

Hoshino Resorts REIT, Inc.

May 19, 2021

For Immediate Release

REIT Securities Issuer
Hoshino Resorts REIT, Inc.
Representative: Kenji Akimoto, Executive Director
(Code: 3287)

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Notice Concerning Acquisition of Domestic Real Estate (KAI Nagato)

Hoshino Resorts REIT, Inc. (hereinafter “HRR”) announces that Hoshino Resort Asset Management Co., Ltd. (hereinafter the “Asset Management Company”), to which HRR entrusts asset management, made a decision today to acquire the following properties (hereinafter the “Asset to be Acquired”). Since the borrower in the lease of the Asset to be Acquired is to correspond with an Interested Person, etc. under the Act on Investment Trusts and Investment Corporations (act No. 198 of 1951, including amendments thereto) (hereinafter the “Investment Trusts Act”), and is to fall under the definition of interested party, etc. as set forth in the “interested party transaction rules,” which are the internal rules of the Asset Management Company, the Asset Management Company has obtained the consent of HRR in accordance with the approval of HRR’s Board of Directors meeting held on May 19, 2021 pursuant to the Investment Trusts Act and the “interested party transaction rules.”

1. Overview of Acquisition

Category (Note 1)		Property No. (Note 2)	Property name	Location	Planned acquisition price (million yen) (Note 3)	Seller
Properties operated by Hoshino Resorts Group	KAI	K-11	KAI Nagato	Nagato-shi, Yamaguchi	2,750	Nagato Hotel Management Co., Ltd.

(Note 1) “Category” indicates either Properties operated by Hoshino Resorts Group (“HOSHINOYA,” “RISONARE,” “KAI” and “Other”) or Properties operated by outside operators (“Urban tourism” and “Other”) in accordance with the classification of investment target assets of HRR. The same shall apply hereinafter.

(Note 2) “Property No.” indicates the number of properties for investment target assets of HRR classified under the four categories of “HOSHINOYA,” “RISONARE,” “KAI” and “Other” within the management guidelines of the Asset Management Company before revision as of October 11, 2017. The same shall apply hereinafter.

(Note 3) “Planned acquisition price” indicates the sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions), each rounded down to the nearest million yen.

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| (1) Date of execution of purchase agreement: | May 19, 2021 |
| (2) Planned acquisition date: | June 1, 2021 (delivery and settlement date) |
| (3) Seller: | Please refer to “5. Details of Seller” later in this document. |
| (4) Funds for acquisition: | Proceeds from issuance of new investment units by way of third-party allotment resolved at HRR’s Board of Directors’ Meeting held on May 19, 2021, borrowings and cash on hand (plan) |

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(5) Method of payment:	Lump-sum payment upon delivery (plan)
(6) Collateral:	None

2. Reason for Acquisition

HRR makes focused investments in facilities that are likely to secure steady cash flow over a long-term period. Among hotels, ryokans and ancillary facilities (Note) operated by the Hoshino Resorts Group (collectively referring to Hoshino Resorts Inc. and its parent company and subsidiaries; the same shall apply hereinafter) (hereinafter the “properties operated by the Hoshino Resorts Group”), HRR intends to invest in the properties under the three core brands of “HOSHINOYA,” “Hoshino Resorts KAI” and “Hoshino Resorts RISONARE” operated by the Hoshino Resorts Group in cases where stable use of such properties is expected, and which are expected to secure a long-term and stable cash flow. Based on this intention, HRR decided on the acquisition of the Asset to be Acquired, which is one of the Hoshino Resorts KAI brand facilities.

The acquisition of the Asset to be Acquired is judged to strengthen the stability of HRR’s earnings, as the risk of deterioration in operating cash flow caused by the changes in the travel needs of travelers or the trends, disasters, economic situations in Japan and abroad will be reduced with progressed diversification of facilities’ locations and cash flow characteristics of the portfolio.

After opening in March 2020, the Asset to be Acquired experienced a temporarily sluggish guest room occupancy rate at 51.5% for the two cumulative months from April to May 2020, immediately after opening, due to the prolonged impact of the novel coronavirus disease (hereinafter “COVID-19”). However, the operational results promptly recovered due to securing microtourism demand from June 2020 onward, with the guest room occupancy rate for the seven cumulative months from June to December 2020 being strong at 91.9%. Furthermore, the guest room occupancy rate dropped moderately to 68.0% for the two cumulative months of January and February due to the reissuance of regional State of Emergency Declaration, recovering to 84.3% for the two cumulative months of March and April, when the State of Emergency Declaration was lifted. Therefore, HRR has resolved to acquire the Asset to be Acquired upon judging that the Asset to be Acquired is an asset that can secure long-term and stable cash flow even under the impact of COVID-19. For details regarding the monthly operational results of the Asset to be Acquired, please refer to “Supplementary Explanatory Materials: ‘Notice Concerning Issuance of New Investment Units by Way of Third-Party Allotment’ and ‘Notice Concerning Acquisition of Domestic Real Estate,’” which was separately released today.

In addition, the Hoshino Resorts Group plans to acquire the shares of Nagato Hotel Management Co., Ltd., which is the management company of “KAI Nagato,” to make it its wholly owned subsidiary promptly after the acquisition of the Asset to be Acquired by HRR. Accordingly, the Hoshino Resorts Group plans to enter into a share transfer agreement with the shareholders of Nagato Hotel Management Co., Ltd. on 3 June, 2021.

(Note) “Hotel” refers to accommodation facilities mainly with western-style structures and facilities, “ryokan” to accommodation facilities mainly with Japanese-style structures and facilities and “ancillary facilities” to large facilities such as ski resorts, golf courses, pools and retail stores attached to hotels and ryokans. The same shall apply hereinafter.

3. Overview of the KAI Nagato's Hot Spring Town Revitalization Project through Public Private Partnership and Significance of its Acquisition by HRR

KAI Nagato is a hot spring ryokan that opened in March 2020 in response to a request to the Hoshino Resorts Group from Nagato City in Yamaguchi Prefecture to open an accommodation facility and formulate a revitalization plan (hereinafter the "master plan") for the overall hot spring town. Nagato City intends to revitalize Nagato Yumoto Onsen, which has experienced a slump due to a sharp decrease in staying guests.

The main thrust of the master plan formulated by the Hoshino Resorts Group is to identify elements of Nagato Yumoto Onsen town that have potential for revitalization and use them to create attractions. As a result of the analysis of the characteristics and attractiveness of hot spring towns, the Hoshino Resorts Group classified three common elements that support the popularity of popular hot spring towns as "people are attracted to resources provided by nature," "people are attracted to historical heritage that cannot be created readily," and "people are attracted to attractive hot spring towns that make use of nature." The Group considers that Nagato Yumoto Onsen town, through the heart of which the Otozuegawa River flows, imparting a natural ambience, and which has around 10 hot spring ryokans within an approximate 1 kilometer radius of the hot spring town center, has the potential to realize the principle of "people are attracted to attractive hot spring towns that make use of nature." The Group formulated the master plan based on a strategy of aiming to realize these common elements. Nagato Yumoto Onsen town's hot spring town revitalization project through public private partnership is being conducted in accordance with the "Nagato Yumoto Onsen Tourism Revitalization Plan," (hereinafter the "Plan") which incorporates the master plan. The Plan has a specific target of elevating Nagato Yumoto Onsen's position in the overall ranking of the National Onsen Top 100 (Kankokeizai News Corporation) from 86th in fiscal 2015 to within the top 10. HRR is working to strategically represent the six elements of "open air baths," eating tour," "cultural experiences," "ease of navigation," "picturesque scenery," and "space where you can relax," which HRR believes will create an attractive hot spring town center in line with the principle of "people are attracted to attractive hot spring towns that make use of nature."

In accordance with the Plan, efforts to fully engage to revitalize Nagato Yumoto Onsen hot spring town are being led by the Nagato Yumoto Onsen Tourism Revitalization Promotion Committee, which includes the mayor of Nagato City, Yumoto Onsen Ryokan Cooperative, and the Hoshino Resorts Group. As part of these efforts, the Hoshino Resorts Group has opened KAI Nagato. Under the Plan, KAI Nagato is a central attraction of Nagato Yumoto Onsen town, and is expected to increase the overall brand appeal of the hot spring town. Establishment of the hard aspects of Nagato Yumoto Onsen town is complete as of today, and the Group is continuing to collaborate with Nagato City and local business owners to enhance the soft aspects and promote further improvements to landscape, planning to work on new development, maintenance, and evolution of the attraction of the hot spring town.

As noted above, HRR considers that its acquisition and future management of the Asset to be Acquired, which is to be a central part of the revitalization of the entire hot spring town in cooperation with local government and business owners, is an extremely significant investment in terms of coexisting with local communities and engaging together in regional revitalization through local economic revival, and also in terms of ESG.

4. Contents of Asset to be Acquired

The tables below present an overview of the Asset to be Acquired.

The following is an explanation of the matters stated in each column of the tables below.

a. Explanation on "Overview of specified asset"

- For "Use," accommodation facilities mainly with western-style structures and facilities are indicated as "hotel"; and those mainly with Japanese-style structures and facilities are indicated as "ryokan" based on the current conditions of the property. Since the description in "Use" is a classification to grasp the overall characteristics of each facility in accordance with the investment policy of HRR, such may differ from use of individual buildings comprising the facility stated in the real estate registry.
- "Planned acquisition date" is the planned acquisition date for the Asset to be Acquired but may be changed under a mutual agreement between HRR and the current owner.
- "Type of specified asset" is the type of real estate and other assets as specified assets.
- "Planned acquisition price" indicates the sales/purchase price of the Asset to be Acquired stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions).
- "Appraisal value (Appraisal date)" is the real estate appraisal value and appraisal date stated in the real estate appraisal report, etc. for the Asset to be Acquired obtained from Japan Real Estate Institute.
- "Location (Indication of residential address)," in principle, is the indication of residential address. In cases where there is no indication of residential address, it is the building location (if several, one of the locations) in the real estate registry.
- "Transportation" is in accordance with the real estate appraisal report, etc. for the Asset to be Acquired obtained from Japan Real Estate Institute.
- "Lot number" of Land is the building location (if several, one of the locations) in the registry.
- "Building coverage ratio" of Land is, in principle, the ratio of building area to area of the building site as stipulated in Article 53 of the Building Standards Act (Act No. 201 of 1950, including amendments thereto) (hereinafter the "Building Standards Act") and indicates the upper limit of the building coverage ratio stipulated by city planning according to type of use district, etc. (designated building coverage ratio) (if several, all of them). Designated building coverage ratio may be relaxed, raised or reduced due to reasons such as the existence of fireproof structures in a fire prevention district, and thus may differ from a building coverage ratio that actually applies.
- "Floor-area ratio" of Land is the ratio of total floor area of the building to site area as stipulated in Article 52 of the Building Standards Act and indicates the upper limit of the floor-area ratio stipulated by city planning according to type of use district, etc. (designated floor-area ratio) (if several, all of them). Designated floor-area ratio may be relaxed, raised or reduced due to reasons such as width of roads connected to the site, and thus may differ from a floor-area ratio that actually applies.
- "Use district" of Land is the type of use district classified (if several, all of them) in accordance with Article 8, Paragraph 1, Item 1 of the City Planning Act (Act No. 100 of 1968, including amendments thereto).
- "Site area" of Land is based on the description in the registry (It includes the leased area, if there is any leased land. The leased area is based on the description in the lease agreement.) and may differ from the present state.
- "Type of ownership" of Land and Building is the type of rights held by HRR.
- "Completion date" of Building is the inspection date of construction completion stated in the certificate of inspection under the Building Standards Act for the main building.
- "Structure / floors" of Building is based on the description in the registry for the main building.
- "Total floor area" of Building is based on the description in the registry, including floor area of annex buildings.
- "Building engineer" and "Constructors" of Building indicate the company names at the time of building engineering and construction of the main building.

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- “Leasable floor area” is the area equivalent to the area owned by HRR out of leasable area and indicates the figure stated in the lease agreement to be concluded/concluded between HRR and the tenant or in the building drawing of the property.
- “Occupancy rate” is the occupancy rate expected as of the planned acquisition date (the ratio of the total leased floor area to the total leasable floor area). In case a lease agreement with suspensive conditions of becoming effective under the condition of HRR’s acquisition has been concluded between HRR and the tenant, the occupancy rate is indicated assuming that leasing has started on the planned acquisition date.
- “Main tenant” is the tenant with the largest leased area out of those leasing the property from HRR in accordance with the lease agreement that is to be effective on HRR’s planned acquisition date of the Asset to be Acquired.
- “No. of tenants” is the number of those leasing the property from HRR in accordance with the lease agreement that is to be effective on HRR’s planned acquisition date of the Asset to be Acquired. However, this excludes those leasing or planning to lease part of the site or the building for the purpose of parking or installing antennas.
- “No. of guest rooms” is the number of guest rooms available for accommodation at that property.
- “No. of sublease tenants” is the number of those planning to lease (sublease) the property from those leasing the property from HRR in accordance with the lease agreement that is to be effective on HRR’s planned acquisition date of the Asset to be Acquired. However, this excludes those planning to lease (sublease) part of the site or the building for the purpose of parking or installing antennas.
- “Notes” presents items that are considered important such as the rights and usage, etc. of each asset upon acquisition, and items considered to be important in terms of their impact on the valuation amount, earning potential, and disposal potential of each asset.

b. Explanation on “Overview of leasing”

- “Overview of leasing” is the detail of the lease agreement concerning the Asset to be Acquired with the tenant who is to lease the hotel or ryokan after HRR’s acquisition.
- All of “Lessee,” “Type of contract,” “Contract period,” “Leased floor area,” “Rent,” “Security deposit and guarantee deposit,” “Renewal at the end of contract period,” “Rent revision,” “Midterm cancellation,” “Penalty” and “Method for re-contract” are based on the statements in the lease agreement that is to be effective on the planned acquisition date of the Asset to be Acquired.

Hoshino Resorts REIT, Inc.

KAI Nagato			Category		Properties operated by the Hoshino Resorts Group (KAI)	
			Use		Ryokan	
Overview of specified asset						
Planned acquisition date		June 1, 2021		Type of specified asset		Real Estate
Planned acquisition price		2,750,000,000 yen		Appraisal value (Appraisal date)		2,910,000,000 yen (April 12, 2021)
Location (Indication of residential address)		2229-1 Fukawayumoto, Nagato-shi, Yamaguchi				
Transportation		Approximately 1.2 km from “Nagato-Yumoto Station” on the JR Mine Line				
Land	Lot number	2229-1 Aza Taira-machi, Fukawayumoto, Nagato-shi, Yamaguchi and other		Building	Completion date	November 2019
	Building coverage ratio	80%			Structure / floors	Steel-framed structure with slate roof/4F
	Floor-area ratio	400%			Total floor area	4,767.66 m ²
	Use district	Commercial district			Building engineer	Class 1 architectural office, Sekisui House, Ltd., Osaka North Sha Maison Branch
	Site area	7,077.24 m ²			Constructors	Sekisui House, Ltd., Yamaguchi Branch
	Type of ownership	Ownership and land subleasehold			Type of ownership	Ownership
Leasable floor area		4,767.66 m ²		Occupancy rate		100%
Main tenant		Nagato Hotel Management Co., Ltd.		No. of tenants		1
No. of guest rooms		40		No. of sublease tenants		0
Notes: ・ As to the land, HRR has concluded the following land sublease agreement with the lessee of the land. Land sublease establisher: Yumoto Onsen Ryokan Cooperative Type of land sublease: Regular land lease right Sublease period: 30 years from August 9, 2018 Monthly rent: Monthly rent for the period from June 1 until May 31 shall be the amount of the assessed value of the land for purposes of property tax, calculated on January 1 each year, multiplied by 0.006 (rounded down to the nearest yen). However, no rent is required for the land for the 10 year period from August 9, 2018. Rent revision: Not applicable Security deposit and guarantee deposit: Not applicable Key money: Not applicable Renewal: The land sublease establisher and HRR, the sublessee, will discuss the renewal of the agreement up to six months prior to the expiration of the sublease period. If HRR, the sublessee, requests renewal when the sublease period is expiring, the agreement shall be renewed for another 20 years with the same terms as the previous agreement and such shall be the case thereafter. However, if the land sublease establisher raises an objection without delay to the request by HRR, the sublessee, the matter may be treated differently. The land sublease establisher may not raise an objection unless there is due cause. Midterm cancellation: The land sublease establisher may not cancel the agreement during the contract period. HRR, the sublessee, may cancel the agreement during the contract period by sending notice in writing to the land sublease establisher 12 months in advance.						

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Overview of leasing	
Lessee	Nagato Hotel Management Co., Ltd.
Type of contract	Fixed term building lease agreement
Contract period	20 years from June 1, 2021
Leased floor area	4,767.66 m ²
Rent	Annual fixed rent: 96,583,200 yen (However, annual rent for the period from June 1, 2021 to April 30, 2022 is 165,568,800 yen (annualized), and for the period from May 1, 2022 to October 31, 2023 is 172,995,600 yen.) Floating rent: Floating rent arises under the following conditions, starting from November 1, 2023. Calculation method for floating rent for each month uses, for May to October every year, rent calculation GOP of the period of 12 months from December in the second preceding year to November in the preceding year as the floating rent calculation period GOP; for November to next April every year, rent calculation GOP of the period of 12 months from June in the preceding year to May in the current year as the floating rent calculation period GOP. Amount equivalent to one-twelfth of the amount calculated based the following formula using these GOPs (with lower limit of 0 yen) will be the floating rent. <Calculation> Floating rent for the period will be: (1) An amount equivalent to 84% of the portion of floating rent calculation period GOP that exceeds 111,564,000 yen (excluding, however, the portion exceeding 212,405,000 yen). plus (2) An amount equivalent to 50% of the portion of floating rent calculation period GOP that exceeds 212,405,000 yen. (Note) "Floating rent calculation period GOP" refers to the amount obtained by subtracting sales cost, selling expenses, general and administrative expenses and chain service fees (out of expenses paid by the lessee as headquarters function, expenses directly related to the sales activities of this property) from the total sale proceeds of the facility during a certain period of time.
Security deposit and guarantee deposit	Security deposit: 0 yen HRR has agreed with the Hoshino Resorts Group Lessees (correctly referring to Hoshino Resorts Inc., Hoshino Resort Management Co., Ltd., K.K. Arashiyama Onsen Rankyokan, K.K. Horizon Hotels, Asahikawa Grand Hotel Co., Ltd., HRO Inc., KK IHB, Osaka Hotel Management LLC, Yaeyama Hotels and Resorts Co., Ltd., Asama onsen Hotel Management Co., Ltd., Nakakaruizawa Hotel Management Co., Ltd., Naha Matsuyama Hotel Management Co., Ltd., Kanzanji Hotel Management Co., Ltd., Hakata Sumiyoshi Hotel Management Co., Ltd. (plan) and Nagato Hotel Management Co., Ltd. in this table), as of 1 June, 2021, to consider security deposit, guarantee deposit, etc. paid by Hoshino Resorts Group Lessees in accordance with the lease agreements concluded with the lessor as being paid to guarantee all the debts by all Hoshino Resorts Lessees to the lessor based on the lease agreements.
Renewal at the end of contract period	The contract will end at the end of the contract period with no renewal.
Rent revision	Rent may not be revised for full 10 years from the start date of the lease. Rent may be revised every 5 years thereafter, when there is a significant change in tax and public dues or in economic conditions, any other uncontrollable circumstances occur, or the both parties reach a mutual agreement.
Midterm cancellation	The lessee may not, in principle, cancel the lease agreement during the contract period. However, the lessee may cancel the agreement after 10 years from the start date of the lease by notifying the intent of cancellation to the lessor in writing at least 12 months prior to the cancellation date.
Penalty	When the lease agreement is dissolved or is cancelled due to intention of the lessee that is agreed by the lessor, the lessee will pay penalty in either the amount equivalent to the rent from the date of dissolution or cancellation to the last day of the cancellation-prohibited period (10 years after the start of the lease) or the amount equivalent to 12 months' rent, whichever is higher (the average monthly rent for the past 12 months with the first month being the month preceding the month which includes the end date of the lease agreement is used for the calculation of such rent. However, if the lease period is less than 12 months, the average monthly rent during that period will be applied.) to HRR, the lessor.
Method for re-contract	The contract will end at the end of the contract period without renewal; however, re-contract is possible through discussion between the concerned parties.

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5. Details of Seller

K-11 KAI Nagato

Company name	Nagato Hotel Management Co., Ltd.	
Head office location	2148 Oaza Nagakura, Karuizawa-machi, Kitasaku-gun, Nagano	
Name and title of representative	Kaita Nakamura, Director	
Amount of capital	10,000,000 yen	
Date of incorporation	August 21, 2000	
Net assets	Not disclosed as consent from the seller has not been obtained.	
Total assets	Not disclosed as consent from the seller has not been obtained.	
Major shareholder and shareholding ratio	Not disclosed as consent from the seller has not been obtained.	
Main business	Hot spring ryokans business	
Relationship with HRR/Asset Management Company	Capital relationship	There is no capital relationship required to be stated between HRR/the Asset Management Company and the seller. (Note)
	Personnel relationship	There is no personnel relationship required to be stated between HRR/the Asset Management Company and the seller.
	Business relationship	There is no business relationship required to be stated between HRR/the Asset Management Company and the seller.
	Status of classification as related party	The seller does not fall under the related party of HRR/the Asset Management Company.

(Note) At the time of concluding the real estate purchase agreement, the seller did not fall under the definition of interested person, etc. under the Investment Trusts Act or interested party, etc. as set forth in the “interested party transaction rules,” which are the internal rules of the Asset Management Company; however, soon after the acquisition of the Asset to be Acquired, it is to become a corporation in the Hoshino Resorts Group, corresponding to a parent company of the Asset Management Company or a subsidiary of the parent company, which will make it correspond with an interested person, etc. under the Investment Trusts Act and an interested party, etc., under the Asset Management Company’s internal “interested party transaction rules.”

6. Transaction with Interested Party, etc.

The lessee of the Asset to be Acquired is to become a corporation in the Hoshino Resorts Group, corresponding to a parent company of the Asset Management Company or a subsidiary of the parent company, after the acquisition of the Asset to be Acquired. The lessee therefore is to fall under the definition of interested person, etc. as set forth in Article 201 of the Investment Trusts Act, Article 123 of the Regulation for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480, 2000, including amendments thereto.), and the definition of interested party, etc. as set forth in the “interested party transaction rules,” which are the internal rules of the Asset Management Company. Accordingly, the Asset Management Company has gone through the approval procedures set forth in the internal rules for conducting the lease transaction pertaining to the Asset to be Acquired and has also obtained HRR’s agreement based on the approval made at HRR’s Board of Directors’ meeting held on May 19, 2021 pursuant to the Investment Trusts Act and the “interested party transaction rules.”

7. Status of Owners, etc. of Property

The acquisition of the Asset to be Acquired is not an acquisition from any entity having a special interest in HRR or the Asset Management Company.

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8. Future Outlook

For details of the impact of the acquisition of the Assets to be Acquired on the management status of HRR and the future outlook for the fiscal period ending October 2021 (May 1, 2021 to October 31, 2021) and the fiscal period ending April 2022 (November 1, 2021 to April 30, 2022), please refer to “Notice Concerning Revisions to Management Status Forecast and Distribution Forecast for the Fiscal Period Ending October 2021 and Management Status Forecast and Distribution Forecast for the Fiscal Period Ending April 2022” and “Supplementary Explanatory Materials: ‘Notice Concerning Issuance of New Investment Units by Way of Third-Party Allotment’ and ‘Notice Concerning Acquisition of Domestic Real Estate’” announced separately today.

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9. Appraisal Summary

K-11 KAI Nagato

Appraisal summary		
Appraiser	Japan Real Estate Institute	
Appraisal value	2,910,000,000 yen	
Appraisal date	April 12, 2021	
	Appraisal value	Remarks, etc.
Direct capitalization method		
(1) Operating revenue (①-②-③)	182,420,000 yen	—
① Gross potential revenue (rent income, common area fees income, other income, etc.)	182,420,000 yen	Recorded rent income based on an assessment of gross operating profit (GOP) of the target real estate asset during stable operating period, based on the content, etc. of the lease agreement.
② Vacancy loss	0 yen	Not recorded, after judging the content of the lease contract, the attributes and credit capability, etc., of the lessee occupying the property.
③ Bad debts expenses	0 yen	Recording of bad debts judged unnecessary upon consideration of the status of the lessee and other factors.
(2) Operating expenses (④+⑤+⑥+⑦+⑧+⑨+⑩+⑪)	16,021,000 yen	—
④ Maintenance	3,564,000 yen	Recorded outsourcing expenses such as cleaning expenses and facility maintenance expenses, giving consideration to the individual nature of the target real estate.
⑤ Utilities	0 yen	Not recorded as this is to be borne by the lessee under the lease agreement.
⑥ Repair costs	3,400,000 yen	Recorded giving consideration to future management and operation plans, expense levels of similar real estate, and average annual amounts of repair and renewal expenses in the ER, making reference to past fiscal years amounts.
⑦ Property management fees	0 yen	Not recorded because there are no particular outsourcing fees paid to outside providers of tenant management services and building management services.
⑧ Advertisement for leasing, etc.	0 yen	Not recorded because it was judged unnecessary after considering the business operations, the attributes of the lessee, and the content of the lease agreement.
⑨ Tax and public dues	8,605,000 yen	Land: Recorded the tax amount after considering the materials concerning taxes and public dues, and the details of burden adjustment measures. Building: Recorded based on the material concerning tax and public dues. Depreciable assets: Recorded based on the material concerning tax and public dues.
⑩ Insurance	407,000 yen	Recorded, giving consideration to estimates and insurance premium rate for buildings similar to the target building.
⑪ Other expenses	45,000 yen	Recorded river occupancy fee as other expenses.
(3) Net operating income ((1)-(2))	166,399,000 yen	—
(4) Interests on temporary deposits	0 yen	Not recorded as there is no temporary deposits based on the current lease agreement.
(5) Capital expenditures	7,900,000 yen	Assessed after envisaging the accumulation of average annual expenditures expected going forward, and considering the level of capital expenditures for similar real estate, year of construction, and average annual amount of repair and renewal expenses in the ER.
(6) Net cash flow ((3)+(4)-(5))	158,499,000 yen	—

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Hoshino Resorts REIT, Inc.

(7) Cap rate	5.4%	—
Direct capitalization value	2,940,000,000 yen	—
Discounted cash flow value	2,880,000,000 yen	—
Discount rate	5.0%	—
Terminal cap rate	5.5%	—
Integrated value by using cost method	2,620,000,000 yen	—
Ratio of land	18.0%	—
Ratio of building	82.0%	—
Other matters appraiser noted upon valuation	None	

* Hoshino Resorts REIT, Inc. website address: <https://www.hoshinoresorts-reit.com/en/>

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<Appendix>

Reference Material 1: Summary of Engineering Report and Earthquake Risk Assessment Report of the Asset to be Acquired

Reference Material 2: Appearance and Map of the Asset to be Acquired

<Appendix>

Reference Material 1: Summary of Engineering Report and Earthquake Risk Assessment Report of the Asset to be Acquired

Property No.	Property name	Investigator	Engineering report date	Short-term repair expenses (thousand yen) (Note 1) (Note 2)	Long-term repair expenses (annual average) (thousand yen) (Note 1) (Note 3)
K-11	KAI Nagato	Tokio Marine & Nichido Risk Consulting Co., Ltd.	May 2021	—	11,245

(Note 1) “Short-term repair expenses” and “Long-term repair expenses (annual average)” are those based on the engineering report.

(Note 2) “Short-term repair expenses” are repair and renewal expenses required when implementing repair and renewal within about one year due to progressed deterioration, excluding expenses for normal repair or interior/facility renewal, based on the engineering report prepared by the investigator after their investigation.

(Note 3) “Long-term repair expenses (annual average)” are repair and renewal expenses required in the 12 years from the investigation date, based on the engineering report prepared by the investigator after their investigation. The figure is converted to annual average and rounded to the nearest thousand yen by HRR.

Property No.	Property name	Investigator	Investigation date	PML value (Probable maximum loss) (%)
K-11	KAI Nagato	Tokio Marine & Nichido Risk Consulting Co., Ltd.	24 February, 2021	5.1

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Reference Material 2: Appearance and Map of the Asset to be Acquired

K-11 KAI Nagato

(Figure 1)



(Figure 2)



(Map)



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