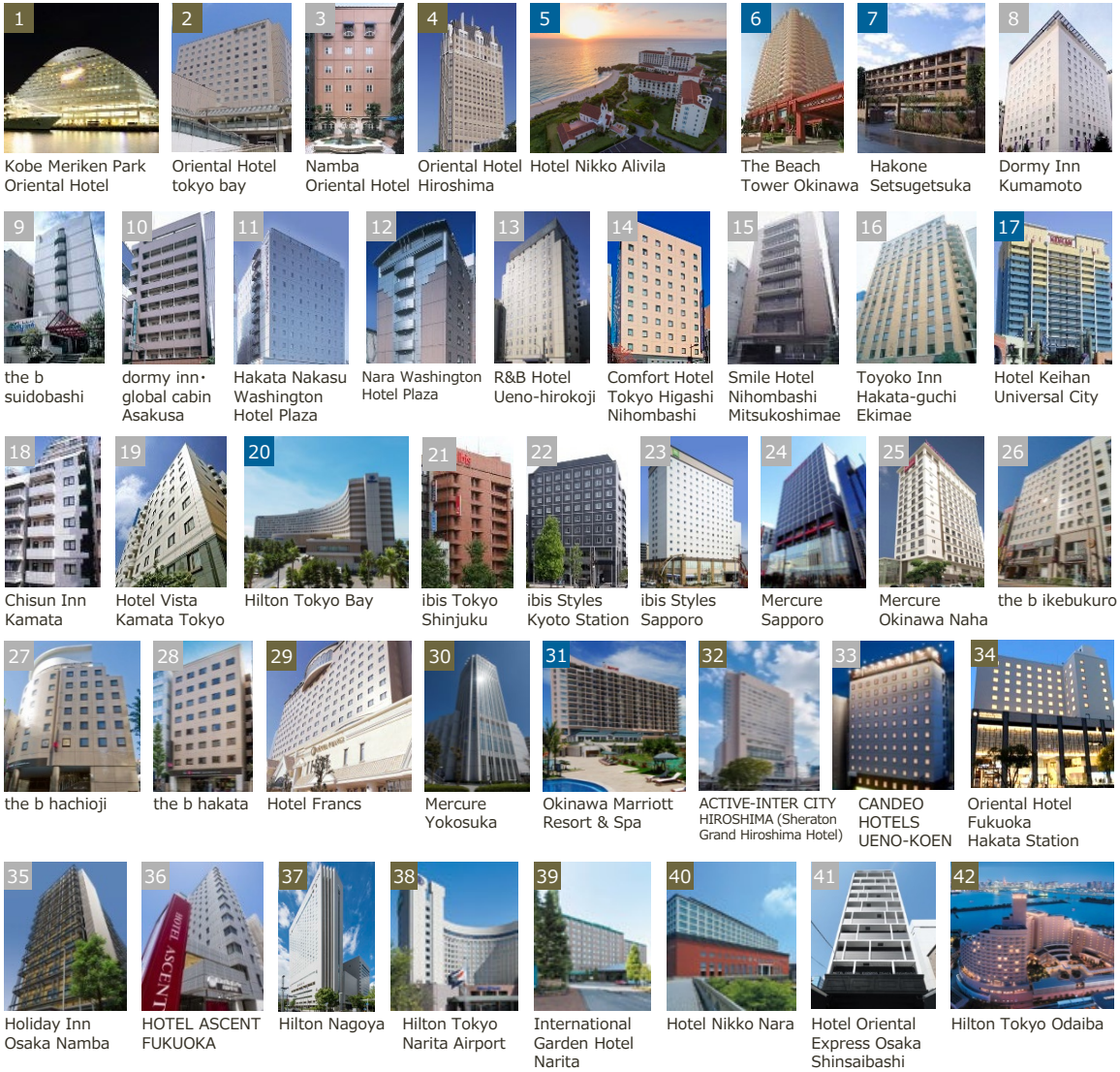
42 Hotels

No. of Guest Rooms

11,485 Rooms



(as of August 25, 2020)



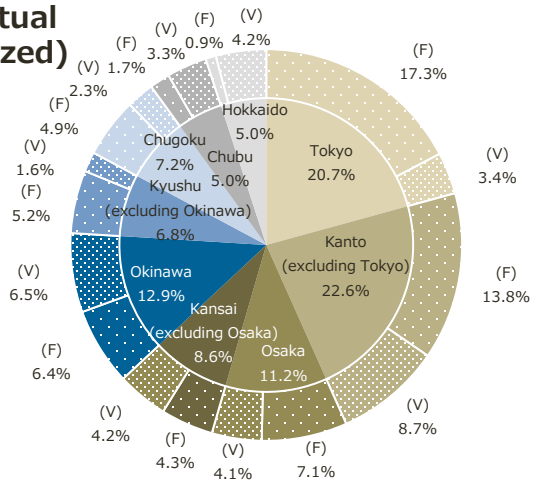
(*1) Bay Area includes the coastal area of Tokyo Bay in Kanagawa and Chiba prefectures.
(*2) Osaka/Kyoto Area refers to Osaka and Kyoto prefectures.

2. Portfolio Diversification

- Widely diversified and high-quality portfolio
- Appeal to inbound visitors by international brands

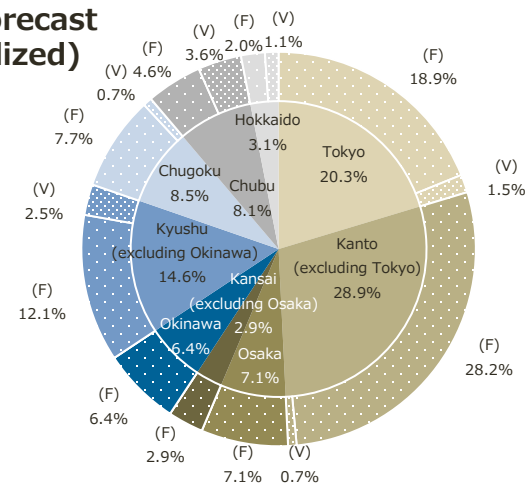
By Area and Rent(*1)

2019 Actual (annualized)



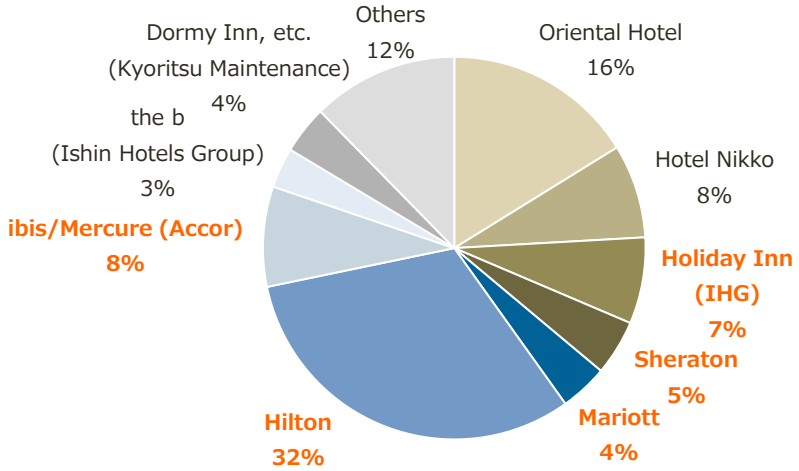
Fixed Rent, etc. (F)
61.6%
Variable Rent (V)
38.4%

2020 forecast (annualized)



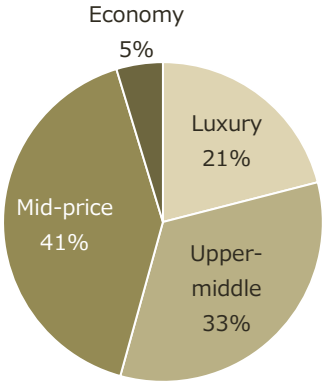
Fixed Rent, etc. (F)
89.9%
Variable Rent (V)
10.1%

By Hotel Brand(*2)

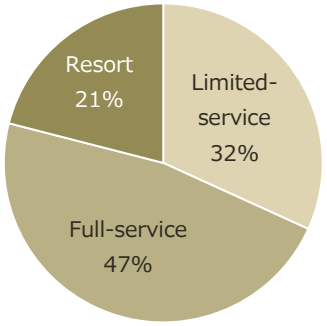


International Brand: 56%

By Grade(*2)



By Hotel Type(*2)



(*1) Based on the annualized rent in actual of FY12/2019 and revenue forecast of FY12/2020.
(*2) Based on the acquisition price.

3. Rent Structures

Stability ‹ ‹ ‹ › › › **Upside**

(FY12/2020 forecast)

Rent Structure(*1)		Fixed rent	Fixed rent + Revenue sharing	Fixed rent + Variable rent	Variable rent	Management contract	Total
Type of Contract		Lease contract	Lease contract	Lease contract	Lease contract	Management contract	
Type of Rent	Fixed	○	○	○	–	–	–
	Variable	–	A certain percentage of sales exceeding the threshold	A certain percentage of hotel GOP	A certain percentage of hotel revenue or hotel GOP	Hotel GOP	–
Real Estate Operating Revenue(*2) (%) (annualized forecast for FY12/2020)		JPY2,818MM (29.0%)	JPY3,057MM (31.4%)	JPY2,473MM (25.4%)	JPY868MM (8.9%)	JPY504MM (5.2%)	JPY9,723MM (100.0%)
(breakdown)	Fixed Rent, etc.(*3) (%)	JPY2,818MM (29.0%)	JPY3,043MM (31.3%)	JPY2,000MM (20.6%)	JPY485MM (5.0%)	JPY392MM (4.0%)	JPY8,741MM (89.9%)
	Variable Rent (%)	–	JPY13MM (0.1%)	JPY473MM (4.9%)	JPY383MM (3.9%)	JPY111MM (1.1%)	JPY982MM (10.1%)
Involvement in Hotel Operation		Low	Low	High	High	High	–
CAPEX Paid by JHR		1) Renewal of building and facilities	1) Renewal of building and facilities <3) Strategic investment>	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	1) Renewal of building and facilities 2) Fixtures and equipment 3) Strategic investment	–
No. of Properties		11	5	18	3	5	42
Acquisition Price (%)		JPY37,300MM (10.1%)	JPY39,416MM (10.7%)	JPY245,628MM (66.4%)	JPY17,723MM (4.8%)	JPY29,640MM (8.0%)	JPY369,708MM (100.0%)
Hotels		The Beach Tower Okinawa Hotel Francs CANDEO HOTELS UENO-KOEN HOTEL ASCENT FUKUOKA and other hotels	Hilton Tokyo Bay Hotel Keihan Universal City Smile Hotel Nihombashi Mitsukoshimae Hotel Vista Kamata Tokyo Comfort Hotel Tokyo Higashi Nihombashi	The 14 HMJ Hotels the b ikebukuro the b hachioji the b hakata the b suidobashi	Hilton Nagoya Mercure Yokosuka Chisun Inn Kamata	ibis Tokyo Shinjuku ibis Styles Kyoto Station ibis Styles Sapporo Mercure Sapporo Mercure Okinawa Naha	–

(*1) Rent structure is categorized according to the rent contract for hotels of each asset owned by JHR.
(*2) Revenue from trademark rights is excluded from the real estate operating revenue in the table above.
(*3) Fixed rent includes fixed rent and utility income based on rent contract of non-hotel portion (offices, signage, car parks, retail shops, etc.) of asset owned by JHR.

4. Active Asset Management

- Implement Active Asset Management Strategy at both hotel and REIT sides
- Focus on "reduction of hotel operating costs" in order to overcome COVID-19 crisis

Examples of Active Asset Management

Hotels	Improvement of Hotel Revenue	● Strategic capital expenditure (e.g., renovation of rooms to increase RevPAR) ● Rebranding according to each hotel's characteristics ● Synergy from sharing guest by hotels located nearby in the same group ● Renewal of a hotel booking system
Hotels	Reduction of Hotel Operating Costs	● Integration of back-office operations at hotels located in nearby area ● Optimization of staffing ● Cost reduction by joint purchasing in the same group ● Reduction of utility costs

Improve GOP

REIT	Improvement of Real Estate Operating Revenue	● Rent increase by revision of rent scheme, etc.
REIT	Reduction of Real Estate Operating Costs	● Reduction of cost for Property Management and Trust, management contract fee, and ground rent, etc.

Improve NOI

Maximize DPU

5. Property List (1/2)

JAPAN HOTEL REIT

(as of the end of June 2020)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (actual) (*8)
									20th Period (as of December 31, 2019)		21st Period (as of June 30, 2020)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	323	Hyogo	25.0	10,900	9,762	16,200	4.8%	14,600	4.8%	2.9%	50,961	(74,314)	(223,423)	(1.8%)
2	Oriental Hotel tokyo bay	Full-service	Mid-price	511	Chiba	25.2	19,900	17,530	37,800	4.4%	32,100	4.4%	5.3%	63,216	4,029	(179,316)	(0.3%)
3	Namba Oriental Hotel	Limited-service	Mid-price	258	Osaka	24.3	15,000	14,571	32,900	4.1%	31,400	4.1%	4.0%	70,325	17,561	(61,762)	(0.2%)
4	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Hiroshima	26.8	4,100	4,139	4,400	4.9%	4,370	4.9%	1.1%	17,875	(4,401)	(48,028)	(0.7%)
5	Hotel Nikko Alivila	Resort	Luxury	397	Okinawa	26.3	18,900	18,132	32,900	4.8%	28,900	4.8%	5.0%	67,008	(7,123)	(159,859)	(0.4%)
6	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	16.3	7,610	6,524	10,100	4.4%	10,100	4.4%	2.0%	255,504	234,061	167,019	6.1%
7	Hakone Setsugetsuka	Resort	Mid-price	158	Kanagawa	13.8	4,070	3,659	5,310	4.9%	5,310	4.9%	1.1%	147,469	135,723	88,516	6.7%
8	Dormy Inn Kumamoto	Limited-service	Mid-price	291	Kumamoto	12.4	2,334	2,184	3,060	5.6%	2,990	5.7%	0.6%	97,230	86,213	64,191	7.4%
9	the b suidobashi	Limited-service	Mid-price	99	Tokyo	33.9	1,120	1,199	2,440	4.1%	2,420	4.1%	0.3%	42,499	37,181	22,563	6.6%
10	dormy inn・global cabin Asakusa	Limited-service	Economy	75	Tokyo	23.3	999	939	1,330	3.9%	1,280	4.0%	0.3%	31,997	27,503	20,661	5.5%
11	Hakata Nakasu Washington Hotel Plaza	Limited-service	Mid-price	247	Fukuoka	25.4	2,130	2,030	4,520	4.4%	4,510	4.4%	0.6%	120,000	112,000	100,000	10.5%
12	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Nara	20.3	2,050	1,782	2,440	5.0%	2,430	5.0%	0.5%	75,000	67,000	49,000	6.6%
13	R&B Hotel Ueno-hirokoji	Limited-service	Economy	187	Tokyo	18.3	1,720	1,814	2,010	3.9%	1,910	4.0%	0.5%	48,654	41,513	33,218	4.8%
14	Comfort Hotel Tokyo Higashi Nihombashi	Limited-service	Economy	259	Tokyo	12.4	3,746	3,509	5,830	4.3%	5,390	4.4%	1.0%	136,911	121,758	103,456	6.5%
15	Smile Hotel Nihombashi Mitsukoshimae	Limited-service	Economy	164	Tokyo	23.3	2,108	2,012	3,160	4.0%	2,930	4.1%	0.6%	79,847	71,792	61,472	6.2%
16	Toyoko Inn Hakata-guchi Ekimae	Limited-service	Economy	257	Fukuoka	18.8	1,652	1,410	2,750	4.5%	2,750	4.5%	0.4%	70,519	63,737	54,627	7.7%
17	Hotel Keihan Universal City	Resort	Mid-price	330	Osaka	19.0	6,000	5,869	13,900	4.9%	13,400	4.9%	1.6%	285,410	248,139	204,727	7.9%
18	Chisun Inn Kamata	Limited-service	Economy	70	Tokyo	17.2	823	767	1,430	4.5%	1,370	4.6%	0.2%	15,650	12,141	6,992	1.4%
19	Hotel Vista Kamata Tokyo	Limited-service	Economy	105	Tokyo	28.4	1,512	1,440	1,990	4.5%	1,930	4.6%	0.4%	46,837	39,685	27,001	5.2%
20	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (*9)	Limited-service	Mid-price	220	Tokyo	12.3	4,800	4,792	8,950	3.9%	8,000	–	1.3%	231,184	201,402	190,390	–
21	Hilton Tokyo Bay	Resort	Luxury	828	Chiba	32.0	26,050	26,332	40,500	4.3%	40,000	4.3%	7.0%	989,150	848,139	756,609	6.5%
22	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	39.8	7,243	7,958	10,200	4.0%	9,900	4.1%	1.9%	90,440	27,760	(29,520)	0.3%
23	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kyoto	11.3	6,600	6,657	10,900	4.3%	10,200	4.3%	1.8%	22,967	(10,045)	(28,934)	(0.3%)
24	ibis Styles Sapporo	Limited-service	Mid-price	278	Hokkaido	9.9	6,797	6,561	11,200	4.7%	11,100	4.7%	1.8%	50,357	11,734	(29,360)	0.2%

5. Property List (2/2)

JAPAN HOTEL REIT

(as of the end of June 2020)

No.	Property Name	Hotel Type (*1)	Grade (*2)	No. of Guest Rooms	Location	Age (*3)	Acquisition Price (JPY MM) (*4)	Book Value (JPY MM) (*5)	Appraisal Value				Investment Ratio (*6)	Revenue from Real Estate Operation (JPY1,000) (*7)	NOI (JPY1,000) (*7)	P/L from Real Estate Operation (JPY1,000) (*7)	NOI Yield (actual) (*8)
									20th Period (as of December 31, 2019)		21st Period (as of June 30, 2020)						
									Appraisal Value (JPY MM)	CAP Rate	Appraisal Value (JPY MM)	CAP Rate					
25	Mercure Sapporo	Limited-service	Mid-price	285	Hokkaido	11.2	6,000	5,824	11,000	4.6%	10,600	4.7%	1.6%	110,495	34,131	(13,185)	0.8%
26	Mercure Okinawa Naha	Limited-service	Mid-price	260	Okinawa	10.9	3,000	2,872	7,190	4.6%	6,950	4.7%	0.8%	–	(32,145)	(64,475)	(2.4%)
27	the b ikebukuro	Limited-service	Mid-price	175	Tokyo	38.0	6,520	6,603	7,350	4.2%	7,280	4.2%	1.7%	112,878	100,244	84,199	2.8%
28	the b hachioji	Limited-service	Mid-price	196	Tokyo	33.9	2,610	2,682	2,790	5.1%	2,770	5.1%	0.7%	103,323	90,331	73,649	7.4%
29	the b hakata	Limited-service	Mid-price	175	Fukuoka	22.8	2,300	2,350	4,610	4.3%	4,550	4.3%	0.6%	47,738	41,126	30,049	3.5%
30	Hotel Francs	Full-service	Mid-price	222	Chiba	28.9	3,105	3,156	4,140	4.6%	4,120	4.6%	0.8%	150,000	119,073	96,523	7.7%
31	Mercure Yokosuka	Full-service	Mid-price	160	Kanagawa	26.7	1,650	1,640	3,590	4.6%	3,450	4.6%	0.4%	45,422	(2,910)	(20,600)	(2.7%)
32	Okinawa Marriott Resort & Spa	Resort	Upper-middle	361	Okinawa	15.4	14,950	14,962	17,900	4.9%	17,500	4.9%	4.0%	45,833	3,858	(141,077)	(0.3%)
33	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Full-service	Luxury	238	Hiroshima	9.8	17,320	17,360	21,900	4.5%	21,200	4.6%	4.6%	410,020	225,154	115,929	2.3%
34	CANDEO HOTELS UENO-KOEN	Limited-service	Mid-price	268	Tokyo	10.5	6,705	6,632	7,650	4.0%	7,610	4.0%	1.8%	174,985	162,103	142,053	4.8%
35	Oriental Hotel Fukuoka Hakata Station	Full-service	Upper-middle	221	Fukuoka	35.0	7,197	9,661	15,300	4.6%	15,200	4.6%	1.9%	165,773	42,150	(161,921)	0.4%
36	Holiday Inn Osaka Namba	Limited-service	Mid-price	314	Osaka	11.9	27,000	27,032	27,200	4.3%	26,500	4.3%	7.2%	48,000	23,687	(72,008)	0.0%
37	HOTEL ASCENT FUKUOKA	Limited-service	Economy	263	Fukuoka	21.2	4,925	5,234	6,620	4.8%	6,530	4.8%	1.3%	228,131	165,939	148,357	6.9%
38	Hilton Nagoya	Full-service	Luxury	460	Aichi	31.4	15,250	15,692	15,700	4.2%	15,000	4.2%	4.1%	399,826	92,666	9,904	0.8%
39	Hilton Tokyo Narita Airport	Full-service	Upper-middle	548	Chiba	26.9	13,175	13,392	13,700	4.6%	13,500	4.6%	3.5%	37,000	(6,298)	(115,753)	(0.3%)
40	International Garden Hotel Narita	Full-service	Mid-price	463	Chiba	24.1	9,125	9,210	9,660	4.8%	9,500	4.8%	2.4%	47,004	24,916	(48,085)	0.2%
41	Hotel Nikko Nara	Full-service	Upper-middle	330	Nara	22.4	10,373	10,379	10,900	4.8%	9,840	4.8%	2.8%	35,000	11,353	(61,676)	(0.1%)
42	Hotel Oriental Express Osaka Shinsaibashi	Limited-service	Mid-price	124	Osaka	2.4	2,738	2,823	2,990	4.6%	2,900	4.6%	0.7%	9,200	4,983	(1,459)	(0.2%)
43	Hilton Tokyo Odaiba	Full-service	Upper-middle	453	Tokyo	24.5	62,400	63,634	69,500	3.7%	68,400	3.7%	16.7%	258,300	173,767	38,487	(0.1%)
Total or Average (43 properties)		**–**	**–**	**11,705**	**–**	**22.3**	**374,508**	**372,731**	**525,910**	**4.5%**	**502,690**	**4.5%**	**100.0%**	**5,536,698**	**3,588,155**	**1,229,734**	**–**
Total or Average (42 properties excluding one property sold)		**–**	**–**	**11,485**	**–**	**22.4**	**369,708**	**367,938**	**516,960**	**4.5%**	**494,690**	**4.5%**	**98.7%**	**5,305,514**	**3,386,753**	**1,039,344**	**1.4%**

(*1) Under the category of Hotel Type, "Full-service" is full-service hotel, "Resort" is resort hotel, and "Limited-service" is limited-service hotel.
(*2) Mainly based on ADR, etc., JHR has classified the hotels into four categories as "luxury," "upper-middle," "mid-price," and "economy."
(*3) Average age: Weighted average calculated as follows. The sum of (acquisition price of each property x property age)/total acquisition price.
(*4) The acquisition price in the Purchase & Sale Agreement for the Beneficial Interest in Trust, etc. is indicated. (Consumption tax, amount equivalent to consumption tax, brokerage fee, and other purchase-related costs are excluded.)
(*5) Book value as of the end of June 2020.
(*6) Investment ratio indicate percentage of the acquisition price of each asset to the total acquisition price. Numbers beyond one decimal place is rounded off.
(*7) Actual for six months from January to June 2020. Since the lessees did not agree to disclose numbers in units of JPY1,000 for No. 11 and 12, amounts are rounded down to the nearest JPY million.
(*8) NOI yield (forecast) states forecast of NOI yield (annualized) for FY12/2020. NOI yield for the portfolio is calculated as follows: Total NOI for FY12/2020 (forecast) (annualized) ÷ total acquisition price of properties expected to be held of the end of FY12/2020.
(*9) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020. The appraisal value as of the end of June 2020 states the sales price.

6. Summary of Lease Contracts (1/2)

JAPAN HOTEL REIT

(as of the end of June 2020)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease/ MC Term	Expiration Date of Contract	Contractual Rent (*2)	Rent Modification Summary	Rent Modification Summary (After acquisition)		Rent Modification Schedule (2020 to 2021)	
										Timing	Condition	2020	2021
1	Kobe Meriken Park Oriental Hotel(*3)	Fixed-lease	Fixed + Variable	Hotel Management Japan Co., Ltd.		15	Dec. 2034	(Fixed rent) JPY268,417,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) Total GOP of The Five HMJ Hotels(*5) multiplied by 89.78% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
2	Oriental Hotel tokyo bay(*3)												
3	Namba Oriental Hotel(*3)												
4	Oriental Hotel Hiroshima(*3)												
5	Hotel Nikko Alivila(*3)				Okura Nikko Hotel Management Co., Ltd.								
6	The Beach Tower Okinawa	Fixed-lease	Fixed	Kyoritsu Maintenance Co., Ltd.		20	Jun. 2026	JPY42MM/month	The same rent will be applied until expiration of the contract.	–	–	–	–
7	Hakone Setsugetsuka	Fixed-lease	Fixed			20	Oct. 2026	JPY24MM/month	The same rent will be applied until expiration of the contract.	–	–	–	–
8	Dormy Inn Kumamoto	Fixed-lease	Fixed			12	Mar. 2023	JPY16MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2020	Same	–	–
9	dormy inn・global cabin Asakusa	Lease	Fixed			3	Mar. 2023	JPY5MM/month	Rent can be modified through mutual agreement every three years.	Apr. 2020	Same	–	–
10	Hakata Nakasu Washington Hotel Plaza	Lease	Fixed	Washington Hotel K.K.		3	Mar. 2021	JPY20MM/month	Rent can be modified through mutual agreement.	Apr. 2018	Same	–	To be expired (Mar.)
11	Nara Washington Hotel Plaza	Lease	Fixed			3	Mar. 2023	JPY11MM/month	Rent can be modified through mutual agreement.	Mar. 2020	Same	–	–
12	R&B Hotel Ueno-hirokoji	Lease	Fixed			20	Apr. 2022	JPY8MM/month	Rent can be modified through mutual agreement.	Apr. 2011	Increased (+3.0%)	–	–
13	Comfort Hotel Tokyo Higashi Nihombashi	Fixed-lease	Fixed + Revenue sharing	Greens Co., Ltd.		20	Jan. 2028	JPY21MM/month + Revenue sharing	Rent can be modified through mutual agreement every five years.	Apr. 2018	Same (Introduced revenue sharing)	–	–
14	Smile Hotel Nihombashi Mitsukoshimae	Lease	Fixed + Revenue sharing	THE KAMOGAWA GRAND HOTEL, LTD.		3	Mar. 2023	JPY11MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Mar. 2020	Same	–	–
15	Toyoko Inn Hakata-guchi Ekimae	Lease	Fixed	Toyoko Inn Co., Ltd.		30	Sep. 2031	JPY11MM/month	No rule has been stipulated.	Oct. 2007	Increased (+9.4%)	–	–
16	Hotel Keihan Universal City	Lease	Fixed + Revenue sharing	K.K. Hotel Keihan		20	Jun. 2021	Nondisclosure(*6)	Nondisclosure(*6)	Jul. 2014	Modified Structure	–	To be expired (Jun.)
17	Chisun Inn Kamata	Fixed-lease	Variable	Solare Hotels & Resorts Co., Ltd.	SHR Hotels, Co., Ltd.	7	Dec. 2026	Hotel GOP x 86% (If the amount is below JPY0, it will be JPY0)	–	Jan. 2020	Same	–	–
18	Hotel Vista Kamata Tokyo	Lease	Fixed + Revenue sharing	Vista Hotel Management Co., Ltd.		4	Dec. 2021	JPY7MM/month + Revenue sharing	In principle, the same rent will be applied until expiration of the contract.	Jul. 2015	Modified Structure	–	To be expired (Dec.)
19	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi(*4)	Fixed-lease	Fixed + Revenue sharing	Sotetsu Hotel Development Co., Ltd.		15	Mar. 2023	JPY18MM/month + Revenue sharing	No rule has been stipulated.	–	–	–	–
20	Hilton Tokyo Bay	Fixed-lease	Fixed + Revenue sharing	THE DAI-ICHI BUILDING CO., LTD.	Hilton International Company	4	Dec. 2022	JPY163MM/month + Revenue sharing	Rent can be modified through mutual agreement.	Jan. 2019	Renewed (Increased)	–	–
21	ibis Tokyo Shinjuku	–	Management contract	–	AAPC Japan K.K.	12	Jun. 2024	Amount equivalent to hotel GOP	–	Jul. 2012	Modified Structure	–	–
22	ibis Styles Kyoto Station	–	Management contract			5	Dec. 2024	Amount equivalent to hotel GOP	–	–	–	–	–
23	ibis Styles Sapporo	–	Management contract			5	Dec. 2024	Amount equivalent to hotel GOP	–	–	–	–	–
24	Mercure Sapporo	–	Management contract			15	Sep. 2029	Amount equivalent to hotel GOP	–	–	–	–	–
25	Mercure Okinawa Naha	–	Management contract			10	Apr. 2024	Amount equivalent to hotel GOP	–	–	–	–	–
26	Mercure Yokosuka	Fixed-lease	Variable	AAPC Japan K.K.		5	Aug. 2024	Linked to hotel GOP	The same rent will be applied until expiration of the contract.	Aug. 2019	Renewed (Increased)	–	–
27	the b ikebukuro	Fixed-lease	Fixed + Variable	Ishin Ikebukuro Operations K.K.		7	Jan. 2022	JPY163MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	–	–	–	–
28	the b hachioji	Fixed-lease	Fixed + Variable	Ishin Hachioji Operations, Y.K.		7	Jan. 2022	JPY98MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	–	–	–	–
29	the b hakata	Fixed-lease	Fixed + Variable	Ishin Hakata Operations K.K.		7	Jan. 2022	JPY82MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	–	–	–	–

6. Summary of Lease Contracts (2/2)

JAPAN HOTEL REIT

(as of the end of June 2020)

No.	Property Name	Lease Type	Rent Structure (*1)	Lessee	Hotel Operator/ Hotel Consulting and Management Company	Lease/ MC Term	Expiration Date of Contract	Contractual Rent (*2)	Rent Modification Summary	Rent Modification Summary (After acquisition)		Rent Modification Schedule (2020 to 2021)	
										Timing	Condition	2020	2021
30	the b suidobashi	Fixed-lease	Fixed + Variable	Ishin Suidobashi Operations K.K.		5	Dec. 2026	JPY85MM/year + Linked to hotel GOP	The same rent will be applied until expiration of the contract.	Jan. 2020	Conditions changed (Increased)	–	–
31	Hotel Francs	Fixed-lease	Fixed	K.K. Bridal Produce		19	Oct. 2024	JPY25MM/month	The same rent will be applied until expiration of the contract.	–	–	–	–
32	Okinawa Marriott Resort & Spa(*3)	Fixed-lease	Fixed + Variable	Lagoon resort Nago Co., Ltd.		10	Dec. 2030	(Fixed rent) JPY45,833,333/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 82.92% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
33	ACTIVE-INTER CITY HIROSHIMA(*3) (Sheraton Grand Hiroshima Hotel)	Fixed-lease	Fixed + Variable	K.K. A.I.C Hiroshima Management	Luxury Hotels International of Hong Kong Limited	11	Dec. 2026	(Fixed rent) JPY29,000,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 79.03% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
34	CANDEO HOTELS UENO-KOEN	Fixed-lease	Fixed	Candeo Hospitality Management, Inc.		20	Feb. 2030	Nondisclosure(*6)	Rent can be modified through mutual agreement every three years.	Jul. 2016	Nondisclosure(*6)	–	–
35	Oriental Hotel Fukuoka Hakata Station(*3)	Fixed-lease	Fixed + Variable	Hotel Centraza Co., Ltd.		15	Dec. 2034	(Fixed rent) JPY35,416,666/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 96.98% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
36	Holiday Inn Osaka Namba(*3)	Fixed-lease	Fixed + Variable	OW Hotel Operations KK		15	Oct. 2031	(Fixed rent) JPY48,000,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 90.15% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
37	HOTEL ASCENT FUKUOKA	Fixed-lease	Fixed	K.K.ASCENT.		7	Mar. 2026	(Fixed rent) ① JPY20MM per month from May 1, 2019 to March 30, 2020, ② JPY22MM per month from April 1, 2020 to March 31, 2026	The same rent will be applied until expiration of the contract.	Apr. 2019	Renewed (Increased)	–	–
38	Hilton Nagoya	Lease	Variable	Nagoya Hilton Co., Ltd.	Hilton International Company	41	Dec. 2029	Nondisclosure(*6)	Rent can be modified through mutual agreement.	–	–	–	–
39	Hilton Tokyo Narita Airport(*3)	Fixed-lease	Fixed + Variable	KK NaritaKosuge Operations		20	Jun. 2037	(Fixed rent) JPY37,000,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 83.59% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
40	International Garden Hotel Narita (*3)	Fixed-lease	Fixed + Variable	KK NaritaYoshikura Operations		10	Jun. 2027	(Fixed rent) JPY28,000,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 95.35% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
41	Hotel Nikko Nara(*3)	Fixed-lease	Fixed + Variable	Hotel Management Co., Ltd.	Okura Nikko Hotel Management Co., Ltd.	10	Dec. 2030	(Fixed rent) JPY35,000,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 90.05% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
42	Hotel Oriental Express Osaka Shinsaibashi(*3)	Fixed-lease	Fixed + Variable	K.K. HOTEL ORIENTAL EXPRESS		10	Mar. 2028	(Fixed rent) JPY9,200,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 87.11% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–
43	Hilton Tokyo Odaiba(*3)	Fixed-lease	Fixed + Variable	Tokyo Humania Enterprise Inc.		11	Dec. 2029	(Fixed rent) JPY258,300,000/month (The fixed rent for February to December 2020 is JPY0) + (Variable rent) GOP multiplied by 92.10% minus fixed rent (If the amount is below JPY0, it will be JPY0)	In principle, the same rent will be applied until expiration of the contract.	Aug. 2020	Conditions changed	–	–

(*1) Rent structure is as follows:
Fixed: Fixed rent
Variable: Variable rent
Management contract: Management contract
Fixed + Variable: Property paying both fixed and variable rent
Fixed + Revenue sharing: When the sales of the hotel exceed pre-determined amount, additional rent is paid

(*2) Amount including car park and CAM without tax
(*3) For No. 1–5, 32, 33, 35, 36, 39–43, the lease contracts were changed on August 25, 2020. For detail, please see "Notice Concerning the Revision of the Fixed-Term Lease Agreement" on August 25, 2020.
(*4) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.
(*5) The Five HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima.
(*6) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee.

7. Major CAPEX Ⅲ by Hotels

JAPAN HOTEL REIT

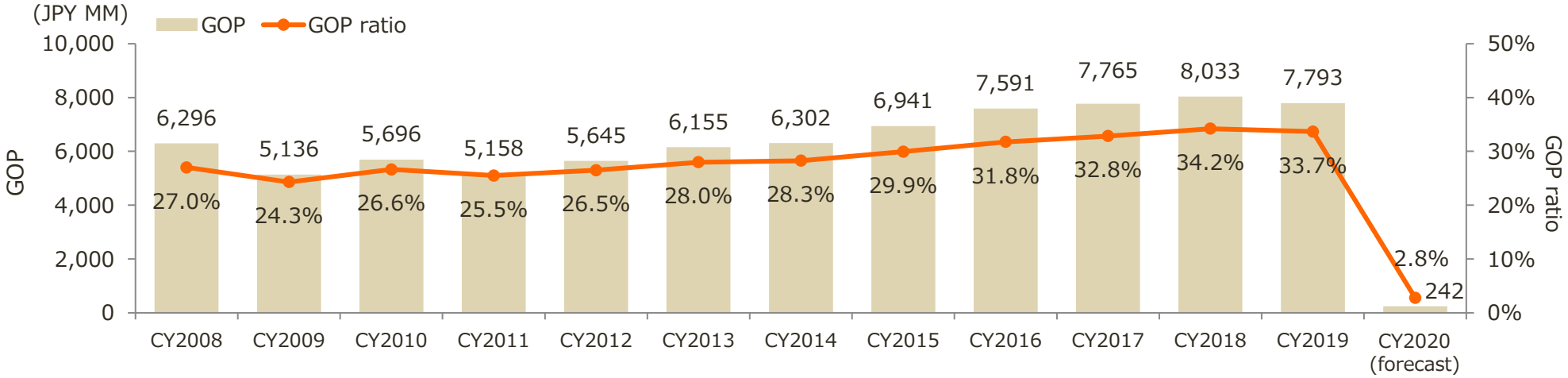
* (Numbers in parentheses are CAPEX amounts: JPY MM)

	FY12/2012	FY12/2013	FY12/2014	FY12/2015	FY12/2016	FY12/2017	FY12/2018	FY12/2019	FY12/2020 Plan
Kobe Meriken Park Oriental Hotel	–	–	–	Chapel (36)	Guest rooms on 7F (50) Balconies on each floor (62) Bar (85)	Bridal salon (76)	Private rooms at restaurant and balcony, etc. on 3F (19)	Restaurant (30) Conversion of brides' room to guest rooms (40)	~~Conversion of space of backyard to guest rooms (120)~~
Oriental Hotel tokyo bay	–	Restaurant (45)	–	–	Guest rooms on 4F (101)	–	Guest rooms on 11F to 12F (140)	–	–
Namba Oriental Hotel	–	Corner rooms on 5F to 8F (10)	–	–	Guest rooms on 9F (91)	Guest rooms on 7F (77)	Guest rooms on 6F (78)	–	–
Hotel Nikko Alivila	–	–	Guest rooms on 3F to 8F of North building and 3F to 5F of central building (333)	–	Guest rooms on 9F (55) Restaurant (31)	–	Guest rooms on 1F, etc. (16)	–	–
Oriental Hotel Hiroshima	–	–	Banquet room on 23F (10)	–	Guest rooms on 7F to 10F (43) Banquet room on 4F (38)	–	Chapel (10)	Guest rooms on 13F to 14F (14)	~~Guest rooms on 17F to 18F (14)~~ Increase number of seats in café (8.5)
Ibis Tokyo Shinjuku	Lobby and restaurant on 2F, and guest rooms on 3,5,7,9F (170)	–	–	–	Guest rooms on 3F to 10F (192)	Guest rooms on 3F to 10F (312)	–	–	–
Holiday Inn Osaka Namba	–	–	–	–	–	–	Guest rooms on 4,6,7,12F (115)	Guest rooms on 10F to 11F (72) Guest rooms on 8F to 9F (72)	–
ibis Styles Sapporo	–	–	–	–	–	–	Vacant space on 1F (28)	–	–
Mercure Hotel Sapporo	–	–	–	–	–	–	Banquet room (15)	–	–
the b Ikebukuro	–	–	–	–	–	–	Guest rooms on 3F to 10F, etc. (18)	–	–
Okinawa Marriott Resort & Spa	–	–	–	–	–	–	–	Restaurant (142)	–
Oriental Hotel Fukuoka Hakata Station	–	–	–	–	–	–	–	Large-scale renovation works (1,690)	–
Hilton Tokyo Odaiba	–	–	–	–	–	–	–	–	Banquet room (92) ~~Large-scale renovation works (3,000)~~

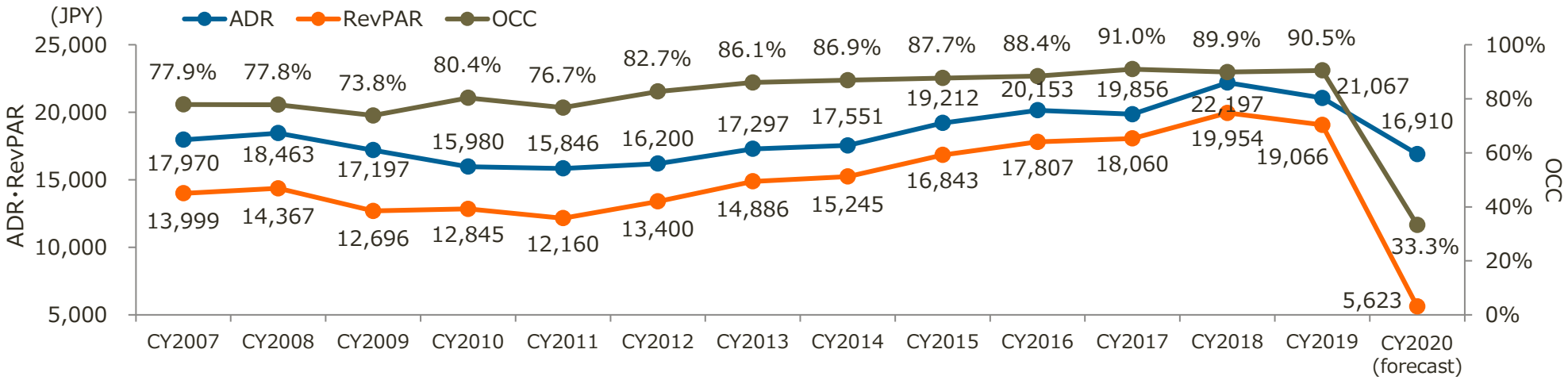
(*) The text in red color represents the CAPEX planned at the beginning of the fiscal year, but postponed after review by today.

8. The Five HMJ Hotels — Highlights

Change in GOP and GOP ratio



Change in KPI



9. Balance Sheet

(Unit: JPY MM)

(as of)	FY12/2019 End of Fiscal Year December 31, 2019	FY12/2020 End of Midterm June 30, 2020	Variance
ASSETS			
Current Assets	**37,762**	**22,158**	**(15,604)**
Cash and Deposits(*1)	34,343	20,708	(13,634)
Operating Accounts Receivables	2,779	669	(2,109)
Others	638	779	140
Noncurrent Assets	**377,608**	**376,390**	**(1,217)**
Net Property and Equipment	340,522	339,046	(1,476)
Buildings in Trust(*2)	118,128	116,951	(1,176)
Land in Trust	219,901	219,901	–
Others(*3)	2,493	2,193	(299)
Intangible Assets	33,804	34,249	445
Other Assets	3,280	3,094	(185)
Leasehold and Security Deposits	162	162	–
Others	3,117	2,931	(185)
Deferred Assets	**351**	**278**	**(73)**
TOTAL ASSETS	**415,722**	**398,827**	**(16,895)**

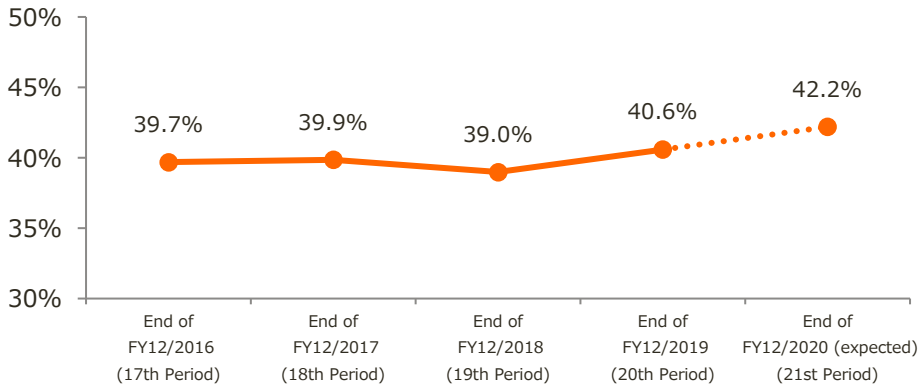
(as of)	FY12/2019 End of Fiscal Year December 31, 2019	FY12/2020 End of Midterm June 30, 2020	Variance
LIABILITIES			
Current Liabilities	**16,627**	**23,630**	**7,003**
Operating Accounts Payable	1,485	493	(991)
Short-term Loans	–	5,792	5,792
Current Portion of Long-term Loans Payable	12,782	13,790	1,008
Accounts Payable	1,313	502	(811)
Advances Received	909	562	(346)
Others	137	2,490	2,353
Long-term Liabilities	**162,572**	**155,769**	**(6,803)**
Investment Corporation Bonds	41,600	41,600	–
Long-term Loans Payable	114,372	107,572	(6,800)
Tenant Leasehold and Security Deposits	5,722	5,689	(33)
Derivative Liabilities	416	456	39
Others	461	451	(9)
TOTAL LIABILITIES	**179,200**	**179,400**	**200**
NET ASSETS			
Unitholders' Capital	186,894	186,894	–
Capital Surplus	21,746	21,746	–
Reserve for Temporary Difference Adjustment	11,794	10,617	(1,176)
Reserve for Special Advanced Depreciation	–	1,174	1,174
Reserve for Special Account for Tax Purpose Reduction Entry	1,174	–	(1,174)
Unappropriated Retained Earnings	15,290	(550)	(15,841)
Others	(377)	(455)	(77)
TOTAL NET ASSETS	**236,522**	**219,427**	**(17,095)**
TOTAL LIABILITIES AND NET ASSETS	**415,722**	**398,827**	**(16,895)**

(*1) Cash and deposits in trust is included.
(*2) The sum of buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, and construction in progress in trust.
(*3) The sum of machinery and equipment, tools, furniture and fixtures, and construction in progress.

Appendix 3

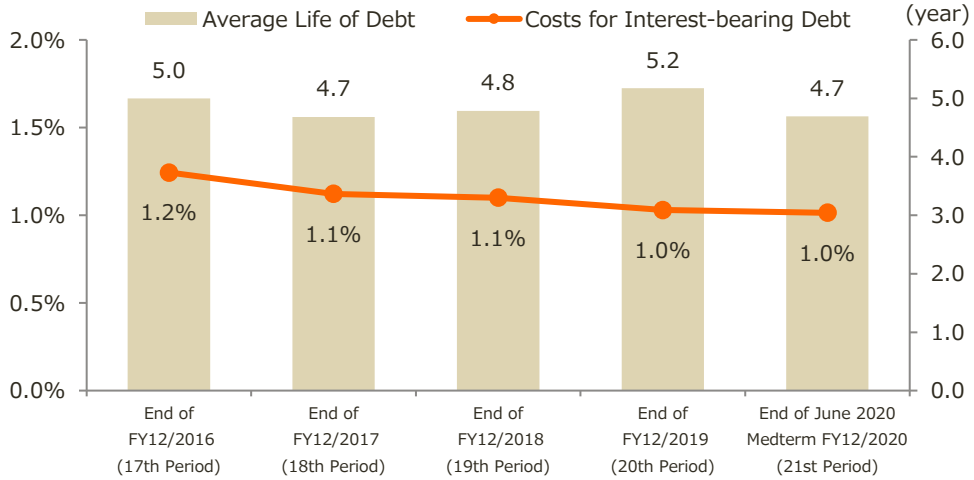
Financial Conditions

Changes in LTV (total asset base)



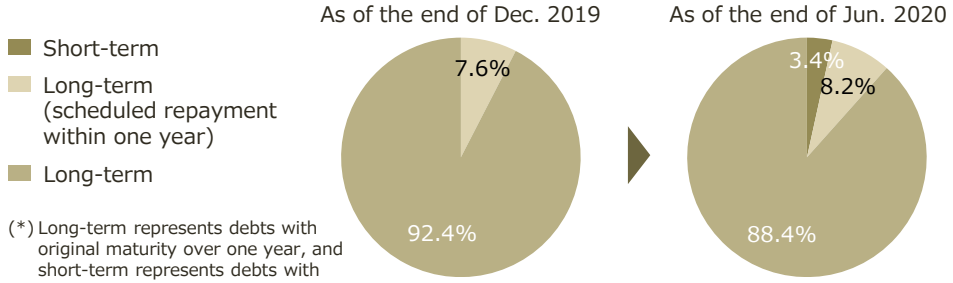
(*) LTV as of the end of each period/year. LTV as of the end of June 2020 is 42.3%.

Changes in Costs for Interest-bearing Debt(*1) and Average Life of Debt(*2)



(*1) Weighted-average costs for interest-bearing debt (including up-front fee, etc.) as of the end of each period/year. Rounded off to one decimal place.
(*2) Average life of debt as of the end of each period/year.

Term of Interest-bearing Debt



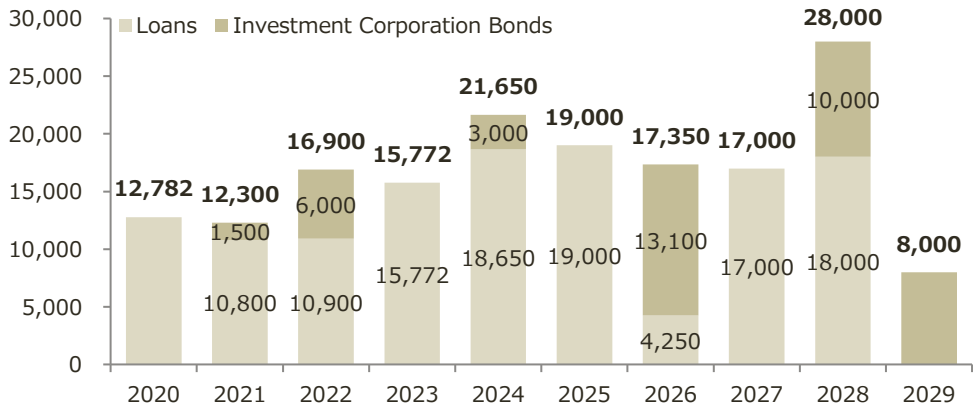
(*) Long-term represents debts with original maturity over one year, and short-term represents debts with original maturity within one year.

Fixed Interest Rate Ratio

As of the end of Dec. 2019	As of the end of Jun. 2020
97.8%	**95.0%**

Repayment Schedule of Interest-bearing Debt

(JPY MM) (as of the end of June 2020)



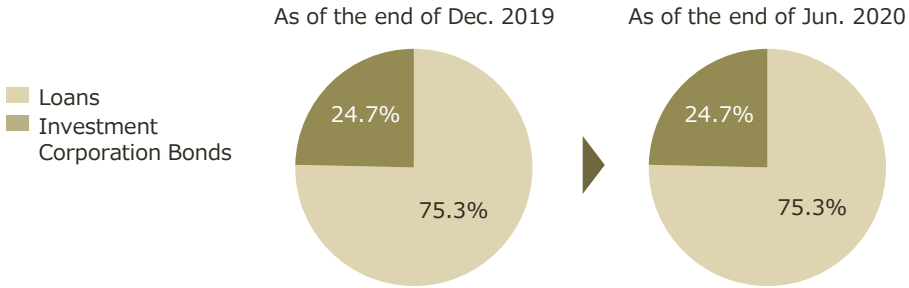
1. Financial Conditions (cont.)

Lender List for Interest-bearing Debt

(Unit: JPY MM)

Lenders/Bond Name	Balance (as of the end of December 2019)		Balance (as of the end of June 2020)		Variance
	Balance	%	Balance	%	
Sumitomo Mitsui Banking Corporation	31,901	18.9%	31,901	18.9%	0
Shinsei Bank, Ltd.	19,015	11.3%	19,015	11.3%	0
Mizuho Bank, Ltd.	19,000	11.3%	19,000	11.3%	0
Sumitomo Mitsui Trust Bank, Limited	13,640	8.1%	13,640	8.1%	0
Resona Bank, Limited	10,126	6.0%	10,126	6.0%	0
Development Bank of Japan Inc.	5,750	3.4%	5,750	3.4%	0
Fukuoka Bank, Ltd.	4,750	2.8%	4,750	2.8%	0
The Nomura Trust and Banking Co., Ltd.	4,660	2.8%	4,660	2.8%	0
MUFG Bank, Ltd.	4,135	2.5%	4,135	2.5%	0
Aozora Bank, Ltd.	3,435	2.0%	3,435	2.0%	0
The Chiba Bank, Ltd.	3,100	1.8%	3,100	1.8%	0
Hiroshima Bank, Ltd.	2,892	1.7%	2,892	1.7%	0
The Nishi-Nippon City Bank, Ltd.	2,750	1.6%	2,750	1.6%	0
Sompo Japan Nipponkoa Insurance Inc.	1,500	0.9%	1,500	0.9%	0
The Shizuoka Bank, Ltd.	500	0.3%	500	0.3%	0
Total of Bank Loans	**127,154**	**75.3%**	**127,154**	**75.3%**	**0**
Investment Corporation Bonds	**Investment Corporation Bonds (for institutional investors)**				
	4th Investment Corporation Bonds without Collateral	1,500	0.9%	1,500	0.9%	0
	6th Investment Corporation Bonds without Collateral	3,000	1.8%	3,000	1.8%	0
	8th Investment Corporation Bonds without Collateral	1,100	0.7%	1,100	0.7%	0
	9th Investment Corporation Bonds without Collateral	1,000	0.6%	1,000	0.6%	0
	12th Investment Corporation Bonds without Collateral	2,000	1.2%	2,000	1.2%	0
	Total of Investment Corporation Bonds (for institutional investors)	**8,600**	**5.1%**	**8,600**	**5.1%**	**0**
	Investment Corporation Bonds (for individual investors)					
	5th Investment Corporation Bonds without Collateral	6,000	3.6%	6,000	3.6%	0
	7th Investment Corporation Bonds without Collateral	9,000	5.3%	9,000	5.3%	0
	10th Investment Corporation Bonds without Collateral	10,000	5.9%	10,000	5.9%	0
	11th Investment Corporation Bonds without Collateral	8,000	4.7%	8,000	4.7%	0
	Total of Investment Corporation Bonds (for individual investors)	**33,000**	**19.6%**	**33,000**	**19.6%**	**0**
	Total of Investment Corporation Bonds	**41,600**	**24.7%**	**41,600**	**24.7%**	**0**
Total of Interest-bearing Debt	**168,754**	**100.0%**	**168,754**	**100.0%**	**0**

Breakdown of Interest-bearing Debt



Status of Credit Rating

Japan Credit Rating Agency, Ltd. (JCR)	**A+** (stable)
Rating and Investment Information, Inc. (R&I)	**A** (stable)

Status of Reserve for Special Advanced Depreciation

◆ A part of gain on sale of three properties sold in 2018 is retained

Reserve for special advanced depreciation	**JPY1,174MM**

Appendix 4

Investors Composition and Investment Unit Price

1. Major Unitholders and Classifications of Unitholders

Top 10 Major Unitholders

As of the end of December 2019

Rank	Name	No. of Units	%(*)
1	The Master Trust Bank of Japan, Ltd. (Trust)	697,102	15.62
2	Japan Trustee Service Bank, Ltd. (Trust)	526,839	11.80
3	J.P. Morgan Bank Luxembourg S.A. 384500	334,947	7.50
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	213,302	4.78
5	BNYM AS AGT Clients 10 PERCENT	140,401	3.14
6	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	134,779	3.02
7	State Street Bank West Client-Treaty 505234	59,918	1.34
8	Shikoku Railway Company	56,989	1.27
9	JPMorgan Securities Japan Co., Ltd.	52,951	1.18
10	Japan Securities Finance Co., Ltd.	46,600	1.04
	Total	**2,263,828**	**50.73**

As of the end of June 2020

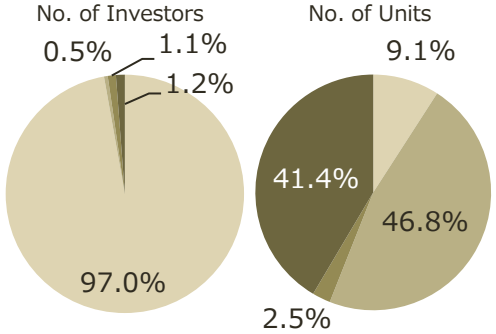
Rank	Name	No. of Units	%(*)
1	The Master Trust Bank of Japan, Ltd. (Trust)	621,578	13.92
2	Japan Trustee Service Bank, Ltd. (Trust)	462,840	10.37
3	STICHTING PGGM DEPOSITARY PGGM LISTED REAL ESTATE PF FUND	350,747	7.86
4	The Nomura Trust and Banking Co., Ltd. (Investment Trust)	190,091	4.25
5	BNYM AS AGT Clients 10 PERCENT	186,509	4.17
6	THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL ACCOUNT NO.1	184,356	4.13
7	Trust and Custody Services Bank, Ltd. (Securities Investment Trust)	140,364	3.14
8	State Street Bank West Client-Treaty 505234	59,561	1.33
9	Shikoku Railway Company	56,989	1.27
10	THE BANK OF NEW YORK MELLON 140044	50,763	1.13
	Total	**2,303,798**	**51.62**

(*) The total units held by each investor to the total units issued by JHR as of the end of December 2019 and the end of June 2020 respectively. (Rounded off to two decimal places.)

Owners of the Investment Units

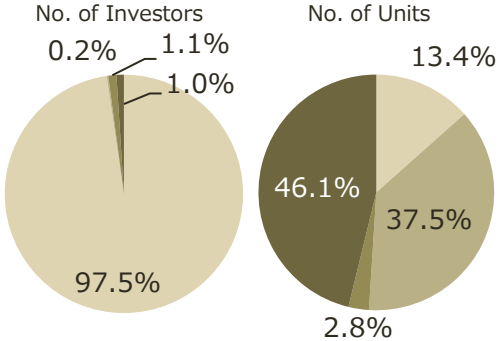
As of the end of December 2019

Owners	No. of Investors	No. of Units
Individuals & Others	29,670	406,900
Financial Institutions (Incl. Securities Firms)	155	2,090,477
Other Domestic Firms	357	113,795
Foreign Firms & Individuals	392	1,851,175
Total	**30,574**	**4,462,347**



As of the end of June 2020

Owners	No. of Investors	No. of Units
Individuals & Others	39,485	598,621
Financial Institutions (Incl. Securities Firms)	100	1,675,074
Other Domestic Firms	462	127,579
Foreign Firms & Individuals	445	2,061,073
Total	**40,492**	**4,462,347**



Individuals & Others | Financial Institutions (Incl. Securities Firms) | Other Domestic Firms | Foreign Firms & Individuals

(*) Percentage of investors is percentage of owners in each segment to the total number of investors in JHR, and percentage of investment units is percentage of investment units owned by each segment to the total investment units issued as of respective date (both rounded off to one decimal place).

2. Changes in Investment Unit Price and Market Capitalization

Changes in the investment unit price and market capitalization (Based on the closing price)

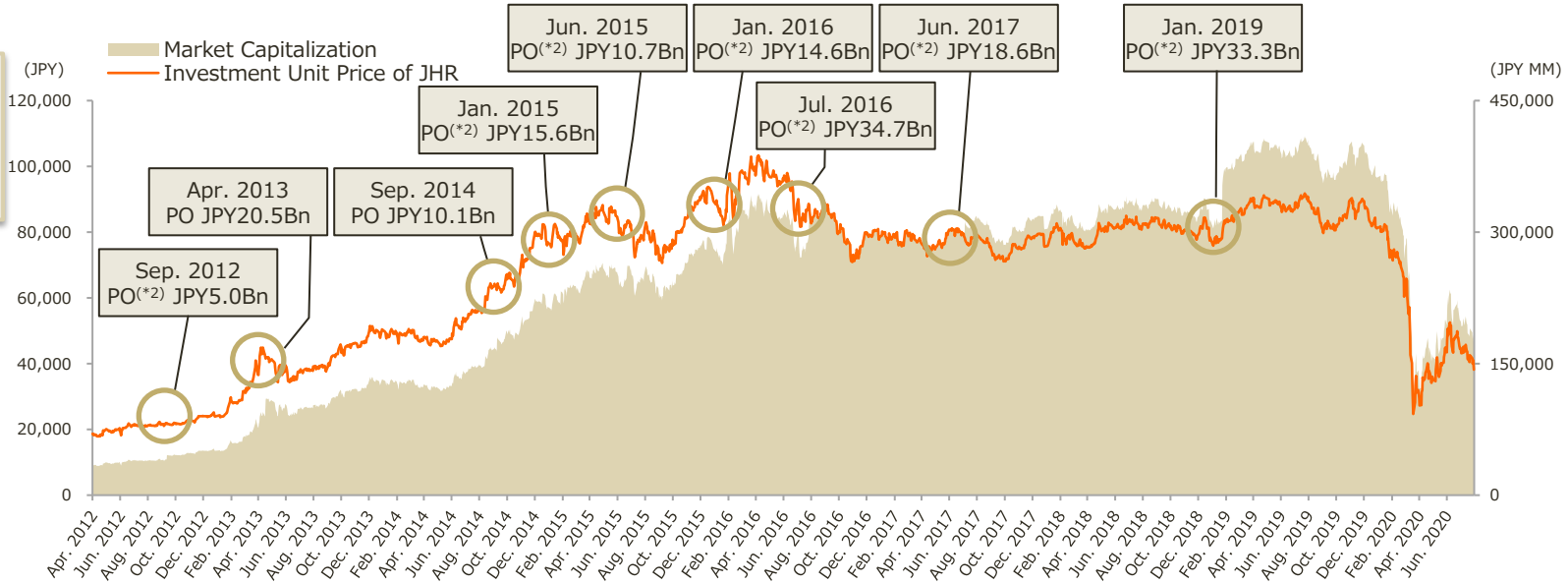
Price of the investment unit: JPY38,150

Total market capitalization: JPY170.2Bn

(based on the closing price of July 31, 2020)

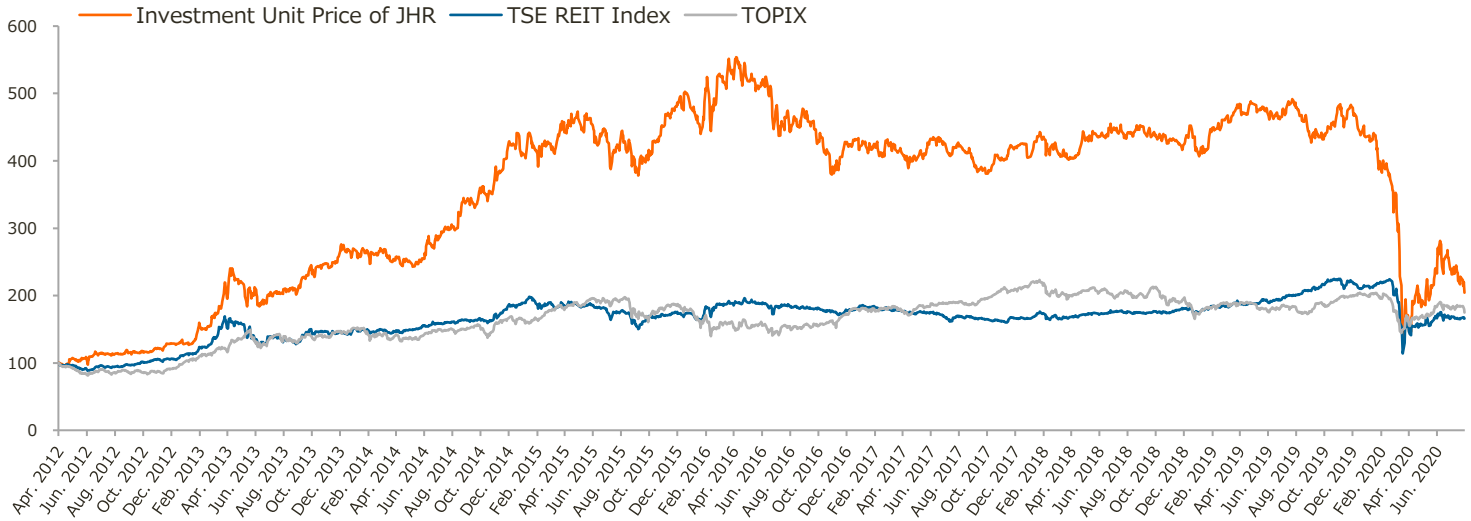
(*1) Price of the real estate investment securities may fall depending on the fluctuations of price of the real estate under management or profitability, etc., and investors may suffer losses. Investors may also suffer losses through the bankruptcy or deteriorated financial condition of the issuer. With reference to the risk of investment in JHR units, please see Securities Report dated March 27, 2020.

(*2) Including OA



Comparison with REIT Index and TOPIX of Tokyo Stock Exchange (TSE)

(*) 100 is the closing price of JHR unit, REIT index and TOPIX at TSE dated April 2, 2012. REIT Index of TSE is an index of a weighted average of the market capitalization of all REITs listed on TSE.



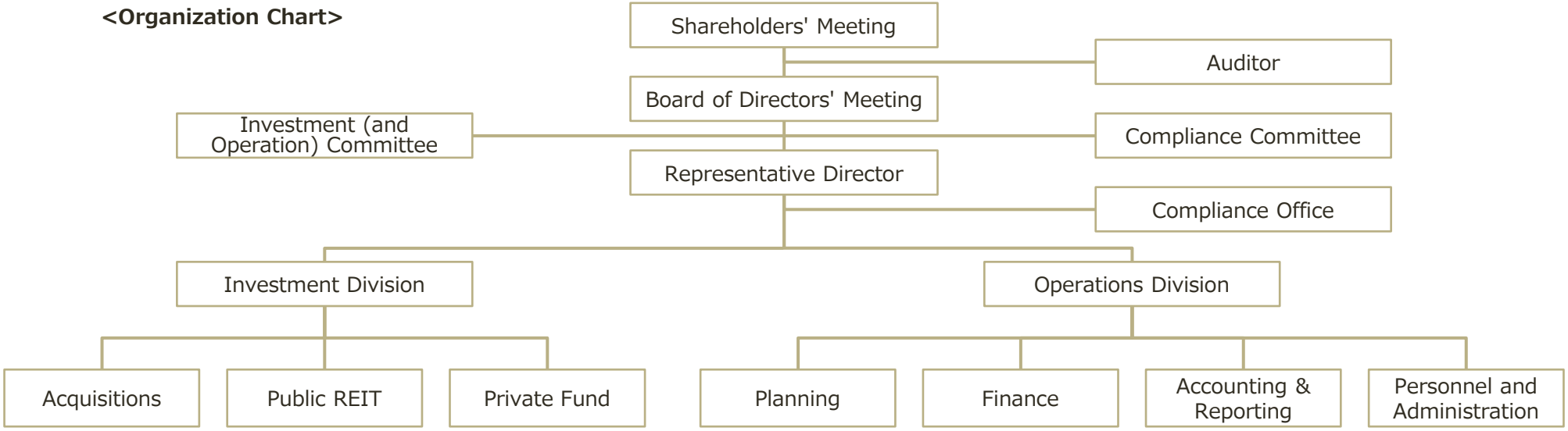
Appendix 5

Summary of the Asset Management Company

1. Summary of the Asset Management Company

Company	Japan Hotel REIT Advisors Co., Ltd.
Location	Ebisu Neonato 4F, 4-1-18 Ebisu, Shibuya-ku, Tokyo 150-0013
Establishment	August 10, 2004
Capital	JPY300MM as of June 30, 2020
Shareholders	Rockrise Sdn Bhd, Kyoritsu Maintenance Co., Ltd., ORIX Corporation
Representative Director	Hisashi Furukawa
Registration and Licenses	Building Lots and Buildings Transaction Business Operator, Governor of Tokyo (4) No. 83613 Discretionary Transaction Agent by Minister of Land, Infrastructure, Transport and Tourism No. 38 Financial Instruments Trading Company, Director-General of Kanto Local Finance Bureau No. 334 Member of The Investment Trusts Association, Japan Member of The Japan Investment Advisers Association

<Organization Chart>



Mission Statement

"Provide attractive hotel investment opportunities to investors as specialist in investment and management of hotel assets. Gain trust from our stakeholders, and contribute to local communities and society through investing and managing hotel assets."

Code of Conduct

As an independent asset management company, all employees and officers at JHRA should have a **"spirit of challenge"** aiming to constantly provide high added value.

Also, **"teamwork"** is inevitable to provide high added value.

JHRA recognizes "challenge" and "teamwork" as essential value which our code of conduct is based upon.

Challenge

- Be a self-starter, take initiative and demonstrate drive
- Set high goal and strive
- Respect creativity and innovation
- Promote challenge, free from fear of failure

Teamwork

- Respect teamwork and collaborate with team-mates
- Respect others. Respect values and opinions of others
- Promote "sharing" (idea, knowledge, information, goal, achievement, joy of achievement, lesson, etc.)
- Make effort for open, frank and sincere communication

Advanced Expertise

- Ability to propose transaction scheme, execute transaction, and plan and execute unprecedented measures of asset management based on in-depth understanding of hotel operation and track record of such asset management.
- Extensive experience of renovation and rebranding through collaboration with many hotel lessees and hotel operators.
- Strong and long-term relationships with a large number of hotel lessees and hotel operators.
- High analytical skills and accurate judgement capacity based on rich information and data obtained through a broad network and high credibility.

Ensured Independence

- No employee of JHRA is a seconded employee from sponsor.
- Part-time directors from our main sponsor, SC CAPITAL PARTNERS group and non-sponsor-related full-time directors each account for half of JHRA's board of directors.
- With regard to transactions with sponsor-related parties and JHR, JHRA has set strict decision-making rules.
  In principle, in addition to obtaining approval by Compliance Committee which includes an outside specialist, who is authorized to dismiss proposals, JHRA is required to obtain approval from JHR's board of directors' meetings (directors are all third-party members who do not have any relationship with the sponsor-related parties).
- As our main sponsor, SC CAPITAL PARTNERS group is also an independent asset management company, it fully understands and respects importance of JHRA's independency. JHRA conducts asset management business based upon its own judgement.

Disclaimer

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This material contains forward-looking statements about financial conditions, operational results, and businesses of JHR, as well as plans and intentions of JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd ("JHRA"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or performance of JHR to materially differ from those expressed or implied forecasts. Those forecasts are made based on JHR's present and future business strategies and assumptions relating to the political and economic circumstances surrounding JHR in the future.

Every effort has been made to ensure the accuracy of the information contained in this material. However, there can be no assurance that the information is accurate, complete, appropriate or fair. The information may be revised or retracted without prior notice.

Regarding the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, financial institutions may charge you pre-determined handling fees and other charges aside from the price of the investment units, investment unit subscription rights or investment corporation bonds. Since neither JHR nor JHRA handles the offering and trading of investment units, investment unit subscription rights or investment corporation bonds, please ask financial institutions for the amount, upper limit, and calculation methods of such fees and other charges.

JHR mainly invests in real estate-related assets, primarily hotels which are subject to change in values. Therefore, unitholders, holders of investment unit subscription rights and investment corporation bonds may suffer losses due to economic conditions of the real estate market or securities market, economic situations including interest rate environment, the nature of investment units, investment unit subscription rights, and investment corporation bonds, dependency on mechanisms and related persons of investment corporations, changes in legal systems related to real estate (include tax regulations, building regulations and others), damage caused to the real estate-related assets by natural disasters, fluctuation in prices or profitability of the real estate-related assets, nature of the trust beneficiary rights under management, delisting of the investment units, or worsening financial position or insolvency of JHR. For details, please refer to the Articles of Incorporation, Securities Registration Statement, Annual Securities Report and Extraordinary Report, etc. of JHR.

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Japan Hotel REIT Advisors Co., Ltd.
Financial Instruments Trading Company
Director-General of Kanto Local Finance Bureau No. 334
Member of The Investment Trust Association, Japan
Member of The Japan Investment Advisers Association

Memo