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November 25, 2026

REIT Issuer:
Japan Hotel REIT Investment Corporation (TSE code: 8985)
Kaname Masuda, Executive Director

Asset Management Company:
Japan Hotel REIT Advisors Co., Ltd.
Hiroyuki Aoki, President & CEO
Contact:
Noboru Itabashi
Director of the Board, Managing Director
Head of Corporate Division
TEL: +81-3-6422-0530

Notice Concerning Change of Lessee (Smile Hotel Nihombashi Mitsukoshimae)

Japan Hotel REIT Advisors Co., Ltd. (hereinafter called the "Asset Management Company"), the asset management company of Japan Hotel REIT Investment Corporation (hereinafter called "JHR"), announces that the Asset Management Company has resolved today to conclude a contract to terminate by mutual consent the lease contract with the current lessee of Smile Hotel Nihombashi Mitsukoshimae (hereinafter called the "Hotel"), an asset under JHR's management, and enter into a fixed-term building lease contract with a company within the HMJ Group (*), the strategic partner of JHR, as the new lessee, thereby changing the lessee of the Hotel (hereinafter called the "Change"), as outlined below.

The new lessee will fall under the category of an "Interested Party, etc." as stipulated in the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter called the "Investment Trust Act"). Therefore, the execution of the lease contract has been approved by JHR based on a resolution at JHR's Board of Directors meeting pursuant to the Investment Trust Act and the Code for Transactions with Sponsor-related Parties stipulated by the Asset Management Company (Please see "4. Transactions with Interested Parties, etc." below).

(*) HMJ refers to Hotel Management Japan Co., Ltd. (a corporation in which SC J-Holdings Pte. Ltd., an entity belonging to the SC Capital Partners Group, indirectly holds 100% of the issued shares), and HMJ Group refers to HMJ and its subsidiaries (companies in which HMJ holds more than 50% of the issued shares). The same shall apply hereinafter.

Executive Summary

- Change of lessee to the HMJ Group following termination of the existing lease contract by mutual consent
- Annual NOI expected to increase by JPY178 million, mainly due to revised rent terms
- Lessee change-related costs (*) of JPY1.12 billion, with an expected payback period of approximately 6.3 years

(*) Lessee change-related costs (hereinafter "Change-related Costs") are the sum of the mutual termination fee of JPY1.1 billion payable to THE KAMOGAWA GRAND HOTEL, LTD. and other estimated costs arising from the Change.

1. Background of the Change

To further enhance revenue from the Hotel, JHR has held discussions with the current lessee, and as a result, has decided to terminate the existing ordinary building lease contract (hereinafter the "Existing Contract") by mutual consent and enter into a fixed-term building lease contract (hereinafter the "New Contract") with a company within the HMJ Group, JHR's strategic partner, as the new lessee.

Under the New Contract, the fixed rent will be increased and the revenue-sharing rent will be replaced with variable rent linked to annual AGOP (*), enabling JHR to capture a greater share of the Hotel's revenue as rental income.

Through the Change, JHR expects to increase the Hotel's NOI and further enhance its profitability and asset value by leveraging the HMJ Group's hotel operating platform and operational improvement expertise.

(*) AGOP (Adjusted GOP) is the amount remaining after deducting certain payments of fees and other charges from GOP. GOP stands for Gross Operating Profit, which is the amount remaining after deducting hotel operating expenses, such as labor costs and general and administrative expenses, from hotel revenue. The same shall apply hereinafter.

2. Summary of the Change

On November 25, 2026, JHR concluded a contract with the current lessee to terminate the Existing Contract by mutual consent and, at the same time, entered into the New Contract with a company within the HMJ Group as the new lessee. The outlines of the Existing Contract and the New Contract are as follows.

	Existing Contract	New Contract
Hotel Lessee	THE KAMOGAWA GRAND HOTEL, LTD.	K.K. Tokyo Nihombashi Operations (planned trade name) (*1)
Lease Type	Ordinary building lease contract	Fixed-term building lease contract (as stipulated in Article 38 of the Act on Land and Building Leases)
Contract Rent	Fixed rent: JPY134MM/year Revenue sharing: Amount that is a certain percentage of sales exceeding the threshold	Fixed rent: JPY172.8MM/year Variable rent: (Annual AGOP – base amount (JPY189MM)) x 95% (If the annual AGOP exceeds the base amount)
Contract Date	Mutual termination contract: November 25, 2026	Fixed-term building lease contract: November 25, 2026
Mutual Termination Date (*2)	February 1, 2027 (scheduled)	—
Contract Period (*2)	—	From February 1, 2027 to December 31, 2036 (scheduled)

(*1) The New Contract has been entered into with HMJ. HMJ plans to acquire 100% of the outstanding shares of a company whose trade name is expected to be changed to K.K. Tokyo Nihombashi Operations, and the position as lessee under the New Contract is expected to be transferred to that company.

(*2) The mutual termination date and the commencement date of the New Contract are subject to change depending on the progress of procedures to be completed by the relevant parties and other factors.

JHR selects hotel lessees based on a comprehensive assessment of their creditworthiness and hotel operating capabilities. JHR has determined that the new lessee satisfies the tenant selection criteria set forth in the "Report on the Management Structure and System, etc. of the Issuer of Real Estate Investment Trust Securities and Related Parties," disclosed on March 31, 2026.

3. Expected Impact of the Change (Target Figures)

The key expected impacts of the Change are as follows. JHR also aims to further enhance the Hotel's profitability and asset value by leveraging the HMJ Group's efficient operating platform and operational improvement expertise.

	Before (*1)		After (*2)
NOI (NOI Yield)	JPY170 million (8.1%)	›	JPY348 million (16.6%)
NOI after Depreciation (NOI Yield after Depreciation)	JPY147 million (7.0%)	›	JPY325 million (15.5%)
Annual Amortization of Change-related Costs	–	›	JPY113 million
Net Income (After Amortization of Change-related Costs)	JPY147 million	›	JPY212 million

Payback Period of Change-related Costs (*3): approx. 6.3 years

(*1) The forecasted NOI and NOI after depreciation before the Change represent the projected NOI and NOI after depreciation for the Hotel used as assumptions underlying the forecasts for the fiscal year ending December 2026 stated in the "Midterm Financial Report for the Fiscal Year Ending December 2026 (27th Period)" dated August 26, 2026. The figures in parentheses are calculated by dividing the forecasted NOI and the forecasted NOI after depreciation, respectively, by the acquisition price of the Hotel.

(*2) The target NOI and NOI after depreciation after the Change represent the Asset Management Company's estimates of the Hotel's NOI and NOI after depreciation assuming that the effects of the Change are reflected for a full year. The figures in parentheses are calculated by dividing the target NOI and the target NOI after depreciation, respectively, by the acquisition price of the Hotel. The annual amortization of the Change-related Costs is calculated on the assumption that the Change-related Costs are amortized over the term of the New Contract.

(*3) The payback period of the Change-related Costs is calculated by dividing the Change-related Costs of JPY1.12 billion by the difference between the forecasted NOI before the Change and the target NOI after the Change.

(*4) The figures after the Change are not forecasts for any specific fiscal period but estimates prepared by the Asset Management Company solely for investment planning purposes. Actual results may vary depending on the future operating performance of the Hotel and other factors.

The Change is expected to result in Change-related Costs of JPY1.12 billion, while increasing annual NOI by JPY178 million. The Change-related Costs are therefore expected to be recovered in approximately 6.3 years. Based on the expected improvement in profitability resulting from the Change and the payback period of the Change-related Costs, JHR considers the Change to be economically reasonable and in the interests of unitholders.

The JPY1.1 billion mutual termination fee included in the Change-related Costs is within the calculated compensation amount of JPY1.22 billion indicated in a research report obtained from the Japan Real Estate Institute. The Change-related Costs are expected to be capitalized and amortized on a systematic basis over multiple years.

4. Transactions with Interested Parties, etc.

HMJ plans to acquire 100% of the outstanding shares of K.K. Tokyo Nihombashi Operations (planned trade name), the new lessee. Since HMJ falls under the category of an interested party, etc. as stipulated in Article 201 of the Investment Trust Act as well as Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480 of 2000, as amended), the new lessee, whose outstanding shares are expected to be wholly owned by HMJ, will also fall under the category of an interested party, etc.

Therefore, in accordance with the "Code for Transactions with Sponsor-related Parties" stipulated by the Asset Management Company, the Asset Management Company has followed the procedures stipulated therein in connection with the execution of the New Contract with HMJ and the transfer of the position as lessee under the New Contract to the new lessee, including the assessment of the appropriateness of the termination fee to be paid to the current lessee. Such procedures include approval by the Compliance Committee, attended by external experts, and approval by JHR's Board of Directors meeting.

5. Future Prospects

As the mutual termination of the Existing Contract and the commencement of the New Contract are both scheduled for February 1, 2027, there is no change to the operating forecast for the fiscal year ending December 2026. The forecast of operating results and dividends for the fiscal year ending December 2027 will be announced once it is determined.

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