

Hoshino Resorts REIT, Inc.

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For Immediate Release

REIT Securities Issuer

Hoshino Resorts REIT, Inc.

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(Code: 3287)

Asset Management Company

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Notice Concerning Acquisition of Domestic Real Estate (KAI Enshu)

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”).

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-10	KAI Enshu	Hamamatsu-shi, Shizuoka	1,050	Kanzanji 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 brands of assets invested by 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: | October 26, 2020 |
| (2) Planned acquisition date: | November 2, 2020 (delivery and settlement date) |
| (3) Seller: | Please refer to “4. Details of Seller” later in this document. |
| (4) Funds for acquisition: | Cash on hand (plan) |
| (5) Method of payment: | Lump-sum payment upon delivery |
| (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. With regard to 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.

Despite the guest room occupancy rate for the two cumulative months from April to May 2020 temporarily being sluggish at 33.5% (down 47.3% year on year) due to the impact of the novel coronavirus disease (COVID-19), the operational results of the Asset to be Acquired promptly recovered due to securing microtourism demand from June 2020 onward, with the guest room occupancy rate for the most recent four cumulative months from June to September 2020 being strong at 93.5% (up 3.6% year on year). HRR has resolved to acquire the Asset to be Acquired upon judging that the Asset to be Acquired is securing stable usage even under the impact of COVID-19, and that the Asset to be Acquired is an asset that can secure long-term and stable cash flow. For details regarding the monthly operational results of the Asset to be Acquired, please refer to “Supplementary Explanatory Materials: Notice Concerning Revisions to Management Status Forecast and Distribution Forecast for the Fiscal Period Ending April 2021,” which was separately released today.

(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. 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 the 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 for the Asset to be Acquired obtained from JLL Morii Valuation & Advisory K.K.
- “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 for the Asset to be Acquired obtained from JLL Morii Valuation & Advisory K.K.
 - “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.
 - “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 effective as of acquisition by HRR.
 - “No. of tenants” is the number of those leasing the property from HRR in accordance with the lease agreement effective as of acquisition by HRR.
 - “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 sublease the property from those leasing the property from HRR in accordance with the lease agreement effective as of acquisition by HRR. However, this excludes those planning to sublease part of the site or the building for the purpose of parking or installing antennas.
- 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.

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- 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 and on other agreements concluded pertaining to such.

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KAI Enshu			Category		Properties operated by the Hoshino Resorts Group (KAI)		
			Use		Ryokan		
Overview of specified asset							
Planned acquisition date		November 2, 2020		Type of specified asset		Real Estate	
Planned acquisition price		1,050,000,000 yen		Appraisal value (Appraisal date)		1,070,000,000 yen (October 1, 2020)	
Location (Indication of residential address)		399-1 Kanzanji-cho, Nishi-ku, Hamamatsu-shi, Shizuoka					
Transportation		Approximately 15.0 km from “Hamamatsu Station” on the JR Tokaido Shinkansen					
Land	Lot number	400-2 Aza Yabara, Kanzanji-cho, Nishi-ku, Hamamatsu-shi, Shizuoka and other		Building	Completion date	April 1997	
	Building coverage ratio	60%			Structure / floors	Reinforced concrete structure with flat tiled roof/8F	
	Floor-area ratio	200%			Total floor area	7,829.48 m ²	
	Use district	Not designated			Building engineer	JTB TRAVELAND INC.	
	Site area	22,595.41 m ²			Constructors	Hazama and Suzuki Construction Joint Venture	
	Type of ownership	Ownership			Type of ownership	Ownership	
Leasable floor area		7,829.48 m ²		Occupancy rate		100%	
Main tenant		Kanzanji Hotel Management Co., Ltd.		No. of tenants		1	
No. of guest rooms		33		No. of sublease tenants		0	

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Overview of leasing	
Lessee	Kanzanji Hotel Management Co., Ltd.
Type of contract	Fixed term building lease agreement
Contract period	20 years from November 2, 2020
Leased floor area	7,829.48 m ²
Rent	<p>Annual fixed rent: 47,520,000 yen</p> <p>Floating rent: Floating rent arises under the following conditions, starting from November 2, 2020.</p> <p>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.</p> <p><Calculation></p> <p>Floating rent for the period will be:</p> <p>(1) An amount equivalent to 80% of the portion of floating rent calculation period GOP that exceeds 51,890,000 yen (excluding, however, the portion exceeding 122,520,000 yen).</p> <p>plus</p> <p>(2) An amount equivalent to 50% of the portion of floating rent calculation period GOP that exceeds 122,520,000 yen.</p> <p>(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.</p>
Security deposit and guarantee deposit	<p>No security deposit will be paid.</p> <p>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. and Kanzanji Hotel Management Co., Ltd.; the same shall apply hereinafter), as of the same date as the date of this lease agreement, 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.</p>
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 change in economic conditions, any other expenses such as tax and public dues for land or property increase, 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.

4. Details of Seller

K-10 KAI Enshu

Company name	Kanzanji Hotel Management Co., Ltd.	
Head office location	399-1 Kanzanji-cho, Nishi-ku, Hamamatsu-shi, Shizuoka	
Name and title of representative	Kaita Nakamura, Representative Director	
Amount of capital	45,000,000 yen	
Date of incorporation	December 22, 2009	
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	Hoshino Resorts Inc. 100.0%	
Main business	Hot spring ryokans business, etc.	
Relationship with HRR/Asset Management Company	Capital relationship	The seller is a subsidiary of the parent company of the Asset Management Company.
	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 is a company with the same parent company as the Asset Management Company, and thus falls under related party.

5. Transaction with Interested Party, etc.

The seller and lessee of the Asset to be Acquired are subsidiaries of the parent company of the Asset Management Company. These parties therefore fall under the definition of interested party, etc. as set forth in Article 201 of the Act on Investment Trusts and Investment Corporations (Act No. 198, 1951. This includes subsequent amendments.), Article 123 of the Regulation for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480, 2000. This includes subsequent amendments.), 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 acquisition and lease transactions of the Assets to be Acquired and has also obtained HRR’s agreement based on the approval made at HRR’s Board of Directors’ meeting held on October 26, 2020 pursuant to the “interested party transaction rules.”

6. Status of Owners, etc. of Property

The following table states (i) Name, (ii) Relationship with the party with special interest, and (iii) Background and reason for acquisition.

Property name	Previous owner	Previous, previous owner
	(i), (ii), (iii) Acquisition (transfer) price Acquisition (transfer) timing	(i), (ii), (iii) Acquisition (transfer) price Acquisition (transfer) timing
KAI Enshu (399-1 Kanzanji-cho, Nishi-ku, Hamamatsu-shi, Shizuoka)	(i) Kanzanji Hotel Management Co., Ltd. (ii) Subsidiary of the parent company of the Asset Management Company (iii) Acquisition through company split to take over the hotel business	Not a party having special vested interest
	Omitted as the previous owner owned the property for over 1 year	—
	April 2010	—

7. Future Outlook

The acquisition of the Asset to be Acquired will not affect the management status forecasts for the fiscal period ending October 2020 (May 1, 2020 to October 31, 2020). In addition, for details of the impact on the management status of HRR and the future outlook for the fiscal period ending April 2021 (November 1, 2020 to April 30, 2021), please refer to “Notice Concerning Revisions to Management Status Forecast and Distribution Forecast for the Fiscal Period Ending April 2021” and “Supplementary Explanatory Materials: Notice Concerning Revisions to Management Status Forecast and Distribution Forecast for the Fiscal Period Ending April 2021” announced separately today.

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8. Appraisal Summary

K-10 KAI Enshu

Appraisal summary		
Appraiser	JLL Morii Valuation & Advisory K.K.	
Appraisal value	1,070,000,000 yen	
Appraisal date	October 1, 2020	
	Appraisal value	Remarks, etc.
Direct capitalization method		
(1) Operating revenue (①-②-③)	107,764,000 yen	—
① Gross potential revenue (rent income, common area fees income, other income, etc.)	107,764,000 yen	—
② Vacancy loss	0 yen	Not recorded as it is expected to be leased over the long term in accordance with details of agreement.
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)	24,851,000 yen	—
④ Maintenance, etc.	4,202,000 yen	Assessed based on the provisional contract presented (148 yen monthly/leased per tsubo).
⑤ Utilities	0 yen	Not recorded as paid by the tenant.
⑥ Repair costs	9,599,000 yen	Recorded 30% of leveled amount after estimate in the ER deemed appropriate.
⑦ Property management fees	0 yen	Not recorded as paid by the tenant.
⑧ Advertisement for leasing, etc.	0 yen	—
⑨ Tax and public dues	10,390,000 yen	Land: Considered floating rate based on actual amount presented (Applied 11th year of discounted cash flow analysis period). Building: Assessed after consideration of aging depreciation (Applied 11th year of discounted cash flow analysis period). Depreciable assets: Assessed after consideration of aging depreciation based on actual results (Applied 10-year average of discounted cash flow analysis period).
⑩ Insurance	660,000 yen	Recorded after materials presented deemed appropriate (Equivalent to 0.02% of replacement cost).
⑪ Other expenses	0 yen	—
(3) Net operating income ((1)-(2))	82,913,000 yen	—
(4) Interest income	0 yen	Assessed by multiplying the amount of guarantee deposit, etc. for full occupancy less the amount equivalent to the portion of vacancies by return of 1.0%.
(5) Capital expenditures	22,397,000 yen	Recorded 70% of leveled amount after estimate in the ER deemed appropriate.
(6) Net cash flow ((3)+(4)-(5))	60,516,000 yen	—
(7) Cap rate	5.6%	—
Direct capitalization value	1,080,000,000 yen	—
Discounted cash flow value	1,050,000,000 yen	—
Discount rate	5.4%	—
Terminal cap rate	5.8%	—
Integrated value by using cost method	981,000,000 yen	—
Ratio of land	45.1%	—
Ratio of building	54.9%	—
Other matters appraiser noted upon valuation	None	

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

<Appendix>

Reference Material 1: Summary of Engineering Report and Earthquake Risk Assessment Report

Reference Material 2: Map and Appearance

<Appendix>

Reference Material 1: Summary of Engineering Report and Earthquake Risk Assessment Report

Property No.	Property name	Investigator	Investigation date	Short-term repair expenses (thousand yen) (Note 1) (Note 2)	Long-term repair expenses (annual average) (thousand yen) (Note 1) (Note 3)
K-10	KAI Enshu	Tokio Marine & Nichido Risk Consulting Co., Ltd.	September 2020	—	31,996

(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-10	KAI Enshu	Tokio Marine & Nichido Risk Consulting Co., Ltd.	September 2020	9.3

Reference Material 2: Map and Appearance

K-10 KAI Enshu

